Price discrimination in the cash savings market

Discussion Paper
DP18/6

July 2018

How to respond

We are asking for comments on this Discussion Paper by 25 October 2018.

You can send them to us using the form on our website at: www.fca.org.uk/dp18-06-response-form.

Or in writing to:
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How to navigate this document onscreen

returns you to the contents list

i takes you to helpful abbreviations

Contents

1 Summary

Introduction

1.1 We are concerned that competition is not working well in the cash savings market, particularly for customers that stay with the same provider for a long time (longstanding customers). Our 2015 Cash Savings Market Study (CSMS) found that providers have significant amounts of consumers' savings in accounts opened long ago (eg more than 5 years ago) (back-book accounts). These accounts, typically, pay lower interest rates than those opened more recently (front-book accounts). This is particularly true of easy access cash savings accounts and easy access cash ISAs.

1.2 We have seen evidence that providers' pricing strategies can take advantage of the high level of consumer inertia in the easy access cash savings market. Providers can differentiate the interest rates they offer different consumer groups based on how sensitive consumer groups are to interest rate changes. This means longstanding customers lose out through receiving lower interest rates than more active customers who shop around and switch. This pricing practice may not reflect the different costs of providing those different accounts. It disadvantages those consumers who do not shop around and who may have stayed with their provider due to loyalty or convenience.

1.3 We recognise that in the current low interest rate environment, overall harm is likely to be lower than if interest rates were higher. This is because the difference in interest rates between front- and back-book accounts is less pronounced. However, as interest rates rise, we expect the difference between front- and back-book interest rates would widen. This would increase the harm, which means that the resulting gain from any FCA intervention would also increase.

1.4 This Discussion Paper (DP) aims to gather input on this harm and what action, if any, we should take to address the harm. We provide further detail on options we are considering to address the harm. We seek feedback on our current view on the viability of these options, including demand-side and supply-side interventions.[1]

1.5 We seek input on our work to date on our current preferred policy option: a basic savings rate (BSR). The BSR is a variable interest rate that would apply to all easy access cash savings accounts and easy access cash ISAs after they have been open for a set period of time. We could also introduce a sunlight remedy[2] linked to a BSR. We have modelled the impacts of a BSR in the easy access cash savings market. This is in Occasional Paper No.41[3] (OP No.41), which should be read alongside this DP.

1.6 We are seeking feedback on whether to take forward the BSR policy option, and the potential scope and implications of a BSR on firms and consumers. We have not taken

1 Demand-side interventions are those aimed at changing the behaviour of consumers ie increasing information transparency. See Chapter 3. Supply-side interventions are those aimed at firms ie how they operate and compete in the market. See Chapter 4.
2 See Chapter 3 for further explanation.
3 Burnik, G. and Majer, T. (2018), Occasional Paper No,41: Price discrimination in the cash savings market: one rate, one solution?

any decision about whether to consult on this policy option or any other potential interventions.

Who this document affects

1.7 This DP affects all active and potential cash savings market participants as well as those with an active interest in this market.

What will interest consumers

1.8 The proposals in this paper could affect the interest rates that consumers receive on easy access cash savings products as well as the information that firms provide to consumers about such accounts. This DP is likely to be of interest to consumers and consumer groups alike. Given that most UK adults have cash savings (87%)[4] this paper is likely to be of interest to all types of consumers, those who are new to savings and those who hold existing accounts.

Context

1.9 In 2015, we carried out a competition market study into the cash savings market.[5] We found that the market was not working well for many consumers. In particular, we found that significant amounts of consumers' savings balances are in accounts opened long ago; these receive lower interest rates than newer accounts. Other findings included: a lack of transparency about alternative products; consumers being put off switching by the expected 'hassle'; and large, well-established personal current account providers being able to attract the majority of easy access balances, despite offering lower rates.

1.10 In December 2015, we introduced a package of remedies to address some of the harm, illustrated in Figure 1 below. This included: rules to improve the presentation, frequency and timing of customer communications at point-of-sale and post-sale; provisions to help customers switch accounts within their provider; agreement with industry on cash ISA transfers; and trialling the publication of the lowest interest rates available on easy access cash savings accounts and easy access cash ISAs (sunlight remedy).

1.11 We did not expect these remedies on their own to fully correct the problems the CSMS identified. We also proposed a switching box and a return switching form (RSF). They aimed to give consumers better information about the potential benefits of shopping around and, so, prompt them to consider their choice of savings account. However, the randomised controlled trials (RCTs) we conducted demonstrated that these demand-side remedies would not stimulate sufficient changes in consumer behaviour in the easy access cash savings market to address the harm caused to longstanding customers by price discrimination.

4 FCA (2017), Understanding the financial lives of UK adults: Findings from the FCA's Financial Lives Survey 2017, p.119
5 FCA (2015), Cash Savings Market Study MS14/2.3

1.12 So we have been considering whether to take forward any alternative measures to address the harm on the supply-side. These include a complete ban on price discrimination to a less restrictive rule about superseded accounts.

1.13 Our current preferred supply-side policy option would require providers to set a single variable interest rate to apply to easy access cash savings accounts and easy access cash ISAs, respectively, after a set period of time (ie 12 months). We would call this interest rate the basic savings rate (BSR).

Figure 1: How we have taken forward the CSMS remedies

The Cash Savings Market Study found that the market was not working well for consumers:
– Large amounts of balances in accounts opened long ago, paying lower rates
– Lack of transparency, with little information about alternative products
– Consumers put off switching by expected hassle and low gains
– Large personal current account providers have considerable advantages

Implemented

Disclosure
– Summary box
– Prominent display of interest rate information
– Improved consumer communications

Switching
– Improved intra-firm switching
– Speeding up cash ISA switching

Trialled

Disclosure
– Switching box
– Return switching form

Sunlight
– Publication of lowest interest rates on our website

Summary of the discussion

1.14 This DP seeks feedback on the following topics:

- Chapter 2 describes the harm we identified in the easy access cash savings market when price discrimination results in lower interest rates for longstanding customers. It then explores what causes this harm, including: consumer inertia; price obfuscation[6]; and the competitive advantages for larger providers.
- Chapter 3 provides an overview of the demand-side disclosure remedies that we have tested, including the switching box and sunlight remedy, and our view on whether these interventions could address the harm in the cash savings market.
- Chapter 4 sets out ways to tackle the identified harm on the supply-side: we give an overview of the options for intervening on the supply-side that we have considered in addition to a BSR.

6 This can occur when there are several variations of a product, making it difficult for consumers or customers to make informed decisions based on price.

- Chapter 5 explains our current preferred supply-side option of a BSR, including how we predict it will affect the market, providers and consumers.

Equality and diversity considerations

1.15 We have considered the equality and diversity issues that may arise from the proposals in this DP. Overall, we do not think that they adversely affect any of the groups with protected characteristics ie age, disability, sex, marriage or civil partnership, pregnancy and maternity, race, religion and belief, sexual orientation and gender reassignment.

1.16 We will continue to consider the equality and diversity implications of the policy proposal as we consider whether to take forward any proposals to consultation. In the interim, we welcome any input to this DP on such matters.

Next steps

What to do next

1.17 We want to know what you think of the harm identified, and whether and how we should intervene to tackle the harm. Please send us your comments by 25 October 2018. Please provide relevant evidence wherever possible.

How to contact us

1.18 Use the online response form on our website or write to us at the address on page 2.

What we will do

1.19 We will review your feedback and gather any necessary further input through discussions with industry and consumer groups. We will publish a Feedback Statement and, if we decide to take a proposal forward, will publish a Consultation Paper in early 2019, setting out the feedback we received and next steps.

2 Harm

2.1 In this chapter, we provide an overview of the harm we identified in how providers treat longstanding customers and how they can discriminate on pricing. We explore the drivers of this harm, including consumer inertia, price obfuscation and the competitive advantages of larger providers.

Table 1: Overview of the identified harm in the cash savings market[7]

Drivers of harm	**Sensitivity to price and consumer inertia**	**Price obfuscation and product replacement**	**Competitive advantages of larger providers**
Harm	**Price discrimination leading to poor outcomes for longstanding customers[8]**		

Price discrimination leading to poor outcomes for longstanding customers

2.2 Price discrimination occurs when providers offer different prices to different customers that have the same costs to serve but different willingness to pay. Providers can differentiate prices in several ways but for the purposes of this DP, we are interested in pricing based on differences in consumers' price sensitivity.[8] The evidence indicates that price discrimination, based on the length of time customers have held their accounts, is present in the easy access cash savings market.

2.3 The CSMS found that providers hold significant amounts of consumers' savings balances in accounts opened long ago (eg more than 5 years ago). Savings providers, on average, pay lower interest rates on easy access accounts held for a long time than on accounts opened more recently.[9] As the CSMS noted, the direct costs of providing cash savings accounts do not, generally, increase with age of account.[10]

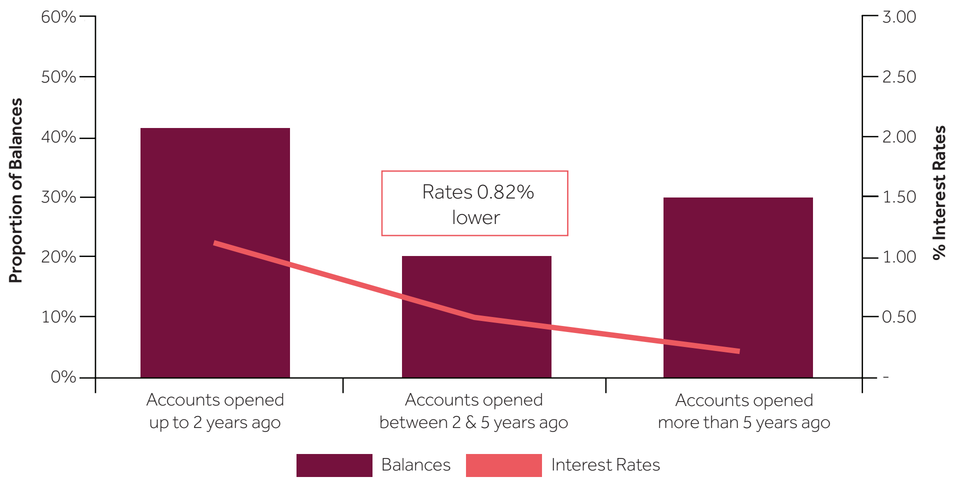
2.4 Our Financial Lives Survey (FLS) found that consumers who have held their savings accounts for a long time are more likely to show characteristics of potential vulnerability.[11] In particular, the FLS indicated that nearly a third (31%) of consumers holding their savings account for 10 years or more show characteristics of potential vulnerability,[12] compared with a just under a quarter (24%) who do not demonstrate these characteristics. We are, therefore, concerned about the impact of providers' pricing strategies on vulnerable consumers.

