

Harriett Baldwin MP  
Chair  
Treasury Select Committee  
House of Commons  
SW1A 0AA

14 July 2023

Dear Harriett,

**Re: Banks' savings rates**

Thank you for your letter of 3 July 2023 and for the Committee's close interest in these issues.

I wrote to you on 12 April 2023 setting out the work we have been doing in this area. We remain focused on ensuring that competition in the savings market is working well to deliver competitive rates for savers. In recent weeks, we have seen some banks and building societies improve savings rates. We want to see this continue.

We have been heavily engaged on saving rates for some time. I publicly stated our position that firms should consider the speed and quantum of rate changes in October.<sup>1</sup>

I raised the issue of fair and competitive rates in a speech<sup>2</sup> to UK Finance in November 2022, which was widely reported<sup>3</sup>. As I said then, how industry handles this period will determine the industry's reputation for decades ahead and I know that industry leaders and UK Finance are cognisant of this.

It is more critical than ever that borrowers and savers are offered fair and competitive rates. We welcome steps taken by some lenders and deposit takers in this direction. For others, the Consumer Duty will raise the question as to whether savings accounts for loyal customers which pay close to zero offer fair value.

We have been closely monitoring firms' interest rate decisions and have regularly raised the issue in our supervisory discussions. We wrote to banks and building societies in February<sup>4</sup> making clear firms should be able to rationalise the pace and degree of rate changes within their approach to pricing. From the end of July, our Consumer Duty will require firms to assure themselves, and us, that their new and existing open products provide fair value to retail customers and that they are providing the right support to allow their retail customers to make properly informed decisions on their needs. We have been working closely with firms in advance of the deadline, including reviewing firms' responses to our data requests on pricing, to ensure readiness for the Consumer Duty. As I explain below, when considering value, we look at this

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<sup>1</sup> <https://www.thetimes.co.uk/article/nikhil-rathi-fca-interview-the-man-steering-us-through-storm-s808g8bhs>

<sup>2</sup> <https://www.fca.org.uk/news/speeches/rolling-regulation-forwards>

<sup>3</sup> <https://www.thetimes.co.uk/article/banks-must-pay-fair-rate-to-savers-says-financial-conduct-authority-dj0xj2qvs>

<sup>4</sup> <https://www.fca.org.uk/publication/correspondence/consumer-duty-letter-retail-banks-building-societies.pdf>

in its widest sense here: as well as the rate paid, we consider elements such as product features and the customer service provided.

We are using the full suite of our regulatory powers to ensure that competition in the cash savings market is working well and delivering fair outcomes for savers, and we will continue to pursue greater competition. At the end of July, we will report our updated view of how well the cash savings market is supporting savers. The report will set out our actions and next steps. Next steps might include market wide actions to remove any regulatory or other barriers to a healthy, competitive savings market, for example through greater leverage of opportunities offered by Open Banking. In addition, we are supervising individual firm compliance with the Consumer Duty.

Finally, we are aware that many customers currently face very significant challenges due to the increasing costs of borrowing and cost of living pressures, particularly vulnerable customers who may have very low levels of savings but require support in other ways. We must necessarily, and carefully, balance our work across this range of important issues.

### **1. Can you point to examples of where a bank has changed its rates as a consequence of you challenging them?**

We have reviewed both qualitative and quantitative information from the largest firms on their approach to savings pass-through, for on and off sale products. We have challenged individual firms who are outliers, or where their decision making has appeared slow, and we have recently noted that some banks and building societies have improved their savings rates, with particular improvements in fixed term deposit rates and with changes now coming through on easy access rates.

Last week we held a roundtable with the UK's largest banks and building society and UK Finance to further emphasise our expectations in this area. We made clear that we want to see firms making faster progress and to ensure that their customers are benefiting from better value savings products.

Our supervisory work with individual firms is subject to our usual confidentiality restrictions. However, a number of firms have already confirmed to us that they have taken action to review and update their approach to savings pricing ahead of the Duty's implementation. This includes rationalising "on" and "off" sale products to align rates to ensure consistent pricing for new and existing customers on equivalent products. We were also encouraged that attendees at the roundtable recognised the need to act with pace and do all they can to support their customers to achieve good outcomes in the cash savings market.

### **2. How will the Consumer Duty help you in ensuring that rates offer 'fair value'?**

The Duty sets higher expectations for the standard of care that firms give consumers. The Duty comes into force on 31 July 2023 for new and existing products or services that are open to sale or renewal. It applies from 31 July 2024 for closed products or services. The Duty sets an overarching requirement to act to deliver good outcomes for retail customers. It includes rules requiring firms to act in good faith, to avoid causing foreseeable harm and to enable and support customers to pursue their financial objectives as well as outcomes on products and services, price and value, consumer understanding and support. Firms will need to make sure customers are given the information they need, at the right time, and presented in a way they can understand.

