



# Treasury Committee

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Nikhil Rathi, Chief Executive  
Financial Conduct Authority  
[via email]

21 March 2023

Dear Nikhil,

## Competition in the retail banking market

On 7 February 2023, the Committee held an oral evidence session with four of the UK's major retail banks.<sup>1</sup> We have received correspondence from those same banks, following up on topics raised in the hearing, including on competition within the savings and mortgage markets.

In your evidence to us on 8 March 2023,<sup>2</sup> you said that you had been having discussions with certain banks on how they make decisions on interest rates on savings products. In light of our recent correspondence with the banks, we would welcome more information from the FCA on what work it is doing to ensure there is effective competition in the markets for savings and mortgages products; and that banks are not relying on consumer inertia to allow savings interest rates to rise at a slower pace than mortgage interest rates.<sup>3</sup> We would therefore be grateful if you could respond to the questions set out in the Annex.

In line with the Committee's usual practice, I will be placing this letter and your response in the public domain. I would be grateful for a reply by Wednesday 12 April 2023.

With best wishes,

**Harriett Baldwin MP**  
**Chair of the Treasury Committee**

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<sup>1</sup> [Retail Banks - Committees - UK Parliament](#)

<sup>2</sup> [Work of the Financial Conduct Authority - Committees - UK Parliament](#)

<sup>3</sup> [Retail Banks - Committees - UK Parliament](#)

## **Annex**

### ***Savings products***

1. Rates on instant easy access savings accounts at the major retail banks who recently gave oral evidence to us range from 0.55 per cent to 1.20 per cent, whereas the Bank rate is currently 4 per cent. Data provided to the Committee by some of the banks also indicates that around 20 per cent of instant easy access savings accounts have balances over £5,000. What recent work has the FCA done to ensure the UK savings market, with regard to easy access savings accounts in particular, is competitive and that banks are not relying on customer inertia to keep their savings rates low?
2. In December 2020, the FCA proposed reforms of the easy access cash savings market, where under new rules all firms would set a single easy access rate (SEAR) across all easy access accounts after 12 months.<sup>4</sup> However, the FCA later halted the work due to the coronavirus outbreak. Are the reforms the FCA was proposing no longer relevant; and if so, why?
3. The Committee has heard that while banks may provide competitive interest rates to new savers, those who stick with their savings account may still be left with historic lower rates (the so called loyalty penalty). How widespread does the FCA believe this practice is? What is the FCA doing to ensure that existing customers of banks are earning competitive rates on their savings?
4. Major retail banks' financial results for 2022 show an increase in profits and their net interest margin. What market analysis has the FCA done to check whether banks are earning disproportionate profits through increasing the net interest rate margin and increasing rates on mortgages far quicker than rates on savings products?

### ***Mortgage products***

5. Data provided by some of the banks indicate that around two-thirds to three-quarters of existing customers re-mortgage with their current provider. Would the FCA expect a greater proportion of consumers to switch to a different provider in a competitive market? What work has the FCA done recently on competition in the mortgage market?
6. What additional mortgage forbearance measures does the FCA regard as necessary in response to the cost of living crisis? What are the risks to banks and customers from implementing those measures, and are the measures likely to be long-lasting?
7. Banks have told us that they are still providing mortgages to areas with a high or very high risk of flooding but regard the extension of Flood Re to be critical. What is the FCA's assessment of the risk that people with properties in areas of flood risk will no longer be able to re-mortgage their properties in the future?

### ***Impact of the Consumer Duty***

8. What effect do you expect the Consumer Duty to have on how financial institutions sell and price their mortgage and savings products?

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<sup>4</sup> [FCA acts to help customers get better rates for cash savings | FCA](#)