

ISAs: Inc Impact of COVID-19 - UK - November 2020

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“Unprecedented savings activity and the anticipation of tax rises offer opportunities for ISAs to regain some of their lost appeal. The ISA savings habit has proved to be enduring among existing holders, which highlights the importance of attracting young people to the product early on.”

– Irene Salazar, Senior Financial Services Analyst

This report looks at the following areas:

- The impact of COVID-19 on the ISA market in the UK.
- Recent and expected savings activity, including likely ISA actions and behaviours.
- Reasons for not owning an ISA, interest in different types and likelihood to open one.
- Perceptions of different types of providers.
- Opportunities and threats arising from COVID-19.

In Q2 2020, the household savings ratio skyrocketed to an all-time high of 29.1% of disposable incomes. This compares to an average of just 7.2% for the previous five years.

Despite the unprecedented threat to jobs and the economy, the vast majority of people have seen their outgoings reduce dramatically since the crisis began as opportunities to spend have been severely restricted. However, the impact of the outbreak on savings is being felt very differently across demographic groups. Those who are already in a relatively healthy financial position are more likely to say they are adding to their savings.

'Accidental savers', with reduced expenditure due to lockdowns and ongoing restrictions, have not necessarily put saved money into savings accounts or specific individual savings account (ISA) products. A lot of this money has remained parked within easy reach in current accounts. Looking forward, ultra-low interest rates will continue to hinder the appeal of dedicated savings accounts, while the tax-related benefits of ISAs have been negated for the vast majority of savers since the introduction of the Personal Savings Allowance in 2016.

However, the 'ISA habit' has endured among existing holders, which hints at the importance of attracting new and young savers to the product. The looming prospect of major tax or even pensions reforms to stabilise public finances can provide a renewed focus on the tax efficiency of ISAs. Similarly, the Lifetime ISA (LISA), despite a difficult start, has the potential to become a popular product during the recovery phase as the government strives to support first-time buyers and people saving for retirement.

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This report is part of a series of reports, produced to provide you with a more holistic view of this market

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Table of Contents

Overview

Key issues covered in this Report

COVID-19: Market context

Economic and other assumptions

Products covered in this Report

Executive Summary

Impact of COVID-19 on ISAs

Figure 1: Short-, medium- and long-term impact of COVID-19 on ISAs, November 2020

The market

Volume and value of ISAs increased in 2018-19

Cash ISAs to receive a boost during pandemic

Figure 2: Forecast of total cash ISA subscriptions, 2014/15-2024/25

Stocks and shares to return to growth as volatility subsides

Figure 3: Forecast of total stocks and shares ISA subscriptions, 2014/15-2024/25

Interest rates sink to record lows...

Figure 4: Average monthly quoted cash ISA variable and fixed rate, September 2012-September 2020

...but lockdown and uncertainty leads to unprecedented savings activity

Figure 5: UK household savings ratio at current prices, Q1 2000-Q2 2020

Government intervention is anticipated during the recovery

Companies and brands

Providers look beyond rates to attract customers

Advertising to adapt to the recovery phase

Figure 6: Total above-the-line, online display and direct mail advertising expenditure on ISAs, by media type, 2015/16 to 2019/20

Traditional providers continue to dominate the market

Figure 7: Cash ISA provider used, March 2020

The consumer

Specialist ISAs show potential, but remain niche

Figure 8: Savings and investment product ownership, September 2020

People without ISAs feel they are not worth it for their circumstances

Figure 9: Reasons for not owning an ISA, September 2020

Half of savers without ISAs are unlikely to open one...

Figure 10: Likelihood of opening an ISA, September 2020

...with cash ISAs remaining the most appealing type

Figure 11: Interest in different types of ISA, September 2020

Existing holders show the endurance of the ISA habit

Figure 12: Total value of contributions into any ISA product during the 2018/19 and 2019/20 tax years, and expected value of contributions during the 2020/21 tax year, August 2019 and September 2020

Majority of ISA savers are unlikely to take defensive actions

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Report Price: £1995.00 | \$2693.85 | €2245.17

The above prices are correct at the time of publication, but are subject to change due to currency fluctuations.

