

FairLife Cash ISA Mark

Executive summary

Cash ISAs are generally well run by the financial services industry. Complaints are currently low and have been since the inception of the product. The FairLife charity is launching a Cash ISA Mark to further improve these products and to further reduce complaints. The mark is part of a fair trading initiative spanning all areas of finance, which includes products & services, commitments made by companies and financial education (see appendix 1).

The FairLife Cash ISA Mark is focused on eliminating ‘zombie’ accounts. Secondary effects of the mark may include product simplification and a reduction in the number of accounts offered. These features are all mentioned in the FCA’s cash Savings market Study as outcomes that promote consumer satisfaction.

Criteria for the FairLife Cash ISA Mark

1. The first criterion is a minimum interest rate when the cash ISA is beyond any offer period (relative to the interest rate on the licensee’s open products):
 - A FairLife Cash ISA not in an offer period must have interest rate terms of at least half the best terms offered by the licensee on any comparable, open, instant access, cash ISA products.

Where a firm has no open products, or where these accounts have material features (such as a requirement for regular investment) the licensee may choose a reasonable interest rate for its post-offer product. The rate chosen should be in keeping with the spirit of the fair trading initiative.
2. The second criterion is that customers’ money is protected:
 - A FairLife Cash ISA must be backed by the deposit class of the Financial Services Compensation Scheme (FSCS).
3. The third criterion is display of the FairLife Mark.
 - The third criterion requires that the licensee places the FairLife Cash ISA Mark on all contracts for qualifying products which will be sold as FairLife Cash ISAs.

The licensee also agrees to send details of relevant published interest rates given to customers in the previous twelve months if requested to do so by FairLife Ltd.

The mark is awarded based on the provider’s own declarations and is retained by the submission of a yearly continuing compliance statement. The marks are public facing and FairLife Ltd will investigate if significant evidence emerges that a licence agreement is being breached.

Criteria detail and examples

The first criterion is a minimum interest rate, relative to the licensee's other products.

Criterion one is the primary criterion for preventing zombie accounts. It limits the minimum interest rate a provider can pay on a cash ISA relative to its own comparable products. A comparable product for a post-offer cash ISA would normally be an instant access cash ISA.

The restrictions are worded to prevent firms totally collapsing the rates on legacy FairLife Cash ISA products whilst using high rates to attract fresh capital into new cash ISA products. The restrictions do not prevent providers from attracting new capital with higher rates. Providers may offer new, comparable products with interest rates up to 100% greater than those paid to their legacy customers.

Where a firm has no open, instant access, cash ISA products, or where these accounts have features which impact materially on the rate offered, the licensee may choose a reasonable interest rate for its post-offer products. The rate chosen should be in keeping with the spirit of the fair trading initiative. Where possible the rate offered should be linked to a savings product that is open for investment.

Notes:

An allowance of one month is made for licensees to react to changes such as interest rate movements. Where interest rates breach criterion one for more than a month FairLife Ltd must be informed.

FairLife Marks are designed to be adopted by peer groups of leading firms. Where external factors cause these peer groups to approach FairLife's thresholds, the thresholds may be altered to suit the prevailing market conditions.

The second criterion is that customers' money is protected.

The vast majority of cash ISAs are protected by the deposit class of the Financial Services Compensation Scheme but products are available which do not offer their customers this cover.

The third criterion is display of the FairLife Mark.

A key benefit of the FairLife charity is the brand awareness that will be achieved by having a consistent mark spanning all areas of finance. It will give comfort to people ranging from vulnerable clients in debt to the elderly sorting out their pensions.



The FairLife Foundation



Only contracts displaying the FairLife Mark are part of the FairLife initiative¹. In this way FairLife offers a route by which customers can see very clearly whether they have a FairLife product and providers can evolve their cash ISA product range to become more consumer-centric.

FairLife Cash ISA Mark (background)

Cash ISAs are generally well run by the financial services industry. Complaints are currently low and have been since the inception of the product. FairLife are launching a Cash ISA Mark to further improve these products and to further reduce complaints.

The biggest criticism of cash ISAs is that interest rates can drop to very low levels; the so called ‘zombie accounts’. Where low rates reflect an economic reality this is acceptable. The practice disliked by customers is where a financial institution appears to profit deliberately from their situation.

Money left in zombie accounts may indicate that customers are busy, unwell, vulnerable or not financially aware. Zombie accounts have the effect of transferring wealth from these groups to those able to work the system.

The FairLife Cash ISA Mark is focused on eliminating zombie accounts. Secondary effects of the mark may include product simplification and a reduction in the number of accounts offered. These features are all mentioned in an FCA report² as outcomes that promote consumer satisfaction³.

As discussed in the FCA’s cash Savings market Study it is not considered desirable to collar interest rates too tightly. Providers must have flexibility to be innovative and customers must be rewarded if they study the market and switch their money actively. The FairLife Cash ISA Mark will ensure that customers are not penalised unreasonably if they leave their money invested long term.

¹ If a licensee with multiple cash ISA products puts a FairLife Mark on two of them, that firm will be deemed to have two FairLife cash ISA products.

² The FCA published its cash Savings market Study Report in January 2015. The report recommends dealing with collapsing interest rates by making interest information more readily available (sections 9.87 – 9.103). The benefit of simplifying product ranges is included in sections 9.104 – 9.111. The report states that the FCA would like to see changes made here but that they are not actively pursuing remedies themselves at this stage.

