Introducing a Single Easy Access Rate for cash savings

Consultation Paper
CP20/1***

January 2020

How to respond

We are asking for comments on this Consultation Paper (CP) by **9 April 2020**.

You can send them to us using the form on our website at: www.fca.org.uk/cp20-01-response-form

Or in writing to:
Jamie Thunder
Financial Conduct Authority
12 Endeavour Square London E20 1JN

Telephone:
+44 (0)20 7066 64052

Email:
cp20-01@fca.org.uk

Contents

How to navigate this document

- returns you to the contents list
- takes you to helpful abbreviations
- takes you to the previous page
- takes you to the next page
- prints document
- email and share document

1 Summary

Why we are consulting

1.1 Our Cash Savings Market Study (CSMS) found that the market is not working effectively for many consumers, particularly for consumers with easy access cash savings account or easy access cash ISAs. The way the market operates leads to a lack of competition for longstanding customers, who generally receive lower interest rates on their balances than those opening new savings accounts. We set out the harm caused by the way the market currently works in more detail in Chapter 2 of this document.

1.2 In our Discussion Paper (DP18/6) we set out a range of potential interventions to address the harm in this market. Alongside this we published an Occasional Paper, which set out modelling on introducing a Basic Savings Rate (BSR). This consultation considers the feedback we received in response to these publications, which we have taken into account in developing the proposals we are now consulting on. The feedback and our responses are set out in Chapter 3.

1.3 We are consulting on proposals to improve competition in this market and to make it simpler and easier for consumers to understand the savings market and get a good deal, as well as to protect those consumers that currently receive the lowest interest rates. We want firms to focus more on how they treat their longstanding customers than they do currently.

Who this applies to

1.4 The proposals in this Consultation Paper should be read by providers of cash savings products and their trade bodies. They will also be of interest to consumers of cash savings products, consumer organisations, and intermediaries such as financial advisers and price comparison websites.

The wider context of this consultation

1.5 One of our long-term priorities is to ensure fair pricing in financial services. This involves identifying and addressing a wide range of issues that can affect the fairness of pricing. This includes firms' practices, the way they treat customers, firm culture, weak competition, and over-complexity in markets.

1.6 One aspect of the fairness of pricing is price discrimination. In October 2018, we published a Discussion Paper called Fair Pricing in Financial Services (DP18/9) which considered how to assess issues of price discrimination in financial services. In response to the feedback we received, we published a Feedback Statement (FS19/04) earlier this year. These publications set out the key questions we will ask to help us determine whether price discrimination is harmful. We applied this fair pricing framework when we formulated our interim conclusions on general insurance pricing practices in October 2019 (MS18/1.2). We have also applied this framework as part of developing our proposals in this CP, see Chapter 2.

1.7 Unfair price discrimination is also linked to the issue of the 'loyalty penalty' across the wider economy, when longstanding customers receive poorer outcomes than new customers. Citizens Advice made a super-complaint about this to the Competition and Markets Authority in September 2018. This covered several markets, including cash savings.

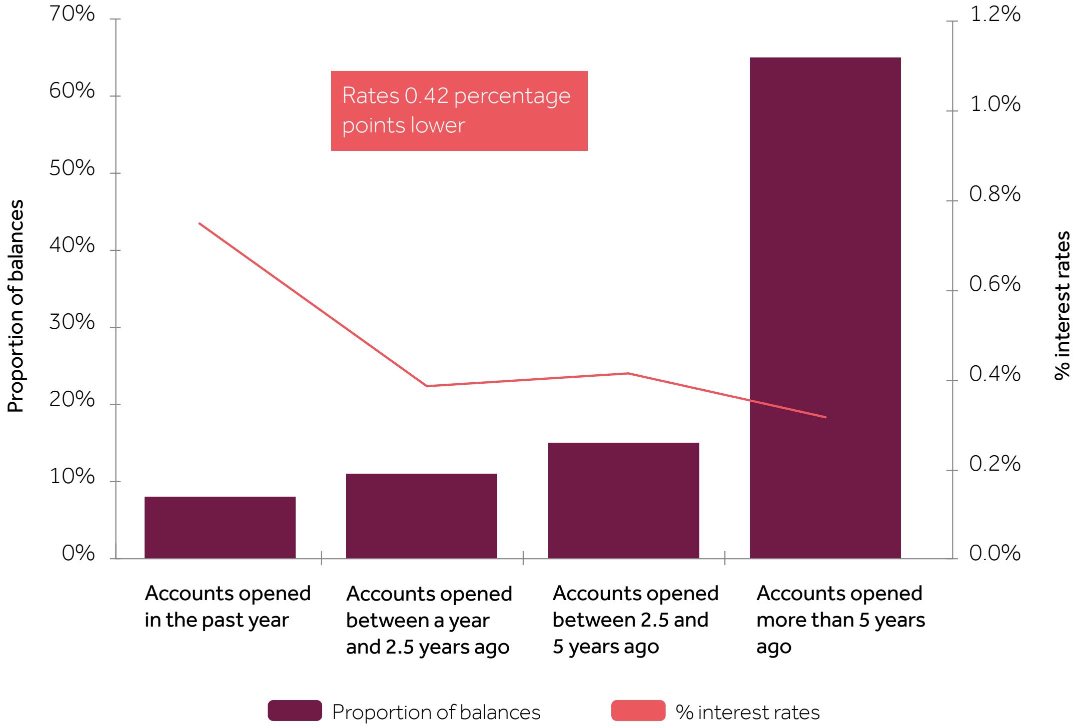
1.8 In Occasional Paper 41, we distinguished between three types of customers according how recently they have opened an account: new, less new and longstanding customers. New customers are those who recently opened an account, less new customers are those who have opened an account less recently and longstanding customers are those with accounts opened long ago. In OP41 we referred to these as 'front-book', 'mid-book', and 'back-book' customers, but for ease we use the terms above in this Consultation Paper.

1.9 Competition in the easy access cash savings market is focused on customers opening new products. Firms must offer good value products that meet consumer needs, or face not winning new business. The CSMS found that firms do not face the same pressure for longstanding customers with existing savings accounts and are able to reduce interest rates to them over time. We want firms to have regard to the interests of all their customers, but at present we are concerned that there are poor outcomes for a large number of longstanding customers.

1.10 Our CSMS found that competition currently works well for customers when they take out a new product in the easy access cash savings market. Firms compete vigorously for new business in this market – they must offer good value products that meet consumer needs, or face losing business. However, firms do not face the same pressure for longstanding customers with existing savings accounts and are able to reduce interest rates to them over time. Firms with large numbers of personal current account customers pay particularly low rates. This market is also more complex than it needs to be, with large numbers of accounts that a consumer might own. We want firms to have regard to the interests of all their customers, but at present we are concerned that there are poor outcomes for a large number of the most longstanding customers.

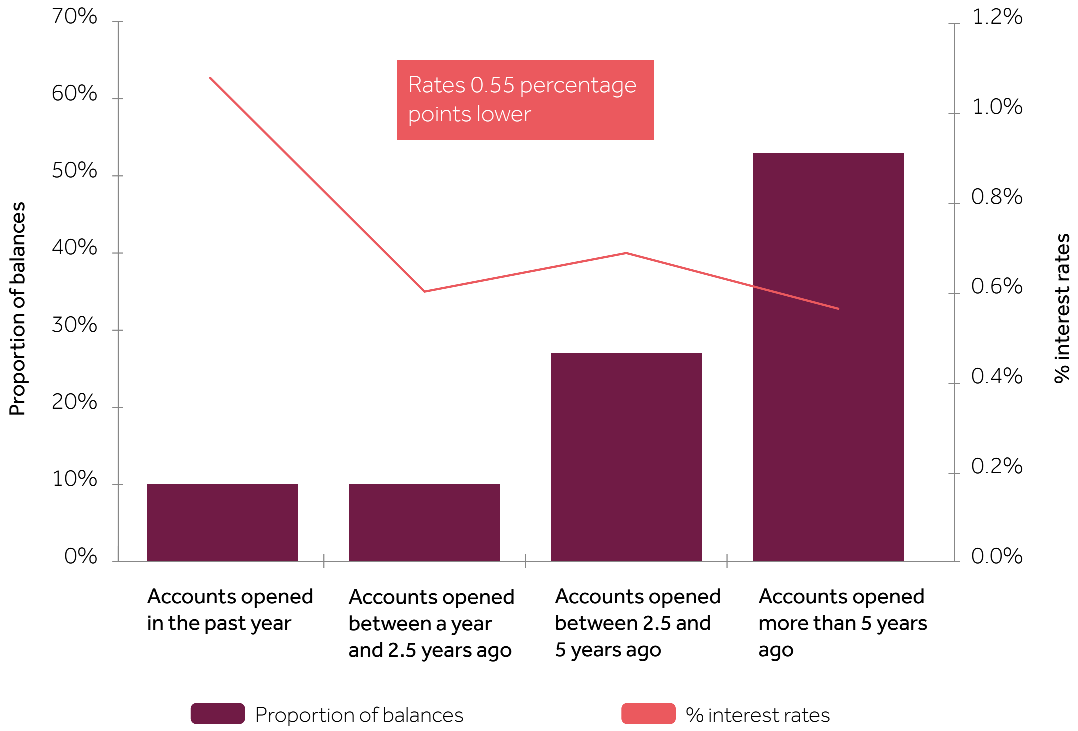
1.11 Our information request to firms showed that in December 2018 there remained poor outcomes for longstanding customers in easy access cash savings accounts and easy access cash ISAs (see Figures 1 and 2).

Figure 1: Proportion of balances and weighted average interest rates for easy access cash non-ISAs, December 2018



Source: Providers' information request responses, FCA analysis

Figure 2: Proportion of balances and weighted average interest rates for easy access cash ISAs, December 2018



Source: Providers' information request responses, FCA analysis

Our proposals

1.12 Our proposals advance our competition and consumer protection objectives. The key objectives are to:

- protect longstanding consumers currently on the lowest interest rates by providing incentives to firms to increase the interest rates they receive, and
- maintain the competition that exists for new customers.

1.13 We are consulting on two complementary proposals to achieve this. The first is that firms introduce Single Easy Access Rates (SEARs), and the second that they publish data on their SEARs to make them easier to compare.

1.14 In DP18/6 we proposed introducing the Basic Savings Rate (BSR) to address price discrimination by firms which results in lower interest rates for longstanding customers. We also set out that we would expect it to draw attention to how providers treat these customers, as well as promoting competition through increasing price transparency and comparability and benefitting smaller providers.

1.15 Following the Discussion Paper, we have received feedback from a range of stakeholders, and tested the name and understanding of the BSR with consumers. Consumers found the terminology confusing, for example, associating the 'basic' element of the proposals with the base rates set by the Bank of England, or interpreting the BSR as a price floor, or as an interest rate set by an outside agency. While the underlying proposals in this Consultation Paper are substantively the same as the BSR proposals in DP18/6, based on this further work we want to be clearer about the key aspects of our proposals and their objectives.

1.16 We have renamed this policy the Single Easy Access Rate, or SEAR, so that it emphasises the key features of the policy and is clearer for consumers and firms: a single rate of interest that applies no later than the first anniversary of the account, across all easy access accounts, set by the firm. Firms would have flexibility to offer multiple introductory rates for up to 12 months, then they would need to choose one SEAR for their easy access cash savings accounts, and one for their easy access cash savings ISAs. By allowing firms to set the SEARs at levels of their own choosing, we consider that our proposals have a proportionate impact on firms and maintain competition in the market, while also protecting longstanding customers.

1.17 The scope of our proposals is targeted, covering those products for which the Cash Savings Market Study identified harm. We think that the market already works well for new customers, so we explain in this CP how we intend to retain the benefits of competition that exist for these customers.

1.18 This new name, together with the explanation of how we expect it to work, will help consumers and firms better understand how easy access products are expected to work not just for the first year, but over the lifetime of the product. In this CP we explain that the objectives of our proposals are to promote competition, simplify the market, and protect consumers. We make it clear to firms that they should have regard to the interests of all their customers.

Firms to introduce SEARs

1.19 Our proposals are designed to maintain competition on new savings accounts by allowing introductory rates for up to 12 months, and to ensure longstanding customers benefit from competition by paying a single interest rate no later than the date immediately after 12 months of the account opening. Our proposals would require firms to introduce a SEAR for their easy access cash savings accounts, and a SEAR for their easy access cash ISAs.

1.20 This single interest rate would make it easier for all consumers to form expectations around the future value of their product, and compare this, at the time of opening their account, with the rates that other firms are currently offering. Longstanding customers would also find it easier to see whether their existing product gives them a good interest rate because their provider would have only one such rate, rather than many such rates changing over time. It would also prevent firms from gradually reducing interest rates over time following the expiry of an introductory rate.

1.21 Most longstanding customers would benefit from higher interest rates because firms will compete on the SEAR. The SEAR works by requiring firms to pay the same rate to longstanding customers as to customers who have recently come off an introductory offer and are deciding whether to switch or stay with their current product. We expect that to retain these customers coming off introductory offers, firms would set their SEARs higher than the current rates offered to the most longstanding customers. We give more detail on these proposals in Chapter 4.

Firms to publish data on SEARs

1.22 We also propose to require firms to publish data on their SEARs. Firms would publish their SEARs, the proportion of the balances held in easy access accounts that are receiving SEARs, and the highest (introductory) interest rate offered on an easy access cash savings account and an easy access cash ISA. We refer to this as a 'sunlight remedy' – because it shines a light on information that would otherwise be hard to find. This proposal would make it easier for intermediaries to use these data to highlight firms' SEARs and their treatment of longstanding customers, which has the potential to improve competition. It would also make the market simpler and more transparent when consumers do shop around. We give more detail on these proposals in Chapter 5.

1.23 Our view is that these two proposals would reinforce each other to promote competition and protect consumers. Introducing the SEAR would simplify the market, and the sunlight remedy would make it easier to navigate that market.

Cost benefit analysis (CBA)

1.24 We estimate that the total one-off costs of our intervention to the industry would be £94m, with an annual ongoing cost of £35m.

1.25 Our analysis in OP41 estimates that these proposals would benefit consumers in the non-ISA easy access cash savings market by between approximately £148m to £381m a year from higher interest payments (with a central estimate of around £261m a year). This is a net transfer from providers to customers and incorporates gains for some consumers and losses to others. We estimate that interest rates for the most competitive part of the market would drop very slightly but that rates for the least competitive part (longstanding customers) would increase overall.

1.26 The CBA was conducted using data from the low interest rate environment of 2010-2013. If rates were to rise in future, we expect that benefits would rise accordingly. We discuss this further in paragraphs 116-117 of the CBA.

1.27 OP41 did not model the potential impact of our proposals on cash ISAs due to data limitations. If we scale the estimated impact from the easy access cash savings market to the easy access cash ISA market, this would equate to additional benefits of £26m to £67m per year. However, this estimate is purely indicative, and would need the same assumptions in the modelling to hold for the easy access cash ISA market.

1.28 Our full CBA is set out in Annex 3.

Unintended consequences of our intervention and measuring success

1.29 We have carefully designed our proposals to avoid a range of potential unintended consequences. Our proposals continue to allow the current competition for new customers and allow firms to set their own rates for longstanding customers. We have also set out how we intend to manage the risk, raised by respondents to DP18/6, of firms circumventing the proposals.

1.30 In line with our Mission framework, we also plan to monitor and evaluate the effectiveness of this intervention if it were introduced. We plan to:

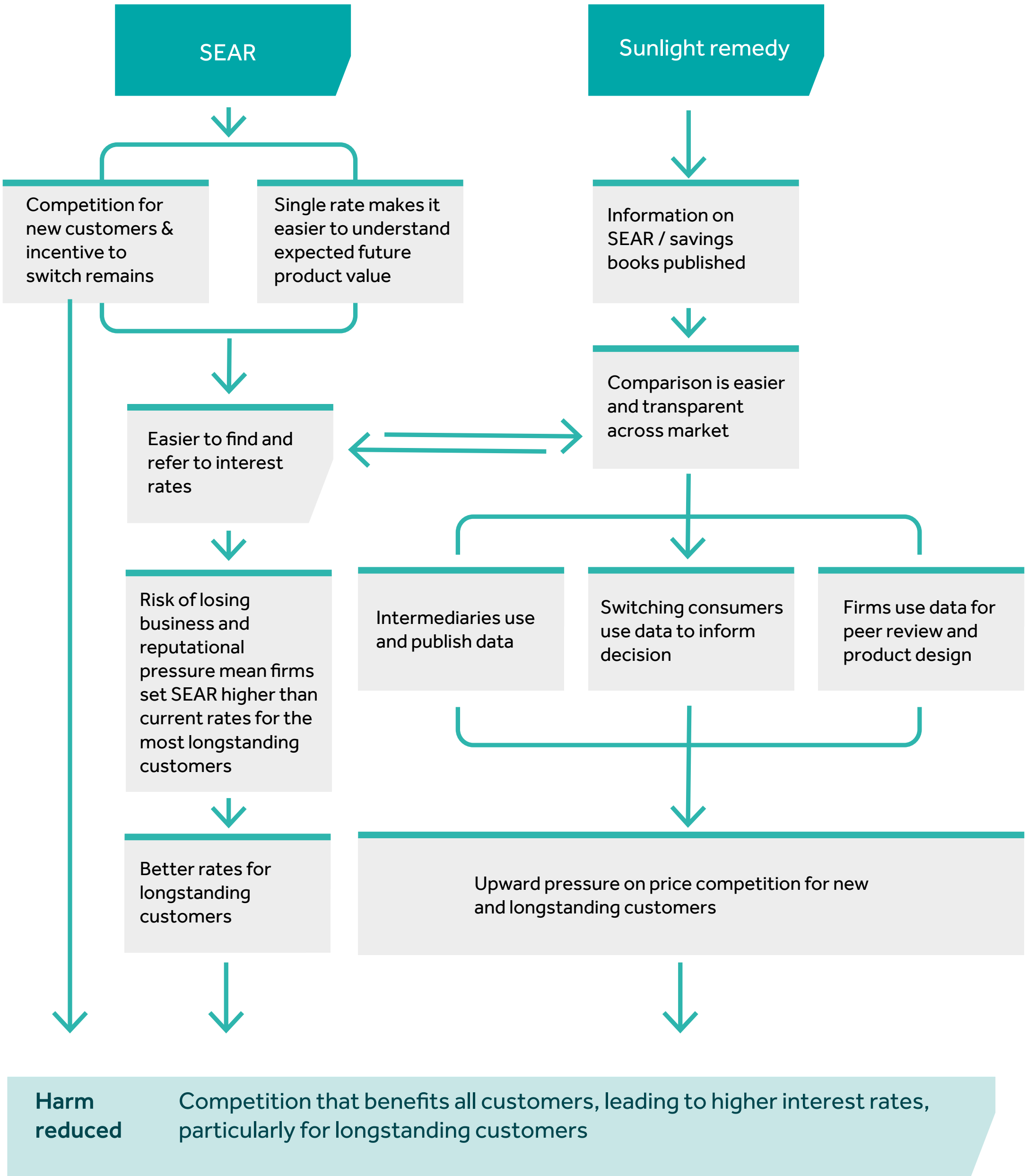
- Monitor how firms were implementing the proposals through voluntary data collection and our usual supervisory processes.
- Carry out an ex post evaluation of the interventions 3 years after their introduction.
- Following that evaluation, review the market 5 years after the introductions of our interventions to understand whether there is still a need for intervention in this market. A key factor in this would be the extent to which Open Finance is delivering solutions such as Open Savings which can drive competition in this market.

Outcome we are seeking

1.31 Our proposals are designed to make the easy access cash savings market more competitive, and simpler and more transparent for consumers to understand and navigate. Firms should treat all their customers fairly and have regard to their interests. We want competition to work to deliver improved outcomes for both new customers and longstanding customers. We also want to help consumers understand the long-term outcomes of their savings products, whether or not they choose to shop around and switch providers on a regular basis. We expect the impact on smaller providers to be lower than larger providers, as they tend to have a smaller proportion of balances held by longstanding customers.

1.32 Figure 3 sets out the causal chain for how we expect our proposals to lead to these improved outcomes for competition and consumers

Figure 3: SEAR causal chain



Next steps

Respond by 9 April 2020

1.33 The consultation period is 3 months and the deadline for responses to this CP is **9 April 2020**. You can respond to this consultation by answering the questions at the end of this paper, either by using our online response form or by emailing your response to: cp20-01@fca.org.uk.

We will publish any new rules later in 2020

1.34 We will consider your responses and publish our next steps, and if we decide to make rules, our final instrument, in the second half of 2020. As part of this, we will also publish a list of non-confidential respondents. If we decided to take forward the proposals in this Consultation Paper, we currently consider that we would implement these at the start of the 2021/22 tax year, which would provide an implementation period of at least 6 months.

Q1: **Is your response confidential? Please note that we may be required to publish names of respondents or responses themselves under the Freedom of Information Act, even if they are marked as confidential.**

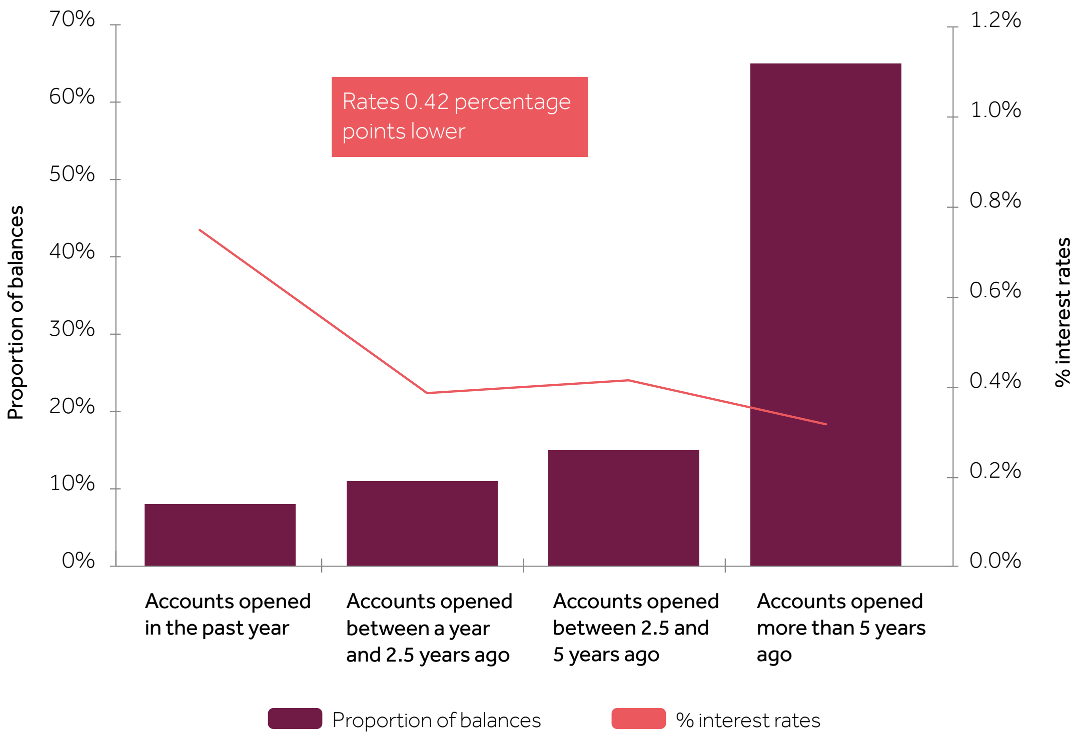
Q2: **Do you have any comments on our proposed implementation date if we took forward the proposals in this Consultation Paper?**

2 The wider context

The harm we are trying to address

2.1 Easy access cash savings products are relatively simple products. Nearly three quarters of consumers hold them, and they have significant aggregate balances. Firms typically compete strongly for new customers by offering high introductory interest rates. Rates for longstanding customers are generally lower, although high proportions of balances are held in these accounts (see Figure 4).

Figure 4: Proportion of balances and weighted average interest rates for easy access cash non-ISAs, December 2018 [1]



Source: Providers' information request responses, FCA analysis

2.2 Our Cash Savings Market Study (CSMS) found that competition in this market is not working effectively for many consumers, and that they are getting poor outcomes. Our analysis estimated that, for 2013, if accounts with interest rates below 0.5% and balances above £5,000 had offered the average interest rates for current or new products then customers could have gained:

- £400m-£650m per annum of interest from easy access accounts and
- £100m-£250m per annum of interest from easy access Cash ISAs

1 See the Cost Benefit Analysis in Annex 3 for a description of the sample used.

2.3 Interest rates were relatively low in 2013 compared to historical levels, and have fallen further since we collected the data for this market study. Some of the feedback to DP18/6 suggested the data we used in the market study could no longer be relied upon given its age. However, the harm we are concerned about is a long-running issue that existed in the periods outside our dataset, including in data from December 2018 collected as part of our cost survey.

2.4 The changes in interest rates since 2013 have reduced the range of interest rates between new and longstanding customers, and so the amount of harm from the price differential has also reduced. However, if interest rates rise above current levels in future, we expect that the range of interest rates that firms offer would also increase. If they rose above the 2013 levels used in the CSMS, we expect this range would increase further. As a result, the harm (per-person and aggregate) would increase. We discuss this further in paragraphs 116-117 of the CBA.

2.5 The data we collected for our CBA, from 2018, also suggest that the volume of balances held by longstanding customers has increased. Comparing the data from the CSMS and the more recent data collection for the CBA, the volume of balances held by longstanding customers in easy access cash savings accounts has increased from 33% in 2013 to 65% in 2018, and in easy access cash ISAs from 19% to 53% in this time. While the two sets of data are not directly comparable, this strongly indicates that the harm identified in the CSMS is now more widespread. This larger volume of balances held by longstanding customers will to some degree offset the reduced harm from changes in interest rates since 2013.

