FINANCIAL CONDUCT AUTHORITY

Cash Savings Market Review 2023

July 2023

Contents

Moving around this document

Use your browser's bookmarks and tools to navigate.

To **search** on a PC use Ctrl+F or Command+F on MACs.

Request an alternative format

Please complete this form if you require this content in an alternative format.

Executive Summary

Consumers collectively hold around £1.5 trillion in savings accounts.[1] Consumers rely on savings products to help meet financial goals, whether that is having a small pot of money to access as a rainy-day fund or locking money away for the longer term. Especially at a time of higher cost of living, savings are an important source of financial resilience. It is vital for consumers and the wider economy that there is a competitive cash savings market.

Over the last year we have raised publicly and privately with the industry the importance of treating savers fairly as the UK base rate has risen sharply from 0.1% in December 2021 to 5.0% in July 2023. This follows action we took in 2016 to improve the savings market after analysis showed that it was not working effectively for many consumers. Amidst renewed concerns that not all savers are getting good deals, we undertook to review how the savings market is supporting them to benefit from higher interest rates.

This report analyses the current state of competition in the cash savings market, sets out the consumer outcomes we expect, and the actions needed to achieve them.

We have seen some progress in recent weeks but in line with the Consumer Duty, which enters into force today, much more is required to ensure savers consistently get a better deal. This includes firms ensuring that any unfair differences in the pricing of "on-sale" and "off-sale" products[2] are removed and being much more ambitious and effective in using communications to help customers engage with their savings and ultimately meet their financial goals.

We recognise that cash savings are only a part of the retail savings market. We have wider work underway on how financial advice works, interest rates on cash held on investment platforms, improving retail access to bond markets and other long term investments (such as long-term asset funds) and ensuring value for money in pensions saving.

Our analysis of the cash savings market

Our 2015 Cash Savings Market Study found that consumers have different motivations for opening savings accounts. These include saving for something specific, to earn interest or to have an additional transactional account alongside a personal current account (PCA). Customers focus on different features when choosing their savings account, including the interest rate, service quality, convenience and the provider's brand and reputation. Savings providers offer a range of products, from easy access accounts to fixed-term accounts, that can meet consumers' different needs. Similarly, some accounts can only be opened and operated online or digitally, while others can be opened and operated on a face-to-face basis, for example through a branch network.

1 Source: UK household savings deposits in May 2023 reported by the Bank of England (as reproduced by the Building Societies Association). Figure cited does not include balances held in NS&I accounts.

2 When we refer to on-sale and off-sale the following definitions apply. On-sale: any products currently on-sale and available to customers to open a new account. Sometimes referred to as the front-book. Off-sale: any products which are no longer on-sale and unavailable to customers to open a new account. Sometimes referred to as the back-book.

For all savings products, whether longer-term or easy access products, it is critical that savers are offered fair and competitive rates.

The pace and scale at which firms pass through higher interest rates to savers needs to improve

For easy access accounts, in which 60% of balances across 9 of the largest firms are held, the average interest rate has risen from 0.07% to 1.25% between January 2022 and May 2023. These firms have, on average, passed through only 28% of the base rate rise compared to an average of 80% between 2004 and 2009.

For fixed-term and notice accounts, the average interest rate has risen from 0.3% to 2.47% over the same period.

Recently, the scale of pass through has increased to 35% from August 2022 to May 2023 compared to 14% from January 2022 to August 2022. As of July 2023, we have seen the highest easy access rates range from 4% to 5%.

We would expect higher pass through as we move through the economic cycle. The speed of pass through is slower for savings than mortgages. While there are often good reasons for this, the speed for savings products should be quicker.

Pricing decisions are determined by several factors, which in part explain the levels of pass through we have seen. These include wider macroeconomic conditions and what that means for firms' need to attract savings deposits, firms' different business models, prudential requirements (which help make markets safer for consumers), how firms hedge their balance sheets, their approach to funding and the impact of ringfencing rules, including on challenger banks. Consequently, there will not be a direct relationship between savings rates and the base rate.

We have seen some increase in firms' profitability through an improving net interest margin (NIM). This is to be expected since the NIM was unusually low when interest rates were historically low. We will continue to monitor this closely.

Competition is delivering better rates for savers who shop around but many longstanding easy access customers are penalised

While smaller firms offer higher easy access rates than the largest firms (a median of 3.7% compared to 2%), 75% of consumers with a savings account hold savings with their main current account provider. This enables larger firms to benefit from their large market shares of PCAs and to leverage that advantage into the savings market.

Many firms now pay the same rates on on-sale and off-sale equivalent products, but we identified some instances where this is not the case and there are outliers. Five major retail banks held approximately £260bn in easy access savings accounts offering 1% or less. Two firms were offering savings rates on their off-sale products of 0.30% or below.

Switching is increasing but firms can improve the process for consumers

More consumers are switching PCAs and moving funds out of non-interest bearing accounts. Data from Pay.UK shows that the number of current account switches in the first quarter of 2023 was around 70% higher than in the first quarter of 2022. Our most recent report showed that challenger banks now hold approximately 8% of PCAs compared to 1% 5 years ago.[3]

Savers are also moving money into fixed-term deposit accounts. Since the start of 2023 to date, there has been a reduction of £52bn (approximately 4% of total deposits) held in easy access accounts and an increase of £38bn (approximately 3% of total deposits) held in fixed-term or notice accounts across 9 of the largest firms.

Recent research[4] on consumer behaviour found that only 23% of savers had switched their savings account in the last 6 months to get a better interest rate. Of those unlikely to switch their account in the next 6 months, 59% would be encouraged to do so by better interest rates on other accounts and 31% by an easier method of switching.

The switching process needs to improve. For example, not all firms are delivering against the existing commitment to switch at least 85% of cash ISAs within 7 working days.

Firms must do much more to prompt consumers to make use of better savings products

Bank of England data estimates that approximately £250bn in deposits do not earn any interest. Three in 10 adults (15.9m) do not have a savings account of any type, an increase from 24% in 2020. This highlights the need to focus on building more consumer financial resilience in the UK.

While firms do communicate with their customers, many firms' customer communications tend to be limited to when a savings product reaches the end of its term.

Some firms regularly contact customers to tell them that better rates are available but not all firms do this.

Some firms have argued that data protection regulations prevent them from telling customers about better deals. Together with the Information Commissioner's Office (ICO) we have made clear that firms are able to contact all customers to inform them of alternative products that offer higher rates.

Open Banking has significant potential to engage customers with alternative savings providers and accounts and to help people to start to save regularly. However, there are barriers with the inclusion of savings data, infrastructure and funding. This requires industry commitment and funding to address.

3 Strategic Review of Retail Banking Business Model (2022). Page 6

4 *YouGov online poll of 2,166 adults, undertaken 24th and 25th July 2023.*

The outcomes we expect for savers

Despite some recent progress, significant action is required to ensure that the savings market delivers the best outcomes for consumers, in line with the Consumer Duty, which enters into force today (31 July).

Specifically on fair value, we expect:

- a reduction in the proportion of easy access accounts with very low interest
- firms to review savings rates quickly following base rate changes
- the difference in rates between existing and new products to continue to narrow

For products and services, we expect:

- the proportion of balances held in non-interest bearing accounts to fall
- firms to switch cash ISAs to cash ISAs within 7 working days

For customer support and communications, we expect:

- firms to make clear to customers that they are in the lowest paying accounts
- firms to help more consumers to save regularly to increase their financial resilience

We will further review and quantify our desired outcomes for the cash savings market in the second half of 2023 and won't hesitate to propose further action if insufficient progress is made.

Ensuring savers get a fair deal

Effective competition is key to the market delivering these outcomes.

We welcome the engagement we have had with the industry through this review and the three voluntary commitments they have already made:

- to increase the efficiency of the cash ISA to cash ISA switching process with the largest banks and building society committing to target transferring 90% of cash ISAs to cash ISAs within 7 working days, up from 85% today
- to further commission an expert review to explore and report back in 2024 on the potential and investment needed to bring cash savings into Open Banking
- to work with the FCA to develop a savings dashboard which gauges consumer activity in the savings market

This will not be sufficient, however. More action is necessary to ensure we have a competitive, vibrant and dynamic savings market which delivers value to savers. We have identified 8 actions we will take and 6 actions that firms must take. Together these will help ensure that consumers receive better savings outcomes.

We will:

1. require firms offering the lowest rates to provide their fair value assessments under the Consumer Duty by 31 August 2023 and take robust action by the end of 2023 against those who cannot demonstrate fair value.
2. review the timing of firms' savings rate changes each time there is a base rate change.
3. publish an analysis every six months of firms' on-sale and off-sale easy access savings rates, listing distribution from best to worst.
4. analyse the difference between on-sale and off-sale products, challenging firms to explain how large differences offer fair value and considering further action if this gap does not close.
5. review firms' performance on cash ISA to cash ISA switching, including on the new voluntary commitment.
6. conduct further analysis into the contribution of cash savings to firms' profitability.
7. review the effectiveness of firms' engagement with customers by the end of March 2024 and take more directive action if firms have not effectively delivered the outcomes we have set out.
8. work with stakeholders, including the Money and Pensions Service (MaPS), to identify what more can be done to support consumers to save regularly, strengthening their financial resilience.

We expect firms to:

1. from today, use their fair value assessments of on-sale savings products to assure themselves and us, where needed, that these represent fair value for customers.
2. accelerate their fair value assessments for off-sale accounts ahead of the July 2024 Consumer Duty deadline for off-sale accounts.
3. take action to prompt their customers in lower paying savings accounts or non-interest bearing accounts to consider alternatives, including by:
   a. proactively contacting their customers to inform them of alternative savings products.
   b. contacting customers in non-interest bearing accounts, such as PCAs, who may benefit from building their financial resilience by regularly saving into a savings account.
   c. larger firms to inform us by 30 September 2023 how they have identified and communicated with these customers.
   d. building regular prompts, in particular after base rate changes, into their customer platforms that encourage customers to consider alternative savings products.
4. continue to closely monitor the effectiveness of customer communications, with larger firms to provide us with an evaluation of this by end 2023 and any follow up action they are taking.
5. support consumer financial resilience by encouraging customers to start saving and/or search for higher rates, with the largest firms committing to support a targeted firm-by-firm communication campaign.
6. consider how they can support their customers to access the free advice available from MoneyHelper.

Single Easy Access Rate

At this stage, we do not propose to restart a consultation on a single easy access rate since some firms are improving their off-sale rates and we believe that competition is driving up these rates over time. If necessary, the Consumer Duty gives us greater flexibility to take targeted action, including in relation to specific firms, rather than introducing additional rules. We expect firms to thoroughly assess their off-sale products in advance of the Consumer Duty's July 2024 deadline.

The Consumer Duty

The Consumer Duty enters into force today (31 July). It is intended to secure better outcomes for consumers of financial services products. While progress has been made in the cash savings markets in recent weeks, some outcomes are falling short of the requirements of the Consumer Duty. We will robustly monitor and supervise how firms deliver better outcomes for savers, making use of all the tools at our disposal.

Section 1

Introduction

1.1 The action we have committed to

Since December 2021, the UK base rate has increased rapidly, from its historic low of 0.1%, to 5.0% in July 2023. We have been closely monitoring how banks and building societies have passed on base rate rises to their savings customers and have some concerns about the practices we have seen. We know the subject of passing rates on to savers is also a concern for Parliament and other stakeholders.

So we committed, by the end of July 2023, to report on the cash savings market and how it can support savers to benefit from rising interest rates.

From 31 July this year, we are introducing the Consumer Duty to raise standards for firms dealing with retail customers. Included in these rules is a focus on ensuring fair value, which applies to all savings accounts. We consider that this is likely to require a significant cultural shift for some firms. This report will help to assess the extent to which firms may need to go further to ensure they comply with the Consumer Duty.

This report, and our wider work on savings, is also relevant to our current 3-year strategy, specifically:

- reducing and preventing serious harm
- setting and testing higher standards
- promoting competition and positive change

1.2 The importance of the market

Our 2015 Cash Savings Market Study found that consumers have different motivations for opening savings accounts. These include saving for something specific, to earn interest or to have an additional transactional account alongside a PCA. Customers focus on different features when choosing their savings account, including the interest rate, service quality, convenience and the provider's brand and reputation. Savings providers offer a range of products, from easy access accounts to fixed-term accounts, that can meet consumers' different needs. Similarly, some accounts can only be opened and operated online or digitally, while others can be opened and operated on a face-to-face basis, for example through a branch network.

Our 2015 study found that competition in the cash savings market was not working well for many consumers. In particular, we found that customers were put off switching by the expected burden and perceived low gains from doing so. We found that 80% of easy access accounts had not been switched in the previous 3 years. In December 2016, we introduced a range of new rules and guidance to improve switching and the information consumers get. This included requiring firms to provide a summary to customers, outlining the main features of the account.

