

The complaint

Mr C complains that his in-house Additional Voluntary Contribution ('AVC') facility, provided by The Prudential Assurance Company Limited ('Prudential'), has performed poorly and dropped significantly in value despite being set up on a low/medium risk basis. Mr C considers that he's incurred losses as a result of Prudential's ongoing administration and management of his AVC arrangement and the underlying fund.

What happened

Mr C contacted Prudential to enquire about setting up an AVC facility with it. Having discussed the details of the arrangement with Prudential, Mr C elected to begin contributing to his available in-house AVC facility.

We've been provided with copies of correspondence issued and a call recording from the time of the sale of the plan and some later issued correspondence. I've set out the details of some of this below.

Point of sale information

Mr C took out the AVC arrangement during a phone call with Prudential on 4 April 2016. Prudential has provided us with a recording of this call.

A letter from Prudential dated the same date, set out that:

"Following our recent conversation I am pleased to confirm your application to join the ... AVC scheme and enclose the details discussed.

Please review the information and ensure that it is correct and complete. If any of the details are incorrect or missing please contact us within 30 days...

I have also enclosed a copy of "A Guide to Fund Options" and the "Key Features Document" which contain all the main features, benefits and risks of the scheme. You should read this alongside your application details."

The information set out included, amongst other things, that:

- Mr C would be making regular monthly contributions of £500.
- 100% of the payments received would be invested in the Prudential Index-Linked Fund.

The paperwork also included an "*important notice*" and "*declaration*", these noted:

"In applying to join this facility you should understand and accept that:

...

b. because individual circumstances may vary, you should, before starting to contribute to the AVC facility, consider carefully whether contributing to it is in your best interests;”

And

“I understand that when I applied to join the AVC pension over the telephone, I received a verbal summary of the key risks and benefits of the product(s), and that the Key Features Document provided post-sale sets out the full, written explanation. For my own benefit and protection I need to read carefully the documentation provided, and I also need to read carefully any further documentation provided to me in the future. If there is anything I do not understand I can ask Prudential for further information.

I confirm that I was made aware of alternative ways of increasing my pension including, where applicable, ‘Additional Pension Benefit’, and any other contributions to registered pension schemes for which I am eligible.”

The key features document set out that:

“You choose which funds you would like to invest your money in, from the fund range available.

Different funds offer different types of investment. For example, some only invest in property, others invest directly in the stock market, and others invest in a wide range of assets. Each fund has its own level of potential reward and risk. Usually, funds with more potential for growth carry more risk.

*The performance of the funds isn't guaranteed. The value of your investment can go down as well as up. **If it goes down, you could have less money in your plan than you paid in.**” [my emphasis]*

And

“You can switch your money between funds at any time. We currently don't charge you for this.” [my emphasis]

This correspondence was followed by another letter from Prudential dated 11 April 2016, which confirmed that Mr C's employer would be notified to start deductions of £500 per month from his salary to fund his contributions. It also confirmed that:

“Current fund choice

Your contributions will be invested in the following fund, as requested in your application:

Prudential Index-Linked Fund

Please contact us if you wish to change your investment fund.”

Annual statements

An Annual Plan Summary dated 31 March 2018 set out, amongst other things, that:

- The then current value was just under £11,500.

- £6,000 had been contributed to the plan since the last statement period.
- Charges of just over £51 had been deducted over the same period.
- The pension was invested in the Prudential Index-Linked fund with a charge of 0.65% (just over £51).

A later Annual Benefit Statement dated 31 March 2024 set out, amongst other things, that:

- The then current value was just under £36,569.77.
- The fund value at the date of the last statement had been £32,824.21.
- £6,000 had been contributed to the plan since the last statement period.
- Costs and charges of just under £425 had been incurred over the same period.
- The total unit-linked charges levied for the statement period were just under £209.
- The pension was invested in the Prudential Index-Linked fund with a charge of 0.65%.

Background to the complaint

Mr C complained to Prudential by telephone on 4 November 2024 and it issued its final response letter on 15 January 2025. Prudential didn't uphold Mr C's complaint but apologised for the delay in responding to his complaint. Whilst awaiting Prudential's response, Mr C referred his complaint to our service.

Mr C highlighted that Prudential's response hadn't addressed the focus of his complaint – the performance of the AVC facility and Prudential's management of the fund in which he was invested, particularly in light of the stated risk category of the fund.

Prudential explained that Mr C chose the fund he invested in, and it had not at the time he initially selected the fund, or since, provided him with any advice in relation to this – and it's been open to him to switch funds at any point and free of charge. Prudential apologised for not addressing Mr C's complaint about performance to his satisfaction and confirmed that it would pass these concerns on to its servicing team for them to address.

A second final response letter was issued by Prudential on 22 January 2025, to address Mr C's concerns about the performance of his plan. This aspect of Mr C's complaint was also not upheld, and Mr C remained dissatisfied with Prudential's response to his complaint.