2.6 When competition is working well in a market, firms face constraints from both demand and supply sides, as shown by the way firms compete for new business in the cash savings market. The competitive pressure from other firms and consumers means firms must offer good value products that meet consumer needs or risk losing business. However, we found that firms in a large segment of this market can pay comparably lower interest rates to longstanding customers with little risk of losing them, and rely on consumer inertia and unnecessary complexity in the market to do this (see Table 1 below). The practice of gradually reducing interest rates after the expiry of an introductory offer is likely to allow firms to further rely on this inertia. We consider that firms need to have regard to the interests of all their customers, and that this is not currently the case. We are concerned that there are poor outcomes for a large number of customers of easy access products.

Table 1: Overview of the identified harm in the cash savings market

Drivers of harm	Lack of sensitivity to price and consumer inactivity	Complexity caused by number of products and prices	Competitive advantages for current account providers
Key evidence	• The Financial Lives Survey found that only around 10% of easy access cash savings and cash ISA customers had switched in the last 3 years. • Firms pay low interest rates to longstanding customers, and very little switching occurs after an account has been open for 24 months.	• There are currently over 1,900 types of cash savings accounts that are no longer on sale to new customers, more than 500 more than at the time of the CSMS. • Multiple products can lead to confusion for consumers, obfuscating prices and inhibiting competition. For example, it can make it harder for consumers to identify which account they hold and the interest rate they receive. This makes it difficult to compare their savings account with others on offer, which can result in lower engagement and difficulty in making suitable purchasing decisions. • Some firms gradually reduce the interest rate on accounts over time, which may reduce customer awareness of the total by which their rate has reduced and allow firms to rely further on inertia.	• Consumers often take savings products with their current account provider, even if the rates on offer are lower. This loyalty further weakens demand-side pressure in the market.
	↓	↓	↓
Harm	Weak competition between firms for longstanding customers and resulting lower interest rates for those customers.		

What using the fair pricing framework tells us

2.7 In October 2018, we published DP18/9. It considered issues of fair pricing in financial services and we published a feedback statement earlier this year (FS19/04). This set out the key evidential questions that we would use to help us determine whether a pricing practice was harmful.

2.8 We first applied this framework to inform interim conclusions on general insurance pricing practices in October 2018. As part of developing these consultation proposals, we have applied the framework to the issues in the cash savings market. A summary of our assessment is in Table 2:

Table 2: Analysis of evidence alongside FCA evidential questions for assessing the fairness of pricing practices

Question	Application to cash savings
1) Who is harmed by price discrimination?	• The Financial Lives Survey looked at the proportions of customers with and without different characteristics of potential vulnerability, including age and health, who have held their savings account for 10 years or more with the same provider. • Customers with these characteristics of potential vulnerability are more likely to have held their account for 10 years or more. • 31% of savings account customers with any characteristics of potential vulnerability have held their account for at least 10 years with the same provider. This is higher than the 24% of savings account customers without characteristics of vulnerability who have done so. • 43% of savings account customers who are over 65 have held their account for 10 years or more with the same provider. This is higher than the 27% of all UK savings customers who have done so. • 34% of savings account customers with a long-term physical or mental health condition have held their account for 10 years or more with the same provider. This is higher than the 25% of customers without such a condition who have done so.
2) How much are these individuals harmed?	• The CSMS found that harm per person was between £21-23. • The harm at a given point in time depends in part on interest rate levels, because this affects the interest rate offered to new customers. • Interest rates are currently low, so the current harm per person is relatively low. The harm per person would be likely to increase if interest rates rise. • Responses to our costs survey indicate that longstanding customers' balances are higher now than they were at the time of the CSMS.
3) How significant is the pool of people harmed?	• The Financial Lives Survey found that only around 10% of cash savings customers had switched in the last 3 years. • 90% of balances in easy access cash savings accounts and easy access cash ISAs had been held for over a year in 2018 (around 80% had been held for over 2.5 years). This indicates that most consumers do not switch products after 12 months. Figures 1 and 2 show that average interest rates fall after accounts have been open for 12 months.
4) How are firms price discriminating?	• Firms compete strongly for new business, with a wide range of introductory offers. • But price competition for longstanding customers is weak, with these customers receiving lower rates. One way firms do this is by gradually reducing rates for consumers who hold accounts after the expiry of an introductory period. • The market is more complex than it needs to be, with over 1,900 old products. This may make it difficult for longstanding customers to understand the product they have and compare alternatives. Longstanding customers are less likely to report that they know the interest rate that they are being paid, and the market's complexity may be partly behind that. • Around two thirds of consumers also choose to take out savings accounts with their current account provider, despite these providers typically offering lower interest rates. This adds to weak demand-side pressure on firms to offer good rates to longstanding customers.
5) Is the product/ service essential?	• Not essential but widely held: 72% of consumers hold either an easy access savings account or a cash ISA, according to Mintel.
6) Would society view the price discrimination as egregious/ socially unfair?	• Citizens Advice super-complaint and CMA response to it state that they view the price discrimination in this market as unfair. • We consider that competition in large parts of the market is not working well, with particular harm for longstanding customers.

How our proposals link to our objectives

2.9 The aim of the proposals in this Consultation Paper are to advance both our competition and consumer protection objectives. We want to protect longstanding consumers currently on the lowest interest rates by improving competition for them so that firms increase the interest rates they receive, and to maintain the competition that exists for new customers.

2.10 Simplifying the market as we propose would also allow consumers to form expectations around the future value of their product, and compare this, at the time of opening their account, with the rates that other firms are currently offering. Longstanding customers would also find it easier to see whether their existing product gives them a good interest rate because their provider would have only one such rate rather than many such rates changing over time.

Wider effects of this consultation

2.11 Our proposals would mostly affect current and future easy access cash savings customers and providers. Our data publication proposals may also affect intermediaries who provide information on savings products, such as price comparison websites and financial advisers.

Impact on customers of other products

2.12 Firms that provide savings accounts often provide a range of other products, including current accounts and credit products such as overdrafts, mortgages, or credit cards.

2.13 We have considered that one of the unintended consequences of our proposals may be firms trying to recoup any increase in costs by increasing the cost of these products. We recognise that firms would continue to manage their net interest margin to earn a return, but consider that alongside this they need to have regard to the fair treatment of their longstanding customers. We also expect the overall impact of this intervention to firms to be low compared to total balances held, and any such passing-on of costs to be low as a result. We have not seen evidence that competition and effects in the cash savings market have a material impact on other banking products. We also do not consider that this intervention would have a significant impact on firms' ability to lend, as they would continue to be able to set rates to manage their funding needs. If we introduce the intervention we would continue to monitor this as part of our assessment of its impact.

2.14 The feedback we received in response to DP18/6 on unintended consequences, and our response, is set out in Chapter 3.

What we are doing

2.15 We are consulting on introducing a SEAR requirement for all providers of cash savings products, as well as an accompanying sunlight remedy.

- in Chapter 3 we summarise the feedback received to DP18/6 and our response
- in Chapter 4 we explain the SEAR intervention
- In Chapter 5 we explain the accompanying sunlight remedy
- in Chapter 6 we summarise the alternative interventions we have considered, and our reasons for not proposing them

Equality and diversity considerations

2.16 We have considered the potential equality and diversity issues from our proposals.

2.17 Overall, we do not consider that the proposals adversely impact any of the groups with protected characteristics under the Equality Act 2010. We recognise that some respondents to our Discussion Paper raised a potential impact on bank branches, which some protected groups may rely on for access to banking services. However, as set out in Chapter 4, when considering whether to allow a separate rate for branch-only accounts, we do not consider branch closures to be a likely or significant outcome of our proposals. This is because data from our costs survey indicated that the marginal cost of operating a new branch-only account is very low and so the need to pass through additional costs is also low.

2.18 We will continue to consider the equality and diversity implications of the proposals during the consultation period, and will revisit them when publishing the final rules.

2.19 In the meantime, we welcome your input to this consultation on this.

3 Feedback on DP18/6: Price discrimination in the cash savings market

3.1 Following our cash savings market study published in January 2015, our Discussion Paper in July 2018 set out our views on how the cash savings market works. It outlined the harm we identified in the market and a range of potential remedies, including our preferred option of a Basic Savings Rate (BSR).

3.2 We received 59 responses to our discussion paper from firms offering cash savings products, trade bodies, consumer groups, and individuals. In this chapter we summarise feedback to DP18/6, and our response, below. The feedback focused on:

- The nature and scale of harm in the easy access cash savings market
- Our analysis of potential remedies
- Feedback on our BSR proposal, in particular its scope, impact on firms and consumers, and design and name.

Feedback on the nature and scale of harm

3.3 We asked for views on our analysis of the nature and scale of harm in the easy access cash savings market, and whether it required our intervention.

3.4 Respondents largely agreed with our analysis of the financial harm to customers. Some suggested that vulnerable consumers may be more likely to receive very low interest rates. However, some firms challenged our views on harm and the need to intervene.

Existence of harm

3.5 Some firms felt that the harm no longer existed, as some providers have simplified their product ranges or moved to a structure like we are proposing or that our data was too old to be relevant.

3.6 Others argued that, even if the harm was present, it would significantly reduce when interest rates rose or Open Finance developed further, which would spur greater engagement in the market.

3.7 Some respondents argued that the evidence did not make the case for harm. They felt that we focused too much on price at the expense of non-price factors, such as customer service. They pointed out that consumer decisions to stay with a provider could be rational based on these factors, rather than evidence of inertia.

3.8 Another respondent argued that higher rates for new customers were necessary to compensate consumers for search and switching costs.

3.9 Some respondents felt that the price obfuscation in this market was overstated in the Discussion Paper, as cash savings are simple products and easy to compare.

3.10 On the scale of the harm we identified and whether intervention was required, some providers considered that there was insufficient scale of harm to justify what they perceived to be price regulation. They argued that even if the aggregate harm is high, the harm per individual customer is low. Other respondents asked us for further detail on how our proposals to intervene in this market aligned with our work on fair pricing in financial services.

Further analysis

3.11 Some respondents felt that we should analyse transactional data on cash savings accounts, as some consumers do not simply make a deposit and leave it.

3.12 One respondent felt that further work on the dominance of personal current account (PCA) providers in the cash savings market was needed before deciding whether to intervene. They noted that, at the time of the publication of the DP, we had not evaluated the associated costs and other factors which may offset the perceived funding advantage of larger providers.

3.13 Some respondents also thought that the full effect of the remedies implemented following the CSMS in 2015/16 had not materialised given the low interest rate environment and that we should evaluate those remedies before taking further action.

Economic modelling

3.14 Two respondents to our consultation also gave views on various aspects of the economic modelling set out in Occasional Paper 41 (OP41). These are summarised and responded to in Annex 2.

Our response

3.15 We are pleased that there was general agreement with our analysis of harm, but recognise that some respondents disagree in various ways.

Existence of harm

3.16 We know that some firms have used product simplification strategies since 2014, and some have introduced customer options like those we consider the SEAR would deliver. But many others have not, so we do not consider these developments remove the need for us to intervene to improve competition and allow all customers to benefit from this.

3.17 We recognise that interest rates are somewhat lower now than the 2010-13 period our modelling is based on. However, the harm we are concerned about is a long-running issue that existed in the periods outside our dataset. We agree that higher interest rates can create a greater incentive for some customers to move to a new product. However, in a higher interest rate environment, we think there are good reasons why the aggregate harm would still be higher than our estimates based on our modelling.

3.18 More recent data from our costs survey, relating to 2018, also indicate there is a greater proportion of overall balances across longstanding (and therefore more inactive) customers than in the CSMS data relating to 2013 (for non-ISA accounts this has increased from 33% to 65%, and for ISA accounts from 19% to 53%). So while it is possible that even if higher interest rates reduced the overall balances across longstanding customers, the harm would be greater for those customers who do not switch as the rate differential between new and longstanding customers is likely to be greater.

3.19 Even if interest rates rose, we consider that there are many consumers who would not switch due to consumer inertia, lack of attention, and low balances. In our CBA, we note that one of the behavioural distortions in this market is that longstanding customers are generally less sensitive to price and price changes (see paragraphs 24-28).

3.20 In terms of the timing of our intervention, we think that introducing our proposals now would mean competition in this market would be working better if interest rates rise. And we also believe that simplifying the market now, while rates are low, is likely to have less of an impact on firms implementing our proposals, as they would be setting their prices within a narrower interest rate range so the impact of a firm initially mis-pricing the SEAR would be limited. Additionally, we have identified harm currently present in the market, and we consider that the SEAR would benefit consumers in today's market.

3.21 We have considered the potential for Open Savings to address the harm in the cash savings market. In Chapter 6 we explain why we do not believe it would do so in the short-term, although we do expect it would develop products that could help drive competition in this market in the longer term. Therefore, we intend to review the market at a later date to decide whether we our intervention is still appropriate.

3.22 Our Discussion Paper explicitly recognised that there are different reasons why consumers do not switch, and that some may make product decisions on non-price factors. The CSMS identified three main savings needs, of which only two would have the interest rate as a key decision-making factor (paragraph 4.9). Some consumers may therefore rationally decide to remain on a low rate, if the benefits of switching are outweighed by the inconvenience. This may be particularly true when, as currently, interest rates are low. We also agree that consumers often switch because of higher rates being offered.

3.23 In terms of possible negative effects of our proposals on competition, we would reiterate that our proposals do not prevent firms from offering higher introductory rates to attract new business and to compensate active customers for their search and switching costs, or from designing products designed to compete on non-price factors. However, we think that firms should also be competing to provide benefits for their longstanding customers, including where they may have individually made a rational decision.

3.24 We agree that these are simple products, but not that they are easy to compare. We consider that there is too much complexity in the market for these simple products. There are large numbers of accounts that a consumer may have, and the volume makes it difficult for consumers to know which account they have and to compare it to others. Our proposals are designed to make competition work for all customers, and to simplify the market so consumers can better understand the choices they have and the likely future implications of decisions they are making.

3.25 We have also explained how we have used the fair pricing framework to assess the issues in this market in Chapter 2.

Further analysis

3.26 In response to the suggestion that we analyse transactional data on savings accounts before deciding whether to intervene, we recognise that easy access savings customers often use their accounts on a more 'transactional' basis, often moving money between accounts rather than leaving their deposits 'untouched' for long periods of time. However, we still believe that these customers can be inert (as they can be in the current account market, despite using their account every day) and, therefore, suffer harm from low interest rates.

3.27 In response to the suggestion that we conduct further analysis of the dominance of PCA providers, since we published our DP, the Final Report of the Strategic Review of Retail Banking Business Models was published. It concludes that the cost and revenue advantages are not outweighed by higher operating costs. The Final Report found that major banks have a net advantage (taking into account their total funding costs including the cost of operating personal current accounts) of between 40-60bps compared to the costs of building societies and specialist lenders as a percentage of lending assets. This is further considered in paragraph 11 of the CBA in Annex 3.

3.28 We agree that some of our earlier remedies may not have had their full impact at this stage. However, the remedies implemented were mainly related to disclosure and were intended to be part of a package with the switching box, which we trialled but did not implement as it would not achieve our policy objective of addressing the low rates received by longstanding customers. The CSMS results and our recent Financial Lives Survey demonstrate that there will always be consumers who will not react to rate reductions, no matter what information or tools are available to them. We therefore believe that rate rises and more disclosure would not achieve the outcomes we want in this market.

Economic modelling

3.29 We have considered the feedback on the modelling carefully and set out our response in Annex 2. In summary, we remain confident that OP41's approach to modelling the potential impact of our proposals is credible, evidence-based and fit-for-purpose, including being based on reasonable assumptions. We have published alongside this consultation a revised version of OP41. This corrects the equations used in the paper. We have also published a change log that sets out the corrections we made, which can also be found at the above link.

Proportionality of our proposal

3.30 We recognise that the harm per individual is low, but we consider that the aggregate harm warrants intervention.

Feedback on our analysis of remedies

3.31 In the Discussion Paper, we set out our thinking on a range of demand-side and supply-side remedies. We received feedback on the alternatives to the BSR, as well as additional proposals for remedies we could consider.

Demand-side remedies

3.32 Respondents generally agreed with our analysis of demand-side remedies, although some felt that low interest rates may have reduced their effectiveness, and that we should wait until interest rates rise to finalise our analysis. Some respondents suggested further demand-side remedies to address the harm, including additional product disclosure, publishing average interest rates, the use of prompts and reminders, and improving switching processes.

Supply-side remedies

3.33 Most respondents agreed with our analysis of the alternative supply-side options. However, a couple of respondents wanted us to provide a fuller analysis and modelling of all options in the DP as they felt we had dismissed options without full analysis.

3.34 One large firm considered that a complete ban on price discrimination may be a viable alternative as they had managed to increase/decrease funding levels even with a single rate.

3.35 A few respondents saw potential benefits with a 'superseded accounts rule', where firms would have to transfer the balances from old accounts to a comparable, current product. They believed it would be less intrusive and allow loyalty to be rewarded, and we could prevent firms circumventing such a rule by robust supervision and limiting the number of on-sale accounts.

3.36 Some respondents preferred other supply-side interventions involving the FCA or firms setting minimum interest rates, restrictions on firms offering bonuses on underlying rates, or preventing accounts with rates below a certain level being calling 'savings' accounts.

Alternative remedies

3.37 One consumer group proposed that we introduce a 'Modern Savings Policy', modelled on a policy in operation in the Netherlands. This would include an annual assessment by the regulator of the conditions of savings products offered by each provider, which would then be combined into a 'Customer Interest Dashboard' that gives a comparable score out of five. They said that this would require banks to simplify their range of savings accounts and only offer different accounts if they were based on clearly identifiable consumer needs.

3.38 More generally, some respondents suggested that we could use our supervisory powers and the senior managers regime more effectively to ensure fair treatment of customers.

Our response

Demand-side remedies

3.39 We tested several demand-side remedies and published the results of our trials in Occasional Paper 19. These remedies led to limited changes in switching behaviour. Effective demand-side remedies need to drive significant changes in behaviour, across most longstanding customers and including the most inactive, to address the widespread harm in this market. Taken together, the limited impact of these remedies, the increased volume of balances held by longstanding customers, and the behavioural distortions we see in this market suggest that even re-designed demand-side remedies in a higher interest rate environment would not drive the simplification and improvements in outcomes for all longstanding customers we want to see in this market.

3.40 Similarly, we have previously implemented remedies that have already improved switching and speeding up cash ISA transfers. We do not consider that further improvements to switching processes are likely to benefit inactive consumers in the same way as our proposals, which simplify the market for them and should result in competition between firms on SEARs, delivering them higher rates.

Supply-side remedies

3.41 Setting a minimum interest rate, even if linked to an index rather than being fixed at a single level, would be more intrusive than our current proposals, which allow firms to set the interest rates themselves. We also think the unintended consequences are likely to be disproportionate. For example, it could significantly restrict firms' ability to manage their liquidity based on their individual funding needs in a way our proposals do not. As a result, we do not support it.

3.42 We consider that banning price discrimination altogether would be disproportionately restrictive for price competition for new and longstanding customers, and so would make the market less competitive overall than it is at present. This would not advance our competition objective.

Alternative remedies

3.43 We consider that we can rule out the alternative options set out in our DP without modelling, given that they are less effective and proportionate than our preferred proposals, and may have significant unintended consequences.

3.44 We do not think a Modern Savings Policy would be a more effective intervention than our proposals. It would not address our concerns with the complexity in this market, or the harm arising from firms using inertia and a lack of price sensitivity to reduce rates to savers. We do recognise the potential for consumer dashboards more generally to develop as part of Open Finance, and would explore this as part of our planned review of the market.

3.45 In terms of our supervision of the market, one of our long-term priorities in financial services is to ensure fair pricing in financial services. There are a wide range of issues that can affect the fairness of pricing, including firms' practices, the way they treat customers, and culture, weak competition and over-complexity in markets. Supervision is one of the key tools we use to identify and address these issues.

Feedback on the Basic Savings Rate

3.46 We also received specific feedback on the scope, potential impact, design, and ultimately the desirability of introducing a BSR.

Scope

3.47 Several respondents commented on the scope of the intervention.

Scope of providers

3.48 Some firms felt that the intervention should not apply to them if they did not price discriminate between customer groups. Others felt that smaller providers should be exempted. Some building societies also told us that they should be exempt as their funding requirements mean they rely on retail deposits for funding to a greater extent than banks do. One Islamic savings provider told us that the BSR should not apply as they offered an expected rate of return rather than guaranteed interest.

Scope of products and accounts

3.49 A small number of respondents argued we should extend the products in scope of the BSR to, for example, notice accounts, children's accounts and personal current accounts.

3.50 Other firms told us that they should be able to vary their BSR to take into account the higher costs of operating accounts through particular channels, such as in-branch. Several respondents felt the BSR should be targeted at particular consumer groups, such as vulnerable consumers.

3.51 Some firms felt that we should continue to allow tiered and loyalty accounts, and that restricting these could have negative consequences for competition and innovation from a non-price perspective.

3.52 In contrast, consumer groups and some firms supported the BSR applying broadly across firms and products, as it would reduce consumer confusion and market distortion.

Scope: our response

Scope of providers

3.53 We have not changed our view that our proposals should apply to banks and building societies, regardless of size. Firms that currently pay the same rate to all or many of their customers are pricing their products in a way that is close to our SEAR proposals, and so would need to make fewer changes to their pricing to achieve the consistency we want across the market. Those with smaller price differentials and/or smaller proportions of longstanding customers are likely to be less affected by the requirement to introduce SEARs.

3.54 We want to engage with providers of Sharia-compliant savings products to understand more about their operation. Where this product has the same economic effect as an interest-paying easy access account, our current view is that the SEAR should apply. However, we are aware that there is a degree of variance in the nature of products falling within the category of Sharia products. We will engage with stakeholders during our consultation, and would welcome further views on how these products operate and whether they should be in the scope of our proposals.

Scope of products and accounts

3.55 In response to feedback that we should extend the scope to other savings products, we do not propose to do this, as the CSMS did not find evidence of the same harm in relation to these products. If we identify harm in these markets in future, we would consider whether further intervention is necessary, in line with our Mission framework.

3.56 We have considered whether there are benefits in targeting the policy to certain types of consumers, for example based on vulnerability. While vulnerability is a relevant factor in our analysis of the harm in the market and on wider questions of fair pricing, we are concerned about any consumers receiving persistently poor outcomes. Firms should have regard to all their customers' interests, and we want to see all longstanding customers in this market share in the benefits of competition. Applying the policy only to certain customer groups within this market would be complex, and weaken the competitive benefits and changes in firm behaviour we want to achieve.

3.57 We have not changed our view that our proposals should apply to all easy access cash savings and easy access cash ISA accounts. Exempting certain accounts – such as branch-only accounts – would retain the complexity in the market we want to remove. It could also limit the positive impact on competition of our proposals, because there may be different proportions of active customers in branch-based accounts than other accounts, and the impact on interest rates relies on active customers across all channels being pooled with less active, longstanding customers.

3.58 Our analysis of Moneyfacts data shows that tiered and loyalty accounts are relatively rare, and therefore the suggested negative impact of our proposals would be limited in our view: in May 2018, only around 6% of easy access products had a tiered rate of interest, and only around 4% were loyalty products. Additionally, these products did not always pay the highest rates of interest, even among that provider's product range.

3.59 Our proposals continue to allow price and non-price competition in the introductory period, and non-price competition beyond the first 12 months. Providers could also offer loyalty or tiered accounts for non-easy access products.

3.60 We therefore do not, on balance, consider that these product types should be exempted from our proposals.

The impact on firms and consumers

3.61 Firms raised several points on the potential impact of a BSR.

Impact on products and risk of circumvention

3.62 Several respondents focused on how firms' product ranges might evolve. They suggested it might lead to firms offering more products that are not subject to the BSR to allow firms greater ability to manage liquidity, and fewer easy access cash savings accounts and easy access cash ISAs. They also highlighted the risk that firms may circumvent the regulation by making changes to easy access account features to take them outside the scope of our intervention.

Prudential impact, including on building societies and small providers

3.63 Some firms also raised concerns about the BSR's prudential impact. They highlighted the stability risks from banks losing significant deposits if many consumers switch when introductory rates end. They argued lower stability would create the need to hold more funding to create higher liquidity buffers, resulting in less funding to lend to customers.

3.64 Building societies argued that the restrictions of the BSR would have greater prudential implications for them than banks. This is because most of their funding comes from retail deposits, and they have less flexibility to get funding from other sources.

3.65 Other respondents argued that the implications of the BSR would be greater for smaller providers than larger providers. They suggested that increasing churn and switching after 12 months would have a greater impact on smaller firms, who tend to have more active customers. To counteract this, these firms would need to offer higher BSRs to keep customers.

Impact on consumers of other products

3.66 Respondents also noted that consumers with loyalty or tiered accounts would lose out, and that consumers who wanted to receive the best rate would need to switch accounts each year, which is not currently always the case. Respondents also pointed out that reducing providers' ability to differentiate products beyond the first year could have negative consequences for competition and innovation on product features other than price. Some respondents also suggested firms might pass through costs to mortgages or other lending products.

The impact on firms and consumers: our response

Impact on products

3.67 We consider that easy access products are simple products used by a large proportion of the wider cash savings market, and we would not want to see firms exit the market as a result of the SEAR. However, as 72% of the population hold easy access accounts and our proposals would make them better value across all customers, we think demand for easy access products would mean the risk of exit is low.