Figure 13: ISA actions and behaviours, September 2020

Convenience is more important than ever

Figure 14: Perceptions of ISA providers, correspondence analysis, September 2020

Issues and Insights

COVID-19 forces accidental savings and shakes up the ISA market

Low interest rates could boost product development and innovation

A renewed focus on LISAs is likely during the recovery phase

The Market – Key Takeaways

Volume and value of ISAs increased in 2018-19

Cash ISAs to receive a boost during pandemic

Lockdown and uncertainty lead to unprecedented savings activity

Government intervention is expected during the recovery

Market Size and Forecast

Impact of COVID-19 on the ISA market

Figure 15: Short-, medium- and long-term impact of COVID-19 on ISAs, November 2020

Volume and value of ISAs increased in 2018-19

Figure 16: Number of ISAs and amounts subscribed, 2008/09-2018/19

Cash ISAs to receive a boost during pandemic

Figure 17: Forecast of total cash ISA subscriptions, 2014/15-2024/25

Figure 18: Forecast of total cash ISA subscriptions, 2014/15-2024/25

Stocks and shares to return to growth as volatility subsides

Figure 19: Forecast of total stocks and shares ISA subscriptions, 2014/15-2024/25

Figure 20: Forecast of total stocks and shares ISA subscriptions, 2014/15-2024/25

Market drivers and assumptions

Figure 21: Key drivers affecting Mintel's ISA markets forecast (prepared on 25 November 2020), 2015-25

Learnings from the last recession

Figure 22: Value of ISA subscriptions, by component, 2006/07-2010/11

Forecast methodology

Market Segmentation

2018-19 growth led by cash ISAs...

...while stocks and shares sector contracts

Figure 23: Volume and value of cash and stocks and shares ISA subscriptions, 2008/09-2018/19

Average subscription values fall slightly

Figure 24: Average subscription per account, by component type, 2008/09-2018/19

LISAs reach 223,000 accounts

Volume of IFISAs takes a hit as concerns are raised on associated risk

Figure 25: Volume and value of IFISA and LISA subscriptions, 2016/17-2018/19

OEICs account for 44% of stocks and shares investment

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Report Price: £1995.00 | \$2693.85 | €2245.17

The above prices are correct at the time of publication, but are subject to change due to currency fluctuations.

Figure 26: Value of funds held in adult ISAs, by type of investment, 2016/17-2018/19

Over 323,000 properties bought under now-closed Help to Buy ISA

Figure 27: Help to Buy ISA scheme: key stats, December 2015-March 2020

Market Drivers

Interest rates sink to record lows...

Figure 28: Average monthly quoted cash ISA variable and fixed rate, September 2012-September 2020

...but lockdown and uncertainty lead to unprecedented savings activity

Figure 29: UK households' savings ratio at current prices, Q1 2000-Q2 2020

COVID-19 deals a heavy blow to the economy...

Figure 30: GDP growth, annual change (November 2020 central forecast), 2015-25

...with unemployment expected to peak in 2021

Figure 31: Unemployment rate (November 2020 central forecast), 2015-25

Regulatory and Legislative Changes

COVID-19 relaxes access to LISAs

FCA cancels regulatory reviews in light of the pandemic

Plans for Single Easy Access Rate for cash savings are scrapped

Platform exit fees consultation halted

Government intervention is expected during the recovery

Companies and Brands – Key Takeaways

Providers look beyond rates to attract customers

Advertising to adapt to the recovery phase

Traditional providers continue to dominate the market

Market Share

'Big Six' dominate cash ISA market

Figure 32: Cash ISA provider used, March 2020

Fidelity remains the largest stocks and shares ISA provider among IA members

Figure 33: Top 10 investment ISA providers, by ISA funds under management, May 2019 and May 2020

Competitive Strategies and Innovation

New products help savers make a positive impact with their money

Nationwide introduces prizes to attract new savers

Virgin Money rewards loyalty

Newcastle Building Society launches LISA mortgages

Advertising and Marketing Activity

Adspend falls by 29%

Figure 34: Total above-the-line, online display and direct mail advertising expenditure on ISAs, 2015/16-2019/20

