The complaint

Mr T complains that Scottish Widows Limited treated him unfairly in connection with a delayed pension transfer request. He says he's suffered a financial loss as a result of Scottish Widows' actions.

Mr T is represented in bringing this complaint and was also represented in making certain submissions to Scottish Widows. However, for ease of reading, all comments and actions will be noted as Mr T's.

What happened

Mr T held a personal pension with Scottish Widows.

In December 2022 Scottish Widows wrote to him to explain that it was closing a number of funds, including one that Mr T was invested in. It explained that if he didn't choose another fund, it would automatically move his investment to a fund selected by Scottish Widows (details of which were specified in its letter) on or after 20 March 2023. So, Mr T needed to consider if the changes Scottish Widows was proposing met his investment needs. If so, he didn't need to do anything. Or if he wanted to choose another fund, he'd need to let Scottish Widows know by 10 March 2023.

Around 5 December 2022, a policy premium of £2,855.97 was paid by Mr T's employer for the month of November 2022. Due to the fund closure that Scottish Widows had written to Mr T about, the premium couldn't be applied to the policy without confirmation from Mr T about which fund it should be added to.

Scottish Widows then received a transfer request from Mr T on 20 December 2022 via the Origo electronic transfer system.

On 13 January 2023, Scottish Widows told Mr T that it couldn't transfer his policy until the premium for November 2022 had been applied to a particular fund.

Later in January 2023, Scottish Widows received confirmation from Mr T that the additional premium was to be applied to the cash fund. It then completed the transfer on 27 January 2023 using the pension's value at 20 December 2022 (the date all transfer requirements were met). It transferred £172,316.49 in total (including interest of £787.85).

Mr T complained to Scottish Widows in early February 2023. He said that its delays in completing the pension transfer were unacceptable and the way in which it calculated the pension transfer value was grossly unfair and against the regulator's basic principle of treating clients fairly. Mr T said that the value of his pension the week before the funds were transferred was around £182,000. So, he was surprised to receive around £10,000 less than that figure. Especially when Scottish Widows had assured him that once an unallocated premium was accounted for, it would check the transfer value and if it was worth more, the amount transferred would be reflective of that. However, when Mr T queried this with Scottish Widows it said the value was calculated according to the date it had what it needed to complete the transfer request. Mr T didn't think that was fair, not least because during the period of delay, the markets had improved, and the value of his investments increased. Mr T felt he'd been financially disadvantaged, especially when he then had to pay higher prices for the investments he made once the funds were received. He asked Scottish Widows to rectify this issue as soon as possible.

Scottish Widows explained that it worked out the value of Mr T's policy as at 20 December 2022 as that was the date it received the transfer request and had all of the information it needed to process it. However, it said it would consider whether Mr T had suffered a financial disadvantage by requesting details of the investments he subsequently made. If it transpired that his shares attracted higher prices than would otherwise have been the case, it would pay the difference. It also paid £100 compensation for the distress and inconvenience caused by the delay in completing the transfer.

Correspondence between Mr T and Scottish Widows continued. He again said it wasn't fair for Scottish Widows to use the transfer value as at the date his transfer request was received. As the value had gone up during the period of delay, he felt that Scottish Widows should use the 'best price' relative to the date the transfer actually happened.

Scottish Widows responded on 7 March 2023. It said it had reviewed its original decision in light of Mr T's further correspondence. But it didn't agree that the transfer value should be recalculated as at the date the payment transfer was processed. It explained that it calculated the value according to when the transfer request was received. In Mr T's case, it felt the transfer should have been completed by 6 January 2023 (although it noted an error in the date it previously mentioned). It said that it received all necessary documents to process the transfer on 20 December 2022. So that's the date from which the valuation was taken. However, to ensure that Mr T hadn't been financially disadvantaged, it asked him to send details of the investments he subsequently made, such as details of the funds and the applicable share prices. It said it also needed the likely share prices as at 6 January 2023 (the date by which the transfer should have been completed). It said if it transpired that Mr T had been subjected to a higher share price, it would calculate and pay the difference to ensure his shareholdings were as they should be (or as close to that position as possible). Scottish Widows again recognised that aspects of its service had fallen short. So, it arranged for a compensation payment of £100 to be made to Mr T.

Scottish Widows gave a similar response in a letter dated 9 June 2023. It also paid further compensation of £200 in respect of some additional service issues, such as delays in responding to Mr T's further correspondence.

Mr T wasn't happy, so he complained to the Financial Ombudsman Service. One of our investigators looked into the complaint. He noted that all parties agreed there was a delay in completing the transfer. However, he said the point still in dispute was whether Scottish Widows should pay the transfer value as at the point the transfer request was received, or the higher value at the point the funds were actually transferred. The Investigator thought it was fair of Scottish Widows to use the policy value as at the date the transfer request was made. He also felt it was fair of Scottish Widows to work out if Mr T had suffered any investment loss during the period of delay. On top of that the Investigator was satisfied that Scottish Widows had recognised its service issues through the compensation it paid and by including interest on the transfer value paid. He said he wouldn't be asking Scottish Widows to do anything more.

