Consultation response

Price discrimination in the cash savings market (FCA DP18/6)

Response from the Money Advice Service

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1. About us

1.1. The Money Advice Service (MAS) is a UK-wide, independent service set up by Government to improve people's ability to manage their financial affairs. Our free and impartial money guidance is available online, and by phone or webchat.

1.2. We change lives by helping people make the most of their money. We use evidence to understand who, across the UK, most needs help and what works, and we use these insights to improve the ability of people to manage their money, either through partners, or directly.

1.3. We are responding to this consultation in respect of our statutory roles to enhance people's understanding and knowledge of financial matters and to improve individuals' ability to manage their own financial affairs.

1.4. MAS has led work with financial services firms, the third sector, government and regulators to develop the Financial Capability Strategy for the UK. This 10-year strategy aims to improve financial capability, giving people the ability, motivation and opportunity to make the most of their money.

1.5. The Financial Guidance and Claims Act 2018 makes provision for establishing a new Single Financial Guidance Body. It received royal assent on 10 May 2018. The new Single Financial Guidance Body (SFGB), which will bring together the Money Advice Service, Pension Wise and the Pensions Advisory Service will have statutory functions including to:

- Provide free and impartial information and guidance to enhance people's understanding and knowledge of financial matters and their ability to manage their own financial affairs to the public
- Develop and co-ordinate a national strategy to improve:
  - the financial capability of members of the public
  - the ability of members of the public to manage debt, and
  - the provision of financial education to children and young people.[1]

[1] Financial Guidance and Claims Act, 2018

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2. Savings and financial capability

2.1. Putting money aside regularly and building an emergency savings buffer is an important financially capable behaviour. Money Advice Service research has found that nearly three-quarters of households receive an unexpected bill each year, with a typical cost of £200-400.[2] Without a savings buffer, households have lower resilience to withstand such an unexpected bill or an income shock.

2.2. However, UK consumers have low levels of saving. A quarter (25%) of all UK adults report that they rarely or never save,[3] only 34% of UK adults have savings equivalent to three months' income or more,[4] and 44% of working-age adults (17.3m) have less than £100 in a formal savings account.[5]

2.3. 'Financial capability' is a person's ability to manage money well, both day to day and through significant life events, and to handle periods of financial difficulty. It is driven by personal skills, knowledge, attitudes and motivations, and made possible by an inclusive financial system and supportive social environment. Financial capability helps people achieve the best possible financial well-being.[6]

2.4. The Money Advice Service's 'financial capability framework' (see Figure 1 below) captures the main elements of financial capability – the behaviours underpinning financial capability and the factors impacting it – in a single model. 'Active saving' is identified as important to managing money well day-to-day, while 'Building resilience' through savings is identified in this model as a central element to managing and preparing for life events,[7] and is also the money management behaviour most highly correlated with longer-term financial security.[8]

2.5. MAS has therefore implemented a long-term impact measure to increase the proportion of 'financially struggling' and 'financially squeezed' adults who regularly save, and is supporting the UK Financial Capability Strategy's corresponding call to action across the sector to increase the number of people who save regularly.

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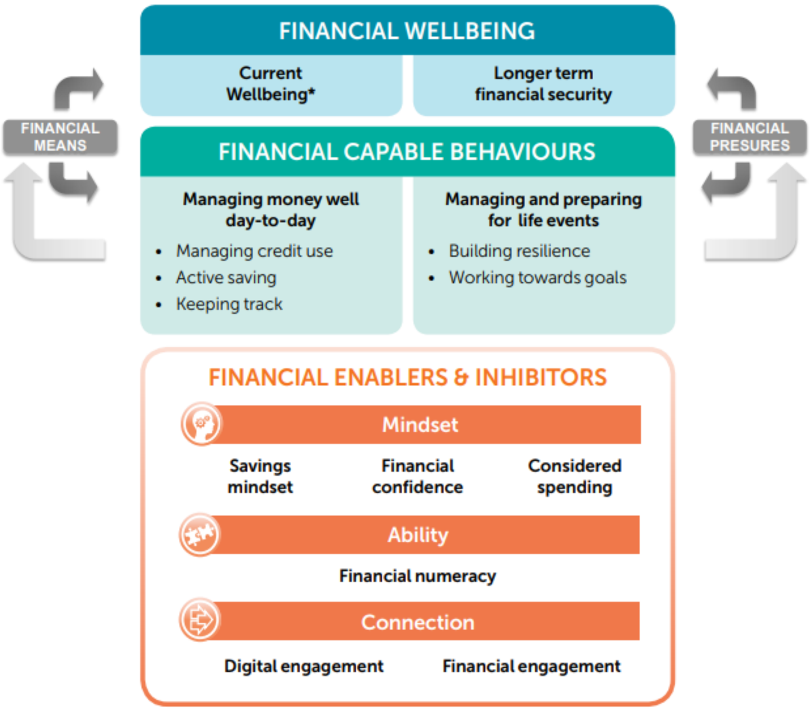
[2] Money Advice Service (2016) Closing the Savings Gap
[3] MAS (2015) UK Financial Capability Survey
[4] MAS (2015) UK Financial Capability Survey
[5] CACI Savings Models 2016
[6] MAS (2015) Financial Capability Strategy for the UK
[7] MAS (2016) Measuring financial capability – identifying the building blocks
[8] MAS (2016) Measuring financial capability – identifying the building blocks

