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TAKEN BEFORE

THE FINANCIAL INCLUSION COMMISSION

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DR RAJIV PRABHAKAR and PROF KAREN ROWLINGSON

Oral Evidence

Taken before the Financial Inclusion Commission

on Tuesday 25 November 2014

Members present

Sir Sherard Cowper-Coles, in the Chair
Mr Martin Coppack
Dr Omar Khan
Mr Chris Pond
Ms Sian Williams

Sir Brian Pomeroy, in attendance

Witnesses: **Mr Rajiv Prabhakar**, Lecturer, Open University; and **Ms Karen Rowlingson**, Professor of Social Policy.

Q. Chairman: Karen, Rajiv, just very briefly, I am Sherard Cowper-Coles and I am chairing this Commission. I am a former diplomat. I have been doing some work for HSBC over the past year on what the group should be saying and doing about financial inclusion. I think it was Chris who had the idea really of setting up this Commission to take stock of the state of financial inclusion in the UK following the work that Brian Pomeroy's Financial Inclusion Task Force had done under the previous Government. We are here really to focus on what we think a new British Government should be doing from 8 May next year and we are aiming to produce a very short, action-oriented report towards and the end of February next year and a menu of outstanding issues in the financial exclusion space unfinished business. We have got just under an hour and I would like to ask each of you to make an opening statement. It seems that you know my fellow Commissioners. And then after that, I will ask a general question where we want your response read into the record. Then we will move into questions and I think each of the Commissioners has at least one question for you. So Karen, why do you not start?

Prof Rowlingson: Thank you for inviting me here. Just to very briefly introduce myself. I am Karen Rowlingson, Professor of Social Policy at the University of Birmingham. I am a Director of CHASM, of which Brian is the chair of our Advisory Board. I have a couple of copies of our annual report that you can take a look at if you are not familiar with the work that we do. Financial inclusion is a key part of the research that we carry out at the Centre. We also do an annual monitoring report on financial inclusion for the Friends Provident Foundation. This is our 2014 report so again a couple of copies. It is available on our web site as well.

Last year we carried out at the University of Birmingham more generally a Policy Commission on the Distribution of Wealth. Brian was one of our commissioners and I have a copy of that here as well and again it is on the website. Saving is obviously a part of looking at the distribution of wealth more generally.

That is what I do. I am an academic. I worked previously for the Policy Studies Institute in London and worked with a number of different people on matters of financial inclusion, security, capability and taxation.

I think you asked us in this session to focus particularly on savings so that is what I have prepared, but I am happy to talk more broadly about financial inclusion as well. The question you asked I think was should people on low incomes be encouraged to save during an economic downturn? I think it is a very good question and a relatively difficult one to answer because we know that people today, particularly on benefits, are on extremely low and increasingly lower incomes. Work from the University of Loughborough shows that if you are a single person of working age you only get 39 per cent of what you need to meet a minimum income if you are receiving means-tested benefit. That is 39 per cent of what you need to make ends meet. If you are a lone parent or a couple with children you get 57 per cent. If you are a pensioner you just about break even. Means-tested benefits are far too low for people to make ends meet, let alone consider saving. We also know that we have a low wage economy where half of people in poverty are in work. I think it is five million workers receive less than the living wage and the JRF report highlighted yesterday an increasing trend of in-work poverty. People are on very low incomes and it is very difficult to make ends meet let alone save. However, we do know that some people on very low incomes do save despite all these difficulties. In the financial inclusion monitoring reports we show some figures that one in five of those in the bottom ten per cent of income distribution were saving something now and then in 2010-11. These are the very poorest people and they are saving something when they can. They want to save; they are trying to save. We also know that about half of those in the bottom half of the income distribution are saving about £50 per month. It is not huge amounts of money but it is something, and people are keen to and trying to put something by. These small amounts could make quite a considerable difference to people on very low incomes. It is the majority of people on low incomes who are not currently saving who then face problems when they meet an unexpected expense or a big bill and in some circumstances turn to the very high-cost lenders. Then those people are repaying those loans with interest each week or each month and so in effect are taking something out of their current incomes which could be, if saved in advance, paid into a savings account rather than paid to high-cost lenders and potentially getting caught into a debt spiral. Some people can and do try, despite all the difficulties and the lack of incentives and support, to save, and I think we should help those people.

