

**Discussion paper**

# **Unclaimed assets in the UK: review of the evidence**

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## **Executive summary:**

The purpose of this report is twofold. First, we identify and describe the case for unclaimed assets in the UK. Second, we consider what might be the likely economic effect if these assets were injected back into the real economy. To guide our analysis we review a number of theoretical and empirical papers on consumption behaviour. We discuss the main economic arguments about the effect of different types of income shocks on consumer spending. We also consider the recent experience of the PPI reclaim and the effect it had on consumption and overall economic activity. We conclude that there is scope to extend the current definition of unclaimed assets that such an extension might trigger a temporary increase in consumer spending. The magnitude of this effect would depend on a number of parameters - including demographics and financial characteristics of claimants, distribution of assets and others. This report was commissioned by CanFind Ltd. All research was carried out independently (with the exception of the company profile (presented in the appendix) - which is based on information supplied by the company).

## **Policy Highlights**

- there is an estimated £15 billion of unclaimed assets in the UK
- current legislation only accounts for a very limited number of types of unclaimed assets (dormant accounts)
- injecting unclaimed assets into the economy is likely to have a positive effect on consumption and overall economic activity
- further research (and data) required to provide more accurate estimates of these effects.

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## 1. Introduction

The purpose of this report is twofold. First, we identify and describe the issue of unclaimed assets in the UK. We summarise the current regulatory framework; we review the type of assets that fall under this category and consider some popular estimates regarding the total value and distribution of these assets. Second, we consider what might be the likely economic effect if these assets were injected back into the real economy. Should we expect households to spend this extra (and possibly unexpected) income? And if so, what effect could it have on private consumption and overall economic activity?

To guide our analysis, we review the economic literature on consumption behaviour. We explain the key theoretical arguments about why temporary changes in income (also known as "income shocks") may or may not affect private consumption and we summarise the results of empirical studies that have attempted to address similar questions using data from both sides of the Atlantic.

We also use the recent experience of the Payment Protection Insurance (PPI) reclaim as a case study, to evaluate how consumers adjusted their spending behaviour when presented with an unexpected one-off payout of (on average) £2,750 per claim<sup>1</sup>. The case of PPI reclaim is particularly useful for our purposes, partly because the total value of overall payouts made to consumers is very similar to the estimated value of unclaimed assets<sup>2</sup>; and partly because it was truly unanticipated: consumers had no reason to expect that they would receive this extra (one off) income<sup>3</sup>. Survey results suggest that the largest share of these payouts was used to finance increases across a range of expenditure categories - with holidays and new vehicles being two of the most popular types of purchases. We explain how this extra spending affected overall economic performance, GDP growth and employment, and we summarise the range of estimates for such effects as reported in the related literature.

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<sup>1</sup> <http://www.theguardian.com/money/2014/mar/05/claims-firms-ppi-mis-selling-payment-protection-insurance>

<sup>2</sup> see also table 2 and footnote 23.

<sup>3</sup> Unclaimed assets may have a similar "surprise" effect on consumers. A discussion of the most common reasons that might lead to an asset becoming unclaimed can be found in section three.

The rest of this report is structured as follows. Section two defines the market for unclaimed assets and outlines the current regulatory framework. Section three discusses the theoretical and empirical literature on income shocks, consumption and growth. Section four focuses on the case of PPI reclaim and the effect it had on consumption, employment and growth. Section six concludes. Finally, the appendix provides information about CanFind Ltd, the asset recovery firm that commissioned this report.

## 2. The case for unclaimed assets

An asset account becomes unclaimed if (a) there has been no customer activity within a set period of time (in which case the account is deemed to be "dormant"); and (b) despite reasonable efforts, the holding financial institution has been unsuccessful in making contact with the asset owner(s)<sup>4</sup>. The literature identifies a number of reasons that can lead to asset owners falling out of touch with their assets - ranging from individual asset owners changing address without notifying their financial institution to unsuspected heirs unaware of their inherited assets<sup>5,6</sup>.

Until the mid 2000 there was limited regulatory guidance about how financial organisations should handle unclaimed assets. In the case of dormant cash holdings, banks were allowed to write off such accounts after a minimum period of inactivity which could be as short as one year<sup>7</sup>. The Dormant Bank and Building Society Accounts Act 2008 ("the Act") set out a new legislative framework that was aimed at one particular class of unclaimed assets, dormant money-only accounts held in banks, building societies and National Savings & Investments (NS&I) based accounts. The dormancy period was set to 15 years, after which any monies that remained unclaimed can be redistributed through two key mechanisms (the Central Reclaim Fund and the Big Lottery Fund) to fund community projects<sup>8</sup>.

Dormant bank accounts constitute one of the most common unclaimed class of assets, albeit not the only one. Other types of unclaimed assets include insurance policies; shares, bonds & dividends; pensions, and other (such as lottery winnings and contents of safe deposit boxes).

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<sup>4</sup> "...Unclaimed Assets are monies in financial institutions that have been untouched by their owners for a considerable period of time..." (The Commission on Unclaimed Assets).

<sup>5</sup> Other common reasons include asset owners forgetting about their investments; change of name (most commonly due to marriage or divorce); increased labour mobility (within and between countries) that exacerbates the risk of losing a pension; and incomplete or illegible records. A more detailed account of these reasons can be found in the consultation document produced by the Charity Coalition in June 2007.

<sup>6</sup> Bruce and Turner (2004) offer a detailed discussion on the links between increased labour mobility and the problem of a lost pension in the US.

<sup>7</sup> House of Commons Briefing Paper 03027, 01 April 2011

<sup>8</sup> The exact definitions of key parameters mentioned in the Act are given as follows: (1) Bank (section 7.1): "an authorised deposit-taker that has a head office or one or more branches in the United Kingdom". (2) Account (section 9.1): "an account that has at all times consisted only of money", i.e. excludes share holding accounts. (3) Dormant (section 10.1): "(a) the account has been open throughout the period of 15 years ending at the time, but (b) during the period no transactions have been carried out in relation to the account by or on the instructions of the holder of the account". See also Dormant Bank and Building Society Accounts Act 2008, Chapter 31.

*Which?* has compiled a comprehensive list of the types (and examples) of unclaimed assets that are covered by similar schemes in other countries and US states (table 1)<sup>9</sup>. It is important to note that the 2008 Act in its current form covers only a small subset of these types of assets, namely dormant bank accounts<sup>10</sup>.

