

## **complaint**

The late Mrs B and her representative complained that The Prudential Assurance Company Limited had hidden a Guarantee Charge that has only recently appeared on her bond statement, and that this charge seems excessive.

## **background**

The Pru rejected the complaint. It said that while this charge had not been shown on statements till recently it had always been there, and all charges should have been confirmed at the inception of the policy.

It said the Guarantee Charge was in place to guarantee that it will not apply a Market Value Reduction (MVR) when a payment is made. It accepted that this was not made clear on its statement and there was an implication that this might be an annually occurring charge.

It also said that the With-Profits Fund, in which this policy is invested, had no explicit charges. The bonuses declared are set with reference to investment returns minus an annual charge made for expenses, distributions to shareholders, and an allowance for any profit or loss from other sources, and was reviewed each year as part of the process for setting bonus rates. Due to the complex nature of the calculations involved, it was unable to confirm exactly what portion of the charge is attributed to marketing, administration or investment management.

An adjudicator at this service did not feel the complaint should be upheld as he felt the Pru's recent explanation was satisfactory. He felt the charge was not a specific deduction to the policy but a fund-related charge accounted for as part of the final bonus calculation.

He also thought the amount shown in the statement was indicative of the size of this charge and only shown in last year's statement as this was the first time money had been withdrawn from the bond. It represented those charges applied over the course of the investment. He also explained that any final bonus was not guaranteed and this accounted for the guarantee charge. Overall, he was satisfied that this was a legitimate charge that the Pru could apply.

Mrs B's representative did not agree, and said he was concerned that the policy already included the guarantee of no MVR and that Mrs B had been charged for this. He said he thought that being charged £400 for something she already had was unacceptable.

The adjudicator replied, saying that he was still convinced that this was a charge applied to the fund rather than the policy and one that would always be applied to pay for the guarantees. And that it was only more recent guidelines that have led to it being shown on the statement when making a withdrawal.

## **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 fully understand why Mrs B and her representative were surprised and bemused by the sudden appearance of this charge in the recent statement. The Pru admits this had not been shown before and it did not make clear what it accounted for or why it was showing it now for the first time.

Having thoroughly read the relevant sections it is far from clear whether this charge is, in effect, part of the annual management charge or a separate figure. So it is no surprise if most customers would find this confusing. I hope the Pru will do something to make this clear in future statements to its customers.

However, I don't find it contradictory that the policy had a guarantee that there would be no MVR and yet charged for this, even though it did not make this explicit till recently. Also, having sought further clarification from the Pru, I am not persuaded it has done anything wrong and/or was not contractually able to levy such a charge.

I firstly asked for clarification over what the £408 'deduction' represented. Was this the total guarantee charge applied over the lifetime of the policy? It replied, *'No, this was the guarantee charge applied for the statement period – May 2017 to May 2018. However, it is only applied on money exited from the bond in that statement period, so only £20,000 has been removed from the bond in its lifetime, this is the only guarantee charge that has been applied in the lifetime of this bond.'*

It also clarified that the guarantee charge *'has always been applied. It is applied to the fund prior to smoothing. The only reason that it is now shown on the statements is due to changes made during a Modernising Annual Benefit Statement project, which were regulatory changes to make statements and charges clearer to clients'*.

It also explained that the *'the final bonuses are set by targeting the unsmoothed values of the fund, adjusted by the guarantee charge. Thus, the final bonuses automatically include an allowance for the guarantee charge. The guarantee charge is not deducted twice'*.

Overall, while I can fully appreciate the late Mrs B's concerns about the sudden appearance of a guarantee charge I am satisfied that the Pru's overall explanation makes sense even though it would not have been clear to a typical customer from the statements sent out.

Finally, I recognise that Mrs B's representative/representative of her estate is very disappointed that the Pru has not supplied all the additional information he has requested, and that he believes this would strengthen the grounds for this complaint. But I am satisfied that I have received sufficient information to make a fair and reasonable decision about the merits of this complaint, and don't believe that further documentation is required.

### **my final decision**

I do not uphold the complaint or make any financial award.

Under the rules of the Financial Ombudsman Service, I'm required to ask the representative of Mrs B's estate to accept or reject my decision before 24 June 2019.

Tony Moss  
**ombudsman**