We began consulting on a Single Easy Access Rate (SEAR) policy in January 2020, with the aim of addressing concerns about a potential 'loyalty penalty' (where longstanding customers receive worse rates than new customers) in the cash savings market. The pandemic and the historically low interest rate environment at the time resulted in us deprioritising this work in November 2020. We now believe the Consumer Duty gives us greater flexibility to react to market developments and to take proportionate action against outliers.

We know there are other financial products, apart from savings accounts, that customers use to help plan ahead and meet their financial objectives. These include retail investments and pension products which, although not covered in this report, will affect how much some consumers will decide to engage with the cash savings market. A key role for firms, regulators, and bodies such as MaPS, is to make sure that consumers are aware of, and understand, their options so they can choose a product or service that best suits their needs.

Section 2

The recent evolution of the cash savings market

2.1 The volume and structure of cash savings in the UK

Our 2022 Financial Lives Survey (FLS) found that 70% of adults had a savings account of any type (37.1 million). This is a reduction from 2020, when 76% of adults (39.7 million) had a savings account.

Our work on the Strategic Review of Retail Banking Business Models (2022) identified that there were approximately 97 million PCAs, approximately 102 million easy access savings accounts and approximately 7 million fixed term deposit accounts across the UK.

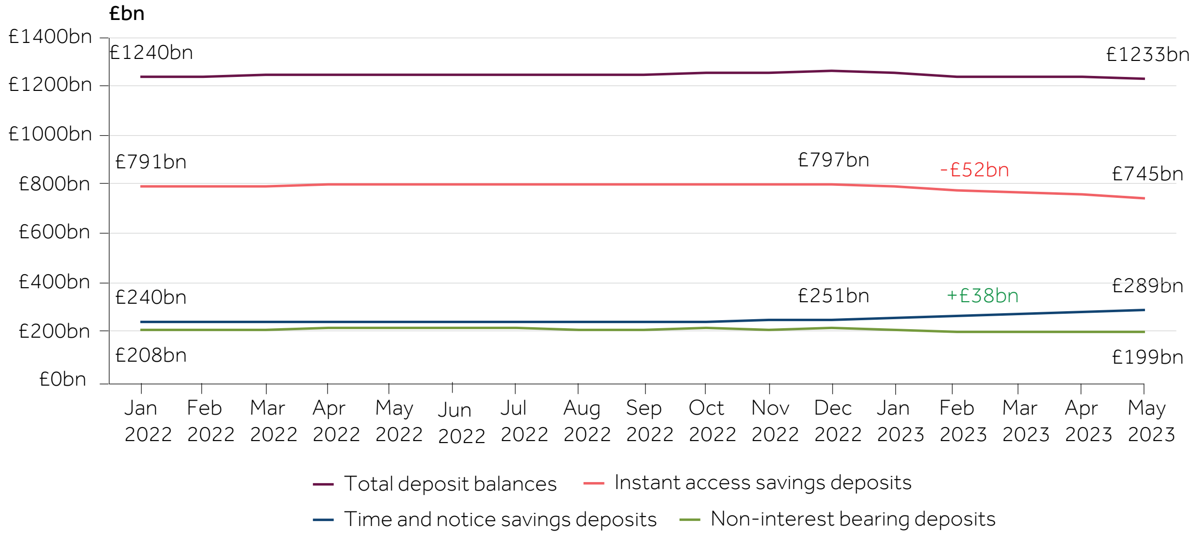
In May 2023, the Bank of England and Building Societies Association reported that UK savings deposits were approximately £1.5 trillion.

Our 2022 FLS data shows that 75% of savings account holders held a savings account with their main current account provider. This enables larger firms, including many of the Big 9[5], to benefit from their large market shares of PCAs and leverage that into the savings market. We have therefore focused the majority of our analysis in the report on these firms.

From January 2022 to May 2023, total deposit balances held across the Big 9 have been relatively stable. However, from the start of 2023 to date, there has been a reduction in deposits held in easy access accounts of £52bn, approximately 4% of total deposits. During the same period, we have seen an increase in deposits held in fixed-term accounts and those with a notice period (an increase of £38bn, approximately 3% of total deposits). This indicates that some customers have started to move deposits out of easy access accounts and into fixed-term and notice period accounts which pay higher rates, either at their current firm or a competitor. As of May 2023, 60% of deposits at the Big 9 firms were held in easy access accounts. This proportion ranged from 43% to 84% across the Big 9.

5 Big 9: Lloyds Banking Group, HSBC, NatWest Group, Santander UK, Barclays, Nationwide Building Society, TSB Bank, Virgin Money UK, The Co-operative Bank.

Figure 1. Deposit balances held by the Big 9 firms from January 2022 to May 2023



Source: Bank of England. Effective interest rate data collected under Form ER.

2.2 The worrying rise of non-savers

Our 2022 FLS data shows that 3 in 10 adults (30% or 15.9 million people) did not have a savings account of any type – up from 24% in 2020. Of these, the survey found that 18% of all UK adults (or 9.5 million) did not own any savings products but may have had some capacity to save.

Since we ran the survey, the rising cost of living has had a significant financial impact on many adults in the UK, including their ability to save. In our follow-up Financial Lives cost of Living (January 2023) recontact survey, we found that 70% (37.1 million) of adults had seen their financial situation worsen over the previous 6 months.

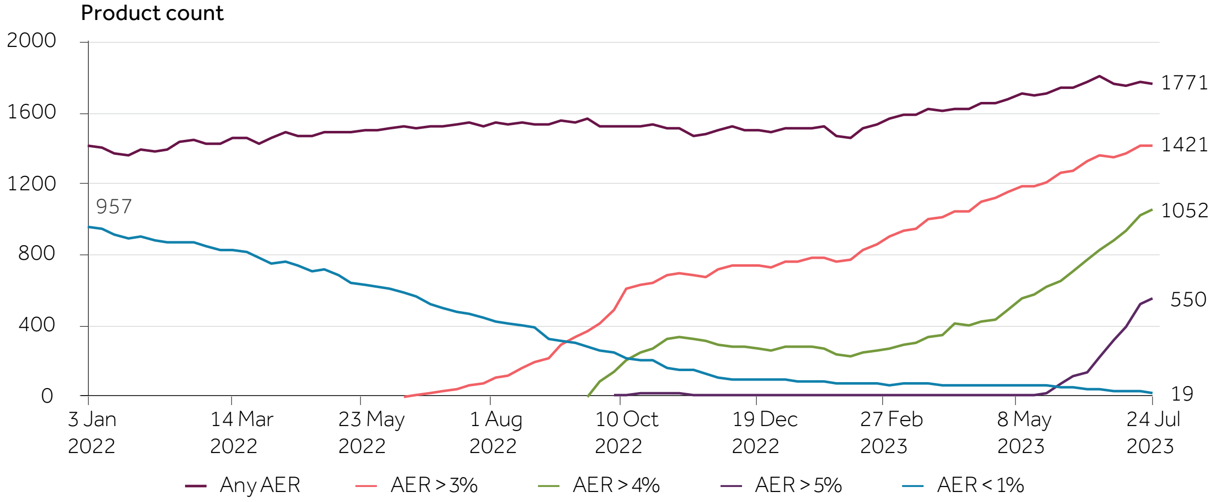
People who are able to save, but choose not to, do so for a number of reasons. For example, 22% consider that interest rates are not attractive enough and 17% use their current account for saving, which will typically not earn any interest at all. 21% save into a pension or investment, which may not be readily available in the event of an unexpected need.

We consider that today's increasing financial pressures highlight the need for firms to better support customers who currently lack savings. They could do more to help those customers who have the capacity to build greater financial resilience for the future by starting to save regularly, if they have the capacity to do so.

2.3 The recent evolution of cash savings rates

Starting from a low base in January 2022, there has been a steady increase in the range of higher rate savings accounts available to consumers following the recent base rate rises. There has been a corresponding steady decline in accounts offering less than 1% annual equivalent rate (AER) (see Figure 2).

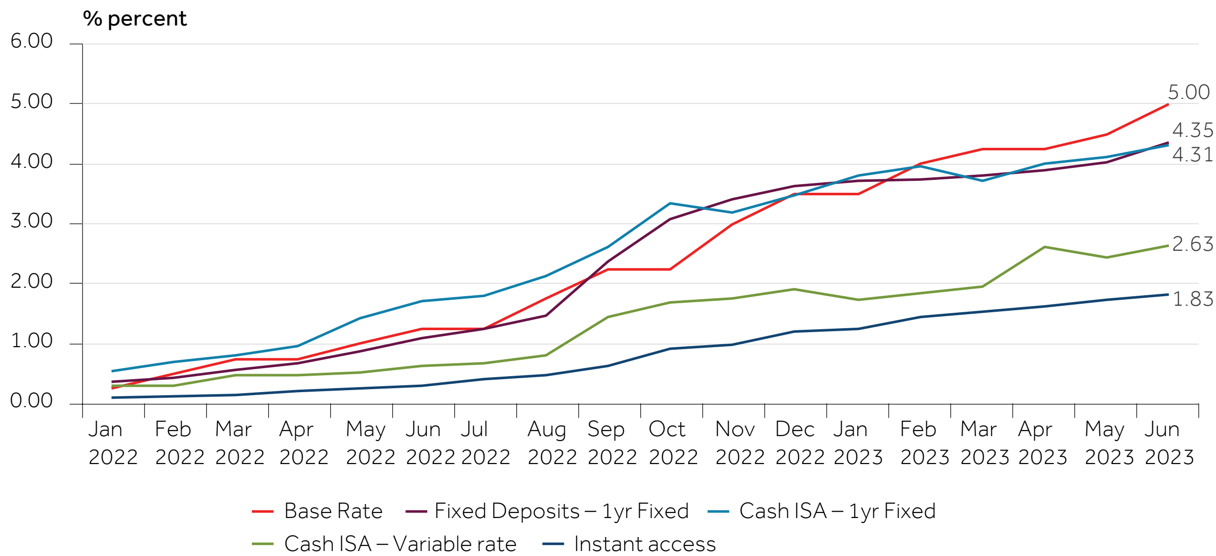
Figure 2. Total savings account availability across the market (on-sale) including a breakdown for AER thresholds above 3% and below 1%



Source: MoneyFactsCompare.co.uk data on savings account quotes across the market (January 2022 to 24 July 2023).

Figure 3 shows that the gap in rates between fixed-term accounts and easy access accounts has been growing since January 2022. In part, this reflects an increase in the illiquidity premium (the additional return paid on deposits that are "locked in" for a period of time) which had been close to zero when base rates were below 1%.

Figure 3. Quoted headline interest rates (on-sale) advertised by bank and building societies for household savings (weighted)

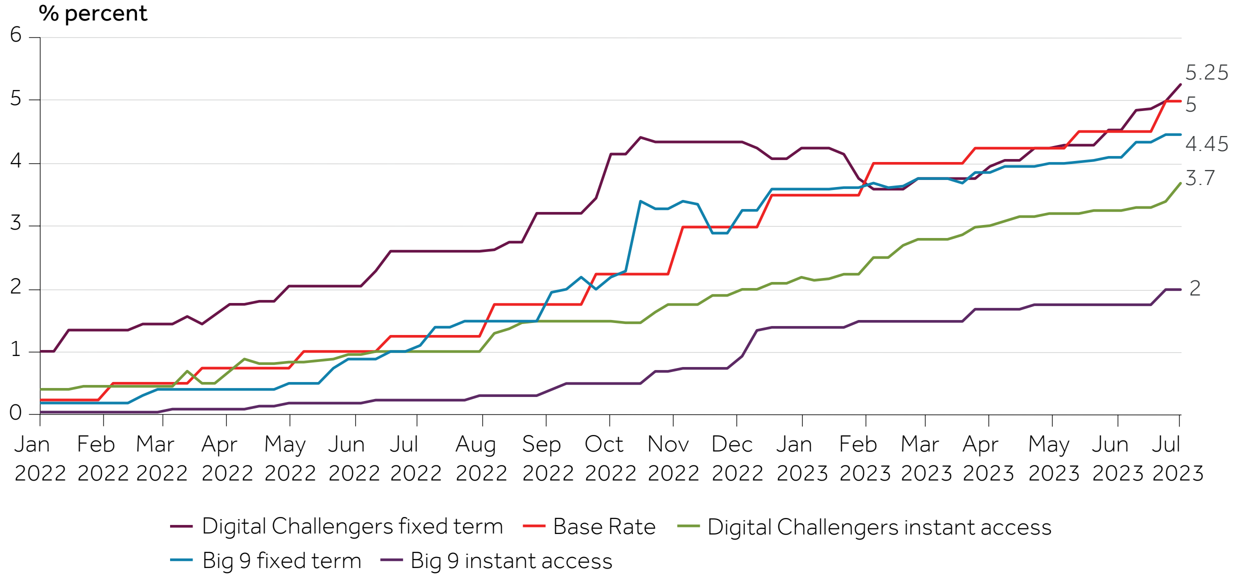


Source: Quoted household interest rates from Bank of England Database (January 2022 to June 2023).

