

The complaint

Mrs T complains that Lowes Financial Management Limited (“Lowes”) have offered her insufficient compensation for an error that resulted in one of her investments being encashed and the funds withdrawn from her ISA.

What happened

Mrs T held a stocks and shares ISA which included a number of structured investment products. Lowes had been her financial adviser for many years.

In September 2023 one of Mrs T’s investments was maturing and based on Lowes’ advice, she decided to reinvest the funds (about £50,000) into another product within her ISA wrapper. In late October 2023 Lowes told Mrs T that due to an administrative error her investment had instead been encashed, and the funds now fell outside her ISA.

Mrs T complained to Lowes and said she estimated their mistake had caused her a loss of £25,000. In response, Lowes accepted responsibility for the error that resulted in Mrs T’s investment being encashed and said that HMRC had rejected a request for the funds to be reinstated to her ISA. Lowes offered to pay £7,585.90 to compensate Mrs T for the potential capital gains tax (CGT) liability that she would incur now that her funds had lost their ISA status. They said that was based on the following assumptions:

- a return of 7.5% each year on the funds being invested outside Mrs T’s ISA;
- an addition of 20% for CGT to the return each year, with an assumption that no reliefs or allowances would apply;
- the cumulative tax being calculated over 10 years from the point the ISA status was lost;
- compensation being paid up front with no discount for it being settled before tax would be due.

Lowes also offered to pay Mrs T £300 for the distress and inconvenience caused to her.

Mrs T didn’t think Lowes’ offer was fair and so she brought her complaint to our service. Our investigator looked into what had happened and thought Lowes’ offer was fair and reasonable. He said:

- He was satisfied that Lowes had taken reasonable steps to put Mrs T back in the position she would have been had the error not occurred. Lowes had accepted their mistake and offered to cover the costs of any CGT liabilities based on Mrs T investing the encashed amount.
- Although the funds were encashed in error, Mrs T could still have invested them as she had planned, albeit without the protection of the ISA wrapper. He was satisfied that the offer made by Lowes covered potential CGT liabilities that might be incurred

if Mrs T chose to invest the funds.

- Although Mrs T had said her planned investment would have provided a return of 10% per year for ten years, that was only a potential return and like all investments wasn't guaranteed.

Mrs T disagreed and asked for an ombudsman to make a final decision. She said:

- The compensation proposed disadvantaged her by understating returns, ignoring the compounding of returns and limiting the compensation term to too short a period.
- CGT was now 24% and widely expected to rise further in the future.
- Lowes' error had a substantial impact on her, both in terms of physical workload and mental stress. The impact goes far beyond inconvenience, and she seeks a more realistic compensation offer in recognition of that.

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.

It's not in dispute that Lowes were responsible for the error that caused Mrs T's investment to be encashed, and the funds withdrawn from her ISA wrapper. I can see too that the ISA manager approached HMRC to see if the funds could be reinstated into Mrs T's ISA, but that request was rejected. The key issue I need to determine therefore is whether the offer Lowes have made to Mrs T is fair and reasonable.

Having reviewed the information provided by both parties, I agree with the findings of our investigator that Lowes' offer is fair. In coming to this decision, I have taken account of the following:

- Mrs T didn't lose the opportunity to invest her funds as a result of Lowes' error, just the protection of the ISA wrapper. I don't therefore think it would be fair to hold Lowes responsible for any investment gains Mrs T might say she has lost out on by not investing as planned.
- Mrs T has lost out on the tax protection that would have been provided by the ISA wrapper. I think the assumptions that Lowes have made in calculating the impact of that, which I have set out above, are fair and reasonable.
- Mrs T has said Lowes have understated the returns on her funds by assuming a return of 7.5% each year. Although the product Mrs T had planned to invest in offered a potential return of 10% a year, that was not guaranteed. Overall, I think Lowes' assumption is fair and reasonable in the circumstances of this case.
- Mrs T has said Lowes has limited the compensation to too short a period, but they have based it on 10 years which our service would normally consider a reasonable approach and which I think is fair in this case.
- Mrs T points out that the relevant CGT rate is now 24%, with the rate having increased since Lowes made their offer. Lowes' offer was based on the rate that was in place at the time, and I'm satisfied that was a fair basis for their calculations.

It would be a matter for Lowes to decide whether or not to increase it to reflect subsequent changes.

I appreciate that Mrs T feels strongly about what happened and that Lowes' error caused her additional work and stress. Having considered what Mrs T has said about the impact on her however I think Lowes' offer of an additional £300 in compensation is fair and I won't be asking them to do anything further.

In summary, I think the offer Lowes have made to settle this complaint - £7,585.90 for the potential CGT liability, plus £300 for the work and stress caused by their error – is fair and reasonable.

My final decision

Lowes have already made an offer to settle the complaint, and I think that offer is fair in all the circumstances.

So, my decision is that Lowes Financial Management Limited should pay redress as set out above, if they have not done so already.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs T to accept or reject my decision before 30 September 2025.

Matthew Young
Ombudsman