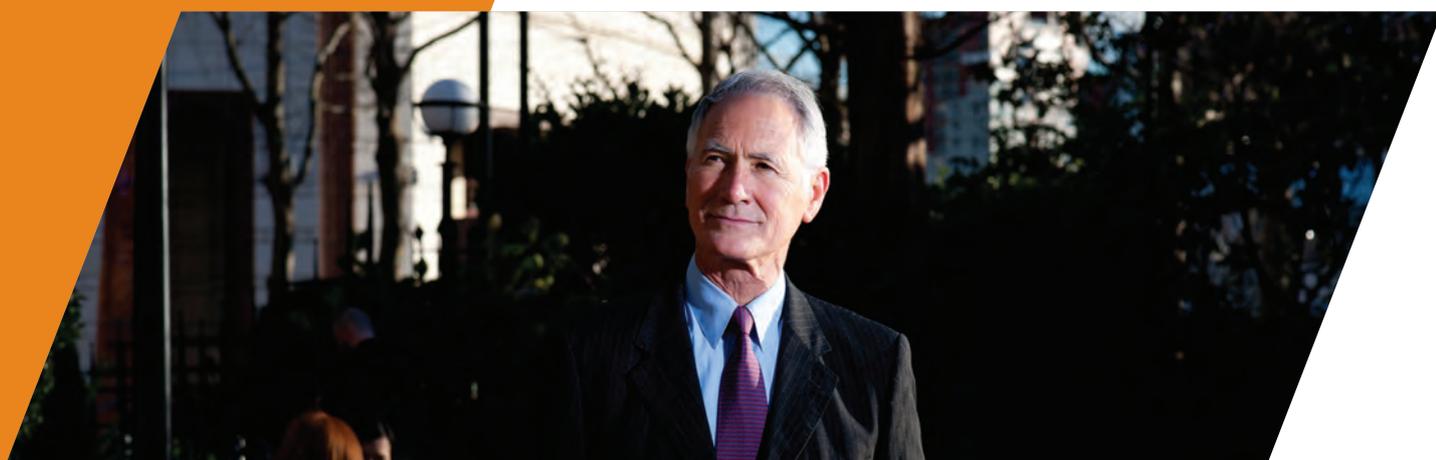


Cash savings market study report: Part I: Final findings Part II: Proposed remedies

January 2015



We are asking for comments on Part II of this paper (our remedies proposals) by noon on 18 February 2015.

You can send them to:

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25 The North Colonnade
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Email: cashsavings@fca.org.uk

We make all responses to formal consultation available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

You can download this Market Study report from our website: www.fca.org.uk. Or contact our order line for paper copies: 0845 608 2372.

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Related documents published alongside this report:

Cash Savings: Technical Report, GfK, September 2014 (GfK technical report)

Cash Savings: An International Comparison, PwC, September 2014 (PwC report)

Stimulating interest: Reminding savers to act when rates decrease, January 2015, FCA Occasional Paper No. 7

Abbreviations used in this document

AER	Annual Equivalent Rate
BBA	British Banking Association
BCOBS	Banking Conduct of Business Sourcebook
BSI	British Standards Institution
CMA	Competition and Markets Authority
FCA	Financial Conduct Authority
FLS	Funding for Lending Scheme
FSB	Financial Stability Board
FSCS	Financial Services Compensation Scheme
GSIB	Global Systemically Important Bank
HHI	Herfindahl-Hirschman Index
ICB	Independent Commission on Banking
ISA	Individual Savings Account
NISA	New Individual Savings Account
NS&I	National Savings and Investments
OFT	Office of Fair Trading
PAD	Payment Accounts Directive
PCA	Personal Current Account
PRA	Prudential Regulation Authority
PSD	Payment Services Directive
PSD2	The second Payment Services Directive
PSRs	Payment Services Regulations
TSI	Trading Standards Institute

1 Executive summary

Introduction

- 1.1 This report sets out the final findings of our cash savings market study¹ and our proposed remedies to address the aspects of the market that are not working effectively for many consumers. The report has two parts:
 - Part I: our final findings
 - Part II: our proposed remedies
- 1.2 We are seeking views from interested parties on our proposed remedies, and have set out a number of questions so that stakeholders can provide targeted answers and help us develop our proposals further. Following publication of this paper, we will also hold a number of meetings with interested parties on these remedy proposals.
- 1.3 Please send us your comments on our proposed remedies by noon on 18 February 2015. We will then refine our remedies and, where rule changes are required, subject them to a cost-benefit analysis and consultation.
- 1.4 We will develop, finalize and implement remedies as quickly as possible following the end of the consultation on this paper. We expect to publish a statement of our decision on remedies.

Our approach

- 1.5 We focused on savings accounts that are available to retail consumers in the UK. These accounts are used to save cash and generate interest, but typically offer limited transaction functions compared with personal current accounts. We covered seven main types of savings accounts – easy access accounts, fixed term bonds, cash Individual Savings Accounts (ISAs) with no term, fixed term cash ISAs, notice accounts, children's accounts and regular savings accounts.
- 1.6 To arrive at our findings, we analysed a wide range of information, including:
 - views expressed by providers, trade bodies and consumer organisations
 - quantitative and qualitative data collected from providers of savings accounts
 - results of a randomised controlled trial with a large provider, which looked at the effects of sending reminder letters following the expiry of introductory bonus rates
 - results of a consumer survey commissioned for this market study
 - results of a report comparing savings markets across several countries² commissioned for this market study
- 1.7 The results of the randomised controlled trial and the international comparison by PwC have been published separately alongside this report. Our analysis of the results of the consumer survey is in Annex 2.

¹ Market studies are the principal way in which we investigate markets to see how well they are working for consumers.

² The UK, Germany, the USA, Australia and the Netherlands.

Our final findings

- 1.8 Almost all adults in the UK (93%) have a cash savings account³ and approximately £700bn is held in savings accounts.⁴ Consumers have different motivations for opening savings accounts, including to save for something specific (such as home improvements), to earn interest, or to have an additional transactional account alongside their main personal current account. As a result, they focus on different features to different degrees when choosing their savings product – these include interest rate, service quality, convenience and brand/reputation of the provider.
- 1.9 Savings providers offer a range of products, from easy access accounts to fixed term products that can satisfy consumers' different needs. Easy access accounts are the most widely held products, with total balances of approximately £354bn across the providers we collected data from. Our headline findings correspondingly focus on easy access products.⁵
- 1.10 We found that competition in the cash savings market is not working effectively for many consumers.
- **Providers have significant amounts of consumers' savings balances in accounts opened long ago (e.g. more than five years ago). Yet these accounts pay lower interest rates than those opened more recently.** Around a third of balances in easy access accounts are held in accounts opened more than five years ago.⁶ Savings providers, on average, pay lower interest rates on easy access accounts held for a long time than on accounts opened more recently. Often providers have a wide range of products on their books as new products are frequently introduced and older products are withdrawn from sale or no longer marketed to new customers. Currently there are around 350 easy access products offered on the market and just over 1,000 that are no longer on sale to new customers.⁷
 - **Providers need to improve the transparency of their practices, with little information currently being given to consumers about alternative products.** Despite the level of interest rate being one of the top three features that consumers say they are looking for in an easy access account (alongside convenience of access and a reputable provider), respondents could not even guess the interest rate on half of easy access accounts and, for respondents whose account with the highest balance was an easy access account, 63% of respondents did not know whether their existing provider offered the same savings product with a different interest rate.⁸ When coupled with an abundance of products, it is difficult for consumers to know whether or not they are getting a good deal on their existing savings account. Many consumers have little reason to shop around for a new account with their existing provider because they may not know that their provider offers a comparable product with a higher interest rate.

3 GMI consumer panel - Taken from Mintel's Deposit and Savings Accounts – UK – April 2014, base 1,571 internet users aged 18+ with savings and/or investments. These savings products include premium bonds which are not within the scope of this study into cash savings products. Premium bonds are owned by 25% of British adults.

4 These are the balances held by the firms in our sample in December 2013. These balances account for the majority of cash savings accounts in the UK.

5 We present additional evidence in relation to other products where relevant, commenting on whether our findings extend to these products.

6 FCA analysis of data collected from firms.

7 FCA analysis of Moneyfacts Closed and Open Accounts Savings Reports based on input criteria as at 3 November 2014. Moneyfacts Closed Savings Account Analyser includes those accounts which are operated but have been closed to new customers since 1 April 2004.

8 FCA analysis of the GfK online survey. See chapter 4.

- **Consumers are put off switching by the expected hassle and low perceived gains from opening another account. 80% of easy access accounts have not been switched in the last three years.**⁹ Some consumers do not switch or do not consider switching, as the potential benefit from switching is low due to low balances and/or small differences in interest rates available in the current low interest rate environment. Interest rates offered on savings accounts have fallen significantly since the reduction in the Bank of England base rate in 2008 and 2009 and the introduction of the Funding for Lending Scheme in 2012. The benefits in cash terms of switching will increase if and when interest rates increase. Some consumers' perception that switching is a hassle arises in part because of the significant variations between providers in how easy they make account opening and switching services, even though the process for opening a new savings account can, in many cases, be fairly straightforward.
- **The large personal current account providers have considerable advantages because they can attract most easy access balances despite offering lower interest rates.** The four largest personal current account providers pay on average materially lower interest rates on easy access accounts than other providers. Consumers' desire for convenience of access to their accounts seems to be a significant factor that drives them to use the same provider for their savings account and personal current account. So in order to compete for customers, challenger firms have to offer significantly higher interest rates than are offered by the large personal current account providers.

- 1.11 There are significant total balances in savings accounts earning relatively low interest rates where the benefits of switching even in the current interest rate environment could be high enough to make switching worthwhile. In 2013, around £160bn of easy access account savings earned an interest rate equal to or lower than the Bank of England base rate of 0.5%. At least £145bn of these balances was held in accounts with more than £5,000.¹⁰ Even in the current interest rate environment, the benefits of switching accounts of this size to one of the more attractive offers on the market could be high enough to make switching worthwhile.¹¹ Consumers will get increased benefits from shopping around if and when interest rates increase in the future.
- 1.12 We had initial concerns that introductory bonus rates (or so-called 'teaser rates') may exploit consumer inertia, but we found that many consumers switch reasonably soon after the bonus rate expires. For easy access accounts and easy access Cash ISAs, on average across products, over half of balances are moved out of the account 12 months after the bonus rate expires and over three quarters after 24 months. Better communication of the timing and consequences of bonus rate expiry should lead to consumers being more informed, shopping around more and potentially switching sooner. Introductory bonus rates also have an important role to play in encouraging switching and giving providers flexibility in their funding strategies.
- 1.13 For fixed term products, competition concerns are less pronounced. Providers have little discretion to vary fixed rates and consumers tend to shop around more effectively and have higher awareness of the interest rate on their accounts. We are however concerned about the extent to which consumers knowingly choose what should happen to their savings at maturity of their fixed term bonds.

9 FCA analysis of the GfK online consumer survey, Question 23. See Chapter 4, Figure 12.

10 FCA analysis of data collected from firms. See Chapter 7 for details.

11 For example, for savings with £5,000 that are held in an account for a year, an extra 0.5 percentage points would give an extra £25 a year (pre-tax) and an extra one percentage point would give an additional £50 a year (pre-tax).

Our proposed remedies

- 1.14 We want the cash savings market to change so that firms provide consumers with more timely and helpful information on their savings products. Consumers should be able to shop around easily and make informed choices. If consumers find a better product for their needs, they should be able to switch easily and quickly. In the short-term, such consumer behaviour will push providers to offer savings products with better interest rates and/or a higher service quality to both existing and new customers. In the longer term, challenger firms will be able to attract a greater pool of consumers more easily, which will in turn push existing providers to innovate and become more efficient so that they can retain their existing customers.
- 1.15 Our proposed remedies, if successful, would lead to:
- greater consumer awareness of the interest rates on their accounts and increased understanding of the benefits of shopping around
 - increased shopping around by consumers
 - easier switching when consumers do change accounts
 - competition that is more focused on trying to retain existing customers by offering better deals
- 1.16 We are proposing a range of remedies to reflect consumers' different needs for savings products. Although we expect our remedies to benefit some consumers more than others because those consumers that are most rate-focused are already benefitting from competition, our proposed remedies will be capable of helping a significant number of consumers across all consumer segments.
- 1.17 We are proposing and inviting views on remedies in four main areas:
- **Giving consumers sufficiently clear and targeted information at the right time so that they can easily and quickly compare their savings accounts with alternative ones and know how to switch if they want to do so.** Our randomised controlled trial with a large financial firm showed that the way in which customer communications are timed and presented can have significant effects on consumers' shopping around behaviour.¹² This set of remedies include:
 - in pre-sale communications, providing clearer presentation of summary box information and requiring accounts with low interest rates to be given names that do not suggest they pay high interest rates and/or to carry an appropriate warning
 - in post-sale communications, making the interest rate on savings accounts more prominent on statements and online; providing clear explanations of how to switch and the potential benefits of switching (through comparisons to alternative products both from a consumer's existing provider and alternative providers); and giving timely notification and frequent reminders of interest rate changes, including bonus rate expiry
 - provide at the point of sale a choice of what happens to funds in fixed-term products at maturity
 - **Making the switching process as easy as possible so that it does not put consumers off moving their money to another savings provider or to another savings account with the same provider.** These remedies include:

12 See Stimulating interest: Reminding savers to act when rates decrease, January 2015, FCA Occasional Paper No.7

- o making switching within the same provider as straightforward as possible
- o facilitating switching between firms by reducing the 15-day target for cash ISA transfers and encouraging more widespread use of electronic identity verification checks
- **Removing some of the advantages of the large providers by making it easier for firms to provide a way for consumers to view and manage accounts with different providers in one place.** This remedy would seek to lower barriers that restrict account aggregators (those providers offering facilities to manage accounts online, not price comparison websites) from offering account management services to consumers. We are therefore considering the benefits and risks of greater sharing of consumers' personal security information via account aggregators (or similar such services). In particular, we intend to explore what would need to be changed to allow safe sharing of consumer's personal security information and whether this can practicably be changed, and, dependent on this, whether there are ways in which we can intervene to encourage wider use by consumers of account aggregators (or other similar services). This would enable those consumers who value convenience in access and manage their accounts online to choose between a wider range of providers that may offer products that better suit their needs, as it would make it more convenient to manage savings and other products with multiple providers.
- **Being more transparent about the way in which providers are reducing interest rates on variable rate savings accounts the longer a consumer holds the account.** This remedy would require providers to disclose key information about their product range, including products that are no longer on-sale by, for example, prominently displaying online and in branch the interest rate they pay on their lowest-paying savings account. This would make consumers more aware both of the low interest rate that they may themselves unknowingly be receiving and also of providers' strategies. Providers would then face pressure to improve the terms of their products.

1.18 During our study, a number of providers simplified their product ranges. We want to encourage those providers that have not yet reviewed their product range to consider whether their current product range is delivering good outcomes to consumers. We are expecting to see some simplification, but at this stage we are not proposing to specify the number or type of products that each provider should offer. We welcome product simplification where it leads to efficiency gains and facilitates more competitive offerings, while still providing the choices that meet consumers different savings needs. Prescriptive rules risk some consumers not having products that meet their needs and may stifle innovation in the way savings products are offered. Instead, we want to encourage firms to consider proactively whether their product ranges and pricing strategies deliver good outcomes and make it easy for consumers to compare products. We will return to this area if we do not see greater clarity for consumers.

1.19 We are not proposing to ban introductory bonus rates or to require providers to offer all customers the same interest rate. However, we are proposing that providers improve customer communications on interest rate changes and bonus rate expiry.¹³ During our study, a number of providers stopped using introductory bonus rates. Some smaller providers and consumer organisations suggested banning introductory bonus rates or requiring providers to offer all customers the same interest rate. However, flexibility in pricing (including the ability to offer introductory bonus rates) is important in

¹³ See paragraph 1.17.

encouraging switching and allowing providers to manage their balance sheets effectively. Rather than *requiring* that providers offer all customers the same interest rate, we propose to improve notifications of interest rate changes in order to prompt consumers to shop around for better offers. While it is possible that some providers may *choose* to offer a single interest rate to all customers, this is only one possible outcome that could emerge. Different prices for different groups of consumers can be observed in a competitive market where different groups of consumers have different needs from savings products and/or there are different costs in providing savings products to them.

PART I: Final findings

2 Our approach

- 2.1 In this chapter we outline:
- a the scope of the study
 - b the evidence gathered to support our analysis
 - c the structure of part I of this report

Scope of the study

- 2.2 We published the terms of reference of the market study in October 2013.¹⁴
- 2.3 Our study focused on interest-bearing cash savings accounts. These accounts enable consumers to store their cash and generate an interest rate return, but they typically offer limited transaction functions compared to personal current accounts (PCAs). We provide further background on the types of cash savings products we considered in Chapter 3.
- 2.4 We did not consider savings accounts for business customers as part of this market study.

Evidence gathered to support our analysis

- 2.5 We gathered evidence by collecting and analysing data from firms, requesting views from stakeholders, commissioning a consumer survey, conducting a randomised control trial and commissioning a report on international comparisons. We provide further detail on each of these in this section.

Data from firms

- 2.6 We requested data and information in two information requests from a sample of 21 providers¹⁵ of cash savings products¹⁶, including 20 firms regulated by the FCA¹⁷ and National Savings and Investments (NS&I).¹⁸ We estimated that these firms have balances that make up the majority of the cash savings market (see paragraph 3.4). We explain the data used in more detail in paragraphs 5.3 and 5.4 and Annex 3. The 20 firms regulated by the FCA include:

14 www.fca.org.uk/your-fca/documents/market-studies/cash-savings-market-study-terms-of-reference

15 Our second information request only covered 10 providers.

16 Our study focused on banks, building societies and National Savings and Investments. There are two other types of providers, namely credit unions and peer-to-peer lenders, that offer products that potentially compete with the products investigated in this study. However, we decided not to focus on these providers because the sectors are relatively small in scale. Also, the specific differences in product features may mean they are not substitutable from a consumer's perspective.

17 The 20 firms regulated by the FCA cover 26 large savings brands. Firms did not have to provide the requested information for their brands that were relatively small.

18 NS&I also provides cash savings accounts. It is, however, exempt from FCA regulation by virtue of section 6 of The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001. The powers governing the way in which NS&I products are structured and managed are derived from specific NS&I legislation. NS&I is therefore effectively regulated by HM Treasury, but aims to comply with FCA requirements where applicable and appropriate on a voluntary basis.

- Six 'large providers'. These are the large high street banks and building societies, which have been in existence for a long time, operate across the UK and have an established branch and online presence.
- Seven 'small and medium building societies'. These are building societies that have usually have been in existence for a long time, but that sometimes only operate in a particular region.
- Seven 'small and medium banks'. These are mostly banks that have entered the market more recently.

2.7 We asked providers for:

- **Data** including detailed account and balance information, interest rates, account features, distribution channels, sales and the extent of cross-holdings, for all on-sale and off-sale products.
- **Strategy documents** including information on each firm's current strategy in relation to savings products, how this strategy fits with the wider strategy of the firm, its pricing practices and how the firm's strategy is affected by external factors, such as competitors, technology and macro-economic conditions.
- **Consumer research** including any research or analysis on consumer segmentation, switching patterns, consumer decision-making, consumer practices and the methodology used to measure switching.
- **Transparency and disclosure documents** including financial promotions and other customer communications, such as letters to customers informing them that their bonus rate would be coming to an end or their interest rate would be cut.

Views from stakeholders

2.8 We invited views from stakeholders and met with a number of firms, trade associations and consumer groups, both after we published our terms of reference and in response to the interim report we published in July 2014.

2.9 A summary of the views provided by stakeholders in response to the interim report is set out in Annex 1.

Consumer research

2.10 To help us understand consumer behaviour and consumer outcomes, we commissioned GfK to carry out two quantitative consumer surveys (a large-scale online survey and a separate telephone survey targeting consumers less likely to use the internet).¹⁹ Specifically, we sought to:

- understand whether and how consumers shopped around for their savings accounts, any barriers to shopping around and reasons for opening accounts
- explore consumers' understanding of product terms and characteristics, particularly variable rates and introductory bonus rates
- explore consumers' awareness of interest rates that are paid on their savings accounts, and alternative products offered by their provider and by other providers

¹⁹ We refer to the consumer survey carried out by GfK as 'our consumer research' or 'our consumer survey' throughout this document, as the FCA was heavily involved in the design of the questionnaire and carried out further analysis of the data collected in the survey.

- estimate switching rates for different cash savings products with variable interest rates and explore reasons for switching and not switching
- 2.11 Chapter 4 discusses the key high level findings from this research. Detailed analysis of the results for both surveys is set out in Annex 2. A technical report containing the survey questions and a description of the methodology has also been published alongside this report (the GfK technical report).

Randomised Controlled Trial

- 2.12 We carried out a trial in partnership with a large UK financial institution involving over 20,000 savings account customers whose interest rate was about to decrease or had just decreased. We investigated the effects on switching behaviour of:
- an additional letter which reminded customers of the rate change
 - different messages in the reminder designed to mitigate the effects of behavioural biases
 - the timing of the reminder, and in particular, whether the reminder was sent before or after customers' interest rate decrease
- 2.13 We found that reminders make a notable difference to switching behaviour in savings accounts around the time of the interest rate decreases. The very fact of getting a reminder is more important than the precise phrasing of the reminder and can increase switching by at least 8% relative to not receiving a reminder.
- 2.14 Customers who received a reminder in which the cash loss from not switching account was salient (i.e. '£X less interest per year') or in which the cash gain was salient (i.e. 'Move your savings and earn up to £X more'), among other changes, were slightly more likely to switch or transfer money than those who received a reminder without any particular emphasis.
- 2.15 The results from this trial are discussed in this report where relevant. We have also published an occasional paper (Stimulating interest: Reminding savers to act when rates decrease, FCA Occasional Paper No.7) setting out the research in full.

International comparisons

- 2.16 We commissioned PwC to compare the cash savings market in the UK with Germany, the USA, Australia and the Netherlands.
- 2.17 The countries were chosen to cover
- a broad range of geographies across different continents and from a number of major economies
 - countries where the customer demographics and therefore savings behaviour are broadly similar to the UK
 - a country where there had been regulatory interest in the cash savings market, which may or may not be a result of the market working for consumers
- 2.18 The evidence from this study is discussed in this report where relevant. The full report by PwC ('Cash Savings: An International Comparison', the PwC report) has been published separately. The report identified some similarities between the cash savings

markets in these countries and the UK but found some material differences in the Netherlands, due to the way in which the regulator, AFM, has intervened.²⁰

Structure of Part I of this report

2.19 In the following chapters, we set out:

- a an overview of the market (Chapter 3)
- b the findings from our competitive analysis of the cash savings market:
 - i consumer behaviour – how effective consumers are at driving competition in the cash savings market, including consumer preferences, shopping around and switching in the market (Chapter 4)
 - ii firm conduct – how firms compete in the market, including their pricing strategies, the relationship between the supply of cash savings products and personal current accounts and how providers disclose product information to consumers (Chapter 5)
 - iii barriers to entry and expansion – the extent of observed entry and expansion in the supply of cash savings products, any barriers to entry and expansion, both in the wider retail banking sector and specific to the cash savings market (Chapter 6)
- c our assessment of the effects of competition in the cash savings market and our conclusions (Chapter 7)

²⁰ See PwC report, page 5.

3 Market overview

There are a number of different products in the cash savings market ranging from easy access accounts to fixed-term products. Easy access accounts are the most widely held, with total balances of approximately £354bn across the providers we surveyed.

Around 93% of UK adult consumers hold a savings product, with savings per account across the providers in our sample averaging £5,900. Consumers save for a variety of purposes, and will focus on different product characteristics when selecting their account and provider. Key characteristics include the interest rate, other product features such as internet, branch and phone access, the provider's brand and service proposition, and whether the consumer already holds other products, in particular a personal current account, with a provider.

Six providers hold roughly two-thirds of all cash savings balances, although there are over 100 savings providers in the market. Firms' strategies in relation to savings are largely driven by their wider balance sheet management strategies. In determining the level of deposits they wish to attract, firms consider a number of factors, including their lending strategy, prudential requirements, wholesale funding conditions and expectations about the Bank of England base rate. There has been a fall since mid-2012 in the average interest rates that providers have offered to savers, in part due to the Funding for Lending Scheme.

The provision of cash savings products falls within our regulatory remit as we regulate the conduct of firms who accept retail deposits. We are also the principal regulator in the UK under the Payment Services Regulations 2009. The regulatory landscape has been changing in recent years with European Directives, such as the Payment Accounts Directive and Payment Services Directive, as well as a number of Government initiatives to improve competition in cash ISAs.

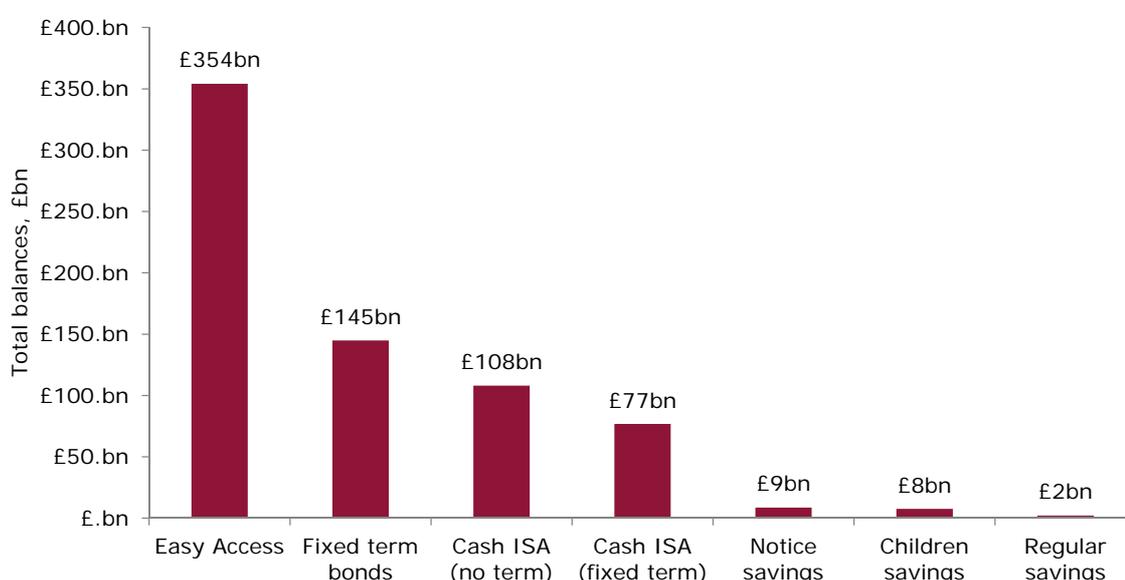
- 3.1 This chapter sets out an overview of the cash savings market, including the products within the scope of our study, the types of consumers of cash savings products and their needs, the main providers and recent regulatory developments affecting this market.

The seven cash savings products in our study

- 3.2 Our study covers seven main types of cash savings products, which we describe in this section. All of these accounts enable consumers to store their cash and generate an interest rate return, but they vary according to:
- the terms on which cash can be accessed - instant access, with notice, or no access before the end of a fixed term without incurring penalties
 - the type of interest rate offered - variable or fixed, and with or without an introductory bonus rate
 - the associated tax privileges - cash ISAs giving tax-free allowances

- 3.3 Some consumers may choose to deposit their money in other products, such as interest-bearing personal current accounts (PCAs), offset mortgage accounts, premium bonds and savings accounts offering returns tied to some form of investment, such as stocks and shares ISAs.²¹ We noted in particular that some PCA products have offered comparable (or in some cases higher) interest rates than many of the cash savings products available.²² We did not focus on these products as the specific differences in product features mean that in many cases they are not substitutable from a consumer's perspective.²³ We nevertheless considered how a consumer's choice of PCA provider affects their choice of savings provider.
- 3.4 The 21 firms in our sample provide the majority of cash savings accounts in the UK. In 2013, they held £702bn of savings in the seven types of accounts included in the study²⁴, with easy access accounts having the highest total balances (see *Figure 1*).

Figure 1: Total balances in the seven different types of cash savings accounts, £bn



Source: FCA analysis of data collected from firms, based on balances at 31 December 2013.²⁵

- 3.5 The data received from our sample of firms (as set out in *Figure 2* below) shows that fixed term accounts tend to have higher balances in each account than easy access

21 Some consumers may also consider savings accounts offered by credit unions or investing their money with a peer-to-peer lender.

22 For example, according to the information published on their websites, in December 2014, Santander, Nationwide and Lloyds are offering current accounts with significantly more attractive rates for in-credit balances than the rates offered on their standard easy access accounts. While their easy access accounts typically pay less than 1.5% AER, Santander's 123 current account offers interest of 3% on balances between £3,000 and £20,000, Nationwide's FlexDirect provides 5% AER on in-credit balances of up to £2,500 for the first 12 months, and Lloyds' Club account pays 4% on balances between £4,000 and £5,000.

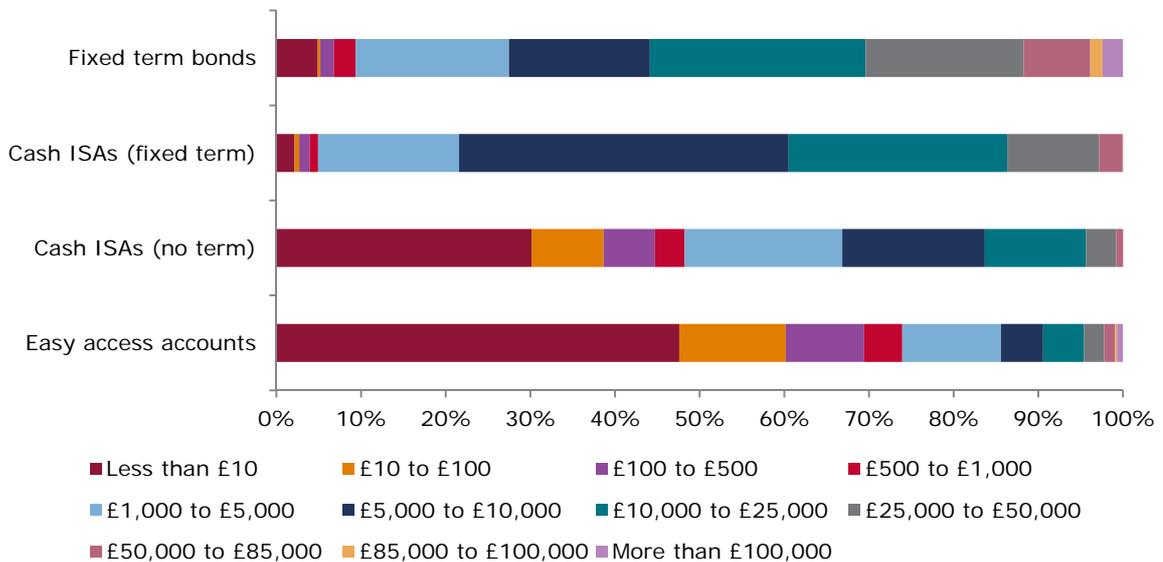
23 For example, consumers are usually required to satisfy a more stringent set of conditions to open a PCA than an easy access savings account (such as requirements on minimum values of monthly deposits or direct debits). For instance, as advertised in December 2014, Santander's 123 account requires customers to pay a monthly fee of £2, fund the account with £500 per month and set up at least 2 direct debits; Nationwide's FlexDirect account requires customers to pay in £1,000 each month; and Lloyds' Club account requires customers to pay in two direct debits per month and does not pay interest on balances over £5,000.

24 Mintel estimated that the total value of household retail deposits was £1,225bn in 2013. However, this figure also included funds placed in current accounts. See Mintel Deposit and Savings Accounts – UK, April 2014, page 12.

25 These figures are slightly different to our interim report due to further consistency checks with providers and one provider updating the product categorisation it had used. Figures do not sum to £702bn due to rounding.

accounts, and most easy access accounts have relatively low balances.²⁶ Savings per account across the providers in our sample averaged £5,900.²⁷

Figure 2: Proportion of accounts with balances falling into different balance bands



Source: FCA analysis of data collected from firms, based on balances at 31 December 2013.

Easy access accounts

- 3.6 Easy access accounts have few or no restrictions on making additional deposits or withdrawals. These accounts include instant access accounts and no-notice accounts.
- 3.7 Easy access accounts usually offer a variable rate of interest (which means the provider may vary the interest rate by as much as it wishes) and an unlimited term. They may also offer a time-limited introductory bonus interest rate or a preferential interest rate to certain groups of customers that qualify for it.
- 3.8 The firms in our sample had approximately 69m easy access accounts held by retail consumers in the UK at the end of 2013. Approximately £354bn was held in these accounts. This gave a simple average²⁸ of just over £4,900 per account.

Fixed-term savings deposits²⁹

- 3.9 Fixed-term savings deposits offer fixed rates of interest over a specified term, during which consumers cannot access their money without incurring penalties. The term of fixed rate products tends to range from one to five years.

26 Though some of the easy access accounts may no longer be used, as people may have switched or withdrawn the funds without closing the account. We kept this data in our analysis as some of these accounts are likely to be used as transactional accounts, for example.

27 None of the average balances in this chapter include NS&I products because we only had NS&I balance data but not the number of accounts.

28 By 'simple average' we mean the total sum of balances divided by the total number of accounts, without any weighting. This average does not include NS&I products.

29 These products include both fixed term bonds and fixed term deposit accounts.

- 3.10 The firms in our sample had approximately 4m fixed-term deposits held by retail consumers in the UK at the end of 2013. Approximately £145bn was held in total in these deposits. This gave a simple average of around £24,300 per deposit.

Cash ISAs

- 3.11 Cash ISAs pay interest tax-free and there are limits set by the Government on the amount of money that can be deposited in an ISA in a given year. There are two main types of Cash ISA products: easy access (no term) Cash ISAs and fixed term Cash ISAs.³⁰
- 3.12 Easy access (no term) Cash ISAs usually have a variable rate of interest and an unlimited term. Consumers can withdraw money from them with few or no restrictions (although doing so may affect the tax-free interest earned).
- 3.13 The firms in our sample have approximately 20m easy access Cash ISAs held by retail consumers in the UK, with approximately £108bn held in these accounts. This gave a simple average of around £5,200 per account.
- 3.14 Fixed term Cash ISAs have an interest rate that is fixed for a specified term during which consumers usually incur a charge for making withdrawals. The term of fixed term Cash ISAs tends to range from one to five years.
- 3.15 The firms in our sample had approximately 6m fixed term Cash ISAs held by retail consumers in the UK at the end of 2013, with approximately £77bn held in these accounts. This gave a simple average of around £12,400 per account.

Notice savings accounts

- 3.16 Notice savings accounts require a customer to provide a set amount of notice if they wish to make a withdrawal. The notice period can typically range from 30 to 180 days. Withdrawals before the end of the notice period usually incur a penalty. These accounts usually pay a variable rate of interest and have no set term.
- 3.17 The firms in our sample had approximately 640,000 notice accounts held by consumers in the UK at the end of 2013. Approximately £9bn was held in total in these accounts. This gave a simple average of around £13,600 per account.

Children's savings accounts

- 3.18 There are a number of types of children's savings accounts, including easy access accounts, regular savings accounts and fixed-term accounts. They tend to operate in the same way as savings accounts for adults.
- 3.19 Children's savings accounts also include Junior ISAs and Child Trust Funds³¹, which are long-term tax-free savings accounts for children, usually with a variable rate of interest. Money can be deposited into these accounts up to an annual limit and can only be withdrawn by the child when they turn 18.

30 We discuss the Government changes to ISA rules, and the introduction of New ISAs in paragraph 3.49.

31 Junior ISA products replaced Child Trust Funds, which were made available to children born between September 2002 and 2 January 2011.

- 3.20 The firms in our sample had approximately 7m children's savings accounts in operation in the UK at the end of 2013. Total balances held in these accounts added up to approximately £8bn, giving a simple average of around £1,000 per account.

Regular savings accounts

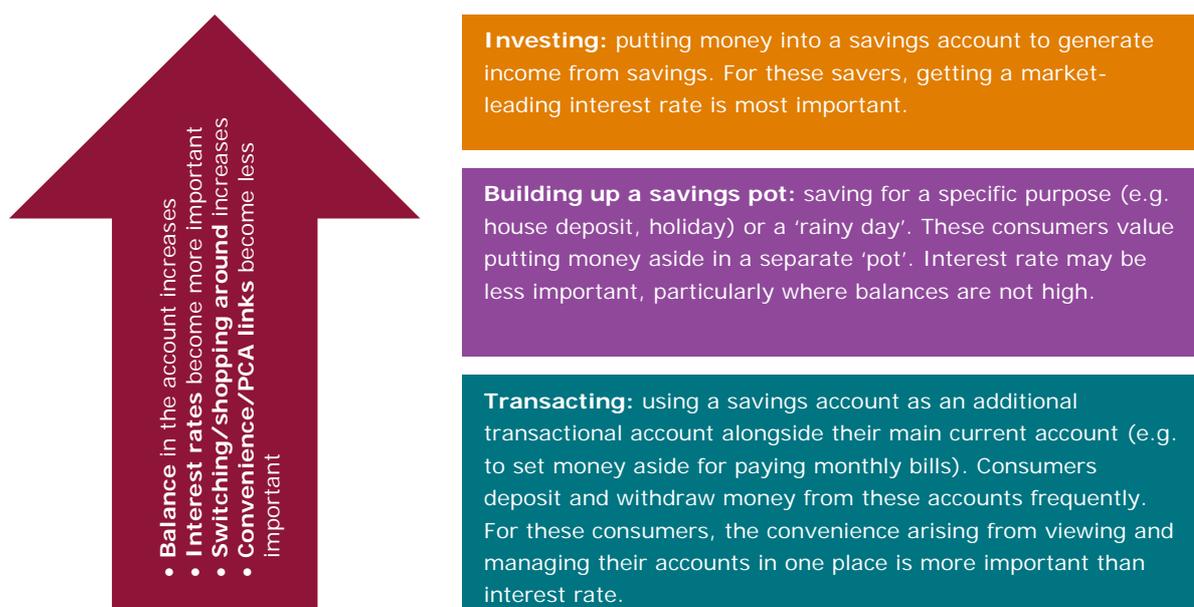
- 3.21 Regular savings accounts offer a fixed interest rate over a specified term providing consumers make regular deposits into their account. Consumers are often unable to make withdrawals from such accounts without incurring penalties.
- 3.22 The firms in our sample had approximately 1m regular savings accounts held by consumers in the UK at the end of 2013. Approximately £2bn was held in total in these accounts, giving a simple average of around £1,500 per account.

Consumers of cash savings products

- 3.23 Around 93% of consumers in the UK hold one or more savings products.³²
- 3.24 Based on the consumer research we commissioned (see paragraph 2.10), consumer research submitted by providers (see paragraph 2.7), and conversations with external stakeholders, we established that the key factors that consumers consider when choosing a cash savings product fall into the following five categories:
- **interest rate**, including whether it is a variable or a fixed rate, and whether the account offers a time-limited bonus rate
 - **other product features**, such as terms around accessing funds, term of the account and channels available for managing the account including branch, online, post and/or phone
 - **providers' service proposition as a whole**, in particular the availability and quality of online banking tools, customer service and a branch network
 - **existing and past relationships with the provider**, in particular whether the consumer already holds a PCA with the provider, and whether they consider it important to have the convenience arising from keeping most of their financial products with one provider
 - **perceptions of the provider**, including the appeal of the brand and the perceived financial stability and reputation of the firm
- 3.25 Consumers open savings accounts for different reasons and choose different types of accounts or account features according to their specific requirements. We identified the three main savings needs described in *Figure 3*:

32 GMI consumer panel - Taken from Mintel's Deposit and Savings Accounts – UK – April 2014, base 1,571 internet users aged 18+ with savings and/or investments. These savings products include premium bonds which were not within the scope of this study into cash savings products. Premium bonds are owned by 25% of British adults.

Figure 3: Consumers' savings needs



- 3.26 Our consumer research showed that the most popular reasons for opening savings accounts were to get a better rate of interest (48%), keep money in a safe place where it will not be spent (31%), start saving for the future (31%) and 'saving towards a big expense' (19%). A further 8% said that they had opened an account to 'dip into regularly to pay everyday expenses' (i.e. transacting).³³
- 3.27 For some consumers the primary function of a savings account is to generate interest on their existing balances. This is particularly likely to be the case for those who have built up substantial reserves - the higher a consumer's balance, the more they have to gain from receiving a higher rate of interest on their savings.³⁴
- 3.28 However, some consumers do not open savings accounts to earn interest, but rather to set aside money in a separate 'pot'. This can be explained by the behavioural economics literature on mental accounting and self-control:
- First, people treat their money differently according to the specific purpose that they have assigned to different pots of money (e.g. different types of accounts).
 - Second, people may want to set aside money in a separate account to resist the temptation to spend.³⁵
- 3.29 Our consumer research showed that while some products are universally popular, others, like fixed term bonds, are more likely to be used by specific groups of consumers. The key patterns we observed were³⁶:
- **Age:** 23% of the consumers that held cash savings products were older than 65 while 6% were aged 16-20 and 7% were aged 21-24. Savers were roughly evenly spread among the remaining groups of savers aged 25-64.³⁷ Our consumer

33 Note that respondents could choose more than one reason so the sum of these percentages is more than 100 per cent. For full results see Figure 19 in Annex 2. The question was asked only about respondents' savings accounts that had been opened in the preceding year.

34 For example, switching to an account that pays 1% more in gross annual interest will translate into only £1 more in gross interest for someone with £100 in the account compared with £100 for someone with £10,000.

35 See Applying behavioural economics at the Financial Conduct Authority, April 2013, FCA Occasional Paper No. 1, www.fca.org.uk/static/documents/occasional-papers/occasional-paper-1.pdf.

36 For more detailed analysis, see Annex 2.

37 Our research did not seek to determine the age distribution of cash savings holders. Quotas based on the GfK Financial Research Survey were set on age to ensure that the sample would be representative of the population of savers in the UK. See Figure 12 in Annex 2 and GfK's technical report for the details of the methodology and sampling for our consumer research.

research indicated that older respondents were the main users of fixed term products and notice accounts, while easy access accounts were popular among savers of all ages (depending on the age of the group, at least one easy access account was held by 56%-82% of respondents).³⁸

- **Employment status:** The two largest groups of savers were those employed full time (34%) and retired (27%).³⁹ Savers who were retired were the main users of fixed term products and those who were employed were the main users of regular savings accounts.⁴⁰ Easy access products were popular among savers in all types of employment.⁴¹
- **Total savings and total personal income:** The majority of savers were consumers with less than £10,000 in their total savings (52%) and consumers with total annual personal income below £35,000 (81%).⁴² Those with higher total savings tended to have higher total personal income and were more likely to be older or retired. Savers with higher balances tended to hold more than one type of product, and were more prevalent users of fixed term products than savers with lower balances. Take-up of easy access products was similar across balance bands.⁴³

3.30 We explain the drivers of consumer behaviour further in Chapter 4.

Providers of cash savings products

3.31 Cash savings products are provided by deposit-takers such as banks, building societies, credit unions and NS&I.

3.32 As at October 2014, 109 firms were offering cash savings products in the UK.⁴⁴ However, six providers held approximately 68% of all cash savings balances.⁴⁵ Our own analysis of market shares from the data submitted by firms in our sample was consistent with this estimate.

3.33 Estimates of market concentration (based on the Herfindahl-Hirschman Index (HHI)⁴⁶, as set out in *Figure 4*) show that the savings market is not particularly concentrated. However, the level of concentration has stayed relatively stable for a number of years. The biggest impact on market shares in previous years has come from merger or divestment activity. In particular, the divestiture of TSB from Lloyds Banking Group and subsequent flotation in June 2014 is an important factor behind the decline in market concentration over the last 12 months.

38 By percentage of respondents holding at least one cash savings product (see Figure 13 in Annex 2).

39 A further 13% were employed part time, 13% were not in paid employment, 6% were self-employed, 6% were students and 1% did not provide a response. By percentage of respondents holding at least one cash savings product (see Figure 14 in Annex 2).

40 41% of respondents who held at least one active fixed term bond were retired; 45% of respondents who held at least one active regular savings account were employed full time, see Figure 15 (a) in Annex 2.

41 Across all employment types, easy access accounts were held by between 65% to 81% of respondents, see Figure 15 (b) in Annex 2.

42 See Figures 5 and 10 in Annex 2.

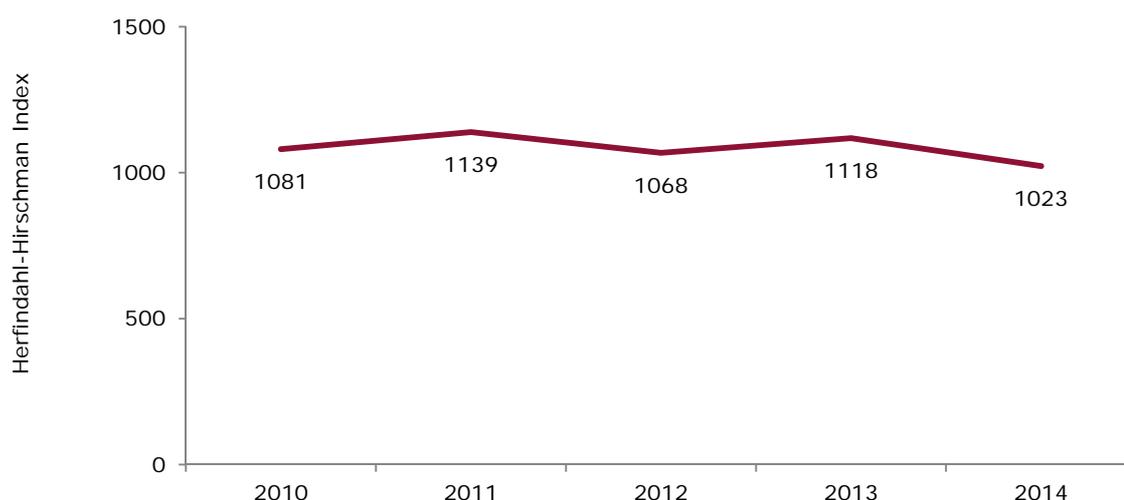
43 See Figures 8 and 9 in Annex 2. Between 66% and 88% of respondents in the different total savings bands held easy access accounts.

44 Moneyfacts Treasury Reports, UK Savings Trends, October 2014.

45 FCA analysis of data provided by © GfK NOP Ltd, Financial Research Survey (FRS), 6 months ending June 2014. Provider shares were assessed at the Group level but most large providers have several savings brands that have adopted different product pricing strategies. Sainsbury's bank was assessed as a separate provider (although we note that Lloyds Banking Group owned a 50% share of the bank until January 2014).

46 See note to Figure 4 for an explanation of HHI.

Figure 4: Market concentration in cash savings (by balances), 2010-2014



Source: Based on data provided by © GfK NOP Ltd, Financial Research Survey (FRS), 6 months ending June 2014

Note: The HHI is calculated by adding together the squared values of the percentage market shares of all firms in the market. It therefore takes account of the different sizes of market participants as well as their number. The Competition and Market Authority's Merger Assessment Guidelines (September 2010, CC2/OFT1254) indicate that a market with an HHI exceeding 1,000 may be regarded as concentrated. The HHI scores for the cash savings market indicate that it is around, but not markedly above, that threshold.

- 3.34 Several new providers (including Virgin Money and Tesco Bank) have appeared in recent years and begun to grow. Although some new entrants appear to be gaining a foothold in the market and are developing increasingly strong brand identities (or building on existing brands), no new entrant banks have yet succeeded in challenging the larger providers' market shares. The level of market concentration has therefore remained relatively stable over time.

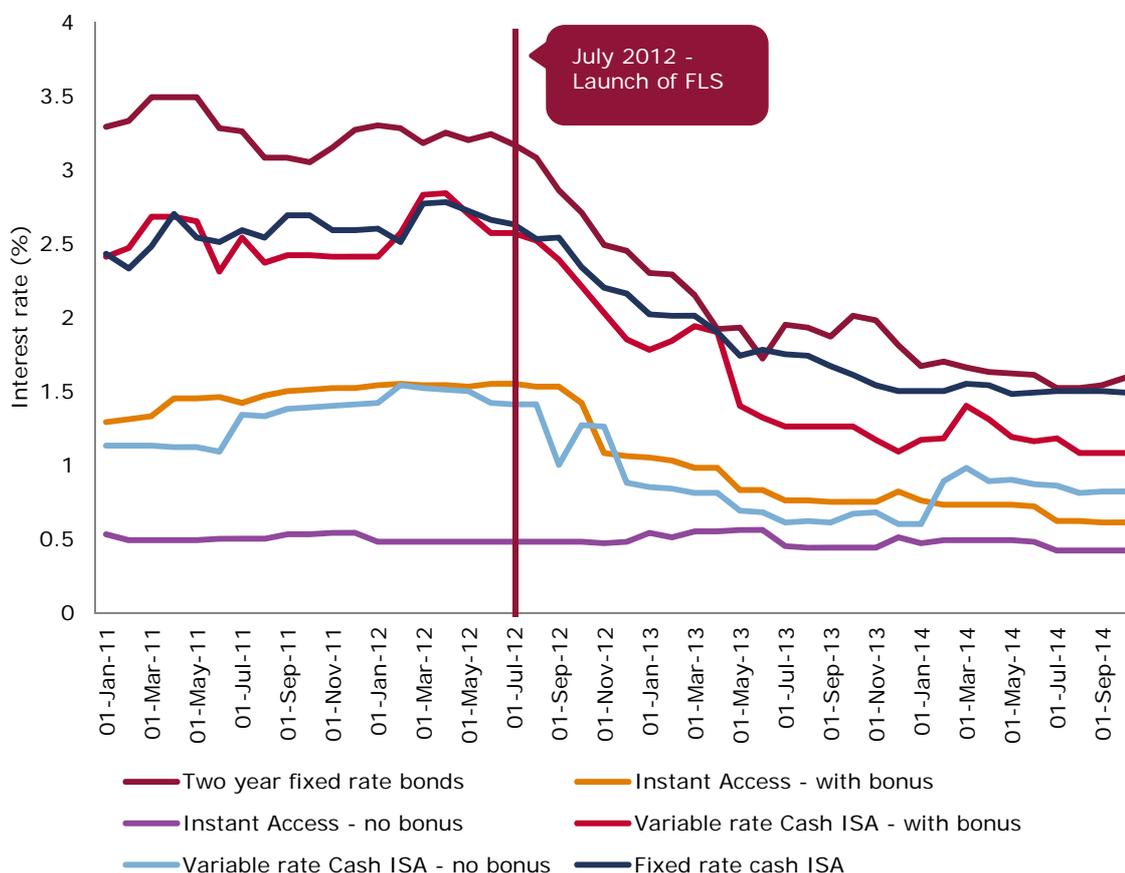
Providers' strategies

- 3.35 Firms' strategies in relation to savings are largely driven by their wider balance sheet management aims. That is, they do not focus on simply attracting the largest possible in-flow of retail deposits but rather assess their need for deposits (and at what price) in the context of their lending strategy.
- 3.36 A number of internal and external factors influence the volume of savings a firm wishes to generate and the interest rate it is prepared to offer. Internal factors include the margins it can achieve and capital and liquidity requirements. External factors include the competitive landscape, the macroeconomic environment, the cost and availability of alternative funding sources and regulatory and government initiatives. Factors of particular relevance during the period of our study have included:
- The Bank of England base rate, which has been at a historic low of 0.5% since March 2009.
 - The Funding for Lending Scheme (FLS), which was introduced by the Bank of England and the Treasury in July 2012 to incentivise providers to boost their lending to the UK economy by providing them with funding at a price and quantity linked to their lending performance. The launch of this scheme made firms less reliant on

funding from retail deposits (see paragraphs 3.57 to 3.58 for further discussion of the FLS).

3.37 Since mid-2012 there has been a fall in the average interest rates that providers have offered to savers (see *Figure 5*)⁴⁷ as well as a reduction in the spread of different interest rates available on similar types of on-sale accounts.

Figure 5: Changes in average interest rates on various types of on-sale cash savings products, January 2011 – October 2014



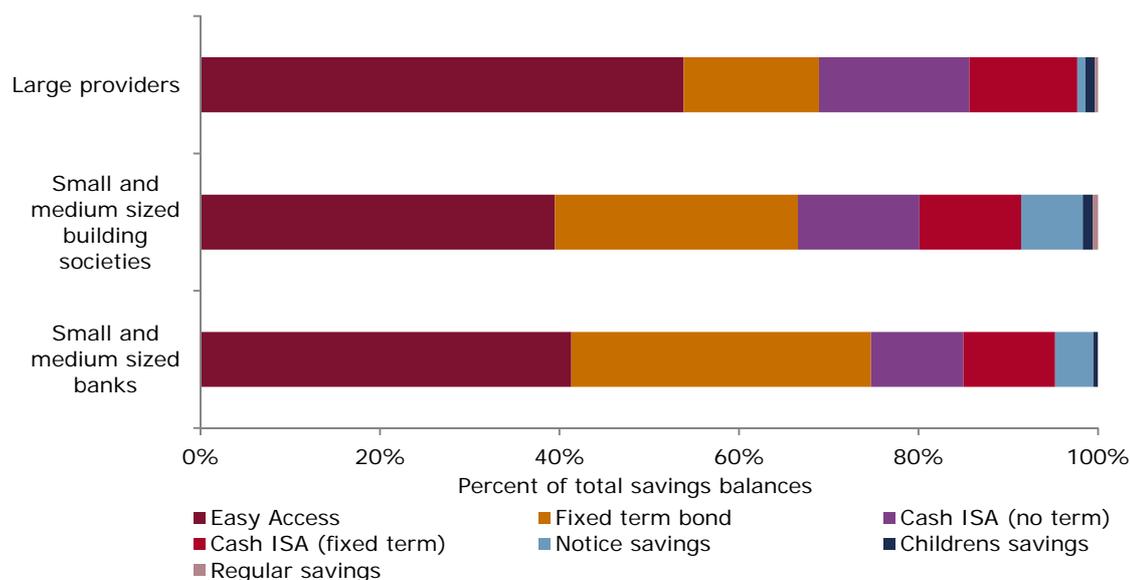
Source: Bank of England, November 2014

3.38 Firms use a number of strategies to sell cash savings products and manage the volume of savings balances they hold on their balance sheet. We summarize the main strategies below:

- Focusing on different product types.** Data from our sample of firms showed that at the end of December 2013 large providers had the highest proportion of their total balances in easy access accounts (54% of balances), whereas small and medium sized banks and building societies held a greater proportion of their balances in fixed terms bonds than large providers (34% for small and medium-sized banks, 27% for small and medium-sized building societies compared with 15% for large providers) - see *Figure 6*.

⁴⁷ Data taken from that available on the Bank of England website. The average interest rates represent the average interest rates offered by firms in the Bank of England sample.

Figure 6: Proportion of total savings balances held in different types of accounts by type and size of firm



Source: FCA analysis of data collected from firms, based on balances at 31 December 2013.

- **Offering a wide of range of products and frequently introducing and withdrawing products.** As at 3 November 2014, there were around 350 easy access products offered on the market and just over 1,000 that were no longer on sale to new customers. Across the seven cash savings products in our study, there were around 1,500 on-sale accounts and over 9,000 no longer on sale.⁴⁸
 - During the course of our study, a number of large banks, including Santander, Natwest, Lloyds/Halifax, Barclays in addition to building societies including Nationwide, Leeds Building Society and Newcastle Building Society simplified the number of products they offer. For some this involved moving all customers with balances in old accounts that were no longer on sale to a reduced range of new cash savings products. For example, Santander announced in mid-2013 that it would close over 90 of its savings accounts and replace these with a range of fewer than ten. More recently, in November 2014, Lloyds Banking Group announced that it would be eliminating 47 of its superseded accounts and replacing these with a single variable ISA, a web saver account and an instant-access account; and Barclays moved all customers holding one of its 11 ISA products no longer open to business to its newer Instant Cash ISA.
 - Such simplification processes can generate operational benefits to firms in terms of account administration and management, while also having the potential to benefit consumers by making the range of existing accounts easier to understand. But they can also lead to some customers facing interest rate reductions. We discuss product replacement strategies in further detail in Chapter 5.
- **Pricing.** The interest rate a firm offers on its savings accounts (and so their position in 'best-buy' tables) can have a significant effect on the in-flow of retail deposits they are able to generate (as the most engaged and active consumers 'chase' the best available rates). A number of firms expressed concern about

⁴⁸ FCA analysis of Moneyfacts Closed and Open Accounts Savings Reports based on input criteria as at 3 November 2014. Moneyfacts Closed Savings Account Analyser includes those accounts which are operated but have been closed to new customers since 1 April 2004.

placing themselves too near the top of best-buy tables as the in-flow of deposits they would expect to follow would stretch them operationally. In addition, the higher the interest rate, the more likely the firm is to attract a higher proportion of 'rate chasers' whose deposits are likely to be a less stable form of funding, as these consumers are more likely to switch to a higher interest rate product if one becomes available.

- **Using promotional offers, conditional or loyalty rates.** There are three ways firms boost the interest rate they offer to consumers:
 - Bonus (or so-called 'teaser') rates, where accounts offer a higher rate of interest for a limited period of time (usually 6-12 months). Not all providers offer bonus products and several providers (including RBS/NatWest, Nationwide and HSBC) announced during the course of the market study that they would no longer offer bonus rate products. Fewer than 5% of accounts available on the market in October 2014 offered introductory bonus rates compared to over 10% in June 2010.⁴⁹ However, data from our sample of firms showed that nearly half (49%) of total easy access balances were held in accounts that offered, or in the past had offered, bonus rates. We discuss bonus rates in further detail in Chapter 5.
 - Conditional rates, where the interest rate paid depends on some action being taken by the customer (for example, making a certain number/amount of deposits or making no/up to a certain number of withdrawals). If the customer does not take the specified action their interest rate usually drops substantially.
 - 'Loyalty rates', where firms offer higher interest rates to customers holding other products with the firm (such as a PCA) or who have held savings with the firm for a number of years.
- **Providing different forms of access.** Firms also allow consumers to manage savings accounts in a number of different ways. The large providers mainly offer branch, telephone, post and online access. A number of the small and medium sized banks do not have a branch presence or their branch presence is not on the same scale as that of large providers. Instead they offer a comprehensive internet banking proposition. They can use certain access channels as a way to attract certain groups of consumers (see also next bullet). In contrast, some of the small and medium sized building societies' accounts can only be managed in branch or via post, therefore restricting product access to local residents or those prepared to make a journey (either to a branch or a post box) to service their account.
- **Targeting specific consumer segments.** Firms seek to attract different sorts of consumers in marketing their products. Many of the large providers offering PCAs often focus on sales to their existing PCA customers. A number of the small and medium sized banks have to offer market-leading interest rates to attract consumers to save with them. This means they end up attracting those consumers most interested in a high interest rate. We discuss this issue further in Chapter 5.

How cash savings products are regulated

3.39 The provision of cash savings products falls within our regulatory remit because we have responsibility for regulating the conduct of firms who accept retail deposits.⁵⁰ We

49 Base: All accounts. Moneyfacts Treasury Reports, UK Savings Trends, October 2014.

50 Excluding NS&I – see footnote 18.

are also the principal regulator in the UK under the Payment Services Regulations 2009 (PSRs).⁵¹

3.40 All firms wishing to accept retail deposits (such as savings) must be authorised by the Prudential Regulation Authority (PRA) or benefit from a European Economic Area passport, and are regulated by the FCA in relation to conduct.⁵²

3.41 In their provision of cash savings products, regulated firms are subject to various obligations, the most relevant of which are found in:

- Our 11 Principles for Businesses⁵³, which are a general statement of the fundamental obligations of firms under the regulatory system. In particular they state that a firm must pay due regard to the interests of its customers and treat them fairly (Principle 6) and a firm must pay due regard to the information needs of its clients and communicate information to them in a way which is clear, fair and not misleading (Principle 7).
- The conduct of business requirements of the PSRs, which implement the Payment Services Directive (PSD)⁵⁴ and guidance in our accompanying approach document.⁵⁵ The PSRs apply to those savings accounts that are 'payment accounts'⁵⁶ (those with payment functionality). This includes most easy access accounts and potentially some other types of cash savings accounts.
- The Banking Conduct of Business Sourcebook (BCOBS)⁵⁷, which contains rules and guidance on a number of matters, including on communications with customers, financial promotions and post-sale conduct. BCOBS rules are complementary to the PSRs and apply to retail deposit taking, except where incompatible with the provisions of the PSD. Broadly speaking, when the account is a 'payment account', BCOBS rules only apply where there is no corresponding provision in the PSRs. BCOBS rules and guidance apply to all non-payment accounts.
- General consumer protection legislation, such as the Unfair Contract Terms Act 1977, the Unfair Terms in Consumer Contracts Regulations 1999, and the Consumer Protection from Unfair Trading Regulations 2008.
- Prudential requirements emanating from EU law and the rules of the PRA (see Chapter 6 for further details).

Recent regulatory developments

3.42 In this section we set out recent regulatory developments:

- European Directives – the Payment Accounts Directive (PAD) and revisions to the PSD (PSD2)
- changes to the provision of cash ISAs arising from the Office of Fair Trading's (OFT's) investigation into the cash ISA market in 2010 and recent Government changes to ISA rules

51 SI 2009/209.

52 Some limitations apply in relation to incoming EEA firms.

53 See <http://www.fca.org.uk/about/what/regulating/principles-for-businesses>

54 Directive 2007/64/EC on payment services in the internal market amending Directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/EC, OJ L 319, 5.12.2007, p. 1-36.

55 For further information see <http://www.fca.org.uk/firms/firm-types/payment-services-institutions>

56 A "payment account" is defined in regulation 2 as "an account held in the name of one or more payment service users which is used for the execution of payment transactions". The issue of which savings accounts can be considered 'payment accounts' is dealt with in the FCA Perimeter Guidance (see question 16 of the Q&A) available at <http://media.fshandbook.info/content/full/PERG/15.pdf>

57 See www.fshandbook.info/FS/html/handbook/BCOBS

- developments in the regulation of PCAs including the Competition and Market Authority's (CMA's) market investigation and the introduction of the Current Account Switch Service
- other Government initiatives, which affect the provision of cash savings, including the FLS and the Simple Financial Products Initiative

Payment Accounts Directive

3.43 Directive 2014/92 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features was published in August 2014.⁵⁸ The PAD will require Member States to put in place new rules, including two particular areas that could affect the firms and payment accounts covered by this study:

- provision of fee information to consumers – this includes the provision of a statement, at least annually, that will include information on interest earned, and will require the standardisation of certain terminology
- switching of payment accounts – this requires firms to offer a service allowing accounts to be switched with other payment services providers

3.44 We have been liaising with the Treasury on the future implementation of the PAD.

Revisions to the Payment Services Directive

3.45 On 24 July 2013, the European Commission published proposals⁵⁹ for PSD2. The Commission considered that while the PSD was generally functioning appropriately it was necessary to amend the PSD due to technological developments and different interpretations by different European regulators. The proposals were designed to:

- extend the scope of the regime to previously unregulated payment services providers – this included introducing the requirement for third party providers of payment initiation services and account information platforms to be authorised as payment institutions
- limit the scope of existing exemptions – this included limiting the scope of exemptions for specific types of payments (e.g. payments outside the EU, payments for digital content and payments through commercial agents or via 'limited networks')
- increase consumer rights and payment security – this included introducing additional authentication requirements for internet payments and reducing customer liability for unauthorised transactions

3.46 At the time of writing this report, negotiations of PSD2 are ongoing. We have been liaising with the Treasury during these negotiations. As the PSD is a maximum harmonization directive, the final outcome of these negotiations will affect the firms and some of the products covered by this study, as well as potentially affecting remedies we might seek to pursue.

58 OJ L 257, 28.8.2014, p. 214–246.

59 Proposal for a Directive on payment services in the internal market and amending Directives 2002/65/EC, 2013/36/EU and 2009/110/EC and repealing Directive 2007/64/EC (COM(2013) 547 final).

OFT's Cash ISA market study

- 3.47 In 2010, the OFT undertook a review of Cash ISAs following a super-complaint from Consumer Focus and made a number of recommendations and interventions to increase consumers' awareness of their interest rate and make them more confident of the ISA transfer process.⁶⁰ The OFT's main initiatives were that:
- the maximum transfer time should be reduced from 23 to 15 working days
 - industry should consider an electronic transfer system
 - interest should be received during the entire transfer process
 - customers should get their new interest rate no later than 15 working days after requesting a transfer
 - interest rates should be published on Cash ISA statements
 - consumers should receive notification of bonus rate expiry on all types of cash ISA
- 3.48 On 14 March 2014, the OFT published an evaluation of the impact of their recommendations on switching, transparency and interest rates.⁶¹ It found that these recommendations had had a substantial and positive impact on the transfer process as transfer times had more than halved since the intervention and interest was now paid for the entire transfer process. In addition, a large number of providers had adopted an electronic transfer system. However, the impact on consumers' awareness of their interest rate or actual switching was unclear. We consider the ISA switching process further in paragraphs 5.84 to 5.87.

Government changes to ISA rules

- 3.49 Changes to ISAs were announced in the March 2014 Budget with the introduction of New ISAs (NISAs).⁶² Consumers could previously save £5,760 per year in a Cash ISA and £11,520 per year in a stocks and shares ISA. However, as of 1 July 2014 consumers were able to save a new allowance of £15,000 either in cash, stocks and shares or any combination of both. Depending on how consumers view the relative attractiveness of cash ISAs as compared with other savings options, the allowance changes could result in a significant increase in the cash component of ISA products, most likely at the expense of taxable savings accounts and possibly equity-based ISA products.

CMA's market investigation into PCAs

- 3.50 In November 2014, the CMA announced that it was launching a market investigation into PCA and small and medium sized enterprise retail banking.⁶³ The CMA was concerned about:
- low levels of customers shopping around and switching

60 OFT (2010) Cash ISAs: Response to super-complaint by Consumer Focus, OFT1246, http://webarchive.nationalarchives.gov.uk/20140402142426/http://www.of.gov.uk/shared_of/super-complaints/OFT1246.pdf

61 OFT (2014) Evaluating the impact of the OFT's 2010 Cash ISAs: Response to super-complaint by Consumer Focus http://webarchive.nationalarchives.gov.uk/20140402142426/http://www.of.gov.uk/shared_of/reports/Evaluating-OFTs-work/OFT1523eval.pdf

62 See HM Treasury (2014) Fact sheet on the New ISA: www.gov.uk/government/uploads/system/uploads/attachment_data/file/293746/Fact_sheet_ISA_8.pdf

63 www.gov.uk/government/news/personal-current-account-and-small-business-banking-face-full-competition-investigation

- limited transparency, and difficulties for customers in making comparisons between banks, particularly for complex overdraft charges on PCAs
- continuing barriers to entry and expansion into the sector, limiting the ability of smaller and newer providers to develop their businesses
- very little movement over time in the market shares of the four largest banks, which provide over three-quarters of personal and business current accounts

3.51 There are some similarities between the conditions for competition in these markets with the market for cash savings products, including a large degree of overlap in providers active in these markets. However, there are also many differences, so the work on these markets has been taken forward separately. We continue to work closely with the CMA across all retail banking work.

