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14 January 2021

The Rt Hon Rishi Sunak MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
LONDON SW1A 2HQ

Dear Chancellor

BUDGET 2021 REPRESENTATION

The Investing and Saving Alliance (TISA) is a consumer-focused financial services body that undertakes policy work to improve the financial wellbeing of UK consumers. We have 220 member firms from across the UK's financial services industry and work closely with the FCA as well as Government departments such as HMT, DWP and BEIS.

We commend four proposals to you as you finalise your preparation for this year's Budget. We are very aware of the Government's upcoming budgetary challenges and our proposals are cognisant of the current and upcoming constraints of HMT.

TISA's recommendations:

- Support the adoption of a Digital Identity scheme for UK consumers of financial services, to grow the Fintech and wider digital economy, facilitate cross border digital trading post Brexit and enhance engagement between consumers and their saving & investments as the UK emerges from the Covid crisis.
- Increase mass-market access to better quality financial guidance by supporting the necessary regulatory change required for enabling greater personalisation of guidance by financial services to consumers.
- Improve the Auto Enrolment framework, particularly for low earners.
- Simplify the ISA regime to make general savings, retirement savings and help to buy saving easier for consumers and the investment industry, plus making the Lifetime ISA more attractive as a pension saving vehicle, particularly for the self-employed.

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1. Support the adoption of Digital Identities and support FinTech

TISA is working on an initiative to create a Digital Identity scheme that enables consumers to easily access fianancial services by creating a single, reusable, secure ID that is owned and controlled by the consumer.

As the Brexit transition period has concluded, it is vital that the UK continues to work closely with the European financial services market, both on regulation and trading and other international markets. The UK has an opportunity to lead developments of delivering seamless financial services, which will build a world class digital economy. The Digital ID scheme, as an example, will put the UK firmly at the forefront of the Digital Identification market, as a leader of anti-money laundering technology and will increase the speed of digital transformation in financial services. Initially, the scheme will be developed for UK market use, however it will be interoperable with international markets. We believe that Digital IDs will bring significant long-term benefits to the UK economy.

We call the Government to support the adoption of Digital Identities for UK consumers of financial services to enhance engagement between consumer and their savings, plus to grow the FinTech services and wider digital economy.

As a related point, TISA whole-heartedly supports the FinTech Strategy Review (recently commissioned by HM Treasury). TISA has developed a new digital marketplace connecting Financial Institutions with FinTechs (called TISAtech). This marketplace will drive innovation and the development of market-leading Open Finance solutions throughout our industry.

2. Increase mass-market access to better quality financial guidance

According to FCA research published in December 2020, there are 52 million adults in the UK, of whom only 4 million received financial advice in the last 12 months. This leaves millions of UK consumers who are not getting the help they need with their financial affairs, even for the basics like help to determine whether they are financially on track. Given the damage caused to consumer financial resilience by the COVID crisis, this problem is expected to become more pronounced.

We call on the Government to acknowledge that relying on consumers pro-actively accessing financial advice (which can come at a significant cost to consumers) is not realistic. TISA believes that consumers need access to free, personalised support from their financial services providers. But this requires changes to the FCA's regulations around Financial Advice, much of which emanates from EU regulations.

The FCA has recently closed its call-for-input on *The Consumer Investments Market* and plans to take the input it has received to determine a way forward for solving the UK's "Advice Gap". **We call on the Government to ensure the opportunity of Brexit is seized, so a new regulatory regime around Financial Advice can be built that better suits the UK and the needs of its consumers.**

TISA is supporting the upcoming work by HM Treasury and the FCA in this regard.

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3. Improve Auto Enrolment (AE)

The last review of AE (commissioned by the DWP) took place in 2017. The outcome of this review was DWP's agreement to: (i) reduce the minimum age to 18 (from 22); and (ii) remove the lower earnings limit, which is prejudicing low earners, given their employers don't need to make contributions below such earnings limit. DWP have agreed to implement the required changes, sometime in the upcoming decade, leaving employers and employees with uncertainty. **We call on the Government to place the agreed changes to AE into legislation, so employers and employees can have greater clarity around when and how these changes will be initiated.**

A number of years have passed since the last review of AE was conducted. There is now more awareness (amongst the DWP and industry that is) that the 8% contribution level will <u>not</u> provide consumers an adequate replacement income in retirement. Consumers are however being left unaware of their AE shortfalls. There is also wider awareness of the issues and anomalies that AE causes for low-earners. The impact of Covid on the finances of millions of consumers, amplifies the importance of ensuring the Government's AE framework delivers suitable consumer outcomes.