There has also been a notable difference in the evolution of rates offered by the Big 9, building societies and the smaller challengers. Unlike the Big 9, smaller challenger banks and building societies are less able to leverage PCA customers into savings products and so need to compete with the large players by offering better rates on savings accounts.

Figure 4[6] below compares how median savings rates have evolved for on-sale savings products over the same period for the Big 9 and a selection of digital challengers.[7]

Figure 4. Median quoted savings AER (on-sale) aggregated across the Big 9 and digital challengers by type of savings account (January 2022 to July 2023)



Source: MoneyFactsCompare.co.uk data on savings account quotes across the market (03 July 2023).

Digital challengers appear to have been increasing their on-sale savings rates faster and to a greater degree than some of the Big 9, particularly on easy access accounts. In January 2022, the median easy access rate on offer from digital challengers was 0.4% higher than the Big 9. As of July 2023, this gap has grown to 1.7%.

It is important to note that accounts may not be directly comparable. For example, digital challengers tend not to offer the same levels of customer access and support (in-branch, phone) as larger banks and building societies. Additionally, median rates disguise the range of rates among the Big 9 and among the challengers.

The analysis of the recent evolution of the cash savings market highlights two trends. First, rates on easy access accounts have risen more slowly and to a lesser extent than rates on fixed-term products. Secondly the easy access rates of challenger banks and building societies have risen faster and to a greater extent than those of the Big 9. In the following sections we look more closely at the extent at which base rate changes are being passed on by the Big 9 and examine what is driving this.

6 Figure 4 is based on unweighted savings rate quotes. It reflects, for each week, the median rate quoted by account type for all accounts within the pool of aggregated firms considered.

7 Digital Challengers: Atom Bank, Monzo, Marcus and Chase.

2.4 How far firms have passed on base rate rises to savers

We have analysed the increases to savings rates for the Big 9 for the period January 2022 to May 2023. This analysis uses Bank of England data collected under Form ER and data held by the FCA.

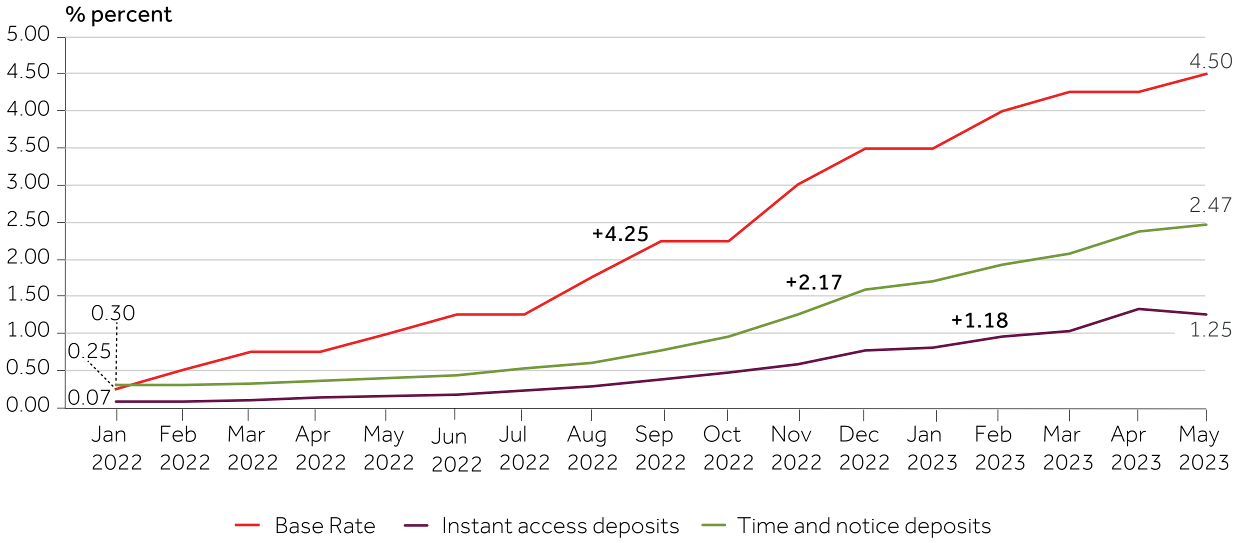
From January 2022 to May 2023 the base rate increased by 4.25 percentage points. Over this period, the Big 9 firms provided an average net increase of 1.18 percentage points to the interest paid on their stock of easy access accounts (see Figure 5). The Big 9 firms therefore passed on an average of 28% of the 4.25 percentage point rise in the base rate on to their easy access accounts.

However, we have also seen the proportion of pass through accelerate over this period. From January 2022 to August 2022 the Big 9, on average, provided a 14% proportion of pass through. From August 2022 to May 2023 this increased significantly to 35%.[8] This change in the speed at which firms pass through rate rises is not necessarily unexpected. Reasons for this are outlined later in the report but include the fact that we are exiting a very low interest rate environment.

We expect the proportion of pass through to increase further in coming months. Firms will likely need to increase the rates provided on some of their lowest rate accounts in order to ensure they are meeting the fair value requirements of the Consumer Duty. To ensure compliance, they will need to demonstrate how the macro-environment, including the current base rate, has been factored into their pricing decisions. Please see Section 4 for more information on the fair value requirements.

The extent to which firms have passed on rate rises to easy access accounts varies significantly across the Big 9, with a range of 15% to 61% of the increase being passed on to customers over the entire period considered.

Figure 5. Effective (weighted) interest rate applied to the Big 9 stocks of easy access, fixed-term and notice deposit accounts from January 2022 to May 2023[9]



Source: Bank of England. Effective interest rate data collected under Form ER.

8 Figures based on analysis of Bank of England Effective interest rate data collected under Form ER.

9 The reduction in the average instant access deposit rate shown from April 2023 to May 2023 is due to a reporting error.

The Big 9 added a net increase of 2.17 percentage points to the interest paid on accounts that have a fixed-term or notice period. This represents a 51% pass through.

The difference in average rates paid by the Big 9 to their easy access accounts compared to non-easy access accounts has increased from 0.23% to 1.22% from January 2022 to May 2023. This indicates that, as the base rate has risen, the Big 9 have prioritised increasing rates on accounts that have a fixed-term or notice period for access.

However, we should not expect a mechanical relationship between base rate changes and changes in savings rates. Ultimately, savings rates reflect the supply (by savers) and demand (by banks) for deposits. Banks use interest rates as a tool to increase the amount of money they hold on deposit. There are two main reasons why they do this:

- the firm can use money held on deposit by savers to help finance mortgages and other forms of credit
- deposits provide a source of liquidity and cashflow for banks

When, for example, demand for mortgages and credit is buoyant, banks will generally look to increase the amount of cash savings they hold as one of the ways to fund this lending. As a result, competition often intensifies, resulting in higher rates of interest for savers and firms passing on more of the increase in the base rate.

Conversely, if there is an excess supply of savings, there is limited competitive pressure on firms to offer consumers attractive savings rates, and firms will pass through less of the increase in the base rate. For example, during the pandemic, the lack of spending opportunities for consumers, led to a dramatic increase in savings. The Office of National Statistics (ONS) estimated that consumer savings increased to 24% of consumers' gross disposable income (compared to 6% in 2019). This resulted in providers having an unexpected savings windfall and reduced their need to offer higher interest rates.

Consumer decisions on whether, and how much, to save are also affected by the macroeconomic context. This depends not just on the interest rate but also on how the state of the economy affects their personal financial situation.[10] The ONS has found that consumers' savings decisions also depend on how the macroeconomy is affecting their housing and non-housing wealth, whether they anticipate that their real incomes will rise or fall and how likely they think it is they may become unemployed.

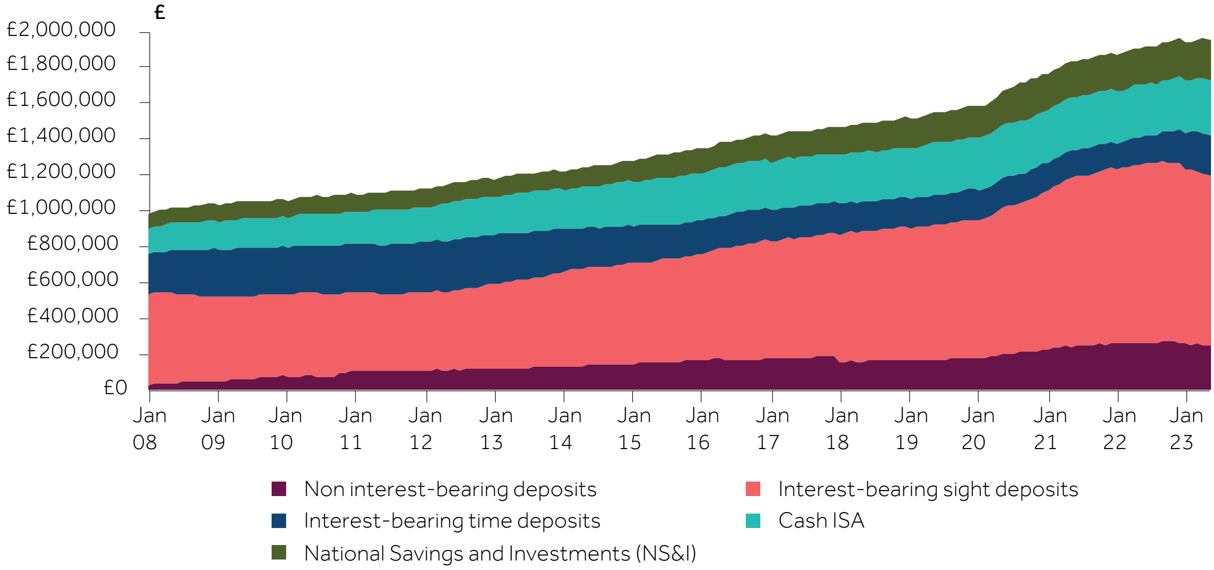
The current macroeconomic picture is one of weakening demand for savings deposits (by firms). This is primarily due to lower activity in the mortgage market but also to consumers repaying loans where they can. Net mortgage borrowing (new mortgage borrowing less capital repaid) fell to -£0.1bn in May 2023, its lowest level (excluding the period of the pandemic) since 2011. New mortgage approvals fell from an average of 62,000 per month, in 2022, to 50,500 in May 2023.[11] Net borrowing on consumer credit also fell from £1.5 billion in April 2023 to £1.1 billion in May 2023.

10 ECB (2020), "Covid-19 and the increase in household saving: precautionary or forced?" https://www.ecb.europa.eu/pub/economic-bulletin/focus/2020/html/ecb.ebbox202006_05~d36f12a192.en.html

11 Bank of England (June 2023), "Money and Credit Report", available at https://www.bankofengland.co.uk/statistics/money-and-credit/2023/may-2023

On the supply side, consumer deposits have continued to grow despite the cost-of-living crisis, and now stand at £1.95tn, including NS&I deposits (see Figure 6). This exceeds the levels built up during the pandemic. However, net deposits did fall by £3.8bn (seasonally adjusted) in May 2023.

Figure 6. Total Household Deposit Balances Jan 2008 – May 2023, £million



Source: Bank of England and Building Societies Association.

The combination of weakening demand and stable supply of savings may suggest that the pressure on savings rates is not particularly strong in the current macroeconomic environment. This may in part explain the levels of pass through in Figure 5 above.

The supply and demand for deposits may also vary by their term. The willingness of a firm to take on easy access deposits depends on its existing deposit structure and regulatory requirements. This reflects the risk that consumers can rapidly withdraw easy access deposits. The recent incidence of US bank runs highlighted the speed at which this can happen. This, coupled with higher levels of macroeconomic risk, may have increased firms' demand for fixed-term deposits over easy access.