Risk of firms circumventing the SEAR

3.68 We recognise the risk of firms developing products in order to remain outside the scope of our intervention. We are clear that we do not want to see firms circumventing our proposals by introducing products that are not easy access savings products, but which have minimal conditions (such as extremely short notice periods). In developing our proposals, we have considered whether further restrictions are needed to prevent this risk but have concluded that this is not required. We set out our proposed approach and rationale in detail in Chapter 4.

Prudential impact, including on building societies and small providers

3.69 We recognise that our proposals would reduce firms' freedom to change rates on small numbers of products to manage their liquidity needs. However, they would remain able to set their introductory rates and SEARs at the level they wish, and we also note that some firms have already simplified their product ranges. This suggests that the impact of simplified pricing on liquidity management has not been a concern for those firms.

3.70 We also do not consider the overall prudential impact of our proposals to be significant. Our central estimate is that our proposals would lead to a net transfer of £261m from firms to consumers of easy access cash savings accounts, which in a market with £400bn of deposits is less than 1%. Individual providers that are concerned about the stability of their deposits after 12 months could manage this risk by setting their SEARs at higher levels to compete to keep these customers.

3.71 We also recognise that building societies have more constraints on their funding as compared to banks. However, we do not believe the impact would be significantly greater. Building societies tend to have smaller back-books, and to set higher rates for longstanding customers, which suggests their deposits would be more stable. In the responses to our DP, building societies also tended to favour universal application, which supports our view that building societies should be in scope.

3.72 We are aware that there would be an impact for other smaller providers from increased competition for customers coming to the end of an introductory period, but again we do not believe it would be significant, and the SEAR may in fact be beneficial. This is because they have smaller numbers of longstanding customers, so rely less on these as a source of funding. If they were concerned about churn at the 12-month point, they would have greater scope than other providers to set their SEAR higher to retain balances.

3.73 These smaller firms are also typically more accustomed to competing on price, because they have lower profile brands or fewer branches. We expect these firms would benefit from the greater simplicity and transparency the SEAR would introduce. We have further considered the impact on different firms in Table 9 of the CBA.

3.74 We have also considered whether consumers would be likely to focus on the SEAR rather than the introductory rate when selecting a product. This could reduce the importance of introductory rates, and in turn increase liquidity stress. However, as paragraph 88 of the CBA sets out, we think this unlikely.

Impact on consumers of other products

3.75 We also recognise that some consumers could see their interest rates decrease, and some products – such as tiered or loyalty accounts – would no longer be available after 12 months. However, we expect the benefits for longer-standing consumers who currently receive low interest rates to significantly outweigh any impact on these customers. We also discuss the impact on tiered or loyalty accounts in paragraph 3.58.

3.76 We recognise that our proposals would reduce firms' ability to set multiple interest rates for products after 12 months. However, allowing, for example, tiered easy access products beyond the first year would reduce the impact of our proposals. Our proposals would continue to allow providers to compete on non-price benefits to customers beyond the first year, and to continue to allow tiered or loyalty pricing structures on accounts with restrictions.

3.77 In terms of the impact of our proposals on the cost and availability of other products such as loans and mortgages, the potential impact and extent would depend on several factors. This includes margins available in the deposit market, the availability of other sources of funding, and the extent of competition and a firm's overall profitability. We believe that the cost pass-through of the SEAR to other retail products would be limited, because:

- high levels of competition in the mortgage market mean it is unlikely costs would be passed on to those consumers
- firms' responses to our cost survey suggested that over a small range of funding cost increases or funding benefit restrictions, they would tend not to pass on costs to consumers
- there are other factors (for example wholesale funding costs) that have a significant impact on how firms price their retail products.

3.78 Overall, we consider that our proposals impose low implementation costs for firms, and provide substantial benefits to consumers. These costs and benefits are considered in detail in the CBA.

Operation of the BSR

Introductory period

3.79 Most respondents supported our intention for the BSR to apply after 12 months. They pointed out this was the same as the usual period for introductory rates.

3.80 Some proposed a longer period to reduce the need for customers to switch regularly to get the best rates. Others questioned whether our proposals would lead to a change in customer behaviour. One respondent suggested firms should be able to set their own period before which the BSR applies.

Impact

3.81 Some respondents argued that the BSR's success would depend on a change in consumer behaviour (namely increased switching), which many respondents thought would be unlikely. Some thought the BSR could decrease switching as it would reward inertia rather than encourage shopping around.

Operation of the BSR: our response

Introductory period

3.82 We still think that introductory offers and new customer incentives should be limited to no longer than the first 12 months after opening an account. The SEAR works by requiring firms to pay the same rate to longstanding customers as to customers who have recently come off an introductory offer and are deciding whether to switch or stay with their current product. We expect that, in order to retain these customers coming off introductory offers, firms would set their SEARs higher than the current rates offered to longstanding customers.

3.83 Our analysis of consumer switching volumes showed that switching rates reduced between 12 and 24 months, and after 24 months there is little switching (see Figure 6). So, we consider that allowing introductory periods beyond 12 months would weaken firms' incentive to compete on price for consumers coming to the end of their introductory period. A 12-month period limit for introductory offers strikes an effective and proportionate balance between retaining competition for new customers and improving outcomes for longstanding customers.

3.84 A maximum 12-month introductory period is also consistent with the most common current market practice, and so would minimise the impact on firms. Our proposals would also stop firms from gradually reducing interest rates after 12 months. Instead, consumers would move immediately to the firm's chosen SEAR structure. This maximises consumer awareness of an interest rate decrease, and simplifies the comparison of outcomes if a consumer chooses to switch or to remain on the SEAR.

Impact

3.85 The BSR's success does not depend on changing consumer behaviour; the BSR is designed to target firm behaviour and incentives, given the difficulties we have found in encouraging consumer action.

3.86 While we recognise that consumers would have greater certainty over their rates, active consumers would still be able to benefit from shopping around and switching.

Name of the BSR

3.87 The name of the 'BSR' received mixed views. One provider thought that the name implies a poor rate, whereas another respondent felt it could give the impression of a market leading rate. Some respondents thought we should test consumer understanding of the term to avoid it becoming more financial jargon and to make the communication of the BSR clear and consistent.

Name of the BSR: our response

3.88 After considering the feedback, we agree that the description of the BSR could be confusing. Some stakeholders misinterpreted the intention of the proposals, and believed that it would be approaching direct regulation of pricing levels. We did test consumer understanding of the term BSR, and our consumer research suggested that some consumers misinterpreted the name as suggesting a price floor, or that it was linked in some way to the Bank Rate. We are publishing this research alongside this consultation.

3.89 Our proposals do not require any specific price to be set, and we want to communicate the objectives of our proposals more clearly. We therefore propose to call the requirement a Single Easy Access Rate (SEAR), as we consider this to be a better descriptor of our proposals. We have set out the objectives and rationale of our proposals in Chapter 4.

3.90 We welcome further comments on our proposals in response to this consultation.

4 Introducing SEARs for easy access accounts

4.1 This chapter sets out our proposals for requiring firms that offer cash savings products to introduce Single Easy Access Rates (SEARs). These operate in substantively the same way as the BSRs discussed in DP18/6, but engagement with stakeholders and our consumer research highlighted the risk of this name and the objectives of this policy being misinterpreted. In particular there were misconceptions that the FCA was directly setting rates for savings accounts, and significantly reducing competition for new business. So in order to better communicate the objectives of our proposals, we propose to instead call these SEARs.

4.2 We propose to allow firms to introduce a maximum of two SEARs for each of their brands: one for easy-access cash savings products, and one for easy access cash ISA products. Each firm would set its SEARs, and these rates would apply across all customers holding easy access products with that firm. Firms could still offer introductory rates for up to 12 months after the customer opens the account. Table 3 sets out the key design features, which are then discussed in detail alongside our rationale in the remainder of this Chapter.

Table 3: Key features of the SEAR

Aspect of policy design	Design feature
Accounts in scope	Easy access cash savings accounts Easy access cash ISAs
Providers in scope	Banks and building societies (not credit unions)
Maximum length of introductory rates	12 months
Maximum number of SEARs	Two per brand – one for each account type in scope
Communication	Consumers would be informed in financial promotions that the SEAR would apply and its current rate Consumers would be informed before the interest rate changes to the SEAR[1] Intermediaries such as price comparison websites and best buy tables can use sunlight information published by firms

1 This would not apply where the savings account is also a payment account as defined by PSD2. See paragraph 4.26.

4.3 The objectives of the SEAR proposal are:

- maintain the competition that exists for new customers
- simplify the easy access cash savings market to the benefit of consumers
- allow longstanding consumers to benefit from firms competing more on the SEAR than they do on current rates for these consumers

4.4 We expect improved competition and transparency to lead to higher interest rates for longer-standing customers. We also note that some firms have already moved towards this model to some extent. We welcome these changes, which indicate that firms are considering the needs of a wider range of customers. Our proposals would bring the benefits of these changes to product design to the whole market.

Overview of the SEAR

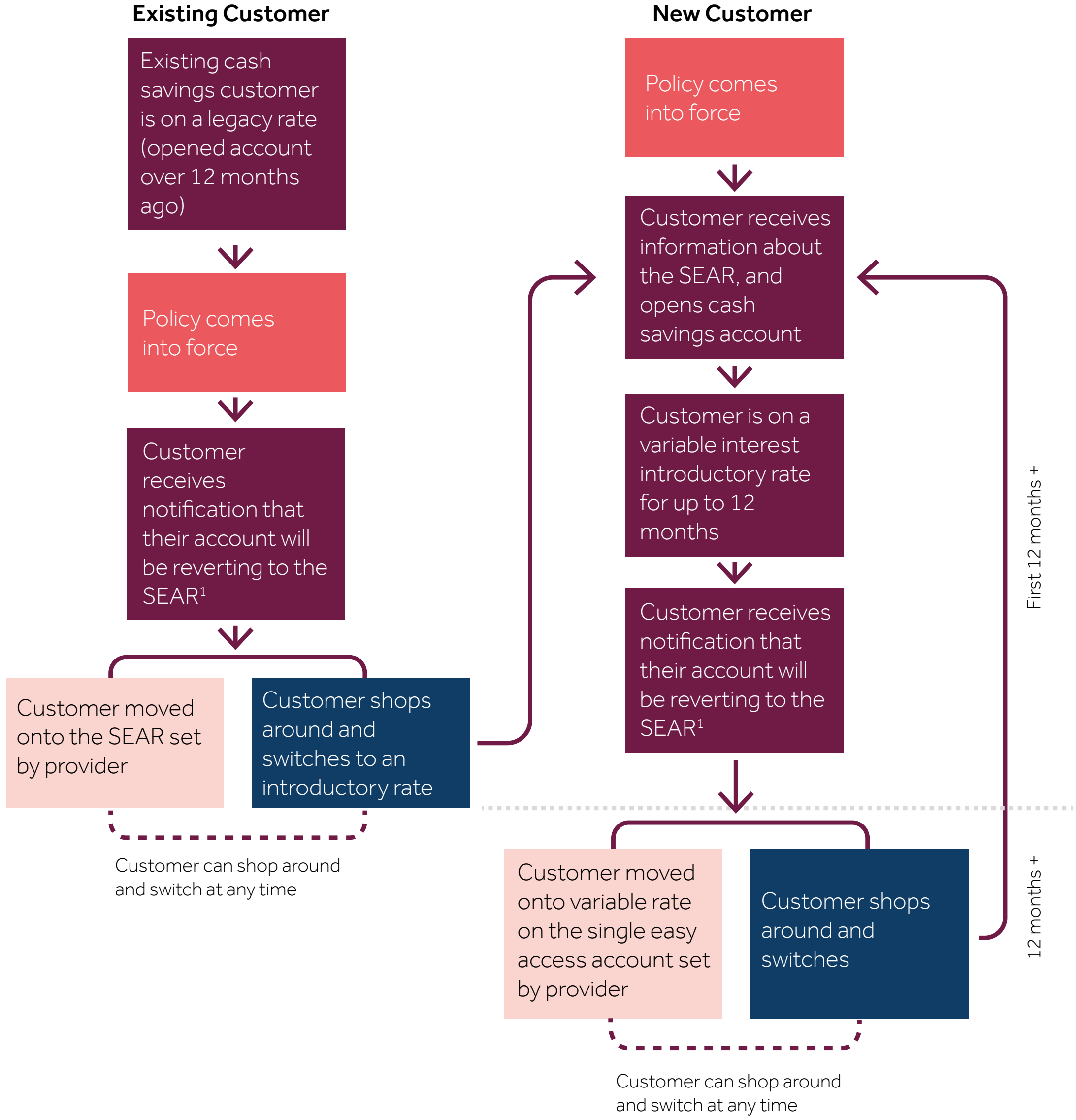
4.5 Our proposals are designed to maintain competition on new savings accounts by allowing introductory rates for up to 12 months, and to enhance competition for longer-standing customers by creating a single interest rate no later than the date immediately after 12 months of the account opening. Our proposals would require firms to introduce a SEAR for their easy access cash savings accounts, and a SEAR for their easy access cash ISAs.

4.6 This single interest rate makes it easier for all consumers to form expectations around the future value of their product, and compare this, at the time of opening their account, with the rates that other firms are currently offering. Longstanding customers would also find it easier to see whether their existing product gives them a good interest rate because their provider would have only one such rate rather than many such rates changing over time.

4.7 The most longstanding customers would benefit from higher interest rates because firms would compete on the SEAR. The SEAR works by requiring firms to pay the same rate to longstanding customers as to customers who have recently come off an introductory offer and are deciding whether to switch or stay with their current product. We expect that in order to retain these customers coming off introductory rates, firms would set their SEARs higher than the current rates offered to longstanding customers.

4.8 Figure 5 sets out the customer journey for new and longstanding customers for the SEAR, to show how our proposals would work.

Figure 5: Illustrative customer journey for existing and new customers



This would not apply where the savings account is also a payment account as defined by PSD2. See paragraph 4.26.

4.9 We have set out below the key features of our proposal, and the rationale for each of them.

Harm and scope

4.10 We propose that the SEAR should apply to easy access cash savings accounts and easy access cash ISA accounts. We identified consumer harm in the markets for these products in the CSMS.

Products not in scope

4.11 The proposals in this CP would not apply to other types of savings products, including Help to Buy ISAs, lifetime ISAs, children's savings accounts or junior ISAs, or tracker savings accounts. They would also not apply to accounts held in foreign currencies or accounts where the account-holder has a non-UK correspondence addresses. This is because we did not identify the same harm in the CSMS from these products.

Firms in scope

4.12 We propose that the SEAR should apply to all non-credit union providers of cash savings products, including building societies, except for private banks. We propose to exclude credit unions from their scope as most credit union products offer dividends rather than advertised interest rates. We also did not include credit unions in the scope of the CSMS as the sector is relatively small in scale and the specific differences in product features may mean they are not substitutable from a consumer's perspective.

4.13 We want to engage with providers of Sharia-compliant savings products to understand more about their operation. Where this product has the same economic effect as an interest-paying easy access account, our view is that SEAR should apply. However, we welcome views on how these products operate and, if we still consider they are in scope of our proposals, on how we can apply the policy while not wrongly describing the product's features.

Risks of circumvention

4.14 We have deliberately kept the scope of our intervention targeted to those products for which the Cash Savings Market Study identified harm. However, we do not want to see firms introduce accounts that pay very low interest rates but fall just outside our proposal (for example, accounts with very short notice periods). We currently consider that we could address this risk through monitoring and supervisory activity, but we would welcome comments on whether we should also make rules to guard against the risk of circumvention.

4.15 We have identified two approaches we could take and implement through new rules. One would be to extend the scope of the policy to easy access cash savings products that have minimal restrictions. To do this we would specify a 'threshold' for different types of restrictions (such as on the maximum number or value of withdrawals in a time period, and the notice required before making a withdrawal). Accounts with conditions below these thresholds would then be subject to our proposals in this consultation.

4.16 Alternatively, we could require certain products to pay at least the SEAR, although they could pay more. These could include accounts with restrictions that have been open for 12 months or more, and circumstances where a product rolls on to an easy access product upon maturity (such as a bond).

4.17 However, we think that the risk of such circumvention is low. Consumers expect higher interest rates in return for restrictions on access to their funds. And if a product upon maturity rolled on to a new easy access account paying a rate below the SEAR, this would last for at most 12 months (at which point the account would pay the SEAR). We currently propose to continue to monitor the market, and where we identify accounts that appear to be designed to circumvent our proposals, for example products with restrictions but which pay very low interest rates, to address any issues through supervision.

4.18 We welcome feedback on our proposed approach to reducing the risk of firms circumventing our rules.

Firms can offer a maximum of 2 SEARs

4.19 We propose that providers would be able to offer a maximum of 2 SEARs per brand: one for easy access cash savings accounts, and one for easy access cash ISAs. This is to make the market as simple as possible, while also recognising differences in the tax treatment of these products.

4.20 We do not propose to allow firms to set different SEARs for other reasons, for example, based on the way that consumers access the account (such as branch-based, online, telephone). Allowing this would keep complexity in the market, and could undermine the pooling effect that would drive the benefits to longstanding consumers we want to see, which occurs through the threat of competition from consumers coming to the end of their introductory rate. For example, if some types of products with specific rates were mainly held by customers who were less likely to switch, then firms could set low interest rates without the risk of losing business.

4.21 We recognise that firms may argue that there is a need to reflect the costs of different channels through different rates. The evidence we have collected does not support this. For example, our costs survey indicates that the marginal cost of operating a new branch-only account is very low, meaning that there is unlikely to be a need to reflect increased costs through lower interest rates.

4.22 We recognise that consumers may also value non-price elements of cash savings products, such as vouchers or discounts for some purchases. We want firms to continue to compete for customers on these and other wider elements of product value. We are not proposing that firms should have to standardise other features of the accounts.

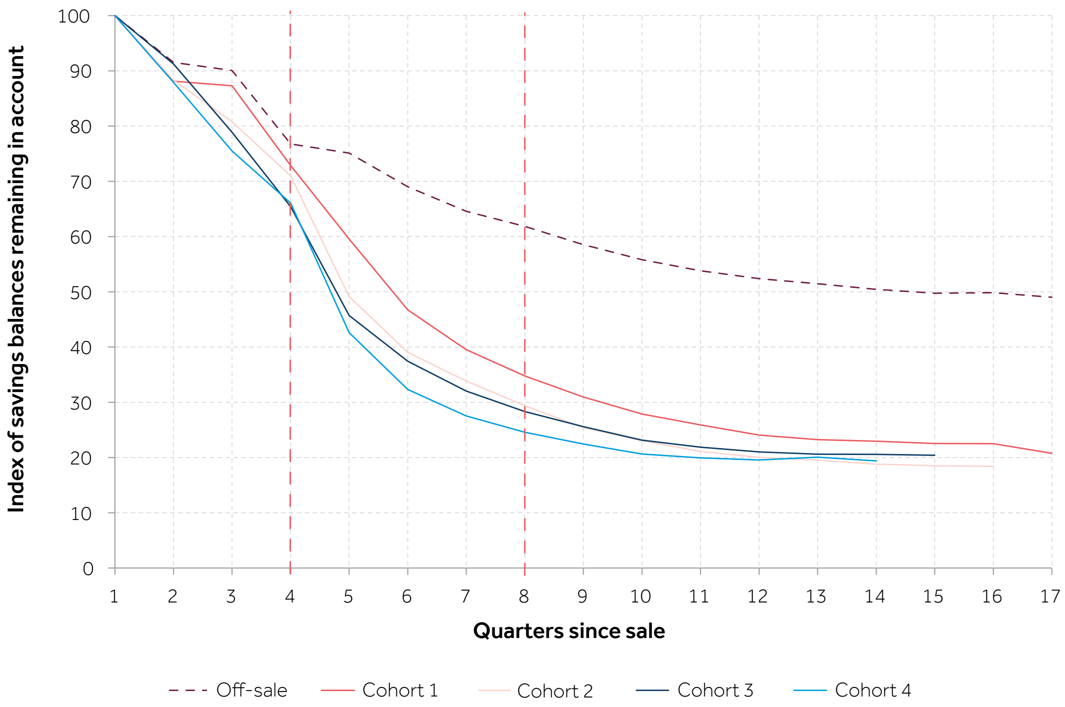
Maximum length of introductory rates

4.23 Our proposals would continue to allow firms to offer introductory rates to compete for new customers and deposits. However, we propose that these introductory rates would only apply for a maximum of 12 months after the account is opened by the customer. After this, the relevant SEAR set by the firm would apply to the customer's account.

4.24 We propose this 12-month limit to maximise the impact of the policy. As explained in paragraph 1.18, the SEAR works by requiring firms to pay the same rate to longstanding customers as to customers who have recently come off an introductory offer and are deciding whether to switch or stay with their current product. We expect that, in order to retain these customers coming off introductory offers, firms would set their SEARs higher than the current rates offered to longstanding customers.

4.25 We consider that allowing introductory periods of over 12 months would weaken firms' incentives to set their SEARs at higher rates. This is because firms' incentives are greater when the pool of customers receiving the SEAR contains a larger proportion of active consumers. Our analysis shows that switching rates reduce between 12 and 24 months, and after 24 months there is little switching. This is illustrated in Figure 6.

Figure 6: Erosion of balances from cash saving account products on sale between Q1 2010 and Q4 2010, and 2010 off-sale (no longer available to new customers)



Source: FCA analysis based on firms' data collected during the Cash Savings Market Study

Communicating the SEAR to consumers

4.26 We propose to require firms' direct offer financial promotions for a relevant account to inform consumers (in the summary box) that their introductory rate would change to the SEAR after no more than 12 months and one day, and the rate of that SEAR at the time the direct offer financial promotion was communicated. Within a reasonable period before the point at which a product reverts to the SEAR firms would also have to notify customers that their rate would change, in line with current requirements in BCOBS 4.1. Where a savings account is also a payment account for the purposes of PSD2, the information disclosure requirements in the Payment Services Regulations 2017 would apply, including regulation 50. Firms should refer to paragraph 8.92 of our "Payment Services and Electronic Money - Our Approach" document for guidance on providing notice where an introductory interest rate on a payment account comes to an end. After we leave the European Union, we will review whether BCOBS 4.1 should also apply to savings accounts that are also payment accounts for the purposes of PSD2.

4.27 The aim of this information is to enable consumers to take informed decisions at point of sale, and when an introductory rate ends. The information would be simple and allow consumers to understand the longer-term implications of deciding to switch or remain with their existing account after introductory periods.

4.28 Consumers would also be able to get information about the long-term value their product offers when searching, and our sunlight remedy is intended to make this information more easily accessible (see Chapter 5). We expect this information to be used by intermediaries and other key sources of information for consumers such as best buy tables and price comparison websites.

Expected impact of our proposals

4.29 We expect the SEAR to have a different impact on different groups of consumers. We expect these impacts to be the same as the BSR. We modelled the BSR in Occasional Paper 41. We have published an update to the modelling in Occasional Paper 41 alongside this consultation, and have referred to the intervention in the revised OP41 as the SEAR, in line with this Consultation Paper.

4.30 In total, using data collected for the CSMS between 2010 and 2014, our modelling estimates that this would lead to a net transfer to consumers of between £148m and £381m a year, with a central estimate of £261m. This may underestimate of the benefits for several reasons, including:

- It only includes benefits for customers with easy access savings accounts, not easy access cash ISAs. We did not apply the model to cash ISAs due to data restrictions that meant we could not be certain whether the assumptions would also hold for this market. If they did, scaling the potential impact by the size of the market suggests that the benefit to consumers holding easy access cash ISA products could be between £26m and £67m.
- It does not include potential impacts on switching behaviour.
- It does not include potential impacts on trust in the market.

4.31 We have also considered potential consequential impacts of our proposals, such as where firms set rates on other products and how they pass on costs. We recognise that firms would continue to manage their net interest margin to earn a return, but consider that alongside this they need to have regard to the fair treatment of their longstanding customers. We also expect the overall impact of this intervention to firms to be low compared to total balances held, and any such passing-on of costs to be low as a result.

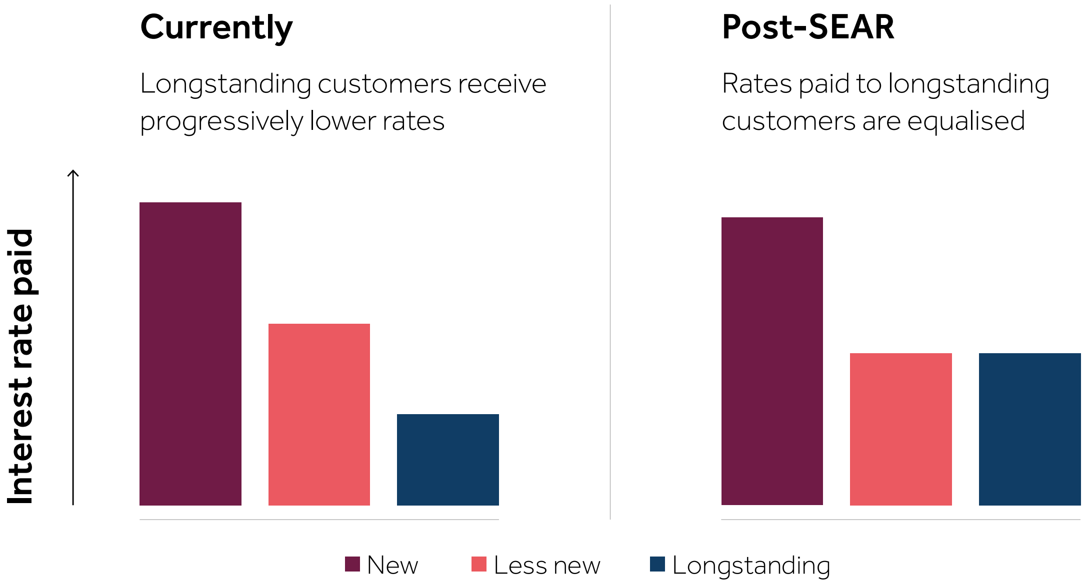
4.32 The impact on easy access cash savings consumers varies by the length of time their account has been opened. In OP41 we defined 3 groups of customers:

- new customers, who have accounts under a year old
- less new, with accounts open for between 1 and 2.5 years and
- longstanding customers, with accounts that have been open for at least 2.5 years

4.33 In OP41, and the CBA in this consultation, we refer to new customers as the 'front book', less new customers as the 'mid book', and longstanding customers as the 'back book'.

