

# **Child Trust Fund Consultation: Voucher Requirement for Account-Opening, October 2007**

## **Introduction**

The Child Trust Fund (CTF) is a savings and investment account for children born on or after 1 September 2002. Children receive a £250 voucher from the Government to start their account, and children from lower-income households receive an additional payment of £250. The latest figures show that for vouchers issued to 15 September 2007, a total of 3.02 million accounts were opened: 2.36 million by the parents themselves and the remainder opened by HM Revenue and Customs (HMRC) on behalf of eligible children. All eligible children will receive a further payment of £250 into their CTF account at age 7, with children in lower-income families getting an additional £250.

Currently, providers are legally obliged to receive the child's CTF voucher before they can open the account. However, representations from providers indicate that some parents, having applied to open a Child Trust Fund account, fail to complete the application by sending in the voucher. Consequently, the provider cannot open the account. Where this happens, the child's voucher may expire without the parent having set up a Child Trust Fund account for them, at which point HMRC opens an account on their behalf (a 'Revenue Allocated Account').

Evidence suggests that parents who actively open the account themselves are more likely to engage with it in the future, and the Government is committed to boosting Child Trust Fund account-opening rates. The Economic Secretary, Kitty Ussher, has therefore asked HMRC to consult on whether the requirement for parents to send the voucher to the provider might be removed, in order to make the account-opening process easier. This would require a change to the 2004 Child Trust Fund Regulations. The benefits will need to be balanced carefully against potential disadvantages, such as a possible increase in error rates from the change to a manual transcription of account details, for providers who currently use an electronic system to scan these details from the voucher. We will also be considering the costs, to both HMRC and providers, of making the change.

We have identified three options for consideration:

- to make it mandatory for providers to open accounts without receiving the voucher from parents (Option A).
- to remove the legal requirement that the voucher must be seen to open an account, but to make the transition to a voucherless account-opening system optional for providers (Option B).
- to leave the system unchanged (Option C).

We look forward to receiving comments on all the options.

## **How to Respond**

The consultation will run for 12 weeks, and all responses must be submitted by 25 January. Responses should be emailed to:

[ctfteam.car@hmrc.gsi.gov.uk](mailto:ctfteam.car@hmrc.gsi.gov.uk)

Or addressed to:  
HMRC Child Trust Fund Consultation,  
Room G54,  
100 Parliament Street  
London SW1A 2BQ

The consultation team will take account of responses from all stakeholders, including providers, customers and administrators. HMRC will publish a summary report of responses and of conclusions in the Spring of 2008.

### **Confidentiality**

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Department will process your personal data in accordance with the DPA and in the majority of circumstances, this will mean that your personal data will not be disclosed to third parties.

If you have any questions about confidentiality or about Freedom of Information (FOI), please contact the CTF team (for details see above).

### **Issues for consultation**

We would welcome general comments on options A, B and C, and as well as specific comments on the following issues.

#### **A. Take-up rate**

1. An important consideration in making a change (Option A or B) is whether, and to what extent, such a change would increase take-up rates. The benefits of any increase will have to be weighed up against the implementation and ongoing administrative costs of the change (see below).
2. **Comments are invited on the benefits of removing the requirement that parents send the voucher to the provider in order to open a Child Trust**

**Fund account. What are the current rates of accounts ‘lost’ because parents fail to send in the voucher, and what would be the impact of the change on the take-up rate? Do parents find sending in the voucher a burdensome procedural step?**

## **B. Administration**

3. A significant number of Child Trust Fund providers currently record the child’s unique reference number (URN), date of birth (DoB) and other information such as the expiry date of the voucher, by scanning the microline on the voucher, which contains this information. A change to a voucherless account opening system under Option A or B could lead to an increase in the number of manual transcriptions of URNs and DoBs, first by the parents (from the voucher onto the application forms), and then by the providers (from the application forms to their systems).
4. So there is a risk that, with more manual transcriptions of URNs/DoBs, there would be more provider or customer miskeys of URNs/DoBs. Correction of these errors places an administrative burden both on HMRC, which locates the errors and alerts the providers, and on the providers themselves, who must then contact the parents and go about re-registering the application.
5. There is a further risk from providers not using the microline on the voucher: there may be an increase in instances where providers mistakenly attempt to open Child Trust Fund accounts when the period for opening the Child Trust Fund account has elapsed (when the voucher has expired).
6. **Comments are invited on potential rates of transcription errors under a voucherless account-opening system. To what extent could they be expected to increase? What are the costs of these transcription errors for providers? Are there ways in which these costs could be minimised?**

## **C. Making the transition**

7. For those providers who currently scan the microline on the voucher, a transition to a voucherless system of account opening would potentially require an increase in human resources and a new IT system, although it may be the case that some of these providers already have the capability to key the URN and associated information manually as a back-up system.
8. **Comments are invited on the impact of changing to a voucherless account-opening system. How many providers currently scan the microline, and how many of these have manual back-up systems already in place? For those who would need to change their system, what would be the costs of this transition?**

## **D. Optional or mandatory change?**

9. In light of the time and cost to providers of implementing a change to a voucherless account-opening system, consultees will want to consider whether

Option A or Option B is preferable. Option A would require all providers to open accounts without receipt of the voucher from the date of the change, so there would be a clear rule, but providers would need to be ready in time for the change in the rules. Option B would allow providers to continue to require parents to send in the voucher to open an account, giving them control over moving to a voucherless account-opening system at their own convenience, or not at all.

