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Cash Savings – An International Comparison

A study for the FCA

September 2014

pwc

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Executive summary

Purpose and approach of this international comparison study

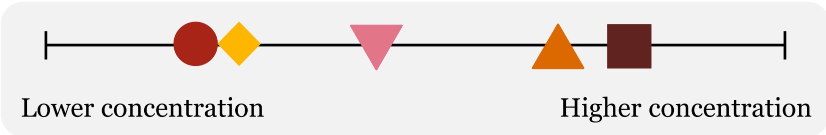
Purpose	The Financial Conduct Authority (FCA) commissioned PwC to produce a study comparing the cash savings market in the UK with Germany, the USA, Australia and the Netherlands. This report provides the findings to this study. It provides market and customer data across these four countries and provides detailed country specific analysis. This report will be used to inform the FCA Cash Savings Market Study which was launched in October 2013.
Definition	The focus of this study is on interest-bearing cash savings accounts e.g. instant access, notice and fixed term accounts. Products such as premium bonds and savings accounts whose return is tied to some form of uncertain investment are not included. Tax-exempt accounts (such as ISAs in the UK) are included in this definition. We have reviewed the cash savings market in each of the countries studied, but we have not sought to test whether these are relevant economic markets, for the purposes of competition assessment. Throughout this report we use the term 'banks' in its broadest sense, which includes any deposit taking institutions.
Scope	Each cash savings market in our study has been analysed in 4 interrelated areas: 1. **Market structure** – How size, structure, nature and performance of the markets differ from the UK and any effect from these differences. 2. **Consumer behaviour** – The extent to which consumers can be characterised into different segments, and what factors influence savings behaviour in these segments. 3. **Firm behaviour** – What measures firms use to incentivise consumer choices and manage their own balance sheets. 4. **Regulatory approach** – What can be learnt from other regulatory approaches.
Approach	This report has been created using publicly available data and interviews with overseas financial services regulators. The work was carried out using PwC banking specialists drawn from across our network firms. We have not undertaken any primary customer research . Rather we rely on 3rd party research and informed views from retail banking sector specialists. The data and information on retail banking markets inevitably varies across the countries sampled. It is not possible to normalise for these differences, and therefore this study makes contextual comments where necessary to help in the interpretation of the data. Section 2 of this report provides a detailed description of the approach, methods and limitations of this report.

Executive summary

Relative characteristics of each market in the study

Relative characteristics:

1. Market concentration

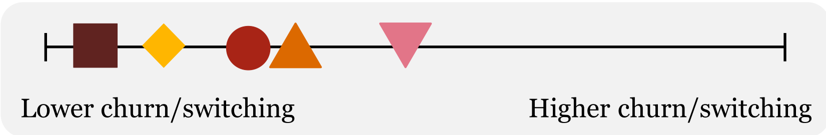


- National concentration ratios (such as CR4 and CR8) have not moved significantly for most cash savings markets over the last 10 years.
- Regional and/or mutual banks in Germany and the USA have the greatest impact in lowering national deposit market concentration.

2. New entrants

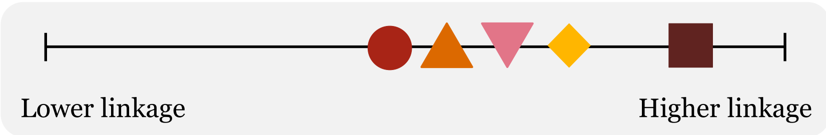
- The impact of new entrants on market shares has been low in all countries. Typically, new entrants in cash savings obtain a niche market position focusing on a particular segment or a specific target level of deposits.

3. Switching/ churn rates



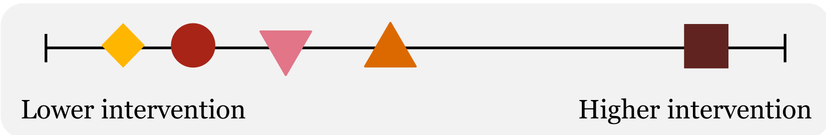
- Switching rates are difficult to define in cash savings (because customers typically hold more than one account). The UK has the highest rate of new account opening, which is best measure we have found of customer movement in cash savings.

4. Linkage between cash savings and other products



- Across all markets there is a high degree of linkage between customers' choice of cash savings provider and their main financial services provider, in particular current accounts and mortgages.

5. Regulatory interventions in cash savings



- Regulators in Australia and the Netherlands have most heavily intervened in cash savings markets.
- In the UK this market is currently being investigated, and a regulator in the Netherlands recently published research related to savings.

Executive summary

Comparison of cash savings features across countries

Feature	Australia	Germany	Netherlands	USA	Comments
Interest rate disclosure					• In Australia banks proactively alert customers when a term deposit matures and their interest rate is subject to change. • Dutch, German and US banks disclose interest rates similarly to UK banks.
Use of teaser rates					• In the Netherlands, following regulator concerns around whether they were in best interests of consumers, the practice of using teaser rates has ended. • Teaser rates are used as a promotional tool in Australia, Germany and the USA, in a similar manner to the UK. Use of teaser rates appears to be in decline across all markets.
Product pricing					• Account service fees are used across all countries in the study (but these are less prevalent in the UK). However, fees on savings accounts can often be zero if other products are purchased. • In the Netherlands banks can only have price differentiation between the products they offer where they can demonstrate to the regulator that there is a cost difference as a consequence of product features.
Cross selling					• Cross selling products and provision of additional benefits to existing customers occurs in Germany, Netherlands and the USA in a similar manner to practices seen in the UK. • In Australia, the regulatory regime is tighter, restricting choice to bundled products is not allowed. This means that products must be available on a stand-alone basis. However, multiple product holders can still be offered preferential pricing relative to single product holders.
Key products					• Instant access, notice and fixed term savings products (also known as CDs in the US) are available in all markets (see page 25 for their prevalence). • There is not a direct equivalent of a Cash ISA product in the other countries. Although there are other tax efficient forms of savings e.g. superannuation in Australia, IRA's in the USA and Riester Rente in Germany, however these are retirement focused products. In the Netherlands, up until 2011, salary savings schemes enabled employees to save up to 12% of gross annual income free of tax.

Key: Material differences to the UK | Minor differences to the UK | Similar to the UK

Executive summary

Key findings (1 of 3)

The following findings have been identified as the key insights for the FCA:

Finding	Implication	Consideration
1. The size of the cash savings market is heavily influenced by the alternative ways consumers save and invest	• As the economic recovery continues more consumers in the UK may seek to move away from precautionary saving to building their wealth through investment products. • The relative importance of cash savings as a means of building wealth in the UK may change as consumers increase the size of their pension contributions with auto enrolment.	• Across all markets in the study, customer confidence in investments linked to market performance and the provision of state pension schemes greatly impacted cash savings volumes and customers' reliance on cash savings to build wealth. • Any regulatory intervention in the cash savings market remedies should take account of the broader effect of economic and financial market factors, such as auto enrolment.
2. Cash savings market participants have struggled to dramatically change their market positioning	• The impact of new entrants on market share is typically limited, but the impact of these new entrants may induce incumbent providers to improve. • However, the extent of this effect will depend upon whether cash savings is a focus area of new entrants and challenger banks or whether their focus will be on a broader range of financial products.	• Market share measures don't fully capture the dynamic nature of the cash savings market. • Non-structural changes are unlikely to have a quick impact on provider market shares. • Were the FCA to conclude that competition is not working effectively, any intervention may need to focus on the stock of savings (rather than competition for the flow of new savings) to have any material effect on provider market shares.
3. Banks' balance sheet positions are a determinant of interest rates offered	• In a market where banks are consistently offering relatively high or low interest rates in relation to policy rates, this may not be an indication that this market is or isn't working effectively.	• When considering the interest rates available to customers (as a key consumer outcome measure), wider funding and economic factors should be considered. This will help to explain the movement of deposit interest rates over time and across countries. Any regulatory intervention in the cash savings market should consider the impact on banks' ability to manage their balance sheets in response to external shocks.
4. In all countries the most common reasons for switching are negative customer experiences	• An effective market should have positive and negative switching motivations. • An effective market which operates to support customer interests may not be indicated by high levels of switching/churn.	• The underlying reasons behind switching need to be investigated in order to understand the balance between rate chasing, switching out of dissatisfaction, and other reasons.

Executive summary

Key findings (2 of 3)

The following findings have been identified as the key insights for the FCA:

Finding	Implication	Consideration
5. Cash savings markets have polarised customer groups with those who proactively switch ("rate chasers") and those who have account inertia ("sleepers")	• Traditional demographic segmentation provides little insight into customer behaviour in cash savings. • Even with increased transparency, customer apathy or lack of comprehension may not result in a change in behaviour. These challenges require more creative disclosure mechanisms to materially change customer outcomes.	• Focusing on the behaviour of different customer segments, (who possess different characteristics and preferences) could inform the specific areas where the FCA should target improved customer outcomes. • Behavioural economics research is required to understand desired customer outcomes and the barriers to these outcomes, at this segmental level.
6. Online access to savings is the most desired account feature for customers	• When evaluating the suitability of an account for a customer it would be incorrect to only consider the interest rate offered.	• There is a balance to be made between accessing the financial benefits (i.e. interest rates) and wider customer benefits of cash savings accounts. • Behavioural economics research is required to understand the value to customers of different market offerings.
7. Where there have been regulatory interventions in cash savings markets they have been focused on changing savings provider practices rather than market structure i.e. market shares	• Remedies to improve market conduct have been assessed as the most appropriate means of intervention by international regulators. • International regulatory interventions have not sought to change market structure of the cash savings. Rather market structure needs to be assessed at the broader retail banking level.	• Given that none of the markets in this study have changed materially in a ten year period, the regulatory changes necessary to impact market structure would need to be extensive. • Most banks consider regulation around transparency, process simplification and treating customers fairly to be appropriate. More substantial intervention around product choice and pricing will lead to a rebalancing across retail products and winners and losers at the customer level. Banks are generally able to implement such industry-wide rebalancing without significant impact on the financial performance of the business. Customer impact is therefore key.
8. Money laundering and customer checks (AML and KYC) can be a barrier to switching	• Changes to the requirements for money laundering and customer checks can have an impact on the ease of changing provider.	• Internationally, we note the different approaches that have been taken to reduce the customer impact of money laundering and customer checks. In the Netherlands, cash savings providers can rely on background checks conducted by another institution, while in Australia, banks have been utilising government information sources to help speed up the account opening process. In the US and UK shared technological solutions are being explored to simplify AML and KYC processes.

Executive summary

Key findings (3 of 3)

The following findings have been identified as the key insights for the FCA:

Finding	Implication	Consideration
9. Across all countries customers' choice of savings account provider is often linked to whether they have existing products at that bank	• Many consumers have a preference for the convenience of having a single provider for their main financial service needs. • Customers can benefit from advantageous terms or features if they are an existing customer.	• The trend of increasing cross-product promotion may reduce competition at the individual product level, but focus competition at the customer level. • Switching at the main financial product level, e.g. PCA may therefore become a more important driver of cash savings account switching.
10. Teaser rates have been prevalent in all countries, but in the Netherlands, after the conduct regulator raised concerns around the practice in 2010, they are no longer used there	• Teaser rates have been regularly used as a promotional strategy in order to acquire new customers or attract additional deposit funding. • Removing teaser rates as an approach to attract both customers and additional deposits may have implications for the ability of banks to compete and their funding flexibility. • Limiting the number of products combined with removing teaser rates, effectively caps the higher rates that could be offered.	• Intervention to improve customer outcomes on pricing has differed across countries. In the Netherlands, in collaboration with banks, it was agreed that teaser rates are not in the best interests of consumers, and are no longer used. Conversely, in Australia, attention was focused on consumers who were rolling over onto low rates once a term deposit matured. By issuing guidance on advertising, disclosure and grace periods, the Australian regulators tried to raise awareness of, and limit roll over onto, these lower rates. This shows that rebalancing can be achieved by either targeting high teaser rates, or low rollover rates.
11. Retail banking is changing with banks becoming more customer centric, leveraging new technology and changing their business models to be simpler with lower risk	• The way banks are currently operating will change. This will start with greater customer centricity in business and operating models and will also change distribution channels. In the future banks are likely to be simpler and lower risk. • Banks are developing capabilities using data and analytics to create a connected and enhanced customer experience. This information will ultimately result in greater customer centricity and products tailored to specific customers' needs.	• Cash savings products have the potential to become a predominantly direct, self-service product. The movement to digital self service will force existing banks to re-examine their business and delivery models. • As banks look to de-risk and simplify their business, arranging their business and operating models around customers needs, the availability, accessibility and transparency of cash savings products has the potential to improve. • With the move towards digital delivery of cash savings, a broader range of financial and non-traditional financial services participants may start to serve the cash savings market.

Executive summary

International regulatory interventions into cash savings markets (1 of 2)

We have identified eight interventions into the cash savings markets in the countries featured in this study, all of which are focused on the practices of cash savings providers.

Intervention type	Country/ Regulator	Date	Description	Indicative outcome
Limiting the number of accounts providers may offer	Netherlands / AFM	2010	• Providers may now only offer a new account in cases where it can be demonstrated that the product on offer is different to existing products and thus can justify a different interest rate.	Regulatory intervention has led to a narrowing of the number of different accounts and pricing differentials and improvements in customer satisfaction.
End of teaser rate practices	Netherlands / AFM	2010	• The use of a higher rate for a limited period of time which acts as a promotion to new customers but does not benefit existing customers. This practice is no longer used following concerns from the AFM around whether this practice was in the best long-term interests of customers.	
Limit price differences between products	Netherlands / AFM	2010	• Pricing differences across different products (e.g. new accounts and older accounts) need to be clearly justified to AFM.	
Changing customer background check requirements	Netherlands / AFM	~2007	• Cash savings providers can now rely on background checks conducted by another financial institution. This means the new provider does not have to undertake full customer checks, thus reducing a barrier to switching .	
Increasing transparency in communications	Netherlands / AFM	2010	• Improvement in the clarity of terms, conditions, interest rates in regular customer communications.	

Executive summary

International regulatory interventions into cash savings markets (2 of 2)

We have identified eight interventions into the cash savings markets in the countries featured in this study, all of which are focused on the practices of cash savings providers.

Intervention type	Country/ Regulator	Date	Description	Indicative outcome
Provide banks with maximum latitude in informing consumers in a factual manner about the guarantee scheme for savings (Recommendation to the Dutch Minister of Finance)	Netherlands/ ACM	June 2014	• As part of a wider study into barriers to entry in Dutch retail banking, the ACM's research found that there was a high degree of inertia in the savings market; with half of all consumers having never switched savings account. One explanation for this inertia provided by the ACM is that consumers find security important and are not universally familiar with the guarantee on savings (DGS). The ACM's evidence suggests that consumers mistakenly assume their money to be unsafe with a new provider. As existing legislation in the Netherlands is not clear about how banks can inform consumers of guarantee schemes, this was potentially acting as a barrier to entry/expansion. Therefore, the ACM recommended that the Minister of Finance offers maximum latitude, as well as clarity, on how banks can inform consumers of the DGS.	It is too early to observe outcomes from this research and recommendations.
Improvements to advertising, disclosure and grace periods on term deposits	Australia / ASIC	Feb 2010 & July 2013	• Following concerns around savers automatically 'rolling-over' onto low 'default' rates on term deposits, the regulator - ASIC - published a series of recommendations relating to advertising, disclosure and grace periods to help promote customers' understanding of when penalties or charges may be paid, or interest foregone in roll-over situations.	ASIC has stated in its follow up work that this intervention has had its desired effect.
Improving standards in transparency	Australia / ASIC	2009	• When bonus(teaser) rates became more prevalent after the global financial crisis, the regulator re-confirmed its expectations of financial institutions concerning advertising, particularly around bonus rates and the customer requirements to qualify for bonus rates. This was to avoid potentially misleading adverts. ASIC engaged with banks thorough a "Dear CEO" letter.	

Scope and approach

1

Introduction

The Cash Savings International Comparison Study in the context of the FCA Cash Savings Market Study

FCA Cash Savings Market Study

In September 2012 the FCA announced its intention to initiate three competition market studies. The first was the Cash Savings Market Study due, in part, to a concern that there are relatively low levels of switching of cash savings accounts compared to other financial products and other markets.

The focus of the study is interest bearing cash savings accounts. These accounts enable customers to store cash and generate an interest income, but typically offer limited transaction functions compared to current accounts. Certain personal current accounts ('PCAs') can be used as a savings account because they offer a sufficiently attractive interest rate on positive balances, so in this capacity such accounts are also within the scope of the FCA study. The study will cover all deposit taking institutions whether regulated by the FCA or not.

The issues to be explored in the FCA study include how consumer behaviour affects competition in the cash savings market and also how supplier conduct influences the market. The full terms of reference of the study are available at:

http://www.fca.org.uk/static/documents/market-studies/cash-savings-market-study-tor.pdf

In July 2014, the FCA published its interim report into the effectiveness of competition in the cash savings market. This is available at:

http://www.fca.org.uk/static/documents/market-studies/ms14-02-interim-report.pdf

Cash Savings International Comparison Study

To support the wider market study the FCA have commissioned PwC to provide a report comparing the cash savings market in the UK with a select number of countries, namely: Australia Germany, the Netherlands and the USA.

This report begins with overview of the markets. These findings set the context for the rest of the report, which then provides a deeper analysis of each of these countries. The country sections are reviewed across four key areas:

1. **Market structure** – How the size, structure, nature and performance of the markets differ and the effect on customer outcomes.
2. **Consumer behaviour** – The extent to which consumers can be characterised into different segments, and what factors influence these segments.
3. **Firm behaviour** – What measures firms take to incentivise consumer choices and manage their balance sheets.
4. **Regulatory context** – What can be learnt from international regulatory approaches in regulating the cash savings market.

We follow these country specific sections with a range of thematic findings, which draw from across the high-level market overview and more detailed country assessments. Lastly, in Section 8, we include a forward looking section to the study which considers broader trends which are likely to impact the future of the cash savings markets.

Scope

Areas in and out of scope in this study

Scope	This study compiles information on the following features in relation to the cash savings market in four countries. This includes: • Market concentration, market share stability, barriers to entry and expansion, and impact of new entrants over the last 10 years. • Focus of competition, including any noteworthy differences in relation to: – The use of bonus/teaser rates (terms which are used interchangeably), and the differential in rates offered to customers of open (those accounts which are open to new customers) versus closed accounts. – The role of price comparison websites and/or aggregators, any noteworthy differences in the switching costs faced by consumers, as compared to the UK, the extent of consumer switching between providers. – The proportion of consumers who use multiple financial providers or to remain with a single provider for all banking services. • The proportion of consumers that retain the same savings accounts for a number of years. This study also reviews any key differences in regulatory environment, in relation to: • Requirements in relation to the disclosure of interest rates (for example, in relation to the terms of which rates can be varied in future). • Disclosure requirements which are considered effective in promoting switching. • Product pricing requirements. • Requirements in relation to the cross-selling/bundling of products.
Out-of scope	This study is based upon publicly available information from public sources, global regulators and PwC network firms. Therefore the following information sources are out of scope: • Gathering information through direct engagement with individual financial institutions. • Performing primary customer research (we rely on 3rd party sources which have carried out customer research). In addition all potential alternatives to cash savings accounts (offset mortgage accounts, premium bonds, tied return accounts and Stocks and Shares ISAs) are out of scope of this research.

Limitations

Overview of the limitations arising from the approach

Limitations

This report does not constitute a formal competition assessment, nor does it assess the appropriate relevant market for cash savings in individual countries. Rather it collates information and data on a country by country basis to inform the FCA's market study.

Wherever possible, we have tried to control the inherent complexities associated with an international market comparison. However, the following limitations must nonetheless be recognised when interpreting the study's results. In general, it should be noted that all of the results are subject to a margin of error, and hence the primary focus should be on the broad comparative points, and not on the precise calculated value for a particular metric or on very small differences between countries.

The limitations of this study's methodology and approach are as follows:

- All the data contained within this report is from publicly available sources during the period of April to August 2014. The information in this study represents what was available at the time and may be subject to change.
- The structure of the retail banking market varies between the countries sampled. Customer and firm behaviour are, among other things, a reaction to the regulatory environment, local culture, the availability of country-specific products and other features in the way that local sectors have evolved. It is not possible to normalise for all these factors in numerical analysis, and therefore this study makes contextual comments where necessary to help in the interpretation of the data.
- The conclusions of the report have been developed using readily available information, PwC industry expert opinions and interviews with global regulators. Primary research has not been carried out to test these findings.
- As cash savings deposits are inconsistently reported across many firms and markets in this study, total bank deposits have been used in some cases to give a consistent point of comparison. The use of total bank deposits can be treated as a proxy for the relative size of cash deposits but will overstate the size of the market given they also include business deposits.

Approach

The 4 stage approach adopted to produce this report

Research stage	**Design**	**Consultation & research**	**Reporting**	**Presentation**
Key activities	• Kick-off meeting: finalise approach and confirm key information requirements. • Interview with FCA and desk-based research to compile key features and products of the UK cash savings market (as the point of comparison for the international study). • Develop script and information request/data templates for interviews with international regulators.	• Interviews with international financial regulators to provide information on regulatory regime for cash savings with particular focus on any recent regulatory studies. • Identification of publicly available market data and insight on cash savings market. • Gathering insight from PwC international firms for their respective markets.	• Analyse interview responses and consumer and market data. • Review for consistency across markets, and where possible align data and insights. • Draft report: – Overview of key features in each market – Identify aspects that may impair comparability – Identify key findings and potential implications for FCA market study	• Present findings and conclusions of report to FCA and wider PwC experts for review. • Final report and presentations of our work.

Country selection

Rationale for the countries included in this study

Criteria

In selecting four countries for this study, we agreed with the FCA a number of selection criteria:

1. To cover a broad range of geographies across different continents and from a number of major economies.
2. To choose countries where the customer demographics and therefore savings behaviour are broadly similar to the UK.
3. To include 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.

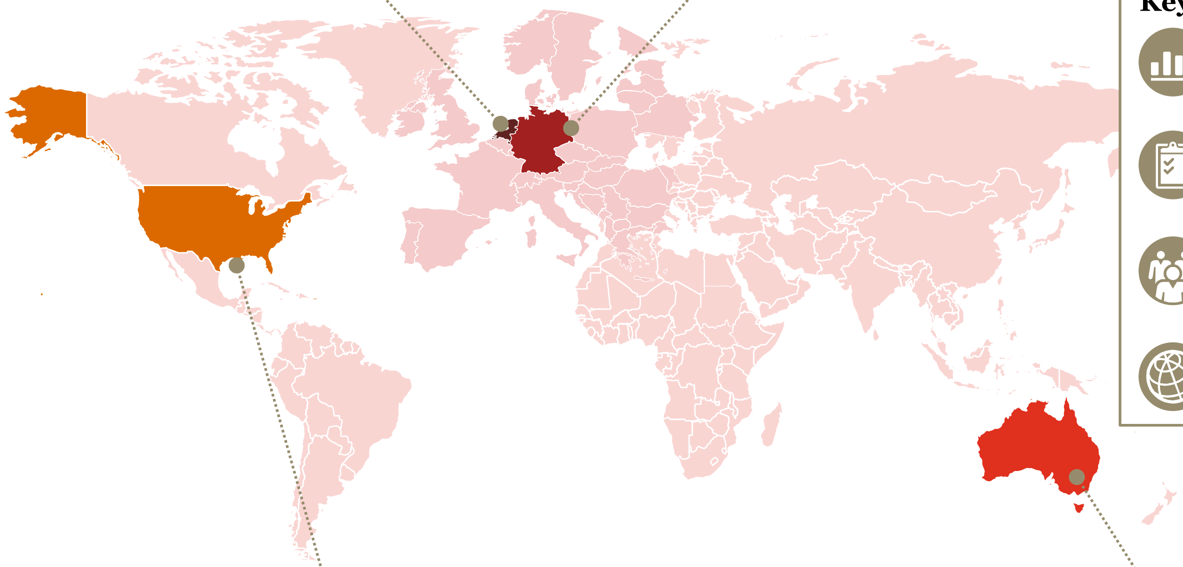
We also sought to include countries with some variation in market structure and macroeconomic performance. This would help to show the importance on different factors on consumer outcomes in the cash savings market.

The Netherlands

The cash savings market has been under investigation in the Netherlands. The Dutch competition authority (ACM) has completed studies into this area over a number of years.

Germany

The German cash savings market is perceived to be operating effectively and including Germany in the study ensures that a large European economy is included.



Key:

- G8 economy
- Regulatory focus on cash savings
- Comparable consumers to the UK
- Ensures coverage of a major continent/area

The USA

In the USA the cash savings market is governed by both state and federal regulators and is much more fragmented than the UK market.

Australia

The Australian cash savings market is regarded to operate differently compared to many other major economies, driven by mandatory superannuation. Australia was also less impacted by the Global Financial Crisis.

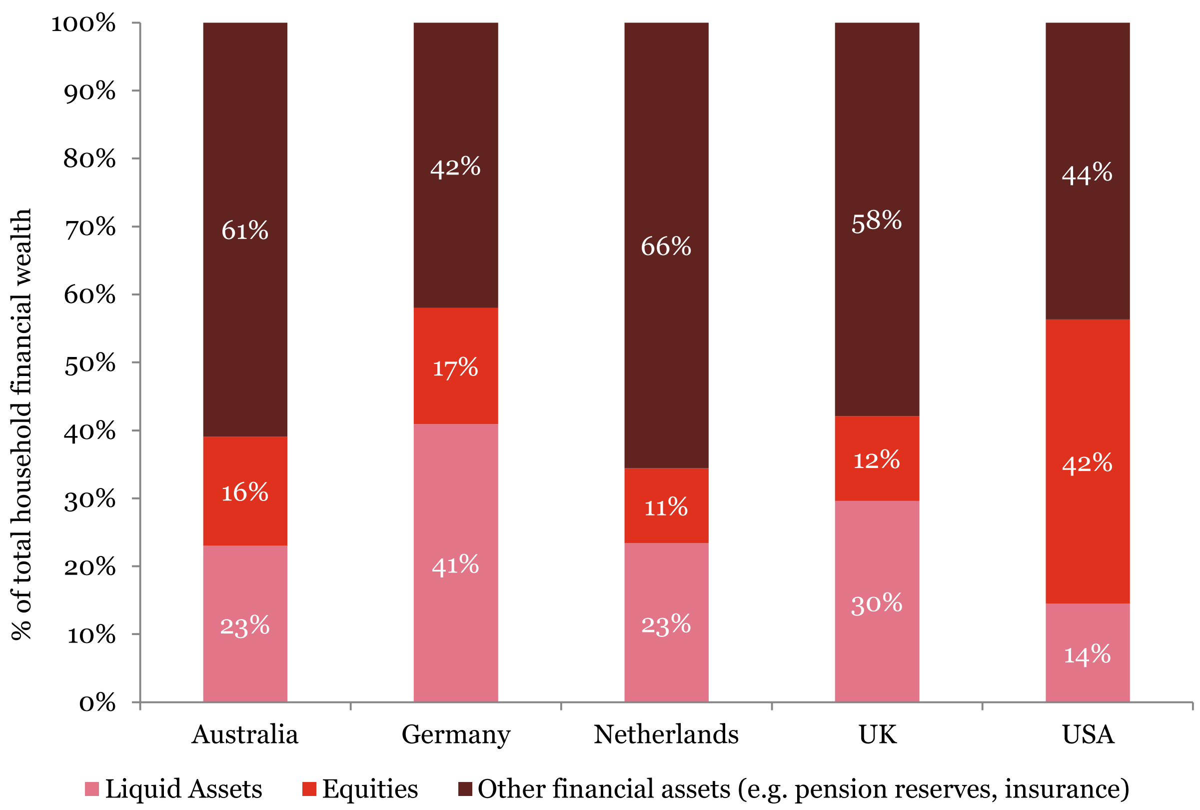
High level comparison of international cash savings markets

2

Composition of household financial wealth

Across all markets in our study, liquid assets represent a material proportion of household financial wealth.

Percentage composition of household financial wealth (2012)



Commentary

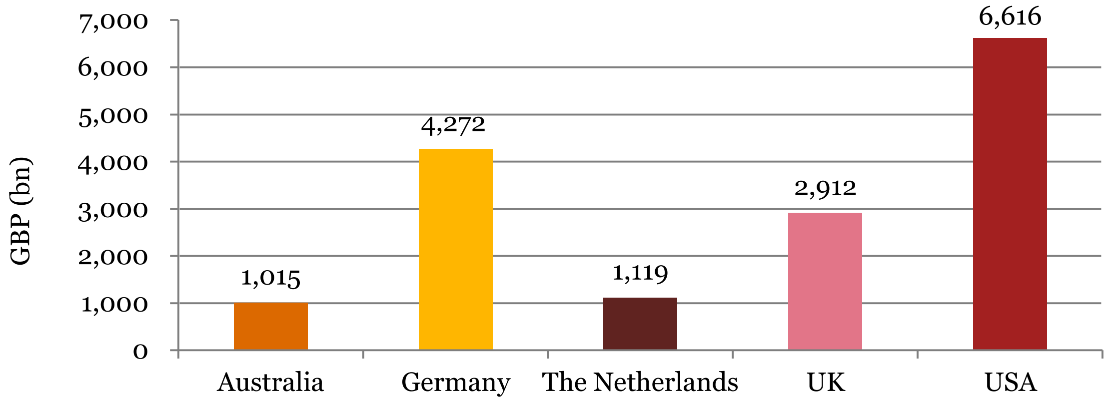
- Liquid assets are predominantly deposits held within the banking sector. With the exception of the USA, where some liquid assets are places with money market funds.
- Only Germany holds a higher proportion of financial wealth in liquid assets than the UK.
- The USA has the smallest holding of liquid assets across all the countries and the highest proportion of equities. The USA has a strong culture of direct household investment into equity markets.
- Pension arrangements are likely to impact the proportion of liquid assets held. One reason that Australia's holding of liquid assets is lower than UK (and other financial assets is higher) is the impact of saving through Superannuation. In future, a similar trend may occur in the UK following the introduction of automatic pensions enrolment.
- There is a link in many countries between customer confidence in the economy and savings behaviour. In times of economic prosperity demand for market linked investment products are often favoured whereas the economic downturn increased the demand for precautionary saving through cash deposits.

Source: Credit Suisse, 2013

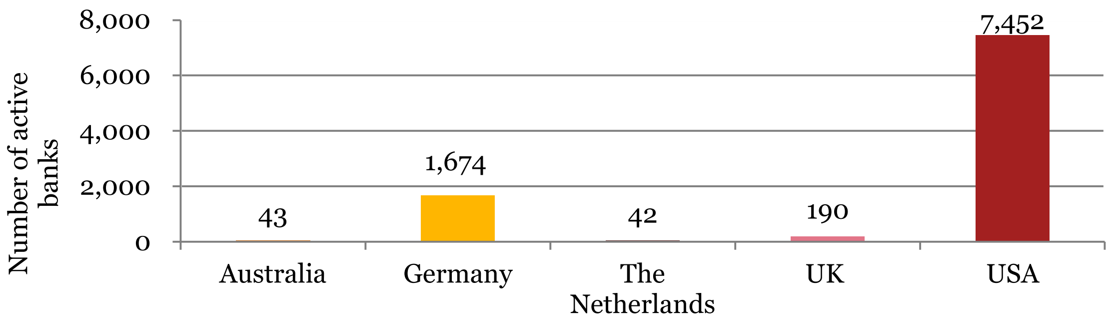
Banking deposit market size and number of banks

Demand for cash savings in each market is broadly related to overall country size.

Total bank deposits (2012)



Number of active banks (2012)



Commentary

- Total bank deposits are broadly related to overall country size (e.g. population).
- The type of suppliers in each market varies, from those countries with numerous regional and national providers to those countries with far fewer providers.
- The UK market has a two-tiered structure, with a set of larger banks that make up a significant part of the market and a long tail of smaller building societies that contribute significantly to the overall number of banks.
- Germany has a banking structure that is very distinctive from its European peers the UK and Netherlands. The prevalence of small regional cooperative financial institutions means there are far more banking institutions to choose between. However, many are very locally focussed.
- The USA has the largest number of banks per head of all the countries. A key reason for this is that Federal law restricts any bank from obtaining more than 10 % of total USA deposits or more than 30% of a single state's total deposits by acquiring other non-failed banks. Historically, there have also been restrictions (since repealed) on interstate and intrastate branch banking.
- Australia and the Netherlands have a significantly smaller number of banks.

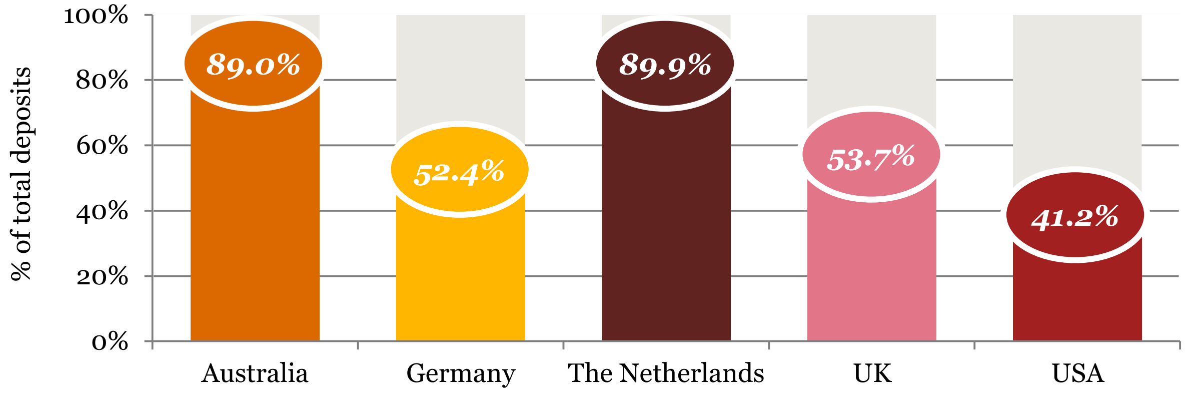
Note: Types of bank included are Commercial Banks, Co-operative Banks, Savings Banks and Building Societies/Real Estate & Mortgage Banks. Country deposits are determined by the deposits (retail, SME and wholesale) held in country specific institutions and subsidiaries of international banks based in each jurisdiction

Source: Bankscope, 2014

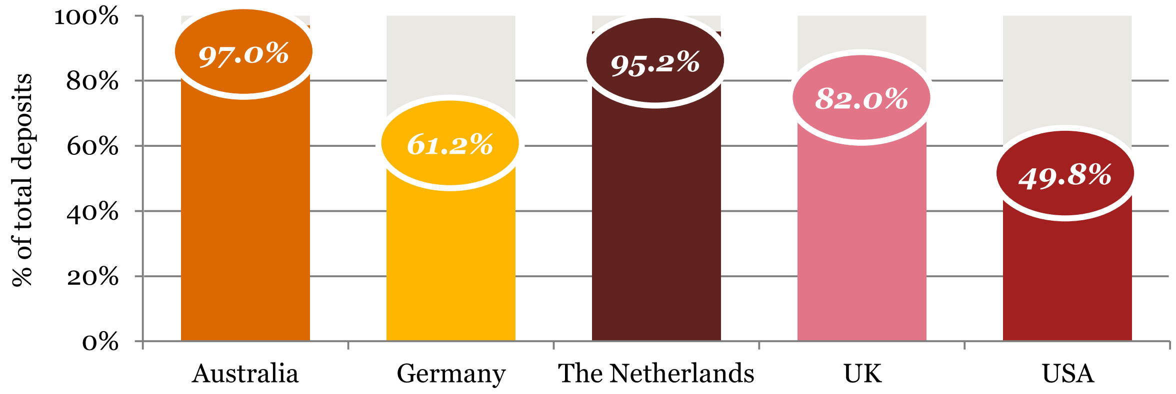
Market concentration – total bank deposits

The concentration ratio for the top 4 and top 8 banks shows significant variation across the markets in our study. The Netherlands is the most concentrated.

Top 4 banks deposits concentration ratio in 2012



Top 8 banks deposits concentration ratio in 2012



Commentary

- Concentration of banks varies considerably by country. The charts on the left show the share of deposits held by the four largest and eight largest banks (ranked by total national deposits).
- Australia and Netherlands both have CR4 ratio of close to 90%. In Australia there are four large banks: Commonwealth Bank of Australia, Westpac, National Australia and ANZ. In the Netherlands, three banks collectively have a market share close to 90%: ING, Rabobank and ABN AMRO.
- Both Germany and the USA have more fragmented banking markets. There are a very large number of banks who hold market shares of under 1% (local concentrations are likely to be higher e.g. at the regional or state level).
- The UK market lies at the centre of the CR4 ratios shown here. Although the UK looks more similar to Germany and the USA based on this evidence, the CR8 ratio is far closer to that of Australia and the Netherlands.
- The CR8 ratios highlight that at the national level the Australian and Dutch markets have smaller choice of provider compared to the USA and Germany. This analysis does not inform us about local choice.

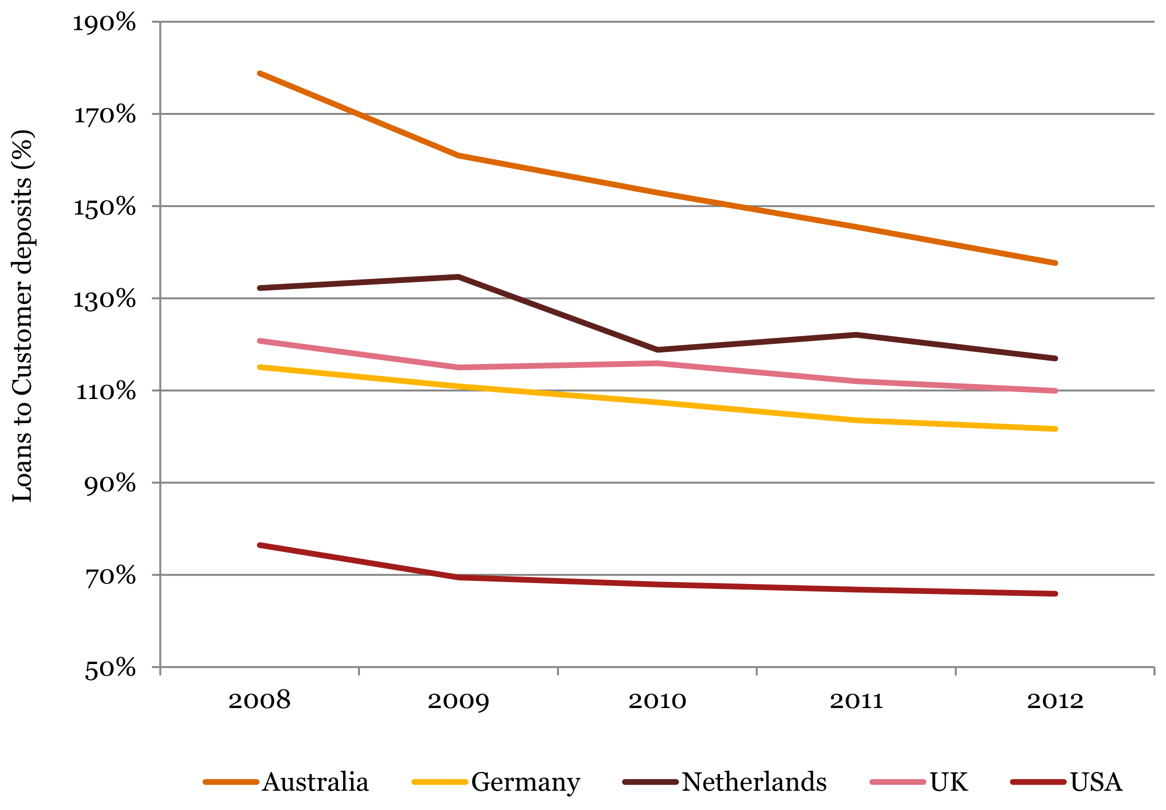
Note: Types of bank included are Commercial Banks, Co-operative Banks, Savings Banks and Building Societies/Real Estate & Mortgage Banks. Country deposits are determined by the deposits (retail, SME and wholesale) held in country specific institutions and subsidiaries of international banks based in each jurisdiction

Source: Bankscope, 2014

Funding position

Loan to deposit ratios across all markets indicate that deposits are an increasingly important source of funding, helping banks to de-risk their balance sheets.

Top 10 banks loans/customer deposits (%)



Commentary

- Aggregate loan to deposit ratios across the five countries show considerable variation, but in all countries they have fallen between 2008 and 2012 as banks have sought to increase the stability of their funding sources (and in some cases scaled back lending).
- In the USA the loan to deposit ratio has gently trended downwards over the period, maintaining an excess of deposits over lending. The ratio fell from 76% in 2008 to 66% in 2012. The key reason for the low ratio in the US, relative to other markets, is the active role of Freddie Mac and Fannie Mae in US residential mortgage provision. For this reason US banks do not have the same requirement for retail cash deposits.
- Australia has experienced the biggest decline in this ratio over the period, decreasing by approximately 40 percentage points from 2008 to 2012. The UK and Germany have both gradually reduced their loan to deposit ratios to reduce reliance on wholesale funding sources.
- When banks need to improve their funding position , they are more likely to compete aggressively for retail deposits, particularly though offering higher deposit interest rates. Our conversations with regulators and industry specialists suggest this trend was most noticeable 1-2 years ago, but has faded more recently.

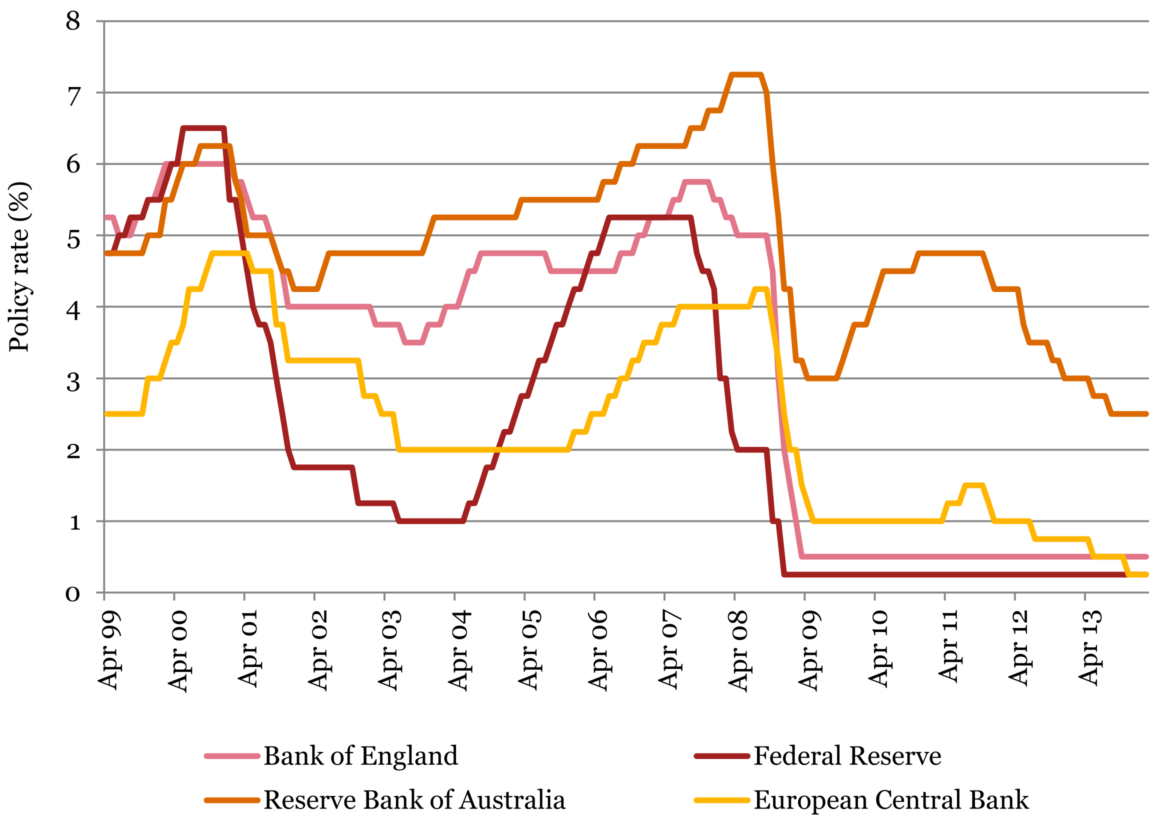
Note: Data based on top 10 Commercial Banks, Co-operative Banks, Savings Banks and Building Societies/Real Estate & Mortgage Banks in each specific country

Source: Bankscope, 2014

Interest rates

As Central Bank policy rates are low, savers have generally had to accept significantly lower returns. Long-term low interest rates may reduce the incentive to both save and switch.

Central Bank Policy Rates (%)



Commentary

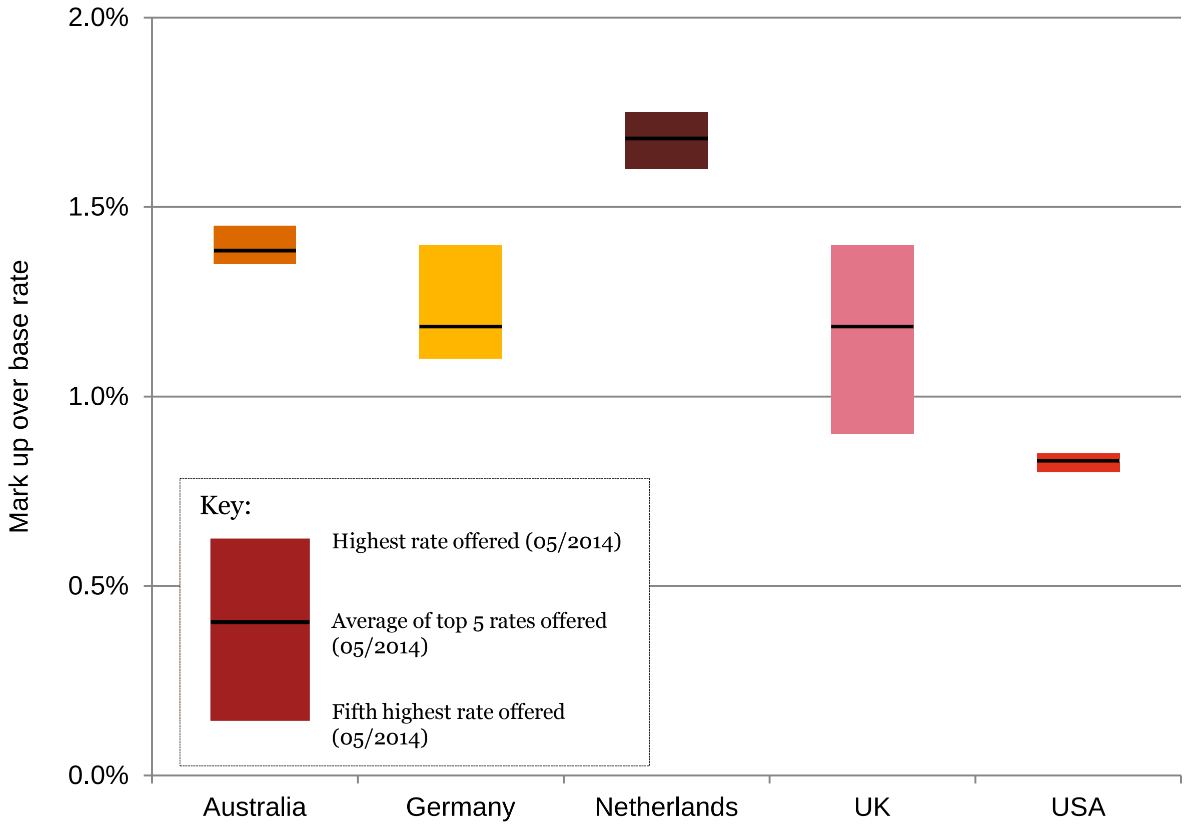
- Central bank policy interest rates (typically referred to as base rates in the UK) in Europe, the UK and USA have followed similar paths over the last 6 to 7 years. All fell to near zero levels towards the end of 2008 and beginning of 2009 and have remained very low since.
- Australia also experienced a steep interest rate decline in the 2008-2009 period. However it has maintained a rate significantly higher than the other central bank rates.
- The relatively higher base interest rate available in Australia will benefit savers compared to Europe, UK and the USA in nominal terms.
- The low ECB rate may be contributing to falling gross cash savings in Germany in favour of higher yielding forms of investments.
- While the incentive to switch should be determined, in part, by the interest rate differential across competing accounts, the fact that absolute savings returns are currently low may discourage switching. This effect may unwind in a rising interest rate environment.

Source: Datastream, 2014

Pricing of savings deposits

The US has the lowest interest rate mark up relative to base rates, while the Netherlands has the highest interest rate mark up relative to base rate (using the top 5 rates offered).

The mark up of the top 5 rates* over base rate (%)



* 1 year fixed term deposit rates, or nearest equivalent

Commentary

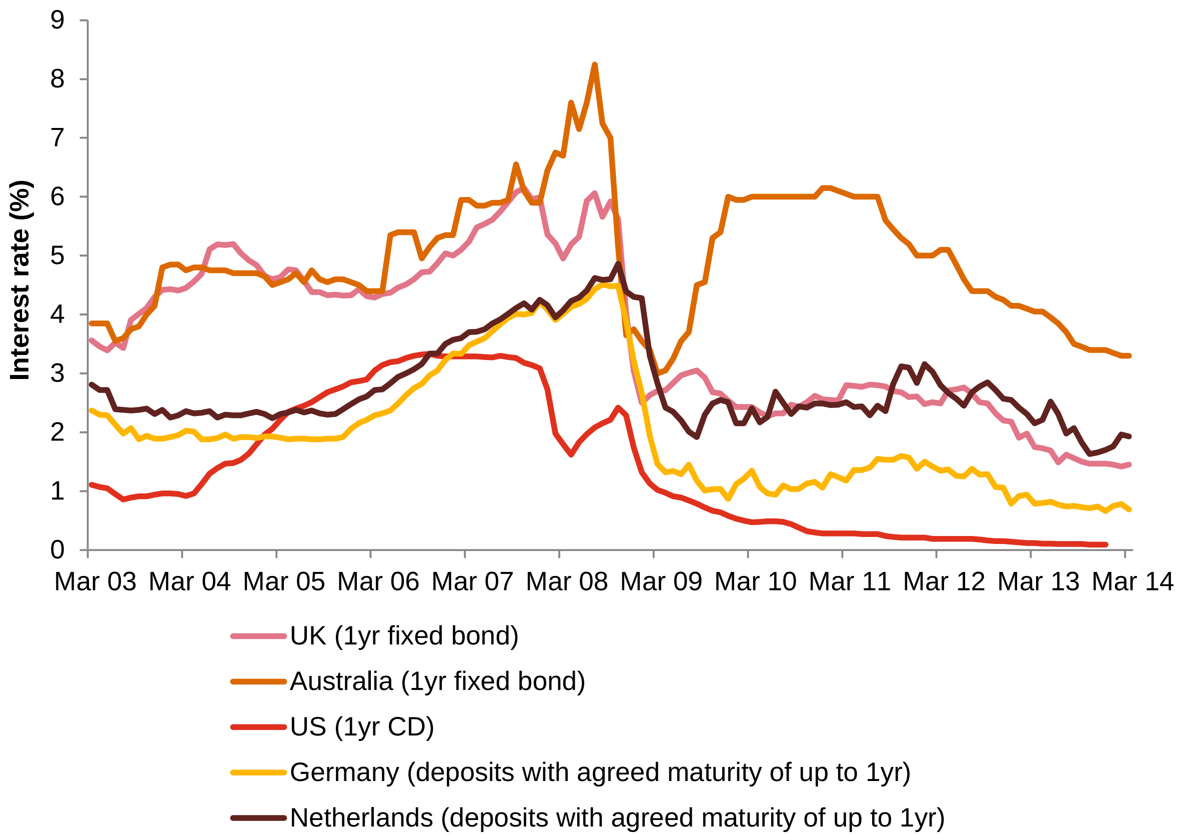
- Focusing on the five highest 1 year fixed deposit rates in each country, and comparing these rates to the base rate in each country, we can compare pricing differences across countries.
- The top 5 providers in the Netherlands offer the highest interest rate mark up over base rate (as at May 2014). Interest rate mark ups over base rate are lowest in the US.
- One explanation for the divergence in savings rates offered is the funding needs of banks in each of the countries. In the Netherlands there is a large funding gap, the main cause of which is the high level of mortgage debt. However, banks in the US require less retail deposits as they are able to sell substantial portions of their loan portfolios to government-sponsored enterprises (GSEs). Therefore, banks in the US who do not have a strong requirements for further deposit growth have limited incentives to offer higher rates. This helps to show that balance sheet funding pressures can be a major driver of the pricing of cash savings deposit rates.

Source: infochoice.com.au/, financescout24.de, moneysupermarket.com, bankrate.com, bankenoverzicht.nl

Pricing of savings deposits

Since the GFC yields on Dutch and German savings deposits have diverged. Yields are lowest in the US while rates in highest in Australia, reflecting their higher base rate.

