

The complaint

Ms D complains that The Prudential Assurance Company Limited (Prudential) gave her unsuitable advice to invest in a Personal Equity Plan causing her financial loss.

What happened

Ms D says the financial adviser that worked for Prudential advised her to invest in a Personal Equity Plan (PEP). The advisor was known to Ms D and she says it was someone who she trusted to give her suitable advice as she considered him to be a family friend. In 1997, Prudential advised Ms D to invest £50 a month into this PEP. These payments continued until 2002.

Mrs D says she was wrongly advised to invest in the PEP as she was an inexperienced person who had never previously made any investments. She didn't understand the high risk involved at the time. She says she was earning a low income and didn't have any other savings. She says she didn't have the financial ability to sustain any losses and the risks were not made clear to her. She believes that the investments were not suitable and were mis-sold to her. She says if she had been made fully aware of the risk involved, she wouldn't have invested in this product so she would like all the money she invested returned to her.

In November 2019, Ms D complained to Prudential. They upheld her complaint saying they felt the investment wasn't suitable considering her circumstances and agreed to reimburse her the money she'd invested and 8% simple interest. They offered her £428.78 in total. Unhappy with the amount being offered, Ms D brought her complaint to this service. Ms D's complaint is about the advice given to her in 2010 but she didn't complain to Prudential until November 2019, so an investigator here asked for their consent to consider the merits of this complaint and they agreed.

The investigator agreed with Ms D and upheld her complaint. She used a fair compensation approach to remedy the situation and awarded her fair value compensation and 8% simple interest.

Ms D didn't agree with the redress the investigator awarded, so this has come to me for a decision.

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.

Having done so, I think it should be upheld. I will explain why.

suitability of advice

I've looked at what information was available to consider whether the advice to invest in a PEP was suitable, including Ms D's knowledge and understanding of the investment, what her financial situation was, her investment objectives and her attitude to risk.

Ms D had never previously made any investments, so her knowledge and experience of investments was limited to this investment in the PEP. Prudential should have been able to establish the level of experience she had in investments, her existing holdings and current financial situation. There is nothing to suggest she had any previous experience of this type of investment, or other investments. She says she trusted the advisor as he was known to her, so this only added to her being dependent on the advice she was receiving from them. She earned a low income and after outgoings had very little disposable income available to her. The money she was using for investment was a sum that was given to her by her grandad to help her while she was earning a low income. She had no other income or savings to fall back on.

It is also necessary to establish Ms D's investment objectives to understand whether the advice given was suitable. Her primary objective was to help her towards saving money for a deposit to purchase her first home in around five years' time. Prudential advised her to invest all her money into the PEP but they should have known the level of risk she was prepared to take. From what I've seen, she didn't want to take any risk as this was the only funds she had for her deposit money, particularly as she said her job was of a temporary nature and that she was also likely to see changes with her work and therefore also her income.

Ms D says she was told there was no risk involved and was never told there was a possibility she could lose the whole sum she had invested. I don't think I've seen enough to say that Prudential explained the risk the investment presented or that she understood the risk involved. Having reviewed everything that's been said, it's clear it exposed her to risk that she wasn't prepared to take at that time, and I'm persuaded this was not in line with her attitude to risk so I think the advice she received to invest in this PEP was unsuitable.

Prudential have already accepted that the investment was too high risk for Ms D, but they consider her to be someone that would have accepted some risk and have suggested compensation on this basis. I disagree with their assessment and feel that Ms D should not have been advised to take any risk when considering all the circumstances I mentioned above.

Putting things right

Fair compensation

In assessing what would be fair compensation, I consider that my aim should be to put Ms D as close to the position she would likely now be in if she had not been given unsuitable advice. I think Ms D would have invested differently – although it is not possible to say *precisely* what she would have done differently. But I am satisfied that what I have set out below is fair and reasonable given her circumstances and objectives when she invested.

To compensate Ms D fairly you should:-

1. Compare the performance of Ms D's investment with that of the benchmark shown below and pay the difference between the *fair value* and the *actual value* of the investment. If the *actual value* is greater than the *fair value*, no compensation is payable.
2. You should also pay interest as set out below.

3. Provide the details of the calculation to Ms D in a clear, simple format. Income tax may be payable on any interest awarded.

investment name	status	benchmark	from ("start date")	to ("end date")	additional interest
PEP	surrendered	average rate from fixed rate bonds	date of investment	date surrendered	8% simple per year on any loss from the end date to the date of settlement

Actual value

This means the actual amount paid from the investment at the end date.

Fair value

This is what the investment would have been worth at the end date had it produced a return using the benchmark.

To arrive at the *fair value* when using the fixed rate bonds as the benchmark, you should use the monthly average rate for one-year fixed-rate bonds as published by the Bank of England. The rate for each month is that shown as at the end of the previous month. Apply those rates to the investment on an annually compounded basis.

Any additional sum paid into the investment should be added to the *fair value* calculation from the point in time when it was actually paid in.

Any withdrawal, income or other payment out of the investments should be deducted from the *fair value* at the point it was actually paid so it ceases to accrue any return in the calculation from that point on.

If there are a large number of regular payments, to keep calculations simpler, I will accept if you total all those payments and deduct that figure at the end instead of deducting periodically.

I am satisfied that this approach is suitable as Ms D wanted to achieve a reasonable return without risking any of her capital. The average rate for the fixed rate bonds would be a fair measure given Ms D's circumstances and objectives. It does not mean that she would have invested only in a fixed rate bond but it is the sort of investment return a consumer could have obtained with little risk to their capital.

I've also added the additional interest as Ms D was deprived of the use of any compensation money since the end date.

My final decision

For the reasons given above, I've decided to uphold this complaint against The Prudential Assurance Company Limited. They should compensate Ms D as detailed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms D to accept or

reject my decision before 16 July 2021.

Naima Abdul-Rasool
Ombudsman