Financial Conduct Authority

Cash savings remedies

Part 1: Feedback on proposed remedies

Part 2: Discussion & Consultation paper

July 2015

Consultation Paper

CP15/24**

Contents

In this document we report on the main issues arising from Market Study 14/2.3 *Cash savings market study report, final findings & proposed remedies*. We also publish a Discussion paper and Consultation paper on which we are asking for comments by 12 October 2015.

You can send them to us using the form on our website at:
www.fca.org.uk/your-fca/documents/consultation-papers/cp15-24-response-form.

Or in writing to:

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

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Abbreviations used in this paper

AER	Annual Equivalent Rate
API	Application Programming Interface
BBA	British Bankers Association
BCOBS	Banking Conduct of Business Sourcebook
BSA	Building Societies Association
CBA	Cost Benefit Analysis
COBS	Conduct of Business Sourcebook
EBA	European Banking Authority
EC	European Commission
EEA	European Economic Area
EU	European Union
FCA	Financial Conduct Authority
FOS	Financial Ombudsman Service
FSMA	Financial Services and Markets Act 2000
HMT	Her Majesty's Treasury
ID&V	Identification and Verification
ISA	Individual Savings Account
OP7	FCA Occasional Paper number 7
PAD	Payment Accounts Directive
PCA	Personal Current Account
PSD	Payment Services Directive
PSD2	Second Payment Services Directive
RCT	Randomised Controlled Trial

1. Overview

Introduction

1.1 In January 2015 we published the final findings of the cash savings market study.[1] The market study was the second under our new competition mandate. We found that the cash savings market is not working well for many consumers and proposed remedies in four areas: disclosure; switching savings accounts; convenience of saving with different providers; and transparency of interest rates paid to longstanding customers.

1.2 We received responses from a range of stakeholders on our proposed remedies. Generally these proposals were well-supported. The main concerns raised relate to:

- certain elements of the switching box
- our proposals on the automatic renewal of fixed term bonds and
- security, and other risks in relation to use of account aggregation services

1.3 This document summarises the feedback we received on our proposed remedies and how we intend to take these proposals forward. In particular:

- We are consulting on some of our proposed disclosure and switching remedies – see section 8 of this document. We are testing the effectiveness of the other disclosure remedies through Randomised Controlled Trials (RCTs) and, subject to those, currently plan to consult on these proposals around the end of the year.
- We are working with industry to deliver seven day switching for the vast majority of cash-ISA transfers (except for those involving the very smallest providers), from January 2017.
- We will take forward the convenience remedy through implementation of the Second Payment Services Directive (PSD2) from 2017. We expect firms to move towards implementing PSD2 requirements as quickly as possible in time for the 2017 implementation date.
- We intend to trial publishing information on the lowest interest rates firms pay on open and closed easy access and easy access cash-ISA savings accounts. We will trial publishing this information for 18 months during which time we will evaluate the remedy's effectiveness.

1.4 We welcome comment on the proposals on which we are asking for feedback by 12 October 2015.

1 See cash savings market study final findings and proposed remedies, January 2015: www.fca.org.uk/your-fca/documents/market-studies/ms14-2-3

Who does this affect?

1.5 This feedback statement, discussion paper and consultation paper affects all active and potential participants in the cash savings market as well as those with an active interest in this market. This will include providers of cash savings products as well as intermediaries such as price comparison websites and those providing account aggregation services.

Is this of interest to consumers?

1.6 The proposed remedies will affect the information firms provide to consumers in relation to savings accounts and the ease with which consumers can open, manage and switch their savings accounts. Therefore this feedback statement and consultation paper is likely to be of interest to consumers and consumer groups alike. Given most UK adults hold a savings product (93%)[2], this paper is likely to interest all types of consumers, those who are new to savings and those who hold existing accounts.

Context

1.7 In October 2013, we launched a market study under our competition objective focused on the cash savings market.[3] We wanted to assess whether competition in the market for cash savings products is working well for consumers.

1.8 We published our final findings from this market study in January 2015. We found that competition in the cash savings market is not working well for many consumers. In particular we found that:

- Providers have significant amounts of consumers' savings in accounts opened long ago (e.g. more than five years ago). These accounts pay lower interest rates than those opened more recently.
- Providers need to improve the transparency of their practices, with little information currently being given to consumers about alternative products.
- Consumers are put off switching by the expected inconvenience and low perceived gains from opening another account. 80% of easy access accounts have not been switched in the last three years.
- The large Personal Current Account (PCA) providers have considerable advantages because they can attract most easy access balances despite offering lower interest rates.

1.9 Alongside these findings we also published proposed remedies to improve competition in the cash savings market. These remedies were focused in four areas:

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

3 Market studies are the principal way in which we investigate markets to see how they are working for consumers. See cash savings market terms of reference, October 2013:
www.fca.org.uk/your-fca/documents/market-studies/cash-savings-market-study-terms-of-reference

- Giving consumers sufficiently clear and targeted information at the right time so that they can easily and quickly compare their savings accounts with alternative ones and know how to switch if they want to do so ('disclosure remedies').
- Making the switching process as easy as possible so that it does not put consumers off moving their money to another savings provider or to another savings account with the same provider ('switching remedies').
- Removing some of the advantages of the large providers by making it easier for firms to provide a way for consumers to view and manage accounts with different providers in one place ('convenience remedy').
- Being more transparent about the way in which providers are reducing interest rates on variable rate savings accounts the longer a consumer holds the account ('sunlight remedy').

Summary of feedback and our intended next steps

1.10 We received 35 responses to our proposed remedies, primarily from cash savings providers but also from trade bodies, consumer organisations and third parties such as price comparison websites.

1.11 Our proposed remedies were, generally, well supported although some respondents raised concerns about certain elements. Table 1 provides an overview of the feedback received and our response, which we describe more fully in subsequent sections.

Table 1: feedback and our response

Feedback received	Our response and intended next steps
Most respondents were in favour of our proposed **disclosure remedies.** There was widespread support for a number of the proposals including changes to summary boxes and more prominent display of interest rate information. The main concerns raised were in relation to our proposals for warnings at the point of sale for low-paying accounts, elements of the switching box and requiring firms to obtain consumers' explicit consent at point of sale to be able to automatically renew a fixed-term bond once it reaches maturity.	We are consulting on some of our proposed disclosure remedies in section 8 of this document. We have commenced trials on some of the other disclosure remedies, including the switching box (see Annex 4). We plan to consult on these proposals later this year. We will take action through our supervisory work where firms apply names to their products that are likely to mislead consumers. We have decided not to take forward the proposals on warnings at point of sale for low paying accounts. We think such warnings are more appropriate after the sale and that, if effective, our proposed switching box will provide sufficient warning to consumers, as well as including details of comparable higher-paying accounts they may wish to consider.

Feedback received	Our response and intended next steps
Our proposed **switching remedies** were generally well-received. Smaller providers raised concerns that it would be disproportionate to require them to use the electronic cash-ISA transfer service or use electronic identification and verification procedures, given the costs of system changes required.	We are consulting in section 8 of this document on requiring firms to provide a prompt and efficient service to enable consumers to switch between accounts offered by the same provider. We are working with industry to develop an industry solution so cash-ISA transfers (save for those involving the smaller providers) are completed within seven working days. The majority of firms are now using electronic identification and verification procedures or have plans in train to begin using such procedures in the near future. We intend to monitor firms' actions in this area and, where appropriate, take action to facilitate the development of innovative solutions where they deliver benefits to consumers.
Many respondents recognised the need for a **convenience remedy** but had concerns about the use of account aggregators. These concerns include security risks, how consumers are protected in the event of loss arising from the use of these services, and a need for robust governance and standards.	Account aggregation services have the potential to deliver significant benefits to consumers in the cash savings market. PSD2 will address many of the security concerns and so we intend to take this remedy forward through implementation of the Directive from 2017. We expect firms to move towards implementing PSD2 as quickly as possible in time for the 2017 implementation date.
While some respondents were supportive of the **sunlight remedy** as a way to increase transparency about interest rates offered by providers, many respondents felt that publishing this information was unlikely to lead to increased shopping around by consumers.	The purpose of the sunlight remedy is to provide direct incentives to firms to change their behaviour and improve the way they treat their longstanding customers, rather than to try and change consumer behaviour, which we agree is better achieved through the disclosure remedies. We intend to begin publishing the lowest interest rates firms pay for both open and closed accounts for easy access products and easy access cash-ISA products. We will do this on a trial basis, using information collected from a sample of firms over the next 18 months. During this time we will evaluate the remedy's effectiveness.

Summary of our proposals

1.12 In section 8 of this document we consult on the following proposals:

- Requiring firms to provide consumers with key information in a product summary box. The overall layout and content of these proposed summary boxes has been informed by qualitative consumer research which is published alongside this document.
- Adding guidance on the prominent display of interest rate information.
- Changes to notifications, in particular:
  - Guidance about clearer customer communications.

 - Amending existing guidance so that customers are notified of all disadvantageous rate changes and expiring bonus rates. We are proposing a de minimis where the customer has a balance of less than £100 at the point the communication would be made.

 - Adding guidance that firms should notify customers to alert them to the maturity of a fixed-term account.

 - Adding guidance that firms should send reminder notifications about bonus rate expiry, disadvantageous rate changes and maturity of fixed-term bonds where the original notification was sent more than 14 days before the event.

- Adding a rule that requires firms to provide a prompt and efficient service to enable a customer to switch to another account offered by the same firm (as well as an account offered by an alternative firm as is currently already required).

Equality and diversity considerations

1.13 We have considered the equality and diversity issues that may arise from the proposals in this consultation. Overall, we do not consider that the proposals raise concerns with regards to equality and diversity issues. We do not consider that the proposals in this consultation adversely impact any of the groups with protected characteristics i.e. age, disability, sex, pregnancy and maternity, marriage or civil partnership, race, religion and belief, sexual orientation and gender reassignment.

1.14 We will continue to consider the equality and diversity implications of the proposals during the consultation period, and will revisit them when publishing the final rules. In the interim we welcome any input to this consultation on such matters.

Next steps

1.15 We want to know what you think of the proposals on which we are asking for feedback. Please send us your comments by 12 October 2015. You can respond by using the online response form on our website or writing to us at the address on page 2.

1.16 We will consider all responses and expect to provide feedback on those proposals in section 8 in a Policy Statement later this year together with the finalised rules. We intend for the rules to come into force on 1 July 2016.

Part I
Feedback statement

2.
Disclosure remedies

2.1 In MS14/2.3 we proposed disclosure remedies in three areas:

- A1 – Better information provision at or prior to the point of sale.
- A2 – Better information provision post-sale.
- A3 – Giving customers a choice as to the automatic renewal of fixed-term accounts.

2.2 We present here a summary of the feedback we received on the remedies proposed, together with our response and proposed next steps.

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

Summary box

2.3 The product summary boxes, currently set out in industry guidance[4] and used by most firms, are a very useful way of providing consumers with information about savings accounts at the point of sale. However, we found several areas where consumers' understanding and awareness could be improved through enhancing the way information in the summary box is provided. In particular we proposed the following changes:

- Ensuring the interest rate on the account is displayed prominently in the summary box and that consumers are not redirected elsewhere to obtain this information.
- Clearer presentation of the bonus rates and underlying rates along the length of the bonus period.
- Ensuring that explanations are included about the basis on which firms can change interest rates on variable rate products.
- A transparent explanation of what happens at maturity of fixed-term accounts.
- Clearer information on how to close or switch an account and any associated charges.

2.4 There was widespread support for changes to the summary box. In particular one respondent set out that being more upfront and transparent at the point of sale would allow consumers to make better informed choices.

4 See BBA, BSA and Payments Council Industry guidance for FCA Banking Conduct of Business Sourcebook. September 2013, p26. www.bba.org.uk/wp-content/uploads/2014/01/Final_BCOBS_IG_sept_2013.pdf

2.5 Respondents made a number of suggestions regarding additional information that could be included in and around the summary box. These suggestions included the provision of cash examples or examples showing the interest a consumer would earn over several years to show long-term value as well as defining certain terms which might appear in the summary box, such as 'variable'. One respondent suggested the information supplied in the summary box should be standardised across products to make it easier for consumers to be aware of and compare key product features.

2.6 Some firms were concerned about the potential cost of including the interest rate in the summary box, given this would mean summary boxes would need to be updated to reflect any interest rate changes. These firms supported the retention of a rate card or, for online accounts, the ability to link to a separate webpage. Other firms agreed with changes to the summary box but warned of the need to avoid a 'data deluge' or 'information overload' for consumers by adding too much complexity.

2.7 One consumer group commented that improvements to pre-sale written disclosure should also be accompanied by improvements to customer service standards in respect of telephone and face-to-face interaction before sale, as this is how many consumers initially receive pre-sale information and make their decisions on product choice.

Our response

We are consulting on rule changes in section 8 of this document to require firms to provide consumers with summary boxes.

We have undertaken qualitative consumer research on the content of the summary box so as to ensure it is effective in communicating product information to consumers that aids understanding. This research is published alongside this paper.

Given the importance of the interest rate to consumers when taking out a savings product, we propose the interest rate should be set out in the summary box and that consumers should not be directed to a rate card or separate webpage for this information. This view is supported by the results of our consumer research which found that consumers find being referred to a rate card annoying and perceived having to refer to additional documentation as inconvenient. Some consumers said it would make them reluctant to continue reading product literature and would lead to 'drop-out'. We have sought to limit the costs to firms by providing that where a direct offer financial promotion is on paper, the summary box can be provided on a separate sheet accompanying product literature and by providing a transitional period for existing product literature to be used up.

Our consumer research also highlighted the importance of cash illustrations to help consumers understand how a savings account would work in practice. We propose including these in the summary box.

In relation to customer service, it is important that firms ensure staff have the appropriate skills, knowledge and expertise to carry out their duties. Firms should ensure that staff who interact with consumers before the sale are aware of the information that should be provided to the consumer before and at the point of sale.

Account names and warnings

2.8 We proposed that accounts with low interest rates should be given names that are not misleading (i.e. do not suggest that they pay high interest rates if in fact they offer low interest rates) and/or should contain an appropriate disclosure or warning when they pay interest below a particular threshold (such as the Bank of England base rate).

2.9 Responses to the proposal on account names were mixed. Some respondents (including most consumer groups) supported the proposal while most providers and trade bodies pointed out the potential for practical difficulties in implementing this remedy, such as a name that is not misleading at the point of sale but which may subsequently appear misleading due to a decrease in interest rates during the life of the product. It was also suggested that concerns in this area were a product of the current low interest rate environment.

2.10 There were also mixed views regarding the proposal for warnings on low interest rate accounts. Consumer groups were generally supportive, although there was no consistent view among respondents on what the threshold for such a warning should be. Some respondents suggested the Bank of England base rate, but others pointed to the difficulties in using this rate, as future rises could result in the majority of accounts paying below this rate in which case any warning may become less meaningful. Other respondents suggested a threshold based on the interest rates available in the market at a point in time (for example those in the lowest quartile) however providers highlighted that this would be costly to keep updated if interest rates were to change frequently.

2.11 There were also concerns that warnings could cause confusion and unnecessarily dissuade some consumers from products that are actually appropriate for their circumstances.

Our response

Account names should not mislead consumers. This applies equally pre and post-sale: an account name could become misleading after the account has been opened as a result of changes. Firms have existing obligations in this regard under our fair, clear and not misleading rules (Banking Conduct of Business Sourcebook (BCOBS) 2 and Principle 7)[5] and the Consumer Protection from Unfair Trading Regulations 2008. We will take action through our supervisory work where firms apply names to their products that are likely to mislead consumers.

We agree that warnings that an account is low-paying are more likely to be needed post-sale (when a firm may have decreased the interest rate) rather than at the point of sale. We believe that our post-sale disclosure remedies, in particular the switching box, should provide sufficient information to warn a consumer where they have a low-paying account as well as providing them with information about better paying alternatives. Therefore, we do not intend to take proposals for warnings at the point of sale forward at this time.

5 Principle 7 states that a firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading. See also rules in BCOBS 2.

A2) Better information provision post-sale

Prominent display of current interest rates

2.12 We proposed that firms should prominently display interest rates in all paper and online statements, as well as in other relevant customer communications and on websites. We further stated that this should apply to both on-sale and off-sale accounts.

2.13 The vast majority of respondents were in favour of this proposal. In addition, several providers and consumer groups suggested that interest rates should be accompanied by examples showing how much interest would be earned in monetary terms if a given amount is deposited for a certain period of time (a 'cash illustration').

2.14 Some firms provided estimates of the costs arising from this proposal, citing the need to make changes to their systems in order to display interest rates on statements and online banking platforms.

Our response

In section 8 of this document we are consulting on guidance on the prominent display of interest rate information.

We accept that there is a cost implication for providers as a result of these changes and we have sought to gather further information on this as part of our cost benefit analysis of our consultation proposals (see Annex 2).

We agree that cash illustrations are a useful tool in disclosure and the consumer research supports this. We are including cash illustrations in our proposals in relation to the summary box for pre-sale disclosure. In addition we are testing the effectiveness of cash illustrations in post-sale disclosure as part of the testing we are currently undertaking on the switching box (see Annex 4).

Information about the potential benefits of shopping around

2.15 We proposed including a 'switching box' in customer communications which would explain the potential benefits of shopping around and act as a prompt to the customer to consider their choice of product and provider.

2.16 Consumer groups, intermediaries and some providers were largely supportive of the idea of a switching box. Several provided comments and suggestions regarding its proposed format and content. In particular one put forward the importance of setting out the benefit from switching in monetary terms as well as through interest rates in order to help customers make an informed decision as to whether it's worth their while to switch. Several respondents commented on the need to properly test the switching box to ensure it is effective.

2.17 Many providers raised concerns in relation to the switching box itself or elements of its proposed content. Concerns were focused in three areas: the content being too 'rate focused'; the inclusion of interest rates offered by competitors; and, the inclusion of personalised information, in particular personalised cash illustrations.

2.18 Many providers stated that the switching box's focus on interest rates could lead customers to focus disproportionately on interest rates at the expense of other relevant product features, such as the ability to withdraw funds. Some firms considered that this could result in a distortion of competition in the market, with providers solely focused on competing in a narrow band of interest rates and having less incentive to innovate and improve other product features.

2.19 Many firms raised concerns in relation to proposals to include interest rates offered by competing providers. These concerns included difficulties ensuring the competitor's product was comparable, difficulties keeping this information up-to-date and the risk of the information being viewed as marketing material by customers. Generally, firms favoured providing the customer with details of another comparable account they offered rather than a competitor. A number of providers also expressed the view that providing details of other accounts could be seen as advice.

2.20 Lastly, several respondents highlighted the potential cost associated with providing personalised information in the switching box, in particular personalised cash illustrations as to the monetary benefits from switching. One provider stated that it would be equally effective yet far less costly to provide generic information based on the typical balance for a customer segment.

