

# **Interest on compensation awards**

## **Policy statement**

**(including summary of consultation responses)**

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# The Financial Ombudsman Service

## About us

The Financial Ombudsman Service was set up by Parliament under the Financial Services and Markets Act 2000 (“FSMA 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.

Cases are referred by a range of people, including consumers, small businesses, small charities and trusts, beneficiaries of trusts or insurance policies, people being chased for debt under a regulated credit agreement – and many more who fall within the eligibility requirements in [DISP 2.7](#) of the Handbook of the Financial Conduct Authority (‘FCA’).

We share the insight we gain from resolving thousands of disputes a year to improve outcomes for everyone affected by financial services products. 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. Our final decisions are legally binding if accepted by the complainant. If not accepted, a complainant remains free to pursue the dispute through court action.

Our independent and impartial service is free for complainants to use.

## 1. Overview

This policy statement sets out the Financial Ombudsman Service's revised position on interest applied to compensation awards. It follows comprehensive engagement with stakeholders and a consultation process that closed on 2 July 2025.

Historically, the Financial Ombudsman Service has applied a standard 8% simple interest rate to compensation awards. This rate was initially introduced as a fair approximation for redress in cases where calculating precise financial loss was challenging, providing consistency and administrative simplicity. However, economic conditions have changed significantly, making a review necessary.

Through our recent joint Call for Input with the Financial Conduct Authority, we received valuable feedback indicating that the 8% interest rate may no longer reflect prevailing market conditions and could potentially lead to overcompensation in some instances. Stakeholders highlighted the need for a more transparent and adaptive methodology that aligns more closely with actual consumer losses and broader redress principles.

In response, this statement outlines our new approach to interest on compensation awards. It includes a summary of the responses that we received during the consultation, our consideration of this input, our final decision on an appropriate interest rate, the rationale for our decision, and the implementation approach to ensure fairness, proportionality and operational feasibility. In addition, we set out how we will establish a regular review process to ensure the interest rate remains appropriate over time.

In summary:

- Consumers who are able to demonstrate an actual loss from their complaint will not be impacted by the changes in this policy statement. **Actual losses will be considered in the primary compensation award** (the money award), ensuring the complainant is restored to their original financial position
- To compensate consumers for being deprived of their money, we will continue to apply interest to compensation awards. However, **we will change the interest rate to a time-weighted average of the Bank of England base rate plus one percentage point. This new rate will generally apply to the period from when the complainant was unreasonably deprived of the money, to the payment deadline date set by the Financial Ombudsman Service for paying compensation to the complainant (the "pre-determination period")**. This interest will be applied on a simple basis. We believe this rate to be a fair reflection of economic conditions and realities and strikes a fair balance between consumers and firms by acknowledging real lending rates while avoiding the risks of over-compensation
- To encourage timely compliance with Financial Ombudsman Service decisions and prompt payment of compensation to complainants, the 8% interest rate will be retained for late payment of awards. **Respondent businesses will be expected to apply a fixed 8% interest rate to the period from the deadline date set by the Financial Ombudsman Service for paying compensation to the complainant, to the actual date the compensation payment is made to the complainant (the "post-determination period")**. This interest will also be applied on a simple basis. Respondent businesses can avoid this element of interest by paying compensation on time
- **We aim to implement these changes from 1 January 2026, for all complaints submitted to the Financial Ombudsman Service from that date onwards.** However, we will confirm this implementation date in due course. We will also provide

detailed guidance, case studies and calculations to stakeholders before the confirmed implementation date.

## 2. Background

In November 2024, the Financial Ombudsman Service and the Financial Conduct Authority (FCA) jointly launched a Call for Input to gather views from stakeholders to better understand:

- How the current redress framework could be modernised
- The problems that mass redress events and the redress scheme in general cause firms, consumers and their representatives
- What changes we could make to the redress framework to enable us to better identify and manage mass redress events to ensure better outcomes for consumers, firms and the market
- What changes could be made to how we work together to ensure our views on regulatory requirements are consistent.

The Call for Input closed on 30 January 2025, receiving over 140 responses from a broad range of stakeholders, including consumer groups, individual consumers, firms, industry bodies and professional representatives.

Several respondents noted the potential to modernise the framework. Others expressed concerns regarding the effects of the current redress framework on competition and growth, citing factors including high costs, unpredictability, and the possibility of large-scale redress events.

A recurring theme in the Call for Input responses was on the discretionary 8% interest rate applied to compensation. Several respondents noted that the current interest rate may no longer reflect prevailing economic conditions, could result in overcompensation in some cases, and that it is not fully aligned with market rates or interest rates used in other redress or legal contexts. Additional points were made regarding the period over which interest is applied, particularly when complaints are paused. Some suggestions from respondents to the Call for Input included adopting a more flexible, market-linked approach, reducing the interest period, and reviewing the rate at regular intervals.

