

Investing

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During the Global Financial Crisis we received hundreds of investment-related complaints from bank customers. These arose because of the poor performance of the funds at that time. In some cases we found the funds had been misrepresented or the service provided to customers by investment advisers did not meet their legal obligations. However, we also noted complainants had often invested without understanding the products they had invested in or the level of risk involved. Many complainants also thought their money was safe or risk-free because their bank had recommended the investments.

No investment is without risk.

Generally speaking the higher the interest rate or return, the higher the risk.

Here are some factors to take into consideration if you are looking to invest based on the Banking Ombudsman's experience of resolving disputes. Your adviser's disclosure statement should also include information you need before investing. Note that the following also applies to KiwiSaver investments.

Be open with your financial adviser about your investment goals and attitudes

The better the financial adviser understands your investment timeframe, goals, and tolerance to risk, the better they will be able to provide you with advice.

Get financial advice in writing

Your financial adviser should provide their advice to you in writing and if they don't you should request it. All investment information should be easy for the lay person to understand.

Understand how your money will be invested

There are many investment products and it is important you understand where and how your money is invested and who is managing it. At the very least you should know:

- whether your money is invested in cash, fixed interest, property, shares or a combination
- whether your money is invested in managed funds or direct investments
- who the fund manager is
- whether your money is invested in New Zealand or overseas
- what industries your money is invested in or exposed to
- what the risks are.

You should also know how the investment earns a return. For example, with a term deposit you receive interest as payment for the use of your money. With shares you receive a share of the company's profits in

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dividends and share price growth. With property you receive rent and growth in the property value. Other investments are more complex, and can be riskier than they seem. If you don't understand where the returns come from, don't invest.

Understand the fees you will have to pay

You will probably have to pay some fees, but the amount varies between financial advisers. You need to be clear about whether:

- your adviser charges a fee to prepare an investment plan
- you have to pay a fee to implement the plan if you proceed
- there are any on-going fees.

Note that some advisers charge little or no fees because they are paid commissions from providers if they put your money in the providers' products. These products may not be the best products for your purposes. Other advisers charge no fees because they put your money in products provided by their employer, and the employer makes money from the fees it takes out of your returns. Again, the products may not necessarily be the best ones for you. Always ask an adviser to tell you in writing how they are being rewarded.

Make sure you know how long it can take to withdraw your funds

This may not seem important at the time you invest your funds, especially if you are saving for retirement. However, circumstances can change so it is important you know how to withdraw your funds and how long this may take. The time may vary from several days to more than a month. Some investments are locked in until a certain date.

Be clear about what on-going service you will receive

Service varies between financial advisers. Find out what on-going service you will receive, such as performance reports and portfolio reviews, and how frequent these will be. Also find out how else you can access information - for example, is it on the fund manager's website?

Make considered decisions - do not invest 'on the spot'

Deciding how to invest your money is important and should not be made in haste. Take your time, read the information you have been given including investment statements and the adviser's disclosure statement, and make sure you understand the advice and reasons for it. Do not be afraid to ask lots of questions.

If you are not an experienced investor, it may be helpful to have someone you trust who knows about investing look at the advice as well. It is your money and it is for you, not your financial adviser, to decide how you invest it.

Shop around and do your research on financial advisers

Different financial service providers offer different advisory services and recommend different investment products. The advice of one financial adviser may be significantly different from another's.

Types of financial adviser

Participants in the Banking Ombudsman Scheme employ two types of advisers who offer personalised investment advice. By law, both must act with care and skill when giving advice to clients:

- Qualifying Financial Entity (QFE) advisers can offer investment advice on simpler investment products (such as bank term deposits) and on more complex investment products offered by the entity they are employed by (such as securities). But they are unable to offer investment planning

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services. The entity they are employed by is registered and has been granted QFE status. It therefore takes responsibility for the conduct of its advisers

- Authorised Financial Advisers (AFAs) can offer advice on more complex investment products and may offer investment planning services

Most banks are QFEs and have QFE advisers. However, banks also employ AFAs. The [Financial Markets Authority \(FMA\) website](#) has a searchable list of AFAs and QFEs.

If something goes wrong, consumers can complain to the adviser's dispute resolution service, such as the Banking Ombudsman Scheme, which can help resolve individual complaints and obtain compensation, if appropriate.

The name of the dispute resolution service has to be given in the adviser's disclosure statement, and can also be searched on the Financial Service Providers Register (www.business.govt.nz/fsp).

Complaints can also be made to the FMA which has the power to take disciplinary action against advisers.

There are many other sources of information for consumers about investing.

Check the [Commission for Financial Literacy and Retirement Income website](#) and the FMA's for tips on [getting financial advice](#).