2.5 In 2013, of the £702bn total cash savings market, 50% of balances were held in easy access savings accounts (total £354bn) and 15% were held in easy access cash ISAs

7 This harm relates to the following harms in our Mission: 'Prices too low or quality too high' and 'Buying unsuitable or mis-sold products; customer service/treatment'.
8 Starks, M., Reynolds, G., Gee, C., Burnik, G. and Vass, L. (2018), Price discrimination in financial services: How should we deal with questions of fairness?
9 FCA (2015), Cash Savings Market Study MS14/2.3, p.4
10 FCA (2015), Cash Savings Market Study MS14/2.3, p.59
11 FCA (2017), Understanding the financial lives of UK adults: Findings from the FCA's Financial Lives Survey 2017, p.156
12 Characteristics of potential vulnerability include low financial capability or resilience, physical or mental health conditions, life event etc.

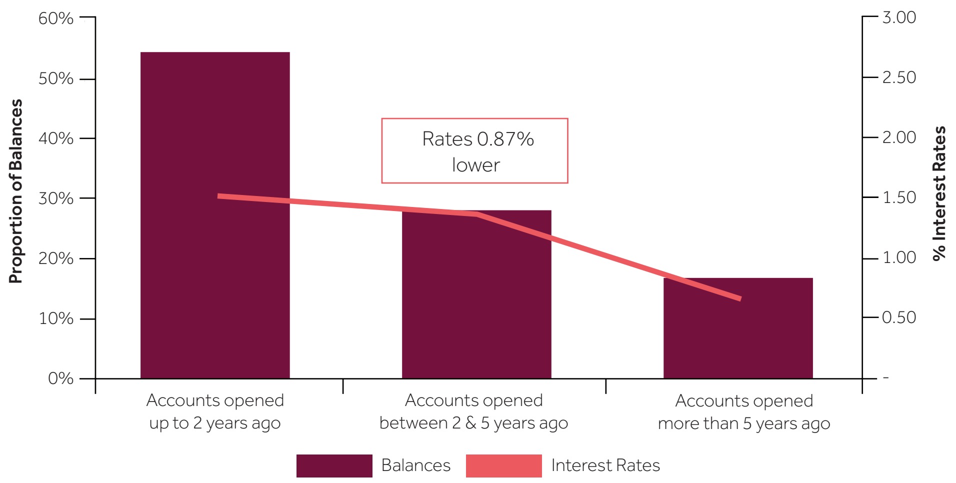
(total £108bn).[13] 33% of easy access cash savings balances (Figure 1) and 19% of easy access cash ISA balances (Figure 2) were held in accounts opened over 5 years ago; these have interest rates on average 0.82% and 0.87%, respectively, lower than accounts opened within the previous 2 years.[14] Our FLS illustrates that customers still hold their savings in accounts opened long ago. It found that 45% of customers have held their savings account for more than 5 years.[15] Figure 4 illustrates that interest rates are, on average, higher for newer customers and decrease gradually over time.

Figure 2: Proportion of balances and average interest rates for easy access products, December 2013



Source: FCA analysis based on firms' data collected during the Cash Savings Market Study

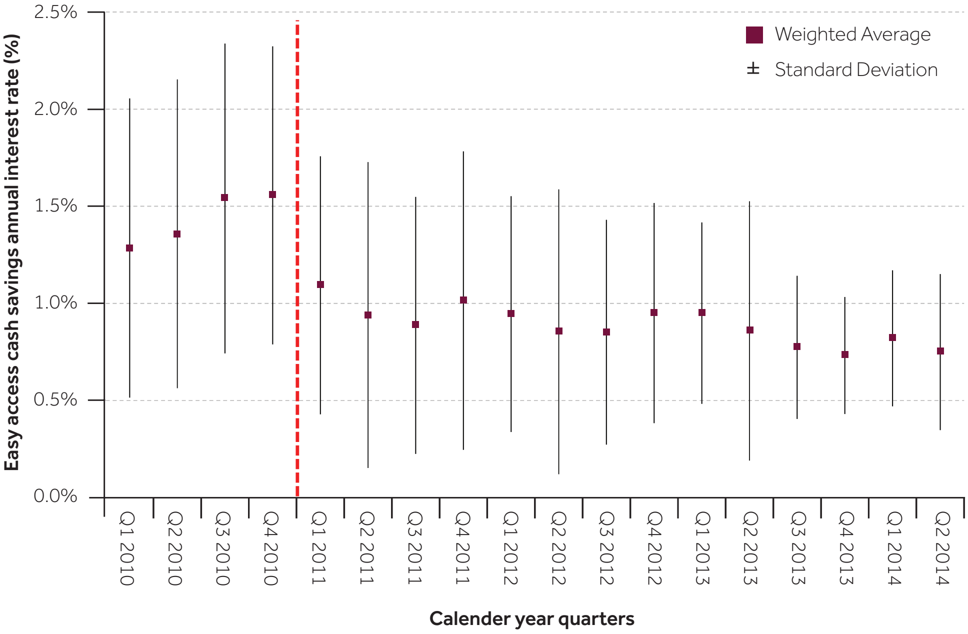
Figure 3: Proportion of balances and average interest rates for cash ISA products, December 2013



Source: FCA analysis based on firms' data collected during the Cash Savings Market Study

13 FCA (2015), Cash Savings Market Study MS14/2.3, p.16
14 FCA (2015), Cash Savings Market Study MS14/2.3, pp.56-57
15 FCA (2017), Financial Lives Survey: Savings weighted data tables, Table 18, RB99.

Figure 4: Interest rates of easy access cash savings products on sale during 2010 for 13 firms (CSMS dataset)



Source: FCA analysis based on firms' data collected during the Cash Savings Market Study

2.6 Paying lower interest rates to longstanding customers is a long-running pricing strategy used by firms in the UK and internationally.[16] We believe this is unlikely to change without further intervention. We recognise that the data we rely on are from 2013 and the market may have changed during the intervening period. To minimise the burden on firms we have not collected additional data from providers. So we welcome any representations on the current state of the cash savings market.

2.7 The current cash savings market is characterised by low interest rates, particularly since (i) the Bank of England reduced the Official Bank Rate in 2008; and (ii) HM Treasury and the Bank of England introduced the Funding for Lending Scheme in 2012, which ended this year, and the Term Funding Scheme in 2016, which was closed to drawdowns this year. This has reduced the need for deposit takers to raise new balances in the cash savings market, leading to lower interest rates and narrower interest rate differentials between front- and back-book accounts.

2.8 We do not believe that this narrowing of the interest rate differential is a sign of a fundamental shift in pricing. Rather, it is the expected outcome given the increased liquidity provision and low Official Bank Rate environment. If providers decided to increase rates in response to Official Bank Rate rises and decreased liquidity provision, there is no evidence to suggest that rate differentials between front- and back-book accounts will remain as low as they are currently. Instead, we expect that, if providers increase interest rates, the gap between front- and back-book interest rates will widen, therefore, increasing the harm to longstanding customers. This is because: (i) providers are more likely to increase front-book rates to attract deposits, and (ii) a

16 For example, Anderson RDJ, Ashton JK, Hudson RS. (2014), The influence of product age on pricing decisions: An examination of bank deposit interest rate setting, Journal of International Financial Markets, Institutions and Money, 31, pp. 216-230. For a similar evidence on the Spanish market, see Carbo-Valverde, S., Hannan, T. H., & Rodriguez-Fernandez, F. (2011), Exploiting old customers and attracting new ones: The case of bank deposit pricing. European Economic Review, 55, 903-915.

higher Official Bank Rate gives providers more scope to differentiate interest rates between accounts.[17]

2.9 We believe that price discrimination has been largely driven by competition not working effectively in the cash savings market and that this longstanding, persistent issue will not change without intervention. We outline the main drivers of price discrimination below.

Consumer price sensitivity and pricing based on inertia

2.10 Price discrimination is more likely to happen when different consumer groups have different sensitivities to price.[18] In the cash savings market, longstanding customers are generally less sensitive to price and price changes. This is illustrated by the diminishing rate at which customers switch accounts over the lifetime of an account. Therefore, providers can take advantage of this decreasing price sensitivity over time by paying, on average, lower interest rates to longstanding customers; such customers are less likely to switch compared to customers who opened their accounts more recently.

2.11 The cash savings market is characterised by high levels of consumer inertia. In the CSMS, we found that only 9% of easy access savings accounts and 13% of easy access cash ISA accounts were switched externally (to another provider) at least once in the previous 3 years.[19] This is consistent with findings in the 2017 FLS that 9% of consumers had switched cash savings account provider and 10% had switched cash ISA provider in the last 3 years.[20]

2.12 Figure 5 shows that older balances are much stickier (ie are less likely to be moved) than balances in recently opened accounts. There is a very high rate of balance attrition during the first 2 years, after which this attrition gradually decreases to about 10% to 15% per year. Off-sale balances generally represent older accounts. Balances in these accounts decrease by about 10% to 25% per year.

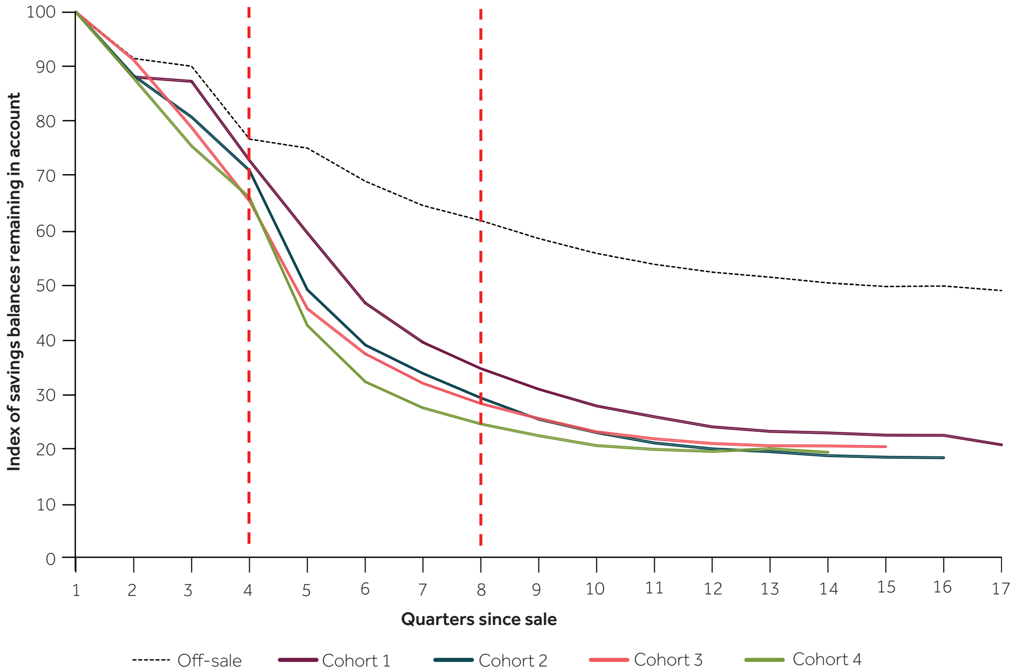
17 Anderson RDJ, Ashton JK, Hudson RS. (2014), The influence of product age on pricing decisions: An examination of bank deposit interest rate setting, Journal of International Financial Markets, Institutions and Money, 31, pp. 216-230 This illustrates that in a lower interest rate environment, the difference between the lowest and highest rates offered by providers is smaller than if interest rates were higher.

