

Review of Christmas saving schemes

March 2007



HM TREASURY



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FOREWORD

Ed Balls MP
Economic Secretary to the Treasury

March 2007

Dear Economic Secretary

I have pleasure in submitting the review of “Christmas hamper” savings schemes which you asked me to undertake following the collapse of Farepak and the financial losses suffered by its customers. My review focuses on understanding who uses this method of saving and why they do so; on the role that can be played by mainstream financial products; and on the implications that this has for financial capability.

It is clear that many people, particularly those on low incomes, have valued the kind of scheme run by hamper companies because they have provided a convenient and disciplined way of saving for Christmas and helped keep them out of debt. However it is essential that money paid in advance to the companies that run such schemes is protected; arrangements need to be put in place urgently to secure this. It is also important to ensure that what the schemes provide is competitive and represents good value for money.

The review identifies a number of mainstream alternatives to hamper schemes. For example, some building societies and credit unions offer Christmas savings accounts which, as well as providing security for the money saved, can also serve as a gateway into financial services for those who are financially excluded. Some of these organisations were already offering ways of saving for Christmas before Farepak went into administration. Others have responded positively since then, by introducing new products. Large retailers such as supermarkets also run Christmas saving schemes which can be popular and effective in meeting needs. In addition, as a trusted organisation with a national network, the Post Office has, potentially, a very important role to play in this area. The Government should encourage the development of suitable savings products by these bodies to broaden the choices available to consumers.

There also needs to be greater awareness of the products available, in order to put consumers in the best position to make informed choices. Information about the benefits and risks of the whole range of Christmas savings products should therefore be included in the Government’s various financial capability initiatives.

Finally, the collapse of Farepak has highlighted the range of methods of saving used by people on low incomes, including some which are not formally identified as financial products. It underscores the need for the Government to be aware of, and well informed about, all methods of saving, whatever legal form they may take, and to take account of all of them when thinking about risks and consumer protection.

I should like to thank all those who have provided information and views in the course of the review. I also want to acknowledge the invaluable assistance that Guy Davison of the Treasury has given me in conducting it.

Yours sincerely



INTRODUCTION AND SUMMARY

Introduction

1.1 Following the collapse in October 2006 of European Home Retail plc and its wholly owned Christmas hamper scheme subsidiary, Farepak Food & Gifts Ltd, the Economic Secretary to the Treasury commissioned this short Review of the Christmas savings market.

1.2 The Terms of Reference of the Review are to:

“Report to the Economic Secretary to HM Treasury around the time of Budget 2007 on:

- who (by socio-economic and demographic characteristics) is using hamper schemes, ‘savings’ clubs and similar vehicles;
- why individuals opt to use hamper schemes, ‘savings’ clubs and similar vehicles instead of mainstream financial services products;
- in the light of this, to consider whether the savings needs of this group of consumers might be better met by mainstream financial services providers;
- and if so, how, including the options for improving consumer awareness and financial capability for this group.”

1.3 The Review does not examine the collapse of Farepak itself. Nor does it consider ways in which the sector could be regulated. These are matters being considered by the Department of Trade & Industry and the Office of Fair Trading.

1.4 The Christmas hamper market is not easily defined. In addition to the two remaining companies that specialise in the market, a number of firms, particularly home service businesses, also sell hampers as a sideline to their primary trade. For example, some home credit companies, as well as some dairy companies, have traditionally offered hamper savings schemes to their customers for Christmas. In addition there is a wide range of informal savings clubs and schemes offered by local butchers and toyshops; or simply run amongst groups of friends, through social clubs or by employers. This Review is focused on the commercial, specialist market, i.e. those companies that offer Christmas hamper schemes as their primary business.

1.5 Over the years, the balance of these schemes has switched from supplying hampers to providing high street shopping vouchers, to the point where vouchers now overwhelmingly predominate. However, the terms “hamper scheme” and “hamper industry” are still commonly used to describe this method of saving for Christmas and the sector that provides it. For simplicity and brevity, therefore, this terminology has been adopted for the purpose of the Review. Similarly, although the products are technically retail purchases rather than savings deposits, the terms “save” and “saving” are used in the Review since they reflect the way in which the schemes are marketed and the implicit intentions of customers who use them.

1.6 Chapters 2 and 3 describe the hamper market and the demographics of the people who use it. Chapter 4 considers its advantages and disadvantages, while Chapter 5 examines alternative, mainstream ways of saving for Christmas. Chapter 6 considers the implications for financial capability.

1.7 Annex A lists the organisations who contributed to the Review, and whose assistance is gratefully acknowledged.

Summary of recommendations

1.8 Although there is a shortage of reliable information about who uses the hamper industry, it is clear that many of its customers are people on low incomes who want to ensure a good Christmas for themselves and their families. Often, they are strongly motivated by the desire to pay for Christmas in advance, rather than go into debt. The evidence points towards users being predominantly in social groups, C2, D and E, although some better-off people also use them.

1.9 Hamper schemes have a number of features that are attractive to people on low incomes who find it difficult to save. The money which they prepay for goods or vouchers is locked in until Christmas and, when Christmas arrives, can only be taken out in the form of hampers or vouchers, thus removing the temptation to use it for other purposes. Having someone come to one's home to collect payments acts as an incentive to save when it might otherwise be hard to do so. Hamper schemes also provide a means of saving for those who, for one reason or another, do not trust mainstream financial institutions or do not feel they would be welcomed by them. There are also important traditional and social aspects of saving through such schemes.

1.10 The major disadvantage of hamper schemes is the lack of security they offer over customers' prepayments, as shown by Farepak's collapse. The position is made more acute by the fact that people who use hamper schemes are among those in society that can least afford to suffer losses. It is therefore essential that money pre-paid under hamper schemes should be protected.