Our response

Whilst we recognise some of the concerns raised by respondents, we remain committed to developing our proposals on the switching box. We think it is important customers are provided with better information about the potential benefits of shopping around and that such information would prompt more customers to consider their choice of savings account and provider. Our next steps on the switching box are discussed in more detail in section 7.

Improvements to the presentation, timing and frequency of customer communications

2.21 This proposal had three separate parts:

- clearer presentation of information in customer communications
- ensuring customers are clearly informed of disadvantageous rate changes, and
- improvements to firms' notification and reminder practices

2.22 Most respondents were in favour of these proposals. Respondents particularly welcomed the intention to provide clearer guidance on the way firms should present information in their communications.

2.23 Many respondents agreed with our proposal that firms should notify all affected customers of any disadvantageous change to interest rates. Many providers advised that they already notify customers of all disadvantageous rate changes regardless of materiality. As set out in our final findings, 14 out of 18 firms that responded on this point already inform customers of all rate change decreases.[6] However some respondents favoured retaining a de minimis and suggested that the customer should be notified of a disadvantageous rate change when they have £100 or more in the savings product.

2.24 Improvements to reminder and notification practices were also widely supported, with some firms indicating that they were undertaking their own testing as to the best way to provide

6 See cash savings market study final findings and proposed remedies, January 2015, p74.

alerts to customers, such as by text message. A number of firms pointed out the potential cost implications of our proposals in this area, with many stating that they should be able to deliver these via email or other electronic means, in order to manage these costs.

Our response

We intend to proceed with proposals for clearer presentation of information in customer communications. We propose to add guidance that firms should make clear in the heading of notifications what they are referring to, in particular that the rate of interest is decreasing where this is the case.

We are also consulting on amending guidance so that customers are notified of all disadvantageous rate changes and bonus rate expiries. We propose a de minimis where the customer has a balance of less than £100 in the savings account at the point of communication. We think this is a sensible de minimis to ensure that the measure is proportionate however firms may voluntarily choose to notify all their affected customers of such changes, regardless of their balance. We are also adding guidance to BCOBS that firms should provide customers with advance notice of the maturity of a fixed-term account, setting out the implications and choices available.

We are also consulting on guidance that firms should send reminders to customers to remind them of rate changes, bonus rate expiry or the maturity of a fixed-term bond where the original communication notifying customers of this event was sent more than 14 days in advance of the event occurring.

More detail on all these proposals is set out in section 8 of this document.

Our discussion paper on smarter consumer communications[7] set out examples of good practice and innovative approaches by firms to communicating effectively with consumers. We are undertaking trials in order to test different channels through which to send reminders to customers (for example by email or text message) so this information is delivered effectively, when customers need it, in an engaging way. For more details on these trials see Annex 4.

A3) Choices on auto-renewal of fixed term accounts

2.25 We proposed that firms should not automatically renew fixed-term accounts (automatically place funds held in one fixed-term account into a new fixed-term account at maturity) unless the customer has explicitly given their consent for this at the time the account was opened.

2.26 The majority of respondents, including consumer groups and those firms who do not provide auto-renewal were supportive of this remedy, arguing that customers should always be given a clear choice at the point of sale. Several providers who supported this remedy indicated that they were investigating ways to improve their presentation of maturity options to customers.

7 See our Discussion Paper on Smarter consumer communications, June 2015: www.fca.org.uk/static/channel-page/dp-smarter-comms/dp-smarter-comms-index.html

2.27 However, those firms that currently operate auto-renewal were not in favour. Several felt it was unrealistic to require customers to make a choice at the point of sale as to what happens at maturity, given their circumstances may change during the term of the product and the firm would not be able to tell them at the point of sale what alternative fixed-term products would be available on maturity. These firms also stated that auto-renewal was very popular with their customers.

2.28 A number of providers highlighted the cost implications of capturing customer intentions at point of sale. These providers stated that making changes to their current practices would result in significant costs.

2.29 Some respondents who were not in favour were of the view that the risks of auto-renewal could be mitigated through better disclosure at the point of sale and in the run-up to maturity, such as additional reminders. Another suggestion was for a longer cooling-off period after auto-renewal, to give the customer more time to consider their options.

Our response

We still believe that customers should, at a minimum, be able to exercise choice regarding whether their fixed-term account auto-renews. In our view customers should be able to exercise this choice at any point, including at the point of sale, and should not have to wait for a window when the product matures to be able to 'opt-out'.

We note firms' argument that they think it is unrealistic to require customers to make a choice when opening their account as to what happens at maturity, but do not think this is a reason not to give customers any choice at all. In addition, customers would still be given a choice as to what happens at the end of their fixed-term product, shortly before maturity. However if they did not respond, the action taken by the firm would be more likely to reflect the customer's preference (as they would have expressed a preference at the point of account opening).

We intend to consult on this proposal later this year. In addition, in developing our proposals, we will take account of ongoing FCA work into auto-renewal more generally, for example in relation to general insurance. In particular we will consider ongoing research into whether firm notification practices in relation to auto-renewal can be improved so as to help customers make more informed decisions at maturity of fixed-term products.

3.
Switching remedies

3.1 In MS14/2.3 we proposed switching remedies in three areas:

- B1 – Facilitating switching between accounts offered by a particular firm.
- B2 – Speeding up cash-ISA switching.
- B3 – Encouraging electronic identity and verification procedures.

3.2 We summarise the feedback we received to the remedies proposed, together with our response and proposed next steps.

B1) Facilitating switching between accounts offered by a particular firm

3.3 The aim of this proposed remedy is to provide a simple switching process for opening a new account with the same provider, switching savings balances between the existing and the new account, and closing the existing account by: (i) improving internet banking functionality; and (ii) creating simple ways to transfer balances for paper-based or telephone banking accounts. This would mean that customers are easily able to take action when information is provided on savings accounts which better suit their needs.

3.4 We proposed that firms offer internet functionality that enables customers to switch between comparable accounts with just one or two clicks. This functionality would be featured prominently on a customer's internet banking homepage. We set out that a new process would also need to be introduced for accounts that are not managed online, for example a simple form sent with customer communications that can be completed and returned to the firm for branch and/or postal accounts and/or a 'one call' option for telephone based accounts.

3.5 Many providers were supportive of the aims of this remedy. Some said that they already have existing switching processes which enable customers to open new accounts and transfer balances in just a few clicks. They felt such processes were sufficient and said that being able to close an account is less important to customers. Others highlighted the importance of enabling customers to close accounts easily without being required to go into branch to do this.

3.6 One provider and one consumer group stated that the focus of this remedy should be less on the number of clicks taken to switch but instead on ensuring the customer does not have to provide duplicative information and that firms use the data they already hold.

3.7 Many providers agreed that such functionality should only be available for comparable accounts. In addition, many highlighted the importance of ensuring customers fully understand the implications of switching including any differences between their current and new account and had seen the product terms and conditions and key facts information. They felt it was important the customer validated their decision to switch. Some firms questioned whether such online functionality should enable a customer to open a branch-based account.

3.8 Some providers noted that this remedy would incur significant costs to implement the required functionality to their internet banking platforms.

3.9 A small number of providers felt there were limited barriers to switching between non-ISA savings accounts whether offered by the same or different providers.

Our response

We agree that customers should not have to provide duplicative information and that firms should ensure customers are fully aware of the features of the product they are switching to and the implications of switching.

In relation to facilitating switching for branch and telephone-based accounts, we are aiming to run an RCT to test the effectiveness of a 'return switching form' – a simple form sent with customer communications that can be completed and returned to the firm. See Annex 4 for further details on the RCTs we are undertaking.

Firms are currently required by the BCOBS rules to provide a prompt and efficient service to enable a banking customer to move to a retail banking service provided by another firm. We are consulting on introducing a new rule that firms must also provide a prompt and efficient service to enable a banking customer to move to a another retail banking service offered by the same firm. We expect firms to make use of the information they already hold about their existing customers to make applying for a new savings account and switching as straightforward as possible. More detail on this proposal is set out in section 8 of this document.

B2) Speeding up cash-ISA switching

3.10 The aim of this remedy was to speed up the cash-ISA switching timeframes. This would make transferring cash-ISAs easier and quicker and would allow consumers to switch more easily and quickly to an account that better suits their needs.

3.11 We proposed that providers commit to reducing the target cash-ISA transfer time to nearer seven working days from the current 15 working days, given the electronic transfer system which has now been adopted by many banks. The electronic system enables transfers to be completed far more quickly.

3.12 This proposal was supported by consumer groups and some firms that felt that a reduced switching time was a positive message to send to consumers regarding the ease of transferring cash-ISAs and was important in prompting greater consumer engagement and switching. Those providers who currently use the electronic transfer system said it is well-received by consumers. One firm reported that 75% of their external transfers undertaken using the electronic process take four working days to complete.

3.13 Most firms believed there is scope for reducing the target time taken for cash-ISA transfers, were all firms able to adopt the electronic process. This is possible providing sufficient lead-in time is allowed for firms to make the necessary system changes. Several firms were supportive of all firms being required to use the electronic system while others felt that getting the larger providers to adopt the electronic system was more important than reducing the timescales across all providers.

3.14 Although most firms believed that there was scope to reduce the target switching time, a number of these questioned the benefits reducing the switching time would have when compared against the significant costs involved in achieving this, especially for smaller firms for whom such costs could be disproportionate. Several respondents outlined the significant time and resource that moving to the electronic process would be likely to entail. One firm gave an estimate of the costs involved in joining the electronic system but set out that cost will vary by firm depending on their existing systems. These firms did not think the current process was causing harm to consumers and that a reduction in the switching time would be unlikely to result in material increases in switching activity.

3.15 One firm suggested that, as an initial step, industry should commit to pay interest from day eight. A number of firms noted the importance of continuing to ensure the consumer doesn't lose out should the transfer take longer than the target time (as is the case currently).

Our response

We remain of the view that a reduction in the time taken to transfer cash-ISAs would aid greater competition in the cash-ISA market, enabling consumers to switch more quickly when they find another account which better suits their needs and addressing many consumers' perceptions that switching takes too much time and effort.

We accept that for some smaller firms the costs involved in joining the electronic system could be significant and therefore do not intend to impose use of the electronic system. However we remain keen to see an increasing proportion of cash-ISA transfers completed within a shorter timescale.

The current cash-ISA transfer guidelines are owned by industry[8] and set out that the process to transfer a cash-ISA should be completed within 15 working days. We have engaged with industry via trade associations to develop an industry solution which will result in the vast majority of cash-ISA transfers, save for those involving the very smallest providers, being completed within seven working days.

This would largely be facilitated by more widespread use of the electronic cash-ISA transfer system. In the coming months we will work with industry to reach a voluntary agreement on a target for the proportion of all cash-ISA transfers over the course of a year that are transferred within seven working days. This target would be set following analysis of the barriers and enablers for a move to seven working days and would make allowance for transfers involving the very smallest providers (i.e. those handling fewer than 5,000 transfers a year). The target would be deliverable from 1 January 2017, in order to allow time for providers to implement the necessary changes.

8 The Cash-ISA to Cash-ISA Transfer Guidelines are jointly owned by the British Bankers Association, the Building Societies Association and the Tax Incentivised Savings Association.

The Building Societies Association (BSA) has engaged with its members and a significant number who are not currently on the electronic transfer system have announced their intention to join within the next eighteen months. The BSA estimates that the market share of its providers who would remain on the manual system would be less than 2%. This will help reduce the perceived and actual barriers to switching for consumers in a significant sub-sector of the cash savings market.

B3) Encouraging electronic identity and verification procedures

3.16 The aim of this remedy was to encourage more widespread use of electronic checks to verify a consumer's identity.[9] This would help reduce the perceived and actual inconvenience for consumers involved in switching accounts and may encourage greater shopping around by allowing consumers to switch more easily and quickly to an account that better suits their needs.

3.17 Many firms supported our view that greater use of electronic identification and verification (ID&V) procedures would improve consumers' perceptions of the ease of switching providers. One consumer group highlighted this as a key area where consumers experience difficulties.

3.18 The vast majority of firms set out that they currently already use electronic ID&V processes where possible and many stated that they already have incentives to use such processes and invest in this area. However many providers noted the importance of being able to retain flexibility as to when to use electronic and manual processes. Some smaller providers said that the costs involved in getting their systems to be able to use electronic procedures could be disproportionate to the size of their business.

3.19 Some providers suggested the FCA should consider this remedy in a broader context than purely cash savings.

Our response

We agree that greater use of electronic ID&V processes would reduce the perceived and actual inconvenience for consumers when switching and may encourage greater shopping around.

We appreciate that firms must follow a risk-based approach and have the flexibility to use other methods where appropriate. We also recognise that for some smaller firms the costs involved in adopting electronic processes could be disproportionate given the size of their business. We do not wish to make the cost of joining the electronic system a barrier to entry or expansion for new or growing firms.

We have engaged with industry and understand that the vast majority of providers are now already using electronic ID&V processes or have plans in train to begin using such processes in the near future. We recognise that many firms are innovating and developing solutions to make account opening as straightforward as possible for consumers, including improvements to their

9 The JMLSG Guidance contains guidance on criteria firms should use when choosing an electronic verification provider and measures they should take to reduce the risk of impersonation fraud (see Part 1 Chapter 5 Section 5.3, www.jmlsg.org.uk).

ID&V processes. We intend to continue to monitor firms' actions in this area, highlighting examples of good practice and where appropriate, taking action to facilitate the development of such innovative solutions where they deliver benefits to consumers.

4.
Convenience remedy

4.1 In this section we set out responses to the convenience remedy proposed in MS14/2.3 and how we intend to take this remedy forward. The convenience remedy involved reducing barriers to account aggregation services or other potential solutions developing that would enable consumers to view and manage savings across more than one provider.

Overview of the remedy and responses

4.2 We considered ways in which the convenience of viewing and managing savings and other accounts in one place could be offered to consumers without needing to keep all their savings with their existing provider. We identified account aggregation services as offering a potential solution. Such sites enable a consumer to see account information, such as balances and recent transactions, on a range of selected accounts including savings and current accounts. The current sites typically allow read-only access to account information, but can offer additional functions to help consumers manage their finances more easily, such as tracking spending or savings targets.

4.3 This remedy aims to reduce any significant barriers to these or other similar solutions becoming effective. Counterbalancing the advantage of incumbent savings providers by offering such convenience could encourage more consumers to shop around. As PCA providers benefit from a significant proportion of consumers that hold their savings alongside their PCA, it would also open up a greater portion of the market to savings providers that do not offer PCAs or are not typically providers of consumers' main PCAs.

4.4 Responses to this remedy were wide-ranging and covered the following areas: potential benefits; security risks; consumer loss; governance and standards; costs; use by consumers; and other relevant initiatives.

Potential benefits

4.5 Several respondents were supportive of the benefits offered by account aggregation services. One felt they could improve consumers' willingness to hold accounts with multiple providers and, for those who do this already, reduce the inconvenience of logging into multiple online banking platforms. Another set out their view that providing consumers with a consolidated view of their financial information will help promote better financial decision-making. However, these respondents also identified barriers and concerns associated with such services which they felt need to be addressed before such benefits can be fully realised.

Security risks

4.6 Many respondents were concerned about the security of consumers' financial data and risk of hacking, fraud and financial crime. They felt that, given the valuable data they would hold, aggregators would be a target for hackers and were concerned about the ability of some aggregators without adequate security to properly protect consumers' data.

4.7 A trade association recognised the risks associated with the use, security and protection of consumers' financial data, but noted that they were not aware of any breach so far by an aggregator in the UK.

4.8 Some respondents observed that many providers discourage consumers from using these sites and were concerned about the risks of not maintaining a consistent message to consumers that they should not share their security information with anyone.

Consumer loss

4.9 Respondents pointed out that many providers currently hold consumers responsible for losses resulting from having disclosed their security credentials. They felt that further clarity is required as to where the liabilities lie in the event of fraudulent activity. Several providers felt aggregator sites should be liable for unauthorised or fraudulent transactions and should hold sufficient capital to absorb any losses. Respondents were clear that, for consumers to be comfortable using aggregators, they need reassurance that they will be compensated in the event of any such losses.

Governance and standards

4.10 Providers put forward that in order for them to be comfortable with their customers using such services, aggregators would need to adhere to robust security standards. Several felt aggregators would need to be regulated. Several respondents also felt that aggregators should be non-commercial. One respondent felt that consumers would only use an aggregation service if it was offered by a familiar brand with a strong public image of trust and security.

Costs

4.11 Providers felt that, should they be required to enable aggregators to interface with their internet banking platforms, there would be very significant costs incurred. (Currently where a consumer uses an aggregator the aggregator logs-in to their internet banking and scrapes the information from this).

Consumer use

4.12 Several providers were unsure of the usefulness of account aggregation or other similar solutions to consumers and suggested we conduct consumer research to gauge levels of interest. They felt that any service relying on consumers proactively providing information to third parties was likely to only be used by a minority of consumers. They also felt that these consumers are likely to already be engaged and therefore such a solution would be unlikely to lead to increases in consumer engagement. Some banks and building societies who already offer account aggregation services to their customers said take-up of these services had been disappointing. However, existing account aggregators reported a positive response from consumers and said they see a significant potential market for such services in the UK.

4.13 Several respondents noted that a similar solution which facilitates banking across a number of providers needs to be found for consumers who do not use or have access to the internet. For example one felt we should focus on other aspects of convenience such as extended branch opening hours.

Other relevant initiatives

4.14 Many firms urged the FCA to link in any proposed work on aggregators with work on PSD2, which will bring aggregators of payment accounts within the scope of regulation. One firm supported accelerating implementation of proposals in PSD2 in relation to aggregators. Firms also noted the work being undertaken by HM Treasury in relation to Application Programming Interfaces (APIs) and data sharing and said the FCA should be guided by these existing initiatives.

4.15 Some respondents called for the FCA to consider its next steps on aggregators more broadly than in the cash savings market given their potential to also offer benefits to consumers in other markets.

Our response

We remain strongly of the view that account aggregation services have the potential to offer benefits to consumers in the cash savings market. We recognise however that there are some issues which need to be addressed, for example in relation to security, in order for these benefits to be fully realised.

The evidence regarding consumer use of account aggregators in other countries suggests that consumers are likely to use such services, particularly as aggregators develop more functionality and such solutions can be delivered in more consumer friendly ways, for example through mobile phone applications.

As many respondents recognised, there is already existing work at both a UK government and European level in relation to account aggregation services. In December 2014 HM Treasury published a report by the Open Data Institute and Fingleton Associates on data sharing and open data for banks.[10] Following this, in March 2015, it launched a call for evidence[11] on the benefits of more open data in banking and on how an open API standard in UK banking could be delivered. API technology is one way banks could more easily and securely share consumer data with third parties such as aggregators.