Table 1: Types of assets that can be claimed in other countries

<i>Type of asset</i>	<i>Example</i>
Bank accounts	Including savings accounts; current accounts; Certificates of Deposit; credit balances held in loan, credit card and mortgage accounts.
Shares, investment funds, bonds and dividends	Unclaimed shares, dividends, bonds, mutual funds (unit trusts); money held in trading accounts; proceeds from compulsory acquisitions and takeovers.
Insurance policies	Matured endowments or other insurance-based savings products; annuities; life insurance policies.
Demutualisation shares	Unclaimed shares issued as a result of a demutualisation, or the proceeds from the sale of shares.
Pensions	This can include Individual Retirement Accounts (IRAs). In some states, these are only considered unclaimed if benefits have not been paid by a certain age.
Contents of Safe deposit boxes	This could include, cash, jewellery, papers, share certificates. Contents are typically held by the State for a number of years before being sold at auction and the proceeds retained should the rightful owner come forward to claim them.
Other	Unpaid wages and uncashed pay cheques; unclaimed gift certificates, travellers cheques, utility deposits, mineral interests.

Source: Memorandum submitted by *Which?* (2007) to Select Committee on Treasury<sup>11</sup>

Although to the best of our knowledge there is not an official estimate of the exact value of total unclaimed assets in the UK<sup>12</sup>, the majority of the unofficially reported estimates tend to place them somewhere between £10 and £20 billion<sup>13</sup>. Data from the Unclaimed Asset

<sup>9</sup> available from

<http://www.publications.parliament.uk/pa/cm200607/cmselect/cmtreasy/533/533we31.htm>

<sup>10</sup> For further discussion on this, see also "A response from Unclaimed Assets Charity Coalition to "A UK Unclaimed Assets Scheme: a consultation", June 2007. (doc 50)

<sup>11</sup> full text available from

<http://www.publications.parliament.uk/pa/cm200607/cmselect/cmtreasy/533/533we31.htm>

<sup>12</sup> see also HC Deb 4 May 2004 c1486W

<sup>13</sup> House of Commons Treasury Committee "Unclaimed Assets within the financial system", 24/07/2007

Register (UAR)<sup>14</sup> suggests the value of total unclaimed assets in the UK to be in the region of £15 billion - table two shows the estimated distribution of these assets between different classes. According to these figures, dormant accounts count for only a third of the total estimated value; with shares & dividends, pensions and national savings counting for just under 60 per cent - i.e. a combined total of £9 billion<sup>15</sup>.

Table 2: Estimated distribution of unclaimed assets

<b>Source</b>	<b>£ millions</b>
Life policies	1,000
Pensions	3,000
Shares & Dividends	3,000
Dormant Accounts	5,000
National savings	3,000
Lotteries & other	300
<b>Total</b>	<b>15,300</b>

Source: The Unclaimed Assets Register

In this section we considered the key arguments and existing regulatory framework for unclaimed assets. We argued that the current legislative framework only accounts for what seems to be a small share of all possible unclaimed assets. We also came across reports suggesting that the actual value of unclaimed assets may be significantly higher than the Unclaimed Assets Register estimates. Moreover, when compared against the unclaimed assets registers of other countries (such as Ireland, US, Canada and Australia)<sup>16</sup>, the Act in its current form could be deemed as too restrictive. Addressing these restrictions could have significant economic benefits, as the next two sections are going to show.

<sup>14</sup> Data available from: <http://web.archive.org/web/20060829090616/http://www.uar.co.uk/benefit.htm>

<sup>15</sup> There are some reports and anecdotal evidence suggesting that this figure could be substantially higher. For instance, in a 2014 article by the Financial Times, Helen Coulson, adviser to the board of Heirtrace (an asset pricing company) is quoted to say that "...we seem to be talking about billions, if not trillions, of pounds [of unclaimed assets] across the industry, but nobody knows what the size of the problem is" (Financial Times, May 25 2014 by Judith Evans).

<sup>16</sup> A detailed discussion on the regulatory arrangements of unclaimed assets in other countries can be found in House of Commons Briefing Paper 03027 (April 2011).

### 3. Income shocks and household spending: review of the literature

The figures presented and discussed in section three together with the experience reported from other countries suggest as likely that (a) the range of actual unclaimed asset classes in the UK may extend beyond the ones covered by the Act; and (b) the actual monetary value of these assets may be substantial - with most estimates ranging between £10 to £20 billion; with £15 billion being the estimate that is most frequently quoted in official government reports (and the one we use in this report).

Moreover, the current legislative framework accounts for only a small fraction of these assets (dormant accounts) which is believed to amount to a total value of £5 billion. This leaves a possible extra £10 billion worth of other assets<sup>17</sup> which currently remain unclaimed and provides a strong argument for extending the current legislative framework to cover some (if not all) of these asset types<sup>18</sup>. It also raises questions about what might be the likely economic impact of such an intervention in areas such as consumption and economic activity, if these assets were to be identified and reclaimed by their rightful owners<sup>19</sup>.

In this section we outline some of the key macroeconomic literature on private consumption and income. We discuss how an increase in household consumption may boost economic performance and how windfall income can affect households consumption plans. We also summarise some empirical findings about the magnitude of such effects in Europe and the US.

GDP can be thought of as a measure of an economy's aggregate expenditure on goods and services and it can be divided to four parts - private consumption, investment, government spending and net exports. In the UK private consumption represents nearly two thirds of total GDP (figure 2), making it the key component of aggregate demand. This places private consumption at the centre of macroeconomic policy making, and qualifies it as one of the

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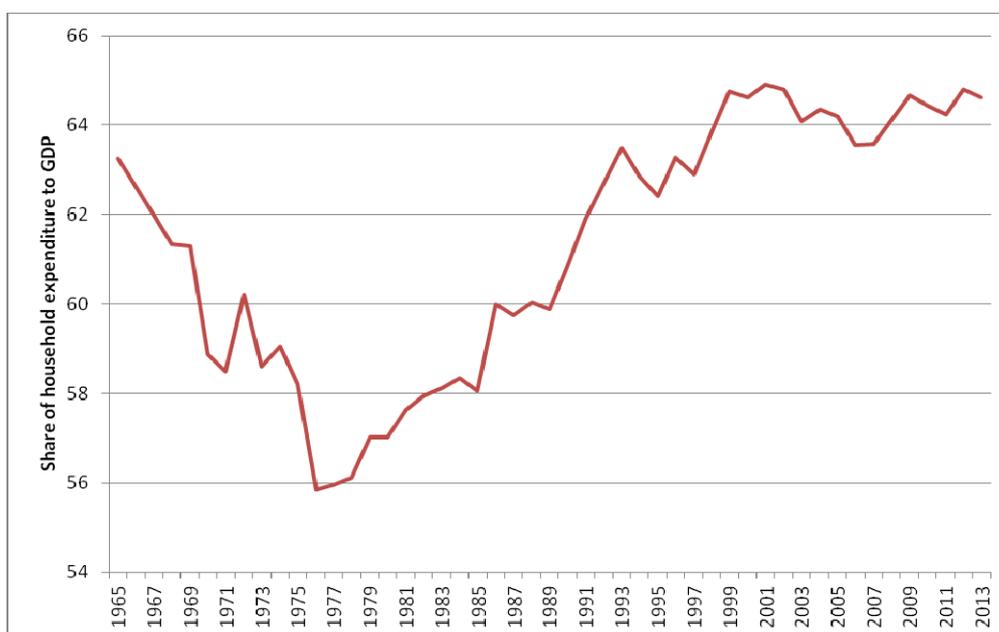
<sup>17</sup> see also table 2.

