Consultation Response

FCA cash savings market study report (Jan 2015)

13 February 2015 Ref 0415

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Key points and recommendations

1. AgeUK welcomes the publication of the cash savings market study report and the remedies proposed, but would like the FCA to go further than it has in requiring product defaults that give better returns to customers.

2. We agree strongly with the proposal in paragraph 9.14 of the FCA report that low interest rate accounts should not be given names suggesting premium rates of return.

3. We support the idea of a “switching box” (paragraph 9.29), particularly its use of large type for the essential numbers and short easy-to-understand explanations.

4. In addition to the remedies proposed we would like to see compulsory notifications sent periodically to holders of large balances in low interest accounts, prompting them to look at their options.

5. We agree strongly that fixed term accounts should not be defaulted to auto-renewal and that the choice should be presented clearly to the customer at point of sale.

6. On ‘Sunlight remedies’ we suggest that excessive detail in customer communications be avoided, but that there should be a requirement for the savings provider to send the customer a chart or table showing the interest rate paid on the customer’s account over the last five years.

7. We regret that the FCA has decided at this stage not to require simplification of product range. We recommend that the FCA introduces a rule that products which are only nominally different should be rationalised on a “most favoured interest rate” basis.

8. Similarly we regret that the FCA has decided not to require rationalisation of “off-sale products”. We recommend that customers with “off-sale products” be moved to live products on a “most favoured interest rate” basis.

General comments

Age UK welcomes the publication of the cash savings market study report, and agrees with the finding that there are competition issues to be addressed in the light of the very large sums of money held in cash savings accounts at very low rates of interest, even where balances are sufficiently high to justify a rational search for higher returns.

We welcome the finding that product transparency and customer communication need to be improved in order to increase the ability and motivation of customers to seek out products with better rates of return.

At the same time, we would like the FCA to go further than it has in requiring product defaults that give better returns to customers and we urge the FCA to take advantage of the consultation process to consider and adopt further remedies in this area. Our proposals are set out in more detail under the relevant headings below.

Responses to specific 'Issues for comment'

A1: better information at or before point of sale

We agree with the proposals set out in paragraph 9.12. In terms of presentation, we suggest that key information is presented free of clutter in a font size that makes it easy to read and leads the eye to the information that is most important. In relation to interest rates, it should be borne in mind that there is a significant minority of the population who cannot accurately convert an interest rate into a given sum of money, so interest rate information, as well as being clear, should be explained in terms of the amount of money paid on a given sum in a year. We comment further below (in relation to the "switching box") on the issue of financial capability in relation to bank communications.

We observe that there is a significant conceptual gap between the way the industry talks about financial products and the way the general public perceives them. When a member of the public puts money into a savings account, it is unlikely they think they are "buying a product" that may be terminated at a later date for new customers. It is more likely they think they are "putting money into a savings account", thought of as the standard savings account offered by their bank. If it is the intention of the bank to terminate the product for new customers it should make this clear to customers in language customers themselves use to talk about their banking.

We agree strongly with your proposal in paragraph 9.14 that low interest accounts should not be given names suggesting premium rates of return.

A2: Better information provision post-sale

We agree with your proposals in this section.

In relation to display of interest rates, there is a financial capability question to be considered. Empirical tests have shown that there is a significant minority of the population who cannot accurately calculate a sum of money from an interest rate. In its 2006 Financial Capability Study the Financial Services Authority reported that in tests conducted for the study one fifth of respondents could not accurately assess the effect of inflation on an interest rate, 25% could not spot the best rate of return from a chart showing different rates of return (rising to 40% of the over 70s) and ten percent could not correctly compare a cash discount with a percentage discount.[1] The questions presented in these tests were extremely simple, so it can be surmised that the failure rate would have been a lot higher if more complex questions had been asked.

This suggests that where interest rates are quoted in bank literature, these should be accompanied by an explanatory statement along the lines of "0.5% means that for each £100 you deposit with us we pay you 50p per year in interest. For example, if you deposit £1000 with us, we pay you £5 per year in interest."

Cash saving is one of the most basic financial activities carried out by nearly the whole population, so extra care must be taken to design communications that are universally understood. We therefore support your intention (paragraph 9.31) to test proposed communication standards with the target population so that the standard adopted is as effective as possible.

Regarding the "**switching box**" (paragraph 9.29), we think this is a very good idea, particularly its use of large type for the essential numbers and short easy-to-understand explanations. Two suggested amendments:

- Accompany the figure "0.5%" with a statement such as: "0.5% means that we pay you 50p per year on each £100 you deposit with us for a full year".

- The graphic arrow is good but having a point at each end and reading from right to left could be confusing. We suggest placing zero at the left hand end (with a flat end) and extending the higher numbers to the right. This matches the normal left-to-right pattern of written English.

[1] FSA, *2006 Financial Capability Study*, pp 120-121.

Research with consumers should be used to sort out the best design. We would appreciate seeing the final proposed designs before they are launched to the public.

On A2(e) “de minimis rule” (p 103) we would only support a de minimis rule being applied to accounts with very small balances (eg £100 or less, accounting for 60% of easy access accounts, according to Figure 2, page 17 of the FCA report). In particular, there should not be a de minimis rule relating to time, because the absence of activity may itself be an indicator that the customer thinks they are “all right” and their money is being looked after properly. It may come as a shock to them to find they are being paid a below-market rate of interest in an account that has been terminated for new customers.

