

Help to Save Consultation
HM Treasury
1 Horse Guards Road
London
SW1A 4HQ

22nd June 2023

Dear consultation team,

Help to Save – consultation on reform

We welcome the opportunity to respond to this consultation. The Association of British Credit Unions Limited (ABCUL) is the primary trade association representing credit unions in England, Scotland and Wales, with around two thirds of credit unions in Great Britain affiliated to the Association.

Credit unions are co-operative societies who provide financial services – primarily savings and loans facilities – to their member-owners. They are registered as Co-operative Societies under the Co-operatives and Community Benefit Societies Act 2014 and the Credit Unions Act 1979. As deposit-takers they are dual-regulated by the Prudential Regulation Authority and the Financial Conduct Authority.

Credit unions have since their inception in Britain in 1964 been closely associated with anti-poverty and financial inclusion. They tend to provide savings and loans facilities to those with limited or no access to financial services from mainstream providers, generally due to their low income and / or lack of a developed credit profile. They have been a central element of numerous government and philanthropic initiatives to extend financial inclusion and address the lack of adequate provision of affordable credit and secure savings facilities for large sections of the population.

Credit Unions work to provide financial services has been valued by successive Governments. Credit Unions' participating in the Growth Fund from 2006 – 2011 saw over 400,000 affordable loans made with funding from the Financial Inclusion Fund. Loans made under the fund saved recipients between £119 million and £135 million in interest payments that otherwise would have been made to high-cost lenders. They are capped in the interest that they can charge at 42.6% APR under the Credit Union Act 1979 and provide credit in competition with high-cost lenders.

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They are numerous, with nearly 250 credit unions active in Great Britain today with more than 1.4 million members and £2.3 billion in assets under management. They range from mid-sized businesses of up to 50 staff to small voluntary organisations.

Response to Consultation

Credit Unions play a pivotal – and statutory – role in the promotion of savings. They are also uniquely exposed to low and middle-income markets and the provision of inclusive financial services to those without choices. The lack of take up of Help to Save account since the scheme launched in 2018 has shown that changes are required in order for the scheme to continue. We firmly believe that credit unions are ideally placed to enable the initiative to grow and maximise the potential of reaching those who the product seeks to support.

Credit Unions already promote building regular savings habits, and there are a number of key mechanisms which credit unions could link to Help to Save to enhance its efficacy:

1. Credit unions are routinely require their borrowers to make a contribution to savings alongside repayment of loans. This uses the opportunity of borrowing – generally at lower rates of interest than alternatives – to introduce saving and therefore works with the behavioural biases of people as demonstrated by the Behavioural Economics literature. Once the loan has been fully repaid the member will then have a pot of savings that has accrued. Many members then continue to contribute to their savings having already established a new savings habit.
2. Many credit unions offer payroll deduction as a way of depositing into accounts. There are two categories of credit unions – those that offer services exclusively to employees and those working in the community – both categories work with employers to promote their services and, in turn, the benefits of saving.
3. Some credit unions offer the PrizeSaver scheme, originally launched by HMT to encourage savings whilst giving the member the chance of winning a monthly prize of varied value, without the loss of any savings.
4. Credit unions support their members to save towards a particular short-term goal. Many people are more likely to succeed in building a new savings habit if they have a defined savings goal e.g., Holiday, Christmas etc, many credit unions already offer Christmas Savings accounts.

Question 1: *Considering the focus on working people with low incomes, what changes, if any, would you recommend making to the eligibility criteria to reach the target group? How could that be implemented?*

We would support the eligibility criteria to be amended to reach the target group. Firstly, we would propose that those who can verify they are on low incomes but are not currently receiving any benefits are eligible to apply, as we know statistically there is over £18bn in unclaimed benefits in the United Kingdom, approximately £7.5bn of which is unclaimed Universal Credit.

We would welcome the opportunity for students to be eligible to apply for the accounts – student status is the only limiting factor preventing them from obtaining Universal Credit and thus the account. Student finance is on par with Universal credit, and this is why they are ineligible to apply. However, engaging with this demographic would help to instil a savings habit earlier and promote financial education, money management, and budgeting through the credit union providing the Help to Save account.

