House of Commons

Treasury Committee

Financial inclusion follow-up: saving for all and shorter term saving products: Government Response to the Committee's Thirteenth Report of Session 2006–07

Third Special Report of Session 2007–08

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Third Special Report

The Treasury Committee published its Thirteenth Report of Session 2006–07, *Financial inclusion follow-up: saving for all and shorter term saving products*, on 9 October 2007, as House of Commons Paper No. 504. The Government response to this Report was received on 6 December 2007, and is appended below.

Government response

Introduction

This is the Government's response to the Treasury Committee's report into saving for all and shorter term saving which was published on 9 October 2007. This report followed three earlier reports into financial inclusion, to which the Government has already responded. The Government welcomes the Committee's report and is grateful to them for their valuable ongoing work on financial inclusion.

In '*Financial Inclusion: the way forward*'[1] the Government made a commitment to establish a ministerial working group to determine detailed priorities for financial inclusion policy and to publish a detailed action plan. The ministerial working group, including members from HM Treasury, Department of Work and Pensions (DWP), Business, Enterprise and Regulatory Reform (BERR), Communities and Local Government (CLG), Cabinet Office and Ministry of Justice (MoJ), has been presented with new evidence and emerging developments to inform the development of its action plan for financial inclusion.

In the Comprehensive Spending Review in October, the Government announced that the Financial Inclusion Fund for 2008–11 will total £130 million, an 8.3% increase delivered in a tight spending round.

The Government has today published its action plan for financial inclusion, which sets out in detail how Government will deploy this Fund to achieve its financial inclusion objectives, over the three-year spending period from April 2008 to March 2011. Key announcements include:

- The Financial Inclusion Taskforce will deliver a final evaluation on whether the shared goal has been achieved, once FRS 2006–07 data is available in 2008.
- To deliver a doubling in the capacity of third-sector lending to the financially excluded, the Government will continue to support the DWP's Growth Fund initiative, with £38 million of funding from the Financial Inclusion Fund.
- Building on their successful work in partnership with Government to increase take up of basic bank accounts, and their support for other financial inclusion initiatives including easier access to free ATMs in low income areas, the Government has received a commitment from the banks to supporting third sector affordable credit, including

1 HM Treasury. 'Financial Inclusion: the way forward', March 2007

action to develop new provision in 25 of the high priority areas identified by the Taskforces Third Sector Credit Working Group (TSCWG).

- The Government has already committed to supporting the development of third-sector lenders by updating and improving the legislative framework, and can now confirm that it is looking at the various legislative options available (including a Bill) for addressing the issues raised in the consultation.

- The Government will continue to promote access to and take-up of saving opportunities—particularly in credit unions—through demand-side initiatives, and will provide £2 million funding to the Office of Fair Trading (OFT) for its "Save Xmas" campaign to continue.

- The DWP will establish a "financial inclusion champions" initiative, with funding from the Financial Inclusion Fund of £12 million. This will provide dedicated members of staff—with experience in working on financial inclusion—to work with local authorities, social landlords and other potential financial inclusion intermediaries, to continue the work of the "now let's talk money" campaign, and to increase the accessibility of home contents insurance and affordable credit products.

- The Government will continue to support BERR's money advice initiative in 2008–11, with funding of £76 million—£74 million from the Financial Inclusion Fund , and a further £2m from BERR.

- £5 million—£3 million from the MoJ, and £2 million from the Financial Inclusion Fund—will be made available to operate prison-focused outreach in every region of England and Wales, in partnership with the Legal Services Commission (LSC) and the National Offender Management Service (NOMS).

- The Government announces that BERR will continue to fund an illegal money lending team in every region in Great Britain until March 2011.

The action plan sets out clearly how the Government, together with its partners in the financial services industry and third sector, will work towards achieving its financial inclusion objectives in 2008–11.

The Government agree with the Committee that saving needs to be a high priority in the Government's approach to Financial Inclusion. This is why the ministerial working group's financial inclusion action plan, published today, confirms that the Financial Inclusion Taskforce will have responsibility for monitoring progress on saving and insurance issues, in the context of financial inclusion. The Taskforce's exact remit in these areas will be agreed in its new terms of reference in due course.

