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Cash Savings Market Review update: UK FCA finds room for improvement

25 September 2024

On 19 September 2024, the FCA published an update on its review of the cash savings market and investigation into the practices of the largest 9 firms with easy access savings accounts. With a focus on the effectiveness of firms' fair value assessments, the update provides valuable insights for all firms on the FCA's approach to this key aspect of the Consumer Duty Principle.

The FCA update will be of particular interest to: Retail banks and building societies with saving products. Other firms within scope of the Consumer Duty but who do not offer saving products may also be interested in the findings from the update as an aid in developing their approaches to assessing fair value under the Duty more generally.

Key takeaways

The FCA's update on its review of the cash savings market covers 8 FCA-specific actions set out in the action plan published in July 2023 and highlights areas where it expects to see further improvements from firms, including:

- Fair Value Assessments (FVAs) should set out actions the firm will take to improve outcomes for those customer groups within the target market who are receiving poorer outcomes, eg well targeted outbound communications to customers maintaining high balances in easy access accounts. Whilst some firms included these actions within their FVAs others did not.
- The FCA expects all firms who are unable to effectively monitor outcomes for vulnerable customers to have clear plans in place to address this shortfall, in line with the requirements of the Consumer Duty.
- Firms' FVAs should contain appropriate data and metrics to identify and track outcomes for different groups of customers. If firms are still refining their approach to their FVAs and developing required data capabilities, they should consider and identify proposals to develop those capabilities with clear timelines. They should also be able to show how they will identify and mitigate foreseeable harm in the meantime.
- The greater an account is an outlier compared to similar products, the greater the onus on a firm to assess its value more rigorously.

- The FCA identified three cash savings practices where there is greater risk of not meeting Consumer Duty standards, namely: creating multiple tranches of a savings product paying higher rates to new customers; using annually renewable bonus rates and using regressive interest rate tiering to discourage customers from maintaining large balances in easy access savings accounts. Firms using these or similar practices should review whether the relevant products are meeting customers' needs, whether they offer fair value to different customer groups and whether communications to customers who are not experiencing good outcomes are effective.
- Customer communications are more effective when targeted at specific and narrow populations of customers. Effective communications that enable customers to understand a firm's products and services, their features and risks, and the implications of any decisions are particularly important as the base rate has started to fall. Overly passive messaging (eg vague calls to action), too much generic information, and jargon or terms that aren't explained should be avoided.

What should firms be thinking about and how can Hogan Lovells help?

- All firms within scope of the FCA's Consumer Duty should be mindful of the learnings from this update and take the opportunity to assess and make any required enhancements to their approach to documenting and demonstrating fair value.
- We have significant experience in supporting firms on projects relating to Consumer Duty requirements - from undertaking initial gap analysis work, project managing and supporting the implementation of a rolling program of enhancements and operational changes.
- The combination of our legal and consulting teams provides you with a full range of services, and clear guidance on how the solutions can be applied within the business. If you would like to discuss how we can help you, please reach out to any of the people listed in this article or your usual Hogan Lovells contact.

What's next?

- The FCA will continue to closely monitor firms' future savings rate changes. Its 2023 review considered the speed and extent of firms' interest rate pass through, and it will expect a clear explanation if it spots that a firm has changed its savings rates significantly more quickly and fully in response to interest rate reductions, compared to previous interest rate increases.
- The FCA is not planning to provide further savings updates unless it identifies further market-wide concerns not addressed within this latest update.

The FCA has also published an update on the Price and Value Outcomes of the Consumer Duty.

Read on for a more detailed look at the FCA's update on its review of the cash savings market.

Background

In July 2023, the FCA published its Cash Savings Market Review (Review) and hosted a roundtable with banks.

The FCA found that interest rates on easy access accounts have not been rising as fast as the rates for other accounts. Firms offering the lowest savings rates were required to justify how their rates offered fair value by the end of August 2023. The FCA stated that it would take action where firms were unable to do so.

The FCA concluded with a 14-point action plan to ensure that retail banks and building societies pass interest rate rises on to savers and communicate with customers effectively.