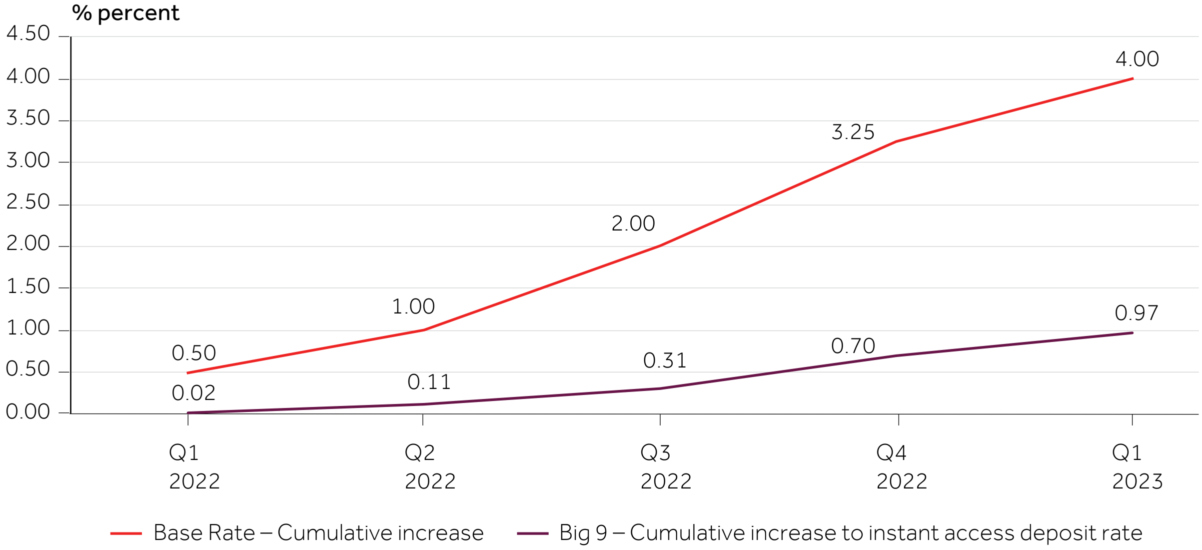
Conversely, for consumers, the willingness to lock deposits away for a fixed-term varies. For instance, it can depend on their economic certainty and how confident they are they will not need to access their savings. This may partly explain why, in the current uncertain macroeconomic environment, consumers have reduced their demand for fixed-term deposits, and a faster rise in fixed-term rates offered by banks to offset this. This would be consistent with the different pass through rates in Figure 5.

Regulatory requirements can also affect the firms' demand for savings deposits. Notably, the implementation of the UK ring-fencing regime in 2019 means that large banks with wholesale arms are more limited in how they can invest their retail savings deposits. Some argue that this may have also had an effect of reducing their demand for savings deposits. However, changes in liquidity requirements for banks overall might have had the opposite effect. While there has not been time in this review to conduct an analysis of the impact of regulatory requirements on the degree of pass through, we recommend that such an analysis be undertaken as part of the review of ring-fencing regulations the Treasury is currently conducting.

2.5 How quickly firms have passed on base rate rises to savers

Our analysis of how firms are passing on base rate rises also shows that the Big 9 firms have often increased savings rates with a material delay following a base rate rise. While there were significant increases to the base rate in the first half of 2022, as shown in Figure 7, the Big 9 firms did not materially pass through the increase to easy access accounts until the second half of 2022.

Figure 7. Cumulative effective (weighted) increases made by the Big 9 to their stocks of easy access accounts as compared to the base rate, by quarter from Q1 2022 to Q1 2023



Source: Bank of England. Effective interest rate data collected under Form ER.

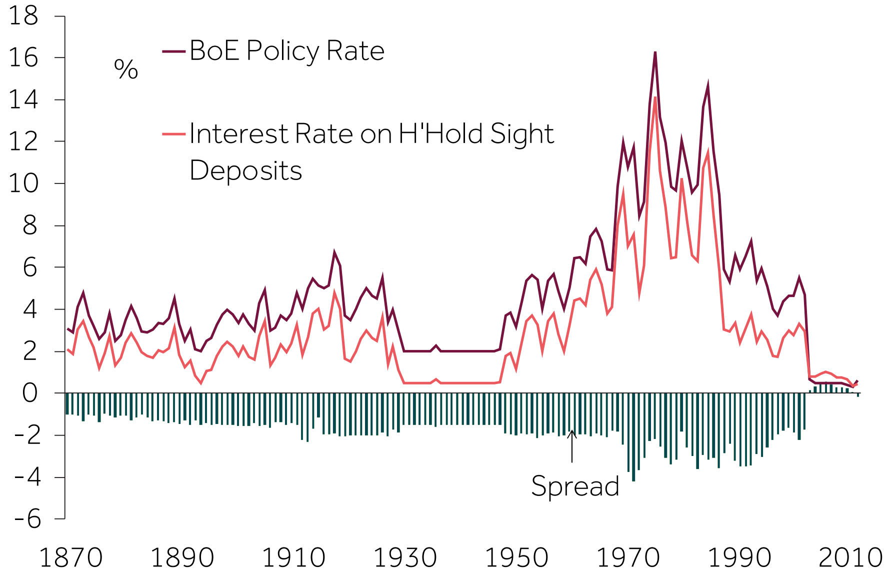
When assessing the observed speed and degree to which firms are passing on interest rate rises, it is important to consider how this compares to historical norms. Perhaps the best comparison is the period immediately before the Financial Crisis of 2008 when the base rate was at similar levels to recent experience.[12]

For example, between 2000 and 2007, the interest rate on easy access accounts was on average 2.2 percentage points below the base rate. The minimum margin was 1.5 percentage points, and the maximum margin 3.3 per cent. Looking over the longer term, between 1870 and 2007, easy access account rates averaged 1.8 percentage points below the base rate, with a minimum margin of 1 per cent (see Figure 8). This trend has been relatively constant historically, but there is some evidence that the spread widens during periods of high inflation, as we saw between 1973-1982 and 1990-1991.

The average interest rate on the Big 9 firms' easy access accounts was 1.25% in May 2023, which was 3.25 percentage points below the base rate at that time. This would put the average rate at the upper bound of the 1.5 to 3.3 percentage point range we saw between 2000 and 2007, when the base rate ranged between 3.5% and 6.0%. Were margins on easy access savings accounts to return to the historical average of around 2 percentage points, this would imply easy access savings rates of around 3%, with firms passing on 60% of the increase in the base rate since December 2021.

12 Between 2000 and 2007 the base rate ranged between 3.5% and 6.0%.

Figure 8. BoE Policy Rate and Average Interest Rate on Household Sight Deposits, Annual Averages, 1870 to 2018



Source: Bank of England Millennium database.

However, there are reasons why we might expect some delay in the pass through rate reverting to historical norms. Between 5 March 2009 and 4 May April 2022, when the base rate ranged between 0.1% and 0.75%, firms were unwilling to pay negative interest rates (that is, by charging customers to save money). This led to the differential between the base rate and savings rate reducing most commonly to less than 0.5%, and often close, or equal, to zero.

The nature of competition is different when the base rate is so low. Here, firms are effectively constrained to offer an interest rate on savings accounts between 0% and the base rate, which was typically 0.5%. As a result, interest rates are inevitably very similar both across different firms, and across different savings accounts. This means there is limited benefit to consumers of switching or in locking their savings away for a period.

But as the base rate rises to more historically normal levels, firms have a much wider choice of interest rates they can offer, leading to much greater variety in the interest rates of different firms and on different savings products. This creates more incentives for consumers to shop around for an improved interest rate. But it also leaves those who are unwilling or unable to switch more vulnerable to remaining on a savings product which does not represent fair value.

Some economists have attempted to model how savings rates may change as the base rate returns to a more historically normal level. In particular, Ulate (2023)[13] presented 3 different models for this. These show that increases in interest rates on savings accounts would be limited in the early months, when the base rate rises. However, increases in savings rates would then accelerate, to return towards the more historically normal levels relative to the base rate. This is consistent with the picture in Figure 7 and the more recent acceleration in the pass through of base rates outlined in Figure 5 above.

13 Ulate (2021), "Alternative models of interest rate pass-through in normal and negative territory", International Journal of Central Banking LINK.

Historical empirical evidence also suggests that there is often a significant lag between changes in the base rate and changes in savings rates. Looking at the period before the Financial Crisis of 2008, when interest rates were at more historically normal levels, various researchers have found that, in the short-run (up to 3 months), firms typically pass through around 30% of the base rate increase (and no more than 50%). In contrast, in the long-run, they most commonly pass through around 60-80% (see Table 1).[14]

Table 1. Empirical estimates of pass through from base rates to deposit rates in Euro Area

Research	Short-run (<3months)	Long-run
Mojon (2000)	27%	–
Angeloni and Ehrmann (2003)	38%	74%
Sander and Kleimeier	20%	62-68%
De Bront (2005)	0-35%	35-98%
De Bront et al (2005)	36%	68%
Kwapil and Scharler (2006)	16%	32%
Kleimeier and Sander (2006)	10-45%	25-80%
Sorensen and Werner (2006)	–	15-84%

Source: Kwapil and Scharler (2006)

Economists have suggested several reasons for this 'price stickiness'.[15] These typically involve some form of market friction, such as a lack of consumer information or awareness, the time and cost of searching for better rates and switching accounts, or more behavioural reasons like status quo bias. Firms may also incur 'menu costs' (the costs to firms in updating rates) which may delay interest rate changes. Additionally, where interest rates are volatile, there may be a strategic advantage to wait to get a clearer picture of where rates are heading and how rivals are likely to respond. Finally, some firms may react to rises in interest rates by looking to rebuild profits to more normal levels (or seek to recoup previous lost profits) rather than seeking to compete more aggressively for market share.

All these factors are forms of market failure and can give incumbent firms a temporary advantage. This is consistent with the comparison of rate increases between the Big 9 and challenger banks in Figure 4. These competition factors are considered in Section 3 below.

Finally, the hedging strategies of some firms may be a further reason why we may see a delay in base rate pass through on savings accounts. Firms hedge to protect themselves from the risk of their costs increasing from variable rate savings accounts (over 60% of cash savings), without a corresponding increase in income from lending, which is longer-term and at fixed rates. Hedging strategies and risk management more generally, may lead banks to adopt more cautious pricing strategies and delay passing on increases in the base rate.

14 Kwapil and Scharler (2006), "Limited pass-through from policy to retail interest rates: empirical evidence and macroeconomic implications", Monetary Policy and the Economy, Austrian Central Bank.

15 See, for example, Bayer and Ke (2018), "What causes rockets and feathers?" Journal of economic behaviour and organization.

2.6 How this compares with other countries

A review of data for on-sale account rates from the European Central Bank (ECB) suggests that the UK is not necessarily an outlier on the level of easy access rates being quoted to households.

Easy access account rates across Eurozone member states averaged 0.21% in May 2023. The Eurozone average in May 2023 was, therefore, 3.29 percentage points below the 3.5% ECB rate. The equivalent UK market rate for May 2023 was 1.74% (see Figure 3) which was 2.76 percentage points below the 4.5% base rate at the time. Similarly recent analysis by S&P cited in the Financial Times[16] indicates that the UK compares favourably with other countries in how far base rate increases have been passed on to savers.

It is difficult to draw strong conclusions on how the UK compares to other international markets, given the differing economic conditions, competitive drivers and level of base rate across different jurisdictions. However, the evidence does indicate that delayed pass through is common across most comparator countries, and this is consistent with the economic evidence cited in this section.

2.7 Comparing pass through rates in mortgages and cash savings

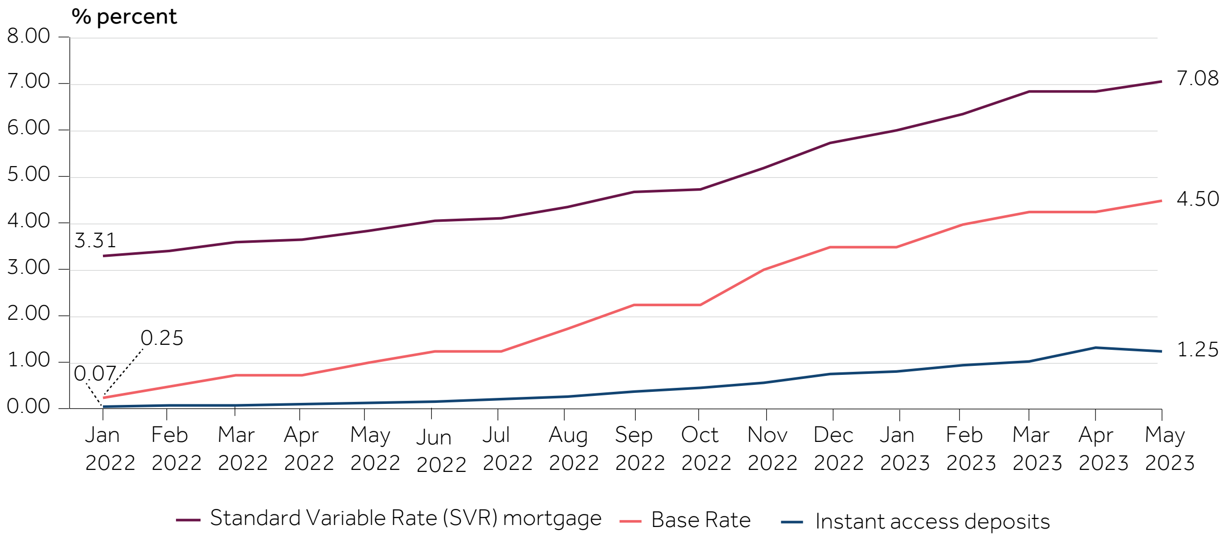
Commentators often compare how firms make changes to mortgages and cash savings interest rates following a change in the base rate. There is some value to this comparison, but it does need to be interpreted with caution.

