DRN-4983386

Financial Ombudsman Service

The complaint

Mr B and Mrs B complained about Nationwide Building Society (Nationwide). They said they were recommended by Nationwide to invest in an unsuitable fund, held in their stocks and shares individual savings accounts (ISAs). They said they were then advised to switch the fund to another and were again given unsuitable advice about this.

Mr B and Mrs B said they were given poor advice on both occasions and would like Nationwide to apologise for this and pay compensation to them.

What happened

Mr B and Mrs B met with an adviser from Nationwide in April 2017. During this meeting, Nationwide gave Mr B and Mrs B advice to invest a lump sum plus a monthly payment into a Legal & General mixed fund. Nationwide gave this advice after assessing them both as low to medium risk investors, according to their risk ratings. Mr B and Mrs B accepted the advice provided and invested their money into the funds, within their stocks and shares ISAs.

Then in August 2020, Mr B and Mrs B had an annual review with Nationwide, this time online. During the meeting, the adviser again assessed Mr B and Mrs B and this time considered them low risk investors. He recommended they switch the fund they were invested in to LF Aegon Multi Asset 2 fund. Mr B and Mrs B accepted the advice given and the switch took place.

Mr B and Mrs B have complained about the performance of their investments. They said they feel duped and were given poor advice by Nationwide on both occasions. They complained to Nationwide about this.

Nationwide said in response that the advice it provided for the fund switch in 2020 was in line with Mr B and Mrs B’s documented needs. It said it has provided the advisory services it said it would from the outset. It said investment performance has been impacted over the last few years by global events that have been out of its control.

Nationwide said the advice it provided in 2020 came about through an annual review, because Mr B and Mrs B wanted to reduce their exposure to risk. It said it did this and advised a fund that was suitable for them both. It said it originally advised Mr B and Mrs B that the investment should be held for six years to give it a chance to provide long term growth. It said it gave them contact details for them to call anytime and provided regular updates about performance.

Nationwide said it acknowledges performance has been poor but that it explained on both occasions that the investments were advised to be held over the long term, so that they could benefit from a recovery in the markets. It said it has kept Mr B and Mrs B informed of the performance of their investments on an annual basis.

Mr B and Mrs B were not happy with Nationwide’s response and referred their complaint to our service. They provided further comments when they did this. They said:

- To their knowledge they verballed agreed to invest for a period of 5 years not 6.
- They were falsely led to believe they could contact Nationwide at any time but that was not the case. They said the initial financial adviser left, and they were bombarded with dubious calls about financial matters. This had a great impact on them daily with anyone over the phone.
- They were wrongly persuaded to continue to invest in their stocks and shares ISAs and should have been given a safer risk rating, moving them away from stocks and shares as a form of investing.

An investigator looked into Mr B and Mrs B's complaint. He said he felt Nationwide had covered all parts of its regulatory obligations when it gave Mr B and Mrs B advice in 2017. He said Nationwide changed its risk rating for them when they became more risk adverse in 2020. He concluded that he couldn't say Nationwide had acted incorrectly and so he didn't think it should pay compensation.

Mr B and Mrs B were not very happy with the investigator's view. They said they disagreed with the outcome he reached. They said they felt aggrieved that nationwide failed to contact them when their product was losing value. They said Nationwide had moved its advice service to another party and this is a clear indication that it recognises it has a problem with its own in house advise service.

Mr B and Mrs B said the risk assessment used by Nationwide was not fit for purpose. The risk assessment process they said needs to be scrapped and reviewed. It should instead be replaced by stronger safer recommendations being made to protect people's money.

As the parties are not in agreement, Mr B and Mrs B's complaint has been passed to me, an ombudsman, to look into.

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 know Mr B and Mrs B will be very disappointed, but I have arrived at the same outcome as the investigator, for broadly the same reasons. I will explain why.