Interest rates on one year fixed term deposits (or nearest equivalent)



Commentary

- Australia has the highest deposit rates, with rates of 3.3% in March 2014 on one-year fixed term deposits. This is driven by the higher base rate.
- The USA has the lowest rate, at just 0.09% average rate on a year Certificate of Deposit (CDs) in December 2013. This suggests American consumers use CDs as a store of wealth and seek to grow wealth using different investment products.
- Before 2009, the interest rates on savings deposits in Germany and the Netherlands were similar, particularly in 2007 and 2008. However, post GFC they have diverged, the difference on new deposits rates is now approximately 1.3%.
- In the Netherlands, deposit taking institutions are reducing their reliance on wholesale funding. Creating increased demand for deposits from banks - leading to higher interest rates relative to Germany. In Germany, higher savings rates and lower rates of home ownership have resulted in less reliance on mortgage debt than in the Netherlands. This means the interest rates German banks need to offer their customers to fund their balance sheets are not as high.

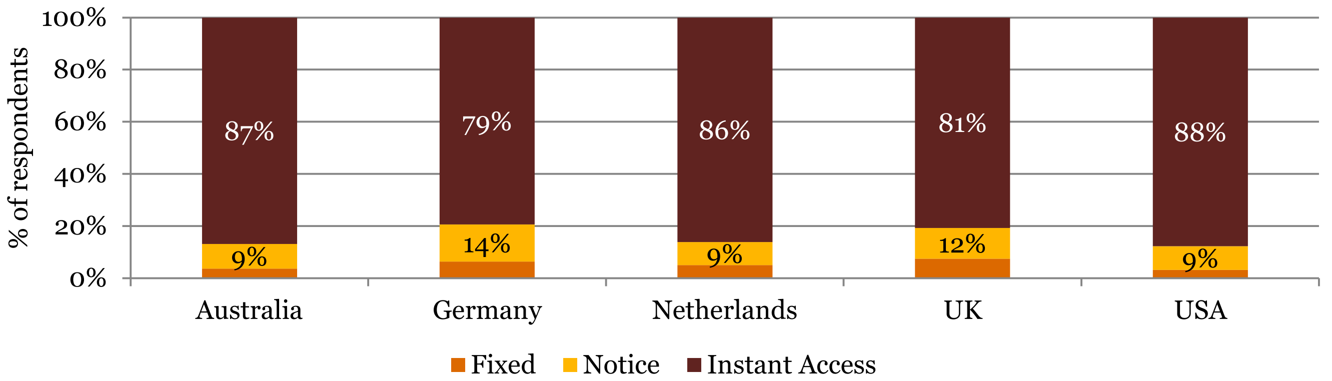
Source: Bank of England, European Central Bank, Reserve Bank of Australia, St.Louis Fed

Note: Rates for Germany and the Netherlands are for deposits of up to one year, with their average being under one year, therefore their yield is likely to be lower than a 12 month equivalent yield

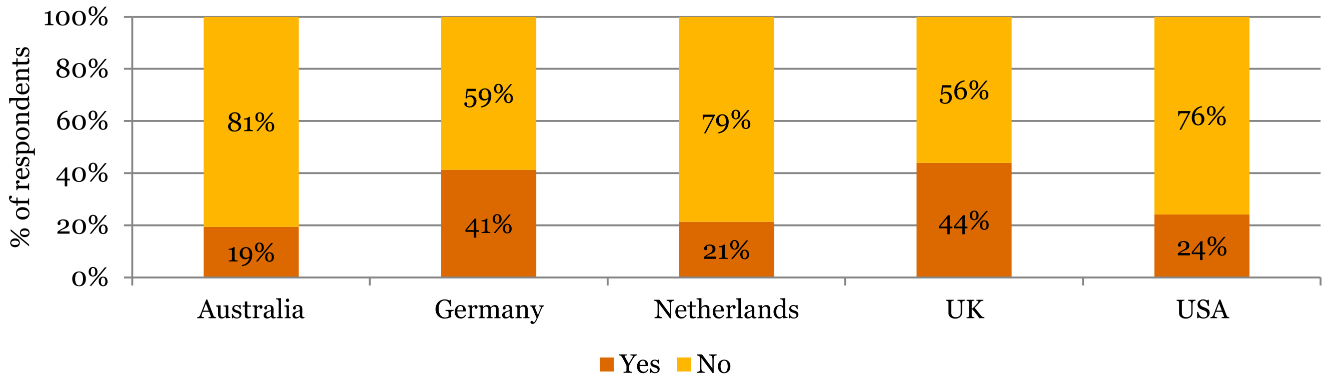
Type of savings accounts

The majority of cash savings accounts are instant access accounts, offering no tax benefit. The exceptions are the UK and Germany where accounts with tax benefits are more prevalent.

Type of savings account (2013)



Proportion of consumers who have a tax-free interest account (2013)



Commentary

- The majority of customers have instant access accounts, which suggests that cash savings accounts are used for short-term savings goals, as opposed to long-term wealth accumulation. Cash savings products can also be used by customers to segregate funds from their current account, or as a temporary place to store and manage cash which is not required for day to day use.
- The existence and use of cash ISAs in the UK are more prevalent than other tax exempt products in other countries. This may suggest the cash savings in the UK have a greater role in building and protecting wealth.
- The annual ISA investment cycle (concentrated at the end of the tax year) is therefore a particularly UK phenomenon when UK providers are particularly competitive.

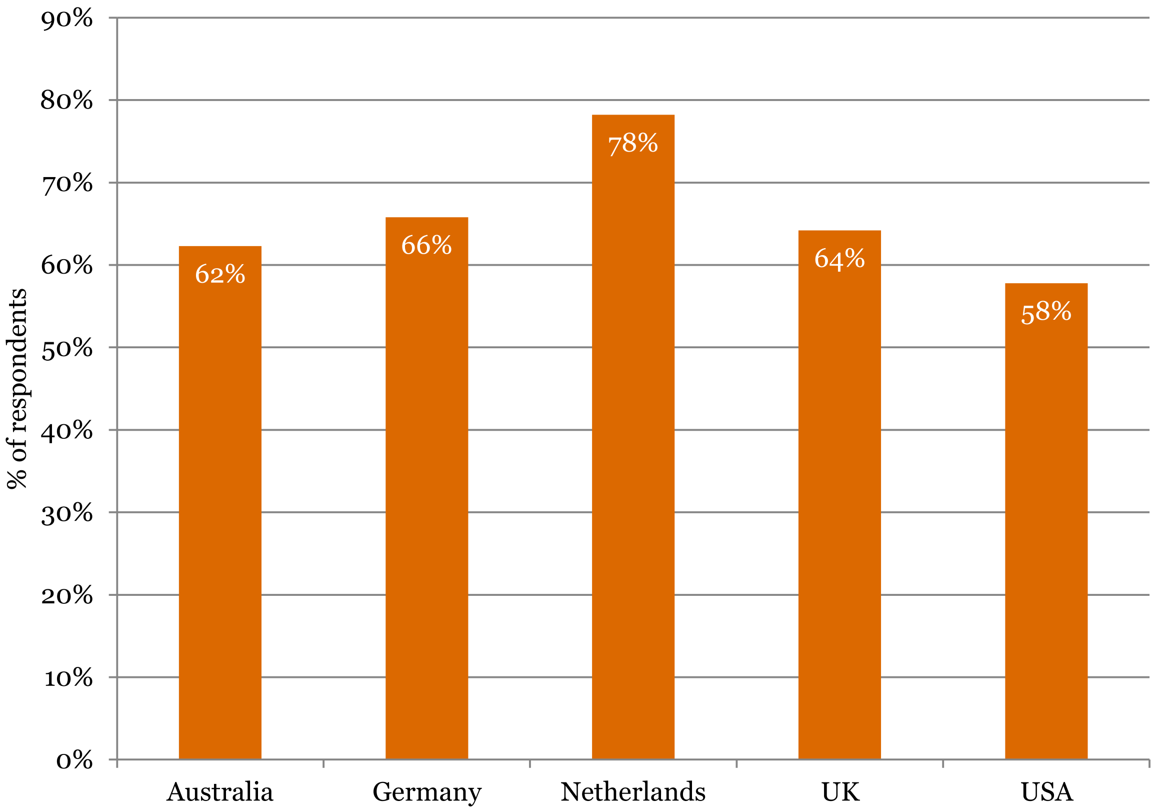
Note: All percentages are rounded and may not sum to totals

Source: copyright © 2014, Datamonitor, Savings Account Customer Analytics, reproduced with permission of Datamonitor. Datamonitor conduct surveys in all five countries covered above, the sample size of these surveys varies from 1,000 to 2,000 consumers depending on the country. As the figures based on these survey responses depend on the sample of respondents, statistics reported here may differ from other sources.

Stickiness to current account providers

Most consumers choose savings accounts with their existing providers.

Consumers choosing savings provider as they were already a customer



Note: All percentages are rounded

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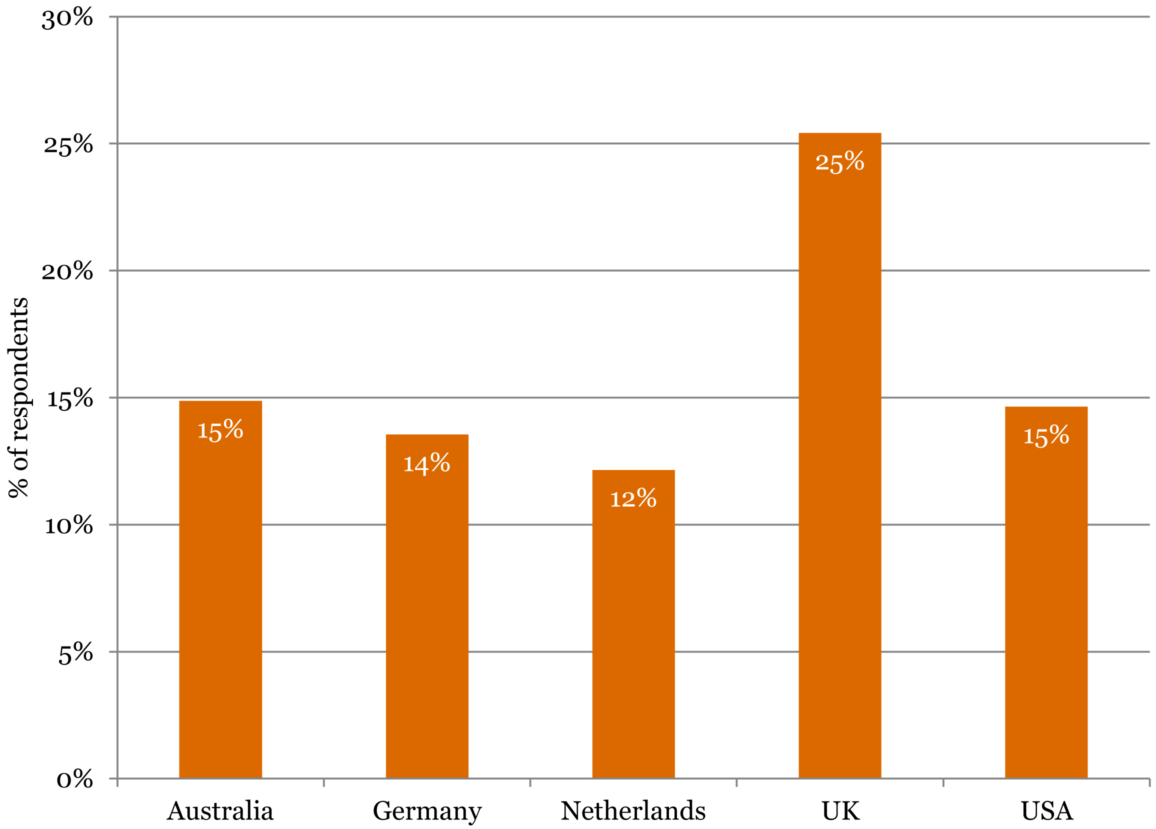
Commentary

- In general the majority of customers (across all 5 countries) chose a savings provider where they are already a customer of another banking service. A clear driver of this behaviour is convenience as customers have less stringent account opening requirements when they are an existing customer and have the benefit of keeping all their financial arrangements with one provider, for example with one online banking portal.
- In addition banks across all countries incentivise customer loyalty in order to increase cross product holdings and drive customer profitability.
- The Netherlands has the highest number of people citing that the reason for choosing their savings account provider was that they were already a customer (78%). Our conversations with Dutch regulators suggest that in part this can be attributed to the fact that Dutch banks have been limited from advertising that their customers' deposits are insured by the government deposit protection scheme. As a result Dutch savers tend to choose the institutions which they know and trust.
- The USA had the lowest proportion of people with this response, at 58%. This may be partly attributable to the widespread knowledge of the FDIC protection scheme meaning that customers are more willing to trust their savings with a different provider. The US is also a less concentrated with more national provider choice.

Savings account opening

The proportion of customers who have opened a new savings accounts over the past 2 years is 25% or below in all territories. The UK is significantly higher than other countries.

Proportion of respondents who opened accounts (2012 or 2013)



Commentary

- New account opening data provides the most useful insight into customer switching/churn as many customers do not close their existing savings account and simply open a new account.
- The proportion of consumers saying they had opened accounts in 2013 or 2012, was highest for the UK. Australia and the USA seemed to have a similar account opening rate while the Netherlands was lowest at approximately 6% in both years.
- The relatively high levels of new account opening in the UK can in part be attributed to:
  - "ISA season" driving many customers to annually consider their cash savings provider.
  - Recent advertising campaigns and media focus on retail banking.
  - A demand side response to UK banks reducing interest rates on older accounts. This incentivises customer to open new accounts to obtain the best interest rates.
- See Appendix D for a similar analysis across a broader range of countries.

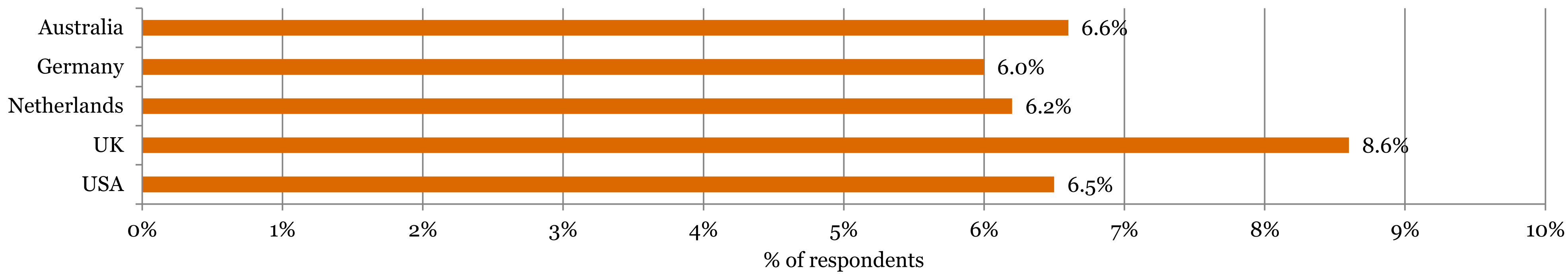
Note: All percentages are rounded, figure shown is the sum of accounts opened in 2012 and 2013.

Source: copyright © 2014, Datamonitor, What Consumers want Savings Account Product, Provider and Channel Positioning, reproduced with permission of Datamonitor.

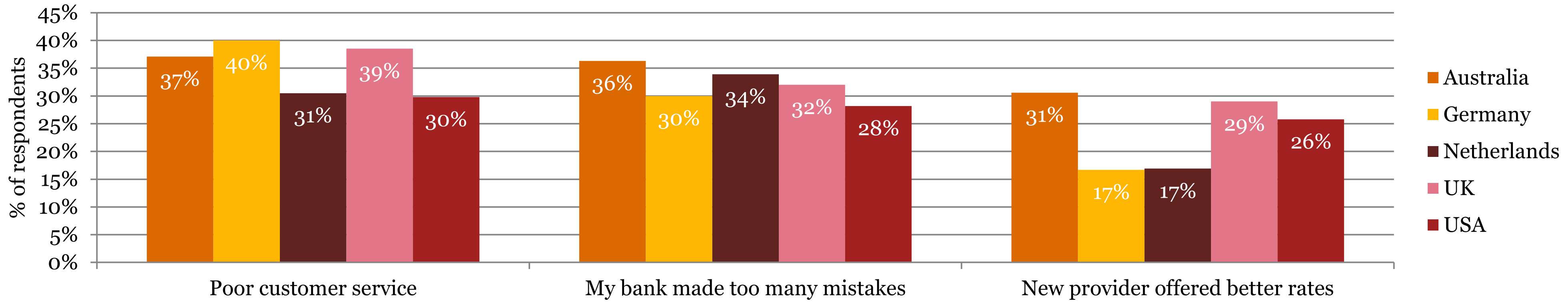
Current account switching

The UK has higher current account switching to accompany higher savings account opening. Negative customer experiences are universally the main drivers of switching behaviour.

% of consumers who have changed provider in the last 12 months



Reason(s) for changing current account provider



Note: All percentages are rounded

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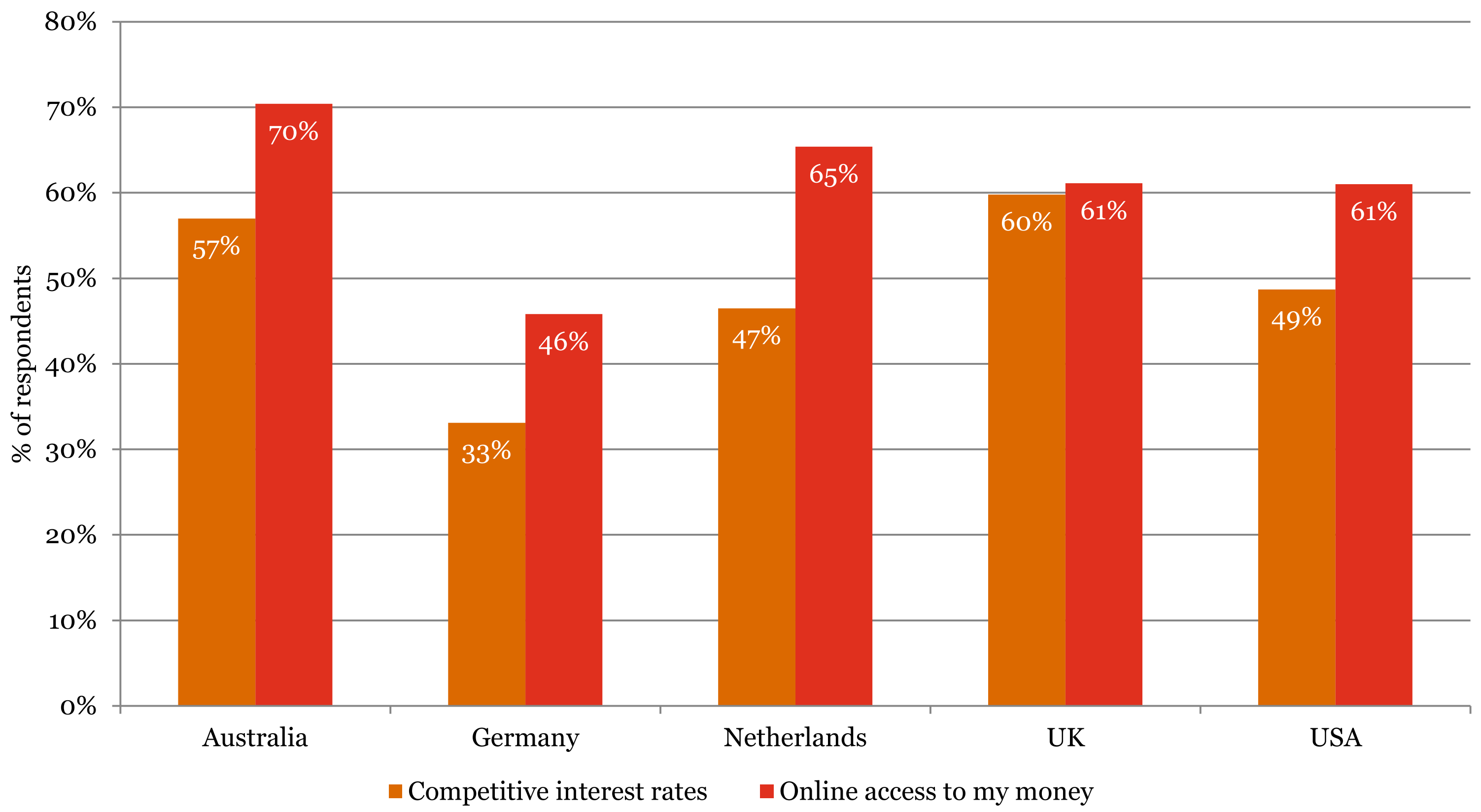
Desired savings account features

Customers prioritise online access to money over interest rates when assessing essential features of cash savings accounts.

Proportion of consumers who said these features were 'essential' (2013)



Commentary

- The preference for online access over competitive interest rates can be explained by data showing that most customers cash savings accounts are instant access products.
- Another related factor is that many customers individual savings balances are relatively low and therefore the benefits of access to money outweighs the financial benefit of a higher interest rate.
- Given broadband penetration and prevalence of internet provision, online access is rapidly becoming an essential feature for cash savings products.

Note: All percentages are rounded

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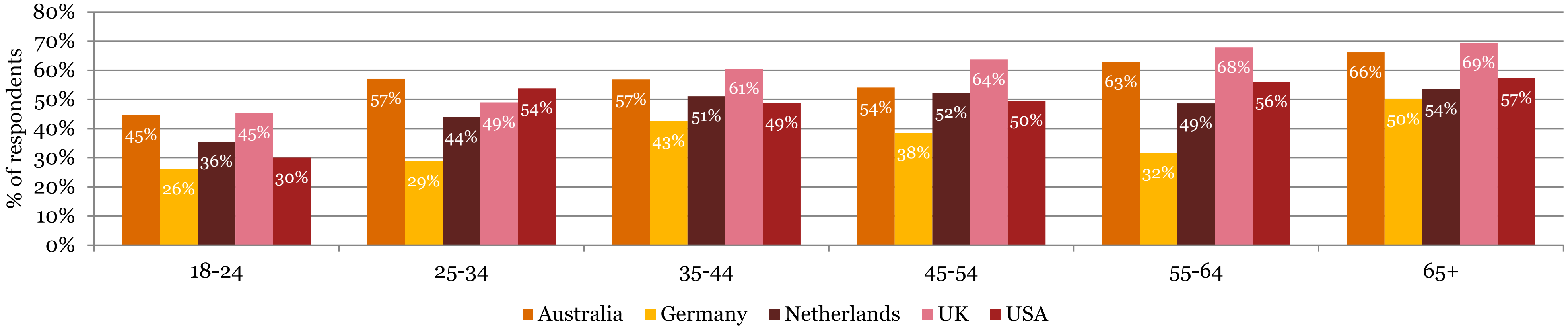
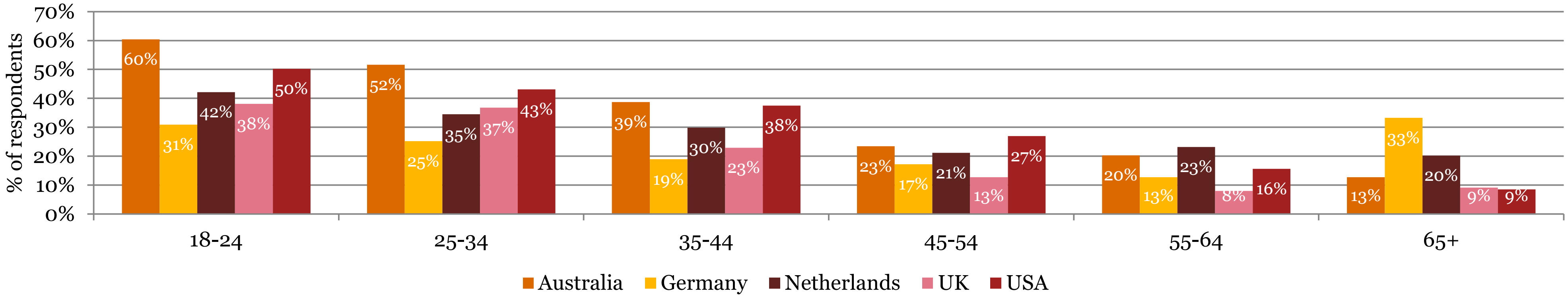
Desired savings account features

Segment analysis in each territory shows that older customers (with typically higher balances) are more focused on interest rates whereas younger customers value convenience.

Proportion of consumers who listed a 'Competitive interest rate' as essential (2013)



Proportion of consumers who listed 'Mobile access to my money' as essential (2013)



Note: All percentages are rounded and may not sum to totals

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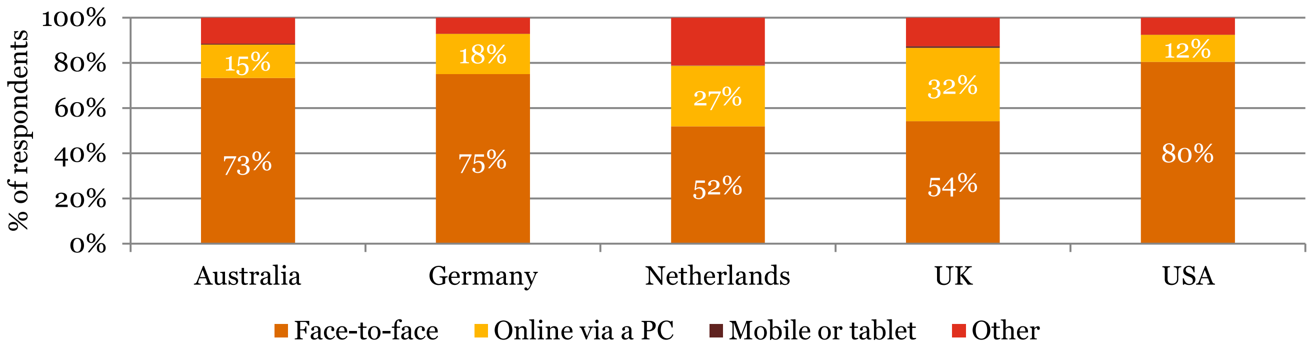
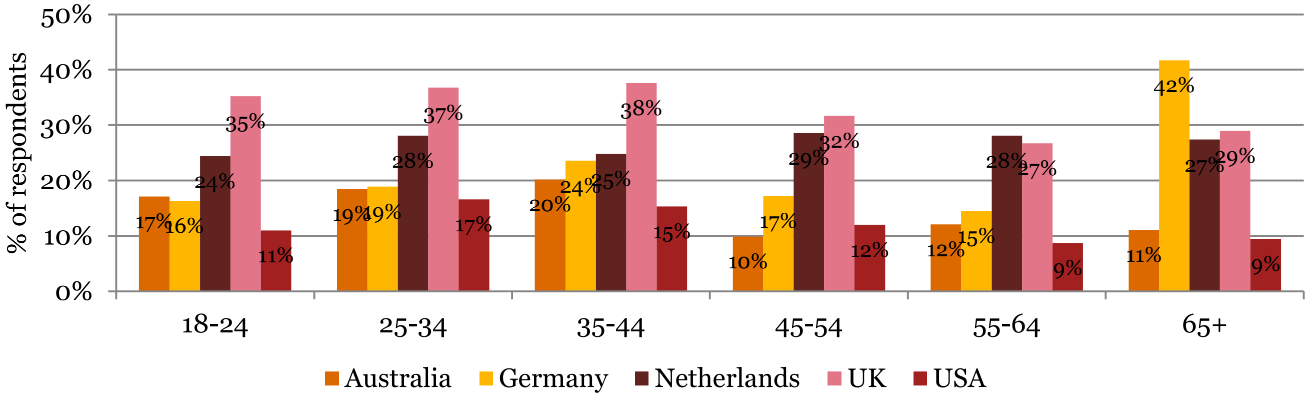
Channels for opening accounts

Most accounts are still opened face to face, indicating the importance of the retail branch network. However, a large proportion of people in all age groups do open accounts online.

Method used to open savings account (2013)



Proportion of consumers who opened 'Online via a PC' (2013)



Commentary

- As online and mobile internet penetration increases, a higher percentage of account opening is likely to be through online or mobile channels.
- Age segmentation has little impact upon customer use of online banking to open new accounts.
- In the USA customer s find account opening online the most challenging. Research shows that in 2011 c. 47% of the total number of customers who tried to open an account online, either:
  - abandoned the process; or
  - were forced into a branch to finalise the process; or
  - could not open type of account they wanted online
- Banks in all countries are working to improve their online functionality to overcome these shortcomings.

Note: All percentages are rounded and may not sum to totals

Source: copyright © 2014, Datamonitor, Savings Account Customer Analytics, reproduced with permission of Datamonitor; Javelin, 2011

Australia – Market and regulatory review

3

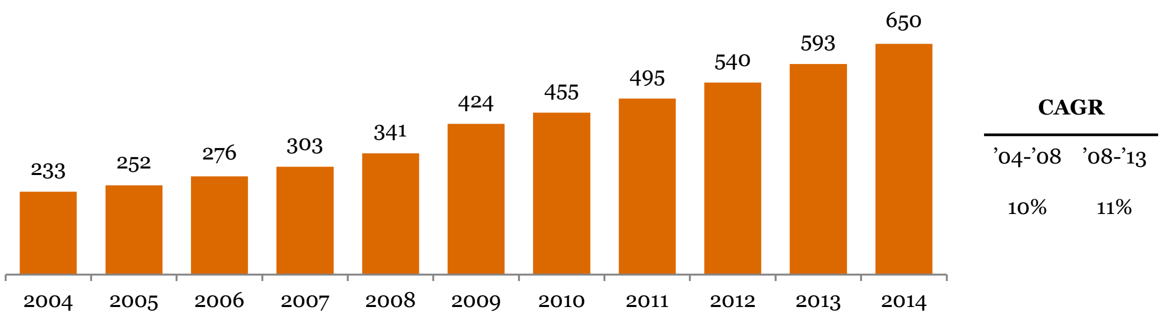
Overview of the Australia section

Market structure	• The Australian savings market has been growing at a rate of 11% annually since 2008. • The combined market share of the 'big 4' banks is over 80% and these banks have captured a larger share of deposit growth. • 'Big 4' banks' share of accounts is lower than share of deposits indicating smaller banks tend to attract lower balances per account opened. • Despite new entrants achieving limited market share success, there are emerging trends of a rise in direct banking and rejuvenation of community banking.
Customer behaviour	• Younger segments typically have a higher usage of savings accounts and higher switching rates. This is most pronounced in transaction account switching where the 25-34 segment has a 21% switching rate compared to the 12% average switching rate across all age groups. • Customers value access and convenience when choosing a savings account. Customer survey data shows that the top 3 features considered essential in saving accounts were instant access to money, competitive withdrawal fees and online access to money.
Firm behaviour	• Banks will periodically offer promotions to attract customers, for example special bonus interest rates for a period of time. • Customer acquisition focus varies by bank. Those previously focused on savings only are aiming to acquire transaction accounts. This is partly driven by the need to obtain favourable treatment under liquidity rules that favour 'established customer relationships'. • There is a prevalence of package banking, particularly by the 'big 4' banks, where customers pay a fee to combine their transaction account and credit card with a mortgage, and receive a discount on the mortgage rate and free electronic transactions.
Regulatory context	• Australian financial services policy is increasingly seeking to promote good customer outcomes. Recent initiatives includes: measures to make current/transaction account switching easier, a ban on mortgage exit fees, increased transparency for superannuation and reform of the financial advice regulation. • There are specific regulatory requirements for cash savings accounts related to disclosure, pricing and cross-selling/ bundling. • Improving transparency has been the focus of recent Australian regulatory developments in cash savings. The specific areas of focus have been term deposits and advertising of bonus rates.

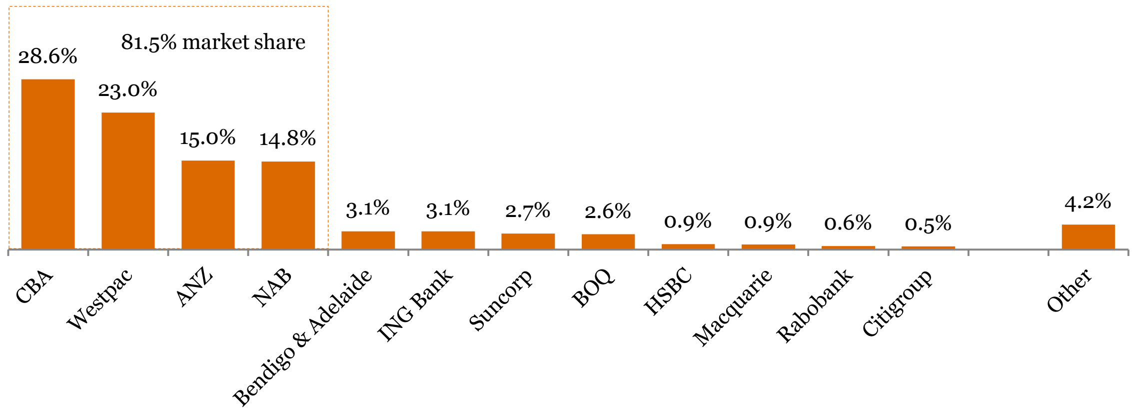
Market size and structure

The Australian savings market is growing. The combined market share of the 'big 4' banks is over 80%.

Total deposits[1] (AUD, bn)



Deposits market share - % of total deposits (2014)



Commentary

- Since 2004, there has been a steady rise in household deposits in Australia, however in 2009 the global financial crisis contributed to an acceleration with consumers shifting from risky investments to safer cash deposits.
- A 'four pillars' policy was established by the Australian government in 1990 to ensure stability and competitiveness in the banking sector. It provides for continued separation of the 'big 4 banks' that comprise the four pillars - Commonwealth Bank, Westpac, National Australia Bank and ANZ . These four account for over 80% market share of deposits.
- Despite their notable market position, Australian banks have historically used wholesale funding for a significant proportion of their funding requirements. Since the GFC, banks have sought to rely more on deposit funding and consequently there has been intense competition from the majors (or their sub-brands) for retail deposits.
- Changes to superannuation policy were announced in the 2013 budget, increasing the compulsory superannuation guarantee from 9% to 12% by 2019. This, along with improved economic conditions, may slow down the growth of household deposits as consumers may rely more on superannuation for their long term savings.

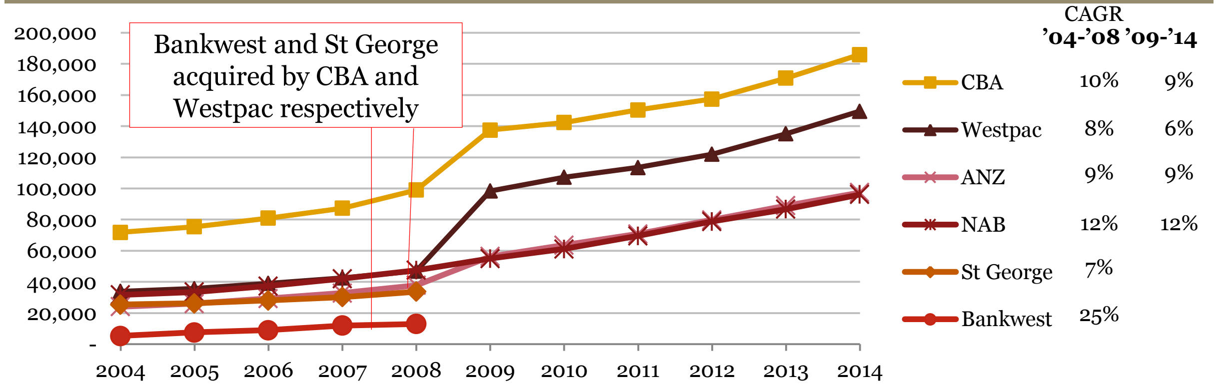
1 – Total deposits = Total deposits from Households as at 31st March each year

Source: APRA, 2014; RBA, 2014; Fitch Ratings, 2013

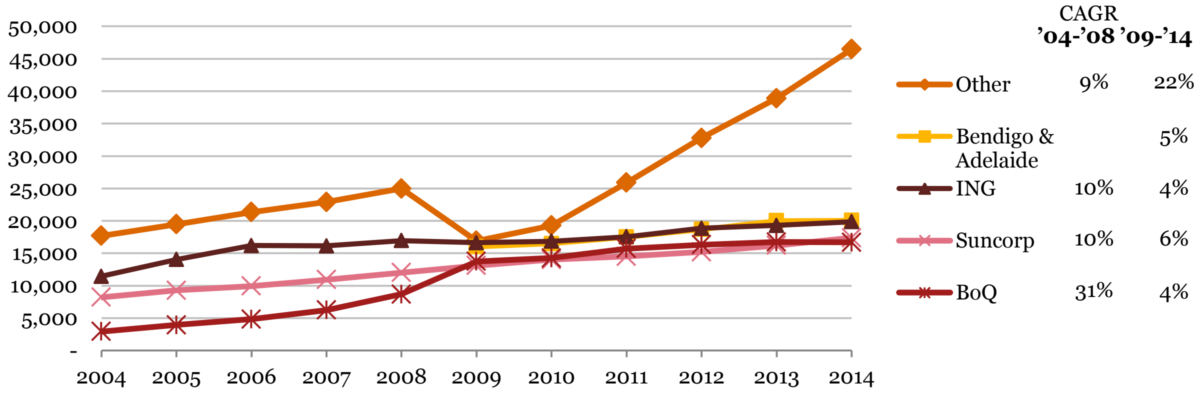
Competition in the market

The 'big 4' banks have captured a larger share of deposit growth.

Growth in deposits (Big 4 only, AUD m)



Growth in deposits (Tier 2, AUD m)



Commentary

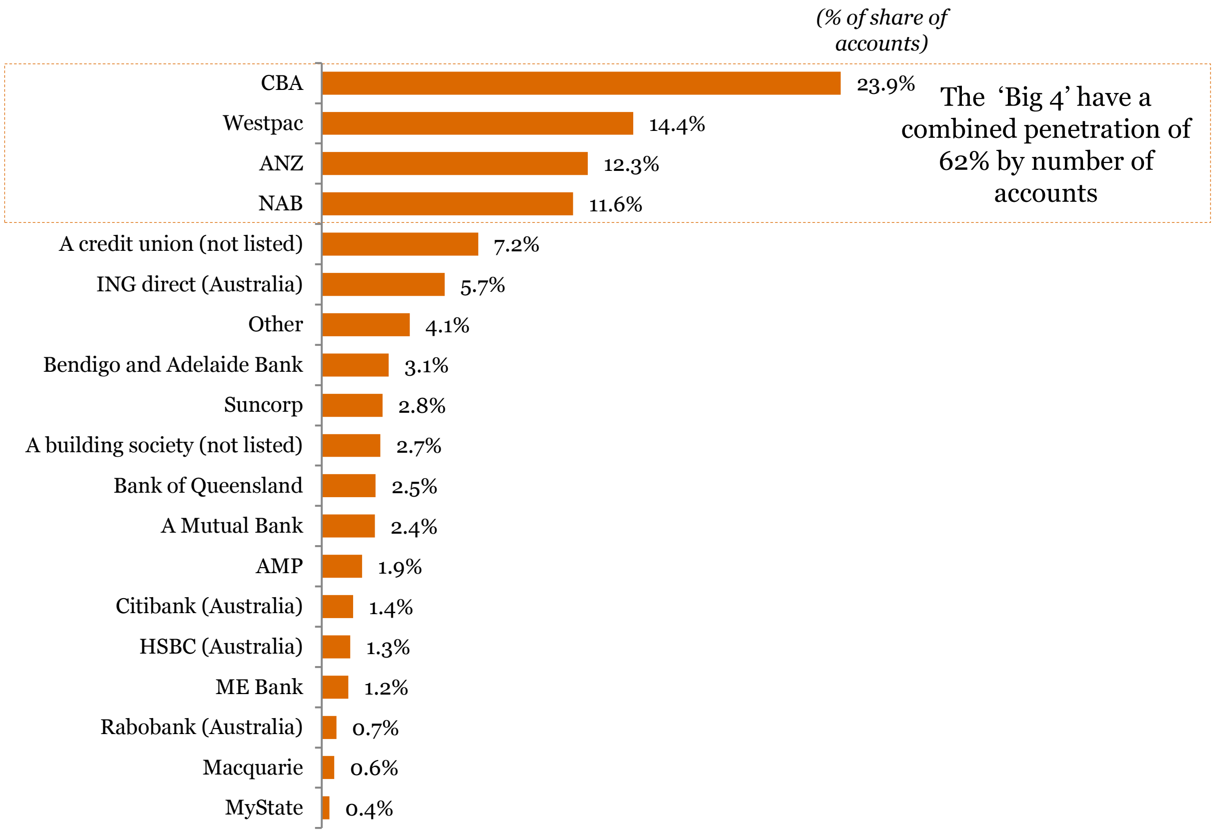
- The Big 4 banks' notable market position has been buoyed by strong growth in deposits and consolidation in the market.
  - Double digit growth of the big four between 2004-2014 has been supported by strong overall growth in deposits (10.8% CAGR between 2004-2014)
  - Both CBA and Westpac undertook significant acquisitions in 2008; CBA purchased Bankwest and Westpac purchased St George (see chart)
- Tier 2 banks (Bendigo & Adelaide, ING, Suncorp and BoQ) currently hold 11% market share and have experienced single digit growth since 2009.
- Competition for deposits, including through tier 2 banks, has historically been led by competitive pricing (e.g. ING offered preferential rates to customers who deposit $200 per month; RAMS' bonus rate offer was ~15% better than competitors).
- In the future, competition for deposits is expected to continue to not only be price led, but also through product innovation and customer service.

Source: APRA, 2014

Customer penetration

'Big 4' banks' share of accounts is lower than share of deposits. Smaller banks tend to have lower balances per account.

Which providers savings account customers use



Commentary

- There has been stronger competition over the last 15 years or so, with new entrants succeeding in winning market share through differentiated propositions or targeting specific customer groups.
- The big 4 banks not only have extensive branch networks but have also focused on innovating products as well as establishing online/ flexible access accounts. Money management tools have also become common throughout the industry.
- The big 4 hold a much lower share of customer accounts at just over 60% of all savings accounts, compared to over 80% by value of deposits. This suggests that customers hold multiple savings products and are inclined to use the big 4 banks for larger deposits.
- It should be noted that once the Global Financial Crisis settled, the financial claims scheme introduced a cap of $250k per customer at each ADI (Authorised Deposit-taking Institution). This is potentially a consideration for customers in how and where they choose to place their savings deposits, particularly across multiple providers.

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New entrants

Despite new entrants achieving limited market share success, there are emerging trends of a rise in direct banking and rejuvenation of community banking.

Case Study 1: Rise in direct banking

Direct banking offerings in Australia were initially launched as a deposit gathering mechanism. Over time however, product offerings have expanded to home loans, transaction accounts, term deposits as well as super fund accounts.

- **ING Direct** launched its direct banking offering in 1999 and has developed a household deposits base of AUD$19.8b across a customer base of 1.4m. The bank was significantly impacted by the GFC but has continued to expand its product offering including home loans, transaction accounts, term deposits as well as super fund accounts.
- **Ubank** was launched in 2008 as a direct banking subsidiary of NAB and offers a range of products including savings accounts, term deposits and super fund accounts. Ubank has been one of the most active of direct banks in recent times through significant publicity and an strong pricing strategy.
- **RaboDirect** was launched in 2008 by Rabobank as a direct bank. The bank has a household deposit base of AUD$3.8b and offers a range of products including savings accounts and term deposits. In addition to selected aggressive pricing, RaboDirect are positioning themselves to assist customers achieve their savings goals.

Case Study 2: Rejuvenation of Community Banking

The rejuvenation of community banking has been led by tier 2 and regionally based banks as well as credit unions. These institutions compete on the basis of their personal connection with local community groups and individuals. Despite their recent success, there remain challenges for smaller institutions given their more limited scale.

- **BoQ (Bank of Queensland)** has developed a household deposits base of AUD$16.7b and is different from many other banks in that its branches are run by Owner-Managers. The bank offers a broad range of products.
- **Suncorp Bank** has developed a household deposits base of AUD$17.4b and has a network of over 230 branches across Australia. The bank offers a broad range of products, with a focus on regional Australia.
- **ME Bank** was established by industry super funds in 1994 and has a deposits market share of 11.9%. The bank appeals to eligible union members (over 5.5m Australians) looking for a lower cost alternative to the established banks.
- **CUA** evolved through the amalgamation of more than 160 credit unions and now has more than $9 billion in assets under management. CUA appeals to customers looking for a more community oriented alternative to the established banks.

Commentary

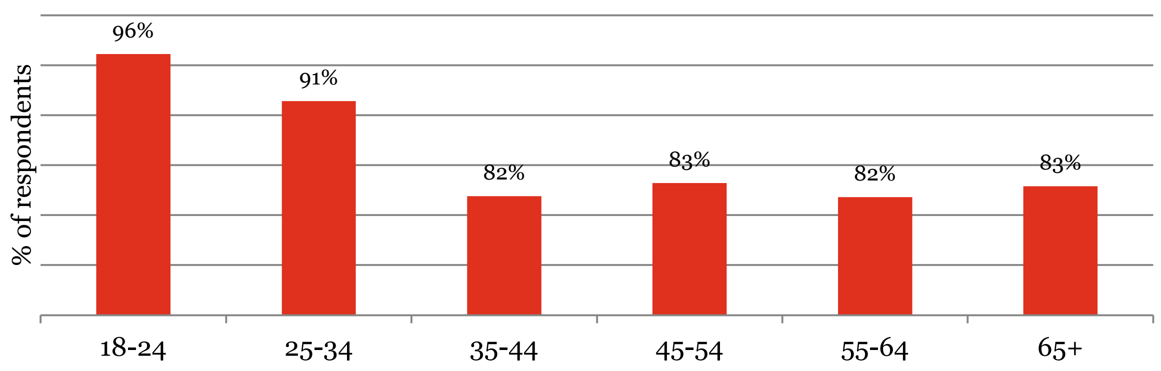
- Whilst there have been relatively few new entrants into the savings market, rejuvenation has been led through the rise in direct banking as well as regional banks and credit unions.
- Recent media reports have suggested that Australia's major retail supermarket brands may enter the market, taking advantage of their large customer base and extensive distribution networks.
- It is likely that direct banking, regional banks and consolidated credit unions will continue to provide an increasing role in the deposits market.
- The competitive dynamic in banking may undergo a shake up as a result of the Government Financial System Inquiry, which aims to establish how the financial system can be positioned to meet Australia's evolving needs and economic growth. The Inquiry will recommend policy options that promote competition, balanced alongside innovation, efficiency, stability and consumer protection.

Source: APRA, 2014; Company Websites

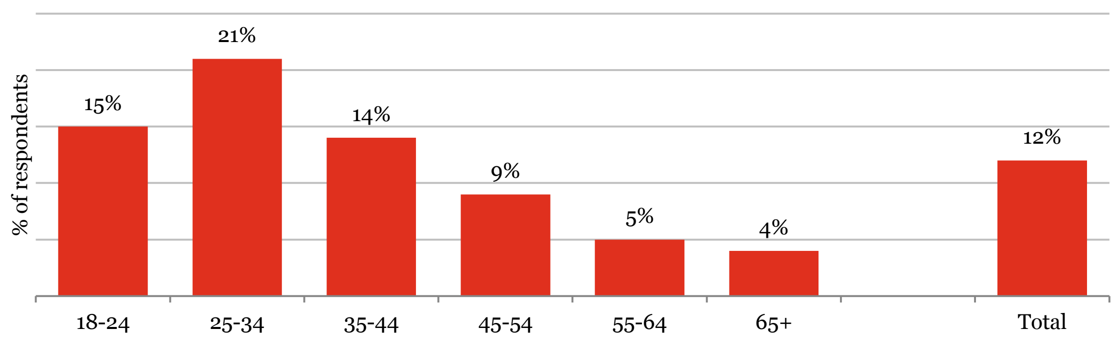
Customer segmentation

Younger segments typically have a higher usage of savings account and higher switching rates.

% of customers who said they hold a savings account - by age (2013)



Transaction account switching behaviour by age[1] (2013)



Commentary

- There is a clear distinction in the behaviours of younger and older consumers segments in Australia with regards to both savings penetration and switching behaviour.
- The impact of Australia's superannuation system can be seen in the decreasing penetration of savings accounts with age. Older Australians tend to place more of their wealth into superannuation or alternatively pay down household debt. Over the next 20 years, this will become more prevalent as a greater proportion of the Australian population will be 50 years or older.
- Younger customers are much less loyal and tend to switch accounts more often (as shown by switching of transaction accounts).
- The general trend of decreasing intention to switch with age is supported by data that suggests younger users are also much more likely than average to have switched in the last 3 years.
- Additional data suggests customers on lower incomes (less than AUD$60k) and higher incomes (more than AUD$120k) are less likely to switch. This is despite the recent implementation of rules to make switching of transaction accounts easier.

1 – Proportion likely to switch (answered 6-10 out of 10)

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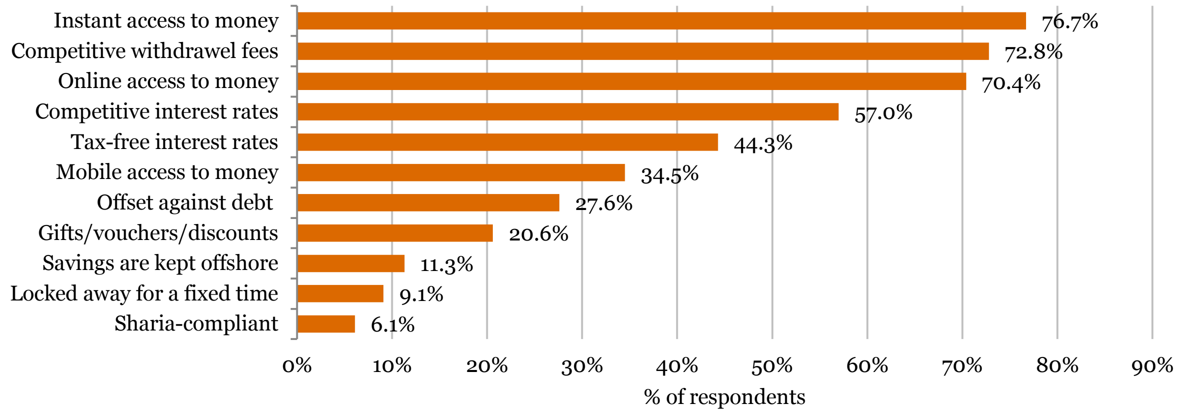
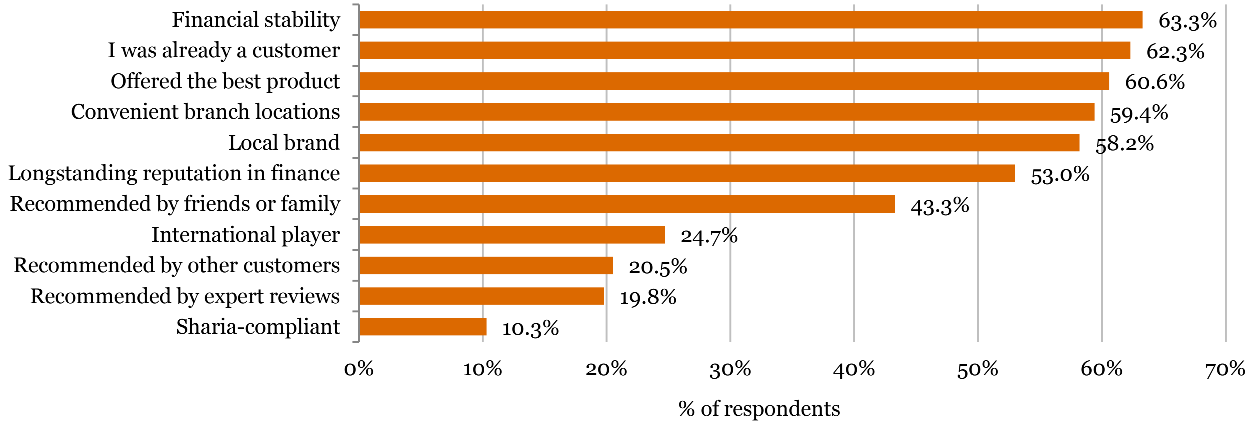
Customer needs & behaviours

Customers value access and convenience when choosing a savings account.

Respondents who ranked these features as essential (2013)



Drivers of provider choice (2013)



Commentary

- Customers value convenience and value for money when choosing a savings account. Instant access, competitive withdrawal fees, online access and competitive interest rates are the key customer requirements.
- Customer research indicates that older customers place more importance on receiving a competitive interest rate while younger users have a preference for mobile access.
- Australian's preference for mobile and online access to money has the potential to significantly reduce overall operating costs for institutions. This trend is expected to continue into the foreseeable future.
- Post GFC there has been an increased take-up of high interest online accounts as consumers aim to save extra money at competitive interest rates.
- Customers are increasingly using online /digital channels to open accounts. Despite this, face-to-face channels still dominate the account opening process.
- Given the high cost of living in Australia, the recent emergence in goal oriented savings products (e.g. for children's education) are expected to continue. At present these are only niche offerings.

Source: Roy Morgan Research, 2014; copyright © 2014, Datamonitor, Savings Account Customer Analytics, reproduced with permission of Datamonitor.

Firm behaviour in cash savings

In Australia there is a funding gap which banks are seeking cash deposits to fill.