18 Starks, M., Reynolds, G., Gee, C., Burnik, G. and Vass, L. (2018), Price discrimination in financial services: How should we deal with questions of fairness?

19 FCA (2015), Cash Savings Market Study MS14/2.3, p.A2-36

20 FCA (2017), Understanding the financial lives of UK adults: Findings from the FCA's Financial Lives Survey 2017, p.155

Figure 5: Attrition of balances from cash saving account products on sale between Q1 2010 and Q4 2010, and 2010 off-sale



Source: FCA analysis based on firms' data collected during the Cash Savings Market Study.

2.13 The CSMS found that, of the accounts that were not switched, 33% of consumers had considered switching but did not switch, compared to 67% of consumers who had not considered switching at all.[21]

2.14 The most cited reason by the 33% of consumers who had considered switching but did not switch was low (perceived or actual) gains. For example, 42% found very little difference in interest rates offered in the market and 28% said their balances were not high enough to gain from switching.

2.15 Higher interest rates may lead to some increase in these consumers switching account. We believe, however, that higher interest rates are unlikely to increase switching significantly:

- First, average balances in back-book accounts are lower than front-book accounts.[22] This means that the interest rate differential between accounts would need to be significantly higher to make switching worthwhile.[23]

- Secondly, even the certainty of higher gains may not be enough to persuade customers to switch. This is illustrated in Occasional Paper No. 19 (OP No.19) where 26% of customers in the sample had more than £100 to gain, and yet the vast majority of them did not switch.[24]

21 FCA (2015), Cash Savings Market Study MS14/2.3, p.A2-43
22 Data from the CSMS shows that, for easy access accounts, the average balance for an account opened between five and ten years ago was £2,960 compared to £13,379 for accounts opened within the previous year.
23 Consumers with £2,960 (average back-book balance) would have to achieve a 1.7ppt increase in their interest rate to gain £50.
24 FCA (2016), Occasional Paper No. 19: Attention, Search and Switching: Evidence on Mandated Disclosure from the Savings Market, p.27

2.16 The most cited reasons by the 67% of consumers who did not consider switching related to convenience or familiarity. For example, 35% said they were happy with the quality of service, 26% had been with their provider for a very long time, 19% held other products with the provider and 18% stated that their provider had a local branch. It is, therefore, unlikely that these consumers could be encouraged to switch through interest rate increases or additional disclosure. These consumers may have valid reasons for remaining loyal to their provider, despite potentially losing out on higher interest rates elsewhere and, therefore, should not be disadvantaged because of their loyalty.

2.17 The presence of consumer inertia enables providers to price discriminate based on how likely it is for customers to switch. This is a sign that the market is not working well.

Price obfuscation and product replacement

2.18 Providers are able to price discriminate when they can adapt products to ensure different prices can be charged to different consumer groups.[25] The CSMS found that some providers use a product replacement strategy that allows providers to pay different interest rates to customers with new accounts compared with customers with older accounts.[26] We also found that providers have a wide range of products on their books, with new products frequently introduced and older products withdrawn from sale or no longer marketed to new customers. At the time of the CSMS, 350 easy access products were offered on the market (on-sale) and just over 1,000 were no longer on sale to new customers (off-sale).[27]

2.19 Multiple products can lead to confusion for consumers, obfuscating prices and inhibiting competition. For example, it can make it harder for consumers to identify which account they hold and the interest rate they receive. This makes it difficult to compare their savings account with others on offer, which can result in lower engagement and difficulty in making suitable purchasing decisions.

2.20 In 2016, we introduced Handbook rules and guidance on prominently displaying a customer's current interest rate in statements, in other customer communications, in pre-sale summary box and on websites, including for off-sale savings products. This aimed to make it easier for consumers to access information on the interest rate that applies to their savings account and others, resulting in easier comparisons.

2.21 Furthermore, in January 2018, the revised Payment Services Directive (PSD2)[28] and the Competition and Markets Authority's (CMA) Open Banking remedy were introduced. These initiatives aim to: enhance consumer protection; introduce new and convenient ways for consumers to manage their finances between providers and facilitate switching and shopping around; and enhance competition in retail banking through, for example, increasing transparency and reducing search costs. The impacts on easy access cash savings and cash ISA consumers are, as yet, unknown. However, as outlined above, we are concerned about inert longstanding consumers who are less likely to be engaged. These consumers may not respond to increased disclosure or use new innovative services and are, therefore, unlikely to benefit.

25 Starks, M., Reynolds, G., Gee, C., Burnik, G. and Vass, L. (2018), Price discrimination in financial services: How should we deal with questions of fairness?
26 FCA (2015), Cash Savings Market Study MS14/2.3, p.62
27 FCA (2015), Cash Savings Market Study MS14/2.3, pp.56 & 63
28 Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market

2.22 The CSMS did not propose introducing rules to specify a maximum number of product types that each firm can offer. However, it did encourage firms to consider whether their current product range is delivering good customer outcomes.[29] We recognise that some providers, including some large providers, have reviewed and simplified their product range. This has made the interest rates offered on those accounts easier to compare. However, we believe that price obfuscation is still a feature of the market. This is illustrated by there being more products on the market than at the time of the CSMS, with around 470 on-sale easy access products and around 1,870 off-sale products currently on the market.[30]

Competitive advantages of larger providers

2.23 The CSMS found that large personal current account providers have a considerable competitive advantage because they can attract most easy access balances despite offering lower interest rates. In 2015, over 66% of consumers with a cash savings account held it with their main current account provider.[31] Consumers' desire for convenient access to their accounts seems to be a significant factor that drives them to use the same firm for their savings account and personal current account. So, to compete for customers, smaller providers have to offer significantly higher interest rates than those offered by the large personal current account providers.[32]

2.24 Adding to this, another key factor that consumers think about when choosing a cash savings product is their perception of the provider. A provider's brand strength, its perceived financial stability and its reputation are important factors for consumers.[33] Our CSMS found that consumers were often unwilling to consider an unfamiliar provider. Only 26% and 30% of consumers, respectively, would have considered a bank or building society that they had not heard of but that appeared at the top of a price comparison website.[34] This means that smaller providers with a less established brand may struggle to attract consumers despite offering higher rates. Therefore, concentration of easy access savings among the 6 largest providers has remained relatively stable over time, despite some smaller providers gaining a larger foothold in the market more recently.[35]

2.25 PSD2 and Open Banking may help reduce the competitive advantage of those with large back-books, but it is difficult to predict the precise impact. Innovations, such as applications (apps) that allow consumers to see their finances in one place, may help customers to better manage multiple accounts and make it easier to switch to more suitable products. This may inhibit larger providers' ability to set interest rates below the market average without losing market share. If innovation encourages more switching, it may be harder for the larger banks and building societies to retain customers and cross-sell products (for example, savings accounts with current accounts).

2.26 Innovation may go some way to decrease barriers to entry for smaller providers by reducing some of the friction associated with switching. However, at least in the short term, we do not believe that competitive disadvantages of smaller providers are likely to be completely eliminated. This is because they will not necessarily affect consumer

29 FCA (2015), Cash Savings Market Study MS14/2.3, p.9
30 FCA analysis of MoneyFacts data from 31 May 2018]
31 GFK (April 2015), 'Personal Current Account Investigation: A Report for the Competition and Markets Authority' by GfK NOP
32 FCA (2015), Cash Savings Market Study MS14/2.3, p.7 & 34
33 FCA (2015), Cash Savings Market Study MS14/2.3, p.19
34 FCA (2015), Cash Savings Market Study MS14/2.3, p.37
35 FCA (2015), Cash Savings Market Study MS14/2.3, pp.21-22 and FCA (2018), Sector Views 2018, p.14

perceptions and some inert customers will remain and, therefore, will not switch to alternative providers.

Intervening to address price discrimination

2.27 When deciding whether to intervene where we have identified price discrimination we consider several elements. We set these out in our research note on price discrimination in financial services.[36] The decision on whether and how to intervene will ultimately depend on the particular circumstances of the price discrimination; there is no one-size-fits-all approach. As set out in this section, we have identified an economic case to address the price discrimination in the cash savings market that is strengthened by distributive fairness considerations.[37]

2.28 The factors that we take into account when deciding how to intervene include:

- whether the proposed remedy is capable of addressing the harm and is proportionate in terms of the costs and benefits
- what effect we expect the proposed remedy may have on, for example, competition, average prices and particular groups of consumers
- whether there are any adverse unintended consequences (for example, the withdrawal of products that are beneficial to consumers) and if they can be mitigated

2.29 In Chapters 3 to 5 of this paper, we seek feedback on potential measures to address the harm in the cash savings market. The options set out in this paper range from less restrictive demand-side interventions, which aim to encourage consumers to switch through increased disclosure to more restrictive supply-side interventions, which aim to change the way providers price or structure their products so it will be more difficult for them to price discriminate.

36 Starks, M., Reynolds, G., Gee, C., Burnik, G. and Vass, L. (2018), Price discrimination in financial services: How should we deal with questions of fairness?

37 These considerations include whether the consumers harmed are vulnerable, the scale or the harm and whether the product is an essential product.

2.30 The options that we consider in this paper are outlined in Table 2.

Table 2: Possible intervention tools to address the price discrimination in the cash savings market

Least restrictive → **Most restrictive**

Demand-side	Supply-side			
– Disclosure remedies – Switching box – Return switching form – Sunlight remedy	Basic savings rate	Superseded accounts rule	Ratio-based price regulation	Ban on price discrimination

Q1: What are your views on the nature and scale of harm outlined above? Does it merit some form of intervention in the cash savings market?

3 Options for intervention on the demand-side

3.1 In this chapter, we summarise the results of disclosure remedies that we trialled. This includes a switching box and a return switching form (RSF), which we trialled through randomised controlled trials (RCTs), and the sunlight remedy. We published the results on our website. We seek feedback on our proposed conclusion and next steps on these remedies.

Switching box and return switching form (RSF)

3.2 The CSMS proposed additional disclosure remedies to those implemented in December 2015, specifically:

- A switching box: provided to customers periodically, setting out the potential financial gains from switching. This would prompt customers to consider their choice of account and provider.
- A RSF: a simple 'tear-off' form and pre-paid envelope which would enable a customer to switch to a better paying account offered by their existing provider more easily (internal switching).

3.3 These measures aimed to provide customers with better information about the potential benefits of shopping around and, therefore, prompt more customers to consider their choice of savings account. The measures were designed to improve how providers treat longstanding customers. We felt that more shopping around and switching would put pressure on firms to provide products that better meet customer needs, such as, better interest rates and service. They were also expected to make it easier for challenger providers to attract customers through making their offer, which is generally more attractive (ie higher interest rate), more visible. This would provide further incentives to larger firms to innovate and become more efficient.

