By email to: ukisaconsultation@hmtreasury.gov.uk

4 June 2024

# AFM Response to HM Treasury consultation on the UK ISA

1. I am writing in response to this consultation paper, on behalf of the Association of Financial Mutuals. The objectives we seek from our response are to:

   - Comment on the proposals and their impact on our members.

## About AFM and its members

2. The Association of Financial Mutuals (AFM) represents insurance and healthcare providers that are owned by their customers, or which are established to serve a defined community (on a not-for-profit basis). As a whole, the mutual insurance sector manage the savings, pensions, protection and healthcare needs of over 26 million people in the UK and Ireland, collect annual premium income of over £23 billion, and employ nearly 23,000 staff[1].

3. The nature of their ownership and the consequently lower prices, higher returns or better service that typically results, make mutuals accessible and attractive to consumers, and have been recognised by Parliament as worthy of continued support and promotion. In particular, FCA and PRA are required to analyse whether new rules impose any significantly different consequences for mutual businesses[2] and to take account of corporate diversity[3].

[1] ICMIF and AFM, 2023: https://financialmutuals.org/wp-content/uploads/2023/10/UK-Market-Insights-2023.pdf
[2] Financial Services Act 2012, section 138 K: http://www.legislation.gov.uk/ukpga/2012/21/section/24/enacted
[3] http://www.legislation.gov.uk/ukpga/2016/14/section/20/enacted

Introductory comments

4. We welcome the opportunity to respond to this consultation. We recognise the potential attraction for investors of having a further opportunity to invest in a tax-free environment, and which seeks to channel investments into the UK, and thereby to promote growth in our economy.

5. We support the development of a UK ISA, though we also see some limitations:

    a. The proposals add extra complexity to the ISA market, and this complexity has stifled demand for other innovations, such as the Help to Buy ISA;
    b. The UK ISA is likely to be regarded as higher risk than alternatives, as it will be geographically concentrated;
    c. Much of the focus is given to consumers who have already maximised their ISA allowance, and it therefore will have limited impact and relevance to people with more modest means;
    d. Firms listed on the UK stock exchange are less focused on the UK than the consultation suggests: a number of overseas firms choose to list on the UK exchanges, whilst many listed firms derive much of their income internationally; and a majority of the shareholding of UK listed companies is held outside the UK, meaning that dividends and the benefit of growth are often enjoyed outside the UK.

Responses to your questions

6. We would encourage a wide range of investment options to be held in the UK ISA, including shares in UK companies, collective investments, corporate bonds and gilts. It should be for providers to determine the optimum elements of their product. (Questions 1 to 5)

7. We consider investors should be able to invest in one UK ISA a year. Recently, HMRC estimated that around 250,000 ISAs were oversubscribed in the last two tax years, and enabling multiple UK ISAs might exacerbate this. (Question 6)

8. We agree that transfers out of a UK ISA into another ISA might enable abuse of the system, and should not be permitted. However, given the greater risk attached to a UK ISA, if an investor is allowed to transfer funds in from another ISA, they might see a large holding trapped in a fund which at a future point becomes unsuitable. We are wary therefore of any transfers involving a UK ISA. (Questions 7 and 8)

9. We agree with other design proposals, for cash holding, and adoption of existing ISA rules. (Questions 9 to 11)

10. HMRC has establishing an industry working group to help explore ISA digitisation. This has reinforced the need for this project, but also that there are various hurdles and complications, suggesting that it will take some time to come to fruition. We think it would be helpful if implementation of the UK ISA was timed to coincide with the launch of ISA digitisation, to enable firms to incorporate the extra work into their wider digitisation plans. (Questions 12 to 15)

11. We would welcome the opportunity to discuss further the issues raised by our response. We are happy to be included in the published list of respondents.

Yours sincerely,

Martin Shaw
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Association of Financial Mutuals