TISA leading on investments and savings

Lauren Eyland
Child Trust Fund Consultation
Pensions and Savings Team
1 Horse Guard's Road
LONDON
SW1A 2HQ

6th August, 2013

Dear Lauren

Response to HM Treasury Consultation on allowing transfers from a Child Trust Fund (CTF) to a Junior ISA (JISA)

I am pleased to attach TISA's formal response to HM Treasury's Consultation, and to thank you for the time you gave to us to discuss these issues with the Treasury and HMRC.

About TISA

TISA is a cross industry body with firms from across the whole of financial services. They include the major banks, insurers, fund managers, wraps & platforms, wealth managers, third party administrators and distributors in the UK.

TISA's Children's Council represents a wide range of providers of children's savings products, and includes major CTF providers, managing over 70% of CTF accounts, as well as JISA providers and ISA providers.

This response reflects the views of members as well as the discussions we held with HM Treasury and HMRC before and during the consultation process. We are grateful for the time officials gave to meet our members at a Children's Council meeting before the consultation was launched.

Summary of Response

- We welcome and endorse the recommendation that CTFs should be able to roll over into ISAs at maturity outside the normal ISA investment limits. This will encourage existing CTF providers to continue to invest in existing products and compete to retain maturing business at rollover.

- This encouragement will spur competition and increase choice for maturing CTF accounts. We believe that this competition will deliver more choice and more

attractive products for customers. This will be good for customers and good for those that provide competitive products.

- At the same time as announcing that maturing CTFs can roll over into ISAs on maturity, the Government should announce that lifestyling, for which firms will otherwise have to start building systems soon, will be made optional for CTF providers. It should be a decision for providers, depending on their view of customer needs, whether to offer lifestyling.

  Currently the default is opt-out. Having chosen a shares based product, parents should consider the likely outcome at age 18 and move to a cash Isa if they believe that be the right thing or switch to a self-select Shares CTF to move to different assets classes – e.g. bonds. This would be outside the stakeholder range.

  TISA recommends this for two reasons.

  The first is that the market, rather than Government, is the right place to decide product design. If providers believe that there is a significant customer demand for lifestyling, then the market will provide this as a solution.

  The second is that mandating lifestyling is unnecessary. Lifestyling was predicated on the belief that CTFs would be maturing at age 18 and that stocks and shares CTFs should be protected against market fluctuations as they approach maturity. But under the Government's proposals, maturing CTFs will rollover into ISAs, which will allow customers choice about whether they wish to continue to invest in stocks and shares.

- Some of our members also suggest that the JISA and CTF years should be aligned.

- As far as the question of whether voluntary transfers between CTFs and JISAs should be permitted, TISA members are divided between:

  1. Those who support voluntary transfers
  2. Those who want the status quo to remain
  3. Those would like some changes to the CTF regime to bring it in line with the JISA but no transfers to be allowed.
  4. The Treasury will see the preferences from the individual company's submission.

  TISA is clear that, voluntary transfers can only work within a framework where CTFs will automatically rollover into ISAs on maturity. Without this, CTF providers will see a one way outflow of funds (typically the more profitable accounts) without any prospect of retention of assets on maturity. This would not encourage investment by

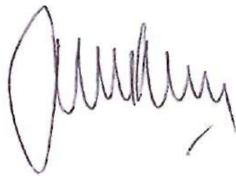
existing CTF providers. Our members are deeply divided over whether voluntary transfers should be permitted.

- We believe the original CTF was a coherent way of developing a long term savings strategy for a broad mass of the population, rather than just those with savings. It represented a way of engaging young people and their parents and guardians in thinking about saving and believing they had a stake in society. We understand the tough choices the Government faced on taking office, but we should be very pleased to discuss with Government options to make children's savings part of a long term strategy for encouraging savings in the UK.

Our response to the specific questions is set out below.

If you have any questions on our response, please let me know.

Yours sincerely



Jeffrey Mushens
Technical Director

Question 1: Do respondents believe that the transfer of funds from a CTF to a Junior ISA should be permitted?

TISA's view is that, as with a Junior ISA (JISA), the default position should be that the CTF will rollover into an adult Cash or Stocks & Shares ISA (depending upon the assets held at maturity) outside the normal ISA investment limits. The practical aspects of conversion that apply to a JISA becoming an ISA can equally apply to a CTF becoming an ISA.

On this basis, voluntary transfers from a CTF to a JISA should be permitted

We have to say that we are a little anxious about the risks for the existing CTF market, which has invested in systems and products for over 6 million children, many of which, and their families, would otherwise not have a financial stake in society. Members were therefore deeply divided on this. The proposal to allow transfers will give rise to potential adverse consequences for existing providers and their customers.

This is because there is a risk that existing CTF providers face the risk of JISA only providers seeking to cherry pick higher value accounts. CTF books are a balance of some higher value accounts with additional contributions together with larger numbers of accounts that may be revenue allocated or with minimum balances. These are inherently trivially, if at all, profitable. Were new entrants to be successful in acquiring higher value CTF accounts, perhaps with the lure of (what turn out to be temporary) higher rate paying accounts, the profitability of existing CTF books of business could be significantly impaired. This could lead to providers withdrawing from the CTF market, to the detriment of consumer choice and product competitiveness.

CTF providers have already suffered from the present Government's decision to stop new CTF accounts being opened, upon which many CTF providers had based their decision to enter the CTF market,

On balance, because we favour market competition and customer choice, we believe that such transfers should be permitted. We believe that the prospect for retention of CTF customer assets in ISAs from 2020 coupled with our recommendations on lifestyling and aligning CTFs with tax years rather than birthdays, is sufficient to compensate existing CTF providers for this risk, but our membership does not have a consensus view on this point.