10 Data sharing and open data for banks. Report from the ODI and Fingleton Associates for HMT. December 2014. See: www.gov.uk/government/publications/data-sharing-and-open-data-for-banks

11 HMT call for evidence on data sharing and open data in banking. March 2015. See: www.gov.uk/government/consultations/data-sharing-and-open-data-in-banking-call-for-evidence/call-for-evidence-on-data-sharing-and-open-data-in-banking

In addition, PSD2 will address a number of the concerns raised by stakeholders, where payment accounts are being aggregated. In particular it will:

- Bring third party payment service providers (which include account aggregation services) within the scope of regulation.
- Ensure that where a user's payment account is accessible online, they have the right to make use of account aggregation services.
- Set out who is liable in the event the consumer is to suffer loss.
- Give the European Banking Authority (EBA) a mandate to develop regulatory technical standards for security of all payments service providers.

We expect the final PSD2 text to be published by the European Commission (EC) in autumn 2015 and the directive to come into force 20 days later. Member states will have two years from this date to implement the bulk of the directive. Implementation of the security measures will follow within 18 months of the coming into force of the EBA's regulatory technical standards.

In our view PSD2 will address many of the concerns raised by respondents where the accounts in question are payment accounts and enable the benefits of account aggregation services to be fully realised by consumers. We expect firms to move towards implementing PSD2 requirements as quickly as possible in time for the 2017 implementation date.

PSD2 will only apply in respect of savings accounts which are payment accounts. We will consider whether there is a need to apply elements of PSD2 more broadly as we progress with PSD2 implementation.

5.
Sunlight remedy

5.1 In this section we set out responses to the sunlight remedy proposed in MS14/2.3 and how we intend to take this remedy forward. The sunlight remedy proposed measures to improve the availability of clear, reliable and consistent information on providers' interest rates and number of products.

Overview of the remedy and responses

5.2 This remedy aims to raise awareness of certain providers' strategies to reduce the interest rates offered to longstanding customers. This would encourage incumbent firms to offer better value products to existing customers, especially those with off-sale products, and could also encourage shopping around.

5.3 We put forward two ways this remedy might be implemented. This could be by requiring firms to either:

- report standardised statistics on a regular basis to an independent body (most likely the FCA), which would collate and publish the information; or
- provide specific information about their savings books alongside other information typically provided in branches or on providers' websites.

5.4 Some respondents, including challenger banks and smaller providers, were supportive of this remedy and felt publishing information on providers' savings books would increase transparency. One provider set out that they welcomed proposals that shine a light on the rates offered by providers.

5.5 Both respondents that supported this remedy and those that did not felt that publishing this information was unlikely to aid shopping around by consumers. Some felt the information was unlikely to be specific or detailed enough to aid consumer decision-making whilst others felt it could be too detailed and so too much to take in. Many respondents felt that the other proposed disclosure remedies, such as the switching box, would be more likely to achieve this aim. Given this view, many of the providers that did not support this remedy, questioned the value it adds to the remedy package as a whole and asked for further clarity as to its purpose and objectives.

5.6 Those respondents who supported this remedy all felt this information was more likely to be useful to price comparison websites, market commentators, the media and consumer groups and favoured publication by a central body such as the FCA.

5.7 In terms of what information is published, some respondents felt there would be value in publishing the lowest rate of interest offered by each provider. Respondents had mixed views on the usefulness of the average interest rate with some of the view this could be misleading and easy to manipulate. One respondent felt the highest rate of interest was more likely to encourage consumers to switch. A few respondents warned we should seek to avoid measures which may lead firms to reduce interest rate differentials since they felt this could dampen competition. Respondents had mixed views on publishing information on number of accounts.

5.8 A few providers warned against publishing information that could be commercially sensitive and felt there would be a heightened risk of coordinated outcomes if firms were able to gain an insight into their rivals' pricing strategies.

5.9 Respondents thought the information published should cover both on and off-sale accounts. Some felt it should cover all product types whereas others felt it was more relevant in respect of certain products. One respondent set out it should be published in relation to easy access and easy access cash-ISA accounts only. Another felt fixed-rate accounts should be excluded. Most respondents thought all providers should be included in the publication.

5.10 One provider highlighted that product information should be collected frequently enough that providers could not manipulate the data submitted around the submission date. Several providers warned of the risk of unintended consequences from this remedy. In particular they felt there was a risk that providers would not want to be bottom of the 'league table' and that increasing their lowest rates would also lead them to decrease their higher rates, potentially giving consumers less incentive to shop around and switch.

5.11 Many respondents commented that interest rate information is already in the public domain. One challenged why the FCA would compile and produce this information itself when it could already be provided by existing third-parties. However, many providers felt the cost to them of providing this information was likely to be low.

Our response

We agree with respondents that our disclosure remedies are more likely than the sunlight remedy to be effective in encouraging consumers to change their behaviour and shop around. Where we think the sunlight remedy adds value to our remedies package as a whole is in providing direct incentives for firms to change their behaviour out of concern for their reputation. An example of this type of remedy is the FCA's publication of complaints data, which has been found to be effective.[12]

We intend to take this remedy forward and for the FCA to begin publishing comparative interest rate information for firms. More detail on our intended next steps is set out in section 7.

12 See FCA Transparency Discussion Paper 13/1. March 2013, p12.
www.fca.org.uk/static/fca/documents/discussion-papers/fsa-dp13-01.pdf

6.
Remedies we are not intending to pursue

6.1 In this section we summarise the responses we received on those remedies we set out as not intending to pursue in MS14/2.3.

Overview

6.2 In MS14/2.3 we set out a number of remedies we had considered but were not intending to pursue. These were:

- Extending the current account switch service to some types of savings accounts (E).
- Requiring providers to simplify their product ranges (F).
- Banning bonus rates (G).
- Requiring providers to put all customers with off-sale products on a single interest rate (H).
- The Code of Conduct for the Advertising of Interest Bearing Accounts (Annual Equivalent Rate (AER) Code) (I).

6.3 We set out that we did not propose to take the first two of these remedies (E and F) forward at this stage and that we did not propose to pursue the others (G, H and I) at all.

6.4 Only a minority of respondents provided comment about these remedies and we summarise their responses below.

Extending the current account switch service

6.5 One large provider, as well as challenger banks and consumer groups, supported extending the current account switch service to cover savings accounts. A consumer group stated that, just because the scope of the current account switch service may be extended to cover some easy access savings accounts through implementation of the Payment Accounts Directive (PAD) anyway, this was no reason to pause and encouraged the FCA to press ahead with this remedy.

Requiring providers to simplify their product range and requiring providers to put all customers with off-sale products on a single interest rate

6.6 Consumer groups felt the FCA still needed to do more to ensure providers simplify their product ranges. One set out that, in its view, the number of superseded accounts must be reduced dramatically and soon. They suggested the FCA test whether an obligation on providers to give customers the default option of auto-renewal into their highest paying account would be effective. Alternatively, they felt that prominent and repeated notification of the highest available rates could help promote better consumer outcomes. Another consumer group suggested that all accounts with different names but no significant differences in product or services should be rationalised on a 'most favoured interest rate' basis. A challenger bank also supported a requirement on providers to move their existing customers from closed accounts to better paying accounts available to new customers.

Banning bonus rates

6.7 Two challenger banks disagreed with our decision not to ban bonus rates. One said that, although some savvy savers benefit from bonus rates, many consumers lose out. They were also concerned that these products may perpetuate consumers' perceptions of unfairness and distrust and ultimately lead to further disenfranchisement from a healthy and prudent savings habit.

AER Code

6.8 Many providers as well as a consumer group supported the FCA taking on regulation of the AER Code. A consumer group set out its view that the AER is only industry guidance and providers are free to follow a different standard, which could undermine the purpose of a single comparable interest rate measure for consumers. A provider pointed out that the AER Code is an integral part of some of the proposed remedies, specifically around disclosure. A trade association felt it is anomalous the AER Code remains outside the scope of FCA rules and felt there was a compelling case for the FCA to take it on.

Our response

We do not intend to extend the current account switch service to savings accounts at this time. In particular:

- Implementation of the PAD in the UK may involve the mandatory provision by firms of a switching service for certain payment accounts and HMT is currently consulting on the implementation of the PAD.[13] In particular they are considering the application of the requirements in PAD and which payment accounts will be drawn into the scope of their implementing regulations.

- There are many more savings account providers than PCA providers. Extending the current account switch service to include all or most of these providers may be more complex operationally and take longer than simply extending it for the PCA providers. In addition there is a risk that only extending the service for PCA providers in the short term, until other firms are ready, may embed the position of the PCA providers. The Competition and Market Authority's investigation into PCAs is ongoing.

We may wish to consider an expansion of the scope of the current account switch service once these issues have been resolved.

We are not intending to pursue a remedy requiring providers to simplify their product ranges at this stage. As set out in our final findings, a number of providers have already simplified their product ranges and we encourage others to consider whether their current product range is delivering good outcomes for consumers. We agree with the consumer group that some of our proposed disclosure remedies, such as the switching box, could be effective

13 HMT open consultation on the implementation of the EU payment accounts directive, June 2015, www.gov.uk/government/consultations/implementation-of-the-eu-payments-accounts-directive/implementation-of-the-eu-payment-accounts-directive

in encouraging providers to reduce the number of superseded accounts. We intend to monitor this area and will return to it if we do not see greater clarity for consumers.

We do not intend to pursue a remedy requiring providers to put all customers with off-sale products on to a single interest rate, or requiring providers to pay a single rate on all of their off-sale products of a certain type (for example, all easy access accounts managed through a particular channel). As set out in the final findings, although there may be some benefits from such an approach, it would also be likely to have unintended or distortive consequences.

We also still believe that appropriate flexibility in pricing (including the ability to offer introductory bonus rates) is important in encouraging switching and encouraging providers to manage their balance sheets effectively and so we do not intend to ban introductory bonus rates. We are consulting on changes to customer communications that should ensure more consumers are aware of features of bonus rate products at the point of sale. This includes understanding the underlying interest rate and bonus term, and ensuring more customers are notified that their bonus rate is expiring. A future consultation on the switching box is also likely to bring subsequent improvements to bonus rate expiry notifications.

We are reconsidering our next steps regarding the FCA taking on regulation of the AER Code. More detail is set out in section 7.

Part 2
Discussion & Consultation paper

7.
Discussion paper: Next steps on the switching box, sunlight remedy and the AER Code

Introduction

7.1 In this section we ask for feedback on our proposals for taking some of our remedies forward. In particular we ask for feedback on:

- The switching box
- The sunlight remedy
- The AER Code

The switching box

7.2 As set out in the Feedback Statement, we remain committed to developing our proposals on the switching box. We think it is important customers are provided with better information about the potential benefits of shopping around and that such information would prompt more customers to consider their choice of savings account and provider.

7.3 We are currently running RCTs to test the effectiveness of different variations of the switching box and the information it should include. Variations of the switching box we are considering testing include the following elements:

- Which notifications the switching box is included on – statements, rate change and bonus rate expiry notifications.
- Where on the notification the switching box should be set out (e.g. on the front page, back page, or on an additional sheet).
- The inclusion of generic information (such as interest rates and cash illustrations based on example balances).
- The inclusion of personalised information (such as a consumer's balance and a cash illustration based on the customer's balance).
- The inclusion of alternative comparable products offered by the consumer's existing provider which offer better rates of interest.
- The inclusion of information about the best-paying alternative comparable accounts obtainable elsewhere in the market.

7.4 The results of these trials will enable us to consider the likely impact of the switching box on customer behaviour. See Annex 4 for more detail on the trials we are undertaking.

7.5 We previously set out that some of the information we proposed to include in the switching box could be considered to be marketing material. If so, this would limit the proportion of customers that firms could send it to. We have continued to consider how to deal with this issue and engaged with other regulators who have made similar requirements (for example to communicate a cheaper tariff to customers). In such cases, the information provided to customers has been specified by the regulator and firms do not have the discretion to choose the products or tariffs that they are informing customers about. There is, therefore, an element of lawful compulsion by a third party (i.e. the regulator) involved. Further, the underlying intention of providing the information is to help achieve a regulatory objective of providing an appropriate degree of protection for consumers and/or promoting effective competition. We will provide an update on this in our consultation later this year.

Q1: Do you have any comments about the different elements of the switching box we are trialling with firms? In particular, what one-off and ongoing incremental costs or practical barriers would firms experience if we were to require these elements be provided in any possible future rules relating to the switching box?

The sunlight remedy

7.6 We intend to begin publishing comparative interest rate information for firms. We think publishing this information will raise awareness of certain provider's strategies to reduce the interest rates offered to longstanding customers and provide direct incentives to firms to offer better value products to existing customers, especially those with off-sale products. The published information will not be targeted directly at consumers but instead at market commentators, consumer groups and the media.

7.7 We intend to publish the lowest interest rates a firm pays on both open and closed accounts for easy access and for easy access cash-ISA products. We propose to publish interest rate information for open and closed accounts individually since this provides a good indicator as to how firms treat their longstanding customers.

7.8 The lowest interest rate would be based on the lowest rate a customer could receive on an account:

- If the account has an unconditional time-limited bonus rate (i.e. all customers receive the bonus rate for a set period of time and there are no conditions attached) then we would treat the interest rate as including the bonus rate for the period in which the bonus rate is valid and excluding the bonus rate once the bonus rate has expired.

- If the account has a conditional rate attached to it (i.e. the customer receives one interest rate if certain conditions are met and a different interest rate if these conditions are not met) then we would treat the interest rate as the rate which applies if the conditions are not met.

- If the account has a tiered interest rate (i.e. there are different interest rates which apply to different balance bands) then we would treat the interest rate as the lowest interest rate offered within the tiered structure.

7.9 We propose to restrict publication to interest rates regarding easy access and easy access cash-ISA products. This is because these were the products highlighted in the market study for which longstanding customers on average received lower rates than those paid to newer customers.

7.10 We do not intend to publish average interest rates, the highest rate of interest or ranges of interest rates since we think these measures could be easily gamed. Furthermore, although we recognise that publishing the highest rate of interest may give consumers more incentive to shop around, this information is already readily available on price comparison websites and on firms' own websites.

7.11 We also agree that there may be little value in publishing information on the number of accounts since it is not clear what this information infers about how a firm treats its customers. For example, just as some firms exercise product replacement strategies and introduce new versions of products as a way of cutting interest rates for existing customers, other providers use such strategies to close products to new customers as a way of maintaining rates. Therefore a firm with a large number of accounts is not necessarily a firm that is treating its longstanding customers poorly.

7.12 Information on firms' interest rates is already in the public domain and most firms publish this for all their savings accounts on their websites. The information would therefore not be confidential. We recognise that interest rates for open accounts are already widely available on price comparison websites. This is not the case for closed accounts and, although this information is public, it is not publicly and easily accessible in one place. Our publication would bring this information together for both open and closed accounts and enable the media, consumer groups and intermediaries to easily digest those providers who pay significantly lower rates of interest to their longstanding customers than they do to their new customers.

7.13 We expect to publish this information on a bi-annual basis and would expect the basic information published to be presented as per the table below, with firms listed in alphabetical order. We would also publish a commentary alongside this information.

	Easy access accounts Lowest interest rate		**Easy access Cash-ISA accounts** Lowest interest rate	
Provider	Open accounts	Closed accounts	Open accounts	Closed accounts
Provider A				
Provider B				
Provider C				

7.14 We recognise there may be risks of unintended consequences associated with this type of remedy. We have considered these and think such consequences are low in respect of the information we propose to publish. Nevertheless, we intend to publish this information on a trial basis for 18 months. During this time we will evaluate our approach including assessing whether the remedy has led to changes in firms' behaviour as to how they treat their longstanding customers and if there have been any unintended consequences.

7.15 During the trial period we propose to collect this information from a sample of 30 of the largest savings providers using an information request. This information request will ask for interest rate information regarding all open and closed easy access and easy access cash ISA savings accounts. We propose to issue firms with three information requests over 18 months. Each request will ask for interest rate information at a point in time each month for the preceding six months. We welcome comments on this approach. We intend to begin publishing this information in the coming months following consultation with stakeholders on our approach.

Q2: Do you agree with our approach to taking forward the sunlight remedy? In particular do you have any comments as to how we propose to collect this information?

The AER Code

7.16 The AER Code is owned by the BBA and BSA and sets out standards for banks and building societies to follow when advertising interest bearing accounts such as interest bearing current accounts and savings products.

7.17 A key element of the AER Code is the requirement to display an AER on advertisements. AER is a notional rate which illustrates the gross interest rate (excluding any conditional bonus payable) as if paid and compounded on an annual basis. The purpose of the AER is to provide an easy method for customers to compare interest rates on products so that they can shop around for the best deal. AER is the accepted market standard methodology for comparing the expected returns for cash savings products.

7.18 As set out in the Feedback Statement, stakeholders have raised concerns about the AER Code and called for the FCA to take on regulation of it. We are reconsidering our next steps and welcome the views of respondents as we consider the costs and benefits of introducing regulation of the AER Code and what this would entail.

Q3: Do you think the AER is a useful tool in helping consumers compare the interest rates offered on different savings accounts? Are any changes needed to the current AER Code? What benefits do you think FCA regulation of the AER Code would bring?

8.
Consultation paper: Changes to the Banking Conduct of Business Sourcebook

Introduction

8.1 In this section we consult on the changes to the BCOBS required to implement some of the remedies proposed in Part II of MS14/2.3.

8.2 Our proposals are grouped into four areas:

1. Summary boxes.

2. More prominent display of interest rate information.

3. Changes to notification practices.

4. Making it easier for customers to switch to a different product with the same firm.

Scope of our proposed rule changes

8.3 We propose that, so far as European legislation permits, our changes apply to 'savings accounts'. As this is not currently a term defined in the Handbook Glossary, we have proposed a definition of this. We would welcome comments on whether this definition is comprehensive and captures the intended accounts. Our proposed definition is:

"An account held for a banking customer:

1. on terms that interest is to be paid on money standing to the credit of the account; and

2. which is not used for the execution of day to day payment transactions to or from third parties."

8.4 While we accept that some consumers may choose to save their money in other products that will fall outside this definition (such as interest-bearing current accounts or stocks and shares ISAs), the differences in these products may not make them substitutable from a consumer's perspective, and as such they fall outside the definition.

8.5 For the same reason we also excluded credit unions from the scope of the market study and the majority of the rules on which we are consulting do not apply to credit unions. Most credit unions offer a dividend rather than an advertised interest rate on their savings which can vary depending on how much profit the credit union has made in the year. In addition, membership of the credit union is restricted to persons who fall within the common bond of the particular credit union (e.g. following a particular occupation, residing or being employed in a particular locality). However, some credit unions, usually the larger ones, offer savings accounts with advertised rates like other deposit takers' savings accounts. We welcome comments as to whether more of our proposed rules should also apply to those credit unions that offer savings accounts with advertised interest rates.