Recommendation: The DTI should urgently ensure that secure arrangements are put in place by hamper scheme companies in order that customers' prepayments are effectively protected.

1.11 One firm now has a very dominant (over 90 per cent) share of the hamper market and it appears that, for some customers at least, there are limited substitute products. In research carried out for this Review, a number of customers raised concerns about whether they receive value for money, particularly when buying hampers. It is beyond the scope of this Review to assess whether consumers are disadvantaged by the structure of the industry, but it is a question that should be considered by the relevant authorities.

Recommendation: The Office of Fair Trading should consider whether there are any competition issues that need to be addressed in the hamper scheme market.

1.12 There are a number of alternative ways of saving for Christmas which can be attractive to users of hamper schemes. Some existed before Farepak's collapse and new ones have appeared since. Based on research carried out for the Review, the two that are most likely to be attractive as alternatives to hamper schemes are special Christmas savings accounts available from building societies and credit unions; and Christmas savings schemes offered by major retailers. None has all the characteristics that are valued in hamper schemes. However both, to a degree, offer ways of locking money in until Christmas and allowing it to be taken out in a form other than cash.

1.13 Consumers appear to be particularly attracted to major retailers' schemes because they include incentives to continue saving up until Christmas and, although they do not give a home service, do offer the convenience of saving at a supermarket checkout. However, consumers are concerned that losing a savings card could mean losing all the money saved. If this could be addressed, for example by increasing the security of the card, such schemes could be attractive to many who have hitherto used the hamper sector.

Recommendation: Retailers should consider increasing the attractiveness of their Christmas savings schemes by giving customers greater protection in the event of the loss or theft of cards.

1.14 After major retailers' schemes, the next most popular alternatives are Christmas Savings accounts run by credit unions and building societies. Some existed before Farepak's collapse, and many have been introduced since. Increasing the number and geographical coverage of these schemes would further increase the choice available. As a trusted organisation with national coverage, the Post Office also has potentially a very important role to play and has expressed interest in offering a Christmas-branded savings product.

Recommendation: The Government should encourage providers, particularly the Post Office and the credit unions, to compete in this market and to develop innovative ways of attracting hard-to-reach customers.

1.15 The alternatives which the Review has explored have features which many will find useful in saving for Christmas, but none of them provides all the features that customers of hamper schemes find attractive. Different users of hamper schemes value different features of them to different degrees, and some are more willing to give them up than others. However, the lower an individual's income, and the more financially excluded they are, the more likely it appears that they will want to continue using hamper schemes.

1.16 The aim should therefore be to ensure that consumers are provided with a range of products together with information and advice with which to make informed choices about them. The collapse of Farepak has given wide publicity to the risks of hamper schemes and, to an extent, to the availability of other ways of Christmas saving. However, more needs to be done to raise consumer awareness of the whole range of alternatives in the market – including those that are not formally classified as savings products -and of the risks and benefits of all the available options.

Recommendation: Informal savings schemes should be given greater emphasis within the scope of the Government's financial capability and inclusion work, including the Thoresen review of generic financial advice, the DWP's "now let's talk money" initiative and the FSA's financial capability work.

1.17 Because of Farepak, many former users of hamper schemes are concerned about continuing with them, but still want to find ways of saving in advance of Christmas in order to avoid going into debt. There is, therefore, a case for taking specific measures, very soon, to inform them about the range of ways available for saving for Christmas.

Recommendation: 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.

1.18 Farepak also demonstrated that insufficient was known about what was, in substance if not in form, a savings product. In making policy on protecting consumers of financial products, the Government needs to ensure that it takes account of all kinds of savings, particularly those that tend to be used by people on the lowest incomes who can least afford to bear losses.

Recommendation: The Government and its relevant agencies should ensure they become aware of, and well informed about, all methods of saving, whatever legal form they take, and that they consider them when thinking about risks and consumer protection. The Government should also take steps to improve the data available on the hamper scheme market and other forms of informal saving, possibly through the Family Resources Survey or the new Wealth and Assets Survey.

2

THE “CHRISTMAS HAMPER” MARKET

2.1 Farepak operated, and the remaining companies in the industry continue to operate, a scheme focused on saving for Christmas. Customers save modest amounts, weekly or monthly, to purchase hampers, gifts from catalogues or vouchers that can be redeemed in high street shops. At the start of the year, customers choose what mixture of vouchers, gifts or hampers they want to receive. (They can amend it during the year if they wish.) The goods or vouchers are distributed in November and early December, in time for Christmas. Customers’ money is collected by local agents, who remit it to the company.

2.2 Because customers choose the goods they wish to receive at the outset, the transaction is, in legal terms, a pre-payment for goods (vouchers counting as goods for this purpose) rather than a savings deposit. Companies operating this model do not, therefore, need to be regulated by the Financial Services Authority and customers are not covered by the Financial Services Compensation Scheme¹.

2.3 Vouchers, particularly generic² high street vouchers, now represent by far the greater part of the market. Where customers choose vouchers, they receive face value for their saving so that, for example, a customer saving £10 per week over 45 weeks will receive £450 in vouchers. Where customers choose hampers or gifts from the catalogue, they pay the price specified in the catalogue which will include a profit margin for the supplier.

2.4 Unlike the home credit industry where each agent, although similarly local, might have a significant number of customers, the ratio of customers to agents in the Christmas hamper market is much smaller (with an average of only 5 to 10 customers per agent in each company). In many cases, the agent is collecting on behalf of a small number of family and friends rather than as a business proposition in its own right. Agents earn commission on the sales they make³.

2.5 Customers’ money is “locked in” until November or December, although it is not completely beyond their reach since it is possible to obtain a refund of all or part of the money during the year. However, the process of obtaining a refund is administratively inconvenient and can result in a penalty charge.

