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The long and the short of the ETF industry

Aegon Scot Eq Int 'misled clients'

118 118 under attack

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£300k into three different banking institutions, including £90k with Kaupthing Singer and Friedlander paying 6.95% interest on funds.

The comprehensive term sheet, issued by ASEI just before the deposit was made, detailed the specific rates from their chosen partners, the terms of investment and withdrawal and comprehensive ratings agencies' assessments on each institution.

Information gap

ASEI had received terms from KSFIOM which stated: 'Repayment from Fixed Term Deposit Accounts will normally only be permitted at the date of maturity of the fixed term deposit. The bank reserves the right to permit repayments of the whole or part of the fixed term deposit. The bank reserves the right to permit repayment of the whole or part of the fixed term deposit prior to that date subject to the levying of a refunding change and/or such charges as it may deem appropriate.'

However, ASEI's summary of this information, as published to IFAs and their clients, reads: "Breakage penalties on fixed rate bonds are 90 days interest on amount withdrawn. (Please Note: 90 days interest penalty applies regardless of how long monies have been invested - i.e. if you close account after two weeks, you will receive back less than your initial investment)".

The client comments: "The rather fundamental point about repayment only being permitted at maturity (unless the bank at their discretion agree otherwise) was omitted."

"ASEI admits receiving the terms and conditions from KSFIOM and we have questioned them (ASEI) as to how it came about that an investment made on the understanding that breakage was permitted as of right, has been invested by ASEI on a basis which apparently allowed KSFIOM to avoid early breakage."

Rate sheet concerns

In correspondence with the client and his current adviser, ASEI said the information it circulated, known as the rate sheet, "could not have been thought to have covered all of the terms and conditions of any bank shown".

In response, the adviser says: "The rate sheet changed substantially two days after withdrawal was requested and we have concluded that they were probably unaware of their catastrophic misunderstanding of the terms until this happened."

His client adds: "ASEI is supposed to be a reputable company. It gets paid fees for running these offshore bonds and it is reasonable for its customers to assume it knows how to read and summarise simple terms and conditions accurately. It is disingenuous for it to suggest that its summary of the terms is anything other than wholly misleading. What has amazed me is its unwillingness to hold up its hands, admit its mistake and sort this out. What happened to treating its customers fairly?"

The IFA says he has advised clients in the past to invest on the basis of the ASEI rate sheet and knew of no other terms and conditions that should have been considered or referred to.

"Neither my clients nor I ever received any information that referred to the Banking Code after these accounts were opened. The only terms we both saw before and after the account was opened were on the rate sheet."

The client's previous IFA, who set up the bond originally, has also confirmed it knew of no reservation by KSFIOM enabling it to avoid early breakage of fixed term deposits if they so chose, and held no additional information regarding the terms being offered.

Advisers frustrated

The adviser currently dealing with the case has been canvassing opinion from other IFAs on the issue.

He said: "Everyone used the marketing data from ASEI as their sole source of diligence and no one was aware of any additional terms or had reason to suspect ASEI's information might be wrong."

"There is huge anger, worry and frustration at the way in which ASEI has cast them adrift."

"I have uncovered a couple more depositors via ASEI who were in the process of withdrawal prior to ASEI's collapse that have yet to receive funds."

"The former rate sheets were woefully inadequate in their disclaimers and data, some of which was wrong. Information on compensation was lacking and generally the approach from ASEI in providing info was slap dash."

Case to Ombudsman

The client and his current adviser have made a formal com-

plaint to the Irish Ombudsman, because ASEI is a Dublin-registered company, and are awaiting judgement.

A spokesman for ASEI says: As this customer has a complaint at adjudication stage with the Irish Ombudsman, we cannot comment on his specific case. However, like many other product providers with customers affected by the extraordinary circumstances surrounding the failure of Kaupthing Singer and Friedlander (Isle of Man), AEGON Scottish Equitable International is working hard to ensure the best interest of all our customers.

"We have legal representation at proceedings in the Isle of Man and we will continue to push for a fair resolution which will end the uncertainty of our customers who have deposits in the bank."

Professional Adviser is aware of the name of the client and his adviser but is not publishing these for confidentiality reasons, but they have both given their authority for the affair to be discussed.

Compensation delay

According to ASEI, 326 of its bond customers had deposits with Kaupthing Singer and Friedlander (Isle of Man) with total deposits around £54.5m.

Depositors in KSFIOM will face further delays in the lengthy process of getting their money returned after wrangling over the terms of the deal means a key decision on compensation has now been adjourned until April 9.

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In another, when asked if £3,000 savings should be put in an ISA, it replied: "The 118 team suggests that you put it into a personal savings account."

Answers were sometimes, but not always, pre-fixed with either 'Not financial advice' or 'Not legal advice', but Sheppard was again unimpressed. "I am not sure they can really get away with that", he says.

AIFA says 118 118 may have "over-stepped the mark" and calls on the FSA to take action.

"If any customer decided to act upon recommendations made by this directory enquiries provider, there would be no safety net for them to fall back on should anything go wrong," AIFA director general Chris Cummings says.

"118 118 appears to have entered into offering its customers a service which could be seen as regulated financial advice. Given that there is a clear potential for consumer detriment, [the] FSA needs to review this situation and take appropriate action."

William Ostrom, director of communications at The Number UK, says the newspaper advert was designed solely to "promote that you can get hold of a financial adviser through 118 118".

"We will not, in any event, set ourselves [up] as an alternative to professional financial advice," he says. "There are certain categories where we have to exercise some care; we get several hundred medical enquiries, for example, which we are clearly not qualified [to answer]."

"When it comes to financial advice, the operator will simply attempt to give some kind of indication of what direction to go in."

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