Key aspects of firm behaviour in cash savings

Product pricing

- Since the GFC, as banks have been looking to raise more stable funding through deposits, combined with very low interest rates, pricing of savings accounts has tended to be above official interest rates.
- Reflecting the competition for deposits, banks will periodically offer promotions to attract customers, for example special bonus interest rates for a period of time.
- Competition is heightened further with price comparison websites giving customers clear view of what is being offered by all players.
- There is a clear bifurcation of pricing between online banks and full-service banks, with the former typically offering higher interest rates.

Customer acquisition

- Product promotion remains a key means to acquire customers, but with the aim of providing for a broad range of customer financial needs.
- The focus of product promotions and marketing expenditure has tended to be mortgages and transaction accounts, with some promotion of savings products.
- Mortgages are a key focus for virtually all banks as they drive considerable economic value and long-term customer relationship.
- Customer acquisition focus varies by bank. For example, those previously focused on savings only are now aiming to acquire transaction accounts. This is partly driven by the need to obtain favourable treatment under liquidity rules that favour 'established customer relationships'.

Balance sheet strategy

- Prior to the GFC, banks in Australia tended to pay deposit rates lower than official cash rates, reflecting the availability of funding from wholesale markets. Since the GFC, banks have been seeking to attract stable deposit funding.
- A further dynamic is that under new liquidity rules, banks that can demonstrate an 'established' relationship with customers via a transaction account may receive favourable treatment.
- Consequently there is increased competition for everyday transaction accounts, which also provide banks with a source of low cost deposits.
- This increased competition may be advantageous to customers in the form of product innovation, particularly in transaction accounts (and may blur the line between transaction and cash savings accounts).

Cross-selling/bundling

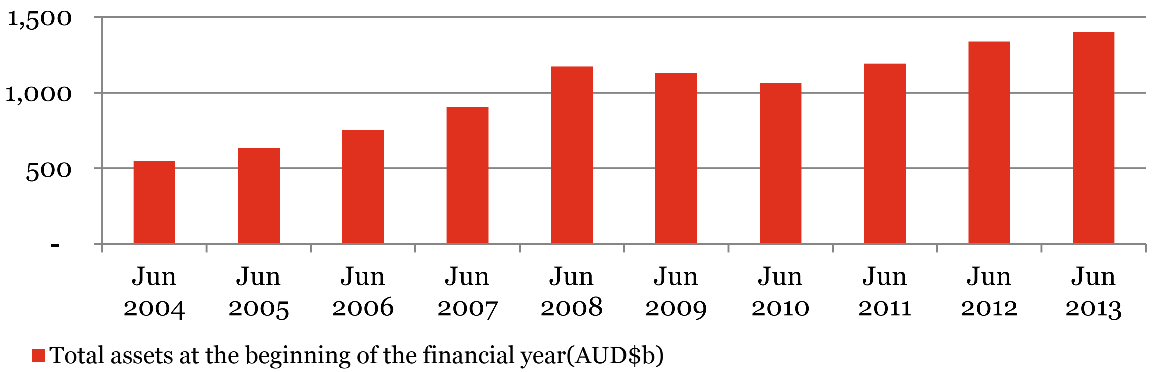
- Banks in Australia are very focused on positioning themselves as their customers' 'main' financial institution.
- This is reflected in two dynamics:
  1. The recent trend in online savings providers broadening their proposition into other products such as transaction accounts and mortgages
  2. The prevalence of package banking, particularly by the 'big 4' banks, where customers pay a fee to combine their transaction account and credit card with a mortgage, and receive a discount on the mortgage rate and free electronic transactions.
- Approximately 15% of customers hold a current transaction account that is associated with their mortgage (packaged or not).

Source: RFI 2014, RBA 2014

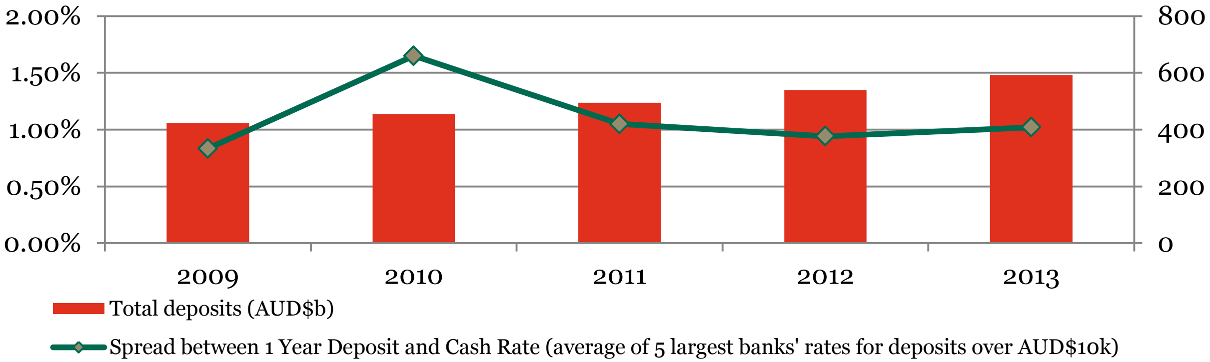
Firm behaviour

Deposits are an attractive, but limited source of funding for banks because of the expected growth in superannuation.

Superannuation Balances (AUD$b)



Spread between 1 year term deposits and cash rate



Commentary

- Balances in superannuation have increased relatively steadily over the period 2004-13 and will do so into the future as the compulsory superannuation guarantee is increased to 12% (in 2019). As a result it is expected that the competition for deposits will continue to intensify.
- Superannuation balances dipped over the period 2008-2010, during a period of strong deposit growth. This reflected weak investment performance, and consumer preference for accessible savings during economic uncertainty.
- Firms are seeking the stability of longer term deposits, partly driven by Basel III LCR requirements. This has influenced product design, e.g. RaboBank and Investec have already launched notice accounts not subject to the 30-day outflow calculation and hence are more attractive from a funding perspective.
- The premium for 1 year term deposits has settled down after peaking in 2010.

Source: APRA, 2014; RBA, 2014

Regulatory bodies

The Australian financial system is mainly regulated and controlled by three bodies (ASIC, ACCC and APRA).

ASIC
Australian Securities & Investments Commission

Australia Securities and Investment Commission

Conduct Authority

"We contribute to Australia's economic reputation and wellbeing by ensuring that Australia's financial markets are fair and transparent, supported by confident and informed investors and consumers"

- ASIC has a conduct focused remit.
- Policy setting is under the control of the Treasury and ASIC administers this policy.
- ASIC does not have responsibility for competition.
- ASIC has investigated the cash savings market recently.

Australian Competition & Consumer Commission

Australian Competition & Consumer Commission

Competition Authority

"The ACCC promotes competition and fair trade in markets to benefit consumers, businesses, and the community"

- Competition responsibilities fall under the remit of the ACCC.
- ACCC have indicated that they have not been actively reviewing in the cash savings market recently.

APRA
Australian Prudential Regulation Authority

Australia Prudential Regulation Authority

Prudential Authority

"The Australian Prudential Regulation Authority (APRA) is the prudential regulator of the Australian financial services industry. It oversees banks, credit unions, building societies, general insurance and reinsurance companies, life insurance, friendly societies, and most of the superannuation industry"

- APRA has a remit to establish and enforce prudential standards and practices designed to ensure that financial promises made by institutions under their supervision are met within a stable, efficient and competitive system.

Source: Australian Banking Reforms, The Treasury, ASIC

General policy and regulatory context

Australian financial services policy is increasingly seeking to promote good customer outcomes.

Banking Reform	Since 2011, the Australian Government has introduced a range of measures to increase competition to 'help customers get a better deal' and improve competition in financial services. The first of these was a ban on mortgage exit fees for new mortgage accounts sold after July 2011. Under these rules, all customers who have taken out a new mortgage will be able to switch their mortgage provider without incurring an exit fee. Further, lenders who hide unfair fees can be fined by the regulator – ASIC. Lastly, lenders that offer online loan applications or enquiries about standard home loans must also make the home loan fact sheets available on their website. The second measure was instituted to make switching easier on everyday transaction accounts. Under this reform, customers can request their new financial provider to transfer all existing direct debits and credits from their old provider.
MySuper	In 2009-10, the Super System Review found that many consumers do not have the interest, information or expertise required to make informed choices about their superannuation (pension) arrangements. Therefore, it was mandated that providers be required to give consumers access to a safe, low cost and simple default superannuation product. This was viewed as an 'essential' requirement to help many Australians' retirement savings go further. This gave rise to the MySuper initiative, which was implemented in mid 2013. MySuper is a simple and cost-effective superannuation product that will replace existing default products. MySuper products will have a simple set of product features, irrespective of who provides them. This will enable members, employers and market analysts to compare funds more easily based on a few key differences. It will also ensure members do not pay for any unnecessary features they do not need or use.
FOFA	Similar to investment advice reforms in the UK and Netherlands, The Future of Financial Advice (FOFA) legislation commenced on 1st July 2012. The objectives of FOFA are to improve the trust and confidence of Australian retail investors in the financial services sector and improve access to advice. FOFA introduces: 1. A prospective ban on conflicted remuneration structures including commissions and volume based payments, in relation to the distribution of and advice about a range of retail investment products. 2. A duty for financial advisers to act in the best interests of their clients, subject to a 'reasonable steps' qualification, and place the best interests of their clients ahead of their own when providing personal advice to retail clients. 3. An opt-in obligation that requires advice providers to renew their clients' agreement to ongoing fees every two years. 4. Enhanced powers for ASIC. In January 2014, the newly elected Government released draft legislation for amendments to the reforms, particularly around reducing compliance costs for firms.

Source: Australian Banking Reforms, The Treasury, ASIC

Regulatory requirements

There are specific regulatory requirements related to disclosure, pricing and cross-selling/ bundling.

Cash savings feature	Requirements overview
Disclosure of interest rates	• Disclosure documents are fairly simple and based around terms and conditions. • Interest rates need to be disclosed at product inception (including disclosure of what will happen at the end of the term of the product). • Although there is no legislative requirement to do so, notification of rate changes are placed online or in national newspapers. This practice may have spilled-over from disclosure legislation on credit contracts as set out in the National Consumer Credit Protection Act (2009).
Disclosure of features which influence switching	• Institutions are required to adhere to new rules to promote transaction account switching. These rules require financial institutions to be active in gathering information on customers direct debit use and make this information accessible (to support the switching process and counteract inertia that could be caused by having to change over multiple direct debits). • At present it is unclear that the new rules have had a significant impact on customer switching behaviour.
Product pricing	• ASIC has been concerned with the potential for significant reductions in ongoing interest rates once promotion periods end. This has resulted in correspondence with ADI's to improve advertising standards of bonus rates.
Cross-selling/bundling products	• Institutions are able to cross-sell products and services. • Institutions are not allowed to force bundled sales. These means that all products are available on a stand-alone basis, for example, a certain savings product must be available to all customers regardless of whether they hold other products with the bank. However, customers who are multi-product holders can be given preferential pricing on the same product.

Source: ASIC

Regulatory developments

Improving transparency has been the focus of recent Australian regulatory developments.

Developm ent	Overview
Review of term deposits	• In February 2010, ASIC launched a review of term deposits. A combination of the Australian Government's guarantee of deposits and the prevailing state of financial markets at the time had meant that term deposits had become attractive to consumers. • ASIC were concerned that term deposits could "renew" or "roll over" onto a default rate of interest, which would often be at a low rate. • The review suggested that improved advertising, disclosure and grace periods can significantly reduce the incidence of savers rolling over by default from high to low interest rate term deposits. • Specific recommendations were as follows. Banks should review term deposit advertising when they have differential pricing. This is to ensure savers are not given the impression that good or competitive returns are available across all savings accounts when this may not be the case. Clear and effective, disclosure of dual pricing and risk of roll over onto lower rates should occur in: application forms, product disclosure statements and pre-maturity and post-maturity letters. Banks should update term deposit renewal communications to clearly disclose actual or indicative rates that will apply to the renewed term deposit. Best practice regarding grace periods is to tell savers about the grace period at every disclosure point, and have a grace period of 14 days.
Further review of term deposits	• Following up on the February 2010 review of term deposits, ASIC further reviewed the market in July 2013. • Overall they were satisfied that its recommendations had been implemented. They found evidence of decreased incidence of savers rolling over onto low interest rate term deposits. However, they did reiterate their previous recommendations as they thought there was further scope for improvement.
Advertising of bonus rates	• Following the GFC, there was a period where banks sought to increase their deposit funding and there was an increase in the use of bonus rates and, in some cases, excessive advertising claims. One such example promised a 6% interest rate, compromising a 3% rate and a 3% bonus rate, provided certain criteria were met. ASIC was concerned the criteria needed to gain the bonus rates in these examples were not clear enough. • In response, ASIC confirmed their expectations of financial institutions concerning advertising, particularly around bonus rates and the requirements to achieve bonus rates. This was done through a 4-5 page letter – akin to a 'Dear CEO' letter - which set out the nature of their concerns, including examples, and stated the intention to further assess whether conduct had improved. This letter was sent to two industry trade bodies, with a request that was distributed by them to their members. No formal "best practice" or code of conduct was required, as engagement with the banks led to a significant improvement in the standards of advertising these products.

Source: ASIC

Commentary

- ASIC's main focus has been in the areas of term deposits, switching and advertising.
- Regulatory changes on term deposits have focused on rate disclosures and how accounts roll over at the end of term.
- Regulatory focus on advertising has targeted misleading claims around bonus rates and associated criteria for qualifying for such bonus rates. Teaser /bonus rates were highly prevalent in 2008-2010, but less in use now.
- There is evidence of innovative ways of limiting customer burden of KYC/money laundering checks, and therefore promote switching. Financial institutions have been using government information sources to help this.

Germany – Market and regulatory review

4

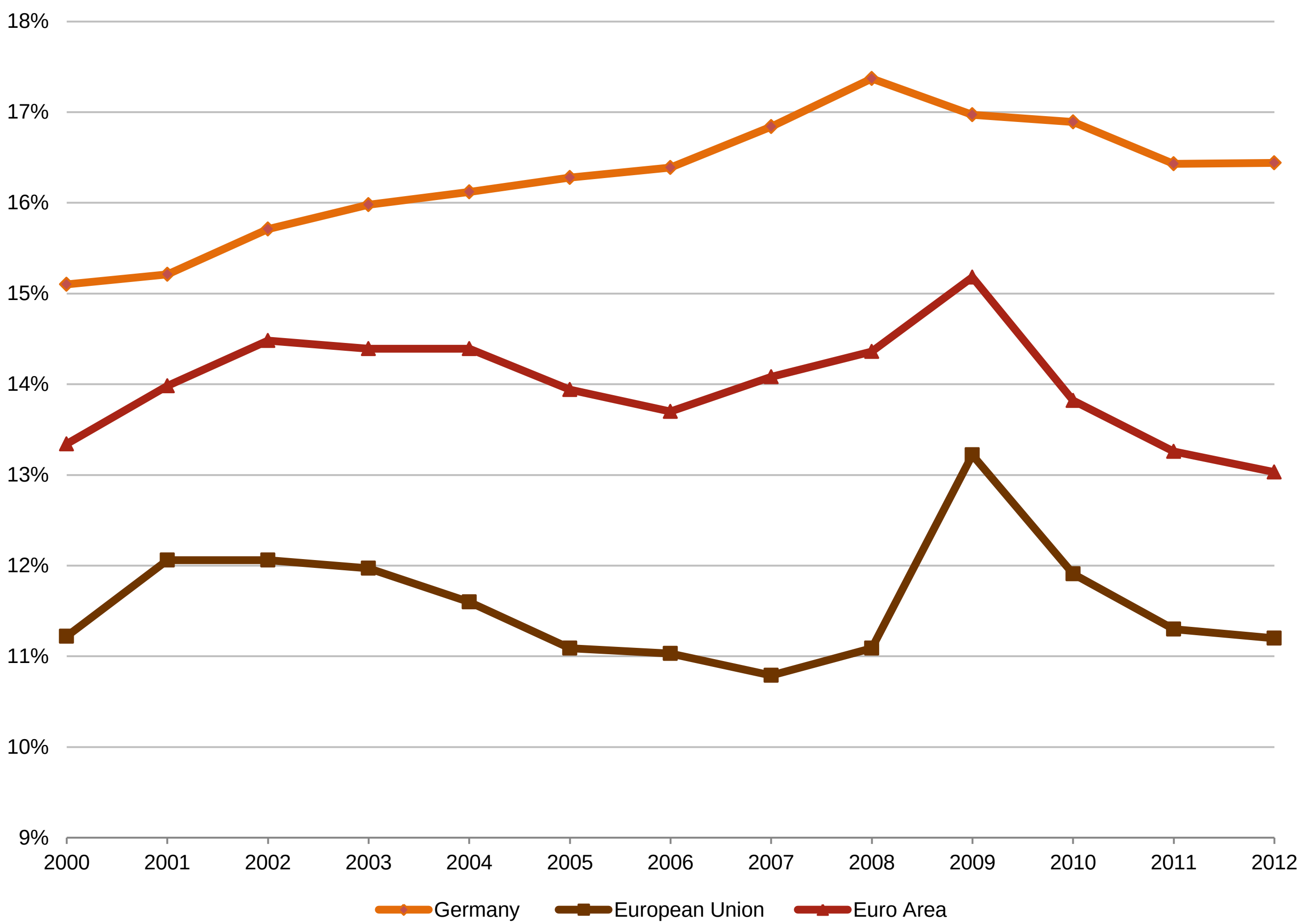
Overview of the Germany section

Market structure	• The German savings ratio is high in comparison to the rest of Europe, but has recently experienced a marginal decline since the global financial crisis. However, German deposit volumes are still growing. • Compared to other countries, the German deposit market is fragmented. Savings, cooperative and commercial banks have significant shares of the cash savings market. • There have been numerous direct and automotive banks recently entering the German cash savings market, challenging the position of traditional retail banks.
Customer behaviour	• There are 4 main customer segments in the German savings market: 1) Indifferent customers; 2) Advisor reliant customers; 3) Committed customers; and 4) Active customers. Barely 20% are defined as active. • Savings products represent the largest area of churn across financial services products. • The key features customers value are: service and advice with online/mobile banking; trust; and functional competence. However, customers have a higher product focus when considering savings account provision. Interest rates are valued by customers and low rates are a current source of dissatisfaction.
Firm behaviour	• Savings products are often bundled with other products, e.g. as a supplemental account to a customer's current account. • Saving accounts are also positioned as an anchor product e.g. for young clients as a first product and are provided free-of-charge. • Increasingly online comparison sites are a source of banks' new customer acquisition. • New competitors such as automotive banks use deposits as a way of gain additional funding (to support their lending activities). They typically offer premium interest rates.
Regulatory context	• The German financial system is largely regulated and controlled by two bodies (BaFin and Deutsche Bundesbank). • There are specific regulations on disclosure of interest rates and features that influence switching. • Regulatory changes in relation to cash savings have concentrated around the Deposit Protection Fund.

Savings ratio

The German savings ratio is high in comparison to the rest of Europe, but has experienced a marginal decline since the global financial crisis.

Private investor's gross saving ratio - Germany vs. EU vs. Euro Area



Source: Eurostat, 2014

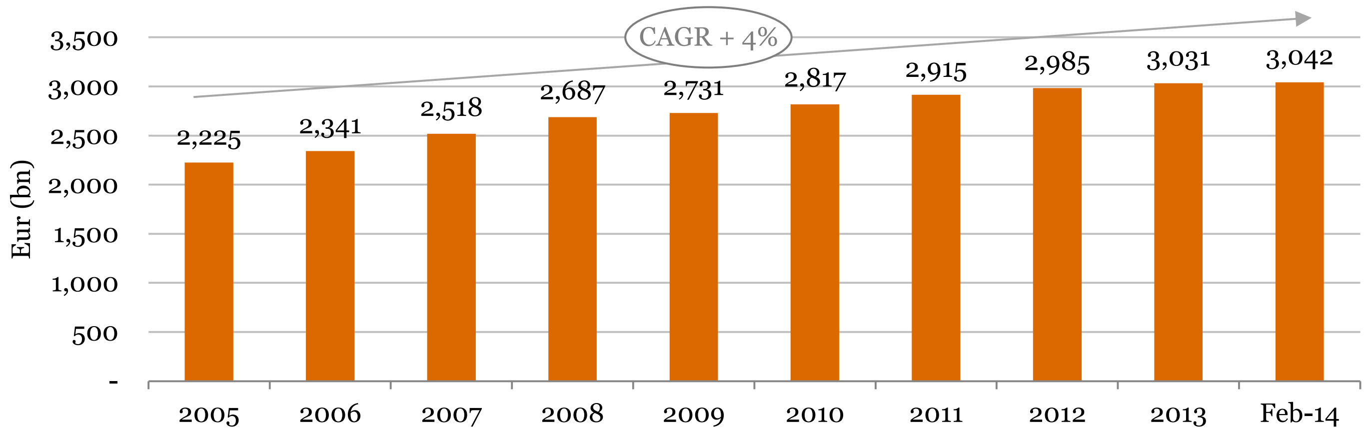
Commentary

- The EU savings ratio encompasses all forms of saving (so more than just cash savings). It grew particularly strongly during 2000 to 2008.
- The saving ratio for private investors has fallen in recent years. This may be a potential indicator that customers would prefer to invest in capital market investment rather than cash savings due to the low interest rate environment.
- The average savings ratio in Germany is still significantly higher than in most European countries at 16% in 2012., showing a string culture towards saving.

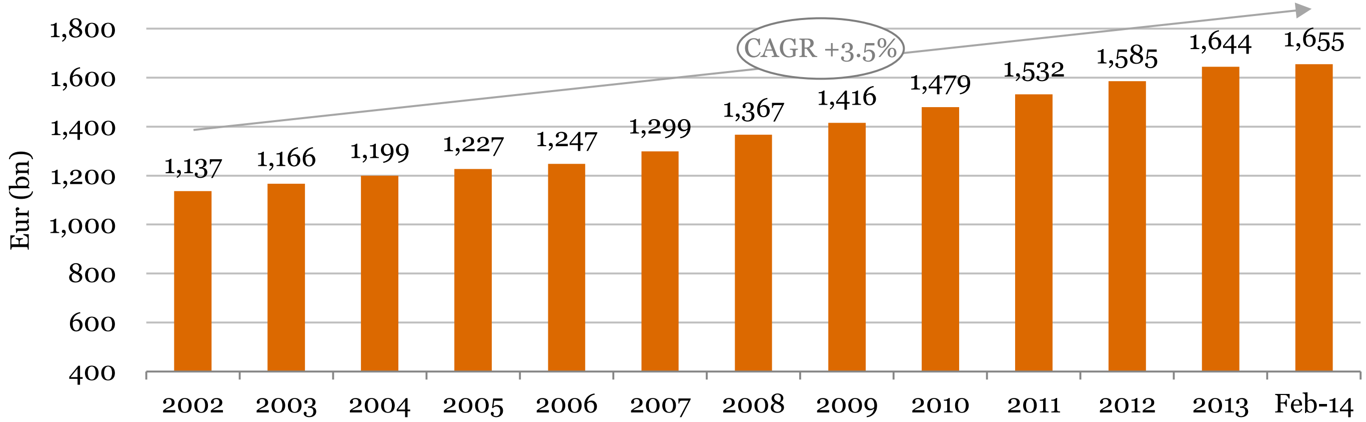
Market size

However, German deposit volumes are still growing.

Private and business (non-bank) deposits[1]



Domestic private deposits as part of non-bank deposits[2]



1) Includes deposits, deposits with an agreed maturity and notice deposits
2) Includes self-employed and employed investors
Source: Bundesbank Bankenstatistik, 2014; Deutsche Bundesbank: Volkswirtschaftliche Gesamtrechnung, 2013

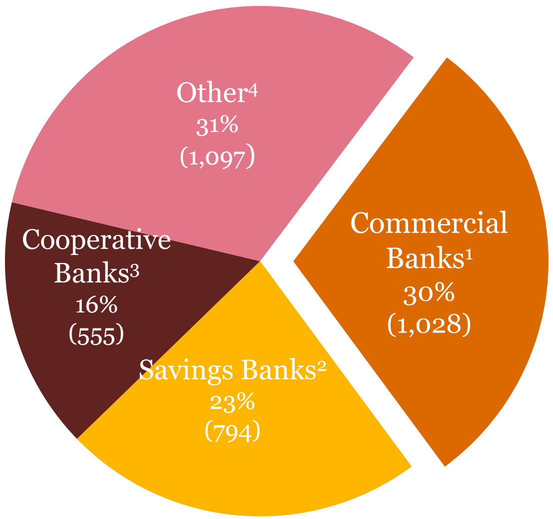
Commentary

- Cash savings have a fundamental role in the German retail banking market.
- Deposits can be differentiated into bank and non-bank deposits. Non-bank deposits furthermore compromise of private and business deposits.
- Domestic private deposits have increased over the last 10 years. However, early 2014 data indicates that the pace of growth may be losing momentum.
- Non-bank deposit volumes are also growing by a similar rate.

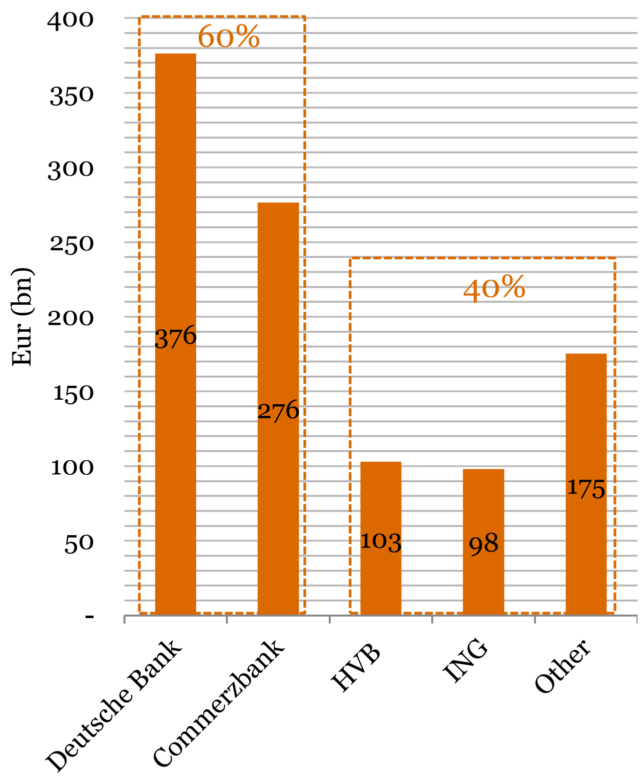
Market share

Compared to other countries, the German deposit market is fragmented. Savings, cooperative and commercial banks have significant shares of the deposits market.

Deposit market share - %/bn. EUR (2014)



Deposit volume of largest commercial banks - bn. EUR (2013)



Commentary

- The German savings market is considered to be largely saturated and highly fragmented.
- Commercial Banks have the largest market share (c. 30%), however the role of Savings banks and Co-operative banks is significant.
- Both Savings banks and Co-operative banks fall under the 'regional principle' and consequently their business is limited to a strictly defined regional area.
- Within the commercial banking sector, Deutsche Bank and Commerzbank hold the largest market shares, combined at c. 60% .
- The concentration ratio of the top 5 credit institutions by total banking assets (of which cash savings are a part) is 34% - lower than the other countries in this study.

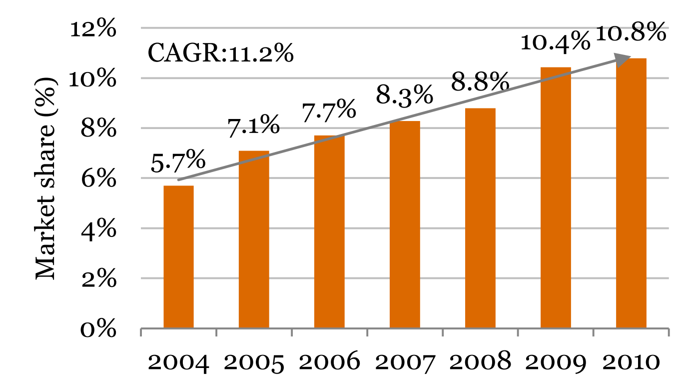
1) Includes largest banks, Regional banks and other commercial banks, affiliate of foreign bank
2) Includes Sparkassen Finance Group, an association of 600 institutions
3) Includes the Volksbanken-Raiffeisenbanken, a conglomerate of c. 1150 cooperative banks
4) For example: Home loan banks, Regional state banks, Real estate credit institutions

Source: Deutsche Bundesbank Bankenstatistik, 2014; Financial Statements, 2013; *copyright © 2014, Datamonitor, Savings Account Customer Analytics, reproduced with permission of Datamonitor.*

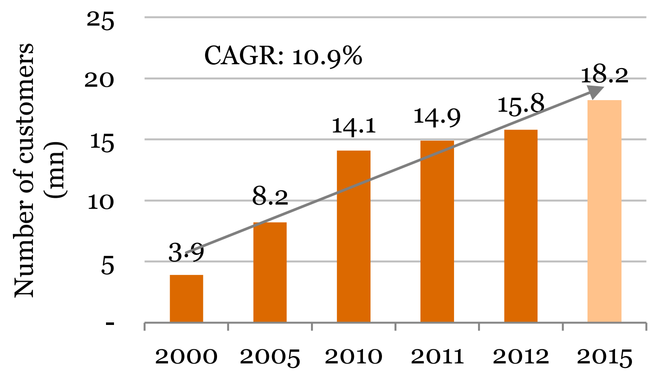
New entrants

There have been numerous direct and automotive banks recently entering the German deposit market.

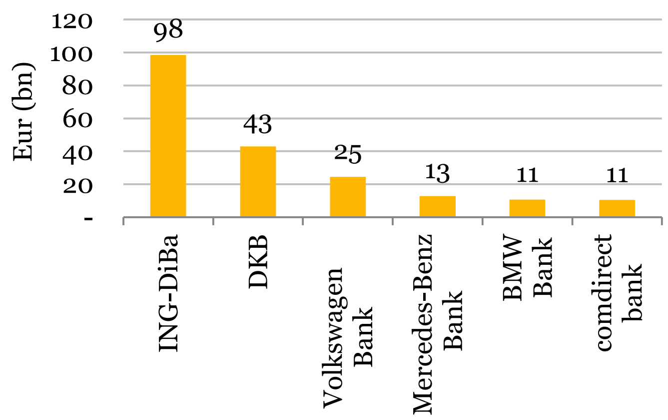
Deposit market share of direct and automotive banks



Number of direct bank customers



Deposit volume of Top 6 direct banks (2014)



Recent direct banks to enter the deposit market (examples)

IKB direkt Deutsche Industriebank
VTB Ihre Direktbank
RaboDirect
BARCLAYS
RENAULT RCI Banque
akf bank der finanzpartner
DAB bank Die Direkt Anlage Bank
IKANO BANK
moneyou

Commentary

- Direct and automotive banks have a growing number of customers. However, to date this has not had a significant impact on the overall market share of deposits.
- Automotive Banks are very common in the German banking market with a growing importance in the deposit business.
  - The top 3 automotive banks have an average 5-year CAGR of 22%.
  - Automotive and direct banks have achieved deposit volume growth 15.7% over the past five years compared to market-wide growth of 3.5%.
  - Direct banks have a market share of 8.2%, automotive banks 2.6%.
- Direct banks have typically gained market share by offering above average interest rates. This has been achieved by a focus on high spread products, specialist segments, direct sales channels and usually lower operational costs to support commercial viability.

Source: Investors Marketing, 2013; Marktstudie24.de, 2014; Online Finance Report,2010; PwC research, 2013

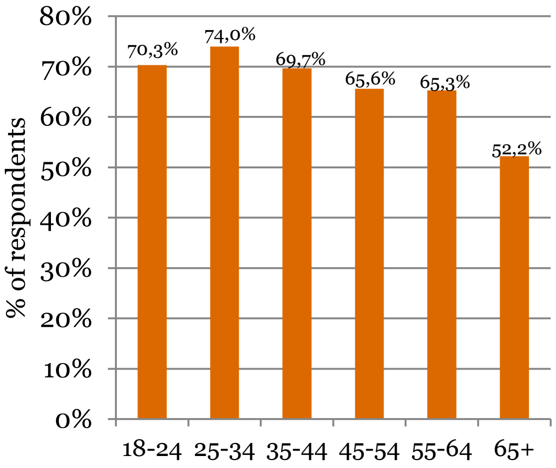
Customer segmentation

There are 4 main customer segments in the German savings market: 1) Indifferent customers; 2) Advisor reliant customers; 3) Committed customers; and 4) Active customers.

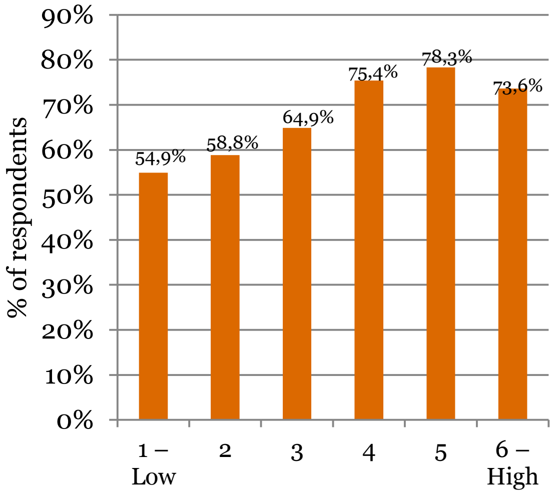
Differentiation of domestic private customers by involvement in financial affairs

Indifferent (30%)	*Adviser reliant (30%)*	*Committed (20%)*	*Active (20%)*
• Low interest in their personal savings which they consider to be 'unpleasant but necessary' • May be dissatisfied with their bank's service but do not consider switching banks	• Value their personal savings as a source of future wealth • Use a financial adviser instead of actively managing their own affairs	• Personal savings viewed as essential and highly important • Actively participate in their finances • View their bank as a 'financial partner" but typically rely on a number of banks • Typically use online channels	• Take care of their finances by themselves, trusting in their own abilities • High expectation in banks in terms of reliability, efficiency and performance; • Maintain numerous relationships with banks

Percentage of savings account holders by age (2013)



Percentage of savings account holders by income (2013)



Commentary

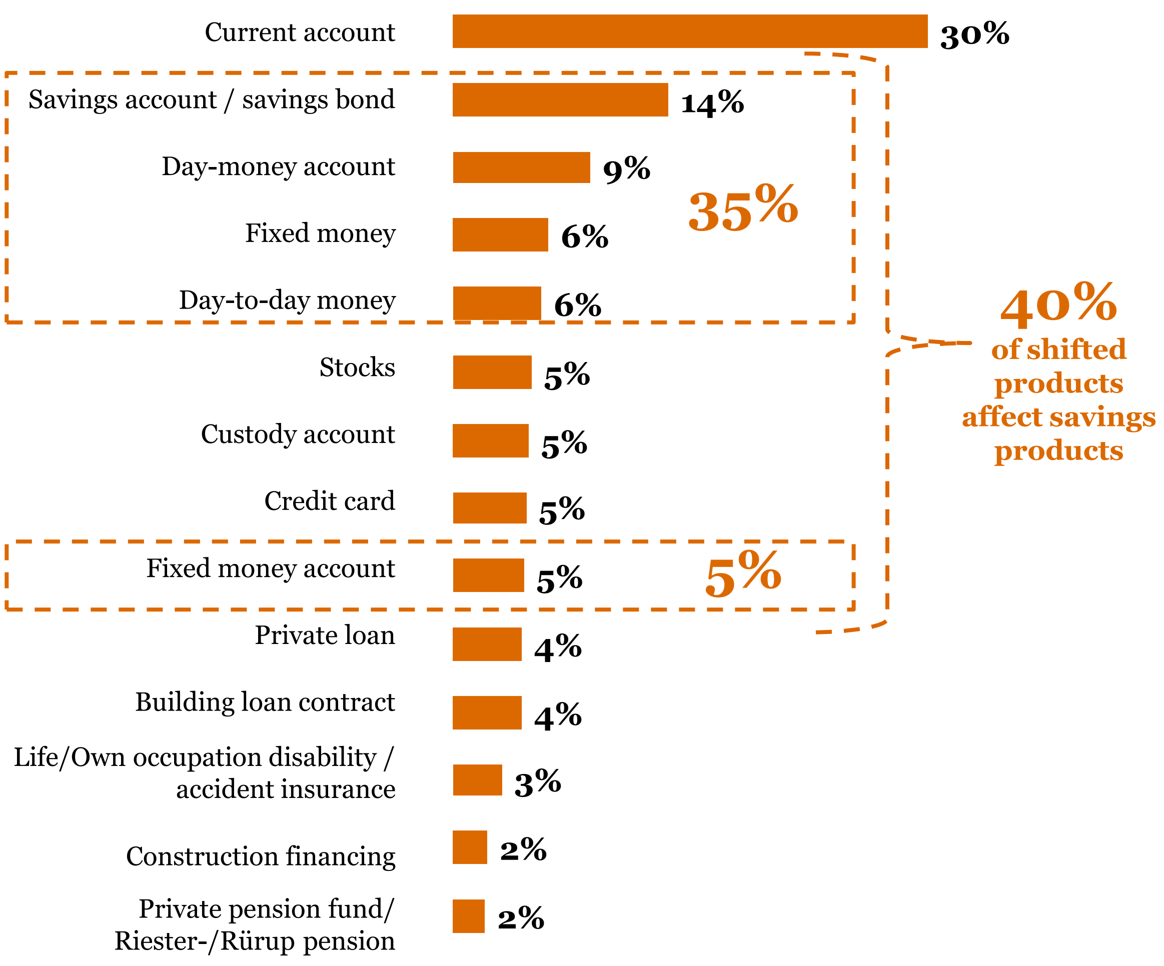
- Customers can be segmented by their degree of involvement in their financial affairs:
  - Indifferent: Savings and finances considered not important, but little threat of churn.
  - Adviser reliant: Savings and finances considered very important and these customers use their financial adviser to act on their behalf.
  - Committed: Savings and finances considered essential and typically use online channels.
  - Active: Savings and finances considered essential. These customer trust in their own abilities and have numerous relationships with banks.
- Customer segmentation groups and estimates of the size of each group are provided in PwC's study. This study was carried out in 2009, but there has been little movement in savings account behaviour since 2009.
- The German banking market is characterized by a high uptake of savings accounts.
- The 25-34 age band has the highest percentage of savings account holders partially due to savings accounts being used as entry point into financial services.
- There is a positive relationship between income and percentage of savings account holders. However, higher earners also use alternative forms of investment vehicles to grow wealth.

Source: PwC Study: Communications Networks, 2009; *copyright © 2014, Datamonitor, Savings Account Customer Analytics, reproduced with permission of Datamonitor.*

Switching/churn

Savings products have the highest amount of product movement across financial services products.

Product movement in Germany (2010)



Source: PwC, 2010

Commentary

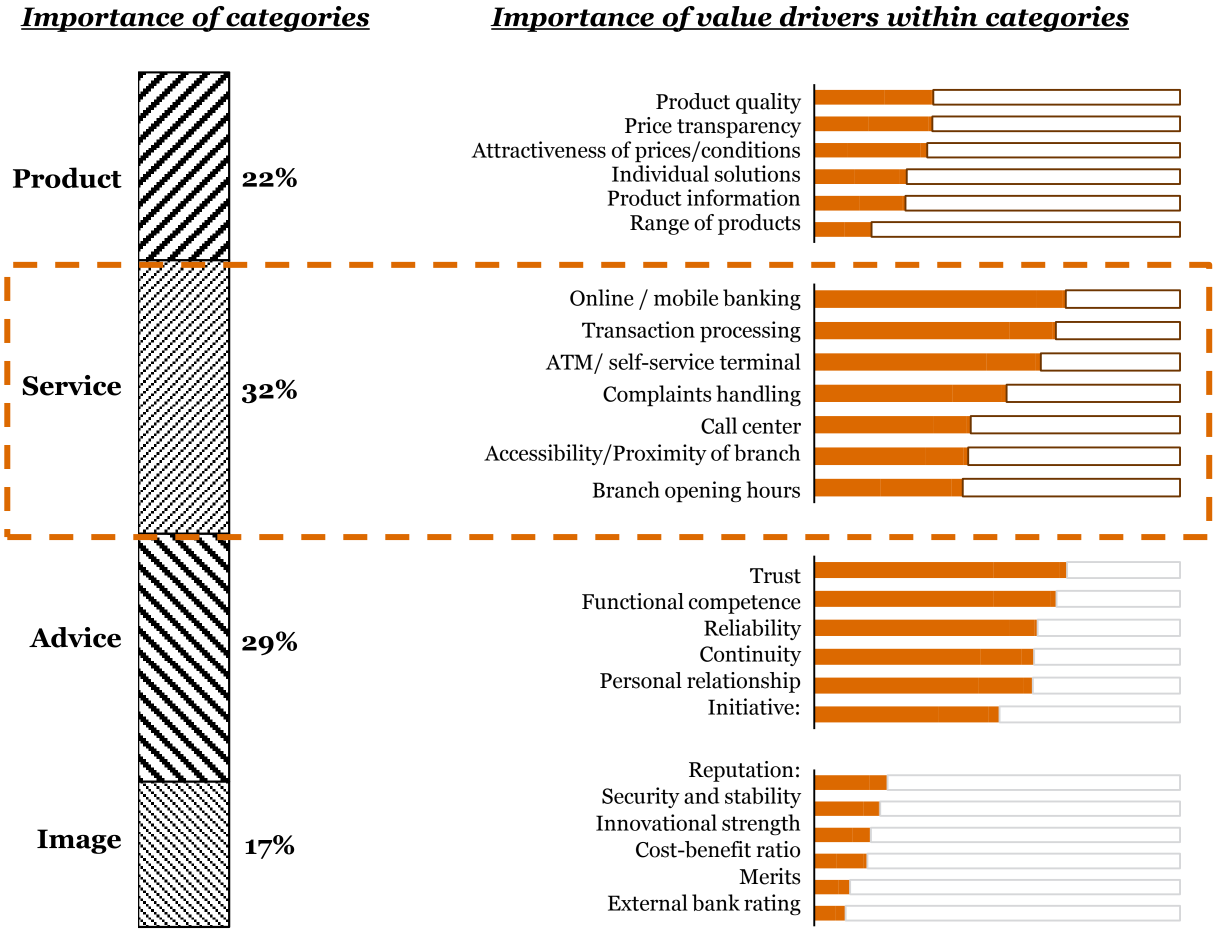
PwC carried out a study on financial services switching behaviour, targeted at online banking users, it found the following:

- Out of 9,962 participants, 1,825 signalled that they had been active over the last 12 months (opening, switching or terminating financial products) across a range of 14 different financial products.
- For those participants who indicated that they had been active in the past 12 months, we show the breakdown of where their activity was concentrated (see chart)
- Current accounts had the largest level of movement activity for a single product category. However, consolidating several savings products into one product category – 'savings' – indicates that savings represent the most active area combining to over 40% of product related movements. The simplicity of savings products and relatively short notice periods means customers are able to switch to products offering higher interest rates.
- Pensions and property related products have lower levels of movement activity as these products are more complex, longer-term and have greater legal and tax complications.
- A further finding of the study was that 82% of customers who switched their products set up a banking relationship with an online bank.

Customer preferences for retail banking services

The key features customers value are service, advice, online/mobile banking, trust and functional competence.

Importance of need categories and value drivers of German retail banking Customers[1] (2014)



1)Cross product perspective focus on customers of cooperative banks
Source: PwC, 2014

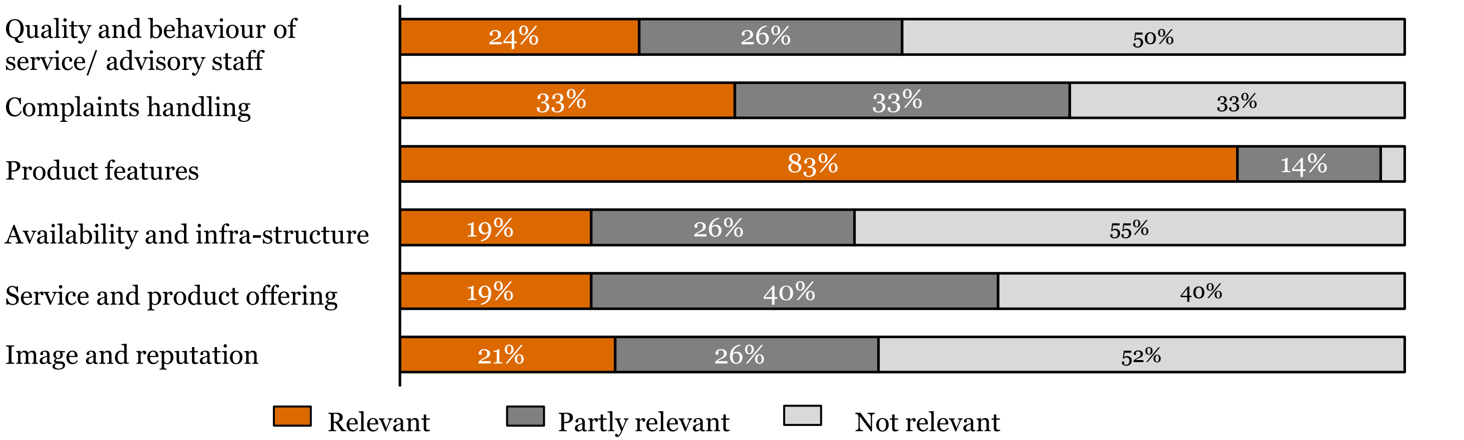
Commentary

- A retail banking study by PwC provides some useful information relevant to the cash savings market.
  - Service has the highest importance to customers:
    - Online / mobile banking is considered the most important customer value driver.
    - Process efficiency as well as user-friendly self-service terminals are also considered as important.
  - Advice was the second most important category:
    - Trust and functional competence are the key value drivers (advice is likely to be a less important feature of the cash savings market).
  - Product aspects seem to have less importance for customers:
    - Customers value a range of products comparatively less (in contrast to banks who are seeking to increase cross-product uptake).
  - Image valued as least important:
    - External bank rating has the lowest customer value score.

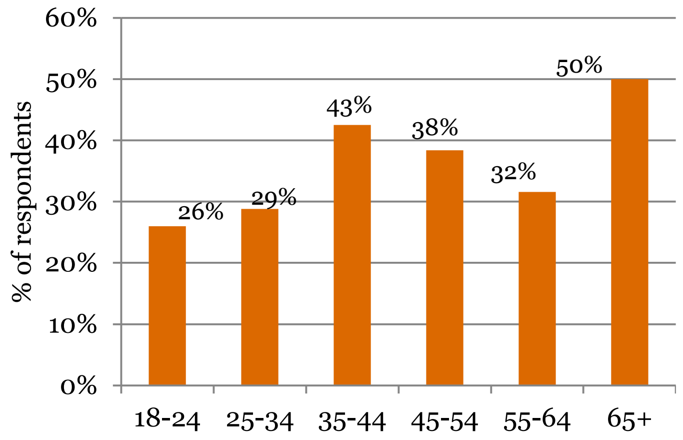
Customer preferences for cash saving account services

However, customers have a higher focus on product features when considering savings accounts. Interest rates are valued by customers and are a current source of dissatisfaction.

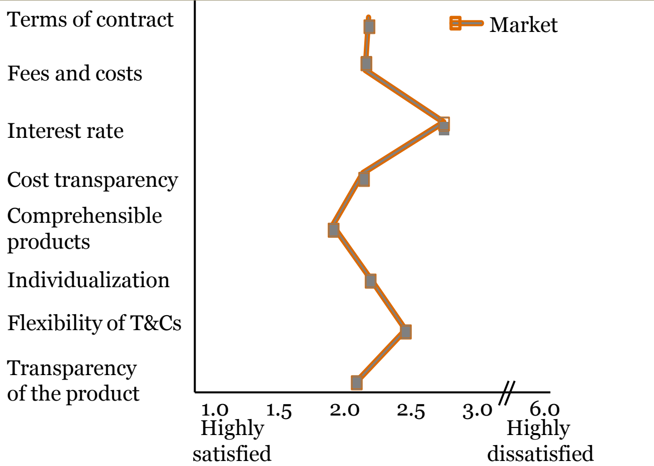
Reasons for discontent with the recent bank / product (2010)



Consumers listing 'competitive interest rate' as essential (2014)



Product satisfaction (2013)



Commentary

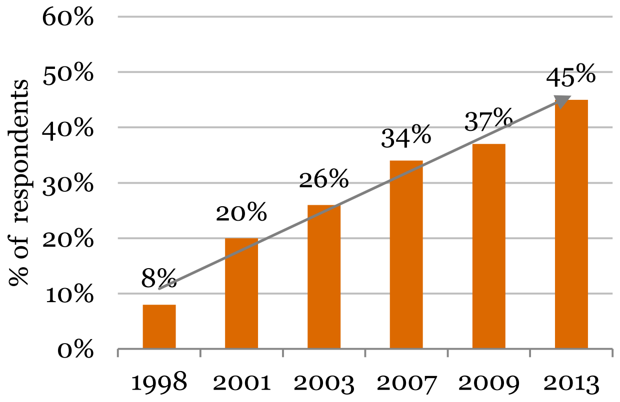
- Product features have the highest relevance for those dissatisfied customers.
- Among product features , the interest rate offered is a high priority for customers:
  - *Across all age groups, 36% of customers consider a competitive interest rate as essential.*
  - *The 65+ age group attaches highest amount of relevance to interest rate.*
- Customer satisfaction on the interest rate of their products is low.
- Quality of service (including complaint handling) and trust also received high relevancy scores from customers.

Source: PwC, 2010; PwC, 2013, *copyright © 2014, Datamonitor, Savings Account Customer Analytics, reproduced with permission of Datamonitor.*

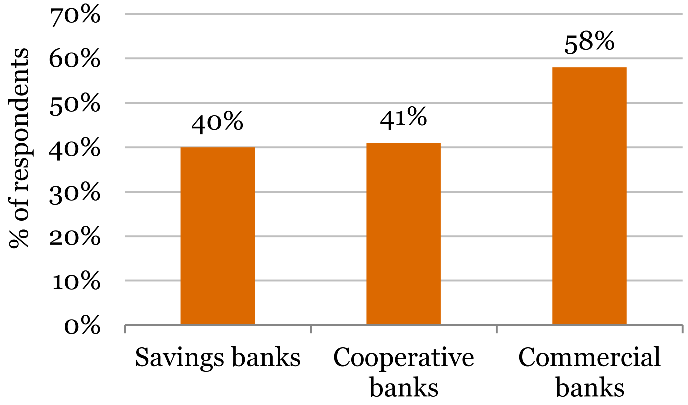
Online banking

Customer use of online banking is increasing.

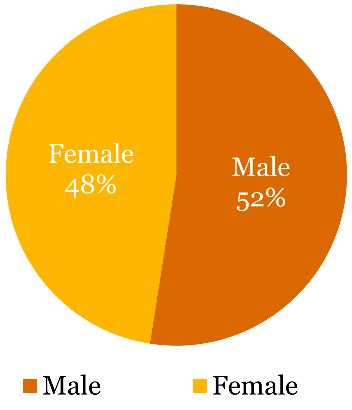
Share of online banking users in Germany (2013)



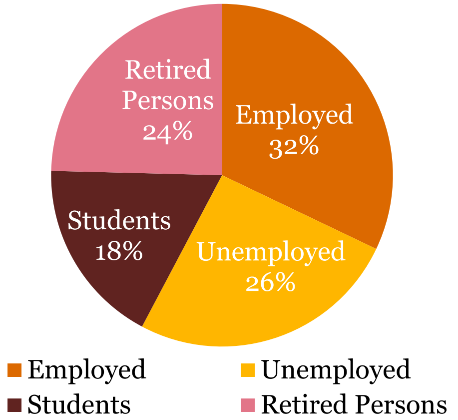
Percentage of online banking users by bank type (2011)



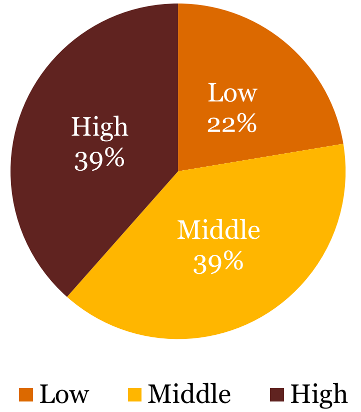
Online banking use by gender (2012)



Online banking use by social situation (2012)



Online banking use by education (2012)



Commentary

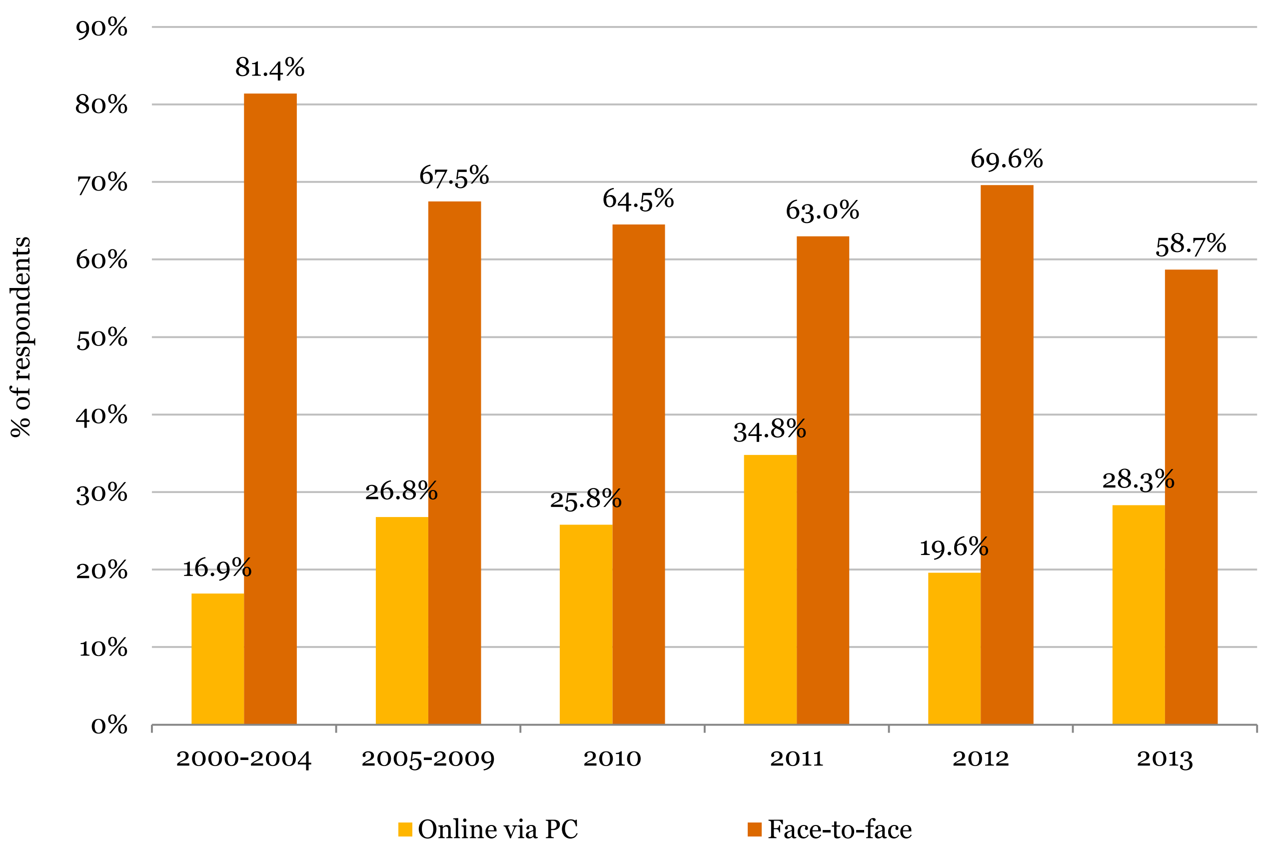
- Online banking has experienced strong growth since 1998 , rising from 8% to 45%.
- Commercial banks have the largest share of online banking users with c. 60% of respondents using online services.
- Employed people represent the group with the highest online banking usage.
- There is a positive correlation between educational level and online banking usage.
- Data from Comscore shows customer usage of smartphone devices for banking processes increased by 84% in 2012.

