DRN-4570553

The complaint

Mrs and Mr S complain that they were given unsuitable investment advice by HSBC UK Bank Plc in 2020.

In summary, they say they weren't told about the effects inflation would have on their portfolio and would've been better off remaining in their previous investment. They're also unhappy about not having regular reviews.

To put things right, they'd like a refund of the fees paid and losses claimed.

What happened

In 2010, Mrs and Mr S were advised to invest £234,906 into the HSBC Premier Management Service (PIMS) Dynamic Model, portfolio. This portfolio is not the subject of complaint.

In 2020, they were advised to invest a total of £464,521 – funded mainly by the closure of the PIMS portfolio but also cash ISAs, a stocks and shares ISA, and a FTSE 250 Index Income investment, and savings (held both with HSBC and elsewhere) – into a HSBC Global Investment Centre (GIC) ISA, and General Investment Account (GIA) in the following way:

Mr S:

- £50,000 in the HSBC Global Sustainable Multi-Asset Balanced Portfolio ('the balanced portfolio').
- £93,262 in the Fidelity Multi Asset Income Fund ('the income fund').
- £93,262 in the HSBC World Selection Dividend Distribution Portfolio ('the dividend portfolio').

Mrs S:

- £50,000 in the balanced portfolio.
- £90,499 in the income fund.
- £90,498 in the dividend portfolio.

It was recorded that:

- Mr S was in his late 60's, retired and in receipt of a state pension.
- He held:
    - £107,299 in cash deposits and national savings and investments (NS&I).
    - £20,732 in a stocks and shares ISA, and company shares.
- Mrs S was in her mid-60's, retired and in receipt of an occupational pension.
- She held:
    - £183,800 in cash deposits and NS&I.
- Their PIMS was valued at £295,111.
- They had £94,414.96 left in cash deposits as an emergency fund after investing.
- They had a joint monthly income of £1,804.
- From January 2021, by virtue of Mrs S receiving her state pension, this amount would increase by £745 a month.

- Mr S was also taking an ad-hoc income from his pension.
- The above notwithstanding, a potential identified shortfall between their income and expenditure would be met by Mrs S's state pension. Nevertheless, a need was identified for future income.
- It was agreed that they had a 'moderate' attitude to risk.

HSBC didn't uphold the complaint. In summary it said that the recommendation was suitable and that it hadn't done anything wrong. Its recommendation carried less risk than the PIMS and cost less. Unhappy with the response Mrs and Mr S referred the complaint to our service.

One of our investigators considered the complaint but didn't think it should be upheld. In summary, he said:

- It was a reasonable time for Mrs and Mr S to want to review their finances.
- Given their ages and circumstances, the 2020 advice to invest in the portfolios was reasonable.
- He can't say that their risk rating was unreasonable.
- Their previous investments (predominantly in PIMS) were too risky and with higher charges.
- In terms of breakdown, 68.59% of the PIMS was invested in global and UK equities, and 15.3% in fixed income bonds – with a 'four out of five' risk rating.
- By contrast, the GIC had the following asset allocation:
    - The balanced portfolio, made up of 52.48% equity and 32.65% fixed income.
    - The income fund, made up of 20.8% equity and 64.6% fixed income.
    - The dividend portfolio, made up of 47.58% equity and 42.57% fixed income.
    - All three funds were rated four out of seven.
- The switch from PIMS to the three funds was deliberately done to reduce the risk Mrs and Mr S were exposed to. And it also fulfilled their need for more income in the future. In the circumstances he can't say that the advice – to move from higher risk investments to lower risk ones – was unsuitable.
- Mrs and Mr S brought the complaint because the portfolio had suffered negatively, because of the effects of inflation on the bond market. But this of itself doesn't mean that HSBC is at fault - because the investment advice was suitable.
- It's generally agreed that the levels of inflation suffered in the UK in 2022 couldn't have been foreseen and was adversely affected by geopolitical issues, such as the Russia-Ukrainian conflict and the mini-budget.
- In any case, bond performance isn't something that HSBC could predict or control.
- Although Mrs and Mr S complain about lack of reviews and quarterly reports, the 2020 recommendation letter made clear that by closing their discretionary portfolio they'd be losing a number of benefits, including:
    - Free annual reviews.
    - Automatic use of their annual ISA allowance
    - Quarterly reports
    - Annual tax summaries
    - Valuations via HSBC online banking.
- The recommendation made reasonably clear the changes in service if the recommendation was accepted including that annual reviews would no longer be provided.
- Although Mrs and Mr S say their relationship changed with the adviser, they still could've called HSBC if they needed advice.

