

MS14/2.4

Cash Savings Market Study Update



July 2016

Introduction and Summary

- 1.1** During 2015 we carried out a series of randomised controlled trials ('trials') and follow-up consumer research to help assess the impact on customer behaviour of several possible remedies to the issues we identified in the cash savings market. These remedies included the switching box and return switching form¹. The trial findings tell us that further encouraging customers to consider their choice of savings account and, in particular, their provider is challenging. We are committed to tackling all the findings of the cash savings market study and promoting more effective competition in this market. The trial findings will require careful further analysis and we may now need to consider other options to achieve more effective competition. We will report on this analysis and bring forward any proposals for consultation in due course. Here we explain the findings in more detail.

Background

- 1.2** Almost all adults in the UK (93%) have a cash savings account² and approximately £700bn is held in such savings accounts³.
- 1.3** In 2015 the FCA completed a study into the cash savings market. We found that the market is not working well for many customers:
- Providers have significant amounts of consumers' savings balances in accounts opened long ago (e.g. more than five years ago). Yet these accounts pay lower interest rates than those opened more recently
 - Providers need to improve the transparency of their practices, with little information currently being given to consumers about alternative products
 - Consumers are put off switching by the expected hassle and low perceived gains from opening another account. Some 80% of easy access accounts have not been switched in the last three years
 - The large personal current account providers have considerable advantages because they can attract most easy access balances despite offering lower interest rates
- 1.4** For competition to become more effective, firms should provide consumers with more timely and helpful information on savings products, so that consumers are able to shop around easily and make informed choices - if they find a better product for their needs, they should be able to switch easily and quickly.
- 1.5** In the short term, this should push providers to offer savings products that better meet customers' needs, such as better interest rates or higher service quality. In the longer term, it should help challenger firms attract a greater pool of consumers more easily, which should

1 See Chapter 9 of Cash savings market study report, MS14/2.3, January 2015.

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

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

further push existing providers to innovate and become more efficient so that they can retain their existing customers.

1.6 In December 2015 we confirmed a package of remedies covering four main areas:

- Disclosure – aimed at improving the information made available to consumers by firms, both at or before the point of sale and post-sale. Firms will have to provide a snapshot of account information - a summary box of the main features of the product. We have also made improvements to the presentation, frequency and timing of customer communications. These new rules come into effect at the end of this year
- Switching – to make switching easier. We have introduced new provisions to help customers switch accounts offered by their existing provider more easily. We have also been working with industry to speed up the cash ISA switching process
- ‘Sunlight’ – improving the transparency of interest rates available to new and existing customers, aimed at raising awareness of providers’ strategies towards their longstanding customers. In December 2015, we published data on the lowest-paying interest rates available on easy-access cash savings accounts and easy-access cash ISAs. Today, we publish the second set of data continuing to shine a light on the lowest rates paid on savings accounts <https://www.fca.org.uk/news/cash-savings-sunlight-remedy-second-report>
- Convenience – with the aim of reducing any significant barriers to allowing customers to manage savings and accounts in one place, regardless of whether those accounts are with different providers

1.7 During 2015 we carried out a series of trials to test a number of additional remedies. Using such trials gives us a greater insight into how consumers might respond to certain remedies and therefore helps us understand how we might improve the design of a remedy to increase its effectiveness. The trials we carried out included:

- a switching box – provided periodically to customers that would give information on the potential financial gains from shopping around and switching, prompting customers to consider their choice of account and provider
- a return switching form – a very simple ‘tear-off’ form and pre-paid envelope enabling a customer to switch to a better paying account offered by their existing firm more easily
- digital reminders – to test the effectiveness of reminders about interest rate changes sent by email and SMS in comparison to letter-based reminders previously tested

1.8 We followed up the switching box trials with some quantitative and qualitative consumer research.

1.9 We also carried out further research into potential consumer detriment arising from auto-renewal of certain fixed term products (including fixed term bonds and cash ISAs).

