

## News Analysis

## Banks fail 'financial wellbeing' test

## Savings accounts

Few products help savers or borrowers improve their financial position, according to FairBanking, writes **Matthew Vincent**

Only three UK bank accounts and one credit card contain features that can significantly improve customers' financial wellbeing, according to a new rating system launched today.

The FairBanking star ratings, devised by the research-based charity of the same name, have identified Saffron Building Society's Goal Saver Account and NatWest's Savings range as two-star savings products, O2 Cash Manager as a two-star current account, and Barclaycard Flexi-Rate as the best one-star credit card. But all other UK banks and building societies scored a zero rating for their savings products, and half of all credit card providers did not merit any points at all.

FairBanking calculated the ratings by awarding points to products that help savers or borrowers improve their financial position – by managing expenditure, reducing debt, or increasing savings for future needs. Facilities such as account-balance alerts and online budgeting tools earned positive scores. Antony Elliott, the former banker who devised the system, said it was the first time banking products had been measured in this way.

While some US banks offer products that would earn three or four stars under this system, few UK products manage even the lowest score.

"At first sight, it is not an optimistic picture," said Elliott.

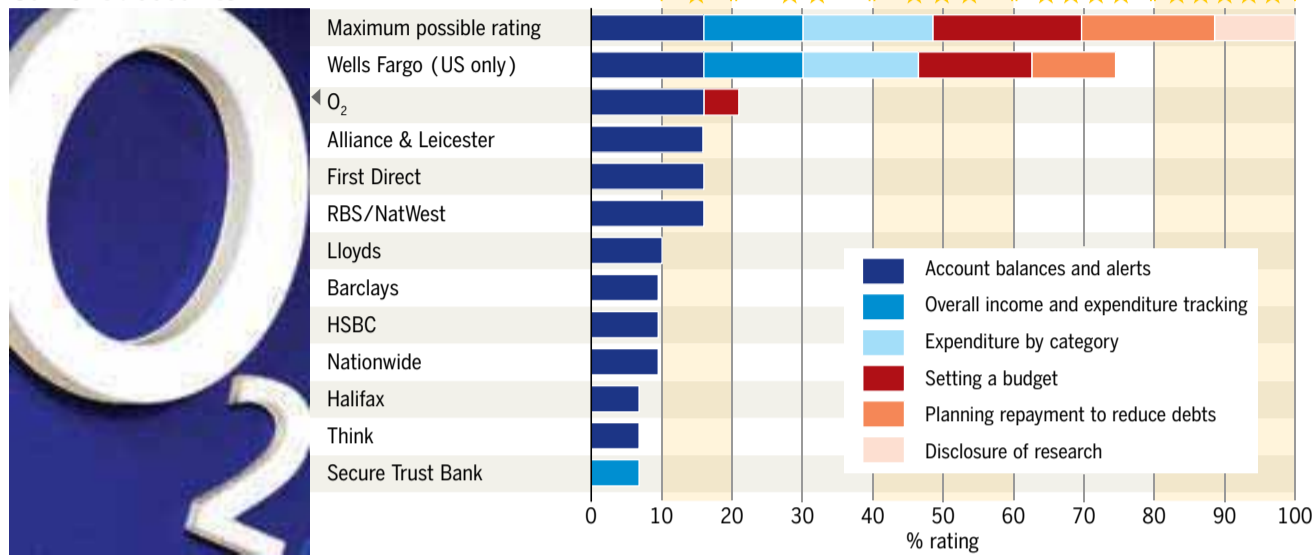
"Most ratings are at a one-star level, out of the five stars that are available."

For current accounts, the top 10 banks achieve an average of a one-star rating. The only product to get a higher rating is not a current account in the conventional sense. O2 Cash Manager, administered by NatWest, is a service that allows users to go online to calculate their monthly discretionary spending and load this amount on to a pre-paid card. It then acts as a debit card, with balance updates provided via mobile phone text messages. In this way, users can "never over-spend" or go overdrawn.