4.34 We give a stylised illustration of the impact of the increased price competition delivered by the SEAR below. Because of the volume of balances held by longstanding customers, the overall impact is a net transfer for consumers of easy access savings accounts.

Figure 7: Stylised SEAR illustration



4.35 The overall estimated impact of our proposals is a net transfer for consumers of easy access savings accounts. In summary, and set out in more detail in our CBA, our modelling estimates that new customers would see a very small decrease in their interest rates, less new customers would see a slightly larger decrease in their interest rates, and longstanding consumers would benefit from an increase in interest rates. Our modelling estimates that:

- the rate for new customers would fall by 0.01 percentage points (1.35% to 1.34% for the representative large firm)
- the rate for less new customers would fall by 0.14 percentage points (0.92% to 0.78%)
- the rate for longstanding customers would increase by 0.23 percentage points (0.55% to 0.78%)

4.36 It is harder to model precisely the dynamic response of firms to these changes and any potential changes in market circumstances. This may mean that competition for new savers maintains interest rates for new accounts.

4.37 Although the increases for longstanding customers would be relatively small per account, they would affect a large volume of balances, as discussed in Chapter 2. Even when lower interest rates for some customers are considered, the aggregate impact is a significant net transfer from firms to consumers.

4.38 A very small number of longstanding consumers would lose out, for example if they hold a loyalty or tiered interest account that qualifies for a higher rate. However, as noted in Chapter 3, this is a very small proportion of the market, and our view is that any losses here are outweighed by the overall benefits from improving competition and simplifying the market for all consumers.

Questions on the introduction of a SEAR requirement

Q3: **Do you agree with our proposal to introduce a SEAR requirement?**

Q4: **Do you agree with our proposals on the scope of the intervention?**

Q5: **Should we include Sharia-compliant products in the scope of the intervention?**

Q6: **Do you agree with our proposals to allow firms to offer introductory rates for up to 12 months?**

Q7: **Do you have any comments on our assessment of the expected impact of this policy, including on other products?**

Q8: **Do you agree that the rule-based options we have considered to prevent circumvention of the SEAR are not necessary, and that we should address the risk of circumvention as we propose?**

5 Sunlight remedy

5.1 'Sunlight remedies' aim to improve transparency in markets by requiring firms to publish particular information about their products or customer bases.

5.2 We have used sunlight remedies to help improve their transparency and competition in several markets. We think that there are benefits to introducing a sunlight remedy in the easy access cash savings market.

5.3 Therefore, alongside introducing the SEAR, we propose to require firms to publish data about their SEARs in relation to every trading name or brand under which it offers easy access savings accounts on their websites, and inform us when they do so.

5.4 The data we propose to require firms to publish, for easy access cash savings accounts and easy access cash ISAs, are:

- the rate of the SEAR
- the proportion of balances that receive the SEAR
- the highest rate the provider offers on an open account, including introductory offers

5.5 In 2015, we trialled a sunlight remedy that required firms to publish the lowest interest rates they offered on easy access savings accounts. While the trial did not have a clear, measurable impact on providers' rate setting strategies, it did attract significant media interest. Give the previous impact of our trials, we expect similar media interest and coverage would help to drive the effectiveness of the sunlight remedy by putting pressure on firms with low SEARs to increase them.

5.6 Our intention is that intermediaries (including price comparison websites and the media) use these data to highlight firms' SEARs and their treatment of longstanding customers. This, combined with our expectation that firms would need to compete on the SEAR, should place pressure on firms to increase their rates. The data may also be used directly by individual consumers who consult multiple providers' websites when searching, although these are not the immediate intended audience. In the longer term, making these data available could also help to accelerate some Open Savings products and services.

5.7 To make the data easier to access, compare, and use, we propose to specify how these data are published. We set out our proposed format below.

Table 4: Proposed sunlight remedy publication format

Date as at which this information applies	Product type	Single Easy Access Rate	Proportion of balances in this product type that receive the SEAR	Highest available rate on an easy access account and name of that account
[date / month / year]	Non-ISA easy access cash	[x]%	[x]%	[x]%
	ISA easy access cash savings account	[x]%	[x]%	[x]%

Note: This is the highest rate offered on an easy access cash savings account or easy access cash ISA. The firm may offer higher interest rates on other accounts such as notice accounts, or restricted withdrawal accounts.

5.8 We are also seeking views on how regularly this data should be updated. We consider that this could either be at set intervals, such as every six months, at any point when one of the data points changes, or a combination of the two. We want to understand what would be most useful for intermediaries, as well as the additional costs a more regular updating would impose on firms.

5.9 We consider the sunlight remedy would also help us to understand approaches to setting SEARs across providers in the market, and how intermediaries, consumer organisations, and media use and access these data. This information would help our intended work on market monitoring and evaluating impact.

Questions on the sunlight remedy

Q9: **Do you have any comments on the set of data we propose to require firms to publish if we introduce this policy?**

Q10: **How regularly should we require firms to publish this data?**

Q11: **Do you agree that we should specify a common format for the publication of these data? If so, do you have any comments on our proposed common format?**

6 Alternative interventions

6.1 In this chapter, we summarise the alternative demand and supply-side interventions we have considered as part of developing the proposals in this CP. This includes the potential interventions set out in DP18/6. It also includes our views on the potential for Open Savings and collective switching to address the harm we have identified. We set out the scale of the interventions we have considered in this market in Table 5 below.

Table 5: Possible tools to address the price discrimination in the cash savings market

Least restrictive → Most restrictive

Demand-side		**Supply-side**			
Disclosure remedies • Switching box • Return switching form • Sunlight remedy	Open Savings Collective switching	SEAR	Superseded accounts rule	Ratio-based price regulation	Ban on price discrimination

Demand-side remedies

6.2 Demand-side remedies, which aim to directly affect consumer behaviour, could reduce the harm in this market by prompting customers to switch, and by reducing actual or perceived barriers to switching.

6.3 In MS14/2.4 we summarised the results of 5 trials into demand-side remedies. Some of these found positive impacts on internal or external switching, although these were small. The remaining trials found no impact or negative impact. Effective demand-side remedies need to drive significant changes in behaviour, across most longstanding customers and including the most inactive, to address the widespread harm in this market. Taken together, the limited impact of these remedies, the increased volume of balances held by longstanding customers, and the behavioural distortions we see in this market suggest that even re-designed demand-side remedies in a higher interest rate environment would not drive the improvements in competition and simplification we want to see in this market.

Supply-side remedies

6.4 In DP18/6 we considered how supply-side remedies could address the harm we have identified. We considered a range of remedies, from comparatively light-touch interventions such as SEAR to much more interventionist approaches, such as banning price discrimination altogether by requiring firms to pay the same rate to all their customers.

6.5 The feedback we have received on DP18/6, discussed in Chapter 3 does not change our view that the most effective way to address the harm in this market is to enable longstanding customers to benefit from improved competition and to simplify the market so they understand the longer-term value of their products. We consider that the SEAR proposals are the most proportionate way of achieving this objective.

6.6 We have been careful to design our proposals to ensure that we are only intervening to the extent that we consider necessary to achieve our aims relating to competition, simplicity, and improved outcomes for longstanding customers. This is reflected in the product scope of our proposals, giving firms freedom to set and compete on SEAR levels, and continuing to allow different prices and competition for introductory rates, and competition on non-price features beyond the end of an introductory period.

Open Savings

6.7 PSD2 places requirements on firms to allow third party providers to access, with the customer's explicit consent, payment accounts accessible online. This is sometimes referred to as 'open banking'. Some cash savings products are classed as 'payment accounts' for the purposes of PSD2, and so are already part of open banking, but other cash savings products are not.

6.8 We are currently considering the potential of extending open banking-like data-sharing to a range of other financial services products, including to a wider range of cash savings products. This is 'open finance'. We recently published a Call for Input on the potential benefits of open finance and what role we should play in supporting its development. As part of this work, we are considering the potential for open savings to emerge.

6.9 Extending this to all cash savings accounts could help to address harm in this market in several ways, including through:

- Account aggregators or holistic dashboards that enable consumers to see all their financial products in a single place, regardless of the product provider.
- Simplified switching processes, where a third-party (such as a price comparison website) handles more of the process. Alternatively, automated switching of account balances to higher interest rate accounts could reduce the number of longstanding customers and secure a better level of interest for cash savings customers.
- Nudges to shop around or product recommendations for customers on (or shortly to be on) low rates of interest.

6.10 However, we cannot guarantee services will develop in the short term. As well as issues around commercial incentives, the broader experience of open banking so far suggests that developing and adopting third-party services in open savings could be relatively slow. As open savings services are developed, we will need to monitor how far the consumers suffering harm in the cash savings market are likely to use them.

6.11 Our planned review in 2026 is timed to allow us to consider how open savings has developed and whether it has matured to a point that means we should revisit any rules we have made following this consultation.

Collective switching

6.12 We have also considered the potential for collective switching services in cash savings. As part of this analysis, we have worked with Ofgem to learn lessons from their collective switching trials in energy and considered how they could apply to cash savings.

6.13 We consider that there is currently little likelihood of collective switching services addressing the harm to longstanding customers. Collective switching has been trialled on inactive customers in the energy market. However, Ofgem's trial found that less than a quarter (22.4%) of consumers switched, each saving around £300 a year.

6.14 A similar rate of switching in cash savings would not, in our view, remove the need for our proposals, as over three quarters of longstanding customers would still receive poor rates on their balances. We also think there would be lower take-up for collective switching in cash savings would be likely to achieve a lower take-up, because individual benefits would be far lower than £300 a year for most if not all consumers, even in a higher interest rate environment.

6.15 We are also concerned that collective switching would not provide the simplification and transparency that allows consumers to understand the longer-term value of their decisions. Collective switching based on price also does not allow consumers to consider non-price factors that they may value.

6.16 In the current economic climate, the low margins on offer, and low expected consumer take-up, may also make it difficult to attract third party firms like price comparison websites who can help consumers to switch.

6.17 So we do not consider collective switching to be a viable alternative to the SEAR at this stage. We are, however, interested in how such services might develop in conjunction with Open Savings. We will also closely monitor Ofgem's continuing work, and if we introduce the SEAR, revisit collective switching as part of our market review in 2026.

Q12: Do you have any comments on our analysis of alternative remedies?

Annex 1
Questions in this paper

Q1: **Is your response confidential? Please note that we may be required to publish names of respondents or responses themselves under the Freedom of Information Act, even if they are marked as confidential.**

Q2: **Do you have any comments on our proposed implementation date if we took forward the proposals in this Consultation Paper?**

Q3: **Do you agree with our proposal to introduce a SEAR requirement?**

Q4: **Do you agree with our proposals on the scope of the intervention?**

Q5: **Should we include Sharia-compliant products in the scope of the intervention?**

Q6: **Do you agree with our proposals to allow firms to offer introductory rates for up to 12 months?**

Q7: **Do you have any comments on our assessment of the expected impact of this policy, including on other products?**

Q8: **Do you agree that the rule-based options we have considered to prevent circumvention of the SEAR are not necessary, and that we should address the risk of circumvention as we propose?**

Q9: **Do you have any comments on the set of data we propose to require firms to publish if we introduce this policy?**

Q10: **How regularly should we require firms to publish this data?**

Q11: **Do you agree that we should specify a common format for the publication of this data? If so, do you have any comments on what this format should look like?**

Q12: **Do you have any comments on our analysis of alternative remedies?**

Annex 2
Feedback to Occasional Paper 41 and our response

Introduction

1. We received 2 responses that focussed on Occasional Paper 41 (OP41) during the feedback process for DP18/6. This Annex summarises the points raised in the responses and sets out our view on these points.

2. The main themes highlighted across the responses on OP41's model were as follows:

- The nature of competition
- The model's assumption regarding market expansion
- The measure of profit used
- Effects not captured by the modelling
- Limitations regarding the data used
- The econometric analysis

We consider each of these themes in turn in this Annex.

3. In summary, having considered the feedback received, we remain confident that our approach to modelling the SEAR's potential impact is credible, evidence-based and fit-for-purpose, including being based on reasonable assumptions.

4. We have performed the following actions after receiving these responses:

- We have re-checked and corrected the equations set out in OP41 (see our change log). These corrections do not materially affect the results.
- We published the final report of our Strategic Review of Retail Banking Business Models, which provides an additional, more up-to-date evidence base for some elements of the analysis (for example the proportion of balances in the back book) and some of the assumptions used in the model.
- Our evidence base has been improved further through our costs survey to inform the potential implementation costs of a SEAR. We are unable to use the data collected for the Strategic Review of Retail Banking Business Models to re-run OP41's model, as they are aggregated and provide a snapshot for the calendar year ending 2018 (as opposed to data tracking customers over a 4.5 year period, as used in OP41). However, we can use these data to provide, for example, a more recent view of the balance distribution in the back book.

The nature of competition

Summary of feedback

5. Responses considered that OP41's model did not take competition between providers into account and was, therefore, based on an assumption that the savings market was uncompetitive. One response explained that the model's set-up meant that a provider maximises its profits without considering the reaction of other providers.

6. One response estimated the SEAR's potential impact by using a different model of competition (perfect competition).[2] The same response assumed that providers make a loss when acquiring new easy access cash savings customers and that price discrimination allowed them to earn future revenue from these customers such that the net present value from each customer was zero (because competition in the market would not allow for a positive NPV). Under these extreme assumptions, the respondent's analysis shows:

- A 0.19 percentage point reduction in the front-book rate (1.50% to 1.31%) instead of OP41's predicted 1 basis point reduction (1.50% to 1.49%)
- a 0.7 percentage point difference between the estimate of the SEAR in OP41 and the respondent's estimate of the SEAR (0.85% in OP41 to the respondent's estimate of 0.78%)
- a net impact before implementation costs of the SEAR (£4m a year)

Our response

A more competitive market than assumed in OP41 would lead to a higher waterbed effect, such that the SEAR's estimated impact would be less than £300m a year. A less competitive market than assumed in OP41 would lead to a higher transfer from providers to consumers, such that the SEAR's estimated impact would be greater than £300m a year.

We believe that the responses do not accurately reflect the assumptions in OP41's model. The responses suggest that OP41 is based on a nature of competition that is at one end of the logical extreme (monopoly competition). The empirical analysis in OP41 considers instead two types of providers that compete on the front-book rate (so in a competitive game, they take each other's rate into account and respond once). This means that there is some, but limited, competition between providers.

We consider that OP41's approach is between the two extremes of monopoly and perfect competition. We report a 90% confidence interval

2 Several assumptions are required for the textbook model of perfect competition to hold exactly. Textbooks vary about the precise range of assumptions required, but a typical list would include the following:
a. some textbooks assume that there is a large number of buyers and sellers in perfect competition (although do not specify how many firms constitute a large number) while others assume that perfect competition requires an infinite number of buyers and sellers;
b. product homogeneity (i.e. the products sold by all firms in the market are identical);
c. full information on the part of buyers and sellers;
d. free entry and exit to the market;
e. all factors of production are perfectly mobile (meaning that all factors should be able to change their economic use);
f. firms maximise profits; and
g. buyers maximise their utility.

of between £148m and £381m a year. This is a wide interval that acts as a proxy for changes to the nature of competition in the model, except for the extremes like perfect competition.

The assumption of perfect competition is, in our view, an extreme one. The cash savings market study (CSMS) and our Strategic Review of Retail Banking Business Models show that the cash savings market does not have the characteristics needed for perfect competition, whilst also highlighting our wider concerns about competition in the market. For example:

- around 50% of consumers did not know what interest rate was being paid on their easy access cash savings account (buyers do not have full information)[3]
- consumers choose their easy access cash savings providers based on a range of product features, including the interest rate, providers' brand and service proposition, and whether they already have other products (in particular, a personal current account (PCA)) with a provider. This shows that the products sold by all firms in the market are not identical.[4]

New and expanding providers' ability to attract retail deposits at a similar cost to major incumbents is limited by the significant cohort of consumers that do not shop around often (which is, for example, due to larger providers' PCA business and cross-holdings in the savings market). While there are rate-focussed consumers who do switch often, many consumers do not regularly shop around and it is therefore difficult for other providers to attract them (meaning entry into the market, and expansion, is not free)[5]

There is no evidence to corroborate the assumption that providers make a loss when acquiring new easy access cash savings customers. Our recent work in retail banking showed that major banks with large PCA businesses and extensive branch networks have lower retail funding costs than other banks. This stems from having a high proportion of funding from PCA balances and related easy access cash savings accounts paying no or very little interest (and, if they do pay interest, the rates are lower than other banks'). The customers of these incumbent banks tend to be unresponsive to competing offers and are unlikely to switch providers, so large PCA providers can pay lower interest rates on savings accounts (thereby exerting market power). We consider, therefore, that the acquisition costs for many banks' easy access cash savings accounts are low, due to there being cross-holdings with other accounts. As a result, there are unlikely to be losses made on front-book rates in practice. And, front-book rates remain lower than the cost of wholesale funding and lending rates.

3 See Figure 9 in the CSMS.
4 See Chapter 3 in the CSMS.
5 See Chapter 6 in the CSMS and the Strategic Review of Retail Banking Business Models: Progress report.

The model's assumption about market expansion

Summary of feedback

7. One response stated that OP41's model does not allow for the possibility of market expansion. This was a result of the model's assumption that the easy access cash savings market is a closed one, in the sense that the account holders do not switch their balances to other types of savings products.

Our response

It is true that we assume a fixed market size. This is, primarily, for model tractability. It is also a reasonable assumption given the evidence about the easy access cash savings market. The size of the cash savings market has remained fairly stable over the last 5 years, with an average annual growth rate of 4% (nominal terms).[6] The size is also driven by providers' need to match lending balances. It is not an isolated market where 'supply of savings accounts' is purely driven by prices.

The measure of profit used

Summary of feedback

8. One response suggested the internal transfer price as an alternative proxy for the profit of a savings provider (as opposed to using the difference between the lending and savings interest rates – the net interest margin). The response estimated that this would reduce the impact of the SEAR by approximately half (because, according to the response, internal transfer prices are lower than the measure used in OP41).

Our response

OP41's model requires a proxy for the rate at which firms are able to lend deposits at. OP41 uses the net interest margin, which is a well-recognised measure of profitability. The basis for the modelling is from academically-rigorous research.

Internal transfer prices vary significantly depending on each firm's strategy so are likely to create a less reliable measure than the net interest margin used in the model. Our recent work in retail banking did not consider internal transfer prices as a measure of profitability either. We also found in the Strategic Review of Retail Banking Business Models that approximately 90% of firms' funding comes from retail deposits, so the difference between lending and savings rates would appear to be sufficiently relevant for the purposes of the model in OP41.

6 This is the average annual growth rate between the CSMS' figure of £462bn (ie £354bn for 'easy access' and £108bn for 'cash ISA (no term)') for 2013 and a figure of £560bn, based on our 2018 information request. These figures have not been adjusted for the effects of inflation (ie we would expect the inflation-adjusted average annual growth rate to be less than 4%).

Effects not captured by the modelling

Summary of feedback

9. One response suggested that the model does not capture various effects of restricting providers' ability to price discriminate, such as the impact on product choice and variety.

Our response

OP41 makes clear that there are various effects that the model is unable to reliably capture. These effects are considered in our Consultation Paper, and Annex 3 (Cost Benefit Analysis).

Limitations with the data used

Summary of feedback

10. Responses highlighted the age (2010-14) and restricted amount of data (4.5 years) relied upon in OP41. One response highlighted that there was no discussion in OP41 of how this might bias the results.

Our response

We cover this, in full, in Annex 3, as well as in Chapter 3 of the CP. To summarise, the impact of changes since the CSMS have contrasting effects on the size of the impact from the SEAR:

On the one hand, we note that average interest rates and differentials between front- and back-book accounts have fallen since the CSMS. Based on Figures 1 and 2 in Annex 3, the interest rate differential appears to be around half of what it was in 2013. This would tend to mean that OP41's estimated impact would overstate the impact of the SEAR, given the current interest rates.

On the other hand, our recent data collection shows that there is a significant proportion of balances in accounts opened more than 5 years ago. This proportion has grown since the market study, such that the proportion of balances in the back-book has more than doubled. This would suggest that OP41's estimated impact would understate the impact of the SEAR, given the current distribution of balances by age of account.

It is unclear which of these two opposing effects outweigh the other when thinking about the effect on the SEAR's estimated impact in OP41. However, our assessment is that neither of these two points undermine the validity of the modelling, especially as we have considered in our analysis the impact of different interest rates and sizes of back books.

The econometric analysis

Summary of feedback

11. One response made many points challenging the econometric analysis in OP41. These included:

- OP41 does not use panel data regression techniques
- The dataset used for the econometric analysis is not set out in a sufficiently transparent manner (such as descriptive statistics, or information on how variables have evolved over time)
- OP41 does not explain why it uses a certain estimator (minimum-distance) instead of standard ordinary least squares (OLS)
- The model does not fit the data particularly well
- OP41 uses arbitrary choices of functional form for acquisition and retention rates

Our response

We consider that some of the points summarised above were adequately covered in OP41, but we repeat them here for completeness:

- The model does use panel data regression techniques. OP41 states that it uses a generalised method of moments estimator.
- OP41 presents the main descriptive statistics. The dataset is the same as used in our CSMS, so a reader of OP41 should also look at the analysis set out in CSMS, to which OP41 cross-refers.
- OP41 had to use an alternative to OLS as the estimated equation is non-linear.
- On the choice of functional form and fit to the data: Alternative forms were tested, both simpler linear forms and more complex forms with additional parameters. With linear demand and retention functions the model did not fit well to the data. More complex forms showed symptoms of overfitting and were unable to produce impact estimates robust to sensitivity testing. We consider that trying to fit the model to the data further risks 'overfitting'. Overfitting is where the model describes the random error in the data rather than providing insight on the underlying relationships between variables (which is what we need for the exercise in OP41).

More generally, we note that the aim of the analysis in OP41 is to estimate the size and direction of a policy impact, rather than to estimate an impact with 100% accuracy (which we do not consider, or claim, to be possible). The estimate of the policy impact is based on the reported 90% confidence interval and the accompanying sensitivity analysis rather than a single number. We consider that taking these broad range of impacts under several different scenarios is the right basis for informing policy choices.

Annex 3
Cost benefit analysis

Introduction

1. The Financial Services and Markets Act 2000 (FSMA), as amended by the Financial Services Act 2012, requires us to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'.

This analysis presents estimates of the significant impacts of our proposal. We provide monetary values for the impacts where we believe it is reasonably practicable to do so. Where we do not consider estimating the impact to be reasonably practicable, we describe the other potential impacts. We have based our proposals on carefully weighing up all impacts we anticipate and reaching a judgement.

Our analytical approach

2. This CBA looks at the following elements to understand the potential impact of our proposed intervention on the market:

- the likely costs to providers
- the likely benefits to consumers
- any wider impacts or unintended consequences, such as costs to consumers

3. We have produced the analysis in this Annex based on evidence from the following sources:

- Responses to our information request from 20 easy access cash savings providers who may incur costs because of our proposed intervention (in this CBA we use 'easy access cash savings' as an umbrella term to refer to easy access cash ISAs and easy access cash saving products that are not ISAs).
- The output of an economic model. This estimates the potential impact of a SEAR in the easy access cash savings market, set out in Occasional Paper (OP) 41 and summarised below.
- Analysis undertaken as part of the Strategic Review of Retail Banking Business Models.
- Views and insight gathered through feedback to Discussion Paper 18/6
- Our Financial Lives Survey (FLS)
- Data collected as part of the cash savings market study (CSMS), covering years 2006-2013. This includes data on distribution of account balances by size of account (ie balance size intervals such as £1,000-£2,000) and interest rates for easy access cash savings and easy access cash ISAs. We also use the outcome of the consumer survey in the CSMS.

Problem and rationale for intervention

The harm

4. The CSMS (p. 6) found that providers hold significant amounts of consumers' savings balances in accounts opened longer ago. Easy access cash savings providers, on average, pay higher interest rates for newer customers and decrease the rate gradually over time, paying much lower rates for longstanding customers. Figures 2, 3 and 4 of DP18/6 show longstanding customers getting 0.82 percentage points and 0.87 percentage points less than newer customers in the easy access cash savings and easy access cash ISA markets respectively.

5. The CSMS also collected data tracking a cohort of consumers over time. These data show that interest rates fall over time with account age.

6. Analysis of data from the FLS shows that of the consumers who opened an account less than a year ago, 40% are potentially vulnerable (based on low financial capability or resilience, physical or mental health conditions, life event). The proportion of potentially vulnerable consumers was higher (53%) among the group of consumers who opened an account more than 10 years ago.