In March 2025, the government announced a review of the Financial Ombudsman Service as part of a broader initiative to modernise the UK's financial services regulation. This review includes an examination of compensation practices and how the Financial Ombudsman Service collaborates with the FCA.

In light of the feedback received through the Call for Input, the Financial Ombudsman Service decided to launch a formal consultation specifically on interest applied to compensation, alongside extensive engagement with stakeholders. The consultation opened on 4 June 2025 and closed on 2 July 2025. A summary of responses to the consultation is set out in **3. Responses to our consultation**.

### Current approach to applying interest

One of the ways the Financial Ombudsman Service applies interest to compensation awards is where a complainant has been unfairly deprived of their money. Applying interest in this way ensures that consumers are not left worse off simply because they did not have access to money they were owed.

Interest may be awarded in the following ways:

- **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. This element was not included in the consultation.
- **Pre-determination interest:** This is awarded on top of the money award and is to compensate consumers for being “deprived” of money - that is, not having it available to use. The pre-determination element covers the period before the compensation payment is made. 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 a default rate of 8% (simple) is usually awarded from the date the £1,000 should have been paid until the date we specify that compensation is made to the complainant by the respondent business. This element of interest was considered in the consultation.
- **Post-determination interest:** Applied (also at a default rate of 8% simple) if the respondent business fails to pay by the specified payment deadline - usually 28 days after the determination of the complaint. Firms can avoid this element by paying compensation on time. This element of interest was also considered in the consultation.

### 3. Responses to our consultation

The consultation on interest on compensation took place from 4 June 2025 to 2 July 2025, covering both pre-determination and post-determination interest, alongside extensive stakeholder engagement.

The Financial Ombudsman Service presented several potential options for a default simple interest rate. In summary, the rates presented were:

- A. Fixed 8% rate (no change the current rate)
- B. Fixed at a lower rate
- C. Tracker rate (average Bank of England base rate) plus 1%
- D. Tracker rate (prevailing Bank of England base rate) plus 1%.

The consultation also set out the following potential approaches for implementing a new interest rate, should a change be adopted. The approaches presented were:

- A. Apply a new interest rate to all existing Financial Ombudsman Service cases from the date that the new rate is implemented
- B. Apply a new interest rate to complaints referred to the Financial Ombudsman Service from the date that the new rate is implemented
- C. Apply to future acts / omissions
- D. Apply only to customer losses occurring after the implementation date.

We received 78 responses to the consultation, which included:

- 40 firms (including insurers, payments firms, retail banking firms, retail investment firms and retail lending firms)
- 11 Financial Services trade associations
- 8 consumer groups
- 7 individuals and consumers
- 5 consultants (including a software provider)
- 7 professional representatives and their trade bodies

We specifically asked the following four questions in relation to the above options:

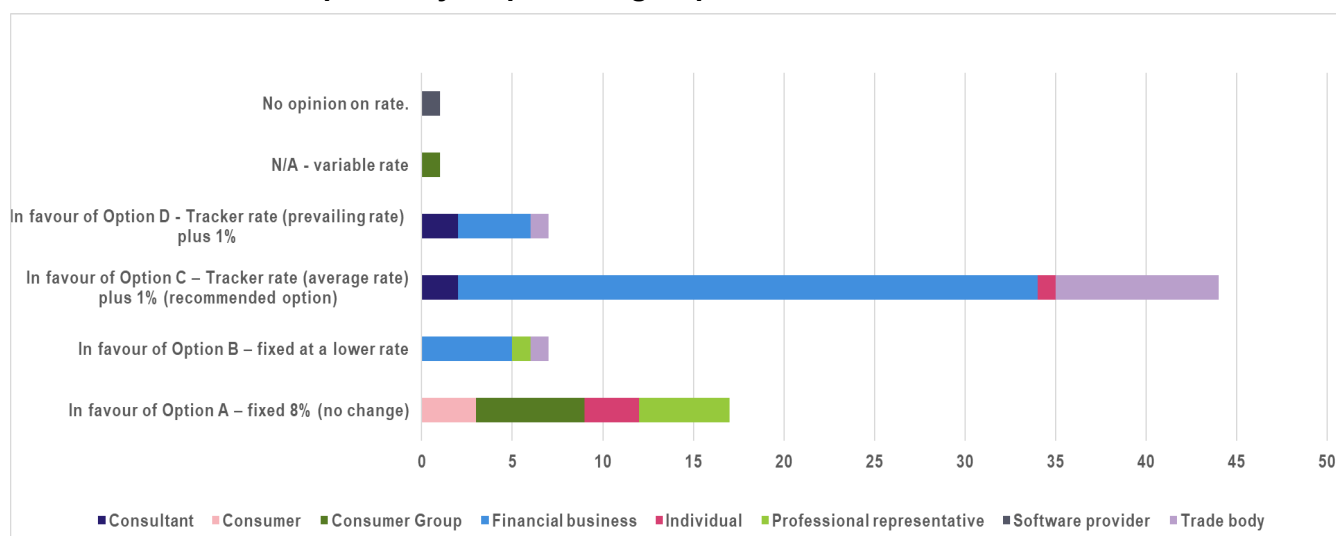
1. a) Of the options listed above, which do you think is most suitable for how the Financial Ombudsman Service should calculate interest on compensation awards?  
b) If you consider an alternative rate to the current rate to be preferable, why do you consider it to be fairer than the current approach?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



