

The complaint

Mr and Mrs T complain about the market value reduction (MVR) The Rechabite Friendly Society Limited (trading as Healthy Investment) has applied to their with-profits ISAs. They say the ISAs were promoted as low risk and believe the investments have been mis-managed to impose such a high MVR.

What happened

In 2019, through the advice of an independent financial adviser, Mr and Mrs T took out ISAs invested in a with-profits fund held with Healthy Investment.

In September 2022, Mr and Mrs T received valuations from Healthy Investment showing a small gain in investment values. In February 2023, they received further valuations showing again a small gain, but also that an MVR of 15% would be applied if they withdrew funds.

Following this their financial adviser raised a complaint on their behalf about the MVR – specifically that it was excessive. Healthy Investment responded and explained that it hadn't done anything wrong. In summary it said

- The terms and conditions of the ISA, explain when you cash in the ISA the amount you receive might be reduced by the application of an MVR. They also explain in detail that this could reduce the amount of money you receive back and may mean that you get back less than you invested.
- The Key Information Documents (KID) issued makes it clear that an MVR can be applied to reflect poor investment performance at the time of a withdrawal.
- The investment performance of the with-profits fund during the time they have been invested has, in line with many other multi asset based investments, been poor. The fund is professionally managed with experts employed in fund and risk management during the relevant period, there are reasons why the fund performance hasn't been as hoped - including the adverse impact of the national and international economic conditions and war. The fund has also been impacted significantly by the ethical choices of the fund.
- The MVR rate is recalculated every month to ensure that it accurately reflects investment values.
- Overall, the application of an MVR to withdrawals, whilst obviously disappointing, is fair and aligned to the terms and conditions of the investment.

Mr and Mrs T didn't accept this outcome and referred their complaint to this service for an independent review.

One of our investigators looked into the complaint. He didn't uphold it. He said he was satisfied that the MVR applied to the with-profits ISAs has been done so fairly. And the decision to impose an MVR and at what percentage is a commercial decision. He didn't find the product literature suggests any specific level of MVR or gives the impression that this would be below a certain percentage.

Mr and Mrs T didn't agree with the outcome and requested the complaint be passed to an ombudsman to reach a decision. They acknowledge the terms of the investments allow for an MVR to be applied but believe it is excessive and wouldn't have invested had they known this size of penalty could be imposed.

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.

Firstly, I acknowledge Mr and Mrs T's disappointment and unhappiness with being told about a 15% MVR on their investments as this wasn't something they were expecting when they first invested.

Healthy Investment is not responsible for the advice Mr and Mrs T received to invest, so it didn't need to assess the suitability of the investments or explain the risks before they decided to invest. Mr and Mrs T understand that I'm therefore not considering how the investments were sold to them.

Healthy Investment is responsible for the management of the investments though - which includes the decision to impose an MVR. I've looked at the policy documentation provided by Healthy Investment. This includes the terms and conditions as well as the KID, which covers the risk of an MVR being applied on surrender before the 10th anniversary. So, I'm satisfied this was a feature of the fund – like many other with-profits funds.

Mr and Mrs T appear to accept the possibility of an MVR, but they view the amount that was detailed on the February 2023 valuation as excessive. While Mr and Mrs T weren't expecting it to be 15%, I've seen nothing to suggest, if applied, the MVR would be within specified range or wouldn't exceed a certain level. The level of MVR is decided using the advice of actuaries and dependent on the underlying fund performance. Healthy Investment has referred to factors that contributed to the poor performance of the fund in recent times. It has also provided information about how the fund is managed – including the use of external investment managers. I haven't been provided with evidence to suggest that the fund has been mis-managed or that this was the cause of the MVR initially quoted to Mr and Mrs T.

Healthy Investment has also said the MVR is continually reviewed. Indeed, I note that the MVR had reduced by about half when a valuation was produced in July 2023. While this doesn't directly impact the outcome of the complaint, it does support that the investments were being managed in line with the information provided by Healthy Investment. It is unclear if Mr and Mrs T have surrendered their investments, but of course an MVR can only be relevant (if in place) at such time.

In conclusion, I haven't found reason to say errors by Healthy Investment led to an excessive MVR being applied. So, I haven't found Mr and Mrs T have been treated unfairly. I understand this will be disappointing for them, but I'm satisfied Healthy Investment's actions in applying an MVR are in line with the normal management of a with profits funds - the consequences of the 'smoothing' process designed to ensure a fair pay-out is made to all investors in the fund.

My final decision

I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs T to accept or reject my decision before 22 February 2024.

Daniel Little
Ombudsman