DRN-4144945

The complaint

Mr F complains that he was advised incorrectly by Direct Wealth Management Limited (DWM) in relation to a switch of his pension from one provider to another.

What happened

Mr F had a Managed Pension Fund with a provider (the previous pension) and spoke to a representative from Direct Wealth Management in October 2021 in relation to a potential transfer of his pension.

Following this discussion, DWM sent Mr F a Suitability Report dated 7 December 2021 to summarise their discussion and provide their recommendation. The report included DWM's assessment of Mr F's requirements including their determination of his attitude to risk and capacity for loss. Mr F's attitude to risk was assessed to be 4 out of 10 which they called the 'lowest medium risk profile' and DWM determined that Mr F could afford a 'small' loss.

DWM recommended a personal pension offered by a new provider – a 40% equity fund (the New Fund). This would involve a transfer of Mr F's pension benefits and, in doing so, DWM advised that Mr F would gain the following benefits from the New Fund:

- Flexible drawdown options
- Lower ongoing charges
- A fund more closely matching Mr F's risk rating and risk appetite

Having received this report, Mr F switched his pension from the previous provider to the New Fund recommended by DWM on 16 December 2021.

Around 10 months after making the switch, Mr F complained to DWM that the New Fund had not performed as well as the previous pension and had lost 20% of its value in the preceding 10 months.

DWM sent Mr F a final response to this complaint on 5 December 2022 acknowledging his complaint and stating that the value of the New Fund had fallen 11.34% in the 12 months since the switch was completed.

DWM said that, whilst the New Fund had not performed as well as Mr F's previous pension, this was one of the inherent risks of investing and any particular level of performance could not be guaranteed. They added that the value of long-term investments could fall as well as rise and that Mr F had been made aware of the risks in the Suitability Report. DWM did not uphold Mr F's complaint.

DWM said that Mr F sent a further complaint to them in relation to DWM's ongoing advice fees. DWM said that, in response to this, they removed all ongoing advice fees from the policy.

Mr F then complained to us on the basis that the annual and ongoing fees were larger than the fees of the previous pension and that he was never told that 60% of his funds would be invested in funds which would fall in value if interest rates rose. Mr F said that, prior to switching, there was talk of interest rates rising and that, if he had been aware of how the value was connected with interest rates, he would not have moved his pension. He said that the advice he had received from DWM was wrong and he provided valuations to demonstrate that the New Fund had fallen over 14% in value since switching.

Our Investigator's view was that:

- DWM are not the fund managers of the New Fund and therefore cannot be held liable for the drop in fund value.
- The overall performance of the investment market in early 2022 was significantly poor so it was normal that the performance of Mr F's fund suffered as a result.
- DWM clearly explained to Mr F that investment performance was not guaranteed.
- DWM's recommendation to Mr F listed the benefits of making the switch to the New Fund.
- The advice provided by DWM met Mr F's needs and objectives at the time and the advice was not unsuitable.
- DWM had not provided Mr F with poor advice nor had they contributed to Mr F's loss and had met its objectives as outlined in the Suitability Report.

Mr F did not accept this view on the basis that:

- The charges for the New Fund were higher if you included DWM's fees
- The advice to move his pension was bad advice

Mr F asked that an Ombudsman review his 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.

Having done so, I have reached the same conclusion as our Investigator and will not be upholding Mr F's complaint.

Mr F's complaint to us consisted of three points: that the annual and ongoing fees were larger than the fees of the previous pension; that he was not aware of how the New Fund would be invested, particularly in relation to its connection to interest rates, and that the New Fund had fallen significantly in value since the switch was completed.

In reviewing Mr F's complaint and the advice on switching he received from DWM, it is important that we look at whether or not there was reasonable potential for Mr F to be better off as a result of switching and whether or not the reasons for switching could be supported. Given that Mr F appears to be an investor with a fairly low attitude to risk, we would expect there to be a greater potential for gain than for an investor with a higher attitude to risk. In general, I have looked at whether or not the advice provided to Mr F by DWM was suitable at the time it was given. I have therefore discussed below each of the points raised in the complaint in this context.

On the point regarding the annual and ongoing fees, the Suitability Report does include lower ongoing charges as one of the benefits Mr F stood to gain from switching his pension from the previous provider to the New Fund. Specifically, it says that Mr F's annual charges would be reduced to 0.37% per annum which is lower than the ongoing charge that the previous provider takes. Looking more closely at the report, DWM lists the fees for the previous pension as including a policy fee of £1.00 per month together with an Annual Management Charge of 0.75%. With respect to the New Fund, the charges detailed in the Suitability Report include a Platform Fee of 0.15% and a Fund Management Charge of 0.22% as well as an Initial Fee and an Ongoing Adviser Fee from DWM charged at 3% and 1% respectively. It is true that the Platform Fee and the Fund Management Charge total the 0.37% per annum referred to however I understand it is the Ongoing Adviser Fee, which was estimated at around an additional £238 for the first 12 months, that caused Mr F to complain to DWM in relation to the charges.

