Promoting savings among lower-income households

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Developing a vision for financial inclusion

The University of Bristol's Personal Finance Research Centre has been working with Friends Provident Foundation to develop an evidence-based vision for financial inclusion over a ten-year timeframe, with the support of policy makers, service providers and the financial industry. The research comprised an evidence assessment; roundtable meetings and telephone interviews with financial services providers and other professionals; and community select committees with people on low incomes. This briefing note highlights the findings relating to promoting savings.

Should people on a low income save money?

Saving levels are low across the UK population, but especially among those on the margins of financial services. For many people on low incomes, the only way they can meet periodic needs, such as paying for Christmas or replacing white goods, is to borrow. This often means using higher-cost lenders such as home credit companies or rental purchase firms like BrightHouse.

Saving money is an important alternative to consumer credit to help people meet periodic needs. But many people on low incomes do not have any money saved formally in a regulated savings account and the UK generally does not have a strong savings culture.

Whether or not it is appropriate or realistic for financially excluded people on low incomes to save has been a matter of debate in the UK. It is argued, for example, that people on low incomes would be better using any spare money to pay down debts rather than saving. Another concern is that low-income families may save at the expense of maintaining a basic standard of living (although research has shown this not to be the case). Overall, however, the evidence indicates that the material and psychological benefits of saving for people on low incomes outweigh these concerns.

There is a role for government in enabling people to manage irregular and unpredictable expenditure

In our vision, the 'periodic needs' that are primarily the responsibility of the individual include meeting predictable expenditures (such as Christmas), covering major unpredictable financial outlays and meeting the costs of things that are considered necessary for social inclusion (such as family holidays, children's outings). To help individuals meet these sorts of periodic needs, our vision is that there should be:

- sustainable lower-cost alternatives to commercial sub-prime lenders;
- savings accounts that are secure, accessible and protect savings from inflation;
- promotion of regular saving and its material and psychological benefits;
- universal access to basic, appropriate and affordable home contents insurance;
- free-to-client budgeting and debt advice services.

Achieving financial inclusion is not a substitute for ensuring that people have an adequate income. Nor should people have to borrow to make good an income that is inadequate to meet everyday needs. Our vision for helping financially excluded people to meet periodic needs therefore rests on a role for government in providing a safety net for individuals, both in terms of financial support (in the form of an adequate minimum wage as well as adequate welfare benefits and state pensions) and free health and dental care.

This briefing note focuses on ways to encourage people to start saving, preferably in regulated savings accounts, so that they at least have a small financial safety-net. In turn, this may avoid them having to borrow (or borrow as much) in the future. The greatest potential to do this seems to lie with non-mainstream providers and intermediaries such as credit unions and community development finance institutions (CDFIs), the Post Office, PayPoint, and social housing providers – both individually and in partnership with each other.

Saving should be actively encouraged and promoted

Currently, one in four lower-income families do not save at all. While lack of money is the most common self-reported reason why people on lower incomes do not save, it is important to distinguish between genuinely having no spare money to save and having other priorities for any spare cash.

Far greater promotion of saving is required to help overcome the psychological barriers that prevent people on lower incomes (indeed, people generally) from saving. Targeted social marketing (i.e. marketing with a social purpose) through popular media such as television, radio and social media is one means to achieve this.

'Saving champions' – for example people in the public eye from humble origins who have succeeded in their chosen career but continue to have a modest lifestyle – could help convey these messages in order to overcome the negative image many non-savers hold of those who save. Encouraging children and young people to start saving and develop a saving habit, for example through national school-based schemes working with partners such as credit unions and other providers, is another important aspect.

People need more than encouragement – make saving a 'default' behaviour

The DWP Growth Fund (to increase affordable credit in financially excluded communities) demonstrated the possibility of linking saving to loan repayment. This was most successful where credit unions used 'soft compulsion' to encourage people to include an amount for saving when they first took out a loan. Although CDFIs are not deposit-takers, some of them work in partnership with banks to offer savings and bank accounts, which would enable them to similarly encourage saving. The CAP Account offered by Christians Against Poverty as part of the debt advice process has a savings facility built into it as well.

People may not save due to disorganised money management, in which case the design of accounts can make it possible for people to save (as opposed to making it attractive to do so). Lloyds TSB's 'Save the Change' facility is an example of harnessing inertia to help people build up savings. Every time a customer uses their debit card, the amount spent is rounded up to the nearest pound and the difference transferred to a savings account. Other possibilities include automatic deductions into a savings account and accounts that limit access but where funds can be withdrawn if really needed, for example 48-hour notice accounts or accounts where withdrawals can only be made in person at a branch.

People's personal goals could be harnessed to encourage saving

To get people on lower incomes saving, it is important to 'start where people are'. This means acknowledging that many people feel it is important to live for today, but also stressing the importance of living for tomorrow too; and emphasising that even small amounts soon mount up into a worthwhile sum of savings.

Specific goals can also motivate people to save, for example by linking saving to events such as Christmas, a family holiday, purchases for a new baby, or to buy a new car. Partnerships to promote this idea might include providers or intermediaries (such as PayPoint) working with travel agents to promote saving for holidays. Credit unions and other providers could offer 'car accounts' that encourage people to save up for a car by offering a year's free breakdown cover. The Money Advice Service, other advice providers and local intermediaries could all play a role in helping people to set savings goals and to budget in order to reach their goals.

Offer the incentives that people want, not the ones they don't

There are no major structural failures in the supply of saving accounts in the UK, but rather there is a mismatch between the things that people on lower incomes want or need and the products and services that are available. This applies particularly to incentives to save. Evidence from the UK and elsewhere indicates that well-targeted, clear and simple incentives such as matched saving schemes and bonus payments are far more effective than tax relief or savings interest rates at encouraging people on lower incomes to save.

The now-defunct Saving Gateway account had a number of features that encouraged the accumulation of savings, and we should not lose sight of these. As well as offering matched saving, setting a realisable maximum amount that could be saved each month (£25) became a target for regular saving. The fact that the matching was based on the maximum amount in the account over its lifetime (18 months) also acted as a goal to aim for and discouraged withdrawals. Examples of other possible incentives include prize-based savings accounts, financial incentives to open accounts or to save regularly, and product tie-ins such as free breakdown cover or retail discounts.

Widen access to savings products

A range of opportunities are available to make it easier for people on lower incomes to access savings products. At the time of this study, for example, PayPoint was considering developing its own-brand saving products for distribution through other organisations.

PayPoint has also extended counter services for credit union members, so that members can pay in money to save or to repay loans (minimum payments may be required by some credit unions). The proposed link-up between the credit union sector and the Post Office would allow Post Office branch staff to accept and pay out savings. There is also scope for credit unions to work more closely with employers to encourage low-income earners to start to save, for example through payroll deduction.

Provide adequate consumer protection

The need for robust regulation to protect savers was highlighted in 2006 by the collapse of the Farepak Christmas Club, in which 150,000 families lost £40 million of savings. Safeguards were subsequently introduced to protect the predominantly low-income savers who use these schemes and clubs to spread the cost of paying for Christmas. Any similar savings schemes that are developed and targeted at people on low incomes must be covered by regulation to ensure the security of people's savings. This means identifying new informal savings products and any potential risks associated with them. Making savers aware of the protection that is offered goes hand-in-hand with this.

More information

A pdf of this summary is available at www.friendsprovidentfoundation.org. The full research report, *Developing a Vision for Financial Inclusion* by Elaine Kempson and Sharon Collard, is available at www.bris.ac.uk/geography/research/pfrc/themes/finexc/vision.html.

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