

## **The complaint**

Mr S complains Pi Financial Limited trading as Alterno Financial failed to notice his pension savings had been de-linked from a managed investment portfolio, causing him a financial loss. And he's unhappy with their customer service once they'd been made aware of the delinking.

Alterno is an appointed representative of Pi Financial Limited ("Pi") so for ease of reading I'll mainly refer to Pi throughout the decision.

## **What happened**

In July 2017 Mr S's financial adviser, Mr D of Sovereign Private Clients ("Sovereign") arranged the transfer of two pension plans valued at around £228,000 to a pre-retirement pension plan with provider "A" invested in the Brewin Dolphin Growth Managed Service Portfolio ("BD"). Mr S paid an initial fee to Sovereign and agreed to an ongoing adviser charge of 0.8% plus a managed portfolio charge of 0.36% both paid monthly.

In March 2018 Sovereign became Alterno (Pi) by way of a novation agreement and Mr D continued to act as Mr S's adviser. Until January 2018 Mr S's BD portfolio appeared to be actively managed with assets being bought and sold. From February 2018 assets in the BD portfolio appeared to be just sold. And in June 2018 Mr S noticed no further activity in his BD portfolio, so the active management of his pension effectively ceased, and his portfolio hadn't been rebalanced. Yet he was still being charged management fees by Pi.

In March 2019 Mr D of Pi decided to transfer a number of clients, including Mr S, to another firm which I'll refer to as "IFP" and he was given a new financial adviser. In May 2019 the new adviser reviewed Mr S's plan with "A" and discovered it had been de-linked from the BD managed portfolio.

Mr S complained to Mr D of Pi about the loss of growth while his fund wasn't being actively managed. In June 2019 Mr D told Mr S he'd found out from A the delinking was a "known issue" where there had been a novation, so when Mr S became a client of Pi his fund was delinked from the BD model. Mr D said Mr S should direct his complaint to A. As the problem occurred prior to the transfer of business to IFP Mr S's new advisor couldn't help, but Mr S continued to pay management fees to both A and Pi despite his funds no longer being actively managed. To resolve the complaint Mr S would like his plan re-linked to the BD managed portfolio with any investment loss reinstated, plus a refund of the management fees he's paid for 12-14 months while his plan wasn't being actively managed.

Pi said Mr D was no longer able to pursue the problem on Mr S's behalf now he (Mr S) was no longer Pi's client. It maintained A was responsible for the delinking and so should make up Mr S's investment loss. But Pi agreed Mr S had received no annual review in 2018. So it offered Mr S a refund of fees rounded up to £1,800. This was calculated as 0.80% of the value of his plan in January 2019 prior to the transfer to IFP which was just under £224,000.

Mr S didn't think this reflected the extent of his loss so in August 2019 he brought his complaint to this service. One of our investigators upheld the complaint and set out how he thought it should be put right.

I issued a provisional decision on this case in February 2022 as I'd come to the same outcome as the investigator but wanted to clarify the redress.

### *My provisional findings*

I made the following findings (in summary)

- Pi was originally told by A in 2019 that the de-linking of Mr S's policy was as a result of a known technical issue when there's been a novation.
- But A then clarified that Mr S's policy being delinked to the DB portfolio and no longer being actively managed or rebalanced arose from the novation (of Sovereign to Alterno/Pi). A explained it as follows:

*"The [BD] model was delinked from the client's account when his previous adviser moved firms. The model in question is an external one so the FA would need to get permission from [BD] to use their model when he moved firms.*

*The reason we deconstruct after a change of agent is because we do not know if the new adviser has access to that model portfolio. If we did not deconstruct and the new FA did not have access to the model, this would cause numerous issues for the new adviser like not being able to trade or even see how much money is even on the policy.*

*We do not inform the new agent of the deconstruction as we would expect they will review the client's holdings as part of their advice & recommendations to the customer when they move firms".*

