Discussion Paper

FCA: Price Discrimination in Cash Savings Market

October 2018 Ref:

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About Age UK

Age UK is a national charity that works with a network of partners, including Age Scotland, Age Cymru, Age NI and local Age UKs across England, to help everyone make the most of later life, whatever their circumstances.

In the UK, the Charity helps more than seven million older people each year by providing advice and support. It also researches and campaigns on the issues that matter most to older people. Its work focuses on ensuring that older people: have enough money; enjoy life and feel well; receive high quality health and care; are comfortable, safe and secure at home; and feel valued and able to participate.

About this discussion paper

The Financial Conduct Authority (the **FCA**) conducted a market study into the cash savings market in 2015 and found that “providers have significant amounts of consumers’ savings in accounts opened long ago (eg more than 5 years ago) (back-book accounts). These accounts, typically, pay lower interest rates than those opened more recently (front-book accounts). This is particularly true of easy access cash savings accounts and easy access cash ISAs”. Since 2015 the FCA has tested various interventions to improve competition in the cash savings market by encouraging consumers to shop around more. This discussion paper considers the impact of these interventions and finds that it is unlikely they will have a big enough effect to make the market work well for consumers. The FCA describes its preferred way forward, which is to introduce a Basic Savings Rate (BSR). All customers in easy access cash savings accounts and easy access cash ISAs would be moved onto the BSR one year after opening their account.

Key points

- We are pleased that the FCA has returned to the issue of detriment in the cash savings market and is showing commitment to ensure customers are treated fairly by examining possible supply-side interventions.

- We agree that demand-side interventions are unlikely to solve the problems experienced in this market and that further work is therefore needed.

- We broadly support the FCA’s preferred option of a Basic Savings Rate, including its application after 12 months and that there should be a maximum of two rates per firm.

- We have some concerns that leaving firms to set their own rate and change it completely at their discretion will add some risks and think that these should be monitored.

- We are also concerned that firms could use this intervention as an excuse to further reduce access to branch-based accounts. We do not consider this to be a reason to walk away from a BSR but it is important that access to essential banking services is maintained and where necessary expectation must be placed on firms to ensure that those who are not able to transact online are not discriminated against.

- It is essential that the FCA does take meaningful action in this market – costs involved in treating customers fairly should be a cost of doing business, not an excuse for inaction.

Age UK Response

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 share the FCA's concerns about the harm currently experienced by consumers in the easy access cash savings market and agree that it merits further intervention. We also agree with the description of the nature of the harm. In particular we agree that it seems extremely unlikely that the harm identified will be reduced without further intervention. We note that the harm caused by low back book rates has been highlighted over a number of years (for example, we worked with the APPG on Ageing and Older People to produce a report on older saves in 2012giving firms ample time to consider voluntary approaches to addressing the detriment. However, competitive pressures mean that it is difficult for individual firms to change the current approach to pricing without requirements on all firms to do so. We note that price comparison websites have also had a prolonged period in which to seek to increase switching but have not been able to overcome the inertia. While we support innovations such as Open Banking and hope that in time it will produce positive outcomes for consumers we do not expect it to have a significant impact on the way that most older consumers manage their money in the short and likely medium term. Those consumers who are currently holding savings in old accounts would seem likely to be some of the latest adopters of these kinds of solutions.

We are especially concerned that there are higher proportions of vulnerable consumers among those who have not switched their accounts for a long time who are being disadvantaged by the current situation. As an example, people in retirement often rely on small amounts of savings to 'see them through' shocks such as having to replace a boiler or a broken washing machine. A quarter of pensioners have no savings at all, but a further 30 per cent have savings below £10,000; the loss of purchasing power through below-inflationary interest rates can have a very significant practical impact on their wellbeing over the course of their retirement.

Easy access cash savings accounts should be extremely simple products to manage. It is a product type which should be accessible to all consumers including those with low financial literacy and low motivation to actively manage their money. Consequently the complexity in terms of product range and difficulties in comparison are especially inappropriate in this market.

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

We agree with the analysis of demand side remedies. The findings on the importance of specific features and other details are especially interesting. We would expect such demand side remedies to be slightly less effective when introduced away from a test environment as it is likely that slightly less attention would be paid to such details in an environment where the intervention wasn't being tested. Further, we might expect some reduction of effectiveness of these remedies over time as consumers became accustomed to them and possibly started to ignore them once they were familiar.

