

Low-income saving: The way forward

Introduction

Helping people plan for the future and cope with financial pressure is a key objective of the Government's financial inclusion strategy. Achieving this will involve measures to make it easy for people to put small amounts of savings aside to meet short-term needs, and specific initiatives to encourage saving amongst people on low incomes.

On 24th May 2007 the National Consumer Council (NCC), together with Opinion Leader, held a seminar which brought together 40 key people from government, the financial services industry and the third sector with an interest in low-income saving. The aim of the event was to develop a shared understanding of what motivates people on low incomes to save, what are their preferred methods of saving, and what this means in terms of new product development and regulation. This document summarises some of the key insights and principles which emerged from what was a lively, stimulating and enjoyable discussion.

Be optimistic about the challenge

Brian Pomeroy, chair of the Financial Inclusion Taskforce, felt it was important that we remain optimistic about the potential for developing low-income saving. Research by the NCC and Opinion Leader shows that while saving is often difficult for people on low incomes, consumers themselves recognise the importance of saving, both to provide a financial buffer and to realise specific aspirations. We also know that getting into the habit of saving has the potential to make a tangible difference to low-income consumers' overall financial health by building confidence, reducing indebtedness and creating a sense of financial control.

Low-income saving is already taking place to varying degrees, through both informal and formal means (the extent may be under-reported because current practices are not always recognised as 'saving' by policy makers and, sometimes, even consumers themselves). The evidence suggests that low-income consumers will save as long as the convenience and incentives are there.

Access is key

Claire Whyley of the NCC identified a need to recognise the extent to which people on low incomes already save – albeit informally and in small amounts. She also raised the importance of addressing both the physical and psychological barriers to saving. For example, low-income consumers do not currently regard it as easy or straightforward to open a mainstream savings account, and addressing the perceived barriers at this point (e.g. ID requirements etc.) is a priority for financial services providers.

In addition, we need to look at ways of making it easier for people to contribute savings on a regular basis. This is likely to include exploring alternative community-based delivery channels and partnerships.

Go with the grain

There was clear consensus amongst all contributors that the best way forward is to start from where people are now. This means not imposing middle-market solutions but identifying what currently works for low-income savers and building new and innovative models based on these learnings.

Work by Opinion Leader has confirmed a number of specific preferences of low-income savers. For example, in our research on hamper schemes we found that consumers like being able to pay in small cash amounts, having local agents come to their house to collect contributions, and that the product includes a lock-in feature to prevent temptation.

Sue Regan of the Resolution Foundation suggested that behavioural economics may be a useful framework to use to ensure products and distribution mechanisms fit with consumers' motivations and behaviours (power of inertia, fear of temptation, attraction of goals etc.).

Take advantage of specific opportunities

There was broad agreement that with saving, the best way of learning is by doing.

The Farepak experience has shown that Christmas represents a major financial commitment for low-income consumers and that people value being able to put small, regular amounts aside in advance to avoid pressure at the end of the year.

Mark Lyonette of the Association of British Credit Unions identified saving for Christmas and other specific short-term goals as a good opportunity to get people into the habit of saving more generally.

Think carefully about incentives

The speakers all agreed that both carrot and stick approaches are required to encourage people to continue with saving.

Low-income savers would like to be given incentives to save. Financial incentives must be simple, clear and transparent. But non-financial incentives - such as a gift once the goal has been reached - can also be very powerful. The evaluation of the Saving Gateway pilot also provides an opportunity to learn from the experience of providing monetary incentives.¹

Once people have started saving it's vital that they have an incentive to keep doing so. Users of hamper schemes recognise that the lock-in helps prevent temptation and the regular collections from the agent makes them disciplined about putting money aside. However, they also want some flexibility so they could access their money early in an emergency. The credit union experience shows that members will try to avoid drawing on their savings in order to maximise their access to low-cost credit. On the other hand, schemes that prevent people from drawing on their savings, or penalise them for doing so, may put many people off saving altogether.

Use a joined up approach to promote saving

In addition to changes to products and distribution, developing campaigns to raise awareness and promote the benefits of saving is a vital component of any strategy to encourage low-income saving. Opinion Leader's work suggests that community-based and targeted campaigns will be most effective, although the idea of a national savings campaign was also raised in the discussion.

With any campaign, it will be important to use the right language. For example, low-income consumers don't necessarily recognise some of their methods as 'saving', regarding what they do instead as budgeting or simply 'putting money aside'.

¹ The just released evaluation report of the Savings Gateway Pilot is available at:
http://www.hmtreasury.gov.uk/media/BE2/E5/savings_gateway_evaluation_re

In addition, it was seen as important that the messages provided are consistent, which requires policy makers to be clear on how promotion of low-income saving fits with their other public policy priorities. The Thoresen Review of generic financial advice was identified as a potential way of tying the different policy strands together and providing a range of key messages on improving financial health.

Conclusions

The findings of the low-income saving seminar highlight the importance of this issue to policy makers, the third sector and the financial services industry alike. Some interesting thinking emerged on new principles for encouraging low-income saving which we believe should be followed by all players in the future. In summary, the six principles that emerged from the discussion are:

1. **Be optimistic about the challenge:** There is evidence that low-income consumers recognise the importance of saving and will save if incentives and convenience are there
2. **Access is key:** Both physical and psychological barriers to saving should be addressed
3. **Go with the grain:** There is a need to start with where people are now rather than imposing solutions
4. **Take advantage of specific opportunities:** These include encouraging saving for Christmas and other short-term goals
5. **Think carefully about incentives:** Low-income consumers would like both financial and non-financial incentives to save
6. **Use a joined up approach to promote saving:** Awareness campaigns with consistent messages are needed along with product and distribution reviews

We would like to thank all participants for their extremely valuable contribution. We will be drawing on the discussion to hone our thinking in this area, and will keep in touch as our work progresses.