Question 2 – *Do you think savers should be able to open another account after their first Help to Save account matures or is closed? Should there be any restrictions to doing so? What are your reasons?*

We understand the reason behind limiting the account to one account in a saver's lifetime due to the generous bonus received. However, those who open an account and have to close this prior to any bonus being paid due to any circumstance, which may be out with their control, should be eligible to apply for their account to be reopened, as long as they still meet the eligibility criteria. As an individual's financial circumstances may improve the opportunity to saving regularly should be encouraged. If the credit unions' were able to offer the Help to Save initiative they could provide a pathway to continue the savings habit that has been established by transferring the funds accrued in the account into another credit union savings account and maintaining the existing monthly payments, if the individual wished to do so.

We understand the administrative and technical burden this may entail, however having a real-time database of account eligibility and prior opening in order that credit unions can verify eligibility at the point of application and do not need to revise the status of an account after the fact would enable the account to be opened without multiple barriers and lengthy timescales. This would be imperative to the initiative being offered by multiple providers to search if the applicant has already opened an account elsewhere. We support the eligibility of the scheme being restricted to one active account at a time but are open to

the possibility of offering the account in future to those who still meet the eligibility criteria but at a reduced rate of bonus, if any at all.

Question 3 – *To what extent does the limit on monthly savings act as a barrier to maximising the benefits and or objectives of the scheme? Without making the scheme substantially more costly to taxpayers, how could this be overcome?*

We believe that the limit on monthly savings that are eligible for the bonus should be kept at £50 per month. However, if an individual wishes to pay in more than the £50 limit then this should be encouraged but not included in the bonus calculation. We strongly support the £50 per month limit for bonus purposes but would encourage the barrier of £50 per month deposit total be removed.

We believe allowing those to deposit additional funds would help to maximise the objectives of the scheme and would not be unduly burdensome to allow 'catch-up' deposits for months where no funds were deposited, as many individuals who are eligible for the account and those in lower-income households characteristically have varying incomes month to month. The key objective of the scheme is to encourage better savings habits so limiting the monthly deposit amount could then result in other potential savings being spent. However, implementing such an option might complicate the account for savers, potentially leading to confusion about how the bonus is calculated. This would need to be clearly communicated to all individuals as part of the application process.

Question 4 – *To what extent does the restriction on replacing savings that have been withdrawn act as a barrier to maximising the benefits and or objectives of the scheme?*

As stated in our response to question 3, we would support removing the restriction on replacing savings that have been withdrawn. Many of the target demographic for the account are likely to require access to these savings for emergencies they may encounter (car repairs, replacement of white goods etc). We feel the removal of the restriction would encourage those who have had to withdraw savings to continue in the scheme, allowing then the opportunity to still achieve their savings goals. We do believe that any 'catch up' deposits should not be eligible for the bonus payment.

Question 5 – *Do you think the current limitations on ways to pay money into a Help to Save account presents a barrier for savers? If so, how could this be overcome?*

We do believe that the current limitations on ways to pay money into a Help to Save account presents a barrier to many of the target demographic. Many individuals who would be eligible for the account are already financially excluded, with many only having a basic bank account or Post Office account. There are also many individuals who still rely heavily on cash for managing their money. Having access to an account provider who would accept cash deposits would encourage those individuals to open an account. Some credit unions already offer the Post Office “Pay In Now” and “Pay Out Now” services, where members can choose to withdraw or deposit savings via their local Post Office. Having the option a potential partnership with the Post Office would help to overcome some of the current barrier to depositing into the Help to Save account. Many credit unions already have relationships built with the Department for Work and Pensions where the credit union receives direct payment of the individuals benefit payment. This model could potentially be used to operate the accounts if credit unions had the opportunity to do so.

Question 6 – *Do you think running the scheme for 4 years provides the best value for money for the taxpayer?*

We support the Help to Save accounts being run over a 4-year period. However, we would support the bonus to be paid out annually in line with most financial institutions and to drive account holder engagement with the product .

Question 7 – *Could incentivizing a regular, long-term savings habit be better achieved over a different time period?*

We would support the existing time period being maintained.

Question 8 – *To what extent does the bonus structure or calculation methods for savers act as a barrier to maximising the benefits and or objectives of the scheme?*

The bonus structure needs to be communicated in a simplified manner for people to understand the benefits of the scheme. We have not seen any marketing information aimed at potential account holders that explains the bonus structure in a simple and straight forward manner, the only information provided currently is on the gov.uk website, which is all text. Having a more illustrative example of how the bonus structure works could encourage people to open an account and provide the information to those who absorb information visually.