Also people's incomes do rise and fall. People are not always on the very lowest incomes. Their incomes go up and down. We have a lot of churn between benefits and work. If we can help people to save when their incomes are just that little bit higher when those incomes fall that gives them a cushion that they could fall back on.

The final reason I think it is really important to help people on low incomes to save and probably more important than all those other perhaps is the question of fairness and the way we treat savings. At the moment our tax system gives advantages to people like you and me with ISAs, where the Government is continually increasing the thresholds and the advantages, and those advantages again go to people on the highest incomes, the top rate taxpayers and standard rate taxpayers, rather than those who need it the most. We should help people to save. We should provide some incentives, some encouragement, some support, some reward for doing something they want to do and they are trying to do. How do we do that?

We had a very good scheme in the Saving Gateway, and again you can look at that in our reports. It was a matched savings scheme. It was piloted twice. Some economists did not think it really gave an incentive to save, it just moved savings from one place to another, but there was some evidence of increased savings activity. From my point of view it is about fairness and about providing people with some reward and incentive to save at the bottom. I think the Saving Gateway was a very helpful scheme. The Government said it could not afford it but it would only have cost £100 million. I know that still sounds a lot of money, but it is far less than we get in tax breaks on ISA. Just in the 2014 Budget, when the Government increased the threshold for ISAs to £15,000, the cost of that change alone and not the whole cost of the tax breaks was £600 million for that year. It is a fraction of the cost of what we are giving to ISAs and to other kinds of incentives we give to people on middle and high incomes. I think we look at reintroducing the Saving Gateway because we have a tried and tested scheme there and it provides a much fairer playing field for people.

Rajiv might talk about this because he is more of an expert than me, but we also have the Child Trust Fund, another scheme, where the costs are a bit more, I think it was £500 million compared to the £100 million of the Saving Gateway. There are other schemes. The Institute for Public Policy Research proposed a lifetime savings account which helped people to save across the whole of their lifetime whereas the Saving Gateway is a bit more of a short-term fix, I suppose. Then we could look at workplace auto enrolment savings scheme running alongside perhaps the auto enrolment workplace pension schemes, which seem to have been really successful. We need to support credit unions more. We need to look at how we treat saving in means-tested benefits, particularly with Universal Credit coming in because that is going to extend the means-tested in-work benefits, which I do not think is currently the case.

We need to also think about what the private sector, the financial services sector can do here. There are schemes in the private sector such as Save the Change where people's debit cards are rounded up to help save where you do not really notice you are saving because you round up the amount and save the difference between what you have spent and the next pound. There are different ways you can look at different products in that sector. I think we should look at that and ask that part of the sector to look at it as well as us.

Finally, just something we suggested in the report on the distribution of wealth, one of your last questions I think was how we foster a savings culture. I suggest we do generally have a savings culture. Not everybody has a saving mentality and saves as much as they can, but generally people do want to save. We know that from the research evidence. How do we help them and how do we foster it even further? We suggested the introduction of a not-for-profit organisation to represent the interests of savers. We do not really have one at the moment and according to a number of reviews, Myners and so on, savers are not well-served by the financial services industry. It is not a very competitive part of the industry. What can be done to promote the interests of savers? If an organisation were set up, and this could be paid for through a proportion of the fees savers actually pay at the moment, because trade bodies are set up like that that support the industry so why not have a body that support the savers themselves, then that could try to promote the interests of savers which might also foster a savings culture.

Q. Chairman: There are some very interesting points in there to follow up. Rajiv?

Dr Prabhakar: Thank you. Just a bit of context. I am Rajiv Prabhakar, from the Department of Economics at the Open University. I think I would concur with pretty much everything Karen has just said, and she has given a detailed account, so I am going to confine myself to some general reflections. It might seem a bit odd to start off with to say this but I think one issue before diving into the detail of what particular things can work for financial inclusion, is a prior question of why are we interested in financial inclusion at all. The reason I say this is if there is one criticism that could be made of all these sorts of efforts, a cynic might say financial inclusion is just part of an effort to create more individuals for financial companies and there is a line of criticism, the jargon term is "financialisation, the idea is that all you are doing here is you are creating pools of potential consumers for financial companies.