Many providers also have investing guide tools on their websites and individual research agencies such as [Fundsource](#) and [Morningstar](#) can provide independent verification of fund managers' performance.

Case note 1

In 2001, Mr N invested in a superannuation fund sold through the bank. Mr N made regular monthly contributions until January 2009, when he sold his units in the fund. He received around 3.5% less than the money he had put in.

Mr N alleged the bank had managed the fund incompetently and misled him by not informing him the super fund was high risk. He sought reimbursement for a year in which the fund performed poorly and his balance fell despite the contributions he made. The Banking Ombudsman did not consider Mr N had been misled. The superannuation fund investment statement contained clear warnings about the fact its value could fluctuate, and that an investor could receive less than they invested. Mr N had signed an acknowledgment that he was aware and understood this.

The Banking Ombudsman considered the superannuation fund sold to Mr N was appropriate for his risk profile, investment timeframe and stated needs. The Banking Ombudsman noted Mr N withdrew from the fund when market conditions were unfavourable, but the decline in unit price could not be attributed to the bank.

Case note 2

Mrs W was in her 80s and met with one of her bank's financial advisers to simplify her affairs. Her investment timeframe was less than three years, and she wanted a low risk, accessible investment that offered returns competitive with equivalent term deposits and to generate income to supplement her superannuation. She also wanted the bank to manage the investment.

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The bank's financial adviser recommended Mrs W consolidate her term deposits as they matured, and add the principal on maturity to a New Zealand-based low risk managed mortgage fund. For the next four months Mrs W invested a number of her matured term deposits in the mortgage trust.

Two years later, she discovered the rate of return she was receiving from it was 2% per annum. She complained to the bank she would have been better off retaining her term deposits. She sought the difference in returns received from the mortgage trust and what she would have received on term deposit.

We considered whether the mortgage trust was an appropriate product and concluded it broadly met her brief to the bank.

However, in our view, the mortgage trust was appropriate for only a 20% portion of her portfolio on the condition the mortgage trust was regularly monitored and part of an otherwise well diversified portfolio.

We considered the bank should not have recommended Mrs W put all of her money into the mortgage trust instead of term deposits because:

- term deposits are capital stable investments and Mrs W had no previous experience of investments where the value can fluctuate
- as a relatively unsophisticated investor she relied heavily on advice
- it did not appear the nature and additional risks were clearly explained
- Mrs W was sold the mortgage trust without any regular monitoring process, meaning she wouldn't know of any decline in its value and return until it impacted on her standard of living.

We recommended the bank compensate Mrs W for the difference she would have received from a 20 percent investment in the mortgage trust and what she had actually received.

Case note 3

Mr Q wanted to invest \$190,000 and earn \$12,000 per annum from it – a return of about 6.3%. The bank assessed Mr Q as having a moderate risk profile, prepared to take a little more risk than a conservative investor. The bank set up a portfolio for him, with a number of different investments managed by different fund managers.

Over five years, one particular fund's value declined sharply. Mr Q said he had been inappropriately advised to invest in that fund, and the problem was compounded by bank advice not to withdraw from it two years earlier. The bank denied both allegations.

We considered the bank's advice, and decided its investing recommendation for the fund was appropriate, taking into account his risk profile.

We also considered the bank's advice not to withdraw from the fund two years earlier and were satisfied the bank's review process was robust, and it had given appropriate advice based on information available.

Banks are not responsible for investment losses simply because a recommended investment's value declines. Whether an investment is appropriate for a certain customer will depend on the information available to a bank, and the customer's risk profile. A customer who knowingly assumes the risk of an investment cannot require the bank to guarantee the value of an investment.

Based on these factors we did not uphold Mr Q's complaint.

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Case note 4

Mr B had \$200,000 to invest. Because he was considering buying a property in the near future, he wanted to be able to access his money if necessary. He set up two 12-month term deposits for \$100,000 with different banks.

Before doing so, he asked staff at each bank about penalties for breaking term deposits early. Both told him he would receive a reduced interest rate, but no further penalty.

During the 12 month term, Mr B approached both banks about breaking his term deposits. He was satisfied with the sum he received from the first bank, but not from the second. He was also concerned about the latter's customer service and staff knowledge.

It advised him that it had applied a standard interest rate reduction as per the term deposit investment statement, with no further break penalty. It explained one reason he received a comparatively small sum was because he overpaid his tax. He could claim this back from IRD. The bank also said it would ensure relevant staff fully understood how term deposit breaks work. It offered \$150 compensation for inconvenience, but he did not accept.

We looked at how the bank applied the interest rate reduction and concluded it was correct. Mr B accepted the second bank had not done anything wrong, but still was concerned he received less from it. Mr B agreed to withdraw his complaint, but as a matter of principle declined the bank's compensation offer.

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