The Government has also introduced a range of policies to promote saving and asset ownership for all from childhood, through working life and into retirement. The Child Trust Fund was introduced in 2005 to promote saving and financial education, and to ensure that in the future all young people have a financial asset at 18. Individual Savings Accounts (ISAs) have been successful in developing and extending the saving habit and ensuring a fairer distribution of tax relief. Finally the Government has successfully piloted the Saving Gateway to explore the use of matching to encourage saving among lower-income household and is taking forward feasibility work into the system requirements to enable rollout.

The Government's responses to the Committees individual recommendations are set out below.

Progress on the financial inclusion agenda

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

The ministerial working group, including members from HM Treasury, DWP, BERR, CLG, Cabinet Office and MoJ, has been presented with new evidence and emerging developments to inform the development of its action plan for financial inclusion.

The ministerial working group has now finalised the Government's action plan for financial inclusion for the Comprehensive Spending Review (CSR) period, 2008–11, and this is published on the Treasury's website today. Copies will be placed in the House shortly.

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

In the CSR in October 2007, Government announced that the Financial Inclusion Fund for 2008–11 will total £130 million, an 8.3% increase delivered in a tight spending round.

The Government's action plan, published today, sets out in detail how Government will deploy the £130 million Financial Inclusion Fund, as well as additional contributions from other departments, as detailed in the action plan, to achieve its financial inclusion objectives in the three-year spending period from April 2008 to March 2011.

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

Today's action plan announces that the Government will continue to support BERRs money advice initiative in 2008–11, with funding from the Financial Inclusion Fund of £74 million. BERR has provided a further £2m from its own CSR budget, meaning total funding for the initiative will be £76 million.

Independent initial evaluation of the project was conducted in the first half of 2007 and published, on 17 September, on the BERR website at http://www.berr.gov.uk/consumers/consumer-finance/over-indebtedness/debt-advice/. This Stage 1 evaluation was generally complimentary about the project. The full list of recommendations and their follow up actions by BERR and the Project Managers is also listed at the above link. Stage 2 evaluation will take place in the first half of 2008.

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

Financial inclusion: the way forward announced Government's extension of the Financial Inclusion Taskforce until March 2011, so that the Taskforce can continue its excellent work in monitoring and evaluating progress, and advising the Government on developments in financial inclusion.

Today's action plan confirms that the Taskforce will have responsibility for monitoring progress on saving and insurance issues, in the context of financial inclusion. The Taskforce's exact remit in these areas will be agreed in its new terms of reference in due course.

Decisions on the future composition and terms of reference of the Taskforce in the next spending period will be taken in due course.

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

In September 2007, the Financial Inclusion Taskforce provided its detailed report on progress towards the shared goal. This report shows that 800,000 adults living in 500,000 households had been brought into banking by September 2005, representing 60 per cent of the progress required to achieve the shared goal.

The Taskforce has reported that this progress had been concentrated within a number of groups most vulnerable to financial exclusion and its consequences, including those living on low incomes, benefit recipients, households living in socially rented accommodation, and women and lone parents.

Progress with reducing exclusion from banking was even greater from the perspective of access to a transactional account (current or basic bank account): 1.6 million people in 1.1 million households had gained access to a transactional bank account by September 2005. This measure is significant because it is such transactional accounts that offer customers the full benefit of a bank account.

The Financial Inclusion Taskforce will deliver a final evaluation on whether the shared goal has been achieved, once Family Resources Survey 2006–07 is available in 2008.

The action plan announces that the Taskforce will also continue to gather further evidence on bank account usage. In the light of this evidence the Government will, in 2008, initiate discussions with the banks on whether a new shared goal for banking is needed. The Government looks forward to continuing to work with the banks and the Financial

Inclusion Taskforce, in line with its commitment to maintaining a voluntary and partnership-led approach to promoting banking inclusion.

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

On 19 June 2007, the previous Economic Secretary to the Treasury, Ed Balls MP, and John McFall MP issued a joint update on the progress made to place 600 non-charging ATMs in low-income areas across the UK, on which LINK has been co-ordinating efforts with banks, building societies and independent ATM operators. It was announced that of the target 600 new free cash machines, 127 free cash machines were already installed and sites for a large proportion of the remainder had been identified.