- In Mr S's case the adviser Mr D hadn't moved firms. His firm "Sovereign" effectively changed its name and was novated to "Alterno", which became an appointed representative of Pi. But the process from A's point of view was Sovereign had been granted access to its BD managed portfolio, but they had no way of knowing if Alterno/Pi had the same permission. A didn't have the authority to grant that permission on behalf of BD.
- I accepted Mr D may not have been aware of the implications of the novation, but he remained Mr S's financial adviser. So I thought it was reasonable to expect him to have checked Mr S wasn't disadvantaged. Mr S himself noticed an impact on his portfolio from February 2018, and that in June 2018 it was no longer being actively managed. And while Mr S noticed there was a problem, as far as I could see Pi had taken no steps to mitigate Mr S's investment loss during this period.
- It wasn't Mr S's choice to move from Pi to IFP, he only found out after it had happened, and he understood the decision was taken by Mr D of Pi himself. It wasn't clear if IFP has access to the BD managed portfolio, but I thought Mr S was in his current situation as a result of the actions of Pi. So I didn't think it was sufficient of Pi to simply refund the management fees of £1,800 due to Mr S not receiving an annual review in 2018.

- Instead I said Pi should pay Mr S redress so that he isn't financially disadvantaged by the novation and the subsequent delinking of his pension plan to the investment portfolio selected for him by Mr D prior to Mr S becoming a client of Pi. I said I don't have the power to re-link Mr S's policy with to the BD portfolio, and Mr S is no longer a client of Pi, so it can't do that either.
- So when calculating the redress I assumed a period of three months to be sufficient time for Mr S's new adviser to arrange an alternative suitable investment for Mr S if he doesn't have the necessary permissions to access the BD managed portfolio.
- And I set out what Pi needed to do to put things right.

*Responses to the provisional decision.*

Pi didn't respond.

Mr S responded making a number of points (in summary):

- He confirmed he's a basic rate tax-payer;
- The pension plans invested with A are the total of his defined contribution plans earned with a number of employers over his working life;
- In 2017 he paid a charge of around £8.6k to transfer from another provider to A specifically to invest in the BD fund, so he thinks some of that charge should be refunded;
- He hasn't received the actively managed service he signed up for;
- The situation has caused a great deal of stress;
- Mr D should've investigated the consequences of the rebranding from Sovereign to Alterno;
- He wasn't given a choice about the transfer to IFP, and he wondered if this was done to avoid the consequences of the rebranding;
- IFP has taken no action concerning his plan with A and it remains delinked from the BD portfolio;
- It was difficult to contact Mr D who was his sole contact at Pi;
- He wanted to know who will carry out the redress calculations;
- He would like the comfort of an actively managed portfolio in line with what he signed up for.

### **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.

I understand the frustration and worry the situation has caused to Mr D, particularly that his funds have been unmanaged during a time of market turmoil. Which is why I upheld the complaint, and decided Pi should pay redress.

The redress is based on an end-date of August 2019 as I still think three months is sufficient time for Mr S's new adviser to have recommended an alternative investment portfolio, if it's not possible to link to the BD portfolio.

I also awarded £300 specifically for the worry and inconvenience experienced by Mr S.

I appreciate it wasn't Mr S's choice to become a client of IFP in March 2019, this was a decision taken by Alverno/Pi. But if Mr S is unhappy with the service he's received from his new adviser with IFP, including that his funds have remained un-managed he can complain about that to IFP. I don't know whether IFP has access to the BD portfolio, but it might have other suitable alternatives so that Mr S's portfolio is being actively managed. This isn't something I can address in this decision against Pi. I don't agree Mr S was prevented from raising concerns with IFP while his complaint against Pi was being investigated by this service. And I think it's reasonable for Mr S to have taken steps to mitigate his loss by ensuring his funds are being actively managed even if it's no longer possible for them to be linked to the BD portfolio he originally selected.

Mr S's complaint wasn't about the transfer of funds from his previous provider to Pi. It's about something which happened after the transfer had taken place, and which couldn't have been reasonably foreseen at the time. So I'm not going to require Pi to refund a proportion of the initial transfer charge.