8.6 Given some of the remedies on which we are consulting relate to notifications in respect of the maturity of fixed-term savings accounts, we have also proposed a definition for fixed-term savings accounts on which we welcome comment. Our proposed definition is:

> *"A savings account where it is agreed that money is to be held in the account for a specified period and the customer is not permitted to withdraw the money before the expiry of that period or the customer's entitlement to interest is reduced or extinguished if the customer does so."*

8.7 In some areas our ability to apply our proposed changes is significantly limited by the Payment Services Directive which fully harmonises the rules about disclosure of information at the pre-contract, contract and post-contract stages for payment accounts (but not the rules about financial promotions). A payment account is an account held in the name of a customer that is used for the execution of payment transactions.[14] Where a savings account is also a 'payment account' then, in areas fully harmonised by the PSD, we cannot introduce requirements which are different to those in the areas covered by the Directive. The application of BCOBS to a savings account differs depending on whether it is a payment account, though some sections of BCOBS, such as BCOBS 2, apply whether or not the account is a payment account. In outlining the proposals on which we are consulting below, we have set out more detail on how each applies to payment and non-payment accounts.

8.8 Some firms, in their response to our proposed remedies, told us that they are not in favour of this 'two-tier' system where different rules apply for savings accounts which are payment accounts and those which are not. Instead some firms choose to adopt one approach across all their savings accounts, effectively taking the most stringent requirement and applying this as a minimum standard across all their savings accounts. As such, some firms voluntarily go beyond what is required in our BCOBS rules and apply the requirements of PSD to non-payment accounts for the sake of consistency.

8.9 Given we are only able to apply some of our proposed changes to savings accounts which are payment accounts, we are interested in how firms propose to manage this and whether they will look to apply our proposed changes more broadly to also cover all savings accounts, including those that are payment accounts.

Q4: Do you agree with our proposed definitions of 'savings account' and of 'fixed-term savings account'?

14 Our perimeter guidance (PERG 15.3, Q16) indicates that "When determining whether or not an account is a "payment account" for the purposes of the regulations, in our view it is appropriate to focus on its underlying purpose. To establish this it is necessary to consider a number of factors including:
(i) the purpose for which the account is designed and held out; (ii) the functionality of the account (the greater the scope for carrying out payment transactions on the account, the more likely it is to be a payment account); (iii) restrictive features relating to the account (for example, an account that has notice periods for withdrawals, or reduced interest rates if withdrawals are made, may be less likely to be a payment account); (iv) a limited ability to place and withdraw funds unless there is additional intervention or agreement from the payment service provider (this will tend to point more towards the account not being a payment account); and (v) the extent to which customers use an account's payment service functionality in practice."

Q5: Do you think our proposed rules should also apply to credit unions who offer savings accounts with advertised interest rates?

Q6: How do you propose to apply our proposed changes? Would you also apply these to savings accounts which are payment accounts?

(1) Summary boxes

Background

8.10 Industry guidance for the FCA BCOBS rules[15] already suggests firms use a summary box to present key product information. Our findings showed that the majority of firms use the summary box to present key product information to consumers but revealed improvements were needed to the information provided in them and the way it is presented. This is to enhance consumer understanding and awareness of particular aspects of savings products. In particular our findings showed that[16]:

- The way in which summary boxes were provided or made available varied, as did the prominence they were given in different forms of publication and the information they contained. Some firms supplemented summary boxes with additional information or re-formatted them.

- The prominence of summary boxes on providers' websites varied between firms with some displaying it on their main product page and others requiring the consumer to click on a tab or separate page to view it. In some cases it was possible for the consumer to apply for the account without having seen the summary box.

- Summary boxes did not always display the relevant information, such as interest rate details, for example referring consumers to additional printed material.

- Firms often provided limited explanations around the extent to which interest rates may change with most just stating that interest rates are variable. The consumer research conducted as part of the market study found consumers' had mixed understanding of terminology such as 'variable'.

- Providers adopted different approaches to displaying the underlying interest rate and bonus term in promotional material. Some firms did not always explicitly set out the underlying rate of interest and it was not always clear how long the bonus rate would be paid for.

- Restrictions on withdrawals and penalties for early withdrawal or closure of accounts were not always displayed prominently.

8.11 In MS14/2.3 we proposed changes to the summary boxes used by firms in order to address these points and ensure consumers are given better quality information at the point of sale in relation to savings accounts. We set out that these changes could include making it a requirement within BCOBS that firms present summary box information prominently to consumers at or prior to the point of sale. We commissioned consumer research to inform our proposals.

15 See BBA, BSA and Payments Council Industry guidance for FCA Banking Conduct of Business Sourcebook. September 2013, p26. www.bba.org.uk/wp-content/uploads/2014/01/Final_BCOBS_IG_sept_2013.pdf

16 See cash savings market study final findings and proposed remedies, January 2015, p70.

8.12 Our proposals on summary boxes should make it easier for consumers to access information about savings products when shopping around. They should also enable consumers to more easily compare savings products resulting in consumers being better able to make an informed choice when choosing a savings product.

Our consumer research

8.13 We commissioned qualitative consumer research from Optimisa Research. The results of this are published alongside this report. The research aimed to:

- explore consumers' spontaneous understanding of savings products and terminology
- identify what information is most helpful to provide consumers with when they are shopping around for savings accounts, and
- how best to present this in order to maximise consumers' understanding

The research was conducted amongst retail consumers only and included people with differing levels of financial confidence, types of savings account and levels of savings. It also included some consumers for whom English is not their first language. It was conducted as seven group discussions, each with between five and eight participants. These group discussions took place at different locations around the UK.

8.14 To set up the context, each discussion started by asking consumers about their experiences shopping around and comparing savings accounts and their overall understanding of savings products and features. They were then presented with a simplified summary box and asked for their reaction as to its different elements. Definitions for terminology frequently used to describe features of savings accounts were also tested.

8.15 We tested summary boxes for four different types of savings account: an easy access account with a bonus rate; a cash-ISA, a fixed-term bond; and a regular savings account. We also tested a rate card. An example of one of the summary boxes we tested is set out below.

Firm name Summary Box - Easy access savings account with a bonus						
Interest rate	Can the interest rate change?	Bonus rate	Estimated balance after 12 months (based on £1,000 deposit)	Access	How much can I save?	Can I withdraw money?
0.75% **AER** **Gross** Interest is paid yearly	Yes, this rate is variable. We can increase or decrease this rate of 0.75 % in the ways described in the terms and conditions. If we are decreasing the rate we will give you advance notice.	You can earn a fixed bonus rate of **0.5%** for 12 months. The total interest rate including this bonus is **1.25%** AER. In order to receive the bonus rate you must: • Save over £500 each year • Make no more than four withdrawals in 12 months	£1,012.57 with bonus and all the conditions are met. £1,007.53 without bonus We have worked this out assuming a £1,000 deposit is made on account opening and no further deposits or withdrawals are made throughout the year.	Phone Online Branch	£1 +	✓ Yes - but if you make more than four withdrawals you will not get any of the bonus interest.
Moving your savings to another provider is easy, simply open a new account and transfer your balance across.						

- The balances shown are examples – they can vary depending on the rate of interest and how much tax you pay.
- The rates shown are gross rates which show the rate of interest payable before income tax has been deducted. If you are a tax payer, tax will reduce the rate and the amount of interest you get. Tax treatment can change and it depends on your individual circumstances.
- AER stands for the annual equivalent rate and it shows what the rate of interest would be if interest was paid and compounded once each year. 'Compounding' is the process of adding together your savings and the interest you have already earned and calculating interest on the total sum. The AER allows you to easily compare the interest rates on savings accounts. The higher the AER, the better the return on your savings. You may earn less than the AER if your money is not invested for as long as a year.
- The rates are correct at 1 May 2015.

8.16 We also tested definitions for ten terms used in relation to savings products. These were: *fixed rate*; *variable rate*; *net*; *gross*; *AER*; *bonus rate*; *maturity*; *access*; *transfers in*; and *individual savings account (ISA)*.

8.17 Many consumers noted the difficulties of comparing savings accounts, and of navigating the many different types of account to find the most suitable one. The research also confirmed the value and importance of well-designed summary boxes, both in helping consumers better understand savings products and in making it easier for consumers to compare different savings accounts. As to the content and layout of the summary box, the main findings were that:

- Consumers want to see the interest rate on offer within the summary box. They found a rate card confusing and difficult.
- Information should be displayed in order of importance with interest rate information the most important and so displayed first.
- Cash illustrations aid consumer understanding and give people an idea of how much interest they might expect.
- Consumers said they would prefer the information to be set out in rows rather than columns.
- The words used should be 'jargon free' and plain language. Questions were preferred as section headings.
- Consumers disliked important information, such as eligibility criteria, being hidden away.
- Standardising the content of the summary box would help people compare one savings account with another.

8.18 Consumers' spontaneous understanding of the savings account terms tested varied. The research found that although terms such as '*fixed rate*' and '*variable rate*' are fairly familiar to consumers, they are only understood at a high level and the specific detail can be confused or not recalled at all. The research highlighted the value in providing consistent definitions of some of these terms in order to aid consumer learning and understanding through familiarity. The full research is published alongside this report.

Our proposals

8.19 We are consulting on requiring firms to provide information about savings accounts to consumers in product summary boxes.

8.20 We have chosen to add rules in relation to summary boxes to our BCOBS rules rather than summary boxes remaining in confirmed industry guidance as compliance with confirmed industry guidance is voluntary. Firms may choose not to follow confirmed industry guidance so long as they comply with the BCOBS rules. By bringing requirements on summary boxes within FCA rules we are ensuring their consistent use by providers of savings accounts.

8.21 Our proposed summary box is set out in Appendix 1.

Application

8.22 The summary box should be included within all direct offer financial promotions in relation to savings accounts. This applies to savings accounts that are both payment and non-payment accounts. Firms must present the summary box in clear, easily understandable language and in a prominent way.

8.23 Where a direct offer financial promotion is on paper, the summary box can be provided on a separate sheet accompanying the direct offer financial promotion. However where, for example, a webpage that constitutes a direct offer financial promotion relates to a savings product, the summary box should be incorporated into that webpage. It is not sufficient for the provider to set out a link to a separate webpage. Where a direct offer financial promotion is communicated over the telephone, the firm need not provide the summary box but should provide consumers with the information contained within it (except for the cash illustration) orally during the telephone communication.

8.24 In addition, for savings accounts that are non-payment accounts, a firm should provide a consumer with the summary box in a durable medium in good time before the customer is bound by the terms and conditions of the savings account, unless it has already been provided, for example as part of a direct offer financial promotion. In the case of Cash-ISAs or cash deposit child trust funds, a firm may provide a summary box to a consumer as part of a key features document provided in line with rules in the Conduct of Business Sourcebook (COBS).[17] In preparing the summary box a firm should have regard to the rules in respect of the provision of summary boxes in financial promotions as if they were guidance.

8.25 We are proposing that firms use the summary box to provide information to consumers, including micro-enterprises and private banking customers. We understand that currently firms do not use the summary box to provide product information to these groups as key product information may be determined on a personalised basis. However we consider that micro-enterprises and private banking customers have a similar need for access to information which facilitates comparison of savings products as other consumers. We welcome comments on this point.

8.26 Our proposals on the summary box do not apply to credit unions.

Format and layout

8.27 The consumer research highlighted the importance of providing consumers with consistent information to facilitate comparison of savings accounts. We are therefore prescribing the format and content of the summary box.

17 See COBS 13 and COBS 14.

8.28 Firms should not add additional rows to the summary box. Other product information which is necessary to make the summary box fair, clear and not misleading should be set out within the 'additional information.' If firms wish to provide other information, for example information specific to a target market, it should appear outside of the summary box.

8.29 In our discussion paper on smarter consumer communications[18], we set out that we want firms to design communications with the needs of the product or service's target market in mind. We have chosen to be prescriptive when it comes to setting out the design and content of the summary box in order to make it easier for consumers to compare different savings accounts on a like-for-like basis. However we encourage firms to inform us where they wish to improve the information they provide to consumers pre-sale, but may be limited in their ability to do so by our summary box proposals.

8.30 Firms may include information in relation to more than one savings account in one summary box so long as the information about each account is presented in a separate column and is clearly distinguishable from information in relation to other accounts.

Content

8.31 Firms are required to set out the rate of interest that applies to the savings accounts within the summary box. In particular:

- Where there is more than one rate of interest that may apply to a savings account, for example the account has a tiered rate of interest, a bonus rate or the rate of interest changes depending on whether certain conditions are met, the firm should clearly set out each of the different interest rates and explain the circumstances in which each rate applies.

- All rates of interest should be displayed with equal prominence.

- The summary box should also set out whether the firm has the right to change the interest rate and where it does, a firm should provide a brief overview of the circumstances in which it can do this and the notice it will provide to the consumer.

8.32 Firms are also required to provide a cash illustration in the summary box in order to illustrate to consumers the cash return they are likely to receive. Consumers found this information very helpful in the summary boxes tested in the consumer research, particularly less experienced or less confident savers. We have provided guidance on how such a cash illustration should be completed so as to ensure cash illustrations are, where possible, comparable across accounts. In particular this guidance sets out that:

- The firm should assume that £1,000 is deposited in the account at the time it is opened and no further deposits or withdrawals are made, unless this would make the illustration misleading.

- The firm should include a projection of the balance in the account on the first anniversary of the opening of the account unless the account is a fixed-term account or where the account has an introductory, promotional or preferential rate of interest (e.g. a bonus rate). Where the account is a fixed-term savings account the firm should include a projection of the balance in the account on the date on which the fixed-term expires. Where the account has an introductory, promotional or preferential rate of interest, the firm should include a projection of the balance in the account on the date that introductory rate expires and a second projection of the balance in the account on the first anniversary of this date.

18 See our Discussion Paper on Smarter consumer communications, June 2015. www.fca.org.uk/static/channel-page/dp-smarter-comms/dp-smarter-comms-index.html

- If different rates of interest apply to the savings account in different circumstances, a firm should include a number of projections to illustrate the cash return the account will generate in those different circumstances.

8.33 The consumer research also recommended the development of interactive solutions to provide cash illustrations online, for example a 'calculator' that would allow consumers to input their own planned savings or a sliding scale that would allow them to see the impact of different levels of savings. We note that some firms already offer 'calculators' on their websites and would encourage more firms to develop such solutions. Such solutions could be provided alongside or linked from the summary box however cash illustrations would still be required within the summary box itself for comparison purposes.

8.34 Firms will also be required to include other key information within the summary box. Key changes from the information firms currently display in summary boxes are:

- Setting out any eligibility criteria that applies to the savings account, for example also having to hold a current account with the provider. Consumers in the consumer testing wanted this information displayed prominently as early as possible. Spending time reading the account features only to discover they may not be eligible to open it caused annoyance and frustration.

- Providing a brief description as to how to open the savings account (including details of any switching service available). In our consumer research we tested a simple statement that 'moving your savings to another provider is easy, simply open a new account and transfer your balance across.' We felt such information might be useful to existing savers who may be shopping around with a view to switching their savings account. But most consumers did not grasp this rationale and found the message confusing. We therefore instead propose that firms should provide a brief description as to how to open the savings account including referring to any switching service available, for example the cash-ISA transfer system. Where the summary box is provided online, firms may wish to consider providing links, for example to where consumers can open the account.

- For fixed-term accounts, providing an explanation of what happens at the end of the fixed term.

- We do not propose that firms are required to explicitly set out the tax status of the account within the summary box, unless the account is a Cash-ISA. This information is relatively consistent across savings accounts and is most relevant in relation to ISAs. We therefore require that where the account is an ISA the tax implications of this are set out alongside the interest rate. Otherwise firms should provide a statement that deductions of tax will reduce the amount of interest a customer receives.

8.35 Although the consumer research recommended that consistent definitions be adopted in relation to savings accounts, we do not propose to consult on requiring firms to use prescriptive terminology and definitions within the summary box. We recognise that consistency is important in increasing consumer understanding and awareness of savings terminology but think this is something industry itself may be better placed to develop on a wider basis than just in relation to savings accounts summary boxes.

Q7: Do you agree with the proposed application, format, layout and content of our summary box? Is there alternative content that should be included?

Q8: Do you agree that we should not prescribe specific terminology and definitions firms should use within the summary box?

(2) More prominent display of interest rate information

Background

8.36 Our final findings showed that firms' practices varied in the provision of interest rate information. In particular[19]:

- Although most firms provided interest rate information in paper statements this was not always the case. Where information was displayed it was not always displayed prominently, sometimes being listed in subsequent pages of a statement. For accounts with tiered interest rates, the interest rate applied was not always specific to the customer's balance.
- While some providers display the interest rate alongside balance information on online banking platforms, for many this information is included on a different page one or more clicks away.

8.37 In addition, in the consumer research conducted as part of the market study, respondents said they did not know and/or could not estimate what interest rate they were receiving on around half of savings accounts of different types.[20]

8.38 We proposed the prominent display of a customer's current interest rate in statements, in other customer communications and on websites. This proposal should ensure greater customer awareness of the interest rate which applies to their savings account and prompt them to consider their choice of savings account and provider, and in doing so, increase competitive pressure on savings providers.

Our proposals

8.39 We are consulting on adding guidance to BCOBS that firms should ensure a customer's interest rate is prominently shown alongside or in close proximity to their account balance in:

- online and paper statements
- interest-rate related communications, such as disadvantageous rate change notifications, bonus rate expiry notifications and maturity notifications, and
- the first personalised page of the firm's website that the customer accesses when using online banking (where a firm offers the customer the option of managing that account online).

8.40 The guidance sets out that firms should show the rate of interest that applies to the customer's savings account. This means the interest rate the customer is actually receiving on their deposits. Where the account has interest rate tiers or the interest rate the customer receives depends on

19 See cash savings market study final findings and proposed remedies, January 2015, p72.
20 See cash savings market study final findings, January 2015, p39.

certain conditions being met, the firm should set out the interest rate the customer is receiving and not the different interest rates which might apply. We note that firms must be able to tell what that interest rate is in order to be able to calculate the interest rate to pay the customer. In the case of balance information made available online, the interest rate should be correct at the time the customer accesses the information or, for notifications, correct at the time the notification is sent.

8.41 Where the interest rate on an account automatically tracks a reference rate (for example, the Bank of England base rate), the firm should set out how the interest rate is calculated and direct the customer to where the level of the reference rate can be monitored.

8.42 We are also consulting on guidance that firms should publish on their websites the current interest rates that apply to all savings accounts they provide and ensure this information is kept up to date and is easily accessible to customers. The information published should include all savings accounts, including those which are no longer available to new customers.

