TheCityUK

TheCityUK response to HMT UK ISA consultation

About TheCityUK

TheCityUK is the industry-led body representing UK-based financial and related professional services. We champion and support the success of the ecosystem, and thereby our members, promoting policies in the UK and internationally that drive competitiveness, support job creation and enable long-term economic growth. The industry contributes 12% of the UK's total economic output and employs over 2.4 million people – with two thirds of these jobs outside London across the country's regions and nations. It pays more corporation tax than any other sector and is the largest net exporting industry. The industry plays an important role in enabling the transition to net zero and driving economic growth across the wider economy through its provision of capital, investment, professional advice and insurance. It also makes a real difference to people in their daily lives, helping them save for the future, buy a home, invest in a business and manage risk.

TheCityUK's Capital Markets Group brings together a broad range of experts from across the capital markets and listing ecosystem and interested parties, with senior practitioners from the buy side, sell side, intermediaries, and industry bodies. The group brings together these voices to reflect the cross-industry nature of the financial and related professional services industry's role in this ecosystem.

High-Level Comments

TheCityUK is grateful for the opportunity to respond to HMT's consultation on a UK ISA. We are doing so at a high-level, rather than responding to each of the individual questions on the technical details.

Capital markets should serve the nation by putting the UK's savings and pension capital to work funding investment and growth in UK companies. This creates a virtuous circle – delivering returns to savers and helping UK companies to grow, employ, innovate, adapt and compete internationally.

However, capital markets have not been fulfilling their full potential. We welcome the range of government initiatives announced to address this through the Edinburgh and Mansion House reforms. However, more action is urgently needed to ensure UK capital markets perform to their full potential in supporting the UK economy UK savers and the UK population as a whole. The right solution needs to balance enhancing liquidity in UK capital markets with supporting strong outcomes for individuals and wider society.

Much of the policy focus around capital markets has understandably been on pension funds and institutional investors. But individuals can also play a significant role in this agenda if supported effectively to do so. Just 11.2% of UK households' financial assets are held as shares and other equity versus 19.1% in Australia, 23.6% in France, 28.5% in Spain, and 39% in the United States[1].

We therefore welcome government proposals aimed at incentivising greater flow of UK savings into UK public markets which, for clarity, includes both listed and quoted companies. A UK ISA has potential to contribute to this objective.

However, we encourage government to take a more holistic, considered and strategic approach – and to work with the financial services industry - to explore how to make investment in UK capital markets more attractive to UK individual savers/ investors, and more effective in delivering good investment outcomes.

We recommend a comprehensive, strategic review of the UK policy framework, regulatory environment and tax regime impacting saving and investing behaviours and outcomes in the UK. Much higher levels of individual investment are needed to meet the retirement income, care and health needs of our ageing society. Much greater individual investment in the UK economy is needed to deliver the growth, jobs, productivity and resilience the UK needs.

In its first 100 days, the next government should:

- Develop a strategic plan to drive investment and economic growth to ensure that the UK has the level of long-term savings and investments (whether in private pensions and savings or state funds) necessary to meet pensions, care, health and other societal needs;
- Work with our industry to incentivise greater UK investment in UK companies, to bolster the economy, boost liquidity and deliver better returns to UK savers.

Medium to long-term, the government should focus on:

- Building an investment and growth culture – ensuring policy and regulation is designed and implemented with careful consideration of risk and growth return trade-offs;
- Revitalising UK capital markets to better serve UK savers and companies – making UK equity investment more attractive, supporting better outcomes for individual savers, helping people better prepare for retirement, and supporting more UK businesses to list and grow in the UK.

As part of this, we recommend a comprehensive review of the ISA regime, to consider the public policy goals it is striving to achieve, and how the regime can best be focused and streamlined to make ISAs more accessible, understandable and attractive to more individuals across the UK. As part of this review, government should simplify the overall ISA regime.

We would also like to see further practical steps to facilitate and encourage individuals to invest in UK capital markets:

[1] OECD 2023 Household accounts - Household financial assets - OECD Data

- Ensure individual savers / investors have access to cost effective financial advice and guidance, taking account of increasing demand for digital interaction and the availability of open financial data and user-friendly technology to assist them.
- Address structural impediments that currently make it difficult for individuals to participate in public equity offers - for example, by reducing the public offer period, which currently disincentivises issuers from including retail offers; and delivering dematerialisation of stock ownership via digitisation.
- Stimulate some 'next stage' thinking – for example around the 'fractionalisation' of securities generally, as well as making it easier for UK retail investors to participate in corporate debt issues more easily.
- Address the remaining regulatory barriers to retail investor access to the debt capital markets, such as those arising from the current Prospectus and the Packaged retail and insurance-based investment products (PRIIPs) regime.

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