Talking*Points*

Earn nowt to help out?

National Savings & Investments (NS&I) has long been the preferred haven for many cash savers but the institution's announcement that it is to slash the returns on its products may force them to rethink. But what are the alternatives?

The Treasury-backed NS&I has announced substantial changes to rates across its product range. Cuts were previously scheduled for May and were cancelled in April as the organisation attempted to support customers through the current crisis. Now, however, it is time to "return to a more normal competitive position" according to chief executive Ian Ackerley. The changes, shown in Figure 1 (overleaf), take place on 24 November.

NS&I has also scheduled cuts to Premium Bond rates, which will come into effect in time for the December draw. The changes will reduce the prize rate from 1.40% to 1.00%, meaning that the chance of winning a prize will decrease from 24,000:1 to 34,000:1. There will still be two £1 million prizes each month but the number of £100,000 prizes in each draw is expected to drop from seven to four.

NS&I is an executive agency of the Chancellor of the Exchequer. It was created in 1861 as a more secure place for people to save. This was an era when it was not uncommon for banks to go to the wall, leaving customers destitute.

For over 150 years it has also been a useful source for public borrowing. Today NS&I has over 25 million customers who, between them, hold £179 billion in its products.

NS&I products had been hovering around the top of best buy lists for months, prompting a rise in customer deposits of £14.5 billion between April and June alone. These rate cuts will save the Treasury many millions.

"Today NS&I has over 25 million customers who, between them, hold £179 billion in its products."

Figure 1

Product	Existing rate	New rate (AER)
Income Bond	1.16%	0.01%
Direct ISA	0.90%	0.10%
Direct Saver	1.00%	0.15%
Investment Account	0.80%	0.01%
Junior ISA	3.25%	1.50%

Source: NS&I

Just months ago Chancellor Rishi Sunak was asking us to "eat out to help out". Perhaps the new mantra should be "earn nowt to help out". Certainly, most NS&I savers will be earning little more than a zero return from November.

Not surprisingly, many are exploring the alternatives.

Choose carefully

A remaining attraction of NS&I is that its Treasury backing means it is considered virtually secure. As a result, many savers have been content to deposit more than the amount covered by the Financial Services Compensation Scheme (FSCS), which is currently £85,000. Those tempted by higher returns elsewhere will need to be wary of the additional risk of their chosen bank or building society going bust.

Savers who had their fingers and cash frozen by the Icelandic banking crisis in 2008 will remember that not all banks are covered by the FSCS. Banks today are on a more sound footing than they were a decade ago, but the queues of customers trying to get their cash out of Northern Rock in 2008 is a reminder that no bank's security can be taken for granted.

"NS&I's actions could prove to be a harbinger for cuts across the wider market."

Check that the prospective home for your cash is covered by the FSCS. Those with large amounts will need to split their money across a number of accounts to keep the level in each below £85,000. This will increase their administration burden.

Remember that the £85,000 protection is per institution with a banking licence and not per bank, so it is worth checking who owns a bank or building society. For example, St James's Place Bank, Bank of Scotland, Bank of Wales, Birmingham Midshires, Halifax, Intelligent Finance and Saga all operate under one licence. It is also important to note that the £85,000 cap is per person and so couples effectively have £170,000 cover for joint accounts.

Bear in mind, too, that some of the newer app-based financial institutions are unregulated and unlicensed and most are untested. There is no authentic precedent in terms of how they might respond if something were to go drastically wrong – less still in terms of how their responses could impact their customers. Technology undoubtedly offers convenience, but it should not be taken as a substitute for safety.

On the whole, then, people looking for new accounts are unlikely to find too much to take their fancy, particularly as NS&I's actions could prove to be a harbinger for cuts across the wider market. Savers are likely to be chasing a spiral of declining rates for some time. And as long as central bank interest rates remain extremely low, there will be little reason for NS&I to reverse its new policy.

Review your risk appetite

Despite falling rates, cash should remain a key part of anyone's financial plan because of the liquidity and security it provides. Building up an emergency cash fund that can cover expenditure when income is compromised and when markets have taken a tumble is essential.

However, falling rates mean deposits are likely to continue struggling to keep up with inflation and so spending power will be further eroded over time.

This may be a good time to review how much of your savings are in cash and if that is appropriate. It is worth discussing this with your adviser. The alternative to cash is not just equities. There are many cautious multi-asset solutions, blending cash, equities, bonds and other assets, that target a modest real return. The key issue is to understand your needs and risk appetite and to match it to an investment strategy that fits. We stress that this is something to be done with expert advice.

There are alternatives to exposing your cash savings to the potential ravages of inflation but they all involve taking extra risk.

If you are moving cash make extra checks to ensure that it is going to a legitimate home. Scammers prey on those desperate for a higher return on their savings. Check out our advice on staying safe, visit rathbones.com/about-us/keeping-you-safe

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