Consultation response: HM Treasury Help to Save Implementation

Response by the Money Advice Trust

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Contents

Introduction

About the Money Advice Trust

The Money Advice Trust is a charity founded in 1991 to help people across the UK tackle their debts and manage their money with confidence.

The Trust's main activities are giving advice, supporting advisers and improving the UK's money and debt environment.

Over 1.35 million people were supported by the Trust in 2015, both directly through our advice services or indirectly through training advisers in charities across the UK. This includes almost 400,000 individuals assisted through National Debtline, over 50,000 small businesses through Business Debtline and over 900,000 through our adviser training. We support advisers by providing training through Wiseradviser, innovation and infrastructure grants.

We use the intelligence and insight gained from these activities to improve the UK's money and debt environment by contributing to policy developments and public debate around these issues.

Public disclosure

Please note that we consent to public disclosure of this response.

Introductory comment

We welcome the opportunity to comment on the proposals to implement Help to Save accounts.

Our view on the overall policy

The Help to Save initiative is very welcome and should be seen as part of a wider landscape of innovation in enabling savings and affordable credit for people on low incomes or benefit-level income. The importance of financial education should not be overlooked.

From our experience working with people in financial difficulty, we know that providing schemes with instant and easy access is important. People on low incomes are cautious of using savings schemes that have restricted withdrawal, and are reluctant to lock away money they might need. Schemes also need to provide appropriate and simple information and should not set deadlines for matching contributions or withdrawing funds from those with very low savings as this is counter-productive to improving the long-term wellbeing of people experiencing poverty. An inadequate income, debt and poverty may well impede the ability of families on very low income to save regardless of the incentives put in place. This element should not be ignored when looking at savings ideas.

Our view on the implementation proposals

Our view on the implementation proposals is that:

- ✓ **Eligibility**: The Help to Save scheme should be reviewed after an initial period to see if it is possible to expand eligibility. For example, those who are unable to work such hours due to sickness, disability or caring responsibilities should be able to benefit from the scheme.
- ✓ **Requirement to save for 2 years**: We are concerned that two years may be too long a time to wait to receive a bonus under the scheme, and that there is a lack of clarity about whether individuals would lose their government bonus if they take out money early or close their accounts early. The fairest outcome, in our view, would be for a partial bonus to be paid at the end of the two-year savings assessment period taking into account how much was withdrawn and at what point in the cycle.
- ✓ **Single provider**: the simplest, most consumer-friendly and cost-effective option is for a single provider through NS&I.
- ✓ **Central portal & visible reward**: Accounts should be accessible via a central online portal, that includes a visual representation of how much government bonus has been accrued (even before it is payable), to provide 'visible reward' to incentivise continued participation.
- ✓ **Face-to-face access:** At the same time, issues around channels and inclusion must be considered. Online and telephone access could be enhanced by accessibility through the Post Office network.
- ✓ **Interest payments**: The proposal for the accounts to be eligible for interest to be added to account balances by the provider is welcome.

- **Minimising scams and fraud:** Consumer protection measures should be put in place in cooperation with search engine providers such as Google to minimise potential for online scams and fraud.
- **2nd term accounts:** If there is only one single provider, it would make sense for people to "roll-over" into the next two year period by default, with, of course, an opt-out clause at that point.
- **Debt advisers promoting Help to Save:** Clarification is needed as to whether promoting Help to Save as part of a debt advice session is considered to be part of regulated financial advice under FSMA. The interface with the Money Advice Service Standard Financial Statement (SFS)[1] savings element should also be considered in the context of this scheme.

Further areas for exploration

The savings arena now also includes other new government initiatives such as the lifetime savings ISA and the Housing ISA. In addition, we would suggest further work is done to look at the feasibility of work savings schemes where employers and employees are incentivised to enable monthly savings via payroll deductions. It is important that such schemes allow flexibility in allowing access to smaller sums which may make it easier for those on low incomes to save.

StepChange has put forward the interesting idea of using the pensions auto-enrolment system to allow people to build up a transportable fund incentivised via tax relief and employer's contributions. [2] There should also be further investment in credit unions to allow the savings/loan model to "scale up" and grow. We also suggest investigating the Good Shepherd model in Australia where amongst other products, the "Adds up savings plan" provides matched funding by the National Australia Bank for savings up to 500 dollars.[3]

[1] https://www.moneyadviceservice.org.uk/en/corporate/industry-support-for-single-tool-to-help-indebted-people
[2] http://www.stepchange.org/Mediacentre/Researchandreports/Becominganationofsavers.aspx?dm_t=0,0,0,0,0
[3] http://goodshepherdmicrofinance.org.au/services/addsup-matched-savings-plan

Responses to individual questions

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

We welcome much of the government's proposals for the operation of Help to Save accounts. In particular, it is very welcome that eligibility for the scheme will be retained even if the account holder loses their entitlement to Universal Credit (UC) or Working Tax Credits (WTC) during the savings period due to a change in circumstances. In addition, it is very welcome that it is proposed that eligibility will continue for the second savings period also in such circumstances.

