Saving Products for Children - UK - December 2011

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"The closure of Child Trust Funds is likely to disrupt the children's savings and investing market, particularly in the short term. However, Junior ISAs have the potential to invigorate the market and are likely to become one of the most popular products in the future. In order for this to happen, the government needs to launch a public campaign promoting the new product in order to increase consumer awareness and product ownership."

– Stevan Obradovic, Financial Services Analyst

In this report we answer the key questions:

- **What impact will the closure of Child Trust Funds have on the market?**
- **Can the newly launched Junior ISAs invigorate the children's savings and investing sector?**
- **How can product providers use technology to increase engagement with parents and children?**
- **Are high levels of inflation and low interest rates discouraging parents from saving for their children?**

Despite low interest rates and a stuttering economy, the majority of parents still save on behalf of their children, hoping to provide some financial security for now and for the future. The launch of the Junior ISA in November 2011 is one of the major developments in the children's savings and investing market and could help to invigorate the sector. High ownership of cash-based ISAs among adults could help to drive uptake because parents will be more confident to open a product they are familiar with and potentially save in themselves. There is scope for future growth in the children's savings and investing market, especially considering that child birth rates have been mainly increasing since 2005, helping to increase the number of potential customers.

Nevertheless, there are several challenges facing the children's savings and investing market. The closure of Child Trust Funds to new participants will disrupt the market, particularly in the short term. It is expected that without the initial 'nudge' of a government contribution or auto-investment, there will be a decline in the number of parent savers at the lower end of the market. In addition, current economic conditions have discouraged a number of parents from saving on behalf of children. Indeed, low interest rates and high inflation have eroded returns on many savings products causing parents to focus on other issues. Instead of saving, a number of consumers have focused on cutting down debt and over-paying their mortgage in order to reduce household debt during times of economic turbulence.

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