## Responses to question 1: Interest rate options

Chart 1 below provides an overview of stakeholder responses to the various interest rate options that we proposed in the consultation.

**Chart 1: Interest rate options by respondent group**



There was a significant preference for Option C: Tracker rate (average rate) plus 1%, which was our initial recommended option. This option gained strong support from financial businesses and trade bodies, but no support from consumer groups. It was seen as the fairest and most proportionate option by those who favoured it, stating that the rate better reflects actual economic conditions and cost to consumers. Supporters of this option also acknowledged that any operational complexity should be manageable, with appropriate Financial Ombudsman Service support. Many financial businesses suggested that the Financial Ombudsman Service should provide an industry-wide ‘interest calculator’ and clear guidance to help firms calculate interest accurately and consistently if this rate was chosen.

While some respondents questioned the rationale for adding the 1% (percentage point) to the average, others viewed it as a reasonable enhancement. However, it was felt that the Financial Ombudsman Service needed to give more information on how the ‘average’ would be calculated, taking into account questions around weightings and multiple rate changes. Even among those who favoured this option, there were questions around why the base rate was chosen, suggesting other tracker options, for example, using the average instant access savings rate instead of base rate.

Some respondents who did not support this option stated the one percentage point increase was insufficient. As an alternative, they proposed a three percentage point uplift to better reflect commercial borrowing rates and to compensate for the absence of compounding interest.

Conversely, Option A (fixed 8% - no change) was the preferred choice primarily among consumers, consumer groups and professional representatives. These respondents valued the simplicity and predictability of a fixed rate, its alignment with post-judgement court-awarded interest, and its role as a deterrent to poor conduct. Some noted that a consumer should not be disadvantaged by choosing to bring their complaint to the Financial Ombudsman Service rather than the courts, and that the relatively high 8% rate compensates for the lack of compounding and long delays in complaint resolution. They argued changing this rate could disproportionately affect low-income households.

One consumer group emphasised that if the rate were to change, then the Financial Ombudsman Service should consider applying it on a compound, rather than simple, basis. Some respondents also warned that lowering the rate from 8% could reduce incentives for firms to resolve complaints promptly or provide awards in a timely fashion. Many argued that if Financial Ombudsman Service were to change the rate it must clearly justify any proposed change and highlight the importance of maintaining strong consumer protections.

Respondents from firms were broadly critical of Option A stating that they considered it outdated and unfair, leading to overcompensation and windfalls, and that it is misaligned with modern redress frameworks.

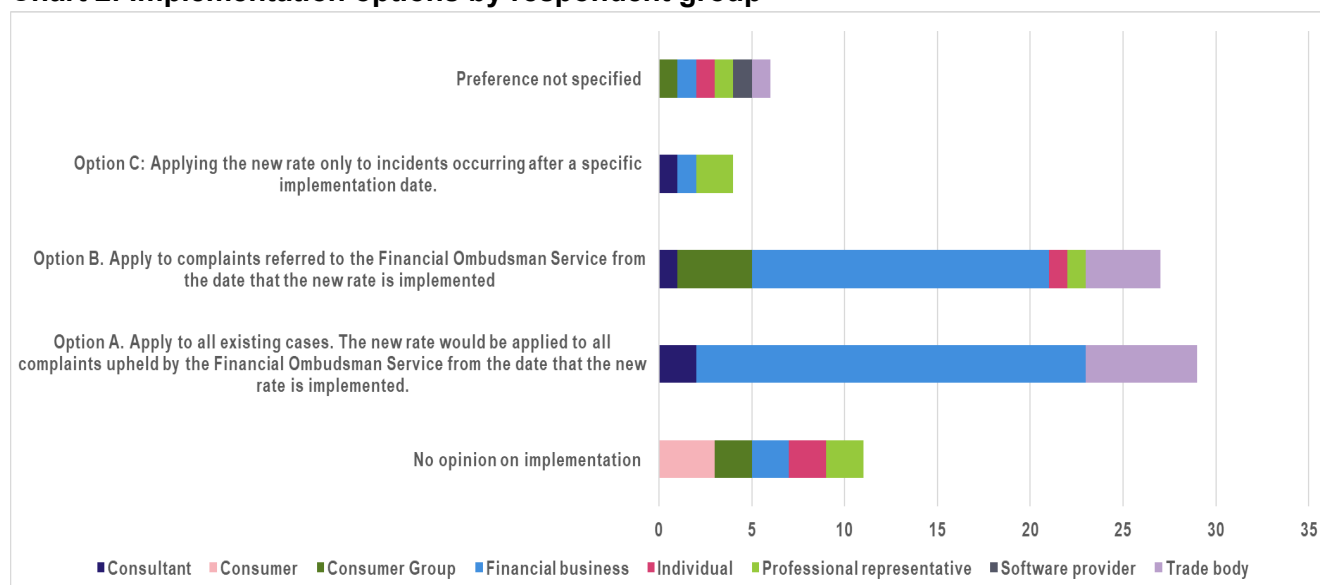
There was comparatively limited support for Options B (lower fixed rate) and D (base rate tracker – prevailing rate). Option B, however, received some endorsement from larger firms, who favoured its simplicity and ease of implementation. They suggested rates generally in the 4-5% range, noting this level better reflected market conditions. In addition, Option B was considered more straightforward for consumers to understand and less susceptible to calculation errors, though some noted it would require regular review to remain fair.

