Submission

# Help to Save: consultation on implementation

Submission from the Money Advice Service
21st July 2016

## 1. About us

1.1 The Money Advice Service (MAS) is a UK-wide, independent service set up by government to improve people's financial well-being. Our free and impartial money advice is available online, and by phone, web-chat or face to face with one of our Money Advisers. We also work with the debt advice sector to improve the quality, consistency and availability of debt advice.

1.2 Our core statutory objectives are set out in the Financial Services Act 2010. We are funded by a statutory levy on the financial services industry, raised through the Financial Conduct Authority.

1.3 As the statutory body for financial capability, MAS has led the work with organisations across all sectors, financial, third sector, government and regulators to develop the Financial Capability Strategy for the UK. This 10 year Strategy aims to improve financial capability, giving people the ability, motivation and opportunity to make the most of their money.

1.4 We are responding to this consultation in light of our statutory roles to enhance understanding and knowledge of members of the public about financial matters (including the UK financial system), and to enhance the ability of members of the public to manage their own financial affairs.

1.5 On 16 March 2016 the government announced its intention to replace the Money Advice Service with a new organisation from April 2018.

## 2. The Government's approach to Help to Save

2.1 MAS supports the aims and objectives of Help to Save. Evidence from our 2015 nationally representative Financial Capability Survey highlights that a lack of savings is a key risk to the financial resilience of UK households.[1] Financial capability in the UK is persistently low. People need to have a combination of knowledge, the right attitudes and motivations and access to appropriate financial services and advice in order to be financially capable. Without this they are unlikely to build any financial resilience which then puts them and their families at risk of financial problems.

2.2 The 2015 Financial Capability Survey shows that while household income is a key driver for saving frequency, a variety of savings behaviours are exhibited across the income spectrum. The likelihood of saving regularly increases with income, but motivations and barriers do not change significantly. More frequent savings associated with: future-focused attitudes, having goals and plans and identifying specific reasons for saving, especially where these are near-term and positive.

2.3 There are clear limitations to the extent to which the implementation of Help to Save can impact on all these drivers. Nevertheless, the 2015 Financial Capability Survey findings highlight the importance of addressing attitudes and motivations to save amongst the target audience for Help to Save. This includes addressing the issue of confidence and self-efficacy through communications about the product and how the bonus payments are communicated to customers during the lifetime of the product.

2.4 The Money Advice Service is currently undertaking a deeper analysis of the savings findings of the 2015 Financial Capability Survey. The initial analysis suggests that:

- In total 21% of respondents in the survey were in receipt of at least one eligible benefit: Child Tax Credit, Employment Support Allowance, Income Support, Jobseeker's Allowance, Universal Credit and Working Tax Credit.
- Three quarters of respondents in this group (73%) had a personal income of less than £17,500 per annum and half were classified as socio-economic group D/E, with a higher proportions of part-time workers (28%) and unemployed (20%) compared to other respondents.
- The majority of the survey sample who are likely to be eligible for Help to Save define themselves as struggling financially: three-quarters feel that keeping up with bills and credit commitments is a burden (74% compared with 53% of others) and around a third are behind on household bills or credit commitments (31% compared with just 9% of others).
- Attitudinal data indicate that the sample of consumers likely to be eligible for Help to Save are neither satisfied with their financial circumstances nor are they confident in managing money or associated decision making processes. Less than one in five of this group state that they are satisfied with their overall

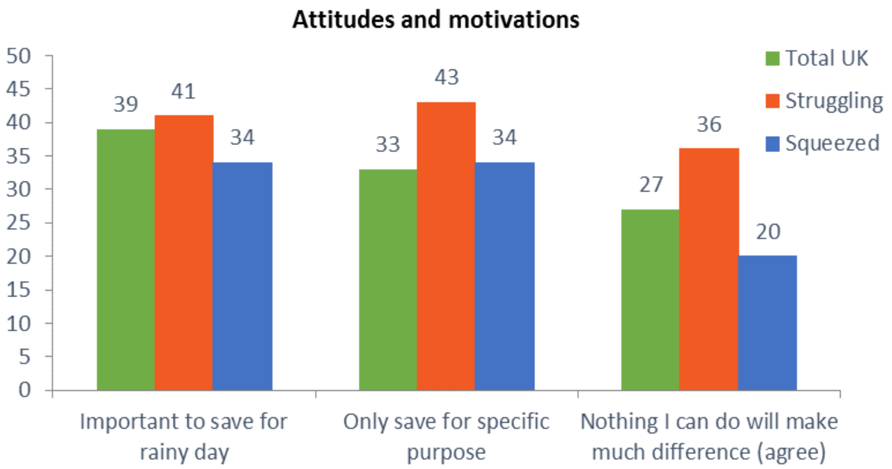
[1] Money Advice Service (2015) Financial Capability Survey

financial circumstances and 38% (compared with 19% of others) agree with the statement that nothing they do will make much difference to their financial situation.

