Consumer Focus
Campaigning for a fair deal

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Consumer Focus super-complaint: Cash ISAs

March 2010

About Consumer Focus

Consumer Focus is the statutory consumer champion for England, Wales and Scotland, and (for postal consumers) Northern Ireland. We operate across the whole of the economy, persuading businesses, public services and policy makers to put consumers at the heart of what they do.

Consumer Focus tackles the issues that matter to consumers, and aims to give people a stronger voice.

We don't just draw attention to problems – we work with consumers and with a range of organisations to champion creative solutions that make a difference to consumers' lives.

This super-complaint was prepared by Prashant Vaze with Dave Dawson, Julian Russell, Clare Lucas, Jim Roland and Rupert Roker at Consumer Focus.

We are grateful to the team at moneysavingexpert.com for their support in gathering users' experience, and to those members of the public who took part in our survey.

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Executive summary

We regard aspects of the market for cash individual savings accounts (ISAs), and the conduct of many providers, to be causing significant harm to consumers. We are therefore submitting a super-complaint to the Office of Fair Trading (OFT) on this market, under the terms of the Enterprise Act 2002. This submission explains why an investigation is warranted.

Government introduced cash ISAs in 1999 to encourage people to save – interest earned on the savings is free of income tax. For the financial year 2010-11, individuals can add up to £5,100 to their cash ISA savings free of tax. Cash ISAs are popular with savers, with about a third of the population having accounts. Altogether people have £158 billion saved in cash ISA accounts.

As intended by Government, people do typically use cash ISAs for their long-term saving needs: for retirement, to build up their deposit on a house, or to save for school or university costs. Two-thirds of people have never withdrawn money from their ISAs. The rate of interest offered on cash ISAs has historically been higher than that offered on other savings accounts, and only a little less than that paid by homeowners for their mortgages.

However the situation has now changed substantially, with the average cash ISA paying depositors just 0.41 per cent. This major shift is far from transparent, with much higher headline rates still being advertised.

The main grounds of this super-complaint centre on the apparent exploitation by providers of consumer inertia and confusion in this market:

- Providers' processes for transferring savings between cash ISAs are unnecessarily bureaucratic and inefficient. This includes arbitrary rules imposed by providers prohibiting transfers into some of the most attractive accounts
- There is a lack of clarity about interest rates for older cash ISAs
- Many providers, including many high street banks and building societies, appear to use 'bait' prices to attract savings into cash ISA accounts. Headline rates of three per cent and above are not uncommon; after a year the rates drop substantially and there are a large number of accounts paying next to no interest

The result of these apparent abuses is that providers have been able to reduce the average interest rate paid on cash ISAs, after the initial 'bonus' period, at a rate faster than for other saving accounts and mortgage accounts.

Our analysis suggests that customers who have not switched their savings may be losing one to two per cent interest. In total this could amount to as much as £1.5 billion to £3.0 billion per year.

On the third point we are aware that some welcome regulatory changes will shortly be introduced to improve information on reductions in interest rates, but we do not think these will fully tackle the issues we have identified in this market. We consider there is a case for intervention to ensure that providers are not able to put in place hidden barriers to switching and design a steady stream of products to manipulate 'best buy' tables and exploit consumer inertia. Tackling this could have the wider economic benefit of increasing saving rates and helping build consumer confidence in financial services.

1. Introduction

This super-complaint on the market for cash ISAs is being submitted by Consumer Focus using the power given to us under the terms of section 11 of the Enterprise Act 2002.

This requires the Office for Fair Trading (OFT) as the relevant regulator to investigate whether any feature or combination of features of the market is significantly harming consumer interests and, if so, what actions should be taken. The Act gives the regulator 90 days to respond to us.

ISAs were introduced in April 1999 to provide a tax sheltered environment for saving, building on the success of TESSAs (for income-tax free cash savings) which were introduced in 1990 and PEPs (capital gains and income tax free wrapper for saving in stocks and shares). Initially a distinction was made in 'mini' ISAs (up to £3,000 annual subscription) and 'maxi' ISAs for stocks and shares (the combined subscription into both could be £7,000 per year). Recent changes have chiefly been in the nomenclature. There remain annual subscription limits for cash ISAs (though the term 'mini' ISA has now been withdrawn) of £3,600 in 2008. These are to be raised significantly to £5,100 for 2010.

When the introduction of the cash ISA was first announced in 1998, the then Chancellor Gordon Brown expressed Government's ambitions for the product:

> *'When half the population have only £200 or less in savings, there is broad agreement that we must do more to encourage savings by everyone... There is broad agreement also that an easy to access individual savings account, available over the counter in supermarkets and post offices as well as from banks, building societies and financial services providers, can encourage the savings habit among many more people.'*

We believe that the way the cash ISA now operates has departed from this objective. We believe institutions are offering consumers 'teaser' bonus interest rates to attract savers and making use of:

- regulations
- customer inertia
- the legitimate fear of delays in switching

which together inhibit customers from transferring their savings to accounts offering better rates of interest. This behaviour has now become entrenched in the cash ISA market and has eroded much of the tax advantages offered by these useful and much liked financial products.

Cash ISAs are a widely used savings product – a third of adults have a subscription. Because of the tax free status Government restricts the amount savers may subscribe each year. Currently around £158 billion is deposited in cash ISAs. Savings by individuals who have taken out their full subscriptions since their introduction in 1999 will be limited to a little over £32,000 (and more than £50,000 if superseded TOISA/TESSA products are included). We believe that customers that have not taken advantage of opportunities to switch their savings may be losing one to two per cent[1] interest on their savings. In total this could be as much as £1.5 billion to £3.0 billion per year. Many customers use cash ISAs as a mechanism for long-term saving and do not wish to review their account on a regular basis.

The way in which the market is operating is causing significant harm to savers.

[1] This one to two per cent is based on the difference between some of the better interest rates available for transferring or opening a new ISA and those paid on old ISAs. It is not based on the analysis of the stock of interest paid on old accounts. Such data were not available.

We have used a variety of sources of data to put together our super-complaint. We have:

- reviewed the cash ISAs currently on the market and which have been submitted to FSA's moneymadeclear™ website
- analysed the actual interest being paid by banks and building societies on savings as submitted to the Bank of England
- undertaken case studies of the actual interest rates being paid to customers on new and defunct cash ISA accounts
- undertaken a survey of moneysavingexpert.com users to obtain qualitative and quantitative evidence of the problems encountered by savvier-than-average cash ISA customers
- reviewed information about complaints in the cash ISA market from user websites, the Financial Services Authority (FSA) and the Financial Ombudsman Service (FOS)

Some of the concerns we have identified may be relevant to other savings products, but we consider that the combination of issues set out here affecting what is a highly significant consumer market are such that action is merited now.

In section 2 of this super-complaint we discuss the cash ISA market and other saving products.

In section 3 we outline our view of the problems in the cash ISA market.

In section 4 we summarise our concerns and conclusions.

2. The market for cash ISAs

This super-complaint is concerned with cash ISAs. Cash ISAs are an income tax exempt wrapper for deposit accounts provided by deposit-takers like banks and building societies. Cash ISAs sit within a broader range of interest-bearing saving products available to customers.

Interest-bearing savings products include instant and period deposit accounts offered by banks and building societies. They also include retail saving products offered by Government's National Saving and Investment (NS&I). Cash ISAs have special tax advantages to encourage saving: interest is paid gross of income tax[2]. Because of this tax privilege customers are restricted in the annual subscription they may pay into a cash ISA in a given financial year. This is typically announced by the Chancellor in the spring budget. Unused allowances are lost. Savers are restricted to opening just one new cash ISA per financial year and the amount of cash that may be paid in is restricted – £5,100 for tax-year 2010-11.

As well as interest-bearing savings products, people also make use of 'tax-sheltered' stocks and shares ISAs. We do not consider stocks and shares ISAs in this super-complaint.

Cash ISAs are the second most common vehicle for saving

Cash ISAs are the second most common form of saving. Around 70-75 per cent of the population have some form of savings product (Mintel 2009[3]) including pensions, stocks and shares and interest-bearing accounts. Around 59 per cent of adults have savings accounts (making them the commonest savings product) and 34 per cent have cash ISAs.

Savings accounts are seen as a simple and low cost form of saving particularly suited to consumers who do not wish to be exposed to the risks or complexities of the stock market. They are the main form of saving for most people.

Table 1 shows the proportion of people owning cash ISAs and other saving and investment products in the UK.

[2] This is also available on request to non-ISA savings accounts if the saver's income is below the basic tax threshold.
[3] Mintel (2009) *ISAs Intelligence* Finance.

Table 1: Saving and investment products owned separately or jointly with partner (%), December 2009

Cash/low risk savings	**67**
Savings account	59
Cash ISA	34
Premium Bonds	17
Savings bond (cash-based savings that are locked away for a set period of time)	10
Other National Savings & Investments product (eg Savings Certificates)	4
Pension	**42**
Company pension	33
Personal pension	20
Equities/investment bonds	**18**
Individual company shares	11
Collective investments (ie unit trusts, OEICs or investment trusts)	5
With-profits investment bond from a life company	4
Guaranteed investment bond from a life company	2
Guaranteed equity bond (a bond that pays a return based on stock market growth, without putting your capital at risk, usually sold by banks or building societies)	2
Unit-linked investment bond from a life company	2
Other type of investment bond	2
Property Investment	**4**
Property investment (eg rental/buy-to-let property)	4
Endowment policy (not linked to mortgage)	6
None of these	21
Don't know	1
Refused	7

Source: Ipsos MORI/MIintel Base: 1,930 adults aged 18+

Annex 1 shows a further breakdown on the prevalence of ownership of cash ISAs and other savings products by age, gender and socio-economic group. Ownership is most common among older people and wealthier sections of the population. Even so, 18 per cent of social class E and 17 per cent of 18-24 year olds own cash ISAs, showing them to be an egalitarian form of saving.