8. In view of the steps that have been taken to enhance the flexibility of identity requirements relating to money laundering regulations, we are disappointed that the Government has apparently discounted the option of making even limited cash deposits into the successor to the Post Office Card Account. We recommend that the Government re-examine this possibility in conjunction with the FSA as a matter of urgency. We note the Minister's confidence that the process of tendering for a successor to the Post Office Card Account will strengthen the Post Office network, and we will monitor the progress of the tendering process and the migration to the successor product to see that this confidence does not prove to be misplaced. (Paragraph 20)

The identification and verification arrangements for the existing Post Office Card Account already involved utilising considerable flexibility when compared to the normal approach taken under the money laundering provisions. The Government's view remains that for those customers who want to make cash deposits into an easy to open and operate account, a suitable product already exists in the form of basic bank accounts—many of these can be accessed at Post Office branches and they operate in a very similar way to the Post Office Card Account.

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

The pilot teams were formally evaluated in 2006. This evaluation found that the teams have helped identify almost 250 illegal lenders and have benefited nearly 2,000 victims, saving them an estimated £3.3 million in payments. Investigations have resulted in the recovery of almost £2 million of assets. Proceedings have been instituted against about 60 individuals.

Court cases have resulted in prison sentences totalling more than 15 years as well as 230 hours community service. The longest prison sentence to date is 6 years 9 months for a loan shark also charged with kidnapping, assault, wounding, and blackmail and counterfeiting.

The rollout will step up enforcement action against illegal lenders and also help victims to access affordable credit and other sources of support.

In order to help victims and high risk borrowers make the transition to other forms of affordable credit, teams are building links with providers of money and debt advice, in particular with Credit Unions receiving Growth Fund funding, to help victims and high risk borrowers make the transition to other forms of affordable credit. Project objectives now specify that teams must monitor the outcomes of such referrals in order to assess the project's success in helping victims to make a transition away from illegal lending.

In terms of reporting on progress going forward, all contractual agreements with illegal money lending teams specified that they provide BERR with monthly reports to show progress against success measures. BERR is committed to reporting progress across the whole project regularly and will next do so in its Departmental Report for 2007–08.

Today's action plan announces that BERR will continue to fund an illegal money lending team in every region in Great Britain until March 2011.

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

The credit industry has made progress towards greater data-sharing. At present it is believed that there is coverage of up to 58% of consumer credit agreements on Credit Reference Agencies (CRAs) databases (approximately 350 million accounts) and CRAs report that lenders are signing up 30 to 40 new portfolios a year.

Retail banks and credit card providers have fulfilled their commitment to share data on all loans, subject to logistics and feasibility. They have also worked to shape a non-mandatory agreement for the sharing of positive data on current accounts, recognising the unique nature of the current account relationship and the particularities of overdraft facilities compared to other credit products.

Following review of the sector by the Competition Commission, the home credit industry is also moving towards establishing a data-sharing system which takes account of the nature of typical home credit loans—usually low value and with repayments on a weekly, rather than monthly, basis. This measure in particular is expected to improve access to credit for low-income borrowers. The industry and the Office of Fair Trading are working together to establish this system and are making significant progress towards meeting the commitment that all major home credit providers will have contracts in place with at least two credit reference agencies on or before 13 March 2008.

Government has also continued to make progress in this area. The Child Maintenance and Other Payments Bill contains a clause which will enable the sharing of child support liabilities data with credit reference agencies, providing a means for those who regularly meet their child support responsibilities to enhance their credit history as a result.

BERR is continuing to work with stakeholders to examine ways to enable lenders to share data on 40 million historic credit accounts where this is currently prevented by confidentiality rules. This is a complex issue which brings into question matters of personal privacy and human rights considerations. A response to BERR's consultation on this issue will be published in February 2008.

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

Financial inclusion: the way forward announced that the Government had asked senior representatives from the banking sector to work with the Financial Inclusion Taskforce to consider how to achieve a nationwide increase in the coverage and capacity of third sector lenders.