- Nearly half of this group (45%) have no savings. Four in ten (43%) say that they rarely or never save. Only a quarter (29%) are paying into a pension.
- However, there is evidence of some existing savings habits among consumers who are likely to be eligible for Help to Save. A third of these respondents describe themselves as saving every or most months (37% compared with 60% of survey respondents who were not within eligibility criteria for Help to Save)
- Half of those likely to be eligible for Help to Save have financial goals (52%), the most commonly reported is to save for a holiday, but they also focus on making ends meet and reducing / paying off debts. Just under half (47%) agree that they only save for a specific purpose, however, a similar proportion (46.2%) save for a rainy day.

2.5 The Money Advice Service has published a segmentation of UK consumers' financial resilience, based on income, savings, protection, credit usage and demographics and refined with data from the Money Advice Service's Financial Capability Survey 2015.[2] This groups consumers in three macro segments and fifteen sub-segments. The macro-segments are labelled as 'Struggling', 'Squeezed' and 'Cushioned'. The planned eligibility criteria for Help to Save mean most Help to Save customers are likely to be the working-age sub-segments within the 'struggling' group.

2.6 The chart below compares attitudes and motivations towards saving between the 'struggling' and 'squeezed' segments and the UK population as a whole. The struggling segment understand the importance of precautionary savings better than rest of population. There reasons for this could include the segment's limited access to mainstream sources credit. However this segment is also the most likely to save only for specific purpose and they have the lowest level of self-efficacy. This suggests that combining goal-based, habit-forming features will be important elements of an effective approach to Help to Save.




[2] Money Advice Service, *Market Segmentation. An Overview,* (2015)

2.7 Help to Save presents an opportunity for the Government to use insights from behavioural science and financial capability to promote savings behaviours. This includes developing norms (e.g. 'people like you save £50 per month') and using the Government match as an anchor (i.e. where people develop reference points that they then follow, such as £50 per month). As the statutory body for financial capability in the UK, MAS is keen to work with HMT, the financial services sector and other intermediaries to develop a co-ordinated approach to maximise the impact of Help to Save on its target audience

## 3. The proposed principles for implementing Help to Save

3.1 We agree with the proposed design principles, that Help to Save should be simple to understand, cost-effective, targeted, accessible and timely. In addition to the clear principles set out in the consultation we recommend the detailed design of Help to Save is also informed by the need to make it as easy as possible to engage in - and save through - the product.

3.2 An effective Help to Save offer will need to engage a target audience who currently struggle to save. The findings of the 2015 Financial Capability Survey highlight the importance of not overestimating people's ability to understand even commonly used financial terms and concepts,

- 1/5 of adults could not correctly read the balance on a bank statement.
- Only around 2/3rds knew that if they put £100 into an account with 2% interest per year, they would have £102 at the end of the first year.
- Fewer (60%) knew that if the inflation rate is 5% and the interest rate on their account is 3% they will have less buying power in a year's time

3.3 Some consumers may lack the confidence they need to engage with the detail of products. We have found that only 47% feel confident making decisions about financial products and services and confidence is notably lower amongst young adults as well as the lower social grades and income bands.

3.4 Given the barriers experienced by the target audience in initiating and maintaining a regular savings habit, the design of Help to Save should seek to reduce friction costs, look to make use of defaults and warm hand-offs from trusted intermediaries, as well as focusing on clear and simple messaging to make Help to Save as easy to use as possible.

## 4 Information and reporting requirements

4.1 MAS does not have views on the specific reporting requirements. We recognise the need to balance accurate reporting for liability and calculating Help to Save bonuses with the additional costs to providers of data collection. Given that regular monitoring will be necessary to calculate bonus payments for Help to Save, we encourage the Government to build in data collection from the start of the initiative to support a full evaluation of the impact of Help to Save in order to fully understand its effectiveness in helping its target audience to initiate and sustain a regular savings habit. The five-year duration of the scheme provides a clear time horizon over which to evaluate and understand the impact of Help to Save.

4.2 As part of MAS's role in developing the Financial Capability Strategy for the UK, MAS has developed outcomes frameworks to help organisations to plan and evaluate interventions to improve the financial capability of adults. As the design and build of the product moves forward, we are keen to develop an understanding of how this framework could help inform a learning-focused evaluation of Help to Save.

## 5 Options to deliver Help to Save accounts

5.1 We address questions 4 and 5 in the consultation document in this section.

5.2 We agree with the analysis of the options for delivery set out in the consultation document. While private providers will need to make their own decisions about participation in Help to Save and how it fits with their wider savings offer, there are a number of clear benefits for consumers in being able to access Help to Save from different providers. Given what we know about the demographics, attitudes and behaviours of the target market, the opportunity for face-to-face referrals and support to access the product in branch is a key advantage for this method of delivery. Furthermore, if Help to Save is available via multiple providers there will be opportunities to learn from banks' differing approaches to referral routes into Help to Save.

