

Consultation response

FCA Cash savings market study call for evidence

Ref: 3013

Date: December 2013

All rights reserved. Third parties may only reproduce this paper or parts of it for academic, educational or research purposes or where the prior consent of Age UK has been obtained for influencing or developing policy and practice.

Name: Vivienne Man

Email: vivienne.man@ageuk.org.uk

Age UK
Tavis House
1-6 Tavistock Square
London WC1H 9NA
t 0800 169 80 80 f 020 3033 1000
e policy@ageuk.org.uk
www.ageuk.org.uk

Age UK is a charitable company limited by guarantee and registered in England (registered charity number 1128267 and registered company number 6825798). The registered address is Tavis House 1-6 Tavistock Square, London WC1H 9NA.

This is a response to the Financial Conduct Authority (FCA) call for evidence and views on the cash savings market study to see whether competition in this market is working well for consumers. The study will examine competition in the market and any obstacles to consumers switching their savings between accounts, including the information available to them.

About Age UK

Age UK is a charity and a social enterprise driven by the needs and aspirations of people in late life. Our vision is a world in which older people flourish. Our mission is to improve the lives of older people, wherever they live.

We are a registered charity in the United Kingdom, formed in April 2010 as the new force combining Help the Aged and Age Concern. We have almost 120 years of combined history to draw on, bringing together talents, services and solutions to enrich the lives of people in later life.

Age UK provides information and advice to around 6 million people each year, runs public and parliamentary campaigns, provides training, and funds research exclusively focused on later life. We support and assist a network of around 170 local Age UKs throughout England; the Age UK family also includes Age Scotland, Age Cymru and Age NI. We run just over 450 Age UK charity shops throughout the UK and also offer a range of commercial products tailored to older people.

Key points and recommendations

- An estimated £12bn is lost to savers every year, because people don't move their money to the best account, and 2 out of every 5 savings accounts and cash ISAs pay 0.1% interest or less¹
- For people with relatively low levels of savings and low incomes it's vital that they are able to access the best deals. Over a quarter (28 per cent) of single female pensioners have no savings at all
- Account switching should be a simple transaction, not one that can be unnecessarily complex and hugely frustrating, especially for older people who can face numerous barriers trying to get a good deal
- Teaser rates exploit people's natural tendencies to discount the future in favour of the present and are not compatible with Treating Customers Fairly.
- Savings accounts which drop to far below market rates are fundamentally unfair and should not be sold
- The FCA should require that banks:
 - Publish interest rates on all statements – paper and online
 - Provide each customer with an annual notice of savings interest rates, which should include all the information needed by customers to make an informed decision about whether they are in the best account for them.

Introduction

Age UK is pleased to respond to this call for evidence based on our experience of providing information and advice for older people. We have just launched the Age UK Financial Services Commission to examine how the financial resilience of older people can be improved. In summer 2014, we will set out a roadmap of actions that

¹ Which? Comparing ISAs and standard savings accounts across the UK. February 2012

regulators, government and industry need to take. We will share relevant data or recommendations arising from the Commission with the FCA.

We support the FCA's market study into the savings market and share the FCA's concern that providers may be able to reduce interest rates on existing savings accounts without needing to worry about consumers switching to other suppliers or other savings products.

67% of savings and investments are held by those over 50² and one in three of the population is aged 50 or over. Whilst all consumers are affected by the unfair savings market, older savers are particularly hard hit. In fact, the fastest growing segment of the UK population is the oldest old (those aged 85+). Older people, who are no longer working, on a fixed income and with modest savings, are particularly vulnerable to a market which penalises loyal savers.

26 per cent of pensioner couples have less than £1,500 in savings. For single male pensioners, the figure is 37 per cent and for single female pensioners, it is 43%. Over a quarter (28 per cent) of single female pensioners have no savings at all. For single male pensioners, it is 25 per cent and for pensioner couples, it is 17%.³

In addition, Which? estimated that £12bn is lost to savers every year, because people don't move their money to the best account, and 2 out of every 5 savings accounts and cash ISAs pay 0.1% interest or less.⁴

In the current economic climate, older savers who are no longer earning are particularly disadvantaged by low interest rates. As reported in the Age UK Economic Tracker survey of Great Britain⁵, in spite the recent fall in inflation, it remains relatively high compared to an interest rate that has remained consistently low at 0.5% since March 2009. This means that interest earned on savings is failing to keep pace with the rising cost of living. For people with relatively low levels of savings and low incomes it will be difficult or impossible to replace savings so it's vital that they are able to access the best deals.

In a recent Age UK poll, we found that a quarter of 50-64 years think there's 'no point in trying to save for retirement'. We are 'woefully underprepared'⁶ for ageing, yet savings products don't incentivise us enough to prepare for the future.

Against this backdrop, competition is clearly not working in the interests of older consumers. Behavioural economics reminds us that people 'go with the flow' of pre-set options and often discount future benefits in favour of the present. This means that teaser rates undoubtedly work well as a marketing tool to attract new customers, but are inherently unfair, because they rely on switching and often drop to extremely low interest rates. This is clearly not compatible with Treating Customers Fairly and the FCA needs to take swift action to ensure that the financial services industry is only providing accessible, transparent and fair savings products and services.