Source: Comscore , 2012; Bankenverband/GfK, 2013; Bankenverband, 2011; Statistisches Bundesamt, Fachserie, 2012

Online account opening

Online account opening is growing while branch based customer acquisition is in decline.

Channel for opening savings account by year of opening



Commentary

- Since 2000, the percentage of savings account openings via online nearly doubled; while face-to-face openings decreased by over 20 percentage points.
- Many customers still use the internet as an information and research channel rather than as a sales channels (ROPO-research online, purchase offline).
- 80% of all financial contracts were still signed in a branch, 11% online, approximately 9% via print or telephone.

Source: copyright © 2014, Datamonitor, What Consumers want Savings Account Product Provider and Channel Positioning, reproduced with permission of Datamonitor.

Overview: Popular savings products

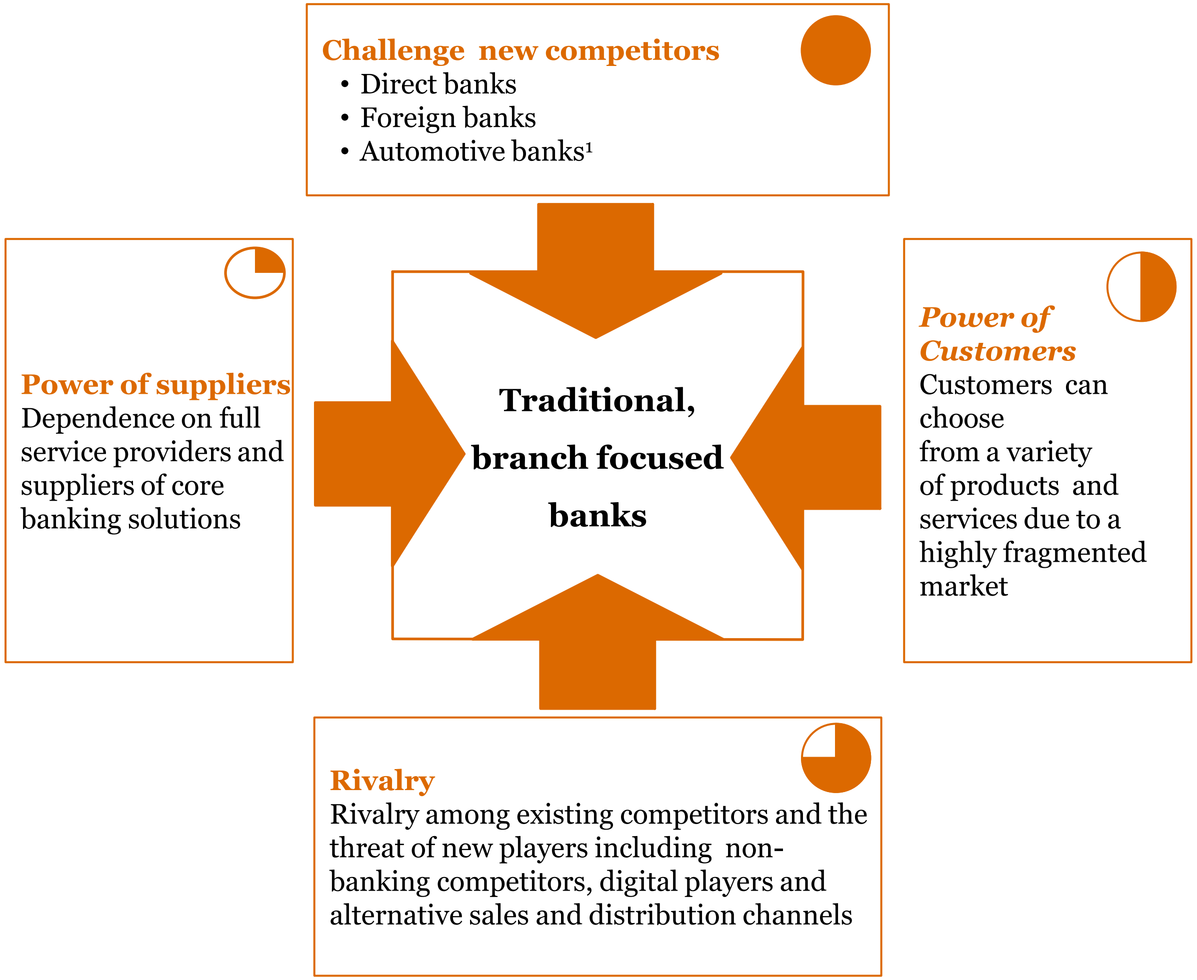
Savings product	Short description
Savings book/ Savings card	**Purpose:** deposit and withdrawal of money that is potentially needed in the short term; often used for rental bonds • Traditionally used in booklet format. Nowadays often used in debit card format due to better handling and security, e.g.: ATM withdrawals are possible with debit card • Withdrawals only allowed up to a certain amount (e.g. € 2,500) without termination; exceeding amounts will incur penalty interest fee (prepayment penalty)
Money market account	**Purpose:** deposit and withdraw money that is potentially needed in the short term • Deposits and withdrawals only possible through a 'reference' account, e.g. a customer's current account • Interest rate depends on amount invested – higher balances attract higher interest rates
Fixed term account	**Purpose:** deposit and withdraw money that is not needed in the short term • No withdrawals possible before fixed term ended • Interest rate depends on amount invested, the investment duration as well as the period of notice
Building loan contract	**Purpose:** save up money in savings phase, and obtain low interest rate mortgages in loan phase • Clients can choose whether to make use of loan phase or just use building loan contract for the purpose of saving money • Building loan contracts are subsidized by government through: – Employees' savings allowances – Home construction bonus
Government subsidized savings, e.g. Riester Rente	**Purpose:** Due to a gap in the provision of public pensions, there is increasing use of privately-financed pensions • Various privately-financed pensions were created that are subsidized by Government, e.g. Riester Rente • Characteristics of Riester Rente: – Contract between client and bank – Customer makes savings contributions until he/she reaches pension age – Riester contracts are subsidized by Government in two ways: ○ Direct subsidization that depends on amount of savings contributions ○ Savings contributions can be written off customers' income taxes up to a certain threshold

Source: Deutsche Bank; Bibliography: Grill/Perczynski (2013)

Competition in the market

The key market forces are strong for existing players, new (non-banking) competitors, innovative digital propositions and a large variety of options for customers.

Forces that shape competition in the German (deposit) banking market

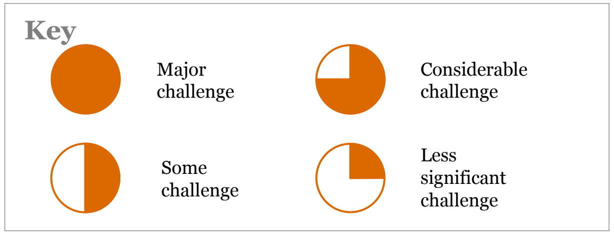


1. Automotive banks –although organized as direct banks are treated separately

Source: PwC research, 2014,

Commentary

- Retail banking in Germany has become increasingly more competitive, due to a number of factors:
  - New competition, predominantly from direct banks and automotive banks with lower cost business models has reduced banking margins and increased challenge for customer deposits.
  - Digital innovation and alternative sales and distribution channels such as POS contracting, video advice and fully electronic cash points.
  - Increased transparency and availability of information on pricing and interest rate as consumers increasingly research products online. Many customers still research online when they purchase offline.
  - Growing dependence on full service providers.



Firm behaviour in cash savings

Cash savings play a key role in customer acquisition, customer retention and funding.

Key aspects of firm behaviour in the cash savings market

Customer acquisition

- New to the market competitors often offer teaser interest rates with the aim of achieving a high position on price comparison websites.
- Some banks set differential pricing by offering premium interest rates up to a certain capped amount in order to attract distinct customer segments, e.g. VW Bank pays 1.4% up to €50,000 but only 0.6% for amounts greater than €50,000. This suggests conscious customer segmentation.
- Some banks (e.g. Commerzbank) offer switching bonuses up to 100 € to enhance customer acquisition rates.
- Search engine advertising (SEA) and Search engine optimization (SEO) are key methods to acquire new customers. Banks are focused on being in the top positions in search engines. Commerzbank and Postbank are most frequently found among the Top 3 hits.
- German banks consider the internet as the second most important marketing channel; TV advertising remains the most important channel.

Customer retention

- Savings products are often bundled with other products e.g. as a supplemental account to a customer's current account.
- Saving accounts are often positioned as an “anchor” product, e.g. for young clients as a first step into financial products and are provided on a free-of-charge basis.
- Most banks use churn prediction analytics in order to identify likely future customer churn.
- Proactive actions are taken with respect to customers who are at risk of leaving the bank. This typically involves calling the customer to notify them of special offers.
- Direct, personalised mailing is still used for customer retention by building brand and service awareness.

Balance sheet strategy

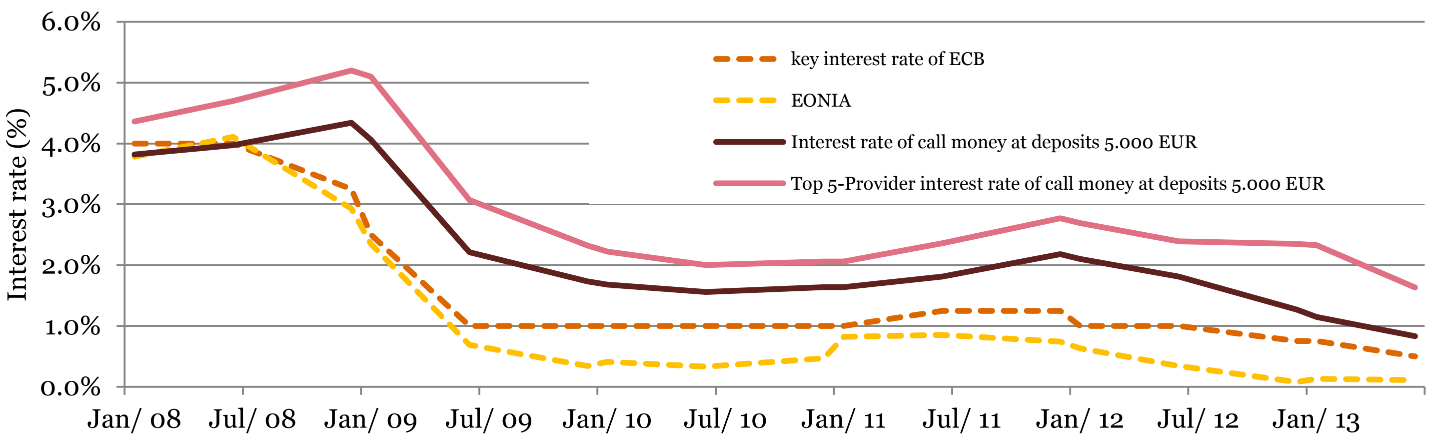
- Banks are looking to shrink their balance sheets, using retail deposits for funding instead of wholesale capital markets. Following the financial crisis increased risk-aversion and regulatory requirements are encouraging banks to use cash savings as a source of funding.
- In general German banks do not rely on customer deposits as much as other European banks. Therefore, they do not have the pressure to offer high interest rates and instead justify the low interest rates rate offered by referring to historically low interest rates set by the ECB.
- New competitors such as automotive banks use deposits as a way of gaining additional funding (to support their lending activities). They typically offer premium interest rates. This is demonstrated by the fact that two of the Top three day-to-day account offers come from automotive banks (as at May 2014).

Source: Company websites; Nielsen Media Research, 2013; ECB

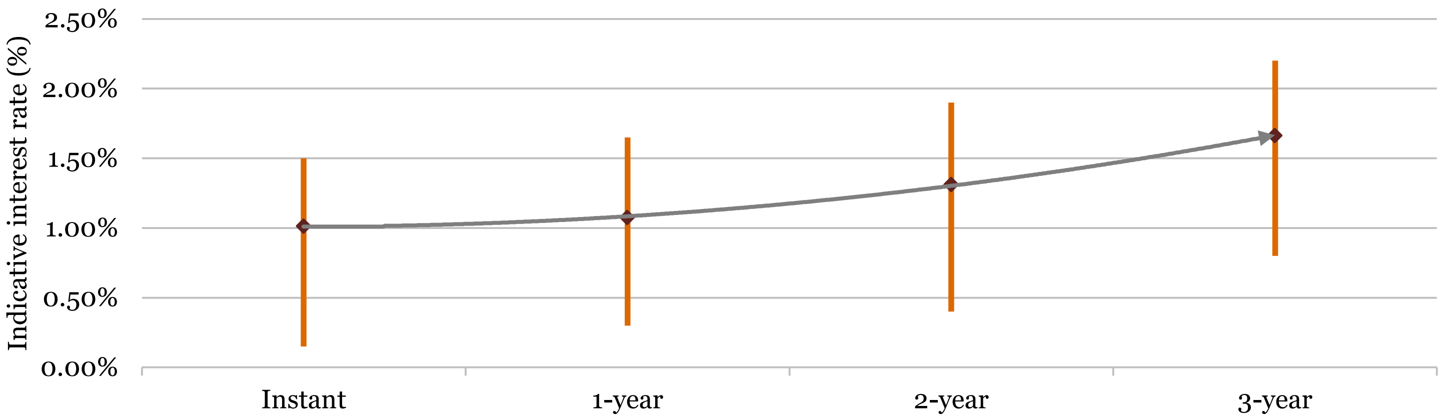
Impact of the low interest rate environment

Low interest rates impact the attractiveness of cash savings as a way to grow wealth.

Trend of interest rates in German and European Markets



Indicative interest rates on fixed rate savings accounts and bonds by German banks (2014)



Source: ECB, 2014; Deutsche Bundesbank, 2014; Finance Scout 24, 2014

Commentary

- The interest rate of the ECB (base rate) has been low for a number of years and consequently cash saving deposits rates have also been low.
- Interest rates rose slightly during the European sovereign debt crisis, but are now at historic lows.
- The top 5 providers offer interest rates which are c. 0.7% higher than average rates.
- The interest rates offered increase as the notice period increases.

Online account opening

Increasingly online comparison sites are used to acquire new customers.

Ways to acquire new customers (2012)

	Comparison sites	*Google AdWords* (Deposits and savings)	*Affiliate Marketing*
Coverage (p.a.)	• Number of unique visitors[1]: ~ 9mn. • Initial basis: 100%	• Number of unique visitors:~ 11.7 mn. • Initial basis:100%	• Number of unique visitors:~ 30 mn. • Initial basis:100%
Leads towards homepage (p.a.)	• Number: ~ 200.000 • Initial basis: 2,2%	• Number: ~ 456.000 • Initial basis: 3,9%	• Number: ~ 60.000 • Initial basis: 0,2%
Deals products (p.a.)	• Number of new accounts: ~ 70.000 • Leads in: 35%	• Number: of new accounts ~ 70.000 • Leads in: 15%	• Number: of new accounts ~ 7.500 • Leads in: 12%
Total conversion rate (p.a.)	1 deal per 130 unique visitors ***~ 0.08 %***	1 deal per 167 Unique visitors **~ 0.06 %**	1 deal per 4000 Unique visitors **~ 0.025 %**

Source: Banking Business in Germany, 2012

Commentary

- Comparison sites are the best, new channel to acquire new customer as they have the highest conversion rate (0.08%) compared to search engine use (0.06%) and affiliate marketing (0.025%).
- While comparison sites have a slightly lower percentage of leads towards homepages than the use of Google AdWords, they have a higher percentage of new accounts as a result of leads towards the homepage.
- Banks in Germany recognize the increasing importance of mobile banking. For example, Berliner Volksbank decided to invest 10m Euros in a project to build a customer centric mobile channel.

Direct labels of traditional banks

Besides extending their own online presence, traditional banks have established and acquired direct banks to remain competitive.

Direct labels of traditional banks

- Deutsche Bank bought Norisbank in 2006 in line with its growth strategy to strengthen its online presence
- Under the umbrella of Deutsche Bank Group, all branches were closed and Norisbank became a direct bank in 2012
- Interest rates offered by Norisbank are above those of Deutsche Bank, e.g. day-to-day money: Norisbank: 0.5% vs. Deutsche Bank: 0.2%

- Comdirect was founded in 1994 as a subsidiary of Commerzbank
- As a direct bank, Comdirect doesn't maintain any branches but is closely connected to its parent company Commerzbank
- Comdirect offers a wide product range from current accounts to customer loans
- Interest rates offered by Comdirect are above those of Commerzbank, e.g. day-to-day money: Norisbank: 0.52% vs. Commerzbank: 0.25%

- DKB is a subsidiary of state-owned Bayern LB that has held 100% of DKB since 1995
- DKB mainly acts as a direct bank with only a few branches that mostly serve commercial customers
- Besides offering accounts and loans to private customers, DKB also offers industry solutions to commercial customers
- DKB offers a comparatively high interest rate on day-to-day money: 1.05%

Commentary

- Traditional banks use twin strategies: (i) strengthening their own online presence; and (ii) acquire or launch direct banks as subsidiaries and complements to their own core business.
- After acquisition by a traditional bank, the smaller banks mainly serve as dependent subsidiaries while keeping their corporate identity, i.e. retaining a separate brand.
- Traditional banks acquire and form smaller direct banks to access new markets and customer segments, e.g. Bayern LB that didn't serve private clients before the acquisition of DKB.
- Direct banks can also be seen as a form of price discrimination with an observable interest gap between parent company and subsidiary ; Comdirect as a subsidiary of Commerzbank tries to attract younger customers (e.g. via testimonials from the German national soccer team) that are digital savvy and especially sensitive to interest rates.
- Deutsche Bank acquired Norisbank in 2006 and gradually restructured it. In 2008, the over-the-counter business was abolished and since 2012 it has operated as a direct bank with separate brand.

Source: Annual reports; Check24.de

General policy and regulatory context

Several fiscal and pension regulatory changes have enhanced saving in Germany.

Taxes on savings

Flat tax regime ("Abgeltungssteuer")

- Before 2009, interest income and capital gains were taxed according to personal tax rate of the individual.
- Since 2009, a flat tax regime ("Abgeltungssteuer") has been in place in Germany.
- Private investment income of individuals is taxed at a flat rate of 25% income tax plus 5.5% solidarity surcharge thereon and, if applicable, a church tax (of 8 or 9%, depending on federal state of residency within Germany) .
- In general, the flat tax is withheld by any German bank (taxed at source) and transferred anonymously to tax authorities. At the year end, the client receives a ta x certificate stating all taxes withheld during prior year.

Tax exempt amount

- Tax exempt amount (Sect. 20 p. 9 GITA[1]): Interest income and capital gains are in general tax free up to a yearly amount of €801/ €1602 (single/jointly assessed taxation). In order to receive the tax exempt amount, customers have to hand in a so-called 'exemption order' at their bank. Interest earned, or capital gains received exceeding the tax exempt amount is taxed according to flat tax regime (see above).

→ *While the tax exempt amount has remained constant over the last few years, customers with a high personal tax rate earning interest income have benefitted due to the comparatively low flat tax withholding rate, which might have encouraged deposit saving in Germany. For dividend income, different rulings may apply when earned before 2009.*

Pension regulation

Capital-forming benefits

- According to the Fifth Capital Formation Act, capital-forming benefits (pensions) are government-sponsored forms of savings that are paid from the employer for the purpose of capital (pensions) accumulation of employees.
- Various types of investments can be used with an emphasis on savings products, e.g. savings accounts, savings agreements building loan contracts.
- Law was passed to encourage customers to provide for their old age.

Pension gap

- Due to an increase of the retirement age as well as evident demographic changes in German society there is a growing need for private pensions provision.
- German government subsidizes private provisions through additional contributions and tax benefits, e.g. Riester pension, Rürup pension.

→ *Capital-forming benefits as well as the need for private provision might explain why deposits in Germany are higher than in other European countries.*

1) German Income Tax Act

Source: Bibliography: Grill/Perczynski (2013), Income Tax Act, PwC research,

Regulatory bodies

The German financial system is largely regulated and controlled by two bodies (BaFin and Deutsche Bundesbank).

DEUTSCHE BUNDESBANK EUROSYSTEM

Deutsche Bundesbank
"prudential regulator"

- Central bank of Germany.
- Euro system monetary policy as core focus area with emphasis on refinancing, cash supply and cashless payments.
- Financial and monetary system banking supervision.
- Independent of any instructions by Federal Government.

BaFin

BaFin
"supervisory authority"

- Supervision of banks and financial services providers, insurance underwriters and securities trading firms.
- Autonomous public-law institution.
- Funded by fees and contributions from institutions.
- Formal permission of BaFin as a mandatory requirement to conduct financial services in Germany.
- Prevention of unauthorized financial business.

Source: Deutsche Bundesbank, Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)

Regulatory requirements

There are specific regulations on disclosure of interest rates and features that influence switching.

Cash savings feature	*Requirements overview*
Anti money laundering / Know-your-customer	Section 2, 3 and 4 Money Laundering Act (*Geldwäschegesetz*) • Banks must identify their customers who want to establish a customer relationship by an official identification document. • Inconvenience of customer identification still occurs in the context of online account opening because identification process takes place through personal customer appearance at bank or postal branches through the so-called "Postident procedure". • Innovative advancements for improving customer convenience have been achieved by SWK Bank who carry out the identification via Voice over IP. In this situation customers chat (video chat via web cam) with a banking employee and during the identification process the identity documentations are shown into the camera. The bank employee then takes a screenshot and attaches it electronically to the account opening application. This means that an online account can be opened without the customer needing to go into a branch.
Disclosure of interest rates	Section 5 Price Information Regulation (*Preisangabenverordnung*), Section 23a Banking Act (*Kreditwesengesetz*) • Information regarding deposits (e.g. interest rates and deposit protection scheme used by the bank) must be displayed at the place of service (e.g. in the branches or via online media) and made accessible to the customers.
Disclosure of features which influence switching	Section 21 par. 4 Financial Institutions Accounting Regulation (Kreditinstituts-Rechnungslegungsverordnung) • Savings deposits (*Spareinlagen*) have a 3-month termination notice period, except for withdrawals up to €2,000 within this time frame. Any amount reclaimed before maturity or above this threshold will incur a penalty interest. • Other forms of deposits can have individual termination notice periods. Any amount reclaimed before maturity will incur penalty interest.
Product Pricing	Guaranteed fixed rate products have fixed durations. For variable rate products, and products with indefinite duration, e.g. instant access accounts, banks have discretion over interest rate changes, but rate changes must have a clear rationale that is typically justified to movements in underlying reference rates e.g. a reduction in rates may be justified by a fall in the EURIBOR rate. With regards to bonus rates, the adjustment dates when bonus rates expire and eligibility criteria such as minimum balances must be transparent.
Cross-selling / bundling products	No particular regulations/requirements in relation to cross-selling/bundling.

Source: European Central Bank, Money Laundry Act, banking Act, Financial Institutions Accounting Regulation Bundeskartellamt, German Civil Code, Judgement of Federal Court of Justice (Az. XI ZR 140/03)

Recent regulatory changes

Regulatory changes in relation to cash savings have concentrated around the Deposit Protection Fund.

Selected regulatory developments with respect to the Deposit Protection Fund

Before the financial crisis	*During the financial crisis*	*Current status*
• Voluntary membership in the Deposit Protection Fund of private banks (*Einlagensicherungsfonds*) was used as a marketing tool for attracting retail banking customers (where member banks deposit a certain amount into the fund each year). • High voluntary membership in the fund meant it could offer higher protection than the mandatory statutory protection scheme of €20,000 per customer.	• Coverage of the Statutory Compensation Scheme was extended to €100,000. • The German government announced it would protect up to that amount. • Participants in the Deposit Protection Fund signalled that they intended to reduce amount of deposits secured by the fund by 2025.	• New EU wide Statutory Compensation Scheme cap covers the protection requirements of most retail customers. • Statutory Compensation Scheme coverage is backed not only by banks but the German government. • Membership fees of the Statutory Compensation Scheme remain significantly lower than those of the Deposit Protection Fund.

- Banks have to pay annual contributions to the compensation schemes:
  - Statutory Compensation Schemes: 0.016% of balance sheet item 'Liabilities to Customers' or at least €15,000.
  - Private Deposit Protection Fund: at least 0.06% of balance sheet item 'Liabilities to Customers', which may increase by up to 2 ½ times depending on rating determined by Auditing Association of German Banks.

The Netherlands – Market and regulatory review

5

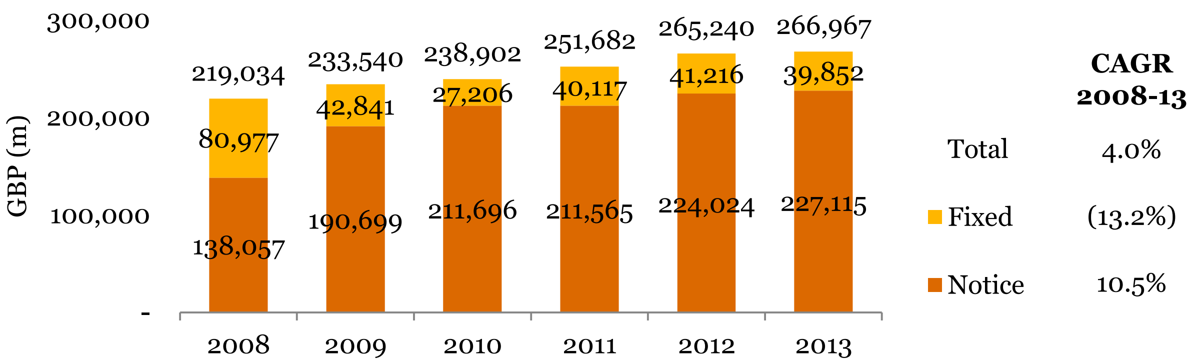
Overview of the Netherlands section

Market structure	• The Dutch market is growing but is highly concentrated. The top 4 providers have a combined c.90% market share. • Tax incentives for Dutch households to pay down mortgage debt and recent changes to mandatory pension schemes may impact how customers use cash savings in the future. • The impact of new entrants on the overall cash savings market has been limited. Many new entrants have limits on the amount of funding needed, and therefore do not compete for the large market shares held by the biggest banks.
Customer behaviour	• Simple demographics do not provide any clear insight into customers' behaviour in the Dutch cash savings market. • Dutch customers value ease of account opening, product features and branch locations more than other European countries. • New savings account opening has increased as many Dutch customers are consolidating their accounts. Changes to salary savings account taxation is the primary driver of this behaviour. However, switching rates in the Netherlands are lower than global averages, especially for customers of the larger banks. This is due to customers having a clear preference for using their main provider of financial services and some customers' perceptions that there are limited benefits in switching.
Firm behaviour	• Banks have changed their customer acquisition and balance sheet strategy in recent years., in part due to state aid requirements. • Smaller firms typically offer higher interest rates than larger providers. However the rates offered by banks are above the ECB rate and following monitoring by the AFM, banks are increasingly providing a justification behind their pricing. • To remain competitive larger intuitions have created alternative brands offering higher rates to allow them to compete against the smaller providers.
Regulatory context	• There have been recent regulatory developments in the cash savings market from both the conduct authority (AFM) and the competition authority (ACM). • The Modern Savings Policy is a market conduct intervention which concentrated on the use of teaser rates, the number of accounts offered, price differences and disclosure. As a result the number of accounts offered has dramatically declined and customer outcomes are perceived to have improved. • The AFM gives banks a Customer Interest Score in order to assess their overall customer centricity to enforce the Modern Savings Policy.

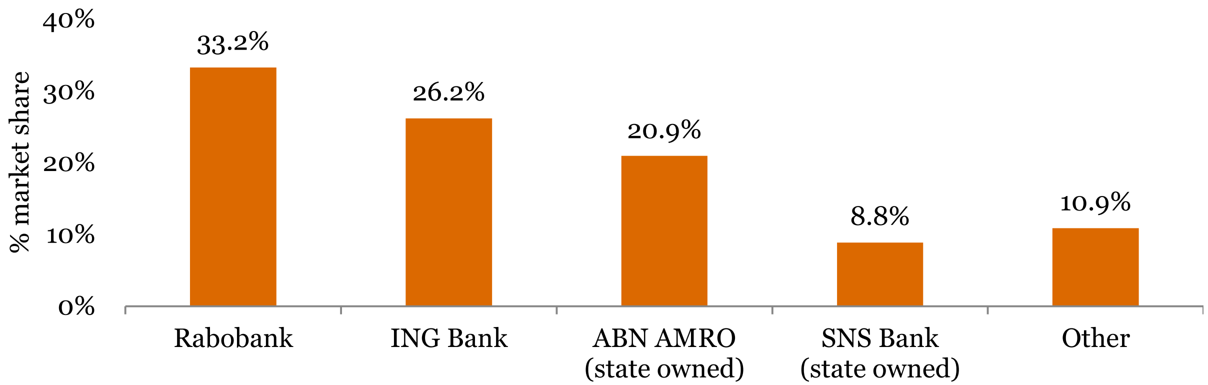
Market size and concentration

The Dutch market is growing but is highly concentrated. The top 4 providers have a combined c.90% market share.

Total savings deposits [1]



Savings deposits market share (2013)



**1 Definitions:*

- *Fixed: deposits with a fixed interest rate and maturity term that can not be withdrawn prior to maturity*
- *Notice: fixed term deposit that permits withdrawals without penalty only after advance notification is given.*
- *Total excludes current account savings*

Source: DNB, 2014; Annual reports Rabobank, ING Bank, ABN AMRO and SNS, 2013

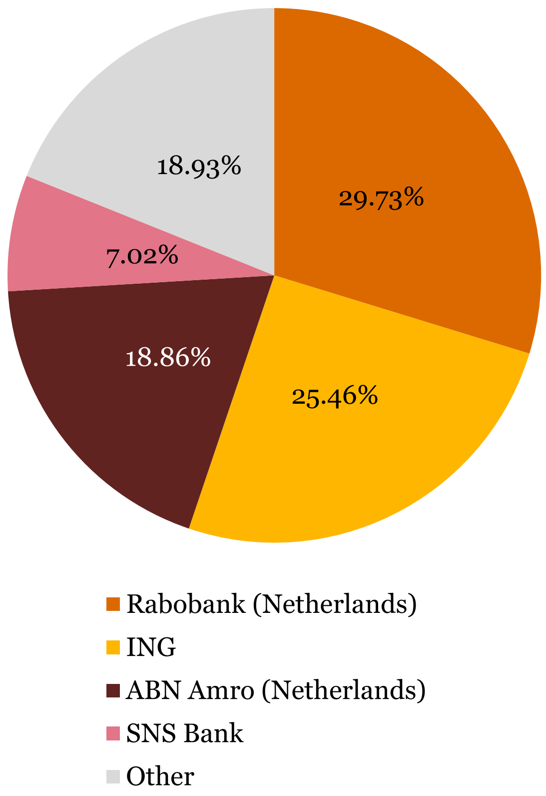
Commentary

- Following the GFC, Dutch customers increased precautionary saving, but total savings deposits growth has slowed since 2012.
- The ratio of fixed to notice savings deposits is largely dependent on relative interest rates. During 2007 /8 the interest rates on fixed-term deposits increased as banks tried to encourage customers to save over longer periods. This resulted in a particularly high share of fixed term deposits in 2008.
- Since 2008, the prolonged period of low interest rates has narrowed the pricing differential between fixed and notice savings accounts. The use of fixed interest rate accounts then declined.
- There is a high concentration in the savings deposit market, with the top 3 providers (Rabobank, ING and ABN AMRO) having c. 80% the market share and the Top 4 (including SNS) having c. 90% market share.

Market size and concentration

Customer choice of savings account provider reflects the total size of cash savings deposits.

Share of cash savings customers (2014)



Commentary

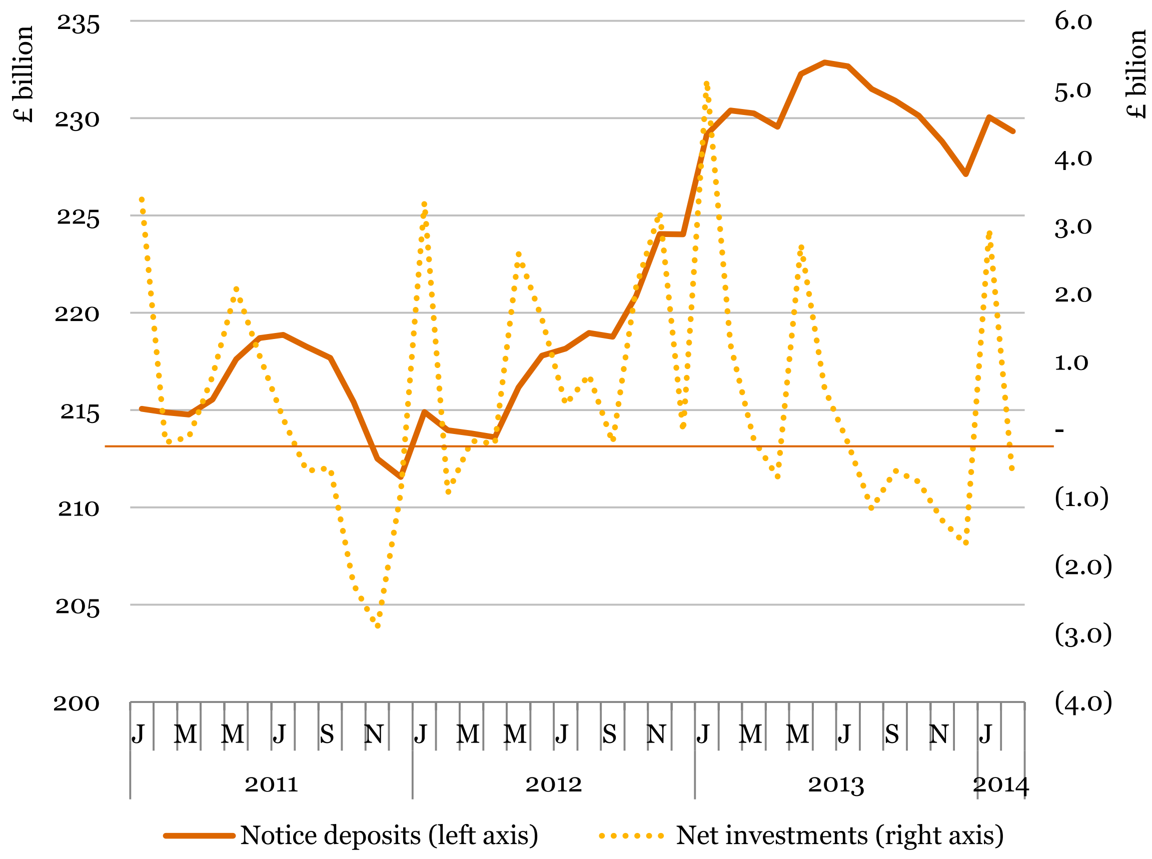
- The majority of customer s have their current account with Rabobank, ING, ABN AMRO or SNS. These banks also control c. 80% percent of the savings market (by customer numbers) and a similar amount of the mortgage market.
- **Rabobank** is a co-operative bank resulting from the merger of Raiffeisenbank and the Boerenleenbank in 1972. Local Rabobank branches are independent co-operatives with their own management and administration. Rabobank was the only big Dutch bank that did not require state aid during the global financial crisis.
- **ING** originated from a merger between the Nederlandse Middenstandsbank and the Postbank in 1989, and an additional merger with Nationale Nederlanden in 1991. The bank received €10 billion in state aid in 2008. A restructuring plan including disinvestments of non-core businesses was a prerequisite to receiving state aid. As a result of this, ING divested its asset management division, the US branch of internet bank ING Direct and is in the process of selling of Nationale Nederlanden. Currently the bank has repaid €12.5 billion (£10.3 billion) in state aid.
- **ABN AMRO** came into existence after the merger between ABN and AMRO in 1991. In 2007 a consortium of RBS, Fortis and Banco Santander acquired ABN AMRO. Following the collapse of Fortis, who acquired the Dutch business of ABN, the Dutch part of the bank was nationalised in 2008.
- **SNS** evolved from mergers between various regional savings banks and insurance companies from 1987 onwards. The bank was nationalised in 2013 due to issues with the real estate portfolio the bank bought from Bouwfonds in 2006.

Source: copyright © 2014, Datamonitor, Savings Account Customer Analytics, reproduced with permission of Datamonitor; Company websites

Emerging preference to pay off mortgages

Tax incentives for Dutch households to pay down mortgage debt rather than building cash savings may start to impact the cash savings market.

Total notice deposits and net investments of Dutch households



Commentary

- The majority of Dutch household savings are held in accounts with no penalty for withdrawing, such as internet savings accounts. With these accounts, money can be freely withdrawn by the account holder.
- Monthly net investment (into notice /instant access deposits) has a clear seasonal pattern with big inflows in January and May. Larger investments are typically made at year end due to customers' total capital being assessed on 31st December each year for the purpose of capital tax.
- In the last six months of 2013, net investments were continuously negative, suggesting a change in savings behaviour. One possible explanation relates to changes in mortgage interest rate deductibility regulation. Under the new rules, taxpayers can only deduct mortgage interest on a new mortgage when the mortgage is amortised from the beginning and within 30 years (See slide 89 for more information).
- Combined with the low interest rate on savings, this change has incentivised customers to focus on paying off their mortgages, lowering overall household savings levels.

Source: CBS,2014

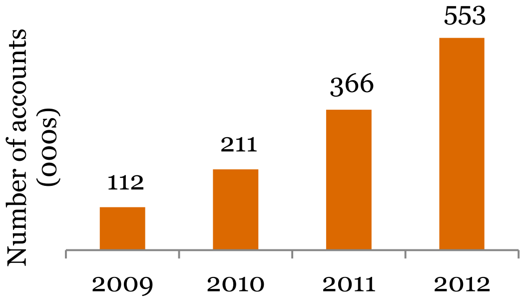
Changes to pension saving schemes

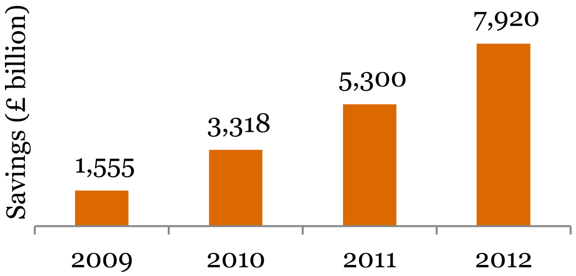
Recent changes to mandatory pension schemes may require additional saving in cash deposits.

The Dutch pension system is built on three pillars

AOW	Employer	Individual supplementary
Basic income to live on. Automatic entitlement for every person living or working in the Netherlands, paid for by the state from employee income taxes. The AOW retirement age will increase from 65 to 67 by 2023.	Approximately 90% of employers have a supplementary pension arrangement. Usually employers contribute 2/3 of pension premiums while employees contribute 1/3. With the increase of the pension age, the government lowered the pension accrual rate from 2.25% to 2.15%. In 2017, the percentage will be lowered to 1.75%.	Voluntary – consists of all retirement income sources that people arrange themselves. Examples are life insurance, commercial savings products such as bank saving and wider investments

Number of accounts and savings (on pension savings accounts)





Commentary

- The Dutch pension system is built on three pillars. The first is organised by the government, while the second is mostly the employers' responsibility. Individuals can choose to supplement these first two mandatory pillars by investing in their own savings arrangements that are targeted towards accumulating additional pension funds.
- The Dutch government has recently increased the national retirement age. In line with this increase in retirement age, the government also lowered the pension fund accrual rate for employers and employees.
- These changes make it more difficult for people to retire early and can lead to pension gaps if individuals have not chosen to save additional funds for their own retirement. Because of this, it is likely that Dutch consumers will increasingly need to save money to supplement automatically accumulated pension savings. This is a trend that has already started to emerge over the past few years, and has been recognised both by the AFM and the ACM.
- Such additional savings may be in banking deposits, but also other investment products.

Source: CBS, 2012; Belastingdienst, 2014

New entrants

The impact of new entrants on the overall cash savings market has been limited.

Combined market share of big banks in the Dutch savings market

Commentary

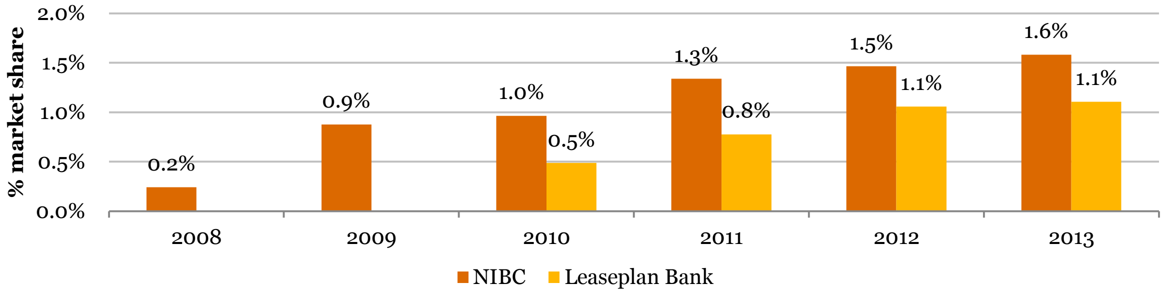
- Several new providers have entered the savings market in recent years (as shown by the timeline of logos on the diagram). Although these providers were able to capture some market share, these shares remain relatively low compared to the combined market share of the bigger banks. No new entrant has been able to gain more than 2% market share.
  - Icesave: 1-2% market share at time of exit
  - Leaseplan: 1.1% in 2013
  - NIBC: 1.6% in 2013
- Over the last two years, ABN AMRO has gained market share, consequently increasing the overall concentration of the savings market.
- Smaller providers have tended to gain and lose market share from one another as the market share of the bigger banks has not decreased as new entrants have entered the market. The new entrants appear to be competing for a small pool of customers who switch , but the big banks' customers tend to be less likely to switch.
- Knab (subsidiary of Aegon) has so far been unable to capture significant market share in the Dutch market. Knab's goal was to have 30,000 customers in its first year of operation, however it has stated that it is far from achieving this goal.

Source: Annual reports

New entrants – case studies

Many new entrants have specific funding requirements and therefore do not compete for the large market shares held by the larger banks.

Market share NIBC and Leaseplan bank



Proposition of different new entrants

NIBC DIRECT — **2008**

Active in mortgages[1] and online saving
Simple products
Transparent communication
Competitive interest rate
Equal treatment of all savings clients

LeasePlan Bank — **2010**

Sole focus on online saving
Simple products
Transparent communication
Competitive interest rate
Rate dependent on Euribor

Commentary

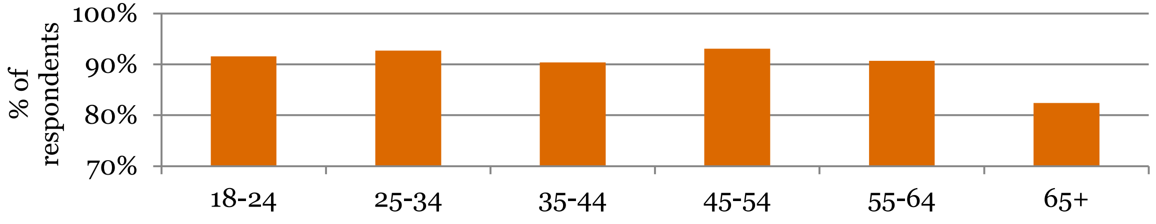
- The Dutch market has been persistently highly concentrated. In 2008, NIBC entered the savings market with NIBC Direct. In 2010, Leaseplan Bank entered. Both offered only online savings accounts.
- They quickly gained a market share of approximately 1% in three years, after which market share growth declined. The banks attracted customers with simple products, transparent communication and competitive interest rates.
- There are several reasons that can explain the limited market share (<2%) of successful new entrants. One reason is that becomes progressively harder to attract customers with low willingness to switch. Secondly, these two new entrants have met their deposit raising targets. As an example, Leaseplan Bank stopped taking new clients in 2010 because the bank had quickly reached its customer and deposits target.

1 NIBC Direct entered the mortgage market in 2013
Source: Annual reports

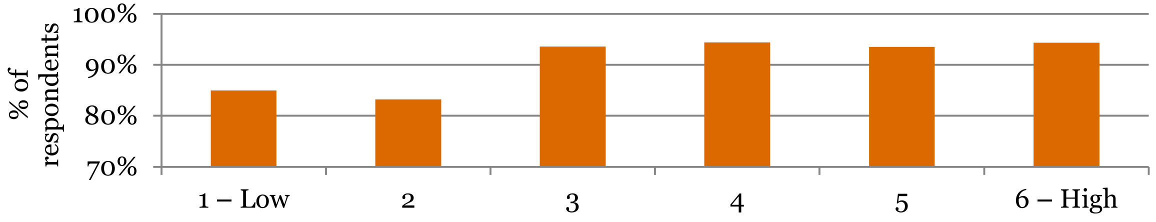
Customer segmentation

Simple demographics do not provide any clear insight into customers' behaviour in the Dutch cash savings market.

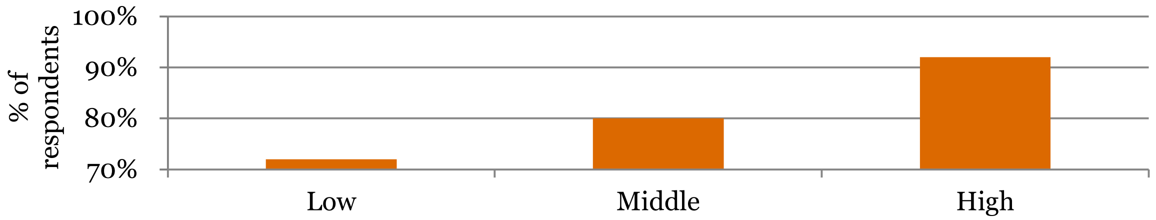
% of consumers who hold a savings account by age band (2013)



% of consumers who hold a savings account by income band (2013)



% of consumers who hold a savings account by level of education (2013)



Commentary

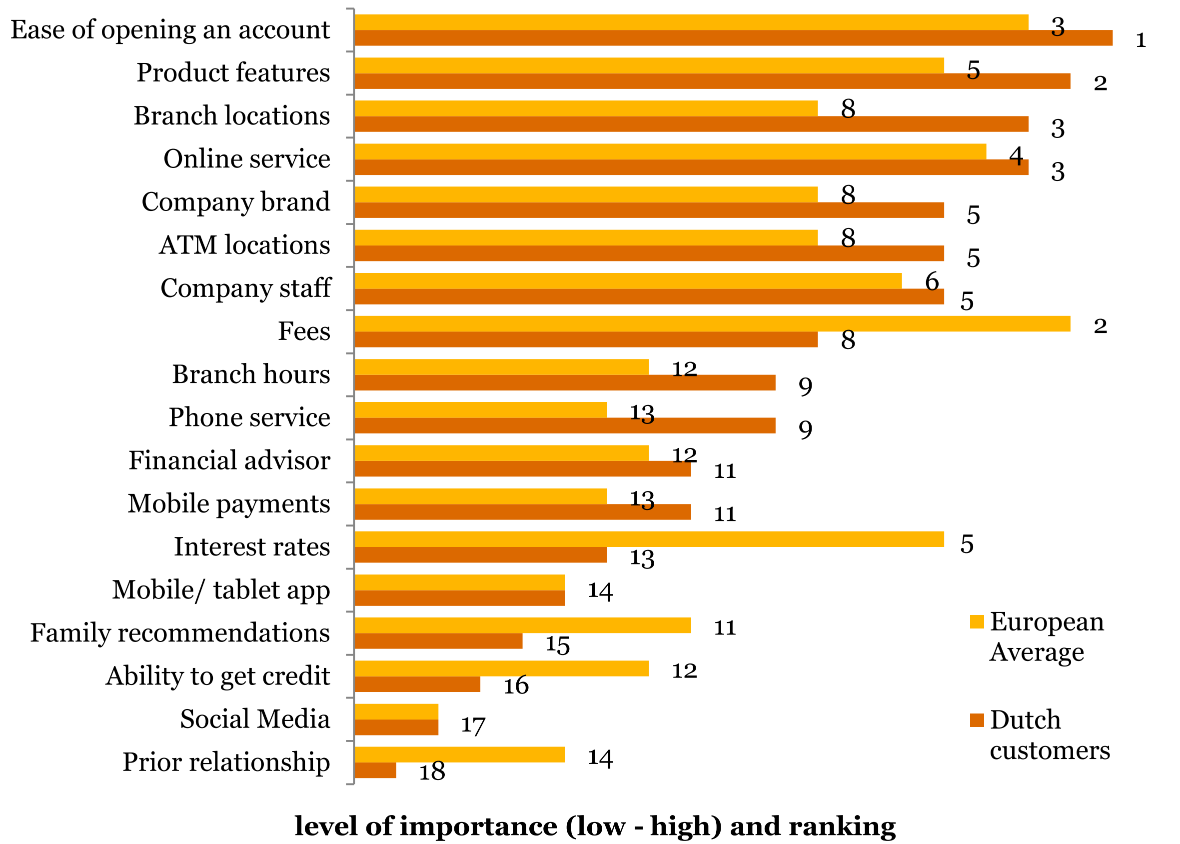
- The percentage of consumers holding a savings account is above 90% for all age brackets except the 65+ bracket. One reason for the decline in savings accounts in this older age bracket might be that some these consumers have exhausted savings (and rely on pensions income to live on).
- People in the 35-44 age group may have slightly lower savings because they spend more money on their mortgages and family expenditure.
- There is a significant jump in the number of accounts held after consumers reach the 3rd income band, showing that some consumers with lower incomes are unable to save through a savings account.
- Highly educated customers are more likely to hold a savings account (95% against 80% of middle educated and 72% of lower educated customers).

Source: KPMG, 2013; copyright © 2014, Datamonitor, Savings Account Customer Analytics, reproduced with permission of Datamonitor.

Factors for choosing a new bank (across all products)

Dutch customers value ease of account opening, product features and branch locations more than other European countries.