Comparisons are complicated by the fact that 80% of all UK mortgages (and 87% of outstanding mortgage balances) are now on fixed rates. The benchmark interest rate for these mortgages is the overnight index swap (OIS) rate in wholesale money markets. This is linked to the *expected future* base rate over the term of the fixed-interest deal rather than the *current* base rate.

The best comparison, and the one we use in this report, is to compare the speed and degree of pass through for easy access cash savings with mortgages on the standard variable rate (SVR), a rate over which firms have some freedom. This applies to just under 10% of UK mortgages. As shown in Figure 9, the Big 9 firms have been increasing their mortgage Standard Variable Rates (SVRs) broadly in line with the timing of base rate rises, whereas there has been a significant delay in the speed they have done so for savings rates. On average, firms have passed through 89% of the base rate increase to SVRs over the period.

16 Financial Times: UK banks lead global rivals in passing on interest rate benefits to savers (paywall).

Figure 9. Effective (weighted) interest rate applied to the Big 9 stock of easy access accounts and SVR mortgages from January 2022 to May 2023



Source: Bank of England. Effective interest rate data collected under Form ER.

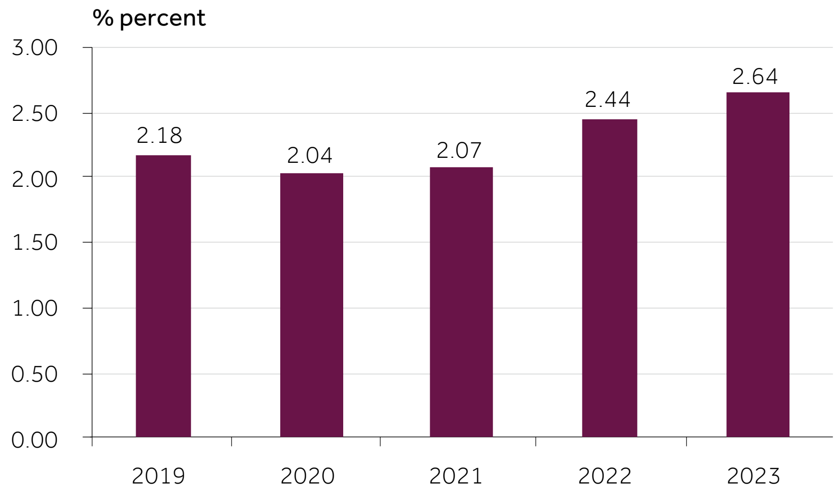
In its May 2023 Monetary Policy Report (MPR) the Bank of England reviewed how changes to overnight swap rates (the interest rate that lenders need to pay to hedge the risk from offering fixed rate loans) compare to changes in mortgage rates. It concluded that mortgage rates were highly competitive, and firms were passing on less than 100% of the increase in swap rates. This implies that increases in wholesale funding costs have not been fully passed on to consumers.

2.8 Financial Analysis

In an environment where the base rate is rising, we would expect to see increases in the rates offered for both savings and loans such as mortgages.

The Net Interest Margin (NIM) measures a bank or building society's profitability purely based on their deposit-taking and lending activities. It does not consider fees, operating expenses or other factors that have an impact on their overall profitability.

Figure 10. Weighted average NIM for the Big 9 firms from 2019 to 2023[17]



Source: Publicly reported financial accounts and firm management accounts.

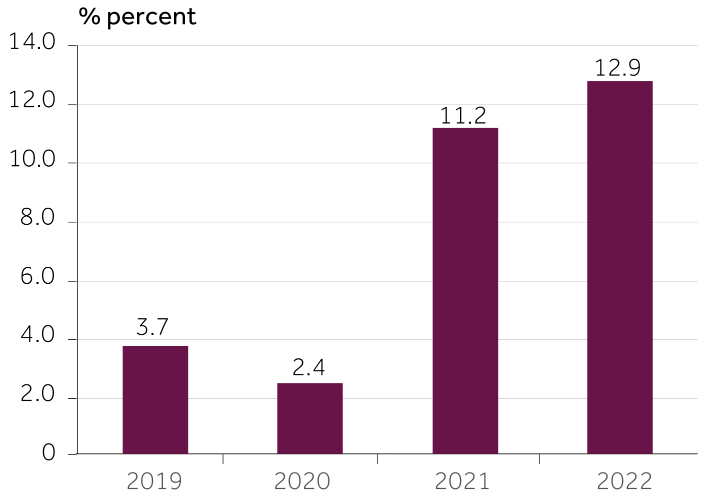
The above trends show that, on average, the firms have seen higher NIMs in 2022 and in 2023 to date, i.e. in the period of rising base rate, compared with the period 2019-2021.

The above NIM results are within expectations for this point in the cycle. Our "Forward-looking financial information" section below notes some firms' expectations for a reduction in NIM on a forward-looking perspective. We will be monitoring firms' up-to-date financial results, including upcoming and already published 2023 half-year results, closely as part of our work.

Return on Equity (ROE) measures the overall post-tax returns firms make in relation to the capital they hold, thereby demonstrating profitability and how efficiently firms convert their capital into profits. Given the lack of availability of this data for 2023, this analysis does not capture the last 6 months and therefore does not give a fully up-to-date picture. However, it provides important context to recent profitability.

17 NIMs as reported for ring-fenced firms or relevant retail banking entities for the financial year that most closely corresponds to the above calendar year. Where a NIM was not reported by the firm, we calculated it based on Net interest income as a percentage of average interest-earning assets (AIEA). Where AIEA was not reported by a firm, we used interest-earning assets as disclosed in the Balance Sheet. 2023 net interest income figures based on YTD Q1 2023. Weighting is by Loans & advances to customers and banks. The 2023 weighting is assumed to be the same as 2022.

Figure 11. Weighted average ROE[18] for the Big 9 firms from 2019 to 2022



Source: Publicly reported financial accounts.

The weighted average ROE of the Big 9 firms was relatively low in 2019, partly due to some firms being loss-making, the already low base rate environment and price competition in mortgages. ROE decreased further between 2019 and 2020. In our Strategic Review of Retail Banking Business Models 2022, we were able to attribute the decrease in part to higher credit impairments (recorded when firms consider it unlikely they would be able to collect all debts) due to uncertainty from the pandemic, further price competition in mortgages and lower yields on overdrafts.

The jump in ROE between 2020 and 2021 can be attributed largely to reversals of the impairment charges recorded in 2020. Weighted average ROEs continued to increase between 2021 and 2022, exceeding those achieved in 2019 pre-Covid. The improved average NIMs in 2022 contribute significantly to this result.

Profits after tax increased across the Big 9 firms by 245% between 2019 and 2022, while capital held remained relatively stable, with growth of -0.4%.[19] This indicates that the firms' profit increase was not necessarily through high-yield, high-risk lending over this period, as this would lead to higher capital requirements. In 2022, both risk-weighted asset levels and impairment levels were similar to those in 2019. This further signifies that the industry has maintained a similar level of risk as it held pre-pandemic.[20]

During our analysis we saw that smaller banks[21], in particular, benefitted from the rising base rate environment, with several previously loss-making firms becoming profitable from 2021.

18 ROE calculated as Profit After Tax divided by total Equity. Weighted average across Big 9 firms - for ring-fenced firms or relevant UK retail banking entities for the financial year that most closely corresponds to the above calendar year.

19 Based on total Profit after tax and Total equity for the Big 9 firms between 2019 and 2022.

20 Based on weighted average Impairment ratios and Risk-weighted assets of the 9 firms. Impairment ratios calculated as impairment charge or credit divided by Loans & advances to customers and banks.

21 'Smaller banks' include three Big 9 banks Co-op, Virgin Money and TSB as well as Metro, Starling and Monzo.

While this analysis shows average movements in ROE, each firm is structurally and strategically different. A range of factors drove changes in ROE. These include efficiency improvements which reduced operational expenses as well as increases in fee and commission income from increased consumer spending.

It is important to consider forward-looking management information from firms because this shows firms' expectations for their future financial results. It means we can consider whether historic results are temporary or indicative of longer-term trends.

We examined projected NIMs, impairments and profit margins for some firms where this was available from management information. From this information, we noted projected reductions in NIM between 2023 and 2025, assuming a fall in the base rate and a reduction in mortgage margins.[22]

Some firms also noted an expected increase in impairments due to the cost of living and high inflation. This may indicate that firms believe their profitability has peaked in the current environment, with competitive pressures, lowering mortgage margins and higher defaults likely to bring down profitability for the remainder of 2023 and over the next 2 years.

Our analysis of profitability suggests that the slower adjustment of savings rates discussed above, which is in line with expectations at this point in the cycle, has meant that firms' NIM is increasing.

However, firms are anticipating increases in costs which will bring down profitability in the near future. How quickly these cost increases reduce profitability depends on how far current expectations materialise and competitive pressure pushes greater pass through. In this respect, we will be closely monitoring the effect of base rate changes over the rest of the cycle.

Results released in late July 2023 indicate that financial performance has improved since this time last year for some of the Big 9. Company reports attributed higher NIM to rises in the base rate. We note however that impairments on the whole have increased as a result of economic uncertainty. We will continue to monitor firms' results as they are issued.

Our analysis above has focused on the effect of base rate change on profitability but does not assess whether the profits generated are in any way excessive. Such an analysis would need to be conducted over the full length of the business cycle. The results of this analysis would also need to be considered in the context of the drivers of firms' market power.

22 Based on a weighted average of forecasted NIM for 4 firms.

2.9 Key findings on speed and level of base rate pass through

Our analysis shows that increases in savings rates have significantly lagged increases in the base rate over the last 18 months. This lag has been particularly long for easy access savings rates. It has also been greater for the Big 9 firms. However, the most recent analysis indicates that the degree of pass through is accelerating and that savings rates have risen at a faster rate in the previous 2 to 3 months.

There may be some good explanations for this lag, and it has been mirrored in other countries. Coming out of a period of exceptionally low base rates, when banks were determined not to impose negative rates on their savings customers, it might be expected that savings rates would take time to adjust back to their historic differential norms against the base rate. And we have not found evidence, at this point in the economic cycle, that banks are making excessive profits.

Additionally, we are not sure that historic differentials between the base rate and savings rates are still an appropriate benchmark against which to measure current savings rates. Recent changes to the prudential requirements on banks and building societies, and the increase in the proportion of fixed rate mortgages, mean savings rates may not follow the historical pattern.

Nevertheless, it is clear that competition in the cash savings market is a key factor in determining both how much and how quickly rising rates are passed on. Our previous work has documented failures in competition in the cash savings market. We consider that this continues to be the underlying issue in the functioning of the cash savings market. We examine this in the following section.

Section 3

Competition in the cash savings market

Firms are more likely to pass-through increases in the base rate in markets (and time periods) where there is more competition.[23]

Firms compete to attract new customers because of the risk of losing their flow of new savings deposits. This means that new savings customers who are prepared to switch around, can often get attractive rates. By contrast, our previous research found that there are many longstanding customers, particularly in easy access products, who are less likely to switch providers and often receive rates that are not fair value as a result (sitting on off-sale products).

This section summarises our view of the effectiveness of competition in the savings market, drawing on evidence from our previous research. It then goes on to look at the current levels of competition and offers in the market.

3.1 Large firms have advantages in retail banking

Our 2022 Strategic Review of Retail Banking Business Models found that that the largest firms have several competitive advantages.

The largest firms benefit from a large and stable, and hence low cost, customer base on PCAs. Since many consumers select savings providers from among their current providers, market power in PCAs can give competitive advantages in related markets such as savings. Our strategic review also found that 79% of consumers held savings with their main current account provider. This enables larger firms, including many of the Big 9, to benefit from their large market shares of PCAs and leverage that into the savings market. Our latest Financial Lives Survey results also indicate that 75% of savings account holders hold their savings account with their main current account provider. These market features led the CMA to conclude in its 2016 Retail Banking Market Investigation[24] that banks have market power over their PCA customers.

