PRESS RELEASE

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UK's cash ISA addiction has cost savers £127bn over the past two decades

- Cash ISA savers have missed out on £127 billion since 1999 because of reluctance to invest in the stock market

- Cash ISAs remain far more popular than stocks and shares ISAs, despite poor returns

- More than eight in ten savers say they do not currently hold a stocks and shares ISA

The UK's addiction to cash ISAs has cost savers £127 billion over the past two decades, according to new research from Scottish Friendly in conjunction with the Centre for Economics and Business Research.

The Disposable Investment and Income analysis of HM Revenue & Customs data for Scottish Friendly reveals savers have received £75 billion in interest since the tax-free cash accounts were first introduced in 1999.

However, these same savers could have achieved £202 billion in returns if they had instead opted to invest in the stock market - £127 billion more.

The rates on cash ISAs have plummeted[1] since the financial crisis ten years ago, while, even accounting for recent falls, the stock market has performed[2] strongly in that time.

The findings[3] reveal that a saver who utilised their full cash ISA allowance since 1999 to 1 October 2018 would have accrued an average of £20,628 in tax-free interest – less than a third of the £70,987 they would have achieved in returns from a stocks and shares equivalent.

But despite being able to achieve significantly higher returns in the stock market, UK savers are seemingly unwilling to ditch their cash ISA.

As part of the report, Scottish Friendly conducted a survey[4] of 2,000 people, which showed that 40% of people save into a cash ISA with more than half doing so on monthly basis.

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[1] Bank of England, Office for National Statistics, Cebr analysis.
[2] FTSE All Share Index. October 2008 to October 2018
[3] Bank of England, Office for National Statistics, Financial Times Stock Exchange, Cebr analysis
4. Source: Research conducted among a nationally-representative survey of 2,000 UK adults between 26 September and 5 October by 3Gem.

By comparison, less than a fifth (18%) pay into a stocks and shares ISA and only one in ten (11%) do so on monthly basis, highlighting the reluctance of many UK savers to speculate on the stock market.

The findings show that by far the most popular method of saving is a current account (57%), followed by a bank or building society savings account (49%).

Nearly a quarter (23%) of respondents say the reason they do not invest in the stock market is because they do not fully understand how to.

More than a fifth (22%) of people are afraid of losing money if they invest while 15% of respondents say they prefer the perceived security that a cash ISA or deposit account offers.

Calum Bennie, savings specialist at Scottish Friendly, said: "Thousands of people across the country are probably thinking they are doing the sensible thing by saving into a cash savings account for their future. But many of them will not know that the value of their cash is being eroded in real terms due to the toxic combination of pitiful savings rates and rising inflation.

"So the message to savers is clear: keep an adequate amount of money in an easy access cash account in case of emergencies, of course, but if you're saving for your future then investing can offer potential for greater returns. The issue is many people are either afraid to make that first step into investing or have no idea how to invest. As an industry, it is our job to make their lives easier. If we don't, then we are failing to provide people with the right knowledge and tools to secure their financial futures."

Bennie added: "At Scottish Friendly, we have tried to make it easier for those investing for the first time by allowing them to invest from as little as £10 a month and offering a small selection of funds for people to choose from. But clearly there is a lot more our industry can do to wake more people up to the benefits of investing."

The value of shares can fall as well as rise and investors may not get back the value of their original investment. Savings in a cash ISA or deposit account with a bank or building society are generally secure and accessible.

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Methodology

In calculating savings returns for each case study, Cebr has used data running from 1st April 1999 to October 1st 2018. Data on average annual interest rates on cash ISAs are published by the Bank of England. Data on total returns from the FTSE All-Share Index are published by the Financial Times Stock Exchange.

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Editors notes:
About the research

About Scottish Friendly
Scottish Friendly is a leading UK mutual life and investments organisation. It provides investors and their families with a wide range of investment and protection solutions and provides life and investment products and services to other financial organisations.

Scottish Friendly has roots stretching back to 1862. Established as the City of Glasgow Friendly Society, its name changed in October 1992 when it took over Scottish Friendly Assurance.

In recent years Scottish Friendly has significantly restructured its business. The Group has flourished through a three-part growth strategy of organic growth, mergers and acquisitions, and business process outsourcing.

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