Current Account Switch Service

3.52 In September 2013 the Payments Council introduced the Current Account Switch Service. The Current Account Switch Service is a free-to-use service for consumers which enables them to:

- switch their PCA (including all direct debits) in seven working days (or in a longer period, if requested by the consumer)
- have a single point of contact for any questions or concerns - the new bank is responsible for the switch
- benefit from a redirection service that re-routes any payments made to or requested from the old account for a period of 13 months after the switch
- receive a refund of any interest or charges if anything goes wrong

3.53 The service was introduced to increase competition, support the entry of new banks in the current account market and give consumers a greater choice.⁶⁴

3.54 At the time of writing this report, 36 brands have signed up to the service.⁶⁵ These brands comprise almost all providers in the PCA market. The Current Account Switch Service does not cover cash savings accounts.

3.55 In its 2014 Autumn Statement, the Government announced two enhancements to the Current Account Switch Service to be delivered by March 2015:⁶⁶

- a An extension to the service to include small and medium enterprises with a turnover up to £6.5m, which is believed to include 99% of small and medium enterprises (in addition to retail customers, the service is currently available to businesses with a turnover up to €2m (or sterling equivalent)).
- b An extension of the redirection service to 36 months (currently 13 months) to give consumers greater reassurance that no direct debit or standing order will fail once they switch to a new provider. In addition, the Government has asked us to advise (before the March 2015 Budget) on whether a reduction in the switching time from seven to five working days would deliver significant benefits to consumers.

3.56 We launched a review the effectiveness of the Current Account Switch Service in September 2014 and expect to report back in the first quarter of 2015.⁶⁷

64 See Payments Council Overview of Account Switching:

www.paymentscouncil.org.uk/switch_service/overview_of_account_switching/

65 For an up-to-date list, please see http://www.paymentscouncil.org.uk/switch_service/who_is_participating/

66 www.gov.uk/government/uploads/system/uploads/attachment_data/file/382327/44695_Accessible.pdf, paragraph 1.172.

Funding for Lending Scheme

- 3.57 The Bank and the Treasury launched the Funding for Lending Scheme (FLS) in July 2012.⁶⁸ This scheme was aimed at increasing lending to businesses by allowing banks and building societies to borrow from the Bank of England at cheaper than market rates for up to four years. One consequence of the scheme is that it has reduced banks' reliance on retail deposits, and average interest rates on retail deposit accounts have declined across the board as a result (see *Figure 5*).
- 3.58 The initial phase of the scheme ended in January 2014, but the Bank and the Treasury extended the FLS, on revised terms, until January 2015. In December 2014 it was extended again until 29 January 2016.⁶⁹ The revisions for the extended FLS focused on lending to the business sector, and particularly small and medium enterprises, by first removing the direct incentives to expand household lending, and then expanding the scheme to include certain forms of lending involving non-bank providers of credit, which can be an important source of finance to some small and medium enterprises.⁷⁰

Simple Financial Products Initiative

- 3.59 Following a Government initiative and consultation in 2010/11 to introduce a new range of simple financial products⁷¹, an independent simple financial products steering group chaired by Carol Sergeant was created to take the work forward.⁷² The Sergeant Review of Simple Financial Products, published in March 2013⁷³, set out nine principles for easy-to-understand financial products that consumers can trust. The review recommended that the British Standards Institution (BSI) develop a set of specific product standards based on these principles, and create an accompanying badge to be awarded to a small suite of products found to meet these standards. It recommended that the first set of products would be an easy access savings account, a 30 day notice savings account, a regular savings account and a fixed term life insurance product.
- 3.60 Since the publication of the review, BSI has developed a 'Simple Product' accreditation scheme and has certified the first Simple Product, a fixed term life insurance policy offered by Barclays. A second accreditation scheme has also been developed by industry (led by the Association of British Insurers, the British Bankers Association and the Building Societies Association) in parallel using the Trading Standards Institute (TSI) Consumer Codes Approval Scheme. The scheme has now been accredited by TSI and is expected to become fully operational in the first quarter of 2015. To be badged a 'simple' easy access or notice savings product, the product must, among other things, not have an introductory bonus rate and there must be only one product of that type per channel.⁷⁴

67 www.fca.org.uk/about/what/promoting-competition/current-account-switch

68 See King, M (2012) Speech at the Lord Mayor's Banquet for Bankers and Merchants of the City of London at the Mansion House: www.bankofengland.co.uk/publications/Documents/speeches/2012/speech587.pdf

69 www.bankofengland.co.uk/publications/Pages/news/2014/165.aspx

70 See 'Bank of England and the Treasury re-focus the Funding for Lending Scheme to support business lending in 2014': www.gov.uk/government/news/bank-of-england-and-hm-treasury-re-focus-the-funding-for-lending-scheme-to-support-business-lending-in-2014

71 See Speech by The Financial Secretary to the Treasury, Mark Hoban MP, at the Consumer Financial Education Body Conference, www.gov.uk/government/speeches/speech-by-the-financial-secretary-to-the-treasury-mark-hoban-mp-at-the-consumer-financial-education-body-conference-cambridge

72 See HM Treasury Simple financial products: a summary of consultation responses, www.gov.uk/government/uploads/system/uploads/attachment_data/file/190139/condoc_simple_financial_products_responses_201011.pdf

73 See Sergeant Review of Simple Financial Products – Final Report (2013): www.gov.uk/government/uploads/system/uploads/attachment_data/file/191721/sergeant_review_simple_products_final_report.pdf

74 This of course does not prevent other products without the 'simple' badge being sold with introductory bonus rates.

4 Consumer behaviour

Low switching rates can be indicative of markets not working well for consumers. Without consumers being willing or able to switch easily between competitors, providers have little incentive to provide better offers and low switching rates indicate a problem. However, markets can be competitive even when switching rates appear low if consumers are able to switch easily and providers respond to the threat of switching by offering better deals to retain existing customers.

Switching in the cash savings market is largely driven by the monetary gains from switching and switching within an existing provider is as popular as switching between providers. However, more than three quarters of variable rate accounts have not been switched in the last three years, and consumers considered switching the balances of only around a third of easy access accounts and easy access Cash ISAs.

Lack of consideration of switching and lack of switching can be partially explained by the low perceived gains from switching (due to low balances and/or small differences in interest rates available, particularly in the current low interest rate environment). However, the convenience of using one provider for all accounts and actual or perceived switching costs are also factors that prevent some consumers from shopping around or switching.

Interest rates in the market are currently at historically low levels, but the monetary benefits of switching will increase as and when interest rates increase. However, we are concerned that many consumers are not aware of what interest rates are paid on their existing savings accounts, whether their current provider offers alternative products with better rates or what other interest rates are offered by other providers. This lack of awareness is likely to hinder many consumers from being able to benefit from shopping around as interest rates rise.

- 4.1 This chapter outlines our findings on consumers' behaviour and how effective consumers are at driving competition in the cash savings market. These findings are based on our consumer survey (for a detailed analysis of results and the survey methodology and questions, see Annex 2 and the GfK technical report) and representations from consumer groups, providers and trade bodies.
- 4.2 Consumers can drive effective competition in the cash savings market by:
 - shopping around effectively when looking around for a new savings account, by comparing both the interest rates and quality of the service propositions offered by different types of providers, including smaller banks and building societies
 - monitoring the competitiveness of the savings products they already hold and switching if there is an alternative deal which better satisfies their needs
- 4.3 If consumers do not fully understand their savings products and cannot make effective comparisons between providers, or face difficulties in transferring their savings accounts within or between providers, then they do not push providers to compete

effectively. This, in turn, means consumers miss out on the best deals and are not in a position to provide incentives for providers to reduce costs, innovate and offer better products.

- 4.4 In many markets, active consumers help to protect the interests of more passive consumers and drive competition in the market as a whole. However, shopping around and switching by active consumers may be less effective at improving outcomes for passive consumers if providers are able to segment customers and offer higher interest rates to active consumers and lower interest rates to passive consumers (see Chapter 5 for a discussion of providers' conduct in this market and Chapter 7 for a discussion of the competitive effects).
- 4.5 We received comments from several stakeholders on our analysis of consumer behaviour presented in the interim report. Feedback was focused on the importance of interest rates, links with PCA providers, switching rates in the market, reasons for not switching and gains that could motivate consumers to switch. For a summary of responses, see Annex 1.
- 4.6 In this chapter we consider:
- consumers' savings needs, including why consumers open savings accounts, the importance of interest rates and the importance of holding savings accounts with a consumer's main banking provider
 - the extent and effectiveness of shopping around for a new account
 - consumers' awareness and monitoring of interest rates on their accounts
 - switching rates and the reasons for switching/not switching, as well as monetary gains that could motivate switching

Consumers' savings needs and the importance of interest rates

- 4.7 This section considers why consumers open savings accounts, and how important interest rates and existing relationships with financial providers are in that decision.

Why do consumers open savings accounts?

- 4.8 As outlined in Chapter 3, when opening a new savings account, consumers consider and trade-off a range of factors, including interest rate, terms around accessing funds, channels available for account management, providers' service proposition (e.g. quality of online banking and/or local branch access), existing and past relationships with the provider, the appeal of the provider's brand and the perceived reputation and financial stability of the provider.
- 4.9 Consumers trade off these different factors because they open savings accounts to satisfy different needs (see paragraphs 3.25 to 3.28).⁷⁵ Depending on consumers' needs, interest rates paid on the account may be more or less important than other considerations. For some consumers the interest earned may be of very little

⁷⁵ The PwC report (pages 160 and 161) showed that across a range of countries a competitive interest rate was not the highest ranked reason for choosing a savings provider – other factors such as instant access, competitive withdrawal fees and online access were seen as more important by many consumers when considering what account features were essential for them.

importance, particularly if the balance in their account is very low. Based on the evidence, we identified three main savings needs:

- **Investing:** these consumers open savings accounts to generate interest income from savings, so getting a market leading interest rate is important.
- **Building up a savings pot:** these consumers open savings accounts to build up or keep savings for a specific purpose (e.g. house deposit) or a 'rainy day'. These consumers mostly value having the opportunity to set aside money in a separate 'pot' and the interest rate is likely to be of most importance to those with higher balances.
- **Transacting:** these consumers use their savings account as an additional transactional account alongside their main PCA (e.g. to set money aside for paying monthly bills). For these consumers, the convenience arising from viewing and managing their money in one place may be more important than interest rate, particularly as they are likely to deposit and withdraw money frequently.

4.10 A particular savings account may satisfy more than one need (e.g. a regular savings account could be opened both to build up a savings pot and to earn interest income on the existing balances). Also, consumers may open several accounts to satisfy these different needs: in our online consumer survey, 30% of respondents held one active savings account, a further 29% held two active accounts and the remaining 40% held three or more active savings accounts.⁷⁶

4.11 As different features are important to different consumers, we have not taken the interest rate as the only measure of whether competition is delivering good outcomes to consumers in the cash savings market (albeit it is the most easily observable measure).

Importance of interest rates in the different cash savings product segments

4.12 Due to the differences in product features, the seven types of cash savings products covered by our market study can satisfy the three needs identified above to a different extent and consumers therefore often hold more than one type of product.⁷⁷ Most importantly:

- **Easy access accounts** usually have few or no restrictions on withdrawals and deposits, compared to other products, so these are the main types of accounts likely to be used for transacting. They may also be used for building up a savings pot or investing (for example, where consumers have exhausted their Cash ISA allowance and/or wish to access the money in the near future).
- **Easy access Cash ISAs** are more likely to be used for 'investing' and 'building up savings', but are less likely to be used as transactional accounts because there are restrictions on total annual deposits and money that is withdrawn cannot be 'replaced' if the consumer has exceeded the annual ISA allowance set by the Government.

⁷⁶ Estimates provided do not add up to 100% due to rounding. All of these accounts are 'active' accounts. Accounts were deemed 'active' based on the respondents' self-report and there was no lower limit set on the value that needed to be held in the account, see paragraph 11 in Annex 2. Source: FCA analysis of the online survey, Question 2. Base: all respondents (2996), active accounts only.

⁷⁷ Our online consumer survey found that while 36% of respondents only held one type of savings account, a further 38% held two types of accounts and the remaining 26% held at least three different savings accounts, see Figure 2 in Annex 2. All of these were 'active' savings accounts.

- **Fixed term products**, including fixed term bonds and fixed term Cash ISAs, are most likely to be used for investing as these accounts require the consumer to lock money away for a set term and mostly do not allow additional deposits/withdrawals to be made (so the account cannot be used to build up a savings pot or for transactional purposes).
- The other less popular types of accounts (see *Figure 1*), such as **regular savings accounts**, **notice accounts** and **children's savings accounts**, are most likely to be used to build up a savings pot or for investing.

4.13 These differences imply that – driven by consumer needs – competition in the different product segments will be focused on interest rates to a different extent. As fixed term products and cash ISAs are more likely to be used for investing and building up savings pots and tend to have higher balances than easy access accounts (see *Figure 2*), competition is more likely to be focused on price (i.e. interest rate) than in easy access products. In comparison, easy access accounts are likely to serve a range of consumer needs (from transacting to building a savings pot to investing), so products offered by providers may have a range of different features that appeal to different consumer needs.⁷⁸

The importance of existing relationships in driving savings account choices

- 4.14 One of the most important drivers behind consumer choice is the convenience of viewing and managing accounts, as it is easier to manage several retail banking products through a single branch or online banking site than through several different providers. The large providers that responded to our interim report recognised that many consumers choose to manage their savings alongside their PCAs due to the convenience that arises from accessing and managing multiple products with one provider (e.g. managing an easy access account and a PCA in the same branch or on the same internet platform) and due to preference for a particular brand. One large PCA provider noted that, as a result, PCA providers 'naturally expect to hold a proportion of PCA customers' savings balances'.
- 4.15 To establish to what extent different types of products are held with a consumer's main banking provider, we asked respondents to our consumer survey to identify the firm with which they had their 'main banking relationship'.⁷⁹ The most popular eight providers accounted for 85% of responses and all of these were large high street retail banking providers.⁸⁰ Most respondents had been with their main banking provider for a long period of time (58% for ten or more years and 15% for five to ten years).⁸¹

78 For example, online only accounts with higher interest rates but only one account management channel and a more limited service proposition may appeal more to those with higher balances who expect to interact less with their savings account (e.g. only make regular deposits or only deposit a lump sum) or those who are happy to manage their savings only online. In contrast, accounts with lower interest rates that offer both branch and online access may appeal more to consumers with smaller balances who expect to make frequent deposits and withdrawals and who value having the option to manage their accounts in-branch. One large provider noted that consumers shopping around for Cash ISAs tend to be more rate focused and attach less weight to the flexibility offered by different services (e.g. telephone banking, mobile accounts, simple transfers between providers) as they expect to interact much less with their ISA provider. It said that in contrast, when consumers decide to put their savings in an easy access account, the flexibility which is offered by having their savings with their PCA provider carries more weight and consumers are willing to trade off slightly lower rates in return for this alternative value.

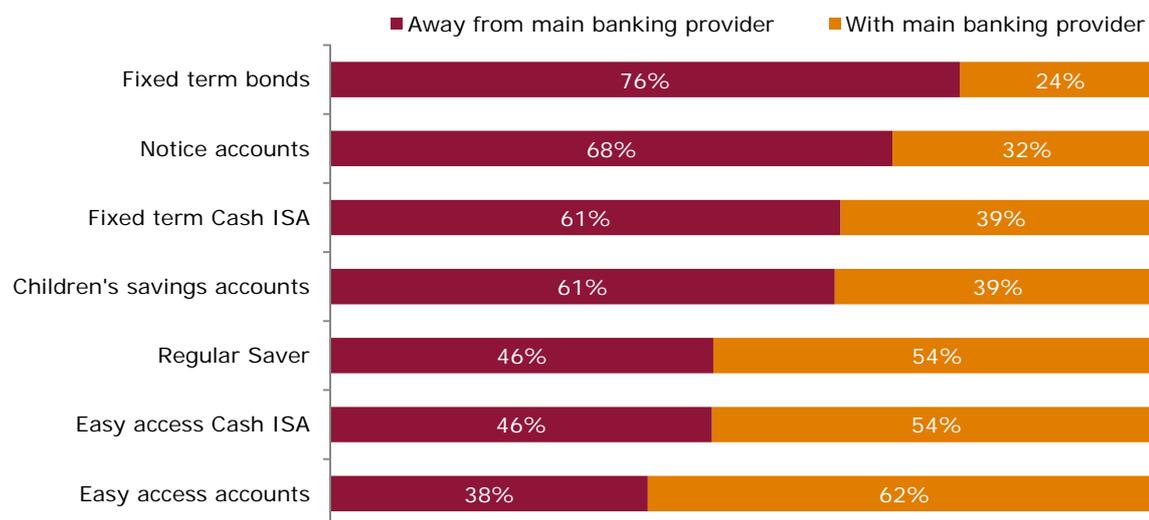
79 We did not specify which products had to be held with a provider for it to be classified as 'the main banking provider', as we wanted to leave it to respondents to decide which relationship they found to be the most important one.

80 These were Barclays, Santander, Lloyds, NatWest, Halifax, Nationwide, HSBC and Royal Bank of Scotland. Source: FCA analysis of the online survey, Question 12. Base: all respondents (2996).

81 A further 4% had been with their main banking provider for less than a year, 6% for one to two years, 7% for two to three years and 10% for three to five years. Source: FCA analysis of the online survey, Question 13. Base: all respondents (2996).

4.16 We found that 95% of respondents held a PCA and 74% held a savings account with their main banking provider (see *Figure 16* in Annex 2).⁸² For the 95% of respondents who had a PCA with their main banking provider, fixed term products were much more likely to be held away from the main banking provider than easy access type products: only 24% of fixed term bonds and 39% of fixed term Cash ISAs were held with the main banking provider, compared with 62% of easy access accounts and 54% of easy access Cash ISAs (see *Figure 7*).^{83,84}

Figure 7: Proportion of each type of account held with or away from the main banking provider (for those who held a PCA with their main banking provider)



Source: FCA analysis of the online survey, Questions 14 and 3c

Base: all respondents who hold a current account with their main banking provider (Easy access accounts (2742), Easy access Cash ISA (1883), Regular Saver (741), Children's savings accounts (653), Fixed term Cash ISA (674), Notice accounts (127), Fixed term bonds (415))

4.17 These results were consistent with consumers choosing to open accounts that they are going to interact with the most (i.e. making deposits and withdrawals) with their main banking provider, as it is more convenient to manage accounts with a single provider.⁸⁵ Such convenience is less important for fixed term products, as usually no additional deposits/withdrawals can be made until the product matures.

4.18 Focusing on easy access accounts, where the links with PCA providers are likely to be the strongest and where about half of total savings balances were held, we found in our consumer survey that two of the three reasons most commonly cited for choosing an easy access account were convenience and a reputable provider (i.e. a provider that consumers can trust) - see *Figure 8* below.⁸⁶ However, 37% also said that one of three

82 However, we recognise that some consumers have more than one PCA, so this may not necessarily be the main PCA for all respondents in the sample.

83 Note that all of these are 'active' products, see footnote 76. For easy access accounts (the accounts that are most likely to be used for a wide range of needs) our consumer research suggested that the higher the balance, the more likely the account was to be held away from the main banking provider, though a large proportion of the accounts in the higher balance bands were held with the main banking provider (47% of accounts with £10,000 or more and 43% of accounts with balances between £5,000 to £9,999), (see *Figure 18*, Annex 2).

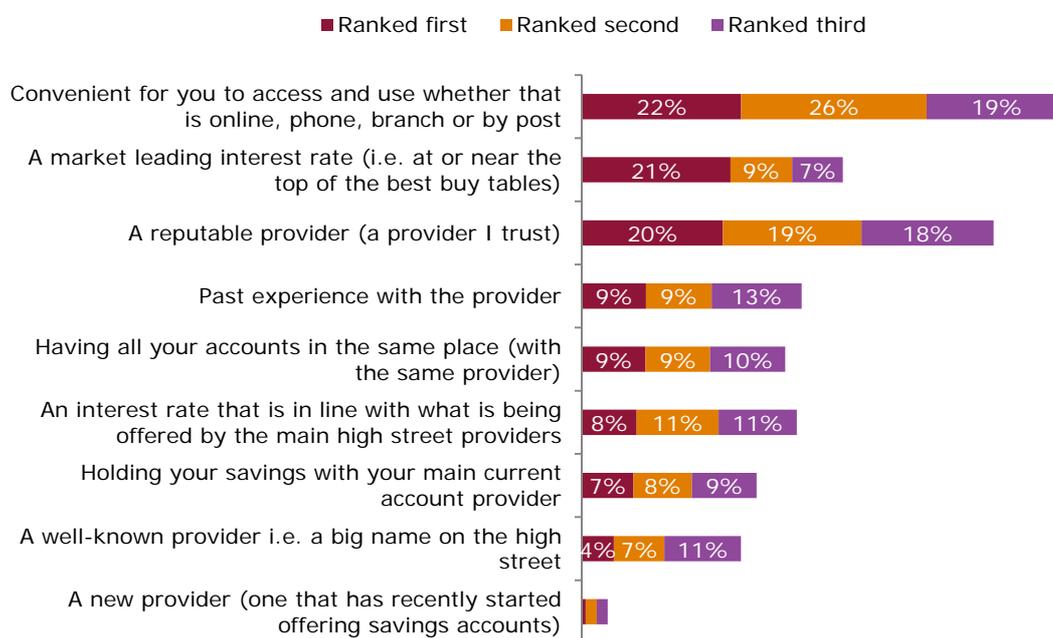
84 In our analysis, we focused on whether accounts of a specific type were held with or away from the main banking provider and not on what proportion of a consumer's total savings were held with or away from the main banking provider. This is because a particular consumer may hold his/her savings across different types of accounts (e.g. easy access account, regular savings account, fixed term bonds) that serve different needs. Examining the proportion of total savings would not take into account the potentially different factors between different types of accounts that affect a consumer's decision on whether to keep the account with or away from the main banking provider.

85 This trend was consistent with the pattern in Australia, Germany, Netherlands and the USA, where between 58% and 78% of consumers chose a savings account with a provider with whom they were already a customer (see PwC report, page 26).

86 For easy access Cash ISAs, see *Figure 20(b)* in Annex 2.

factors was a market leading interest rate (and it was a factor ranked first for 21% of respondents).

Figure 8: Proportion of respondents naming features that were important to them when choosing easy access accounts



Source: FCA analysis of the online survey, Question 30

Base: all respondents holding at least one easy access account (2277)

4.19 The results in *Figure 8* suggest that the convenience sought is largely ease of accessing the savings account, which is likely to be of most importance to consumers who expect to interact with the account frequently (i.e. deposit and withdraw funds): only 24% of respondents said ‘holding your savings with your main current account provider’ and only 28% of respondents said ‘having all your accounts in the same place’ as one of the top three features they were looking for in an account, compared with 67% of respondents who said ‘convenient for you to access and use whether that is online, phone, branch or by post’ as one of the top three options. This suggests that consumers do not necessarily have a strong preference for their main banking provider, but end up choosing it because their existing provider offers this convenience through single branch access and/or online banking platforms.

Shopping around for a savings account

4.20 To drive effective competition, consumers need to shop around – compare prices and the quality of alternative products - and be able to choose suppliers that offer the best deal that satisfies their specific needs. Unless a significant number of consumers shop around before opening a new savings account or monitor the competitiveness of the products they already hold, there is little incentive for firms to improve interest rates and quality of service (e.g. online banking functionality). This section considers the extent and effectiveness of shopping around, and consumers’ willingness to consider different types of providers.

Extent and effectiveness of shopping around

4.21 Consumers often do not shop around for their accounts, particularly easy access accounts. In our consumer survey, we asked respondents who had opened a savings account in the previous year what was the first thing they did when they shopped for their account and whether they decided on the savings product they eventually chose at that point or continued shopping around. Between 74% and 82% of the main account types⁸⁷ were opened in the last year after the account holder made only one step in his shopping journey, though for some respondents this involved looking at a comparison website. Within this group of respondents:

- 25% of easy access accounts and 16% of easy access Cash ISAs were opened after the account holder had gone directly to their main financial institution/provider, with which they already had an existing relationship, suggesting that there was limited shopping around.⁸⁸
- A larger proportion of fixed term products than easy access products were opened after the account holder checked a price comparison website (35% and 41% respectively of fixed term bonds and fixed term Cash ISAs compared with 18% and 25% of easy access accounts and easy access Cash ISAs).⁸⁹

Willingness to consider different types of providers

4.22 Many account holders in our consumer survey who had opened a savings account in the last year said that they would not have been willing to consider an unfamiliar provider for that account if they had shopped around more widely:

- First, across all product types, more account holders would have been willing to consider providers with which they already had an existing relationship (a savings account or a PCA) than a provider with which they did not have any products. For example, for those who had opened an easy access account 76% would have considered their PCA provider for that account, but only 47% would have considered a provider where they did not hold any products. However, willingness to consider providers with which consumers did not hold any products was higher for those who opened fixed term products (see *Figure 22* in Annex 2).
- Second, account holders had relatively low willingness to consider providers they had not heard of even if they appeared at the top of price comparison tables. Account holders generally favoured well-known brands:⁹⁰
 - **When choosing an easy access account**, 88% said that they would have been willing to consider well-known banks, 85% would have considered well-known building societies and 73% would have considered a provider covered by the Financial Services Compensation Scheme (FSCS). However, only 26% and 30% 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.⁹¹

87 Easy access accounts, easy access Cash ISAs, fixed term cash ISAs and fixed term bonds – see *Figure 1*.

88 For more results, see *Figure 21* in Annex 2

89 For more results, see *Figure 21* in Annex 2.

90 See *Figure 23* in Annex 2. These results could be explained by consumers only being willing to consider providers that they perceive as reliable and trustworthy. When asked about what was important when looking for an easy access account or a Cash ISA, 'a reputable provider (a provider I trust)' was one of the top three features given by respondents.

91 The FSCS is the compensation fund of last resort for customers of authorised financial services firms. See <http://www.fscs.org.uk/>. Given that, depending on the type of account opened, 73% to 86% said that they would be willing to consider a provider covered by the FSCS, the low willingness to consider 'unknown' providers may be related to respondents being unsure about whether these types of providers were likely to be covered by FSCS.

- **When choosing a fixed term bond/savings account**, account holders were marginally more likely to consider providers they had not heard of but that appeared at the top of a price comparison website (39% for banks and 45% for building societies).

Awareness and monitoring of interest rates

4.23 Awareness and monitoring of interest rates is important for a well-functioning cash savings market, as consumers can drive competition by monitoring:

- what interest rates are paid on their existing accounts and whether their existing provider has launched better offers, so that they can switch if it is worthwhile
- what interest rates are paid by other providers and whether it would be worthwhile switching to a different provider

4.24 The former is particularly important as we have found in Chapter 5 that many providers reduce interest rates on their accounts over time while continuing to launch new offers to attract new customers.

4.25 This section therefore considers:

- attitudes to monitoring ('keeping an eye on') interest rates and switching
- awareness of interest rates and interest paid on existing accounts and interest rates offered on the market
- awareness of providers' pricing strategies and the variability of interest rates

Attitudes to monitoring interest rates and switching

4.26 Many consumers do not monitor interest rates on their savings accounts. In our consumer survey we found that most respondents did not monitor the interest rate on their savings account with the highest balance, though respondents who did not monitor interest rates generally tended to have relatively low balances. We found that for respondents whose account with the highest balance was an easy access account:

- Almost half of consumers were happy with their account and said that they were not likely to switch in the near future⁹²: for 22% this was because it was convenient to keep accounts in one place (61% of these respondents had balances below £5,000)⁹³ and 17% were happy with the account for other reasons (53% of these respondents had balances below £5,000).⁹⁴ However, 19% said that they did not have enough money in this account to make monitoring interest rates worthwhile (83% of these respondents had balances below £5,000).⁹⁵
- Those 10% who did actively monitor rates on their accounts and said that they would switch to another account if they felt that it was worthwhile, had relatively high balances (20% had balances below £5,000 and 64% had balances above £5,000).⁹⁶

92 See Figure 26 in Annex 2.

93 A further 25% had balances above £5,000 and 14% did not state their balances. See Figure 27 in Annex 2.

94 A further 27% had balances above £5,000 and 20% did not state their balances. See Figure 27 in Annex 2.

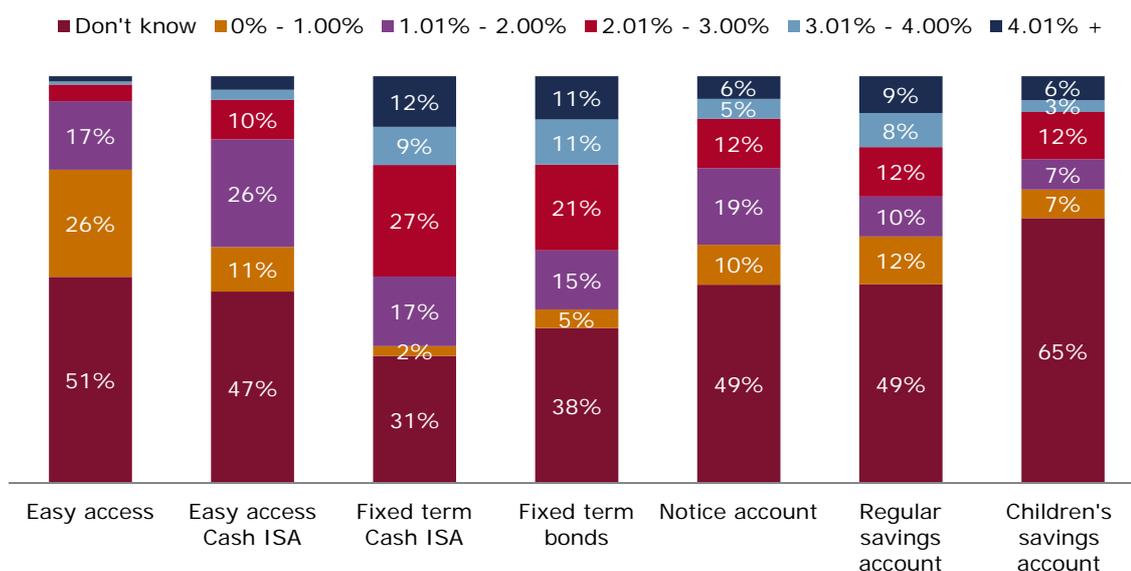
95 A further 7% had balances above £5,000 and 9% did not state their balances. See Figure 27 in Annex 2.

96 A further 16% did not state their balances. See Figure 27 in Annex 2.

Awareness of interest rates and interest paid on consumers' existing accounts and interest rates offered on the market

4.27 Consumers often are not aware of interest rates paid on their accounts, particularly where balances are less significant. Respondents said that they did not know and/or could not estimate what interest rate they were receiving on around half of savings accounts of different types (see *Figure 9*). Across all account types, among respondents who stated an interest rate, respondents said that they knew the exact rate for only 47% of accounts and had guessed the rate on 50% of accounts (e.g. based on what the rate was when the account was opened).⁹⁷

Figure 9: Proportion of accounts whose holder specified the interest rate on their account (all active accounts)



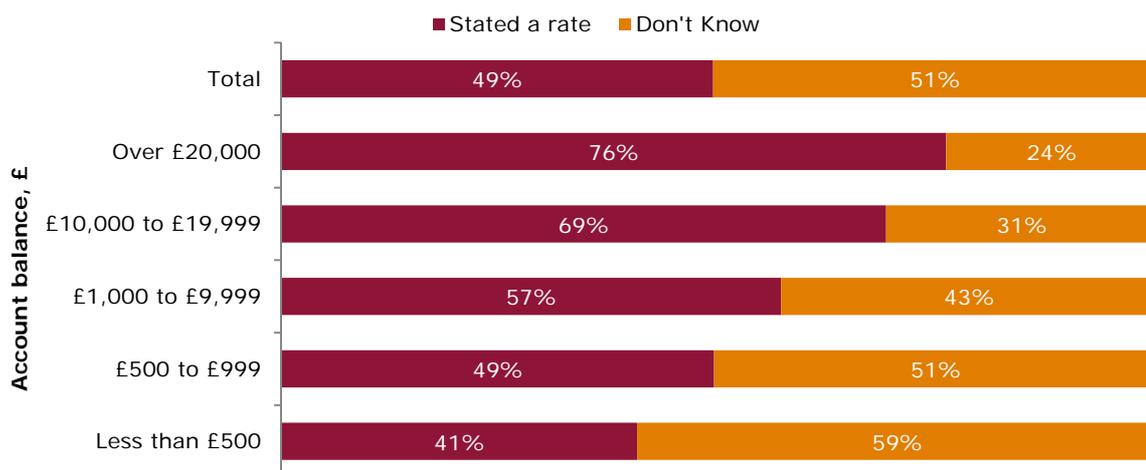
Source: FCA analysis of the online survey, Question 8

Base: all active savings accounts (Easy access (2742), Easy access Cash ISA (1883), Fixed term Cash ISA (674), Fixed term bonds (415), Notice account (127), Regular savings account (741), Children's savings account (653))

4.28 Some of this lack of awareness could be explained by people not having high enough balances in their accounts to make interest rate monitoring worthwhile, as the differences in interest earned would be very small if the respondent switched to an account with a different interest rate. However, we found that for easy access accounts, around a quarter to a third of account holders with accounts in the two highest account balance bands did not know what interest rate was paid on these accounts (see *Figure 10*).

⁹⁷ A further 4% had recently been sent information about the rate. Source: FCA analysis of the online survey, Question 9. Base: all accounts for which respondents provided a rate estimate (3660). We did not have an independent source of information on interest rates received by respondents in the sample, so we could not verify whether the stated rates were correct. These statistics are therefore likely to over-estimate consumer awareness of interest rates.

Figure 10: Proportion of easy access accounts whose holder stated an interest rate or did not know the interest rate in the different account balance bands



Source: FCA analysis of the online survey, Questions 8 and 3

Base: all easy access accounts, note that 'total' includes those who did not state their balance (less than £500 (935), £500 to £999 (244), £1,000 to £9,999 (758), £10,000 to £19,999 (162), £20,000+ (180), Total (2742))

4.29 The lack of awareness could also be explained by the fact that consumers often have to actively search for interest rates on their existing accounts and many had not seen their interest rate for more than a year:

- We asked respondents to think back to the most recent occasion when they found out the interest rate on their account with the highest balance. While 43% were provided with this information, 22% had to actively search for it and 14% never found out the rate.⁹⁸
- Respondents mostly had seen the interest rate on their annual statement (16%), when opening the account (12%) or when using online banking for day-to-day banking (10%). Among those 11% who had found the rate using online banking, 68% said the information was easy to find without too much effort. However, a further 24% said that they had to look for the relevant pages on the providers' website and 4% said that they did not find the interest rate information in the end.⁹⁹
- Most respondents (60%) said that they had seen their interest rate in the last year, though 14% had seen the interest rate one to two years ago and a further 18% three or more years ago.¹⁰⁰ However, despite such a high proportion of respondents saying that they had seen their interest rate in the last few years, respondents could not even guess the interest rate on a significant proportion of accounts (see *Figure 9* and *Figure 10* above).

4.30 We also found very low awareness of the amount of interest earned on accounts, as 69% of respondents did not know or could not estimate how much interest they earned on their savings account with the highest balance in the last year.¹⁰¹

98 A further 22% did not know or could not remember. Source: FCA analysis of the online survey, Question 35, Base: account with the highest balance (2996).

99 Source: FCA analysis of the online survey, Question 38, Base: all respondents who said they last saw the rate when using online banking in response to Question 36 (284).

100 A further 8% did not know. Source: FCA analysis of the online survey, Question 37, Base: respondent's account with the highest balance (2604).

101 See Figure 28 in Annex 2.

4.31 Respondents to our consumer survey also struggled to estimate interest rates offered on the market. Among respondents whose account with the highest balance was an easy access account, 67% of account holders could not estimate the highest rate that could be offered on that type of account by any savings provider and 65% could not estimate the typical rate that could be offered by a main high street savings provider.¹⁰²

Awareness of providers' pricing strategies and variability of interest rates

4.32 More than half (56%) of respondents to our consumer survey did not know whether their provider currently offered a similar account with a different interest rate to their savings account in which they had the highest balance.¹⁰³ For easy access accounts, 63% said that they did not know.¹⁰⁴

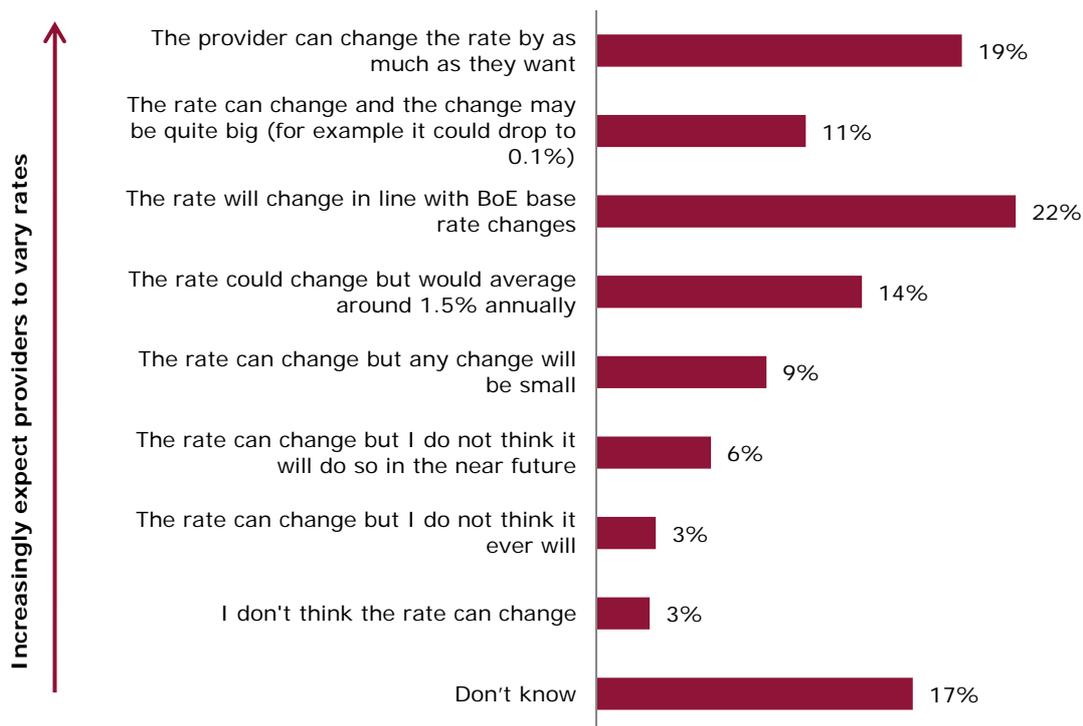
4.33 In addition, consumers are often overly optimistic about how little their variable rate may change in the future, which may explain why they do not scrutinise what happens with their interest rates over time. We tested consumers' understanding of interest rates by asking questions about what they expect from a variable rate product over time. The answers revealed widespread misunderstanding and unrealistic expectations about how much variable rates could change (see *Figure 11*). This lack of awareness of providers replacing products and cutting interest rates over time could partly explain why many consumers do not monitor rates and/or consider switching (see paragraph 4.26).

102 See Figures 30 and 31 in Annex 2.

103 See Figure 33 in Annex 2.

104 Source: FCA analysis of the online survey, Question 39 , Base: all respondents whose account with the highest balance was an easy access account (1111).

Figure 11: Proportion of respondents giving different answers to the question: Consider an easy access savings account offering the interest rate 1.5% (variable). Which of the below describe what you expect from this account?



Source: FCA analysis of the online survey, Question 57a

Base: all respondents (2996)

- 4.34 We also asked respondents to our survey whether their providers had ever reduced interest rates on their accounts, excluding accounts offering an initial bonus rate and accounts older than five years. For easy access accounts:
- providers had reduced interest rates on 23% of accounts
 - providers had not reduced their interest rates on 38% of accounts
 - respondents did not know or were not sure about 38% of accounts¹⁰⁵
- 4.35 For accounts which experienced an interest rate cut, account holders said that their provider had notified them of the interest rate cut (e.g. they had received a letter or email) on 74% of accounts, though for 13% of accounts respondents did not recall being notified and for 13% of accounts did not remember.¹⁰⁶
- 4.36 Most respondents to our survey (68%) said that they would like to be notified of all interest rate changes no matter how small.¹⁰⁷

¹⁰⁵ Source: FCA analysis of the online survey, Question 52, base: all active easy access accounts held by respondents (1198), excluding accounts older than five years and accounts with an initial bonus rate but including accounts that respondents did not remember if they had an initial bonus rate or when they were opened. Figures do not sum to 100% due to rounding.

¹⁰⁶ Source: FCA analysis of the online survey, Question 53, base: all accounts on which rates have been cut (710), excluding accounts older than five years and accounts with an initial bonus rate but including accounts that respondents did not remember if they had an initial bonus rate or when they were opened.

¹⁰⁷ See Figure 47 in Annex 2.

Bonus rates

- 4.37 In our consumer survey, we asked all respondents who said they had a bonus rate on their account why they chose the account and whether they were aware of the bonus rate at the point of sale:
- 83% said they were aware of the bonus rate when they took out the product¹⁰⁸
 - 57% said they chose the product because of the bonus rate
 - 51% said they intended to move the money when the bonus rate expired¹⁰⁹
- 4.38 These results suggest that consumers do not always choose the accounts because of bonus rates and do not necessarily intend to switch following bonus rate expiry. We found that 45% of respondents whose bonus rate had expired recalled their provider contacting them before the bonus rate expiry.¹¹⁰
- 4.39 We also tested whether consumers understood bonus rate terminology by presenting an offer similar to what they would see on a price comparison website. We found that 41% understood the general bonus rate structure (i.e. could identify the bonus rate, the gross interest rate including bonus and the advertised post-bonus interest rate), though 21% did not realise that the underlying variable rate can change during the bonus period and/or afterwards. A further 37% did not correctly state what the advertised bonus rate, gross rate or post bonus rate was (e.g. compounded the rates or assumed that the rate would stay constant).¹¹¹

Switching rates in the market

- 4.40 Low switching rates can be indicative of markets not working well for consumers. Without consumers being willing or able to switch easily between competitors, providers have little incentive to provide better offers and low switching rates indicate a problem. However, markets can be competitive even when switching rates appear low if consumers are able to switch easily and providers respond to the threat of switching by offering better deals to retain existing customers.
- 4.41 In this section we analyse the extent of switching in the cash savings market. We:
- Explain how we have analysed switching
 - Examine headline switching rates in the variable rate segment of the cash savings market
 - Analyse the reasons for switching and not switching to establish whether more information could persuade more people to shop around and switch if better interest rates were available. We also consider separately the extent of switching at bonus rate expiry.

108 Note that it is possible that a large proportion of respondents had a bonus rate product but were not aware of it. The results should therefore be interpreted with caution, as they may overstate bonus rate awareness.

109 Results are not additive as respondents were asked each question separately and had to indicate 'yes' or 'no'. Source: FCA analysis of the online survey, Question 48, base: all respondents with a bonus rate product (1172).

110 A further 31% did not recall their provider contacting them and 24% could not remember. Source: FCA analysis of the online survey, Question 49, Base: respondents with a bonus rate product, excluding those who said that their bonus rate had not expired yet (1051).

111 See Figure 35 in Annex 2.

Analysing switching in the cash savings market

- 4.42 Switching in the cash savings market can take many different forms, for example:
- consumers can switch to an account offered by a different provider or to a different account offered by their existing provider by opening a new account and closing the existing one
 - consumers may move money from one account to another, but may not close the account that no longer holds a significant amount of money
 - consumers may add a new account and transfer some money from another account instead of 'switching' to a different account, potentially blurring the boundaries between what constitutes the purchase of an additional complementary product and the practice of switching funds between substitute products
- 4.43 Firms have told us that because of this complexity, there is no established industry level measure of switching. Instead, firms monitor a range of measures, including internal and external flows of funds between different accounts, account opening and closure by new and existing customers and balance attrition after key events such as bonus rate expiry, the maturity of a term account, and the introduction of a competitor's product.
- 4.44 Given these difficulties, we have taken into account a number of different indicators of switching activity, including switching rates reported by respondents to the consumer survey and balance attrition data provided by firms in the sample (see Chapter 5).

Headline switching rates

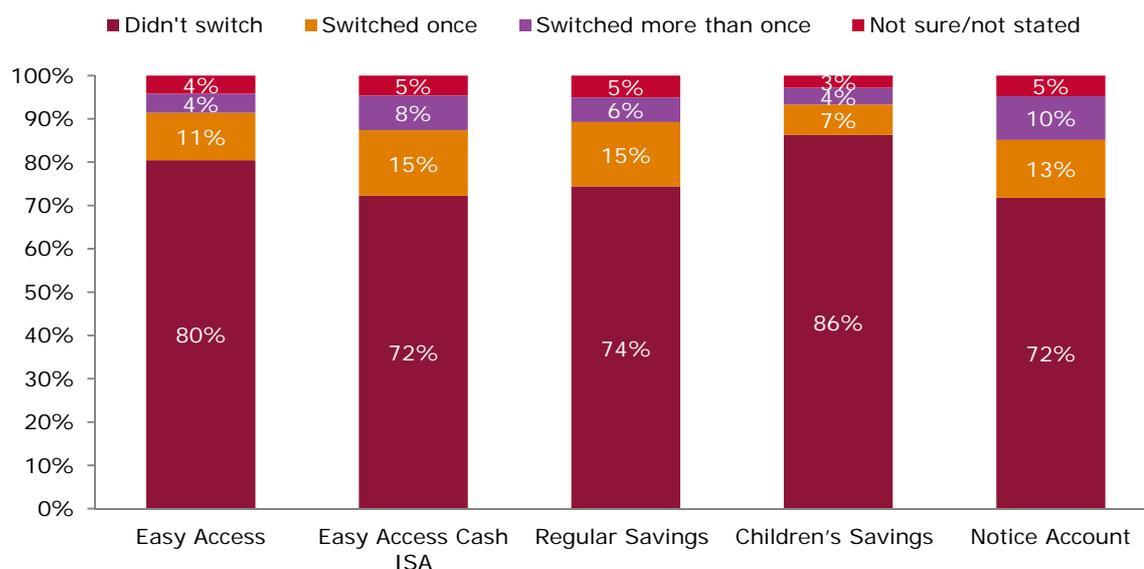
- 4.45 Our consumer survey showed that most variable rate savings accounts have not been switched in the last three years.^{112,113} In particular, only 15% of easy access accounts and 23% of easy access Cash ISAs were switched at least once in the last three years (see *Figure 12*). About half of this switching activity was internal: consumers switched between different accounts offered by the same provider rather than between providers.¹¹⁴ Based on respondents' total balances in their accounts at the time of our consumer survey, we estimated that the balances in the switched accounts amounted to about 26% of total easy access balances and 28% of total easy access Cash ISA balances.

112 Our analysis of switching rates excluded fixed term bonds and fixed term Cash ISAs due to difficulties with assessing fixed term product switching. These products require consumers to lock away their deposits for relatively long periods of time (one or more years) and at the end of the term consumers may no longer be willing to lock the money away for a similar period of time. We were concerned that it would be particularly difficult to differentiate switching from withdrawals to spend or to put money in another type of account where the money is not locked away for a similar term. Instead, we assessed consumer engagement in the fixed-term segment by looking at consumers' awareness of interest rates and shopping around. We considered that results on consumer awareness of interest rates and shopping around gave us better evidence for analysing the fixed term bond segment of the market.

113 In the consumer survey, we asked respondents whether they had switched each of their accounts in the last three years and specified that "switching' means that you have replaced an old account by moving most or all of your balances to a new account of the same type and using it for your savings needs. You may have remained with the same provider. You may have left a small amount of money in your old account just to keep it open in case you need it, or you may have closed it" (Question 23).

114 62% of easy access accounts and 53% of easy access cash ISAs that were switched in the last three years were switched within consumers' existing provider. See also paragraph 60 in Annex 2. Source: FCA analysis of the online survey, Questions 23, 18(2), 19(2), Base: all switched easy access accounts (420), all switched easy access Cash ISAs (439).

Figure 12: Proportion of active savings accounts switched at least once, internally or externally, in the last 3 years

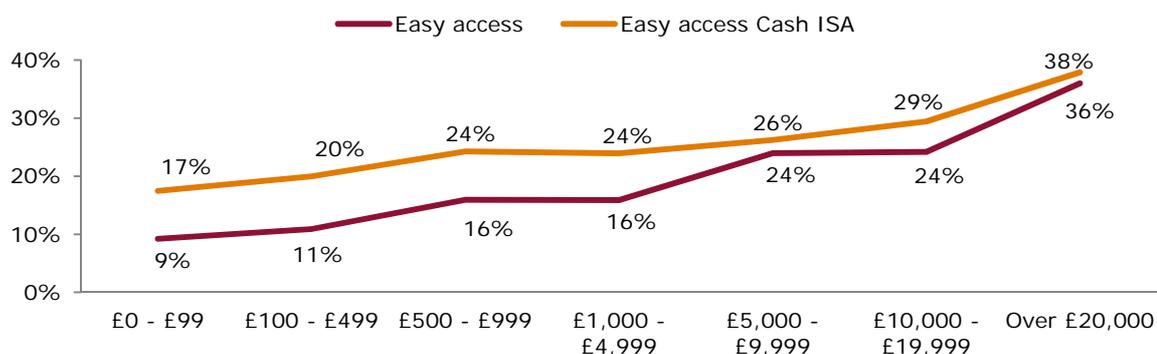


Source: FCA analysis of the online survey, Question 23

Base: all active easy access accounts (2742), easy access Cash ISAs (1883), Regular savings accounts (741), Children's savings accounts (653), Notice accounts (127)

4.46 However, taking respondents' balances at the time of our consumer survey as a proxy for balances in consumers' accounts at the time of switching, our survey shows that consumers tended to become more active as the size of balances in the account increased (see *Figure 13*).¹¹⁵

Figure 13: Proportion of accounts switched, internally or externally, at least once in the last three years by current balances in the account



Source: FCA analysis of the online survey, Questions 23 and 3c

Base: easy access accounts (361) and easy access Cash ISAs (370) switched in the last three years, excluding accounts for which respondents did not specify balances

4.47 In response to our interim report, two providers noted that switching rates in cash savings products are comparable to switching rates in other retail financial product markets in the UK. Some providers also noted that switching rates in the UK are comparable with switching rates in other countries.¹¹⁶ However, we do not consider that

¹¹⁵ We have taken balances in the account at the time of our consumer survey as a proxy for balances in the account at the time of switching. Balances in the account at the time of switching may have been higher or lower than the current balances.

¹¹⁶ The PwC report also found that the percentage of accounts opened in the last two years (used as a proxy for switching) was higher in the UK than in Australia, Germany, Netherlands and the USA, but it noted that this could in part be attributed to the 'ISA season' in the UK pushing many consumers to re-consider their ISA savings annually. See PwC report, pages 27 and 124.

such direct comparisons of switching rates are that informative as switching costs and benefits will differ across markets. Also, as noted in paragraph 4.40, switching rates only provide one indicator of effectiveness of competition, as markets can be competitive even when switching rates appear low if consumers are able to switch easily and providers respond to the threat of switching by offering better deals to retain existing customers.

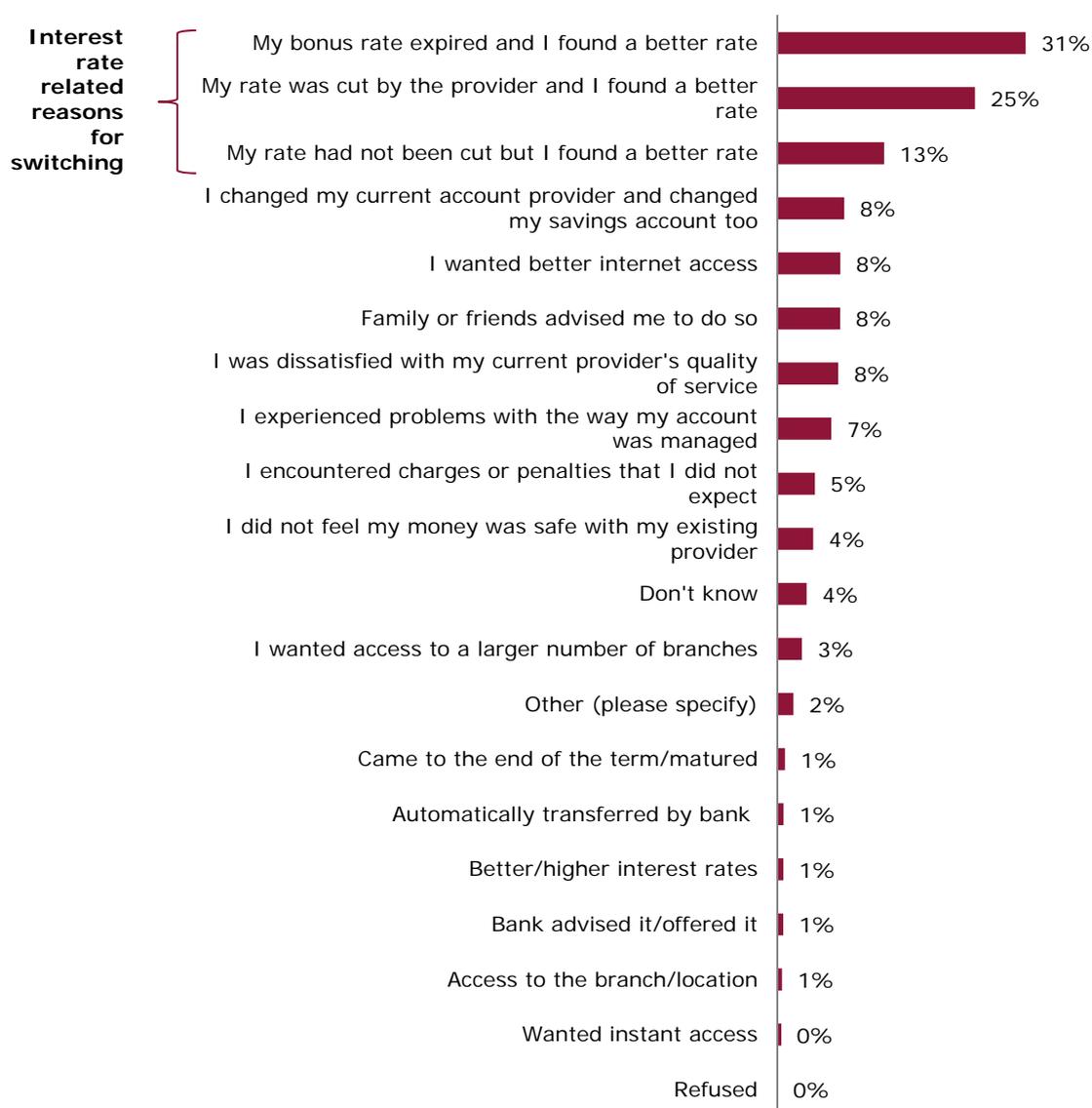
Why consumers switch and do not switch

- 4.48 In this section we analyse the reasons for switching and not switching to establish what could lead more consumers to shop around and switch if better offers were available, particularly in a higher interest rate environment.

Why do consumers switch?

- 4.49 Switching between variable rate products of a particular type is largely driven by the potential monetary gains from switching (the 'pull' factors) - the top three reasons for switching in our consumer survey were related to interest rates: 31% of respondents switched after bonus rate expiry, 25% after their interest rate was cut by their provider and 13% found a better interest rate (see *Figure 14*). Links with a consumer's PCA also were important, as 8% switched because they changed their PCA provider. The 'push' factors were less important: 7% experienced problems with the way the account was managed and 5% encountered unexpected charges or penalties.

Figure 14: Proportion of respondents who chose each reason for switching the last time they switched an account (respondents could choose more than one reason)



Source: FCA analysis of the online survey, Question 24

Base: all accounts switched in the last three years, excluding Credit Union accounts (743)

4.50 The importance of interest rate factors is explained by switchers overall having higher balances in their accounts than non-switchers (proxied by the balances in the account at the time of the survey). For example, 35% of switched easy access accounts had balances above £5,000 compared with only 17% of accounts that had not been switched.¹¹⁷

Why consumers do not switch and what could motivate them to switch?

4.51 There could be several potential explanations for why consumers have not switched (or in some cases not considered switching) their accounts, including:

¹¹⁷ See Figure 41 in Annex 2.

- low actual or perceived benefits from switching, given costs of switching, either because of low balances and/or a perception that there is little difference in interest rates offered in the market
- a perception that switching is difficult and not worthwhile, given the actual or perceived benefits
- consumers wanting to stay with their provider for non-interest rate related reasons (e.g. quality of service, local branches, trust)
- consumers putting off considering switching or switching due to general lack of engagement or inertia

4.52 Respondents to our interim report said that lack of switching could be largely explained by many consumers having low balances and not wanting to change product or provider given the small benefits of doing so. Some large providers noted that they thought that the differentials between introductory bonus rates and off-sale product interest rates would make little difference to the average consumer's financial well-being. Some said that consumers may value other elements of the overall product and service offering from their provider, not only the interest rate. However, one large provider recognised that there are a small number of accounts that have relatively high balances and long tenures, and these accounts are most likely to benefit from any regulatory interventions.

4.53 Our analysis of reasons for switching (paragraphs 4.48 to 4.49) showed that switchers tend to have higher balances than non-switchers and consumers tend to switch for interest rate related reasons. However, as noted in our interim report, switching activity had not decreased significantly in the last few years following the reduction in average interest rates offered in the market.¹¹⁸ Given this lack of switching over time, even in a higher interest rate environment, we wanted to understand further the motivations behind not switching.

4.54 In our consumer survey, we split variable rate accounts into two categories – those accounts that consumers had considered switching but decided not to switch and those accounts that consumers had not even considered switching. We focused on accounts opened at least three years ago, as consumers may not be willing to switch accounts opened more recently (e.g. if the account earns a bonus rate or more frequent switching is not worthwhile, given costs). We found that respondents had only considered switching about a third of accounts and had not considered switching about two thirds of accounts.¹¹⁹

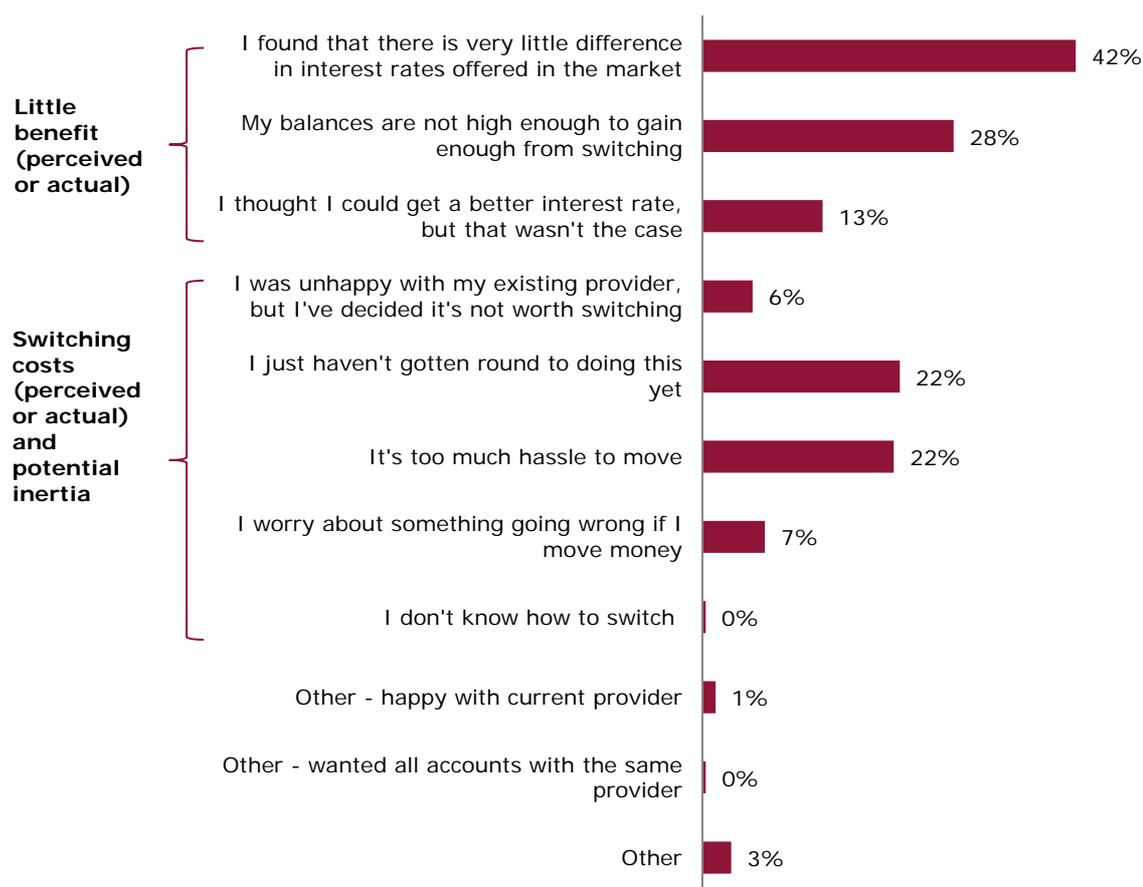
4.55 For easy access accounts, those who **considered switching but did not switch** were mainly put off by the low potential benefits from switching, though some referred to the potential hassle and worrying about something going wrong (see *Figure 15*).¹²⁰ It appears that the switching costs are largely perceived rather than actual, as account opening and balance switching is not particularly onerous, albeit there are some areas for improvement (see Chapter 5 for more on the steps consumers have to take to open an account). Only 1% said that they had not switched because they were 'happy with current provider'.

118 See Figure 9 in the interim report.

119 For easy access accounts, respondents had considered but did not switch 33% of accounts and had not even considered switching 67% of their accounts older than three years. For easy access Cash ISAs, respondents had considered but did not switch 34% of accounts and had not even considered switching 66% of their accounts older than three years. Source: FCA analysis of the online survey, Question 27. Base: all active easy access accounts (1481) and easy access Cash ISAs (655) older than three years.

120 Note that respondents could choose more than one response option. Further analysis of respondents' balances showed that 81% of those who said that their balances were not high enough to switch had balances below £5,000. See paragraph 65 in Annex 2.

Figure 15: Reasons why account holders considered but did not switch their easy access accounts (proportion of accounts)



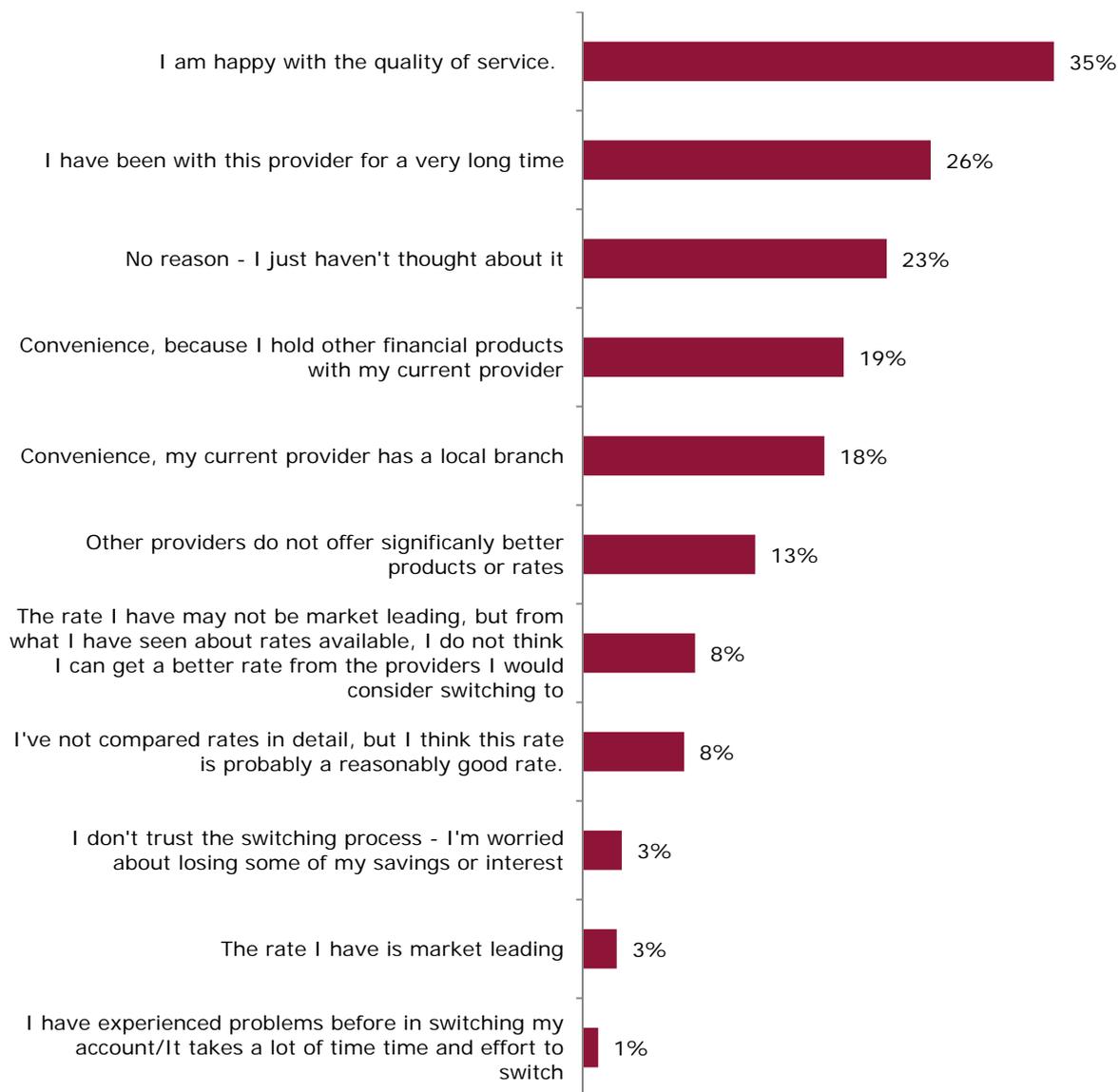
Source: FCA analysis of the online survey, Question 27

Base: all easy access accounts older than three years that respondents considered switching but did not switch (383)

4.56 Among those who **had not even considered switching**, the main reasons were not related to the low actual or perceived benefits of switching or high actual or perceived switching costs: 35% were happy with the quality of service, 26% had been with the provider for a very long time, 23% said that they had no reason – they just had not thought about it (see *Figure 16*).¹²¹ Many of these consumers also referred to convenience, either because they held other products with the provider (19%) or the provider had a local branch (18%). Only 1% said that they did not consider switching because they had experienced problems before or because they thought it was too difficult to switch and only 3% did not trust the switching process.

