RESPONSE BY TISA TO 'LIFESTYLING' OF CHILD TRUST FUNDS CONSULTATION

14TH DECEMBER 2015

About TISA

TISA is a not-for-profit membership association operating within the financial services industry. The focus of our recommendations and actions is improved outcomes for consumers and UK plc with this approach leading to a stronger UK financial services industry.

TISA's growing membership comprises over 150 firms involved in the supply and distribution of savings and investment products and services. These members represent many different sectors of the financial services industry, including asset managers, insurance companies, fund managers, distributors, building societies, investment managers, third party administrators, consultants and advisers, software providers, financial advisers, pension providers, banks and stockbrokers.

Having a legacy of focusing predominantly within the tax incentivised products area, TISA has in recent years moved into the broader savings and investments world, extending our standing as trusted adviser over a much greater remit.

TISA has a successful track record in working cooperatively with government, regulators, HMT, DWP and HMRC to improve the performance of the industry and the outcomes for the public. Effective policy and regulation and the creation of efficient industry infrastructure continues to be the major focus for our members. TISA is unique in that it represents the entire financial services industry, incorporating cross-sector policy, industry and technical expertise. Whilst we maintain a solid partnership with government, the regulators and wider industry, we remain independent and develop neutral views and opinions. This impartiality is reflected in our ability to drive development projects which improve industry performance and consumer outcomes, putting us in the unique position of being able to constantly challenge the status quo to bring about material improvement.

Consultation Response

The majority of responses from TISA members support the removal of lifestyling.

With that in mind, we feel that CTF account holders should be encouraged to roll CTF funds into an adult ISA and the move to cash may deter investors from doing so as any growth on investments over the previous 3 years would be minimal.

TISA would welcome the opportunity to work with HMT / HMRC and an industry group to consider the implications and potential alternatives which may be deemed to be required if lifestyling is removed.

Question 1 – What are the costs, benefits and other impacts of lifestyling for CTF account holders and providers?

<u>CTF Account Holders</u>

Any benefits of lifestyling will vary due to the differing situations of account holders.

Lifestyling may result in additional costs to account holders as a result of increased transactions required to redistribute the portfolio. As many of these accounts are stakeholder accounts with relatively low values there is a risk of decreasing the overall value while prohibiting potential growth from stock market investment.

The benefit to lifestyling, that it may reduce the risk of stock market volatility for a 3 year period, may be reduced by the impact of the investment decisions made by the provider. Due to the relatively short time period and the high volume of accounts that would require lifestyling it is likely that investment decisions would be taken en masse giving differing impacts on portfolios and may not result in the best outcome for all account holders.

<u>Providers</u>

It is understood that developing a lifestyling function will incur high costs amongst providers (some estimated at £1m). Dealing costs to the providers and CTF account holders will also be higher as a result of forced transactions.

Increased customer communications and oversight will be required as a result of the implementation of lifestyling to ensure all account holders have the option to opt out which will further increase costs to providers.

Additionally we understand that not all CTF providers are registered deposit takers which may present problems when moving towards more 'cash like' investments with alternative custody or management arrangements having to be made.

Question 2 – Should the current legislative requirement that stakeholder CTFs should be subject to lifestyling, unless the registered contact for the account instructs otherwise, be retained?

It is important that the best outcome for the CTF account holder be achieved as the result of any action taken and we do not feel it is evident that lifestyling will provide this.

Previous regulator research has shown that customer inertia often drives behaviour so there is a high risk that registered contacts will not opt out. Also there is a relatively high proportion of HMRC allocated and 'gone away' CTF accounts (estimated between 10-15%) where no instruction would be received from a registered contact.

We believe the default option should reflect the best possible customer outcome and do not feel that evidence supports lifestyling will achieve this for all account holders.

Question 3 - What would be the impact for CTF holders and providers if this legislative requirement were removed?

Historically growth in investments has yielded higher returns that cash over a longer period.

For CTF account holders the impact would be varied however any negative impact for customers who would choose lifestyling could be reduced by exploring alternative options.

For providers this would remove the requirement to complete costly systems development and implement new systems however the costs of increased communications would remain as providers would be required to communicate changes to all customers.

A national campaign would be required to promote public awareness along with a more targeted campaign to contact gone away and HMRC allocated account holders, potentially via the child benefit system and schools.

Where protection of account value is a concern account holders have the option of switching investments within the CTF or transferring to a Cash CTF or a Cash JISA. This allows for an individual decision to be made, at the right time for the account holder.

Question 4 – Would some account providers continue to offer lifestyling or similar features as part of their CTF terms and conditions, in the absence of a legislative requirement to do so?

There is no evidence that account providers would continue to offer lifestyling if this were not a requirement however this would give account providers options to explore alternative options.