Mrs and Mr S disagreed with the investigator's view and asked for an ombudsman's decision. In summary, they made the following key points:

- The investigator has misunderstood the issue of inflation. They're not complaining that HSBC should have foreseen a rise in inflation due to geopolitical events, they're complaining that they weren't told about the negative connection between bonds and rising inflation. If they had, they wouldn't have invested heavily in bonds.
- They've lived through rampant inflation in the seventies and eighties with a 15% mortgage rate on their house loan.
- In 2020 inflation was at an all-time low – the rate was unsustainable.
- As neither the literature from the investments nor the report from HSBC mentioned the inflation risk for this type of investment, they were denied the opportunity of telling the adviser that under no circumstances would they invest in something that was relying on low inflation to succeed.
- They had two (previous) reports from HSBC – one dated 28 August 2009 and the other dated 22 January 2010 – when they were recommended the PIMs portfolio. In both it was recorded "*you are concerned your savings are currently earning a low rate of interest and may be eroded by inflation over time*".
- Page three of the latest report – dated 28 September 2020 (which they're complaining about) – states: *"the value of your cash savings may not keep pace with inflation".* So, why wasn't there a warning that inflation would affect bonds.
- The advice was generic advice for 'old people' and didn't recognise them as individuals. HSBC didn't let them know that they could call it for advice.
- It also didn't tell them that the letters they used to receive when the portfolio dropped more than 10% would be stopped.
- They were without an adviser for about a year and didn't realise something was significantly wrong with their portfolio.
- With regards to income, the natural yield from their previous portfolio was all they needed and didn't need additional income.
- They didn't ask to have their finances reviewed, this was suggested by HSBC when it realised that they had an inheritance.
- They were happy with the previous portfolio which was "*share heavy*". They knew they'd lose money on it due to recent events but were happy with that.
- They don't understand bonds, due to the lack of information from HSBC.

As no agreement has been reached the matter has been passed to me for 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 agree with the investigator's conclusion for much the same reasons. I'm not going to uphold this complaint.

On the face of the evidence, and on balance, despite what Mrs and Mr S say, I can't safely say that the 2020 advice was unsuitable. In relation to their other points, I can't safely say that HSBC has behaved unreasonably such that this complaint should be upheld.

Before I explain why this is the case, I think it's important for me to recognise the strength of feeling Mrs and Mr S have about this matter. They've provided submissions to support the complaint, which I've read and considered carefully. However, I hope Mrs and Mr S won't take the fact my findings focus on what I consider to be the central issues, and not in as much detail, as a discourtesy.

The purpose of my decision isn't to address every single point raised under a separate subject heading – it's not what I'm required to do – in order to reach a decision in this case. I appreciate this can be frustrating, but it doesn't mean I'm not considering the pertinent points.

My role is to consider the evidence presented by Mrs and Mr S and HSBC, and reach what I think is an independent, fair, and reasonable decision based on the facts of the case. In deciding what's fair and reasonable, I must consider the relevant law, regulation, and best industry practice, but unlike a court or tribunal I'm not bound by this. It's for me to decide, based on the information I've been given, what's more likely than not to have happened.

There may be various ways of achieving investment objectives and with hindsight, some strategies will appear more or less beneficial than others. What I am determining is whether Mrs and Mr S were provided a suitable recommendation based on their circumstances and objectives at the time. Having considered the information provided by both parties, I am satisfied that they were.

I don't uphold this complaint, in summary, for the following reasons:

- I'm unable to safely say that the 2020 advice was unsuitable for Mrs and Mr S.
    - In 2020, they were in their 60's, retired – receiving an income from their pensions – with access to a reasonable amount of money for emergencies. I've seen no evidence of any planned expenditure.
    - In the main, they funded their 2020 investments using the funds from their PIMS and the balance from various other sources such as cash deposits and ISAs, which I can't say was unreasonable given their objective for income.
    - Overall, and on balance, I'm satisfied that Mrs and Mr S were in a good position to invest, and take a (lower) risk with their investment, which I don't think was unsuitable in the circumstances – I note they were able to invest more with a view to generating an income. I also note that they paid less for their investment, on the understanding that they were doing away with some features that they didn't need.
- I note it was recorded that Mrs and Mrs S had a 'moderate' attitude to risk. It was described as follows:
- *"Taking a moderate risk gives you the chance to benefit from positive stock market returns. You can tolerate moderate falls in value during the investment term. You're willing to accept the risk of getting back less than you originally invested, in return for the chance of much better returns on your money. It allows you access to a wide range of investments. The main focus will be in global markets, investing in equities, government and corporate bonds, property and other assets."*
- I'm satisfied that certain questions were asked of them to arrive at that conclusion and on balance I'm satisfied that it was a fair and reasonable risk assessment.
- It's evident that Mrs and Mr S are unhappy with the overall investment performance, but this isn't something that HSBC can predict or control. There are so many influencing factors – not just inflation – and there's always an element of risk. So, it's not something that our service would consider in isolation. In any case, HSBC gave no guarantees about the level of returns they'd receive.
- Despite what Mrs and Mrs S say, I can't safely say that HSBC behaved unreasonably just because their investments didn't perform better. I note the funds chosen did provide diverse asset classes, with a good balance rather than being equity heavy.
- It's arguable that Mrs and Mr S also have an issue about the timing of the investment but without the benefit of hindsight, it's difficult to say that the timing was wrong. Despite what they say about the 2020 recommendation and sustainability, the adviser was unlikely to know how the markets would perform going forwards, or the

geopolitical issues that would in future adversely affect their investment.

