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By email to: cashsavings@fca.org.uk

Dear Laura,

DP18/6: Price discrimination in the cash savings market

The Financial Services Consumer Panel welcomes the opportunity to respond to the FCA's Discussion Paper DP18/6: Price discrimination in the cash savings market.

There is significant consumer harm occurring in the cash savings market. Long-standing and loyal customers are not being treated fairly. Banks are using tactics like price obfuscation, having complex ranges of savings accounts and leaving loyal customers in poor value "superseded" or "obsolete" accounts. The complex range of savings accounts are not developed in response to the needs of customers but in an attempt by banks to exploit loyal customers. As we said in 2014, it seems unlikely that demand-side remedies will exert competitive pressure on this market¹. Open Banking and PSD2 allow consumers to share data from their current accounts and instant access savings accounts. This is expected to prompt the development of new services which could in turn lead to greater switching. However, these changes will also increase the incentive for banks to discriminate against loyal customers not using these services. These developments increase the need for FCA intervention in the savings market.

The FCA's proposes the introduction of a Basic Savings Rate (BSR). The Panel welcomes the FCA's willingness to consider supply-side remedies to address longstanding issues in the cash savings market. A BSR may result in banks offering better rates to longstanding customers. However, it could also have drawbacks in that it will continue to allow banks to exploit loyal customers, albeit that all loyal customers will receive the same rate, rather than a complex range of different interest rates. As proposed in the discussion paper, the introduction of a BSR will mean that virtually all consumers will have to switch every single one of their savings accounts every 12 months to ensure they receive the best interest rate on offer from their current provider. This will lead to increased costs for firms and opportunity costs for consumers.

Overall, the Panel considers that while the BSR may lead to benefits for some consumers, other options have more potential to deliver far greater benefits. These include:

- A properly formulated and enforced superseded accounts rule;

¹ https://www.fs-cp.org.uk/sites/default/files/cp_response_cash_savings_market_study_20150214.pdf

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- An option similar to the Netherlands *Modern Savings Policy*, which would require banks to simplify their range of savings accounts and only offer different accounts if they were based on clearly identifiable consumer needs; and
- A ban on price discrimination, which would require banks to have a single rate for easy access savings accounts and easy access cash ISAs.

The FCA should leave all options on the table and compare the costs and benefits of the options above against a BSR.

Below we provide answers to the questions posed in the Discussion Paper.

Yours sincerely,

Sue Lewis
Chair, Financial Services Consumer Panel

Answers to questions

Q1: What are your views on the nature and scale of harm outlined above? Does it merit some form of intervention in the cash savings market?

We agree that the nature and scale of harm outlined merits intervention in the cash savings market. Banks are clearly not treating long-standing and loyal customers fairly. As we said in 2014, "it seems unlikely that demand-side measures will exert competitive pressure on this market."²

Price obfuscation, selling complex ranges of savings accounts and leaving loyal customers in poor value "obsolete" or "superseded" accounts are causing significant consumer harm. These product and pricing strategies, which penalise loyal customers, demonstrate that the Boards of some major banks are not acting in the best interests of their customers or treating them fairly. In many cases, obsolete accounts have similar names to other products. For example, an obsolete account could be called a Variable ISA Saver and an actively marketed account an ISA Saver Variable. This playing with words – which can only be intended to confuse consumers – compounds the problem.

The proliferation of these accounts suggests active competition among providers for new business, while there is little pressure to compete to retain their existing customers' business. The Panel is concerned that banks will fail to pass any interest rate rises on in full to longstanding and loyal customers. This would further increase consumer harm.

Weak regulation has been another driver of consumer harm. The problem of superseded savings accounts has got significantly worse over time. Instead of challenging this practice, the system of voluntary regulation overseen by the banks removed the rules on requiring banks to upgrade superseded accounts in 2003. There was further significant growth in the number of superseded or obsolete accounts following the financial crisis.³ The latest figures show that there has been a further rise since the Savings Market Study in 2014. FSA and FCA regulation did not react quickly enough to the harm caused, and instead persisted with information disclosure remedies which had only very limited impact. The FSA and FCA have both failed to enforce the principle that banks should treat customers fairly.

We agree that vulnerable consumers and those less likely to switch will also be less likely to use new Open Banking or PSD2 enabled services. Without further intervention, banks will have an incentive to price discriminate against loyal customers, who will also indirectly pay the banks' commission to providers of Open Banking services to attract active customers.

In an environment of increasing interest rates, the gap between the rate given to new customers and loyal customers is likely to grow. Banks will only face limited competitive pressure to pass on interest rate rises to their backbook savings accounts. The detriment to loyal customers would increase so it is vital that the FCA takes action now.

Q2: Do you agree with our analysis of the demand-side remedies? Are there any further considerations that we should make?