Randomised Controlled Trials (RCTs)

3.4 In 2015, we carried out RCTs to test variations of the switching box and the RSF.[38] In 2016, OP No.19 reported the results.[39] We summarise these below:

- The results of the switching box trial were mixed:
  - One trial, where the switching box was included on the front page of an annual statement, led to a modest increase in internal switching of 3% but no increase in external switching; including information about rates available elsewhere in the market led to a small reduction in internal switching.

38 The RCTs involved over 130,000 accounts across a range of firms; a large proportion of the accounts involved in the RCTs had been held for a number of years.

39 FCA (2016), Occasional Paper No. 19: Attention, Search and Switching: Evidence on Mandated Disclosure from the Savings Market

- In a second trial, where the switching box was included on the reverse of a letter notifying customers of a rate reduction, we observed no statistically significant impact.

- The RSF trial was more effective in making it easier for customers to switch to a better rate offered by their existing provider. It increased internal switching by around 9%. This additional internal switching appears to have been generated from customers who would not otherwise have taken action (ie there was no negative impact on external switching).

3.5 The empirical evidence from the trials indicates that encouragements to consider switching, particularly externally, are unlikely to lead to any substantial increase in external switching in the easy access cash savings market.

3.6 The findings of individual field trials, to some extent, depend on the specific features and design details of the trial, such as a provider's customer base, the competitiveness of its interest rates, the account balance, the quality of its existing disclosure, and the simplicity of the switching process. They are also likely to be influenced by the economic environment in which the trials took place. We took this into account in assessing the results and commissioned some follow-up research to better understand the results of the switching box trials:

- The quantitative research[40] indicated that attention to disclosure was low for both switching box trials; 40% of respondents did not recall receiving the communication. Of those who did recall the communication, only 40% read it in detail. Respondents who recalled receiving the communication also found it difficult to recall the details without explicit prompting by the interviewer.

- The qualitative research[41] indicated that a switching box would be well-received but that an explanation of the rationale for the switching box may improve its effectiveness – some participants were unclear about the purpose of the switching box and were suspicious or confused about why their provider would send them information about better rates available elsewhere. Other reasons for inaction that were reported included low interest rates and the convenience of having accounts with the same provider.

Conclusion on trialled disclosure remedies

3.7 As a result of these findings, we have considered whether there is anything more we could do to substantially increase the switching box's effectiveness. In particular, we explored whether adding further explanation of the switching box's purpose would make it more effective.

3.8 Our view is that a redesigned switching box would be unlikely to lead to a significant change in consumer behaviour across the easy access cash savings market. The market is characterised by a large proportion of inert consumers and low balances in the back-book. If a switching box remedy were implemented, there would still be a large number of consumers who would not switch due to consumer inertia, lack of attention and low balances. So the price discrimination against longstanding customers would be likely to continue as before. Furthermore, given the limited impact on the market, it is unlikely that providers would be incentivised to change their pricing strategies.

40 FCA (2016), Occasional Paper No. 19: Attention, Search and Switching: Evidence on Mandated Disclosure from the Savings Market, pp.26 – 28

41 Optimisa Research (2016), Cash Savings Switching Box: Consumer testing to inform the FCA's proposed switching box

3.9 The RSF did prove somewhat more effective at encouraging more internal switching to better accounts. Our concern is that this remedy would only encourage internal switching at the expense of external switching to smaller providers. This would have the reverse effect to our intended objectives by solidifying the strong position of existing large providers, thereby raising the entry barriers for new providers.

3.10 Demand-side remedies alone do not always deliver all the outcomes that we may want to achieve to protect consumers and facilitate competition.[42] As outlined above, we have tested demand-side remedies designed to increase consumer engagement and switching in the easy access cash savings market. However, based on the evidence gathered to date, our view is that demand-side remedies are unlikely to address the identified harm to longstanding customers in the easy access cash savings market.

Sunlight remedy

3.11 In the CSMS, we proposed a sunlight remedy which involved publishing comparative interest rate information. This aimed to raise awareness of providers' treatment of their longstanding customers and to give firms an incentive to offer better interest rates to existing customers, especially those with off-sale products. This information would not be targeted at consumers directly, but rather towards market commentators, consumer groups and the media.

Trial

3.12 We trialled a sunlight remedy for 18 months in 2015-16. In this trial, we asked firms to tell us the lowest possible rate that customers could earn across all their easy access savings accounts and easy access cash ISAs. This was split into on-sale and off-sale accounts and branch and non-branch accounts. There were 3 publications in total: December 2015[43], July 2016[44] and December 2016.[45]

3.13 We found that the trial did not have a clear, measurable impact on providers' rate setting strategies. There may be several reasons for this, including that the rates published did not always accurately reflect the rate being paid to most customers. For instance, a provider's worst rate might only apply to accounts where a minimum balance had not been satisfied. This meant that the rates published were not always comparable and, therefore, firms were not encouraged to change their strategy.

3.14 The sunlight trial is unlikely to have directly encouraged firms to pay better interest rates on accounts with the lowest interest rates. However, it was successful in attracting significant media attention, which drew attention to poor rates. The sunlight trial was, therefore, successful in shining a light on the lowest rates in the market and emphasising the rates some longstanding customers are receiving on their savings.

Proposed next steps on introducing a sunlight measure

3.15 Before deciding whether to take forward a form of the sunlight remedy, we will wait for feedback on other remedies proposed in this paper. If we were to take forward an

42 Fletcher, A. (2016), The Role of Demand-Side Remedies in Driving Effective Competition: A Review for Which?, Centre for Competition Policy, University of East Anglia

43 www.fca.org.uk/news/news-stories/cash-savings-sunlight-remedy

44 www.fca.org.uk/news/news-stories/cash-savings-sunlight-remedy-second-report

45 www.fca.org.uk/news/news-stories/cash-savings-sunlight-remedy-third-report

alternative remedy, it might be appropriate to introduce a sunlight remedy alongside that remedy. See Chapter 5 for a discussion of a sunlight remedy linked to a BSR.

3.16 In December 2017, we made rules on introducing information about current account services.[46] This aimed to reduce barriers to accessing and assessing information about service quality that contribute to low customer engagement in the current account market. The rules require providers to give information about current account services, including account opening and service availability. We consider that many of the service metrics have direct read-across for cash savings products. As part of a sunlight remedy, we could consider whether any additional service metrics specific to cash savings could increase consumer engagement.

Q2: **Do you agree with our analysis of the demand-side remedies? Are there any further considerations that we should make?**

Q3: **Do you think we should require any service metrics that relate specifically to cash savings to be published? If so, please suggest metrics that you think we should consider.**

46 FCA (2017), PS17/26: Information about current account services

4 Options for intervention on the supply-side

4.1 As we set out in our Mission, one way to improve how markets operate is to protect consumers by directly intervening in the market.[47] Given our continued concerns about how longstanding cash savings customers are treated and the limited effectiveness of demand-side remedies in this market, we are exploring policy options that target changing supply-side behaviour.

4.2 In this chapter, we seek feedback on several possible interventions on the supply-side: a complete ban on price discrimination; ratio-based price regulation; and a superseded accounts rule.

4.3 Our current preferred supply-side intervention is a basic savings rate (BSR), which we set out in further detail in Chapter 5. Under this option, a BSR would apply to easy access savings accounts and easy access cash ISAs after they have been open for a specified period of time. We believe that a BSR could (i) make it more difficult for providers to price discriminate, and (ii) increase transparency, therefore, addressing the identified harm. We consider that the alternative options outlined in this chapter would be more restrictive than the BSR and may have significant unintended consequences.

4.4 We seek feedback on these alternatives and request further input on any other interventions we could consider.

Overview of options

4.5 Table 3 summarises the different supply-side options and our current views on the extent to which they would address the harm and the potential for the intervention to cause adverse unintended consequences, for example, affecting providers' funding strategies or consumer behaviour.

47 FCA (2017), Our Mission 2017, p.7

Table 3: Overview of options for intervention on the supply-side

	Price discrimination	Consumer inertia	Pricing transparency	Advantages to smaller providers?	Potential for adverse unintended consequence
Basic savings rate	Partially address	Call to action to shop around and increased transparency	Increased transparency	Potentially lower barriers to expansion and entry	Medium
Superseded accounts rule	Partially address	Unlikely to have a significant impact	Unlikely to have a significant impact	Unlikely to have a significant impact	Medium
Ratio-based price regulation	Partially address	Unlikely to have a significant impact	Unlikely to have a significant impact	Unlikely to have a significant impact	Medium – High
Ban on price discrimination	Completely address	Increased transparency	Increased transparency	Potentially lower barriers to expansion and entry	High

Superseded accounts rule

4.6 A superseded account is an account closed to new customers or which a provider no longer promotes (ie an off-sale account). Under a superseded accounts rule, providers would be forced to transfer customer deposits to a comparable, on-sale product when their cash savings product has been superseded.

4.7 The Banking Code previously contained provisions which stated:

- the interest rate on a superseded account should be at the same level as another account with similar features or
- the superseded account should be switched to another account with similar features within the same provider

4.8 In response to our previous work on the CSMS, one provider and one trade body suggested reviving these provisions.[48]

4.9 This approach could address the harm to longstanding customers. It would make it more difficult for providers to price discriminate against longstanding customers as it would require customers with off-sale accounts to be moved to an interest rate offered to new customers.

4.10 This approach may also increase transparency, simplifying the products available by effectively removing off-sale accounts from the market. It may also increase certainty for customers; they would know that their account will be moved to a comparable rate

48 FCA (2015), PS15/27: Cash savings remedies: Feedback and Policy Statement to CP15/24 and next steps, p.14

when their product is no longer available to new customers. This may make it easier for customers to understand their interest rate and, therefore, shop around.

4.11 However, our current view is that this approach is unlikely to address the identified harm in practice.

4.12 First, providers would be able to decide when the front-book rate becomes superseded and which product the customer is migrated to. This approach, therefore, may not improve interest rates for longstanding, inert customers as compared to new customers. Providers could offer a range of products to new customers with various interest rates. For example, they may decide to offer an on-sale product with interest rates at the same level as off-sale products for these longstanding customers. Furthermore, it may provide false reassurance to customers that providers are treating them well, where an alternative product may be more suitable even if it is not a comparable product.

4.13 Second, providers would remain able to offer an unlimited number of products with any interest rate, with the only restriction being that they could not have off-sale accounts. This approach may not, therefore, improve transparency or simplify the product offering and may not be an improvement on the status quo. If multiple products are still on the market, customers may still find it difficult to understand the rate they are on and, therefore, shop around for suitable products. Also, given that it may be difficult to define a comparable account and there may be multiple strategies, it is likely to remain difficult to know how longstanding customers are treated.

4.14 Finally, our initial view is that this approach may adversely affect competition between incumbents and challengers. As already mentioned, the barriers to switching would still remain given the potential lack of transparency. Providers moving customers on to a higher rate front-book product may decrease shopping around as customers may be less incentivised to actively shop around. This may mean that more customers remain with their current provider rather than looking to smaller providers for a better rate.

