DRN-5711422

The complaint

Mr I complains that Aviva Life & Pensions UK Limited (‘Aviva’) paid him the wrong amount when his with-profits endowment policy matured in August 2023.

What happened

Mr I took out a with-profits endowment policy in August 1976, originally with Provident Mutual, which was part of Norwich Union. Aviva took over the policy in 2009. The policy was set to mature 47 years later in August 2023.

In 2005, Mr I made a decision to switch from the Provident Mutual with-profits fund to the CGNU with-profits fund. The old fund achieved 4.1% average annual returns between 2005 and 2023, while the new fund achieved 4.6% average annual returns over the same period. When his policy matured in August 2023, Mr I was paid £31,235.04. This amount was made up of three components; the sum assured of £5,506 which was the guaranteed minimum, regular bonuses totalling £10,564.54, which represented bonuses added over the years and a final bonus of £15,164.50, which was added at maturity.

Mr I was concerned he’d been underpaid at maturity. He questioned whether Aviva managed his policy properly and was particularly concerned that between 2004 and 2013, his policy value appeared not to grow despite him continuing to pay premiums. He complains no bonuses were added for several years, during which period, he says his policy value seemed to have frozen. He also received no annual statements, which added to his concerns. He was also confused because a 2021 surrender value appeared higher than his final payout, so Mr I complained.

Aviva explained that the maturity payment was calculated correctly according to its with-profits fund rules. It explained that a with-profits actuary oversaw the calculations in line with regulatory requirements and that the fund was managed according to the FCA’s Principles and Practices of Financial Management. Aviva acknowledged that between 2003 and 2013, it didn't declare regular bonuses, but it emphasised this doesn't mean the fund wasn't performing. Aviva explained that the returns from those years were instead paid out through the final bonus at maturity. Aviva also pointed out that all projections shown earlier in the policy's life were estimates only, not guarantees.

Aviva did accept that during the life of the policy, there was a communication gap. It acknowledged that Mr I didn't receive annual statements between 2004 and 2013 which would have understandably concerned Mr I but didn’t mean that Aviva hadn’t managed the fund correctly.
Because Mr I remained unhappy with Aviva's response, he referred the matter to this Service. An investigator looked into the complaint and reviewed all the evidence provided by both parties. The investigator was satisfied that Aviva had switched Mr I's fund in 2005 as he had requested and that this switch had been processed correctly. The investigator also examined how Aviva had calculated the maturity payment and found it was in line with the growth the fund had achieved over the relevant period. Based on this review, the investigator concluded that Aviva had acted fairly and didn't think it needed to do more to resolve the matter.

However, Mr I remained unsatisfied with the calculations and the explanations that had been provided. He maintained his concerns about the way his policy had been managed and the final payout he received. Because Mr I disagreed with the investigator's view, the matter was passed to me to make a final decision.

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 note Mr I has provided several submissions to this service regarding this complaint. I'd like to thank him for his time, and I hope he doesn't consider it a discourtesy where I've concentrated on what I consider to be the key aspects of this complaint, in line with this service's role as an informal dispute resolution service.

This means that if I haven't addressed a specific point that he's raised, it shouldn't be taken from this that I haven't considered that point – I can confirm that I've read and considered everything provided by Mr I and Aviva in its entirety. Rather, it should be taken that I have considered that point but that I don't feel it necessary to address it directly to arrive at what I consider to be a fair resolution to this complaint.

The amount paid at maturity under a with-profits policy is determined by the insurer's overall investment objectives and must be consistent with its regulatory obligations. In particular, the insurer must ensure that returns are allocated as fairly as possible to all policyholders in the with-profits fund. The evidence shows that Aviva's processes follow these requirements. Decisions about whether to add bonuses—and at what level—are proposed by Aviva's with-profits actuary, discussed with its With-Profits Committee, and ultimately approved by Aviva's Board. So, it seems to me that Aviva has appropriate checks and measures in place to demonstrate to the regulator how it reached its decisions on regular and final bonuses.

But it isn't the role of this service to audit those decisions or to recalculate the level of bonuses Aviva should have applied. That responsibility sits with the regulator. My role is instead to look at whether Aviva treated Mr I fairly and reasonably and whether it paid him what his policy was entitled to under the terms of the policy.