We understand that the scope of the eligibility for the scheme is not open for consultation. However, we would welcome consideration of a review of the scheme parameters at a set point in the future. The scheme eligibility could be expanded to include UC recipients who are not earning a minimum of household earnings equivalent to 16 hours. For example, it would be beneficial for those who are unable to work such hours due to sickness, disability or caring responsibilities to be able to benefit from the scheme.

We would welcome clarity about whether individuals would lose their government bonus if they take out money early or close their accounts early. We would think that the fairest outcome would be for a partial bonus to be paid at the end of the two-year savings assessment period taking into account how much was withdrawn and at what point in the cycle.

Having said this, we are also concerned that two years may be too long a time to wait to receive a bonus under the scheme. We presume research has been carried out to explore whether a two year wait acts as a disincentive to save, and whether a shorter time period might be more beneficial.

Question 2: Do you agree with the proposed principles for assessing options to implement Help to Save? Please provide any comments as appropriate.

The principles as set out in the consultation document, seem to be both fair and reasonable. We particularly welcome the principles of simplicity of product design and accessibility for these accounts.

We do not have any additional suggestions.

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

The proposed information and reporting requirements look reasonable. However, there will clearly be greater costs overall if individual providers are all feeding in their reports as there will be a central coordinating and management cost to this. This effect will be particularly exacerbated the more providers there are, and if some are operating in overlapping regions. These costs would presumably be mitigated by the use of one central provider.

Question 4: Do stakeholders agree with the government's assessment of the option to deliver Help to Save accounts through multiple providers?

In general, we would suggest that the scheme would be more complex and confusing if it was to be run by several competing providers. This would particularly be the case if local and national providers could run schemes.

As the consultation paper says, *"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."*

We also agree that there would be higher implementation costs for a multiple-provider model and there may be issues meeting the deadline for implementation.

We also agree that there is a higher risk of fraud, error and scams with multiple providers. If it is decided that a multiple provider model is to be used, then the scheme rules should include provisions to ensure that banks do not have the right of set off . It is vital that banks are unable to dip into a Help To Save account to clear any debts owed to the bank.

Furthermore, if a decision is made to proceed with a multiple-provider model, we would still want to see National Savings & Investments act as one of the providers, with this provision procured by government if necessary, to provide a 'default' option should a competitive marketplace not develop in the way intended.

Please provide additional comments as appropriate, including views on:

interest payments

We agree that interest should be payable on accounts whether provided by multiple providers, or by NS&I or even a single centralised credit union. This would be an additional incentive for individuals to save. Also, the account provider has had the benefit of the money paid in so should provide an interest return on the investment at a competitive market interest rate.

branch access

Branch access is a difficult issue, as NS&I clearly do not operate through branches and would only have internet and telephone support available. However, we would suggest that making branch access available through the Post Office network would be a solution to this problem. This not only solves the accessibility issue for people without internet access and who prefer to make transactions face-to-face, it would provide a further boost to post office services.

account transfers

We cannot see any particular advantage for consumers to have the ability to transfer their account between multiple providers. As the scheme is likely to work in a similar way wherever the account is held, this does not seem to be a vital component to make the scheme work. As we are aware, it is already a monumental task to overcome consumer inertia to promote switching in the energy and current accounts markets, let alone a 2 or 4 year savings scheme.

Question 5: Do stakeholders agree with the government's assessment of the options to deliver Help to Save accounts through either a single in-house provider or a single private sector provider? Please provide additional comments as appropriate.

We agree with the government's assessment of the options to deliver Help to Save accounts through a single provider. For the sake of simplicity, transparency and ease of accountability we would support a single in-house provider for the scheme. This option would be easy to administer and uses existing infrastructure through the mechanism of NS&I.

We do not see that multiple providers will help to promote choice of product, as this is a simple product that should not vary substantially across providers. Indeed, the more providers, the more chance of scams and fraud coming into play and the more confusing it is for consumers. There is a line of thought in behavioural economics that says, the more choice available for consumers, the less easy it becomes for people to make an actual decision. This could lead to poor decisions or inertia leading to no actual choice being made at all.

In our answer to question 4, we have suggested that accessibility can be addressed by giving access via the post office network for opening and maintaining accounts. This should be open to all, but will be particularly helpful for those who cannot use online or telephone services.

It should also be easy to access accounts using gov.uk as the central portal to open an account. However, any such portal needs to bear in mind that there are many people who are unable to access goods and services online. The FCA has recently published its latest occasional paper on access. This quotes the ONS 2015 figure of 3.8 million households in the UK being without the internet.[4] We welcome the suggestion that access could be via a telephone helpline for NS&I.

We would also suggest that to avoid the possibilities of scams and fraud, that consumer protection measures are put in place in cooperation with search engine providers such as Google. We are all familiar with companies masquerading as government or charitable services. These frequently use online paid-for advertising that allows them to appear at the top of the list, and diverts people into a false website or one that charges for opening an account where this should be free.

