

The complaint

Mr M complains that he was misled by Paragon Bank PLC into transferring his funds, which were held in an ISA into an ordinary savings account.

What happened

In December 2024 Mr M sent a message to Paragon with a query about interest rates. Specifically that the interest rate for his ISA was 4.09% whilst Paragon's new customer rate for the same ISA was 4.25%. Paragon replied that the new interest rate was available to him and that he could move his triple access ISA into the new issue to receive the higher rate.

Mr M says that in reliance on this he transferred the funds in an ISA he held with Paragon into a new double access savings account. He says he didn't realise at the time that he was transferring the funds out of the tax free ISA wrapper. When he tried to transfer some funds in June 2024, he discovered this and complained to Paragon that he had been misled and had made a financial loss because the interest would now be taxed. In particular he received no warning message at the time of making the application about removing funds from an ISA.

Paragon upheld Mr M's complaint concerning its response to his message in December 2024, and the lack of a warning. In particular it said that it had not made it clear that the new interest rate applied to general savings accounts rather than ISAs. It paid Mr M £60 compensation for these two issues. But it couldn't reverse the transfer as it had been made in the previous tax year.

On referral to the Financial Ombudsman, our Investigator said that they didn't feel that Paragon had made an error or treated Mr M unfairly. They felt that it had paid a fair amount of compensation for the initial failure to provide correct information.

I issued a provisional decision. In it I upheld the complaint because of Mr M being misled by Paragon's letter advising him about the interest rates and the lack of a warning when transferring his money from an ISA into a savings account. I said that it should pay Mr M's estimated financial loss of £560 and a further £150 compensation for distress and inconvenience.

Mr M accepted my provisional decision.

Paragon didn't accept it. It said:

- It didn't agree that its response to Mr M's initial query was misleading. As at that point there was no way for it to identify that Mr M would open the wrong account.
- Mr M was provided with a secure message following the opening of his account which also clearly states the account which was opened which provides no indication the account opened was an ISA.
- After the account was opened and funds transferred it received no contact from Mr M

until June 2024.

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.

The following were my provisional findings:

"Firstly Paragon has pointed out that we've previously issued decisions where we've said that a warning, whilst beneficial, wasn't a requirement and that Paragon hadn't done anything wrong by not providing such a warning. Whilst previous decisions may be helpful, each case is decided on its own facts.

Mr M queried with Paragon why higher interest rates were being offered to new customers for the same product. In response Paragon confirmed that he could move the funds in his ISA to the new account. The new account was an ordinary savings account rather than an ISA, and the new interest rate didn't apply to ISA accounts. But Paragon didn't advise Mr M of this. And I do think that moving money out of an ISA wrapper is a foreseeable harm that businesses need to be alive to. I think Paragon's answer lacked important clarity so was, in my view, misleading.

So, unsurprisingly, Mr M relied on that information to carry out the transfer. I think it's unlikely he'd have done this without that assurance from Paragon. And whilst I agree that giving a warning isn't a requirement, I think Paragon must have been aware for quite a while that its customers had been confused about their position when moving funds out of an ISA. It does now provide that warning. And I've noted here that, in its final response letter, Paragon upheld Mr M's complaint about the failure to provide a warning.

I asked Paragon to provide the screenshots of the information provided to Mr M when he made his application. It's unable to provide the exact screenshot, but has provided a screenshot of an application and said that Mr M's ISA would have been asked to select the account he wanted to transfer funds from. I've seen no screenshots in respect of this application where it's specifically set out that the account he was transferring to was a non-ISA account.

Paragon has advised that Mr M would have been required to accept the terms and conditions before completing his application. There are two sets of terms and conditions, a general one applying to all savings accounts and one which applies to the double access savings account. Whilst noting that the latter document doesn't indicate that it is an ISA, again it's not altogether surprising if Mr M didn't notice this as he'd been specifically assured by Paragon that he could transfer his ISA into this account.

Overall I bear in mind that Mr M had asked for advice and been told that he could move his ISA into the account bearing the new interest rate. Further there was the lack of any warning and the lack of other information which might have alerted Mr M to the fact that he was removing funds from his ISA wrapper.

Regrettably I can't order Paragon to reverse the transfer. However I can award what Mr M estimates he has lost. Because of being taxed on the interest earned, he's estimated this amounts to £560. That seems like a reasonable sum to me in the circumstances, given the values in question. I think it's appropriate for Paragon to pay that sum and that it should pay further compensation in respect of Mr M's distress and inconvenience. I think a fair and reasonable sum for that is £150 (on top of the £60 already paid)."

Mr M's query in December 2023 was as follows:

"Please advise why my interest rate is 4.09 whilst your advertised new customer interest rate it's 4.25% for the same triple access cash ISA?"

As we know the new interest rate advertised only applied to savings accounts rather than ISA's, so Mr M must have misunderstood the position the outset. In which case it was Paragon's responsibility to correct that. However in response Paragon said:

"I can confirm that you are able to move your Triple Access ISA into the new issue to receive the higher rate."

So I think that was very clearly misleading Mr M as not only did it not correct his initial understanding, it compounded it by saying that that he would be able move his ISA into a new ISA with the new interest rate.

So it would appear that Paragon expected Mr M, if he went ahead to apply for a new account, to realise that he had been given the wrong information by Paragon. And I think that if his understanding was to be corrected the application process would have had to be very clear that he was opening an ordinary savings account rather than a new ISA.

As I said in my provisional findings I've seen very little evidence from Paragon of the screenshots that Mr M would have seen. So it is not clear to me what Mr M would have seen to tell him that he was transferring his savings from an ISA to a non ISA account.

When Mr M spoke to the adviser in June 2024 and discovered that he had not opened a new ISA they told him that a warning did appear about removing funds from an ISA when transferring money between accounts. But when Mr M applied there was no warning when funds were transferred out of an ISA into a *new* account. As I noted in my provisional findings I think Paragon had known about this issue for quite a while but had chosen not to correct it.

I accept that Mr M was sent a message when he opened his account with the account terms and conditions. And that if he'd checked those he might have seen that he hadn't opened a new ISA. And I appreciate that he didn't notice this for several months. But that is rather putting the onus on the customer to correct Paragon's errors.

In light of 1) the misleading advice at first, 2) the lack of evidence of the customer journey by way of screenshots and 3) the lack of a warning (which Paragon upheld Mr M's complaint about), I maintain my view that this complaint must be upheld. My provisional findings are now final and form part of this final decision.

Putting things right

Paragon should pay Mr M £560 compensation for financial losses and a further £150, on top of the £60 already paid, for Mr M's distress and inconvenience. This makes the total award of compensation for distress and inconvenience £210.

My final decision

I uphold the complaint and require Paragon Bank Plc to provide the remedy set out under "Putting things right" above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 7 April 2025.

Ray Lawley
Ombudsman