House of Commons

Treasury Committee

Financial inclusion follow–up: saving for all and shorter term saving products

Thirteenth Report of Session 2006–07

Report, together with formal minutes, oral and written evidence

Ordered by The House of Commons to be printed 20 September 2007 pursuant to Standing Order No. 137

HC 504
Published on 9 October 2007
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

The Treasury Committee

The Treasury Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of HM Treasury, HM Revenue & Customs and associated public bodies.

Current membership

Rt Hon John McFall MP (*Labour, West Dunbartonshire*) (Chairman)
Mr Graham Brady MP (*Conservative, Altrincham and Sale West)*
Mr Colin Breed MP (*Liberal Democrat, South East Cornwall*)
Jim Cousins MP (*Labour, Newcastle upon Tyne Central*)
Mr Philip Dunne *(Conservative, Ludlow)*
Angela Eagle MP (*Labour, Wallasey*)
Mr Michael Fallon MP (*Conservative, Sevenoaks*) (Chairman, Sub-Committee)
Ms Sally Keeble MP (*Labour, Northampton North*)
Mr Andrew Love MP (*Labour, Edmonton*)
Mr George Mudie MP (*Labour, Leeds East*)
Mr Siôn Simon MP, (*Labour, Birmingham, Erdington*)
John Thurso MP (*Liberal Democrat, Caithness, Sutherland and Easter Ross*)
Mr Mark Todd MP (*Labour, South Derbyshire*)
Peter Viggers MP (*Conservative, Gosport*)

The following members were also members of the Committee during the inquiry: Mr David Gauke MP (*Conservative, South West Hertfordshire*), Kerry McCarthy MP (*Labour, Bristol East*), and Mr Brooks Newmark MP (*Conservative, Braintree*).

Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No. 152. These are available on the Internet via www.parliament.uk.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at www.parliament.uk/treascom

A list of Reports of the Committee in the last Parliament is at the back of this volume.

Committee staff

The current staff of the Committee are Colin Lee (Clerk), Fiona McLean (Second Clerk and Clerk of the Sub-Committee), Adam Wales, Jon Young, and Anna Leach (Committee Specialists), Lis McCracken (Committee Assistant), Michelle Edney (Secretary), Tes Stranger (Senior Office Clerk) and Laura Humble (Media Officer).

Contacts

All correspondence should be addressed to the Clerks of the Treasury Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5769; the Committee’s email address is treascom@parliament.uk

Contents

Summary

Saving matters even more for the least well-off in society than for the better-off. Saving needs to be accorded a higher priority in the Government's actions to tackle financial inclusion. In this Report, we welcome the progress the Government has already taken in response to our 2006 Reports on financial inclusion, but identify further priorities for action.

We propose the formulation of a more ambitious target for increasing savings among lower income households, based on a public policy which understands their motivations for saving and the range of saving options available to them.

We note the progress made in protecting consumers in the Christmas "hamper" market, but draw attention to the need to address wider and continuing risks relating to prepayments as a matter of urgency.

We argue that the most important single step the Government could take to increase the level of saving among low income individuals and households would be the launch of a targeted national Saving Gateway scheme with the Government matching savings by low-income individuals with its own contribution. The annual public expenditure commitment for such a scheme seems likely to be little more than one tenth of the annual subsidy for Individuals Savings Accounts and Personal Equity Plans.

We call for the Government to complement its objective of achieving a step-change in the coverage of third-sector lenders with an objective to achieve a similar change in third-sector savings. We identify the key changes to credit unions legislation needed to promote such an objective.

1 Introduction

Saving matters

1. Saving is crucial to the financial welfare of many people living on low incomes and of other people who may be financially excluded. An absence of appropriate saving is a key indicator that people are outside the financial mainstream; effective measures to encourage appropriate saving can play an important role in bringing people into the financial mainstream and giving them greater security and independence. We examined financial inclusion in a wide-ranging inquiry in 2006 which led us to publish three separate Reports on different aspects of financial inclusion.[1] In reporting on our work, we identified the need for saving to be accorded a higher priority in the Government's approach to financial inclusion.[2] The importance of saving in its broadest sense and the risks associated with some forms of informal saving were also highlighted by the collapse of European Home Retail plc and its wholly-owned Christmas hamper scheme subsidiary, Farepak Food & Gifts Ltd, in October 2006. We undertook the inquiry on which we are now reporting to examine how the Government and others were responding to our proposal for saving to be moved up the financial inclusion agenda and to see how public policy was responding to the challenges associated with informal as well as formal saving, as well as to review the responses of the Government and others to our earlier Reports more generally.

Conduct of our inquiry

2. We announced our intention to hold this inquiry on 29 March 2007. We invited written evidence on the role of saving in the Government's strategy on financial inclusion, on the Saving Gateway, on financial capability in the context of the shorter term savings market and on the design, promotion and regulation of products in the shorter term savings market, including hamper products, Christmas savings accounts and other similar products and potential products. We stated that we were not seeking written evidence on the restitution of Farepak creditors, issues for investigation by the Insolvency Service following the collapse of European Home Retail plc, lines of credit associated with the purchase of goods and services or the longer term savings market, including the Government's proposals for Personal Accounts.[3]

3. We received a range of written evidence, all of which is published with this Report. We held three evidence sessions, taking evidence from Mr Brian Pomeroy, Chairman of the Financial Inclusion Taskforce and author of a Government review of Christmas saving schemes, Professor Elaine Kempson of the Personal Finance Research Centre at the University of Bristol, Citizens Advice, the National Consumer Council, the Park Group, the Association of British Credit Unions Limited (ABCUL), the Office of Fair Trading

1 Treasury Committee, Twelfth Report of Session 2005–06, *Financial inclusion: credit, savings, advice and insurance*, HC 848–I; Treasury Committee, Thirteenth Report of Session 2005–06, *"Banking the unbanked": banking services, the Post Office Card Account, and financial inclusion*, HC 1717; Treasury Committee, First Report of Session 2006–07, *Financial inclusion: the roles of the Government and the FSA, and financial capability*, HC 53

2 HC (2005–06) 848–I, para 118

3 Treasury Committee press notice No. 40 of Session 2006–07, available at http://www.parliament.uk/treascom

(OFT) and Ed Balls MP, the then Economic Secretary to the Treasury. We are most grateful to all those who gave evidence during our inquiry.

2 Progress on the financial inclusion agenda

Responses to our Report

4. On 28 March 2007, the Government sent us its response to our three original Reports, a response which we published on 4 April.[4] On 28 March 2007, the Government published a document setting out its latest actions on financial inclusion.[5] The Government's own response to our Reports has been complemented by separate responses which we have also received from the Financial Services Authority (FSA),[6] the Banking Code Standards Board (BSCB),[7] and the Financial Inclusion Taskforce.[8] At our request, the Government provided further information on the response to some outstanding recommendations in May 2007.[9] In this chapter we survey some of the main recommendations of our original Reports other than recommendations relating to savings and the way in which the Government and others have responded. **We discuss the Government response to a number of individual recommendations later in this Report. However, we welcome the positive tenor of the Government response and the range of actions it has taken to give substance to that positive response.**

A strategic and coordinated approach

5. In our Report on the role of Government relating to financial inclusion, we pointed to evidence of a lack of coordination of efforts across Government to tackle financial exclusion.[10] We argued that longer term strategic planning and the involvement of all Government departments were vital in promoting financial inclusion.[11] We recommended that the Treasury take the lead in developing a long-term strategy for implementation by departments across Government.[12]

6. The Government set out "the general principles for its developing financial inclusion strategy" in its document entitled *Financial inclusion: the way forward* published in late March 2007.[13] That document stated that financial inclusion "is about ensuring that everyone has access to appropriate financial services, enabling them to:

- **manage their money on a day-to-day basis**, effectively, securely and confidently;

4 Treasury Committee, Fourth Special Report of Session 2006–07, *Financial inclusion: Government and other Responses to the Committee's Twelfth and Thirteenth Reports of Session 2005–06 and the Committee's First Report of Session 2006–07*, HC 437, pp 1–40

5 HM Treasury, *Financial inclusion: the way forward*, March 2007

6 HC (2006–07) 437, pp 41–47

7 *Ibid.*, pp 48–50

8 Ev 42–46

9 Ev 70–71

10 HC (2006–07) 53, para 84

11 *Ibid.*, para 87

12 *Ibid.*

13 HC (2006–07) 437, p 39

- **plan for the future and cope with financial pressure,** by managing their finances to protect against short-term variations in income and expenditure, and to take advantage of longer-term opportunities; and
- **deal effectively with financial distress,** should unexpected events lead to serious financial difficulty."[14]

7. The Government also announced that a Ministerial working group drawn from departments with a policy interest in financial inclusion and chaired by the Economic Secretary to the Treasury would be established to determine detailed priorities for financial inclusion policy.[15] One of the functions of the working group would be to prepare a detailed action plan to be published after the announcement of the outcome of the 2007 Comprehensive Spending Review, an action plan that would be prepared in consultation with the financial services industry.[16] **Although we make more specific comments about aspects of the Government's financial inclusion strategy document published in March 2007 later, we welcome its publication and the establishment of the Ministerial working group on financial inclusion. We look forward to examining the Government's financial inclusion action plan and further proposals of that working group in due course.**

Secure funding for financial inclusion

8. At the time of the 2004 Spending Review, the Government announced the establishment of a Financial Inclusion Fund to which a total of £120 million was assigned for the period from 2005–06 to 2007–08 for allocation by various Government departments and agencies.[17] Last year we expressed concern at the lack of a joined-up approach to allocation between departments and at the lack of certainty about funding beyond 2007–08.[18] In response, the Government announced that there would be a new Financial Inclusion Fund in the next spending period—from 2008–09 to 2010–11—and that "the Government commits to maintain the current level of intensity of action to promote financial inclusion, with the exact quantum of the new Fund to be determined in the forthcoming Comprehensive Spending Review".[19] The Fund would be limited to that spending period, with financial inclusion policy to be "mainstreamed into the departmental budgets after the next spending period".[20] The Government defended the use of the different allocation systems of various Government departments, while confirming that the Treasury had overall responsibility for determining financial inclusion priorities.[21] **We welcome the Government's commitment to continued funding to enable maintenance of the current level of intensity of action to promote financial inclusion up to 2010–11. We expect to**

14 *Financial inclusion: the way forward*, para 1.4, p 5

15 HC (2006–07) 437, pp 2, 36 39; *Financial inclusion: the way forward*, para 4.3, p 41; Q 293

16 HC (2006–07) 437, p 2; Q 293; *Financial inclusion: the way forward*, paras 4.4–4.6, pp 41–42

17 HC (2005–06) 848–I, paras 6–7; *Financial inclusion: the way forward*, Box 1.2, p 8

18 HC (2006–07) 53, paras 70–74, 88–92

19 HC (2006–07) 437, p 2

20 *Ibid.*, p 2

21 *Ibid.*, pp 35–36

examine the final allocation of resources to the Financial Inclusion Fund following the announcement of the final outcome of the 2007 Comprehensive Spending Review.

9. A substantial proportion of the initial Financial Inclusion Fund was allocated to support for an increase in the provision of face-to-face money advice—£15 million in 2006–07 and £30 million in 2007–08.[22] Last year we welcomed the recruitment of over 450 debt advisers that this funding had made possible, but noted that "the short-term nature of the funding offered so far places those debt advisers at risk of redundancy almost as soon as they have developed their expertise".[23] In response, the Government stated that it would evaluate the effectiveness and value for money of existing projects, but committed itself to "ongoing support for the provision of money advice in the next spending period".[24] Citizens Advice, which was the principal recipient of this funding, described the commitment to future funding as "very welcome".[25] **We welcome the commitment to continued funding of face-to-face money advice up to 2010–11 and look forward to learning more about the Government's evaluation of projects so far.**

The future of the Financial Inclusion Taskforce

10. The Financial Inclusion Taskforce was established by the Treasury to advise Government and others on progress in tackling financial exclusion and was launched in February 2005. We called for an expansion of the Taskforce's role, while noting the need for an increased role to be matched by additional resources.[26] The Government confirmed that the Taskforce would continue its role in the future, working to a new remit to be finalised to reflect the action plan to be issued after the announcement of the outcome of the Comprehensive Spending Review.[27] The Taskforce confirmed in evidence to us that it expected to be involved in the development of the action plan, and Mr Brian Pomeroy, Chairman of the Taskforce, also indicated that he considered the Taskforce's resources to be adequate for its work.[28] We consider the role of savings in the Taskforce's remit later in this Report.[29] **We welcome the Government's commitment to a continuing and expanded role for the Financial Inclusion Taskforce.**

Basic bank accounts

11. Access to banking services is essential to financial inclusion. The Government and the banking industry worked together to introduce basic bank accounts in October 1999, founded on a common model which was designed specifically to address the needs of the financially excluded. The Family Resources Survey of 2002–03 indicated that 1.9 million households, containing around 2.8 million adults, still lacked access to an account of any

22 HC (2005–06) 848–I, para 120

23 *Ibid.*, para 123

24 *Financial inclusion: the way forward*, paras 3.65, 4.32, pp 40, 47

25 Ev 63

26 HC (2006–07) 53, paras 63–68

27 HC (2006–07) 437, p 2; *Financial inclusion: the way forward*, para 4.2, p 41

28 Ev 42; Q 2

29 See paragraphs 52 and 54.

kind. In December 2004, the banks and the Government agreed to work towards the goal of halving the number of adults in households with no account of any kind—"the shared goal"—and to have made significant progress in that direction within two years.[30]

12. Last year we examined the operation of basic bank accounts and the case for legislative compulsion to establish a universal service obligation. We did not consider that a sufficient case for legislative action had been made, but we also noted the Minister's statement that a legislative approach was "not off the table" and we identified a number of benchmarks for progress by which the success of the voluntary approach was to be measured.[31]

13. First, we identified the need for further information from banks about their contribution to progress towards the "shared goal" and their own operation of basic bank accounts, including information about the results of the regular "mystery shopping" exercises undertaken by the BCSB to check on the quality of service for those seeking to open basic bank accounts.[32] In response, the Government confirmed that it would be seeking further information from the banks. The BCSB has also taken steps towards enabling the results of its 2007 mystery shopping exercise in relation to individual banks to be published.[33]

14. Second, we called for greater emphasis on the operation of basic bank accounts as opposed to numerical progress in achieving the opening of such accounts, identifying inconsistencies in service quality, relating, for example, to counter services and cheque clearing and arguing that, "in the medium term, the Government should establish a more sophisticated goal which should take account of actual usage of bank accounts by those who were previously financially excluded rather than focusing simply on the numbers with access to such accounts".[34] In its response, the Government accepted that "opening a bank account, while very important, is only a first step in becoming financially included".[35] The Financial Inclusion Taskforce told us that it was working with the Government and the banks to gather evidence and develop options about usage of basic bank accounts, and the Taskforce has commissioned research on the experience of consumers in operating such accounts.[36] The OFT Payment Systems Task Force has separately reached agreement with banks that, with effect from November 2007, the cheque-clearing cycle for basic bank accounts will be in line with the standard cycle.[37]

15. Data from the Family Resources Survey of 2005–06 indicated that there were 2 million adults in 1.3 million households without access to a bank account, compared with 2.8 million adults in 1.9 million households in the equivalent Survey for 2002–03.[38] The Government is committed to working with the banks to reduce these numbers of the

30 HC (2005–06) 1717, paras 7–10

31 *Ibid.*, paras 12–19

32 *Ibid.*, paras 20, 26, 36

33 HC (2006–07) 437, pp 21, 50

34 HC (2005–06) 1717, paras 65, 71, 72, 77

35 HC (2006–07) 437, p 23

36 Ev 45; HC (2006–07) 437, p 50; *Financial inclusion: the way forward*, para 4.11, p 42

37 HC (2006–07) 437, p 23; Ev 45

38 Ev 43; HC (2005–06) 1717, para 6; HC (2006–07) 437, p 22

"unbanked" still further, and will report on further action agreed with the banks in a detailed action plan after the announcement of the outcome of the 2007 Comprehensive Spending Review.[39] **We look forward to the publication by the Financial Inclusion Taskforce of further information on the opening and operation of basic bank accounts. We also look forward to a statement by the Government later this year about further action agreed between the banks and the Government to ensure that the number of people who are "unbanked" is further reduced. We expect to continue to monitor developments in this area, possibly in the context of our forthcoming inquiry into Competition in Retail Banking.**

Access to non-charging cash machines

16. Our work on financial inclusion in the current Parliament has sought to build upon the inquiry by our predecessors on cash machine charges. In a Report in March 2005, the then Treasury Committee made a series of proposals to ensure that charging cash machines did not lead to financial exclusion.[40] That Report was followed by a range of activities, including a debate in Westminster Hall on 16 February 2006, which we described in a Report on our work in 2005 and 2006 and which led to the establishment of a working group chaired by the Chairman of this Committee.[41]

17. The report of the working group announced an agreement by banks, building societies, independent cash machine operators and the Post Office together to provide over 600 new non-charging cash machines across 1,707 target low-income areas that the working group had identified as lacking convenient access to such machines. To achieve this, a market-based financial incentive—known as the "financial inclusion premium"—would be introduced to encourage Automatic Teller Machine (ATM) operators to place or retain free ATMs in deprived areas.[42] As of 15 June 2007, sites for 471 of the 600 new ATMs required had been successfully identified, 127 new free machines were already operating and 344 were contracted for installation. The "financial inclusion premium" was introduced on 1 March 2007.[43] The Minister told us that work was continuing to identify 130 further sites, but thought that "this has been a very, very worthwhile initiative indeed in meeting our financial inclusion objectives".[44] **We welcome the progress so far achieved towards the target of providing over 600 new non-charging cash machines and look forward to examining further progress in due course.**

The Post Office Card Account and its successor

18. The Post Office Card Account (POCA) was established in 2003 as a simple means to enable account-holders to receive State benefits, State pensions and tax credit payments. The Account has proved very popular, with over 4.3 million customers holding such

39 *Financial inclusion: the way forward*, paras 4.9–4.10, p 42

40 Treasury Committee, Fifth Report of Session 2004–05, *Cash Machine Charges*, HC 191

41 Treasury Committee, Third Report of Session 2006–07, *Work of the Committee in 2005–06*, HC 191, paras 42–43

42 ATM Working Group, *Cash machines — meeting consumer needs*, December 2006

43 HC Deb, 19 June 2007, cols 79–80WS

44 Q 292

accounts as of April 2006. The costs to the Government of making payments into a POCA are considerably greater than for making payments into bank and building society accounts.[45] Early in 2006, the Government announced that the current POCA would cease to be available when the existing contract ended in 2010.[46] The Government was seeking to encourage customers of POCAs to use or open bank or building society accounts for the receipt of benefits.[47] When we considered the POCA last year, we noted that there would need to be a successor to the POCA for those who could not obtain or manage a full bank account. We recommended that the Government work with the Post Office to introduce a successor to the POCA with greater functionality.[48]

19. Since we last reported, the Government has announced that there would be a new account in succession to the POCA from 2010 and that the new account would be available nationally. Customers would be eligible for the account on the same basis as they were for the POCA. The Government stated that it was required by EU procurement rules to tender competitively for this new product, but considered that Post Office Ltd would be well placed to put in a strong bid given the size of the Post Office network and the access criteria that the Government would be introducing as part of its restructuring of the Post Office network.[49] The Trade and Industry Committee considered the Government's latest announcements on a successor to POCA in a Report published in March 2007. That Committee called for early clarification of the features of 'POCA2', noting that post offices would gain significantly if POCA2 "were to offer users a better service, including, for example, the possibility of making cash deposits into an account".[50] That Committee also drew attention to the importance of the migration from POCA to POCA2 being "as seamless as possible".[51]

20. On 17 May, the Government began the tendering process for the successor product to POCA. The Government decided that customers using the new product ought to be able to access their cash at an ATM as well across a counter throughout the United Kingdom. The Government rejected the case for further extensions to functionality, partly because it did not wish to "create a basic bank account by another name" and partly because the provision of a facility to make cash deposits would require further identity checks for new applicants.[52] Identity checks have also proved problematic in relation to basic bank accounts, although the FSA has sought ways to make identification requirements more flexible and is committed to reviewing the operation of the current guidance.[53] The

45 HC (2005–06) 1717, paras 97–99, 101, 102

46 *Ibid.*, para 101

47 *Ibid.*, paras 110–112

48 *Ibid.*, para 113

49 HC (2006–07) 437, pp 28–29

50 Trade and Industry Committee, Third Report of Session 2006–07, *Stamp of Approval? Restructuring the Post Office Network*, HC 276, para 39

51 *Ibid.*, para 40

52 Trade and Industry Committee, Eighth Report of Session 2006–07, *Restructuring the Post Office Network*, HC 593, p 15

53 HC (2005–06) 1717, paras 39–50; HC (2006–07) 437, p 43

Government stated that the tender notice required that migration be completed by March 2010 and be done in a seamless way.[54] The Minister told us:

> We are now in the early stages of tendering for the successor regime to the Post Office Card Account to make sure that people who want to access benefits through the Post Office will continue to be able to do so … We need a successor regime which strengthens the Post Office network and that is what we have done as a result of our discussions.[55]

In view of the steps that have been taken to enhance the flexibility of identity requirements relating to money laundering regulations, we are disappointed that the Government has apparently discounted the option of making even limited cash deposits into the successor to the Post Office Card Account. We recommend that the Government re-examine this possibility in conjunction with the FSA as a matter of urgency. We note the Minister's confidence that the process of tendering for a successor to the Post Office Card Account will strengthen the Post Office network, and we will monitor the progress of the tendering process and the migration to the successor product to see that this confidence does not prove to be misplaced.

Tackling high cost credit

21. People who are on low incomes or financially excluded often pay more for credit than others.[56] Last year, we identified several areas for further action relating to high cost credit, most notably:

- a role for the Government in galvanising enforcement against illegal lenders, including by extension of pilot projects to tackle illegal money lenders;[57] and
- rapid implementation of measures arising from the Competition Commission's investigation into high cost credit.[58]

22. Since then, there has been progress in both these areas:

- additional funding has been granted to expand the pilot projects for tackling illegal lending in 2007–08 and thereafter the projects will be extended nationwide; greater efforts will also made to help victims gain access to financial advice and affordable credit;[59]
- the Competition Commission produced its final report on the home credit market in November 2006, which recommended remedies to problems relating to compulsory data-sharing by home credit lenders, transparency for customers, including through regular statements, and ensuring customers were offered fair early settlement rebates;

54 *Ibid.*, p 16

55 Q 326

56 HC (2005–06) 848–I, paras 20–24

57 *Ibid.*, paras 25–27

58 *Ibid.*, paras 28–30

59 HC (2006–07) 437, pp 3–4; *Financial inclusion: the way forward*, paras 3.59–3.61, 3.67, 4.34, pp 39, 40, 47

both the Competition Commission and the Government have taken action to implement these recommendations.[60]

Further progress is still needed in these areas. In May 2007 the Minister cited an estimate that at least 165,000 families in Britain were still forced to use illegal loan sharks instead of affordable mainstream credit.[61] **We welcome the Government's plans for the nationwide extension of projects to tackle illegal lending. We recommend that the Government set out, in its response to this Report, any evidence of the effectiveness of the projects so far in reducing levels of illegal lending, and that it report progress regularly thereafter.**

Affordable credit and the Social Fund

23. The financially excluded often use high cost credit or illegal lending because of difficulties in accessing to affordable credit. Last year, we pinpointed measures which could be taken to increase access to affordable credit. We noted that improved data-sharing between lenders, particularly in relation to those with good payment records, could improve the prospects for some borrowers.[62] Building on the work of the Treasury Committee in the last Parliament relating to the credit card industry,[63] we recommended that the Government and the Financial Inclusion Taskforce "investigate as a matter of urgency the benefits of wider data-sharing in increasing access to affordable credit and the barriers to such data-sharing".[64] In October 2006, the Department of Trade and Industry had issued a consultation document on proposals for further and wider data-sharing in the credit industry, and the consultation closed on 11 January 2007.[65] The Financial Inclusion Taskforce told us that it would liaise with the Department of Trade and Industry about the results of the consultation exercise, while expressing some concerns about the value of some data from home credit providers and about the risk that data-sharing might entrench lack of access for some.[66] There have been no further announcements from the Department of Trade and Industry or its successor relating to data-sharing since the consultation closed. **In view of the urgency which we attached to progress on data-sharing within the credit industry as a method of increasing access to affordable credit, we regret the lack of reported progress on this matter by the credit industry and the Government. We recommend that the Government, in its response to this Report, provide a full account of actions taken in this area and proposed further actions.**

24. The availability of affordable credit can be significantly enhanced through the further development of third sector and not-for-profit lenders. We highlighted two particular ways

60 Competition Commission, *Home credit market investigation: final report*, November 2007; HC (2006–07) 437, p 4; *Financial inclusion: the way forward*, paras 3.34–3.35, p 34; Competition Commission, "The Home Credit Market Investigation Order 2007: Notice of intention to make an Order under section 165 of, and Schedule 10 to, the Enterprise Act 2002, and public consultation on the proposed Order", June 2007

61 HM Treasury, Speech by the Economic Secretary to the Treasury, Ed Balls MP, at the Opening of the Bristol Institute of Public Affairs, Bristol University, 25 May 2007 (hereafter Minister's Bristol Speech), para 12

62 HC (2005–06) 848–I, para 34

63 Treasury Committee, Second Report of Session 2004–05, *Credit card charges and marketing*, HC 274, paras 52–62

64 HC (2005–06) 848–I, para 35

65 Department of Trade and Industry, *Consultation on the Removal of Barriers to the Sharing of Non-Consensual Credit Data*, October 2006; HC (2006–07) 437, p 5

66 Ev 43

in which such availability could be enhanced. First, we emphasised the need to improve the legal framework within which credit unions operate.[67] We consider progress in relation to this recommendation later in this Report.[68] Second, we examined the role of the Government's £36 million Growth Fund for third sector lenders and recommended that the Government consider how best to provide longer term funding for third sector lenders, including through support for improvements to the technical capabilities of such lenders.[69] In response, the Government stated that it was establishing an objective of achieving a step-change in the coverage of third sector lenders. The Government has asked senior representatives from the banking sector to work with the Financial Inclusion Taskforce to consider how to achieve a nationwide increase in the coverage and capacity of third sector lenders. A further £6 million was to be committed to the Growth Fund, to support new lenders, to support the emergence of new banking providers and to fund a capacity-building programme.[70] **We welcome the Government's commitment to an objective of achieving a step-change in the coverage of third sector lenders and its actions so far in pursuit of that objective, including its promotion of a dialogue involving senior representatives from the banking sector and its further financial support for capacity-building among third sector lenders. We expect to continue to monitor progress in relation to this new objective, including through examination of the contribution of banks to support for third sector lenders.**

25. Most of those in debt have little or no savings available to them. A survey by Citizens Advice of its debt clients in 2006 found that only 10% of the sample had a positive balance in a bank or building society account and that the average amount held was just £404.[71] Citizens Advice suggested that arrangements for the repayment of debt made by the credit industry offered little flexibility for even minor changes of circumstances, and recommended that debtors should be encouraged, where possible, to save a small amount each month or week to build up a small "buffer" or "reserve". Citizens Advice argued that the Common Financial Statement, which was a joint initiative by the Money Advice Trust and British Bankers Association, could be amended to include a standard provision for saving by those in debt.[72] ABCUL told us that credit unions had arrangements in place to encourage people to save small amounts while they were repaying loans, and to extend their savings when a loan had been repaid.[73] **We recommend that the Government initiate a dialogue with the credit industry to examine whether arrangements for the repayment for debt, including the Common Financial Statement, could be adapted to provide increased provision for and encouragement of saving at a suitable level by those in debt.**

67 HC (2005–06) 848–I, paras 62–64

68 See paragraphs 116–121.

69 HC (2005–06) 848–I, paras 45–49

70 HC (2006–07) 437, p 6; *Financial inclusion: the way forward*, paras 4.18–4.20, pp 43–44

71 Ev 63

72 Ev 63–64; Qq 196–197

73 Ev 49

26. The Government plays a direct role in the provision of affordable credit through the lending activities of the Social Fund. Last year, after examining the role of loans from the Social Fund, we:

- concluded that the funding for the Social Fund should more clearly match the needs of those on low incomes;
- noted evidence to suggest that the Social Fund was failing in its mission to assist those most in need of credit;
- argued that it was essential that the Social Fund became more fully integrated with other provision of affordable credit for people on low incomes; and
- recommended that the Department for Work and Pensions conduct a review to explore how the Social Fund's contact with the financially excluded could be made more productive.[74]

In May 2007, the Work and Pensions Committee published a Report on the Social Fund. That Committee concluded that the lack of reform of the Social Fund was at odds with the steps being taken to tackle financial exclusion, characterised the Social Fund as being "in limbo, pending wider Government on financial inclusion" and recommended that the Department for Work and Pensions "address the performance of the Fund as a matter of urgency".[75]

27. In its response to our Report, the Government reaffirmed its commitment "to ensuring that the Social Fund fulfils its aim of helping the poorest and most vulnerable people in society meet one-off needs", but did not respond substantively about long-term funding or the specific recommendation for a review of the Social Fund's contacts with the financially excluded.[76] In its response to the Report of the Work and Pensions Committee, the Government stated that it continued to consider the role of the Social Fund and the scope for reform, but did not refer to any funding decisions beyond 2008–09.[77] **The Government's response to our conclusions and recommendations relating to the Social Fund suggests a lack of commitment to improving the Social Fund. We wish to see a renewed commitment from the Government to the reform and future funding of the Social Fund as part of the 2007 Comprehensive Spending Review, bearing in mind that there will be a considerable time lag before measures to achieve a step-change in the coverage of third sector lenders make a significant impact on the capacity of that sector.**

Financial capability

28. Many of the issues relating to financial inclusion that we have explored depend upon financial capability—the ability and confidence to choose and use appropriate financial

74 HC (2005–06) 848–I, paras 73–81

75 Work and Pensions Committee, Sixth Report of Session 2006–07, *The Social Fund*, HC 464, paras 99, 104

76 HC (2006–07) 437, pp 11–12

77 Work and Pensions Committee, Second Special Report of Session 2006–07, *Social Fund: Government Response to the Committee's Sixth Report of Session 2006–07*, HC 941, p 7

services products.[78] Last year, we received evidence to suggest that people's understanding of financial matters had not kept pace with the range of financial products available to them.[79] We made a number of recommendations to improve financial capability, including that:

- the FSA strengthen its work on financial capability so that such work better addresses the needs of the financially excluded, including by drawing in extra funding for this work;[80]
- co-ordination between Government departments be improved, with a lead Department established;[81] and
- improving financial education in schools be a major objective of the Government's ten-year strategy for improving financial capability.[82]

29. In its response, the FSA indicated that it would spend £17.1 million on financial capability in 2007–08—compared with only £3.6 million in 2004–05—and noted that the new level of spending "will need to be maintained over the course of many years if the necessary step change [in financial capability] is to be delivered". The FSA also indicated that the increased budget "has been allocated to specific and measurable activities".[83] In January 2007, the Government published a document describing its long-term approach towards financial capability, which announced the establishment of an informal Ministerial group, chaired by the Economic Secretary to the Treasury, to establish common goals across Government for improving financial capability and to enable faster progress to be made.[84] The Government has committed itself to publishing a financial capability action plan by the end of 2007.[85] In response to our Report, the Government stated that "the 'economic well being' strand of Personal, Social, Health and Economic education puts financial capability alongside enterprise education, at the heart of the secondary curriculum".[86] **We look forward to the publication of the Government's financial capability action plan by the end of 2007 and we will continue to monitor the activities of the FSA and the Government to enhance financial capability.**

Generic financial advice

30. Our inquiry last year identified an "advice gap" in the financial services market which could most effectively be filled by generic financial advice—unregulated advice which takes account of the specific financial circumstances of an individual, but which does not result

78 HC (2006–07) 53, para 7

79 *Ibid.*, para 8

80 *Ibid.*, paras 11–20

81 *Ibid.*, paras 21–22

82 *Ibid.*, paras 30–36

83 HC (2006–07) 437, p 44

84 HM Treasury, *Financial Capability: the Government's long-term approach*, January 2007 (hereafter Financial Capability), para 4.55, p 52

85 *Ibid.*, para 4.58, p 53

86 HC (2006–07) 437, p 33

in a product recommendation.[87] We recommended that the Treasury assume lead responsibility for taking forward discussions on the provision of generic financial advice through a national network, targeted especially at people on lower incomes.[88]

31. In January 2007, the Government accepted that “there needs to be a substantial increase in the provision of generic financial advice, and much greater awareness among people of the benefits of using generic financial advice to plan and manage their finances”.[89] The Government also stated that “there is a clear case for developing a national approach to generic advice”.[90] At that time, the Government announced that it was establishing an independent feasibility study, led by Otto Thoresen, Chief Executive of AEGON UK, “to research and design a national approach to generic financial advice, reporting to the Government by the end of the year”.[91] The Minister emphasised that the Thoresen review would examine how a national generic advice network could be delivered in practice and gave some indication of his current thinking by stating that the Government believed that there was a case

> For a first port of call, nationally branded, probably a telephone and Internet in the main service which can then help to route you in the right directions, give you some basic information, allow you to understand choices, take you down different routes, including … interface face-to-face. It has never been the Thoresen national advice service versus face-to-face [Citizens Advice Bureaux]; they are both parts of the picture, but I think there is a case for something which is additional to the local networks we have at the moment and want to expand.[92]

32. In a speech in early July 2007 Mr Thoresen outlined the emerging themes of his review. He indicated that the new service was unlikely to use the words “generic financial advice” in its strapline; he said that the review had identified a strong feeling that the new service needed to build on the existing infrastructure of public advice networks, which suggested that the solution might be a decentralised approach with a small central body performing an advisory, strategic and accreditation function; he emphasised that efforts to secure funding from the private sector would be based on a business case rather than an appeal to altruism.[93] **We welcome the Government’s commitment in principle to the development of a national generic financial advice service and the establishment of the Thoresen review to examine its feasibility. We note the emerging themes of that review and look forward to examining its outcome.**

87 HC (2005–06) 848–I, paras 124–127; *Financial Capability*, para 4.40, p 49

88 HC (2005–06) 848–I, para 139

89 *Financial Capability*, para 4.43, p 50

90 *Ibid.*, para 4.52, pp 51–52

91 *Ibid.*, para 4.53, p 52

92 Qq 330–331

93 Thoresen Review of Generic Financial Advice, Speech by Otto Thoresen at Westminster and City "Rethinking savings" conference, 5 July 2007 and press notice, “Thoresen outlines the emerging themes in his Review of Generic Financial Advice”, 5 July 2007, available at http://www.hm-treasury.gov.uk/independent_reviews/thoresen_review/thoresenreview_index.cfm

Access to insurance

33. During our inquiry last year we noted that insurance services that most people took for granted were often not available on affordable terms for the financially excluded.[94] We recommended that the remit of the Financial Inclusion Taskforce be extended to cover access to insurance.[95] In response, the Government indicated that access to insurance products would be prioritised in its work on financial inclusion and that the Government would work with the Financial Inclusion Taskforce and the Association of British Insurers to address key questions about how to take forward insurance within the financial inclusion strategy. The remit of the Taskforce was extended to include insurance and a new member was appointed to the Taskforce to provide an expert perspective on its insurance work—Bridget McIntyre, UK Chief Executive of Royal and SunAlliance plc.[96] The Government has set a goal that "simple insurance products should be available to all who need them".[97] **We welcome the Government's decision to treat insurance as a priority area within its financial inclusion strategy and the initial investigation of the nature of the problem of exclusion from insurance which is underway. We recommend that the Government and the Financial Inclusion Taskforce report on the outcome of their initial investigation in response to this Report.**

94 HC (2005–06) 848–I, paras 145–150

95 HC (2006–07) 53, para 68

96 HC (2006–07) 437, p 2; *Financial inclusion: the way forward*, paras 3.49, 4.26, pp 37, 46; Q 2; Ev 71

97 *Financial inclusion: the way forward*, para 1.12, p 6

3 Saving and financial inclusion

Information on saving levels and patterns

34. Saving matters at both a macroeconomic level and a microeconomic level. At the macroeconomic level, savings—by the household sector, government and the corporate sector—provide some of the necessary funds to finance investment.[98] Dr Martin Weale of the National Institute of Economic and Social Research has told us of his concern that Government economic statements do not address the question of "whether the country's overall level of saving is adequate".[99] During this inquiry, we have examined both the current measures of saving in the economy and the question of how they relate to the reality of asset ownership, particularly in the context of financial inclusion.

35. There are two main measures of saving in the economy. The first is the personal sector saving ratio, which is a residual measure of the personal sector's total income minus its total spending and captures the flow of net saving out of current income.[100] This saving ratio declined from a peak of 13.5% in the first quarter of 1992 to 2.1% in the first quarter of 2007.[101] However, the principal influence on the personal sector saving ratio over the past two decades has been changes in levels of borrowing, which in turn have been closely linked to house prices, and the personal sector savings ratio is not an accurate measure of the acquisition of conventional savings vehicles by the personal sector.[102]

36. The second measure of saving in the economy is national saving, which measures the difference between income and the amount spent consuming goods and services across government and the corporate sector as well as households. For the past 20 years, national saving in the United Kingdom has been insufficient to finance domestic investment, and so the United Kingdom has been borrowing from overseas—running a current account deficit.[103] The Minister was not concerned at the level of national saving, arguing that higher levels of such saving were often linked to consumer distress and negative equity. He considered a low level of national saving to be a reflection of economic success and stability.[104]

37. Both the personal sector saving ratio and national saving are potentially misleading as guides to levels of individual and household savings. A variety of information is available on this subject. In March 2006, the FSA published the results of a survey suggesting that

98 HM Treasury, *Microeconomic Reform in Britain: Delivering Opportunities for All, 2004 (hereafter Microeconomic Reform in Britain)*, p 266. As the Treasury notes in that document, "In an open economy such as that of the UK, international capital flows—not just domestic saving—provide funds for investment": *ibid.*, p 397.

99 Treasury Committee, Fifth Report of Session 2006–07, *The 2007 Budget*, HC 389–II, Q 109

100 HM Treasury, *Helping People to Save: The Modernisation of Britain's Tax and Benefit System, Number Seven* (hereafter *Helping People to Save*), para 2.2, p 3

101 Office for National Statistics, *Financial Statistics*, July 2007, Table 14.8D, p 274; data from www.ons.gov.uk, NRJS

102 A Sentance, "The changing pattern of savings: implications for growth and inflation", *Bank of England Quarterly Bulletin, 2007*, Quarter 2, pp 293–294; Building Societies Association, *The Individual's Saving Decision*, February 2007, p 16

103 S Whitaker, "National saving", *Bank of England Quarterly Bulletin, 2007*, Quarter 2, pp 224–230

104 Q 293

only 43% of people in a sample of the United Kingdom population held no savings at all.[105] Latest data from the 2005–06 Family Resources Survey provide slightly different figures on a household basis, with only 28% of households reported as having no savings.[106] Liquid financial wealth in the economy is unevenly distributed, with many households, particularly those on low incomes, having little or no savings.[107] According to Department of Social Security survey data in 1998–99, 46% of households earning less than £200 per week had no savings at all.[108] More recent figures from the 2005–06 Family Resources Survey give a similar proportion of 43% of households with no savings, but this time for households earning less than £300 per week.[109] Financial Inclusion Taskforce data also suggest that absence of savings occurs disproportionately among the unemployed, benefit recipients and those in rented social accommodation.[110]

38. There are several reasons why such information on individual and household savings should be treated with caution. More people save at some stage than is captured by surveys concentrating on savings at a particular time: an analysis of the British Panel Survey found that only 18% of people had not saved at all between 1991 and 2000.[111] Professor Kempson cautioned that some analysis failed to capture saving outside formal savings accounts.[112] Some participants in the evaluation of the second Saving Gateway pilot project described themselves as "non-savers", but were saving regularly in more informal ways—for example, through current accounts or "kitties" with friends or families.[113]

39. One of the conclusions of the Pomeroy *Review of Christmas saving schemes* was that there was insufficient information about informal forms of the saving of the kind that tended to be used by people on low incomes. The Pomeroy review recommended that the Government take steps to improve the data available on the hamper scheme market—which we consider further in the next chapter of this Report—and other forms of informal saving, possibly through the Family Resources Survey or the new Wealth and Assets Survey.[114] In response, the Government has announced that "the new Wealth and Assets Survey will collect information on informal saving" and that the Government "will use the first results of the survey, due by the end of the year, to inform any further data gathering".[115]

105 Ev 66; Financial Services Authority, *Levels of financial capability in the UK: results of a baseline survey*, March 2006, p 43

106 Minister's Bristol Speech, para 26

107 *Microeconomic Reform in Britain*, pp 268–269

108 HM Treasury, *Saving and Assets for All: The Modernisation of Britain's Tax and Benefit System, Number Eight* (hereafter *Saving and Assets for All*), para 2.12, p 7

109 Minister's Bristol Speech, para 26

110 *Financial inclusion: the way forward*, Chart 2.2, p 16

111 *Microeconomic Reform in Britain*, p 269

112 Q 44

113 HM Treasury and Department for Education and Skills, *Final Evaluation of the Saving Gateway 2 Pilot: Main Report, May 2007* (hereafter *Final Evaluation of the Saving Gateway 2 Pilot*), p 4

114 HM Treasury, *Review of Christmas saving schemes*, March 2007, para 6.4, p 27

115 *Financial inclusion: the way forward*, para 4.24, pp 45–46

The value of saving in the context of financial inclusion

40. Although full information on the extent of individual saving may be lacking, the value of saving is clear. The Government's overall objective for saving is "for more people to be able to save enough for

- independence throughout their lives;
- security if things go wrong; and
- comfort in old age."[116]

41. Lower income households face greater risks arising from having insufficient savings to draw upon. The Government has cited research showing that young people without assets are more likely to have lower earnings, higher unemployment and poorer life chances overall.[117] Last year we cited the then Secretary of State for Work and Pension as arguing that "increasingly inequality in asset-ownership threatens to become the social divide of the future".[118]

42. Saving has a particular value for people on low incomes, who are more likely to suffer shocks to their income; a stock of savings enables people to respond to sudden expenditure needs or drops in income.[119] As the Government has noted, "the financial buffer that comes from a nest-egg of savings provides a cushion for families if they are hit by unemployment or other unexpected adversity".[120] The existence of such a buffer reduces the likelihood that people will need to resort to expensive credit.[121] As the Building Societies Association observed, "saving can … help alleviate the pressures on household finances caused by the lumpy nature of expenditure through the year".[122] Saving can help families to plan for the expenditure associated with Christmas and other planned events.[123] Saving enhances choice and opportunity, for expenditure on items such as holidays or education and training.[124]

43. The encouragement of saving by the financially excluded supports the wider financial inclusion goal of introducing more people to formal financial services. Saving enhances financial capability and increases familiarity with financial concepts and institutions.[125] As the Building Societies Association noted, short-term saving can enable people to move from a transactional use of financial services to more advanced products and markets.[126]

---

116 *Helping People to Save*, para 3.1, p 9

117 *Saving and Assets for All*, para 1.6, p 1

118 HC (2005–06) 848–I, para 90

119 Ev 67

120 *Saving and Assets for All*, para 1.4, p 1

121 HC (2005–06) 848–I, para 89; Ev 48

122 Ev 68

123 Ev 48

124 *Saving and Assets for All*, para 1.4; Ev 68

125 Ev 48; HC (2005–06) 848–I, para 89

126 Ev 68

Existing Government initiatives on saving and assets for all

44. The Government wants more people to be able to save and considers that there is a role for Government policy to encourage saving.[127] The Government has introduced or proposed several measures to help savers, particularly those on low or moderate earnings.[128] In this section we survey the initiatives that have already been implemented nationwide or where the Government is committed to such implementation. Chapter 5 considers the Saving Gateway, where a decision on a national launch is awaited.[129]

45. Individual Savings Accounts (ISAs) were introduced in 1999 to encourage tax-free saving amongst lower and moderate income groups.[130] They replaced Personal Equity Plans (PEPs) and Tax–Exempt Special Savings Accounts (TESSAs), but were designed to appeal to a broader range of potential savers. Over 17 million people—more than one in three adults—now have an ISA, including one in four people from low-income groups.[131] The Building Societies Association drew attention to official figures indicating that, in 2003–04, 72% of cash ISAs were subscribed by people on annual incomes of less than £20,000.[132]

46. The Government launched the Child Trust Fund in 2005 as a universal savings account for all newborn children born on or after 1 September 2002.[133] By June 2007, nearly 2.9 million children had Child Trust Fund accounts.[134] A payment of £250 is made for all eligible children, and a further payment of £250 for all children in low income families. Further payments will be made when eligible children reach the age of 7.[135] In 2003, the then Treasury Committee concluded that the Child Trust Fund "gives less well off families an unprecedented chance to build up a tax-free sum for their children".[136] The Children's Mutual estimated that 23–25% of children from low-income families in respect of whom accounts were being held were benefiting from additional private contributions to their Child Trust Funds.[137] The Government intends to use the Child Trust Fund as a tool for promoting financial capability among parents and families of children with Child Trust Funds, and, in due course, among the children themselves.[138]

47. The Government has taken several measures to encourage moderate income groups to save for their retirement. Stakeholder pensions were intended to broaden access to

127 *Helping People to Save*, p 9

128 *Ibid.*, p 25

129 See paragraph 110.

130 *Saving and Assets for All*, para 2.10, p 4

131 *Financial inclusion: the way forward*, Box 2.1 and para 3.36, pp 14, 34–35

132 Ev 68

133 *Financial inclusion: the way forward*, Box 2.1, p 14

134 http://www.hmrc.gov.uk/stats/child_trust_funds/child-trust-funds.htm

135 *Ibid.* The initial standard payment was higher in respect of children born between 1 September 2002 and 5 April 2005.

136 Treasury Committee, Second Report of Session 2003–04, *Child Trust Funds*, HC 86, para 21

137 Ev 58

138 *Financial Capability*, Box 4.1, p 46

saving,[139] although we have previously noted that "a combination of sales approaches, commission incentives, regulatory requirements and decisions about the charge cap have created a position in which Stakeholder pensions are seen as uneconomic to both providers and potential customers among the original target market of middle income earners".[140] Following the proposals by the Pensions Commission, the Government has committed itself to the establishment by 2012 of Personal Accounts for employees aged over 22 without better occupational pension schemes, which would include compulsory employer contributions, and has made legislative provision for the creation of a Personal Accounts Delivery Authority to advise the Government and prepare for implementation of a scheme.[141] Last year, we noted the potential of such a scheme, combined with reforms to the State pension system, to broaden the range of people for whom additional savings for their retirement would be suitable.[142] The Government envisages that Personal Accounts will be suitable for employees earning more than £5,000 a year and expects that, as a result of Personal Accounts and State pension reforms, "bearing in mind the difficulty of all long-term predictions, … there will only be a small group of people—less than 10% of pensioner households in 2050—who may not see any benefit from saving".[143]

Saving for shorter term purposes

48. The measures and proposals that we have considered in the previous section are long-term in their orientation. The first Child Trust Funds mature in 2020. Pension investments by their nature cannot generally be realised until after retirement. ISAs are characterised by the FSA in its financial guidance as an instance of "investing for the longer term" as opposed to "savings [which] tend to be for short-term goals or when you need to get at your money quickly".[144] A study of the behaviour of lower-income savers identified a five-fold typology:

- "Non-savers: those who had never had any savings at all, as a result of a decision not to save;
- Passive savers: those with a stock of assets not resulting from saving—e.g., through a bequest, gift or tax rebate;
- Instrumental savers: those with savings specifically ear-marked for a particular short-term purpose;
- Long-term savers: those with savings towards some specific long-term aim, e.g., retirement or further education;

139 Department of Social Security, *A new contract for welfare: Partnership in Pensions*, December 1998, Cm 4179, p 47; *Saving and Assets for All*, para 2.10 and Box 2.2, pp 6–7

140 Treasury Committee, Fifth Report of Session 2005–06, *The design of a National Pension Savings Scheme and the role of financial services regulation*, HC 1074–I, para 21

141 The Pensions Commission, *A New Pension Settlement for the Twenty-First Century: The Second Report of the Pensions Commission*, November 2005; Department for Work and Pensions, *Personal accounts: a new way to save*, Cm 6975, December 2006; Pensions Act 2007, c. 22, Part 3; Explanatory Notes to the Pensions Act 2007, paras 91–97

142 HC (2005–06) 1074–I, para 81

143 Cm 6975, paras 63, 79, pp 27, 32

144 http://www.moneymadeclear.fsa.gov.uk/guides/saving_for_tomorrow.html

- Rainy-day savers: those saving for a non-specific future change in circumstances."[145]

49. Professor Kempson argued that public policy had concentrated too much on long-term saving.[146] Insufficient attention had been paid to informal methods of saving and to the shorter term and more instrumental saving which was more common among those on lower incomes.[147] A similar point was made by the Pomeroy *Review of Christmas saving schemes* in the context of the protection of consumers:

> In making policy on protecting consumers of financial products, the Government needs to ensure that it takes account of all kinds of savings, including informal ones that tend to be used by people on low incomes who can least afford to be without protection.[148]

The Minister accepted that the Treasury needed to examine informal saving more carefully, and we referred earlier to the Government's commitment to collect information on informal saving.[149] The FSA referred to its online guide, "Saving for tomorrow", which provided "clear and simple messages on how to take stock of one's finances and take action, in the short and longer term" and which was being updated to take account of options other than mainstream saving.[150]

Saving and the Government's financial inclusion strategy

50. The Government's strategy on financial inclusion as it evolved between 2004 and 2006 concentrated on three main themes—banking services, credit and advice. Last year we concluded that "savings, and the problems of making saving worthwhile and beneficial for those on lower incomes, are integral to any effective strategy on financial inclusion" and that saving ought to be accorded a higher priority in the Government's strategy.[151] In response, the Government agreed that "saving is an important element of financial inclusion"; it announced that "access to saving … will now also be prioritised" in its strategy and that it would "consider what action is needed to promote saving and saving products as it develops the detail of its ongoing financial inclusion strategy, between now and the Comprehensive Spending Review".[152] Mr Pomeroy welcomed the increased emphasis on and prominence for saving in the Government's March 2007 financial inclusion strategy document.[153]

51. Saving is reflected in one of three new goals which the Government has set within that document:

145 *Saving and Assets for All*, Box 3.1, p 9

146 Q 57

147 Q 44

148 *Review of Christmas saving schemes*, para 6.4, p 27

149 Q 307; see paragraph 40.

150 Ev 66; http://www.moneymadeclear.fsa.gov.uk/guides/saving_for_tomorrow.html

151 HC (2005–06) 848–I, paras 88, 118

152 HC (2006–07) 437, pp 2, 14, 15; Ev 71

153 Q 25

> The Government believes that everyone should be able to plan for the future with a reasonable degree of security. Therefore, affordable credit, saving accounts and simple insurance products should be available to all who need them.[154]

The Minister went slightly further in his ambitions for saving and credit in evidence, characterising one strand of that document as "trying to increase the number of low-income households which have access to savings and to small loans, if that is appropriate for them",[155] and stating that, "as for low income savers, I definitely think their savings rates are too low and we would like to increase them".[156]

52. In addition to our general view on the priority of savings in relation to financial inclusion, we specifically recommended that the remit of the Financial Inclusion Taskforce be expanded to include access to savings.[157] The Government was initially non-committal on this recommendation.[158] Professor Kempson, a member of the Taskforce, told us that the Taskforce contained "a number of people who have fairly detailed knowledge of savings" and thought that it was a suitable vehicle for considering the saving behaviour of people on low incomes.[159] She also indicated that members of the Taskforce had argued for such an extension of its remit.[160] Mr John Rhodes, Head of Financial Capability at Citizens Advice, also supported such an extension.[161] Mr Pomeroy, Chairman of the Taskforce, told us that the Taskforce would be happy to consider savings issues if they were brought within its remit.[162] The Minister said that a formal decision on the Taskforce's remit for the period from 2008 onwards would be made in due course, but thought that, through the combined decisions to continue the Taskforce and to extend the financial inclusion strategy to cover savings "we have given a pretty clear indication that … savings would be added to its remit".[163]

Conclusions

53. As we noted when we considered financial inclusion last year, there is a view that financially excluded households cannot afford to save, but some evidence received then suggested to us that the issue was more nuanced.[164] Evidence available since our last inquiry reinforces the view that decisions on saving are about more than the financial wherewithal to do so. Research published by the Building Societies Association indicated that saving behaviour was influenced by individual attitudes as well as financial capacity, so that people in seemingly similar financial circumstances saved vastly different amounts.

