DRN-4979509

The complaint

Mrs F complains that The Prudential Assurance Company Limited ('Prudential') gave an incorrect value for her home purchaser endowment policy when it matured.

What happened

Mrs F had a home purchaser endowment policy with Prudential. She took the policy out in 1998 with a different provider, but Prudential later took over the operation of the policy. The policy aimed to accrue a lump sum that Mrs F could use to pay off her mortgage at the end of the term, and it included other benefits such as insurance cover for Mrs F's life, health and mortgage interest.

Under the policy Mrs F paid monthly premiums which began at £81.60 and were set to increase each year under a '*step-up*' option. Payments were to be made on the 27th of each month. And the policy was due to mature on 27 May 2023.

Mrs F's policy was originally invested in a fund called Pacific Markets. In 2002 the investment was switched to a fund called Asia Pacific (Ex SA). Prudential's terms and conditions said it could close an investment fund and move Mrs F's investments to a similar fund.

Under Mrs F's policy Prudential was to use a designated percentage of the premiums Mrs F paid to pay for units of the investment funds. And those units would be added to Mrs F's policy. Prudential was also able to cancel (or '*deallocate*') units in Mrs F's policy to cover the cost of the benefits she received under the policy. Prudential's terms and conditions set out how it would calculate the bid and offer prices which it would use for the purposes of allocating and cancelling units in the policy.

In October 2004 Mrs F's policy was amended to cancel the step-up option. A form signed by Mrs F at the time said her premiums at the time had been £122.40 per month, but they'd now revert to £81.60 per month, effective from 27 October 2004. And they'd continue to be £81.60 for the remainder of the policy term. Prudential charged a £50 fee for this change which it said was paid for by deallocation of units in Mrs F's policy.

In late 2019 Prudential put in place a new system for administering its policies. Errors in the system caused Prudential to mistakenly stop collecting Mrs F's premiums. Prudential has said errors in the new system also meant the statements it sent Mrs F from May 2020 onwards included wrong information – the numbers of units and therefore the value of the plan were inflated.

In 2021 Prudential realised it had failed to collect Mrs F's premiums for 13 months from 27 October 2019. On 5 August 2021 it wrote that Mrs F had now paid a lump sum to cover the missed premiums, and monthly premiums would resume from that point. It said the payments for missed premiums would be backdated to the date they'd been due, to ensure Mrs F wasn't disadvantaged by a delay in applying them to her policy. Prudential also said its error might cause Mrs F a tax liability because it had changed the tax status of her policy. And so Prudential gave Mrs F an indemnity under which it promised to pay any tax liability caused by its error. The indemnity set out what Mrs F had to do to claim money from Prudential under the indemnity if she had cause to do so. The tax liability would occur only if Mrs F was a higher rate taxpayer or if she became a higher rate taxpayer as a result of Prudential's error.

On 1 April 2023 Prudential wrote to Mrs F saying it estimated the amount payable upon the maturity of her policy would be about £69,000.

Mrs F contacted Prudential and on 19 May 2023 Prudential wrote to her saying it estimated the amount payable at the maturity of her policy would be about £54,000.

On 31 May 2023 Prudential paid Mrs F about £54,000 for the maturation of the policy. It said its letter of 1 April 2023 had been sent in error and she should disregard it.

Mrs F complained to Prudential.

On 13 July 2023 Prudential wrote to Mrs F saying the value of her fund was calculated according to the market prices of the funds in which the units were invested. It noted that the value could change and referred Mrs F to performance information on its website. It also gave Mrs F a breakdown showing – as of 27 May each year – the total number of units allocated to her as of that date, the bid price of the units at the time, and the total monetary value of the units she'd accumulated at that date. And Prudential gave Mrs F a brief statement for each year, showing the total units accumulated as of 31 December each year and the total value of the policy as of that date each year.

