

The complaint

Mrs S complains, via her relative, that Santander UK Plc has not paid her interest at the correct rate on her savings account. She wants Santander to pay the interest shortfall that she should've been getting for all the years the accounts been open.

What happened

Mrs S said that Santander should be paying interest at 2.00% on her account but is only paying her 1.98% and the rate she gets is always less than what Santander has advertised. Mrs S brought her complaint directly to our service. We asked Santander to respond but it hadn't received a complaint from Mrs S. Santander said it received a request from Mrs S for a breakdown of the interest, which it responded to by letter of 22 February 2023.

Santander said Mrs S has held the savings account since February 2014 and has been sent monthly statements advising of interest earned and any updates to Terms and Conditions. Santander said it couldn't find any error that it had made and is defending the complaint.

Our investigator didn't recommend that the complaint be upheld as Santander hadn't done anything wrong. He said Santander explained the account pays 2% AER (Annual Equivalent Rate 1.98% gross) and shows what the interest rate would be if interest was paid on an annual basis and in paying monthly interest as with Mrs S's account.

The investigator said the interest is explained in the account terms and conditions and the Key Facts Document, which Mrs S had agreed to upon account opening. He said this shows that Santander will only pay interest on the balance up to £20,000 which is what Mrs S has been receiving. He said Santander has done what it should have.

Mrs S wasn't happy with this outcome to her complaint and requested an ombudsman review it. Her relative said the complaint involved his and Mrs S's accounts. He said he and Mrs S fully accept Santander's Terms and Conditions, but Santander doesn't understand that the AER on the account is 2%, whilst it has only paid 1.98%.

Mrs S's relative asked the Ombudsman to focus on Santander's statement that AER is 2% and his reasoning that if she is paid 1.98% every month for 12 months, she receives £396 per annum, taking into account there's no compounded interest. He said if the AER is correctly stated at 2% - the account should receive £400 in interest and so they are £4 short per annum. He said this goes back to 2012 when they first opened an account, hence they claim £500 compensation to cover time consuming communications and anxiety and stress.

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.

This complaint is only in Mrs S's name and so I can only consider issues relating to her account. We only require businesses to consider issues of up to six years before a complaint was made.

When considering this complaint the advertised rate for Mrs S's savings account is as described to her, namely 2.00% AER which equates to 1.98% gross monthly on balances up to £20,000. The account information states that account holders won't receive any interest

on balances above £20,000 and the interest is paid monthly at a rate of 2.00% AER/1.98% gross (variable).

I've seen Santander's internal records of the account Mrs S holds. These show that interest on savings up to £20,000 will be paid at 1.9819%. The Key Facts Document for the account was sent to Mrs S in February 2023. It states the cash back that can be earned, and sets the interest rate at 2.00% AER/1.98% gross (variable).

I have seen Santander's letter to Mrs S of 22 February 2023. It states that interest is calculated daily based upon the balance in her account as at the close of business each day. And Santander provided a breakdown of the interest that was paid to her account on 27 October 2022.

I can see that Mrs S's relative thinks the calculation of interest is inaccurate to the amount of £4 per year. But based on the account statements and information that I have seen, Santander are paying the correct interest rate on £20,000 in line with the accounts key facts.

It maybe that Mrs S's relative is unaware of why there is a difference in the rates that apply when interest is paid annually and when it is paid monthly as with Mrs S's savings account.

If interest is paid annually then the gross rate and AER should be the same, as there's no interest compounding. However, when interest is paid monthly, then the gross rate given is usually around 0.1% less than the AER rate. This is because if the monthly interest was left in the account, then there would be interest on the interest too. The AER makes sure this is included.

In my view the evidence shows Santander are paying the correct interest, in line with the Key Facts Document which Mrs S agreed to. It follows that it would be against the terms of the account and unfair to Santander to require it to pay more interest on the accounts.

As I haven't found anything to suggest that Santander has acted in error towards Mrs S's accounts there is no reason for me to award her any compensation.

My final decision

For the reasons I have given it is my final decision that the complaint is not upheld.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S to accept or reject my decision before 26 August 2024.

Andrew Fraser
Ombudsman