

The complaint

Mr P's representative has complained, on his behalf, about what he considers to have been the unprecedented uplift by The Prudential Assurance Company Limited in the value of its "PruFunds", which would indicate that they had previously been undervalued – and that the principle of "smoothing" which should have applied to the funds hadn't been properly implemented. Due to a fund switch and movement into a holding fund, Mr P then missed out on the uplift, for which he and his representative consider he should be compensated.

What happened

According to Mr P's submission to this service, Mr P had a review with his financial adviser in July 2021, in which it was agreed that, on the basis of an elevation in Mr P's risk rating from "cautious" to "balanced", he would switch from the PruFund Cautious fund and the PruFund RM2 fund into the PruFund Growth fund.

Again, according to the complaint form, Mr P was made aware of the 28 day "holding" period before the switch would complete, and during which he would be unaffected by any unit price adjustments (either upwards or downwards) which would be applied to either the ceding or recipient funds.

My understanding is that Mr P instructed the fund switch on 27 July 2021, following which Mr P's pension funds were sold 28 days later, then moved into the holding account and were then reinvested in the PruFund Growth fund on 25 August 2021.

On the same day, but before the reinvestment of Mr P's pension funds, Prudential applied a Unit Price Reset (UPR) which resulted in an increase in the value of all of the PruFunds. But as Mr P's funds were held in the holding account pending reinvestment at the time, he missed out on the uplift.

Mr P and his representative considered that Mr P had been disadvantaged by Prudential applying the uplift in this way and that his pension funds should benefit from the UPR. As such they complained to Prudential, but Prudential declined to uphold the complaint, saying the following in summary:

- Once the fund switch had been instructed, the pension funds were then subject to the 28 day waiting period, and the instruction couldn't be cancelled.
- As the funds were in the holding account when the UPR was applied, they weren't eligible for the UPR.

Mr P's representative then clarified that Mr P wasn't complaining about the price adjustment itself, but that the unprecedented UPR was due to the failing of Prudential to implement its smoothing process and provide a fair value for Mr P's investment.

In response, Prudential said that it had implemented its smoothing policy in line with its literature and it reiterated that Mr P's pension funds weren't entitled to receive the UPR. It considered that the fund switch terms and conditions were clear.

It added that any customer who had switched between the PruFunds following the July 2021 “sweep” (or reinvestment) date wouldn’t have benefited from the process. All those customers would have shared the same risk and were therefore treated fairly.

Prudential said that it wouldn’t be fair on other policyholders who didn’t switch funds, and indeed those who did but who hadn’t raised a complaint, to enable Mr P to still benefit from the UPR.

Dissatisfied with the response, the complaint was then referred to this service.

One of our investigators considered the matter, but didn’t think the complaint should be upheld, saying the following in summary:

- His understanding was that the process of the switch itself wasn’t being disputed, but he in any case considered that it had been undertaken in line with the terms and conditions. He noted that, following the instruction to switch, this was then delayed by the allotted 28 day period, with this then happening on 24 August 2021. Mr P’s pension funds were then moved out of the holding account on the next reinvestment date – 25 August 2021.
- The terms and conditions, along with other literature, allowed for a UPR to be applied in order to protect the With Profits function – and it was a part of the smoothing process. The literature also explained that any funds held in the holding account at the time wouldn’t be subject to a UPR if it was applied.
- The investigator acknowledged the sentiment that the UPR had been applied unfairly in Mr P’s case, but he thought that it had been applied in line with the terms and conditions.
- With regard to whether there should be a process in place to safeguard those moving between PruFunds at the point a UPR is applied, he thought that the smoothing process applied to all investors equally and in line with the terms and conditions. As such, he didn’t think that Prudential should be required to take any further action.

Mr P’s representative disagreed, however, and requested that it be referred to an ombudsman for review.

What I’ve decided – and why

I’ve considered all the available evidence and arguments to decide what’s fair and reasonable in the circumstances of this complaint.

And having done so, I’m sorry to disappoint Mr P and his representative, but I’ve reached broadly the same conclusions as the investigator, and for similar reasons.

As with the investigator, I’ve noted that there appears to be no fundamental issue with the switching process itself. Mr P’s representative appears to have been familiar with the process and had, according to the complaint form, conveyed this to Mr P.

And so there appears to be no dispute that, from a technical perspective at least, Prudential applied its switching process correctly.

The concerns seemingly lie with what Mr P and his representative consider to have been the failure of Prudential to properly implement its own smoothing process and which led to what they’ve described as an unprecedented uplift in the value of funds across the PruFund

range. As such, they are of the view that Mr P's fund would have been undervalued before this, and that he should therefore still benefit from the uplift which was applied, even though his funds were in the holding account when the UPR occurred.

I've thought carefully about these arguments, but it would be very difficult for me to conclude that Prudential had improperly applied its smoothing process, especially when it has confirmed that it was implemented in line with the literature it provided on the matter. I'm not in a position to fairly or reasonably conclude that the uplift in August 2021 was unwarranted, or that this should in some way have been "evened out" by perhaps smaller increases over time before August 2021. The manner in which Prudential makes such decisions is largely a matter for its own commercial judgement. Nor am I aware of any concerns that the regulator may have about the manner in which Prudential manages its With Profits funds.

But if Mr P or his representative do have concerns about the mechanism by which Prudential manages its With Profits fund, this is something which would in any case be better referred to the regulator.

I'm only able to consider individual complaints, and whilst I understand and acknowledge the concerns over how Mr P has been treated here, given that the switch and the UPR have been processed in line with the available literature and the terms and conditions, I don't think I can fairly or reasonably conclude that Prudential hasn't treated Mr P fairly.

My final decision

For the reasons given, my decision is that I don't uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 13 January 2023.

Philip Miller
Ombudsman