Savers hold around £158 billion (2009 figure) in cash ISA accounts out of a total of £1,103 billion (2008 figure) in all forms of savings accounts. Around £28 billion was paid ('subscribed') into new cash ISAs in 2008-09. Cash ISAs are much more widely used than stocks and shares ISAs and have accounted for three quarters of new investment in ISAs in recent years. In 2008-09, 11.3 million new cash ISAs were opened and the average value of subscriptions was £2,480[4].

Companies engaged in the cash ISA market

Cash ISAs are sold chiefly through banks and building societies via the branch network or increasingly nowadays via the internet. Unlike equity, ISAs savers select their ISA without advice from Independent Financial Advisers (IFAs). Advertising spend on cash ISAs in 2008-09 was £9.7 million and focused almost entirely in the February-March period. Cash ISAs are heavily advertised in the press (50 per cent of advertising spend) and direct mail (30 per cent of spend).

The table below shows the dominance of the major high street banks in the cash ISA market. Lloyds Banking Group's share has increased following the acquisition of the Halifax and Cheltenham & Gloucester brands. Santander already the parent of Abbey National now incorporates Alliance & Leicester and the savings business from Bradford & Bingley. Table 2 shows the market shares for different companies.

[4] Building Societies Association **http://www.bsa.org.uk/keystats/saving.htm**

Table 2: Market shares and customer numbers for cash ISAs, April 2009

	Cash ISA customer base %	Equivalent number in population m	Estimated market share (rebased) %
Lloyds Banking Group[i]	24.6	12.0	21.3
Santander Group[ii]	17.1	8.3	14.8
Nationwide Building Society	16.9	8.2	14.6
RBS Group[iii]	14.5	7.1	12.6
HSBC[iv]	9.8	4.8	8.5
Barclays[v]	7.3	3.6	6.3
Co-operative Group[vi]	4.8	2.3	4.2
National Savings & Investments	3.2	1.6	2.8
Northern Rock	1.4	0.7	1.2
Yorkshire Building Society	1.3	0.6	1.1
ING Direct	1.1	0.5	1.0
Direct Line	0.6	0.3	0.5
Yorkshire Bank/Clydesdale Bank	0.6	0.3	0.5
Other bank	0.5	0.2	0.4
Other building society	2.8	1.4	2.4
Other	6.1	3.0	5.3
Don't know	2.8	1.4	2.4
Total	**115.4**	**48.8**	**100**

[i] encompasses Lloyds TSB, Halifax, Birmingham Midshires, Cheltenham & Gloucester, Intelligent Finance and Scottish Widows
[ii] refers to Abbey, Alliance & Leicester and Bradford & Bingley
[iii] refers to NatWest and Royal Bank of Scotland
[iv] includes First Direct
[v] includes Woolwich
[vi] refers to Co-operative Bank and Britannia Building Society

Data will not add up to 100 per cent since some individuals hold multiple cash ISAs with different providers (ie opened in different tax years)

Source: Mintel estimates based on Ipsos MORI consumer research Base: 635 cash ISA holders aged 18+

Regulatory framework for saving products

Savings accounts are regulated by the FSA[5] through the Banking Conduct Regime which commenced on 1 November 2009. It applies to the regulated activity of accepting deposits – by banks, buildings societies and credit unions. The new regime replaces the non-lending aspects of the Banking Code and Business Banking Code (industry-owned codes that were monitored by the Banking Code Standards Board).

The rules governing the communication of changes to interest rates paid on savings accounts changed substantially from 1 November 2009; banks have till 1 May 2010 to implement some of the changes. The intention of these changes is to remedy some of the most disreputable 'bait pricing' practices where customers are attracted to a product through temporary bonus rates of interest, which lapse leaving the saver on a low rate of interest.

The Banking Conduct Regime document sets out the new requirements.

The Banking: Conduct of Business sourcebook[6]

From 1 November 2009 retail deposit takers, ie banks and building societies, are required to comply with the FSA's Banking: Conduct of Business sourcebook (BCOBS). BCOBS sets out conduct of business rules that are complementary to the Payment Services Regulations (PSRs), and applies to retail deposit taking, except where this is contrary to the provisions of the Payment Services Directive.

BCOBS includes rules relating to:

- communications with banking customers and financial promotions
- distance communications, including the requirements of the Distance Marketing Directive and E-commerce Directive
    - information to be communicated to banking customers, including appropriate information and statements of account
    - post-sale requirements on prompt, efficient and fair service, moving accounts, and lost or dormant accounts
    - cancellation, including the right to cancel and the effects of cancellation

Changes that have been made include revised 'guidance on advance notice of material changes to interest rates that are to the customer's disadvantage for accounts that are not payment accounts (including bonus or introductory rates ending), which will take affect from 1 May 2010'. This means that deposit-takers are expected to provide customers with adequate personal notice if interest rates or bonus periods are due to end. The change in the information requirement to consumers upon banks is spelt out in more detail in FSA revision to the banking handbook[7].

BCOBS now requires banks which make a detrimental change in interest rate to inform customers of comparable products which offer better value. We welcome this change in rules:

[5] Financial Services Authority (2009) *The FSA's role under the Payment Services Regulations: Our approach* **http://www.fsa.gov.uk/pubs/other/PSD_approach.pdf**
[6] The BCOBS sourcebook is at **www.fsahandbook.info/FSA/html/handbook/BCOBS** and further information is available at **www.fsa.gov.uk/Pages/Doing/Regulated/bcobs/index.shtml**
[7] FSA (2009) *Handbook Notice 92* **http://www.fsa.gov.uk/pubs/handbook/hb_notice92.pdf**

Where a firm notifies a banking customer of a material change to a rate of interest that applies to a retail banking service and that will be to the disadvantage of a banking customer, this notification should, where applicable:

(a) refer to the fact that the firm offers a comparable retail banking service for which the banking customer is eligible
(b) indicate that the banking customer may move to that retail banking service or a retail banking service provided by another firm
(c) indicate that the firm will assist the banking customer to move to another retail banking service if he wishes to do so

Consumer groups have also pressed the FSA to apply this requirement to inform consumers about better services where they have old savings accounts earning very low rates of interest.

Consumer organisations have also called for better information about the prevailing rates of interest on communications from banks to customers like annual and monthly statements. Many savers do not keep track of the interest rates being earned on their accounts, and might not know the accurate name (or issue number) of their account. This makes it difficult to find the up to date rate of interest being earned on their savings. Martin Lewis from moneysavingexpert.com issued a petition on the No.10 website in July 2009:

> *'We the undersigned petition the Prime Minister to mandate savings account providers to include the current interest rates on every statement.'*

This attracted 32,000 signatures.

Two consumer bodies told the FSA that its guidance suggesting that firms disclose interest rates on statements should be a rule. In its response, the FSA stated,

> *'We appreciate the views of consumer bodies in relation to guidance on statements, but believe it can not be justified as a rule on cost/benefit grounds, particularly where advance notification of interest rate changes is already provided, however we would still encourage firms to do so. This guidance would apply only where statements are issued.'*

The media has drawn attention to recent instances where banks have removed information on the prevailing interest rate. The BBC Radio 4 programme Moneybox stated on 13 March 2010:

> *'Moneybox has been contacted by customers who bank online with Halifax, annoyed that it is now harder to see what interest they are earning on their savings accounts. Previously when they logged into their online account, the savings rate paid would be shown automatically. That is no longer the case.'*

BCOBS only asks banks to *consider* providing information to banks on this point.

A firm should consider indicating the rate or rates of interest that apply to a retail banking service in each statement of account provided or made available to a banking customer in respect of that retail banking service in accordance with BCOBS 4.2.1R.

Regulatory restrictions on cash ISAs

There are a number of regulatory restrictions to ensure that payments into each cash ISA do not exceed the annual allowance. However the result of these regulations is to make opening cash ISAs more bureaucratic and restrictive than other savings accounts. Regulation and the interpretations of regulation by cash ISA providers also make the transfer of cash ISA savings between banks more difficult.

- Consumers can only subscribe to one new cash ISA per tax-year. (They are however allowed to transfer former years' cash ISAs to another ISA account as many times as they like.) As a result of this, banks market their cash ISA accounts most aggressively shortly before the tax-year ends, encouraging customers to make use of their 'tax-free' ISA allowance for the year

- If consumers withdraw money from their cash ISA, they lose the allowance permanently. This means customers cannot switch cash ISAs to other forms of savings and then back again. It also prevents customers from transferring money between accounts by closing one account holding it on deposit and then transferring it to another cash ISA account. To retain the ISA wrapper, the transfer must be initiated by the new ISA provider. ISA providers are not obliged to accept transfers from other accounts. Many choose not to

- Quite understandably, Her Majesty's Revenue and Customs (HMRC) requires customers to submit extra information (like the national insurance number) to enable them to enforce the above regulations. However, this increases the bureaucracy of transfer. Some ISA providers insist on transfers being undertaken using a paper-based system rather than electronically

Banks and building societies have also used perceived regulatory barriers to make the process of transferring money between accounts more difficult than regulations require. This problem has been so pronounced that in June 2008 HMRC issued a document to set ISA managers straight on some myths about regulatory requirements[8].

HMRC has clarified the following points:

- ISAs can be transferred electronically
- The transfer form does not need to be signed
- ISAs do not have to be rejected simply because some of the old personal information differs from that provided to the new provider
- There is no regulation that says it should take 30 days to transfer a cash ISA

These supplement the HMRC's Guidance Notes for ISA Managers[9], which was re-issued in April 2008. Chapter 11 of this document includes non-prescriptive best practice guidelines and specimen transfer forms.