Option D was selected by a limited number of respondents, including consultants and financial businesses. While some respondents appreciated its real-time alignment, others raised concerns about volatility and fairness, particularly if interest rates fluctuate significantly during the period since the act or omission complained of.

## Responses to question 2: Implementation options

Chart 2 below summarises stakeholder views on the potential approaches for implementing a change to the interest rate. Implementation preferences were more varied.

**Chart 2: Implementation options by respondent group**



The preferred implementation approach by a small majority of respondents was Option A (applying a new rate to all existing Financial Ombudsman Service cases from a future implementation date). This option received support from several financial businesses and trade bodies (the largest respondents to the consultation), who highlighted considerations such as fairness, consistency, managing the volume of complaints before implementation, and ensuring uniform treatment for all cases. They also observed that applying the new rate universally would streamline implementation and prevent the need for dual rate systems. Some respondents indicated that, should the Financial Ombudsman Service select this

option, it should set a clear implementation date and if firms were not able to apply the new rate by that time, they should continue using the 8% simple rate. Many respondents from firms also emphasised the importance of implementing the new rate as soon as possible.

Option B (applying a new rate only to complaints *referred* to the Financial Ombudsman Service after an implementation date) was supported by slightly fewer respondents than Option A, but received backing from a more diverse range of stakeholders, including consumer groups, trade bodies and some financial businesses. Many believed it would offer greater clarity and fairness in relation to existing cases. They also noted that it would be relatively simple to implement, subject to allowing time for necessary operational adjustments such as updating internal policies and staff training. However, many also acknowledged the risk of a spike in complaints aimed at 'beating the rate change' and some complexity with dual rates running at the same time. Interest calculators and clear guidance were noted as essential for successful implementation.

Option C gained minimal support, mainly from professional representatives citing that the option avoids retrospective harm and aligns with the FCA's standard approach to changes in award limits. No respondent supported Option D, and many respondents did not offer a view on, or respond to, this question, especially if they chose to maintain the 8% simple rate in response to the first question.

### **Responses to question 3: When interest may not apply**

Respondents across groups identified several circumstances where interest should not be applied to compensation awards, often focusing on issues of fairness and accountability.

Financial services businesses and their trade associations highlighted a broad range of scenarios, including when the complainant or their representative caused delays, refused a reasonable settlement, or had already been adequately compensated. They also noted that interest may be inappropriate where no financial loss occurred, the loss is future-based, or delays were outside the firm's control - such as regulatory pauses or Financial Ombudsman Service-related delays. Minimal interest amounts and access to alternative funds were also cited as reasons to withhold interest.

Consumer advocates generally agreed that interest should only be withheld in exceptional cases, such as where the complainant unreasonably delayed proceedings or obstructed the process. However, they cautioned against penalising delays linked to vulnerability or poor representation. Some even suggested increasing interest where firms acted unreasonably or adjusting it to reflect broader economic conditions.

Overall, there was a broad consensus that interest should be withheld only in limited, well-justified circumstances, with careful consideration of conduct and context.

### **Responses to question 4: How regularly we should review the interest rate**

Respondents offered a range of views on how frequently the interest rate should be reviewed, with most favouring a balanced and predictable approach. Among financial services firms and trade associations, the prevailing view was that if the interest rate is linked to the base rate, it would naturally adjust to market conditions and therefore not require frequent review.