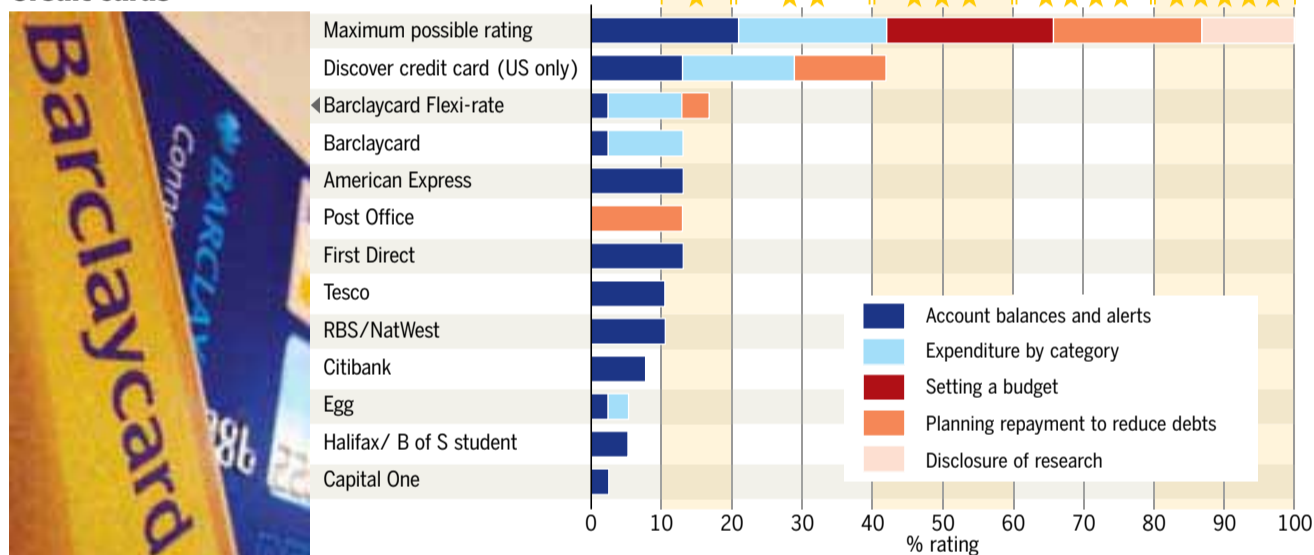
Other banks that offer

## FairBanking ratings

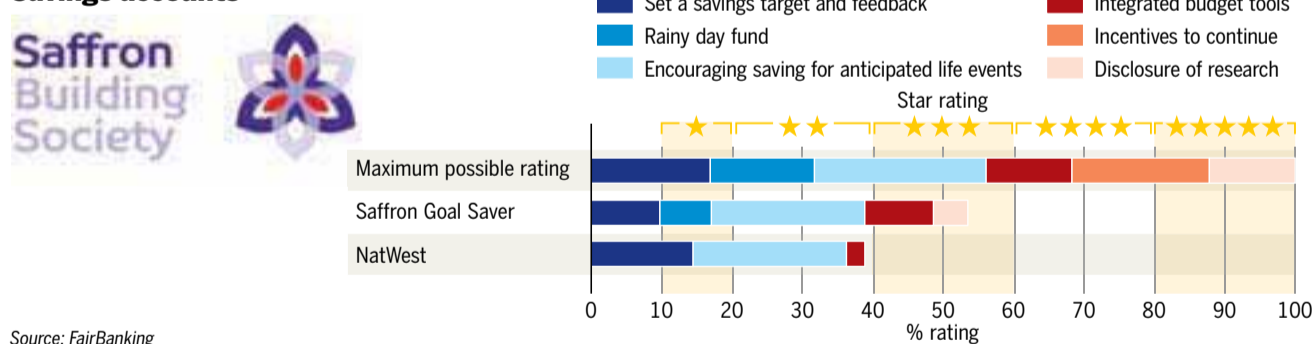
## Current accounts



## Credit cards



## Savings accounts



Source: FairBanking

"The FairBanking method will give people ability to tell whether a product will treat them fairly or get them into trouble"

free balance alerts include Alliance and Leicester, First Direct, and Royal Bank of Scotland (RBS)/NatWest.

For credit cards, Barclaycard's offering scores just over one star – though Elliott said its Flexi-Rate deal "would get an award for Best FairBanking Credit Card, if there were such a thing". It scored extra points for incentivising debt reduction – by charging a lower interest rate to cardholders who repay more than the minimum each month – and for giving customers a breakdown of their spending by category.

Saffron Building Society is the most highly rated savings account. The three-star

rating given to its Goal Saver was the highest score for any UK product assessed by FairBanking. It encourages the setting of multiple savings targets for specific purposes – such as a property deposit or an emergency fund – by creating an online financial plan that can be stored and reviewed regularly. Saffron is launching an improved version of the account, with additional planning functions, in May – which FairBanking believes will warrant a four-star rating.

NatWest savings accounts offer similar goal-setting and monthly saving calculators, via a website, earning them a two-star rating.

Andy Golding, Saffron Building Society chief executive, said the ratings were likely to be used by consumers and providers alike – but questioned whether larger banks would respond to them.

"The FairBanking method will give people ability to tell whether a product will treat them fairly or get them into trouble," he said. "It will also make product development departments ask: are we developing products to empower people to manage their money in a better way? If you are predominantly making a business out of getting people into debt, then it becomes difficult."

## Building societies

## Skipton to take over Chesham

No windfalls are on offer in this week's proposed takeover of Chesham Building Society by Skipton, the fourth biggest mutual lender, but some Chesham borrowers will see their mortgage rates drop by 1.5 percentage points as part of the deal.

Chesham, which has 21,000 members, said it was recommending a merger with the larger Skipton because of the "significant pressure" on its profitability from the 0.5 per cent Bank of England base rate, which resulted in an operating loss for 2009. A typical Chesham borrower is on a base-rate tracker mortgage of just 0.99 per cent – 0.49 percentage points over the Bank rate – while the society has to pay higher rates to attract and retain savers.

Borrowers will remain on these ultra-low tracker rates, which are no longer available on new mortgages, as part of the takeover by the Skipton. However, Chesham also has the highest standard variable rate (SVR) of any society, at 6.45 per cent. Up to 200 borrowers are on this high rate, or on loans linked to the SVR. Under the deal, these customers would switch to Skipton's SVR of 4.95 per cent, reducing their interest costs by 1.5 percentage points.

The societies said that no windfalls were being offered to either set of members "to maintain the financial strength of the enlarged society", which will be called Skipton.

Chesham's three branches will be retained for at least 12 months, and customers will be able to use all 92 Skipton branches from the deal's expected completion on June 1. Savers will also benefit from £50,000 of deposit protection with each society until the end of 2010.

Steve Lodge

