DRN-3568992

The complaint

Mr L complains that Barclays Bank UK PLC gave him unsuitable investment advice. He says he was advised to invest too much in one product, that he wasn't left with a suitable cash reserve, and that he was exposed to too much risk.

The complaint is brought on his behalf by a claims management company. For ease, I will refer to everything as if it's been said by Mr L.

What happened

In April 2006, Mr L sought advice from Barclays. He'd not invested before and had savings of around £500. But he'd recently inherited a Barclays' portfolio valued at around £121,000, along with a house. He said he had no need for income and wanted to keep the portfolio investment as a "nest egg". He was assessed as having a "cautious" attitude to risk.

Barclays recommended Mr L kept around 20% as a cash reserve and invested in a Barclays Investment Management Services (BIMS) cautious portfolio. Mr L decided he only needed a cash reserve of £10,000 and he invested the rest as Barclays had recommended.

From May 2007 to January 2013, Mr L made 15 withdrawals from the portfolio totalling £108,500. He withdrew the final balance of around £289 in January 2013 and closed the portfolio.

He says:

- Too large a percentage of his available assets was invested.
- The investment into a single fund didn't provide enough diversification.
- The investment exposed him to too much risk when he was entirely dependent on the money for his future quality of life.

Barclays said it had advised Mr L to keep more as a cash reserve and that he told Barclays he didn't have any plans to access the money for at least five years. The portfolio was classed as "cautious", was sufficiently diversified, and was weighted in favour of gilts and corporate bonds which was suitable for him as a novice investor. Barclays apologised for the delay in responding to his complaint and paid him £150 as a gesture of goodwill.

Our investigator recommended that the complaint should be upheld. She didn't think Barclays had done enough to make sure the recommendation was suitable or that Mr L was able to financially withstand investment risk. She couldn't conclude the advice Barclays gave met Mr L's objectives, attitude to risk, or his ability to bear losses. She recommended Barclays compensate Mr L using the average rate from fixed rate bonds as a benchmark.

Barclays didn't agree. It said, in summary, that:

- Mr L was in a lower risk position after receiving its advice.

- It wouldn't have made sense to keep over £100,000 in a savings account when he didn't have a need for the money.

- The portfolio did exactly what he required it to do – it was diverse, easy to manage, and low risk.

- Mr L must have known what sort of expenses he would incur in his new home.

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 find I have come to the same conclusion as the investigator for the following reasons:

Mr L had no experience of investment and had minimal savings. His only income was his state pension. When he sought advice from Barclays, he'd recently inherited a house and £121,000 which was already invested in a Barclays' portfolio. So his financial position and circumstances had significantly changed. I can see he told Barclays he didn't tend to spend much and that he wanted to keep the investment as a "nest egg".

He told Barclays his monthly outgoings were £383 and that he didn't have any planned expenditure. But he hadn't been living in the house for very long. And whilst Barclays' recommendation letter says, "*we looked in depth at your outgoings*", this isn't reflected in the notes taken at the time. In the years following the investment, Mr L withdrew money from the portfolio to meet his general living expenses, amongst other things. So it seems most likely that he hadn't given enough though to the cost reality of living in the house and how this would impact his regular expenditure. I think Barclays, as the expert in the relationship, should have reasonably realised Mr L's circumstances had recently changed and how this might impact his monthly outgoings.

Barclays did recommend Mr L kept around £24,000 as a cash reserve. And I appreciate it was Mr L who decided this wasn't necessary and that he only needed £10,500. But there's not enough evidence to show Barclays considered Mr L's new circumstances in enough detail to help him understand how much he might need for the running and upkeep of the house.

Barclays says Mr L must have reasonably realised how much it would cost to run his home. But he had to withdraw money from the portfolio to meet his living expenses, and for home repairs, which suggests he didn't realise when he met with the advisor how much he would need to keep aside. And it was Barclays' responsibility to bring this to his attention, bearing in mind his unexpected and recent change in circumstances.

Barclays recommended Mr L invested around £111,000 in its cautious portfolio. Whilst this was a lower risk than the existing portfolio he'd inherited, this doesn't mean it made it a suitable recommendation.

Barclays told us that Mr L had been living comfortably before his inheritance and that he'd received "free money". I think this fails to understand Mr L's circumstances had changed because he'd also inherited a property which he decided to use as his home. He needed to understand the cost of running that new home to know whether he could continue to live comfortably in the future on his existing income, without the need to use the money held in the portfolio. The fact that he'd inherited the portfolio doesn't mean he could afford to lose it. Whilst he was hoping it would provide him with a "nest egg", in reality he needed it to fund his living costs in his new home.

Putting things right

Fair compensation

In assessing what would be fair compensation, I consider that my aim should be to put Mr L as close to the position he would probably now be in if he had not been given unsuitable advice.

I take the view that Mr L would have invested differently. It is not possible to say *precisely* what he would have done differently. And I'm not suggesting he should, or would, have kept over £100,000 in a savings account for the long term. But I am satisfied that what I have set out below is fair and reasonable given Mr L's circumstances and objectives when he invested.

What must Barclays do?

To compensate Mr L fairly, Barclays must:

- Compare the performance of Mr L's investment with that of the benchmark shown below and pay the difference between the fair value and the actual value of the investments. If the actual value is greater than the fair value, no compensation is payable.

- Barclays should also pay interest as set out below.

Income tax may be payable on any interest awarded.

Portfolio name	Status	Benchmark	From ("start date")	To ("end date")	Additional interest
BIMC cautious portfolio	No longer in force	Average rate from fixed rate bonds	Date of investment	Date ceased to be held	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, Barclays 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. Those rates should be applied to the investment on an annually compounded basis.

Any withdrawal from the Barclays should be deducted from the fair value calculation at the point it was actually paid so it ceases to accrue any return in the calculation from that point on. If there is a large number of regular payments, to keep calculations simpler, I'll accept if Barclays totals all those payments and deducts that figure at the end to determine the fair value instead of deducting periodically.

Why is this remedy suitable?

I have decided on this method of compensation because:

- Mr L wanted to achieve a reasonable return without risking any of his capital.

- The average rate for the fixed rate bonds would be a fair measure given Mr L's circumstances and objectives. It does not mean that Mr L would have invested only in a fixed rate bond. It is the sort of investment return a consumer could have obtained with little risk to their capital.

My final decision

My final decision is that I uphold the complaint. Barclays Bank UK PLC should pay the amount calculated as set out above.

Barclays Bank UK PLC should provide details of its calculation to Mr L in a clear, simple format.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 23 August 2022.

Elizabeth Dawes
Ombudsman