<sup>18</sup> Some of the limitations of the current legislative framework were pointed out and discussed throughout the consultation period in 2007 by a number of stakeholders. See for instance response by *Which?* (2007) and the response from the Unclaimed Assets Charity Coalition (June 2007).

<sup>19</sup> Of course, the magnitude of these effects would depend on the details of the framework that would be designed to reintroduce the assets back to the economy (i.e. indirectly through community projects, or directly through their owners). In this report we explore the second option - which is the reuniting assets and owners through private run intermediaries, such as CanFind.

most important determinants of total expenditure and overall economic performance<sup>20</sup>. Figure three shows the importance of private consumption for GDP growth. In 2013 private consumption was responsible for more than 80% of real GDP growth in that year.

Figure 1: UK household final consumption expenditure (as % of GDP)



Source: World Bank Indicators

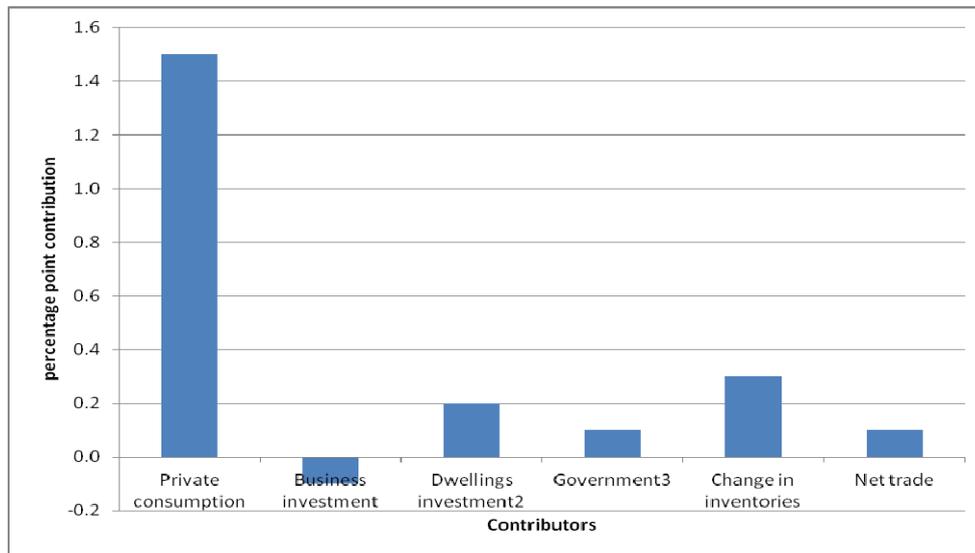
Unsurprisingly, one of the main drivers of personal consumption is income. Figure four shows the evolution of UK household expenditure and disposable income, in per capita values, from 1997 till the end of 2012. Throughout the entire period, the two variables appear to maintain a strong positive linear correlation<sup>21</sup>, implying that an increase in disposable income is most often coupled with increased private consumption. This co-movement is indicative of a long run linear relationship between the two variables and a number of studies have been written in order to model the effect of income changes on consumption in the UK and elsewhere<sup>22</sup>.

<sup>20</sup> see for instance Bunn et al (2012).

<sup>21</sup> the correlation coefficient over the entire time sample period is in excess of 90%

<sup>22</sup> See for instance Shea (1995); Parker (1999) and Souleles (1999). Refer also to footnotes 21 to 23 for further references and a brief discussion of some of their main findings.

Figure 2: Expenditure contributions to GDP growth

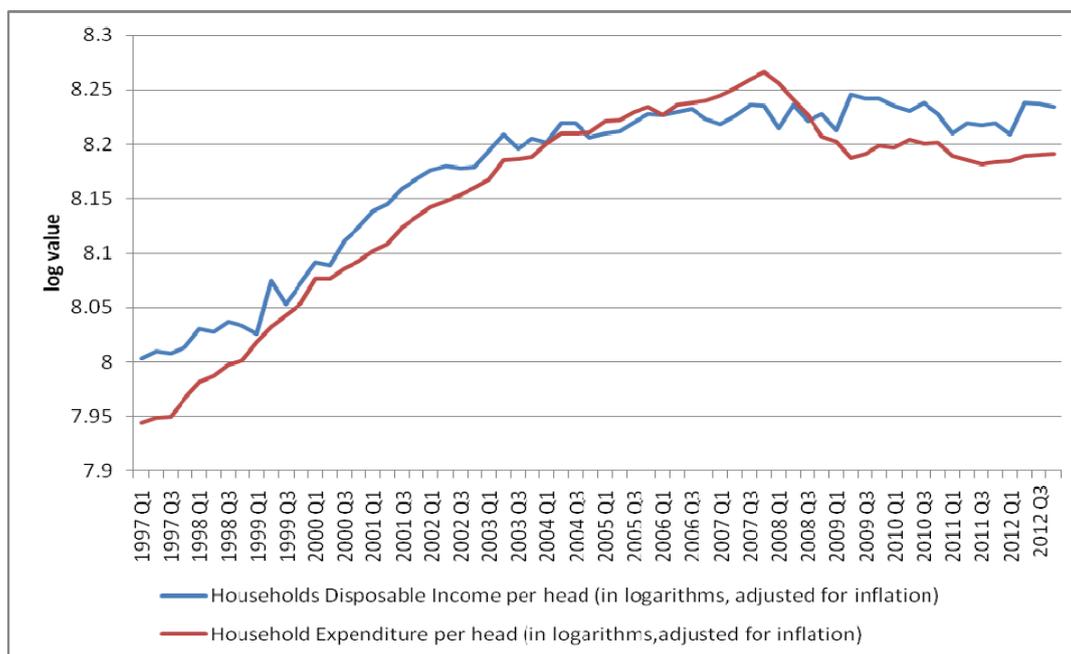


Source: Office for Budget Responsibility, Economic and Fiscal Outlook (March 2014)

There are four key theories in modern economics that have been used to explain household consumption behaviour (and the factors that influence it). On the one end, the Keynesian theory argues that contemporaneous disposable income is the key determinant of current consumption. From Keynes' point of view, an increase in income should result in a proportionate increase in current consumption, causing aggregate demand to expand. Modigliani and Brumberg's Life Cycle Hypothesis argues that households smooth their lifetime consumption using savings. Their consumption decisions will therefore depend not only on their current income, but also on their accumulated wealth. This in turn implies that changes in current income may have smaller effect on current consumption than Keynes expected.

