

Guidance on our interest awards: new interest rate from 1 January 2026

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The Financial Ombudsman Service

About us

The Financial Ombudsman Service was set up by Parliament under the Financial Services and Markets Act 2000 (FSMA 2000) to resolve complaints between financial businesses and their customers. Taking into account the law, regulations and best practice at the time, our role is to make an independent and fair decision based on the facts. Our service is free for consumers, and every year well over one million people contact us.

Cases are referred by a range of people, including consumers, small businesses, small charities and trusts, beneficiaries of trusts or insurance policies, people being chased for debt under a regulated credit agreement – and many more who fall within the eligibility requirements in DISP 2.7 of the Handbook of the Financial Conduct Authority (FCA).

We share the insight we gain from resolving thousands of disputes a year to improve outcomes for everyone affected by financial services products. By providing fair and timely resolutions to disputes, the Financial Ombudsman Service plays an essential role for consumers and businesses and helps underpin confidence in financial services. Our final decisions are legally binding if accepted by the consumer. If not accepted, a consumer remains free to pursue the dispute through court action.

Overview

This document sets out the Financial Ombudsman Service's guidance for financial businesses on applying interest to compensation awards. It follows our policy statement, published in July 2025, which set out our position on interest applied to compensation awards, in light of the valuable feedback we received in our joint Call for Input with the Financial Conduct Authority.

This indicated that the use of 8% as the default interest rate may no longer reflect prevailing market conditions and the need for a more transparent and adaptive methodology that aligns more closely with consumer losses and broader redress principles.

Introduction

When we uphold a complaint, our aim is to return the consumer who brought it to the position they would have been in had the issue that led to the complaint not occurred.

We begin by considering whether compensation is due for any actual, consequential, or prospective financial loss resulting from the financial business's error or omission. This is known as a 'money award'. The nature and amount of this award will depend on the specific circumstances of the case. It may also include compensation for distress and inconvenience, pain and suffering, or damage to reputation caused by the financial business.

We then assess whether additional compensation might be appropriate because the consumer was deprived of the use of the money that was lost. Where relevant, we will instruct the financial business to pay interest on top of the financial loss. This is commonly referred to as an 'interest award'.

We may also make an award for costs that the consumer reasonably incurred in connection with the complaint.

Finally, we may direct the financial business to take steps to put things right in a way that does not involve a financial payment.

For more information on the awards we make see [DISP 3.7 Awards by the Ombudsman in the FCA handbook on the FCA's website](#).

Our approach to applying interest

When we uphold a complaint, interest may be awarded in several distinct ways depending on the nature of the financial loss and the circumstances of the case. These are summarised below.

1. Interest as part of a money award

In some cases, the money award may include interest where the consumer has incurred a direct financial loss involving interest.

For example:

- If a consumer intended to deposit funds into a savings account but was prevented from doing so due to a delay caused by the financial business, we may require the business to pay the interest the consumer would have earned.

- If a consumer was overcharged on a mortgage and had to borrow funds to meet the excess charges, we may require the financial business to reimburse the actual interest incurred on that borrowing.

The principle here is to restore the consumer to the financial position they would have been in had the financial business's error not occurred. Whether interest should form part of the money award – and at what rate – will depend on the specific facts of the case.

2. Interest for being deprived of the use of money

This type of interest is awarded, in addition to the money award, to compensate the consumer for being deprived of the use of their funds during the relevant period.

For example, if an insurer undervalues a written-off vehicle by £1,000, the consumer is not only owed the £1,000 but also interest to reflect the loss of use of that money.

While in some cases it may be possible to determine what the consumer would have done with the money, this is often difficult to establish. Being deprived of funds can affect a wide range of financial decisions, including spending and borrowing. In such cases, we ask financial businesses to apply a default interest rate that broadly reflects the cost of being without the money.

