



HM Treasury



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Digital, Culture,
Media & Sport

Government response to the consultation on expanding the Dormant Assets Scheme

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Ministerial foreword

This response marks the culmination of more than four years of work to design the expansion of the Dormant Assets Scheme. As we begin its implementation, we would like to thank all those who have been involved so far, demonstrating how effective collaboration between industry, government, and civil society can be. More than 500 organisations and individuals made their voices heard through the responses to the public consultation, and we are grateful for their thoughtful contributions to this debate. This response sets out how we will ensure that the UK remains a world leader in unlocking dormant assets for the benefit of all.

The Scheme has unlocked more than £745m for social and environmental initiatives, from over £1.35bn in dormant bank and building society accounts. This includes releasing £150m to help charities, social enterprises, and individuals during the coronavirus outbreak. Due in part to the banking sector's continued efforts to reunite more people with their money, the current Scheme is reaching a mature state, with significantly fewer funds flowing through the system each year.

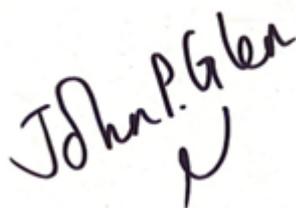
Expanding it to include new assets in the insurance and pensions, investment and wealth management, and securities sectors provides the government with an exciting opportunity to support industry's work to reunite more people with their forgotten assets. Where that is not possible, the Scheme will enable that money to be put to good use, supporting responsible businesses to effect positive change by redirecting it to some of the UK's most pressing issues.

This expansion has the potential to bring £1.7bn of additional assets sitting idle into the Scheme, making £880m available to amplify its impact, which has so far included supporting unemployed young people, those in financial difficulty, and the UK's growing social investment market.

The Scheme would not be the great success it is today without the commitment of the banks and building societies that have already chosen to participate. As the Scheme expands to include participants from across the financial services industry, we strongly encourage those that have not already been involved to demonstrate their commitment to responsible business by doing so. The government is proud of what the current Scheme has achieved and looks forward to introducing legislation to implement its expansion.



Baroness Diana Barran
Minister for Civil Society



John Glen MP
Economic Secretary to the Treasury

Executive summary

The Dormant Assets Scheme is led by industry and backed by government, and strives to reunite people with their financial assets. Where that is not possible, this money supports important social and environmental initiatives across the UK. Dormant assets remain their owners' property: customers can always reclaim any money owed to them. Legislation currently enables banks and building societies to voluntarily channel funds from dormant accounts into the Scheme. Accounts become dormant when they have been untouched for a minimum of 15 years and the bank or building society has been unable to trace the owner. The Scheme responds to the imperative to put this money to better use. Since 2011, over £745m has been made available to social and environmental initiatives, including £150m allocated to support coronavirus recovery. After ten years of operation, the current Scheme is reaching a mature state, with significantly fewer funds flowing through the system each year. Building on the Scheme's success, industry leaders joined forces in 2016 to work on the design of its expansion.

Following four years of industry-led work, the government launched a public consultation on its proposals to expand the Scheme in February 2020¹, which confirmed the government's commitment to maintaining the three principles of the Scheme:

1. industry's first priority is to reunite owners² with their assets;
2. owners are able, at any point, to reclaim the full amount owed to them; and
3. the Scheme is voluntary.

The consultation closed in July 2020 and received 89 responses that represented over 500 organisations and individuals. The responses showed widespread support for expanding the Scheme from bank and building society accounts to include assets in the insurance and pensions, investment and wealth management (IWM), and securities sectors. After carefully considering all responses, the government intends to legislate to include additional assets across all three sectors in the Scheme, as set out in Table 1 below. We are also considering options whereby certain pension products may be included in specific and tightly prescribed circumstances.

Table 1: Additional assets in scope for expanded Scheme

Sector	Asset classes (see Chapters 5–7 for specific products)
Insurance and pensions	<ul style="list-style-type: none"> ● Proceeds of life insurance and retirement income policies
IWM	<ul style="list-style-type: none"> ● Shares or units in collective investments ● Certain investment asset distributions and proceeds
Securities	<ul style="list-style-type: none"> ● Shares and distributions from shares in public limited companies ● Proceeds from corporate actions

Participants must first make efforts, based on industry best practice, to reunite assets with their owners. Only cash will be transferred into the Scheme; any non-cash assets must first crystallise or be converted to cash before being eligible for transfer. Definitions of dormancy and reclaim values will be tailored to asset classes based on market practice and, where

¹ <https://www.gov.uk/government/consultations/consultation-on-expanding-the-dormant-assets-scheme>

² The term 'owner' refers to an asset's beneficial owner across all sectors. In the securities sector, it refers to a person who is both the beneficial owner and the legal owner—or shareholder—of the share.

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relevant and appropriate, existing regulations. This is to ensure that, as far as possible, only genuinely dormant assets are transferred into the Scheme. Owners will always be able to reclaim the full amount owed to them, and the transfer and reclaim process will be tax neutral.

The banking sector has transferred more than £1.35bn into the current Scheme since 2011. Reclaim Fund Ltd (RFL), which administers it, currently retains circa 40% of the money it receives in order to meet any reclaims and releases the remaining 60% to social and environmental causes across the UK.

Based on industry and RFL's existing reserving estimates, the insurance and pensions, IWM, and securities sectors could make the following contributions to an expanded Scheme:³



Chapter 8 provides further detail on these figures, and Chapters 5–7 set out each sector's contribution to these figures.

Funds unlocked through the expansion will build on the Scheme's substantial impact, which has so far included supporting unemployed young people, those in financial difficulty, and the UK's growing social investment market. In addition to those assets initially eligible for transfer into an expanded Scheme, it is expected that further assets will become eligible as they trigger the dormancy definitions over time.

Some responses to the consultation made recommendations for how future dormant assets funding could be spent. This was outside the scope of this consultation. The government recognises and welcomes the strong interest in the ways future funds can best be spent. Accordingly, we will consider whether this is an area that should be reviewed.

³ These figures are based on industry estimates which include contract-based defined contribution pensions. The government is reconsidering whether these should be included in an expanded Scheme.

1 Background

1.1 Dormant Assets Scheme

1.1.1 The current Scheme

The UK Dormant Assets Scheme (the Scheme) was established by the Dormant Bank and Building Society Accounts Act 2008 (the Act). It is led by industry and backed by government, with the aim of reuniting owners with their financial assets. Where this is not possible, this money supports important social and environmental initiatives across the UK. Dormant assets remain the property of their owners, who can reclaim any money owed to them in full at any time. However, only a small percentage do so. The rest of the money lies dormant. The Scheme responds to the imperative to put this money to better use.

While the Scheme was initially expected to bring in some £400m, contributions to date have exceeded expectations by more than 300%. So far, £1.35bn has been transferred into the Scheme, unlocking £745m across the UK for a range of impactful initiatives. Projects include helping young people into work, offering affordable credit to families, and addressing environmental issues.

This work has been made possible by the banks and building societies that have voluntarily participated in the Scheme since 2011. An account becomes dormant when it has been untouched for a minimum of 15 years, and its balance can be transferred to the current Scheme if the bank or building society has been unable to reunite it with its owner, despite following industry best practice.

Participating firms transfer the balances of dormant accounts to Reclaim Fund Ltd (RFL), an authorised reclaim fund (ARF), which takes on the liability to meet any reclaims. RFL is legally obliged to retain a portion of the funds it receives in order to repay owners who come forward to reclaim their money. RFL currently releases circa 60% of the money it receives to social and environmental initiatives, and reserves 40% for reclaims, of which a portion is invested. This approach is based on actuarial modelling and Financial Conduct Authority (FCA) guidance.

1.1.2 Impact to date

The funds that RFL releases go to The National Lottery Community Fund (TNLCF) and are apportioned to each nation in the UK according to the Distribution of Dormant Account Money (Apportionment) Order 2011, which was based on the Barnett formula. Relevant ministers in each nation then issue broad directions to TNLCF on how to allocate their portion of the funding to social or environmental causes. Scotland and Wales use TNLCF as their delivery partner for projects focusing on young people, climate change, and sustainability, while Northern Ireland has worked with TNLCF to establish a £20.5m Dormant Accounts Fund for the voluntary, community, and social enterprise sector.