Friedman distinguished between two types of income: permanent and transitory. Permanent incomes include income streams that households expect to persist into the future (e.g. wages). Transitory incomes include different types of temporary revenue (or loss of it), such as lottery prizes or inheritance receipts (or temporary loss of income due to unemployment). Friedman argued that households will base their consumption decisions on their permanent income and will use savings to deal with transitory deviations from it. Finally, Hall (1979) shows that households base their consumption decisions on their expectations about future income - and deviate from that schedule only if they experience an unanticipated income shock.

Figure 3: Household expenditure Vs disposable income (per capita, in logarithms)



Source: Office for National Statistics, The Economic Position of Households Q4 2012 (April 2013)

These economic theories have given rise to a rich body of empirical literature that utilises data from both sides of the Atlantic to test the effect of different variables on private consumption. Specialised econometric techniques have been developed to depict the effects of different types of income shocks, wealth, interest rates and a number of other variables<sup>23</sup>. The results of these studies are quite varied - but most of the times they suggest that consumer spending tends to track current income far more than life cycle theories would suggest<sup>24</sup>. Another common finding is that permanent shocks tend to affect consumption behaviour more than transitory shocks - which is in line with the permanent income

<sup>23</sup> see for instance Deaton (1992), Attanasio (1998), Carroll (2001b) and Bover (2005).

<sup>24</sup> Examples of recent studies include Wilcox (1989) who examines the response of aggregate consumption to pre-announced social security benefits increases in the US. His findings show that a 10 per cent increase in social security benefits induces a one percent increase in retail sales in the same month. Souleles (1999) estimated the effect of anticipated income tax refunds on American households consumption schedules and he found "the response of total consumption [...] to be at least 35% of refunds within a quarter, up to over 60 per cent". Johnson, Parker and Souleles (2011) discuss the response of American households to the tax rebate programme that followed the Economic Growth and Tax Relief Reconciliation Act of 2001. Their results indicate that households on average spent 20 to 40 percent of this rebate on non-durable goods within three months of receiving the rebate. In Europe, Browning and Collado (2001) assess the response of Spanish households to the payment of institutionalised June and December extra wage payments to full time workers. They find that consumers tend to smooth consumption when the expected extra income change is large - but they are less likely to do so for lesser shocks.

hypothesis (although, again, the difference between the two most of the times is not as large as theory suggests)<sup>25</sup>.

The effect of different types of income shocks on UK households consumption behaviour has also been analysed in the context of a recent survey commissioned by the Bank of England - commonly known as the "NMG survey". The NMG survey covered a cross section of around 6,000 representative British households and it was conducted between September and October 2012<sup>26</sup>. The data that was collected was used to analyse the saving and spending behaviour of British households - including their Marginal Propensity to Consume (MPC) to unexpected shocks. The definition of MPC that the Bank uses measures "...the share of an unexpected rise in income that is spent (or the proportion by which spending is cut when income falls)" (Bank of England, 2012). The results show that positive transitory income shocks were found to have a marginally higher effect on consumption than permanent ones<sup>27</sup>: almost 19 per cent of unexpected temporary income rises was spent; compared to a share of just under 15 per cent for anticipated temporary income increases. These figures suggest that, on average, households spent £19, out of every temporary income rise of £100 they unexpectedly received. It is also important to note that the response of consumers to all types of income shocks was dependent on their age and income: lower income and/or older consumers showed significantly higher MPC values<sup>28</sup>.

In this section we explained how changes in households income can affect their consumption decisions. We distinguished between different types of income shocks, and reviewed a number of key theoretical and empirical papers on that subject. Most of the evidence points out to two facts: (a) consumers smooth their lifetime consumption using savings, access to

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<sup>25</sup> Kuhn et al (2011) use data from the Dutch Postcode Lottery to evaluate the effect of small (unexpected) lottery prizes (in the range of €12,500 per ticket plus an upper range model BMW car) to household consumption behaviour. Their results show that the vast majority of winning households no longer own a BMW six months after the lottery - which is consistent with consumption smoothing. They also find that lottery winners increase their spending on durable goods (such as cars) - which is an indirect way of smoothing consumption through the timing of durables purchases (see also Browning and Crossley, 2009).

<sup>26</sup> A detailed discussion of the questions and the key results of the survey can be found in Bunn et al (2013)

<sup>27</sup> It is mentioned in the survey, however, that the number of households that reported to have experienced a positive temporary income shocks was small. This may have affected the accuracy of the reported estimates.

<sup>28</sup> This is compatible with the prediction of life cycle theories: lower income consumers have to adjust their consumption more to income changes, because these changes represent a higher share of their total wealth. Older consumers are also likely to have high MPC, especially as they approach the end of their lifecycle.

credit markets and other mechanisms to deal with income variations throughout their lifetime; (b) this smoothing is far from perfect. In fact consumers tend to spend a larger share of their disposable income on current consumption than what many of the key economic (life cycle) theories might predict. Mankiw (2000) provides a comprehensive discussion of this issue and identifies as a possible explanation for this the fact that "many people have net worth near zero" (Mankiw, 2000; p. 3). The unequal distribution of income implies that for a large number of households saving is not a regular activity. These households, therefore, are by definition unable to smooth their lifetime consumption and they simply spend what they earn as they earn it.

The evidence, therefore, seems to suggest that income shocks (transitory or permanent, expected or unexpected) affect current consumption choices. Unexpected, permanent income shocks are most often reported to have the larger effect on consumer spending. Transitory income shocks, however, are also found to have a significant effect on current consumption - often not too different in magnitude than permanent ones. The estimates of these effects vary widely from as little as five per cent up to 60 percent or more. The NMG survey that was conducted by the Bank of England estimated the effect of unexpected temporary income shocks on current consumption to be in the region of 19 per cent.

Essentially part of the purpose of this report is to explain what may be the likely economic impact of unclaimed assets on consumption and overall economic performance. Being reunited with an unclaimed (and possibly forgotten) asset qualifies as a positive unexpected, transitory, income shock. Based on our earlier literature review, we conclude that part of these reclaimed assets are likely to be spent on current consumption. The magnitude of the effect will depend on a number of factors - including among others, the average age of claimants, their financial status, the size of the payout, the type of the asset that it is reclaimed and others. We will not, therefore, attempt to assign a percentage value to this effect - as there would be no value in such a guesstimate (although the figure reported by the Bank of England might be seen as a crude approximation of the average effect). We will instead use the next section to discuss how consumers responded to another similar (and recent) positive unexpected and transitory shock of comparable magnitude: the PPI reclaim.

#### 4. The experience of the Payment Protection Insurance reclaim

The theoretical and empirical literature that we reviewed and discussed in the previous section suggests that positive transitory and unexpected income shocks are likely to boost consumer spending, by a share that according to the Bank of England's 2012 NMG survey is just under 19 percent<sup>29</sup>. In this section we use the experience of the Payment Protection Insurance (PPI) reclaim to evaluate the effect of a recent temporary and unexpected income shock on actual consumer spending (and overall economic activity).