Customer attitudes to cash ISAs

HMRC carried out research in 2005 to understand better how consumers use ISAs[10]. The research did not separate out cash from stocks and shares ISAs so the results relate to both; however two thirds of ISAs are cash ISAs.

Table 3 shows the vast majority treat the ISA as a long term saving vehicle – 30 per cent of people say they use ISA as an alternative to pensions. This attitude is true of small and large savers alike. Customers tend not to withdraw money from an ISA. In 2005, 61 per cent of savers who had a cash ISA had never withdrawn money from it. (Unfortunately the survey did not have any specific questions about transfers from one ISA to another.)

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[8] HMRC (June 2008) ISA Bulletin 2: *Transferring an Individual Savings Account (ISA) – making it more difficult than it need be.*
[9] HMRC (April 2008) *Guidance Notes for ISA managers* **http://www.hmrc.gov.uk/isa/isa-guidance-notes-2008.pdf**
[10] HMRC (2005) *Individual Attitudes to Saving: Effect of ISAs on People's Saving Behaviour Research into Attitudes and Motivations for Saving in ISAs*
http://www.hmrc.gov.uk/research/working-paper-isa.pdf

Table 3: Number of withdrawals ever made from ISA account (%)

Never	61
Once	15
Two or three times	14
Four or more times	10
Don't know	1

Source: HMRC (2005) Base (n) 1,369

HMRC undertook a second survey to understand why people take out ISAs[11] and their attitudes to ISAs. This involved in-depth interviews with 50 people in three UK cities (35 had cash ISAs, 15 had stocks and shares ISA).

Cash ISAs were seen as safe and accessible savings vehicles unlike pensions and stocks and shares. People expressed short (to pay for their annual holiday) and long-term (saving for their grandchildren's schooling, deposit on house, retirement) goals for savings.

Cash ISAs were a well known and recognised product – people's understanding was largely obtained from advertising. Expressions used to describe cash ISAs included: *'risk-free', 'tax free', 'easy to understand', 'you are in control', 'higher rates of interest than with other savings'*. Some people took the attitude that once an ISA was opened it shouldn't be touched, and people liked the fact they did not need much attention.

In short, customers liked the simplicity and ease of use of cash ISAs.

Variation in interest rates in the cash ISAs market

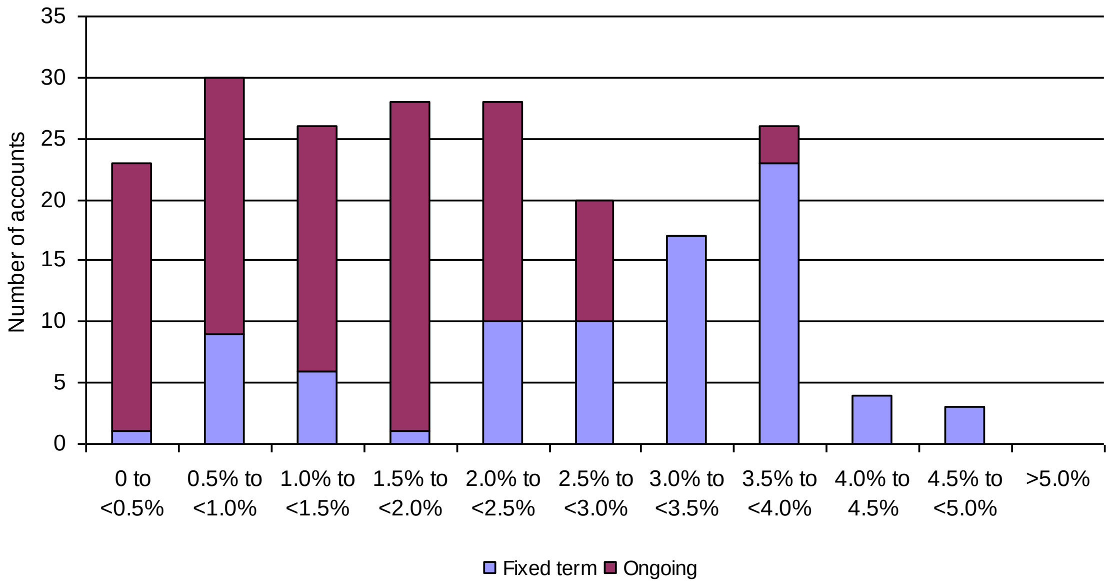
There is a wide range of products available in the cash ISA market. FSA's moneymadeclear™ site lists 205 products in March 2010. Figure 1 shows the range of interest rates being paid on cash ISA accounts. The amount of interest paid varies from 0.05 per cent for Cheltenham & Gloucester's cash ISA to 4.6 per cent being paid on Leeds Building Society's five year fixed rate deal. The highest rates of interest (above four per cent) are earned on the fixed term ISAs. Savings have to be held in the account for between three and five years to avoid penalty charges. These penalty charges may be equivalent to the loss of between six and 12 months of interest.

The best buy tables for the on-going accounts are dominated by accounts with high initial bonus interest rates. At the time of writing Santander (and its subsidiary Alliance & Leicester) offered a 3.5 per cent first year interest rate which drops to 0.5 per cent in the second year. Consumers are not allowed to transfer money into the ISA from other ISAs so this rate of interest is only available for this year's ISA allowance and savvy customers who are minded to move their accumulated cash ISA wrapped savings are prevented from transferring funds into the product.

About a third of the ongoing accounts currently on the market offer interest rates of less than one per cent, including many large high street banks like Cheltenham & Gloucester, Santander, Halifax, Barclays, Nationwide, Direct Line. These are often obsolete products which have been superseded by similar products with a better rate.

[11] IPSOS MORI (2007) *Saving in ISAs Final Report 22/10/07: Research Study undertaken for HMRC*

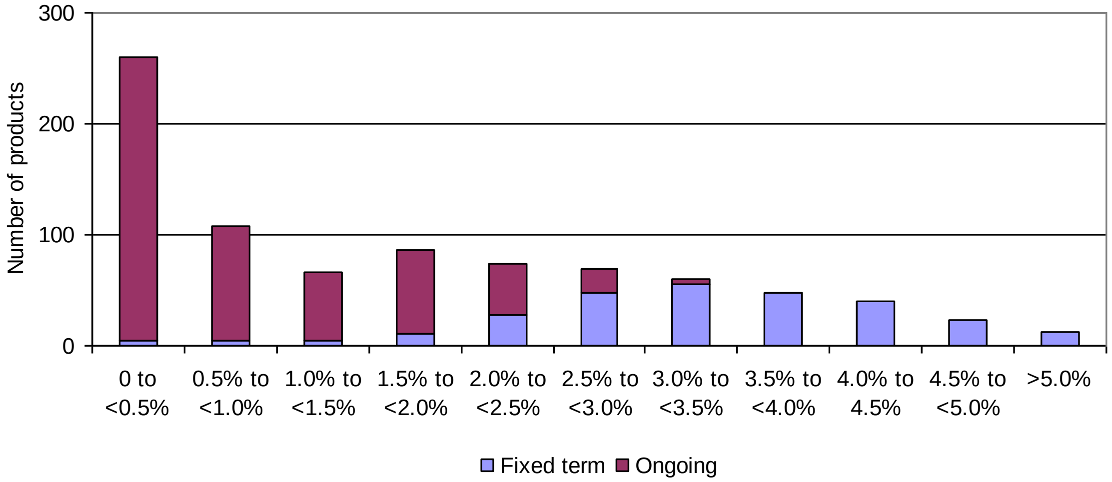
Figure 1: Spread of interest rates offered on currently marketed cash ISA accounts



Source: Consumer Focus analysis of all products on moneymadeclear™ website 1 March 2010

Figure 2 shows the spread of interest rates being offered on other regular saving products, not including ISAs. This is a much larger market with 846 products. The most attractive interest rates are again being offered for three to five year fixed rate savings. Altogether 12 accounts are offering more than five per cent interest, including high street names like Nationwide.

Figure 2: Spread of interest rates offered on non-ISA savings accounts



Source: Consumer Focus analysis of all products on moneymadeclear™ website 1 March 2010

There is a vast tail of products that offer consumers very poor value for money. Many high street banks offer accounts which pay 0.1 per cent (Santander, Royal Bank of Scotland, Cheltenham & Gloucester, Yorkshire) and two accounts even pay zero per cent.

It is interesting to see that the best paying savings products pay slightly more than the best paying cash-ISA products. Some commentators have drawn the conclusion that providers are failing to pass on the full tax relief to savers. For example Michelle Slade from Moneyfacts.co.uk notes[12] that banks historically paid higher rates on ISAs to encourage savers but says that,

> *'This is not really the case any more... Banks know they can pay a lower rate of interest on an ISA account to achieve the same level of return after tax as the customer would achieve on a standard savings account. In effect, the banks are paying lower rates on ISAs because they know they can get away with it.'*

[12] Times Online (13 March 2010) *Banks fail to pass on ISA tax break* **http://www.timesonline.co.uk/tol/money/savings/article7059968.ece**

3. The problems with the cash ISA market

Our analysis of the market suggests that:

- there is little movement between ISAs, despite the apparently large number of products available
- many providers appear to use 'bait' prices to attract savings into cash ISA accounts, secure in the knowledge that when rates plummet consumers will not switch
- providers' processes for transferring savings between cash ISA accounts are unnecessarily bureaucratic and inefficient
- there is a lack of clarity about interest rates for older cash ISA accounts

The result of these market features is that providers have been able to reduce the average interest rates more substantially than for other saving products.