2.6 The companies’ income is derived primarily from three sources: the profit margin on hampers and gift products; the interest earned on the money prepaid to them by customers; and a discount which they receive on the vouchers. From this they have to meet their operating costs, including agents’ commission.

¹ The Financial Services Compensation Scheme can pay compensation to consumers if an authorised financial services firm is unable, or likely to be unable, to pay claims against it if, for example, it has stopped trading and has insufficient assets to meet claims, or is in insolvency. For deposits, compensation covers 100% of the first £2,000 and 90% of the next £33,000, up to a total of £31,700.

² Generic vouchers can be redeemed at a number of retailers, in contrast to vouchers which are redeemable only at a single specific retailer.

³ For example, Park’s agents currently earn 3% on voucher sales once sales exceed £675 (rising to 4% when sales exceed £2,000) and 5% on hamper sales up to £135 (rising to 10% once sales pass £135 and then in further steps to 25% on sales volumes totalling more than £2,250).

2.7 One company (Park) sells its own brand of generic voucher, the High Street Voucher, not only to its own customers but also to other hamper scheme companies. In the latter case, it requires payment at the time it issues them, although the Review understands that it pays retailers only when the vouchers are redeemed after customers have “spent” them. (Precise details of the discounts offered by retailers on vouchers have not been available to the Review, but it appears that voucher companies typically sell generic vouchers wholesale to corporate customers at discounts of 5-7½%, suggesting that the discount offered by the retailers is at least as much as this.)

The hamper companies

2.8 The two remaining companies in the commercial market are Park Group and Variety Christmas Club.

2.9 Park Group, which is listed on the London Stock Exchange, is by far the larger of the two, with a turnover of £230 million in 2005/6. Vouchers, rather than hampers, now account for around 90% of its turnover. The group operates under three brands: Park Hampers, Country Hampers and Family Hampers (the latter having been acquired early in 2006 after it went into administration). The group was established in 1967 by its present chairman, Peter Johnson, and grew out of his family’s chain of butchers. Park has approximately 630,000 customers, served by around 120,000 agents. In addition to its core Christmas savings business, the group has sought to diversify into savings schemes for holidays as well as into insurance and mortgage broking. A move into home credit, launched in 1998, proved unsuccessful and the business was sold to Cattles plc in 2006.

2.10 On 7 March 2007, Park Group also acquired Home Farm Hampers (HFH) which was originally established as a joint venture between Farepak and Findel plc, the home shopping group⁴. It is understood that last year HFH’s turnover was around £20-25 million, although the impact of Farepak significantly affected HFH’s turnover so that, as at 7 March, the firm reported an estimated order book of only £8 million for the current year.

2.11 Apart from Park Group, the only other firm still in the market is Variety Christmas Club, a family-owned business based in Newton Le Willows near St Helens. Its turnover, which represents less than 10% of the market, is almost entirely accounted for by vouchers.

2.12 The Park Group companies are the sole remaining members of the Hamper Industry Trade Association (HITA), which was established in 1984 in order to raise standards in the market. HITA operates a limited code of practice and requires members to lodge a £100,000 bond. However, the bond is designed merely to be “a commitment of good intent” rather than to offer any substantial security to creditors of HITA members.

2.13 Reliable data, even for the formal commercial market, is virtually non-existent, making it difficult to judge trends and the performance of individual companies. Park Group’s turnover has grown by 65% over the past five years but it is not known how much of this has come from growth in the market itself, and how much from acquisitions and winning market share from competitors.

⁴ On 13 October 2006, Findel acquired the 40% of HFH that was owned by Farepak as part of a transaction in which Findel purchased some of the remaining viable trading assets of European Home Retail when it went into administration.

2.14 Sufficient evidence is not yet available to assess the effect which the collapse of Farepak has had on the market. However discussions with hamper scheme customers (through the consumer research described below) clearly indicates that concerns over the security of their money have led a number of them to turn to alternative ways of saving and, in some cases not to save at all for Christmas 2007. It also appears that this effect may have been more significant for the smaller firms than for Park, reinforcing the latter's dominant position in the market.

Other companies in the market

2.15 A number of other home service companies, principally home credit companies and dairy companies, also offer hamper savings schemes as a sideline to their main businesses.

2.16 The Consumer Credit Association, the trade body for the home credit industry, estimates that, in 2006, its members sold around 25,000 Christmas hampers through savings schemes. They do not offer vouchers through savings schemes. The trend away from hampers towards vouchers that has been experienced by HITA members has been mirrored amongst the home credit companies by a trend from hamper savings schemes to cash or voucher credit (where vouchers are the form in which borrowing is taken, rather than being saved for).

2.17 It is understood that Provident Financial, the dominant home credit firm, was at one time selling tens of thousands of hampers per year. In recent years, customers' preferences have changed and far fewer of them are now taking this product. Hamper purchases in 2006 were only a few thousand. Provident decided, for commercial reasons related to problems with sourcing hampers from Farepak, to withdraw from this market and will sell no hampers in 2007.

The informal market

2.18 Many butchers, corner shops and toyshops offer informal Christmas savings schemes to their customers. There is also a large variety of small savings clubs based in social clubs, pubs and workplaces.

2.19 While such informal schemes are individually small and are therefore very unlikely to lead to losses on the scale experienced by Farepak customers, it may be that the inherent risks run by participants are potentially greater than those run by customers of the hamper industry.

3

THE DEMOGRAPHICS OF THE MARKET

3.1 Little data exists about the customer base of the hamper market (which industry figures suggest is used by around 700,000 people) and there appears to have been no research that has specifically addressed this particular market.