Ranking of importance of factors for choosing a new bank (2013)



Commentary

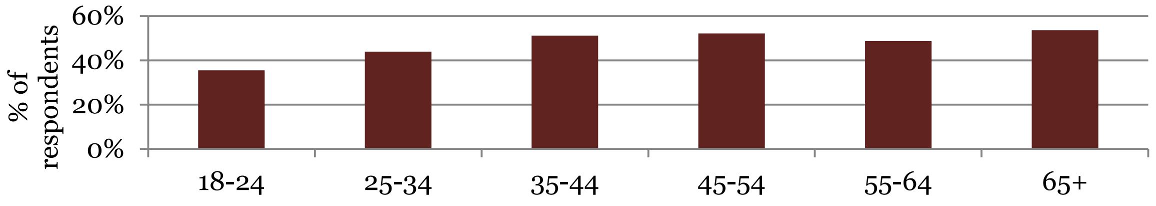
- Dutch customers attach the most value to the ease of opening an account when choosing a new bank (across all products). Together with Belgium, the Netherlands is the only country to rank this as the most important factor when choosing a new bank.
- Product features (e.g. dedicated relationship manager or international debit card with insurance coverage), company brand and ATM locations are also relatively important to Dutch customers.
- Both the location of branches as well as online services are ranked third by Dutch customers. As compared to the rest of Europe, branch locations are very important to Dutch customers. This suggests that face-to-face banking is still highly valued by Dutch customers.
- Interest rates and fees are generally very important to European customers while Dutch customers appear to place less weight on these. More recent evidence though, from the ACM's investigation into barriers in the retail banking market in the Netherlands, indicates that the two most important factors for consumers when choosing a new savings account provider are interest rates and security.

Note: Europe sample consisting of Belgium, Denmark, Finland France, Germany, Italy, Netherlands, Norway, Poland, Russia, Spain, Sweden and the UK
Source: Bain & Company, 2013

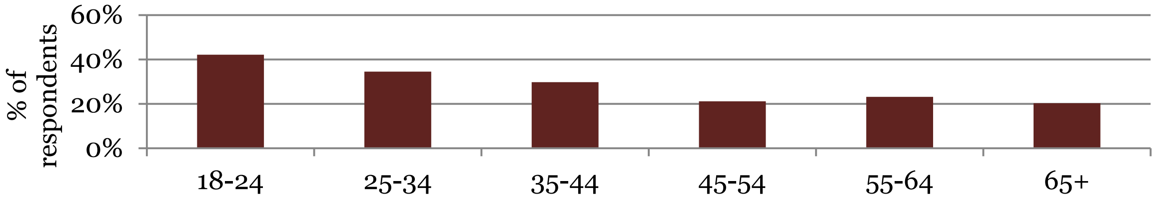
Customer preferences in savings accounts

Older customers typically favour competitive interest rates whereas younger customers favour newer features such as mobile access to savings.

Consumers listing 'competitive interest rate' as essential (2013)



Consumers listing 'mobile access to money' as essential (2013)



Additional choice drivers vary across age group (2013)

Age	Choice driver	% of respondents in age bracket vs. average	
18-29	Safety	50%	35%
40-59	Bank's ideals	20%	15%
60+	Deposit guarantee Spread of savings	64% 33%	55% 18%

Commentary

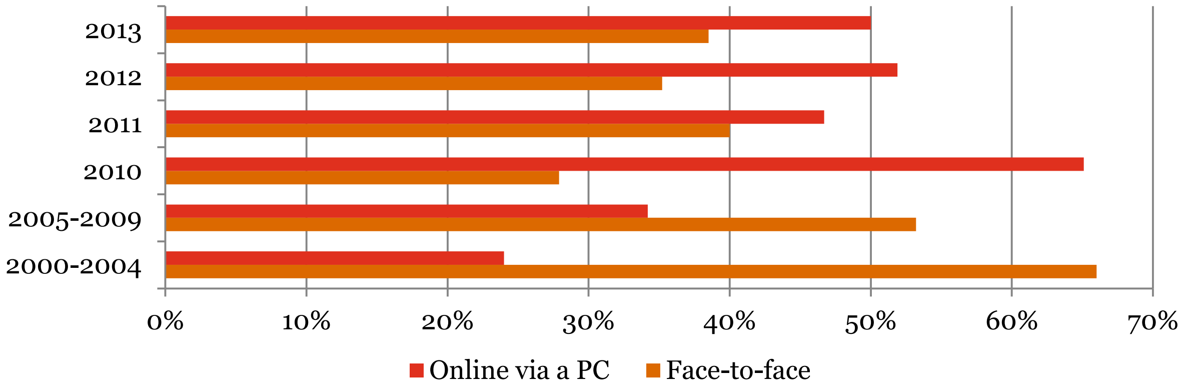
- Although Dutch consumers appear less concerned about interest rates than the rest of Europe, interest rates are more relevant when choosing a savings product. The importance of the interest rate increases above 50% as consumers reach the age of 35. One explanation is that younger people typically have a lower savings level – they are therefore less likely to compare interest rates on offer and instead are attracted to features around accessibility.
- This is consistent with ACM research indicating that only a small group of Dutch consumers actively search for the best interest rates. This group holds a significantly higher amount of savings than those consumers who are not inclined to search for the best interest rates.
- Consumers that do not switch are generally unaware of the interest rate they receive and do not believe they can get a higher rate at another bank.
- Younger customers value mobile access to money more than older customers. This is consistent with research findings from EtopiaBdB suggesting that internet is essential to 69% of the younger generation compared to 59% for the Dutch population overall.

Source: EtopiaBdB, 2013; TNS Nipo SpaarMonitor, 2013; ACM, 2013; copyright © 2014, Datamonitor, Savings Account Customer Analytics, reproduced with permission of Datamonitor.

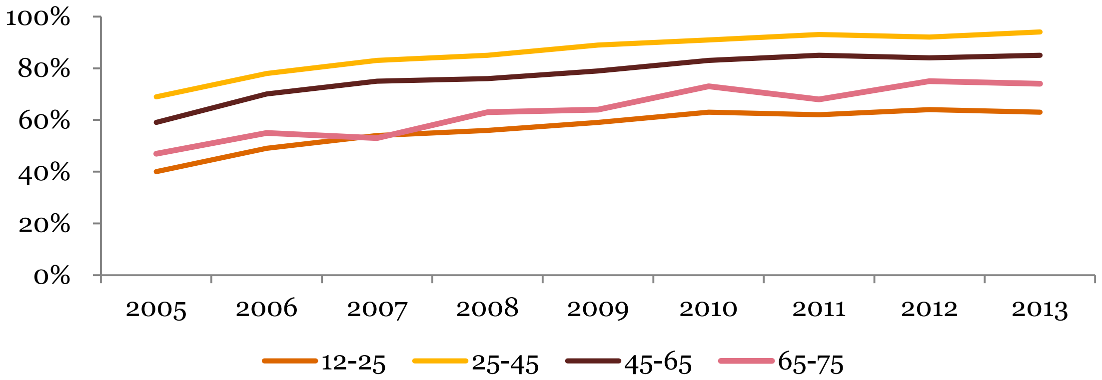
Channel use

Online savings account opening and the use of online banking generally has increased significantly over the past 10 years.

Channel for opening savings account by year of opening[1]



% of people that have used the internet for online banking, < 3 months



Commentary

- Dutch consumers are increasingly opening new accounts online. This trend is in line with the increasing level of internet penetration of Dutch households; in 2000, 4 in 10 households had access to the internet, while by 2010 this had increased to 9 in 10.
- In 2010, Leaseplan Bank and the Royal Bank of Scotland entered the Dutch savings market as pure internet savings banks. Leaseplan quickly attracted many Dutch customers. This is a possible explanation for the bump in the percentage of savings accounts opened online in 2010.
- Although the penetration of online banking has increased across all age brackets since 2005, the usage of online banking services has started to stabilise at around 50% after 2010. This indicates that face-to-face banking remains important to Dutch customers.

1 Note: 2000-2004 and 2005-2009 are annual averages over the period

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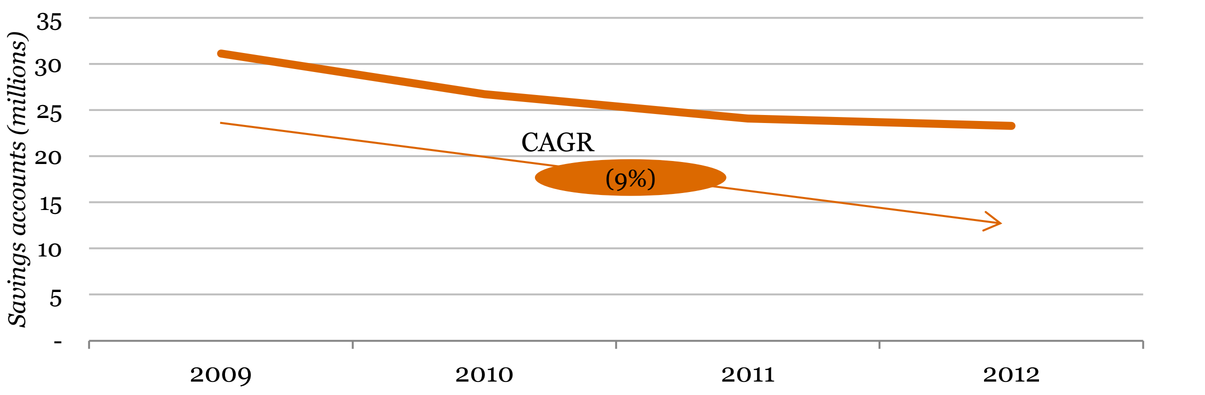
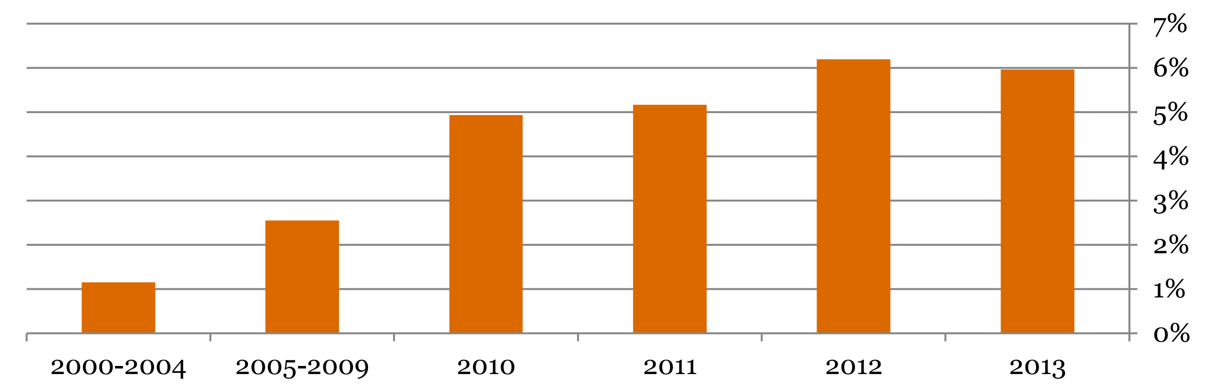
Changes in savings account types and new account opening

New savings account opening has increased as many Dutch customers are consolidating their accounts.

Absolute number of savings accounts



*Proportion of respondents opening a savings account in a given year**



Commentary

- Although Dutch consumers saved more money in the period 2009-2012, the absolute number of savings accounts decreased from 2 to 1.5 savings accounts per capita. This indicates that Dutch consumers are focussing their saving efforts. Both the increase in deposit guarantee (from €20,000 to €100,000 in 2008) and decrease in interest rates that occurred after the financial crisis are possible explanations for this trend (a further explanation is linked to the limiting of tax-free savings accounts – see regulatory context slide for more details).
- In 2004, the Dutch Banking Association introduced the 'switching service', which made it easier for consumers to switch between banks. The service is explicitly focused on enabling customers to switch their current account. However, there may be some indirect impact on savings accounts too, if the two products are complementary.
- After a start-up phase in 2004 and 2005, the switching service reached a stable number of between 80,000 and 100,000 current account customers per year. It is assumed that another 80,000-100,000 customers switch without using the switching service, indicating that between 3-4% of Dutch households switches current accounts in a given year.

* Note: 2000-2004 and 2005-2009 are annual averages over the period

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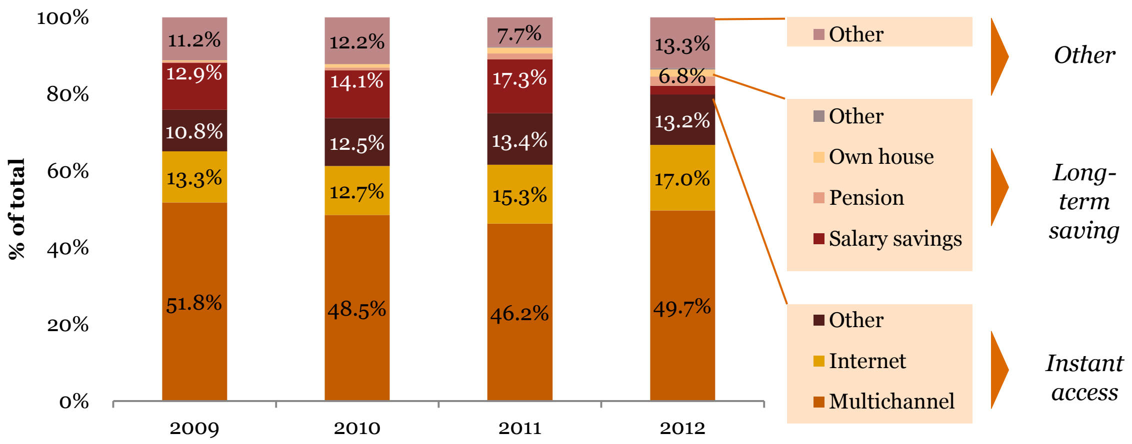
Types of savings accounts

In the Netherlands, there are three types of savings accounts, of which instant access accounts are most popular. Recent changes in choices between accounts are driven by regulation.

% of savings accounts according to type



Instant access	Long-term saving	Other
Savings accounts where users have instant access to their accounts. *Multichannel* – access via internet, phone, forms, personally in branches. *Internet* – access purely via the internet. *Other* – e.g.: saving for (grand)children.	Savings accounts where withdrawals cannot be freely made and are used to save for a specific goal (i.e.: pension, house) and are fiscally advantageous. Savings on these accounts are tax free, taxes are payable on withdrawal in the future.	Defined as 'any types of savings account that is not defined in other categories', should include fixed term deposits.

Commentary

- The majority of Dutch savings accounts are instant access accounts. Internet accounts can be opened and used free of charge with internet banks such as NIBC Direct. With larger banks, both multichannel as well as internet savings accounts are usually complementary to current accounts. Current accounts cost between €15 per year and €180 per year for higher net worth customers.[1] These differences are related to whether the package includes a complementary credit card, the interest rate on this card, and whether or not the user has an overdraft facility.
- Recent changes in choices between savings account are driven by changes in regulation:
  - *Salary savings* – Until 2011, salary savings schemes enabled employees to save up to 12% of their gross annual income free of tax. The saved money could be withdrawn for periods of leave or (early) retirement. The number of salary savings accounts decreased after 2011 because the government cancelled the salary savings regulation.
  - *Pension/ own house* – A tax-efficient way to save for pension or mortgage debt. The number of 'own house accounts' (introduced in 2008) has increased recently . This might be related to changes in mortgage regulations.

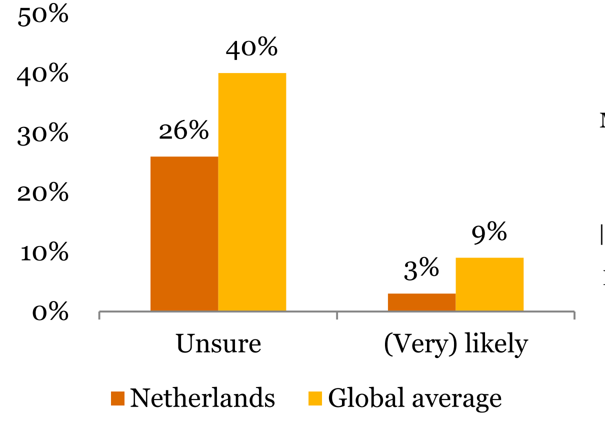
1 Note : Staalbankiers offers current accounts priced at either €0 or €240 per year. This bank was omitted from the total cost range as it has a specific focus on high net worth individuals.

Source: CBS, 2013

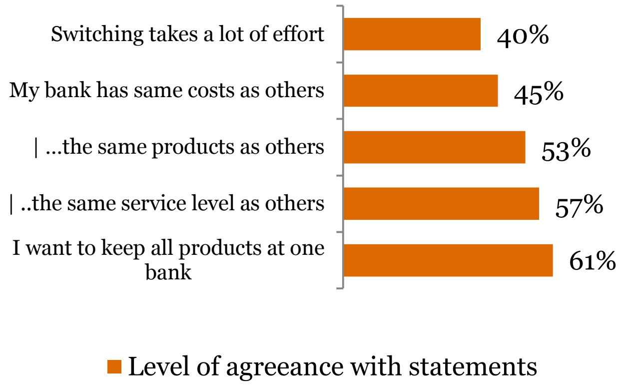
Customer switching

Retail banking switching rates in the Netherlands are lower than global averages, especially for customers of the larger banks.

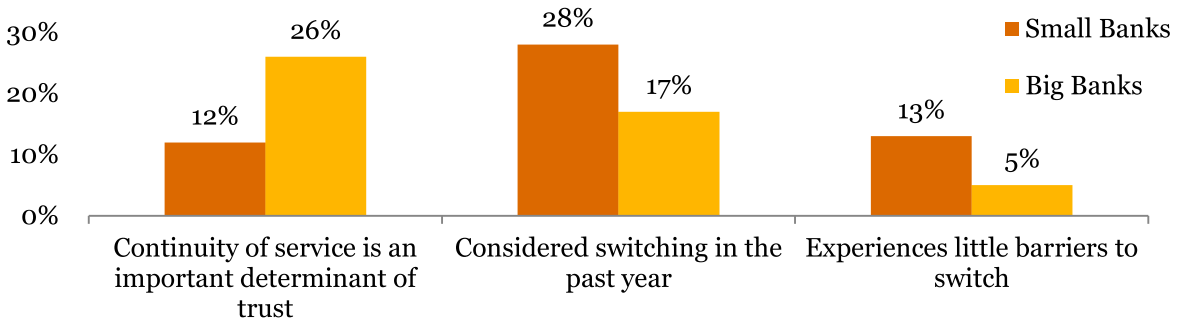
Customers' likelihood to switch in the next six months (2012)



Parameters inhibiting switching behaviour (2013)



Differences between customers with accounts at big and small banks



Source: CapGemini, 2013; Roland Berger, 2013; KPMG, 2013

Commentary

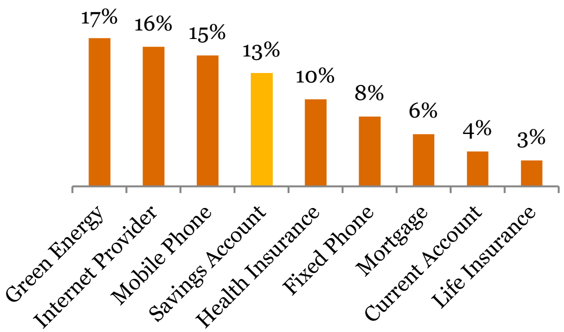
- Dutch customers are loyal to their banks and perceive little differences between banks. There is a high degree of customer inertia.
- Competition between the big banks, as noted by the ACM's recent study, has decreased post-crisis and it is not clear that the big banks are aggressively targeting customer growth. This might also be the result of state aid requirements (ABN, SNS and ING), who are not allowed to be market leaders on price.
- As a consequence there may be less incentive (financial or service offering) for customers to switch to a rival bank.
- Customers that consider continuity of service an important determinant of trust in banks tend to have an account with a big bank. This indicates that consumers that choose big banks believe that these are safer than smaller banks.
- Customers with accounts at smaller banks are more likely to consider switching than customers who are banking with big banks.
- Both the ACM and AFM have indicated that there are low barriers to switching in the Netherlands and that new accounts are simple and quick to open. However, the ACM is concerned about the "sleepers" group of customers who exhibit inertia, are missing out from financial gain s if they were more active.

Switching behaviour

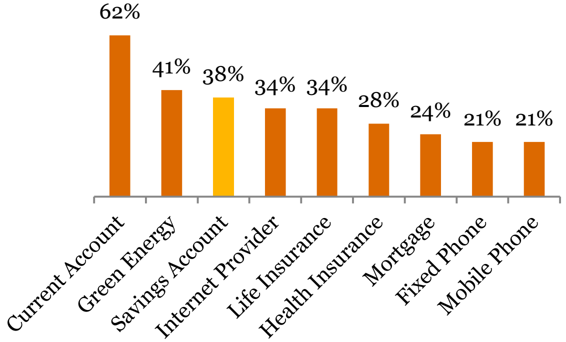
Customers have a clear preference for using their current provider and some perceive that there are limited benefits in switching.

% of users that… (2002)

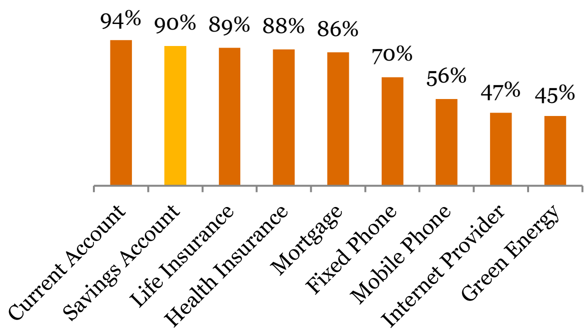
…are potential switchers



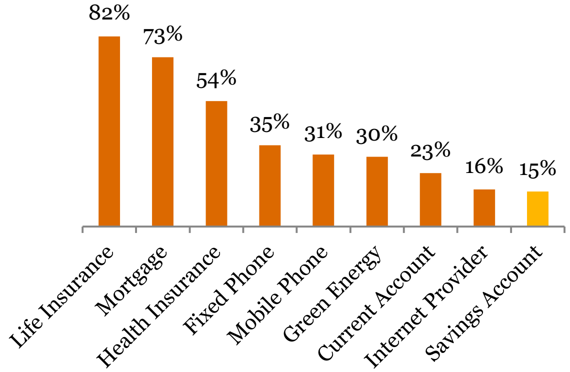
…do not expect savings after switching



…has a preference for its current provider



…do not find switching easy



Commentary

- Generally, Dutch consumers do not often switch between service providers. This behaviour was the same, prior to the financial crisis. Although there is some switching behaviour in savings accounts, Dutch consumers rarely switch current accounts. The idea that Dutch consumers do not often switch between savings accounts is strengthened by the lack of switching between current accounts, as Dutch consumers typically prefer their current and savings account to be with the same provider.
- Although switching savings accounts is perceived as being easy in general, most consumers have a preference for their current provider , particularly when they have both savings as well as a current accounts with this provider.
- According to the CPB (Dutch research institute focused on economic policy analysis), consumer switching in the banking market involves direct costs (search costs and costs associated with closing an account with one bank and opening it with another bank) and los of any loyalty benefits.

Source: CPB, 2002; ACM, 2013

Firm behaviour in cash savings

Banks have changed their customer acquisition and balance sheet strategy in recent years. These changes could be partially driven by state aid requirements.

Key aspects of firm behaviour in cash savings

Product pricing

Savings accounts in the Netherlands can be normally opened free of charge. However, big banks such as ABN, Rabobank and ING generally require the user has to have a current account with the same bank. This account is subject to an annual fee, varying from €0 to €240.

Teaser rates have been dropped due to the intervention of the AFM.

Consumers are still rewarded for certain behaviour through bonus rates – for example, savers rewarded for making regular deposits.

Customer acquisition

After the crisis, banks increasingly focused their advertising campaigns on simplicity. Examples are ING's Back-to-Basics programme and Rabobank's focus on doing things together with the client.

ABN AMRO focused its customer acquisition via the 'Anno Nu' campaign, signalling to customers that it is the bank for customers that are looking for concrete solutions and a customer need focused approach.

Internet savings banks focus their customer acquisition strategies on high interest rates and simple products.

Some large banks (e.g. ABN AMRO and ING) use a separately branded savings account. This enables them to enable to offer higher rates separately in order to attract interest rate sensitive customers.

Balance sheet strategy

ING introduced the 'Back-to-Basics' programme in 2009, partly driven by state aid requirements. One of its goals was to reduce the size of the bank's balance sheet. The program resulted in a 14.7% reduction in balance sheet size over 2009. Currently, the bank's strategy is to grow the balance sheet by approximately 3% per year, primarily funded through customer deposits.

ABN AMRO is focusing on increasing its balance sheet strength by increasing the share of asset based finance, lowering the loan-to-deposit ratio and reducing dependence on wholesale funding markets. Customer deposits play a key role in this strategy.

Rabobank has a relatively defensive balance sheet and cautious strategy – this strategy has not been altered recently.

Several banks have closed branches lately. These closures are not necessarily linked to balance sheet size, focusing instead on cost cutting and shifting focus online.

Cross-selling/bundling

Savings accounts with big banks are generally linked to a current account with the same bank. Smaller (internet) banks offer 'savings accounts only' services. Approximately 75% of savers have their savings account with the bank where they also have their current account.

In practice, consumers are able to have a separate , zero charge, savings account with a smaller bank if they hold their current account with one of the big banks. They cannot hold a savings account free of charge with another big bank. The AFM indicated that they do not perceive bundling as an issue as it is not perceived as a switching barrier.

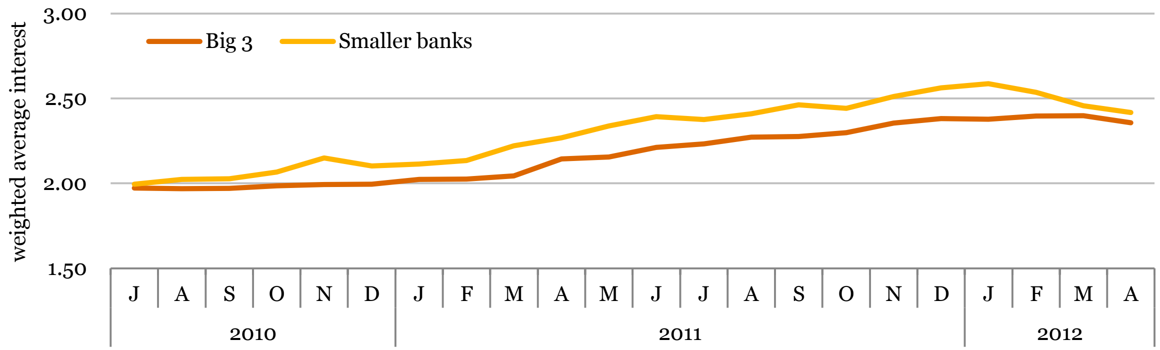
The Modern Savings Policy guidelines (see pages 92-94) indicate that obliging customers to have a current account with their savings account at the same bank is 'not of this day and age'.

Source: Annual reports ING, Rabobank and ABN Amro (2008-2013); Company websites,2014; BankingReview 2013; ACM, 2014; AFM 2011, 2014

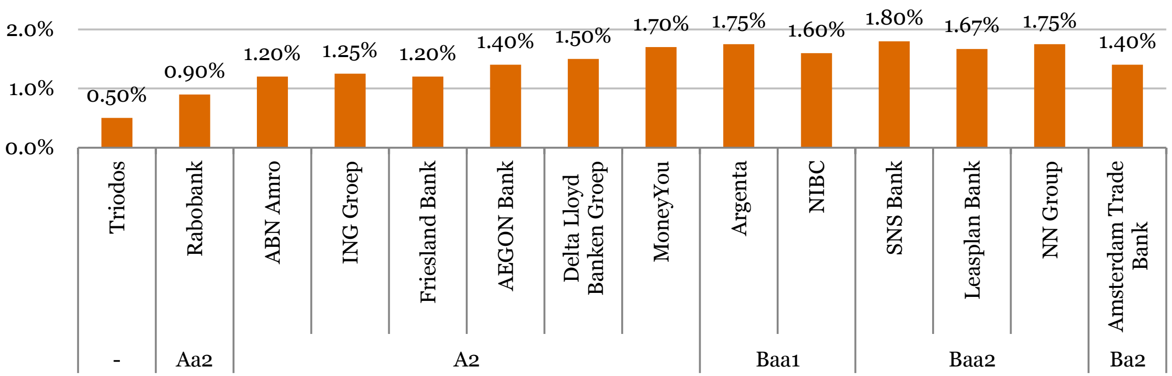
Cash savings pricing

Smaller firms typically offer higher interest rates than larger providers.

Interest rate for notice savings



Bank ratings and interest offered on savings accounts (2014)



Commentary

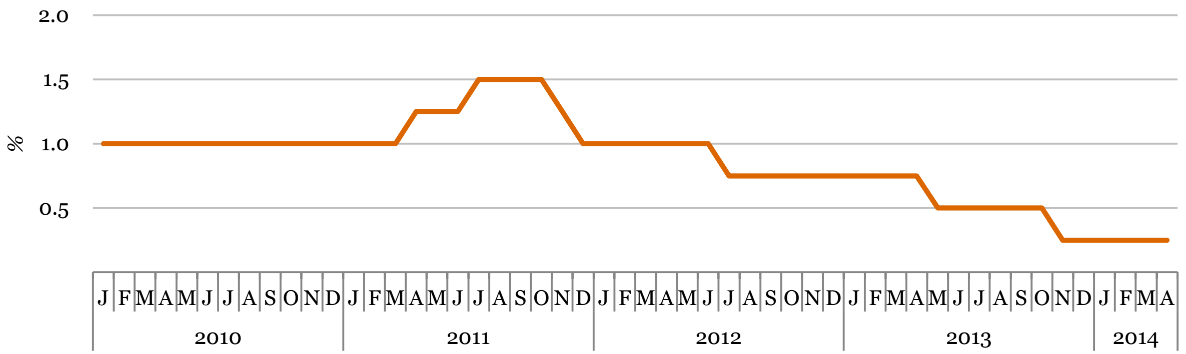
- There are differences in interest rates offered by small and big banks active in the Dutch savings market.
- In 2011, smaller banks offered on average 15 basis points more interest on savings products than the three biggest providers. The difference decreased to 5 basis points in 2012.
- A possible explanation for the difference in savings rates between big and smaller banks is that it is relatively more costly to offer a high rate for big banks.
- Another explanation is that smaller banks generally have a lower credit rating, which makes it more expensive for them to borrow money from capital markets. Banks that have an A-status offer lower rates than banks with a B-status. This is because low rated banks have a higher incentive to raise funds from retail deposit activities.
- The exceptions here are MoneyYou (subsidiary of ABN AMRO) and Amsterdam Trade Bank.
- The increased competitiveness of interest rates between big and small banks in 2012 might also be caused by the AFM requirement that differences in savings rates need to be explained by cost differences.

Source: Goes, in ESB, 2012; Spaarrente.nl, 2014

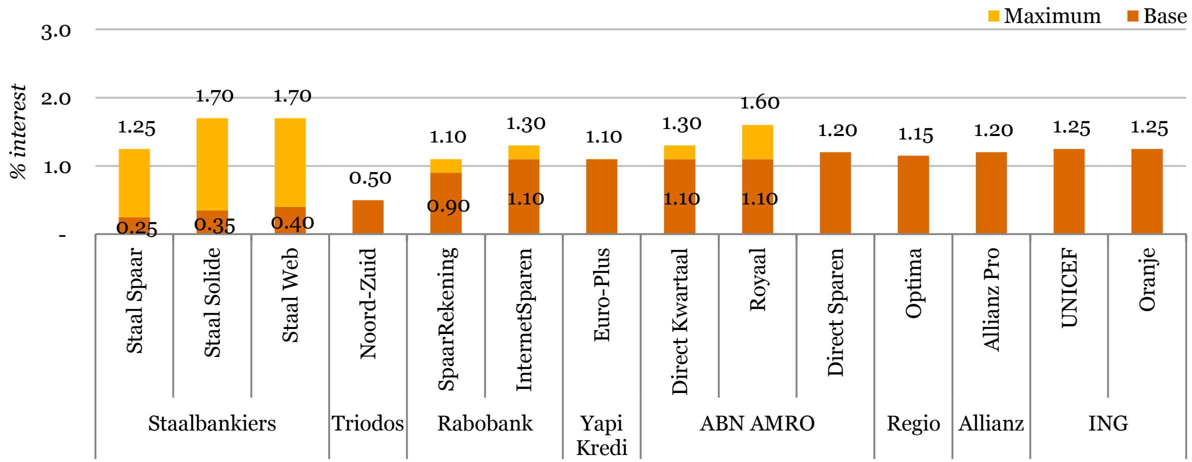
Cash savings pricing

Currently, banks do not offer savings interest rates lower than the ECB base rate.

ECB base rate



Lowest interest offered on savings accounts (April 2014)



Commentary

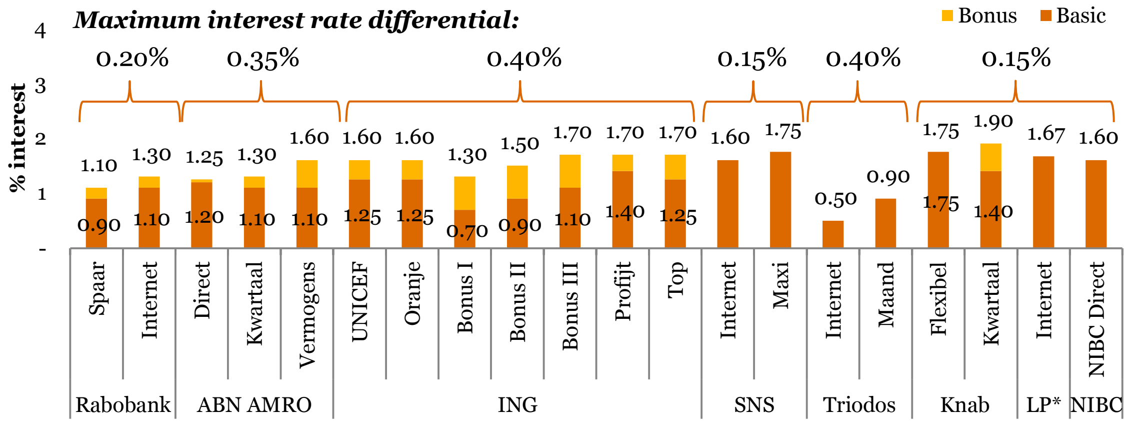
- Currently, the ECB base rate is at 0.25%. There is only one bank that offers an interest rate that is as low as the ECB rate (Staalbankiers) and there are no banks that offer savings rates lower than the ECB rate.
- Staalbankiers is a bank that is focused on wealthy individuals, directors and major shareholders and foundations and associations. The bank offers a very low interest rate on savings below a certain amount (varying from €50,000 to €250,000 depending on the type of savings account) and significantly increases this interest rate once the investment exceeds this threshold.
- The low interest rate at Staalbankiers for low balances is to encourage higher balances from high net worth individuals who also benefit from a private banking level of service.

Source: Bankenoverzicht.nl, 2014; ECB 2014

Interest rate differentials

Interest rate differentials are increasingly publicly explained by banks.

Interest rate differential between savings accounts (April 2014)



Interest rates explained…

Rabobank

- Savings level of saver
- Flexibility/ Terms
- Usage & complementary services

ING

- Flexibility/ Terms
- Interest rates in the market
- Saving behaviour of client base
- Money/Capital market interest

Commentary

- Rabobank defines three criteria that influence the interest rate differences between accounts. Firstly, account holders with higher balances obtain higher interest rates. Secondly, the terms surrounding the savings account and the inherent flexibility of the account holder are also important; higher flexibility for the account holder results in a lower interest rate. Finally, customers that use an online account and do not use services such as account statements obtain a higher interest rate.
- ING also identifies the terms of the account as a driver of interest rate differences. In addition, it identifies three reasons that generally influence the interest rate.
- A comparison of a selection of banks** shows that the interest rate differential varies between 0% with banks such as LeasePlan and NIBC who only offer one type of account, and 0.40% with ING and Triodos. ING's relatively large differential is due to its Bonus saving's accounts, where interest rates are dependent on the size of the deposit. Triodos offers a relatively high interest rate on its 'Maand' account to qualifying customers who make regular monthly deposits.
- Interest rate differentials can be explained by differences in the level of deposits, whether or not a deposit has to be made periodically, bonus interest when a certain savings criteria is met over the year, accompanying service levels and flexibility.

** LP stands for LeasePlan Bank*

*** Compared accounts are all savings accounts for adults, with variable interest rates. Savings can be withdrawn freely.*

Source: Corporate websites

Firm behaviour

To remain competitive larger institutions have created alternative brands offering higher rates to compete more directly with the smaller providers.

Private labels by large banks/ insurance providers

ABN·AMRO / moneyou

- MoneYou is an independent subsidiary of ABN AMRO and launched in 2001.
- MoneYou acts as a provider of mortgage credit, savings accounts and consumer credit.
- Although the internet bank offers a limited set of savings products, it was quickly able to gain a reasonable market share by combining transparency with attractive interest rates.
- MoneYou rates are higher than ABN AMRO saving rates.

ING / nationale nederlanden

- ING successfully offered savings products with attractive (higher) rates through Westland Bank Utrecht up until 2013, at which point Westland Bank merged with insurer Nationale Nederlanden.
- Nationale Nederlanden continued to offer higher interest rates after this merger.
- The merger was the result of ING's negotiations with the ECB regarding the restructuring of its activities after receiving state aid.
- Nationale Nederlanden is planned to be sold via an IPO in 2014.

AEGON / knab

- Knab is the subsidiary of Aegon Bank (part of the large Dutch insurer Aegon) and entered the savings market in 2012.
- Knab is an all-in-one online bank. Customers have to open a current account in order to be able to save with Knab.
- The bank markets itself as honest, transparent and technology driven.
- Knab has been unable to gain significant market share.
- A possible reason is that consumers have to pay a relatively high fee of €15 per month for a complete package (compared to less than €5 with other banks).

Commentary

- While larger providers typically offer lower interest rates than smaller providers, they do compete with smaller banks within the 'small bank arena'. They do so via both independent as well as dependent subsidiary companies ('private labels').
- In contrast to MoneYou and Nationale Nederlanden, Knab has not been a success in the Dutch banking market to date. Interestingly, anecdotal evidence from ACM research indicates that combining current accounts with a savings account should bring in more customers than merely relying on offering savings accounts. However, the combination of current and savings accounts has not resulted in a significant client base for Knab.
- The ACM considers that larger banks are able to target switchers through separate subsidiaries such as MoneYou and non-switchers through their main brands.

Source: Annual reports

General policy and regulatory context

Changes to taxation on savings, mortgages and pensions have heavily influenced customers' use of cash savings.

Taxes on savings	**Taxes on total capital** • In the Netherlands, everyone has to pay 1.2% tax over individual capital above €21,139 (per person). The tax rate of 1.2% was derived on a capital tax of 30% on capital above the threshold number, assuming that consumers were able to get a return of 4% on savings. **Tax-free savings on salary ("Levensloopregeling")** • Until 2012, employees could opt-in to this salary savings scheme that allowed them to save part of their annual gross income (up to 12%) tax-free. With these savings, employees were supposed to finance a period of unpaid leave, which they could take during or at the end of their career. However, this savings scheme was abolished from 1 January 2012. In our interviews, it was mentioned that the capital tax and removal of tax-free savings, combined with inflation and low savings rates of 1.3 – 1.8%, might have driven people into putting more money into housing related savings products and pensions which are exempted from the capital tax.
Mortgage regulation	**Tax deductibility of mortgage interest payments** • Until 2013, Dutch home owners were allowed to deduct total mortgage interest payments from income tax (which is up to 52%). Because of the deductibility, there was little incentive to amortise mortgages as doing so would reduce the deductible interest amount. Hence, interest-only mortgages were very popular. This popularity was driven further by the combined offer of interest-only mortgages with a tax-free mortgage savings account, the so-called savings mortgage ("spaarhypotheek"). As a consequence, both household debt levels as well as the loan-to-deposit rates are very high in the Netherlands as compared to other European countries. • On 1 April 2013, the Dutch government adapted new rules for the mortgage interest tax deductibility in order to encourage homeowners to pay off their mortgages and reduce household debt. Under the new rules, the savings mortgage is not available for new mortgages and interest payments on new mortgages can only be deducted from income tax if the mortgage is fully amortised from the beginning and within 30 years. Due to these changes as well as the decline in the Dutch housing market, consumers are increasingly repaying mortgage debt.
Pension regulation	**Tax-free savings on pensions** • There is only a small national pension system (AOW). The main pension contributions are made via the employer, who deducts personal pension contributions from staff members' gross salary and invests the amount, plus the employer's pension contribution, into a pension plan with a private insurance company. This might explain why total deposits per capita are higher in the Netherlands than in other European countries. • The pension age will increase from 65 to 66 in 2019 and 67 in 2023. With this change, the pension contributions decrease as less savings are needed to reach a pension of 70% of the last earned salary with more years of employments. As of 1 January 2015, regulated pension contributions will decrease further, leading to lower pension contributions by the employee and the employer. The decrease in pension contributions may lead to an increase in personal pension savings in the Netherlands.

Source: Belastingdienst, 2014; Rijksoverheid 2014; ACM, 2014; AFM, 2014

Regulatory developments

There have been recent regulatory developments in the cash savings market from both the conduct authority (AFM) and the competition authority (ACM).

Dutch Regulatory bodies

De Nederlandsche Bank

De Nederlandsche Bank
"prudential regulator"

- Ensures financial stability
- Implements monetary policy
- Supervises investment funds and the solvency of banks

AFM

Authority Financial Markets
"conduct authority"

Ensuring orderly and transparent market processes, relationships between market participants and careful handling of customers of financial undertakings.

Authority for Consumers & Markets

Competition Authority
"markets regulator"

Independent competition authority which has powers when there is a cartel, merger, or abuse of dominance in a market. Otherwise it can provide recommendations to Government .

Recent Developments

AFM

- **Creation of the 'Modern Savings Policy'** in response to the practice of offering teaser rates. The policy has formed an agreement between banks and the AFM. The latter carries out checks to see whether or not banks abide by the agreement. The policy has not led to new legislation.
- **Altering regulations surrounding background checks** making it possible for financial institutions to accept new customers based on background checks from other banks.

ACM

- The ACM can provide recommendations regarding the savings market.
- The ACM has recently conducted a market study on entry barriers in the retail savings market (published June 2014). This study **made policy recommendations to the Ministry of Finance regarding savings.**

Commentary

- The Netherlands has three regulatory bodies with distinct roles.
- Recently, the AFM has intervened in the savings market to ensure the careful handling of consumers with the Modern Savings Policy and to increase competition by altering regulations surrounding background checks.
- The intervention in the cash savings market relating to teaser rates was considered carefully by the AFM as teaser rates can be beneficial to some customers while they can be detrimental to less vigilant customers.
- The AFM concluded that the use of teaser rates abuses consumer trust and thus does not, in overall terms, prioritise customers.
- In June 2014,the ACM, as part of a wider study into barriers to entry in the Dutch retail banking market, made recommendations to the Minister of Finance. These included recommendations directly related to cash savings, but also others which are indirectly linked. On the following slide we focus on the two recommendations that were of high relevance to cash savings.

Barriers to entry in Dutch retail banking

A recent report by the ACM in the Netherlands identified possible barriers to entry in the Dutch retail banking market, and set out policy recommendations intended to reduce them.

Savings market recommendation	**Recommendation to the Dutch Minister of Finance – to provide banks with maximum latitude in informing consumers in a factual manner about the deposit guarantee scheme for savings.** The ACM's research found there to be a high degree of consumer inertia in the savings market. The ACM's research suggested that half of all consumers had never switched the bank with whom they hold their savings. This is despite smaller banks offering rates that are higher than those of larger banks. One factor that was leading to this inertia was consumers considering security an important feature when choosing a bank, combined with unfamiliarity surrounding the deposit guarantee scheme (DGS). This is resulting in Dutch consumers mistakenly assuming that their money may be unsafe with a new provider (e.g. a smaller, newer entrant). The ACM concluded that this may be a barrier to entry in the retail banking market. As the ACM considers that the existing legislation governing how banks can inform potential customers about the DGS is unclear, they recommend that the Minister of Finance offers maximum latitude, as well as clarity to banks on how they can appropriately inform consumers of the DGS. The ACM also note that this is complementary to the new European Bank Recovery and Resolution Directive (BRRD), part of which is focused on standardising and improving deposit guarantee schemes in Europe, with some focus on ensuring consumers are better informed about DGS. The BRRD states that references to deposit guarantee schemes in advertising should be limited to short factual entries.
Current account market recommendation	**Recommendation to the Dutch Minister of Finance - to investigate how the effectiveness of the current account switching service can be increased, and also to increase its publicity.** Another recommendation relating to the cash savings market is also focused on consumer inertia. The ACM's research (performed by GfK) finds that 73% of paying account holders over 18 have never moved provider, indicating that consumers inertia is present in both savings markets and current account markets. The ACM say that despite the switching service being available, switching rates are still low. Furthermore, inertia in the current account market is likely to impact the savings market, as the ACM note that current accounts can be a portal to other products such as savings.
Other recommendations with indirect links to cash savings	• The ACM recommended that at the **national and European level laws and regulations are simplified**. Complex regulations have raised internal compliance costs and have also led to increases in financial contributions to support the running costs of supervisors such as the DNB and AFM. The ACM believes this creates a further barrier to entry. They find that in practice complex laws and regulations are relatively more costly for (smaller) new entrants. • The ACM also recommend that the **system for obtaining a bank license is reviewed**. Their research found that market participants identified three issues regarding licensing: (i) length of the process (ii) uncertainty regarding the licensing process (iii) the unforthcoming attitude of the DNB. As new entrants must obtain a license from the DNB, they saw these problems as another barrier to entry.

Source: ACM (2014), Barriers to entry into the Dutch retail banking sector

Summary of regulatory requirements (1/3)

There are regulatory requirements on advertising/information standards and on difference in interest rates between products for savings products.

Cash savings feature	Requirements overview	Responsible authority
General requirements	• The information that a financial institute provides to consumers, including advertisements, is: • **Correct** – Information is intrinsically correct. – The customers gets what he/she is told . – Information does not contain inconsistencies. • **Clear and not misleading** – Information provides basic understanding of relevant product features – Information does not mislead customers. • **Easily retrievable** – Information notices are well structured and content is presented in a logical manner. – All relevant features of a product are retrievable within the informing documents about the product. – Related subjects are presented together. • **Balanced** – Includes relevant advantages as well as disadvantages. – Describes the (restrictive) conditions of product characteristics in an information carrier.	• Monitored by the AFM.

Source: AFM, 2012;

Summary of regulatory requirements (2/3)

There are specific disclosure requirements which firms must adhere to prior to providing a consumer with a savings account.

Cash savings feature	Requirements overview	Responsible authority
Product pricing and disclosure of interest rates	• The financial institution has to provide the consumer with the relevant product characteristics before the consumer enters into an agreement: • **Interest rate** – The amount of interest paid out in different situations. – Type of interest (fixed vs. variable). – Interest rate period. • **Costs** – Withdrawal fee. – Costs for premature termination. • **Risks** – (Any) currency risks. • **Restrictive conditions** – Mandatory and/ or maximum periodic investment. – Minimum savings. – Restrictions on spending targets. – Restrictions on withdrawal of deposits. • **Deposit guarantee scheme (DGS)** – Mention that savings above €100,000 (£82,000) do not fall under DGS. – Mention the functioning and conditions of foreign DGS policies if a product is offered by an institution that is affiliated with a foreign DGS. – Mention that funds from different trade names falling under the same financial institution are added for DGS purposes. • **Non market conform characteristics,** for example: – Withdrawal costs with a variable interest rate savings account. – High minimum deposit.	• Monitored by the AFM.

Source: AFM, 2014

Summary of regulatory requirements (3/3)

There is limited regulation on disclosure of interest rate changes and on cross selling/bundling. The value of deposits protected under the Deposit Guarantee Scheme has recently increased.

Cash savings feature	Requirements overview	Responsible authority
Disclosure of features which influence switching	• There is no strict rule regarding the communication of any lowering of interest rates for instant access accounts as money can be transferred without cost 24/7 and usually within 48 hours. AFM does not receive complaints regarding this issue. • The modern savings policy directive requires open communication of interest rate changes to all customers (both existing as well as new customers). In response to this requirements, several banks have started emailing their customers their current interest rates periodically.	• Monitored by the AFM.
Cross-selling/bundling products	• Bundling and cross-selling is not a regulatory issue in the Netherlands. • The AFM states that they are concerned with removing barriers for transfer. If consumers want to have a variety of products with the same provider they are free to do so.	• N/A
Deposit Guarantee Scheme (DGS)	• Individuals and small businesses can make use of the DGS. • Almost all checking and savings accounts, current account and term deposits are covered by the deposit guarantee scheme. Equity investments do not fall under the DGS and bonds are generally not covered. • The DGS guarantees an amount of €100,000 (£82,000) per account holder per bank (increased from €20,000 (£16,400) at the end of 2008), regardless of the number of accounts the account holder holds at this bank. • Different rules apply to banks from other EU countries, Norway, Iceland and Liechtenstein. • On the basis of European legislation and the Dutch Law on Financial Supervision (Wft) banks have to inform existing and potential depositors which DGS is applicable to them. At the same time, under article 3:264 of the Wft, banks are not allowed to use the DGS for advertising purposes (but this is being reviewed following the recommendations of the ACM regarding advertising of the DGS). The DNB supervises Dutch banks in this respect and can take corrective action.	• In an interview, the AFM indicated that it is feared that the increase in the DGS could lead to moral hazard as savers could become less cautious about where they invest.

Source: AFM, 2014; Maxius, 2014; DNB, 2014

Modern Savings Policy

The Modern Savings Policy is a market conduct intervention which targets teaser rates, the number of accounts offered, price differences and disclosure.

Agreement based on four pillars (2010)

Modern Savings Policy

Ending of the practice of offering **teaser rates**

Limited the number of savings accounts available to customers

Limited price differences between products – differences understandable to AFM

Improved communication of interest rate changes and maturity of long term deposits

AFM checks compliance with the policy by monitoring :
- IV (Integral Change)
- Client Interest Dashboard

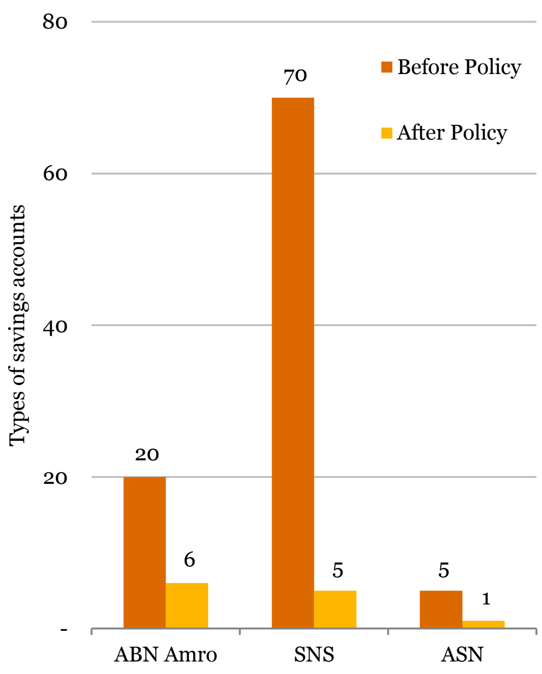
Commentary

- With the modern savings policy, the AFM has tried to change the way in which banks interact with customers. By looking out for the interests of less vigilant, trusting clients the overall transparency and trustworthiness of the sector should increase.
- AFM checks compliance in two ways:
  - **Integral Change** – is focused on the changes that the business is going through in order to become an organisation that gives highest priority to customer interest. The AFM looks at the organisation's change plan, (pace of) changes made and the management of the organisation and its employees.
  - **Client Interest Dashboard** – gives organisations a score from 1 to 5 for each of the identified pillars of the modern savings policy. The average results are available to the public. This is conducted annually.

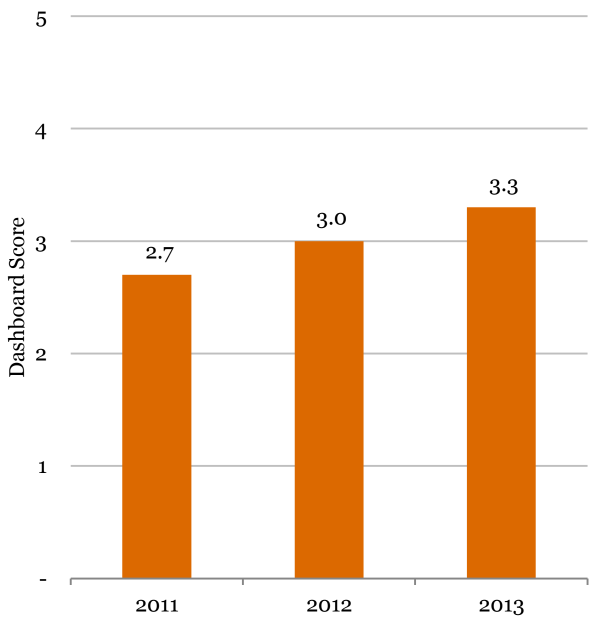
Impact and costs of the Modern Savings Policy

The number of accounts offered has dramatically declined following the Modern Savings Policy. Customer outcomes have improved, but could improve further.

Types of savings accounts



AFM average Dashboard scores



Commentary

- After the AFM and banks reached an agreement in 2010 on the Modern Savings Policy, banks moved to simplify the types of savings accounts they offered. For example, ABN Amro reduced the overall number of savings accounts from 20 to 6 while SNS dropped 65 types of savings accounts.
- While the AFM does not impose a fixed number of products they do assess the element and conditions of each savings product on offer on an annual basis. High numbers of products before the policy were driven in part by accounts have very similar elements, but with the newer offerings having teaser rates attached.
- The Client Interest Dashboard also shows an improvement in the behaviour of banks. The average score of the ten biggest banks increased from 2.7 to 3.3 in two years.
- According to the AFM, consumers in general do not recognise the changes made via the policy as, for the individual consumer, the changes do not have huge impact. Although the new policy is a drawback for vigilant consumers who used teaser rates to their advantage, the AFM is satisfied with the policy as it improves outcomes for loyal customers.