Figure 1: The Financial Capability Framework



2.6. Saving is an important element to financial capability, but, in its turn, financial capability also affects consumers' use of and engagement with savings products. Among consumers who do save/ have savings, low levels of financial capability affects consumers' engagement with their finances and capability to shop around for products and services, including savings accounts. Low financial capability therefore impacts on competition in the cash savings market.

2.7. The Money Advice Service's forthcoming UK Financial Capability Survey 2018 shows a third of consumers do not shop around at all for savings accounts.

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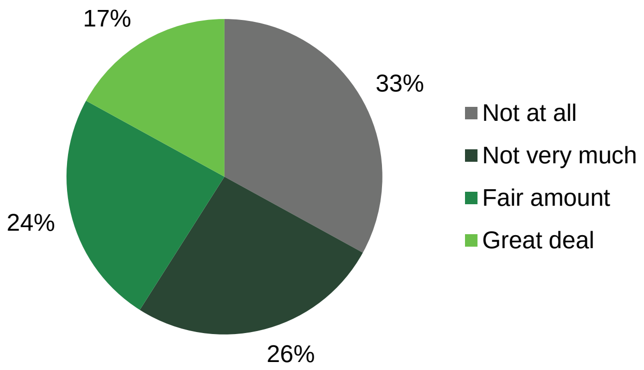
Figure 2: Shopping around for better deals on bank/ savings accounts – preliminary analysis of data from the 2018 Financial Capability Survey



2.8. Overall, 46% of UK adults have checked their savings account in the last 12 months to see if they are getting the best deal. However, people with lower levels of skills and knowledge and those with lower levels of confidence making decisions about financial products and services are less likely to have changed their account provider or done anything to check if they are getting the best deal in the last 12 months.[9] People who felt there was nothing they could do that would influence their own financial situation were significantly less likely to have done anything to check if they were getting the best deal.

2.9. Many UK adults (42%) do not describe themselves as being confident managing their money (giving themselves a score of seven or less out of ten) and around half do not see that they can make a difference to their situation. Our research has found that financial confidence (comprising both confidence managing money day to day and the confidence to make financial decisions) is by far the most important individual dimension of the enablers and inhibitors of current financial wellbeing, and is also the most important dimension of longer-term financial security.[10] Low financial confidence presents a significant barrier to consumers choosing to switch savings account.

2.10. Numeracy and financial literacy also affects financial capability and can impact on consumer's ability to shop around and assess the savings market to take advantage of the best interest rates. The Financial Capability Survey 2015 found that one in five adults could not correctly read the balance on a bank statement; only around two-thirds knew that if they

[9] MAS (2015) UK Financial Capability Survey
[10] MAS (2016) Measuring financial capability – identifying the building blocks

put £100 into an account with 2% interest per year, they would have £102 at the end of the first year; and just 60% knew that if the inflation rate is 5% and the interest rate on their account is 3% they will have less buying power in a year's time.[11] Crucially, people with lower levels of skills and knowledge were less likely to have changed personal current account product or provider or done anything to check if they were getting the best deal in the last 12 months.[12]

2.11. A significant minority of consumers therefore have quite limited capability to understand and compare available bank or savings accounts and to use online comparison sites and tools. This limits the extent to which demand-side remedies may improve competition in the cash savings market – and highlights that it is vital to invest in ensuring people have the basic skills needed to stay in control of their finances and make decisions about products and services.

