

Britain's cost of banking

October 2026

Summary

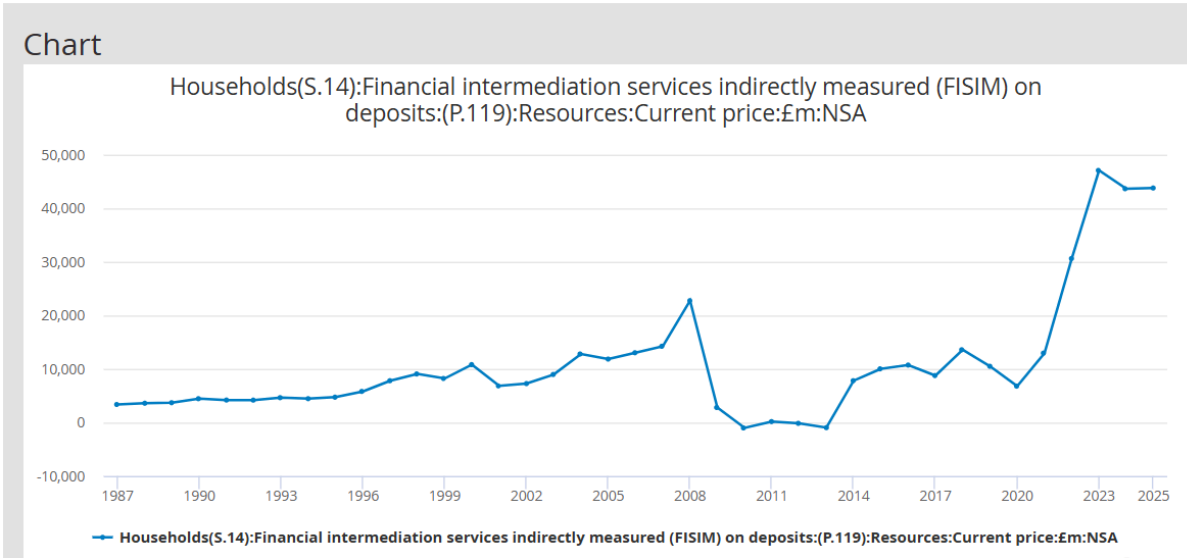
The latest ONS data shows **UK households have effectively paid £21.6bn for their bank accounts in the first half of 2026** – an average of more than £310 per person. UK households effectively paid **£43.7bn in 2025** (around £630 per person on average) for their accounts, **a more than fivefold increase** on the annual average from 2009 to 2021, when interest rates were lower, and a more than threefold increase on the historic annual average from 1987 to 2021, both adjusted for inflation.

This higher cost paid by customers has not been reflected in improved services, with banks continuing to close branches across the country. Rather, it is driven by higher interest rates, which banks have avoided passing onto depositors, supporting the case for a windfall tax.

Calculating the cost of banking

For the UK national accounts, the Office for National Statistics uses Financial Intermediation Services Indirectly Measured (FISIM) to calculate how much customers are implicitly paying for banking services that don't typically charge explicit fees, such as deposit accounts. Though the UK national accounts historically used imputed bank service charges to count such financial intermediation as a transfer, it is today treated as a value-add, which has the effect of inflating the financial sector's contribution to UK GDP.