In England, the funds are dedicated to initiatives focused on youth, financial inclusion, or social investment. The focus on these three areas enables the Scheme to create a lasting legacy, driving systemic change to address entrenched social challenges—and protects this impact from being diluted. TNLCF distributes dormant assets funding to four independent dormant assets organisations, which are governed by The Oversight Trust to ensure accountability and transparency. To date, over £650m has been distributed in this way, including:

- £425m to Big Society Capital (BSC) to attract significant co-investment, making well over £1.9bn available for charities and social enterprises;

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- £40m to Access – The Foundation for Social Investment (Access) to fund both emergency and recovery investment for social enterprises to provide vital services in more deprived communities;
- £90m to Youth Futures Foundation to break down the barriers to work for young people across England, with a focus on responding to the findings of the Racial Disparity Audit; and
- £96m to Fair4All Finance to increase access to fair, affordable, and appropriate financial products and services for people in challenging circumstances.

The work funded by the Scheme aims to tackle some of society's most pressing challenges and plays a critical role in responding to the coronavirus pandemic. For example, using dormant assets funding:

- BSC has grown social property funds from zero to £2bn and supported the growth of the UK charity bond market from £5.4m in 2012 to over £330m today;
- Access has three major project strands funded through dormant assets money, including the Growth Fund, which has made 400 small-scale, unsecured loans to charities and social enterprises since 2016, with over half of the money going to those working in the most deprived communities across England;⁴
- Fair4All Finance has provided over £15m in financial support to the community finance sector so far, including £12m of equity investments in community finance providers and £3.6m in coronavirus grants; and
- The Youth Futures Foundation is developing a targeted programme of work to generate change at a systemic level, including investing £6m into targeted support for young people who are not in education, employment, or training, and deploying £8.7m in coronavirus grants to frontline charities, social enterprises, and infrastructure bodies tackling youth unemployment.

Work in the devolved administrations similarly focuses on driving systemic change. For example, the Engage to Change project in Wales uses dormant assets funding to break down barriers and stigma around disability by supporting young people with learning difficulties and/or autism into employment. Since 2016, intensive support has enabled 959 young people to develop new skills; 381 young people to secure a paid placement; and 272 young people to move into secure employment after their work placement. Research has also found a number of mental health benefits associated with the project.⁵

In May 2020, £150m of dormant assets funding was released to help charities, social enterprises, and individuals in need of support during the coronavirus outbreak. This included accelerating the release of £71m of new funds and repurposing £79m already unlocked. The Scheme's ability to respond quickly to the changing needs of the youth, financial inclusion, and social investment sectors is testament to its ongoing relevance and the importance of its continued success.

After ten years of operation, the current Scheme is reaching a mature state, with significantly fewer funds flowing through the system each year. While we applaud the many banks and building societies that have opted to take part, the high participation rates enjoyed by the Scheme mean that there are fewer new participants that could join it. This, along with improvements in tracing, verification, and reunification in the banking sector, means that the amount being transferred to RFL will reduce over time to an estimated £70m per year. This

⁴ The Growth Fund has received £26.3m of loan capital from BSC (funded entirely through dormant assets funding) alongside £22.5m of grant funding from TNLCF.

⁵ <http://www.engagetochange.org.uk/wp-content/uploads/2020/06/Engage-to-Change-research-outcomes-June-2019-final.pdf>

will, of course, have an impact on the amount available for social and environmental initiatives through the current Scheme, reducing it to an estimated £42m per year.

1.2 Consultation on Scheme expansion

Recognising the Scheme's success, industry leaders joined forces in 2016 to work on the design of an expanded Scheme. Expanding the Scheme is crucial to maintaining its substantial impact on social and environmental causes in the UK. Such initiatives tackle the entrenched social issues and inequalities at the heart of the government's 'levelling up' agenda. In the context of the coronavirus outbreak, this is needed more than ever. The Scheme's expansion will bolster the government's commitment to maximising the country's economic and societal bounce-back from coronavirus. It will also ensure that the UK remains a world leader in deploying dormant assets at scale to society's benefit.

Industry leaders have invested a great deal of time and energy in this ambition over the past four years. In March 2017, the independent Commission on Dormant Assets reported to the government on the potential to broaden the Scheme beyond bank and building society accounts.⁶ This was followed by a report, published in April 2019, by four senior Industry Champions, which made recommendations on including assets from the insurance and pensions, investment and wealth management (IWM), and securities sectors.⁷ It concluded that primary legislation would be needed to expand the Scheme.

Having considered these recommendations, the government launched a public consultation on 21 February 2020 in order to gather a wider set of views on its proposals for expanding the Scheme. The consultation confirmed the government's commitment to maintaining the three principles of the Scheme:

1. **Reunification first:** participants' first priority is to reunite owners with their assets;
2. **Full restitution:** owners are able, at any point, to reclaim the amount that would have been due to them had a transfer into the Scheme not occurred; and
3. **Voluntary participation:** participation in the Scheme is voluntary.

The consultation invited comment on 17 questions, ranging from defining the scope of an expanded Scheme to its operation and potential impact, and closed on 16 July 2020. All responses have been carefully considered, and the government is grateful for the time and expertise of those who responded, particularly those who fed back in substantial detail.

Although it was outside the scope of this consultation, the government recognises and welcomes the strong interest in how future dormant assets funding could be spent. We are considering whether this is an area that should be reviewed.

⁶ www.gov.uk/government/publications/dormant-assets-commission-final-report-to-government

⁷ www.gov.uk/government/publications/the-dormant-assets-Scheme-a-blueprint-for-expansion

2 Overview of responses

2.1 Response breakdown

There were 89 responses to the consultation, representing more than 500 organisations and individuals in total. This is due to a small number of responses from key industry trade bodies representing numerous organisations. Not all responses answered every question. All returns have been analysed and given full consideration in preparing this response. Table 2 below sets out the breakdown of responses by respondent type.

Table 2: Responses by respondent type

Respondent type	Number of responses
Organisation (representing potential Scheme participants)	37
Organisation (wider stakeholders) ⁸	21
Individual	22
Respondent type not specified or other	9

2.2 Response summary

Respondents supported the proposals to expand the Scheme and offered recommendations on improving certain technical aspects. Annex A provides further detail on the responses to the consultation.

2.2.1 Scope of an expanded Scheme

There was support for the proposed scope of assets. Some respondents, notably in the investment and wealth management (IWM) sector, proposed a small range of additional assets for inclusion. Suggestions focused on clarifying which assets would be included in the Scheme, and aligning the Scheme's definitions to those used in existing regulations, such as the Financial Conduct Authority's (FCA) Client Assets Sourcebook (CASS) rules.

There was strong support for maintaining the definition of dormancy for the banking sector and tailoring other definitions to asset classes. Investment and wealth management sector respondents recommended that dormancy be defined at the client level, rather than the asset level. Respondents from all sectors made suggestions on broadening the proposed scope of participants.

Most insurance and pensions sector respondents, and some individual respondents, opposed the consultation's proposed exclusion of pensions, but some individual respondents agreed.

2.2.2 Operation of an expanded Scheme

While respondents supported the principle of full restitution, questions were raised around its operational implications. These included how to ensure tax neutrality, particularly for the IWM and securities sectors, and the interaction with existing regulations. There were also conflicting opinions on the application of the principle to shares in the securities sector.

There was agreement that tracing, verification and reunification (TVR) should continue to be a cornerstone of the Scheme. However, views on whether TVR practice should be included in

⁸ This includes civil society and public sector organisations.

legislation were mixed, even within sectors. There was a suggestion that any reference to TVR in legislation should use broad wording to allow for adaptation to specific sector needs. There were also strong calls for sharing government data to support industry with TVR.

Respondents identified a range of potential barriers to participation in the Scheme. These included the administrative burden for participants of satisfying Scheme requirements, such as carrying out appropriate TVR and determining the value of a reclaim. Respondents were generally comfortable with the existing treatment of an insolvent participant, although more clarity was sought for the securities sector.

