DRN-5234126

The complaint

Mr H complains that they received unsuitable investment advice from HSBC UK Bank Plc (HSBC) in August 2021. In particular, he feels it exposed him to too much risk and he was coerced into make the investment.

What happened

Mr H had investments managed by HSBC through their Premier Investment Management Service (PIMS).

Mr H says that following a change to his wealth manager, he was invited to a meeting in August 2021. Following this Mr H was identified as having a significant IHT liability. He was advised to switch his investments from the PIMS, into two new investment portfolios.

The majority of these would sit inside an ISA wrapper and the rest would be in an investment bond. The advice was for the investment bond to be held in trust. Meaning any income would sit outside of Mr H's estate and not increase his IHT liability further. Mr H went ahead and switched in line with the advice he was given.

Mr H didn't go ahead with setting up the trust. However, HSBC say he was offered the chance to rewind the switches he had made but declined. Over the coming months Mr H became concerned with the performance of his investments and eventually complained to HSBC. He said he had been happy with the original investments and PIMS service and had lost thousands of pounds following the switches.

HSBC responded to say that a need to mitigate Mr H's IHT liability had been identified and suitable advice was given to meet this need.

Mr H remained unhappy and brought his complaint to our service for an independent review. Our investigator looked into it but thought the advice Mr H had been given was suitable for his needs at the time.

Mr H didn't agree and replied in full with several responses. In summary, he maintained that he didn't want to make the switches, was happy with his original investments and that mitigating IHT liability wasn't a priority for him.

As no agreement was reached, the case was passed to me and I issued my provisional findings on 11 December 2024. An extract of which forms part of my decision below.

> At the time of the advice, Mr H was 71 years old. He was recorded as unmarried and without children. He was a homeowner, without any debt and in receipt of pension income. He had approximately £170,000 in cash and deposit accounts. He also had approximately £300,000 invested through the HSBC PIMS.
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> PIMS is said to be a fund of funds based discretionary management service. Mr H's elected risk-adjusted, actively managed portfolio was the 'income' variant. Following

the advice he was given in 2021, Mr H's investments changed significantly. His cash and deposit holding reduced to approximately £105,000. £200,000 was switched from the PIMS to the HSBC World Selection Interest Income Portfolio, still within an ISA wrapper. £160,000 was switched from the savings and PIMS to the HSBC World Selection Conservative Portfolio. This was within an investment bond and the suitability letter said the plan was that this would be placed in trust.

Whilst Mr H was recorded as not having any concerns with his original PIMS investment, the advice was given to switch so to mitigate his IHT liability and to reduce his ongoing fees and charges. However, I am not satisfied this was suitable advice. I believe the switches increased Mr H's exposure to risk more than he had wanted or was willing or able to take. His previous PIMS investment was the income model, investing predominantly in fixed income funds and with little equity exposure. Following the advice, Mr H's cash and deposit savings had reduced by approximately £55,000 and he now had £160,000 invested with higher risk and equity exposure. This was through the HSBC World Selection Conservative Portfolio, which invests approximately 33% into global equities. Whilst I understand HSBC consider it in line with Mr H's recorded 'low risk' objective, I can't see he was made aware of the higher risk exposure he was taking. I am not surprised to see he was therefore alarmed by the volatility of its performance in the months following the switches.

HSBC have also said that the advice was given because the ongoing fees and charges would be cheaper than what Mr H was paying for the PIMS. However, the evidence provided by HSBC show that the actual product costs for the two new portfolios were actually higher than the PIMS. From 0.22% up to 0.71% and 0.84%. However, overall it was cheaper because there was no 1% annual management charge that the PIMS included, which I believe paid for the annual review that Mr H would no longer get.

These significant switches, increasing Mr H's risk exposure, were therefore done almost solely to try and meet the objective of mitigating his IHT exposure. However, Mr H has said this wasn't a priority for him and I agree. Whilst I agree he had a significant IHT liability, this advice wasn't going to reduce that, only attempt to ensure it limited its increase. I cannot see discussion around trust planning or identifying Mr H's beneficiaries and putting this into place. HSBC have only provided a statement from the advisor from 2023 where she says that Mr H had taken the trust documents away (to consider with intended trustees and executors) but then decided not to proceed.

Based on the evidence, I can't see that IHT mitigation was such a priority for Mr H and warranted such switches and extensive fees and charges. I am surprised the switches went ahead before the trust was able to be put in place, considering it was the main purpose for the changes. I can see that HSBC subsequently identified this. They offered Mr H the chance to reverse all changes and go back to the PIM. They also gave him a significant refund of fees (mainly because the trust wasn't actioned) but also a further 30% reduction.

