Mature CTF Consultation
HM Revenue and Customs
Room 3C.07
100 Parliament Street London
SW1A 2BQ

9 August 2019

AFM Response to HMRC technical consultation on Maturing Child Trust Funds- draft Regulations

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 issues raised in the consultation and stress our support for the proposed approach.

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). Between them, mutual insurers manage the savings, pensions, protection and healthcare needs of over 30 million people in the UK and Ireland, collect annual premium income of £19.6 billion, and employ nearly 30,000 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, https://www.icmif.org/publications/market-insights/market-insights-uk-2016
[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

4. During the lifetime of the Child Trust Fund, a significant number of CTF accounts were provided by friendly societies, including a majority of revenue allocated accounts. The sector actively embraced the product, both as a means of providing a nest egg for young people, but also in a vehicle for supporting other work on financial education for the young. Despite this, the terminology of the HMRC papers appears to give due prominence to banks and building societies, despite their minority role (for example in the impact note).

5. AFM has been represented in cross-sector discussions with HMRC and FCA on maturing CTFs, and we are therefore pleased to respond to the consultation, and welcome the very constructive approach taken by HMRC in setting out technical aspects of the maturity process.

6. Given the short timescales now to the fist maturities in September 202, it is imperative that HMRC finalises the legislative CTF and ISA rule changes and issues the supporting HMRC guidance notes as a matter urgency, once the findings of the consultative process have been published. This is necessary to give firms as much time as possible to plan, manage resources, amend systems and in time.

7. We have responded to the specific questions raised in the consultation below, and would welcome the opportunity to discuss further the issues raised by our response.

Yours sincerely,

Martin Shaw
Chief Executive
Association of Financial Mutuals

Responses to the questions raised in the consultation

1. *The ability of the legislation to ensure that investments in maturing CTFs can retain their tax advantaged status post maturity.*

We consider that there is a risk that the approach to maturing CTFs might have adverse consequences for some friendly societies, and we think the draft legislation should make it clear that the continuing accounts continue to be treated as non-BLAGAB for the purposes of corporation tax, with respect to the taxation of friendly societies.

Other than that, we consider that the proposed legislation will enable the market for maturing CTFs to function effectively, as long as the regulatory guidance provided by the FCA and PRA are aligned. For example, where the draft instrument does not make direct reference to the nature or timing of contact with the holder pre-maturity, any views expressed by FCA on contact will be adhered to by providers.

We have a small number of specific comments on the draft instrument:

- It would be helpful for government to supplement the technical notes with clear guidance to the holder of the CTF (as defined in paragraph 13A.1), that upon maturity it is the holder's responsibility solely to decide what to do with the CTF, given that the previous Registered Contact (or similar) has no further involvement once the child reaches their 18th birthday.
- In the absence of contact by the account holder, it would be helpful to state in the instrument that the updated terms and conditions should be deemed to be accepted (as per paragraph 13B). It may also be beneficial to have a clear view on what aspects of the terms and conditions can be amended post-maturity and which must remain unaltered.
- There is no reference to the need for the instructions received from the holder to cover the full value of the matured product. This needs to be explicit to ensure that partial instructions are not accepted. To illustrate, whilst the instruction may make several requests (depending on what is acceptable by the account provider), those instructions must be received at the same time, to comply with the intent of the regulation.
- Where paragraph 13B confirms investments should be transferred in-specie, it should be clearer that in the case of a Stakeholder CTF, the specific stakeholder requirements no longer apply.

With regards to the ISA regulations:

- It would be helpful to amend the regulations to state that where the holder is not 18 when they sign the ISA declaration, but will be when the account is opened, that this satisfied the requirement for the ISA holder to be 18.

2. *Any potentially adverse consequences of the legislation on providers.*

We highlight above a specific taxation issue for friendly societies, which if unresolved might lead to some friendly societies being unable to take up the legislation, and potentially therefore to have to dispose of CTFs as they reach maturity. We do though think that an amendment to the legislation should resolve this.

We are aware that PRA is looking at the consequences for some providers of its maturing CTFs, and whether the scale and timing of outflows might potentially lead to any risks to the business, with regard to their solvency levels or the impact of high outflows on their investment portfolio.

We might also expect PRA to explore whether it is in the best interests of CTF account holders, as well as of the members of a friendly society more generally, for a society to retain a CTF book over time. Much though will depend on the proportion of accounts that will be cashed in, for which there is no clear evidence presently. That said, the legislation does not in itself creates any adverse consequence.

AFM recently held a Forum to discuss the preparations our members are undertaking to prepare for maturities. One particularly illuminating outcome from that meeting was that, of the eight providers attending, six indicated that their peak year for maturities was in 2028, whilst for a number, the volume of maturities in 2020 and 2021 was very low. The reasons for this are that in some cases, the provider entered the CTF market after launch, and therefore was not open to children born in 2002; conversely, whilst some non-mutual providers withdrew from the market when the government first indicated it was curtailing the CTF, our members remained in the market and took a proportionately higher market share in 2010/11.

3. Any potentially adverse consequences of the legislation on holders of maturing CTFs (young adults).

Currently providers can only speculate as to how many of their CTFs are gone away: we have seen members working on widely different assumptions. Account holders that are unable to transfer or cash in their CTF, because they have not received notification could therefore argue that it did not serve their best interests to retain their money in a protected account- for example, if it is held as a cash CTF with a bank paying little or no interest.

HMRC can help to address this by providing an information campaign to consumers, as well as using NINO information to help providers track down lost account holders.