7. We stated in DP18/6 that we recognised our data on harm were from 2013 and that the market may have changed since then. We noted, however, that paying lower interest rates to longstanding customers is a long-running pricing strategy used by providers in the UK and internationally.[7]

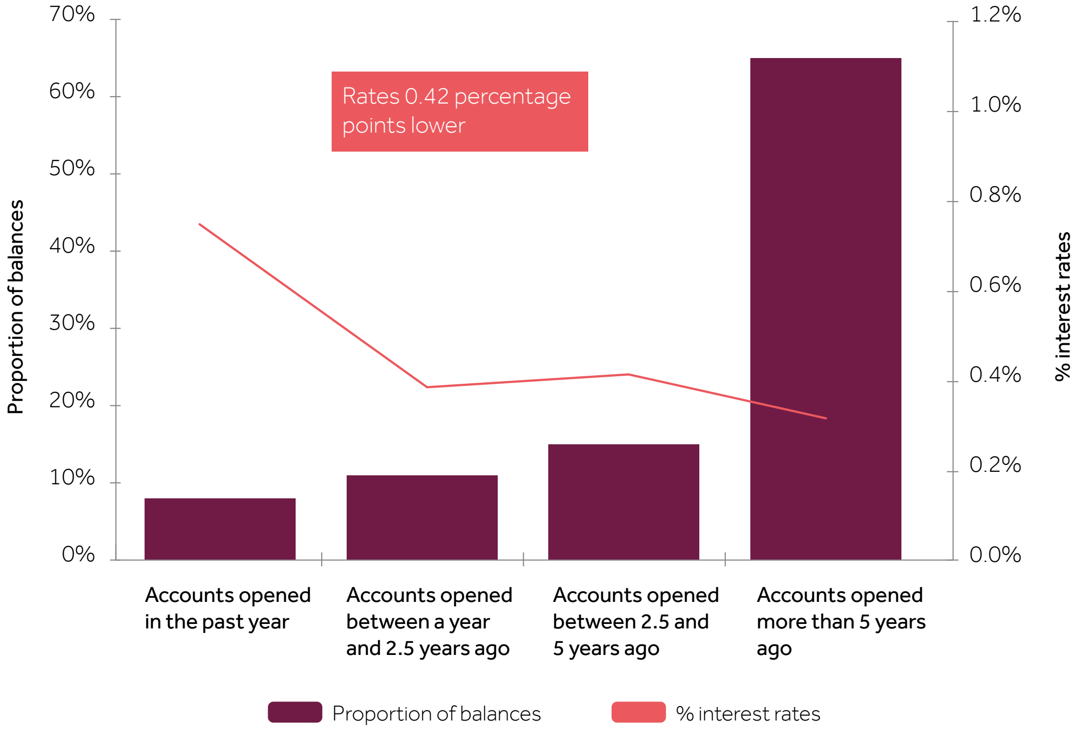
8. Figure 1 and Figure 2 below show that the issue persists. The analysis is based on the sample of providers who responded to our information request.[8] These 2018 data show that:

- there is a large proportion of accounts receiving a significantly lower rate than accounts opened more recently and
- the difference in interest rates between accounts opened recently and long ago has narrowed when compared to the 2013 data (see paragraph 11)

7 For example, Anderson RDJ, Ashton JK, Hudson RS. (2014), The influence of product age on pricing decisions: An examination of bank deposit interest rate setting, Journal of International Financial Markets, Institutions and Money, 31, pp. 216-230. For a similar evidence on the Spanish market, see Carbo-Valverde, S., Hannan, T. H., & Rodriguez-Fernandez, F. (2011), Exploiting old customers and attracting new ones: The case of bank deposit pricing. European Economic Review, 55, 903-915.

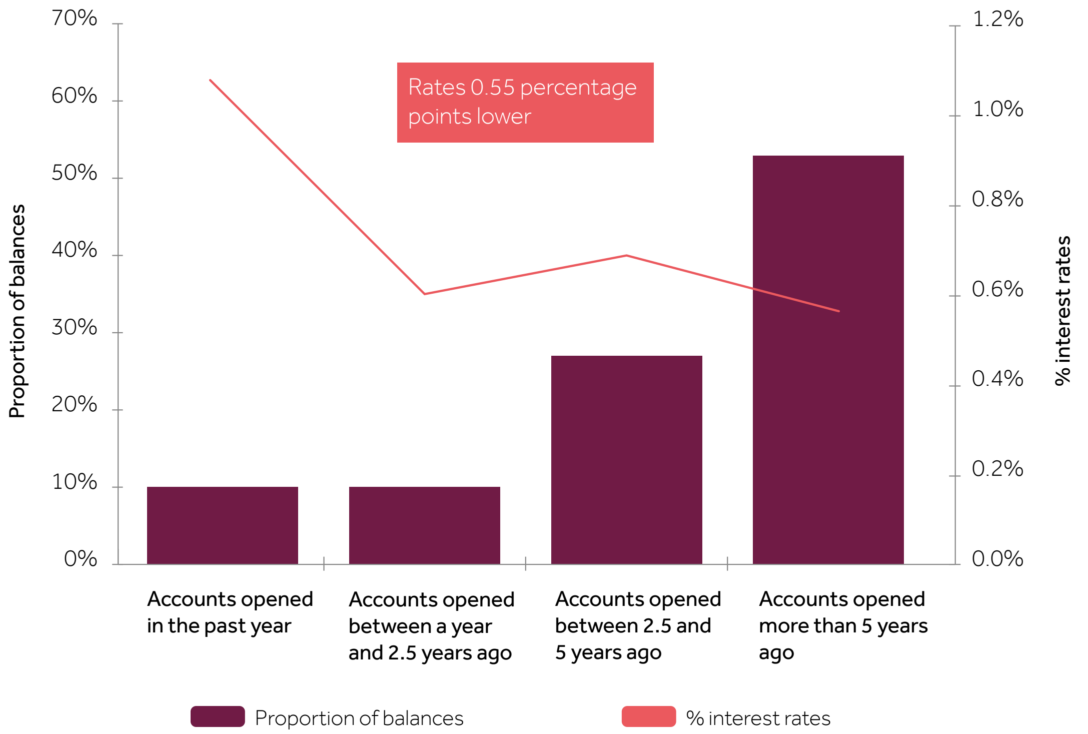
8 The firms in the 2018 sample are different to those in the CSMS' sample. Our recent information request collected the data using different age bandings to the CSMS. However, the largest firms in the market appear in both samples.

Figure 1: Proportion of balances and weighted average interest rates for easy access cash non-ISAs, December 2018[9]



Source: Providers' information request responses, FCA analysis

Figure 2: Proportion of balances and weighted average interest rates for easy access cash ISAs, December 2018[10]

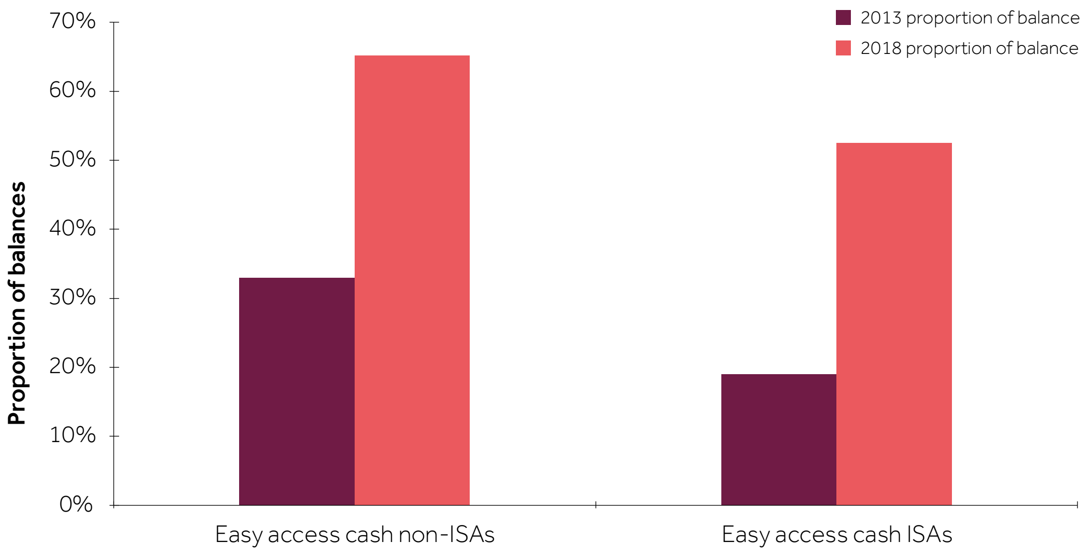


Source: Providers' information request responses, FCA analysis

9 We received this data as part of the cost survey
10 We received this data as part of the cost survey

9. Figure 3 compares the proportion of balances in easy access cash savings products opened more than 5 years ago for 2013 and 2018 data. The 2018 data show that the proportion of balances in accounts opened more than 5 years ago has increased significantly since 2013.[11] So a larger number of customers may be harmed if we do not intervene.

Figure 3: Proportion of balances for easy access cash savings products opened more than 5 years ago, 2013 and 2018



Source: Providers' information request responses, CSMS data, FCA analysis

10. The current easy access cash savings market is characterised by low interest rates, particularly since:

- the significant Official Bank Rate reductions starting in 2008
- the Treasury and the Bank of England introduced the Funding for Lending Scheme in 2012, which ended in 2018, and the Term Funding Scheme in 2016, which was closed to drawdowns in 2018

These events reduced the need for deposit-takers to raise new balances in the easy access cash savings market, leading to lower interest rates and narrower interest rate differentials between front- and back-book accounts.

11. Since we collected data for the CSMS, it appears that across the market as a whole i) the differential between front- and back-book accounts has narrowed and ii) there is less variation in the rates offered on back-book accounts. To the extent that firms have changed their pricing, this may have happened as a result of the publication of the DP, based on the expectation of an FCA intervention. Overall, we consider that where rates have narrowed, the implementation of the policy may yield lower benefits than estimated. However, where firms have already adjusted to the policy, implementation costs would be lower or absent.

11 We do not present the interest rate differential between accounts opened more than 5 years ago and those opened more recently. This is because the 2013 and 2018 datasets collected account age information differently. The first age band in the 2013 dataset was accounts opened less than 2 years ago, whereas the 2018 dataset's is accounts opened less than a year ago (with the next band as between 1 year and 2.5 years ago).

12. There are several potential reasons for the changes in interest rates in recent years, but precisely what the reasons are does not change our assessment in the paragraph above.

13. If providers decided to increase interest rates, there is no evidence to suggest that interest rate differentials between front- and back-book accounts will remain as low as they are currently.

14. Instead, we expect that, if providers increase interest rates, the gap between front- and back-book interest rates will widen, therefore, increasing the harm to longstanding consumers.[12] This is because:

- a higher Official Bank Rate gives providers greater scope to differentiate interest rates between accounts
- providers are more likely to increase front-book interest rates to attract deposits
- providers can fund such increases by holding back-book rates constant (i.e. not passing on interest rate increases) or passing on only a relatively small proportion because of a combination of the drivers of harm we set out below (specifically, consumers' lack of engagement)
- in effect, this scenario increases longstanding consumers' opportunity cost of holding savings in these back-book accounts.

15. Our intervention is designed to address the harm currently present in the market (described in Chapter 2). We want to protect longstanding consumers currently on the lowest interest rates by improving competition for them so that firms increase the interest rates they receive, and maintain the competition that exists for new customers. At the same time, we want to prevent the potential for greater harm to arise if interest rates rise.

Market failure analysis / drivers of harm

16. We believe that price discrimination has been driven largely by competition not working effectively in the cash savings market and that this longstanding, persistent issue will not change without intervention to improve it.

17. We set out each of the drivers of harm, and the associated market failure, in turn and how they contribute to causing harm.

- While cash savings products are relatively simple, the market is more complex than it needs to be. In January 2019 there were over 1,900 off-sale accounts that consumers might own (based on analysis of Moneyfacts data, January 2019), in part because of firms' product replacement strategies. This complexity may be behind the higher proportions of longstanding customers who do not know their interest rate. Additionally, some firms gradually reduce the interest rate on accounts over time, which may reduce customer awareness of cumulative changes in rates.
- Though non-switching can sometimes be the result of a rational choice, there are behavioural distortions that lead to consumer inertia and a lack of sensitivity to price changes. FLS (Table 9.9, p.155) found that only around 10% of cash savings customers report switching in the last three years, and the CSMS found very little switching occurring after an account had been open for more than 24 months

12 Anderson RDJ, Ashton JK, Hudson RS. (2014), The influence of product age on pricing decisions: An examination of bank deposit interest rate setting, Journal of International Financial Markets, Institutions and Money, 31, pp. 216-230 This illustrates that in a lower interest rate environment, the difference between the lowest and highest rates offered by providers is smaller than if interest rates were higher.

- Large personal current account providers have competitive advantages in the cash savings market, enabling them to pay lower rates than smaller providers.

18. The interaction of these factors means that the CSMS concluded that in the easy access market:

- providers have significant amounts of their customers' savings balances in accounts opened long ago and, over time, have pushed down rates for longstanding customers (p.57 of the CSMS report).
- providers rely on consumer inertia to decrease rates for longstanding customers over time (p. 57-58), using pricing strategies consistent with 'screening'.[13]
- consumers are put off switching by the perceived difficulties and low gains from switching (p. 44-45 and p.49).
- consumers find it hard to know whether they are getting a good deal (p. 39).

Complexity of information for consumers

19. Providers are able to price discriminate when they can adapt products to ensure different prices can be charged to different consumer groups (see FCA Research Note). The CSMS found that some providers use a product replacement strategy that allows providers to pay different interest rates to customers with new accounts compared with customers with older accounts (p. 62 of the report). We also found that providers have a wide range of products on their books, with new products frequently introduced and older products withdrawn from sale or no longer marketed to new customers. At the time of the CSMS, 350 easy access cash savings products were offered on the market (on-sale) and just over 1,000 were no longer on sale to new customers (off-sale) (p. 56 and p. 63 of the report).

20. Multiple products can lead to confusion for consumers, obfuscating prices and inhibiting competition. For example, it can make it harder for consumers to know which account they hold and the interest rate they receive. This makes it difficult to compare their savings account with others on offer, which can result in lower engagement and difficulty in making informed purchasing decisions.

21. DP18/6 outlines that we introduced measures to try and overcome this problem in the market with our 2016 intervention (para 2.20 and 2.22). It also highlighted how some providers have reviewed and simplified their product range in response to our encouragement in the CSMS for firms to consider whether their product range was delivering good customer outcomes.

22. However, we still think the market is too complicated. DP18/6 illustrated this in stating that there were more products on the market in 2018 (470 on-sale and 1,870 off-sale) than at the time of the CSMS (para 2.22 of the DP18/6). Based on analysis of January 2019 Moneyfacts data, this has increased further based on January 2019 data (495 on-sale and 1,913 off-sale).

23. Additionally, easy access cash savings products are relatively simple, with few features, so the complexity from the large number of products and interest rates does not lead to overall consumer benefits. Our proposals are therefore intended to simplify the market, and by doing so, improve price competition.

13 This describes how providers can observe consumers' switching behaviour to classify them into 'active' and 'inert' segments. Providers may use the (economic) profits gained on sales to more inert back-book customers to attract more active front-book customers. Paragraph 19 provides further explanation.

Behavioural distortions

24. Price discrimination is more likely to happen when different consumer groups have different sensitivities to price (see FCA Research Note). In the cash savings market, longstanding customers are generally less sensitive to price and price changes. This is illustrated by the diminishing rate at which customers switch accounts over the lifetime of an account (DP18/6 paragraph 2.12 and Figure 5). Providers can take advantage of this decreasing price sensitivity over time by paying, on average, lower interest rates to longstanding customers; such customers are less likely to switch compared to customers who opened their accounts more recently.

25. The cash savings market is characterised by high levels of consumer inertia. In the CSMS, we found that only 9% of easy access savings accounts and 13% of easy access cash ISA accounts were switched externally (to another provider) at least once in the previous 3 years (p. A2-36 of the report). This is consistent with findings in the 2017 FLS that 9% of consumers had switched cash savings account provider and 10% had switched cash ISA provider in the last 3 years (p. 155).

26. The CSMS picked out some further challenges that, ultimately, led to consumer inaction:

- consumers had low awareness of their interest rates
- they did not search and compare their accounts with higher paying accounts
- they did not move their savings to accounts that offer higher returns, even on large balances.

27. Academic research in psychology and behavioural economics shows that consumers can be subject to behavioural distortions which can mean they do not act when their provider changes their savings interest rate (see FCA OP1). The evidence indicates the presence of the following behavioural biases (in addition to the inertia described above):

- **Framing, salience, and limited attention:** Consumers have limited attention and interpret information based on how it is framed and what is made most salient. In this market, consumers may not notice firms gradually reducing their interest rate based on the length of time that they opened the savings account. This is because focussing and keeping attention on a task over time is costly. Consumers forego large benefits by being inattentive to better value available alternatives.[14]
- **Procrastination/present bias:** Consumers can value the present over the future. This can lead to them making decisions which affect them negatively in the long-run. In this market, the evidence suggests that consumers do not engage in shopping around and switching (see DP18/6 para 2.13 and 2.16). This might be because they: underestimate the benefit from switching; underestimate the probability that that there may be a better deal from a different provider; and/or overestimate the time taken when shopping around and switching. Academic evidence on procrastination[15] and ambiguity aversion[16] suggests that consumers typically avoid tasks that need an unknown amount of effort.

28. These biases are likely to be key reasons for the limited impact of the demand-side remedies we have previously tested in this market, and their presence forms part of our rationale for our conclusion that demand-side remedies alone will not address the harm in this market.

14 Sitzia S., Zheng, J., & Zizzo, D. (2015), Inattentive consumers in markets for services. Theory and Decision, 79(2), 307-332.
15 DellaVigna, S. (2009), Psychology and economics: Evidence from the field. Journal of Economic Literature, 47(2), 315-372.
16 Fox, C. R., & Tversky, A. (1995), Ambiguity aversion and comparative ignorance. The quarterly journal of economics, 110(3), 585-603.

A lack of competition in the easy access cash savings market

29. The CSMS found that competition in the easy access cash savings market was not working well, particularly for longstanding customers. There are a range of reasons for this, including the competitive advantages of large personal current account providers, consumer inertia, and brand loyalty. We consider that these structural and behavioural factors are also likely to be behind the limited impact of the demand-side remedies we have previously trialled, and form part of our rationale for not further considering isolated demand-side remedies in this market.

Baseline and key assumptions

Baseline

30. We assume that providers' behaviour would remain unchanged without our intervention, with the market dynamics we observed in 2013, as discussed in the market study report and subsequent 2015 consultation paper.

31. The main areas we cover in this section are:

- our previous interventions that followed the CSMS in PS15/27
- the advent and adoption of relevant technological innovations
- other changes to market conditions

The interventions set out in PS15/27

32. In December 2015, we introduced a package of remedies to address some of the harm. This included:

- rules to improve the presentation, frequency, and timing of customer communications at point of sale and post-sale
- provisions to help customers to switch accounts within their provider
- agreement with industry on cash ISA transfers
- trialling the publication of data on the lowest interest rates available on easy access cash non-ISAs accounts and easy access cash ISAs (Sunlight remedy).

33. We do not consider that it is necessary to adjust the baseline for the proposals in this CP for the benefits estimated in the CBA supporting the interventions set out in PS15/27.[17] Our view (also discussed in DP18/6) is that we do not expect these remedies on their own to correct fully the problems identified in the CSMS (para 1.11 of DP18/6). If these remedies have improved outcomes among some more engaged consumers (through switching and higher engagement), benefits from the implementation of the SEAR might be lower than estimated here. However, they are unlikely to have made longstanding consumers more active or engaged (i.e. those consumers that we expect to benefit from our proposed intervention here[18]).[19]

17 We estimated that these policies' annual benefits would be between £2.5m and £4.4m a year.

18 Based on Figure 4 backbook balances are higher than they were at the time of the CSMS.

19 Research suggests that it is difficult to change consumer behaviour, and that information disclosures may not deal with all the harm we see in markets. Although well-designed demand-side remedies can be effective, there may be limits to demand-side remedies' reach.
Fletcher, A., 2016, The Role of Demand-Side Remedies in Driving Effective Competition: A review for Which?, Centre for Competition Policy University of East Anglia. Andrews, P., 2017, Speech: New thinking in regulatory economics, Financial Conduct Authority.

The role of Open Finance in this market

34. We acknowledge that the market continues to develop with the advent and greater adoption of new technology – and has continued to do so after the CSMS. The analysis in this CBA does not make any explicit assumptions about future provider entry and exit.[20] Our ex post impact evaluation of our intervention to reducing entry barriers in retail banking highlighted that increasing competition can also come about from encouraging expansion of existing new providers in a market.

35. We note that factors such as Open Banking, the CMA's other Foundation Remedies and the second Payment Services Directive (PSD2), among others (eg, Strategic Review of Retail Banking Business Models: Final report), may help to increase competition and open the market to new entrants. These new initiatives, introduced in January 2018, aim to:

- enhance consumer protection
- introduce new and convenient ways for consumers to manage their finances
- enhance competition in retail banking

36. These initiatives may have changed how consumers, overall, interact with easy access cash savings. However, the impact (both the scale and the extent) of these initiatives on easy access cash savings consumers are, currently, unknown (see paragraph 2.25 of DP18/6).

37. We have considered the extent to which extending the principles of Open Banking to cash savings products could address the harm in this market. Our view, as set out in Chapter 6, is that it is unlikely to in the short to medium term. However, our intended review of the market will provide us with an opportunity to consider its development, and whether the longstanding consumers who stand to gain the most from the SEAR are making use of these services.

Other changes to market conditions

38. We also consider market conditions which are likely to change in the future when setting a baseline.

39. Changes to macroeconomic conditions, such as interest rate increases, could, among other things, lead to:

- consumer behaviour changes
- potential gains from increased switching activity.

40. However, our findings in the CSMS showed that switching activity had not changed significantly over the 2006-13 period. This was a time when average interest rates offered in the market changed (both increasing and decreasing).

41. For macroeconomic conditions to affect the market dynamics described in the market study, and hence our baseline, we would need evidence to suggest that consumers would react significantly differently to interest rate changes than observed during the period of 2006-13 (though we do consider the impact of interest rate changes in paragraphs 116 to 118).

42. For all these reasons, we consider that the 2013 data set we have used for our modelling is a valid baseline.

20 For the purposes of our analysis, we have also not considered the impact of any potential mergers or takeovers on our findings.

CBA assumptions

43. We have made the following assumptions for this CBA:

- we assume 100% compliance with the new policy we implement
- we assume an implementation period for providers of 6 months from the date of publication of any Policy Statement.[21]

In the remainder of the CBA:

- all references to 'average' in this CBA are the mean, unless stated otherwise
- all price estimates are in nominal terms (i.e. current prices), unless stated otherwise
- wage estimates for familiarisation and legal review costs account for wage inflation since 2016, using the Office for National Statistics' data from its Annual Survey of Hours and Earnings[22]

How the potential impact of a SEAR is modelled

44. OP41 estimates the impact a SEAR might have on easy access cash non-ISA market outcomes. OP41 does not estimate the impact on the easy access cash ISA market.[23] Our analysis below includes the costs and benefits from applying the SEAR in both the easy access cash non-ISA and easy access cash ISA markets. While we have not modelled the SEAR's impact in the easy access cash ISA market, we do set out an indicative estimate in paragraph 115.

45. The OP explains the methodology and results in full. We present the main assumptions and summarise the results in this CBA. We respond to views received on OP41's modelling, as part of DP18/6's consultation process, in Annex 2.

46. The modelling is based on:

- Data collected (in July 2014) as part of the CSMS on providers' balances, interest rates and product characteristics. The dataset tracks interest rates and balances held between January 2010 and June 2014 in on-sale accounts opened in different quarters of 2010 and in products that were off-sale in 2010. The dataset covers 13 large and small providers.[24]
- A theoretical framework from academic literature[25] that models the supply-side and providers' pricing strategies. This is calibrated to the UK market, with its assumptions grounded in providers' and consumers' observed behaviour.

21 The implementation period is the time between the FCA publishing its final rules in a Policy Statement and the date on which those rules come into effect for providers.

22 We use Table 1 from the link in the main text and apply the median annual wage increase for 2017 and 2018 (the latest year of available data).

23 The OP did not have enough data to quantify the impact of applying the SEAR to easy access ISAs robustly (OP41 quantified the impact for easy access non-ISAs only).

24 These 13 providers accounted for 16 brands.

25 Carbo-Valverde, S., Hannan, T. H., and Rodriguez-Fernandez, F., 2011, Exploiting old customers and attracting new ones: The case of bank deposit pricing, European Economic Review, Vol. 55, pp.903-915.

47. The main assumptions of the modelling are as follows:

Assumption	Explanation
Providers profit maximise by managing the net interest margin[26]	Providers compete by using interest rates to attract balances.
Non-price factors affect the market equilibrium	These are assumed as given and not an output of the modelling (see FCA OP41).
Providers attract new customers with their front-book interest rates only	Consumers are myopic and only take into account front-book rates when they open a new account
The modelling considers two types of deposit takers: large incumbents and small challengers	This helps to show how different providers are affected by the policy. This is captured by a proxy of large or small provider market share.[27] Large providers have several advantages to attract customers (such as brand recognition, large number of current account customers, larger branch network, and other economies of scale). Small providers offer higher front-book rates to overcome this and, in comparison with large providers, tend to have back-books that are relative smaller in size to their front-books.
Providers offer a single product with three possible interest rates	These are: a front-book rate (e.g. up to 1 year old balances), a mid-book rate (e.g. between 1 and 2.5 years old balances), and a back-book rate (e.g. older than 2.5 years).

48. OP41 estimates higher net interest payments to consumers of between approximately £148m and £381m a year (with a central estimate of around £261m a year) in the easy access cash non-ISA market from introducing a SEAR.[28] This is a net transfer from providers to customers, considering the 'waterbed effect' between the different customer groups.[29]

49. OP41 did not model the potential impact of our proposals on cash ISAs due to data limitations. If we scale the estimated impact from the easy access cash non-ISA market to the easy access cash ISA market, this would equate to additional benefits of £26m to £67m per year. However, this estimate is purely indicative and would need the same assumptions in the modelling to hold for the easy access cash ISA market.