However, where a specific timeframe was suggested, preferences varied from annual to five-yearly reviews. Some respondents recommended more frequent reviews in the early stages to build confidence, while others warned that regular reviews could introduce uncertainty for

firms. A few respondents suggested that reviews should be triggered by significant economic events, such as inflation spikes or major changes in the Bank of England base rate.

## 4. Our final decisions and next steps

The consultation process has allowed us to evaluate our initial recommendations and better understand any concerns, insights and suggestions raised by stakeholders. We have now considered the consultation responses and worked towards a balanced outcome.

A final position on the new interest rate and its implementation approach is set out below.

Further details regarding a confirmed implementation date and other items (such as the development of interest calculators) will be provided to industry and consumer groups in due course.

### What we are changing

We propose a change to the interest rate for the pre-determination element of interest applied to compensation awards. We also outline our intended implementation approach, instances when the default pre-determination rate may not apply, and the review period.

The responses received during our consultation process (summarised in **3. Responses to our consultation**) have been carefully considered and have informed this final position.

The approach detailed in this policy statement is underpinned by the following key considerations:

- If a complainant **can demonstrate an actual loss as a result of the complaint, compensation for this loss will continue to form part of the core money award within the redress package**
- The application of **interest on awards is not designed to penalise firms or to reimburse consumers for specific, actual financial losses**. Rather, it aims to recognise that consumers may have had to make alternative decisions and choices due to not having access to their money
- Financial Ombudsman Service **caseworkers retain discretion on awards where appropriate and proportionate** – such as an alternative interest rate, provided this action is suitable, proportionate and justifiable. Caseworkers can also apply distress and inconvenience awards for non-financial loss
- There is no precise interest rate that directly represents the actions a complainant may have taken if they had access to their funds. The **interest rate functions as a standard default rate**, to be used by caseworkers when appropriate.

### A. Introducing a new pre-determination interest rate

#### Our initial recommendation and our response to the consultation outcomes

In our consultation, we suggested changing the interest rate (for *both* pre-determination and post-determination periods) to an average base rate plus an additional one percentage point. This proposed change aimed to better align the rate with market conditions while acknowledging that consumer borrowing rates are generally higher than the base rate - an important consideration given that complainants may have had to make alternative decisions by not having access to their money. We believed this approach would address widespread perception that the current rate may run the risk of overcompensating some complainants, while also aligning the interest rate with a significant factor (base rate) in consumer

borrowing costs. Nonetheless, we recognised that this change could introduce some operational complexity for firms in calculating interest.

Although the majority of respondents supported our rate recommendation, some challenges were raised. These have now been considered.

Common themes from the responses to the consultation have been analysed and taken into account when arriving at our final policy decision. These include:

**i. Whether the Bank of England base rate is the most suitable rate:** Following feedback, we have considered alternative tracker options, such as average instant access savings rates. Although other rates offer comparable benefits as a suitable tracker option, we believe the base rate is a well-understood rate. An average base rate strikes the right balance of fairness between consumers and firms. Tracking to an average instant access savings rate would be too limited and arguably unfair to consumers.

**ii. Clarity on how we would calculate an 'average' rate:** We intend to use a time-weighted average rate, taking into account the Bank of England base rate at the end of each day. This time-weighted average would be calculated and applied over the period the complainant was out of pocket; from when the complainant was unreasonably deprived of the money, to the point that the respondent business was instructed by the Financial Ombudsman Service to pay the complainant, usually 28 days after the we make a decision on the complaint (what we call the 'pre-determination period'). We will share a methodology and case studies in due course explaining in more detail how we expect firms to calculate interest.

**iii. Encouraging timely compliance with a new rate:** Concerns were raised that lowering the interest rate, specifically for the 'post-determination' period, could reduce firms' incentives to comply promptly, potentially leading to delayed payments to consumers. We acknowledge this concern, primarily raised by consumer groups, and recognise that while an average base rate plus one percentage point could exceed 8% if the base rate were to increase from its current level, it is important to treat post-determination interest separately. Therefore, we have adjusted our recommendation. We will maintain the post-determination interest rate at a fixed 8% simple interest to encourage timely compliance with our decisions.

**iv. How we would apply the new rate to the compensation amount:** We have reflected on the feedback on how we should apply a new rate, and whether it still should be applied on a simple basis, as opposed to compound. The interest rate is not intended to replicate specific financial products, nor is it always possible to demonstrate what the complainant would have done had they had access to their money. Applying a new rate on a simple basis is straightforward and easy to understand and implement. Simple interest also helps prevent over-recovery by limiting potentially excessive interest accumulation. Also, if a complainant can demonstrate that they have suffered an actual loss as a result of their complaint, this loss will be taken into account when calculating the main money award.

