

complaint

Mr and Mrs S's complaint concerns the advice they received from Lloyds Bank PLC to invest in two Guaranteed Investment Bonds (GIBs). They say that too much of their capital was invested in the bonds.

background

The adjudicator who investigated Mr and Mrs S's complaint did not think it should be upheld. In summary, he didn't agree that too large a proportion of their available capital was invested in the bonds.

Mr and Mrs S's representative did not agree. It said the advice Lloyds Bank provided was clearly unsuitable because:

- This exposed 38% of the cash- based savings held by Mr and Mrs S to the risk of inflation or counterparty default.
- The adviser was obliged to disclose the downsides to investing, including the above risks, in line with the regulator's guidelines.
- Mr and Mrs S's objective to receive a return in excess of deposit rates was not met by the recommendation of the GIBs.
- Mr and Mrs S's investments were still in force at the time of the Financial Services Authority's (FSA) review of structured products. It could be argued that Lloyds Bank should have been proactive and reviewed the advice given to its clients.
- Lloyds Bank would have been aware of the FSA review at the time of advice, the reasons for it and the market opinion regarding the sale of these products.
- Appropriate diversification across all asset classes, suitable advice in line with a client's objectives and full disclosure of the downsides to investing were a mandatory obligation of the adviser at the point of sale.

As agreement has not been reached, the matter has been referred to me for review.

my findings

I have considered all the available evidence and arguments to decide what is fair and reasonable in the circumstances of this complaint.

Mr and Mrs S invested in two guaranteed bonds. They paid £70,000 in January 2004 and £10,000 in December 2004. They wanted to achieve a better return than from deposit accounts. On each occasion they were recorded as willing to take a cautious degree of risk. But they were also seeking capital security.

Both the GIBs gave the prospect of growth, based on how the FTSE 100 index performed over the relevant term. But both also guaranteed the capital invested would be paid back in any event, if the bonds were retained for their full terms.

Mr and Mrs S's representative has referred to the counterparty risk. That is, the risk of loss if the third party business backing the investment is not able to meet its obligations. But Lloyds Bank, in response to the complaint, said there was no counterparty risk.

From the evidence I've seen, it does not appear there was a counterparty involved in the operation of the GIBs. But in any event, this seems to be a hypothetical issue. I understand both investments completed their intended terms without problem. This was despite the effects on financial institutions caused by the 2008 banking crisis. So whatever counterparty risk there may have been, if any, clearly this had no material effect on the GIBs.

Overall, I think the GIB's were suitable for Mr and Mrs S's requirements and attitude to risk. I appreciate they may have been disappointed at the actual returns achieved. But this doesn't mean the investments were unsuitable at the outset.

But I note the representative's comments focus mainly on the proportion of Mr and Mrs S's capital that was placed in the GIBs. I have considered this point.

The representative has referred to the FSA's review of structured products. But this took place many years after the advice was given. So I don't think it would be reasonable to assess the advice by what was said in the review. It's also not clear why the representative thinks Lloyds Bank should have been aware of the review at the time of the advice. Therefore, I don't find this point helpful in considering this complaint.

In any event, I accept that when providing advice, it's important not to place too much money in one area. But I don't think that happened with Mr and Mrs S. They held substantial capital outside the bonds, including in deposit accounts. And they seem to have had the capacity to invest.

my final decision

I do not uphold the complaint and I make no award.

Under the rules of the Financial Ombudsman Service, I am required to ask Mr and Mrs S to accept or reject my decision before 18 December 2015.

Doug Mansell
ombudsman