In summary, I don't believe the advice given to Mr H was suitable. The ongoing charges were only marginally cheaper and this was because Mr H had lost the ongoing annual review service. The only other objective was to mitigate IHT liability. However, I don't see this was a priority for Mr H and he didn't go ahead with this anyway, meaning the switches and increased risk exposure had not been for any other purpose. As Mr H was recorded as being happy with his original PIMS investment. I appreciate Mr H was offered the chance to reverse the switches and didn't go ahead.

However, this is because he believed them to be worthwhile following the advice he had been given. It doesn't mean that advice had been suitable. HSBC should put things right as I set out below.

Mr H responded to say he accepted the findings set out in the provisional decision and had nothing further to add.

HSBC responded in full to say they didn't agree with the provisional findings. Amongst their points in reply, they said:

- IHT mitigation was a concern for Mr H, as highlighted in the annual review call.
- The advisor's subsequent comments confirm that friends of Mr H were to be beneficiaries and the trust document was to be completed following the advice meeting (but never was).
- The bond needed to be opened first before the loan trust was put into place.
- No ISA subscriptions or allowances were lost.
- The ombudsman is understating the risk rating of the portfolio prior to the advice.
- The recommendation increased the risk profile but not excessively.
- The differences in charges were not minimal but actually over £1,000 per annum.
- Mr H was given the opportunity to unwind the investments and return to the PIMs

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.

Having done so, my decision remains as I set out previously provisionally. Let me explain why.

Firstly, whilst I appreciate the full and thorough response from HSBC, it hasn't changed my mind on the matter. Whilst I note IHT mitigation was discussed and may have been a concern for Mr H, it wasn't enough of a priority or objective to advise him to switch investments of over £200,000. At great cost through up front fees and charges.

I note that the bond needed to be set up prior to the loan trust. However, I would have expected more progress regarding the trust before completion on the bond. Mr H hadn't even met the intended beneficiaries and a lot was still to be agreed. It isn't surprising to see that the trust didn't complete, which was the main objective and driver behind the suitability of this advice.

HSBC feel that I have understated the risk posed by what Mr H was initially invested in. Whilst I don't agree, it remains that the risk profile of Mr H's portfolio was increased. Considering Mr H's circumstances and inability to recover losses, I don't believe he was in a position to take this increased risk.

HSBC have also said that the annual charges saved through the switches, was over £1,000 per annum. Whilst I still believe that to be disputable, Mr H had lost the benefits brought by the PIMS product. And he had also paid significant fees to switch, which would take years to recover through the annual charges savings.

I appreciate that Mr H was given the opportunity to unwind this advice (presumably as HSBC had realised very shortly after the point of advice that it was no longer suitable as the trust had not gone ahead, and Mr H had declined. However, as he has said. He wasn’t aware at that point that the advice he had been given was unsuitable. In summary, my decision remains as set out provisionally and the advice wasn’t suitable. HSBC should put things right as set out below, essentially putting him in the position he would be in, had the advice and switches not been made.

Putting things right

Fair compensation

In assessing what would be fair compensation, I consider that my aim should be to put Mr H as close to the position he would probably now be in if he had not been given unsuitable advice.

I take the view that Mr H would have remained with his previous investment (PIMS etc). I am satisfied that what I have set out below is fair and reasonable in this situation.

What must HSBC do?

To compensate Mr H fairly, HSBC must:

- Compare the performance of Mr H's investment with the notional value if it had remained with the previous investment. If the actual value is greater than the notional value, no compensation is payable. If the notional value is greater than the actual value, there is a loss and compensation is payable.

- HSBC should also add any interest set out below to the compensation payable.

- Repay the advisor’s fees together with simple interest at 8% a year, from the date the fees were paid to the date of the settlement. If the above comparison shows that no compensation is payable, the difference between the *actual value* and the *notional value* can be offset against the fees with interest.

Income tax may be payable on any interest awarded.

Portfolio name	Status	Benchmark	From ("start date")	To ("end date")	Additional interest
Whole portfolio	No longer in force	Notional value of previous investment	Date of investment	Date ceased to be held	8% simple per year on any loss from the end date to the date of settlement

Actual value

This means the actual amount paid from the investment at the end date.

Notional Value

This is the value of Mr H's investment had it remained as previously invested until the end date.

Any additional sum paid into the portfolio should be added to the *notional value* calculation from the point in time when it was actually paid in.

Any withdrawal from the portfolio should be deducted from the notional value calculation at the point it was actually paid so it ceases to accrue any return in the calculation from that point on. If there is a large number of regular payments, to keep calculations simpler, I'll accept if HSBC totals all those payments and deducts that figure at the end to determine the notional value instead of deducting periodically.

My final decision

I uphold the complaint. My decision is that HSBC UK Bank Plc should pay the amount calculated as set out above.

HSBC UK Bank Plc should provide details of its calculation to Mr H in a clear, simple format.

Under the rules of the Financial Ombudsman Service, I am required to ask Mr H either to accept or reject my decision before 7 February 2025.

Yoni Smith
Ombudsman