¹²¹ Note that respondents could give more than one response option.

Figure 16: Reasons for not considering switching accounts older than three years only (proportion of respondents)

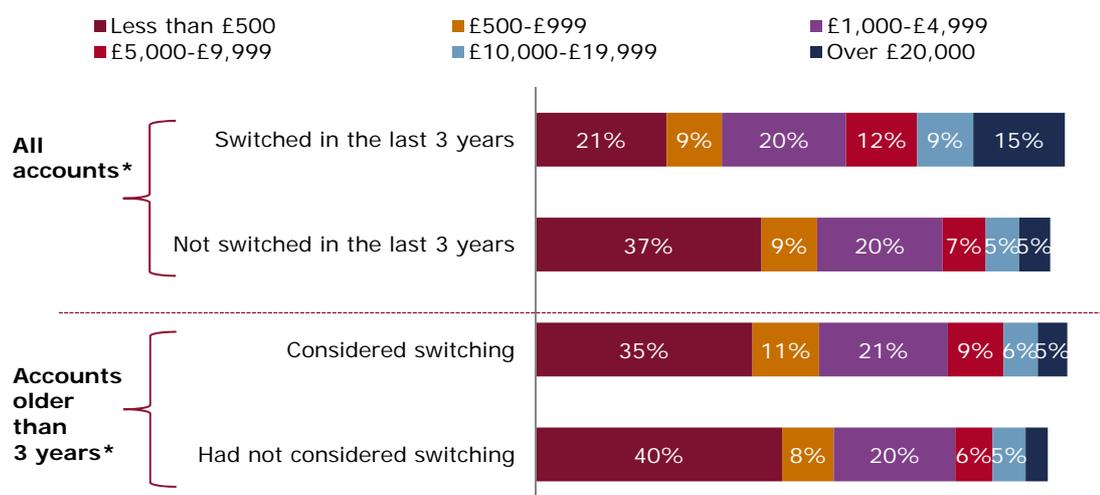


Source: FCA analysis of the online survey, Question 29

Base: all accounts older than three years respondents have not considered switching (1048)

4.57 For easy access accounts in particular, the potential benefits of switching in the current interest rate environment are likely to be low, as most accounts that consumers had not considered switching had relatively low balances: 68% of accounts older than three years that had not been considered for switching had balances below £5,000 (see *Figure 17*). The balance profile of accounts that consumers had not considered switching was very similar to the balance profile of accounts that consumers had considered switching.

Figure 17: Proportion of easy access accounts in different balance bands split by accounts switched/not switched in the last three years, and accounts older than three years where the account holder has considered switching and has not considered switching



Source: FCA analysis of the online survey, Questions 3, 23 and 27

Base: easy access accounts (all accounts switched in the last 3 years (421) and not switched in the last 3 years (2208), accounts older than 3 years considered switching (482) and not considered switching (999)),

* Accounts older than three years are a sub-set of all accounts (56% of all easy access accounts). Accounts not switched in the last 3 years include both accounts not switched that are older than 3 years and accounts younger than 3 years

Consumers not switching following bonus rate expiry

- 4.58 Our analysis of firm data on balance attrition following bonus rate expiry is set out in Chapter 5. In our consumer survey, we found that, when asked about the most recent bonus account held, 57% of respondents had not yet moved money out of their account following bonus rate expiry, though 32% had moved money to an account with the same provider and 11% to an account with a different provider.¹²²
- 4.59 The two most popular reasons for not switching were related to lack of perceived benefits (29% said that they ‘could not get a much better rate elsewhere’ and 27% said that they did not have enough money in the account to make switching worthwhile), though 20% of respondents also thought that switching was too much effort and time consuming.¹²³ Also, as noted in paragraphs 4.37 to 4.38, about half of consumers did not open bonus rate products because of the bonus rate and so did not intend to switch following bonus rate expiry.

- *Monetary benefits required to switch*

- 4.60 Given comments made in the consumer survey about switching not necessarily being worthwhile, we assessed what monetary benefits would incentivise consumers to switch, particularly because that would allow us to establish to what extent we could see shopping around increase if consumers were provided with information about interest rates paid on their existing accounts (where they are currently unaware of this

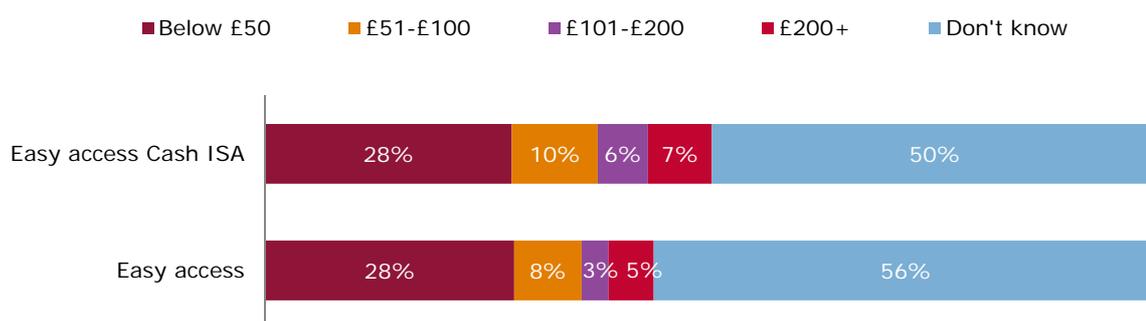
122 The proportion of consumers who had not switched following bonus rate expiry could be higher as some consumers may not have been aware of the bonus expiry. Source: FCA analysis of the online survey, Question 50. Base: respondents with a bonus rate product, excluding those who said that their bonus rate had not expired yet (1051).

123 See Figure 46 in Annex 2.

information) and/or if interest rates in the market increased (e.g. due to an increase in the Bank of England base rate).

4.61 In terms of monetary benefits that would make it worthwhile switching their savings account with the highest balance to a high street provider, about half of consumers struggled to provide a response (see *Figure 18*).¹²⁴ For easy access accounts, 56% could not provide a response and those who did provide an estimate mostly referred to annual gains of up to £100 (28% of respondents said that they would switch for gains of up to £50, 8% would require £51 to £100 and 8% would require more than £100).¹²⁵

Figure 18: Proportion of respondents giving different answers to the question: How much more would you have to earn in interest for you to consider switching your account to an account offered by one of the main high street providers (respondent's account with the highest balance)



Source: FCA analysis of the online survey, Question 46, 3

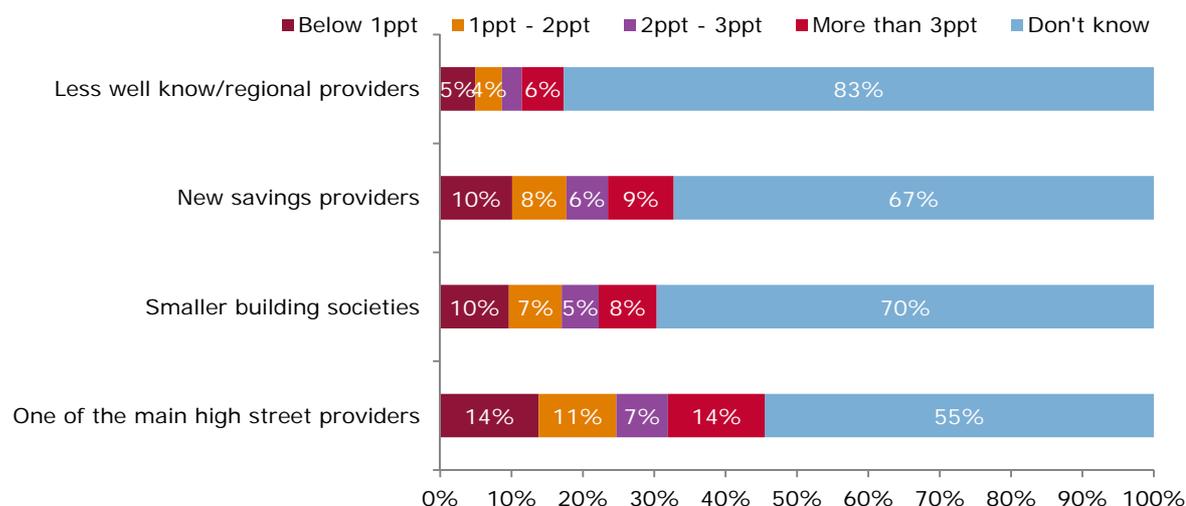
Base: respondents whose account with the highest balance was an easy access (1114) and easy access Cash ISA (1017)

4.62 For easy access accounts in particular, when asked about interest rate differentials rather than monetary gains, about half of consumers could not provide an estimate. For respondents whose account with the highest balance was an easy access account, those who did provide a response, overall, said that less well known or regional providers would have to offer higher interest rates than other providers, particularly high street banks, (see *Figure 19*). Respondents were particularly averse to providers that were described as 'less well known': 25% of respondents said they would consider switching their easy accounts account to one of the main high street providers for an up to two percentage point difference in interest rates, while only 9% would switch to a less well known/regional provider for the same interest rate difference. Also, respondents found it easier to provide estimates for high street banks than for smaller building societies and new savings providers. This could be either because consumers may be implicitly assuming that they would be trading off service or convenience offered by the larger banks for a higher interest rate, or they may have concerns about whether their money could be safe with the lesser known providers.

¹²⁴ We asked respondents about switching to a high street provider to make it less likely that consumers could not answer this question due to concerns about financial stability of a provider or its quality of service (these may have arisen if we had asked about switching to 'a different provider').

¹²⁵ We also found that the monetary benefits consumers said would motivate them to consider switching increased with total income, see *Figure 49* in Annex 2.

Figure 19: Proportion of respondents whose account with the highest balance was an easy access account who gave different answers to the question (split by the type of provider): What rate increase would you need to switch your easy access account to a different provider?



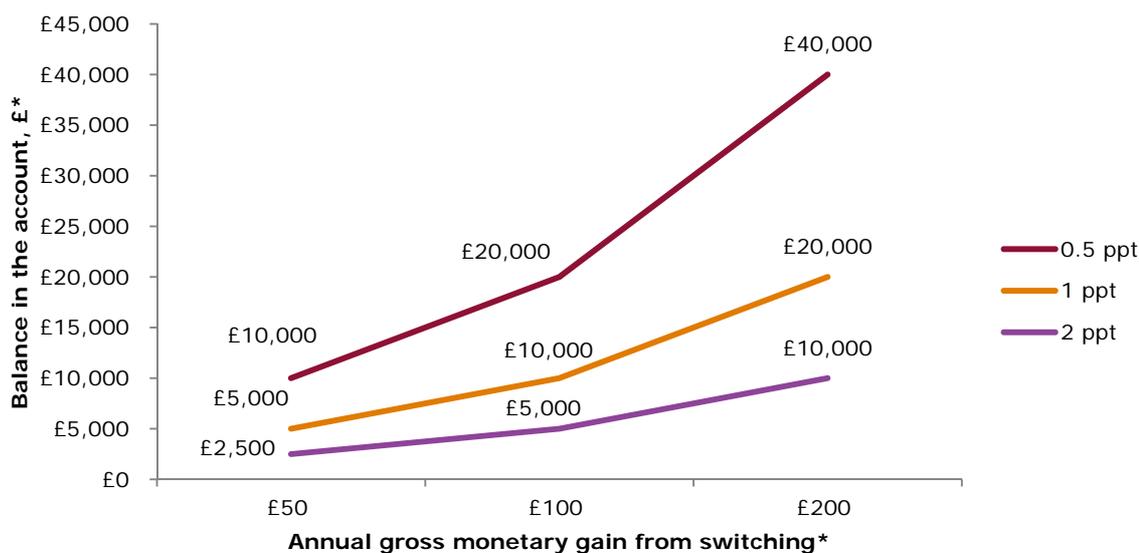
Source: FCA analysis of the online survey, Questions 45, 10 and 3

Base: respondents whose account with the highest balance was an easy access account (1111)

- 4.63 Given the relatively low differences in interest rates currently offered in the market due to the low interest rate environment (see Chapter 3) and the relatively low balances in many respondents' accounts, most respondents who provided an estimate for the interest rate differential required for them to consider switching (see *Figure 19*) most likely would not be able to find this differential. For example, to gain £50 (gross) in a market where the difference between interest rates is 0.5 percentage points, a consumer would need at least £10,000 in the account.
- 4.64 In the data received from firms, only 9% of easy access accounts and 16% of easy access Cash ISAs had balances of at least £10,000.¹²⁶ However, these gains will be achievable for a greater proportion of consumers when interest rates increase and the differences between interest rates offered on the market increase because the balance required to achieve these benefits will decrease – for example, the balance required to gain £50 annually in interest (gross) will fall to £5,000 where the difference in interest rates is one percentage point and to £2,500 where the difference in interest rates is two percentage points (see *Figure 20*). It is therefore important that switching is as easy as possible and consumers have access to information about interest rates offered by their existing provider and on the market so that when interest rates do change they are capable of realising the potential gains.

¹²⁶ Note that in the data received from firms some of the accounts, particularly those with zero balances, are likely to be 'dormant' accounts (i.e. accounts no longer used by consumers), so these estimates are likely to underestimate the percentage of active accounts with balances above a particular level.

Figure 20: Balances needed to achieve different gross annual monetary gains from switching for different increase in interest rates



* Assuming balance is paid into the account as a lump sum at the beginning of the year and no withdrawals or additional deposits are made during the year

Conclusion on consumer behaviour

- 4.65 Switching in the market is largely driven by the monetary gains from switching and switching within an existing provider is as popular as switching between providers. However, more than three quarters of variable rate accounts have not been switched in the last three years, and consumers have considered switching the balances of only around a third of easy access accounts and easy access Cash ISAs.
- 4.66 Lack of consideration of switching and lack of switching can be partially explained by the low perceived gains from switching (due to low balances and/or small differences in interest rates available). However, the convenience of using one provider for all accounts and actual or perceived switching costs are also factors that prevent some consumers from shopping around or switching.
- 4.67 Interest rates in the market are currently at historically low levels, but the monetary benefits of switching will increase as and when interest rates increase. However, we are concerned that many consumers are not aware of what interest rates are paid on their existing savings accounts, whether their current provider offers alternative products with better rates or what other interest rates are offered by other providers. This lack of awareness would hinder many consumers from being able to benefit from shopping around as interest rates rise. Also many consumers showed reluctance in considering less familiar providers for their savings needs. More well-targeted and better designed information could help these consumers put more pressure on providers to provide better deals, particularly to existing customers.
- 4.68 We discuss provider responses to this consumer behaviour in Chapter 5 and the competitive effects in Chapter 7.

5 Firm conduct

Providers have significant amounts of consumers' savings balances in accounts opened more than five years ago. Yet older accounts pay lower interest rates than those opened more recently.

The large personal current account providers have considerable advantages because they can attract most easy access balances despite offering lower interest rates. The five largest personal current account providers pay on average materially lower interest rates on easy access accounts than other providers.

Providers need to improve the transparency of their practices, with little information being given to consumers about alternative products. When coupled with a proliferation of products, it is difficult for consumers to know whether or not they are getting a good deal on their existing savings account and gives them little reason to shop around for a new account.

Introductory bonus rates also have an important role to play in encouraging switching and giving providers flexibility in their funding strategies. However, better communication of bonus rate expiry should lead to consumers being more informed and shopping around more.

There are significant variations between providers in providing account opening and switching services, even though the process for opening a new savings account can, in many cases, be fairly straightforward.

- 5.1 This chapter outlines our findings on how firms compete in this market. In the chapter we discuss:
- current market outcomes
 - firms' pricing strategies that contribute to these market outcomes
 - the relationship between the supply of cash saving products and PCAs
 - disclosure of product information to consumers
 - switching processes
- 5.2 The chapter focuses on easy access products, (no term) cash ISA products and fixed term products (including fixed term cash ISA accounts and fixed term bonds). These products accounted for around 95% of 2013 balances in our dataset. We present additional evidence in relation to other products (notice accounts, children's savings accounts and regular savings accounts) in Annex 3 and comment on this where relevant in this chapter.
- 5.3 Throughout this chapter we use data collected from two information requests. The first information request was sent to 21 providers¹²⁷ in January 2014. With this information request we gathered data (interest rates, balances and other product characteristics at

¹²⁷ These 21 providers accounted for 26 brands.

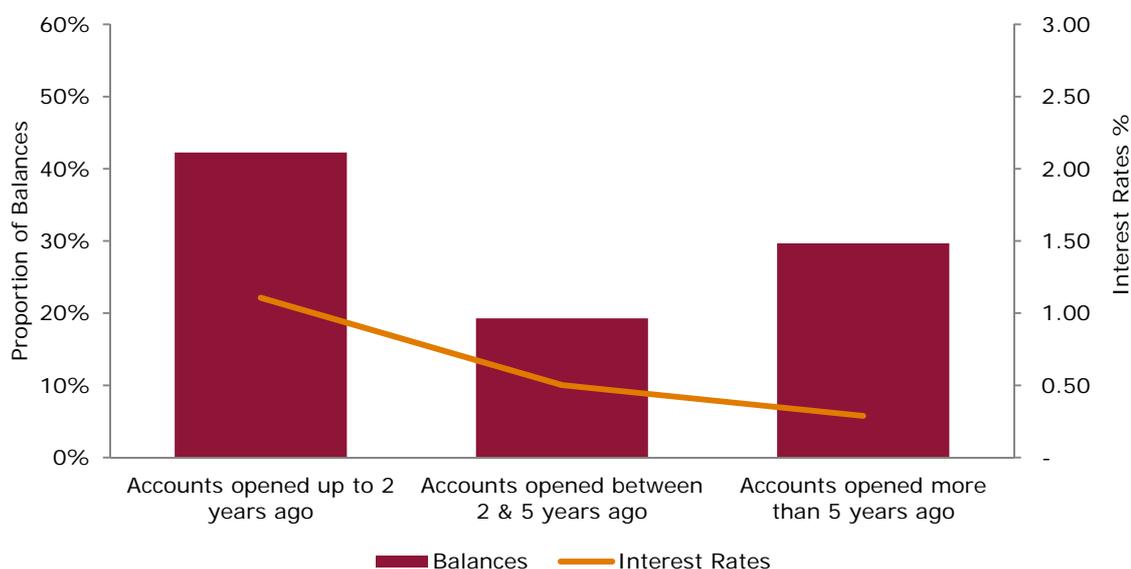
the end of 2013, 2012, 2011 and 2006¹²⁸) on 8,899 on-sale and off-sale savings products that fall in the scope of the study.

- 5.4 The second information request was sent to ten providers¹²⁹ in July 2014 after the publication of our interim report. We gathered quarterly data from January 2010 to June 2014 on balances and interest rates on accounts opened in different quarters of 2010. We limited the analysis to the largest products by balance offered by the sampled providers. In addition to that, we requested quarterly data on balances and interest rates on products that were off-sale in 2010. We describe the data in more detail in Annex 3.

Current market outcomes

- 5.5 In Chapter 4 we showed that while some consumers regularly shop around and switch, there are also consumers who have not considered switching and have remained with an account for a long period of time. We consider in this section how providers respond to this behaviour and what market outcomes this leads to by considering balances and interest rates. *Figure 21* and *Figure 22* show the balances and interest rates for accounts that were opened at different points in time¹³⁰, for easy access and cash ISA products. The data is aggregated across providers and the average interest rates in these charts and the similar ones in this section and Annex 3 are all weighted by balances.

Figure 21: Proportion of balances and average interest rates for easy access products by age of account, 2013



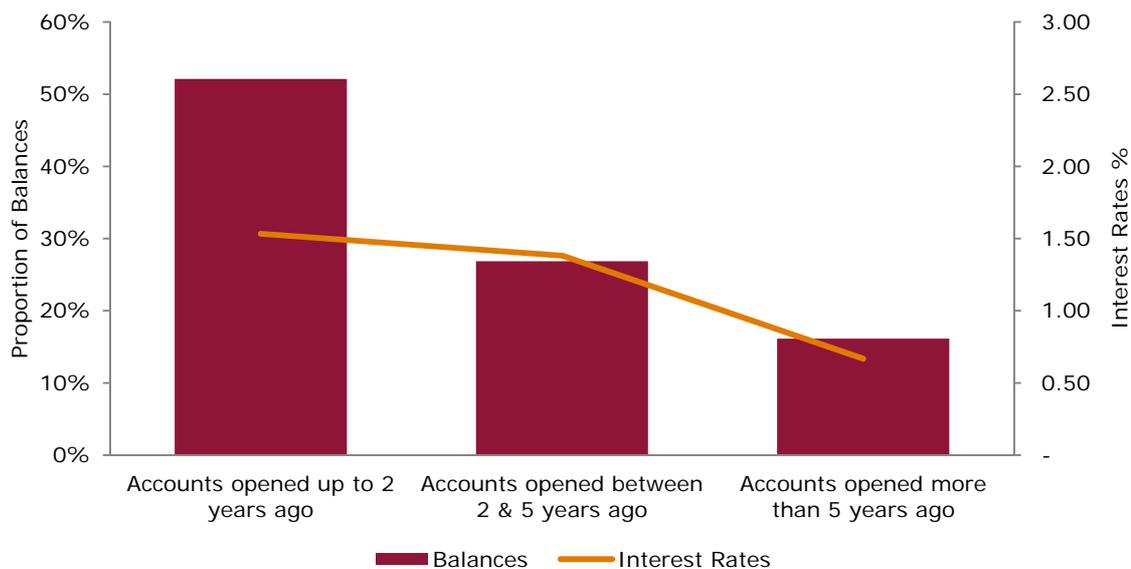
Source: FCA analysis of data collected from firms. See Annex 3 for details.

128 Historical data from 2012, 2011 and 2006 were requested only from a subset of firms.

129 These 10 providers accounted for 16 brands.

130 The age of account refers to how long ago since it was opened by the consumer not the number of years since the product was launched.

Figure 22: Proportion of balances and average interest rates for cash ISA products by age of account, 2013



Source: FCA analysis of data collected from firms. See Annex 3 for details.

5.6 Figure 21 and Figure 22 show two common features:

- First, accounts opened within the past two years held a higher proportion of total balances than accounts either opened between two and five years ago or opened more than five years ago, but there was a significant percentage of balances in accounts opened more than five years ago. For easy access products, 46% of balances were in accounts opened within the last two years, 21% of balances were in accounts opened between two and five years ago and 33% of balances were in accounts opened more than five years ago¹³¹
- Second, the interest rate paid on accounts opened more recently was, on average and in aggregate, higher than on older accounts.¹³² For easy access products, interest rates were on average 0.82 percentage points higher in accounts opened within the last two years than accounts opened more than five years ago; this gap was 0.87 percentage points for cash ISAs. This suggests that, in aggregate, firms pay interest rates that vary with age of account.

5.7 Comparing easy access and cash ISA products, the former had a larger proportion of balances in older accounts.¹³³ This difference could be explained by the greater switching rate on cash ISA products (see paragraph 4.45).

5.8 Our further analysis of market outcomes, contained in Annex 3, also showed that:

- A similar distribution of balances by age of accounts and a similar pattern of the interest rate declining with age (as described in paragraph 5.6 for 2013) were also observed in 2011 and 2012.¹³⁴

¹³¹ Balances in new accounts may be explained by new (PCA or savings) customers opening savings accounts, new balances brought in by existing customers (for example from the sale of an asset) and customers switching savings account.

¹³² This profile has occurred during a period in which the Bank of England base rate has been flat since 2009.

¹³³ There was also a difference in that the decline in interest rates with age of accounts for cash ISA products was less marked than the decline for easy access accounts. However, this was not a feature that we found to be consistent across other years of data.

¹³⁴ We also considered whether the same was true for 2006, prior to the current low-interest rate environment. However, several firms had problems providing this historic data, and the data that was provided was in many cases incomplete. As a result we were not able to rely on the 2006 data.

- Interest rates typically declined with the length of time an account had been open for all provider types. The exception to this was cash ISA products held with small and medium sized building societies, which paid a similar interest rate to accounts of all ages.
- Interest rates declined with the age of account when looking separately at products with an initial bonus rate and products without an initial bonus rate.
- Smaller providers on average paid higher interest rates on easy access accounts than larger providers, while all providers paid similar interest rates on cash ISA accounts.¹³⁵ For easy access accounts, one explanation for the difference between larger and smaller providers is that consumers value the convenience of having a PCA alongside an easy access account (e.g. because funds can be easily transferred or kept in separate pots). As a result, providers offering PCAs, which are typically the larger banks, are able to pay relatively low interest rates on easy access accounts while still attracting consumers (see paragraphs 5.31 to 5.37). The same is not necessarily true for cash ISAs.
- Larger providers typically had a higher proportion of balances in older accounts compared with smaller providers. For easy access products, in 2013 33% of large providers' balances were in accounts opened more than five years ago compared to 27% and 23% for small and medium sized banks and building societies respectively (see *Figures 9 to 11* in Annex 3). For Cash ISA products, in 2013 17% of large providers' balances were in accounts opened more than five years ago compared with 5% for small and medium sized banks (see *Figures 12 to 14* in Annex 3).¹³⁶ This is consistent with smaller providers attracting more 'rate chasers' than larger providers (because smaller providers pay higher interest rates – see the previous bullet), and therefore finding it harder to retain balances for longer.
- Interest rates declined with age of accounts for most of the providers individually, but there are some exceptions in some small and medium sized providers, especially for Cash ISA products.

5.9 We also considered the remaining product categories and found that:

- Children's accounts, notice accounts and regular savings accounts each exhibited interest rates that declined with age of account (see *Figures 15 to 17* in Annex 3). However, the balance distribution for these products varied; for example, children's accounts had a relatively large proportion of balances in older accounts.¹³⁷
- Fixed term accounts are different. The nature of the product—a fixed interest rate for a fixed period—means that balances and interest rates do not decline with the age of the product. However, where customers' balances are transferred to an easy access type product at maturity and the customer does not switch, the outcomes will be consistent to those described above (i.e. the interest rate will decline over time).

5.10 Overall, there was a substantial proportion of balances held in older accounts that could, by switching the balances to another product or provider, benefit from higher interest rates. This was most evident for easy access products and Cash ISA products, but also applied to other product categories. These two product types accounted for,

¹³⁵ Although as noted above, small and medium sized building societies paid higher interest rates on older cash ISAs than other types of providers.

¹³⁶ The exception was cash ISA products offered by small and medium sized building societies, where a relatively high proportion of balances were in older accounts (about 42% were in accounts opened more than five years ago).

¹³⁷ 56% of balances in children's accounts were held in accounts opened more than five years ago.

around two thirds of total balances¹³⁸ in our sample in 2013, and around a quarter of these balances were held in accounts opened over five years ago. The same concerns do not directly apply to fixed term products.

- 5.11 We have considered whether the payment of lower interest rates on older accounts is the consequence of higher costs in the supply of those older accounts. We have not seen any compelling evidence to support this view and note that the costs that comprise the direct costs of a cash savings account¹³⁹ do not generally increase with the age of the account.

Pricing strategies used by firms

- 5.12 In this section we consider two strategies used by firms that explain the pattern of balances and interest rates described in the previous section:¹⁴⁰

- **Bonus rates** - offering introductory higher interest rates on products, which then revert to a lower interest rate after a set period of time.
- **Product replacement** - launching new products while at the same time withdrawing existing products from sale to new customers, potentially offering a higher interest rate on the replacement product and reducing the interest rates on the withdrawn product. An alternative approach is to cut interest rates on accounts that are no longer actively marketed but still on sale.

- 5.13 While there are variants of each strategy, this broad classification captures the two main firm practices that can lead to the outcomes described in paragraphs 5.6 to 5.10. In general, neither strategy is necessarily harmful to consumers and competition. Offering higher interest rates for a limited period of time can help firms, particularly new entrants and smaller providers, to attract new business. Therefore it can increase switching and competition in the market. Similarly, by withdrawing old products and launching new ones, firms are able to manage cash inflow and the cost of funding. These strategies can give firms more flexibility to respond to changes in the market and their wider business strategies. However, bonus rate expiry and product replacement may lead to lower interest rates for consumers who do not switch. This may be a concern where either practice is not clearly communicated. We now discuss each strategy in turn.

Bonus rate products

- 5.14 Bonus rate products have a relatively high initial interest rate, which after a pre-defined period (the bonus period), is followed by a lower interest rate. The bonus period is typically one year, and the initial interest rate in our data was on average higher¹⁴¹ than the rates paid on 'non-bonus' or 'flat rate' products.¹⁴² Throughout this chapter we

138 NS&I data was not included in this figure because of data limitations.

139 The direct costs of a cash savings account are (i) account opening costs (which tend to be fixed and do not vary with the account balance or number of transactions); (ii) account maintenance costs (such as annual statements and processing changes of address); and (iii) transaction costs (such as transfers in and out). Evidence we saw suggested that account opening and maintenance costs are broadly flat as the size of balances and the volume of transactions increase, while transaction costs increase with transaction volumes but are broadly flat as the size of balances increase.

140 Throughout this section we focus on easy access and cash ISA products although, as noted in paragraph 5.10, similar issues apply to several other products.

141 This was based on the sample of products submitted in the second request for information, although there was a high variability among interest rates for both bonus and non-bonus sampled products.

142 Although any variable rate product may offer a higher interest rate at launch than is offered subsequently, bonus rate products are marketed to explicitly include the payment of a bonus rate of interest over a specified period of time.

refer to 'bonus products' as all products that paid a bonus rate at some point, even if the bonus period has since expired.

- 5.15 Our data shows that, for easy access and cash ISA products in 2013, around 17% of products (corresponding to 53% of balances) offered an initial bonus rate.¹⁴³ Not all providers offer bonus products and several providers (including RBS/NatWest, Nationwide and HSBC) announced during the course of the market study that they would no longer offer bonus rate products (see paragraph 3.38). Our analysis of bonus rate products was therefore carried out during a period of changing practices in the market.¹⁴⁴
- 5.16 Our data (which was submitted in January 2014, before several firms announced that they would no longer offer bonus rate products) showed that large providers used bonus rates proportionately more than small and medium providers - large providers held 68% and 53% of their Cash ISA and easy access balances respectively in products that offered an initial bonus rate, whereas, small and medium banks held 5% and 9% of their Cash ISA and easy access balances respectively in products with an initial bonus rate. Percentages were smaller for small and medium building societies.
- 5.17 During the course of our study, we heard a variety of views on the advantages and disadvantages of bonus rate products. We heard that bonus rates are beneficial because:
- Bonus rates allow firms to offer high rates for limited periods of time so as to attract deposits quickly to meet funding needs.
 - Bonus rates increase switching, as consumers are more likely to move their savings to a new account if they can gain more from doing so. If, however, the provider had to offer the same rate to all its customers, it would not be able to offer interest rates as high as the bonus rate (see Chapter 7 for a discussion of the zero-sum game arguments submitted by some respondents).
 - Bonus rates guarantee a fixed interest rate for a pre-defined period.
- 5.18 Some argued that bonus rates are a sign of competition between providers, and have ensured that the top interest rates in the market remain relatively high even in the current low interest rate environment.
- 5.19 However, others (including one large provider)¹⁴⁵ argued that bonus rates are used to induce consumers to open an account, but then the provider benefits from consumer inertia, as a segment of consumers would be unlikely to switch after the bonus rate expires. Furthermore, some argued that the presentation of bonus rate products has at times been insufficiently clear, so many consumers did not realise that their interest rate would reduce substantially at the end of the relevant period (see paragraph 5.45).
- 5.20 Our analysis of data from our sample of firms found that for easy access bonus products (see *Figure 23*), the interest rate paid on accounts opened more than five years ago was lower than that paid on accounts opened less than two years ago. However, the interest rate paid on accounts opened between two and five years before 2013 was slightly lower than the interest rate paid on accounts opened less than two

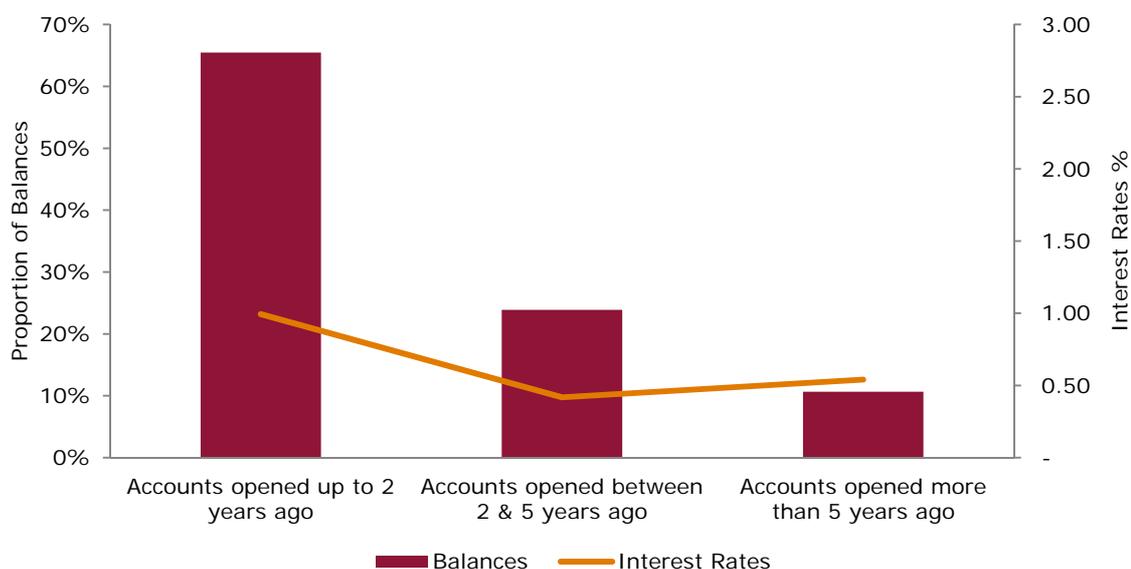
143 The use of bonus products was greater on Cash ISA products compared with easy access products. 29% of Cash ISA products (63% of Cash ISA balances) and 13% easy access products (49% of easy access balances) offered an initial bonus rate.

144 Introductory bonus rates are also used in Australia, Germany and USA but banned in the Netherlands (see PwC report, page 5).

145 One large provider reported that bonus rates are used to attract consumers to switch but are often to the detriment of existing customers.

years ago and more than five years ago.¹⁴⁶ Most balances were held in accounts opened less than two years ago.

Figure 23: Proportion of balances and average interest rates for easy access bonus products by age of account, 2013



Source: FCA analysis of data collected from 21 providers.

- 5.21 We also examined the average interest rate over time for a group of bonus product accounts opened in the same period of time (the first quarter of 2010).¹⁴⁷ Our analysis is set out in Annex 3. It shows that, on average for this group of accounts, the interest rate on easy access bonus products was around 1.5% in 2010, and the interest rate for cash ISA bonus products was around 1.7%. After one year, the bonus period typically expired and the interest rate decreased, until in 2014 it reached around 0.5% for easy access bonus products and 1% for cash ISA bonus products. The Bank of England base rate has been set at 0.5% since March 2009.^{148 149}
- 5.22 We also analysed the rate at which balances switch away from accounts over time and in response to interest rate reductions so we could understand how price sensitive consumers (and the balances that they hold) are.¹⁵⁰ We analysed the balances that switched away from easy access and Cash ISA products¹⁵¹ of a given provider within

146 Although the interest rate in accounts opened between two and five years ago was slightly lower than for accounts opened more than five years ago, the difference did not seem to be due to a practice of providers raising interest rates after five years.

147 The figures were based on the interest rates of 15 Cash ISA products submitted by 8 providers and on the interest rates of 28 easy access products submitted by 10 providers.

148 The declining interest rate may be due to macroeconomic factors like the introduction of the FLS. See paragraphs 3.57 and 3.58.

149 We present further results in Annex 3 that show the general pattern of interest rates was similar to the average for most providers. We also examined the results for groups of accounts opened at later dates (second quarter of 2010) and found these to be similar.

150 To do this, we requested information from a subset of 10 providers accounting for 16 brands to focus on the accounts opened in 2010 and to track the evolution of balances and interest rates on these accounts quarter-by-quarter up to the second quarter of 2014. The information provided by firms was based on consumer-initiated switching (i.e. it did not include situations where firms had replaced products and moved customers onto different accounts). To the extent that price sensitivity differs between consumers, and providers attract different mixes of consumers, each provider may face a particular degree of price sensitivity amongst its account holders. This explains price dispersion across providers, and influences a provider's ability to retain balances at a given interest rate.

151 Easy access and Cash ISA products represent the majority of balances in products without a fixed term. Regular accounts, notice accounts and children's accounts may or may not have a fixed term and represent a small proportion of the market.

one year after the bonus expiry.¹⁵² Further details of the results are set out in Annex 3.¹⁵³ We found that, on average:

- for Cash ISAs, 57% of balances had been moved out of the account 12 months after bonus expiry and 79% after 24 months
- for easy access accounts, 64% of balances had been moved out of the account 12 months after bonus expiry and 82% after 24 months¹⁵⁴

5.23 We found that for the majority of savings providers, after the bonus expiry, consumers with large balances were more price sensitive¹⁵⁵ than consumers with lower balances.¹⁵⁶ The results were similar for both Cash ISA and easy access products and across different cohorts of consumers.¹⁵⁷ An explanation for this observed behaviour is that consumers with large balances are likely to expect higher benefits from switching, so they may be more sensitive to changes in price (i.e. the expiry of the bonus rate).

Conclusion on bonus rate products

5.24 Bonus rates have an important role to play in encouraging switching and giving providers flexibility in their funding strategies. Similar forms of promotions exist in many other competitive markets. Our analysis leads us to conclude that a significant proportion of balances are moved out of the account reasonably soon after the bonus rate expiry. However, bonus pricing leads to lower interest rates for consumers who do not switch at the end of the of bonus period, and we found that, of the balances held in accounts older than five years, at least 17% were held in products that originally or at some stage paid a bonus rate.¹⁵⁸ These lower interest rates are a particular concern where the bonus rate expiry is not clearly communicated to consumers and their switching options are not made clear. We consider in paragraphs 5.50 to 5.60 how well the expiry of bonus rates is communicated to consumers.

Product replacement

5.25 Product replacement refers to the process of frequently introducing new products that supersede existing on-sale products. This can lead to numerous products being on providers' books (either on-sale or off-sale) at any point in time and consumers holding balances in products that are either no longer available to new customers or not being actively marketed. By maintaining a combination of new products and old products (either no longer available or not actively marketed), this also allows providers to pay different interest rates to consumers with new accounts compared with consumers with older accounts.

152 We calculated the average balance difference between the year before the bonus expiry and the year after the bonus expiry because bonus rates usually last four quarters (although certain providers offer bonus rates for a longer period). We then divided this figure by the average balance during the year before the bonus expiry. This ratio measured the proportion of balances that switched away within one year after the bonus expiry. We noted that certain providers 're-bonus' some products, so we removed these products from the sample, as it was not possible to analyse the effect of the bonus expiry on the balances. The balances removed accounted for around 15% of the sample.

153 We also assessed whether consumers with larger balances were more likely to switch following bonus rate expiry (or switch sooner) and whether those consumers who also held a PCA with the same provider were less likely to switch (or switch later) than those who did not hold a PCA with the same provider. See paragraph 5.35.

154 These are averages across four cohorts of consumers that opened an account in each quarter of 2010.

155 I.e. consumers switched a larger proportion of their balances in the same period of time.

156 The results shown in Annex 3 were based on a threshold of £25,000.

157 In Annex 3 we show the results of the test for the four cohorts of consumers that opened an account in each quarter of 2010.

158 This is likely to understate the number of products with bonus rates, in particular it does not include those where the bonus rate was paid a long time in the past and as a result the product was not flagged as a bonus product in our dataset.

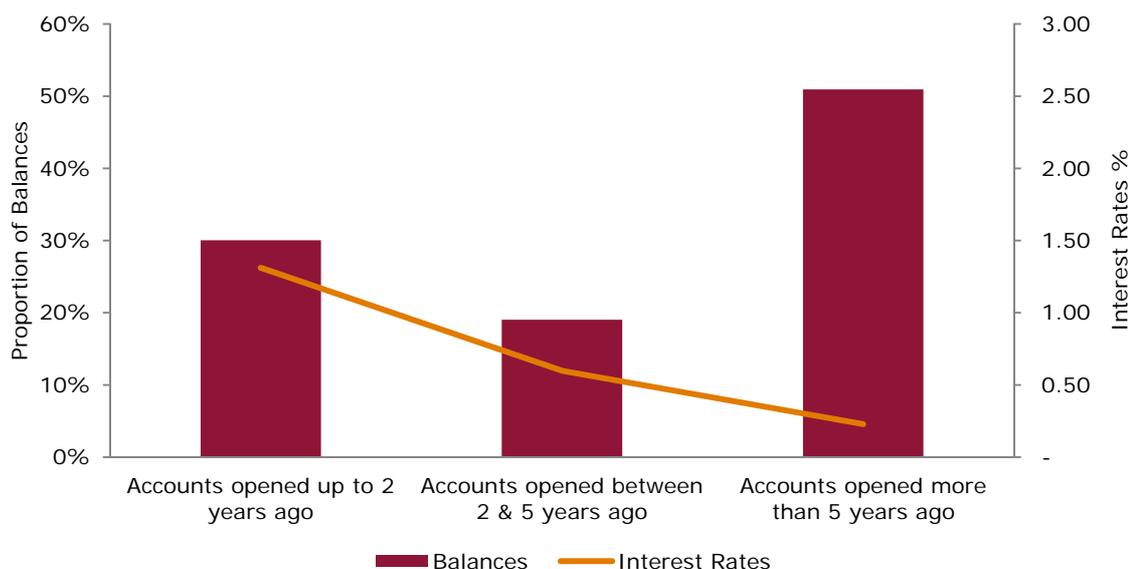
- 5.26 The number of on-sale and off-sale products illustrates the extent of product replacement. At the end of 2013, the 21 providers in our sample had 761 on-sale easy access products and over 1,300 off-sale products. Our data also shows that firms in our sample launched 260 new easy access products in 2013. The number of products varied significantly between providers showing that this strategy is not universal. At the end of 2013, 544 out of the 761 on-sale products and 944 out of the over 1,300 off-sale products were offered by just five providers.¹⁵⁹
- 5.27 A number of providers (including large banks and several building societies) told us that they had recently undertaken or completed initiatives to simplify their product range (see paragraph 3.38). The impact of these initiatives is not captured by our collected data. We noted that, as set out in paragraph 3.38, data across all providers, not just those in our sample, showed that, as at 3 November 2014, there were around 350 easy access products offered on the market and just over 1,000 that were no longer on sale to new customers.¹⁶⁰
- 5.28 Product replacement, as with bonus rates, can provide a way for firms to manage balance inflows but it can also have two important effects on consumers:
- First, it leads to proliferation of products. We are concerned that this can inhibit competition because of the confusion it can create for consumers. For example, it can make it harder for consumers to identify which particular account they hold and therefore the interest rate they receive so as to compare with other savings accounts on offer. It may also lead to confusion on open products as well if products are left on-sale but not marketed. This may result in less consumer engagement. One large provider agreed with this general concern and noted that the number of products in the market can be unhelpful for consumers.
 - Second, it facilitates the payment of different interest rates on different products, potentially resulting in higher interest rates on new products and lower interest rates on older products. To the extent that this occurs, the competitive effects are similar to the use of bonus products. One difference, however, is that while post-bonus rates can be clearly communicated to consumers at the point of sale, the potential change in future interest rates is less transparent with a product replacement strategy. Our analysis of non-bonus account balances and interest rates in aggregate showed that around 50% of balances were held in accounts opened more than five years ago and that the interest rate on accounts of over five years old was lower than that on accounts of two to five years and less than two years old (see Annex 3 and *Figure 24*).¹⁶¹

159 This group of providers includes two large and three small and medium providers.

160 FCA analysis of Moneyfacts Closed and Open Accounts Savings Reports based on input criteria as at 3 November 2014. Moneyfacts Closed Savings Account Analyser includes those accounts which are operated but have been closed to new customers since 1 April 2004. This data set is not comparable with our data set, which was for a sample of firms only.

161 We found that for most providers, there was a relatively flat profile when we tracked the interest rate on individual non-bonus products over the last four years. We did not consider these results to be particularly informative because our analysis of non-bonus products balances and interest rates for easy access products and Cash ISA products in aggregate showed that around 50% of balances were held in accounts over five years old and that the interest rate on accounts of over five years old was lower than that on accounts of two to five years and that on accounts of less than two years old. This meant that only tracking products over the last four years does not capture the fact that many accounts are held for longer than four years and that the interest rate may not yet have begun to fall. See Annex 3 for further details.

Figure 24: Proportion of balances and average interest rates for easy access non-bonus products by age of account, 2013



- Source: FCA analysis of data collected from 21 providers.

5.29 Some small and medium providers told us that product replacement is not always used as a way to offer lower interest rates to existing customers. For example, one respondent to our interim report submitted analysis that showed that small and medium building societies' interest rates on off-sale variable rate savings accounts were higher than the interest rates on on-sale variable rate savings accounts. The respondent argued that product replacement could protect or lock-in savings rates for existing customers. However, our analysis based on the age of accounts, showed that small and medium building societies have lower interest rates on older easy access accounts but do not reduce interest rates on older accounts for Cash ISA products¹⁶² (see Annex 3).

Conclusion on product replacement

5.30 Our concerns regarding product replacement are twofold – first, that it can be used to lower interest rates to consumers without them being fully aware and second, that product proliferation has an adverse effect on consumer engagement. We consider the effectiveness of customer communications in paragraphs 5.50 to 5.60.

The links between savings products and PCAs

5.31 Many consumers hold savings accounts with their PCA provider:

- Our consumer research found that many consumers have a preference for the convenience of holding multiple accounts with the same provider (see paragraphs 4.14 to 4.15).
- Large PCA providers generally sell very high proportions of their savings products, in particular easy access accounts, to their PCA customers. In 2013 over 75% of sales of savings products by the largest PCA providers in our sample were to their

¹⁶² We also compared interest rates on off-sale and on-sale products and found that for certain providers interest rates on on-sale products are higher than on off-sale products, while for other providers the relationship was the other way around.

existing PCA customers.¹⁶³ This percentage increased to 85% for sales of cash ISA products and over 90% for sales of easy access internet-only products.

- For banks with smaller PCA customer bases, the share of savings accounts held by non-PCA customers is higher than for banks with large PCA customer bases. In 2013, banks and building societies with a smaller PCA customer base in our sample sold on average over 50% of their savings products to non-PCA customers, compared with an average of 15% for the largest PCA providers.
- Some banks told us that their PCA customers often hold a significant share of their total savings balances away from their PCA provider. In particular, PCA customers with larger total savings balances are likely to spread their savings between different providers. Our consumer research (see paragraph 4.16 and *Figure 7*) showed that fixed term products were much more likely to be held away from the main banking provider than easy access type products: only 24% of fixed term bonds and 39% of fixed term Cash ISAs were held with the main banking provider compared with 62% of easy access accounts and 54% of easy access Cash ISAs.

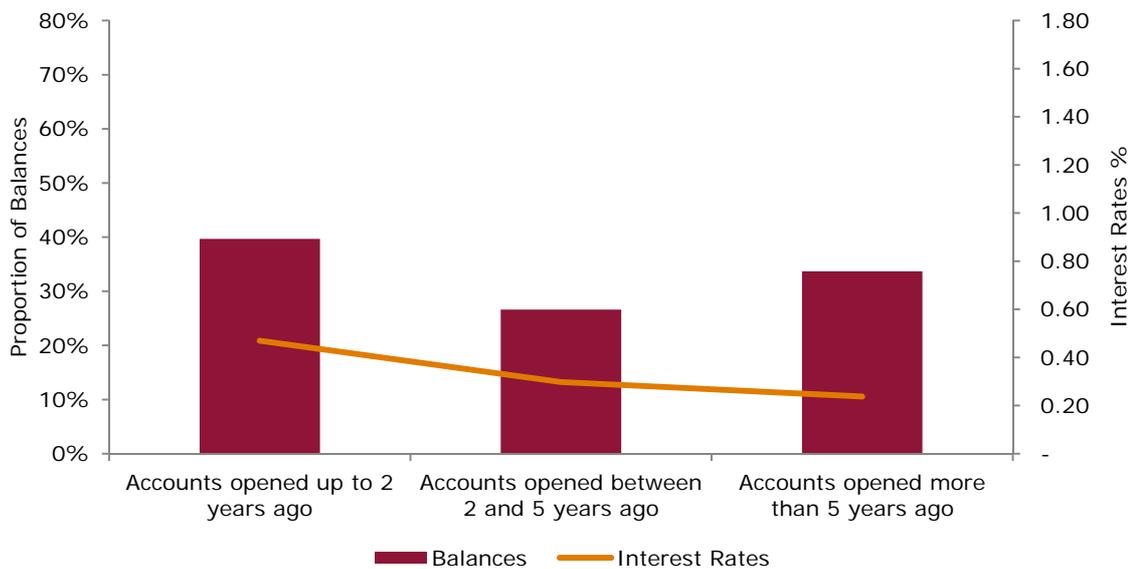
5.32 The pattern of high sales of savings accounts to PCA customers would cause us concern if, for example, the benefit of convenience could only be gained by consumers holding accounts with their PCA provider, such that the PCA providers were able to offer worse overall terms without the threat of switching away. We therefore examined (i) whether large providers paid lower interest rates than smaller providers, and (ii) whether there are any material differences in the behaviour of consumers that hold their savings accounts with their PCA provider compared with those that do not.

5.33 First, we found that on average the top five PCA providers paid lower interest rates on easy access accounts than those offered by smaller PCA providers or non-PCA providers. Our analysis showed that the average interest rate offered by the top five PCA providers on easy access saving accounts opened in the last two years was 0.47%, while the equivalent rate offered by other providers was 1.65% (see *Figure 25*). The chart also shows that there was a steeper decline in interest rates for other providers over time. However, this pattern was not the case for all products. For example, in relation to (no term) Cash ISAs, large PCA providers offered slightly more competitive rates than other providers (see *Figure 26*).

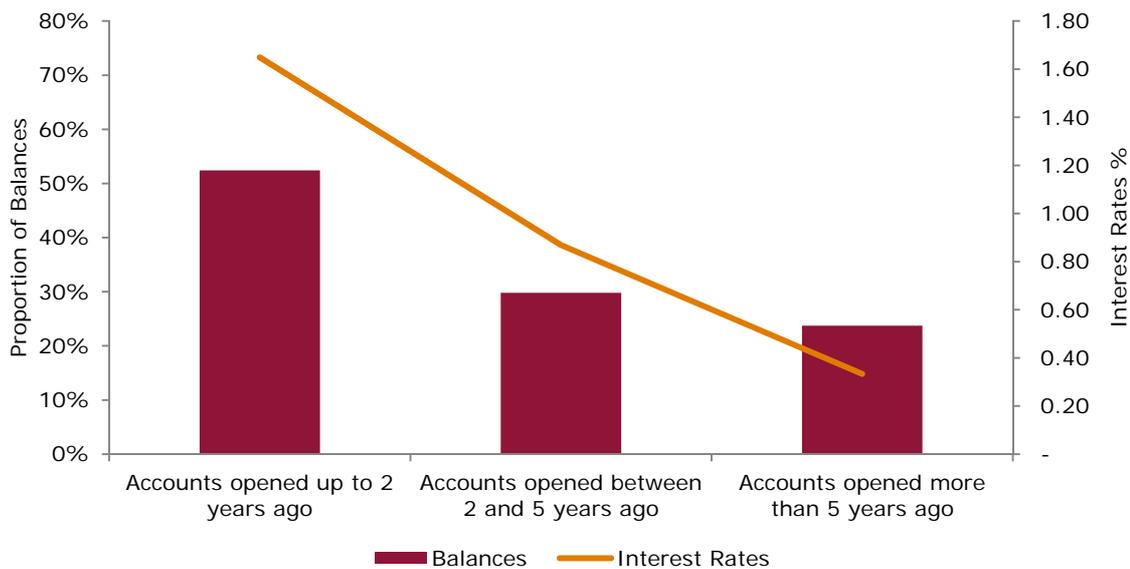
¹⁶³ Several PCA providers offer their PCA customers (or have offered in the recent past) savings rates that are higher than those they offer to their non-PCA customers.

Figure 25 - Interest rates offered on easy access accounts by the groups and/or savings brands that have the highest shares of the PCA market compared with those paid by others

(a) Easy access – Large PCA providers



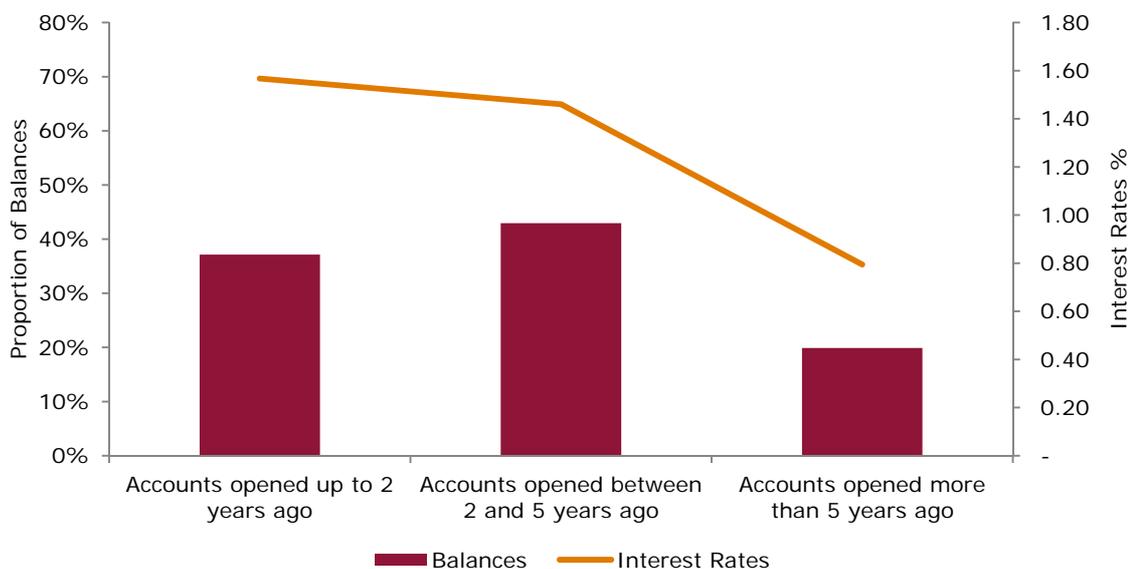
(b) Easy access – Other providers



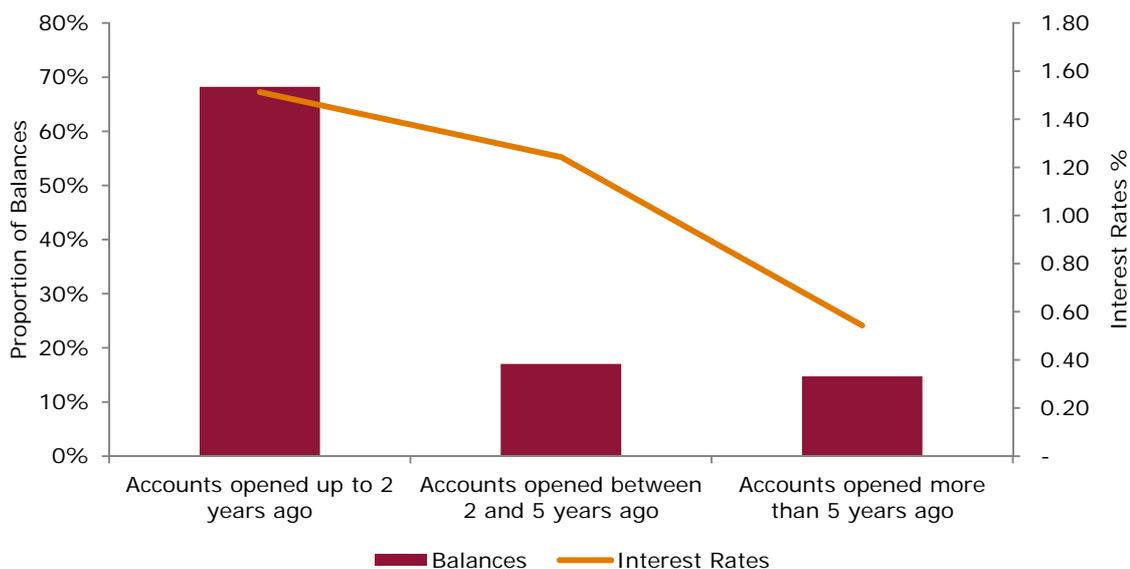
Source: FCA analysis of data collected from 21 providers.

Figure 26 - Interest rates offered on Cash ISAs by the groups and/or savings brands that have the highest shares of the PCA market compared with those paid by others

(a) Cash ISAs – Large PCA providers



(b) Cash ISAs – Other providers



Source: FCA analysis of data collected from 21 providers.

5.34 Differences in funding strategies, cost base and service level may offer some limited explanation for this interest rate differential between types of providers. Smaller PCA providers tend to rely more on retail funding than alternative sources of funding (e.g. wholesale funding), and therefore may need to offer higher rates to attract savings. In addition, large PCA providers with greater branch networks may face higher underlying costs in providing some savings products, but many of these costs are likely to be shared costs with other products and are also likely to benefit from economies of scale. However, since for cash ISAs large PCA providers paid on average a slightly higher interest rate than other savings providers, consumer behaviour appears to be a stronger driver of the effects we observed in easy access accounts.

5.35 Second, we considered whether our balance attrition analysis varied by PCA providers and non-PCA providers (see paragraph 5.22 for an explanation).¹⁶⁴ We found that for the majority of savings providers, after the bonus expiry, consumers who did not have a PCA with their savings account provider were more price sensitive¹⁶⁵ than consumers who did have a PCA with their savings account provider. One explanation for this could be that consumers who hold savings accounts and a PCA with the same provider may value convenience more than price and are consequently less likely to switch after the bonus expiry.

5.36 The evidence in Chapter 4 was also consistent with these results, and suggests that consumers with different balances (high versus low) and those with or without PCAs with their savings account provider may respond differently to changes in interest rates. Table 27 shows that small and medium sized firms have, on average, higher balances per account compared with larger savings providers for both easy access and Cash ISA (no term) products.¹⁶⁶

Table 27: Average balance in Cash ISA (no term) and easy access products by type of firms, 2013

Average balance per account in 2013		
	Cash ISA (no term)	Easy Access
Large providers	£5,000	£4,800
Small and medium sized banks	£8,400	£6,700

Source: FCA analysis of data collected from 21 providers.

Note: These average balances per account were calculated using product averages and weighted by the number of accounts per product.

5.37 Based on the evidence above and in Chapter 4, we concluded that:

- There is a close link between PCAs and some cash-savings products, particularly easy access accounts. Large PCA providers hold significant savings balances from their PCA customers. These links arise in particular from consumers' preference for the convenience of holding accounts with the same provider.
- Interest rates on easy access accounts held by consumers with the large PCA providers are lower on average than those with other providers.
- Consumers that hold savings accounts with the large PCA providers tend to be less responsive to reductions in the interest rate compared with consumers holding savings accounts with small and medium sized banks.
- All else equal, these factors make it harder for small and medium providers, compared with larger providers, to attract and retain retail deposits. To do so, they

¹⁶⁴ We conducted these comparisons separately for each provider so as to take into account the fact that each provider may attract a different mix of consumers with different preferences and needs. By analysing each provider separately, we also controlled, to a degree, for differences in the outside options the consumers may have (e.g. alternative products, with the same provider or alternative providers that may offer better interest rates). This outside option may change over time, and our analysis did not explicitly control for this. Thus it may be that the best available outside option does not always have the same interest rate (ie it is more attractive to switch accounts in some periods compared to others). We acknowledge that, while the base rate has remained constant over the period we analysed, the introduction of the FLS had a significant impact on interest rates. However, since we compared the rate at which balances switch away within every brand, we implicitly controlled for changes in the best available interest rate.

¹⁶⁵ See footnote 155 for an explanation.

¹⁶⁶ However, within the large savings providers there are significant differences in the PCA customer base.

must not only offer higher interest rates than the larger providers, but also maintain these higher interest rates.

Disclosure and transparency

- 5.38 The provision and availability of information to consumers is important, not only from a consumer protection perspective, but also for promoting effective competition. Clear, engaging and straightforward information, provided at the right time, can prompt consumers to consider their choice of savings account or provider and help them make effective choices.
- 5.39 We considered what information providers make available to consumers both before opening a savings account and post-sale in routine customer communications and on websites and in branch. Where we found variation in the clarity and content of disclosures made by providers to consumers, we have set out our concerns in this section. This provides a basis on which to consider how to improve disclosure when considering appropriate interventions.
- 5.40 Firms' compliance with existing rules and guidance was not the primary focus of this market study, but where we encountered any potential rule breaches we followed our usual procedures.

Pre-sale: Information to help consumers make effective choices when shopping around

- 5.41 We considered the information consumers are likely to be provided with before opening a savings account, including financial promotions, marketing material, product literature and the information contained on websites, including price comparison websites.

Provision of information by savings providers

- 5.42 Key product information is usually made available and done so in ways that meet the relevant rules or legislation.¹⁶⁷
- 5.43 Industry guidance provides that firms can, where appropriate, use a summary box when communicating (in writing or online) key product information to consumers before purchase.¹⁶⁸ All firms we reviewed used the summary box but the way in which they provided it or made it available varied, as did the prominence it was given in different forms of publication and the information it contained. As a minimum, summary boxes usually contained information about interest rates, tax status, conditions for bonus payment, withdrawal arrangements and access. Some firms supplemented it with additional information or re-formatted it.
- 5.44 The prominence of the summary box on providers' websites varied between firms. Some firms displayed it on their main product page but others required the consumer to click on one of the 'tabs' on the product page to see it. For many firms' websites, it was possible for the consumer to apply for the account without having seen the summary box. Some firms required the consumer to tick a box acknowledging that they had read and understood the key information or terms and conditions.

167 The FCA's BCBS, in particular Chapters 2 and 4, and the Payment Services Regulations 2009, in particular Part 5.

168 Industry Guidance for FCA BCBS, section 2.3 and 4.3.9, Annex A.

5.45 We found that there were a number of areas in which provision of information to consumers could be improved when making choices about their savings account or savings provider. Given the importance to consumers of: (i) interest rates; and (ii) how to access their savings, we focused particularly on these two aspects of information.

a Interest rate information:

- i Summary boxes did not always display the relevant information, such as interest rate details. For example, some providers referred in the summary box to additional printed material where the consumer can obtain the current interest rates, rather than including the interest rate in the summary box itself.
- ii Firms often provided limited explanations around the extent to which interest rates may change with most just stating that interest rates are variable. This is concerning from a competition perspective given our consumer research shows that consumers' understanding of terminology such as 'variable' is poor (see Chapter 4).
- iii Providers adopted different approaches to displaying the underlying interest rate and bonus term in promotional material. Our examination of the promotional material submitted by firms in our sample revealed that while some firms tended to state the bonus rate and underlying interest rates in summary boxes, in newspaper advertisements and posters, they did not always explicitly set out the underlying rate of interest, with several firms providing the headline and bonus rates only. It was also not always clear in adverts, posters or summary boxes how long the bonus rate would be paid for because often this information was contained in the small print only.
- iv Some accounts paid low interest rates despite being given or still having a name that gave the impression that it paid a high interest rate. Which?, in its research, identified a number of accounts that fell into this category.¹⁶⁹

b Access to savings:

- i A small number of firms we reviewed placed restrictions on withdrawals from accounts whose names contained terms such as 'easy' or 'simple' access. These restrictions tended to limit the number of withdrawals that could be made in any one month or over the period of a year. If the number of withdrawals exceeded the limits, this might result in the application of a lower rate of interest to the balance on the account (normally for the month in question).¹⁷⁰ We are aware that some firms are now drawing greater attention to access restrictions, for example by naming accounts as 'restricted' or 'limited' access.
- ii Fixed-term products (including fixed-rate Cash ISAs) usually have restrictions and penalties for early withdrawal or closure. These penalties were usually made clear in product information and often expressed in terms of days of interest lost. However, even though these restrictions and penalties were typically included in summary box information, they were not always included prominently.
- iii In general we consider that there remains scope for restrictions and penalties to be conveyed more clearly and prominently.

¹⁶⁹ Which? The Savings Trap, July 2014, page 11.

¹⁷⁰ While we found that restrictions on the number of withdrawals were typically outlined in the summary box, information on charges for additional withdrawals or rate reductions in periods in which withdrawals are made was not always prominently displayed.

Provision of information by price comparison websites

- 5.46 Price comparison websites play an important role in some consumers' choice of savings accounts. For example, our consumer research found that when choosing an account over a quarter of respondents looked on at least one price comparison website.
- 5.47 We do not regulate price comparison websites in relation to the provision of savings accounts. We nevertheless considered what and how information is provided to consumers on price comparison websites. We found that there was variation in the functionality of these sites as well as the way in which different products and related information were displayed:
- Presentation of products - The factors that determine the default order in which savings accounts are presented varied among websites and were not always clear. Some price comparison websites gave prominence to certain savings accounts, for instance because they had been sponsored, instead of those similar products that might have offered a better rate of interest. They also used prominent, coloured buttons to encourage consumers to apply for certain products immediately rather than carrying out a comparison of products.
 - Functionality of website - There was variation in functionality with some websites offering richer search functionality and enabling a consumer to filter results according to a range of criteria. However again there was variation in the way different accounts were classified with some accounts with restrictions that were not inconsequential being displayed as 'easy-access'.
 - Product features displayed - Some websites gave greater prominence than others to important product features, for example bonus rates, FSCS protection and restrictions and penalties on withdrawals.
 - Presentation of interest rates – Some websites displayed limited information about the interest rate including whether it was variable and included a bonus. This is concerning from a competition perspective given our consumer research showed that many consumers have difficulty identifying the bonus and non-bonus rates on their accounts from the information they were provided with before sale (see Chapter 4).
- 5.48 We do not intend to take action as part of this study to address the concerns we have identified in relation to the role that price comparison websites have in shaping consumers' and providers' behaviour in the cash savings market, as many of these concerns could extend across other products. However, we will continue to consider the role that price comparison websites play generally, including in the cash savings market.

Post-sale: Communications to keep consumers informed and trigger consideration of shopping around

- 5.49 We also considered the information made available to consumers post-sale, including that available in branch and on websites and that included in routine customer communications such as annual statements, bonus rate expiry, rate change notification and maturity letters.

Provision of interest rate information

5.50 Firms' practices varied in the provision of interest rate information. We examined the availability and prominence of the interest rate, how the interest rate was displayed, and how and when customers were notified about changes to interest rates.

- *Availability and prominence of the interest rate in statements*

5.51 BCOBS 4.2 requires firms to provide or make available regular statements, which are appropriate to the type of service. There are some exceptions, such as for accounts that have passbooks or accounts, where the customer has access electronically to account information. In general, firms are not allowed to charge for providing this information. Guidance also states that the firm should indicate the rate or rates of interest in each statement of account.