Question 2: Would allowing CTF funds to be transferred to Junior ISA have any significant impact upon the viability of the wider CTF market, including on the availability of suitable products for children whose funds remain with CTF?

TISA, DAKOTA HOUSE, 25 FALCON COURT, PRESTON FARM BUSINESS PARK, STOCKTON-ON-TEES TS18 3TX
technical queries: 01642 666999 email: enquiries@tisa.uk.com web: www.tisa.uk.com administration: 01642 666982 fax: 01642 666990
Tax Incentivised Savings Association Limited. A Company Limited by Guarantee. Registered in England and Wales No: 3548792

The answer depends on whether, as proposed in the Consultation, and which we recommend,

CTFs will automatically migrate into an ISA on maturity as discussed above in our response to Question 1.

A beneficiary would have the same freedom of choice as any other ISA customer to stay or seek to transfer to a more attractive provider.

We believe that the possibility that maturing ISAs could be retained on a continuing basis will be a powerful incentive to CTF providers to offer competitive products for maturing CTFs and to continue to invest in systems and products to retain those customers. Without these changes, there is a high risk of 'cherry-picking' of higher value accounts leading to providers withdrawing from the CTF market, to the detriment of consumer choice and product competitiveness.

To permit voluntary transfers without at the same time assuring CTF providers that maturing CTFs will rollover into an ISA, outside the normal ISA investment limits, would significantly damage the existing CTF market with malign consequences for firms and their customers.

Question 3: Would the proposed approach outlined above under 'voluntary transfers' provide a workable basis to allow the transfer of funds from CTF to Junior ISA?

TISA always favours giving the investor or beneficiary the right to make decisions about their assets, and we would support voluntary transfers, subject to our recommendations about automatic rollover into ISAs on maturity, on lifestyling. and aligning CTF and JISA subscription years This then makes the question of transfers simply one of providers competing to offer attractive terms to customers and their advisers and letting market forces determine winners and losers.

Question 4: What would be the impact of the proposed approach, including one-off or ongoing costs and benefits for accountholders and providers?

We believe that the impact of the Government's proposals when allied with our further recommendations will be to increase the incentive for existing CTF providers to invest in products and systems for their existing CTF customers and for their ISA customers. This is because the CTF market will no longer be a declining market, with a finite life, but one with the prospects of longer term customer relationships through rolling over into ISAs.

Aligning account features will, after initial investment to amend structures, reduce on-going costs for providers.

At present, CTF providers may not charge for transfers to another CTF provider. It would

however, be reasonable that they may charge a JISA provider for costs incurred in transferring investments.

There are over 6 million or so CTFs and the prospect of retaining a significant share of these for the usual life expectancy of an ISA book of business will be a significant incentive to existing CTF providers.

This may to an extent compensate them for the damage they suffered when the Government closed the CTF scheme and replaced it with JISAs: the impact was to turn CTFs into a fixed market, with no prospect of new business but locked-into low average balances accounts.

As with all competitive markets, we expect better choice for customers and for competition to keep costs in check. However, were CTF providers to exit the market in favour of JISA, the potential exists for CTF account holder's costs to rise. JISA do not have a requirement to accept a low minimum subscription and there is no stakeholder constraint on providers' charges. Remaining CTF providers may be reluctant to accept transfers of low value accounts.

Question 5: If the Government proceeds with changes to the current rules on transferability, do respondents agree that its proposal to allow the transfer of funds on a voluntary basis is the best course of action?

We endorse the idea that customers should be able to voluntarily transfer between CTFs and JISAs, subject to the comments on rollover into ISAs on maturity, lifestyling, and the risks to the existing CTF market.

It is the customers' money, and if existing providers do a good job they are likely to keep the accounts. If they don't do a good job, they don't deserve to keep the accounts.

However, it should be recognised that pressure to allow transfers is partly driven by the parents' desire for simplicity, particularly where they are currently running two different schemes for their children. Hence our additional recommendations reduce this complexity by aligning, in key aspects, the features of the CTF with the JISA, whilst allowing those account holders with lower balances to benefit from the existing low cost structures available in CTFs.

Question 6: Are there any circumstances under which a merger of CTF into Junior ISA would be preferable?

There are over 6m CTF accounts with assets of just under £5bn at the end of March 2012 of

which just under £900m was held in non stakeholder cash CTFs.

The figures for JISAs just published for April 2013, the first full year of operation, show just under £300m subscribed in cash in 200,000 accounts, and a total of £400m in 300,000 accounts. Merging them compulsorily would make no economic sense. The costs of migrating 6 or so million accounts over to JISAs when the latter are so much smaller in scale and when many CTF providers do not offer JISAs are staggering. Who would bear the cost of communicating this decision to CTF holders? It would seem unjust in the extreme to impose these (unwelcome) costs on CTF providers, to make like easier for JISA providers.

What happens if the CTF operator does not wish to operate a JISA? Are the accounts going to be forcibly merged somewhere else? Who makes that decision?

Fortunately, the Government's proposals especially when allied with our further recommendations make these circumstances entirely academic. There may come a time when the numbers of CTFs are so few that merger makes economic sense, but this time is a very long way off. After all, the first year for maturing CTFs is 2020 and there will still be millions in CTFs for a few years thereafter.

Question 7: Do respondents agree with the approach to legislate to allow voluntary transfers in the first instance, but also to provide scope for further intervention at a later date, should this prove necessary as a result of developments in the CTF market?

We believe that there is no need to provide scope for further intervention at this stage. We would expect the Government, in any event, to consult with the industry if there was significant demand for intervention in the CTF market.