We agree that demand-side remedies based on information disclosure are unlikely to have a significant impact on the market. Any effect is very unlikely to benefit loyal customers. Prompts to shop around and messages that consumers can get a better deal elsewhere

² https://www.fs-cp.org.uk/sites/default/files/cp_response_cash_savings_market_study_20150214.pdf

³ Guardian (2011), Best buy savings accounts that turn into zombies
<https://www.theguardian.com/money/2011/nov/18/savings-accounts-zombie-isas>

can paradoxically increase consumer trust in their current provider and reduce switching rates.⁴

Nevertheless, it is important that the FCA ensures that interest rates are communicated clearly on all paper and online statements and online banking platforms. It is also important to improve notifications to customers when they are approaching the maturity date for their fixed-rate savings accounts.

The FCA should also expand consumers' rights to their financial data to include Cash ISAs, fixed-rate savings accounts and regular saver accounts. These products currently remain outside Open Banking and PSD2.

Q3: Do you think we should require any service metrics that relate specifically to cash savings to be published? If so, please suggest metrics that you think we should consider.

While we support the publication of service metrics generally, within the cash savings market only a small minority of switching will be due to consumers seeking better service or access. Metrics could include customer advocacy, switching times, accessibility and whether the best deals are available to existing customers.

Q4: Do you agree with our analysis of the supply-side options considered in this chapter? We welcome views on the impact of these options and any risks and benefits that we have not captured.

We disagree with the analysis in the following areas:

Superseded accounts rule

We agree that the Banking Code Standards Board's supervision of compliance with the superseded accounts rule was not always as effective as it should have been. However, a superseded accounts rule with robust supervision and enforcement could mitigate many of the problems the FCA identifies in the Discussion Paper. Supervision could limit the number of on sale accounts which individual banks can offer and ensure that banks properly apply the rule. It could also prevent banks from launching accounts with slightly different terms from their superseded accounts, for example, notice periods, and then not automatically upgrading customers.

A superseded accounts rule would not stop banks from rewarding loyal customers. Banks could pay higher rates of interest to loyal customers as their accounts would not have been superseded.

We do not agree that a superseded accounts rule would adversely affect competition between incumbents and challengers. The FCA appears to see shopping around and switching as the overall objective of the policy, whereas the actual objective is to secure a better deal for loyal customers. In any case, as challenger banks have smaller back books and want to attract customers they can still offer accounts that compete with those offered by incumbents.

We recommend that the FCA should model the costs and benefits of a properly formulated and enforced superseded accounts rule.

⁴ New City Agenda (2016), What my roofer can teach the CMA and FCA about behavioural economics, <https://newcityagenda.co.uk/roofer/>

Ratio-based price regulation

Ratio-based price regulation would encourage banks to pay loyal customers poorer rates when all of the economic evidence suggests that it is not more costly for banks to serve these customers. This is difficult to justify on fairness grounds.

Ban on price discrimination

We do not agree that a ban on price discrimination would have an adverse impact on funding models. Firms would still be able to alter their pricing strategies to manage their funding strategies. There is no evidence that the introduction of the Modern Savings Policy in the Netherlands has had any of the adverse impacts identified by the FCA. Firms would continue to have flexibility to adjust rates or to compete to attract deposits in different products such as Cash ISAs, notice accounts, regular savers, fixed-rate accounts or current accounts. The FCA should determine whether banks in the UK that have moved towards a single rate for instant access savings accounts or Cash ISAs have suffered any adverse impact. Furthermore, it is not clear from the Discussion Paper whether the assertion that this remedy would have unintended consequences for funding models is the view of the PRA or the FCA. It is important for transparency and accountability that the views of the different regulators are stated.

Shopping around and switching is not costless. It can increase costs for providers, particularly if they have to pay commission to intermediaries to acquire customers. It also can take a significant amount of time for consumers, which should be costed in analysis.

We also do not agree that the fact that consumers are getting the best internal rate would have an impact on their incentives to shop around. Those who shop around already would still be alert to better rates. Some consumers might also switch because they are attracted by the non-price offers of challengers. The important thing is to stop loyal 'non-switchers' from getting ripped off. Incentives to shop around should not be a major consideration.

Internal switching would also be available in that consumers would be able to switch to a notice account, fixed-rate account or regular saver with their existing provider to receive a higher rate.

It is very important for the FCA to consider measures to limit the number of savings accounts which one bank can offer, in a similar manner to the Netherlands Modern Savings policy. This required banks to simplify their range of savings accounts and was seen as improving the treatment of loyal customers. The policy requires that a bank's offering is aimed towards clearly distinguished client needs and does not contain any unnecessary savings products.

We are concerned that in failing to conduct any detailed modelling of the Modern Savings policy option and a full ban on price discrimination the FCA is dismissing these options before they have been properly considered. Overall, we believe that the risks of these options are exaggerated and that there are significant benefits associated with them which the FCA has not attempted to quantify.