3.2 The conclusions of this Review are based on a variety of sources, including input from informed observers of the market and from the companies themselves; from inferences that can be drawn from markets with similar characteristics; and from qualitative information from consumer workshops commissioned for the purpose of the Review. Although it has been necessary to assemble a picture from this range of sources, they all point towards a broadly consistent conclusion.

3.3 The evidence available suggests 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. Customers are more likely to be unemployed, in part-time work or in receipt of benefits than the UK average. Many have young families or young grandchildren and women predominate.

3.4 Although low-income households appear to make up the greater part of the market, there is evidence that some better off and more financially sophisticated households also use hamper schemes.

The home credit market

3.5 In terms of its customer base, the home credit market (for which good data is available) is considered to be a close proxy for the hamper savings market. Surveys by TGI and MFS quoted in the Competition Commission's 2006 investigation into home credit¹ showed that, compared to the UK population as a whole, home credit customers are more likely to:

- be in socio-economic groups D and E (TGI found that 58% of home credit customers were in these groups, compared to 25% for the whole population);
- be on low incomes (TGI found that 44% of home credit customers had household income of less than £13,000, compared to 22% of the population);
- live in social housing (MFS found that 74% of home credit customers live in social housing, compared to 18% of people who do not use home credit); and
- be female (MFS found that 69% of home credit customers are women).

Family Fund data

3.6 Family Fund is a UK charity which provides support to families on incomes below £23,000p.a. with disabled children. Because of its experience of supporting families in need, it was asked by the DTI to organise the Farepak Response Fund. It therefore had access to data on Farepak's agents and customers and, by combining this with information in its own database, has been able to supply the Review with some geographical analysis of where customers live.

¹ Home credit market investigation, Competition Commission, 30 November 2006.

3.7 There were over 5,500 families on the charity's own database (i.e. families which Family Fund was, or had in the past been, supporting) which were also on the Farepak database (which was mainly of agents but also included some customers). A postcode analysis of these families shows that industrial towns and cities in northern England, the Midlands, Scotland, Wales and Northern Ireland predominate, although some more affluent locations in the South East also appear.

Consumer workshops

3.8 Workshops commissioned for this Review (see below) indicated that hamper scheme users:

- are predominantly women;
- include, but are not confined to, financially excluded people or those under-utilising mainstream financial products; and
- include both those who find it difficult to manage money and those who are very organised with their finances.

Park Group data

3.9 Park informed the Review that the majority of its customers are families from socio-economic groups C2, D and E, and are on modest incomes.

4

ADVANTAGES AND DISADVANTAGES OF HAMPER SCHEMES

4.1 Research by Bristol University's Personal Finance Research Centre in 1998 identified Christmas savings clubs as one of a range of informal saving mechanisms used by families on low incomes. These also include putting loose change in jars, letting benefit payments such as Child Benefit build up in an unused bank account, overpaying on prepayment meters, using savings stamps or giving money to someone outside the household (typically mothers)¹.

4.2 In order to gain a better understanding of what motivates people to use hamper schemes, what they like and dislike about them, and whether mainstream savings products have a role to play instead or in addition, the Review commissioned two "deliberative workshops"² with hamper scheme customers. They took place in Glasgow and East London in February 2007. Approximately fifty hamper scheme users took part in each workshop, which consisted of a set of structured group and plenary discussions. The advantages and disadvantages discussed in this section are mainly based on the output of the workshops. They are also consistent with other, more anecdotal, evidence that has been presented to the Review. The quotations that appear below are taken verbatim from participants in the workshops and are representative of the views and feelings expressed.

4.3 The starting point for many hamper scheme customers is the desire to have peace of mind over the financial pressures of Christmas by saving rather than risking falling into debt:

"You know that even if you have no money in the pot, come Christmas you can put food on the table."

"You know that come January you won't be in debt."

4.4 The features of the schemes that customers find attractive in helping to achieve this are described below.

"Lock-ins"

4.5 For many, the key benefit of hamper schemes is the double "lock-in" which they provide on customers' money. First, once they have paid money over, customers cannot easily access it before November. Although it is possible for customers to get their money back during the year, the process is not simple, requiring the customer to get their agent to write to the company, and there are often financial penalties involved. Second, when Christmas comes, the money does not return in the form of cash, but is delivered as a hamper or in the form of vouchers.

"If you get the money, you know you're going to spend it. But if you get the vouchers you know it's going to go on Christmas things and you are happy."

4.6 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. For individuals and families on very low incomes, the

¹ *Saving in low-income households*, Elaine Kempson and Claire Whyley, PFRC, University of Bristol, August 1998.

² These were facilitator-led discussions in which participants were invited to give their views on the relative attractions and disadvantages of hamper schemes and a range of mainstream savings products. The conclusions are available at www.hm-treasury.gov.uk/pomeroy

pressures created by what those on higher incomes might regard as everyday expenditure can be very high. The cost of, for example, an unexpected washing machine repair can cause a sudden financial crisis. Christmas savings in an instant access bank or building society account would be very vulnerable in such circumstances. The lock-ins, particularly the lock-in until Christmas, make it much more likely that the savings will actually be spent on Christmas.

4.7 For some, the importance of the second lock-in (i.e. that savings are not repaid in cash) goes further: many people on tight budgets find it is easier to save up for something specific than to save for an unspecified or undefined reason. Saving up for a hamper or range of gifts that were chosen in January provides a focus and a discipline for savers on tight budgets. A typical approach was described by one participant in the customer workshops. She explained that she would not feel able to save in cash for a holiday during the year and then make a last minute booking in August; but if she booked the holiday in January she would have no problem paying regular predetermined instalments between then and the summer. The same, she said, applied to saving for Christmas. If in January she tied herself to a specific end product, she would save during the year, but she would not be able to save into a bank account for general Christmas expenditure.