Current default rate: simple interest at 8% per year

For complaints referred to us from 1 January 2026: simple interest at the average Bank of England base rate + 1 percentage point

Caseworkers and ombudsmen retain the discretion to ask financial businesses to apply a different rate where appropriate and will explain the rationale for doing so.

3. Interest for delayed payment

Where an ombudsman makes a money award, they may also specify that interest is payable if the financial business fails to make the payment by the deadline set in the decision, if the consumer accepts the decision. This provision is intended to discourage delays in settlement.

The typical deadline is 28 calendar days from the date the financial business is informed of the consumer's acceptance of the decision. However, the ombudsman has the discretion to set a different deadline depending on the circumstances of the case.

The interest rate applied for late payment is simple interest at 8% per year.

4. Interest and award limits

Interest included in a money award is subject to the statutory maximum limit an ombudsman may award.

Interest for deprivation of funds and interest for delayed payment are not subject to this statutory limit.

Interest for being deprived of money: what is changing?

As set out in our [policy statement](#) on 15 July 2025, we will change the default interest rate used to compensate consumers for being deprived of the use of money.

The current rate of 8% per year simple will be replaced by a time-weighted average of the Bank of England base rate (the base rate) plus one percentage point, applied on a simple interest basis.

Implementation date

The new default interest rate will apply to complaints referred to the Financial Ombudsman Service on, or after, 1 January 2026.

The current default rate of 8% will continue to apply to complaints referred to us up to, and including, 31 December 2025 – even if we uphold the complaint after that date.

We will follow our usual approach to determine whether a complaint has been validly referred. For example, we generally cannot consider a complaint until the business involved has had the opportunity to respond, either by issuing a final response or by failing to do so within the time limits set by the regulator.

As previously noted in the policy document, our caseworkers retain discretion to decide what constitutes fair compensation. This includes applying an alternative rate where appropriate.

They may also consider that an offer made by the financial business – using a different method – is fair in the circumstances, regardless of when the complaint is referred.

Time-weighted average base rate

In simple terms, a time-weighted average interest rate accounts for how long each rate was in effect over a given period.

Unlike a basic average, which treats all rates equally regardless of duration, a time-weighted average gives more importance to rates that applied for longer periods. This provides a more accurate reflection of the overall interest rate environment during that time.

Please see Annex 1 for an explanation of how to arrive at the time-weighted average rate and how it should be used to calculate the interest for being deprived of money.

Interest calculation period

This depends on the circumstances of the case, and will be set out in the caseworker's opinion or the ombudsman's decision in each case.

Typically, the interest should be calculated from the date of the loss to the date of payment of the compensation. Where the consumer has suffered financial loss at multiple points in time, interest should be calculated from the date of each loss to the date of settlement. If the consumer has recovered any loss during the intervening period, that should be taken into account in the interest calculation.

Sometimes the financial loss might be crystallised at the date of decision. For example, the consumer may have complained about an unsuitable investment which they still hold. If the ombudsman upholds the complaint, they will typically ask the financial business to work out the loss as at the date of decision, by comparing the performance of the investment to a

suitable benchmark. In such circumstances, as the loss is calculated up to the date of decision, there would be no need for additional interest.

The case studies below illustrate these scenarios. Case studies one to three set out examples where the loss had already crystallised prior to the decision. Case study four illustrates a scenario where the loss is crystallised at the date of decision.

Case study 1: the consumer suffered a financial loss at a single point in time

Barry complained that he was advised to invest in a product that wasn't suitable for his risk appetite and investment objective. Unhappy with the advice he'd received, he surrendered the unsuitable investment and complained that the poor advice had caused him to lose money.

We upheld his complaint and asked the financial business to compensate Barry for the loss he incurred due to poor advice. This was calculated to be £15,000 at the point when Barry surrendered his investment.

We also asked the financial business to pay simple interest on the loss – calculated from the date Barry surrendered the investment to the date of settlement. We said that interest should be calculated based on the time-weighted average of base rate plus one percentage point.

