Toynbee Hall

Response to HMT's Help to Save consultation

About us

Toynbee Hall has worked on the frontline in the struggle against poverty for 130 years. Based in the East End of London we give some of the UK's most deprived communities a voice, providing access to free advice and support and working together to tackle social injustice. Toynbee Hall helps over 13,000 people a year.

We are also leaders in the UK's financial inclusion, capability and debt advice sectors. Our years of experience in providing people with the skills to improve their financial health means that we are in an ideal position to help others improve their financial health policies and practice.

In November 2015 Toynbee Hall launched the Financial Health Exchange, a network of professionals across the UK who are engaged in financial health work. Through the Financial Health Exchange we help policy-makers and practitioners stay up to date on the latest financial health thinking and ensure that financial health good practice is followed in all of their work with clients and service users. Our publications, research, good practice examples and thought-leadership pieces are accessible to all those who want to improve the financial health of others. We currently have over 400 members from across the sector including: housing associations, advice agencies, local community charities, financial services, local authorities, and research/policy professionals.

Our response to the proposals – key points

Toynbee Hall believes that savings play a key role in the financial health of households and can help households maintain control over their money. We want to ensure that savings are an important focus among policymakers, financial services, and the third sector. We welcome the government's initiative to encourage people on low incomes to build up a rainy day fund and are grateful for the opportunity to offer our views on the framework for implementation and detailed policy design of the Help to Save scheme.

We are supportive of the of a multi-provider option for the provision of Help to Save accounts. We believe that this initiative can act as a route to further inclusion in mainstream financial services for low income consumers. A multi-provider approach means that consumers can engage with a wider range of service providers and will encourage users to exercise choice, while at the same time providing mainstream financial service providers a new metric to measure good financial behaviour and reduce the number of under-banked consumers by giving low income consumers a "foot in the door" of the financial mainstream.

To ensure success of the scheme, however, the government will need to address the problems that have historically created substantial barriers to accessing financial services for lower income consumers. We would like to see the Treasury work closely with the FCA, financial services firms, and financial inclusion experts to address these access issues and ensure it doesn't create barriers to take up of Help to Save.

The Help to Save scheme provides a great opportunity to design a savings product that truly meets low income consumers' need and enables them to build savings habits for the future. We argue that the target consumers of the scheme will benefit greatly from an auto-enrolment option and additional features that allow users to assign their own savings goals and targets. Financial education provision will also be key. In addition to signposting to local providers of financial education services, the government should consider how it and the account providers can deliver more effective communication that aid consumers in making savings and gaining greater control of their finances.

We are very grateful for the opportunity to shape the Help to Save initiative and we would be happy to discuss our views in more detail.

Responses to the specific consultation questions:

Question 1: Please provide any comments on the government's proposed approach for the operation of Help to Save accounts.

We support the government's proposed approach for the operation of Help to Save accounts. There are important issues regarding the account opening process that the government should consider to ensure an inclusive roll out and design of the scheme.

The consultation document reads:

"there is evidence to suggest that the eligible population may be less likely to have accessed formal financial products than the UK population on average. Facing a choice over which provider to use may introduce an additional layer of decision making and complexity that could potentially put off some individuals from opening an account."

In order to move past this issue of access, financial service providers first need to deal with three categories of access difficulties as laid out in the Financial Conduct Authority's recent Occassional Paper on access to financial services; which explored the experiences of financial exclusion across the UK[1].

- The maze: customers who have slightly unusual needs experiencing challenges with systems that are designed for seemingly "average customers";
- The fog: customers who experience the difficulty of jargon which leads to confusion when navigating and having oversight over the whole market;
- The void: customers who experience physical difficulties of access to banking or who face digital illiteracy.

[1] https://www.fca.org.uk/static/documents/occasional-papers/occasional-paper-17.pdf

Until these issues are dealt with, many low income consumers and those who have previously faced access difficulties will experience those same difficulties regarding Help to Save products.