Another proposal would be to give an illustrative figure of what their bonus would be if they continued with their current monthly savings deposit for the duration of that bonus period and for the full term of the scheme. This would encourage individuals to continue with their savings habits. Having an online calculator to give this illustrative figure would allow many

individuals to understand the bonus structure better and allow them to see the impact of saving different monthly payments would have on their final savings pot and the potential bonus amounts.

Question 9 – *Without making the scheme substantially more costly to taxpayers, what changes, if any, would you suggest to the bonus structure or calculation method to improve customer understanding and uptake?*

We would support the bonus structure calculations are maintained at their current levels but communicated better to those potential customers, as previously discussed in our response to Question 8.

Question 10 – *Do you think a change in bonus frequency would make it simpler to understand and/or create a bigger incentive for the target group to save?*

We have mixed views both within the association and based on member feedback. The current duration until the first bonus payment, 2 years, is a significant period of time and this may be a barrier to people joining the scheme from the offset. We would also be concerned about longevity. Our initial thoughts would be that a credit union member may not see out the full 4-year term without more regular incentive. We have requested any data that may be available looking at how many people withdrew their savings after the first 2-year bonus point. As we feel this could be a common theme.

Having an annual bonus paid out would help to maintain the account holders engagement and seems a more realistic timescale for the target demographic, given how many incomes may be volatile. Another possibility is a tiered system could gain more momentum and retain more accounts, with more frequent bonuses on offer, perhaps as a percentage of the total amount obtainable but just issued in more regular increments.

Potentially this could be locked in, just visible in the members account but not necessarily accessible. It may be that seeing the balance is incentive enough.

Question 11 – *Are any complexities or barrier caused by paying the bonus to the saver outside of the Help to Save account? What changes would you suggest to the way the bonus is paid to the saver?*

We would strongly support that paying the bonus payment to the saver outside of the Help to Save account should be optional.

If credit unions were able to offer Help to Save accounts the bonus payment could be transferred into an additional savings account in order to retain the savings and encourage the use of additional products, as well as accruing a dividend, where applicable, on the savings sum. However, disbursing this to an external/personal bank account wouldn't logistically be an issue for the majority of credit unions.

Question 12 – Are there alternative options to encourage and make it easy to continue the savings habit?

Credit unions offer a variety of saving accounts, transferring the balance to one of these that potentially accrues a dividend/interest could be incentive to continue to save. Some credit unions offer a PrizeSaver account, originally launched by HMT to encourage savings whilst giving the member the chance of winning a monthly prize of varied value. More investment and advertising in this initiative could be a continuation of the Help to Save scheme and retain some of the newly formed savings habits.

Question 13 – Are any complexities or barriers caused by there being one provider of Help to Save accounts? How could this be overcome?

Restricting the account to one provider, potentially unknown to many individuals eligible to open a Help to Save account, is a barrier to the scheme. We would strongly support a multi-partner delivery model. Credit unions have a long history of supporting individuals within the target demographic. Credit unions are increasingly popular, particularly to more financially excluded members of the public and there would be an element of familiarity that may help them feel more secure.

Delivering the product through the current delivery partner, NS&I, has shown that many individuals are not engaging with the product. Credit Unions would be able to promote the account directly to their memberships, which would be more effective and has the potential to increase the number of accounts opened significantly.

Multi service delivery could also attract a wider audience as there is more chance that some institutions are familiar to different demographics and could increase the ability to advertise within these groups.

However, as previously stated there would need to be a central verification point as all delivery partners would need to be certain that the customer only has one help to save account.

Question 14 – Are there any other areas of complexity, barriers, or any changes you would suggest for Help to Save that have not been covered in the consultation?

For credit unions we would urge that the paperwork and onboarding process are kept simple.

As in order to be eligible to open an account with a credit union the individual must meet the credit unions common bond requirements. Credit Unions would need to onboard and complete verification for any new members at the same time as opening the help to save account. This being a time-consuming process could be a barrier for those who apply.

Having the option and technology to do this online via a secure portal would make this process easier for both parties.

Please get in touch should you wish to further discuss our consultation response.

Yours sincerely,

A handwritten signature in cursive script that reads "Natalie McQuade". The signature is written in black ink on a light-colored background.

Natalie McQuade
Head of Advocacy and Projects, ABCUL