Briefing Paper BP2-2017

Is it time for a more inclusive savings policy agenda in the UK?

James Gregory, Andy Lymer and Karen Rowlingson
CHASM, University of Birmingham

March 2017

There are few times of the year where gloom is expected. But after all the festive cheer and consumer exuberance of December, the beginning of each new year faithfully delivers the traditional mood of caution and restraint to follow our annual excess. As if to bring the point home this time around, one of the very first news items of 2017 was that household debt is now, on average, nearly £13,000 per household, even before mortgage debt is included. [1]

Such headlines never, of course, tell the whole story. There can be no doubting that for many lower-income households debt is a serious problem. But there is also a more positive story we need to focus upon. More households, especially lower-income households, can and should be encouraged to save. And if there is to be a New Year resolution amongst policy makers, they would do well to focus on the positive potential of a new savings strategy for lower-income households.

This is what CHASM (the Centre on Households Assets and Savings Management) and the Barrow Cadbury Trust called for in a new report, *Savings for All: A Manifesto for an Inclusive Savings Agenda*[2]*,* released in November 2016. Drawing on the most recent research and two practitioner workshops, CHASM argues for a more inclusive and flexible approach to saving policy in the UK, giving more help to lower-income households, whilst recognising that no single approach will suit everyone.

We are therefore in some respects starting from a difficult place. CHASM's research[3] shows that roughly 16 million people in the UK have less than £100 in savings. And one fifth of all

---

[1] http://www.bbc.co.uk/news/business-38534238

[2] http://www.birmingham.ac.uk/Documents/college-social-sciences/social-policy/CHASM/2016/Saving-for-All-Manifesto-vfinal.pdf

[3] CHASM Financial Inclusion Monitor Report 2016 by Karen Rowlingson & Steve McKay - http://www.birmingham.ac.uk/Documents/college-social-sciences/social-policy/CHASM/annual-reports/financial-inclusion-monitoring-report-2016.pdf

households would struggle to find £200 in an emergency, even if they resorted to informal borrowing.

So we are starting from a low base. Yet we also know that there is considerable appetite for saving amongst lower-income households. A fifth of Britain's poorest households (those in the bottom income decile) are able to save 'now and then', and a recent survey found that half of those surveyed said they would like to save if they could, even if it was as little as £10 a month. [4]

This good news begs the question, however, of whether or not lower-income households would actually be better off, overall, if they saved more. It is perhaps too easy to tell people they should save without due recognition of the difficulty of getting by on a low income in Britain today. Some will also say that, given the extent of unsustainable debt in Britain, saving is the wrong financial strategy, a distraction from the priority of paying off debt.

Greater overall financial impact could be undoubtedly achieved by lowering personal debt rather than solely engaging in savings and addressing a 'buy now – pay later' culture that dominates in the UK at present, and these are valid points. But saving and debt management strategies do not need to be – indeed, should not be – mutually exclusive. A savings habit can of course help to avoid debt, but the evidence also increasingly points to other positive benefits: greater self-esteem and confidence, more stable family life, and a more positive outlook on the future are just some of the benefits being attributed to having savings.

So what do we need to do?

In all financial matters fairness and trust are both important. When talking to a range of financial inclusion practitioners working with lower-income households on a day to day basis, it became clear that many people felt that they had been treated unfairly by banks and mainstream lenders, eroding trust and diminishing the desire to save. Negative experiences that stand out from the data gathering undertaken behind this report are

- a lack of information on how to apply for savings products,
- little help and poor service when people do apply (a particular issue is being sent back time and again for the right personal identification), and
- poor communication about changes to the terms of the account, particularly changes in the interest rate.

This was also linked to a more generalised distrust of financial institutions and sense that many people without much money has been 'taken for a ride', over many years, by a powerful elite.

[4] Resolution Foundation – http://www.resolutionfoundation.org/publications/living-standards-2016

However, this was not the full extent of institutional distrust. Talking to social tenants as part of CHASM's work on this Manifesto another important issue emerged. The extensive means-testing of the benefit system seems to send out a very clear signal: spend your savings before you come to us for help. So those, in the favoured language of some politicians, who sought to 'do the right thing' by saving feel they have also been then put at a disadvantage by the system that is meant to help them when they experience hard times.

We came to this last issue late in our research – and it is clear that there needs to be a long, hard look at the saving disincentives (real or only perceived) of the benefits system. Our conclusions are that we need to find ways of building trusted savings 'brands'. Credit Unions have an important role to play here. When they work well they offer a flexible, local, service that understands the needs of the communities they serve. But we need to be realistic about scale. Credit Unions cannot do it all alone. Nor would we want them to. Our manifesto urges a holistic savings strategy, moving away from sharp distinctions between state, market and civil society. Trust may be better achieved through partnerships; for example, housing providers working with local banks or credit unions to improve accessibility.

