

The complaint

Mr F complains that Scottish Friendly Assurance Society Limited (Scottish Friendly) unfairly reduced the Transfer Value (TV) of his policies, leading to him receiving a lower annuity than he would've done with his new provider. Mr F feels that it should've transferred the actual unit value of his funds.

Mr F is represented in his complaint, but I'll only refer to him in my decision.

What happened

Mr F had two Flexible Income Annuity policies with Scottish Friendly. These paid him a monthly income, but the fund value remained invested.

On 6 September 2024, Mr F's Independent Financial Adviser (IFA) contacted Scottish Friendly to request TVs on Mr F's policies. Scottish Friendly replied with policy information on 13 September 2024. Its letters stated that while the unit value of the annuity that was being paid from Mr F's Non-Protected Rights (NPR) was £307,138.27, the TV for that policy was £288,430.47. And while the unit value of the annuity that was being paid from his Protected Rights (PR) was £28,653.06, the TV for that policy was £24,761.38.

The letters provided information about the TV. They said:

The transfer value of your annuity is how much will be transferred to your chosen provider. We reach this figure based on the unit value of your annuity, our current views on Life expectancy and your health or health of your spouse/ partner if this is a joint annuity.

The transfer value quoted is not guaranteed. The annuity transfer value will be dependent upon the unit price(s) on the day all of the fully completed FIA Transfer Forms are received, minus any deductions made based on changes to the annuitant's health or that of their spouse/civil partner (where applicable). If any health conditions change during the transfer process, please keep us informed.

We also consider the Lifetime Bonuses added to your policy to date. As these were added based on you not transferring out of the policy, we may reduce the amount you receive upon transfer to ensure you receive your fair share. When other policyholders die — any remaining funds after any death benefits are paid are retained by the company and each month we add additional units to your policy, this makes up your Lifetime Bonuses.

On 18 September 2024, Mr F's IFA wrote to Scottish Friendly to tell it that Mr F wanted to proceed with an analysis about making an annuity transfer to another provider. He asked it for full plan information on the current annuities. Scottish Friendly sent this to the IFA on 25 September 2024. It provided the unit value of both policies as at 24 September 2024. But said those values weren't guaranteed. The letter also stated:

The transfer value may be lower than the fund value of your policy, particularly if your health or the health of your dependants has declined. Any reduction will also allow for any lifetime bonuses we have given, because we based these on the assumption that you would not

transfer the policy.

Mr F's IFA issued his suitability report to Mr F on 11 October 2024. This stated that Mr F wanted to transfer his existing annuity to improve death benefits for his wife. In the section headed: *Individual Plan details to be transferred*, the IFA noted which: "*features, benefits or guarantees*" would be lost as a result of the transfer. The suitability report stated:

NPR - The transfer value may be lower than the fund value of the policy depending on the start date of the policy. This is due to an exit penalty. Transfer Value as at 13/09/2024 £288,430.47. The current value is £307,138.27.

PR - The transfer value may be lower than the fund value of the policy depending on the start date of the policy. This is due to an exit penalty. Transfer Value as at 13/09/2024 £24,761.38. The current value s £28,653.06.

Mr F decided to transfer the value of the annuities to another provider.

On 28 January 2015, Scottish Friendly sent Mr F's chosen annuity provider its transfer confirmation. This said that it'd sent £284,831.71 in respect of the NPR policy and £24,477.85 for the PR one.

Mr F's IFA wrote to Mr F on 10 February 2025 about his new annuity. He noted that the actual value of the transfers from Scottish Friendly had been lower than the original TVs it'd provided. As it'd received a lower total TV than it'd used for its initial quote, Mr F's new annuity provider would provide a lower annuity that it'd originally quoted. The annual annuity would be £20,479.56, not £21,595.56.

Mr F's IFA said that Mr F had previously said that he didn't think it was fair for Scottish Friendly to reduce his TVs, as it'd already taken charges from the policies. He therefore said that he'd complained to Scottish Friendly.