4.8 The need to safeguard Christmas in the face of other financial pressures reflects the particular importance that many families on low incomes place on Christmas, not just as a family and social event, but also as a time when the financial tightness of the rest of the year can temporarily be loosened. There is a determination to “have a good Christmas”, particularly for the benefit of the children in a family, even if that is at the expense of painful saving, or even financial hardship, during the year.

Home service

4.9 Many hamper scheme customers place a high value on the convenience of home service. This is not just a benefit for customers with restricted mobility (although for some of these, the home collection of savings and the home delivery of the Hampers or goods can be vital) but extends to many other users of hamper schemes.

“It means I don’t have to go around with the ten million other people who need to do their Christmas shopping.”

“It’s delivered to your door so I don’t have to worry about going shopping.”

4.10 Very importantly, for some people the discipline of having someone coming to the door to collect payments every week is the only realistic way of ensuring they save anything at all.

“If I’ve joined a scheme I’ll do it, I’ll never miss a month.”

4.11 Moreover, saving with a Christmas hamper company involves very little formal paperwork, in contrast to the requirements for opening a bank, building society or credit union account.

Traditional and social aspects

4.12 Many customers cite the fact that saving with hamper schemes is something that they, their mothers and grandmothers have always done.

“I have been using hamper schemes for as long as I can remember – ever since my parents died and I had to be more responsible.”

4.13 Many also stress the social aspects of the process of saving, with the agent visiting customers in their homes and a growing shared anticipation as Christmas approaches. But there is also clearly a social and family aspect to the end product itself. The arrival and opening of the hamper is, for some families, an integral part of the excitement of Christmas. The process can be no less sociable for voucher customers, some of whom, as well as saving together, also organise communal Christmas shopping trips to spend the vouchers together.

4.14 One former Farepak customer summed up the feelings of many users of hamper schemes when she said that they had made saving for Christmas “fun”.

Lack of trust in mainstream financial services

4.15 Underlying many people’s use of hamper schemes is a mistrust of mainstream financial services providers and a view that banks and building societies are “not for people like us”. This is based on a range of perceptions and experiences: a view that banks and building societies take advantage of customers; personal experiences of penalty charges; fear of not being welcome when wanting to save small amounts; and the ID requirements for opening accounts.

4.16 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.”

Compartmentalisation of saving

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 the hamper schemes means that, throughout the year, people can monitor exactly how much they have saved for Christmas.

Disadvantages of hamper schemes

4.18 In the light of what happened at Farepak, by far the greatest disadvantage is the risk that customers’ money will be lost and that they will not receive their Christmas goods or vouchers. Confidence in the sector has been heavily dented and it is clear that customers of all the firms (not just of Farepak) are apprehensive about continuing to save in this way. A number have clearly decided not to continue for 2007. Of those who are continuing, some are using the schemes for only part of the amount they would like to save, and have looked for other ways of saving the rest.

4.19 Two other disadvantages have been mentioned by customers. The first is a concern that hampers are poor value for money.

“You’re paying over the odds.”

“There are things that you don’t use with the tinned ones.”

4.20 The second is a criticism (particularly made in the workshop run in Glasgow) that the range of shops in which generic vouchers can be redeemed is too narrow. People also dislike the fact that, when giving change for vouchers, shops tend to offer their own vouchers rather than cash or generic vouchers, potentially leaving individuals with small denominations of store-specific vouchers which they cannot use in practice.

4.21 A number of commentators have noted that hamper firms do not pay interest on prepayments. However, customers generally do not appear to perceive this as a disadvantage of the product. They are aware that they would receive interest if they saved with a bank or building society, but do not regard the amounts that could be earned as significant. For example, a typical customer saving £10 per week for 45 weeks might be able to earn around £10 in interest if they saved with a mainstream financial services provider, but this would be eroded quickly if, say, there were travel costs associated with making weekly deposits.

Conclusion

4.22 Hamper schemes have many features that are valued by their users. A wide spectrum of people uses these products for a range of reasons. They include, at one extreme, the unbanked with volatile incomes who want the discipline that comes from an agent collecting money each week. At the other end of the spectrum are people on stable incomes who have other forms of saving, are banked and pay the hamper scheme company by direct debit and use the product because their family has always done so. The schemes meet a number of needs, and not necessarily the same need for every customer.

4.23 However, 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. It is understood that the remaining firms in the market have sought to respond to the events at Farepak by putting in place protections of their own and are in discussions about them with the Department of Trade and Industry.

Recommendation: The DTI should urgently ensure that secure arrangements are put in place by hamper scheme companies in order that customers’ prepayments are effectively protected.

4.24 In view of the large share of the market that is now concentrated in a single company, and the comments made by some customers about value for money (particularly in respect of hampers), the question also arises whether there are any competition issues that need to be addressed.

Recommendation: The Office of Fair Trading should consider whether there are any competition issues that need to be addressed in the hamper scheme market.

5

MAINSTREAM SAVINGS PRODUCTS

5.1 Hamper schemes are a form of saving that meets a quite specific need and, before the insolvency of Farepak, directly comparable products in the mainstream financial services sector were limited. For example, no high street bank or building society appeared to offer a Christmas-branded savings account of any kind. There were, nevertheless, some products that replicated a number, but not all, of the features of the hamper schemes. The collapse of Farepak has undermined confidence in the hamper industry – how permanently is not yet known – and has encouraged customers to look at alternatives and stimulated new entrants into the Christmas savings market.

5.2 The consumer workshops undertaken for this Review, together with other evidence (such as the small poll of former Farepak customers currently running on the Unfairpak website¹) indicate that many former customers of the hamper industry have looked at a wide range of alternatives for Christmas 2007 because of the uncertainty left by Farepak. These include credit unions, banks, building societies and retailers' savings stamps and cards.

