

# Help to Save: consultation on implementation

BSA response to HM Treasury's  
consultation

20 July 2016

# Introduction

The Building Societies Association (BSA) welcomes the opportunity to participate in the consultation on the implementation of Help to Save. The Building Societies Association represents all 44 UK building societies. Building societies have total assets of over £345 billion and, together with their subsidiaries, hold residential mortgages of over £270 billion, 21% of the total outstanding in the UK. They hold over £250 billion of retail deposits, accounting for 18% of all such deposits in the UK. Building societies account for about 31% of all cash ISA balances. They employ approximately 40,000 full and part-time staff and operate through approximately 1,550 branches.

## Scheme parameters and account operation

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

The narrow eligibility criteria for the product, low balance cap and the limited market (£75 million pa according to the OBR, whereas total cash savings balances held by UK households increased by more than £52,000 million in 2015) means the economic benefits, for individual firms, of offering the product are likely to be marginal, particularly under a multi-provider model. This means that it is essential for the administration of the product to be as simple and straightforward as possible in order to minimise the costs of operation.

The government intends that the account provider will be responsible for compliance with the scheme rules, and reporting to the administrator. Much therefore rests on the onerousness (or otherwise) of these and we would urge that the scheme rules and reporting requirements are kept as light touch as possible.

The administrator is intended to be responsible for confirming eligibility. It would be desirable for such confirmation to be available to the account provider immediately during the account opening stage, otherwise it would seem accounts would have to be opened on a contingent basis and closed/reassigned if confirmation was not forthcoming. This would be sub-optimal for consumers and providers alike. We understand from discussions with HMT and HMRC that confirmation of eligibility at the account opening stage would likely be feasible only under a single provider model.

The decision for individual building societies about whether or not to offer Help to Save will likely involve a combination of factors, including:

In relation to the product:

- development costs: systems development, training, etc

- the running costs of the product: reporting, volume of transactions, interest, etc
- the volume of savings that can be expected to flow through the product

But also how this fits with the building society's customer/member service objectives eg:

- enhancing the service and product range available to its members
- diversifying customer groups, social objectives, etc

And its wider funding strategy:

- the society's expected funding requirement (which follows from its lending objectives)
- the impact of the product on the society's liquidity management
- the relative expected cost and availability of other funding sources (wholesale, FLS).

We would hope that the lessons of the Saving Gateway pilots have been learned by government: Saving Gateway had a relatively small target market and relatively onerous administrative framework. Also the timing of its planned launch - in mid recession - was not propitious.

In terms of the scope of the Help to Save, we consider there to be advantage in extending this to cover SAYE savings schemes, in order to increase take-up in the target market.

## Principles for assessing implementation options

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

The suggested principles for the assessment of options would appear to be appropriate. However, there will likely be tension between the application of some of the principles. For example, the accessibility principle is likely to conflict with the cost-effectiveness principle as it implies a multi-channel approach, given the intention for all eligible individuals to be able to access the scheme irrespective of their personal circumstances or location. Offering face to face access via branches would increase costs. However, most building societies have branch networks so if any societies were to offer Help to Save accounts it would be natural for them to include branch access as part of their proposition.

## Account provision

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

The proposed monthly reporting of account opening would appear somewhat onerous, although absent real-time checking of eligibility at account opening, it is perhaps understandable that HMRC would require regular and frequent reporting of account opening and this would facilitate swift closure/reallocation of accounts opened for ineligible individuals.

**4. Do stakeholders agree with the government's assessment of the option to deliver Help to Save accounts through multiple providers? Including views on:**

- **interest rates**
- **branch access**
- **accounts transfers**

We agree that the multiple provider option is likely to be optimal in terms of consumer choice of provider and delivery channel. The competition generated by a multi-provider approach is also likely to be beneficial to consumers in terms of product pricing. However, we acknowledge the government's concern that choice could be confusing for some individuals in the target market. Facilitating account transfers should be a key element of a multi-provider approach as it will be important for consumers to be able to transfer out of poorly performing products.

For providers, a multi-provider approach would work only if the administrative costs associated with the scheme are kept to a necessary minimum, given the small size of the market and the low/zero margin nature of the products. We agree it would be helpful for firms to be able to leverage existing product platforms, such the Help to Buy: ISA and, from April 2017, the LISA and we encourage the government in its desire to facilitate this.

Whilst we appreciate the government's desire for interest to be paid on Help to Save balances, it would be wrong for this to be made a requirement of providers. If, as seems increasingly likely we are heading for a period of zero Bank Rate, a requirement to pay a positive rate of interest on Help to Save accounts could be a disincentive to firms from signing up to the new scheme.

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

NS&I no longer distributes its products via branches, having previously used post offices as one of its main distribution channels. Accordingly, the option to use NS&I as the sole provider of Help to Save accounts would not appear to meet the accessibility principle set by HMT for assessing implementation options.