The Financial Inclusion Taskforce's working group on third sector credit, including senior members from the banking industry, has considered how this progress might be achieved, and has reported its recommendations to the Government. The working group has recommended, in the medium term, that a doubling of the capacity of the third sector is required in order to provide affordable credit to 150,000 financially excluded customers a year, and extend coverage into 25 priority underserved areas.

To achieve significant progress towards these targets, the action plan announces that the Government will continue to support the DWP's Growth Fund initiative, with £38 million of funding from the Financial Inclusion Fund.

Furthermore, building on their successful work in partnership with Government to increase take up of basic bank accounts and their support for other financial inclusion initiatives including easier access to free ATMs in low income areas, the Government has received a commitment from the banks to support third sector affordable credit, including action to develop new provision in 25 of the high priority areas identified by the working group. The Growth Fund team in DWP will work with banks to identify areas most suitable for action, and to ensure that action is coordinated and targeted strategically. Action by the banks could include:

- secondment or placement of staff with relevant experience and skills;
- provision of legal and other professional services;
- investment in IT systems and equipment;
- providing back-office premises;
- increasing lending and risk-assessment capabilities;
- providing access to banking platforms; or
- direct financial support to meet start-up and other revenue costs.

The Financial Inclusion Taskforce will continue to monitor the Growth Fund, and will also evaluate progress being made towards the goal to extend provision to 25 high priority areas. The Taskforce will report annually on performance of the Growth Fund, and on the activities being undertaken by banks towards extending coverage more widely.

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

The money advice and financial services sectors maintain an ongoing dialogue, facilitated by Government. These discussions have led to welcome agreements between the Money Advice Trust and the British Bankers Association to develop tools such as the Common Financial Statement (CFS), which enables an assessment of how much a debtor can afford to repay to creditors without incurring further financial hardship. The issue of saving has already been discussed in the context of the CFS and it is the intention to develop this further in coming months.

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

The Government sees the Social Fund as the backstop of the tax benefit system, and is committed to continued improvements. Substantial improvements have already been made in the operation of the Social Fund; and an additional £210m over 3 years has recently gone into the Social Fund and is increasing access, including by increasing the total debt limit from £1000 to £1500, reducing the highest repayment rate from 15% to 12%, abolishing the double-debt rule, and an increase in the average loan to £451 in 2006–07, up from £423 in 2005–06.

The Government's financial inclusion ministerial working group has been considering aspects of the Social Fund, particularly around involving the third sector. However, the Social Fund is only one of a range of policy levers which impact on poverty and financial inclusion, and as such should be seen in the context of wider policy.

Today's action plan announces that DWP will conduct a financial and practical feasibility study into whether the private and third sectors can be brought into partnership with the Government in delivering a reformed Social Fund budgeting loans scheme.

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

The Government welcomes the Committee's recommendation and continued interest in this area. As set out in the Pre-Budget Report, the financial capability action plan will be published in Spring 2008.

The action plan will set out further measures to help build financial capability, including progress on personal finance education. Changes to the secondary school curriculum, to be introduced in September 2008, will give financial capability a more secure position through Personal, Social, Health and Economic (PSHE) education. This will now include an 'Economic Wellbeing and Financial Capability' strand. The Government has already announced that it will further support personal finance education in Schools with an £11.5 million package of comprehensive support and resources. The action plan will include further details.

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

The Government welcomes the Thoresen interim report, published in October. It set out the Review's direction of travel and key principles, which provide the foundation for the blueprint of a national approach to Generic Financial Advice. The Government looks forward to the Thoresen Review's final report in the new year and will include its response in the financial capability action plan, due to be published in the spring.

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

Today's action plan announces that, in line with recommendations made by the Financial Inclusion Taskforce's working group on insurance, the Government will focus its policy response for insurance on home contents cover for those living in rented accommodation.

The action plan will focus on objectives in the following areas:

- ongoing work by the insurance industry to ensure that appropriate, and where necessary, tailored home contents insurance products are available to both social and private tenants;
- promotion and support for the supply of insurance schemes by social landlords; and
- promotion of awareness of and demand for appropriate insurance products, by both the industry and the Government, working through appropriate intermediaries.

