FJP Investment

UK SAVINGS INDEX 2019
UNCOVERING ATTITUDES TOWARDS SAVINGS ACCOUNTS

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Savings accounts are the bedrock of most people's financial strategies. More than three quarters of UK adults (79%) hold some money in savings.

Yet the financial landscape has evolved at such a pace over the past decade that the picture is not as clear as it once was for consumers, or indeed investors, considering leaving significant capital in savings accounts.

At the start of 2008, the Bank of England base rate stood at 5.5%. By March 2009, following the onset of the global financial crisis, it had fallen to 0.5%. For the past decade, it has remained below 1%. The result has meant far lower returns for individuals who have thousands of pounds within savings accounts.

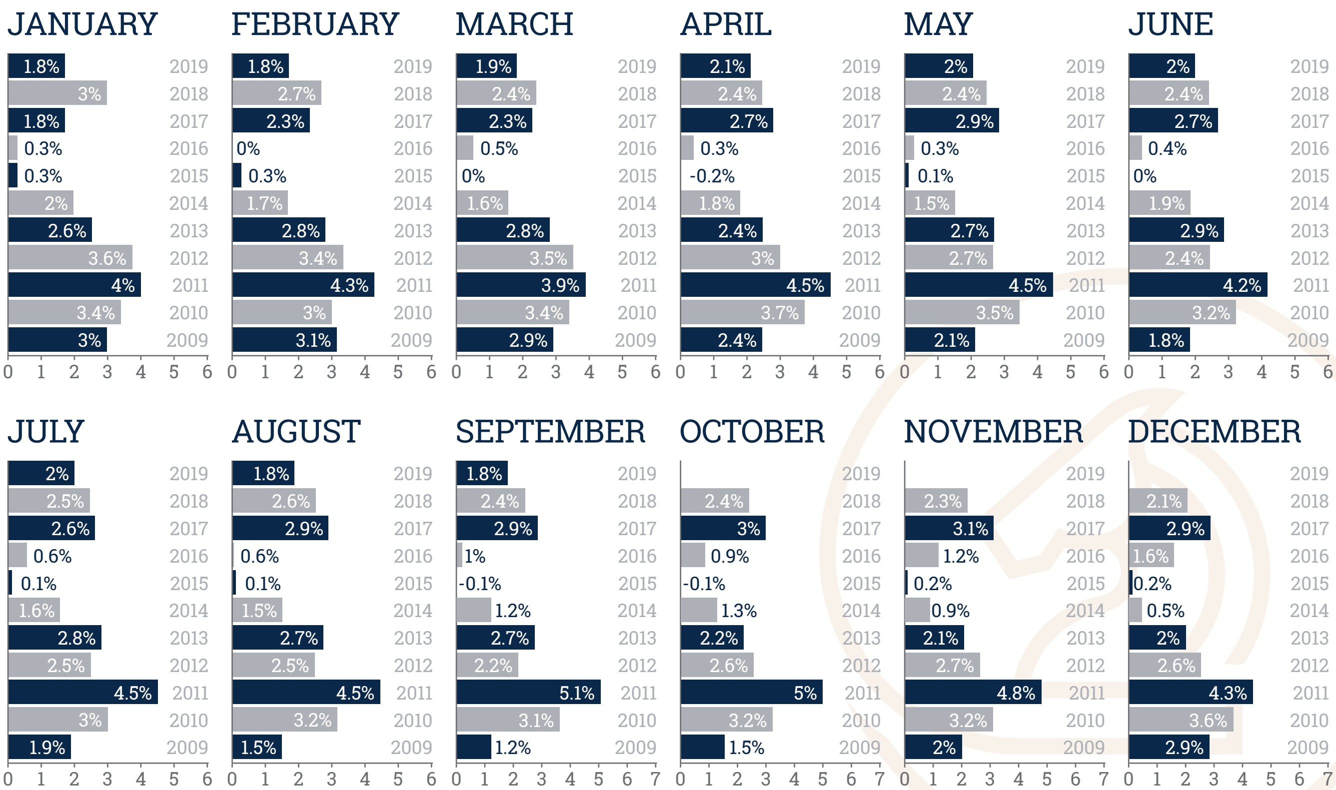
However, current UK inflation rates have added further complexity for those dependent on savings accounts (Figure 1).

With the rate of inflation outstripping interest rates offered by most banks, those with large sums left in savings accounts have been at risk of losing money in real terms.

