KnowCo
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FCA Cash Savings Market Review

July 31st 2023

A KnowCo Regulatory Digest

August 2023

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'…much more is required to ensure savers consistently get a better deal'

https://www.fca.org.uk/publications/multi-firm-reviews/cash-savings-report

https://www.gov.uk/government/publications/debt-respite-scheme-breathing-space-guidance/debt-respite-scheme-breathing-space-guidance-for-creditors

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- This is not a consultation paper or a policy statement

- It is nevertheless an unambiguous call-to-action, having immediate effect as-of July 31st 2023

- …and containing specific requirements and standards.

- While the research focus has been on 'the Big 9' banks and building societies, which hold 60% of 'easy access' balances, *the resulting requirements apply to all UK financial institutions that offer savings products to retail customers (consumers)*

- “The pace and scale at which firms pass through higher interest rates to savers needs to improve”

  - The average easy access interest rate has risen from 0.07% to 1.25%

  - For easy access accounts, firms have, on average, passed through only 28% of the base rate rise compared to an average of 80% between 2004 and 2009

  - For fixed-term and notice accounts, the average interest rate has risen from 0.3% to 2.47% over the same period

  - As of July 2023, we have seen the highest easy access rates range from 4% to 5%

- “Competition is delivering better rates for savers who shop around, but many longstanding easy access customers are penalised”

  - Significant action is required to ensure that the savings market delivers the best outcomes for consumers, in line with the Consumer Duty

  - The switching process needs to improve. For example, not all firms are delivering against the existing commitment to switch at least 85% of cash ISAs within 7 working days

- “Specifically on fair value, we expect:
  - a reduction in the proportion of easy access accounts with very low interest
  - firms to review savings rates quickly following base rate changes
  - the difference in rates between existing and new products to continue to narrow”

- “For customer support and communications, we expect:
  - firms to make clear to customers that they are in the lowest paying accounts
  - firms to help more consumers to save regularly to increase their financial resilience”
- We will further review and quantify our desired outcomes for the cash savings market in the second half of 2023 and won’t hesitate to propose further action if insufficient progress is made

- Effective competition is key to the market delivering these outcomes. We will:
  - require firms offering the lowest rates to provide their fair value assessments under the Consumer Duty by 31 August 2023 and take robust action by the end of 2023 against those who cannot demonstrate fair value.
  - review the timing of firms' savings rate changes each time there is a base rate change.
  - publish an analysis every six months of firms' on-sale and off-sale easy access savings rates, listing distribution from best to worst.
  - analyse the difference between on-sale and off-sale products, challenging firms to explain how large differences offer fair value

- ‘We will’ (cont'd)
  - review firms’ performance on cash ISA to cash ISA switching, including on the new voluntary commitment.
  - conduct further analysis into the contribution of cash savings to firms’ profitability.
  - review the effectiveness of firms’ engagement with customers by the end of March 2024 and take more directive action if firms have not effectively delivered the outcomes we have set out.
  - work with stakeholders, including the Money and Pensions Service (MaPS), to identify what more can be done to support consumers to save regularly, strengthening their financial resilience.

- We expect firms to:
  - from today, use their fair value assessments of on-sale savings products to assure themselves and us, where needed, that these represent fair value for customers.
  - accelerate their fair value assessments for off-sale accounts ahead of the July 2024 Consumer Duty deadline for off-sale accounts.
  - take action to prompt their customers in lower paying savings accounts or non-interest bearing accounts to consider alternatives, including by:
    - proactively contacting their customers to inform them of alternative savings products.
    - contacting customers in non-interest bearing accounts, such as PCAs, who may benefit from building their financial resilience by regularly saving into a savings account.
    - larger firms to inform us by 30 September 2023 how they have identified and communicated with these customers.
    - building regular prompts, in particular after base rate changes, into their customer platforms that encourage customers to consider alternative savings products.

- We expect firms to (cont'd):
  - continue to closely monitor the effectiveness of customer communications, with larger firms to provide us with an evaluation of this by end 2023 and any follow up action they are taking
  - support consumer financial resilience by encouraging customers to start saving and/or search for higher rates, with the largest firms committing to support a targeted firm-by-firm communication campaign
  - consider how they can support their customers to access the free advice available from MoneyHelper

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KnowCo is a specialist UK financial institution support resource.

We help with the heavy lifting of implementing new regulatory requirements, as well as maintaining old ones such as ICAAP, ILAAP, RRP etc.

From the primary drafting of policies and processes, through laying down MI feedback loops for assurance, our subject matter experts have all the necessary tools and skills.

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