The action plan announces that these objectives will be pursued through an initiative, to be integrated with Government's work on promotion of demand, including an ongoing "now let's talk money" campaign. To achieve this, the DWP will establish a "financial inclusion champions" initiative, with funding from the Financial Inclusion Fund of £12 million. This will provide dedicated members of staff—with experience in working on financial inclusion—to work with local authorities, social landlords and other potential financial inclusion intermediary organisations to:

- provide expertise and best-practice coordination within local authority areas on insurance schemes to make it easier for housing associations and other social landlords (including councils and arms-length management organisations), to establish insurance schemes for their tenants;

- providing a point of contact for the ABI campaign promoting appropriate insurance products to low income consumers;
- provide the local intermediary outreach and co-ordination needed to develop the local stakeholder networks on which the “now let’s talk money” campaign relies; and
- in line with recommendations from the Financial Inclusion Taskforce, to provide a more strategic link between “now let’s talk money” and the local government sector.

The continuing “now let’s talk money” campaign will be delivered through the new champions initiative. The campaign’s scope will be widened to include home contents insurance and the campaign will work closely with the ABI campaign. The effectiveness and outcomes of the campaign will be monitored and evaluated on a regular basis by the Financial Inclusion Taskforce.

The Financial Inclusion Taskforce will also have responsibility for continuing to work with the insurance industry to ensure that appropriate low-cost home contents insurance products are available for people living on low incomes in privately-rented accommodation.

Saving and financial inclusion

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

The Financial Inclusion Taskforce’s remit will be widened to include issues relating to saving and financial inclusion, including monitoring the OFT’s “Save Xmas” campaign, and efforts to promote access to and take-up of saving opportunities – particularly in credit unions—through the new champions initiative and the “now let’s talk money” campaign.

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

- **to acquire further information about the extent of personal saving of varying kinds, having particular regard to saving patterns among individuals and households with lower incomes and to the extent and variety of informal saving;**

- **to ensure that public policy is concerned with the motivations for saving and with ways of promoting saving for particular purposes, as well as with the promotion and regulation of particular savings products;**

- **to ensure that public policy on saving pays greater regard to informal means of saving as well as formal saving products;**

- **to ensure that public policy on savings pays greater attention to the saving needs of lower income individuals and households and to shorter term as well as longer term products;**

- **to ensure that the objectives of National Savings and Investments give proper weight to the encouragement of savings;**

- **to establish a measure of personal saving within the economy and at particular income levels that reflects people's own understanding of what constitutes saving and that captures the extent of informal saving; and**

- **to set a target for increased savings among lower income households and individuals and enable progress against that target to be measured. (Paragraph 55)**

The Government agrees that promotion of entry into saving is important. Today's action plan announces that the Government will continue to promote access to and take-up of saving opportunities—particularly in credit unions—through demand-side initiatives, including OFT's "Save Xmas" campaign and the champions initiative and "now let's talk money" campaign. Responsibility for monitoring progress in this area will be given to the Financial Inclusion Taskforce.

The Government recognises the importance of savings in providing people with security if things go wrong, and comfort in retirement. Since 1997 the Government has aimed to promote saving and asset ownership for all across the lifecycle—from childhood, through working life and into retirement. This strategy has focused on:

- Improving the environment for saving through a stable macroeconomy, a sound regulatory framework and employment opportunity for all;

- Providing adequate incentives for saving through the tax and benefit system—including by developing a range of savings opportunities suitable for each life stage; and

- Empowering individuals with the capability to make the right saving choices.

The Government's approach has aimed to provide support to all, with greatest support to those who need it most. Going forward, the Government will seek to equip people with the capability to make saving decisions, promote access to savings opportunities and build on the incentives to save that have been developed, to make them even more effective.

The Government has already announced that it will boost capability with further support for personal finance education in schools via an £11.5 million package of comprehensive support and resources. The financial capability action plan to be published in Spring 2008 will include further details.