5.52 BCOBS 4.2 does not apply to payment accounts, but the PSRs require that information about transactions, including associated charges, is provided as soon as reasonably practicable. This may be done by providing or making available statements at least monthly. Certain general information about payment accounts, including interest rates, must be provided on request.

5.53 These requirements give providers a certain degree of flexibility as to whether they provide periodic statements, particularly for online accounts where the customer can access certain information electronically. We found that the majority of firms stated that all customers received an annual paper statement except online customers who were able to view their transaction history online (and in some cases these customers were also provided with electronic statements).

5.54 We found that in paper statements most firms provided interest rate information. However, this was not universally the case. Interest rate information was not always prominently displayed. Specifically, while some statements displayed the interest rate on the front page, others listed the interest rate or rates later in the document, such as after the transactional information on the account. Other statements only provided details of the interest rate and the interest earned on subsequent pages of their statements. Likewise for accounts with tiered interest rates, the interest rate applied was not always specified in a way that was specific to the consumer's balance.

- *Availability and prominence of the interest rate on online banking platforms*

- 5.55 Neither BCOBS nor the PSRs require firms to display interest rates on their online banking platforms. We therefore examined how easy it is to find the interest rate information electronically. There was a range of responses from firms about how interest rate information was provided online. While some make this information available on the same page as balance and/or transactional information, other firms noted that interest rate information was sometimes one or two clicks away.
- 5.56 Which? previously expressed concerns about the limited availability of interest rate information online, noting that some of the larger savings account providers did not consistently provide consumers with their actual interest rate for their savings account on either their banking online platforms or online statements. Instead, customers were directed to contact their bank via the branch or phone to receive this information. In the case of one provider customers were able to download the last copy of their written statement which could include an out-of-date interest rate. Which? also highlighted that only one provider displayed the interest rate on the summary landing page next to the balance when consumers first logged in. Most providers who made this information available displayed the interest rate one click away from the summary page and some displayed the interest rate away from the actual balance.¹⁷¹

- *How the interest rate is displayed*

- 5.57 As with some of the pre-sale information, some firms provided further helpful detail such as illustrations of the monetary effect of interest rate changes. For example, for a balance of £10,000, a reduction in interest rate from 1.25% to 0.5% would result in the customer receiving £50 in interest rather than £125 (before tax). It was rare, however, for firms to give such information in a way that was personalised to the customer's actual balance. In addition, when the structure of the interest rate applied to the account was conditional on other aspects (e.g. interest rates that are tiered depending on the balance), most of the notifications we reviewed did not attempt to explain how an event such as an interest rate change related to an individual customer's balances.
- 5.58 Certain respondents representing both consumers and industry raised concerns about the Code of Conduct for the Advertising of Interest Bearing Accounts (the Code). In particular, their concerns related to the enforceability of the Code in relation to firms' use of Annual Equivalent Rates (AERs) and industry's ownership of this Code. These respondents argued that the FCA should take over the ownership and regulation of this Code. Although one firm's conduct was drawn to our attention, we were not presented with sufficient evidence to conclude that the current arrangements are not fit for purpose. If we had reason to suspect that an AER was incorrect or appeared unusual, we consider that we already have the appropriate powers to investigate, challenge and take action under our current rules. We are not proposing specific remedies on this issue but will keep the matter under review.

- *How and when customers are notified about changes to interest rates*

- 5.59 The rules and guidance on notifying interest rate changes vary depending on whether the account is or is not a payment account. For payment accounts, the PSRs apply and

171 Which? The Savings Trap, July 2014, page 17

firms are generally required to provide two months' notice of rate changes.¹⁷² Changes can be made without notice only if the change is based on a change to a reference rate, or the change is advantageous to the customer. For other accounts, BCOBS rules require firms to provide or make available appropriate information 'in good time'. Guidance states that firms should provide reasonable notice when they make a 'material' disadvantageous rate change and, where appropriate, notice within a reasonable period before an introductory rate is to expire. Industry guidance in relation to BCOBS confirmed by the FCA¹⁷³ says that this should be a minimum of 14 days in advance. It also sets out what is considered 'material'.

- 5.60 There was considerable variation in the quality, content and usefulness of information provided by firms to customers when interest rates change. In reviewing firms' practices it was clear that some firms had made more of an effort than others to present information in a way that consumers would understand and engage with:
- a The majority of firms responded that they notified customers of all disadvantageous rate changes whether the account was considered by the firm to be a payment account or not (14 out of 18 firms who responded) but some firms only observed the confirmed industry guidance and did not notify customers of rate changes that were not deemed material. The Financial Ombudsman Service received a number of complaints on this issue and expressed its own concerns about the way in which 'materiality' was being interpreted by some firms.¹⁷⁴
 - b Information was generally provided in a letter format, either in paper or online. Some firms did use or were trialling the use of alternative channels such as providing interest rate and balance information by text message.¹⁷⁵
 - c We saw some examples of firms sending subsequent reminders to customers, for example by text. However, these consumers had usually chosen to receive such notification. Our own research (see the Randomised Controlled Trial in Occasional Paper No.7) has shown that issuing reminder letters of bonus rate expiry can be an effective means of prompting consumers to consider their savings account and the option to switch.
 - d A number of firms applied the standards of the PSRs to accounts that were not payment accounts. Therefore the amount of notice given by firms to consumers varied significantly.
 - o In relation to interest rate changes the notice periods firms gave ranged from 14 to 60 days.
 - o In relation to fixed-term bonds one firm provided as little as seven days' notice of maturity.
 - e The content and layout of the information provided to consumers varied. Some firms used clear headings such as *'Your 2 Year Fixed Rate Bond with a current rate of 3.05% is about to mature'* and made good use of sub-headings to guide the

172 In 2011 the FSA re-confirmed its view that a payment service provider must give at least two months' notice of a change to the rate of interest payable on the balance of a payment account due to the expiry of a bonus or promotional period. This is because a change of this sort is a change to the information specified in paragraph 3 of Schedule 4 and is, therefore, captured by regulation 42(1)(b) of the Payment Services Regulations. This is consistent with a purposive interpretation of the Regulations.

173 www.bba.org.uk/wp-content/uploads/2014/01/Final_BCOBS_IG_sept_2013.pdf

174 See page 65 of the Annual Review of Consumer Complaints 2013/2014, by the Financial Ombudsman Service, www.financial-ombudsman.org.uk/publications/ar14/ar14.pdf

175 Which? found that for the majority of providers' customers were primarily contacted by post when their bonus rate expired, with four providers contacting consumers via email in addition to, or instead of, post. Which? also observed that some providers contacted customers via an additional communication channel with one provider sending confirmation of the bonus expiry by text message. See Which? The Savings Trap, July 2014, page 18.

reader. In others the information provided was long-winded and communicated in heavy paragraphs. Indeed the wording in the headings of some firms' letters was relatively neutral ('your rate is changing') instead of conveying to the consumer that the rate change was disadvantageous to the consumer.

- f The majority of rate change notification letters (16 out of 21 providers) informed consumers of their ability to close or switch the account, but the extent to which customers were informed of other products for which they were eligible varied considerably. Some communications only gave the customer a point of contact for more information (such as a telephone number) while other communications gave specific information about alternative products. Which? observed similar patterns in rate change notification processes, observing that only a small group of providers proactively included details of other accounts that a customer may want to move their savings to within their expiry notification letters. The majority of providers did not provide this information with some indicating that they chose not to so as to avoid 'narrowing customers' choice' by quoting only one product rate.¹⁷⁶
- g Information on consumers' ability to switch or close accounts was similarly limited in other customer communications such as paper and online statements. Research conducted by Which? revealed that 70% of consumers indicated that they had not been made aware about the availability of a better savings account by their provider. Consistent with this, only three providers it surveyed responded that they provided the current interest rates for their open and closed savings accounts in their paper statements.¹⁷⁷

Automatic renewal of fixed term bonds

- 5.61 We also looked at what information and options are provided to consumers for when their fixed-term bonds reach maturity (for example, whether it would default into an easy access account or onto another fixed term bond).
- 5.62 In July 2013 we published an interim report on the automatic renewal of fixed-term bonds.¹⁷⁸ The report noted that:
 - 'Customers are normally invited by their bank or building society to choose how to use their maturing funds (i.e. the original lump sum plus the interest paid upon maturity). Customers can withdraw part or all of the funds, choose a different type of fixed-term bond or investment, or can transfer their funds to an instant access account, either with the same or a different firm.'
 - 'Many firms operate automatic renewal where a customer does not decide before the maturity date about what should happen to their money. Instead of transferring the customer's funds into an instant access account, the firm reinvests the customer's money into a new fixed-term bond.'
- 5.63 The report also expressed concerns in relation to the notice and cooling-off periods used by firms.
- 5.64 In this market study we found that only a few firms (including large providers) use auto-renewal, but these firms have their entire fixed term bond and Cash ISA balances

176 See Which? The Savings Trap, July 2014, pages 18-19.

177 See Which? The Savings Trap, July 2014, page 20.

178 www.fca.org.uk/your-fca/documents/thematic-reviews/tr13-04

in products with the auto-renewal term.¹⁷⁹ Firms had different practices in relation to the automatic renewal of fixed term bonds:

- For around half of the firms we reviewed, the default option should customers take no action at maturity, was automatically to move their money into a matured funds or easy access account.
- For just under half, the default option was to renew consumers automatically into another similar fixed-term product. For those firms who did set out an explicit notice period the minimum was 14 days.
- A small number of firms operated a policy whereby the customer was required to have a current or easy-access savings account open with the firm which the deposit automatically defaulted into when the fixed-term bond matured.

5.65 We appreciate the potential convenience to consumers of a product that auto-renews into another product that offers a similarly attractive rate of interest. However, this automatic renewal process will lead to consumer harm if: consumers are placed into products they do not wish to be in and they are then unable to access or switch their funds; it is used to place consumers in less competitive fixed-term bonds; or it reduces the incentive to shop around.

5.66 Although consumers are often given the option to opt out of auto-renewal at the maturity of the fixed term¹⁸⁰, we found that information provided about a number of firms' fixed-term products at the point of sale was not clear about what would happen on its maturity, with the information sometimes buried in the detailed terms and conditions. We understand that the Financial Ombudsman Service receives complaints from consumers that have been auto-renewed into fixed term bonds upon maturity as well as from consumers that have had their savings defaulted into an easy access account.

5.67 Some of the firms in our sample provided examples of the notification letters they sent to consumers at maturity of a fixed term account. The content and clarity of information varied. The best communications presented the changes using a clear heading (see the example in paragraph 5.60e) and stated explicitly what the default and alternative options were, including clear warnings that if the consumer chose to take out another fixed term bond their money would not be accessible.

5.68 The minimum information that seemed to be communicated to customers was the maturity date, default and alternative options. In many cases this information was communicated in heavy paragraphs and was not displayed prominently in the customer's notification.

5.69 Overall, consistent with our earlier thematic work on auto-renewals of fixed term products, we remain concerned about the extent to which consumers knowingly choose what should happen to their savings at the maturity of their fixed term bonds.

Conclusion

5.70 Overall, although we did not find non-compliance with existing rules and guidance, we considered that the form and timeliness of information provided to consumers both at pre-sale and post-sale could be improved to engage consumers better and allow them

¹⁷⁹ Based on 2013 data collected from the firms in our sample.

¹⁸⁰ In particular, many firms provided consumers with reinvestment forms at maturity where the customer could tick their preferred option and send it back to be actioned. Several providers also offered the option to complete this form online or discuss options in branch or over the phone.

to shop around effectively. Our main concern relates to post-sale information and the communication of interest rate changes.

Switching processes

- 5.71 In this section, we set out the extent to which some consumers' perceived 'hassle' of switching or opening a new account (see Chapter 4) is borne out in practice.
- 5.72 Unlike for PCAs, no industry-wide mechanisms exist for switching savings accounts (other than for cash ISAs) between firms. The process for transferring cash ISAs, and equally that for switching PCAs, allows the consumer to engage with the new provider, which in turn takes care of having the funds (and any associated payments) transferred from the other provider and closing the old account.
- 5.73 For most savings accounts, consumers wishing to move to a new provider will have to open the new account and transfer any funds by themselves. Consumers might or might not close the old account, depending on whether they want to transfer some or all of their funds. The switching processes for many savings accounts are usually less complicated because many are not payment accounts.
- 5.74 We reviewed the account-opening processes that firms follow for both new and existing customers. We examined switching within a firm and between firms and switching through different channels.

Switching within the same provider

- 5.75 Processes for existing customers opening or switching accounts within the same firm tended to be relatively straightforward. Firms seldom required the customer to provide further documentation to prove identity or carried out further verification. The exception was when, for instance, the customer's profile for online banking had not previously been established or identity and verification information needed to be updated.
- 5.76 However, processes varied quite significantly between the channel used and the provider:
- A number of providers' online banking facilities allowed a new savings account to be established in less than ten minutes and for funds to be transferred immediately. One firm stated that an account could be opened in three clicks on their online banking platform and would take two to three minutes to open and fund. Another provider reported that customers were able to open accounts on their mobile banking platform in less than ten minutes on average. However, some providers responded that establishing a new account online might take several days particularly where the customer was not already registered for online banking and applied via the website, or where the customer had not previously been through the electronic verification process for their existing account.
 - Most providers allowed existing customers to open accounts immediately in branch (with the exception of ISA transfers which could take up to 15 days to establish). Existing customers were usually not expected to provide additional documentation for identification purposes, although in cases where customers had not already been through electronic verification, it would be necessary to provide additional documentation. The sales processes described were often longer than online

processes – sometimes taking up to half an hour – but accounts tended to be open the same day or the next day.

- Opening a new savings account over the telephone or by post was generally more onerous, although again existing customers were not usually expected to provide additional documentation for identity verification purposes. While some providers allowed a customer to open an account by telephone directly, with the process taking around 30 minutes, others sent a hard copy of the application form by post. The customer had to sign and return the form before the account would be opened. Postal applications usually took several days to complete, although many providers allowed the customer to print the required form from their website, instead of making them requesting it to be delivered by post, reducing the total time required to open the account.¹⁸¹

5.77 Based on the evidence, we found that overall switching processes within a firm were relatively straightforward but they varied between firms, which if improved might reduce the perceived hassle of switching.

Switching between providers

5.78 For switching between firms, it is important that processes with both firms are effective otherwise consumers will perceive or experience costs of switching. We considered two aspects of the account switching processes between providers: first, the administrative processes for opening new accounts, and second, the policies for the transfer of existing cash ISA funds into new accounts (which is different to the processes for other savings accounts due to the Government limits on annual savings deposits).

Administrative processes for opening an account

5.79 Accounts could be opened in branch, online, or by post or telephone, although these options were not provided by every firm. Rather, seven of the 13 firms surveyed responded that they did not open accounts by post, while two firms responded that they would not open accounts in branch, two firms responded that they would not open accounts online and two firms responded that they would not open accounts by telephone.

5.80 The current UK Anti-Money Laundering legislation, the Money Laundering Regulations 2007, require that, when accepting a new customer, banks must carry out due diligence measures to establish a customer is who they say they are.¹⁸² However, the law does not specify the detail of what firms must do to comply and since the requirements are risk-based, they can vary depending on the product in question and the type of customer. These requirements apply whenever a customer seeks to establish a business relationship. Some challenger banks indicated that they believed that these requirements added too much time to the switching process, which reduced the likelihood of consumers switching.

¹⁸¹ Which? reported that as recently as January 2014 the Post Office required customers who had opened their Post Office Online Saver 10 account to wait until they received written confirmation that the new account had been successfully opened before they could transfer their existing balances from their old Post Office account resulting in new accounts taking as long as 2 weeks to set up. See Which? The Savings Trap, July 2014, page 25.

¹⁸² In the Netherlands, AFM (the financial regulator) reached a voluntary agreement with banks that, in order to speed up the switching process, an “acquiring” bank relies on the original banks’ customer due diligence checks (see PwC report). The UK anti-money laundering framework also allows a firm to rely on another firm’s customer due diligence checks subject to certain conditions, though it is up to individual firms to choose whether or not to adopt such an approach. We are not aware of any firms that have chosen to adopt this approach.

- 5.81 We examined what types of verification checks were used by savings providers. From our sample of large and small firms, there was a range of approaches:
- Many firms used electronic checks to verify a customer's identity, often using services provided by credit reference agencies. Paper documents (typically original) were then only subsequently requested when electronic checks failed to identify a customer. Firms cited a success rate of between 70% and 90% of electronic checks. Some firms told us that they asked customers to bring identity documents into branch in case the electronic checks fail, whereas others only asked customers to bring identity documents into branch in those cases where the electronic checks had failed.
 - A small number of firms, including some larger firms, did not use electronic customer verification. For example, one large high-street firm still required all new customers to present original documents in branch in order to open an account. Another large provider would send an application form to the customer for completion whether the customer was seeking to open the account online, by telephone or by post.
- 5.82 When the application was made in branch, most providers were able to open the account immediately or the same day and funds could be transferred into the account. Some firms estimated that the process took as little as ten minutes. Processes took longer when further identification was required or documentation had to be posted. Some firms responded that certain documentation or credentials/tokens necessary to operate the account (e.g. telephone or internet banking) might not be received by the customer for a number of days following opening (anywhere between three and 15 days) and equally it might take a number of days for funds to be cleared on the account (for instance if a cheque was used to deposit funds in the account).
- 5.83 Our evidence suggests that there remain a number of firms who do not use electronic identity verification, leading to a more time-consuming switching process for some firms than may otherwise be the case.

The ISA transfer process

- 5.84 Most firms reported that for ISA transfers the account opening process differed from other products as additional information would be required (such as National Insurance numbers and details of the existing ISA) and the process took longer (15 days). This reflects that the process involves transferring an existing ISA product from another provider.
- 5.85 We received representations from a number of challenger firms about the ISA transfer process. These covered two issues:
- the voluntary basis for signing up to the service
 - the speed of ISA transfers which, with a 15 working-day target, is slower than the new seven-day Current Account Switch Service (which offers a seven working day period as the shortest period in which a customer can request the switch to be completed)
- 5.86 In March 2014, the OFT reviewed the impact of the changes to the ISA switching process (see paragraph 3.48 for further background). We also receive certain information about cash ISA transfers on a regular basis from the British Banking Association (BBA). The OFT's evidence and our analysis of the BBA's data suggested

that the OFT's package of measures had improved ISA switching, making it quicker and more reliable:

- Transfer times – the OFT found that average transfer times had reduced by over 50% (from 18-20 working days to under nine working days). Indeed, over the 12 months to November 2014, based on the monthly ISA transfer data provided by the BBA, over 95% of transfers were completed within the agreed 15 working-day period.
- The electronic ISA transfer service (introduced in 2012 following the OFT's recommendations) - based on the monthly ISA transfer data provided by the BBA, around 75% of cash ISAs were transferred using the electronic process over the 12 months to November 2014.
- Complaints - the OFT found that complaints about ISAs had also fallen following the improvements industry had made to the switching process. Complaints per cash ISA had fallen by 50% (from one complaint per 128 cash ISAs to one complaint per 260 cash ISAs).

5.87 Despite these improvements, 25% of ISA switches are still carried out manually and, with an average transfer time of nine days, the transfer times are slower than that for PCAs for a large proportion of cash ISAs. There therefore seems to be further room for improvement so as not to create any unnecessary barriers to switching.¹⁸³

Conclusion on switching between firms

5.88 We found that there were some good examples of smooth and easy switching processes. However, we found that between providers there was significant variation in the ease with which a savings account could be opened with a new provider. Given the need for the process with both the old provider and the new provider to be effective and experiences of switching with one provider potentially affecting perceptions of the switching process with other providers, it is important that these processes are made more consistent and more effective.

183 Any such improvements need to be weighed against the need for and cost of a faster switching process.

6 Barriers to entry and expansion

New and expanding firms' ability to attract retail deposits at a similar cost to major incumbents is limited by the significant cohort of consumers that do not shop around often. While there are a number of rate-focussed consumers who do switch often, many consumers do not regularly shop around and it is therefore difficult for other providers to attract them.

6.1 This chapter sets out our findings on the main barriers to entry and expansion in cash savings. This chapter considers:

- the extent of observed entry and expansion in the supply of cash savings products
- barriers to entry and expansion of wider relevance to retail banking (including cash savings)
- barriers to entry and expansion that are specific to cash savings
- barriers for retail banking intermediaries and account aggregators

Entry and expansion in cash savings

6.2 As set out previously in Chapters 3 and 4:

- the market for cash savings is not particularly concentrated – the largest six firms account for around two thirds of the balances held in cash savings products and there are over 100 savings providers (see paragraph 3.32)
- although there has been some market entry over recent years, the larger 'challenger banks' have typically grown only through acquisition (see paragraph 3.34)
- switching is low and market shares have remained relatively stable in recent years (see paragraphs 4.45 and 3.33)

Barriers to entry in retail banking generally

6.3 Certain previous studies (including those by the Independent Commission on Banking (ICB)¹⁸⁴, the OFT¹⁸⁵, CMA¹⁸⁶, FSA and Bank of England¹⁸⁷) highlighted a number of barriers to entry and expansion relevant to retail banking generally. The barriers to entry and expansion previously identified in relation to retail banking include:

- a regulatory and prudential barriers
- b structural barriers

184 Independent Commission on Banking (2011) Final Report Recommendations:

<https://hmt-sanctions.s3.amazonaws.com/ICB%20final%20report/ICB%2520Final%2520Report%5B1%5D.pdf>

185 Office of Fair Trading (2010) Review of barriers to entry, expansion and exit in retail banking:

<http://webarchive.nationalarchives.gov.uk/20140402142426/>

http://webarchive.nationalarchives.gov.uk/20140402142426/http://www.offt.gov.uk/shared_offt/personal-current-accounts/oft1282

186 Personal current accounts - Market study update, (2014):

https://assets.digital.cabinet-office.gov.uk/media/53c834c640f0b610aa000009/140717_-_PCA_Review_Full_Report.pdf

187 Financial Services Authority and the Bank of England (2013) A review of requirements for firms entering into or expanding in the banking sector: www.fca.org.uk/your-fca/documents/barriers-to-entry

c consumer behaviour

6.4 Given the scope of this market study, our focus was on those barriers to entry and expansion that relate solely to the cash savings market, but we covered these wider retail banking barriers to entry to provide a broader context.

Regulatory and prudential

6.5 The main prudential barriers comprise:

- Requirements for smaller banks and/or more recent entrants to hold proportionately more capital due to their greater perceived riskiness compared with larger banks. Sources of this greater perceived riskiness identified by the OFT and ICB include:
 - strong regional concentration for some firms (thereby making them more susceptible to economic developments in a particular region)
 - lack of a 'track record' (including, for example, the management team's running of the business, or default rates in the firm's lending book)
- Requirements for firms to consider regularly the adequacy of their liquidity resources, including in periods of stress, which involves categorisation of their retail deposit balances as either Type A (more likely to be withdrawn in a period of stress and therefore 'non-sticky') or Type B (less likely to be withdrawn in a period of stress, and therefore 'sticky').¹⁸⁸ The regime also gives guidance as to factors that are likely to influence the stickiness of deposits.¹⁸⁹ For recent or new entrants into the market, a deposit base is typically built up by offering market-leading rates of interest (i.e. that are near the top of best-buy tables). This means that new entrants attract deposits from more rate-sensitive customers, typically over the internet, and therefore are likely to be categorised as non-sticky. Entrant banks are likely to face the challenge of managing a greater proportion of rate-sensitive deposits compared with those of incumbent banks with an established customer base because of the characteristics of consumers using best buy tables (as discussed in Chapter 4).
- An implicit subsidy provided to systemically important banks – the ICB concluded that those banks perceived by investors as being 'too big to fail' benefit from a lower cost of funding, reflecting their perceived lower risk to investors (see also the recent developments at paragraph 6.7).

6.6 The PRA has put in place certain measures to reduce some of these barriers, including:

- allowing new banks to meet a much lower common equity tier 1 capital ratio¹⁹⁰ than larger banks
- the removal of additional requirements previously placed on new banks to reflect the greater uncertainty surrounding their business plans¹⁹¹

6.7 The Financial Stability Board (FSB), an international body that monitors and makes recommendations about the global financial system, also recently proposed a set of new rules for global systemically important banks (GSIBs). The proposed new rules, which should take effect in 2019 (if confirmed, following consultation), would require

¹⁸⁸ See BIPRU 12.6.11 R.

¹⁸⁹ See BIPRU 12.6.12 G.

¹⁹⁰ A measure of a bank's common equity capital (such as common shares or retained earnings) as a percentage of risk-weighted assets.

¹⁹¹ See the CMA's PCA market study update.

GSIBs to have sufficient capacity to absorb losses, both to reduce the risk of failure and to reduce the impact of any failure on financial stability. The list of banks designated as GSIBs includes some, but not all of the largest UK retail banks.

- 6.8 There are also some regulatory barriers to entry resulting from the process that new entrants have to go through to obtain the appropriate permissions to provide certain financial services. Many of those that existed in the past have been mitigated by recent refinements to the authorisations process, including providing two options to entrants: one for those with capital and infrastructure already in place (e.g. existing firms already operating in other jurisdictions or markets) and one for smaller entrants requiring certainty of authorisation before committing significant capital. In its PCA market study update, the CMA concluded that evidence (such as the number of firms engaged in pre-application meetings and feedback from firms working through the authorisations process) indicated that the new process is not disproportionate and does not pose an excessive barrier to entry.

Structural barriers

- 6.9 In its PCA market study update, the CMA identified three structural barriers:
- a Branch networks - a number of consumers express a preference for banks with a branch network for their main banking requirements. Larger banks have built up extensive branch networks over time and continue to make significant levels of investment in them. It is therefore more difficult for new banks with a limited branch network to compete for those consumers that prefer to manage their accounts through a branch (without incurring significant cost).
 - b IT investment – although the development of new IT platforms and more ‘usage-based’ fee structures have reduced the fixed costs involved in developing the necessary IT infrastructure.
 - c Access to payment systems - there can be challenges to new entrants in acquiring access to payments systems such as Bacs and Faster Payments, although the Payment Systems Regulator will become fully operational in April 2015, with a statutory objective to promote competition both in the market for payment services and the market for services provided by payment systems.

Consumer behaviour

- 6.10 In its review of entry barriers in 2010, the OFT found that a familiar brand can be an important factor in attracting consumers as consumers tend to be wary of switching to an unfamiliar banking brand. The OFT carried out an omnibus survey and found that only 9% of customers were, for example, willing to consider using a new entrant to the retail banking market. Our consumer research also illustrates this point in the context of savings accounts - consumers were markedly less willing to consider unfamiliar providers than familiar ones (see *Figures 22 and 23* in Annex 2). This creates a barrier for challenger banks when trying to expand in the retail banking market.

Barriers to entry and expansion in cash savings

- 6.11 Given the recent consideration of barriers to retail banking in general by other organisations such as the OFT, ICB and CMA, we focused on barriers of specific relevance to cash savings.
- 6.12 A number of respondents to our interim report commented on barriers to entry and expansion for the cash savings market (see Annex 1 for further details):
- Several large banks said that barriers to entry and expansion were low, pointing to the large number of savings providers (see paragraph 3.32). One large bank emphasised the difference between cash savings and the PCA banking market, where it said entry barriers were much higher.
 - Several challenger banks said there were barriers to entry and expansion arising from barriers to switching for consumers; links between PCAs and savings accounts, and lower funding costs for larger banks due to their existing customer base.
- 6.13 We identified the most significant barrier to entry and expansion as the lack of consumer switching (see Chapter 4). While there are a significant proportion of rate-sensitive customers who shop around, there are also a large number of consumers for whom interest rate is not as important (and who value other features such as convenience) and who do not shop around as effectively. We also found in Chapters 4 and 5 that consumers perceive there to be switching costs and that there is significant variation between firms in switching processes. As a result there are many less active customers, with significant balances in aggregate, which limits the pool of consumers that challenger firms are able to attract and means that challenger firms are unable to attract retail funds at comparable rates to those paid by larger firms.
- 6.14 In addition to barriers to switching, we considered two other specific barriers to entry and expansion:¹⁹²
- a the volume of conduct regulations
 - b barriers to entry and expansion in the PCA market

The volume of conduct regulations

- 6.15 Some challenger firms cited the volume of conduct regulations falling disproportionately on smaller firms with smaller central compliance functions.
- 6.16 The various FCA conduct sourcebooks are necessary and exist to protect consumers. Compliance with them involves a cost to firms, and one that may fall proportionately more heavily on smaller firms. There are some instances where we have been able to adopt a lighter touch approach for smaller firms, but in many instances smaller firms must adhere to the same standards as larger firms to protect consumers.
- 6.17 Most of our current rules were inherited from the FSA, which did not have a competition objective – so we are reviewing the Handbook to understand where our rules may have had unintended consequences and adverse effects on competition. Wherever it is possible for us to change rules to make competition work better alongside our standards of consumer protection and market integrity, we will make those changes. However, in the course of this market study, we have not identified any specific rules

¹⁹² Many of these barriers are barriers to switching and so contribute to the lack of consumer switching.

related to cash savings that are overly burdensome. We note that we cannot in any event change the requirements of the PSRs.

Barriers to entry/expansion in the PCA market

- 6.18 We considered in Chapter 5 whether or not firms with a large volume of PCA customers have an advantage in the cash savings market. We found that many consumers' desire for the convenience of having access to their financial accounts in one place can act as a barrier to providers of savings accounts that do not also offer PCAs. The consequence of this is that those savings providers that do not offer PCAs face a barrier to expansion; and those smaller savings providers that do offer PCAs must need to expand in the PCA market.
- 6.19 We have not separately considered barriers to entry and expansion in the PCA market itself, as these are outside the scope of this study and will be assessed as part of the CMA's market investigation of the PCA market. We note that where there are significant barriers in the PCA market, a lowering of them will also reduce the barriers to entry and expansion in the cash savings market.

Barriers for retail banking intermediaries and account aggregators

- 6.20 In this section we consider barriers to account aggregators (those providers offering facilities to manage accounts online, not price comparison websites) and retail banking intermediaries. These issues were raised by respondents to our interim report.

Account aggregators

- 6.21 We were told that business models, such as those offering account aggregation services, have been inhibited by risks around sharing of security information. To sign up for such services, a customer may need to share security information for other internet banking sites (e.g. their current account and savings account providers). This enables the aggregator to access information across a range of accounts. However, many banks' terms and conditions prohibit the sharing of such information by customers to third parties.
- 6.22 Given the importance to consumers of convenience of accessing accounts in one place, the barriers to account aggregators providing services to view and manage accounts are a factor that limits the effectiveness of competition in the cash savings market, albeit account aggregators are only applicable to those consumers that use online banking.

Investment intermediaries

- 6.23 One firm, an investment intermediary, highlighted a number of barriers to it providing an intermediary service in retail banking. It said that these included:
- Client money rules, which require that stocks & shares NISA cash is treated as client money and which prevent firms from placing client money in bank accounts where there is an 'unbreakable' fixed term or notice period of longer than 30

days.¹⁹³ It said that these rules combine to prevent an investment platform from hosting a full range of cash savings accounts, including fixed term products, in a stocks and shares NISA.

- Lack of FSCS cover - if cash is moved out of a stocks & shares NISA (and therefore out of the Client Asset Sourcebook client money regime) into a Cash NISA it ceases to qualify for cover under the FSCS for investment business. It said that even if cash savings are moved quickly into a bank account with a deposit-taker (and so become protected in the event of that deposit-taker defaulting) no cover will be available in the event that the investment firm defaults.
- The impact of CRD IV (in particular changes to the liquidity regime), which would have an impact on banks' appetite for wholesale funds. It said that banks would seek to raise longer-term deposits from retail customers and that demand for those deposits classified as 'wholesale' will weaken significantly. It said that this, combined with the client money rules on unbreakable term deposits, would mean that interest rates paid to investment intermediaries on client money deposits on behalf of clients would fall in comparison and may even mean that banks would start charging for accepting wholesale deposits.

6.24 We did not consider that these points amounted to significant barriers that were relevant for the purposes of our study:

- The client money rules referred to above were introduced or reviewed in July 2014¹⁹⁴, following consultation. They are designed to tackle a range of different risks, and will impact an investment firm with a particular business model wishing to offer a retail banking intermediary service. However, if an investment intermediary wished to take deposits it is open to that firm to seek authorisation as a deposit taker.
- One of the conditions of FSCS cover is that the activity concerned is a regulated activity. While this currently could be amended under UK legislation, from July 2015, as rules under the Deposit Guarantee Schemes Directive are currently drafted, the FSCS will only be able to pay out in respect of deposits where the failed firm is a deposit taker.
- The potential impact of CRD IV on the attractiveness to banks of wholesale deposits affects the current models of investment intermediaries, rather than a specific intermediary service for cash savings accounts (whose balances are more stable), and is therefore beyond the scope of this study.

193 Client Asset Sourcebook 7.4.11 AR.

194 In Policy Statement 14/9 'Review of client assets regime for investment business' and Policy Statement 14/10 'Client money held in Individual Savings Accounts'.

7 Competitive effects

Competition in the cash savings market is not working effectively for many consumers.

There are significant total balances in savings accounts earning relatively low interest rates where the benefits of switching even in the current interest rate environment could be high enough to make switching worthwhile. In 2013 around £160bn of savings earned an interest rate equal to or lower than the Bank of England base rate of 0.5%. At least £145bn of these balances could expect a monetary benefit from switching that may be significant enough for many consumers because they are held in accounts with balances greater than £5,000. Consumers will get increased benefits from shopping around if and when interest rates increase in the future.

- 7.1 In this chapter we set out our assessment of the competitive effects in the cash savings market and the consumer harm that arises from these effects.

The interaction between competition and market outcomes

- 7.2 We expect competition between firms to affect market outcomes by giving providers an incentive to offer better interest rates and other terms of service, so that when they want to attract and retain retail deposits they are able to do so from or ahead of competing providers.
- 7.3 The evidence and analysis described in Chapters 4 to 6 shows how consumer and firm behaviour both lead to competition not working effectively for consumers because:
- there is a lack of awareness of interest rates and the way in which providers change interest rates over time
 - only a minority of consumers shop around and switch
 - switching processes vary between firms and are perceived to be costly by some consumers
 - across most types of savings accounts and most providers, older accounts are being paid lower interest rates than on newer accounts; bonus products directly lead to interest rates that decline with the age of an account, and product replacement used to lower interest rates on older accounts can have the same effect
 - on easy access accounts, the advantages held by PCA providers in offering convenience of access to a multitude of accounts means that large PCA providers have to compete less hard to retain these consumers' savings and are able to pay lower interest rates than smaller providers while still retaining a large share of retail deposits
- 7.4 We did not carry out a detailed profitability analysis¹⁹⁵ because we did not consider that it would not have been proportionate and practicable to do so within the timeframe of this market study. First, profitability is only one of the indicators that we consider in our

¹⁹⁵ Some respondents said that we needed to understand the profitability of cash savings products.

assessment of whether competition in the market is working effectively for consumers. Even if we had found no evidence of excess profitability, we would still have concerns about the potential distortions in this market due to many consumers not being aware of interest rates on existing accounts or the potential benefits from switching, the difficulties in switching between savings accounts and providers, and barriers to expansion for smaller providers. Second, due to complexities in the savings market¹⁹⁶, it would have been unlikely to reach reliable conclusions that would have significantly enhanced our evidence base. Third, the additional data requests to firms would have been overly burdensome.

Potential for improved consumer outcomes

- 7.5 Market outcomes can be improved if there are ways of addressing the causes of competition not working effectively in the market without incurring significant costs in the process.
- 7.6 In the short term, we would expect interventions to result in more shopping around, particularly for consumers with older accounts, if they successfully increase consumers' awareness of interest rates both on their account and alternative accounts, reduce perceptions of switching costs, and find ways to make it convenient to hold savings accounts with a provider other than a consumer's PCA provider. Absent any immediate firm response, this will reduce the proportion of balances that receive low interest rates simply because some of these balances will move to higher interest rate accounts. However, as set out in Chapter 4, while there is scope to incentivise significant numbers of consumers to shop around, we do not expect all people with low interest rate accounts to move to higher interest accounts, particularly where balances are low, as not all of these consumers hold the account to earn interest.
- 7.7 In the medium and longer term, interventions that promote effective competition should lead to significant dynamic benefits. Challenger firms will be able to attract a greater pool of consumers more easily, which will in turn push existing providers to innovate and become more efficient so that they can retain their existing customers. As existing providers offer higher interest rates and more innovative products, there will be greater choice and value for consumers.
- 7.8 In this market, there are two particular factors that we need to take into account when considering whether potential interventions could improve market outcomes.
- 7.9 First, some providers told us that potential interventions in the cash savings market would only lead to outcomes akin to a zero-sum game: they said that changes in interest rates paid to one group of accounts (e.g. older accounts) would result in directly offsetting effects in the interest rate paid to other groups (e.g. newer accounts). We note that there is a relationship between the interest rates paid to different consumer groups, and that changes for one group are likely to influence the interest rates paid to other groups. In this sense interventions are likely to lead to some redistribution - some product simplifications led to some consumers receiving higher

¹⁹⁶ This is because deposits are a cost from firms' perspective and profitability would have had to be assessed in relation to revenue made from lending (which, in turn, would require us to assess firms' competitive position in the lending market). For example, if we had found that firms were making excessive profits, this could be either due to market power in the deposit market or the lending market, or both, but it would not allow us to establish that profits were necessarily made due to competition problems in the deposit market. Furthermore, many of the costs that arise are shared with other products (e.g. provision of branches, provision of online banking facilities, other IT costs). Allocating these costs for the purposes of profitability analysis would not be a trivial exercise and would be based on a number of assumptions which would be likely to influence the results.

interest rates and some consumers receiving lower interest rates (although those whose interest rates fell could of course choose to switch).

- 7.10 Although some redistribution might occur, we did not find reason to believe that, in general, the effect of an intervention would net out to zero across accounts. If there were a zero sum game, those providers with more balances in older accounts would also be the providers offering the highest interest rates for newer accounts. This is not what we observe. In addition, as we have concerns that competition is not working well¹⁹⁷, interventions that improve competition can deliver benefits – for example, interventions that lower artificial switching costs or that reduce barriers to entry and expansion can lead to greater economic efficiency as well as stimulating competitive pressure.
- 7.11 Second, some providers suggested that increased consumer engagement and switching may reduce the stability or stickiness of deposits and have knock-on effects on banks' liquidity management and retail funding costs. This has the potential to lead to effects in lending markets. Any effects on firms will differ depending on the composition of their retail funding. This will be a factor we will need to take into account when considering interventions.

Potential gain from improved consumer outcomes

- 7.12 We took two approaches to estimating how significant the impact is of consumers currently earning relatively low interest rates. First, we examined the amount of balances held by consumers that are most likely to be affected by the competition concerns we have identified. Second, we estimated how much interest could be gained if the competition concerns were addressed.
- 7.13 Any estimates are subject to a number of assumptions and the estimates provided below only indicate the magnitude of consumers affected who could get better interest rates by switching. They may overestimate the effects for some consumers that are losing out on interest but are receiving offsetting non-monetary benefits (for example, where consumers currently receive a service proposition that meets their needs and/or benefit from the convenience that arises from keeping accounts in one place). But, for all consumers, our estimates do not capture the dynamic benefits of competition - more shopping around that focuses on non-price factors would improve outcomes by putting providers under more pressure to innovate, improve their service propositions and reduce costs.

Value of accounts affected

- 7.14 We looked at the interest rates¹⁹⁸ paid on easy access and Cash ISA (no term) products in 2013 because these are the variable rate products with the most significant balances. We calculated the amount of balances falling into different balance bands and into different interest rate bands. We focused on:

¹⁹⁷ In addition, economic theory does not suggest that there are any reasons to presume that there is a zero sum game. For this to happen the higher profits firms make from consumers with older accounts (with low interest rates) would have to be competed away entirely when attracting new accounts and balances (with high interest rates). We have not seen evidence to support this claim.

¹⁹⁸ The interest rate used in these calculations includes the bonus rate.

- Those consumers with balances over £5,000, as these are the consumers who are most likely to make monetary gains from switching.¹⁹⁹
- Those consumers earning interest rates below the current Bank of England base rate of 0.5%.

7.15 Other consumers (i.e. consumers with balances below £5,000) may well be earning lower interest than they otherwise could or may consider the gains they could make from switching their lower balances to be material, but these assumptions provide a useful focus for our consideration of those most affected. The Bank of England base rate gives us a useful benchmark for assessing the potential benefits of switching.

7.16 Tables 30 and 31 show interest paid on easy access and easy Cash ISAs with different balances:

- For **easy access accounts**, £160bn (or 47%) of balances earned an interest rate below 0.5%. £145bn (or 43%) of balances were held in accounts that earned less than 0.5% and had more than £5,000 in balances per account (Table 30).²⁰⁰
- For **easy access Cash ISAs**, £15bn (or 14%) of balances earned an interest rate below 0.5%. £12bn (or 11%) of balances were held in accounts that earned less than 0.5% and had more than £5,000 in balances per account (Table 31).²⁰¹

Table 28: Distribution of total balances in easy access accounts falling into different balance tiers and earning different interest rates (2013)

Interest rate paid, including bonus	Balance in the account (£)							Total	%
	£0-£100	£100-£1,000	£1,000-£5,000	£5,000-£10,000	£10,000-£25,000	£25,000-£50,000	Above £50,000		
0% - 0.25%	£206m	£1,803m	£8,495m	£8,894m	£17,975m	£17,217m	£49,614m	£104,203m	31%
0.25% - 0.50%	£82m	£779m	£3,986m	£4,855m	£10,114m	£10,011m	£26,903m	£56,730m	17%
0.50% - 1.00%	£47m	£671m	£4,064m	£5,329m	£13,741m	£16,422m	£57,284m	£97,557m	29%
1.00% - 1.50%	£25m	£396m	£1,796m	£1,703m	£4,031m	£5,148m	£15,741m	£28,840m	9%
1.50% - 2.00%	£3m	£64m	£847m	£1,709m	£3,955m	£5,873m	£15,519m	£27,970m	8%
Above 2.00%	£4m	£73m	£607m	£1,431m	£2,194m	£3,128m	£13,869m	£21,305m	6%
Other*	£1m	£10m	£67m	£101m	£317m	£525m	£2,789m	£3,810m	1%
Total	£368m	£3,796m	£19,861m	£24,021m	£52,328m	£58,323m	£181,718m	£340,415m	100%
%	0.1%	1%	6%	7%	15%	17%	53%	100%	

* 'Other' captures accounts where providers did not provide interest rate information or there were issues with data quality

199 We use a £5,000 threshold for illustrative purposes but some consumers may switch on lower balances and some may not switch on higher balances, See paragraphs 4.61 and 4.64 for a discussion of the gains required from switching. Changing the threshold to £10,000 would reduce the number and value of accounts affected, but the figures are still significant.

200 In terms of numbers of easy access accounts, around 50m accounts (or 71%) earned an interest rate of less than 0.5%. Over 5m of these accounts were held in accounts that earned less than 0.5% and had more than £5,000 in balances per account.

201 In terms of numbers of Cash ISA accounts, around 6m accounts (or 29%) earned an interest rate of less than 0.5%. Nearly 1m of these accounts were held in accounts that earned less than 0.5% and had more than £5,000 in balances per account.

Table 29: Distribution of total balances in easy access Cash ISAs falling into different balance tiers and earning different interest rates (2013)

Interest rate paid, including bonus	Balance in the account (£)							Total	%
	£0-£100	£100-£1,000	£1,000-£5,000	£5,000-£10,000	£10,000-£25,000	£25,000-£50,000	Above £50,000		
0% - 0.25%	£21m	£144m	£1,565m	£1,737m	£3,006m	£1,577m	£368m	£8,418m	8%
0.25% - 0.50%	£14m	£121m	£1,205m	£1,441m	£2,076m	£1,164m	£238m	£6,259m	6%
0.50% - 1.00%	£17m	£246m	£3,147m	£5,669m	£9,508m	£5,570m	£1,918m	£26,075m	25%
1.00% - 1.50%	£8m	£100m	£1,610m	£3,666m	£8,959m	£8,212m	£3,322m	£25,876m	25%
1.50% - 2.00%	£5m	£80m	£1,227m	£3,795m	£6,294m	£4,290m	£2,161m	£17,851m	17%
Above 2.00%	£8m	£120m	£2,054m	£5,586m	£6,402m	£3,680m	£1,567m	£19,416m	19%
Other*	£.1m	£2m	£31m	£98m	£22m	£19m	£5m	£177m	0.2%
Total	£72m	£812m	£10,839m	£21,992m	£36,267m	£24,511m	£9,579m	£104,073m	100%
%	0.1%	1%	10%	21%	35%	24%	9%	100%	

*'Other' captures accounts where providers did not provide interest rate information or there were issues with data quality.

Interest that could be gained

- 7.17 We estimated the aggregate amount of interest that could be gained by calculating the simple average interest rate paid for each interest rate band, and comparing it with the average interest rate on products that were available in the market at 31 December 2013.²⁰² The average interest paid by on-sale products at 31 December 2013 represented the interest rate a consumer could achieve by switching their savings account.
- 7.18 Based on this approach, we estimated that for accounts with interest rates below 0.5% and balances above £5,000, in 2013 there was £400m-£650m of interest that could have been gained in easy access accounts and £100m-£250m of interest that could have been gained in easy access Cash ISAs (see Annex 3 for further details of these estimates).

Conclusions

- 7.19 We conclude that competition is not working effectively for many consumers because:
- there is a lack of awareness of interest rates and the way in which providers change interest rates over time
 - only a minority of consumers shop around and switch
 - switching processes vary between firms and are perceived to be costly by some consumers
 - across most types of savings accounts and most providers, older accounts are being paid lower interest rates than on newer accounts. Bonus products directly lead to interest rates that decline with the age of an account, and product replacement used to lower interest rates on older accounts can have the same effect

²⁰² To the extent that there is some element of a waterbed pricing effect, the additional interest gained by consumers currently earning relatively low interest rates may be to some extent offset by a reduction in interest paid to the other group of consumers who are currently earning relatively high rates. This means that it would not be appropriate to take the best deals currently offered by consumers' existing providers and/or offered in the market as a benchmark for calculating consumer detriment in the market, as these rates may not be sustainable if all consumers switched to these offers. Benefits that accrue to consumers who are currently earning lower rates should be offset by losses to consumers who receive a lower rate than under the status quo.

- on easy access accounts, the advantages held by PCA providers in offering convenience of access to a multitude of accounts means that large PCA providers have to compete less hard to retain these consumers' savings and are able to pay lower interest rates than smaller providers while still retaining a large share of retail deposits

7.20 Some consumers are more affected than others, but there is a significant number of consumers that could benefit from improved terms on their savings accounts if the features above are properly addressed. The likelihood of increased shopping around will increase if and when interest rates increase in the future.

PART II: Proposed remedies

8 Our approach

8.1 In this chapter we set out our approach to considering remedies. We cover:

- our remedies powers and statutory requirements
- the remedies options we have considered
- the remedies process

Remedies powers and statutory requirements

8.2 As set out in our market studies guidance²⁰³, if we conclude that competition is not working well, we have a number of tools at our disposal to propose and/or implement remedies.

8.3 We may intervene to promote effective competition using a number of measures, including:

- rule-making, including changes to or potential withdrawal of existing rules
- making recommendations to the PRA
- publishing general guidance proposing enhanced industry self-regulation
- using firm-specific enforcement powers
- asking the CMA to consider the market further.²⁰⁴

8.4 We may also intervene to protect consumers.

8.5 We will carry out a Cost Benefit Analysis to test the proportionality of any changes to rules or guidance.²⁰⁵

Remedies options considered

8.6 We considered a wide range of possible remedies to address our concerns. This included a number of suggestions made by providers and consumer organizations in response to our interim report, which was published in July 2014²⁰⁶ (see Annex 1 for a summary of these responses).

8.7 We set out in Chapter 9 the remedies we propose to pursue further and those we do not. We have not at this stage decided which remedies we would implement by rule changes, by publishing revised guidance or by proposing enhanced industry self-regulation, but we have indicated the probable implementation routes under each remedy and invited views on these approaches.

203 How we carry out market studies, October 2013, www.fca.org.uk/static/documents/market-studies/how-we-carry-out-market-studies.pdf. We are currently consulting on updated market studies guidance: <http://www.fca.org.uk/news/cp15-1-fca-competition-concurrency>.

204 For example, where we do not consider we have sufficient powers to intervene.

205 As part of our assessment we also consider Equality and Diversity Implications, including if proposed policy changes are forthcoming.

206 www.fca.org.uk/your-fca/documents/market-studies/ms14-02-interim-report

- 8.8 We have not found it necessary to:
- Make recommendations to the PRA.
 - Use firm-specific enforcement powers. Firm compliance with BCOBS rules or requirements under the PSRs was not a focus of this market study, but we dealt with any potential rule breaches encountered during the study by following our usual procedures. Where we found areas where the rules or guidance could be improved so as to promote effective competition in the interests of consumers, we have set out our proposals in Chapter 9.
 - Request that the CMA consider the market as we believe we have the necessary tools to address the problems that we have identified.
- 8.9 In light of the CMA's market investigation into PCAs, we considered whether it remains appropriate for us to consider intervening in the cash savings market. We decided that, although there are links between the cash savings market and the supply of PCAs, the interventions we are proposing in the cash savings market are not likely in any way to limit the CMA's remedy options in the PCA market, should it wish to intervene, or impact firms' ability to implement any such remedies, should they be required to do so. If the CMA decides to intervene in the PCA market so as to increase competition in that market, this is likely to have a beneficial effect on the cash savings market because of the links between PCAs and savings accounts (see Chapter 5). We will continue to work closely with the CMA throughout its market investigation.²⁰⁷

Remedies process

- 8.10 In this part of our report, we set out our proposed remedies and are seeking views from interested parties. We have set out a number of questions on each remedy ('issues for comment') so that stakeholders can provide targeted answers and help us develop our proposals further. We are seeking written responses to these questions, as well as general views.
- 8.11 Following publication of this paper, we will also hold a number of meetings with interested parties on these remedy proposals. We will then undertake further analysis of the effectiveness and proportionality of the proposed remedies, including a Cost Benefit Analysis for any changes to rules or guidance.
- 8.12 We will develop, finalise and implement remedies as quickly as possible following the end of the consultation on this paper. We would expect to publish a statement of our decision on remedies. It is not possible to determine at this stage what the precise timetable will be for this or any subsequent implementation as a number of factors will affect this, including:
- the extent and nature of responses to this consultation
 - the implementation route chosen, which if we decide to make rule changes will necessitate a further consultation
 - the need for and speed with which we can trial any disclosure remedies
 - the potential fit with other FCA work programmes and other legislative or regulatory developments, such as the implementation of EU measures

²⁰⁷ For example, our response to the CMA's consultation on its provisional decision to refer the market for investigation is published at www.fca.org.uk/your-fca/documents/market-studies/fca-response-to-the-cma-consultation-sme-banking.

9 Our proposed remedies

- 9.1 In this chapter we set out the remedies we propose to consider further and the questions for consultation. These are:
- a Disclosure remedies (paragraphs 9.5 to 9.50)
 - b Switching remedies (paragraphs 9.51 to 9.75)
 - c Convenience remedies (paragraphs 9.76 to 9.86)
 - d Sunlight remedies (paragraphs 9.87 to 9.103)
- 9.2 We then set out interventions we are not intending to pursue at this stage. This covers two areas where we would like to see changes made but do not intend to intervene directly at this stage (paragraphs 9.106 to 9.111), and remedies we are not proposing to pursue (paragraphs 9.112 to 9.118).
- 9.3 In considering the design and scope of any of our proposed remedies we will take into account existing UK and EU legislation. In particular, the PSD²⁰⁸ and PSD2 will affect our ability to implement some of the disclosure and switching remedies for savings accounts that are considered 'payment accounts'.²⁰⁹ The PAD²¹⁰ also introduces new requirements that may apply to some of the accounts covered by this study. The PAD has yet to be implemented and PSD2 remains under negotiation.
- 9.4 Where we are aware of possible issues we have noted them under each remedy, but at this stage we consider it appropriate to consider the remedies in relation to both savings accounts that are payment accounts and those that are not. We will need to consider further what proportion of the savings accounts we are examining are deemed to be payment accounts but we will work with industry and other stakeholders so that the proposed remedies are applied to as many savings accounts as possible.

A Disclosure remedies

- 9.5 There were a number of areas where we found that consumers, particularly those who value interest rate, would benefit from improvements to the information made available to them by firms, both at or before the point of sale and post-sale, including in customer communications (see paragraphs 5.39 to 5.70).
- 9.6 Clear, engaging and straightforward information, provided at the right time, can prompt consumers to consider their choice of savings account or provider and help them make effective choices. The randomised controlled trial (see Occasional Paper No.7) we conducted with a large financial institution demonstrated that the timing of reminder letters and the way the letter is written both have positive effects on the way consumers act after receiving the letter and on whether they switch.
- 9.7 We aim to apply lessons learnt from behavioural economics and psychology to design more effective disclosure. The randomised controlled trial demonstrates that testing

208 Directive 2007/64 on payment services in the internal market, OJ L 319/1, 5.12.2007.

209 A "payment account" is defined in regulation 2 of the PSRs as "an account held in the name of one or more payment service users which is used for the execution of payment transactions". The issue of which savings accounts can be considered 'payment accounts' is dealt with in the FCA Perimeter Guidance (see question 16 of the Q&A) available at <http://media.fshandbook.info/content/full/PERG/15.pdf>.

210 Directive 2014/92 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features, 23.07.2014.

proposed disclosures before making any changes helps us to understand the effects of different forms of disclosure and to make disclosure as effective as possible. Where we are proposing significant changes to the disclosures firms make, and where these disclosures would particularly benefit from testing with consumers before implementation, we would like to undertake randomised controlled testing with a sample of firms prior to any formal consultation on rules. Linked to our work on smarter customer consumer communications²¹¹, **we would like to hear from any firms that are interested in assisting us with this testing process.**

9.8 In this section we set out the following disclosure remedies:

- A1 – Better information provision at or prior to the point of sale
- A2 – Better information provision post-sale
- A3 – Choices on auto-renewal of fixed term accounts

A1) Better information provision at or before the point of sale

Aim of remedy and how it addresses the issues we identified

9.9 Our findings show that currently the majority of firms use the summary box outlined in the industry guidance for BCOBS when presenting key product information.²¹² We remain supportive of this approach, but we believe that consumers' understanding and awareness could be improved through enhancing the way in which certain key information is provided. Specifically, our findings suggest that improvements could be made to the communication of information on interest rates, how a bonus rate relates to the interest rate displayed, potential charges and penalties, what a variable rate is, what happens at maturity of fixed term bonds, and how to switch or close an account (see paragraphs 5.39 to 5.45 and 5.61 to 5.69).

9.10 This remedy is designed to enhance this communication, by improving the information included in summary boxes, the way this information is presented and the consistency with which firms use the summary box. It is also designed to ensure that account names are not misleading where the interest rates paid are at low levels (see paragraph 5.45aiv).

9.11 Better quality information at the point of sale will ensure that:

- consumers are able to make an informed choice when choosing a savings product
- awareness of interest rates and key product terms is increased

211 We want to drive improvements in the information that consumers receive about the financial products and services they are considering buying or already have. We wish to encourage firms and their advisers to consider how disclosures can be made as effective possible. We are particularly interested in stakeholders' research, experience and ideas for improving the effectiveness and delivery of information to consumers about products or services.

We are inviting firms to work with us to test new ideas or techniques that could better support customer understanding of financial products and services and improve engagement, including ideas that take advantage of technological developments that are accessible and helpful for the intended customers.

Where an idea has strong potential for consumer outcomes to be improved, we may consider waiving or modifying certain disclosure rules if appropriate to allow testing.

Firms that would like to talk to us about testing ideas can find more information here: www.fca.org.uk/firms/firm-types/project-innovate/test-ideas

212 Industry Guidance for FCA Banking Conduct of Business Sourcebook, September 2013, the British Bankers' Association, the Building Societies Association and the Payments Council, www.fca.org.uk/firms/being-regulated/meeting-your-obligations/guidance/industry-guidance/confirmed-industry-guidance. See sections 2.3 and 4.3.9. Annex A provides the template for the summary box used for savings account financial promotions, and for pre-sale material for savings accounts. This includes the following product information for the account: Account Name, Interest Rate (AERs), Tax status, Conditions for bonus payment, Withdrawal arrangements and Access.

- consumers are better aware of possible future changes in interest rates and how to switch or close the account

How the remedy would work and be implemented

- 9.12 We are proposing the following changes to summary boxes²¹³:
- Ensuring necessary information, including the interest rate on the account, is displayed clearly and prominently and that the summary box does not refer customers to an alternative source to obtain the interest rate.²¹⁴
 - Clearer presentation of bonus rates and underlying rates along with the length of the bonus rate period.²¹⁵
 - Clearer explanations about the basis on which firms can change interest rates on variable rate products - for example 'we can increase or decrease this rate at any point'.²¹⁶
 - Clearer explanations of what happens at the maturity of fixed term accounts.²¹⁷
 - Clearer information about how the consumer can switch or close the account, including presentation of any charges associated with switching and/or closing the account.²¹⁸
- 9.13 In relation to non-payment accounts, these changes could be implemented by changes to BCOBS guidance or rules. We could, for example, make it a requirement within BCOBS that firms present summary box information prominently to consumers at or prior to the point of sale.²¹⁹ The information in the summary box would be revised based on the proposals in paragraph 9.12. For payment accounts, we will consider whether we can issue guidance on how the information is provided, but we would be interested in whether there is scope for industry to take forward these proposals.
- 9.14 In addition, we are proposing that accounts with low interest rates are given names that do not suggest they pay high interest rates and/or they should carry an appropriate warning. We are proposing that accounts that pay below a particular threshold (most likely the Bank of England base rate) should ensure the account name does not create an image of paying a high interest rate and/or should carry a warning that states "this account pays an interest rate below the Bank of England base rate".
- 9.15 We would like to trial these proposed changes to disclosures with consumers so we can identify the information that consumers would find most useful and the most effective way of it being presented.

Expected costs

- 9.16 Any changes to disclosure will result in firms incurring one-off costs from having to make changes to existing disclosure materials. However, we would not expect significant incremental ongoing costs unless additional literature needs to be produced.

213 We note that specific requirements may vary for different types of accounts. For example, proposals regarding the presentation of bonus rates would be applicable to the summary boxes for a subset of accounts only.

214 See paragraph 5.45ai.

215 See paragraphs 4.39 and 5.45aiii.

216 See paragraphs 4.33 and 5.45aii.

217 See paragraph 5.66.

218 See paragraph 5.45b.

219 Industry guidance currently covers in what promotional material the summary box should be included and what fields are best used in the summary box.

Issues for comment A1

- a. Given consumers' lack of understanding of the variability of interest rates, what wording can best describe how a firm can change such interest rates over time? Have any stakeholders tested their wording with consumers and with what results?
- b. Is there a way in which the underlying interest rate and bonus rate can be communicated so that consumers can consistently understand what their rate will fall to after the end of the bonus rate period?
- c. Please provide any examples not already provided to us of pre-sale literature which you consider clearly and simply conveys (i) what happens at maturity of fixed term accounts; and (ii) how consumers can switch and close an account.
- d. What threshold should be used to determine accounts that need to carry a warning about being low interest paying accounts and what warning should be used?
- e. What one-off and ongoing incremental costs could firms incur from making these changes to the pre-sale literature?
- f. Would any of these proposed changes to the pre-sale literature have any unintended consequences on consumers or competition?

A2) Better information provision post-sale

Aim of remedy and how it addresses the issues we identified

- 9.17 Firms are already under duties under BCOBS and the PSRs to provide customers with appropriate information so that customers can make decisions on an informed basis. This is done, for example, through the provision of regular statements, bonus rate expiry letters, rate change notification letters and fixed-term bond maturity letters.
- 9.18 We found in paragraphs 5.49 to 5.70 that:
- Firms' practices in relation to the provision of interest rate information vary both in general terms and in specific communications, and, to maximise its impact, this information should be made more easily available or displayed more prominently.
 - Customer communications should be improved through more timely notifications of interest rate changes, clearer indications of pertinent information (such as whether the communication is about an interest rate cut) and more information on how a customer can switch and the potential benefits of switching to a different savings account with either the same provider or another provider.
- 9.19 The aim of this remedy is to give consumers more salient information about their situation to prompt them to consider their choice of savings account and provider, and in doing so increase competitive pressure on savings providers.

How the remedy would work and be implemented

- 9.20 Subject to the considerations in paragraphs 9.3 and 9.4, we are proposing changes to three aspects of disclosure:

- a prominent display of current interest rates in communications and on websites
- b information about the potential benefits of shopping around being included in customer communications
- c improvements to the presentation, timing and frequency of customer communications

(a) Prominent display of current interest rates in statements, in other customer communications and on websites

- 9.21 We found that interest rate information is not always easy to find on firms' websites and on firm's online banking platforms (see paragraphs 5.55 to 5.56). It is also not always given or displayed prominently in communications to the customer, such as in paper and online statements (see paragraphs 5.51 to 5.54). BCOBS and the PSD do not describe in detail, in general, when and how interest rates must be provided to consumers.
- 9.22 This remedy would require the prominent display of interest rates in all paper and online statements, other customer communications and on websites. The remedy would apply to all on-sale and off-sale accounts so that consumers can have easy access to their interest rate information through their preferred communication channel. For example, we could require that interest rates paid on accounts are displayed next to any balance information that is given to the consumer.
- 9.23 Before making such rules, or supplementing the guidance in BCOBS 4.2.2G, or seeking industry-led solutions, we would want to test different ways of providing the information so as to understand to what extent the provision of this information is likely to change consumer behaviour.

(b) Information about the potential benefits of shopping around being included in customer communications

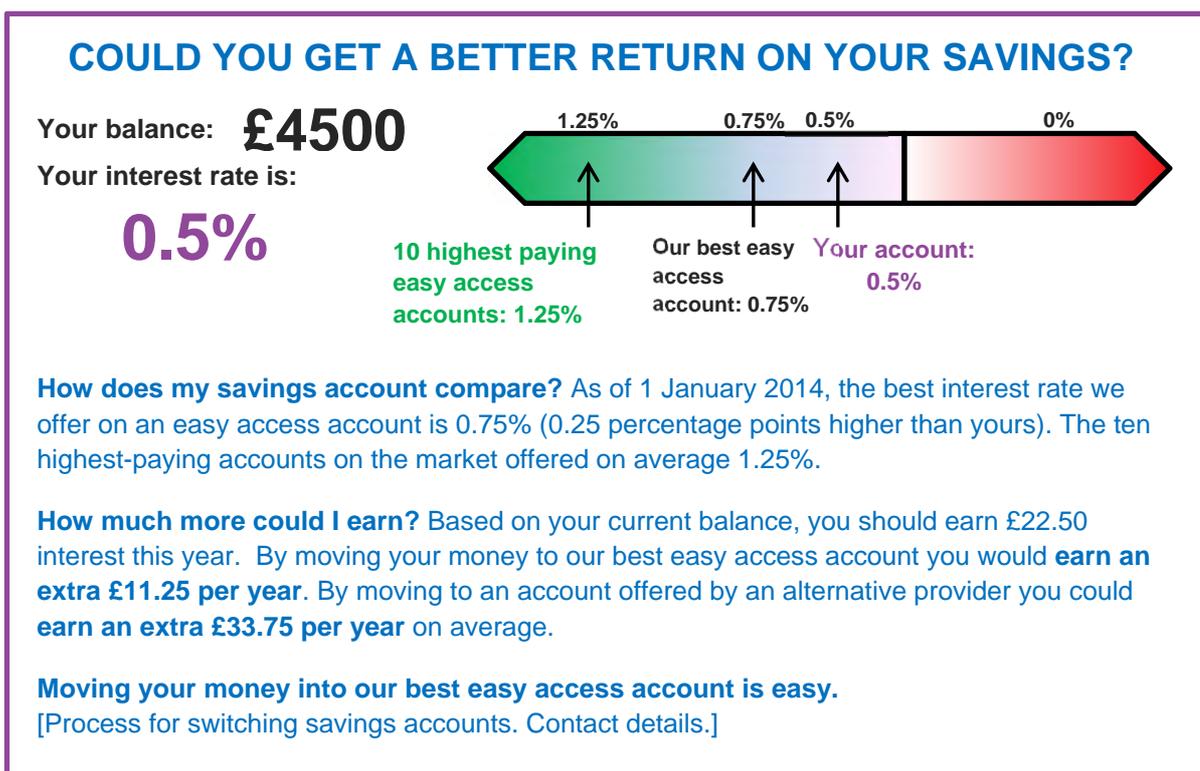
- 9.24 As set out in paragraphs 4.27 to 4.30, our consumer research revealed that many consumers were unaware of their current interest rate or unaware that there may be better-paying accounts offered by either their current provider or other providers. Some consumers also perceived there to be a hassle in the switching process (see paragraph 4.55). We also found relatively little information was given to consumers about their switching options – see paragraph 5.60f and 5.60g).
- 9.25 We are proposing changes in paragraphs 9.51 to 9.74 to the switching process. However, any changes to the switching process will have a limited effect unless consumers are made more aware of the switching process and are provided with information on the benefits of shopping around.
- 9.26 The PSRs do not currently require information to be given on account switching, but the PAD will introduce a requirement on all firms to introduce account switching for certain payment accounts.
- 9.27 We are proposing that remedy (a) in paragraphs 9.21 to 9.23 could be built upon by extending the information consumers are provided in paper and online statements and other customer communications (such as rate change notification letters) to include a switching box.²²⁰ This box would outline the consumer's current interest rate, but would

²²⁰ A form of switching box has been introduced in the energy market, for example.

also display the potential benefits of shopping around and how to switch. Better information about the potential benefits of shopping around would prompt consumers to consider their choice of savings account and provider.

- 9.28 The information contained in this 'switching box' would be standardised so the information provided by firms is consistent. It would also need to be displayed with sufficient prominence (for example, on the front page of relevant customer communications). At a minimum we would like firms to include information about:
- the balance in the account
 - the current interest rate on the account
 - other similar accounts offered by the provider that have better rates of interest and/or account features
 - what impact switching to the other account would make to them – either in terms of the difference in interest rate or in monetary terms
 - how to switch either to an account with the same provider or another provider
- 9.29 *Figure 30* provides an example of the sort of information that could be effective in prompting consumers to shop around (and includes an example of how a comparison might be made to other accounts offered by the same provider and by other providers).

Figure 30: Example of a potential 'switching box'



- 9.30 A number of respondents (large providers, smaller banks and building societies and consumer organisations) to our interim report proposed remedies that included disclosure of interest rate on statements and the identification and notification of better interest rates on other accounts (see Annex 1). Our proposed remedy incorporates these proposals.
- 9.31 We intend to develop these proposals further with behavioural experts, and to test the effectiveness of different variations of this switching box information (for example, by running randomised controlled trials). We would also need to explore which

communications this is best included in (for example, annual statements, bonus rate expiry letters, etc).