154 *Financial inclusion: the way forward*, para 1.12, p 6

155 Q 293

156 Q 298

157 HC (2006–07) 53, para 68

158 Ev 71

159 Q 51

160 Q 57

161 Q 89

162 Qq 2, 25

163 Qq 293–295

164 HC (2005–06) 848–I, para 91

The promotion of saving was not, therefore, simply related to individual products and their suitability: "a change in the way that people think about saving needs to be engendered as well".[165] This point was reinforced by Children's Mutual:

> Consumers are far more likely to think about savings first for tangible items than they are to engage initially on savings that are quite a long way in the future. We therefore encourage financial inclusion [measures] to include language and information about what a financial savings product can do for them rather than concentrating on the features of the product itself.[166]

54. **Evidence received during the current inquiry has reinforced our view that saving should be accorded a high priority in the Government's financial inclusion strategy. We welcome the Government's acceptance of our earlier recommendation on this matter, and look forward to the formal extension of the remit of the Financial Inclusion Taskforce to cover savings issues, which we wish to see promulgated before the end of 2007.**

55. **The current inquiry has provided some signposts for ways in which savings issues could be taken forward in the context of financial inclusion. The statement in the Government's latest strategy document that "saving accounts should be available to all who need them" is not ambitious. That part of the goal concentrates on a formal saving product. It does not include any specific target or means by which progress against that part of the goal can be measured. It does not deal with the issue of the promotion of entry into saving, as opposed to availability. We recommend that the Government's strategy on saving and financial inclusion be formulated in consultation with the Financial Inclusion Taskforce and with the following aims:**

- **to acquire further information about the extent of personal saving of varying kinds, having particular regard to saving patterns among individuals and households with lower incomes and to the extent and variety of informal saving;**
- **to ensure that public policy is concerned with the motivations for saving and with ways of promoting saving for particular purposes, as well as with the promotion and regulation of particular savings products;**
- **to ensure that public policy on saving pays greater regard to informal means of saving as well as formal saving products;**
- **to ensure that public policy on savings pays greater attention to the saving needs of lower income individuals and households and to shorter term as well as longer term products;**
- **to ensure that the objectives of National Savings and Investments give proper weight to the encouragement of savings;**

165 Ev 69–70; *The Individual's Saving Decision*, p 19, 21, 24

166 Ev 57

- **to establish a measure of personal saving within the economy and at particular income levels that reflects people's own understanding of what constitutes saving and that captures the extent of informal saving; and**
- **to set a target for increased savings among lower income households and individuals and enable progress against that target to be measured.**

4 Christmas saving schemes

The collapse of Farepak

56. On 13 October 2006, Farepak Food & Gifts Ltd was placed into administration. This followed the collapse of its parent company, European Home Retail plc. Farepak's main business was as a Christmas saving club. The company took payments during the year, mostly through a network of agents, and delivered in return either vouchers redeemable in a range of stores, or a hamper. Some 10 to 15% of the business involved hampers, with the remainder being through vouchers.[167] The collapse took place before vouchers or hampers for Christmas 2006 had been sent out, and the administrators soon confirmed that the company would not be in a position to fulfil orders for either hampers or vouchers and that the process of administration would not lead to substantial returns of money to those who had made payments.[168] It was estimated that over 100,000 customers lost savings with a value of over £43 million as a result of the collapse.[169] The collapse caused great distress to many families, materially affecting the quality of the Christmas for which they had sought to save. It led to what was characterised by the then Minister for Trade, the Rt Hon Ian McCartney MP as "an appalling state of affairs".[170]

57. The collapse of Farepak gave rise to three areas of concern—relating to the circumstances of its collapse and that of European Home Retail plc, practical assistance for those whose 2006 Christmas had been directly affected and the wider implications for other products and their regulation. With regard to the first area, the then Secretary of State for Trade and Industry announced that the Department's Companies Investigation Branch was conducting a confidential investigation into the circumstances surrounding the failure of Farepak. Officials would seek to interview whomever they considered could assist them in their inquiries. The Companies Act did not allow the results of investigations of this kind to be made public, but any evidence pointing to improper conduct on the part of anyone involved might be passed to regulators or prosecuting authorities.[171] Alongside the report of that Branch, the administrators can report to the Secretary of State any findings of misconduct.[172]

58. With regard to the second area, the then Minister of Trade announced in November 2006 the establishment of a "Farepak response fund" which would be operated by a "Family Fund", which would be a registered charity.[173] The Family Fund received donations totalling over £7 million to provide a goodwill gesture to those who had been

167 *Review of Christmas saving schemes*, para 1.1, p 5; HC Deb, 7 November 2007, col 206WH

168 HC Deb, 7 November 2007, cols 206–207WH

169 HC (2006–07) 53, para 58

170 HC Deb, 7 November 2007, col 207WH

171 http://www.dti.gov.uk/consumers/fact-sheets/page35520.html

172 HC (2006–07) 437, p 34

173 HC (2006–07) 53, para 59

affected. Vouchers and Farepak food packages, so far as these were available and deliverable, were sent out to Farepak agents in good time for Christmas 2006.[174]

59. In our initial consideration in November 2006 of the collapse of Farepak and in the current inquiry we have examined and sought evidence on only the third area of concern, relating to the implications of the collapse of Farepak for other products and their regulation.

The "hamper" product and its rivals

60. The "hamper" product is operated and marketed as a way of saving for Christmas. Customers make regular payments, either weekly or monthly, throughout the year in order to plan, budget and pay towards their Christmas in advance. Customers have the choice of purchasing hampers, vouchers or other products chosen from a catalogue. The goods or vouchers are distributed in November or early December. Customers choosing to receive vouchers obtain vouchers with a face value identical to the amount paid during the year, and these vouchers can be redeemed on the high street. Similarly, the amount paid during the year is available for the purchase of hampers and other products for the price set out in a catalogue.[175] Although often referred to as a "hamper" product, the Park Group, which is now the largest company in that particular market,[176] told us that 90% of its sales were in the form of vouchers,[177] and similar proportions were reported earlier in respect of Farepak.[178]

61. "Hamper" products represent only one form of "saving" for Christmas through prepayment. Some businesses which provide a home service offer hamper saving schemes as a sideline. Some dairy companies operate schemes in which regular payments can be made to a milkman towards a hamper or other Christmas purchase.[179] Home credit companies have also offered Christmas hampers through saving schemes, although the use of this method seems to be diminishing.[180]

62. A number of large supermarkets and other large retailers offer savings schemes through stamps or cards which are either explicitly or implicitly aimed at spreading the cost of Christmas. Some of these schemes are marketed as Christmas savings schemes and others offer incentives, such as a free stamp, for redemption in December.[181]According to the Pomeroy review:

> Retailers' savings schemes are not covered by any compensation scheme. Customers depend on the retailer's overall financial strength and reputation for probity.[182]

174 HC (2006–07) 437, p 34

175 *Review of Christmas saving schemes*, paras 2.1, 2.3, 2.7; Ev 55

176 See paragraph 78.

177 Qq 174–175

178 See paragraph 56.

179 *Review of Christmas saving schemes*, para 2.15, p 11; Qq 235–236

180 *Review of Christmas saving schemes*, paras 2.16–2.17, p 11

181 *Ibid.*, paras 5.17–5.22, p 23; Q 150

182 *Review of Christmas saving schemes*, para 5.23, p 23

63. There is also a range of even more informal Christmas saving arrangements, through butchers and toyshops and small savings clubs based in social clubs, pubs and workplaces.[183] The Pomeroy review considered that "it may be that the inherent risks run by participants [in informal schemes] are potentially greater than those run by customers of the hamper industry".[184] Ms Amanda Winkworth, Manager of Portsmouth Savers Credit Union, told us of a Christmas club in Portsmouth where £134,000 was stolen from the club operator three weeks before Christmas so that all members lost their savings.[185] The OFT noted in December 2006 that such informal schemes were also vulnerable to fraud and that the scale of losses at an individual level could be similar to that seen in the case of Farepak, even though far fewer consumers would be affected.[186]

64. Alongside these various products and schemes, there are a number of regulated financial products directed towards Christmas saving. A number of credit unions offered Christmas accounts before the collapse of Farepak, often with payment of dividends or bonuses linked to retention of the account until November.[187] For example, the Portsmouth Savers Credit Union established such an account in response to the loss through an informal saving club to which we referred in the previous paragraph.[188] In response to the collapse of Farepak, many more credit unions have offered Christmas accounts for 2007.[189] Four building societies responded to the collapse of Farepak by offering festive savings accounts, all of which were available by 1 February 2007.[190] Halifax is piloting a Christmas Saving Account for its social banking customers which offers cash or high street vouchers.[191] The Post Office is reported to be considering whether to launch a specific Christmas-branded Post Office Card Account savings sub-account in time for Christmas 2008.[192] In view of the penetration and social base of Post Office Card Accounts, which have been opened by more than 4 million customers in receipt of State benefits, Mr Pomeroy considered that the Post Office would be "a very valuable provider" of a Christmas-branded product.[193] All of these products and proposed products benefit or could benefit from FSA regulation and the protection available under the Financial Services Compensation Scheme.[194]

183 *Reivew of Christmas saving schemes*, para 2.18, p 11

184 *Ibid.*, para 2.19, p 11

185 Q 181

186 Office of Fair Trading, *Farepak: review of the regulatory framework: Advice from the Office of Fair Trading*, December 2006, paras 28, 59

187 *Review of Christmas saving schemes*, paras 5.12–5.14, pp 21–22; Ev 49; Qq 179–181, 307

188 Q 181

189 *Review of Christmas saving schemes*, para 5.14, p 22; Ev 49; Qq 179–180, 307

190 Ev 68. See also *Review of Christmas saving schemes*, paras 5.9–5.10, p 21

191 Ev 62

192 *Review of Christmas saving schemes*, para 5.26, p 24

193 Q 38; *Review of Christmas saving schemes*, para 5.25, p 24; HC (2005–06) 1717, paras 98–99

194 *Review of Christmas saving schemes*, para 5.16, p 22; Ev 62

The appeal and customer base of the "hamper" product

65. Although there are rivals to the Christmas "hamper" product, there are a number of reasons why that product retains its appeal. A key strength of that product lies in the use of agents who collect payments, providing a vital prompt to save for those who might not otherwise do so.[195] The Park Group told us that it had 104,000 agents in 2007, so that there were on average about four customers per agent.[196] Customers are usually recruited by agents from among relatives, friends, neighbours or work colleagues, ensuring a strong social bond underlying the transaction.[197] Agents earn a commission paid by the provider, which in the case of the Park Group averages around 4% of the value of the products sold.[198] Agents also deliver hampers and other products to customers, and this aspect of home service is particularly appreciated by elderly customers and less mobile customers and those in rural areas.[199]

66. Customers of hamper companies greatly value the idea that the money paid to agents is "untouchable" and that Christmas has been paid for in advance.[200] The Pomeroy review observed that the double "lock-in"—that money could not easily be returned and that its value was returned in the form of vouchers or products so that it was spent on Christmas—was seen as the key benefit by many customers: "the effect is to insulate the money saved against any financial pressures that the household may experience and to remove the temptation to spend it on anything other than goods for Christmas".[201] Mr Pomeroy told us that one of the main findings to emerge from his work was

> the very high importance people place on having a good week at Christmas. It is because that is so important that they are prepared, in some cases at the expense of personal hardship, to ring-fence that money. It has that degree of importance for them.[202]

67. Viewed as a financial product, the most immediately apparent downside of saving for a hamper or a voucher is the absence of any interest payment. We were told that customers were generally not concerned at the lack of interest. Customers understood that comparable financial products paid interest, but were aware that the interest from a formal saving product with the same payment levels would be small and would not off-set the perceived advantages of the "hamper" product.[203]

195 *Review of Christmas saving schemes*, para 4.10, p 16; Qq 4, 6, 8

196 Q 129

197 Ev 55; *Farepak: review of the regulatory framework*, paras 16, 19; *Review of Christmas saving schemes*, para 2.4, p 9

198 Qq 130–135; Ev 55; *Farepak: review of the regulatory framework*, para 17; *Review of Christmas saving schemes*, para 2.4, p 9. The Park Group also pays a commission to customers who choose to trade on their own behalf: Ev 55.

199 Qq 137, 174; Ev 55, 56; *Farepak: review of the regulatory framework*, para 19; *Review of Christmas saving schemes*, para 4.9, p 16

200 *Farepak: review of the regulatory framework*, para 20

201 *Review of Christmas saving schemes*, paras 4.5–4.6, p 15

202 Q 10

203 Qq 6–7, 137–138; Ev 56. See also *Farepak: review of the regulatory framework*, para 24; *Review of Christmas saving schemes*, para 4.21, p 18

68. In its initial study following the collapse of Farepak, the OFT made some observations about Farepak's social base:

> Many Farepak customers appear to come from households on low or irregular incomes, possibly benefit dependent, and do not appear to use mainstream banking, credit or savings products.[204]

The Pomeroy review admitted that there was little data about the customer base of the hamper market, but reached similar conclusions, suggesting that "customers come primarily from households with low incomes (either on benefits or low wages, or a combination of the two) and are relatively unsophisticated financially".[205] That review also pointed to evidence from its workshops that many users had a distrust of mainstream financial services providers.[206]

69. Based on its own questionnaire data, the Park Group gave a somewhat different characterisation of its own customer base, stating that:

> They are generally banked and are familiar with using financial products—some 94% of our customers have a bank account, 53% have a credit card and 73% have a debit card … The Christmas saving market has matured considerably in recent years in terms of the relative affluence of those who purchase Park's products. As an indicator of this, some 66% of our customers own a computer, of which 56% have internet access, predominantly through broadband (72%).[207]

Mr Gary Woods, Managing Director of Park Retail Limited, thought that the characterisation used in the OFT review might have been based on outdated information, while conceding that there might be "a slight difference" between the social base of Farepak and that of the Park Group.[208]

70. The Pomeroy review acknowledged that Christmas saving schemes were a distinct product meeting a distinct need.[209] Ms Claire Whyley, Deputy Director of Policy of the National Consumer Council, agreed that it was important to distinguish saving for a specific purpose from other forms of saving and to recognise the "big emotional investment" that families placed in Christmas.[210] The Park Group emphasised that they provided a popular and successful product which was convenient and "fun", appealing to many people who also chose to save in more conventional ways.[211] Mr Pomeroy agreed that the product was "valued" by its users.[212] The Minister conceded that, when he had

204 *Farepak: review of the regulatory framework*, para 22

205 *Review of Christmas saving schemes*, para 3.3, p 13

206 *Ibid.*, para 4.15, p 17

207 Ev 56

208 Q 165

209 *Review of Christmas saving schemes*, para 5.30, p 25. See also Q 28.

210 Q 90

211 Ev 56, 57; Qq 165, 174

212 *Review of Christmas saving schemes*, para 4.22, p 18; Q 4

commissioned the Pomeroy review, he had presumed that it would find that "hamper schemes were a bad deal for customers",[213] but that

> one of the important findings from the Pomeroy review into low income savings is that there was a number of attributes in a Farepak-style savings scheme which actually were very attractive to low-income savers, the fact that it is an easy way to save, very local and often through people who were trusted and who often actually had a friend or a relative at the school gate.[214]

Financial viability

71. As was noted earlier in the context of retailers' savings schemes, the security of a prepayment system or informal saving product can depend upon the financial performance and reputation of the provider.[215] The Park Group argued that the "hamper" product was commercially viable. It suggested that Farepak was a profitable company at the time of its collapse, brought down by the difficulties of its parent company, European Home Retail plc.[216] Hamper companies earn income from the profit margin on hampers and other products, the discounts they obtain from retailers on vouchers and the interest earned on the money pre-paid to them by customers. The Park Group also obtains income from the sale of its generic voucher, the High Street Voucher.[217] In late June 2007, the Park Group announced its financial results for 2006–07, including a pre-tax profit of £5.4 million. It stated that "Christmas 2006 was the most successful in Park's history". It admitted that orders for 2007 were 30.6% below those for 2006, reflecting the loss of confidence in the market following the collapse of Farepak, but saw signs that confidence was returning.[218]

Trust accounts and the Christmas Prepayments Association

72. One of the most important conclusions of the Pomeroy review was that the Christmas saving market should no longer rely on the existing appeal of the product and the claimed financial viability of participating companies. That review stated:

> The schemes involve substantial amounts of customers' money being paid in advance and held by the companies. For the future, it is essential that this money should be properly protected.[219]

The Pomeroy review noted that the remaining firms in the market were discussing methods of protection with the Department of Trade and Industry and recommended that

213 Q 309

214 Q 303

215 See paragraph 62.

216 Ev 56; Q 170

217 *Review of Christmas saving schemes*, paras 2.6–2.7, pp 9–10

218 Statement by Peter Johnson, Chairman of the Park Group plc, 27 June 2007, available at www.parkgroup.co.uk.

219 *Review of Christmas saving schemes*, para 4.23, p 18

that Department "urgently ensure that secure arrangements are put in place by hamper scheme companies in order that customers' prepayments are effectively protected".[220]

73. In late March 2007, at the time of the publication of the Pomeroy review, it was announced that the Department of Trade and Industry had "secured agreement from the hamper industry to establish an industry-led scheme to ensure that consumers' interests are fully protected through the establishment of secure, ring-fenced accounts", also refrred to as "trust account".[221] Mr Pomeroy welcomed the announcement, seeing success in securing the safety of customers' money as necessary for the future operation of the hamper industry.[222]

74. Earlier, in December 2006, the OFT had drawn attention to the costs that would be associated with the establishment of such trust accounts and the risk those costs posed to the viability of the hamper industry.[223] In June 2007, the Park Group confirmed to us that there would be administrative costs associated with the establishment of trust accounts in excess of £100,000, but thought that administration costs would "not be too significant" and would not need to be passed on directly to customers.[224] The Group would continue to earn interest on such accounts, although the operation of trust accounts would affect the Group's access to working capital.[225]

75. In April 2007, the Park Group told us that it was "currently moving forward" to create trust accounts.[226] On 6 June, the Group informed us that it had reached heads of agreement for the terms of trust accounts with the Department of Trade and Industry earlier that week, on Monday 4 June.[227] In the meantime, customer accounts would be treated separately from the Group's banking pool.[228] The only outstanding matters were in the hands of lawyers, and it was expected that final agreement would be reached "by the end of June".[229] On 19 June, the Minister said that "we really need, in particular, Park to get on with sorting this out" and hoped for a final resolution "in the next weeks".[230] On 7 August 2007, the Park Group informed us that "it has taken slightly longer to establish the trust arrangements" than it had anticipated, but that the trust company and bank accounts had been established and that the trust would be legally confirmed on 13 August 2007.[231]

76. The trust established by the Park Group and those of other hamper providers are intended to be overseen by an independent trust—the Christmas Prepayment Association. On 17 May 2007, the then Minister for Trade announced that Derek Walpole, Deputy

220 *Review of Christmas saving schemes*, para 4.23, p 18

221 *Financial inclusion: the way forward*, para 4.24, p 45; HC (2006–07) 437, p 34

222 Qq 3, 4, 11

223 *Farepak: review of the regulatory framework*, para 58

224 Qq 122, 143

225 Qq 140–142

226 Ev 56

227 Qq 113–115

228 Q 158

229 Qq 116–121, 155

230 Q 309

231 Ev 74

Chief Executive of the Family Fund, and Suzy Hall, founder of the Unfairpak campaign, had agreed to take on the roles of Chairman and Director of Consumer Affairs in this new body.[232] A third independent director, who is a chartered accountant, was also nominated.[233] The Association will be funded by its members, the Park Group and the Variety Christmas Club.[234]

77. The OFT operates a Consumer Codes Approval Scheme for voluntary self-regulation by traders. Under the OFT's Scheme, organisations can apply for approval of codes of practice which meet the OFT's core criteria and work well for consumers in practice. The Scheme includes a criterion relating to the protection of prepayments and deposits.[235] The OFT told us that, "if the new Association does have the prepayment protection requirement for its members, we would very much welcome an approach from them for code approval".[236]

Competition

78. Following the collapse of Farepak, three main operators remained in the Christmas "hamper" market. One of these, Variety Christmas Club, represented less than 10% of the market measured by turnover.[237] The second operator was Home Farm Hampers, which had been part-owned by Farepak until October 2006. On 7 March 2007, Park Group, the largest single operator in the market, acquired Home Farm Hampers, giving the Park Group over 90% of the market.[238] The Park Group told us that Home Farm Hampers would have closed but for the merger.[239]

79. In view of the large share of the hamper market concentrated in a single company and comments made about value for money, the Pomeroy review recommended that the OFT consider whether there were any competition issues that needed to be addressed in the hamper scheme market.[240] In March 2007, the OFT agreed to consider whether a full inquiry into competition in the market for Christmas saving schemes was needed,[241] a decision welcomed by Mr Pomeroy.[242] In April, the OFT announced a specific enquiry into the acquisition of Home Farm Hampers, and invited comments.[243] We have previously referred to a range of rival products available to those seeking to save specifically for Christmas,[244] and the Park Group's response to the OFT's work is founded in the belief that

232 Ev 71. The Unfairpak campaign was set up following the collapse of Farepak to provide information and advice for those affected: see www.unfairpak.co.uk.

233 Qq 125–126

234 Q 127

235 *Farepak: review of the regulatory framework*, paras 78–80

236 Q 216

237 *Review of Christmas saving schemes*, para 2.11, p 10

238 *Ibid.*, para 2.10, p 10

239 Q 150

240 *Review of Christmas saving schemes*, para 4.24, p 18

241 *Financial inclusion: the way forward*, para 4.24, p 45

242 Q 5

243 Ev 74; Statement by Peter Johnson, Chairman of the Park Group plc, 27 June 2007

244 See paragraphs 61–64.

"the Christmas savings business forms part of a demonstrably wider market where Park only has a small market share".[245] The OFT indicated to us that market definition would play an important role in its enquiry.[246] On 23 August 2007 the OFT announced that the merger had been cleared and would not be referred to the Competition Commission.[247] The OFT subsequently explained that it had come to this decision because of its conclusion that there was not a realistic prospect that the merger would result in a substantial lessening of competition, in part because of the range of other savings options available to customers.[248]

Further regulatory options

80. Hamper products such as those provided by the Park Group and formerly provided by Farepak are not regulated by the FSA. They are not considered to be financial services, because what is purchased is not money but goods or vouchers exchangeable for goods.[249] When we first reported on the collapse of Farepak we noted that products offered by Farepak were not subject to FSA regulation and were outside the scope of the Financial Services Compensation Scheme, and concluded that "the Farepak case has highlighted a serious lack of consumer protection which could have much wider implications for savings products of this kind".[250] We recommended that, as a matter of urgency, "the Government, in conjunction with the OFT and FSA, consider whether appropriate safeguards are in place to protect those who have entrusted their money to others".[251]

81. The OFT published an initial review of the regulatory framework in December 2006, which included a contribution by the FSA.[252] That review concluded that a clear case for regulating the hamper scheme business model specifically or prepayments more generally had not been established.[253] The OFT told us in June 2007 that the agreement reached for the protection of prepayments within trust accounts reinforced its initial view that FSA regulation would not be proportionate.[254] The initial review in December 2006 canvassed the possibility of banning the hamper business model altogether, for example by limiting the length of time during which prepayments could be made, but the OFT did not consider this to be an appropriate option for consideration in view of the agreement on trust accounts.[255]

82. Three main reasons were advanced in the initial review and in evidence as to why FSA regulation would be inappropriate. First, it was suggested that regulation would involve

245 Statement by Peter Johnson, Chairman of the Park Group plc, 27 June 2007; Q 150

246 Q 286

247 Ev 75

248 Office of Fair Trading, *Completed acquisition by Park Group plc of Home Farm Hampers Limited: The OFT's decision on reference under section 22(1) given on 23 August 2007: Full text of decision published 31 August 2007*

249 HC (2006–07) 437, p 34

250 HC (2006–07) 53, para 62

251 *Ibid.*

252 *Farepak: review of the regulatory framework*; Ev 66

253 *Farepak: review of the regulatory framework*, para 8; Ev 72

254 Q 281

255 *Farepak: review of the regulatory framework*, paras 10, 77; Q 285

disproportionate costs, which might be borne by the consumer or might jeopardise the sustainability of the business model of hamper providers.[256] The Minister attached considerable weight to this suggestion, arguing that the OFT review had concluded that FSA regulation

> would essentially wipe [hamper schemes] out, that their ability, given the kinds of margins they run on, to deal with FSA regulation would mean that it was a non-viable business model and, therefore, to regulate them was effectively to extinguish them.[257]

83. The second reason advanced against FSA regulation related to the difficulty of distinguishing between hamper products and other forms of prepayment. The distinct characteristics of hamper products could not be defined easily in law.[258] Regulation covering all forms of prepayment would be, in the OFT's view, disproportionate, not least because many businesses depended on prepayments to provide working capital.[259]

84. The third reason related to the uncertain boundary between hamper products and other forms of informal saving. Long-term protection to consumers using informal schemes would not be afforded if only certain major hamper businesses were regulated.[260] Consumers might choose to opt to belong to savings clubs with even lower levels of protection.[261]

85. Citizens Advice did not accept the arguments against FSA regulation, and believed that financial regulation was appropriate in view of the size of the market.[262] The Park Group told us that a small part of its business, relating to insurance, was already regulated by the FSA, that the Group was "embedding the FSA principles into our business" and that it was "fairly relaxed" about extension of the FSA's remit to cover more of its business.[263]

Conclusions on regulation of the "hamper" market

86. **The collapse of Farepak caused distress for many families. Although we have not examined the particular circumstances of that collapse, we have heard evidence suggesting that the "hamper" market does not operate with a flawed business model, and the "hamper" product has distinct positive features enabling it to compete within the broader Christmas saving market. The establishment of trust accounts by the Park Group and the prospect of the adoption of such accounts across the "hamper" market go a considerable way towards allaying concerns about consumer protection within the market. To reinforce confidence in that market, we want the Christmas Prepayments Association to agree a code of practice that meets all criteria within the Office of Fair**

256 *Farepak: review of the regulatory framework*, paras 8, 66

257 Q 310

258 *Farepak: review of the regulatory framework*, para 74; Q 227

259 *Farepak: review of the regulatory framework*, para 55; Ev 72; Q 282

260 *Farepak: review of the regulatory framework*, para 59

261 Q 181

262 Ev 65; Q 110

263 Qq 144–149

Trading's Consumer Codes Approval Scheme and is thus approved by the Office of Fair Trading. Provided that the operation of trust accounts within that market proves to be satisfactory, it seems likely that regulation by the Financial Services Authority of the hamper market will not prove to be proportionate or appropriate. An extension of FSA regulation and the additional costs associated with such regulation would create a risk that consumers might choose other, cheaper informal saving products with lower levels of consumer protection.

The wider protection of prepayments

87. In December 2006 the OFT observed:

> The failure of Farepak highlights the risks consumers accept, often unknowingly, when making a prepayment for goods or services. Reasons why a business might fail to supply goods or services for which payment (either part or in full) has been made could range from incompetence to fraudulent trading or business failure.[264]

It is very common for prepayments to be required for goods or services. These often take the form of deposits, but can also be in the form of staged payments. Prepayments range from those for funerals to those for certain meters for gas or electricity. Prepayments are particularly associated with funerals, holidays, flights and car rentals, as well as purchases of furniture or electrical goods.[265] A request to make a prepayment is a common feature of scams.[266] However, prepayment is often an essential component of a legitimate business model.[267]

88. Various steps have already been taken to protect customers making prepayments. A scheme has been devised to enable prepayments for funerals to be protected by trust funds or insurance as an alternative to FSA regulation.[268] The criteria for the OFT's Consumer Codes Approval Scheme, to which we referred earlier,[269] require that a code of practice shall address protection of deposits or prepayments as appropriate to the sector, and the OFT accompanies those criteria with an assessment of the level of financial detriment or inconvenience which would be caused if goods or services were not provided..[270] Some protection of prepayment in the travel industry exists, although, as we noted recently, the protection afforded to prepayments under the code of conduct of the Association of British Travel Agents is not sufficient to enable it to be approved by the OFT under its Consumer Codes Approval Scheme.[271] The OFT has taken action in the past under the Unfair Terms in Consumer Contracts Regulations against home improvement contracts which required

264 *Farepak: review of the regulatory framework*, para 29

265 *Ibid.*, paras 30–31

266 Office of Fair Trading, *How to recognise a scam*, available at http://www.oft.gov.uk/shared_oft/consumer_leaflets/general/oft764.pdf

267 *Farepak: review of the regulatory framework*, paras 32–33

268 *Farepak: review of the regulatory framework*, paras 70–74 and Annexe, section A

269 See paragraph 77.

270 Ev 75; *Farepak: review of the regulatory framework*, paras 80–85

271 Treasury Committee, Fourth Report of Session 2006–07, *Are you covered? Travel insurance and its regulation*, HC 50–I, paras 30, 41; *Farepak: review of the regulatory framework*, Annexe, section B

all or most of the payment before work had been carried out.[272] The OFT has also noted that the implementation of the Unfair Commercial Practices Directive might lead to there being grounds for action in cases where prepayments are not adequately protected.[273]

89. Despite these steps, there is evidence that protection of prepayments is incomplete or inadequate. Company failures in some sectors can cause consumer losses where individuals have paid a deposit.[274] In late 2006, we heard evidence about the potential risks associated with extended warranties provided by manufacturers, whereby an expensively purchased warranty could be rendered worthless if the provider went into liquidation.[275] The informal saving schemes operated by retailers to which we referred earlier depend upon the financial solvency of the retailer.[276] The coverage of the OFT's Consumer Codes Approval Scheme is incomplete, and a study for the OFT in October 2006 concluded that "there is an imperative that the Scheme now expands to cover a wider range of sectors and that there is continued publicity to promote awareness of the scheme among consumers".[277]

90. **The collapse of Farepak has highlighted the lack of attention that public policy had paid to a range of informal savings and prepayment vehicles with inadequate consumer protection. Notwithstanding our specific conclusions about regulation of the "hamper" market, we remain concerned about the limitations of consumer protection for prepayments generally. We recommend that the Government and the Office of Fair Trading, as a matter of urgency, consider:**

- **what further steps can be taken to extend the coverage of consumer protection for prepayments through codes compatible with the Consumer Codes Approval Scheme;**
- **what further measures can be taken to schemes for the protection of prepayments that are affordable to the businesses concerned;**
- **how far implementation of the Unfair Commercial Practices Directive will permit more effective enforcement action against inappropriate prepayment requirements; and**
- **what further measures can be taken to promote consumer awareness of the risks associated with prepayments.**

We further recommend that the Government report on progress in each of these areas in its response to this Report.

272 *Farepak: review of the regulatory framework*, para 37

273 *Ibid.*, paras 38–39

274 *Ibid.*, para 55

275 HC (2006–07) 50–I, Qq 21, 23–26, 100

276 See paragraphs 62–63.

277 Office of Fair Trading, *Review of impact on business of the Consumer Codes Approval Scheme*, October 2006, para 1.26

Public awareness on options for saving for Christmas

91. The Pomeroy review noted that, because of Farepak's collapse, former users of hamper schemes were in search of ways of saving in advance of Christmas in order to avoid going into debt. The review recommended that, "in view of the uncertainty that has been caused over Christmas savings schemes, and the risk that this may prevent people who would otherwise have saved for Christmas from doing so, the Government should consider mounting a specific campaign to make consumers aware of their options".[278] Mr Pomeroy told us that he found that some people who had formerly saved with Farepak were disoriented and insufficiently aware of other options. He envisaged a campaign to deal with that problem: "I am talking now about Christmas 2007 and not beyond that".[279]

92. The Government responded to the review's recommendation in March 2007 by making £1 million available to the OFT "to conduct a consumer awareness campaign in the coming months on Christmas saving schemes and mainstream alternatives".[280] When we took evidence at the start of May, Mr Pomeroy and other witnesses stressed that they viewed the launch of the awareness campaign as a matter of urgency, not least because many people started to save for Christmas in February.[281] Ms Whyley cautioned that "we may well have already missed the boat this year".[282] The OFT agreed to conduct a consumer education campaign, which was launched on 1 June 2007 under the title of "Save Christmas".[283] The OFT suggested to us that they had worked very quickly to put together a public awareness campaign in little more than two months from the initial proposal.[284] The OFT had consulted credit unions and some other providers of Christmas-related products prior to the launch, as well as consumer groups such as Citizens Advice, but implied that consultation with the Park Group was contingent upon final agreement on trust accounts.[285]

93. The OFT stated that the aim of the "Save Christmas" campaign was "to encourage those wishing to save for Christmas to look at the features of hamper schemes and alternative options and to empower them to make decisions that are better for their particular circumstances".[286] We were told that the campaign would cover most options for Christmas saving and attempt to describe the risks in each case.[287] The short leaflet for consumers which the OFT has published covers almost all of the product options which we referred to earlier,[288] and, in relation to each, provides answers to questions such as "Do I

278 *Review of Christmas saving schemes*, para 6.4, p 27

279 Q 14

280 *Financial inclusion: the way forward*, para 4.24, p 45

281 Qq 17–18, 56, 100

282 Q 100

283 Ev 73

284 Qq 217–223, 276, 280

285 Ev 73; Qq 100–101, 199–201, 225, 260–263

286 Ev 73

287 Qq 235–237

288 See paragraphs 60–64.

get interest on my money?", "Will they collect the money from my home?" and "Is there any protection?".[289]

94. This basic consumer information is to be supported by other measures. The campaign began with a public relations launch, which the OFT considered had gone well in terms of attracting widespread media coverage.[290] The OFT told us that the next phase of the campaign would involve consumer education activities delivered locally by organisations that had face-to-face contact with the campaign's intended audience, starting in Scotland and moving to other areas during the second half of 2007.[291] The OFT argued that the campaign's concentration on affected communities explained why the campaign was not nationally prominent.[292] The Minister supported the use of "existing local, trusted networks", which he thought would be more effective at reaching the intended audience than "a standard, off-the-shelf, national advertising campaign".[293]

95. The OFT initially indicated to us that the campaign would end "in late November/early December" with a national advertising campaign with associated public relations designed to "reiterate and reinforce the messages at a time when consumers are deciding how they will save for Christmas 2008".[294] Of the total budget of £1 million, £400,000 will be devoted to national advertising.[295] There was some inconsistency in the OFT's oral evidence about the precise timing of the advertising campaign. Witnesses from the OFT at times referred to "December this year" and "the end of the year" as the best time for advertising about decisions on saving options for Christmas 2008.[296] However, Ms Sue Cook, the OFT's Acting Director of Communications, also told us that the OFT would be running the national advertising campaign "in December and January because our research tells us that people start to decide how they are going to save for Christmas in December and start to actually start the schemes in January".[297] Subsequent written evidence from the OFT indicated that the campaign on savings options for 2008 would take place "at the end of 2007 and the beginning of 2008".[298]

96. **The original purpose envisaged for a consumer awareness campaign by the Pomeroy was to respond to the needs and concerns of consumers affected by the collapse of Farepak relating to Christmas 2007. It is not immediately evident that the campaign begun by the Office of Fair Trading in June 2007 will be effective in responding to this intention. We are concerned by the inconsistencies in the evidence from the Office of Fair Trading about the best time for a national advertising campaign directed towards saving decisions for Christmas 2008. We recommend that, before committing to expenditure for a national advertising campaign, the Treasury review**

289 Office of Fair Trading, *Save Xmas: A quick guide to paying for Christmas*, June 2007

290 Q 249

291 Ev 73

292 Qq 223–224, 232–233

293 Qq 314, 312

294 Ev 73

295 Q 252

296 Qq 244, 255

297 Q 246

298 Ev 75

the conduct of the campaign by the Office of Fair Trading and ensure that the Treasury is satisfied that the appropriate timing has been determined to inform consumers in making saving decisions for Christmas 2008. We expect the Treasury to report on the outcome of that review in its response to this Report.

97. In addition to making a specific recommendation about a campaign about Christmas saving, the Pomeroy review also drew attention to the need for Government initiatives relating to financial capability and financial inclusion to take full account of "all products that are used for the purpose of saving, even if in legal terms they are not formally saving products".[299] In particular, that review recommended that "informal saving schemes should be given greater emphasis within … the Thoresen review of generic financial advice",[300] to which we referred earlier.[301] In evidence to us, Mr Pomeroy argued that those giving generic financial advice needed to be aware of informal financial products and to give them appropriate emphasis.[302] In response to the review, the Government confirmed that the Thoresen review would "consider how to provide better generic advice on informal saving".[303] **We welcome the inclusion of informal saving within the range of matters to be considered by the Thoresen review of generic financial advice. We look forward to reviewing the proposals of that review on how such advice can give due weight to informal saving options, bearing in mind the risks to the consumer that continue to be associated with some informal saving options.**

299 *Review of Christmas saving schemes*, para 6.2, p 27

300 *Ibid.*

301 See paragraphs 31–32.

302 Qq 12–13

303 *Financial inclusion: the way forward*, para 4.24, p 45

5 The Saving Gateway

Evolution of the Saving Gateway

98. The Saving Gateway was first proposed by the Government in April 2001. It was intended to be a new form of account running for a limited time and targeted specifically at lower-income households and aimed at encouraging the saving habit among those less inclined in save, but with much to gain from doing so.[304] In November 2001, the Government announced that respondents to its initial consultation had been almost unanimously supportive of "matching" as the best form of incentive for a Saving Gateway account—"matching" being an arrangement under which the Government makes a contribution to an account for every pound saved up to a fixed limit.[305] The Government announced at that time that it would establish a pilot project to examine the workings of the proposed Saving Gateway,[306] and that project ran for 18 months from August 2002.[307] In the 2004 Pre-Budget Report, the then Chancellor of the Exchequer announced that there would be a second pilot project beginning in 2005,[308] which ran with six variant forms between February 2005 and March 2007 in five pilot areas.[309] The second pilot project was larger in scale than the first, and covered a broader range of options relating to the rules governing the account and Government matching.[310] The Minister defended the Government's decision to use two successive pilot projects in order to "calibrate" the Saving Gateway before reaching any decisions on a national roll-out.[311]

The Irish comparison

99. Last year, in considering the Saving Gateway, we drew attention to the possible relevance to the development of the Saving Gateway of the Irish Republic's Special Saving Incentive Accounts, which were launched in 2001 with a five-year lifetime during which period the Irish Government provided matching of 25% of the value of subscriptions up to a certain level.[312] In February 2007, in the course of a visit to Dublin when we explored matters relating to Dormant Accounts,[313] we also discussed the operation of these Accounts with the Irish Government and a range of other interested parties. We found that the scheme had been motivated principally by a wish to tackle a declining personal savings ratio and high levels of consumer expenditure. Although the scheme had attracted many

304 *Saving and Assets for All*, paras 5.17–5.26, pp 19–20; HC (2004–05) 848–I, paras 103–104

305 *Delivering Saving and Assets*, para 2.34, p 10; *Saving and Assets for All*, para 5.22, p 20

306 *Delivering Saving and Assets*, paras 4.25–4.29, pp 23–24

307 *Final Evaluation of the Saving Gateway 2 Pilot*, p 9

308 HC (2005–06) 848–I, para 103

309 *Final Evaluation of the Saving Gateway 2 Pilot*, p 9. The five pilot areas were Tower Hamlets in East London, Gorton in East Manchester, Cumbria, Cambridgeshire and Hull: *Final Evaluation of the Saving Gateway 2 Pilot*, p 9, note 7.

310 *Final Evaluation of the Saving Gateway 2 Pilot*, p 1. The pilot areas and the rules governing the account were set out in HC (2005–06) 848–I, para 107 and Table 1.

311 Q 300

312 HC (2005–06) 848–I, para 110

313 Treasury Committee, Eleventh Report of Session 2006–07, *Unclaimed assets within the financial system*, HC 533, paras 2, 6, 11, 28–29

investors with low incomes, it was not targeted on certain income groups and was not perceived by those whom we met as a financial inclusion measure. There was no indication that a continuation of the scheme or a successor scheme was being considered. Professor Kempson viewed the Irish scheme, with its absence of targeting on particular income groups, as less effective in the context of financial inclusion than the Saving Gateway in its pilot form.[314] The Minister also thought that the Irish scheme was a macroeconomic measure with aims wider than those of financial inclusion.[315]

Eligibility

100. The Saving Gateway, in contrast to the Irish Special Savings Incentive Account which was universally available, has been intended to be targeted on low-income individuals and households.[316] During the first pilot project, individuals were eligible if they were between 16 and the State Pension Age and if they:

- had children and had household earnings of less than £15,000 a year; or
- had a disability and had household earnings of less than £15,000 a year; or
- did not have children or a disability and had individual earnings of less than £11,000 a year; or
- were out of work and receiving a qualifying benefit (Income Support, Jobseeker's Allowance, Incapacity Benefit or Severe Disablement Allowance).[317]

The eligibility criteria for those of the relevant qualifying age were broadly similar to the criteria used for Working Tax Credit.[318] A study published by the Institute for Public Policy Research in November 2006 estimated that around 5½ million individuals would be eligible for a national Saving Gateway on the basis of eligibility for a qualifying benefit or Working Tax Credit, although that number could be significantly increased if eligibility were extended to more than adult in a qualifying household and to those not receiving Working Tax Credit because they were in part-time employment or under 25 and without children.[319]

101. The second pilot project operated with broader eligibility criteria, including individuals aged 16 to 64 with individual earnings up to £25,000 and family earnings below £50,000 or in receipt of one of the four qualifying benefits used for the first pilot project.[320] As the Institute for Public Policy Research study noted, this was "a significant expansion: in

314 Q 81

315 Q 329

316 *Saving and Assets for All*, para 5.18, p 19

317 HM Treasury and Department for Education and Skills, *Saving Gateway*, 2002, p 4

318 Personal Finance Research Centre, University of Bristol, E Kempson, S McKay and S Collard, *Incentives to save: Encouraging saving among low-income households: Final report on the Saving Gateway pilot project*, March 2005, pp 6–7

319 Institute for Public Policy Research, *The Saving Gateway: From Principles to Practice*, S Sodha and R Lister, November 2006, pp 47–48

320 *Final Evaluation of the Saving Gateway 2 Pilot*, p 1

2005, UK median individual earnings were £19,000, and earnings at the sixth decile were £22,400".[321]

102. Last year, we noted evidence suggesting that use of the Saving Gateway too high up the income scale ran the risk of diminishing its value as a tool to promote saving among low-income households and individuals.[322] This view was expressed during the current inquiry by Professor Kempson, who had led the assessment of the first pilot project and who argued that the Saving Gateway needed to be "closely targeted" on the bottom end of the income scale.[323] The final evaluation of the second pilot project provided evidence to support this view, finding that higher income groups among those eligible for that pilot funded contributions to the Saving Gateway by diversion from other savings and assets, rather than by choosing saving over consumption.[324] The Minister noted the importance of this finding:

> If you started going up the income scale above … around a £15–16,000 income, as you went up the income scale, savings started in the main to be reallocated from existing savings schemes into the Saving Gateway in order to benefit from the match, so there was a great deal of deadweight if you extended it up the income scale which was not true for the low income savers.[325]

The Minister has acknowledged that the evaluation of the second pilot project suggests "that the policy focus on people on lower incomes—up to around £15,000 household income as used in the first pilot—is about the right level".[326] The proportion of households without savings is at its highest among households with incomes at or below around £15,000.[327] **Any national Saving Gateway ought to be closely targeted on those individuals and households with the lowest incomes and which are currently least likely to have savings in order to maximise the prospects that the Gateway will attract new saving and ensure value for money. Subject to considerations relating to the ease of identifying eligibility, we would expect to see a national Saving Gateway using eligibility criteria broadly similar to those of the first pilot project.**

Matching and contribution limits

103. From the outset of the Saving Gateway, the Government has recognised the importance of matching as a way of encouraging saving among lower-income households. Matching matters particularly to such households because they are less likely to be able to benefit from the range of tax reliefs available for saving.[328] A second key advantage of matching is its simplicity, because the extent of the incentive payment is immediately

321 *The Saving Gateway: From Principles to Practice*, p 46

322 HC (2005–06) 848–I, para 108

323 Qq 43, 63

324 *Final Evaluation of the Saving Gateway 2 Pilot*, p 7

325 Q 300

326 Minister's Bristol Speech, para 40

327 *The Saving Gateway: From Principles to Practice*, Figure 2.1, p 37

328 *Saving and Assets for All*, para 4.4, p 15; *Delivering Saving and Assets*, para 2.34, p 10

evident to the saver.[329] These initial views have been borne out by the experience of the pilot projects, which, according to the Government, "suggests that matching can provide a more understandable, transparent and equitable framework of support for savers".[330]

104. The first Saving Gateway pilot project was based on the simple proposition that, for each pound invested by an individual up to £25 per month over the 18-month period of the account, the Government would itself pay a pound into that account.[331] Professor Kempson saw great merit in matching at this rate, arguing that "the simple one-for-one matching is a very easy thing to understand and very motivating".[332] The second pilot project involved different match rates, with some areas having £1 of Government funding for every £5 invested by the individual, others having £1 for every £2 invested and one area having pound-for-pound matching.[333] The final evaluation of that pilot project found that the £1/£1 match-rate had no obvious effect compared with the £1/£2 match-rate.[334] The evaluation suggested that "the ideal match rate was thought to be around 50p for each £1 of matchable contribution, although the majority of participants accepted that a lower rate would be more appropriate for reasons of affordability".[335] The evaluation also suggested that some participants were concerned that a high level of matching might raise undue expectations about the value of saving among inexperienced investors which would not be maintained when matching came to an end.[336]

105. A study by the Institute for Public Policy Research in November 2006 argued that the match rate "should be as low as is consistent with kickstarting a saving habit, in order to minimise deadweight costs (the amount spent on the scheme that does not increase saving rates) and reduce the profitability of borrowing to save".[337] That study concluded that the match rate could be in the region of 50 pence for every pound saved, but also argued that "the match rate should be doubled for the first two months of the account, in order to provide further encouragement to take part".[338]

106. The Minister considered that the second pilot project had been useful in demonstrating that matching could be effective, and offer better value for money, at levels of matching below a pound for a pound, and also in suggesting that £25 a month was the correct limit on contributions subject to matching.[339] However, he expressed sympathy for the proposition that the level of subsidy for the least well-off through matching should at least as good as the level of matching for the most well-off through tax relief.[340] **The pilot projects for the Saving Gateway have proved conclusively that the principle of**

329 *Delivering Saving and Assets*, para 2.34, p 10

330 HC (2006–07) 437, p 14

331 Minister's Bristol Speech, para 28

332 Q 43

333 HC (2005–06) 848–I, Table 1

334 *Final Evaluation of the Saving Gateway 2 Pilot*, p 5

335 *Ibid.*

336 *Ibid.*

337 *The Saving Gateway: From Principles to Practice*, p 67

338 *Ibid.*, pp 67–68

339 Q 300

340 Q 305

matching, whereby the Government makes a contribution to an individual's account for every pound that individual saves up to a fixed limit, is essential to the success of any national Saving Gateway. We accept that, on grounds of affordability as well as other grounds, a national Saving Gateway could be based on a level of matching lower than pound-for-pound, and that a lower level of matching might be effective in encouraging saving among low-income individuals and households. However, we note that certain forms of saving by the highest income groups obtain subsidy through tax relief at an effective rate of 40%, and we consider that the level of subsidy in percentage terms for those on the lowest incomes ought to be higher. On grounds of simplicity, this argues for a rate of matching of 50 pence for every pound invested by the individual, although we also see merit in the proposal that a pound-for-pound match rate might be set for saving in the initial two months of an account to encourage participation.