5.3 Given the costs of developing Help to Save, we recognise the need to consider different delivery options, including delivery through a single provider from the public or private sector. A single provider would enable Help to Save to be developed relatively quickly with lower administration costs for Government. Given the target audience for Help to Save, a single provider would be more likely to have the capacity and capability to test different referral routes into Help to Save. However, given the challenges in engaging the target audience for Help to Save in a new savings product, careful consideration would need to be given to how awareness of the product, ease of access to the product and the provider could be managed with a single provider. In appendix A below we provide some information on the approach taken in the debt sector to develop the Standard Financial Statement. Albeit in a different context, this provides one example of how collaboration between the financial sector and intermediaries can be managed through a co-ordinating body to achieve shared policy aims.

5.4 Given the delivery options set out, we suggest HMT also consider the viability of a hybrid model, where the initial development and testing of Help to Save could be led by NS&I with banks and intermediaries working to promote take-up and engagement and multiple providers coming to market for successor accounts after the first two year cycle of Help to Save. Focusing initial development on one provider could enable quicker development of

Help to Save and clear co-ordination of the design and build of an effective product. In the longer term there would also be the potential for greater competition for taking on Help to Save after the initial two years of operation with a defined market and clear potential for a pipeline of savers who are actively building their savings habit through Help to Save.

# 6 Calculating the Government bonus

6.1 The consultation document highlights the potential behavioural impacts and cost implications of different ways of calculating the Government bonus. In deciding on a way ahead, we believe the key trade-off is between ensuring the bonus provides an effective incentive and nudge to save, whilst also keeping the product easy to understand and affordable to design, build and bring to market.

6.2 There are concerns that delaying the match for two years will be a significant barrier to engaging the target audience, as –for many customers- this will seem too long a time-frame to lock away savings and so reduce demand and take-up of Help to Save. Crystallising the bonus every 6 months could help overcome of the challenges of a 2 year match for the target market by increasing the sense of 'gains' from the product. Behavioural research suggests people often respond more to regular small gains than to a single larger gain.[3] Crystallising the bonus every six months also has the potential to counter some of the risks of loss aversion that could lead to consumer detriment, if customers do not withdraw from help to save when they need to for fear of losing their bonus.

6.3 However, we recognise such an approach would add additional administration and reporting requirements to the product and may also serve to militate against the benefits of mentally accounting for Help for Save funds as locked away in case of an emergency. Indeed, some of the benefits of a six monthly bonus might be achievable through smart product communication of balances and projected bonuses. Where possible and feasible within regulation, provider(s) of Help to Save should look to pilot approaches to communicate and illustrate the savings match to customers over the product lifetime even though the bonus is only crystallised at the end of two years.

6.4 We conclude the best balance between simplicity of design and effective behavioural prompts to save would be to calculate the government bonus on the basis of the highest balance achieved over the two year period. This will help harness savers' goal-setting behaviour for the duration of the product without penalising consumers who need to make partial withdrawals to manage unexpected costs or income shocks.

[3] Chapter 8: Ineffective Incentives, Improving the Lives of the Poor, in, *Scarcity: The True Cost of Not Having Enough*, Sendhil Mullainathan, and Eldar Shafir, 2013

## 7.Delivery of second-term Help to Save accounts and rollover to successor accounts

7.1 We believe the most effective route to delivering easy, accessible and clear second-term Help to Save accounts will be to default Help to Save accounts to close at the end of the two years, and to focus on this deadline as a key point for savers make an active decision about their future saving. To minimise the risk of consumer detriment we would propose the default would be the best rate available instant access savings account from their provider.

7.2 The design and implementation of Help to Save should focus providers and intermediaries on using the point of bonus payment at the end of the two years to communicate and reinforce key messages. This would include highlighting the bonus accumulated as a result of the regular savings and setting out a clear range of options for continuing and developing their savings habit. These options will include opportunities available to save for another two years within Help to Save with the same or different provider.

7.3 The approach taken towards successor accounts, should be informed by the FCA's testing on mandatory disclosure of savings rates to help consumers identify alternatives and stimulate competition.[4] The FCA tested 'front-page' information about best available rates, a pre-filled return form to enable simpler switching and timely reminders about rate decreases. All of these led to an increase in switching with non-trival gains for consumers, even though attention to disclosure was limited and would likely to be even more amongst the Help to Save target audience, given what we know about demographics, income and attitudes highlighted in section 2 above.

## 8 Options to promote take-up and awareness of Help to Save accounts

8.1 Given our statutory role to improve financial capability, we are keen to assist in developing and testing approaches to boost awareness of and engagement in Help to Save from its target audience. We set out areas to explore below.

