Response to the Future of Saving consultation

1. As the UK's financial capability charity, we welcome the BBA's focus on this important topic and the opportunity to respond to this consultation.

2. We believe that being on top of your money means you are more in control of your life, your finances and your debts, reducing stress and hardship. And that being on top of your money increases your wellbeing, helps you achieve your goals and live a happier more positive life as a result.

3. We believe financially capable people are on top of and make the most of their money in five key areas:
    - Planning (including budgeting)
    - Saving
    - Debt
    - Financial services products
    - Everyday money (including wages, cash, bank accounts)

4. Saving, therefore, is central to financial capability – both to act as a 'buffer' against income drops or unexpected expenditure, and to enable people to achieve their future goals.

5. But at present, worrying numbers of people in the UK are not saving. The latest Family Resources Survey found that 35% of households had no savings, with 13% having under £1,500 – equivalent to more than 12.5m households with low levels of savings[1].

6. We respond to this consultation with the view that saving is an important financial behaviour, and one that policymakers and industry should support and encourage through actions as well as rhetoric. While levels of saving will always be in part determined by wider factors such as household incomes, there is considerable scope for measures to instil a saving culture in Britain.

[1] https://www.gov.uk/government/statistics/family-resources-survey-2012-to-2013

Why do British people save less than residents from many other countries?

7. While we are not in a position to comment on saving practices in other countries, there are a number of reasons why British people might be relatively unlikely to save.

8. Firstly, people often simply do not engage with their money, particularly when things are going 'well' and they are meeting all their commitments. As we note later in this submission, saving at the moment requires engagement on the consumer's part, so this is a particular hurdle.

9. Secondly there is a tendency for people to live for today, not for the future, which naturally leads people to spend rather than save. This tendency is exacerbated if common savings goals seem very far away and unreachable. Our consistent message on financial capability is that staying on top of your money can help you to achieve your goals in the future - but this is undermined if those goals seem out of reach. It is difficult to see a benefit to saving or making sacrifices to, for example, put a deposit on a house if achieving that goal could be decades away, which, given current trends in wages and house prices, is the reality for many.

10. This is compounded by the complex nature of the savings market and the abundance of available products, which can appear overwhelming and lead to a lack of engagement even if someone does save. As the FCA recently found, some providers of savings accounts are exploiting this inertia to reduce interest rates offered on savings accounts to extremely low levels[2].

11. Both of these factors can limit consumer engagement with savings, but at present saving also requires an active engagement on the part of an individual. This means a consumer needs to recognise the value of saving and to overcome both inertia and the behavioural bias towards the present. We believe that there is scope for initiatives that recognise these barriers and reduce the level of engagement needed from a consumer.

12. Another possible disincentive to save, sometimes encouraged by media reports, is that saving is not seen as worthwhile in the current climate. It is true that rates of return on savings products are generally low at present, but that does not mean saving itself is worthless. Saving's value shouldn't just be based on the return on a savings pot, but also on what having those savings enables you to do, and it is important that this message is reinforced by government and banks.

13. If banks were to design non-savings products that nevertheless reward savings – in a similar way to offset mortgages – the value of saving would extend further beyond the interest gained. If such products were developed and consumer awareness of these extra benefits was raised, it could act as a further incentive to encourage people to save more.

14. Finally, a drop in real wages in recent years means people simply have less money available after necessary expenditure, which reduces opportunities to save. And anyone with money available to save faces a complex choice regarding how to do so:

[2] http://www.fca.org.uk/your-fca/documents/market-studies/ms14-02-interim-report

put it into a pension pot? A general emergency fund? Or towards a specific goal, like a mortgage deposit? This is a very difficult decision for anyone to make, and its complexity could lead to people not engaging at all (or making a ‘snap’ decision to put it in one account at random). If a relatively small amount is split three ways it looks even smaller, which could make saving any portion of the amount seem even less worthwhile. We believe that the development of a single savings product that could be used for retirement saving, emergency funds, and saving goals, could have the potential to simplify the decision about where to save and make saving a more attractive option.

What more could banks do to encourage their customers to save?

15. One action banks could take is to highlight the potential value of saving to their customers. We welcome the move from Tesco Bank, for example, to alert customers what money not earning credit in their current account could be earning in a savings account, although in a period of low interest rates this might have a limited effect. This would not address the issue of people simply not having enough money to save anything, but by encouraging consumers to move money left over to a formal savings product it reduces the likelihood of it being spent.

16. A second point relates to the design of financial products. We believe that the way financial services operate should encourage responsible behaviours such as saving, but as the FCA’s recent interim report on the cash savings market highlighted, in many cases the interest rate on savings accounts drops significantly after an initial period. Such product design damages incentives to save unless the individual has the time, willingness and capability to regularly engage. We would like to see better information provided to customers about available rates of interest on savings account, as our response to the FCA highlights[3].

17. Additionally we would like to see industry push forward with the development of the Simple Financial Products initiative[4] to provide consumers without the capability to engage with the complex and wide range of savings products on the market with an easy-to-understand alternative – although this should not be an excuse to offer low rates.