It's important to remember that bonus rates in a with-profits fund depend on a range of factors. These include not only the fund's recent investment returns—which Mr I has understandably referred to—but also expectations of future performance and the fund's liabilities, including the guarantees that apply across all policies. Regular bonuses, once added, become guaranteed, so insurers generally only declare them when it is confident these additions can be sustained in the long term.

Aviva has said, and the evidence supports, that between 2003 and 2013 it didn't declare regular bonuses for the policy. But that doesn't necessarily mean the fund wasn't performing. Rather, the returns earned during those years were instead reflected in the final bonus that applied at maturity. This is consistent with the operation of smoothing, where insurers may choose to hold back some returns when markets are strong and distribute them later—often through the final bonus.

I've looked at the policy terms from when Mr I first took out the policy in 1976. Nothing in the literature provides any guarantee that regular bonuses—or bonuses in specific years—would be added. Bonus awards remain discretionary. I've also reviewed the documentation Mr I provided and the information Aviva shared with him. While the fund's investment performance has fluctuated over time, Aviva isn't required to distribute all returns immediately. With-profits funds are specifically designed to retain some returns in order to smooth payments and maintain stability for policyholders during periods of market volatility.

This service doesn't have the same level of information available to Aviva's actuaries who make decisions about bonus rates and oversee the management of the with-profits fund. And Aviva's customer service staff also won't have access to this market-sensitive information. So, it wouldn't be appropriate—or consistent with regulatory expectations—to direct Aviva to disclose internal bonus-setting information to either Mr I or to us.

Since 2004, insurers have been required to publish a Principles and Practices of Financial Management (PPFM) document. I've checked, and Aviva's PPFM is available on its website. This document sets out clearly how Aviva manages the with-profits fund, including how it balances smoothing, guarantees, liabilities, and investment strategy. Aviva also publishes supporting information such as investment summaries and historical bonus declarations. Having considered the matter as a whole, I'm satisfied Aviva managed Mr I's policy in line with these published principles.

Turning specifically to Mr I's concerns about the "10-year black hole" and the relatively small amount of regular bonus added after 2005, I appreciate why this may seem surprising at first glance. Mr I received £1,596.48 in regular bonuses between 2015 and maturity, while £8,968.06 in regular bonuses accrued before his 2005 fund switch. However, Aviva has explained—and I've seen nothing to contradict this—that most of the underlying investment returns from 2005 to 2023 were distributed through the final bonus of £15,164.50.

I've also considered whether this distribution of returns resulted in Mr I receiving less than he should have. Aviva has shown that the CGNU fund delivered a cumulative return of 134.1% between 2005 and 2023, equivalent to an annualised return of 4.58%. Over the full 47-year policy term, Mr I's payout equated to an average return of 6.6% a year, which closely matches the fund's average annual return of 6.7%. The 0.1% difference reflects policy charges. This suggests to me that Mr I's total payout was consistent with what the underlying fund achieved and that he received his fair share of returns—even if those returns were more heavily weighted toward the final bonus rather than regular annual additions.

Aviva's own guidance says maturity values should normally fall between 80% and 120% of the underlying asset share. Mr I's payout falls within this range, and I've seen no evidence that he was treated differently.

Mr I also expressed concerns about the communication gap between 2004 and 2013. Aviva has acknowledged it didn't issue annual statements during that period. I agree this was poor service, and I understand why this caused Mr I uncertainty—especially when the regular bonus rate was zero during those years. But service failings of this nature don't in themselves indicate that the policy was mismanaged financially or that the payout calculation was wrong. And having reviewed the calculations, I'm satisfied that Aviva used the correct methodology for calculating the maturity value. The formula it used is a standard financial calculation for working out compound annual growth rates, and I'm satisfied the performance figures it used were accurate.

Finally, Mr I mentioned that his surrender value in 2021 was higher than the eventual maturity value. Surrender values can reflect smoothing adjustments and market conditions at a particular point in time and aren't guaranteed indicators of the eventual payout. A higher surrender value at one point doesn't mean the maturity value is incorrect.

Therefore, taking all of this into account— I'm satisfied that Aviva acted fairly and reasonably when it calculated and paid Mr I's maturity value. While I sympathise with his concerns and understand why he felt uncertain during periods when his policy value appeared not to be growing, the evidence shows that the outcome was fair and reflected what he was entitled to receive from his policy.

My final decision

For the reasons I've explained, I don't uphold Mr I's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr I to accept or reject my decision before 24 December 2025.

Farzana Miah
Ombudsman