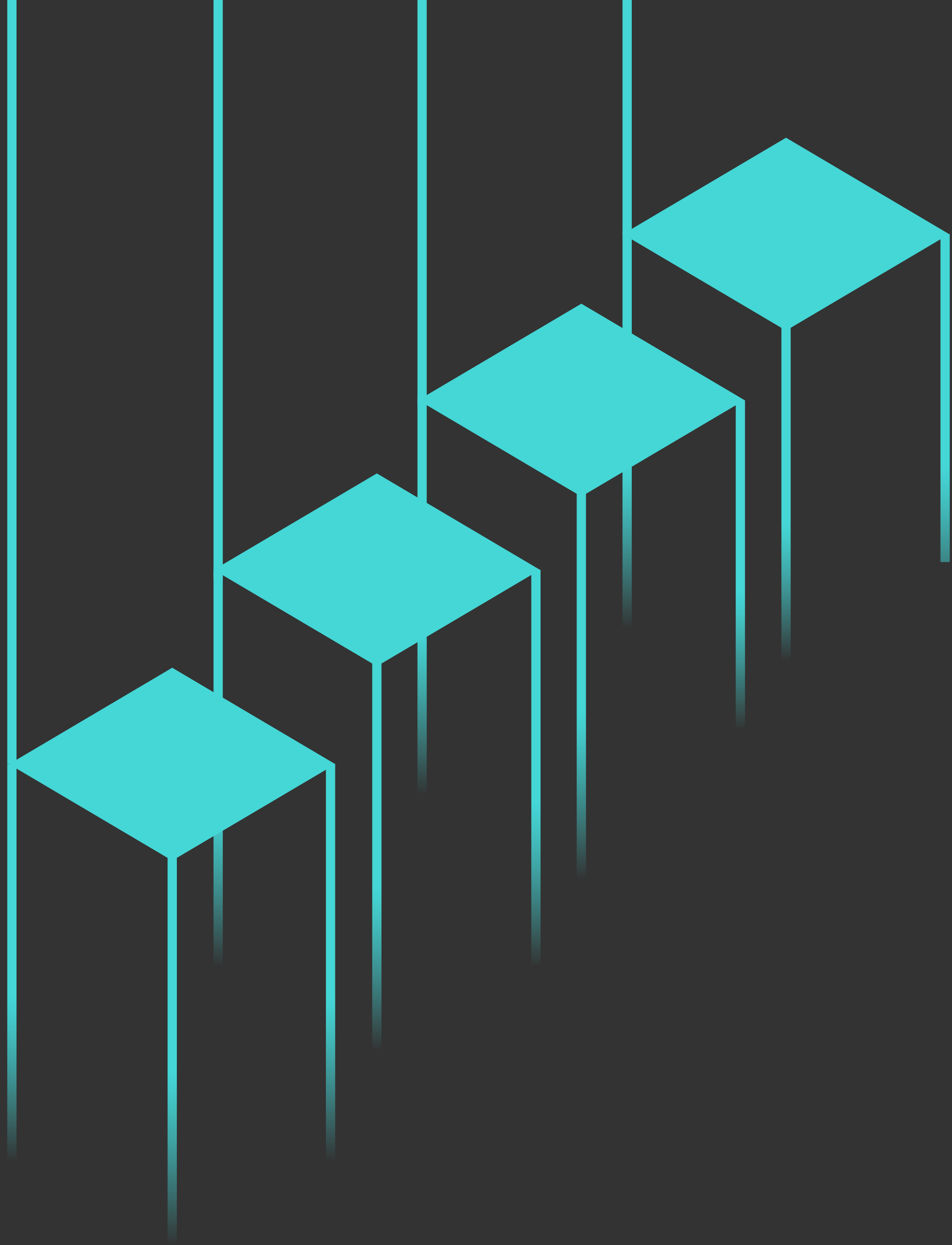


Cash and savings market trends

for 2022 and beyond

FLAGSTONE

Contents

Introduction

The cash and savings landscape is everchanging, particularly when at the mercy of wider economic influences. This ebook looks at today's economic climate and findings from the Flagstone cash deposit platform to identify the current and emerging trends in the market.