The Child Trust Fund, ISAs and the pensions tax regime all offer opportunities and incentives for tax-advantaged saving throughout the lifecycle. The Child Trust Fund will ensure that in future all young people have a financial asset upon starting their adult lives. Over 3 million Child Trust Fund accounts have been opened since 2002 In addition, Individual Savings Accounts (ISAs) have proved successful in promoting saving more widely among the population, One in three adults, over 17 million people, now have an ISA. This is far higher than the number of people that held PEPs and TESSAs, and includes a much higher proportion of people on low incomes and aged under 25. From April 2008, a package of reforms will come into effect which will make ISAs even more attractive by allowing people to save more, and being more flexible and simple to use.

As the Committee are aware the Government has sought to test the effectiveness of targeted support to lower income individuals through the Saving Gateway. Further detail on this scheme is provided in the Governments response to recommendations 23–27. Also, the introduction of auto-enrolment, mandatory employer contributions and a new low cost scheme of personal accounts from 2012 is specifically targeted to encourage pension saving amongst low to moderate earners currently most at risk of undersaving for retirement.

The Government notes the Committee's recommendations to set targets for personal saving and for increased saving among lower-income individuals against which progress can be measured. The Government has not, to date, set targets or indicators against which to measure personal saving. As each individual's circumstances vary, in particular in terms of different stages in their lifestyle, the 'right' level of saving for each individual is very difficult to assess. For example, saving will not necessarily be appropriate for every individual at every point in his or her life. There are also difficulties around fully quantifying an individual's level of saving and savings, both formal and informal. Government therefore aims to provide people with the capability to take a sensible view of their financial position based on their own circumstances and preferences. The Government seeks to support this by providing both good opportunities to save and the right incentives to save including, in terms of the Saving Gateway, incentives to promote entry to formal saving.

Christmas saving schemes

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

regulation and the additional costs associated with such regulation would create a risk that consumers might choose other, cheaper informal saving products with lower levels of consumer protection. (Paragraph 86)

The OFT has carried out a preliminary assessment of the CPA's code of practice against the criteria in its Consumer Codes Approval Scheme. The Association have amended the code with a view to a formal application which will commence the process for gaining approval under the Scheme. The Government agrees with the Committee that the adoption of such accounts across the market should go a considerable way towards allaying concerns about consumer protection. However, we will be giving further consideration to the possible role of statutory regulation, taking account of OFT's advice to Ministers in December 2006, once the outcome of the investigation into what happened in Farepak is available.

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

- **what further steps can be taken to extend the coverage of consumer protection for prepayments through codes compatible with the Consumer Codes Approval Scheme;**
- **what further measures can be taken to schemes for the protection of prepayments that are affordable to the businesses concerned;**
- **how far implementation of the Unfair Commercial Practices Directive will permit more effective enforcement action against inappropriate prepayment requirements; and**
- **what further measures can be taken to promote consumer awareness of the risks associated with prepayments. We further recommend that the Government report on progress in each of these areas in its response to this Report. (Paragraph 90)**
  - The OFT actively promotes the Consumer Codes Approval Scheme (CCAS) and it continues to grow. A consumer and business awareness campaign will be run in March 2008. The scheme is, however, a voluntary one which essentially enables groups of businesses to demonstrate publicly that they already offer consumer service and protection above the legal minimum. Pre-payment protection is one of the requirements of the CCAS that traders and their representatives find most difficult to meet. There are no ready-made solutions within the scheme itself as to how payments can be protected and businesses need to examine the available options. We expect the coverage of CCAS to continue growing but we do not expect it to be a forceful mechanism for spreading pre-payment protection to sectors where traders resist it.
  - CCAS encourages protection schemes already for the sectors it is working with, and Trustmark encourages the sale of warranties for building, home repairs and maintenance. Any further voluntary schemes which are developed are unlikely to

spread protection of prepayments across the whole economy, mainly because underwriting pre-payments that are substantial and a routine part of the business model is likely to be expensive.