For more on the Review, take a look at our previous Engage article: 'UK FCA Cash Savings Market Review report: Putting the Consumer Duty into action'.

Cash savings update

Following its Review, the FCA has been working with the largest 9 firms (Lloyds Banking Group, HSBC, NatWest Group, Santander UK, Barclays, Nationwide Building Society, TSB Bank, Virgin Money UK, The Co-operative Bank) on how they provide fair value to easy access savings customers.

The FCA reported that since the publication of its Review, it has seen improvements in the rates available to savers and the volume and timing of firms' communications to savings customers. An FCA marketing campaign has also encouraged customers to switch to better savings rates.

Market data shows that average easy access rates increased to 2.11% in June 2024 (from 1.66% in July 2023 prior to the publication of the FCA's Review). The FCA estimates that consumers will receive an additional £4bn per annum in interest payments.

However, further progress needs to be made by firms. The September update covers 8 FCA-specific actions set out in the Review's action plan and highlights areas where the FCA expects to see further improvements.

Review of Fair Value Assessments (FVAs)

The FCA reviewed the 9 largest easy access savings providers' FVAs for their lowest paying, on-sale and easy access savings accounts.

- **Fair value is more than price alone and firms must consider any non-financial costs that customers pay for products**: The costs must be reasonable relative to the benefits that a customer can expect from the product. The better FVAs the FCA considered were evidence-based reviews of financial and other benefits available to savings account customers. For example, access to branches or other in -person access facilities and access to other related products. FVAs which were not sufficiently testing of previous pricing decisions were seen as weaker in quality. The FCA notes that many FVAs lacked appropriate data and analysis to support conclusions.
- **The Consumer Duty requires firms to identify the target market of products and how customers are expected to engage with products**: For example, firms could consider whether the product is intended for short-term use or as a long-term savings vehicle. Based on this analysis, firms could isolate a target market to ensure a comprehensive and informed FVA that is aligned with the needs and characteristics of the product target market. This point was expanded on in the FCA's update on the Price and Value Outcomes of the Consumer Duty, which is intended to help firms improve their approaches to FVAs.

- **Where an interest rate for a savings account is an outlier compared to the rate for similar products, a firm should evidence how the account nevertheless provides fair value**: This could involve benchmarking other aspects of value such as service standards, branch availability or other non-price benefits, along with evidence that customers use and value these services. The FCA emphasises that the greater an account is an outlier compared to similar products, the greater the onus on a firm to assess its value more rigorously. It follows that where an account is an outlier, firms must consider how they will demonstrate fair value compared to similar products through monitoring and reporting arrangements.
- **Firms' FVAs must consider the needs of diverse groups of customers within the target market, particularly vulnerable customers**: Less developed FVAs did not consider whether the account has diverse groups of customers with different uses of the product. This risked firms not considering whether different customer groups may receive poorer outcomes. In particular, customers with characteristics of vulnerability may have additional needs which firms must be mindful of. This demonstrates the importance of accurately identifying the product target market, including any characteristics of vulnerability. Where characteristics of vulnerability are identified, firms must ensure they can demonstrate that the product provides fair value to these customers relative to other customers in the target market. The FCA expects all firms who are unable to effectively monitor outcomes for vulnerable customers to have clear plans in place to address this shortfall, in line with the requirements of the Consumer Duty.
- **Firms must act on lack of fair value**: Some firms failed to act upon indications of customers not receiving fair value, for example where customers do not renew annual bonuses to retain a higher level of interest. The FCA expects firms to take appropriate actions to address customers' lack of engagement. Firms will need to ensure they have effective governance processes in place to identify, assess and remediate issues and risks impacting fair value.
- **Firms should not be overly reliant on existing data in undertaking FVAs**: While such data is useful, firms must also consider what information they require in order to understand the issues their customers face and the outcomes they receive, which may not be captured by existing data. For example, firms' FVAs should contain the data and metrics required to identify and track outcomes for different groups of customers. As such, firms should review their management information to ensure it supports identification of issues and risks impacting different customer groups in the target market.
- **FVAs should include planned mitigation of identified harms**: The better FVAs in the sample set out steps that firms are taking to mitigate harm, such as increasing interest rates and improving customer communications to drive continuous improvement of customer outcomes.