- 9.32 We also intend to explore whether information on the benefits of shopping around might be effectively communicated through other channels. For example, information about the rates a consumer's provider is offering on alternative accounts could also be communicated in a text message alert service similar to, for example, Nationwide's 'SavingsWatch' service.²²¹
- 9.33 We will also need to consider further whether there are any practical challenges or unintended consequences in requiring the provision of information about other accounts offered by the same provider or by another provider (for example, average interest rates in the market or the average top ten products by interest rate).
- 9.34 We understand that the Information Commissioner's Office would consider the provision of such information about other accounts offered by the same provider as marketing. Providers would therefore need to have obtained a customer's permission before sending such information electronically, while paper communications may be sent in certain circumstances without explicit permission.²²² Some firms told us that around 50% of their customers have 'opted in' to receiving marketing communications. This is a significant proportion, and this number might be increased further if firms adopted a more tailored approach to establishing a customer's appetite to receive such information.
- 9.35 We will also need to consider:
- whether for certain products with fixed terms, it might be inappropriate to encourage consumers to shop around during the term of the product if they would incur charges or penalties
 - whether competitors' interest rates can be gathered and displayed in communications to customers whilst still being up-to-date

(c) Improvements to the presentation, timing and frequency of customer communications

- 9.36 We found that the presentation, timing and frequency of customer communications varied significantly between firms (see paragraph 5.60). In part this is due to the different rules that apply to different types of accounts:
- When the account is a 'payment account,' the PSRs apply and the firm is required to notify all customers of changes to terms and conditions, interest rates and charges and generally to provide them with two months' notice, unless they are advantageous interest rate changes or linked to a change in a reference rate. We are unable to amend the notice period required in relation to payment accounts because these are laid down in the PSD.
 - When the account is not a 'payment account,' BCOBS rules apply and guidance states that firms should notify customers when they make a 'material' disadvantageous rate change or when an introductory rate is about to expire. They must inform customers in good time and industry guidance considers this to be a minimum of 14 days in advance.

221 Nationwide customers who sign up to the SavingsWatch service are alerted both when the rate on their account changes and when Nationwide launches a new account. See www.nationwide.co.uk/support/ways-to-bank/text-alerts/savingswatch.

222 Data Protection Act 1998, The Privacy and Electronic Communications (EC Directive) Regulations 2003, and Direct Marketing - Guide to Privacy and Electronic Communications Regulations (2013).

- 9.37 Our randomised controlled trial with a large financial firm showed that the way in which customer communications at the expiry of a bonus rate are presented and the timing of them can have significant effects on consumers' switching behaviour (see Occasional Paper No.7).
- 9.38 This proposed remedy has three aspects.
- 9.39 First, there should be clearer guidance on the way in which firms should present information in their communications. As set out in paragraph 5.60e, some firms use general or neutral headings in their customer communications, such as 'keeping you informed of matters' such that it is not immediately obvious what the communication is about. This remedy would build on the findings of our randomised controlled trial (see Occasional Paper No.7), which shows that consumers would be more likely to shop around and switch when they are told about missing out on a better deal or that there is a better deal available than when they receive a standard reminder about the end of a bonus rate.
- 9.40 Second, we would amend BCOBS guidance to say that firms should notify *all* affected customers of *any* disadvantageous change to terms and conditions, charges and interest rates (although a de minimis rule might remain appropriate, for example, where balances are below a certain level or where an account is effectively dormant). Our BCOBS rules currently set out that consumers should be notified of disadvantageous changes to terms and conditions, charges and interest rates if they are material changes. Despite the confirmed industry guidance on the matter, respondents expressed dissatisfaction and uncertainty around the size of interest rate changes which should be considered 'material' as to an extent this is dependent on the customer's balance. There is inconsistency in firms' approaches (see paragraph 5.60a). The majority of respondents to the consumer survey (68%) also set out that they would like to be notified of all interest rate changes, regardless of their significance (see paragraph 4.36). This remedy was proposed by many respondents to the interim report (see Annex 1). Changing BCOBS in this way would bring the rules more into line with the PSRs.
- 9.41 Third, practices regarding notice periods and subsequent reminders given to consumers when interest rates change should be improved. We found that the notice period firms provide before bonus rate expiry, interest rate changes and the maturity of fixed term accounts vary (see paragraphs 5.60d). For example, we observed that notification periods for interest rate changes for different account types range from 14 days up to 60 days. In part, this is due to the different rules that apply to different types of accounts (see paragraph 9.36). Indeed, as a result we observed that some firms applied the standards of the PSRs to all of their savings accounts.
- 9.42 To ensure that consumers receive sufficient notice of interest rate changes, we propose to:
- amend the required notice period for accounts that are not payment accounts²²³, if testing shows that there is benefit to be gained that is proportionate to cost from having a longer initial notice period
 - introduce a reminder scheme whereby, in addition to adhering to the notice requirements described above, firms would be obliged or encouraged to issue consumers with reminders about particular events, such as expiry of bonus rates, other rate decreases or the maturity of fixed-term accounts

223 This remedy was proposed by three respondents to the interim report, including one large bank and a consumer organisation.

- examine whether the use of different channels of communication (for example, text messaging) may also have benefits (see paragraph 5.60c)²²⁴

Expected costs of each intervention under Remedy A2

- 9.43 The costs of the above proposals depend on exactly what and how changes are made to the information provided to consumers.
- 9.44 Provision of information in branch, online or via telephone banking would result in firms incurring one-off costs from making the necessary changes. Again, we would not expect any significant incremental ongoing costs other than the need to keep the information updated.
- 9.45 Where no additional mailings to customers are required, we would expect most of the costs to firms to arise from having to make one-off changes to existing communications. However, where additional communications are required these will lead to firms incurring additional one-off costs from having to make changes to existing systems and additional ongoing costs from having to provide the notifications on an ongoing basis.

Issues for comment A2

- On remedy A2(a): How can information on current interest rates for existing savings accounts be displayed so as to have maximum effect in informing consumers (i) on firm's websites; (ii) on online banking platforms; (iii) in paper and online statements; and (iv) in other customer communications? What practical considerations need to be taken into account?
- On remedy A2(b): What information should be included in the proposed switching box? To what customer communications and product types should the switching box be applied?
- On remedy A2(b): How should the accounts be categorised in order to provide an indication of the best accounts in the same category in the switching box (for example, the top 10 easy access accounts)?
- On remedy A2(c): What testing have firms done on the presentation and timing of customer communications when interest rates are changing?
- On remedy A2(c): Should there be any de minimis rule when firms should not have to notify customers of a disadvantageous change in terms (e.g. when an account has not been used for a certain period of time)?
- On each of the remedies above: what one-off and ongoing incremental costs are firms likely to incur from having to implement each of the proposed remedies?
- Would any of these proposed changes to the post-sale literature have any unintended consequences on consumers or competition?

²²⁴ One large bank in response to the interim report proposed use of text message reminders.

A3) Choices on auto-renewal of fixed term accounts

Aim of remedy and how it addresses the issues we identified

- 9.46 We found that some firms operate automatic renewal where if a customer does not act before the maturity date of their fixed term account the firm automatically reinvests the customer's money into either a new fixed term bond or a matured funds or easy access account. These firms with auto-renewal do not usually give consumers the choice of how their savings will be treated. Although many firms have cooling-off periods, we were concerned that consumers are placed into a type of savings account that does not match their preferences and may lead to them not being able to access their savings (see paragraphs 5.61 to 5.69).
- 9.47 The aim of this remedy is to ensure that automatic renewal only happens when the customer has explicitly opted for this to happen, rather than this being the default option that customers have to opt out of.²²⁵

How the remedy would work and be implemented

- 9.48 We are proposing that firms should not renew fixed term accounts (i.e. place the funds into a new fixed term bond) automatically unless the consumer has given explicit consent for this when opening the account. This would not prevent firms offering to renew the product at maturity, but this could not be presented as the default option without consumers having made an active choice at the point of sale. There would also be a need for effective reminders at maturity of the fixed term bond, but this is covered by remedy A2.
- 9.49 The implication of this remedy is that all firms who want to offer auto-renewal upon maturity would have to ask consumers at point of sale whether at maturity they want their bond to be auto-renewed or whether they want their balances to be transferred to an easy access (or other savings) account. Firms would not be allowed to 'pre-tick' any of the options as the default choice. Consumers would still be given the choice when letters are sent out at the maturity of the fixed term bond, but if they did not have time to consider the options at that point, the action taken by the firm would be more likely to reflect the consumer's preference (because they would have expressed a preference at the point of account opening).

Expected costs

- 9.50 There are likely to be one-off incremental costs for some firms in implementing changes to their procedures at point of sale but the incremental ongoing costs are likely to be minimal.

Issues for comment A3

- a. What costs are likely to be incurred in changing procedures at the point of sale so as to give consumers a default choice at product maturity?

²²⁵ In Australia, the regulator, Australian Securities and Investment Commission, intervened to require clear and effective disclosure of dual pricing and risk of roll over onto lower rates in application forms, product disclosure statements and pre-maturity and post-maturity letters (see PwC report, page 45).

B Switching remedies

- 9.51 We found that a significant proportion of consumers do not shop around for savings accounts. We found that for some the process of switching is seen as involving too much hassle relative to the potential gains from switching (see paragraph 4.55).
- 9.52 We have already identified ways to give consumers more information so as to encourage shopping around. But increased shopping around is only effective if consumers can actually switch easily and do not perceive switching to be complicated or time consuming.²²⁶ This set of interventions focuses on making the process of switching easier. There is a range of possible ways that this could be achieved, and we set out three proposed approaches:
- B1 - Facilitating switching between accounts offered by a particular firm; and
 - Facilitating switching between firms by:
 - B2 – speeding up Cash ISA switching
 - B3 – encouraging more widespread use of electronic identity verification procedures
- 9.53 The PAD requires firms to offer a service allowing certain payment accounts to be switched with other payment services providers. It is likely that at least some easy access accounts will be caught by this requirement, so the switching process may need to change as a result of this.
- 9.54 We would like to work with industry and consumer groups to find the most effective way to implement the above proposals to all savings accounts. However, if industry-led solutions are not likely to be quickly implementable we will consider taking action ourselves through changes to rules or guidance.

B1) Facilitating switching between accounts offered by a particular firm

Aim of remedy and how it addresses the issues we identified

- 9.55 We found that the experience of switching accounts within a firm varied, although overall the process was relatively straightforward (see paragraphs 5.75 to 5.77).
- 9.56 This remedy aims to provide a simple switching process for opening a new account with the same provider, switching savings balances between the existing and the new account, and closing the existing account by: (i) improving internet banking functionality; and (ii) creating simple ways to transfer balances for paper-based or telephone banking accounts. This would mean that consumers are easily able to take action when information is provided on savings accounts with better terms (see the disclosure remedies above).

How the remedy would work and be implemented

- 9.57 The remedy would involve offering internet functionality that enables a consumer to switch account with just one or two clicks. It is likely that this simplified switching would need to be limited to certain groups of accounts – for example, switching from

²²⁶ The proposed switching box could help change these perceptions if information is presented that sets out the switching process and explains how long it is likely to take.

one easy access account to another easy access account. This is because switching from an easy access account to a Cash ISA would not be as straightforward as switching to another easy access account given the possible need for additional information.

- 9.58 The functionality would be featured prominently on a consumer's internet banking 'homepage' along with simple information on: (i) the consumer's current interest rate; and (ii) the best available rate for that group of savings products (see the switching box above). Once a customer has clicked to request to transfer their savings into the alternative product, there would need to be a confirmation question before the switch would be executed. Some firms, including some smaller building societies already offer this functionality.
- 9.59 As more than half of savings accounts are not managed online²²⁷, a new process would also need to be introduced for accounts that are not managed online. This could involve: (i) a simple form sent with customer communications that can be completed and returned to the firm for branch and/or postal accounts; and/or (ii) a 'one call' option for telephone-based accounts.
- 9.60 This remedy could be implemented voluntarily or through FCA rules, subject to consideration of the interaction with EU requirements.

Expected costs

- 9.61 To implement this remedy, we would expect firms to incur some incremental one-off costs from making changes to their IT systems. We know that some banks and building societies, including some of the smaller firms in the market, already offer this functionality on their website, so we expect costs not to be insurmountable for this set of firms. Other banks offer account opening online, which may easily be converted into one-click functionality.
- 9.62 For paper-based accounts, there would be one-off costs to design the relevant forms and ongoing costs for producing and sending the forms to be enclosed with customer communications. For telephone-banking, we would expect one-off costs from changing the telephone banking functionality.

Issues for comment B1

- a. Are there any practical reasons why the simple functionality, described above, could not be introduced to all online banking platforms of firms who sell and manage accounts online?
- b. What methods of simple switching between accounts with the same provider can be offered for branch/postal accounts and telephone-based accounts?
- c. What incremental one-off and ongoing costs would these changes entail?

²²⁷ See our interim report, page 17.

B2) Speeding up Cash ISA switching

Aim of remedy and how it addresses the issues we identified

- 9.63 This remedy would seek to speed up the Cash ISA switching timeframes. As described at paragraph 9.52, making savings account switching easier and quicker would allow customers to switch more easily and quickly to an account that better suits their needs.

How the remedy would work and be implemented

- 9.64 The package of measures agreed between the OFT and industry in June 2010 has helped reduce ISA transfer times materially (see paragraph 5.86). However, we understand from one large provider that the electronic transfer system introduced in 2012, and now adopted by many banks, has enabled further efficiency savings to be made, such that the transfer target could be further reduced.
- 9.65 The establishment of the Current Account Switch Service in September 2013 (see paragraphs 3.52 and 5.85), guaranteeing a switch for PCAs (which are typically more complex products to transfer) in seven working days, also suggests that the 15 working-day target could now be reduced.
- 9.66 This remedy would seek providers to commit to reduce the target ISA transfer time to nearer seven working days.
- 9.67 This remedy would be best implemented through an industry-led solution, but we would consider providing guidance or making rule changes ourselves, subject to consideration of how such changes would interact with HMRC's rules.

Expected costs

- 9.68 The costs involved to firms will clearly depend on the extent to which the target time is reduced. However, as the electronic switching system has already been introduced to meet the 15-day target, we would expect the target time to be capable of reduction without significant incremental one-off and ongoing cost to those firms that have already adopted the automated system.
- 9.69 Those providers that have not yet adopted the electronic transfer system would be likely to incur some incremental one-off costs from this remedy, but where this leads to efficiency gains this could reduce their ongoing costs.

Issues for comment B2

- a. To what extent is there scope for further reductions in switching times? Is there any reason why the target time for ISA transfers should not be reduced to seven working days, in line with the Current Account Switch Service?
- b. To what extent would faster switching times increase shopping around and switching?
- c. What would be the incremental one-off and ongoing costs of adopting the electronic transfer system be for those providers that have not yet adopted it?

B3) Encouraging electronic identity verification procedures

Aim of remedy and how it addresses the issues we identified

- 9.70 As discussed in our findings, a number of challenger banks have, during the course of this study, indicated that they believe that the requirements on banks to identify a customer and verify that customer's identity added too much time to the switching process, which they felt increased customer inertia (see paragraphs 5.79 to 5.83).
- 9.71 We found that electronic checks to verify a customer's identity are successful in the majority of cases (firms cited a success rate of between 70% and 90%). However, there remains a number of firms who do not use electronic identity verification, leading to a potentially more time-consuming process than may otherwise be the case for some consumers (see paragraph 5.81). This is not restricted to just the smallest firms. Notwithstanding the flexibility afforded to firms by the UK Anti-Money Laundering legislation, a number of respondents to the interim report said that we should seek to simplify the identification and verification checks required when opening a new account (see Annex 1).
- 9.72 This remedy aims to encourage more widespread use of electronic checks to verify a customer's identity. This would help reduce the perceived and actual inconvenience for customers involved in switching accounts, and may encourage greater shopping around by allowing customers to switch more easily and quickly to an account that better suits their needs (for example, with a higher rate of interest).
- 9.73 We do not propose to pursue the approach used in the Netherlands, where voluntary agreement was sought from banks to rely on identification checks of the previous bank, because this seems unnecessary given the relatively widespread and successful use of electronic verification.

How the remedy would work and be implemented

- 9.74 This remedy is to encourage those firms using only paper-based approaches to move to electronic verification checks²²⁸.

Expected costs

- 9.75 The fact that a majority of firms use electronic verification suggests that it can be more cost effective for some firms. However, there may be circumstances where this is not the case.

Issues for comment B3

- a. For those firms using paper-based approaches to verification checks, what are the major barriers to switching to electronic verification?

²²⁸ The JMLSG Guidance contains guidance on criteria firms should use when choosing an electronic verification provider and measures they should take to reduce the risk of impersonation fraud (see Part I Chapter 5 Section 5.3, www.jmlsg.org.uk).

C Convenience remedies

Aim of remedy and how it addresses the issues we identified

- 9.76 As described in paragraphs 4.8 to 4.19, we found a significant proportion of consumers do not just value the interest rate on their savings account; they value a range of features, including the convenience of holding savings accounts and other accounts in one place. These consumers may therefore place less weight on the interest rate than these other features. They tend to use the accounts for 'building up a savings pot' or 'transacting' purposes and so the convenience of being able to view their balances on one screen or to move their funds between accounts is important to them. As a result, these consumers do not typically shop around for savings accounts and miss out on accounts that have features that might better suit their needs.
- 9.77 We considered ways in which the convenience of viewing and managing savings and other accounts in one place could be offered to consumers without needing to keep their savings with their existing provider(s). Our study has identified account web aggregation services as offering a potential solution but there may be other ways of achieving such solutions.
- 9.78 This remedy aims to reduce any significant barriers to these or other similar solutions becoming effective. Counter-balancing the advantage of incumbent savings providers by offering such convenience could encourage more consumers to shop around. As PCA providers benefit from a significant proportion of consumers that hold their savings with their PCA, it would also open up a greater portion of the market to savings providers that do not offer PCAs or are not typically providers of consumers' main PCAs.
- 9.79 We would like to hear about: (i) both the potential usefulness to consumers of such services as well as the potential risks; (ii) the potential level of interest and the nature of services that could be offered by existing aggregators and other potential market entrants offering similar services; and (iii) whether there are any regulatory barriers to entering the market that could be lowered by the FCA to facilitate the development of such services.

How the remedy would work and be implemented

- 9.80 We are aware of and have spoken with a small number of firms that currently offer account aggregation services (or have done so in the past) in the UK.^{229, 230} Such sites typically enable a customer to see account information, such as balances and recent transactions, on a range of selected accounts including savings and current accounts. The sites typically allow read-only access to account information, but can offer additional functions to help customers manage finances more easily, such as tracking spending or setting savings targets.²³¹
- 9.81 The providers offering such services have different business models and generate revenue in different ways, including subscription fees and advertising.
- 9.82 A read-only service may provide useful functionality for those savers who are typically seeking to ring-fence a pot of savings from their current account, enabling them to

229 Such services are typically likely to be unregulated since intermediary activities for retail banking currently fall outside the FCA perimeter, provided that a firm does not hold deposits themselves or provide payment services.

230 A new trade association representing account aggregators was launched in December 2014 – the Financial Data and Technology Association (www.fdata.org.uk).

231 Web aggregators are particularly prominent in the USA but mainly in investment products (see PwC report, page 113).

keep track of growth in their savings balances. However, these services are currently limited in the types of consumers they can serve because they do not offer the ability to transfer money and make payments. This transacting functionality may appeal to a wide range of consumers that want to manage as well as view their accounts in one place.

9.83 While account aggregation has gained some traction in the US, in the UK it has been more limited. Some business models have, in recent years, been inhibited by the low interest rate environment. However, there are two important factors that limit the growth of these sites :

- Consumers' rights to share personal security information (such as internet banking passwords) with account aggregators is limited by some banks' terms and conditions. By sharing such information, the terms and conditions indicate that consumers are waiving certain rights, such as the right to a refund if there has been an unauthorised transaction on the customer's account. While there may be legitimate reasons for such an approach, such as discouraging the sharing of security information in order to reduce the risk of fraud, it may inhibit the development of a sector that can provide customers with a useful service.
- Some consumers do not recognise the legitimacy of these sites, partly due to the restrictions on information sharing and partly due to such sites having less well known brands.

9.84 PSD2 is likely to require firms offering aggregation in relation to payment accounts to be authorised and to set down conduct rules for them. This means that from 2017 they would be within our regulatory remit.

9.85 We are considering the benefits and risks of greater sharing of consumers' personal security information via account aggregators (or similar such services). In particular, we intend to explore two areas to see if there are interventions that we can make to help create the convenience for consumers of viewing and managing savings and other accounts in one place without the need to keep all their savings with one provider:

- what would need to be changed to allow safe sharing of consumer's personal security information and whether this can practicably be changed, and
- dependent on the above, whether there are ways in which we can intervene to encourage wider use by consumers of account aggregators (or other similar services)

Expected costs

9.86 The expected costs of this remedy depend to a significant extent on whether and, if so, which rules are changed.

Issues for comment C

- a. What views are there on the issues in paragraph 9.79?
- b. Which are the most significant of the barriers described above and what action can the FCA take to help reduce these (see paragraphs 9.83 and 9.85)?

- c. Are there any additional barriers to solutions emerging? Does the scope of the FSCS have an effect on consumers' behaviour?

D Sunlight remedies

Aim of remedy and how it addresses the issues we identified

- 9.87 Our study has found that the cash savings market is not working well for a significant group of consumers who, instead of actively shopping around for savings products, tend to remain with the same account for long periods of time. Since providers have responded to this behaviour by reducing the rates offered on older accounts, these consumers tend to receive lower interest on their savings than consumers with newer products (see Chapter 5).
- 9.88 We propose to introduce measures to improve the availability of clear, reliable and consistent information on providers' interest rates and number of products. The aim of this remedy would be to raise awareness of certain providers' strategies to reduce the interest rates offered to longstanding customers, to encourage shopping around by consumers, and encourage incumbent firms to offer better value products to existing customers, especially those with off-sale products.
- 9.89 We are considering two specific ways in which this remedy might be implemented. We could require firms to:
- report standardised statistics on a regular basis to an independent body (most likely, the FCA), which would collate and publish the information
 - provide specific information about their savings books alongside other information typically provided in branches or on providers' websites
- 9.90 We consider each of these proposals in turn below.

How the remedy would work and be implemented

Option 1: Centralised publication of provider data

- 9.91 The first option would require firms to report a specific set of information about the composition of their savings books to an independent body on a regular basis. Examples of information that firms might be required to report includes:
- the interest rate offered on the lowest paying account of a particular type
 - number of on-sale and off-sale products by product type
 - summary statistics on the interest rates paid by product type (e.g. average interest rates, differential between highest and lowest interest rates, interest rate percentiles)
- 9.92 The independent body would then combine the information received from the industry into a single dataset, which would be made available to the public. This data collection process might operate in a similar manner to our publication of complaints data.²³²

²³² Currently, regulated firms are required to report information to the FCA every six months on the number of complaints they receive and how they handle them. We then publish this information in a user friendly format so that firms are able to compare their performance against their peers and consumers have access to additional information about the firms we regulate.

- 9.93 The intention would be that this information would then be used by consumer groups, price comparison websites, the financial press, the FCA, Government and other interested parties to report on the implications of these figures. Third parties could use the information to draw attention to specific providers and/or accounts that offer interest rates to existing customers that are materially worse than those that can be achieved on other savings accounts offered by the same or other providers. In this way, requiring firms to publish data about the interest rates and number of products off-sale may put pressure on providers to improve their product offering.
- 9.94 While we intend to work closely with industry to understand how this data might be used, we envisage that one possibility is that the data might be used in conjunction with the other information third parties currently collect as a means to rank provider offerings.
- 9.95 We note that an approach based on similar principles has been adopted in the Netherlands. There the regulator itself publishes savings provider rankings that are based on a set of indicators around firms' communication with customers, the variety of accounts offered, the use of bonus rates and the rate differences across products. The Dutch regulator, AFM, has reported that the scheme has been successful in improving both provider behaviour (with firms' scores rising over time) and consumer decision making.²³³

Option 2: Publication of provider data direct to consumers

- 9.96 The second option would require firms to provide specific information about their savings books directly to consumers alongside other pre-sale information typically provided in branches or on providers' websites.
- 9.97 As under the first option, the types of information firms might be required to provide include: the interest rate offered on the lowest paying account of a particular type, the number of on-sale/off-sale products by product type or summary statistics on the interest rates paid by product type.
- 9.98 The difference in this option is that the information would be provided more directly to consumers to help inform their decision making (without interpretation via a third party). For example, consumers could use the information providers report on the interest rates offered on different accounts to assess whether these providers tend to reduce the rates offered to longstanding account holders. We would want to understand further the extent to which this information might effectively influence consumer decision-making about which account/provider to use.

Challenges to consider

- 9.99 We recognise that there are a number of challenges associated with both options under consideration which it will be necessary to take into account. These include: design issues associated with determining the appropriate information to publish; distortion risks if the transparency of any of these metrics leads to an increased risk of coordinated outcomes; and practical considerations as to the scope of the intervention (i.e. which providers/products should be covered) and possible cost implications. We would also need to categorise products into the different types of savings accounts, which may not always be easily determinable.

233 See summary of AFM Annual Report 2012 page 4 and summary of AFM Annual Report 2013 page 5 available at: www.afm.nl/en/professionals/afm-actueel/jaarverslagen.aspx. See also PwC report pages 95 and 97.

- 9.100 It will be necessary to consider these issues in detail when assessing how best to design a measure that shines a light on provider strategies, and determining how best to present this information and to whom.
- 9.101 We believe that by working closely with relevant stakeholders it will be possible to develop a solution that helps to draw attention to instances where providers are leaving consumers in poor value accounts, and so drive incumbent firms to offer better value products to existing customers.

Expected costs

Option 1: Centralised publication of provider data

- 9.102 The implementation of this remedy would impose some incremental one-off and ongoing costs on account providers, the independent body collecting firm data, and third parties might incur costs associated with reporting, collating and analysing the required information. The scale of these costs would depend on the specific design of the remedy, including but not limited to factors such as: the range and type of information firms are required to provide, the ease with which online reporting systems can be established, and the extent to which intermediaries are already well positioned to analyse the information and present it in a digestible format.

Option 2: Publication of provider data direct to consumers

- 9.103 We expect that savings providers will incur certain costs associated with providing the required information in branch and online. The scale of these costs would depend on the specific design of the remedy.

Issues for comment D

- a. In what format is this information best provided to consumers to encourage better decision making – via third parties or directly in branch and via providers' websites?
- b. Would publishing this information give rise to distortions or any other unintended consequences? For example, is there a risk that consumers might make misinformed or ill-informed choices as a result of the information being misinterpreted or taken out of context (either by themselves or the third parties disseminating it) or being inconsistently reported by providers?
- c. What circumvention risks would this remedy pose and how could these be addressed?
- d. What information should be required to be provided?
- e. Which third parties would be interested in using and communicating the information to consumers in a digestible format?
- f. Which providers and savings products should be covered by the remedy? Should providers be required to publish information that covers their entire product range or a subset of popular offerings?

- g. At what level of detail would it be appropriate, practical and proportionate to provide this information (e.g. by product, product type)?
- h. What costs would the measures in this remedy entail?

Remedies we are not intending to pursue at this stage

9.104 In this section, we set out interventions we are not intending to pursue at this stage. This covers two areas where we would like to see changes made but do not intend to intervene directly at this stage:

- extending the Current Account Switch Service to some types of savings accounts
- simplification of firms' product ranges

9.105 We then set out remedies we are not proposing to pursue.

E Extending the Current Account Switch Service to some types of savings accounts

9.106 We considered a remedy designed to make switching savings accounts between firms easier through an extension of the Current Account Switch Service to savings accounts. The Current Account Switch Service provides an infrastructure to switch quickly and simply PCAs, which are more complex than savings accounts. An effective switching process, involving less perceived and actual hassle, would allow customers to switch more easily and quickly to an account that better suits their needs.

9.107 We decided not to pursue this remedy at this stage because:

- We have other interventions that are likely to improve the switching process – see remedy B3.
- The Government announced some changes to the Current Account Switch Service in December 2014 (see paragraph 3.55), which need to be completed and embedded before the service is extended to savings accounts.
- Implementation of the PAD in the UK may involve the mandatory provision by firms of a switching service for certain payment accounts. It is likely that at least some easy access savings accounts will be caught by this requirement. An extension of the scope of the Current Account Switch Service may therefore be required in the future without our intervention. We would welcome such developments.
- We launched a review the effectiveness of the Current Account Switch Service in September 2014 and expect to report back in the first quarter of 2015.²³⁴ The results of this review will be helpful in considering whether there is merit in extending the service further.
- There are many more savings account providers than PCA providers. Extending the Current Account Switch Service to include all or most of these providers may be

²³⁴ In its Autumn Statement, the Government announced two enhancements to the Current Account Switch Service to be delivered by March 2015: (a) an extension to the service to include SMEs with a turnover up to £6.5m, which is believed to include 99% of SMEs (in addition to retail customers, the service is currently available to businesses with a turnover up to €2m (or sterling equivalent)); and (b) an extension of the redirection service to 36 months (currently 13 months) to give customers greater reassurance that no direct debit or standing order will fail once they switch to a new provider. In addition, Government has asked the FCA to advise (before the March 2015 Budget) on whether a reduction in the switching time from seven to five working days would deliver significant benefits to consumers.

more complex operationally and take longer than simply extending it for the PCA providers and there is a risk that only extending the service for PCA providers in the short term, until other firms are ready, may embed the position of the PCA providers.

- The CMA's market investigation into PCAs is ongoing.

9.108 However, we may wish to consider an expansion of the scope of the Current Account Switch Service once these issues have been resolved.

F Requiring providers to simplify their product ranges

9.109 During our study, a number of providers simplified their product ranges (see paragraph 3.38). We welcome product simplification where it leads to efficiency gains and facilitates more competitive offerings while still providing the choices that meet consumers different savings needs. We want to encourage those providers that have not yet reviewed their product range to consider whether their current product range is delivering good outcomes to consumers.

9.110 We note that the Dutch regulator, AFM, intervened in 2010 to limit the number of accounts providers may offer. It did not impose a fixed number of products but it decided to assess the element and conditions of each savings product on offer on an annual basis. As a result banks simplified the types of savings accounts they offered. For example, ABN Amro reduced the overall number of savings accounts from 20 to six. Although there are reported to be higher customer satisfaction scores, no detailed ex-post impact assessment has yet been undertaken.²³⁵

9.111 We are expecting to see some product simplification in the market but at this stage, we are not proposing to specify the number or type of products that each provider should offer. Prescriptive rules risk some consumers not having products that meet their needs and they may stifle innovation in the way savings products are offered. Instead, we want to encourage firms to take the initiative to consider whether their product ranges and pricing strategies deliver good outcomes and make it easy for consumers to compare products. We will return to this area if we do not see greater clarity for consumers.

Remedies we are not pursuing

9.112 In this section we set out those remedies that have been suggested by interested parties which we are not intending to pursue. These are:

- interventions into firms' product design, including:
 - banning bonus rates
 - requiring providers to put all customers with off-sale products or all customers on a single interest rate
- taking ownership of the Code of Conduct for the Advertising of Interest Bearing Accounts, including the calculation of the AER

²³⁵ See PwC report, pages 96 and 127.

G Banning bonus rates

- 9.113 Some smaller providers and consumer organisations suggested banning introductory bonus rates or requiring providers to offer all customers the same interest rate. We noted that the Dutch regulator, AFM, intervened in 2010 to end the use of bonus rates. Although there are reported higher customer satisfaction scores, no detailed ex-post impact assessment has yet been undertaken.²³⁶
- 9.114 During our study, a number of providers have stopped using introductory bonus rates (see paragraph 3.38). We are not proposing to ban introductory bonus rates. Flexibility in pricing (including the ability to offer introductory bonus rates) is important in encouraging switching and allowing providers to manage their balance sheets effectively. However, we are proposing that improvements are made by providers to customer communications on interest rate changes and bonus rate expiry (see remedy A2).

H Requiring providers to put all customers with off-sale products on a single interest rate

- 9.115 We also considered whether the effectiveness of competition in the market could be improved by requiring firms to pay a single rate on all their off-sale products of a specific type (e.g. all easy access accounts that can be managed via particular channels) or to put all their customers onto a single 'best' interest rate. The Dutch regulator, AFM, intervened in 2010 to limit price differentiation between products unless they can be justified on cost grounds.
- 9.116 We noted that there may be some benefits from such an approach:
- it may improve transparency as it would make it easier for consumers to identify what deal they are currently getting and may encourage more switching from off-sale to on-sale products
 - just after product simplification some consumers may see their interest rate reduced and be encouraged to shop around and switch to an on-sale product with better terms
 - some consumers currently on the lowest off-sale interest rates may see their interest rates increase (albeit at a cost of the interest rate reduction noted above)
- 9.117 However, we decided not to pursue this remedy. Interventions to ban price discrimination would be likely to have unintended or distortive consequences because:
- They would make it more difficult for firms to manage their savings books, overall balance sheets and liquidity.
 - Rather than requiring that providers offer all customers the same interest rate, we propose to improve notifications of interest rate change in order to prompt consumers to shop around for better offers.
 - While it is possible that some providers may choose to offer a single interest rate to all customers, this is only one possible outcome that could emerge. Different prices for different groups of consumers can be observed in a competitive market where different groups of consumers have different needs from savings products and/or there are different costs in providing savings products to them.

²³⁶ See PwC report, pages 96 and 127.

I Code of Conduct for the Advertising of Interest Bearing Accounts

9.118 Four stakeholders raised concerns about the Code of Conduct for the Advertising of Interest Bearing Accounts. These related both to the enforceability of the Code in relation to firms' use of AERs and industry's ownership of this Code. We are not proposing specific remedies in this paper. While we will keep the matter under review, we have not been presented with sufficient evidence of detriment to suggest that regulation by the FCA is necessary (see paragraph 5.58).

Issues for comment E-I

- a. What views are there on whether we should pursue remedies E and F at this stage?
- b. Are we right not to pursue remedies G, H and I?

10 Next steps

- 10.1 The publication of this report brings to an end the investigative phase of our market study. We would like to hear your views on the remedy proposals in part II of this report. In particular we would like to hear responses to the issues for comment. Please send us written comments by noon on 18 February 2015.
- 10.2 Our remedies will then be further refined and, where rule changes are required, subject to a cost-benefit analysis and formal consultation. We will develop, finalize and implement remedies as quickly as possible following the end of the consultation on this paper. We expect to publish a statement of our decision on remedies.

Annex 1

Views from stakeholders

1. Following the publication of our interim report in July 2014, stakeholders submitted their views or evidence on matters covered by the report. They also put forward proposals for remedies. We received responses from several parties and met with a wide range of stakeholders including trade associations, consumer organisations and firms (large and smaller providers).
2. We have grouped the responses and feedback under four broad headings:
 - consumer behaviour
 - firm conduct, including PCA links
 - barriers to entry and expansion
 - remedies
3. Overall, there were a wide range of views. Many of the points made covered similar ground to the initial views submitted following the terms of reference published in October 2013 (which we summarised in Annex A of our interim report). In general, consumer organisations agreed with the analysis in our interim report, but there were a number of criticisms from providers.

Consumer behaviour

4. Many providers, consumer organisations and trade associations said that interest rate was not the only relevant consideration in consumers' choice of savings account/provider because consumers also value aspects such as convenience, service and brand:
 - As a result, a large provider believed that we should balance any monetary gains which could be generated from switching against non-interest rate factors, such as flexibility or the security of a well-known brand.
 - A smaller provider felt it was important to define the entire 'value equation' because different consumers have different requirements. Price is not the only consideration or measure of value. An illustration given was the perceived value in savings accounts and managing savings accounts being different for branch-based customers and online customers. A branch-based customer values face-to-face contact and advice and an online customer values accessibility and convenience.
 - One smaller provider stated that there are some consumers on one end of the spectrum who completely disregard interest rate and there are others on the other end of the spectrum who focus only on interest rate.
5. Another key theme noted was that we should be careful about drawing inferences from low levels of switching due to low balances in some accounts and the current low interest rate environment:

- Some smaller providers and a consumer organisation warned that the current market conditions were atypical.
 - Some large providers said many customers were not active because of low balances and the low gains from switching. A smaller provider and a trade association also said that low balances on many accounts means there are low gains from switching.
 - Some providers also referred to other industries, including mobile, broadband and digital television, which have low switching rates but competitive markets. A large provider said that 60% to 70% of its customers switched savings accounts 12 months after opening their accounts.
6. A consumer organisation said that certain people have barriers to shopping around and switching. For example, many older people without access to transport and or the internet may need help making decisions in relation to their financial affairs.

Firm conduct

Differences between interest rates on new and older accounts

7. Many providers agreed that there are differences in interest rates between on-sale and off-sale products. However, some large providers said there is a 'zero-sum game' because any increase in interest rates on off-sale products would require a fall in interest rates on on-sale products. As a result, in their view there is no possibility of interest rates being improved overall, as the market structure does not currently generate margins that are above the competitive level.
8. Another large provider identified a large proportion of balances on relatively high interest rates and said that the obvious inference was that these customers are engaged. At the same time the provider observed that a low interest rate did not automatically mean low customer engagement. It said that interest rate in itself was not a reliable indicator of the benefit that an account provides to a consumer.
9. One trade association said its evidence showed that consumers with off-sale products get paid the same rates of interest, or slightly better, than consumers with new on-sale products.

Providers' strategies

10. Bonus rates were seen by some as an essential part of the competitive process. This was seen as necessary to encourage engagement and customer activity and to ensure that all providers are able to expand and compete.
11. However, one large provider suggested that poor customer outcomes could result from practices such as 'teaser' rates, 'new customer only bonus' deals, product complexity and legacy product ranges. The large provider argued that bonus rates are used to induce consumers to open an account, but then the provider benefits from consumer inertia, as a segment of consumers would be unlikely to switch after the bonus rate expires. It also said that product versioning can make it difficult for consumers to obtain important information.

12. A smaller provider said that large providers gradually reduce interest rates without letting customers know. It said that it was not its policy to cut an interest rate for an existing customer or offer a bonus rate to a new customer. It said that it treated both new and existing customers equally. Another smaller provider said that there should be no place in the market for excessive bonus rates.
13. One smaller provider said that when it used product replacement it moved those customers with off-sale products to higher interest rates than those with on-sale products.
14. Some providers noted that they had recently simplified their product ranges or stopped offering bonus rates. One large provider said that it had withdrawn its bonus rates and proactively moved existing customers to newer products that provide them with the same interest rates as new customers. At the same time the provider noted that writing to customers about switching to a better account only generated a small response in switching.
15. A consumer organisation agreed with our findings on firm conduct, particularly in relation to superseded accounts. It felt that bonus rates could work for some consumers provided there are notifications when bonus rates expire and products mature.
16. A consumer organisation was also concerned about the practice of using similar-sounding product names for products that pay very different interest rates, the use of different issues of the same account paying different interest rates and accounts with high value names which distort transparency.

PCA links

17. Providers considered that consumers hold savings accounts with PCA providers for various reasons (convenience in accessing multiple products and managing funds, strength of relationship with the provider and brand strength).
18. One large provider noted that, as a result, PCA providers 'naturally expect to hold a proportion of PCA customers' savings balances'. However, some large providers said that saving balances were not always held with a PCA provider. For example:
 - One large provider estimated that its savings customers held two thirds of their balances elsewhere. It argued that this demonstrated PCA providers did not limit the size of the market available to smaller providers.
 - Another large provider said that the majority of consumers' savings are held away from PCA providers. It believed that there was no correlation between savings market shares and PCA market shares. This provider said that only 40% of consumers held savings with their PCA provider and 60% of consumers choose to look around.
19. A large provider believed that the key driver of demand for easy access accounts is consumers wanting to ring-fence some savings from their PCA. It suggested that this may be one reason why consumers focus less on interest rate. It also believed that there are significant advantages to PCA providers when seeking to attract savings balances.
20. A smaller provider also identified the benefits of having customers already with a PCA, including a lower cost of acquiring savings balances from such customers rather than having to compete through their position in best buy tables, and potentially being able

to pay lower interest rates to savings customers, given consumers' general preference for convenience.

21. One smaller provider said that some consumers believe it will be difficult to keep track of their money, manage their funds and have access to their money when they need it if they split their savings across more than one provider.
22. One consumer organisation commented that PCAs were gateways to loyalty, stickiness and further product sales.
23. One stakeholder said that building societies earn comparatively small net interest margins, meaning there is little scope for improving the average interest rates payable to consumers. It suggested that the higher net interest margins taken by the main PCA providers mean that they would appear to have much more scope to increase the average interest rates they pay to their customers. However, one large provider said that smaller banks may benefit from a cost advantage relative to larger banks as they do not have branch networks, call centres, etc.

Disclosure and switching processes

24. A consumer organisation wanted us to look into a number of aspects of disclosure, including the impact of auto-renewal and roll-over practices upon maturity of fixed-term accounts, particularly where cooling-off periods are not offered and notification practices are poor.
25. A smaller provider commented on consumers' misconceptions of the length of time it takes to switch savings accounts, the security of online-only providers and the difficulty in keeping track of accounts when using different providers.

Barriers to entry and expansion

26. There were generally mixed views on barriers to entry and expansion:
 - **Large providers** said that the large number of providers and recent entrants demonstrated that there are no significant barriers to providing cash savings products. For example, one large provider said that smaller providers had been able to raise deposits easily in the recent past.
 - **Smaller providers** said that some of the large providers use the saving they make from offering lower interest rates to existing customers to cross subsidise higher interest rates for new customers, which effectively provides them with cheap deposit funding from their less active existing customers. They said that this created high barriers to entry for challengers or newer entrants. They also said that prudential capital requirements give an advantage to those banks with more sticky customers, which smaller providers have less of.
 - **An intermediary** said that there are regulatory barriers restricting some firms from providing an intermediary service. These included the client money rules on unbreakable term deposits, requirements that stocks and shares ISAs be treated as client money, FSCS coverage anomalies, CRD IV liquidity rules for deposit takers, and the definition of retail versus wholesale funding for deposit takers.

Remedies

27. We have grouped comments on remedies under the following broad headings:

- Zero sum game concerns
- Disclosure remedies
- Switching remedies
- Convenience remedies
- Product design remedies

Zero sum game concerns

28. Some large providers said that any remedies would be likely only to rebalance interest rates between different groups of consumers rather than leading to higher average interest rates. One large provider said that introductory bonus rate offers are set on the basis of expected lifetime return. It said that improving engagement would increase customer activity and drive up industry costs so that average interest rates would fall.

Disclosure remedies

29. Proposed disclosure remedies included:

- providing better consumer education
- not using Annual Equivalent Rates
- better notification of interest rates
- identifying when better interest rates are available

Providing better consumer education

30. A trade association and a smaller provider said there was a need to promote financial awareness and education. Consumer organisations agreed with this and considered financial education as a key part of financial capability.

31. One large provider advised that it had recently introduced point-of-sale videos to help improve the quality and consistency of communication, specifically to change consumer behaviour.

Not using Annual Equivalent Rates

32. One consumer organisation and a smaller provider said that consumers do not understand AERs. However, if AER is used, another consumer organisation said that the FCA should regulate it because it is one of the main tools consumers use to compare savings accounts. Two other stakeholders also commented that the regulation of AER should be taken on by the FCA.

Better notification of interest rates

33. Stakeholders generally supported any remedies that increase consumer engagement. Disclosure suggestions from a range of respondents included:
- More timely notification of interest rate changes – for example, a trade association suggested notification should take place a fortnight before a bonus rate comes to an end.
 - Notification of all reductions in interest rates – smaller providers and consumer organisations were keen for all interest rate changes to be notified to consumers.
 - Disclosure of interest rates on statements – A wide range of providers and consumer organisations wanted interest rates to be more clearly and prominently displayed on customer statements.
 - Explaining the likely evolution of interest rates over time – some smaller providers and a large provider suggested that displaying the current and future interest rate would be helpful to consumers.
 - Disclosing the lowest rate of interest offered by each provider.
 - Using different communication channels (e.g. text messaging).

Identifying when better interest rates are available

34. Consumer organisations, a large provider and a smaller provider said that firms should tell their customers when better interest rates are available on a comparable savings account (potentially with a simple tick-box option to move their savings).
35. A potential issue identified by a large provider was that 50% of its customers request not to receive marketing information. Therefore, even if a customer has funds in a low interest account, the provider is unable to contact them about an alternative account with a higher interest rate as this would be classed as marketing.

Switching remedies

36. Some smaller providers focused on ways to reduce switching costs by harmonising the process and simplifying customer identification checks that are required to meet anti-money laundering rules. A smaller provider also suggested that smaller providers should be able to rely on Know Your Customer checks of large providers if money is switched from accounts with large providers.
37. A large provider said that we should consider extending the Current Account Switch Service to the easy access savings market. A consumer organisation said that all providers should participate in an automated system to allow speedier switching. It also proposed 'one click' switching within online banking platforms for switching to a new account with the same provider.

38. Conversely, another smaller provider did not support a switching model or process being developed, as it believed switching was relatively clear in the current format and it would be costly to set up and administer a switching model. Similarly, a large provider said that increasing consumer awareness is key to switching rather than, in their opinion, any industry wide solution being implemented.
39. Trade associations said that the current switching process is straightforward, though some of its members said that identification and verification checks required under anti-money laundering rules can act as a deterrent to switching. It therefore supported measures to simplify these.
40. One smaller provider and a large provider said that we should consider what lessons from the Government's 'midata' scheme could be applied to the savings market.

Convenience remedies

41. A large provider said that aggregators may help break the link between PCAs and savings accounts but involved risks around sharing of security information.
42. A consumer organisation said it would be supportive of measures making it easier to multi-bank.

Product design remedies

43. These remedy proposals included:
 - banning bonus rates
 - simplifying product ranges
 - putting customers onto a single interest rate

Banning bonus rates

44. A smaller provider suggested that bonus rates should be banned or severely restricted. This was because this type of practice was better suited to fast moving consumer goods than financial services products that might need to endure for a long period of time.
45. A variant of this put forward by a consumer organisation was that we should issue guidance on fairness when dealing with customers with cash savings accounts, whether at an introductory rate or an interest rate that has gradually reduced over time. The consumer organisation considered that any guidance could include a limit to the amount by which an interest rate could drop after an introductory rate expires.

Simplifying product ranges

46. A consumer organisation supported firms' product simplification exercises. A trade association was also sympathetic to the idea of rationalising product ranges where this was in customers' interests, but warned that this may involve a levelling off of interest rates.

47. A smaller provider said that providers should be required to simplify their range of accounts by rationalising the number of closed products with similar terms and conditions. A large provider also proposed that off-sale products should be simplified.

Putting customers onto a single interest rate

48. A consumer organisation suggested more interventionist measures that would require all providers to automatically move customers on accounts with low interest rates into a single default easy access or Cash ISA account. Details of this account, including the AER offered, would be displayed prominently on providers' websites and other customer communication channels.
49. Other consumer organisations and a smaller provider had similar suggestions – that consumers should be defaulted onto a firm's best available interest rate or put onto a specified minimum interest rate at the end of a bonus rate.
50. Smaller providers said that, in the interests of transparency and treating customers fairly, providers should be obliged to give existing customers the same interest rates and products offered to new customers. This suggestion was in part to avoid any potential detriment from automatic rollover of maturing deposits into low interest rate accounts.

Annex 2

Analysis of consumer survey

Introduction

1. We commissioned consumer research to help us understand consumer behaviour and outcomes in the cash savings market. Specifically, we sought to:
 - understand whether and how consumers shop around for their savings accounts, any barriers to shopping around and reasons for opening accounts
 - explore consumers' understanding of product terms and characteristics, particularly variable rates and introductory bonus rates
 - explore consumers' awareness of interest rates that are paid on their savings accounts, and alternative products offered by their provider and by other providers
 - estimate switching rates for different cash savings products with variable interest rates and explore reasons for switching and not switching
2. We commissioned two quantitative consumer surveys (a large-scale online survey and a small-scale telephone survey) that were carried out by GfK. The technical report describing the methodology and survey questions has been published separately at the same time as this Annex. This Annex provides our analysis of the results of the surveys.¹ Our interpretation of the results in the context of our competition assessment is set out in Chapter 4 of the main report.
3. This Annex comprises the following sections:
 - samples of the online and telephone (CATI) survey
 - savers' account portfolio and demographic profile, including the number of products held and savers' main banking relationship
 - features consumers look for in accounts
 - shopping around behaviour, including the extent of shopping around and consumers' willingness to consider different types of providers
 - awareness of interest rates, including rates on existing accounts and rates offered in the market
 - awareness of providers' strategies, including expectations around variability of interest rates
 - switching, including headline switching rates and reasons for switching or not switching

¹ We analysed the online survey raw data we got from GfK. The results from the telephone survey are based on the summary data tables GfK provided.

Samples of the online and telephone (CATI) survey

4. This section summarises key information about the sample of each survey.²

Online survey

5. An online survey was completed by 3,000 respondents.³ To ensure that the sample was representative of the population of savers in the UK, quotas (or targets) were set by GfK on age, gender, region, personal and household income based on the results of GfK's Financial Research Survey, which is based on a much larger sample (60,000 respondents). The online survey sample was additionally weighted on these characteristics, using Rim Weighting (see the Technical report for further details).⁴

Telephone survey (CATI)

6. GfK also carried out a small-scale telephone survey, with 260 respondents, to capture the views and experiences of older respondents who, according to GfK, were less likely to use the internet and whose views were therefore likely to be underrepresented in the online survey. All respondents to the telephone survey were older than 55.⁵ Quotas were set on age, gender and region, but not on personal and household income.
7. Most respondents to the telephone survey did not use the internet or were light internet users and did not manage their savings online:
 - A third of respondents (33%) said they 'never use the internet' and the remaining respondents used it for less than 10 hours a week. None of the respondents used the internet for more than 10 hours a week.⁶
 - Only 35% of respondents stated that they managed their savings online.⁷ The most popular method of account management was in branch (78%), and a minority of respondents also stated that they managed their accounts by phone (18%) or by post (19%).⁸

Importance of the two surveys

8. The online survey was designed to be the main survey to be used in the analysis, so most of the results discussed in the following sections are based on the results of the online survey. The aim of the small-scale telephone survey was to compare responses to some of the questions where respondents who did not use the internet or who were

2 For further information on the samples, please see the technical report by GfK, published separately at the same time as this Annex.

3 We excluded from the analysis four respondents who only held savings accounts with a credit union because these products fell outside the scope of the study. This means that the base of the online survey was 2,996.

4 The initial weights allocated to the survey respondents sum to 3000, the total number of respondents. Where questions were asked only to a subset of respondents, the number of respondents does not equal exactly the sum of the weights allocated to the relevant respondents. Throughout the analysis, bases are reported as the number of respondents rather than the sum of the weights allocated to the relevant respondents.

5 38% of respondents were aged between 55 and 64 and 62% were aged 65 or older. Source: telephone survey, Question S2. Base: all respondents (260).

6 Source: telephone survey, Question C9. Base: all respondents (260).

7 Respondents were asked 'How do you usually manage your savings (that is, pay in or withdraw funds, or check the balances)?'.

8 Respondents could choose all that applied, hence these percentages sum to more than 100%. A further 4% chose 'other' or 'don't know'. Source: telephone survey, Question 3b. Base: all respondents (260).

light internet users were likely to provide different answers (e.g. the importance of branch networks in driving account choices). We discuss these results where relevant in the sections below. Unless specified otherwise, all results are based on the results from the online survey.

Savers' account portfolio and demographic profile

9. This section gives an overview of savers' demographic characteristics (age, employment status and total income) and savings account portfolio (total savings, number of accounts and types of products held).⁹ We also consider with whom savers stated they held their main banking relationship.
10. In summary:
 - consumers across all income and age groups held cash savings products
 - about a third of consumers held only one product type (which was mostly either an easy access account or an easy access Cash ISA), but the remaining 64% held two or more types of products, often with different providers; those with higher total savings balances tended to hold more product types than those with lower total savings balances
 - while easy access type products were held across all groups of consumers, the largest group of respondents holding fixed-term products were those who were older and retired; these respondents also tended to have higher total savings balances

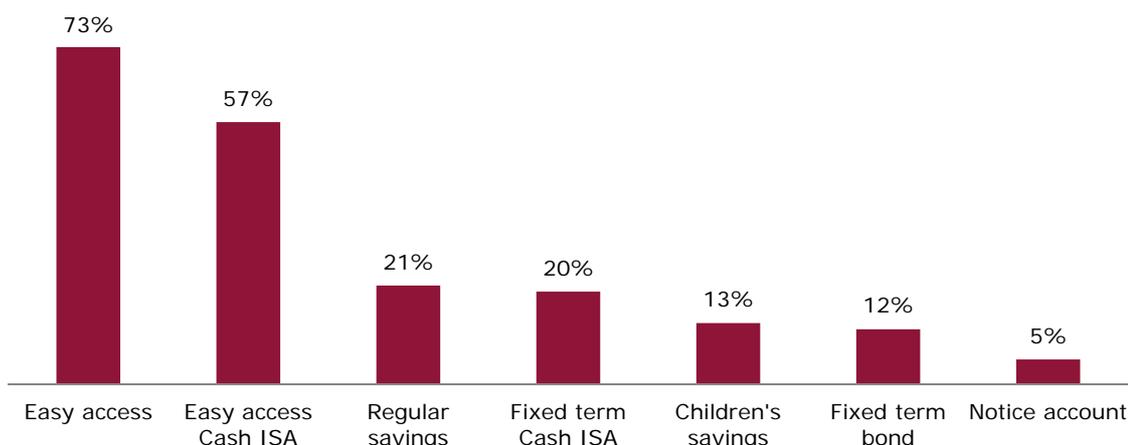
Number and types of savings accounts held

11. At the beginning of both surveys, respondents were asked to identify which of their accounts were 'active' and which accounts they no longer used ('dormant accounts'). The remaining survey questions were only asked about the active accounts. Unless specified otherwise, our analysis refers only to the active accounts.¹⁰
12. The most popular active cash savings products held were easy access accounts and easy access Cash ISAs, followed by regular savings accounts and fixed-term Cash ISAs (see *Figure 1*).

9 We did not seek to use the online survey sample to inform us about how the wider population of savers is made up according to age, gender and personal income. Instead, quotas (or targets) were set for age, gender, region, personal income and household income to help ensure the representativeness of the sample. The targets were based on data collected as part of GfK's Financial Resources Survey, which has a much larger sample (60,000 observations).

10 Accounts were deemed 'active' based on the respondents' self-report and there was no lower limit set on the value that needed to be held in the account.

Figure 1: Proportion of respondents that held at least one active account of each type



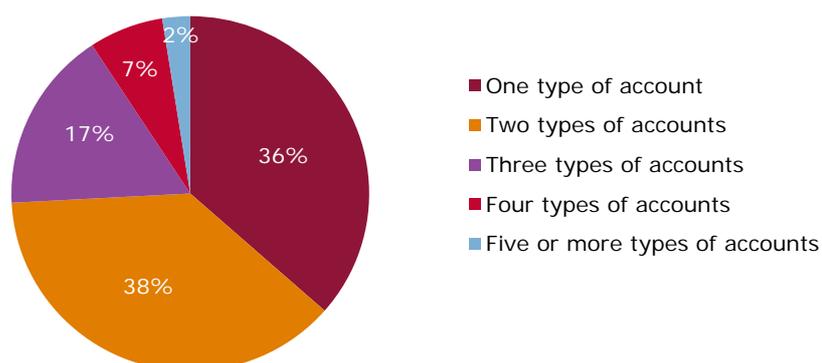
Source: FCA analysis of the online survey, Question 2

Base: all respondents (2996), only active accounts

13. Most respondents held more than one active savings account:

- in terms of number of active accounts held, 30% of respondents held one active savings account, a further 29% held two active accounts and the remaining 40% held three or more active savings accounts¹¹
- in terms of number of different types of active accounts held, 36% of respondents only held one type of savings account, a further 38% held two types and the remaining respondents held at least three types of savings accounts (see Figure 2).

Figure 2: Proportion of respondents that held different numbers of different types of active accounts



Source: FCA analysis of the online survey, Question 2

Base: all respondents (2996), only active accounts

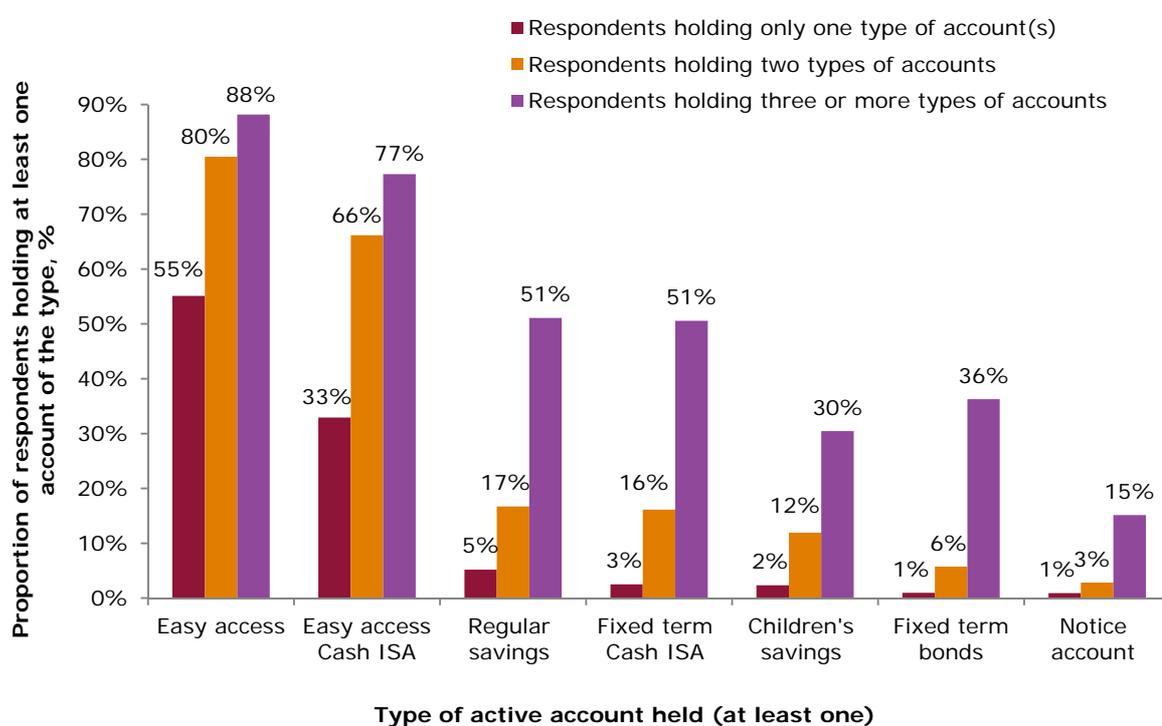
14. Data on types of products held by those with one, two, three and more types of active products (*Figure 3*) showed that:

- those that held only one product type mostly held an easy access type product, as 55% held an easy access account and 33% held an easy access Cash ISA

¹¹ Estimates provided do not add up to 100% due to rounding. Source: FCA analysis of the online survey, Question 2. Base: all respondents (2996).

- easy access accounts were also popular among those who held two or more different product types, as 80% of respondents with two different types of products and 88% of respondents with three or more different product types held at least one easy access account
- those that held more than one product type were also more likely to hold regular savings accounts, fixed term accounts (both bonds and Cash ISAs), children’s savings accounts and notice accounts, suggesting that these types of accounts are added once consumers have expanded their savings product portfolio beyond easy access products

Figure 3: Proportion of respondents holding (i) one product type; (ii) two product types; and (iii) three or more product types that held at least one active account of a particular type (easy access, easy access Cash ISA etc.)



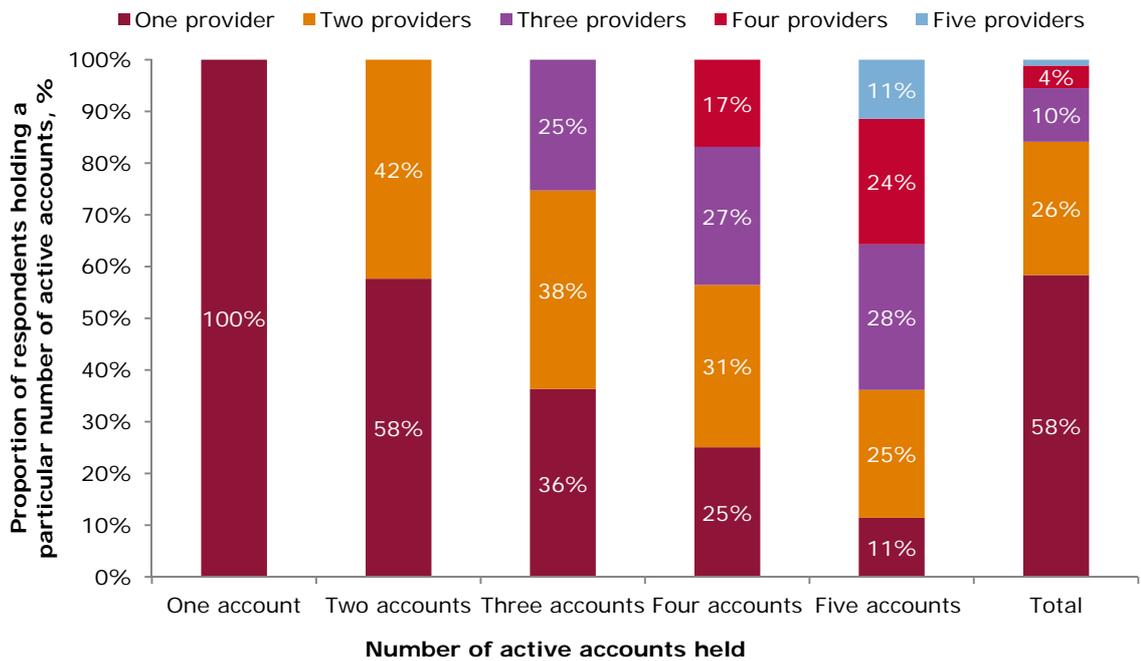
Source: FCA analysis of the online survey, Question 2

Base: all respondents (respondents with one product type (1093), two product types (1130), three or more product types (774)), only active accounts

15. Those that held more than one savings account often ‘multi-banked’, as, for example, 42% of respondents with two accounts held these with two providers, and 63% of respondents with three accounts held these with two or three providers (see *Figure 4*).¹²

¹² Note that respondents with more than five active savings accounts were asked to choose five accounts that were most important to them to limit the number of questions asked, except for Question 2.

Figure 4: Proportion of respondents' number of providers split by the number of accounts held



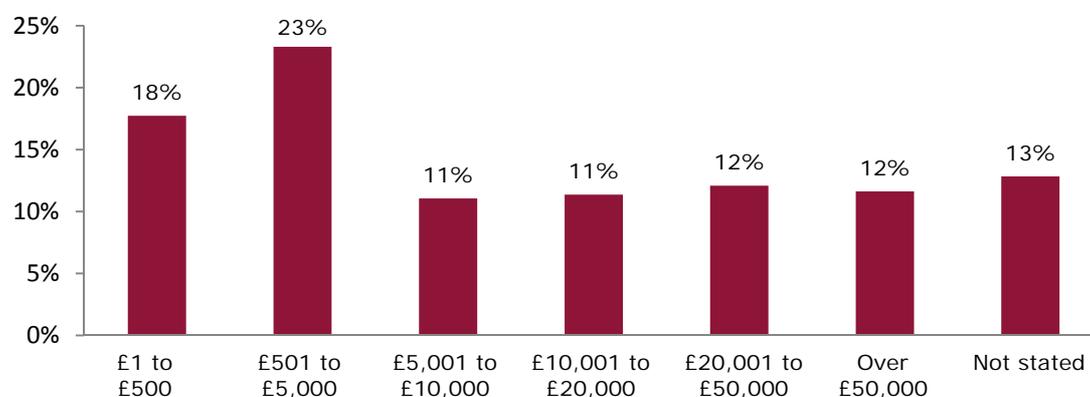
Source: FCA analysis of the online survey, Question 3

Base: all respondents (one active account (910), two accounts (910), three accounts (539), four accounts (332), five accounts (305))

Account portfolio by total savings

16. About half (52%) of consumers had less than £10,000 in their total savings and 35% had more than £10,000 (see *Figure 5*).

Figure 5: Proportion of respondents with total savings in different balance bands

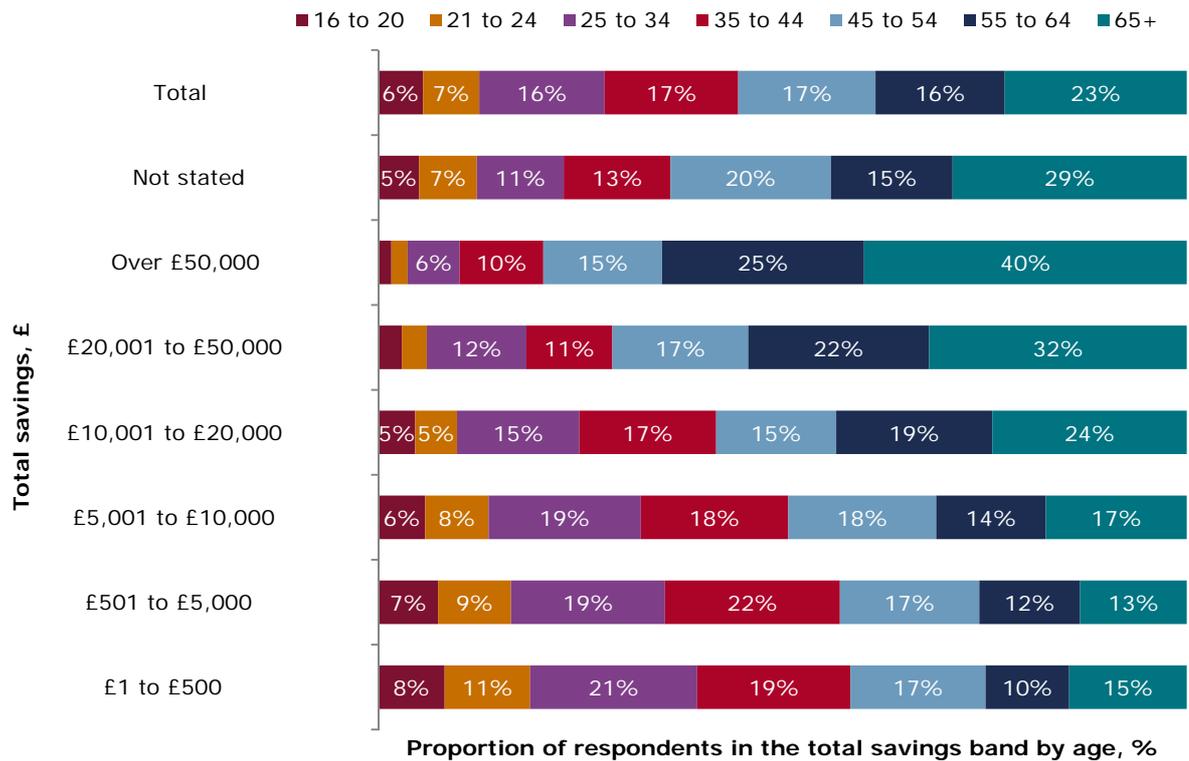


Source: FCA analysis of the online survey, Question 10

Base: all respondents (2996)

17. Those with higher total savings balances tend to be older and retired. For example:
- 40% of savers with total savings exceeding £50,000 were older than 65 compared with only 15% of savers with total savings balances below £500 (see *Figure 6*).
 - 49% of savers with total balances exceeding £50,000 were retired compared with only 17% of savers with total savings balances below £500 (see *Figure 7*).

