

The complaint

Mrs R's representative has complained, on her behalf, that Rouse Limited unsuitably advised her to transfer her pension funds from an Aegon Flexible Pension Plan to a self invested personal pension (SIPP). It's said that Rouse didn't establish her true attitude towards investment risk and recommended that she invest in high risk funds.

What happened

The investigator who considered this matter set out the background to the complaint in his assessment of the case. I'm broadly setting out the same background below, with some amendments for the purposes of this decision.

In June 2016, Mrs R met with a financial adviser from Rouse. There was a fact-finding exercise completed to understand her circumstances and objectives at the time. This noted the following:

- She was 51, married and in good health.
- She had two dependent children.
- She owned her own home, valued at £800,000, and four other properties. Three were valued at £160,000 and the other was valued at £200,000. These brought in a rental income of £24,000 per year.
- She had £50,000 in premium bonds, an ISA with M&G valued at around £15,000, and a pension with Aegon that was valued at over £100,000.
- She thought of herself as having a cautious attitude towards risk, but was recorded as having a medium to high capacity for loss.
- Other than her ISA and pension, the only financial experience she had was related to residential and commercial property.

Rouse issued a suitability report shortly after this, on 6 July 2016. This noted the transfer value of Mrs R's pension with Aegon as £110,464. Rouse recommended that Mrs R transfer this to a SIPP with Nucleus, invested in its Defensive Growth & Income Portfolio. It further recommended that she take up its "Advantage Service".

The reasons provided for this recommendation were recorded as follows:

- Her pension plan with Aegon didn't have the facility to be effectively managed by that business going forward.
- The SIPP with Nucleus offered greater choice, control and simpler finances overall.
- Using its Advantage Service would ensure Mrs R's investments and financial plan would be regularly reviewed.
- Consolidating her pension and ISA in one place would simplify matters.
- She would benefit from regular rebalancing.

The suitability report covered other options available to Mrs R, such as remaining in her existing investments, investing in a single, multi-asset, fund from within the range of funds available from her existing provider, retaining her existing investments and have Rouse

manage them under its Universal Service option, or transferring her investment to an alternative provider to enable Rouse to manage it under its Advantage Service option.

But Rouse considered that transferring to Nucleus and investing in the Defensive Growth & Income Portfolio was the best option.

Rouse recommended that Mrs R transfer her M&G ISA to the Nucleus platform too. The total costs involved with implementing Rouse's advice was 2.65% of the investments' value, i.e., £2,920, and £410.

The annual charges would be 1.89% and 1.96%, which included plan charges, adviser charges and fund expenses.

The transfer to Nucleus was completed shortly after the suitability report was produced.

But by 9 February 2021, Mrs R changed financial advisers, and transferred her pension and ISA elsewhere.

In October 2023, Mrs R's representative wrote to Rouse to lodge a formal complaint. It said that Rouse was in breach of several FCA principles and its Conduct of Business Sourcebook (COBS).

The representative specifically mentioned that Rouse's adviser had failed to establish Mrs R's true attitude to risk, as they had recommended investment into high- risk funds, and her previous provision gave her access to a diverse range of mainstream regulated funds which provided her with a suitable exposure to risk. It considered the transfer and subsequent reinvestment of Mrs R's funds to be unwarranted.

Rouse responded to Mrs R's complaint on 22 December 2023. In summary, it said the transfer was in line with Mrs R's objectives, that it correctly identified her attitude towards risk, and that the investment portfolio recommended matched the level of risk Mrs R was willing to take.

Dissatisfied with the response, Mrs R referred her complaint to our service.

Our investigator considered the matter, but didn't think that the complaint should be upheld. He said the following in summary:

- In 2009, the FSA (now FCA) published a report and checklist for pension switching. This identified four main areas where a consumer may have lost out by switching, as follows:
 - They had been switched to a pension that is more expensive than their existing one(s) or a stakeholder pension (because of exit penalties and/or initial costs and ongoing costs) without good reason.
 - They had lost benefits in the pension switch without good reason. This could include the loss of ongoing contributions from an employer, a guaranteed annuity rate (GAR) or the right to take benefits at an earlier than normal retirement age.
 - They had switched into a pension that didn't match their recorded attitude to risk (ATR) and personal circumstances.

