DRN-4532048

The complaint

Mr and Mrs G complain that Nationwide Building Society gave them unsuitable investment advice. They say Nationwide failed to fully assess their attitude to risk and placed them in investments which carried too much risk.

Mr and Mrs G are being represented in this complaint by a claims management company. However, for ease of reference, my decision will refer to Mr and Mrs G only.

What happened

In June 2010, Mr and Mrs G were advised by Nationwide to invest a total of £33,000 in a portfolio comprising of the following:

- £10,200 in Mr G's ISA – £5,100 in L&G UK Property Fund and £5,100 in M&G Strategic Corporate Bond
- £10,080 in Mrs G's ISA – all invested in Jupiter Merlin Income Fund.
- £12,720 into a joint unit trust

Mr and Mrs G were retired at the time, held just over £59,000 on deposit and had a net monthly disposable income of just under £900. Their investment objective was to achieve capital growth and they were happy to invest for at least five years.

Mr and Mrs G surrendered their unit trust in 2012 and their respective ISAs in 2016.

Mr and Mrs G complained to Nationwide in October 2022 as they felt the investment advice they received was unsuitable. In summary, they said their attitude to risk was not fully assessed and the level of risk within the investments was inappropriate.

Nationwide considered Mr and Mrs G's complaint and partially upheld it. In summary, it said:

- The unit trust wasn't appropriate for Mr and Mrs G as it meant they had too much invested as first-time investors and it didn't leave them sufficient funds on deposit. This was evident by the fact that Mr and Mrs G surrendered the unit trust only two years after investing in it, despite being advised to remain invested for at least five years.
- It compared the performance of the unit trust against the Bank of England Fixed Rate Bond Average and calculated that they didn't suffer any financial loss as a result of investing in the unit trust.
- It felt the ISAs were suitable for Mr and Mrs G's needs as they were willing to take some risk.

Mr and Mrs G remained unhappy with Nationwide's response and so they referred their complaint to this service for an independent review.

One of our investigators considered the complaint but didn't uphold it. In summary, they said:

- They were satisfied Nationwide's remediation action and its new suggested 'suitable portfolio' put Mr and Mrs G back into the position where they had sufficient cash reserves to invest their money in their ISAs.
- The fact Mr and Mrs G had high monthly disposable income further demonstrates they wouldn't need access to the money invested in the ISAs for the recommended term.
- Although Mr and Mrs G were first time investors, the investigator wasn't persuaded that the level of risk they were exposed to was unsuitable and having a large portion of money in low risk investments and a smaller portion in medium risk investments provided them with a balanced and diversified portfolio.

Mr and Mrs G didn't accept the investigator's findings. In summary, they said:

- The newly constructed portfolio lacked any meaningful diversification between asset classes with around 75% being dependent upon corporate bonds.
- Nationwide didn't make the risks clear that the L&G UK Property fund relied on property appraisers whose values may not be realisable – particularly in times of turbulent markets or in the event of significant fund withdrawals.

As no agreement could be reached, the complaint has been passed to me to decide.

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.

It's clear that both parties agree that the advice to invest in the unit trust was unsuitable and so my decision will focus solely on whether the investment advice in relation to Mr and Mrs G's respective ISAs was suitable.

Nationwide has provided the financial planning report completed with Mr and Mrs G in June 2010. From this, it's clear Mr and Mrs G's attitude to risk was discussed. The report said Mr and Mrs G were willing to accept some risk in order to achieve capital growth. The report also said Mr and Mrs G accepted that their ability to replenish capital loss was reduced due to their age. Mr and Mrs G's attitude to risk was assessed as being medium and the report explained what this meant:

> *"Medium Risk*
> *You would like to invest in a portfolio of medium risk.*
>
> *If you've got a medium attitude to risk, it's likely that you already have an interest in investing and are comfortable with the ups and downs of the stock market.*
>
> *Other people with this attitude to risk often share a number of common traits.*
>
> *• You're happy to put a significant proportion of your money in shares or other unpredictable investment types*
> *• You accept that there's a real risk of losing your money, but this is balanced with the prospect of greater growth*
> *• You're likely not to mind investing outside the UK*
> *• You might have an interest in and knowledge of the stock market*
> *• You understand the general risks involved with investing*

Medium risk funds take risks to provide greater returns. They tend to contain higher risk fixed interest investments, shares and commercial property. These may be outside the UK."

Looking at Mr and Mrs G's circumstances at the time, I'm persuaded they could take some risk in order to achieve capital growth. I understand they were both generally in good health, had a stable monthly surplus in income and had no planned expenditure.

Overall, when looking at Nationwide's ISA recommendations, I think they suitably matched what Mr and Mrs G were looking for as well as being in line with their tolerance for losses. Mr G's ISA comprised of equal investments in the M&G Strategic Corporate Bond and the L&G UK Property fund. The M&G Strategic Corporate Bond was low risk and aimed to provide income and growth of capital through investment predominantly in investment grade corporate bonds. The L&G UK Property fund was a medium risk unit trust which aimed to provide the potential for long term growth and income by investing in a diverse portfolio of UK commercial properties, with 20% of the funds invested held in cash.

Mrs G's ISA comprised of the Jupiter Merlin Income Portfolio only, which, according to the fund sheet, was a low risk unit trust aimed at achieving a high and rising income with some potential for capital growth by investing predominantly in unit trusts, open-ended investment companies and other collective investment schemes. The underlying funds in these were invested in equities, commodities and property, principally in the UK and over 35% held in fixed interest and cash. Looking at the asset allocation for this portfolio, I think it could be argued that it carried with it slightly more risk than a low risk product, however, I have no concerns with the recommendation as Mrs G was willing to take a medium level of risk.

I appreciate Mr and Mrs G believe the newly constructed portfolio lacks any meaningful diversification between asset classes, with around 75% of their funds being invested in corporate bonds. However, I don't have any concerns with the diversification of their investments. As explained above, Mr G's ISA is invested in cash, properties and corporate bonds and Mrs G's ISA is invested in cash, equities and fixed interest products. It's not clear where the 75% figure has been derived from but according to the fact sheets for the products, the figure is closer to 25% of Mr and Mrs G's total invested funds being exposed to corporate bonds.

When considering the suitability of Mr and Mrs G's ISAs overall, I've taken into account the fact that a well-diversified portfolio may contain investments which, on their own, might represent more risk than an investor is willing to take. The key question is whether these investments unbalance the ISA portfolio overall so as to make it unsuitable. And whilst Mr and Mrs G has raised concerns regarding the L&G UK Property fund, I'm not persuaded this recommendation renders Mr G's ISA unsuitable, considering he was also invested in cash investments and corporate bonds.

Overall, I'm satisfied that Nationwide's reconstruction of Mr and Mrs G's investments is suitable for Mr and Mrs G and in line with their circumstances and needs. So I don't agree that Nationwide should pay any further compensation. I appreciate my decision will come as a disappointment to Mr and Mrs G, but I hope they can understand why I've reached this decision.

For these reasons, I'm satisfied it wouldn't be fair and reasonable to uphold this complain.

My final decision

My final decisions is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr G and Mrs G to accept or reject my decision before 15 March 2024.

Ben Waites
Ombudsman