Investment strategy suited to the client

Topic: **Investment advice** Case number: **2017/07**

> The client, wishing to invest her savings, asked the bank to provide her with some investment proposals. Having identified the client's risk profile, the bank sent her some investment proposals which the client accepted. Shortly after however, the investments lost approximately 30% of their value. The client then insisted that the bank pay her half of the loss by way of compensation. After the Ombudsman's intervention, the bank declared its willingness to meet this request.

The client, who had saved 100,000 CHF, inquired with the bank about investment proposals, stating that she wished to invest her assets profitably. The bank and the client then completed a questionnaire together (investor profile) which revealed the client's risk capacity and appetite. Based on the information provided by the client, the bank considered her risk capacity to be "low to medium". It then sent the client some specific recommendations for investing her portfolio which, according to the bank's internal system, met the "balanced" investment objective. The client left it to the bank to invest her wealth in accordance with these recommendations.

Only a few months later, the client noticed that the investments had lost approximately 20% of their value. One year later, when the value of her portfolio was just 70,000 CHF, the client claimed compensation from the bank equivalent to half of the loss suffered up to that date. The client claimed that the investments proposed by the bank were too risky for her, that she only realised this after consulting an expert familiar with banking. During the consultations, she relied on the fact that the bank would only recommend investments suited to her risk profile.

In the response sent to the client, the bank rejected her claim. It explained that the investments were in keeping with the agreed investment strategy defined taking into account the risk profile. Furthermore, the client had herself expressed the desire to invest her assets profitably. According to the bank, the negative trend was explained in particular by falling commodity prices. With regard to currencies, the Swiss National Bank's decision to abolish the minimum rate against the euro resulted in huge foreign exchange losses. Finally, the client opted for a 10-year investment horizon and the fact that the investments could record a positive development in the longer term could not be ruled out.

Whether or not the investments suggested by the bank were appropriate for the client seemed debatable to the Ombudsman. In fact, on the bank's advice, the client invested 16% of her wealth in sometimes exotic currencies which, in the Ombudsman's opinion, were high risk. In addition, over 50% of the portfolio had been invested in "dynamic investments" such as structured products. In fact, according to the bank's documents, "dynamic investments" are "more risky bonds, equities and alternative investments". Moreover, some securities whose value fell represented approximately 20% of the portfolio, a fact that the Ombudsman considered problematic in terms of diversification. Finally, in her questionnaire, the client stated that she would need to change her lifestyle if she lost a third of her investments and that she would need the funds if, during the term of the investment, she had to bear a sudden sizeable expense. Taking account of these various elements therefore, the Ombudsman also doubted the appropriateness of a 10-year investment horizon. In addition, the client showed no evidence of being an experienced investor (in the questionnaire she acknowledged having "little knowledge" of the financial and stock markets) and would thus have had to rely on the bank's advice. The Ombudsman further felt that the fact that the client expressed the desire to invest her assets profitably was in no way significant and that the information provided for establishment of the risk profile was much more crucial. The Ombudsman also told the bank that when a client with little investment experience requests advice from a bank, it has an obligation to discuss the client's expectations and preferences and, if necessary, provide appropriate warning (for example if the profits expected are unrealistic given the investor profile).

In its initial position statement submitted to the Ombudsman, the bank, once again justifying its actions based on the investor profile and the investment strategy drafted based on that profile, refused to accommodate the client's request. It explained that the answers ticked on the questionnaire by the client had been analysed by the bank's system which produced a certain score. That score was compatible with the "balanced" investment objective, for which the bank had defined the possible investment categories and the maximum share for each of them. The client's assets had been invested in accordance with these internal specifications.

The Ombudsman was not convinced by this point of view however. In a new request sent to the bank, he questioned the suitability in this case of the result obtained by the system developed by the bank for determining the investment strategy to be adopted. After this second intervention by the Ombudsman, the bank finally declared its willingness to pay the client the full amount of compensation she was requesting.