Unquestionably, consumers have many motivations to save, but rates and security are the two main drivers for changes in the way people invest cash. Rate chasers deposit cash in line with the latest and best interest rates to grow their interest income, while security seekers look for peace of mind and diversify funds for FSCS protection. Like most financial markets, national and international events – expected or unexpected – affect saving behaviours and determine the activity in the cash deposit market.

Interest rates and inflation

It's no secret people are feeling the pinch of high inflation. Now sitting at a hefty 6.2% (March 2022), it's the highest it has been in 30 years. And it could get worse before it gets better. The Bank of England (BoE) has warned that inflation will continue to rise and remain high over the coming year, largely caused by a sharp hike in energy prices and the economic bounce-back from COVID-19. Natural events such as flooding also slowed down the production of goods, causing costs to rise.

The conflict in Ukraine will also influence inflationary pressures as its economic fallout starts to hit Britain. With both Russia and Ukraine playing a huge part in commodity markets, particularly the oil industry, volatility in this infrastructure will largely impact the cost of living in Europe.

The Bank of England has already addressed soaring inflation by increasing the base rate multiple times. Now at 0.75% (March 2022), the rate climbed up three times to encourage saving and dampen spending.

Market consensus is that further increases are on the cards in order to reach the 2% inflation target set out by the government. Of course, it depends on how the economy is faring, but many anticipate an upward trend in the base rate, with three to four rises in 2022.

A rise in the base rate typically means other banks and savings accounts will follow suit, however this doesn't tend to happen immediately. Flagstone's bank research suggests that there is approximately a four-to-six-week lag between the base rate hike and other savings accounts across the board. In fact, there are still some high street banks in the market offering as little as 0.01% on instant access accounts.

According to Flagstone's bank data, the savings market has already started to trend higher, with both instant access and fixed term accounts increasing in rate. This trend is expected to continue at a steady pace over the coming months.