- Based on the above, under the relevant sections of the Conduct of Business Sourcebook (COBS), I'm satisfied that HSBC took reasonable steps to ensure it fulfilled its obligations.
    - Under COBS 9.2.1 and 9.2.2 I'm satisfied that the recommendation was suitable for Mrs and Mr S, and that HSBC took reasonable steps to ensure that it obtained the necessary information regarding their knowledge, experience, and investment objective. In the circumstances, I'm not persuaded that the recommendation was made without reasonably considering their circumstances and objectives and was done so on the basis of their information.
    - Like the investigator, I'm satisfied that overall Mrs and Mr S were in a good position to invest, had capacity for loss and had a reasonable amount of money set aside for emergencies.
    - Despite what Mrs and Mr S say, for the reasons set out above, I don't accept that the advice they received was 'generic advice' for 'old people' or it didn't treat them as individuals.
- I'm aware that inflation can be a risk to various investments, including fixed-income investments, cash, and cash equivalent investments. It's an accepted position that returns have to keep up with (or outperform) inflation in order for investors to make a material return and keep up with purchasing power – this isn't limited to bonds.
- I'm mindful Mrs and Mr S have experience of 'rampant inflation' from the 80s and are aware of some of the warnings (from their previous financial reports) that they referred to.
- Despite what they say, I think it's more likely (than not) Mrs and Mr S were aware – or ought reasonably to have been aware – of the *general* risks associated with inflation. In other words, I think they were – more likely (than not) – aware that if inflation rises, the value of goods could go down – thereby reducing the purchasing power – so I don't think that's something HSBC was required to specifically draw their attention to, and it hasn't done anything wrong by not doing so.
- In other words, by not drawing their attention to the specific effects of inflation (on bonds) doesn't mean that the 2020 advice was wrong.
- Even if HSBC had specifically warned Mrs and Mr S about the risk of inflation on bonds in light of geopolitical issues I'm not persuaded that they wouldn't have gone ahead with investing in the bonds in a similar way anyways.
- I've seen no evidence to suggest that Mrs and Mr S were rushed or were pressured into accepting the recommendation – this isn't an issue they specifically raised. It's more likely than not they had enough time to decide what they wanted to do and collectively decided to follow the advice.
- In any case, inflation (and the adverse effects of it in light of global, geopolitical and economic events issues) wasn't something that HSBC could predict or control. I note Mrs and Mr S say that's not their complaint, but I think it is a part of my consideration regardless of what they say.
- I'm aware that in 2022, funds which target investment returns through traditional stable, low(er) risk investments such as gilts and bonds were unusually volatile, with many suffering significant losses. This was due to unforeseen domestic and global geopolitical issues such as the September 2022 budget, the Russian Ukraine conflict and the economic impact of the pandemic causing increasing inflation and interest rate rises, which in turn negatively impacted the value of these types of funds.
- Despite what Mrs and Mr S say about their previous investments, I think they do so with the benefit of hindsight. There's simply no way at the time HSBC could've known which investment would've done better. So, just because the PIMS did better than their 2020 investments, doesn't of itself mean that the 2020 advice was wrong or unsuitable for them.

- As alluded to above, I don't think there was anything wrong with advising them to take a lower risk – I note they were in their mid to late 60's and retired. I'm also mindful that taking a higher risk alone wouldn't have meant that they were protected from the effects of inflation.
- At the point of advice, HSBC wouldn't have been able to predict which product would've performed better. Just because an alternative approach might've done better doesn't mean that the 2020 advice was unsuitable.
- I note what Mr and Mrs S say about annual reviews, but based on the information provided, I understand that this wasn't something that they were entitled to by virtue of accepting to go ahead with the new advice. This might explain why they were also paying less for the 2020 investment.

In summary, I've not seen enough persuasive evidence that the 2020 advice was unsuitable for Mrs and Mr S.

I appreciate they will be disappointed I've reached the same conclusion as the investigator. Furthermore, I realise my decision isn't what they want to hear. Whilst I appreciate their frustration, I won't be asking HSBC to do anything.

My final decision

For the reasons set out above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S and Mr S to accept or reject my decision before 19 November 2024.

Dara Islam
Ombudsman