In its final response to Mrs F's complaint Prudential said it was sorry it'd given her an inaccurate valuation figure. It said the reason for the error was the letter was automated and failed to account for the fact Mrs F had cancelled the policy's step-up option in October 2004. This meant the letter had failed to take into account that Mrs F had paid lower premiums than planned from that date. Prudential said its letter of 19 May 2023 had been correct. And Prudential couldn't explain why the difference between the estimates was so great. Prudential also said it should've paid the policy out on 27 May 2023 but it hadn't done so until 31 May 2023. That had caused Mrs F a loss of about £100 which Prudential would pay her. Prudential said it would also pay Mrs F £200 to compensate for the distress and inconvenience it had caused her. It said it had arranged to pay about £300 to Mrs F's nominated bank account and she could expect to receive that money within 10 days.

Mrs F referred her complaint to this service. She said she still wasn't confident Prudential had got the value of her policy right because of the number of errors it had made and because it hadn't made a reasonable attempt to explain to her how it had calculated the value it had paid out to her. And, compared with her husband who'd had the same investment and suffered the same errors, Mrs F thought Prudential had dealt with her less favourably because she was female.

One of our investigators looked into Mrs F's complaint. The investigator said this service couldn't look at complaints about the activity of complaint-handling so how Prudential had handled her complaint was outside the scope of our investigation. The investigator also said Mrs F had raised a number of concerns about Prudential. And he'd considered everything she'd said. But in giving his view on the complaint he'd focused on the following key considerations:

- Did Prudential provide clear, fair, and not misleading information in their communications which were in line with their regulatory obligations?

- Was the final maturity value accurate?

- Had Mrs F suffered any financial loss as a result of Prudential's error?

- Had Mrs F suffered any distress and inconvenience as result of Prudential's error?

The investigator asked Prudential to provide the number of units and value of the policy as of 26 May for 2019 to 2023. Prudential provided the following figures:

Date	26/5/19	26/5/20	26/5/21	26/5/22	26/5/23
Surrender value	£40,878.05	£37,807.53	£49,799.01	£50,556.71	£53,7612.93

On Mrs F's complaint about her policy, the investigator said, in summary, the following:

- Prudential had appropriately calculated the loss caused to Mrs F by its delay processing her policy. And it had appropriately added 8% interest to the amount of the loss which was the approach this service would take in the circumstances.

- Prudential's communication about Mrs F's policy had been deficient. But £200 was an appropriate amount to put right the distress and inconvenience that caused Mrs F.

- The surrender value Prudential calculated in May 2023 for Mrs F's policy was correct.

Mrs F didn't agree with the investigator's decision. In summary she said the following:

- The amount by which Prudential had miscalculated Mrs F's policy four weeks before the maturity date was 23%, or about £16,000. It was reasonable that Mrs F would've planned her finances around the number Prudential gave her first.

- Mrs F's main concern was the value of her matured investment. She didn't know how it had been calculated. And she wasn't sure the right number of units had been allocated over the term of the policy, so she couldn't be confident in the final figure.

- Prudential hadn't yet paid Mrs F the compensation it had offered.

Mrs F provided a spreadsheet in which she estimated the number of units Prudential should've purchased in her policy each month over the life of the policy. She said it showed Prudential hadn't allocated enough units to her policy. And she said it was unfair the investigator was able to see Prudential's calculations but she wasn't.

Mrs F also said the following:

- In July 2023 Prudential said that on 27 May 2007 Mrs F had 4,303.951 units (unit price 3.163 and total value £13,613.40). But an original statement Mrs F provided from August 2007 said had 4,207.14 units at that time. It was unclear how Prudential's revised figure could show more units in May 2007 than her previous statement had shown for August 2007.

- The final page of the annual statements Prudential sent in July 2023 said Mrs F had 7,816 units valued at £56,358.63. At that point she had 4 premiums still to pay. And the price of the units didn't fall after that. Yet her maturity value was £2,731.63 less.

- Mrs F did pay stepped-up premiums between May 1998 and December 2004, but that didn't appear to have been included in Prudential's 13 July 2023 figures.

- Mrs F provided a copy of a statement saying that on 7 August 2007 she'd had 4,2076.914 units which were valued at £13,423.25 at a unit price of £3.190.

Prudential told us it had paid Mrs F the compensation it had offered. It provided a record showing it had paid £303.66 to a bank account in Ms F's name in September 2023.