Overview of intervention

50. As outlined in Chapter 2 of this CP, our intervention aims to protect longstanding consumers currently on the lowest interest rates by improving competition for them so that firms increase the interest rates they receive, and maintain the competition that exists for new customers.

51. It does so by combining two measures – the SEAR and Sunlight remedy (set out in Chapters 4 and 5 of this CP).

26 This is the difference between the interest rate that they offer on savings (choice variable) and the interest rate charged on lending (assumed to be determined outside of the model).
27 A large bank is considered to have a market share of about 10%, while a small bank is considered to have a market share of about 1.5%. These are the average market shares for small and for large banks in the market according to the 2013 CSMS data.
28 As a SEAR will also apply to easy access cash ISAs, the total benefits would be higher than this (see paragraph 115).
29 Here we refer to the 'waterbed effect' as when one, or more, consumer groups gain at the expense of other consumer groups.

- The SEAR works by pooling together relatively more active customers who have more recently come off introductory offers (mid book) with less active, more longstanding customers (back book). The SEAR will be set by firms somewhere in between the rates currently offered on the back-book and the mid-book. Where exactly the SEAR ends up will depend on a number of factors, including how balances are distributed among longstanding customers and customers' propensity to switch. We expect that the risk of losing the more active customers in the pool would place pressure on firms to set the SEAR closer to the rates for newer customers than the rates for longer-standing customers. This is because firms have incentives to keep customers. At the same time, firms remain keen to attract new deposits; therefore, introductory/new customer rates do not drop noticeably to offset the higher interest payments to longstanding customers.
- The sunlight remedy aims to raise awareness of providers' treatment of their longstanding customers. This may increase demand-side pressure and create incentives for firms to offer better rates to longstanding customers. It will also improve consumers' awareness of the implications over time of their decisions to switch or not to switch. We expect that this will have most impact through coverage from market commentators, consumer groups and the media, as well as use by price comparison websites.

Summary of costs and benefits

52. This section summarises the aggregate costs and benefits of our intervention.

53. Table 1 provides a high-level summary of all the costs and benefits which are analysed as part of this CBA. Where reasonably practicable, we have looked to estimate the costs and benefits, in monetary terms, of our proposals. Please see the relevant sections below for further detail on each of these.

Table 1: Summary of our intervention's costs and benefits

Costs	Benefits
• Implementation costs: £94m one-off and £35m a year ongoing, across both non-ISA and ISA products • New consumers will face a slightly lower interest rate, and those mid-book customers that do not switch receive a lower interest rate than before (though, they do not incur search and switching costs). These costs are already accounted for in the £148m to £381m a year net benefits (shown in 'Benefits' here). Costs that are not quantified • Customers that do switch face search and switching costs[30] earlier and more often, though the cost of searching/switching each time may be lower due to improved transparency. • Providers may incur additional liquidity management costs. Providers may face costs from opening additional accounts due to consumer switching.	• Overall net effect of higher interest payments of £148m to £381m a year to easy access cash non-ISA back-book customers. • If we scale the estimated impact from the easy access cash non-ISA market to the easy access cash ISA market, this would equate to an impact of £26m to £67m per year. However, this estimate is purely indicative and would need the same assumptions in the modelling to hold for the easy access cash ISA market Benefits that are not quantified • Improved outcomes for the most inert consumers, which includes vulnerable consumers. • Simplification of the market, improved transparency, and better consumer understanding of their product features over time – leading to better understanding of implications of decisions to switch or not. • Indirect benefits from improved market competition.

Source: FCA

54. We estimate that the total one-off costs of our intervention to the industry will be £94m, with an annual ongoing cost of £35m across both non-ISA and ISA products.

- One-off costs are primarily driven by IT development costs, requiring systems changes (42% of one-off costs) and communicating to consumers (41% of one-off costs).
- Ongoing costs are primarily due to customer transaction and sales costs (62% of ongoing costs) and communications costs (33% of ongoing costs). Most responses suggested that there would either be no or minimal[31] ongoing costs of complying with our intervention (these costs, including the liquidity and account administration costs noted in the table, would be part of 'business as usual'). Note that where a savings account is also a payment account for the purposes of PSD2, the information disclosure requirements in the Payment Services Regulations 2017 would apply, including regulation 50. Firms should refer to paragraph 8.92 of our "Payment Services and Electronic Money - Our Approach" document for guidance on providing notice where an introductory interest rate on a payment account comes to an end. After we leave the European Union, we will review whether BCOBS 4.1 should also apply to savings accounts that are also payment accounts for the purposes of PSD2.

55. We estimate a benefit of higher interest payments to consumers of between £148m to £381m a year. This range is a net benefit; it incorporates the 'waterbed effect' between different consumer groups. The different effects are set out in paragraphs 119 to 136 – with benefits for all back-book customers and those mid-book customers that

30 Switching costs can be broken down into 'delay costs' of not switching and 'task costs' of finding a new product. SEAR should remove task costs of searching within a customer's existing provider and should be reduced for other providers (though, they will still exist for external switching). Delay costs should be reduced significantly, since the SEAR will boost back-book rates. See O'Donoghue, T., and Rabin, M., 1999, Incentives for Procrastinators, The Quarterly Journal of Economics, Vol. 114, No. 3, pp. 769-816.

31 For illustrative purposes only, we define this as £10,000 a year per firm.

choose to switch but some costs falling on front-book customers and those mid-book customers that choose not to switch. The benefit for back-book and some mid-book customers is, therefore, larger than £148m to £381m a year (with any negative impact on front-book and mid-book customers being more than outweighed to achieve the £148m to £381m a year net benefit figure). This impact is the difference between the two modelled 'worlds' in a steady state – one with the SEAR and one without – using historical data from 2010-2014.

56. We have considered how the costs compare with the benefits, particularly in the context of the lower bound of our benefits estimates. The sum of the one-off and ongoing costs (that we can monetise) of our intervention is £129m (£94m plus £35m). This is a simple calculation that takes the largest version of the costs of complying with our intervention and therefore provides the maximum cost in any one year.[32] This figure is less than the lower end of the model's estimated impact range (£148m a year) and before including the impact on easy access cash ISAs (see table 8 in OP41 shows that £148m a year is the base case's 90% confidence interval). It is also less than the central estimate of £261m a year, which results from, among other things, an interest rate increase for back-book customers of 0.23 percentage points in the modelling and a 0.01 percentage point decrease for front-book customers.

57. We have also considered how our CBA would change as interest rates change or as the size of the front and back book change. A simple approach (as we describe in paragraph 114) is to scale the SEAR's impact based on the interest rate differential. So, if we consider that the interest rate differential between front and back-book accounts were to approximately halve[33], then the central estimate's impact, halves. This central estimate still exceeds the costs and does not account for the offsetting relative increase in size of back book balances since the CSMS. We would expect this increase in back book balances to increase the SEAR's impact (all other things being equal). We note that if the lower end estimate of £148m halved to £74m, it would be outweighed initially by the one-off costs. However, our analysis shows that by the end of the following year, the cumulative benefits would have exceeded the one-off costs and ongoing implementation costs.

58. While we have not been able to quantify all the costs and benefits shown in Table 2 above, we have estimated the most significant costs. A comparison of the lower estimate of the key benefits with the higher estimate of the key costs suggests that we can reasonably expect that the benefits will be higher than the costs.

Costs

Our approach to estimating costs to providers

59. The cash savings market is characterised by high market concentration amongst the biggest 6 personal current account (PCA) providers. The rest of the market is served by a combination of building societies and other retail banks (of which some are new challenger banks, whose business models focus on the use of new technology and distribution channels). We categorise these providers into different groups based on their markets shares and business models in Table 3 below.

32 In line with our document that sets out how we analyse costs and benefits, this cost figure would fall to approximately £40m a year if we took the present value of these costs over a 10 year period using a discount rate of 3.5%.

33 For example, comparing Figure 2 in this Annex to the data in paragraph 6 in this Annex and in OP41.

Table 1: Categorising easy access cash savings providers

Easy access cash savings provider category	Definition
Large PCA provider	Engaged in full-service banking on a significant scale, with UK-wide reach. Their model includes multi-channel distribution through branches, phone, online and intermediaries. They hold a significant share of the easy access cash savings market, with consumers tending to have an easy access cash savings account with their main PCA provider (see Figure 17 of the CSMS and Figure 1.1 of the Strategic Review of Retail Banking Business Models: Progress report).
Building society	Primarily engaged in savings and mortgage lending. The model can include multi-channel distribution with a focus on regional branch networks and intermediaries.
Other retail banks	Engaged in full-service banking on a smaller scale than the largest providers, targeting micro-markets or with a regional focus. Their model can include multi-channel distribution. This group also includes a small number of recent market entrants that offer products through online channels.

Source: FCA

60. Table 4 summarises the number of easy access cash savings providers within each category in Table 3 above. The largest 6 PCA providers have a nearly 70% share of customers in the market (Figure 1.1 of the Strategic Review of Retail Banking Business Models: Progress report shows that this is c.70% for the large PCA providers).

61. We estimate familiarisation costs and legal review costs using standard FCA assumptions.[34]

62. We estimate other costs due to our intervention using responses to our January 2019 information request. We sent this to 27 providers seeking their feedback on the incremental one-off and ongoing costs of complying with our intervention.

63. There are some specific elements of our information request for costs that are worth noting.

- Providers estimated costs based on an assumed 6-month implementation period. Paragraph 1.32 in the CP sets out that we anticipate at least a 6-month implementation period. As a result, we consider that data collected in the information request are likely to be an upper bound estimate of the implementation costs. This is because, for example, providers may not need to incur the costs of hiring external contractors to comply with the intervention if the timeframe for complying is longer. We have not adjusted the costs for this.
- The information request asked for cost estimates split by cost category[35] for each proposed measure.

34 The assumptions used to estimate these costs have been derived from consultation with providers and trade bodies, discussions with vendors, a review of previous CBAs, internal FCA consultation, and desk-based research. To put a cost on time, we have sourced salary information for a range of occupations in financial services. Figures for large and medium providers are based on the 2016 Willis Towers Watson UK Financial Services Report. Small provider salaries were sourced from a systematic review of adverts on the website of Reed, cross-referenced with other publicly available sources. We add an allowance for overheads of 30% to all time costs to account for non-wage labour costs, as advocated by the HM Treasury Green Book. See FCA, How we analyse the costs and benefits of our policies, July 2018.

35 The main costs we asked for included: communication costs; IT development costs; training costs; governance costs; inbound consumer engagement costs; consumer transaction and sales costs; and other costs, which we asked respondents to specify.

- We asked providers to outline any interdependencies[36] in costs across the intervention. We report these costs in aggregate across the two measures (i.e. the SEAR and the Sunlight remedy).
- We asked providers, when considering the costs of the Sunlight remedy, to include the cost of bi-annual reporting of aggregate data on the number of accounts, customers and balances (total and by age of account opening) to us. As in paragraph 5.8 of the CP, we consider that these data will help us with monitoring and evaluating the impact of this intervention.

64. Our sampling approach to estimating costs to providers involved grouping firms into different size categories. We use this approach because the cost per provider can vary significantly by provider size and business model, and this approach helps us identify costs more accurately for providers outside of our sample (where we do not have information request responses for all the providers in a category).

65. Table 2 summarises the number of providers that offer easy access cash savings providers and responded to our information request.[37] In total, the providers that responded to our information request account for more than 80% of the easy access cash savings market.[38] While we did not receive many responses for other retail banks, we consider that the estimates we do have offer useful information for us to make an indicative estimate of what the overall implementation costs might be for this category of providers. We gathered qualitative insights from other retail banks to compare the data received from providers in this category. This has helped us to check the representativeness of the responses received for this category.

Table 2: Total number of easy access cash savings providers and how many responded to our information request

Easy access cash savings provider category	Number of easy access cash savings providers responding to our information request	Total number of easy access cash savings providers	Percentage of population that responded
Large PCA provider	6	6	100%
Building society	11	42	26%
Other retail banks	3[39]	44	7%
Total	**20**	**92**	**22%**

Source: FCA

36 By 'interdependency', we mean that the cost of implementing one proposal may overlap with, reinforce, or mitigate the costs for other proposals if they were implemented together.

37 We received responses from 20 providers. We gathered qualitative insights from 3 other retail banks who did not respond to our information request. The remaining 4 firms are made up of 3 smaller building societies and 1 other retail bank. We have received a number of responses from building societies, such that we do not consider that the non-responses have affected our ability to estimate costs reliably.

38 Based on the Ipsos MORI Financial Research Survey (FRS) using data for easy access cash savings accounts for the period of 12 months ending December 2018. The largest provider not in our information request sample is National Savings and Investments who would not be subject to our intervention. Our coverage of those providers affected by our intervention is, therefore, even larger (ie in excess of 80% of the market).

39 In addition to these 3 providers, 3 more providers, who were in our sample but did not respond to our information request, provided qualitative insight that helped us to test the responses from the providers who did respond in this category.

66. In the following section, when we estimate costs using data from providers' information request responses, we produce totals by:

- Summing total costs across all cost categories for large PCA providers, as we have the full population of providers
- Applying the average (mean) values of the cost estimates from providers in our sample to the remaining out of sample providers for those easy access cash savings provider groups where we only have a sample (i.e. other retail banks and building societies). For each provider group, we multiply this per-provider cost by the number of providers outside of our sample. We add this to the actual cost estimates from providers in our sample.
- Using a mid-point estimate where providers stated a range when estimating costs.
- Adjusting providers' cost estimates to account for interdependencies across the separate elements of our proposed intervention. We do this based on each provider's individual view on the extent of interdependencies.[40]

67. Our cost estimates are set out as both a per-provider range and an aggregate figure for each provider category. The per-provider range shows the variation of responses by providers within each category in the information request. We generate the total figure by using the approach described above. This shows the range of costs that providers might incur within each cost category, as well as the range of costs across different provider categories. Any mean or mid-point is not an expected cost for each firm in that category – we expect that, by definition, some firms will incur more and some will incur less than the average measure we present. We calculate the total costs for the market as the sum of the total cost figures for each provider category.[41]

One-off costs to providers of complying with our intervention

Familiarisation and legal review/gap analysis costs

68. We expect providers affected by our intervention will read relevant changes put forward as part of the proposals in this consultation paper and will familiarise themselves with the detailed requirements of the new rules and guidance. We have estimated the costs of this to providers based on the length of the CP (around 84 pages).

69. Table 3 sets out the total familiarisations costs by provider type, along with our assumptions. We estimate that the one-off industry cost of familiarisation would be £187,000.

40 We excluded one provider's cost estimate. This was sent to us as a 'second scenario', where the provider indicated that one option they were considering, in response to the SEAR's implementation, was to introduce a new front-book product to the market. We have excluded this because the SEAR's introduction would not force a provider to launch a new front-book product. This would be a commercial decision that we would expect providers to make and would assume they'd do so if the benefits they'd receive from doing so would outweigh the costs. Even if we were to add these costs in, they would be towards the lower end of OP41's predicted impact. We did include the provider's original cost estimate scenario in our analysis.

41 Where we have used an average cost to scale an aggregate market cost, we note that these are simply indicative costs for scaling purposes, as opposed to our expected cost for the average provider in that category. Our qualitative analysis reinforces our view that the precise costs for different providers will vary based on the precise size of providers, and how consumer interact and engage with their easy access cash savings account at a particular provider.

Table 3: Familiarisation cost staff numbers, time taken, hourly salaries assumptions and total estimates

Easy access cash savings provider category	Number of providers	Number of compliance staff required to read the document per provider	Number of hours per staff[42]	Hourly compliance staff salary (£)[43]	Total familiarisation cost (£)[44]
Large PCA provider	6	20	4.2	£57	£28,700
Building society	42	6	2.5	£60	£63,500
Other retail banks	44	9	2.5	£57	£94,800
Total industry	**92**				**£187,000**

Source: FCA, 2016 Willis Towers Watson UK Financial Services Report, ONS Annual Survey of Hours and Earnings

70. Following familiarisation with the proposals, we expect providers to conduct a legal review of the proposals and an accompanying gap analysis to check their current practices against expectations.

71. We have estimated this cost to providers of reading around 10 pages of legal text to review. Table 4 sets out the total legal review costs by provider type, along with the main assumptions used to estimate these costs. In total, we estimate the one-off industry cost of legal review is £56,600.

Table 4: Legal review cost staff numbers, time taken, hourly salaries assumptions and total cost estimates

Easy access cash savings provider category	Number of providers	Number of legal staff required to perform the review per provider	Number of hours per provider[45]	Hourly staff salary (£)	Total legal review cost (£)
Large PCA provider	6	4	65	£67	£8,800
Building society	42	2	25	£67	£25,300
Other retail banks	44	2	24	£64	£22,500
Total industry	**92**				**£56,600**

Source: FCA, 2016 Willis Towers Watson UK Financial Services Report, ONS Annual Survey of Hours and Earnings

42 We assume that there are 300 words per page and reading speed is 100 words per minute.
43 Hourly staff salary estimates have been rounded to the nearest pound in Table 5 and Table 6.
44 Costs rounded to nearest £1,000.
45 We assume that it takes each staff member 28 (large), 21 (medium) and 7 (small) hours to review 50 pages of legal text. The figures in this column multiply the number of legal staff required by the hours per page and the number of pages.

Other one-off costs

72. In total, we estimate that the one-off industry costs of complying with our intervention would be approximately £94m.[46]

73. Based on providers' responses to the information request, the direct one-off costs to providers from our intervention would mainly come from:

- IT development costs, requiring systems changes (42% of other one-off costs)
- communicating to consumers (41% of other one-off costs)

74. This would be the case particularly for providers with legacy IT systems. These providers may need more substantial IT systems changes and are likely to have a larger customer base to communicate these changes to. It might also be significant for providers who offer different interest rates to different groups of savings customers, where the interest rate does not vary based on age of account opening but varies based on the customer's relationship with the provider (such as a different rate to customers who also have current accounts and to those with a savings account only).

75. We also expect that some providers might incur training costs in ensuring that staff are aware of changes made to the way that easy access cash savings products are priced.

76. Some providers indicated that they may incur small strategy and governance costs related to deciding and receiving internal sign-off on setting the SEAR initially. Although we note that some such costs may not be truly incremental given providers already review their pricing approaches regularly.

77. The Sunlight remedy formed only 0.2% of the total costs estimated by providers in our sample. Most providers indicated that it would not lead to added one-off costs if implemented at the same time as the SEAR measure.

78. Table 5 summarises the total one-off costs by provider category. It shows that there is a wide range of estimates within provider category (and across the industry, which might be expected due to differences in providers' size). The total one-off costs estimate is made higher because of a small number of particularly large cost estimates by providers.[47] These tended to be a result of provider-specific assumptions when completing the information request or ways of running their business.[48] There were 2 providers who indicated that there would be no one-off costs in complying with our intervention, with another provider commenting that it expected one-off costs to be 'low' or not 'material'. For those that did anticipate there being notable one-off costs, most expected additional staff time would be resourced through existing staff, though there were some firms who did identify the potential need to use contractors as well. To control for the range of responses, and for illustrative purposes, total one-off costs using the median[49] are approximately £71m. These costs include the cost of implementing our proposed changes to disclosure of the SEAR.

46 This is the sum of the familiarisation and legal review costs summarised above (£0.3m), plus the other implementation costs estimated (£93.9m).

47 The mean is more sensitive to outliers. For example, the building society provider category average is £0.3m. The total of our sample's responses equalled £3.3m. As in Table 7, there was a single provider that responded with a total estimate of £2.5m (the next largest estimate was £0.25m). The mean estimate without this large response would be £0.1m. On the other hand, the median (the value separating the higher half from the lower half of a data sample – usually known as the 'middle' value of an ordered data set) remained unaffected at £0.1m in both scenarios (ie with and without the large estimate).

48 It is possible that some providers may have estimated costs based on a more restrictive interpretation of the SEAR.

49 Calculated by applying the median of the responses in our sample to those not in our sample. For the large PCA providers, the total remains as presented in Table 7 (as we received responses from all providers in this category). The median of the responses received for the large PCA providers was £6.8m.

Table 5: Total one-off costs to providers of our proposed intervention

Easy access cash savings provider category	One-off costs: range per provider (£m)	One-off costs: average for provider category (£m)	Total one-off costs (£m)
Large PCA provider	£2.1m - £25.6m	£9.8m	£58.7m
Building society	£0m - £2.5m	£0.3m	£12.7m
Other retail banks	£0.1m - £1.4m	£0.5m	£22.6m
Total industry	**£0m - £25.6m**	**£3.2m**	**£94m**

Note: Excludes familiarisation and legal review costs
Source: Providers' information request responses, FCA analysis

Ongoing costs to providers of complying with our intervention

79. In total, we estimate that the ongoing industry costs would be approximately £35m per year.

80. Based on providers' responses to the information request, the ongoing costs to providers from our intervention would mainly come from higher:

- customer transaction and sales costs (62% of ongoing costs)
- communications costs (33% of ongoing costs)

81. In DP18/6, we suggested that the SEAR's introduction might also reduce providers' ongoing costs of managing and reviewing multiple back-book accounts annually (paragraph 5.42). We did not receive responses to our information request that confirmed this. However, of the 20 providers that responded to our information request, 8 indicated that there would be no ongoing costs in complying with our intervention. A further 6 providers indicated that these ongoing costs would be less than £10,000 a year. Providers considered that most of the activity, after the initial implementation, would be captured in their 'business as usual' costs and resourced through existing staff. Half of the large PCA providers indicated that they would expect to resource any additional ongoing staff time needs through hiring new staff.

82. The Sunlight remedy formed only 0.9% of the total ongoing costs estimated by providers in our sample. Most providers indicated that it would not lead to added ongoing costs if implemented at the same time as the SEAR intervention.

83. Table 6 summarises the total ongoing costs by provider type. It shows that there is a wide range of estimates within provider category. The total ongoing costs estimate is made higher because of a small number of particularly large cost estimates by providers. Again, these tended to be a result of assumptions when completing the information request or ways of running their business. As before, if we use the median to calculate total ongoing costs,[50] then the estimate falls to approximately £25.5m per year.

50 Calculated by applying the median of the responses in our sample to those not in our sample. For the large PCA providers, the total remains as presented in Table 7 (as we received responses from all providers in this category). The median of the responses received for the large PCA providers was £0.8m.

Table 6: Total ongoing costs to providers of our proposed intervention

Easy access cash savings provider category	Ongoing costs: range per provider (£m per year)	Ongoing costs: average for provider category (£m per year)	Total ongoing costs (£m per year)
Large PCA provider	£0m - £19.0m	£4.0m	£23.9m
Building society	£0m - £1.1m	£0.1m	£4.1m
Smaller retail bank	£0m - £0.5m	£0.2m	£7.3m
Total industry	**£0m - £19.0m**	**£1.3m**	**£35.2m**

Source: Providers' information request responses, FCA analysis

Other ongoing costs to providers

84. This section covers our analysis of other potential costs to providers of our proposed intervention beyond implementing our intervention. These include costs associated with:

- funding models and liquidity management
- innovation and product simplification
- opening additional accounts if switching increases

Funding models and liquidity management

85. This kind of intervention might affect providers' funding strategies in two distinct ways:

- reducing the stability of deposits (e.g. if switching increases after 12 months)
- increasing the cost of holding deposits (i.e. paying a higher amount of interest to back-book consumers), which, in this case, is the higher interest payments to consumers of between £148m to £381m a year.

86. It is not reasonably practicable to reliably estimate the costs here of affecting providers' funding strategies, as it would require a series of assumptions that would be, at best, speculative. Our view, however, is that the impact of our intervention on providers' funding models and liquidity management would be small. This is because:

- the SEAR's predicted market impact (i.e. £148m to £381m a year) is small relative to the size of the easy access cash non-ISA market (£354bn in 2013, p. 16 of the CSMS; £400bn in 2018, based on the sample of firms in our information request). It is also small relative to other markets in which providers source other forms of funding (e.g. based on analysis of data collected for our Strategic Review of Retail Banking Business Models, total PCA deposits were worth £290bn in 2017) and lend funds in other markets (e.g. based on FCA (2019), Mortgage lending statistics – September 2019 the mortgage market is worth £1.46tn in 2019 Q2).
- Providers can reduce deposit volatility by paying a higher SEAR, thereby reducing the incentives for consumers to switch. Each provider would need to weigh up the costs of deposit volatility with the cost of paying a higher SEAR.

87. We consider that the SEAR will have different impacts depending on the type of provider. Our analysis to date suggests that larger, incumbent providers of easy access cash savings are likely to be more affected by a SEAR due to their larger back-books. Providers with smaller back-books are likely to be less affected. We set out our views of this in Table 7 below.

