DRN-4163290

The complaint

Mr C and Mrs C complain Nationwide Building Society advised them to take out investments in 2021 that had a greater risk than they were led to believe. Mr C and Mrs C say this resulted in greater losses than they thought possible.

What happened

After meeting with a Nationwide financial adviser Mr C and Mrs C invested £40,000 - £20,000 in a stocks and shares Individual Savings Account (ISA) for Mrs C and £20,000 into a general investment account in joint names. Mr C and Mrs C complained to Nationwide that the investments had lost money and that the investments were made in funds that had a greater risk than they were led to believe. Mr C and Mrs C said they'd been paying an ongoing fee for advice and were unhappy that Nationwide hadn't contacted told them about the fall in value.

Nationwide didn't uphold the complaint and said that the investments had been made in line with the risk profile agreed at the initial meeting. Nationwide said a review had been carried out the following tax year with a view to investing the joint investment into an ISA to assist with tax efficiency.

Mr C and Mrs C brought the complaint to the Financial Ombudsman Service and one of our Investigators looked into things. The Investigator thought that the funds Nationwide recommended were suitable and were in line with Mr C and Mrs C's agreed attitude to investment risk. Mr C and Mrs C didn't agree with the Investigator and asked that an Ombudsman decides the complaint.

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.

I understand that Mr C and Mrs C will be disappointed, but for very much the same reasons as our Investigator I've decided not to uphold the complaint. I will now explain why.

Mr C and Mrs C believe Nationwide's assessment of their attitude to risk doesn't match the risk of the funds recommended – and that this led to losses greater than they expected could be the case. I've carefully considered the points Mr C and Mrs C have made, but the suitability letter provided by Nationwide explained they agreed to invest in funds that had a measured risk that could lead to a reduction in the value of their investments for the increased growth potential of cash. The fact-find Nationwide completed at the time recorded Mr C and Mrs C wanted more positive growth on their funds because low interest rates meant cash-based products were being eroded by inflation. The fact-find went on to record Mr C and Mrs C were experienced investors with an open mind to investing and were willing to accept some capital risk.

The fact-find supports that Mr C and Mrs C had sufficient cash to provide funds in case of an emergency, that they had a reasonable amount of regular income to provide for their day to day needs and that the agreed £40,000 was to be invested for growth over the longer term. Nationwide provided a detailed Investment Planning Guide that provided full description of the risk profiles it used, details of the investment products it used and the ongoing fees for the advice provided.

In view of this I can't reasonably accept that Nationwide failed to properly establish Mr C and Mrs C's attitude to investment risk. Based on the information available, I'm persuaded that Mr C and Mrs C would have understood the risks involved in investing in funds that had a modest (20-40%) portion in shares. Nationwide invested Mr C and Mrs C's initial sum of £40,000 – albeit this was spilt between an ISA and a general investment account – into fund that had a stocks and shares element of about 35%. The rest of the fund was primarily made up of bonds and gilts. The fund is generally diverse and is essentially made up of a number of funds from different fund managers across UK and global markets. I'm satisfied that the funds in which Nationwide invested were in line with the level of risk Mr C and Mrs C agreed they were prepared to take. Of course, there is no guarantee that investments with a level 2 risk profile would outperform deposit-based savings, but I think on balance Mr C and Mrs C understood this.

Mr C and Mrs C say they didn't believe the investments Nationwide made could fall by as much as they did over the first year or so. However, I'm satisfied that Nationwide explained this could happen in the suitability letter it provided to Mr C and Mrs C. In addition, the investments weren't short term and I think Nationwide provided a clear example in the Investment Planning Guide of how a level 2 risk fund could fall over the short term in a volatile market – with visual and descriptive examples of how events like Covid impacted the short-term performance of a level 2 risk profile investment. So, although I have empathy with Mr C and Mrs C that their investments fell by more than they expected over the short-term, I think Nationwide made it reasonably clear that this could happen, and I've decided not to uphold this complaint.

Mr C and Mrs C say they expected that as part of the ongoing advice fee they pay that Nationwide should have alerted them to any fall in the markets and provided an explanation why the funds had performed below their expectation. Nationwide held a review with Mr C and Mrs C in August 2022 and agreed that their attitude to investments risk had not changed – still a level 2 risk. Although a recommendation was made to switch to another fund, to assist with further diversification, and to consider switching the general investment account holdings into an ISA, Mr C and Mrs C chose not to take up the recommendations. The suitability letter issued after this meeting suggests that Nationwide and Mr C and Mrs C discussed the fund performance to date but decided not to make any changes to their investment risk level or switch funds.

Although I consider it more likely than not the performance of the funds was discussed at the August 2022 review, Nationwide's final response to Mr C and Mrs C's complaint provided an overview of why the fixed interest market and the situation in Ukraine had a short-term impact on the performance of the investments. It also re-emphasised that Mr C and Mrs C hadn't invested for the short-term. I wouldn't expect a business to contact a customer every time a fund falls, but I would expect regular contact to review the investments. In this case, I'm persuaded Nationwide provided a review after the first year and was actively looking to contact Mr C and Mrs C to conduct a further review before they asked for the investment to be closed. I think this is a reasonable level of service in the circumstances of this case.

Mr C and Mrs C feel that another investment they hold (a 100% equity-based fund) hasn't experienced the fall in value of the Nationwide investments. That may be so, but in this case Mr C and Mrs C made it clear in 2021 and 2022 that they didn't want Nationwide to invest into funds with 100% in equities. I'm satisfied Nationwide took this into account when it agreed a level 2 risk profile fund with Mr C and Mrs C and the funds it recommended were suitable at the time.

My final decision

For the reasons detailed above, I've decided not to uphold Mr C and Mrs C's complaint against Nationwide Building Society.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C and Mrs C to accept or reject my decision before 2 January 2024.

Paul Lawton
Ombudsman