We explore these issues in more detail in this section. In doing so, we draw on a survey of moneysavingexpert.com users which focused on use of cash ISAs, ease of switching and awareness of interest rates. We also reviewed customer complaints data.

Low levels of switching

No official data on the rate of switching of cash ISAs was available from the British Bankers' Association or HMRC. However, Mintel annually survey consumers on savings behaviour.

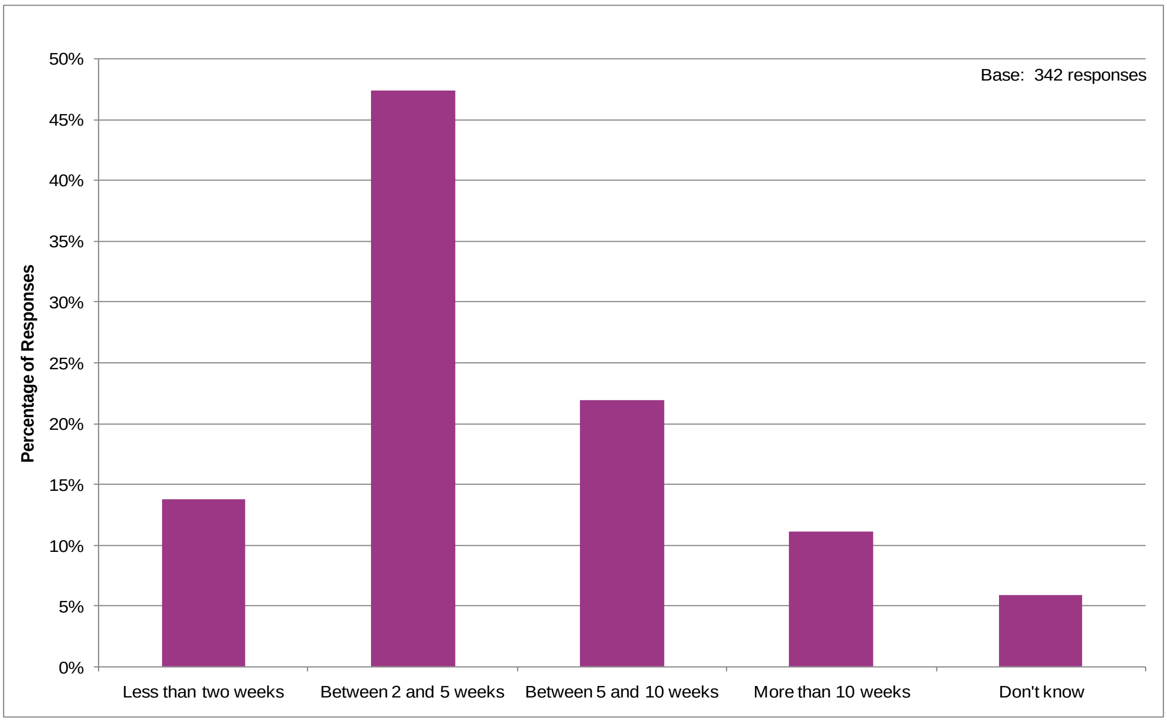
Last year (2008-09), eight per cent of people transferred to a new ISA provider and a further four per cent transferred to another ISA product with the same provider[13]. The overall churn rate is therefore at most 12 per cent. This means that most cash ISA customers keep their money in the same account for many years.

Time taken to switch

Figure 3 shows how long it took people to transfer savings from one cash ISA to another using data from our survey of moneysavingexpert users (see Annex 3 for further information). Almost 60 per cent said the transfer had been made within five weeks. The transfer took place within two weeks for 10 per cent, half said it took between two and five weeks. But a third said it had taken more than five weeks – significantly longer than the industry guidelines – which we think are far too long. Customers are unsure whether and who will pay interest on their savings while their accounts are in limbo.

[13] Based on Ipsos MORI / Mintel data survey of 635 people.

Figure 3: Length of time taken to transfer cash ISA to new provider



Source: data from our survey of moneysavingexpert users

Many customers do not understand why it should take anything like four weeks to transfer money between two UK based banks. Respondents to our survey said of the process: 'long-winded, horrendous process', 'ridiculously long – each bank blaming the other', 'stressful as the money is in limbo'. Many complained about the loss of interest, poor communication of what stage the process was at and the technologically primitive process being used. Many customers suspect the process is deliberately slow to inhibit transfer and obtain interest free credit. We agree.

By no means all the comments were negative. Many banks, even those using paper based systems, will transfer money swiftly. Customers are however surprised that a cash ISA transfer – which is simply the transmission of funds and information between providers – should be allowed to take 30 days.

Administrative problems and rules imposed by providers

A number of consumer bodies and websites have highlighted a large volume of complaints over delays in transferring cash ISAs to better performing products. This has been a problem for a number of years and the industry has responded by introducing electronic systems for transferring money between accounts that a few banks are piloting.

For example, thisismoney.co.uk reported on 9 July 2008 that it had received 1,700 letters and emails complaining of undue delays, with many large high street institutions accused. It noted,

> *'Savers can have around £50,000 in cash ISAs. But those caught in this chaos can miss out on the best deals that are often only available for a short time, lose interest, have no access to their money and worry that it is lost altogether.'*

and described the situation as

> *'anarchy, with banks and building societies fobbing off customers' complaints, devoting insufficient resources to solving the problems and blaming each other for the mess.'*

They later noted[14]

> *'Our postbag is full of complaints from readers who have waited more than twice the 30 days allowed for transferring tax-free cash ISA accounts from one bank or building society to another.'*

Some institutions say cheques are necessary under HMRC rules, but thisismoney.co.uk reported that HMRC denies this. Even if cheques are involved, customers do not understand why the process should ordinarily take as long as a month.

Thisismoney.co.uk proposed[15] that customers transferring should be able simply to collect a cheque and ISA certificate from their existing provider and present that to the new provider, and more rapidly between internet ISAs.

On 27 August 2008, the British Bankers' Association, the Building Societies Association and the Tax Incentivised Savings Association announced guidelines to standardise the transfer of ISAs and allocate responsibilities. However, questions remain about why ISA transfers should take anything like one month, why providers can refuse electronic transfers, and why firms can restrict transfers from other providers, creating an unnecessary proliferation of accounts.

Comments left by consumers on moneysavingexpert.com in February 2010 suggest that issues apparently clarified by HMRC remain a problem,

> *'Today [my girlfriend] received a letter from Nationwide. The ISA transfer has been denied by Halifax because they say that the address on the request form is different from the address they have on record.'*

> *'I opened a new fixed ISA with another provider over three weeks before my Halifax ISA was due to mature. The instructions were sent to the Halifax to transfer out on the maturity date and acknowledged by the Halifax nearly three weeks before the fixed rate ended. The Halifax then sat on the ISA for 27 days (at 0.2 per cent) before transferring the money out on the 28th day after maturity.'*

> *'Suggested best practice: The regulation of ISA transfers is a shambles/non-existent. My last two transfers have taken longer than 30 days and there's no comeback.'*

Difficulty finding out the interest rates in the savings account

We asked customers of cash ISAs that use moneysavingexpert.com about the ease with which they could find out the interest they receive on their accounts. Reproduced below are the first ten responses. They tell a story of consumers often having difficulty in ascertaining the prevailing rate of interest. Customers say: 'that rates are hidden in dense tables', 'Often hard to find interest rates on old accounts', 'Often hard to find. Several accounts with similar names listed. Not clear when a bonus rate applies from/to for me as sometimes it depends date account opened.' 'I opened my Northern Rock Tracker online account about 18 month ago. Since then they changed its name to Online saver which I didn't realise. They still list the interest rate on the website as two per cent and you have to read the small print to realise that includes a 1.24 per cent bonus which has expired.'

We asked customers about their good and bad experiences about communications about the prevailing rate of interest.

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[14] 18 August 2008
[15] *Our solution to ISA chaos*, **tinyurl.com/ya3f83r**, 9 July 2008

The first 10 responses

1. It is a fixed term fixed rate

2. Poor but it varies company to company – I keep a record myself of rates / end dates of bonus periods / end date of fixed rates

3. The interest rate on some of my accounts dropped massively without me realising for months afterwards and even then it was not easy to figure out what rate they had dropped to. In one case, my bank started advertising a new higher rate to entice new savers, which I had assumed I would also benefit from, only to realise months later that they had slightly changed the name of the 'new' account so that they could drop the rate on the old account around the same time as launching the new higher rate for new savers

4. Have to ask each time, not plainly visible

5. Often hard to find. Several accounts with similar names listed. Not clear when a bonus rate applies from/to for me as sometimes depends date account opened

6. Difficult to ascertain with initial bonus

7. Six monthly statements with interest rates displayed would be useful, rather than just annual statement

8. Never get notified – have to check myself

9. All mine are fixed so question doesn't apply

10. Usually difficult to find

It is difficult for savers to easily identify the interest being paid on their accounts, especially of old accounts. Customers sometimes, mistakenly assume, that they will automatically be transferred onto a new rate when a product is relaunched. Many products use similar sounding product names that have the potential to confuse consumers: for instance re-issuing the same account but with a new issue number.

Alliance & Leicester *Direct Isa Issue 5* varies the interest rate paid not by the name and issue of the product but by reference to the initial three digits of the customer's account number.

Royal Bank of Scotland varies the bonus rate being paid to its *Instant Access Cash ISA* savers according to the date on which the account was opened (or money transferred in).

Screenshots of these practices are shown in Annex 2. These practices appear to have been designed to confuse the saver about the interest rate being paid on their account.

The changes that come into force from 1 May on detrimental changes in interest will we hope go some way to remedying the issue for new accounts where there is a significant fall in rates, but they do not address the issue of accounts which already have very low interest rates.