Because no agreement could be reached, Mrs F's complaint was passed to me to review afresh and make a decision.

Before forming a view on the complaint I asked Prudential to confirm which set of figures was correct and how it was confident of that.

Prudential now said the following figures were correct:

Date	26/5/19	26/5/20	26/5/21	26/5/22	26/5/23
Surrender value	£40,878.05	£38,078.93	£49,927.21	£55,517.34	£53,727.29

It said the difference between figures provided for the 26th and the 27th of the month was due to daily price variance. And it said it now knew the figures it had given Mrs F in July 2023 were incorrect. Prudential didn't say why it had given incorrect figures in July 2023, why the figures it now provided were different from the figures it gave our investigator, or how it could be confident the figures it now provided were correct.

Before making my decision on Mrs F's complaint I issued a provisional decision in which I said I was minded to uphold the complaint. I said I'd consider any comments from either party before making my final decision. My provisional view was that Prudential hadn't done enough to ensure it had paid Mrs F the correct maturity value. I was minded to say Prudential should carry out an actuarial check of its calculations and give Mrs F a copy of the calculations in a clear and understandable format, or an attestation from the actuary who carried out the calculations to say they are correct. And it should pay any shortfall, with interest, and a further £150 for the continued distress and inconvenience Mrs F had undergone.

Prudential accepted my provisional decision and said it would agree to carry out the actions I'd provisionally set out.

Mrs F made the following comments:

- Getting the information she was entitled to receive from Prudential had been a '*lengthy, stressful and fairly unpleasant*' process.

- Prudential had left her with no confidence it its products or governance and she was concerned about what would happen if Prudential didn't provide enough detail when communicating its new calculations.

- Mrs F wanted attention drawn to the following: '*the shortfall in my policy payout correlates to the tax payment that prudential would need to have paid if I was a 40% tax payer. However because I am not, those funds have now remained with Prudential*'.

- Any redress would need to be paid to a different bank account because the one Prudential had paid into previously was now closed.

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'm upholding the complaint. I'll explain why.

The purpose of this decision is to set out my findings on what's fair and reasonable, and explain my reasons for reaching those findings, not to offer a point-by-point response to every submission made by the parties to the complaint. So, while I've considered all the submissions by both parties, I've focussed here on the points I believe to be key to my decision on what's fair and reasonable in the circumstances.

Prudential has previously explained to this service that system upgrades and migration of older policies onto a new system caused problems with its valuation of some policies. This has meant that on policies like Mrs F's, Prudential's systems provided incorrect policy values in recent years.

Mrs F is primarily concerned about whether she can trust Prudential's calculations given the number of mistakes it has made in the past. Prudential has explained the reasons for its errors. And it's explained what it's done to correct the errors. In summary, where it delayed collecting premiums it explained that the premiums were backdated so they'd be applied to Mrs F's policy as of the dates they should've been collected. Where its system wrongly inflated the number of units showing in Mrs F's policy, Prudential explained that the system hadn't accounted for the cancellation of the step-up option and so it had assumed more units than it should've. And so, Prudential said, it had to manually calculate allocation of units in Mrs F's policy to take that into account. Prudential gave Mrs F records showing the accumulation of units over the life of the policy and the premiums she'd paid. And after Prudential delayed paying out Mrs F's policy upon maturity, it explained it had adjusted the value to the value the policy would've had if it had been paid out on the correct date. It also explained it had paid Mrs F the difference between what she received and what she should've received, with interest added to make up for lost investment growth.

So, I think Prudential provided a reasonable explanation for some of the errors it had made and how it had addressed them. Nevertheless, Mrs F has been understandably frustrated by Prudential's errors and she lacks confidence in its calculations because of those errors. I'm not persuaded by all of the arguments made by Mrs F in relation to what the value of her policy should've been. But I do agree with Mrs F that Prudential has failed to show convincingly that it has made correct calculations on her policy. I'll explain why.

I'll first address Mrs F's specific comments about why she thinks Prudential's calculations are wrong. And the spreadsheet which she said shows Prudential didn't allocate the right number of units to her policy, given the amount it took in premiums.

