

The complaint

Mrs H and Mr H complained about Aviva Life & Pensions UK Limited (Aviva). They said they were not happy with the charges they paid to Aviva in relation to their investment bond. They said they were charged too much, and it eroded the value of their bond. They would like Aviva to pay them compensation for this.

What happened

Mrs H and Mr H arranged to have a unit linked investment bond in July 2006. They invested £15,000 and did so with Norwich Union. Aviva had taken over Norwich Union in 2000, but it continued to use the Norwich Union name in the UK. This is why all of the original documentation about Mrs H and Mr H's bond has Norwich Union displayed on it. Aviva rebranded to its own name in 2009. Mrs H and Mr H held their investment bond with Aviva until 2023 when they cashed it in.

The unit linked investment bond held by Mrs H and Mr H, was designed in a way that they could choose to allocate money to a range of investment funds. Additionally, a life assurance policy was set up, that would have been payable on the death of the last surviving policy holder.

Aviva charged an annual management fee for managing and administering the investment bond on behalf of Mrs H and Mr H. It did this by selling a small proportion of their units each year.

Mrs H and Mr H said they sold their investment bond in June 2023 due to poor performance. They said they made losses, but Aviva still received its annual management fee. They said it is not fair that the investor should shoulder the burden for world events that has led to poor performance, whilst Aviva still collect its fees regardless. They said Aviva's fees steadily eroded the value of their investment bond over time.

Mrs H and Mr H said they paid around 4% in fees in the final year they held their bond. They said Aviva's charges structure is just another way to extract further monies from investors like them. They complained to Aviva about its charges.

Aviva said in response that the charges it applied on Mrs H and Mr H's investment bond was agreed by them when they set up their bond. It said the charges were clearly disclosed in the original documentation.

Aviva said the charges it applied were for it to maintain the service it provided such as maintaining its systems, sending annual statements, administering Mrs H and Mr H's investment, and answering any queries they had. It said wider global issues such as the pandemic affected performance of the funds they chose in the bond and Aviva, as the administrators of their investment, was not responsible for the loss in value they incurred.

Aviva concluded there was no error on its part in how it provided its services to Mrs H and Mr H and so it didn't uphold their complaint.

Mrs H and Mr H were not happy with Aviva's response and referred their complaint to our service.

An investigator looked into Mrs H and Mr H's complaint. He said when Mrs H and Mr H took out the investment bond, they were provided with a key features document by Aviva, which set out what its charges would be.

The investigator said Aviva's annual management charge is taken by units being sold from Mrs H and Mr H's funds. He said the key features document explained this and how much the charge was going to be. He said it was calculated as a percentage of the overall fund value.

The investigator said Aviva managed Mrs H and Mr H's bond and cannot be held accountable for performance of the funds Mrs H and Mr H chose to invest in. He concluded that Aviva had done nothing wrong and so he didn't uphold their complaint.

Mrs H and Mr H were not in agreement with the investigator's view. They said Aviva didn't give any indication of the true percentage in deductions it would make. They said Aviva diluted their holdings over the 16 years they held the bond, in consequence the value of their fund was significantly eroded to their detriment and to the vast improvement of Aviva. They said Aviva charged above what they said they would from the outset. They said the fund was not fit for purpose and was always weighted far too much in Aviva's favour.

Because the parties are not in agreement, Mrs H and Mr H's complaint has been passed to me, an ombudsman, to look into.

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.

I have independently reviewed Mrs H and Mr H's complaint and have arrived at the same outcome as the investigator, for the same reasons. I will explain why.

The crux of Mrs H and Mr H's complaint is about the charges that Aviva have applied to their unit linked investment bond.

As I have already described, Aviva were responsible for managing Mrs H and Mr H's investment bond. I can see that Mrs H and Mr H were able to allocate their money to a range of funds. They chose the Fidelity Money builder Income Fund, a New Star Sterling Bond Fund, and Invesco Corporate Bond Fund. At some stage it looks like either Mrs H and Mr H changed their mind and switched the New Star Fund for the Aviva Monthly Income Fund or switched funds at a later stage. All funds that Mrs H and Mr H invested their money in, had according to the fund factsheets, objectives to be in bonds, gilts, and cash.