In our sample of moneysavingexpert.com customers, the number of cash ISAs most commonly held by an individual was six, suggesting that many people manage a portfolio of accounts because of difficulties or restrictions preventing their consolidation.

Relative decline in cash ISA interest rates

The rate of interest earned on cash ISAs has plunged over the past two years. The fall has been greater than the reduction in interest homeowners pay on their mortgages or even the rate of interest paid on other savings accounts.

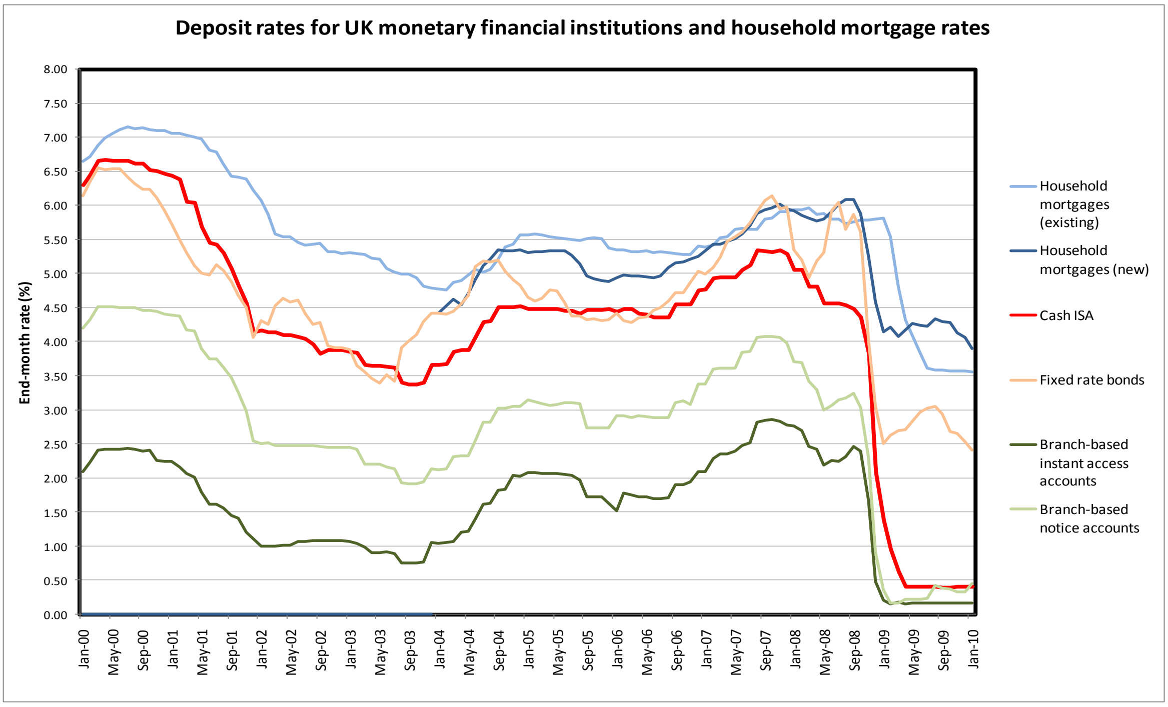
Figure 4 graphs monthly data to show the average interest being earned on deposit accounts (cash ISA, instant access savings and notice accounts) since January 2000.

These are contrasted to the interest being paid by households on their mortgages (new mortgages and existing mortgages). The data are drawn from the Bank of England's monthly inquiry on banks and building societies operating in the UK. They are weighted by the value of balances for each bank, and for each type of account.

Cash ISAs (the red line) had dropped to 0.41 per cent by January 2010, only 0.24 per cent higher than instant access savings accounts and *lower* than the interest earned on notice accounts (the two green lines). Cash ISAs have traditionally earned higher rates of interest than other deposit accounts. As recently as a year ago cash ISAs earned one per cent more than other savings accounts.

The rates of interest households pay for their mortgages (the blue lines) have fallen too. But as can be seen from the figure the fall has been more modest.

Table 4: Average rate of interest on cash ISAs, other savings accounts and inter bank lending rates before and after credit crunch (1 January 2008 cut-off)



Source: Bank of England (Jan 2010) *Monetary and Financial Statistics* Tables G 1.3 and G1.4

The data suggests to us that that banks have used consumer inertia and problems in transferring savings in cash ISA accounts to increase the spread they earn from old accounts. Table 4 shows the average rate of interest in the period before and after the instability in the capital markets commenced (1 January 2008 has been selected as the cut-off date). Data are shown for cash ISAs (first column) and a number of other comparators.

Table 4: Average spread in rate between cash ISA and other accounts before and after credit crunch (1 January 2008 cut-off)

Year	Cash ISA	Branch-based instant access	Branch-based notice	Home mortgages (existing)	Home mortgages (new)	Monthly average 3mth mean LIBOR
2005	**4.5**	1.9	3.0	5.5	5.2	4.7
2006	**4.5**	1.8	3.0	5.3	5.1	4.8
2007	**5.1**	2.6	3.8	5.7	5.7	6.0
2008	**4.4**	2.2	3.0	5.8	5.8	5.5
2009	**0.6**	0.2	0.3	4.2	4.2	1.2
Jan 2010	**0.2**	0.5	0.4	2.4	3.6	3.9
av. 2004-07	**4.7**	2.1	3.3	5.5	5.3	5.2
av. 2008-09	**2.5**	1.2	1.6	5.0	5.0	3.3

Source: Bank of England, Table G1.3 & G.14 Monetary and Financial Statistics

The above table shows that the average return on cash ISAs has been cut by around 2.2 per cent since the start of the credit crunch (chosen as being 1 January 2008), that on other savings accounts by between 0.9 and 1.7 per cent, and that charged by retail banks and building societies for household mortgages by between 0.3 and 0.5 per cent.

Banks might argue that cash ISAs and household savings more generally are only one source of funds and they have been exposed to a deterioration in the cost of raising funds because of problems in the money markets and higher risks of household defaults.

While it is true that banks have indeed used capital markets to hedge positions to provide fixed interest offers, we do not accept that at the aggregate level banks have needed to borrow significant sums to finance their loans.

It is worth noting that the aggregate amount borrowed by the household sector £1.4 trillion in the form of loans secured on properties (mortgages and unsecured loans) is around four thirds of the amount saved by the household sector (£1.1 trillion) so the net lending by the household sector from money markets is around 30 per cent of the value of household borrowings. In other words retail deposits taken by banks and building societies are sufficient to fund around 75 per cent of the mortgages taken out by the household sector. We would argue that from the point of view of the retail customer there has been a sizable increase in spread between lending rates and deposit rates – especially in the cash ISA market.

Banks also argue that spreads have had to increase in order to cover provisions of bad debt; for instance if mortgages cannot be paid and homes have to repossessed and sold below the value of the outstanding debts. However the annual forecast of numbers of homes being repossessed in 2009 has been revised downwards from 70,000 to 35,000 ie less than 0.5 per cent of the mortgages.

Relative decline in cash ISA interest rates and 'bait' pricing

The information above suggests that cash ISA providers compete with high bonuses to attract business but after the initial bonus period has finished there is little competition and the products offer poor value. As Adam Philips, chair of the Financial Services Consumer Panel, said earlier this year,

> *'competition in this market appears to have dried up.'*[16]

Banks and building societies attract savers through 'bait' pricing – in other words by offering attractive interest rates for a time limited period. At the time of writing the most attractive cash ISA products on the market (which didn't involve multi-year tie-ins) were those marketed by Stroud and Swindon Regular Saver Issue 1 ISA and by Santander (their brand Alliance & Leicester also market the same product). In year one, the overall interest rates are 3.75 and 3.5 per cent, but these drop to 1.0 and 0.5 per cent respectively afterwards. Santander does not allow savers to transfer previous years' ISAs subscriptions into this account. Stroud restricts transfers to £20,000.

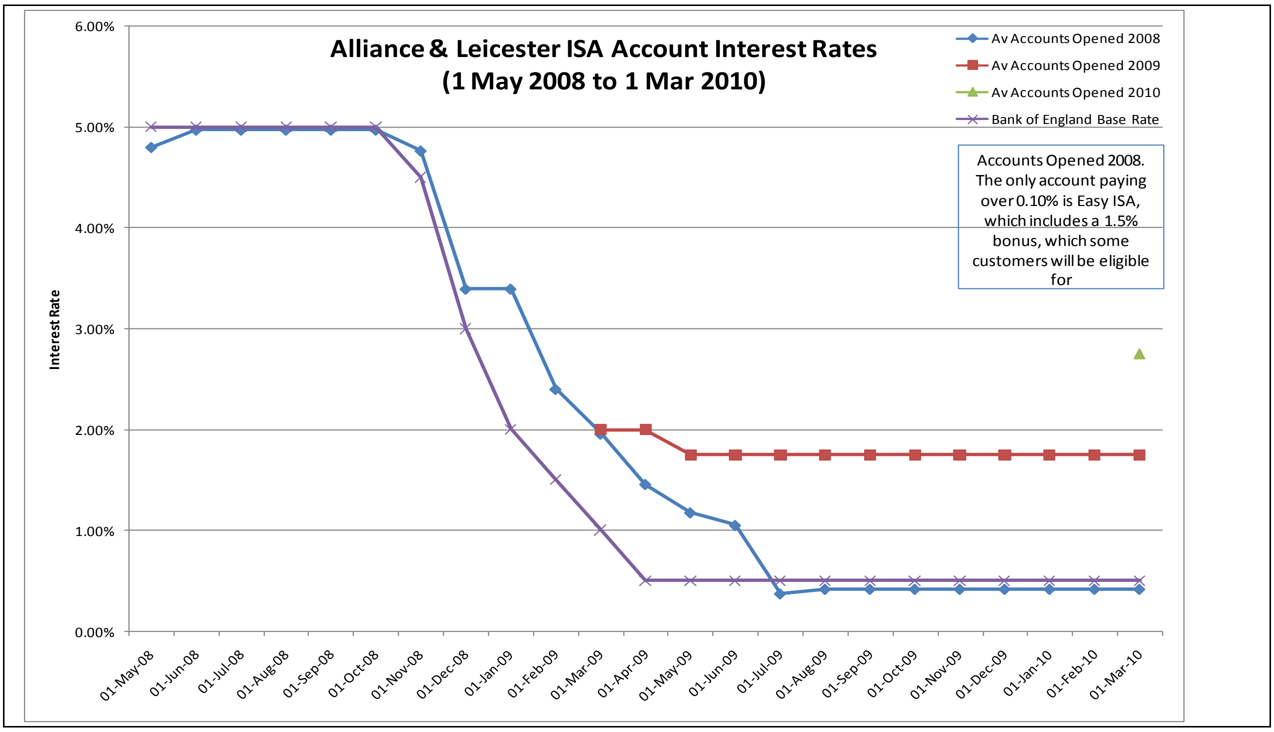
The box below explains how customers are penalised for holding their savings in the same account once the bonus period is over. The data, drawn from Alliance & Leicester, illustrate a general point. The green point is the interest paid on a savings account opened in 2010, the red line shows the one per cent penalty on accounts opened in 2009, the blue and purple lines show the return on savings that have been left for two years.

