



Simon Turner
Specialist Personal Tax,
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PO Box 201,
Bootle L69 9AJ

2 January 2015

Dear Simon,

AFM Response to consultation on changes to Child Trust Fund and Junior ISA

The draft regulations above set out a consultation deadline of 2 January. We are not planning a detailed response as we have met with HMT and HMRC recently with other trade bodies, and because the policy note does not raise specific questions to respond to. However, as friendly society members of the Association of Financial Mutuals manage the vast majority of stakeholder Child Trust Funds, a majority of all CTFs and are prominent in the Junior ISA market, we did want to take the opportunity to comment in general.

About AFM and its members

The Association of Financial Mutuals (AFM) represents 52 member companies, most of which are owned by their customers. Between them, AFM members manage the savings, pensions, protection and healthcare needs of over 20 million people in the UK and Ireland, and have total funds under management of over £100 billion. The nature of their ownership and the consequently lower prices, higher returns or better service that typically result, make mutuals accessible and attractive to consumers, and have been recognised by Parliament as worthy of continued support and promotion.

When the previous government launched the Child Trust Fund, mutuals quickly dominated the provider market. This partly reflected the low value nature of the product, which meant the returns were not large or immediate enough to satisfy the expectations of shareholder owned organisations. But it also reflects the long-established commitment to the sector of supporting saving for the family in general, and for children in particular.

Today more than 8 in 10 CTFs are held with a mutual, with friendly society members of AFM responsible for over a half of all CTFs, and the vast majority of stakeholder variants. Thirteen AFM members managed CTFs before the product was curtailed; since then all have had to critically assess their strategy, and we have seen a number forced to merge- to ensure that policyholders continue to get optimum returns from an effective and solvent provider. We have been concerned therefore that some of the misinformation about the CTF market has had a detrimental effect on consumer choice. We are though committed to working constructively with HMT, HMRC and with other financial providers to ensure that consumers get the best deal and receive fair treatment.

Response to the draft regulations

We believe the proposed changes to the Child Trust Fund legislation all have the desired effect.

We are committed to ensure the market for CTF transfers is efficient and effective, and have been actively working with our members to ensure they are aware of the changes in legislation and the processes for transfers. With that in mind, in regard to the Explanatory Memorandum on CTFs, we believe sections 10 (impact) and 11 (regulating small businesses) are potentially misleading, or at least only present an incomplete view. To illustrate:

- A CTF accountholder will, particularly if it is a Stakeholder product, see a change in the product features and benefits, once they transfer to a Junior ISA. In particular this will include the loss of important protections, via a cap on charges and the capacity for HMRC to move Revenue Allocated Accounts if they believe the product is not performing as well as expected with the current provider. The loss of these features may impact some policyholders materially, and we consider there is a risk of mis-selling as well as a risk of retrospective censure if the accountholder is not fully aware. This can be addressed in part by proper disclosure by the new provider at the point of application, and the Financial Conduct Authority should ensure it is comfortable with the transfer process.
- A CTF provider that sees a policy transfer to a different Junior ISA provider will lose business- not 'may' as the paper suggests. This is self-evident, as they cannot open a new CTF in its place. We have already seen a number of closures/ transfers of business amongst friendly societies as a result of the demise of new CTF products, and there is now further consolidation as a result of the risk of loss of business through transfers and the relatively smaller market for Junior ISAs. The use of potentially dismissive language by HMRC to the impact understates the effect on millions of members of mutual organisations whose organisation has been forced to close.
- CTF providers that transfer a policy to a Junior ISA will incur cost- not 'may' as the script suggests. The cost will be similar whether the transfer

- is internal or to another supplier, and in our response to the HM Treasury consultation in 2013 we estimate this as £30 on average per transfer¹.
- It is not apparent how the statement in paragraph 11.2 minimises the impact on smaller businesses. Many CTF providers fit into the definition of smaller firm used here, and post-event monitoring will only serve to demonstrate what we already know: that small CTF providers have been forced to transfer business as a result of the change in regulations. In itself therefore the proposed action offers no protection to small businesses. Monitoring though will be important to ensure policyholders are treated fairly, and we would be keen to work with HMRC and FCA to ensure this is undertaken.

We believe the changes to the ISA legislation all have the desired effect and have no comments on the Explanatory Memorandum.

Clearly the change to the timing of lifestyling makes sense, but this only gives a short window for HM Treasury and HMRC to determine whether and how this will be affected. We understand a consultation is due in early 2015, and we welcome the chance to contribute to this. We recently discussed this issue at a meeting of CTF providers within AFM, and concluded that there was no benefit now in introducing legislation to allow for lifestyling. This would mean a further change to the legislation to remove the requirement from stakeholder CTF providers to enable lifestyling.

We would be pleased to discuss further any of the issues raised by our response.

Yours sincerely,



Chief Executive
Association of Financial Mutuals

¹ <http://www.financialmutuals.org/files/files/Child%20Trust%20Fund%20Consultation-%20final%20AFM%20response.pdf>