Association of British **Credit Unions** Limited

Child Trust Fund Consultation
Pensions and Savings Team
HM Treasury
1 Horse Guards Road
London, SW1A 2HQ

Dear sirs,

Child Trust Fund: consultation on allowing the transfer of savings from a Child Trust Fund to a Junior ISA

We appreciate the opportunity to respond to this consultation. The Association of British Credit Unions Limited (ABCUL) is the main trade association for credit unions in England, Scotland and Wales representing around 65% of British credit unions who in turn serve around 80% of credit union members.

Credit unions are not-for-profit, financial co-operatives owned and controlled by their members. They provide safe savings and affordable loans. Some credit unions offer more sophisticated products such as current accounts, ISAs and mortgages.

At 31 March 2013, credit unions in Great Britain were providing financial services to more than one million people with 946,621 adult members and 125,581 junior depositors. Credit unions held more than £843 million in deposits with more than £620 million out on loan to members. Total credit union assets stood at more than £1 billion for the first time.[1]

Credit unions' work to provide inclusive financial services has been valued by successive Governments. Credit unions' participation in the Growth Fund from 2006 – 2011 saw over 400,000 affordable loans made with funding from the Financial Inclusion Fund. The DWP has recently announced that ABCUL will lead a consortium of credit unions under the Credit Union Expansion Project, which will invest up to £38 million in the sector and aims to double the sector's membership by 2019.

Summary of response

26 credit unions provide Child Trust Fund accounts for their members. The Welsh Government was particularly active in encouraging credit unions there to provide Child Trust Fund accounts and so 12 of these credit unions are based in Wales. The objectives of the scheme, i.e. the promotion of saving, particularly among the young, parallels closely the core object of credit unions which is the promotion of thrift. Meanwhile, 28 credit unions are registered as ISA providers. However,

[1] Figures from unaudited quarterly returns provided to the Prudential Regulation Authority

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only 10 of those credit unions that provide the Child Trust Fund are able to offer Cash ISAs and not all of these currently offer a Junior ISA.

There are two principal reasons why credit unions which provide the Child Trust Fund have not automatically applied to become Junior ISA providers. First, some of these credit unions feel that the tax-based incentives which underpin the Junior ISA, while not insignificant, are not necessarily as attractive to their membership base as the Child Trust Fund had been with its Government-sponsored voucher contributions. Second, the cost and resource demands of becoming approved and updating systems for the provision of Junior ISAs was felt by the majority of those credit unions providing Child Trust Fund to outweigh the potential benefits of providing the accounts.

Given the mismatch between Child Trust Fund-providing and Junior ISA-providing credit unions, we would like to take the opportunity of this consultation to express our strong support for the approach proposed by the Government, i.e. to allow for the voluntary transfer of Child Trust Fund accounts into Junior ISAs but not to mandate the transfer of all accounts. This approach is welcome since it will allow those credit unions that would like to continue to maintain their Child Trust Fund legacy accounts but do not want to become Junior ISA providers to do so while also permitting those that wish to provide both, or just Junior ISAs to do so also.

This flexible approach is to be commended and we hope that the Government retains it following the consultation period.

Consultation questions

Q1. Do respondents believe that the transfer of funds from a CTF to a Junior ISA should be permitted?

We agree that such transfers should be permitted given that CTF has been ended and Junior ISA is proving a popular new addition to the tax-incentivised savings account suite.

Q2. Would allowing CTF funds to be transferred to Junior ISAs have any significant impact upon the viability of the wise CTF market, including on the availability of suitable CTF products for children whose funds remain with CTF?

It is difficult to forecast the potential for the proposal to undermine the viability of the CTF market. It is certainly a possibility that more lucrative CTF accounts are those that are most likely to be transferred leaving only low value accounts.   We feel that the Government should keep this under close review should it pursue the proposed approach. The intention of some of our members to continue as CTF-only providers would suggest a feeling among them that the market will remain viable.

Q3. Would this approach provide a workable basis to allow the transfer of funds from CTF to Junior ISA?

We believe the proposed approach would indeed be workable.

Q4. What would be the impact of this proposed approach, including one-off or ongoing costs and benefits for accountholders and providers?

There is likely to be a spike in costs for account providers, particularly CTF-only providers, at the time that the permission to transfer funds takes effect as there is likely to be a surge in requests to transfer at this point. One way to manage this effect might be transitional provisions allowing a longer required transfer period for a period of months after the new power to transfer funds is introduced. Following this initial period, though, costs are likely to be minimal.

Q5. If the Government proceeds with changes to the current rules on transferability, do respondents agree that its proposal to allow the transfer of funds on a voluntary basis is the best course of action?

ABCUL and our member credit unions agree strongly with this approach. As detailed above, while 26 credit unions currently provide CTF, and at least 28 would be able to offer a Junior ISA, there are very few offering both a CTF and Junior ISA. We also understand that of the 16 CTF providers which are not offering Cash or Junior ISAs, the majority would not want to consider becoming Junior ISA providers. We therefore feel strongly that only voluntary transfers should be introduced and a wholesale closure of CTF and transfer to Junior ISA would be unfair to those providers that want only to provide CTF. Furthermore, there would be practical difficulties and significant costs involved in the mandatory transfer of all accounts as account holders would be required to identify a new provider where the CTF provider does not wish to provide Junior ISAs.

Q6. Are there any circumstances under which a merger of CTF into Junior ISA would be preferable?

We are strongly of the view that this would not be preferable in the main since it would be unfair to those that wish to provide only CTF accounts and would present significant practical difficulties arising from those providers that provide only CTF. We do accept, however, that there could be envisaged a situation where CTF accounts fall to such low levels that the market is no longer viable. We feel that this is an unlikely result, though. The Government should keep the market under review for evidence of this in case our members' view of the likelihood proves inaccurate.

Q7. Do respondents agree with this approach?

We agree that this approach – i.e. taking the power to merge all accounts and to keep the viability of CTF under review – is necessary given the uncertainty surrounding the likely viability of CTF and the demand for CTF to Junior ISA transfers. However, we feel strongly that, should the Government seek to enforce an obligatory merger that CTF providers are consulted closely and are provided with support should there be significant cost to doing so.

As we have mentioned already, were there to be a mandatory merger of accounts, large numbers of credit unions and, we understand, other providers which do not, and do not wish to, provide the Junior ISA would be faced with a costly and impractical task of identifying a providers into which to transfer their accounts. We do not believe it would be fair to those providers who entered the market in good faith and under encouragement from Government, to expect them to meet the administrative costs of this process unaided. Were this to be adopted as Government policy, the Government would need to consider compensating providers for these costs.

Once again, we are grateful for the opportunity to respond to this consultation. We would be more than happy to discuss any of the points raised above in more detail. Please feel free to contact us.

Yours sincerely,

Mark Lyonette
Chief Executive – ABCUL