8.43 Our proposed guidance also states that, when requested, firms should inform customers of their current interest rate over the telephone and in branch.

8.44 Our discussion paper on smarter consumer communications[21] set out examples of good practice and innovative approaches by firms to communicating effectively with consumers. Firms may wish to consider how best to convey interest rate information to consumers, particularly where this is provided on websites or online banking platforms, for example using online comparison tools or alongside an interest calculator.

8.45 These proposals will apply to savings accounts which are non-payment accounts. They do not apply to credit unions.

> **Q9: Do you agree that a customer's current interest rate should be provided on statements, rate-related customer communications and on their online banking homepage?**

> **Q10: Do you agree that the rate should also be easily accessible on firms' websites and available on request in branch and over the telephone?**

(3) Changes to notification practices

Background

8.46 As a result of the evidence reviewed during the market study, we found that the presentation, timing and frequency of customer communications varied significantly between firms. In particular we found that:

- The content and layout of the information provided to customers varied. Some providers used clear headings such as 'Your 2 Year Fixed Rate Bond with a current rate of 3.05% is about to mature' and made good use of sub-headings to guide the reader. In others the information provided was long-winded and communicated in heavy paragraphs. The wording of the headings of some firms' letters was relatively neutral ('your rate is changing')

21 See our Discussion Paper on Smarter consumer communications, June 2015. www.fca.org.uk/static/channel-page/dp-smarter-comms/dp-smarter-comms-index.html

instead of conveying to the customer that the rate change was disadvantageous to the customer.[22]

- Most firms responded that they notified customers of all disadvantageous rate changes whether the account was considered by the firm to be a payment account or not (14 out of 18 firms that responded) but some firms only observed the confirmed industry guidance and did not notify customers of rate changes that were not deemed material.[23] We understand the Financial Ombudsman Service (FOS) receives a number of complaints on this issue and has expressed its own concerns about the way in which 'materiality' is being interpreted by some firms.[24]

- Most firms notified customers before the maturity of their fixed-term account. The content and clarity of these notifications varied with the best using clear headings, stating explicitly what the default and alternative options were, including clear warnings if the customer chose to take out another fixed-term bond that their money would not be accessible.[25]

- We saw some examples of firms sending subsequent reminders to customers, for example by text. These customers had usually chosen to receive such notification.[26]

8.47 In addition, the consumer research conducted as part of the market study found many consumers either did not recall providers reducing the interest rate on their savings account, or did not recall being notified of such an event occurring. Respondents recalled providers reducing interest rates on 23% of accounts, however 26% of respondents either did not recall being notified or did not remember.[27] In relation to the expiry of bonus rates 45% of respondents whose bonus rate had expired recalled their provider contacting them beforehand.[28]

8.48 We proposed a number of improvements to firms' notification practices including:

- guidance on the way in which firms should present information in their communications

- changes to when firms should notify customers of disadvantageous changes in interest rates and

- improvements to notice periods and reminders

8.49 These proposals should increase customer awareness of changes to the interest rate on their savings account and prompt them to consider their choice of savings account and provider, and in doing so, increase competitive pressure on savings providers.

22 See cash savings market study final findings and proposed remedies, January 2015, p74.
23 See cash savings market study final findings and proposed remedies, January 2015, p74.
24 See page 65 of the Annual Review of Consumer Complaints 2013/2014, by the Financial Ombudsman Service, www.financial-ombudsman.org.uk/publications/ar14/ar14.pdf
25 See cash savings market study final findings and proposed remedies, January 2015, p76.
26 See cash savings market study final findings and proposed remedies, January 2015, p74.
27 See cash savings market study final findings, January 2015, p42.
28 See cash savings market study final findings, January 2015, p43.

Our proposals

8.50 We are consulting on:

a. Guidance on clearer communications.

b. Guidance to add clarity as to when a firm must notify a customer of a disadvantageous rate change or bonus rate expiry.

c. Guidance that firms should notify customers in advance of the maturity of a fixed-term account.

d. Guidance on reminders of interest rate changes, the expiry of bonus rates and the maturity of fixed-term accounts.

Application

8.51 Proposals (a), (b) and (d) in this section will apply to savings accounts which are non-payment accounts. This will include fixed-term savings accounts.

8.52 These proposals will also apply to other accounts within the scope of BCOBS which are not currently subject to the conduct standards in Parts 5 and 6 of the Payment Services Regulations (for example, accounts held in the UK denominated in non-EEA currencies). However, PSD2 will bring these accounts within scope of the regime in the Payment Services Directive meaning that, once PSD2 is implemented, BCOBS will not apply in areas that are harmonised by the Directive

8.53 Proposal (b) applies to credit unions which offer savings accounts with advertised interest rates. The other proposals do not. Proposal (c) only applies to fixed-term savings accounts.

(a) guidance on clearer communications

8.54 We are consulting on adding guidance to BCOBS about when a firm notifies a customer of:

- a material change to their interest rate which is disadvantageous to the customer
- the end of an introductory, promotional or preferential rate of interest, or
- the expiry of a fixed term in relation to a fixed term savings account

8.55 In these cases a firm should ensure that the heading of the notification clearly reflects what the notification is referring to, in particular that the rate of interest is decreasing where this is the case.

8.56 Some firms have told us that this will add complexity for accounts with tiered interest rates, for example if the interest rate increases for customers in some balance tiers and decreases for customers in others. This could result in the firm having to produce multiple variants of their communication for customers in different balance bands. In addition some customers may move between balance bands between communications being prepared and being sent out. We do not expect that having to produce multiple variants of a notification should be particularly complex for firms with tiered products. In addition we observe that firms find solutions to fluctuations in a customer's balance in relation to other communications, for example where they use materiality thresholds to decide when to notify customers of changes in interest rates.

(b) guidance on when a firm must notify a customer of a disadvantageous rate change or bonus rate expiry

8.57 We are also consulting on amendments to the existing guidance in BCOBS to clarify when firms should notify customers of a disadvantageous rate change or bonus rate expiry.

8.58 Currently we do not determine the criteria for considering an interest rate change 'material'. The Financial Services Authority (the predecessor body to the FCA) considered this and set out that there was no need to provide a prescriptive definition,[29] however subsequently confirmed industry guidance[30] which set out that a change in interest rates be considered material where:

- the interest rate of the account falls in a single movement by more than 25bps; and the account has a balance of £500 or more.

or:

- a single interest rate fall of 25bps or less will result in there having been a cumulative downward movement of the account's interest rate over the preceding 12 months of 50bps or more; and the account has a balance of £500 or more.

8.59 We have now decided to provide guidance within our BCOBS rules that any disadvantageous change in interest rate should always be considered material and so notified to customers. We do not require firms to notify customers where they have a balance of less than £100 at the time the firm provides the notification. Firms may voluntarily choose to notify all affected customers and we recognise that many firms do this already. We have decided to provide this guidance given the evidence provided by the FOS on the way in which 'materiality' was being interpreted by some firms.

8.60 BCOBS currently provides guidance on when a firm should notify a customer of the expiry of an introductory, promotional or preferential rate of interest. It sets out that, in determining whether it is appropriate to provide such notice, a firm should consider:

- Whether there is a material difference between the introductory or promotional rate of interest and the rate of interest that will apply to the retail banking service following the expiry of the introductory or promotional rate of interest.
- The size of the balance of the account.
- The period of time that has elapsed since the firm last provided information to the banking customer about the period for which the introductory or promotional rate of interest is applicable and the effect of its expiry.

8.61 We propose to amend this guidance so the provision about notifying customers is consistent with that in relation to disadvantageous rate changes. The proposed new guidance sets out that a firm should always notify a customer of the expiry of an introductory, promotional or preferential rate of interest. Again we are proposing a de minimis where the customer has a balance of less than £100 at the time the firm provides the notification.

29 See FSA Handbook Notice 92, September 2009, p28. www.fsa.gov.uk/pubs/handbook/hb_notice92.pdf

30 See BBA, BSA and Payments Council Industry guidance for FCA Banking Conduct of Business Sourcebook. September 2013, p9. www.bba.org.uk/wp-content/uploads/2014/01/Final_BCOBS_IG_sept_2013.pdf

(c) guidance that firms should notify customers in advance of the maturity of a fixed-term account

8.62 The current BCOBS rules require that firms provide or make available to customers appropriate information so they can make informed decisions. In order to satisfy this rule we would expect that firms notify customers when a fixed term account is maturing in order for customers to make an informed decision as to what they do with their deposit. We therefore propose to add guidance to our BCOBS rules to clarify our expectations.

8.63 We are consulting on guidance in relation to fixed term savings accounts that firms should provide notice of the expiry of the fixed term. This notice should be provided to the customer in a durable medium in good time before the end of the fixed term. The notice should explain in easily understandable language and in a clear and comprehensible form:

- The consequences of the expiry of the fixed term, including whether the firm proposes to transfer the balance of the account to another fixed term savings account if the banking customer does not provide further instructions to the firm before a specified date.
- The options available to the customer for dealing with the balance in the fixed term savings account including when and how these options may be executed.

8.64 As set out above, most firms already notify customers before the maturity of their fixed term account however the content and clarity of these notifications varied.

(d) guidance on reminders of interest rate changes, the expiry of bonus rates and the maturity of fixed term accounts

8.65 Our research (see the RCT in Occasional Paper No.7[31]) has shown that issuing reminder letters of bonus rate expiry can be an effective means of prompting customers to consider their savings account and the option to switch. The research found that receiving a reminder increased switching by at least 8% relative to not receiving a reminder. In addition, reminders received before the bonus rate expired (as opposed to after) were more effective in prompting switching between providers (as opposed to between accounts offered by the same firm). When sent in advance, reminders were most effective in the two weeks before the bonus rate expired.

8.66 We think sending reminders is also likely to be effective in prompting people to consider their savings account and the option of switching when their interest rate has been decreased or their fixed term savings accounts is reaching maturity. We therefore propose to introduce guidance that firms should send reminders about these events, as well as regarding the expiry of a bonus rate.

8.67 Given the findings of the research on the timing of reminders, we propose that reminders should be sent in the two weeks before the event occurs. However where a firm sends its first notification two weeks before the event occurs, the guidance will not apply.[32]

8.68 Our discussion paper on smarter consumer communications[33] set out examples of good practice and innovative approaches by firms to communicating effectively with consumers. We propose that firms should have freedom to choose the channel and medium for sending reminders so this information is delivered effectively, when customers need it, in an engaging way. Firms may wish to consider using channels such as text message and should take account

31 See FCA Occasional Paper number 7, January 2015, www.fca.org.uk/your-fca/documents/occasional-papers/occasional-paper-7

32 Our guidance on reminders will only apply to non-payment accounts and we recognise that, for these accounts, some firms send their first notification alerting the customer that, for example their interest rate is decreasing, two weeks before the event occurs.

33 See our Discussion Paper on Smarter consumer communications, June 2015. www.fca.org.uk/static/channel-page/dp-smarter-comms/dp-smarter-comms-index.html

of a customer's preferences when choosing their intended communication channel for the reminder. We are undertaking trials in order to test the effectiveness of different channels for reminders (see Annex 4).

Q11: Do you agree with our proposed guidance on clearer customer communications?

Q12: Do you agree with our proposed amendments to define when a rate decrease or bonus rate expiry should be considered 'material'?

Q13: Do you agree with our proposal that providers notify customers before maturity of fixed-term savings accounts?

Q14: Do you agree with our proposals in respect of reminders?

(d) Providing an efficient service when switching to a new product

Background

8.69 In our final findings we found that although firms processes for allowing existing customers to open and switch accounts within the same firm tended to be relatively straightforward, they varied quite significantly between the channel used and the provider[34]:

- Firms seldom required the customer to provide further documentation to prove identity or carried out further verification unless the customer had not already been through electronic verification or their identity and verification information needed to be updated.
- A number of providers' online banking facilities allowed a new savings account to be established in less than ten minutes and for funds to be transferred immediately.
- Opening a new savings account over the telephone or by post was generally more onerous.

8.70 However in the consumer research conducted as part of the market study, 22% of consumers who had considered switching but hadn't switched gave the reason 'it's too much hassle.'[35]

8.71 Our proposals on intra-firm switching will make it easier for customers who wish to switch to an alternative account offered by their current firm, reducing the inconvenience of switching.

Our proposals

8.72 Our current rules already require firms to provide a prompt and efficient service to enable a customer to move to a retail banking service provided by another firm. We propose to introduce a new rule to make clear that firms are also expected to provide a prompt and efficient service to enable a customer to move to another retail banking service provided by the same firm.

34 See cash savings market study final findings and proposed remedies, January 2015, p77.

35 See cash savings market study final findings, January 2015, p49.

8.73 We also propose to add guidance under this rule to clarify what we expect regarding a prompt and efficient service. For example, we expect that firms make use of the information they already hold about existing customers to make applying for a new savings account and switching as straightforward as possible. This could also include not unnecessarily repeating ID&V procedures, for example where the information a firm holds about a customer is up to date and suitable for the purposes of satisfying anti-money laundering requirements. We have seen some examples of good practice in this area, for example firms providing customers with pre-filled application forms in branch, not asking for information they already hold about the customer in telephone applications, and encouraging customers to log into their online banking to make the account opening process quicker online.

8.74 Where firms offer the option to customers of managing their account through online or mobile banking they may also wish to provide simple switching processes for customers to switch between different accounts using these channels. This is an area where we expect to see firms continue to innovate and develop their service offerings.

8.75 Our new rule applies where a customer wishes to move a retail banking service and therefore is not specific to savings products. It applies to both payment and non-payment accounts. It does not apply to credit unions.

Q15: Do you agree with our proposal to require firms to provide a prompt and efficient service when a customer switches to another product within that firm?

Annex 1
List of questions

Q1: **Do you have any comments about the different elements of the switching box we are trialling with firms? In particular, what one-off and ongoing incremental costs or practical barriers would firms experience if we were to require these elements be provided in any possible future rules relating to the switching box?**

Q2: **Do you agree with our approach to taking forward the sunlight remedy? In particular do you have any comments as to how we propose to collect this information?**

Q3: **Do you think the AER is a useful tool in helping consumers compare the interest rates offered on different savings accounts? Are any changes needed to the current AER Code? What benefits do you think FCA regulation of the AER Code would bring?**

Q4: **Do you agree with our proposed definitions of 'savings account' and of 'fixed-term savings account'?**

Q5: **Do you think our proposed rules should also apply to credit unions who offer savings accounts with advertised interest rates?**

Q6: **How do you propose to apply our proposed changes? Would you also apply these to savings accounts which are payment accounts?**

Q7: **Do you agree with the proposed application, format, layout and content of our summary box? Is there alternative content that should be included?**

Q8: **Do you agree that we should not prescribe specific terminology and definitions firms should use within the summary box?**

Q9: **Do you agree that a customer's current interest rate should be provided on statements, rate-related customer communications and on their online banking homepage?**

Q10: **Do you agree that the rate should also be easily accessible on firms' websites and available on request in branch and over the telephone?**

Q11: **Do you agree with our proposed guidance on clearer customer communications?**

Q12: **Do you agree with our proposed amendments to define when a rate decrease or bonus rate expiry should be considered 'material'?**

Q13: **Do you agree with our proposal that providers notify customers before maturity of fixed-term savings accounts?**

Q14: **Do you agree with our proposals in respect of reminders?**

Q15: **Do you agree with our proposal to require firms to provide a prompt and efficient service when a customer switches to another product within that firm?**

Q16: **Do you have any comments on our cost benefit analysis?**

Annex 2
Cost benefit analysis

1. FSMA, as amended by the Financial Services Act 2012, requires us to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'. It also requires us to include estimates of those costs and benefits, unless they cannot reasonably be estimated or it is not reasonably practicable to produce an estimate.

2. The FCA is not required to conduct a CBA for guidance unless it imposes significant cost on firms which was not foreseeable given the underlying rule. As the guidance we are proposing is fairly detailed we have included it when undertaking our CBA.

Proposed interventions

3. The proposed interventions on which we are consulting are set out in chapter 8. In summary these are:

- a rule regarding the provision of a summary box setting out key product information
- guidance regarding the prominent display of interest rate information
- guidance for notifications, in particular
  - clearer headings
  - making clear when interest rate decreases and bonus rate expiry should be notified to customers
  - notification at maturity of a fixed-term account
  - additional reminders in respect of interest rate decreases, bonus rate expiry and maturity, where the original notification has been sent more than 14 days in advance of the event
- a rule requiring firms provide a prompt and efficient service to enable a customer to switch to another account offered by the same firm.

Market failure analysis

4. In this section we set out the market failures that our remedies look to address, which are based on our final findings published in MS14/2.3.[36]

5. The evidence and analysis set out in the final findings shows that both consumer and firm behaviour lead to competition not working effectively for consumers in the cash savings market because:

- The market is characterised by low switching propensity as only a minority of consumers shop around and switch. Our consumer survey showed that only 15% of easy access accounts and 23% of easy access cash-ISAs were switched at least once in the last three years.[37]

- Consumers lack access to information about the interest rate which applies to their savings account, how this rate changes over time and little information is currently provided to consumers about alternative products. In particular, around 50%[38] of respondents to the consumer survey carried out as part of the market study did not know the interest rate they earned on their savings account and 63% were unaware their existing provider offered the same savings product with a different interest rate. Coupled with an abundance of different savings products and differences in the way product information such as interest rates are displayed, it is difficult for consumers to know whether or not they are getting a good deal on their existing savings account and to shop around for new ones. As such firms need to improve the transparency of their practices.

- The market is characterised by low switching propensity as only a minority of consumers shop around and switch. Our consumer survey showed 15% of easy access accounts and 23% of easy access cash-ISAs were switched at least once in the last three years.[39]

- Switching processes vary between firms and are perceived to be costly by some consumers. 57% of respondents to our consumer survey cited perceived or actual switching costs as their reason for not switching, having considered it.[40]

- Across most types of savings accounts and most providers, lower interest is being paid on older accounts than on newer accounts. Our analysis showed that, on average, interest rates on easy access accounts were 0.82 percentage points higher on accounts opened within the last two years than on accounts opened more than five years ago – this gap was 0.87 percentage points for cash-ISAs.[41] Bonus products directly lead to interest rates that decline with the age of an account, and product replacement used to lower interest rates on older accounts can have the same effect.

36 Cash savings market study final findings and proposed remedies. January 2015. See: www.fca.org.uk/your-fca/documents/market-studies/ms14-2-3

37 See cash savings market study final findings, January 2015, p44.

38 (51% for easy access accounts and 47% for Cash ISAs). See cash savings market study final findings, January 2015, p39.