To illustrate further, the government's proposal states that account providers will need to comply with relevant rules and regulations (Know Your Customer) upon account opening. A significant number of consumers in the UK remain unbanked, and anti-money laundering and Know Your Customer regulations and automated processes such as credit checking have excluded many low income consumers from the products they need and want. The FCA's work on access to financial services highlights how low-income households are more likely to experience access problems because of a lack of identification, for example.

Evidence shows that a significant barrier for some groups is the way banks implement their obligations to 'know your customer' in order to prevent crime, screen for fraud or check creditworthiness. These practices can exclude individuals who are not able to produce standard forms of identification (but do have other valid forms of identification). Although guidance for the sector sets out a wide range of acceptable alternatives in cases where consumers do not have standard documents to prove their identity, in practice, each bank uses its discretion to interpret the guidance for itself and takes a slightly different approach to the documents it will accept and some are more restrictive than others. This can result in uncertainty and cause detriment to the relationship between the consumer and the firm, making the consumer more likely to disengage.

We would like to see the Treasury work closely with the FCA, financial services firms, and financial inclusion experts to address these access barriers and ensure it doesn't create barriers to take up of Help to Save.

Question 3: The government welcomes stakeholders' views on the proposed information and reporting requirements under the multiple provider option.

The consultation reads:

“the government recognises that account transferability could add to provider costs of accounts and would welcome views on this point.”

We would recommend that a feasibility study be carried out on a multi-provider system with flexibility and the extent to which any costs associated with that flexibility would be borne by providers and the degree to which these costs would be passed on to consumers.

Question 4: Do stakeholders agree with the government’s assessment of the option to deliver Help to Save accounts through multiple providers? Please provide additional comments as appropriate, including views on:

- **Interest payments**
- **Branch access**
- **Account transfers**

In principles, we support the recommended multi-provider approach, particularly for those whose use of financial services is primarily with, say, a credit union and want to take up a Help to Save account with their current provider. We would encourage the take up of this scheme among alternative financial services providers such as credit unions as they historically have been effective in promoting saving in their communities and have strong links with stakeholders who are in direct contact with the target consumers. In a survey of the Financial Health Exchange membership, 66% of respondents felt that credit unions would be best placed to deliver the Help to Save scheme, and believe that credit unions have the credibility, trust and time to ensure that people who will benefit most will sign up for the scheme.

However, we would also encourage the banks to provide Help to Save accounts to non-traditional/non-prime banking customers in order to provide mainstream financial service providers a new metric to measure good financial behaviour and reduce the number of under-banked consumers by giving low income consumers a “foot in the door” of the financial mainstream.

Low income consumers often have a preference for managing their finances in cash, as this is the method that works best when budgets are tight. But this creates a barrier to establishing a financial footprint. Risk adverse financial institutions are then unable to offer these consumers the products and services they need and want, excluding a large proportion of consumers from the market simply because they are on low incomes.

We would like to see the Help to Save scheme become a route for low income consumers into other products and services. Delivering the scheme through a multiple provider approach could ensure that low income consumers do not get 'ring-fenced' into a non-mainstream/sub-prime market, similar to what has happened with other products (such as payday loans and Post Office Card Account). Once these consumers are segmented as such, they became further excluded from the mainstream market. What we've see happen in the past is that banks see these consumers as outside of their target audience and therefore invest little in the development of products specifically for low income consumers. Help to Save could encourage Banks to serve more of this consumer market and see them as a viable consumer base.

Finally, having the Help to Save available in mainstream banks will contribute towards building trust and familiarity between firms and consumers who traditionally haven't engaged with mainstream services. The current savings market is a complex one with a range of products with differing terms and conditions –varying interest rates, notice periods, min/max deposit amounts. For consumers on low incomes who may wish to save small amounts, it is easy to feel underserved by the market. Savings products have been unappealing to many low income consumers because they are either targeted at larger sums of money (such as ISAs) or they offer little incentive to save small amounts (average interest on an easy access account is 1.15%). With the Help to Save scheme, which is designed specifically for savers of small sums, a multiple provider option means that any customer, regardless of who they are, will be able to walk into a bank branch and find a savings product that meets their needs.