In this example:

- A single time-weighted average base rate should be calculated from the date the investment was surrendered to the date of settlement.
- A percentage point will then be added, to arrive at the rate to be used for calculating interest.
- Simple interest will then be calculated at this rate on the £15,000 – from the date the investment was surrendered to the date of settlement.

Case study 2: the consumer suffered financial loss at multiple points in time

Kathleen complained to her insurer about the sale of her personal accident policy. She said she wouldn't have agreed to take out the policy if she had understood how it worked. She also said that she cancelled the policy as soon as she realised that it was not suitable for her needs. However, by that time she'd made four monthly payments of £100 each.

We upheld the complaint as we thought the insurer hadn't given Kathleen sufficient information about how the policy worked at the time of sale. And we accepted that she wouldn't have taken it out if she'd been properly informed.

We were satisfied the policy was mis-sold and took into account that the policy had already been cancelled. So, we asked the insurer to refund all of Kathleen's premiums and add simple interest to the refunds from the date each premium was paid to the date of settlement.

We said that interest should be calculated based on the time-weighted average of base rate plus one percentage point.

In this example:

- The insurer has to make four refunds together with interest on each.

- Here, the interest calculation could be done in more than one way to arrive at the same result.
- A straightforward method would be to work out the interest for each of the four payments separately as in case study one and then add all the interest amounts to get the total interest payable.

Case study 3: the consumer had recovered some of the losses

Govinder was scammed into making a payment of £10,000 to a fraudster and he complained that his bank had failed to prevent that from happening.

We found that the bank made several errors, and if it had not done so, the scam (and Govinder's losses) could have been prevented.

So, we upheld the complaint and asked the bank to reimburse the £10,000. We also asked the bank to pay simple interest on this amount from the date of the transaction to the date of settlement.

We said that interest should be calculated based on the time-weighted average of base rate plus one percentage point.

A month after the scam occurred, the bank was able to locate and return £3,000.

In this example:

- The consumer recovered part of the loss during the calculation period.
- The interest calculation could be done in more than one way to arrive at the same result.
- A straightforward method would be to work out the interest for the initial payment and refund separately as in case study 1 and then deduct the interest for the refund from the interest on the loss amount.

Case study 4: the loss crystallised at the date of decision

Lucia complained that she was advised to invest in a product that was unsuitable for the level of risk she was prepared to take.

We upheld the complaint and asked the financial business to calculate the financial loss as at the date of the decision by comparing the performance of the unsuitable investment to a specified benchmark.

In this example:

- As the loss is crystallised and calculated as at the date of decision, there is no need to award interest.
- However, if the financial business did not make this payment within the deadline that we set, interest would be payable for late payment. (See next section: Interest for delayed payment.)

Interest for delayed payment: how it will work

When an ombudsman makes a money award, they usually ask the financial business to pay the compensation by the date specified in the decision, if the consumer accepts the decision. This date would usually be 28 calendar days from when the financial business is advised that the consumer has accepted the decision. However, as mentioned earlier, the ombudsman has the discretion to set a different deadline, depending on the circumstances of the case.

The ombudsman will also provide for interest to be paid at a specified rate, if the payment is not made by the deadline. The default rate we tend to use is simple interest at 8% per year. How this is applied depends on when the loss is crystallised.

If the loss has already crystallised before the decision

The ombudsman will typically require the financial business to reimburse the loss, and pay interest on that loss – calculated at one percentage point above the weighted-average base rate from the date of the loss to the settlement or deadline date, whichever is earlier.

If the financial business fails to make the payment by the deadline, the applicable interest rate will change to simple interest at 8% per year, for the period following the deadline date until the date of settlement.

If the loss is crystallised at the date of decision

The ombudsman will generally allow a 28-day grace period to pay compensation from the point when the financial business is informed of the consumer's acceptance of the decision. No interest will accrue during the grace period.