- They had switched into a pension where there is a need for ongoing investment reviews, but this was not explained, offered, or put in place.
- The existing Aegon plan had an annual fund management charge of 1%. The replacement arrangement would have an annual plan charge of 0.35%, annual adviser charges of 0.75% and annual fund expenses of 0.79%. This made the annual charge relating to the Nucleus pension 1.89%.
- In addition to this, the cost of implementing the advice was 2.65%. And so transferring was the more expensive option for Mrs R. This was acknowledged by Rouse in its suitability report.
- Through the Advantage Service, Mrs R would benefit from bi-annual investment portfolio valuations, regular rebalancing of asset allocations, monitoring and evaluation of her investment funds. This was beyond what the Universal Service could offer.
- There were no guarantees attached to Mrs R's Aegon pension, nor any penalties for transferring, although she did have access to 353 funds within that plan. But when Mrs R transferred, she had access to over 7,000 investment choices. So her investment options increased. Further, the consolidation of her pension plan and ISA into one place would have simplified financial matters for Mrs R.
- Mrs R had no ongoing advisory service with Aegon, and this was one of her objectives. By transferring, she achieved this, and she would also benefit from regular rebalancing.
- In terms of the claim that Rouse failed to establish Mrs R's true risk attitude, the assessment undertaken at the time asked 21 questions and concluded that she had a moderate risk attitude. However, it was recorded that her pension funds should be invested with a cautious approach.
- The actual breakdown of securities into which Mrs R was invested wouldn't be considered high risk, being as it was predominantly invested in low and below average risk funds.
- The need for ongoing reviews was cited throughout the suitability report, and these took place in 2017, 2018 and 2019, and after this, with the help of another financial adviser, she transferred her pension elsewhere and terminated the relationship with Rouse.
- Although performance wasn't a key indicator of whether the advice had been suitable, the investments had generally performed well, seeming to increase before Mrs R parted ways with Rouse.
- Had there been guarantees which had been lost by transferring away from Aegon, and Mrs R could have benefits from Rouse's Advantage Service while remaining with Aegon, the investigator said that he may have formed a different view on the matter.

Mrs R's representative disagreed, however, saying the following in summary:

- Rouse had identified Mrs R as having a moderate risk rating and that her funds should be invested with a cautious approach. But this was contrary to the portfolio, having 30% invested in global equity and property funds. Only 12% of the portfolio

appears to have been invested in lower risk gilt funds, which would have matched a “cautious” approach.

- The Aegon plan had ample funds from which Mrs R could choose to reinvest and build a cautious portfolio. As it was, the adviser only recommended that she invest in 12 funds, which somewhat undermined the fund choice argument.

The representative maintained that the transfer had been unnecessary and that it wasn't in Mrs R's best interests.

As agreement couldn't be reached on the matter, it's been referred 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.

I've firstly considered what Mrs R's representative has said about Mrs R's “true” attitude to risk, but I don't think there's a dispute here about the way in which the funds should have been invested. Although Mrs R was recorded as being a moderate risk investor, it was in any case the intention to invest with a cautious approach.

The disagreement appears to be whether the asset split within the portfolio really did represent a cautious strategy. And in thinking about that, whilst I've noted what Mrs R's representative has said about 30% investment in global equities and property not being consistent with a cautious strategy, I don't think this is quite right.

There are of course many different ways in which a cautious strategy might be constructed, but I think anything under 50% equity investment, which might reasonably reflect a moderate risk rating, would be configured more towards a cautious approach.

The actual degree of caution to be employed would obviously influence the percentage of equities and property held in the portfolio, but all things considered here, I don't think that it's clearly unsuitable.

Rouse responded to queries relating to the overall risk attached to the portfolio as follows:

“Our factsheet does not specifically say it is a cautious risk portfolio, but this is not supplied to the client in isolation. A cautious level of risk was identified as being suitable for the pension at the bottom of page 2 of the suitability report dated 6 July 2016. An FE analytics factsheet was supplied to the client at the time along with our own factsheet.

The FE analytics factsheet compares Mrs R's Aegon pension to our 0516 Defensive Growth and Income portfolio. Both show as FE risk score of 40, which is a measure of risk we use, as explained on page 8 of suitability letter dated 6 July 2016. This states: “Given the recommended risk strategies, we would recommend a score of 50-65 for your ISA and 35-45 for your pension to be appropriate for you.” Therefore, you can see, with a FE risk score of 40, this was a suitable portfolio for the client and the same level of investment risk she was taking within her Aegon pension.”