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

We are unable to comment on the operational difficulties of the various proposals put forward in the paper as to how the bonus scheme could operate. Clearly there will be different cost implications for the proposals which will depend upon the operator and their infrastructure.

However, option d) where the bonus is crystallized every six months, appears to be the fairest proposal and one which would be the easiest to understand. The other proposals are more complex and could lead to a sense of unfairness for individuals affected. However, whichever way the system is modelled, some people are bound to lose out depending upon when they withdraw their "rainy day" savings and how much they have saved at that point.

deliver second term Help to Save accounts

We can see no reason to require the saver to close their account at the end of two years and then go on to open a new account. The rationale for this proposal is not set out in the paper. We would have thought that the inconvenience of having to source another account from a new provider, or to open a new account with the same provider would put people off. If there is only one single provider, it would make sense for people to "roll-over" into the next two year period by default, with, of course, an opt out clause at that point. Any scheme that requires people to take positive action to reopen the account would mean many people falling out of the scheme at that stage. We would prefer that the default "fallback" position would be that the account continues to run on.

ensure an appropriate rollover of funds to successor accounts

We agree with the proposals to allow funds to rollover into successor accounts as outlined in the paper.

permit saving above the monthly limit

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

We would support these proposals if they can be made to work easily for consumers so they can “catch up” with their saving where possible. It may not be an option that is taken up very often, given the low-income demographic that the savings scheme is targeting.

target eligibility on people who do not already have significant savings

In our view, it would be a shame to exclude those who already have some savings when they become otherwise eligible to enter the scheme. A £2,000 limit on existing savings does not seem particularly high. It is often suggested that people should have between three and six months’ living costs saved up for a “rainy day”. Whilst we appreciate that UC comes with capital limits, this seems a very low ceiling. It also does not take into account how the savings came about. For example, backdated benefit lump sums are in many cases not counted as savings or disregarded for 12 months when working out the capital rules for entitlement to other benefits.

In addition, we would also encourage policy makers to think holistically when considering savings policies and the financial position of those on low incomes or in debt. For example, debt options create a disincentive to save, for example the £1,000 (increased from £300 in October 2015) asset limit for debt relief orders can act as a disincentive to people on the lowest incomes to save. If savings were to build up to more than £1,000 in the 12 months moratorium period, the DRO would be revoked.

It is doubtful that providers would welcome an attempt to make them “police” the opening of an account by checking other savings, or where the sources of the savings are derived from.

If it is decided for this reason not to put a limit on the level of existing savings that an individual can hold and still enter the scheme, then robust warnings about savings limits and UC or WTC entitlement would need to be provided in every case.

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.

It has been established that a quarter of low income families do not engage in any form of saving.[5] Soft compulsion and match funding are better incentives to encourage saving among low income households than tax breaks. It is possible that automatic transfers of spare funds into a savings schemes may help increase saving behaviour. It is worth considering whether this is the case and whether such an approach could be built into this scheme to boost savings behaviour. The importance of financial education in helping to build confidence in budgeting and saving should also not be overlooked.

It could be considered whether application forms for various benefits such as Universal Credit, could include the option to put aside an elected amount each month into savings. Although, at the point of claim, people may not feel confident that they can decide what they

[5] Kempson E. and Collard S. (2012) *Developing a vision for financial inclusion*. Surrey: Friends Provident Foundation. http://www.bristol.ac.uk/media-library/sites/geography/migrated/documents/pfrc1205.pdf

can afford to put aside, if anything, out of their new income. Perhaps follow-up reminders should also be utilized at set points after claim.

It is suggested in the consultation paper that charities such as debt advice providers will be in a position to promote awareness of the Help to Save accounts and to deliver support and guidance in relation to the scheme. Whilst this would make sense, we would welcome clarification as to whether it is considered to be part of regulated financial advice under FSMA to suggest a savings scheme? As discussed in the Financial Advice and Markets Review (FAMR), there is some confusion over the role debt advisers have in relation to providing guidance on a choice of products in the savings or pensions area.

Households in debt or financial difficulty are among the groups most likely to benefit from building up modest savings, but are currently very unlikely to do so. In part this is because advisers and creditors alike have not always considered savings to be an important or appropriate item of expenditure. This view is changing however and we are pleased to report increasing support among lenders for the principle that households in debt should be encouraged to build up reasonable levels of savings.

We would also be interested in how the Money Advice Service Standard Financial Statement (SFS)[6] savings element will fit into the proposed scheme. Although not every client who works out a budget using the SFS will be eligible for the Help to Save scheme (where not on UC or WTC) it would be very useful for advisers to be able to suggest that eligible clients could benefit from the scheme.

Finally, attention should be paid during implementation to the challenge of not just attracting consumers to open an account, but of ensuring their continued participation. Insights should be taken from behavioural science, such as the need to prominently display or communicate the amount of 'government bonus' accrued, before it is payable, to provide 'visible reward' throughout.

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[6] https://www.moneyadviceservice.org.uk/en/corporate/industry-support-for-single-tool-to-help-indebted-people

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