If the payment is not made by that date, simple interest at 8% per year would become payable on the financial loss calculated as at the date of decision. The interest will be payable for the period following the deadline date until the date of settlement.

These case studies illustrate these scenarios.

Case study 5: the loss crystallised before the decision, and the financial business had not paid by the deadline

The scenario is the same as in Case study 1, but the business failed to pay the compensation by the deadline our ombudsman set.

In this example:

- The financial business would be required to pay interest on the loss at time-weighted average base rate plus one percentage point on the £15,000, from the date of the loss to the deadline date – both inclusive.
- From the day after the deadline date to the date of payment the interest rate will change from base rate plus one percent to 8% per year.

Case study 6: the loss crystallised at the date of the decision, and the financial business had not paid by the deadline

The scenario is the same as in Case study 4, but the financial business failed to pay the compensation by the deadline we set.

In this example:

- The financial business would be required to calculate and pay the financial loss as at

the date of the decision.

- Because it didn't make the payment by the deadline, simple interest at 8% per year is payable on this amount from – the day after the deadline date to the date of settlement.

Frequently asked questions

Where can I obtain historical Bank of England base rates?

[See interest rates and bank rate on Bank of England website](#) for Official Bank Rate history data from 1694.

What rate should be used on the day the base rate changes?

The prevailing rate at the end of the day should be used.

Would the Financial Ombudsman be able to help with the calculation?

We're planning to develop a calculator to provide financial businesses and consumers with a rough illustration of the potential interest for being deprived of money, which will be made available for use from January 2026.

Please note that the calculator will be for illustrative purposes only. The financial business is responsible for the accuracy of the compensation amount it makes.

Should tax be deducted on the interest?

Tax may be deductible on the interest, if it is by way of interest award. [Find out more about tax on compensation](#).

I don't think base rate + 1% is appropriate in my case. I have incurred a much higher loss.

Base rate + 1% is the default rate we award when it is difficult to establish what a consumer has lost because they were deprived of the use of money. But if a consumer can demonstrate the actual loss, compensating for this loss will be part of the main money award when arriving at fair compensation.

When you refer the complaint to us, or in your communication with our caseworkers, please explain with evidence any actual loss incurred. Our caseworkers will consider this if your complaint is upheld and it's necessary to determine what would be fair compensation.

However, it is important that you make it clear as early as possible the loss you believe you have suffered and you should do so within the deadlines given to you for submissions.

How can I be sure the financial business has made the correct calculations? Will the Financial Ombudsman check whether the calculation is correct?

When we tell a financial business the basis on which to pay compensation, we do not check the details of the calculation the business subsequently carries out. However, we aim to make sure that we explain the principle behind the calculation so that both parties to the complaint can understand the overall approach and the various stages and processes it will involve.

It's important that consumers understand how we intend things to be put right for them – even though they may not be able to perform the more complex calculations themselves or know exactly what the final figure will be.

We are planning to develop a calculator to provide financial businesses and consumers with a rough illustration of the potential interest for being deprived of money, which will be made available for use from January 2026. Please note that the calculator will be for illustrative purposes only, and the financial business is responsible for the accuracy of the compensation amount it makes.

Annex 1: Interest calculation using time-weighted average Bank of England base rate

For complaints referred to the Financial Ombudsman Service from 1 January 2026, the method for calculating pre-determination interest on compensation awards will change. A new rate will apply, based on a time-weighted average of the Bank of England base rate plus one percentage point, applied on a simple interest basis.

Please see below how the Financial Ombudsman Service expects firms to calculate the new rate. The calculation uses a weighted arithmetic mean, with time as the weighting factor. This approach reflects the average of interest rates over a period, adjusted for how long each rate was in effect. Unlike a simple average, which treats all rates equally, the weighted method gives greater importance to rates that applied for longer durations – resulting in a more accurate, time-sensitive figure.

