Nationwide
Building Society

Harriett Baldwin MP
Chair, Treasury Committee
House of Commons
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Dear Ms Baldwin,

Interest rates on instant access savings accounts

Thank you for your letter dated 10 May on interest rates earned by consumers on instant access savings accounts. I have answered your questions below and have provided some additional information that I hope the Committee will find helpful.

Firstly, I acknowledge the pressures that our customers, and your constituents, are facing. As a building society that exists to return value to customers rather than shareholders, we always want to give good value to both savers and borrowers. To that end, we gave over £1 billion back to members in better rates and incentives over the last year and, unlike banks, we have promised to keep a branch in every town or city we are in today, until at least 2024.

We have also announced that we will reward many of our members directly by distributing some of our profit in the inaugural Nationwide Fairer Share. This comprises a £340m payment to reward loyal customers, who will receive a £100 payment in their account next month, and the right to invest in a two year Nationwide Fairer Share Bond that pays 4.75% interest. The Board intends this to be an annual distribution to eligible members, provided that it's not detrimental to the financial strength of the Society.

Secondly, we have done this through a period of economic volatility and an unusually sharp increase in bank base rate. By way of context, the Monetary Policy Committee has increased rates by 440bps in this tightening cycle, the sharpest tightening by far since Bank of England independence.

Thirdly, we offer a wide choice of deposit accounts that pay different rates depending on how long customers want to leave their savings alone for. Generally, the longer that deposits can be left, the higher the rate. With instant access funds, we can't lend them so easily to mortgage borrowers, who generally seek fixed term lending. As a result, the market tends to offer higher rates for fixed term deposits because of the certainty and stability they provide. For example, the new Nationwide Fairer Share Bond at 4.75% that we announced last week is for two years because of this.

I have set out below the main factors that we consider when assessing how much of base rate changes to pass on to savers, particularly for those accounts where it is difficult to predict when people will withdraw their funds. The main considerations are:

- The medium-term sustainability of the Society, particularly when the economic outlook is uncertain.
- How the market is pricing mortgages and the interplay between mortgage and saving pricing. Most of our mortgages are fixed rate (often for as long as five years). Because we hedge the interest rate, the margin that is generated relative to the base rate for that period is fixed and we do not generate additional income on those mortgages from a rising base rate.
- The need to ensure the stability of our deposit base, given most deposits are instant access and variable rate, yet most mortgages are at a fixed rate for a period up to five years.

Taking your specific questions in turn:

1. How does Nationwide determine how increases in the base rate are passed on to its savers?

We have three principles when looking at passing through rate rises, each of which is considered carefully in our pricing committees. First, how can we pay the highest rates to savers in a sustainable way? Second, how can we balance the interests of savers with our mortgage borrowers, particularly with cost-of-living pressures? Third, how we can take a prudent approach to maintaining the society's financial strength in the face of an uncertain outlook?

Through this approach we have provided a competitive range of products that meet the breadth of savers' needs, both on instant access and term deposits. In practice this means:

- Paying more than the high street bank average on instant access accounts. Our rates have been consistently higher than the average rate paid by the high street banks on similar accounts, with Loyalty Saver and Triple Access Online Savings currently paying 3.2%, our FlexDirect current account paying 5% for the first twelve months, and instant access savings paying up to 1.5%.
- Passing on a significant proportion of base rate increases across our savings range. To date, we have passed on approximately 55% of the base rate increase to our retail variable savings base, which is more than the market average. Consequently, our average deposit rates over the year were 65% higher than the market average.
- Ensuring that we reward loyalty by not offering 'brand new customer only' savings accounts and instead rewarding existing savers with exclusive savings accounts. Similarly, our off-sale equivalent products currently pay the same or better rates than on-sale products.

In response to this approach, and in contrast to the major banks, we have seen a strong deposit inflow of £9.1bn into Nationwide over the last twelve months as savers choose to save more with us.

2. Why is the interest rate on its 'instant access saver' account so much lower than the base rate?

We strive to provide good value on our instant access savings range and our rates have been consistently higher than the high street bank average. However, when considering rate, we need to reflect that these accounts provide the highest levels of access and hence typically pay less than term savings products (as is the case across the sector). For members who don't require instant access, we have a range of competitively priced products such as our new Nationwide Fairer Share Bond.

As mentioned above, when we consider the interest on instant access products, we need to balance the need to also provide competitive mortgages, particularly for people struggling to get on the housing ladder. Given the financial shocks that borrowers faced last year, we have also made a conscious effort to help existing customers by offering the best possible mortgage switching rates and by supporting people in financial difficulty. Given that we will have approximately 275,000 customers moving off a Nationwide fixed rate mortgage this year, this is the right approach to help them.

Finally, the committee may be interested to note that the instant access savings rates we quote above are now at similar levels to those in 2006 when the base rate was last at this level.

3. How does Nationwide communicate with its consumers, in particular those with large balances in their 'instant access saver' account, to make them aware of what could be more suitable, higher rate savings options available to them?

We take a proactive approach to equip savers with the tools and information they need to get the best rate. These are provided both digitally and face to face through our branches. For example:

- We provide a 'SavingsWatch' email update to customers who opt to receive it when we launch a new product or when their interest rate changes.
- We were one of the first to offer an annual 'Savings Summary' of accounts and rates to customers to help them get more from their savings.
- For customers who prefer to visit a branch, our colleagues regularly help savers get the best Nationwide rate, for example by prompting customers to switch. Notably, three quarters of all deposits made into our Fixed Rate Online Bond and Fixed Rate Branch Bond came via the branch in the last year, which shows their continuing value to people.

We sent approximately 25 million emails to help our savers get the best deals over the last year, which helped a significant number of savers to get a better rate for their balances. As a result, most of the inflows into our top paying savings account were from existing Nationwide customers, showing that they are engaged to take advantage of higher rates. However, we want to do more and are actively considering new tools and nudges to help savers get the best rates.

I hope this is helpful, both in relation to your questions but also in setting out some of the key difference between our approach as a mutual owned building society and high street banks.

Yours sincerely,

Deborah S Crosbie

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CEO