Having considered Mrs F's spreadsheet carefully, I'm not persuaded it correctly takes into account all of the fees and charges that applied to her policy. The fees and charges included management and administration fees (some of which were calculated daily), as well as life, critical illness and mortgage cover which were paid for through cancellation of units in Mrs F's plan. The spreadsheet also doesn't take into account that the price Prudential used to allocate units to her plan was not simply the published price or Prudential's bid price – it was an '*offer price*' which was calculated by Prudential according to the rules set out in the plan's terms and conditions. Also, some of the premiums recorded as paid on Mrs F's spreadsheet don't match the schedule of premiums from Prudential, or the premiums Prudential later said she had paid, for example from 27 October 2004 when her step-up was cancelled.

I also don't have any basis to say Prudential applied the wrong premiums in its calculations for the period between May 1998 and the date in 2004 when the step-up was cancelled.

In relation to Mrs F's example of the units she held in 2007, I wouldn't expect to see an inflated figure in a statement from that year because it was Prudential's new system in 2019 which it said caused it to miscalculate and misrepresent the number of units she'd accrued in her policy. I'm not aware of any errors having affected Mrs F's statement in 2007.

Mrs F has pointed out that Prudential's July 2023 figures said she had more units in May 2007 than her August 2007 statement had shown. While I don't know the reason for this, it doesn't necessarily indicate an error. It could potentially be due to the insurance costs on Mrs F's policy which in some circumstances could exceed the growth on her investments and cause enough units to be cancelled that the overall number of units reduced rather than grew for a period of time.

But Prudential has now said its July 2023 figures were wrong. Prudential has also said the figures it gave our investigator in 2024 were wrong. And it's provided a further set of figures which it says – without explanation – are the correct figures.

So, while I can't conclude that the calculations Mrs F provided in the spreadsheet or the specific concerns raised by Mrs F indicate that the maturity value Prudential paid her was wrong, I do agree with Mrs F that Prudential has provided different figures on a number of occasions and hasn't fully explained why that has occurred. Nor has it provided a comprehensive explanation or what I consider persuasive evidence as to why what it now says are the correct figures are, in fact, correct. This undermines confidence in Prudential's calculations. As a result, I'm unable to be satisfied that Prudential has shown, on balance, that it paid Mrs F the correct maturity value.

I want to mention here to Mrs F that this service hasn't received any detailed calculations from Prudential which haven't been shared with Mrs F. When our investigator referred to information from Prudential about how it calculated Mrs F's maturity value, I believe he meant to refer to the information Prudential gave Mrs F about how the plan worked, what it had done to correct its errors, and how many units it had bought over the life of the policy.

I must also mention that it's not the role of this service to make findings about whether discrimination has occurred. But I understand Mrs F feels she's been treated less favourably than her husband despite being in a similar position as a customer of Prudential. I'm considering Mrs F's complaint on the basis of her individual circumstances. But I've considered whether Prudential has treated Mrs F unfairly due to her personal characteristics. And I don't think it has. The errors Prudential made on Mrs F's policy were errors it made on the policies of other customers too. And, even if Mrs F's husband received a different level of service, I have no evidence upon which to conclude Prudential set out to give poorer service to Mrs F on the basis of a personal characteristic.

In relation to tax – It's not in dispute that Mrs F's policy lost its qualifying tax status due to an administrative error on the part of Prudential. Prudential accepted liability for that and gave Mrs F an indemnity to put things right for her. Mrs F accepted the indemnity, but has since said Prudential didn't make clear how she could use it, didn't explain its impact on her tax position, and didn't compensate her for associated inconvenience. She also said she might have to delay repaying her mortgage as a result of Prudential's error. Prudential offered to cover any future tax liability related to the policy. I am persuaded that was the correct thing to do since Prudential accepted responsibility for the mistake which caused the change in tax status. Mrs F has indicated she wasn't a higher tax rate payer. So the error is unlikely to have caused her a new or increased tax liability. And I'm not aware of any other material impact on Mrs F. And having seen that Prudential formally agreed to pay any such tax liability – and it explained how Mrs F could go about receiving such payment – I'm satisfied Prudential has done enough to put right the lost tax status and it doesn't need to do anything more in that respect.