But as Pi hasn't objected to the outcome or made any comments, I see no reason to depart from the conclusion reached in the provisional decision. So I uphold the complaint and require Pi Financial Limited to put things right as set out below.

### **Putting things right**

Mr S should be put as closely as possible into the position he would probably now be in if his policy remained invested and rebalanced in line with the BD managed portfolio.

I'm satisfied that what I've set out below is fair and reasonable given Mr S' circumstances and objectives when he invested.

### **What must Pi do?**

To compensate Mr S fairly, Pi must:

- Calculate the value of Mr S's investment as if it had remained invested in the BD managed portfolio as shown below. If the *actual value* is greater than the *fair value*, no compensation is payable.

If the *fair value* is greater than the *actual value* there is a loss and compensation is payable.

- Pi should add interest as set out below.
- If there is a loss, Pi should pay into Mr S's pension plan to increase its value by the amount of the compensation and any interest. The amount paid should allow for the effect of charges and any available tax relief. Compensation should not be paid into the pension plan if it would conflict with any existing protection or allowance.
- If Pi is unable to pay the compensation into Mr S's pension plan, it should pay that amount direct to him. But had it been possible to pay into the plan, it would have provided a taxable income. Therefore the compensation should be reduced to *notionally* allow for any income tax that would otherwise have been paid. This is an adjustment to ensure the compensation is a fair amount – it isn't a payment of tax to HMRC, so Mr S won't be able to reclaim any of the reduction after compensation is paid.

- The *notional* allowance should be calculated using Mr S's actual or expected marginal rate of tax at his selected retirement age.
- Mr S has confirmed he's a currently a basic rate taxpayer so it's reasonable to assume he'll also be one at the selected retirement age, so the reduction would equal 20%. However, if Mr S would have been able to take a tax-free lump sum, the reduction should be applied to 75% of the compensation, resulting in an overall reduction of 15%.
- Pay Mr S £300 for the trouble and upset he experienced while his portfolio was delinked.
- Repay the adviser's fees (which Pi has calculated as £1,800) together with simple interest at 8% a year, from the date the fees were paid to the date of settlement. If the above comparison shows that no compensation is payable, the difference between the *actual value* and the *fair value* can be offset against the fees with interest. I haven't required a refund of the managed portfolio fee of 0.36% as this would be payable had Mr S's policy not been delinked.

Income tax may be payable on any interest paid. If Pi deducts income tax from the interest, it should tell Mr S how much has been deducted. Pi should give Mr S a tax deduction certificate in respect of interest if Mr S asks for one, so he can reclaim the tax on interest from HM Revenue & Customs if appropriate.

Investment name	Status	Benchmark	From ("start date")	To ("end date")	Additional interest
Aviva's Brewin Dolphin Managed Portfolio	Still exists and liquid	Aviva's Brewin Dolphin Managed Portfolio	Date of novation (March 2018)	August 2019 - three months after Mr S's new advisor discovered the plan had been delinked	8% simple per year from final decision to settlement (if not settled within 28 days of the business receiving the complainant's acceptance)

### ***Actual value***

This means the actual value of the investment at the end date.

### ***Fair value***

This is what the investment would have been worth at the end date had it remained actively managed within the benchmark investment.

### **Why is this remedy suitable?**

I've chosen this method of compensation because:

- Mr S wanted to remain in the BD managed portfolio post novation to Pi.
- There is no need to compare to another benchmark fund in line with Mr S's attitude to risk as the BD investment still exists, but Mr S's policy has been de-linked from it.
- I've chosen the end date of August 2019 as I think three months after discovering his plan was delinked is sufficient for Mr S's new advisor to have arranged an alternative investment for him if he doesn't have the relevant permissions to access the BD managed portfolio.

### **My final decision**

I uphold this complaint. Pi Financial Limited trading as Alterno Financial should put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 11 April 2022.

Sarah Milne  
**Ombudsman**