Cash savings practices where the FCA has observed greater risk of not meeting Consumer Duty standards

The FCA identified three practices which are acceptable but risk not delivering good outcomes in future, for example:

1. Savings products with multiple tranches which pay higher interest rates to new customers than to existing customers;
2. Using annually renewable bonus rates on savings products; and
3. Using regressive interest rate tiering to discourage customers from maintaining large balances in easy access savings accounts.

The FCA acknowledges that such practices can aid competition within the cash savings market, but warns that these risk potential adverse consequences for some groups of customers. It follows that where firms use these practices, they are likely to face increased scrutiny of their fair value assessments. As such, they should ensure they have in place robust evidence-based FVAs. FVAs should be supported by monitoring and reporting activities that demonstrate awareness of issues and risks and appropriate mitigating actions to protect customers from foreseeable harm.

Data update – improved savings rate

The FCA examines the improvement in the average interest rate paid on easy access and fixed-term and notice deposits between publication of the July 2023 Review and the end of June 2024.

The figures show that average rates paid to savers generally continued to increase prior to July 2023. The FCA suggests this indicates that greater competition in the savings market is having an effect. Between July 2023 and June 2024, the volume of deposits held in bank and building society non-interest-bearing accounts reduced by £14bn to £252bn. During this period, deposits held in fixed-term and notice accounts increased by £29bn to £274bn. Meanwhile, easy access deposits have remained broadly stable since July 2023 at £909bn.

Profitability analysis

The FCA conducted further analysis of the contribution made by cash savings to firms' profitability as part of its cash savings market review. The position remains that the industry has experienced greater profitability since the base rate began to rise compared with pre-Covid levels.

The FCA found that the benefits of industry profitability seemed to be increasingly passed through to customers. Easy access accounts saw the highest net interest margins compared with term accounts. There were signs in the FCA's analysis that savings net interest margins peaked and showed early signs of decline as the mix of products shifted from easy access and limited access accounts to term accounts.

The FCA has prepared a more detailed profitability report.

Review of customer communications

Since the publication of the July 2023 Review, firms have significantly increased their communications to savings customers. Over 100m communications were issued in 2023, including letters, emails and social media posts.

The FCA states that specific targeted communications to small groups of customers are more effective than repeated communications in large volumes throughout the year. Additionally, communications which exhibited the following characteristics were suggested to be less effective:

- Passive messaging, with vague calls to action;
- Excessive amounts of generic information with insufficient signposting; and
- Jargon and unexplained terms which could cause confusion.

The FCA encourages firms to undertake research to ensure that effective communication approaches are developed. Customer communication and support approaches should be aligned with the needs of customers in the product target market. The effectiveness of communication and support approaches for different customer groups should be demonstrated through monitoring and reporting arrangements.

The FCA reminds firms of its July 2023 joint letter with the Information Commissioner's Office which confirmed that data protection regulations do not prevent firms from informing customers about better rates.

Financial resilience

The FCA has been engaging with the Money and Pensions Service on their work to support consumers in saving and strengthening their financial resilience. The Money and Pensions Service's Savings Charter allows firms to set out their ambitions to raise the profile of savings within communities.

The FCA encourages firms to signpost their customers to MoneyHelper guidance to help them strengthen their financial resilience.

Next steps

The FCA will continue to closely monitor firms' future savings rate changes. Its 2023 Review considered the speed and extent of firms' interest rate pass through, and it will expect a clear explanation if it spots that a firm has changed its savings rates significantly more quickly and fully in response to interest rate reductions, compared to previous interest rate increases.

While the FCA will continue to monitor how well the savings market is operating, it is not planning to provide further savings updates unless it identifies further market-wide concerns not addressed within this latest update. However, all firms should be mindful of the learnings from the review and take the opportunity to assess and make any required enhancements to their approach to documenting and demonstrating fair value.

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