There was support for clear legislation to protect trustees, directors, and agents participating in the Scheme. Respondents reiterated the importance of explicit protection in order to reassure participants that they would not be at risk of personal liability by participating in the Scheme.

2.2.3 Potential impact of an expanded Scheme

Respondents suggested a range of costs associated with participating in an expanded Scheme, including the cost of new administration systems, reissuing terms and conditions, and managing transfers to Reclaim Fund Ltd (RFL). The costs per participant were anticipated to range between £10,000 and £5m, and would depend on a range of factors including a participant's size, the type and value of the assets it holds, and its existing systems and processes.

Liability for the transferred assets sitting with RFL, rather than with the participant, represented the expanded Scheme's most significant advantage over existing mechanisms for paying away dormant assets. Further advantages of participation included reputational benefits for industry, with a focus on corporate social responsibility.

Other significant impacts raised included considerations on arbitration and dispute resolution requirements; the interaction between the Scheme's legislation and the FCA's CASS and Collective Investment Schemes Sourcebook rules; and expanding Financial Services Compensation Scheme and Financial Ombudsman Service protections.

Some responses to the consultation made recommendations for how future dormant assets funding could be spent. Although this was outside the scope of this consultation, the government recognises and welcomes the strong interest in how future funds can best be spent. Accordingly, we will consider whether this is an area that should be reviewed.

3 Cross-sector issues

The legislative framework for an expanded Scheme will include some sector-specific provisions, which are set out in Chapters 4–7. These include the scope of eligible assets as well as definitions of dormancy and reclaim values with respect to those assets. In addition, the legislative framework will include the cross-sector provisions set out in this chapter.

3.1 Scope

3.1.1 Eligible participants

The Act defines which participants are currently eligible to transfer assets into the Scheme, and the consultation similarly proposed a list of participants that would be eligible under an expanded Scheme. The variety and complexity of responses to Question 8, however, highlighted the possible pitfalls of prescriptively listing eligible participants in legislation. For the expanded Scheme, the government therefore intends to define eligible participants in a wider and less prescriptive manner to include, broadly speaking, any person who provides; holds; manages; safeguards; administers; deals in; issues; or carries out or operates a policy or scheme in relation to an eligible asset.

The government will also consider how legislation can best be drafted to reflect how relationships and assets are often held as a matter of practice—for example, where one party has the contractual relationship with the owner but another party holds the asset.

3.1.2 Geographic scope

As set out in the consultation, the government intends to broadly mirror the current regime for dormant bank and building society accounts, namely that:

1. assets should include only those held in the UK and governed by UK law; and
2. participants should include only those operating from an establishment in the UK.

3.1.3 Suspense Accounts

Notwithstanding the fact that Suspense Accounts⁹ are not explicitly referred to in the Act, the government is of the view that the balances of Suspense Accounts are eligible for transfer into the current Scheme, provided that, where relevant, the other requirements are met. However, for the avoidance of any doubt, the government intends to clarify its position on Suspense Accounts within the current Scheme in legislation. The government also intends to legislate for Suspense Accounts in the expanded Scheme. We recognise that Suspense Accounts have very different characteristics compared to other assets in scope and will therefore need to consider whether certain aspects of the Scheme need to be tailored accordingly.

3.1.4 Unwanted assets

Respondents to the consultation provided examples of situations where tracing, verification and reunification (TVR) efforts have located an owner who has responded to say that they do not want their asset back. This may be, for example, because it is of low value and the owner does not feel it is worth the administrative effort to reclaim. In these cases, the owner may request that the money be given away to good causes.

Where the unwanted asset would be in scope of the Scheme if dormant, and an owner has opted for their unwanted asset to be given away to the Scheme specifically, this can be paid

⁹ While industry practice varies, the term ‘Suspense Account’ is generally used to describe a form of internal account or general ledger that is used to record miscellaneous transactions or amounts due to owners. This is often on an aggregated basis, rather than at an owner level.

over to Reclaim Fund Ltd (RFL) immediately. In line with the principle of voluntary participation, participants do not have to offer this option. Where owners have chosen to give their assets away, no reclaim will be possible. This is in line with current practice where unwanted assets can be given to a charity.

3.1.5 Further expansion

The government will consider how legislation can best be drafted to give the Scheme the flexibility to expand—for example, to bring new assets classes within its scope—in the future. This also includes clarifying that RFL is able to defray reasonable costs associated with supporting any further expansion.

3.2 Operation

3.2.1 Tracing, verification and reunification

The government recognises the consistently low levels of reclaims following transfer to RFL since the Scheme began operating. This has been made possible by the principle of reunification first and the effectiveness of the banking sector's TVR efforts. As set out in the consultation, the government intends to formalise this principle in legislation.

For effective participation, and to ensure that only genuinely dormant assets are transferred into the Scheme as far as possible, participating sectors should have in place and use best practice guidance on managing dormant assets. Many already do, and the government recognises the hard work that has gone into developing and implementing these.

Specific TVR practices (e.g. writing to the last known address) should not be embedded in legislation as this would infringe on participants' ability to determine practices most suitable for owners and improve these over time. Instead, the government will require that the participant has made efforts, based on industry best practice, to reunite the asset(s) with their owner(s), which have been unsuccessful, prior to transferring the asset(s) into the Scheme. The government encourages the Financial Conduct Authority (FCA) and Prudential Regulation Authority to support industry and RFL as they work to agree and implement these industry standards, and set these out in the agency agreements with participants.

In response to the consultation, clarification was sought on the Scheme's impact on owners in prison. Prisoners should be supported to carry out transactions necessary to maintain their financial affairs in an appropriate manner while in custody, so that on discharge they may resume financial management of their affairs. An owner notifying their bank or other eligible participant of their change of address to a prison will make their assets ineligible for the Scheme. Prison practice varies, but the relevant staff member supporting owners with finance and debt management should assist with this change of address.

Empowering RFL to reject transfers

As proposed in the consultation, the government will more explicitly empower RFL to reject transfers in order to make appropriate TVR practices enforceable. We believe that RFL's ability to support industry in ensuring that only genuinely dormant assets are transferred into the Scheme will be enhanced by legislation empowering it to reject transfers where, for example, it feels that the participant has not made sufficient TVR efforts. Participants' obligations in this regard should be in line with industry best practice and clearly set out in their agency agreements with RFL.

Data verification

Some respondents recommended that the government amend legislation, where necessary, to enable data sharing for the specific purpose of aiding participants' TVR attempts. There are

significant and complex legislative barriers to doing this, and the government is aware of the potential impact on data privacy.

Since the consultation was published, we have explored possible connections between this work and that on digital identities. For example, a pilot was launched in August 2020 that will enable organisations to verify identity information shared with them using British passport data.¹⁰ This is only a first step towards building a thriving digital identity ecosystem in the UK. However, this pilot relies on individuals providing their information to the organisation completing the check. By definition, Scheme participants do not have contact with dormant asset owners and are therefore unable to ask them to provide this information. As a result, this avenue cannot be used to support TVR efforts.

This is, however, an ongoing piece of work to be considered. The government will continue to explore how government-held data could be safely used to support legitimate business practices which benefit and protect consumer rights.

3.2.2 Transfer and liability

As proposed in the consultation, non-cash assets will need to crystallise or be converted to cash before they can be transferred to RFL.

Participants and other relevant stakeholders (such as persons with fiduciary duties) should be confident that once an asset has been transferred any liability pertaining to the transfer, including any liability to meet owner reclaims, is extinguished. The government will consider how legislation can best be drafted to reflect this. For the avoidance of doubt, a transfer will not absolve participants or other relevant stakeholders of any liabilities which are unconnected with the transfer. For example, where a participant acted negligently in managing an asset prior to its transfer, that liability will not be extinguished by virtue of the transfer.

3.2.3 Reclaim

Participants in the current Scheme act as agents of RFL, maintaining customer engagement, records, and personal data on its behalf, and managing owner reclaims. This will be extended to all assets in the expanded Scheme. From the owner's standpoint, the experience should be seamless.

