



The Saving Gateway: operating a national scheme, consultation response of the Financial Inclusion Taskforce

The Financial Inclusion Taskforce

The Financial Inclusion Taskforce was formally launched on 21st February 2005 to support the Government's work programme on financial inclusion.

Many people, particularly those living on low incomes, cannot access mainstream financial products such as bank accounts and low cost loans. The Taskforce believes that this financial exclusion imposes real costs on individuals and their families - often the most vulnerable people in our society. It also has costs for the communities in which they live. People can find themselves trapped in a cycle of debt all too easily. This can in turn lead to further social exclusion including homelessness, relationship breakdown, stress and mental illness.

The Taskforce monitors progress against the financial inclusion objectives the Government has set out, most recently in *Financial Inclusion: an action plan*. We will also make recommendations on what further work can be done. We support the Government's financial inclusion initiatives to widen access to financial services including banking, affordable credit, money advice, insurance and savings.

General comments on the Saving Gateway

The Financial Inclusion Taskforce welcomes the Government's announcement of the national introduction of the Saving Gateway. The Taskforce believes, in the light of a broad base of research (including, most recently, research undertaken following the collapse of Farepak in October 2006¹) that many poorer people save informally, sometimes using unregulated and poor value products. We believe that the Saving Gateway has the potential to kick-start a formalised and secure savings habit among people on low incomes. This should put them in a better position to withstand financial shocks. We feel that it may also lead to greater levels of financial awareness and the wider use of mainstream financial products among people on low incomes.

¹ Available on the Taskforce's website here; http://www.financialinclusion-taskforce.org.uk/PDFs/consumer_workshops_on_hamperschemes_report.pdf

The role of the third sector and other intermediaries

The Taskforce supports an increase in the capacity of third sector lenders including credit unions and Community Development Finance Institutions (CDFIs). We would like to see a role for credit unions and CDFIs- where they offer banking services- in delivering Saving Gateway accounts. Saving into a credit union or CDFI offers security and also increases the pool of capital available to offer affordable credit.

The Taskforce would also encourage Government to examine how the Post Office could play a role in delivering Gateway accounts. The Post Office is a key intermediary for reaching out to people on low incomes and we would like to see the widest possible accessibility for Saving Gateway accounts.

The role of providers

The Taskforce feels that banks and other potential Saving Gateway providers would benefit an assurance from Government that a Gateway scheme can be provided in a way that is sustainable for the providers and for the customers. The Gateway should therefore be easy to communicate to customers and require a minimum of administrative reporting.

We feel that the Government should carefully consider the proposed timetable for implementation, which seems ambitious from an operational point of view. We would encourage the Government to work closely with providers as it considers options to mitigate large initial volumes of applications for Gateway accounts. We would also encourage rigorous testing of the administrative systems underpinning the Gateway before delivery. Any errors with statements or match calculations could be especially discouraging for people with low levels of financial confidence and experience with financial services.

Demand for the Gateway

The Taskforce believes that the financial inclusion Champions could play a role in engaging intermediaries to promote take up of the Saving Gateway. We would encourage the Government to ensure that Champions are provided with a toolset to help them do this.

The Taskforce is concerned at the potential for the Saving Gateway to become a complicated product. One area that particularly concerns us is the requirement on providers to pay a return on balances in Saving Gateway accounts. Our experience of low-income groups suggests that they are discouraged when they must choose between competing products based on complex criteria. Therefore complexity could have an adverse effect on take up. Our experience also suggests that people on low incomes are willing to save in 'no-interest' products where they offer convenience or other incentives.

We would like the government to prioritise making the Saving Gateway as simple a product as possible. We believe that this would help to maximise the demand for Saving Gateway accounts among people on low incomes.

Responses to specific questions

Q1 The Government welcomes stakeholders' views on the provision of advice and support on the Saving Gateway, and on the role of intermediaries in providing advice and support.

The Taskforce agrees with the Government that trusted intermediaries can play a key role in promoting the Saving Gateway. Intermediaries can also help to ensure that people get the most from saving in a Gateway account by providing support at key times such as opening accounts, understanding statements and considering future saving products on maturity. We would encourage the Government to engage a broad range of intermediaries to take a role in delivering and promoting the Gateway, including housing associations, employers and local authorities. Particular thought should be given on how to promote the Gateway to people with low levels of literacy.

The Taskforce would like to see Saving Gateway promotion integrated with the government's financial inclusion programme, particularly as a component of BERR's face-to-face debt advice projects and also as part of the financial inclusion Champions initiative.

The Taskforce would also want the Government to ensure that the Saving Gateway is signposted in the Government's financial capability work, especially through the Pathfinder pilot and the eventual Money Guidance scheme.

Q2 The Government welcomes stakeholders' views on the proposed account opening process.

The Taskforce recognises that identity verification procedures (to deter money laundering) could pose an obstacle to opening a Saving Gateway account, particularly for poorer people who may hesitate to apply if they feel they not have sufficient forms of identification.

We would like the Government to undertake a risk assessment of the potential for money laundering through Saving Gateway accounts. In the light of this evaluation we would encourage the Government and Saving Gateway providers to minimise the likelihood of their identification procedures discouraging people from opening an account. The identification procedures for opening a Basic Bank Account (i.e. requiring a single government issued document bearing a photograph, or two other appropriate identifying documents) are simple for financially excluded people to fulfil and could serve as a useful model. We think the proposed Saving Gateway 'voucher' could serve as a form of identification.

We are concerned that a 'voucher' may be regarded as carrying some stigma and that people may be uncomfortable taking a letter or 'voucher' into a bank. We suggest using a more neutral name for the certificate of entitlement and issuing it on a printed plastic card.

Q4 The Government welcomes views on the length of the time period within which providers should be required to make the match payment to the saver's account. It is necessary to balance the need to get the match payment to savers quickly after the account matures with the time needed by providers to calculate and make payment.

The Taskforce believes there is little justification for a delay between the maturing of a Saving Gateway account and the payment of the Government match. Providers should have ample time over the life of an account to calculate the cumulative total match, especially considering that they will be required to inform their customers of this total in regular statements.

To maintain public confidence in the scheme we would encourage the Government to minimise any delay in making match payments and to minimise any related administration.

Q5 The Government proposes to allow Saving Gateway accounts to roll-over into ISAs and would welcome stakeholders' views on this point.

The Taskforce is optimistic that the incentive of the match will help to encourage a large number of people towards regular saving into a formal account, perhaps for the first time. However, we think it should not be assumed that on the maturity of their Saving Gateway account an individual will definitely reach the level of financial capability needed to continue a consistent savings habit.

We believe that it will be helpful to allow Saving Gateway accounts to transfer automatically into another savings product, especially one with tax favoured status. We would also encourage the Government to consider offering individuals financial education as their Saving Gateway account approaches maturity to help them to take greater responsibility for personal saving after the maturity of their account.

Q9 The Government would welcome views on any issues raised by the process of transferring Saving Gateway accounts between providers to develop the systems needed to support any changes required to administer Saving Gateway accounts.

The Taskforce recognises the value in providing individuals with a continuing choice and in encouraging competition between providers. However we also believe that by offering this process there is a danger that this could encourage providers to increase the complexity of their Saving Gateway products to achieve a competitive advantage. As we have said above we think that greater complexity could discourage people from opening an account and could damage public trust and confidence in the Saving Gateway

'brand'. This may also discourage providers who could lose their initial investment in setting up an account when a customer transfers to another provider shortly afterwards. We would therefore like the Government to bear in mind this possibility of excessive complexity when deciding whether to allow accounts to transfer between providers.