39 See cash savings market study final findings, January 2015, p44.

40 See cash savings market study final findings, January 2015, p49

41 See cash savings market study final findings, January 2015, p57

Cost benefit analysis

Benefits

6. In summary, we expect the benefits of the remedies on which we are consulting to arise from:

- Improvements to information provided post-sale resulting in increased shopping around by consumers for savings products,
- Better information pre-sale resulting in it being easier for consumers to compare savings products when shopping around and consumers being better able to make an informed choice, and
- Improvements to switching processes resulting in it being easier for consumers to switch savings accounts.

7. We have considered the impact of our proposed interventions as a package, rather than assessing each proposed intervention individually. This is because the proposals are designed to complement one another and to work together to target the market failure we have identified in paragraphs 4 and 5. Our proposed remedies in each of these areas (post-sale improvements to disclosure to prompt engagement and shopping around, pre-sale improvements to transparency to make shopping around easier, and improvements to switching processes) are necessary as a package in order to be effective in addressing this market failure.

8. The benefits of our proposals on improvements to post-sale disclosure are:

- Market study findings: As set out in our final findings, information on interest rates was not always displayed prominently both in statements or online banking platforms. In the consumer research conducted as part of the market study, respondents said they did not know and/or could not estimate what interest rate they were receiving on around half of savings accounts of different types.[42] In addition, respondents recalled providers reducing interest rates on 23% of accounts, however 26% of respondents either did not recall being notified or did not remember.[43] In relation to the expiry of bonus rates 45% of respondents whose bonus rate had expired recalled their provider contacting them beforehand.[44]
- Expected benefits: Our improvements to post-sale disclosure aim to encourage increased shopping around by consumers. Our proposals on the provision of interest rate information and improvements to notifications should make it easier for consumers to access information about the interest rate which applies to their savings account and make it clearer when this rate has changed, prompting more consumers to shop around. Our improvements to notifications will mean more consumers are notified of changes in interest rates and the expiry of bonus rates, this notification will be clearer and they will receive a reminder prompt. This should also prompt more consumers to consider their choice of savings account or provider.

42 See cash savings market study final findings, January 2015, p39
43 See cash savings market study final findings, January 2015, p42
44 See cash savings market study final findings, January 2015, p43

9. The benefits of our proposals on summary boxes are:

- Market study findings: As set out in our final findings, some firms did not display important information, such as interest rates, in summary boxes or for example did not explicitly set out the underlying rate of interest for bonus rate products. In addition, the findings from the consumer research show many consumers find navigating the different types of savings accounts including the different terms, conditions and terminology used difficult.

- Expected benefits: Our proposals on summary boxes should make it easier for consumers to access information about savings products when shopping around and make it easier for consumers to compare different savings products. By standardising the summary box we are requiring that product information is provided and presented consistently amongst providers. Access to information which enables consumers to more easily compare savings products should result in consumers being better able to make an informed choice when choosing a savings product.

10. The benefits of our proposals on intra-firm switching are:

- Market study findings: In the consumer research conducted as part of the market study, 22% of consumers who had considered switching but hadn't switched gave the reason 'it's too much hassle.'[45]

- Expected benefits: Our proposals on intra-firm switching will make it easier for consumers who wish to switch to an alternative account offered by their current firm.

11. We estimate a lower bound for the benefits of increased shopping around and switching by consumers, by calculating the likely increase in the proportion of consumers switching between different savings accounts as a consequence of receiving a notification 14 days in advance of a rate change, the expiry of the bonus rate or the maturity of a fixed-term product. We take into account that this proposal only affects non-payment accounts.

12. We do not think, however, it is reasonably practicable to produce a separate estimate of the benefits that will arise out of the other elements of our proposed package of remedies. We have set out a qualitative analysis of those benefits, in the form of increased shopping around and switching. But to express those benefits as a figure would involve a sophisticated quantification exercise, and require us to collect, process and analyse a large volume of data on a multitude of different variables. Given the complexity of that process of calculation, we consider it would involve disproportionate cost and use of the FCA's resources such that it is not a reasonably practicable exercise, particularly given the results of the exercise would likely be ambiguous and of limited utility and accuracy in any case.

13. Benefits arising from our proposals on reminders will differ between different consumer groups depending on their behaviour. In this respect consumers can be divided into three groups:

- Those consumers who are already active, and who are likely to continue switching between accounts in the absence of the proposed remedies.

- Those consumers who are inactive but who are likely to switch between accounts as a result of the proposed remedies.

45 See cash savings market study final findings, January 2015, p49

- Those consumers who are inactive and who are likely to remain inactive regardless of the proposed remedies.

14. We estimate the benefits of our proposed remedies by considering primarily the benefits to this second group of consumers – those for whom the proposed interventions are likely to result in increased switching activity. We refer to these benefits as 'first-order effects'. We expect that consumers in the first group will benefit from the proposed remedies by being able to compare savings products more easily and therefore being more likely to choose a suitable product. We also analyse several 'second-order effects' such as the effect of the proposals on the cost of funding, the cost of lending and on barriers to entry or expansion. Before considering the expected benefits we first establish a baseline.

Baseline

15. We assess the benefits of our proposed interventions (in chapter 8) against the counterfactual of what we expect would have happened in the market in the absence of these interventions being implemented.

16. In this case we assume the market conditions we observed in MS14/2.3 would have prevailed. We acknowledge that market conditions may change in the future, in particular changes in macroeconomic conditions could lead to changes in consumer behaviour. Our findings in MS14/2.3 showed that switching activity had not decreased significantly in the last few years following the reduction in average interest rates offered in the market.

17. Evidence set out in MS14/2.3, showed that most variable rate savings accounts have not been switched in the last three years. In particular, only 15% of easy access accounts and 23% of easy access cash-ISAs were switched at least once in the past three years. We estimated that balances in these switched accounts amounted to about 26% of total easy access balances and 28% of easy access cash-ISA balances.[46]

First-order effects

18. We expect the main monetary benefits from our proposed interventions to arise from increased switching between accounts by consumers who would have remained inactive otherwise. For these consumers, switching is likely to result in them receiving a higher rate of interest on their savings.

19. We estimate the lower bound of the benefits by considering the likely increase in levels of switching as a result of receiving a reminder 14 days before a rate change, the expiry of the bonus rate or the maturity of a fixed-term product. Benefits are likely to be larger than this estimate given we expect there will also be benefits arising from other elements of the remedies package on which we are consulting for which we do not provide an estimate.

20. In order to consider the likely increase in levels of switching, we consider evidence from the FCA Occasional Paper number 7 (OP7).[47] This paper considered the impact of sending an additional notification to consumers reminding them that the bonus rate on their savings account would be expiring and showed that changes to firms' disclosure practices can lead to increases in consumer switching activity.

21. OP7 found that sending reminders made a notable difference to consumer switching activity, increasing switching by between 5.6% and 7.9%. In using these results to infer the likely effectiveness of our proposed interventions it is important to note that:

- The baseline level of switching for the easy access product used in the trial in OP7 is

46 See cash savings market study final findings, January 2015, p44.

47 See FCA Occasional Paper number 7, January 2015, www.fca.org.uk/your-fca/documents/occasional-papers/occasional-paper-7

significantly higher than the baseline level of switching observed for easy access products more generally – a baseline of 50-70% compared to 15%. We therefore adjust proportionally the expected increase in the switching rate.

- The median account balance for the sample of consumers used in OP7 was £23,200, compared to an average account balance of £4,900 in easy access accounts more generally.[48] While we could expect greater switching activity to be associated with higher balances, OP7 showed that the increase in switching was relatively constant across different balance bands.[49]

22. To use these results to infer the effect of our proposed interventions we have taken the current level of switching and multiplied this by the proportional increase in switching we expect based on the results of OP7. The market study found that 15% of consumers switched an easy access account and 23% of consumers switched an easy access cash-ISA at least once in the last three years. We estimate the increase in switching to be around 1.04% on average across easy access accounts and easy access cash-ISA accounts.[50]

23. We apply this increase in switching to the balances in accounts that are likely to receive an additional reminder, which we estimate to be between £102bn and £136bn. We calculate these balances as follows:

- Balances in accounts likely to receive a reminder following bonus rate expiry: We know from the market study that around 25% of balances in easy access and easy access cash-ISAs are in accounts opened less than one year ago (around £115bn out of £462bn). Assuming that the same proportion applies to other products (around £60bn out of £240bn), we calculate that the balances in accounts opened less than a year ago across all products is around £175bn. We know from the market study that 53% of balances are in accounts that offered an initial bonus rate.[51] We assume that 53% of balances in accounts opened less than one year ago (around £93bn) received a bonus rate and therefore will receive a reminder as a result of our proposal.[52]

- Balances in accounts likely to receive a reminder following a material decrease in interest rates: Out of the balances in accounts more than one year old (around £526bn), we assume that between one third and a half will receive a disadvantageous rate change per year, which corresponds to around £173bn to £263bn.

- We add the balances in accounts likely to receive a reminder following bonus rate expiry (£93bn) to the balances in accounts likely to receive a reminder following a material decrease in interest rates (£173bn to £263bn) and obtain the balances in accounts that are likely to receive a reminder, which are between £266bn and £356bn at 31 December 2013.

- However these estimates are calculated from a sample that represents around 77% of the market. The proposal will also apply only to non-payment accounts (which we estimate

48 See cash savings market study final findings, January 2015, p17.

49 See Occasional Paper number 7, January 2015, p20.

50 In OP7 switching increased by between 5.6%-7.9% compared to 50%-70% in the control group. To calculate the likely increase in switching we adjust proportionally the switching rate in the market. The market study showed that 4% of easy access accounts and 8% of easy access cash ISA accounts switching more than once in the last three years and 11% of easy access and 15% easy access accounts switched exactly once. We calculate that on average 6% of accounts switched more than once in the last three years and 13% switched once in the last three years. Assuming that half of the accounts that switched more than once switched exactly three times and the other half switched exactly two times, we estimate the baseline switching rate per year to be around 9.3% (i.e. 3% + 2% +13%/3). We then multiply the proportional increase in switching by the baseline switching rate (i.e. 9.3% times 5.6% divided by 50%).

51 See cash savings market study final findings and proposed remedies, January 2015, p60.

52 We assume a typical bonus rate lasts for 12 months.

represent, at a maximum, around 50% of all savings accounts). [53] In addition several firms in our sample currently send the first notification 14 days in advance of the bonus rate expiry or the rate change and so would not need to send an additional reminder (our proposal would affect 59% of balances in our sample). Taking account of these factors, the balances in accounts that are likely to receive a reminder as a result of our proposal are therefore between £102bn and £136bn.

24. Applying the increase in the switching rate of 1.04%, we find that the additional balances that are likely to switch are between £1.06bn and £1.42bn. The interest rate that could be gained by switching is the difference between the interest rate that these balances would earn if they do not switch and the interest rate paid on on-sale products at 31 December 2013.[54] The latter represents the interest rate a consumer could achieve by switching savings account. We estimate this difference to be around 0.31%. Based on this approach, we estimate that monetary benefits from increased switching to be between £3.3m and £4.4m.

25. Using a different approach we arrive at a similar estimate. In the final findings set out in MS14/2.3 we provided an estimate of the potential gain from improved consumer outcomes in the cash savings market. We estimated that, for accounts with interest rates below 0.5% and balances above £5,000, in 2013 there was £400m to £650m of interest that could have been gained in easy access accounts and £100m to £250m of interest that could have been gained in easy access cash ISAs. These estimates assumed that all consumers for whom it was rational to switch did (i.e. a switching rate of 100%). If we instead assume an increase in switching of 1.04%, it results in benefits in the range of £5.2m-£8.3m.

26. Moreover, if interest rates were to rise in the future, the difference between interest rates on new accounts and older accounts may increase, and so too would the expected benefits. However, we also acknowledge that in this case there may be a smaller number of disadvantageous rate changes.

Second order effects

27. Second order effects are scenarios that may arise as a consequence of the expected first-order effects set out above. Possible second-order effects arising from increased switching and higher interest rates being paid to some consumers in the cash savings market are as follows:

- Changes in the cost of funding – a change in the interest rates paid to some consumers is a change in the cost of funding to firms and represents a transfer from firms to consumers equal to the size of the benefits as calculated above. We consider that the size of the estimated benefits to be relatively small compared to the total cost of funding of the industry.
- Increases in the cost of lending – an increase in firms' cost of funding may result in increases to the cost of lending. We believe this effect to be small relative to the size of the market.
- Theoretically, a greater switching rate could reduce barriers to entry or expansion for smaller banks, as lower switching costs would make easier to attract new customers. However, we consider this effect to be small.

28. Some providers have told us that potential interventions in the cash savings market would only lead to outcomes akin to a zero-sum game: they said that changes in interest rates paid to one group of accounts (e.g. older accounts) would result in directly offsetting effects in the interest rate paid to other groups (e.g. newer accounts).

53 Firms may decide to voluntarily send reminders in respect of payment accounts as well as non-payment accounts. If this were the case the benefits would be greater and our estimate would represent a lower bound.

54 Our data captures interest rates at 31 December 2013. We do not think our estimates would be significantly different with current data, given market conditions have not changed significantly in the intervening period.

29. We do not find reason to believe that, in general, the effect of an intervention would net out to zero across accounts. As set out in our final findings, if there were a zero-sum game, those providers with more balances in older accounts would also be the providers offering the higher interest rates for newer accounts which is not the case. In addition, interventions which improve competition can deliver benefits – for example, interventions that lower artificial switching costs or that reduce barriers to entry and expansion can lead to greater economic efficiency as well as stimulating competition.

30. However, even if the so-called 'waterbed effect' occurs, we considered this likely to be moderate. As a result, to calculate the benefits, we consider the scenario where the 'waterbed effect' is between 25% and 0%. On the one hand, if the 'waterbed effect' is 25%, we consider that 25% of the increase in interest rates paid results in a corresponding decrease in the interest rates paid to another group of consumers. In this case, benefits would be between £2.5m and £3.3m. On the other hand, if the 'waterbed effect' is 0%, the corresponding decrease is absent and benefits would be between £3.3m and £4.4m. We therefore consider that benefits are between £2.5m and £4.4m.

Costs

31. We quantified the expected costs of our remedies using the information we collected from firms as part of the cash savings market study. We also asked for cost information from stakeholders in MS14/2.3 and supplemented this with information provided by a cross-section of firms.

32. We requested costs information from a sample of 11 firms which included 3 large providers and 8 smaller banks and building societies. We then applied the average costs to the 104 retail deposit takers in the market.

33. Only one of our proposals relates to credit unions and it will only apply to those credit unions which offer savings accounts with advertised interest rates (as oppose to savings accounts paying dividends.) We estimate there are a maximum of 20 credit unions offering such accounts and have assumed the costs to these credit unions would be the same as those to small building societies.

34. A summary of the cost estimates firms provided for each proposal is set out as follows.

Summary box

35. Most firms already provide summary boxes in product literature, both online and in paper format, as per the confirmed industry guidance on BCOBS. Our proposals would involve one-off changes to this literature to amend existing summary boxes to bring them in line with our proposals as well as in some cases updating sales processes and providing training. Firms' estimates of these one-off costs varied from £0 to £75,000. We estimate the average one-off cost per firm to be around £22,000. Two respondents provided cost estimates which were significantly higher than those provided by others. For one firm this was because the costs had been estimated on the basis that they would contact all of their existing customers to advise them of changes to the summary box which we are not requiring. The other firm was unable to break its cost estimate down in more detail at this stage. In comparison with the cost estimates provided by the other firms and without further detail on the reasoning behind it, we consider this cost estimate to be unreasonable. We will engage with the firm during the consultation period to understand the reasoning behind its cost estimate in more detail.

36. The majority of firms did not set out that there would be ongoing costs as a result of our proposals. Only two firms provided an estimate of ongoing costs and set out that there would be maintenance costs in the region of £13,000 to £80,000. The lower of these costs related to testing and the upper to updating interest rate information in respect of fixed-rate products. The summary box will need to be updated as interest rates change and so will require ongoing maintenance costs. However we do not anticipate that these costs will be over and above those costs already incurred by firms in updating product literature when interest rates change or in undertaking testing. Where firms currently update interest rate cards rather than updating all product literature they may instead wish to update summary box inserts. In addition firms will need to provide the summary box to a wider group of customers than they do currently (they will also have to provide it to micro-enterprises and private banking customers), however we think the costs of this are likely to be minimal. Therefore we do not believe that there will be significant ongoing costs resulting from our proposals in respect of summary boxes. We ask firms to let us know if they do think there will be ongoing costs resulting from implementing our proposals on summary boxes and if so, to let us know what these costs might be.

37. In total we expect the total cost to industry from implementing our summary box proposals to be around £2.3m.

Summary boxes

	Average per firm	Total industry cost
One-off costs	Around £22,000	Around £2.3m
Ongoing costs	minimal	minimal

Provision of interest rate information

38. Our proposals are likely to result in one-off costs to firms in updating existing communications such as annual statements to include interest rates, updating existing online banking platforms to include interest rates and in updating websites and processes so interest rate information is easily accessible and available on request. Firms' estimates of one-off costs varied widely and ranged from £0 to £167,000. The main element of one-off cost resulted from amending online banking platforms to be able to show interest rates. We estimate the average one-off cost per firm to be around £58,000. One firm provided a cost estimate which was significantly higher than that provided by others. This cost related to the cost of changes to their internet banking system to display a 'personalised interest rate' (for example for tiered products it would show the interest rate the customer is actually receiving, given their balance). However in comparison with the cost information provided by the majority of firms we consider this cost estimate to be unreasonable.

39. The majority of firms did not set out that there would be ongoing costs as a result of our proposals. As with summary boxes there will be maintenance costs in updating information as interest rates change but these costs should not be over and above those costs already incurred. Firms' estimates of ongoing costs ranged from £0-£16,000. Some firms provided estimates that were higher than those provided by others. Some of these were on the basis that our proposals would require them to send additional notifications, for example they would need to send statements to customers who do not currently receive such statements. This would not be required by our proposals. Others felt that adding this information into annual statements would make them longer in length. We do not expect this to be the case given the interest rate is a small piece of information to add. We therefore assume the ongoing costs of our proposals in respect to the provision of interest rate information will be small and on average cost £3,700 per firm.

40. In total we expect the cost to industry from implementing our proposals on the provision of interest rate information to be around £6m in one-off costs and around £386,000 in ongoing costs.

Provision of interest rate information

	Average per firm	Total industry cost
One-off costs	Around £58,000	Around £6m
Ongoing costs	Around £3,700	Around £386,000

Changes to notification practices

(i) clearer headings

41. The majority of firms felt both the one-off and on-going costs involved in making changes to existing notifications regarding clearer headings would be minimal. Two firms provided estimates for one-off costs in respect of this proposal. These costs related to making one-off changes to their systems. In particular one firm set out that, for tiered accounts, this would involve sending multiple variants rather than one standard letter. Based on the cost information provided we estimate this proposal would result in average one-off costs of £12,500 per firm. No ongoing costs were indicated by respondents.