Scottish Friendly issued its final response to Mr F's IFA on 18 February 2025. It understood that the complaint was that Mr F was unhappy with the difference in the value between the transfer quoted and the amount paid.

Scottish Friendly didn't think it'd done anything wrong. It said that it'd used the earliest possible date to price the transfers, which was 2 January 2025. It also said that the quotes hadn't been guaranteed. Scottish Friendly asked Mr F's IFA to provide further information if he felt it should've used another date.

Mr F's IFA felt that Scottish Friendly had misunderstood Mr F's complaint. He said the complaint was about the actual fund values being so much higher than the TVs. He said Mr F felt that this was an excessive exit penalty, or an unfair claw back of fund growth/bonuses.

On 5 March 2025, Scottish Friendly sent a further response to Mr F's IFA. It said the TVs had been lower because the bonus values that had been applied over the course of the policy had been deducted. It said those bonuses had been put in place based on Mr F remaining with Scottish Friendly. And that they would be taken back on exit. Scottish Friendly said this was mentioned in the key features and terms and conditions of Mr F's policies.

Scottish Friendly also said that the actual figures Mr F received had been on the transfer quote which both he and his IFA had signed off on.

Mr F's IFA replied to Scottish Friendly on 7 March 2025. He said that despite Mr F having

signed the transfer agreement, he hadn't agreed with it, and the policies' terms and conditions. He said Mr F believed they wasn't fair. He asked what needed to happen so Mr F could get his bonuses back.

On 1 April 2025, Scottish Friendly replied to Mr F's IFA. It apologised for the delayed response. But said there was no further action for it to take, noting Mr F could bring his complaint to this service.

Unhappy, Mr F brought his complaint to this service through his IFA. He said that while Mr F had understood the differences in values before the transfer took place, he'd still gone ahead with the transfer due to his stated objective of improving death benefits for his wife. But he completely disagreed that such a reduction should happen.

Mr F's representative said that his new annuity income was lower than it should've been due to the TVs not being the same as his funds' value.

Our investigator didn't think Scottish Friendly had done anything wrong. She said the terms and conditions of the policy dictated how Mr F's policy worked, noting that the key features of the policy had stated:

We will calculate the transfer value to fairly represent the future benefits you would have received from your policy. This takes into account our view of your future life expectancy. We will also take an administration charge for processing the transfer. We will tell you the transfer value before you decide to proceed.

The transfer value may be lower than the fund value of your policy, particularly if your health or the health of your dependants has declined. Any reduction will also allow for any lifetime bonuses we have given, because we based these on the assumption that you would not transfer the policy.

Our investigator therefore felt that Scottish Friendly had been entitled to remove the bonuses from the TVs. She acknowledged that Mr F felt this was unfair, given he felt Scottish Friendly had already retained a profit from the charges he'd paid. But felt that the bonus reduction wasn't intended to be a mechanism for Scottish Friendly to make more profit, or to punish a consumer for leaving.

Our investigator also felt that Scottish Friendly's decision to reduce the bonus when a consumer transferred out was a commercial decision it was entitled to make. She therefore couldn't fairly conclude that it had done anything wrong. She also said that as this service wasn't a regulator, she couldn't require it to change the way it set up its pensions.

Mr F didn't agree with our investigator. His IFA had confirmed a typographical error in her view, which she corrected and apologised for. But Mr F provided no further response to her request for an explanation about why he disagreed.

As agreement couldn't be reached, the complaint has come to me for a review.

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.

At the outset I think it's useful to reflect on the role of this service. This service isn't intended to regulate or punish businesses for their conduct – that's the role of the Financial Conduct Authority. Instead this service looks to resolve individual complaints between a consumer

and a business. Should we decide that something has gone wrong we would ask the business to put things right by placing the consumer, as far as is possible, in the position they would have been if the problem hadn't occurred.

