

# **Financial Ombudsman Service: Interest on compensation awards**

## **Consultation paper**

Launch date: 4 June 2025

Respond by: 2 July 2025

# Contents

## About us

## Interim Chief Ombudsman's foreword

## Introduction

- Background
- How the Financial Ombudsman Service applies interest on compensation awards
- Current position and why we are consulting

## Interest award options

- Options for interest rate on compensation awards
- Options for implementation
- Consultation questions

## Considerations

## Exceptions

## How to respond

## Next steps

## Annex 1: Initial equality impact assessment

# The Financial Ombudsman Service

## About us

The Financial Ombudsman Service was set up by Parliament under the Financial Services and Markets Act 2000 to resolve complaints between financial businesses and their customers. Taking into account the law, regulations and best practice at the time, our role is to make an independent and fair decision based on the facts.

Our service is free for consumers, and every year well over one million people contact us. We can look at complaints from individuals, small businesses and charities.

If we find a business has not treated a customer fairly, we have the power to put things right. Where we award compensation, the maximum amount we can require financial firms to pay depends on when the event happened and when the complaint was brought to us. The Financial Conduct Authority (FCA) sets our award limit and reviews it every year.

As we resolve complaints, we see the impact on people from every part of society. We regularly publish data on the complaints we handle, as well as our final decisions, and we share insights into trends to prevent further complaints arising and issues escalating.

By providing fair and timely resolutions to disputes, the Financial Ombudsman Service plays an essential role for complainants and businesses, and – as part of the wider ‘regulatory ecosystem’ – helps underpin confidence in financial services.

## Interim Chief Ombudsman's foreword

At the Financial Ombudsman Service, our mission is to resolve complaints fairly and impartially for our customers. To ensure fairness, it is important that consumers who have been disadvantaged are not only restored to their original position but are also adequately compensated for their loss.

For many years, we have applied a standard 8% interest on compensation awards. If we think a different interest rate should be used, we explain why. While applying the standard 8% interest has provided consistency and clarity, it is increasingly important to assess whether it continues to deliver fair outcomes in today's economic environment. We received feedback in the recent joint Financial Ombudsman Service/FCA Call for Input that suggested we should look at reviewing the interest rate and how we apply it.

We are committed to transparency and accountability. Therefore, we are consulting with consumers, firms and stakeholders who use and are affected by our service to assess whether our **proposed recommendation to transition to a new standard interest rate calculation that tracks the Bank of England base rate** achieves the appropriate balance between simplicity, fairness and proportionality.

Thank you for your engagement with this consultation. Your feedback will help shape a responsive approach to interest awards, reflecting both the principles of fairness and the realities of today's financial landscape.

James Dipple-Johnstone

**Interim Chief Ombudsman**

## Introduction

### Background

In November 2024, the Financial Ombudsman Service and the FCA launched a joint Call for Input (CFI). The CFI sought feedback from stakeholders on how both organisations should collaborate to improve their services and modernise the current redress framework effectively. The key objectives of the CFI were to:

- ensure consumers receive timely and effective redress
- encourage firms to identify and address harm early, reducing the need for Financial Ombudsman Service intervention
- collaborate with stakeholders to address issues promptly, preventing escalation and reducing the burden on the Financial Ombudsman Service and FSCS
- improve communication channels with stakeholders for faster identification of market-wide issues
- enhance cooperation between the FCA and Financial Ombudsman to provide consistent regulatory guidance, supporting investment and the UK's international competitiveness.

The CFI closed on 30 January 2025, receiving over 140 responses from firms, industry bodies, consumers, consumer groups and professional representatives.

Some firms and trade bodies raised concerns about the current redress framework's impact on competition and growth in the UK financial market, citing high costs, unpredictable outcomes, and the threat of mass redress events creating uncertainty for firms.

Many firms also expressed concerns about the current discretionary 8% interest rate on top of compensation awards, stating that it was excessively high. In addition, some respondents questioned the period over which interest is applied and argued that interest should not accrue during a pause in complaints. Suggestions from respondents to the CFI included adopting more flexible interest policies, setting rates that better reflect market conditions and applying them over shorter time frames, conducting regular rate reviews, and enhancing approaches to handling delayed claims by professional representatives.

On 17 March 2025, HM Treasury announced that the Economic Secretary to the Treasury would conduct a review of the Financial Ombudsman Service. This review is part of a broader initiative to modernise the UK's financial services regulatory sector. The goal is to review how well the Financial Ombudsman Service collaborates with the FCA and to ensure that the Financial Ombudsman continues to fulfil its role effectively as a simple, impartial dispute resolution service that addresses complaints swiftly and efficiently. Specifically, the review is also exploring current compensation practices.