Duration

107. When the proposals for the Saving Gateway were first set out in detail, it was suggested that a Saving Gateway account might operate for five years.[341] In both pilot projects, the accounts matured after 18 months.[342] Professor Kempson thought that 18 months was about the right duration for an account of this nature, telling us that her observation of the first pilot project was that some customers "were beginning to find it a struggle at the end of 18 months, and some of them did need access to the money for specific purposes".[343] She also argued that people should be given the option of signing up to a second account at the end of the 18-month period.[344] The Minister has acknowledged that the issue of whether individuals should be restricted to one Saving Gateway account needed to be considered, and that such a restriction would bring its own challenges—"policing the rule and equipping individuals to make informed decisions about when to take up the opportunity".[345] **The evidence which we have received during this inquiry reinforces the impression that low-income households are most likely to be able to save for short periods, and may be deterred by products with a longer maturity period. We recommend that any national Saving Gateway account be designed to operate for no more than 18 months. We see no reason why those who continue to be eligible should not be able to open a further account following maturity of an initial account for as long as the Saving Gateway operates.**

Providers

108. In the initial Government consultation on the Saving Gateway, some respondents expressed doubt whether the Saving Gateway would form the basis for a self-sustaining business model.[346] The Government believed at that time that "the Saving Gateway would

341 *Delivering Saving and Assets*, paras 4.17, 4.19, p 22

342 *Final Evaluation of the Saving Gateway 2 Pilot*, pp 1, 9

343 Qq 73–74

344 Q 73

345 Minister's Bristol Speech, para 56

346 *Delivering Saving and Assets*, para 4.3, p 19

probably be better suited to provision through a single provider than through a competitive market" and noted that the single provider might be in the form of a consortium.[347] The pilot projects have used a single provider, Halifax.[348] ABCUL argued that credit unions were ideally placed to offer accounts in any national Saving Gateway, not least because "in many low income communities, credit unions can be the only financial institution with a physical presence".[349] Similarly, the Building Societies Association argued that building societies were well-suited to provide Saving Gateway accounts.[350] A study by the Institute for Public Policy Research in November 2006 argued, "to maximise accessibility and consumer choice, the [Saving Gateway] account should take the form of a product wrapper" with generic terms and conditions for accounts offered by credit unions, building societies, banks and National Savings and Investments through the Post Office.[351]

109. Professor Kempson argued that a general weakness of the Government's approach to financial inclusion was that they allowed too much complexity and variety in products, so that customers became confused.[352] She argued that the Saving Gateway ought to be kept simple and not have too many providers.[353] The Minister has noted the importance of proximity to a Halifax branch in determining whether individuals participated in the second pilot projects, with those living closer more likely to participate, and drawn attention to the valuable role that local organisations such as housing associations and credit unions could play in reaching the hard-to-reach.[354] In evidence to us, he acknowledged the value of avoiding complexity in administration, while again stressing the value of local and trusted organisations such as credit unions in attracting customers.[355] **We are not convinced that the Saving Gateway product is suitable for development in a competitive market. We would not wish to see potential customers confused by a multiplicity of offerings. However, we recommend that, in designing what should be a single, unified product for a national Saving Gateway, the Government have regard to the desirability of ensuring that the product can be promoted by, and accessible through, as broad a range of financial institutions as possible.**

Overall conclusions

110. The Government is expected to make further announcements on the next steps for the roll out of the Saving Gateway in the 2007 Pre-Budget Report.[356] The Minister noted that any decision on a national Saving Gateway had to take account of the public expenditure implications.[357] However, the pilot projects for the Saving Gateway have provided strong

347 *Delivering Savings and Assets*, para 4.4, p 19

348 Ev 60

349 Ev 49, 53; Q 188

350 Ev 69

351 *The Saving Gateway: From Principles to Practice*, p 68

352 Q 58

353 Qq 70–71

354 Minister's Bristol Speech, paras 41, 57

355 Qq 303–304

356 Minister's Bristol Speech, para 61

357 Q 300

evidence to suggest that a national Saving Gateway could achieve some of the Government's aims of promoting saving among low-income groups. The Government has noted that the pilot projects indicate that the Saving Gateway "can encourage genuinely new savers and new saving".[358] It can bring some individuals into contact with mainstream financial institutions for the first time.[359] It can kick start a savings habit which continues even when the incentive of Government matching is no longer available.[360] It can have a positive impact on participants' attitude to saving, particularly amongst those with little or no prior experience of saving.[361] It can allow individuals to save without dictating what they save for.[362] It can give individuals a sense of security and a sense of worth.[363]

111. The Institute of Public Policy Research has provided some estimates of the first-year costs of a national Saving Gateway scheme, assuming eligibility criteria based on eligibility for Working Tax Credit and the qualifying benefits for those out of work,364 and individual contributions averaging £16 per month. On this basis, it is estimated that the first-year costs of a national scheme taken up by 50% of the eligible population with matching at 50 pence for every pound invested and pound-for-pound matching for the first two months would be £249 million.[365] For purposes of comparison, the Government estimates that ISA and Personal Equity Plan savings are supported by £2.1 billion in tax relief each year,[366] and employee tax reliefs for pension contributions were valued at around £5.3 billion in 2005–06.[367]

112. We recommended earlier that the Government's approach to saving and financial inclusion ought to be based on the aim of increasing the level of saving among low income individuals and households.[368] **The introduction of a national Saving Gateway would be the most important single step towards achieving the aim of increasing the level of saving among low-income individuals and households. Although a national scheme would involve a substantial public expenditure commitment, this seems likely to amount to little more than one tenth of the annual subsidy for Individual Savings Accounts and Personal Equity Plans and little more than one twentieth of the annual subsidy for employee pension savings, both of which categories of subsidy are less likely to be utilised by those low-income households for whom shorter term saving is most important and beneficial. We recommend that the Government launch the Saving Gateway on a national basis at the earliest practical opportunity.**

358 *Financial inclusion: the way forward*, para 3.36, p 35

359 *Final Evaluation of the Saving Gateway 2 Pilot*, p 4; *Financial inclusion: the way forward*, para 3.36, p 35; HC (2005–06) 437, p 14; Minister's Bristol Speech, para 51

360 Qq 57, 67–68; Ev 60; HC (2006–07) 437, p 14; Minister's Bristol Speech, para 39

361 Minister's Bristol Speech, para 33

362 Q 57

363 Q 42

364 On which see paragraph 100.

365 *The Saving Gateway: From Principles to Practice*, pp 61–62

366 *Budget 2007*, HC (2006–07) 342, para 5.42, p 115

367 http://www.hmrc.gov.uk/stats/pensions/table7-9.pdf

368 See paragraph 55.

6 Savings and credit unions

Credit unions and savings now

113. Last year we considered both the current and the potential future roles of credit unions. We observed that credit unions had been growing strongly in recent years and highlighted the role they could play in promoting financial inclusion.[369] We referred earlier in this Report to the signs of progress with the implementation of recommendations we made then to enhance the lending capability of third sector lenders including credit unions.[370] In the current inquiry we have been concerned particularly with credit unions as saving institutions.

114. There are 531 credit unions operating throughout England, Scotland and Wales.[371] According to unaudited figures from the FSA, in September 2006, credit union members held savings of over £428 million.[372] Mr Mark Lyonette, Managing Director of ABCUL, told that, in the past, credit unions had concentrated too much on their lending activities and not paid sufficient attention to saving, but that this weakness was being overcome:

> Credit unions … are mobilising savings at least as much as they are working on the credit [side], because without [savings] it really limits our impact … The future of the sector depends absolutely upon raising savings from our members so that we can lend that money out rather than relying upon government handouts to lend.[373]

115. Although credit unions have done much to broaden the range of services they offer and the range of customers they attract, thus dispelling the myth that they are "poor people's banks", they remain well-placed to encourage saving among the financially-excluded.[374] We learned of a variety of ways in which credit unions were seeking to promote saving, particularly amongst individuals and families with low incomes:

- by offering easy ways to pay into saving accounts, including through payroll deduction and at local collection points, such as day centres and the offices of housing associations;[375]
- by encouraging young people to save in specially designed young saver accounts;[376]
- through the offer of Christmas saving accounts, a development to which we referred earlier;[377] and

369 HC (2005–06) 848–I, paras 37–40 and 44

370 See paragraph 24.

371 Ev 47

372 *Ibid.*

373 Q 182

374 Ev 49; HC (2005–06) 848–I, para 39; HM Treasury, *Review of the GB cooperative and credit union legislation: a consultation*, June 2007 *(hereafter Review of the GB cooperative and credit union legislation)*, para 2.20, p 15

375 Ev 48; Q 188

376 Ev 47

377 See paragraph 64.

- by offering life insurance cover to people who save with credit unions at no extra cost.[378]

ABCUL is also participating in an examination of the viability of doorstep collection, which has potential for use as a method of encouraging saving in credit unions, although there is no current experience of it within the credit union sector.[379]

Legislative change

116. At present, the potential of credit unions to develop is inhibited by a legislative framework which we characterised in November 2006 as "outdated".[380] We recommended then that the Treasury consult credit unions and other interested parties on a new Credit Unions Act to enshrine measures to enable credit unions to modernise their operations with a view to introducing such legislation in the course of the current Parliament.[381] Very soon after we agreed our Report the Minister announced a review of credit union legislation, along with that covering industrial and provident societies.[382] He admitted to us that the current legislative framework for credit unions was "very clunky and out-of-date".[383] In March 2007, the Government envisaged that a consultation document would be issued the following month.[384] A delay in the publication of that document caused concern to ABCUL,[385] but the document was eventually published on 21 June 2007.[386] On 19 June, the Minister indicated that he might be seeking a slot for the legislation in the legislative programme for Session 2007–08, but the proposed Bill did not appear amongst those listed in the draft legislative programme for that Session published in July 2007.[387] The Government's proposals for draft Bills will be published in November 2007.[388] **We welcome the Government's commitment to consult on changes to the current, outdated legislative framework within which credit unions operate and the Government's subsequent publication of a consultation document. We note that a Bill relating to credit unions and co-operatives does not appear in the draft legislative programme for Session 2007–08. We recommend that the Government commit itself to publishing a draft Bill on that subject in the first half of 2007 in order to facilitate pre-legislative scrutiny and to enhance the prospects for the inclusion of such a Bill in the legislative programme for Session 2008–09.**

378 Ev 48

379 Qq 50, 184

380 HC (2005–06) 848–I, para 64

381 *Ibid.*

382 HC (2006–07) 437, p 9

383 Q 318

384 HC (2006–07) 437, p 9; *Financial inclusion: the way forward*, para 4.21, p 44

385 Q 177

386 *Review of the GB cooperative and credit union legislation*

387 Office of the Leader of the House of Commons, *The Governance of Britain—The Government's Draft Legislative Programme*, Cm 7175, July 2007

388 *Ibid.*, p 19

117. As we noted earlier, the Government has established an objective of achieving a step-change in the coverage of third sector lenders.[389] As the evidence from ABCUL to which we have already referred indicated,[390] the capacity of credit unions to develop as lending institutions is inseparable from their capacity to attract savings. The Minister emphasised the potential of credit unions, referring to the

> growing network of institutions around the country, particularly credit unions, which I think have got a much bigger role to play in providing opportunities for low income families to save.[391]

In order to provide further impetus and strategic direction to the preparation of new legislation relating to credit unions, we recommend that the Government match its objective to achieve a step-change in the coverage of third sector lenders with an objective of achieving a step-change in coverage of third sector saving institutions. We further recommend that it set a specific target by which progress in relation to that objective can be measured. That target might be to raise the savings held by credit union members of around £428 million in September 2006 to over £1 billion by the end of 2010.

118. During this inquiry, we considered four specific ways in which legislative change might enable such an objective to be met. First, credit unions are currently open only to those potential members who share the credit union's specified "common bond", which defines membership eligibility.[392] ABCUL told us that "the hurdles which credit union leaders have to jump through to prove a common bond exists in what are becoming larger and more disparate areas [mean] that that credit unions often stay serving a small area when the credit union may be more than capable of bringing more people into membership by expanding the area it serves".[393] Mr Lyonette suggested that legislative change in this area was "key": a more flexible definition of "common bond" would enable credit unions to broaden their membership, for example to include all tenants of a housing association or all employees of a particular company.[394] **We recommend that the new legislation include a much more flexible definition of the "common bond" for membership of credit unions.**

119. Second, credit union membership is restricted to individuals or "natural persons". This means that credit unions cannot admit corporate bodies or unincorporated associations to membership.[395] ABCUL told us that, if they were able to admit organisational members, this would not only help to capitalise the sector, but would also strengthen the credibility of credit unions and people's willingness to save with them if, for example, a housing association deposited its funds with a credit union.[396] **We recommend**

389 See paragraph 24.

390 See paragraph 114.

391 Q 303

392 *Review of the GB cooperative and credit union legislation*, para 1.11, p 6

393 Ev 52; Qq 178, 192

394 Q 178; Ev 50

395 *Review of the GB cooperative and credit union legislation*, para 3.30, p 22

396 Ev 52; Q 178

that the new legislation permit organisations and corporate bodies to become members of credit unions.

120. Third, credit unions are not able to pay interest on savings.[397] Instead, credit unions can offer only the possibility of a dividend as a reward for savers, the level of which is determined retrospectively.[398] ABCUL told us that

> Credit unions' ability to pay interest on savings would increase their capacity to offer different savings products to meet the needs of different people. Being able to advertise an interest rate, rather than a projected dividend, will encourage people to use the credit for savings.[399]

We recommend that the new legislation permit credit unions to pay interest on savings.

121. Fourth, there have been suggestions that difficulties relating to the perception of credit unions might arise from the use of that name. For example, the Farepak victims group told the OFT that credit unions were not particularly popular as a Christmas saving option "because they were seen as getting people into debt when they wanted to save".[400] Mr Pomeroy told us that he personally would favour some form of re-branding of credit unions, possibly as "community banks".[401] Mr Lyonette acknowledged that both the term "credit" and the term "union" could be problematic, particularly the implication of the form term that credit unions were predominantly concerned with lending. However, he also indicated that terminology was often not a barrier to credit unions' market penetration.[402] In supplementary written evidence, ABCUL noted that the credit union movement had different views on a change of name, and drew attention to the possibility that the use of the term "bank" might attract additional regulation.[403] The Minister agreed to examine the issue of terminology, and it was included in the Government's subsequent consultation document.[404] **We welcome the inclusion of a possible name change from "credit unions" to "community banks" within the Government's consultation on legislation. We look forward to learning about the responses to that consultation. We recommend that, in parallel with legislative consultation, the Government explore with credit unions and others ways in which the modern role of credit unions, including their functions as saving institutions and providers of current accounts, could be more effectively promoted in the branding and promotion of credit unions, possibly by use of the term "credit and savings unions".**

---

397 *Review of the GB cooperative and credit union legislation*, para 3.31, p 22

398 Ev 50, 51; Q 178

399 Ev 50

400 *Farepak: review of the regulatory framework*, para 23

401 Qq 22–23

402 Qq 182, 198

403 Ev 53–54

404 *Review of the GB cooperative and credit union legislation*, para 3.25, p 21

Conclusions and recommendations

Progress on the financial inclusion agenda

1. We discuss the Government response to a number of individual recommendations later in this Report. However, we welcome the positive tenor of the Government response and the range of actions it has taken to give substance to that positive response. (Paragraph 4)

2. Although we make more specific comments about aspects of the Government's financial inclusion strategy document published in March 2007 later, we welcome its publication and the establishment of the Ministerial working group on financial inclusion. We look forward to examining the Government's financial inclusion action plan and further proposals of that working group in due course. (Paragraph 7)

3. We welcome the Government's commitment to continued funding to enable maintenance of the current level of intensity of action to promote financial inclusion up to 2010–11. We expect to examine the final allocation of resources to the Financial Inclusion Fund following the announcement of the final outcome of the 2007 Comprehensive Spending Review. (Paragraph 8)

4. We welcome the commitment to continued funding of face-to-face money advice up to 2010–11 and look forward to learning more about the Government's evaluation of projects so far. (Paragraph 9)

5. We welcome the Government's commitment to a continuing and expanded role for the Financial Inclusion Taskforce. (Paragraph 10)

6. We look forward to the publication by the Financial Inclusion Taskforce of further information on the opening and operation of basic bank accounts. We also look forward to a statement by the Government later this year about further action agreed between the banks and the Government to ensure that the number of people who are "unbanked" is further reduced. We expect to continue to monitor developments in this area, possibly in the context of our forthcoming inquiry into Competition in Retail Banking. (Paragraph 15)

7. We welcome the progress so far achieved towards the target of providing over 600 new non-charging cash machines and look forward to examining further progress in due course. (Paragraph 17)

8. In view of the steps that have been taken to enhance the flexibility of identity requirements relating to money laundering regulations, we are disappointed that the Government has apparently discounted the option of making even limited cash deposits into the successor to the Post Office Card Account. We recommend that the Government re-examine this possibility in conjunction with the FSA as a matter of urgency. We note the Minister's confidence that the process of tendering for a successor to the Post Office Card Account will strengthen the Post Office network, and we will monitor the progress of the tendering process and the migration to the

successor product to see that this confidence does not prove to be misplaced. (Paragraph 20)

9. We welcome the Government's plans for the nationwide extension of projects to tackle illegal lending. We recommend that the Government set out, in its response to this Report, any evidence of the effectiveness of the projects so far in reducing levels of illegal lending, and that it report progress regularly thereafter. (Paragraph 22)

10. In view of the urgency which we attached to progress on data-sharing within the credit industry as a method of increasing access to affordable credit, we regret the lack of reported progress on this matter by the credit industry and the Government. We recommend that the Government, in its response to this Report, provide a full account of actions taken in this area and proposed further actions. (Paragraph 23)

11. We welcome the Government's commitment to an objective of achieving a step-change in the coverage of third sector lenders and its actions so far in pursuit of that objective, including its promotion of a dialogue involving senior representatives from the banking sector and its further financial support for capacity-building among third sector lenders. We expect to continue to monitor progress in relation to this new objective, including through examination of the contribution of banks to support for third sector lenders. (Paragraph 24)

12. We recommend that the Government initiate a dialogue with the credit industry to examine whether arrangements for the repayment for debt, including the Common Financial Statement, could be adapted to provide increased provision for and encouragement of saving at a suitable level by those in debt. (Paragraph 25)

13. The Government's response to our conclusions and recommendations relating to the Social Fund suggests a lack of commitment to improving the Social Fund. We wish to see a renewed commitment from the Government to the reform and future funding of the Social Fund as part of the 2007 Comprehensive Spending Review, bearing in mind that there will be a considerable time lag before measures to achieve a step-change in the coverage of third sector lenders make a significant impact on the capacity of that sector. (Paragraph 27)

14. We look forward to the publication of the Government's financial capability action plan by the end of 2007 and we will continue to monitor the activities of the FSA and the Government to enhance financial capability. (Paragraph 29)

15. We welcome the Government's commitment in principle to the development of a national generic financial advice service and the establishment of the Thoresen review to examine its feasibility. We note the emerging themes of that review and look forward to examining its outcome. (Paragraph 32)

16. We welcome the Government's decision to treat insurance as a priority area within its financial inclusion strategy and the initial investigation of the nature of the problem of exclusion from insurance which is underway. We recommend that the Government and the Financial Inclusion Taskforce report on the outcome of their initial investigation in response to this Report. (Paragraph 33)

Saving and financial inclusion

17. Evidence received during the current inquiry has reinforced our view that saving should be accorded a high priority in the Government's financial inclusion strategy. We welcome the Government's acceptance of our earlier recommendation on this matter, and look forward to the formal extension of the remit of the Financial Inclusion Taskforce to cover savings issues, which we wish to see promulgated before the end of 2007. (Paragraph 54)

18. The current inquiry has provided some signposts for ways in which savings issues could be taken forward in the context of financial inclusion. The statement in the Government's latest strategy document that "saving accounts should be available to all who need them" is not ambitious. That part of the goal concentrates on a formal saving product. It does not include any specific target or means by which progress against that part of the goal can be measured. It does not deal with the issue of the promotion of entry into saving, as opposed to availability. We recommend that the Government's strategy on saving and financial inclusion be formulated in consultation with the Financial Inclusion Taskforce and with the following aims:

- to acquire further information about the extent of personal saving of varying kinds, having particular regard to saving patterns among individuals and households with lower incomes and to the extent and variety of informal saving;
- to ensure that public policy is concerned with the motivations for saving and with ways of promoting saving for particular purposes, as well as with the promotion and regulation of particular savings products;
- to ensure that public policy on saving pays greater regard to informal means of saving as well as formal saving products;
- to ensure that public policy on savings pays greater attention to the saving needs of lower income individuals and households and to shorter term as well as longer term products;
- to ensure that the objectives of National Savings and Investments give proper weight to the encouragement of savings;
- to establish a measure of personal saving within the economy and at particular income levels that reflects people's own understanding of what constitutes saving and that captures the extent of informal saving; and
- to set a target for increased savings among lower income households and individuals and enable progress against that target to be measured. (Paragraph 55)

Christmas saving schemes

19. The collapse of Farepak caused distress for many families. Although we have not examined the particular circumstances of that collapse, we have heard evidence suggesting that the "hamper" market does not operate with a flawed business model, and the "hamper" product has distinct positive features enabling it to compete within the broader Christmas saving market. The establishment of trust accounts by the Park Group and the prospect of the adoption of such accounts across the "hamper" market go a considerable way towards allaying concerns about consumer protection within the market. To reinforce confidence in that market, we want the Christmas Prepayments Association to agree a code of practice that meets all criteria within the Office of Fair Trading's Consumer Codes Approval Scheme and is thus approved by the Office of Fair Trading. Provided that the operation of trust accounts within that market proves to be satisfactory, it seems likely that regulation by the Financial Services Authority of the hamper market will not prove to be proportionate or appropriate. An extension of FSA regulation and the additional costs associated with such regulation would create a risk that consumers might choose other, cheaper informal saving products with lower levels of consumer protection. (Paragraph 86)

20. The collapse of Farepak has highlighted the lack of attention that public policy had paid to a range of informal savings and prepayment vehicles with inadequate consumer protection. Notwithstanding our specific conclusions about regulation of the "hamper" market, we remain concerned about the limitations of consumer protection for prepayments generally. We recommend that the Government and the Office of Fair Trading, as a matter of urgency, consider:

- what further steps can be taken to extend the coverage of consumer protection for prepayments through codes compatible with the Consumer Codes Approval Scheme;
- what further measures can be taken to schemes for the protection of prepayments that are affordable to the businesses concerned;
- how far implementation of the Unfair Commercial Practices Directive will permit more effective enforcement action against inappropriate prepayment requirements; and
- what further measures can be taken to promote consumer awareness of the risks associated with prepayments.

We further recommend that the Government report on progress in each of these areas in its response to this Report. (Paragraph 90)

21. The original purpose envisaged for a consumer awareness campaign by the Pomeroy was to respond to the needs and concerns of consumers affected by the collapse of Farepak relating to Christmas 2007. It is not immediately evident that the campaign begun by the Office of Fair Trading in June 2007 will be effective in responding to this intention. We are concerned by the inconsistencies in the evidence from the Office of Fair Trading about the best time for a national advertising campaign directed towards saving decisions for Christmas 2008. We recommend that, before committing to expenditure for a national advertising campaign, the Treasury review the conduct of the campaign by the Office of Fair Trading and ensure that the Treasury is satisfied that the appropriate timing has been determined to inform consumers in making saving decisions for Christmas 2008. We expect the Treasury to report on the outcome of that review in its response to this Report. (Paragraph 96)

22. We welcome the inclusion of informal saving within the range of matters to be considered by the Thoresen review of generic financial advice. We look forward to reviewing the proposals of that review on how such advice can give due weight to informal saving options, bearing in mind the risks to the consumer that continue to be associated with some informal saving options. (Paragraph 97)

The Saving Gateway

23. Any national Saving Gateway ought to be closely targeted on those individuals and households with the lowest incomes and which are currently least likely to have savings in order to maximise the prospects that the Gateway will attract new saving and ensure value for money. Subject to considerations relating to the ease of identifying eligibility, we would expect to see a national Saving Gateway using eligibility criteria broadly similar to those of the first pilot project. (Paragraph 102)

24. The pilot projects for the Saving Gateway have proved conclusively that the principle of matching, whereby the Government makes a contribution to an individual's account for every pound that individual saves up to a fixed limit, is essential to the success of any national Saving Gateway. We accept that, on grounds of affordability as well as other grounds, a national Saving Gateway could be based on a level of matching lower than pound-for-pound, and that a lower level of matching might be effective in encouraging saving among low-income individuals and households. However, we note that certain forms of saving by the highest income groups obtain subsidy through tax relief at an effective rate of 40%, and we consider that the level of subsidy in percentage terms for those on the lowest incomes ought to be higher. On grounds of simplicity, this argues for a rate of matching of 50 pence for every pound invested by the individual, although we also see merit in the proposal that a pound-for-pound match rate might be set for saving in the initial two months of an account to encourage participation. (Paragraph 106)

25. The evidence which we have received during this inquiry reinforces the impression that low-income households are most likely to be able to save for short periods, and may be deterred by products with a longer maturity period. We recommend that any national Saving Gateway account be designed to operate for no more than 18 months. We see no reason why those who continue to be eligible should not be able to open a further account following maturity of an initial account for as long as the Saving Gateway operates. (Paragraph 107)

26. We are not convinced that the Saving Gateway product is suitable for development in a competitive market. We would not wish to see potential customers confused by a multiplicity of offerings. However, we recommend that, in designing what should be a single, unified product for a national Saving Gateway, the Government have regard to the desirability of ensuring that the product can be promoted by, and accessible through, as broad a range of financial institutions as possible. (Paragraph 109)

27. The introduction of a national Saving Gateway would be the most important single step towards achieving the aim of increasing the level of saving among low-income individuals and households. Although a national scheme would involve a substantial public expenditure commitment, this seems likely to amount to little more than one tenth of the annual subsidy for Individual Savings Accounts and Personal Equity Plans and little more than one twentieth of the annual subsidy for employee pension savings, both of which categories of subsidy are less likely to be utilised by those low-income households for whom shorter term saving is most important and beneficial. We recommend that the Government launch the Saving Gateway on a national basis at the earliest practical opportunity. (Paragraph 112)

Savings and credit unions

28. We welcome the Government's commitment to consult on changes to the current, outdated legislative framework within which credit unions operate and the Government's subsequent publication of a consultation document. We note that a Bill relating to credit unions and co-operatives does not appear in the draft legislative programme for Session 2007–08. We recommend that the Government commit itself to publishing a draft Bill on that subject in the first half of 2007 in order to facilitate pre-legislative scrutiny and to enhance the prospects for the inclusion of such a Bill in the legislative programme for Session 2008–09. (Paragraph 116)

29. In order to provide further impetus and strategic direction to the preparation of new legislation relating to credit unions, we recommend that the Government match its objective to achieve a step-change in the coverage of third sector lenders with an objective of achieving a step-change in coverage of third sector saving institutions. We further recommend that it set a specific target by which progress in relation to that objective can be measured. That target might be to raise the savings held by credit union members of around £428 million in September 2006 to over £1 billion by the end of 2010. (Paragraph 117)

30. We recommend that the new legislation include a much more flexible definition of the "common bond" for membership of credit unions. (Paragraph 118)

31. We recommend that the new legislation permit organisations and corporate bodies to become members of credit unions. (Paragraph 119)

32. We recommend that the new legislation permit credit unions to pay interest on savings. (Paragraph 120)

33. We welcome the inclusion of a possible name change from "credit unions" to "community banks" within the Government's consultation on legislation. We look forward to learning about the responses to that consultation. We recommend that, in parallel with legislative consultation, the Government explore with credit unions and others ways in which the modern role of credit unions, including their functions as saving institutions and providers of current accounts, could be more effectively promoted in the branding and promotion of credit unions, possibly by use of the term "credit and savings unions". (Paragraph 121)

Formal minutes

Thursday 20 September 2007

Members present:

John McFall, in the Chair

Mr Graham Brady
Mr Michael Fallon
Ms Sally Keeble
Mr Andrew Love
Mr George Mudie
Mr Mark Todd
Peter Viggers

* * * * *

Financial inclusion follow-up: saving for all and shorter term saving products

Draft Report (*Financial inclusion follow-up: saving for all and shorter term saving products*), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 19 read and agreed to.

Paragraph 20 read, amended and agreed to.

Paragraphs 21 to 28 read and agreed to.

Paragraph 29 read, amended and agreed to.

Paragraph 30 and 31 read and agreed to.

Paragraph 32 read, amended and agreed to.

Paragraphs 33 to 54 read and agreed to.

Paragraph 55 read, amended and agreed to.

Paragraphs 56 to 78 read and agreed to.

Paragraph 79 read, amended and agreed to.

Paragraphs 80 to 87 read and agreed to.

Paragraph 88 read, amended and agreed to.

Paragraphs 89 to 121 read and agreed to.

Summary read and agreed to.

Resolved, That the Report, as amended, be the Thirteenth Report of the Committee to the House.

Ordered, That the Report be printed pursuant to Standing Order No. 137 (Select committees (adjournment of the House)).

Several Memoranda were ordered to be reported to the House for printing with the Report.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Tuesday 9 October at 9.30 am.

Witnesses

List of written evidence

List of Reports from the Treasury Committee during the current Parliament

Session 2006–07

		Report
First Report	Financial inclusion: the roles of the Government and the FSA, and financial capability	HC 53
Second Report	The 2006 Pre-Budget Report	HC 115
Third Report	Work of the Committee in 2005–06	HC 191
Fourth Report	Are you covered? Travel insurance and its regulation	HC 50
Fifth Report	The 2007 Budget	HC 389
Sixth Report	The 2007 Comprehensive Spending Review: prospects and processes	HC 279
Seventh Report	The Monetary Policy of the Bank of England: re-appointment hearing for Ms Kate Barker and Mr Charlie Bean	HC 569
Eighth Report	Progress on the efficiency programme in the Chancellor's department	HC 483
Ninth Report	Appointment of the Chair of the Statistics Board	HC 934
Tenth Report	Private equity	HC 567
Eleventh Report	Unclaimed assets within the financial system	HC 533
Twelfth Report	The Monetary Policy Committee of the Bank of England: ten years on	HC 299

Session 2005–06

		Report
First Report	The Monetary Policy Committee of the Bank of England: appointment hearings	HC 525
Second Report	The 2005 Pre-Budget Report	HC 739
Third Report	The Monetary Policy Committee of the Bank of England: appointment hearing for Sir John Gieve	HC 861
Fourth Report	The 2006 Budget	HC 994
Fifth Report	The design of a National Pension Savings Scheme and the role of financial services regulation	HC 1074
Sixth Report	The administration of tax credits	HC 811

Seventh Report	European financial services regulation	HC 778
Eighth Report	Bank of England Monetary Policy Committee: appointment hearing for Professor David Blanchflower	HC 1121
Ninth Report	Globalisation: the role of the IMF	HC 875
Tenth Report	Independence for statistics	HC 1111
Eleventh Report	The Monetary Policy Committee of the Bank of England: appointment hearings for Professor Tim Besley and Dr Andrew Sentance	HC 1595
Twelfth Report	Financial inclusion: credit, savings, advice and insurance	HC 848
Thirteenth Report	"Banking the unbanked": banking services, the Post Office Card Account, and financial inclusion	HC 1717

Oral evidence

Taken before the Treasury Committee

on Tuesday 1 May 2007

Members present

John McFall, in the Chair

Mr Colin Breed
Angela Eagle
Mr Michael Fallon
Mr David Gauke
Peter Viggers

Witness: **Mr Brian Pomeroy**, Chairman of the Financial Inclusion Taskforce and author of *Review of Christmas saving schemes,* gave evidence.

Q1 Chairman: Brian Pomeroy, welcome to the Committee and to our inquiry into the Financial Inclusion Taskforce. Would you introduce yourself, please?
Mr Pomeroy: I am Brian Pomeroy, Chair of the Financial Inclusion Taskforce. I understand I am here principally in my capacity as the author of the recent *Review of Christmas saving schemes*, since the Taskforce itself has not yet looked at savings.

Q2 Chairman: I commend you on the work you have been doing in the area of financial inclusion. I also note the Government's positive response to our Committee's recommendations and the positive agenda that has been developing since then. Do you want and expect the Taskforce remit to be changed to give greater prominence to savings issues? You have previously expressed concern about the resource implications for the Taskforce on the expansion of its remit. What assurances do you have about the funding for the Taskforce in the period of to 2011 and savings within that?
Mr Pomeroy: On the first point, the Taskforce would be happy to take on savings if the Treasury asks us to do that. Our terms of reference were given to us by the Treasury, so it is up to them. My understanding is that the Treasury is considering that and is looking to see the output of the Saving Gateway pilots and its own decision-making on that before giving us a remit, but if they give us a remit, we will be happy to take it on. I should add that our remit has recently been extended to include insurance, which is one of the recommendations of this Committee. As far as resources are concerned, the Taskforce has a budget for itself, which we have found perfectly adequate to commission the research we need. So far as the period to 2011 is concerned, we are aware that the Government has committed to a new Financial Inclusion Fund, but we do not yet know what the amount of it will be or how it will be deployed.

Q3 Chairman: Following the Review of the Christmas savings schemes which arose from the collapse of Farepak—and we are not focusing on Farepak here directly but the consequences of it—the Government has announced an agreement with the industry on the provision of secure, ring-fenced accounts for such savings. I know that discussions are still going on about that. Does the latest information that is available reassure you regarding the removal of the risks, particularly in the hamper market, for consumers?
Mr Pomeroy: Yes. I should say that I have not been part of the detailed discussions and what I know is the concept that was announced by the DTI a few weeks ago. It seems to me the concept is a sound one, which is that the money will go into trust; the trustees will only release the money when it is needed to buy hampers or vouchers, whatever happens to be ordered. It seems to me that is a sound concept. Clearly, it depends on it being implemented in detail properly and effectively. Whilst I have no reason to think that it will not be, I have not seen the detailed fine print of what has been agreed.

Q4 Angela Eagle: Staying with Christmas hampers and that market and following the collapse of Farepak, in your Review of Christmas savings schemes, you identified, very properly I think, the attraction of them to those who are low earners, and a range of advantages, particularly with locked-in finances, so that people can definitely guarantee that the amount of money they are saving will go on Christmas issues and not suddenly be taken for something else. How do you think this kind of an approach, which clearly low income customers like, can be preserved in future arrangements, whilst guaranteeing that we never have another Farepak?
Mr Pomeroy: I think the key is to make sure that their money is safe and that the people who provide the product also provide long-term good value. It is clear, from the research I did, that the product is valued provided the money is safe. Something like three-quarters of a million families, mainly families on low incomes though not exclusively so, make use of it. They make use of it because for some of them it is the only way that they will save at all. The home collection of money is the only way they will save at all, and the lock-ins, as you say, are also vital. The important thing is to make sure that the money is protected but also that it is good value for money because as well as making a recommendation about protection of the money, I have also noted in my report that the market is highly concentrated now in

the hands of one firm, and therefore that at least ought to be looked at to make sure there are no competition problems or issues that might give rise to poor value for money.

Q5 Angela Eagle: So you agree with the attention that the Office of Fair Trading is currently paying to the fact that the Park Group are really the dominant player now with I think £230 million in profit?
Mr Pomeroy: Yes; they have something like 90% of the hamper market. I very much welcome the fact that the OFT is looking at it. The fact they have 90% does not of itself mean there is an abuse of position but clearly to my mind it raises a need at least to examine the matter.

Q6 Angela Eagle: This model again particularly depends on not having low-income savers physically going to an institution to deposit money, but actually having door-to-door sales forces, often from the local community who are known to individuals, going round collecting small amounts of money. It also, I think, relies quite a lot on deliveries to the door because often some of these people do not necessarily have cars and cannot pick up large products from a delivery point. Do you think that that almost offsets the paying of interest because there was much comment when Farepak collapsed that the savings were not getting interest at all, as well as the fact that they had been ripped off?
Mr Pomeroy: I think it is certainly a factor that offsets it because clearly the home service that you describe, which is an absolutely vital component, is an expensive way of doing business. It means agents have to go to houses. That means they are paid for it. It is obviously a much more expensive way of doing business than having someone go to a supermarket and that needs to be covered somehow. I have not been privy to the detailed financial position of the companies or the economics of the product but I can say that the users of the product do not particularly complain about not having interest. Some commentators have noted it; the users of the product generally do not complain about not having interest. Clearly, those extra costs have to be covered somehow. There are other ways of covering it. For example, the providers make a margin when they sell a hamper and they also get a discount from the retailer when they buy a voucher. So there are other sources of income as well. It is interesting in the research I did, which involved talking directly to 100 users of this product, that lack of interest was simply not an issue at all.

Q7 Angela Eagle: Do you think that might be because they are not that familiar with savings products that actually attract interest and that they tend to live in the more cash economy, though not all of them are unbanked, where interest is not such an issue?
Mr Pomeroy: It might to some extent. It was quite interesting that in the workshops we ran a number of people, although they would not necessarily go to financial institutions, indeed sometimes would mistrust them, were aware that they would give interest, and certainly gave me the impression that if they were saving with a financial institution, they would expect interest. So they did understand that financial institutions give interest. They also understood that what they were doing, although they were saving, they were doing it with a retail firm. They understood that it was a retail, mail-order purchase essentially that they were making. A number of them did say, "Look, how much interest would we get, frankly? If we save £10 a week for 45 weeks, that is £10 interest. It is not a lot, is it?" So there was a sense, although you would normally expect to have interest on savings, the absolute amount was not something which they particularly missed.

Q8 Angela Eagle: Do you think that this model with its very specific structure, the door-to-door issue and the lock-in, has any lessons for larger Saving Gateway issues and financial inclusion more generally, since it is clearly a model that has a history in fact in many communities? It is clearly a model that people like.
Mr Pomeroy: I think the general lesson is that there are some people who find it very difficult to save unless there is some stimulus or prompt. Perhaps that does not have to be someone coming to your door but it is very clear that many people would only save if something prompts them to save. They will not of their own accord go down to a building society, a bank or a credit union. To me the lesson is that there are people who need some stimulus and incentive to save and therefore across the board of financial savings products, one needs to think about that issue when addressing particularly people on low incomes who have many competing demands on their cash.

Q9 Angela Eagle: What do you think about the lock-in point because people clearly like the fact that they cannot get at their money once they have put it away?
Mr Pomeroy: Indeed, they do like that. Of course, one of the consequences of the lock-in is that if you buy goods on the basis that you can only get the goods and you cannot get cash at the end, that removes it from financial services and actually at the moment removes it from the compensation scheme as well. One has to be aware that under present legislation those kinds of schemes can actually remove a protection. There is no question that when saving for something specific like Christmas, the lock-in is absolutely vital and it is partly, I suppose, that people do not trust themselves.

Q10 Angela Eagle: And do not trust the financial pressures on them?
Mr Pomeroy: Yes, particularly when it is very important because the background to all of this, as I have discovered, is the very high importance people place on having a good week at Christmas. It is because that is so important that they are prepared, in some cases at the expense of personal hardship, to ring-fence that money. It has that degree of importance for them.

Q11 Angela Eagle: Finally, do you think that the point you have just made about the fact that you do have the lock-in and you cannot get the money out actually removes it from financial regulation? We clearly saw that there was an issue there with what happened to Farepak in terms of protecting people's money. Do you think that there is therefore an argument for having some form of regulation, not perhaps the full panoply of Financial Services Authority regulation, which applies in that very particular instance to protect people's assets?

Mr Pomeroy: I definitely felt it was necessary to protect the asset in this case. Of course, the issue is quite complicated because legally this was a prepayment, and we prepay for things all the time. Throughout the economy there are prepayments. This product and the prepayment have two particular features: one the prepayment is for much longer than usual and up to a year; and, secondly, the people who are prepaying are the most vulnerable group financially and can least afford the loss. In that situation, I felt protection was necessary. So far as I am concerned, the most important thing is that the outcome of protection should take place rather than the means. I did not express a view as to whether it should be formal regulation or whether it should be done by an agreement; in fact, it has been done by the latter. The most important thing is the outcome. I think there are some circumstances to prepayment, when a combination of the length of the prepayment and the vulnerability of the prepayer definitely require protection, yes.

Q12 Mr Gauke: Do you think an increasing emphasis could be placed on generic financial advice in this area so that consumers are more aware of the range of options, whether it be informal savings products or regulated financial services?

Mr Pomeroy: Yes, I do. The question of generic financial advice of course is under review at the moment. Otto Thoresen is doing a feasibility study on it. Obviously I do not know what view he will come out with, but I am quite clear that a discussion that takes place between a generic financial adviser and someone being advised needs to take into account all kinds of products and all kinds of savings, and in this case savings, and in particular the adviser would need to be aware not only of formal savings products—I mean properly regulated financial services products—but also these alternative products. It is vital that they should be aware of them and be in a position to say to the person they are advising, "Perhaps you are using this. Have you thought of these alternatives? They are not quite the same but they have advantages and disadvantages. Here is the range", and be in a position to advise them. I think this kind of thing definitely should be within the purview of a generic financial advice scheme, yes.

Q13 Mr Gauke: How do we go about placing greater emphasis on savings products? At the moment, generic advice tends to be focused more on debt really—the role of the Citizens' Advice, for instance. How do we go about increasing the emphasis on savings?

Mr Pomeroy: I think the fact that generic financial advice is under review at the moment is an opportunity for getting it right, It will come down to the range of issues on which generic advice is given within whatever structure the Government decides to adopt. I think advisers should be told very clearly that they must understand that in fact there are products out there which are substantively financial services products—we are talking about one which is savings at the moment—but which are legally not and they must be aware of all of them and be prepared to advise on a range of them and give them appropriate emphasis.

Q14 Mr Gauke: You have talked of having a specific consumer campaign to make people aware of the options. Are you thinking overall or specifically with regard to Christmas savings schemes?

Mr Pomeroy: I am thinking with regard to Christmas savings, and I am thinking now because it is very clear that Farepak very much undermined, for obvious reasons, savers' confidence in that industry and these were savers, it is clear, who really were not aware of many other alternatives. Actually there are not many alternatives that replicate exactly the features of this product. It was clear from the people I spoke to that a number of them were very disoriented; they would like to continue saving but do not know whether they should; some have decided not to save at all; some are saving a bit; some are saving with friends, and some are doing other things. I am talking now about Christmas 2007 and not beyond that. I believe it is important to put some information out there.

Q15 Mr Gauke: Who should be doing that?

Mr Pomeroy: The "Government". In fact the OFT has been given the job, and that sounds fine to me. Firstly, it seems to me it is important to communicate the fact that secure arrangements are now being put in place and that the money will be safe because of the trust arrangements that I have just described, but also to explain to people that there are alternatives; there are credit unions who offer Christmas savings accounts; there are supermarkets that offer Christmas savings accounts; there are building societies. They do not all have the same features but some will suit some people. It is those two things: (a) communicate security and (b) communicate the range. I personally think it is urgent because there are people out there who want to save for Christmas to avoid getting into debt who will not save for 2007 because of what they know about Farepak.

Q16 Mr Gauke: You say it is a question for now. Are you concerned that the OFT is being a bit slow on this?

Mr Pomeroy: Again, having made the recommendation and having been very pleased to hear it has been accepted, I have not been involved in the detail. My understanding is that they are planning a campaign. I have no information about the timing of it or the detail of it.

Q17 Mr Gauke: You are conveying very much a sense of urgency.

Mr Pomeroy: Yes.

Q18 Mr Gauke: I am not sure you are conveying that you have confidence that the OFT has that sense of urgency.
Mr Pomeroy: I am afraid I do not actually know when they are planning to launch it. That is the honest answer. I do think it needs to be soon.

Q19 Mr Breed: Do you have an idea of figures in terms of the fall-off since the Farepak situation? Have we seen a very steep decline or is it relatively modest? We only really have one big player now. Presumably they would be able to determine whether there has been very significant damage.
Mr Pomeroy: I do not know, and I would very much like to know. I know that when I ran workshops with these 100 customers, a significant number of them said they would stop, though that does not mean that they will all stop. I also know, because I am sure it is on public record, that one of the firms, which has recently been taken over by Park, did announce a very much lower order book I think in February of this year than they would normally expect, implying that they would have been affected. One would anticipate there would have been some fall-off but the truthful answer is that I have no information.

Q20 Mr Breed: When you did your review, did you cover these rather more informal schemes that some shops, butchers and others have themselves in a local context? I have no idea how widespread they are but when the Farepak situation came up, one suddenly became more aware of an awful lot more of these smaller, informal schemes.
Mr Pomeroy: I noted their existence but I concentrated my review on firms which were in the business of Christmas savings schemes as opposed to those which ran them as an ancillary activity. I do not have good information about that. I am not sure, frankly, that it exists at the moment. You are absolutely right to say that up and down the country there are butchers, grocers, toyshops, dairies and probably others running informal schemes where contributions are probably recorded in a very informal way. As to the extent of that, I suspect that numerically it is large but I cannot tell you what amount of money is involved.

Q21 Mr Breed: This is terribly important. The effect is that whatever that money is, it must be held in some sort of trust status, no matter how large or small a business, but of course it is not.
Mr Pomeroy: That would be the ideal but I would be very surprised if you pay £1 a week to a butcher for a turkey at Christmas if there was a trust status.

Q22 Mr Breed: This is a more general question about credit unions, which are slow to get off the ground in many places. Do you think that is partly due to the fact that they are called credit unions, which does not mean an awful lot to most people? Would it be much more sensible to call them community banks?
Mr Pomeroy: I have a personal view, which is not necessarily the Taskforce view or shared by others in the Taskforce, that it would be useful to look at some kind of re-branding.

Q23 Mr Breed: You can ask relatively sophisticated people to explain what a credit union is and they will look blank. If it was a community bank, the idea of saving in a community bank would be a much more logical concept.
Mr Pomeroy: It would and, progressing that one level further, I visited the USA with a team from the Treasury about two years ago and did see community banks. They are called community banks there; they are full service institutions that serve local communities. They do run the whole range of products. Of course the credit unions at that time did not offer a banking service but now do, which is a very important development in credit unions. In a sense, they are now and probably could call themselves community banks. That is a personal view and I think some re-branding would be useful. That is not necessarily a view held by the Taskforce.

Q24 Mr Breed: In previous times, until about 20 years ago, we used to have licensed deposit takers, which of course provided that measure of protection for people who saved in a licensed deposit taker. There is no reason why that could not be resurrected under the term of the community bank operations?
Mr Pomeroy: I quite agree.
Chairman: We have the Credit Unions Act on the stocks at the moment ready to be legislated on, hopefully at some time, and ABCUL are coming to the next presentation here, so that is a good issue to take up. It may be the basis for another inquiry.

Q25 Peter Viggers: Almost half of the adult population have no savings at all and Citizens' Advice and the Association of British Credit Unions, both of which have specialist experience in this field, believe that it is enormously advantageous if people can be encouraged to save, even a modest amount, and even if they are in debt. Do you think that the Government's strategy of financial inclusion takes sufficient account of the importance of promoting savings by those who are in debt?
Mr Pomeroy: The strategy document which was published at the end of 2004, when the Taskforce was set up, tended to give that a second priority; it prioritised banking, advice and affordable credit. The latest strategy document does I think give saving more emphasis and certainly I think it is right to give saving emphasis because having saved even small amounts of savings provides a buffer. Very often it might avoid the need for borrowing expensively. You can fund small purchases from savings rather than to borrow at very high rates. It starts to connect people to the financial services system and get them used to the way financial service work and the mechanics of financial services. I think savings has an important role to play, particularly in financial inclusion. I welcome the fact that the Government is giving it

more prominence, and indeed if they ask us to look at it as a Taskforce, as I have already said, we will be happy to do that.

Q26 Peter Viggers: Looking at the choices available to a person who is likely to have both hire purchase debts and credit card debts, how would you categorise the payment off of those debts, which has a clear financial advantage, as against encouraging savings? Just to follow that point through, if the Government were to take positive steps to encourage savings, it would need to change the rules of expense through the credit industry, would it not, so the credit industry would need to say to an individual, "Yes, we accept that you will not be able to pay off your obligations at the moment because you are saving".
Mr Pomeroy: I am afraid my answer is probably going to be rather unhelpful because since the Taskforce has not looked at savings in the general sense, and therefore I have not myself looked generally at them, it is not a question, frankly, at the moment I would feel competent to answer. I have no doubt if and when we look at savings, we will look at those issues.

Q27 Peter Viggers: It seems a worth subject for a study?
Mr Pomeroy: I completely agree. It is simply not in my field of competence at the moment.

Q28 Mr Fallon: You have drawn quite a sharp distinction in your Review between Christmas savings schemes and the Saving Gateway. I just want to press you here on the principle of matched funding from the Exchequer which has been piloted for private saving. Why could that not be applied to Christmas saving?
Mr Pomeroy: It probably could. The reason I drew a distinction was that I felt that a Christmas saving scheme is aimed at a very different kind of saving with very different objectives for saving from the Saving Gateway. It has a very specific short-term purpose and, for example, the lock-ins would be very important. The Saving Gateway, as I understand it, is a longer term, more general saving mechanism. Lock-ins for example would probably be less appropriate. That is the sort of thing I meant. They really are serving different savings purposes and therefore it is probable that you need different vehicles. I have not considered very specifically the point you make, that is to say a matching scheme for Christmas savings. Going to the point I made earlier about the need to have incentives for saving, it may well be such a scheme could work. When I drew that distinction, what I really meant to say was that I could not really see the Saving Gateway and Christmas savings schemes coming together and serving both purposes, but it may well be that matching schemes that you describe could well be useful.

Q29 Mr Fallon: I understand that. I am not asking you whether it would work. Of course they are different vehicles. I am asking you whether the principle of matched funding could not or should not be applied to Christmas savings schemes.
Mr Pomeroy: My understanding is that the Saving Gateway has indicated a positive response to matched funding and therefore, yes, it could be.

Q30 Mr Fallon: Do you think it should be?
Mr Pomeroy: That is a matter for the Government.

Q31 Mr Fallon: Do you not have a view on this?
Mr Pomeroy: It is very hard for me to say how public expenditure should be used. What I can say is that the more incentives that can be given to people for Christmas savings to be matching, the more that will be saved. Looking purely from the point of view of wanting to promote savings, yes, I would say it would be a good idea. Clearly, I am not in a position to prioritise the Government's expenditure.

Q32 Mr Fallon: Do you have views on this?
Mr Pomeroy: I have a view that if it is to promote Christmas saving, it would certainly be valuable if it was matching but that is different from me saying if I were the Government, would put money towards matching for that purpose.

Q33 Mr Fallon: On the Saving Gateway more generally, have you been consulted on the next stage after the second pilots?
Mr Pomeroy: No, the Taskforce has not yet looked at savers at all and therefore we have had no contact, and I have had no contact personally, with the Saving Gateway.

Q34 Mr Fallon: You have not been asked how they should be taken forward. Do you expect to be?
Mr Pomeroy: My understanding is that if we are asked to look at savings, it will be once decisions have been made about the Saving Gateway, but I would hope that if we are to be asked to look at it, that we would be given some kind of monitoring and advisory role, as we have been over the advice on the credit schemes in the past.

Q35 Mr Fallon: Do you have any evidence yourself about the success or otherwise of the second pilots?
Mr Pomeroy: Personally, I have no evidence. I have not had any personal connection with it at all.

Q36 Mr Fallon: Does the Taskforce have any?
Mr Pomeroy: Because we have not yet looked at savings, the Taskforce has had no contact with that issue.

Q37 Mr Fallon: Could I now turn to Child Trust Funds. The Children's Mutual estimates that now around a quarter of children from low-income families who are having their Child Trust Funds topped up. Are you aware through the Taskforce of any other evidence to suggest that the Child Trust Fund itself is strengthening the savings habit?
Mr Pomeroy: No, and again because the Taskforce has not looked at savings, we simply have not addressed that issue at all.

Q38 Chairman: On the issue of the shorter-term savings, I note that in the Treasury document mention is made of a number of building societies—Skipton, Scarborough and Furness—which are launching Christmas saver accounts. How would you like to see that market develop further, particularly in the light of Christmas 2007 coming up?

Mr Pomeroy: I would like to see a development of those products, whether by building societies or by credit unions, or indeed the Post Office which does not yet have such a product, but I think it could be a very valuable provider of such a product and it has said that it is interested, and indeed by supermarkets that I think could also develop their product. I would like to see, and indeed this has happened to an extent in response to Farepak but it happened for the wrong reasons almost, those developed and a greater range of choices available and communicated to savers so that they know there are alternatives to the hamper market and how to use them.

Q39 Chairman: Will we be too late to miss the Christmas 2007 market?

Mr Pomeroy: Probably not but it is getting on in the year.

Chairman: Brian, may I thank you for your evidence but also for the work you are doing in the Taskforce. I wish you well. I return to the first question I asked about savings. I hope you knock on a few doors about that and that that it is included in your remit.

Witness: **Professor Elaine Kempson**, Personal Finance Research Centre, University of Bristol, gave evidence.

Q40 Chairman: Professor Kempson, may I welcome to you the committee. Would you introduce yourself, please?

Professor Kempson: I am Elaine Kempson, Director of the Personal Finance Research Centre at Bristol University and I am also a member of the Financial Inclusion Taskforce.

Q41 Chairman: We all appreciate the work that you are doing in this area and the work that you have done for the Government in the Saving Gateway and other aspects. You did mention in your memorandum to our Committee last year that there are too many Government-inspired initiatives vying for the savings of people on low to middle incomes, including the Child Trust Fund, the Saving Gateway, ISAs and stakeholder pensions. How would you like to see the Government progress in the light of these comments in that area?

Professor Kempson: I would like a much better understanding of how poor people save, how people on low incomes choose to save, the purposes for which the save, and for some kind of life-time savings accounts so that we can join up the various types of saving and money could be withdrawn for different purposes at different times.

Q42 Chairman: Is it possible to quantify or at least clearly identify the difference it makes to low income individuals or families if they have accessible savings? We have had evidence from credit unions and others saying that even when people are paying off debt, there should be a facility for a small saving because that inculcates the savings habit.

Professor Kempson: Quantifying the effect is rather difficult. We certainly know what impact it has on the lives of people to have savings but it is not as life-shattering as some earlier research suggested; when we replicated that, we could not get the same findings. That showed that having even a modest amount in savings protected you against job loss and relationship break-down. Unfortunately, when we refined that analysis, we found the effects largely fell away. What the Saving Gateway did show us was that it gave people almost a sense of worth for the first time. They were quite surprised, quite proud of themselves for having been able to save through the Saving Gateway. They had a sum of money which to them seemed like riches. They talked a lot about financial cushions and feeling much more secure. Even though to many of us £750, the maximum, would not be a large sum of money, for many of the people in the Saving Gateway, it was the largest amount they had ever had. So it gave them a sense of security, a sense that they could cope with some of the emergencies that came along and just really a feeling, as I say, of being proud of themselves and feeling very good about themselves. I had heard this from the United States and did not quite believe it, but when we interviewed the families, I have to say that it was absolutely true. You will see at the end of our report on the first pilot a couple of quotes from people who saved with the Saving Gateway. I think they are extremely telling and they summed it up very well.