**v. The one percentage point increment:** Some respondents expressed the view that this increase to the base rate was either unnecessary or insufficient. Conversely, many who supported this option regarded it as an equitable increment. As noted, it is challenging to identify a precise rate that accurately reflects the actions a consumer might have taken as a result of being deprived of their money. Nevertheless, the Financial Ombudsman Service maintains that setting a new default interest rate at, or below, the average base rate presents a risk of unfairness to consumers. The one percentage point increment recognises that consumer borrowing rates for example typically exceed base rate.

**vi. How we ensure consumers with vulnerabilities are not negatively impacted:** We heard from some respondents, particularly consumer groups, that reducing the rate from the

8% rate could disproportionately disadvantage complainants with vulnerabilities. These groups argued that vulnerable individuals are more likely to have borrowed money at high interest rates due to financial exclusion or hardship, and therefore a lower pre-determination rate of interest might not reflect their actual costs.

The Financial Ombudsman Service adopts a proactive and empathetic approach to supporting customers with vulnerabilities. We ensure that all communications are clear, accessible and tailored to meet individual needs.

We encourage the sensitive disclosure of vulnerability at every stage of the customer journey, helping individuals understand the benefits of sharing this information so we can provide more personalised service if that is necessary (in a similar manner which financial services firms are required to). Where vulnerability is identified, we prioritise timely review and processing of responses to minimise delays and reduce anxiety. Our casework teams are trained to outline clear options for seeking clarification and to explain implications in an easily understandable manner. In cases of particular vulnerability, we may assign a named contact to ensure continuity and familiarity throughout the process.

As noted, it is challenging to identify a precise rate that accurately reflects the actions a consumer might have taken as a result of being deprived of their money, including for customers with vulnerabilities. However, we will clearly communicate and explain to vulnerable customers that they should demonstrate to us any actual losses incurred as result of their complaint. We will make it clear that our caseworkers will then assess these actual losses as part of the main money award.

In addition, where we believe a respondent business has been unfair in its treatment of a vulnerable customer, a higher distress or inconvenience award may be warranted.

In exceptional circumstances, the caseworker may depart from the standard interest rate where justified and proportionate, but not in ways that would act as a penalty to respondent businesses.

## Our decision

We aim to ensure that complainants who have suffered an actual loss due to their complaint are restored to the position they should have been in. This means that if a complainant can demonstrate they have incurred losses, compensating for this loss will remain a core part of the main money award within the compensation package. We will clearly explain to complainants where necessary on what they may need to provide to us to demonstrate actual losses.

However, we acknowledge that complainants may have had to make different choices due to being deprived of their funds, and given that calculating any actual loss is not always feasible, we will continue to apply interest on compensation awards. However, **we will change the interest rate to a time-weighted average of the Bank of England base rate plus one percentage point. This new rate will generally apply to the period from when the complainant was unreasonably deprived of the money, to the payment deadline date set by the Financial Ombudsman Service for paying compensation to the complainant (the "pre-determination period")**. This interest will be applied on a simple basis. We believe this tracker rate to be a fair reflection of economic conditions and realities and strikes a fair balance between consumers and firms by acknowledging real lending rates while avoiding the risks of over-compensation and over statement.

In response to the feedback received to our consultation and to encourage timely compliance with Financial Ombudsman Service decisions and prompt payment of compensation, the 8%



interest rate will be retained for late payment of awards by respondent businesses.

**Respondent businesses will be expected to apply a fixed 8% interest rate to the period from the deadline date set by the Financial Ombudsman Service for paying compensation to the complainant, to the actual date the compensation payment is made to the complainant (the "post-determination period").** This interest will also be applied on a simple basis. Respondent businesses can avoid this element of interest by paying compensation on time.

We are aiming to implement these changes from 1 January 2026, but we will confirm this implementation date in due course and more detailed information will be provided. This is explained more in '*B. Implementation approach*'.

## B. Implementation approach

### Our initial recommendation and our response to the consultation outcomes

In our consultation, we recommended applying a new interest rate to complaints submitted to the Financial Ombudsman Service after a specific implementation date. We argued this was the fairest, most straightforward and operationally manageable approach. Option B was only marginally behind the most popular option (Option A), and Option B gained support from a more diverse range of stakeholders.

Some challenges were raised with our recommended option, and these have now been considered. These include:

**i. Operational complexity with dual rates:** Concerns were raised about the potential confusion and operational complexity of applying a new interest rate to new cases while maintaining the current rate for existing cases. However, the practice of applying new policy approaches to new referrals is common practice at the Financial Ombudsman Service and helps manage implementation challenges fairly. We have acknowledged industry calls for an interest calculator to assist firms with the transition and to promote uniform application. We agree that developing and implementing calculators for both the existing and new rates, along with relevant guidance and explanatory case studies, will be necessary. These tools and guidelines will be developed ahead of our intended implementation from 1 January 2026, which we will confirm in due course.