The PPI reclaim happened after a long period of investigation into the misselling of payment protection insurance products by banks and other financial institutions to private consumers. These products, which were designed to insure against loss of income due to illness or unemployment, were in many cases inappropriately (often verging to forcibly) sold alongside mortgages, loans and credit cards, to consumers who might not even be eligible for compensation. The true scale of the scandal became evident in 2008, when *Which?* presented evidence that one third of all PPI products might have been missold<sup>30</sup>. In 2011 the case was taken to the High Court and resulted in a ruling that required banks to reimburse eligible consumers for the payments that they had made towards mis-sold PPI plus foregone interest<sup>31</sup>.

The monthly and cumulative distribution of these compensation payments is shown in figure five. As it can be seen from the figure, the payouts started peaking pace after July 2011 and have continued since then, returning on average £380 million per month (£424 million, if we exclude the initial period January-June 2011). The value of the total payments that had been made up to April 2015 was £19.74 billion<sup>32</sup>. These repayments had a visible effect on household disposable income growth - leading the Office for Budget Responsibility to revise

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<sup>29</sup> It should be noted that this estimate is based on a small sample of respondents - which may affect its accuracy. For further discussion and a review of the literature on consumption see section four.

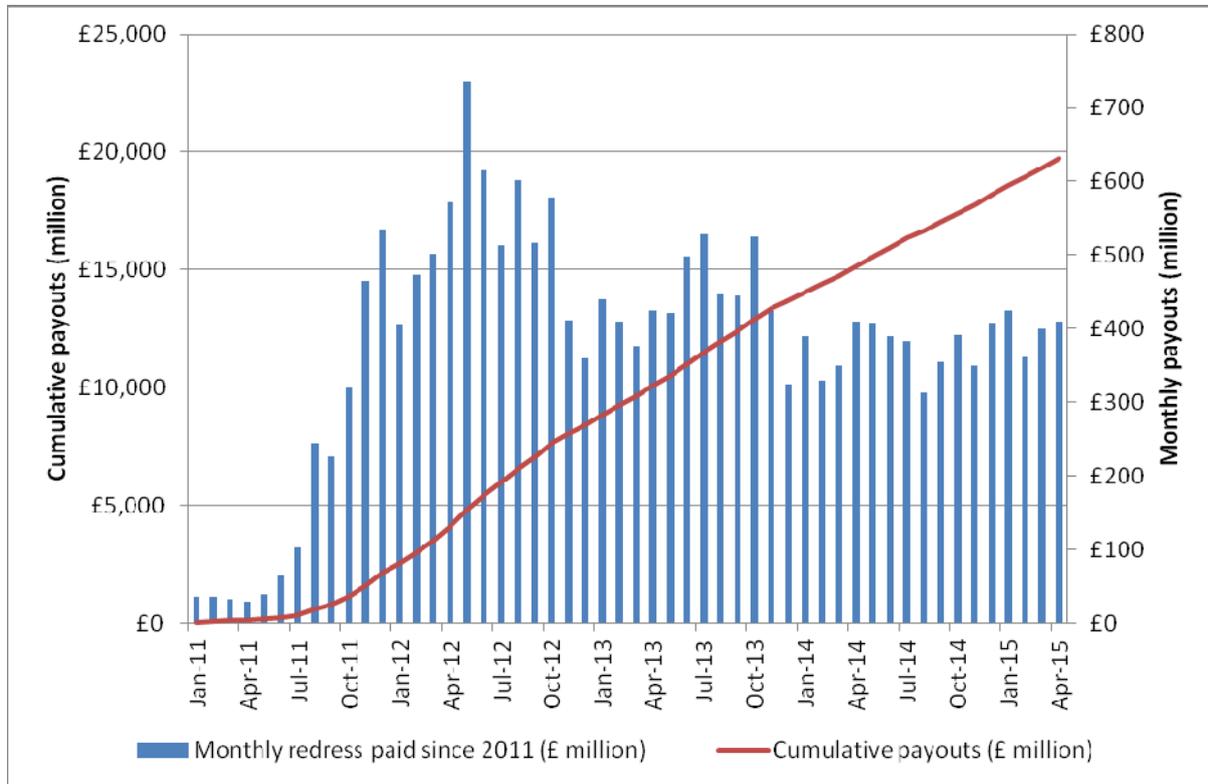
<sup>30</sup> Details available from <http://www.which.co.uk/news/2008/05/one-in-three-with-ppi-may-find-it-worthless-144107>

<sup>31</sup> For a detailed account of the history of PPI reclaim see <http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/9093101/Payment-Protection-Insurance-a-brief-history.html>

<sup>32</sup> Author's calculations, based on FCA data available from <https://www.fca.org.uk/consumers/financial-services-products/insurance/payment-protection-insurance/ppi-compensation-refunds>

its initial estimates of real disposable income growth for 2012 and 2013 by 0.5 per cent, to take into account the effect of PPI payouts<sup>33</sup>.

