

The complaint

Mr B complains that The Prudential Assurance Company Limited unfairly reduced the maturity value of his with profits plan.

What happened

Mr B had a with profits plan that was due to mature in May 2023. In March 2023, he initially received a figure, online, that said his maturity value was due to exceed £40,000, including any terminal bonuses that weren't guaranteed. On 9 March 2023 he saw that in fact the suggested maturity value was close to £37,000, so he got in touch with Prudential online. He had a brief conversation over a number of days, during which he was initially told the value of his plan was in fact £40,602.96 on 10 March. When Mr B queried what had caused such a sharp drop, Prudential gave an explanation about final bonus rates and how they are calculated – but then he was told that in fact the value that he had been previously given for 10 March 2023 was incorrect and needed to be ignored. He was told the correct value of his policy was £37,484.70 although it was subject to change. He was given no explanation as to why there had been an error.

On 25 March 2023 Prudential wrote to Mr B to confirm that the estimated amount payable on maturity was £37,484.70 inclusive of any final bonus – which was subject to change. On 17 May 2023, when his plan matured, this is what Mr B received. Prudential's letter confirmed what the maturity value included.

Mr B was unhappy that his queries around the drop in value hadn't been resolved, and raised a complaint. Prudential issued a number of responses, which I've summarised:

- On 11 July 2023 Prudential responded to Mr B. It gave a summary on with profits plans, how they work and how it was invested. It also explained the purpose of smoothing and bonuses. It confirmed that each year "in the last week of February, the bonus statements are announced for the upcoming year". It said that Terminal Bonuses, although they were quoted, weren't guaranteed and could change at any time as they were only applied on maturity. It confirmed that the policy value could go up or down. It offered him £150 as compensation.
- Mr B remained unhappy and asked why he was quoted figures in excess of £40,000 *after* the maturity value had dropped to around £37,000. He also queried why in other years the value had never dropped after February, but the year his plan was due to mature it dropped by around 10%.
- Prudential replied to Mr B – but sent him a letter that appeared generic or in any event unrelated to his original query, as it discussed the possibility of the plan not paying off his mortgage or there being a shortfall, which wasn't something Mr B had asked about or raised.
- Prudential sent a further response on 1 August 2023 in which it apologised for previous communications and said that it had been experiencing "some issues which have impacted our ability to deal with enquiries in the manner and speed we normally

aim for". It said the information Mr B had requested had been sent separately and it awarded Mr B a further £125 by way of compensation.

- Prudential sent Mr B another response on 17 August 2023 – this letter explained that 2022 had been an extremely challenging year for investment markets and the final bonuses largely reflected the actual performance of the With-Profits Fund in 2022. It again explained the purpose of bonuses and confirmed that it was the "reduction in final bonus rates that has resulted in the value being reduced".
- On 24 August 2023, Prudential sent Mr B another response. This apologised for the level of service provided to him – and reiterated the issues it had been facing in terms of responding to enquiries. It offered Mr B another payment of £125 as an apology and confirmed he'd be receiving another response.
- Mr B replied and complained about the lack of responses to his queries – and reiterated his concern about why the value of his plan had dropped so considerably when this had never happened in previous years.
- So on 12 September 2023, Prudential issued a further response. It reiterated previous information about bonus rates being lower because of market performance in 2022. As this response still did not address Mr B's queries, a further response was sent on 15 September. This referred Mr B to this service and confirmed there was no further information to provide.
- In its Final Response letter, Prudential acknowledged that Mr B was given incorrect information, incorrect values and had failed to explain how these errors had occurred. It also apologised for the previous responses not being adequate and not addressing Mr B's concerns. Prudential agreed that some of the previous responses were generic and not specific enough to the concerns Mr B was raising, clearly causing him inconvenience. It sent him £150 compensation for these errors and its poor responses.

Mr B referred his complaint to this service. One of our investigators looked into his complaint. In summary, he agreed there were areas where Prudential's communications had failed, but found no evidence that Mr B had been paid less than he was entitled to under the plan.

Mr B asked for an ombudsman's decision. He said he didn't think his complaint points had been addressed. He said he felt that Prudential was given the power to quote a high terminal bonus for the life of the policy only to reduce it just before maturity – this wasn't fair. He said that there had never previously been a reduction in bonus and he queried whether this was done on individual policies just as they matured. He said he couldn't understand why the decision to reduce the terminal bonus was taken in April 2023, yet his policy was reduced anyway in March making it appear as if Prudential had already decided to pay him less.

Mr B also said that Prudential had told him 2022 was a challenging year, but his plan was consistently increasing in value – both of these couldn't be right. He asked how much shareholders were paid that year and said that he thought a 10% reduction was significant.