18. Banks can also make it easier for consumers to save. There has been some welcome recent innovation, such as Lloyds’ scheme to ‘round up’ the value of debit card transactions and deposit the difference in a savings account, which allows customers to automatically save small amounts. We think there is more that could be done, such as by having a simple option to divert a set sum of money on a regular basis from a current account to a savings account. This facility already exists in the form of standing orders, but it is not generally advertised as a way to save. If providers of personal current accounts highlighted this feature – for example through a box consumers could tick on online accounts to set up a weekly or monthly ‘savings payment’ – it could encourage people to save regularly, without needing to take action each month.

[3] http://themoneycharity.org.uk/media/Response-to-the-FCAs-cash-market-study.pdf
[4] https://www.gov.uk/government/publications/simple-financial-products

19. Designing and promoting other products that reward saving could also encourage people to save more, as we mention in paragraph 12. For example, developing 'offset personal loans' or 'offset credit cards' that operate in a similar way to offset mortgages could help customers to further benefit from their savings.

20. A further idea worth consideration is the development of a single savings product into which savings could be paid, regardless of the purpose of their saving. In paragraph 14 we highlight that most people have different accounts for different types of savings, and that this can often lead to a difficult decision of 'how' to save an available sum of money.

21. Having a single account that could include retirement savings, emergency funds, and savings towards a particular goal would remove the need for this decision. There could be some protection against people entirely depleting their savings - for example a proportion of the total amount saved could be ring-fenced for retirement (or as a fund to access in serious circumstances such as critical illness or death). The remaining amount could then be accessed for emergency or discretionary spending, or be used to offset a mortgage or other loan.

22. We believe that if such a product was eligible for existing tax incentives that apply to pension savings and savings held in ISAs, this would significantly simplify decisions around savings. Consumers would also be able to feel they were saving more, as they could make a single, larger, amount of saving rather than splitting between three separate accounts, further increasing the incentive to save.

Should ministers consider ending taxation on all savings products?

23. We don't see a need to end taxation on all savings products. The ISA 'brand' is well-established, and particularly with the recent increase in the annual ISA limit to £15,000, is likely to meet the needs of the vast majority of consumers.

The BBA has called for the creation of new work-based savings products that workers could transfer to different employers. Would you support this and if so why?

24. We would support the creation of such a product. Particularly if this was an 'opt-out' system with deductions made at payroll, it would likely increase levels of saving among participants and numbers of people with some form of savings. Savings made in this way could be paid into a single pot, as we outline in paragraph 19.

What other policies by governments and regulators could encourage more people to save?

25. Policymakers and regulators could learn lessons from the success of automatic enrolment in encouraging pension savings. An 'opt-out' system of saving, as we note

in paragraph 22, where a proportion of income is automatically directed to a savings account, could play a role here.

26. One option would be to link this to the work-based savings product outlined above, using the same mechanism as auto-enrolment. The difference would be that these savings would be more accessible than pension savings, and rather than contributing towards retirement income would instead build up a financial buffer for emergencies or help people to afford larger items.

27. Something similar could be introduced for Universal Credit, as a recent Centre for Social Justice report recommended[5], to engender a savings habit among people on the lowest incomes. We also welcome the progress that has been made regarding the inclusion of a savings element in recovery plans for individuals repaying debts. All of these would both help to make saving a more automatic, regular part of everyday life, rather than a perceived luxury.

28. The inclusion of financial education in the National Curriculum from September 2014, and particularly that savings is a topic in the Key Stage 4 Citizenship curriculum, is an encouraging development. We are, however, concerned by recent BBA findings that few free schools are currently teaching financial education[6]. Making financial education compulsory for *all* schools could instil an appreciation for saving – and an understanding of what it can help you achieve – from an earlier age that would increase saving rates in adulthood. For example, one recent study found that financial education reduced the tendency towards instant gratification in schoolchildren, which is a positive indicator in relation to savings[7].

29. Another policy initiative to encourage saving from an early age would be to reintroduce a government contribution to children's saving accounts similar to the Child Trust Fund. While Junior ISAs allow children to build up a savings pot, they are only accessible to children from families with disposable income – therefore the least well-off children do not benefit. If government were to make a contribution to a Junior ISA, even if this were targeted to children from low-income families (in the future this could be linked to receipt of the child element of Universal Credit), it would increase children's engagement with savings accounts that would 'prime' them to save as adults. And the increase in value of that contribution over time would give a concrete example of the rewards that can be gained from saving.

[5] http://www.centreforsocialjustice.org.uk/publications/restoring-the-balance-tackling-problem-debt
[6] https://www.bba.org.uk/news/press-releases/free-schools-introduced-by-coalition-ministers-are-nearly-five-times-more-likely-to-omit-financial-education-from-lessons-than-standard-secondary-schools-official-figures-have-shown/
[7] http://www.ifs.org.uk/publications/7319