Get Britain Saving

A long-term plan for a national savings strategy to power our economy and society.

CASCADE
LIVE CASH MANAGEMENT

Background

The FCA in its July 2023 cash savings review found that UK consumers collectively hold around £1.5 trillion in savings accounts. They stressed the importance of these savings as a source of financial resilience at a time when the costs of living are high.

We agree with their view that it's therefore vital for both consumers and the wider economy that there's a competitive and well-functioning cash savings market.

Over the last year, the FCA has raised publicly and privately with the industry the importance of treating savers fairly, with a focus on actions that should and could be undertaken by product providers, given that the UK base rate has risen sharply from 0.1% in December 2021 to 5.25% in August 2023. This follows action taken in 2016 to improve the savings market, after findings indicated that the cash savings market was not working well for many consumers.

As an example of the impact of this issue, £260bn has been found to be sat in easy access savings accounts offering 1.00% or less when market rates today are as high as 5.20%. This means for those respective accounts, that £10.92bn is not being earned by households that could be.

Why is this of public importance?

Increased revenue for the public purse. Savings interest is taxed at the savers' marginal income tax rate. Therefore, the higher the returns for savers, the higher the money available through taxation for the public good. Assuming all savers holding the £260bn are basic rate taxpayers, then £2.704bn should be generated through income tax from the uplift instead of the £520m presently earned. Equally, if we assume all savers are higher rate taxpayers then these figures uplift to £5.408bn instead of £1.04bn respectively and finally if we assume all are additional rate taxpayers then that would be £6.084bn as opposed to £1.17bn respectively.

Increased financial resilience for households. With above-average inflation persisting due to continued global demand and supply shocks, households are operating in a difficult climate. Many are having to turn to food banks and we are seeing increasing numbers of strikes as people react to the cost of living crises. Greater returns from savings can have a material impact for households and improve their financial resilience.

Increased fairness for savers. At a time when bank profits have surged, it is unfair for savers to be left behind. The UK base rate has risen sharply from 0.10% to 5.25%. While many banks have passed the rate uplifts quickly onto borrowers, there has been varying degrees of passing those interest rates on to savers. Focus so far has been on regulatory action that can be taken from the perspective of the responsibility of providers to treat customers fairly. We believe greater financial literacy and confidence is also required in tandem led by Government to tackle this issue from both sides in order to create meaningful change.

What can the Government do to improve this position?

In tandem with regulatory action focussed on product providers, the Government can focus on embedding change with consumers as follows.

Promote greater financial literacy, including this within the education curriculum from primary school upwards. Data from organisations such as RedSTART has shown that not only do parents not feel financially confident, but nor do teaching staff. We need children learning the lessons of opportunity cost, the time value of money, and budgeting tools from an early age so this becomes embedded knowledge.

Build consumer confidence in shopping around. With lower financial literacy, people have reported a low level of confidence in shopping around. First, they aren't aware of all providers in the market. Second, they are not always confident operating entirely digitally. Third, they aren't sure of third-party comparison sites and what role they can play. Building confidence through increased awareness is key to encouraging greater shopping around which ultimately will enhance competition and drive better and fairer outcomes.

Invest into third party digital tooling that works for the customer rather than the provider. Due to the heavy regulation of the industry, it is difficult for product providers to truly digitally and technologically innovate. Greater investment into SME start-ups focussed on financial technology solutions that generate better and fairer outcomes for savers allow for the customer to move away from restricted and biased information presented by any one institution, to whole of market and independent advice.

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