In response to the CFI feedback and HM Treasury review of compensation practices, the Financial Ombudsman Service has decided to initiate a consultation on interest applied to compensation awards.

## How Financial Ombudsman Service applies interest to compensation awards

Currently, the Financial Ombudsman Service handles interest awards in three ways:

- i) **Interest as part of a money award:** Applied when a consumer, for example, overpays interest on a loan. The principle that the Financial Ombudsman follows is to return the complainant to their financial position prior to the issue, ensuring they recover their actual loss. (This generally reflects what the consumer actually paid). Changing this approach would mean the complainant is not fully compensated for the loss they have incurred. **Changing the approach to the money award is not considered as part of this consultation and the current approach will remain unchanged.**
- ii) **Pre-determination interest:** This is awarded on money that the complainant was deprived of before the determination of their complaint by the Financial Ombudsman. For example, if an insurer undervalues a claimant's written-off car by £1,000, the complainant would have been deprived of the £1,000. Discretionary interest at 8% simple is usually awarded from the date the £1,000 should have been paid until the date redress payment is made to the complainant by the respondent business. **This element of interest is included in the consultation.**
- iii) **Post-determination interest:** Applied if the respondent business fails to pay by the specified payment deadline, after the determination of the complaint. Firms can avoid this 8% simple interest element by paying awards on time. This part of the award encourages timely compliance. **This element of interest is included in the consultation.**

This consultation therefore focuses on the **pre- and post- determination interest**. It does not address any other awards an ombudsman may recommend when making a decision.

## Current position and why we are consulting

The Financial Ombudsman Service has historically considered the 8% interest rate to be fair, particularly in cases where determining the exact loss is difficult. In most awards, the interest component is relatively minor, making a fixed rate more efficient to apply than a tailored rate.

However, we recognise the importance of stakeholder feedback on this matter. As noted, stakeholders have suggested that the current rate might be too high or should be better aligned with changing market conditions. In response, the Financial Ombudsman Service has put forward recommendations and alternative options and is seeking feedback.

## Interest award options.

### 1. Options for interest rate on compensation awards

We propose the following options for how a simple interest rate could be calculated:

- A. **Fixed 8% rate** (no change). The standard interest rate remains fixed at its current rate.
- B. **Fixed at a lower rate**. The standard interest rate is still fixed, but at a rate less than 8%. We invite respondents who support this option to suggest suitable alternative rates and rationale for that fixed lower rate.
- C. **Tracker rate (average rate) plus 1% (Recommended option)**. The standard rate would be linked at 1% above the Bank of England base rate (where the base rate is calculated as an average rate over the period that the money was due until the date redress payment is made). We invite respondents who support this tracker option to suggest a view on the appropriateness of the 'plus 1%' element.
- D. **Tracker rate (prevailing rate) plus 1%**. The standard rate would be linked at 1% above the Bank of England base rate (where the base rate is calculated as the rate at the point of determination of the complaint). We invite respondents who support this tracker option to suggest a view on the appropriateness of the 'plus 1%' element.

### 2. Options for implementation

If the Financial Ombudsman Service makes a change to the existing rate, we will need to consider the transitional arrangements while the new award rate is implemented. There are four potential options we have explored. If you believe a change is necessary, please outline which you think would be most suitable and the rationale for why you favour this option.

- A. **Apply to all existing cases**. The new rate would be applied to all complaints upheld by the Financial Ombudsman Service from the date that the new rate is implemented.
- B. **Apply to complaints referred to the Financial Ombudsman Service from the date that the new rate is implemented (Recommended option)**. Apply the new rate to new complaints submitted to the Financial Ombudsman from the date that the new rate is implemented.
- C. **Apply to future acts/omissions**. Apply the new rate only where the act/omission complained about occurred after the date that the new rate is implemented.
- D. **Apply only to customer losses occurring after the implementation date**. Apply the new rate only to complainant losses which were incurred after the date that the new rate is implemented.

## Consultation questions

1. a. Of the options listed above, which do you think is most suitable for how the Financial Ombudsman Service should calculate interest on compensation awards?
- b. If you consider an alternative rate to the current rate to be preferable, why do you consider it to be fairer than the current approach?

2. a. If a new rate is chosen, how should it be implemented, taking into account the options presented?
- b. Do you envisage any potential operational challenges in implementing any of the proposed options?
- c. What steps will firms need to take to implement options?
3. Under what circumstances might it be appropriate for an ombudsman to ask a firm not to apply interest?
4. How often do you think the Financial Ombudsman Service's approach to interest on awards should be reviewed?