The material provided to Mr F by DWM does highlight the fees that would be payable both for the initial advice and the ongoing fee. I would expect DWM to take steps to draw Mr F's attention to them. I understand that Mr F may be raising a complaint on these charges because he does not agree that the New Fund truly had lower ongoing fees as stated in the Suitability Report when taking all of the costs into account. Whilst I can appreciate that Mr F may find this inconsistent, it is not uncommon to only include the product charges in the overall cost illustration of an investment product and not the financial adviser's fees. The ongoing advice charge was something separate that Mr F could opt to have, or not since the charge was connected with an additional service Mr F was being offered by DWM. Mr F could have had the benefit of this service even if he stayed with his previous pension provider. Overall, I don't consider that the charges for DWM's services should be taken into account when considering the benefits of the New Fund and think therefore that recommending the switch on the basis that the charges of the New Fund were lower was a reasonable one.

Following Mr F's further complaint to DWM in relation to the ongoing adviser fee, I understand that DWM have waived this fee indefinitely and this is, I think, a reasonable response to this complaint.

With respect to the fall in value, based on the illustrations provided by Mr F and DWM, it is clear that the New Fund had in fact fallen in value between the time Mr F made the switch and the time he brought his complaint to us.

I would agree that DWM are not able to offer any guarantees about the performance of a particular fund and that the relevant market conditions have resulted in the New Fund having lost more value than Mr F's previous pension. This is not something which DWM can reasonably be held liable for in itself, however, DWM have a responsibility to ensure that they are recommending a product to Mr F that is suitable as far as his situation and attitude to risk are concerned.

The investment recommended by DWM, the New Fund, was thought to have several advantages over Mr F's previous pension and most of these related to administrative matters such as flexibility of access and the lower charges. Other than the specific issues raised by Mr F in relation to ongoing charges discussed in detail above, I understand that no complaint has been made about the value of these benefits and so these must be considered valid reasons for DWM recommending this fund to Mr F.

In terms of the overall risks, the New Fund is categorised by its provider as being appropriate for cautious investors. The material provided to Mr F by DWM, including that which is contained in the Suitability Report, does suggest that the New Fund is indeed a fairly low risk investment which would be suitable for investors who are more cautious. One of the advantages highlighted to Mr F in the Suitability Report was that the New Fund more closely matched Mr F's risk profile as compared with the previous pension. I have seen a Cost Analysis document provided to Mr F by DWM which includes a projected fund value following retirement and suggests that Mr F would be able to see a higher annual paid up value for his pension with a lower rate of return under the New Fund compared with his previous pension. Put more simply, this meant that the New Fund was thought likely to offer more in pension payments to Mr F on retirement than the previous pension for the same level of growth. Taking all of this into account and given Mr F's attitude to risk, which is based on the responses provided to several questions, the advice and recommendation provided by DWM seem relevant and reasonable.

As to whether or not Mr F should have been advised specifically that the fund value may fall in the event that interest rates rose, I don't agree that this is the case. Mr F received advice on the issue of switching from DWM who had detailed what they saw as his requirements and made a recommendation on that basis. There were many aspects of the product recommended to him and the inverse relationship with interest rates is just one of these. Mr F was free to accept or reject this advice based on what was set out in the Suitability Report or as he saw fit and I don't think DWM were under an obligation to provide advice on each individual aspect of the recommendation.

There is an additional question however, that of whether or not DWM should have recommended a fund that would fall in value if interest rates were to rise. Whilst I would agree that generally advisers such as DWM have a responsibility to ensure that the advice they provide is relevant to both the prevailing and expected market conditions, I do not think DWM could reasonably have been expected to foresee the conditions that were largely responsible for the significant fall in the value of the New Fund in the period after the transfer was made.

As Mr F says, it is true that there was discussion in financial markets during 2021 around interest rates rising and therefore some rise in rates was, to some extent, foreseeable. However, it appears that the events that influenced the much sharper rise in interest rates during the course of 2022 were particularly unusual and therefore more difficult to foresee. To this it should be added that the New Fund was recommended to Mr F as a longer-term investment and, whilst the drop in value experienced by Mr F was not forecast, even in the shorter term, the intention was that the benefits would have been measured over a longer period. For these reasons, I do not hold DWM liable for recommending this fund on the basis of the potential impact of interest rate rises.

I appreciate that the situation has been difficult for Mr F given that his pension may have been more valuable had he not made the switch but the nature of the market means that this is one of the risks of investing in financial products. The advice provided by DWM did not ultimately provide the benefits to Mr F as either party would have hoped but I do not think they have acted unreasonably or provided advice to Mr F that was inappropriate or unsuitable.

My final decision

For the reasons explained above, I do not uphold Mr F's complaint

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr F to accept or reject my decision before 4 August 2023.

Rana Chatterjee
Ombudsman