Aviva said it managed Mrs H and Mr H's bond and carried out their instructions in regard to which funds they wanted to invest in. It said it also maintained their investment, sent them regular statements and was on hand to answer their queries. It said this was the service they were paying for.

Mrs H and Mr H looked in detail at the charges Aviva applied for it providing these services to them and are not happy with what they have paid. They said they have paid more than Aviva told them they would be paying. They said these fees have eroded the value in their investment bond. So, I looked into this.

I've looked at the original key features document for Mrs H and Mr H's investment bond. This provided information of Aviva's charges that were applicable to their bond. They include details of the annual management charge that was deducted. There is a section that Aviva added specifically about charges. It states:

"The charges include the cost of commission, expenses, profit, and any charges if you cash in."

Charges Norwich Union [Aviva] take from your funds:

Norwich Union [Aviva] takes a total yearly charge from your fund. The correct yearly from your fund. The correct yearly rate of this charge is shown below. They depend on your choice of funds and how long you've had your bond. These rates may change in the future.

Norwich Union [Aviva] takes part of the total yearly charge by selling a percentage of the units in your fund each month.

A management charge is taken in this way for all funds. For some funds Norwich Union [Aviva] will also take an extra management charge."

So, when I read what Aviva has said here, I can see that it told Mrs H and Mr H from the outset that it would take an annual management fee and do this by selling a small proportion of the units they held in the funds they chose. The annual management charge in the last year they held their bond for example was 1.350%.

Mrs H and Mr H said they were charged more than this and I can see that they were. This is because, as Aviva explained above in its key features document, it said *"For some funds Norwich Union [Aviva] will also take an extra management charge."*

Aviva has provided our service with a breakdown of the fees that it charged Mrs H and Mr H. I can see that it also charged an extra management fee for each of the 3 funds. For the Fidelity Money Builder the rate was 0.55%, Invesco Corporate Bond 0.55% and Monthly Income Plus was 0.23%. I can see that when the extra management fee is added to the annual management charge, the amount is about what Mrs H and Mr H were charged, and accounts for the extra amount that they complained about.

These types of charges and the way Aviva has applied them (by selling units to cover the cost) are common with unit linked investment bonds and from what I've seen, Aviva has fairly applied them in line with how it said it would from the outset in its key information document. Aviva said it has communicated on a regular basis what it has charged in statements to Mrs H and Mr H too. When I have looked through the key features document and considered all that has been said, I don't think on this occasion that Aviva has made any mistakes when it applied its charges to Mrs H and Mr H's bond.

In addition, Mrs H and Mr H have pointed to fees paid in the last year they owned their bond. They said they paid around 4% in fees, and it looked like they paid double the fees that they normally did in previous years. I can see the amount of management fee they paid each year, and I think on balance, its most likely that they paid a similar management fee in the last year too. The reduction of units that Mrs H and Mr H calculated to be similar to the management fee, I think on balance, was most likely the same fee rather than an additional one. I say this because Aviva explained in its key features document that this is how it would deduct its annual management fee from the bond.

Finally, Mrs H and Mr H said the charges applied by Aviva eroded the value of their investment bond. I acknowledge and understand the point they are making. But the way the

investment bond was designed, and the hope by all parties involved was that over time the funds chosen by Mrs H and Mr H would perform well and fees would be deducted as a proportion of profit made. But there was always a risk, accepted and taken on by Mrs H and Mr H, that the bond would fall in value as well and this is what happened in 2022.

Aviva from the outset had been clear with Mrs H and Mr H through its documentation provided, that it was always going to charge an annual management fee regardless of whether their bond went up in value or down, and this is what it has done. I don't find fault with its actions, and I don't think it has made any mistakes here. So, it follows that I don't uphold Mrs H and Mr H's complaint.

I appreciate that my decision will be disappointing for Mrs H and Mr H, and I empathise with them for the loss in value they incurred on their investment bond. But based on everything I have read and the findings I have given, I don't uphold their complaint.

My final decision

My final decision is that I do not uphold Mrs H and Mr H's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs H and Mr H to accept or reject my decision before 30 October 2024.

Mark Richardson
Ombudsman