Advice provided by Nationwide to Mr B and Mrs B in April 2017

I looked into whether Nationwide's advice for Mr B and Mrs B to invest in the Legal & General mixed fund within their stocks and shares ISAs was suitable for them based on their circumstances at the time.

Mr B and Mrs B invested a lump sum and then committed to paying a monthly payment. I have looked at the investment which was recommended and how it compared to Mr B and Mrs B's overall financial circumstances, objectives, investment experience and attitude to risk.

Having reviewed the suitability report from the time that was completed by the parties, I can see that at the time Mr B and Mrs B had an annual joint income of £26,500 and both at that time were employed full time. They were homeowners and had no outstanding mortgage. In terms of cash and assets their residence had a value of £110,000 and they had a mixture of individual and joint savings. Mr B had savings of around £198,122, Mrs B had £3980 in a cash ISA, and they had joint savings of £32,434. They had at that time disposable income of around £600 every month.

Mr B and Mrs B's main investment objective, as recorded by the adviser in the suitability report, was to try and obtain a better return at that time than the interest they were receiving on their cash balance on their account. The suitability report stated they were concerned about inflation eroding their cash and were looking for a better return for their retirement. To do this, after reading the report, I am satisfied they were prepared to take on at least some risk to achieve this.

Mr B and Mrs B's attitude to risk was assessed by Nationwide as being low to medium and the fact find document it completed explained what this meant:

"It's likely that you already have an interest in investing and are accepting of the ups and downs of the stock market. You prefer to spread your investment across a range of non-cash assets, but with a greater emphasis on assets such as shares, and property combined.

You're happy to put typically 40% to 60% of your portfolio in funds that invest in shares."

Looking at Mr B and Mrs B's circumstances at the time, I am persuaded they could take some risk in order to achieve their investment objectives at that time, that is to try and obtain a better return than a cash deposit. I understand they were both generally in good health, had savings and a stable monthly surplus in income.

Overall, when looking at Nationwide's ISA recommendation, I think it suitably matched what Mr B and Mrs B were looking for and was in line with their tolerance for loss, as was agreed and described in the suitability report completed. I say this because the Legal & General mixed fund that they invested in, had an asset allocation that met with the description that Nationwide had given as to the rating it gave Mr B and Mrs B and to their appetite for risk at that time.

The breakdown in asset allocation of the fund was also shown in Mr B and Mrs B's annual statements that they received so they could see what they were invested in and how this matched up to the discussions they would have had about this. So, based on what I have seen, I don't think Nationwide has done anything wrong here. I think it's adviser matched a fund to Mr B and Mrs B's attitude to risk rating and investment objectives at that time.

In addition, I am satisfied that Mr B and Mrs B still held significant cash savings between them, after their monthly contribution into their stocks and shares ISAs. Based on the information recorded at the time, I think they had the capacity to take the level of investment risk recommended and they wanted to do so to try and meet their investment objectives.

Mr B and Mrs B said they were duped and were not happy with their investment falling value. However, I am satisfied that Nationwide explained this could happen in the suitability letter it provided to Mr B and Mrs B.

The investments weren't sold to Mr B and Mrs B as short term, and I think Nationwide explained in the documentation how Mr B and Mrs B's fund could fall over the short term in a volatile market. So, although I have empathy with Mr B and Mrs B that their investment fell by more than they expected over the short term, I think Nationwide made it reasonably clear that this could happen.

Finally, regarding the meeting in 2017 held between the parties, I acknowledge the point made by Mr B regarding how long he said they verbally agreed to invest in the fund for and I have no reason to doubt his recollections in this regard.

That said, I don't think this changes my findings or the outcome in his complaint. Whether it was 5 or 6 years, I can see that most likely, based on Mr B's recollections and the paperwork completed that it was discussed that investment into the fund in question was with a medium to long term time frame in mind. I don't think the exact time frame changes anything here.

Advice provided by Nationwide to Mr B and Mrs B in 2020

Mr B and Mrs B met with an adviser from Nationwide again in August 2020 as part of an annual review, this time through an online meeting. They said they were concerned about their investment and the impact of global issues on the markets in general. I have read a suitability letter from that time written by the adviser, and he has said they wanted to reduce their exposure to risk.

