

Cash is King. The King is Long-Lived



by JP Frohling, Managing Partner, Ethos Partners
www.ethospartners.co.uk

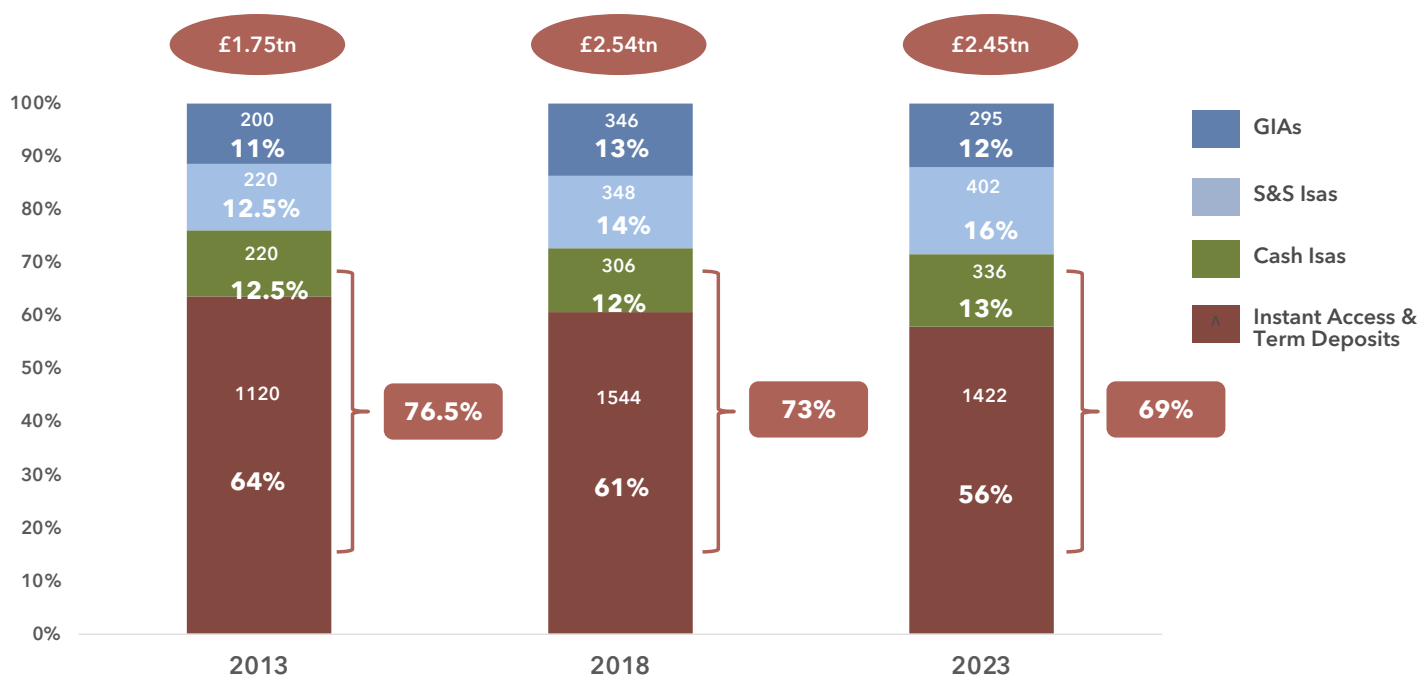
The Cash Isa debate is focusing on the wrong cash

Synopsis

The current debate over cash ISAs puts UK consumers enduring love affair with cash in the spotlight. Deposits in instant access and fixed term accounts have consistently been higher than those in cash ISAs by a factor of 4-5X for the past ten years. Tapping into this significantly broader, deeper reservoir needs to be the focus to increase flows to investments and improve customer outcomes.

There is significant scope for innovation in bringing cash and investing closer together. But significant work remains to be done to validate risk/return appetites and quantify addressable markets. Listening more closely to consumers and shifting perspectives to how consumers manage their household balance sheet is a critical first step.

Proportion of stock in cash relative to investments 2013 vs 2018 vs 2023 (£bn)



The chart above is a snapshot of the "stock" of assets in instant access accounts & fixed term deposits; cash ISAs, stocks and shares ISAs, and GIAs at Y-E 2013, 2018 and 2023.

CONTACT

www.ethospartners.co.uk | www.trimstone.com | www.solve-together.co.uk
jpfrohling@ethosmanagementconsulting.com | LinkedIn: J Penny Frohling

Cash is King. The King is Long-Lived



Some facts:

- The overall percentage of money in cash ISAs relative to investments and non-tax advantaged cash has remained consistent at 12-13% since 2013 despite interest rate increases
- Assets under management in stocks and share Isas has exceeded that in cash Isas since 2014
- The proportion of AUM in stocks and shares ISAs relative to cash has increased from 12.5%-16%. Market growth is obviously a key driver here.
- Deposits have consistently been 4-5X the size of cash ISAs over the past ten years, proof of UK consumers' enduring love affair with cash and challenging recent comments in the press that "the nation of savers" is a recent development.

There is a lot more work to do to understand the scale of the opportunity and what it would take to tap it. Starting with the facts and with listening to the consumer is the first step.

The big opportunity for life, investment and wealth players lies in convincing consumers that greater returns at acceptable risk levels are to be had by shifting more of this £1.4tn in deposits into investments. And domestic UK investments at that. This could unlock new flows, which are hard to come by in a highly competitive and mature market. The benefit to the government is not having to burn more political capital by appearing to penalise (again) consumers for saving.

The spotlight on the centrality of cash in consumers' financial lives is a positive one. It creates an opportunity for industry and government to look at personal finances through a consumer lens. There is significant scope for innovation in bringing cash and investment propositions closer together. But probably not the way it is currently being discussed.