

## The complaint

Mrs F complains that Flagstone Group LTD, a cash deposit platform, caused her to lose interest on her savings account in line with interest rate increases.

## What happened

I set out the background to Mrs F's complaint within my provisional decision and here.

*'Mrs F opened a variable rate account with a Flagstone 'partner bank' (Bank 'A') on 24 August 2022 via Flagstone and the interest rate on her savings increased in line with Bank A's rates until January 2023. She said that since then Bank A continued to increase its interest rate (currently 4.0%) but her Flagstone version of the bank account has stayed at 3.2%.*

*Mrs F called Flagstone to ask why she could see higher rates directly on Bank A's website than she was receiving. Flagstone explained that interest rate changes are solely at the discretion of the partner banks, and they don't always choose to share these with third parties such as Flagstone. It said it has no control over this.*

*Mrs F said there's nothing in Bank A's or Flagstone's terms and conditions that mentions it is possible for this to occur and when she asked Flagstone it hasn't indicated any relevant term. Mrs F complained to Flagstone and said she expects it to pay the lost interest and compensation for her time and effort in trying to get Flagstone to do the right thing.*

*In its response to Mrs F, Flagstone said Bank A increased its interest rates for direct clients but not for clients investing via Flagstone. It said accounts are subject to change and the partner bank holds the sole authority to determine the interest rates. It said situations where the rates are higher when going to the partner bank directly are highly uncommon.*

*Mrs F disagreed that Bank A isn't obligated to pass on the rates to Flagstone's clients. She said the rate changed twice for direct clients, once on 30 January 2023 when the rate changed to 3.5%, and then on 28 March 2023 to 4%. Mrs F wasn't satisfied with Flagstone's response and referred her complaint to our service.*

*Our investigator didn't recommend the complaint be upheld. He looked at the terms and conditions; Section 6(j) states Flagstone 'make no guarantee to you as to the level of interest that may be realised by any Deposit Product or as to how such interest will be paid by a Platform Bank. The level of interest that may be earned on a Deposit Account will vary between different clients and Platform Bank...'. Section 10, 'Please note that it is your sole responsibility to monitor the interest rates being paid on Deposit Accounts that you hold.'*

*The investigator agreed with Mrs F that Flagstone's contract could've included an additional line to cover the risk she highlighted, but said that equally it doesn't say anywhere that the interest rates would not diverge from what direct clients would receive. He thought it wouldn't have made a material difference to Mrs F when she signed up to the account as she did so primarily because of what she understood about the interest rate movement. He added that all customers had received the same treatment and so Mrs F hadn't been treated unfairly.*

*Mrs F disagreed with the investigator and requested an ombudsman review her complaint. She said Flagstone's terms and conditions don't say that Bank A's interest rate can diverge*

*from what it offers to direct customers, but they do differ from Bank A's terms around the period a rate change takes effect and account switching.*

*Mrs F said she is solely interested in how she's been treated, and if a firm treats all its customers unfairly that isn't acceptable. Mrs F said, of course Flagstone couldn't guarantee Bank A would put up the rate, and she understood interest could vary between clients and the platform bank, but the term doesn't say the rates paid on identical products from the same partner bank could adversely diverge. She said that in order to be fair, this risk must be stated in the terms and conditions provided.*

### **What I've provisionally decided – and why**

*I can see Mrs F's frustration at discovering that interest rates diverged from Flagstone's account with Bank A and Bank A's rate to its direct clients. And she was then held to 180 days' notice to switch, whilst believing an unfair situation had occurred.*

*Flagstone is not a bank, but attracts investment income that it deposits through its platform with a range of banks and deposit accounts that it has arrangements with. Flagstone allows customers to move their deposits between its partner banks according to its terms and conditions and according to the interest rates and terms offered by the partner banks. I have looked at Flagstone's terms to see if it has treated Mrs F in accordance, and to see if it has treated her fairly.*

