

By email to: consultations@financial-ombudsman.org.uk

Financial Ombudsman Service
Exchange Tower
London E14 9SR

2 July 2025

AFM Response to FOS Consultation Paper: Interest on compensation awards

1. I am writing in response to this consultation paper, on behalf of the Association of Financial Mutuals. The objectives we seek from our response are to:
 - Express support for reviewing the approach to determining interest on compensation payments;
 - Share concerns regarding the FOS' recommended approach for calculating the interest rate on compensation awards; and
 - Encourage FOS to implement a fixed rate of interest calculation.

About AFM and its members

2. The Association of Financial Mutuals (AFM) represents insurance and healthcare providers that are owned by their customers, or which are established to serve a defined community (on a not-for-profit basis). The mutual insurance sector manages the savings, pensions, protection and healthcare needs of over 26 million people in the UK and Ireland, collects annual premium income of over £23 billion, and employs nearly 23,000 staff¹.
3. The nature of their ownership and the consequently lower prices, higher returns or better service that typically result, make mutuals accessible and attractive to consumers, and have been recognised by Parliament as worthy of continued support and promotion. FCA and PRA are required to analyse whether new rules impose any significantly different consequences for mutual businesses² and to take account of corporate diversity³. Further, the Government have committed to double the size

¹ ICMIF and AFM, 2023: <https://financialmutuals.org/wp-content/uploads/2023/10/UK-Market-Insights-2023.pdf>

² Financial Services Act 2012, section 138 K: <http://www.legislation.gov.uk/ukpga/2012/21/section/24/enacted>

³ Bank of England and Financial Services Act 2016, section 20
<http://www.legislation.gov.uk/ukpga/2016/14/section/20/enacted>

of the mutual sector as part of their agenda to grow the UK economy. FCA and PRA have been issued secondary competitiveness and growth objectives which should inform how they examine the impacts of regulation on mutual firms.

Introductory comments

4. We welcome this review from FOS and agree with the underlying rationale to ensure that the calculation of interest rates on compensation decisions is in line with market conditions.
5. Although our members pride themselves on excellent customer service and rarely receive complaints via FOS, this is an issue which could impact them significantly and therefore we wish to express some concerns with the recommended proposals. We would also note that AFM responded to the joint FOS and FCA Call for Input on modernising the redress system earlier this year where we shared several views on what works well and where reform is needed.
6. We have responded below to the specific questions raised in the consultation paper. We would welcome the opportunity to discuss further the issues raised by our response and are happy to be included in the published list of respondents.

Yours sincerely,



Stephanie Blenko
Head of Policy
Association of Financial Mutuals

AFM responses to questions raised in the consultation paper

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?

We disagree with the FOS' recommended option for interest rate calculation (option C) as we feel that a calculation based on a tracker rate adds unnecessary complexity to the compensation payment process.

Firstly, the calculation involved in option C would have a notable operational impact on teams responsible for complaints. To implement this calculation, our members may have to create a new tool to internally tabulate the average percentage over the time period of complaint and the correct amount of interest due. We feel this adds an unnecessary administrative burden.

We also feel that this option could make it difficult to explain to a member how the rate of interest has been calculated. This additional complexity could lead to a dissatisfaction with the complaints process and potentially further complaints down the line.

For these reasons, we would prefer option A or B where interest is calculated based off a fixed rate. We feel that a simpler and more straightforward calculate would lead to better outcomes for firms and their members.

We don't express a strong view on what the rate should be fixed at but understand and support the premise that the current 8% feels high in the current economic environment with the base rate sat at 4.25%.

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?

Please see our response above.

2. a. If a new rate is chosen, how should it be implemented, taking into account the options presented?

We agree with FOS' recommended option for implementation.

b. Do you envisage any potential operational challenges in implementing any of the proposed options?

As noted in our response above, we feel that any option which calculates interest based off a tracker rate adds unnecessary complexity for firms with regard to calculating the interest due and explaining to customers how the amount was determined. We feel that a fixed interest rate would minimise the overall administrative burden on firms affected.

c. What steps will firms need to take to implement options?

As noted in our response above, if FOS proceeds with an option to calculate interest based off a tracker rate, firms may need to invest in developing a special tool to determine the correct amount due in compensation payments.

3. Under what circumstances might it be appropriate for an ombudsman to ask a firm not to apply interest?

We offer no comment.

4. How often do you think the Financial Ombudsman Service's approach to interest on awards should be reviewed?

We offer no comment.