And I'm inclined to agree. Having further considered the actual assets within the portfolio, and the type of asset, they were as follows:

M&G Optimal Income – Fixed income
Invesco Perpetual Monthly Income Plus – Fixed income

Invesco Perpetual income – Fixed income
Woodford Equity Income – Equities
Vanguard FTSE UK All Share Index – Equities
Jupiter Merlin Growth Portfolio – Equities
Newton Global Income – Equities
Standard Life Investment Global Absolute Returns – Equities and derivatives
Invesco Perpetual Global Targeted Returns – Equities and derivatives

In terms of the overall weighting, this was 35% fixed income (various bond investment), 12% gilts, 30% equities, 10% absolute return, and 2% cash. I don't think this would have been unsuitable as a cautious investment strategy.

But I think that Mrs R's representative's point that the transfer wasn't in any case either necessary or suitable for Mrs R, given her circumstances, might on the face of it be valid. To explain, and with regard firstly to the rationale behind the transfer, Rouse said that Mrs R's Aegon plan didn't have the facility to be managed. But fund switches were free for Mrs R within that plan, and it seems entirely possible that, at an annual review, Rouse could have considered, within the 353 funds available to Mrs R, as to whether a switch might be prudent, taking into account any changes in circumstances and/or attitude to risk identified in the annual review.

It also said that Mrs R's Aegon plan didn't have the facility to be flexibly accessed. But aside from the fact that Mrs R was some years away from being able to access her pension funds, this could in any case have been revisited as and when Mrs R came to take her benefits. Given her overall risk outlook, she may in fact have decided that the annuity route was better for her.

The Advantage Service provided by Rouse seems to have necessitated the transfer from the existing pension plan. But for the reasons set out above, Mrs R didn't need to transfer to receive financial advice on rebalancing or reinvesting with her existing, low cost Aegon plan. If Rouse was unable to provide the kind of financial advice which would have been suited to Mrs R and her situation, including the relatively modest value of her pension plan, then it could have referred her to a firm which could.

According to the fact find, Mrs R simply wanted a plan for her financial future. And such a plan could quite feasibly have included an annual review of her investments, with any rebalancing as may then be required, or if Mrs R requested an ad hoc review in the interim, provided and paid for by Mrs R.

So, as I've said above, on the face of it, it might be difficult to justify the transfer on the basis of the stated rationale.

But there is an important addition within the suitability report - that Mrs R wanted the benefits of the full, ongoing management of her pension plan, and I haven't seen evidence that this notion was challenged as being incorrect by Mrs R after she'd received that report.

There is then the matter of costs, and as set out by the investigator, a firm needed to take into account the overall cost of transferring before deciding whether this would be a suitable course of action.

The Aegon plan levied a 1% charge. If I'm to accept that Mrs R was seeking a service which would include an annual review, which I think is quite plausible given the content of the suitability report and the fact that Mrs R approached Rouse for a review in the first place, then the costs of this would apply whether or not Mrs R decided to transfer her pension plan away from Aegon.

A charge of 1.89% would be levied for the Advantage Service, which, when the likely cost of annual reviews was factored in, wouldn't likely represent a significant uplift in the fees which Mrs R was paying with the Aegon plan.

There was another cost here - that for facilitating the transfer in the first place. This was 2.65% of Mrs R's pension plan, which would have had an impact on the return needed for the remainder of the investment life of the plan. And I think this was well demonstrated in the charges comparison table included in Appendix B of the suitability report. The Advantage Service option resulted in an additional 1.2% reduction in yield, with the difference between this and the Aegon plan, at assumed investment growth of 5% pa, of £17,500 (the Aegon plan being valued at £163,500 and the replacement plan at £146,000).

But I think it's fairer to compare the Advantage Service option with the Universal Service option, as Mrs R would likely have been paying for annual reviews, as had been indicated in the suitability report. This represented an additional reduction in yield of 0.6%.

And for this 0.6% reduction in yield (and likely lower given that the annual advice charge looks like it would have been between 0.75% and 1%), Mrs R would have received the benefits of the Advantage Service, which Rouse said was full plan management, or at another point, "ongoing portfolio management".

And having considered the evidence provided by Rouse regarding the management of the plan, I'm satisfied that there have been regular client contact and reviews, along with regular portfolio rebalancing. I'm therefore persuaded on balance that Mrs R was receiving the service for which she was paying.

Overall, therefore, on a fair and reasonable assessment of the facts here, and given Mrs R's circumstances and objectives, I don't think that she was unsuitably advised.

My final decision

My final decision is that I don't uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs R to accept or reject my decision before 5 September 2024.

Philip Miller
Ombudsman