Q43 Chairman: You did express concern to me in a private conversation we had some time back about the pilot project. You thought the first pilot was excellent but the Government modified a number of elements of the second pilot and that is not so good. What message do you have for the Government on that?

Professor Kempson: My message would be simple: go back to the design of the first pilot. I think the evidence from the second pilot is beginning to show (we only have the interim report; we are awaiting the final report). I think it is showing that the complexity of the different match rates is not delivering what one might have hoped and that the simple one-for-one matching is a very easy thing to understand and very motivating. Varying the match rates is showing exactly what we might have expected. It is not that £1 is a lot of money but that £1 for £1 is easier to understand, easier to calculate. I remember we interviewed one woman who said, "When it was pouring with rain I had to walk down to the bank to bank £25 at the end of the month. I felt I could not be bothered going down but I said to myself that I was not banking £25 but £50". That is a very easy message to understand. I think also what we are beginning to see from the second pilot is that it does need to be more closely targeted on those at the bottom end. It went a long way up the income scale to £50,000 household income. That is a long way up. It does need to be much more closely targeted.

Q44 Chairman: How important are informal approaches to savings, such as Christmas hamper products and over-paying on pre-payment meters, to the finances of low-income households?
Professor Kempson: They are absolutely crucial. One member said earlier that half the people have no savings. In fact, if you look at low-income households, many more than half have savings; they just do not have them in savings accounts. They do perceive quite different types of saving. As policy makers, that is what we have not fully understood. The Christmas hamper market is about putting money aside. Those are the words used; it is not saving. You are putting money aside towards something you know you have to pay for. It is a concept that those of us on adequate incomes find rather difficult to understand because we do not need to put money aside for these things; we have money to buy a Christmas turkey. We do not have to do that. Then there is the idea of saving up to buy something. That again you might do in cash at home; you might save up loose change in order to be able to redecorate a room, for example. Saving is something very different. Saving is what you do with a bank or a building society and it is when you have no particular purpose in mind for the money. People do use that language; they use it quite separately. They conceive of these things as quite different and so they use different vehicles for them.

Q45 Angela Eagle: Do you think there have been some unintended consequences of financial inclusion in that basic bank accounts and people on very low incomes are being encouraged to become involved with profit-making finance institutions and they have suddenly realised that it is a lot harder than that when they are hit with penalty clauses they cannot really afford by going overdrawn? Do you think there is a double-edged sword there and that we do need a completely different scheme?
Professor Kempson: I think that many of them already knew that because half of the unbanked have previously been banked and they have chosen to opt out because of the penalty charges, exactly that. I think we have got basic bank accounts half right; we have not got them completely right. We still need a method of bill payment that is not like the direct debit system that we have now where penalty charges can be imposed if there is not money in your account. It is not that people are going overdrawn on their accounts; it is often just that the timing of payments thwarts them. If you are on a very tight budget, as little as 12 hours' difference can cause you financial difficulties. Undoubtedly, some people are discovering that basic bank accounts perhaps are not all that they had hoped for and we still have more work to do to try to find a bill payment scheme. It is not proving easy, I might say. Through the Taskforce and personally we have had endless discussions with various potential providers. Personally, I am determined we will find a way forward because I think it is crucial.

Q46 Angela Eagle: Are you disappointed that the financial services sector pays so little attention to those at the very bottom or do you think it is just impossible for it to be designed to give them services that suit them without putting them at risk of penalty charges, which they simply cannot afford?
Professor Kempson: I think there is an irony. Financial services used to provide products that were much better suited to people on low incomes. With greater competition, greater use of technology, we have moved away from those. As a consequence, financial services provision is becoming less relevant to people on lower incomes. Given a fiercely competitive financial services market, it is almost inevitable that the big players will not serve the needs of poor people because there is very little money in it.

Q47 Angela Eagle: There is no profit in it, is there?
Professor Kempson: There is very little profit in it. We will always see alternative providers. Something which has exercised me for 10 years, and I think Brian Pomeroy said he was reading a 1999 report that Claire Whyley and I wrote together, is that most of these alternative services are either poorly regulated or unregulated. It takes a disaster for us to bring things within regulation.

Q48 Angela Eagle: Such as Farepak?
Professor Kempson: Such as Farepak; credit unions were not fully regulated under the FSA. We needed two credit unions to go bust before that happened. I fear we are going to need the same with informal credit schemes and we are going to need the same with informal insurance schemes and only then will we begin to turn our attention to these things. It is not for the want of trying to raise them; it is just it never seems to be listened to.

Q49 Angela Eagle: Do you feel that the structure of those organisations that are left that try to provide assistance to very low paid or low income families is robust enough to be expanded? Are you optimistic about that or pessimistic?
Professor Kempson: Do you mean the commercial sector or the not-for-profit sector?

Q50 Angela Eagle: I mean the not-for-profit sector.
Professor Kempson: The not-for-profit sector traditionally has not been very good either at serving the needs of people on very low incomes. It has not had products that emulate what the informal commercial sector has been doing and has been doing very successfully for a very long period of time. These things are not new. Many of us will have had parents or grandparents who used them, so they have been around a very long time. There are challenges to the not-for-profit sector, which they are beginning to take up to look at that very successful, informal, financial services market and see what can be learnt from it. I should perhaps say that I am working with APCO and indeed with the National Consumer

Council with Claire with funding from the Joseph Rowntree Foundation to see if we can develop a business model for not-for-profit doorstep lending that could be adapted to doorstep saving too. Our suspicion is that the price of doorstep lending even through not-for-profit providers will be so high that it would be too embarrassing for a credit union to embrace it, but we will see. We are keeping an open mind.

Q51 Angela Eagle: Is there anything that you think that the Government can do from a policy point of view to try to strengthen or encourage growth in this sector, which has been so poorly served by the more commercial profit-orientated banks?
Professor Kempson: I think it can and that it should probably do it through the Financial Inclusion Taskforce. Those of us who have been working in the area for a long period of time and sit on the Taskforce have a large collective knowledge, although we have not looked at savings yet. Amongst us there is a number of people who have fairly detailed knowledge of savings, and indeed of insurance as well. I think that would be the vehicle to try to understand why people on low incomes choose to use the services they do because there is a perfectly good rationale for them using them, understand that, and understand how we can adapt services through the third sector, the not-for-profit sector.

Q52 Angela Eagle: Finally, are you interested in the move that we have seen over the past few years with issues like the Child Trust Fund and the Saving Gateway away from simply the Government having income benefits available also to having small savings or wealth benefits available in certain circumstances? Do you think that is a policy model that has potential for dealing with financial exclusion?
Professor Kempson: I think it does, as an adjunct to income security. I would not be part of a group that would say that it was an alternative to income security. I think you need the income security there. I would never want to see it replaced, but something like the Saving Gateway I think was a really lovely scheme. It met the needs of the people who participated. It did a great deal for them. In the scheme of things, it was not terribly expensive. If you stack that against the tax breaks given to those of us who have quite large pensions, then it is really very little money.

Q53 Mr Gauke: Can I return to the question of generic financial advice and may I ask you the same question I asked Mr Pomeroy as to what role you think generic financial advice may have and what emphasis should be placed on it with regard to looking at informal savings products and regulated financial products?
Professor Kempson: It should certainly cover it. I do not think it is the ultimate panacea. Many people who would use a hamper scheme would not be out there in the marketplace looking for advice. They just opportunistically use what is available. It is important that it considers informal as well as formal services, definitely, but I would not see either financial education or generic financial advice as being the solution to the problem such as we faced with Farepak. It has to go hand-in-hand with regulation and regulation day-to-day will play a bigger role.

Q54 Mr Gauke: Accepting that but if there is a role to play for generic financial advice, how would you go about improving, encouraging and placing greater emphasis upon it?
Professor Kempson: There is not much of it around. We have debt advice but that is more about post-sales. When we are talking about generic advice, we are talking really about pre-sales advice. Personally, I think we would be better building on the infrastructure that we have but recognising that it will need funding to do it. If you talk to members of the public about where they would like to go, what sort of place they would like to go to get general financial advice on the financial marketplace, they will all almost always say a Citizens' Advice Bureau or something like it. It is a brand that is known. It is a brand rather like Hoover that is used generically for any locally-based advice agency, so I think we should accept that. We are not just talking about the Citizens Advice Bureaux but other independent, generic, general advice centres. That infrastructure should be built on but it is perilously funded at present. Although we hear there are some high profile examples, the run-of-the-mill advice agency out there in the field it is struggling hand-to-mouth from one year to the next. I think it does offer an opportunity to build that sort of service and from an agency that people would trust. Trust is vital. People have very little trust in government or in financial services providers, or indeed with independent financial advisers. Trust levels are very low when it comes to finances.

Q55 Mr Gauke: May I raise briefly the issue that I asked Mr Pomeroy, which is the need for some kind of campaign for Christmas savings, outlining the various options and so on. Do you share his views on the importance of that and the need for some urgency?
Professor Kempson: I think it is important because people do need to be aware that there are dangers in putting their money into a hamper scheme. What Brian Pomeroy was saying was right about the Farepak customers. They have had their fingers burnt; they will not use it again. I would be prepared to wager that people who have used other such schemes will have forgotten about Farepak and will actually now be saving. I suspect that they will not have learnt the lesson because it did not hit them personally. I think it is urgent that people should be made aware, not at Christmas which is when there will be lots of publicity in the press but we need something now about where they are putting their money and whether it is safe.

Q56 Mr Gauke: Do you have a concern that there is lack of urgency coming from the OFT on this?

Professor Kempson: Like Brian Pomeroy, I do not quite know what the OFT is doing, so I cannot really comment on whether they have a sense of urgency but it is just taking time to put in place or no sense of urgency and nothing is happening. I am afraid, I honestly cannot answer that question. I would hope there is a sense of urgency because, as you say, we are now into May and people have already started saving for Christmas; they will have started in February.
Chairman: As a consequence of your comments and Brian Pomeroy's, we will write to the OFT and see what they are doing and try to inject a bit of urgency into this.

Q57 Peter Viggers: You spoke with sensitivity about the change of attitude and growth of confidence that individuals can gain from having some savings. Could I take you back into that area which my colleague David Gauke was asking about? Look at things Government can do: exhortation, education, legislation. Do you think that the Government's strategy on financial inclusion takes sufficient account of the importance of promoting savings by those who are in debt?
Professor Kempson: It depends whether you take it in the broader sense or in the narrower sense of the Taskforce. The Taskforce of course has not looked formally at savings. Members of the Taskforce are well aware of this and have been saying for some time that we ought to be looking at savings. Whether or not we are asked to do so, I think there are pressures from members of the Taskforce that we should do so. I think we were right to look at banking initially because that is the entry point. That was really rather crucial to get right. People who are engaged with banking are more likely to become engaged with other types of financial services. If we look in the round, the Government has had the Saving Gateway. It is, I think, the best of its kind worldwide, there is no question. It is the most libertarian. It allows people to save for whatever purpose they choose. Left to their own devices, most people choose to keep the money in savings at the end of the Saving Gateway, which I think is very encouraging. Looked at in the round, there has been a wider perspective and short-term savings have not been entirely ignored. The general public debate on savings has been very much led by the need for the long term. You would be right in that sense. It is time for all these strands to come together and for the Taskforce now to begin to look at savings, alongside credit and banking.

Q58 Peter Viggers: You also referred to simplicity and the lack of simplicity in some savings schemes for those who have less financial resources. It triggers the thought to me that occasionally when I see a means-tested form to be filled in, mercifully I think to myself: thank goodness I do not have to do that. Do you share the view that sometimes the greater the need, the greater the complexity of documentation, and of course we are dealing with people who are less capable of dealing with documentation anyway.
Professor Kempson: That may be the case. The financial services marketplace is too complicated for most of us to cope with. The work that we did for the Financial Services Authority showed just how incapable the UK population is when it comes to choosing financial products. I think the Child Trust Fund, which was mentioned earlier, is a very good example of something that could have been a great deal simpler and could have made it much easier for parents: 29 providers, a hundred distributors, three different products is not a simple marketplace. The figures are showing now that a quarter of parents are leaving it to the Government to assign the money to the account, despite the fact that when we did the baseline survey for the Child Trust Fund, just about every parent said they wanted to invest the money themselves because they would make better decisions than the Government. We know that when we talked to the parents who had not deposited their vouchers about why they had not, and when we tried to do statistical modelling to predict who had banked the vouchers and who would still be holding on to them, the statistical work showed that none of the expected factors explained anything very much at all, in fact almost nothing, and that in fact the qualitative work showed that it was either that people were decisive or they were not, that they either thought early on "I will never be able to find my way around this marketplace, so I will just go to my bank and take whatever they offer", or they left it to the last minute and made exactly the same decision: "I still cannot decide, so I will just go to my bank". That was a very good example of something that should have been simple that was not. We have an amazing ability to make things more complicated than they need have been.
Peter Viggers: If you can use your wider and specialised knowledge to campaign for simplicity, I certainly would encourage you. Thank you.

Q59 Mr Fallon: Professor, could be come back to the round of the Saving Gateway pilots? How did Government get this wrong in going too far up the scale? I think you mentioned a figure of £50,000 per household.
Professor Kempson: I wish I knew. I do not know. I did ask why we were going to a second pilot. I could see you might want to test it for a bit longer. I do not know. I can only tell you what I think might have happened, which may not be terribly helpful to you.

Q60 Mr Fallon: Did the first pilot go as far up the income scale?
Professor Kempson: No, it did not, absolutely not; it was up to tax credits.

Q61 Mr Fallon: So one of the purposes of the second part was to test how far up the income scale you might have to go?
Professor Kempson: To test against whether matched savings would have an incentivising effect further up the income scale and whether differing match rates would have equal effects in incentivising saving. The pilot itself is so complicated that I am not sure that its design would enable you to answer those questions.

Q62 Mr Fallon: Is there any academic evidence as to the matching effect as to where that tails off up the income scale?

Professor Kempson: There is not on the matching effect and how far up the income scale.

Q63 Mr Fallon: Do you have an instinct for roughly where that should be, how far up we should go?
Professor Kempson: I do not because I would approach in a different way. I would say that if we want to persuade people on low incomes to save, then we need a different way of presenting the rewards of saving. We talk about incentivising. The rewards of putting money into a savings account if you are on a low income are minimal. If you put it into an ISA, you are probably not paying tax or very little tax and so any rewards to you are very small indeed. It is people's perceptions of the benefits of saving. It may be by making it simpler you might have a greater effect further up the income scale but from my perspective, it becomes more important the further down you go because the other route of traditional rewards simply does not operate in that market. That does not quite answer your question but I have looked at it rather differently.

Q64 Mr Fallon: You have to have a cut-off somewhere, do you not?
Professor Kempson: I would put it probably at the tax credit level for the matched savings, but I cannot give you empirical evidence to back that up. Maybe the second pilot will give us that.

Q65 Mr Fallon: One of the criticisms of the tax credit system is that it goes slightly too far up the income scale.
Professor Kempson: Yes, but this is not child tax credit; it is working tax credit.

Q66 Mr Fallon: What would the average household income be for that?
Professor Kempson: I am afraid I cannot remember exactly where that would cut off now. It depends on the family circumstances. It is something like £25,000. It is certainly a lot lower than £50,000.

Q67 Mr Fallon: Is there enough evidence yet from the pilots that the matched funding has a sustained effect in kick starting the savings habit rather than simply a short-term benefit?
Professor Kempson: There is some, although there would have been greater value in doing more longitudinal tracking of the original Saving Gateway of participants, although some of them have re-joined and been allowed to re-join a second pilot. We did find when we followed people up six months after the end of the first pilot of Saving Gateway that a significant proportion—and I cannot remember the percentage, I would need to check it for you—was still saving.

Q68 Mr Fallon: That is half of them?
Professor Kempson: It was about half; it was a significant number that were still saving. They were saying that it did become a habit. If you are on a very low income, you set money aside for different purposes at the beginning of the week. You put money aside towards the rent, perhaps towards the Provident loan, towards gas and electricity or charging up the key meters. What had happened was that saving had joined that queue. People described it as being addictive, as being a habit and, once you got into that habit, then you just continue doing it because you can see the real benefits of having some money by you. About eight in ten had retained at least some of the money and about half had retained all of the money from their Saving Gateway in the account still six months later. If we look to Australia where they have Saver Plus, which is slightly different but it is a matched saving scheme for very specific purposes, people do continue to save at the end of the programme. There is no question that once you have got into that habit, you have become used to putting the money away and used to living without it, then why would you stop? For most people, it makes a lot of sense to continue.

Q69 Mr Fallon: We have been promised an announcement on the next steps by the Government this summer. What would you like to see in that announcement?
Professor Kempson: I would like to see the design of the first pilot rolled out nationally for people up to tax credit level.

Q70 Mr Fallon: You would keep most or all the elements of the first pilot?
Professor Kempson: I would. I think delivering it through community groups is difficult and that could never be rolled out nationally. I think there would have to be a slight variation. You may not recall but in the first pilot some of the accounts were delivered direct from a Halifax branch; for the rest, people just signed up through community organisations. I would like to see community organisations playing a very supportive role in promoting the Saving Gateway but not being the conduit through which people are recruited because, quite simply, if you did that, there would be large numbers of people who could never join the scheme because there would be no suitable organisation in their neighbourhood.

Q71 Mr Fallon: You would like to see the Government just go to providers and say—
Professor Kempson: They should go to one or more providers but certainly not to a lot of providers. I think it needs to be kept much simpler than the Child Trust Fund was. Maybe there should be two or three key providers to ensure good national coverage.

Q72 Mr Fallon: Is there anything else you would like to see in that announcement?
Professor Kempson: On the Saving Gateway?

Q73 Mr Fallon: Yes.
Professor Kempson: No. I would keep the matching as it was. It was very simple and incentivising. I do not think I would even extend the saving period. I would, however, maybe give people the option of signing up for a second period, not just for one period of 18 months. I would have said two years was about as long as people could manage without touching the money, and the vast majority, I might say, did not withdraw. That came as a complete surprise to me. I

1 May 2007 Professor Elaine Kempson

thought there would be a lot of small withdrawals and there were not. People were able to keep it on one side for that period of time. They were beginning to find it a struggle at the end of 18 months, and some of them did need access to the money for specific purposes.

Q74 Mr Fallon: You think that 18 months is probably about the right time?
Professor Kempson: That is certainly what we were told by the participants.

Q75 Angela Eagle: This is a quick question about your observation on the Child Trust Funds and keeping things simple. Again, it is the interaction, is it not, with the financial services industry as we have it at the moment, which is incredibly complex and competitive that creates the complexity. You are basically saying that you want the Government to pick one or two providers and ensure that they are the ones that offer these simpler services to lower income families, be it Saving Gateway or Child Trust Funds.
Professor Kempson: Can we go back a little bit? I think the main complexity of the Child Trust Fund is having three different types of account.

Q76 Angela Eagle: So with a single account—
Professor Kempson: The stakeholder account was by far the most sensible thing to do, for any parent to put the money in there. To have the complexity of the other two types of account was needless.

Q77 Angela Eagle: So you recommend a simple, stakeholder style or model with a minimum number of providers?
Professor Kempson: You could have more providers if the product itself is kept simple.

Q78 Angela Eagle: That would be a simple product like the scandalous products which the financial services industry hate because they are a different model to the one that they make so much money out of, so they throttle them. Is that not the problem?
Professor Kempson: That is why I think you may need a small number of providers who are committed to that style of working, who do want to develop it and will work with the Government to ensure that the scheme is rolled out nationally. You are right, across the piece not all Child Trust Fund providers share an enthusiasm for it. Our report to HMRC shows that. Some got into the marketplace because they simply feared that they would lose existing customers and so they are not enthusiastically embracing it. Others, Children's Mutual has already been mentioned, have always embraced it wholeheartedly. You will always find two or three, maybe half a dozen, providers that really want to deliver a product. That's why I would favour a narrowing because then you would get the promotion of it.

Q79 Mr Breed: I think you are absolutely right: it is the ease with which people can undertake the whole idea of saving to begin with that has to be simple. How important then is the role perhaps of other helpers in that, like employers and such like, who encourage their own staff that work for them through their own schemes? We have payroll giving for charity. What about payroll saving and in a much more extensive way encouraged by Government because that is a good relationship. The money is taken out before you receive your pay. It is nicely joined up and you do not even know it has gone to a certain extent.
Professor Kempson: I think that has a lot of mileage in it. I would support employers becoming involved and setting up savings schemes for their staff, but of course that will not serve those who are not in work. For those in low waged employment, yes, I think people will welcome it and they will save regularly if it is deducted at source.

Q80 Mr Breed: I saw that one of the banks is doing something where if you use your credit card, for each transaction they round it up and put that little bit into savings. I assume that they are still going to charge some extortionate rate for the amount on the credit card and give you a minuscule amount on the savings. You end up borrowing the loan amount that you have got at a vastly differential rate. There does not seem to be quite the incentive.
Professor Kempson: No, there isn't.

Q81 Chairman: We visited the Republic of Ireland in relation to this inquiry, amongst others, and we were introduced to the Special Savings Incentive Accounts, which are very important in Ireland. They do go up the income scale too much and it is very costly for government. Some of the data we received indicated that 28% of account holders were on an income of less than £14,000 sterling per year, so they seem to have been successful in that initiative.
Professor Kempson: I think you will probably find that ISAs have got a similar level of take-up. I think that people in Ireland were very envious of our Saving Gateway. People who work with low-income households were deeply envious of our Saving Gateway and felt that the Irish response to it was a rather watered down version and would favour something more targeted, much more like the Saving Gateway. But, of course, there will be always be some take-up because amongst people on low incomes there are people who dip in and out, whose circumstances may be fairly stable. They are the ones who have traditionally joined the credit unions, saved with a building society. It is the people with more volatile incomes that need assistance with saving.

Q82 Chairman: So, if there is one issue that we should focus on from your point of view, it is the Saving Gateway and the simplicity in getting that message across to government?
Professor Kempson: Personally I think it is one of the most successful schemes.

Q83 Chairman: On the issue of basic bank accounts, you mentioned earlier on it is not profitable for institutions. How important a source is that for people to get into the mainstream community and what more should we be recommending that the institutions do to encourage people?

Professor Kempson: I think it is important, not just as an entry point to financial services, but because increasingly it is really difficult to run your finances without a bank account and it is very costly to do it. There are all sorts of advantages to using a bank account, and that is why I would advocate it. What more do we need to do? I think we do need a method that is secure for the user for paying regular commitments. Direct debits are not that; you do get penalty charges if there is not the money in the account. What I would love to see, but the banks are very resistant to go back to, is something like the old budget accounts that used to exist about 50 years ago where you had a linked account to your bank account into which you made a regular payment and from which all your regular payments to your creditors, which could include savings, was made. And sometimes that account was in credit, sometimes it was in debit but it all ironed out over the course of the year. That is the kind of facility that people want if they are on a low income—which solved the problem of paying too much for fuel, it solved the problem of paying too much for credit and it would enable regular savings because it could all be done quite automatically. You could decide at the beginning of the year how much you needed to put into your account. I do not think we are going to see the banks provide it. I think we have to find some other way of doing that. The banks have moved down the electronic route of direct debits and it is much more secure for them, much cheaper for them; why would they go back to something that is very complicated for them to operate? That is the challenge, I think, for those of us whose want to solve these problems.

Q84 Peter Viggers: It occurs to me that with computer techniques it would not be complicated; it might be a little expensive.
Professor Kempson: Maybe complicated was the wrong word for me to choose. What they do not want to do is offer an account which can be in credit sometimes and in debit at others. What they want is an account that you have to keep in credit in order to pay out. They will offer a second linked basic bank account, but not this facility that will smooth it out over the course of a year for you, and it is that smoothing that people want.

Q85 Chairman: I think I share Peter's point of view that it should be simple technologically to do that.
Professor Kempson: But there is not the will to do it, John, that is the problem. We will keep trying, but I cannot detect any will to do it.

Q86 Chairman: What you are saying is we should keep the focus on basic bank accounts because there is a lot to do there.
Professor Kempson: There is actually a lot more to be done on bank payment, for sure.

Q87 Chairman: Can I thank you for your evidence but also for the work that you have been doing and continue to do with every success now.
Professor Kempson: Thank you.

Witnesses: **Mr John Rhodes**, Head of Financial Capability, Citizens Advice, and **Ms Claire Whyley**, Deputy Director of Policy, The National Consumer Council, gave evidence.

Q88 Chairman: Welcome to our evidence session on this inquiry. Can I ask you to introduce yourselves for the shorthand writer, please?
Ms Whyley: I am Claire Whyley; I am Deputy Director of Policy at the National Consumer Council. I lead our work on disadvantaged and financial inclusion and I am a member of the Financial Inclusion Taskforce.
Mr Rhodes: I am John Rhodes; I am the Head of Financial Capability at Citizens Advice, which means that I lead the financial education work which we are encouraging bureaus to undertake across England and Wales.

Q89 Chairman: John, you mentioned that savings should play a more central role in the Government's Financial Inclusion Strategy. Given that the Government will accept that, how do you expect the move of savings to a more central role in that strategy to be reflected in practice?
Mr Rhodes: I think that the answer to that in a way lies in the Treasury's own March paper where it talks about the importance of a buffer for people. I think that a clear recognition by government that borrowing and saving are part and parcel of the same issues of financial capability and financial inclusion. Looking at the Treasury paper, it seems to me it has been fairly carefully drafted and I think we would like to see the Financial Inclusion Taskforce having a clearer and greater role for looking at savings. I think we would like decisions to be made on things like the Saving Gateway and I think we are very much in line with what Elaine was saying about that. We would like more work to be done on disincentives, the issues which I think we have already provided evidence about, so the capital rules on the benefit levels. We welcome initiatives like the OFT campaign, and hope to be involved in it, but, above all, I think that we want to be in a position where working with other organisations, some of which have been mentioned today—credit unions, housing associations—we can help promote saving through long-term financial education initiatives. At present we receive long-term funding from Prudential, and Barclaycard; for the rest we are usually scrabbling around, and bureaus are scrabbling around, with one year's money.

Q90 Chairman: Claire, Brian Pomeroy's review of Christmas savings schemes stated that the hamper products in the Saving Gateway meet quite distinct savings needs. Do you agree with that and, secondly, is there any reason why the principle of match funding

from the Treasury for private citizens could not be applied to Christmas savings products or other savings products with a short-term lifespan?
Ms Whyley: I think the Christmas hampers industry in the Saving Gateway do serve different purposes. I think all the research shows that people on low incomes particularly like to save for a specific purpose. That is not to say they do not also aspire to save for general non-specific purposes as well, but it is much easier, and there are clearly much bigger incentives, to save for particular purposes, especially with savings products that are focused around events like Christmas, which are clearly predictable; but clearly families have a big emotional investment in making it right, making sure their kids have a good time and there is an added incentive for people to save. I think general saving is something that serves a slightly different purpose. It does not mean that they cannot run alongside, but they are definitely different. I would agree that match-saving so is simple and so powerful and the evidence shows that it really is successful, I think that principle could be applied to all kinds of savings products and, possibly, other financial products as well.

Q91 Angela Eagle: Have you done any work on how much extending the Saving Gateway in its initial first phase form would actually cost if it were to be extended to working families' tax credit levels?
Ms Whyley: We have not done work costing the Saving Gateway, I am afraid, no.

Q92 Angela Eagle: Do you think, in principle, there is an argument for looking at some of the tax savings that are given at the top of the income stream and the income levels for saving, investment, ISAs, pensions and redistributing some of that to the bottom so that we could encourage a sort of Saving Gateway style approach for those that are on very low incomes who (as has been said earlier today) do not benefit from the tax incentives to save since they often do not pay tax?
Ms Whyley: I think there is absolutely a need to look at that. If what we are really trying to do is incentivise new saving among people who previously have not saved or who find it very difficult to sustain saving behaviour, then, absolutely, we need to be looking at a different types of incentive and we need to look at where the current incentives are benefiting people. As we know, they are not benefiting people at the low income end of the spectrum and they are not necessarily benefiting people who are currently not saving. I think that the mismatch of these incentives actually comes from a failure among policy-makers principally to really understand the kind of behaviour that they are trying to incentivise. There is an assumption that if you make the same incentives or products available to people on low incomes as are available to people higher up the scale, that will automatically result in the behaviour you are looking for. What we really need to do is start with a means-based approach and we need to talk to people about what it is that makes a difference and what would work for them and then develop the right incentives. We have seen the success of things like that with credit union saving and with the Saving Gateway. That is an incentive that works for people; it makes sense to the people whose behaviour we are trying to change.

Q93 Angela Eagle: If there were a shift of that kind, it being for 18 months or maybe two sets of 18 months or two years, as the professor was the suggesting in her evidence, do you see that as a kind of temporary issue to try to get them into mainstream saving or do you see it as something more fundamental. A more permanent sort of restructuring of the incentives that there are in society would actually give a lot more money to the voluntary institutions, credit unions, those kinds of saving institutions which are quite weak structurally at the moment. Do you see that there would be benefit from diverting tax money there in order to try to create a more robust infrastructure for those on low incomes?
Ms Whyley: I think there could be. If credit unions are going to be the answer to encouraging people on low incomes to save, then we absolutely do need a bigger and more robust structure. I think anything that can encourage and facilitate that would be a good thing. Like Elaine, I would like to see all these things more joined up. Clearly, what you need to initially encourage people to start saving and then help them to sustain that saving behaviour may not be something that you need to sustain throughout that person's saving lifetime, but I do think that it should link into the infrastructure and the products that already exist so that at various times people have choices about what they do and the choices are relevant to what people want to achieve out of saving.

Q94 Angela Eagle: Do you worry about the structure of the current financial services institutions which has meant that people have got into terrible trouble if they have been taken out of financial exclusion into inclusion and then hit with huge penalty charges that they cannot afford and driven back into debt?
Ms Whyley: I think this is all part of a failure, which the taskforce has been trying to address, to really understand why people are financially excluded; and it does come down to this idea that if you make a product available and, if you incentivise industry to provide it, you provide a requirement on industry to provide it, that will lead to financial inclusion. Actually financial exclusion is grounded in a whole range of things, part of which is a lack of appropriate products, some of it is cultural, some of it is social that family traditions have perpetuated. Clearly, it has not been as simple as making a product available and people just being able to come in and use it. I think people have been hit very hard. Like Elaine, I think often they know that that is what is going to happen, it is why they have not used the products in the first place, it is often why they have often chosen to self-exclude, but I think there is a huge amount of work to be done to make banking products particularly suitable for people on very low incomes so that they can make their lives cheaper and easier. I think they are not always achieving that at the moment.

Q95 Angela Eagle: John Rhodes, are you optimistic that that will happen given that people at the lower levels of income simply are not profitable from the models that our financial services industry has chosen to introduce to run itself with? They are not interested in people at the lower end of the income scale, are they?
Mr Rhodes: In terms of the practice to date, the answer is, "No." I suppose one of the issues for me is when one can shift what the financial sector is doing in terms of financial education and working towards financial inclusion, when it shifts from being something where you are talking to the Corporate Social Responsibility Department and where you are actually dealing with the Marketing Department. First of all, as we were saying earlier, it should not be beyond the technological capability of the financial institutions to offer the kind of smoothed accounts that Elaine was talking about. I think there is a mindset issue there. It does seem to me that there may be a cost to banks, but if you look at banks' balance sheets and their reports recently, you cannot help feeling that they can afford to subsidise it a little bit.

Q96 Angela Eagle: Banks have a few spare profits in there that they might reasonably think they might do some interesting work with, do not you think?
Mr Rhodes: All organisations, whatever their size, have got an innovation fund these days is all I would say.
Chairman: Very diplomatic.

Q97 Mr Gauke: Can I ask the question again about generic financial advice and what role that has to play in improving people's understanding of both regulated products and also the informal savings market. How important is generic advice in this area?
Mr Rhodes: We at Citizens Advice think it is very important. At the risk of sounding a bit like the Saving Gateway, we are undertaking a second pilot of generic financial advice which is involving 25 bureaus with IVAs working through those bureaus. It is based on a very positive experience first time round, so we want to test it a bit further. The first time round was essentially a smaller scoping project. We have made clear in our CSR submission to government that we reckon that for 25 to 35 million pounds a year we could offer generic financial advice through all bureaus, and I think that is important but, as I think was also suggested in earlier evidence, I do not think that is sufficient. Nor is financial education alone sufficient. That too helps, it contributes to it, but for the most part the kind of issues which we have been discussing this morning, and the kind of numbers, frankly, 750,000 hamper scheme clients are not all going to be reached through generic financial advice, they have got to be reached through the kind of awareness campaigns that we, other organisations, other agencies, are trying to promote, and I think it could be quite exciting as to what might be done through the OFT. That might itself be a pointer towards the kind of activity that might be rolled out more substantially in the future.

Q98 Mr Gauke: Do you have anything to add to that?
Ms Whyley: No. We would also agree that generic financial advice is key, particularly in helping individuals understand that balance between spending, saving and borrowing and what constitutes the right decision at any one time and the risks and consequences of any actions. We would also agree that, although there are networks in place that offer some elements of generic financial advice, they are very, very oversubscribed and money is insecure. So, what we actually need to see is a real, clear investment into a different form of advice than the remedial advice that we tend to have now.

Q99 Mr Gauke: Mr Rhodes, when you talked about your submission for the CSR—£25-30 million—would that enable all your bureaus to provide advice on savings as well as debt?
Mr Rhodes: Yes, that is right. All our bureaus at present, all 400 plus bureaus, offer debt advice, 80 bureaus offer financial education and, under this new scheme, 25 bureaus will be offering, on a two-year pilot, generic financial advice. The 25 to 35 millions pounds a year would buy a level of dedicated capacity within each of those 400 plus bureaus.

Q100 Mr Gauke: One final question. I do not suppose either of you know what the OFT is doing about the campaign for Christmas products, do you?
Ms Whyley: No, although we are very encouraged to hear that you are going to write and ask them, and I stress the urgency. I think Elaine and Brian are right, we are in May and people start their Christmas saving in February, so we may well have already missed the boat this year, so we really do need to know what is happening.
Mr Rhodes: I might be able to be a little bit more helpful. They are keen to meet us and I am meeting them shortly.

Q101 Chairman: But, as of this time, you do not know.
Mr Rhodes: I am not here to defend the OFT either, but ---. I expect to meet them in the next fortnight. I suspect, as a result of this morning's discussion, that will certainly take place within the next fortnight if not sooner.

Q102 Peter Viggers: I was interested in the emphasis that Citizens Advice place on the encouragement of individuals to save, even though they may be in debt, and drawing on its very long experience.
Mr Rhodes: Yes.

Q103 Peter Viggers: Do you think government strategy on financial inclusion takes sufficient account of the importance of promoting savings by those in debt?
Mr Rhodes: "No, but", is the answer. As I said at the outset, it does strike me that section four of the March report was really quite carefully drafted in terms of what people were going to look at in terms of insurance as against saving, and I think that leaves us feeling slightly or potentially frustrated; but I think initiatives like the Saving Gateway have got to be

positive signs and, if you like, what we see as an increased interest by the Government in the last year really in promoting financial education has also got to be welcome. I think the kind of issues that arise for us are the kind which are reflected in the NAO report on the FSA which was issued yesterday, which is that there is a lot of fragmented activity going on around Whitehall and quite how that fits together and how, going back to the NAO report, that fits together with what is happening down in Canary Wharf with the FSA. If that could be got together rather better, maybe we would have even more focus on the saving aspects of financial inclusion.

Q104 Peter Viggers: I must say, I did note your use of the expression that banks have "spare profits". I wonder if you would like to have another crack at defining that?

Mr Rhodes: I am not sure how far I want to be taken down this track. I think I simply said that the financial sector appears to have fairly strong balance sheets and reports recently, but I do not think I want to be taken any further, except to reflect that some of those institutions have, from our perspective, shown a real commitment to the financial inclusion agenda and some less so.

Peter Viggers: Let us leave it at that. Thank you.

Q105 Mr Breed: A couple of brief questions. If the big banks are not quite as interested as we might like them to be in the smaller market and we have not got the credit unions in the same sort of coverage and understanding and market acceptability, is there not a case in between the two for bringing the credit unions up more along the idea of a community banking operation so that people recognise it much more? This is a sector which is completely different from main banking, because it has the features of credit unions, but it is much more acceptable and has a degree of regulation within it, probably a light touch. Is that not a way forward?

Mr Rhodes: The short answer, I think, is, "Yes." We in Citizens Advice are working at a national level closely with ABCUL, the largest of the credit union groupings, and, indeed, it is also happening at a local level. In fact, I believe, in your own constituency, the Liskeard bureau is working to help develop with the credit unions, and that has got to be welcome.

Q106 Mr Breed: I am hoping ultimately the Cornish credit unions will get together so we have a Cornish Community Bank, but that is perhaps a fond hope. Looking at the next thing, have you come across the fact of banks utilising what we may call the money laundering regulations as a very convenient way of stopping some people being able to access a bank account?

Mr Rhodes: I do not pretend to be an expert in this, and if I get this wrong I am going to end up writing back to you, but I think that there are a whole load of issues out there as to why, in certain circumstances, basic bank accounts and the rest are more difficult to access. This is as much a personal view as anything else, but I think the sense is that there is almost as much to do with the attitudes of individuals within a branch of a bank and the attitudes and understanding of what the position is as much as any concerted effort to be difficult.

Ms Whyley: We would agree with that. I think there is still quite lot of confusion around how those regulations should be implemented, and I think it is very dependent on individuals within individual branches. I do not think that accounts for all the people that still do not have bank accounts, but there are still people being turned away because they cannot provide the right ID. It is less of a problem than it was, and I know the Banking Code Standards Board's "mystery shopping" is helping that process, but I think there is still some inappropriate use of those regulations and I think there can be a lack of understanding with branch staff and customers actually of the right ID for that account.

Q107 Mr Breed: Finally, in terms of the education, it seems to me that if we are going to get this inculcated in that way, it has got to start at a much lower level, perhaps even at secondary school education level. I know there was some evidence that we are beginning now to recognise that that ought to be some part of the curriculum so that people understand the whole way in which the financial industry operates, so that when they do get approached by credit card companies or are seeking savings or understanding that sort of thing, they have some reasonable understanding. Is that something you think should be more heavily promoted?

Ms Whyley: I think there is evidence that financial education, even with very young children, and actually drawing out the financial education lessons in some of the things they would be learning every day anyway, particularly with maths and so on, can help people become more financially capable. I know the Personal Finance Education Group is doing an awful lot to promote financial education within the curriculum—so I think there are efforts there—but I think that is a different thing from financial capability. It can help contribute to it, but when you get out there and you are making those decisions and you are faced with the vast array of choices, there is still a need for generic financial advice and other types of support, but it can only be a good thing.

Mr Rhodes: I fully agree with that. The FSA is providing some important funding to help that happen at secondary level. One of the banks, which I did not mention, is going to be helping bureaus promote it at a primary school, junior school, level, and I think that begins to open up some very interesting opportunities at that level which begin to touch on the Child Trust Fund, on which I am not an expert, but where bureaus and schools can work together in a complementary way with bureaus coming in and working with parents groups in those schools at the same time as the children are learning about things in class. It seem to me that there is a real risk that an eight or ten year old coming back from school who is asking parents to pick up a pair of scissors to cut up their store card might get a clip round the ear unless the parents have actually been given the same message at the same time.

Q108 Chairman: Talking about that, I think there is a promotion today from the Competition Commission saying that if store cards are charging above 25%, then there could be a cheaper way of doing things. That started in this very community when the store card people came to us. I presume you welcome that, giving even more clarity?
Ms Whyley: I am not entirely familiar with all the detail, but certainly anything that flags those higher interest rates up to consumers, absolutely, yes.

Q109 Chairman: John, quickly to finish, you wanted regulation for Christmas savings products. We do not have that. What about the present situation? Is it adequate now?
Mr Rhodes: For Christmas savings products?

Q110 Chairman: Yes.
Mr Rhodes: No. It does seem to us that, if you have got 750,000 people who are in a market with a dominant supplier, more people than there are in the whole of ABCUL membership, then it does seem to us that there should be a regulation of that, and I suppose our feeling is that it probably sits with the FSA. It is a nicety as to whether it is a savings scheme or not, but perhaps more important whether people see it as that. We would look to the FSA which describes itself as the Financial Watchdog to provide that oversight.

Q111 Chairman: As we heard earlier from Brian Pomeroy, the OFT is investigating the findings about the hamper market, including whether there is fair competition, but do you think it is possible or appropriate to consider competition in the hamper market separately from the wider markets or shorter term savings products?
Mr Rhodes: I think I am going to pass on that. I do not think I can give you a particularly informed answer.
Chairman: If you pass on that, I will pass on the session this morning. That is it ended. Thank you for your attendance this morning and for your evidence.

Wednesday 6 June 2007

Members present

John McFall, in the Chair

Jim Cousins
Mr Michael Fallon
Ms Sally Keeble
Mr Andrew Love
Mr George Mudie
Mr Brooks Newmark
John Thurso
Peter Viggers

Witnesses: **Mr Chris Houghton**, Group Managing Director, **Mr Martin Stewart**, Group Financial Director, Park Group, and **Mr Gary Woods**, Managing Director of Park Retail Limited, Park Group, gave evidence.

Q112 Chairman: Welcome to our follow-up inquiry into financial inclusion. Can you introduce yourselves, please, for the shorthand writer, starting with yourself, Mr Stewart?
Mr Stewart: Martin Stewart, I am the Group Finance Director of Park Group, plc.
Mr Houghton: Chris Houghton, Group Managing Director of Park Group, plc.
Mr Woods: Gary Woods. I am an Executive Director of Park Group plc and Managing Director of Park Retail.

Q113 Chairman: We have three separate sessions this afternoon and we have you in for half an hour, so questions will be sharp and we will look for sharp answers from yourselves, so that if one person answers a question and then we move on. Can I start with looking at the issue of implementing Trust Accounts, your lawyers, the DTI and others have been involved since last November in negotiating this. What is the state of negotiations now in implementing these Trust Accounts?
Mr Stewart: We have reached agreement with the DTI.

Q114 Chairman: When did you reach agreement?
Mr Stewart: On Monday this week—

Q115 Chairman: Good, just before the Committee; that is good!
Mr Stewart: --- as to the heads of terms of the Trust that will form the basis of the Trust Accounts that we will set up in the future. We have instructed our lawyers to start to draw up the Trust Deed itself and we anticipate that will take probably a couple of weeks to complete and we anticipate the whole process ready for Trust Accounts being set up.

Q116 Chairman: Are there any outstanding issues at the moment then?
Mr Stewart: Not that we are aware of, no; it is really just down to the lawyers to complete the preparation of the documents.

Q117 Chairman: Therefore that is a copper bottomed guarantee that people's capital will be ring-fenced?
Mr Stewart: Yes, we believe so, yes.

Q118 Chairman: Pardon?
Mr Stewart: Yes, we believe so.

Q119 Chairman: You believe? Okay. When I read legal documents the believing and seeing are two different matters!
Mr Stewart: No, it will be so, yes.

Q120 Chairman: What you can do is send us a copy of that when you have got it done properly.[1]
Mr Stewart: Yes, we will do.

Q121 Chairman: Is that okay?
Mr Houghton: I think the issue has been making sure that all the legal side has been watertight.

Q122 Chairman: Of course, okay. Last December the OFT concluded that putting Trust Accounts in place would be unattractive to agents and costly to consumers because you have agents in use. How much will the Trust Accounts cost and how will these costs be met?
Mr Stewart: We estimate that the initial set-up costs of the Trust Accounts will be in excess of £100,000. We obviously have not finished the process yet so we are still yet to accumulate the final cost bill. There will be some administration costs associated with the running of the Trusts and administering the process so far, but we hope they will not be too significant.

Q123 Chairman: Will the establishment of the Trust Accounts affect your ability to benefit from the interest earned on these accounts?
Mr Stewart: No, they will not be because we are entitled to the interest earned on the Trust Accounts.

Q124 Chairman: When do you expect the new Christmas Pre-payment authority to become operational?
Mr Houghton: The company has actually been formed now. We have three independent directors identified, so we anticipate a meeting shortly. We have actually formed the company.

[1] Ev 74

Q125 Chairman: Do you have Derek Walpole?
Mr Houghton: Derek Walpole, Suzy Hall and we have a prospective candidate, who is a chartered accountant.

Q126 Chairman: But not named yet.
Mr Houghton: He is named, a guy called Graham Parrott.

Q127 Chairman: How will the Authority be funded and what proportion of the funds will come from the Park Group?
Mr Houghton: The Authority will actually be called an Association now, for legal reasons, and it will be funded by the members. Currently it is a company limited by guarantee and there are currently two members—that is Park Group and Variety Christmas Club.

Q128 Chairman: You have 90% of the market, have you not, effectively yourselves?
Mr Houghton: Effectively we will be funding the majority of it, yes.
Chairman: Peter Viggers.

Q129 Peter Viggers: You use agents to make collections; what are the costs and benefits of your reliance on agents? How many customers per agent, on average?
Mr Woods: The average is about four customers per agent; we have 104,000 agents this year.

Q130 Peter Viggers: What commission do you pay and do you make it clear and overt?
Mr Woods: Yes, we make it very clear. Every agent is given a guide which details how the commission rates are structured and it varies by product category, but on average it is probably about 4% on vouchers and somewhat higher if they order other product.

Q131 Peter Viggers: Every agent is given a commission statement, what about the customers?
Mr Woods: Customers do not get paid commission.

Q132 Peter Viggers: No, but they pay it. Do customers know how much commission they are paying?
Mr Woods: Customers do not pay commission; we pay commission to the agents for collecting the money and sending the orders in.

Q133 Peter Viggers: So the customer indirectly pays the commission?
Mr Woods: No, the customer pays the agent and we pay the agent commission.
Mr Houghton: Just to clarify, the majority of our sales are voucher sales and we sell vouchers a pound for pound and the commission comes out of the margin that we make.

Q134 Peter Viggers: Yes, but the person who is making the payment is the customer; does the customer know how much he is paying to you indirectly by way of agency commission?
Mr Woods: I guess probably not unless they send for an agent pack, in which case they will get the leaflet that explains what agents' commissions are.

Q135 Peter Viggers: I am sure there is nothing to hide here. The fact is from what you say that the customer does not know when he is approached by an agent with a view to becoming a customer, is the customer told how much commission the agent will be paid?
Mr Woods: I would guess not. The agent and customer relationships tend to be very close. Our agents are not cold callers. The four customers will probably be friends, family or work colleagues and, being honest, I guess they are probably not interested in what commission the agent earns at all. But they could find out what our commission structure is very simply by either logging on to the website or sending off for a recruitment pack.
Mr Houghton: If a customer trades for themselves—and an increasing number of people actually order for their own consumption—they do earn a commission themselves as well. So it is obvious from the literature that we have, if they read it, that there is a commission available and they can trade for themselves. When you look at the TV adverts that we make we invite people to join rather than to become an agent, so the average commission is actually about 4% and it is close to that for people who trade for themselves as well.

Q136 Peter Viggers: But just to underline the point which I think is clear already, the arrangements tend to be quite close and quite friendly between families or neighbours or friends and the customer, when approached by an agent, does not know the amount that the agent will be receiving as a result of the customer signing up.
Mr Houghton: I cannot confirm; I do not know.

Q137 Mr Love: Can I turn to the interest payment that we commented on earlier? It has been suggested to us that people who take part in Christmas savings schemes are not particularly concerned about not receiving any interest. What is your own experience of that? I start with you, Mr Houghton.
Mr Houghton: I think the level of interest they can actually earn is relatively small by saving with a bank or a building society. Actually if they do it through an agent the agent actually does all the work for them, so they see it as a small price to pay for the service of somebody coming round to collect the money on a weekly basis, meet and have a chat, go and pay the money in for them and when we deliver the goods they see them deliver the goods.

Q138 Mr Love: Do your agents report back to you any demand from their customers or their friends for some form of interest payment?
Mr Stewart: Nothing at all.
Mr Woods: No.
Mr Houghton: We have regular panel meetings and questionnaires to check on customer satisfaction.

Q139 Mr Love: Is it a similar experience in relation to other pre-payment schemes or is it in relation to interest? Do you provide interest in any other of the pre-payment schemes and, if you do not, is there any feedback from that?
Mr Houghton: We only operate the one.

Q140 Mr Love: You only operate a Christmas scheme, do you, okay. Can you give us some indication of how much of your income derives from the interest that you receive from the savings scheme?
Mr Stewart: In terms of our net income, if we look, for example, at the year ending March 2006, we earned a net margin of about 1.5% on our turnover, and just over a third of that was interest income. So it is a substantial part of our net income.

Q141 Mr Love: It is about a third of your net income?
Mr Stewart: Yes.

Q142 Mr Love: You talked earlier on about the formation of a Trust and we are pleased to hear that you have now concluded an agreement. Will the setting up of that Trust affect the interest payments? What will be the cost to you of setting up this Trust arrangement?
Mr Houghton: Effectively there will be a cost associated with running the working capital and the timing of it because cash will be held in trust when you could be using it for running and paying bills as we go through. But we see that as a cost to the business and it is not significantly prohibitive for us to do that.

Q143 Mr Love: To offset that additional cost to you will that lead to any additional cost to the consumer, to offset?
Mr Houghton: We do not anticipate that being the case. We are keen to provide a service. We need to be price competitive; we are selling vouchers on low margin, there is not much scope to actually charge a customer £101, for instance, for £100 worth of vouchers. So we see that being taken up in efficiencies and not passed on, if at all possible.
Chairman: John Thurso.

Q144 John Thurso: Can I ask first about regulation? Can I take it that you agree that businesses such as yours, which have fairly comprehensive pre-payments from the customers, should have some sort of protection and regulation?
Mr Houghton: We support regulation. We think it needs to be fair and not over burdensome. Having said that, we are actually embedding the FSA principles into our business.

Q145 John Thurso: That brings me on to my next question, which is in your discussions with the government have you discussed any other forms of regulation or what might be done other than Trust Accounts?
Mr Houghton: No, we have really only discussed Trust Accounts at this point in time, although we have looked at FSA regulation for certain activities of the business.

Q146 John Thurso: Do you think you would you be able to continue in business if you were subject to FSA regulation or do you think that would be too burdensome?
Mr Houghton: Yes. We already sell insurances to the database on a small basis so we operate under a partial FSA regulation. But in terms of the operating structure and the corporate governance associated with it we believe that we could operate.

Q147 John Thurso: I do not want to put words into your mouth, but would it be fair to say that you need customers who are confident in you—
Mr Houghton: Absolutely.

Q148 John Thurso: --- and therefore a good regulatory framework is actually a necessary part of you doing business?
Mr Houghton: That is why we are keen to get these Trust Accounts in place.

Q149 John Thurso: Therefore, you are actually pretty relaxed about it being under the FSA ambit?
Mr Houghton: Fairly relaxed, yes.

Q150 John Thurso: Okay, that is great; that answers that one. Just on competition, the Office of Fair Trading is now investigating the competition implications of the merger between Park Group and Home Farm Hampers. Do you think you have an unusually dominant position in the market?
Mr Houghton: I think when you look at our business we actually trade in quite a wide market, and although people have chosen to focus on the fact that we are a savings scheme. When you look at this catalogue the products on sale in the catalogue are available anywhere in the high street; you can buy them by mail order, you can buy them over the Internet, in the majority of cases, or they are easily substitutable. You can also save in banks, building societies, credit unions, you can go to Tesco's and buy stamps—you can buy most of the products that we have in here in Tesco's. We have Sainsbury's, Iceland, Woolworth's, Argos, all with Christmas savings schemes. So the actual market that we are in is quite wide and we really have to be conscious of the products that are out there to make sure that we are offering value for money. Therefore, in terms of Home Farm we do not believe that there has been any impact detrimentally on competition because Home Farm was going to be closed anyway and we did not want that to happen; and people can easily, if they are not satisfied with our product, go elsewhere, and that is evidenced by the fact that our orders this year are 30% just about below what they were last year. Clearly, these customers will celebrate Christmas this year coming and have clearly substituted our offering for something else. We do not know what it is.