4.15 Some of those implications could be mitigated by limiting the number of available on-sale products, for example, to one per account type. However, depending on the number of products permitted, this could be similar to a complete ban on price discrimination. There would be a significant risk of unintended consequences in this scenario, as set out in greater detail below, including adverse effects on providers' liquidity management. This could result in providers paying significantly lower rates to front-book customers, thereby further reducing incentives to shop around and reducing benefits to more active customers.

Ratio-based price regulation

4.16 Ratio-based price regulation would act to ensure that the differences between interest rates paid to new customers and those paid to longstanding customers are not excessive. This means that the relative price differential between the front- and back-book could not exceed a certain level. This could either involve:

- setting a maximum ratio between front-book interest rates and rates on comparable accounts that have been open for a specified period of time or

- requiring providers to set this through an industry-led approach

4.17 This approach would make it more difficult for providers to price discriminate against longstanding customers as their rate would have to be set at a level that is not excessively different to their highest front-book rate. It would also increase clarity and transparency for customers about how they should be treated.

4.18 However, our current view of this alternative is that it may not address the harm in the market. First, we are uncertain about how providers may react to this. Ideally, it would have the effect of keeping front-book interest rates at the current level and increasing back-book rates. However, it is possible that some providers may decrease front-book rates and keep back-book interest rates as they are currently.

4.19 Second, it would not improve transparency in the sense of price obfuscation, as providers could retain multiple back-book accounts with different interest rates. Although there would be a limit to the rate differential, providers would remain able to reduce rates gradually. Customers are, therefore, still likely to find it difficult to compare rates.

4.20 Third, this approach would be complicated. It would require a resource-intensive setting of the ratio either by us or industry, which may need regular review. This might also add to complexity in the market. Our FLS found that 24% of all UK adults have low confidence in managing their money and 46% have low knowledge about financial matters.[49] Therefore, any greater clarity of approach may be weakened as it may be too complicated for some customers to understand. It may, therefore, have the unintended consequence of reducing competition, with customers not being encouraged to engage with their savings products and shop around.

4.21 Finally, depending on the ratio, this may have an unintended adverse impact on providers' funding models. It would decrease the freedom that firms have in setting their interest rates, which could, in turn, reduce their ability to manage liquidity flows.

Ban on price discrimination

4.22 Another alternative is a complete price discrimination ban on easy access cash savings products. This would involve firms being required to offer single interest rates for all easy access cash savings accounts and easy access cash ISAs, irrespective of the length of time the account has been open.

4.23 Banning price discrimination would address the harm against longstanding customers. Under this approach, providers would be unable to offer different interest rates based on age of account. Longstanding customers would have the most to gain from this approach as they are likely to see an increase to their interest rates. Furthermore, customers would not have to take any action to be put on to the same rate as new customers.

4.24 It would also increase transparency as providers would be unable to obfuscate prices by making interest rates for all customers clear. This would make it easier for customers to understand and compare their interest rate. It would therefore be

49 FCA (2017), Understanding the financial lives of UK adults: Findings from the FCA's Financial Lives Survey 2017, p.148

beneficial for competition as it would make it easier for customers to shop around for a potentially better value product with an alternative provider.

4.25 It may be beneficial for smaller providers with smaller back-books as it would not affect them as much as providers with larger back-books. Smaller providers would therefore be able to continue to offer higher rates than large providers, attracting customers. This would make it easier for small firms to attract new balances and thus expand. The increased transparency adds to this effect as customers would be able to compare rates more easily and understand how different providers treat their customers.

4.26 Although we have not performed any detailed modelling of this potential remedy, we believe that the unintended consequences of this approach could be significant and may outweigh the intended benefits.

4.27 First, retail deposits make up a vital part of providers' funding strategies. Our Strategic Review of Retail Banking Business Models found that 87% of funding is generated by customer deposits (either current accounts or savings accounts).[50] This approach is, therefore, likely to have an adverse impact on funding models. It would significantly decrease flexibility and reduce providers' ability to alter their pricing strategies to manage their funding requirements, ie by either shedding or attracting deposits. We consider that this could lead to significant unintended consequences. We, therefore, believe that a less restrictive option would be more proportionate relative to the harm.

4.28 Secondly, the impacts may be offset by significantly reducing front-book interest rates across the board, particularly for larger providers. This is because providers may find it too costly to increase interest rates on all back-book accounts. This may reduce the benefits of shopping around for more active customers who wish to remain with a larger provider. Furthermore, the CSMS found that 62% of switched easy access accounts and 53% of switched easy access cash ISAs were switched internally.[51] If the customer knows they are getting the best internal rate, there may be less of an incentive to shop around at all. If fewer customers shopped around, this may have the effect of further entrenching the power of the incumbents.

Q4: **Do you agree with our analysis of the supply-side options considered in this chapter? We welcome views on the impact of these options and any risks and benefits that we have not captured.**

50 FCA (2018), Strategic Review of Retail Banking Business Models: Progress report, pp. 17 and 18 (see Funding costs in retail banking section)

51 FCA (2013), Cash Savings Market Study MS14/2.3, p.35

5 Current preferred supply-side intervention: basic savings rate (BSR)

5.1 In this chapter, we explain our current preferred supply-side option, the BSR. This includes setting out the potential impact of a BSR on the market, providers and consumers. We would welcome feedback on the potential impacts of this option and whether you think we should take forward this option.

The potential impact of a BSR on the market

How a BSR is predicted to work

5.2 The BSR would involve providers applying single interest rates (BSRs), respectively, to all easy access cash savings accounts and to all easy access cash ISAs which have been open for a set period of time (for example, 12 months). Individual providers could decide the level of their BSR, and would be able to vary it.[52] Providers would remain able to offer different interest rates to customers in the period before the BSR applies (the front-book).

5.3 The BSR option that we have modelled[53] is based on providers having broadly 3 groups of customers:

- front-book customers who opened their accounts less than 1 year earlier
- mid-book customers who opened their accounts between 1 and 2.5 years earlier
- back-book customers who opened their accounts over 2.5 years earlier

5.4 As outlined in Chapter 2, providers pay, on average, higher interest rates to front-book customers, with the aim of attracting new customers. Providers tend to pay, on average, lower interest rates to inert back-book customers. This is because inert customers are generally less sensitive to pricing changes and are, therefore, less likely to switch in response to an interest rate reduction. However, mid-book customers are generally relatively more active than back-book customers, so firms are incentivised to offer them higher rates than back-book customers in an effort to retain them.

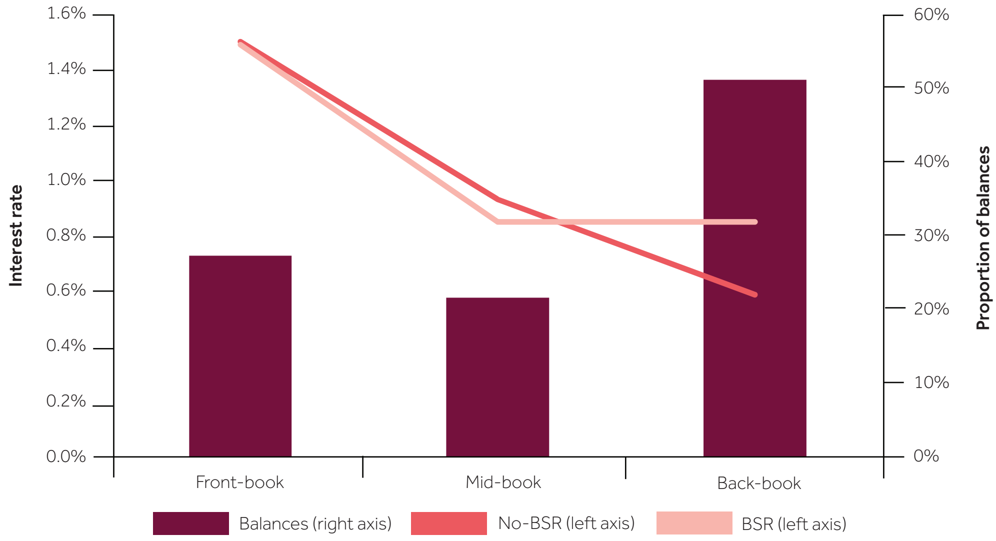
5.5 If we introduced a BSR, providers would be required to offer a single interest rate across their mid-book and back-book customers. We expect a BSR to work by pooling together relatively more active mid-book customers with inert back-book customers. We expect that the presence of these more active customers in the pool would place pressure on providers to set their BSR closer to the previous mid-book rate than the

52 Variation of the BSR would be subject to compliance with any applicable legal requirements and taking into account any relevant FCA guidance published. For example, the Consumer Rights Act 2015, and the current FCA guidance consultation on unfair variation terms (once finalised) – GC18/2: Fairness of variation terms in financial services consumer contracts under the Consumer Rights Act 2015.

53 This is a different breakdown of balances by age, compared to those used in Figure 2 and 3. This dataset is used in Figure 6 and the model is more granular in terms of time dimension (quarterly panel data) but limited to 5 years of age.

back-book rate as firms are incentivised to retain these customers. This is illustrated in Figure 6, below.

Figure 6: Model concept – illustration of impact of BSR on a representative large bank



Source: FCA analysis based on firms' data collected during the Cash Savings Market Study.

5.6 We believe that this option would address the harm as it would make it more difficult for providers to price discriminate against longstanding customers and would draw attention to how providers treat these customers. It would also promote competition through increasing price transparency and benefits to smaller providers. We also believe that the unintended consequences of a BSR would be less pronounced than those of the other supply-side alternatives that we have considered. As a result, we have carried out an in-depth analysis of this option, which is set out in this chapter.

Modelling a BSR

5.7 To help us to understand how a BSR could work in practice and to estimate its potential impacts, we have developed an economic model of the easy access cash savings market. We do not model the impact on easy access cash ISAs given the limitations of the data available for cash ISAs.[54] Any estimate in this paper is, therefore, limited to the easy access cash savings market so the overall impact is likely to be higher than predicted.[55] Further detail of our modelling is in OP No.41[56], which should be read alongside this DP. We summarise the main findings of the modelling below.

5.8 The model captures the main dynamics of the market and simulates firms' responses. It is based on:

- Data collected in July 2014 as part of the CSMS on firms' balances, interest rates, and product characteristics. The dataset tracks interest rates and balances held between January 2010 and June 2014 in on-sale accounts opened in different quarters of 2010 and in products that were off-sale in 2010.

54 We only have cash ISA data available for the 6 largest firms and none of the smaller firms.
55 In 2013, there were £108bn balances in easy access cash ISAs, compared to £354bn in easy access savings accounts. See FCA (2015), Cash Savings Market Study MS14/2.3, p.16.
56 Burnik, G. and Majer, T. (2018), Occasional Paper No.41: Price discrimination in the cash savings market: one rate, one solution?

