

The complaint

Mr S complains Santander UK Plc ("Santander") aren't paying him the correct amount of interest on his account.

What happened

Mr S complained to Santander as he thought the credit interest paid on his account was lower than the advertised rate. He asked Santander to reimburse him for the shortfall.

Santander said the interest paid 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 S didn't agree and referred the matter to this service. He said he received 1.98% currently not 2% as he thought he should. He told us it had always been the case that he'd received less interest than the advertised rate. Mr S thought he should receive interest on the interest he'd earned, but this didn't happen because Santander only pays interest on balances up to £20,000. And Mr S maintained a balance in excess of £20,000.

Our Investigator didn't think Santander had done anything wrong. But Mr S didn't agree and asked for the complaint to be reviewed by an Ombudsman. He thought Santander should pay £500 to cover both the shortfall in interest he thinks he should've earned, as well compensating him for the distress and inconvenience caused by the banks mistake.

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 know Mr S hoped I'd contact him before I came to my decision but I didn't think this was necessary. I fully understand the things he's unhappy with and there's enough information for me to fairly to reach a final decision.

The central issue for Mr S is the rate he's receiving isn't the AER. But I think there's some misinterpretation of the AER. Essentially, it's an *indicative rate* intended to allow for like for like comparisons between different interest paying products, in the same way an APR allows proper comparisons between products where money is borrowed.

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 comparisons easy. 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 S fully agrees and accepts Santander's terms. They provide the interest rate which

currently applies to the account is “2.00% AER / 1.98% gross (variable)”.

They also 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...”*

Mr 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’s what’s paid here.

Santander only pays interest on the account balance up to £20,000. Mr S maintains a balance in excess of £20,000 and told us the monthly interest he receives adds to this excess. Mr S says that, because of this, he doesn’t receive interest on the interest he earns. I think that’s right. But, even though that’s the case, 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. As the account balance exceeds £20,000, the money above this level - including the interest paid - will earn no interest. The terms say that Mr S will earn interest on the “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 under the terms of this particular account. So, I don’t think Santander has done anything wrong by not paying interest on the interest here.

Mr S thinks that Santander is in breach of its own definition of AER. The AER is advertised as 2%. But Mr S thinks, because interest is not being paid on interest, the AER is 1.98% which is the amount he gets. 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 S actually receives is 1.98%, which is the gross amount.

In effect, Mr S doesn’t get paid 2%. But, as I’ve set out above, the AER is an *indicative rate* for comparison purposes. It doesn’t guarantee a particular return. I think the terms and conditions of Mr 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’m satisfied that’s what Santander have done here. So, overall, I think it is paying interest correctly, in line with the terms and conditions of Mr S’s account. Although I anticipate Mr S will disagree with me, I’m not going to uphold his complaint.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr S to accept or reject my decision before 12 January 2024.

Annabel O’Sullivan
Ombudsman