- OFT will consider this possibility but the Unfair Commercial Practices Directive (UCPD) seeks only to prohibit traders' practices that influence, in an unfair way, the decision-making of consumers in relation to their transactions with traders, for example by misleading consumers or by placing them under undue pressure. That is, it prohibits trader's practices that inhibit consumers' ability to make free and fully-informed decisions about the transactions with traders that they choose to enter into. The UCPD does not, beyond that, address the appropriateness of a trader's business model, or of the contract terms used by a trader. Ordinary pre-payments are, thus, unlikely to be within its scope. The UCPD could however be used to ensure that businesses and trade associations do not mislead consumers about the extent to which their prepayments are protected.
- OFT will see what can be learned from the 'Save Xmas' campaign about how well consumers understand the risks associated with prepayments. An evaluation report will be published and OFT will then consider the issue more widely within its consumer education work.

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

The OFT's £1 million campaign, 'Save Xmas', has targeted people who have used Christmas hamper schemes to 'save' for Christmas with information on the options available for saving towards a specific objective (such as Christmas).

'Save Xmas' has reached over 58,000 people directly through its communication work, and targeted many thousands more through front-line workers in intermediary organisations. Around 70 per cent of attendees at campaign events reported being unsure about their options for Christmas saving before attending the events; over 90% of attendees reported knowing more about their options, and where to go for more information, after these events. In addition, almost half of respondents (47%) indicated that they may make changes following the event (including opening credit union accounts and using supermarket schemes).

The Government has noted that evidence from the 'Save Xmas' campaign suggests that credit union Christmas saving accounts have been popular and have brought many people into contact with a credit union for the first time.

The grass roots consumer activity will continue to the end of 2007 and through early 2008, and this will be backed up with advertising activity planned for January 2008. The Government is satisfied that the timings of these activities are appropriate to inform savings decisions for Christmas 2008.

The Government will provide £2 million funding to the OFT for 'Save Xmas' to continue to operate.

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

It is not for Government to prescribe the scope of Generic Financial Advice at this stage. The final report of the Thoresen Review is expected in the new year; Government will respond in the spring. In response to the Pomeroy Review recommendation, the Thoresen Review interim report noted that generic advice could look at different options for savings, including alternative saving schemes: "the Review would not expect questions prompted by saving, in particular saving into alternative savings accounts, to raise fundamentally different issues than questions about other types of savings vehicles. Advice protocols will cover the pros and cons of different savings accounts and the risks associated with each."

The Saving Gateway

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

The Government agrees with the Committee's analysis that any national Saving Gateway scheme should be targeted at those individuals with the lowest incomes. In the first pilot the scheme was available to those on incomes under around £15,000. In the second pilot the eligibility was extended further up the income scale. The analysis of the second pilot, however, showed that those on higher incomes were more likely to transfer assets to their Saving Gateway account from existing regulated schemes. The pilots suggest that to achieve more targeted support the income limit used in the first pilot seems about the right level.

24. The pilot projects for the Saving Gateway have proved conclusively that the principle of matching, whereby the Government makes a contribution to an individual's account for every pound that individual saves up to a fixed limit, is essential to the success of any national Saving Gateway. We accept that, on grounds of affordability as well as other grounds, a national Saving Gateway could be based on a

level of matching lower than pound-for-pound, and that a lower level of matching might be effective in encouraging saving among low-income individuals and households. However, we note that certain forms of saving by the highest income groups obtain subsidy through tax relief at an effective rate of 40%, and we consider that the level of subsidy in percentage terms for those on the lowest incomes ought to be higher. On grounds of simplicity, this argues for a rate of matching of 50 pence for every pound invested by the individual, although we also see merit in the proposal that a pound-for-pound match rate might be set for saving in the initial two months of an account to encourage participation. (Paragraph 106)

As the Committee note the Saving Gateway pilots have demonstrated that matching provides a simple and easily understandable incentive to save. The first pilot provided matching of £1 for every £1 saved. The second pilot tested the effectiveness of different match rates—20p, 50p and £1 per every £1 saved. The evaluation of the second pilot concluded that matching did not have to be as high as £1 for £1 in order to incentivise individuals to save. The Government is carefully considering the outcome of the pilots in considering the appropriate level of matching. Providing a simple and easily understandable match rate will be a priority in parallel with overall affordability and achieving value for money.