Figure 4: Distribution of PPI payouts, Jan 2011 - April 2015



Source: own calculations using data from the Financial Conduct Authority

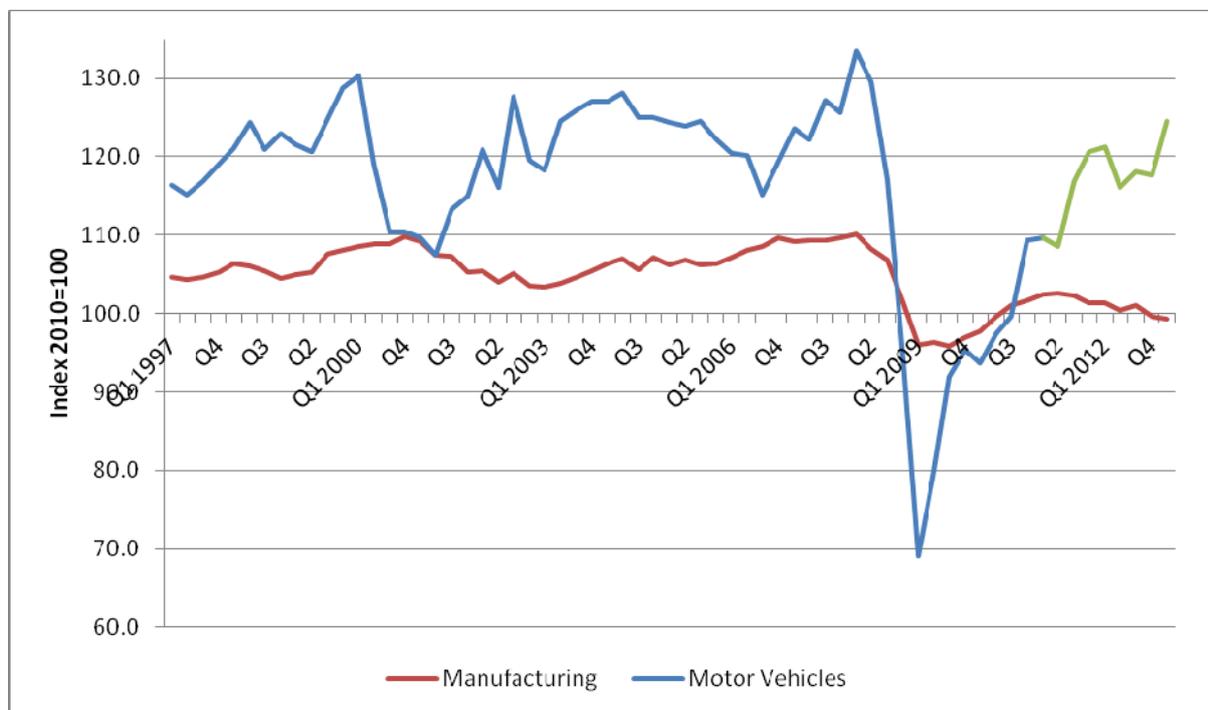
Much of the evidence that is currently available suggests that the PPI payouts had an effect on consumer spending and overall economic activity. From data released by the Office for National Statistics (ONS) in July 2013 it can be seen that motor vehicles output showed a strong increase that occurred around the same time as the beginning of the PPI payouts. In the third quarter of 2011 (July 2011 onwards - when the larger PPI payouts began), motor vehicle output increased by 8 percent compared to the quarter before it. This increase in output persisted into subsequent quarters. By the end of the first quarter of 2013, vehicle output had increased by over 20 percent compared to the first quarter of 2011. Figure six plots quarterly vehicle output (blue line before 2011, green line after that) against manufacturing output (red line) over the period 1997 to 2013. Although the two sectors experienced similar patterns of

<sup>33</sup> Office for Budget Responsibility, "Economic and Fiscal Outlook", March 2012, para. 3.59 (p.57)

change in output before 2011, after that date and up to the beginning of 2013 output for that sector kept expanding significantly faster than manufacturing output. The ONS attributed this change in consumer behaviour to PPI payouts<sup>34</sup>:

*"...The relatively large size of these payments offers households the potential to make large purchases, such as new cars, which they might otherwise have deferred. The timing of payments corresponds quite closely with the renewed pick-up in car purchases that began in 2011" (Jowett et al, 2013; p.10).*

Figure 5: Production output for the motor vehicles and manufacturing industries



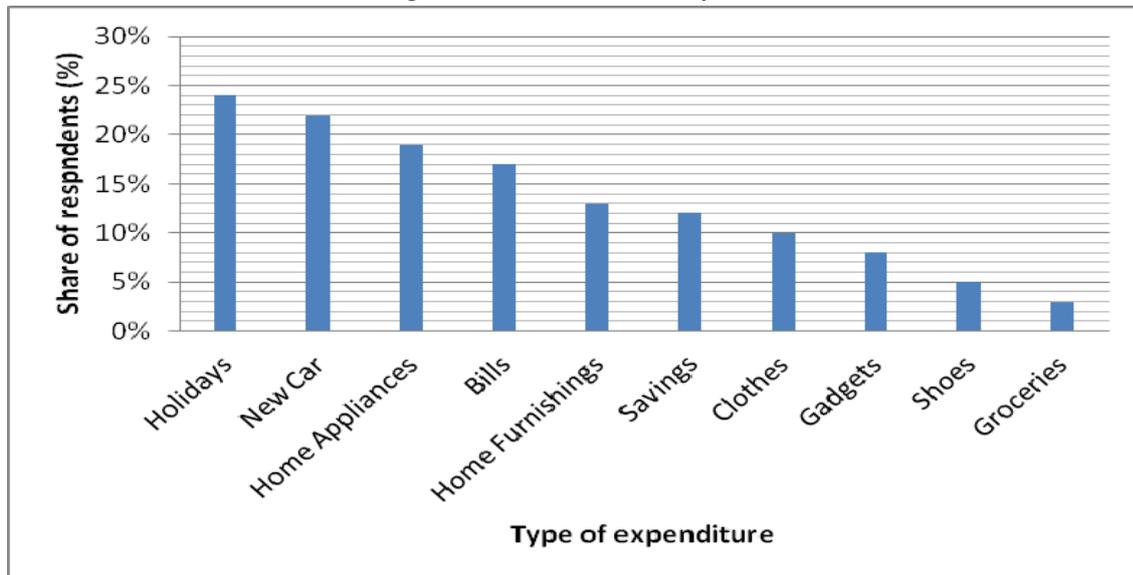
Source: Office for National Statistics, Economic Review (July 2013)

We are not aware of any official, independently conducted surveys, measuring the effect of PPI payouts on consumer behaviour. However, an online survey conducted by the website VoucherCodesPro.co.uk suggests that the largest part of these payouts was spent on goods and services - with nearly half of the respondents choosing to spend the largest part of their

<sup>34</sup> Office for National Statistics, Economic Review, July 2013 - available from [http://www.ons.gov.uk/ons/dcp171766\\_316997.pdf](http://www.ons.gov.uk/ons/dcp171766_316997.pdf)

PPI payout on cars and holidays (figure seven)<sup>35</sup>. According to these survey results, only 12 percent of those receiving PPI payouts saved any part of it<sup>36</sup>. Most of these purchases were made soon after receiving the payout according to the survey - taking on average less than three weeks for payout recipients to make a purchase.

Figure 6: How PPI money was used



Source: VoucherCodesPro.co.uk, quoted in BBC News (18/02/2014)

In 2012 the National Institute of Economic and Social Research (NIESR) calculated the impact of PPI payouts on GDP between 0.1 to 0.7 per cent, assuming a total payout of up to £15 billion<sup>37</sup>. According to more recent results presented by Regeneris in 2014, PPI payments may have added on average an extra £4 billion in Gross Value Added in the UK per year; and it may have resulted in the creation of an annual average of 85,000 full-time equivalent jobs:

*"...For 2012 - the year with the largest payout - the payouts could have generated over £5 billion in [Gross Value Added]. This represents almost 0.4% of UK GVA for the year. This expenditure boost could have supported over 115,000 gross FTE jobs in the UK in 2012. For context, in the at year around 584,000 jobs (inc. part time) were added onto the UK economy"*<sup>38</sup>

<sup>35</sup> It should be noted that these estimates do not account for differences in the distribution of PPI payouts between respondents. According to Which? the average payout of PPI claims was around £2,750 - although there was significant variation with some payouts being in excess of £60,000.

