

The complaint

Mrs P complains that Scottish Friendly Assurance Society (Scottish Friendly) failed to advise her about the maturity of the investment bond she held with it. She also complains about the “poor” investment returns she received, and she says she wasn’t advised that she could get back less than she had paid into the plan.

What happened

In November 2012 Mrs P took out a “mutual investment bond” with Scottish Friendly. This was a with-profits (WP) investment bond into which she agreed to pay monthly premiums of £15 over a period of 10 years and which had a death benefit of £1,350. It was supposed to end on 1 December 2022.

There was a monthly charge of 5% on each regular premium along with a monthly administration charge, a cost for the death benefit, and a 1% annual management charge. Mrs P was provided with an illustration which suggested that she might get back £2,040 if the investment grew at around 5% each year.

In August 2023 Mrs P realised that she hadn’t been contacted by Scottish Friendly about the maturity of her policy – so she contacted it to ask what had happened. Scottish Friendly accepted that it hadn’t raised the necessary paperwork for Mrs P to complete prior to the maturity date. It said it would provide her with the required claim form and would pay the proceeds, including late interest at 8%. It also paid £250 compensation for the trouble and upset caused by its error.

Scottish Friendly also suggested that the final value of the bond at the maturity date was £1,803.20 but Mrs P didn’t think that was right. She said she’d paid in £1,800 so thought the final value should be higher. Scottish Friendly subsequently confirmed the final value of the claim would be £1,760.12, as it had applied a market value adjustment (MVA) to the value it had previously advised. It said no investment growth could be added from December 2022 to the current date as the policy had actually “matured” but reiterated it would add late payment interest. (This amounted to £85.49).

Mrs P remained unhappy with the final payment – noting that she would have received more investing into an ISA, so she brought her complaint to us where one of our investigators looked into the matter. They made the following points to support their view that the complaint shouldn’t be upheld.

- They hadn’t looked into the matter of the sale and advice around the bond as Scottish Friendly hadn’t been asked previously to do that. They thought Scottish Friendly needed to investigate that complaint separately if Mrs P wanted to raise the matter. They had only considered the matter of the errors which led to the late payment of Mrs P’s bond proceeds as well as whether the final maturity value was correct.

- They thought it was clear that Scottish Friendly had failed to contact Mrs P prior to the maturity of her bond. But they noted that it had now paid the final value with added interest and paid compensation for its error. They thought that was fair and reasonable in the circumstances.
- They noted that Scottish Friendly set out the investment risks of the bond at the point of sale and that the final value wasn't guaranteed and could be less than Mrs P had contributed to the bond. They also noted that an explanation of an MVA had been included within the term and conditions including reasons for when it might be applied.

Mrs P didn't agree and wanted her complaint to be referred to an ombudsman – so it's been passed to me to 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.

And having done so I've reached the same conclusion as the investigator. I know this outcome will disappoint Mrs P and I have some sympathy for the position she found herself in – but I think Scottish Friendly has corrected its error as I think it should have and I don't think it needs to do anything further. I'll explain my reasons below.

The late notification of the maturity of the bond

It's not in dispute here that Scottish Friendly failed to notify Mrs P of the maturity of her WP bond before December 2022. Scottish Friendly has been unable to offer a robust explanation for why it failed to do this except for an "administrative error" which meant it didn't produce the necessary claim forms and pre maturity pack it should have sent to Mrs P. Indeed Scottish Friendly didn't identify this error until Mrs P contacted it to question the matter in August 2023. This would support the idea that it was genuine administrative error which Scottish Friendly simply wasn't aware of.

When it was made aware of the situation Scottish Friendly acted to mitigate the situation, paying Mrs P when it received the maturity forms, adding interest at 8% for the late payment, and paying compensation of £250 for the distress and inconvenience its actions caused.

That's what I would have expected Scottish Friendly to do in the circumstances so that Mrs P didn't suffer any financial loss and was given interest to make up for the eight months or so that she was deprived of using her funds and when they weren't accruing any further investment growth due to the bond investment period having "ended" the previous December.

I have carefully considered the compensation amount of £250 that was paid but I've concluded that was within the range of what I would have recommended for the type of error that happened – so I think it was a fair and reasonable compensation payment in the circumstances.

Was the maturity amount in line with what it should have been and did Scottish Friendly make Mrs P aware of the risks involved?

We wouldn't normally uphold complaints on the basis of investment performance alone. That's because the very nature of investments means that their values can rise and fall in line with external markets factors which aren't usually something providers can control. Even funds like the WP fund – which are generally seen as more cautious investments – declare

their bonuses according to the overall investment performance of the fund which is subject to the same factors. We can look at investment performance in terms of whether a product was suitable for a consumer – which is something I'll return to later in this case – but it's not something I can look into here.

So my consideration in respect of Mrs P's complaint is whether she was made aware that her bond could provide her with less money than she'd paid in, and if she was made aware of any penalties that might be applied, which in this particular case was the application of an MVA.