3. Responses to consultation 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?

3.1. We agree with the FCA's assessment that competition is not working well in the cash savings market. In 2015, the FCA's competition study into the cash savings market found that competition was not working well, particularly for customers who stay with the same provider for a long time. More recently, research by Citizens Advice found that the loyalty penalty for cash ISAs was £48 a year.[13]

3.2. Longstanding customers who lose out by receiving lower interest rates than more active consumers who shop around are also more likely to show characteristics of vulnerability. We note that FCA's Financial Lives Survey found that nearly a third of consumers holding a savings account for 10 years or more showed characteristics of potential vulnerability, compared to just under a quarter of those who do not demonstrate these characteristics.[14]

3.3. The Money Advice Service's research has shown that low financial capability and low financial confidence inhibits many consumers' capability to switch savings accounts – leaving them subject to lower interest rates. Many UK adults do not describe themselves as being confident managing their money (42% of adults – 21.7m people) and 53% of adults

[11] MAS (2015) UK Financial Capability Survey
[12] MAS (2015) UK Financial Capability Survey
[13] Citizens Advice (2018) The cost of loyalty: Exploring how long-standing customers pay more for essential services
[14] FCA (2017) The financial lives of consumers across the UK

(27.4m) do not feel confident making decisions about financial products and services.[15] Confidence is notably lower amongst young adults as well as the lower social grades and income bands.

3.4. Those who lack confidence making decisions about financial products and services and who have lower self-efficacy are less likely to have changed bank account products or providers or done anything to check if they are getting the best deal in the last 12 months.[16] People who felt there was nothing they could do that would influence their own financial situation were significantly less likely to have done anything to check if they were getting the best deal on their account in the last 12 months.[17]

3.5. Low financial confidence and capability also limits the extent to which demand-side remedies can address the disparities in interest rates between newer, more active, 'front-book' and longer-term, more inert, 'back-book' savings account customers. While some consumers are put off switching savings accounts by the expected hassle and perceived low gains (particularly in a low-interest-rate-environment) from opening another account, other consumers face additional barriers.

3.6. For these reasons, we agree that the potential harm to vulnerable consumers merits intervention in the cash savings market, and that disclosure remedies are unlikely to work for consumers who may be less able to act due to lower financial capability.

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

3.7. Due to the low financial capability of many UK consumers and low levels of financial confidence, these demand-side remedies, taken alone, may be unlikely to significantly address the identified harm to longstanding customers in the easy access cash savings market. A balance of demand-side and supply-side remedies is required, and the FCA is right to seek to increase supply-side efforts and drive greater supply-side action.

3.8. In order to address inertia and increase consumer engagement with savings products and improve competition, we would suggest the FCA might also consider, going forward, how to improve other key elements of financial capability such as consumer financial confidence in addition to the remedies examined to provide better consumer information to facilitate switching.

[15] MAS (2015) UK Financial Capability Survey
[16] MAS (2015) UK Financial Capability Survey
[17] MAS (2015) UK Financial Capability Survey

3.9. As consumer financial capability and confidence affect engagement with finances, and therefore impact on competition, we would suggest there is a need for better guidance and for firms to find new ways of reaching consumers in the cash savings market to help those who are less financially capable or confident. Widening distribution channels – for example through workplace-based payroll-deduction saving schemes – may also provide more opportunities to increase consumer engagement. The Money Advice Service is currently working with a credit union and employers to co-design, implement and evaluate an automated payroll deduction saving scheme, to understand its impact on employees' financial capability and financial wellbeing. We would encourage the FCA to also consider the role it might play in encouraging firms to look at this and other ways of reaching people to increase consumer engagement with finances including savings, and how this may support better competition.

3.10. Given the importance of consumer financial capability for effective competition in the cash savings market, the FCA could also examine whether firms are currently doing enough in their communications to customers to support consumers with low financial capability and confidence.

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.

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

Q6: Do you have any views on our analysis that there should be a maximum of 2 BSRs per provider (i.e. limited 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?

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?

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 on 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.

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

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

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

3.11. The Money Advice Service is supportive of the principle of intervening to tackle price discrimination in the cash savings market to protect long-term 'back-book' customers, who are more likely to show signs of potential vulnerability, but we do not have a specific view on whether the Basic Savings Rate is the best way to achieve this.

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