Improving the Cash Savings Market

Citizens Advice response to the FCA Discussion Paper ‘Price discrimination in the cash savings market’

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Dear colleague,

Citizens Advice provides free, independent and impartial advice to anyone who needs it. In 2017, we advised on more than 1,600 issues relating to savings and investments.

We are pleased to respond to the FCA's Discussion Paper (DP) 'Price discrimination in the cash savings market'. We agree that discrimination against loyal and disengaged consumers is highly prevalent in the easy access cash savings market, and we support the FCA's preferred intervention of introducing a basic savings rate (BSR).

Research by Citizens Advice has found that awareness of the loyalty penalty in five essential markets is lowest in the savings market, and that 56% of respondents say they trust their savings provider.[1] The FCA's 2017 Financial Lives Survey (FLS) found that 45% of consumers have held their savings account for more than five years, and are therefore likely to be paying the loyalty penalty.[2] Our analysis of the FCA's data concluded that the total annual cost of the loyalty penalty in the easy access savings market is more than £1.1 billion.[3] This harm will only become more pronounced as interest rates rise.

We welcome the FCA's acknowledgment that demand-side remedies have not been sufficient to address the harm caused by the loyalty penalty. The FCA has led in using randomised control trials to establish whether disclosure remedies are effective in changing consumer behaviour, forming an evidence base that has demonstrated their sometimes valuable, but limited effect. However, this has come at a cost - because demand-side remedies have been prioritised, supply-side interventions have not been considered and the detriment in the cash savings market has persisted. It is time to recognise that placing the onus on consumers to change their behaviour will not resolve the loyalty penalty in the easy access cash savings market.

If a BSR is introduced, we believe that it should apply equally to all providers and that there should be a maximum of 2 BSRs per provider (one for easy access savings accounts and one for easy access cash ISAs). Having hundreds of products on offer, as is currently the case, is confusing for consumers, obfuscates prices and thereby weakens competition. A sunlight remedy that published the two BSRs for each provider would enable meaningful and straightforward comparison of different rates for consumers.

In addition to the supply-side interventions considered by the FCA, one option we think merits examination is opt-out supplier-led internal switching. The default would be that savers will be switched by all lenders unless they opt out (rather than opting in).

[1] Citizens Advice, Excessive prices for disengaged consumers: A super-complaint to the Competition and Markets Authority, September 2018.
[2] FCA, Financial Lives Survey: Savings weighted data tables, Table 18, RB99, 2017.
[3] Citizens Advice, Excessive prices for disengaged consumers: A super-complaint to the Competition and Markets Authority, September 2018.

Engaging in essential markets is particularly difficult for those in a vulnerable or insecure state due to the complexity of tariffs and information.[4] The 2017 FLS found that people who have held their savings account for more than 10 years are more likely to show characteristics of potential vulnerability. Our own research has found that older people are disproportionately paying the loyalty penalty, and that people who have experienced mental health problems in the last year are more likely to find switching difficult in the cash savings market.[5]

The FCA should therefore ensure that vulnerable consumers are offered stronger protection. When a customer is identified as vulnerable, they should automatically be placed on the best equivalent deal that the provider is making available to new customers.

Our views are set out in more detail in subsequent answers to your questions. This response is not confidential and may be published in full on your website.

Kind regards,

Rebekka Rumpel

Policy Researcher, Citizens Advice

[4] NAO, Vulnerable consumers in regulated industries, March 2017; FCA, Consumer Vulnerability, February 2015.
[5] Citizens Advice, Excessive prices for disengaged consumers: A super-complaint to the Competition and Markets Authority, September 2018.

Response to Question 1

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?

Long-term loyalty to a provider is common in the cash savings market. The FCA's Cash Savings Market Study (CSMS) found that, in 2013, 33% of easy access cash savings balances and 19% of easy access cash ISA balances were held in accounts opened more than five years ago.[6] Its 2017 FLS put the number of consumers who had held their savings account for more than five years at 45%.[7] Citizens Advice polling found that 56% of respondents say they trust their savings provider, and that 20% of those paying the loyalty in the cash savings market think they are on the best deal. We welcome the research the FCA has published that shows consumers are being punished for their loyalty and that their trust in providers is misplaced.

