

**EXPLANATORY MEMORANDUM TO**  
**THE NATIONAL SAVINGS BANK (AMENDMENT) (NO. 2) REGULATIONS 2008**

**2008 No. 1142**

1. This explanatory memorandum has been prepared by the Treasury and is laid before Parliament by Command of Her Majesty.

**2. Description**

2.1 National Savings and Investments (“NS&I”) ordinary accounts were closed to new business on 28th January 2004 and no deposits could be made into those accounts by existing customers after 31st July 2004. NS&I now wish permanently to close all ordinary accounts. These Regulations amend the National Savings Bank Regulations 1972 (“the 1972 Regulations”) to allow the Director of Savings to transfer customers’ balances in ordinary accounts to investment accounts in the National Savings Bank.

2.2 In accordance with the provisions of sections 17 to 20 of the National Savings Bank Act 1971 (“the 1971 Act”), the balance on ordinary accounts was transferred to the Commissioners for the Reduction of the National Debt (“the Commissioners”) and those funds were invested by the Commissioners. Investment accounts are backed by the National Loans Fund, and these Regulations also require the Commissioners to transfer to the National Loans Fund moneys equal to the amount of the liabilities being transferred from ordinary accounts to investment accounts.

**3. Matters of special interest to the Joint Committee on Statutory Instruments.**

3.1 None.

**4. Legislative Background**

4.1 The 1971 Act and the 1972 Regulations (made under the 1971 Act) provide the principal legislative framework within which the Director of Savings carries on the business of the National Savings Bank in relation to ordinary and investment accounts. In anticipation of the closure of ordinary accounts, new regulation-making powers were inserted into the 1971 Act by the Finance Act 2003; the new power in section 8(3) thus extends the Treasury’s general regulation-making power granted by section 2 of the Act, so as to permit the Treasury to close ordinary accounts and provide for the transfer of deposits in ordinary accounts to investment accounts.

4.2 Using these newly extended regulation-making powers, the 1972 Regulations were amended in order to provide for the closure of ordinary accounts to new business on 28th January 2004 and to provide that any withdrawal after 31st July 2004 could only be made so as to withdraw the whole balance on those accounts (regulation 2B of the 1972 Regulations). These Regulations now seek to amend the 1972 Regulations further so as to allow the Director of Savings to transfer any balances remaining to the credit of closed ordinary accounts on 12th May 2008 to new investment accounts in the National Savings

Bank. Customers' balances will be transferred either to accounts in the name of the holder or to a special Director's account where they will be pooled on behalf of customers.

4.3 The transfer of the funds which back the liabilities in respect of these accounts is an essential aspect of this transfer.

4.4 At present, the Director of Savings may retain out of ordinary deposits moneys that are required to pay interest on or repay the principal of ordinary deposits. The balance is paid, at such intervals as the Treasury directs, to the Commissioners under section 17 of the 1971 Act. The Commissioners are required, by section 18 of that Act, to invest the balance in Government securities or Government-guaranteed securities. Interest on the investments made by the Commissioners is used to make payments due in respect of ordinary deposits. Under section 25 of the 1971 Act if at any time claims in respect of ordinary deposits cannot be met, the Treasury must provide the Director of Savings with such sums as are necessary from the Consolidated Fund.

4.5 The arrangements in respect of investment accounts are different, however. Before the Finance Act 1980 came into force, the Director of Savings kept a separate account of all sums received or paid with respect to investment deposits. This account was called the National Savings Bank Investment Account Fund. As with ordinary accounts, the balance of the sums in this account was paid from time to time to the Commissioners for investment. Those arrangements were changed by section 120 of the Finance Act 1980, which provides for sums received by the Director of Savings in respect of investment deposits to be paid into the National Loans Fund (subject to retention of a working balance agreed with the Treasury). Sums required for repaying or paying interest on investment deposits are charged on the National Loans fund with recourse to the Consolidated Fund.

4.6 Once the balances on ordinary accounts are transferred to the new investment accounts under the provisions of these Regulations, the liability to repay the old ordinary account holders will accordingly become a liability in respect of investment deposits charged on the National Loans Fund.

4.7 In order to complete the transfer process from ordinary accounts to investment accounts envisaged by section 8(3)(f) and (g) of the 1971 Act, therefore, these Regulations require the Commissioners to surrender to the National Loans Fund the moneys held by them in respect of ordinary accounts.

## **5. Territorial Extent and Application**

5.1 This instrument applies to all of the United Kingdom.

## **6. European Convention on Human Rights**

6.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

## **7. Policy background**

7.1 The original ordinary account was created in 1861 as the Post Office Savings Account. Its purpose was to encourage the poor to save to provide for themselves against adversity or ill health. The link with the Post Office was broken when the Post Office was

nationalised in 1969 and National Savings became a separate government department, responsible to the Treasury.

7.2 The ordinary account closed to new business in January 2004: the product was defunding, albeit quite slowly; it had expensive processes and operations which meant a poor interest rate was offered to customers; it was offered to all customers on an undifferentiated basis, mainly via post offices rather than through marketing and advertising; and it was not perceived as competitive.

7.3 There are now two principal drivers for the transfer of ordinary accounts to the new investment accounts. Firstly, NS&I aim to place the remaining funds in a secure, controlled product. Secondly, the transfer will enable NS&I to simplify future IT development and accounting systems by accounting for all product moneys exclusively through the National Loans Fund. The transfer will support the closure of their outdated legacy mainframe and will result in cheaper running costs for the organisation.

## **8. Impact**

8.1 A full regulatory impact assessment has not been produced for this instrument as it has no impact on the costs of business.

## **9. Contact**

Alan Lamond at National Savings and Investments (Tel: 0207 348 9409 or e-mail: [Alan.Lamond@nsandi.com](mailto:Alan.Lamond@nsandi.com)) can answer any queries regarding the instrument.