Q151 John Thurso: Do you think that is a follow on from Farepak?
Mr Houghton: Absolutely. There has been a reduction in confidence in our customer base as a result of that.

Q152 John Thurso: Can I just ask one last question? Which do you regard as your core competence—the management of the money or the sourcing and supply of goods?
Mr Houghton: I guess it is both. Gary can speak for himself, but it looks like an easy job and I can assure you that it is not. We manage the relationship with our customers through a customer care team; we have fairly sophisticated computer systems to control and predict what our requirements are for stock and plan the production process; we use probably about 100 carriers to distribute nationwide from the Scottish Islands down to the Channel Islands to Northern Ireland, so it is quite a complicated business. There is a lot of skill associated with choosing the right products, offering the right service to the customers, make sure that our team is trained properly; then we have a treasury function that takes no risk with the money and places it in highly rated banks and building societies for fixed terms to maximise—

Q153 John Thurso: The point here is that if you regard your core competence as being that as trading in the products the financial side is merely a way that enables you to access the market you have chosen, whereas if your core competence is actually being a saver then the products are there to enable you to take money out. There is quite an important distinction between the two.
Mr Houghton: We do both because our treasury function, we have gone out and looked at using brokers and professionals to earn interest on the money and benchmark ourselves against those and we actually achieve a comparable if not better rates on occasions than those people, so we are pretty skilled in the managing of cash.
Chairman: Jim Cousins.

Q154 Jim Cousins: You have just pointed out to us that the Trust Accounts have been set up this week and the OFT—
Mr Houghton: I think the Trust Accounts will take time to set up. The Trust vehicle, the Trust company is being established now.

Q155 Jim Cousins: When do you anticipate the actual accounts themselves will be set up
Mr Houghton: We are hoping that everything will be up and running by the end of June, but that means that we have to get bank accounts set up, we have to get the legal documentation completed, so as I have said we are aiming to get it done as quickly as possible and we hope that we would be able to get it done by the end of June.

Q156 Jim Cousins: I am grateful to you for that but the OFT Christmas saving campaign of course will have been launched before that has all been finalised. That is plainly the case, is it not?
Mr Houghton: We are not party to the OFT campaign.

Q157 Jim Cousins: No. Have you been consulted about it?
Mr Houghton: Personally, no.

Q158 Jim Cousins: How relevant do you think it is to launch a campaign now, in June, in the lead-up to advise people for Christmas 2007 bearing in mind that the Trust Accounts themselves will not be available until the end of June and presumably cannot be referred to in the campaign.
Mr Houghton: What we did, we created bank accounts in separate subsidiaries outside the group banking pool during December, when this issue first arose, and we are continuing to operate those until the Trust Accounts are actually in place. The relevance of advertising Christmas now I guess most people's minds will not be on Christmas but it will set the seed and start people thinking about what can they do for next Christmas. Timing wise I do not know; I do not know if Gary has any views or not.
Mr Woods: My view is that we have not been consulted at all so I do not really know what the plans or the time table are for this particular campaign. However, we do start our recruitment campaign in October for Christmas 2008, so anything that restores confidence or helps to restore confidence and gives the general public more awareness we support.

Q159 Jim Cousins: Just to pick up one point because you do mention it in your submission to the Committee, perfectly properly, which is that the Farepak problem was that the holding company had borrowed against the assets in the Farepak operation, which in itself was a sound operation. Presumably the Trust Accounts are free of any securitisation or loan operation that you operate yourself?
Mr Houghton: We intend them to be totally separate. In fact, there will be a separate legal entity. That is what we have done with the process that we did in December, which was to put them into separate legal entities, but the Trust Accounts will be controlled and cash released by third party trustees and that will be supervised by the Christmas Pre-payment Association by monitoring and reviewing what actually goes on.
Chairman: Brooks Newmark.

Q160 Mr Newmark: Following on from Mr Cousins' question, one aim of the OFT's campaign—and I appreciate you have not had much dialogue with them—is "inform and educate people who lost money from the collapse of Farepak to help them understand what options are available to them to save for this Christmas". What would you expect such a campaign to say about products such as yours?

Mr Houghton: I would hope that it would portray us in a reasonably positive light, but also it is key that people's cash is protected and that they should trade with members of the CPA or another regulated body because there are lots of organisations that offer savings schemes, such as dairies and shops.

Q161 Mr Newmark: But in language that is understandable to your target audience that is quite a convoluted way of putting the message.
Mr Houghton: Yes. We are offering what is in effect a budgetary plan to enable people to put small sums away for a large expense at Christmas.

Q162 Mr Newmark: What health warnings attach to that then?
Mr Houghton: If we have Trust Accounts in place and the business is sound I do not see what health warnings we can put in place other than that the cash is as safe as we can possibly make it, and with Trust Accounts nobody within Park Group can take it for another purpose.

Q163 Mr Newmark: The OFT also aims "to carry out a consumer education programme that will help consumers to choose the most appropriate short-term saving vehicle for their needs". Do you accept that it is likely than an official campaign such as this is likely to emphasise the value of financially regulated products?
Mr Houghton: The value.

Q164 Mr Newmark: The benefit of.
Mr Houghton: I think it should emphasise that if something is regulated, be it by a trade body or by the FSA then it is inherently more secure than a business that is not regulated and informed, for instance a local butcher or newsagents who also may run a savings scheme for Christmas. So I think it should emphasise that those entities are more secure than any other form and they should trade with companies that are actually in one of those types of bodies.

Q165 Chairman: The OFT said last December that "many Farepak customers appear to come from households on low or irregular incomes, possibly benefit dependent, and do not appear to use mainstream banking, credit or savings products". In your memo to us you have mentioned that 94% of your customers have bank accounts, 73% have a debit card and 53% have a credit card. Does that reflect a difference between the Park Group and the Farepak Group or was the OFT simply wrong?
Mr Houghton: I do not know; I do not know if Gary wants to comment?
Mr Woods: I think there is a slight difference between ourselves and Farepak in the sense that for a number of years now one of the main mediums we have used to recruit agents is direct response television and I think that that has actually raised the profile of the customers that we actually have. Equally, I do think that the analysis of the Farepak database is probably slightly outdated; I think it is something that you may have been able to say 15 or 20 years ago, certainly, but I think times have changed. We do have over 94% of our people with bank accounts; a lot of our people are professional people, they are teachers, policemen, and they do the scheme because it is fun, it is convenient, it is transparent and it gives them an excellent way to enjoy Christmas without going into debt. I think they are probably closer to C1s and C2s now, whereas 15 to 20 years ago they may have been more Ds and Es and I think that is the sort of inference.

Q166 Chairman: Do you have any evidence of how many of your customers choose your products because of difficulties with financial institutions including, say, outstanding debts?
Mr Woods: None whatsoever; it is not something we would know.
Mr Houghton: 40% of our agents actually are registered to trade online now.
Mr Woods: We have 85,000 agents who are registered to monitor their accounts online and 40,000 currently for 2007 are doing that. So, again, they have PCs, they all have mobile phones, they are not financially illiterate—most of them, as I say, have bank accounts and we know that some of them have ISAs, et cetera. I think it is an outdated perception of a hamper customer.
Mr Houghton: And make an informed judgment, I think that is the thing.

Q167 Chairman: The OFT also argued that there were parallels between the market which Farepak operated and the home credit market. Do you think that the two markets attract the same kind of customers?
Mr Houghton: I think certainly the home credit market does offer a similar product to ours—in fact I have a brochure from one of the home credit companies—but I think the customer base is typically different. Our customer base tends to be people who like to plan and save and avoid debt and home credit company customers are people who are actually using the financial service provided by those companies.

Q168 Chairman: Has your business expanded since the collapse of Farepak in the areas where Farepak was strong, for example in Scotland and northeast of Scotland?
Mr Woods: There has not been a great change in the geographical profile of the database; we are still very strong, as we always have been, in what we call our hotspot areas, which is northwest, northeast. Scotland is reasonably strong for us but it was before the collapse of Farepak.

Q169 Chairman: What proportion of your business reflects your geographical location? You mentioned the northwest—are you all over the country now?
Mr Woods: We are all over the country. I think Chris mentioned earlier that we supply the Scottish Islands, we supply Jersey, we supply Northern Ireland—we are all over the country. The south of England has never been as strong as the north of England for us although we have made inroads,

again probably down to television advertising. The northwest is about 26% of our business, 23% in the northeast and Scotland is about 10%. So we have hotspots but we are completely national.

Q170 Chairman: Has your relationship with retailers changed over the last few years? Have they asked upfront for monies earlier than Christmas?
Mr Houghton: I think the failure of Farepak has made a lot of people nervous, but fundamentally it was European Home Retail and not Farepak that the problem was, so we are in constant dialogue with all our suppliers and partners.

Q171 Chairman: But have the business arrangements changed with your retailers?
Mr Houghton: Not particularly, I do not think. We certainly pay on time.

Q172 Chairman: You would not be here if you did not. "Save Christmas" with OFT, somebody made the point earlier, would it not have been quite good if you had been consulted by them? We have them coming before us.
Mr Houghton: We are happy to work with—

Q173 Chairman: We could have been able to have a good, positive input for them, something to tell them.
Mr Houghton: I would hope so.
Mr Woods: I would have thought so.

Q174 Chairman: Last question, gentlemen, so that you answer for the public record. Some people have said that this is a bum business model, that people do not get a great deal; they give their money to you, it is kept until Christmas and they do not get any interest, boy! you guys are doing well. You tell me—you are here, you market yourselves to us—why is it such a great thing for people?
Mr Woods: I think it is important for yourself and the Panel to understand that if you look at our sales they are 90% vouchers and we sell vouchers at a pound for a pound, so two of the largest retailers in the UK, we sell their vouchers and we sell them at exactly the same price that the consumer could go into the store and buy them for. Over and above that, if they are dealing direct with us or if they are an agent we give them a commission for doing that as well and we deliver them to their home, so it is excellent value. It is fun, it is convenient, it is transparent—as I say, we produce a catalogue and everything is clearly priced and clearly photographed. I think the reason that we have so many people that save with these schemes are testimony to the fact that they like us, they like what we have to offer—we offer great value for money, we offer great service.

Q175 Chairman: Right, Chris, what do you say?
Mr Houghton: People talk about hampers, hampers are a small part of our business but still reasonable—£10 million worth of turnover. They are quite an exciting thing and a Christmas tradition for a lot of people, I think. When you get the hamper you open it up, it is full of shredded cellophane, it comes out sparkly for Christmas and it is very exciting.
Chairman: Can I thank you for your appearance here? We have finished two minutes ahead of time, so if your Christmas sales match your timing with this Committee you will be doing very well! Thank you very much.

Witnesses: **Mr Mark Lyonette**, Managing Director, The Association of British Credit Unions and **Ms Amanda Winkworth**, Manager of Portsmouth Savers Credit Union Limited, gave evidence.

Q176 Chairman: Welcome to this second session of the Committee. Could you introduce yourselves for the shorthand writer, please?
Mr Lyonette: Mark Lyonette, Chief Executive of ABCUL, Association of British Credit Unions.
Ms Winkworth: Amanda Winkworth, Manager of Portsmouth Savers Credit Union Limited.

Q177 Chairman: As you know, this Committee has produced a number of financial inclusion reports and in its response to our reports the government said that it would start a consultation on a new Credit Unions Act in April 2007. What stage has that consultation reached and have you and individual credit unions been involved in it?
Mr Lyonette: It is very timely you should ask that, Chair. We have been engaged with the civil servants and Treasury for probably six months or so since the Economic Secretary announced the review. We think that they have understood how fundamentally important this is to the growth of the sector—it is not just tweaking little bits here and there. I would say that we were at a seminar with the wider cooperative sector yesterday where we expressed a polite irritation, that despite being a promised a consultation paper in March, which was due to be launched at our AGM we still have not seen one, and of course your colleagues will understand better than us that some of the political changes and ministerial musical chairs that might happen in a few weeks' time we are rightly concerned, I think, that if the paper does not come out very soon it may well be delayed inevitably.

Q178 Chairman: We will pass that one down, Mark. In what ways do you think that the legislative framework needs to change if credit unions are to play a greater role in promoting savings?
Mr Lyonette: I think there are a number of issues in what we are proposing. We are fundamentally asking for credit union legislation on a par with the best practice around the world and we have been described as having the most restrictive legislation in the world. There are two very important parts of it—three parts really, but two are bigger than the other—that will have an impact on savings. One is

a revision of this understanding of the concept of a common bond. At the present time we are denied access to most employers in practice; many housing associations come to us and say, "We would love all our tenants to be involved in credit unions but we do not have usually too many easy ways to do that for them in the way they want." So employers, housing associations and indeed some of the really big opportunities on the horizon, potential partnership working with the Post Office, with which we have been engaged with them for five or six months, really needs the legislation to change around common bonds to be able to do something very significant there. So common bond is key. Secondly, organisational membership; at the moment only individual people can belong to credit unions. Elsewhere in the world credit unions can have companies, small community organisations, organisations can join them. That will help more fundamentally around credibility but also options for capitalising the sector, for investment in the sector. Housing associations, for example, could deposit with us whereas at the moment their option is to lend to us. There is a very different risk return there and we think that if they could deposit with us there are real possibilities that foregoing a few basis points on the interest they would earn on the overnight money market they would see the value of what that money would do in the community, and we think that would be a much more attractive proposition. Fundamentally around the savings products themselves we are limited at the moment and we can only offer a dividend retrospectively on savings, so we cannot promise anybody, whatever kind of background, that they can save and we will give you 4%, we will give you 5%, et cetera—we can only pay a retrospective dividend. So we are looking for the ability to be able to pay interest, not just the dividend on savings, where that is appropriate, and obviously with appropriate regulation from the FSA.

Chairman: These are themes that have been coming since our report and in fact a housing association has written to me asking to meet us on this issue, and when we visited Northern Ireland the very same points were made, that they wanted to expand credit unions, so I think there is a body of support there for that. Brooks Newmark.

Q179 Mr Newmark: What success have credit unions had in attracting customers to their Christmas savings products?

Mr Lyonette: The short answer is that we do not have any comprehensive information on this. We are not a very large sector; we do not have state funding ourselves as a trade body, so we do not have a machine to churn out stats. However, what we do know is that a number of credit unions are already running savings accounts and Mandy can talk about Christmas savings accounts in particular, and a lot more started to do that in January of this year or started to set it up in December, precisely because of the tragedy of Farepak really.

Q180 Mr Newmark: I am curious, do you have a breakdown at all—and I appreciate if you do not—of those customers that may be new to credit unions versus those that may be old Farepak customers?

Mr Lyonette: No, we do not have any breakdown; we have lots of anecdotes about people who used to be Farepak agents who actually, fortunately before Farepak collapsed, decided to set up a Christmas savings account—Dumbarton credit union was one place like that—but we do not have any overall figures on the sector and we are not actually that large a trade body.

Q181 Mr Newmark: One of the recurring themes with hamper products is the value of starting to save for Christmas early in the year, and I am curious as to how many credit union Christmas products were in place early in 2007?

Mr Lyonette: Mandy might talk about hers. As I say, we do not know the answer but plenty have been doing particular Christmas accounts for several years, so it is not everybody who has just done it because of the disaster of Farepak.

Ms Winkworth: Although Farepak brought to the national attention the problems of saving and unregulated savings deposits this year, in Portsmouth, where my credit union is based, it hit home a few years ago when a local Christmas club that was collected each week in the local community centre—not even quarter of a mile from the credit union office, I add—on payout day the guy who ran this went to the bank to collect his money for the Christmas club, and I am sure you can see what is coming next that, yes, he got robbed on the way out—£134,000 of unsecured Christmas deposits lost in an instant and all three weeks before Christmas. My credit union did bail out quite a few people in offering them instant loans to tide them over Christmas, but from that we then set up our own Christmas savings account, and as the title of our credit union says, Portsmouth Savers, we have been predominant in supporting savings of one way or another since the concept of the credit union was started.

Mr Lyonette: It is perhaps worth saying that there are, for all the Park hampers, still huge amounts of unregulated savings clubs with employers, et cetera, that ought to be just as much a focus I think as traditional hamper schemes.

Q182 Mr Newmark: Last December the OFT quoted Farepak victims' groups as saying that credit unions were not particularly popular because they were seen as getting people into debt when all they wanted to do is to save. Do you see any basis for this perception and are you doing anything in particular to counter it?

Mr Lyonette: Yes. Sometimes people have said that those words, "credit" and "union" have been problematic words, shall we say, for some people in terms of their associations, and it is not difficult to see that a credit union would suggest that we are all about lending. I think for 20 years that actually was one of the problems in the sector; we were very focused on how could we help people with affordable credit and not really realising that if you were going to have a significant scale you actually need to build the savings pot and it is only if you build the savings pot that you can really have much of an impact. A poor credit union does not do much for anybody. So we have introduced a financial monitoring scheme to help credit unions to understand how to balance the balance sheet, if you like, and to make sure that they are mobilising savings at least as much as they are working on the credit because without it it really limits our impact. Much as it has been very welcome to have the government investment through DWP for us to lend government capital, actually the future of the sector depends absolutely upon raising savings from our members so that we can lend that money out rather than relying upon government handouts to lend.

Q183 Mr Newmark: So is that a long-winded way of saying that that perception is not real?
Mr Lyonette: No, we have no research to justify it or challenge it but we understand anecdotally that some people can see credit unions as being all about lending.
Chairman: Peter Viggers.

Q184 Peter Viggers: Do credit unions use door-to-door sales techniques?
Mr Lyonette: No, not generally. One or two have experimented with door to door collection for loans in the way that the home credit industry does, but it is not very easy to sustain that on an employee paid basis as opposed to using a volunteer, and charge the really low interest rates that we charge. On the savings side as far as we know nobody has actually done that. I understand that when you have Professor Elaine Kempson in front of you she talked about the joint research project of business modelling project we are doing together with her university and NCC and policies to look at what would it take to set up a not for profit home credit collection service on the back of all the Competition Commission findings? If we were not to try and extract huge profit from this what sort of basis, what sort of model would we need to do home credit? Of course, if one of the ways that you might look at cost subsidies for that would be to do home savings at the same time as you did home credit, and that may be one of the ways in which we could get some internal cost subsidy for such a service. So we are looking at that as part of a Joseph Rowntree funded research project, but at the moment there is no on the ground experience of it.

Q185 Peter Viggers: I take it that there are no statutory or legal restrictions which prevent you using door-to-door techniques and that you are studying what the Commission would need to be to make it worthwhile?
Mr Lyonette: There is nothing that would apply to credit unions that does not apply to other people in terms of canvassing and all of those regulations, but it is something that we are looking at, yes.

Q186 Peter Viggers: In your memorandum to us you talk of ways that it might be possible to increase the work of credit unions and one of the paragraphs is mobilising the Post Office network to increase access to credit union services. Who would you expect to do this? Is it not open to you to approach the Post Office and seek to use the Post Office network, and would this not be an ideal outlet for your services?
Mr Lyonette: In fact it is probably no secret—because I have given up counting how many questions have been asked in the House about Post Office and credit unions working together—the Post Office and credit unions have been talking together since October last year. Absolutely we are not necessarily expecting anybody to do anything other than work out a proper partnership between us. One of the things I have already mentioned there in answer to the first question is that if we were really to use the Post Office to give us a face-to-face service in parts of the country where we do not have a counter based service then we need legislation change. One of the possibilities for credit unions would be to bid for the replacement of the Post Office card account, of which the DWP are starting the tendering process now with a view to it being implemented in 2010. If we were to have what are fairly small legislative changes in place by 2010 then we would be able to be, I would suggest, a very attractive offering in partnership with the Post Office to replace the POCA. It is not just legislation, we obviously have to work out a means of operating that would make sense because we are not envisaging sub postmasters being able to make lending decisions on the fly in a small rural post office. So we may be looking at something like a credit union direct model so that there is some kind of phone service, but actually there is a face to face person who is trusted, used, etc, to do the collecting cash in, cash out, perhaps doing the money laundering—anti money laundering requirements that we have to comply with, that kind of thing, somebody who is there in a branch of the post office to do that.
Peter Viggers: Thank you, Chairman. Obviously work in progress which we will be following.

Q187 Chairman: "Doing the money laundering" means making sure that there is no money laundering, does it!
Mr Lyonette: I always say money laundering and not anti money laundering.
Chairman: Just for the public record! Jim Cousins and Andy Love.

Q188 Jim Cousins: You have mentioned the DWP already and the evidence of the Savings Gateway is that the DWP channel into the Savings Gateway brought in people from much lower incomes than the other channels that were used. Do you see yourselves having a role possibly with DWP in a future Savings Gateway?
Mr Lyonette: We would be absolutely delighted to play a big part in the Savings Gateway. The ways in which we could do that are slightly dependent upon review of the legislation, but even without the

legislative review many of our credit unions now receive people's benefit payments directly and one of the things we would say to you about people on low income saving—and I think this was actually backed up by the Park people—is that the key product feature is convenience, not necessarily return on interest for depositing your funds. We find that people paying in their benefit to the credit union are actually leaving part of that benefit in their account. That is not an argument for saying that benefit levels are set too high, it is an argument for saying that actually if the convenience and the mechanism is there people will save. One of the things that we found over the last 25 years is that credit unions used to make people save before they borrowed. That was not a very attractive credit product and we have reformed that and we do not do that any more, we do not encourage people to do that; but the irony of that was that that actually produced an incentive to save for people. So we have tens of thousands of bus drivers alone in that sector, who outside London earn less than £10,000, and they have hundreds of pounds of savings. That is because they had that incentive. We employee-based credit unions use payroll deduction and I would suggest that the OFT and others who are trying to encourage low income saving look at this as a tool because it is that whole thing of what you have not had you do not miss. If it comes out of your salary before you have seen it actually you do not miss it so much and before you know it you have a savings pot, and we found that that is a hugely powerful tool. I suspect that the banks would like to be able to arrange payroll deduction with employers too, but for employee credit unions, particularly in low income employment industries, it is a really powerful tool.
Ms Winkworth: Could I just add there that we run a benefit direct account in our credit union and it is very popular, and 25% of the members who have their benefits paid through the credit union also put savings into the Christmas club account so that they are not going to be short come Christmas. It does help to save without even having to think about it—electronic transfer and it is done.

Q189 Jim Cousins: It is suggested by the last question—have you had any approach from the DWP to perhaps extend that work bearing in mind the Social Fund operation of the DWP?
Mr Lyonette: We have noticed over the many years the interest in reforming the Social Fund; we have followed the debates around the Savings Gateway. We would very much like credit unions to be in a place where we could offer to help in a significant way with both or either of those initiatives actually, yes.

Q190 Jim Cousins: The Savings Gateway, of course, was a single channel thing and there was an argument, a discussion, a debate about whether it was possible to have a Savings Gateway type scheme with a multiplicity of providers, like the Child Trust Fund that was set up, and the conclusion was probably at this stage it was not. Presumably your view is that that would be a mistake?
Mr Lyonette: I think so. We would very much like to be not just an intermediary as the research talks about it in terms of having good contact with people to encourage them to save, but we would also like to be the deposit taker as well.

Q191 Jim Cousins: Yesterday we were told by Sir Ronald Cohen, who chaired the Social Investment Task Force, of course he reminded us that that task force had made a recommendation that banks should operate special schemes in the very less well off areas. Have you ever had any approaches from main banks, the main financial institutions perhaps in partnership with yourself to operate such schemes, picking up the idea he had those years ago?
Mr Lyonette: Yes. Probably about ten years ago a number of the high street banks—two in particular—were very keen for credit unions to act on an agency basis providing in effect their current accounts, and perhaps alongside that the deposit account. I have to say that they got very short shrift, though, from the sector because what credit unions are interested in is providing those services themselves in a way that meets people's needs. So we actually waited five or six years until we were able last year to launch our own current account with the assets sitting on the credit union balance sheet working for the credit union and therefore working for its members rather than the assets sitting on the balance sheet of the bank and working for the bank. So we are not particularly interested in agency arrangements in that sense, which are very one way. We do, however, have strong partnerships with a couple of banks, both with Barclays and the Cooperative Bank, and they provide a range of services to us and indeed the Cooperative Bank is our processor for our current account offering, and we need that in order to partake in the payments system, the clearance system, etc.

Q192 Mr Love: We talked earlier about the new Credit Union Act. Have you done any research on what the impact would likely be of an Act on the growth of the credit union movement?
Mr Lyonette: We have done two things. One is that we have given the Treasury information about what has happened in other countries that have recently gone through a very similar legislative change. The closest credit union country is actually New Zealand—a very similar stage in development to here and it has had a massive impact on the growth of their sector. The other thing we have done is we are giving them evidence about just how many employers, for example—lots of national named employers—would like to offer credit union services to their employees on a range of incomes, but often quite low incomes, but at the moment they have a stark choice. Their choice is, we either create a new credit union for this company across Britain, across England or Scotland or Wales, or we cannot get them involved because our typical credit union model is one local authority area. We had an approach from a big retailer in the Midlands who wanted to say that this credit union that covers the whole of Birmingham, could you deal with all of our

employees? No, they could only take the employees who lived or worked in Birmingham and employers do not particularly want to do something with their payroll that only works for the employees here and not all the employees everywhere else. So we are not asking for legislation in the expectation that it will create demand but what we are saying is we have demand from lots of people for us to serve them and at the moment we are frustrated from doing that. The demand is there. It is really disheartening to turn away major employers.

Q193 Mr Love: I understand that, but based on those international comparisons would you confirm that in your view there would be a significant additional growth in the credit union movement as a result of a new Act?
Mr Lyonette: Absolutely.

Q194 Mr Love: You mentioned earlier about the research project that Elaine Kempson is carrying out under the Rowntree Corporation. In her comments to us she did cast shall I say just a little doubt on the ability of the credit union movement to undertake doorstep type activities, mainly based on a reputational issue—in other words, whether it would be appropriate for them to charge a very high rate of interest in order to gain a return when they are supposed to be providing low rates of interest. How much of a reputational issue is that for you or do you not see that as a barrier to going into home credit?
Mr Lyonette: If you remember, the Association was one of the bodies that championed actually getting a bit more flexibility in our maximum interest rate precisely so that we could serve some more people than we were managing to serve at the old rate. So within reason—I do not want to sound like an apologist for the home credit industry but actually the costs of an agent network are huge and it is also something that is very dependent upon the length of time an agent has been there.

Q195 Mr Love: When does it become a reputational issue—50%, 100%, 150%? When you are doing 12.8, 12.68 or—
Mr Lyonette: 25% is our maximum. Obviously it is not something for the trade body to impose, I should say that, but I cannot see our members being comfortable lending people money at much higher rates than we presently have, so it would be a question of whether we could provide those services perhaps with an optional charge for home collection as opposed to paying in some other manner. Obviously we would want to be very transparent with people about if you switch from requiring home collection and you were to pay through some other means then obviously we could drop the rate really significantly. We are not looking to make profit from people; we are looking to cover our costs of that service.

Q196 Mr Love: Turning to encouraging savings, in your submission you made a number of points to us, especially about those that are still in debt or are emerging from debt. What more needs to be done to promote savings amongst those in debt and what special role can credit unions play in all of that?
Mr Lyonette: One of the things that some of our members do, when some of them themselves have consumer credit licences and develop debt management plans for people, many of those people will continue to save because if you are saving while you are paying off your creditors it actually gives you that protection against some emergency happening in that period, and if your typical debt management plan can last up to five years then it is quite likely that many people will have some kind of lump or lack of income or some kind blip or emergency.

Q197 Mr Love: I am being pressed for time and I wanted to ask you—
Mr Lyonette: I think the key policy issue—and we are working with Citizens' Advice on this, with whom we have a strong partnership—is to look at whether the common financial statement that debt advisers use and some creditors have agreed to, whether that could include as standard an element for savings as part of the agreed expenses. I think that would be very good.

Q198 Mr Love: Let me just ask you finally, you mentioned earlier about the term credit union being problematic in terms of public understanding. Would a term "community bank" be more appropriate or do you think that there is confusion in that terminology as opposed to credit unions?
Mr Lyonette: This is a really difficult question. I was asked this yesterday at the seminar. We know that some of our members want to use that term. I would say two things: I would say that credit and union are for some people problematic words. We have, however, found that where people are getting what they want from the credit union they get over that barrier. Glasgow Credit Union, which employed Credit Union originally for the council, 60% of everybody who works for the council and its ex private contractors, belonged to the credit union. No bank has penetration anything like that. So people clearly get over the name when they are getting what they want from the service. However, that said, in many ways using the term community bank would be a better description of the savings and loans products and the transaction banking that we are now doing. Our problem with it is what it would mean for the folk in Brussels.

Q199 Chairman: Were you consulted by the OFT on their consumer campaign?
Mr Lyonette: Yes, we were.

Q200 Chairman: What degree of consultation took place there?
Mr Lyonette: As far as I am aware they talked to us about how credit unions might be represented in the initial leaflet.

Q201 Chairman: So are you happy with the proposed coverage of credit unions in the OFT campaign?
Mr Lyonette: No, we would very much like to be involved more; beyond that initial leaflet we are not fully aware of what the campaign will look like and we would very much like the opportunity to be involved more.

Q202 Chairman: So this is taking place at a superficial level?
Mr Lyonette: I think it is probably more early days—I would not like to say superficial.
Chairman: Thank you for your evidence.[2]

[2] See also Ev 51 – 4.

Witnesses: **Mr Sean Williams,** Executive Director, Markets and Projects, **Mr Colin Brown,** Director, Advisory Policy and International, **Ms Sue Cook,** Acting Director of Communications and **Mr Gordon Ashworth,** Deputy Director, Consumer Policy, Office of Fair Trading gave evidence.

Q203 Chairman: Welcome to the Committee. We have a vote at four o'clock and we are going to get you out of the door by then; could you introduce yourselves for the shorthand writer?
Ms Cook: My name is Sue Cook and I am the Acting Director of Communications at the Office of Fair Trading, also responsible for consumer education.
Mr Williams: I am Sean Williams, I am an Executive Director of the OFT board but also, just for the Committee's information, I am chairman of the board of Transact, the national forum for financial inclusion, in my personal life as well.
Mr Brown: I am Colin Brown, I am a Policy Director at the OFT and I am responsible for consumer policy and strategy.
Mr Ashworth: I am Gordon Ashworth, I am the Deputy Director in the consumer policy area and I worked particularly on the advice given to the DTI at the end of last year.

Q204 Chairman: Okay. As I mentioned earlier to witnesses, if one of you answer the question that will be more helpful to us. Last December you suggested in your review of Farepak for the DTI that putting trust accounts in place would be, in your words, "unattractive to the agents and costly to consumers". In these circumstances, therefore, are you surprised that the agreement seems to have been reached on the creation of trust accounts for hamper products?
Mr Williams: We are very pleased that they have managed to put in place the protection that we have heard about.

Q205 Chairman: How feasible is it in your mind if you are saying on the one hand it is going to be very costly, do you think there could be problems in the region longer term with this?
Mr Williams: That is really a matter for the company. We are very pleased that they have put the arrangements in place, whether they are costly or not.

Q206 Chairman: What I am trying to get at is why did you say "unattractive to agents and costly to consumers"?
Mr Williams: Because if there are costs involved in this arrangement, as the Committee itself—

Q207 Chairman: No, no, no, but you made the statement "unattractive to agents and costly to consumers" so you must have had some basis for making that statement.
Mr Ashworth: We felt that on the basis of the information we had at the time when we spoke to the hamper industry and trade association then—

Q208 Chairman: It was not based on much evidence then, was it?
Mr Ashworth: We spoke to the people we felt were relevant, the people who have to put this in place, and they felt at that time that it would be very difficult to do it. The length of time the negotiation has been going on has shown that there are a lot of issues here, but it is very pleasing that they are actually in a position where—

Q209 Chairman: I understand it is pleasing, but the fact is that if the OFT comes out with a statement like this as Parliamentarians we would like to think it has a bit of weight and a bit of credibility.
Mr Ashworth: It was based on the evidence we had available to us before Christmas when we gave that advice.

Q210 Chairman: There does not seem to be much evidence. Where is your evidence then?
Mr Ashworth: It was based on discussions with the hamper industry at the time who felt—

Q211 Chairman: People anecdotally saying "This is going to be costly" and you just regurgitate that.
Mr Ashworth: On the basis they had taken estimates, we understood, of how they could actually put that in place.

Q212 Chairman: That does not seem very satisfactory to me.
Mr Brown: We have had long experience of trying to get trade associations under our consumer codes approval scheme to put in place prepayment protection for schemes like this and it is the one element of our consumer codes scheme that businesses always say is the most expensive and the most difficult. We have had occasions when—

Q213 Chairman: Do not let me be unfair to you, but the OFT have tried this and you have failed in the past; here we have another arrangement in place and it is done and you are giving it success.

Mr Brown: We have not tried to get them in place, we have asked people—
Chairman: Is it not the case of the OFT maybe having more powers or the OFT having more push on this, push drive on this.
Mr Fallon: A bit more oomph.

Q214 Chairman: Yes, a bit more oomph as Mr Fallon said. You are just sitting back, you are a bit reactive.
Mr Williams: What we operate is a self-regulatory scheme whereby if different industries produce a—

Q215 Chairman: But self-regulatory does not mean disinterest.
Mr Williams: We then approve the codes if they comply with our standards. One of the main components of the codes is that they should have protection for prepayment, so we actually have been doing quite a lot to encourage self-regulation.

Q216 Chairman: It is not a very satisfactory answer to my question. Has the Office of Fair Trading been involved in discussions about the formation of the new Christmas Pre-payments Authority and would you expect the new authority to seek an OFT-approved code. If so, what would that entail?
Mr Brown: We have not been involved in the discussions so far. If the new association does have the prepayment protection requirement for its members we would very much welcome an approach from them for code approval.

Q217 Chairman: How do you respond to the suggestion that you have missed the boat in relation to those seeking to save for Christmas 2007?
Mr Williams: We were asked to undertake this awareness campaign at the end of March—

Q218 Chairman: Let me tell you, because we had a Committee session a month or so back and Brian Pomeroy and others—has it not got back to you, surely the tom-toms ought to get back—did not know much about it.
Mr Williams: We were only asked to even start thinking about it—

Q219 Chairman: 1 March.
Mr Williams: The end of March, and we have launched it two months later, last Friday. Two months to put a public awareness campaign together is a very short space of time.

Q220 Chairman: You say "last Friday" and in your brief you said that it was starting in Scotland. I spent the weekend in Scotland and this was where it was starting and I did not really get much of an idea—Sue, come on.
Mr Williams: Sue will explain about how it will unfold.
Ms Cook: I am very serious about it. Basically, just let me start by saying that the COI say that government campaigns normally take six to eight months from—

Q221 Chairman: We have had it for Christmas then if it is eight months, we are now in June.
Ms Cook: We have worked very quickly, and what we have done, because—

Q222 Chairman: So why did you not make the point in March then, "Wait a minute, this will take six to eight months, we are only getting it at the end of March, we do not want to disappoint people here"?
Mr Williams: We are very pleased to have been able to launch it on Friday.

Q223 Chairman: I am sorry, I was meaning to be co-operative with you but your evidence—
Mr Williams: Let me say we are very, very happy to help the Committee with this inquiry, so do not worry at all. We have put it in place in two months and got it launched and in the next two to four months, as Sue will explain, the whole campaign will unfold. Sue, do you want to give us the details of how it will unfold?
Ms Cook: Basically we are aware of what you said at your last meeting, we were aware that we needed to very quickly get out to people who had lost out from the Farepak collapse, talking to them about the options available to them to save for Christmas 2007, which is why we had a launch last week. However, we believe that the main part of the campaign will be talking to consumers, including people who lost out from Farepak, and what we want to do is instead of running just an advertising campaign, the results of which are fairly transitory, what we intend to do is actually go into communities, work to develop tools within communities—

Q224 Chairman: I have got you. I am sorry for rushing, but the Park Group which is 90% of the voucher market says that you have not consulted them.
Ms Cook: No, because what we are doing is we are developing the tools with the community, with these different groups. We will talk to Park but the fact that Park—

Q225 Chairman: If Park Group are there and they have got 90% of the market and they have a tradition of being involved, it would seem to me to be realistic and say let us go to these people and see what their ideas are so we can pick up the issue here.
Ms Cook: We have talked to Farepak victims, particularly Susie Hall. When the trust is in place I am absolutely delighted to work with Park in terms of rolling out the campaign and in terms of developing the tools that we use, but we have consulted widely with the DWP, Citizens Advice, credit unions and also the private sectors and we have had quite a lot of conversations with them.

Q226 Chairman: But credit unions say to us that the consultation has not gone beyond a superficial level.

Ms Cook: No, no.
Chairman: Really what I am saying to you here is I think we need a gee-up here. That is the reason why you have been invited to the Committee, to get the gee-up, to get something done. Peter.

Q227 Peter Viggers: What arrangements are in hand to protect people who invest in prepaid schemes for funeral arrangements and is there a read-across, which can be used more generally?
Mr Ashworth: The arrangements for prepaid funerals operate under the FSA regime through an exemption process whereby they can put trust arrangements in place and then they are free from most of the FSA regulatory regime. The FSA contributed to the advice that we gave to the DTI before Christmas and did make reference to funerals. They felt there were some problems around hamper schemes in terms of defining the actual product. That was something that we had come to a conclusion on as well, that there are a lot of unregulated things out there that people use quite happily. The risks will vary and identifying what you actually want to regulate is a particular problem, so we were at one with the FSA on that, that we thought that was not necessarily the appropriate way to go at that time.

Q228 Peter Viggers: Are you satisfied that there are satisfactory arrangements to protect those who invest in such schemes?
Mr Ashworth: In hamper schemes of the type—

Q229 Peter Viggers: I am thinking of funeral schemes.
Mr Ashworth: We are satisfied that that was followed to an OFT report and we are satisfied that that is in place at the moment and the FSA have not contradicted us at all.

Q230 Jim Cousins: In March when you agreed to do the Christmas awareness scheme, who were you approached by?
Mr Williams: We were approached by the DTI to undertake it.

Q231 Jim Cousins: Why did you agree to it?
Mr Williams: We thought that an awareness campaign of this sort could help the consumer in this market to understand better the products that they are trying to access.

Q232 Jim Cousins: Did you explain to them that a COI type government campaign normally takes six to eight months to set up?
Ms Cook: I think they were aware of that actually. We were asked to run a consumer education campaign to increase the skills of people who are not aware of the options available to them. I would imagine that the DTI and the Treasury who trusted us with this money were well aware.

Q233 Jim Cousins: Sorry, the Treasury?
Ms Cook: The Treasury entrusted us with the £1 million and they will be paying us £1 million to run the campaign. The campaign that we will run will go deep into communities. For £1 million we could have had eleven minutes of TV advertising; that would have taken us three months to produce and book. That would really have been transitory—okay, it would have created a bit of pizzazz at the time, but we are actually talking about real people having this information delivered to them in a face to face way so that they take it on board and they can use it in this situation and other situations, and we believe that that is a valid and very good use of £1 million rather than a quick advertising campaign which would not get those people to get those skills in a way that would be useful to them.

Q234 Jim Cousins: How does your campaign reflect the fact that the trust account system will be up and running?
Ms Cook: That has been agreed, as you heard earlier, recently, so our campaign will reflect that. We did not particularly want to launch before that trust was in place and of course everything we say will reflect the fact that people's money will be safe when they invest in Farepak—sorry, Park.
Jim Cousins: Yes.
Chairman: It is all happening this week.

Q235 Jim Cousins: It is indeed. When you are deep into communities, just remember what happens on the streets of Portsmouth, the Committee has been told that already this afternoon. To what extent do informal savings products figure in your campaign?
Ms Cook: We are going to cover things such as credit unions, banks and building society accounts, stamps and retailer savings schemes, milkmen-run schemes and hamper and voucher schemes.

Q236 Jim Cousins: Sorry, milkmen?
Ms Cook: Yes, it is a scheme that is used quite a lot actually where people give their milkman £2 a week and collect stamps and use that for Christmas, for buying a hamper or whatever. It is a popular scheme and it has quite a few similarities to hamper schemes. What we will do is we will include a wide range of things that are available to people. We are not in the business at the OFT of telling people what to do or what not to do with their money, how to save or how not to save, we are in the business of saying to people "This is your range of options, these are the features of these options, you need to choose something that will work for you as an individual; obviously the way that you save and the way that I want to save may be different". That is really what we are trying to do, we are trying to show people what the options are that are available to them, we are not telling them how to spend or save their money.

Q237 Jim Cousins: Is it not inevitable that in your presentation if you point out that certain products are regulated through the Financial Services Authority or whatever, that is bound to steer people towards them?

Ms Cook: There is an element of risk in everything that people do. If people are aware of what the risk is—for instance, if a major retailer went into liquidation and you have been saving with them, then you would lose your money, but the risk is obviously not that great in that situation. People are intelligent enough to understand that there are different risks in terms of saving in different places and it is up to individuals to decide what level of risk they are prepared to take. I do not know if Sean wants to add to that.

Q238 Jim Cousins: Thank you, and you are going to cover supermarket. I do hope you will point out a gentleman this afternoon from Park referred to the Tesco's scheme—it is only fair to point out that I am passing on information from a constituent of mine but the Morrison's one actually is more generous.
Ms Cook: I will bear that in mind.
Chairman: We could not possibly comment. Michael, and then John.

Q239 Mr Fallon: Ms Cook, could we just be clear about this advertising campaign for the £1 million. Did you tell us a few moments ago that there was not national advertising?
Ms Cook: No, it is going to be advertising and what we would call consumer education which is actually—

Q240 Mr Fallon: The advertising—if you could just answer the question we can get through this. Is there national advertising or not?
Ms Cook: There will be national advertising at the end of the campaign but the campaign is focused on regions and there will be advertising in each region as it rolls out in the regions. There will be advertising as well as consumer education.

Q241 Mr Fallon: In your memorandum to us at three points you say there will be national advertising.
Ms Cook: There will be at the end of the campaign.

Q242 Mr Fallon: That is paragraphs 12, 18 and 20; that is not happening at the moment.
Ms Cook: It is not happening at the moment, no.

Q243 Mr Fallon: When will it happen?
Ms Cook: It will happen at the end of the year and it will happen in the regions as we roll out the campaigns in those regions.

Q244 Mr Fallon: Yes, I am asking about national advertising, not about the regions. When will there be national advertising?
Ms Cook: December this year and that will be for people who are thinking of saving for next year, but I must say to you that there are other ways of getting messages out to the nation than advertising. We are also using national public relations, PR, working with the media, which again is a way of getting messages out without paying for advertising.

Q245 Mr Fallon: I understand that, but you have told us you are using national advertising but in fact this is for Christmas 2008 is it not?
Ms Cook: Yes.

Q246 Mr Fallon: Why would you be doing that in December when people are thinking about Christmas 2007; would it not be more logical to do it immediately after Christmas?
Ms Cook: We will be running it in December and January because our research tells us that people start to decide how they are going to save for Christmas in December and start to actually start the schemes in January.

Q247 Mr Fallon: That is not what your memorandum says. Your memorandum says, paragraph 20, "The campaign will end in late November/early December." That is not January.
Ms Cook: Maybe there is some confusion then; that is the end of the regional rollout, we will be carrying out national advertising and public relations in December and January. I apologise if we have made an error in the memorandum, but those are the plans.

Q248 Mr Fallon: How much advertising and national PR are you going to get for £1 million?
Ms Cook: We are not going to spend all of the £1 million on advertising; I can tell you if you hold on a moment how much we are going to spend at the end of the campaign.

Q249 Chairman: While you are doing that can I just point out your memorandum to us where you say "The launch will disseminate information showing the options for short term savings for Christmas this year", 2007, so in response to Michael's "You are advertising in Christmas 2007 for 2008", I think you are all over the place.
Ms Cook: The launch was last week and the launch last week referred to options for advertising for 2007. The launch was not an advertising launch, it was a public relations launch, and we got a great deal of press coverage and media coverage and broadcast media coverage, so the message actually went out. I can come back to you later with the number of opportunities to hear and see that people had—

Q250 Mr Fallon: What I am interested in is how this is getting through to the people who need to hear it. How much of the million quid is going on national advertising; you must know roughly.
Ms Cook: I can tell you.

Q251 Mr Fallon: Could we have a figure?
Ms Cook: £600,000 altogether.

Q252 Mr Fallon: £600,000.
Ms Cook: No, sorry, hold on a second, I apologise for that because there are other things included there, it is £400,000.

Q253 Mr Fallon: Of the £400,000 how much will go for 2008, for your January campaign?

Ms Cook: It will all go for 2008, the advertising, but you are talking about this as an advertising campaign—

Q254 Mr Fallon: I am just asking you to answer the questions that I am putting to you. I need to know, we need to know, how much advertising is being spent in terms of Christmas 2007, is it nought?
Ms Cook: Yes, because we are using public relations.

Q255 Mr Fallon: So it is simply not true in your memorandum that this programme is supported by national advertising, which you say in paragraphs 12, 18 and 20. That is not true.
Ms Cook: It is true; the education programme will be supported by national advertising at the end of the year and there will be £400,000 worth of advertising.

Q256 Mr Fallon: But all that is for next Christmas, 2008.
Mr Williams: If I might just add one point here—

Q257 Mr Fallon: I do not want stuff added; I want an answer to the question.
Ms Cook: I have answered it.

Q258 Mr Fallon: It turns out the national advertising you have told a Parliamentary Select Committee will happen will not in fact take effect until Christmas 2008.
Ms Cook: Can I say to you that advertising is not the only way to get messages across to consumers, it is one channel. The main channel to get national messages across is public relations, which is what we did at our launch last week. We spent a certain amount, obviously nothing like £400,000 on that, but that was a way of pushing the message out to consumers using the media as a channel.

Q259 Mr Fallon: Can you give us a breakdown of how the £1 million is going to be spent, please, in a note to the Committee?
Ms Cook: Yes, absolutely.

Q260 Mr Fallon: Thank you. Can I just come back, finally, to this point about consultation? Have you consulted the credit unions on this PR campaign?
Ms Cook: We have consulted the credit unions on the first part of the campaign and they have agreed to work with us on the dissemination of the consumer education programme.

Q261 Mr Fallon: Have you consulted all the other providers?
Ms Cook: Yes.

Q262 Mr Fallon: You have.
Ms Cook: Yes.

Q263 Mr Fallon: And you have spoken with Park Group on this.
Ms Cook: I said earlier on we have not with Park Group. I have talked to major retailers, we have talked to Citizens Advice, I can give you the list of who we spoke to, the BBA. We have also spoken to the DWP who are going to work with us to deliver the consumer education programme.

Q264 Mr Fallon: What efforts are you making to target those particularly affected by the collapse of Farepak?
Ms Cook: As I said, the PR element focused particularly on Farepak. You may have noticed we had a launch last Friday—

Q265 Mr Fallon: I had not noticed your launch Friday.
Ms Cook: Maybe you are not the target audience.

Q266 Mr Fallon: How would I have noticed it if it was not advertised?
Ms Cook: Because it was on national TV, it was on national news, it was included on regional and national radio. We had Farepak victims along to the launch, I think we had 15, we had a great deal of media interest, we had the BBC, Channel 4 interviews, and we also had a celebrity, Charlie Dimmock, who was the sort of person who was probably not the—

Q267 Chairman: Let me try and clarify this because in your memorandum you talk about a 1 June national launch and then you go on to say it will be for short term savings for Christmas this year.
Ms Cook: And it was.

Q268 Chairman: 2007, and then you go on to say this will include "local and national PR and advertising", correct? In answer to Michael Fallon you have said the national advertising which you have mentioned in your submission will take place in December of this year.
Ms Cook: Yes.

Q269 Chairman: You have then said that that national advertising that is taking place in December is for 2008.
Ms Cook: Yes.

Q270 Chairman: But your submission to us says the launch in June this year will be to focus on short term savings for Christmas this year.
Ms Cook: And it did.

Q271 Chairman: I must ask you then, that was a mistake saying that.
Ms Cook: It may be a mistake saying advertising but the launch did focus on savings for this year.

Q272 Chairman: No, no, you are talking about national advertising; it was a mistake telling us that, so it was sloppy.
Ms Cook: It was a mistake saying that the advertising was at that stage of the campaign.
Chairman: It was sloppy. The fact of the matter is, is it not the case, Mr Williams, that you took on a brief when you should not have really taken on a brief?

Q273 Mr Fallon: Quite right.
Mr Williams: I do not accept that.

Q274 Chairman: Because it takes eight months and you are going to spend in December this year. This is a waste of a million quid.
Mr Williams: I am surprised you say that. I do not think it is a waste—

Q275 Chairman: I will tell you why I am saying it, because it seems a shambles from your point of view.
Mr Williams: I do not think it is a shambles from our point of view.

Q276 Chairman: Tell me why it is not a shambles.
Mr Williams: We have moved very, very quickly in a two month period to launch a national campaign to alert people to the issues with these products.

Q277 Chairman: But you are spending your money on national advertising in December this year, and that has not got a hope in hell chance of getting to people who are involved in the Christmas savings market for this year, has it?
Mr Williams: The point is we are trying to do something for the long term for this sector, it is not just about—

Q278 Chairman: Then do not send us submissions in that tell us the launch is for the market this year; that is what I am trying to tell you. Your credibility is shredded when you do that.
Mr Williams: If I may, what we are trying to do is not just for Christmas 2007, it is for a long term improvement in consumer protection in this area.

Q279 Chairman: If that is the point, we are a Parliamentary committee, we deserve for it to be transparent. You should get your message out to a Parliamentary committee in a clear and transparent way and you have not done that.
Mr Williams: I naturally apologise if there has been any lack of clarity in our submission, but the point that we are trying to get over is—we have launched very quickly, we have a commitment to make a long term difference, it is absolutely in line with the OFT's responsibilities for consumers as well as for competition and our responsibilities for consumer education.

Q280 Chairman: I do have a suspicion though. It is launched on 1 June this year and, forgive me, the suspicion is that all this has started because we have started to look at this and everything is happening this week. That is the issue.
Mr Williams: No, that is not the case. We have been trying to launch this very quickly, for the very reason that the Committee is concerned about, that obviously there are people already planning their savings for this Christmas.
Chairman: John, you see if you can make more sense.

Q281 John Thurso: Can I turn to a different issue actually and go back to the question of regulation? Last December you concluded that there was no clear case for specific regulation of the hamper products industry; is that still your view?
Mr Williams: Yes, that is our view and indeed, following up from the earlier conversation, we are very pleased to have the protections in place that we heard about an hour ago. We are still arguing that it would not be proportionate to try to regulate prepayments in this way.

Q282 John Thurso: We have heard evidence, which you may well have heard this afternoon, from the Park Group that they are perfectly content to come under the auspices of the FSA and their regulation. They have announced the trust scheme and there are other variants of escrow schemes that are available. In your executive summary you said the best options appeared to relate to reform of company law, improving consumers' rights to take representative actions and consideration to banning the hamper scheme business model. In light of the evidence we have heard, do you think banning the model, making directors personally liable and changing company law are actually a better option than decent regulation through the FSA? Is that a serious and credible statement?
Mr Williams: We have to recognise that there are a very, very wide variety of prepayment schemes and indeed there are many prepayment practices which would also be caught if one were seeking to regulate them. If one is seeking regulation of prepayment arrangements in the economy we think that would be very complicated and disproportionate to the issues that were raised.