Additional remedy

In addition to the proposals supported above, AgeUK would like to suggest the following additional remedy:

Compulsory periodic notification to holders of large balances in low interest accounts

There can be transient reasons for customers holding a large sum of money in a low interest account (for example, anticipation of a large payment or prior to making an investment) but where a large sum remains in a low interest account for an extended period we think the bank should write to the customer pointing out that there are better options available. The switching box should be featured. This should be a paper communication or email (where a customer has opted for email communication) directed specifically to the customer in question. The communication should be repeated at intervals, for example every six months. Suitable thresholds should be set for this exercise, for example sums greater than £5,000 held for more than six months in accounts paying less than the Bank of England base rate (the shaded area in Table 28, page 90).

As pointed out in your report (page 90) there is a large amount of money being held in accounts meeting the above thresholds and it seems to us that extra efforts are warranted to assist customers improve the returns they are getting on these balances.

A3: Choices on auto-renewal of fixed term accounts

We agree strongly with your proposal here. The option of auto-renewal or return payment should be presented as a clear choice to the consumer at the point of sale, the auto box should not be pre-ticked and the choice should not be buried in sales literature or the back end of a website.

B1: Switching between accounts offered by the same firm

We agree with the remedies proposed under this heading. Bearing in mind our comments on financial capability (above) we observe that there is a field for potential confusion in presenting an array of accounts and interest rates to the customer and care will need to be taken to design the notifications (Internet and paper) so they can be easily understood by all customers. The options and the switching steps need to be clearly set out. A more convenient way of achieving the same result would be for the FCA to reconsider its approach to account simplification and default interest rates (see our comments F and H below).

B2: Speeding up cash ISA switching

We agree with the remedy proposed.

B3: Encouraging electronic identity verification procedures

We agree with the remedy proposed. In connection with ID we observe that this is an area where the UK banking industry in general needs to “do more work”. AgeUK experiences a significant volume of calls to its Information and Advice line on difficulties experienced by customers trying to verify their identity to their bank’s satisfaction. These difficulties often occur in delegated banking situations where the delegator and delegatee both have to go through re-identification processes, even where the delegator has banked with a particular bank for many decades. Sometimes these turn into Catch-22 situations where the bank requests the delegator to come to the bank for ID purposes when the fact that they cannot come to the bank is the reason they are trying to delegate their banking. In addition, quite a lot of older people do not have photo ID. A new system or approach is needed to enable people to ID themselves to their own banks quickly and easily, while still maintaining the necessary checks for fraud and abuse.

C: Convenience remedies

We support the exploration of account aggregation though it should be borne in mind that many older people are not online and a significant fraction of older people are likely to remain off-line for the remainder of their lives. For these people, analogue services are still essential. Good postal and in-branch methods of account comparison will need to be maintained. Regarding the Internet account aggregation approach, our principal question would be security. It is not immediately apparent how live account aggregation will be reconciled with the password digit randomisation methods used by banks for accessing accounts. Given recent security breaches such as those against Sony Pictures and the US Department of Defence, how confident can we be that an aggregator may not accidentally provide a hacking portal? Public concern about such scenarios combined with possible loss of the right to a refund in the case of unauthorised transactions may make such a solution hard to implement. However, we agree it should be explored further.

D: Sunlight remedies

We support Option 1 (centralised publication of provider data) as this option is suitable for regulatory and policy purposes and will enable the progress of the cash savings market to be monitored by a wide range of interested parties without the need to repeat a full formal review. Interested consumers (including older people) will also be able to access and interpret these data.

Option 2 (publication of provider data direct to consumers) could overburden many consumers with a level of detail they would find hard to interpret. More significantly it could get in the way of the simpler communications the FCA is planning, such as the “switching box”. On balance we think it better to keep the amount of information going to individual consumers as simple and highlighted as possible. One approach that could perhaps achieve the effect of Option 2 would be for the savings product provider to provide **a chart or table showing the interest rate paid on the customer’s account over the last five years**. Coupled with the switching box, a declining interest rate trend might encourage the customer to start looking for alternatives.

Remedies the FCA is not intending to pursue (p 114)

F Simplification of product range (p115)

We regret this decision. Excessive product differentiation creates confusion in the customer’s mind and may indeed be a tactic for keeping a proportion of customers in low interest rate accounts. In the FCA’s randomised controlled trial of reduced interest rate reminder letters,[2] such letters succeeded in increasing switching behaviour, but only by a minority of the non-switchers who could have decided to switch. This suggests that the information strategy proposed by the FCA may make a dent in the cash savings market but still leave the bulk of the funds in very low interest rate accounts in those accounts. We suggest therefore that the FCA introduces a rule that products which are only nominally different, for example savings accounts with different names but no significant difference in

[2] Occasional Paper No.7, *Stimulating interest: Reminding savers to act when rates decrease*, FCA, January 2015.

services (other than the interest rate) be rationalised on a “most favoured interest rate” basis.

Remedies the FCA is not pursuing (p 115)

H Requiring providers to put all customers with off-sale products on a single interest rate

As suggested earlier in this response, it will come as a surprise to many customers to find that their savings account is an “off-sale product”. There would be a general assumption that an easy access savings account is a standard bank service, open to all customers. Customers would be equally surprised to find that they are being paid an interest rate below other customers for essentially the same service with the same bank. This would tend to be perceived as commercial sleight of hand, especially when accounts are named to create an impression that they pay normal or premium interest rates.

As with our proposal on product range (above) we urge the FCA to reconsider its approach to off-sale products with the aim of moving all customers to live products providing essentially the same service on a “most favoured interest rate” basis.

(end)