

The complaint

Mr and Mrs S complain that Santander UK Plc (“Santander”) isn’t paying the correct amount of interest on their account.

What happened

Mr and Mrs S hold a joint account with Santander, which they have held for a number of years. Earlier this year, they complained to Santander that the credit interest paid on the account was lower than the advertised rate. They requested reimbursement of the shortfall.

Santander said that the interest paid on the account was correct. It said that the advertised rate is an Annual Equivalent Rate (AER), which shows what the interest rate would be if Santander paid interest on an annual basis. It said that the rate is currently 2% AER or 1.98% gross.

Mr and Mrs S weren’t happy with Santander’s response and asked this service to look at the complaint. They said they are receiving 1.98% currently but believe it should be 2%. They said they have always received less interest than the advertised rate. They said they should be receiving interest on the interest they earn, but this isn’t happening because Santander only pays interest on balances up to £20,000. Mr and Mrs S have always maintained a balance in excess of £20,000.

Our Investigator didn’t think Santander had done anything wrong. But Mr and Mrs S didn’t agree and asked for the complaint to be reviewed by an Ombudsman. They would like Santander to pay them £500 to cover the shortfall in interest which they say they should have earned, as well as the stress and expense this situation has caused.

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 understand that Mr and Mrs S hold other accounts with Santander, in their sole names. But this complaint relates to the joint account only, so that’s the only account I’m looking at here.

The terms and conditions of Mr and Mrs S’s account say that the interest rate which currently applies to the account is “2.00% AER / 1.98% gross (variable)”.

The terms state:

“You’ll earn interest on your entire balance up to £20,000.

We work out the interest on your daily balance and pay the interest every month. We’ll pay this interest into your current account on the same day each month. This is usually on the date you opened or transferred your account. We won’t pay you any interest for any month where you don’t meet the eligibility requirements.

Interest payments will be paid using the gross rate..."

AER stands for Annual Equivalent Rate and shows what a customer could earn from an interest-paying account over the course of a year. It's different from the gross rate, which is the flat rate of interest that's actually paid. The AER is designed to make it easy to compare different interest-paying accounts. But it doesn't necessarily reflect the actual amount of interest a customer will receive, as that depends on a number of factors. These include how often interest is paid and whether the monthly interest is left in the account. Where interest is paid monthly the gross rate is typically less than the AER.

Mr and Mrs S's account pays interest monthly. The terms and conditions say that interest will be paid using the gross rate (currently 1.98%). I'm satisfied that it is.

Santander only pays interest on the account balance up to £20,000. Mr and Mrs S always maintain a balance in excess of £20,000 and they say the monthly interest they receive adds to this excess. Mr and Mrs S say that, because of this, they don't receive interest on the interest they earn. I find that to be the case. But I don't think Santander has done anything wrong in this respect.

It's clear from the terms and conditions of the account that Santander will only pay interest on balances up to £20,000 and Mr and Mrs S accept this. As their account balance exceeds £20,000, the money above this level (including the interest paid) earns no interest. The terms say that Mr and Mrs S will earn interest on their "entire" balance up to £20,000. So, if the balance below £20,000 included previous interest payments, Santander would pay interest on those. The fact that the interest payments add to the balance above £20,000 means they don't attract interest. That's in line with the terms and conditions. So, I don't think Santander has done anything wrong by not paying interest on the interest here.

But Mr and Mrs S say that Santander is in breach of its own definition of AER. The AER is advertised as 2%. But Mr and Mrs S say that, because interest is not being paid on interest, the AER is 1.98% which is the amount they are receiving. An AER accounts for any interest earned on interest. A gross rate doesn't. An AER assumes that the monthly interest payments are left in the account and, in turn, attract interest. That's not happening here because the amount on which interest is calculated isn't increasing each month (because of the cap of £20,000). So, the amount Mr and Mrs S are actually receiving is 1.98%, which is the gross amount.

In effect, Mr and Mrs S are not achieving 2%. But the AER is an indicative rate for comparison purposes. It doesn't guarantee a particular return. I think the terms and conditions of Mr and Mrs S's account are clear that Santander will pay interest of 2% AER / 1.98% gross by way of monthly payments at the gross rate, on balances up to a maximum of £20,000. I find that Santander has done that here. So, I'm satisfied that it is paying interest correctly, in line with the terms and conditions of Mr and Mrs S's account. I'm sorry to disappoint Mr and Mrs S, but I'm not going to ask Santander to do anything here.

My final decision

For the reasons above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S and Mr S to accept or reject my decision before 3 November 2023.

Katy Kidd
Ombudsman

