

The complaint

Mr D complained that The Prudential Assurance Company Limited (Prudential) had provided him with a significantly higher transfer value for his policy when he contacted it than was subsequently quoted. He would like to know how this difference arose.

He would like to be compensated by receiving the initial, higher transfer value.

What happened

Mr D began a with profits based annuity purchase pension plan with Prudential on 1 August 1982. This policy had a selected retirement date (SRD) of 1 August 2023.

In early 2023, Mr D contacted Prudential seeking information about the value of his benefits. On 8 February 2023, Prudential replied to provide information about how his pension was managed and the level of annuity benefits he could expect. These were:

Basic amount of annuity (relative to 1 August 2023): £4,895.80

Reversionary bonus to date (relative to 1 August 2023): £4,643.58

Prudential wrote to Mr D on 1 July 2023 to tell him that his plan was being made 'paid up' which meant he no longer had to make contributions to it. Mr D called Prudential to get a further valuation and also checked his account via the online portal on 1 August 2023. He was told that the transfer value of his policy was c£284,000, and his online account showed the same valuation.

He requested a retirement pack and Prudential referred him to an Independent Financial Adviser (IFA) that it had a contract with, as it had withdrawn from providing annuities in the period while Mr D's policy had been in force. This IFA was to discuss his retirement options and see if it could provide a higher level of annuity payment through the open market than the c£9,600 per annum Prudential had guaranteed.

Mr D also checked the value of his policy the following day, on 2 August 2023, to find that it was now showing a transfer value of c£138,000. He called Prudential to ask why the value was so much lower and was promised that it would investigate and let him know.

Prudential wrote to Mr D on 9 August 2023 to let him know that his projected annuity value would be c£24,200 per annum based on the Prudential guarantee, assuming he took his benefits on a single life basis with no future increases.

Mr D contacted Prudential once more on 17 August 2023 as he still hadn't received the retirement options pack he had requested on 1 August 2023. Prudential confirmed that the pack had been posted and offered to email it to Mr D as well. It also confirmed that the transfer value shown in the retirement pack was c£138,000, not c£284,000.

Mr D subsequently called Prudential on 22 August 2023 to raise a formal complaint about poor service and the large reduction in the transfer value.

Prudential wrote to Mr D on 15 September 2023. It explained to him:

This type of policy is a deferred annuity contract, not fund based, and the benefits are expressed as a basic pension payable yearly in arrears. Subject to certain conditions, some of the benefits are guaranteed (the basic annuity and attaching annual bonuses) and some aren't (terminal and final bonuses and underlying interest rates). When determining the transfer value amount, we convert the pension benefits into a lump sum. The conversion rate used is dependent upon various factors including, the policyholder's age, mortality rates and the interest rates underlying our current annuity quotations. The transfer value represents the value of the policy's share of underlying assets in the With-Profits Fund.

It went on to say:

Rising gilt yields continue to fuel improvements to annuity rates - it now costs a lot less to purchase a given fixed income than it did a year ago. As a result, we've increased one of the factors (annuity interest rate) used in our transfer value calculation. This is why the transfer value is now lower than the transfer value before the change was made. Whilst this reduction is disappointing, it's necessary to ensure we treat all our With-Profits policyholders fairly.

Prudential responded to Mr D's complaint on 20 September 2023, apologising for the poor service Mr D had received and offering £125 compensation for the distress and inconvenience this had caused him. This response did not mention the difference between the two transfer values Mr D had been quoted but did explain how the value of the policy can go up and down overtime and that values were not guaranteed.

Mr D contacted Prudential to make them aware that he was not satisfied with its response. He continued to contact Prudential for an explanation of the drop in the transfer value of his plan.

On 15 December 2023 Prudential sent a second response to Mr D's complaint. In this, it explained that the value quoted on 1 August 2023 was a system error which had arisen when calculating the transfer value on that date. It also explained that the actual transfer value that he should have been quoted on 1 August 2023 was c£138,000.

Prudential apologised for the poor service he had received and offered a further £450 compensation for the distress and inconvenience it had caused together with £25 to cover the cost of telephone calls.

