complaint

Mrs S (who is represented by her daughter Miss A) is unhappy with investment advice that she was given by Barclays Bank Plc. She says the fund it recommended wasn't suitable for her.

background

Mrs S got in touch with Barclays in 2006 and asked for advice on investing £50,000 from an inheritance she'd received. It carried out a review of her circumstances and identified that:

- Mrs S was unhappy with the rate of return she was obtaining from deposit accounts and wanted a better rate. She needed extra income to pay for holidays and social events;
- Mrs S's risk profile was that of a cautious investor but she was happy to invest a limited part of her money in equities as that provided more scope for capital appreciation than money left on deposit;
- She wanted to invest in the most diverse way possible including a wide range of equities, government securities and corporate bonds so as to reduce overall risk;

Barclays recommended she take out a Legal & General Portfolio Bond invested in its Distribution Fund.

Earlier this year Miss A got in touch with Barclays and said she didn't feel this was a suitable investment for her mother because it didn't match her risk profile and the investment hadn't been done in the most tax efficient way. Barclays accepted its advice didn't take account of Mrs S's tax position and offered to pay around £800 to put this right. But it didn't accept the investment itself was unsuitable for Mrs S.

Our investigator looked into the complaint and didn't agree. She felt the investment was unsuitable because the make-up of assets in the fund wasn't consistent with Mrs S's attitude to risk. She also felt that investing the whole £50,000 in this fund wasn't appropriate as Mrs S wanted to invest in the most diverse way possible. She recommended Barclays compare the value of her investment with a benchmark investment of half in fixed rate bonds and half in a stock market index -and pay her the difference.

In response Barclays accepted the advice to invest all of the money in this fund wasn't appropriate. But it argued the fund itself was suitable for a cautious investor. However, it also said Mrs S didn't need to take any risk with her savings to obtain the income she wanted because she could have got that by putting all the money in fixed rate bonds. And if she'd done that the value of her investment would be worth less than it is now. Because of that it didn't feel there was any further compensation to be paid to Mrs S. So I need to reach a final decision.

my findings

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 Barclays wrongly advised Mrs S to invest all of her inheritance in the Legal & General Distribution Fund. It's less clear if Barclays also accepts the fund was unsuitable for Mrs S because of her risk profile. However I agree with our investigator that it was.

That's because, looking at the assets in the fund at the time, I can see it was made up of around 44% equities and 41% corporate bonds. The equities were largely UK based but included some overseas (including Far Eastern) equities. And about a third of the corporate bonds were sub-investment grade bonds. I agree that means there was a level of volatility within the fund which wasn't consistent with Mrs S's attitude to risk and wider circumstances. And I don't think an investment in this fund was an appropriate recommendation for her.

I've gone on to think about what Mrs S is likely to have done if she'd been properly advised. Barclays has suggested she could have obtained her desired income by putting the inheritance in fixed rate bonds. But although it's clear Mrs S did want to boost her income I can see from the financial report Barclays completed that Mrs S was interested in investing in equities because that provided more scope for capital appreciation. And Mrs S would have needed to grow her capital to make sure the income from her investment kept pace with inflation.

Barclays has also said its advisor should have taken into account that it was only a relatively short time since Mrs S's mother had died. But at the meeting the advisor identified Mrs S as a cautious investor – meaning she was prepared to take a small risk with her investment. It doesn't seem to be in dispute that was the correct risk profile and I don't see why a different view would have been reached even if the meeting had taken place later.

fair compensation

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

I take the view that Mrs S would have invested differently. It is not possible to say *precisely* what she would have done differently. But I am satisfied that what I have set out below is fair and reasonable given Mrs S' circumstances and objectives when she invested.

what should Barclays do?

To compensate Mrs S fairly, Barclays must:

- Recalculate compensation for the tax loss Mrs S suffered using the benchmark shown below and pay her this amount;
- Compare the performance of Mrs S' investment with that of the benchmark shown below and pay the difference between the *fair value* and the *actual value* of the investment. If the *actual value* is greater than the *fair value*, no compensation is payable.

  Barclays should also pay interest as set out below.

Income tax may be payable on any interest awarded.

investment name	status	benchmark	from ("start date")	to ("end date")	additional interest
Legal & General Distribution Fund	still exists	for half the investment: FTSE WMA Stock Market Income Total Return Index; for the other half: average rate from fixed rate bonds	date of investment	date of my decision	8% simple per year from date of decision to date of settlement (if compensation is not paid within 28 days of the business being notified of acceptance)

actual value

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

fair value

This is what the investment would have been worth at the end date had it produced a return using the benchmark.

To arrive at the *fair value* when using the fixed rate bonds as the benchmark, Barclays should use the monthly average rate for the fixed rate bonds with 12 to 17 months maturity as published by the Bank of England. The rate for each month is that shown as at the end of the previous month. Those rates should be applied to the investment on an annually compounded basis.

Any withdrawal, income or other payment out of the investment should be deducted from the *fair value* at the point it was actually paid so it ceases to accrue any return in the calculation from that point on.

If there are a large number of regular payments, to keep calculations simpler, I will accept if Barclays totals all those payments and deducts that figure at the end instead of deducting periodically.

why is this remedy suitable?

I have decided on this method of compensation because:

- Mrs S wanted income with some growth with a small risk to her capital.
- The average rate for the fixed rate bonds would be a fair measure for someone who wanted to achieve a reasonable return without risk to her capital.
- The WMA index is a mix of diversified indices representing different asset classes, mainly UK equities and government bonds. It would be a fair measure for someone who was prepared to take some risk to get a higher return.

- I consider that Mrs S' risk profile was in between, in the sense that she was prepared to take a small level of risk to attain her investment objectives. So, the 50/50 combination would reasonably put Mrs S into that position. It does not mean that Mrs S would have invested 50% of her money in a fixed rate bond and 50% in some kind of index tracker fund. Rather, I consider this a reasonable compromise that broadly reflects the sort of return Mrs S could have obtained from investments suited to her objective and risk attitude.

my final decision

I've decided to uphold this complaint. My decision is that Barclays Bank Plc should pay the amount calculated as set out above.

Barclays Bank Plc should provide details of its calculation to Mrs S in a clear, simple format.

Under the rules of the Financial Ombudsman Service, I am required to ask Mrs S either to accept or reject my decision before 3 January 2017.

James Park
ombudsman