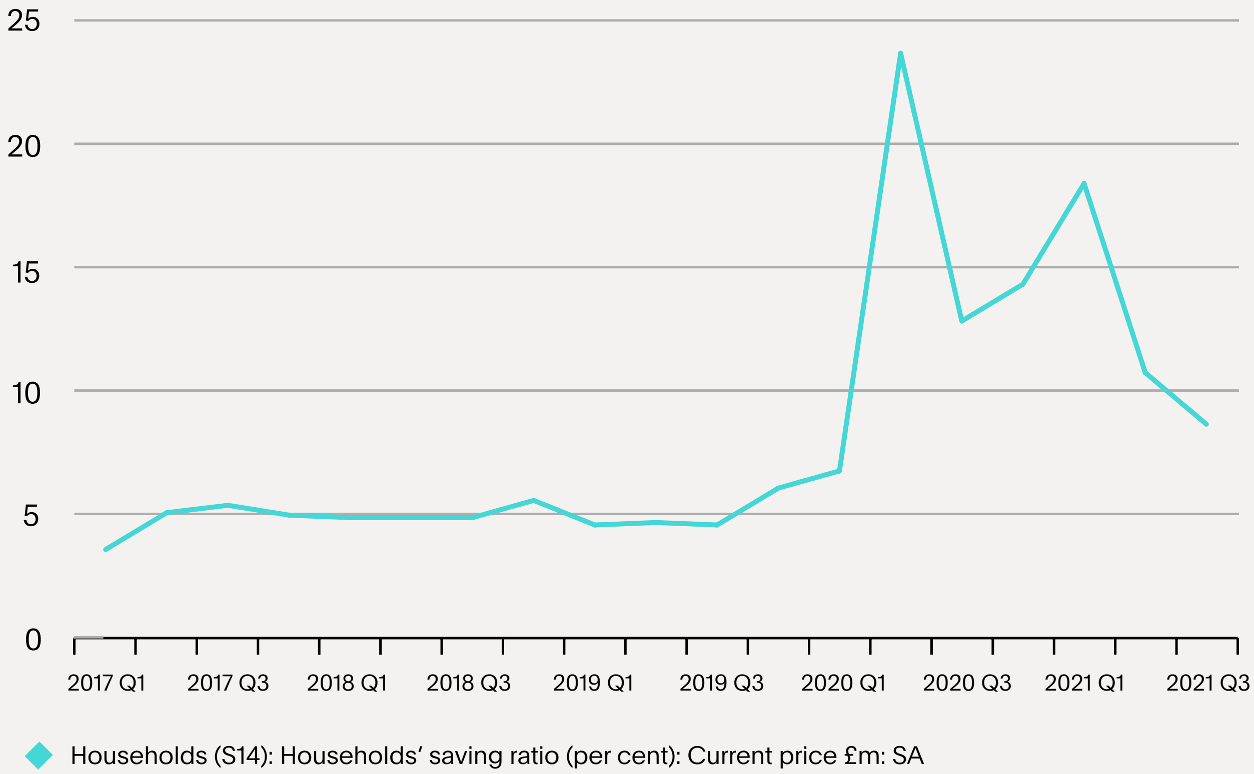
Savings activity

The savings ratio

The savings ratio has dropped from its peak in 2021, and although people are not saving the amount they once were through lockdown, they are still setting aside a significant sum more than before the pandemic began. Now sitting at 8.6% (as of Q3 2021), the savings ratio is up by 1.9 percentage points since the end of 2019.

During the five years of 2015 to 2020, record low interest rates had deterred consumers from saving. Combined with steady economic improvements and rising disposable income, the savings ratio fell to 4.5%. However, economic implications caused by coronavirus saw the ratio significantly increase in 2020, soaring to 23.7%.

Households (S14): Households' saving ratio (per cent): Current price £m: SA



Source: Office for National Statistics

Since Covid pressures have eased and the economy has reopened, consumers have naturally been saving less and spending more. But with an upward trend of rate rises in motion, cash deposits might grow as rate chasers seek out additional interest income as the cost of inertia increases.

Throughout times of uncertainty and conflict, stock markets tend to suffer. Given the ongoing conflict in Ukraine, investors may decide to make a shift in their portfolio, increasing cash deposits in order to safeguard their wealth

Flagstone insights

While **12-month fixed term deposit accounts** have remained the most popular for several months – driven by inflows into banks with strong brands – Flagstone has recently seen a greater proportion of clients move to instant access and shorter-term accounts (particularly 6-month terms) as they anticipate rates to rise further.

This trend towards variable rate and instant access accounts is expected to continue as a result of potential rate hikes on the horizon and the lack of incentive provided to lock money away.

The Flagstone platform has also seen an increasing trend of clients placing deposits that are unprotected by the **Financial Services Compensation Scheme (FSCS)**, suggesting savers are moving away from diversification and concentrating largely on top rate payers. This behaviour is likely to have direct correlation with the level of UK inflation and need to tame financial impact. Until inflation is controlled, the appetite for risk in this area could remain high.

Savings inertia in the UK

Over the years, studies have found that savers (both consumers and businesses) in the UK are losing out on significant foregone interest due to inertia. In fact, a huge **£1.3 trillion of household savings** is sat in low-paying, high street accounts. Meanwhile, **SMEs are set to miss out on £2.2 billion** of interest income.

There are a number of factors feeding savings inactivity – lack of awareness around the benefits of shopping around, loyalty to banks, and expected hassle concerns. However, in the current interest rate environment and with inflation running high, switching to better deals is worthwhile.

Only by receiving information on savings products and solutions will it enable savers to make informed choices, so their money works harder. And in the absence of advice, large cash sums will likely continue to sit idle, earning little to nothing.

£1.3 trillion

of house savings is sat in low paying, high street accounts.