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

We note the Committee's recommendation on the duration of the Saving Gateway accounts. In both pilots accounts ran for a duration of 18 months. Some individuals needed to access their savings prior to the end of the 18-month accounts. Other account holders said they would have liked the accounts to run for a longer duration and were able to save beyond the 18-month account duration.

The government is carefully considering the evidence and what an appropriate account duration for a national Saving Gateway scheme might be. An account duration beyond 18 months, possibly of 2 years could, for example, have the advantage of further encouraging the saving habit. An account duration of 2 years would also make the scheme more like other mainstream, annualized saving accounts. There was some evidence in the pilots that individuals may find an annualized account easier to operate than one which ran for an 18-month period. The Government is also considering the number of Saving Gateway accounts an individual would be offered over the course of their lifetime.

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

In considering the provision of any national Saving Gateway the Government will seek to ensure that a national scheme would be provided by those financial institutions which are accessible to those on low incomes. The second pilot, in particular, underlined the importance of ease of access as it demonstrated that people who lived closer to a Halifax branch were more likely to open an account.

The Government will work closely with potential providers in assessing the feasibility of a national rollout and how any national scheme should be delivered. There will also be a valuable role for third sector organisations, like housing associations and citizens advice bureaux, in communicating an individual's entitlement to a Saving Gateway account.

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

The Government welcomes the Committee's strong support for the Saving Gateway. As the Committee's report sets out, the Saving Gateway has been piloted twice since 2001 and the pilot evaluations have now been published. The pilots showed the success of matching as an incentive to save and the important part the scheme can play in tackling financial exclusion. The Government also recognises that for those on low incomes who pay little or no tax, tax relief on saving offers less of an incentive to save. Combined with the Child Trust Fund and ISAs the scheme would fit well with our commitment to progressive universalism: support for all with greater support for those who need is most. The Pre-Budget Report announced that "the Government is taking forward feasibility work into the system requirements to enable the roll out of the Saving Gateway". Further announcements on the roll out of the scheme will be made in the Budget.

Savings and credit unions

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

The Government is exploring all legislative options (including a Bill) for updating the credit union legislation and will respond with proposals in the consultation document to be published in December. Any legislative provisions are however subject to the usual constraints of Parliamentary time.

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

The Government recognises the important role credit unions play in encouraging a savings culture among its members.

The Financial Inclusion Taskforce has established a working group with senior banking representatives to consider how to achieve a nationwide increase in the coverage and capacity of third sector lenders, including consideration of the importance of mobilising savings in achieving sustainable business models.

The Taskforce working group has reported to Government its recommendations for how to achieve a nationwide increase in the coverage and capacity of third sector lenders. The working group's recommendations have been published today on the Financial Inclusion Taskforce website, with a full report to follow shortly.

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

The Government agrees with the Committee's recommendations and has already taken the first steps towards addressing this issue. The Economic Secretary on 25 October announced that the Treasury would work with the FSA to review the legislation so as to enable tenants and employees of housing associations to be included within the "common bond" of existing credit unions. The Government will as part of the wider legislative review also consider other ways of further liberalising the "common bond" whilst safeguarding members' rights.

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

We note the Committee's recommendation and confirm that this is an issue under consideration as part of the Government's wider review of the credit union and cooperatives legislation.

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

The Government agrees in principle and is currently reviewing the wider implications. This issue will be addressed in the next stage of the consultation.

33. We welcome the inclusion of a possible name change from "credit unions" to "community banks" within the Government's consultation on legislation. We look forward to learning about the responses to that consultation. We recommend that, in parallel with legislative consultation, the Government explore with credit unions and others ways in which the modern role of credit unions, including their functions as

saving institutions and providers of current accounts, could be more effectively promoted in the branding and promotion of credit unions, possibly by use of the term "credit and savings unions". (Paragraph 121)

The Government consultation sought the sector's views on a possible name change for credit unions and will share its findings when the summary of consultation responses is published.

The Government is already in discussions with interested stakeholders including credit unions, cooperatives, Office of the Third Sector and FSA on how credit unions could be more effectively promoted, enabling them play to a more effective role in serving their local communities and in the delivery of Government policies such as financial inclusion and capability.