The government fully recognises that maintaining the principle of full restitution will be key to the success of an expanded Scheme. This ensures that owners can always reclaim the full amount that would have been owed to them had a transfer into the Scheme not occurred. As such, the reclaim values in Chapters 5–7 build on market practice.

The government maintains its position that, in the case of non-cash assets, owners will be entitled to receive a cash payment, even if the asset itself could be bought back at the time of reclaim. This is to avoid the administrative burden of participants buying back assets for owners, who would be able to do so themselves following reimbursement if they wished.

Per the current Scheme, an asset's reclaim value will be calculated by the participant at the point it verifies the reclaim. The participant will then reimburse its owner and recoup the money from RFL. Under the current Scheme, owners have recourse to the Financial Ombudsman Service (FOS) to resolve disputes about reclaims. Where assets proposed for inclusion in an expanded Scheme do not naturally fall within the scope of the FOS, we encourage industry and RFL to work with it to reach an agreement on voluntary arbitration.

¹⁰ <https://www.gov.uk/government/news/innovative-new-pilot-launched-to-speed-up-access-to-key-services>

3.2.4 Tax neutrality

The assets set out in this response will only be included in an expanded Scheme if the government is assured that the asset transfer and subsequent reclaim would be tax neutral for the participant, owner, and RFL. This is in line with the principle of full restitution. Based on the responses received to the consultation and engagement with stakeholders, the government's position is to deliver the principle of tax neutrality in each case.

In a limited number of cases, this is dependent on separate changes to tax legislation. Any such changes would need to be implemented in a way that is both proportionate and consistent with wider government policy. Where necessary in order to satisfy this requirement, the government will engage further and in a targeted fashion with key stakeholders. Where changes to tax legislation are required, the government will provide further detail on these in the usual way.

For Stocks and Shares ISAs, HM Revenue & Customs has confirmed that the regulations will be amended to allow reclaimed funds to be placed in an ISA outside the annual subscription limits, as is currently possible with Cash ISAs.

3.3 Reclaim Fund Ltd

Under the Act, participating firms transfer the balances of dormant accounts to an authorised reclaim fund (ARF), which takes on the liability to meet any reclaims. In 2010, RFL was set up by the Co-operative Banking Group (now Angel Square Investments Ltd) and is the only ARF in existence in the UK.

In September 2019, the Office for National Statistics (ONS) informed the government of its decision to classify RFL as a public body, effective from the date of RFL's establishment. This decision was based on the powers afforded to the government through the Act in relation to an ARF's functions. For example, the Act enables HM Treasury to require an ARF to retain sufficient reserves to meet reclaims.

The government has worked extensively with RFL and Angel Square Investments Ltd to respond to the ONS' decision. Throughout this process, the priority has been to safeguard the effective operation of the Scheme now and in the future, including ensuring that plans for Scheme expansion are unaffected. As a result of the ONS' decision, RFL has now been established as a Non-Departmental Public Body. This means that it remains legally incorporated with its own legal identity, acting at arm's length from the government. RFL will continue to manage the Scheme in an open and transparent way, governed by a separate Board of Directors.

Following this classification, and in recognition that no other ARFs have been established since 2008 when the Act was passed, the government intends to name RFL as the Scheme's only ARF in legislation.

The government backs the Scheme and will continue to ensure that the principle of full restitution is maintained.

3.4 Insolvency of a participant

In line with the current Scheme and as outlined in the consultation, RFL will be liable for meeting reclaims for assets transferred by a participant, even if that participant becomes insolvent or winds up. This is with the understanding that insolvency may result in the owner's entitlement being impacted and even valued at nil (as is sometimes the case for shareholders, for example) if this is what would have happened had the transfer to RFL not occurred.

In terms of processing reclaims, the participant's insolvency practitioner would find another entity to manage the owner records and act as an agent of RFL to process reclaims. If this was not possible, the insolvency practitioner would transfer the relevant records to RFL, which would then process reclaims directly and defray any costs associated with managing this.

3.5 Recommendations for industry or regulators

The government believes that some responses to the consultation provided recommendations that are more appropriate for industry or regulators to address, and should not be enshrined in legislation. We intend to create an appropriate legislative environment for Scheme expansion to occur while enabling industry standards and practices to evolve over time. We recognise and encourage ongoing work between the FCA and other regulators, industry, and RFL to prepare for an expanded Scheme.

In this context, the government maintains its position that issues such as including a *de minimis* value or defraying the costs of tracing exercises are more appropriately handled through regulation or industry standards, and not in law.

The government has regularly engaged with the FCA on the proposals to expand the Scheme, as have industry and RFL, and we are grateful for their support. We will continue to work with the FCA, and encourage it to consult on any necessary changes to its rules to ensure the success of the Scheme. We welcome the FCA's work in allowing firms under Client Assets Sourcebook rules to pay away unclaimed assets to charity and recognise that some firms may prefer to avail themselves of the FCA's procedures, as opposed to the Scheme.

The government recognises the important work of My Lost Account¹¹ in supporting owners to find their dormant accounts free of charge. We would welcome industry efforts to establish a similar service for the other sectors, as some respondents recommended, and understand there is some work being done in this area already.

¹¹ www.mylostaccount.org.uk

4 Banking

The government has worked extensively with industry to expand the Scheme due to its success in its current form. In recognition of this, the government intends to maintain the ways in which the current Scheme operates.

4.1 Scope

The scope of eligible assets in the banking sector will remain unchanged, encompassing dormant bank and building society accounts, including those held within a Cash ISA.

Banks and building societies will remain the named participants for the banking sector. The government strongly encourages those banks and building societies that have not yet joined the Scheme to demonstrate their commitment to responsible business by doing so.

The definition of a dormant bank or building society account will continue to be that no transactions have been carried out in relation to the account by, or on the instructions of, the holder of the account for 15 years.

4.2 Operation

The requirement to undertake tracing, verification and reunification efforts prior to transfer is currently captured in the agency agreements between the participant and Reclaim Fund Ltd (RFL). As outlined in Chapter 3 above, and in the consultation, the government wishes to formalise this arrangement by requiring that the participant has made efforts, based on industry best practice, to reunite the asset(s) with their owner(s), which have been unsuccessful, prior to transferring the asset(s) into the Scheme. This will apply to all assets in the Scheme, including bank and building society accounts. The government has worked with industry representatives and the Financial Conduct Authority on the wording of this addition, and does not anticipate that this change will have any impact on the operation of the current Scheme.

The government intends to maintain the way in which the principle of full restitution is applied in the banking sector. Owners will continue to be entitled to the value of their dormant account, including any accrued interest and adjusted for any fees owed.

4.3 Alternative scheme for smaller banks and building societies

The government confirms that the current alternative scheme will be maintained but not expanded. This allows smaller banks and building societies (defined as having total assets of less than £7bn) to transfer an agreed proportion of the balances of their dormant accounts to RFL and the remainder to the local charity of their choice—while RFL takes on the liability for the full balance. The alternative scheme currently has two participants.

Once alternative scheme participants have transferred the balance of their dormant accounts to RFL and a proportion to charity, existing legislation prevents additional funds from being released to charity from RFL's reserve at a later date. The government will allow RFL to review the proportion of assets it reserves from the alternative scheme on an ongoing basis and, where prudent, to reduce reserve rates to release surplus funds to the agreed charities.

5 Insurance and pensions

Based on industry and Reclaim Fund Ltd's existing reserving estimates, the insurance and pensions sector could make the following contributions to an expanded Scheme:¹²



5.1 Scope

5.1.1 Additional assets in scope

Having carefully considered all consultation responses, the government will include the insurance and retirement income assets set out in Table 3 below. In addition, it will reconsider whether contract-based defined contribution pensions should be included in an expanded Scheme. Several responses provided detailed, technical suggestions for how to define these assets in legislation, which the government is considering.

