



tisa

Leading on Investments and Savings

**FCA CP16/32
Consultation on the amendments
to the handbook for the
introduction of the Lifetime ISA
LISA**

January 2017

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 160 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.

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.

In addressing your questions we also had a few areas worth noting to add context and a TISA members' perspective. These include:

- The penalty charge is a heavy consideration for investors and introduces many complexities and impacts when deciding to invest. It is also something that is not part of any other ISA and therefore unexpected. TISA remain committed to seeking a removal of the punitive 6.25% charge on an investors own money as part of a non-valid withdrawal. We believe the loss of the bonus and any growth on this should be sufficient.
- The Lifetime ISA offers help for the self-employed where pensions and current ISA products do not. Our own analysis suggests however, that the age limit of 40 for opening a LISA needs to be increased in order to benefit this group more.
- The offer, in the first year, of transferring and allowing a bonus on all of the monies from a Help to buy ISA is welcomed. We feel this should be extended to capture maturing Child Trust Funds and Junior ISAs in the future. This will then build upon the savings habit that has been established in the young adult product and encourage further savings, with the boost of the bonus. In order that this is not an open ended offer this could be limited to the first 6 months of the maturing product.
- The publication of the regulations in March, from this consultation, if significantly changed, maybe too late for firms to launch in April. Even without changes, not confirming until March may be too late.
- We disagree with the requirement for a table to show the impact of charges. No other ISA product has this requirement. Why impose it for LISA? In addition, the FCA is currently consulting on MiFID II requirements for Cost & Charge disclosure. These requirements differ from those in this consultation. It makes no sense to introduce new disclosure requirements

for just the LISA and have them different to those likely to be required when MiFID II is implemented

Taking the questions raised in the consultation:

1. Do you have any comments about the impact of our proposals on equality and diversity?

TISA members have only one area of concern when reviewing the proposals on equality and diversity and that is how LISA is treated as part of universal credit. Whilst LISA, being part of the ISA range, is treated as a savings product for the purposes of calculating entitlement, it does not have the same level of flexibility as the rest of the range. In fact its penalties are more alike to a pension. Given the focus of the LISA, particularly towards retirement, forcing individuals to withdraw, at a cost, only seeks to affect the very individuals the product is trying to encourage to save.

When considering the LISA one cannot anticipate that they might, at some time in the future, be in receipt of universal credit. Their decision on whether and how much to invest therefore, cannot take this fully into account.

2. Do you agree that the risk categories we have identified capture all of the relevant risks the LISA poses to our objectives? If not, which categories or risks would you add to or remove from our list?

Our members do not have any additional risk categories to add to those defined in this proposal. We do however, have some additional examples we wish to emphasise in a few of the categories:

- a) Complexity: There is now more choice within the ISA range. Whilst deciding that saving into the tax efficient ISA is appropriate there will then be more variations into which to save within and choosing the right combination(s) is no longer straight forward
- b) Contributions: There is a risk that if an investor chooses to opt out of saving into a pension in favour of the LISA in order to save for a house, they may not opt back in. This is particularly important as the balance of benefit of one over the other shifts in 2019 for example, in favour of the pension. Recognising these comparisons may change over time as bonuses and pension contributions are altered, the risk is the investor maybe saving into the wrong vehicle. Nevertheless, exactly the same argument can be made in respect of anyone investing in an ISA. Or buying a fund. Or a bond. Most people have to choose where to invest, and if they are employed, they could put that money into a pension. Do the FCA propose that similar questions should be posed to all investors or simply those investing in a LISA?
- c) Access: When taking out the LISA they can only consider their circumstances as they plan them to be and cannot fully engage in all scenarios. The withdrawal charge

penalises those Un-foreseen circumstances such as redundancy when they least need to be hit with the impact on their savings.

- d) We agree with this concern. We have recommended to the Government that the Government penalty for non qualifying withdrawals should be scrapped.

3. Do you agree with our proposal to add guidance on information about risks that should be included when communicating with retail clients in relation to a LISA?