#### ii. Managing a potential spike in complaints

We have already developed processes and established policy changes to prevent influxes of poorly evidenced complaints being submitted to the service. The Financial Ombudsman Service believes that any operational impact should be manageable when implementing changes for new referrals.

### Our decision

We are aiming **to apply the new interest rate to new complaints submitted to the Financial Ombudsman Service from 1 January 2026**. However, we will confirm this date in due course and will work collaboratively with our colleagues and stakeholders to develop relevant guidance. The Financial Ombudsman Service will also create, test and share interest calculators prior to the confirmed implementation date to encourage firms apply the new rates uniformly.



## C. When interest may not apply

### Our initial recommendation and our response to the consultation outcomes

We asked an open question in the consultation regarding the circumstances under which interest should not be applied. We did not put forward a recommendation. Responses are summarised in **3. Responses to our consultation**.

### Our decision

We agree with the general sentiment raised in the responses to the consultation that there should be limited and well-justified circumstances when interest is not applied to compensation, taking into account the complainant's conduct and context. For instance, if the complainant unreasonably delayed proceedings or obstructed the process. We propose to maintain discretion in not applying interest where relevant *and* applying a higher rate of interest in limited, justified circumstances. We will ensure that guidance accurately reflects this position and will make any necessary changes to our internal processes.

## D. How regularly we should review the interest rate

### Our initial recommendation and our response to the consultation outcomes

We asked an open question in the consultation regarding how often we should review the interest rate. We did not put forward a recommendation. Responses are summarised in **3. Responses to our consultation**.

### Our decision

Given that we have chosen to implement a tracker rate, we agree that the interest rate, being linked to the base rate, would naturally adjust to market conditions and therefore not require frequent review. Initially, we will review and confirm whether any changes are required at least every two years.

Based on experience, if no changes are necessary, the Financial Ombudsman Service will adjust the timescale for future reviews accordingly.

## 5. Public Sector Equality Duty

In developing our policies, the Financial Ombudsman Service must consider the need to eliminate unlawful discrimination, advance equality of opportunity, and foster good relations between people with different protected characteristics.

An Equality Impact Assessment (EIA) has been undertaken to assess the potential effects of our policy on consumers. Summarised in Annex 1, this assessment considers the implications of how alternative approaches to interest could impact individuals across various protected characteristics.

Although we do not collect data on all protected characteristics during the complaint process, the assessment relies on external data sources, such as the Financial Lives May 2024 Survey, which provide demographic characteristics of financial services users and information on financial vulnerability.

### Assessment

In line with our obligations under the Public Sector Equality Duty (PSED), as set out in section 149 of the Equality Act 2010, we have carefully considered the potential equality implications of our proposed change to the interest rate applied to compensation. We have made the decision to replace the current fixed 8% simple interest rate with a time-weighted average of the Bank of England base rate plus one percentage point for pre-determination interest. However, we propose to retain the fixed 8% simple interest rate where firms are late in paying compensation to encourage prompt payment to complainants.

As noted earlier in this policy statement, pre-determination interest is not intended to penalise firms but to recognise that consumers have not had access to their money. This is unchanged.

The proposed change is neutral in form and application, consistently applied across all complaints without differentiating between consumers based on protected characteristics. The policy has no direct impact on individuals or groups with protected characteristics under the Equality Act 2010.

However, we have considered whether the change may have indirect or disproportionate impacts, particularly on vulnerable consumers or those more likely to suffer financial harm from delayed redress, such as disabled people, individuals with mental health conditions, older people, carers, people on low incomes, and those from ethnic minority backgrounds.

Under the proposed approach, where a consumer can demonstrate they have suffered actual financial loss, that loss will continue to form part of the compensation package. However, barriers faced by consumers with vulnerabilities could potentially lead to unequal outcomes even when the policy is applied equally in principle.

Therefore, we are putting in place specific mitigations to safeguard fairness. These include:

- Retaining discretion to award a different pre-determination rate of interest in individual cases where any delay has caused significant hardship or where vulnerability has been a factor. Where awarding a different rate of interest is justified and proportionate
- Issuing clear internal guidance and training for caseworkers to support the consistent and proportionate use of any discretion, particularly in recognising and responding to vulnerability

- Providing support to consumers with vulnerabilities who may struggle to demonstrate actual financial loss, including engaging with consumers and their representatives
- Monitoring the application and impact of the new interest rate approach over time to ensure fairness is maintained.

It is also important to note that caseworkers will also retain discretion to apply increased distress and inconvenience awards, provided these actions are also appropriate, proportionate and justifiable. More information on how we will support customers with vulnerabilities accessing our service and in responding to the proposed change is set out above in **4. Our final decisions and next steps.**

We are confident that our updated interest rate approach better reflects current economic conditions and strikes a fair balance between firms and consumers. The safeguards in place preserve the necessary flexibility to protect consumers who may be vulnerable to disadvantage.

