DRN-5295516

The complaint

Mr M complains, via a representative, TSB Bank plc didn't provide the advertised interest rate of 4.5% on his fixed rate Individual Savings Account (ISA). Mr M also complains TSB deducted over £900 from his account without his agreement and failed to transfer all of the funds to his new ISA.

What happened

Mr M explained he had an ISA due to mature in May 2024. TSB wrote to Mr M in April explaining his options for his ISA. He contacted TSB to discuss the rate and agreed to take out a new fixed term ISA with TSB. TSB explained the new ISA was for a term of 18 months so the rate was 4.4% monthly, which worked out at 4.5% AER (Annual Equivalent Rate) on his investment, due to compound interest.

TSB wrote a final response letter to Mr M in September 2024. It said it had explained in its letter in April about how the rates worked and how interest was calculated over the 18 month fixed term period. It said Mr M had been provided with the correct advice during the phone calls he made TSB and had sent him his ISA certificate within the 45 days it was required to.

TSB explained how compound interest is calculated and why it had said the rate was 4.4% on the ISA certificate, explaining it was only able to give the monthly interest figures (4.4%), not the 18 month figure (4.5%) which Mr M would achieve over the lifecycle of the ISA. TSB highlighted this was all explained and available in the terms and conditions.

TSB said its terms and conditions explain there is an early withdrawal fee if customers transfer away during the term of the ISA, which is what happened here.

TSB apologised for not sending the entire funds to Mr M's new ISA provider on 22 July. Explaining there had been a system error and it sent the rest of the funds the following day. It offered £75 as an apology for this mistake and for the worry and upset it had caused Mr M.

Our investigator didn't think TSB needed to take any further action. They thought the rate advised and offered was the rate applied to Mr M's new ISA. They thought Mr M was liable for a withdrawal fee as he had decided to withdraw his funds from a fixed rate ISA. They also thought the £75 offered for the transfer mistake was fair and reasonable.

As Mr M disagreed with our investigator's recommendation, his complaint has been passed to me to make a final decision.

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.

I appreciate how strongly Mr M feels about his complaint. Although I may not mention every point raised, I have considered everything but limited my findings to the areas which impact the outcome of the case. No discourtesy is intended by this, it just reflects the informal nature of our service.

The issues for me to determine are whether Mr M was misled or misadvised regarding the ISA rate, whether TSB were correct in deducting the sum it did and whether TSB has done enough to correct the error it made when transferring his balance.

TSB has a duty to provide information that is clear, fair and not misleading (Principle 7 of the Financial Conduct Authority Handbook). The AER rate is an accepted industry standard so customers can more easily compare rates between accounts. It shows what a customer could earn over the course of a year taking into account compound interest (interest on interest earned during the period). It is therefore often slightly higher than the gross rate. In fixed rate ISAs, where funds are more likely to remain for the duration of the period agreed, it can often be an accurate measure of the interest that will actually be accrued over a year.

Having established this, I have read through the transcripts of the three calls and considered carefully the correspondence to determine whether I reasonably think Mr M may have been misled about the rate of his new ISA with TSB.

I can see TSB wrote to Mr M in mid-April advising his fixed rate ISA was due to end in May. TSB explained the three ISAs it could offer Mr M, the first being a rate of *'18 months 4.40% Tax Free/ 4.50% AER'.* Further on, towards the end of this letter, it explained what AER is; *'It shows what the interest rate would be if paid and added to the account once each year. It lets you compare savings accounts easily.'*

I have examined the transcripts of two calls between Mr M and TSB on 17 May. The relevant extracts are as follows*; '…it works out at 4.5[%] over the whole year because if it's an 18 month one it goes in each month, so each month is 4.4[%] but by the end of the year it ends up being 4.5%. So, it's 4.5[%], is the short answer.'*

Mr M was then passed to a second adviser to confirm the setup of this ISA. Mr M asked about one year ISAs but was told the options were 18 month or two or three years. The relevant conversation regarding the rates is as follows; *'so it will be 4.5[%] so just want to confirm you are happy for me to renew for another 18 months…'* to which Mr M responded *'yes'.*

I have also considered the investment certificate. This again shows the AER rate and explains what this is in the same terms as above.

I am therefore not persuaded Mr M has been misled or misadvised. I am satisfied from this evidence the description and details in the letter and calls was accurate and the rate quoted, 4.5% AER was what Mr M would have achieved had he kept his funds in the ISA.

Moving now on to Mr M's decision to move funds and the penalty, I have considered the letter sent to Mr M in April about the options after his ISA matured. Page 5 states; *'If you have a FRISA, [fixed rate ISA] you'll pay a charge if you take money out of your account after 14 days of opening. You can find details about this charge in the product conditions'.* Page 9 explains what the charge will be in a table, explaining*; 'If you take money out of your account more than 14 days after opening the account, you'll pay a charge. This includes transfers to another ISA with us or another provider'.* The relevant part for Mr M was *'18 Months'*, which showed the withdrawal charge would be the *'equivalent to 135 days' interest on the amount taken out or transferred'.*

Mr M transferred funds in late July, nearly two months after reinvesting with TSB in this ISA. I haven't seen any evidence Mr M contacted TSB to discuss this transfer or ask for advice. However, I have seen evidence TSB explained the penalties for early withdrawal or transfer. I therefore do not think TSB acted unfairly or unreasonably when deducting the sum it did, as this was stipulated in the agreement and made clear to Mr M in writing.

Finally, I agree that TSB should have transferred the whole sum. TSB has accepted it made a mistake, apologised and rectified this error quickly, which is what our service would expect in such circumstances. I can also see TSB offered compensation of £75 for the inconvenience this error caused Mr M. I am satisfied this is inline with what our service would award in such circumstances, so I do not think TSB needs to do anymore here.

I appreciate Mr M will be disappointed with my decision, but I trust I have explained why I can't find TSB acted unfairly or unreasonably in the circumstances.

My final decision

For the reasons I have given, my final decision is I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr M to accept or reject my decision before 13 March 2025.

Gareth Jones
Ombudsman