Three other areas for policy development really stood out in our research:

Firstly, we should look to harness the most positive FinTech innovations that are already taking place in the savings market, building on the apps that have already been developed in other areas of financial inclusion. Just one stand out example is Squirrel, an app that works with employers and employees to help people to keep tabs on their income and their outgoings, setting savings goals that they can visualise and track in real time, whenever they want. This kind of saving 'nudge' is gathering pace, with a number of mainstream banks offering similar services and products, for example, encouraging people to save as they spend.

Secondly, we need to think about developing relationships between employers and employees in order to help lower-income households save. Given the success of the national auto-enrolment scheme for pensions, there is potential to develop something similar, either independent to, or even part of pensions auto-enrolment perhaps, for shorter-term saving. This will not be easy for some smaller employers, and there are challenges in keeping a stable account for the large (and growing) number of people who regularly move between jobs. But the benefits – for society and employer as well as for lower-income workers – could be very significant we believe.

Thirdly, there is – and always will be – a central role to be played by Government. In an era of focus on devolved Government, this role will need to draw in local government, acting as a central coordinating agency, bringing together organisations like the CAB and local financial institutions, both third sector (Credit Unions) and market (high street banks).

Equally, there is no getting away from the need for central government engagement, and not just a grand coordinator or policy maker. Policy design is crucial. And there have been some very welcome recent developments coming from central government in this space, most notably the Help to Save scheme. This matched saving scheme, available to everyone who will be eligible for the Universal Credit, will allow individuals to open savings accounts that are topped up (with a generous 25%) by the Government. Readers of the Manifesto itself will see that we regard this as a positive but currently limited policy, needing further refinement in future to allow much greater flexibility, easier access to funds in an emergency, and setting out less challenging incentives that allow people to be access their top-up more easily.

Nevertheless, the fact remains that there is no getting away from the distributional inequity of Britain's saving policy. We can see this clearly in the cost of tax breaks on Individual Savings Accounts, which amounted to £2.6 billion in 2015/16. Yet the Help to Save Scheme is only expected to cost £70 million per year by 2020/21. Ours is not a political manifesto for redistribution – but just a small reduction in the cost of ISA tax breaks could go a long way in helping to bring about the policies we are advocating.

We do not suggest that this is the full extent of what needs to be done. Far from it. But we do hope to have set out a realistic framework for thinking about a new savings strategy for lower-income households that is fair, inclusive and achievable. Most importantly we hope to kick-start a process of research, policy thinking and campaigning. We are keen to hear about new ideas and innovative practices, from the full range of people and organisations. Our own list of key recommendations is listed below and, of course we invite you all to read our Manifesto, to engage with the ideas and take help it forward.

Ten key recommendations from the Manifesto:

- A new government spending formula should be developed, linking the amount of support for lower-income savers to the level of help given to ISA savers more generally.
- Policy makers and commercial providers should build on the principles of Help to Save and develop more flexible savings mechanisms and products that coincide with the needs of lower-income savers. Matched savings schemes need to be lower, and more realistic targets for savers to reach before rewards from the 'matched' saving can be realised.
- Savings products need to be designed with realistic and positive savings goals as their focus.
- More needs to be done to meet the appetite for trusted 'brands.' Civil society has an important role in creating and sustaining locally branded, trusted savings institutions through effective sign-posting.

- Central and local government should support the creation of a number of national brand leaders in the Credit Union sector, working with civil society to encourage people to save and to build trust with Credit Unions.
- The rules governing information routinely provided to savers should include the obligation to inform them of alternative products or more recent offers. Higher standards of service will include this level of transparency, as well as helping lower-income savers navigate the process of switching/opening an account.
- Commercial providers should be prevented from defaulting savers onto the lowest interest rate. Instead, lenders should default to a capped percentage of the account opening offer rate.
- A Savings Commissioner should be established along the lines of the Children's Commissioner, with responsibility to protect and promote the interests of savers, particularly those on lower incomes. The Commissioner should also have statutory powers to ensure acceptable standards of transparency in the savings market and to encourage a higher standard of service.
- Employers should be encouraged by government to provide savings services to their employees. The success of national pension auto-enrolment should be emulated for shorter-term savings, with employers automatically deducting a small proportion of a monthly income, unless employees choose to opt out.
- Local Authorities should be enabled to take the lead in bringing state, community and commercial providers together to deliver a savings strategy.

The views expressed in this Briefing are the views of the author(s) and do not necessarily represent the views of CHASM as an organisation or other CHASM members.