Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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Dear Graeme,

MS14/2.3 Cash savings market study

This is the Financial Services Consumer Panel's submission to the proposed remedies set out in MS14/2.3.

We welcome the FCA findings and recommendations; it is important that customers are made aware promptly of changes to their savings rates, and that they can switch to other providers or accounts with better interest rates. However, low levels of switching are inevitable in such a low interest rate environment as it is likely that people perceive the gain is not worth the hassle of switching. The problem is made worse by Government support: Funding for Lending has meant that, with few exceptions, deposit takers are not actively chasing retail savings. Against this background, it seems unlikely that demand-side measures will exert competitive pressure on this market.

The Panel believes that similar issues face customers of both personal current accounts and cash savings. Furthermore, we believe cross-subsidies exist across all types of accounts within these markets. In our 2014 discussion paper on cross-subsidies in the personal current account market[1], we concluded that PCA customers are often subsidised from other product lines. We know that the "interest spread" – the difference between the rate banks pay on deposits and the rate they charge on mortgages – is at a historically high margin. Both savers and people with variable rate mortgages are cross-subsidising other banking activities to a significant degree. Many mortgage customers remain trapped on unreasonably high standard variable rates, and are unable to benefit from the low interest rate environment of recent years.

The Panel is concerned that banks will be quick to pass any interest rate rises on in full to borrowers and new depositors, rather than existing savers. Long-standing and loyal customers are clearly not being treated fairly by their bank. In addition, the new pension reforms are likely to mean more money is paid into cash savings accounts, providing a boost for deposit takers, and leading to even less need for firms to compete with decent interest rates.

The Panel strongly supports the proposal for greater transparency, better information provision, and more consistent notice periods, relating to interest rate changes and in particular the expiry of bonus rates. Consumers should be left in no doubt of the length of any bonus rate, as well as what rate the savings account will revert to at the end of the bonus period.

[1] http://www.fs-cp.org.uk/publications/pdf/discussion_paper_cross_subsidies_in_the_pca_market_20140911.pdf

Increasing consumer awareness of poor interest rates on their savings is a welcome step. But for this information to be effective, it needs to be easily accessible, in branch and on-line, and should also be published by third parties such as the Money Advice Service.

Data collected on savings account switching will show whether or not the message is getting through to consumers, but the Panel believes that more still needs to be done to make switching easier. Identification and verification checks required under anti-money laundering rules can act as a deterrent to switching, especially when the rewards are minimal.

Yours sincerely

Sue Lewis
Chair
Financial Services Consumer Panel