## Considerations

### Options for interest on compensation awards

**Rate Option A:** While **retaining the current 8% rate** would require no changes to respondent business' processes or systems, and be administratively simple to deliver, responses from the CFI indicated the perception that this rate runs the risk of overcompensating complainants, and is a rate that does not reflect market rates.

**Rate Option B:** Fixing the **rate at a lower percentage** would be straightforward to operationalise and address the concern that the current rate is too high, it risks only providing a short-term alignment to market/interest rate conditions. Future reviews would likely be required in this option as market conditions change, creating additional uncertainty for firms and customers.

**Rate Option C (Recommended option):** Introducing a **tracker rate that is linked to the Bank of England base (average) rate plus 1%** overcomes the challenges with alignment to market conditions. The +1% element acknowledges that borrowing rates for consumers track above base rate. The Commercial Courts also follow a base rate tracker approach. This option could respond to the perception that the current rate overcompensates some complainants while also permanently aligning the rate to a key driver of consumer borrowing costs. However, it will add some complexity for firms in calculating interest.

**Rate Option D:** Mirroring Option C but simpler for firms to calculate as it takes the **prevailing rate at the point of determination of the complaint**. However, not using an average of base rate over the complaint period is arguably less reflective of market conditions during the period of the complaint issue.

### Options for implementation

**Implementation Option A:** Applying the new rate to **all cases held by the Financial Ombudsman Service, from a specific implementation date, regardless of their position within the case journey**. This approach would retrospectively apply the new rate to customer costs incurred prior to the implementation date and be challenging to apply to existing cases at all stages of the case journey.

**Implementation Option B (Recommended option):** Applying the new rate only to **cases submitted to the Financial Ombudsman Service after a specific implementation date**. This would lead to both the new and old rate being applied to separate cases covering the same complainant period, with the only distinction between the point at which the case was submitted.



**Implementation Option C:** Applying the new rate **only to incidents occurring after a specific implementation date**. This approach would in practice significantly delay the application of the new rate, until the point at which future incidents are considered and upheld by the Financial Ombudsman Service.

**Implementation Option D:** Applying the new rate **only to those customer losses experienced after the specific implementation date**. This approach would require additional calculations, with two rates being applied to single cases in which the complaint period spans the implementation date. However, it would maintain consistency with our current rate, up until the implementation date with the new rate applying immediately, post implementation.

## Exceptions

This consultation focuses on the standard rate on compensation awards that we would intend to apply.

In exceptional circumstances an ombudsman may decide to deviate from this standard rate. For instance, they might choose not to award any interest for a certain period to reflect unreasonable conduct that caused delays during the investigation. When applying any exception, the ombudsman must clearly explain the reasons for departing from the standard rate. Question three asks in what circumstances might it be appropriate for an ombudsman to ask a firm not to apply interest.

## How to respond

We invite our stakeholders to provide feedback on our proposals before the consultation window closes on 2 July 2025. All comments will be taken into consideration to help shape our decision making. We will communicate the decisions made on our proposals in a feedback statement.

Please email your response and any questions about this consultation to **[consultations@financial-ombudsman.org.uk](mailto:consultations@financial-ombudsman.org.uk)**.

We will publish a list of respondents and a summary of responses. If there is a reason why your name should not be published, please let us know. We will not automatically accept a standard email disclaimer. Our legal responsibilities around freedom of information mean we cannot guarantee responses can be kept confidential. You can find provisions on our consultations in the following privacy notice at: [financial-ombudsman.org.uk/privacy-policy](https://financial-ombudsman.org.uk/privacy-policy).

## Next steps

- We welcome feedback on these proposals by 2 July 2025.
- We will consider feedback and aim to publish a Policy Statement in September 2025.
- Implementation of the selected option will depend on the outcome of question two, but we would look to implement any change as soon as possible

## Annex 1: Initial equality impact assessment

We are required under the Equality Act 2010 in exercising our functions to ‘have due regard’ to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act; advance equality of opportunity between persons who share a relevant protected characteristic and those who do not; and foster good relations between people who share a protected characteristic and those who do not. Protected characteristics include age, gender, disability, race or ethnicity, pregnancy and maternity, religion, sexual orientation and gender reassignment.

As part of this, we ensure the equality and diversity implications of new policy proposals are considered. This annex sets out the results of our initial assessment, explaining the potential impact of our proposals on protected groups where we have identified them and where relevant the steps we could take to minimise these impacts.

### Scope of the assessment

This equality impact assessment is an initial assessment of the options in scope of a consultation on changes to the way in which the default pre- and post- determination interest rates are calculated by the Financial Ombudsman Service. The assessment is concerned with how a change and different approach might impact those Financial Ombudsman Service customers with a protected characteristic.