Source: AFM, 2014; Spaarrente.nl, 2010

Enforcement of the Modern Savings Policy

The AFM gives banks a Customer Interest Score in order to assess their overall customer centricity to enforce the Modern Savings Policy.

A Good bank (score of 5)…	*A Bad bank (score of 1)…*
In general	
"Client interest central" principle is consciously factored in and put into practice.	"Client interest central" principle insufficiently present; cause for concern.
Teaser rate & price differences	
The bank has pledged to not use teaser rates. The bandwidth between the highest and lowest interest rate is easy to explain and the bank also provides this explanation to the public. Interest rate decisions are being recorded and are verifiable for the supervisor.	The bank has not pledged to refrain from using teaser rates. Interest rate decisions are not being recorded and are not verifiable for the supervisor.
Variety of offerings	
The bank's offering is aimed towards clearly distinguished client needs and does not contain any unnecessary savings products. New products serve a new client need or substitute an 'older version'. The bank's website is easily accessible and offers quick and clear insights into the bank's offering. There are tools that help customers make a choice. The client is allowed to hold the current at another bank.	The bank's offering does not seem to be aimed towards clearly distinguished client needs and does contain unnecessary savings products. Not all new products serve a new client need or substitute an 'older version'. The bank's website offers mediocre insight into the bank's offering. There are no tools that help customers make a choice. The current account has to be held at the same bank.
Communication	
Very active; clients have the possibility to opt for being approached via e-mail, text message, letter or telephone. In case of interest rate changes, this communication provides both the new interest rates as well as the mutation. The client is proactively informed with regards to freely available savings deposits and has the possibility to receive client alerts regarding possible bonuses, etc. When term deposits come to an end, the clients is informed timely (and multiple times when necessary) via e-mail, SMS or phone.	Very passive; clients are being informed of interest rate changes via national newspapers or somewhere on the website. When term deposits come to an end, clients are not informed in a timely manner. If the client does not respond the term deposit is automatically extended with the same term.

Source: AFM, 2012

The USA – Market and regulatory review

6

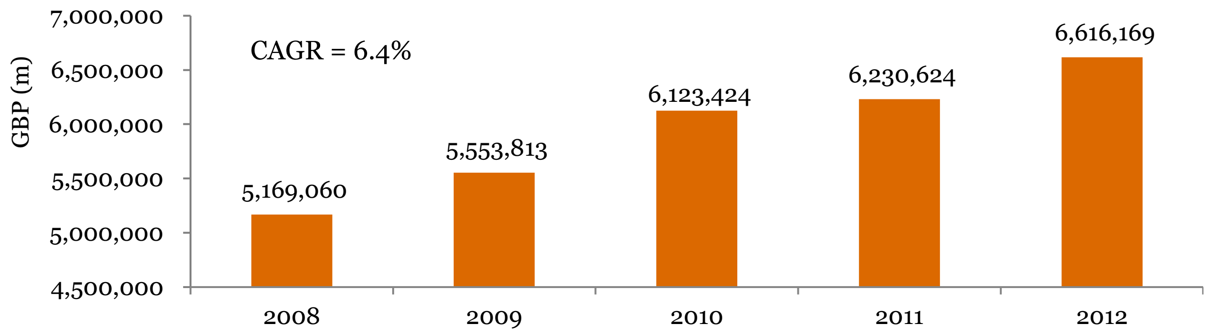
Overview of the USA section

Market structure	• Total bank deposits in the US are growing in a fragmented market. The fragmented structure of the cash savings market can be attributed to the regional nature of the US market. • No provider has a large market share at the national level (but local/regional markets are more concentrated). • There are examples of innovative new entrants in the US offering predominantly current account based propositions. However, their impact on market share has been limited to date.
Customer behaviour	• US customers typically build wealth through alternative investment products to cash savings and a large proportion of consumers do not save at all. • Age and income band segmentation provide limited insight into customer behaviour relating to savings accounts. • Most customers perceive their current account provider as their primary financial institution. This relationship drives their choice of other products, including cash savings. • The majority of customers in the USA still open savings accounts face to face in a branch and new account opening levels are lower than other countries but have increased since the global financial crisis.
Firm behaviour	• Cash savings are typically offered by US banks as an additional product to current account customers. • There is an emerging trend of larger banks reducing their branches and of web aggregators starting to gain popularity. • Web aggregators are most prominent in the investment product market. In the future customers could use such sites for all their financial affairs including cash savings.
Regulatory context	• Financial services regulation is focussed on merger control, with consumer issues on the rise at the CFPB. • In the US, disclosure and advertising requirements are stipulated in Regulation DD: Truth in Savings.

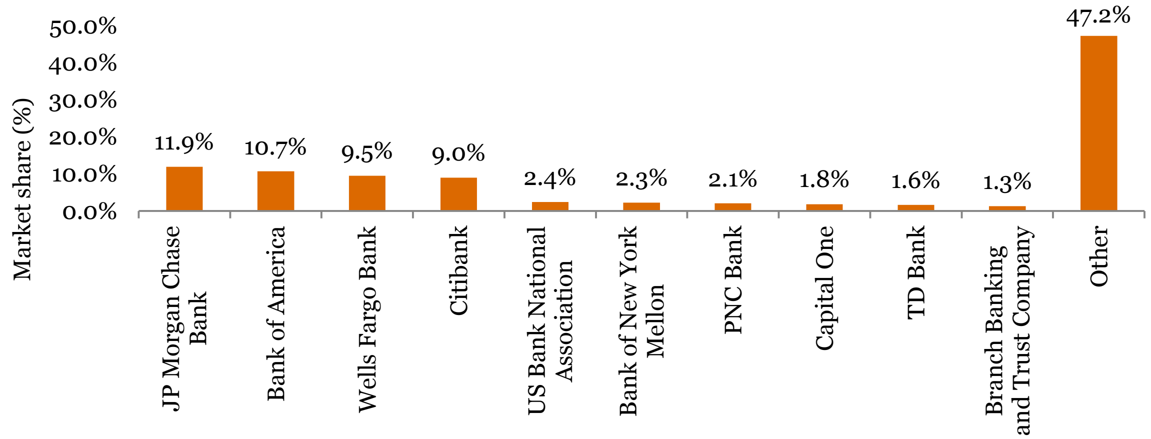
Market size

Total bank deposits in the US are growing in a fragmented market.

Total deposits (GBP, m)



Deposits market share in 2012 (%)



Commentary

- Total deposits in US financial institutions have been growing over the period 2008-2012.*
- The distribution of these deposits is also very widespread. The largest 10 providers by total deposits only have around 50% of all deposits, and even the 10th largest provider had only a little over 1%. The remainder of deposits is spread over a very large number of institutions.
- This is linked to the local nature of banking the US. Consumers have a strong preference for a local bank with convenient branch and ATM locations.

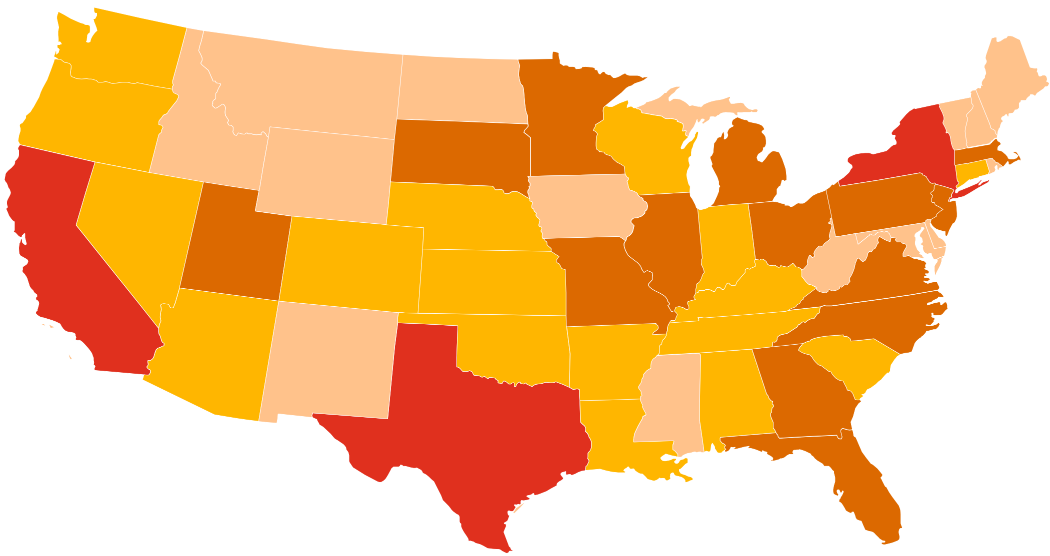
** Types of bank included are Commercial Banks, Co-operative Banks, Savings Banks and Building Societies/Real Estate & Mortgage Banks. Country deposits are determined by the deposits (retail, SME and wholesale) held in country specific institutions and subsidiaries of international banks based in each jurisdiction*

Source: Bankscope, 2014

Market size

The fragmented structure of the cash savings market can be attributed to the regional nature of the US market.

Federally Insured Deposit Size by State (2013)



Insured cash deposits greater than $500 billion

Insured cash deposits between $50 billion and $149 billion

Insured cash deposits between $150 billion and $499 billion

Insured cash deposits less than $50 billion

Commentary

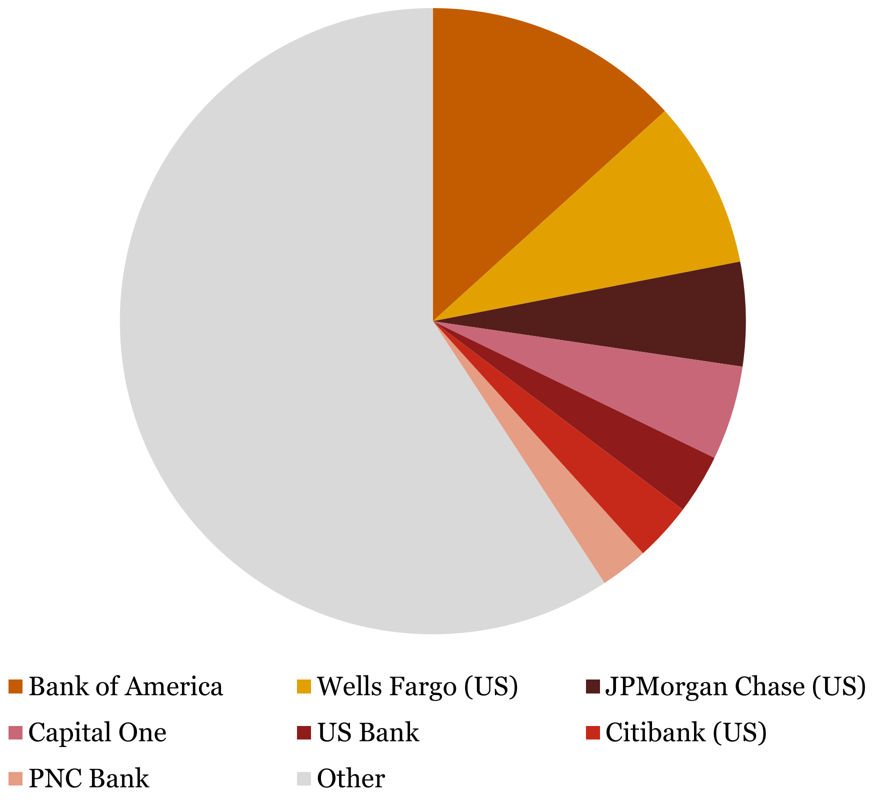
- Although there is a Federal restriction that prohibits a bank from obtaining more than 30% of the deposits in a single state (by acquiring other non-failed banks). Some states are far larger markets than others.
- Texas, California and New York have insured cash deposits of over $500 billion. Other smaller states such as Montana or New Mexico that have only $50 billion or less in insured deposits may have a different dynamic to the largest state markets.
- All bank mergers are reviewed by the Antitrust division of the DoJ as the appropriate US banking regulatory agency. DoJ's initial screening for merger approval reviews the post-merger Herfindahl-Hirschman Index (HHI) score of deposits within geographically defined local banking markets.

Source: FDIC, 2013

Market structure

No single provider has a large market share at a nationwide level.

Share of cash savings customers (2013)



Commentary

- According to the FDIC, there are 7,932 FDIC-insured commercial banks and savings institutions in the US as of March 2010. These included 6,772 commercial banks and 1,160 savings institutions.
- Customers therefore have significant choice of savings provider (although many will have highly localised branch networks).
- In the US a significant number of providers only serve distinct segments (e.g. US Military Veterans).

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New entrants

There are examples of innovative new entrants in the US offering predominantly current account based propositions. However their impact on market share has been limited.

Examples of digital new entrants

ally BANK

Ally Bank was created in 2008, carved out as a separate bank holding company from Ally Financial, an automotive financing company linked to General Motors. Ally Bank operates as a direct bank offering FDIC insured savings products such as certificates of deposits, online savings accounts money market accounts and current accounts.

Ally Bank has won numerous awards including Money magazine's "Best Savings Account" and "Best Online Bank", the latter for 3 years consecutively. Ally Bank now has c. 800,000 customers and claims to have a customer satisfaction score of over 90%.

The Canadian part of Ally Bank was bought in 2013 by RBC for c. $3.5 billion. However, the bank still operates independently in the US under the Ally Bank brand.

SIMPLE

Simple was founded in 2009, providing a web and mobile interface for basic banking products provided by a back end FDIC insured banking partner.

Simple describes itself as a "worry free alternative to traditional banking" which is best characterised by its use of informal, jargon free language in its marketing and customer correspondence. Its proposition includes current and savings accounts for which it does not charge customers a fee to use. Simple has award winning online and mobile tools including a personal financial management tool. Additionally, Simple has announced a collaboration with Dropbox, a file hosting service that offers cloud storage, file synchronization, and client software.

Simple was acquired by BBVA for $117 million in February 2014.

GObank

GoBank launched in 2013 as a branchless bank account service targeting the smart phone users. The service is FDIC insured and owned by prepaid card provider Green Dot.

At present GoBank's proposition is heavily focused on a current account provision and includes features such as:

- The functionality to send money from a customers bank a account using emails, mobile phone texts and Facebook notifications.
- The ability to customise debit cards using photographs taken from Facebook .

For savings GoBank provides a "Budget and Fortune Teller" tool to help customers understand their finances. However, the functionality of this tool is limited as it is not linked directly to users' accounts.

Commentary

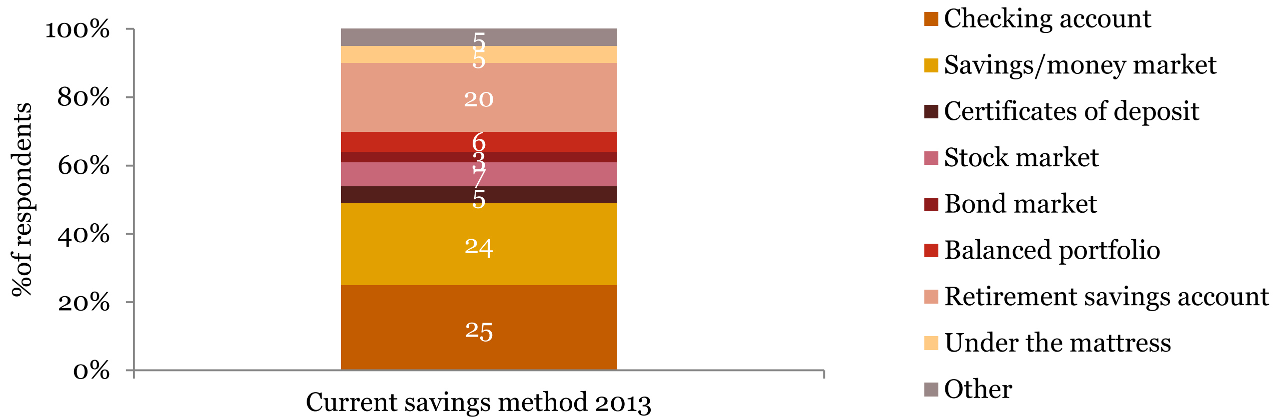
- Most new entrants in cash savings and retail banking in the US are focused around direct, digital propositions. These providers include both completely new entrants (e.g. Simple) and subsidiaries of existing providers (e.g. Ally Bank).
- To date, cash savings market shares of new entrants have not been significant. However, a number of significant acquisitions by incumbent banks suggest that these new providers are challenging traditional propositions and business models. This means market shares may not be moving significantly, but customers are benefitting from innovations as new entrants' propositions are incorporated into incumbents' business models.
- A significant challenge for new entrants who do not have access to a branch network is that US customers still predominantly open new accounts face to face in a branch.

Source: Company websites

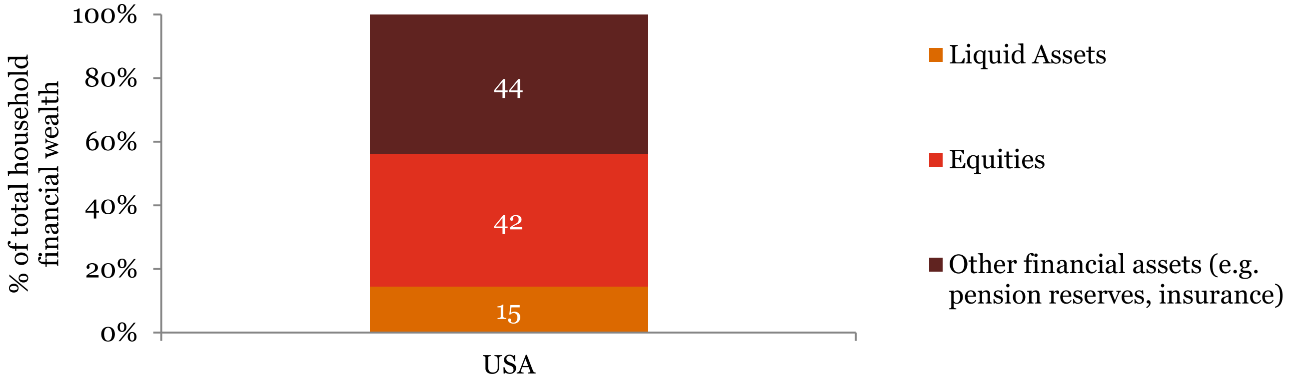
Customer savings product choice

US customers typically build wealth through alternative products to cash savings.

Customers' current savings method survey (2013)



Composition of gross household wealth in the US (2013)



Commentary

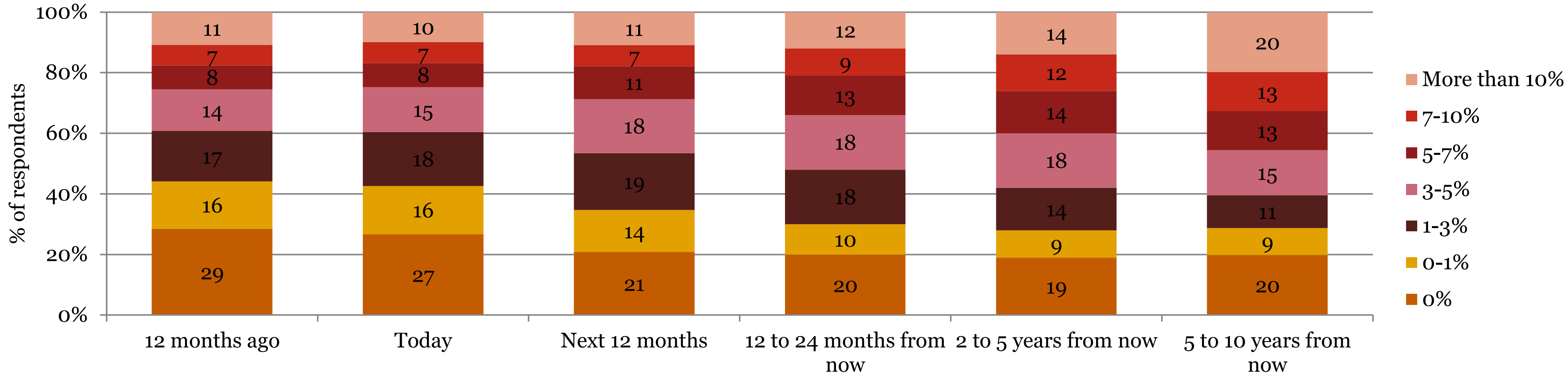
- In the US, cash based methods of savings (savings accounts, checking accounts and certificates of deposits) are the preferred method of savings for c. 54% of people surveyed.
- However, this doesn't translate into the value of savings held in different asset classes, where liquid assets only represents 15% of gross household wealth. This indicates that:
  - Those individuals that use cash savings have typically lower deposit sizes.
  - Pension assets and market linked products are the preferred vehicles for building wealth in the US.
- In addition a large number of customers do not segregate their savings from their current accounts, as shown by 25% of customers who use their checking account as their savings method. The CFPB is currently running a number of campaigns to encourage the US population to increase saving.

Source: PwC US Financial Services Institute, 2013; Credit Suisse, 2013

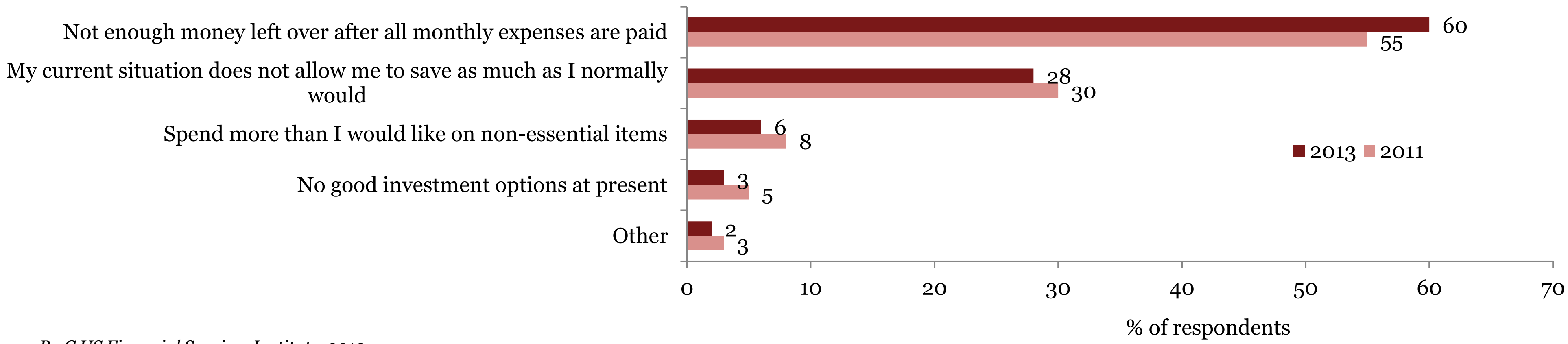
Customer savings rates

A large proportion of consumers do not save in the US.

Percentage of income saved survey (2013)



Reasons for customers not saving survey (2011 and 2013)

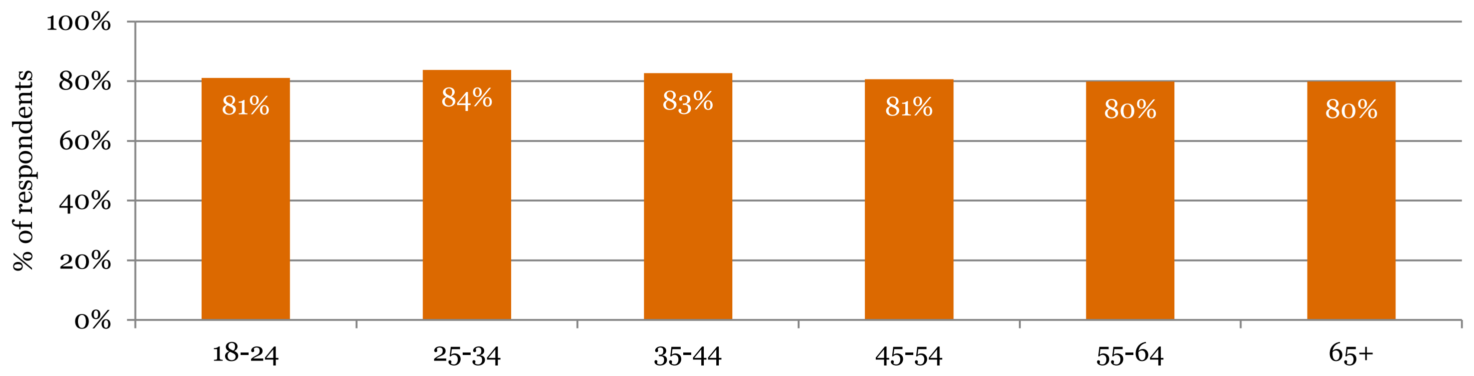


Source: PwC US Financial Services Institute, 2013

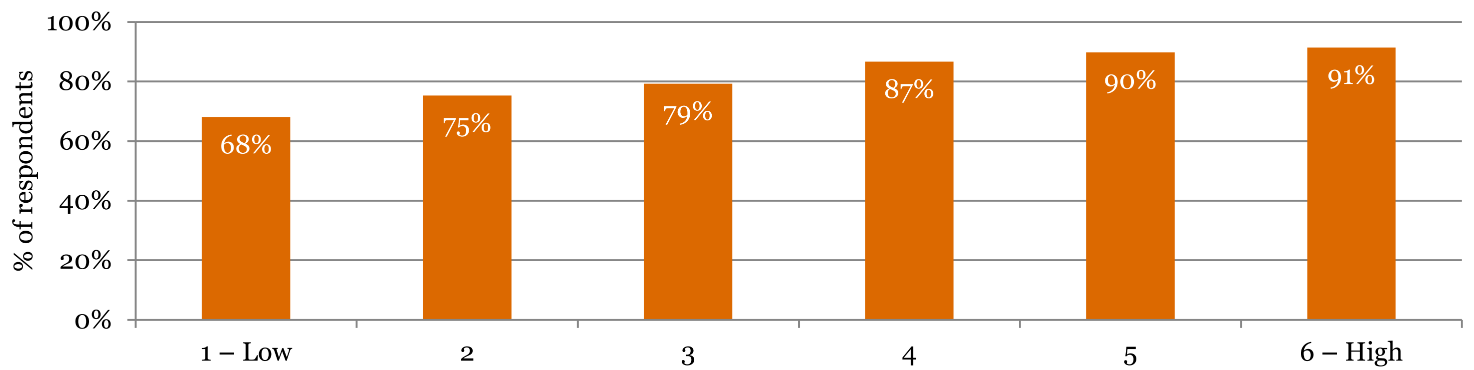
Customer segmentation

Age and income band segmentation provide limited insight into customer behaviour relating to savings accounts.

% of consumers who said they hold a savings account (By age band)



By Income band



Commentary

- In the US, age appears to have little relationship on the propensity to hold a savings account. Regardless of age band, the penetration rate is approximately 80%.
- A clearer determinant of savings behaviour is income band. In the lowest income band (of up to $20,000 income per year) the penetration rate of savings accounts is approximately 65%, whereas at higher income bands the level is close to 90%. This dichotomy in the market was highlighted by the CFPB, who have initiatives in place to encourage people who currently do not save to begin saving.

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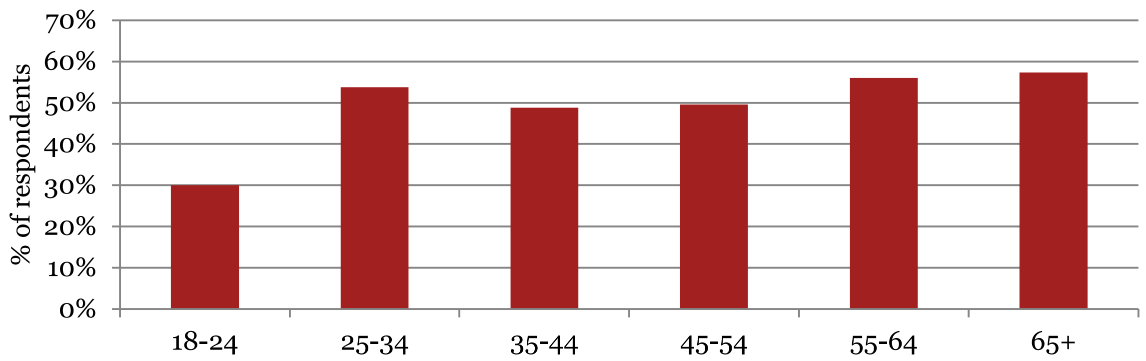
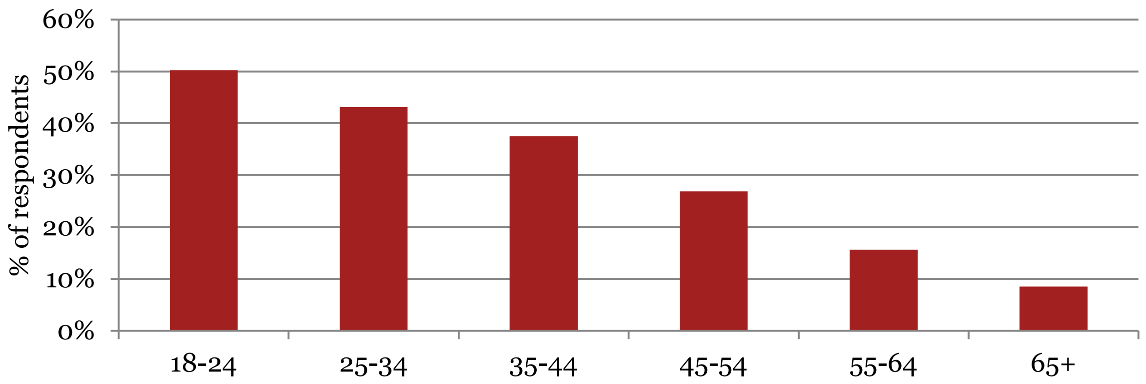
Customer needs

Customer segmentation shows a clear preference by younger customers for savings account features such as mobile banking.

Consumers listing 'competitive interest rate' as essential



Consumers listing 'mobile access to money' as essential



Commentary

- More specific than just online access to money, around 50% of young savers in the US cited mobile access to money as being an essential feature of a savings account. Although this segment makes up only a small proportion of total savings deposits, as new cohorts continue to demand this level of technological capability, this will become a prominent feature of the cash savings market.
- Younger consumers also indicated a relatively low preference for a competitive interest rate relative to other age groups. This may be because their savings funds are relatively small and used more frequently for shorter-term purposes such as smoothing living expenses, rather than for longer-term savings purposes. As a result, being able to easily manage their funds is more important than a high return.
- We note however, that these survey results do not differentiate between types of saving product. We might expect that mobile access is more important on instant access type products where consumers manage money online frequently. On certificates of deposit (time deposits) this mobile access is likely to be less important, and consumer are likely to place a higher weight on competitive interest rates for this type of product.

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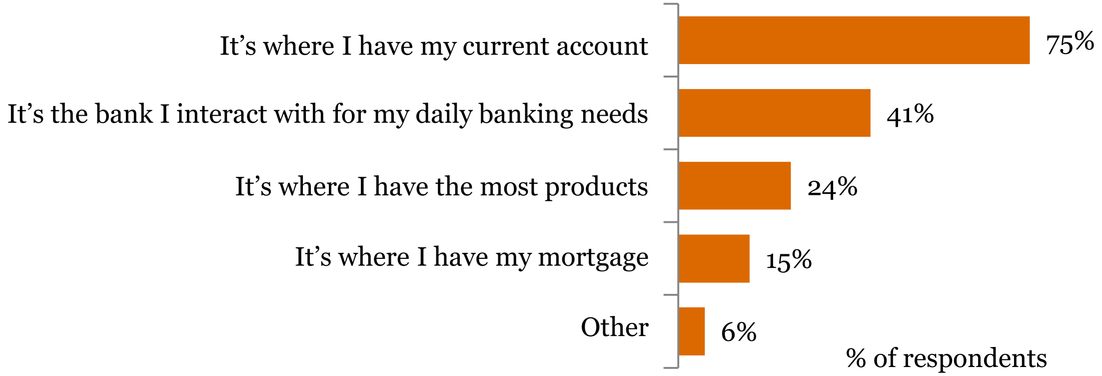
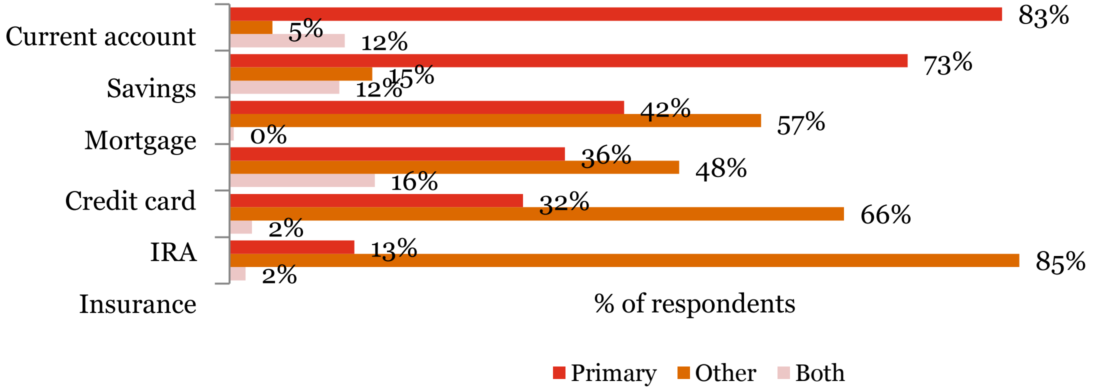
Customer use of primary financial institutions

Most customers perceive their current account provider as their primary financial institution. This relationship drives their choice of other products, including cash savings.

Customer view of their primary financial institution (2013)



Customers' choice of institution by product type (2013)



Commentary

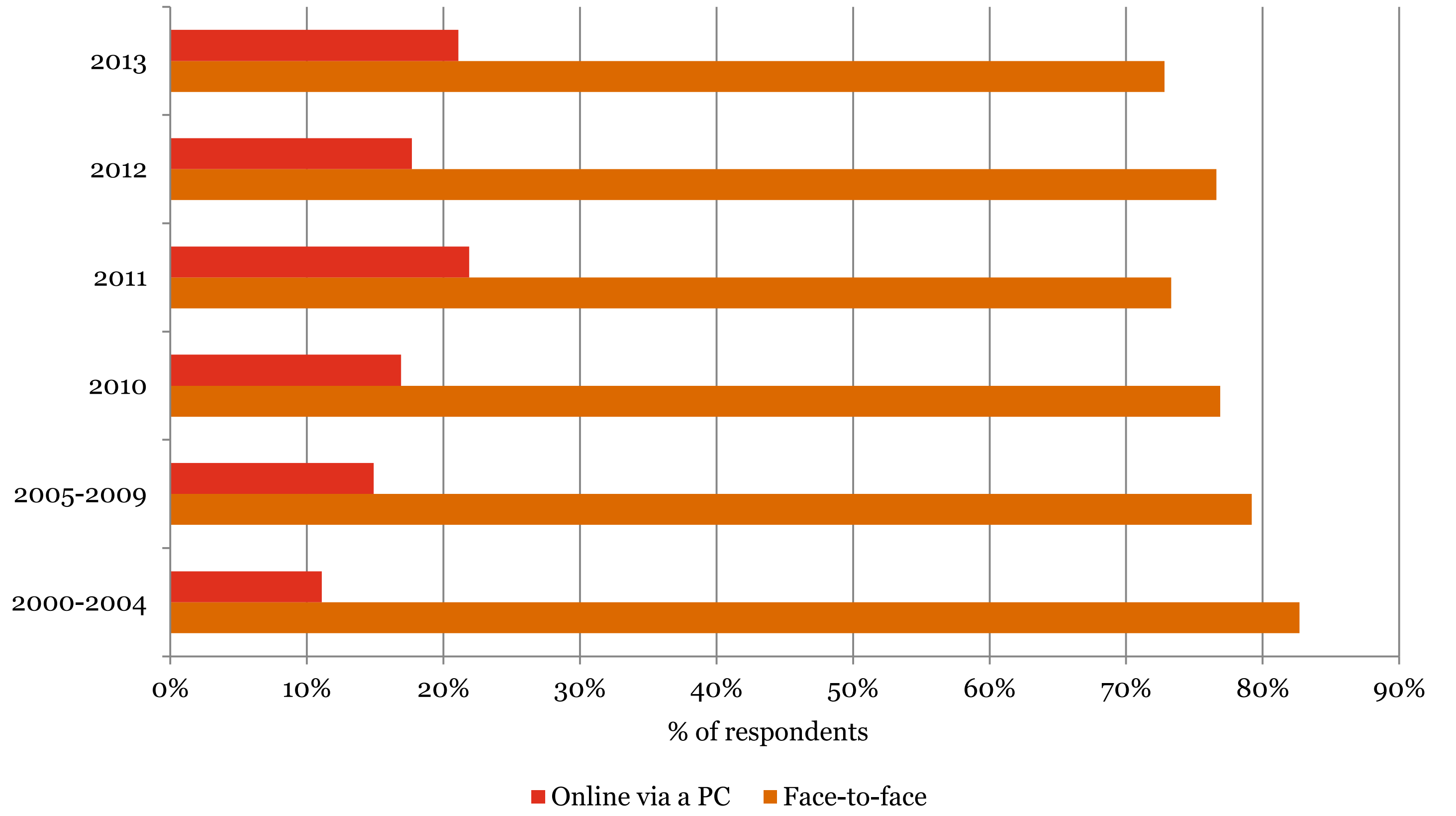
- 75% of consumers selected their current account provider as their primary financial institution, and in turn, 73% of consumers had their savings accounts with their primary financial institution. This indicates that there is a significant amount of bundling of savings with current account provider.
- The relationship between savings products and primary financial institution was stronger than for other products. For example, over 50% of people said they had their mortgage with another financial institution that was not their primary institution.
- As savings appears to have a large degree of linkage to current accounts, the ease of current account switching will have implications for savings account switching. In the US there is a perception that there are high barriers to switching current account. This is because it is the customers role to track and switch direct debits when moving to a new account provider. These barriers may create stickiness in savings products.

Source: PwC US Financial Services Institute, 2011

Account opening channels

The majority of customers in the USA still open savings accounts face to face in a branch.

Channel for opening savings account by year of opening



Commentary

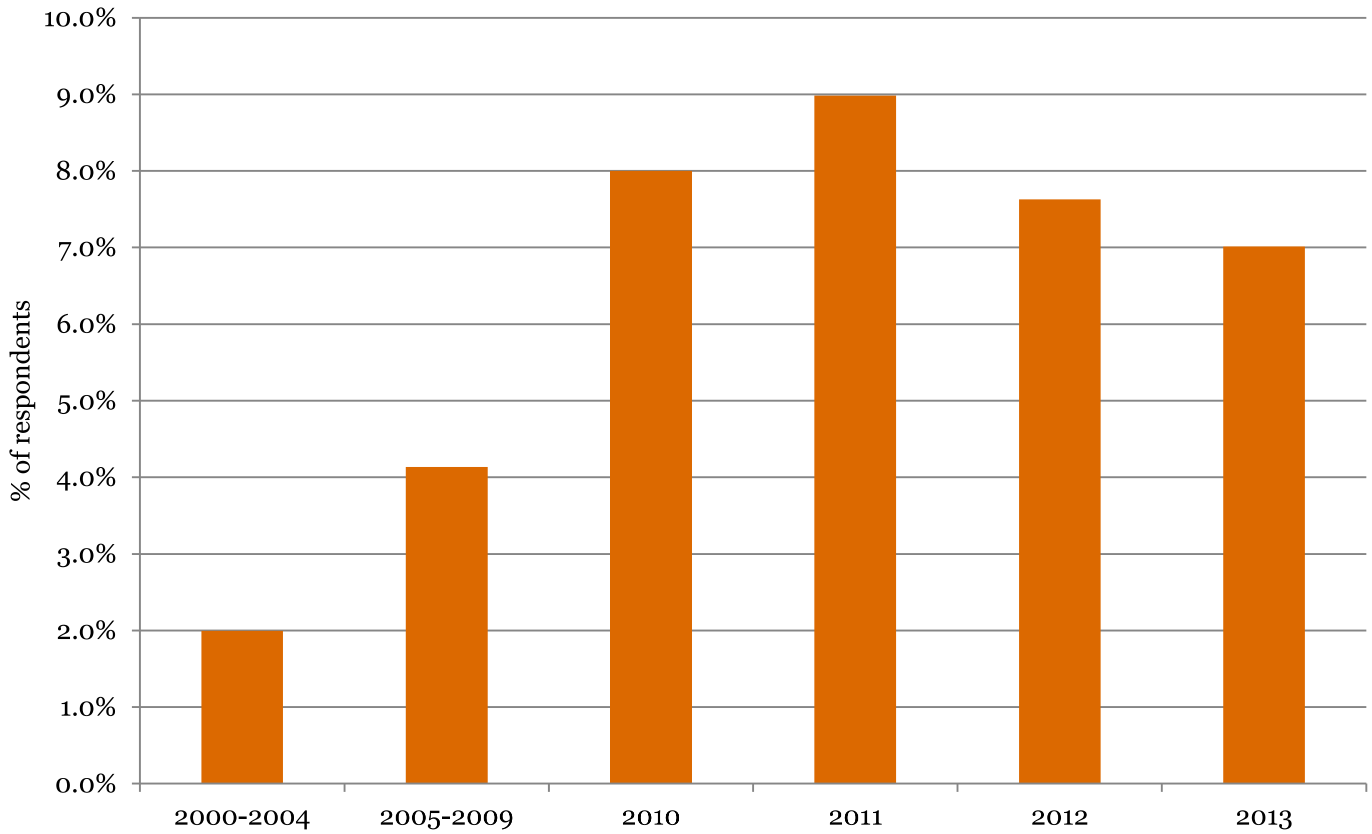
- The majority of customers in the USA still use the branch network as their primary channel for account opening.
- US customers typically find online account opening difficult. In 2011 , 5.8 million people tried and failed to open an account online. This represents c. 47% of the total customers who tried to open an account online.

Source: Javelin, 2011, copyright © 2014, Datamonitor, What Consumers want Savings Account Product, Provider and Channel Positioning, reproduced with permission of Datamonitor.

New account opening

New savings account opening in the US is low, however this has increased since the GFC.

Proportion of respondents who opened accounts in a given year *



Commentary

- Recent savings account opening has increased since the GFC.
- This can be attributed to 3 factors:
  - More customers choosing to build wealth through safer cash savings products than market linked products.
  - Increased awareness and mistrust in financial services firms, causing customers to review where they save.
  - A number of initiatives led by the CFPB to encourage individuals who do not save to start saving.

* Note: 2000-2004 and 2005-2009 are annual averages over the period

Source: copyright © 2014, Datamonitor, What Consumers want Savings Account Product, Provider and Channel Positioning, reproduced with permission of Datamonitor

Firm behaviour in cash savings

Cash savings are often offered by US banks as an additional product to current account customers.

Key aspects of firm behaviour in cash savings

Product pricing

Savings accounts in the US are typically priced with a monthly service/maintenance fee. However, this fee can be avoided if customers either (1) Maintain a minimum balance (2) Transfer money into the savings account from a current account with the same provider.

Certificates of deposit (CDs) - equivalent to term deposits - typically have no fees, but do have early withdrawal penalties.

A key aspect of pricing in the US is overdraft and non-sufficient funds fees, as traditionally most fee revenue comes from checking accounts.

Another recent provider focus has been on pricing simplicity. For example, RBS Citizens Financial Group launched their "Bank Better" scheme in towards the end of 2013. This aims to make banking "simple, clear and personal".

Customer acquisition

One key mechanism for attracting new customers in the US is through teaser rates, and the majority of customer acquisition and marketing activity is targeted at current accounts.

- Santander's 'Extra 20' account is one example of checking (current) account focused promotions. They launched a $200m advertising campaign in November 2013 for this account, which pays $10 per month when the account holder makes direct deposits of $1,500 or more a month and a further $10 per month if 2 bills are paid through their online portal.
- Other attempts to acquire consumers can also be through non-financial incentives. BBVA in January 2013 launched an offer of an E-book reader for new customers opening a checking (current) account.

Balance sheet strategy

Overfunding is prevalent among U.S. banks due to weak loan growth, continuing deposit growth and government-sponsored institutions purchasing residential mortgages from banks.

Basel III has the impact of making retail deposits an attractive source of funding relative to sources.

Banks seek to increase the "stickiness" of their deposits through product cross-sell and other relationship-building efforts in order to improve the stability of funding.

Banks typically strive for a balance of deposit maturities to improve asset-liability matching.

Cross-selling/bundling

In the US many banks provide bundled savings accounts for their existing customers for no additional cost. However, the customers that take advantage of such accounts typically have low deposit balances. These accounts are predominantly instant access savings accounts.

Changes in distribution channels

There is an emerging trend of larger banks reducing their branches and of web aggregators starting to gain popularity.

Recent announcements of branch closures

Washington Federal to purchase 23 Bank of America branches in Nevada and Arizona

Citigroup looking to sell 50 branches in California

Bank of America to sell 51 branches across 3 states

PNC Bank to close 10 branches in the Pittsburgh region

BB&T acquires 21 branches in Texas from Citibank

Web aggregator case study: Mint.com

mint.com

10m users in November 2013

Mint.com automatically compiles all their customers' financial information in one place, so that they have a digital dashboard of their financial wealth, income and expenditure. Mint provides total visibility across all accounts – checking, savings, investments and retirement. Mint claim to be trusted, safe and secure given that it is read-only, no money can be moved in or out of any account. Its key features include:

- A mobile application to track money on-the-go.
- Budgeting tools allowing individuals to create a plan to reach their personal financial goals.
- Read only interface, improving security, as no money can be moved in or out of any account.
- Account activation in less than five minutes.

When customers sign up for a Mint account they are giving Mint a limited power of attorney ceding the company the right to act as their agent when access their banking files. To avoid security issues prior to offering a financial institution on its platform, Mint contracts with the institution to agree that they can aggregate user's financial information from the financial institutions servers once users provide their banking details and passwords to Mint.

Commentary

- A number of leading banks are moving away from "managing branches" to managing distribution across all channels. A clear case study of this trend is Bank of America. In the period Q4 2012 to Q4 2013 their mobile banking customers increased from 12m customers to 14.4m customers whereas their number of branches decreased from 5,478 branches to 5,151.
- Similarly the number of online web aggregators and their use had increased. These providers may not offer savings products directly but help inform customers. A number of aggregators now claim to have large numbers of users. This trend is most prevalent in investment platforms but such platforms are also beginning to incorporate cash savings.

Source: Company websites; News agencies

Technology led investment propositions

Web aggregators are most prominent in the investment product market. In the future more customers could use such sites for all their financial affairs including cash savings.

Examples of innovative investment product propositions

Player	Description	Year Founded	Head Quartered	Users	Assets Managed	Pricing	Funding Received
Betterment	Betterment asks users the proportion of money they'd like invested in stocks versus bonds and then automatically rebalances their assets based on those preferences.	2007	New York, NY	11,000	$36m	0.15%-0.35%	$13M
covestor	Covestor allows users to see the portfolios of "model managers" and replicate the trades of one or more managers. The managers have their own money on the line.	2005	New York, NY	No Data	No Data	0.5%-2.0%	$11.1M
FutureAdvisor	Future Advisor creates portfolio recommendations for investors based on preferred risk profiles, and provides portfolio rebalance alerts. Automated wealth management is in private beta.	2010	San Francisco, CA	11 m	$5.6b	Priced Service in Private Beta	$5M
LEARNVEST	LearnVest asks questions about an individual's financials and then has a "certified financial planner" build a program based on financial goals that it discusses with the individual over the phone. It focuses on women.	2009	New York, NY	250,000	N/A	One time: $69-$399; p/m: $19	$24.5M
MarketRiders	MarketRiders gives advisors investing with any broker information about how they can allocate their assets according to asset allocation theory.	2008	Palo Alto, CA	10,000	$4b	$179 p/y	$200k
mygdp	myGDP uses an account aggregation engine securely tracking more than $200 billion in assets nightly to make investment recommendations.	2005	Manhattan Beach, CA	No Data	No Data	Starts at $20 p/m	No Data (or N/A)
NestWise	NestWise asks individuals for financial information then produces a financial plan that can be discussed with an advisor over the phone or in person.	2008	San Francisco, CA	No Data	$32m	$0-$575 p/y	No Data
PERSONAL CAPITAL	Personal Capital uses its free account aggregation services and automated portfolio analytics to drive clients to its wealth management services.	2011	Redwood City, CA	10,000	No Data	0.95%-0.75%	$27.3M
StockROVER	StockRover allows users to research various stocks and compare them to others to identify the ones that best suit their profile	2008	Cambridge MA	No Data	N/A	Free	No Data
SigFig	SigFig uses the aggregated account information to make portfolio recommendations.	2011	San Francisco, CA	500,000	N/A	Free	No Data (or N/A)
SumZero	SumZero is an exclusive online community for professional investors to share information and research.	2008	New York, NY	8,000	N/A	No Data	$1M
wealthfront	Wealthfront builds a risk profile of its clients and uses it to inform its trading strategy. It focuses on Silicon Valley startup millionaires.	No Data	Palo Alto, CA	No data	$100m	0.25% (first 10k free)	$30.5M

Source: Company websites; News agencies

General policy and regulatory context

Financial services regulation is focussed on merger control.

Taxes on savings	In the US there are several savings vehicles that offer consumers a way to obtain tax advantages. **IRAs:** Individual retirement arrangements are available in several types. Depending on type, either the contributions are tax deductible but withdrawals are taxed (as with traditional IRAs), or visa versa (as with Roth IRAs). However, tax deductibility is subject to eligibility requirements. **529 plans:** 529 plans are a vehicle that encourages saving for future spending on higher education. Tax advantages on these plans are provided at the state level, where many states allow contributions to be deductible from income tax assessment. **HSAs:** Health savings accounts are not subject to federal income tax at the time of deposit.
Pension arrange-ments	PwC's 2013 survey of US households indicates that household confidence in receiving full Social Security benefits on retirement is relatively low. In fact, the majority of respondents (50 percent) indicated that they are either not confident or undecided as to whether they will receive full Social Security benefits at their planned retirement age. More than four in ten (42 percent) respondents to our survey indicated that they would immediately raise their savings rates to address reductions in future Social Security and/or pension benefits. Only 8 percent indicated that they would definitely not adjust their savings rates in this situation. Therefore, we expect that future policy changes to publicly provided pensions is likely to impact the savings rate; however, it is unclear how much of any new saving will be held as cash in saving accounts. Private pension plans have a number of safeguards that protect retirees already vested in the plans. These include the Pension Benefit Guarantee Corporation (PBGC), which insures most private defined benefit plans, and Employee Retirement Income Security Act (ERISA), which protects existing funds in retirement plans from creditors in the event that the company goes bankrupt.
Bank merger reviews	In any given year there can be several hundred proposed bank mergers, so the regulatory authorities have established processes to review bank mergers. A concurrent review is conducted by the Department of Justice Antitrust division and the relevant regulatory body of the bank; in the case of Bank Holding Companies, this will be the Federal Reserve Board. Because of this dual-review process, the bank regulators and the DoJ cooperate on standards used in reviewing mergers. Mergers are initially screened on the basis of a HHI test, calculated for the local relevant market (pre-defined geographical areas already exist). DoJ's merger reviews tend to focus on the retail banking and small business banking product markets, which are to a significant extent local in nature, so this screen is considered an effective control. If the HHI score does not exceed 1800, with a change of less than 200, then the merger will typically obtain clearance. Where the merger results in a failure to pass this screen, competition concerns are usually resolved through a divesture of branches belonging to the target.

Regulatory bodies

Financial services regulation is focussed on merger control, with consumer issues on the rise at the CFPB.

US Federal Regulatory Bodies

DoJ – Antitrust division

Role

- The DOJ reviews merger cases, of which there are c.600 per year.
- The DoJ's main screening tool for merger approval is local deposit market concentration. The merger is likely to be approved if HHI does not exceed 1800 with a change of over 200. Cash savings and other deposits are typically not differentiated.

Views

- The DoJ emphasised that banking is very much a local phenomenon and that the branch network was heavily relied upon.
- New entry into the market can be difficult, a more common entry route is to buy an existing provider and expand.
- There is a perception that a consumer with three products at the same provider is less likely to switch banks.

Federal Reserve Board

Role

- When a merger falls under the Bank Holding Company Act. The FRB conducts merger reviews concurrently with the DoJ.
- The FRB has no regulatory authority outside the merger applications e.g. they cannot break up an existing institution.

Views

- Savings vehicles are seen as simple products and no specific studies of the cash savings market have been conducted.
- Competition in retail banking is local with consumers valuing proximity to branch highly.
- Local concentration has remained fairly static over the last 20-30 years due in part to restrictions in place (although national concentration has risen).
- Switching transaction accounts may not be a simple process, which is complicated by the large number of direct debits to organise.

Consumer Financial Protection Bureau

Role

- To educate consumers, to supervise financial institutions, enforce federal consumer financial laws and study consumer financial markets. As some areas relating to deposits have implications on bank stability, the CFPB coordinates with the FRB.