5.3 The Review has not undertaken an exhaustive survey of the market, but identified three principal forms of mainstream saving as potentially attractive as alternative ways of saving for Christmas. They are:

- regular savings accounts with banks, building societies or credit unions
- special Christmas savings accounts offered by building societies and credit unions; and
- Christmas savings schemes offered by large retailers.

5.4 Each is considered below. Where specific products are mentioned, it is for the purpose of illustration only and does not imply any endorsement in preference to other providers' products.

Regular savings accounts

5.5 Many banks and building societies offer regular savings accounts where access to the funds is either limited to certain predetermined dates or requires set notice periods. Funds are not necessarily locked in completely and savers can usually access the accounts outside the parameters laid down by the particular account, although this would often be at the expense of interest lost.

¹ www.unfairpak.co.uk

Typical high street notice savings accounts

Nationwide offers the Bonus 60, a branch-based account which ordinarily requires 60 days' notice for a withdrawal, otherwise 60 days' interest is lost, although one no-notice withdrawal is permitted each month with no loss of interest. The account also pays a bonus if no withdrawals are made in a calendar year.

Yorkshire Building Society offers the Regular Saver account. This requires a minimum monthly saving of £10 and offers a bonus if the customer saves for at least eleven months of the year and makes no more than one part-withdrawal. Two further part-withdrawals are permitted during the year, but at the expense of the bonus.

Abbey offers the Branch Saver account which has instant access but which offers a tiered interest rate depending on how many withdrawals are made during the year.

5.6 Recently, some institutions have also started to offer high interest, fixed term, regular savings accounts. For example, Halifax (part of HBOS) offers the Regular Saver, a one-year fixed term account. It requires monthly saving (of between £25 and £250) by direct debit and savers cannot withdraw money from their account during the year, although they can close the account. If they choose to close the account within the year, the interest accrued is calculated using the bank's standard interest rate rather than the account's higher interest rate. Halifax has also identified 10,000 of its "social banking" (e.g. basic bank account) customers who do not currently have a savings relationship with the bank. In February 2007, it launched a pilot scheme, mailing these customers with an offer of a monthly saver account that can be opened with just £5 and funded with a minimum of £5 per month. The account allows instant access, but pays a bonus if customers make no more than one withdrawal during the year.

5.7 Overall, there has been a limited response from the major banks and building societies to the collapse of Farepak. It appears that most of the larger players would not regard this market as sufficiently large, or the customers sufficiently attractive, to make it worthwhile developing and marketing a new account.

5.8 In the past, some banks and building societies have experimented with so called "jam jar" accounts, i.e. accounts within which a saver can set up sub-accounts for specific purposes (e.g. for Christmas, summer holidays or utility bills). For example, Barclays, through the Woolwich, used to offer such an account, Open Plan for Everyone. However, such accounts have not proved popular with customers because of their complexity. They have also proved logistically complicated and expensive to run for the providers. Barclays no longer offers this product and no other major bank or building society offers a jam jar account focused on this segment of the market.

Christmas savings accounts

Building societies 5.9 Three building societies have launched Christmas-branded savings accounts since the collapse of Farepak. These are all varieties of high interest accounts where savings are locked in for a period.

New building society Christmas accounts

Skipton Building Society has launched its Christmas Saver Account, which is a high interest, regular savings account with a minimum monthly contribution of £10 and which matures on 24 November 2007. Savers cannot access the money in their account before that date without closing the account. Customers who choose to close their account will not suffer any loss of accrued interest. Skipton have told the Review that although the account was inspired by Farepak, they expect the majority of new accounts to come from their existing customer base rather than from disillusioned hamper scheme customers (although the account has been discussed on the Unfairpak website).

Scarborough Building Society's Christmas Saver is a high interest account that pays a £5 bonus if the saver is a new member. Unlike the Skipton account, there is no minimum monthly contribution. Withdrawals are permitted from 1 November 2007 until 31 December 2007, at which point the account closes and the money is transferred into a standard instant access account. Individuals can only access their money before 1 November by closing the account. New members would lose the £5 bonus if the account were closed early, although there would be no loss of accrued interest.

Furness Building Society's Festive Saver must be opened in January and requires a minimum monthly contribution of £10. Withdrawals from the account are not permitted until 1 November.

5.10 While these accounts are able to reproduce, to some degree, the time period lock-in of the hamper schemes, they do not offer the simplicity, home service or social aspects of the schemes. They also pay out in cash rather than provide hampers or vouchers.

Banks 5.11 Halifax has informed the review that it is considering running a Christmas-branded savings pilot this year for its social banking customers.

Credit unions 5.12 A number of credit unions, which serve a similar socio-economic group to the hamper scheme companies, have offered Christmas savings schemes in the past. Credit unions tend to run their accounts on a form of "jam jar" basis, in that a member is able to set up a series of individual sub-accounts for particular purposes, including Christmas saving. A significant proportion of credit unions' core lending business is also Christmas-related.

5.13 The Association of British Credit Unions (ABCUL) has told the Review that the features of the accounts offered by different credit unions vary. However, most of them include disincentives to withdraw the money early and some offer vouchers, or use the ABCUL/ Argos ACard scheme, as an alternative to cash. (Under the Argos scheme, a member's savings can be put onto the ACard at Christmas rather than taken in cash, and at the same time attract a 5% bonus from Argos.) However savings are not locked in to vouchers or credit with retailers, and taking out the savings in cash is always an available option.

Existing credit union Christmas accounts

Ipswich and Suffolk Credit Union has run a Christmas savings account for a number of years and now has 260 savers, nearly a quarter of its membership. The credit union tells savers that it expects them to leave their money in the account until Christmas and enforces this by requiring 60 days' notice of withdrawals before November. In November, savings can be withdrawn in the form of cash or vouchers, with individuals making a choice about the mix between the two in October.

