Response by TISA to the Legislation on Help to Save Accounts Consultation

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About TISA

TISA is a unique, consumer focused membership organisation. Our aim is to improve the financial wellbeing of UK consumers by aligning the interests of people, the financial services industry and the UK economy. We achieve this by delivering innovative, evidence based proposals to government, policy makers and regulators.

TISA's growing membership comprises over 160 firms involved in the supply and distribution of savings and investment products and services. These members represent all sectors of the financial services industry, including asset managers, insurance companies, fund managers, distributors, building societies, investment managers, third party administrators, FinTech, consultants and advisers, software providers, financial advisers, pension providers, banks and stockbrokers.

Current themes of TISA policy work include:

- Brexit: developing proposals for government that will enable the savings and investments sector to prosper on a global scale
- Digitalisation: a digital identity for consumers of financial services, innovation, standards and data responsibilities
- ISA's: LISA, simplification of the regime
- Retirement saving: the Auto Enrolment review, self-employed and pension tax relief
- Housing: the use of property to supplement retirement income
- Guidance: developing a framework and services to make guidance more widely available
- Education: supporting the education of young people to make them aware of the impact of finance on their life.

TISA also provides support on a range of operational and technical issues targeted at improving infrastructure and processes, standards of good practice and the interpretation and implementation of new rules and regulations. TISA has a successful track record in working cooperatively with government, regulators, HMT, DWP and HMRC to improve industry effectiveness by reducing cost and risk and to enhance customer outcomes. This work currently includes: MiFID II, CASS, the UK Fund Settlement initiative and Payments Strategy Forum. TISA Exchange (TeX) is providing a model for transfers and re-registrations.

Summary of Recommendations

TISA welcome the opportunity to respond to this consultation and support initiatives to encourage a nation of savers. Our feedback points towards suggestions on how this can be further improved along with some points of clarity being needed.

Firstly the areas requiring clarity:

1. Section 3, (2) Condition 3(a). For additional clarity it is recommended that 'month' be added into the sentence so it reads '….in the month immediately before the end of the preceding tax year'. This will be consistent with the words used in 3, (3) (b).
2. Section 5. What is the responsibility of the account provider if they become aware of the ineligibility of the account holder before being told?
3. In section 7, (4)(b) should an attorney or deputy appointed and the Adults with incapacity [Scotland Act 2000) also be included in the list of acceptable people?
4. Section 10 (5). Clarification is required in how any withdrawals should be account for in the calculation. We suggest any withdrawals in years 3-4 are using the basis of last in first out. So any money that has been added in years 3-4 is withdrawn first. This preserves the funds held at the end of year two for the longest period.
5. Section 10 (7). It is not clear where the bonus is to be paid. It would be better for this to be paid into the account rather than directly to the account holder. That way there is a chance some, if not all may remain as savings. Paying it to the account holder is less likely to see any of it reinvested.
6. Section 10(10). What would be the process if the diagnosis is altered and the person recovers?
7. Section 13 (3). If, when the provider receives the notification, they identify the account is closed who does the contacting at this point. We would anticipate that in these circumstances the old account holder might take more notice of a letter from the HMRC than from the account provider who they may no longer have a relationship with.

We now turn to the investment amount restrictions and bonus payments.

We understand the need to restrict the maximum amount of contribution and that it is set at £50. However, the income of individuals this product is aimed at are more likely to vary from month to month. By providing more flexibility to add to the savings when they have an opportunity to do so, you facilitate a change in the savings habit. We recognise that you may want to limit the contribution in order to prevent someone paying in a large amount in one go, gain the maximum bonus, then immediately withdrawing it. Therefore we have considered some options that might still offer some 'topping up' ability but prevent any large scale taking advantage of the additional freedom.

Some options include:

a) Limit the maximum contribution to an increasing multiple of £50 per month throughout the two years. So the first 6 months contribution limits would look like £50, £100,.....£300. At the end of the first year the amount would be £1200 and only at the last month of the second year could they achieve the full bonus.
b) A variation of that could be that the contribution level is reset every 6 or at 12 months. So for a 6 month reset they would be able to make additional contributions up to month 6 where the value would have reached £300. After that point the contribution level would be rest to £50, increasing again to £300.
c) A further alternative would to allow 3 or 4 additional contributions over the £50. This could be limited to a maximum of an additional £50 each time, if they have headroom in the contribution limit.

The second area where the product could offer more incentive is in years 3-4. The current proposal is to only pay a bonus on a contribution over and above the highest contribution level reached in years 1 and 2. In effect what this means is the saver may not earn anything on the first two year of savings in years 3-4 if the provider pays little or no interest either. This offers no real incentive to strive to continue to save in this product. This would be further exacerbated if the investor had withdrawn already or needed to withdraw some of the funds in years 3-4. It would be in their interests to move this money to another that may attract better rates. Or more likely they will see little point in continuing to save and withdraw all the proceeds altogether.

For example the saver had achieved £1000 during the first two years. He saves a further £500 before he then needs to withdraw £600 in year 4, before maturity. At this time he might just as well withdraw the remainder of the funds as he would not have sufficient months to achieve any additional bonus. If they had withdrawn the funds at the beginning of the 3rd year then again, because they would have to exceed the £1000 in savings before any bonus can be earned, there is little incentive to continue.

In order to encourage further saving and at least retain what has already been saved we recommend offering some bonus on any retained funds that are still being held at the end of year 4. So rather than offering the full bonus only on what has been saved over and above the first two years, offer half for the retention of previous savings and half on anything saved over and above.

Extending the product beyond year 2 offers the opportunity to strengthen the savings habit. Therefore anything that will encourage this should be pursued. Offering further incentives in a product the customer has become familiar with, we believe, helps this cause.

TISA would of course be happy to discuss various other options with yourselves, in order to achieve improvements in the product offering.

One final observation is that the account should be left open for the duration of the four years and not closed if the balance is reduced to zero during it. This is to allow further saving should the investor be able, which if closed previously, they are not able to open a new account.

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