

## complaint

Mr F has complained about the performance of the with profits pension he took out with Scottish Amicable, now trading as The Prudential Assurance Company Limited. He thinks the way the with profits investment operates is unsuitable as the final bonus has reduced significantly.

## background

In 2019 Mr F complained to Prudential about the reduction in final bonus on his pension policy. It explained that the final bonus could vary and wasn't guaranteed. Mr F disagreed with the initial response from Prudential. He understood that the final bonus wasn't guaranteed but didn't think his concerns had been addressed. Prudential wrote to him again explaining why it still wouldn't be upholding his complaint.

One of our investigators looked into Mr F's concerns. And he explained that whilst the policy did provide for some form of guaranteed bonuses, values weren't guaranteed, and a final bonus may be payable.

In response Mr F said that he understood the investigators conclusion but didn't really agree. He didn't accept the decision. As a result, the case has been passed to me for review.

## my findings

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 decided not to uphold Mr F's complaint. I'll explain why.

For the avoidance of any doubt my decision is purely about Mr F's complaint regarding the performance of the with profits fund in respect of the pensions he originally took out with Scottish Amicable. I haven't considered the suitability of his investing his pensions in with profits funds.

I do understand that Mr F is upset and disappointed that the pensions he originally took out with Scottish Amicable, have reduced in value as a result of a reduction of their final bonus. But investment returns on with profits policies can go up and down. And I would need to be persuaded that Prudential had done something wrong for his complaint to be upheld. And looking at the available evidence I don't believe that it did.

I say this because section 2.6 of the policy conditions Mr F would in all likelihood have been provided with at the time of the sale says:

*"Further bonus units, special bonus or terminal bonus **may be** (my emphasis) added by Scottish Amicable from time to time as appropriate."*

Terminal bonus is another way of describing final bonus. So, I'm satisfied that as the policy conditions say a terminal bonus may be added, this doesn't provide an obligation to apply one.

I've also considered the statements provided by Prudential. And I've noted that the 2016 statement says:

*“These values aren’t guaranteed” and “Final bonus may be added (although this is not guaranteed) when the benefits of your policy are paid. The rates of final bonus may go down as well as up. Final bonuses can be removed or reduced at any time without notice and is therefore not guaranteed”.*

And other statements contain similar wording. So, this also in my opinion, indicates that a final bonus doesn’t necessarily have to be paid. And it seems to me that any indicative policy value which includes non-guaranteed benefits such as a final bonus isn’t necessarily guaranteed and can go down in value as well as up.

I do understand that Mr F feels strongly that this is morally wrong. But I need to consider if what Prudential has done is fair and reasonable and in line with what it is contractually obliged to do. And for the reasons I’ve explained I don’t think it has done anything wrong in how it has applied bonuses to Mr F’s policy. It appears to have paid the contractual bonuses as it should have. And it has adjusted the final bonus as it is allowed to do.

It’s approach to applying with profits bonuses is similar to what other with profits providers do. So, I don’t think it is doing anything out of the ordinary in its approach to applying final bonuses on Mr F’s policies.

How much bonus to apply to with profits policies is a matter of commercial judgement for the with profits provider. But Prudential has to manage its with profits fund in line with its regulatory obligations and its own stated with profits investment principles. And the smoothing process that Mr F has referred to allows it to apply guaranteed bonuses even when the underlying investments in the with profits fund are not performing as well as they might have in the past.

Prudential has explained that the returns on the with profits fund were negative in 2018. But it still applied guaranteed bonuses to with profits policies. And in those circumstances, I don’t think it surprising that adjustments may have been made to final bonuses.

### **my final decision**

For the reasons I’ve set out above, my final decision is not to uphold Mr F’s complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr F to accept or reject my decision before 24 February 2020.

Simon Dibble  
**ombudsman**