

The complaint

Mr D and Mrs D complain about the loss in value of their investment bond and the management charges deducted by Prudential Assurance Company Limited in the period that the bond dropped significantly in value.

What happened

In 2014 Mr D and Mrs D were advised to invest the £25,000 tax free cash generated from the vesting of Mr D's pension plan in the bond. It grew steadily in value over the next few years with the May 2022 annual statement showing a cash in value of £33,001. The May 2023 annual statement showed a small drop in the cash in value to £32,714 but when Mr D and Mrs D surrendered the bond on 31 August 2023 they received only £31,505.

Mr D complained about the fall in value of the bond. In a final response letter (FRL) dated 4 September 2023 Prudential accepted that it had failed to deliver the service it should have done and offered £215.60 for delayed payment as well as £150 for the distress and inconvenience caused. Mr D and Mrs D referred the complaint to our service.

On contacting Prudential for further information it said that it hadn't addressed the complaint about the fall in value of the bond. It therefore provided a second FRL dated 21 March 2024 dealing with that issue in which it explained that the reduction in value in the bond was due to a downward unit price adjustment (UPA) applied on three occasions – in November 2022, May 2023, and August 2023. It said this was due to difficult market conditions affecting the underlying performance.

Prudential further explained how this worked – namely that on any quarter day if the unsmoothed price is 4% lower than the smoothed price a downward UPA will be applied. Prudential stated that the illustration and key features documents that Mr D and Mrs D were provided with when they took out the bond explained that values aren't guaranteed and that a downward UPA may be applied. However, Prudential offered £75 for the additional inconvenience caused by not addressing this issue in its first FRL.

One of our investigators thereafter considered the complaint and made the following key findings:

- Prudential has explained why there was a fall in value of the bond and this is because the investments hadn't performed as well as expected which led to an adjustment when the unsmoothed price fell below the unit price.
- It isn't our role to interfere with Prudential's processes and it is able to implement these adjustments where it deems necessary.
- The key features document provided at the time of sale warned this could happen.
- The annual statements stated that the value shown isn't guaranteed and could rise or fall.

- The management fees don't stop being payable because the bond experienced a loss in value and it isn't reasonable to recommend Prudential refund these.
- The amount of compensation offered by Prudential is in line with what we would recommend.
- Prudential didn't act unreasonably in paying the surrender value into the account for which it had details on file for.

Mr D responded to the opinion of the investigator stating that in terms of the payment into the wrong bank account this was in relation to the last payment of £75, paid by Prudential in accordance with its second FRL in March 2024.

The investigator asked Prudential for its comments on this and it said that the payment of £75 had been redirected into a different account by Mr D's own bank.

Mr D said he had nothing else to add and his main issue was with having had paid fees for both advice and management and lost a large sum of money without being notified so he could make an informed decision.

As Mr and Mrs D didn't agree with the investigator the matter was referred to me for review and decision. I issued a provisional decision the findings from which are set out below.

"In making my decision I must take into account; relevant law and regulations; regulators' rules, guidance, and standards; codes of practice; and (where appropriate) what I consider to have been good industry practise at the relevant time. However, whilst I must take those matters into account it is important to make clear I am not bound by them and that my role is to determine a complaint by reference to what, in my opinion, is fair, and reasonable in all the circumstances of the case.

Having considered all the relevant information I agree with the conclusion of the investigator that Prudential don't need to pay anything more in relation to the complaint Mr D and Mrs D have made.

Mr D has said that the main issue is that they have paid fees both for the advice to invest in the bond and for its ongoing management but haven't been kept informed of the bond losing money so that they could make an informed decision. However, he accepts that they were aware that the bond could both increase and drop in value.

Although Mr D accepts that they were aware the bond could drop in value, I have considered the information provided to him and Mrs D about this at the time they invested in the bond in 2014. The documents they were provided with in 2014 included an illustration which stated that "You may get back less than the amount paid in" making clear that there were no guarantees that any return would be payable. They also had a key features document which included the following information under the heading 'Risks':

"The value of your investment can go down as well as up so you might not get back the amount you put in."

And under the heading 'The PruFund range of funds':

"The PruFund funds have an established smoothing process which uses Expected Growth Rates and where required, Unit Price Adjustments, to deliver a smoothed

investment journey. It aims to provide you with some protection from the extreme short-term

ups and downs of direct investment. However, the value of your investment can go down as well as up so you might get back less than you put in.”

I am satisfied that Mr D and Mrs D were provided with information that made it clear that the amount they got back wasn't guaranteed and that the value of their investment could go down as well as up and also that a UPA could be applied. I appreciate that Mr D and Mrs D might not have known how the UPA was calculated but I don't think Prudential was required to explain this to them in more detail than set out in the documents.

I now turn to what Mr D has said is the main issue – namely that he and Mrs D weren't provided with information about the drop in value of their investment so that they could make an informed decision.

I note they were paying an ongoing advice fee as well as management fees. The ongoing advice fee was referred to in the suitability letter as giving access to the adviser for any queries and for review to ensure the continued suitability of financial products. Having considered this I am not satisfied that there was a requirement on the adviser to contact Mr D and Mrs D whenever there was a reduction in value of the bond.

