ling's chief executive, sees her bank's membership of Faster Payments as essential. Starling can both avoid dependence on big banks and provide services to others. Regulators have also issued restricted licences, limiting services but requiring less capital. Loot and Monese offer simple accounts, opened swiftly on smartphones, but redeposit customers' money at fully licensed, insured banks. This can be a route to the full bankhood of Monzo or Starling, or allow upstarts to harry banks in specific fields—as Azimo, Revolut and TransferWise have done in foreign exchange.

"Open banking", Britain's version of the European Union's revised payment-services directive, which came into force in January, may open the market further. It allows "account aggregators" to collect customers' data from several banks—and to push financial services (and more) in online marketplaces. On February 13th Starling announced deals with four fintech partners. But established banks reckon they are better placed than the upstarts. Giant tech companies may anyway prey on both whales and minnows.

A speedier switching service, set up in September 2013, has made it easier to swap banks. Starling even offers switching within its app. Britons are not yet moving in droves. In 2017 fewer people did than in 2015. But Metro's Mr Donaldson detects a rise in "multi-banking": opening new accounts, without yet ditching old ones.

Can any of the challengers really take on the giants? Even the biggest of the upstarts chasing conventional banks are small. Analysts think some may merge. Rising interest rates would test their mettle. The closure this month of the Bank of England's Term Funding Scheme, which offers cheap four-year money to support lending, will soon raise the cost of funds.

The digital purists ooze confidence, although they are still tiny. Ms Boden expects Starling to make a profit by the end of 2019 and to be serving ten countries by 2020, starting with Ireland this year. Monzo is eyeing America; N26 will open there this year; Revolut is on its way to several non-European countries. But they need not just to woo new customers, but also to persuade them to ditch their accounts elsewhere. "For us, the salary is the holy grail," Mr Blomfield says.

That's not because, like a traditional bank, he wants a pile of deposits to fund loans, and make money on the margin between saving and lending rates. Rather, it is to learn more about how people spend their money. If they can be offered, for example, better utility deals, Monzo might take a share of the cash they save. If they take out insurance with a big-ticket purchase, it could earn a commission. The upstarts have novelty, sharp technology and gusto. The old guard have a force that may be just as powerful: inertia. ■

American bank deposits

# Little interest

NEW YORK

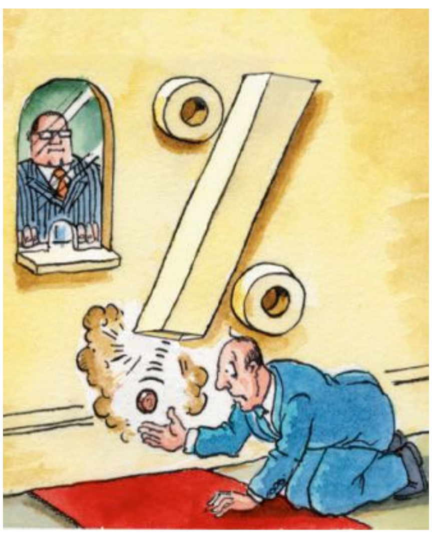
**In America, as in Britain, savers seem strangely loth to shift their money**

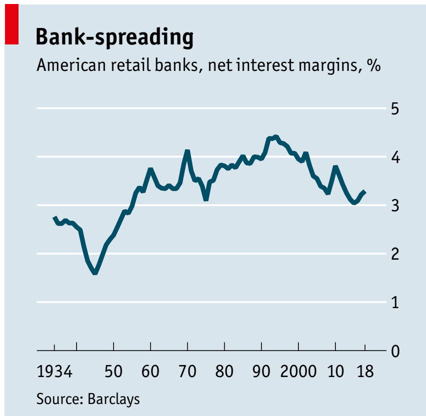
EVERYONE knows that interest rates are rising—except, perhaps, one group: American savers who have put $12trn in bank accounts. They have seen the government's deposit guarantee, purportedly designed to protect them, become a ticket for banks to receive free money. For evidence, look no further than the ubiquitous bank branches dotting America's high streets.

Those seeking a home for their money find that, unlike petrol stations or grocers, banks are not required to post their most important price, the interest rate. Ask and you will be referred to a specialised member of staff. After a wait, numbers are typed into a computer, followed by pauses for thought, a bit of throat clearing and, often, comments that the current rates on offer may not exceed inflation. Then come hints, doubtless filtered through a compliance department, of the higher returns available on the bank's investment offerings, which, of course, carry risks (and fees).

Only then is the diligent customer told the rates on offer, ranging from almost nothing to almost nothing at all. A knowledgeable saver might then ask about certificates of deposit, guaranteed securities with maturities of up to five years. Here too the banks' offerings often carry meagre rates. The exception may be a promotional deal—a slightly higher rate with an expiry date, intended to draw in new customers.

The high levels of deposits the big banks are sitting on suggest that many give up at this point, despairing of earning any return on their money. They would be wrong, however. Should they look online,






at, for example, Bankrate.com, a common reference point, they would find lists of rates provided nationally on deposits (up to 1.6% per year) and certificates of deposits (3%). These rates have been rising, in line with the broader bond markets.

You would expect the gap between what is offered to savers in banks and what can be earned online and in the money markets to close. Not so. In 2014 Gary Zimmerman launched a web-based financial link, MaxMyInterest.com, that enabled customers to transfer funds smoothly between their usual banks and higher-yielding online accounts (also government-guaranteed). At the time, banks paid on average 0.11% on savings accounts. Online his clients could receive 0.87%. Since then, his online rates have risen to an average of 1.52%, compared with 0.09% paid to high-street bank depositors.

If banks bother to defend their low rates, it is to point to an expanding range of associated benefits that they offer: automated banking, bill payment, credit cards, an ability to consolidate all of this easily online, and so on. This has sparked debate about "deposit beta", or how much of an interest-rate rise banks can afford not to pass on to savers (short answer: a lot).

Jason Goldberg, an analyst at Barclays, has compiled data stretching back to 1934 on the spread between how much banks have to pay for money and what they receive (see chart). After the financial crisis, low prevailing rates compressed this margin. But its recent widening has lasted unusually long—the first three-year streak since the 1970s is expected. And Mr Goldberg thinks more is to come as rate rises by the Federal Reserve continue to exceed what filters down to depositors. That will play a critical role in strong bank profits.

Given the upheaval and price-cutting that online shopping has brought to the rest of the retail world, this is at the very least odd, and seems unsustainable, were it not for the power of inertia. But relying on inertia is a dangerous strategy. At some so far undiscovered tipping-point, customers may wake up abruptly, shift their money and never come back. ■