Table 3: Insurance and pensions sector assets in scope

Asset class	Products in scope
Proceeds of dormant life insurance and retirement income policies	<ul style="list-style-type: none"> ● Savings endowments ● Term insurance ● Annuities with a guaranteed payment period ● Whole-of-life assurance ● Investment bonds ● Income drawdowns ● Deferred annuities

Pension products

When the consultation took place, the government did not believe that pensions or retirement income products should be included in the Scheme at this time. A question was included as to whether there would be any objections to this exclusion. Most insurance and pensions organisations that responded to this question opposed the proposal to exclude pensions and expressed their support for including certain products.

These respondents maintained the position of the Industry Champions, who recommended that certain dormant pension assets be included, provided that they crystallise to cash. Most of these products would only be eligible if the owner had died. In addition, the provider would have to have been unable to contact them or their next of kin for at least seven years, unless it knows that there are no next of kin.

Moreover, the Association of British Insurers (ABI) conducted an opinion poll in June 2020, which revealed that the majority of respondents would not view the inclusion of pensions

¹² These figures are based on industry estimates which include contract-based defined contribution pensions.

negatively.¹³ The ABI also surveyed its members, and 38% said that they would be less likely to join the Scheme if pensions were not included, which would reduce the total amount estimated for transfer into the Scheme.

The consultation cited ongoing changes in the pensions landscape, including the introduction of pensions dashboards, as needing time to fully develop. Many responses asserted that the dashboards would interact positively with the Scheme. Both initiatives have the primary aim of reuniting owners with their assets, and the dashboards will make it even more likely that only genuinely dormant pension products that will not be reclaimed would be transferred into the Scheme. With this in mind, the government has decided to include certain retirement income products, set out in Table 3 above, as recommended by insurance and pensions sector respondents.

However, the pensions landscape is likely to evolve considerably in the coming years with the introduction of pensions dashboards and the maturing of Automatic Enrolment (AE) schemes. Although pensions dashboards may complement the Scheme, AE is still in its infancy. It is therefore unclear what its future impact will be and how this will interact with the assets potentially in scope of an expanded Scheme.

In light of consultation responses, and having carried out a full assessment of the impact and feasibility of industry's proposal, the government is considering options whereby certain pension products may be included in specific and tightly prescribed circumstances. In particular, we will be examining the potential overlap with products which are used for AE, such as group personal pensions, and may be minded to exclude these from the scope of the Scheme. As with all asset classes, consumer protection is at the heart of the Scheme. Therefore, we will also be considering what definitions of dormancy might be applied to any pension products in scope with a preference to focus on where there has been a death notification.

5.1.2 Assets out of scope

Products that do not crystallise to cash

The government proposed including assets in the insurance and pensions sector on the condition that they crystallise to cash by operation of a contractual, legal or regulatory event (i.e. that the policy converts to cash when, for example, it reaches its contractual end date or the owner has died).

If the products do not crystallise to cash (e.g. an investment bond without a contractual end date and where the participant has not received a death claim), additional legislative arrangements would be required to force crystallisation before they could be included in the Scheme.

The majority of respondents to the consultation had no objections to excluding insurance and pension products that do not crystallise to cash at this time. Some recommended that they be legislated for now, even if the intention is to phase them in at a later date. Others highlighted cases where an owner is almost certainly deceased, but the participant has not been notified of their death nor received a death claim. These respondents recommended that assets in scope with owners that would be at least 120 years old should be included in the Scheme. The government supports the latter recommendation and is doing further work on operationalising it. In all other cases, the government has decided to exclude insurance and pension products that do not meet the test of crystallising to cash from legislation at this time.

¹³ <https://www.abi.org.uk/globalassets/files/subject/public/lts/2020/dormantassetsschemesurvey.pdf>

Other insurance and pension products

Some responses from the insurance and pensions sector sought reassurance that certain assets will remain out of scope in their sector. The government confirms that the following assets will be excluded at this time:

- with-profit funds;
- industrial branch policies;
- policies and assets held under group trusts, including occupational pensions;
- general insurance assets;
- personal trusts; and
- assets held by mutual insurers and friendly societies.

5.1.3 Definitions of dormancy

Responses suggested aligning the definitions of dormancy proposed in the consultation more closely to market practice. As noted above, some respondents recommended that assets in scope with owners that would be at least 120 years old should be included in the Scheme. Table 4 below outlines the definitions of dormancy for these asset classes. This includes a provision to address cases where owners are clearly deceased. In this sector, and in line with the current Scheme, legislation will allow participants the flexibility to consider other indicators of client engagement (e.g. client activity on other assets within the same firm).

Table 4: Insurance and pensions sector definitions of dormancy

Asset class (per Table 3)	Dormancy definition
Proceeds of dormant life insurance and retirement income policies	<p><i>Whichever comes earlier:</i></p> <ul style="list-style-type: none"> ● the point at which it is identified that a deceased owner has no next of kin; or ● seven years after a death claim is accepted and there is no ongoing contact with those managing the estate; or ● seven years after the end of the contractual term and there is no ongoing contact with the owner
	<p><i>Or:</i></p> <ul style="list-style-type: none"> ● the owner's records indicate they were born before the oldest living person known at the time of transfer into the Scheme;¹⁴ and ● there has been no contact with those managing the estate for at least seven years

5.2 Operation

5.2.1 Reclaim values

Table 5 below sets out the value that asset owners would be entitled to if their assets were transferred into the Scheme and later reclaimed.

¹⁴ While respondents recommended that assets in scope with owners that would be at least 120 years old should be included in the Scheme, the government believes this wording better future-proofs the Scheme.

Government response to the consultation on expanding the Dormant Assets Scheme

Table 5: Insurance and pensions sector reclaim value

Asset class (per Table 3)	Reclaim value
Proceeds of dormant life insurance and retirement income policies	The value of the proceeds at the point of crystallisation plus any accrued interest and adjusted for any fees owed per the provider's policies

6 Investment and wealth management

Based on industry and Reclaim Fund Ltd's (RFL) existing reserving estimates, the investment and wealth management (IWM) sector could make the following contributions to an expanded Scheme:¹⁵



6.1 Scope

6.1.1 Additional assets in scope

Consultation responses from this sector supported the proposed scope of the expansion and contained a number of suggested additional assets for the government to consider. Most of these were within the overall scope of Scheme expansion and very similar to those assets already proposed for inclusion. Having considered these recommendations, the government will include the additional assets set out in Table 6 below. Several responses provided detailed, technical suggestions for defining these assets in legislation, which the government is considering.

Table 6: IWM sector assets in scope

Asset class	Products in scope
Proceeds of dormant shares or units in collective investments	<ul style="list-style-type: none"> Shares or units in an undertaking for collective investment in transferable securities (UCITS) scheme Shares or units in a non-UCITS retail scheme
Dormant investment asset distributions and proceeds	<ul style="list-style-type: none"> Distributions of income Redemption proceeds Cash held in client money accounts Orphan monies

The above includes assets held within a Stocks and Shares ISA.

6.1.2 Definitions of dormancy

The consultation proposed that, in line with the current Scheme, legislation would define dormancy at the asset level across all sectors but allow participants the flexibility to consider other indicators of client engagement.

¹⁵ These values exclude corporate accounts in the interest of clarity. While there may be dormant elements within such accounts, the reunification proportion is expected to be considerably greater than retail accounts. The lower proportion of assets that RFL is expected to release reflects the market risk associated with reclaim values for shares or units in collective investments, which make up £573m of the £588m total estimate that could be transferred to the Scheme. RFL estimates needing to reserve 60–80% of these funds, as opposed to the usual reserve rate of 40%.

Government response to the consultation on expanding the Dormant Assets Scheme

While recognising this flexibility, many respondents argued that dormancy for IWM assets should be defined in law at the client level, focusing on whether the participant has lost faith in its client's contact details and therefore reflecting market practice. Building on this, some respondents believed that IWM assets should only be transferred into the Scheme once all of a client's eligible assets are dormant—i.e. that cash assets, which would otherwise have a shorter period of dormancy, should not be transferred into the Scheme until the client's non-cash assets, if they hold any, are also classified as dormant. This is in contrast with Financial Conduct Authority (FCA) rules, which enable a company to pay unclaimed distributions away to charity after six years.