Overall, Prudential clearly made mistakes that caused Mrs F distress and inconvenience. So I've gone on to consider whether the compensation Prudential has provided is fair and reasonable and what more, if anything, it needs to do to put things right.

Prudential clearly made an error when it gave Mrs F an estimated maturity value. And Prudential has said its annual statements were wrong from 2020 onwards. It's unfortunate that this happened, and that Ms H's expectations were raised about how much money she'd receive. It's clear this caused confusion and upset, and Mrs F should be compensated for that. Mrs F has mentioned that it would've been reasonable for her to make financial plans on the basis of the information from Prudential which later turned out to be incorrect. She hasn't specifically said that she did that, or provided any evidence of what the impact was on her. So, on balance, I think the impact on Mrs F was distress and inconvenience.

Had the matter stopped there I'd be minded to say Prudential's offer of £200 for distress and inconvenience was sufficient. This amount was offered in addition to the money Prudential paid her to make up the financial loss it caused by delaying paying out her policy. The offer for distress and inconvenience is not meant to make up for the money Prudential told Mrs F she'd be getting which she then didn't receive. Rather it's a compensation payment for her loss of expectation and the upset that caused.

But I've found that Prudential has also failed to provide figures that reliably show it paid Mrs F the correct amount upon maturity of her policy. This means it remains possible Mrs F has been paid the wrong amount. And she's continued to suffer distress and inconvenience over that. So I am directing Prudential to put right the uncertainty around Mrs F's maturity value, to pay any shortfall that might come to light, and to pay her a further amount in recognition of further distress and inconvenience.

In making this decision and the direction contained within it, I'm mindful of the time Mrs F has spent trying to get reliable information about her maturity value from Prudential, and I've taken into account the process has been stressful and unpleasant for her. The further payment I've mentioned for further distress and inconvenience takes these things into account.

I understand Mrs F has been left with no confidence in Prudential and she's concerned about whether Prudential will provide her with enough detail when it makes further calculations. My direction to put right the uncertainty over Mrs F's maturity value takes this into account by including the requirement that Prudential's check of its calculations must be an actuarial check, and that Prudential must give Mrs F a copy of its calculations in a clear and understandable format, or an attestation from the actuary who carried out the calculations to say they are correct.

Mrs F will need to liaise direct with Prudential regarding how and where it will pay the amounts required under this decision.

While Mrs F has commented on a shortfall in her policy payout, it hasn't been my finding that there's been any such shortfall. I've found that Prudential has failed to show whether or not it's paid her the correct maturity value on her policy. I'm now directing Prudential to put that right so that any shortfall will be paid to Mrs F.

Overall, I've found that Prudential has failed to treat Mrs F fairly and reasonably on this occasion. And I've set out below what must happen to put that right.

Putting things right

To put things right The Prudential Assurance Company Limited must do the following:

1. Carry out an actuarial check of its calculations to confirm whether it has paid Mrs F the correct maturity value for her policy.
2. Give Mrs F a copy of its calculations in a clear and understandable format, or an attestation from the actuary who carried out the calculations to say they are correct.
3. If the check at (1) above shows Mrs F should've been paid a higher value upon the maturity of her policy, pay her the difference between what she should've been paid and what she was paid.
4. If any amount is payable under (3) above, also pay 8% simple interest on the amount paid, from the date the policy matured to the date the interest is paid. If The Prudential Assurance Company Limited considers HM Revenue & Customs requires it to deduct income tax from that interest, it should tell Mrs F how much it's taken off. It should also give Mrs F a tax deduction certificate if she asks for one, so she can reclaim the tax from HM Revenue & Customs if appropriate.
5. Pay Mrs F a further £150 for distress and inconvenience (in addition to the amount Prudential has already paid Mrs F for compensation on this complaint).

My final decision

For the reasons I've set out above, my final decision is that I uphold the complaint. The Prudential Assurance Company Limited must take the steps and pay the amounts set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs F to accept or reject my decision before 25 March 2025.

Lucinda Puls
Ombudsman