



Case study: Banking

BANK'S CHANGE TO ACCOUNT INTEREST RATES RESULTS IN A LOSS

Themes: Interest rate; notice period; terms and conditions; process and procedures

A bank's change to the interest rate paid on a complainant's savings account resulted in substantial losses for the complainant.

Mr X opened a variable notice savings account with his bank to obtain a higher interest rate for his deposits. The terms of Mr X's new savings account meant that he could not access his funds for 50 days after they were deposited.

The bank then lowered the interest rate on Mr X's account, giving only 3 days' notice of the change. The interest rate on Mr X's savings account was reduced by nearly half, from 1.35% to 0.7%. The terms of Mr X's account restricted access to his deposited funds for 50 days. Therefore, Mr X was unable to move his substantial amount of cash to an alternative bank offering a higher interest rate. Mr X calculated the losses he incurred from the date of the change in interest rate to the last day of the 50-day lock-in period, at £3,183.

Mr X complained to his bank and the bank offered to transfer Mr X's funds to a new savings account with an interest rate of 1%. However, Mr X rejected the bank's offer as he felt the bank should have honoured the savings account's initial interest rate for the full term of 50-days. Mr X took his complaint to CIFO as he felt that it was unfair the way his bank had communicated the change of interest rate to his savings account.

CIFO investigated and found that the change to the variable interest rate paid by the bank was a knock-on effect of the reduction to the Bank of England's base rate. CIFO concluded that the bank's decision to change the interest rate was valid and consistent with their terms and conditions.

CIFO noted that the process the bank used when interest rate reductions were applied to variable loans provided for a 14 days' notice period. Using this as a benchmark, CIFO felt that the 3 days' notice the bank had given Mr X when changing the interest rate on his variable savings account was not reasonable, particularly taking into consideration the 50-day lock-in period to access the funds. CIFO upheld the complaint and recommended that the bank compensate Mr X for the interest he would have received had he been given 14-days' notice, valued at £448. CIFO also recommended that interest should also be paid on the £448 at a rate Mr X was offered from an alternative bank when searching for a replacement savings account. CIFO suggested that this interest rate should be applied from the day the account closed until the date of CIFO's complaint recommendation, bringing the total compensation to £451.