Leeds City Credit Union runs a Christmas Club account with over 500 savers. There is no minimum monthly subscription. Withdrawals are not permitted before 1 November when the credit union pays a 3% dividend and the savings are transferred into an instant access account. In practice, members could access their money early but, to do so, they must close the account (giving 60 days' notice in writing) thereby losing the annual dividend. No member has closed their account early since the product was launched.

Hull and East Yorkshire Credit Union offers a Christmas account where members can choose to take cash or vouchers at Christmas. The credit union buys Park's High Street Vouchers in bulk (for its own members, four other credit unions and the local council) and passes on to members a 5% discount which it receives on the vouchers. Around half of the members saving in the Christmas account opt for vouchers rather than cash.

5.14 Since the collapse of Farepak, many more credit unions have entered the market and introduced Christmas accounts for 2007. They include First Alliance, Glasgow, Grampian, ScotWest, Streetcred, HarlowSave, Quids in Bolton, Seccure, Yoker, Cambridge City, Handsworth Breakthrough, Rainbow Saver Anglia, North Lincolnshire and Torfaen.

5.15 Many credit unions are using their Christmas accounts actively to recruit new members in the wake of Farepak and some are specifically aiming to replicate features of the hamper schemes. For example, Seccure Credit Union is encouraging local retailers who offer informal schemes to transfer them to the credit union in order to ensure that the funds are secure. First Alliance is in discussion with a local retailer about providing hampers for its savers instead of cash or vouchers.

5.16 Credit unions are well placed to compete in this market because they are focused on local communities, serve the relevant socio-economic group, offer a return on savings and are regulated by the FSA (and thus covered by the Financial Services Compensation Scheme). Although they tend to be small and still have limited visibility and geographical coverage in the UK, they are developing steadily and are an important focus of wider financial inclusion initiatives. ABCUL has told the Review that it is seeking to secure corporate funding for a dedicated member of staff to promote and support the development of Christmas accounts amongst individual credit unions.

Retailer savings stamps and savings schemes

5.17 Several large retailers, including Asda, Morrison and Sainsbury, run Christmas savings schemes, often as a successor to earlier savings stamp schemes.

5.18 Asda, for example, stopped selling savings stamps in 2002 and now focuses on its Christmas Savings card. This is a stored value card which customers can top up at the checkout and which pays a tiered bonus in mid-November², depending on the amount that has been accumulated on the card at a particular date (“bonus day”). There is no formal lock-in – customers can use the card at any time to purchase goods in Asda stores – but the bonus provides an incentive to keep savings on the card until November. Apart from the bonus, no explicit interest is paid. Asda has not been able to provide quantitative data on withdrawals but has told the Review that, in practice, the majority of customers redeem their savings at Christmas rather than throughout the year. In 2006, there were 293,000 cards in issue, with savings of around £29 million.

5.19 The Review understands that Argos is preparing to trial a card-based Christmas savings scheme called the Argos Christmas Club. Customers who register with the scheme will receive a card onto which they can save at PayPoint³ outlets throughout the year. Argos will give regular savers a bonus and the cards will not be activated for use in Argos stores until November.

5.20 Many supermarkets continue to sell savings stamps, a large proportion of which, although not branded or marketed as Christmas-specific, are in fact redeemed in December. Customers are able to buy the stamps, often from machines in the shops, at face value, and save them up for use by sticking them into books. Some schemes include a bonus, for example the first stamp on a page being provided free. Customers can use the stamps (usually a page at a time) by presenting them at the checkout. However, savings stamps have declined in importance and now represent a tiny fraction of the supermarkets’ turnover, encouraging many to stop selling them.

5.21 Although savings stamps and retailers’ savings cards do not offer the benefits of home service, they go some way to satisfying the need for simplicity and local distribution. They also provide the lock-in to products that attracts many customers:

“It feels like you are getting something at the end.”

“When I put money on my Asda savings card I imagine that I am helping myself to buy a turkey at Christmastime.”

5.22 However, each scheme is tied to a single retailer (e.g. Asda’s card can only be used at Asda) and, as bearer instruments, cards or stamps are relatively insecure. Many also lack the time-period lock-in, valued by many customers:

“What happens if you get to the check-out and you don’t have enough money to pay for everything? You would use the money on the card.”

5.23 Retailers’ savings schemes are not covered by any compensation scheme. Customers depend on the retailer’s overall financial strength and reputation for probity.

² If the balance on the card at Bonus day is £49, Asda pays a £1 bonus; if the balance is £97, Asda pays a £3 bonus; and if the balance is £144, Asda pays a £6 bonus.

³ PayPoint is a branded payment collection network, operating through around 16,000 terminals in retail outlets, used primarily for the cash payment of bills and services and prepayments for mobile telephones and energy meters.

The Post Office

5.24 The Post Office currently offers savings stamps to its customers but they are only redeemable at Post Offices (i.e. for products, including gift vouchers, or services such as utility bills, that can be paid for at Post Offices). The Post Office also sells its own generic high street voucher. At present these are not universally accepted, but the Post Office is aiming to expand the number of retailers that take them (including supermarkets, none of which currently accepts Post Office vouchers).

5.25 In contrast to many of the large banks and building societies, this is a market segment that is of particular interest to the Post Office, given the penetration of its Post Office Card Account (POCA) into the same customer base as that of the hamper industry. The Post Office's local network and its social role in many communities make it an attractive provider to many customers.

5.26 The Post Office is currently restructuring the POCA and is considering launching, this year, a savings sub-account within it. Looking further ahead, the Post Office is also considering whether to launch a specific Christmas-branded POCA savings sub-account in time for Christmas 2008. The current POCA contract ends in 2010 and DWP is intending to tender for a new service provider. The Post Office has told the Review that, if it were to win the tender, it would explore opportunities to offer a simple savings proposition to these card account customers.

