
Cash savings market study terms of reference

October 2013



Cash savings market study: terms of reference

We are conducting a study into cash savings to see whether competition in this market is working well for consumers. 82% of adults in the UK have a savings account and household cash holdings amount to £1.2 trillion.¹ In 2012, more than six million adults opened a new savings account.²

Our study will examine the nature of competition in the market and obstacles to consumers switching their savings between accounts, including the information available to consumers.

These terms of reference set out:

- why we decided to look into the cash savings market
- the scope of products and issues we will consider in the study
- what could happen as a result of the study
- timetable, contacts and information gathering process

Why are we conducting this study?

We are aware that there appears to be a low level of switching when it comes to cash savings accounts compared to other products, including other financial products such as credit cards and insurance. Also a number of savings accounts offer initial time-limited bonus interest rates, after which interest rates may fall.

Our concern is that providers may be able to reduce interest rates on existing savings accounts without needing to worry about consumers switching to other suppliers or other savings products. Many consumers who are not active in the market can receive very low levels of interest on their savings.

In our study we will look into how consumer switching behaviour affects competition in the market and outcomes for the different types of consumers.

Our competition objective

One of our statutory objectives is to promote effective competition in the interests of consumers. This means promoting the development of financial services markets in which customers are offered good value products and services that meet their needs. We expect to use market studies as our main tool for examining competition issues in the markets we regulate.

¹ Deposit and Savings Accounts – UK, Mintel, April 2013

² GfK Financial Research Survey: Savings market report, GfK, December 2012.

We recognise that a wide range of problems in markets can prevent competition being effective. These can include supply-side constraints that make it harder for providers to enter the market and/or to expand, as well as demand-side problems, including consumer behaviour, problems with information provided to consumers and the way firms respond to consumer behavioural patterns.

We announced our [future programme of competition work](#) for the year ahead in September 2013. This stated our intention to initiate three competition market studies, of which this cash-savings market study is the first.

What this study covers

Types of product and provider

The focus of this study is interest-bearing cash savings accounts. These accounts enable consumers to store their cash and generate an interest rate return, but they typically offer limited transaction functions compared to current accounts.

Savings accounts can vary according to the terms on which cash can be accessed (instant, notice, fixed term) and tax privileges (cash ISAs). The interest rate can be fixed or variable and can include initial time-limited bonus interest rates.

From a consumer's perspective, there are a number of potential alternatives to interest-bearing cash savings accounts, in particular:

- interest-bearing Personal Current Accounts (PCAs)
- offset mortgage accounts
- premium bonds
- savings accounts that offer a return tied to some form of investment, for example, in stocks or shares, or gilts
- stocks and shares ISAs

We will not focus on these alternatives in our study. However, we may look at the extent to which they constrain and compete with the providers of cash savings accounts. So we will not at this stage look at any concerns that arise in relation to alternative products that do not also arise in relation to cash savings accounts. We will focus on the issues that cause us the greatest concern.

For example, a PCA can in some cases be used primarily as a savings account because it may offer a sufficiently attractive interest rate on balances, so in this capacity we propose to include these in our study. However, a PCA also offers additional transaction and overdraft facilities not normally associated with a savings account – issues with these additional facilities will not be captured by the study, as they do not have a direct bearing on the cash savings market.

We will also be looking at products that may be linked to providing a cash savings account. For example, many consumers have their savings account with their PCA provider and the eligibility for and/or interest rate paid on a savings account may be linked to holding a PCA or other financial product from that provider. In our study we will look at accounts held with all

providers in the market, whether or not these are regulated by the FCA, including National Savings and Investments. In addition to assessing the role of banks and building societies in driving competition in the market, we will also explore the role of the smaller providers with alternative business models, such as credit unions and friendly societies.

We will focus on household savings. We are not looking at savings accounts for business customers, as the Office of Fair Trading (OFT) is currently undertaking a market study into banking for small and medium enterprises ('SME banking').³

In terms of the geographic scope of the study, we will look at the accounts available to UK consumers. This is because the types of products, the rates available on those products and other aspects that firms compete on tend to be determined nationally. However, we recognise that some consumers choose their provider locally through a branch network.