The government supports definitions of dormancy that reflect existing regulations and market practice. Accordingly, the government will include the definitions of dormancy outlined in Table 7 below in legislation. In line with FCA rules, these definitions do not require a participant to hold dormant cash assets until a client's non-cash assets can also be transferred into the Scheme, but will provide flexibility for participants wishing to do so.

The government wishes to ensure that FCA rules for paying away unclaimed assets and the Scheme operate in a similar way, allowing potential participants to choose between the two freely. As such, we are keen to work with the FCA to ensure that both schemes continue to mirror each other in their approach to dormancy.

As in the insurance and pensions sector, respondents highlighted cases where an owner is almost certainly deceased, but the participant has not been notified of their death nor received a death claim. These respondents recommended that assets in scope with owners that would be at least 120 years old should be included in the Scheme. The government supports this recommendation and is doing further work on operationalising it. Table 7 below includes a provision to address cases where owners are clearly deceased.

Table 7: IWM sector definitions of dormancy

Asset class (per Table 6)	Dormancy definition
Proceeds of dormant shares or units in collective investments	The owner has been identified as gone-away ¹⁶ , in line with industry best practice, for at least 12 years
Dormant investment asset distributions and proceeds	The owner has been identified as gone-away, in line with industry best practice, for at least six years since the last payment became due <i>Or:</i> where the owner's other assets held by the participant have already been transferred to the Scheme, any further orphan monies received after a fund is wound up can be transferred immediately ¹⁷
Any of the above	<i>Or:</i>

¹⁶ 'Gone-away' is an industry term referring to an asset owner whose contact details a firm or other provider has lost faith in. This may be, for example, because items of post have been returned, emails have bounced, or the owner has not claimed payments owed to them.

¹⁷ This additional option refers to circumstances where an owner has already been identified as gone-away and their assets transferred into the Scheme. Any orphan monies that later arise can be transferred immediately.

	<ul style="list-style-type: none"> • the owner’s records indicate they were born before the oldest living person known at the time of transfer into the Scheme;¹⁸ and • there has been no contact with those managing the estate for at least 12 years
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6.2 Operation

6.2.1 Reclaim values

Table 8 below sets out the value that asset owners would be entitled to if their assets were transferred into the Scheme and later reclaimed.

Table 8: IWM sector reclaim values

Asset class (per Table 6)	Reclaim value
Proceeds of dormant shares or units in collective investments	The value of the shares or units at the time the owner makes their reclaim and it is verified plus any distributions that would have been payable to the owner after the assets were liquidated and transferred to Reclaim Fund Ltd as well as any accrued interest and adjusted for any fees owed per the fund’s policies
Dormant investment asset distributions and proceeds	The value of the distributions and/or proceeds at the time they were due plus any accrued interest and adjusted for any fees owed per the fund’s policies

¹⁸ While respondents recommended that assets in scope with owners that are at least 120 years old should be included in the Scheme, the government believes this wording better future-proofs the Scheme.

7 Securities

Based on industry and Reclaim Fund Ltd's (RFL) existing reserving estimates, the securities sector could make the following contributions to an expanded Scheme:



7.1 Scope

7.1.1 Additional assets in scope

Securities sector respondents were largely supportive of the scope of assets proposed for inclusion. Some suggested that the Scheme should include assets held by Corporate Sponsored Nominees, which the government does not intend to accept at this time. Having considered these recommendations, the government will include the additional assets set out in Table 9 below.

Table 9: Securities sector assets in scope

Asset class	Products in scope
Proceeds of, or distributions from, dormant shares	Shares, or distributions from shares, in public limited companies traded on a UK-regulated market or UK multilateral trading facility
Unclaimed proceeds from corporate actions	Proceeds from corporate actions, such as takeovers and mergers

7.1.2 Definitions of dormancy

Table 10 below outlines the definitions of dormancy to be included in legislation. In this sector, and in line with the current Scheme, legislation will allow participants the flexibility to consider other indications of owner engagement.

Table 10: Securities sector definitions of dormancy

Asset class (per Table 9)	Dormancy definition
Proceeds of, or distributions from, dormant shares	No contact has been made in relation to the assets by or on the instructions of the owner for 12 years since the owner has been identified as gone-away, in line with industry best practice
Unclaimed proceeds from corporate actions	12 years after the date the company received the consideration

For the avoidance of doubt, in this sector the asset owner is a person who is both the beneficial owner and the legal owner—or shareholder—of the share.

7.2 Operation

7.2.1 Reclaim values

Current practice for addressing dormancy in the securities sector is varied. The treatment of gone-away shareholders differs according to relevant terms in companies' articles of association that allow the sale of shares of gone-away shareholders after a period of time (sometimes known colloquially as 'forfeiture terms'). Some allow the company to absorb the value of the shares into its capital accounts if the shareholder loses their entitlement. If the shareholder later comes forward to claim their share, some companies choose to reimburse them for the value of their share at the time it was sold or make some other goodwill payment, but others choose not to.

Views on the consultation's proposal to base reclaim values on companies' share forfeiture terms were mixed. Some respondents felt that this provided useful flexibility, but others felt that a uniform approach would be more transparent and clear. While some respondents were of the view that the Scheme should reimburse shareholders for the value of the share at the point of reclaim, others suggested aligning reclaim values to the value of the share at the point of transfer.

In recognition of the value of providing clarity and transparency to both participants and owners, the government will formalise the most common market practice option that provides some entitlement to owners—namely, to align reclaim values to the value of the share at the point it was transferred to RFL.¹⁹ This is on the condition that Scheme participants in this sector have this as their own policy in order to ensure the equivalence of treatment between owners of the same class of shares within a company. Table 11 below sets this out.

Table 11: Securities sector reclaim values

Asset class (per Table 9)	Reclaim value
Proceeds of dormant shares	The value of the share at the point it was transferred to RFL plus any accrued interest and adjusted for any fees owed per the company's policies
Distributions from dormant shares	The value of the distributions at the time they were due plus any accrued interest and adjusted for any fees owed per the company's policies
Unclaimed proceeds from corporate actions	The value of the proceeds at the time they were due plus any accrued interest and adjusted for any fees owed per the company's policies

We would encourage industry to propose amendments to the model articles of association under the Companies Act 2006 to establish a common set of terms upon which dormant assets could be forfeited and funds transferred into the Scheme.

¹⁹ The Industry Champions' report noted that, while forfeiture terms do not normally entitle shareholders to any payments for forfeited shares, some companies choose to pay the value of the shares at the time they were sold.

8 Potential impact

Expanding the Scheme has the potential to reunite more owners with their assets while unlocking substantial funds for social and environmental causes. Over the past year, the government has been working with industry to assess the potential impact of Scheme expansion across different stakeholder groups. To support this work, the consultation sought wider views on the costs, benefits, and other impacts of the government's proposals for expanding the Scheme.

8.1 Costs and barriers to participation

While participation in the Scheme is and will remain voluntary, it is envisaged that eligible participants will need to familiarise themselves with the legislation to expand the Scheme and decide whether to participate. If they decide to join, participants will likely incur set-up and ongoing costs.

8.1.1 Familiarisation and decision-making costs

Engagement with industry and responses to the consultation have indicated that any additional costs of decision-making regarding participation would be negligible. Taking such a decision is considered by industry to be part of business-as-usual operating activity, and associated costs would be absorbed by participants' existing day-to-day processes and cost bases.

8.1.2 Set-up and ongoing costs

Should eligible participants decide to join the Scheme, there is likely to be a range of set-up and ongoing costs. This is a result of a number of factors, including the range of assets included in an expanded Scheme, systems used to manage the assets, record environments, levels of tracing activities undertaken, and participant sizes. Responses to the consultation indicated that set-up costs for an eligible participant which decides to participate could range from £10,000 to circa £5m.

