Financial Capability Strategy for the UK

the Money Advice Service

How can we encourage people to save, and to save more?

A critical aspect of both financial capability and financial resilience is having a savings buffer in order to pay unexpected bills or cover income shocks. Yet too many people in the UK have no such buffer and so resort to credit or borrowing from friends and family. This review looks at how we can encourage more people to save and to save more.

This review aims to highlight the most recent, relevant and available research about how and why people save. It focuses on how we can promote 'rainy day' savings habits, rather than longer-term savings and retirement planning.

Please contact us at whatworks@fincap.org.uk with your feedback and any suggestions for research that you think should be included in future updates.

How much do people save in the uk?

We are a nation of spenders rather than savers. The ratio of savings to income in the UK is low when compared to other countries and as many as a third of households have no savings at all. The social norm is to spend to achieve a certain lifestyle and for many people, regardless of income, this can make saving seem impossible.

Since the 2008 recession, both the capacity and incentive for people to save has been reduced. With lower incomes failing to keep up with cost of living and reducing interest rates, people have to work harder to build up cash savings in return for lower rewards.

With such low levels of savings, many would struggle if they experienced an unexpected cost (such as a car breakdown), or something more serious (such as being unable to work due to ill health). Around four in ten adults have less than £500 in savings to cover an unexpected bill, and only one in four working-age people have enough in savings to cover three months' income if they were unable to work.

Getting more people to put money aside in case the worst happens is critical to financial resilience. The remainder of this review considers what turns some people into savers and how it may be possible to move people along that journey.

What makes a saver?

We know that saving correlates to income and age and that debt is a barrier. However, this is not the whole story: some people on high incomes have low levels of savings, and some people on low incomes do manage to save. Research shows that other factors have a role to play:

- **Skills:** this refers to the money management abilities and financial 'savviness' of savers, and includes skills such as the ability to identify 'spare' money through budgeting and money management. Evidence shows that a lack of day-to-day money management skills can be a barrier to saving and, in general, savers tend to be more organised and proactive about managing their finances and dealing with financial services.
- **Attitudes and beliefs:** most specifically: (1) their attitudes to debt; (2) their confidence in their ability to save; (3) their willingness to confront negative spending behaviours; (4) their preferences about whether to spend or save; and (5) social norms, such as feeling under pressure to keep up with a certain lifestyle, or being worried about what others might think.

Skills and attitudes are not fixed. Research suggests that with the right interventions, there is scope to develop these key drivers and consequently help people to establish new savings habits.

How can we Promote saving?

The following approaches have shown promise in promoting saving (although further evaluation and research is required to better understand how well these work, for different people and in different circumstances):

- **Start small:** to encourage non-savers to start saving, it is important to challenge any beliefs that may be holding them back, such as the idea that saving is too hard, or that they would need to sacrifice a lot in order to make it worthwhile. Starting small (setting short-term goals and identifying realistic lifestyle changes) makes saving feel achievable, builds confidence and feels 'easy'.
- **Show progress against a goal:** Having a clear and realistic goal, and a plan for achieving it, gives individuals something to focus on, and evidence shows that savings habits can then form through cycles of success as these goals are achieved.
- **Make it social:** evidence from other sectors show that commitment devices can be effective in helping people stick to goals, by sharing these with friends and family (typically via social media.) Commitment contracts go a step further, attracting a penalty if you fail - but these approaches are yet to be tested for savings behaviour. Similarly, research has shown that saving with friends and family can help with motivation.
- **Form a habit:** research suggests that once savings habits are established they tend to be maintained, and among 'rainy-day savers' the savings habits developed during childhood continue into adulthood and become self-reinforcing.
- **Make saving a challenge, not a chore:** framing saving as a challenge makes it more attractive and counters the conviction that it is too hard or tiresome to contemplate. This is, in part, about having the necessary financial skills to identify realistic ways to cut back and make savings.
- **Provide information and make it personal:** information needs to be pitched at the right level so it is not seen as patronizing. People want to see tips that are easy and relevant: the sort of thing that 'people like me' would do.
- **Easy and accessible products:** While the evidence suggests that product design has a limited effect on behavior, confusing terminology and poor design may be a barrier to non-savers.

Where should future research focus?

All of the approaches described above require stronger evidence, gained through good quality evaluation, to help us understand how they can be best applied.

In addition, we think the following issues would benefit from further study:

How people save and why they don't: we need to further develop our understanding of how and why people save, focusing on some key questions for research:

- How does household cash flow interact with their savings and use of credit (e.g. at peak times like Christmas) and what does this tell us about who would most benefit from different tools, services and interventions?
- Is workplace saving effective at getting more people saving?
- There are many short term and long term demands on the amount of money people can put aside for savings – how do people prioritise these demands at different times in their life and what does that mean for appropriate products and guidance?

Messaging and 'Rules of Thumb': we need to better understand what messages, and messengers, are best able to tackle mindset barriers and combat social norms about spending. 'Rules of Thumb' (such as the '5 a day' message about eating fruit and veg) can be effective in instigating new norms, but further research is needed to develop realistic and engaging rules of thumb around savings that, if followed, will result in demonstrably increased financial resilience to unexpected events. A key challenge will be to ensure sufficient flexibility to speak to different needs and contexts (e.g. costs and risks differ by life stage and therefore the amount saved as a buffer should do so as well)

FinTech: there is a great deal of interest among policymakers and financial services about the potential of financial technology (FinTech) to help savers. Possibilities include the use of 'machine learning' to help people budget, understand their spending and spot opportunities to make savings; or enabling people to 'impulse save' by moving unspent money into savings. Further research and testing is required to develop the right tools for different people and different needs.

Enabling auto-save behaviours: the research discussed in this review focuses on ways of encouraging people to value saving and make it more achievable. However, another approach is to make savings a 'default' behaviour. Research has shown that, when low-income borrowers opted in to making savings payments alongside a loan repayment, many continued to save after the loan was repaid because the regular saving payment did not stop. This is known as 'auto saving' and more research is required to understand what other opportunities exist for people auto-save (for example, integrating rainy day savings with auto-enrollment pensions, allowing people to access some of their pot in emergencies) and to determine when and why people keep their auto-save payments going.

Reframing savings for non-savers: We know that speaking to non-savers about the mindset benefits of saving (e.g. feeling more resilient) doesn't work, if they don't believe they can do it. It may be more engaging to reframe the rewards so they are more easily understood. There is some evidence that matched savings schemes (e.g. which present returns as 20p for every £1, rather than % interest rates) have a positive impact on savings behaviour, but it remains unclear whether the higher returns were gained by reallocating new or existing savings. Prize-linked schemes show some evidence of promise, but none that demonstrates a clear causal link to improved saving.

What next?

Did you find this review helpful? We would like to know what you think. Please contact us at whatworks@fincap.org.uk with your feedback, and any suggestions for further research or evaluation that should be included in future updates.

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Further references are available in the Hartfree (2016) and Money Advice Service (2016) studies.