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 have some sympathy for Mr B's situation. However, I'm sorry to disappoint

Mr B – I'm satisfied there's no evidence that Prudential deliberately reduced the value of his policy or unfairly deducted amounts from it. He received the amount that he was entitled to under the plan.

Before I get into why I sympathise with Mr B, I think it would be useful to explain to Mr B how the addition of bonuses can affect the maturity value of this type of policy. Mr B's policy attracts two types of bonus – annual bonuses and a terminal bonus. Once annual bonuses are added they are guaranteed and form part of any maturity value – but a terminal bonus isn't guaranteed until maturity. In some circumstances, Prudential can decide not to pay one at all. This is because Prudential will take into account a number of factors when determining the level of terminal bonuses, such as the bonuses already declared, benefits that need to be paid under other policies and previous investments returns – as well as what returns may be possible in future. All of these factors will influence what Prudential decides is the fair level at which to set the terminal bonus.

Prudential says that the “purpose of these bonuses is to give each plan-holder a return which reflects the earnings on the underlying investments over the period of their investment, whilst smoothing some of the highs and lows of short-term investment performance”. In other words, the addition of bonuses is designed to provide one of the key characteristics of with profits investments such as Mr B's – the process by which returns are “smoothed” so that in good years, when the fund performs well, some of the investment returns are held back in order to support bonus rates in years when the investments returns are lower.

So, this is why the previous year's negative return affected the terminal bonus declared in 2023. But this is also why Mr B didn't see his plan falling in value in previous years – the point of smoothing is to allow plans like Mr B's to continue attracting annual bonuses “smoothing” out years when investment returns aren't as high.

I should also be clear however that Prudential doesn't decide the terminal bonus purely based on Mr B's plan – in other words, it doesn't set the figure based on when a specific consumer's plan is maturing and then decides to reduce it in order to pay out less. There's no evidence of that and I'm satisfied this wouldn't be possible – in the years when Mr B saw his plan at a higher level, other consumers would've had their policies mature, thus benefiting from the terminal bonus applied at that time. What Prudential does is announce overall rates, which are then applied to individual policies. As above, these rates are determined based on a number of considerations.

So I'm sorry to disappoint Mr B – but I'm satisfied he has received what he was entitled to under the plan.

However, Prudential's communication around his plan, what it's worth and how and why the value of the plan changed has been extremely poor. Having gone through the file, I've found it excessively hard to fully understand what Prudential has been referring to – for instance Mr B was initially told that £40,602.96 figure as incorrect and he needed to rely on the statement he had received. Prudential explained that this was due to some back office work it was carrying out, which understandably caused some discrepancies.

But then, in response to this service's queries, it again quoted a figure of £40,602.96 and £40,710.02 for 20 February 2023 and 20 March 2023 – with the drop in the terminal bonus showing on 20 April 2023 (maturity value £36,944.76 with a terminal bonus of £22,042.42). And yet Prudential had already sent Mr B a statement, in March, with the reduced value – despite then telling this service the reason for the “drop when comparing the value in March

versus April” was “due to the Bonus declaration that was applied from April”. But Mr B’s plan was already showing this reduced value in March – this is why he had immediately queried it. The point is that by the time Mr B’s plan matured, he clearly received the right rate – but it remains unclear why there was so much inconsistency in this information during that time.

So I do understand why Mr B remains unconvinced – and why I consider that Prudential’s overall award of £550 to be fair and reasonable compensation (£150, £125, £125 and £150). If it hadn’t made these offers, I’d be making an award of similar size. It shouldn’t be so hard for a consumer to obtain real and specific answers to such important queries – and it also isn’t helpful when the answers appear to be identical, without properly explaining the issues. Prudential ought to have been able to clearly explain to Mr B what his plan was worth, how bonus declarations affected his plan and provided him with facts and figures than he could rely on, even if rates or final amounts are subject to change.

As I’ve said, it’s clear to me that the correct bonus rate that Prudential had declared applied to Mr B’s policy and he received what he was entitled to under the plan’s terms. However, in this case, I can completely understand why Mr B was left with the feeling that he had been paid less than he was entitled to – and why he continues to have so many unanswered questions about the conflicting information he was given which, I’m afraid, I’m not able to fully resolve.

My final decision

My decision is that Prudential’s overall award of £550 for the service it has provided to Mr B is fair and reasonable. I understand this award was sent in 4 separate cheques to Mr B – but if it hasn’t made these payments, I direct it to do so.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr B to accept or reject my decision before 24 December 2024.

Alessandro Pulzone
Ombudsman