Views

- While the CFPB examines practices relating to savings, they are not currently pursuing any rule changes relating to savings products.
- The requirements for disclosure and advertising of deposit products is set out in *Regulation DD: Truth in Savings*.
- Cash savings are typically used for precautionary purposes rather than building wealth (although this may not be as true for those with limited assets).
- Savings accounts with zero fees can be obtained when consumers open a transaction account, but such accounts tend to have low balances.

Regulatory requirements

In the US, disclosure and advertising requirements are set out in Regulation DD: Truth in Savings.

Regulation DD overview	
Purpose	To enable consumers to make informed decisions about accounts at depository institutions. This requires depository institutions to provide disclosures so that consumers can make meaningful comparisons among depository institutions.
Coverage	Applies to depository institutions except for credit unions.
Account opening disclosure	<u>General</u> A depository institution shall provide account disclosures to a consumer before an account is opened or a service is provided, whichever is earlier. If the consumer is not present at the institution when the account is opened or the service is provided and has not already received the disclosures, the institution shall mail or deliver the disclosures no later than 10 business days after the account is opened or the service is provided, whichever is earlier. <u>Requests</u> A depository institution shall provide account disclosures to a consumer upon request. In providing disclosures upon request, the institution may: ○ Specify an interest rate and annual percentage yield that were offered within the most recent seven calendar days; state that the rate and yield are accurate as of an identified date; and provide a telephone number consumers may call to obtain current rate information. ○ State the maturity of a time account as a term rather than a date.

Regulatory requirements

In the US, disclosure and advertising requirements are set out in Regulation DD: Truth in Savings.

Regulation DD overview	
Content of disclosures	Account disclosures shall include the following: Rate information: The 'annual percentage yield' and the 'interest rate', using those terms, and for fixed-rate accounts the period of time the interest rate will be in effect. And for variable rate accounts: o The fact that the interest rate and annual percentage yield may change; o How the interest rate is determined; o The frequency with which the interest rate may change; and o Any limitation on the amount the interest rate may change. Compounding and crediting o The frequency with which interest is compounded and credited. o The Effect of closing an account. If consumers will forfeit interest if they close the account before accrued interest is credited, a statement that interest will not be paid in such cases. Balance information: Any minimum balance required to: o Open the account, avoid the imposition of a fee, or obtain the annual percentage yield disclosed. Fees. The amount of any fee that may be imposed in connection with the account (or an explanation of how the fee will be determined) and the conditions under which the fee may be imposed. Transaction limitations. Any limitations on the number or dollar amount of withdrawals or deposits.

Regulatory requirements

In the US, disclosure and advertising requirements are set out in Regulation DD: Truth in Savings.

Regulation DD overview	
Content of disclosures	Features of time accounts. For time accounts: ○ The maturity date. ○ *Early withdrawal penalties*. A statement that a penalty will or may be imposed for early withdrawal, how it is calculated, and the conditions for its assessment. ○ *Withdrawal of interest prior to maturity*. If compounding occurs during the term and interest may be withdrawn prior to maturity, a statement that the annual percentage yield assumes interest remains on deposit until maturity and that a withdrawal will reduce earnings. For accounts with a stated maturity greater than one year that do not compound interest on an annual or more frequent basis, that require interest pay-outs at least annually, and that disclose an APY determined in accordance with section E of appendix A of this part, a statement that interest cannot remain on deposit and that pay-out of interest is mandatory. ○ *Renewal policies*. A statement of whether or not the account will renew automatically at maturity. If it will, a statement of whether or not a grace period will be provided and, if so, the length of that period must be stated. If the account will not renew automatically, a statement of whether interest will be paid after maturity if the consumer does not renew the account must be stated. Bonuses. The amount or type of any bonus, when the bonus will be provided, and any minimum balance and time requirements to obtain the bonus.

Regulatory requirements

In the US, disclosure and advertising requirements are set out in Regulation DD: Truth in Savings.

Regulation DD overview	
Subsequent disclosures	Change in terms *Advance notice required.* A depository institution shall give advance notice to affected consumers of any change in a term required to be disclosed, if the change may reduce the annual percentage yield or adversely affect the consumer. The notice shall include the effective date of the change. The notice shall be mailed or delivered at least 30 calendar days before the effective date of the change. *No notice required.* No notice under this section is required for: ○ *Variable-rate changes.* Changes in the interest rate and corresponding changes in the annual percentage yield in variable-rate accounts. ○ *Check printing fees.* Changes in fees assessed for check printing. ○ *Short-term time accounts.* Changes in any term for time accounts with maturities of one month or less. Notice before maturity for time accounts longer than one month that renew automatically. For time accounts with a maturity longer than one month that renew automatically at maturity, institutions shall provide the disclosures described below before maturity. The disclosures shall be mailed or delivered at least 30 calendar days before maturity of the existing account. Alternatively, the disclosures may be mailed or delivered at least 20 calendar days before the end of the grace period on the existing account, provided a grace period of at least five calendar days is allowed.

Regulatory requirements

In the US, disclosure and advertising requirements are set out in Regulation DD: Truth in Savings.

Regulation DD overview	
Subsequent disclosures	*Maturities of longer than one year* - If the maturity is longer than one year, the institution shall provide account disclosures of this part for the new account, along with the date the existing account matures. If the interest rate and annual percentage yield that will be paid for the new account are unknown when disclosures are provided, the institution shall state that those rates have not yet been determined, the date when they will be determined, and a telephone number consumers may call to obtain the interest rate and the annual percentage yield that will be paid for the new account. Notice before maturity for time accounts longer than one year that do not renew automatically. For time accounts with a maturity longer than one year that do not renew automatically at maturity, institutions shall disclose to consumers the maturity date and whether interest will be paid after maturity. The disclosures shall be mailed or delivered at least 10 calendar days before maturity of the existing account.
Advertising	Misleading or inaccurate advertisements. An advertisement shall not: o Be misleading or inaccurate or misrepresent a depository institution's deposit contract; or o Refer to or describe an account as “free” or “no cost” (or contain a similar term) if any maintenance or activity fee may be imposed on the account. The word “profit” shall not be used in referring to interest paid on an account. When additional disclosures are required. If the annual percentage yield is stated in an advertisement, the advertisement shall state the following information, to the extent applicable, clearly and conspicuously: o *Variable rates.* o *Time annual percentage yield is offered.*

Regulatory requirements

In the US, disclosure and advertising requirements are set out in Regulation DD: Truth in Savings.

Regulation DD overview	
Advertising	○ *Minimum balance.* ○ *Minimum opening deposit.* ○ *Effect of fees.* Bonuses. If a bonus is stated in an advertisement, the advertisement shall state the following information, to the extent applicable, clearly and conspicuously: ○ The "annual percentage yield," using that term; ○ The time requirement to obtain the bonus; ○ The minimum balance required to obtain the bonus; ○ The minimum balance required to open the account, if it is greater than the minimum balance necessary to obtain the bonus; and ○ When the bonus will be provided.

Thematic findings

7

Thematic findings (1 of 5)

Market size, market concentration and new entrants.

Theme	Finding(s)	Evidence	Implications/considerations
1. Market size	1.1 Cash savings market size is heavily influenced by the other ways consumers save and invest	• Mandatory pension schemes in Australia, The Netherlands and the USA have a material impact on the size cash savings deposits. • Alternative products such as equities are predominantly used by customers in the USA to generate financial wealth. This trend was also seen in Australia before the financial crisis.	• The relative importance of cash savings as a means of building wealth in the UK may change as customers increase the size of their pension contributions with auto enrolment. • Economic recovery and monetary policy changes may impact the proportion of customers in the UK who build wealth through investments rather than savings.
	1.2 Tax schemes impact cash savings market size in all countries	• Germany and the UK have high levels of cash savings and high usage of accounts with tax benefits. • Changes to taxation on cash savings returns in the Netherlands has reduced the demand for cash savings products as individuals pay down debt as an alternative.	• The recently enhanced tax benefits provided by ISAs may ensure that the demand of cash savings remains high within the UK.
2. Market concentration	2.1Variation in concentration (nationally) across cash savings markets is predominantly attributed to regional or mutual banks	• Germany and the USA have the lowest cash savings market concentration ratios due to the existence of a large number of regional, co-operative or mutual banks.	• It may be difficult to apply lessons from markets with lower concentration compared to the UK given their very different market structure.
	2.2 Cash savings market participants have struggled to dramatically change their market positioning	• Concentration ratios have not moved significantly over time across international cash savings markets. • Regulatory interventions into the cash savings markets have not impacted concentration.	• Competition remedies may need to focus on the stock of savings (rather than flow of new savings) to have any material effect on customer outcomes.
3. New entrants	3.1New entry into the cash savings markets is limited	• There is no example of a new entrant gaining a significant market share in this study. • International regulators therefore focus on improving conduct of incumbent market participants.	• It is unlikely that a new entrant would materially disrupt the concentration of the UK cash savings market in the short-term.
	3.2 New entrants typically pursue niche strategies in the cash savings market	• Where there are cases of new entry across all markets, this is typically focused on one particular segment or only targets a small amount of funding for a specific need.	• A change in regulation in the UK is unlikely to influence the impact of new entrants on the market as a whole. • New entry is more likely to come from entry into all retail banking products not just cash savings. • New entrants are beneficial as some of the their activities are picked up by established incumbents.

Thematic findings (2 of 5)

Customer segmentation and switching/churn rates.

Theme	Findings	Evidence	Implications/considerations
4. Customer segmentation	4.1 Simple demographics are a less helpful method for understanding customer behaviour in the cash savings market	• Across comparative data on each country the effect of simple demographics such as age has a limited explanation of customer behaviour in the cash savings market.	• Customer segmentation including behavioural and/or attitudinal characteristics is likely to be more informative than demographic segmentation alone.
	4.2 Many markets have polarised customer groups with those customers who proactively switch and those customers who have saving inertia	• Anecdotal and survey evidence in all countries indicates that active and inert customer segments exist. This is most prevalent in the UK and the Netherlands.	• Focusing on the behaviour of different customer segments, (who possess different characteristics and preferences) could inform the targeting of specific areas for customer outcome improvements.
5. Switching / churn rates	5.1 Switching /churn rates across all markets are low	• The comparative data for both new savings accounts opened and switching of current accounts show low levels of switching in comparison to other consumer products.	• Switching/churn is not heavily influenced by differences in market concentration or regulator intervention.
	5.2 In all countries the most common reasons for switching are negative customer experiences	• Comparative data shows that poor customer service and bank mistakes are the main reasons for switching ahead of a more competitive interest rate. • Anecdotal evidence in the Netherlands suggests that many customers believe that the relative benefits of switching are marginal given the difference between a high and low interest rate.	• An effective market which operates to support customer interests may not be indicated by high levels of switching/churn. • An effective market should have both positive and negative switching motivations.
	5.3 The UK has the highest levels of switching and churn relative to other countries studied	• The UK with a saving account opening rate of c.25% (accounts opened in the past 2 years) is significantly higher than the savings account opening rates found in all the countries in this study which all had opening rates lower than 15%. • Comparatively the UK also has a higher current account churn rate than the countries in this study.	• Relatively high levels of switching/churn in the UK can in part be attributed to: – "ISA season" driving many customers to annually consider their cash savings provider. – Recent advertising campaigns and media focus on banking. – A demand side response to UK banks reducing interest rates on older accounts.

Thematic findings (3 of 5)

Customer preferences for type of institution and for account features/channel access.

Theme	Findings	Evidence	Implications/considerations
6. Customer preferences for type of institution	6.1 Across all countries, customers' choice of savings account provider is typically linked to whether they have existing products at that bank	• Comparative research shows that customers in all countries are more likely to choose savings account providers where they have a current relationship. • There are a number of drivers which determine customer stickiness: – Convenience of having products with one provider – Additional products being discounted with fee based accounts and packaged accounts	• The trend of increasing cross-product promotion may reduce competition at the individual product level, but focus competition at the customer level.
	6.2 Without clear communication around deposit insurance customers prefer saving with larger, well known institutions	• Analysis shows that in the Netherlands customers are attracted to saving with a large recognised institution due to a perception that their money it better protected.	• The existence and advertisement of the FSCS in the UK has a positive effect in encouraging some savers to use smaller providers such as foreign banks and new entrants.
7. Customer preferences for account features/ channel access	7.1 Online access to a savings account is the most desired feature for customers	• Comparative research across all markets indicates that online access to savings is the most desired feature of savings accounts. • Interest rate was the 2nd most desired feature of a savings account.	• When evaluating the suitability of an account for a customer it would be incorrect to only consider the interest rate offered.
	7.2 Younger segments favour mobile access to a savings account above competitive interest rates	• Comparative research across all markets indicated that younger segments favour mobile access to savings accounts above competitive interest rates.	• If mobile internet penetration grows as forecasted, the feature of mobile access to savings may become more desired by customers than competitive interest rates, but may also be a difficult area for banks to differentiate.
	7.3Whereas online access to accounts is prevalent, many customers still use branches to open accounts	• Comparative research across all markets indicated that a high proportion of savings accounts are still opened in branch, particularly in the USA.	• The influence of the branch in account opening is potentially linked to the relative burden and effort required to open or change an account .

Thematic findings (4 of 5)

Firms' behaviour in cash savings and international regulatory focus on cash savings.

Theme	Findings	Evidence	Implications/considerations
8. Firms' behaviour in cash savings	8.1 Teaser rates have been used by firms in all the markets in this study	• In Australia, Germany, the UK and the USA there are instances where teaser rates are used. Until recently teaser rates have been used in the Netherlands but the practice is no longer used since the regulator raised concerns around whether this practice was in the best interests of consumers.	• Teasers have typically been used as a promotion in order to acquire new customers or attract additional funding. Removing this lever may have implications for broader financial stability.
	8.2 The use of teaser rates is declining	• Across all markets where teaser rates are still in use, data shows that they are in decline.	• Given the decline in the use of teaser rates in the UK, their impact on the market may reduce over time.
	8.3 Banks are increasingly focusing on becoming more customer centric	• Across all markets banks are increasingly refocusing to improve customer outcomes, transparency and fairness.	• Retail banking markets are currently evolving in a pro-consumer direction.
	8.4 Firms' marketing efforts are typically focused on products which give a primary relationship with the customer	• Firms in all markets typically focus their marketing on current accounts and mortgages as these products create a stronger relationships. • By offering a current account product, savings account providers can increase their savings volumes.	• When looking to change the cash savings market, the wider retail banking market should also be considered.
	8.5 Banks' balance sheet positions are a determinant of interest rates available to customers	• Pricing of savings products is linked to the funding needs of banks and wider economic factors which may be impacting their financial performance and balance sheet composition.	• When reviewing the interest rates available to customers, wider funding and economic factors should also be considered.

Thematic findings (5 of 5)

International regulatory interventions in cash savings markets.

Theme	Findings	Evidence	Implications/considerations
9. International regulatory focus on cash savings	9.1 There is a range of views on the cash savings market across global regulators from those who consider the market operates effectively to those that have intervened.	• In the Netherlands the competition authority (ACM) recently completed a review of cash savings as part of a wider review of retail banking, which set out a series of recommendations. Furthermore, the financial regulator (AFM) has recently intervened. • In Australia, the financial regulator has previously intervened in the cash savings market but is not actively looking at the market at present. • The US regulators (DoJ, CFPB and Federal Reserve Board) have indicated that there is limited interest in the cash savings market.	• Given only Australia and the Netherlands have only recently been actively involved in the cash savings market, the lessons learnt from Germany and the USA are limited.
10. International regulatory interventions in cash savings	10.1 Where there have been regulatory interventions in cash savings they have been focused on changing market conduct rather than market structure.	• Recent regulatory interventions have included: – Recommending improvements to advertising, disclosure and grace periods. – Writing to CEOs to reconfirm standards expected in advertising. – Limiting the number of accounts providers may offer. – Banning teaser rates and limiting price differences across products. – Changing customer background check requirements.	• Where they have taken place, remedies to improve market conduct have been used to improve customer outcomes by international regulators.
	10.2 Regulators have generally perceived their interventions to be positive.	• The Australian regulator (ASIC) concluded in its July 2013 report that its recommendations in February 2010 have had their intended effect. • In the Netherlands the AFM has used a number of remedies such as banning teaser rates and limiting the number of accounts providers may offer. These have had demonstrable market impact (e.g. small number of different accounts) and higher customer satisfaction scores. • However, in the Netherlands, there is still ongoing regulatory investigations and concern around how the broader retail banking market operates.	• Regulatory remedies relating to transparency have been uniformly considered as effective by regulators. • The strongest interventions have clear market impact but detailed ex-post impact assessment has yet to be undertaken.

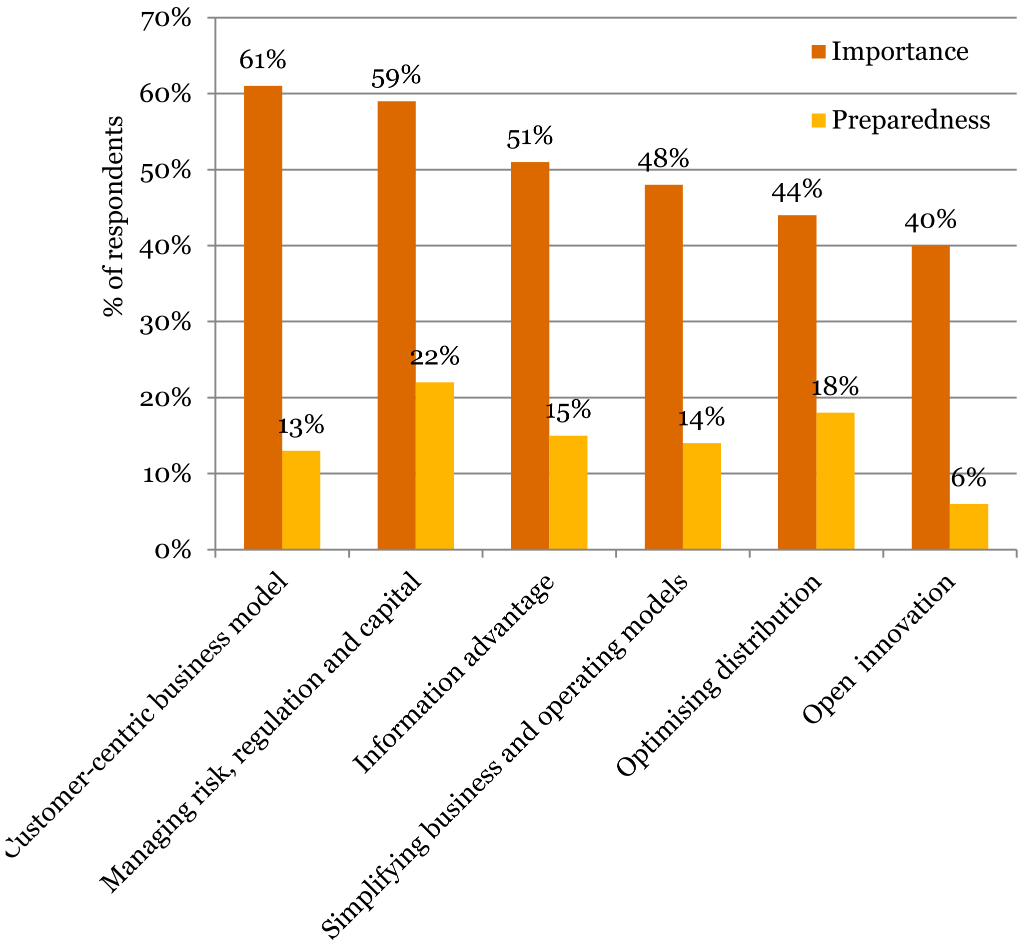
Future trends in Retail Banking

8

Priorities to drive change in retail banking

Retail banks have identified six priorities as crucial for them to meet future requirements.

Priorities and preparedness of European banks for 2020



Source: PwC, 2014

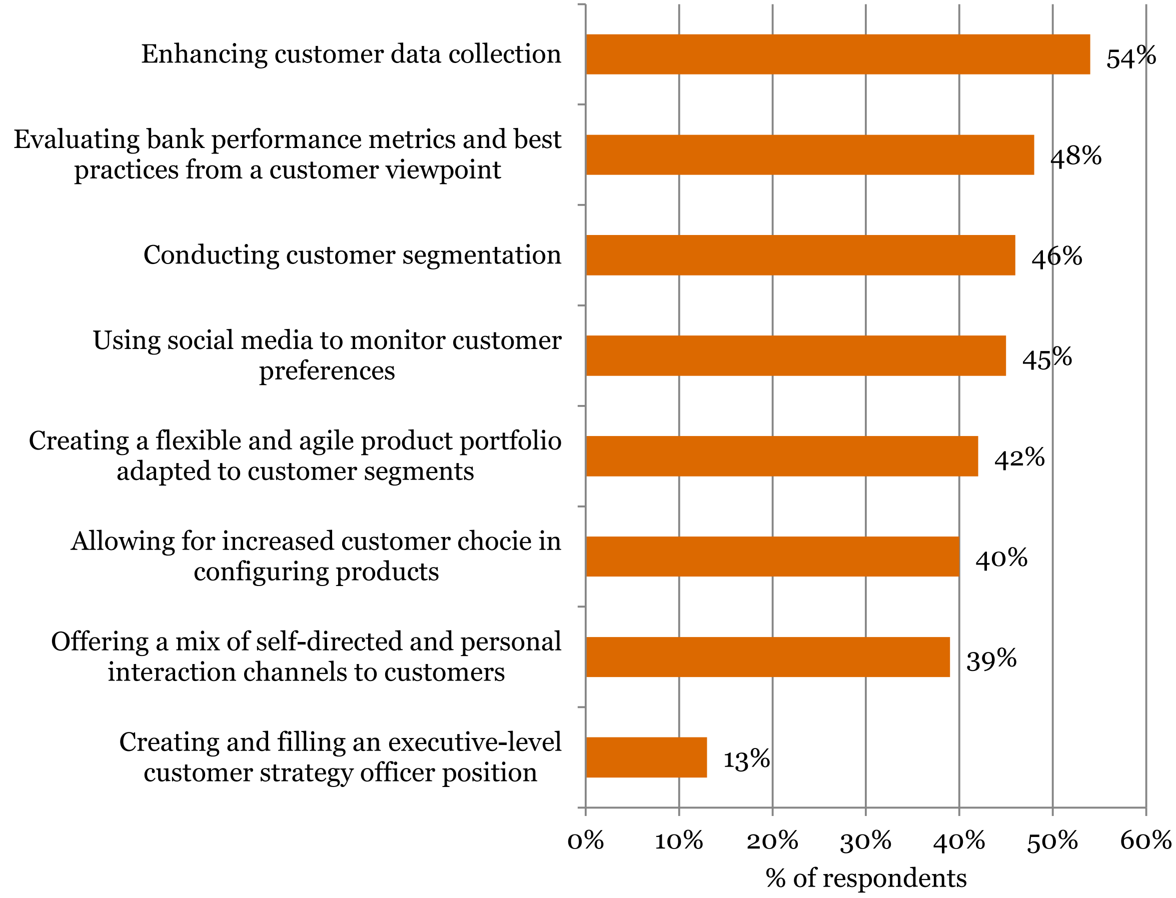
Commentary

- The retail banking sector is in a challenging and changing environment due to a number of factors:
  - Customers are demanding higher levels of service and trust is at an all time low.
  - Growth remains elusive and costs remain stubbornly high, negatively impacting ROE.
  - Regulation is impact business models and industry economics.
  - Technology is changing from an expensive challenge to an enabler of positive customer experiences and effective operations.
  - Non-traditional players are challenging incumbents, peer-to-peer lending being an example, leading with customer centric innovation. Not only this, but new entrants are adopting agile business models, which require a fraction of the Capex to set up, and a fraction of the Opex to run.
- PwC conducted 560 interviews with leaders in retail banking across 17 territories including 159 representatives from European banks. These participants identified 6 trends which would impact their business by 2020. These six trends are set out in the figure on the left, and we provide a more detailed view in the following slides.
- Whilst these trends were recognised as important by a significant proportion of participants there is a clear delta in between the perceived importance of these trends and leaders perceptions of their firm's readiness to capitalise upon them.

Priority 1: Customer-centric business model

Retail banks are seeking ways to better understand their customers.

Areas that European banks that will place significant effort in the next 5 years (2014)



Source: PwC, 2014

Commentary

- A large proportion of participants recognised that they need to develop a much deeper, holistic understanding of their customers. To achieve this banks are looking:
  - To understand customers' needs by segment and present a relevant solution at the time.
  - To simplify their product sets and redesign their core processes from a customer point of view.

Case studies of innovation in this area

Bancaja has pledged a number of specific, measurable commitments to customers on transparency, service levels and fees. If the bank breaches these commitments it pays a penalty fee to its customers.

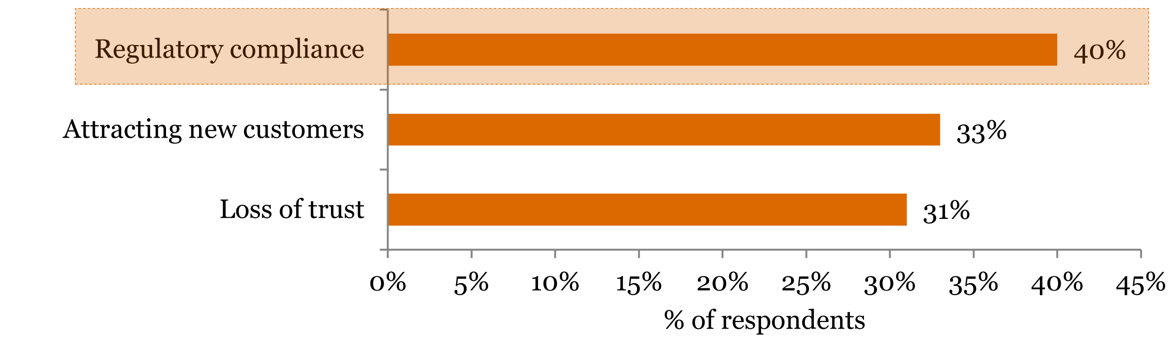
Credit Mutuel uses social media to capture data such as customers' opinions on new products and campaigns through social media surveys offering prizes to incentive customers to participate.

Commonwealth Bank is using the concept of crowdsourcing inviting customers to post ideas and suggestions about how banking can improve.

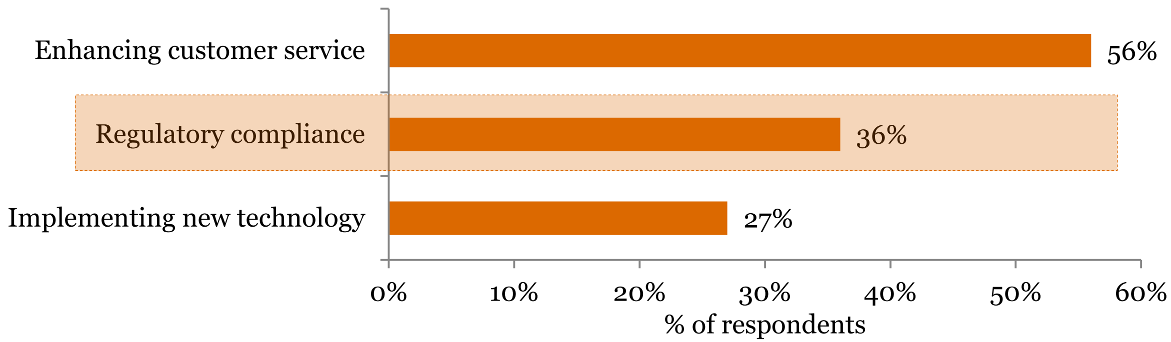
Priority 2: Managing risk, regulation and capital

Managing risk, regulation and capital will remain a significant challenges for retail banks, across all areas of the bank.

Top 3 challenges according to European retail banks (2014)



Top 3 investment priorities according to retail banks (2014)



Commentary

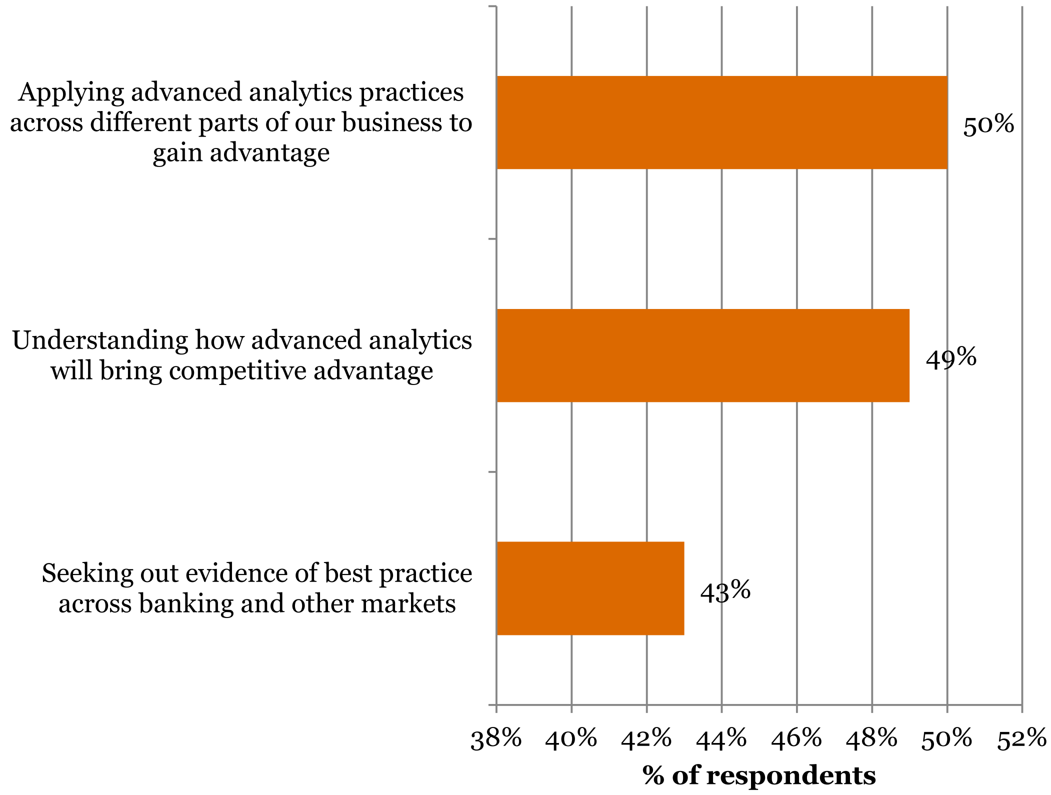
- Bank executives believe that regulatory compliance will continue to be the main challenge for retail banks and be the 2nd area of investment prioritisation.
- Banks will increasingly be on embracing regulatory intent, and creating sound, secure and unbiased businesses where regulatory compliance and sound conduct is embedded in the processes and values of everyday operations.
- Additionally capital management will need to be considered as part of individual business, customer and pricing decisions, for example capital intensive products will need to be priced higher.
- Beyond maintaining a strong, independent risk function that is focused on core financial risks, sufficient oversight of operational and reputational risk such as cyber security and vendor risk will be required. Best practice cyber security does not only protect the bank, but also the bank's customers.
- Risk management will expand and interact more closely with every area of the bank including marketing, product development, business analytics and compensation. This will require a robust end-to-end view of the business and an expanded skill set within the risk function.

Source: PwC, 2014

Priority 3: Information advantage

Retail banks are looking to mine data to gain competitive advantage.

Areas that European banks that will place significant effort in the next 5 years (2014)



Commentary

- Many banks are looking to harness both structured and unstructured information – from traditional sources (such as credit scores and customer surveys) and non-traditional sources (such as social media and cross-channel bank customer interaction data). Digital advancement means that banks now have a much higher frequency of interaction with the customer.
- Banks will use these capabilities to create an enhanced and connected customer experience, enhance their credit, risk and pricing models and develop a much more sophisticated view of their cost structures.

Case studies of innovation in this area

Citibank has invested in 'social listening' which take snapshots of social media, news and blogs which mention the brand. This data gathering method provides additional insight into customer service and identifies opportunities to improve interactions and products.

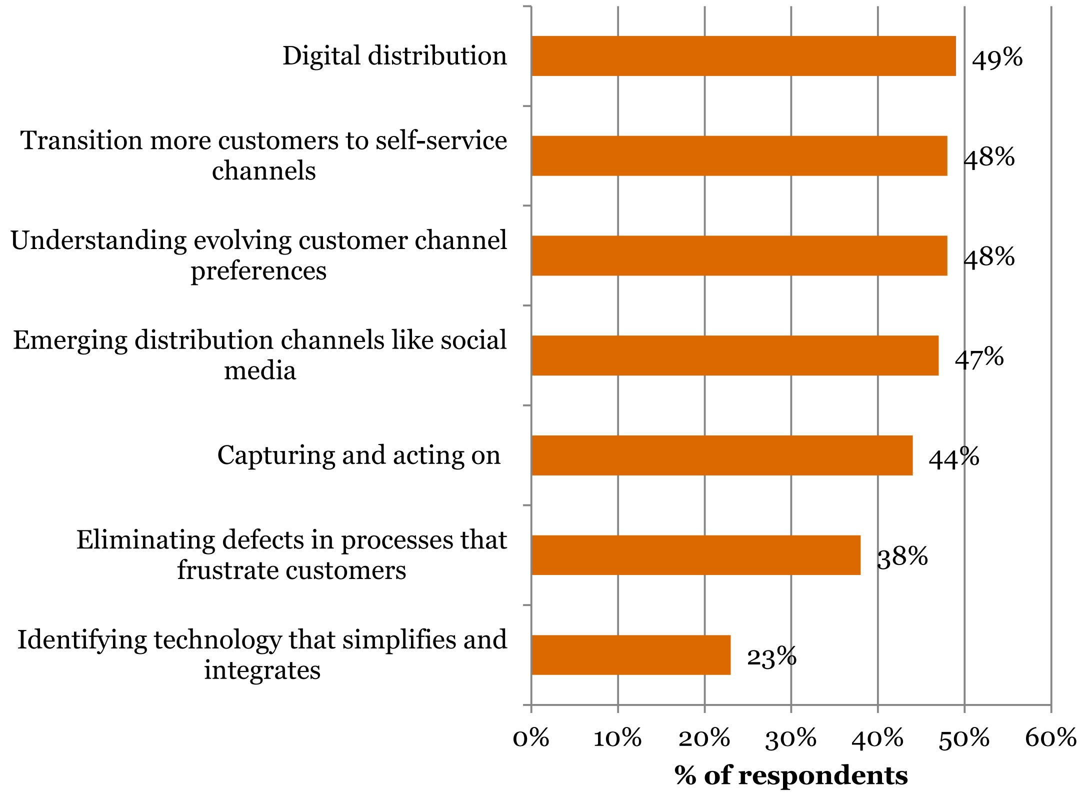
ANZ has implemented a real time customer feedback system to help identify and take immediate action in response to positive and negative customer experiences.

Source: PwC, 2014

Priority 4: Simplifying business and operating models

Retail banks are starting with the customer and redesigning business and operating models.

Areas that European banks that will place significant effort in the next 5 years (2014)



Commentary

- Banks have developed staggeringly complex and costly operating models, duplicating operations, technology and risk management processes. From an external perspective many executives believe that banks must simplify products, channels and prices to improve customer experiences. One way of achieving this is to create a new small business with simplicity and flexibility at the core of its design, and progressively migrate the customer base from the old world to the new world.
- From an internal perspective executives believe that simplification will lead to lower costs and increased profitability. Many banks are reducing their global footprint after years of global expansion. Focusing on core services and products.

Case studies of innovation in this area

Metro Bank motto is 'Creating fans, not customers' and has a business model focused on competitive differentiation through customer service. Metro Bank's initiatives include offering on the spot accounts and bank cards and 7 day opening hours.

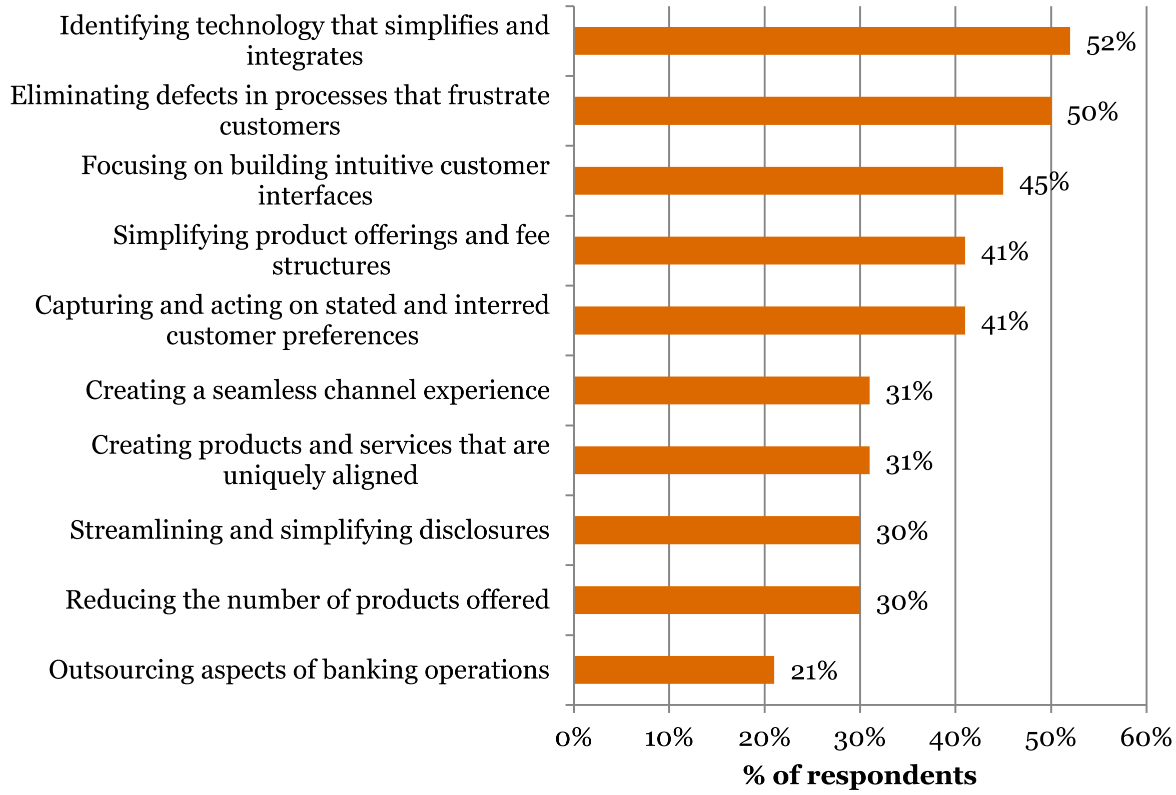
Otpbank offers free of charge basic accounts and then allow customers the option to add on additional value added features for an additional price.

Source: PwC, 2014

Priority 5: Optimising distribution

Retail banks are focusing on the customer and redesigning business and operating models.

Areas that European banks that will place significant effort in the next 5 years (2014)



Source: PwC, 2014

Commentary

- Leading bank executives are increasingly looking to manage distribution. Products will not be built into or serviced through a channel; rather, banks will develop shared platforms that distribute products across all channels.
- Leading banks in 2020 are likely to have a far greater number of physical points of presence and fewer traditional branches. Advisers will be present in all types of branch in person or by video expanding banks' distribution reach.

Case studies of innovation in this area

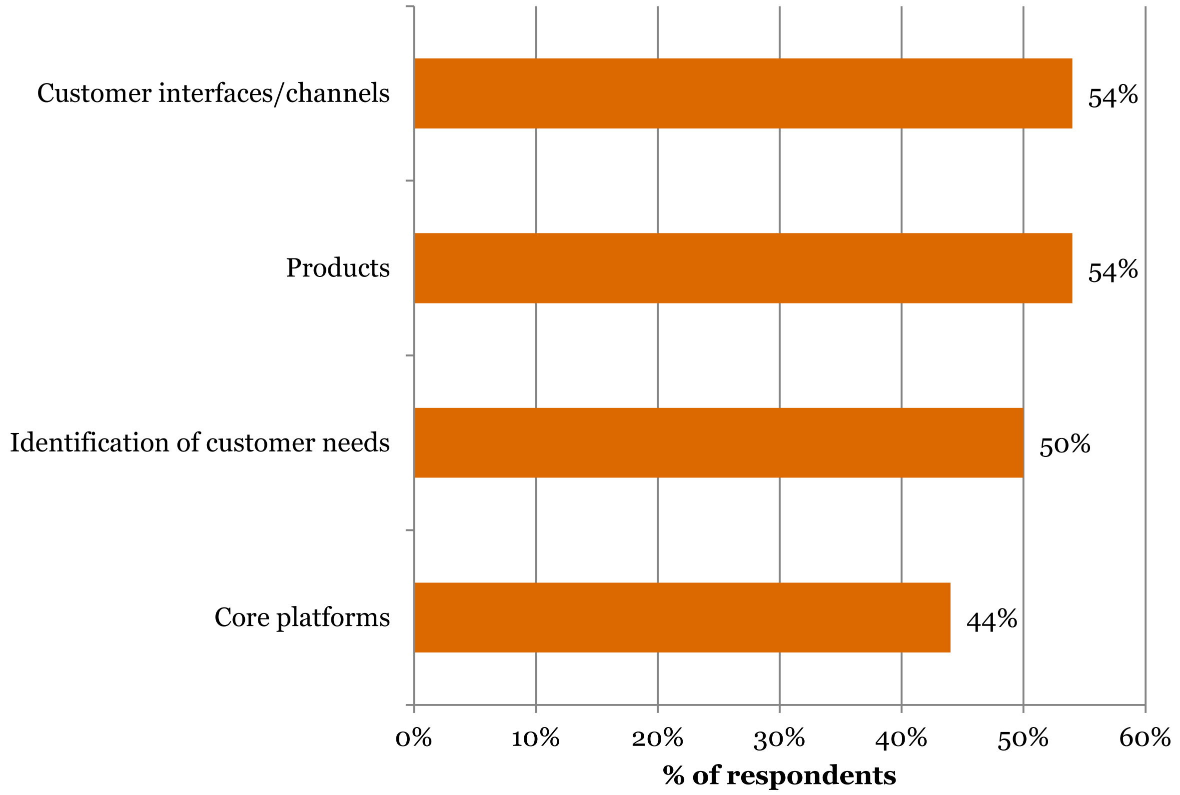
Banks have formed distribution partnerships with brands which with a large customer base, high customer satisfaction and higher frequency of customer contact to optimise their distribution access. Examples include HSBC working with Marks & Spencer and Nedbank working with Pick n Pay.

Smartypig allows customers to create and track specific savings goals through social media. Customers can share their savings goals with friends and family allowing them to deposit money and receive offers from participating retailers to spend the money when the goal is reached.

Priority 6: Open innovation

Retail banks are increasing looking to innovate to drive growth.

Areas that European banks that will focus on innovation in the next 5 years (2014)



Commentary

- Historically the retail banking sector has been innovative, however today banks tend to be cautious, bureaucratic and subject to multiple layers of process. Executives recognise that they need to do things differently and enhance their internal capabilities to foster innovation.
- To achieve this banks will need to organise themselves differently, supported by a number of enablers:
  - Talent – Banks will need to attract a new type of talent and develop a new way of managing this talent to enable them to succeed. This may result in people being managed outside of the existing corporate structure with different reporting lines, different measures of performance and different office environments. Many banks have set up dedicated innovation labs to accomplish this.
  - Agile development – Banks will need to have agile product and technology development skills to bring new products and capabilities to market much quicker than today.
  - Partnerships – Many major innovations are taking place outside of traditional banks. Banks may look to partner with non-traditional players such as technology start ups and academic institutions.
  - Senior leadership – To ensure the success in innovation senior leadership will need to reward those who do things differently and set the tone from the top.

Source: PwC, 2014

Impact on the cash savings market

We consider customer centric business model, information advantage and optimised distribution will be the key retail banking priorities to impact the cash savings market.

Priority	Impact	Description of our view of the likely impact on cash savings market
Customer centric business model	●	• Improved clarity and simplicity across savings products. • Simpler customer processes for opening new accounts and managing savings. • Greater focus on serving customers' entire financial needs, where savings are delivered within an integrated product/service suite. • A move towards outcome-based relationships, where the customer experience revolves around customer goals.
Managing risk, regulation and capital	◔	• Banks (and prudential regulators) will value term deposits to strengthen funding position and regulatory ratios. Product design will aim to encourage this savings behaviour (as opposed to a concentration on instant access terms). • Increased focus on conduct risk should improved customer outcomes.
Information advantage	◕	• Improved customer service and customer experiences when using savings accounts based on better feedback gathered from structured and unstructured data sources. • Customers' lifestyles and savings goals being increasingly factored into the types of savings products banks offer them.
Simplifying business and operating models	◑	• The simplification drive will help to make cash savings products more transparent and will need the needs of most customers • Efficient operating models will reduce the cost to provide savings products with some of the pricing benefits being passed to customers in higher average savings interest rates.
Optimising distribution	●	• Greater use of innovative methods to serve customers savings needs beyond traditional branch based services. • Non-financial services brands may increasingly be offering savings products either independently or in partnership with banks.
Open innovation	◑	• Disruptive, technology-led start ups will provide additional competition for incumbent participants in the cash savings market, which will encourage innovation in cash savings products and service delivery.

Scale: Low impact on the cash savings market ○ ◔ ◑ ◕ ● Major impact on the cash savings market

Appendices

Sources

A

Sources (1 of 5)

Author / Company	Year	Name of publication / Data provider
A.C. Nielsen	2013	Nielsen Media Research (January-October 2013), topic: bank advertising mediums
ABN Amro	2013	Annual report
ABN Amro	2014	Corporate website - History
ABN AMRO	2014	Strategic Priorities
ACM	2014	Barrieres voor toetreding tot de nederlandse bancaire retailsector
AFM	2013	Klantbelang centraal
AFM	2011	Klantbelang centraal 2011 en vooruitzicht 2012
ASIC	2012	Bank Switching Rules - http://www.asic.gov.au/asic/asic.nsf/byheadline/12-139MR+ASIC+implements+new+bank+account+switching+rules?openDocument
Australian Bankers' Association	2013	Bank Funding
Australian Prudential Regulatory Authority (APRA)	2014	Monthly banking statistics back series
Australian Retail Banking	2013	Australian Household Deposit Market: Forecasts and Future Opportunities
Bain & Company	2013	Customer loyalty in Retail Banking - Global edition 2013
Bankenoverzicht.nl	2014	Alle spaarrekeningen zonder voorwaarden in Nederland
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Bundesverband Deutscher Banken	2013	http://bankenverband.de/presse/meinungsumfragen/onlinebanking-in-deutschland-repraesentative-meinungsumfrage-im-auftrag-des-bankenverbandes-juni-2013
Bureau van Dijk	2014	Bankscope (data accessed May 2014)
CapGemini	2013	World Retail Banking report
CBS	2014	Monthly savings data
CBS	2012	Number of savings accounts per type
CBS	2012	Sum saved per type of savings account

Sources (2 of 5)

Author / Company	Year	Name of publication / Data provider
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CFPB	2011	Truth in Savings (Regulation DD)
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CPB/ M. Pomp	2005	Switch on the competition. Causes, consequences and policy implications of consumer switching costs
Credit Suisse	2014	Global Wealth Databook
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Datamonitor	2014	Current Account Customer Analytics
Datamonitor	2014	What Consumers want: Savings Account Product, Provider, and Channel Positioning
Datamonitor	2014	What Consumers want: Current Account Product, Provider, and Channel Positioning
Datamonitor	2012	Australian Savings and Deposits Market
Deutsche Bank	2013	Financial Statement
Deutsche Bundesbank	2014	Monatliche Bilanzstatistik Mai 2014
Deutsche Bundesbank	2014	Kapitalmarktstatistik May 2014, Statistisches Beiheft 2
Deutsche Bundesbank	2014	Bankenstatistik April 2014, Statistisches Beiheft 1
Deutsche Bundesbank	2013	Volkswirtschaftliche Gesamtrechnung
Deutsche Bundesbank	2014	Monatsbericht April 2014, No. 4
Deutsche Bundesbank	2014	Zinsstatistik Mai
Deutsche Bundesbank	2014	Diverse other sources and statistics
Diverse laws, acts and regulations	2014	a.o.: Income tax Act, Money Laundry Act, banking Act, Financial Institutions Acccounting Regulation, German Civil Code, Judgement of Federal Court of Justice
DKB	2013	Financial Statement

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Author / Company	Year	Name of publication / Data provider
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DNB	2014	Depositogarantiestelsel
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EtopiaBdB	2013	Internet volgens overheid geen levensbehoefte, volgens burger wel/ EtopiaBdB
Euribor-rates.eu	2014	http://de.euribor-rates.eu/eonia.asp
European Central Bank	2014	https://www.ecb.europa.eu/stats/monetary/rates/html/index.en.html
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FDIC	2014	Bank data & statistics (data accessed April 2014)
Finance Scout 24	2014	http://www.financescout24.de/geldanlage-banking/tagesgeld/tagesgeld-vergleich.aspx?betr=10000&lz=180&CalcScroll=1&sich=1
Finance Scout 24	2014	http://www.financescout24.de/geldanlage-banking/festgeld/festgeld-vergleich.aspx?betr=5000&lz=1800&sich=true&CalcScroll=1
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Goes	2012	ESB publicatie jaargang 97, 06-07-2012
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Harvard Business Review	2010	Case Study: Bank of America - Mobile banking
Hypovereinsbank	2013	Financial Statement
ING	2013	Annual report
ING	2014	Corporate website - History & Recently Asked Questions - State Aid
ING	2014	ING Bank Strategy Update: Think Forward
ING Diba	2013	Financial Statement
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Javelin Strategy and Research	2011	Online Account Opening
KPMG	2013	Herstel van vertrouwen binnen de bancaire sector/ KPMG

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Author / Company	Year	Name of publication / Data provider
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Marktstudie24	2013	Online Finance Report (2010), chapter 3
Maxius	2014	Wt op het Financieel Toezicht - wft
Mercedes Benz Bank	2013	Financial Statement
Michael Porter	2008	The Five Competitive Forces That Shape Strategy, Harvard Business Review
NIBC	2008-2013	Annual reports
PwC	2014	Entertainment & Media Global Outlook Report
PwC	2011	Digital Tipping Point
PwC	2014	Retail Banking 2020
PwC	2013	Savings Rate Survey
PwC	2013	Getting to know you: Building a customer-centric business model for Retail Banks
PwC Germany	2014	Customer Experience Monitor
PwC Germany	2010	Communications Networks
PwC Germany	2014	Retail Banking 2020 study
PwC Germany	2010	Client Centric Retail Banking study
PwC Germany	2012	Decision process analysis
PwC Germany	2012	Banking Business in Germany
Rabobank	2013	Annual report
Rabobank	2014	Corporate website - History
RBA	2014	Monthly published statistics
RFI Research	2013	Privately commissioned research
Rijksoverheid	2014	Pensioenopbouw
Roland Berger	2013	Dutch retail banking

Sources (5 of 5)

Author / Company	Year	Name of publication / Data provider
Roy Morgan Research	2014	High interest online accounts
SNS	2013	Annual report
SNS	2014	Corporate website - History
Spaarrente.nl	2014	Rente spaarrekening vergelijken
Spaarrente.nl	2010	Spaarbanken breken met onduidelijkheid
Sparkassen Finanzgruppe	2013	Financial Statement
Statistisches Bundesamt	2012	Fachserie 14, Reihe 4
Statistisches Bundesamt	2012	Fachserie 15, Reihe 4
Thomson Reuters	2014	Datastream (data accessed April 2014)
TNS Nipo/MoneYou	2013	SpaarMonitor
Volkswagen Bank	2013	Financial Statement
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World Bank	2014	Population Data (accessed April 2014)

Glossary of terms

B

Glossary of terms (1 of 2)

Term	Jurisdiction	Meaning
Aggregators	All	• Online websites which source account and price information from multiple online sources. The term is used interchangeably for both external price comparison websites and websites which collate individual's financial affairs from a variety of sources.
Big 4 Banks / Majors & Tier 2	Australia	• Big 4/majors refers to the big 4 Australian banks; Commonwealth Bank (CBA), Westpac, National Australia Bank (NAB) and Australia and New Zealand Banking Group (ANZ). • Tier 2 refers to the smaller Australian banks including (but not limited to); Bendigo and Adelaide Bank, ING, Bank of Queensland (BoQ), Suncorp .
Direct Banks	All	• A bank without any branch network that offers its services remotely via online banking and telephone banking and may also provides access via ATMs (often through interbank network alliances), mail and mobile.
Four Pillars (Four Pillars Policy)	Australia	• The Four Pillars refers to the four major banks within Australia; Commonwealth Bank (CBA), Westpac (WBC), National Australia Bank (NAB) and Australia and New Zealand Banking Group (ANZ). This market structure is underpinned by the Four Pillars Policy, an Australian Government policy to maintain the separation of the of the four major banks by rejecting any mergers/acquisitions between them. The policy however does not prevent them for acquiring smaller competitors.
Superannuation Guarantee	Australia	• The Superannuation Guarantee Charge (SGC) scheme was introduced in 1992 and mandated that employers contribute a minimum set level of funds into an employee's superannuation account each year. Initially the contribution charge was set at 3% and has subsequently increased to 9% (where it has remained for the past 10 years). As of 2013 the SGC will be gradually increased to 12%.
The Guarantee Scheme	Australia	• The Australian Government Guarantee Scheme for Large Deposits and Wholesale Funding (the Guarantee Scheme) was introduced in 2008 to promote financial stability in times of turbulence - Global Financial Crisis. Initially the scheme covered 100% of all deposits, this was subsequently reduced to $1m per customer per institution and further reduced to 250k effective February 2012.