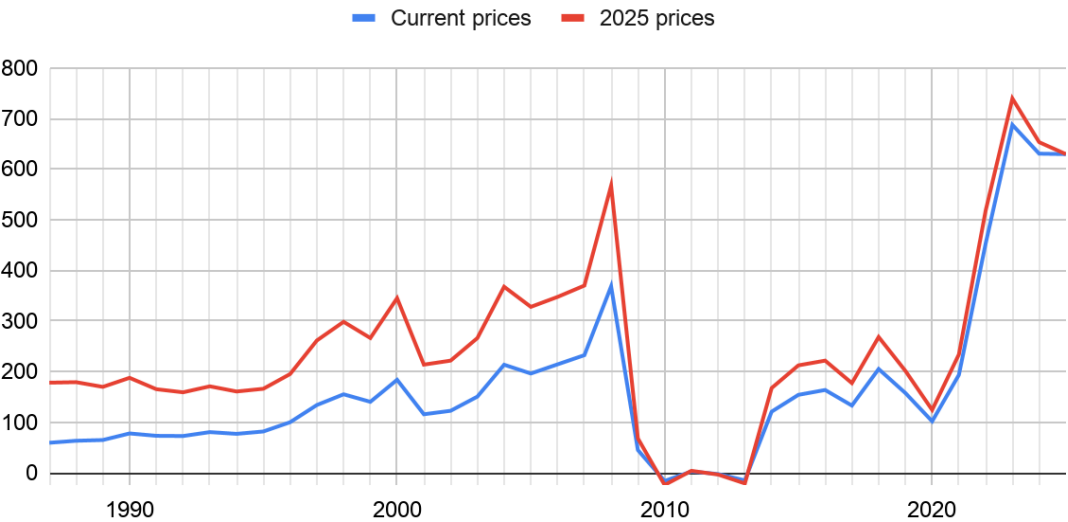
FISIM on bank deposits, which is included in households' consumption spending in the national accounts, is based on the difference between a reference rate (based on the interbank refinancing rate, which closely tracks the base rate the Bank of England pays on reserves), and the interest households receive. The reference rate represents how much banks would have to pay if they borrowed from each other, and is roughly how much could be earned on other safe short-term assets such as central bank reserves or Treasury bills. FISIM on deposits therefore effectively shows the cost households pay in depositing funds with banks rather than saving with the government directly, with the implication being that customers are paying for the services offered by their bank accounts, such as branches, and convenience. It can also illustrate the extent to which banks are enjoying windfalls at the expense of their customers, especially if a rise in FISIM is not accompanied by a commensurate increase in the amount banks spend on providing services.



Source: [ONS](#)

As the above chart shows, FISIM on households’ deposits – effectively the cost households pay for using bank accounts – has risen dramatically in recent years. Between 1987 and 2021, FISIM on households’ deposits averaged £7.4bn a year. Using a GDP deflator to adjust for inflation, between 1987 and 2021 annual FISIM on households’ deposits averaged £12.5bn (£206 per person on average) and £8.3bn (£125 per person on average) between 2009 and 2021, in 2025 prices. In 2025 households effectively paid £43.7bn for their bank accounts (around £630 per person on average) – a more than fivefold increase on the 2009–2021 annual average, and a more than threefold increase on the 1987–2021 annual average. Annual FISIM on household deposits has averaged £41.3bn in cash terms from 2022 to 2025.

Annual cost of UK households' bank accounts per person, 1987-2025 (£s)



Source: author’s calculations using ONS data

According to the latest ONS data, FISIM on households' deposits was £10.8bn in Q1 2026 and £10.9bn in Q2 2026. This means that UK households have paid £21.6bn for their bank accounts, an average of more than £310 per person, in the first half of 2026.

Part of the higher cost to depositors has been offset by lower costs for households who were able to lock in fixed-rate mortgages before rates started rising. But this offset is temporary. As fixed deals expire and borrowers refinance at higher rates, the gap between average mortgage and deposit rates has widened from 1.4 percentage points in 2023 to 2.1 points in the first half of 2026, according to Bank of England data. Savers bore the cost of higher rates first, while banks' margins from lending to households are now rising as mortgages reprice.

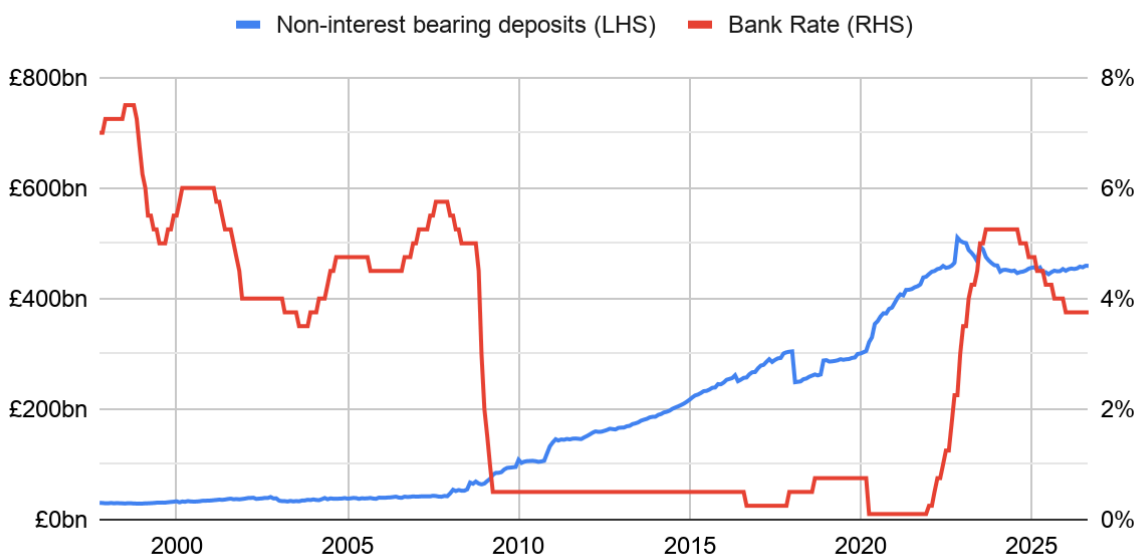
What is behind the huge rise in the cost of banking?