Citizens Advice analysis of FCA data from the DP on 'Price discrimination in the cash savings market' found that the total annual cost of the loyalty penalty in the easy access savings market is more than £1.1 billion.[8] Our recent super-complaint to the Competition and Markets Authority examined the difference between interest earned on a one-year fixed-rate cash ISA taken out in March 2016, and the interest earned when moved to a variable rate in March 2017. We calculated that paying the loyalty penalty for one year for a cash ISA costs consumers £48. Although this is relatively low compared with the loyalty penalty in other essential markets, the cumulative loss of £1.1 billion across the cash savings market is the second highest (after broadband, at £1.2 billion) across the five markets examined.[9]

A poll carried out by ComRes for Citizens Advice in July 2018 found that awareness of the loyalty penalty in five essential markets is lowest in the savings market. While 60% of respondents are aware of the loyalty penalty in the home insurance market and 48% are aware of the loyalty penalty in the mortgages market, only 40% are aware of the loyalty penalty in savings.

This widespread and little-known discrimination against loyal consumers merits intervention in the cash savings market. The loyalty penalty is unfair - in our polling, 89% of respondents said that providers of essential services should charge loyal customers the same or less than new customers - and erodes consumer confidence in markets. As the FCA points out in its DP, as interest rates rise, the harm caused by the loyalty penalty in the cash savings market will only become more pronounced.

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[6] FCA, Cash savings market study, January 2015.
[7] FCA, Financial Lives Survey: Savings weighted data tables, Table 18, RB99, 2017.
[8] Citizens Advice, Excessive prices for disengaged consumers: A super-complaint to the Competition and Markets Authority, September 2018.
[9] Citizens Advice, Excessive prices for disengaged consumers: A super-complaint to the Competition and Markets Authority, September 2018.

Impact of the loyalty penalty on vulnerable consumers

The FLS found that consumers who have held their savings account for 10 years or more with the same provider are more likely to show characteristics of potential vulnerability.[10] Our research has found both generally that vulnerable and low-income consumers are disproportionately paying the loyalty penalty across essential markets, and specifically that certain vulnerable groups are affected in the cash savings market.

Citizens Advice research found that older people (age 65 and over) are 22% more likely to be paying the loyalty penalty in the savings market than people ages 18 to 64.[11] The 2017 FLS also found that those age 65 and over have the highest average cash savings of any age group, meaning that not only are older people more likely to be paying the loyalty penalty but they are also likely to be losing out on the largest interest payments.[12] Doteveryone research concluded that less than half of those over 65 have basic digital skills,[13] which may prevent older people from using price comparison tools (the most common way of shopping around).[14]

As our super-complaint highlights, another reason older people are disproportionately paying the loyalty penalty is because they are more likely to stick with the status quo in complex essential market.[15] When faced with numerous options, research has found that older people are more likely than younger people to delay making a choice.[16] In both its CSMS and DP, the FCA has described the cash savings market as being complex, with hundreds of easy access products on the market.

Our research also found that shopping around and switching may be more difficult for those with mental health problems. While only 3% of respondents who had not experienced mental health problems in the past year stated that switching is too difficult in the savings market, 15% of those who experienced mental health problems that affected their ability to carry out activities stated that switching is too difficult in the savings market.[17]

The FCA should therefore ensure that vulnerable consumers are offered stronger protection in the cash savings market. While identifying those who are vulnerable can be challenging, the practicality of ensuring greater protection is simple. When a

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[10] FCA, Understanding the financial lives of UK adults: Findings from the FCA's Financial Lives Survey 2017, October 2017.
[11] Citizens Advice, Excessive prices for disengaged consumers: A super-complaint to the Competition and Markets Authority, September 2018.
[12] FCA, Understanding the financial lives of UK adults: Findings from the FCA's Financial Lives Survey 2017, October 2017.
[13] Doteveryone, Basic Digital Skills, UK report, 2015.
[14] Citizens Advice, Exploring the loyalty penalty in the broadband market, April 2017.
[15] Citizens Advice, Excessive prices for disengaged consumers: A super-complaint to the Competition and Markets Authority, September 2018.
[16] Chen, Y. et al., 'Age Differences in Trade-off Decisions: older adults prefer choice deferral', Psychology and Ageing, 2011.
[17] Citizens Advice analysis of ComRes survey data, 2018.

customer is identified as vulnerable, they should automatically be placed on the best equivalent deal that the provider is making available to new customers.