10. Option A would reduce to zero the number of accounts not opened because of a failure to send in the voucher, and it would lead to a clearer and more consistent system, both for providers and customers, than Option B. However, it may oblige providers to make a procedural change to which they would otherwise prefer not to commit resources, or which they are not ready to make.
11. Option B might have less of an impact on take-up rates than Option A, and allowing different systems of account-opening may cause a degree of confusion. However, it gives providers more flexibility over when – and, indeed, whether – they make the change to voucherless account-opening.
12. If Option A, the mandatory option, were to go ahead, providers would need to change their systems in advance of the start date. So consultees might like to consider how long providers would need to prepare for the change.
13. **Comments are invited on the relative merits of the two ways of implementing a voucherless account-opening system (as either a mandatory or an optional measure). How many providers would make the transition if it were optional, and to what time-scale? Would different systems of account-opening for different providers (Option B) lead to a certain lack of clarity about the account-opening process? And should Option A go ahead, what amount of time would be required by providers to prepare for the change?**

#### **E. Other issues**

14. **Comments are invited from both providers and customers on any other issues around a voucherless account-opening process.**

### **Conclusion**

#### **Summary of Questions**

- What are the current rates of accounts ‘lost’ because parents fail to send in the voucher, and what would be the impact of a change to voucherless account-opening on the take-up rate of accounts?
- Do parents find sending in the voucher a burdensome procedural step?
- To what extent could transcription error rates be expected to increase under a voucherless account-opening system?
- What are the costs of these transcription errors for providers, and for HMRC?
- Are there ways in which these costs could be minimised?

- How many providers currently scan the microline, and how many have manual back-up systems already in place?
- For those who would need to change their system, what would be the costs of this transition?
- How many providers would make the transition if it were optional, and to what time-scale?
- Would different systems of account-opening for different providers (Option B) lead to a certain lack of clarity about the account-opening process?
- Should Option A go ahead, what amount of time would be required by providers to prepare for the change?
- Are there any other issues which could arise in a transition to a voucherless account-opening process?

## **Annex A: The Consultation Process**

### ABOUT THE CONSULTATION PROCESS

This consultation has been conducted in accordance with the consultation criteria in the Cabinet Office Code of Practice. If you wish to access the full version of the Code, you can obtain it at

[www.cabinet-office.gov.uk/regulation/Consultation/Code.htm](http://www.cabinet-office.gov.uk/regulation/Consultation/Code.htm)

### THE CONSULTATION CRITERIA

- 1) Consult widely throughout the process, allowing a minimum of 12 weeks for written consultation at least once during the development of the policy.
- 2) Be clear about who may be affected, what questions are being asked, and the timescale for responses.
- 3) Ensure that your consultation is clear, concise and widely accessible.
- 4) Give feedback regarding the responses received and how the consultation process influenced the policy.
- 5) Monitor your department's effectiveness at consultation, including through the use of a designated consultation co-ordinator.
- 6) Ensure your consultation follows better regulation best practice, including carrying out a Regulatory Impact Assessment if appropriate.

If you feel that the consultation does not satisfy these criteria, or if you have any complaints about the process, please contact –

Duncan Calloway  
 Better Regulation Unit  
 020 7147 2389 or [duncan.calloway1@hmrc.gsi.gov.uk](mailto:duncan.calloway1@hmrc.gsi.gov.uk)

## **Annex B: [Consultation Stage Impact Assessment \(PDF 97K\)](#)**

## **Annex C: Relevant Current Government Legislation**

Section 5 (1) of [the Child Trust Fund Regulations \(2004\)](#) states that an account will be opened for the child upon the fulfilment of various conditions. Condition 1 of

section 5 (1) (a) stipulates that “the applicant gives the voucher relating to the named child to the account provider not later than 7 days after its expiry date”.

## **Annex D: Key Stakeholders to be Consulted**

### **Representative bodies**

British Bankers' Association  
Building Society Association  
TISA (Tax Incentivised Savings Association)  
ABCUL  
The Association of Friendly Societies

### **Providers**

4thekids  
Abbey  
Ancient Order of Foresters Friendly Society  
Bristol Credit Union  
Britannia Building Society  
Cambridge Building Society  
The Children's Mutual  
The Chorley & District Building Society  
Clwyd Coast Credit Union Ltd  
Dragonsavers Credit Union  
Druids Sheffield Friendly Society  
Earl Shilton Building Society  
Engage Mutual Assurance  
F & C Management Ltd  
Family Investments  
Foresters  
Furness Building Society  
Halifax  
The Hanley  
Healthy Investment  
HSBC  
Ipswich Building Society  
KILLIK & Co  
Kingston Unity Friendly Society  
Leeds Building Society  
Leeds City Credit Union Ltd  
Leicester Credit Union Ltd  
Liverpool Victoria  
Loans & Savings Abertawe (LASA) Credit Union Ltd  
Methodist Chapel Aid Limited  
Monmouthshire Building Society  
NatWest  
Nationwide Building Society  
Pilling & Co Stockbrokers  
Police Mutual Assurance Society  
Redmayne-Bentley Stockbrokers  
Royal Bank Of Scotland  
Schoolteachers Friendly Society

Scottish Friendly Asset Managers  
Selftrade  
The Share Centre  
Shepshed Building Society  
Skipton Building Society  
Ulster Bank  
Walker Crips Stockbrokers Limited  
Yorkshire Building Society