It also provided Mr D with backdated monthly transfer values from December 2022 to December 2023.

Prudential subsequently sent Mr D a further letter which was dated 12 December 2023 which also included backdated monthly valuations, but the amounts were different to the figures quoted in the letter dated 15 December 2023. Mr D contacted Prudential to raise the issue of the conflicting values between these two letters.

Prudential responded once more to Mr D's complaint on 13 February 2024 and confirmed that the figures quoted in the 12 December 2023 letter were correct. It apologised again for the error and paid Mr D an additional £125 compensation.

Prudential also wrote to Mr D on 23 February 2023 to confirm that if Mr D took his pension benefits in the next 30 days, it would carry out a loss calculation to see if he had made a financial loss compared to what he could have received if he had taken his benefits on 8 August 2023, as he should have been able to do were it not for Prudential's errors.

Mr D was unhappy with this response and brought his complaint to our service.

Our investigator examined all the evidence from both parties and concluded that the offer of a total of £825 compensation for distress and inconvenience was appropriate in the circumstances of this complaint.

Mr D remained unhappy with this view, so the complaint has been passed to me to make a final 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.

Having done so, I agree with our investigator and do not uphold this complaint.

Having said that, I can appreciate that this will be disappointing to Mr D, so I will explain how I have reached my decision.

Before I do, I think it's important to reflect upon the role of this service. Our role is to impartially review the circumstances of a complaint and make a decision on whether a business has made errors or treated a customer unfairly. Where it has, it is our aim to ensure that the customer is compensated fairly.

There are two main elements to Mr D's complaint, and I will examine each in turn.

The first, and most significant, of these is the discrepancy between the transfer values he was quoted on 1 August 2023 and subsequently. There is undoubtedly a significant difference between the two. Mr D has expressed frustration that Prudential has not managed to explain how this discrepancy arose, and feels that in the absence of such an explanation, Prudential should honour the higher transfer value he was quoted. On the other hand, Prudential has said that the higher value was incorrect and was caused by a system error. It has also provided monthly valuations which are more in line with the lower figure.

Given this, on balance I find that it is reasonable to assume that the higher figure quoted on 1 August 2023 was indeed an error. I can appreciate Mr D's dissatisfaction at the lack of a detailed explanation as to how it arose, but that does not mean that he is entitled to receive a higher level of payment than he would otherwise be entitled to. I've also considered that Mr D was invested on a with profits basis. This is different to a fund where his contributions would be invested in assets in his name – providing him with an individual pot of money. In a with profits fund, contributions are pooled with other investments and annual and terminal bonuses are allocated to policies based on an individual's fair share of the total investment value. This would mean that were Prudential to pay Mr D the higher sum, it would potentially be treating all the other investors in the with profits fund unfairly. In conclusion, I can't see that Mr D is entitled to the higher transfer value he was quoted in error, and I find that Prudential has done nothing wrong in refusing to honour it.

Turning now to look at the second issue, that of the poor service it has provided to Mr D and the delay this has caused to him receiving his pension benefits. Prudential itself has acknowledged that its standard of service fell short of that which Mr D had a right to expect. It has apologised and offered to carry out a loss calculation to see if the delay it has caused Mr D a financial loss. It proposes to compare the value of the benefits he is able to access with the value he could have expected if no delay was caused, and Mr D had taken his benefits on 8 August. This is an approach in line with what this service would expect it to take, and so I find that this is appropriate in the circumstances.

Prudential has also paid Mr D a total of £825 in compensation to reflect the distress and inconvenience its poor service has caused him. I have also considered the loss of expectation that its transfer value error caused to Mr D and also the fact that the error was very quickly rectified. I think that the level of compensation is what I would expect in the circumstances of this complaint and so won't be asking Prudential to increase it.

Given this, on balance I think the compensation offer Prudential has made is appropriate and I won't ask it to do any more than it has already offered to resolve this complaint.

My final decision

For the reasons explained above, I do not uphold Mr D's complaint.

The Prudential Assurance Company Limited does not need to do any more than it has already offered to resolve this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 24 July 2024.

Bill Catchpole
Ombudsman