DRN-4299807

Financial Ombudsman Service

The complaint

Mr B complains that Scottish Widows Limited has failed to manage his pension investments in a professional manner.

What happened

Mr B holds pension savings with Scottish Widows. His plan was opened as part of a group scheme offered by his former employer. In 2020, when Mr B left that employer, his pension savings were moved from the employer's bespoke investment funds into Scottish Widows' standard funds.

Mr B reached his selected retirement age in 2023. He contacted Scottish Widows to arrange for the payment of his pension benefits. At that time he noted that his pension investments had fallen in value over the previous year by around 4%. Mr B complained to Scottish Widows saying that he considered the firm to be responsible for managing his pension investments. He said that he would expect Scottish Widows to move his pension investments into low-risk funds as his selected retirement date approached.

Mr B also complained to Scottish Widows about the difficulties he faced in getting in touch by telephone to discuss his retirement options. Scottish Widows agreed that it hadn't dealt with Mr B as promptly as it would have wanted. It offered Mr B £40 for the inconvenience he had been caused. Mr B accepted that offer, so in this decision I am only dealing with the way in which Mr B's pension savings have been invested.

Mr B's complaint has been assessed by one of our investigators. She thought that Mr B, rather than Scottish Widows, was responsible for ensuring the pension savings were invested appropriately. And she thought that Scottish Widows had provided Mr B with sufficient information about his pension savings and the investment choices he could make. So the investigator didn't think Mr B's complaint should be upheld.

Mr B didn't agree with that assessment. So, as the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, to decide. This is the last stage of our process.

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.

In deciding this complaint I've taken into account the law, any relevant regulatory rules and good industry practice at the time. I have also carefully considered the submissions that have been made by Mr B and by Scottish Widows. Where the evidence is unclear, or there are conflicts, I have made my decision based on the balance of probabilities. In other words I have looked at what evidence we do have, and the surrounding circumstances, to help me decide what I think is more likely to, or should, have happened.

At the outset I think it is useful to reflect on the role of this service. This service isn't intended to regulate or punish businesses for their conduct – that is the role of the Financial Conduct Authority. Instead this service looks to resolve individual complaints between a consumer and a business. Should we decide that something has gone wrong we would ask the business to put things right by placing the consumer, as far as is possible, in the position they would have been if the problem hadn't occurred.

I think it is important to first set out the basis of the relationship between Mr B and Scottish Widows. Mr B's pension had been with Scottish Widows for many years since it was established by his employer. Whilst an member of his employer's scheme Mr B's pension investments were set via a bespoke lifestyling approach. When he left his employer Scottish Widows wrote to Mr B to explain that he was no longer able to use the employer's lifestyle fund. So it told him he was being switched into its Balanced - Targeting Flexible Access Pension Investment Approach. It invited Mr B to consider whether that fund was appropriate for his circumstances, and if not to make his own fund selection.

Scottish Widows is not Mr B's financial advisor. So it simply acts on the instructions he provides. It isn't for Scottish Widows to ensure that any investment decisions are suitable for Mr B's needs – those are essentially decisions he needs to make for himself. And I have seen that Scottish Widows' website (or by post on request) provides comprehensive information for investors about the range of funds that are offered.

Mr B has said that the annual statements he received from Scottish Widows said that it applied charges for managing and administering his pension plan. Mr B says that he considers the management of his plan to mean the management of the pension investments that are held within it. But, as I will now go on to explain, I don't agree.

Mr B's pension plan is essentially a receptacle into which his investments can be placed, to receive the beneficial tax treatment that is offered to pension savings. The responsibilities of Scottish Widows extend to the operation of the plan to ensure that any investments held within it comply with the rules put in place by HMRC and the relevant legislation. But, most importantly here, those responsibilities don't extend to ensuring the suitability of the investments that are held within the plan.

I have noted that in the annual statements Scottish Widows sent to Mr B, a number of comments are made that highlight his responsibility to ensure the suitability of the pension investments that he holds. For example it suggests that Mr B might want to review the funds into which his pension savings are invested. Later in the document it tells Mr B that Scottish Widows offers a wide range of funds and investment approaches to choose from. It goes on to say that he can choose where he would like his plan to be invested. And it again warns Mr B that he should check whether the funds in which his pension savings are invested are still right for his circumstances.

So I don't think it would have been reasonable for Mr B to conclude that Scottish Widows was solely responsible for ensuring that his pension savings were invested suitably. It had no knowledge of Mr B's personal circumstances, such as his attitude to risk on which to base any investment decisions.

But the investment option that Scottish Widows gave to Mr B did provide him with an approach designed to reduce the risk in his pension investments as he neared retirement. So, even though Mr B was responsible for choosing the overall approach, I don't think it unreasonable for me to consider whether the overall approach met its published objectives. As Mr B has said, it would be expected that, so close to his retirement, Scottish Widows took steps to reduce the risk of falls in the value of his pension investments.

Mr B has said that his pension investments fell by around 4% in the year leading up to his retirement. He has said that it would have been better if Scottish Widows had not invested his pension savings at all. As I've explained above, a radical decision such as moving all the pension savings into a cash fund would have been something that Mr B needed to direct. His pension savings remained invested in the Balanced Fund with an expectation that they would be used to provide flexi-access benefits.

The acceptable risk for funds being used to provide flexi access is naturally greater than those being used to purchase an annuity, or be taken as a cash lump sum. They generally have a greater period of time to recover from any market fluctuations in their value, with the date of their use being less defined. But, in line with the stated objectives of the fund, it was reasonable for Mr B to expect the investment risk to be reduced as he neared retirement. In the information Scottish Widows had sent to him he'd been told that process would start around 15 years before his selected retirement date.

But a reduced investment risk doesn't mean no investment risk at all. In late 2022 unusual market conditions were experienced, with falls in what are generally seen as "safer" investments due to Government economic policy, and rising interest rates. Many commentators noted that what are considered to be more risky investments, such as equities, suffered smaller losses during that time. I haven't seen anything that makes me think that Scottish Widows' investment decisions were outside what could be considered normal industry practice for consumers in Mr B's situation.

I appreciate that my decision will be disappointing for Mr B. I haven't seen anything to make me think that Scottish Widows failed to meet its obligations in terms of the investment decisions it made in relation to the Balanced Fund. It was for Mr B to decide how his pension savings should be invested. And I think that Scottish Widows provided Mr B with sufficient information about the way in which his pension savings were invested, and the choices he had should he want to make use of alternative investment approaches.

My final decision

For the reasons given above, I don't uphold the complaint or make any award against Scottish Widows Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 6 October 2023.

Paul Reilly
Ombudsman