The largest firms also benefit from high levels of brand familiarity. As a result, consumers may not consider similar accounts offered by less well-known firms to be comparable. Some consumers focus more on the provider's brand and the service provided than on interest rates.[25]

23 See for example van Leuvensteijn et al. (2013), "Impact of bank competition on the interest rate pass-through in the euro area", Applied Economics Vol. 45 LINK

24 https://assets.publishing.service.gov.uk/media/57ac9667e5274a0f6c00007a/retail-banking-market-investigation-full-final-report.pdf

25 CP 20/01: Introducing a Single Easy Access Rate for cash savings p. 46.

3.2 Consumer inertia in savings

Our previous work also found generally low levels of consumer engagement in the cash savings market. Our Cash Savings Market Study 2015 and 2020 Consultation Paper on the SEAR found that consumer inertia can lead to a lack of competition for longstanding customers (who hold closed products which are not open to new savers), with a significant amount of savings balances held in accounts opened more than five years ago. Our research showed that, longstanding customers on off-sale products typically received lower interest rates on their balances than those opening new savings accounts (on-sale products). This is sometimes referred to as a 'loyalty penalty'.

Whilst we have taken some steps to address the 'loyalty penalty' in the past, widespread consumer inertia in this market is still a concern.

To add more recent context to our previous research on cash savings, for this report we also surveyed a representative sample of UK adults in July 2023.[26] At a high level this shows that 55% of savers have switched or considered switching in the past 6 months which is encouraging. However, it still shows a significant number of savers that haven't considered switching. Not all of this will be due to inertia – some of these savers may be satisfied that they are on the best product for them. But it still indicates that inertia is a significant element in the demand side of the market.

Table 2. Survey of savers on attitudes to switching, July 2023

	% of savers
Activity in last 6 months:	
Switched in last 6 months or considered switching	55%
Not considered switching	**45%**
Considerations for next 6 months:	
Could be encouraged to switch by… increased interest rates	59%
An easy method of switching	31%
An easy way to compare products	19%
A personalised prompt from my provider	14%
Total that could be encouraged to switch	74%
Not willing to switch or no benefit to switching	**26%**
Perceptions of savings providers	
The interest rates they offer are at the level I'd expect	**38% disagree**
They provide me with the right information, and at the right time, to help me choose the best savings product for me	**21% disagree**

26 Research was conducted over 2 days (24/07/23 – 25/07/23) using an online interview administered to members of the YouGov Plc panel of 2.5 million+ individuals who have agreed to take part in surveys. The responding sample is UK adults and weighted to the profile of all UK adults according to census data.

Inertia has historically been driven by several factors, which we discuss below.

Perceived hassle and low gains from switching

As highlighted by our Consultation Paper on the SEAR, some consumers can overestimate the cost and time involved in switching providers and underestimate the benefit from opening another account.[27] These views could also explain the high rate of consumers holding savings accounts with their current account providers. Table 2 above shows that a third of savers (31%) stated that an easy/hassle free method of switching would encourage them to do so, highlighting that some savers still see a cost and time penalty involved in switching. However, higher nominal interest rates may make customers become more engaged.

Complexity of information

Changing accounts can also involve search costs (including the time spent) for consumers, together with some degree of complexity that may contribute to consumer inertia. It can be time consuming for consumers to keep paying attention to changes in interest rates on their existing savings account. Our research for the SEAR consultation found that half of consumers do not know the interest rate being paid on their easy access cash savings account.[28]

Information can also be complex or hard for some consumers, particularly those with characteristics of vulnerability, to use to make decisions about alternative products.[29] Many providers offer a wide range of products and frequently replace older offers with new ones. This can create a degree of confusion on rates, limiting consumers' ability to compare cash savings products.[30]

Lack of natural switching prompts

Unlike general insurance, fixed rate mortgages or fixed-term savings which have contractual endpoints, easy access savings are more evergreen (continuous). There are few prompts for an easy access saver to re-evaluate their product, except when firms change rates or withdraw 'teaser' rates.

Our July 2023 consumer research[31] found that around a quarter (24%) of savers do not agree that providers give them the right information at the right time to help them choose the best savings products (76% agree).

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27 CP20/1: Introducing a Single Easy Access Rate for cash savings | FCA p. 56.

28 CP20/1: Introducing a Single Easy Access Rate for cash savings | FCA p. 46.

29 CP20/1: Introducing a Single Easy Access Rate for cash savings | FCA p. 55.

30 CP20/1: Introducing a Single Easy Access Rate for cash savings | FCA p. 55.

31 Research was conducted over 2 days (24/07/23 – 25/07/23) using an online interview administered to members of the YouGov Plc panel of 2.5 million+ individuals who have agreed to take part in surveys. The responding sample is UK adults and weighted to the profile of all UK adults according to census data.

Low levels of consumer engagement remain, despite previous regulatory interventions. We have previously introduced disclosure and other demand-side remedies to improve consumer engagement.[32] However, as noted in the SEAR consultation, the extent of inertia among some groups of savers, driven by behavioural biases such as present bias, mean that those earlier demand-side remedies are likely to have had a limited impact on competition in the cash savings market.

Open banking and savings

Digitisation of financial services is changing the way consumers make decisions and increasingly allowing firms to tailor their services in more innovative ways. There has also been an increase in consumers' digital use, particularly since the pandemic. Our FLS data shows that most consumers are switching to digital solutions in banking, with almost nine in ten (88%) adults banking online or using a mobile app in 2022 – up from 77% in 2017. In response, consumers' behaviour, and their expectations of the services they receive, is evolving.

Open Banking has begun to unlock some of the opportunities this shift offers, with over 7 million Open Banking users in the UK. However, its potential to improve outcomes in savings is currently limited. Most savings products are outside current frameworks for data sharing and requirements. While some products incorporate savings into wider financial health dashboards, or automate regular savings, the volume of savings being actively managed to maximise returns to consumers through these means is limited, and so is their positive impact on competition.

The Joint Regulatory Oversight Committee (JROC), a committee which is jointly chaired by the FCA and the PSR, is designing and overseeing the next phase for Open Banking and has set out JROC's views and recommendations to successfully transition to a sustainable, safe and scalable commercial model for Open Banking within a new long-term regulatory framework. JROC has published an ambitious roadmap for delivering this over the next 2 years. This will require extensive contributions from industry participants, as well as JROC members, to deliver an approach that is safe and scalable for future data sharing products and services.

Opening up savings data under that future framework has the potential to bring consumers up to date and personally relevant information to enable them to make active switching decisions. As part of longer-term open finance initiatives, including the Government's Smart Data initiatives, we may also see tools developed that further reduce barriers to switching. For example, pre-populating applications or integrating and automating application processes.

At its best, this has the potential to improve competition and foster innovation among financial services providers, by converting 'sticky' savings into more active, value-maximising savings. However, there is a great deal of further evolution needed to achieve these goals.

32 See PS15/27

3.3 Our current view of competitive pressures in the market

When base rates rise, firms have more freedom to offer a wider range of rates across their range of savings deposits. There are also greater incentives for customers to switch products to benefit from higher rate differences. This creates more scope for competition between firms on interest rates.

In this context, we have increasingly seen some firms offer highly attractive and competitive savings rates in an attempt to attract new savers. As of July 23, the highest easy access rates were around 4% to 5% with rates over 6% on offer for fixed term and notice accounts.

Higher rates are particularly prevalent for fixed-term savings. The majority of higher rate accounts currently on-sale relate to fixed-term savings accounts (this includes 83% of all accounts paying more than 4% AER). See Table 3 below.

Table 3. Count of savings accounts available (on-sale) by type of account and quoted AER

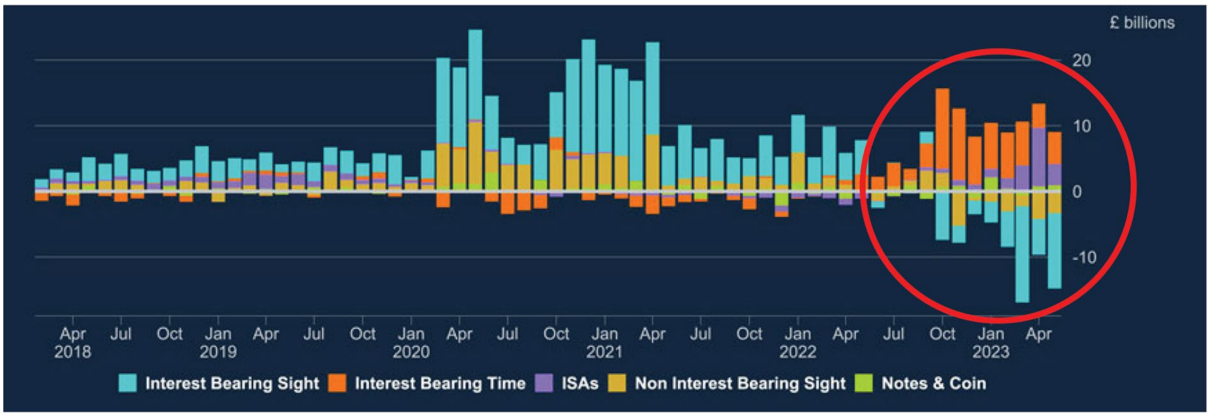
Product type	Total	>3% AER	>4% AER	>5% AER
All	1771	1421	1052	550
Fixed-Term (All)	1004	976	871	534
Non-ISA (All)	1247	990	747	395
Non-ISA (Fixed-Term)	698	673	594	379
Cash ISA (All)	524	431	305	155
Cash ISA (Fixed-Term)	306	303	277	155
Easy Access (All)	519	238	69	2

Source: MoneyFactsCompare.co.uk data on savings account quotes across the market (24 July 2023).

In response to this widening of rates between easy access accounts and fixed-term accounts, some consumers do appear to be moving their deposits out of easy access and into fixed-term accounts. As noted in Section 2 above, from the start of 2023 to date, there has been a reduction of £52bn in deposits held in the Big 9 easy access accounts (approximately 4% of total deposits). During the same period, deposits held in fixed-term accounts and those with a notice period have increased by £38bn (approximately 3% of total deposits).

Household deposit flow data from the Bank of England (see Figure 12) also shows this emerging as a trend from October 2022 and one that has continued to date.

Figure 12. Breakdown of net household deposit flows



Source: Bank of England Money and Credit report for May 2023.[33]

We also note that current account switching has increased significantly in 2023. Published data from Pay.UK shows the number of current account switches in the first quarter of 2023 were around 70% higher than in the first quarter of 2022. This indicates increased competition in the current account market. While this does not directly correspond to the savings market, it does suggest a greater appetite from customers to move banking providers in the current, higher interest rate, environment. This might be partly driven by an increased incentive to access higher savings rates on offer at different firms.

Switching levels in cash savings are hard to measure. Rather than closing an account and opening a new one, customers often transfer cash between different savings accounts while leaving residual amounts in others. We think there may be technical measures that could be developed to measure consumer switching and we would be keen to understand how firms themselves gauge switching between their accounts. For this reason, we want to work with the industry to develop a measure of consumer switching in the cash savings market which we can track and publish in order to assess whether switching is improving in response.

Despite definitional issues, our own consumer research sheds light on recent rates of savings account switching.[34] The results show that under a quarter (23%) of savers have switched savings account in the last 6 months to get a better interest rate on their savings. The main reasons savers report having switched provider is for the interest rate (53%), that they regularly shop around (47%), or they acted following a media or web article (27%).

However, despite evidence of an upturn in switching, other evidence suggests that there are still significant levels of inactive customers in the market. Our July 2023 consumer research found that almost half (45%) of savers have not considered switching savings account in the last 6 months. Although some of these consumers may have

33 Interest Bearing Sight: Balances on customers' accounts where the entire balance is accessible without penalty, either on demand or by close of business on the day following that on which the deposit was made, and where interest is payable.
Interest Bearing Time: Those deposits where part of the balance is not accessible without penalty, either on demand or by close of business on the day following that on which the deposit was made, and where interest is payable.

34 Research was conducted over 2 days (24/07/23 – 25/07/23) using an online interview administered to members of the YouGov Plc panel of 2.5 million+ individuals who have agreed to take part in surveys. The responding sample is UK adults and weighted to the profile of all UK adults according to census data.

fixed term rates, or have other reasons for not wishing to switch, it does match other evidence indicating there is still inertia in the savings market. For example, despite some challengers offering higher interest rates (up to 3.7%) than the large banks over the past year (see Figure 4), market shares[35] for both the Big 9 and the digital challengers[36] have remained relatively stable throughout the period of recent base rate rises. From January 2022 to March 2023, the Big 9 increased their savings market share from 48.3% to 49.7%, and the digital challengers from 3.7% to 3.9%. Although there are some limitations to these figures – they focus on existing accounts, rather than the opening of new accounts, and don't offer a full view of fair value – they still indicate limitations in the propensity of consumers to switch in response to price signals in the cash savings market.

In light of these findings, our actions aim to improve competition in the cash savings market. The market share of the Big 9 and the demand-side market features, including inertia and a preference to keep money in easy access accounts, mean that our Consumer Duty requirements on consumer understanding, consumer support and fair value are essential to ensure firms put customer's financial objectives at the heart of what they do. Our expectations on firms under the Consumer Duty (see Section 4) sets out ways we expect firms to aid consumers to take advantage of competitive offers from their existing provider or from other providers.

