DRN-3895968

The complaint

Mr and Mrs M complain that an appointed representative of Quilter Financial Services Ltd provided them with unsuitable investment advice.

What happened

Mr and Mrs M had a long-standing advisory relationship with an adviser working for an appointed representative of Quilter. In July 2018, as part of a portfolio of investments including general investments, ISAs and pensions, a recommendation was made by the adviser to invest in a structured product that sought to provide a return of capital plus a regular income over a six-year term, dependent upon the performance of a basket of shares.

This complaint deals solely with their joint investment. Other similar recommendations were made to Mr and Mrs M in their sole names, but these have been dealt with separately.

When the issue was raised with Quilter it didn't consider the complaint should be upheld. But when the matter was referred to this service our investigator reached a different conclusion.

She felt, in brief, that the amount invested in the structured products was too high and exposed Mr and Mrs M to an unsuitable level of risk. The investigator noted that they had some experience of similar products but felt that these particular investments were too complex and, lacking in capital protection, unsuitable for people seeking income as they approached retirement. The investigator recommended the complaint be upheld and that Quilter should put Mr and Mrs M in the position they'd have been in had the money instead achieved a no-risk, fixed-rate bond benchmark return.

Quilter remained of the view that the recommendations had been suitable, so as no agreement could be reached, the matter was referred to me to review.

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.

As noted, the investigator's view was that the recommendation of the product was unsuitable for Mr and Mrs M, on the basis they it was a complex product, offering very limited capital protection, inconsistent with their attitude to risk and their wider circumstances – for instance, with retirement imminent.

Having reviewed all the files, I find I'm in agreement with the investigator's view. While I understand that Mr and Mrs M had previous experience of this type of product, that doesn't in itself render ongoing recommendation of another similar product suitable. The product in question is, by any standard, a complex product with an opaque mode of operation, offering no guarantee of a return of capital, nor even a consistent income throughout its six-year term.

The potential return is dependent on the performance of a very limited number of shares. Mr and Mrs M had at one point over £200,000 committed to similar products, which despite them having other fairly significant other assets, strikes me as much too high a concentration in this one particular product area, especially given their recorded attitude to risk and wider circumstances.

My view of the matter has been explained to Quilter, which has agreed to compensate Mr and Mrs M as set out below. This decision is issued to confirm that position.

Putting things right

Quilter must, upon the maturity of the product, compare the total amount (capital plus income) actually returned by the product with the amount Mr and Mrs M would've received had the same initial capital amount achieved a return over the same period equivalent to the average rate from fixed-rate bonds (*specifically, the monthly average rate for one-year fixed-rate bonds as published by the Bank of England. The rate for each month will be that shown as at the end of the previous month. Those rates should be applied to the investment on an annually compounded basis*).

In the event that the fixed-rate bond figure is higher than the actual amount received by Mr and Mrs M, Quilter must pay them the difference between the two figures. For clarity, if the *actual* return is greater than the hypothetical fixed-rate bond figure, no compensation will be due.

The product in question is:

- Natixis UK Titans 50 50 Memory Income Autocall July 2018

As the product doesn't mature until July 2024 Quilter must provide a written undertaking to Mr and Mrs M confirming that it will carry out the calculation when that happens.

In the event that the product should 'kick-out' early (the potential for doing so being a feature of it) the calculation should be performed on the same basis using the early maturity date. That said, in such circumstances the product pays a full return of capital plus income due to date, so the calculation would be unlikely to show any loss.

My final decision

For the reasons given, my final decision is that the complaint should be upheld and redress, where applicable, paid to Mr and Mrs M by Quilter Financial Services Ltd as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs M and Mr M to accept or reject my decision before 9 January 2024.

James Harris
Ombudsman