- A theoretical framework from the academic literature that models the supply-side and firms' pricing strategies. This is tailored to the UK market, with its assumptions grounded in firms' and consumers' observed behaviour.

5.9 Our modelling estimates that the BSR delivers benefits in the form of higher net interest payments to customers ranging between approximately £150m and £480m (with a central estimate of around £300m) per year in the easy access cash savings market.[57] This is a net transfer from firms to customers, taking into account the 'waterbed effect' between the different customer groups.[58]

5.10 The modelling does not capture all potential impacts of a BSR (eg improved competition and price transparency) and, therefore, may overestimate or underestimate its effect.[59] The modelling assumes any interest rate drop, whether gradual or sudden, has the same impact on switching. In practice, we expect that a 'cliff-edge' drop (ie when the front-book rate changes to the BSR) would increase switching more than estimated.[60]

5.11 The modelling also relies on 4.5 years of data only; firms' back-books extend beyond 4.5 years (ie in practice, the price discrimination of firms' back-books is larger). The average back-book rate (without BSR) is likely to be lower than indicated by the data (since those with even older accounts are likely to be receiving a lower interest rate). These customers would benefit the most from being pooled with mid-book customers (whose price sensitivity remains).

5.12 If interest rates were to rise in the future, the difference between interest rates on new and old accounts may increase. The analysis presented in OP No.41 indicates that the revenue impact (ie the net transfer) would increase, from the current estimate of £300m, as interest rates rise. As an indicative rule of thumb, the impact scales approximately proportionately as interest rates change. That is, if interest rates double then the BSR's impact doubles. And, if interest rates halve, the BSR's impact halves.

Potential impact of a BSR on providers

Products in scope

5.13 In our analysis of the BSR option to date, we envisage that a BSR would only apply to easy access cash savings accounts and easy access cash ISAs as this is where the CSMS found that longstanding customers are experiencing the most harm resulting from providers' pricing strategies. This may be due to the nature of these products which typically offer a variable interest rate over an unlimited period of time. The scale of harm for these products is larger than for other products: easy access products make up 65% of the cash savings market, with significant balances in the back-book (see Figures 2 and 3 in Chapter 2).

57 If a BSR also applied to easy access cash ISAs, as currently envisaged, the total benefits would be higher than this.

58 A 'waterbed effect' can arise, generally in two-sided markets, when prices are pushed down (eg through regulation) on only one side of the market, resulting in prices rising on the other side to compensate for this. It can also occur when one, or more, consumer groups gain at the expense of other consumer groups.

59 No model can predict the future with 100% accuracy but we believe that our modelling is as robust as possible since: i) it has been reviewed by 3 academics to ensure it has been defined and estimated correctly; ii) the assumptions in the model are grounded in how we observe firm and consumer behaviour; and iii) we have stress tested the model for a range of parameter inputs.

60 Kahneman, D., & Tversky, A., 1984, Choices, Values, and Frames, American Psychologist. 39 (4): 341–350.
Tewari, J.K., 2015, Price change strategies over time – using dramatic major changes versus smaller incremental changes, Journal of Behavioural Studies in Business, Vol. 8.

5.14 Easy access cash savings accounts and easy access cash ISAs can be viewed as broadly substitutable (recognising the different tax-incentives) so we consider that a BSR should apply to both products. If a BSR only applied to easy access cash savings accounts, firms could be incentivised to attract customers to cash ISAs which may reduce a BSR's effectiveness.

5.15 For these purposes, we consider that easy access accounts have:

- no restrictions on deposits or withdrawals other than those imposed by the ISA regulations
- no notice period (ie customer can withdraw funds at any time)

5.16 We recognise that this definition could increase the scope for providers attempting to circumvent the rules by offering accounts with some restrictions. We could therefore consider including some accounts with conditions within the scope of a BSR.

5.17 Our current view is that a BSR would not apply to other types of cash savings products, such as, children's savings accounts, notice accounts, regular savings accounts and fixed term products. This is because the CSMS did not identify the same level of harm in these products. It appears that consumers are likely to be more engaged with products with conditions, such as, fixed term products. Excluding these accounts would enable firms to continue offering different rates for those products, limiting the potential impact on providers' funding models.

5.18 We also need to consider whether the scope of the BSR should include all banking customers as defined in the Banking Conduct of Business Sourcebook (BCOBS), this includes consumers and micro-enterprises.[61]

5.19 We envisage that providers would be able to set a maximum of 2 BSRs: one for easy access cash savings accounts and another for easy access cash ISAs. This would provide some flexibility in providers' BSR pricing strategies and allow for competition between products, recognising that the 2 products have different features and benefits.

5.20 We recognise that interest rate differentials between easy access savings accounts and easy access cash ISAs have narrowed in recent years. This has resulted from changes to tax incentives, for example, the introduction of the Personal Savings Allowance[62] and the increase in the ISA allowance. Despite the products being broadly substitutable, we consider that they are distinct products and, therefore, it would be appropriate for firms to retain the ability to set different interest rates for each product. We also note that the Personal Savings Allowance is a recent change made by Government. If a BSR were taken forward, retaining separate BSRs for easy access cash savings accounts and easy access cash ISAs would future-proof the intervention to account for possible changes in Government tax policy.

5.21 To maximise the BSR's impact, we consider that the BSR should be as simple as possible. It is likely to be more effective if more customers are pooled into a single BSR for easy cash savings accounts and easy access cash ISAs, respectively. The existence of multiple BSRs would enable firms to segment their customers in a manner that is

61 Micro-enterprises are defined in the Handbook as "an enterprise which: (a) employs fewer than 10 persons; and (b) has a turnover or annual balance sheet that does not exceed €2 million."

62 A tax-free threshold for non-ISA savings introduced by Government in 2016.

consistent with the status quo. Complexity would also be likely to reduce the benefits of increased price transparency.

5.22 Our current view is, therefore, that providers should not be able to have different BSRs for various product features. Different product features include: variations by management channel (eg if an account can only be managed online, in branch, or over the telephone), variations by balance (ie tiered accounts), or variations by having another product with a provider or by having the account open for a set period of time (ie loyalty accounts). This would not restrict the interest rates and features that providers can offer on front-book products.

Time period before a BSR could apply

5.23 We envisage that a BSR could apply to an account after it has been open for a specified length of time. Providers would retain the freedom to offer a full range of easy access products to front-book customers (ie on accounts before the BSR applies) and would also be free to offer the BSR to front-book customers.

5.24 We are considering a variety of alternative time periods, ranging from 12 months to 3 years or giving providers flexibility. Our initial assessment of the different options is in Table 4, below.

5.25 On balance, our current view is that, to be effective, a BSR should apply to a customer's account after the account has been open for 12 months.

5.26 Figure 5 in Chapter 2 illustrates that switching rates are higher between 12 and 24 months of account opening compared to after 24 months where switching tails off. So it follows that applying a BSR after a longer period is likely to reduce the BSR's efficacy and benefits, as more active mid-book customers would be taken out of the pool. Without those more active customers in the pool, we predict that providers would set the BSR lower, closer to the current back-book rate rather than the mid-book rate. We, therefore, believe that applying a BSR after 12 months would be the most effective way to tackle the price discrimination against back-book customers.

5.27 A 12 month period would align with the common bonus period length[63] and, as illustrated in Figure 4 in Chapter 2, evidence that rates tend to drop after 12 months. Specifying a 12 month period will also reduce the time that providers could gradually reduce interest rates on specific accounts and, therefore, result in a more significant 'cliff-edge' drop in interest rates between the front-book and BSR. We expect that a more pronounced rate drop, relative to the status quo, is likely to act as a clearer prompt for customers to switch.[64]

5.28 We recognise the potential disadvantages to this approach. For example, customers who decide to switch when the BSR applies may be switching earlier than they would currently, thereby incurring search and switching costs earlier and more frequently. However, shopping around is likely to be made easier with a BSR as there would be increased price transparency through fewer products and increased clarity. Customers who decide not to switch may also lose out in the short term as the BSR may be lower than the current mid-book rate.

63 FCA (2015), Cash Savings Market Study MS14/2.3, p.59

64 Results from FCA (2015), Occasional Paper No.7: Stimulating interest: Reminding savers to act when rates decrease, suggest that a reminder to the customer of the interest rate change can stimulate the switching rate by 8% from a base of 50%-70% per year.

5.29 There may also be disadvantages for providers: they will have less flexibility in their funding and pricing strategies, reducing providers' ability to manage their liquidity. Increased switching through the cliff-edge drop in interest rate[65] may mean that deposits are less certain and this may have unintended implications for managing liquidity.

Table 4: Variations on the time period before a BSR could apply

Time period	Advantages	Disadvantages
12 months	• BSR likely to be set higher (closer to the pre-BSR mid-book rate) given presence of active mid-book customers • High price transparency – fewer products on the market • Reduces time over which providers could gradually reduce rates • Aligns with typical bonus period • Retains advantages for customers who shop around by allowing providers to offer a full range of front-book products	• Limits flexibility for providers' funding strategies and liquidity management • Customers who do not switch after a BSR applies may lose out in the short-term compared to the status quo • If customers decide to switch after a BSR is applied, search and switching costs would be incurred earlier
18 months	• BSR likely to be set at a moderate level (between the mid-book rate and back-book rate) given presence of some active mid-book customers • More flexibility for providers' funding strategies • High/medium price transparency – fewer products on the market and reduces the time period over which providers could gradually reduce rates	• BSR unlikely to be set as high as the 12-month option • Limits flexibility for providers' funding strategies • Customers who do not switch after a BSR applies may lose out in the short-term compared to the status quo • If customers decide to switch after a BSR is applied, search and switching costs would be incurred earlier
24 months and over	• Medium/low price transparency – few back-book products available but there would be a longer time period in which providers could gradually reduce rates/ offer multiple products • More flexibility for providers' funding strategies	• Lowest impact option and risks not addressing the identified harm • BSR is expected to be very low (close to the current back-book) given that there would be fewer active customers in the pool, with little benefit to the back-book • The pre-BSR period may be used to gradually decrease interest rates before product reverts to the BSR
12 months with exemptions for longer bonus periods	• BSR likely to be set higher (closer to the mid-book rate) given presence of more active mid-book customers but may be weakened with exemptions • High price transparency – fewer products on the market	• Limits flexibility for providers' funding strategies • Customers who do not switch after a BSR applies may lose out in the short-term compared to the status quo • If customers decide to switch after a BSR is applied, search and switching costs would be incurred earlier • Increased ability for providers to get around the rules

65 The CSMS found that 43% of consumers had switched following bonus expiry (32% internal vs 11% external). See FCA (2015), Cash Savings Market Study MS14/2.3, p.A2-46

Time period	Advantages	Disadvantages
Allow providers complete flexibility	• Most flexibility for providers' funding models and pricing strategies	• Limited change from status quo so BSR likely to be set low so price discrimination will still be present • Low price transparency as BSRs may not be comparable

Providers in scope

5.30 We envisage that a BSR could apply to all banks and building societies that offer easy access cash savings accounts and easy access cash ISAs.