<sup>36</sup> see also commentary on BBC News, "Britons spending PPI cash on holidays and cars" , 18/02/2014 - available from here: <http://www.bbc.co.uk/news/business-26243104>

<sup>37</sup> <http://www.ft.com/cms/s/0/54cd622e-dfee-11e1-b81c-00144feab49a.html#axzz3dgtfEDI8>

<sup>38</sup> <http://regeneris.co.uk/latest/blog/entry/have-ppi-payments-boosted-the-uk-economy>

Many of these jobs were created in the financial sector to accommodate the extra administrative work caused by the PPI redress. A survey of 2,100 companies conducted by Manpower Group in 2013 finds that at least 20,000 new staff had been hired between 2011 and 2013 to deal with PPI and interest rate swaps complaints<sup>39</sup>. Similarly, the Financial Ombudsman Service, a government agency responsible for handling PPI related disputes, had hired more than 2,000 extra workers up to 2013 according to the Wall Street Journal, "all on three year contracts that can be renewed as needed"<sup>40</sup>.

Although the technical background of the PPI reclaim case is certainly not identical to the one for unclaimed assets, there are some similarities worth noticing. First, just like in the case of unclaimed assets, income from PPI came as a one-off surprise to qualifying consumers. In other words, it was a positive, unexpected and transitory income shock. Second, consumers needed to follow a claim-based procedure to recover this income from financial institutions - which meant that these payouts were released gradually into the economy over a period of years. This is similar to what we expect to happen in the case of unclaimed assets, where again consumers are likely to be required to claim ownership through some standardised procedure - most likely similar to the one that has been put in place for Dormant Accounts. Third, according to data produced by the Financial Conduct Authority (FCA), the total value of successful PPI claims is near £20 billion - a figure that compares well to the estimated value of unclaimed assets that has been reported and used in past government communications<sup>41</sup>.

There are, however, differences that are equally important to consider. First, by the very definition of it, in order to be eligible to claim PPI compensation, consumers had to have taken up credit. The higher the amount of debt, the more a qualifying consumer would have been likely to receive in PPI compensation. In other words, PPI payouts are likely to have ended up in the pockets of consumers who had a spending propensity which was considerably higher than the national average<sup>42</sup>. In the case of unclaimed assets, it is possible that the effect

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<sup>39</sup> A press release with a summary of the key results of the survey can be found on Manpower Group's website under the title "UK jobs market's amazing levitating trick set to continue into mid 2013".

<sup>40</sup> <http://www.wsj.com/articles/SB10001424052702303464504579109240081256508>

<sup>41</sup> see for instance, House of Commons "Unclaimed financial assets / dormant accounts ", Briefing Paper 03027, 01/04/2011.

<sup>42</sup> A comprehensive discussion on the relationship between consumer behaviour, spending tendencies and debt can be found in Watson (2003).

may go the opposite way: unclaimed assets may belong to individuals who have by definition a lower propensity to spend (savers). If this was to be the case, the effect on consumption from these unclaimed assets could be significantly lower.

Second, PPI payments happened during a period of ultra low interest rates, which are likely to have discouraged saving behaviour. This does not have to be the case with unclaimed assets - interest rates may be significantly higher when these assets are finally reunited with their owners. Third, PPI payments are likely to have had a distributional impact - as a large share of these payments may have ended up to lower income consumers, who again were more likely to spend any windfall income.

In this section we discussed the reaction of consumers to unexpected income receipts following the PPI scandal, over the period 2011-2015. There are strong indications that a large share of this income may have been used to finance an increase in consumption, which in turn may have contributed to higher rates GDP growth and job creation. Although we believe that unclaimed assets are likely to have a positive, measureable effect on consumption, we do not believe that such an effect would be likely to be as high as the one from PPI payouts. Instead, we would expect it to be closer to the Bank of England's estimate of a 19 percent MPC (maybe lower, if on average asset owners turn out to have a higher propensity to save than the representative UK consumer). To put this figure in perspective, if the total value of cashable unclaimed assets turned out to be £10 billion and they were all reunited with private individual UK consumers, a 19 percent MPC would imply that £1.9 billion of this sum might be spent on goods and services. This figure could be higher if the assets belonged to older consumers or if the current estimates of £15-20 billion turned out to be an underestimate (as it has been pointed out in various occasions by a number of industry participants).

## 5. Conclusions

In this report we considered and discussed some important aspects in the debate for the regulation of unclaimed assets. First, we explained the case for unclaimed assets and discussed the limitations of the existing regulatory framework. Second, we summarised the key theoretical and empirical arguments about what might be the likely effect of an "unclaimed assets reclaim". Finally, we used the experience of the PPI scandal as a case study to discuss how consumers reacted to the receipt of an unexpected one off payment - the scale of which was not too different when compared to the current estimated value of unclaimed assets. We discussed the similarities and differences between the two cases - and we explained that, although we believe that reclaiming unclaimed assets is likely to have a positive economic effect on consumer spending, this effect is unlikely to be as high as the one reported in the case of PPI.

Our main findings are as follows:

1. We find the current legislative framework to be too restrictive, as it focuses only on a small fraction of the overall types of unclaimed assets. Section three summarises some of the key points and presents classes of assets covered by similar regulatory frameworks in other countries such as the US, Canada and Ireland.
2. We find very little evidence available to form an opinion on the actual value of these unclaimed assets. We do not think this as surprising, as the current legislative framework does not require financial institutions to report or disclose this information (although many have done it voluntarily for dormant accounts). This means that it is very difficult to assess the true magnitude of the issue and that further independent research is required.
3. Evidence suggests that unexpected income receipts, even if temporary, do have some effect on consumer spending - although this effect is likely to be smaller than permanent income shocks. We explain the theoretical arguments and the key economic theories behind them in section four.

4. We consider the PPI reclaim as a case study in section five. We find a significant amount of evidence suggesting that a large share of PPI payouts was used to finance consumption - thus having a strong gross effect on GDP performance and employment. We believe that an assets reclaim might trigger similar multiplier effects - although of a lesser magnitude (for the reasons we discuss in section five). We explain that the actual share of reclaimed assets spent on consumption would be closer to the Bank of England's estimate of 19 percent of total value. The actual effect would depend on many (currently unknown) parameters - such as the actual value of total unclaimed assets, their distribution between different types, the financial and demographic characteristics of the claimants and others. Further research is required in order to collect data and use it to obtain more accurate estimates for these effects.

To conclude, we believe that the current regulatory framework was a successful step in the right direction, but we can also see its limitations. Relaxing some (ideally all) of these limitations might entail direct and indirect economic benefits; and it would eliminate the gap that currently exists between the UK and the regulatory provisions put in place by other advanced economies, such as the US, Canada and Ireland. Further research is required in order to understand better the magnitude of this issue - which could turn out to be substantially more significant than what current estimates suggest.