Further to the mismatch between interest and inflation rates over recent years, the proliferation of alternative finance and new asset classes to invest in has brought in a new element for savers to consider. Today, individuals are presented with a plethora of investment options, many of which offer potential for generous returns.

To delve further into this topic, FJP Investment has commissioned independent research, which examined the amount of money UK adults

Tracking the UK's inflation rate (Figure 1)



currently have in savings accounts. The nationally representative survey of more than 2,000 people also uncovered people's attitudes towards savings accounts and, moreover, how they are planning to manage their finances in the year ahead.

The findings of this timely research are outlined in this report, along with the thoughts of FJP Investment's CEO, Jamie Johnson.

AVERAGE BRITON HAS MORE THAN £18,000 IN SAVINGS

The research was carried out in late October 2019 using an independent market research agency. The respondents – a nationally representative sample of more than 2,000 UK adults – were asked how much money they currently have in savings.

79% OF UK ADULTS HAVE SOME MONEY IN A SAVINGS ACCOUNT

It found that 79% of UK adults have some money in a savings account. A third (32%) of people currently have in excess of £10,000 in savings, while 5% have more than £100,000 – this figure rises to 12% among those aged over 55.

The average amount Britons have in savings currently stands at £18,469

The average amount Britons have in savings currently stands at £18,469; men (£24,020) typically have far larger amounts in savings accounts than women (£13,469), while the over-55s (£31,546) have much more than those aged between 35 and 54 (£14,257) and the 18-34s (£9,203).

Given the historic lows in the BoE base rate over the last ten years, coupled with the fact inflation rates have been higher than interest rates, these sizeable sums may come as a surprise to some readers.

Why, then, do consumers and investors alike still rely so heavily on savings accounts as the bedrock of their financial strategies?

SAVERS PRIORITISE SAFETY

The fundamental reason for the popularity of savings accounts is the safety and security they offer.

Three fifths (59%) of the respondents who have at least £1,000 in savings said they prefer to leave their money in a savings account due to the assumption it provides greater security over other forms of investment.

However, FJP Investment's research also found that there is doubt and uneasiness regarding the way people are managing their money. Some of this stems from the low interest rates being offered by savings account providers at present, while the current political and economic uncertainty across the UK – caused largely by Brexit and the upcoming General Election – is also a cause for concern.

Looking to 2020, just under two fifths (38%) of savers said that if interest rates remain low, they will be considering new investment opportunities to achieve greater returns on their money.

This figure rises to 48% among millennials (18-34 year olds).

This finding comes at a time when, according to **MoneyExpert.com**, only four savings accounts in the UK are able to beat or match inflation on a £10,000 deposit. For those saving towards a house deposit, for example, it means that their money will depreciate in real terms as it is left in a savings account; increasing inflation rates mean that their money is now worth less than before they put it into a savings account.

Elsewhere, the study demonstrated that Brexit and the General Election are topics worrying a notable proportion of savers. A third (34%) of respondents said they fear the election – taking place on 12 December 2019 – will have a negative effect on their finances, while 28% said they do not feel adequately prepared for Brexit; again, there is a greater level of concern among millennials when it comes to both these issues (the numbers rise to 49% and 44% respectively).

CHANGE AFOOT IN 2020?

In light of the low BoE base rate, as well as the plethora of new banking and investment options available today, it seems there could be a shift in people's financial strategies in 2020, particularly concerning their use of savings accounts.

18% 33%

18% of savers and 33% of millennial savers, have moved their money out of a savings account with a high street bank in the past 12 months, instead switching to a challenger bank

£ £

The previous section highlighted how 38% of savers are planning to put their money elsewhere if interest rates remain low next year. Yet, this trend has already been evident throughout 2019 – 18% of savers, and 33% of millennial savers, have moved their money out of a savings account with a high street bank in the past 12 months, instead switching to a challenger bank.

Challenger banks, including the likes of Monzo and Revolut, having grown in prominence over recent years. Such firms typically place greater emphasis on technology, enabling savers to move and manage their money more efficiently.

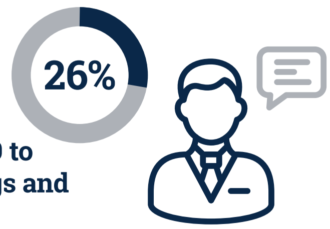
The movement by some savers away from traditional savings accounts towards newer alternatives is, in part at least, borne out of frustration with the service customers receive from larger banks. In fact, 61% of the savers FJP Investment surveyed said that they think banks should be clearer in explaining the different savings and investment options available to them.