Branch access

Physical access to guidance, account opening and management will be key for low-income consumers. We see a multiple provider approach as allowing for wider access to the scheme and enabling consumers to have access to face to face services when they need to. In our survey to Financial Health Exchange members, 50% said that it will be 'very important' for eligible consumers to have physical, face-to-face access to the account provider. According to research by the Social Market Foundation, at least 11% of the population still rely exclusively or almost exclusively on branches to access and manage their money, 1 in 5 people are without access to broadband, and 8.6 million people do not use the internet at all[2].

Ensuring branch access for those consumers who need it most is becoming increasingly difficult, as the number of bank and building society branches have been declining, and the decline is has been accelerated in low income areas[3]. This means that the communities who need face to face services the most are exactly those most likely to see their bank branches close. The government will have to address this issue if it wants to see successful take up of the scheme.

Interest payments

We support offering interest on Help to Save accounts on top of the government bonus, but highlight that to support consumer choice, interest rates and amounts paid will need to be readily available to consumers. The cash savings market has been under scrutiny by consumer organisations and regulators because of extremely low switching rates. Regular disclosure of interest rates and notification of when these rates change, and prompts to switch will need to be a feature of the account.

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[2] http://financialhealthexchange.org.uk/the-crisis-of-uk-bank-bra/

[3] http://moveyourmoney.org.uk/abandoned-communities/

A recent FCA occasional paper on mandated disclosure from the savings market found that rates of switching easy access savings accounts was influenced by different methods of disclosing interest rate changes. A higher rate of switching was seen when the change in interest rate was on the front page of the annual statement, while there was no effect on switching from non-front page disclosure.

Account transferability

The consultation reads:

"the government recognises that account transferability could add to provider costs of accounts and would welcome views on this point."

In principle transferability of the Help to Save account may help to encourage more active engagement among a consumer group that has historically had low levels of switching.

It would be useful for a feasibility study to be carried out on a multi-provider system with flexibility and the extent to which costs associated with that flexibility will be borne by providers and the degree to which it will be disproportionately passed on to consumers.

Question 6: The government welcomes stakeholders' views on the detailed policy design issues set out in this section, including how best to:

- **Calculate the government bonus**
- **Deliver second Help to Save accounts**
- **Ensure an appropriate rollover of funds to successor accounts**
- **Permit saving above the monthly limit**
- **Target eligibility on people who do not already have significant savings**

Notable in much of the research on saving is that low interest rates are not necessarily discouraging low earners from saving, meaning that there is an appetite for saving among this group, even if the return is small. Therefore, account providers should be encouraged to consider alternative options to interest rates. Research suggests that certain options have a better impact on savings behaviour among those on lower incomes. For example, StepChange has argued[4] that including a prize element to an auto-enrolment saving scheme will discourage people from withdrawing their saved money unless they absolutely need it, as well as helping them to develop wider, active saving habits as prize incentives encourage engagement over passive acceptance of the enrolment. This is positive since evidence suggests it is active saving that improves general well-being and peace of mind.[5] They also suggest prize-based schemes as these work to give people rewards they are actually interested in (as opposed to interest payments) and works in line with the attitude of highly-valuing rewards in the present.[6]

Question 7: The government welcomes stakeholders' views on options to promote take-up and awareness of Help to Save accounts, including on the role of intermediaries and opportunities to harness insights from behavioural science.