3.4 Our review of on-sale and off-sale easy access rates

Another indicator of competitive pressure and switching conditions is the difference between on-sale and off-sale savings rates. As we found in our 2015 Cash Savings Market Study, there were significant differences in the average rates customers got on their accounts, depending on the time since they were opened. This suggested firms were seeking to take advantage of customer inertia.

As part of this review, we asked the Big 9 and six of the largest building societies[37] to provide us with information with respect to their on-sale and off-sale easy access savings accounts (where the whole balance could be withdrawn immediately without prior notice or penalty). This included asking for data on the balances currently held and rate applied to each account, with a clear distinction between those accounts that were on-sale and off-sale.

We found that the information provided showed that there has been some alignment between the rates for on-sale and off-sale variants of like-for-like products, where they share equivalent or similar features, regardless of whether the account was being provided to new or existing customers. However, we did find a slight differential in the rates for on-sale products, where some received higher rates due to introductory and bonus rates. When the period of a bonus rate expires, these accounts will often revert to a lower rate (under a different product name) with the customer required to switch to an alternative product to regain a higher rate.

35 Source: Ipsos Financial Research Survey Base: All savings ex Premium Bonds (n=40,861). Time period: 6 months rolling. Jan 2022 – March 2023.

36 Digital Challengers: Monzo, Marcus, Atom Bank.

37 Six building societies included in the review: Skipton, Coventry, Progressive, Leeds, Melton, Newcastle.

Across the Big 9, the range in easy access savings rates on offer typically varied between 1% and 5%. The lowest rate account was 0.1% (off-sale), and, as at 30 June, 5 out of the 9 firms had an account paying 1% or less (across both on-sale and off-sale ranges).

We found the building societies generally provided higher rates on average across their easy access products, had higher minimum account rates and reported a smaller proportion of balances on their lowest rate accounts. The lowest rate accounts across the building societies ranged from 1.25% to 3%.

Overall, our analysis has found that, while there is a significant variation in the level of rates firms are providing across their easy access product sets, there are some accounts still receiving very low rates (particularly at some retail banks). Many firms also still require customers to take active steps to ensure they get the highest possible rate available. Together, these indicate that there are still some levels of customer inertia in the market.

For the Big 9 our review found that:

- the distribution of balances held across on-sale and off-sale products varied significantly. Three held a relatively balanced distribution, 3 appeared to have reduced their off-sale books in advance of the Consumer Duty, while 3 appeared to hold the majority of their balances within off-sale products.
- the range in rates provided to on-sale products typically varied between 1% and 5%. The rates on off-sale products were generally slightly lower, with a typical range of 1% to 4%. This was largely driven by firms offering higher rate on-sale products exclusively to their PCA customers (such as Regular Savers) or because some on-sale products included a temporary bonus.
- we could not accurately calculate the difference in effective rates given to on-sale and off-sale products based on the information provided. However, it appeared that several firms were giving an average (weighted) rate that was 0.5 to 1 percentage points higher for their on-sale accounts.
- the lowest rate reported on an account was 0.1% (off-sale). Five out of 9 firms had accounts paying 1% or less (identified across both on-sale and off-sale product ranges). At 30 June, approximately £260bn in easy access balances were in accounts paying 1% or less. This represents approximately 40% of all easy access balances reported.
- two out of 9 firms had not appeared to align their rates between like-for-like on-sale and off-sale products. Some firms also gave different rates to substantively similar products within their group.

For the six building societies our review found that:

- data from 4 of the 6 firms confirmed that there was no difference in rates between like-for-like on-sale and off-sale products. 2 firms did report to have some pricing differential.
- the lowest rate reported on an easy access product was 1.25%. Five out of the 6 firms had their lowest rate accounts paying 2.20% or more (across both on-sale and off-sale product ranges). This is significantly higher than the lowest and the average weighted rates across most retail banks' entire easy access product ranges.

- nearly all firms reported a net increase in savings balances between January and June 2023. This may indicate some customers were taking advantage of the higher easy access rates the building societies had to offer. Firms also reported some movement from their easy access products to cash ISA and Fixed-term/ Notice products with the largest net movements from easy access to cash ISAs.

Overall, we found there has generally been alignment in rates provided for like-for-like equivalent products. This alignment suggests existing customers are now more likely to receive a rate much closer to those being offered to new customers. Low rates do, however, persist among both on-sale and off-sale products, and there remains some barriers presented to customers to ensure they receive the best rate available.

As set out in our next steps (Section 5) we will continue to analyse the differential in rates that remain between on-sale and off-sale accounts, and challenge firms where we see differences that are not adequately supported by fair value assessments.

3.5 Our review of firms' approach to addressing customer inertia

In our supervisory work during H1 2023, firms reported having only quite limited strategies to tackle customer inertia. To a large extent, firms are focusing on communication when fixed-rate accounts mature, rather than throughout the account lifetime.

We found that firms rely on existing passive event-driven frameworks to communicate with their customers at set intervals rather than on measures to address inertia. For example, engaging with customers when products mature rather than proactively identifying and encouraging customers who would benefit from switching to a more competitive product.

Firms did not give a strong indication that event-driven communication will evolve soon. Additionally, while some firms recognised they need to improve customer engagement – such as proactively telling existing customers about available products that meet their individual needs – they did not clearly set out how and when they would do this.

Some firms told us they provide transparency by displaying rates online. This suggests a passive approach by firms to helping customers access the most appropriate product as firms could proactively notify customer where they could get a better rate.

Some firms referred to data protection constraints in the General Data Protection Regulation (GDPR), which they said limit their ability to tell customers about better available rates, especially where customers have opted out of receiving marketing.

To provide clarity, on 18 July 2023 in a joint letter from the ICO and FCA, we clearly set out our position that firms can and should provide regulatory communications to all their savings customers that provide neutral, factual information about the interest rate and terms of the savings product they hold, and their options are for moving to another product. Firms should give customers information they need, at the right time, presented in a way they can understand while complying with data protection requirements, to help customers make informed decisions.

GDPR is not and should not be seen as a barrier to making neutral contact with customers to provide regulatory communication messages, especially where another product or service would be more beneficial.

Section 4

Our expectations of firms under the Consumer Duty

The Consumer Duty sets higher expectations for the standard of care firms give retail customers. Firms must act to deliver good outcomes for retail customers, and enable and support customers to pursue their financial objectives.

The **four outcomes** set out more detailed expectations for firm conduct in areas that represent key elements of the firm-consumer relationship. For cash savings, as with other products, firms will need to ensure that their customers get good outcomes in each of these areas.

- price and value (fair value)
- products and services
- consumer understanding
- consumer support

Below we set out considerations under these outcomes in relation to cash savings products.

The Consumer Duty comes into force on 31 July 2023 for new and existing products (on-sale) or services that are open to sale or renewal. It comes into force on 31 July 2024 for closed products (off-sale) or services. However, firms can bring forward their work on closed products ahead of this latter deadline and we welcome the acceleration of work plans by some firms for their closed cash savings products. We would encourage other firms to follow suit.

4.1 Our approach to supervising the Consumer Duty

Our approach to supervising the Consumer Duty will naturally develop after July 31, but cash savings will be an early focus of our supervisory work under the Consumer Duty (see Section 5, Our Next Steps). Through assertive supervision and our data-led approach, we will be able to quickly identify practices that don't deliver the right outcomes for consumers and intervene. As set out in Section 5, we will be collecting data from firms to assess their compliance with the Consumer Duty and identify practices that cause poor customer outcomes. Firms can expect us to take robust action, such as interventions or investigations, along with possible disciplinary sanctions.

The sub-sections below set out more detail on the four outcomes under the Consumer Duty and illustrations of how they may apply to the savings market.

4.2 Price and value – fair value

Under the Consumer Duty, there is a specific focus on fair value. A lack of fair value is not consistent with customers realising their financial objectives.

For cash savings, this means that firms are required to ensure the costs of a product or service to customers are reasonable compared to the overall benefits, including crucially the interest rate they receive. Firms have discretion over the factors they use to assess whether their savings accounts deliver fair value. However, we think a good fair value assessment would consider the following core factors.

Assessment of value

Consumers value different types of cash deposits for different needs. In general, we would expect consumers to value:

- personal current accounts for the functionality they provide for managing payments and transactions. Some PCAs may offer low interest rates or small cash rewards.
- instant access savings accounts for immediate access and the interest rate they receive.
- fixed term deposit accounts for the additional interest rate they receive in return for locking their cash away for a fixed period (or facing a penalty as a result of earlier access).

The interest rate is the key benefit that a consumer receives for a cash savings account and firms will need to be satisfied that the interest rates they offer are fair value. There are a number of benchmarks that firms might take into account such as:

- whether there are any products in the firm's deposit range that offer a higher interest rate for essentially the same (or better) service and functionality than another account. For example, is it fair value if some consumers are getting less in an instant access account than they could get in a PCA?
- whether the interest rates consumers receive on the three products above reflect the trade-offs they are making. For example, is the interest rate on an instant access account fair value if a customer would be better off putting their money in a fixed-term or notice account and incurring the penalty if they needed instant access?
- whether the interest rate is a significant outlier compared to similar products across the market.

Consumers may value other services as part of their cash savings products and may trade off some interest rate benefit to receive these and compensate firms for the cost of providing these. Such services that firms might wish to consider could include:

- branch access
- higher functionality and reliability of mobile, online and telephone services
- better security

When assessing whether these additional services represent fair value (set against the level of interest foregone), firms should consider evidence that consumers use and value these additional services. This might include evidence of:

- branch use
- call waiting times and online reliability
- satisfaction measures could also be used in conjunction with other evidence

Assessment of differential outcomes

Firms should consider outcomes for different groups of their customers. The price and value outcome rules do not require firms to offer all customers the same interest rate. However, where firms offer different interest rates to different groups of savers, for example those on products which are on-sale and off-sale, they must consider whether the interest rate offered provides fair value for customers in each pricing group.

Evidence that firms might look at could include whether:

- different interest rates reflect the different costs of supplying services to those different consumer groups
- some groups of customers make more use of additional services than others
- different rates are being driven by customer vulnerability or behavioural biases (e.g. inertia)

Where firms discriminate in their interest rate between new and existing customers, the channel used to open an account or whether an account is currently on-sale or off-sale, they must consider whether the interest rate provides fair value for customers in each group. It would not be a good consumer outcome if firms are taking advantage of vulnerability or behavioural bias in their pricing of these different products.

Contextual factors

Assessments might also consider wider contextual factors or trends that might be impacting the costs of providing the product or the value of the product over time. Factors might include:

- shifting costs of inputs that might affect the cost of providing the service over time
- shifts in the way that consumers value different aspects of the products
- investments and innovations that might improve that value proposition over time
- cross subsidies from other products offered by the firm and profitability overall (Net Interest Margin and Return on Equity)

4.3 Products and services

Savers can only pursue their financial objectives and avoid foreseeable harm when products and services are fit for purpose. Firms acting in good faith need to design and distribute products and services that meet the needs, characteristics and objectives of customers in an identified target market. This includes meeting any additional needs for customers with characteristics of vulnerability.

These assessments will be particularly important for more complex savings accounts, like bundled accounts, or any account involving optional features, subscriber models or tiered pricing. For such accounts, firms may need to define the target market more narrowly, taking account of any increased risk of harm and the potential for mis-selling.

To meet these rules, firms will need to test their accounts appropriately, as well as learning from previous problems and considering what might happen in the future. Firms should consider how the account is likely to function over the average time customers are expected to hold it, so they can properly assess all potential risks to customers.

On an ongoing basis, firms must monitor customer outcomes from their accounts. They need to consider if the account continues to meet the needs, characteristics and objectives of the target market, whether the distribution strategy remains appropriate and whether the account has been sold to customers in the target market. Where they identify any problems, they should take appropriate action to reduce harm.

The Consumer Duty also sets a cross-cutting rule that firms enable and support retail customers to pursue their financial objectives. This could include consideration of whether the:

- target market for the account could be refined to address the potential for harm, including where groups of customers may be better off transferring some of their money into fixed-term or notice accounts
- account is appropriate for the needs, characteristics and objectives of groups of customers in the target market, e.g. those saving for a particular life event, such as retirement
- account adversely affects groups of customers in the target market, including those who may be better off holding some of their money in fixed term or notice accounts or where customers use a PCA as their main savings account

There is also a link to the consumer understanding outcome and the consumer support outcome, discussed below. Firms may be able to do more to help their customers make effective, informed decisions about their savings accounts and support them to pursue their financial objectives. Indeed, they may be able to help consumers build up better financial resilience if their work encourages customers to save in more appropriate accounts.