The adviser again carried out an assessment of Mr B and Mrs B's circumstances, investment objectives and attitude to risk and I can see that he changed their risk rating and moved them from low to medium attitude to low. I can see their circumstances changed in that Mr B was no longer in employment and they no longer had the disposable income that they stated they had in 2017. However, in the suitability report it is noted by the adviser that their investment need, capacity, and willingness to invest hadn't changed. It was noted that Mr B and Mrs B were at that stage willing to continue with their investments, albeit they had stopped paying the monthly contribution at this stage, because of their change in circumstances.

I can see the adviser took this on board and reacted to Mr B and Mrs B's request to reduce their exposure to risk. He reassessed Mr B and Mrs B as having a low risk, a more cautious rating as before. In the suitability report, the adviser added a description of what this meant:

"Its likely that when investing your money, you are prepared to take measured risks of investing that could lead to a reduction in the value of your investment for the increased growth potential.

You're happy to invest in a broad mix of assets that have a range of risk and reward profiles. You'll probably want to spread your investment across different types of non-cash assets, which should help to reduce the risk by balancing out one type of risk against another.

You're comfortable with typically 20% to 40% of your portfolio being invested in funds that invest in equities and some of it may be in other developed markets outside the UK."

I can see off the back of this new more cautious attitude to risk rating that Mr B and Mrs B asked for, the adviser recommended they switch funds from the previous one that was suitable for investors with low to medium risk attitude to a fund for investors with a lower risk attitude, This being the LF Aegon Multi Asset 2 fund.

I have read the fact sheet for this fund and can see that it is designed for investors with a low-risk rating, out of a scale up to 5 it is rated a 2, the same rating that Mr B and Mrs B were assessed by the adviser as having in terms of their attitude to risk at that time. I can also see that it is a multi-asset fund, and the asset allocation is broadly in line with what Nationwide has assessed was Mr B and Mrs B's attitude to risk. The breakdown of asset allocation, illustrated in their annual customer report, was that the switched fund was invested more in bonds and gilts, than the previous fund Mr B and Mrs B were invested in, that had a higher allocation of equity investment. So, in seeing all of this, on balance I think Nationwide matched a fund to meet Mr B and Mrs B's needs and a requirement to be more cautious at that time.

With the benefit of hindsight, Mr B and Mrs B feel that the most suitable advice at this stage would have been for them to invest instead in a safer interest earning investment. But I am required to consider, based on the information either party has provided from the time the advice was given, whether the advice given was suitable. Having carefully considered all the information available I cannot reasonably find that the advice was unsuitable when they met in 2020.

I have looked at what happened here, within this review and subsequent recommendation from the adviser to switch funds. Nationwide considered Mr B and Mrs B's circumstances, reassessed their attitude to risk and recommended an appropriate fund. So, I don't think it did anything wrong here, other than respond to the information that Mr B and Mrs B was providing to it about their circumstances and attitude towards investing at this point.

Service provided by Nationwide to Mr B and Mrs B

Mr B and Mrs B said Nationwide didn't call them to say that their investment had fallen in value, or to advise them about the volatile market conditions. But I don't find there was any obligation on it to do so, other than the service it said it would provide from the outset, this being that it would provide an annual review and that it would be on hand to discuss anything where needed.

Nationwide could have provided commentary about market conditions in particular during the global pandemic, but this was being widely reported elsewhere and Mr B and Mrs B could have contacted their financial planning manager at any stage that they were subscribed to this service, if they had any concerns they wanted to discuss.

In conclusion and based on everything I have read and the findings I have given, I don't uphold Mr B and Mrs B's complaint.

My final decision

My final decision is that I do not uphold Mr B and Mrs B's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B and Mrs B to accept or reject my decision before 8 October 2024.

Mark Richardson
Ombudsman