This dramatic increase in recent years has not been driven by a fivefold increase in the cost of providing banking services, but by the Bank of England's interest rate rises, which banks have not passed on to depositors. The Bank raised its base rate from 0.1% in November 2021 to a peak of 5.25% in August 2023. The base rate stayed at 5.25% until July 2024 before falling to 3.75% in December 2025, where it has remained since.

As well as households and businesses paying higher interest rates, much of banks' windfalls have been paid for by the government. Since 2009 the Bank of England has been paying the base rate on the reserves it created through quantitative easing, which HM Treasury is now footing the bill for under the terms of an indemnity. Of the [£16.7bn](#) HMT transferred to the Bank in the year to February 2026, around £12bn would have been used to help cover approximately £25bn of interest paid out on banks' risk-free reserves.

As FISIM data suggests, interest paid on reserves has not been passed onto depositors. Indeed, the amount of deposits in the UK that receive no interest at all has increased dramatically in recent years. The total stock of non-interest-bearing deposits grew to £510bn in 2022, up from around £260bn in 2018, and has since remained above £450bn, with over [£300bn](#) held by households and over [£150bn](#) held by non-financial businesses. Meanwhile, banks are currently able to use these deposits to receive at least 3.75% risk-free on the other side of their balance sheet, representing an annual subsidy of nearly £17bn, at the public's expense.

Over £450bn of UK deposits still earn no interest, even with Bank Rate at 3.75%



Source: author's calculations using Bank of England data

Instead of being reinvested in the UK economy, windfalls from higher interest rates are ending up in the pockets of shareholders (most of which are overseas), with banks using capital to pay [huge increases in dividends and share buybacks](#), rather than expanding [lending to the real economy](#).

Recommendation: Tax banks' windfall profits

Without changing the UK's monetary policy framework,¹ the simplest initial remedy to the increased cost of banking to the public would be a windfall tax on banks. There is precedent for this – in 1981, the government introduced a windfall tax on banks after interest rates were raised. This reflected the fact that banks' increased profits, like today, were "a result of our policy of high interest rates rather than because of increased efficiency or better service to the customer", as [Thatcher](#) put it. The Thatcher government's windfall tax took the form of a 2.5% levy on banks' non-interest-bearing deposits – doing the same today would raise £11bn.

Spain has introduced a successful windfall tax on banks, levied on net interest and fees of banks earning more than €800m a year. If the UK introduced a similar levy, targeting only the net interest and fee income of domestic banking arms above a £800m threshold but at a higher rate of 38% (the same rate as the Energy Profits Levy), this could be expected to raise [£19bn](#) from the UK banking operations of Barclays, HSBC, Lloyds and Natwest, or more than £20bn including Santander UK, based on banks' H1 2026 results and guidance. Targeting such a levy on the net income of large retail banks within the ring-fence would

¹ A review of the monetary policy framework is also overdue, with HM Treasury's last review in [2013](#), in which it committed to undertake a further review by the end of 2019 to ensure the framework is at the forefront of international best practice.

effectively tax windfalls made at the expense of UK depositors, avoiding impacts on wider business booked in the UK and the international competitiveness of the City of London, while mitigating risks of banks passing any higher costs on to customers.

Alternatively, as the [TUC](#) has proposed, the Chancellor could increase the existing banking surcharge, which was introduced in 2015 to reflect the risks banks pose to the economy, but cut by the Conservative government in 2023. If the surcharge was raised an additional 35% in line with the 38% Energy Profits Levy, this could be expected to raise [£14bn](#) in 2026/27, providing more than £16bn headroom against the current spending rule if continued into 2029/30, based on the OBR's forecast. An increase in the surcharge could also be targeted at only large UK retail banks within the ring-fence. Increasing the surcharge by 35% on the ring-fenced subsidiaries of the UK's big five banks (Barclays Bank UK, HSBC UK Bank, Lloyds Bank, NatWest Bank and Santander UK) would have raised £7.6bn in 2025. With profits up for the first half of 2026, this could be expected to raise around **£8.3bn** for 2026/27.

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