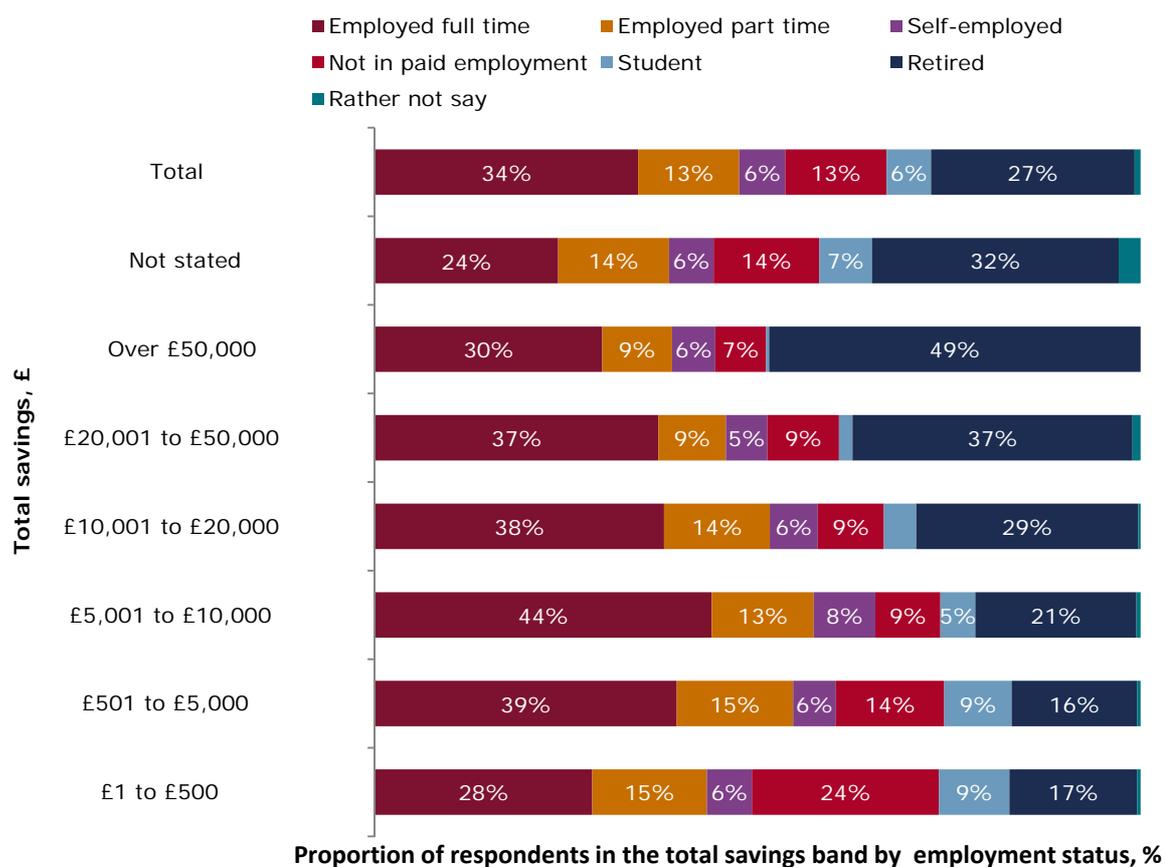
Figure 6: Proportion of respondents by age band in the different total savings balance bands



Source: FCA analysis of the online survey, Question 10 and S2

Base: all respondents (£1 to £500 (531), £501 to £5,000 (698), £5,001 to £10,000 (331), £10,001 to £20,000 (341), £20,001 to £50,000 (362), Over £50,000 (348), Not stated (385), Total (2996))

Figure 7: Proportion of respondents' type of employment in the different total savings balance bands

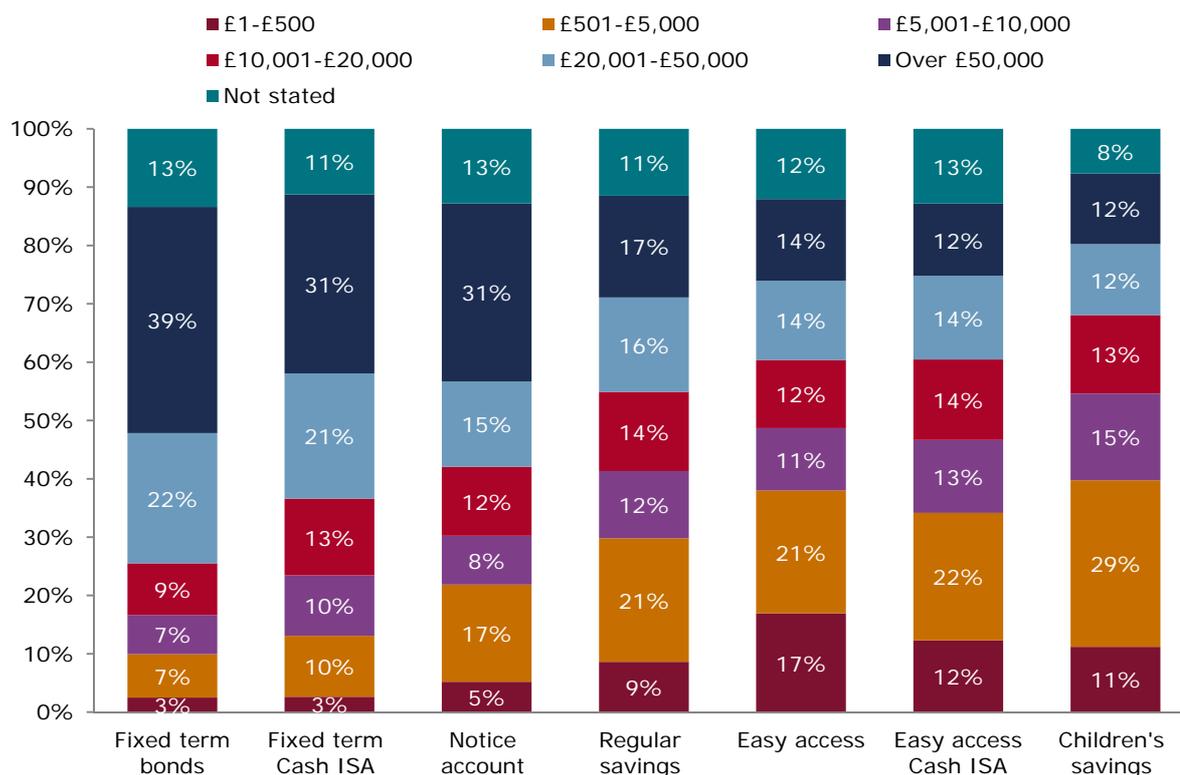


Source: FCA analysis of the online survey, Question 10, Question 3 and C1

Base: all respondents (£1 to £500 (531), £501 to £5,000 (698), £5,001 to £10,000 (331), £10,001 to £20,000 (341), £20,001 to £50,000 (362), Over £50,000 (348), Not stated (385), Total (2996))

18. Those respondents that held at least one active fixed-term account tended to have higher total savings balances (31% of respondents that held at least one fixed term Cash ISA and 39% that held at least one fixed-term bond had more than £50,000 in their total savings) but the distribution of respondents' total savings balances was more even when we looked at respondents who held at least one easy access type product (see *Figure 8*).

Figure 8: Total savings balances of respondents holding at least one product of the type¹³



Source: FCA analysis of the online survey, Questions 3 and 10

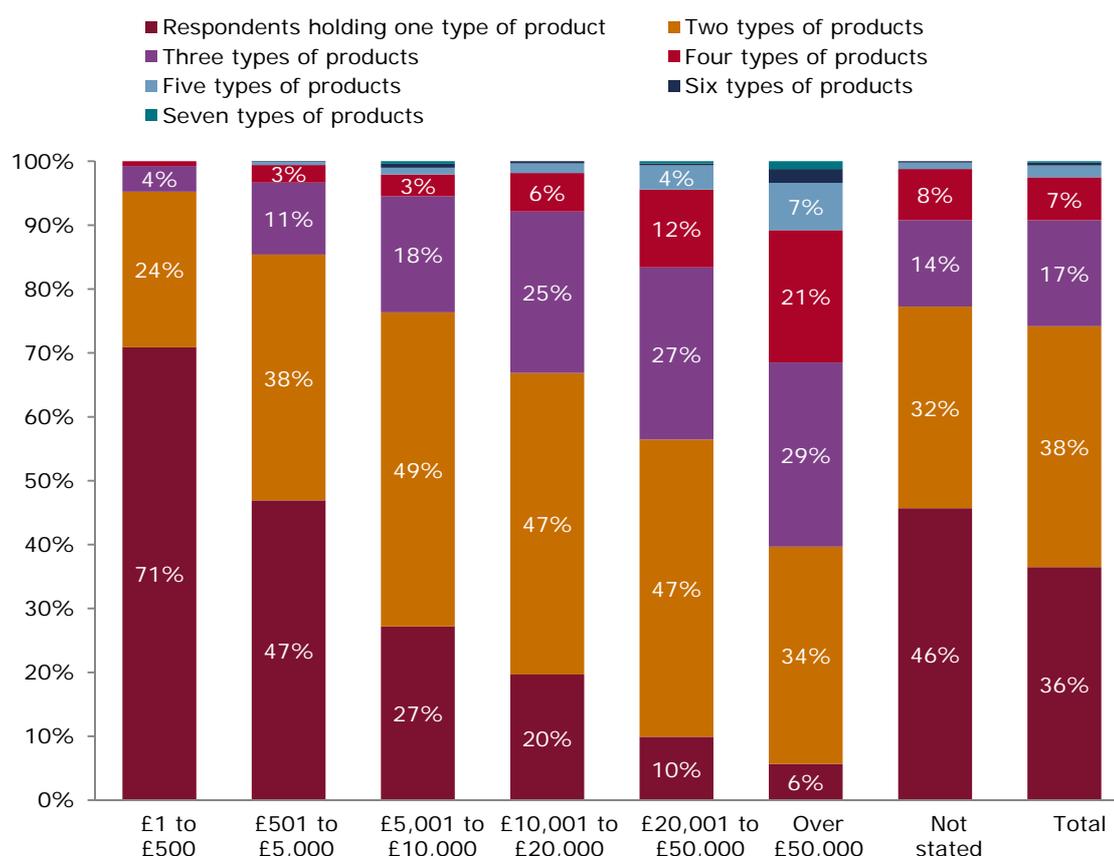
Base: respondents with at least one easy access account (2194), easy access Cash ISA (1705), fixed term Cash ISA (601), notice account (159), regular savings account (641), fixed term bond (356), children's savings account (396)

19. Those respondents with higher total savings also tended to hold more than one type of product, suggesting that consumers expand their product portfolio as balances increase (see *Figure 9*). For example, 71% of respondents with total savings balances of less than £500 held only one type of account compared with 47% of respondents with £501-£5,000 in total savings and 20% of respondents with £10,001-£20,000.¹⁴

¹³ For those that held at least one product of the specific type. This means that some respondents appear in more than one column because they hold more than one product type.

¹⁴ Note that respondents with only one type of account can hold more than one active account (e.g. two active easy access accounts).

Figure 9: Proportion of respondents with different number of types of accounts held in each total savings balance band



Source: FCA analysis of the online survey, Questions 2 and 10

Base: all respondents, by total savings (£1-£500 (531), £501-£5,000 (698), £5,001-£10,000 (331), £10,001-£20,000 (341), £20,001-£50,000 (362), Over £50,000 (348), Not stated (385), Total (2996))

20. As set out in our report, some personal current accounts (PCAs) currently pay interest rates on balances in credit that are similar to, or even exceed, interest rates paid on many savings accounts. We therefore asked respondents whether they used a PCA as a savings account:

- 17% said they did so because it paid a high interest rate that was comparable to the best interest rates on savings accounts
- 23% said they did so because it was convenient, but the interest rate was not very high and
- 60% said they did not use a PCA as a savings account¹⁵

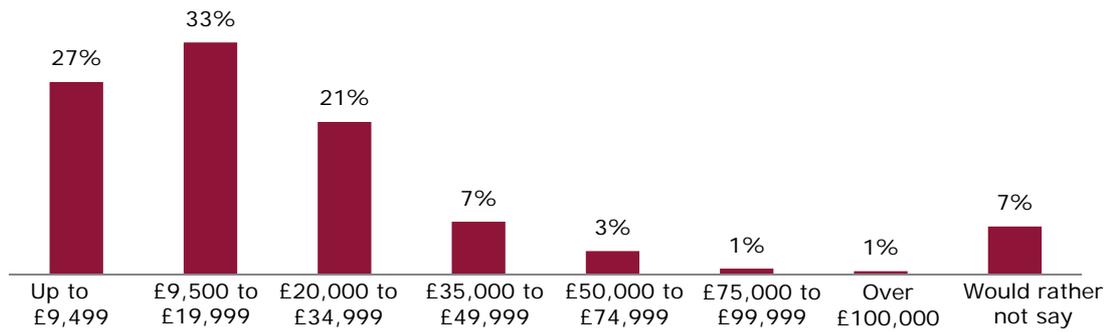
Account portfolio by demographic characteristics

Account portfolio by personal income

21. 81% of respondents had total annual personal income below £35,000 (see *Figure 10*).

¹⁵ Source: FCA analysis of the online survey, Question 11. Base: all respondents (2996).

Figure 10: Proportion of respondents with total annual personal income in different bands

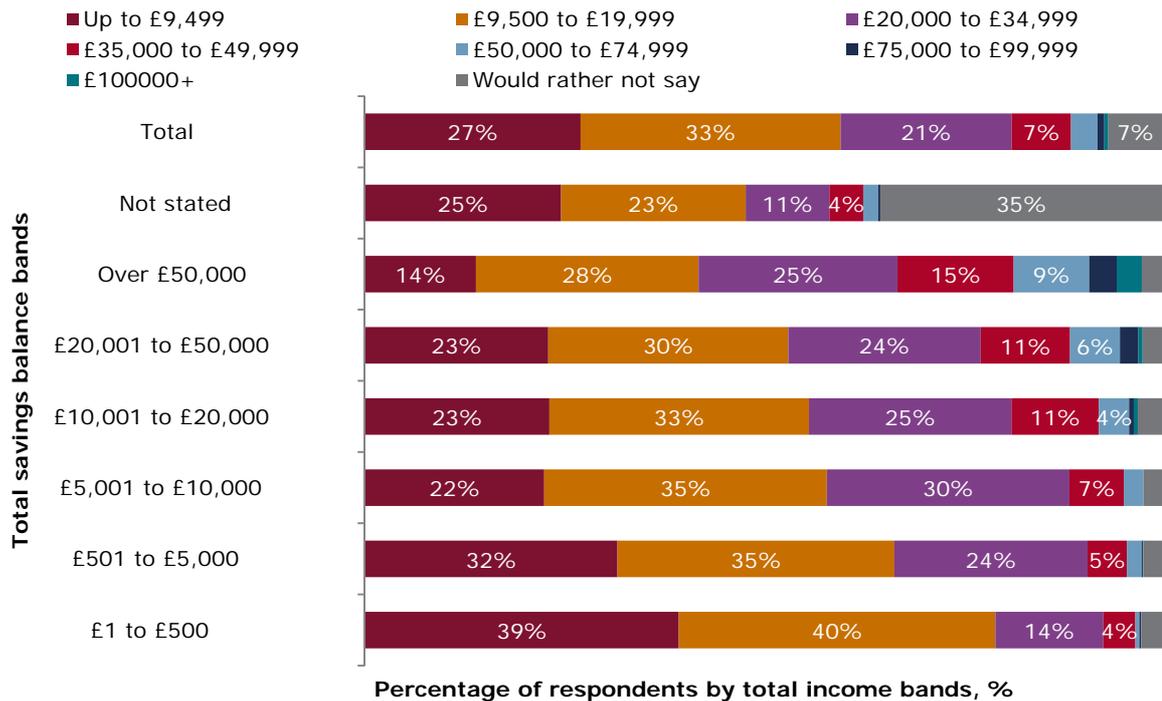


Source: FCA analysis of the online survey, Question C4

Base: all respondents (2996)

22. Those with higher savings balances tended to be those with higher total annual personal income (see Figure 11).

Figure 11: Proportion of respondents with total annual personal income in different bands split by different total savings balance bands



Source: FCA analysis of the online survey, Question 10 and C4

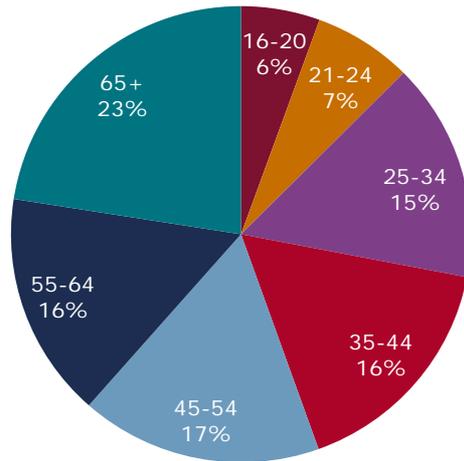
Base: all respondents (£1 to £500 (531), £501 to £5,000 (698), £5,001 to £10,000 (331), £10,001 to £20,000 (341), £20,001 to £50,000 (362), Over £50,000 (348), Not stated (385), Total (2996))

Account portfolio by age profile

23. By age, the largest group among savers were those older than 65 (23%) (see Figure 12).¹⁶

¹⁶ Note that responses in relation to children's accounts were most likely provided by the parents who opened the accounts.

Figure 12: Proportion of respondents in each age band



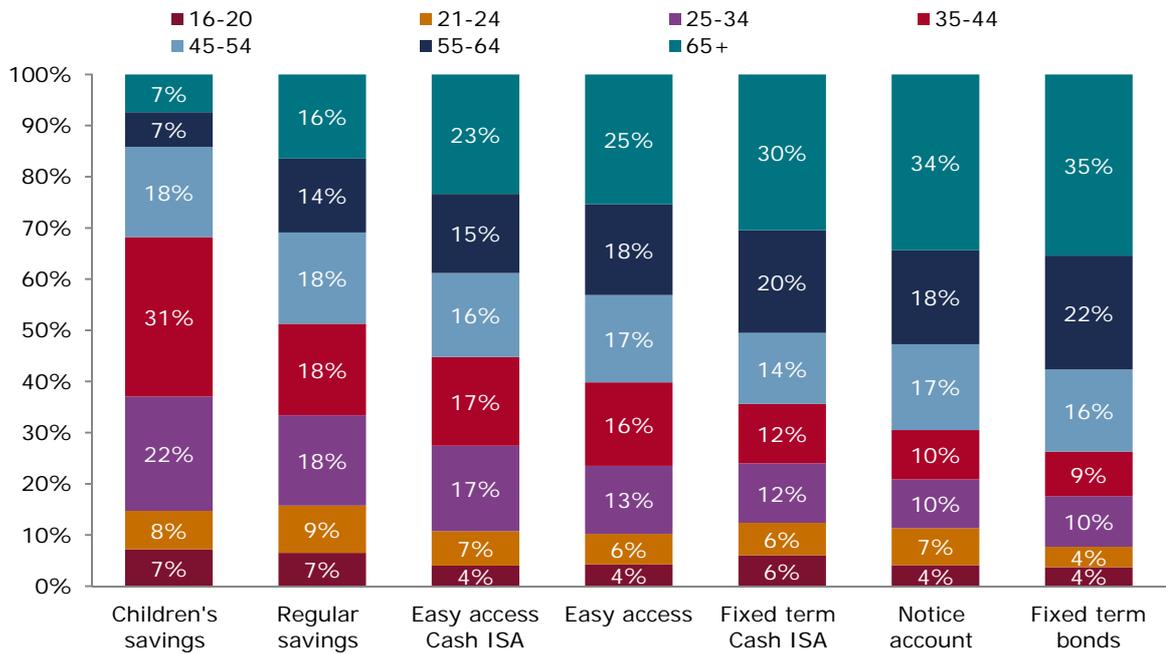
Source: FCA analysis of the online survey, Question S2

Base: all respondents (2996)

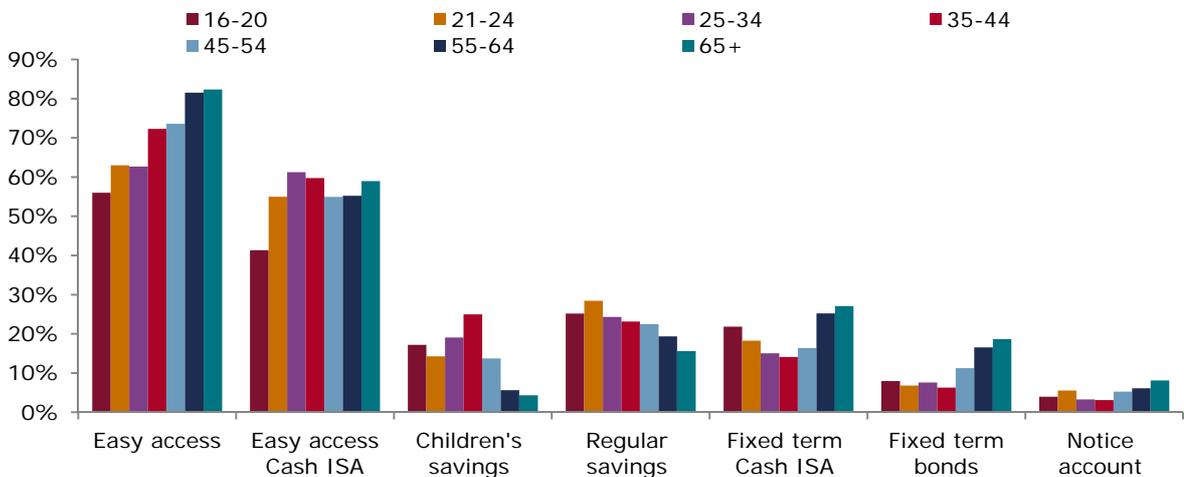
24. Fixed-term products were more likely to be held by older respondents as 58% of respondents who held at least one fixed term bond and 50% of respondents who held at least one fixed term Cash ISA were older than 55 (see *Figure 13*).

Figure 13: Age and types of products held¹⁷

(a) Age of respondents holding at least one active product of the specified type (e.g. easy access account)



(b) Percentage of respondents in a particular age band holding at least one active product of the type



Source: FCA analysis of the online survey, Questions 2 and S2, only active accounts

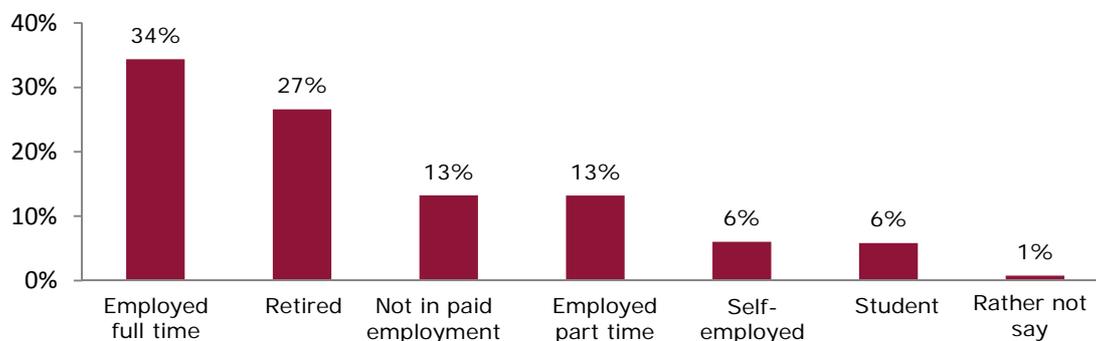
Base: (a) all accounts (Easy access Cash ISA (1705), Fixed term Cash ISA (601), Easy access (2194), Notice accounts (159), Regular savings (641), Fixed term bonds (356), Children's savings accounts (396)); (b) 16-20 (166), 21-24 (208), 25-34 (465), 35-44 (495), 45-54 (509), 55-64 (478), 65+ (675)

17 For those that held at least one product of the specific type. This means that some respondents appear in more than one column because they hold more than one product type.

Account portfolio by employment status

25. By employment status, the two largest groups of savers were those employed full-time (34%) and retired (27%) (see *Figure 14*).¹⁸

Figure 14: Proportion of respondents by employment status



Source: FCA analysis of the online survey, Question C1

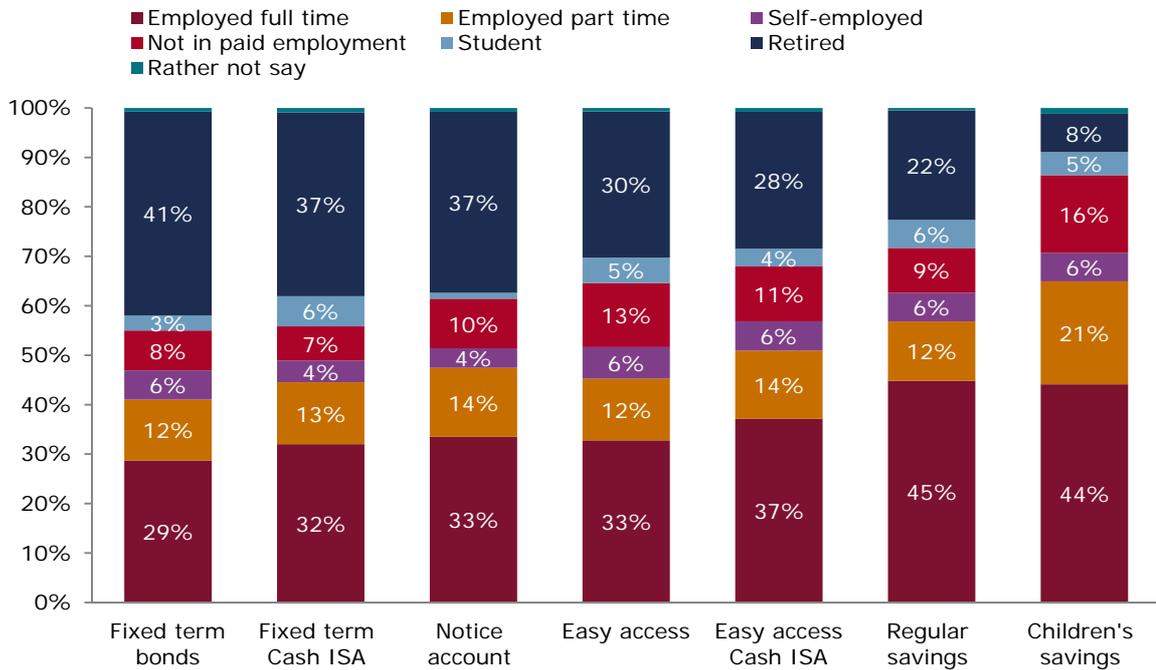
Base: all respondents (2996)

26. Looking at respondents that held different types of products, the largest group of respondents that held fixed-term products were those who were retired (41% of respondents that held at least one fixed term bond and 37% of respondents that held at least one fixed-term Cash ISA) (see *Figure 15*).

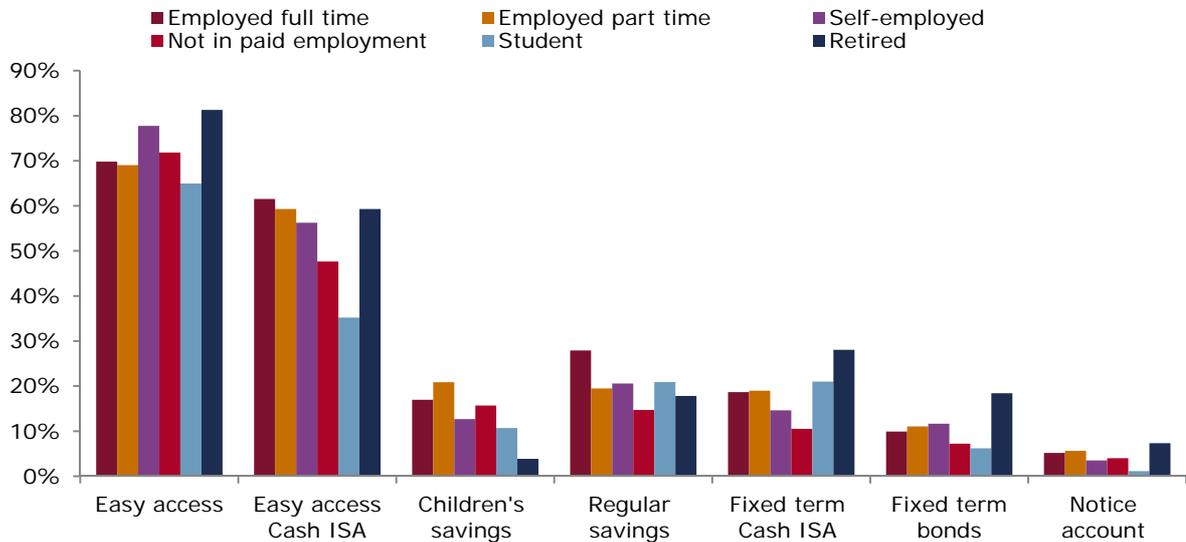
¹⁸ Most respondents to the telephone survey (77%) were retired as all respondents to the telephone survey were at least 55 years old. The remaining 23% were employed full time, part time, self-employed, not in paid employment or did not provide an answer. Source: telephone survey, Question C1. Base: all respondents (260).

Figure 15: Employment status and types of products held¹⁹

(a) Employment status of respondents holding at least one active product of the specified type (e.g. easy access account)



(b) Percentage of respondents with a particular employment status holding at least one active product of the type



Source: FCA analysis of the online survey, Questions 2 and C1, only active accounts

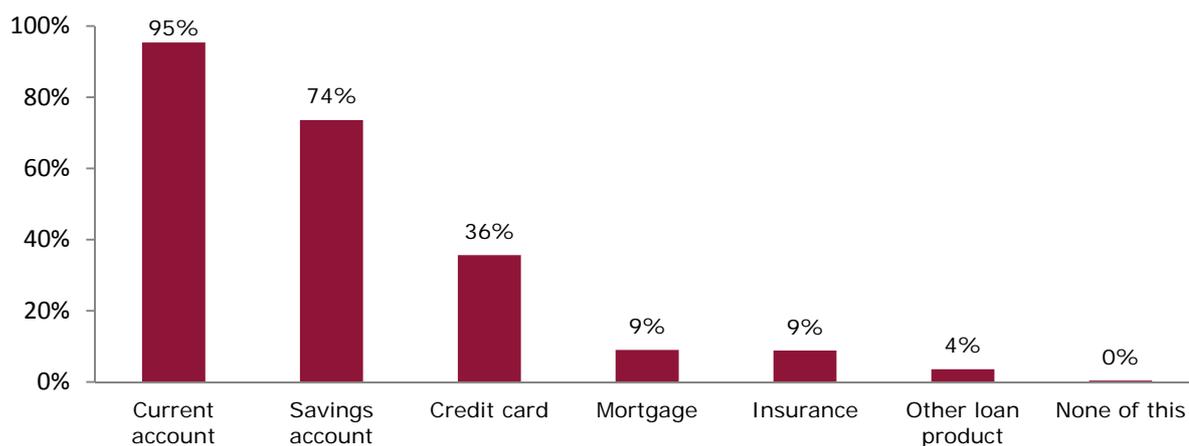
Base: (a) respondents with at least one easy access account (2194), easy access Cash ISA (1705), fixed term Cash ISA (601), notice account (159), regular savings account (641), fixed term bond (356), children's savings account (396), (b) Employed full time (1030), Employed part time (396), Self-employed (180), Not in paid employment (396), Student (174), Retired (797), excluding those who did not provide information about their employment due to a small sample (23)

19 This means that some respondents appear in more than one column because they hold more than one product type.

Main banking relationship

27. We asked respondents to identify the firm with which they had their 'main banking relationship'.²⁰ The most popular eight providers accounted for 85% of responses and all of these were large high street retail banking providers.²¹ Most respondents had been with their main banking provider for a long period of time (58% for ten or more years and 15% for five to ten years).²² We found that 95% of respondents held a PCA and 74% held a savings account with their main banking provider (see *Figure 16*).²³

Figure 16: Proportion of respondents that held each product types with their main banking provider²⁴



Source: FCA analysis of the online survey, Question 14

Base: all respondents (2996)

28. For the 95% of respondents who had a PCA with their main banking provider, we assessed the proportion of active savings accounts held with or away from their main banking provider. We found that fixed-term products were much more likely to be held away from respondents' main banking provider than easy access type products: only 24% of fixed term bonds and 39% of fixed term Cash ISAs were held with the main banking provider compared with 62% of easy access accounts and 54% of easy access Cash ISAs (see *Figure 17*).

20 We did not specify which products had to be held with a provider for it to classify as 'the main banking provider', as we wanted to leave it to respondents to decide which relationship was the most important one.

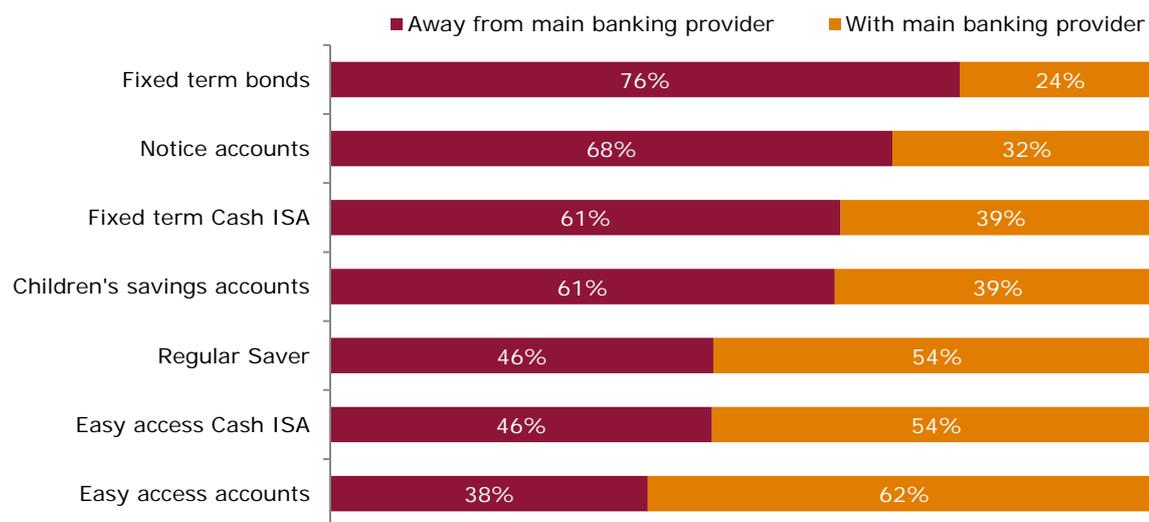
21 These were Barclays, Santander, Lloyds, NatWest, Halifax, Nationwide, HSBC, Royal Bank of Scotland. Source: FCA analysis of the online survey, Question 12. Base: all respondents (2996).

22 A further 4% had been with their main banking provider for less than a year, 6% for one to two years, 7% for two to three years and 10% for three to five years. Source: FCA analysis of the online survey, Question 13, Base: all respondents (2996).

23 However, we recognise that some consumers had more than one personal current account, so this may not have been the main PCA for all respondents in the sample.

24 Sums to more than 100% because respondents listed all types of accounts held with their main banking provider.

Figure 17: Proportion of each type of account held with or away from the main banking provider (for those who held a PCA with their main banking provider)

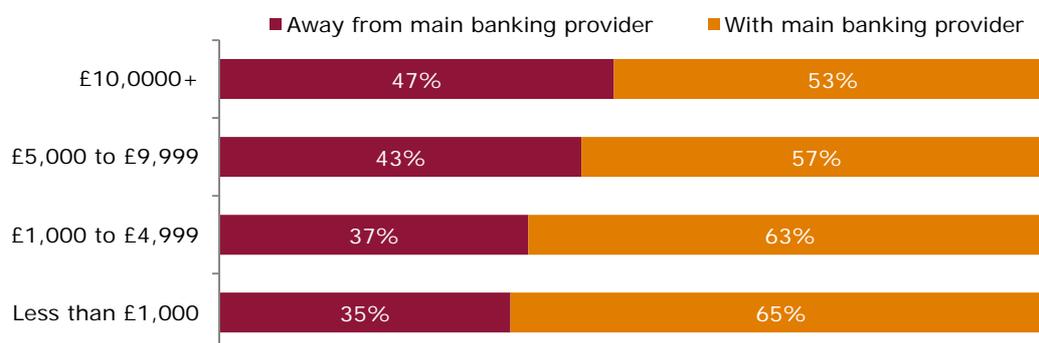


Source: FCA analysis of the online survey, Questions 14 and 3c

Base: accounts of all respondents who hold a current account with their main banking provider (Easy access accounts (2742), Easy access Cash ISA (1883), Regular Saver (741), Children's savings accounts (653), Fixed term Cash ISA (674), Notice accounts (127), Fixed term bonds (415))

29. Focusing on easy access accounts, a larger proportion of accounts with higher balances were held away from respondents' main banking provider than lower balance accounts (see *Figure 18*). For example, 65% of easy access accounts with balances below £1,000 were held with respondents' main banking provider compared with 53% of accounts with balances above £10,000.

Figure 18: Proportion of respondents' easy access accounts held with or away from their main banking provider split by balances in the account (for those who held a PCA with their main banking provider)



Source: FCA analysis of the online survey, Questions 14 and 3c

Base: all easy access accounts for respondents who held a current account with their main banking provider (less than £1,000 (1179), £1,000 to £4,999 (550), £5,000 to £9,999 (208), £10,000+ (342)), excluding those who did not know their balance or preferred not to state it

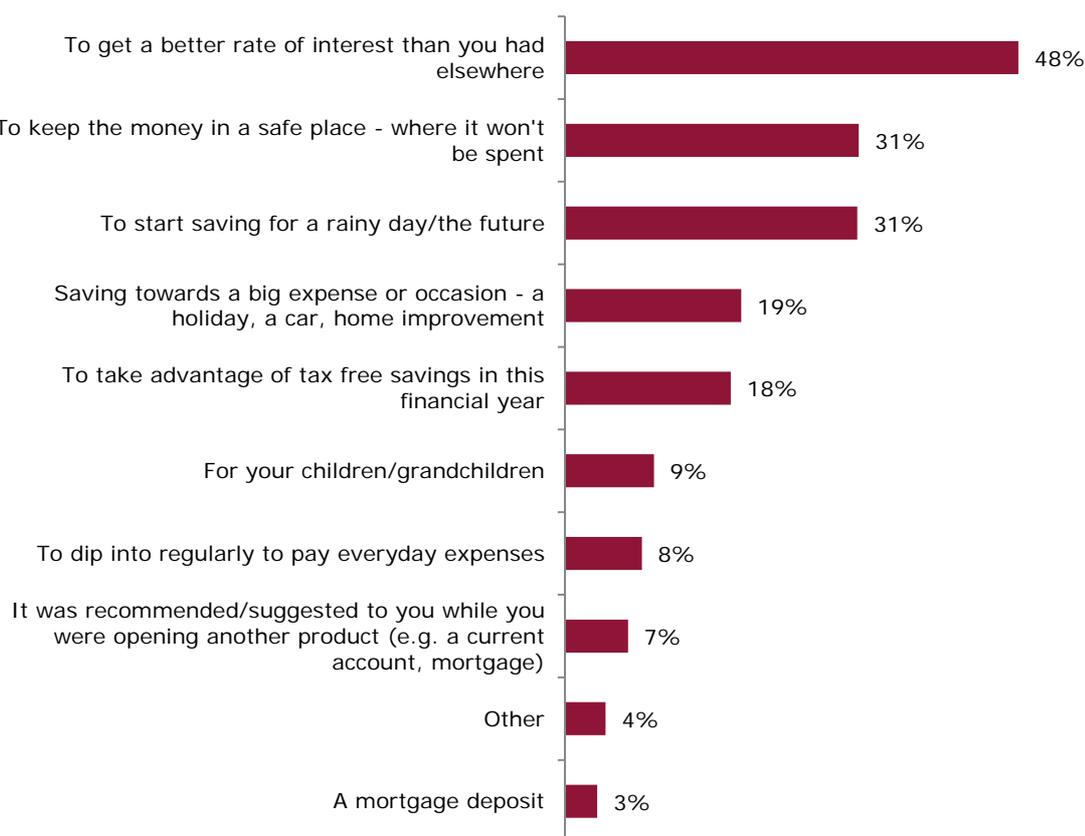
Features consumers look for in an account

Reasons for opening an account

30. The need to get a better rate of interest (48%), keep money in a safe place (31%), start saving for the future (31%) and saving towards a big expense (19%) dominated the list of reasons that had motivated respondents to open a new saving account in the last year (see *Figure 19*).²⁵ A further 8% said that they had opened the account to 'dip into regularly to pay everyday expenses' (i.e. 'transacting') and a further 7% had opened the savings account because it had been suggested to them while opening another account.

²⁵ Respondents could choose more than one reason so the percentages sum to more than 100%.

Figure 19: Proportion of respondents naming features that were important to them when choosing an account (all types of accounts)



Source: FCA analysis of the online survey, Question 15

Base: all respondents who opened a savings account in the preceding 12 months (769)

31. Further analysis of results for different types of accounts showed that 'getting a better rate of interest' was the most popular reason across all account types, apart from easy access Cash ISAs and children's accounts. However, getting a better interest rate was much more often mentioned as a reason for opening fixed-term products (70% for fixed term bonds and 61% for fixed term Cash ISAs) than easy access accounts (41%), regular savings accounts (59%) or children's savings accounts (22%).²⁶

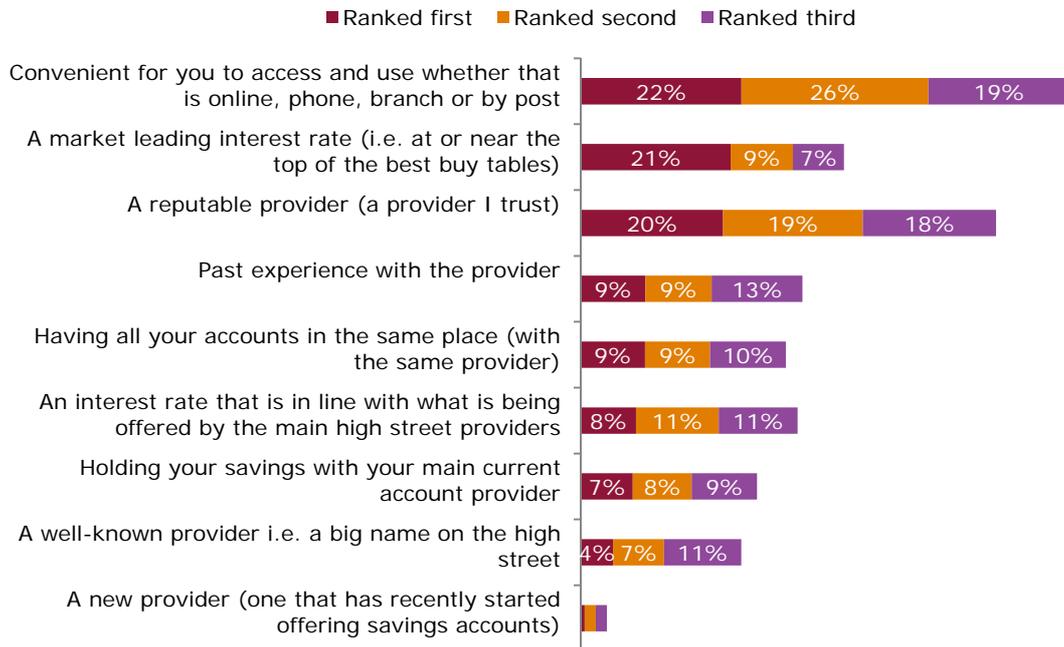
Features consumers look for in an account

32. Focusing on easy access accounts, we found that two of the three reasons most commonly cited for choosing an easy access account by those with at least one active easy access account were convenience and a reputable provider (i.e. a provider that consumers could trust) (see *Figure 20(a)*). However, 37% of respondents also chose a market leading interest rate as one of the three most important factors. These three factors were also the most important ones for Cash ISAs (see *Figure 20 (b)*).

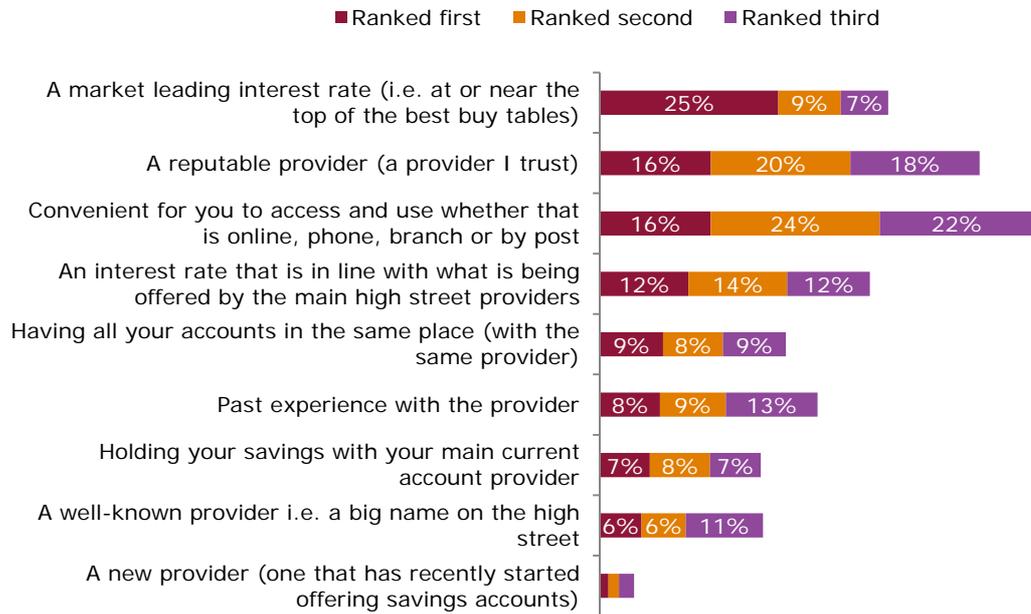
²⁶ Excluding notice accounts as the samples were too small (16 observations). For easy access Cash ISAs, the most common reason was to 'take advantage of tax free savings' (44%), followed by 'get a better rate of interest' (42%). For Children's accounts, the most popular reason was 'for children' (75%). Source: FCA analysis of the online survey, Question 15. Base: accounts opened in the last year (easy access accounts (292), easy access Cash ISAs (305), fixed term Cash ISAs (138), fixed term bonds (78), regular savings accounts (176), Children's savings accounts (88)).

Figure 20: Proportion of respondents naming features that were important to them when choosing an account

(a) Easy access accounts



(b) Easy access Cash ISA



Source: FCA analysis of the online survey, Questions 30 and 31

Base: all respondents holding at least one easy access account (2277) and at least one easy access Cash ISA (1840)

Shopping around behaviour

Extent and effectiveness of shopping around

33. We asked respondents who had opened a savings account in the last year what was the first thing they did when they shopped for their account and whether they decided on the savings product they eventually chose at that point or continued shopping around.
34. Between 74% and 82% of the four main account types²⁷ opened in the last year were opened after the account holder made just one step in his shopping journey, though for some respondents this involved looking at a comparison website (18% for those who opened an easy access account and 41% for those who opened a fixed term Cash ISA). Across easy access accounts, easy access Cash ISAs and fixed term Cash ISAs, the three most popular steps taken by the respondents who took one step were the same (see Figure 21).

Figure 21: Proportion of accounts for which the account holder took only one step in their shopping journey and the top three actions taken (split by four product types)

	Easy access	Easy Cash ISA	Fixed Term Cash ISA	Fixed term bond
<i>% who made a decision after the first step (Q19)</i>	82%	77%	74%	76%
Top three actions (Q18):				
<i>I went directly to a provider with which I already had an existing relationship (e.g. a personal current account)</i>	25%	16%	13%	11%
<i>Spoke to someone at a branch of your main financial institution</i>	11%	10%	11%	(Not in top 3)
<i>A comparison website e.g. moneysupermarket.com or best buy tables online</i>	18%	25%	41%	35%
<i>Spoke to someone at a the branch of the eventual provider of your account (where different to your main financial institution)</i>	(Not in top 3)	(Not in top 3)	(Not in top 3)	17%

Source: FCA analysis of the online survey, Questions 18 and 19

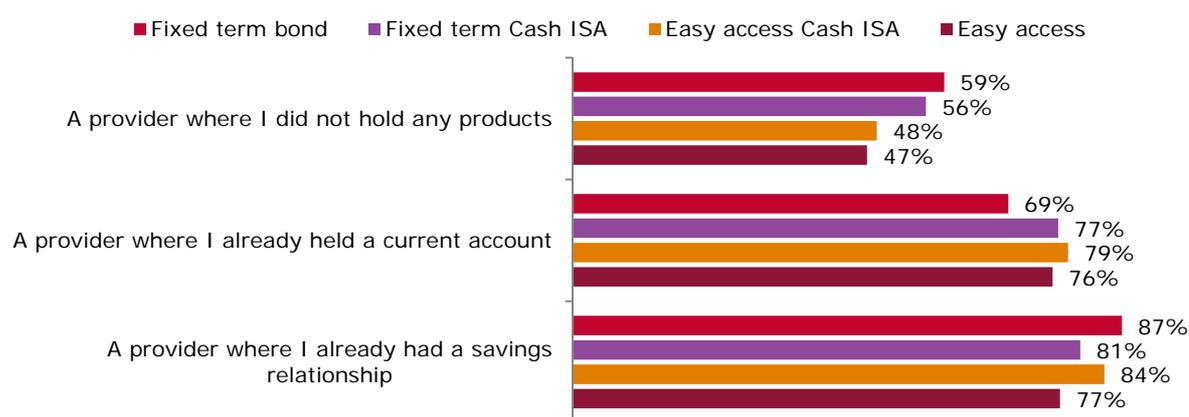
Base: for Question 19 - all accounts opened in the preceding 12 months (easy access (292), easy access Cash ISA (305), fixed term Cash ISA (138), fixed term bonds (78); for Question 18 – all those who responded 'yes' to question 19 (easy access (241), easy access Cash ISA (236), fixed term Cash ISA (100), fixed term bonds (61))

²⁷ Four main account types by total savings balances in these accounts (easy access accounts, easy access Cash ISAs, fixed term cash ISAs and fixed term bonds) – see Figure 1 in the main report.

Willingness to consider providers of different types

35. We asked all respondents who had opened an account in the previous 12 months what types of providers they would have been willing to consider for the account they had opened (see *Figure 22*). Many respondents said that they would not have been willing to consider an unfamiliar provider for that account if they had shopped around more widely. Across all product types, more respondents would have been willing to consider providers with which they already had an existing relationship (a savings relationship or a PCA) than a provider with which they did not have any products.

Figure 22: Providers that account holders would have been willing to consider for each of their accounts opened in the last 12 months



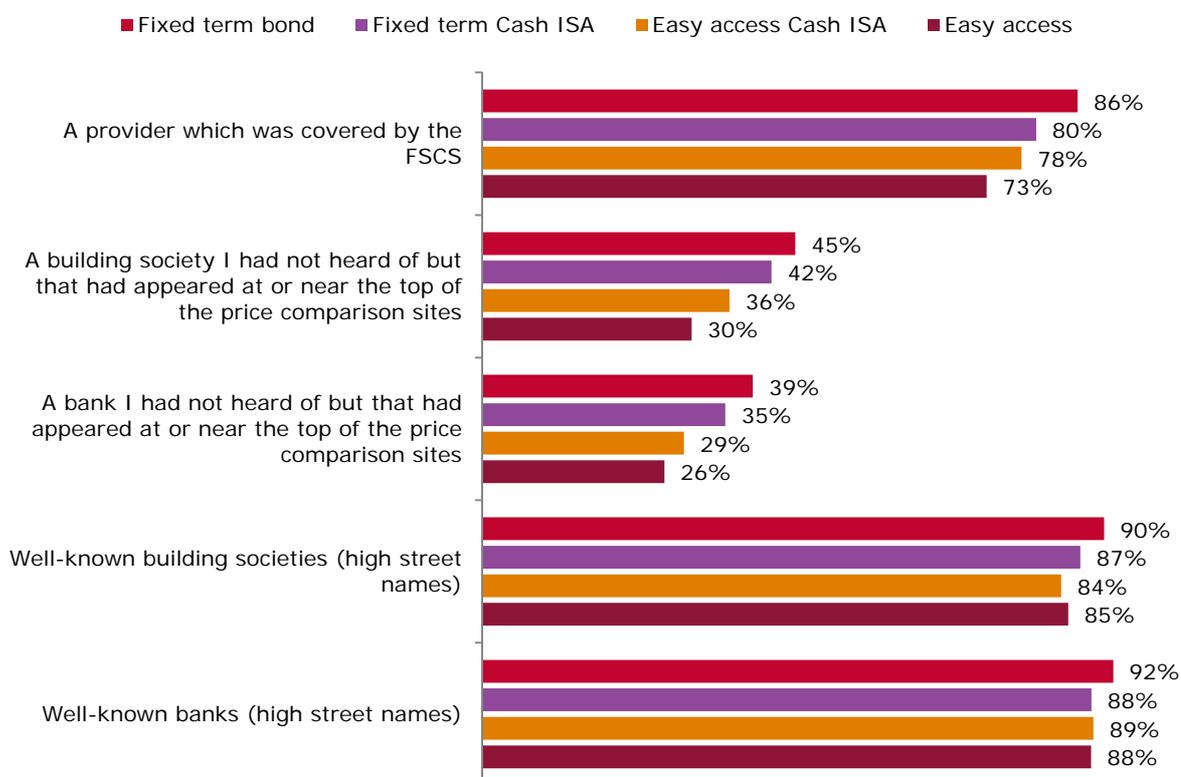
Source: FCA analysis of the online survey, Question 21

Base: accounts opened in the last 12 months (easy access (292), easy access Cash ISAs (305), fixed term Cash ISAs (138), fixed term bonds (78))

36. Account holders also had relatively low willingness to consider providers that they had not heard of even if they appeared at the top of price comparison tables (see *Figure 23*). Respondents generally favoured existing and well-known brands. Respondents who had opened fixed-term bonds or fixed-term Cash ISAs were marginally more willing to consider providers they had not heard of but that appeared at the top of the price comparison websites compared with respondents who had opened easy access accounts.²⁸

²⁸ These results could be explained by respondents only being willing to consider providers they perceive as reliable and trustworthy. When asked about what is important to consumers when looking for an easy access account or a Cash ISA, 'a reputable provider (a provider I trust)' was one of the top three features given by respondents.

Figure 23: Proportion of account holders of each product type that would have been willing to consider different types of providers for different types of accounts (all accounts opened in the last 12 months)



Source: FCA analysis of the online survey, Question 22

Base: accounts opened in the last 12 months (easy access (292), easy access Cash ISAs (305), fixed term Cash ISAs (138), fixed term bonds (78))

Awareness of interest rates

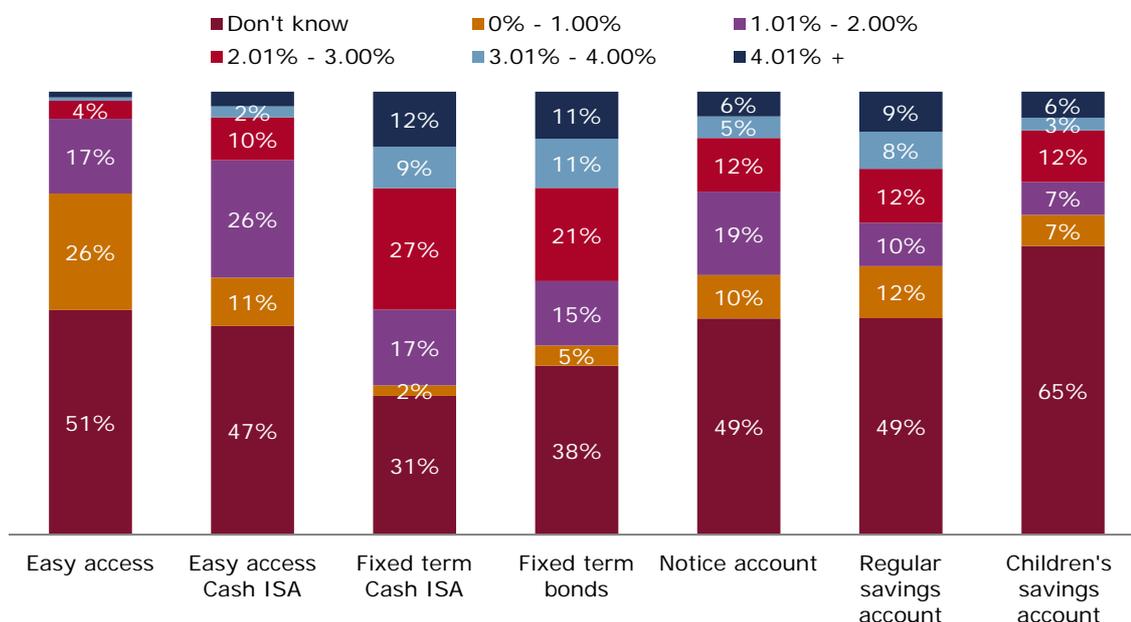
Awareness of interest rates and interest paid on consumers' existing accounts

37. We found that consumers often were not aware of interest rates paid on their accounts, particularly where balances were less significant. Respondents said that they did not know and/or could not estimate what interest rate they were receiving on between a third and around a half of active savings accounts of different types (see *Figure 24*).²⁹ Across all account types, among respondents who had stated an interest rate, respondents said that they knew the exact rate for only 47% of accounts and had

²⁹ In the telephone survey, 61% of respondents said that they did not know the interest rate, 1% refused to respond but the remaining respondents provided an estimate. Source: telephone survey, Question 8. Base: respondents' highest value accounts (260). Note that the results of the telephone and online surveys reported here are not directly comparable, as respondents to the telephone survey were only asked about their account with the highest balance, whereas respondents to the online survey were asked about all their accounts.

guessed the rate on 50% of accounts (e.g. based on what the interest rate had been when the account had been opened).³⁰

Figure 24: Proportion of accounts whose holder specified the interest rate on their account (all active accounts)



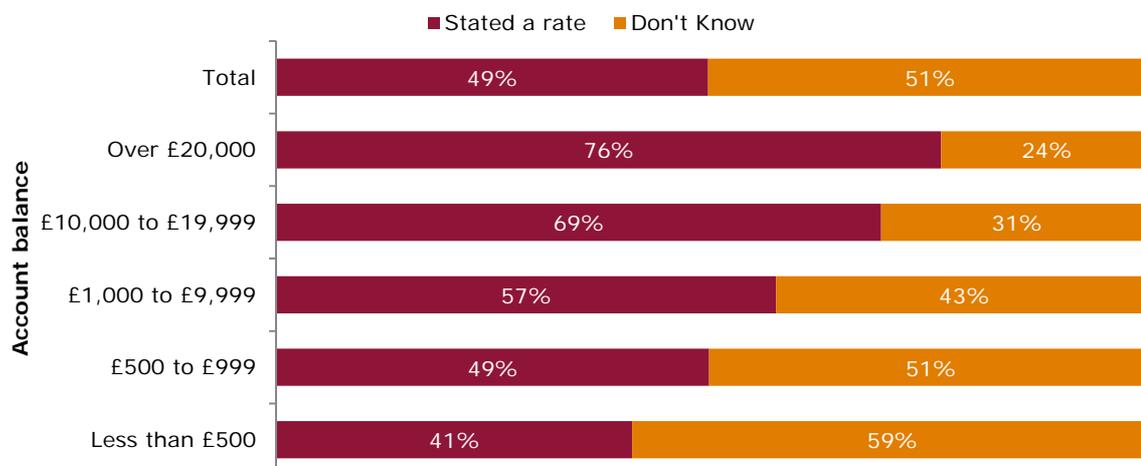
Source: FCA analysis of the online survey, Question 8

Base: all active savings accounts (Easy access (2742), Easy access Cash ISA (1883), Fixed term Cash ISA (674), Fixed term bonds (415), Notice account (127), Regular savings account (741), Children's savings account (653))

38. Although awareness of interest rates increased with the size of balance in the account, we found that, for easy access accounts, even in the higher account balance bands (£10,000-£19,999 and £20,000+) account holders did not know what interest rate was paid on around a third and a quarter of their accounts (see *Figure 25*).

³⁰ A further 4% had recently been sent information about the interest rate. Source: FCA analysis of the online survey, Question 9. Base: all accounts for which respondents provided a rate estimate (3660). We did not have an independent source of information on interest rates received by respondents in the sample, so we could not verify whether the stated interest rates were correct. These statistics are therefore likely to over-estimate consumer awareness of rates.

Figure 25: Proportion of easy access accounts whose holder stated an interest rate or did not know the interest rate, split by the different account balance bands



Source: FCA analysis of the online survey, Questions 8 and 3c

Base: all easy access accounts (less than £500 (935), £500 to £999 (244), £1,000 to £9,999 (758), £10,000 to £19,999 (162), £20,000+ (180), Total (2742)), note that 'total' includes those who did not state their balance

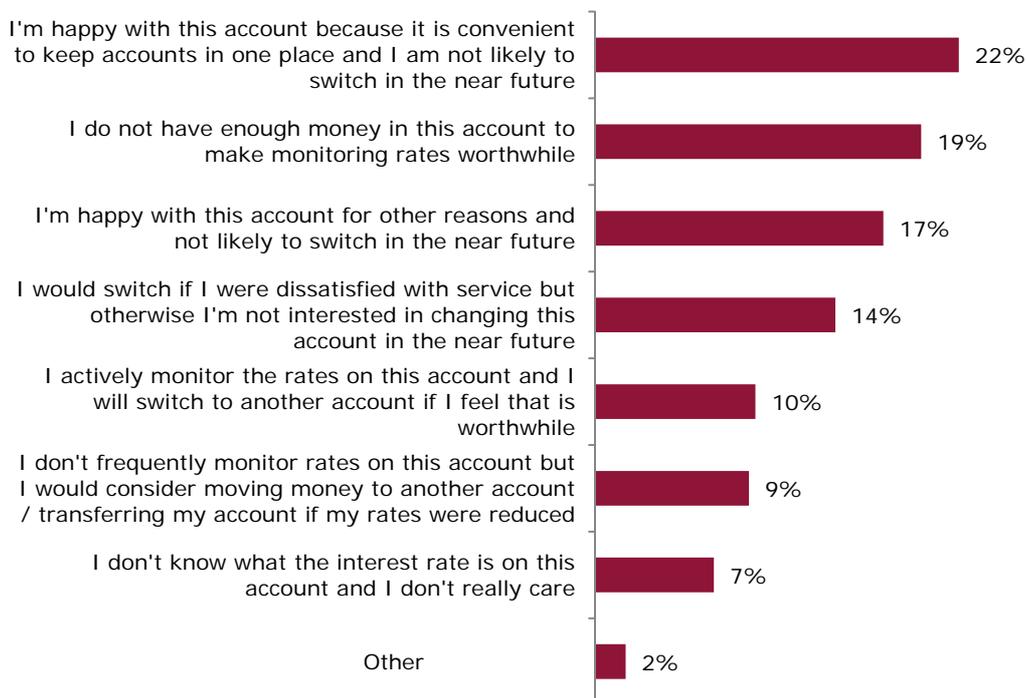
Attitudes to interest rate monitoring and switching

39. When asked about their account with the highest balance (across all account types):
- only 12% of respondents said that they actively monitored interest rates and would switch to another account if they felt it was worthwhile, and a further 10% said that they did not monitor interest rates but would consider switching if rates on their existing account were reduced
 - a further 42% were happy with their accounts and were not likely to switch in the future because it was convenient to keep accounts in one place or for other reasons, and 14% would switch only if they were dissatisfied with service
 - a further 14% said that they did not have enough money in the account to make monitoring interest rates worthwhile^{31, 32}
40. Results for easy access accounts were similar (see *Figure 26*).

31 A further 5% did not know what the interest rate was and did not really care and 2% chose 'other'. Source: FCA analysis of the online survey, Question 33. Base: respondent's account with the highest balance (2969).

32 The results from the telephone survey were similar, as only 11% said they actively monitored the interest rates on their account with the highest balance with a view to switching and a further 17% didn't frequently monitor interest rates on their account but might switch if rates were reduced. However, 35% said they were happy with their account and were not likely to switch if rates changed, 15% said they didn't have enough money in their account to make interest rate monitoring worthwhile, 8% did not know or care what the interest was on their account, 7% would switch if they were dissatisfied with their service, 6% provided a different reason and 1% did not know. Source: telephone survey, Question 33. Base: respondent's account with the highest balance (260).

