

INVESTMENT ADVICE ON THE HIGH STREET



Which? goes undercover to reveal widespread failings in banks and building societies giving investment advice. So is there anywhere on the high street where you can get a good service?

When it comes to investing your money, getting good advice is vital. Unfortunately, if you visit a high street bank or building society, it's something you're highly unlikely to receive.

At the beginning of 2011, Barclays was fined a record £7.7million and ordered to pay almost £60million in compensation to its customers, the majority of whom were aged 60 and over, for giving poor advice and recommending inappropriate investment products. When we investigated the quality of investment advice at high street banks in April last year, only 10% of advisers passed our tests.

To find out whether the quality of advice has improved, between August and October this year we went undercover again to test the information provided in 10 banks and building

societies (see 'How we tested the banks', p78) and found that only five out of 37 advisers were up to scratch.

Many advisers showed a poor understanding of the risks of investing, and were prone to making misleading statements about the features and costs of available products. Many failed to provide our mystery shoppers with even basic information that they should have been told when getting financial advice.

THE MYTH OF FREE ADVICE

One of the biggest misconceptions about receiving financial advice from a high street institution is that it's free. And it's not surprising that many consumers still believe this to be true – they are being told so by advisers in banks and building societies. During our investigation, 18

of the advisers we sought advice from maintained that there was no cost for their advice. This was often directly contradicted by the paperwork then handed to our researchers, which stated that advice was not free.

Banks and building societies make money through commission paid for the products that they recommend, and only a handful of advisers that we tested were upfront about it. Many referred to initial charges (which are the main bulk of commission) as set-up costs, and almost all failed to mention the ongoing annual commission that was built into investment products they recommended.

It's not surprising they want to keep this kind of thing quiet. Five of the advisers at Yorkshire Bank and The Co-operative/Britannia recommended an investment bond that pays an eye-watering 8.8% commission. In the worst case, one of our researchers was told by a Yorkshire Bank adviser to invest £50,000 in a bond netting more than £4,400 in commission – this was not disclosed.

ILLUSTRATION BY PERSKIMO

RISKY PRODUCTS

One of the biggest failings we found during our investigation was the recommendation of products that far exceeded the risks our researchers were willing to take. In our view, our older and inexperienced researchers should have been taking on very little investment risk, with only a small proportion of their money, if any at all.

Many of the advisers we tested used inappropriate means of assessing risk, asking our researchers if they agreed or disagreed with statements like 'if I get bad financial news I tend to worry about it more than most people would in the same situation' or simply pointing to terms such as 'cautious' or 'balanced' and asking our researchers to identify which category they fell into without explaining what each one meant.

The FSA has criticised advisers in the past year for the way they assess the suitability of products for consumers, but it seems that banks and building societies haven't taken much of this on board. One HSBC adviser recommended that 83% of a researcher's lump sum be invested in a 'balanced' fund that far exceeded his attitude to risk, despite the researcher stating on four occasions that he didn't want to take too much risk and that he 'hated the thought of losing my money'.

Complicated and high charging investment bonds were recommended by 17 of the advisers we spoke to – more than three times the amount we encountered in our last investigation two years ago. These products were likely to be unsuitable for our scenario, with six of the advisers emphasising the ability to take an income from them, despite our researchers telling them they had enough to get by on. Investment bonds come with punitive exit charges, too – sometimes as high as 12% – if you want to get your money out in the first five years. Four advisers failed to mention these at all.

Structured deposits – a kind of halfway house between a savings account and investment product – were also popular among high street advisers, yet we believe that these were unsuitable for our mystery shoppers.

CONSUMER PROTECTION

In the current economic environment, consumers are concerned about the safety of their money. Yet the majority aren't even aware that the UK has a robust compensation scheme in place if a company or investment fails. Research carried out by the Financial Services Compensation Scheme (FSCS) at the beginning of 2011 found that only 47% of people knew we had this safety net in place.

The advisers we tested didn't do much to improve this. Of the 37 visits we carried out,



The co-operative bank
Britannia



The Co-operative and Britannia advisers were big fans of investment bonds – they were recommended in all three of the visits we carried out at its branches. In spite of this, one adviser met our criteria for suitable advice.

Two Britannia advisers, who actually worked for Axa, recommended Friends Life bonds that paid 8.8% commission but one didn't tell us about this.

One adviser rushed through his fact-find without asking the researcher's age, previous experience with investments, or asking any questions about their attitude to risk.

A Co-operative adviser told our researcher to put £40,000 into an investment bond run by Aviva and a Guaranteed 100 fund. He didn't explain what this was, nor the annual charges, and failed to even mention it was from Aviva.



HSBC



We were satisfied with two of the three visits. Both advisers we saw gave excellent advice on how investments work, product recommendations, charges and our rights to complain.

Just as well, as the third visit we carried out was one of the poorest examples of advice we saw. Before the adviser had even carried out a fact-find to establish our researcher's needs,

he rushed through an explanation of complex investment options, using lots of jargon. No mention was made of product charges, FSCS limits or the Financial Ombudsman Service.

