

## The complaint

Mr P complains that Yorkshire Building Society (YBS) is fraudulently advertising its Fixed Rate Individual Savings Accounts (ISA) by highlighting an Annual Equivalent Rate (AER), whilst admitting that it only pays simple interest over a period greater than one year. Mr P says YBS must give the AER that matches the interest it actually pays on its accounts.

## What happened

Mr P has a 1-year ISA account with YBS. He contacted YBS as he believes it isn't paying the correct interest on some of its accounts. He pointed out that YBS says simple interest is used rather than compound interest and its information about the interest it pays is incorrect.

YBS quote an AER of 4.45% in its 'Product Terms'. Mr P sent a correction to the calculation it uses; depositing £1,000 on a term of 1 year 46 days he advised its value of £50.11 corresponds to an AER of only 4.428211%, and said the interest should be £50.36. He gave his (compounded) calculation as:  $1000 \times 1.0445 \times (1 + 46/365 \times 0.0445) = 1,050.36$ .

YBS disagreed, saying its information about the interest it pays is correct, as is the example on its website, (which its savings team recalculated and provided to Mr P). YBS said it calculates interest as compound interest and it is earned from the day money is transferred into an account, not from the date of opening. YBS said its calculation of interest matches the Product Terms and complies with all relevant regulations for displaying interest rates.

YBS said the AER is a reflection of what the gross rate would be if it was compounded over the specified interest payment periods and enables accounts to be compared. It indicates the percentage of interest a customer will receive each year on their savings. It said the Gross Rate is what a customer would be paid and would accrue daily until the point it is capitalised. YBS said accrued interest does not get compounded.

Mr P described YBS's calculations as '*clearly a Simple Interest sum*' but said it won't rectify this even though the Product Terms confirm his understanding of how the interest should be calculated. Mr P wasn't satisfied with YBS's response and referred a complaint to our service. He said other issues he had raised with YBS were unconnected to his complaint.

Our investigator didn't recommend the complaint be upheld. He said YBS has shown it calculates daily interest and multiplies this by the number of days funds are in the account. He said Mr P thinks this should be compounded, but the product terms make no reference to this on a daily basis, or that interest would be paid annually. Rather, it says it's worked out daily and paid on maturity. The investigator said YBS is in line with its Product Terms and the regulations and presents this information in a way that's clear, fair and not misleading. Mr P disagreed with the investigator and requested an ombudsman review his complaint. He said the investigator and YBS show no understanding of the purpose of AERs which is to allow comparison of accounts. He said YBS pays 'Simple Interest' for a period over one year, never the stated AER. He said YBS justify this by stating it works out interest daily.

Mr P said YBS has never disputed his figure of 4.428211% as opposed to its advertised 4.45% as being the actual AER from the example in its Product Terms. He explained that all

accounts used the same methodology, which should be corrected by compounding the interest. Mr P said the Product Terms make no reference to the interest being compounded on a daily basis, or that the interest would be paid annually as suggested by the investigator.

Mr P said YBS hasn't shown the interest rate as a numerical figure. He said AER calculation is explained in an appendix to the regulation and YBS hasn't followed the methodology. He said the investigator's decision means a business could advertise an account with an AER but hide in the small print that interest is paid upon the maturity date. Mr P said other businesses state the AER and compound interest as required.

## 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.

Mr P says YBS is acting fraudulently in its advertisement of interest on its accounts and should state that the advertised AER is what the account might pay, not what it does pay. Mr P said YBS must quote the AER correctly according to the regulations. He has asked us to ignore issues regarding poor service from YBS.

In assessing whether YBS acted fairly, I've taken into account the relevant rules and guidelines, in particular the regulations set out by the Financial Conduct Authority (FCA) in its Handbook, along with good industry practice. The latter includes the banking industry Code of Conduct for the Advertising of Interest-bearing Accounts and Guidelines relating to AER calculations.

AER is used for savings and investment accounts to assist customers in making comparisons of interest rates. AER indicates the percentage of interest that customers can expect to receive each year for holding savings with their investment provider.

The relevant regulations are set out by the FCA in its Handbook (Banking: Conduct of Business Sourcebook, 4.1.1 and onwards). This explains that regulated firms should provide to customers information about accounts that is easily understandable so that customers can make decisions on an informed basis. Firms should show the rate of interest that applies to the savings account as a numerical figure (and not merely the method for determining the current figure under the terms and conditions).

I 've looked at YBS's information about its AER and can see that this has been set out numerically, as required. Mr P correctly states the importance of accuracy in the calculation of AER as the purpose is to allow meaningful comparison of savings accounts.

YBS advertises the ISA account to which Mr P referred as paying an AER of 4.45%. Mr P has a slightly different calculation and said YBS has calculated AER as if interest was paid and credited annually. He wants YBS to admit that it only pays 'Simple Interest' over a period greater than a year. He said without this the AER is not a reflection of what the gross rate would be if it was compounded annually over the specified interest payment period.

Mr P strongly believes that YBS should use compounded interest for its savings accounts, but from what I have seen this is not the case. The YBS fact sheet for the account states: 'Gross Interest Rate Per Year'. This doesn't refer to any periodic or annual compounding of the interest. If this were the approach adopted by YBS I would expect it to say so, and I would expect the AER would be much higher to reflect this. YBS has explained that because the interest is paid on maturity as per the Product Terms, Simple Interest is used.

I agree with the investigator that the AER is purely reflecting what the gross rate would be if it was compounded over the specified interest payment periods. For products which pay interest annually, the Annual Rate and AER should and would always be the same.

YBS has provided further explanation of the AER. It said that when monthly interest is calculated, this rate would be lower. The Gross rate of interest is what the customer gets paid. This would accrue daily until the point it was capitalised. YBS said that accrued interest does not get compounded. I have checked the calculation of AER that YBS has provided, and I agree that it is an accurate reflection of the interest it pays.

Mr P states that YBS is a long way short of the FCA's requirement to pay due regard to the information needs of its clients and communicate information to them in a way which is clear, fair and not misleading. I disagree, as I have found that the information YBS provides about its account including the AER is in accordance with the regulations and its Product Terms.

Mr P considers it a very serious issue that YBS has set its AER incorrectly, which applies across all its ISAs and bonds. But I agree with the investigator that there doesn't appear to be any error with the calculation of this account, and I've seen no evidence to suggest the interest on Mr P's accounts with YBS have been miscalculated. I consider that YBS pays the AER stated for its products.

Mr P has said he has also found other interest errors and asks whose responsibility it is to address this if not ours. Our service isn't a regulatory body or a court of law and doesn't operate as such. Instead, we are an informal, impartial dispute resolution service. The FCA, who Mr P has also contacted, is the regulator if financial businesses. The FCA provides the regulations that businesses must follow, including in respect of AER, and takes action when it decides theses have been breached. But it doesn't consider individual complaints.

Our service investigates the merits of complaints on an individual basis. And that is what I've done here. I think it's important to explain that my decision is final. I realise that Mr P will be disappointed by this outcome though I hope he appreciates the reasons why I've reached this outcome.

## 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 Mr P to accept or reject my decision before 25 March 2025.

Andrew Fraser Ombudsman