Q283 John Thurso: Clearly, specific industries have a greater impact on the consumer, that has fairly long been recognised. For example, money that is held by professionals is held in an escrow account, the travel industry which I used to belong to is either bonded or has particular schemes in place, the hamper industry which has very particular details because it is holding clients' money over a longish period of time and is a financial instrument now seems to have come up with quite a good scheme and is open to further. Would it not have been better for you to have actually gone into, in a little more detail, those things that should actually be regulated rather than those things like simply putting down a deposit for a fridge you are going to buy, or something, which quite properly may not need to be or would be better not regulated?
Mr Williams: As I say, our approach has been to encourage self-regulatory practice through our code approvals and to make sure that the codes that get approved in industries that are coming forward for approval include proper protection for prepayments. Our overall practice therefore is to encourage self-regulation rather than to come in with a new regulatory regime for all pre-payment practices.

Q284 John Thurso: Do you seriously consider banning the hamper scheme business model?
Mr Williams: No, I would say that these schemes are attractive to certain groups of people who find them readily accessible and readily understandable. There are risks entailed in them, and unless we can mitigate those risks then one should consider whether to ban them. We have heard this morning that it has been possible to mitigate those risks through negotiated protections and trust arrangements.

Q285 John Thurso: I am sorry to press you on this, but it interests me that you, a body I have the greatest respect for and look to for advice and help, suggest that consideration is given to banning the hamper scheme business model—that comes in paragraph 3 of your executive summary—when it seems from all the evidence we have got that that actually should not even be on the table.
Mr Williams: As it has turned out it has been possible to put in place what we understand from this afternoon's conversation are robust protections for prepayers' money. In those circumstances I do not think it would be appropriate to consider that. If it had been impossible to mitigate risk, then it might have been appropriate to consider banning such schemes.

Q286 John Thurso: You are now investigating the merger between Park Group and Home Farm Hampers. In doing so, how far are you examining the wider savings product market in which those firms can be?
Mr Williams: We have to consider exactly what the right market definition is to consider this market in, so we have to consider whether it is just Christmas hamper savings in the most narrow sense or whether there is a wider market for prepayment arrangements or a wider market for savings arrangements. We are still in the process of considering that.

Q287 John Thurso: Do you expect that to be out by the end of June?
Mr Williams: Our timetable runs within the next month.
Mr Brown: It will be during July.

Q288 John Thurso: We can look forward to that during July. Lastly, could I just ask what range of remedies is available to you to prevent the abuse of a dominant market position?
Mr Williams: In relation to a merger or in relation to a market question?

Q289 John Thurso: Really in relation to a market question with a dominant position.
Mr Williams: If there was a dominant firm abusing its position then our main instrument is the Competition Act and Chapter II investigation under the Competition Act.

Q290 Chairman: Mr Fingleton has written to me giving his apologies, but I wonder if you could pass on to him our concerns and perhaps we could have a chat on that.
Mr Williams: Of course.
Chairman: Thank you for your attendance.

Tuesday 19 June 2007

Members present

Mr John McFall, in the Chair

Mr Colin Breed	Mr Andrew Love
Jim Cousins	Mr George Mudie
Angela Eagle	Mr Siôn Simon
Mr Michael Fallon	Peter Viggers

Witnesses: **Ed Balls MP,** Economic Secretary to the Treasury, **Mr Clive Maxwell,** Director, Financial Services, **Ms Sue Catchpole,** Team Leader, Payments and Inclusion, and **Ms Gwyneth Nurse,** Team Leader, Assets, Savings and Wealth, HM Treasury, gave evidence.

Q291 Chairman: Can we start this session, Minister? You have another official. Would you introduce her, please?
Ed Balls: Gwyneth Nurse, who is Team Leader, who leads on savings and taxation issues in the Treasury and wider savings policy, but closely working with my colleague Sue Catchpole.

Q292 Chairman: You did mention you have a ministerial statement this morning.
Ed Balls: Only very briefly. I have put out a written statement this morning, just as an update, and I thought it would be relevant for the Committee partly because we are talking about financial inclusion and partly because you in your capacity as Chairman of the Committee worked as Chairman of the Working Group to try to deliver a greater availability of free cash ATMs around the country. Your report set an objective of 600 new, free cash machines, and I was reporting to Parliament today that as of 15 June sites for 471 of the 600 new ATMs have been identified. Of those, 127 are already issuing cash to the public, with a further 344 confirmed ATM sites under contract, and 41% of those being provided by independent ATM providers, providing non-charging ATMs because of the financial inclusion premium, and to say that I was writing to all Members of Parliament with yourself this morning to encourage Members of Parliament who have not done so but who have one of the 1,700 target low-income areas in their area to still come forward with proposals for possible sites, because there are still 130 sites to identify, and hopefully more than that if we can find viable or good sites for machines to be set up. So I was wanting to report on the progress and say that I hope you would agree this has been a very, very worthwhile initiative indeed in meeting our financial inclusion objectives, but there is still more work to be done.

Q293 Chairman: I think it is a good example of the financial services industry and Parliament working together. From your written ministerial statement it is gratifying to note that more than one million individuals on low incomes stand to benefit. So I think it has been a good contribution towards financial inclusion. From our reports last year on financial inclusion and your own involvement with the issue, would you agree with the proposition that saving and savings issues need to be accorded a much higher priority in the Government's financial inclusion strategy in the future?
Ed Balls: In my experience over the last year, savings have indeed been quite an important priority and have been reflected in the financial inclusion document which we produced a month or so ago. When I came before you a year ago, three issues, I think, you highlighted, from my memory. One was the lack of certainty about funding after 2008; secondly, whether there was effective co-ordination in government, and, thirdly, the need to focus on saving. On the first, I announced in the spring that the financial inclusion fund would now be extended at the same level of intensity up to 2011, but it would continue as a stand-alone fund. We not only published that strategy document but, also, established a ministerial working group which has had its first meeting and, in the autumn, will produce an action plan for how different departments can contribute to delivering those financial inclusion objectives—a group chaired by the Treasury, by the Economic Secretary. Thirdly, in that document, we identified three strands for financial inclusion policy: first, trying to make sure that more people have day-to-day contact with the mainstream financial services industry, in particular reducing the number of people without bank accounts; secondly, trying to increase the number of low-income households which have access to savings and to small loans, if that is appropriate for them, and, thirdly, focusing on how we help people to manage if they get into financial difficulty without needing to turn to debt and, in particular, illegal or extortionate lending. So we have put within our three objectives savings on the table. Over the last year we have had the publication of the second pilot from the Saving Gateway, we have had the publication of the child trust fund constituency data and also, following the Farepak scandal last autumn, I asked Brian Pomeroy to do a report for us on the lessons we learned from the Farepak scandal for savings policy for low income families. In announcing that the task force would continue its work after 2008, I think we have given a pretty clear indication that, therefore, the savings would be added to its remit in order to take forward those three main strands of financial inclusion work, so I hope that gives you some reassurance that, following your excellent report in

the autumn and your hearings, we have tried to address a number of the issues which you raised at that time.

Q294 Chairman: On the Saving Gateway, Andy has a few questions, but I am particularly interested in that area, given the discussions we have had with Elaine Kempson who assessed the Saving Gateway, but on the financial inclusion task force, Brian Pomeroy indeed has appeared before the Committee and we were talking about the issue of savings. Is there any reason why his committee remit could not be extended to include savings?
Ed Balls: I think the issues around savings and learning the lessons from Farepak have been a central part of our financial inclusion work and, by asking Brian as chair of the task force to do that review, it is clear that we saw this as a big priority and we are extending the life of the task force. As I said, savings and insurance are issues which are adding to the financial inclusion agenda, so I do not want to pre-empt the formal process that you have to go through, but this will end up with savings being put into the remit of the task force.

Q295 Chairman: So this is an order to Brian Pomeroy from this committee hearing this morning that savings is a really important issue and, whether formal or informal, he should be looking at that?
Ed Balls: As I said, Brian actually did the review for us on lessons from Farepak for low income savings, so he is absolutely on the case, but, if it would help to clarify this by making it clear that the new remit will include savings, I do not see personally any difficulty with that at all.

Q296 Chairman: Martin Weale has suggested to us in evidence that the burning economic issue today for the Government, or his burning economic issue, is whether your view that the overall level of savings in the country is adequate.
Ed Balls: The overall level of savings in the country?

Q297 Chairman: Yes, is it adequate?
Ed Balls: Do you mean for low income savers or for savers in general?

Q298 Chairman: Overall.
Ed Balls: I think that the overall level of savings is both about how much households are saving, the financial balance of businesses and the overall level of public borrowing. Across the piece, I do not take the view that the level of national savings at the moment is too high or too low, to be honest. I think it is very hard to make those kinds of judgments. The point at which the overall level of national savings in our country was at its highest in recent years was around 1989/1990/1991 when consumers in distress had to hugely increase their savings to deal with the consequences of negative equity. National savings then fell because the public sector deficit opened gapingly wide in 1990/1991/1992, so I think we always have to be slightly careful that the times when the level of national savings and consumer savings has been at its highest was when the economy was doing badly and individuals were having to rebuild their balance sheets. Successful economies which are stable at our stage of development tend to have lower levels of national savings than economies which are either at an earlier stage of development or where consumers are in distress, so I think you have to be rather careful about making these simple comparisons, but, as for low income savers, I definitely think their savings rates are too low and we would like to increase them.

Q299 Angela Eagle: Firstly, on the cashpoints, can I thank you for all the work you have done and just make an official bid for some of the free cashpoints in Seacombe and Leasowe wards in my constituency.
Ed Balls: Duly noted.

Q300 Angela Eagle: In terms of the Saving Gateway itself, I think we agree, and I certainly agree, that low income saving and the ideas that have been piloted in the Saving Gateway are an essential part of trying to get some wealth benefit to lower income people who actually never qualify for tax reliefs. Why has it taken so long to pilot the Saving Gateway? This was begun at the same time as the child trust funds which have now been legislated for, and are up and running, and have been in existence for a couple of years. What have you learnt from the second pilot that is helpful and why is this process of piloting seemingly endless?
Ed Balls: Well, I hope it is not endless and I think that the evidence which has emerged from the pilots is very strong. Clearly, there are public spending implications for choosing to move to a national Saving Gateway scheme, and that is properly a matter for chancellors in pre-budget reports and in budgets rather than for myself. Clearly the case of the child trust funds, given that it will take 18 years before anybody can get their hands on the money, if you decide that child trust funds is a good policy, it was sensible to move ahead quickly with that and that is what we did. I made a speech in Bristol at an institute linked with Elaine Kempson actually being launched just a few weeks ago on the evidence from the second pilot and actually we have learnt quite a lot from the second pilot about the way in which savings works for the kind of people who are our target audience. One thing we did in the second pilot was to extend qualification for the pilots further up the income scale and what we found was that, if you started going up the income scale above full benefit for child tax credit, around a £15-16,000 income, as you went up the income scale, savings started in the main to be reallocated from existing savings schemes into the Saving Gateway in order to benefit from the match, so there was a great deal of deadweight if you extended it up the income scale which was not true for the lower income savers. The second thing which I think we learned was that you can achieve the impact you want in terms of encouraging people to save without going all the way up to a pound-for-pound match and that you can get more bang for your buck, if you like, if you target it properly on low income savers with a lower than a pound-for-pound

match, which is helpful to us in terms of calibrating a future scheme. We found that low income savers tend to want to save to the maximum and the maximum becomes a target, so I think we picked a range of monthly savings maximums and £25 tended to be the level at which most low income savers were saving, so that tells you that getting the target right is very important and £25 looks to be quite a good target. We learned that our attempts to package some wider financial education into the Saving Gateway did not work and we had a very low take-up indeed for financial education in the Saving Gateway and I do not think we fully understand why that is the case. I can speculate about that, but I do not know precisely the answer. Hopefully that tells you that there were some important things which we are learning from this which will help us to calibrate properly, effectively and in a value-for-money way when, rather than if, we can move to a national roll-out.

Q301 Angela Eagle: So basically the eligibility criteria for the first pilot were right?
Ed Balls: They were, but we probably only know that now.

Q302 Angela Eagle: You perhaps can argue about the matching and your bang for your buck argument, but the evidence that we have received shows support for the fact that pound-for-pound matching and those eligibility criteria are simple and easy to understand and likely to be the most successful, so we can get on with the first pilot now?
Ed Balls: Had we had the results of the second pilot at the end of the first pilot, we would not have needed the second pilot. We could have concluded at that point that actually the first pilot gave as much of the information which we needed, but we obviously did not know that at the time and we tested some wider differences and changes and concluded that actually, as you said, the first pilot was pretty good.

Q303 Angela Eagle: Right first time, okay. Initially, when the Saving Gateway was discussed, the Treasury seemed to be of the view very much that a single provider was a good issue, that having competitive provision of the Saving Gateway would cause confusion and problems and that you could consolidate fragmented markets by having one provider, yet in a speech you recently made in Bristol, I think, you seemed to be going back and taking a more neutral view on whether there should be a single provider or many providers.
Ed Balls: I think it is really important to understand, which we are trying to understand, exactly how the savings process works for the kinds of consumers we are talking about. I think one of the important findings from the Pomeroy review into low income savings is that there was a number of attributes in a Farepak-style savings scheme which actually were very attractive to low income savers, the fact that it is an easy way to save, very local and often through people who were trusted and who often actually had a friend or a relative at the school gate, and there are networks of institutions around the country and growing networks of institutions around the country, particularly credit unions, which I think have got a much bigger role to play in providing opportunities for low income families to save. I would not want at this stage to say that going for one provider, certainly one national provider, should be the route if that then excludes credit unions and other local providers from being able to benefit from the Saving Gateway, so I think the thing I was saying is that, following the Pomeroy review, we need to think hard about how we encourage local credit unions to play a role in local savings, including the Saving Gateway, and that may mean that we need to think again about it.

Q304 Angela Eagle: So you are not worried about the complexity and confusion that is being caused by the many providers in the child trust fund example?
Ed Balls: To be honest, I do not think so. Actually, the majority of providers of the child trust funds are mutuals and friendly societies and, if you go into a high street store, like Mothercare or Boots, you are not buying a Mothercare or a Boots provider, you are actually buying a friendly society, mutually provided account, so the administration and management of the accounts is a different matter from the front end, if you like. In the case of a child trust fund, clearly having big branded ways of saving going to Asda or to Mothercare has worked. I think in the Saving Gateway it may be that we may need to have more local routes in, but that does not necessarily mean that the actual administration of the scheme needs to be administered in a complex way, but actually there is clearly a balance to be struck between local and trusted and simple and known. My reading of the Pomeroy review into low income savings is that this is not something which should bias, for low income savers, in the direction of high street names.

Q305 Angela Eagle: Finally, on the level of matching, do you agree that the level of matching, even if it is not a pound for a pound, should be at least as good as the level of subsidy available for the most-well-off through tax relief?
Ed Balls: The pound-for-pound matching is considerably higher than that and, without wanting to make an ill-thought-through, principled statement, I would probably have quite a lot of sympathy with the question.

Q306 Mr Love: You mentioned in a response to the Chairman the collapse of Farepak, that you had referred this matter to Brian Pomeroy. What were the main conclusions of his review in relation to informal savings?
Ed Balls: The first thing to say is that, as you know, the responsibility for dealing with the consequences of Farepak, for raising the compensation money for the independent inquiries which are still ongoing and for the wider investigation into the regulatory regime were not for me and the Treasury, they were for Ian McCartney and the DTI, so I do not want to give the impression that I was taking responsibility or driving those matters, but I do have a

responsibility for savings policy more generally, so, as you say, it was the lessons from the wider savings policy which we looked at. I think the things which Brian Pomeroy concluded were that actually, first of all, lock-in is actually attractive to low income savers and, if you remember, when we introduced the individual savings account, we abolished the five-year lock-in, which characterised a TESSA account, as a way of trying to get the savings down the income scale, and ISAs, which have no lock-in at all, have definitely encouraged more middle and low income families to save through an ISA, but the advantage of hamper schemes is that they do have a lock-in, but a lock-in which is considerably shorter than five years and tends to be six or seven months. Secondly, people tend to get to know about a savings opportunity through local contact, through word of mouth and they like saving in a regular way and in a trusted way, a bit like buying the Pools or saving in cancer and polio schemes through a local agent at the school gate rather than needing to go into a high street bank or establishing a Direct Debit. The conclusions Brian Pomeroy gave to us included that, if we are going to promote information campaigns to try and encourage people to do it in a way which is better value for money for them than a hamper scheme, you need to have, as far as you can, local sources of information, that there is a much bigger role for credit unions to play in this kind of saving than has been the case up to now and that we need to collect a lot more information to really understand exactly how these processes work. He also recommended, as you know, that there should be a ring-fence around hamper scheme payments to make sure that customers were properly protected, but that is an area which is more for the DTI than myself.

Q307 Mr Love: Do you think we need to give more priority to this type of informal saving? Have we concentrated, as you indicated, on the changes from TESSAs and ISAs and back and forward to the more formal sector? Does the Treasury, do you think, need to be looking more carefully at informal savings?
Ed Balls: I do. The reality is that we have a very good credit union network in our country which has much less coverage than in some other countries and that is an area where we can do a lot more. Before Farepak, on the basis of our information, there were three credit unions operating Christmas-style, lock-in accounts, Ipswich and Suffolk, Hull and East Yorkshire and, in particular, Leeds City Credit Union, which I think has been a model for a number of other societies and credit unions in recent months. In the last few months, we have actively been encouraging credit unions to establish these kinds of Christmas accounts and, just to give you a quick list, First Alliance, Glasgow, Grampian, ScotWest, Streetcled, Harlow Save, Cambridge City, Handsworth Breakthrough, Rainbow Saver, Anglia, North Lincolnshire and Toraen Secure, Yoker and Quids In Bolton. These are all credit unions which are established, Christmas-style, lock-in accounts, since Farepak and I think we need to see a lot more of that happening and a lot more information about the kinds of opportunities which are available. In the work which is being done by Otto Thoresen on generic advice, I think one thing which we would like him to do is to see how he can help move people into that kind of savings opportunity as well.

Q308 Mr Love: You mentioned earlier that the DTI have some responsibilities here and they have reached agreement with the industry about setting up trust accounts. Are you convinced that trust accounts answer all of the concerns that have been expressed in relation to your responsibilities at the Treasury?
Ed Balls: No.

Q309 Mr Love: Will they provide the security or do we need to go further?
Ed Balls: I do not think that they meet all of our concerns at all about ways to encourage more low income saving. I think that, for those people who choose to go for a hamper-style scheme, it will provide much greater security and my colleague, the Minister of State, announced a few weeks or a couple of months ago that an agreement in principle had been reached and the details are still being worked out and we really need, in particular, Park to get on with getting this sorted out. We hope that in the next weeks we can see a final, detailed resolution to that ring-fencing because we want to see people saving in hamper schemes properly protected, but, in addition to that, I would like to see people saving and getting some kind of return on their savings, which they do not have in hamper schemes, and having a bit more flexibility than you often have in a hamper scheme. I have to say that my presumption when I asked Brian to do this work was that hamper schemes were a bad deal for consumers and he said that for certain kinds of consumers in certain circumstances, if properly protected, they can play a role and they are popular, but there is a lot more that we can do to persuade other providers to provide alternatives and, as I said, credit unions and the Saving Gateway, these are all ways of trying to do that.

Q310 Mr Love: How about regulation? Can you foresee circumstances where these types of scheme would be brought under the FSA to give that security that is necessary?
Ed Balls: This is really a question which you need to put to Ian, but, as I understand it, this was looked at by the OFT. The conclusion which was reached was that to do that would essentially wipe them out, that their ability, given the kinds of margins they run on, to deal with FSA regulation would mean that it was a non-viable business model and, therefore, to regulate them was effectively to extinguish them. Pomeroy's recommendation was that there would be a cost to doing that, so, with the right kind of protection for consumers in a non-statutory form, as it would be, through this ring-fencing, they could still play an ongoing role and that was a judgment on the basis of the OFT recommendations that Ian

reached, so I am not going to second-guess that judgment. What I do think is that we should do more to provide alternatives and to publicise them.

Q311 Mr Fallon: Minister, Brian Pomeroy described the Christmas saving publicity campaign as "urgent" and the Treasury gave the OFT £1 million back in March. Are you aware that Sue Cook from the OFT told this Committee that national advertising would not begin until December this year and would be for people thinking of saving for Christmas 2008?
Ed Balls: I was aware of that. I was told that by the OFT when they were drawing up their plans.

Q312 Mr Fallon: Are you happy with that?
Ed Balls: I think actually, on the basis of their expertise and the recommendations of Pomeroy, it was actually the right way to go. We asked Brian to do this work at the end of last year and we did a piece of research which did not complete until around Budget time, but I found the £1 million to resource the information campaign which he said was necessary. His advice was and all of the experts in the area say that, for the kind of people we are trying to reach, a standard, off-the-shelf, national advertising campaign has little impact and would not be effective and the way to get messages in is through existing networks of providers, through the kind of money advice local networks which currently exist, and that was a much more effective way to spend the money if you wanted to spend it urgently. In discussions, I, as the Minister allocating the money, said to the OFT that I thought there was a case also for seeing whether national advertising could play a role, and the conclusion which we reached was that we would need to do some more research and to understand how to do that in a way which was actually going to get through to the target audience, so these two stages, which was to get something on the ground quickly through existing networks now and then to think harder and to do more research so that for next year's hamper or Christmas savings scheme because, by the time we got to June, most people were obviously already into Christmas savings schemes for this year, if you were going to spend money through national routes, it was much better to do so around the time when people were starting to engage with Christmas saving which was not June. I understand that you had a robust exchange because I read the transcript, but personally I actually think this was good policy-making.

Q313 Mr Fallon: That is a very long answer, but it does seem odd—
Ed Balls: It was a full answer.

Q314 Mr Fallon:—that you take the trouble to find £1 million, but it does not actually impact nationally on people starting to save this summer.
Ed Balls: Hang on a sec. It depends what you mean, but there is no such thing as "national". All of the different local things we do add up to a national effort. There is £1 million for a national effort and we got the money in Budget time and they were up and running and spending the money within a couple of months and actually, through the launch of the campaign, got a very substantial amount of publicity which they did not have to pay for in the main, so I thought that was a pretty good outcome. The advice that I saw from Brian and others was that the best way to have a national reach quickly was by going through existing local, trusted networks and that is what we did, but, if there is to be a national message, it is something you need to think hard about before you do it and that is what we are doing.

Q315 Mr Fallon: Presumably £1 million is not enough to have a desired impact right across the board of savings. Do you see the OFT coming back for more money next year or was this a one-off?
Ed Balls: We are always under pressure to find more money.

Q316 Mr Fallon: But is this a one-off?
Ed Balls: Personally, I hear your representation, but I think it would be a good thing for us to spend more money on this and to spend money each year on it. Whether that is something which will be possible will depend upon the Chief Secretary rather than myself, but I think representations to spend more public money in this area sound to be very good representations to make.

Q317 Peter Viggers: In November 2006, you announced a review of the legislation covering industry, provident societies and credit unions and those involved were led to believe in a promised consultation document in March and a full public consultation starting in April. Nothing has happened. What has gone wrong?
Ed Balls: Nothing has gone wrong and the results of what has been a very extensive piece of work by the Treasury will be made public in weeks, days even. The fact is that we have an expert, but fairly small, resource in the Treasury and, as well as preparing for that consultation over the last six months, we have also been working in detail with John Butterfill on his Bill to modernise legislation as it impacts upon building societies and this is to save people doing the work and, in their supporting of the Butterfill Bill, including amendments at report stage and then in the Lords, we will make that piece of legislation really work for that part of the mutual sector. At the same time, we have been preparing the consultation through detailed discussions with the credit union sector and we will be moving forward very quickly in public with a detailed document which will allow us to frame exactly where our legislative priorities should be for the next session, if we can get a slot, so my reassurance to you is that we have been working very hard on this.

Q318 Peter Viggers: Do you believe the credit unions can play a larger part in promoting savings and will your draft legislation reflect this?
Ed Balls: I think they absolutely can and must, but it is dependent in part on updating the legislation because I think, in the case of building societies and

some other forms of co-operative, the legislation has moved forward, but, in the case of credit unions, it is very clunky and out of date. It is a big task to modernise it, but we are setting out to do so. I think anybody in the credit union sector will tell you that this is quite an ambitious task and, to do it, we will have to use a number of different legislative vehicles. We are not going to get, in my guess, simply one big omnibus bill to sort this out, but we will have to use different routes as they present themselves and getting the consultation right, getting the priorities right, working up different ways in which you can do it through different instruments has been a big piece of work, but I think the credit union sector will see that we have done it very well.

Q319 Peter Viggers: Will you be encouraging a rebranding of credit unions and do you accept that community banks play a large part in the United States, for instance? I know that historically the word "bank" has been defended very vigorously by the Bank of England and the authorities are anxious to avoid any institution using that word unless they satisfy very high criteria. What is the current thinking on that?
Ed Balls: I have to say, I do not know the detail on that point. I have had no credit union put it to me in the last year that this was a major obstacle to moving forward, but I suspect I might get a few representations, having said that in front of the Committee. We now have a number of credit unions who are offering current accounts and one of the things I have been encouraging the banks to do, and in fact it is one of the work streams out of the financial inclusion report earlier in the year, is to see how we can get the high street banks doing more to support credit union current account banking. My sense though is that, for credit unions, the two main obstacles are legislation and capacity and I was down in Bristol a couple of weeks ago meeting the Bristol Credit Union which has merged four different credit unions into one, has gained money from the Growth Fund, is now about to offer a child trust fund, but that, in order to get to the kind of scale which it needs in order to be really sustainable, it needs to put a lot of resource into the staff it needs to get out into communities and collect the money to offer the loans, so the Growth Fund, by providing that sort of start-up capital or that start-up capacity and support for institutions to expand, is really, really important and my guess is that that is more important. Having the money to expand enough to become self-sustaining along with the legislation are probably the two biggest priorities, but I will have a look at this name issue.

Q320 Jim Cousins: Is one of the things that the task force you are setting up is going to look at the various caps and traps we have had in the means-tested benefits for the treatment of savings?
Ed Balls: The financial inclusion task force which exists or the ministerial group?

Q321 Jim Cousins: The ministerial group.
Ed Balls: My understanding was that we have made really quite a lot of progress for both pensioners and for families in taking away many of the most blatant disincentives and caps to saving which existed in the system and which we inherited, but I am very happy to suggest to my ministerial colleagues that this is something which we have a look at in more detail. It is not something which at the first ministerial meeting ministers came to me saying that they wanted to focus on, but I am very happy to go back to them and ask them whether it is something that they think should be focused on.

Q322 Jim Cousins: I am grateful to you for that because, for example, with pension credit, if somebody receiving pension credit receives a legacy from another relative, that can throw their pension credit status into some confusion and, if they give the money away to younger relatives, for example, to help them buy a house or set themselves up in a house, they can be accused of fraud. That is the sort of thing which has to be looked at, is it not?
Ed Balls: We need to keep these issues under review all the time. There is clearly a balance to be struck between getting the right incentives to save, but also making sure that the system works in what people perceive to be a fair manner. As I said, it has not been put to me as part of the financial inclusion work that there were particular savings restrictions which were damaging our financial inclusion agenda, but, following this discussion, I will go back to the DWP and talk to them in more detail. As you can see, because it has not been part of my work and it has not been put to me as an issue, I am a bit unsighted of it, but I am very happy to have a further look at it.

Q323 Jim Cousins: Of course I understand that. Similarly, something like 80% of over-60s are owner-occupiers, very often without mortgages, but they do not necessarily have the capital resources to repair or renew the homes that they live in. Is that the sort of issue that will be looked at?
Ed Balls: I think that that probably goes wider than the scope of the financial inclusion working group.

Q324 Jim Cousins: Well, the financial products that people might use to release equity in their property to meet that problem are quite sophisticated and risky for low income people to become involved with.
Ed Balls: Without wanting to stray too far into the detail, I would hazard the opinion that the kinds of products you are talking about are outside the realm of people on low or even middle incomes and, whilst this is an issue I have been concerned about and looked at carefully, it is not really the financially excluded or even the low income households which are getting involved in these products. Now, that does not mean I am not concerned about them indeed, but you have to be of a considerably higher wealth and income in order for it to be in your interests to start accessing some of these equity-release products.

Q325 Jim Cousins: Absolutely, and that reinforces the point I am making, that we do not have ready financial devices which low income owner-occupiers who are over 60 can use to sensibly release resources to repair and renew the homes they live in.
Ed Balls: I understand that and I think the truth is that we do not have easy ways of many middle and even higher income households doing that in a way which is value for money for them because the complexity of the risks which you run in trying to make these products work are very substantial and, I have to say, frustratingly substantial. To me, it seems such a simple proposition, as I am sure it does to you, that, for a household to be able to draw down some of their capital in a sensible way in order to release income in retirement, it should make sense, but it is actually a very difficult thing to pull off because the longevity risks are very substantial and it can end up being very poor value for money for households, but it is an important issue.

Q326 Jim Cousins: The single most significant financial product that somebody will have contact with is the Post Office card account and the single largest loan book for low income people is operated by the Department for Work and Pensions through the so-called "Social" Fund. If ever something was incorrectly named, I think it was that. Now, will these things be part of the work of the ministerial task force on financial inclusion?
Ed Balls: I think importance of moving forward effectively on the Post Office card account was very much brought home to me the last time I gave evidence to this Committee as part of your inquiry when I seem to remember a detailed exchange and, as a consequence of those consultations and discussions, alongside the £1.7 billion which is going in in the coming years into subsidising the network, we are now in the early stages of tendering for the successor regime to the Post Office card account to make sure that people who want to access benefits through the Post Office will continue to be able to do so. I said to the Committee, and we had a long discussion about this, that, from a financial inclusion point of view, the Post Office card account is not a satisfactory account and it does not have the kind of functionality which we would like, but at the same time we want people to be able to access electronically the Post Office, and 20% of people currently receiving benefits are receiving them through the card account and realistically that number may come down by some, but not all the way to zero and, therefore, we need a successor regime which strengthens the Post Office network and that is what we have done as a result of our discussions. On the particular point about the Social Fund, that is absolutely one of the things which we discussed at our first meeting of the ministerial group and which I am actively talking to the DWP about and to the Minister, James Plaskitt.
Chairman: Mindful of the detailed discussions you did have, I will hand over to George Mudie.

Q327 Mr Mudie: This is not a detailed exchange, this is just a very civilised question.
Ed Balls: As always!

Q328 Mr Mudie: Andy has told me I have got to behave! In terms of savings relating to the Saving Gateway, we were in Dublin looking at asset schemes and they very proudly explained to us their five-year savings scheme that had been a tremendous success. Have you looked at it?
Ed Balls: We have looked at that as part of our thinking about the Saving Gateway as the Treasury and it is actually something which has been raised with me by our Irish colleagues in the margins of other meetings, but I am not an expert. I know rather more about the Irish unclaimed asset scheme than I do about the Irish saving scheme. I also know that the Irish have a very substantially more developed credit union sector than we do, but, if you push me too hard, my Irish knowledge may turn out to have gaps.
Mr Mudie: I am not one to push a minister too hard, Mr Balls, but I seem to recall that, out of a workforce of 1.5 million, 1.2 had signed up for the scheme and, when we were in Dublin, it was the end of the five-year period and the whole of Dublin was talking about how they were going to spend their £8,000, and the taxi driver taking me to the airport was proudly a member of it, so it seems to have been extremely successful. I am not trying to undercut the pound for a pound, but it seemed to work on a pound for every either £4 or £5 invested, but it had been a tremendous success and the interesting thing was that, as it came to a close, the Government were docking on to a scheme to persuade those without pensions to actually do something in terms of pension entitlement.

Q329 Chairman: With a population of over four million, 25% had this saving scheme and it released about 15 billion euros. Maybe one advantage, Minister, for the Government in the Republic of Ireland is that it released it two or three months just before the general election, but I am not suggesting you follow that!
Ed Balls: It is certainly the case that, as you said, the objective was much wider than financial inclusion and it was more akin to a hybrid of the ISA and the TESSA, to be honest. It was partly to encourage savings and it was actually, if I remember, also because at that particular point in time the Irish Government wanted to suck excess liquidity out of the financial system and they could not do that through a rise in interest rates because they were members of the euro and, therefore, this was a sort of fiscal way of proxying a tightening of credit conditions, but by encouraging people to save. That is probably a good example of a rise in savings rather than a bad example, but it had a range of different objectives. Whether it was value for money, I do not know the answer to that, but it sounds like it was popular.
Mr Mudie: The interesting thing though, or one interesting thing, and again I am not trying to cut across Angela because I would rather you gave the pound for pound, but that was something like 25 pence per pound and it was amazingly successful.

Q330 Chairman: Minister, as a last question, you have commissioned Otto Thoresen to look at the issue of generic financial advice and have offered a discussion with him on this issue. It is a complex issue, but do you feel that the Thoresen review could help potential consumers decide between informal savings products and regulated financial products?
Ed Balls: Indirectly, yes is the answer. The challenge for Otto Thoresen is to find a way in which generic advice can be given which does not require that advice to be regulated, so exactly how the protocols work which allow advice to be given about whether to go into the regulated or unregulated advice sector without requiring that advice to be regulated, that is a challenge for him. I say this to the Committee because I have been very clear to him and in public as well and I hesitate to go down this road because Mr Fallon might start to get interested simply by the mention of the word "Olympics", but my message to Otto Thoresen, if you will forgive the analogy, is that we were not asking him to bid for the Olympics, we were asking him to draw up the Olympics delivery plan and we are not simply asking him to look, in principle, at whether a generic advice service would be a good idea, we are asking him to draw up what in practice we need to do in order to make it work, which includes precisely answering in detail the kind of question that you have raised.

Q331 Chairman: Do you see voluntary organisations, for example, and Citizens' Advice Bureaux having a role in this generic financial advice in terms of a specific location?
Ed Balls: Clearly, and they do massively at the moment. I think the Citizens' Advice Bureaux have trained over 400 money advisers just in the last year and a half alone as a result of the Financial Inclusion Fund, so they will give, and will continue to do so, face-to-face, local advice which, as I was saying, is particularly for low income consumers and particularly important for people getting into distress. One of the things we would like with unclaimed assets is to further encourage the growth of that kind of face-to-face advice. I think in the case of the Thoresen review, there is an extra thing he is looking at though as well which is for people, the low and middle income savers, whether there is a case, and we believe there is a case, for a first port of call, nationally branded, probably a telephone and Internet in the main advice service which can then help to route you in the right directions, give you some basic information, allow you to understand choices, take you down different routes, including that interface face to face. It has never been the Thoresen national advice service versus face-to-face CAB, they are both parts of the picture, but I think there is a case for something which is additional to the local networks we have at the moment and want to expand.

Q332 Chairman: Minister, can I thank you for your appearance this morning and also for the seriousness with which the Government is taking our financial inclusion reports and I think there have been strides in that particular area and I look forward to that continuing. Thank you very much.
Ed Balls: Thank you for having me.

Written evidence

Memorandum submitted by the Financial Inclusion Taskforce

(i) *Introduction*

1. This is the response of the Financial Inclusion Taskforce to the Treasury Select Committee's three reports on financial inclusion, published in November 2006. The Taskforce has delayed its response to the Committee's reports until the Government's publication of its new financial inclusion document, Financial inclusion: the way forward (published 28 March 2007), which sets out a new framework for financial inclusion policy in the next spending period.

2. This response reproduces each of the Committee's recommendations for the Taskforce, and presents the Taskforce's responses following each recommendation or group of recommendations.

(ii) *The role of the Financial Inclusion Taskforce*

Text of the Committee's recommendations

> "We welcome the establishment of the Financial Inclusion Taskforce and its progress during the first 18 months of work. It has brought a much needed focus to the issue of financial inclusion and ensured wide consultation with those throughout the financial services industry and voluntary sectors who have a role to play in promoting financial inclusion. The Taskforce has made much progress in its work programme under the chairmanship of Brian Pomeroy. We believe its remit should be expanded to include access to savings and insurance. The Treasury should ensure that additional resources are provided to the Taskforce so that the expansion of its remit does not limit the ability of the Taskforce to complete its substantial programme of current work." (Paragraph 68; Third report: the roles of the Government and the FSA, and financial capability, 28 November 2006)
>
> "We welcome the action taken by the Government to promote financial inclusion and the progress that has been made on access to banking services, affordable credit and money advice. Longer term strategic planning and the involvement of all Government departments is vital in promoting financial inclusion. We recommend that, in consultation with key stakeholders and the Financial Inclusion Taskforce, the Government develop a long-term strategy for promoting financial inclusion. This should be published alongside the Comprehensive Spending Review. We recommend the Treasury take the lead in developing this strategy, although it is clear that, in order to be successful, policies aimed at improving financial inclusion will need to be implemented by all Government departments." (Paragraph 87; Third report: the roles of the Government and the FSA, and financial capability, 28 November 2006)
>
> "Sustained and predictable funding for work aimed at promoting financial inclusion is essential. For example, if long-term funding is not forthcoming then the increase in the availability of debt advice as a result of the money from the Financial Inclusion Fund will not be sustained. It would be a wasted opportunity if the debt advisers with valuable expertise recruited as part of this initiative were made redundant. We welcome the Economic Secretary to the Treasury's intention that financial inclusion should play an important part in the forthcoming Comprehensive Spending Review. We recommend that the Government initiate a wide-ranging debate about the key priorities for the Spending Review in terms of funding for financial inclusion programmes. This should involve full consultation with front-line professionals in the third sector and with the Financial Inclusion Taskforce." (Paragraph 92; Third report: the roles of the Government and the FSA, and financial capability, 28 November 2006)

Financial Inclusion Taskforce response:

3. The Financial Inclusion Taskforce welcomes these reports by the Treasury Select Committee, and is pleased that the Committee has come to such a positive assessment of the role of the Taskforce in promoting financial inclusion.

4. As set out in the Government's new financial inclusion strategy document (Financial inclusion: the way forward), the Taskforce will have significant responsibility for evidence gathering and analysis to inform the developing policy agenda in this area, for the remainder of the current spending period, and as a result of the continuation of the Taskforce until 2011, for the next spending period as well.

5. In particular, the Taskforce will be involved in development of the detailed action plan for deploying the new Financial Inclusion Fund, which the Government has committed to continue in the next spending period from 2008–11. In the longer-term, the Taskforce welcomes the Government's announcement that financial inclusion policy will be mainstreamed into departmental budgets after 2011.

(iii) *Data sharing and affordable credit*

Text of the Committee's recommendation:

> "Our current inquiry has demonstrated both the importance of effective data-sharing in enhancing access to affordable credit and the potential benefits of data-sharing beyond the traditional lending industries. We are disappointed that there is insufficient evidence as yet of concrete progress arising out of the proposals of our predecessors for increased data-sharing. We recommend that the DTI and the Financial Inclusion Taskforce investigate as a matter of urgency the benefits of wider data-sharing in increasing access to affordable credit and the barriers to such data-sharing. We further recommend that the DTI actively promote measures involving lenders and non-financial services organisations such as housing associations and local authorities to ensure the development of more comprehensive data-sharing." (Paragraph 35; First report: credit, savings, advice and insurance, 16 November 2006).

Financial Inclusion Taskforce response:

6. The Taskforce agrees that data-sharing is a potentially important issue in increasing the availability of affordable credit. However, the Taskforce points out that data-sharing may have the result of entrenching lack of access to affordable credit for those who are most excluded, as there will be no data on credit use for such customers. The Taskforce believes, therefore, that the use of data-sharing should be "financial exclusion proofed" to ensure it does not increase the access to affordable credit of those consumers already using credit at the expense of those who are not.

7. The Taskforce will accordingly liaise with the DTI to consider the results of the consultation exercise into data-sharing that the Department has recently concluded, as part of its own ongoing consideration of the role of data-sharing.

8. The Taskforce also notes with interest the decision by the Competition Commission's inquiry into the home credit market, which reported in December last year, to institute a requirement for home credit providers above a threshold operational scale to share client data through at least two credit reference agencies.

9. A number of providers of mainstream consumer credit have, in meetings with the Taskforce, questioned the usefulness of data from home credit providers as a guide to the creditworthiness of potential mainstream consumer credit customers, given the wide differences between the home credit and mainstream consumer credit models. Nevertheless, we will follow these developments with interest.

(iv) *Banking issues—engagement by the banks*

Text of the Committee's recommendation:

> "Although we do not see a case at present for the introduction of legislation comparable to the US Community Reinvestment Act, we recommend that the Government, the banks and the Financial Inclusion Taskforce work together to prepare and then publish measures of engagement by the individual banks with the socially excluded, provided on a standard basis no later than the middle of 2007. More generally, the adequacy of the provision by banks of information which enables full and effective monitoring to be carried out will be an important criterion in determining the overall success of the voluntary partnership approach to combating financial exclusion in banking services." (Paragraph 20; Second report: banking services, the Post Office Card Account, and financial inclusion, 19 November 2006)

Financial Inclusion Taskforce response:

10. The Taskforce will continue to work with the banks and the Government to consider ways in which the banking sector is engaging with financially excluded consumers across the range of product markets.

11. As set out in Financial inclusion: the way forward this will include working with the Government and the banks to understand, gather evidence on, and develop options for addressing the following issues:

— the number of people who are unbanked (the latest FRS data shows that in 2005–06 there were two million adults living in 1.3 million households without access to a bank account);

— the extent to which basic bank account customers are making effective use of their accounts;

— the role of banking as a route for consumers into wider financial inclusion;

— the role of the banks in supporting customers in financial distress; and

— the potential role of banks in supporting a national expansion of the coverage and capacity of third-sector lenders.

12. As part of this process, the Taskforce will consider with the banks and the Government the case for standard, reported measures of banks' engagement with financially excluded customers.

(v) *Banking issues—the shared goal and reporting*

Text of the Committee's recommendation:

> "There is evidence to indicate that steady progress has been made so far towards the target of halving the number of people without access to a bank account. Banks are collectively accountable for progress so far and in the future. However, it is also vital that each bank can be held to account individually for its contribution to meeting this target. This is not possible at the moment. Individual banks need to accept this responsibility, and accordingly we recommend that the Government, the Financial Inclusion Taskforce and the banks reach agreement enabling each individual bank regularly to publish figures for the numbers of basic bank accounts it has opened in each year. We would expect each bank to develop strategies for ensuring that it makes a proportional and appropriate contribution towards meeting the target, and we would also expect such strategies to take due account of the analysis which follows on the issues surrounding the opening of basic bank accounts." (Paragraph 26; Second report: banking services, the Post Office Card Account, and financial inclusion, 19 November 2006)

Financial Inclusion Taskforce response:

13. The Taskforce has, in its role as monitor of progress towards the shared goal, been provided with data on the levels of basic bank accounts opened by each bank, and has discussed these data with them individually. Data at the level of the individual banks is, necessarily, commercially sensitive, and the Taskforce has therefore agreed to treat this information as commercial in confidence. The Taskforce notes, however, that the Treasury Select Committee has published individual bank-level data on basic bank account opening as part of the evidence from its inquiry.

14. The Taskforce suggests that recent evidence from the latest FRS, confirming that steady progress is being made towards the shared goal, indicates that compulsory individual bank-level reporting may not be a requisite for progress with reducing the number of unbanked adults. The Taskforce will however, as stated above, continue to work with Government and banks on developing frameworks for engagement, and will accept any further monitoring and evaluation responsibility which is agreed by all stakeholders.

(vi) *Banking issues—commercial sustainability*

Text of the Committee's recommendation:

> "While the provision of basic bank accounts will not be immediately profitable, we welcome recognition by the banks that they have a responsibility to provide such a service and that, in the longer term, bringing more people into the financial services sector will be profitable for the banks. We also welcome the fact that banks are upgrading consumers to full service accounts where this is appropriate for the individual. It is important that the Financial Inclusion Taskforce, in cooperation with the BBA and individual banks, assesses evidence concerning the business case for banks to provide basic bank accounts." (Paragraph 30; Second report: banking services, the Post Office Card Account, and financial inclusion, 19 November 2006)

Financial Inclusion Taskforce response:

15. The Taskforce has, in its meetings with banks—both individually and collectively—discussed the economics of basic banking products at length. The Taskforce welcomes the ongoing commitment of the banks to offering the basic bank account. Discussion with the banks on the economics of basic banking products is ongoing.

The Taskforce will also, as detailed in Financial inclusion: the way forward, be considering the medium- to long-term impact of developments—technological, commercial or demographic—in the banking market that may impact on the ways in which banks offer products for the financially excluded. We will, of course, consult closely with the banks in conducting this work.

(vii) *Banking issues—commercial sustainability*

Text of the Committee's recommendation:

> "Financial inclusion will require more than the achievement of numerical targets for numbers of accounts opened. Survey evidence indicates that a significant proportion of basic bank account holders withdraw all their money in cash on the day it is credited and gain little benefit from operating a basic bank account. There needs to be a greater focus on ensuring that the terms and conditions of basic bank accounts are appropriate and useful for those on low incomes. We make a number of recommendations below and expect the Treasury, the Financial Inclusion Taskforce

> and the banks to discuss and take forward appropriate measures for their implementation." (Paragraph 65; Second report: banking services, the Post Office Card Account, and financial inclusion, 19 November 2006)

Financial Inclusion Taskforce response:

16. The Taskforce agrees that usage of accounts is an increasingly important issue for the financial inclusion agenda, and as detailed above, will be working with the Government and the banks to gather evidence and develop options for addressing this issue in the context of the developing financial inclusion strategy over the coming months.

17. The Committee's report into banking identifies a number of specific areas relating to usage. The Taskforce considers each of these in turn below:

a. Penalty charges: the Taskforce recognises the disproportionate impact that penalty charges have on low-income customers. The Taskforce understands that this issue is now being considered by the Office of Fair Trading, and awaits the findings of the OFT's investigations.

b. Buffer zone: research evidence from financially excluded people collected by the Taskforce shows that a buffer zone is a useful feature of bank accounts designed for use by low-income and newly-banked customers. The Taskforce notes that a small number of basic bank accounts currently offer a buffer zone.

c. Direct debits: the Taskforce has been carrying out discussions with the banks, utilities, and BACS on ways in which direct debit can be made a more relevant and appropriate service for those on low incomes and operating basic bank accounts. We will continue with this work.

d. Branch access: The Taskforce, like the Committee, would prefer that banks did not restrict counter access for basic bank account customers, and has made this clear to those banks that do so.

e. Cheque clearing: the Taskforce understands that the OFT-chaired Payment Systems Taskforce has delivered an agreement by the banks to bring the cheque clearing cycle for basic bank accounts in line with the standard cycle, with a commitment from the banks to implement changes from November 2007.

f. The right of set-off: the Taskforce considers that the right of set-off, where applied, should be used in a way that is consistent with the principle of the Banking Code, which requires subscribers to treat customers in financial difficulty sympathetically and positively.

(viii) *Banking issues—innovative technologies*

Text of the Committee's recommendation:

> "Basic bank accounts should contain features that help people monitor their day-today expenses. These could include regular statements or the ability to check balances at Post Offices. We recommend that research be undertaken by the Financial Inclusion Taskforce into methods of helping communicate to basic bank account users the amount of money left in their account and any impending direct debits. We further recommend that the banks investigate innovative ways of accomplishing this through mechanisms such as text message banking." (Paragraph 74; Second report: banking services, the Post Office Card Account, and financial inclusion, 19 November 2006)

Financial Inclusion Taskforce Response:

18. As indicated above, the Taskforce is reviewing developments in the banking market, and as part of this work will consider ways in which account information can be made more accessible to customers.

(ix) *Banking issues: access to branches*

Text of the Committee's recommendation:

> "Lack of access to a bank branch can be an important source of geographical financial exclusion. Some vulnerable groups, particularly the elderly, are heavier users of bank branches than younger people. While we note that since 2000ı01 large scale bank branch closures have been avoided, we recommend that the Financial Inclusion Taskforce undertake a mapping exercise to determine the problem of lack of access to branches and explore with the high street banks the possibility of innovative models of delivery such as shared or mobile branches." (Paragraph 90; Second report: banking services, the Post Office Card Account, and financial inclusion, 19 November 2006)

Financial Inclusion Taskforce Response:

19. The Taskforce is currently investigating the options for conducting a widespread mapping exercise in line with the Committee's recommendation. As part of our work into developments in the banking market, the Taskforce will also consider the role of innovative distribution mechanisms such as shared or mobile branches.

(x) *Financial capability and demand for financial products*

Text of the Committee's recommendation:

> "We welcome the limited steps the FSA has taken to improve financial capability amongst the financially excluded, such as some of the projects funded by the Financial Capability Innovation Fund. However, we are concerned that the FSA's National Strategy for Financial Capability does not adequately address the needs of the financially excluded. We recommend that the FSA set and achieve targets to reach such individuals as part of its strategy. Reaching the financially excluded will require much more active engagement rather than just distributing leaflets or putting information on a web-site. We further recommend that the action undertaken by the FSA be coordinated with work by the Financial Inclusion Taskforce aimed at stimulating demand for financial services amongst previously excluded individuals." (Paragraph 13; Third report: the roles of the Government and the FSA, and financial capability, 28 November 2006)

Financial Inclusion Taskforce Response:

20. In developing its proposals for a campaign to stimulate greater demand for financial services amongst hard-to-reach groups, the Taskforce discussed ideas and opportunities for coordination with the FSA. This campaign, entitled "now let's talk money" was launched in January this year.

21. The Taskforce understands that the DWP, which is responsible for implementing the campaign, and the FSA are coordinating work in their respective areas. Furthermore, the FSA has provided representation to a Stakeholder Advisory Group which is providing the DWP with wider stakeholder feedback on its plans for the initiative.

(xi) *Financial Inclusion Taskforce engagement with stakeholders*

Text of the Committee's recommendation:

> "While we recognise the need to keep the Financial Inclusion Taskforce at a workable size, the Taskforce needs to engage with other partners that can help promote financial inclusion, such as the Post Office and housing associations." (Paragraph 69; Third report: the roles of the Government and the FSA, and financial capability, 28 November 2006)

Financial Inclusion Taskforce Response:

The Taskforce has engaged with a wide variety of stakeholders, including the social housing sector and the Post Office, and will continue to do so.

April 2007

Memorandum submitted by the Community Development Finance Association

The Community Development Finance Association (cdfa) is the UK trade association for community development finance institutions (CDFIs). CDFIs are independent financial institutions. They provide capital and support to enable individuals or organisations to develop and create wealth in disadvantaged communities or under-served markets. The cdfa's mission is to support the development of a thriving and sustainable community development finance sector that provides finance for disadvantaged and underserved communities and, as a consequence, contributes to the increasing prosperity of these communities.

The cdfa believes that savings, within the context of a holistic approach to eradicating financial exclusion, have a major role to play in supporting the welfare of disadvantaged individuals and groups, as well as in building financial capability within such communities. Disadvantaged geographical communities and groups need the opportunity to build cohesive, sustainable communities and communal and personal savings schemes can provide this opportunity for many of them. Our analyses of the financial needs of these groups have found that they consider savings more important to the alleviation of their difficulties than other products, such as insurance. They consider the following factors, in the following order, to be barriers to their financial well-being:

— No savings
— No current account
— Difficulty in accessing affordable credit
— No home buildings insurance
— No home contents insurance
— No credit card.

Financial exclusion cannot be overcome by tackling any single one of these barriers. The government's financial inclusion strategy should address each of the above matters both as an individual factor and as an element of the whole financial exclusion issue.

April 2007

Memorandum submitted by the Association of British Credit Unions Limited (ABCUL)

EXECUTIVE SUMMARY

1.1 The Association of British Credit Unions Limited (ABCUL) welcomes the opportunity to make a submission to the Treasury Select Committee follow up inquiry into savings for all and shorter term savings products. ABCUL is the principal national trade association for British credit unions and represents 70% of the 531 credit unions throughout England, Scotland and Wales and ABCUL members serve approximately 85% of credit union members.

