The complaint

Ms K complains that investment advice provided to her by The Royal London Mutual Insurance Society Limited was unsuitable. She has a claims management company ("CMC") representing her, which has said, in brief, that she was recommended to invest too much money at the wrong time and at an unsuitable level of risk.

What happened

In 2000 Ms K was advised to invest £15,000 split across three unit trusts – £6,000 into each of the UK Growth and the European Growth Trusts and the remaining £3,000 in the Environ Trust.

At the time she was in her early 50s, retired but still maintaining a mortgage. She had an annual income of £11,000, which the fact-find completed at the time of the advice indicated left her with on £16 per month disposable income. She had £20,000 in savings and was categorised as having a 'balanced' attitude to risk.

Our investigator considered that the recommendation exposed Ms K's money to too much risk, particularly given her circumstances at the time – she had recently taken early retirement due to health issues and hadn't had long to adjust to her new situation. He noted the high level of volatility the trusts in question were likely to have displayed and concluded that this wouldn't have been suitable for Ms K. He suggested that redress be paid to her on the basis that she shouldn't have been advised to take any risk.

Royal London partly accepted this view. It said that it felt Ms K had been assessed for risk correctly but that the UK and European Growth Trust investments had been too large. It said it was prepared to pay the recommended redress in respect of these two trusts but felt the smaller Environ Trust recommendation had been acceptable.

The CMC, on Ms K's behalf, didn't accept this, so the matter's been referred 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.

Having done so, I've come to the same conclusions as the investigator and for broadly the same reasons. I think the recommendation as a whole exposed Ms K's money to investment risk that was inconsistent with her circumstances at the time.

It's not clear how Ms K came to be categorised as having a 'balanced' attitude to risk. She doesn't appear to have had any investment experience and it also doesn't seem that her circumstances supported such a categorisation.

She'd taken early retirement on health grounds and while it was noted that she intended to return to work, at the time of the advice she was dependent for income on her occupational pension and incapacity benefit. As she was also still maintaining a mortgage it doesn't strike me as likely that she would've wanted to submit 75% of her modest savings to the level of risk associated with the three recommended trusts.

They were all heavily reliant upon equity performance and it was noted in the 'key features' document for the trusts that there were additional specific risks associated with the Environ Trust. It concentrated on a limited number of stocks, some in overseas markets, and small companies and, as such, there could be price movement not related to broader stock market movements. In effect, it acknowledged that this trust was likely to feature even greater potential volatility than the other two.

This being so, I'm unable to conclude that it was suitable for Ms K to be recommended investment in any of the trusts, at any level. I presume that Royal London's suggestion that the £3,000 investment in the Environ Trust was acceptable is in respect of it being a more modest amount than was recommended for the other two trusts. But I don't think any amount invested would've been suitable for Ms K and I disagree that her categorisation as a 'balanced' investor was reasonable or acceptable.

Given the recent changes to Ms K's circumstances and her reliance upon her pension and incapacity benefit at the time of the advice, I don't think she was in a position to take any degree of risk with any of her money. When, and if, she had started working again, some level of investment might have potentially become suitable – but even then, not at the level of risk associated with these three trusts.

Putting things right

Fair compensation

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

I take the view that Ms K would have invested differently. 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 Ms K's circumstances and objectives when she invested.

What must Royal London do?

To compensate Ms K fairly, Royal London must:

- Compare the performance of Ms K'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.

- Royal London 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
Three unit trust	No longer in	Average rate from	Date of	Date ceased	8% simple per year on any loss

investments	force	fixed rate bonds	investment	to be held	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, Royal London 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 Royal London 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 Royal London 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:

- Ms K 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 K's circumstances and objectives. It does not mean that Ms K 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

For the reasons given, my final decision is that the complaint should be upheld and that The Royal London Mutual Insurance Society Limited should pay compensation to Ms K as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms K to accept or reject my decision before 29 November 2022.

James Harris
Ombudsman