88. Fixing the end date of the front-book rate might cause a slight increase in switching[51] and may, therefore, affect providers' ability to retain deposits. It is also possible that customers would focus their attention on the SEAR rather than the front-book rate when selecting a product; this could reduce the traction of front-book rates. It could in turn increase liquidity stress, as providers would need to increase their SEAR to attract an inflow of deposits. This may have a particular impact on small providers and building societies which have fewer alternative funding sources. However, we think this is very unlikely. Research shows that consumers tend to focus on the most salient price when making decisions, which is, generally, the current price (exhibiting 'present bias').[52]

Table 7: Impact of a SEAR on different providers' liquidity management

Easy access cash savings provider category	Definition
Banks with large back-books	• The SEAR would reduce these providers' ability to manage the back-book's liquidity. • Currently, these providers hold deposits in multiple back-book accounts. This helps them manage the in-flow and out-flow of funds. Providers can engage in small-scale testing of how responsive existing (back-book) customers are to changes to their interest rate. Any errors (e.g. lowering the rate too drastically) are constrained to the single account type on which a provider tests the rate change. The SEAR makes this kind of liquidity management much more difficult. Any miscalculations are likely to be costlier. • The SEAR could make easy-access deposits more volatile when the SEAR kicks in (i.e. the front-book rate drop to the SEAR might cause more people to switch than before). • We cannot reasonably estimate a cost for these two impacts. However, we expect that the cost impacts are likely to be limited for these providers.
Banks with small back-books	• The impact on these providers' liquidity management is likely to be low. This is because they have smaller back-books and so rely on these less as a source of funding. • Some of these providers may, instead, rely on other forms of retail deposits (e.g. fixed-term deposits). This might be particularly true of smaller, specialist banks. These providers' liquidity management focuses more on 'locking in' funding through fixed-term deposits. Hence, a SEAR may have an even smaller effect on these providers. • These providers are more accustomed to competing on price (i.e. interest rates) since they are likely to have a less well-known brand and/or restricted branch presence. Smaller providers also tend to have simpler product ranges already so it may be easier to implement

51 While we predict an increase in switching, the high level of consumer inertia means that it is unlikely that a large proportion of consumers will switch.

52 See, for example, Gabaix, X. and Laibson, D. (2006), Shrouded Attributes, Consumer Myopia, and Information Suppression in Competitive Markets, The Quarterly Journal of Economics.

Building societies	• The SEAR would reduce these providers' ability to manage the back-book's liquidity. Relative to banks, building societies tend to hold more capital (relative to total assets and risk-weighted assets). Reasons for this include building societies having: to hold a certain proportion of member deposits (as part of their funding model); fewer options for attracting alternative funding sources (i.e. more limited access to capital markets); fewer ways to distribute excess capital; and greater constraints on leverage requirements due to their focus on lower-risk mortgages. So, the impact on their funding models may be greater. • However, they tend to offer higher interest rates than banks already[53] and have relatively small back-books (in absolute terms). Building societies in our information request appear to hold a high proportion of their balances in accounts opened more than 5 years ago (on average, 64%). However, unlike the large PCA providers, there appears to be a much smaller interest rate difference between these accounts and those opened in the last year (on average, 0.16 percentage points). We would not expect the SEAR to have a significant impact on how building societies price these savings products.
Providers with no back-book	• These providers have all their customers on a savings interest rate that is marketed to new consumers. Our intervention should cause no impact on these providers' liquidity management costs. • If, as OP41's modelling indicates, providers with back-books lower their front-book rates slightly in response to the SEAR, then providers with no back-books could also lower their front-book interest rates (if they did not want to pay as much to attract deposits). These providers also have the option of holding their interest rates constant, thereby improving their relative competitive position. • As with some of the banks with small back-books, there may be providers who have no back-book because their funding model relies more on fixed-term deposits.
Providers that already have a single back-book rate	• We do not expect that there would be a notable impact on these providers' liquidity management. • There might be a small impact if their current offering afforded them a competitive advantage against other providers (i.e. some customers may value the simplicity of a provider's offering when compared to other providers with multiple back-book products). We consider that this impact is small.

Source: FCA

Innovation and product simplification

89. Introducing a SEAR will affect providers' product offering. The simplified product range might lead to some real or perceived product choice reduction. By allowing only 2 SEARs (i.e. one for easy access cash non-ISAs and one for easy access cash ISAs), providers would be unable to offer, for example, differential interest rates for back-book accounts:

- operated through different channels (e.g. online only, branch only)
- which pay different interest rates based on the balance deposited ('tiered' accounts)
- which pay preferential interest rates based on either the length of the customer's relationship with their provider or the customer having another product with that provider (for example, a current account).

The SEAR may also limit providers' ability to innovate among back-book products, since the SEAR constrains their ability to offer more than one back-book product.

53 CSMS data indicate that smaller providers have fewer back-book deposits so will not be affected to the same degree as incumbents by the SEAR.

90. We consider that the cost impact of this is limited. This is for the following reasons:

- Under our proposal, the SEAR would apply after 12 months, before which providers would be free to offer a variety of products to consumers. The SEAR might encourage further innovation in the front-book product offering. It should be noted that providers would also have other types of cash savings products with which to innovate further (e.g. fixed-term and regular savings accounts, as well as current accounts). There is little evidence to suggest that there has been much, if any, innovation on easy access cash savings back-book products.
- Providers can still reward loyalty if they wish to make this part of their service offering. For example, they could set the SEAR higher than their front-book rates. They could engage loyal customers to roll them onto a higher paying (and potentially exclusive for loyal customers) front-book product.
- Loyalty products appear to be a small proportion of the market (in terms of balance size, number of customers and number of accounts open), and are concentrated among a small number of providers.[54]

91. It is not reasonably practicable to estimate this cost due to the dynamic nature of innovation.

Opening additional accounts if switching increases

92. While providers can earn interest on the balances deposited (e.g. through lending markets), thereby benefitting from opening an account for a customer, we acknowledge that there may be costs associated with opening new accounts (usually the opportunity cost[55] of staff time).

93. We expect that there might be an increase in switching and, therefore, account opening activity for some groups of consumers (e.g. front-book and mid-book). We set out our rationale for this later in this CBA (paragraphs 100 and 119 to 130). It is unclear whether this will lead to a net increase or decrease in account openings, however. This is because some consumers may simply move money to pre-existing savings accounts (accounts they already have open but which pay a better rate of interest) and so not need to open new accounts. Nevertheless, there may be some providers which experience an increase in the number of accounts opened following the SEAR's introduction.

94. Providers' response to our information request indicated that the incremental cost of opening an easy access cash savings account ranges from £0 to £100 per account.[56]

95. It is not reasonably practicable to estimate this cost as we do not have any reliable manner of being able to estimate the change in the number of accounts opened due to our intervention.

54 We discuss loyalty accounts further in Chapter 3 of the CP. Loyalty accounts form: 14% of balances; 9% of customers and 6% of accounts (all relative to the total easy access cash savings market in 2018).

55 This is a cost in terms of the time that staff could be using to do other work.

56 We requested that providers respond with the marginal cost of opening and servicing an easy access cash savings account, by access channel (eg branch only, online only, omnichannel). We consider that some of the responses included an allocation of fixed overheads. Despite this, we have not sought to omit or amend providers' response. The range, therefore, could be an overstatement of the actual marginal cost of opening an easy access cash savings account.

Costs to consumers

96. This section covers the potential costs to consumers of our proposed intervention. These include:

- waterbed effects between easy access cash savings consumers (which we do not discuss here, however they are discussed in the benefits section, in paragraphs 131 to 136)
- waterbed effects on the price of other retail products (i.e. other savings and lending products)
- time costs for consumers
- costs associated with reduced product choice and access

Waterbed effects[57] on the price of other retail products

97. Paragraphs 80 to 83 explain that our intervention could lead to providers incurring higher costs directly (e.g. paying more for the same deposits) and/or indirectly (e.g. consumers switching away, with additional churn creating costs).

98. So, in response to the SEAR, firms could look to offset liquidity management costs associated with the SEAR in other retail markets (e.g. lending markets). This may especially be the case for building societies, which may be more focused on mortgages due to low net interest margins than providers more focused on unsecured or SME lending. In aggregate, consumers end up paying the same total price across a complete suite of products. This is known as a 'waterbed' effect.

99. Our view is that such pass-on would be limited and unlikely to offset consumer gains in the cash savings market. This is because:

- Small firms and new market entrants,[58] that compete on the same lending markets, would be less affected by the SEAR (because they have fewer back-book balances on lower rates). Hence, we expect that small firms would not change their lending rates and this would discourage larger firms from increasing their lending rates significantly in response to a SEAR. This kind of constraint extends into other savings products too. Some providers that offer fixed-rate savings products do not offer easy access cash savings products.
- Providers' response to a set of simplified, hypothetical scenarios in our 2018 information request suggested that over a small range (relative to the provider's size) of funding cost increases or funding benefit (i.e. customer deposit) reductions, they would tend not to pass-on costs to consumers. This appears to change if the costs rise significantly and/or costs affect the market unilaterally.
- There are other factors (e.g. wholesale funding costs) that have a notable impact on how firms price their retail products. Lending rates are not affected only by the cost to firms of paying their easy access cash savings customers interest.

We do not think that it is reasonably practicable to quantify these costs in a reliable manner as such an exercise would rely on a series of highly-speculative and simplified assumptions but we consider these costs to be small.

57 A 'waterbed effect' can arise, generally in two-sided markets, when prices are pushed down (eg through regulation), on only one side of the market, resulting in prices rising on the other side to compensate for this. It can also occur when one, or more, consumer groups gain at the expense of other consumer groups.

58 As providers grow, this will begin to affect them more.

Time costs for consumers

100. By simplifying a market that is more complex than necessary, we should make comparison and switching easier (particularly among customers currently in the mid- or back-book). If consumers choose to switch, there is an opportunity cost to their time. However, we consider that consumers will choose to do this only if the benefits of doing so (i.e. the higher amount of interest paid on their savings) outweigh the time costs from shopping around and switching. Our proposals are also intended to improve consumer awareness of the long-term value offered by their product, and the implications of not switching, so while comparison and switching should be easier, decisions not to switch can also be made on a more informed basis.

Costs associated with reduced product choice and access

101. We set out in paragraphs 89-91 above that our intervention may limit providers' ability to offer the same range of products in the back-book (such as tiered back-book rates). It is worth noting that consumers do not actively choose to be in a back-book product – they either opt-in to a new front-book product or exercise the option to stay with the current back-book product. So, we do not consider this to be a material reduction in choice for consumers.

102. While restricted choice, to the extent it would arise, could be a cost to consumers, we consider that this will be limited in practice. There is evidence to suggest that:

- giving consumers more, or too many, options when they are making choices does not necessarily lead to better outcomes (and, in some cases, can lead to worse ones).
- reduced choice can lead to better market transactions[59], through making selecting a suitable product easier and increasing engagement.

103. We do not think it is reasonably practicable to place a monetary estimate on the potential cost of reduced product choice and access, as it would require knowledge of consumers' valuation of future consumption decisions, as well as modelling of providers' potential response to the interventions. It is also unclear, given the reasons above, whether this will increase or, in fact, reduce costs.

104. Reductions in product choice can, in some circumstances, lead to greater risk of coordination between firms. We do not think this is likely in this case because there will remain a significant number of providers for cash savings products. In addition, firms will set interest rates for their products by weighing up the rates offered on their front book and their back book in order to attract and retain customers. Given competition on the front book will be as vigorous as it is today, that competition is likely to limit the potential for coordination on the back book. Finally, interest rates are already transparent for providers to see.

59 See: Costa, E., King, K., Dutta, R., and Algate, F., 2016, Applying behavioural insights to regulated markets, The Behavioural Insights Team for Citizens Advice (page 16, in particular, for discussion on choice overload).

Costs to the FCA

105. We intend to absorb the costs of implementation and evaluation of this intervention through our work on fair pricing in financial services. This is one of our long-term priorities, and involves considering a wide range of issues including firm ethics and culture, weak competition and over-complexity in markets.

Benefits

Benefits to consumers

106. This section covers the potential benefits to consumers that arise from our intervention. These benefits include:

- higher net interest payments
- lower switching costs and increased engagement due to improved price transparency
- dynamic competition benefits

107. In each sub-section, we have provided a qualitative assessment of the benefits to consumers and, where reasonably practicable, we have attempted to estimate the benefits, in monetary terms, of our intervention.

108. We consider that SEAR would provide a better outcome for some groups of consumers that might not be able to act (e.g. due to poor financial literacy and confidence).[60] DP18/6 (para 2.4) highlighted that the distribution of account length for vulnerable consumers[61] (relative to the distribution for non-vulnerable consumers) is:

- disproportionately likely to be in the back-book
- no discernible difference for the mid-book
- disproportionately less likely to be in the front-book

109. As a result, the SEAR affects vulnerable consumers positively. However, quantifying the scale of these benefits to this specific group of consumers is not reasonably practicable.[62]

60 The FCA's Financial Lives Survey (conducted January to March 2017) includes responses from 20 types of vulnerable consumer groups. We find that, for 10 of these groups, there are disproportionately more longstanding, back-book customers from vulnerable consumer groups than non-vulnerable consumer groups (based on statistical significance testing). For example, 62% of consumers considered to have access problems have savings accounts for five or more years; this falls to 46% for those without access problems.

61 This is for the majority of the various vulnerability categories.

62 To conduct this analysis, we would need, inter alia: i) account-level data for individuals, including balance held, interest rates received and length of account opening; and ii) account-level metrics on individuals' characteristics in order to make assessments of their vulnerability consistent with the FCA's Financial Lives Survey 2017. This would allow us to work out the likely gains to different consumer types, based on their characteristics and length of account opening.

A summary of the SEAR's modelled impact

110. Based on the modelling described above and the different impacts on different types of consumers, OP41 estimates that the SEAR delivers benefits (i.e. higher net interest payments) ranging between approximately £148m and £381m (with a central estimate of around £261m)[63] a year in the easy access cash non-ISA market. This is a net transfer from providers to consumers.

111. The main drivers underpinning this estimate are that:

- back-book consumers are less price sensitive than mid-book consumers
- the back-book is larger than the mid-book.

These features are derived from the evidence we have seen in our analysis of customer cohorts' retention behaviour (see Figure 5 in DP18/6).

112. We respond to views received on OP41's modelling, as part of DP18/6's consultation process, in Annex 2. However, we consider that our estimated impact of the SEAR in the easy access cash non-ISA market is reasonable, evidence-based and fit-for-purpose, including being based on reasonable assumptions. The findings of any economic modelling should be considered alongside all the other qualitative and quantitative evidence.

113. We have not modelled the SEAR's impact on the easy access cash ISA market due to data limitations (see FCA OP41). We note that, although there are clear differences between the two markets, we consider that:

- market dynamics are similar; and
- the same pricing issues exist in the easy access cash ISA market.[64]

114. Our primary reason for our intervention applying to ISAs is therefore that we found harm in the market. We also note that if a SEAR were implemented in only one of the two markets, providers might be able to circumvent a potential rule by incentivising consumers toward the other product market. This would undermine a SEAR's potential impact. The similarity in pricing practices means that a SEAR is expected to have a similar, but proportional, impact on the cash ISA market as well. By proportional, we mean that the easy access cash ISA market, in 2013, was approximately 30% of the size of the easy access cash non-ISA market[65] and a lower share of balances sat in the back-books of those accounts.

115. If we scale the estimated impact from the easy access cash non-ISA market to the easy access cash ISA market, this would equate to an impact of £26m to £67m per year. However, this estimate is purely indicative and would need the same assumptions in the modelling to hold for the easy access cash ISA market. This indicative additional net benefit comes without any incremental implementation costs, as these have already been presented in Table 7 and Table 8.

116. If interest rates were to rise in the future, the difference between interest rates on

63 The range of around £148m to £381m a year captures a 90% confidence interval.

64 For balance distributions and interest rates by age of account, see Figures 9-14 of Annex 3 in CSMS. Interest rates decrease by account age in both markets, while fewer balances sit in the back-book for the cash ISA market.

65 This is £108bn divided by £354bn, which is 30.51%. The exact figures are £45.2m to £116.2m a year. However, these figures are scaled back further to take account of a lower proportion of back-book balances in the easy access cash ISA market. The equivalent percentage using the 2018 data is 40.22%.

new and old accounts may increase.[66] The analysis presented in OP41 indicates that the revenue impact (i.e. the net transfer) would increase, from the current estimate of £148m to £381m per year, as interest rates rise. Based on the sensitivity analysis in OP41, we note that the impact scales roughly proportionately as interest rates change. That is, if interest rates double, measured by lending rates (relative to the rates observed in the dataset between 2010-14), then the SEAR's impact doubles (the model estimates that the net effects approximately double if lending rates increase from approximately 4% to 8%). And, if interest rates halve, the SEAR's impact roughly halves

117. The model's sensitivity has been tested against CPI inflation projections to understand the impact of an interest rate increase.[67] Using the upper bound of this inflation projection range (4.7%), the model predicts an increase in the SEAR's impact by about 50%. Using the lower bound of this projection range (-0.5%) reduces the impact by about 40%. Under these assumptions, in Q1 2021, the estimated impact of the SEAR would be between £160m and £430m a year.

118. If interest rates did rise substantially (e.g. by more than the Bank of England's upper end CPI inflation projections), it is worth noting that providers might look to pass on some, or all, of the rate change on to their lending customers (i.e. higher lending rates). We have seen[68] that providers tend to pass base rate increases on to lending rates quicker than they do for savings. So, while providers may pay higher interest rates for savings if the base rate increases, we anticipate that this impact would be lessened by price increases in lending markets.

The SEAR's expected impact across customer groups

119. The SEAR is intended to simplify the market and enable longstanding customers to benefit from firms pricing their rates to retain customers after the expiry of an introductory rate.

120. As this CBA sets out, we estimate there to be net benefits to consumers from this intervention. However, the SEAR's impacts will differ across the three customer groups (i.e. front-book, mid-book, and back-book) based on their respective behaviour. The following three sub-sections below outline, in turn, the impact on different consumer groups (based on their pre-SEAR behaviour).

66 This is in line with historical behaviour (see, for example, Anderson RDJ, Ashton JK, Hudson RS. (2014), The influence of product age on pricing decisions: An examination of bank deposit interest rate setting, Journal of International Financial Markets, Institutions and Money).

67 Bank of England (2019), Inflation Report August 2019, Table 5.A and Chart 5.4. The projection includes a range of CPI inflation rates up to Q1 2022. The midpoint of the CPI inflation projection in 2021 Q1 stands at 2.2%, the 90th percentile at 4.7% and the 10th percentile at -0.5.

68 See here for example

121. The sub-sections follow on from how the SEAR works. This is as follows:

How the SEAR works	Explanation
Providers choose to set the SEAR rate which maximises profits	The SEAR will be set somewhere between the current mid-book and back-book rates.
The exact rate setting depends on the relative price sensitivity of the mid-book and back-book	The relative price sensitivity and the distribution of balances between the mid-book and back-book are the key drivers of rate setting behaviour. The evidence (i.e. the combination of Figure 3 and Figure 4 in DP18/6) suggests that mid-book customers are price sensitive when account interest rates fall.[69] Figure 4 showed that balances decline noticeably between a year and two years of an account opening. Figure 3 showed that this behaviour coincides with a significant decrease in the interest rates for easy access cash non-ISA products.
The closer the interest rate is set to the pre-SEAR back-book rate, the lower the benefits to back-book customers	Providers will set the SEAR taking into account the distribution of balances across the back-book and the price sensitivity of their customers. If they set the SEAR at the pre-SEAR back-book level, they risk losing too many of their mid-book customers (either to their front-book rate products or to their competitors).
Mid-book consumers 'win' or 'lose' depending on their price sensitivity	Some mid-book customers, who choose not to switch their savings balances, lose out from a SEAR lower than their existing interest rate. They may gain in the longer-term if the SEAR is higher than the back-book rate that they would receive if they enter the back-book in future. The more price sensitive mid-book customers are likely to switch to higher front-book rates.

122. Switching rate changes should not, in isolation, be considered as a measure of whether the SEAR is pro-competitive. In fact, switching rates, for certain types of consumers, should fall if the SEAR has achieved its aims. That is, if consumers are happier with their offer, they should no longer need to bear search and switching costs. This impact improves consumer outcomes and, as a result, is a benefit.

a. *Front-book consumers*

123. OP41 predicts that these consumers are unlikely to be affected significantly by the SEAR.

124. These consumers would receive a marginally lower interest rate when they switch to a new front-book rate product since front-book rates from some providers are expected to reduce slightly. However, this impact is likely to be small – the estimated absolute interest rate change in OP41 is about 0.01 percentage points. Inaction by these consumers would mean a relatively larger fall in the rate they would receive with the SEAR (i.e. front-book rate to the SEAR) than the one that they face currently (i.e. a relatively smaller rate reduction from a front-book rate to a mid-book rate).

b. *Mid-book consumers*

125. OP41 shows that some mid-book consumers might lose out from a lower SEAR in the short-term but the more price sensitive mid-book consumers might be likely to switch to higher front-book rates and would benefit (net of switching costs).

69 Especially those between quarter 4 and quarter 8 (denoted by the red dashed lines in Figure 5 of DP18/6).

126. Absent the SEAR, these consumers' front-book rates expire and they move to a lower rate – but not a rate as low as the longstanding back-book consumers' rate. Figure 5 in DP18/6 shows that, on average, nearly 60%[70] of these customers tend to switch when this happens.

127. The SEAR's initial impact, as modelled, is such that these consumers would receive a lower savings interest rate than they would have received but-for the SEAR. The SEAR would remove providers' ability to reduce consumers' rates gradually. Hence, these mid-book consumers would face a much more noticeable drop (a 'cliff-edge') to their interest rate than before.

128. We would expect this 'cliff-edge' rate drop to increase these consumers' propensity to engage and switch in the market. This is because there is likely to be relatively more to gain from switching (as compared to the status quo). We consider that this would have two effects:

- it would maintain the need for competitive front-book rates, as providers will compete for these consumers that switch
- it would protect back-book rates by incentivising providers to set the SEAR at a rate that prevents these mid-book consumers switching away.

c. *Back-book consumers*

129. These consumers (i.e. longstanding back-book customers) would receive a higher rate compared to the baseline scenario. The analysis in OP41 indicates that the interest rate differential between front-book and back-book rates for these consumers would narrow noticeably. We expect that this would, in turn, reduce their propensity to switch further. However, this propensity was already low.

130. In summary, we anticipate that back-book consumers would gain from the policy proposal. Front-book and some mid-book consumers might lose out. This is explained in further detail below.

Waterbed effects within the easy access cash savings market across consumer groups

131. The SEAR's modelling takes into account 'winners' (current back-book and some mid-book) and 'losers' (current front-book and some mid-book) to arrive at the net impact of £148m to £381m a year.

132. In the CSMS, some providers told us that potential interventions in the cash savings market would lead to outcomes akin to a zero-sum game. They said (see p.88 of the CSMS) that changes in interest rates paid to one group of accounts (e.g. older accounts) would result in directly offsetting effects in the interest rate paid to other groups (e.g. newer accounts).

133. We do not find reason to believe that, in general, the SEAR's effect would net out to zero across accounts for the following reasons:

- Our analysis in OP41 suggests that the outcome of the waterbed effect is still positive because the analysis suggests that there is only a slight reduction in front-book rates. This lack of reduction is due to competition in the market to attract

70 Based on Figure 5 in DP18/6, the figures for Cohorts 1 to 4 for Quarter 4, respectively, are: 73, 71, 65, 66. The unweighted average (mean) is 68.8. The figures for Cohorts 1 to 4 for Quarter 8, respectively, are: 35, 29, 28, 25. The unweighted average (mean) is 29.2. The percentage change between the two unweighted averages is 58%.

consumer deposits (both within the cash savings market, but also from close substitute markets[71]). This competition to attract deposits constrains providers in lowering front-book rates further. Smaller and newer providers would be less affected by this policy (as they have relatively smaller back-books) and are expected to continue offering similar competitive front-book rates.
- If there were a zero-sum game, those providers with more balances in older accounts would also be the providers offering the higher interest rates for newer accounts; this is not the case.
- It is not clear that those providers with larger back-books offer better prices in other markets. In lending markets (e.g. in the mortgage and credit card markets), these providers compete with non-deposit takers and with providers that have a relatively small back-book. There is little evidence that the providers with large easy access cash savings back-books are consistently offering lower prices in other markets.

134. At an individual consumer level, this impact depends on:

- the savings account balance
- the differential between the pre-SEAR interest rate and the SEAR.

135. It would be misleading to compare the change in outcome (e.g. interest earned) for an average current consumer with an average consumer in a world after the SEAR has been implemented. This is because:

- Consumers will adjust their behaviour in response to the interest rates changes over time.[72] Any analysis will be based on a static view of a dynamic process, which is likely to be inaccurate.
- The data used for OP41's modelling did not contain customer-level data; it used aggregated cohorts of customer balances over time. It is, therefore, a top-down model which estimates overall effects across the market, rather than one that can be used to extract precise estimates of customer-level impacts.
- Any consumer-level estimate from the model is likely to understate the likely financial gain (and wider benefits), for the reasons highlighted in this benefits section.

136. For the differential between the pre-SEAR interest rate and the SEAR, OP41 estimated the following impacts:

- the front-book rate would fall by 0.01 percentage points (1.35% to 1.34% for the representative large firm)
- the mid-book rate would fall by 0.14 percentage points (0.92% to 0.78%)
- the back-book rate would increase by 0.23 percentage points (0.55% to 0.78%)

71 These could include fixed-term products. Easy access products usually pay lower interest than fixed-term products. The rate differential can be seen as the cost of being able to access funds easily. However, if the interest rate differential between the two types of products increases too much, then some consumers may no longer consider that the cost of accessing funds is worth bearing (ie the additional returns from fixing outweigh the inconvenience of tying up funds for a fixed period of time).

72 The model estimates the impact dynamically; providers select what is, for them, the optimal front-book and SEAR rate based on their knowledge of consumer behaviour, demand for new front-book balances and the retention of the existing balances. Consumers react by switching more (less) if their interest rate is lower (higher). When they switch, they choose the provider with the best rate, subject to other factors such as convenience, brand recognition, etc.

Additional effects that might be underestimated in the modelling

137. We consider that OP41's estimate of the SEAR's impact might be an understatement because of two effects that it cannot fully capture.