1.2 According to unaudited figures from the Financial Services Authority, in September 2006, credit union members held savings of over £428 million.

1.3 Our evidence outlines the range of savings products which credit unions already offer to their members, and a range of convenient methods of saving. These include Christmas Savings Accounts, many of which were started in response to member demand in the wake of the Farepak collapse. All savings in ABCUL credit unions are covered by life insurance at no extra cost to the member.

1.4 We explain how credit unions have found that the ability to access affordable credit as an alternative to high-cost home credit has a great impact on the ability of people on lower incomes to build savings. Also, by encouraging young people to save in specially designed young saver accounts, credit unions get people in the savings habit at an early age and encourage them to carry on savings once they reach adulthood.

1.5 ABCUL believes that the ability to access safe and convenient savings products is essential for financial inclusion and encouraging these savings empowers individuals and builds financial capability. We welcome the extension of the remit of the Financial Inclusion Taskforce to include savings. We also explain why we believe the Saving Gateway should be rolled out and made available through credit unions.

1.6 We go on to explain why we don't believe that allowing housing association saving with rent schemes to operate without deposit taking permissions is the best way to encourage tenants to save. Credit unions ability to serve housing association tenants and encourage membership through payroll deduction from large employers will be greatly expanded through legislative change which could allow every household in Britain is to be able to access quality credit union services.

1.7 Legislation also needs to allow credit unions the ability to choose to pay interest on savings as an alternative to paying dividend on deposits. Credit unions ability to meet the savings needs of their members will also increase if their legal objects give them more flexibility to offer the products and services their members need and demand.

CREDIT UNION SAVINGS

2.1 According to FSA unaudited figures, savings in credit unions stood at over £428 million at the end of September 2006. This figure has nearly quadrupled since 1997, when savings stood at £107.4 million. A table below shows the growth in credit union membership and savings since 1990 (taken from Registry of Friendly Societies and FSA figures from audited annual returns).

Year	*No. of CUs*	*Membership*	*Savings (£000s)*
1990	275	53,916	14,968
1991	327	69,190	20,478
1992	383	88,007	28,505
1993	426	110,079	39,492
1994	475	138,582	53,706

Year	*No. of CUs*	*Membership*	*Savings (£000s)*
1995	530	161,502	70,012
1996	550	190,825	87,686
1997	596	224,674	107,394
1998	630	255,596	126,721
1999	666	295,826	153,850
2000	687	325,058	182,771
2001	698	365,934	223,847
2002	686	406,564	272,491
2003	665	451,819	338,006
2004	594	482,828	352,039
2005	525	501,879	387,709

2.2 Credit unions offer a range of savings products to their members; as well as the basic membership account, which all members hold, members in many credit unions are able to choose from other accounts including:

- Holiday savings accounts
- Christmas accounts
- Longer term savings accounts
- Junior accounts

2.3 People are encouraged to build up a longer term "nest-egg" in credit unions because life insurance is built in at no charge to the member. In the event of a member's death, the amount saved can be as much as doubled and passed to a nominated beneficiary.

2.4 Credit unions also offer a range of ways for people to pay into their savings. This emphasis on making saving convenient for the community or workplace which the credit union serving is key to encouraging people to save. In research carried out for ABCUL by the Personal Finance Research Centre at Bristol University[i], 58% of members gave the fact that the credit union offered "a more convenient way to save", as a reason for saving with a credit union.

2.5 Credit unions offer a wide range of ways for members to access savings products including:

- Benefit Direct accounts—members receiving state benefits through the credit union can choose to have an amount diverted into a separate savings account.
- Payroll deduction—members can choose to have savings deducted from their wages/salary by their employer where a payroll deduction scheme is in place.
- Local collection points—as well as shop-front offices, many credit unions run local and accessible collection points, often in partnership with organisations such as SureStart schemes, day centres or housing associations.
- PayPoint Card—ABCUL credit union members can use the PayPoint card to pay into their savings and/or loan accounts at 16,000 locations around the country.

2.6 Many credit union run savings clubs in schools. As well as encouraging young people to get into the savings habit and providing them with an element of financial education, the collection points may be open to parents and carers so also encourage adults to build their savings.

2.7 Nine credit unions are now offering the Credit Union Current Account to their members and more credit unions are due to offer the account in the coming months. The ability to transfer money to separate savings accounts and/or instantly access savings through ATM machines and debit cards will encourage more people to save with credit unions.

Savings as part of Financial Inclusion

3.1 The ability for individuals to build personal assets is an essential ingredient in enabling that person to avoid financial exclusion. A small pot of savings empowers a person by:

- Enabling them to pay for unexpected costs without resorting to credit.
- Giving them the peace of mind that comes from knowing there is an amount of money that is available should they need it.
- Being able to budget for planned events such as Christmas.
- Enabling people to make choices about how and when they save, and how and when they spend builds financial capability and enables people to have more choices about how they manage their money.

3.2 Sometimes people do not value the savings until they start saving by default in some way. Examples of this include:

— People who are paying high interest rates to doorstep lenders and then swap this to a credit union loan. Because of the reduced loan repayments, they are encouraged to start saving a proportion of the money they would otherwise by paying in high interest charges. Once people see the money build up, they value this and continue saving.

— Incentive schemes funded by employers—TransaveUK Credit Union provides services to employees of First Group the transport company. In an effort to reduce staff turnover, a new starters scheme was introduced. New employees have £10 per week paid into a credit union account that they can only access after they have been employed for a year. 99% of people introduced to the credit union in this way carry on saving.

— Encouraging people to save a small amount when they are repaying a loan means that many people start saving a small amount which they may increase when their loan is repaid. Many credit unions in recent years have been persuaded to break the link between savings and loans and not require people to save before they borrow. This is essential if affordable credit is to be accessible to those in need, but adding a small savings element to the loan repayment is an excellent of way of helping people to see the value of savings.

— When a member finishes repaying a loan they may continue paying the same amount into the credit union (especially if this is through payroll deduction or from a transfer from a Benefit Direct account). As they are used to not seeing the money they do not miss the money they are saving.

3.3 "Kick-starting" savings in some way is an excellent way to numbers of people saving. Because credit unions offer a range of financial services, they are ideally placed to help people plan their finances in a more holistic way and encourage savings as well as provide a source of affordable credit.

3.4 Because using the Credit Union Current Account gives people access to the full range of credit union services, it is far better placed to encourage people receiving benefits or wages into the account to save. Because of the limitations of most basic bank accounts and the Post Office Card Account, large numbers of people do not save using these products and are likely to withdraw all their income. The Government choosing to assist more credit unions with the set up costs of the Credit Union Current Account is a very welcome initiative which will enable large numbers of people on low incomes to start building up savings.

Christmas Saving Accounts

4.1 Prior to the collapse of Farepak in 2006, a number of credit unions did offer Christmas savings accounts to their members. Research carried out amongst users of the ABCUL members' website in January 2007 showed that 70% of credit unions responding had either just launched a Christmas account or were considering doing so. A further 20% had offered the account to their members for some time.

4.2 Due to member demand, many credit unions place restrictions on when money can be withdrawn, or offer bonuses which are only payable after a certain date. This is a key factor in encouraging savings in this market; people want to know that they cannot use the money for other purposes.

Saving Gateway

5.1 Pilots of the Saving Gateway have shown how initial encouragement and incentive can help turn non-savers into savers. People on low incomes do not benefit from tax incentives in saving in the same way as higher income consumers but they do benefit from and value a matched savings scheme such as this.

5.2 Working at the heart of often deprived communities, credit unions have already proven their ability to attract savings from lower income consumers. We hope that there will be an early roll-out of the Saving Gateway once the analysis of the second pilot has been completed and believe that credit unions are ideally placed to offer such an account.

5.3 For the hard to reach group of people who do not trust banks or do not believe that they are "for them", credit unions represent an ideal way for a laudable scheme such as the Saving Gateway to connect with the people it needs to. Changes in legislation which will enable a scaling up of the credit union movement and close the gaps in geographical coverage will greatly assist in this aim.

Housing Associations

6.1 We do not believe that allowing Housing Associations to offer saving with rent schemes is the best way to encourage housing association tenants to build savings. Although we would not wish to question the governance of the associations or their handling of cash, the money would not be as safe as it would be in an FSA authorised deposit taker. We also believe that the fact that the scheme is being run by the landlord may prevent some people from using the scheme, as they may not wish their landlord to know about their level of savings.

6.2 We believe that a better way forward for this is to encourage partnerships between credit unions and housing associations. This happens on a limited scale now; many housing associations have set up partnerships with credit unions which may involve marketing support, communicating information to tenants, or sharing of premises or staff time. Because of the restrictive nature of common bond legislation however, credit unions are only able to serve tenants of a particular housing association who live within a tightly defined geographical common bond.

6.3 A less restrictive common bond regime would allow a credit union to define its own common bond which could encompass, for example, people living or working in a particular city along with tenants and staff of a housing association, wherever their tenants are based. This would enable people to access the credit union for savings, loans, financial information and enable them to receive benefits, including the Local Housing Allowance.

6.4 Products could be designed to meet the needs of tenants. Through use of the Credit Union Current Account, people could also access transaction banking through their membership, ensuring all tenants have a useful bank account which can be used efficiently to pay bills. Enabling all tenants to access affordable credit rather than high cost doorstep lenders would free up income which could be used by the tenants to build up personal income. A holistic solution such as this would achieve far more than a saving with rent scheme; like any element of financial exclusion, saving does not sit alone and people need to be freed up from high cost credit if they are to be able to start saving.

Building Credit Unions' Scale, the Case for Legislative Change

7.1 As outlined above, a more flexible definition of common bonds will greatly enhance credit unions' ability to offer services to housing association tenants. It will also greatly increase the ability of credit union to provide payroll deduction facilities to employees, one of the easiest ways to encourage saving.

7.2 Where a common bond is based on employment, all employees of that particular company have access to payroll deduction. Saving money before you see it is an excellent way of building assets in a painless and convenient way. Many live or work credit unions have payroll deductions with employers within their common bond but there are may examples where negotiations to set up payroll deduction have broken down because the credit union is unable to provide services to all employees in a particular company.

7.3 A company with multiple workplaces dotted around the country does would currently have to set up a number of payroll agreements with different credit unions, and may still have workplaces in areas where a credit union does not operate. If a credit union which may have, for example, the head office of a large employer within its common bond, was able to choose to serve employees of the company through payroll deduction wherever they are based this would greatly increase access to this convenient method of saving.

7.4 A more flexible common bond regime will also enable geographical gaps in coverage to be more easily filled. Strong credit unions will be able to choose to provide services to areas currently excluded from credit union services without having to "prove" a tenuous link between all the people in the common bond. With increased social and geographical mobility and current technology (including the Credit Union Current Account), it is not necessary for credit unions to be so restricted as to who they serve. This will bring savings facilities and other credit union services to many more financially excluded people.

7.5 Launching Christmas accounts in the wake of the collapse of Farepak was a good example of credit unions quickly reacting to members' needs and demands. Unfortunately, due to restrictions placed on credit unions by their limited objects, innovation in products sometimes not possible within the current legal structure. Changing the objects of credit unions to allow them to offer related services which will benefit the financial well-being of their members is essential if credit unions are to be able to continue to meet members' needs.

7.6 The Post Office network could be an extremely useful way of enabling people who are not within easy reach of a credit union to access services. The national network would lend itself ideally to helping improve access to credit union savings facilities, and would in turn increase footfall within post offices and benefit the network.

7.7 Credit unions can currently only pay a dividend on savings. Credit unions with a Version 2 permission (which only number 11) are able to pay variable dividends and make payments more than once a year. Credit unions with a Version 1 permission can pay different dividend rates on different accounts if they maintain a capital/asset ratio of at least 5%.

7.8 Credit unions' ability to pay interest on savings would increase their capacity to offer different savings products to meet the needs of different people. Being able to advertise an interest rate, rather than a projected dividend, will encourage people to use the credit union for savings. Increasing the amount of savings in credit unions also increases the pot of money for affordable loans; this in itself is often the initial reason why people join a credit union, becoming savers once they have joined.

Conclusion

8.1 Access to convenient savings products which meet the needs of lower income consumers is an essential element in the fight against financial exclusion. Credit unions are experts at mobilising savings; at the heart of their existence is the "encouragement of thrift". Credit unions have already mobilised over £420 million of savings, much of this from lower income communities and from lower income workers.

8.2 The ability of credit unions to increase the work they do in this area will be greatly enhanced through:

— Changes in legislation to allow credit unions to provide services to all tenants in a housing association or all employees in a company, without geographical restrictions.

— The ability of more credit unions to offer the Credit Union Current Account to their members.

— Rolling out the Saving Gateway and enabling it to be accessed through credit unions.

— Mobilising the Post Office network to increase access to credit union services.

— Allowing credit unions to choose to pay interest on savings rather than just dividends.

— Allowing credit unions more ability to innovate by expanding the restrictive objects contained within the Credit Unions Act.

Reference

i Membership Counts—Who uses credit unions? Sharon Collard and Nick Smith, Personal Finance Research Centre, University of Bristol, April 2006.

April 2007

Supplementary memorandum submitted by ABCUL

Introduction

1.1 Following Mark Lyonette's and Amanda Winkworth's appearance before the Treasury Select Committee on 6 June,[1] we were asked to provide extra information on a number of issues, namely:

— The importance of legislative change

— Social Fund reform

— The Post Office Card Account

— The Savings Gateway

— The term "Community Bank"

The Importance of Legislative Change

2.1 The three key aspects of legislative change that we believe have the potential to have a significant impact upon access to safe savings products are:

1—The ability to pay interest on savings rather than just a dividend.

2—The ability of a credit union to determine its own common bond.

3—The ability of a credit union to accept organisations as members.

The ability to pay interest on savings rather than just a dividend

2.2 Credit unions need the ability to offer an interest rate as well as a dividend on savings. The increased level of regulation and the subsequent boost in public awareness and sophistication of credit unions means that this is a natural step for the movement to take (credit unions already pay an interest rate on junior deposits.)

2.3 Version 2 credit unions can offer different rates of dividends for different accounts and pay dividends more than once a year. Some credit unions also offer Cash ISAs to their members. For this they need to be able to confidently predict the dividend they will be able to pay and this has been well within their abilities, operating as they do an accruals based accounting system. The ability to pay interest would be a natural progression and one which would not cause technical or operational difficulties.

---

[1] Ev 22 – 27.

2.4 In addition, the ability to pay interest, rather than a dividend at the end of a financial year would increase the ability of credit unions to attract savings, as interest is a much more widely understood concept and this is how many, more sophisticated, savers choose where to put their money. This in turn would generate funds to lend to members and communities in need.

The ability of a credit union to determine its own common bond

3.1 Despite the expansion of common bonds in recent years, there are still many communities which lack access to the credit union services they need. The historical difficulties of proving a "common bond" between a group of people, although less restrictive than it was in the past, is still a major barrier to ensuring everyone in Britain has access to quality credit unions. The hurdles which credit union leaders have to jump through to prove a common bond exists in what are becoming larger and more disparate areas means that credit unions often stay serving a small area when the credit union may be more than capable of bringing more people into membership by expanding the area it serves.

3.2 Most credit union movements around the world maintain some element of the "common bond" or "field of membership" in the way they operate. It is, however, often left up to the discretion of the boards of credit unions to determine to whom they provide services and where. New Zealand Credit Unions have recently secured legislative change which will enable them to choose who they serve from a range of objectively verifiable membership qualifications. For example, they will be able to choose to serve residents and employees based in a particular city, along with employees from a particular firm who may be based in other locations as well as within their geographical location.

3.3 Payroll deduction is a painless and convenient method of saving which many employees benefit from currently. Because savings are taken from wages/salary before it reaches the employee the individual does not miss the money. In Glasgow Credit Union, which originally served employees of Glasgow City Council, 60% of council employees pay into the credit union by payroll deduction, including a large number of part time and/or low paid employees. The majority of the largest credit unions in Britain are either employee credit unions or started that way before expanding to cover people living or working in a geographical area.

3.4 Negotiations on payroll deduction agreements between a number of credit unions and employees have broken down because the credit union is unable to provide services to all employees, because some are based outside the geographical common bond. Legislative change along New Zealand lines would enable a credit union to provide payroll deduction services to all employees of a company and greatly expand access to convenient savings products.

3.5 This change would also assist housing associations, many of which are keen for their tenants to access credit union services. But where a housing association has stock in many locations around the country, it would be faced with setting up partnerships with dozens of credit unions and leaving some tenants without services. If a credit union could choose to add in tenants of this housing association to its common bond, then all tenants would be able to access services from one credit union, ensuring full access.

The ability of a credit union to accept organisations as members

4.1 Well respected local organisations and businesses using a credit union show local people that the credit union is to be trusted. While these organisations can show support now by offering payroll agreements and entering into partnerships, there is no substitute for them being able to demonstrate their trust by depositing money into the credit union. Organisational membership can increase a credit union's credibility and encourage people to save in this way.

Social Fund Reform / Post Office Card Account

5.1 For credit unions to be able to play a role in any future reform of the Social Fund and/or to play in role in the replacement of the Post Office Card Account, legislative change to enable full coverage of credit union services across Britain would be necessary.

5.2 Anticipated changes in legislation will expand the coverage and capacity of credit unions and mean that many more people can benefit from credit union services. However, it is inevitable that even after these changes have taken place, there will be gaps in coverage. A "default" credit union, Credit Union Direct, which can provide services to people wishing to, for example, use a Credit Union Current Account to receive their benefits, or who wish to save safely or borrow affordably would provide a solution to these gaps in provision.

5.3 A credit union which could take in members who are unable to join a local organisation would ensure that no-one in Britain would have to face the prospect of remaining in financial exclusion. By using the back-office facility described above, this credit union could offer the Credit Union Current Account to anyone who wished to use it.

5.4 This "default" credit union would work in partnership with local outlets including perhaps post offices, housing associations, local authorities etc to provide a face to face presence. Providing universal coverage across Britain would transform the credit union sector's ability to deliver on a number of important social policy goals. Credit unions participation in the government reform of the Social Fund, the future successor to the Post Office Card Account and indeed the potential Savings Gateway would all be enhanced by the ability to provide universal coverage. It is anticipated that the combination of the "default" credit union and the supply of existing quality credit unions would offer complementary provision.

5.5 We have had initial discussion with the Post Office and the DWP respectively about the ability of a scaled-up credit union movement to assist in the delivery of a replacement for the Post Office Card Account and the Social Fund.

5.6 We are organising a series of meetings for credit unions and a meeting for Stakeholders during July to inform the work of the sub-group of the Financial Inclusion Taskforce which is investigating how banks can assist credit unions to scale up.

Saving Gateway

6.1 We have been following the evolution of the Saving Gateway through the pilot projects and evaluation reports with interest over the past few years.

6.2 We believe that any future roll-out of the Saving Gateway should be made available through credit unions for the following reasons:

6.2.1 In many low income communities, credit unions can be the only financial institution with a physical presence. As the recent evaluation report noted, the proximity of the saver to a branch was a key factor in whether that individual opened an account, showing the importance of ease of access.

6.2.2 Individuals who do not feel comfortable dealing with mainstream financial institutions are often very happy to deal with a local credit union.

6.2.3 Through a range of access methods, including Benefit Direct account, payroll deduction, outreach points and PayPoint, credit unions already mobilise savings from people from a wide range of income groups.

6.2.4 Anecdotal evidence we have from credit unions which are offering their own Child Trust Fund accounts tells us that people who may need more support in opening an account will invest their voucher with the credit union because the staff take the time to ask if they have used the voucher, explain how it works and assist with the application process. In a number of cases, credit union staff have been approached by members who have lost information they have been sent on this and/or have ignored information which they found difficult to understand. In cases like this, the credit union has helped people find out where their voucher has been invested and in many cases the individual has chosen to transfer their CTF account to the credit union as they know they can get the support they need there. People accessing the Saving Gateway through a credit union would be able to receive that little bit of extra support which some people need when dealing with financial products that they are not familiar with, having been used to managing a small cash budget and not engaging with mainstream financial providers.

6.2.5 Credit unions have also told us that their CTF accounts attract interest from people who want to make sure that the money they invest is kept within the community. This ethical aspect to a credit union account means credit unions are receiving calls from way outside their common bond because people like the idea of investing in a credit union rather than another type of financial institution. Enabling credit unions to offer Saving Gateway accounts would give people an extra choice in where their money was invested if they would wish to support their community in this way. Legislative change and the scaling up of the movement outlined above would enable anyone who wanted to have a Savings Gateway account in a credit union to have that choice.

Community Bank

7.1 We are aware of some credit unions which have reported that the name credit union generates a negative reaction from some people who they are seeking to recruit members and which wish to use a different name for their organisations.

7.2 This is not, however, by any means a universal opinion. By successfully marketing a range of quality products in their communities and workplaces, many credit unions have built up a strong and sustainable organisation with thousands or even tens of thousands of people happy to join because it provides them with the services they need.

7.3 While the name does not perhaps particularly reflect the savings products which credit unions provide, the same could be said of Building Societies, which provide a range of services that people value and therefore use. In areas where the credit union is providing a range of services in an accessible way, then this barrier has been overcome.

7.4 The name "credit union" is a global brand. Credit unions affiliated to the World Council of Credit Unions provide services to over 160 million people worldwide. The name credit union has not been a barrier to attracting membership in the US, Canada, Australia and Ireland, all of which provide services to between a quarter and half of their respective populations. The name has also not been a barrier in many parts of this country where strong credit unions can attract tens of thousands of members.

7.5 Through their ability to offer Child Trust Funds, ISAs and now the Credit Union Current Account, credit unions have only just started in the past few years to offer a wider range of services to their members. As these services continue to roll out people in more areas will come to understand what a credit union is and value them for the range of products they provide, including savings even though that is not explicit in the name.

7.6 It is only in the past ten years that credit unions have started to have a presence on the high-streets of our towns and cities in any great numbers. Before deregulation in 1996, and the realisation by local authorities and funders that investment should be in credit unions themselves and not development agencies, most community credit unions operated on a part time basis from collection points in community centres or churches and simply weren't visible in most areas.

7.7 ABCUL and member credit union have also made great inroads in the past few years with regards to media coverage about credit unions and the work they do. This, and the wide range of partnership which credit unions and ABCUL are developing at a local and a national level are leading to a wider awareness of what a credit union is.

7.8 Despite credit unions' 40 year history in this country, it is only really in the past ten years that growth has started to take off, trebling during this time. With the new products that credit unions are now starting to offer and great potential for legislative change and a major scaling up of the movement in the next few years, we believe that it is too early to write off the name credit union. Any rebranding exercise should, we believe, focus on improving the products credit unions offer and making sure they are able to meet the needs of the people of Britain.

7.9 Any use of the term "bank" could also cause problems within Europe. Credit unions have managed to secure proportionate regulation within a range of European Directives. Any name change which seem in Brussels to reflect a change in the operation and scope of credit unions could attract regulation aimed at banks to the credit union movement, something which would not, at this point in time, be affordable for credit unions and which could lead to a number leaving the movement.

June 2007

Memorandum submitted by the Park Group

Executive Summary

- Park Group plc welcomes the opportunity to respond to the Treasury Select Committee's call for evidence as part of its inquiry into Shorter Term Savings Products and to offer its views on the Christmas savings industry. Park Group has been in the business of operating Christmas savings for 40 years.
- Park Group's Christmas savings are based on the premise that by making regular small, manageable payments throughout the year, customers can plan, budget and pay for their Christmas in advance with no credit card or other large bills to worry about in the New Year. Customers have the option of purchasing hampers, vouchers (redeemable at a wide range of high street shops), or other non-food products selected from a catalogue.
- Customers predominantly make weekly payments to an agent at a time and a place to suit them. However, an increasing number are opting to order for themselves and to manage and pay for their order over the internet or by direct debit.
- Park Group customers use a number of financial products. 94% of Park's customers have a bank account, 53% have a credit card and 73% have a debit card. Park Group's customers make an informed choice to shop with Park for the convenience of the service and the quality of the product.
- The nature of the Park Group savings product means that customers have generally planned their spending well in advance, and are consequently far more tightly in control of their finances than those who choose to pay for Christmas in other ways.
- Payments to Agents can be spread over a period of typically 45 weeks. Agents are paid a commission based on sales to customers and may also receive a variety of gifts and other benefits for sales performance throughout the year. Customers who choose to trade on their own behalf also receive a commission.

— Whilst it is true that those who make payments to Park do not receive any interest on the money that they save, our customers are aware that this would constitute a nugatory sum which would, in turn, be offset by other costs and relative inconvenience—as acknowledged by Brian Pomeroy's recent Treasury report.

— Park Group has worked closely with the DTI since the demise of Farepak to create a regulatory framework which offers agents and customers adequate protection against any loss in the event of the company having to cease trading. Accordingly, Park Group is currently moving forward to create a series of Trust Accounts for customers' monies in accordance with the agreed proposals, thus removing any customer risk.

— Park's customers are generally happy with the service that they receive, as evidenced by the fact that, historically, 80% return to Park the next year. Park Group welcomes further competition in the market from mainstream providers and credit unions and is confident that the strength of its brand and the quality of the service that Park and its agents provide will guarantee the company a long and prosperous future.

1. Park Group plc welcomes the opportunity to respond to the Treasury Select Committee's call for evidence as part of its inquiry into Short Term Savings and to offer its views on the Christmas hamper scheme industry, both now and in the future.

2. Park Group plc was first established in 1967 as a Christmas hamper business. This company has since evolved with the group's core business now being focused around mail-order Christmas savings.

3. The Christmas savings side of the business effectively incorporates three different businesses—Park Christmas Savings; Country Christmas Savings; and Family Christmas Savings. These operate through the sale of products based on a simple principle—that by making regular small, manageable payments throughout the year, customers can plan, budget and pay for their Christmas in advance with no credit card or other large bills to worry about in the New Year. Customers have the option of purchasing hampers, vouchers (redeemable at a wide range of high street shops), or other non-food products selected from a catalogue. Customers who choose to purchase high street vouchers receive one pound's worth for each pound that they save throughout the year, meaning that they receive the full total of their payments in voucher form. This allows them to purchase products on the high street at the best price available, taking advantage of any discount that might be on offer at the time. Those who choose a hamper or other non-food goods from a catalogue receive their chosen products, as ordered. All of these are delivered to the agent in good time for Christmas. Each customer knows what he or she is paying for from the outset.

The Design, Promotion and Regulation of Products in the Shorter Terms Savings Market

4. Park Group's business is based on the simple but effective idea of paying a fixed amount each week over an agreed period of time in order to spread the cost of Christmas. Customers choose the product that they wish to purchase, whether a hamper of supplies for Christmas, vouchers redeemable on the high street or other non-food products, and pay a fixed amount each week in payment for that product. There are no hidden fees involved at any stage and each customer receives the equivalent amount back to that which he or she has paid over the year. If a person saves £200 over the course of a year, he or she will receive £200 worth of vouchers redeemable on the high street or a hamper of food or products priced in the catalogue at £200 that they have pre-ordered. All of these products are delivered directly to the agent's door prior to Christmas.

5. Park Group operates a predominantly agent based collection system, although increasing numbers of customers are instead opting to order for themselves only and to manage and pay for their order over the internet and by direct debit. Park now has Agents and customers in virtually every corner of the UK.

6. Agents are recruited between October and February, by responding to press advertising, direct mail campaigns, internet and direct response television advertising. Agents then recruit customers (usually friends, family or colleagues) who wish to purchase the various products on display in our annual catalogue and on the internet, including grocery hampers, meat packs, freezer packs, confectionery packs, drinks packs, shopping, travel and leisure vouchers, jewellery and gifts and other non-food products such as audio or TV equipment.

7. Payments to Agents can be spread over a period of typically 45 weeks. Agents are paid a commission based on sales to customers and may also receive a variety of gifts and other benefits for sales performance throughout the year. Customers who choose to trade on their own behalf also receive a commission.

Regulation

8. Park Group welcomes the Department of Trade and Industry's inquiry into the collapse of Farepak. We have cooperated fully and constructively with departmental officials and look forward to seeing the fruits of the investigation.

9. At the time of its collapse, Farepak was a profitable company. Its demise was a direct result of the failure of European Home Retail (EHR) and the use of Farepak's cash to reduce the group overdraft which was secured on the assets of the Group. Park Group has since been working closely with the Department of Trade & Industry to create a regulatory structure to protect customers. Park Group welcomes the statement made by Rt Hon Ian McCartney MP on 28 March 2007 announcing the creation of trust arrangements to offer added protection of customers' money and greater reassurance for consumers in the wake of the collapse of Farepak. The establishment of Trust Accounts for Christmas Savings Clubs will provide the security for customers' monies in the future while affording the flexibility to allow the business access to necessary finance in order to make purchases relating to the provision of ordered services. Park is currently moving forward to create Trust Accounts for customers' monies in accordance with the proposals. We believe that this removes what Brian Pomeroy describes as the "risks" of hamper schemes.[2]

10. Whereas Farepak kept no central record of its customers details and account balance, Park Group closely monitors its agents' activities and strongly encourages the submission of customers' details in order that comprehensive records might be maintained at the company's main offices in Birkenhead.

Park Group's Customers and Financial Capability

11. The 2006 Park Christmas Savings Agent questionnaire elicited over 13,000 responses and provides a useful profile of Park's customer base. It showed that Park Group's customers are evenly spread over a number of age ranges and are not predominantly restricted to any one age bracket. They are generally banked and are familiar with using financial products—some 94% of our customers have a bank account, 53% have a credit card and 73% have a debit card.

12. In opting to pay for services with Park over a number of months, customers make an informed choice over the many other mainstream financial options open to them. Indeed, the Christmas saving market has matured considerably in recent years in terms of the relative affluence of those who purchase Park's products. As an indicator of this, some 66% of our customers own a computer, of which 56% have internet access, predominantly through broadband (72%).

13. Park Group is successful for the simple reason that it offers an excellent service. It is designed to provide a convenient way to spread payments through the course of the year for pre-chosen products, thus when Christmas arrives our customers have everything they require delivered to their door, fully paid for at a time to suit them. Unlike those who choose to pay for Christmas on credit, there is no financial hangover in the new year. Indeed, the nature of the Park Group savings product means that our customers have generally planned their spending well in advance, and are consequently far more tightly in control of their finances than those who choose to pay for Christmas in other ways, as Pomeroy acknowledges:

> "4.17 Many customers said that they like being able to compartmentalise their saving so that they can see immediately what they have saved for a particular purpose. The discrete nature of hamper schemes means that, throughout the year, people can monitor exactly how much they have saved for Christmas."[3]

14. Whilst it is true that Park Group customers do not receive interest on the money that they invest, they choose to pay instead for convenience and peace of mind. Customers are, after all, ultimately buying a service which includes the provision of a product with free delivery. Furthermore, Pomeroy acknowledges that hamper scheme customers are aware of the interest that their money could accrue if saved elsewhere, but that they consider this to be a nugatory sum which would be offset by other costs and relative inconvenience.[4] Qualitative research for Brian Pomeroy's review of Christmas savings confirmed that hamper scheme customers are generally aware that they are paying for a product and a service rather than simply participating in a savings scheme:

> "Evidence from the workshops suggests that, although hamper schemes are promoted as a way of saving and implicitly used with that intention, many customers make a clear distinction between them and formal savings products:
>
> > 'I don't really look at it as saving.';
> >
> > 'You don't want to think you're saving—no-one wants to save. With hampers you feel like you're getting something'."[5]

15. For customers who are elderly or immobile the delivery of all their Christmas supplies, pre-ordered and paid for over 45 weeks, is an especially valuable offering which the high street bank or credit union cannot possibly provide. Others, as Pomeroy acknowledges, are attracted to the prospect of not having to join the Christmas "hordes" at the shops.

16. Should a customer wish to cease making payments prior to having paid the full amount of the product that they have ordered, they are able to trade down and change their order to the level of that which they have already paid or request a refund.

---

[2] Brian Pomeroy, Review of Christmas Savings Schemes, HM Treasury; p.27, paragraph 6.1
[3] Ibid; P.17, paragraph 4.17
[4] Ibid; P.18, paragraph 4.21
[5] Ibid; P.17, paragraph 4.16

17. Our customers are generally happy with the service that they receive, as evidenced by the fact that, historically, 80% return to Park the next year. Park Group welcomes further competition in the market from mainstream providers and credit unions and is confident that the strength of its brand and the quality of the service that Park and its agents provide will guarantee the company a long and prosperous future.

April 2007

Memorandum submitted by The Children's Mutual

1. Written evidence submission from The Children's Mutual in response to The Financial Inclusion follow-up—saving for all and shorter term saving products, announced 29 March 2007.

Introduction

2. The Children's Mutual is the country's only specialist dedicated solely to long-term savings for children and as such we have extensive and unparalleled knowledge of this subject given our 50 year history of activity. Prior to the introduction of the Child Trust Fund (CTF) more than 200,000 children's families had started to save regularly for them, with us, and following the introduction of the CTF this is now 600,000.

Inquiry

— The role of saving in the Government's strategy on financial inclusion:

3. The Children's Mutual believes that the role of saving in the Government's strategy on financial inclusion is essential. Both encouragement for long and short term saving is key in engaging with people from all income levels and our findings show that it is saving "for a rainy day" and key stages in their everyday lives which attract consumers to address their personal finances since they are attracted to having savings pots.

4. Consumers are far more likely to think about savings first, for tangible items, than they are to engage initially on savings that are quite a long way in the future. We therefore encourage financial inclusion to include language and information about what a financial savings product can do for them rather than concentrating on the features of the product itself.

— The role of the Saving Gateway

5. The Children's Mutual is a supporter of the Saving Gateway. Evidence exists that suggests "matching" or "kick starts" to savings do make a difference to encouraging people to save more. Indeed the Saving Gateway pilots would bear out this theory.

6. We see the Saving Gateway as a "stepping-stone" to including people in the wider savings world. A progression from an (aided by matching) start such as the Saving Gateway to Cash ISA to equity ISA takes people from have little to save to the world of the investor. With good financial education along the way this will have the potential to change people's lives.

— The role of financial capability in the context of the shorter term savings market

7. The Children's Mutual urges that financial capability is addressed in the context of the shorter term savings market since consumers are encouraged to take out loans to solve their immediate needs more than understanding that saving is far more beneficial. We urge that consumer credit agreements are reviewed for regulation. We urge that advertising of financial products, particularly loans, is reviewed. Saving and depositing money should be at least as easy as borrowing it.

8. Financial Education is key—and it is about people understanding the financial consequences of actions, things that will or might happen or indeed things they want to happen.

— Responses to the recommendations contained in Chapter 4 ("Saving for All") of the Committee's Twelfth Report of Session 2005–06

Treasury Select Committee Recommendation:

9. "The restricted range of products available under the basic advice regime, combined with the perception that the scheme has not been as light touch as expected, has led to a low number of major providers introducing the basic advice regime. We recommend that the FSA conduct a full review of the basic advice regime to examine what factors have led to such a low take-up of the scheme by the financial services industry and how the regime can be reformed to increase take-up. In making this recommendation, we do not wish to imply that the problems lie solely with the design of the regime. Problems with basic advice are inseparable from issues relating to the structure of the industry itself."

10. The Children's Mutual supports this recommendation. Furthermore we strongly support the concept of a generic advice service such as that being consulted on by the Thoresen Review and that suggested by the recent work carried out by the Resolution Foundation.

Treasury Select Committee Recommendation: A market-led solution?

11. "We are not concerned in the current Report with the general viability of the long-term savings industry, although this is a matter to which we may well return. We are concerned with the narrower question of whether it is fit for purpose in terms of providing appropriate savings opportunities for the less well-off. Our inescapable conclusion is that it is not fit for purpose. The market may change in the future, but until it does, it is likely that non-market-led solutions will also be necessary to solve the problems of savings incentives and opportunities for the less well-off."

12. The Child Trust Fund is a good example of a longer term savings mechanism that has engaged with low income families. The CTF acts as a catalyst since families from less well off households are "topping up" their CTFs—they are making regular savings deposits for their children's futures. Experience from The Children's Mutual customer base shows that 43% of parents are regularly topping up their children's CTF accounts with us, at an average of £24 each month, an increase from £15 prior to introduction of the CTF. Included in these top-up figures is evidence that low income families are finding the wherewithal to save for their children in significant numbers. We estimate that the accounts of 23–25% of children from low income families are being topped up.

Treasury Select Committee Recommendation: The Saving Gateway

13. "There is evidence from abroad and from the emerging findings of the Saving Gateway pilots that matched savings accounts such as those piloted as part of the Saving Gateway provide a clear and understandable framework of support for savers. They also provide clear incentives for those on low incomes who often cannot benefit from tax relief. The first pilot phase of the Saving Gateway showed that matching can encourage genuinely new savers and increased savings. We are concerned that the valuable lessons from the first pilot phase of the Saving Gateway must not be overlooked and that the Gateway must be promoted nationwide at an early stage as a framework for savings for all, although we recognise that in any national roll-out the Government will need to consider the overall match rate, which income levels the scheme should be focused on and the overall cost of the scheme. We recommend that the Government examine ways to encourage the development of matched savings accounts with contributions from the private and charitable sectors."

14. The Children's Mutual supports the recommendation.

Treasury Select Committee Recommendation: Capital limits for benefits

15. "We welcome the increase in the capital allowances for benefits. We recommend that the Government review the rules on tariff income to ensure that the withdrawal rates for additional saving above capital allowances continue to encourage households on benefits to accrue additional saving".

16. The Children's Mutual supports the recommendation.

Treasury Select Committee Recommendation: Housing associations savings with rent accounts

17. We recommend that the Government consult on the case for an exemption for Registered Social Landlords from the FSMA requirements to register as a deposit-taker. The Government should consider whether the appropriate degree of regulation could be accomplished through other bodies such as the Housing Corporation.

18. The Children's Mutual has no comment—we are not experts in this field.

Treasury Select Committee Recommendation: Savings and other aspects of financial inclusion—Conclusions

19. Saving is not accorded the same priority in the Government's strategy for promoting financial inclusion as credit, advice and banking. The evidence we have received suggests that savings, and the problems of making saving worthwhile and beneficial for those on lower incomes, are integral to any effective strategy on financial inclusion. In our subsequent Report on the roles of the Government and the Financial Inclusion Taskforce and the overall strategy, we will consider further whether the terms of reference of the Taskforce ought to be amended to include access to savings and the role of savings clubs. In the present Report, we have set out a series of recommendations designed to ensure that saving is accorded a higher priority in the context of financial inclusion and that the particular needs of savers and potential savers are at the heart of Government actions to combat poverty and financial exclusion.

20. The Children's Mutual supports these Conclusions—saving should be accorded a higher priority in the context of financial inclusion.

— Paragraph 62 Treasury Select Committee's First Report of Session 2006–07

21. 62. As part of the Government's agenda to promote savings it is vital that people are given confidence that their money will be protected. We note that the Farepak scheme was not regulated by the FSA and is outside the scope of the Financial Services Compensation Scheme. We recommend that as a matter of urgency the Government, in conjunction with the OFT and FSA, consider whether appropriate safeguards are in place to protect those who have entrusted their money to others. This should include examination of whether an expansion of the FSA's regulatory responsibilities is necessary, or whether the appropriate degree of regulation could be accomplished through other mechanisms. The Farepak case has highlighted a serious lack of consumer protection which could have much wider implications for savings products of this kind. Given the level of public concern, we want the Government to address this issue with urgency and we want to see evidence of substantial progress by the end of January 2007.

22. The Children's Mutual believes that these savings products should be reviewed but with great care and extensive research so that they are regulated according to their merits. For instance one might regulate Farepak-like schemes differently from a scheme people are saving into to support their local Rugby Club, for instance.

23.

— The design, promotion and regulation of products in the shorter term savings market, including hamper products, Christmas savings accounts and other similar products and potential products.

24. The Children's Mutual sees the attractiveness to consumers for short term savings products which can be identified by them as having a specific purpose, this is very appealing to consumers who like to see how they will be paying for something in the future. However there are concerns about their regulation and we support a review but hope that the principle of continuing to allow consumers access to ways in which to save for specifics is not regulated away.

April 2007

Memorandum submitted by the British Bankers' Association

1. The BBA is the leading UK banking and financial services trade association and acts on behalf of its members on domestic and international issues. Our 219 members are from 60 different countries and collectively provide the full range of banking and financial services. They operate some 130 million personal accounts, contribute £35 billion to the economy, and together make up the world's largest international banking centre.

Executive Summary

2. BBA members have a continuing commitment to the financial inclusion agenda, which they have demonstrated in a number of ways; in particular through their participation in initiatives designed to improve accessibility and advance the shared goal of halving the number of households without a bank account, such as Basic Bank Accounts, funding of Post Office Card Accounts and the Saving Gateway pilot schemes. We believe that the increase in confidence and financial knowledge that participation in such schemes brings has the additional benefit of improving take-up of other financial services, such as savings products.

3. The banking industry is active in the area of shorter term savings and continues to be innovative in developing simple, easily accessible products. These products are of course regulated, provide protection for customers, and therefore should be differentiated from the type of schemes typified by the unregulated Christmas hamper market, which specialises in schemes designed to lock in savings for a fixed period to facilitate a planned one-off spend.

4. At the time of Farepak's collapse, the BBA voiced their concern that many of the affected customers were likely to be financially excluded and that this raised the issue of the advisability of people taking part in unregulated savings schemes outside the mainstream financial services. However, it also points to the need to ensure that accessible and secure savings products are available to service this market, and that consumers are provided with clear information on the relative risks and rewards of different products and schemes.

5. The BBA supports initiatives such as the Saving Gateway and results of the pilot studies so far are indicating that this type of scheme is capable of encouraging more people to save. However, we are keen that there should not be a "one size fits all" approach to shorter term savings products and that innovation should continue. Banks are at the forefront in designing savings products targeted at specific consumer groups and taking into account their particular needs.

6. Financial capability is a key concern in regard to consumers' understanding of the importance and benefits of saving to enable better financial planning and management. The BBA has participated closely in the work being driven by Government in this area and banks provide wide-ranging support for initiatives to improve financial literacy from childhood through to retirement. The benefit of savings for all should remain a key part of this agenda.

The Role of Saving in the Government's Strategy on Financial Inclusion

7. HM Treasury has set out within its recent report "Financial inclusion: the way forward" that financial inclusion is about improving accessibility to financial services to ensure that everyone is thereby enabled to: manage their money effectively, securely and confidently; plan ahead and to cope with financial pressure; and deal with situations of serious financial difficulty. Ready access to a full range of banking and other financial services will be required in order to deliver against this agenda, including those relating to the provision of savings products, which enable people to plan ahead to manage short-term variations in income and expenditure and to cope during periods of more serious financial pressure.

8. The BBA concurs with HM Treasury's view of what financial inclusion is about and remains committed to moving the agenda forward. Our members have, in particular, supported the initiatives to improve accessibility to basic banking services and, indeed, agreed a shared goal with HM Treasury in 2004 in relation to reducing the number of adults in households without a bank account. They have opened over a million Basic Bank Accounts for people who had previously had no bank account at all, are contributing £182 million towards the Post Office Card Account and continue to fund free independent debt advice.

9. In our view, the increase in confidence and financial knowledge that the provision of Basic Bank Accounts brings to the account holders has an additional benefit in that it also improves access to other banking services, including the wide range of savings products available. This is borne out by research recently carried out by HBOS, which has shown that the proportion of their social banking account customers in deprived areas also holding savings products stands at 31%. It is, of course, part of the core banking model that our members offer savings products on a short-term as well as long-term basis and with a range of different features. We refer below to the wealth of savings products currently available and to some of the innovative and accessible products launched in recent times.

10. We would, however, emphasise the need to maintain, and potentially increase, the breadth of offerings within the savings field in order to reach those who might otherwise be excluded from such products and in recognition of the different needs of different consumer groups. For example, the document prepared by Brian Pomeroy entitled "Review of Christmas savings schemes" suggests that the particular features of these types of schemes might make them more attractive to those on lower-incomes. Such features generally include the fact that customers are "locked-in" for a period of time leading up to Christmas and that savings can ultimately not be withdrawn as cash, but rather as goods or vouchers. Schemes of this nature may be inconsistent with the more mainstream savings model offered by most banks, but there are indications of products being developed to incorporate some of these features. This is also an area in which credit unions and the Post Office, with its wide network of outlets, have a key role to play. The additional effects of people saving via the credit unions being an increase in the funds then available for lending out. We do agree that Government should continue to encourage development of suitable savings products across all regulated providers to broaden choices available to consumers and ensure that consumers are properly informed of the relevant features of such products.

The Role of the Saving Gateway

11. In principle, the BBA supports initiatives such as the Saving Gateway that the Government has been piloting as a tool for encouraging saving amongst lower income households and for promoting engagement with mainstream financial services. The Saving Gateway is structured as a fixed term, regular savings account, with payments being matched by contributions from the Government up to a ceiling. In its recent responses to the Committee, Government has noted that the evidence from the pilots is showing that incentivisation to save through matching might provide a better framework for support of lower-income savers, for whom tax benefits are often not applicable. We will be interested to see how Government intends progressing this initiative and whether there is an appetite for committing further funds.

12. The Halifax is the financial institution given the sole responsibility for piloting the Saving Gateway. HBOS has reported that over 23,000 accounts were opened by the Halifax during the first pilot which, finished at the end of 2006, and approximately half of all savers say they intend to continue to save on a regular basis once the pilot is over. An independent review of this pilot concluded that the scheme was capable of encouraging people to begin saving on an on-going basis. The second pilot is still underway and awaiting review by Government to decide on the next steps, but the Halifax has noted their support for the initiative.

13. We also note that consideration is being given to incorporating features of hamper schemes, such as lock-ins, to make the Saving Gateway more attractive to users of such schemes. We have commented earlier on the need for there to be a wide range of savings products available to consumers and suggest that more work is done to understand the needs of specific target markets for each product and not to attempt a "one size fits all" approach. The key will be to ensure that consumers are made aware of the availability of different savings schemes and products and the risks and rewards associated with each.

The Role of Financial Capability in the Context of the Shorter Term Savings Market

14. The BBA supports the Government's long-term financial capability aspirations and considers that financial capability skills are important across all areas of personal financial management, including an understanding of the importance and benefits of saving. We have participated closely in the work carried out in this area to date and will be responding in due course to the Thoresen Review's call for evidence. In this regard we commented in our recent response to HM Treasury's consultation paper "Financial capability: the Government's long-term approach" that a Generic Financial Advice service should cover both debt and savings aspects of a consumer's financial circumstances. We also consider that the review should cover all types of saving schemes, including those typified by the Christmas hamper schemes, which are not covered by current financial services regulation.

15. Our members provide support to the provision of financial education in schools through organisations such as the Personal Finance Education Group, consistent with the view that financial education should start at the earliest possible stage with all children being taught financial capability skills. Financial education is something that everyone should have a right to, so that the next generation understands financial matters better. However, this is not something industry can drive on its own and we believe that the main thrust needs to come from Government to ensure that financial education is available to all, by making this a part of the core curriculum.

16. Banks also provide funding for organisations such as the Money Advice Trust, the CAB and Toynbee Hall in addition to offering free general advice to their customers, as part of the drive to improve financial capability skills amongst adults. There are numerous initiatives launched by the banks themselves as part of their community projects to reach out to those who might feel excluded from the financial system due to their lack of understanding. We consider that it is important to build on this work and provide a stronger focus on existing advice networks, through additional promotion, resources and funding, before considering any new developments in this area. This approach is most likely to achieve early and better long term results in making advice available to those who need it.

17. We have given emphasis above to the need for a wide range of products to meet the need of different consumers in relation to short-term as well as longer-term savings requirements. We would therefore also suggest the need to provide consumers with comprehensive accessible information and advice on the relative merits and risks associated with such products to enable informed choices to be made, whilst recognising that the level of choice itself is likely to be off-putting to those in lower-income groups. This may be particularly pertinent in the case of consumers attracted to Christmas hamper schemes, who may feel excluded from saving through the mainstream financial system but may also not be aware of the associated costs and disadvantages of hamper schemes, for example loss of interest.

Responses to the Recommendations Contained in Chapter 4 ("Savings for all") of the Committee's Twelfth Report of Session 2005–06 and in Paragraph 62 of the Committee's First Report of Session 2006–07

18. Within the Government's response to the Committee, we note the desire to restore consumer confidence in the hamper industry for this year in the wake of the Farepak's collapse, and that this is likely to be brought about by the establishment of ring-fenced accounts to protect advance payments made to providers. It is of course the case within the regulated financial services arena that any money effectively held on behalf of clients is afforded protection in some way. We think it is important that the distinction between regulated and non-regulated providers is made during any campaigns to inform consumers, together with any special measures being taken to improve asset protection.

19. We have referred earlier to the Government's response in relation to the pilot schemes on the Saving Gateway. This is an area in which our members are likely to have some involvement if it is decided to progress this initiative and, as noted, we await the decision on whether or not further resources will be committed.

The Design, Promotion and Regulation of Products in the Shorter Term Savings Market, Including Hamper Products, Christmas Savings Accounts and other Similar Products and Potential Products

20. When giving consideration to the design, promotion and regulation of all savings products careful consideration needs to be given to target markets, specific features and likely providers. There is currently a wide range of products available and our members continue to be innovative in this field, as part of the drive to promote the importance of the need to save on a cradle to retirement approach. For example, the introduction of Child Trust Funds was welcomed by the BBA and we support the extension of the ISA regime.

21. In regard to shorter term savings products in particular, reference to the products listed by Moneysupermarket indicates over 4,000 savings products, of which almost 2,500 are classified as "easy access". It is clear that there is no shortage of accessible shorter term savings products and additional products continue to be developed. However, the focus of future promotion activity will need to be on clarity of what is on offer. In particular, people at the lower-income levels might need more help in assessing what is an appropriate savings product and this should be considered as part of the generic financial advice solution.

22. Our members continue to make their products more accessible and attractive to consumer groups across the social spectrum, to encourage saving at every level. Lloyds TSB launched their "Save the Change" scheme whereby every time a debit card is used the amount is rounded to the nearest pound and the "change" placed into a savings account. As part of its financial inclusion agenda, the Halifax is piloting a Christmas Savings Account to its social banking customers, where savings can be taken out in the form of cash or high street vouchers, but with the protection of the Financial Services Compensation Scheme. To encourage savings, Barclays includes a savings account application with their Basic Bank Account ("Cash Card") brochure and enables regular savings by standing order for any amount. This segment is also attracting newcomers, such as ING Direct who offer "simple" savings and other products which can be operated by phone as well as online.

23. BBA members are clearly active in this area and it is possible that more will consider offering products with some of the specific features seen in Christmas hamper and other similar schemes. It is important to recognise that these schemes do provide a means of saving for those who, for one reason or another, may not feel able to participate in the mainstream financial market. Other providers are entering into the hamper market and may be more suited to provide products with the relevant features sought by consumers (eg credit unions and some major retailers) and the Post Office is also well-placed in this respect.

24. In regard to the regulation of shorter term savings schemes particular attention needs to be given to the range of methods of saving, which may not all be captured under the normal definitions of a savings product. For example, money paid under Christmas hamper schemes is not currently afforded any protection as the schemes are not considered as savings schemes in regulatory terms, but as advance payment for goods. Nevertheless consumers taking advantage of such schemes inevitably will consider that they are saving. It is clear that such schemes require better protections to be put in place for customer assets, as is the case for money held within mainstream financial products, particularly as the people attracted to such schemes are likely to be less well-able to bear any losses occurring.

25. The BBA and its members will continue to support initiatives in this area and to develop innovative shorter term savings products in the hope of encouraging savings amongst those who may currently feel financially excluded.