*Mrs F said she lost interest on her savings and spent considerable time trying to sort this out with Flagstone and Bank A. She said that Flagstone's terms and conditions don't make it clear that interest rate movements are at the discretion of the partner banks and said had she known this could happen, she would not have opened the account via Flagstone, and would have opened it directly with Bank A.*

*Mrs F realises that Flagstone can't guarantee the level of interest to be paid by a bank, but she said it's not clear from Flagstone's information that a divergence of interest rates could occur. The regulations governing financial businesses offering products or services require them to provide clear, open, and not misleading information.*

*The relevant term within Flagstone's conditions (Section 6(j)) goes on to say, 'The level of interest that may be earned on a Deposit Account will vary between different clients and Platform Bank...'. And so, I ask myself: does this provide a clear warning to Mrs F that the bank may increase interest rates for direct clients but not those using Flagstone?*

*I think this term deals with situations where the bank may treat its clients differently, but this isn't the same as saying that the bank may treat direct clients, and clients from Flagstone's platform differently. And so, I think there is a gap in the information to customers. There is some support for this view from Flagstone, who told Mrs F, 'We have noted your feedback regarding the clarity of interest rates and have shared it with our product team. They will carefully consider your input and incorporate it into future platform enhancements'.*

*However, Flagstone said that no compensation is warranted, 'as the situation of diverging interest rates aligns with the agreements established with our partner banks'. But as Mrs F has said, what are Flagstone's commercial agreements to her? She isn't party to them and can only be guided by Flagstone's terms and conditions of the contract and its promotional materials. And from my close reading of this material I haven't found anything that directs Mrs F to this risk in a clear and non-misleading way.*

*Flagstone says it maintains constant communication with its partner banks to secure the best possible rates for its valued clients. And on its website it says, 'Maximise your interest with exclusive rates'. I realise these statements aren't terms of the contract with clients, but they are an inducement to invest as they indicate that the best interest rate outcome is likely to be achieved – clearly this wasn't Mrs F's experience.*

*I have then asked myself; what difference if any would the correct information have made to Mrs F? The investigator didn't think it would have made a material difference to Mrs F when taking this product as primarily her decision was based on her understanding about the movement of interest rates on the account. Mrs F said she selected the account as she expected interest rates to move for direct and indirect clients. She said she has opened a number of accounts since then, but not via Flagstone as it wasn't offering a competitive rate.*

*I agree with Mrs F, as I think this information to be sufficiently key to the decision-making process of potential customers to require inclusion within the terms and conditions of the account. I understand from Flagstone that this situation is highly uncommon, but I don't think that's a good enough reason not to address it, particularly as it would require Flagstone to insert no more than a few sentences to set out the risk of diverging interest rates within the current terms and conditions. In other words, I don't think in this one incidence that Flagstone has been as clear and transparent in the information it provided Mrs F as there was a risk that interest rate increases wouldn't be passed on to her.*

*In conclusion, I can see that Mrs F was happy to take the risk that Bank A would not increase the rate on their product, but wasn't aware that this might be due to her being a client of Bank A via Flagstone. I think Flagstone should have included a warning to this effect within its terms and conditions to alert customers to the possible limitations of its arrangements with the banks on its platform. Not to do so was unfair to Mrs F as she has shown that she could and would be a direct client of a bank to avoid such a risk.'*

### **My provisional decision**

I provisionally decided to uphold the complaint. I intended to require Flagstone to pay Mrs F for the interest divergence from Bank A's rate to direct clients, to Flagstone's interest on Bank A's account with Mrs F. And for this to apply from the date that the increased rate of Bank A was passed on to direct clients but not to Mrs F, up to Flagstone's Final Response Letter of 30 May 2023. I also intended to require Flagstone to pay Mrs F compensation of £100 for the inconvenience it has caused her in not explaining the situation she faced adequately.

