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Investor / Saver

Investment platforms rapped over low interest offered on cash holdings.

Investment platforms have been warned they need to demonstrate they are offering 'fair value' to customers with money in cash, following concerns that investors are being fobbed off with unacceptably low interest rates. The Financial Times recently revealed a number of platforms paying less than 2% to those with a cash balance on their investment account. The Financial Conduct Authority (FCA) has now written to the bosses of investment platforms, emphasising the need to prove that their customers are benefiting from 'good outcomes' – including the interest paid on cash balances – following the introduction of Consumer Duty rules over the summer. So what does this mean for DIY investors? And what should you do if you believe your platform is underpaying. In a letter to the chief executives of investment platforms, which has also been published on the FCA website, the regulator emphasises some of the 'key harms' around platforms which have been identified and what it expects platforms to do about them. It also pinpoints 'emerging risks of harm', with the interest paid on cash balances chief among them. The FCA argued that where interest payments are accrued, these need to be considered as part of the 'fair value' assessments firms must undertake as a result of the Consumer Duty regulations. It adds: "Our expectation is that firms deliver fair value to customers and support consumer understanding in line with the requirements of the Consumer Duty." In July the regulator wrote to investment platforms to quiz them on the sorts of interest rates being paid on customer cash, emphasising its desire to see people benefit from "better value across all of their financial products". The concern is that investors are unwittingly suffering from holding money in cash with investment platforms, compared with other accounts. In the letter, the regulator makes clear that it will not hesitate to take action against platforms if it believes that customers are not receiving fair value. Research carried out in October made clear just how poor the rates of interest being paid on cash by investment platforms really is, with some paying less than 2%. AJ Bell pays 1.95%. One of the largest platforms, Hargreaves Lansdown pays just 2.75% for holdings of less than £10,000. While rates vary significantly between providers, some admitted to paying paltry returns – in one case, no interest is paid at all. Even the most generous rate from BestInvest at 4.35% lags behind the base rate itself. Given this, investment platforms are now under pressure to justify those mediocre interest rates. If investors could enjoy better returns from mainstream easy access accounts, it becomes more challenging for platforms to explain why these customers should accept tiny rates while their money is held with the platform in cash.

All

Death of the purse as shoppers ditch cash for card and phone payments.

A shift away from cash payments and traditional wallets has led to the decline of purses as shoppers increasingly rely on card payments and mobile phones for their everyday purchases. According to recent data, only 14% of payments in the UK were made using cash in 2022. This shift has been driven by several factors, including the closure of bank branches and ATMs, the convenience of card and mobile payments, and concerns about virus transmission on coins and notes during the Covid-19 pandemic. Shoppers are now opting for sticky card holders that attach to the back of phone cases, which offer a practical solution for carrying cards without the need for a traditional wallet or purse. Many consumers have found it easier and more convenient to use their mobile phones for payments, as it eliminates the need to carry a bag or risk losing a card. This change in consumer behaviour has prompted retailers to adapt their product offerings, with an increasing demand for practical bags with features such as zip compartments and card slits. Luxury purse maker Radley London has seen a shift in customer preferences towards more practical styles and shapes. The brand has incorporated card slits into some of their smaller handbags and has seen increasing popularity in styles such as their 'phone' crossbody, small zip around card holder, and trifold wallets. Similarly, high-end department store Liberty has noticed a decrease in demand for zipped wallets, with customers opting for smaller bags or card holders that can fit all their essentials for a night out. While the decline of purses and traditional wallets is evident, it's important to note that older and vulnerable consumers are still more likely to rely on cash payments. In response to this, the UK government has committed to improving cash access measures to ensure that every individual is within an hour's walk of an ATM, post office, or bank branch. Overall, the shift towards card payments and mobile phone payments has had a significant impact on the way people carry and use their money. Purses are becoming a thing of the past as consumers embrace the convenience and practicality of alternative payment methods.

All

Hunt looks to extend help for first-time homebuyers.

Jeremy Hunt is considering a support package to help first-time buyers onto the property ladder ahead of the Budget. The chancellor and Treasury officials are said to be discussing measures including extending the government’s mortgage guarantee scheme and creating a new type of individual savings account (Isa) targeted at people looking to build up a deposit to buy their first home. A Treasury source told The Financial Times that discussions are ongoing and any package would depend on the state of the country’s finances ahead of the fiscal statement. But, downplaying the likelihood of a major shake-up, the source stressed the “fiscal picture does not look good at the moment”. It came as Mr Hunt was forced to deny rumours he plans to quit as an MP at the next general election, for fear of losing his seat on polling day. The Observer reported that the chancellor feared he could suffer a “Michael Portillo” moment, in which cabinet minister Michael Portillo lost his seat to Labour candidate Stephen Twigg in 1997. A spokesman for Mr Hunt said: “Jeremy Hunt will stand as the Conservative Party candidate for Godalming and Ash at the next general election.” Mr Hunt’s support package for first-time buyers comes following growing concern about the affordability of homes, with interest rates expected to remain high throughout 2024. The chancellor is expected to unveil a 12-month extension to the mortgage guarantee, in which the government underwrites some of the risk for lenders taking on buyers to help more borrowers gain approval, The Times Financial Times reported. The Treasury is also considering a new type of Isa which would encourage people to save for a deposit for their first home. Sources told the newspaper that Mr Hunt has ruled out a revival of the Help to Buy scheme, which gave buyers a loan of up to a fifth of the value of a house, on the grounds it could fuel inflation. The plans come as the Conservatives and Labour increasingly battle over the housing crisis facing Britain, with Sir Keir Starmer promising to build 300,000 homes a year if he becomes prime minister. Backbench Tory MPs have backed Sir Keir’s approach, while former PM Liz Truss has called for Britain to build 500,000 new homes a year. Mr Hunt will deliver his budget in parliament on November 22.

