

complaint

Mrs S complains about the reduction in the final (terminal) bonus rates applying to her pension with Aviva Life & Pensions UK Limited. Her financial advisor brings the complaint on her behalf.

background

Mrs S has two pension policies with Aviva that invest in the with-profits fund. Her financial advisor obtained transfer values for them through 2017 and in early 2018. And these showed the values had reduced significantly over that time. Mrs S's advisor questioned why this was.

Aviva said the final bonus rates are regularly reviewed, are not guaranteed and may change at any time. It said the final bonus could be seen as a balancing addition that reflects the difference between the guaranteed benefits and the underlying performance, subject to smoothing. Smoothing is the process it uses to ensure each its policyholders receive an equal share of the returns achieved by the fund while it has been invested.

Mrs S complained that the reduction in the final bonus would have an impact on the value of her pension fund and the pension income she could expect to receive.

One of our investigators looked at the complaint but didn't think it should be upheld. Aviva had set out the details of the final bonus rate applying to each of Mrs S's policies and the investigator thought it had given Mrs S an adequate explanation about them. She said the final bonus was calculated according to a number of factors and current investment performance couldn't be relied on as an indicator of what the final bonus rate would be, as it wasn't guaranteed. The investigator didn't think Aviva had done anything wrong, or had unfairly calculated the final bonus rates for Mrs S.

Mrs S and her advisor didn't accept the investigator's findings. They said the reasoning behind the reduction in the final bonus rates needed more explanation. They said it seemed Aviva had simply made a commercial decision to drastically reduce the final bonus rate, without any explanation of the actual fund performance of the policy over the specific time period it had been in force. They felt this was unjustified.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I can see how it will have been a concern to Mrs S to see that the projected values of her pension policies have reduced in a relatively short amount of time, particularly as she will understandably have been looking at these with a view to planning for her level of income in retirement. And I do appreciate why Mr S and her advisor have looked to seek clarification from Aviva about why this is.

Aviva's with-profits fund operates by allocating guaranteed and non-guaranteed bonuses to policies. And when making decisions on what level of bonuses to apply to policies (including whether to apply any bonus); it takes into account a number of issues. These can include the performance of the assets in the fund; bonuses already declared; benefits that have been paid and need to be paid in the future; the insurers costs of running the business; historical investment returns and anticipated future investment returns. So there are a number of

factors that a with-profits provider such as Aviva needs to take into account deciding what bonuses it can allocate to policies.

Bonuses aren't guaranteed and can change. Non-guaranteed final bonuses can be reduced at any point. So the overall with-profits policy value can change as a result of how bonuses are applied. And this will depend on the factors I've summarised above.

A with-profits provider such as Aviva has a wide discretion as to what bonus rates it applies to policies. And it is a matter of commercial judgement on its part as to how it manages its with-profits fund and what level of bonus it applies.

But Aviva does have to explain via its Principles and Practices of Financial Management document (PPFM) how it approaches with-profits investment. And the Financial Conduct Authority (FCA) sets out principles and rules as to how businesses such as Aviva should manage its with-profits fund and apply bonuses. And I've not seen any evidence that Aviva has mismanaged its with-profits fund.

So, although I can understand Mrs S's disappointment with the reduction in the values she's been given when compared with past valuations, I don't think Aviva has acted unfairly or inappropriately, when the setting of the final bonus is a matter of Aviva's commercial discretion.

my final decision

My decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S to accept or reject my decision before 28 March 2019

Cathy Bovan
ombudsman