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## **Appendix: Company background**

Asset Buccaneer Limited is a holding company for three financial service organisations. The group is comprised of three related organisations focused on repatriation of assets from financial products to the policy holders or the heirs. The first organization, Perane & Company Limited was borne out of a passion for heir hunting by the founder, Bruce Cane. The company has quickly become one of the leading players in this emerging field. The second organisation, Inheritance Data Limited, is a search service provided on estates for solicitors offering probate law services to clients. The third organisation, CanFind Limited is an innovative and potentially industry changing service which aims to provide an efficient & cost effective repatriation service of orphaned accounts to the policy holder or their heir(s).

The principle of CanFind Limited is a matching service akin to the national DNA data base model. It will offer a cost free service to the general public and the revenue will be generated via a combination of sponsorship of the home page from large Financial Institutions (FIs) and a charge of £25 to the FI for every successful match leading to a reconciliation of an orphaned account. The CanFind business model is a facility to repatriate the money from “orphaned accounts” belonging to the policy holder or the heir(s). Orphaned accounts are held and administered by the FIs who sold the product or that have acquired the company that sold the product and these types of accounts can occur for a number of reasons. For example the policy or account (product) holder may change address and not inform the FI that holds the product of their new address. The owner may have relocated overseas and that may further complicate matters. Other factors such as changes of surname may also compound the issue which makes tracing the policy holder more difficult. Policy holders may have died and the heirs may not be aware of the existence of the policy. The charging structure has been carefully based on the industry knowledge of the CanFind team which estimates it costs the FI approximately £35 annually to administer the orphaned account.

In recent years, the process of reconciling heirs with windfalls (unanticipated income shocks) has developed into a sustainable business for “heir hunter” sole traders and related businesses. This potentially lucrative business model, especially if there is a large estate, works on a number of options ranging from fixed fee to a percentage of the windfall. These searches are labour intensive and time consuming for the heir hunter and in order to provide a degree of control to these new ventures, several trade associations for practitioners have been

established. They include; The Society of Genealogists<sup>43</sup>, The Association of Genealogists and Researchers in Archives<sup>44</sup> and The Heir Hunters Association<sup>45</sup>. All of these trade associations have codes of practice but there is currently no regulatory body in place. The CanFind team estimate that the average value of orphaned policies will be less than £5,000 with many significantly less than this figure. The innovative CanFind database, employing its data matching capability, will facilitate both scalability and be a more efficient option for the smaller policy values. Additional tools which heir hunters employ include a variety of websites such as the electoral roll<sup>46</sup>, my lost account<sup>47</sup>, the unclaimed assets register, registration of deaths without a will in England<sup>48</sup>, Scotland<sup>49</sup> & Northern Ireland<sup>50</sup>.

In addition to employing the additional tools also employed by conventional Heir Hunters, the CanFind database requires the participation and engagement of two major stakeholder groups in order for this business model to achieve its potential. The first stakeholder group is the general public residing in areas where policy holders may have or have had a connection or an association. CanFind estimates the total number of households including expatriates from the UK to be approximately twenty five (25) million of which just over four and a half (4.5) million will be expatriates. Most of the expatriates will be in English speaking countries and the CanFind database intends to target the following countries: Australia, Canada, USA, South Africa, New Zealand and Eire. The second stakeholder group is the Financial Institutions (FIs) who administer the “orphaned policies”. It is envisaged that the larger the number of participating stakeholders enrolling on this database, the greater the increase in the probability of finding a match. Figure 1 shows a graphical representation of the business model of CanFind.

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<sup>43</sup> Society of Genealogists <http://www.sog.org.uk/>

<sup>44</sup> The Association of Genealogists and Researchers in Archives <http://www.agra.org.uk/>

<sup>45</sup> The Heir Hunters Association <http://hha-uk.com/>

<sup>46</sup> Electoral Roll Search [http://www.searchelectoralroll.co.uk/Electoral\\_Roll\\_Search.asp](http://www.searchelectoralroll.co.uk/Electoral_Roll_Search.asp)

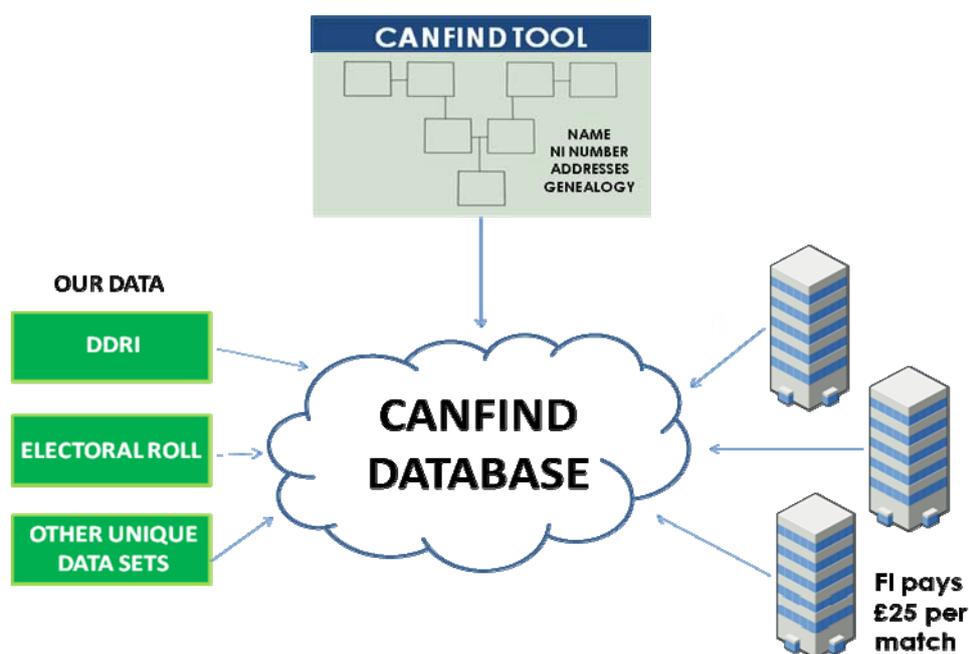
<sup>47</sup> My Lost Account <http://www.mylostaccount.org.uk/>

<sup>48</sup> Bon Vacantia Division of the Treasury Solicitors Office  
<https://www.gov.uk/government/organisations/bona-vacantia>

<sup>49</sup> Queen's and Lord Treasurer's Remembrancer <http://qltr.gov.uk/>

<sup>50</sup> Crown Solicitor's Office <http://www.nidirect.gov.uk/crown-solicitors-office>

Figure 7: The CanFind Business Model



Databases holding personal and corporate details have both an ethical and an integrity responsibility to their stakeholders. In order to guarantee the security of such sensitive information, the CanFind database will provide industry controls and credentials on security, confidentiality and integrity of the data of both the general public and the financial institutions. CanFind intend to abide by the highest data security controls and procedures and be accredited to ISO 2701 (ISO 2701, 2015) which is the international industry standard for data security. The next section of this report will detail the estimated value of unclaimed assets from orphaned accounts.