All

Inflation: what it means for state pensions, mortgages and savings?

High inflation – which refused to budge from 6.7% last month, according to official figures – creates mostly losers, but there are a few winners too. While higher prices can take a big toll on everyone's budget, it is also true that some groups will benefit, in the short-term, at least. So who are the winners?

Some mortgage-holders and borrowers:

If you have a loan that demands a fixed amount of repayment over time – this could be that you got a five-year fixed-rate mortgage at a very low rate in 2021 – you will be relatively shielded from the worst impacts on inflation for this part of your finances. The fixed interest rate keeps your monthly housing payment steady while at the same time the value of your pounds erode. So if you compare yourself to renters or homeowners with a higher interest rate, rising inflation won't cut into your housing costs as much.

Banks:

Higher inflation means higher interest rates and the base rate currently sits at 5.25%. As the official rate of interest has increased, banks have been quick to pass this on to mortgage borrowers – usually upping standard variable rates, the priciest mortgages, straight away – while being far slower to pass on savings rates to customers.

Pensioners:

The state pension has seen some hefty increases in its value thanks to the triple lock. This rule ensures that the state pension increases annually by the highest out of earnings, inflation, or a flat rate of 2.5% This meant the state pension increased 10.1% this year and is likely to rise by 8.5% next year. This 8.5% increase (assuming the Government does not change the triple-lock rules) would be decided by the May, June and July wage figures from this year, but will kick in next April – when inflation rate could be quite a bit lower. This means that pensioners could from next year see an increase that is above inflation by the time it is implemented.

Anyone taking out an annuity since 2021:

Similarly, annuity provides, who give pensioners a regular guaranteed income in retirement, are benefiting – and have been able to pass on some of this to people taking out annuities recently. Higher interest rates means higher annuity rates. This makes the annuity a more attractive product for many entering retirement. This greater attraction has boosted demand for annuities. Canada Life reported annuity sales doubling to £441m in the first half of the year, compared with the same period in 2022. Just Group saw sales leap by 54% to £470m, and Legal & General reported a 27% rise to £575m.

All

Consumer confidence plunges in run-up to festive season.

Consumer confidence has plunged in the run-up to the festive season as uncertainties posed by conflict in the Middle East add to accelerating energy, fuel and mortgage costs. GfK's long-running Consumer Confidence Index fell nine points to minus 30 in October, taking it back to a level last seen in July last year. The index's major purchase measure – an indicator of confidence in buying big ticket items – saw the sharpest drop of 14 points, in a significant turnaround from last month's four-point increase which will concern retailers in the run-up to Christmas. Confidence in personal finances over the next 12 months fell six points to minus eight, although it remains 26 points higher than this time last year, while expectations for the general economic situation over the coming year has fallen by eight points to minus 32 – 29 points higher than last October. Joe Staton, client strategy director at GfK, said: "This sharp fall underlines that the cost-of-living crisis, and simply not having enough money to make ends meet, are still exerting acute pressure for many consumers. The fierce headwinds of meeting the accelerating costs of heating our homes, filling our petrol tanks, coping with surging mortgage and rental rates, a slowing jobs market, and now the uncertainties posed by conflict in the Middle East, are all contributing to this growing unease. The volatility we are seeing in consumer confidence is a sure sign of a depressed economic mood and there's no immediate prospect of any improvement. Meanwhile, research by KPMG suggests a third of consumers will be eating out and drinking away from home less this festive period, a third will spend less on Christmas groceries, and 39% will have a smaller budget for gifts due to the cost of living. Just 4% of those surveyed said they will have more money for gifts this Christmas, while just 7% said they will spend more on groceries. Even for those spending the same, the volumes that they receive may well be less due to inflation. The upshot of this for retailers is continued competition for shrinking consumer spend and reduced volume, and a need to capture audiences via strong campaigns, well-targeted promotions and discounting and great customer experience.

Past performance is not a guarantee to future performance. You may get back less than invested.

Thresholds percentage rates and tax legislation may change in subsequent Finance Acts and reliefs from taxation are subject to change. The FCA does not regulate tax advice.

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