² An Inclusive Approach to Financial Products, Age Concern, 2008

³ Family Resources Survey 2010/11, Department for Work and Pensions, 2012

⁴ Comparing ISAs and standard savings accounts across the UK, February 2012

⁵ <http://www.ageuk.org.uk/Documents/EN-GB/For-professionals/Research/Economic%20Monitor%20Report%20Summer%202013.pdf?dtrk=true>

⁶ Lords Select Committee on Public Service and Demographic Change, March 2013

Barriers to access

As the number and geographic reach of bank branches continue to contract and access to products increasingly requires home internet access, more older people will find that even if they seek to proactively manage their savings, it will be physically difficult for them to do so. While online savings accounts often offer better rates, older people who aren't online can't benefit from these accounts. 3 in 10 65-74 year olds have never used the internet, and for those aged 75 years and over, 7 in 10 have never used the internet.⁷ In addition, 34% of people in the UK – irrespective of age - prefer to buy investments in a branch⁸.

“I opened a building society account the other day and nearly fell down a big hole because you can only draw out 3 times a year – there's so many strings and I just don't think it's fair, especially for older people.”⁹

Older people can face various barriers trying to get a good deal on savings accounts. What should be a simple transaction of switching from one account to another can become unnecessarily complex and hugely frustrating.

As well as limited internet access, other barriers include:

- Complex accounts with multiple features
- Confusion due to the numerous savings accounts available including by a single provider
- Coping with complex phone navigation
- Inflexible interpretation of identification requirements
- Numerous difficulties activating dormant accounts, including inflexible deadlines
- Needing help understanding letters from the provider
- Getting to a bank branch
 - Needing assistance to physically get there – particularly problematic if multiple visits are required, or worse
 - Being told to come into a branch, even when bedridden
- Difficulties arranging powers of attorney in a hassle-free way, e.g. some banks requiring the older person to be physically present

Whilst some of these barriers can affect anybody, all of the above can affect older people. In one complaint that was shared with us, a provider's inflexible processes meant a customer's attempt to switch accounts was completely cancelled because the customer missed the deadline to provide additional information. Products and services should be designed to be inclusive. Systems and controls in banking processes shouldn't penalise an older person genuinely trying to make the most of their money -especially when the customer in question had received NHS advice to stay indoors in the heat of the summer.

Make saving more transparent and straightforward

We welcome the voluntary agreement by banks and building societies to provide savers with annual statements with interest rates printed on them, but we think that this should be mandatory and go beyond annual statements. Every statement and

⁷ Internet Access Quarterly Update, Q2 2013, Office for National Statistics, 2013

⁸ Scottish Widows Savings and Investments Report, February 2013

⁹ An Inclusive Approach to Financial Products, Annex 2: the view of Age Concern forums, 2008

online account should have the current interest rate clearly visible, and the date at which a promotional rate ends.

Processes and customer services should be designed to cope with customer needs, whatever they are. Whether a customer needs to withdraw cash or set up a power of attorney, there shouldn't be barriers to access which cause distress and confusion. People putting money aside for rainy days discover their accounts have become dormant, and when the money is needed quickly, it can take months of stress and jumping through hoops to re-activate an account.¹⁰ Different providers also have different rules about when they will make an account dormant and how they notify customers. Every provider should be proactively enabling smooth customer journeys and actively engaging customers throughout their lifetime, and not just focus on drawing new customers in.

Older savers report

We refer the FCA to the 2012 All Party Parliamentary Group (APPG) for Ageing and Older People¹¹ 'Older savers report'.¹²

"So far I feel I have coped well with managing my finances and even enjoy doing so. It helps to keep my brain active (I am 79). Continual vigilance is vital. The biggest danger is inertia. Banks and other financial institutions rely on people not asking too many questions too often. One fear I have as I get older I may just let things be. This is a real danger. One must also guard against old-fashioned notions of 'loyalty' unfortunately. Many older people just do not like change. This is exploited by companies by using special offers for new investors and leaving established members on less attractive deals."¹³

We agree with the report's findings that:

- A cash savings account should be one of the most straightforward financial products to choose and to run, but many bank customers struggle to find the best account for them and often end up with accounts that pay much less than the best available.
- Savings accounts which drop to far below market rates are fundamentally unfair and should not be sold
- The FCA should require that banks:
 - publish interest rates on all statements – paper and online
 - provide each customer with an annual notice of savings interest rates, which should include all the information needed by customers to make an informed decision about whether they are in the best account for them.

The FCA should take action to ensure consistency across the entire savings market. This would reduce barriers to switching and improve savers' ability to take responsibility for managing their savings effectively. This would be of particular benefit to those savers who do not have access to the internet and find searching for information about products difficult.

¹⁰ Copy-cat websites; Future of the Co-op; Dormant bank accounts, Money Box, BBC Radio 4, 9 November 2013

¹¹ Age UK provided the secretariat for the APPG for Ageing and Older People

¹² <http://www.ageuk.org.uk/professional-resources-home/public-affairs/all-party-parliamentary-group/>

¹³ Survey conducted by the APPG in July 2012 on older people's experiences of the savings market