4.4 Consumer understanding

Consumer understanding is an important element of helping savers overcome the low average levels of engagement identified in this report. Communications also play an important role in prompting consumers to consider if savings products continue to meet their needs and objectives, for instance, as introductory rates come to an end or as customers' own circumstances change over time. Firms should avoid designing or delivering communications in a way that exploits information asymmetries and behavioural biases. Firms should also monitor the impact of their communications and draw lessons on what types of communication prompt appropriate consumer responses.

Our rules, which apply at every stage of the product lifecycle and to all communication channels, require firms to:

- communicate information in a way which is clear, fair and not misleading
- support their customers' understanding by ensuring that their communications equip them to make decisions that are effective, timely and properly informed before, during and after the sale of a product or service
- ensure their communications meet the information needs of, and are likely to be understood by, the intended recipients
- tailor communications, taking into account the characteristics of customers – including any characteristics of vulnerability – and the complexity of products and the communication channel used
- test, monitor and adapt communications, where appropriate, to support understanding and good outcomes for customers.

As set out in our joint letter with the ICO to UK Finance and the Building Societies Association, firms can provide regulatory communications to all their savings customers that provide neutral, factual information about the interest rate and terms of the savings product they hold, the interest rate and terms of other available savings products, and what their options are for moving to another product. Data protection law (the UK GDPR and Data Protection Act 2018) and the Privacy and Electronic Communications Regulations 2003 (PECR) do not stop firms from sending these regulatory communication messages even where consumers have opted out of receiving direct marketing from the firm.

However, firms must still ensure that they comply with data protection requirements when using information about people.

4.5 Consumer support

We expect firms to provide support that enables customers to realise the benefits of their products, pursue their financial objectives and ensure that they can act in their own interests. Our consumer support outcome rules include requirements for firms to ensure that customers can use their products as reasonably anticipated, and to ensure they do not disadvantage particular groups of customers, including those with characteristics of vulnerability.

In the context of savings and the issues identified in this report, the consumer support outcome as well as the cross-cutting rules should involve firms:

- providing support to groups of consumers who may face difficulty selecting the best savings product for their needs
- supporting savers to move their savings to a new product or switching provider. Support on switching accounts is important to help consumers to benefit from accounts with better rates
- assessing their consumer switching journeys to ensure the process is easy to navigate, there are no unnecessary obstacles and that consumers receive support at appropriate times.

In present economic conditions and cost-of-living pressures, firms should be alert to the fact that more customers may be seeking more support, including reassurance, practical information, and advice about their financial position and savings products. Many of these customers will be in vulnerable circumstances.

Section 5

Our next steps

Effective competition is key to the market delivering good outcomes for savings customers in terms of price, quality, range and service. The Consumer Duty will complement this by creating a fairer and more consumer-focused playing field on which firms can compete and innovate.

Our next steps therefore prioritise actions for firms on implementing the Consumer Duty in the cash savings market, as well as measures that will support improved competition and innovation.

5.1 Tailoring Consumer Duty outcomes for the cash savings market

Section 4 sets out how the Consumer Duty outcomes may apply in the cash savings market. Our preliminary analysis indicates that there is significantly further to go to ensure that consumers are getting these outcomes in all areas of this market.

While not a complete list, we see the priority areas of focus for improved outcomes in cash savings under the enhanced expectations of the Consumer Duty as:

Fair value:

- a reduction in the proportion of easy access accounts with very low interest
- firms to review savings rates quickly following base rate changes
- the difference in rates between existing and new products to continue to narrow

Products and services:

- the proportion of balances held in non-interest bearing accounts to fall
- firms to switch cash ISAs to cash ISAs within 7 working days

Customer support and communications

- firms to make clear to customers that they are in the lowest paying accounts
- firms to help more consumers to save regularly to increase their financial resilience

We will further review and quantify our desired outcomes for the cash savings market in the second half of 2023 and won't hesitate to propose further action if insufficient progress is made.

5.2 Package of actions

We propose a mix of actions – some for firms directly related to the Consumer Duty and some to improve competition in the market. Firms will need to ensure that they are meeting the higher standards the Consumer Duty requires. We and other stakeholders need to do further work, as well as seeking industry-led commitments in a number of areas.

Industry action and commitments

Following our roundtable discussions on 6 July 2023 with the UK's largest banks and building society, these firms have now committed to a number of steps to support faster progress towards delivering these outcomes. This includes:

- launching a targeted, firm-by-firm customer engagement campaign – to support consumer financial resilience by encouraging cohorts of their customers to start saving and/or review other options within the individual bank's product set including available rates which might deliver a better outcome.
- committing to explore how best to leverage the investment made in Open Banking and to use the Open Banking framework to support savings customers to better understand the information around their savings and to take action. This includes carrying out a review to report back in 2024 on the scope and opportunities for Open Banking capabilities to help customers make their money work harder and in due course seconding expert industry resource to FCA to further support this development.
- improving on and meeting the existing industry voluntary commitment around cash ISA to cash ISA switching by targeting 90% completion in 7 working days on an annual and aggregated basis, and
- working with the FCA to develop a savings dashboard which gauges consumer activity in the savings market (e.g. new savers, regular savers, proportion of customers who are saving overall). The shape of this will be developed but is likely to include relevant metrics and benchmarks to measure positive progress towards a more competitive savings market in response to more dynamic firm engagement, prompts and use of Open Banking data.

Some of these are voluntary commitments while others reflect early strategies for how firms will satisfy the higher expectations of the Consumer Duty. Questions of firms' individual product pricing strategies and value assessments are commercially and competitively sensitive and so follow up action will be through FCA supervision on a firm-by-firm basis.

Actions we are not pursuing at this time

We do not propose to restart a consultation on SEAR. We have already seen some firms changing their off-sale rates to align more closely with their on-sale rates, which the SEAR was intended to address. We also believe that competition is driving up these rates over time. Moreover, the Consumer Duty places a clear onus on firms to consider fair value for all savers.

We are also not proposing a savings charter. In contrast to mortgages, the need for consumer protection is less in the savings market, and the market will work more effectively if competition drives savings rates up over time.

Wider work on consumer resilience and wellbeing

We have seen in our research that many consumers are not regularly saving, even where household budgets might allow it. This is part of a wider challenge with consumers' financial resilience and wellbeing.

Some of our actions will support longer-term development of consumer financial resilience and complement other FCA work designed to support consumer resilience and outcomes in all markets, from retail lending and insurance to advice, savings and pensions.

We also recognise too that our work will complement the responsibilities and actions of a number of stakeholders who are already active in this space. This includes the Government's work to tackle financial inclusion and the role of MaPS which, as part of its UK Strategy for Financial Wellbeing, has a strand focused on building a 'Nation of Savers'. This includes working with partners to develop a voluntary savings charter supporting the ambition, by 2030, to increase the number of people regularly saving by 2 million. MaPS is also updating its consumer guidance, including on cash savings, and is involved in supporting initiatives such as UK Savings Week and joint research with Nest Insight on trials of 'sidecar savings' and 'autosave'. This involves using workplace payroll deductions to grow a small financial buffer of emergency savings as a key part of the foundation for overall consumer financial resilience and wellbeing, as well as acting as a platform for people to be able to save adequately for their retirement.

5.3 Consumer Duty implementation and supervision

Firms need to reflect on our findings around cash savings and put the Consumer Duty into action. As a priority, we will be robustly monitoring and supervising the implementation and delivery of the different Consumer Duty outcomes. This will be through our supervisory tools, including data monitoring, engagement with individual firms and multi-firm work focused on the Consumer Duty and cash savings with work beginning in Q4 2023. We have still to scope this work, but it will include review of firms' implementation of the Consumer Duty and its effectiveness in improving savings outcomes for customers. We summarise some of the other likely actions and areas of focus below.

Fair value – action by firms

- firms should already have completed **fair value assessments of their on-sale savings products** and must use these to assure themselves and us, where needed, that these represent fair value for customers.
- we strongly encourage firms to accelerate their **reviews of, and fair value assessments, for off-sale accounts** rather than waiting for the July 2024 Consumer Duty implementation deadline for off-sale accounts.

Fair value – FCA action

- we will require outlier firms (firms that are currently paying the lowest rates) to provide their fair value assessments by 31 August 2023 and follow up with **robust action where outlier firms cannot satisfy us that their rates provide fair value** (by the end of 2023)
- we will **review the timing of firms' savings rate changes** each time there is a base rate change (ongoing). We expect to see a reduction in the proportion of easy access accounts paying the lowest rates of interest, in particular accounts currently paying 1% or less.
- we will analyse the **differentials we have seen between on-sale and off-sale interest rates** and challenge firms where we see large differences that are not adequately supported by fair value assessments (ongoing). If the differential is not closing, then we will consider our next steps.
- we will conduct further **analysis into the contribution of cash savings to firms' profitability**.

Products and services, customer support, communications – action by firms

- firms should take action to **engage and prompt their customers in low and lower paying savings accounts or non-interest bearing accounts** in the second half of 2023.

  - we expect firms to be proactive in contacting their customers, particularly those saving in the lowest-paying savings accounts who could benefit meaningfully from moving to one of the firm's savings accounts that pays a higher rate of interest. This could be either in a better easy access account or by moving funds to a fixed-term or notice account. We have clarified that firms are able to contact all customers to inform them of alternative interest rates in our joint letter with the ICO.
  - firms should contact customers in non-interest bearing accounts, such as PCAs, who may benefit from building their financial resilience by regularly saving into a savings account.
  - larger firms must send us their methodologies for identifying these customer cohorts and communication approach by 30 September 2023.

  - larger firms should build regular prompts, in particular after base rate changes, into their banking, online and mobile platforms that encourage customers to consider alternative savings products which might be more suitable, or prompt customer service staff to alert customers that better rates are available from the firm.

- larger firms should **closely monitor the effectiveness of customer communications**. Firms to submit data on the number of communications sent to these customers by the end of 2023 and their analysis of the impact of these communications, including customers' understanding of product terms and rates. Firms should explain how they are adapting their communications in the light of this experience.
- **the largest banks and building society have committed** in support of meeting their Consumer Duty responsibilities to launch a targeted, firm-by-firm customer engagement to support consumer financial resilience by encouraging cohorts of their customers to start saving and/or search for higher rates.
- in addition, **we will be asking firms to consider how they might support their customers to access the suite of tools and resources available to them through MoneyHelper provided by MaPS**. This government-backed service offers existing and potential savers a range of tools and resources to help them review their wider financial situation when making savings decisions. Firms may also engage MaPS directly about the Nation of Savers deliverables of the UK strategy for financial wellbeing that MaPS is coordinating with multiple stakeholders across the UK until 2030.

Products and services, customer support, communications – FCA Action

- we will **review firms' data on the volume, impact and effectiveness of firms' consumer engagement comms**, as above (in the first half of 2024).
- we will work with stakeholders, including MaPS, to better understand the effectiveness of firm communication to customers to encourage more to save, and consider what wider initiatives would be effective in helping consumers develop financial resilience and encourage more customers to save regularly (ongoing).

5.4 Improving competition

Competition – action by firms

- firms will provide greater confidence in the **speed and efficiency of the cash ISA switching process** by improving on and meeting the existing industry voluntary commitment. The largest banks and building society will commit to targeting completion of 90% of cash ISA to cash ISA switches within 7 working days, an increase from the current voluntary commitment of 85%.
- **the largest banks and building society have committed** to working with the FCA to develop a savings dashboard which gauges consumer activity in the savings market. The shape of this will be developed but is likely to include relevant metrics and benchmarks to measure positive progress towards a healthy, competitive savings market in response to more dynamic firm engagement, prompts and use of Open Banking data.

Competition – action by FCA and others

- every 6 months starting in H2 2023, we will publish an **analysis of firms' on-sale and off-sale easy access savings rates, listing distribution from best to worst**, to clearly set out the relative competitiveness of savings providers. We will monitor the approach and effectiveness of this analysis and reporting after H2 2024.
- we will continue to **review firms' performance on cash ISA switching**, taking into account the new voluntary commitment, above.
- **voluntary industry commitment on Open Banking**: Open Banking has significant potential to drive more competition in the savings market. However, there are current limitations with the sharing of savings data, infrastructure and funding to develop this. The largest banks and building society have committed to explore how best to leverage the investment made in Open Banking and to use the Open Banking framework to support savings customers to better understand the information around their savings and to take action. This includes carrying out a review to report back in 2024 on the scope and opportunities for Open Banking capabilities to help customers make their money work harder and in due course seconding expert industry resource to FCA to further support this development.
- we will **develop and monitor relevant firm and market statistics**, linked to the outcomes we want to see, on cash savings and publish regular updates on progress. Further work needs to be done to establish data sources and baseline appropriate metrics. We will publish these metrics, and their baselines, by the end of 2023.

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