I am not subscribing to that point of view, but I think there are at least two things you can say to that. Firstly, I think it is important to be upfront because there is a worry that this is seen as part of a shift away from collective welfare provision to some sort of individualised account and more broadly there is this debate about shifts of risk from the collective to the individual. I am not sympathetic to that, but I think it is something that needs to be borne in mind because often with the detail, for me anyway, you are still vulnerable to that criticism.

The second point following from that is that it then depends on what we understand by 'financial inclusion'. It can be shaped in a variety of different ways. There are certain versions that may well be just creating compliant consumers according to this critique but there are other ways that are not. These are the kind of things I am more interested in. Here there is citizenship and financial inclusion. I think that is important because that shapes the nature of the policy detail, the nature of the policy you are trying to implement, because it can frame the way in which certain policies are set up. Just to start off with that remark.

A second remark, again if we are looking at savings there are different justifications for savings. We can talk about having an immediate financial cushion in case of emergency. It could be something fairly modest, something like the washing machine breaks down, that is the standard example which can create havoc in someone's life. So for those sorts of emergencies you need access to short-term savings. There are policies with which you might support that and here, as Karen said, evidence from the Saving Gateway (which was not actually rolled out in end,) shows that things like matches tended to work for non-compliant groups.

Then there is longer term saving. This is where asset-based welfare came into the previous administration. But here even with asset-based welfare you can disentangle various things because often it was tied up with behavourial changes within individuals so the purpose was not simply to have a financial cushion; it was trying to create more responsible citizens. There is a whole literature mainly from the US about the so-called ‘asset effect’, the idea that holding assets of various kinds and savings of various kinds can change the way we think and behave.

Within the Academy there is some controversy about whether these effects exist or not, but again that will shape the type of policy that you are going for. For example, the Child Trust Fund which has now been rolled into a Junior ISA, at least part of it was aimed at the long-term. It was locked in for 18 years under the previous administration. I think the first Child Trust Fund children get their accounts in 2020. For those sorts of savings accounts people cannot dip into them, so in that sense the financial cushion argument does not apply.

I guess my remarks would be, number one, the nature of financial inclusion and why it is important. It is important to be clear about that. Prior to a lot of the policy detail, the policy detail tended to be sifting through different types of savings, whether long-term or short-term. I think Karen has summarised it better than I could the various literatures and the various key questions. Karen, you have stolen my lines!

Q. Chairman: Thank you, Rajiv, very much. I am afraid this is slightly formalistic but we would like you to respond to the question do you each agree - because we want this read into the record - that promoting financial inclusion is something the next British Government should address? If so, you may want to write to us or you may want to address this in answer to questions later, what are the practical steps you think Government, regulators and firms, financial or otherwise, should be doing to promote that objective? Is being a leader in promoting financial inclusion something that the United Kingdom Government should aim for?

Prof Rowlingson: Yes. Obviously, it does depend on your definition of financial inclusion and this links to what Rajiv was saying. If you took a very narrow definition about just trying to get people into financial services, I am not sure that would be a high priority. If it is about enabling people to manage on their incomes and have access to appropriate and affordable services, a Sharon Collard and Elaine Kempson broader definition of financial inclusion, then absolutely, yes.

Practical steps, that is getting more into the policy detail and maybe I will write to you with a bit more of a considered answer. There is a long list. Part of the problem is what we prioritise. I would prioritise immediate needs around debt. This is something which the current Government has concerns about. Iain Duncan Smith believes that debt is a major route to poverty and it is something we should tackle. I think there is broad agreement that this is an issue. Giving people debt advice - people already in debt is the key target group - to try and help them out of debt in different ways. You had Peter Tutton here earlier and the work StepChange and other charities do is very important there. Then we go on from there into different priorities, but that is the key one.