SMEs are set to miss out on

£2.2 billion

Impact investing

The prospect of ‘doing well by doing good’ is becoming a lot more achievable, and as a result, the demand for ESG investing is growing. The COP26 summit last year put climate action in the spotlight, encouraging many to think about the principles of responsible investing and how to prioritise environmental and social outcomes.

Impact investing is not a new concept, but it has certainly been amplified in recent years. A 2021 **BML study** found that a quarter of UK investors plan to make ESG investments by 2025 while 30% are willing to accept lower returns on an investment if it has a positive social or environmental influence.

For people looking for ways to contribute to the cause, consciously choosing ethical banks and savings accounts could be an appealing option. There are a range of providers that offer different approaches to ethical saving, and with enthusiasm rising, cash inflows into these types of accounts will likely increase.

Financial technology

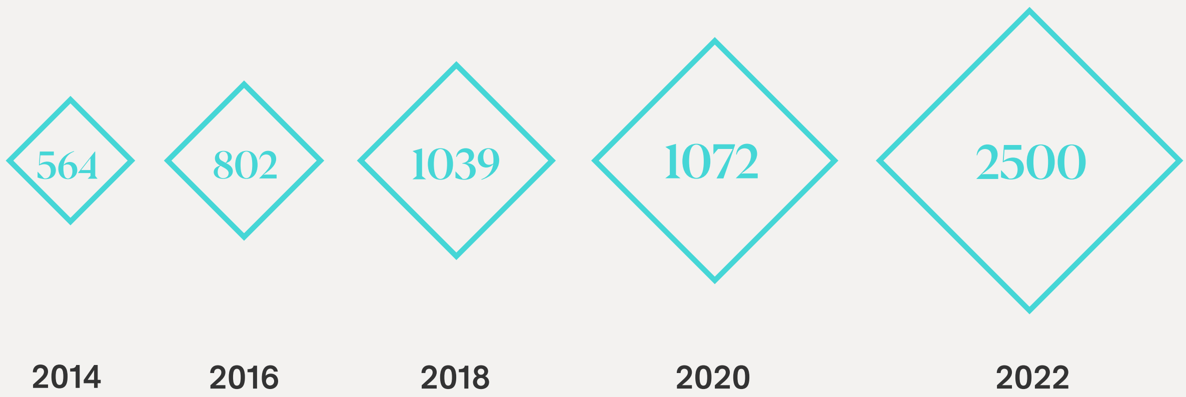
The rise of fintech

Like many other industries, there has been a mounting appetite for technology within the financial sector, including a range of specialisms such as mobile banking, risk management, and investment platforms. This demand has led to a huge growth story for the fintech ecosystem in recent years, with 2,500 fintech companies now active in the UK alone.

According to KPMG's 'Pulse of Fintech' report, the COVID-19 crisis created a perfect storm for fintechs by accelerating consumer need for virtually-accessed finance. As people became more comfortable with the concept of digital products and services, fintechs rapidly grew and consequently attracted larger investments. Following this trend, many corporates across financial services also adjusted to rapid digitization.

With a greater shift towards efficiency and accessible information since the pandemic began, fintech and digital finance is armed to become a more popular offering in the future.