Research findings

Randomised controlled trials

- 1.10** We carried out five trials focusing on easy access accounts provided by a range of firms. A large proportion of the accounts had been held for a number of years (back book accounts) while others involved accounts at the end of an introductory bonus period. In total over 130,000 accounts were involved. We are grateful for the support we received from the firms involved.
- 1.11** In each trial, we were able to measure the proportion of customers who switched to the best rate on a comparable account with their existing provider ('internal switching'). We also measured (collectively) how many people moved balances elsewhere such as to another product or provider. Where data was available we also considered the impact on those groups with protected characteristics, including whether the interventions would have a particular effect on customers in retirement.
- 1.12** More detail on the design and findings of the trials are set out in detail in [Occasional Paper 19](#) published today. The main findings from the trials and follow-up research were:
- **digital reminders** (of the ending of a bonus rate on an on-line account) were effective in encouraging customers to take action. The results show that the effectiveness of email and SMS reminders can be comparable to letter reminders (trialed previously and reported in [Occasional Paper 7](#)) in certain circumstances.
 - the **return switching form** was effective in making it easier for customers to switch to a better rate offered by their existing provider. It increased internal switching by around 9%. This additional internal switching appears to have been generated from customers that would not otherwise have taken action (i.e. there was no negative impact on external switching)
 - the results of the **switching box** trial were mixed. One trial involving the switching box on the front page of an annual statement led to a modest increase in internal switching but no increase in external switching; the inclusion of information about rates achievable elsewhere in the market in fact led to a small reduction in internal switching. In a second trial, involving the switching box on the reverse of a letter notifying customers of a rate reduction, we observed no statistically significant impact
- 1.13** The findings of individual trials to some extent depend on the specific features and design details of the trial, such as a firm's customer base, the competitiveness of its interest rates, the quality of existing disclosure and the simplicity of switching process. They are also likely to be influenced by the economic environment in which they took place. We took this into account in assessing the results and commissioned some follow-up research to better understand the results of the switching box trials, including:
- quantitative research involving a survey of a sub-sample of customers of the two switching box trials, carried out by Accent Marketing & Research Limited
 - [qualitative research](#) consisting of a number of independent focus group to follow-up the switching box trials, undertaken by Optimisa Research Ltd
- 1.14** The follow-up qualitative research indicated that the switching box was well-received but that an explanation of the rationale for the switching box may improve its effectiveness - some participants were unclear of the purpose of the switching box and were suspicious or confused about why their provider would send them information about better rates available elsewhere.

Other potential causes of inaction that were reported included low interest rates and the convenience of having accounts with the same provider.

- 1.15** The quantitative research indicated that the results of the second switching box trial appear to be driven simply by customers not reading the information on the reverse of the letter – recollection of its content appeared to be poor.

Auto renewal of fixed term bonds

- 1.16** Research we have carried out into auto-renewal of fixed term products has shown that consumer detriment from this practice is limited largely due to the prevalence of cooling off periods after renewal (during which customers can transfer auto-renewed funds without incurring charges or losing interest). We also found that the large majority of providers in our sample that auto-renew customers do so onto an open account and do not offer existing customers less favourable interest rates.

Next steps

- 1.17** Our new rules around disclosure and switching (confirmed last year) come into force in December this year. These new rules will improve pre-sale disclosure for savings accounts and increase consumers' awareness of their interest rates.

Digital reminders

- 1.18** The findings of the digital reminder trials support the guidance that will come into effect in December this year that encourages firms to consider customers' preferences when choosing the channel used (i.e. letter, email, SMS). Therefore, no further action is necessary.

Auto-renewal of fixed term products

- 1.19** Our research has found little detriment from auto-renewal of fixed term products. Therefore, we are not taking forward proposals requiring firms to obtain explicit consent from customers for their account to auto-renew on maturity.

- 1.20** The practice of firms offering 'cooling off' periods following auto-renewal is widespread while price discrimination against customers that auto-renew appears rare. Our new requirements set out in PS15/27 will also significantly improve pre-sale and maturity disclosure on fixed term products. From December 2016 firms will be required to clearly set out the consequences of the expiry of the fixed term and the options available to the customers, including how these may be exercised.

- 1.21** However, we will monitor this periodically and will be ready to act if the situation changes – for example, if 'cooling off' periods cease to feature as prominently in the market leading to a rise in the proportion of customers paying exit fees/charges.

Cash ISA transfers

- 1.22** We continue to make good progress with the industry on our proposals to speed up cash ISA switching. We will announce the target for all cash ISA transfers once confirmed.

Shopping around and outcomes for long-standing customers

- 1.23** We are committed to addressing all the findings of the market study, including:
- encouraging customers to shop around and consider their choice of savings account and provider

- improving outcomes for long-standing customers to whom firms typically pay lower rates of interest⁵

1.24 The trial findings tell us that further encouraging customers to consider their choice of account and, in particular, their provider is challenging. It will require further analysis and we may now need to consider whether other regulatory tools are needed to achieve more effective competition. We welcome input from consumer groups and industry – our options could include alternative disclosure measures or taking action on product design or the switching process. We will report on this further analysis and bring forward any proposals for consultation.

1.25 While some treatments did prove effective at encouraging more internal switching to a better account, it is possible that any future measures designed to encourage external switching may also prompt more internal switching. So we do not propose to take forward any additional measures to encourage internal switching (such as the return switching form) at this stage.

Find out more

1.26 To find out more, please follow the links below:

- [Occasional Paper 19](#)
- The detailed results of the quantitative research are also available. The questionnaire used in both surveys is included in Occasional Paper 19. If you would like a spreadsheet copy of the responses, please contact [Tim Burrell](#)
- [Optimisa Report](#)

⁵ We recently identified this as a priority issue in the 2016/17 FCA Business Plan.

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