Also, as Rajiv suggested, this is part of a much broader problem of low income and welfare cuts which again if you are looking at financial inclusion more narrowly in terms of tweaking products then it is not really going to make a big difference. These are huge questions and huge difficulties and there are political aspects. We could find money to support saving schemes for people on low incomes by reducing the tax advantages of ISAs but ISAs are incredibly popular, so this may not be easy. It is no surprise that the Government is increasing the advantageous nature of them because middle-class voters really like them.

This is a very political issue and a hugely difficult issue to tackle. There are big issues, big questions, but also there are some small policy solutions as well.

Q. Chairman: Thank you Karen, very good answer. Rajiv, would you like to answer the headline question?

Dr Prabhakar: In short yes. I think partly, number one, in order to take a full role in society people need to manage their money. That is my backdrop and so I think - I do not want to come across as a political philosopher here - the outset would be I might have various plans and goals for my lifestyle and in order to support that, one of the things that I have to do is be able to manage money, as a practical issue, so that is why financial inclusion is important, in my view. This falls into this broad if we are interested in people as citizens taking a full part in the public realm and even in the private realm they have got to be able to handle money, so the answer to the headline question is 'Yes'. In terms of what should be done, if I am going to take a full part in society there are two things I need to do. Number one, I need to have the various capacities, knowledge skills and confidence to be able to act. This taps into what is termed 'financial capability', but that is not enough on its own. The second point is I need access to opportunities, so the point is this: I am a low income person and I am fully skilled and fully confident and so on, but I may not have easy opportunities. With policy I think there is often a temptation, for legitimate reasons, to focus on one and not the other and so one of the recommendations would be you have got to see it as part of the whole. It is no good just saying okay, we are going to look at ways we can incentivise people to save and all the rest of it, without also looking at what the financial sector do. In my mind I think more the priority is on reforms of the financial sector because I think a lot of people on low incomes are quite savvy about managing their money because they have to be and so they know about their daily budget. They might not have much to save. I think part of the issue if I was looking at policy priority is much more to the supply side, I guess, to how financial organisations organise themselves.

Here just a brief point. I think there are some interesting developments to do with technology, mobile phones and supermarkets. It is a bit of a short answer but these are the directions that would be my priority.

Chairman: Thank you. Two very good answers. We are going to go round the Commissioners now. Brian, do you have any questions?

Q. Sir Brian Pomeroy: First of all, I agree with everything that has been said but on this question of how broadly you define financial inclusion/exclusion, the problem is - because you are right to say it is much more than just products and so forth - much more fundamental and to some extent due to insufficiency of income. The problem is the more broadly you define it the more intractable it becomes, other than at the very highest level. The risk is that if you say we will not make short-term tactical changes like trying to introduce a Saving Gateway and so on because we are waiting for the big change, nothing will ever happen. I am interested in your thoughts about that. At the end of the day this Commission is going to have to make some recommendations. Were you suggesting that it should stay away from the more practical tactical changes because at the very end there is something much bigger which should happen or were you saying, notwithstanding what you said, there is sometimes an argument for the sub-optimal or second best in that you can actually do something about it? I am interested to know where you would stand on that because you seem to be saying really it is the big picture that counts. Even talking about the supply side is quite a big to reform of the financial sector. Where would the Commission position itself in terms of the tactical as opposed to waiting for the broad strategic to happen?

Dr Prabhakar: For me the good is not the enemy of the best. I am not of the view that you have got to wait for something on the horizon. I am definitely in favour of the short-term tactical things that you suggest. I am not saying that I want to create this celestial city on a hill. I am interested in the detail. But actually, the way you frame things even at the level of policy detail I think it is important to have a set of underlying assumptions behind that. So, yes, have the policy detail, but I just do not think you can abstract that from broader assumptions about what is this policy trying to do? That can fit into part of a wider vision. We are academics and I understand it is easy for us to say let's create this. That would be my response to that.

Chairman: A piece of wisdom, Rajiv, if only the American and British Generals in Afghanistan had followed that advice! There is no point in tactics without strategy. You still have to tackle it.