The Duty raises the bar, through its requirement for firms to monitor savers' outcomes and to be able to evidence to their Board and us, that savers' outcomes are good, or if not, that they are taking action to improve outcomes.

The Consumer Duty is requiring a significant cultural shift in how some firms approach the value they offer in their savings products. If firms find that their products do not meet the needs of customers or deliver fair value, we expect them to take remedial action. We are clear, however, that our rules do not operate as a price cap or floor, nor prevent innovation in financial services. We welcome that many firms have acted in advance of the Consumer Duty to simplify their product ranges and equalise rates between on and off sale savings accounts.

We will monitor firms' actions to comply with the Duty and take appropriate steps, including enforcement action if appropriate, if we find they are consistently not providing good outcomes for their customers.

### **3. How will you be able to judge what is fair value? For example, what metrics and comparisons will you use to assess this?**

The fair value requirement within the Consumer Duty means individual firms must understand the costs and benefits of their products to their target market and be able to assure themselves and us of the value that they offer to their customers, with a reasonable relationship between the price consumers pay and the benefits they receive.

This is inevitably a judgement, and we support a diversity of business models and products in these markets. Some of the factors and metrics that are likely to be relevant to our review of a firm's fair value assessment include:

- Whether the firm has a clearly understood the target market to ensure their product is appropriately sold. For example, where lower rates are offered on instant access savings accounts, is this commensurate with the benefits of being able to access funds at no notice and other benefits the account may offer?
- How prices or rates vary across similar products offered by the firm, and similar products across the market, taking into account the level of service offered (e.g. branch availability, or whether the account offers easy or restricted access to funds, in the case of mutuals the benefits of being a mutual member). For example, where a savings product offered by a firm provides lower rates than a substantially similar product offered by the same firm (either on sale or no longer on sale), we would expect firms to consider how that provides fair value.
- The service levels consumers receive. This could include metrics such as levels of branch access, call waiting times and abandonment rates, the quality of online access, satisfaction rates and complaint volumes. This would also include, for example, the ease and speed with which customers can switch on cash ISA products.
- Whether any group of customers in a product's customer base are paying higher prices or receiving fewer benefits.
- The cost to banks of providing savings products and the margins that banks earn on the provision of those products.
- The speed and extent to which banks respond to changes in the cost of providing savings products to consumers and how they communicate with their customers.

We also recognise that some firms will have other constraints. For example, those that are close to the £25bn retail deposit threshold that would trigger the ring-fencing regime may choose to manage deposit rates so as not to breach the threshold. The Government has indicated its intention to consult on raising this threshold to £35bn, which could have some potentially

beneficial competition effects, which would need to be balanced against potential financial stability considerations<sup>5</sup>.

Our ongoing review will consider how well the savings market as a whole is supporting customers and we will set out our findings and next steps at the end of July.

**4. What supervisory or enforcement action is available to you if firms do not set rates at fair value in line with the Consumer Duty? How quickly will you be able to achieve change if firms aren't meeting their requirements?**

Once the Duty is in force, we will continue to use data and insights to identify outliers and poor practice, intervening where firms fail to deliver good outcomes. In a context such as this we would typically give firms a period of time to remedy any problems we identify before commencing formal enforcement action, where necessary. Post implementation, we will carry out work to review firms' support for customers in financial difficulty and firms' approach to fair value.

**5. How will you judge whether banks are making enough effort to encourage customers to switch to suitable higher rate products?**

The higher standards under the Duty mean that we will expect firms to have a strategy to ensure their customers are adequately informed of available rates across their product set and how they may benefit from switching to an alternative. We want customers to be given the information they need, at the right time, and presented in a way they can understand. This is an integral part of firms creating an environment in which customers can pursue their financial objectives, make effective decisions and achieve good outcomes.

Firms need to go further than just notifying a customer at product maturity in order to be compliant with the requirements of the Duty. This includes identifying groups of customers who may be better served by a higher rate product and considering what additional steps they can take to support these customers in switching where appropriate.

Some firms have raised concerns that data law requirements are a barrier to contacting customers who have opted out of receiving marketing material, and we are working closely with the ICO to clarify rapidly any outstanding issues.

Firms will need to be able to show, through their testing and monitoring activity, that their engagement strategy is effective in practice and delivering good outcomes, i.e., ensuring customers are receiving competitive interest rates. Where this is not the case, we will probe further on the quality and effectiveness of firms' communications to consumers. This would include whether communications are generating effective responses from consumers.

I look forward to keeping the Committee updated on our work.

Yours sincerely,



**Nikhil Rathi**  
**Chief Executive**

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<sup>5</sup> <https://www.gov.uk/government/publications/ring-fencing-reforms/government-response-to-the-independent-review-on-ring-fencing-and-proprietary-trading>