UK fintech growth



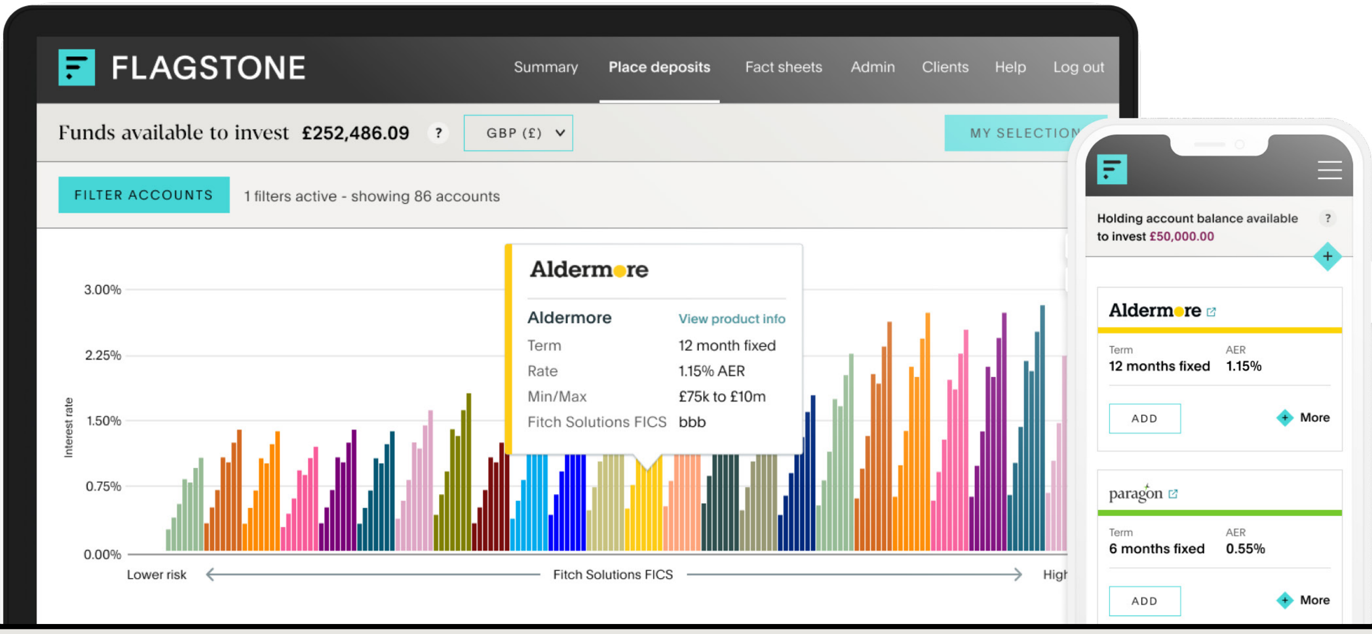
Source: The UK FinTech landscape (Deloitte)

Cash deposit platforms

Over the past year, a number of technology companies offering a self-serve wealth management service (wealthtech) have developed, proving the viability of their business models. Sitting in the wealthtech subsector of fintech, cash deposit platforms have also seen growing success over the years, appealing to both savers and financial advisers alike.

Cash deposit platforms, otherwise known as cash management platforms, have been created to take away the laborious process of completing multiple bank application forms to be able to move cash deposits at the click of a button. For a cash-holding client or saver they provide an easy way to mitigate risk and earn interest income. For an adviser they offer a holistic view of their clients' wealth, creating retention and acquisition opportunities.

In a world where processes are becoming ever more streamlined and technology is advancing, the accessibility and convenience of cash deposit platforms will continue to evolve and remain a valuable part of wealth management.



Summary

1.

Interest rates should continue to rise this year to control high inflation, but there is typically a four-to-six-week lag between the base rate hike and other savings accounts.

2.

The savings ratio is higher than pre-pandemic times and could increase due to rising rates and the appeal of cash during conflict.

3.

There continues to be inertia affecting the cash market, with many savers missing out on significant interest income.

4.

Ethical savings will become a more popular offering as people look to invest in ESG.

5.

Fintech and cash deposit platforms will continue to improve the way people save.

About Flagstone

Flagstone is the UK's market-leading cash deposit platform with around £8bn in client assets deposited to date.

Following a single application, we offer companies, charities and individuals access to hundreds of accounts from up to 50+ banks – including high street names and challenger banks. We also work with many of the UK's top financial advisers.

As an award-winning fintech, our technology gives clients access to market-leading and exclusive rates – enabling them to earn more interest and potentially receive greater protection for their money.

To find out more about how Flagstone can help grow your business and your clients' wealth, contact **020 3745 8130** or visit www.flagstoneim.com/referrers.

More insights from Flagstone

A Financial Planner's view on cash

From inertia to excellence – could your clients' cash be working harder?

Advising on cash – what is in it for financial advisers