Response to Question 2

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

We welcome the FCA's acknowledgement that the package of demand-side remedies it has trialled since 2015 have not succeeded in stimulating sufficient changes in consumer behaviour to address the harm caused by the loyalty penalty in the easy access cash savings market. While it was important that these demand-side remedies be rigorously examined and trialled through randomised controlled trials, this came at the expense of considering supply-side options. In the future, the FCA should ensure that it considers these approaches equally, weighted to what the evidence suggests will be effective.

As in other markets, such as energy and current accounts, disclosure remedies have mostly had no or small effects on switching. We are therefore pleased that the FCA is now considering taking forward measures to address the loyalty penalty through supply-side intervention.

Active choice collective switch trial

One further demand-side trial the FCA could consider looking into is the model of Ofgem's active choice collective switch trial. Run earlier in 2018, this was Ofgem's most successful trial so far, leading 22.4% of customers involved to switch to a new energy tariff and saving them on average around £300 each.[18]

Having built a disengaged customer database, Ofgem identified 50,000 customers who had been on the same deal for three years or more. Customers could opt in to a collective switch run by a price comparison website, or opt out of further communication. Vulnerable customers were equally likely to switch as the rest of the trial participants. While there are data protection and consent issues arising from this trial (customers did not consent to their data being shared with the price comparison website), this trial has shown the most promising results in getting consumers to engage.

However, the significance of this trial should not be overstated. Other collective switch trials have had more mixed results, and even in this trial more than 75% of households did not switch providers. Those customers who stayed on their existing deal could also experience further price rises to compensate for lost revenue (unless retail price protections were to remain in place permanently). Moreover, while the level of detriment in the savings market for customers is high in aggregate, for each individual

[18] Ofgem, Eight times as many people get a better deal in Ofgem's collective switch trial, August 2018.

the gains on offer is relatively low. As a result, the FCA may prefer simpler supply-side remedies, rather than more sophisticated demand-side remedies like collective switching.

Sunlight remedy

We support the FCA taking forward a sunlight remedy. We note that, during the sunlight trial, the rates published were not always comparable, but that there was success in drawing attention to the lowest rates.[19] We would like to see the introduction of a maximum of two BSRs per provider (as discussed in answer to Question 6 below), one for easy access savings accounts and one for easy access cash ISAs. A sunlight remedy that published these two BSRs for each provider would enable meaningful and straightforward comparison of different rates for consumers, hopefully once again with strong media attention to drive public awareness and enable better outcomes for consumers.

As in the previous trial, it should be assessed whether the use of the sunlight remedy has a measurable impact on providers' rate setting strategies and whether the media campaign has impact.

Response to Question 3

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.

In our response to the government's consultation on 'Modernising consumer markets', we supported proposals to produce scorecards for providers in essential markets.[20] Although we highlighted that excessive price differentials are currently the biggest way in which markets are failing consumers, we agreed that other scorecard metrics, such as for service quality, are important and should be developed.

Our consultation response also highlighted that trusted consumer advocates may be better placed to produce such scorecards than regulators. Citizens Advice already produces a 'star rating' tool enabling consumers to compare 28 domestic energy providers' customer service performance on five metrics, including complaints data and how easy it is to contact the provider.[21] An updated scorecard is published every three months and gives a simple star rating out of five for each metric. This provides a strong template for how customer service scorecards could be developed in other markets, including the cash savings market.

[19] FCA, Cash savings: Sunlight remedy, December 2015.
[20] Citizens Advice, Modernising Consumer Markets, July 2018.
[21] Citizens Advice, Compare domestic energy suppliers' customer service.

Response to Question 4

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.

Supply-side intervention is needed to address the loyalty penalty in the savings market. In addition to the supply-side interventions examined by the FCA, we think opt-out supplier-led internal switching should be considered.

We support taking the Basic Savings Rate forward to a consultation paper and believe that it would be an improvement on how the market currently functions, on the basis of the analysis the FCA has published to date.

However, we would also like to see a fuller analysis of all the options specified in the FCA DP and accompanying Occasional Paper. Where the model used can be tractably applied to other options, it should be. We think this should include:

1. Banning price discrimination on length of account
2. Placing a percentage limit on the difference between deals for new and loyal customers
3. Internal switching to the best deal, with opt-out (discussed below)
4. An absolute interest floor (of the type Bank of England interest rate +x%)
5. The superseded account rule

While we find the qualitative analysis that the FCA offered regarding some of these options *prima facie* persuasive, a more formal quantitative assessment using data from the CSMS would allow us to form a better view regarding the risks and benefits of each intervention.