Although now is not the right time to lift AE contribution levels (given the strain being caused by the COVID crisis on both employers and employees), it is however of high strategic importance that a 2nd review of AE is commenced without delay – there will be a lengthy time required for any future changes to be agreed, communicated and implemented. **We therefore call on the Government to support such a 2nd review of AE to be conducted and for the remit of such review to include the impact that AE is having on lower earners, so additional flexibilities for this cohort can be explored.**

4. Simplify ISAs

ISAs have been a huge success in the UK and have become the savings vehicle of choice for millions of consumers. Consumers hold just under £600bn in adult ISA savings - as at April 2019 (based on latest government figures available). The success of ISAs is in large part due to their simplicity and suitability for a range of savings needs. The Lifetime ISA is, for instance, particularly helpful to younger generations wishing to get on the housing ladder.

There are however lots of types of ISAs, which leads to complexity in choice. ISAs could be made easier for consumers to invest in and for the industry to administer. Additionally, the Lifetime ISA could be made more attractive to consumers, particularly for the self-employed.

Proposals:

- **Scrap the constraint on the number of ISAs that a consumer can subscribe towards in a year**

  At the moment, consumers cannot invest in more than one of the same ISA type in a tax year – say a consumer has already invested some money into a Cash ISA from one provider, they cannot take advantage of an offer with another provider of a Cash ISA in the same tax year. This limits competition and constrains the consumer from taking advantage of opportunities (such as a higher interest rate on offer from another provider). We propose that customers be able to subscribe the full annual limit for an ISA type across any number of ISAs in each tax year and assume personal responsibility for ensuring overall subscription limits are not breached. HMRC data shows that on average, customers subscribe less than half of the annual limit

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to Stocks & Shares and Innovative Finance ISAs, and less than a quarter to Cash and Insurance ISAs, resulting in limited risk of these increased freedoms having an impact on compliance with the ISA rules.

- **Allow the permissible assets of ISAs to be extended (as an alternative to creating new ISAs)**

  There are a number of types of ISAs that exist, with more types envisaged to be created in the future. This threatens the simplicity of the ISA landscape for consumers. An alternative to creating new types of ISAs, would be for HMT to extend the permissible investments that an ISA type can hold. This will ensure a consumer's ISA choice does not become more complex than it is now.

- **Increase the maximum age for opening a Lifetime ISA**

  You have to be aged 40 or under to be able to open a Lifetime ISA. This limits the chance of consumers using Lifetime ISAs as a retirement vehicle, which is especially relevant for the self-employed (who don't have a company pension scheme). We propose that Lifetime ISA age requirements should be simplified to allow both openings and subscriptions up to the age of 55, thereby removing the current age 40 restriction. This would also ensure no disadvantage to customers over the age of 40 who have closed their Lifetime ISA (e.g. following a house purchase) who then later wish to save in a Lifetime ISA for their retirement, which is currently prohibited for any customer between the ages of 40 and 50.

- **Lower the penalty charge for early withdrawals on the Lifetime ISA**

  The Government provides a 25% bonus to a consumer's investment in a Lifetime ISA – a £1,000 investment by the consumer becomes £1,250. If the consumer needs to make an early withdrawal (e.g. they are facing a financial hardship, such as becoming unemployed), a 25% Government penalty is charged – a plan value of £1,250 becomes £937.50. This is unfair to consumers, particularly those who have no choice but to draw from their Lifetime ISAs. We propose the Government penalty charge for early withdrawals should be reduced to 20% (from 25%). Losing their tax relief will provide a big enough disincentive for early withdrawals. The reduction in the early withdrawal charge should be cost neutral for HMT.

A more detailed paper entitled "Maintaining ISA Simplicity" setting out the recommendations in more detail is available on request. We have already discussed the detailed proposals with HMT and HMRC and would be pleased to further explore how they could be implemented.

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Finally, I should like to place on record our appreciation of the constructive engagement we have with your officials and their willingness to come out and speak to TISA members on a range of issues.

We would be pleased to discuss any of our recommendations with you and your officials.

Yours sincerely,

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