

## **The complaint**

Mr and Mrs C have complained about the advice they received from Lloyds Bank PLC ('Lloyds') to invest into a capital guaranteed investment bond linked to the performance of the FTSE 100 Index.

Mr and Mrs C are represented in bringing their complaint but for ease of reading I've referred to 'Mr and Mrs C' throughout my decision.

## **What happened**

Mr and Mrs C had an Asset Management Service ('AMS') portfolio with Lloyds Private Banking. In 2000 they took advice from Lloyds TSB Independent Advisers which resulted in them selling their AMS portfolio and reinvesting £100,000 into an investment bond for a three-year period to supplement their income in retirement.

Mr and Mrs C became concerned whether they should have been advised to invest into a single investment which was dependent on the movement of the stock market given they were aiming to generate income to provide for their retirement. They raised a complaint with Lloyds about the advice they had been given. In its response Lloyds outlined its reasons it considered the advice was appropriate for them;

- Mr and Mrs C were given four possible options to increase their income with Lloyds Private Banking and then looked to Lloyds TSB Independent Advisers for further advice.
- Mr and Mrs C had been invested for seven years at the time of the advice so were considered to be experienced investors.
- It was confirmed that Mr and Mrs C were willing to take a risk if the recommended investment could generate the additional income they were looking for.
- Putting the funds into a savings account would have meant the income would be subject to interest rate changes and the risk of capital erosion.
- Mr and Mrs C had been given sufficient time to consider their investment options.

Our investigator who considered the complaint didn't think it should be upheld;

- She outlined Mr and Mrs C's circumstances from the time the advice was given and the options available to them.
- They had several meetings with the adviser(s) and had the opportunity to reflect on the information they were given.
- She detailed how the bond worked and how it was linked to the performance of the FTSE 100 Index.
- It wasn't clear how much detail Mr and Mrs C were given at the time of the sale, but it was clear they had a need for the additional income the bond provided. They were willing to take risks.

Mr and Mrs C didn't agree with the investigator. They said;

- There may have been a desire for income, but this was not 'at any cost.'
- If the risk of loss of their capital had been explained properly and how the investment bond worked, they wouldn't have agreed to take it.
- While they may have sought a higher income, there was no specific need for it to meet any pressing need and there wasn't any identified discretionary spending the income was aiming to cover.

As the complaint remains unresolved, it has been passed to me for decision in my role as ombudsman.

### **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.

After doing so, I've reached the same conclusions as the investigator and broadly for the same reasons. I'll explain why.

#### Mr and Mrs C's circumstances and investment objectives

Lloyds has little of the point-of-sale paperwork. But I don't find this surprising given the length of time that has passed. When I am missing evidence or receive conflicting testimony, I have to base my decision on the balance of probabilities in order to reach what I consider to be a fair and reasonable outcome.

Lloyds has been able to provide a copy of the 'Personal Financial Planning document – the 'fact find' – from the time of the advice in May 2000.

It's recorded the purpose of the meeting was for Investment Planning as 'Clients want higher income following retirement.' Mr C was aged 53 years and Mrs C 52 years. Mr and Mrs C didn't have any children and were both retired. Mr C received a monthly income of £1,300 from his pension and jointly they received £500 a month from investments.

Including their home, they had assets of just over £400,000. They held £31,000 in cash, £16,552 in an investment bond, £99,947 in PEPS, £4,000 in stocks and shares and expected £61,700 from a maturing endowment the following year.

The 'Statement of Affordability' stated their current level of income was 'Insufficient' and went on to say;

'No changes to income expected. Clients require an additional income of £1000.00 pm net from investments.'

It's recorded that Mr and Mrs C had previously met with their Lloyds Private Banking adviser to discuss;

'...their immediate requirements, which was to meet their shortfall in income of approximately 1000.00 pm (net).

At this meeting, the options available to the client were outlined, which involved looking at suitable investments within AMS to increase income. These centred around looking at Gilts within AMS for all the monies, and also the possibility of being

allowed to move the existing Pep holdings into Gilts, whilst still in the Pep tax free wrapper. [This possibility was being considered by HMRC, but a decision wasn't expected for some time] The clients generally considered that they could not afford to wait until this decision was made since there was no guarantee of this being granted.

In addition, the subject of closing the AMS service was discussed and the options were outlined regarding possible income that could be achieved via a one off scheme. Such investments as Guaranteed Income Bonds, Corporate Bond Peps and Investment Bonds were discussed, together with the approximate level of income that could be achieved.

The clients agreed that this route looked attractive not only from the income levels, but also since they would not be paying a 1% pa fee [for the AMS portfolio] which obviously would reduce the actual income they would receive...

Following this meeting Mr and Mrs C paid off the £19,000 outstanding on their mortgage and were closing their AMS portfolio. Mr and Mrs C required;

'...about 10500 pa (Net) additional income from the monies realised from their existing portfolio. £1500 pa will be saved as a result of paying off their mortgage. They realise that this probably would be unachievable however they are prepared to take a degree of risk in order to obtain a good income.'

