Financial Ombudsman Service

complaint

Mr and Mrs C have complained about advice they received from Barclays Bank Plc ("the business") in May 2007 to invest in a cautious managed fund of an investment bond with a third party provider.

Specifically, they say that the investment lost around £12,000 between October 2008 and February 2009 which was not consistent with their original request for a 'cautious' investment, and not one that could reduce in value.

Mr and Mrs C deny that they are experienced investors and relied on the business to advise them when the investment began to show a significant loss in 2009. When they requested advice how to mitigate their losses, they complained that the adviser recommended against switching the value of the bond to a savings account as this would merely consolidate their losses. However, if they wished to do so, they were told that they should contact the product provider direct.

In May 2010, Mr and Mrs C required access to their capital to purchase a property and were advised by the business again to access funds from other savings and investments, and not to surrender the bond as it had not recovered its value and would apply early surrender penalties in the first five years. Accordingly, they have retained the bond whose value is still less than their original capital.

They have requested the business to reimburse the investment losses they have suffered to-date.

background

Mr and Mrs C's complaint was investigated by one of our adjudicators, who concluded that it should not be upheld because he felt that the investment was suitable for their objective of obtaining capital growth over the longer term that could exceed the returns they were receiving by holding their capital on deposit.

Specifically, Mr and Mrs C invested 45% of their available capital in the bond which left them sufficient reserves for unforeseen contingencies. Also, the choice of investment fund matched the level of risk presented by existing investments they held - a cautious with profits bond and a maxi ISA, each providing a 'balanced' risk.

Indeed, the bond invested in a largely 'cautious' fund, which was lower than the 'balanced' approach to risk the financial report confirmed Mr and Mrs C had been prepared to take.

In response, Mr and Mrs C disagreed with the adjudicator's view and said that recent newspaper publicity had highlighted cases where investors had received compensation for losses they incurred on recommended investments. While the business explained to them that the substantial loss in 2009 was largely attributable to the 'credit crunch', they asked why the business allowed the bond to lose so much money around this time without notifying them or offering advice how they might restrict their losses.

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

findings

I have considered all the available evidence and arguments from the outset, in order to decide what is fair and reasonable in the circumstances of this complaint. Having done so, I find that I agree with the conclusions reached by the adjudicator, and for essentially the same reasons.

At the point of sale, Mr and Mrs C held a substantial capital sum on deposit, plus capital sums invested in a with profits bond and in two stocks and shares ISAs which represented a 'cautious' and a 'balanced' risk to capital respectively. They were concerned that deposit rates at that time were not providing a worthwhile return.

Mr and Mrs C were both earning an income from employment, which gave them a healthy monthly disposable income. Although they were approximately 1½ years and 3½ years from retirement respectively, there is no evidence that they would need to rely on their capital being accessible in the short term to provide additional income at retirement.

Accordingly, the business advised them to consider investing approximately 45% of their capital held on deposit over at least five years for capital growth based on a 'balanced' attitude to investment risk. This still left them a substantial sum on deposit that was instantly accessible for unforeseen contingencies.

While the business recorded that Mr and Mrs C agreed to adopt a 'balanced' approach to risk in 2007, the investment fund recommended by the adviser was categorised as 'medium-to-low' risk, which the fund manager describes as being suitable for an investor who is aiming *"to achieve greater returns over the longer term than interest paying accounts and are prepared to accept the risk of possibly losing some of my money and to see some fluctuate in value".* This would appear to reflect the approach to investment Mr and Mrs C were prepared to take with this capital sum.

The reduction in value of their investment in late 2008/early 2009 can largely be attributed to the economic downturn at that time. This fluctuating performance of the investment fund they were recommended does not mean that its risk profile instantly became more speculative than they requested. The assets held within the fund still gave it a 'medium-to-low' risk profile.

Although Mr and Mrs C have said that they required a 'cautious' investment that presented no risk to capital, there is no evidence at the point of sale that would have led them to believe that 'cautious' meant no risk to capital. That the two existing investments they held in 2007 were showing favourable returns does not mean that they presented no risk to their capital either.

Mr and Mrs C agreed to invest over a period of at least five years and there is no evidence at the point of sale in May 2007 that they told the adviser that they would require access to their capital after three years to purchase a property. Given the bond also included early surrender penalties in the first five years, I believe it was appropriate for the adviser to recommend that they raise the funds for this property purchase from their other savings and investments which may not have applied early exit charges.

Also, I am not persuaded that it would have been appropriate to advise Mr and Mrs C at that time to switch the value of the bond to a savings account because this, again, would have incurred early surrender charges and the low rates of return from a general savings account would not have enabled them to recover their losses.

Mr and Mrs C are also dissatisfied that the business did not alert them at an early stage in late 2008 that the value of their investment was being adversely affected by economic conditions prevailing at the time.

However, the business did not manage the investment fund; this was the responsibility of the product provider. Neither did the business provide an ongoing discretionary management service for Mr and Mrs C within its terms of business that would offered closely to monitor the performance of their investment and to offer 'pro-active' advice accordingly.

On balance, I am satisfied that Mr and Mrs C received advice in 2007 that was appropriate to their financial objective and approach to investment risk at that time.

decision

My final decision is that I do not uphold Mr and Mrs C's complaint.

Kim Davenport
ombudsman