42. In total we expect the total cost to industry from implementing our proposals on the provision of interest rate information to be around £1.3m.

Clearer headings

	Average per firm	Total industry cost
One-off costs	Around £12,500	Around £1.3m
Ongoing costs	minimal	minimal

(ii) clearer guidance as to what is 'material'

43. We propose to provide a clearer guidance as to what should be considered 'material' when it comes to the communication of interest rate decreases and bonus rate expiry letters (see paragraph 8.57). We do not anticipate that there will be any one-off costs resulting from our proposed guidance.

44. We do expect there will be some ongoing costs for those firms who currently use the definition of material set out in confirmed industry guidance on BCOBS. For these firms it will result in them sending rate change communications and bonus rate expiry letters to a larger group of consumers and potentially more frequently. As set out in our final findings, 14 out of 18 firms who responded on this point already inform consumers of all rate change decreases regardless of materiality.[55] We assume firms use a similar approach in respect of the communication of the expiry of bonus rates. We therefore expect costs will only be incurred by a subset of firms. Assuming that firms in this subset are currently sending notifications to all customers with more than £500, we estimate that as a result of this proposal firms will have to send in total around 3m additional notifications.[56] Firms are required to send this letter in a durable medium and this could include sending a paper copy or an email. Assuming that firms will send at least 50% of these notifications by e-mail we estimate the total ongoing cost for the industry to be below £350,000 (assuming a cost of 23p per letter as provided by one firm).

55 See cash savings market study final findings and proposed remedies, January 2015, p74.

56 We acknowledge that under the current guidance materiality depends on both balance and interest rate changes. The estimate of additional notification may therefore be an underestimate, however we do not believe the difference between the estimate and the true number to be material. To estimate the number of additional notifications to be sent we calculate the number of accounts (excluding fixed term products) with between £100 and £500 held with the firms in our sample that will be affected by this proposal. The number of such accounts is around 4.2m. Assuming that our sample represents 77% of the market and that 50% of these accounts are non-payment accounts, we estimate that the firms will have to send around 2.7m additional notifications. Assuming that this proposal applies to around 20 credit unions who offer savings accounts with advertised interest rates, we estimate that credit unions will have to send around 600,000 additional notifications (assuming that a credit union has a comparable number of customers to a small building society, that 50% of credit unions are sending notifications regardless of materiality and that 50% of the accounts are non-payments accounts). The total number of additional notifications is therefore around 3m.

(iii) communications at maturity for fixed-term accounts

45. We do not anticipate that there will be significant one-off or ongoing costs to firms as a result of this guidance as all firms in our sample already provided consumers with a notification in advance of maturity for fixed-term accounts.

(iv) reminders

46. We note that firms may respond to the proposed guidance by sending all notifications in respect of non-payment accounts out 14 days or less in advance of the event occurring. Or they may instead choose to send their notification out further in advance (for example to maintain consistency with the rules for payment accounts) and send an additional reminder for non-payment accounts. If they choose to move the timing of their original notification we expect both the one-off and ongoing costs of this to be minimal. If firms instead choose to send an additional notification, there may be small one-off costs incurred in the design and set-up of this reminder. We estimate that the number of accounts affected by this remedy is around 20m.[57] There will also be ongoing costs in sending reminders out although we assume these are likely to be small given we do not propose to require reminders be sent via a durable medium.

Providing an efficient service when switching to a new product

47. We propose that firms are explicitly required to provide a prompt and efficient service to enable a customer to move to another retail banking service provided by that firm. Our proposed guidance sets out that to satisfy this rule, firms should make use of the information they already hold about existing customers to make applying for a new savings account and switching as straightforward as possible. This could also include not repeating ID&V procedures where the information a firm holds about a customer is up-to-date. We have therefore estimated the costs of this rule on the basis that firms satisfy this guidance.

48. Firms' estimates for the one-off costs of providing existing consumers with pre-filled application forms should they wish to open another account with their existing provider differed widely. The majority of firms said they would not incur costs as they already provided this service to their customers and we estimated the average one-off cost per firm to be £5,400. We discounted costs provided by some firms as these were based on the firms taking actions which we felt went beyond our proposed requirements, for example providing pre-filled application forms online where the customer had not logged-in to their online account.

49. Firms also provided estimates for the ongoing costs associated with pre-filled application forms. We estimated the average ongoing costs per firm to be £670. Again we also discounted costs where these were based on the firm taking actions which we felt went beyond our proposed remedies. For example two firms estimated costs on the assumption that they would be required to mail paper-based pre-filled application forms out to all consumers and process these on completion.

50. All firms set out that in general they do not require additional ID&V checks for existing consumers unless for example the identification they hold in respect of that customer is no longer valid. They therefore set out that both the one-off and ongoing costs of this proposal would be zero to minimal.

51. In total we expect the one-off cost to industry from implementing our proposals on intra-firm switching to be around £560,000 and the ongoing costs to be around £69,000.

57 We assume that Instant Access are the only payment accounts and therefore all other savings products are non-payment accounts. We estimate that the firms in our sample affected by this proposal have around 31m of accounts with more than £100 at 31.12.2013. Assuming that our sample represents around 77% of the market and that around 50% of accounts are non-payment accounts, we estimate that the proposal would affect around 20m of accounts.

Intra-firm switching

	Average per firm	Total industry cost
One-off costs	Around £5,400	Around £560,000
Ongoing costs	Around £670	Around £69,000

FCA costs

52. We do not expect our proposed interventions to lead to significant one-off costs for the FCA, and there should not be a requirement for any IT or systems-related expenditure from these remedies. We expect the ongoing incremental costs to be minimal.

Conclusion

53. We expect the policy to result in benefits in the form of a transfer from firms to customers of between £2.5m and £4.4m, taking into account increased levels of switching to products with a higher interest rate and the effects of any possible redistribution amongst consumers. Greater competition as a result of increased comparability of products should result in further benefits to consumers and challenger firms.

54. Overall costs to firms are anticipated to be around £10.1m one-off and around £800,000 ongoing and as a result we expect the remedies to be net beneficial.

Summary of costs and benefits

	One-off	Ongoing (per year)
Benefits:		
- Consumers receive a higher interest rate through switching as a result of receiving a reminder.		Between £2.3m and £4.1m
- Reduced search and switching costs		Not estimated
Costs	Around £10.1m	Around £800,000

Q16: Do you have any comments on our cost benefit analysis?

Annex 3
Compatibility statement

Compatibility with the FCA's General Duties

1. We are required by section 138I(2) of the Financial Services and Markets Act 2000 (FSMA) to also include in our consultation:

   - an explanation of the FCA's reasons for believing that making the proposed rules is compatible with its duties under section 1B(1) and (5)(a) and;
   - any statement prepared under section 138K(2), which sets out whether the proposed rules will have a significantly different impact on mutual societies, as opposed to other authorised persons.

2. In fulfilment of section 1B (1) we set out how we are acting compatibly with our strategic objective, and advancing one or more of our operational objectives. In fulfilment of section 1B (5) (a), we also set out how we have had regard to the regulatory principles in section 3B.

Compatibility with our strategic objective and operational objectives

3. The proposals on which we are consulting, as set out in part 2 of this document are compatible with our strategic objective of ensuring that the relevant markets function well. The proposals result from our second market study, where we found that competition in the cash savings market is not working effectively for many consumers which can lead to poor customer outcomes. By addressing these competition concerns we are seeking to ensure that the relevant market functions well.

4. Our proposals are intended to help advance our operational objective of promoting effective competition by:

   - Encouraging greater shopping around by consumers prompted by improved and more timely disclosure of information (see paragraphs 8.36 and 8.46).
   - Making it easier for consumers to compare savings products when shopping around, lowering search costs (see paragraph 8.10) and
   - Improving switching processes resulting in it being easier for consumers to switch savings accounts, lowering switching costs (see paragraph 8.69).

5. We will also enhance consumer protection by enabling better decisions at the point of sale by improved disclosure so consumers are more aware of product features, for example introductory bonus rates and features such as auto-renewal. This could limit the potential to exploit behavioural biases (see paragraph 8.10).

Compatibility with the FCA's regulatory principles

6. We set out below how our proposals demonstrate such regard for each of the regulatory principles.

The need to use our resources in the most efficient and economical way

7. Our proposals are intended to encourage active and informed decision making by customers, increased shopping around and improvements to switching processes. Implementing these proposals will introduce new rules and guidance. These rules will need to be supervised and enforced against however we do not think that this will impact on resourcing. In some areas we have introduced guidance and examples of good practice. We expect firms to use their expertise to develop solutions which benefit their customers, for example improvements to intra-firm switching processes and to notifications and reminders.

The principle that a burden or restriction should be proportionate to the benefits

8. We believe that our proposals are proportionate to the benefits that we are seeking. Competition in this market is not working effectively for many consumers, so not intervening would be inappropriate. However in considering our proposals we have sought to come up with a coherent remedies package in order to most effectively address the market failures identified in the market study. In formulating the proposed remedies we have discounted measures where we thought the desired outcome was likely to be achieved through other means and sought to limit the burden imposed on firms. For example we have:

- Made provisions such that where a direct offer financial promotion is provided on paper, the summary box may be provided on a separate sheet in order to limit the costs to firms of frequently having to re-print product literature as interest rates change.

- Retained a 'de minimis' level of £100 so that providers do not have to notify customers of interest rate decreases and bonus rate expiry where the customer has less than £100 in their account.

- Allowed firms to choose the channel they use to send reminder notifications rather than require these be sent in a durable medium.

9. Our cost benefit analysis in Annex 2 sets out our assessment that the implementation of our proposals will have net benefits.

The desirability of sustainable growth in the economy of the United Kingdom in the medium or long term

10. We believe that our proposed remedies will increase competition in the cash savings market and will result in consumers benefitting from higher interest rates on their savings, which will encourage sustainable growth. By encouraging greater shopping around, and making it easier for consumers to compare savings products, challengers should be able to attract a greater pool of consumers more easily, which will in turn push existing providers to innovate and become more efficient. As existing providers offer higher interest rates and more innovative products, there will be greater choice and value for consumers. We see this as encouraging sustainable growth in the sector.

The general principle that customers should take responsibility for their decisions

11. Our proposals are intended to encourage active and informed decision making by customers and increased shopping around. The final findings of the market study showed that many consumers were unaware of the interest rate on their savings account, or that their provider offered a comparable account with a better interest rate. Coupled with an abundance of products, it is difficult for consumers to know whether they are getting a good deal on their savings and consumers have little reason to shop around. This can result in poor outcomes as customers remain with products that pay a low interest rate when they could be getting a higher interest rate elsewhere. We therefore believe we are justified in implementing new rules and guidance to encourage more active and informed decision-making by consumers and that these proposals will empower more consumers to take responsibility for those decisions.

The responsibilities of senior management

12. Senior managers will need to ensure compliance with our rules on summary boxes and intra-firm switching. Senior management will have the choice of following our guidance or complying with our rules in a different way when delivering timely and appropriate information to consumers in respect of cash savings products to enable them to make informed decisions.

The desirability of exercising our functions in a way that recognises differences in the nature and objectives of businesses carried on by different persons.

13. We recognise that firms may have different business models. We believe all our proposals should be applied consistently, and have taken account of the need to ensure this takes place in our draft rules and guidance.

The desirability of publishing information relating to persons on whom requirements are imposed by or under FSMA

14. Our proposals are compatible with this principle.

The principle that we should exercise our functions as transparently as possible

15. We published the terms of reference for our market study into cash savings in October 2013. We then published an interim report in July 2014 and a final findings report, together with our proposed remedies, in January 2015.

16. At each stage of the market study we have sought comment from stakeholders and provided the opportunity to give feedback. We have supplemented this with bilateral meetings and roundtable discussions. In particular we have engaged specifically with those stakeholders who raised concerns with our proposed remedies to ensure we understand their views.

17. We have considered the feedback provided by firms, trade associations, consumer groups, and others to our proposed remedies when designing our consultation paper proposals. We have also undertaken consumer testing and this has informed our proposals.

18. The consultation paper provides another opportunity for stakeholder input, and we welcome stakeholder views.

Expected effect on mutual societies

19. We see no reason why our proposed rules would impact a firm differently based on the firm having a mutual society structure, such as building societies. The responses to our proposed remedies from building societies did not indicate that there were different implications for them in comparison to other firms.

20. The majority of our proposals do not apply to credit unions since differences in the savings products offered by credit unions may not make them substitutable from a consumer's perspective. However, some credit unions, usually the larger ones, offer savings accounts with advertised rates like other deposit takers' savings accounts. We welcome further discussion on whether more of our proposed rules should also apply to credit unions that offer savings accounts with advertised interest rates and, if they did, the effect of this on those credit unions.

Legislative and Regulatory Reform Act 2006 (LRRA)

21. We are required under the Legislative and Regulatory Reform Act 2006 (LRRA) to have regard to the principles in the LRRA and to the Regulators' Compliance Code when determining general policies and principles and giving general guidance (but not when exercising other legislative functions). We consider that our proposal is:

- Transparent: We are following a consultation process in making these rules;
- Accountable: We are seeking feedback from this consultation paper on whether stakeholders agree with our proposed approach;
- Proportionate: We have carefully deliberated on our approach and believe our proposals are proportionate. We have sought wherever possible to minimise costs and we expect significant benefits;
- Consistent: Our proposed approach applies in a consistent manner to firms and;
- Targeted at situations in which we see detriment, or the potential for detriment: as explained in our market study findings and in this document, we consider there to be a strong case for the introduction of these measures.

22. We have also had regard to the Regulators' Compliance Code for the parts of the proposals that consist of general policies, principles or guidance. We consider that the proposals will be effective in helping firms understand and meet regulatory requirements more easily, in a manner that leads to improved outcomes for customers and addresses the issues identified in this market.

Compatibility with the duty to promote effective competition in the interests of consumers

23. The proposed remedies promote effective competition by encouraging active and informed decision making by customers, increased shopping around and improvements to switching processes. Our final findings found a lack of transparency together with the perceived inconvenience and low perceived gains from switching had a negative impact on competition in the cash savings market.

Annex 4
Randomised Controlled Trials

Overview

1. We are running a small number of Randomised Controlled Trials (RCTs) to help inform some of our proposed remedies. An RCT enables us to test a potential remedy in a 'real life' situation before taking a decision on whether or not to implement it – it therefore can help generate some valuable evidence on a particular remedy.

2. By selecting a group of customers at random and testing different remedies amongst different sub-groups of those customers (for example different forms or timings of disclosure) we can observe whether or not a particular remedy has a material impact in delivering the outcome we are seeking.

3. In the case of cash savings, we have been setting up trials to test the impact of:

- Different elements of the 'switching box' for example personalised cash illustrations and the provision of information on other interest rates offered by a firm or offered by competing firms on the market
- Different channels (for example letter, email, text message) for reminder notifications in respect of disadvantageous rate changes and the expiry of bonus rates
- A 'return switching form' which is a simple form sent with customer communications that can be completed and returned to the firm. This may offer one way for firms to provide a simple switching process for customers to switch to another account offered by their existing provider.

4. The RCTs involve partnering with an individual firm. In a trial of particular disclosure remedies for example, one group of randomly selected customers may receive a firm's routine customer communication, whereas another group would be sent a different version of it. Additional groups of customers could also receive further variants.

5. The objective of the remedy proposals described above is to encourage customers to shop around. Differences in how the different groups of customers respond can give an indication as to the effectiveness of different variations of the switching box. For example, we can monitor consumers' switching activity, account closures, withdrawals and balance transfers. We can also use consumer surveys to monitor whether they considered switching (i.e. shopped around) but actively decided to stay with their current provider.

6. We will publish the results of these trials, and consult on the proposals that they are designed to inform, later this year. Further information on these trials is set out below.

Switching box trials

7. Variations of the switching box we are considering testing include the following elements:

- Which notifications the switching box is included on – statements, rate change and bonus rate expiry notifications.
- Where on the notification the switching box should be set out (e.g. on the front page, back page, or on an additional sheet).
- The inclusion of generic information (such as interest rates and cash illustrations based on example balances).
- The inclusion of personalised information (such as a consumer's balance and a cash illustration based on the customer's balance).
- The inclusion of alternative comparable products offered by the consumer's existing provider which offer better rates of interest.
- The inclusion of information about the best-paying alternative comparable accounts obtainable in the market.

8. We are trialling the switching box with one firm and are in the process of setting up a second trial with a different firm.

Trials of different channels for reminders

9. These trials aim to understand which channel is most effective when sending reminders to consumers regarding a decrease in interest rates or expiry of a bonus rate.

10. We are trialling the effectiveness of text message reminders with one firm and the effectiveness of both email and text message reminders with a different firm.

11. We have already trialled the effectiveness of paper reminders and the results were published in FCA Occasional paper number 7.[58]

Trials of the return switching form

12. We are currently engaging with one firm in order to run a trial involving the return switching form. The trial is intended to test the impact of a return switching form in encouraging customers to switch to an alternative (better paying) comparable account offered by their existing provider.

58 See FCA Occasional Paper number 7, January 2015, www.fca.org.uk/your-fca/documents/occasional-papers/occasional-paper-7

Appendix 1
Draft Handbook text

BANKING: CONDUCT OF BUSINESS SOURCEBOOK (AMENDMENT) INSTRUMENT 2015

Powers exercised by the Financial Conduct Authority

A. The Financial Conduct Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):

(1) section 137A (The FCA’s general rules);
(2) section 137R (Financial promotion rules);
(3) section 137T (General supplementary powers); and
(4) section 139A (Power of the FCA to give guidance).

B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on [1 July 2016].

Amendments to the FCA Handbook

D. The modules of the FCA’s Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Glossary of definitions	Annex A
Conduct of Business sourcebook (COBS)	Annex B
Banking: Conduct of Business sourcebook (BCOBS)	Annex C

Citation

E. This instrument may be cited as the Banking: Conduct of Business sourcebook (Amendment) Instrument 2015.

By order of the Board of the Financial Conduct Authority
[*date*]

Annex A

Amendments to the Glossary of definitions

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

savings account	an account held for a *banking customer*: (1) on terms that interest is to be paid on money standing to the credit of the account; and (2) which is not used for the execution of day-to-day payment transactions to or from third parties.
fixed-term savings account	a *savings account* where it is agreed that money is to be held in the account for a specified period and the customer is not permitted to withdraw the money before the expiry of that period or the customer's entitlement to interest is reduced or extinguished if the customer does so.

Annex B

Amendments to the Conduct of Business sourcebook (COBS)

In this Annex, underlining indicates new text and striking through indicates deleted text.