³ Action by the Dutch regulator which banned introductory bonus rates and reduced the number of accounts a provider could offer was deemed to have “increased consumer satisfaction scores”, although no detailed ex-post impact assessment has yet been undertaken.

Construct of the mark

The criteria of the Cash ISA Mark are designed not to impact on the ease of managing the underlying business. A key feature of ISAs is that they are often not managed on a standalone basis. The rates offered reflect a diverse range of variables which span from company-specific issues to national and international effects. Criteria rejected for this reason include:

- preventing deals that are just for new customers or just on new money
 - Companies, particularly smaller companies, managing their businesses in a dynamic and fast-moving market may require the flexibility to react quickly and in a targeted manner. Impeding these mechanisms could have a detrimental effect on the consumer in the long term.

It is also not reasonable to define interest rate constraints which apply in all market conditions; especially as scenarios may occur which have not been witnessed previously. Providers will be able to react rapidly and without constraint to anomalous market events.

It is expected that the first holders of the FairLife Cash ISA Mark will be financial institutions with the highest moral standards. These institutions are expected to follow the spirit as well as the word of the mark.

As the charity grows and the FairLife Mark starts to influence consumer behaviour it is conceivable that some firms may seek to offer consistently the minimum interest rates possible. This could be particularly damaging where firms offer no comparable products. If material evidence of this practice emerges, FairLife Ltd may act to protect those following the spirit of the mark.

Our Key message

Cash ISAs are good and fair products.

Active management of a cash ISA should be expected to produce a higher compounding return with customers being rewarded for their skills. If customers want a cash ISA where there is less necessity to monitor the best-buy tables they should look for the FairLife Cash ISA mark.

As more vulnerable clients move into FairLife Cash ISAs, this will leave only savvy investors monitoring the best-buy tables. Less income from the zombie accounts will then lead to lower teaser rates. In this way FairLife Cash ISAs are expected to cause a narrowing of the interest rate range on non-FairLife cash ISAs.



The FairLife Foundation

Licence fees

Number of paid employees in the UK	Minimum Annual Licence fee
Up to 10	£1
Up to 50	£50
Up to 100	£100
Up to 300	£200
Up to 500	£300
Over 500	£400

The mark is free to charities, not-for-profit organisations and similar groups (the £1 fee is 'considered paid'). Annual licence fees to commercial entities are designed to be a token amount sufficient to cover the running costs of the charity. It is hoped that these firms will also make charity donations to the FairLife Foundation as circumstances allow.

Licence fees will be invoiced by FairLife Limited following the award or renewal of a FairLife Mark. All charity donations will be gratefully received and acknowledged by the FairLife Foundation Limited.

Displaying the mark and the FairLife Advert

The mark can be displayed on any relevant literature and should be placed on all contacts. Placing the mark is only restricted if the company offers similar products not covered by the mark. In this situation, care is required to avoid confusion.

Companies who wish to help establish FairLife as a fair trading mark for the finance industry are encouraged to display the FairLife Advert (shown in the top left hand corner of this document) where employees, customers and members of the public can view it.

Obtaining the mark

The licence can be downloaded and printed from the FairLife Foundation website at www.fairlife.org.uk

Contact details

Contact details for FairLife Limited and the FairLife Foundation Limited:

Telephone: 020 366 40377
Address: Unit 40A, The Grove, Hatfield, AL9 7RN
Email Addresses: admin@fairlife.org.uk



The FairLife Foundation



Appendix 1

The FairLife Foundation (background)

The FairLife Charity is a fair trading initiative designed to benefit everyone in the UK by improving everyday financial products and educating the public.

The charity is applying the principle of fair trading to the banks and finance institutions of the British economy; awarding its trademark logo, the FairLife Mark, to products and services that meet defined criteria. The FairLife Mark is a mark of integrity. Providers self certify and agree to follow the spirit as well as the letter of the rules.

The mark will span all areas of finance, eventually forming an umbrella of trust known as the FairLife Family, and will ultimately help to highlight minimum standards of sound practice. The Mark will act as a beacon, helping to guide consumers, whilst allowing competition and customer choice to flourish.

Together with raising standards, the FairLife Charity is encouraging companies, including those outside financial services, to make commitments in areas such as pension funding, adult education and the treatment of vulnerable customers. The criteria of these different marks can be interlinked to deliver outcomes for the public that are otherwise hard to achieve.

There are three types of FairLife Mark:

- Product and Service Marks highlight where companies have signed up to help establish fair trading in finance at the product level.
- Commitment Marks highlight where companies have made an organisational-level commitment to improve peoples' lives financially.
- Guidance & Education Marks are awarded in recognition of educating or directing the public in the responsible management of their financial affairs.

FairLife's Product and Service marks

The FairLife Mark is about putting the customer first and rebuilding the good reputation of the country's finance industry. The mark highlights firms willing to accept The FairLife Foundation as a body that will ultimately help to define minimum standards of sound practise for the finance industry. The Foundation is being gifted to the nation with a remit to represent the best interests of the public and to help grow a strong and profitable finance industry.

The criteria may be strengthened over time thereby increasing the scope and effectiveness of the mark. Firms adopting these early marks are demonstrating, in a highly visible manner, their commitment to putting the wellbeing of the public at the heart of their business.

More information is available on the charity's website at www.fairlife.org.uk