

Laura Saks
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Financial Conduct Authority
12 Endeavour Square
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Dear Laura,

FCA SMALLER BUSINESS PRACTITIONER PANEL COMMENTS ON DP18/6: PRICE DISCRIMINATION IN THE CASH SAVINGS MARKET

The Smaller Business Practitioner Panel is pleased to respond to this consultation on the cash savings market.

We agree that the Discussion Paper offers a good analysis of the market in Chapter 1. We are not convinced, however, that the FCA has reached the right conclusions from this analysis. It is not clear to us whether the objective of the proposed remedies is to encourage fairness in pricing within a provider, or to encourage switching. If the former, the FCA needs to ensure that its definition of value includes other aspects of the product offering than pricing alone. We believe the review of retail banking business models is taking the right approach in this area, but this discussion paper needs to be clearer in its objectives.

We do agree that there is potential for some harm to occur in this market. Our suggestion is that the FCA should rely on the Senior Managers and Certification Regime to ensure that firms are treating their customers fairly, rather than using the tool of price regulation with its associated risks of unintended consequences and greater customer harm.

Responses to individual questions:

Q1: 'What are your views on the nature and scale of harm outlined [in the Discussion Paper]? Does it merit some form of intervention in the cash savings market?'

And

Q11: Are there any additional impacts and unintended consequences on providers that we have not covered in this section?

We agree that there is some potential harm in the sector, but are not convinced that the scale of harm merits the use of what is essentially a price regulation tool, which could have severe unintended consequences. In particular, there is likely to be a levelling down of service and accessibility options for customers if firms are forced to compete on price alone. There is a danger that the cash savings market could become completely

commoditised, causing potential harm to those customers who value service elements, such as access to branches, if firms are no longer able to offer such options.

We note that in Chapter 2 the Discussion Paper states that 'paying lower interest rates to longstanding customers is a long-running pricing strategy ...we believe this is unlikely to change without further intervention.'. Firms may have different pricing strategies for different customers and different service options – it is not always the case that customers in older accounts are being exploited as they will often have made a conscious choice to remain in a particular account which serves their needs.

Q4: Do you agree with our analysis of the supply-side options considered in this chapter? We welcome views on the impact of these options and any risks and benefits that we have not captured.

We are not convinced that the remedies proposed will have the effect of changing customer behaviour. The average balances in back book accounts are relatively small, and customer behaviour in this market is relatively price inelastic, therefore small changes to savings rates are unlikely to drive people to change their accounts. We caution the FCA against using the power of price regulation in such a market. Equalising the rates of the front and back book will not necessarily reduce customer harm when the price is only one aspect of a complex relationship between the customer and the provider.

In addition we have concerns about the proposal that all accounts at the end of 12 months should automatically revert to a firm's basic savings rate. This could significantly increase the potential harm to consumers that such a move could effect. The DP evidences that consumers are not likely to react to clear prompts that they could benefit from moving their money or changing account types with their provider. A proposal to automatically revert all instant access customers to a single basic rate after 12 months has strong potential to ensure even more customers may end up receiving significantly less interest after an initial 12 month period.

We would be happy to discuss further if required.

Kind regards,

[Signed]

Craig Errington

Chair, FCA Smaller Business Practitioner Panel