5.31 We observe price discrimination across different types of providers to varying degrees, not just the large banks.[66] Applying a BSR equally to all providers would mean that all providers would be less able to price discriminate against longstanding customers, reducing the harm across the board. More transparent pricing across all providers would also make it easier for customers to understand how different providers treat their longstanding customers and, therefore, help them to make an informed assessment about their cash savings provider. However we could consider excluding some smaller banks and building societies from scope.

5.32 Credit unions were excluded from the scope of the CSMS as most products they offer could not be substituted for others. Most credit unions offer a dividend rather than an advertised interest rate on their savings. This dividend can depend on how much profit the credit union has made in the year. In addition, membership of the credit union is restricted to those who fall within one of the common bonds of the credit union. However, we do recognise that some credit unions, particularly the larger ones, now offer savings accounts with advertised rates of interest but we do not have evidence to suggest that the same issues of price discrimination occur. Given that the majority of credit union products are distinct from other easy access cash savings products, our preliminary view is that a BSR would not be a suitable measure for credit unions.

Impact on different types of provider

5.33 Our analysis to date suggests that larger, incumbent, providers of cash savings are likely to be more affected by a BSR due to their larger back-books. Smaller and newer providers with smaller back-books are likely to be less affected. Our initial assessment of the effect on different types of provider is in Table 5.

Table 5: Impact of a BSR on different providers

Type of provider	Impact of a BSR
Providers with large back-books	The BSR would reduce these providers' ability to manage the back-book's liquidity. Currently, these providers hold deposits in multiple back-book accounts. This helps them manage the in-flow and out-flow of funds. Providers can engage in small-scale testing of how responsive existing (back-book) customers are to changes to their interest rate. Any errors (eg lowering the rate too drastically) are constrained to the single account type on which a provider tests the rate change. The BSR makes this kind of liquidity management much more difficult. Any miscalculations are likely to be more costly. The BSR could make easy-access deposits more volatile when the BSR kicks in (ie the front-book rate drop to the BSR might cause more people to switch than before). These effects may be mitigated because the size of the transfer to customers is small relative to the size of the overall back-books; and these providers have access to alternative forms of funding.

66 FCA (2015), Cash Savings Market Study MS14/2.3, pp.A3-8 – A3-10

Type of provider	Impact of a BSR
Providers with small back-books	The impact on these providers' liquidity management is likely to be low. This is because they have smaller back-books and so rely on these less as a source of funding. These providers are more accustomed to competing on price (ie interest rates) since they are likely to have a less well-known brand and/or restricted branch presence. Smaller providers also tend to have simpler product ranges already so it may be easier to implement.
Building societies	The BSR would reduce these providers' ability to manage the back-book's liquidity. Relative to banks, building societies have higher capital requirements and fewer options for attracting alternative funding sources[68] so the impact on their funding models may be greater. However, they tend to offer higher interest rates than banks already[69] and many have relatively small back-books.

Competitive advantages to smaller providers

5.34 Interventions that reduce barriers to entry and expansion can stimulate competition and lead to better quality and/or price for consumers. Since the BSR affects existing providers' back-books, smaller and newer providers would be, relatively, less affected.[69] Smaller, newer providers can offer higher back-book rates currently, but they do not have a large back-book, relative to larger incumbents, because they:

- are new, so have less time to build a back-book
- do not have the same brand strength
- are likely to have more active customers

5.35 Larger providers' advantage of having a large back-book (ie cheap access to deposits) may reduce with the BSR, since all providers would be challenged to pay more to the back-book – especially those with large back-books.

5.36 If, as our modelling indicates, providers with larger back-books lower their front-book rates slightly in response to the BSR, then providers with smaller back-books could also lower their front-book interest rates as they may not have to offer as high interest rates to attract deposits. This may go some way to address the problem identified in the CSMS that, to compete for customers, challenger firms have to offer significantly higher interest rates than the large personal current account providers offer.

5.37 We would also expect smaller and newer providers to benefit from the increased transparency and switching. More shopping around could encourage consumers to switch to alternative providers. In addition, shining a light on the way providers treat their longstanding customers may prompt those customers to move to alternative providers, who may offer higher rates and, possibly, better service.

Impact on funding models and liquidity

5.38 We recognise that this kind of intervention is likely to affect providers' funding strategies. In addition to the impact on providers' ability to manage back-book liquidity, as outlined in Table 5, a change to the interest rate paid to some customers would be a change to providers' funding costs. We predict the BSR will result in a transfer

67 Building societies are more dependent on deposits than other deposit takers and they must be half funded by cash from their members. See Section 7 of the Building Societies Act 1986 c.53.

68 Analysis of Moneyfacts data, May 2018.

69 CSMS data indicate that smaller firms have fewer back-book deposits so will not be affected to the same degree as incumbents by the BSR.

from firms to customers equal to the size of £150m to £480m per year (with a central estimate of around £300m per year). The predicted net transfer varies with interest rates; if interest rates increase so do the net transfers. Hence, a supply-side pricing intervention could affect providers' funding models.

5.39 Our current view is that a BSR would not have a significant impact on providers' funding given the BSR's predicted market impact is small relative to the size of the market (£354bn in 2013[70]). It is even smaller relative to other markets that firms operate in (for example, the outstanding value of all residential loans in the mortgage market is £1.4tn[71]).

5.40 Fixing the end date of the front-book rate might cause a slight increase in switching[72] and may, therefore, affect providers' ability to retain deposits. It is also possible, but we think very unlikely,[73] that customers would focus their attention on the BSR rather than the front-book rate when selecting a product; this could reduce the traction of front-book rates. It could in turn increase liquidity stress, as providers would need to increase their BSR to attract an inflow of deposits. This may have a particular impact on small providers and building societies which have fewer alternative funding sources.

5.41 In response to the BSR, firms could seek to pass on the liquidity management costs associated with the BSR to lending markets. This may be particularly the case for building societies, which may be more focused on mortgages due to low net interest margins than providers more focused on unsecured or SME lending. However, our current view is that such pass-on would be unlikely to offset consumer gains in the cash savings market. This is because small firms and new market entrants,[74] that compete on the same lending markets, would be less affected by the BSR (because they have fewer back-book balances on lower rates). Hence, we expect that small firms would not change their lending rates and this would discourage larger firms from increasing their lending rates significantly in response to a BSR.

Compliance costs

5.42 There may be different types of implementation costs associated with the BSR, from communicating rate changes to changing terms and conditions and pricing structures and complying with regulatory requirements. However, the BSR's introduction might also reduce providers' ongoing costs of managing and reviewing multiple back-book accounts annually. We expect the impact on smaller providers would be lower than for larger firms, because they have fewer back-book deposits.

5.43 We would expect the overall cost to be the difference between: (i) providers' current costs of managing (multiple) cash savings back-book products (eg current costs associated with product literature reviews) and (ii) the one-off and ongoing implementation costs of introducing a BSR.

> **Q5: Do you have any views on our analysis that a BSR should apply after 12 months of an account being opened?**

70 FCA (2015), Cash Savings Market Study MS14/2.3, p.16

71 Bank of England (2018), Mortgage Lenders and Administrators Statistics – 2018 Q1

72 While we predict an increase in switching, the high level of consumer inertia means that it is unlikely that a large proportion of consumers will switch.

73 Consumers tend to focus on the most salient price when making decisions, this is generally the current price ('present bias'). See, for example, Gabaix, X. and Laibson, D. (2006), Shrouded Attributes, Consumer Myopia, and Information Suppression in Competitive Markets, The Quarterly Journal of Economics

74 As providers grow, this will begin to affect them more.

Q6: **Do you have any views on our analysis that there should be a maximum of 2 BSRs per provider (ie limiting providers to 1 BSR for easy access savings accounts and 1 for easy access cash ISAs)? What impact would this have on the provision of particular products (for example, loyalty, tiered, branch, etc) and how would this affect providers offering such accounts?**

Q7: **Should a BSR apply equally to all providers? We are particularly interested in the views of building societies and small deposit takers.**

Q8: **What are your views on the impact a BSR would have on firms' liquidity requirements and funding models? We are particularly interested in the views of building societies and small deposit takers.**

Q9: **What are your views on the impact a BSR would have on lending rates? Are there any other markets that providers may seek to pass costs to?**

Q10: **What is your view of the likely costs of compliance with a BSR, in terms of both one-off and ongoing costs? We will carry out a detailed cost survey as we take forward this work, but we would be interested in any initial views you may have on the costs of a BSR.**

Q11: **Are there any additional impacts and unintended consequences on providers that we have not covered in this section?**

Potential impact of a BSR on consumers

Impact on interest rates paid to different customer groups

5.44 The modelling of the BSR takes into account the impact on different customer groups. While the gain in interest rate per customer of a BSR is likely to be relatively small, in aggregate customers in the easy access cash savings market are predicted to gain by approximately £150m to £480m per year (with a central estimate of around £300m per year) through increased interest rates. This overall figure includes the waterbed effect, accounting for reduced interest rates for some customer groups.

5.45 The predicted impact on the different customer groups is explained in Table 6. In summary, we predict that back-book customers would benefit through higher interest rates. Mid- and front-book customers are predicted to receive lower interest rates. However, the modelling does not take into account the potential increase in switching from mid-book customers. This means the overall net benefits could be larger than those predicted by the modelling.

Table 6: The BSR's expected impact across customer groups

Customer group	Potential impact
Front-book customers	Our modelling predicts that the BSR is unlikely to affect front-book customers significantly. These customers are likely to receive a marginally lower interest rate than currently since some providers are expected to partially offset the higher back-book rate here. However, this impact is likely to be small because: competitive pressure would constrain providers from reducing front-book rates significantly; providers would still be incentivised to attract deposits for funding; and, if the front-book rate is set too low, providers may not be able to attract customers.
Mid-book customers	The modelling shows that mid-book customers would lose out from being moved on to a BSR lower than their current mid-book rate. Some mid-book customers could gain. First, more active mid-book customers would be encouraged to switch to a higher front-book rate sooner given that they would face a much more noticeable drop (a 'cliff-edge') to their interest rate than currently and will, therefore, gain through moving to a higher front-book rate.[75] Secondly, less active mid-book customers, who would otherwise move on to a lower back-book rate, would move onto a higher BSR so may gain in the longer term. We consider that the behaviour of mid-book customers would maintain the need for competitive front-book rates: firms would compete for more active mid-book customers and their behaviour would protect back-book rates by incentivising firms to set the BSR at a rate that prevents all mid-book customers switching away (ie close to the pre-BSR mid-book interest rate).
Back-book customers	Back-book customers (ie longstanding customers) would be expected to receive a higher interest rate under the BSR than they do currently. Our modelling indicates that the BSR would be set closer to the pre-BSR mid-book rate. We expect that this would, in turn, reduce their already low propensity to switch further. We expect that a BSR would have positive implications for customers with vulnerable characteristics. As outlined in Chapter 2, back-book customers are more likely to display characteristics of potential vulnerability. As such, these customers are likely to benefit the most from a BSR paying higher interest rates.