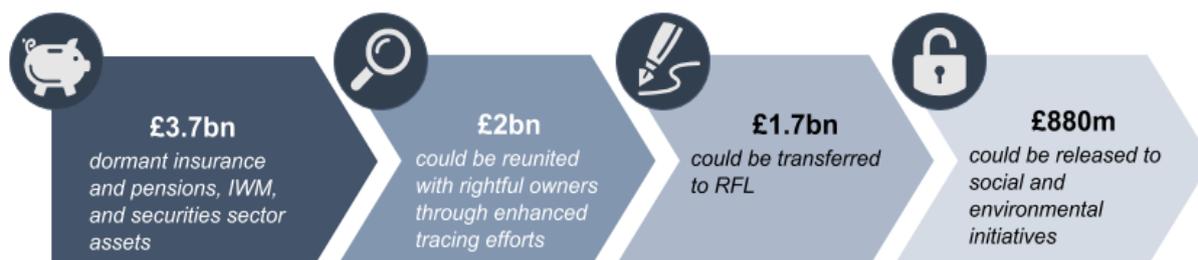
However, this is an industry where the annual compliance costs of retaining dormant assets are also significant, and the potential reputational benefits of participation in an expanded Scheme are recognised. Larger potential participants have therefore indicated that they are keen to participate. Even the upper end of the estimated cost range was considered immaterial to their overall cost base and was not specifically cited as a barrier to participation. However, consultation respondents did indicate that, if participation costs were disproportionate to the benefits, this would be a barrier to participation.

8.2 Benefits of Scheme expansion

We are grateful to industry stakeholders who have worked to estimate the benefits of Scheme expansion in recent months. This has revealed that, from an estimated £3.7bn of dormant assets in the insurance and pensions, investment and wealth management (IWM), and securities sectors, circa £2bn could be reunited with their rightful owners through enhanced tracing, verification and reunification (TVR) efforts. This would leave circa £1.7bn available for transfer into the Scheme. Chapters 5–7 set out each sector's contribution to these figures. In addition to those assets initially eligible for transfer into an expanded Scheme, it is expected that further assets will become eligible as they trigger the dormancy definitions over time.

Reclaim Fund Ltd (RFL) will need to build experience in managing new asset classes and assessing reclaim rates, as it did for bank and building society accounts when the Scheme was first established. For assets with no market risk associated with their reclaim value, RFL hopes to eventually follow the same model used with the banking sector, whereby it reserves 40% of funds transferred into the Scheme, and releases 60% to social and environmental

initiatives. RFL estimates needing to reserve between 60–80% of the money it receives from assets that have market risk associated with their reclaim value.²⁰ This suggests that an expanded Scheme has the potential to make £880m available for social and environmental initiatives in the UK.



8.2.1 Reunification of dormant assets with rightful owners

Representatives from the banking sector have reported improvements in reunification efforts since joining the Scheme. Building on the Scheme’s legacy to date, its expansion could encourage businesses to increase efforts to reunite people with their dormant assets. This would support government objectives for reunification, particularly evidenced in the insurance and pensions sector where it is a key aim of ongoing work to introduce pensions dashboards.

In accordance with the principle of reunification first, participants will undertake TVR efforts prior to transfer into an expanded Scheme. As highlighted above, it is estimated that circa £2bn could be reunited with owners through enhanced TVR. In addition, owners continue to benefit from the ability to reclaim in perpetuity, in line with the principle of full restitution.

8.2.2 Distribution to social and environmental initiatives

The value of the dormant assets transferred to the Scheme may vary depending on rates of industry participation and levels of pre-transfer reunification. Assuming full participation, and allowing for circa £2bn being reunited with owners, it is estimated that circa £1.7bn of existing dormant assets could be transferred to an expanded Scheme. Estimates suggest that £880m of this could eventually be distributed to social and environmental initiatives. Any surplus from assets which become eligible over time could also be distributed to social and environmental initiatives across the UK.

The government is considering a review of how future dormant assets funding can best be spent.

8.2.3 Reputational and other business benefits

In addition to putting assets lying idle to good use, the Scheme represents an opportunity for industry to demonstrate its commitment to responsible business. This is seen by potential participants as being a significant benefit of participation.

In addition, participation in the Scheme supports improved consistencies in TVR methodologies across industry and is likely to increase the success rates in reuniting owners with their dormant assets. Re-engaging with these owners may also bring some small financial benefits.

²⁰ Namely, dormant shares or units in collective investments in the IWM sector.

9 Next steps

The Scheme plays an important role in civil society. It provides long-term, flexible funding that enables expert organisations to focus on important issues such as youth unemployment, problem debt, and addressing environmental issues, and to create positive systemic impact. This has never been more important than in the aftermath of the coronavirus pandemic. Expanding the Scheme will enable hundreds of millions more pounds to be made available to the communities who need it most.

The government is proud of the successes of the current Scheme, which counts all major high street banks as participants. However, without Scheme expansion, the amount of funding that will be made available each year will be at much lower levels than has been possible to date. Expanding the Scheme will also help to reunite more owners with a wider range of asset classes, and will continue to protect their right to reclaim their money at any time. It will also support more organisations to embody responsible business practices, enabling them to put more money to social and environmental initiatives without having to maintain the liability for those assets.

The government intends to legislate for Scheme expansion when parliamentary time allows. The government recognises and welcomes the strong interest in how future dormant assets funding could be spent. We are considering whether this is an area that should be reviewed. In the interim, we will continue to support industry, regulators, and Reclaim Fund Ltd as they prepare to join, regulate, and administer an expanded Scheme.

Annex A: Response analysis

This annex complements the overview in Chapter 2 by providing further detail on the responses to the consultation. Table A below provides a summary of the key points raised by question.

Table A: Key points raised by question

Question	Key points raised
1.	<p>Do you have any comments on the proposed scope of assets in an expanded Scheme (subject to ensuring tax neutrality)?</p> <ul style="list-style-type: none"> • Respondents were broadly supportive of the proposed scope of assets. Expanding the scope was seen as desirable and pragmatic. • The complexity of certain assets, such as insurance products that do not crystallise to cash, was recognised and their exclusion supported. • Respondents from the securities, insurance and pensions, and investment and wealth management (IWM) sectors proposed a small range of additional assets for inclusion.
2. & 3.	<p>Do you have any comments on the proposed definitions of assets? Are there alternative ways of defining the assets?</p> <ul style="list-style-type: none"> • Many respondents combined answers to these two questions. Responses to this question were mixed, with views divided by sector. • Respondents from the insurance and pensions sector were generally content with the proposed definitions, pending some minor clarifications, and referred back to the 2019 Industry Champions' report²¹. • Respondents from the IWM sector were less supportive of the definitions, but offered suggestions for improvement and clarification. • Respondents from the securities sector also made suggestions for improvements to the definitions. • Suggestions centred around clarification of which assets are included in the Scheme, and greater alignment of definitions under the Scheme with those used for compliance with other regulation, such as the Financial Conduct Authority's (FCA) Client Assets Sourcebook (CASS) rules.
4.	<p>Do you have any objections to <u>excluding</u> insurance products that do not crystallise to cash from an expanded Scheme at this time?</p> <ul style="list-style-type: none"> • On the whole, respondents agreed with only considering assets that naturally crystallised to cash, as defined in the consultation. • Respondents who disagreed wanted to unlock as much as possible for good causes, but did not offer solutions to its complexity. • Insurance and pensions sector respondents suggested this could be included in a later phase of expansion.
5.	<p>Do you have any objections to <u>excluding</u> pensions from an expanded Scheme at this time?</p>

²¹ <https://www.gov.uk/government/publications/the-dormant-assets-scheme-a-blueprint-for-expansion>