Figure 26: Proportion of respondents whose account with the highest balance was an easy access accounts split by attitudes towards interest rate monitoring and switching

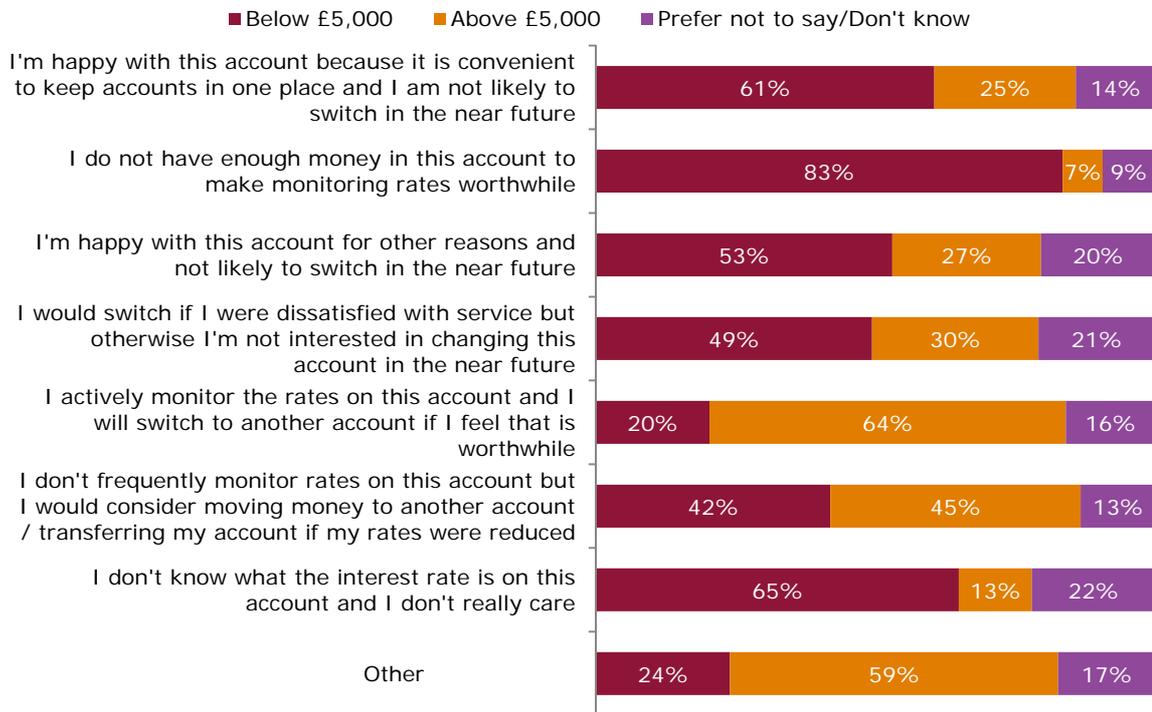


Source: FCA analysis of the online survey, Question 33

Base: respondents whose account with the highest balance was an easy access account (1105)

41. For easy access accounts, more than half of respondents who said that they would not switch due to convenience or other reasons had balances below £5,000 compared with only 20% of respondents who said that they actively monitored the interest rates having balances below £5,000 (see *Figure 27*). 83% of those who said that their balances were not high enough to make interest rate monitoring worthwhile had less than £5,000 in their account.

Figure 27: Proportion of respondents with balances above and below £5,000 split by attitudes towards easy access account interest rate monitoring and switching (for respondents whose account with the highest balance was an easy access account)



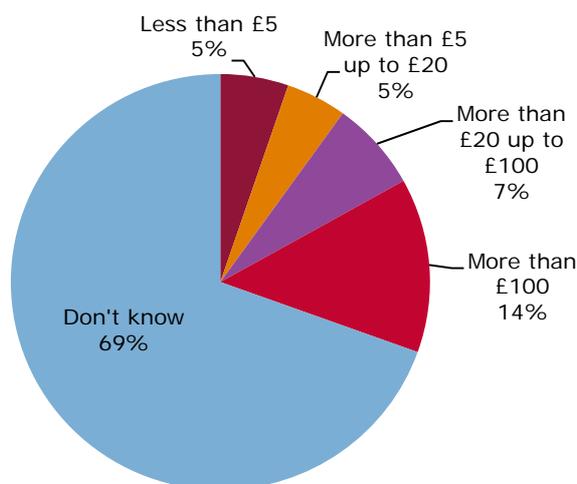
Source: FCA analysis of the online survey, Questions 33 and 3

Base: respondents whose account with the highest balance was an easy access account (1105)

Awareness of interest earned

42. The survey showed very low awareness of the amount of interest earned on accounts, as 69% of respondents did not know or could not estimate how much interest they had earned on their savings account with the highest balance in the last year (see *Figure 28*).

Figure 28: Proportion of respondents earning different amounts of interest in the last year in their account with the highest balance



Source: FCA analysis of the online survey, Question 34

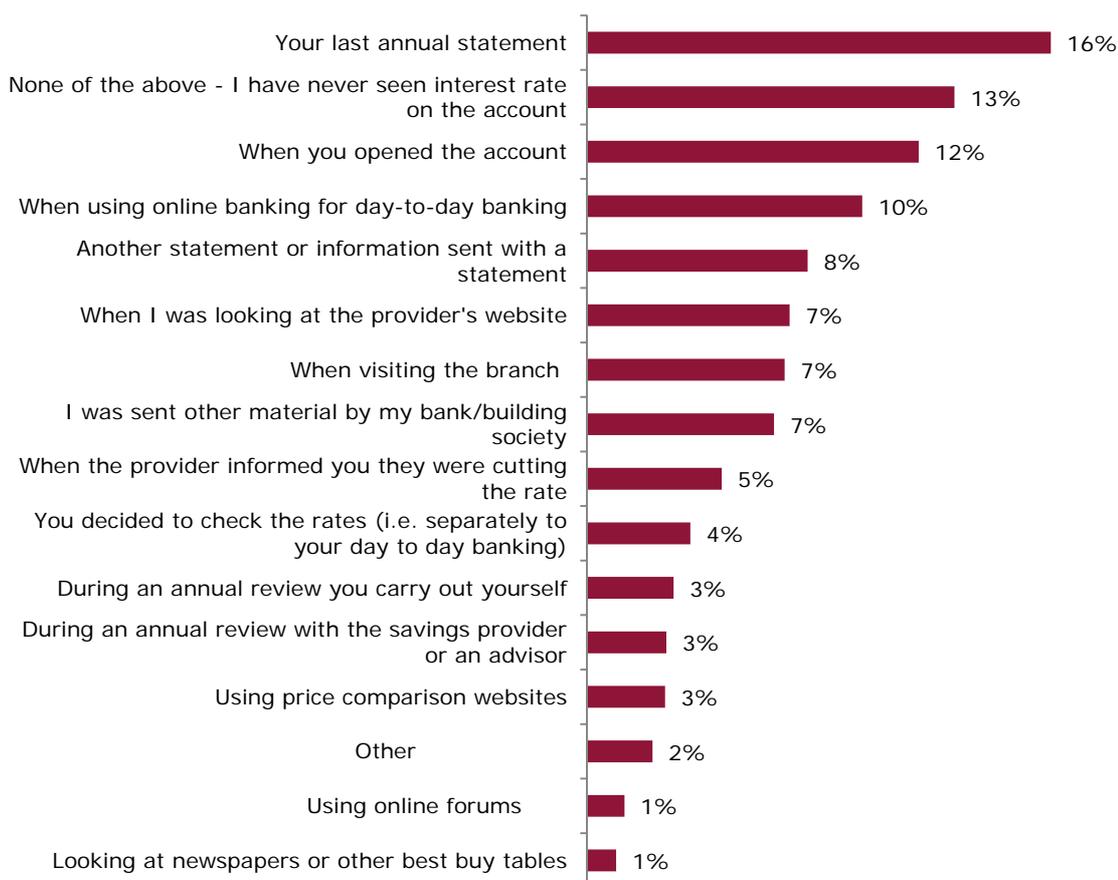
Base: account with the highest balance, all respondents (2996)

When did consumers last found out what their interest rate was?

43. We asked respondents how they last found out what the interest rate on their account with the highest balance was. While 43% were provided with this information, 22% had to actively search for the information and 14% never discovered the interest rate.³³ The most recent occasion when respondents had seen the interest rate on their account varied greatly, but the most popular responses were that it had been seen on an annual statement (16%), when opening an account (12%) or when using online banking for day-to-day banking (10%) (see *Figure 29*).

³³ A further 22% did not know or could not remember. Source: FCA analysis of the online survey, Question 35. Base: account with the highest balance (2996).

Figure 29: Proportion of respondents stating when they last saw the interest rate on their account with the highest balance



Source: FCA analysis of the online survey, Question 36

Base: account with the highest balance, all respondents (2996)

44. Most respondents (60%) had seen their interest rate in the last year, though 14% had seen it one to two years ago and a further 18% three or more years ago.³⁴ However, despite such a high proportion of respondents saying they had seen their interest rate in the last few years, about half of respondents did not know what their interest rate was.
45. Amongst those 11% who had found the interest rate using online banking, 68% said that the information was easy to find without too much effort. However, 24% of respondents said that they had to look for the relevant pages on their provider's website, 4% said that finding information was not easy and a further 4% did not find the information in the end.³⁵

Awareness of interest rates paid on the market

46. For respondents' accounts with the highest balance, we asked people whether they knew or could provide an estimate of the following:

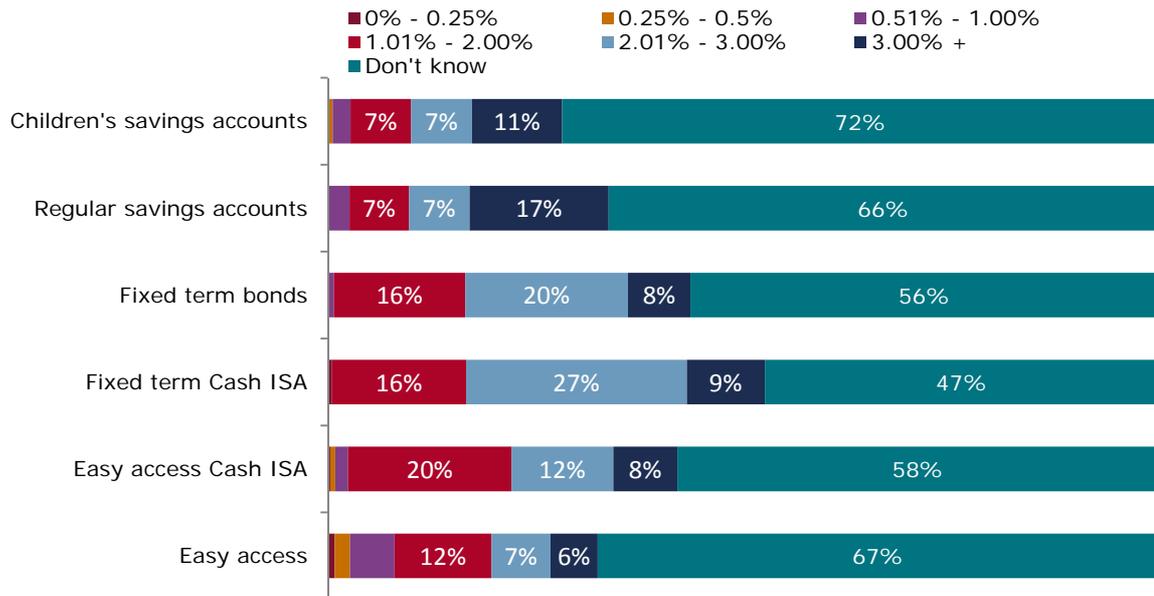
³⁴ A further 8% did not know. Source: FCA analysis of the online survey, Question 37. Base: respondent's account with the highest balance (2604).

³⁵ Source: FCA analysis of the online survey, Question 38., Base: all respondents who said they last saw the rate when using online banking in response to Question 36 (284).

- the highest interest rate being offered on that type of account by any savings provider, and
- the typical rate being offered on that type of account by a main high street savings provider

47. The responses showed that most respondents did not know or could not provide an estimate, both for the highest interest rate offered and a typical interest rate offered, across all product types (*Figure 30* and *Figure 31*).

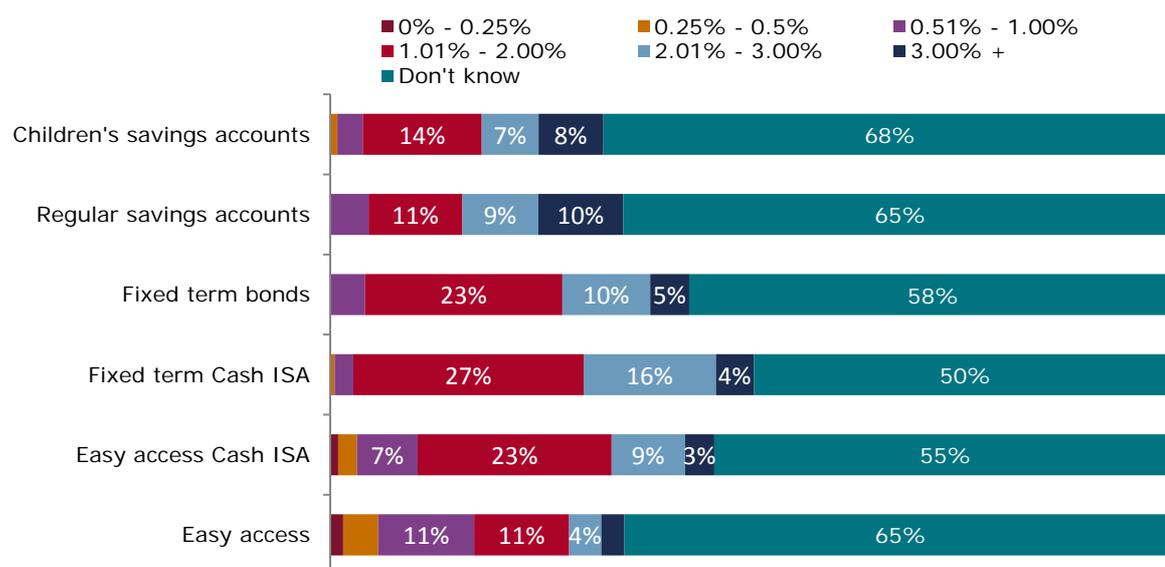
Figure 30: Proportion of respondents stating the highest interest rate being offered by any savings provider on each type of account



Source: FCA analysis of the online survey, Question 43

Base: respondents' account with the highest balance, excluding notice accounts due to small samples; (Easy access (1099), Easy access Cash ISA (1005), Fixed term Cash ISA (274), Fixed term bonds (161), Regular savings accounts (224), Children's savings accounts (151))

Figure 31: Proportion of respondents stating the typical interest rate being offered by a main high street provider on each type of account



Source: FCA analysis of the online survey, Question 44

Base: respondents' account with the highest balance, excluding notice accounts due to small samples; (Easy access (1099), Easy access Cash ISA (1005), Fixed term Cash ISA (274), Fixed term bonds (161), Regular savings accounts (224), Children's savings accounts (151))

48. For easy access accounts and easy access cash ISAs, a third to almost half of those respondents that could not estimate the interest rates in the market had balances below £1,000 (see *Figure 32*).

Figure 32: Proportion of respondents that could not estimate/did not know the interest rates offered in the market split by balances in the accounts

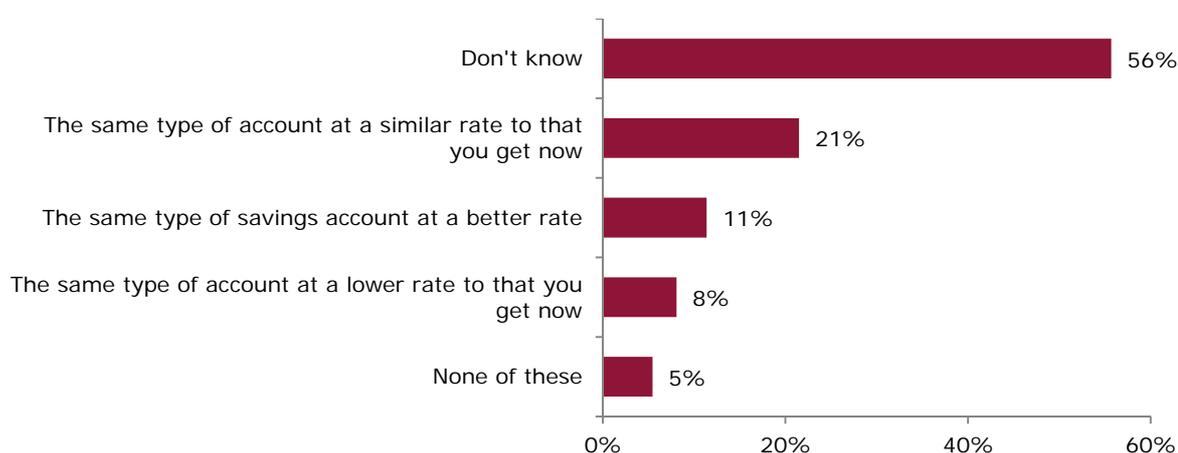
Balance in the account	Didn't know the highest rate offered on this type of account by any savings provider		Didn't know the typical rate offered on this type of account by a main high street provider	
	Easy access	Easy access Cash ISA	Easy access	Easy access Cash ISA
Below £1,000	45%	31%	45%	31%
£1,000 - £4,999	18%	20%	17%	20%
£5,000 - £9,999	7%	15%	7%	14%
£10,000 +	9%	11%	9%	11%
Prefer not to say/don't know	22%	23%	22%	24%
Total	100%	100%	100%	100%

Source: FCA analysis of the online survey, Questions 43, 44 and Q3

Awareness of providers' strategies

49. When asked about their savings account with the highest balance, more than half of respondents (56%) did not know whether their provider offered a similar account with the same or a different interest rate (see *Figure 33*).³⁶ For easy access accounts, 63% said that they did not know.³⁷

Figure 33: Proportion of respondents that knew whether their provider offered a similar type of account



Source: FCA analysis of the online survey, Question 39, multiple responses permitted

Base: account with the highest balance, 2641 responses from 2588 respondents, excluding fixed term bonds and fixed term Cash ISAs

50. Many of those who did not know had relatively large balances in their accounts:
- for easy access accounts, 21% of accounts had balances above £5,000, though 62% of accounts had balances below £5,000³⁸
 - for easy access Cash ISAs, 30% of accounts had balances above £5,000, though 51% had balances below £5,000³⁹
51. Those who knew that their provider offered different accounts found out mainly because they had seen so in a branch or looked it up on a website (29%) or because it was mentioned to them when they visited the branch (26%).⁴⁰ 43% of these respondents thought it very or fairly likely that they would switch to the account with the better

36 In the telephone survey, 50% said that they did not know whether their provider currently offered the same type of account as their account with the highest balance at a better interest rate. 13% said their provider offered such an account and 25% said that their provider did not. 11% did not provide a response. Source: telephone survey, Question 39a, Base: all respondents' highest value accounts (260).

37 Source: FCA analysis of the online survey, Question 39, Base: all respondents whose account with the highest balance was an easy access account (1111).

38 A further 17% did not state their balances. Source: FCA analysis of the online survey, Questions 39 and 3c. Base: respondents whose highest balance account was an easy access account, those who said that they did not know whether their provider offered similar accounts with different interest rates (699).

39 A further 20% did not state their balances. Source: FCA analysis of the online survey, Questions 39 and 3c. Base: respondents whose highest balance account was an easy access Cash ISAs, those who said that they did not know whether their provider offered similar accounts with different interest rates (507).

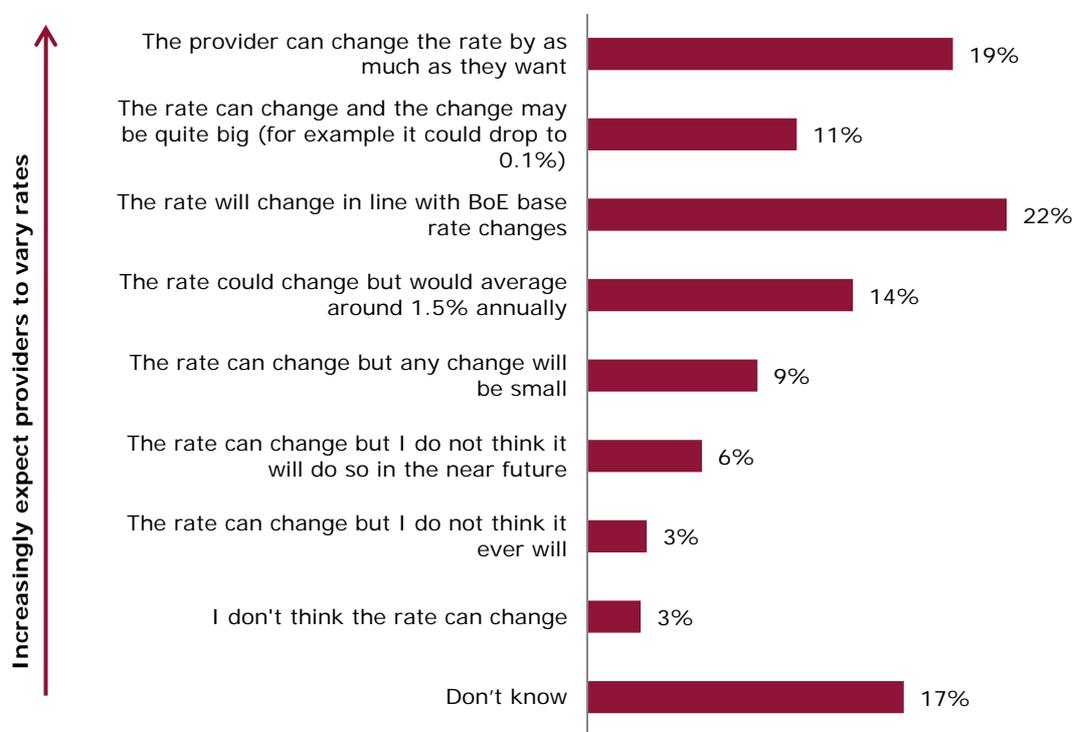
40 A further 20% found out the interest rate through other resources, the information was provided to 19%, 17% saw the interest rate through advertising on online banking site and 11% as a result of contacting the provider. A further 4% chose 'other'. Source: FCA analysis of the online survey, Question 40. Base: respondent's account with the highest balance, all respondents who knew whether their provider offered different accounts (296).

interest rate.⁴¹ The most common reason for not intending to switch was that the respondent was happy with the convenience/service provided (40%). Others thought that the difference in interest rates were not very big (35%) and/or balances not high enough to make switching worthwhile (33%). 19% thought that it would be too much hassle to move.⁴²

Expectations around interest rate variability

52. We tested consumers' understanding of interest rates by asking what they expect from their variable rate product over time. The answers revealed widespread misunderstanding and unrealistic expectations about how much variable rates could change (see *Figure 34*).

Figure 34: Proportion of respondents giving different answers to the question: Consider an easy access savings account offering the interest rate 1.5% (variable). Which of the below describe what you expect from this account?



Source: FCA analysis of the online survey, Question 57a

Base: all respondents (2996)

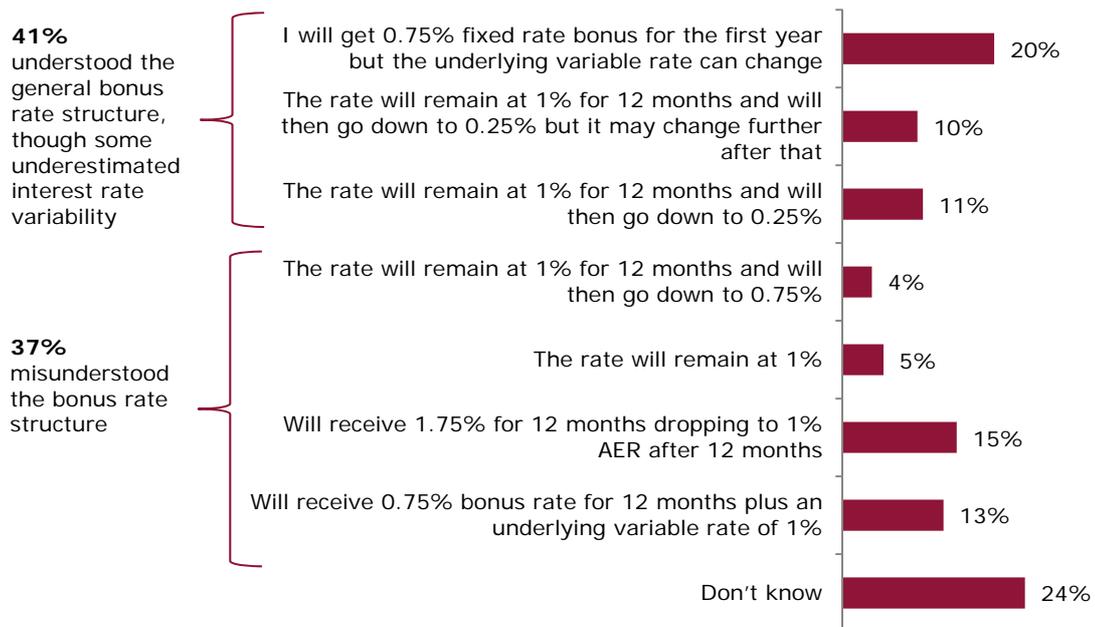
53. We also tested whether respondents understood bonus interest rate terminology by presenting an offer similar to what they would see on a price comparison website. We found that 41% understood the general bonus rate structure (i.e. could identify the bonus rate, the gross interest rate including bonus and the advertised post-bonus interest rate), though 21% did not realise that the underlying variable interest rate

41 A further 28% said that it was neither likely nor unlikely, 18% said that it was fairly unlikely and 11% said that it was unlikely. Source: FCA analysis of the online survey, Question 41. Base: respondent's account with the highest balance, all respondents who knew whether their provider offered different accounts (296).

42 The remaining options were less popular with between 1% and 8% of respondents choosing each of the options. Source: FCA analysis of the online survey, Question 42. Base: respondent's account with the highest rate, those who knew that their provider offered an account with a different interest rate but did not intend to switch (88).

could change during the bonus period and/or afterwards. A further 37% did not correctly state what the advertised bonus rate, gross rate or post bonus rate was (e.g. compounded the interest rates or assumed that the interest rate would stay constant) (see Figure 35).

Figure 35: Proportion of respondents giving different answers to the question: Consider an easy access savings account offering an initial bonus: “1% variable, includes fixed bonus of 0.75% for 12 months”. Which one of the below describes what you expect from this account?



Source: FCA analysis of the online survey, Question 57b

Base: all respondents (2996)

Switching

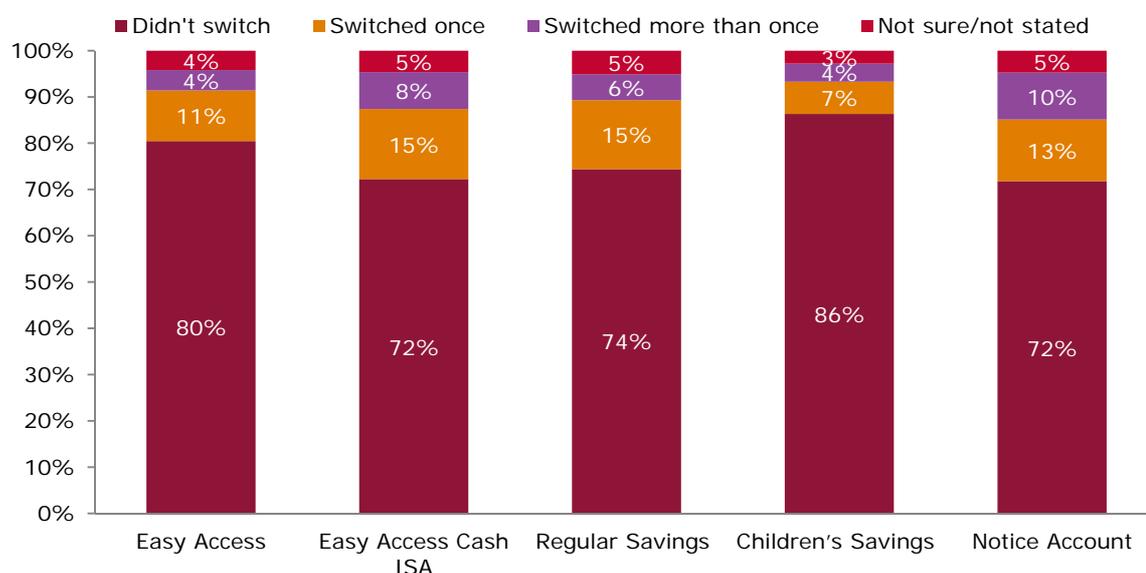
54. In this section we set out the consumer survey evidence on:

- switching rates
- reasons for switching
- internal versus external switching
- characteristics of accounts switched and not switched
- whether consumers had considered switching accounts that had not been switched in the last three years
- switching following bonus rate expiry and interest rate cuts
- what would incentivise consumers to switch

Switching rates

55. Our consumer survey showed that most variable interest rate savings accounts had not been switched in the last three years.^{43,44} In particular, only 15% of easy access accounts and 23% of easy access Cash ISAs were switched at least once in the last three years (see *Figure 36*).⁴⁵ For these two types of products, about half of switching activity was internal: consumers switched between different accounts offered by the same provider rather than between providers.⁴⁶ Based on respondents' total balances in their accounts at the time of our consumer survey, we estimated that the balances in the switched accounts amounted to about 26% of total easy access balances and 28% of easy access Cash ISA balances.

Figure 36: Proportion of active savings accounts switched at least once, internally or externally, in the last three years



Source: FCA analysis of the online survey, Question 23

Base: all active easy access accounts (2742), easy access Cash ISAs (1883), Regular savings accounts (741), Children's savings accounts (653), Notice accounts (127)

56. However, taking respondents' balances at the time of our consumer survey as a proxy for balances in their accounts at the time of switching, our survey shows that

43 Our analysis of switching rates excluded fixed term bonds and fixed term Cash ISAs due to difficulties with assessing fixed term product switching. These products require consumers to lock away their deposits for relatively long periods of time (one or more years) and at the end of the term consumers may no longer be willing to lock the money away for a similar period of time. We were concerned that it would be particularly difficult to differentiate switching from withdrawals to spend or to put money in another type of account where the money is not locked away for a similar term. Instead, we assessed consumer engagement in the fixed-term segment by looking at consumers' awareness of interest rates and shopping around. We considered that results on consumer awareness of interest rates and shopping around gave us better evidence for analysing the fixed term bond segment of the market.

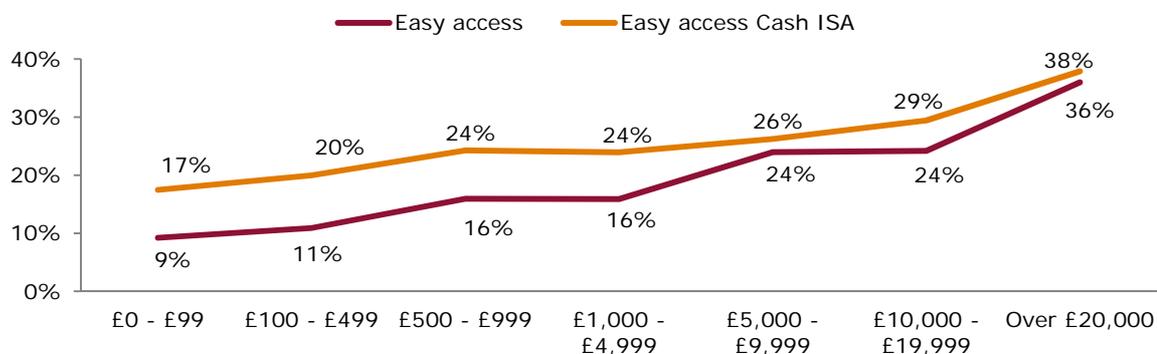
44 We asked respondents whether they had switched each of their accounts in the last three years and specified that 'Switching means that you have replaced an old account by moving most or all of your balances to a new account of the same type and using it for your savings needs. You may have remained with the same provider. You may have left a small amount of money in your old account just to keep it open in case you need it, or you may have closed it' (Question 23).

45 In the telephone survey, 21% of respondents had switched at least one of their accounts in the last three years. A further 77% had not switched their account and 2% did not know. Source: telephone survey, Question 23a. Base: 260.

46 62% of easy access accounts and 53% of easy access cash ISAs that were switched in the last three years were switched within the existing provider. Source: FCA analysis of the online survey, Questions 23, 18(2), 19(2), Base: all switched easy access accounts (420), all switched easy access Cash ISAs (439).

consumers tended to become more active as the size of balances in the account increased (see *Figure 37*).⁴⁷

Figure 37: Proportion of accounts switched, internally or externally, at least once in the last three years by current balances in the account



Source: FCA analysis of the online survey, Questions 23 and 3c

Base: easy access accounts (361) and easy access Cash ISAs (370) switched in the last three years, excluding accounts for which respondents did not specify balances

57. Most respondents (74%) had closed their old account the last time they switched but 26% had left it open.⁴⁸ Those who had kept the account open largely did so in case they needed the account in the future (32%) or because they still kept some funds in it (34%).⁴⁹

Reasons for switching

58. The top three reasons for switching were related to interest rates: 31% of respondents switched after bonus rate expiry, 25% after their interest rate was cut by their provider and 13% found a better interest rate (see *Figure 38*).⁵⁰ Links with a consumer's PCA also were important, as 8% switched because they changed their PCA provider. The 'push' factors were less important: 7% experienced problems with the way the account was managed and 5% encountered unexpected charges or penalties.⁵¹

47 We have taken current balances in the account as a proxy for balances in the account at the time of switching. Balances in the account at the time of switching may have been higher or lower than the current balances.

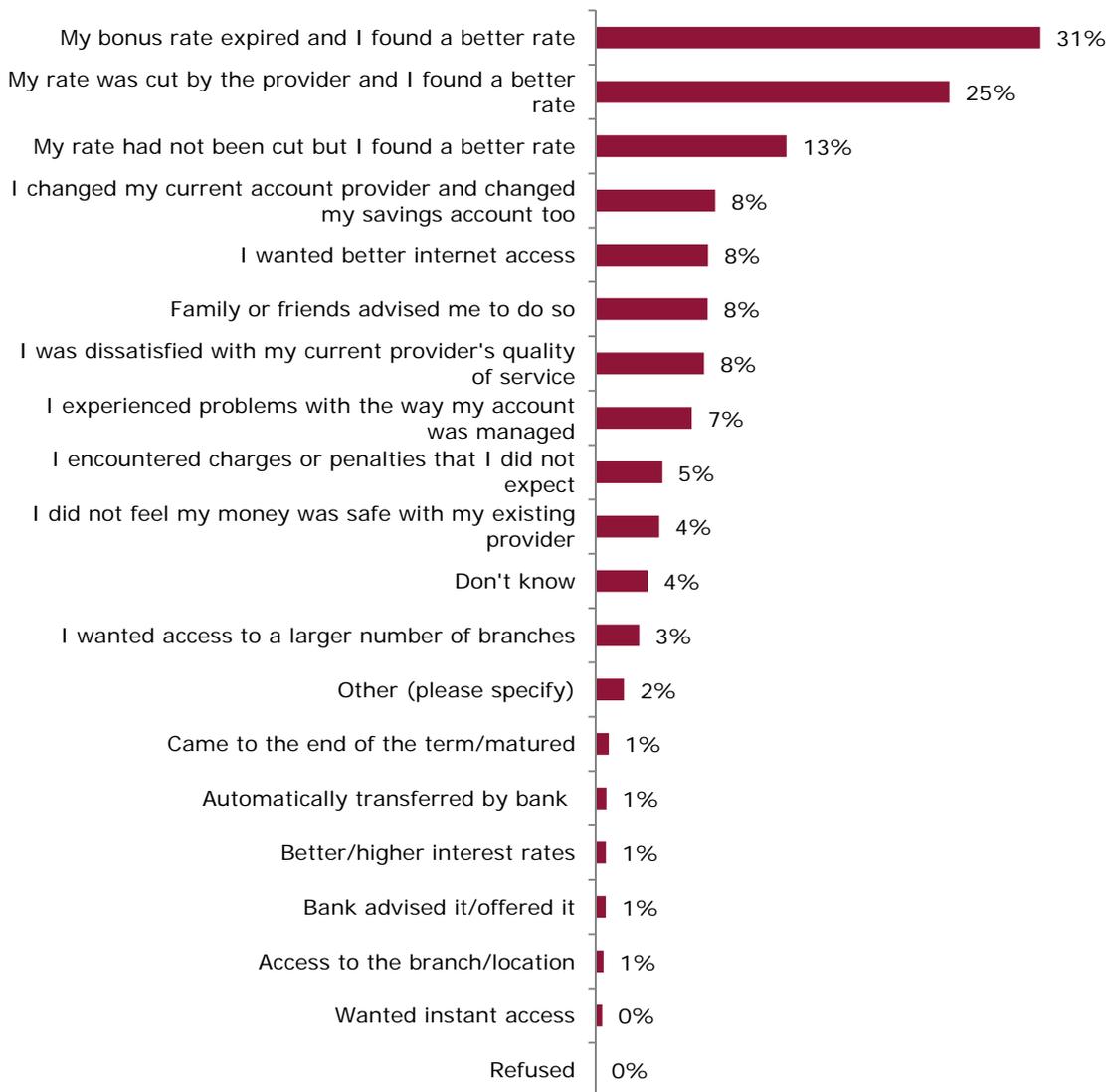
48 Source: FCA analysis of the online survey, Question 25. Base: account last switched (745).

49 A further 11% had left it open but intended to close it in the future, 19% had found it easier to leave it open, 10% had needed to keep it open to qualify for other products, 9% chose 'other' and 8% said they had kept it open for no particular reason. Source: FCA analysis of the online survey, Question 26. Base: account last switched, all those who kept the account open in response to Question 25 (188).

50 A further 1% also specified "better/higher interest rates" under "other", see *Figure 38*.

51 We have not discussed the reasons for switching in the telephone sample due to the small sample (55 observations).

Figure 38: Proportion of respondents who chose each reason for switching the last time they switched an account (respondents could choose more than one reason)

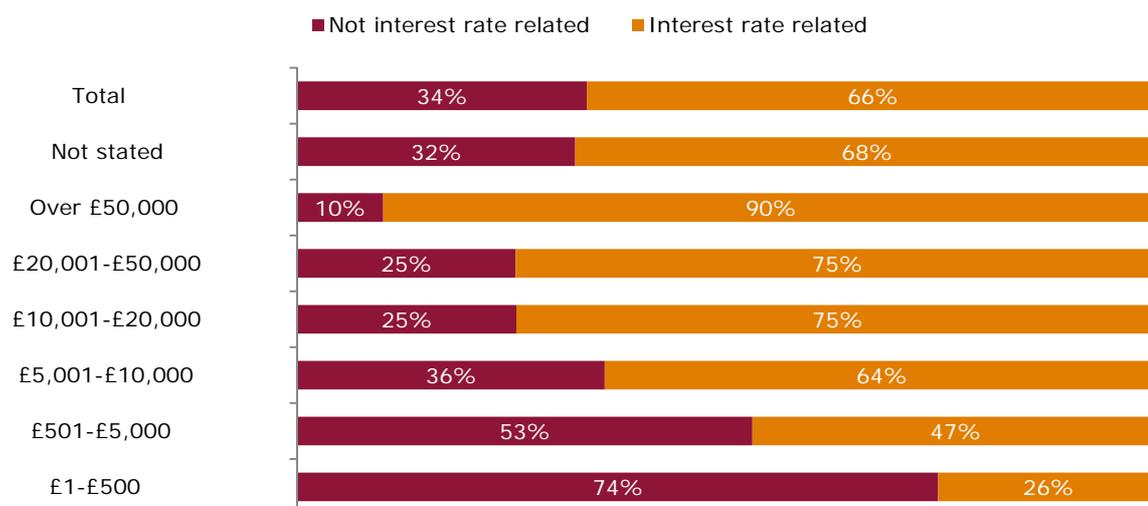


Source: FCA analysis of the online survey, Question 24

Base: all accounts switched in the last three years, excluding Credit Union accounts (743)

59. Those respondents who chose interest rate related reasons for switching (the top three reasons in *Figure 38*) tended to have higher total savings balances (see *Figure 39*).

Figure 39: Proportion of respondents in each total savings balance band that gave interest rate related reasons for switching



Source: FCA analysis of the online survey, Questions 24 and 10

Base: all accounts switched in the last three years (707), excluding those who said 'don't know'

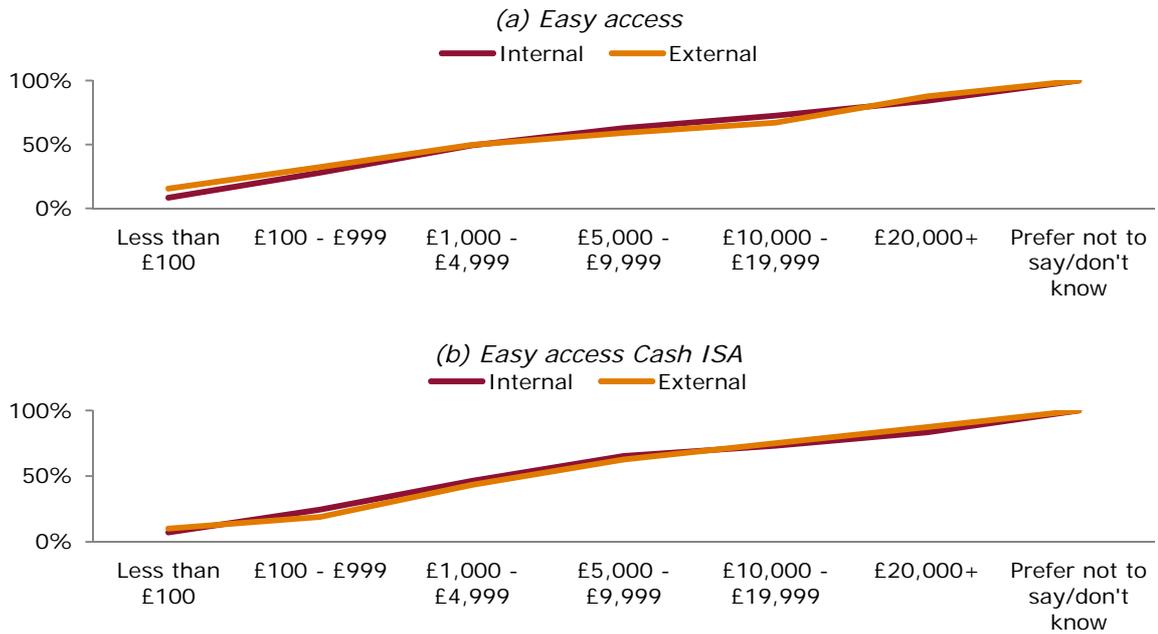
Internal vs. external switching

60. About half of switching activity was internal (i.e. switching between accounts offered by the same provider). In the previous three years:
- for easy access accounts, 62% of accounts were switched only within the existing provider, 34% switched between different providers and 4% had been switched both within an existing provider and between providers⁵²
 - for easy access Cash ISAs, 53% of accounts were switched only within the existing provider, 40% switched between different providers and 8% had been switched both within an existing provider and between providers⁵³
61. The cumulative distribution of current balances in the accounts did not differ much between internal and external switchers (see *Figure 40*).

52 Source: FCA analysis of the online survey, Questions 23, 18(2) and 19(2). Base: all easy access accounts switched in the last three years (420).

53 Source: FCA analysis of the online survey, Questions 23, 18(2) and 19(2). Base: all easy access Cash ISAs switched in the last three years (439). Figures do not sum to 100% due to rounding.

Figure 40: Cumulative distribution of accounts in the different balance bands for internal and external switchers



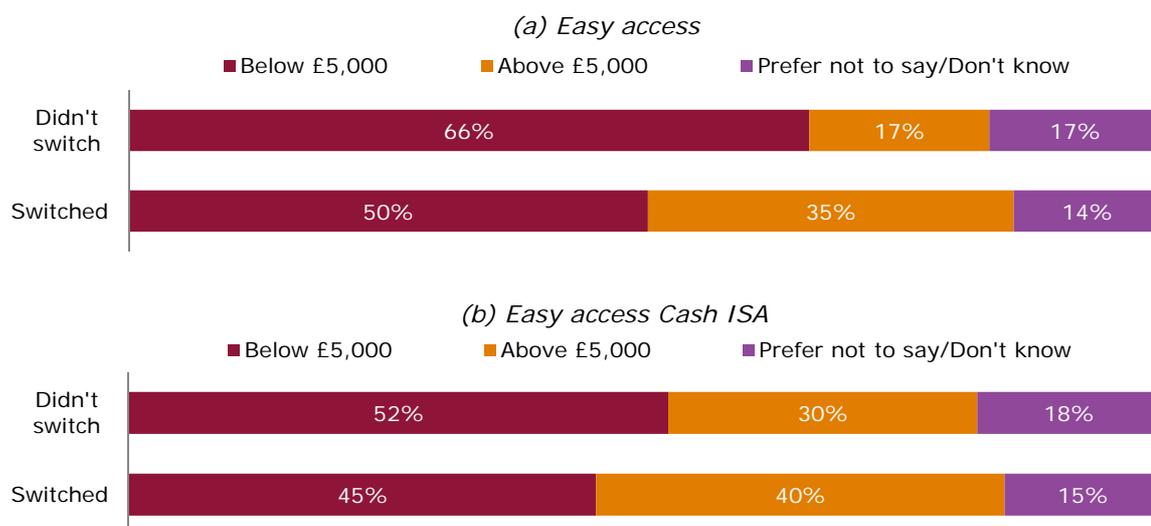
Source: FCA analysis of the online survey, Questions 23, 18(2), 19(2) and 3c

Base: accounts switched in the last three years (easy access (internal switchers (259), external switchers (144)), easy access Cash ISAs (internal switchers (232), external switchers (174)))

Characteristics of accounts switched and not switched

62. Accounts switched in the last three years tended to have higher balances in the account than accounts that had not been switched: 35% of switched easy access accounts had balances above £5,000 compared with only 17% of accounts that had not been switched (40% and 30% respectively for easy access Cash ISAs) (see *Figure 41*).

Figure 41: Proportion of accounts with balances above and below £5,000 that had not been switched in the last three years compared with balances in accounts that had been switched at least once



Source: FCA analysis of the online survey, Questions 23 and 3c

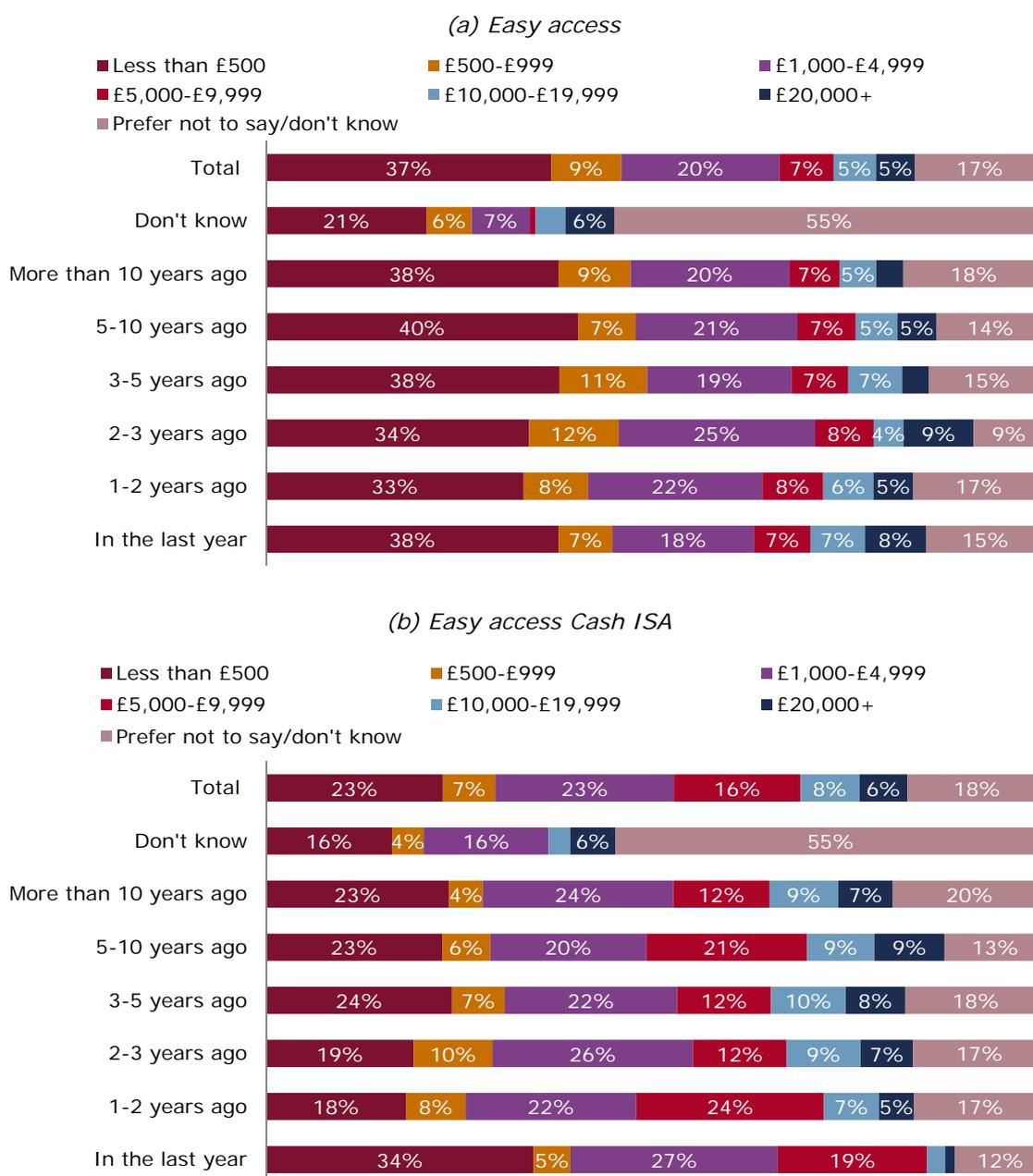
Base: all easy access accounts (not switched (2208), switched (421)), all easy access Cash ISAs (not switched (1360), switched (436))

Accounts that had not been switched in the last three years

63. More than half of easy access accounts and easy access Cash ISAs that had not been switched in the last three years had balances below £5,000 see *Figure 42*). So the benefits of switching may not have been worthwhile. However, the monetary gains were likely to be more significant for some accounts, particularly older accounts that may be receiving lower interest rates, as, for example, 11% of easy access and 15% of easy access Cash ISAs were older than three years and had balances above £5,000.⁵⁴

⁵⁴ Calculated using data underlying Figure 42, see base for Figure 42. Base includes accounts for which respondents did not provide account and/or account balance information, so this may be an underestimate.

Figure 42: Proportion of accounts that had not been switched in the last three years with different balances split by different age of accounts



Source: FCA analysis of the online survey, Questions 23 and 3b

Base: easy access accounts not switched in the last three years (opened in the last year (172), 1-2 years ago (255), 2-3 years ago (237), 3-5 years ago (353), 5-10 years ago (468), more than 10 years ago (649), Don't know (75)), easy access Cash ISAs not switched in the last three years (opened in the last year (179), 1-2 years ago (248), 2-3 years ago (235), 3-5 years ago (232), 5-10 years ago (246), more than 10 years ago (157), Don't know (60))

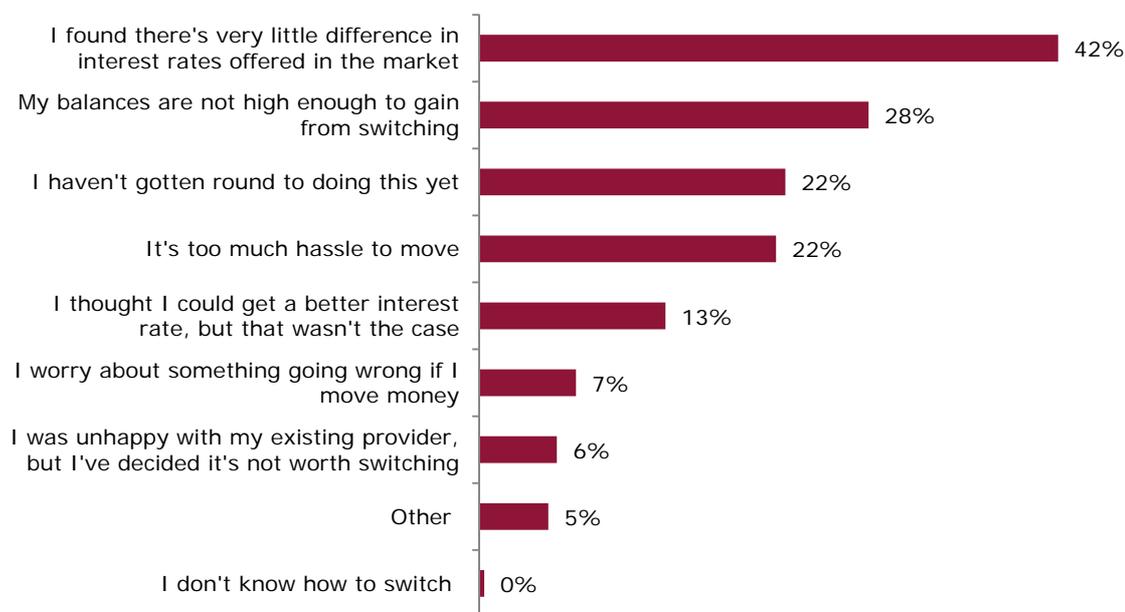
Had consumers considered switching?

64. Looking at variable rate accounts older than three years, the proportion of accounts that respondents had considered switching was very low:

- 22% considered switching within the same provider
- 18% considered switching to a different provider

65. 20% considered moving balances to a different type of account^{55,56} Those who had considered switching but had not done so were mainly put off by the low potential gains and low difference in interest rates (see *Figure 43*). Looking at easy access accounts, 81% of those who said that their balances were not high enough had balances below £5,000.⁵⁷

Figure 43: Reasons why account holders considered but did not switch their easy access accounts (proportion of accounts)



Source: FCA analysis of the online survey, Question 28

Base: all easy access accounts older than three years that respondents considered switching but did not switch (383)

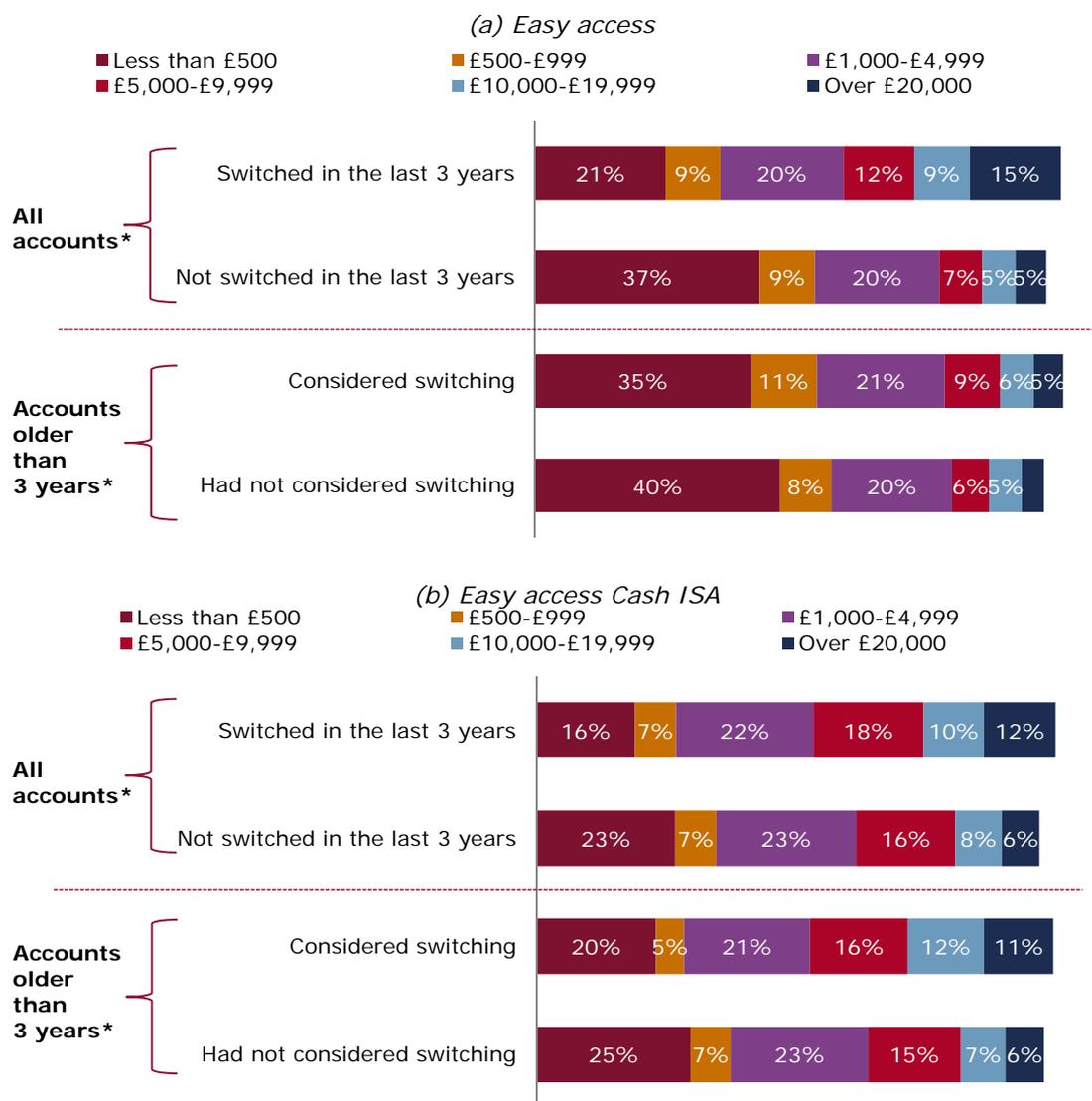
66. Most of the accounts that consumers had not considered switching had relatively low balances: 68% of easy access accounts and 55% of easy access Cash ISAs had balances below £5,000 (see *Figure 44*).

55 The results are not additive. Source: FCA analysis of the online survey, Question 27. Base: all easy access, easy access Cash ISAs, notice accounts and regular savings accounts older than three years (1657). For easy access accounts, respondents had considered but did not switch 33% of accounts and had not even considered switching 67% of accounts older than three years. For easy access Cash ISAs, respondents had considered but did not switch 34% of accounts and had not even considered switching 66% of accounts older than three years. Source: FCA analysis of the online survey, Question 27, Base: all active easy access accounts (1481) and easy access Cash ISAs (655) older than three years.

56 In the telephone survey sample, when asked about all their accounts older than three years, 11% of respondents had considered switching at least one of these accounts but had not switched, but 73% had not considered switching any of these accounts. A further 4% had switched at least one of their old accounts but had left it open after switching, and 10% did not provide a response. Source: telephone survey, Question 27. Base: all respondents with savings accounts more than three years old (260).

57 A further 14% had balances above £5,000 and 5% did not provide their balance information. Source: FCA analysis of the online survey, Questions 23 and 3. Base: easy access accounts that respondents had considered switching but did not switch, all those who said that their balances were not high enough to switch (108).

Figure 44: Proportion of accounts in different balance bands split by accounts switched/not switched in the last three years, and accounts older than three years where the account holder has considered switching and has not considered switching



Source: FCA analysis of the online survey, Questions 3, 23 and 27

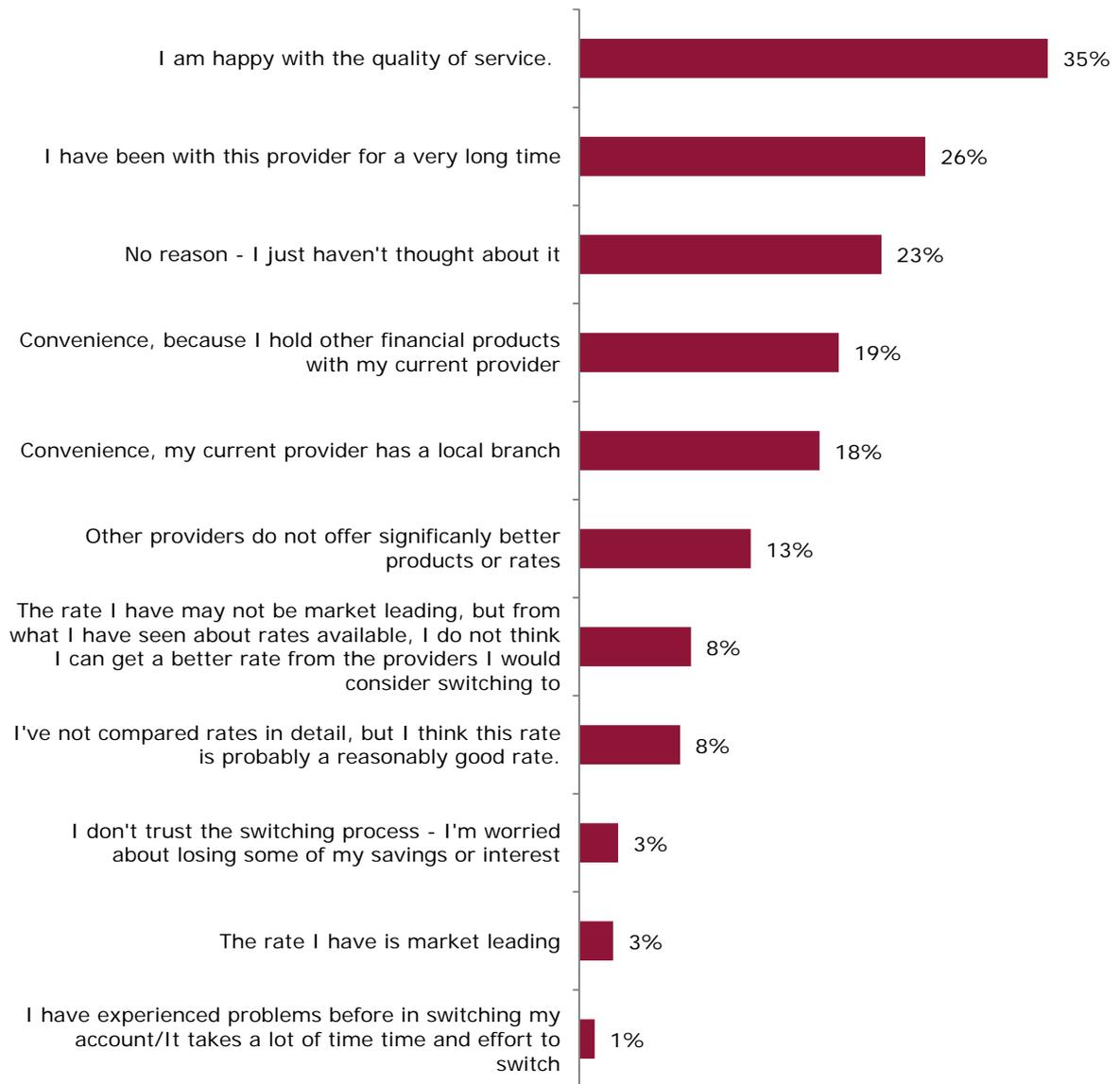
Base: easy access accounts (all accounts switched in the last 3 years (421) and not switched in the last 3 years (2208), accounts older than 3 years considered switching (482) and not considered switching (999)), easy access Cash ISAs (all accounts switched in the last 3 years (436) and not switched in the last 3 years (1360), accounts older than 3 years considered switching (220) and not considered switching (435)); the underlying data includes those who did not state their account balance, but this data has not been reported in the chart

* Accounts older than three years are a sub-set of all active accounts (56% of all active easy access accounts and 36% of all active easy access Cash ISAs). Accounts not switched in the last 3 years include both accounts not switched that are older than 3 years and accounts younger than 3 years.

67. The main reasons for not even considering switching were not interest rate related: 35% were happy with the quality of service, 26% had been with their provider for a

very long time and 23% just had not thought about switching. A further 19% stated convenience as they held other products with that provider (see *Figure 45*).⁵⁸

Figure 45: Reasons for not considering switching accounts older than three years (proportion of respondents)



Source: FCA analysis of the online survey, Question 29

Base: all accounts older than three years respondents have not considered switching (1048)

58 In the telephone survey sample, being happy with the quality of service was an even more important consideration as 65% of respondents referred to it as a reason for not seriously considering switching, which was followed by 25% stating that their provider had a local branch. Note that the questions in the online and telephone surveys were not comparable as in the online survey the question was asked about all of the respondent's accounts but in the telephone survey the question was asked about accounts older than three years. Source: telephone survey, Question 29. Base: savers with accounts more than three years old who have not considered switching (190).

Switching following bonus rate expiry and interest rate cuts

Bonus rate expiry

68. We asked all respondents who said they had a bonus rate on their account why they had chosen their account and whether they were aware of the bonus rate at the point of sale:
- 83% said they were aware of the bonus rate when they took out the product⁵⁹
 - 57% said they had chosen the product because of the bonus rate, and
 - 51% said they intended to move the money when the bonus rate expired⁶⁰
 - Only 45% of respondents whose bonus rate had expired recalled their provider contacting them before the bonus rate expiry.⁶¹
69. Amongst those whose bonus rate had expired, 32% had moved their money to an account with the same provider following bonus rate expiry and 11% to an account with a different provider. However, 57% of respondents had not yet moved their money.⁶²
70. The two most popular reasons for not switching were related to lack of perceived benefits (29% said that they 'could not get a better deal elsewhere' and 27% said that they did not have enough money in the account to make switching worthwhile), though 20% said they had not moved because it 'takes too much time and effort to move' (see *Figure 46*).

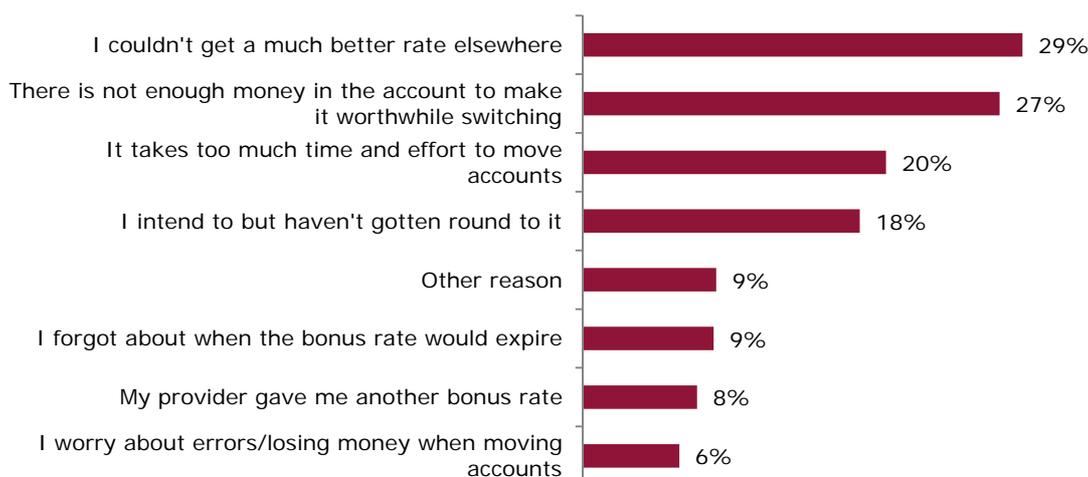
59 Note that it is possible that a large proportion of respondents had a bonus rate product but were not aware of it. The results should therefore be interpreted with caution, as they may overstate bonus rate awareness.

60 Results are not additive as respondents were asked each question separately and had to indicate 'yes' or 'no'. Source: FCA analysis of the online survey, Question 48. Base: all respondents with a bonus rate product (1172).