Internal switching with opt-out

One option we think the FCA should consider in more detail is requiring all lenders to switch those savers who have been paying a loyalty penalty for a number of years (e.g. five) to their best equivalent account. The default should be that savers will be switched unless they opt-out of the switch (as opposed to opt-in). This remedy would limit the length of time that a customer pays the loyalty penalty.

One potential drawback is that incentives for consumers to engage with the market, search for best rates and switch could reduce. However, as the FCA's propose Basic Savings Rate implicitly accepts, there will always be a proportion of consumers who cannot or will not engage with the market. These consumers need the protection of supply-side remedies and we should not shy away from some supply-side remedies simply because they might undermine demand-side remedies. The FCA might also consider employing supplier-led internal switching to protect vulnerable consumers -

but for these consumers we would ask that the switch happens after two to three years, not five.

Response to Question 5

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

We support the FCA's view that a BSR should apply 12 months after a cash savings account is opened, given that its evidence points to interest rates dropping for customers who remain loyal after this period.

Response to Question 6

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?

We agree with the FCA's analysis that there should be a maximum of 2 BSRs per provider, one for easy access savings accounts and one for easy access cash ISAs. Between the publication of the CSMS in 2015 and the publication of the DP in 2018, on-sale easy access products increased from 350 to 470 and off-sale products increased from around 1,000 to 1,870. This occurred despite the FCA asking firms to consider whether their product range was leading to good outcomes for customers

We agree that a large number of products creates a confusing situation for consumers, obfuscates prices and thereby prevents competition. As the FCA's sunlight remedy trial found, complexity in rates (which varied for a range of reasons) made meaningful comparison very difficult.

Citizens Advice research has found that, in order to make well-informed decisions, consumers would need to almost double the amount of time they spend shopping around.[22] Both the FCA and the National Audit Office (NAO) have also found that engagement in essential markets is particularly difficult for those in a vulnerable or insecure state due to the complexity of tariffs and information.[23]

Response to Question 7

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

[22] Citizens Advice, Against the clock, November 2016.
[23] NAO, Vulnerable consumers in regulated industries, March 2017; FCA, Consumer Vulnerability, February 2015.

It is our view that the the BSR should apply equally to all providers to ensure a level and competitive playing field in the cash savings market.

Response to Question 13

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

Effectively communicating the BSR to consumers will be important to ensure they understand the changes to the interest rate on their savings account and to prompt them to consider their choice of provider. We would welcome providers displaying their BSR prominently on their website and emphasising that it is comparable, and including the BSR in summary boxes for easy access accounts.

As we noted in our response to the government's consultation on 'Modernising consumer markets', Ofgem has currently made the most progress in measuring the loyalty penalty in electricity and gas markets.[24] They have used their data to inform the publication of a league table that ranks the ten largest suppliers on how many of their customers are on poor value standard variable tariffs (SVTs).[25] The advantages of this approach are that it is simple to understand and the burden on providers is low (given that the data is only requested of the 10 largest suppliers and is simple).

Given that, if a maximum of two BSRs per bank or building society are introduced, a similarly simple comparison can be made, and that the six largest providers held over two-thirds of all cash savings balances in 2014,[26] the FCA should consider introducing a similar league table ranking the largest six providers in terms of how many customer accounts are in the BSR bracket.

Response to Question 15

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

We fully support the FCA's preferred intervention of introducing a BSR in the easy access cash savings market. This would address the harm caused by price discrimination against loyal customers and promote competition through increased price transparency. Having tried numerous means of stimulating change on the demand side, it is time to recognise that placing the onus on consumers to change their behaviour will not resolve the loyalty penalty in the easy access cash savings market.

The FCA should also model and consider a wider range of options, including requiring lenders to switch savers who have been paying a loyalty penalty for a certain number of

[24] Citizens Advice, Modernising Consumer Markets, July 2018.
[25] Ofgem, Ofgem publishes supplier standard variable tariff league table, December 2017.
[26] FCA, Cash savings market study: final findings, January 2015.

years to their best equivalent account. The default should be that savers will be switched unless they opt-out of the switch (as opposed to opt-in). A final demand-side option the FCA could pursue is an active choice collective switch trial, as conducted by Ofgem earlier in 2018. However, the likely significance of this option should not be overstated: many switch trials have had mixed results and even Ofgem’s success saw less than 75% of households switching providers.