### **The parties' responses to the provisional decision**

Flagstone accepted the findings of the provisional decision. Flagstone said that in line with the recommendation it would make a payment to Mrs F totaling £262.09. This constitutes the compensation of £100, and the difference between the interest earned on Bank A's deposit via Flagstone, versus the amount Mrs F may have earned had she held a deposit directly with Bank A. Flagstone calculated this sum to be £162.09.

Mrs F did not give her acceptance. She expected Flagstone to make good the missing interest from the date Bank A increased its rates until her account matured on 2 July 2023 and then pay interest on that sum right up until this situation has been fully resolved (probably in October 2024). Mrs F said the time that we had spent investigating must be included in the calculation as Flagstone could and should have resolved this situation without recourse to our service. And so, she didn't agree that Flagstone's Final Response Letter of the 30 May 2023 should have any bearing on the interest payable.

Mrs F also said she had raised an £0.81 interest discrepancy on her Flagstone matured account which it decided '*had to be paid into a 180 day notice account*'. She said she will receive this money when the account matures on 19 August 2024. She said she is resigned to the fact that she will probably have to wait until October 2024 for the missing interest, subsequent to this final decision, some 15 months after the original account matured.

### **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.

From what I've seen there does not appear to be disagreement with the findings of my provisional decision, only Mrs F's disagreement with the proposed redress.

Mrs F thinks Flagstone should pay her interest from the date Bank A increased its rates until her account matured on 2 July 2023 and then pay interest on that sum right up until this situation has been fully resolved (which she thinks will probably be in October 2024).

We wouldn't award an interest rate increase on what might have been earned by an investment for the future, where consumers have the opportunity to alter their investments to achieve a higher rate.

The reason that I tied the interest rate redress to the date of Flagstone's Final Response Letter is because this is the point that Mrs F knew with certainty that Flagstone was not prepared to compensate her for the lesser interest rate she had been paid. And so it was at least by this point that I think she could have reconsidered her investment plans and, as she said in her submission, invested directly with Bank A or an alternative.

Mrs F said interest should also be paid by Flagstone for the time we have taken to investigate her complaint as Flagstone could have resolved her complaint without recourse to us.

Flagstone, in common with all regulated financial businesses, is entitled to have a complaint considered by our service rather than just upholding it on receipt. Businesses can have the issues examined and test the evidence and discover more about our thinking in response to the issues raised. I think Flagstone made some fair points and it was reasonable for it to allow us to consider the complaint. And so I disagree with Mrs F that Flagstone should pay interest for the period that we have considered the complaint.

Having reconsidered the issues involved in this complaint, I remain of the view as set out within my provisional decision that the complaint should be upheld, and interest and compensation paid as described.

Mrs F has raised an £0.81 interest discrepancy on her Flagstone matured account. This is not an issue that has previously been raised with us and so it is not one I can consider here. I think Mrs F will receive the compensation I have outlined if she accepts this decision within one month of her acceptance.

### **Putting things right**

I remain of the view that the increased interest should be paid by Flagstone up to the date of its Final Response Letter of 30 May 2023. I have no reason to doubt Flagstone's calculation of the interest payable at £162.09. I also remain of the view that it should pay Mrs F compensation of £100 for the inconvenience she has been put to in this situation.

### **My final decision**

For the reasons I have given here and in my provisional decision, it is my final decision that the complaint is upheld.

I require Flagstone Group LTD to pay Mrs F an amount equal to the interest divergence from Bank A's rate to direct clients to Flagstone's interest on Bank A's account with Mrs F, from the date that the increased rate of Bank A was passed on to direct clients but not to Mrs F, up to Flagstone's Final Response Letter to Mrs F of 30 May 2023. Flagstone has calculated this sum as £162.09.

I also require Flagstone Group LTD to pay Mrs F compensation of £100 for the inconvenience it has caused her in not explaining the situation she faced adequately.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs F to accept or reject my decision before 22 April 2024.

Andrew Fraser  
**Ombudsman**