Only 12 per cent of customers switch cash ISA implying that most savers are earning low 'non-bonus' interest rates. The manner in which cash ISAs are priced and marketed is exploiting customer inertia and works contrary to the original intention of the product.

Box 1: Alliance & Leicester Case Study

- Of the six ISA accounts available in 2008 which are still active, only one has an interest rate above 0.10 per cent (Easy ISA at 2.00 per cent)
- Since 2009 Alliance & Leicester has launched four ISA products, all of which pay interest of at least 1.50 per cent, with a maximum interest rate of 3.50 per cent (Flexible ISA)
- The graphic overleaf shows the average interest rate for the year in which accounts were opened

[16] Daily Mail *STOP! Greedy banks steal your tax beaks* **http://www.dailymail.co.uk/money/article-1244522/STOP-Greedy-banks-steal-Isa-tax-breaks.html**



Long-term fixed-rate cash ISA

At the time of writing, the highest rate of interest was being offered on fixed-rate ISAs where savings had to held for between three and five years. Premature withdrawal of funds attracted penalties of six months to a years' loss of interest. The rates of interest being offered are up to 4.6 per cent for a five year fixed-rate account by Leeds Building Society. These products are a welcome new development. These accounts are well suited to certain savers, especially those who wish to lock away their savings for a long period of time (for school fees, pensions or a deposit on a home), but not to all savers.

These accounts – which seem generous in comparison to the present bank rate – lock into longer term interest rate changes. HM Treasury publishes a summary of independent medium term forecasts from economists in the City and independent institutions. Table 5 shows that the interest rates are expected to increase significantly and the best fixed rate cash ISAs on the market are offering interest broadly in line with the independent forecasters' expectations.

Table 5: Independent forecast of official bank rate (annual average, per cent)

	2010	2011	2012	2013	2014
Independent average	0.6	1.6	2.8	3.5	4
Highest	1	3	4.2	4.6	4.9
Lowest	0.5	0.5	1	1.4	1.6

Source: HM Treasury, February 2010[17]

[17] HM Treasury (2010) *Forecast for the UK economy: a comparison of independent forecasts* **http://www.hm-treasury.gov.uk/d/201002forecomp.pdf**

Complaints data

The concerns we identify above are reflected in the number of complaints received by the Financial Services Authority and the Financial Services Ombudsman.

Figure 5 shows the rise in number of complaints about cash ISA products on a six monthly basis between the first half of 2006-07 and the first half of financial year 2009-10. The data show that complaint levels about Cash Deposit ISAs were the fastest growing of 36 financial products. Between 2006 and 2009, complaint volumes increased by 450 per cent against average eight per cent over all complaints.

Figure 5: Number of complaints about cash ISA, stocks and share ISAs and all complaints (divided 100) received by FSA

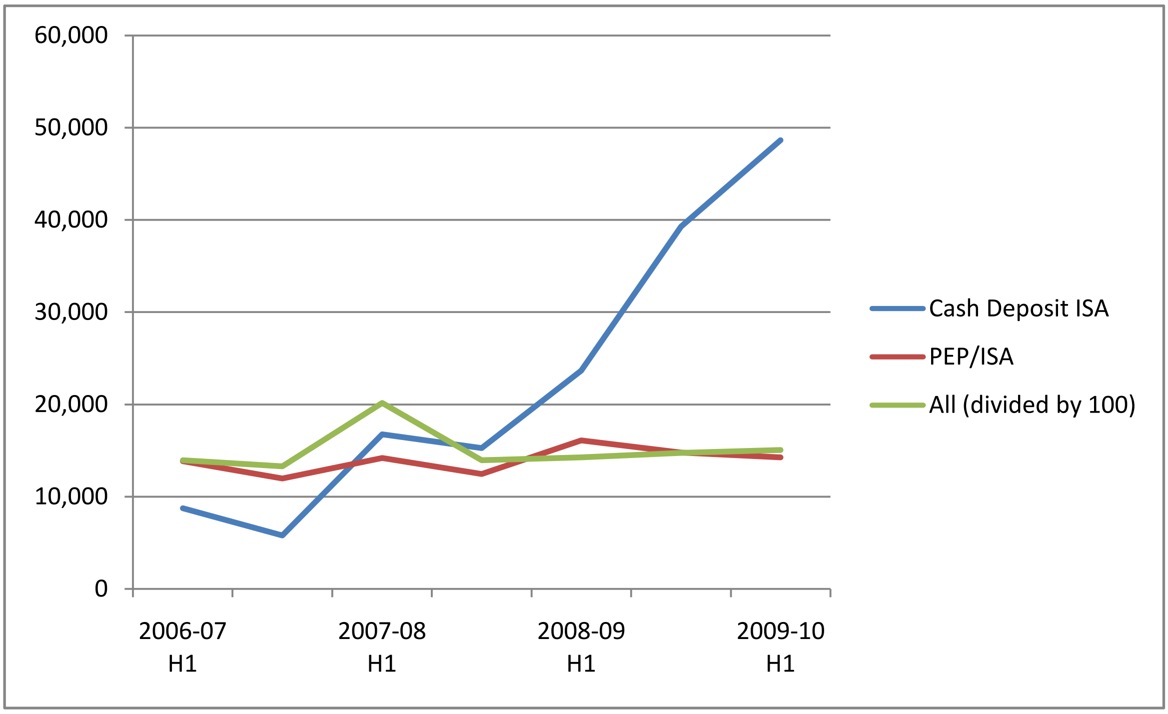


Table 6, based on Financial Ombudsman Service data, shows the same trends. There was a significant increase in the percentage of complaints upheld about savings accounts in 2009 compared to 2008. This is in the context of a decrease in the percentage of complaints upheld in credit cards and current accounts.

Table 6: Complaints received by Financial Ombudsman Service

Year ended 31 March	Number of complaints
2008/09	5,183
2007/08	2,675
2006/07	1,438
2005/06	1,233
2004/05	1,154
2003/04	806

The Financial Ombudsman Service commented:

> *'The two-fold increase we have seen in complaints about savings accounts has related primarily to problems with account administration – especially opening and closing accounts. In the first half of the year we saw a significant rise in complaints about administrative delays in relation to cash ISAs.'*

4. Conclusion

The cash ISA was introduced to encourage long-term saving behaviour. This was Government's intention when the products were introduced and it is the way that most people operate their accounts.

The market has developed into an unhealthy situation where the large banks and building societies compete to top the best buy tables by offering short-lived bonus rates of interest to encourage customers to take out their annual subscriptions with them. Often existing customers are forbidden from transferring their accumulated savings into the best paying products. Advertising spend in February and March is targeted to the same end. The rate of interest paid on the account then plunges once the bonus period is over. As a result the average rate of interest paid to savers is much lower than the advertised rates on new products.

Most customers switch accounts infrequently since the product is used for long-term saving objectives like retirement and deposit on homes. Observed rates of switching are less than 12 per cent a year; over 60 per cent of people have never withdrawn money from their accounts.

Low levels of switching, caused by inertia, are observed in other financial markets. But the problem is worse in the cash ISA market because of:

- the regulatory paper trail requirements
- the lack of investment in electronic systems for transferring funds between providers
- the fact many cash ISA providers do not accept transfers into their most attractive products which makes it impossible for customers to consolidate their holdings into a single account

Cash ISA providers have exploited the low level of switching by eroding the interest rate paid on cash ISAs compared to other saving products and the interest rate homeowners pay on their mortgages. The rate of interest paid on cash ISAs has fallen dramatically compared to the interest rates customers pay or receive on other retail financial products.

The issues that we would like the OFT to address in collaboration with FSA and HMRC are:

- Use of 'bait' pricing with misleading headline interest rates used to lure in consumers
- The frequent creation of (but lack of automatic transfer to) new accounts which are similar to existing accounts in all respects other than the interest rate
- Confusion about which account a saver has, owing to the proliferation of similar (and similarly-named) products
- Unnecessarily bureaucratic and lengthy processes for transferring savings between cash ISA accounts used to prevent switching
- Arbitrary rules imposed by cash ISA providers forbidding transfers into some of the most attractive accounts
- Difficulty in accessing the prevailing interest rate being earned on savings accounts, including cash ISA account, especially of older accounts

We do not think it unreasonable, for example, to expect providers to commit to managing transfers within five working days, or for all statements to contain information on the correct name of the account (including issue number) and up-to-date information on the prevailing rate of interest and the date at which any bonus period comes to an end.