One of our investigators reviewed Mr C's complaint and concluded that it should not be upheld. Mr C disagreed with the findings reached and made further submissions. I've read and considered his submissions (made across a number of emails) in their entirety, here I've included a summary of what I consider to be the material points:

- The substance of his complaint has not been addressed in full.
- His complaint is about the poor performance and management of the fund and Prudential's responsibility for both, including its failure to meet its objectives for fund performance.
- From the outset he was clear that he wanted a low-medium risk fund, this is clearly documented and, if the fund was higher risk than this, Prudential should have notified him. If the fund was a medium risk fund and it had performed particularly poorly, it should be Prudential's responsibility to move him to a more secure fund.
- The selection of a specific fund for the AVC was the responsibility of Prudential as the party that sold it to him.
- According to an industry commentator: *“the catastrophic performance against benchmarks and against their peer groups suggests a systemic problem with Prudential's fund governance.”*

- Three charges applied in 2022, 2023, and 2024 respectively were not consistent with the decreasing value of the fund.
- There were a number of issues with Prudential's handling of and response to his complaint, such as delays in responding and repeated failings to address/provide adequate responses to the points raised.

Because agreement couldn't be reached, this complaint has been passed to me for review.

I asked Prudential for some additional information about the charges listed in Mr C's annual statements and it provided an explanation which clarified the position. I relayed my understanding of this to Mr C – which I've reiterated below in my findings in respect of Mr C's complaint – along with my thoughts on the concerns Mr C raised about Prudential's response to his complaint. Briefly, I explained that:

- Prudential had made changes to how it reports charges and costs relevant to Mr C's pension fund, but this hadn't impacted the amount he was paying in fees, which remained the same.
- Whilst there was a brief delay in the initial final response letter being issued, it had apologised for this, and I thought the apologies provided were sufficient under the circumstances.

Mr C responded and confirmed that he understood each of these issues to be resolved. He also said:

"I still stand by my position that Prudential did not fulfil their published statement of the product that was sold to me. That is that they sold me a low-medium risk index linked fund which became high risk over a substantial and sustained period of time even when the economy was significantly improving.

...

The fact that this fund became high risk is evidenced in their own records of their portfolios. They have a number of low-medium risk funds all of which performed appropriately in relation to their risk and the economy over the 4 years that this specific fund moved from low-medium to very high risk. It is extraordinary that the Prudential did not shift the funds to low-medium nor manage the fund manager to move to low medium risk investments for the fund. And it is unacceptable that they did not give warning that this had become a high risk fund. I am also not sure in what way this was index linked."

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've reached the same conclusion as the investigator and for broadly the same reasons.

The parties to this complaint have provided detailed submissions to support their respective positions. I'm grateful to them for taking the time to do so. I've considered these submissions in their entirety. However, I trust that they will not take the fact that my decision focuses on what I consider to be the central issues as a discourtesy. The purpose of this decision is not to address every point raised in detail, but to set out my findings, on what I consider to be the *main points*, and reasons for reaching them.

It's my role to fairly and reasonably decide if the respondent business (in this case Prudential) has done anything wrong in respect of the individual circumstances of the complaint made and – if I find that the business has done something wrong – award appropriate redress for any material loss or distress and inconvenience suffered by the complainant (in this case Mr C) as a result of this.

When considering what is fair and reasonable in the circumstances, I need to take account of relevant law and regulations, regulator's rules, guidance and standards, codes of practice and, where appropriate, what I consider to have been good industry practice *at the relevant time*. Ultimately, I'm required to make a decision that I consider to be fair and reasonable in all the circumstances of the case.

Information provided at point of sale

I've listened to a recording of the phone call during which the AVC facility was sold/Mr C elected to contribute to the AVC arrangement.

During the call Prudential's call handler highlights:

- That they can't provide advice and all they can do is provide him with information about the product.
- That Mr C can start and stop contributions at any time and that it will be for Mr C to choose what he wants to invest in, out of the range of funds available.
- The basic features of the product such as how and when benefits can be taken.

The call handler and Mr C discuss what Mr C might want to invest in, the call handler describes investment risk in general terms including that their values can go down as well as up and that Mr C could get back less than he puts in. The call handler also highlights that funds can be switched at any time at no cost.

Mr C confirms that he hasn't decided what he wants to invest in and when asked how he would describe his attitude to risk Mr C says cautious/balanced – the call handler explains in the cautious bracket there is only one fund, the deposit fund. Then, at the lower risk end of balanced, there is the with-profits fund and then there are also four medium risk funds. The call handler describes each of these four funds in turn.

Mr C says the Index-Linked fund sounds good but acknowledges that he doesn't really know about these things. The call handler confirms that they will send a pack of information and, upon reading the information, Mr C can make changes if he doesn't think his choice seems right. The call handler confirms again that the selected fund is medium risk. They also explain that the charges linked to this fund are 0.65% and the call handler recommends that Mr C regularly checks the fund choice remains right for him.