Q5: Do you have any views on our analysis that a BSR should apply after 12 months of an account being opened?

We agree that the introduction of a BSR would simplify the range of interest rates applying to accounts which have been open for more than 12 months. This simplification will have some benefits for customers, but banks will continue to discriminate against loyal customers, but these customers will receive the BSR rather than a complex range of different interest rates.

The FCA should compare the BSR against other options, including a properly formulated and enforced superseded accounts rule, a Modern Savings policy and a ban on price discrimination. This analysis should take into account current market pricing practices.

A BSR would almost certainly mean that virtually all savings accounts suffer a drop in interest rate after 12 months. However, the analysis doesn't take into account the increased costs for consumers and firms of consumers having to switch every 12 months to get a rate better than the BSR

An additional option could be to apply the BSR to all off-market savings accounts. This would avoid the rate payable to all consumers dropping after 12 months. However, this would need to be accompanied by a rule limiting the number of on-market savings accounts which banks were allowed to offer.

Overall, our view is that the BSR will lead to benefits to consumers but that the benefits of the alternatives of a properly formulated superseded accounts rule, a Modern Savings policy and a ban on price discrimination would be far greater.

Q6: Do you have any views on our analysis that there should be a maximum of 2 BSRs per provider (ie limiting providers to 1 BSR for easy access savings accounts and 1 for easy access cash ISAs)? What impact would this have on the provision of particular products (for example, loyalty, tiered, branch, etc) and how would this affect providers offering such accounts?

Yes, we agree that there should be a maximum of two BSRs, which should be the same across all a provider's brands. If the FCA allows banks to have different BSRs for each brand then it is very likely that some of the largest banks will set very low BSRs for their legacy brands which they are no longer using to attract new customers. This would result in many loyal customers of these legacy brands continuing to receive a poor deal.

If banks do want to reward loyalty then they will be free to set the BSR above the rate offered to new customers.

It is also important that customers are moved into the best available easy access savings account or easy access Cash ISA when their fixed-rate savings accounts, Cash ISAs and regular saver accounts mature.

Q7: Should a BSR apply equally to all providers? We are particularly interested in the views of building societies and small deposit takers.

Yes.

Q8: What are your views on the impact a BSR would have on firms' liquidity requirements and funding models? We are particularly interested in the views of building societies and small deposit takers.

The FCA should review the impact of the Netherlands Modern Savings policy on firms' liquidity requirements and funding models.

Q9: What are your views on the impact a BSR would have on lending rates? Are there any other markets that providers may seek to pass costs to?

It is important that the FCA prevents firms from recouping any costs of providing a BSR from mortgage prisoners.

Q10: What is your view of the likely costs of compliance with a BSR, in terms of both one-off and ongoing costs? We will carry out a detailed cost survey as we take forward this work, but we would be interested in any initial views you may have on the costs of a BSR.

In addition to the costs of compliance the FCA should also examine the cost of additional time commitments from consumers.

Q11: Are there any additional impacts and unintended consequences

This intervention could be portrayed as negative. Banks will tell consumers that the regulator is making them give customers a "Basic" Saving Rate. This to be set significantly lower than the rate on the account used to attract new customers. This will mean that all consumers will have to switch every 12 months (including contacting their existing provider). Overall, we do not view it as a good use of consumers' time for them to have to contact their existing provider every 12 months if they are not to be penalised. This will mean that banks continue to penalise loyal customers, including those who are vulnerable, and pay them lower rates than new customers. We cannot see how this can be consistent with the need to treat customers fairly. The introduction of the BSR is also likely to cause some banks which have simplified their range of accounts to move back towards offering short-term deals followed by a BSR.

Q12: What are your views of the impact that a reduced product offering may have on consumers? Please provide views on the impact on specific products (for example, loyalty, tiered, branch etc), where applicable.

We do not see any significant impact on consumers from a reduced product offering. There is no benefit to consumers choosing between dozens of accounts from one provider that do the same thing, and there may be considerable detriment, as the FCA's analysis shows. Banks would be able to reward loyal customers by setting the BSR at a rate above that available to new customers if they wished.

Q13: Do you agree with our initial view on how a BSR could be communicated to consumers and the market?

Yes.

Q14: Are there any additional effects and unintended consequences on consumers that we have not covered in this section?

Please see our answer to Q11.

Q15: In light of the above, do you think we should take forward a BSR?

There is a strong case for further intervention in the cash savings market. Loyal customers are collectively losing out on hundreds of millions of pounds each year. The implementation of a BSR would have significant benefit over the previous approach of relying on demand-side information remedies.

However, there are other options that would have significantly greater overall benefits and would be more effective in improving the treatment of loyal customers, as noted above. The FCA should look at the costs and benefits of these before going ahead with a BSR.