

## **The complaint**

Mr V complains that Scottish Widows Limited has failed to pay him interest on monies that he holds in the Control Account that forms part of his Retirement Account.

## **What happened**

Mr V holds pension savings with Scottish Widows. His pension savings are entirely held within what Scottish Widows terms a Control Account. Since 2020 that account has not paid any interest to consumers on the deposits held within it. In January 2023, at a time of rising interest rates, Mr V asked Scottish Widows why no interest was being paid on his monies.

Scottish Widows explained to Mr V that the Control Account wasn't intended for holding long term investments – it said it was simply to facilitate the movement of monies around the Retirement Account including the payment of any fees and charges. It explained that regulatory changes had meant it needed to stop paying interest in 2020, but it was currently reviewing the situation. Scottish Widows also noted that it hadn't dealt with Mr V's complaint as promptly as it would have hoped – so it paid him £75 compensation for the inconvenience he'd been caused.

Mr V was unhappy with that response so he referred his complaint to us. Mr V's complaint has been assessed by one of our investigators. He didn't think Scottish Widows had done anything wrong in the way it had managed the Control Account or the information it had provided to consumers about the relevant interest rates. So he didn't think the complaint should be upheld.

Mr V didn't agree with that assessment. So, as the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, to decide. This is the last stage of our process.

## **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.

In deciding this complaint I've taken into account the law, any relevant regulatory rules and good industry practice at the time. I have also carefully considered the submissions that have been made by Mr V and by Scottish Widows. Where the evidence is unclear, or there are conflicts, I have made my decision based on the balance of probabilities. In other words I have looked at what evidence we do have, and the surrounding circumstances, to help me decide what I think is more likely to, or should, have happened.

At the outset I think it is useful to reflect on the role of this service. This service isn't intended to regulate or punish businesses for their conduct – that is the role of the Financial Conduct Authority. Instead this service looks to resolve individual complaints between a consumer and a business. Should we decide that something has gone wrong we would ask the business to put things right by placing the consumer, as far as is possible, in the position they would have been if the problem hadn't occurred.

As the starting point for my consideration of this complaint I have looked at the information Scottish Widows has published about the Control Account and its intended use. There is a section specifically about that account in a booklet titled “Your Guide” to the Retirement Account. That booklet says;

*“Both parts of your Retirement Account have a Control Account. Payments in and out go through the Control Account, and the Service Charge is taken from it. Any amounts paid in will be used to buy units in the investments you choose. We’ll automatically sell the correct amount of units to cover the Service Charge and any income you’ve asked for, and the income payments will then be made through the Control Account. The Control Account should not be used for long-term investing.”*

So I think it is clear from that description that Scottish Widows doesn’t see the Control Account as part of the investment offering that it provides to consumers. Instead the account is transactional in nature, to be used to receive and pay monies into and out of a consumer’s retirement savings.

In my experience however a number of consumers have found the Control Account to be an attractive proposition for holding some or all of their retirement savings given that it effectively acts as a deposit facility and reduces the exposure of those pension savings to market movements. Even on cash investment funds there is a small risk of adverse investment performance given the inherent link to financial markets.

But the crux of Mr V’s complaint is that the Control Account used to pay some interest on the funds that were held in it by what Scottish Widows called “Positive Balance Adjustments”. The rate applying to those adjustments was reduced to 0% in March 2020. But, more recently, Scottish Widows has announced that, with effect from 1 October 2023, it will increase the rates of balance adjustment that it applies to the Control Account to reflect interest it earns on funds held in that account.

Mr V has said that in 2020 it wasn’t surprising that the rate was reduced to 0% given the low level of interest rates at that time. But Scottish Widows has explained that wasn’t the main reason for the change. Instead regulatory changes, commonly known as Basel 3, meant its bankers were no longer able to offer interest on the consolidated balances drawn from the monies held in the Control Accounts of its customers. Only recently has it been able to find a new solution to those changes, that has allowed the reintroduction of the positive balance adjustments.

I think that the rate of positive balance adjustment that Scottish Widows offers at any time is a commercial decision, and not something that should be interfered with by this Service. Indeed in its current proposals Scottish Widows is intending to retain up to 2% of any interest that it receives. I wouldn’t consider it something I should become involved in even if Scottish Widows decided to retain all the interest it received on those balances.

What is of importance is that Scottish Widows provides clear and factually correct information to consumers about any positive balance adjustments that it will make. I can see that Scottish Widows has provided that information via its website.

What is also important here is whether any errors that might have been made caused Mr V to act differently. It seems that he was aware that a 0% rate of positive balance adjustment was being applied to the Control Account from March 2020 onwards. Knowing that didn’t lead him to change his investment approach. I haven’t seen how the reduction to 0% was communicated to Mr V, if it even was. But even if I found the information Scottish Widows had provided when the rate was reduced might have been deficient I cannot reasonably

conclude that it caused Mr V to act differently. He continued to use the Control Account knowing that no positive balance adjustments were being applied.

I haven't seen anything in the terms and conditions of Mr V's retirement account, or in any regulatory approaches, that requires Scottish Widows to pay Mr V any or all of the interest it might earn on the Control Account monies. I think Scottish Widows has previously clearly set out that positive balance adjustments would attract a 0% rate. And I think it has now explained when and what positive balance adjustments will be made going forwards. So whilst I understand that my decision will disappoint Mr V, I don't think that Scottish Widows has done anything wrong.

### **My final decision**

For the reasons given above, I don't uphold the complaint or make any award against Scottish Widows Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr V to accept or reject my decision before 28 December 2023.

Paul Reilly  
**Ombudsman**