138. The modelling assumes any interest rate drop, whether gradual or sudden, has the same impact on switching; in practice, we expect that a 'cliff-edge' drop (i.e. when the front-book rate ends and switches to the SEAR) would increase switching further than estimated.[73] This is because the model's estimates of how sensitive consumers are to interest rate changes and, therefore, their propensity to switch, is based on observed interest rate changes and consumer behaviour during the period. These rate changes are gradual changes, rather than cliff-edge drops. So, the analysis cannot estimate how consumers might react to large price changes, as it has no way to observe how they have reacted in the past.

139. The modelling relies on 4.5 years of data only; providers' back-books extend beyond 4.5 years (i.e. in practice, the price discrimination of providers' back-books is larger). The average back-book rate (without SEAR) is likely to be lower than estimated in OP41 (since those with even older accounts are likely to be receiving a lower interest rate). These consumers would benefit the most from being pooled with mid-book consumers (whose price sensitivity remains). The gains to these consumers are therefore likely to be higher than those that we estimate from the modelling. On the other hand, the balance of back book, compared to the balance of mid book, will also affect the levels of the SEAR and hence the benefits it can achieve.

Other potential benefits to consumers

140. The findings from OP41's modelling may understate the size of the SEAR's benefits. This is because of the existence of other non-quantifiable benefits that extend beyond the immediate financial benefits.

Price transparency, engagement and switching costs

141. The SEAR's introduction would allow only one back-book rate for easy access cash non-ISA and easy access cash ISA products respectively. This improves price transparency. We expect that this, combined with a Sunlight remedy, would increase awareness among consumers (either directly or through media attention) of the deal that they are getting.

142. DP18/6 set out the evidence collected through trialling the Sunlight remedy over a period of 18 months during 2015-16 (para 3.12 and 3.14). We found that the trial did not have a clear, measurable impact on providers' rate setting strategies. We set out various reasons for this, including the lack of comparability between different firms' back-book accounts in practice. We did find that the Sunlight remedy was successful in attracting significant media attention, drawing attention to poor rates. Given that it was successful in a market that had multiple back-book products, we consider that it will have greater success in a simpler market where the SEAR will make back-book rates much more comparable and relevant to consumers (via media attention).74

73 A paper by Tewari explores previous behavioural literature in this area. The paper suggests that: dramatic price changes, such as large discounts, are often used by providers seeking to boost sales; and equivalent major price increases may severely inhibit sales, in fact even more so (as people feel losses more than gains), hence some providers prefer to raise prices gradually.
Kahneman, D., & Tversky, A., 1984, Choices, Values, and Frames, American Psychologist. 39 (4): 341–350.
Tewari, J.K., 2015, Price change strategies over time – using dramatic major changes versus smaller incremental changes, Journal of Behavioral Studies in Business, Vol. 8.

74 We expect that the Sunlight remedy will work in a similar manner to how we expect our recent proposals to require firms to report General Insurance value measures data to the FCA for publication.

143. There is evidence to suggest that giving consumers more, or too many, options when they are making choices does not necessarily lead to better outcomes (and, in some cases, can lead to worse ones).[75] The removal of multiple back-book products would support greater product simplicity and would reduce price obfuscation in the market.[76]

144. These effects would reduce search and switching costs. This, in turn, could deliver welfare gains[77] for consumers and might lead to more transactions happening in the market (e.g. consumers may have greater confidence in the market if they perceive there to be more fairness present). The modelling does not factor in this additional uplift. We think that any estimate of such an impact would be highly speculative, hence we do not consider that it is reasonably practicable to estimate it.

Dynamic competition benefits

145. Interventions that reduce barriers to entry and expansion can stimulate competition and lead to better quality and/or price for consumers. Since the SEAR affects existing providers' back-books, smaller and newer providers should be, relatively, less affected.[78] Smaller, newer providers can offer higher back-book rates currently, but they do not have much of a back-book, relative to larger incumbents, because they:

- are new, so have less time to build a back-book
- do not have the same brand strength
- have more active customers (who have been willing to forego the two previous points for attractive front-book rates, but then switch away once the interest rate falls).

146. Smaller providers with larger back-books appear to have less of an interest rate differential between new and old accounts (see Table 9).

147. Strategic Review of Retail Banking Business Models: Final report show that larger providers' advantage of having a large back-book (ie cheap access to deposits, predominantly through cross-selling to PCA holders) may reduce with the SEAR, since all providers would be challenged to pay more in the back-book – especially those with large back-books.

148. We would also expect smaller and newer providers to benefit from the increased transparency and switching. More shopping around could encourage consumers to switch to alternative providers. In addition, shining a light on the way providers treat their longstanding customers may prompt those customers to move to alternative providers, who may offer higher rates and, possibly, better service.

75 Costa, E., King, K., Dutta, R., and Algate, F., 2016, Applying behavioural insights to regulated markets, The Behavioural Insights Team for Citizens Advice (page 16, in particular, for discussion on choice overload).

76 Papers on retail financial markets indicate that complexity increases the market power of the providers because it prevents some consumers from becoming knowledgeable about prices in the market. There are models which show that increasing competition might lead to providers introducing more complexity to their prices, rather than improving disclosure, as their best response. This reduces consumer surplus.
There is also evidence to suggest that providers manage their product lines, offering both good and poor products, as part of their commercial strategy to steer consumers to certain products.
Carlin, B.I., 2009, Strategic price complexity in retail financial markets, Journal of Financial Economics, 91, pp.278–287.
Kamenica, E., 2008, Contextual Inference in Markets: On the Informational Content of Product Lines, American Economic Review, 98:5, pp.2127–2149.

77 This helps support competition by reducing search and switching costs (through price transparency). Consumer switching costs provide providers with a degree of market power. Reducing these costs is pro-competitive.
Farrell, J., and Klemperer, P., 2007, Coordination and lock-in: Competition with switch costs and network effects, Handbook of Industrial Organisation, 3, pp.1967-2072.
Lynch, J.G., and Ariely, D., 2000, Wine online: search costs affect competition on price, quality and distribution, Marketing Science, 19(1), pp.83-103.

78 CSMS data indicate that smaller providers have fewer back-book deposits so will not be affected to the same degree as incumbents by the SEAR.

149. This could, ultimately, lead to larger providers needing to increase their front-book and back-book interest rates to retain customers, which could help reduce the identified harm further.

150. We do not think it is reasonably practicable to estimate these benefits robustly due to the dynamic nature and long-term impacts of competition. However, we expect any impacts that enhance competition ultimately to lead to net positive outcomes for consumers.

Annex 4
Compatibility statement

Compliance with legal requirements

1. This Annex records the FCA's compliance with legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).

2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules is (a) compatible with its general duty, under s. 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, and (b) its general duty under s. 1B(5)(a) FSMA to have regard to the regulatory principles in s. 3B FSMA. The FCA is also required by s. 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.

3. This Annex also sets out the FCA's view of how the proposed rules are compatible with the duty on the FCA to discharge its general functions (which include rule-making) in a way which promotes effective competition in the interests of consumers (s. 1B(4)). This duty applies in so far as promoting competition is compatible with advancing the FCA's consumer protection and/or integrity objectives.

4. In addition, this Annex explains how we have considered the recommendations made by the Treasury under s. 1JA FSMA about aspects of the economic policy of Her Majesty's Government to which we should have regard in connection with our general duties.

5. This Annex includes our assessment of the equality and diversity implications of these proposals.

6. Under the Legislative and Regulatory Reform Act 2006 (LRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRA.

The FCA's objectives and regulatory principles: Compatibility statement

7. The proposals set out in this consultation are intended to advance the FCA's operational objectives of promoting competition in the interests of consumers and of protecting consumers. The proposals are designed to improve outcomes for longstanding customers, and to simplify the market, which will aid consumer understanding and decision making. In developing these proposals, we have considered the most proportionate way of achieving these objectives, including assessing in detail potential other interventions in this document and in DP18/6. This includes ensuring the proposals do not have any unintended impact of current competition for new customers, and also recognising the general principle that consumers should be responsible for their own decisions.

8. We consider these proposals are compatible with the FCA's strategic objective of ensuring that the relevant markets function well because they aim to improve competition in the market and the overall consumer benefits arising from that. For the purposes of the FCA's strategic objective, "relevant markets" are defined by s. 1F FSMA.

9. In preparing the proposals set out in this consultation, the FCA has had regard to the regulatory principles set out in s. 3B FSMA.

The need to use our resources in the most efficient and economic way

10. We have had regard to this principle and do not believe our proposals undermine it.

The principle that a burden or restriction should be proportionate to the benefits

11. The CBA in Annex 3 sets out the costs and benefits for the proposals in this CP. We believe that the benefits of these proposals outweigh the costs, and have discounted more invasive options considered in DP18/6 that we consider would not be proportionate to the benefits.

The desirability of sustainable growth in the economy of the United Kingdom in the medium or long term

12. We have had regard to this principle and do not believe our proposals undermine it. Our proposals will make this market more competitive and deliver greater overall consumer benefits. The proposals also continue to provide firms with flexibility in managing their liquidity requirements and financial stability, and have the potential to increase consumer trust and participation in this market.

The general principle that consumers should take responsibility for their decisions

13. Our proposals do not restrict firms' ability to continue to compete vigorously for new customers, which means that our proposals continue to allow consumers who shop around and switch savings products to achieve better rates of interest than those who do not. Longstanding consumers who decide not switch will take responsibility for their decisions by receiving lower interest rates than they otherwise could. However, by simplifying the overly complex elements of this market for consumers, they will be able to have a better understanding of the longer-term outcomes of their decisions.

The responsibilities of senior management

14. We have had regard to this principle and do not believe our proposals undermine it.

The desirability of recognising differences in the nature of, and objectives of, businesses carried on by different persons including mutual societies and other kinds of business organisation

15. We recognise that our proposals could have a different impact on building societies and how they manage back-book liquidity relative to banks. However, as discussed in Chapter 3 in response to feedback on DP18/6, we have carefully considered this but do not believe that this will have a detrimental impact on building societies, as they tend to offer higher interest rates already, and many have smaller numbers of back-book customers. This is also considered in further detail in the CBA in this document.

The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information

16. This principle is not relevant to our proposals.

The principle that we should exercise of our functions as transparently as possible

17. In the development of our proposals we have acted as transparently as possible. We published our Cash Savings Market Study in January 2015, and a Discussion Paper in July 2018. This discussion paper set out our initial thinking on a range of remedies, and was published alongside an Occasional Paper setting out our modelling of our preferred option at that time. We have also gathered evidence from firms on the costs of our proposed remedies prior to publication.

18. In formulating these proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by s. 1B(5)(b) FSMA). We do not consider this relevant in relation to our proposals.

Expected effect on mutual societies

19. The FCA does not expect the proposals in this paper to have a significantly different impact on mutual societies. While we consider that the proposals will impact building societies differently to banks given their greater reliance on retail deposits for funding, we consider that the impact on their current prices for savings products will be less given their current pricing structures and distribution of customers with accounts of different ages. Our consideration of the potential impact on building societies is also considered in paragraph 15 of this compatibility statement, Chapter 3 of the CP, and in the CBA of these proposals. Our proposals would not apply to credit unions, for the reasons set out in Chapter 4.

Compatibility with the duty to promote effective competition in the interests of consumers

20. In preparing the proposals as set out in this consultation, we have had regard to the FCA's duty to promote effective competition in the interests of consumers.

21. The key objectives of our proposals are to improve competition between firms for their longstanding customers, maintain the competition that exists for new customers, and to simplify the easy access cash savings market. Firms will continue to make their own decisions about where to set their front-book rates and SEARs. The simpler market will be easier for consumers to navigate and form clearer expectations on the longer-term value of their products.

Equality and diversity

22. We are required under the Equality Act 2010 to 'have due regard' to the need to eliminate discrimination and to promote equality of opportunity in carrying out our policies, services and functions. As part of this, we conduct an equality impact assessment to ensure that the equality and diversity implications of any new policy proposals are considered.

23. The outcome of the assessment in this case is stated in paragraphs 2.15 and 2.16 of the Consultation Paper.

Treasury recommendations about economic policy

24. We have had regard to the Treasury's recommendations under section 1JAFSMA. Our proposals are consistent with these recommendations, as they aim to improve outcomes for some consumers with cash savings products, while supporting competition between firms operating in this market.

Annex 5
List of non-confidential respondents to DP18/6

Building Societies Association

CASS

Citizens Advice

Consumer Council

Fairer Finance

FCA Practitioner Panel

FCA Smaller Business Practitioner Panel

Financial Services Consumer Panel

Frontier Economics

MoneyFacts

Newcastle Building Society

Oak North

Secure Trust Bank

The Money Charity

TISA

Tom Henry Consulting

UK Finance

Which?

Annex 6
Abbreviations used in this paper

BSR	Basic savings rate
CBA	Cost benefit analysis
CMA	Competition and Markets Authority
CP	Consultation Paper
CSMS	Cash savings market study
DP	Discussion Paper
FCA	Financial Conduct Authority
FSMA	Financial Services and Markets Act 2000
ISA	Individual Savings Account
LRRA	Legislative and Regulatory Reform Act 2006
SEAR	Single Easy Access Rate

We have developed the policy in this Consultation Paper in the context of the existing UK and EU regulatory framework. The Government has made clear that it will continue to implement and apply EU law until the UK has left the EU. We will keep the proposals under review to assess whether any amendments may be required in the event of changes in the UK regulatory framework in the future.

We make all responses to formal consultation available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

All our publications are available to download from www.fca.org.uk. If you would like to receive this paper in an alternative format, please call 020 7066 7948 or email: publications_graphics@fca.org.uk or write to: Editorial and Digital team, Financial Conduct Authority, 12 Endeavour Square, London E20 1JN

Appendix 1
Draft Handbook text

BANKING: CONDUCT OF BUSINESS SOURCEBOOK (SINGLE EASY ACCESS RATE) INSTRUMENT 2020

Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137A (The FCA's general rules);
(2) section 137R (Financial promotion rules);
(3) section 137T (General supplementary powers);
(4) section 139A (Power of the FCA to give guidance); and
(5) section 214 (General).

B. The rule-making provisions listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on [date 6 months after the publication of the Policy Statement].

Amendments to the Handbook

D. The Glossary of definitions is amended in accordance with Annex A to this instrument.

E. The Banking: Conduct of Business sourcebook (BCOBS) is amended in accordance with Annex B to this instrument.

Citation

F. This instrument may be cited as the Banking: Conduct of Business Sourcebook (Single Easy Access Rate) Instrument 2020.

By order of the Board
[*date*] 2020

Annex A

Amendments to the Glossary of definitions

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

children's savings account	a *savings account* which is marketed exclusively to, or eligibility for which is restricted to, individuals under the age of 18, including a *cash deposit CTF*.
easy access savings account	a *savings account* which is not: (a) a *fixed-term savings account*; or (b) a *regular savings account*; or (c) a *limited access savings account*; or (d) a *children's savings account*; or (e) a *tracker savings account*.
ISA easy access savings account	a *cash deposit ISA* that is an *easy access savings account* unless it is: (a) a junior *ISA*; or (b) a Help to Buy *ISA*; or (c) a *lifetime ISA*.
limited access savings account	(a) a *savings account* held on terms that provide that a *banking customer* may not make withdrawals that exceed a specified frequency or level or without having given a minimum amount of notice, or that the *banking customer's* entitlement to interest is reduced or extinguished if the *customer* does so. (b) a *savings account* does not fall within this definition simply because it is subject to limitations that are required by the *ISA Regulations* or the terms that apply to it require a minimum balance to be maintained.

regular savings account	a *savings account* held on terms that a minimum level of *deposit* will be made on a regular basis.
SEAR	the *single easy access rate for non-ISA savings accounts* or the *single easy access rate for ISA savings accounts* referred to in *BCOBS* 9 (Single easy access rate for savings accounts).
single easy access rate for ISA savings accounts	a uniform rate of interest (which may be variable) that applies to every *ISA easy access savings account* within the scope of *BCOBS* 9.2.1R(1) held with a *firm* or a distinct brand of a *firm*, regardless of the length of time for which the account has been open or the channel through which the *banking customer* can give instructions in relation to it.
single easy access rate for non-ISA savings accounts	a uniform rate of interest (which may be variable) that applies to every *easy access savings account* (other than a *cash deposit ISA*) within the scope of *BCOBS* 9.2.1R(1) held with a *firm* or a distinct brand of a *firm*, regardless of the length of time for which the account has been open or the channel through which the *banking customer* can give instructions in relation to it.
tracker savings account	a *savings account* held on terms that the interest rate payable varies automatically by reference to a publicly available rate set by a third party.

Annex B

Amendments to the Banking: Conduct of Business sourcebook (BCOBS)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

1	**Application**		
1.1	**General application**		
…			
1.1.4	R	(1)	Chapters 2, 2A, 5, ~~and~~ 6 and 9 of *BCOBS* (except for *BCOBS* 5.1.10AR to *BCOBS* 5.1.19R) and *BCOBS* 4.3 and 4.4 apply to *payment services* where Parts 6 and 7 of the *Payment Services Regulations* apply.
…			
1.1.5	R	*BCOBS* 2.2A, *BCOBS* 2.2B, *BCOBS* 4.1.2G(2A) to (2E), (3A), (6A) and (6B), *BCOBS* 4.1.4AG(2)(a), *BCOBS* 5.1.3AG, *BCOBS* 5.1.3BG, *BCOBS* 5.1.5AR, *BCOBS* 5.1.5BG, *BCOBS* 5.1.13R, *BCOBS* 7 (except as applied by *BCOBS* 7.1.4R), ~~and~~ *BCOBS* 8 and *BCOBS* 9 do not apply to a *credit union*.	
…			

Insert the following new section after BCOBS 2.4 (Cash deposit ISAs and cash deposit CTFs). The text is not underlined.

2.5	**Easy access savings accounts to which a SEAR will apply**	
2.5.1	R	Where a *financial promotion* or other communication to a *banking customer* refers to a *SEAR*, it must describe it as the "single easy access rate".
2.5.2	R	A *firm* must not describe or refer to an interest rate payable on a *savings account* as the "single easy access rate" unless the rate has been determined in compliance with *BCOBS* 9.

Amend the following as shown.

2 Annex 1	**Form of Summary Box for Savings Accounts**
	This annex is referred to in *BCOBS* 2.2A.1R.

Summary Box

<table>
<tr><td colspan="2"></td></tr>
<tr><td>Account name</td><td>Name of *savings account*</td></tr>
<tr><td>…</td><td></td></tr>
<tr><td colspan="2">Notes:</td></tr>
<tr><td colspan="2">…</td></tr>
<tr><td colspan="2">**Note 2**: If, for example:

- an introductory, promotional, or preferential rate of interest applies to the account until a specified future date or the end of a fixed period; or

- there are ascending or descending tiers of interest rates that apply to certain increments of the balance of the account, or that are determined by reference to the total balance of the account; or

- there are graduated rates of interest, the application of which depends on certain conditions being met or on the *banking customer* taking or refraining from taking certain action;

the summary box should include details of this.

If the account is an *easy access savings account* to which a *SEAR* will apply, the summary box should include details of the *SEAR* including an explanation of when the *SEAR* will begin to apply and the rate of the *SEAR* at the time the *direct offer financial promotion* is communicated.</td></tr>
<tr><td colspan="2">…</td></tr>
<tr><td colspan="2">**Note 5**:
…
- In any other case, the *firm* should include a projection of the balance of the *savings account* on the first and (in the case of an *easy access savings account* to which a *SEAR* will apply) second anniversary of the opening of the account.</td></tr>
<tr><td colspan="2">…</td></tr>
<tr><td colspan="2">**Note 8**: The *firm* may wish to include in the summary box that the projection is provided for illustrative purposes only and does not take into account the individual circumstances of the *banking customer* or (if applicable) future changes to the *SEAR*.</td></tr>
</table>

…

2 Annex 2G **Guidance on presentation of interest-rate information in savings account summary box**

This annex is referred to in *BCOBS* 2.2A.2G(3).

What is the interest rate?	Interest rate without bonus	X%
	Interest rate with bonus (includes a bonus of X%)	X%

<u>What is the interest rate? [see Note]</u>	<u>Single easy access rate</u>	<u>X%</u>
	<u>Interest rate with bonus (includes a bonus of X% for the first X months)</u>	<u>X%</u>

<u>Note: This table, rather than the first table, should be incorporated in the summary box where a *SEAR* will apply to a *savings account*.</u>

What is the interest rate?	Interest rate where all conditions are met	X%
	Interest rate where one or more conditions are not met	X%

…

4 Information to be communicated to banking customers

4.1 Enabling banking customers to make informed decisions

…

4.1.2 G …

(5) <u>(a)</u> Subject to (5A), where, under a contract for a *retail banking service*, an introductory, promotional or preferential rate of interest applies to the *retail banking service* until a specified future date or the end of a fixed period, a *firm* should provide notice of the expiry of the application of that rate of interest to the *banking customer* on paper or in another durable medium

within a reasonable period before that rate of interest ceases to apply.

(b) An example of a situation in which a notice under (a) should be sent is where a *SEAR* will apply to an *easy access savings account* in accordance with *BCOBS* 9 following the expiry of an introductory rate, in which case the notice should use the expression "single easy access rate" to describe the *SEAR* that will apply.

…

Insert the following new chapter, BCOBS 9, after BCOBS 8.4 (Alerts).

9 Single easy access rate for savings accounts

9.1 Purpose and application

Purpose

9.1.1 G The purpose of this chapter is to require a *firm* to have no more than one rate of interest that applies to all non-*ISA easy access savings accounts*, and no more than one rate of interest that applies to all *ISA easy access savings accounts*, provided by the *firm* (or a distinct brand of the *firm*), except in the case of accounts opened 12 *months* ago or less. The purpose of this chapter is also to ensure that these rates are transparent to *banking customers*.

Application

What?

9.1.2 R This chapter applies to a *firm* with respect to the provision and operation of an *easy access savings account*.

9.1.3 G An *easy access savings account* means a *savings account* which is not:

(1) a *fixed-term savings account*; or

(2) a *regular savings account*; or

(3) a *limited access savings account*; or

(4) a *children's savings account*; or

(5) a *tracker savings account*.

9.1.4 R This chapter does not apply to:

(1) an *easy access savings account* denominated in a currency other than a currency of the *United Kingdom*; or

(2) an *easy access savings account* held by a *banking customer* in respect of whom the main correspondence address held by the *firm* is outside the *United Kingdom*.

Who?

9.1.5 R (1) This chapter does not apply to a private bank.

(2) In this chapter:

(a) a "private bank" has the same meaning as that set out in *BCOBS* 7.1.1R(2)(d); and

(b) any requirements apply separately for each of a *firm's* trading names as notified to the *FCA* in accordance with *SUP* 16 Annex 16AR.

9.1.6 G This chapter does not apply to a *credit union*.

Where?

9.1.7 G *BCOBS* applies only to the activity of accepting deposits from *banking customers* carried on from an establishment maintained by it in the *United Kingdom* (see *BCOBS* 1.1.1R). This chapter only applies, therefore, to accounts operated and activities carried on from *United Kingdom branches* and not, where a *firm* also has *branches* outside the *United Kingdom*, from non-*United Kingdom branches*.

When?

9.1.8 R This chapter applies to a rate of interest that applies to an *easy access savings account* on and after the date on which *BCOBS* 9 came into force, irrespective of whether the account was opened before or after that date.

9.2 Requirement to set and apply a single easy access rate

9.2.1 R (1) A *firm* must:

(a) determine a *single easy access rate for non-ISA savings accounts* and ensure that it is the only rate of interest that applies to an *easy access savings account* provided or operated by it (other than a *cash deposit ISA*); and

(b) determine a *single easy access rate for ISA savings accounts* and ensure that it is the only rate of interest that applies to an *ISA easy access savings account* provided or operated by it.

(2) Where the period beginning with the day on which the account was opened is 12 *months* or less, the account is excluded from the scope of (1).

9.2.2 G (1) A *firm* is free to set and vary the *single easy access rate for non-ISA savings accounts* and the *single easy access rate for ISA savings accounts* provided it does so in accordance with the *FCA Handbook* and the general law, including the *Unfair Terms Regulations* (for contracts entered into before 1 October 2015) and the *CRA*.

(2) For the avoidance of doubt, where a *plastic card* can be used to initiate a request to execute a payment transaction from an account, the account may be a *savings account* nonetheless, except where the account is used for the execution of day-to-day payment transactions to third parties.

9.3 Single easy access rate sunlight provisions

9.3.1 R A *firm* must, in relation to its *easy access savings accounts* to which this chapter applies, publish each of the items of information set out in *BCOBS* 9.3.3R:

(1) in the format of the table specified in that *rule*; and

(2) separately, in relation to each trading name under which the *firm* provides or operates an *easy access savings account*;

in a prominent location on its website so that the information is continuously publicly available.

9.3.2 R (1) The information published in accordance with *BCOBS* 9.3.1R must be updated at intervals of not more than six *months*.

(2) A *firm* must notify the *FCA* of the location on its website where this information is published, no later than the day of its publication, and must notify the *FCA* on each occasion that the information is updated.

9.3.3 R The table that must be published is as follows:

Date as at which this information applies	**Product type**	**Single Easy Access Rate (SEAR)**	**Proportion of balances held in products of this type that receives the SEAR**	**Highest available interest rate payable on an easy access savings account of this type and name of that account (see Note)**
[date/month/year]	Non-ISA easy access	[X%]	[X%]	

	savings account			
	ISA easy access savings account	[X%]	[X%]	

Note: This is the highest rate of interest offered on an *easy access savings account* or *ISA easy access savings account*. The *firm* may offer higher interest rates on other types of accounts such as notice accounts, or restricted withdrawal accounts.

Pub ref: 005923

FINANCIAL
CONDUCT
AUTHORITY

12 Endeavour Square London E20 1JN
Telephone: +44 (0)20 7066 1000
Website: www.fca.org.uk