61 A further 31% of accounts had not been notified and 24% could not remember. Source: FCA analysis of the online survey, Question 49. Base: respondents with a bonus rate product, excluding those who said that their bonus rate had not expired yet (1053)

62 Source: FCA analysis of the online survey, Question 50. Base: respondents with a bonus rate product, excluding those who said that their bonus rate had not expired yet, the most recent bonus rate product (1051)

Figure 46: Proportion of respondents with different reasons for not moving money out of their account following bonus rate expiry



Source: FCA analysis of the online survey, Question 51

Base: respondents who did not move money out of their accounts with bonus rate following bonus rate expiry (600)

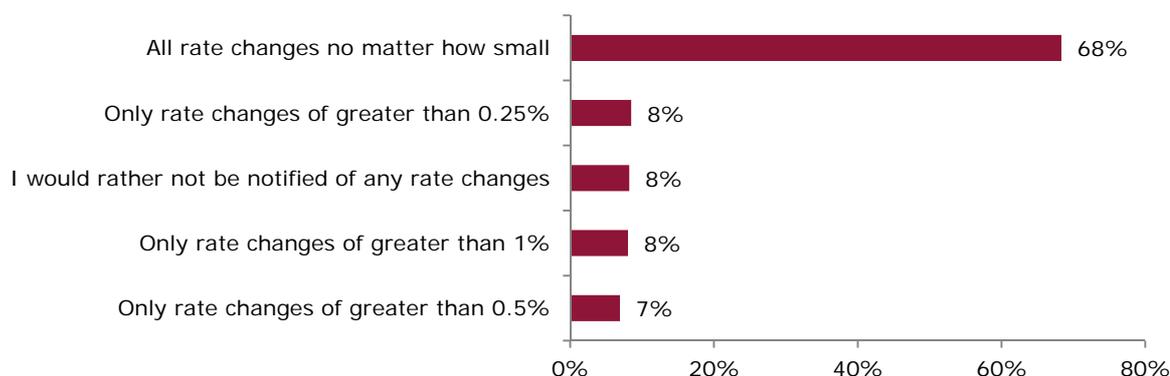
Switching following disadvantageous rate changes

71. We asked all respondents whether their providers had ever reduced interest rates on their accounts, excluding accounts offering an initial bonus rate and accounts older than five years as respondents may not remember interest rate cuts that took place so long ago:
- for easy access accounts, respondents said that providers had reduced rates on 23% of accounts, had not reduced rates on 38% of accounts and did not know or were not sure about 38% of accounts
 - for easy access Cash ISAs, respondents said that providers had reduced rates on 23% of accounts, had not reduced rates on 42% and did not know or were not sure about 35%.⁶³
72. Among those whose interest rate had been cut, account holders said their provider had notified them of the rate cut (e.g. they had received a letter or email) for 74% of accounts, though for 13% of accounts the respondent did not recall being notified and for 13% of accounts the respondent did not remember.⁶⁴
73. Respondents stated that they had a clear preference for receiving information on interest rate cuts: 68% said they would like to be notified of all interest rate changes no matter how small (see *Figure 47*).

⁶³ Source: FCA analysis of the online survey, Question 52. Base: all active easy access accounts (1198) and easy access Cash ISAs (1070) held by respondents, excluding accounts older than five years and accounts with an initial bonus rate but including accounts that respondents did not remember if they had an initial bonus rate or when they were opened. If we excluded these accounts where respondents were unsure, providers had reduced rates on 30% of easy access accounts and not reduced rates on 46% of them (Base: 752), while providers had reduced rates on 27% of Cash ISA accounts and not reduced rates on 52% of them (Base: 700)

⁶⁴ Source: FCA analysis of the online survey, Question 53. Base: all accounts on which rates had been cut (710), excluding accounts older than five years and accounts with an initial bonus rate but including accounts that respondents did not remember if they had an initial bonus rate or when they opened them. If we exclude these accounts, providers had notified account holders of rate cuts for 76% of the accounts, and did not notify account holders with regards to 12% of accounts (Base 580).

Figure 47: Proportion of respondents with different answers to the question: What type of disadvantageous rate changes would you like your provider to notify you of?



Source: FCA analysis of the online survey, Question 56

Base: all respondents (2996)

What would incentivise consumers to switch?

74. We asked respondents what monetary benefit and/or interest rate gain would motivate them to switch to a high street provider. About half of respondents struggled to provide a response.⁶⁵ The results were consistent across all account types. For easy access accounts, 56% could not provide a response and those who did provide an estimate mostly referred to annual gains of up to £100 (28% of respondents said that they would switch for gains of up to £50, 8% would require £51 to £100 and 8% would require more than £100) (see *Figure 48*).

Figure 48: Proportion of respondents giving different answers to the question: How much more would you have to earn in interest for you to consider switching your account to an account offered by one of the main high street providers (respondent's account with the highest balance)?



Source: FCA analysis of the online survey, Question 46, 3c

Base: easy access (1114), easy access Cash ISA (1017)

75. However, respondents' ability to state what increase in interest would be required increased with total income: whilst 60% of consumers with total annual income below £9,500 could not state what monetary benefits would motivate them to switch, the

⁶⁵ We asked respondents about switching to a high street provider to make it less likely that consumers could not answer this question due to concerns about financial stability of a provider or its quality of service (these might have arisen if we had asked about switching to 'a different provider').

same was true only for 34% of respondents with total annual income above £50,000 (see *Figure 49*).

Figure 49: Proportion of respondents giving different answers to the question: How much more would you have to earn in interest for you to consider switching your account with the highest balance to an account offered by one of the main high street providers, split by respondents' total income



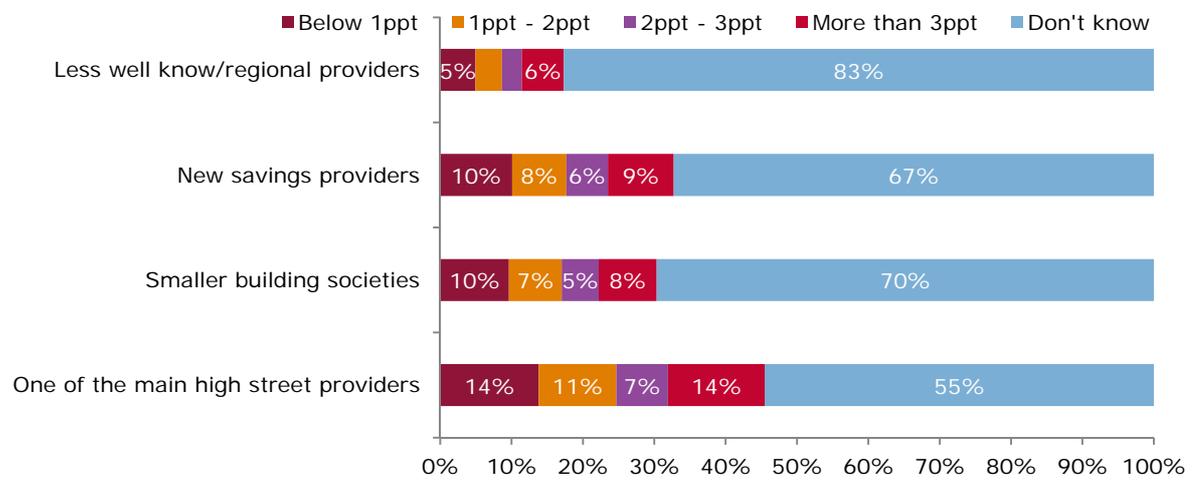
Source: FCA analysis of the online survey, Questions 46, 3c and 10

Base: respondent's account with the highest balance, all respondents who stated their total income (Up to £9499 (721), £9,500 - £19,999 (830), £20,000 - £34,999 (550), £35,000 - £49,999 (182), £50,000+ (111))

76. Less well known or regional providers would have to offer higher interest rates than the main high street providers to induce switching: 25% of respondents said they would consider switching their easy accounts account to one of the main high street providers for an up to 2 percentage point difference in interest rates, while only 9% would switch to a less well known/regional provider for the same interest rate difference (see *Figure 50*).⁶⁶ Almost half of respondents whose account with the highest balance was an easy access account said that they would not even consider less well known or regional providers for their account.

⁶⁶ Question 45 asked respondents to enter a value in a statement 'I would want ___% more in interest rate.' The question was asked in this form as many people may struggle to understand references to 'percentage points'.

Figure 50: Proportion of respondents whose account with the highest balance was an easy access account who gave different answers to the question (split by the type of provider): What rate increase would you need to switch your easy access account to a different provider?



Source: FCA analysis of the online survey, Question 45

Base: respondents whose account with the highest balance was an easy access account (1111)

Annex 3

Supporting analysis of data provided by firms

1. In this annex we provide analysis of the data provided by firms to support our findings in Chapters 5 and 7. The annex is structured as follows:
 - a Details of the data underlying our analysis and how we have processed this data
 - b Supporting analysis for current market outcomes
 - c Supporting analysis for pricing strategies used by firms
 - d Supporting analysis for estimation of interest that could be gained by consumers.

Details of our dataset

2. The data used in our analysis was based on two sets of data collected in two requests for information – a first request in January 2014 and a second one following our interim report in July 2014.

First request for information

3. We requested information from 21 firms covering 26 brands. We asked these firms to provide for each brand a series of product level information, including interest rates earned on cash savings products. For large firms, the information was requested for 2006, 2011, 2012 and 2013. Small and medium firms were asked to limit the information they submitted to 2013 because of the size of such firms.
4. Some of the firms were unable to provide 2006 data. Of the firms who did, there were gaps in the information provided. Providers offered various explanations for the difficulty they faced in extracting information on 2006 from their systems. Most of the reasons offered were related to changes to their IT systems. These, together with difficulties in matching some of the information provided, meant that we mainly used 2011 to 2013 information.
5. For each product, we asked firms to provide the interest rate, balances and other product characteristics. In our analysis we only used those products that did not have any missing balances or interest rates. In calculating the average interest rates applicable to the various balance age groups analysed¹, we weighted interest rates by the end of year balances on their respective product accounts. The total number of

¹ Up to two years, two to five years and more than five years.

products reported in 2013 was 8,899.² In certain instances, the data submitted was updated after discussions with firms.

Second request for information

6. We asked ten providers³ to track from January 2010 to June 2014 balances and interest rates for on-sale accounts opened in different quarters of 2010 and for products that were off-sale in 2010. We requested the data split by balance bands and separately for savings customers who held a PCA and for savings customers who did not.

Supporting analysis for current market outcomes

7. In this section we show the balances and interest rate by age of accounts for various years and various types of providers for Cash ISA and easy access products.
8. The charts show that the interest rate paid on recently opened accounts was higher than the interest rate paid on older accounts. The proportion of balances in older accounts (i.e. opened more than five years before the reference date) varied across years, types of providers and products.
9. This section contains the following supporting analysis for accounts of different ages:
 - a balance distribution and interest rate patterns for easy access and cash ISA products by year (2012 and 2011)
 - b balance distribution and interest rate patterns for bonus and non-bonus easy access and cash ISA products (2013 only)
 - c balance distribution and interest rates by firm type for easy access and cash ISA products (2013 only)
 - d balance distribution and interest rates for notice accounts, children's accounts and regular savings accounts (2013 only)

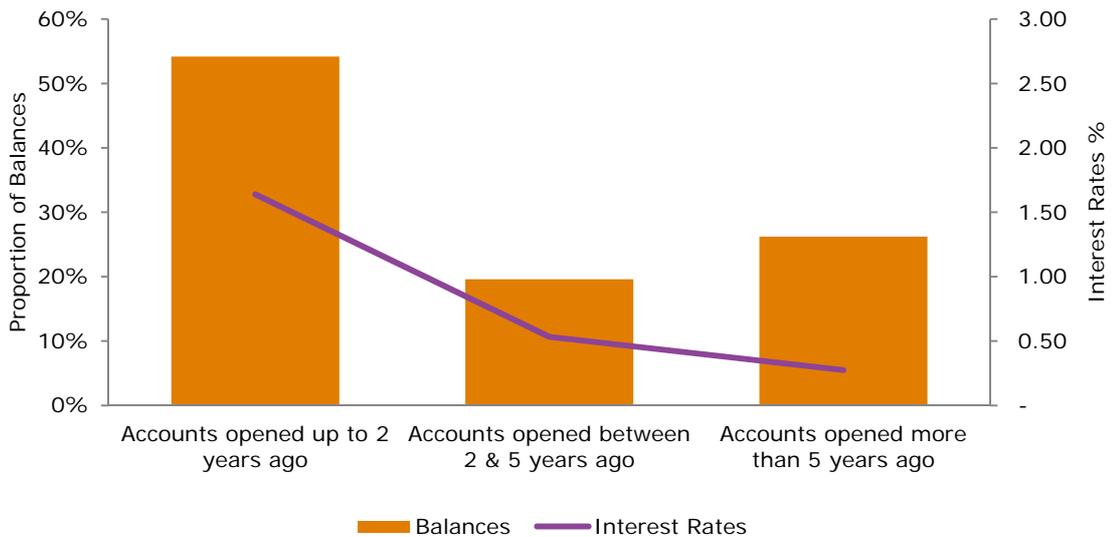
Proportion of balances and average interest rates for easy access accounts by age of account, at 31 December 2012 and at 31 December 2011

10. *Figure 1* and *Figure 2* show that, for easy access accounts in 2012 and 2011, the proportion of balances in accounts that were opened within two years of either 2012 or 2011 was higher than either of those opened between two and five years earlier, or opened more than five years earlier. The interest rate paid on accounts opened more recently was higher than on older accounts.

2 Of these 8,899 products, 24 had missing values for the end of year balances and so were dropped from the analysis. About 1,000 products had no interest rate information or we were unable to extract the appropriate rates from the interest rate tiers provided. As a result, these products did not feed into the weighted average calculations though balances on these products were used where balances alone were being analysed.

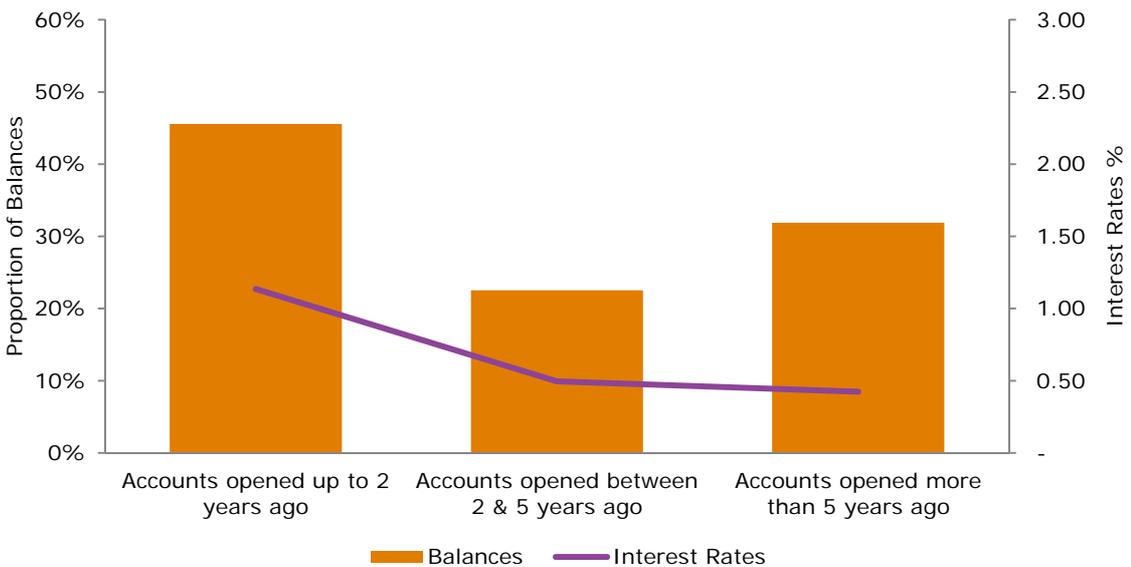
3 These ten providers accounted for 16 brands. Ten brands representing small providers were excluded from the second information request because of the potential burden that could be placed on them given their size, and because they accounted for a small share of easy access and cash ISA products.

Figure 1: 2012 Easy access



Source: FCA analysis of data collected from 21 providers.

Figure 2: 2011 Easy access

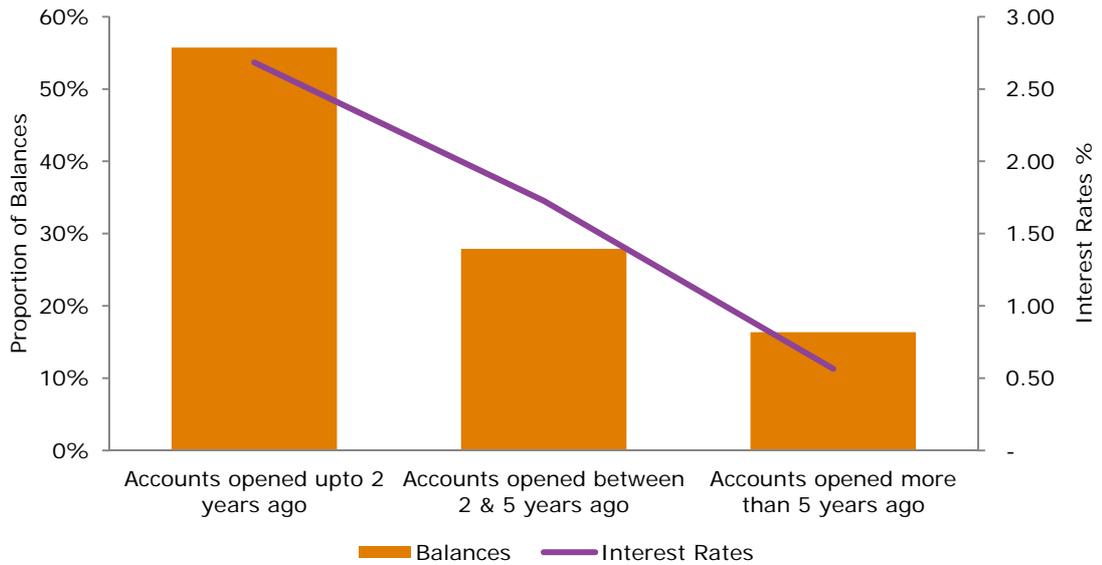


Source: FCA analysis of data collected from 21 providers.

Proportion of balances and average interest rates for Cash ISA accounts by age of account, at 31 December 2012 and at 31 December 2011

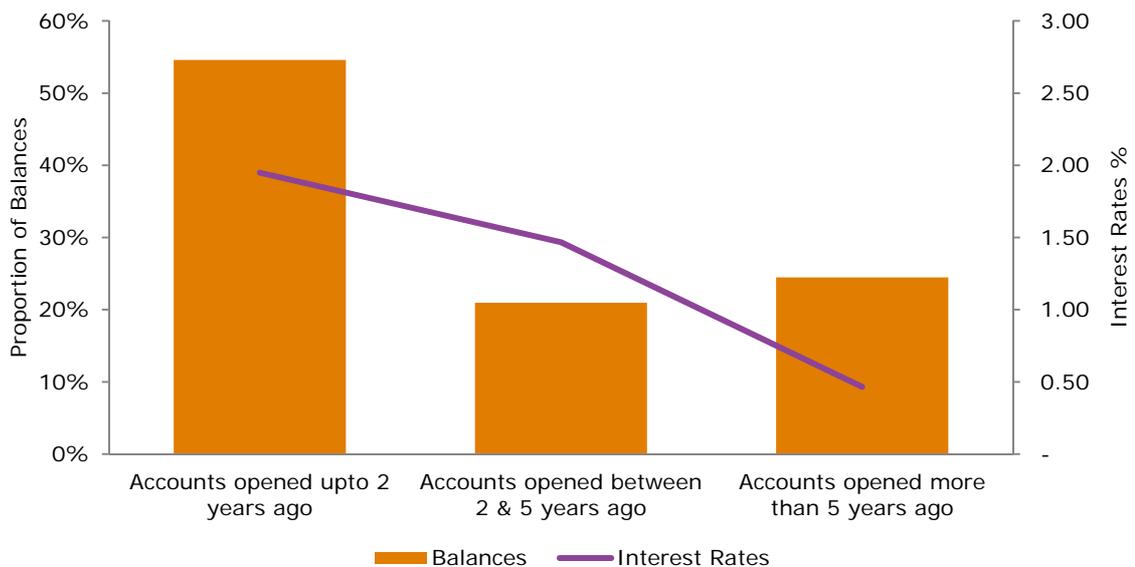
- Figure 3 and Figure 4 show that, for Cash ISA accounts in 2012 and 2011, the proportion of balances in accounts that were opened within two years of either 2012 or 2011 was higher than either of those opened between two and five years earlier, or opened more than five years earlier. The interest rate paid on accounts opened more recently was higher than on older accounts.

Figure 3: 2012 Cash ISA



Source: FCA analysis of data collected from 21 providers.

Figure 4: 2011 Cash ISA



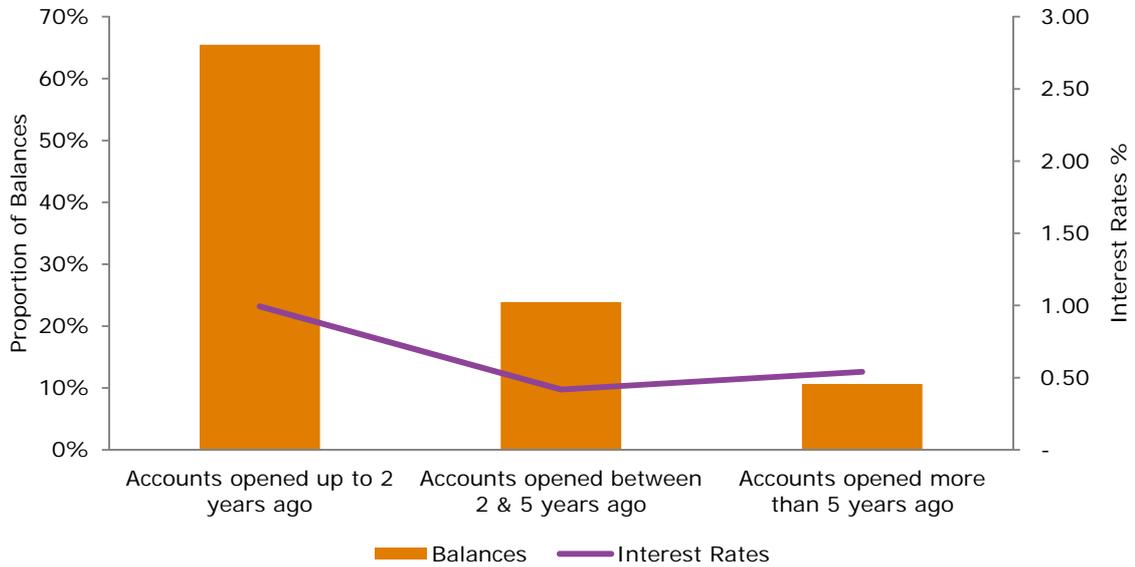
Source: FCA analysis of data collected from 21 providers.

Proportion of balances and average interest rates for bonus and non-bonus products by age of account, at 31 December 2013

12. *Figure 5* and *Figure 6* show the interest rates and balances in 2013 for easy access accounts on products with and without an initial bonus rate.
13. For easy access bonus products (*Figure 5*), the interest rate paid on accounts opened more than five years ago was lower than that paid on accounts opened less than two years ago. However, the interest rate paid on accounts opened between two and five years before 2013 was lower than the interest rate paid on accounts opened less than two years ago and more than five years ago. Most balances were held in accounts opened less than two years ago.

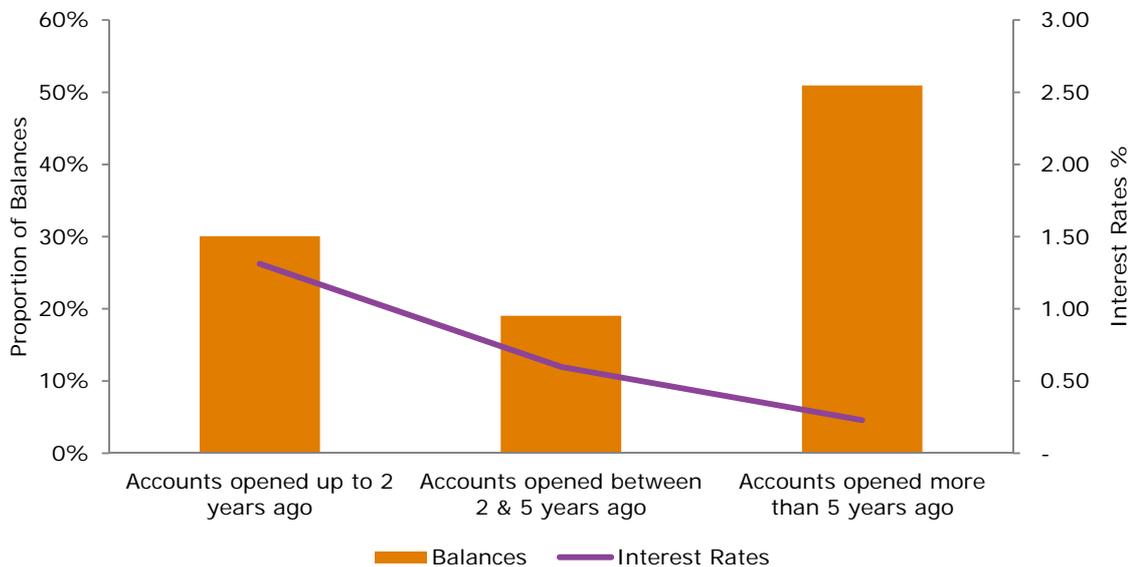
14. For easy access non-bonus products (*Figure 6*), the interest rate paid declined with the age of accounts. Around 50% of balances in non-bonus easy access products were held in accounts opened more than five years ago.

Figure 5: Easy access – Bonus products, 2013



Source: FCA analysis of data collected from 21 providers.

Figure 6: Easy access – Non-bonus products, 2013

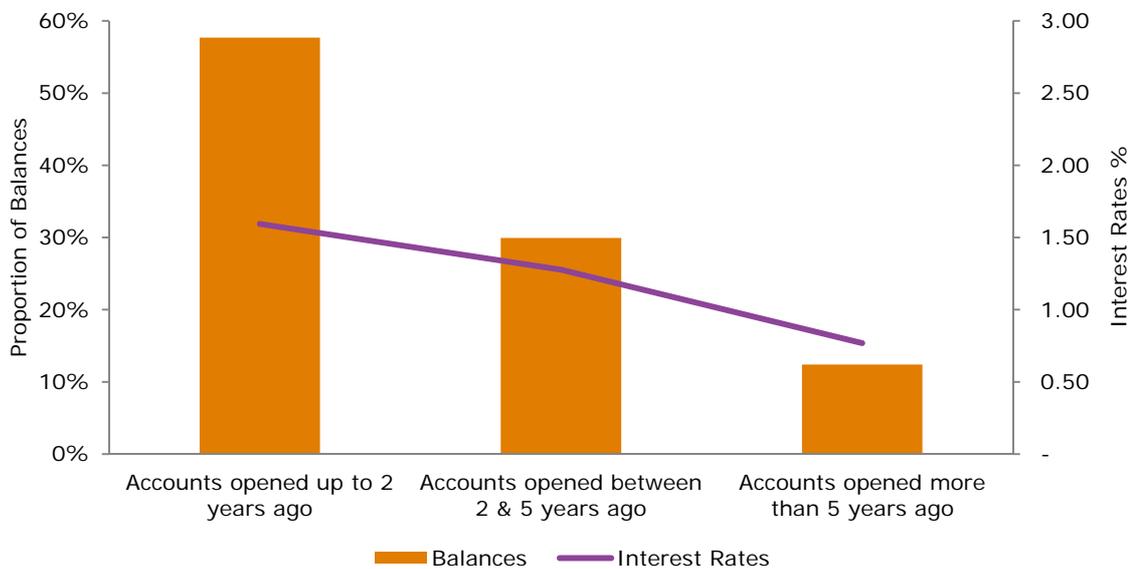


Source: FCA analysis of data collected from 21 providers.

15. *Figure 7* shows that for bonus Cash ISA products in 2013 the interest rate declined with the age of accounts. Most balances were held in accounts opened less than two years ago.
16. *Figure 8* shows that, for non-bonus Cash ISA products in 2013, the interest rate paid on accounts opened more than five years ago was lower than that paid on accounts opened less than two years ago. However, the interest rate paid on accounts opened between two and five years before 2013 was higher than the interest rate paid in other

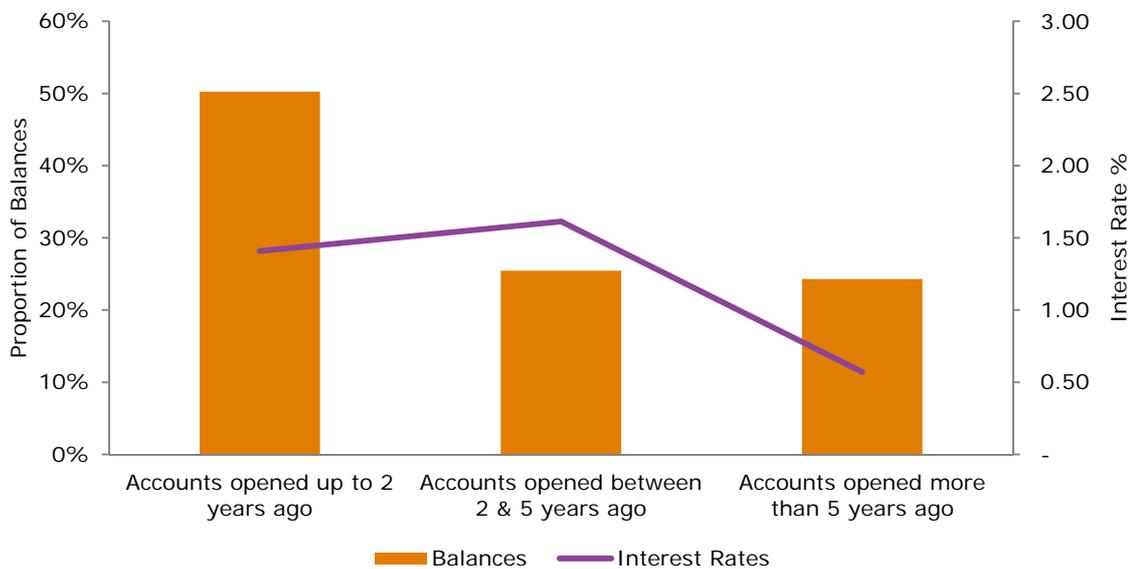
age bands. Around 50% of balances were held in accounts opened less than two years ago.

Figure 7: Cash ISA – Bonus products, 2013



Source: FCA analysis of data collected from 21 providers.

Figure 8: Cash ISA – Non-bonus products, 2013



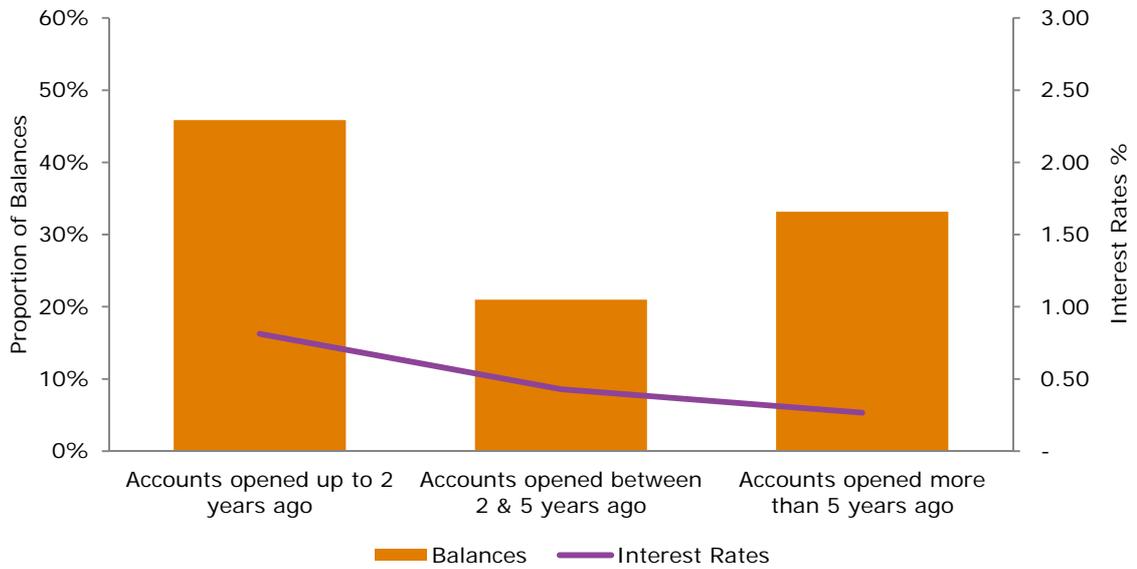
Source: FCA analysis of data collected from 21 providers.

Proportion of easy access balances and average interest rates for different types of firm by age of account, at 31 December 2013

- Figure 9, Figure 10 and Figure 11 show for easy access accounts in 2013 for different provider types that the proportion of balances in accounts that were opened within the last two years was higher than either of those opened between two and five years earlier, or opened more than five years earlier. The interest rate paid on accounts

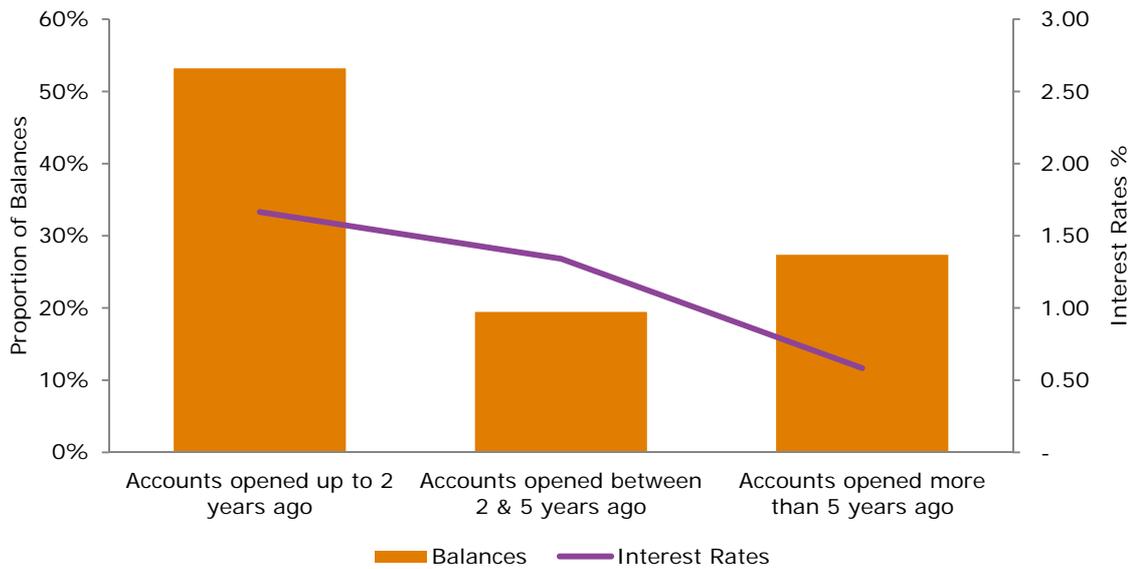
opened more recently was higher than that paid on older accounts. Also, the interest rate paid by large providers was lower than that paid by small and medium providers.

Figure 9: Large providers - Easy access



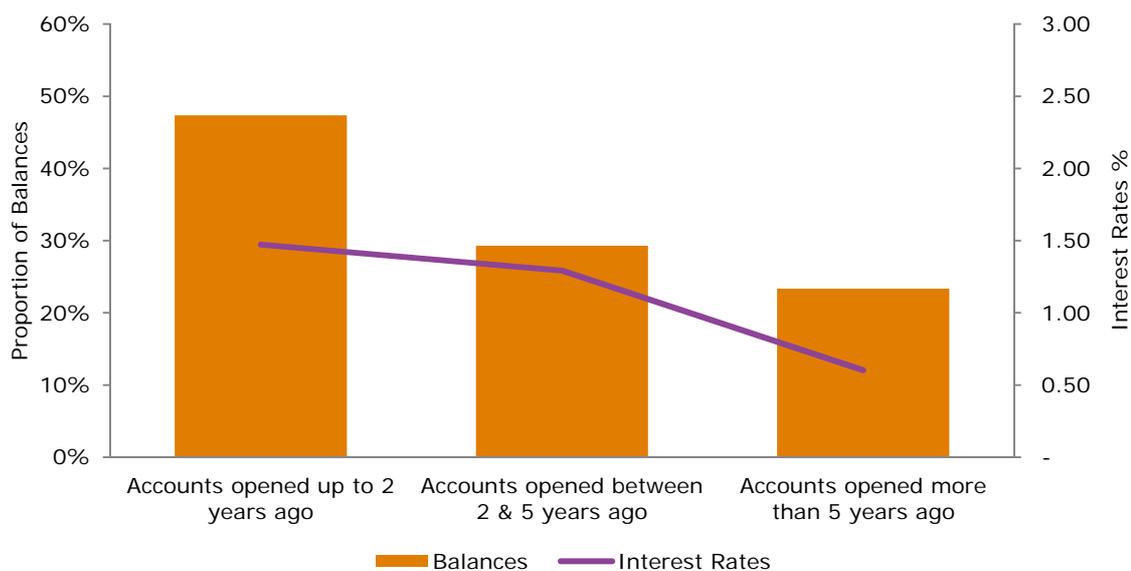
Source: FCA analysis of data collected from 21 providers.

Figure 10: Small and medium banks – Easy access



Source: FCA analysis of data collected from 21 providers.

Figure 11: Small and medium building societies – Easy access

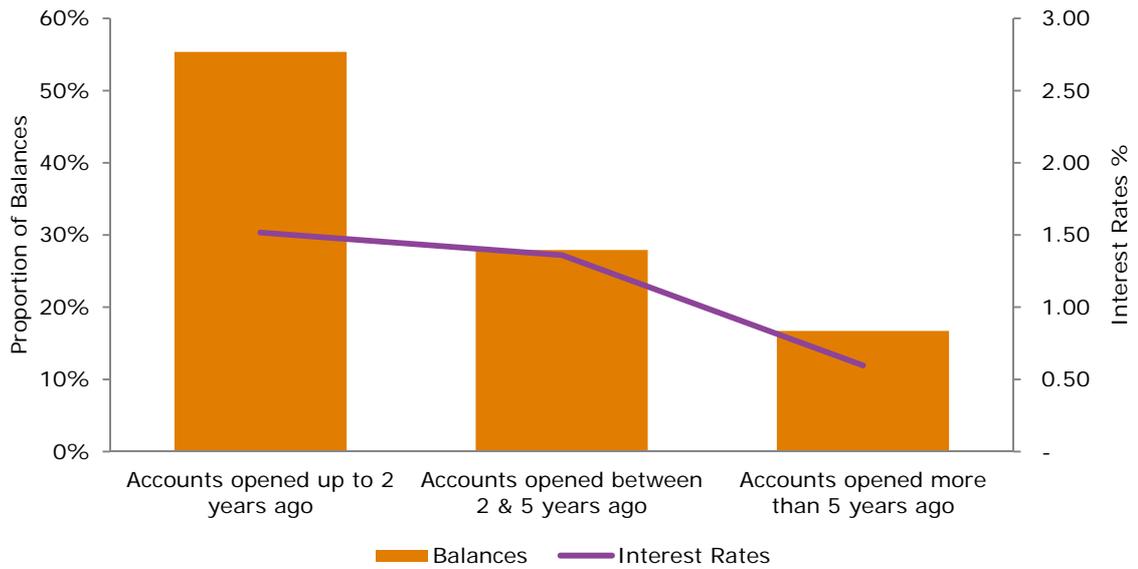


Source: FCA analysis of data collected from 21 providers.

Proportion of cash ISA balances and average interest by age of accounts for different types of firm, at 31 December 2013

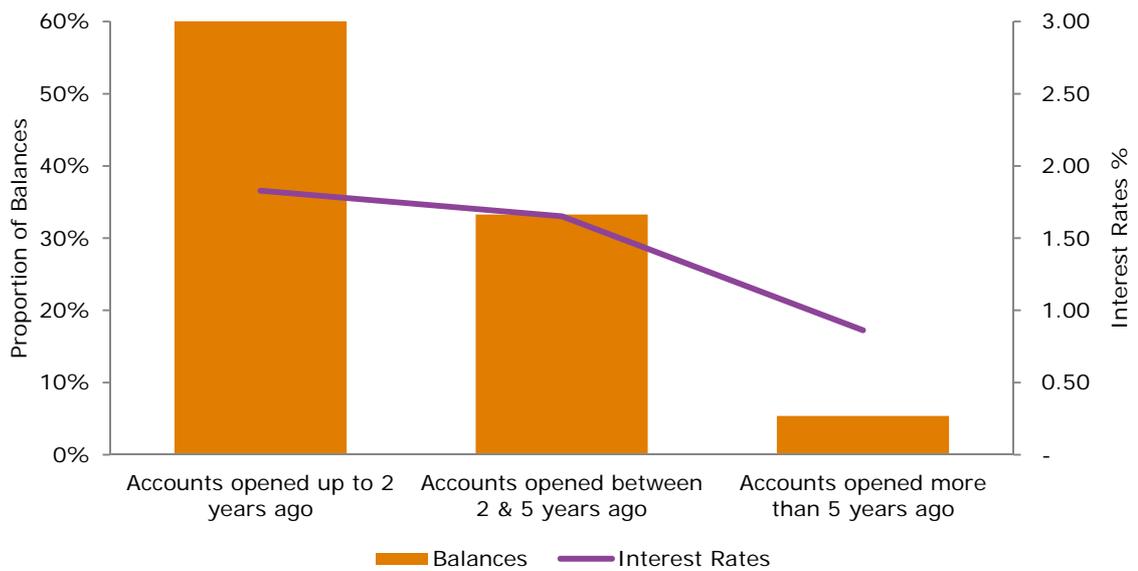
- 18. *Figure 12, Figure 13 and Figure 14* show that, for Cash ISA products in 2013 for the different provider types, the proportion of balances in accounts that were opened within the last two years was higher than either accounts opened between two and five years ago, or accounts opened more than five years ago for large providers and small and medium banks only. For small and medium building societies, the proportion of balances in accounts older than five years ago was higher than in either of the more recent accounts.
- 19. The interest rate paid on accounts opened within the last two years was higher than on accounts opened more than five years ago for large providers and small and medium banks. The interest rate paid by small and medium building societies providers was similar for all ages of accounts.

Figure 12: Large providers – Cash ISA



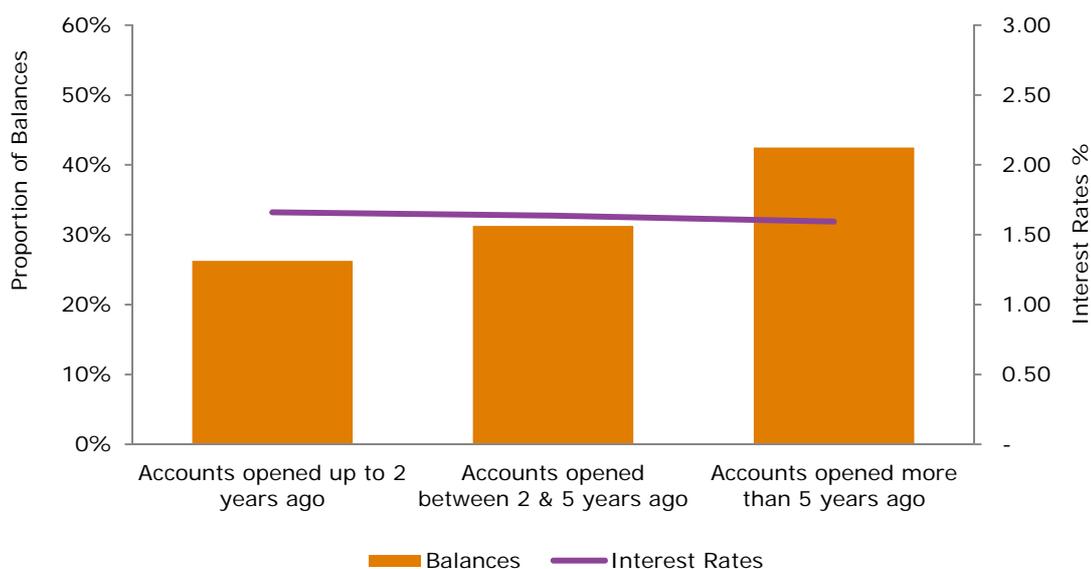
Source: FCA analysis of data collected from 21 providers.

Figure 13: Small and medium banks – Cash ISA



Source: FCA analysis of data collected from 21 providers.

Figure 14: Small and medium building societies – Cash ISA



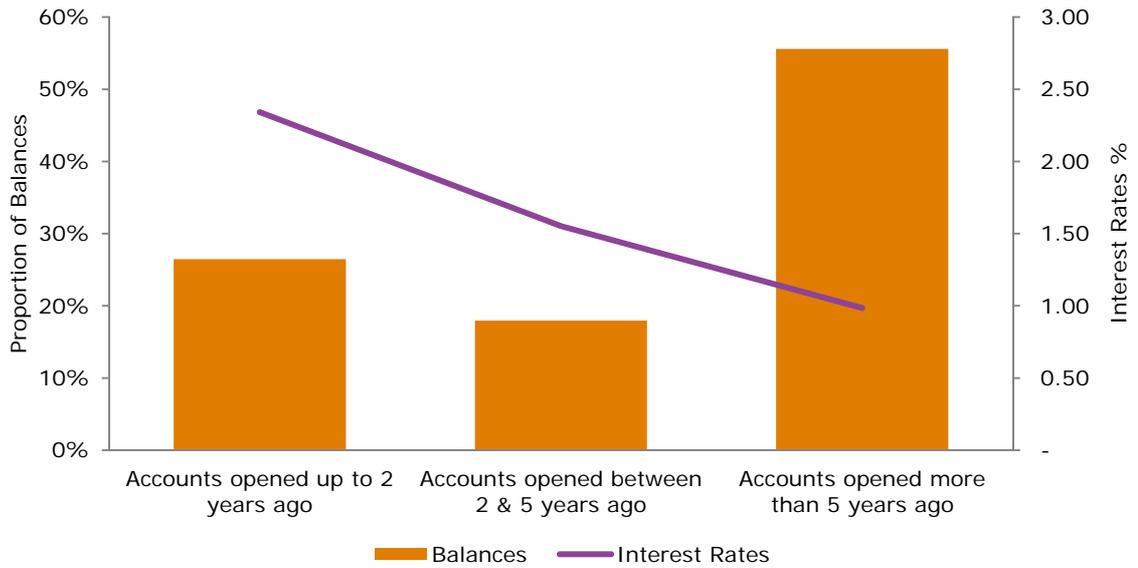
Source: FCA analysis of data collected from 21 providers.

Proportion of balances and average interest rates for other product accounts by age of account, at 31 December 2013

20. *Figure 15* and *Figure 17* show that in 2013 the proportion of balances in children's and regular accounts older than five years was higher than either accounts opened between two and five years ago, or accounts opened more than five years ago.⁴ Regular accounts require regular periodic payments into these accounts and children's accounts do not normally allow withdrawals until the child turns 18. It is therefore intuitive for older balances in these accounts to have a relatively higher proportion of balances.
21. In contrast, *Figure 16* shows that for notice accounts, the proportion of balances declined over time.
22. The interest rate paid on all of these account types was again higher for more recently opened accounts compared with older accounts.

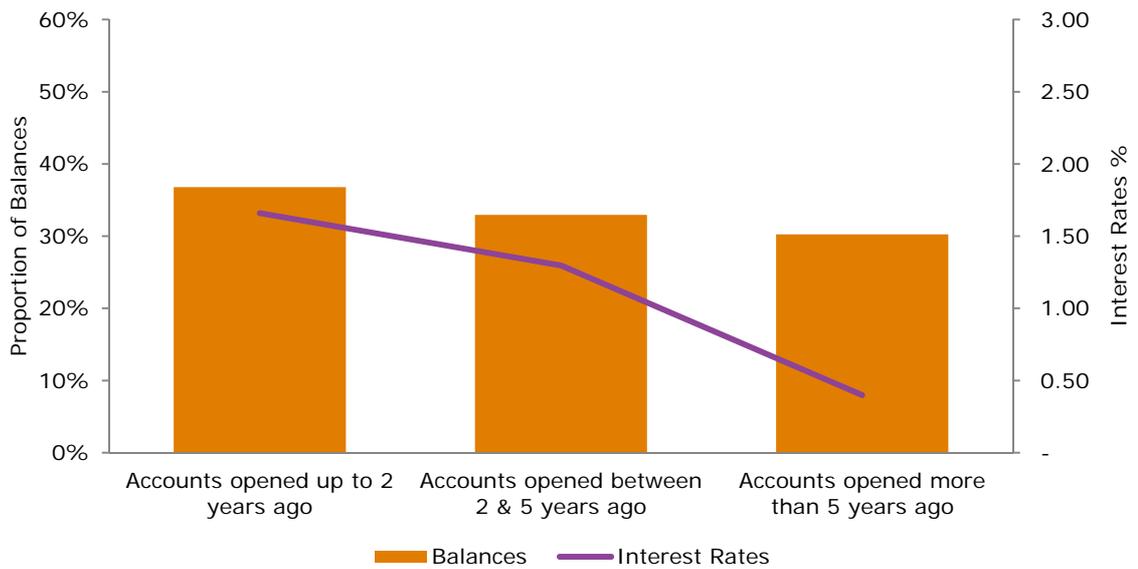
⁴ The chart for children's accounts and regular accounts could include fixed term and 'no term' products.

Figure 15: Children's accounts



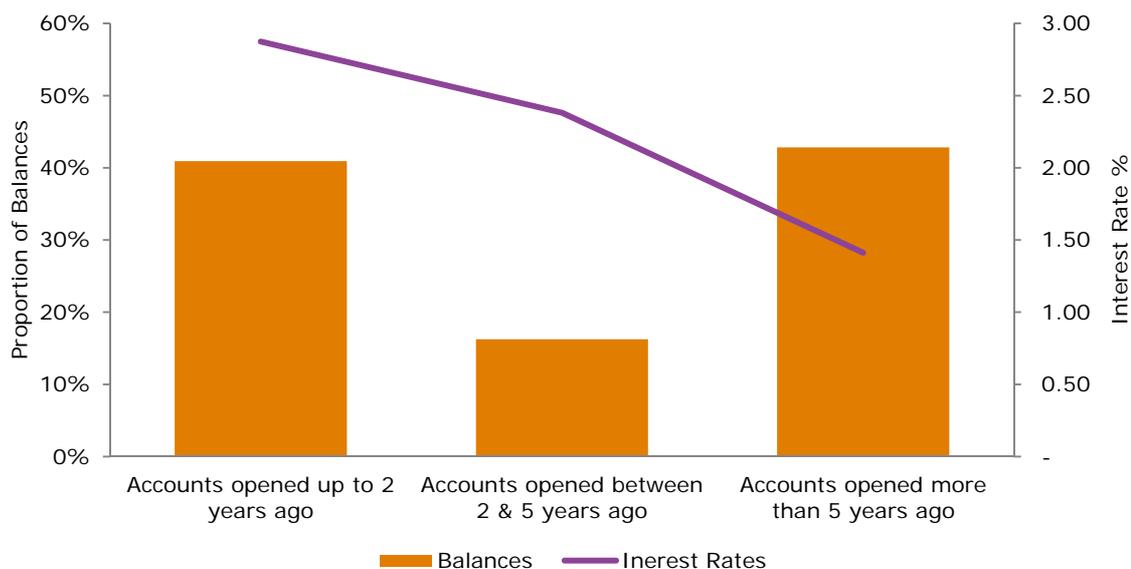
Source: FCA analysis of data collected from 21 providers.

Figure 16: Notice accounts



Source: FCA analysis of data collected from 21 providers.

Figure 17: Regular accounts



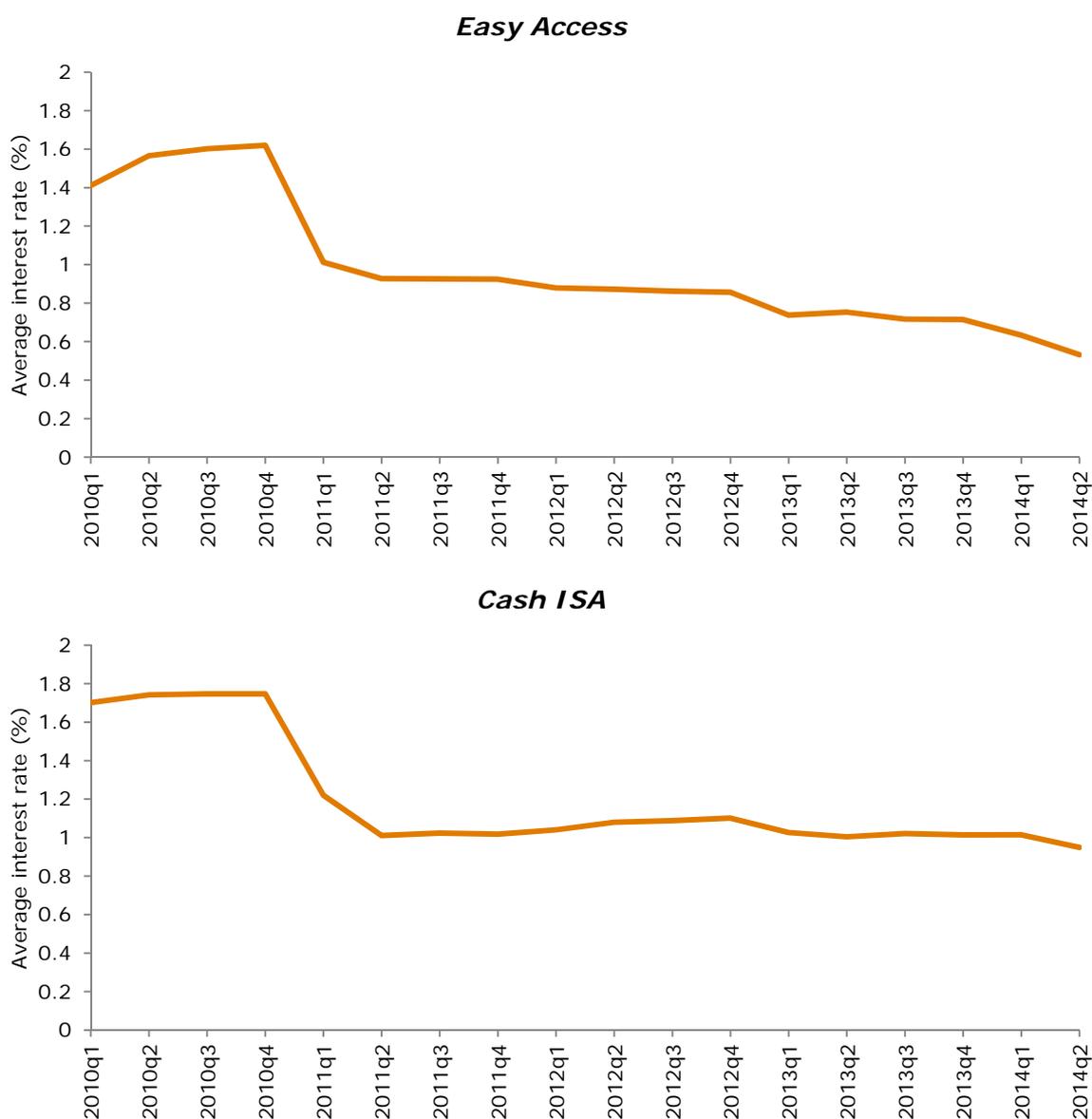
Source: FCA analysis of data collected from 21 providers.

Supporting analysis for pricing strategies used by firms

Bonus products

23. As many balances in bonus products were held in accounts opened less than two years ago (see *Figure 5* and *Figure 7*), we examined the evolution of the interest rate on accounts opened in the first quarter of 2010 up to the second quarter of 2014. We used data from ten providers of easy access products and eight providers of Cash ISA products. The top chart in *Figure 18* is for easy access bonus products, and the lower chart is for cash ISA bonus products.

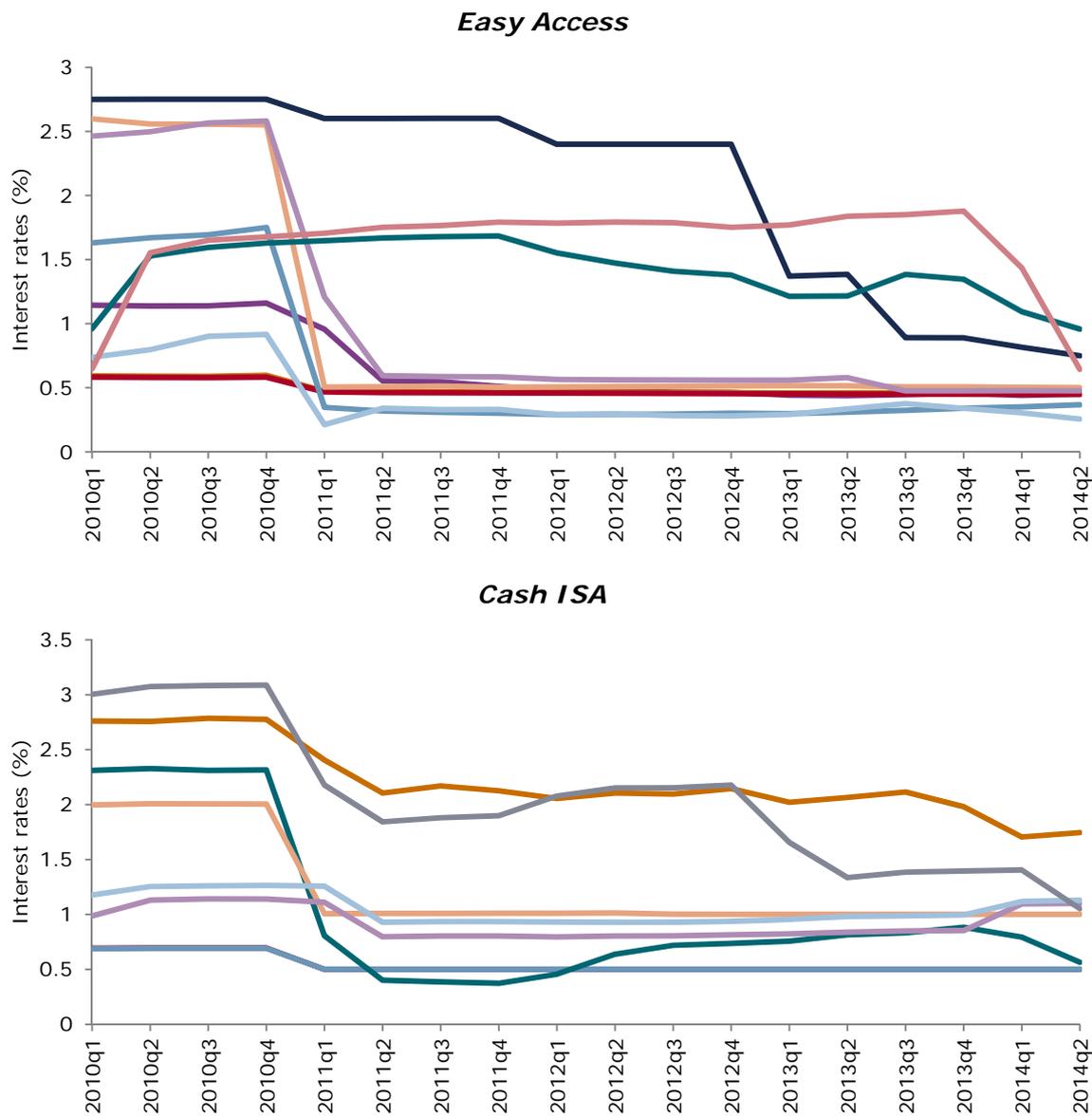
Figure 18: Average interest rates for easy access and cash ISA bonus products opened in the first quarter of 2010 over time, 2010–2014



Source: FCA analysis of data collected from firms. See Annex 3 for details.

24. *Figure 18* shows that, on average for this group of accounts, the interest rate on easy access bonus products was around 1.5% in 2010, and the interest rate for cash ISA bonus products was around 1.7%. After one year, the bonus period typically expired and the interest rate decreased, until in 2014 it reached around 0.5% for easy access bonus products and 1% for cash ISA bonus products.
25. *Figure 19* shows that the general pattern of interest rates was similar to the average for most providers – it declined at the expiry of the bonus rate (typically the first quarter of 2011, ie after one year) and continued to decline thereafter on some easy access accounts, as discussed in Chapter 5 of the main report.

Figure 19: Interest rate on easy access and Cash ISA bonus products on accounts opened in the first quarter of 2010



Source: FCA analysis of data collected from firms.

Non-bonus products

26. We conducted a similar analysis for non-bonus products but found that for most providers, there was a relatively flat profile when we tracked the interest rate on individual non-bonus products over the last four years. We did not consider these results to be particularly informative because our analysis of non-bonus products balances and interest rates for easy access products and Cash ISA products in aggregate showed that around 50% of balances were held in accounts over five years old and that the interest rate on accounts of over five years old was lower than that on accounts of two to five years and lower than that on accounts of less than two years old (see *Figure 6* and *Figure 8*). This meant that only tracking products over the last four years did not capture the fact that many accounts are held for longer than four years and that the interest rate may not yet have begun to fall.

Balance attrition analysis

27. We compared how consumers' response to interest rate reductions differed between:
- savings accounts with larger balances compared with accounts with small balances
 - savings accounts that are held with a consumer's PCA provider, compared with accounts held with a different provider
28. These comparisons were conducted separately for each provider by following balances on savings accounts opened in each quarter of 2010. The total number of brands in the sample changed quarter by quarter for a number of reasons. First, not all providers offered an easy access or a Cash ISA product in all quarters of 2010. Second, some of the providers were not able to submit the data with the requested split. Third, some providers 're-bonus' accounts, so we could not observe the effect of the bonus expiry.
29. *Table 1* shows quarter by quarter that, for most providers, consumers with larger balances were more price sensitive than consumers with smaller balances.
30. *Table 2* shows quarter by quarter that, for most providers, consumers who did not have a PCA with their savings provider were more price sensitive than consumers that did have a PCA with their savings provider.

Table 1: Larger balances versus smaller balances

Hypothesis: Larger balances switch away faster than smaller balances		
Q1		
	Cash ISA	Easy access
Total brands in the sample	8	7
Number of cases (i.e. brands) consistent with the hypothesis	7	7
Number of cases (i.e. brands) not consistent with the hypothesis	1	0
Q2		
	Cash ISA	Easy access
Total brands in the sample	6	7
Number of cases (i.e. brands) consistent with the hypothesis	5	7
Number of cases (i.e. brands) not consistent with the hypothesis	1	0
Q3		
	Cash ISA	Easy access
Total brands in the sample	6	9
Number of cases (i.e. brands) consistent with the hypothesis	4	9
Number of cases (i.e. brands) not consistent with the hypothesis	2	0
Q4		
	Cash ISA	Easy access
Total brands in the sample	6	8
Number of cases (i.e. brands) consistent with the hypothesis	5	8
Number of cases (i.e. brands) not consistent with the hypothesis	1	0

Table 2: PCA balances versus non-PCA balances

Hypothesis: non-PCA balances switch away faster than PCA balances		
Q1		
	Cash ISA	Easy access
Total brands in the sample	7	5
Number of cases (i.e. brands) consistent with the hypothesis	6	3
Number of cases (i.e. brands) not consistent with the hypothesis	1	2
Q2		
	Cash ISA	Easy access
Total brands in the sample	5	5
Number of cases (i.e. brands) consistent with the hypothesis	5	4
Number of cases (i.e. brands) not consistent with the hypothesis	0	1
Q3		
	Cash ISA	Easy access
Total brands in the sample	5	7
Number of cases (i.e. brands) consistent with the hypothesis	5	5
Number of cases (i.e. brands) not consistent with the hypothesis	0	2
Q4		
	Cash ISA	Easy access
Total brands in the sample	5	6
Number of cases (i.e. brands) consistent with the hypothesis	4	5
Number of cases (i.e. brands) not consistent with the hypothesis	1	1

Supporting analysis for estimation of interest that could be gained by consumers

31. This section considers the amount of interest that could be gained by those consumers on lower interest rates.
32. We estimated the aggregate amount of interest that could be gained by calculating the simple average interest rate paid for each interest rate band, and comparing it with the average interest rate on products that were available in the market at 31 December 2013. The average interest paid by on-sale products at 31 December 2013 represented the interest rate a consumer could achieve by switching their savings account.
33. We used the difference between the average interest rate earned in each interest rate band and the average interest rate available on on-sale products as a proxy for the interest rate that could be gained. We then multiplied the interest rate that could be gained by the amount of balances in accounts with more than £5,000.⁵
34. We estimated that:
 - First, assuming that consumers could open an easy access account that paid 0.68% (the average interest rate on open easy access products at 31 December 2013), the total interest that could be gained in 2013 would be around £655m.⁶

5 We assumed that only consumers with more than £5,000 in their accounts would expect benefits larger than their costs to switch. Given the proportion of balances in these accounts (around 93% of sampled easy access balances), the impact of removing accounts with less than £5,000 was small.

6 The simple average interest rate paid on on-sale easy access products at the 31 December 2013 was 0.68%. If instead of using the simple average we used the average interest rate weighted by balances (i.e. 0.59%), the interest that could be gained would be around £522m.

- Second, if consumers could open a Cash ISA account that paid 1.32% (the average interest rate on open Cash ISA products at 31 December 2013), the total interest that could be gained would be around £216m.⁷
35. This analysis was subject to a number of assumptions that could lead to it being both an under or over-estimate of the amount consumers could gain:⁸
- It may be an over-estimate because:
 - it assumed all those affected consumers could open an account at the average interest rate, but this rate might not be available if all consumers switched⁹
 - it did not take into account whether all of these affected consumers considered the interest rate on their account to be an important feature
 - It may be an under-estimate because:
 - it excluded accounts with less than £5,000 and accounts with interest rates over 0.5%, where some consumers with these accounts would be willing to switch and could make gains in interest earned
 - it did not take into account any potential adverse effects on quality of products or innovation (for example, service quality might be higher if competition were more effective).
36. We also applied the methodology above just to those accounts opened more than five years ago (ie those that had not been switched) and without any filtering for balances below £5,000. This approach, for 2013, gave an estimate of interest that could be gained of £396m for easy access accounts and £109m for Cash ISA accounts.
37. Based on the estimates above, we estimated the interest that could be gained on easy access accounts for 2013 at £400m-£650m and for Cash ISA accounts at £100m-£250m.

7 The simple average interest rate paid on on-sale Cash ISA (no term) products at the 31 December 2013 was 1.32%. If instead of using the simple average we used the average interest rate weighted by balances (i.e. 1.27%), the interest that could be gained would be around £198m.

8 We also applied the methodology above to 2011 data and found that the interest that could have been gained was £219m on easy access accounts and £190m on Cash ISA accounts. These figures were lower because the average interest rate on on-sale products at 31 December 2011 was lower – 0.45% for easy access products and 0.99% for Cash ISA products.

9 We consider the zero sum game argument in chapter 7 of the main report.

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