Our members agree with the proposals to add guidance with the additional considerations:

a) In the first year there is the option to transfer Help to Buy ISA savings in their entirety to the LISA and benefit from the bonus on the full amount transferred. As this a limited offer (2017-18 tax year only) and the investor will lose out otherwise, guidance and information should be produced.

b) If an investor fully withdrawals from their LISA, leaving a zero balance there is no obligation for the manager to keep the account open. If this occurs before age 40 and the investor does nothing about it they will lose out on being able to save into a LISA. Should they, after 40, decide to add to their account they will be unable to do so. Unless they have re-established it with the same provider before turning 40 the option to save into the LISA is gone. Whilst we would expect Managers to include whether they will maintain a zero balance account or not we believe this should be brought to the investor's attention in order that they might seek out the answer to this important question when choosing the appropriate account.

Question: 2.15 makes reference to COBS being amended. Is it the intention to amend BCOBS too where only CASH LISA is involved?

4. Do you agree with our proposals to require LISA-specific information disclosures? If not, please explain why.

TISA agrees with the proposal, where the disclosure draws attention to the Government penalty. However, we do not see the table serving any acceptable purpose. It neither helps, or satisfies, the needs of any particular investor. Basically it is too generic and over simplifies the investors potential aims of taking out the product. It also does not consider the dual purpose, the potential to partial withdrawal during the savings period and the investment profile change around this. This is very similar to tables that were removed by providers previously as they did not work. In addition, we do not believe the introduction of a disclosure regime specific to LISA, and which will differ from the regime proposed for MiFID II and PRIIPs makes any sense. The FCA has made no case for the introduction of this requirement more generally, or why LISA should be singled out in this way.

If the FCA goes ahead with its proposal – which we oppose - a table using a term approach may be more helpful e.g. 5,10,15 years and it would still be able to factor in 50-60 age where

no contributions can be made. The impact of a withdrawal charge could also be taken into account as this is a major difference with other products.

5. Do you agree with our proposals on cancellation rights for LISA?

TISA members support the general proposals for cancellation rights and, in particular, the cooling off period instead, including transfers, of 14 days. Can we confirm that where a firm offers the 14 day cooling off period there is no need to also adhere to the HMRC 30 days referred to in their guidance?

Clarification required where distant marketing is used. Our understanding of the proposal is that a minimum of 14 days cancellation rights should be offered (unless the 14 days cooling off is adopted) when selling a LISA, which means that there is no distance marketing exemption for this product. Could this please be confirmed? FCA have stated that it is not necessary for the LISA to be an advice only product, which TISA also supports. It has also recommended a number of guidance and communications, in order to inform the investor of the particular features and risks of the product. With these in place, TISA do not feel it necessary to introduce cancellation rights into distant marketing sales.

Introduction of these rights for execution and non advised business is a big change. For businesses, which are direct only, it will compel significant changes to take on of business. We do not believe the FCA has made a case that this requirement is proportionate to the potential for customer detriment, and therefore this proposal should be dropped.

6. Do you agree with our proposal to require all money held within a LISA to be held as client money under the client money rules? If not explain why.

Our understanding from reading this is that for those already captured by the current client money or banking rules there is no change for providing LISA. This would mean that those who currently operate using Delivery Verses Payment can still do so with LISA.

7. Do you agree with the data and assumptions used in the CBA? If not, please explain why.

Under item 34 where printing costs are calculated, we believe that this has been underestimated. Disclosures would be sent to both prospects as well as those that have bought the product and therefore the numbers would be significantly higher.

8. Do you agree with the description of the costs and benefits in our CBA? If not, please explain why.

TISA have no comments to make on the descriptions of the cost and benefits. However,



**The Individual Savings Account (Amendment no. XX)
Regulation 2017**

in the annex there is at least one reference to mini and maxi ISAs which needs to be removed. Example is 15 annex 1 table.

Nigel Banfield,
Technical Policy Implementation Manager.