

The complaint

Mr N complains that Legal & General Investment Management Ltd (“L&G”) transferred the administration of his ISA to another firm without his consent. And he complains that, since the transfer, L&G has failed to appropriately manage the underlying investment he held within his ISA.

What happened

In 2007 Mr N received advice from another regulated firm regarding the investment of some money he had received from an inheritance. That advice resulted in Mr N opening an ISA with L&G, and investing his monies into a single fund managed by L&G. Mr N says that his investment had performed well over the years and he was happy with both the original advice he was given and the investment performance of his ISA.

In 2020 L&G decided that it would not continue to offer the administration of ISAs to its customers. So it arranged for another firm, that I will call F, to take over the affected accounts. L&G wrote to its customers in March and May 2021 to confirm the transfer would be taking place later that year, and providing some options for its customers if they didn’t want their accounts to be administered by F.

L&G says that Mr N failed to respond to those letters. So, with the agreement of its regulator, it completed the transfer regardless. Importantly the transfer was made in specie so Mr N’s investments remained unchanged. And as part of the transfer agreement F said that the total charges paid by investors (to F for its administration of the ISA and to L&G for the fund management) would not increase for at least a year.

Mr N complained that following the transfer, in early 2022, the value of his investments fell. He said that this was due to L&G no longer administering his ISA, and that the firm it had recommended to take over, F, being incompetent. L&G didn’t agree with Mr N’s complaint so he brought it to us.

Mr N’s complaint has been assessed by one of our investigators. She thought that L&G had fairly set out the process for the transfer and given Mr N sufficient notice of the actions he could take if he didn’t want it to proceed. And she thought that the administration of the fund into which Mr N’s savings were invested had been in line with the fund objectives. She thought the falls in value were simply due to market conditions. So the investigator didn’t think Mr N’s complaint should be upheld.

Mr N didn’t agree with that assessment. So, as the complaint hasn’t been resolved informally, it has been passed to me, an ombudsman, to decide. This is the last stage of our process.

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.

In deciding this complaint I've taken into account the law, any relevant regulatory rules and good industry practice at the time. I have also carefully considered the submissions that have been made by Mr N and by L&G. Where the evidence is unclear, or there are conflicts, I have made my decision based on the balance of probabilities. In other words I have looked at what evidence we do have, and the surrounding circumstances, to help me decide what I think is more likely to, or should, have happened.

At the outset I think it is useful to reflect on the role of this service. This service isn't intended to regulate or punish businesses for their conduct – that is the role of the Financial Conduct Authority ("FCA"). Instead this service looks to resolve individual complaints between a consumer and a business. Should we decide that something has gone wrong we would ask the business to put things right by placing the consumer, as far as is possible, in the position they would have been if the problem hadn't occurred.

Mr N has made a separate complaint about the actions of F following the transfer. I am dealing with that complaint in a separate decision. So here I will only be considering the actions of L&G before the transfer, and its involvement after the transfer as the fund manager of the fund in which Mr N's ISA was invested. But given the natural overlap between the two complaints I am sure Mr N will understand why parts of the two decisions are similar.

I think it might first be helpful to clearly set out the mechanics behind Mr N's investment. Since 2007 his monies have been invested in a single investment fund that was managed by L&G. The fund was described as being for investors looking for a high income or growth from an investment in bonds. Mr N's investment was held within an ISA that was also administered by L&G. Mr N paid a single charge, via the fund administration charges, for both the management of the investment and the administration of his ISA.

In 2020 L&G decided to withdraw from providing ISAs to its customers. It arranged for the administration of its ISAs to be taken over by F. And in 2021 it wrote to the affected customers to advise them of the change. L&G also told those customers that if they didn't want their ISA to move to F, customers could arrange for it to be transferred to an alternative provider, or the customer could sell their investments instead.

L&G anticipated that some customers might not respond to that letter. So it agreed with its regulator, the FCA, that it could transfer those accounts regardless. That is what happened in Mr N's case. So his ISA was transferred to the administration of F in September 2021.

But L&G put two important protections in place as part of the transfer. Mr N's investments were moved in specie. So that meant he didn't miss out on any investment returns whilst the transfer was taking place. And F agreed that, for at least the following 12 months, the total charges investors would pay after the transfer would be no higher than they were paying before. So I'm not persuaded that L&G treated Mr N unfairly by moving his ISA to F in 2021.

Following the transfer, Mr N's ISA remained invested in the same L&G bond fund. So the underlying performance of that fund was not affected by the transfer. The falls in value that Mr N experienced in 2022 would have happened even if the transfer hadn't taken place. But L&G remained responsible for the management of the investment fund so I now need to consider whether it acted appropriately at that time.

The investment returns on bonds are generally linked to the rate of inflation – as inflation rises the return on existing bonds is reduced. In order to reduce inflationary pressures, the Bank of England will increase interest rates. And whilst that will make new bonds more attractive, older bonds paying less interest, will fall in value. So there is generally an inverse relationship between bond prices and interest rates.

In 2022 interest rates were increased regularly in the UK. During the year they rose from 0.25% to 3.5% and continued rising into 2023. So that would explain much of the fall in value that Mr N saw in the value of his ISA investments. And that was something that was entirely outside the control of L&G.

I haven't seen anything that makes me think L&G mismanaged the investment fund into which Mr N had placed his ISA monies. Instead I think the changes in value of that fund were an expected result of wider economic circumstances. So I don't think L&G has done anything wrong in the way it managed the investment fund.

I appreciate how disappointing my decision will be for Mr N. Ultimately I don't think the transfer of his ISA from L&G to F had any material impact upon its value. Those reductions in value were solely due to the wider market conditions. And I think that L&G took all the necessary and reasonable steps, in informing Mr N about its proposals and ensuring that the transfer wouldn't cause him financial loss, before the transfer of the ISA was completed.

My final decision

For the reasons given above, I don't uphold the complaint or make any award against Legal & General Investment Management Ltd.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr N to accept or reject my decision before 31 May 2024.

Paul Reilly
Ombudsman