Savers are evidently hungry for better returns on investment and a superior quality of service. When banks are unable to offer it, consumers and investors are already starting to take their money elsewhere – this is a trend, it would seem, that will become more prevalent in 2020.

OPTIONS FOR ACHIEVING GREATER RETURNS

With the average UK adult holding more than £18,000 in savings, the question is not simply which savings account is best for them, but rather whether there are other investment options they ought to be exploring.

To that end, more than a quarter (26%) of the people surveyed said they had consulted a financial adviser in 2019 to help inform their savings and investment strategy.



Previous research by FJP Investment – commissioned in April 2019 – uncovered the rising popularity of debt investment, which has become one of the leading alternatives for people looking to achieve greater returns on the money they currently have in savings accounts.

Debt investment involves an investor providing money to an individual or organisation via an investment provider in the form of a structured loan. This loan is then paid off over a pre-agreed period with a pre-defined interest rate.

According to the aforementioned research, almost one in ten (9%) investors currently hold some form of debt investment – this figure stands at 16% for investors aged between 18 and 34, but just 4% among the over-55s.

The same survey showed that 30% of UK investors are attracted to debt investment due to the fact it is positioned to deliver fixed, regular and pre-arranged returns. At a time when consumers and investors alike are reconsidering how to use the capital they have sat in savings accounts, this becomes a particularly pertinent point. Indeed, a fifth (20%) of all the UK investors surveyed in April said they were considering making some form of debt investment in the 2019/20 financial year.

LOOKING TO THE YEAR AHEAD

FJP Investment's research shows that 2020 could be a year of significant change in the savings market. With over a third of individuals considering alternatives to the savings account next year if interest rates remain low – as they are likely to – and 18% having already moved money to a challenger bank in 2019, it is clear that the market is already shifting.

The ongoing Brexit negotiations, combined with the approaching General Election, are adding more fuel to the fire – such events, as well as causing uncertainty and hesitancy, are evidently making savers reconsider their financial plans.

The savings account remains a key element for many people's financial strategies – the risk is so low that even if savers are losing money in real terms, a proportion of their money will naturally reside in such accounts. Similarly, the ease at which money can be deposited or withdrawn from savings accounts adds to their appeal. Neither of these points will be diminished in 2020.

Yet awareness of the problems associated with leaving money in savings accounts is growing. Very few banks can offer accounts that beat inflation, while challenger banks and alternative investment providers are opening door to new options for those keen to achieve greater returns on any capital that is not tied up in current investments.

In 2020, education and awareness of the alternatives to savings accounts is likely to improve further. This, in turn, will see investment portfolios and saving strategies diversify in line with individuals' priorities and desired risk profiles.

INSIGHTS FROM FJP INVESTMENT'S CEO

"The savings account is the foundation of just about every person's financial strategy. Whether it's a way to manage their day-to-day finances or a long-term plan for steadily building a pot of money, the vast majority of UK adults use a savings account.

"But the finance sector is evolving. Challenger banks, FinTech, alternative investment and debt products have risen to prominence since the aftermath of the global financial crisis 11 years ago. Consequently, there is a wealth of options available to consumers and investors alike when deciding where to put their money in order to achieve positive returns.

"It's important, therefore, that individuals develop a financial strategy – or a savings strategy – that suits their needs. Some people will need to have immediate access to their finances, while others will not want to risk losing money in pursuit of higher returns; such factors will shape the products or investment options they should consider.

"Debt investment is certainly becoming a popular option among retail investors, sophisticated investors and high net-worth individuals. The appeal is clear: individuals can invest a lump sum through an investment provider like FJP Investment, who then loans a larger amount to a person or company. The investor knows the returns they will receive and the timeframe for the loan repayments. As long as the debt investment provider executes thorough due diligence to ensure the recipient of the loan can meet the repayment plan, this is an effective way of achieving returns which are vastly superior to savings accounts.

"It will be interesting to see how the savings market evolves in 2020, particularly when the dust settles after the General Election and the subsequent Brexit negotiations. What's more, I am excited to watch the continued evolution of the debt investment sector, which I am confident will become more and more attractive to people hungry for greater returns on their hard-earned money, currently languishing in savings accounts."

Jamie Johnson
Founder and CEO
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