4.7 Direct offer financial promotions

…

Guidance

4.7.2 G ...

4.7.2A G (1) *BCOBS* 2A contains *rules* and *guidance* about the inclusion of a summary box in a *direct offer financial promotion* relating to a *cash deposit ISA* or *cash deposit CTF* provided by a *firm* other than a *credit union*.

(2) Where *BCOBS* 2A applies, *COBS* 4.7.1R(1)(b) does not require a *firm* to include information outside of a summary box in a *direct offer financial promotion* to the extent that this would simply repeat information included in a summary box in the same *financial promotion*.

…

Annex C

Amendments to the Banking: Conduct of Business sourcebook (BCOBS)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

1.1 **General application**

The general application rule

1.1.1 R ...

1.1.5 R *BCOBS* 2.2A, *BCOBS* 4.1.2G(2A) to (2E), (3A), (6A) and (6B), *BCOBS* 4.1.4A G(2)(a), *BCOBS* 5.1.3AG, *BCOBS* 5.1.3BG, *BCOBS* 5.1.5AR, *BCOBS* 5.1.5BG and *BCOBS* 5.1.13R do not apply to a *credit union*.

Insert the following new section after BCOBS 2.2. The text is not underlined.

2.2A **Summary box for savings accounts**

2.2A.1 R (1) A *firm* must ensure that a *direct offer financial promotion* in relation to a *savings account* includes a summary box in the form set out in *BCOBS* 2 Annex 1R.

(2) In the case only of a *direct offer financial promotion* on paper, it is sufficient for the purposes of (1) if the *direct offer financial promotion* is accompanied by a summary box on a separate sheet.

(3) The summary box must contain, in the sequence of rows set out in the table in *BCOBS* 2 Annex 1R:

(a) the headings prescribed in the first column in the table in *BCOBS* 2 Annex 1R; and

(b) the corresponding information described in the second column in the table in *BCOBS* 2 Annex 1R.

(4) In the case of a *direct offer financial promotion* communicated by voice telephony:

(a) this *rule* (except for this paragraph) does not apply; and

(b) the *firm* must provide each of the items of information described in the second column in the table in *BCOBS* 2 Annex 1R (except for the information in the row that includes the heading “What would the estimated balance be after [x] months based on a £[x] deposit?") orally in clear, easily understandable language during the telephone communication.

(5) The *firm* must present the summary box in clear, easily understandable language and in a prominent way.

(6) Where more than one rate of interest may apply to a *savings account*, the summary box must show each rate of interest with equal prominence. In particular, the lowest rate of interest that may apply to the *savings account* must not be given any less prominence in the summary box than the other rate or rates of interest shown in the summary box.

(7) The summary box must not include any information other than the information described in the table in *BCOBS* 2 Annex 1R.

(8) The summary box may relate to more than one *savings account* provided that the information in relation to each respective account is presented in a separate column in the summary box and is clearly distinguishable from information in relation to other accounts.

2.2A.2 G (1) The summary box should be completed in accordance with the *guidance* set out in the notes to the summary box in *BCOBS* 2 Annex 1R.

(2) The requirement under BCOBS 2.2A.1R is to include the rate or rates of interest that apply to the *savings account* in the summary box itself. It is not, therefore, permissible to simply refer in the summary box to a separate webpage or document where the rate or rates of interest can be found.

(3) Where the rate of interest that applies to a *savings account* may change depending on the period that has elapsed since it was opened or on whether certain conditions are met, a *firm* should incorporate the table set out in BCOBS 2 Annex 2G in the row of the summary box that includes the heading "What is the interest rate?" unless it would be misleading to do so.

(4) The effect of BCOBS 2.2A.1R(1) is that the summary box must be incorporated in the *direct offer financial promotion* itself. It is not sufficient, for example, to include in a *direct offer financial promotion* that appears on a website a link to a separate page containing the summary box. BCOBS 2.2A.1R(2) provides a limited exception to this where a *direct offer financial promotion* is on paper, in which case the summary box may accompany the *direct offer financial promotion* as a separate document.

(5) The effect of BCOBS 2.2A.1R(7) is that any additional

information in relation to a *savings account* that a *firm* chooses to provide must appear outside of the summary box.

(6) A *firm* may wish to include a statement in close proximity to the summary box that the information provided in it is a summary of the key features of the *savings account* and is not intended to be a substitute for reading the terms and conditions that apply to the account.

Insert the following new annexes after BCOBS 2.4. The text is not underlined.

2 Annex 1R **Form of Summary Box for Savings Accounts**

This annex is referred to in *BCOBS* 2.2A.1R.

Summary Box	
Account name	Name of *savings account*
What is the interest rate?	The rate or rates of interest that may apply to the *savings account* (see note 1). Where different rates of interest apply to the *savings account* in different circumstances, an explanation of the circumstances in which each of the different rates applies (see note 2). Where an interest rate automatically tracks a reference interest rate (see note 3): - a statement that this is the case, identifying the reference interest rate; - an explanation of how the applicable interest rate is calculated on the basis of the reference interest rate; - an explanation of how the customer can access and monitor the level of the reference interest rate from time to time, including a website link to where the latest level of the reference interest rate can be found, where practicable. The times at which interest payments are calculated and credited to the *savings account*. Where the *savings account* is an *individual savings account*,

	a brief explanation of the tax implications.
Can [name of *firm*] change the interest rate?	Whether or not the *firm* has the right to change the rate or rates of interest. Where the *firm* has the right to change the rate of interest, brief details of the circumstances in which that right may be exercised and how and when notice of the change will be given (see note 4).
What would the estimated balance be after [x] months based on a £[x] deposit?	One or more projections of the future balance of the *savings account*, which provide a representative illustration of the cash returns that the account will generate (see notes 5 to 9). A statement of the assumptions on which the projection is based.
How do I open and manage my account?	Details of any eligibility criteria that apply to the *savings account* (see note 10). A brief description of how to open the *savings account*, including a reference to any service available that enables a *banking customer* to switch to the *savings account*. Whether a minimum amount must be deposited to open the *savings account* and, if so, that amount. Whether there is a maximum amount that may be held in the *savings account* and, if so, that amount (see note 11). A reference to the channels through which the *banking customer* can communicate with the *firm* and give instructions in relation to the *savings account* (see note 12).
Can I withdraw money?	An explanation of how money may be withdrawn from the *savings account*, including any conditions or consequences for making withdrawals (see note 13). For *fixed-term savings accounts*, an explanation of what happens at the end of the fixed term.
Additional information	Any other information, the inclusion of which is necessary to make the summary box fair, clear and not misleading including, where applicable, a statement that deductions of tax will reduce the amount of interest the *banking customer* receives and that tax treatment can change and depends on the customer's individual circumstances.

Notes:

Note 1: A *firm* may wish to use the annual equivalent rate of interest and, where it does so, it should take account of the British Bankers' Association/Building Societies Association Code of Conduct for the Advertising of Interest Bearing Accounts.

Note 2: If, for example:

- an introductory, promotional, or preferential rate of interest applies to the account until a specified future date or the end of a fixed period;
- there are ascending or descending tiers of interest rates that apply to certain increments of the balance of the account, or that are determined by reference to the total balance of the account; or
- there are graduated rates of interest, the application of which depends on certain conditions being met or on the *banking customer* taking or refraining from taking certain action

the summary box should include details of this.

Note 3: 'Reference interest rate' has the same meaning as in the *Payment Services Regulations*.

Note 4: A *firm* may wish to direct the *banking customer's* attention to the relevant clause in the terms and conditions that sets out the reasons for which the *firm* may change the interest rate and the procedure for doing so.

Note 5:

- In the case of a *fixed-term savings account*, the *firm* should include a projection of the balance of the *savings account* on the date on which the fixed term expires.
- Where there is to be a reduction in the rate of interest that applies to the *savings account* on a specified future date, or at the end of a fixed period, as the result of the expiry of an introductory, promotional or preferential rate of interest, the *firm* should include a projection of the balance of the *savings account* on the date of the expiry of that introductory, promotional or preferential rate of interest and a second projection of the balance of the *savings account* on the first anniversary of that date.
- In any other case, the *firm* should include a projection of the balance of *the savings account* on the first anniversary of the opening of the account.

Note 6: In making the projection, a *firm* should assume that £1000 is deposited in the account at the time it is opened and that no further deposits or withdrawals are made, unless this would make the projection misleading.

Note 7: If different rates of interest apply to the *savings account* in different circumstances, a *firm* should include a number of projections to illustrate the cash returns that the account will generate in those different circumstances. If, for example, there is an uplift in the rate of interest on the condition that the *banking customer* does not make a withdrawal from the *savings account*, a *firm* should include in the summary box both a projection that assumes that the condition is met and a lower projection that assumes that the condition is not met. If different bands of deposit in the *savings account* attract different tiers of interest, a *firm* should include in the summary box several projections that illustrate the cash returns that deposits up to each balance band will generate.

Note 8: The *firm* may wish to include in the summary box that the projection is provided for illustrative purposes only and does not take into account the individual circumstances of the *banking customer*.

Note 9: Where the rate of interest automatically tracks a reference interest rate, the projection may be based on the level of the reference interest rate as it stands at the time the projection is made. Where this is the case, the summary box should indicate that the projection is based on the reference interest rate as it stood on the relevant date and that it does not take into account that the level of the reference interest rate may fluctuate over the period that the projection covers.

Note 10: The summary should, for example, indicate if it is a requirement to open the *savings account* that the *banking customer* holds another account or product with the *firm*.

Note 11: If the *banking customer* is not required to deposit a minimum amount to open the *savings account*, the summary box should include a statement to this effect. Similarly, if there is no limit on the amount that may be held in the *savings account*, the *firm* should state this in the summary box.

Note 12: The summary box should, for example, indicate if the *banking customer* can give instructions to the *firm* about the *savings account* in branch, over the telephone, by electronic mail or through a website.

Note 13: The summary box should indicate if the *banking customer* is required to provide a certain period of notice of an intention to withdraw money from the *savings account*. If interest to which the *banking customer* is entitled is reduced or extinguished, or if a charge is imposed, as a result of withdrawing money from the *savings account*, details of this should be included in the summary box.

2 Annex 2G Guidance on presentation of interest-rate information in savings account summary box

This annex is referred to in *BCOBS* 2.2A.2G(3).

What is the interest rate?	Interest rate without bonus	X%
	Interest rate with bonus (includes a bonus of X%)	X%

What is the interest rate?	Interest rate where all conditions are met	X%
	Interest rate where one or more conditions are not met	X%

Amend the following provisions as shown.

4.1.2 G …

(2) …

(2A) (a) A *firm* should provide a summary box in the form set out in *BCOBS* 2 Annex 1R on paper or in another durable medium in good time before a *banking customer* is bound by the terms and conditions of a *savings account*, except where the *firm* has already provided the summary box to a *banking customer* on a previous occasion.

(b) If the contract for the *savings account* has been concluded at a *banking customer's* request using a means of distance communication that does not enable the provision of the summary box in that form in good time before the *banking customer* is bound, the *firm* should provide the summary box on paper or in another durable medium immediately after the conclusion of the contract.

(c) In the case of a *savings account* that is a *cash deposit ISA* or a *cash deposit CTF*, the *firm* may include the summary box in a *key features document* provided to the *banking customer* in line with the *rules* and *guidance* in *COBS* 13 and *COBS* 14.

(d) In preparing the summary box, a *firm* should have regard to the provisions of *BCOBS* 2.2A.1R as if they were guidance.

(2B) A *firm* should ensure that the rate of interest that applies to a *savings account* is prominently shown alongside, or in close proximity to, any account balance information included in:

(a) any paper or online statement of account provided or made available by the *firm*;

(b) where the *firm* provides an online banking service to the *banking customer*, the first personalised page of the *firm's* website that the *banking customer* accesses when using this service;

(c) any notification of a material change to a rate of interest provided in accordance with (3)(c);

(d) any notification of the expiry of an introductory, promotional or preferential rate of interest provided in accordance with (5); and

(e) any notification of the expiry of a fixed term of a *fixed term savings account* provided in accordance with (6A).

(2C) For the purposes of (2B):

(a) (i) unless (ii) applies, the *firm* should show the rate of interest that applies to the *savings account* as a numerical figure (and not merely the method for determining the current figure under the terms and conditions);

(ii) where the rate of interest that applies to the *savings account* automatically tracks a reference interest rate (within the meaning of the *Payment Services Regulations*), the *firm* should indicate how the rate of interest is calculated and direct the *banking customer* to where the level of the reference interest rate may be accessed from time to time; and

(b) (i) in the case of account balance information made available online, the *firm* should show the rate of interest that applies to the account at the time the *banking customer* accesses the information; or

(ii) in the case of account balance information provided in a *durable medium*, the *firm* should show the rate of interest that applies to the account at the time the information is sent.

(2D) A *firm* should inform a *banking customer* of the current rate of interest that applies to a *savings account* on the telephone or in a branch of the *firm* at the request of the *banking customer*.

(2E) A *firm* should publish the current rate of interest that applies to each *savings account* it provides on its website (whether or not the *savings account* is available to new customers) and ensure that this is kept continuously up to date and is easily accessible by a *banking customer*.

(3) Where a *firm* proposes to exercise a power to make:

(a) a change to any term or condition of the agreement;

(b) a change to any charge; or

(c) a material change to any rate of interest;

that applies to the *retail banking service* and that will be to the disadvantage of a *banking customer*, the *firm* should provide reasonable notice to the *banking customer* on paper or in another durable medium before the change takes effect, taking into account the period of notice required by the *banking customer* to terminate the contract for the *retail banking service*. ~~Whether a change to a rate of interest is "material" should be determined having regard to the size of the balance of the account and the size of the change in the rate.~~ A change to a rate of interest should always be considered 'material' except where the balance of the account is less than £100 at the time when the *firm* would provide the notice.

(3A) When providing a notice under (3)(c), (5) or (6A), a *firm* should ensure that the heading of the notice clearly indicates the main substance of the change to which the notification relates. When providing a notice under (3)(c) relating to a decrease in the rate of interest, for example, a *firm* should ensure that the heading of the notice clearly indicates that the rate of interest is decreasing.

…

(5) ~~Where~~ Subject to (5A), where, under a contract for a *retail banking service,* an introductory, promotional or preferential rate of interest applies to the *retail banking service* until a specified future date or the end of a fixed period, a *firm* should~~, where appropriate,~~ provide notice of the expiry of the application of that rate of interest to the *banking customer* on paper or in another durable medium within a reasonable period before that rate of interest ceases to apply.

(5A) Paragraph (5) does not apply where the balance of the account is less than £100 at the time when the *firm* would otherwise provide the notice.

(6) ~~In determining whether it is appropriate to provide the notice referred to in (5), a *firm* should consider:~~

- ~~(a) whether there is a material difference between the introductory or promotional rate of interest and the rate of interest that will apply to the *retail banking service* following the expiry of the introductory or promotional rate of interest;~~

- ~~(b) the size of the balance of the account; and~~

- ~~(c) the period of time that has elapsed since the firm last provided information to the banking customer in relation to the period for which the introductory or promotional rate of interest is applicable and the effect of its expiry.~~ [deleted]

(6A) In relation to a *fixed-term savings account*, a *firm* should provide notice of the expiry of the fixed term to the *banking customer* on paper or in another durable medium in good time before the end of the fixed term. This notice should explain, in easily understandable language and in a clear and comprehensible form:

(a) the consequences of the expiry of the fixed term, including whether the *firm* proposes to transfer the balance of the account to another *fixed-term savings account* if the *banking customer* does not provide further instructions to the *firm* while the customer has an opportunity to do so; and

(b) the options available to the *banking customer* for dealing with the balance in the *fixed term savings* account, including when and how these options may be exercised.

(6B) Where a notice under (3)(c), (5) or (6A) is provided by the *firm* more than 14 days before the change to which the notice relates takes effect, a *firm* should also provide a reminder to the *banking customer* within a period beginning 14 days before the relevant change takes effect and ending on the day before it does so. The *firm* may choose the medium in which the reminder is provided. In doing so, the *firm* should take account of any preferences expressed by the *banking customer* about the medium of communication between the *firm* and the *banking customer*. For example, if the *banking customer* has indicated a preference to receive information by mobile telephone text message.

…

…

4.2 Statements of account

…

4.2.2 G A *firm* should indicate the rate or rates of interest that apply to a *retail banking service* in each statement of account provided or made available to a *banking customer* in respect of that *retail banking service* in accordance with *BCOBS* 4.2.1R(1). *Firms* are also reminded of the provisions of *BCOBS* 4.1.2G(2B) and (2C).

…

5.1 Post-sale requirements

…

Moving a retail banking service

5.1.5 R …

5.1.5A R A *firm* must provide a prompt and efficient service to enable a *banking customer* to move to another *retail banking service* (including a *payment service*) provided by that *firm*.

5.1.5B G (1) In taking steps to ensure a service is prompt and efficient, in line with *BCOBS* 5.1.5A, a *firm* should make appropriate use of the information and documents it already holds in relation to a *banking customer*.

(2) Where, for example, an existing customer wishes to move to another account with the same *firm* and the *firm* already holds data and documents in relation to customer due diligence measures, including data and documents to verify the identity of that customer that are suitable for the purposes of anti-money laundering requirements, the *firm* should consider whether it would be unnecessarily duplicative to apply the same account opening procedures in that case as would apply to a new customer (although a *firm* should ensure its policies and procedures are consistent with the requirements of the *Money Laundering Regulations* and other legislation in relation to financial crime).

(3) Where a *firm* provides an online or mobile telephone banking facility to a *banking customer*, the *firm* may wish to consider how the electronic process for moving to another account provided by that *firm* can be made most simple.

Insert the following new Transitional Provision before BCOBS Schedule 1. The text is not underlined.

TP 1

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
1.1	*BCOBS* 2.2A, *BCOBS* 2 Annex 1R and, *BCOBS* 4.1.2G(2A)	R	This provision applies where a *firm* has in its possession, as at the date the Banking: Conduct of Business Sourcebook (Amendment) Instrument 2015 is made, a stock of *direct offer financial*	1 July 2016 to 31 December 2016	1 July 2016

			promotions on paper or a stock of pre-sale material on paper that incorporate a summary box that meets the standards in the 'Industry Guidance for FCA Banking Conduct of Business Sourcebook' of September 2013, confirmed by the FCA in accordance with PS07/16, as it stood as at 30 December 2015.		
1.2	*BCOBS* 2.2A, *BCOBS* 2 Annex 1R and *BCOBS* 4.1.2G(2A)	R	Where *BCOBS* TP 1.1 applies, until 31 December 2016, the *direct offer financial promotion* or pre-sale material referred to in 1.1 may be treated by the *firm* as including a summary box in the form set out in *BCOBS* 2 Annex 1R that complies with the rules in *BCOBS* 2.2A.	1 July 2016 to 31 December 2016	1 July 2016

Financial Conduct Authority

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