8.2 **The Standard Financial Statement (SFS**). MAS has been working with the debt advice sector to develop the Standard Financial Statement (SFS). This is a landmark development for debt advice in the UK which delivers, for the first time, a universal income and expenditure statement for clients receiving debt advice, together with a single set of spending guidelines. Debt advice agencies and creditors have agreed a savings element will form part of the SFS. This will be important in building resilience against income shocks for clients receiving debt advice and helping client of debt advice build savings behaviours in the longer term. Over time if the client is able to maximise their income, or minimise their expenditure, there is a mechanism which enables people receiving debt advice to save a small surplus as part of a

[4] FCA, Occasional Paper No. 19: Attention, Search and Switching: Evidence on Mandated Disclosure from the Savings Market (2016)

debt management plan.  MAS could develop a pilot which links the SFS with Help to Save accounts. We have a strong network of Lead Organisations that receive our funding and channel this to over 260 debt advice providers with full UK coverage.  MAS also coordinates the Debt Advice Steering Group (DASG), a forum of strategic leaders from across the debt advice sector. Appendix A sets out some further information on the SFS and how a Help to Save pilot could be developed.

8.3 **Universal Credit Online Budgeting Support Pilot.** MAS has been working with DWP to develop budgeting support for Universal Credit claimants, either in-work or out-of-work, to help them adapt to prioritising their bills and paying them directly from their bank accounts as well as making savings from their lump-sum monthly payments. With involvement and support from DWP we will pilot this tool in a limited number of Job Centres and evaluate its use. This will include: helping claimants manage the transition to single, monthly payments through current accounts, including information around Basic Bank Accounts, and guidance on keeping track of spending and prioritising bills such as rent payments. During 2016/17, DWP is referring to additional Money Advice Service resources UC and other benefits recipients concerned about payments being transferred from non-transactional Post Office card accounts to transactional accounts, including basic bank accounts that can make as well as receive direct payments. Alongside our ongoing commitment to provide support to Universal Credit claimants, MAS will work with partners to increase awareness of the availability of Basic Bank Accounts among hard-to-reach groups.

8.4 **The 'What Works' fund for Financial Capability.** In 2016/17, MAS intends to spend approx. £7m working with organisations to generate evidence of 'what works' to improve financial capability through a mix of pilots, testing and learning-focused evaluations of new and scaled-up interventions. Through this programme of work we aim to build the evidence base of 'what works' so that the sector can share in collective knowledge about what approaches make a positive difference to people's lives. Improving the effectiveness and availability of financial capability interventions is closely aligned to the aims and target audience of Help to Save. We have specifically invited proposals on how working age adults can be supported to develop a savings buffer to withstand financial shocks.  MAS is currently evaluating bids for the fund and expect to be able to share insights from the pilots and evaluations to inform the implementation of Help to Save.

## Appendix A: The Standard Financial Statement

The Standard Financial Statement (SFS) is a landmark development for debt advice in the UK which delivers, for the first time, a universal income and expenditure statement for use by debt advice and creditor organisations when engaging clients in financial difficulties.

A savings category has been introduced into the SFS, recognising the benefits of building additional financial resilience for debt advice clients. This small savings allowance is expected to help develop a savings behaviour and increase the capacity to withstand income shocks in the duration of a debt solution.

**Target audience**

Our view is that encouraging people to save is a behavioural point as much as a preventive one. In the supporting SFS user guidance we highlight that savings is based on income left after outgoings have been paid, thus, we acknowledge that in some cases saving may be aspirational, however over time if the client is able to maximise their income, or minimise their expenditure, there is a mechanism which encourages them to save the surplus.

**Help To Save pilot potential**

SFS guidance states that while regulations forbid advisers to recommend a specific saving product they should enable the client to make an informed decision on the deposit account they choose. Any pilot here with Help to Save could make reference to the benefits available via this scheme.

**Sector-wide collaboration**

In order to ensure widespread understanding and approval of a client in debt making an ongoing contribution to savings, the Money Advice Service facilitated a broad partnership of advice providers, creditors, trade associations and others* to collaboratively develop the principles and functionality behind the savings category. This is crucial to ensuring that those going through the process of making repayment offers on their debts are not discouraged from making savings contributions.

*Members of the SFS governance group:

- Advice NI
- Advice UK
- Accountant in Bankruptcy
- Barclays
- BBA
- Christians Against Poverty
- Citizens Advice
- Citizens Advice Scotland
- Debt Resolution Forum

- Finance & Leasing Association
- HSBC
- Insolvency Service
- Lloyds Banking Group
- Money Advice Scotland
- Money Advice Trust
- Nationwide
- Ofgem
- Payplan
- RBS
- StepChange Debt Charity
- UK Cards
- Wessex Water

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