

ISA customers warned to beware of small print

Savers looking to cash in on higher ISA allowances which come into effect today are being warned to read the small print to avoid being "fleeced" by banks and building societies.

By Martin Evans
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The maximum amount investors can place into tax free savings accounts rose at midnight from £7,200 to £10,200.

But while the change is meant to benefit millions of consumers throughout the UK, experts are warning savers could end up being "ripped off" unless they do their homework.

With cash ISAs earning an average of just 0.41 per cent interest some savers are even being advised they would be better off putting their money into a straight forward taxable bank account.

There is mounting anger over the way banks lure customers in to ISA accounts by offering generous introductory rates, only to later drastically slash them.

Another complaint being levelled at the financial institutions is that they are only offering attractive rates to customers who invest the full cash allowance of £5,100 into one account, excluding millions of smaller investors.

Last week the Office of Fair Trading announced it was launching an investigation into complaints that consumers were being robbed of £3bn a year in lost interest.

Prime Minister Gordon Brown has pledged to force banks to offer ISA savers a better deal, but analysts are warning investors that pitfalls still remain.

Mark Dampier, head of research at investment broker Hargreaves Landsdown, said: "This has been happening for years with banks and building societies fleecing customers. The Office of Fair Trading investigation is long overdue.

"My advice to anyone looking to invest in an ISA is to read the small print. Look at the rate being offered after the introductory bonus and make a note in your diary to re-examine the situation once the rate drops.

"The only way to ensure you do not lose out is to keep on top of changes and manage your investment closely. While this can be time consuming and hard work it is the only way to ensure you are getting the best out of the system."

But Jonathan Davis, a chartered financial planner said ISAs remained a very good option for small investors and insisted there were accounts available to suit all types of saver.

He said: "There are plenty of accounts out there to suit all types of investors but of course banks and building societies are always looking to maximise profit potential. It makes sense for them to encourage investors to place their full allowance with them so they will offer better rates."

More than £170 billion has been poured into ISAs since their launch in 1999 but interest rates have plummeted since the financial crash.

Consumers can invest a maximum of £5,100 in cash ISAs and the rest of their £10,200 allowance in equity ISAs linked to the stock market.