We would like the OFT to explore the case for an automatic transfer in circumstances where an old account is effectively replaced by another one with the same key features paying a higher interest rate.

On the first two points above there have been some welcome changes in the *Banking: Conduct of Business Sourcebook* (BCOBS), which will improve information on detrimental changes in interest rates. We believe they will not be sufficient for the cash ISA market because of the significant additional barriers to switching described above. Cash ISAs are long-term savings products, popular because of their simplicity. Consumers will often be reluctant to shop around from one account to another every year.

We are not calling for a wider review of the savings market at this stage, though we recognise that some of the issues raised here may be relevant to other products. We do not expect a referral to the Competition Commission as we hope the problems we have identified might be addressed quickly and easily within the existing regulatory regime.

Annex 1: Ownership of cash ISAs and other saving products

Figure: Savings and investment products owned, by age, April 2009

Base: 1.910 adults aged 18+

	All %	18-24 %	25-34 %	35-44 %	45-54 %	55-64 %	65+ %
Savings account	58	43	47	60	67	65	60
Cash ISA	**33**	**17**	**22**	**25**	**37**	**48**	**46**
Company pension	25	6	12	28	34	35	26
NS&I	24	6	11	21	28	38	34
Stocks and shares ISA	**14**	**1**	**4**	**13**	**19**	**23**	**20**
Personal pension	13	3	4	19	26	18	7
Individual shares	11	2	5	10	19	14	15
Fixed-term savings account	11	4	6	5	10	21	17
Buy-to-let investment	4	2	3	4	5	6	2
Insurance bond	3	-	1	1	4	5	8
Investment trust	3	-	2	2	2	3	6
Unit trust or OEIC	3	-	-	2	3	6	3
Government bonds	1	-	-	2	1	3	2
Corporate bonds	1	-	-	1	1	1	2
Other savings or investments	7	3	3	9	12	9	7
Any cash savings*	**67**	**51**	**53**	**66**	**74**	**77**	**75**
% of which have a cash ISA	*49*	*33*	*42*	*38*	*50*	*62*	*61*
Stocks and shares ISA	14	1	4	13	19	23	20

Any equity investments**	**22**	**4**	**10**	**22**	**33**	**30**	**29**
% of which, have equity ISA	*64*	*25*	*40*	*59*	*58*	*77*	*69*
Any savings or investments	**70**	**52**	**55**	**71**	**78**	**80**	**78**
None	30	48	46	29	22	20	22

* have savings account, fixed-term savings account, cash ISA and/or NS&I

** have stocks and shares ISA, individual shares, investment trust, insurance bond and/or unit trust/OEIC

SOURCE: IPSOS MORI/MINTEL

Figure: Savings and investment products owned, by gender and socio-economic group, April 2009

Base: 1,910 adults aged 18+

	All %	Men %	Women %	AB %	C1 %	C2 %	D %	E %
Savings account	58	59	57	73	59	57	43	32
Cash ISA	**33**	**31**	**35**	**45**	**36**	**29**	**21**	**18**
Company pension	25	26	23	43	26	17	10	4
NS&I	24	22	26	34	28	18	12	10
Stocks and shares ISA	**14**	**14**	**14**	**26**	**14**	**11**	**2**	**3**
Personal pension	13	14	13	21	14	11	8	2
Individual shares	11	13	10	22	11	6	6	2
Fixed-term savings account	11	12	10	19	11	7	3	5
Buy-to-let investment	4	4	3	8	4	2	1	-
Insurance bond	3	3	3	6	3	4	1	1
Investment trust	3	3	3	4	4	2	-	1
Unit trust or OEIC	3	3	2	6	2	1	-	1

Government bonds	1	2	1	2	2	1	1	-
Corporate bonds	1	1	-	2	1	1	1	-
Other savings or investments	7	9	6	14	8	6	1	2
Any cash savings*	67	68	67	82	71	67	48	40
% of which, have cash ISA	*49*	*46*	*52*	*55*	*51*	*43*	*44*	*45*
Any equity investments**	22	24	21	38	24	16	9	6
% of which, have equity ISA	*64*	*58*	*67*	*68*	*58*	*69*	*22*	*50*
Any savings or investments	**70**	**71**	**69**	**86**	**74**	**70**	**52**	**43**
None	30	29	31	14	26	30	48	58

* have savings account, fixed-term savings account, cash ISA and/or NS&I

** have stocks and shares ISA, individual shares, investment trust, insurance bond and/or unit trust/OEIC

SOURCE: Ipsos MORI/Mintel

Annex 2: Screenshots showing confusing interest rate offers

Alliance & Leicester

Different interest rates based on first three digits of your account number eg *Direct ISA Issue 5* (accounts beginning 194,195 or accounts beginning 198, 199) **http://www.alliance-leicester.co.uk/savings/interest-rates.aspx** (you may need to select 'closed interest accounts' from the drop down menu).

Savings Accounts – Interest Rates - Alliance & Leicester - Windows Internet Explorer provided by Consumer Focus

http://www.alliance-leicester.co.uk/savings/interest-rates.aspx

File Edit View Favorites Tools Help

Savings Accounts – Interest Rates - Alliance & Leicester

£9,000 +	2.75%	2.75%

Rates effective from 30 October 2009. Rate includes a bonus payable until 31 December 2010. Variable rate without bonus currently £1 - £8,999 0.50% gross p.a., £9,000+ 1.00% gross p.a. If you are aged 50 or over by 5 April 2010 your annual cash ISA allowance is £5,100. If you are aged under 50, the limit is £3,600 this tax year.

Direct ISA Issue 5 (accounts beginning with 198, 199)

	Annual gross	Gross p.a./AER
£1 - £8,999	2.00%	2.00%
£9,000 +	2.50%	2.50%

Rates effective from 1 September 2009. Rate includes a bonus payable until 31 October 2010. Variable rate without bonus currently £1 - £8,999 0.50% gross p.a., £9,000+ 1.00% gross p.a. If you are aged 50 or over by 5 April 2010 your annual cash ISA allowance is £5,100. If you are aged under 50, the limit is £3,600 this tax year.

Direct ISA Issue 5 (accounts beginning with 196, 197)

	Annual gross	Gross p.a./AER
£1 - £8,999	2.00%	2.00%
£9,000 +	2.75%	2.75%

Rates effective from 2 July 2009. Rate includes a bonus payable until 31 August 2010. Variable rate without bonus currently £1 - £8,999 0.50% gross p.a., £9,000+ 1.00% gross p.a. If you are aged 50 or over by 5 April 2010 your annual cash ISA allowance is £5,100. If you are aged under 50, the limit is £3,600 this tax year.

Direct ISA Issue 5 (accounts beginning with 376, 377)

	Annual gross	Gross p.a./AER
£1 - £8,999	2.00%	2.00%
£9,000 +	2.75%	2.75%

Rates effective from 5 May 2009. Rate includes a bonus payable until 1 July 2010. Variable rate without bonus currently £1 - £8,999 0.50% gross p.a., £9,000+ 1.00% gross p.a. If you are aged 50 or over by 5 April 2010 your annual cash ISA allowance is £5,100. If you are aged under 50, the limit is £3,600 this tax year.

Direct ISA Issue 5 (accounts beginning with 384)

	Annual gross	Gross p.a./AER
£1 - £8,999	2.00%	2.00%
£9,000 +	2.50%	2.50%

Rates effective from 6 April 2009. Rate includes a bonus payable until 4 May 2010. Variable rate without bonus currently £1 - £8,999 1.00% gross p.a., £9,000+ 1.50% gross p.a. If you are aged 50 or over by 5 April 2010 your annual cash ISA allowance is £5,100. If you are aged under 50, the limit is £3,600 this tax year.

Direct ISA Issue 5 (accounts beginning with 394, 395)

	Annual gross	Gross p.a./AER

Done

Start | Savings Accounts – I...

Royal Bank of Scotland

Varying bonus rates and therefore interest rates based on the date a customer applied to transfer in funds or other criteria

http://www.rbs.co.uk/personal/savings/g5/nolonger.ashx

Previous interest rates | RBS | The Royal Bank of Scotland - Windows Internet Explorer provided by Consumer Focus

http://www.rbs.co.uk/personal/savings/g5/nolonger.ashx

File Edit View Favorites Tools Help

Previous interest rates | RBS | The Royal Bank of Scot...

£1 - £1,999	0.10	0.10	0.08	01/04/2009

A bonus equivalent to 2.00% Gross p.a. is payable for the first six months from account opening on accounts opened between 18 December 2008 and 21 February 2009. The bonus is only payable if a minimum balance of £2,000 is maintained for the first six months after the account is opened and will be paid in two instalments at the end of March 2009 and March 2010, along with the standard interest payment.

Last updated on 24 July 2009

Instant Access Cash ISA (Annual Interest)				
£50,000 +	2.00	2.00	n/a	01/04/2009
£27,000 - £49,999	2.00	2.00	n/a	01/04/2009
£22,000 - £26,999	2.00	2.00	n/a	01/04/2009
£15,000 - £21,999	1.20	1.20	n/a	01/04/2009
£9,000 - £14,999	1.20	1.20	n/a	01/04/2009
£1 - £8,999	1.00	1.00	n/a	01/04/2009

Instant Access Cash ISA (Annual Interest with 1% bonus)				
£50,000 +	3.00	3.00	n/a	01/04/2009
£27,000 - £49,999	3.00	3.00	n/a	01/04/2009
£22,000 - £26,999	3.00	3.00	n/a	01/04/2009
£15,000 - £21,999	2.20	2.20	n/a	01/04/2009
£9,000 - £14,999	2.20	2.20	n/a	01/04/2009
£1 - £8,999	2.00	2.00	n/a	01/04/2009

For customers who apply to transfer in funds between 09 February 2009 until 25 April 2009.