Glossary of terms (2 of 2)

Term	Jurisdiction	Meaning
GFC	All	• Global Financial Crisis – Refers to the financial crisis of 2007 to 2008.
LCR	All	• Liquidity Coverage Ratio – A measure that ensures financial institutions have an adequate stock of high quality liquid assets that can be converted easily and immediately into cash to meet their liquidity needs.
CAGR	All	• Compound Annual Growth Rate – The annual growth rate of a variable over a specific period of time. Often used to compare key performance indicators across an industry.
HHI	All	• The Herfindahl-Hirschman Index is a measure of concentration within an industry (based on the squares of each firm's market share). A score approaching zero indicates a very large number of small firms, while a score of 10,000 indicates a market that has one monopolistic firm.
AOW	Netherlands	• The AOW is a basic state pension in the Netherlands.
IRA	USA	• Individual retirement arrangements.
ADI	Australia	• Authorised Depository Institution.
FOFA	Australia	• The Future of Financial Advice. Legislation to improve the trust and confidence of Australian retail investors in the financial services sector and improve access to advice.
KYC	All	• Know Your Customer.
AML	All	• Anti-Money Laundering.
ROPO	All	• Research Online, Purchase Offline.

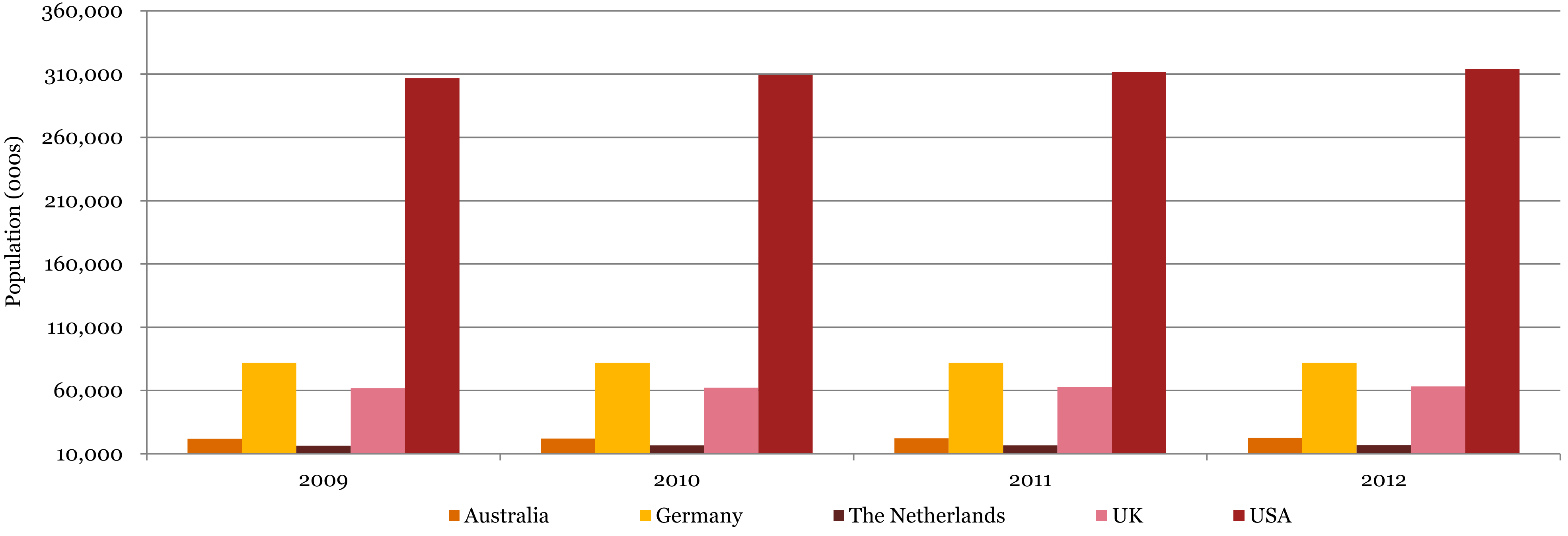
Supporting economic, market and customer data

C

Economic and demographic considerations

Population is correlated with deposit market size.

Country population (000s)



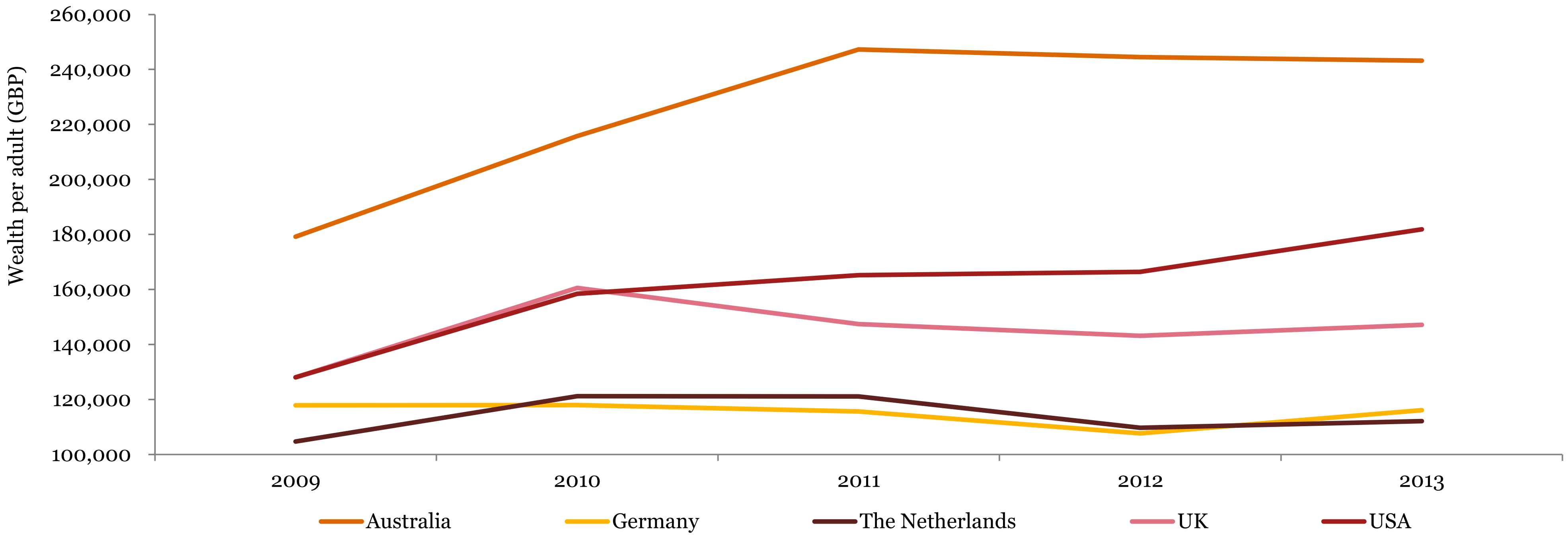
	Australia	Germany	Netherlands	UK	USA
2009 – 2012 population CAGR	1.4%	0.0%	0.5%	0.8%	0.8%

Source: World Bank, 2014

Economic and demographic considerations

Overall wealth is growing suggesting that there are growing resources available which could go into cash savings. The exception is Germany which is experiencing a marginal decline.

Wealth per adult



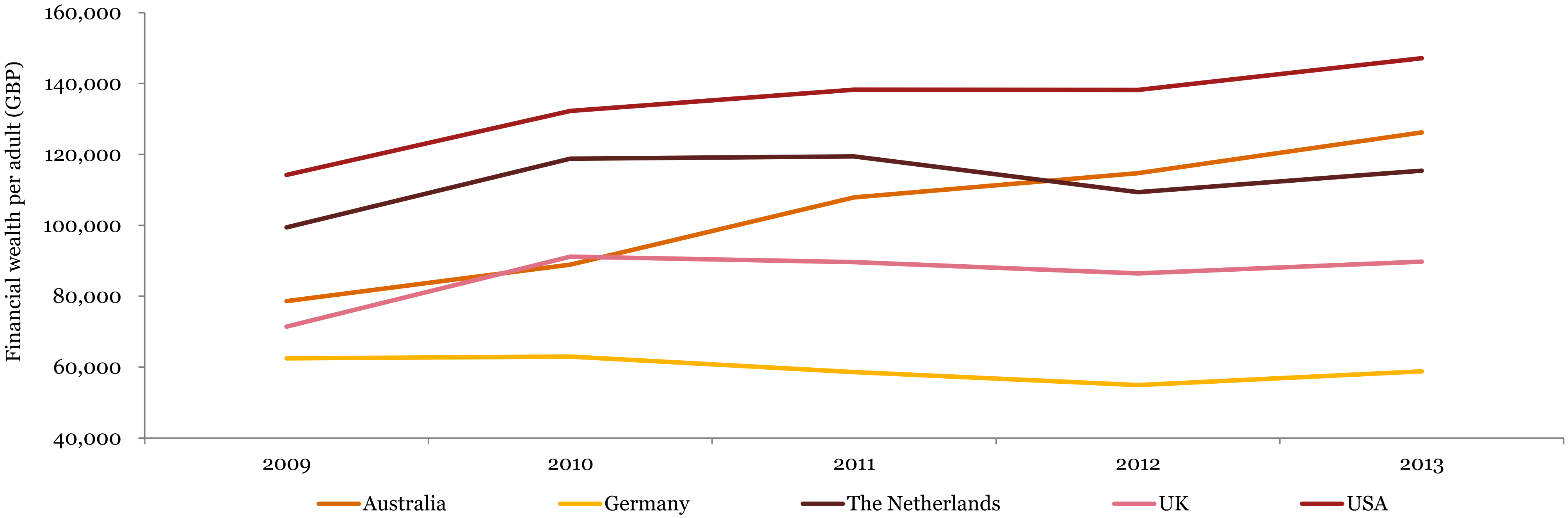
	Australia	Germany	Netherlands	UK	USA
2009 – 2013 wealth CAGR	7.9%	(0.4)%	1.7%	3.5%	9.2%

Source: Credit Suisse, 2013

Economic and demographic considerations

Financial wealth is also increasing which further emphasises the potential resources for cash savings. Germany is the exception in the countries chosen in this study.

Financial wealth per adult



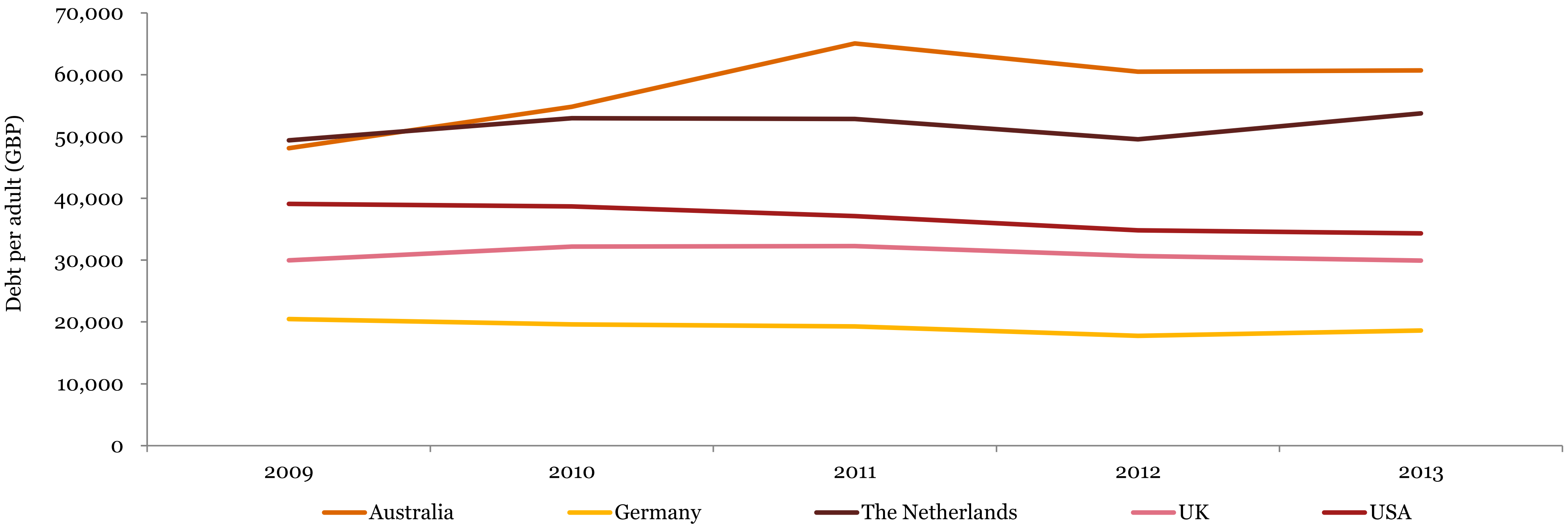
	Australia	Germany	Netherlands	UK	USA
2009 – 2013 financial wealth CAGR	12.6%	(1.5)%	3.8%	5.9%	6.5%

Source: Credit Suisse, 2013

Economic and demographic considerations

Decline in levels of household debt may indicate that some customers may be focusing on paying down debt instead of making cash savings

Household debt per adult



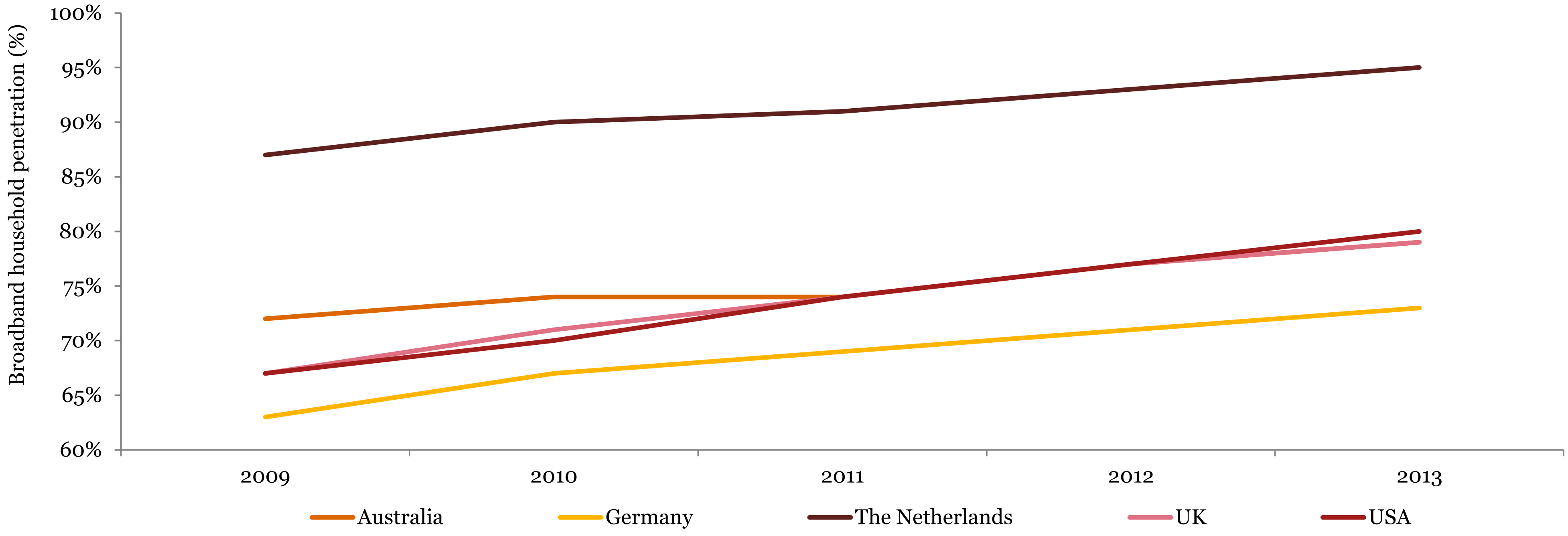
	Australia	Germany	Netherlands	UK	USA
2009 – 2013 debt CAGR	6.0%	(2.4)%	2.2%	0.0%	(3.2)%

Source: Credit Suisse, 2013

Technological factors

Broadband penetration across all territories indicates that online service provision is a key channel to access a large number of customers

Broadband household penetration (%)



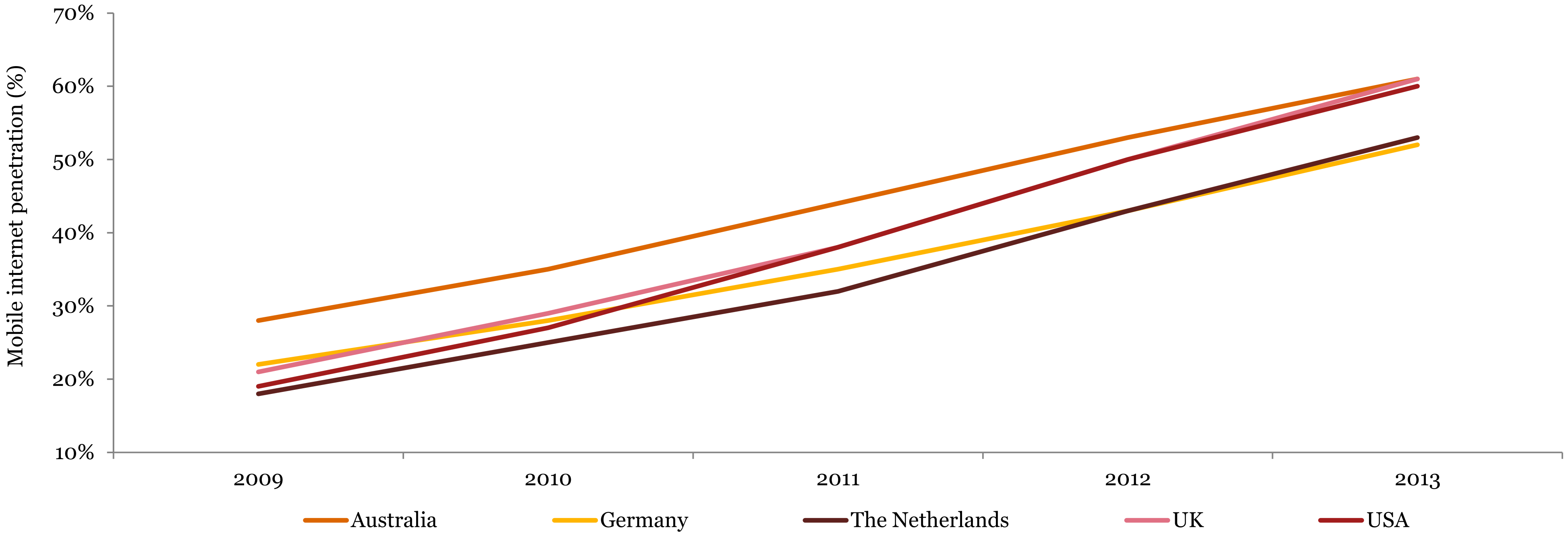
	Australia	Germany	Netherlands	UK	USA
2009 – 2013 broadband CAGR	4.3%	3.9%	3.0%	5.3%	6.3%
2013 total broadband households	7.1m	29.5m	7.2m	22.5m	105.8m

Source: PwC, 2014

Technological factors

Mobile internet penetration is also consistent across all territories and suggests that this will increasingly become an important channel for cash savings

Mobile internet penetration (%)



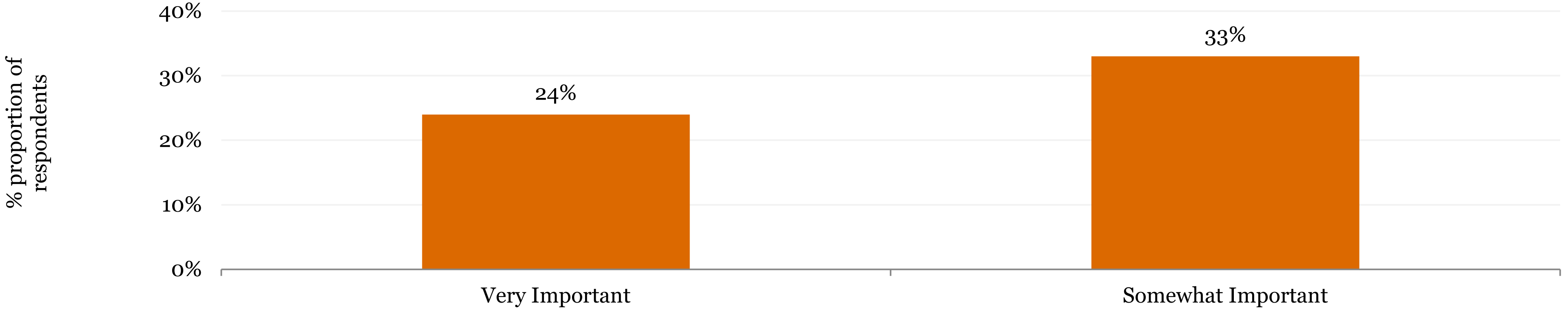
	Australia	Germany	Netherlands	UK	USA
2009 – 2013 Mobile Internet CAGR	23.7%	22.8%	31.6%	31.6%	34.5%
2013 Total mobile internet subscribers	14.3m	42.1m	9.0m	22.5m	193.3m

Source: PwC, 2014

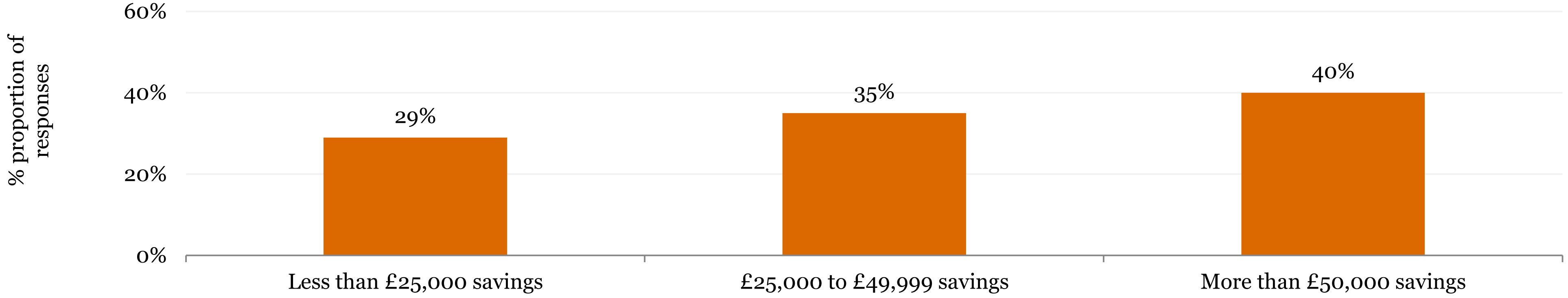
Technological factors

Potential growth in the mobile banking channel is corroborated by customer feedback.

"How important is our mobile banking service to you?"



Income of those who used a mobile to purchase financial services [1]



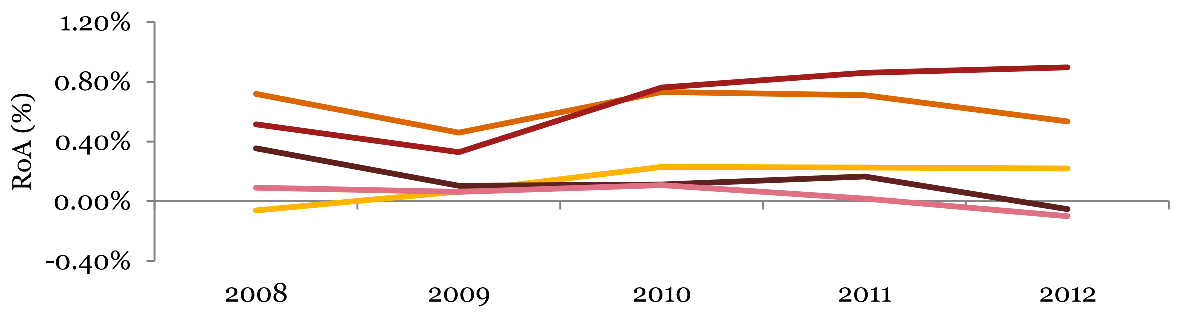
[1] Geographies surveyed were UK, UAE, Poland, Mexico, India, Hong Kong, France, China and Canada

Source: PwC, 2011; Harvard Business Review , 2010

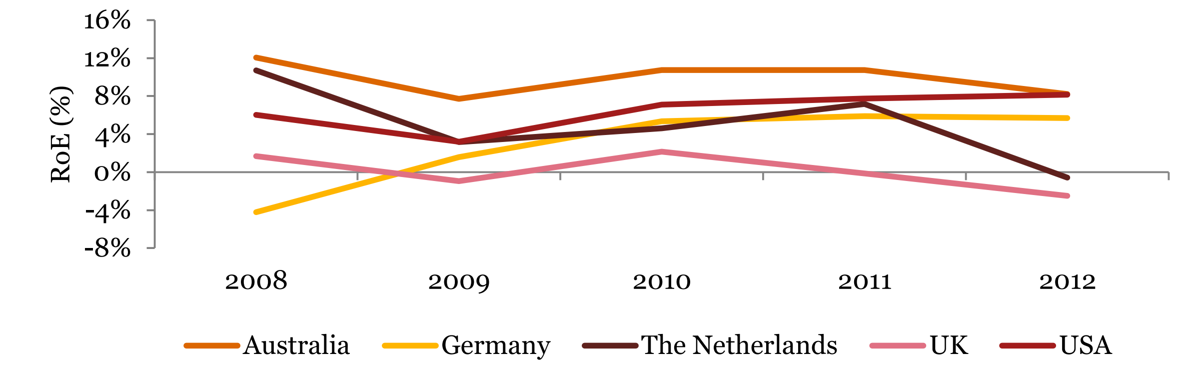
Banking sector financial performance - Stability

Return on assets and return on equity show a large gulf in financial performance across countries.

Top 10 banks return on assets (%)



Top 10 banks return on equity (%)



Commentary

- Return on Assets (ROA) and Return on Equity (ROE) measures show that there has been a large gulf in financial performance across countries.
- The top 10 banks in Australia have had both a comparably high and stable ROE and ROA over the 2008-2012 period. Although the USA 10 banks had higher ROA for 2011 and 2012, the higher leverage of the Australian banks means they had similar ROE.
- While Germany was the worst performer on both metrics in 2008, they have subsequently recovered smoothly.
- The top 10 banks in the UK and Netherlands on the other hand have struggled to deliver good returns, following the financial crisis. Both countries have had negative ROA and ROE on average across their top 10 banks in 2012. The UK had the worst ROE performance over the five year period, consistently finding it difficult to achieve positive returns.
- Higher pressure on returns will drive management pressure to reduce costs, but may lead to increases in retail pricing.

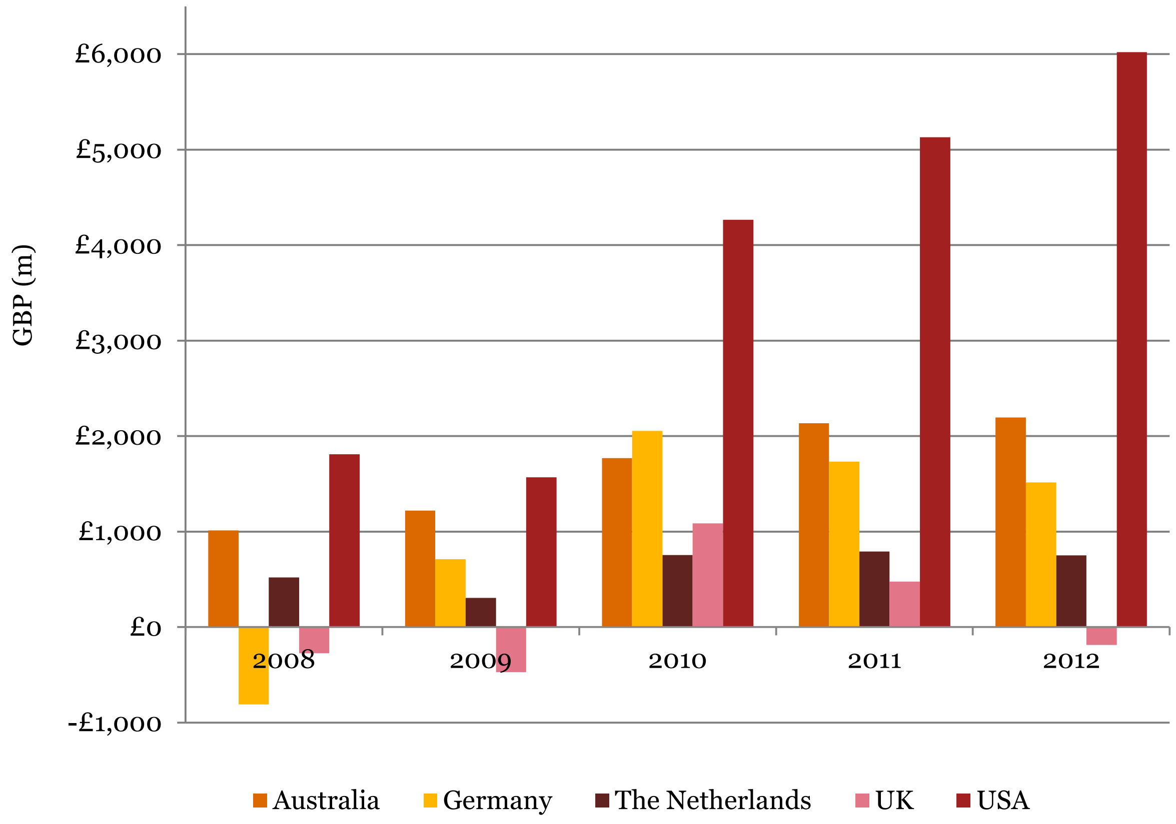
Note: Data based on top 10 Commercial Banks, Co-operative Banks, Savings Banks and Building Societies/Real Estate & Mortgage Banks in each specific country. Average equity and average assets over the year are used in calculating the ratios.

Source: Bankscope, 2014

Banking sector financial performance - Size

Similarly the size of returns in each market varies significantly.

Top 10 Pre-tax profit (GBP, m)



Commentary

- The top 10 UK banks have had the weakest profit performance relative to the other countries in the sample.
- The USA has achieved robust growth in pre-tax profits since 2009, and has the largest average profit out of all the countries by some distance.
- Australia has experienced a similar trend to the USA, as average profits have been consistently positive and growth over the period.
- Germany, despite having a negative average profit in 2008, recovered quickly, although has experienced falling average profit in 2011 and 2012 compared to the previous year.

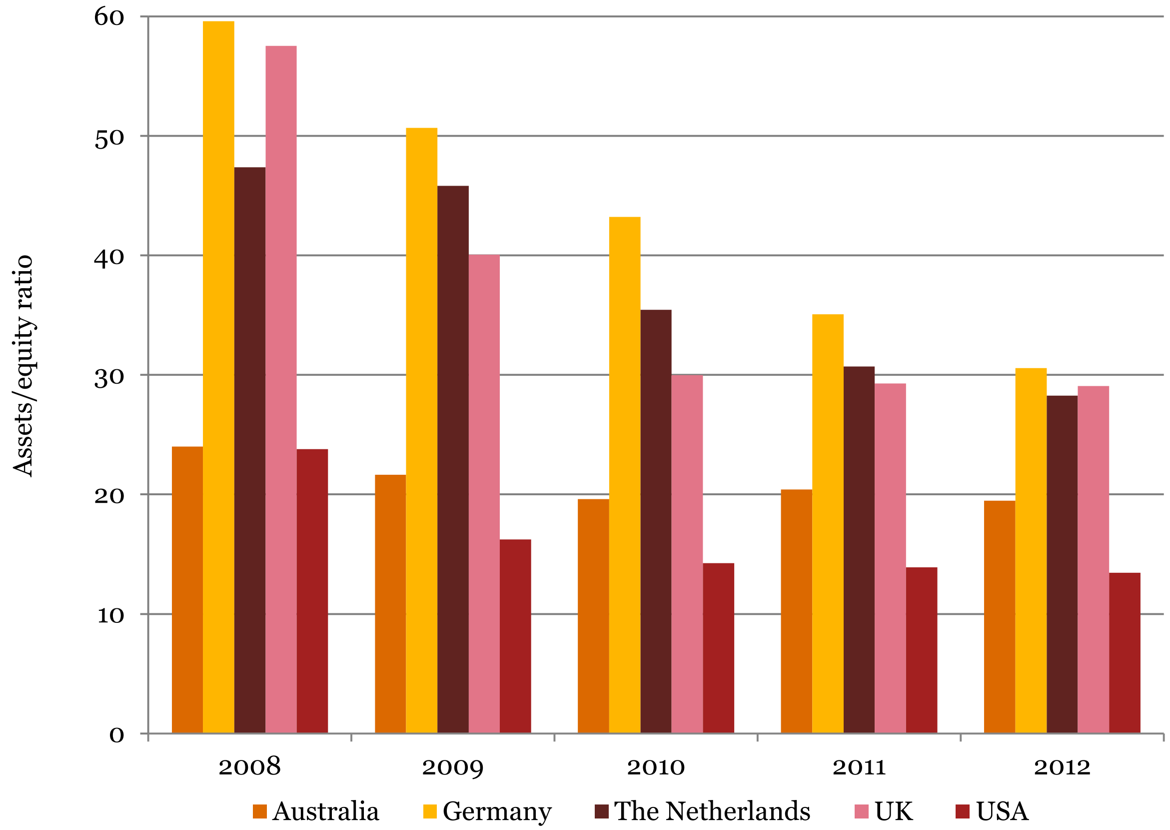
Note: Data based on top 10 Commercial Banks, Co-operative Banks, Savings Banks and Building Societies/Real Estate & Mortgage Banks in each specific country

Source: Bankscope, 2014

Banking sector financial performance - Leverage

In all the markets in the study leverage is decreasing.

Top 10 banks total asset / average equity ratio



Commentary

- Across all countries in the sample leverage has been declining. Declines in Germany and the UK have been the steepest from 2008 to 2012, partly to meet new regulations such as Basel III.
- These declines have been achieved through a combination of deleveraging on the asset side , more efficient balance sheet management and increased equity through bank (re)capitalisation.
- It is important to note the inconsistency of definitions, as US banks are able to net certain derivative positions under US GAAP.
- Australia has had the highest degree of stability in its leverage over the period, fluctuating around an assets to equity ratio of 20. A key reason underlying this has been the robust performance of their housing sector compared to the other countries in the sample.

Note: Data based on top 10 Commercial Banks, Co-operative Banks, Savings Banks and Building Societies/Real Estate & Mortgage Banks in each specific country

Source: Bankscope, 2014

Customer survey data on 9 countries

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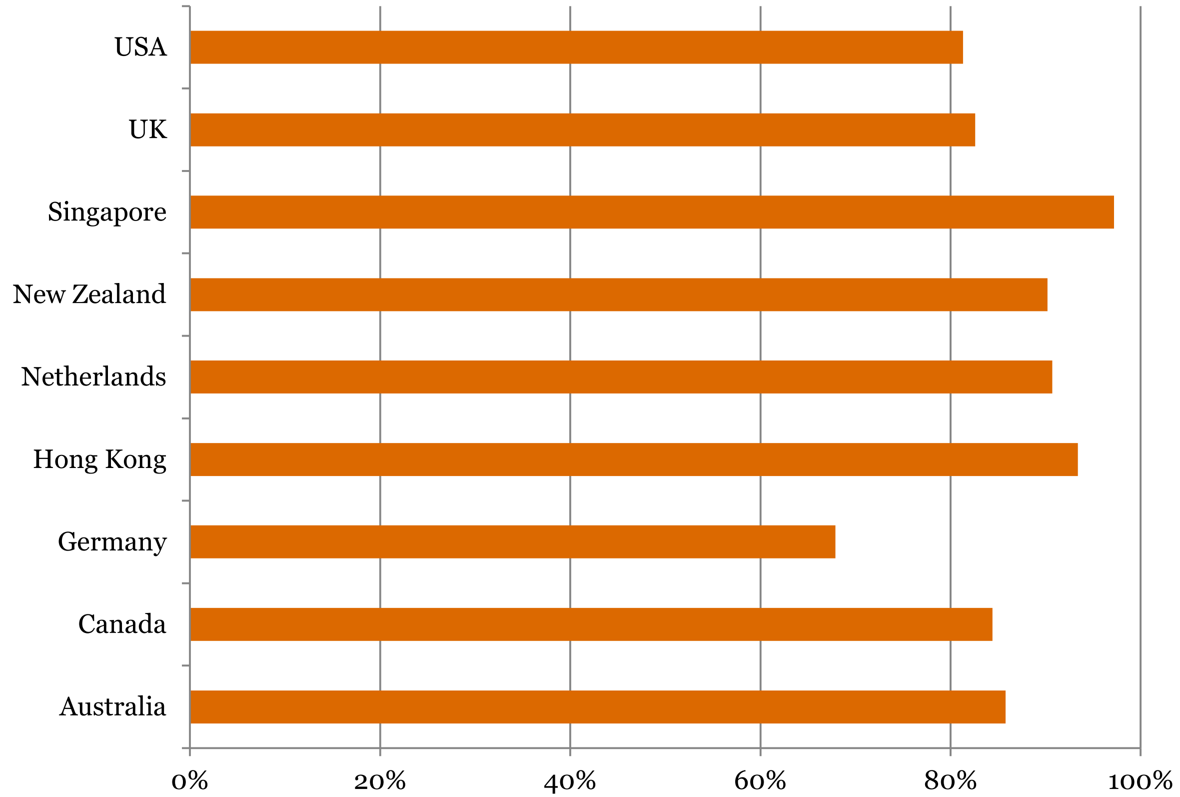
Comparative customer survey data

Savings penetration rates.

% of respondents who said they had a savings account



Commentary

- Savings account penetration rates across the nine countries shown vary between 68% and 97%.
- Germany has the lowest savings accounts penetration out of the sample, while Singapore and Hong Kong have the highest rates.
- The UK sits towards the middle of list with a penetration of 83%.

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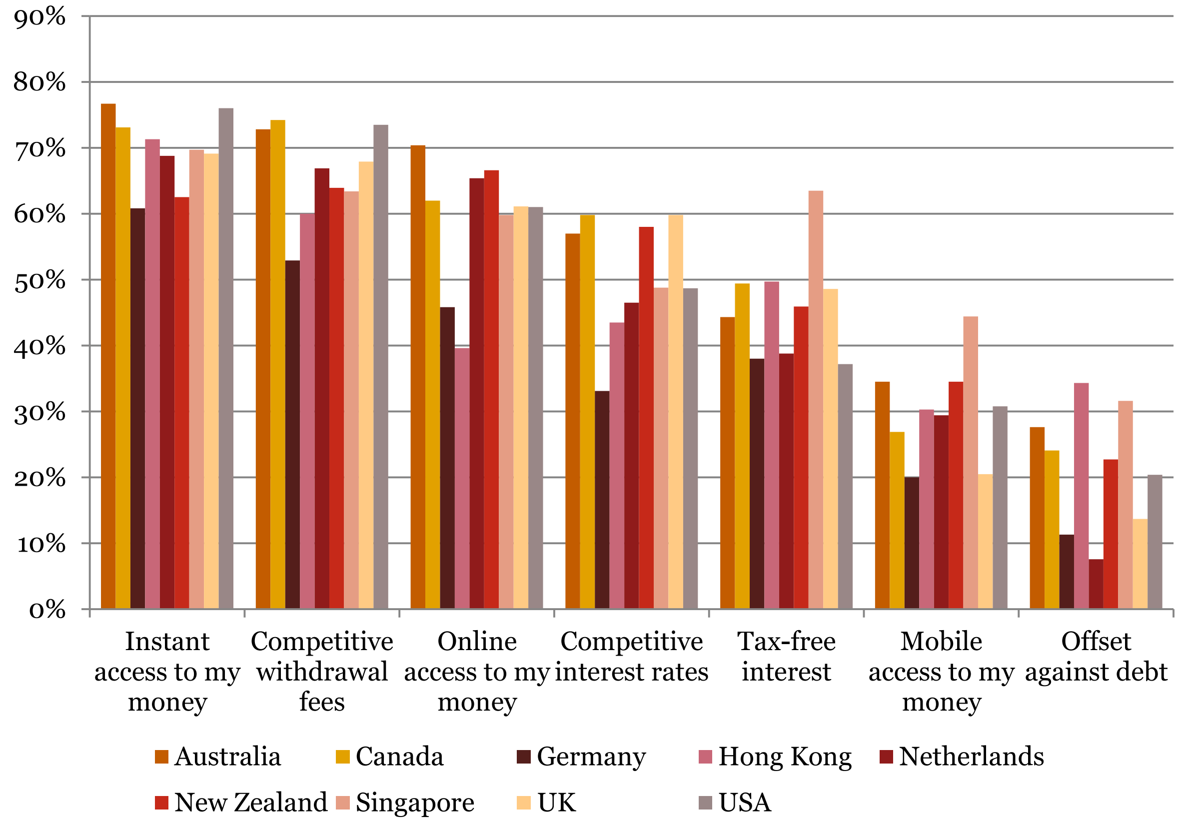
Comparative customer survey data

Essential features of a savings account.

% of respondents who said each feature was essential



Commentary

- Across all of the countries, consumers appear to have a higher preferences for savings account features other than a competitive interest rate.
- Instant access to money, competitive withdrawal fees and online access to money all rank very highly when consumers consider what account features are essential for them.
- Although less essential that other features approximately one third of consumers across the sample of countries stated that having mobile access to their money was essential.

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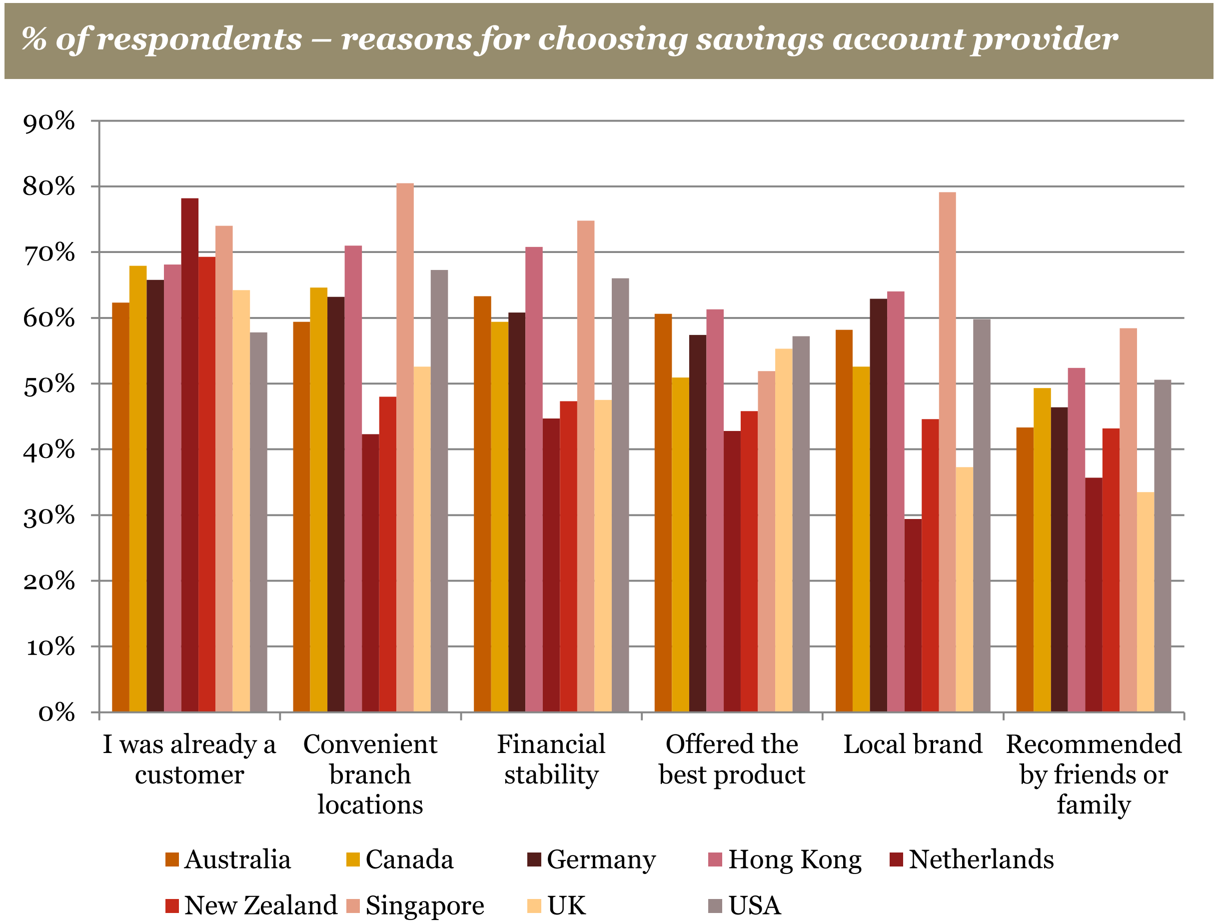
Comparative customer survey data

Reasons for choosing savings account provider.



Commentary

- Consumers stating that they choose their savings account provider because they were already a customer is very high across all countries. However, in the US, convenient branch locations and financial stability are more critical reasons for choice.
- The proportion of people selecting their savings provider on the basis that they were already a customer indicates can be used as a proxy for stickiness within the market. On this basis, stickiness appears to be higher across all markets, and in most territories out ranks the proportion of respondents who said that the choose on the basis that the provider 'offered the best product'.

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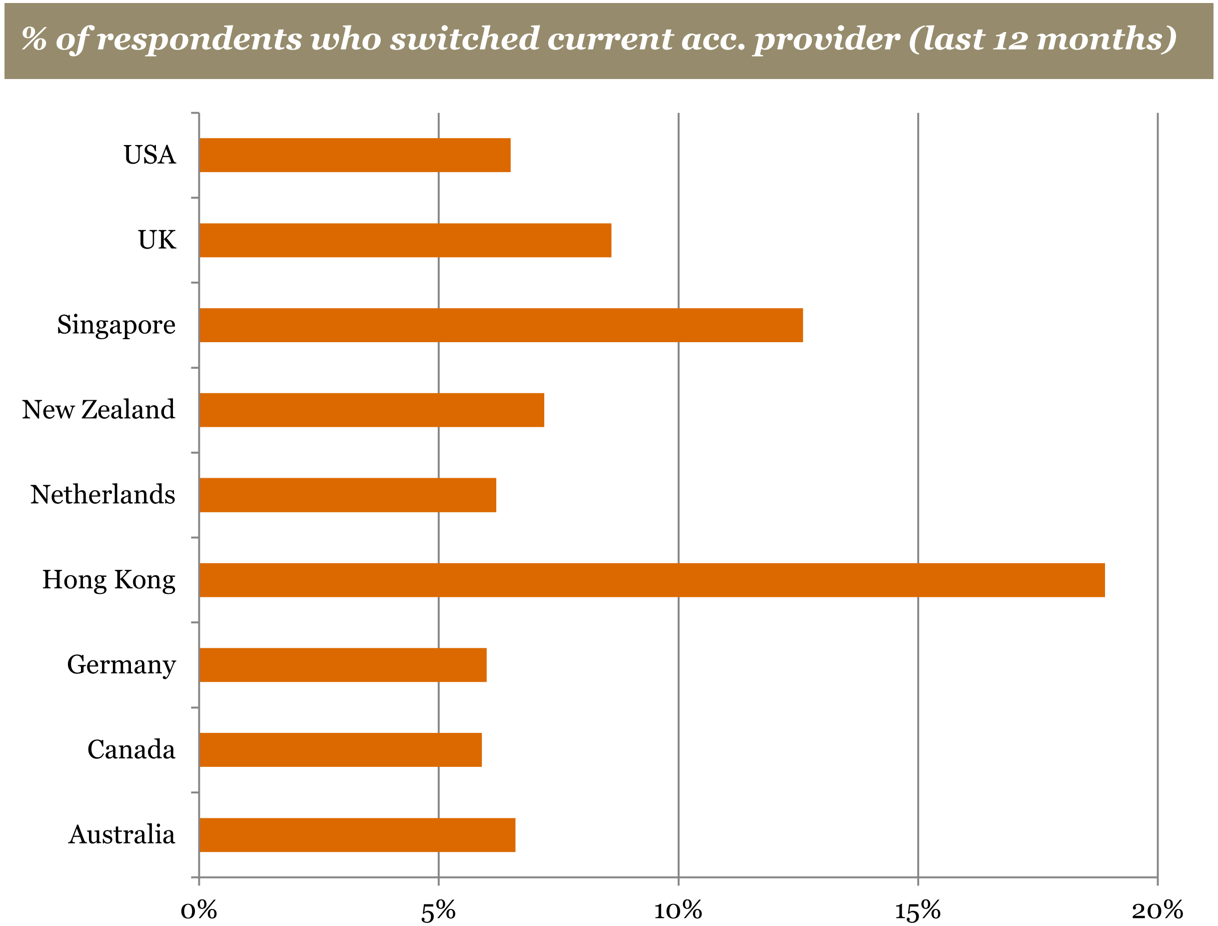
Comparative customer survey data

Current account switching



Commentary

- Consumers in Asian economies appear to have a higher rate of current account switching than other countries in our broader sample. Hong Kong has by far the highest rate of switching with just under 19% of consumers indicating they had changed provider in the last 12 months.
- Excluding the Asian countries, the UK was recorded as having the highest rate of current accounts switching in the sample with just under 9%. Most other countries had rates of 6% to 7%.
- The two most common reasons cited by consumers for switching their current account provider across the sample were negative experiences, where as the third most common reason was focused on chasing better rates. They are listed in order below:
    1. Poor customer service.
    2. My old bank made too many mistakes.
    3. New provider offered better rates.

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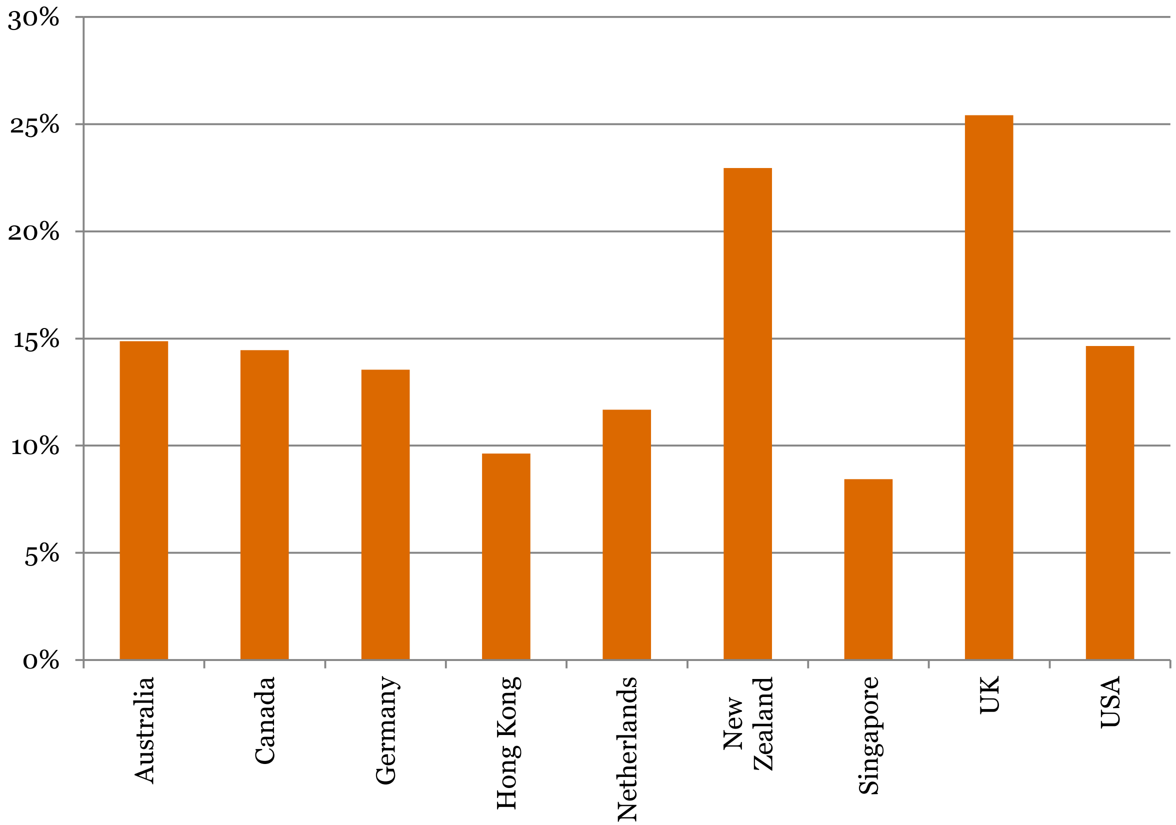
Comparative customer survey data

New savings account openings by year

% of respondents who opened savings account in 2012 or 2013



Commentary

- One proxy for switching is to look at activity around account openings. Looking at the proportion of consumers who indicated that they had opened their savings account in 2012 or 2013, we can see that the UK ranked the highest out of the 9 country group.
- Market activity in terms of savings account openings appears to be lowest in the far Eastern economics of Singapore and Hong Kong, however, New Zealand joins the UK in having over 20% of consumers opening accounts in 2012 or 2013.

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