Our researcher said on four occasions that he did not want to take on much risk but the adviser's final recommendation was to put 83% of his money into a risky fund that was totally inappropriate for him.



Nationwide



Just one adviser gave sound financial guidance. He was incredibly thorough, asked lots of questions to establish our goals and recommended appropriate products to meet our needs.

The remaining three didn't pass our tests. One incorrectly assessed the researcher's attitude to risk, and decided to place 80% of his money into investment funds. Another

failed to mention the FSCS and refused to suggest a savings product for the proportion of money that was recommended to keep as a cash deposit. Advisers should give guidance on both savings and investment products.

The final adviser was good at describing products and charges, but recommended only long-term products, leaving our researcher with no immediate access to any of her money.



HALIFAX



All four advisers failed to discuss FSCS limits with our researchers. Three out of four recommended a Scottish Widows Personal Investment Plan (PIP), an investment bond that was sprung onto our researchers at the end of their meetings with very little explanation.

On Halifax's website it states that 'if you want to claim age-related personal allowances, tax credits, pension credits or

social security benefits, please be aware that this plan could affect your entitlement to them'. Given that all of our researchers were aged over 60 and one that visited Halifax was aged over 75, they could be affected by this.

One adviser didn't feel that we should take any risk, and instead recommended it was all placed in Halifax savings accounts – exceeding the FSCS deposit limit.



NEED HELP CHOOSING A FINANCIAL ADVISER? Making sure you get the right advice when you invest your money is essential, but knowing what to look for can be tricky. Read our guide to choosing a financial adviser at www.which.co.uk/findafa

18 failed to make reference to the FSCS. Even when they did, we noted rudimentary mistakes when advisers mentioned how much protection consumers receive. One Santander adviser incorrectly told us that its investments were covered up to £85,000 instead of the correct level of £50,000, while a NatWest adviser said deposits were covered up to £80,000 instead of £85,000. This adviser told our researcher: 'let's face it, the major banks aren't going to go under, handing her a leaflet about compensation but saying 'you don't have to read this'.

In addition to this, only 42% of advisers made any reference to a complaints procedure, and only six made explicit reference to the Financial Ombudsman Service (FOS), which arbitrates complaints on behalf of consumers. None of the four advisers at Halifax mentioned complaints – surprising, given that Bank of Scotland was fined £3.5million in May 2011 for its poor handling of complaints.

To find out how each bank and building society we investigated fared, see right and p77.

HOW WE TESTED THE BANKS

Between August and October 2011, we sent nine researchers undercover to get financial advice from 37 branches of high street banks and building societies across the UK. We also visited six independent financial advisers.

All our researchers were aged over 60 and posed as retired savers. They told advisers that they had a lump sum above the £85,000 FSCS deposit limit to re-invest that was just maturing from a one-year fixed-rate bond paying 2.5%.

They visited three branches each of The Co-operative/Britannia, HSBC and Lloyds TSB; and four branches each of Halifax, Nationwide, RBS/NatWest/Ulster Bank, Santander, Skipton Building Society, Yorkshire Building Society and Yorkshire/Clydesdale Bank.

To give good advice, advisers had to:

- disclose their status as tied advisers to the researcher and make it clear whose products they could recommend
- disclose coverage of the FSCS
- carry out a thorough fact find
- clearly establish the researcher's attitude to investment risk and recommend based on this
- discuss tax, in terms of the researcher's current tax status and the tax position of the product(s) that they were recommending
- fully explain the product(s) being recommended, including all of the risks
- explain all the fees and charges of the product(s) and how these might affect their recommendations.



Lloyds TSB



The Lloyds Banking Group (including Halifax) was the worst offender for talking about free advice without explaining that it's paid for via commission from product charges.

We found that none of the advisers explained the PIPs to our researchers, simply springing the plans on them in their final recommendations. This was poor practice – the plans carry early-exit penalties and an

element of life assurance that needed explaining in detail.

In one shoddy advice session, an adviser failed to carry out a fact-find, provide product brochures or talk about the FSCS, and didn't declare his status as a tied adviser. He didn't make a clear recommendation either. Two out of three advisers failed to provide a 'key facts' brochure – a regulatory requirement.



NatWest **RBS**
Ulster Bank



Our visits to banks in the RBS group were characterised by poor customer service. Despite each of our researchers booking an appointment specifically with a financial adviser, three of the four first met with customer advisers who were not qualified to talk about investments.

One of our elderly researchers had to wait for more than 75 minutes in the branch before

getting to see the right adviser. Another carried out two visits to a NatWest branch but did not receive a final recommendation.

A structured deposit called an Autopilot Bond, which pays interest linked to four stock markets, was recommended to two of our inexperienced investors, yet neither adviser mentioned early exit penalties or talked about their tax treatment.



Santander



One adviser offered great guidance, and talked about a long-term relationship and undertaking a 'financial journey' together. He was thorough in explaining product charges, with a unique and effective way of explaining risk and reward.

Sadly, though, none of our other visits could match this. One adviser gave misleading information about early access to a one-year fixed-rate bond, stating that the only way our

researcher could get his money out was 'if he died'. This adviser also started to recommend products before finding out the researcher's attitude to risk or even his age.

