The Money Charity response to interim report of the cash savings market study

1. As the UK's financial capability charity, we welcome the opportunity to comment on the FCA's interim report into the cash savings market.

2. We believe that being on top of your money means you are more in control of your life, your finances and your debts, reducing stress and hardship. And that being on top of your money increases your wellbeing, helps you achieve your goals and live a happier more positive life as a result.

3. Our vision is for everyone to be on top of their money as a part of everyday life. So, we empower people across the UK to build the skills, knowledge, attitudes and behaviours, to make the most of their money throughout their lives.

4. We believe financially capable people are on top of and make the most of their money in five key areas:

    - Planning (including budgeting)
    - Saving
    - Debt
    - Financial services products
    - Everyday money (including wages, cash, bank accounts)

5. This interim report crosses three of these areas: saving, financial services products, and planning. The operation of the cash savings market clearly affects consumers' incentives to save and rewards for doing so, and is an important way in which they engage with financial services products, with over 4 in 5 UK adults having a cash

savings account. It also relates to their ability to plan ahead, for example if they are saving with a particular goal in mind.

6. We have made some comments on issues raised by the report below from this perspective, but in summary:

    - Cash savings accounts that offer extremely low interest rates take advantage of consumers' lack of engagement with their savings, which may be down to poor financial capability;
    - This lack of engagement is compounded by the proliferation of products on the market and a lack of clarity about rate changes and alternative products;
    - We would therefore welcome measures to improve customer engagement with their savings accounts, to reduce the level of engagement needed to get higher rates, and to mitigate the impact of the expiry of bonus rates or rate changes on customers who do not regularly engage with their savings account.

Comments

7. The rates at which firms are willing to offer interest on new deposits is a matter for them, based on their funding needs at a particular time. But the way in which they deal with customers with existing deposits should be fair to consumers. Financial services should encourage and promote responsible financial behaviour - this is essential both to reward consumers for 'doing the right thing', and in restoring confidence in the financial services sector.

8. Saving is a key element of responsible financial behaviour, but the report identifies several ways in which this behaviour is not rewarded for most customers after an initial period. We understand that bonus rates expire, and that some accounts will always offer better results than others. And it is right that engaged consumers that shop around and compare accounts are able to get better returns than customers who don't engage with their savings. But we would welcome moves to make it easier for customers to engage with their savings, and to reduce the required level of engagement needed for customers to benefit from their savings.

9. Those customers who don't engage and see their rate drop significantly – whether by rate decreases as new products are introduced or the expiration of a bonus rate – are being badly served. In some cases this will be customer's choice not to engage, but in others it will be because the individual has a low level of financial capability. This is compounded if, as the report indicates, customers are not always given adequate notice or information about their rate change.

10. Although the interest rates that the FCA found on savings accounts are low, this does not mean they do not have an impact on consumers. The interim report notes that at the end of 2013, the average interest rate on accounts opened in the last 2 years was 0.8%, while for accounts opened more than five years ago this was 0.3%. Over a five-year period, based on the average savings size in the FCA sample of £6,400,

this amounts to a difference of around £160. The equivalent difference found between the major personal current account providers and other providers is around £230 – a small proportion of the initial saving, but a sizable amount in itself.

11. We outline some possible interventions below that could improve consumer understanding of their account's features and mitigate the impact of their interest rate dropping significantly. These should apply both to accounts offering bonus rates and those where the rate declines over time. Although there are differences between the two types of account, to customers the effect is the same: the rate of interest they receive on their savings has dropped. Intervening against one type of account but not the other, on the other hand – such as banning bonus rates altogether – would not address the issues raised in the interim report and would likely simply lead to firms using replacement products instead to the same end.

12. It is possible that these interventions would lead to a reduction in bonus rates (although we note several firms no longer offer these in any case), or a lowering overall of interest rates offered – although increased engagement and competition could mitigate any reduction as firms compete for greater numbers of customers. An overall lowering of interest rates would disadvantage some savers in relation to their current situation, but that situation is only sustained by other savers receiving very low rates because of a high level of inertia. If providers of cash savings accounts are only able to offer higher rates by offsetting these against very low rates for the majority of savers for whom it is difficult to engage, they should not offer them.

Possible interventions

13. We would welcome action from the FCA on the following areas:

Guidance on what is fair

14. We believe there is scope for the FCA to issue guidance on fairness when dealing with customers with cash savings accounts, whether at an introductory rate or an interest rate that has gradually reduced over time. This guidance could include a limit to the amount by which an interest rate could drop after an introductory rate expires.

15. At present BCOBS 4.1.2 requires firms to notify customers about any 'material' disadvantageous change of rate applying to their accounts, but there is no provision in BCOBS regarding repeated 'non-material' disadvantageous that may, cumulatively, be material.

16. Industry guidance states that for accounts with a balance of £500 or more, firms should consider a 'material' change to be a single interest rate fall of more than 25bps, or a fall of 25bps or less that means the interest rate has fallen by 50bps or more in the preceding 12 months. This may well be proportionate when interest rates are high, but it is less clear that it is proportionate in a low interest-rate environment. For example, this would allow for interest rates on the average recently-opened cash

savings accounts in the FCA sample to drop from 0.8% to 0.31% over 12 months without notifying customers, reducing the interest paid by 61%. The FCA, together with the Payments Council, BBA and BSA, should revisit this guidance to ensure it remains appropriate for the current market environment.

Clearer information and better communication

17. Alongside this, consumers need clear information about their account. We support the suggestions made by consumer groups of providing annual statements and publishing interest rates clearly on all paper and online statements (including the rate currently being received for 'tiered' accounts, which the interim report found was not always clear).

18. Firms should tell their existing customers in both 'annual statements' and 'notifications of material changes' the best interest rate they offer on a comparable savings account, with a simple tick-box option to move their savings to that account. They should also provide clear information about the interest they would earn on their savings in a set period under their current interest rate, and the interest rate on the other account. This would allow consumers to make an informed decision about whether switching accounts would be worthwhile (albeit only within their current provider's range). Such an action would not be unprecedented – for example, Tesco Bank informs its current account customers how much interest their 'surplus' cash could attract in its savings account.

19. Additionally, they should point out that other providers might offer higher rates – a stronger requirement than in BCOBS 4.1.2, which only requires that a provider tells a customers that she may move to another provider, and only requires that they do this if they are making a materially disadvantageous rate change. These actions would strike a balance between making engagement with savings easier for customers and recognising that some people may make a conscious decision not to engage with their savings.

Encouraging industry to pro-actively contact customers languishing on low interest rates

20. Taken together, the interventions above would improve the operation of the cash savings market for consumers by providing them with regular information about their accounts – i.e. giving them more opportunity to engage – and making that engagement easier. However, we also believe firms should also contact all existing customers with cash savings accounts receiving a rate of interest below a certain level – perhaps set at a proportion of that firm's highest offered rate – to highlight that a better rate may be available, with the information that we note in paragraph 18. This would be a one-off action from firms to show goodwill and give savers with low interest rates an early chance to engage, which would then be complemented by annual statements thereafter.