The assessment considers two questions – how alternative options for calculating the rates treat those customers with a protected characteristic (‘direct impacts’), and whether alternative options for calculating the rate puts customers with a protected characteristic at an unfair disadvantage (‘indirect impacts’).

The assessment is concerned with the potential equality impacts of these alternative approaches and does not evaluate the existing policy. As an initial assessment conducted in advance of public consultation, this assessment is necessarily indicative and discursive. It makes a set of propositions on the potential impacts of each option, drawing on data where available. A detailed equality impact assessment of the agreed policy on calculating the interest rate will be conducted and published alongside the final policy statement.

### Summary

Our initial assessment has found that the alternative policy options would not result in direct discrimination for any groups with protected characteristics. This is because the alternative policies under consideration would be applied uniformly to all cases. Each customer would have the same policy applied, regardless of whether they had a protected characteristic.

The initial assessment has identified the potential for indirect discrimination to result from changes to the interest rate. The potential risks have been identified by considering the degree to which there is a relationship between financial vulnerability and protected characteristics. Increased financial vulnerability may mean that complainants were more likely to have relied on higher cost forms of credit when deprived of funds. As such, the use of reduced rates may increase the likelihood that compensation awarded did not accurately reflect the cost to that complainant of being deprived of funds. However, the current standard rate may also not reflect the actual cost incurred. As part of an ombudsman’s consideration of a complaint, the complainant has the opportunity to demonstrate and evidence if they incurred a material loss as a result of being deprived on their money, which the ombudsman can reflect in any monetary award.

## Data and limitations

The Financial Ombudsman Service does not routinely collate data on protected characteristics as part of the complainant journey. Date and birth and title/pronoun are collected for each complainant, but ethnicity, disability, gender reassignment, marital status, pregnancy/parental leave status, religion/beliefs and sexual orientation are not collected. This limits the Financial Ombudsman Service's ability to assess and be certain of the impact that different approaches to calculating the rates would have on sub-groups within the customer base.

This assessment has therefore drawn on sources capturing the demographic characteristics of those using financial services in general and used these to make assumptions about the potential impact of changes to the rate for different customers. That does assume that the proportional representation of the protected characteristics within customers in financial services in general is replicated in the Financial Ombudsman Service customer base, which is unlikely to be the case. The data source used to support this approach is the Financial Lives May 2024 Survey.

## Initial assessment

### Option B – Fixed (at a reduced rate)

This initial assessment finds that Option B would have no direct impacts on those customers with protected characteristics as the rate would be uniformly applied to all cases.

However, this option may risk indirectly impacting those customers with protected characteristics. But this is only true if those customers with protected characteristics are more likely to be financially vulnerable, and therefore more likely to have to access higher cost form of credit in response to being deprived of funds. As such lower fixed rates would be less likely to adequately compensate them for the costs incurred as a result of being deprived of the funds. For example, the FCA's 2024 Financial Lives Survey found:

- a. Age – 18% of 18-24 and 25-34 age groups have low financial resilience. This rate steadily falls as age increases, to 9% for the 75+ age group.
- b. Sex – 12% of the male group of respondents have low financial resilience, compared to 16% amongst female respondents.
- c. Ethnicity – 16% of minority ethnic respondents to the FLS have low financial resilience, compared to 14% low financial resilience for non-minority ethnic respondents.
- d. Parental status – 39% of 'single with dependent children' and 14% of 'in a couple with dependent children' have low financial resilience. This compares to 18% of respondents in the 'single with no dependent children' group and 8% of 'in a couple with no dependent children' group.

### Option C and Option D – Tracker

As with Option B, these options would be applied uniformly to all customers and so there would be no direct discriminatory impact on those customers with protected characteristics. However, similar risks exist as Option B. If this option resulted in a consistently lower rate being applied to upheld complaints, this could result in those customers with higher financial vulnerability being at greater risk of under-compensation. This would be true if those with higher levels of financial vulnerability were more likely to rely on high-cost credit following the deprivation of funds due to the incident.

## **Mitigation**

Mitigating the potential indirect impacts of Options B, C and D depends on effectively targeting the case handling support provided by the Financial Ombudsman Service and making monetary awards to account for material loss as a result of being deprived of money where this is justified and evidenced. Where case handlers identify complainants who have incurred costs, case handler resource could be focused to support the complainant compiling the documentation required to evidence actual costs incurred. This would allow the Financial Ombudsman Service to justify an alternative rate and reduce the likelihood that those claimants are inadequately compensated.