Impact on price transparency and consumer inertia

5.46 Previously we have identified that a combination of behavioural biases, low levels of financial literacy, and product complexity can limit a consumer's ability to take appropriate action.[76] Product complexity and obfuscation can make it hard for some consumers to act and make decisions. As a result, disclosure remedies are unlikely to work for these consumers. The BSR could help inert customers by reducing product complexity. It would also provide a better outcome for some groups of consumers that might not be able to act (eg due to poor financial literacy and confidence).

5.47 Our current view is that a BSR would lead to increased price transparency. This is because the BSR's introduction would allow providers to have only one back-book rate for easy access cash savings and easy access cash ISA products, respectively. This would reduce the number of accounts on the market and would, therefore, reduce price obfuscation.

5.48 Increased price transparency should lead to greater engagement and reduced search and switching costs. We expect that this, combined with a sunlight remedy, would increase awareness among consumers (either directly or through media attention) of the deal that they are getting. Evidence suggests that giving consumers more, or

75 The BSR would reduce a provider's ability to gradually decrease interest rates over time.
76 FCA (2015), Cash Savings Market Study MS14/2.3

too many, options when they are making choices does not necessarily lead to better outcomes (and, in some cases, can lead to worse ones). Removing multiple back-book products would support greater product simplicity and would reduce price obfuscation in the market. These effects would reduce search and switching costs. The modelling does not factor in this additional uplift.

5.49 We also believe that introducing a BSR after a set period of time would result in increased switching. This would cause a 'cliff-edge' drop in price, which could be a call to action for customers to consider whether their account is right for them. There is evidence that the switching rate is higher on bonus rate expiry than on accounts without a bonus rate. The CSMS found that, following bonus expiry, 32% of customers had moved money to an account with the same provider and 11% to an account with a different provider. We would expect greater switching when the rate changes to a BSR. Although, given the high levels of consumer inertia, we would not necessarily expect the majority of customers to switch.

Impact on products offered

5.50 We recognise that introducing a BSR could affect providers' product offering. The extent of this effect would depend on the BSR's specific design. A BSR would apply after a specified period of time (ie 12 months), before which providers would be free to offer a variety of products to consumers. So we do not believe there would be a significant impact on these products. As many back-book products are currently off-sale, the BSR might encourage innovation in front-book product offering. It should also be noted that providers would still have other types of cash savings products with which to innovate, for example, fixed term and regular savings accounts, as well as current accounts.

5.51 However, the restricted product range might lead to some real or perceived product choice reduction. For example, by allowing only two BSRs, providers would be unable to offer differential interest rates for back-book accounts operated online-only compared to branch-only or for accounts with different balances ('tiered' accounts) for more than a year after account opening. It may also affect providers' ability to reward loyal customers with higher interest rates after the first year. We also need to consider how this applies to accounts where an interest rate is only paid if a minimum balance threshold is met.

5.52 We believe that the impact on consumers from reduced product choice could be limited in practice. Giving consumers more, or too many, options may obfuscate prices. It follows that reduced choice can make selecting a suitable product easier and, therefore, lead to better engagement. Furthermore, some products (for example, tiered products) may appear to offer higher interest rates for some customers, but in fact offer a lower rate than another, simpler (eg £1+ deposit), easy access cash savings product offered by the same provider.[77]

5.53 We could consider allowing more than two BSRs (ie one for loyal customers) or exempting certain products. However, we would need to be mindful of the impact on the effectiveness of a BSR when assessing these options.

77 Based on an analysis of Moneyfacts' January 2018 data, 4% of closed (ie no longer on-sale – this is not strictly 'back-book') easy access products were tiered. It appears that, in the majority of cases, the top tier of closed accounts tiered accounts have rates lower than or equal to non-tiered accounts with the same firm.

How could a BSR be communicated?

Communicating to consumers

5.54 It would be important for the BSR to be communicated effectively to consumers. This would ensure that consumers are aware of the changes to their interest rate on their savings account and prompt them to consider their choice of savings account and firm; in doing so, they may increase competitive pressure.

5.55 In addition to providers' current obligations on the communication of interest rate changes, to provide clarity to consumers before they open their account, providers could:

- display their BSR prominently on their webpage, clearly stating that this is their 'Basic Savings Rate' and that it is comparable
- include the BSR in summary boxes for easy access accounts; they could make the interest rate that would apply after 12 months clear and include a projection of the balance of the account when the BSR applies based on a £1,000 account balance.

5.56 If a BSR were to be proposed, our current view is that providers should communicate the change to existing customers when they first implement the BSR.

Sunlight remedy linked to a BSR

5.57 As a development of the sunlight remedy trialled in 2015-16, we could introduce a sunlight remedy linked to the BSR. We could ask providers to report their BSRs to the FCA to be published on the FCA website biannually. The aim of this would be to bring to light firms' strategies towards their longstanding customers. We would expect this to:

- be reported by the media as an indicator of how firms treat longstanding customers, exerting reputational pressure on firms to change their behaviour
- increase back-book rate transparency, removing a switching barrier by making it easier for customers to understand if they are getting a good deal

5.58 We believe that publishing BSRs on the FCA webpage would be more successful than the sunlight trial, given that the BSRs would be directly comparable across firms. We, therefore, believe this would be more likely to have an effect on providers' rate-setting strategy.

Q12: What are your views of the impact that a reduced product offering may have on consumers? Please provide views on the impact on specific products (for example, loyalty, tiered, branch etc), where applicable.

Q13: Do you agree with our initial view on how a BSR could be communicated to consumers and the market?

Q14: Are there any additional effects and unintended consequences on consumers that we have not covered in this section?

Summary: addressing the harm with a BSR

5.59 In summary, our current view is that a BSR would make it more difficult for providers to price discriminate against longstanding customers and, therefore, would tackle the harm identified in Chapter 2. Our current view on how a BSR could tackle this harm is summarised in Table 7.

5.60 Therefore, subject to feedback to this DP, we are considering whether to take forward rules on introducing a BSR to consultation.

Q15: In light of the above, do you think we should take forward a BSR?

Table 7: How a BSR could correct the drivers of price discrimination

	Predicted impact
Price discrimination	Providers would be forced to offer higher interest rates to longstanding customers by harnessing the competitive pressure of more active mid-book customers.
Consumer inertia	Highly inert longstanding customers would receive better interest rates so will not be discriminated against to the same degree as they are currently. This would particularly benefit customers with vulnerable characteristics. Consumer inertia in the cash savings market could be reduced by: • the 'cliff-edge' interest rate drop created by the BSR and • increased transparency in relation to interest rates and how providers treat longstanding customers.
Price obfuscation	There would be fewer easy access cash savings products on the market as providers would be forced to offer a limited number of interest rates to customers after a set period of time. There would be increased transparency as the BSR would be easily comparable across providers, which would be highlighted by a sunlight remedy linked to a BSR.
Smaller providers	Smaller providers would be less affected by the BSR than larger providers as they generally have smaller back-books. Smaller providers would be in a better competitive position and would be able to offer slightly lower interest rates than they do currently. The BSR would improve competition through greater transparency and increased switching, which could lead to benefits for smaller providers.
Unintended consequences	Front-book interest rates are likely to decrease slightly. However, this impact will not be significant because providers will remain incentivised to attract deposits. Mid-book interest rates are likely to reduce. However, mid-book customers may gain through increased switching or a higher back-book rate in the long term. Providers' product offering and innovation may be limited as providers would be restricted in the product variations they offer to longstanding customers. However, this may be mitigated by product simplification. Liquidity management and funding models could be affected.

6 Conclusion

6.1 We are concerned that competition is not working well for longstanding customers in the cash savings market, with providers typically paying lower rates to these consumers compared to others. Providers are able to price discriminate against these consumers due to the high levels of consumer inertia in the easy access cash savings market. We have also identified that the large number of easy access cash savings products on the market may lead to confusion (price obfuscation), making it harder for customers to make suitable decisions and providers with large back-books are at a competitive advantage.

6.2 This paper has set out the options that we have considered to tackle this harm, ranging from less restrictive demand-side remedies (eg a switching box) to more restrictive supply-side remedies (eg a complete ban on price discrimination). In particular, we have presented our work to date on our current preferred policy option, a BSR, which would apply to all easy access cash savings accounts and easy access cash ISAs after they have been open for 12 months.

6.3 We are inviting discussion on the harm identified, whether we should intervene to address this harm, and the options that we are considering to address this harm, in particular, the BSR option. We will then publish a Feedback Statement and, if we decide to take a proposal forward, a Consultation Paper in early 2019, setting out the feedback we received and our next steps.

Annex 1
List of questions

Q1: **What are your views on the nature and scale of harm outlined above? Does it merit some form of intervention in the cash savings market?**

Q2: **Do you agree with our analysis of the demand-side remedies? Are there any further considerations we should make?**

Q3: **Do you think we should require the publication of any service metrics that relate specifically to cash savings? If so, please suggest metrics that you think we should consider.**

Q4: **Do you agree with our analysis of the supply-side options considered in this chapter? We welcome views on the impact of these options and any risks and benefits that we have not captured.**

Q5: **Do you have any views on our analysis that a BSR should apply after 12 months of an account being opened?**

Q6: **Do you have any views on our analysis that there should be a maximum of 2 BSRs per provider (ie limiting providers to 1 BSR for easy access savings accounts and 1 for easy access cash ISAs)? What impact would this have on the provision of particular products (for example, loyalty, tiered, branch etc) and how would this affect providers offering such accounts?**

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Q10: **What is your view of the likely costs of compliance with a BSR, in terms of both one-off and ongoing costs? We will carry out a detailed cost survey as we take forward this work, but we would be interested in any initial views you may have on the costs of a BSR.**

Q11: **Are there any additional impacts and unintended consequences on providers that we have not covered in this section?**

Q12: **What are your views of the impact that a reduced product offering may have on consumers? Please provide views on the impact on specific products (for example, loyalty, tiered, branch etc), where applicable.**

Q13: **Do you agree with our initial view on how a BSR could be communicated to consumers and the market?**

Q14: **Are there any additional effects and unintended consequences on consumers that we have not covered in this section?**

Q15: **In light of the above, do you think we should take forward a BSR?**

Annex 2
Abbreviations used in this document

BCOBS	Banking: Conduct of Business Sourcebook
BSR	Basic Savings Rate
CMA	Competition and Markets Authority
CSMS	Cash Savings Market Study
DP	Discussion Paper
FLS	Financial Lives Survey
ISA	Individual Savings Account
OP	Occasional Paper
PSD2	Revised Payment Services Directive
RCTs	Randomised Controlled Trials
RSF	Return Switching Form

We have developed this Discussion Paper in the context of the existing UK and EU regulatory framework. The Government has made clear that it will continue to implement and apply EU law until the UK has left the EU. We will keep the proposals under review to assess whether any amendments may be required in the event of changes in the UK regulatory framework in the future.

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