April 2007

Memorandum submitted by Citizens Advice

Executive Summary

- The Government's financial inclusion strategy and the remit of the Financial Inclusion Taskforce should be expanded to include savings. CAB evidence shows that a lack of savings often results in people falling into debt and becoming financially excluded.
- A savings element should be introduced into debt repayment arrangements accepted by creditors so that the schemes are more sustainable and to ensure that debtors do not build up further debts and that they develop savings behaviour. In addition, existing small savings should not be taken into account when initially formulating repayment schemes.
- Financial capability is vital in developing confident consumers with budgeting skills and in encouraging a savings culture. Long-term funding is needed to sustain and develop these programmes.
- The short term savings market should be brought under independent regulation as soon as possible to ensure that consumer investments are protected in future. Funding for a consumer awareness campaign on Christmas savings schemes and mainstream alternatives is welcome and Citizens Advice would be pleased to take part in this.

1. *Introduction*

1.1 Citizens Advice is the national body for Citizens Advice Bureaux (CABx) in England, Wales and Northern Ireland. The CAB service is the largest independent network of free advice centres in Europe, with 496 main bureaux in England, Wales and Northern Ireland. Bureaux provide advice from over 3,200 outlets, including courts, prisons, GP surgeries and hospitals, probation services and prisons. All CABx are registered charities.

1.2 In this short memorandum Citizens Advice considers the issue of savings in four areas:

- The Government's strategy on financial inclusion
- Debt management
- Financial capability
- Regulation of the short term savings market

2. *The Government's strategy on financial inclusion*

2.1 Citizens Advice has extensive, first hand knowledge of the money problems experienced by the many people who turn to us for help. In 2005–06, Citizens Advice Bureaux in England and Wales dealt with 5.2 million enquiries, including 1.4 million relating to debt. Debt now generates more demand for bureau help than any other issue.

2.2 In April 2006 Citizens Advice was awarded a total of £33 million over two years to provide more face-to-face debt advice from the Government's £45 million Financial Inclusion Fund. With this funding we have now recruited and are training an additional 350 full-time specialist debt advisers. This means that around 100,000 more people on very low incomes and facing serious debt problems will be helped through in-depth casework in 2006–07 and 2007–08. The announcement in March 2007 that this fund will run until 2011 was very welcome. Citizens Advice was also pleased to hear the Treasury's statement that the Government will be "mainstreaming financial inclusion into Departmental budgets and Public Service Agreements" in the long-term (Financial inclusion: the way forward, March 2007, p. 41).

2.3 This commitment to financial inclusion is been commendable, but Citizens Advice considers that its scope should be broadened. Our 2006 survey of CAB debt clients, Deeper in debt, found that only 10 per cent of the sample had a positive balance in a bank or building society account and the average amount held was just £404. Though 44% had other assets, such as a vehicle or home insurance policy, in many cases the value of the assets was not realisable. Citizens Advice considers that savings should play a more central role in the Government's financial inclusion strategy.

2.4 An earlier study of CAB clients' experience of debt (In too deep, May 2003, p.63) demonstrated the importance of savings in preventing debt problems from developing:

> "A high proportion of clients reported a change of circumstances involving loss of income or increased expenditure as a reason for debt. However when the actual financial effects of these changes were ascertained, in a significant proportion of cases the amount of change in income was relatively small, around 10% of annual income. This suggests strongly that for a proportion of CAB clients with debt problems the level of their commitments relative to their income was such that a relatively small change turned what were previously manageable payments into debt problems."

2.5 Citizens Advice therefore strongly welcomes the Committee's recommendation in the Twelfth Report of Session 2005–06 (paragraph 118) which urges that "saving is accorded a higher priority in the context of financial inclusion". We also welcome the Government's positive response to this recommendation (Fourth Special Report of the Session 2006–07) and urge action in the short-term.

2.6 Citizens Advice also welcomes the Committee's recommendation in the First Report of Session 2006–07 (paragraph 68) that the remit of the Financial Inclusion Taskforce "should be expanded to include access to savings and insurance".

2.7 However, we regret that although the Taskforce's remit has been expanded to incorporate insurance the issue of savings remains outside the Taskforce's remit. Citizens Advice evidence on the absence of savings amongst those in debt, suggests that savings are a key insurance against debt problems and could prevent debt problems and the concomitant cycle of financial exclusion. Indeed CAB evidence of popular insurance schemes such as payment protection insurance suggest that these products often fail the most vulnerable in society. The Office of Fair Trading upheld these concerns in its response to the 2005 Citizens Advice super-complaint on the issue.

3. *Savings and debt management*

3.1 The CAB service money advice process has been in place for 30 years. It aims to preserve the client's home, fuel supplies and liberty, make them aware of their rights and responsibilities and help them make informed choices about how they deal with their debt problems. As part of this process CAB advisers assist clients in agreeing repayment schedules with creditors.

3.2 In order to work out a repayment plan for the client, the adviser will fill in a financial statement with the client, outlining the clients essential expenditure, helping them to budget, maximise their income and indicating the amount of surplus money left over to repay their debts. This financial statement is used to negotiate repayments with their creditors.

3.3 These debt repayments are based on the amount of money left over after paying for essentials such as mortgage or rent, housekeeping, travel and fuel. There is very little flexibility allowed by the credit industry when assessing an individual's means, and so expenditure is often kept to a bare minimum. As a result, repayments are often at the limit of affordability for the debtor with the effect that payments may be missed if there is a minor or temporary change in circumstances or an increase in expenditure. For example, the client is self employed and loses some time due to sickness, or a client needs to replace an item such as a cooker. This would mean the client would need to re-negotiate the debt each time and undermines the long term sustainability of the repayment.

3.4 To remedy this Citizens Advice recommends that debtors should be encouraged, where possible, to save a small amount each month or week to build up a small "buffer" or "reserve". This should be seen as good practice and an allowable expense by the credit industry. As well as improving the sustainability of the schemes it would encourage debtors to save. The Insolvency Service allow individuals a surplus amount after meeting essential needs to allow for budgeting and unforeseen expenses. This also helps to ensure that the individual can maintain his/her income repayment order.

3.5 Advisers should be assisting clients to make small regular savings by referring them to local organisations such as Credit Unions and advising on the benefits of savings. This would hopefully enable debt clients into longer term financial health, at the same time as sorting out the pressing debt issues.

3.6 Citizens Advice recommends the use of the Common Financial Statement (CFS) which is a Money Advice Trust and British Bankers Association initiative. The CFS is a standard format along with agreed "trigger figures". The credit industry has agreed to accept offers made by money advisers for their clients as long as discretionary spending such as housekeeping is under the agreed trigger figure. It would be possible for there to be an agreed trigger figure for savings incorporated into the common financial statement to encourage debt clients to save. Further steps should also be taken to ensure that where possible clients' existing savings up to a reasonable amount are protected.

4. *Financial capability*

4.1 Citizens Advice considers that developing financial capability is key to improving budgeting and borrowing skills and helps to encourage a savings culture.

4.2 The financial capability programme Financial Skills for Life was established by Citizens Advice in partnership with Prudential plc in April 2002. It was designed as a response to the Citizens Advice evidence report Summing Up (November 2001) which showed that CAB clients are often ill-equipped to make crucial financial decisions across a range of personal finance matters. The report also highlighted the growing number of bureaux carrying out financial skills work in their communities as trusted and independent sources of information.

4.3 Nine bureaux were provided with three year grants to test the delivery of face-to-face educational programmes to a wide range of hard to reach communities across England and Wales. An independent evaluation of this work showed the overall success of the programme. The work, undertaken by ECOTEC Research and Consulting Ltd in 2005–06 concluded that the nine bureaux made a direct and positive difference to participants' lives.

4.4 The evaluation found that the clients benefited in a range of ways, particularly that the clients had developed a greater understanding of budgeting and saving strategies. Importantly the benefits were sustained over time. A sample of participants surveyed some months afterwards had changed their patterns of behaviour and enjoyed improved economic well-being. Almost all of the sample had improved their savings position and had kept to budgeting plans.

4.5 Over 80 bureaux throughout England and Wales are now involved in financial capability work in their communities. The number has grown substantially over the last four years. Building on experience gained through delivering money advice services, these bureaux are supporting young people and adults to develop the skills and confidence to budget, borrow and save with genuine confidence. But this still represents about 20% of all bureaux, compared with the 100% providing some level of debt advice.

4.6 We have benefited from significant funding from Prudential and Barclaycard. But resources are the major limitation for bureaux wanting to do financial education work. Having a dedicated worker in every bureau would cost around £20 million pa. We estimate that such an expansion would allow us to help one million "hard to reach" people develop their financial capability skills each year.

4.7 Bureaux involved in financial capability work often work closely with other delivery agencies in their communities. This year, as part of its Financial Skills for Life programme, Citizens Advice has provided grants to enable bureaux to establish 14 regional forums. These forums enable bureaux, credit unions, housing associations and public sector interests to exchange information, share skills and resources and develop opportunities for joint working. These forums benefit from one year funding from Friends Provident Foundation and Abbey Charitable Trust as well as Prudential.

4.8 Bureaux work with front-line workers is key to maximising the reach of our financial capability programme. HM Treasury's Long-term Approach to Financial Capability (published in January 2007) recognises the Citizens Advice work with the FSA since 2005 in delivering financial capability education to those working with young adults not in education, employment or training. Feedback from participants attending the intensive one-day courses has been very positive. It has reinforced our view of the importance of such frontline workers having a basic understanding of eg budgeting, borrowing and banking issues—and the extent to which there is a knowledge gap.

4.9 Frontline workers will typically have the chance to share their improved skills with several tens of clients every year. We have therefore extended this approach within the substantial Barclaycard-funded three-year "Horizons" programme with lone parents groups. We are also piloting HMRC-funded bureaux training for those working with elderly and migrant groups. Independent evaluations are being undertaken of all these programmes, the first of these will be complete by summer 2007.

4.10 Financial Capability is a long term project, as attitudes, lives and finances take time to turn round. For many, it is only when budgets and borrowing are under control that saving becomes a realistic option. Funding for financial capability tends to be short-term and too often linked to pilot schemes providing short-term fixes. More sustained programmes with long-term funding, encouraging local and national partnerships, are needed.

5. *Regulation of the short term savings market*

5.1 People on limited incomes need to plan ahead for times of higher than average expenditure. Schemes such as those provided by Farepak are intended to allow consumers to do exactly this. However, the collapse of Farepak left 150,000 such people without their savings, proper compensation or a regulatory safety net. Many CAB clients were affected by these events.

> A young single mother with five children sought advice from a CAB in Wales on hearing of the company's collapsePembroke & District 57197628. She had finished paying her contributions to Farepak early, and was awaiting £900 worth of vouchers.
>
> A bureau in Berkshire Reading CAB found that its clients had lost an average of £500 through the collapse of Farepak. The bureau mounted a fundraising campaign with the local newspaper which uncovered that £111,000 had been lost by 192 families in the local area.

5.2 Consumers are rightly encouraged to save and to plan their expenditure. Indeed, the Government has worked to encourage this savings behaviour through schemes such as the Savings Gateway. It is vital that steps are taken to ensure that the collapse of Farepak does not undermine savings behaviour.

5.3 Citizens Advice welcomes the Committee's recommendation in the First Report of Session 2006–07 (paragraph 62) which notes that 'the Farepak case has highlighted a serious lack of consumer protection' and urges that the Government, in conjunction with the OFT and FSA, should consider whether appropriate safeguards are in place.

5.4 Citizens Advice regrets that the Government have concluded in their response to this recommendation (Fourth Special Report of the Session 2006–07) that such short-term savings schemes should not be subject to independent financial services regulations. Though we do welcome the Government's commitment that they will work with the FSA and OFT to examine the regulatory framework in which Farepak operated, we are however concerned about the amount of time that it will take to conclude this process.

5.5 Citizens Advice broadly supports the recommendations of Brian Pomeroy's Review of Christmas saving schemes (March 2007) particularly that the DTI must urgently ensure that consumers' investments are protected in future.

5.6 We also strongly welcome the Government's announcement on 28 March 2007 of £1 million funding for the OFT to conduct a consumer awareness campaign on Christmas savings schemes and mainstream alternatives. Citizens Advice would be pleased to take part in the development and delivery of this campaign.

April 2007

Memorandum submitted by the Financial Services Authority

Introduction

1. This memorandum is submitted by the Financial Services Authority in the context of the Committee's further inquiry, announced on 29 March, into saving for all and shorter-term savings products.

2. The memorandum:

- considers the role of financial capability in the shorter term savings market;
- outlines work the FSA has undertaken, with others, following the Farepak hamper scheme collapse; and
- notes our current review of the Basic Advice regime.

A. *The role of financial capability in the context of the shorter-term savings market*

3. Making sound financial decisions is an essential life skill. Improving the UK's financial capability is a fundamental part of enabling people to make these sound decisions. This applies as much for decisions on savings, short and long-term, as for bank accounts or insurance plans.

4. As the Committee will recall, the FSA's 2006 Financial Capability Survey measured financial capability in terms of how well people make ends meet, keep track of their finances, plan ahead, choose financial products, and stay informed about financial matters.

5. The Survey found that:

- — large numbers of people from all sections of society are not taking basic steps to plan ahead;
- — over-indebtedness does not affect a large proportion of the population—however, when it does occur it is often severe;
- — people do not take adequate steps to choose products to meet their needs;
- — the under-40s are typically much less financially capable that their elders; and
- — unless steps are taken to improve levels of financial capability, we are storing up problems for the future.

6. The first of these findings is particularly relevant to this inquiry: only 61% of the UK population hold a savings account, and nearly half of adults in the UK have no savings at all.

7. Our National Strategy for Financial Capability aims to address these key findings by getting the right information to people at the right time and to reach people at certain points in their lives when they need help. It is designed, among other things, to improve the financial capability of children and young adults, to lay strong foundations for the future. It provides employees with ready access to information in their place of work. It targets resources to people at crucial life stages, for example when they are starting a family. And it provides more generally relevant, user-friendly and accessible information and money advice, to help with planning and choosing products, including savings.

8. One important element in our direct contribution to improving financial capability is the information we provide on our Moneymadeclear website (www.Moneymadeclear.fsa.org.uk). This includes an online guide, "Saving for tomorrow", which provides clear, simple messages on how to take stock of one's finances and take action, in both the short and longer term. Our information on different types of savings products includes credit union accounts and will soon include information about hamper schemes and other alternatives to mainstream saving (see paragraph 11 below).

Farepak and Christmas saving schemes

9. In its 1st report of 2006–07, the Committee highlighted the collapse of Farepak Food & Gifts Ltd and the lack of protection for consumer pre-payments to this scheme. It recommended that Government, with the FSA and the OFT, consider the implications of this and how consumer pre-payments could be safeguarded in the future. This would also examine whether an expansion of the FSA's regulatory responsibilities was necessary or whether the appropriate degree of protection could be achieved by other means.

10. We worked closely with the OFT, Treasury, the DTI and Sir Brian Pomeroy to deliver the consumer protection needed in future for those who use hamper schemes. We contributed fully to the report OFT submitted to DTI in December 2006. Our contribution is found at paragraphs 63–76 of the report. It notes the principles which underpin our regulation of deposit-takers (including credit unions) and the costs and benefits of such regulation, including those associated with the Financial Ombudsman Service and the Financial Services Compensation Scheme. It also describes our current regulatory approach to pre-paid funeral plans. We believe that the OFT report represents a proportionate response to the problem, especially given the Government's and FSA's commitment to better regulation.

11. As noted in Sir Brian Pomeroy's report on Christmas savings schemes, there are clear implications for the FSA's work on financial capability. As the Committee will be aware, we believe that our work in leading the UK's National Strategy for Financial Capability is one way we can help address financial exclusion. We have agreed to enhance the existing savings information on our Moneymadeclear website by including information about Christmas hamper schemes and other alternative forms of saving. The website, providing impartial financial information, forms an important part of the National Strategy, which is designed to improve the confidence and capability of UK consumers. Use of our consumer website is increasing; in the financial year 2006–07, for example, we recorded over 2.2 million visits, just under 750,000 of them in the last quarter.

12. We will also promote our consumer information to those trusted intermediaries who are our partners in the National Strategy, particularly those who work directly with the sort of consumer likely to use hamper schemes.

13. One part of the National Strategy is the FSA's Innovation Fund. This was launched in June 2005 to provide support for innovative projects run by voluntary organisations, and in March 2007 we announced the latest round of funding. For example, one recipient was Coast and Moors Voluntary Action, based in

Scarborough and Whitby, which was awarded £16,000. Working with women, especially those in disadvantaged groups, the project will tackle debt and overspending issues which can occur over Christmas, so that they can apply these skills throughout the year in day-to-day lives. The project aims to replicate the resources across the region and North Yorkshire.

Basic Advice

14. In its 12th report of 2005–06, the Committee noted that "the restricted range of products available under the basic advice regime, combined with the perception that the scheme has not been as light touch as expected, has led to a low number of major providers introducing the basic advice regime" and recommended that the FSA conduct a full review of the basic advice regime.

15. We introduced Basic Advice in April 2005 as a new, more streamlined form of regulated advice for the sale of "Stakeholder" savings and investment products. As the Committee is aware, we are now planning a review of the Basic Advice regime. At the end of May we will publish a policy statement setting out the scope and timetable for this review, taking into account the suggestions we received from respondents to our October 2006 consultation paper. We will keep the Committee informed of progress.

April 2007

Memorandum submitted by the Building Societies Association

Summary

This memorandum highlights the importance of financial inclusion to the retail savings operations of building societies.

Saving provides security and opens opportunities, enabling people to develop from using financial products merely for transactions into more advanced products and saving for longer term needs. Building societies help to promote financial inclusion by offering simple savings accounts, many allowing deposits of only £1. They show a greater propensity to keep branches open than banks and the Post Office, and are major contributors to the success of cash ISA and CTF cash accounts.

The BSA supports the principle of the Saving Gateway initiative. Building societies are well placed to provide the Saving Gateway as trusted savings providers with strong links to their local communities. The scheme needs to be carefully designed in order to achieve the goals of increased financial inclusion and capability while still being viable for financial service providers to supply.

Financial capability is a crucial determinant of saving behaviour. The less financially capable an individual is, the more important psychological and behavioural influences are on their decision, rather than the rate of return. Financial education should be made compulsory in schools to develop financial skills and instil better understanding of future financial requirements in individuals.

Introduction

1. The Building Societies Association is the trade body representing all the UK's 60 building societies. These societies have total assets of over £310 billion, around 15 million adult investors and over 2.8 million borrowing members. Building societies account for 19% of UK retail deposits and 18% of residential mortgage loans outstanding. They operate through around 2,100 branches and, including their subsidiaries, employ nearly 50,000 staff.

2. The Building Societies Association welcomes the opportunity to contribute to the Treasury Select Committee's inquiry into financial inclusion. Promoting financial inclusion is inherent in much of societies' core business. This can be seen in the simple saving products offered by societies, and by the much greater propensity of building societies than banks or the Post Office to keep their branches.

The Role of Saving in Financial Inclusion

3. The Building Societies Association strongly believes that saving plays a number of important roles in financial inclusion. These mainly relate to the security and the opening of opportunities that a base of savings provides.

4. Research by the Financial Inclusion Taskforce shows, not surprisingly, that those without a savings account tend to be on low incomes[6]. These people are more likely to suffer shocks to their income due to illness, unemployment, divorce and so on. They are also less likely to be insured, should anything go wrong. A stock of savings enables people to respond to sudden expenditure needs or drops in income, and prevents

[6] "Access to financial services for those on the margins of banking" Financial Inclusion Taskforce, 2006

these events developing into deeper financial problems that can keep people excluded. Saving can also help alleviate the pressures on household finances caused by the lumpy nature of expenditure through the year. As such, saving allows individuals to plan with more certainty. Having an accumulated asset also enables opportunities, such as higher education, house purchase, and so on, to be realised without financial constraints becoming prohibitive.

5. Simple savings accounts assist in financial inclusion because they can be one of the first ways that individuals deal with financial institutions. This develops financial capability, and allows the individual to accumulate an asset that they can then invest, or use to achieve other aims. This applies particularly to children, and constituted part of the rationale for the Child Trust Fund. Short-term saving therefore provides the basis on which people can develop from using financial services merely for transactions to access more advanced products and markets. Short-term saving can provide foundations in terms of financial capability and financial security. In this way, short-term saving can be a bridge towards longer-term saving. BSA research has found some evidence that a hierarchy exists in saving behaviour[7]. By overcoming the barriers to saving in the short-term, it can become apparent to the saver that the act of saving itself is not overly arduous.

6. Reducing the barriers to financial inclusion is inherent in the savings operations of building societies. Most societies offer simple savings accounts which can be opened with a minimum deposit of £1, many of which offer instant access to the deposited money. Many of these can be accessed with a passbook, allowing savers to immediately see the balance on their account.

7. In 2004 the BSA commissioned Dr. Karl Dayson of the University of Salford to conduct independent research into building societies' contribution to the promotion of financial inclusion[8]. The research found that most building societies had products suitable for new savers, with 57% allowing deposits of less than £1 and 94% allowing withdrawals of a £1 or less. 50% of societies allowed "savings holidays" on their accounts, and 94% had accounts capable of receiving state benefits. The research also found evidence of societies being as flexible as possible with the identification and verification requirements in the Joint Money Laundering Steering Group guidance.

8. Building societies are major providers of ISAs and in respect of cash ISAs, societies are market leaders, accounting for over 37% of cash ISA balances (£46 billion out of £124 billion in February 2007). This is more than double building societies' share of the market for cash-based savings as a whole and demonstrates both building societies' commitment to the cash ISA market and their success in attracting funds to this important product.

9. ISAs are sometimes criticised as being the preserve of the wealthy middle classes. The figures do not bear this out. In fact, the cash ISA has been particularly popular among those on lower incomes. For example, in 2003–04, the latest year for which HMRC figures are publicly available, 72% of cash ISAs were subscribed by people on annual incomes of less than £20,000 and only 12% were subscribed by those with incomes of £30,000 or more. Nor is the ISA confined to older savers. 24% of those subscribing to an ISA in 2003–04 were aged 34 or under.

10. Building societies also are the main providers of Child Trust Fund cash accounts. Of the 19 providers offering the cash option, 13 are building societies. Where people use institutions that offer both cash and stakeholder CTFs, 70% have opted for cash accounts, and a quarter of all CTFs that parents have opened have been cash accounts. Those on the margins of mainstream financial services are more likely to prefer to deal with cash products rather than starting with an equity based product.

11. The Building Societies Association was pleased to observe that Brian Pomeroy's recent review of Christmas saving schemes acknowledged the contribution made by societies in providing festive saving accounts. Scarborough, Skipton, Furness and Dudley building societies all responded to the collapse of Farepak by introducing new products. These accounts have features that appeal to those who use Christmas saving schemes, such as allowing small regular deposits and locking away the money until it can be spent on Christmas items.

12. All the new festive savings accounts offered by societies had opened by 1 February 2007, and one was available as early as December 2006. This is an example of societies responding to the needs of the less financially capable by trying to increase awareness of the savings options available.

13. The majority of societies also take steps explicitly to tackle financial exclusion, whether this be sending staff into local nursing homes to enable elderly members to manage their savings or improving access and services for those with disabilities[9].

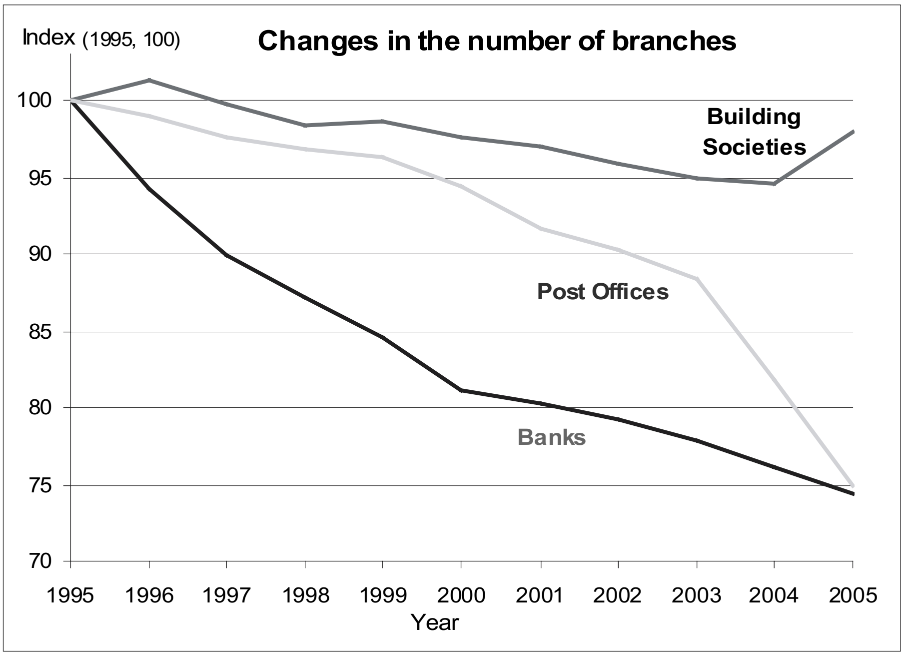
14. Branches are important to financial inclusion as lower income customers tend to be heavier users of branches. An independent report by the University of Nottingham[10] showed that building societies had a much better record than banks in maintaining a branch presence, particularly in areas of social deprivation. The chart below shows the difference in branch closures between building societies, banks and the Post Office across the UK as a whole.

[7] "The Individual's Saving Decision", The Building Societies Association, 2007. Attached as an appendix to this submission, or available at www.bsa.org.uk/publications/industrypublications/savings_report.htm

[8] "Improving Financial Inclusion", Dayson, K, 2004, http://www.bsa.org.uk/publications/industrypublications/100641.htm

[9] "Societies in Society", BSA, 2006, http://www.bsa.org.uk/publications/industrypublications/societiesinsociety.htm

[10] The Changing Geography of British Bank and Building Society Branch Networks, 1995–2003. *Leyshon, A, Signoretta, P, French, S,* 2006.



15. The Nottingham University report found that building societies gave greater consideration than banks to the impact on customers in the communities they serve when assessing branch performance. Instead, the report found that because banks are owned by shareholders, pressure to reduce costs outweighs all other factors in their decision. Those societies with ATMs also extend these wider considerations to the siting of their cash machines.

The Role of the Saving Gateway

16. Building societies await with interest the publication of the final results of the second trial of the Saving Gateway. The BSA supports the principle of the Saving Gateway. Several building societies have already volunteered to meet with Treasury officials to discuss the implications of the results on the design of the scheme, and to consider the practicability of running the scheme across the UK.

17. At this preliminary stage, building societies appear well suited to the provision of the Saving Gateway scheme. Participants in the second trial viewed building societies as more trustworthy, more ethical and better at looking after their customers than banks[11]. In order to make it a viable option for societies to provide the product, the final scheme design needs to be simple and flexible, as well as allowing a long-term relationship to develop between the institution and the customer.

18. The Saving Gateway is explicitly aimed at reaching the financially excluded. The eligibility criteria will need to be carefully defined to ensure that those who currently do not save are reached by the scheme. Some have advocated the use of community groups or voluntary organisations to increase participation of hard-to-reach groups[12]. However, similar matching schemes in America have shown that while the involvement of community organisations helps to access the financially excluded, it is very resource intensive and this has limited the scale of the project[13]. The American schemes started on very small scales with slight differences in operating models, and then tried to expand these established programmes. Designing and implementing a larger scale scheme from scratch, carefully defining the roles and responsibilities of each group involved in the provision of the scheme, may enable the administrative burden to be reduced.

19. The provision of financial education could be formally integrated into the scheme design from the outset, and with clear objectives in mind. This would aim to capitalise on the individual's saving experience during participation in the scheme.

20. While the pound for pound match in the first trial was a significant (and simple) incentive for the financially excluded to investigate the product, there were a number of people who were still not persuaded to save. Increasing the monetary return is a blunt tool, and the psychological barriers to saving also need to be addressed in the scheme design.

21. Research recently published by the Building Societies Association[14] investigated why people in seemingly similar circumstances saved vastly different amounts. Almost one in five respondents said that of a range of factors identified in the research, none could persuade them to save. One of the main conclusions

[11] "Interim Evaluation of Saving Gateway 2" IFS and Ipsos MORI, 2006

[12] See, for example, "The Saving Gateway: From principles to practice" ippr, 2006

[13] See, for example, "Achieving Scale in Asset Building: Operational challenges and opportunities from IDA Programs", The Aspen Institute, 2006

[14] "The Individual's Saving Decision", *ibid*

of this report was that while simple products were necessary, simplicity alone was not enough. A change in the way that people think about saving needs to be engendered as well. People need to be encouraged to think about the benefits to themselves in a few years time of putting money away now.

The Role of Financial Capability in the Context of the Shorter Term Savings Market

22. The BSA's research into the saving decision found that financial capability was a considerable determinant of saving behaviour. The less financially capable a person was, the less sensitive they were to the rate of return. They also tended to place a lower value on their future needs, so failed to make sufficient provision. Instead, behavioural and psychological factors were relatively more important. As such, how offers were presented could sway decisions, and the level of trust in institutions, or a friend's recommendation or advice were more influential. Choosing products by word-of-mouth and heuristic behaviour, where people learn by trial and error, were found to be more accurate descriptions of saving behaviour in the less financially capable.

23. For the Saving Gateway, this means that the match has less of an impact on its target audience than it would have on a more financially capable group. Other more psychological aspects of the scheme design are therefore very important.

24. The BSA report called for financial education in schools to be compulsory for all children. As well as teaching the skills needed to operate accounts, education should try to teach why it is important to look over longer time horizons to engender a more realistic present valuation of future needs. Better understanding of personal saving requirements should also help people to ask informed questions of financial providers. The report also suggested using stark imagery in a public awareness campaign to try to stimulate non-savers to reappraise their current saving behaviour.

Conclusion

25. Financial inclusion is integral to much of building societies' activities. Offering simple savings accounts, the rapid reaction by several societies to the problems with Christmas saving schemes, and the propensity to maintain the branch network are testament to this. The ISA has been a success story to which building societies have been major contributors. The cash CTF, provided mainly by building societies, offers parents an important alternative to equity based products. Building societies also seem well placed to provide the Saving Gateway, provided the design makes this a viable option. Financial capability is a crucial part of reducing exclusion, but paradoxically, using financial products such as short-term savings accounts to build up financial experience is the best way to improve capability.

April 2007

Memorandum submitted by HM Treasury

The Chairman of the Treasury Select Committee has asked the Economic Secretary to the Treasury for written evidence covering three particular points:

- A response to the recommendations in paragraphs 68 and 69 of the Committee's First Report of the current Session on Financial inclusion: the roles of the Government and the FSA; and financial capability.
- A summary of the information available to the Treasury on the second round of Saving Gateway pilots, together with any indication about the precise timetable for decisions on next steps.
- An update on the progress in the implementation of the agreement that had been secured from the hamper industry to establish an industry-led scheme to ensure that consumers' interests are fully protected through the establishment of secure, ring-fenced accounts.

Financial Inclusion Taskforce

Recommendation

> Paragraph 68: We welcome the establishment of the Financial Inclusion Taskforce and its progress during the first 18 months of work. It has brought a much needed focus to the issue of financial inclusion and ensured wide consultation with those throughout the financial services industry and voluntary sectors who have a role to play in promoting financial inclusion. The Taskforce has made much progress in its work programme under the chairmanship of Brian Pomeroy. We believe its remit should be expanded to include access to savings and insurance. The Treasury should ensure that additional resources are provided to the Taskforce so that the expansion of its remit does not limit the ability of the Taskforce to complete its substantial programme of current work.

Response

1. The Government recognises that savings and insurance products, as well as affordable credit, are important tools for helping people to plan for the future and cope with financial pressures. The Government's new financial inclusion strategy document, Financial inclusion: the way forward, published in March, sets out the Government's goal that affordable credit, savings accounts and simple insurance products should be available to all who need them.

2. To work towards this goal, the new strategy announces that the Government will work with the Financial Inclusion Taskforce and the Association of British Insurers to address key questions around how to take forward insurance within the financial inclusion strategy. A new member from the insurance industry, Bridget MacIntyre (UK CEO of Royal and SunAlliance plc), has been appointed to the Taskforce to provide an expert perspective on its insurance work.

3. The Government agrees with the Committee that it is important to consider inclusion issues that relate to saving and that is why the remit of the Government's financial inclusion strategy has been extended to include saving. In this context, the Government has been using the Saving Gateway to explore ways to encourage saving among lower-income households and promote engagement with mainstream financial services. Evidence from the Saving Gateway pilots will inform policy decisions on the Government's approach in this area and any potential involvement of the Taskforce in saving issues going forward.

4. HM Treasury will continue to work with the Taskforce Chair to ensure that the Taskforce is adequately resourced to carry out all of its responsibilities effectively.

Recommendation

> Paragraph 69: While we recognise the need to keep the Financial Inclusion Taskforce at a workable size, the Taskforce needs to engage with other partners that can help promote financial inclusion, such as the Post Office and housing associations.

Response

5. The Government agrees that the Financial Inclusion Taskforce should engage with a wide range of stakeholders, including organisations outside the mainstream financial services industry. The Government is confident that the Taskforce is carrying out their responsibilities in this way, and that it has responded to this effect in its own response to the Committee's recommendations.

Saving Gateway

6. The second Saving Gateway pilot was announced at PBR 2004. The pilot started in March 2005 and an interim report was published in July 2006[15]. The final evaluation of the second pilot is published today[16]. Both documents are available publicly on the HM Treasury website.

7. The first and second Saving Gateway pilots have provided useful information on which to base policy decisions about the Government's approach to promoting saving among lower-income households. The Government now encourages external stakeholders to contribute to the debate over the coming months and will make further announcements on the next steps for the roll out of the Saving Gateway in the Pre-Budget Report.

Hamper Industry

8. The Department of Trade and Industry has been working closely with the hamper companies to ensure the industry-led scheme to establish trust accounts are put in place as quickly as possible. The scheme is designed to protect customers by ring-fencing payments made into accounts controlled by independent trustees. Good progress is being made. The companies are in the process of restructuring their businesses to accommodate the new trust arrangements and hope to identify suitable independent trustees shortly to administer the accounts.

9. A new trade body—the Christmas Pre-payments Authority (CPA)—will take over the role of monitoring the establishment of these accounts as soon as it is operational. The Minister for Trade, Investment and Foreign Affairs announced on 17 May that Derek Walpole, deputy Chief Executive of the Family Fund, and Suzy Hall, founder of the Unfairpak campaign, have agreed to take on the roles of Chairman and Director of Consumer Affairs in the CPA respectively.

May 2007

---

[15] *Interim Evaluation of Saving Gateway 2*, Institute of Fiscal Studies and Ipsos Mori, July 2006.

[16] *Final Evaluation of the Saving Gateway 2 Pilot: Main Report*, Institute of Fiscal Studies and Ipsos Mori, May 2007.

Memorandum submitted by the Office of Fair Trading

Introduction

1. This memorandum is submitted in advance of OFT's appearance on 6 June 2007 before the Treasury Select Committee's enquiry: Financial inclusion follow-up—saving for all and shorter term savings products.

2. The memorandum describes the role of the OFT, the advice it provided to the DTI in December 2006 following the collapse of Farepak, and the work it is now engaged in following the recommendations made by Brian Pomeroy in his "Review of Christmas savings schemes".

Role of the OFT

3. The OFT's mission is to make markets work well for consumers. Our goal is for competitive, efficient, innovative markets where standards of consumer care are high, consumers have choice and are empowered and confident about making choices, and where businesses comply with consumer and competition laws but are not disproportionately burdened by Government regulations, or restricted and harmed by market abuse. We achieve this goal by using tools within the consumer and competition law regimes which enable us to look at all aspects of markets to ensure that they are working well for consumers.

4. Our role following the collapse of Farepak has been to advise DTI on the policy options available for protecting vulnerable consumers who are most at risk of losing their money when a company fails in the way that Farepak did. We have no role in regulating savings schemes but have a direct role in helping to ensure consumers are well informed and able to make informed and rational selections of products and services. Empowered and well informed consumers will then act as a positive stimulus to competition. OFT undertakes powerful awareness and education programmes and coordinates an alliance of consumer education partners. This is the key part of our work going forward on the follow up to Farepak.

Advice to DTI

5. In November 2006, following the collapse of Farepak, the Minister of State for Trade, Investment and Foreign Affairs asked that OFT work with the DTI and the FSA to look at the regulatory framework and consider options to address the issues raised. OFT provided advice including a contribution from the FSA on 14 December 2006. No single recommendation was made given the short timescale within which the advice was provided but it was suggested that the best options for consumers appeared to relate to reform of company law by moving consumers up the list of creditors and improving consumers' rights to take representative actions. We did not favour regulation of the hamper industry or of prepayments generally.

Company law reform

6. Consumers are not as well placed as others to judge the risks involved when making prepayments to a business and often receive relatively little from the distribution of assets by the administrators in the event of company failure. Moving consumers up the list of creditors would transfer the risk from consumers to other existing creditors such as institutional lenders who are more likely to be able to make judgements on the viability of a business. We acknowledged that changing the order could affect the terms under which they provide finance. However, this would represent a market based substitute for regulation.

7. Enhanced duties on directors in respect of using consumers' prepayments could potentially lead to directors being found personally liable if they have misused consumers' money and lead ultimately to more money being made available to the administrators for distribution. We also suggested strengthening the position of consumers in terms of their right and ability to take representative actions where potentially money is available, possibly through directors' personal liability.

Regulation of all prepayments made by consumers

8. We did not consider this to be a viable option. Many businesses depend on prepayments to provide working capital and some might not be able to start up if the compliance costs were too great. It is extremely likely that the costs of any regulation would ultimately be passed onto consumers in the form of higher prices. We therefore considered the costs would be disproportionate.

Specific regulation of the hamper industry

9. We were not satisfied that there was a clear case for regulating the hamper scheme business model specifically, whether by bringing these products within the FSA's regime, or otherwise. This is partly because of difficulties in targeting regulation at the specific products (hampers, vouchers, and other goods) but also because such a response to the Farepak collapse would ignore the risks to consumers of business failure in other sectors where significant prepayments are taken.

10. The business model used by the hamper scheme industry carries significant risks for consumers. However, based on what we found in our brief analysis, we felt it would be extremely difficult to put protection in place. The need for working capital was a significant problem and insurance or bonding would be costly given the risks now associated with the market. Prescriptive regulation would be unattractive to the agents and costly to consumers. Defining exactly what was to be covered in order to prevent either evasion or unintended consequences could be problematic. We also considered whether businesses (other than regulated savings schemes providers) should be prohibited from holding consumers' money for longer than a certain period. However, any legislation would need to ensure that the everyday use of prepayments in other sectors of the economy remain untouched.

11. If any of these options were to be explored further, we recommend a detailed cost benefit analysis be carried out. Any regulatory option would impose costs on business and therefore on consumers.

Education Programme

Background

12. On 23 March 2007 HMT and DTI asked us to run a £1 million consumer education campaign and we agreed. We intend to get the most effective outcomes for consumers for this spend by combining targeted consumer education initiatives with national PR and advertising. This approach will be more effective in terms of sustained consumer benefits.

13. Our strategy has two main strands:

a. to inform and educate people who lost money from the collapse of Farepak to help them understand what options are available to them to save for this Christmas; and

b. to carry out a consumer education programme that will help consumers to choose the most appropriate short term saving vehicle for their needs.

Target audience

14. We have examined the target audience by talking to the individuals and organisations that have a good knowledge of the drivers that inform consumer behaviour in this area. This will ensure our campaign will have credibility with our audience and will be absorbed.

15. As the Pomeroy Report described, people who use hamper schemes are making sensible decisions from their perspective. The apparent benefits can outweigh the disadvantages such as loss of interest on the money saved. Our aim is to encourage those wishing to save for Christmas to look at the features of hamper schemes and alternative options and to empower them to make decisions that are better for their particular circumstances.

Campaign/education programme

16. Our campaign and consumer education programme is called "Save Christmas" and will begin with a national launch on 1 June. The launch will disseminate information showing the options for short term savings for Christmas this year. We will use printed materials, PR, a press event and the networks described below to push the information out to our target communities.

17. We are working closely with others to disseminate messages and later to develop and deliver consumer education materials with them. These include the DWP "Now let's talk money" campaign, Citizens' Advice, the Trading Standards Service, Advice UK, ABCUL and LACORS amongst others, as well as specifically local groups.

18. The programme will also involve in-depth consumer education work delivered locally by organisations that have face-to-face contact with our audience supported by local and national PR and advertising. This will roll out sequentially to regions and nations across the UK focusing where there were major concentrations of Fairpak victims. We are building links with community groups, media and the voluntary sector in each area and—combined with our national partners' links—we will work with them to deliver in each separate region/nation. This will begin with Scotland in the summer, and be followed by other regions between July and December. This phased roll out of tailored education materials[17] will be preceded by a campaign launch in each area.

19. These materials will continue to do their job within communities after our campaign has finished and will be fully evaluated.

20. The campaign will end in late November/early December with a national PR and advertising push. This will reiterate and reinforce the messages at a time when consumers are deciding how they will save for Christmas 2008.

[17] These materials could include short films to show at community meetings, self-help leaflets, speaking notes, PowerPoint presentations, web links and so on. They will be customized for each specific region/nation.

Competition in the Hamper Schemes Market

21. We examined the competition position briefly in the advice we provided to the Minister in December 2006. We did not have time to collect detailed information but noted certain features of the market. Consumers value the convenience and informality of the home collection system through agents who are usually family members or friends. Social and cultural factors are very important to them together with the idea that the money has been put out of reach. We noted that supermarkets offered Christmas savings schemes and might possibly be able to attract customers through the use of agents. We also recognised that supermarkets would not necessarily offer the convenience of hamper schemes particularly in rural areas. At the time of providing the advice the information we received suggested that consumers were unlikely to turn to bank savings schemes if hamper schemes were unavailable and would be attracted to local schemes run through pubs and clubs.

22. In considering competition issues further we are considering primarily the effects of the merger between Park Group and Home Farm Hampers. We have received some preliminary information from Park Group and have issued an Invitation to Comment notice, distributed by Reuters Regulatory News Service and the OFT's web site, inviting interested third parties to comment on the merger. We will, in addition, be carrying out targeted third party enquiries. The consideration of the merger will, inevitably, require an investigation into the "hamper market", how it operates, what (if any) alternatives are available to consumers and the effect of the merger upon competition. The investigation of this merger should help inform how we would then take forward any further consideration that might be required.

23. The OFT's administrative target is to process a merger to a decision within 40 working days. This suggests an outcome towards the second half of June although the administrative clock can be "stopped" if the parties delay in providing required information.

June 2004

Letter from Chris Houghton, Managing Director, Park Group to the Chairman

I am writing as promised following my appearance before the Treasury Select Committee on 6 June 2007[18] to update you on the latest situation regarding the establishment of trust accounts to protect our customers' money.

The accounts have now been set up and I enclose a copy of the deed[19] and the biographies of the two independent trustees.[20] It has taken slightly longer to establish the trust arrangements than I had anticipated but we are now in a position to put them in place. The trust company and bank accounts have been established and the trust will be legally confirmed on 13 August 2007, which is the next suitable date to ensure a clean transfer. Park will make a press announcement via the RNS service on the 13 August confirming hat the trusts have been established.

We are delighted that the appropriate regulatory structure is now in place and look forward to building a new sense of confidence in the Christmas savings industry in partnership with government, Parliamentarians and the Office of Fair Trading.

7 August 2007

Supplementary memorandum submitted by the Office of Fair Trading

Introduction

1. OFT gave oral evidence to the Treasury Select Committee on 6 June 2007[21] about its work following the collapse of Farepak. The purpose of this memorandum is to clarify issues raised by the Committee.

Regulation of Hamper Schemes

2. The Committee asked why we advised the DTI in December 2006 that putting trust accounts in place to protect consumers prepayments in the hamper scheme industry would be "unattractive to the agents and costly to consumers". The Committee also queried our advice that consideration should be given to banning the hamper scheme business model.

[18] Q 120.
[19] Not printed.
[20] Not printed.
[21] Ev 27–33.

3. In preparing our advice for the DTI we gave careful consideration to the feasibility of hamper scheme companies putting in place some form of pre-payment protection. We based our assessment on our experience of prepayments issues in relation to our Consumer Codes Approval Scheme (CCAS) together with what we learned from the hamper scheme industry when preparing our advice.

CCAS

4. The CCAS criteria require that a code of practice shall address protection of deposit or prepayments as appropriate to the sector. Since the scheme's inception in 2001 our discussions with code sponsors have shown this to be one of the most difficult criteria to meet. This was confirmed in a consultation exercise in 2005 when business and code sponsors highlighted the difficulties including the level of costs involved to put protection in place and possible increased prices for consumers. Although we have retained the criterion we now take a risk based approach when deciding whether all deposits/prepayments need to be protected. We assess the level of financial detriment or inconvenience which would be caused if the goods or services are not provided.

Views of the hamper industry

5. We thought it likely that hamper scheme companies would be faced with similar difficulties to code sponsors but would also have the additional problem created by their business model which requires access to working capital throughout the year. This was confirmed when we met with the Hamper Industry Trade Association (HITA) in November 2006, including representatives of the Park Group, and discussed the possibility of prepayment protection. At that time Park was trying to find a suitable insurance scheme but this was proving difficult. Park said pre-payment protection was costly and under their business model they needed access to money to purchase products, run promotions, pay VAT bills etc at certain points throughout the course of the year. Limiting access to working capital threatened the viability of the hamper scheme.

6. We considered the views of HITA together with what we already knew from our consultation on CCAS and concluded that it was highly unlikely that the industry would be able to put satisfactory levels of protection in place voluntarily. Statutory protection, for example as part of the FSA regime, would present similar problems in terms of finding suitable trust or insurance arrangements but would also bring additional administrative burdens. In contributing to our advice to DTI the FSA said it was not obvious that the hamper scheme business model, such as that used by Farepak, would be sustainable under such a regime. We concurred with that view and, given that the informality of the schemes is an important part of their appeal, believed prescriptive regulation would be unattractive to both agents and consumers.

Banning the business model

7. These factors also lead us to conclude that banning the hamper scheme business model should be presented to DTI as an option. This business model places all the risk on consumers in the event of company failure and, following Farepak, may be viewed as unacceptable. On the evidence available we did not feel satisfactory voluntary arrangements were likely and considered sector specific regulation to be both unattractive and problematic. There were likely to be issues relating to the definition of the product to be regulated to avoid unintentionally catching other types of scheme. Where a business model is unlikely to be sustainable once regulated, and the risks to consumers remain high without satisfactory protection, we believed the option of banning the model should form part of any discussions.

Consumer Education Campaign

8. Following the announcement by the Treasury on 28 March 2007 that OFT would be given £1 million for a consumer education campaign the Committee asked OFT to provide a breakdown of cost figures for how the money will be spent. These are included below. The Committee also wanted to understand why greater use was not being made of national advertising in the campaign.

Action for Christmas 2007

9. We consulted key stakeholders to develop messages and tools to explain the various savings options and launched the "Save Xmas" campaign on 1 June to raise awareness of the issues for those who had not yet made their savings decision for Christmas 2007. We published a leaflet on 20 July which highlights the short-term savings options available to consumers. The design has been commissioned specifically to appeal to the target audience and the content of the leaflet is at the level necessary to explain how to start making

choices in this market. This has been verified by a focus group that we commissioned. The more in-depth consumer education programme for the longer term and publicity targeted at savers for Christmas 2008 is designed to provide the reach and depth of communication that the situation requires.

Target audience and strategy

10. The campaign is targeted at people who lost money when Farepak collapsed as well as people on low incomes who find it difficult to fund Christmas without saving throughout the year. Low income consumers are often hard to reach through conventional channels so, for example, we believe that while national advertising can help raise awareness it will have limited impact and relatively little long term effect. The campaign therefore includes an innovative programme using a range of delivery methods to help a specific sector of the population gain the skills they need to understand their options for short term savings.

11. We believe we will get best value from the £1m funding, and make a lasting impact, by channelling information through local communities rather than spending most of it on advertising. Our experience in education work shows consumers assimilate information most effectively when it is delivered face-to-face by someone they know and trust. This route is more likely to reach people and enable them to take the time to understand the options and ask questions. The main part of this work is to provide films, leaflets and support to enable community workers to deliver the message.

12. We are also making best use of existing networks such as those available through the DWP's "Now Let's Talk Money" campaign, the network of Citizens' Advice providers, day centres, tenant groups, Sure Start venues and other local groups. We have involved those working on related initiatives in both developing the materials and the delivery, thereby ensuring the project benefits from work already done across government. The campaign is an innovative method of encouraging people to gain the skills they need to make the best choice for them in the market and is intended to embed skills for the long term which can be useful in different situations. In this way consumers can develop skills to discriminate between options for short term Christmas saving and other events. The materials we have produced will also be available in the community and are likely to remain effective and deliver results for a longer period than a more traditional advertising campaign.

13. In order to get the most out of the budget, the work is concentrated on particular regions and nations.[22] Each will be dealt with separately and the consumer education work will be supplemented by advertising and PR to raise awareness. We launched in Scotland on 27 July and further regional launches will take place sequentially until the end of the year. At the end of 2007 and the beginning of 2008 this long term work will be supported by advertising and media work across the UK to highlight options to people when they are deciding how to save for Christmas 2008.

Acquisition by Park Group plc of Home Farm Hampers Limited

14. The Committee was interested to know the outcome of our consideration of the acquisition of Home Farm Hampers Limited by Park Group plc. On 23 August 2007 we announced that this merger had been cleared and would not be referred to the Competition Commission.

Cost Details for the "Save Xmas" Consumer Education Campaign

Phase One

START UP (MAY/JUNE 2007)

Activity/Sector	*Projected cost*
Video news release	£12k
Celebrity	£8k
Launch logistics (case studies' travel, staging, catering, media pack etc)	£4k
Campaign concept (plus design for initial materials)	£14k
Print production and web production	£11.5k
Distribution via intermediaries/partners	£17k
Research—focus group and behavioural aspects of consumer behaviour in this market	£25k
Travel to make contacts with stakeholders and networks	£2.5k
Total spend for phase one	**£94,000**

[22] Scotland, Northern Ireland, Wales, NE, NW and Midlands.

Phase Two

DEVELOPMENT OF TOOLKIT AND ROLL OUT IN SCOTLAND (JULY/AUGUST 2007)

Activity/Sector	*Projected cost*
Development of education DVD	£23k
Development/ customisation/design of print materials	£10k
Production of radio ad (artist fees, recording and editing)	£10k
Outdoor advertising creative	£10k
Research—audience testing and pre/post evaluation	£40k
Roll out in Scotland—production and distribution costs (radio airtime, toolkit, film)	£150k
Total spend for phase two	**£243,000**

Phase Three

REGIONAL ROLL OUT (JULY—DECEMBER 2007)

Activity/Sector	*Projected cost*
Customise toolkit (film, print) for each region and distribute	£70k
Welsh translations	£8k
Radio advertising, production and airtime for all regions	£175k
Outdoor advertising production and schedules	£150k
Total spend for phase three	**£403,000**

Phase Four

NATIONAL CAMPAIGN (DECEMBER 2007/JANUARY 2008)

Activity/Sector	*Projected cost*
Radio advertising	£150k
Outdoor advertising	£100k
Total spend for phase four	**£250,000**

GENERAL EXPENDITURE

Temp contract staff	£10k
Total campaign expenditure	**£1,000,000**

Please note that the Save Xmas consumer education campaign is subject to continuous assessment and evaluation to ensure objectives are being met and lessons are learned as the campaign progresses. All projected costs are therefore subject to change. For example, the research commissioned to assess the impact of the Scotland pilot may provide new variant indicators. The development and implementation of these may affect the current projected costs for subsequent phases.

August 2007

Printed in the United Kingdom by The Stationery Office Limited
10/2007 376579 19585