Instant Access Cash ISA (Annual Interest with 0.5% bonus)				
£50,000 +	3.00	3.00	n/a	01/04/2009
£27,000 - £49,999	3.00	3.00	n/a	01/04/2009
£22,000 - £26,999	3.00	3.00	n/a	01/04/2009
£15,000 - £21,999	2.20	2.20	n/a	01/04/2009
£9,000 - £14,999	2.20	2.20	n/a	01/04/2009
£1 - £8,999	2.00	2.00	n/a	01/04/2009

For customers who apply to transfer in funds between 01 February 2010 to 30 April 2010 **OR** for customers who save their full 2010/2011 cash ISA allowance by 30 April 2010).

Instant Access Cash ISA (Annual Interest with 0.75% bonus)				
£50,000 +	4.00	4.00	n/a	01/04/2009
£27,000 - £49,999	4.00	4.00	n/a	01/04/2009
£22,000 - £26,999	4.00	4.00	n/a	01/04/2009
£15,000 - £21,999	3.20	3.20	n/a	01/04/2009
£9,000 - £14,999	3.20	3.20	n/a	01/04/2009
£1 - £8,999	3.00	3.00	n/a	01/04/2009

For customers who applied to transfer from 18 September 2008 until 09 November 2008 and accepted Replace and Extend Offer from November 2009 until 31 January 2011.

Done

Start | Previous interest rates | ...

Annex 3: Survey of moneysavingexpert.com users

We undertook an internet based survey of moneysavingexpert.com users. These are among the more financially sophisticated cash ISA customers.

Altogether 424 participated in the survey, which went out on 17 March 2010, with results collated on 22 March. They were recruited using the text below which was sent to subscribers to Martin Lewis's weekly email:

What's this all about?

Consumer Focus, the campaigning and lobby group, is running an investigation into the Cash ISA market and would like to hear your views.

The investigation is particularly looking at consumers' experience of transferring ISAs and the ease of finding out the current interest rate on their account but is looking for any experiences, good and bad, on cash ISAs.

Where did the investigation come from?

After meeting about our 50 words **consumer manifesto** earlier this year, Consumer Focus picked up on a couple of our suggestions to turn into its investigation ...

*"**Savings statements must list current interest rates.** Every online & printed statement should state your current interest rate, or how can you monitor it. Often, the only way to find your rate is going to a confusing online page with scores of similarly named accounts."* (This has also been a **No 10 Petition** and **Parliamentary motion**).

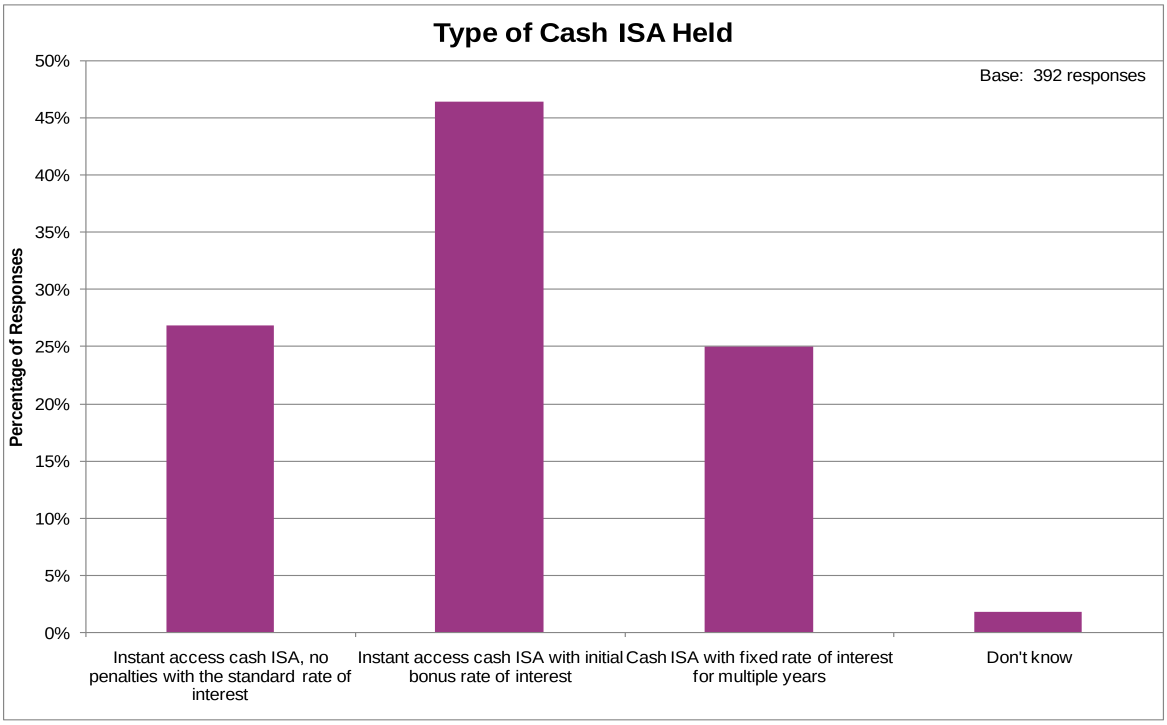
*"**Speed up tax-free cash ISA transfers.** Why can some bank transfers take a matter of seconds, yet moving money from one cash Isa to another can take months?"*

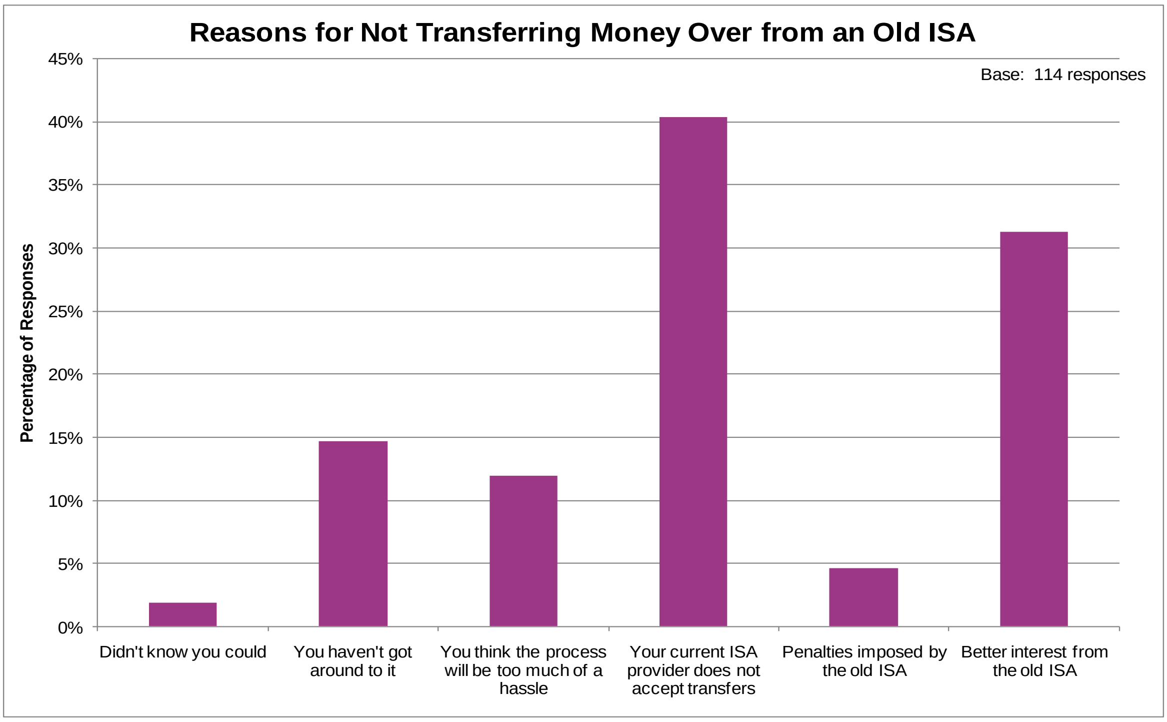
How to take part

Please help by completing this **short survey**[18] to let it know your experiences, good or bad.

Some of the keys results are shown in the graphs overleaf

[18] This linked to our survey


Type of Cash ISA Held
Base: 392 responses
Percentage of Responses
50%
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
Instant access cash ISA, no penalties with the standard rate of interest
Instant access cash ISA with initial bonus rate of interest
Cash ISA with fixed rate of interest for multiple years
Don't know


Reasons for Not Transferring Money Over from an Old ISA
Base: 114 responses
Percentage of Responses
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
Didn't know you could
You haven't got around to it
You think the process will be too much of a hassle
Your current ISA provider does not accept transfers
Penalties imposed by the old ISA
Better interest from the old ISA

Consumer Focus super-complaint:

Cash ISA accounts

If you have any questions or would like further information
about our super-complaint, please contact Prashant Vaze, Chief Economist
by telephone on 020 7799 7919 or
via email prashant.vaze@consumerfocus.org.uk

www.consumerfocus.org.uk

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If you require this publication in Braille, large print or on audio CD please contact us.

Deaf, hard of hearing or speech impaired consumers
can contact Consumer Focus via Text Relay:

From a textphone, call 18001 020 7799 7900

From a telephone, call 18002 020 7799 7900

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