Another adviser gave unclear information about a structured investment product, stating that the FSA had given Santander special permission to invest more than 10% of a consumer's money in the product.



Yorkshire
BUILDING SOCIETY



Two advisers did not seem comfortable discussing taxation on investment products with our researchers. One didn't mention the impact of tax at all, while the other disclosed what a product might return before tax but not afterwards. Nevertheless, one adviser recommended putting 70% of our money into a complex tax-deferred investment bond. Credit Suisse 'structured deposits' were

recommended twice. Which? has been highly critical of these fixed-term products that tie up your money for up to six years, and pay a rate of interest linked to the stock market.

One adviser failed to even explain the inflation risk and potential early-exit penalties. Another adviser's recommendation was especially hard to decipher as it was scrawled on a brochure instead of formally written.

PHOTOGRAPH BY ALAMY



SKIPTON



Skipton's way of assessing its customers' attitude to risk was poor. The first question consisted of investors having to choose an investment based on four fictional lines representing the value of their money at different points in time. Advisers didn't provide much help in explaining what the graph meant.

The advisers were poor at explaining where our researchers' money would be invested

according to each of their recommendations. Although one adviser recommended more than £40,000 be invested across three different investment funds, he didn't tell the researcher what was in those funds. This adviser also said that he was choosing a particular fund as 'it's always been above the average,' even though past performance should not be used as a reliable guide for future investment.



Yorkshire Bank
Clydesdale Bank



Like Britannia, Yorkshire and Clydesdale Bank employ Axa as their investment advisers and, perhaps unsurprisingly, all three recommended investment bonds paying high commission.

Confusingly, one adviser stated that he would always recommend an investment bond over an investment fund, as they tend to perform better. However, in reality you invest in a fund within a bond that acts as a tax-deferred

'wrapper' for it. This adviser also said that advice was free, though his recommendation would have secured Axa a commission of more than £4,400.

An Axa adviser made a hash of explaining the 'Protector' funds he recommended. He advised our researcher to put 40% of her money in them even though she clearly stated she did not understand how they worked.

INDEPENDENT FINANCIAL ADVISERS



In addition to visiting banks and building societies, we also sent researchers to see six independent financial advisers (IFAs) around the UK and, generally, we were more impressed with the service that they provided.

CLEARLY INDEPENDENT

All the IFAs were completely upfront about their status as independent advisers (meaning they recommend products from the whole of market, rather than a limited number of companies as bank advisers would), and most explained exactly how they would be remunerated, either as an hourly fee, a percentage of the lump sum our researchers wanted to invest or through commission taken from product fees.

Five of the six advisers that we visited mentioned the FSCS – a sharp contrast to the 48% of bank and building society advisers who made no mention of the compensation scheme at all and, overall, four advisers gave suitable recommendations.

REDUCING RISK

After thoroughly assessing our researchers' attitudes to risk, three advisers decided that any investments that put their money at risk were not appropriate for them. Instead, they advised our researchers to keep their cash in savings accounts.

It wasn't all plain sailing with IFAs, though. Two failed our tests by incorrectly assessing the needs of our undercover researchers and, consequently, recommending products that were either too risky or unsuitable.

LACKING IN DETAIL

One IFA recommended two investment bonds to our researcher, totalling 80% of their money. Despite stating that he would be taking reduced commission, the adviser never revealed how much he'd be making from the bonds.

Another recommended a with-profits bond. These are complex and opaque investment products, and the IFA didn't explain how they work, are taxed or product charges.

EXPERT VIEW
WHO CAN YOU TRUST?



Now, more than ever, consumers need to get advice they can trust on what to do with their money. The unsettling conditions in the stock market and low interest rates have left many feeling that they have nowhere to turn.

But our research suggests that the high street isn't the best place to go. It's disappointing to see very little improvement in the quality of investment advice, especially after two large institutions were fined and reprimanded for their advice failings in 2011.

The recommendation of complex products, inappropriate assessment of needs and repeated failure to disclose consumer protection could have left much of our older researchers' nest eggs in products that far exceeded the risk they were willing, or able, to take.

CLARITY ON CHARGES

But it was the cloud of obfuscation around the cost of advice that was most disappointing. Getting advice in a bank and building society comes with a charge, yet many advisers continued to perpetuate the myth of free advice, meaning that customers were left unaware as to whether they were getting value for money or, indeed, the right recommendations for their needs and not just those that paid the biggest kickback.

We are reporting our findings to the Financial Services Authority and urging it to action where we have seen particularly poor practice. We will also be engaging with the banks and building societies to get them to improve their standards.

GO INDEPENDENT

If you are thinking about investing, it's vital that you seek fee-based independent financial advice. Not only will you be recommended products from the whole of the market, but advisers will be more upfront about the costs of their services. If you need help finding a good IFA, you can call our Money Helpline, open Monday-Friday 9am to 5pm, on 01992 822848.

GARETH SHAW

Which? investment expert
moneyeditor@which.co.uk