Key facts about scope

- **Geographical scope:** accounts available to UK customers.
- **Consumers:** accounts available to households (excludes accounts for business customers).
- **Focal products:** interest-bearing cash savings accounts (can vary according to the terms on which cash can be accessed and tax privileges).
- **Related products and markets:** interest-bearing personal current accounts, offset mortgage accounts, premium bonds, and savings accounts that offer a return tied to some form of investment, for example, in stocks or shares.
- **Types of firms:** providers of household cash savings accounts, whether or not regulated by the FCA.

Issues to be explored

To examine whether there are obstacles to competition working more effectively for consumers in this market we will look at consumer behaviour, the conduct of firms and the structural features of the market.

We will look at the effects on competition of initial time-limited bonus interest rates for new customers and how often consumers switch savings accounts.

The behaviour of consumers is crucial to how the savings market works. Our main concern is that there is apparently a low level of switching between accounts and customers who do not switch potentially receive very low interest on their savings.

When assessing how consumer behaviour affects competition in the market, we will look at:

³ [OFT announces market study on SME Banking](#)

- which consumers switch accounts and how often
- why there appear to be low switching rates, including consumer inertia, actual and perceived switching costs and benefits from switching
- whether the information available to new and existing customers allows them to make informed choices
- how complex products are and how well consumers understand them

We will also examine supplier conduct in the market, including:

- the number and variety of accounts available
- the terms of those accounts, including the interest rates offered and any eligibility requirements
- the channels through which accounts are sold (for example, in branch, online, by telephone)
- the information that suppliers give to their existing and potential customers

73% of all existing savings customers and 65% of new savings customers have savings accounts with their personal current account (PCA) provider.⁴ Providers may offer different terms to new customers than to existing customers and may offer different interest rates depending on whether the consumer holds another product, such as PCA or mortgage with that provider. So we will examine the links between competition in the savings account market and competition in related markets.

Effective competition between suppliers can be hindered by structural features of the market, such as barriers to entry or expansion. In the market for cash savings accounts these may be caused by economies of scale or scope, or barriers to consumer switching. We will examine the history of entry and expansion in the market and obstacles faced by suppliers. There may also be advantages to incumbents from holding a stock of existing savings (the back book), which may affect the way they compete to attract new savings accounts (the front book) as well as the interest rates they offer on existing savings accounts.

To understand the nature of competition for savings we need to look at the link between other sources of funding for cash savings product providers and their broader business strategies, which will influence their ability and desire to actively attract new savings deposits. We will also look at the role of existing regulation in deposit-taking institutions' funding and lending strategies.

Next steps

We will engage with market participants, consumer bodies and other interested parties through interviews, roundtables, surveys and information requests over the coming months.

⁴ *GfK Financial Research Survey: Savings market report*, GfK, December 2012.

As well as examining existing published research and analysing information that we already hold⁵, we plan to commission consumer research and collect new information from market participants through information requests and interviews. Our study will build on the interim findings of our thematic review into the automatic renewal of fixed-term bonds, which we published in July 2013.⁶

We will liaise with the OFT throughout the study, as it has an ongoing programme of work covering the broader retail banking sector.

We expect to publish a statement of our preliminary findings in spring 2014 and publish our final report in autumn 2014.

Depending on our findings⁷ we may:

- make policy or regulatory changes
- make new rules, change or withdraw rules, or make recommendations to the PRA
- use firm specific enforcement powers
- make proposals for enhanced industry self-regulation
- publish guidance
- ask the OFT to consider the market
- take no further action

How to submit views and evidence

With the publication of these terms of reference, we are also asking for your views or evidence on the matters covered by the study. We are particularly interested in whether competition in the household cash savings market is working in the interests of consumers. If not, what are the main obstacles to effective competition in this market?

Please send your comments to cashsavings@fca.org.uk by 6 December 2013.

Or in writing to:

Cash savings market study team
Competition Department
Policy, Risk and Research Division
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

⁵ Including previous studies such as [Cash ISAs: Response to supercomplaint by Consumer Focus](#), OFT, June 2010

⁶ <http://www.fca.org.uk/news/thematic-reviews/tr13-4-automatic-renewal-of-fixedterm-bonds>

⁷ Further details of these potential outcomes may be found in [The FCA's approach to advancing its objectives](#), FCA, June 2013. See also: <http://www.fca.org.uk/your-fca/documents/market-studies/how-we-carry-out-market-studies>

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