Through the proposed approach, targeted mitigations, and continued monitoring, we are confident that the interest rate approach remains consistent with our statutory duties to eliminate discrimination, advance equality of opportunity, and foster good relations.

## Annex 1: Equality Impact Assessment Summary

The summary assessment for each option:

A – Fixed 8% (no change)	B – Fixed (lower rate)	C – Tracker + 1% (average)	D – Tracker + 1% (prevailing)
<ul style="list-style-type: none"> <li>No direct or indirect impacts as this option is the current approach.</li> </ul>	<ul style="list-style-type: none"> <li>No direct impacts as rate is uniformly applied to all upheld complaints.</li> <li>A reduced rate heightens the risk of under-compensation by not accounting for the financial vulnerabilities more likely to be experienced by customers with certain protected characteristics.</li> <li>Age groups, those with disabilities and different ethnic groups are most likely to be at a heightened risk of under-compensation if the rate is lowered.</li> </ul>	<ul style="list-style-type: none"> <li>As with option B, the rate is applied uniformly to all upheld complaints.</li> <li>Tracking the BoE base rate and incorporating historic base rates through an 'average' calculation may help mitigate indirect impacts by accounting for a key driver of consumer credit costs.</li> <li>However, if this approach led to lower pre-determination rate calculations, the risk of under-compensation for complainants are increased.</li> </ul>	<ul style="list-style-type: none"> <li>No direct impacts as rate is uniformly applied to all upheld complaints.</li> <li>However, due to the method of applying a prevailing rate at a single point in time, this option carries a heightened risk of under-compensation for the full period of detriment for some complainants, especially those who are more likely to get high-cost borrowing.</li> </ul>

Characteristic	Option B – Fixed (rate reduction)	Option C – Tracker + 1% (average)	Option D – Tracker + 1% (prevailing)
Age	<b>No direct impact</b> Lowering the rate may heighten the risk of under-compensation for certain age groups. This includes younger	<b>No direct impact</b> No impact due to uniform application of the method to calculate the rate.	<b>No direct impact</b> As in option C, lowered rates to the BoE base rate may heighten the risk of under-compensation, which is further amplified by

	consumers who are less financially secure and more likely to dispose of high-cost consumer credit, and older pension age consumers who may experience greater financial detriment.	Older complainants may risk under-compensation if period incorporates period of historic low BR (c 2007-2022)	using a prevailing rate at a single point in time approach.
Disability	<b>No direct impact</b> Lowered rates might heighten the risk of under-compensation for those customers who due to disability may experience greater financial detriment.	<b>No direct impact</b> Lowered rates to the BoE base rate may heighten the risk of under-compensation for disabled customers who are vulnerable and experiencing greater financial vulnerability	<b>No direct impact</b> Lowered rates to the BoE base rate may heighten the risk of under-compensation for disabled customers who are vulnerable and experiencing greater financial vulnerability. This is further impacted by the reliance on a prevailing rate at a single point in time, which may not reflect the full period of detriment.
Gender reassignment	<b>No direct impact</b> Applied uniformly to all.	<b>No direct impact</b> Applied uniformly to all.	<b>No direct impact</b> Applied uniformly to all.
Marriage/Civil Partnership	<b>No direct impact</b> Applied uniformly to all.	<b>No direct impact</b> Applied uniformly to all.	<b>No direct impact</b> Applied uniformly to all.
Pregnancy or on maternity leave	<b>No direct impact</b> Applied uniformly to all.  Indirect discrimination does not apply to pregnancy/maternity leave.	<b>No direct impact</b> Applied uniformly to all.	<b>No direct impact</b> Applied uniformly to all.
Race	<b>No direct impact</b> There may be a risk that certain ethnic groups experience disproportionate financial vulnerabilities and exclusion, increasing the risk of under-compensation if the pre-determination rate is lowered.	<b>No direct impact</b> As with Option B, if a tracker approach led to a lower pre-determination rate, then those ethnic groups who are more likely to be financially vulnerable are at a heightened risk of under-compensation.	<b>No direct impact</b> As with option B.
Religion or Belief	<b>No direct impact</b>	<b>No direct impact</b> Applied uniformly to all.	<b>No direct impact</b> Applied uniformly to all.

	This alternative option would not impact any religious/belief groups differently to wider complainants.		
Sex	<b>No direct impact</b> The rate would continue to be applied uniformly and does not account for any sex based financial inequalities affecting customer experience.	<b>No direct impact</b> Applied uniformly to all.	<b>No direct impact</b> Applied uniformly to all.
Sexual Orientation	<b>No direct impact</b> As above.	<b>No direct impact</b> Applied uniformly to all.	<b>No direct impact</b> Applied uniformly to all.