Mr T didn't agree. He said that Scottish Widows should pay the value of the plan on the day the funds were actually transferred because that's what they were told would happen. He said had he known the value wouldn't be recalculated, he'd have cancelled the transfer request and resubmitted it at a later date. At the very least, he felt the Financial Ombudsman Service should enforce a payment of around £5,594 that his Investment Manager said he'd lost. He also felt that how he subsequently invested the funds was of no relevance to Scottish Widows.

As agreement couldn't be reached, the matter was passed to me to decide.

My provisional decision

I sent Mr T and Scottish Widows my provisional decision on 21 December 2023. I've included the relevant extracts below:

"*Mr T has made a number of points in support of his complaint. It's clear that he feels badly treated by Scottish Widows given that, following a transfer delay, it refused to honour the actual value of his plan at the point at which the monies were transferred. And as there were market improvements during the period of delay, Mr T feels that he's lost out by about £10,000. He says that had he known Scottish Widows wouldn't recalculate the value as it indicated it would, he'd have cancelled his transfer request and resubmitted it at a later date.*

I appreciate Mr T's strength of feeling about the events leading to this complaint. And I've noted his comments in response to our Investigator's assessment in particular.

Having given this matter very careful consideration, I'm intending to reach a different outcome to our Investigator. I'll explain why.

Scottish Widows received Mr T's transfer request via the Origo system around 20 December 2022. Transfer requests received via this method are usually expected to be quicker and easier to deal with.

Things clearly weren't straightforward as far as Mr T's transfer request was concerned. That was due to an additional premium being paid before Scottish Widows received the transfer request and it having closed one of the funds it would ordinarily have paid the premium into. Scottish Widows accepts that it was slow to deal with these issues, which ultimately delayed the transfer.

However, its position remains that the transfer value is set based on the date it had all of the information to complete the transfer, which was 20 December 2022. Ordinarily I'd agree with that, particularly if the funds were sold down to cash at that point in order to complete the transfer within a typical processing time (often around ten days).

But that doesn't appear to be what happened here. Even though Mr T wanted the transfer to happen sooner, the fact is that it didn't. And in the time it was delayed, it seems his fund experienced investment growth. It seems fair and reasonable in the specific circumstances of this case, for Mr T, at the very least, to be entitled to the actual growth his pension fund experienced. I would then expect Scottish Widows to consider whether its delay financially disadvantaged Mr T in other ways too. This would mean ascertaining the value of the fund if it had transferred earlier and then considering the potential growth that might otherwise have been achieved based on the investments Mr T would most likely have made. If that demonstrates that Mr T had suffered a loss, I would expect Scottish Widows to put that right. But where it didn't show a loss, I don't think it's fair for Scottish Widows to argue that it should keep the gain.

So, I'm intending to say that to put things right, Scottish Widows should now:

- *Calculate the difference between the amount transferred £172,316.49 and the actual value of the fund when the transfer was completed (believed to be around £182,000). As Scottish Widows has already paid interest of £787.85 within the amount transferred, I think it's reasonable for it to offset that amount when calculating the difference between the two fund values I've referred to. This is Mr T's potential loss on the date of transfer.*
- *Calculate the notional investment loss from the above step from the date of transfer until the date that Scottish Widows is told that my final decision has been accepted. The presumed investment growth should be based on the investments Mr T actually made in receiving his pension between those dates, assuming the same proportions. If that demonstrates that Mr T had suffered an additional loss, Scottish Widows should add that to the loss from the above step to determine the total compensation due to Mr T's pension plan.*
- *The compensation amount should if possible be paid into Mr T's pension plan. The payment should allow for the effect of charges and any available tax relief. The compensation shouldn't be paid into the pension plan if it would conflict with any existing protection or allowance.*
- *If a payment into the pension isn't possible or has protection or allowance implications, it should be paid directly to Mr T as a lump sum after making a notional reduction to allow for future income tax that would otherwise have been paid.*
- *If Mr T hasn't yet taken any tax-free cash from his plan, 25% of the loss would be tax-free and 75% would have been taxed according to his likely income tax rate in retirement – presumed to be 20%. So, making a notional reduction of 15% overall from the loss adequately reflects this.*
- *8% simple interest per year should be added from the date of my final decision to the date of settlement if compensation is not paid within 28 days of the business being notified of Mr T's acceptance of my decision.*
- *Scottish Widows should explain its calculations in a clear format.*
- *I'm mindful that this matter has been a source of inconvenience and disappointment for Mr T. However, I'm satisfied that the compensation Scottish Widows has already paid (£400 in total) fairly reflects that. So, I'm not intending to ask Scottish Widows to pay further compensation in respect of the impact its handling of things had on Mr T".*

Responses to my provisional decision

Mr T said he had nothing further to add.

Scottish Widows accepted my provisional decision.

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.

As Scottish Widows accepted my provisional decision and Mr T had nothing further to add, I see no reason to depart from what I said in my provisional decision.

My final decision

I uphold this complaint. I direct Scottish Widows Limited to put things right in line with my provisional decision and as I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T to accept or reject my decision before 14 February 2024.

Amanda Scott
Ombudsman