Insights from behavioural science

Previous research has tended to focus on what specific supply-side changes need to take place before people can begin to grow their savings pot. Moreover, policy change has tended to set reasonable savings targets in the long term rather than focus on how to change behaviour more specifically. For example, we know that affordability of savings is the primary factor in savings and investment decisions, cited by 86 per cent of respondents of a survey carried out among people from all income deciles. Secondly are rates of return, which 85 per cent suggested are important or very important. The availability of suitable products is important to 79 per cent of savers, and three-quarters (74 per cent) suggest that availability of

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4 https://www.stepchange.org/Portals/0/documents/Reports/BecominganationofsaversStepChangeDebtCharityreport.pdf?timestamp=1438852274147

5 Which? (2014).

6 Kempson, E. and Collard, S. (2013). *"Promoting savings among lower-income households,"* Friends Provident Foundation and the University of Bristol's Personal Finance Research Centre.

information about products is crucial. Yet we know too little about why and how people in different circumstances save to be able to influence savings behaviour effectively. Therefore we feel there needs to be more research that looks into what motivates low income households to become long-term savers. There is some anecdotal evidence, using behavioural psychological methods, to show how associating money put aside to a visible goal, albeit a short term one such as a holiday or Christmas presents, seems to work. This would give a visual equivalent of what the savings has achieved which balances the feeling of financial self-sacrifice against regular gratification.

Furthermore, previous analysis from the Institute for Social and Economic Research (ISER) looking at the impact of financial capability on psychological well-being based on data taken from the British Household Panel Survey, found that improving financial capability increases general health questionnaire (GHQ) scores for both men and women by a far higher percentage, regardless of income level, than giving them an extra £1,000 a month income. What this tells us is that simply having a saveable pot of money is not correlative to having good financial health. Therefore providers of Help to Save accounts will need to address how savings fits into their customer's' general wellbeing.

Additionally, efforts will be needed to communicate to customers how making regular savings should not come at the expense of necessary expenditure such as the costs of essential food and bills payments. Information on financial priorities will need to be communicated as standard.

Other options to consider:

There are a number of insights and techniques from behavioural science that can be used to encourage take-up of Help to Save. One technique to consider is auto enrolment. Research on how to incentivize savings has found that savings rates are higher amongst consumers when the process of signing up or enrolling is automatic. For example: a working paper for the department of work and pensions found that "savings rates are much higher if employees are enrolled in savings schemes from which they can easily opt out than if there is no automatic deduction but an easy opportunity to opt in"[7].

A recent focus group with our Community Money Mentors echoed this. They stated that being "forced to save" often worked well for them and they felt that it was easier to save if they didn't see the money, but could still access it. An automatic savings deduction option meant that they could put money aside without having to think too much about it, and they didn't miss what they didn't have.

In our survey of the Financial Health Exchange members, the majority of respondents (63%) said that they thought low income consumers would benefit greatly from having an automatic enrolment option. They also felt that auto-enrolment on the scheme could be triggered when an individual makes a new claim for tax credits or universal credits (29%), or with their employer (25%). Likewise, our members felt that where enrolment is linked into an event, such as taking out a loan, take up will be better, rather than being offered as a stand-alone product.

There are many examples of alternative providers such as credit unions using 'nudge' principles such as automatic enrolment to encourage savings. Here is one example from one of the Financial Health Exchange members:

"*Mendip Community Credit Union manages to persuade almost all of its members (a good few on eligible benefits) to save by a totally different approach, using Nudge Theory. When members (new applicants or current members) apply for a loan they are, by default, offered the opportunity to reduce interest charges by adding savings to their loan repayments. The combined amount will normally involve a lesser total financial commitment than borrowing the same amount from a doorstep lender. All but a few members accept this at the point of applying for a loan (although we absolutely do not suggest that the success of*

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[7] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214406/WP109.pdf

the loan application is in any way contingent on this decision). We sometimes even lend up-front to people's (attached) savings to qualify them for a lower starting interest rate, which savings are of course intact (with any added dividends) at the end of the loan. Both of these mechanisms are unique to MCCU to our knowledge and may not be readily understood in the abstract but are, nevertheless, readily accepted at the point of a loan application when the focus of the customer is more on their application for credit and less on the impact of repayments (or repayments and savings) on their future disposable income. This applies Nudge Theory in a way that converts consumer's biggest cognitive bias and risk away from exploitation by commercial lenders to a contract that benefits the customers and requires no input of government funds.