The additional income was needed for discretionary spending. Their daily running costs were covered by the pension income.

#### The advice

At the following meeting, the fact find records that the previously discussed investments were again discussed, and the adviser made them aware of a new investment opportunity offering a return of 8% to 8.5% net which would be linked to the performance of the FTSE 100 Index;

'Mr [C] seemed very interested and we talked about the probable risk category of this investment in order to give Mr [C] an idea as to the risk involved. Mr [C] confirmed, once again, that he was prepared to accept risk, if the income is attractive.'

Under the strategy section of the document a lump sum was to be invested;

'To achieve a high level of income, within acceptable risk, which is guaranteed. The clients are prepared to invest the monies for the required length of time in order to secure a high level of income.

...

They need income now.'

Amongst other paperwork, Lloyds has been able to provide the 'key features' document, policy schedule, application form and 'your right to change your mind' documents for the investment. The documents are personalised for Mr and Mrs C, so I don't think it is unreasonable of me to assume they received the same or similar. It explains how the investment worked;

'WHAT MIGHT I GET BACK AFTER 3 YEARS?

The capital available after three years is linked to the level of the FTSE 100 stockmarket index (excluding dividends) during and at the end of the three year period, compared to the level of the index at the start of the investment period. The full initial investment will be available at the end of the investment period, unless:

- 1) the index falls by 20% or more at any time during the investment period, **and**
- 2) the FTSE level at the end of the investment period is less than the FTSE at the start of the investment period.

In the eventuality of a loss at the end of the investment period this will be passed on to the client on a one-for-one basis in the same proportion as the fall in the end level compared to the start level. So, whilst you cannot get back more than your initial investment after three years, you may get back less.'

Clearly, I can't know how the mechanics of the investment was verbally explained to Mr and Mrs C and how their level of risk was ascertained. But the above gives some indication of how the investment worked as well as the risk of a capital loss under certain circumstances. Mr and Mrs C had seven years of investment experience by this time so would have had some knowledge of how stock markets worked, and the risks involved. And I think the meeting notes make it clear that Mr and Mrs C were willing to take some risk in order to achieve a higher level of income.

So, whilst Lloyds hasn't been able to show us how it came to the conclusion about Mr and Mrs C level of risk but for this investment, overall, I think this was most likely discussed and agreed. Even though I don't have evidence that the risk of this investment was explained to Mr and Mrs C, taking into account their previous investment experience, ability to understand investment risk and clarification of their experience or knowledge to understand the risk involved, I think they reasonably understood the risk of the investment.

Taking all of this into account, I think the levels of risk implicit in investing were explained to and discussed with Mr C and Mrs C and they were content to expose some of their investment money to a level of risk in order to achieve the potential required income. Mr and Mrs C's priority was for income and the investment bond would have given them an annual income of around £8,000 which wouldn't have been the case if Mr and Mrs C had remained in cash/fixed rate deposit accounts.

Bearing in mind Mr and Mrs C's circumstances I'm satisfied the investment recommendation wasn't unsuitable for them and matched their needs. They received the additional income they were seeking for three years, and I understand they made a gain on their investment when they exited. And the investment was affordable for them. The amount invested was a large proportion of Mr and Mrs C's investible assets however, other options had been put to them but in order to receive the level of income they required I'm satisfied Mr and Mrs C made an informed investment decision when agreeing to the investment recommendation.

And I think it likely Mr and Mrs C were given sufficient information for them to be aware of the varying levels of risk and potential rewards implicit in different types of stock market investments and they were experienced investors. And I'm satisfied they were made aware of the alternatives that were available to them as evidenced by the meeting notes. Mr and Mrs C had several meetings with Lloyds' representatives so had additional opportunities prior to investing to discuss any concerns they may have had.

While I do appreciate that there were probably lower risk options available to Mr and Mrs C at the time that could have potentially offered them better returns than savings. But my role isn't to re-visit the advice that they were given and what other options were potentially

available to them. Rather it's to consider whether the advice that was given to Mr and Mrs C was suitable for them at the time and as identified prior to the investment and whether it was sufficiently explained to them.

Taking all of the above into consideration, and in the individual circumstances of this complaint, I don't find that the advice given to Mr and Mrs C was unsuitable for them bearing in mind their personal and financial circumstances, attitude to risk and investment requirements. It follows that I don't uphold Mr and Mrs C's complaint.

No doubt Mr and Mrs C will be disappointed with my conclusion, but I hope I have been able to explain how and why I have reached it.

### **My final decision**

For the reasons given, I don't uphold Mr and Mrs C's complaint about Lloyds Bank PLC.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs C and Mr C to accept or reject my decision before 21 March 2025.

Catherine Langley  
**Ombudsman**