Saving Gateway

5.27 Since 2002, the Government has been piloting the Saving Gateway 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, payments into which are matched by contributions from the Government, up to a ceiling. The account is designed to be flexible, allowing savers to vary their monthly contributions, but also to withdraw them if they need to. If they withdraw them, the Government's matching contribution remains locked in the account until maturity.

5.28 The Saving Gateway is directed towards families on lower incomes. The first pilot focused on people with annual incomes below £11,000 (or household income below £15,000 for those with children or a disability), the second on those with incomes below £25,000 (subject to maximum overall household income of £50,000). The account is designed to get people on lower incomes onto the savings ladder. The pilots have tested different match rates and contribution limits, but no firm statements have yet been made on the future of the Saving Gateway as a national scheme.

5.29 Given its focus on lower income families, the question arises whether there are features of hamper schemes, such as the lock-ins, that could be incorporated into the Saving Gateway in order to increase its effectiveness and attractiveness.

5.30 The attraction of the lock-in for hamper scheme customers stems from the specific nature of the product – that is, as a vehicle for saving up for a single annual event. There was evidence from the customer workshops that while people are willing to accept – indeed, welcome – a lock-in when they are prepaying for goods for Christmas, they are not attracted to a lock-in on general savings⁴. This suggests that Christmas savings schemes and the Saving Gateway meet quite distinct savings needs and that the scope for incorporating Christmas savings features would be very limited.

Attractiveness of alternatives

5.31 Although there have been significant and encouraging developments from a range of providers in the Christmas savings market in response to Farepak, no complete substitute for the hamper scheme has emerged. In the consumer workshops, credit unions were a popular alternative where awareness of them was high (e.g. in Glasgow), while retail savings cards had a strong appeal across the board. However, credit unions were felt to need greater geographical coverage and visibility, while users of retail savings cards wanted better protection in the event of the card being lost or stolen, and thought that tighter restrictions on using the card before the Christmas period would also be useful.

5.32 Thus, in spite of the existence of alternatives, it is clear that the basic features of hamper schemes remain attractive to many. This reinforces the need for the Government to ensure that customers' prepayments are secure and that the market is competitive (see paragraphs 4.23 and 4.24 above).

5.33 It is difficult to determine the scope for substitution into mainstream products in precise terms because users of hamper schemes exhibit a spectrum of attachment to their features. Different features are attractive to different people to different degrees. Some will transfer readily to other products, whilst others will not. In the latter category, particularly, are those who require some stimulus or discipline to keep saving regularly, and who do not trust or feel comfortable with mainstream institutions. Overall, though, consumers were keen to see more alternative products, tailored to their needs and provided by trusted high street names.

Recommendation: The Government should encourage providers, particularly the Post Office and the credit unions, to compete in this market and to develop innovative ways of attracting hard-to-reach customers.

Recommendation: Retailers should consider increasing the attractiveness of their Christmas savings schemes by giving customers greater protection in the event of the loss or theft of cards.

⁴ Kempson and Whyley (in *Saving in low-income households*, August 1998) make an important distinction between three categories of saving: putting money aside for unavoidable expenditure (such as utility bills); saving up for a specific item (such as a new coat); and general saving for a rainy day. Individuals might be undertaking one or a combination of these but will typically want to use different savings vehicles or products with different, and specifically relevant, characteristics for each of them.

6

FINANCIAL CAPABILITY

6.1 The collapse of Farepak demonstrated clearly a lack of information and awareness about this market. Most customers affected by the collapse of the company were unaware of the risks involved and of the lack of security afforded to their prepayments, while many policy-makers and regulators were unaware that this form of saving existed at all. While the events of October 2006 and the ensuing media coverage have had the effect of sharply raising awareness of Christmas saving schemes, consumers are not sufficiently knowledgeable about the risks of hamper schemes, or about the available alternatives and their advantages and disadvantages.

6.2 The Government is currently devoting a great deal of attention and resources to financial capability and financial inclusion. It is important that all products that are used for the purpose of saving, even if in legal terms they are not formally savings products, should be brought within the scope of these initiatives.

Recommendation: Informal savings schemes should be given greater emphasis within the scope of the Government's financial capability and inclusion work, including the Thoresen review of generic financial advice, the DWP's "now let's talk money" initiative and the FSA's financial capability work.

6.3 Because of Farepak, many former users of hamper schemes are concerned about continuing with them but still want to find ways of saving in advance of Christmas in order to avoid going into debt. There is, therefore, a case for taking specific measures to inform them about the range of ways available for saving for Christmas.

Recommendation: 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.

6.4 Farepak also demonstrated that insufficient was known about what was, in substance if not in form, a method of saving. 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.

Recommendation: The Government and its relevant agencies should ensure they become aware of, and well informed about, all methods of saving, whatever legal form they take, and that they consider them when thinking about risks and consumer protection. The Government should also take steps to improve the data available on the hamper scheme market and other forms of informal saving, possibly through the Family Resources Survey or the new Wealth and Assets Survey.

A

ORGANISATIONS CONSULTED

Asda

Association of British Credit Unions

British Bankers' Association

British Retail Consortium

Building Societies Association

Citizens Advice

Consumer Credit Association

Co-operative Financial Services

Department of Trade & Industry

Family Fund

The Financial Services Authority

Halifax Bank of Scotland Group

Hamper Industry Trade Association

Members of Parliament

National Consumer Council

Nationwide Building Society

Office of Fair Trading

Park Group

PayPoint

Personal Finance Research Centre, Bristol University

Post Office

School of Applied Social and Community Studies, Liverpool John Moores University

Scarborough Building Society

Skipton Building Society

Unfairpak

Variety Christmas Club

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