Mendip Community Credit Union is entirely self-financing and is governed, managed and operated exclusively by volunteers who are members. We have only 1,000 members and a mere half a million pounds on loan but we are growing at a slightly faster rate than the sector average."

If the government were to pursue an auto-enrolment option, such as payroll deduction for example, there would need to be further consultation on how the automatic deduction would work – whether the amount is voluntary or there is a minimum set (similar to the workplace pension scheme).

Our focus group with Community Money Mentors found that there was also a desire for financial products to be "idiot-proofed" and a "smooth process" – anything too onerous, requiring a lot of paperwork with technical language and jargon will cause people to disengage. In the FCA's study on switching easy access savings accounts, being provided a pre-filled form to return increased switching rates at a higher rate than simply disclosing the interest rate changes. The government should consider whether it could take a similar approach as a way of reaching existing universal credit or tax credit claimants who are eligible, for example, sending a pre-filled form with the eligible consumer's annual P60 statements, upon renewal of tax credits, and other trigger points.

The government should encourage account providers to implement basic design features that will help to improve the financial capability of account holders. We would want the HTS scheme be impaired by too much differentiation that it becomes difficult for the consumer to choose a provider. This happened with the introduction of the basic bank account, whereby the features offered varied greatly between providers that consumer had to extensively shop around in order to find a basic bank account that met their needs. There are a number of basic design principles that should be implemented so that all consumers can benefit, regardless of who their provider is:

Assign a savings goal to their account:

Research suggests that savings goals are often linked to tangible outcomes, for example taking the family on a holiday or buying a laptop for school work, rather than saving for a 'rainy day'. While the government's intention is to promote rainy day savings, there is no reason why consumers shouldn't be given the option to link their HTS account to a goal that they can set themselves in order to motivate people to continue making contributions. The Scheme is also an opportunity to provide a clear link to key moments of change, e.g. having a baby, moving home, moving into work. Credit Unions have a long history of encouraging savings through 'themed' products such as Christmas accounts or Holiday accounts.

Reminders:

The FCA published an occasional paper[8] on reminder savers to act when their savings interest rate change and found that reminders made a notable difference in prompting consumers to act. The research found that " the fact of getting a reminder was more important than its precise phrasing and increased switching by between 5.6 – 7.9 percentage points 20 weeks after the rate decrease". This

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[8] http://www.fca.org.uk/news/occasional-paper-no-7

design principle will be particularly important at the point in which the account reaches maturity, but reminders can help to maintain saving behaviour. Reminders and regular messages can track positive achievements or to alert them when a deposit hasn't been made after a certain period of time.

Financial education:

Toynbee Hall has found that low income consumers have a desire for products that can help them to make small amounts of savings. Low income consumers often report feeling unable to afford saving, which suggests that to make the scheme a real success, provision of tools, resources, and financial education which aids people to free up some income through cost-saving measures should also be provided.

Early in the consultation (section 2.2) the government makes reference to "regular account statements". We propose that account providers could provide information on how the statement tallies with original savings goals. A savings goal could be something asked on a Help to Save application form. If no specific savings goal is specified then the savings could be matched with a "shopping basket" estimation. For example, if Britons tend to use up an average of £227 per person for each week they are away in holiday spending, a Help to Save statement could read: "you have saved £230 which is the equivalent of a week's holiday for one", or some comparable metric.

Final points for consideration:

In focus groups with our service users, we found that there was a desire to see 'saving on the high street', meaning that people wished to see savings products being promoted more proactively and to hear messages about saving more often in their daily lives. This is a particularly important point as many felt that they were constantly bombarded by messages to spend and borrow and that it can often be easier to get credit than find ways to save. An abundance of messages, both physically on the high street (through adverts and promotional signs) and through regular media channels, can help build motivation to save.

Finally, in our survey to Financial Health Exchange, our members indicated to us that they feel benefits levels are too low for poorest in society, and among those they see on a daily basis, to be able to make full use of the scheme. Toynbee Hall's view is that the government seek ways to ensure everyone benefits from this savings initiative regardless of circumstances.

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