I am also not satisfied that the fact that UPAs were applied to the bond which reduced its value made the bond unsuitable such that I would have expected the adviser to review its suitability and contact Mr D and Mrs D to advise them about this. So, I am not persuaded that Prudential did anything wrong because the adviser didn't contact Mr D and Mrs D about the UPAs.

In terms of the management fees Mr D and Mrs D paid, I am also not satisfied that the payment of these meant Prudential had to contact Mr D and Mrs D each time a UPA was applied. The key features document explains that an annual statement will be sent but that an online account can be registered so that the client can check the value of the bond. There is nothing in the key features document that indicates that as part of the management of the bond Prudential would otherwise provide valuations or inform clients if a UPA was applied.

So, in short, I am not satisfied that Prudential did anything wrong because Mr D and Mrs D weren't informed of the application of the UPAs at the time they occurred either by their adviser or the manager of the fund.

Although Mr D hasn't argued with the investigator's finding that Prudential was entitled to charge management fees regardless of how the fund they were invested in was performing, I will briefly address this. The management of the fund doesn't stop when the fund isn't performing. I have seen no evidence that suggests Prudential isn't entitled to charge for management of the fund Mr D and Mrs D were invested in simply because it applied UPAs to the fund that reduced its value. There is no reasonable basis for me finding that Prudential can only charge management fees when the fund is performing well.

Mr D and Mrs D also don't appear to be continuing to argue that Prudential paid money into the wrong account but I will make brief findings on that for completeness as well. I note that the payment in question related to the additional distress and inconvenience payment of £75 that Prudential paid to Mr D and Mrs D for not addressing their complaint about the loss in value of their bond in its original FRL of the 4 September 2023. It is therefore not part of the original complaint that was referred to us. However, in the circumstances I think it appropriate to deal with that issue in this complaint as Prudential have had the opportunity of considering the complaint and it would not be helpful to either party, or our service, for it to be dealt with as a new separate complaint.

Prudential have explained that the payment was made to the account it has details for and

its was Mr D's own bank that transferred the money to another account. I have seen no evidence that suggests this isn't the case and I am therefore satisfied that Prudential didn't do anything wrong when it paid this. In any event, even if Prudential had paid the money into a different account in Mr D's name I wouldn't have awarded anything for this, as although that might have been annoying, I am not satisfied it would have caused any meaningful distress or inconvenience.

I think it is appropriate for me to set out my views on the redress paid by Prudential not least because I am not satisfied that it would have been fair or reasonable for me to make any award of redress if it hadn't already made offers and paid the redress to Mr D and Mrs D.

As it wasn't apparent to me from the evidence, that Prudential had caused any delay in payment of the surrender value I asked it what delay it had identified when making the offer of redress referred to in its FRL of 4 September 2023. Prudential confirmed to me that there had been no delay and that it shouldn't have calculated and paid the redress set out in its FRL, totalling £365.60. In other words, Mr and Mrs D have received that amount when Prudential's actual position is that it did nothing wrong and no redress is payable.

Regarding the award of the additional £75 made in the further FRL of 21 March 2024, Prudential paid this for failing to address the complaint about the loss in value of the bond in its earlier FRL. So, this was to do with the way it dealt with the complaint not anything to do with delay in surrender or any other issue raised by Mr D and Mrs D. Complaint handling isn't an activity that we would generally consider and as such I wouldn't have awarded anything for this failure if Prudential hadn't already agreed to pay this.

In short, Mr D and Mrs D have received ££440 from Prudential when I have seen no persuasive evidence there was any real delay in payment or any other service failure that would justify any award of redress. I make this point because although I understand that Mr D and Mrs D are disappointed in the loss in value of the bond, this didn't result from anything that Prudential did wrong and I think it is important for them to realise that it has paid them redress which I would not have been able to award them."

I gave both parties the opportunity of providing any further information they wanted me to consider before I issued my final decision but neither party provided anything further.

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.

Given that neither party has provided any additional argument or information for consideration there is no basis for me changing the findings in my provisional decision, which form part of my findings in this final decision unless I state to the contrary.

In summary, my findings are:

- Mr D and Mrs D were provided with information that made it clear that the amount they got back wasn't guaranteed and that the value of their investment could go down as well as up and also that a UPA could be applied.
- There wasn't a requirement on the adviser to contact Mr D and Mrs D whenever there was a reduction in value of the bond.
- The fact that UPAs were applied to the bond which reduced its value didn't make the bond unsuitable such that I would have expected the adviser to review its suitability

and contact Mr D and Mrs D to advise them about this.

- The payment of the management fee didn't mean Prudential had to contact Mr and Mrs D each time it applied a UPA.
- Prudential were entitled to charge management fees whether the bond was performing well or not.
- Prudential paid £75 into the account it had details for and as such did nothing wrong in making that payment.

My final decision

I don't uphold this complaint for the reasons I have set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D and Mrs D to accept or reject my decision before 4 July 2024.

Philip Gibbons
Ombudsman