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	<ul style="list-style-type: none"> • Some respondents agreed with the rationale that the recent changes require more time to become established. Others commented that the nature of pension savings as long-term investments would make their inclusion challenging. • However, most insurance and pensions organisations that responded, including major firms in the sector, opposed the proposed exclusion and maintained the position set out in the Industry Champions' report that certain pension products should be in scope. • Responses from individuals (as opposed to firms) were more likely to agree with exclusion, though not unanimously.
6.	<p>Are there any other assets that the government should consider for inclusion in an expanded Scheme?</p> <ul style="list-style-type: none"> • The IWM and securities sectors suggested additional assets. • In contrast, there were minimal responses to this question from the insurance and pensions sector, who instead referred back to the Industry Champions' report and asked that all assets proposed there for inclusion, including certain pension products, be in scope. • A variety of different assets were proposed that are out of the scope of this expansion, such as Oyster cards.
7.	<p>Do you have any comments on the proposed definitions of dormancy?</p> <ul style="list-style-type: none"> • The banking sector strongly supported the proposal that no changes are made to the definition of dormancy for their sector, and that definitions of dormancy should be tailored to asset classes. • Respondents from the three new sectors suggested ways in which the definitions could be better tailored to their needs. • Key respondents from the IWM sector suggested that dormancy should be defined at client rather than asset level. • Discrepancies were highlighted between the definitions of dormancy outlined in the Industry Champions' report, those proposed in the consultation, and those specified in CASS. • Specific concerns were raised by the IWM and securities sectors around the reliance on 'transactions' for defining dormancy rather than the common approach which refers to 'gone-away' clients.
8.	<p>Do you have any comments on the proposed scope of participants in an expanded Scheme?</p> <ul style="list-style-type: none"> • Respondents from all sectors made suggestions for how the proposed scope of participants could be broadened. • Respondents from the securities sector asked whether Alternative Investment Market companies would be included in scope. • IWM sector respondents proposed that investment platform service providers be included as participants.
9.	<p>Do you have any comments on the proposed reclaim values?</p> <ul style="list-style-type: none"> • Broadly, respondents agreed with the reclaim principle—including rights in perpetuity and, where relevant, a growth element such as interest. • However, numerous issues were raised around the operational implications, which were seen to require further detailed consideration.

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	<p>These included how to ensure tax neutrality, and the interaction with existing regulation under CASS and the Collective Investment Schemes Sourcebook (COLL).</p> <ul style="list-style-type: none"> • The requirement for continued record-keeping, particularly if shadow registers were necessary, was also flagged as a possible barrier to participation.
10.	<p>Do you agree that legislation should make reference to participants making proportionate and reasonable efforts, based on best practice within their relevant sector, to reunite the asset with its owner before it can be transferred into the Scheme? Please consider whether there are any other ways that suitable tracing, verification and reunification (TVR) practices could be encouraged and enabled in participants.</p> <ul style="list-style-type: none"> • There was general agreement that TVR should continue to be a cornerstone of the Scheme. However, views on whether TVR practice should be included in legislation were mixed, even within sectors. It was suggested that any reference to TVR in legislation should use broad wording to allow for adaptation to specific sector needs. • There were strong calls for government data sharing, e.g. to provide a 'yes' or 'no' response on the traced location of owners. It was expected that being able to access such information could prompt a 'seismic change' to the success rate of TVR. • There was a perceived need for proportionality of TVR efforts, especially in instances where there are a high number of low value assets, such as unclaimed dividends.
11.	<p>Do you foresee any barriers to participation in the Scheme or have any comments on its operation? Please consider the feasibility of including eligible assets that are held within Stocks & Shares ISAs.</p> <ul style="list-style-type: none"> • Respondents identified a range of potential barriers to participation in the Scheme. These included the administrative burden for participants of satisfying Scheme requirements, such as carrying out appropriate TVR and determining the value of a reclaim. • Further, it was noted that individual fund managers or other asset providers would not necessarily be able to determine which assets are dormant, as the platform owns the customer relationship and straddles multiple sectors and products. • Although there was appetite to include Stocks and Shares ISAs, there were a number of concerns around how to ensure tax neutrality.
12.	<p>Do you agree that the existing practice in the event of a participant's insolvency should be extended to all assets in an expanded Scheme?</p> <ul style="list-style-type: none"> • Respondents were generally comfortable with the existing treatment of an insolvent participant, and agreed that reclaim should be as straightforward as possible. • Respondents from the securities sector felt that clarity was needed around what was possible in terms of restitution for different asset types in the event of a participant's insolvency. The potential for insolvency of an authorised reclaim fund was raised, with suggestions of how to mitigate this risk.
13. & 14.	<p>How could legislation on trustee, director or agent duties be amended to</p>

	<p>enable the proposed participants, as set out in Table 3 [of the consultation], to take part in an expanded Scheme? What protections might a trustee, director or agent need in such circumstances?</p> <ul style="list-style-type: none"> • There was broad support for clear legislation to protect trustees, directors and agents participating in the Scheme. • The main emphasis was on making any new legislation easy to understand. Some respondents took the view that this would require ensuring any new legislation did not conflict with existing legislation and regulation. Others suggested that such regulation would need to be amended. • Amendments to existing legislation were suggested to enable participants to transfer funds to the Scheme with appropriate statutory immunity from liability. Respondents reiterated the importance of explicit protection in order to ensure trustees, directors and agents have comfort that they will be at lower, or no, risk of personal liability if they transfer funds to Reclaim Fund Ltd (RFL). • Concern was expressed that a client could continue to have recourse to the participant under the contracts governing the assets and that residual liability would not be fully extinguished after transfer to RFL if so.
<p>15.</p>	<p>What do you think the set up and ongoing costs of the expansion would be for participants?</p> <ul style="list-style-type: none"> • Respondents suggested a range of costs they would incur in order to set up and maintain participation in an expanded Scheme, including new administration systems (e.g. a shadow register to determine the correct value of any reclaim for non-cash assets), reissuing terms and conditions, and managing transfers to RFL. • Associated costs were anticipated to range from tens of thousands of pounds for a large IWM sector firm, to £1–£5m for large organisations in various sectors. An impact assessment conducted by a building society in 2019 on the cost of setting up and operating the existing Scheme found that initial costs were approximately £5m, with ongoing costs of £80k per annum. • Costs were expected to depend on a range of factors, including the asset types that participants managed, the amount of eligible funds they hold, and their existing systems and processes. For example, it was noted that for organisations that already carry out TVR practice, TVR for an expanded Scheme would largely be absorbed within business as usual activity.
<p>16.</p>	<p>What do you think the initial and ongoing benefits of the expansion would be? In particular, we welcome estimates from potential participants on the value, number and age of dormant assets that they currently hold and could transfer into an expanded Scheme, as well as how these figures are expected to evolve over time.</p> <ul style="list-style-type: none"> • Respondents saw the opportunity for participants to divest themselves of client accounts that have long been inactive—and the regulatory obligations linked to them—as a key benefit of participation. The fact that liability for the reclaim value of transferred assets would sit with RFL rather than with the participant represented the expanded

	<p>Scheme's most significant advantage over existing FCA mechanisms for paying away dormant assets.</p> <ul style="list-style-type: none"> ● Further advantages of participation included reputational benefits for the financial services industry, with a focus on corporate social responsibility and support for participants' commitment to 'doing social good', with the consequential benefits for recipients of funds. ● Respondents rarely provided estimates of the value of dormant assets that they currently hold, as uncertainty remained around assets in scope and the definition of dormancy. The lack of estimates in the responses to the consultation is also likely to be due to parallel work on an impact assessment for the expansion, which secured these estimates from trade bodies and industry stakeholders in a dedicated and clearer format. One respondent referenced this work to explain why they had not included their figures again in their response.
<p>17.</p>	<p>Are there any other significant impacts of the expansion that the government should consider?</p> <ul style="list-style-type: none"> ● There were a range of views expressed by respondents, as might be expected with this form of question. Noteworthy elements that were in scope of this consultation included: <ul style="list-style-type: none"> ○ Consideration is needed of arbitration and dispute resolution requirements, including the most appropriate party that the asset owner would have redress with and the circumstances where this might be an option at the point of reclaim. ○ The interaction of current regulations, processes, and practices with an expanded Scheme should be further considered. This includes ensuring that there is no conflict between the Scheme's legislation and CASS and COLL rules, which may need to be changed to allow participants to engage with the Scheme. Further, it was noted that under current rules, the Financial Services Compensation Scheme and Financial Ombudsman Service protections would not apply to some assets, notably those in the securities sector, but would to others. ○ Where multiple firms have client responsibility, such as independent financial advisors and platforms, consideration should be given to which has primacy in various aspects of the participant role, including determining dormancy, being party to the agency agreement with RFL, and passing liability to RFL.