Whilst I appreciate that Mr C may understandably not recall every detail of a call that took place almost a decade ago, I think the information provided to him was clear, fair and not misleading. The content of the conversation made it clear, amongst other things, that:

- Prudential was not providing him with financial advice.
- It was for Mr C to select the fund/s he wanted his contributions to be invested in, and he was encouraged to check regularly to ensure his fund choice was still right for him.
- He could switch funds at any point, free of charge.
- The fund he selected was medium risk.

The phone call was followed by the provision of paperwork, this included information about the available funds.

Overall, I think that Mr C began contributing to the AVC facility having gone through a non-advised process and that he was provided with sufficient information to make an informed decision. I also think that from the information provided, it ought reasonably to have been clear to Mr C that it was for him to select which fund/s his AVC would be invested in and check this on an ongoing basis to ensure that his choices remained right for him.

Management and performance of the fund

Mr C invested 100% in the Prudential Index-Linked Fund, the 2017 fund guide categorises the fund as medium risk and describes the fund as an actively managed fund investing in *government bonds* and the objective of the fund as:

*“The investment strategy of the fund is to purchase units in the M&G PP Index-Linked Fund. That fund invests **mainly in UK Government index-linked gilts**, typically with over five years to maturity. The fund is actively managed against its benchmark, the FTSE Actuaries UK Index-Linked Gilts Over 5 Years Index. The fund can also invest in corporate bonds, overseas government bonds and fixed interest gilts. Exposure to short term exchange rate movements from any overseas holdings is mitigated by hedging.*

Performance Objective: To outperform the benchmark by 0.75% a year (before charges) on a rolling three year basis.” [my emphasis]

There were a number of very significant events that impacted businesses, the stock markets and the economic outlook more broadly over the relevant time period. For example, the COVID pandemic (and associated lockdowns), high inflation, supply shortages and the invasion of Ukraine. More importantly, in relation to the performance of Mr C’s fund specifically – given what it is invested in – around the time he says his fund started to perform poorly, interest rates began to rise significantly. This, amongst other things, has had a substantial impact on funds investing heavily in gilts.

Looking at publicly available information about the FTSE Actuaries UK Index-Linked Gilts Over 5 Years Index which the fund uses as a benchmark, this similarly shows a significant drop in performance:

Year-on-Year Performance - Total Return

Index % (GBP)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
FTSE Actuaries UK Index-Linked Gilts over 5 Years Index	-1.2	27.4	2.5	-0.4	6.8	12.4	4.2	-38.0	0.2	-10.8

Overall, I’m not persuaded, on the evidence I’ve seen in this case, that the poor performance of the fund is as a result of mismanagement on Prudential’s part.

Prudential has issued annual statements since Mr C began contributing to his AVC facility, these set out, amongst other things; the current fund value, the previous year’s fund value and how much had been contributed to the fund in the statement period.

As highlighted above, Mr C selected the fund he wanted to invest in, this was not Prudential’s responsibility. The same applies to switching funds, if Mr C was unhappy with the performance of the fund he was invested in or no longer considered it to be right for him, it was for him to consider whether it would be right for him to switch funds.

I understand that having been invested in what he appears to have considered to be a relatively safe fund, that wasn't likely to see significant volatility, suffering substantial losses will have come as a shock to Mr C. However, I'm not persuaded that Prudential was responsible for the selection of the fund Mr C invested in, nor was it Prudential's responsibility to switch Mr C's AVC to invest in an alternative fund under the circumstances. I also don't think that Mr C was led to believe that that was the case by Prudential. And, although I think the level of volatility experienced by the fund will understandably have come as a surprise, I don't think Prudential misrepresented the fund or misled Mr C in relation to it.

Charges applied to Mr C's fund

Taking everything into account I don't think that the charges incurred by Mr C's AVC have been increased or misapplied. Although I can understand why Mr C had concerns to this end.

Prudential has explained that it changed how charges are reported and set out in annual statements, following a change to the rules under which it operates, in 2021. The only charge that applies to Mr C's fund is the unit linked charge, as has been the case since the AVC facility was established for him. For example, the higher sum of just under £425 in the March 2024 annual statement – described as the costs and charges that have been deducted from the pension plan – this amount reflects the operating costs of the fund such as, dealing fees and other associated costs connected to the trading and management of the fund. As I understand it, based on what we've been told, this cost is built into the unit linked charge that Mr C has been paying since the outset and, whilst prior to 2021 this wasn't set out separately, this is not an additional charge.

I understand that my decision will likely come as a disappointment to Mr C, it is clear from his complaint submissions that he feels strongly about the issues he has raised. However, having considered each element of Mr C's complaint, I don't think that any part of his complaint should be upheld. This is not a reflection of the seriousness of the issues Mr C complains about or the impact of the losses his pension has suffered but rather that I'm not persuaded that what's gone wrong here is because of a failing on Prudential's part.

My final decision

My final decision is that I don't uphold Mr C's complaint about The Prudential Assurance Company Limited, and I make no award.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 15 January 2026.

Nicola Curnow
Ombudsman