Having carefully considered the evidence and what both parties have said, I'm not going to uphold the complaint. I know this will disappoint Mr F, who I can see feels strongly about his complaint. I'll explain the reasons for my decision.

I first considered if Mr F was made fully aware of the TVs he'd receive if he transferred his policies away from Scottish Friendly.

Did Scottish Friendly clearly explain to Mr F what his TVs would be?

I understand that Mr F went ahead with the transfer as he wanted to improve the death benefits for his wife. So I can see how disappointing it would've been for him to end up receiving a lower new annuity income than he thought he should expect, given the TVs were lower than the actual funds' value. I've therefore gone on to see if Scottish Friendly was clear about the level of TVs Mr F might receive on transfer.

Having done that, I'm satisfied that the evidence shows that Scottish Friendly's 13 September 2024 letters made it clear that the TVs would be lower than the current values of the units held. The letters explained why this was the case. As I noted earlier, they explained that any lifetime bonuses that had been added to Mr F's policies could be reduced to ensure he received his fair share.

While the letters didn't guarantee the TVs shown, they did show that they were lower than the actual fund values. The TVs shown were also very similar to the amounts that were eventually transferred.

I can also see that when Scottish Friendly wrote to Mr F's IFA on 25 September 2024 to provide the policy information he'd requested, it again noted that the TVs shown weren't guaranteed. And repeated its point that the TVs could be lower than the policies' fund values, again explaining why this was the case.

Furthermore, Mr F's IFA's suitability report explained that Mr F's TVs could be lower than his fund values due to an exit penalty. That report also showed the approximate size of the reduction for both of Mr F's policies.

I'm satisfied that the evidence shows that Mr F was fully informed about the approximate amount of TVs he would receive from his two Scottish Friendly policies before he decided to transfer to another provider. And that he was therefore aware of the approximate level of bonus reduction before he decided to transfer his policies away from Scottish Friendly. I also say this because Mr F's IFA told this service that Mr F had signed the transfer agreement despite disagreeing with the policies' terms and conditions, which he felt weren't fair.

I've gone on to consider whether Scottish Friendly applied the policies' terms and conditions fairly in this case.

Did Scottish Friendly fairly apply the terms and conditions?

Mr F didn't think it was fair for Scottish Friendly to reduce his TVs, as it'd already taken charges from the policies. He felt that this reduction was an excessive exit penalty, or an unfair claw back of fund growth/bonuses.

As our investigator noted in her view, the key features and the terms and conditions of the

Scottish Friendly policies allowed it to calculate a TV, which aimed to fairly represent the future benefits Mr F would've received from his policies.

This TV would likely be lower than the unit values held, as Scottish Friendly based those on the assumption that Mr F would remain with it. The key features document explained that any TV reduction would allow for any lifetime bonuses Scottish Friendly had given Mr F, because it'd based those on the assumption that he wouldn't transfer his policies away from it. Scottish Friendly's 13 September 2024 letter also clearly explained this point.

I therefore agree with our investigator that Scottish Friendly didn't do anything wrong when it calculated Mr F's TVs in line with its terms and conditions. I'm satisfied that it was entitled to remove the bonuses from his TVs when he transferred away from it. And that in doing so, it was acting fairly to protect the needs of all of its policyholders.

While I can see that Mr F felt that the reduction was a punishment for leaving Scottish Friendly, I can't reasonably agree. Instead, I'm satisfied that it was a reasonable step for Scottish Friendly to take to protect the benefits of all of its remaining policyholders.

Although Scottish Friendly is required to ensure it clearly informs its policyholders of the terms and conditions, as it has done here, it's also entitled to make its own commercial decisions about how to operate its policies. I agree with our investigator that this service doesn't have the power to require Scottish Friendly to change the way it operates, as we're not the regulator. But in any event, I've not been provided with any evidence that Scottish Friendly did anything wrong, or acted unfairly. I therefore don't uphold the complaint.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr F to accept or reject my decision before 27 October 2025.

Jo Occleshaw
Ombudsman