As part of the point of sale documents that were provided to Mrs P she was issued with an illustration of what she might get back from her monthly contributions at the end of the 10 year term of the bond. Scottish Friendly was only able to give a guide of future returns based on the regulator's prescribed growth rates. The illustration noted that:

- *If investments grew at 2% per year you would get back £1,770*
- *If investments grew at 5% per year you would get back £2,040*
- *If investments grew at 8% per year you would get back £2,320*
- *These figures are only examples and are not guaranteed - they are not minimum or maximum amounts. What you get back depends on how much your investments grow.*
- *You could get back more or less than this.*

So I think Mrs P was made aware that there were no guarantees of what she could receive, and the returns would be based on actual investment returns. An indication that, based on the charges that were included, Mrs P might get back less than her total overall contributions if investments only grew at 2%, ought to have made her aware that it was possible to receive less than she had paid in. Of course, both Mrs P and Scottish Friendly would have hoped for greater returns than this, but Scottish Friendly made no guarantee of this fact.

So although Mrs P would have undoubtedly, and understandably, not expected this scenario to have occurred, I think she was made aware that there were circumstances in which it could happen. So I think it's with the benefit of hindsight, and because of her huge disappointment with how things turned out, that Mrs P now says she could have got greater returns by simply saving her money in an ISA account. I can understand that her frustration is magnified by the fact that the money was invested for the benefit of her grandson – but that doesn't mean that Scottish Friendly didn't make her aware of the investment risks involved here.

I also note that Mrs P was further disappointed when Scottish Friendly explained that the final claim amount it had advised her on the telephone was to be further reduced by the application of an MVA – which was an adjustment that when applied actually reduced the final sum to below the level of her 10 years' worth of contributions.

An MVA is applied to ensure fairness between those withdrawing from the fund – even at maturity – and those remaining invested.

It is an exercise of a provider's commercial judgment to decide when it needs to apply such an adjustment and how much it should be, and as such we wouldn't normally interfere with such commercial decisions – as long as they are allowed for and explained within the product terms and conditions.

I've been provided with a copy of the product terms for Scottish Friendly's WP bond which stated that, *"if the policyholder instructs the society to cancel the units of the Regular Premium Life With Profits Fund allocated to the policy the society may make a deduction,*

known as the market value adjustment (or MVA) from the value of the units cancelled, or alternatively this value may be enhanced by a final bonus. The amount of any deduction or enhancement to be made shall be determined by the society's appointed actuary with reference to the society's overall bonus philosophy and in particular taking account of the reasonable expectations of all its policyholders. The deduction or enhancement can be made at any time including upon the payment of the benefit on the maturity date."

I think this covered the possibility that both an MVA or indeed a final bonus *could* be applied to the final sum, but both were at the discretion of the provider, and neither were guaranteed to happen. I know Mrs P will take the view that the MVA was unfair and meant she suffered a loss to her bond – below the value of a return of her premiums, but that doesn't mean that Scottish Friendly shouldn't have applied the MVA or indeed allocated a final bonus in line with how it said it might apply them according to the *"overall bonus philosophy and in particular taking account of the reasonable expectations of all its policyholders."* In this case Scottish Friendly did set out that an MVA could be applied within the policy terms that were provided to Mrs P or available to her on request, so I don't think it did anything wrong when applying it in this situation.

Mrs P's assertion that the bond was "mis sold"

As I said previously we wouldn't usually uphold a complaint about investment performance alone unless we thought the recommendation had been unsuitable or something had gone wrong with the investment. In this case Mrs P didn't raise the question of suitability or "misselling" of the bond in her original complaint. So Scottish Friendly hasn't been given the opportunity to answer a complaint about the original suitability and if Mrs P believes the bond was recommended to her by Scottish Friendly, she should complain about that issue to it in the first instance.

But, in order to give Mrs P some background about that I asked both parties to confirm how the sale first came about. Scottish Friendly confirmed that it didn't provide any advice to Mrs P and the application didn't come from an advisory channel. It said the application was made directly through its website. And Mrs P has confirmed that no advisor was involved and thought she applied for the bond during a telephone conversation about it. So, there's no evidence to support the idea that advice was given here which would mean it's unlikely that any future complaint about "misselling" could be upheld. I hope that will give Mrs P some help and guidance in deciding whether, and to who, she directs any future complaint about that particular issue.

Summary

I'm satisfied that, as the provider of the bond, Scottish Friendly did make Mrs P aware of the risks involved – such as the MVA - and was entitled to apply it since the terms and conditions said the final value of the investment was a matter for the provider to decide.

And, although I can fully understand Mrs P's frustration at receiving less than she paid into the contract, I'm satisfied that Scottish Friendly didn't guarantee an amount she would receive and that it made her aware it was possible to receive less than she had contributed to the bond.

My final decision

For the reasons that I've given I don't uphold Mrs P's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs P to accept or reject my decision before 25 April 2024.

Keith Lawrence
Ombudsman