The merits of having a sole private sector provider are largely as described in the consultation paper. However, we would challenge the assertion that "any option to deliver Help to Save accounts through a single provider will require government funding for the operation of the accounts". It is not clear to us why this would need to be the case if a single private sector provider is used. Being the sole provider would increase the financial viability for the provider of offering the product and that may mean that it could offer a higher rate of interest on the accounts than might be available under a multi - provider model, although without competitive pressure this could not be guaranteed.

## Detailed policy design issues

**6. The government welcomes stakeholders' view on the detailed policy design issues set out in this section, including how best to:**

- **Calculate the government bonus**
- **Deliver second term Help to Save accounts**
- **Ensure an appropriate rollover of funds to successor accounts**
- **Permit saving above the monthly limit**
- **Target eligibility on people who do not already have significant savings**

### ***Calculating the government bonus***

The evaluation of the Savings Gateway pilot 2<sup>1</sup>, found that matching was viewed as a useful and simple mechanism to promote saving. However, having to wait two years to receive the bonus is unlikely to be an attractive option for savers in the target group and may hamper the development of savings habits, reducing demand for Help to Save. The consultation considers the option of paying the government bonus every six months. This is preferable to the two-year option and receiving the match every six months could be important for the target market by increasing the sense of gains from the product. Behavioural research suggests people tend to respond more to regular small gains than to a single larger gain.<sup>2</sup>

### ***Delivering second term Help to Save accounts***

We do not think it would be a good idea for the accounts to close after two years as this would likely see a lot of account holders failing to renew. Also, if interest were to be paid six-monthly, the two-year point would be of much reduced significance to the account holder anyway. Rather, it would be preferable for accounts to default to automatically roll-over into the second two-year term.

### ***Ensuring an appropriate rollover of funds to successor accounts***

There are, of course, existing procedures for rolling over fixed term accounts at the end of their term. FCA requires timely reminders to be given to customers nearing the end of their fixed term and its rules are due to be refined in the context of remedies promulgated under its cash savings market study. These should be well-established by the time Help to Save is implemented.

### ***Permitting saving above the monthly limit***

We consider catch-up payments should be feasible and that it would be consumer-friendly to allow these.

### ***Targeting eligibility on people who do not already have significant savings***

Whilst we understand the motivation for the restriction the government is contemplating, we would urge that it should be implemented only if it can be applied in a way that does not create further delay in the account opening procedure – particularly as we understand that only 5% or so of individuals in the target market have savings of £2,000 or more. Also, we think the government would need to be careful in its messaging and avoid giving the impression that £2,000 is a healthy level of savings when it is not, although clearly better than no savings at all. Imposing such a limit might be seen as suggesting limited ambition on the part of government in engendering financial resilience in the target market.

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<sup>1</sup> Harvey, P., Pettigrew, N., Madden, R., Mori, I., Emmerson, C., Tetlow, G., & Wakefield, M. (2007). Final Evaluation of the Saving Gateway 2 Pilot: Main Report. London. Retrieved from [http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/d/savings\\_gateway\\_evaluation\\_report.pdf](http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/d/savings_gateway_evaluation_report.pdf)

<sup>2</sup> Chapter 8: Ineffective Incentives, Improving the Lives of the Poor, in, *Scarcity: The True Cost of Not Having Enough*, Sendhil Mullainathan, and Eldar Shafir, 2013

# Promoting awareness and take-up of Help to Save accounts

## ***7. The government welcomes stakeholders' views on options to promote take-up and awareness of Help to Save accounts, including the role of intermediaries and opportunities to harness insights from behavioural science.***

The Money Advice Service's Financial Capability Survey 2015 found that regular saving was encouraged by being goal-based. This suggests habit-forming, goal based features, could aid the effectiveness of Help to Save products.

The Financial Capability Survey findings also highlight the importance of addressing attitudes and motivations to save amongst the target audience for Help to Save. This includes addressing the issue of confidence and self-efficacy through communication about the product and how the bonus payments are communicated to customers during the lifetime of the product.

Behavioural analysis also supports allowing customers to create a default amount to save regularly from their monthly salary/benefit payment or at the start of the month, pre-committing savings, such as via a SAYE plan.

There would appear to be a key role for trusted intermediaries such as employers, job centres and advice centres to disseminate information on Help to Save, in addition to publicity from central government and Help to Save providers.



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The Building Societies Association (BSA) is the voice of the UK's building societies and also represents a number of credit unions.

We fulfil two key roles. We provide our members with information to help them run their businesses. We also represent their interests to audiences including the Financial Conduct Authority, Prudential Regulation Authority and other regulators, the Government and Parliament, the Bank of England, the media and other opinion formers, and the general public.

Our members have total assets of over £340 billion, and account for approximately 20% of both the UK mortgage and savings markets