An interest-rate calculator will also be published from January 2026 on the Financial Ombudsman Service website to support consistent application of the new methodology. It should be noted that the calculator will be for illustrative purposes only, and the financial business is responsible for the accuracy of the compensation amount it makes.

Calculation:

A. Weighted element

$$\text{weighted mean} = \frac{\sum_{i=1}^n t_i r_i}{\sum_{i=1}^n t_i}$$

Where:

n refers to the number of times in the period where a different base rate applied
t refers to the length of time (in days) a given base rate applied
r refers to an individual base rate that applied at some point in the period

A simple example of this would be, for a 100-day period where three different base rates applied:

Day 1-50: interest rate 5%
Day 51-75: interest rate 7%
Day 76-100: interest rate 8%

$$\text{weighted mean} = \frac{(50 * 5\%) + (25 * 7\%) + (25 * 8\%)}{50 + 25 + 25}$$

$$\text{weighted mean} = \frac{2.50 + 1.75 + 2.00}{100} = 6.25\%$$

B. Plus 1 percentage point

Adding 1 percentage point to this weighted rate gives the interest rate:

6.25% plus 1% = **7.25%** is the rate to be applied for interest calculation.

Rules

- Figures should not be rounded at interim steps of the calculation. Rounding should only occur once the time-weighted average rate has been determined.
- Only once the time-weighted average rate is calculated, it should be rounded to two decimal places.
- One percentage point should then be added to the rounded figure to arrive at the final rate used to calculate interest.
- Both the start date and the end date of the calculation period should be included when determining the duration over which interest is applied.

A fully worked example

An insurer declined a claim on a car. The claim amount is £8,000.

We upheld the complaint and asked the insurer to pay the £8,000 to the consumer. We also awarded interest on this amount as compensation for being deprived of the use of this money.

The interest should be calculated on a simple basis, using one percentage point above the time-weighted average of the Bank of England base rate (the base rate).

Interest should be paid from the date we concluded the claim ought to have been paid, which was 15 January 2025, to the date of settlement with deadline set at 31 August 2025. The actual payment was made by the respondent business on this deadline.

Interest calculation:

- The calculation start date is 15 January 2025.
- The calculation end date is 31 August 2025.
- The Bank of England base rates applicable during the relevant period are listed below:

From	To	Base rate (prevailing base rate at the end of the day)
15 January 2025	5 February 2025	4.75%
6 February 2025	7 May 2025	4.50%
8 May 2025	6 August 2025	4.25%
7 August 2025	31 August 2025	4.00%

Step 1: Identify the base rates and durations

Interest applied from 15 January 2025 to 31 August 2025 inclusive (229 days)

- 4.75% for 22 days (15 January to 5 February)
- 4.50% for 91 days (6 February to 7 May)
- 4.25% for 91 days (8 May to 6 August)
- 4.00% for 25 days (7 August to 31 August)

Step 2: Apply the weighted mean formula

$$\text{weighted mean} = \frac{(22 \times 4.75) + (91 \times 4.50) + (91 \times 4.25) + (25 \times 4.00)}{229} = \frac{10.0075}{229} = 4.37\%$$

Step 3: Add 1 percentage point

Interest rate to be applied = 4.37% + 1.00% = 5.37%

Step 4: Calculate the interest

$$\text{Interest} = £8,000 \times \frac{5.37}{100} \times \frac{229}{365} \times = £269.53$$

Multiple refunds with interest

If a consumer is due multiple refunds, each attracting interest, the simplest approach is to calculate interest separately for each refund using the method described above. Once the interest for each refund is determined, the amounts should be added together to arrive at the total interest payable.

Late payment of compensation

If the respondent business pays compensation after the deadline set by the Ombudsman, 8% simple interest should be applied to the loss for the late period (for example, from 1 September 2025 onwards in the example above) to the date of settlement.

Please see the case studies in the main pages for examples to support consistent and fair application.