Stocks and shares account for 67% of adspend

Figure 35: Total above-the-line, online display and direct mail advertising expenditure on ISAs, by product, 2015/16-2019/20

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Report Price: £1995.00 | \$2693.85 | €2245.17

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TV takes over as leading channel for ISA adspend

Figure 36: Total above-the-line, online display and direct mail advertising expenditure on ISAs, by media type, 2015/16 to 2019/20

Nationwide is by a wide margin the biggest spender on cash ISAs

Figure 37: Top 10 recorded above-the-line, online display and direct mail advertisers of cash ISAs, 2019/20

Fidelity is the largest advertiser of stocks and shares ISAs

Figure 38: Top 10 recorded above-the-line, online display and direct mail advertisers of stocks and shares ISAs, 2019/20

Advertising and marketing in the recovery phase

Nielsen Ad Intel coverage

The Consumer – Key Takeaways

Consumer confidence to mirror social-distancing restrictions

ISAs other than cash and stocks and shares remain niche

Non product holders struggle to see the relevance of ISAs...

...but existing holders show the endurance of the ISA habit

Convenience is more important than ever

Impact of COVID-19 on Consumer Behaviour

Confidence loses ground as new lockdown became inevitable

Figure 39: The Financial Confidence Index, October 2015-October 2020

Households are relatively positive about their current financial situation...

Figure 40: The Financial Wellbeing Index, October 2015-October 2020

...but many feel they have deteriorated over the last year

Figure 41: Changes in household finances, October 2015-October 2020

Savings Product Ownership

68% of UK savers have an ISA product

Figure 42: Savings and investment product ownership, September 2020

23% of savers have a stocks and shares ISA

Other ISAs show potential, but remain niche

Reasons for Not Owning an ISA

A lack of funds is the main reason for not owning an ISA...

...with low interest rates making it not worth the hassle

Figure 43: Reasons for not owning an ISA, September 2020

ISAs can be confusing for young people

Figure 44: Reasons for not owning an ISA, September 2020

Addressing individual concerns can make ISAs more attractive

Figure 45: Repertoire of reasons for not owning an ISA, September 2020

Likelihood of Opening an ISA

Half of savers without ISAs are unlikely to open one

Figure 46: Likelihood of opening an ISA, September 2020

Young people more open to ISAs...

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Figure 47: Likelihood of opening an ISA, by age, September 2020

...with cash ISAs remaining the most appealing type

Figure 48: Interest in different types of ISA, September 2020

Recent ISA Savings Activity

Over 70% contributed to their ISAs in 2019-20

Figure 49: Total value of contributions into any ISA product during the 2019/20 tax year, September 2020

Young men in employment are most likely to have contributed

Figure 50: Total value of contributions into any ISA product during the 2018-19 tax year, by age, September 2020

Individual ISA savings activity remained fairly constant pre-COVID-19

Figure 51: Total value of contributions into any ISA product during the 2018/19 and 2019/20 tax years, August 2019 and September 2020

Expected ISA Savings Activity

Savers expect to continue contributing to their ISAs in 2020-21...

Figure 52: Total value of contributions into any ISA product during the 2018/19 and 2019/20 tax years, and expected value of contributions during the 2020/21 tax year, August 2019 and September 2020

...with individual contributions expected to remain fairly similar

Figure 53: Expected value of contributions into any ISA product in 2020/21, by reported value of contributions in 2019/20, September 2020

ISA Actions and Behaviours

A third of holders are likely to grow their ISA savings

Importance of reaching LISA targets early on

Figure 54: ISA actions and behaviours, September 2020

Majority of ISA savers are unlikely to take defensive actions...

...but people will still shop around and compare rates

Perceptions of ISA Providers

High-street providers are seen as convenient

Figure 55: Perceptions of ISA providers, correspondence analysis, September 2020

Specialists are perceived as expert and rewarding

Digital-only banks continue to face perception challenges

Figure 56: Perceptions of ISA providers, September 2020

Appendix – Data Sources, Abbreviations and Supporting Information

Abbreviations

Consumer research methodology

CHAID analysis methodology

Figure 57: CHAID, table output, September 2020

Correspondence analysis methodology

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