Whilst it is always possible that demand-side remedies might be improved and become more useful, the scale of inertia in this market and the limited impact of the demand side remedies seem to make it clear that supply-side action is needed.

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

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 largely agree with the analysis of supply-side options in this discussion paper. We note that there is relatively little analysis on the option of a complete ban on price discrimination in this market. While we understand that this is the most intrusive option and so unlikely to be considered desirable as a first step into supply-side intervention we think it would be helpful to keep all options on the table. This is especially important as it seems that the potential for firms to 'game' the intervention is a major potential limitation on the effectiveness of many of the options. It is important that firms know that if there is widespread gaming the consequence is likely to be a more intrusive response from the FCA.

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

We support the application of the BSR after 12 months of an account being opened. We could envisage a system which permitted the BSR to apply either 12 months after account opening OR immediately after the end of any initial bonus or fixed rate period. We can see the attraction of the simplicity of a blanket application at 12 months. We strongly support the concept of a 12 month (rather than 2 year or 3 year) application as one which maximises the chances of consumers being encouraged to switch and also protects the most vulnerable who are least likely to be able to switch.

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?

If the BSR is to work then we think it is important that the number of BSRs per provider is limited to 2 as proposed. We would expect that even with the BSR there will still be a significant proportion of customers, many of whom may be vulnerable or otherwise less able to engage with the market, who will still not switch. We agree with the FCA that pooling customers who are slightly more likely to switch with those who are not will help to protect those vulnerable customers who are not are not able to switch.

We can see that it would be desirable to permit higher rates for loyal customers (although we see little evidence of these in the market at the moment) and that tiered accounts may benefit some customers. If there are suggestions that allow these types of accounts to continue whilst maintaining the key benefits of the BSR then we think they should be considered. However given the scale of the detriment currently experienced in this market we would expect that it would be better for consumers overall to experience a fairer rate once bonuses have ended and have a market that is easier to navigate, even at the cost of losing some potential advantages.

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

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.

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?

While we understand that firms will need to find the cost of a BSR from somewhere we would underline that this does not in any way negate the need for meaningful supply-side intervention. Currently these costs are being placed unfairly on people who are often least able to engage with the market as it is currently constituted. It also uses behavioural biases against the interest of consumers, contrary to expectations set out in the FCA's recent Approach to Consumers publication. As the FCA's current work on retail banking is showing, pricing in retail banking is complex and opaque. The BSR or other appropriate intervention should not be de-railed by the usual threats that it would be the end of so-called free banking.

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.

Q11: Are there any additional impacts and unintended consequences on providers that we have not covered in this section?

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.

Overall we support a reduced product offering. The number of different accounts currently available is making it harder, rather than easier for consumers to make good decisions and engage with the market. Further, as noted above, it is important the balance any possible losses for consumers against the scale of the detriment and improvements offered by the intervention.

We are concerned that firms could use this intervention as an excuse to further marginalise those customers who rely on branch banking, possibly by ceasing to offer branch based accounts. This should be monitored and addressed through the ongoing work on retail banking as we would see it as part of the continuing challenge of ensuring safe, convenient and affordable access to essential financial services for everyone, including those who are not able to bank online.

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

Yes. We note that other recent FCA work on consumer communications has highlighted the importance of specific wording and we suggest that communications around the BSR should also be tested. Price comparison websites and other similar providers will also have an important role to play in helping consumers get the most out of the change.

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

Other unintended consequences could arise from firms trying to 'game' the intervention e.g. creating accounts that are 'nearly' easy access but not covered by the BSR, not communicating the BSR effectively. Firms could also reduce the channels through which they offer easy access savings or make it more difficult for consumers to move accounts through making it more difficult for them to find out about the process for doing so. Because the firm can set its own BSR and change it as it likes there could be unintended consequences that reduce the impact of the BSR. The FCA should monitor this and if the process is impeding the BSR then the FCA should consider setting a rate or ratio itself.

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

We think that it is essential that the FCA take forward the BSR or similar supply-side intervention. There has been extensive detriment in this market for a prolonged period affecting vulnerable consumers. Measures to address the problem by changing consumer behaviour have been exhaustively tested and have not had adequate impact. If the FCA does not take forward a suitable intervention it will essentially be sending a signal to firms that they are not required to treat customers fairly and a signal to customers that they have less reason than ever to trust their providers.

It is important that the FCA monitor whatever intervention they put in place and review after a reasonable period to check that it is achieving the desired outcomes.