Q. Ms Williams: I think financial inclusion is empowerment. Part of the empowerment agenda is around making sure that people can take up those opportunities and can take up their rights and responsibilities. Does that feel right? Obviously it is not the only definition, but if you can get as picky as possible that is it for me; financial inclusion as empowerment. Does that fit? Does that work?

Dr Prabhakar: In a short word yes, because empowerment, again as far as I see it, is two things. Number one, to be empowered you need to have the capability to do something. But that on its own is insufficient because you need the opportunity. So, for me empowerment is part of it, but just one brief point: for a lot of low income people - and this is where the wider benefits system even at the point of we could still do these actions - sometimes people just cannot save. They have not got money. They have got an issue to do with should I be paying debt or should I be saving. Even with empowerment it is phony.

Q. Ms Williams: It was not just about savings; I was talking about the whole agenda.

Dr Prabhakar: I am not saying you were.

Q. Ms Williams: For me empowerment is not just about my capability. It is I can only be empowered if there is an environment in which I can exercise my power.

Dr Prabhakar: I agree completely.

Q. Chairman: There no point in giving a disabled person an Oyster Card if there is not a lift at the tube station.

Dr Prabhakar: Correct.

Q. Ms Williams: Empowerment requires both sides of the equation.

Dr Prabhakar: Yes.

Ms Williams: I just wanted to check I was hearing you correctly.

Chairman: The Vice Chair of the Commission has some questions for you.

Q. Mr Pond: I have to say both that discussion just now and your presentations have made me take one step back and think let's be careful about this. If we were talking about retail inclusion, are people shopping enough, we might be less enthusiastic about it. I think it is a really useful step forward. Thank you. I want to get down to the short-term tactical stuff. I am really pleased that on your shopping list is auto enrolment stuff in terms of shorter term savings. It seems to be working at the moment in terms of pensions. Could we use it for short-term savings? My question is two-fold, firstly, could we apply this in other areas? We heard earlier on there are 30 million people who could not last a month on the basis of what they have got in hand if their income dropped by 25 per cent. Are there other means of providing resilience, for instance in the insurance field? Could we have automatic enrolment via the workplace for contents insurance, something that the Task Force did quite a lot on, or life insurance or critical insurance or whatever else? That is the first bit of the question. The second of bit of the question is to what extent should we seek to incentivise? Is it important that we incentivise it because you said, Karen, that people, even in the toughest circumstances, are trying to save a bit but the mechanisms to do so are not there? Is it enough to provide the mechanisms or should we be providing incentives and if we provide an incentive what form might that take?

Prof Rowlingson: On auto enrolment I think Tony Dolphin at IPPR did some work with young people around auto enrolment into saving schemes. I do not think it was a big survey, it was some qualitative work, but he said they were not too keen on the idea because they did not feel they had enough money and they did not want money being automatically taken out of their salaries. I think we would want to look into it a bit more. There is some argument for having it there set up and maybe nothing is taken out but it is there if you want to. In America they have these ‘Save more tomorrow’ schemes where you can sign up and when you get an increase in your pay a proportion of it will go into them, and again you can opt out of that. You are not then giving up current income. You are saying, “Yes, I do want to save when my income goes up.” I think there are some schemes like that that could be helpful. I wonder if other organisations like housing associations or local councils if you rent through them could set up automatic contents insurance for you? That might be a more appropriate way of doing it than through work because again many people may not be in a job but still nevertheless might need some contents insurance. We know that people who are poorest are most likely to be burgled. Something needs to happen there. On incentives and mechanisms, I think the evidence from Saving Gateway was that the best kind of incentives were matched payments, a simple bonus rather than interest, because people do not always understand interest. It is a bit more complicated really, but bonus payments are quite helpful. I think Brian has talked about prize winnings as a way of incentivising people to take part because of the fun element of it. I think that has some merit in it, too. Maybe we do not want to incentivise it too much because it might take away from people spending on current needs rather than putting money away, but I think people are generally sensible and they will only save if they can afford to do so. Again, I think it is about being fair and giving people some reward as much as incentive because I think the economists say that people are just moving things around from other forms of saving. They might be saving in their jars on the mantle piece whereas they would put it into the Saving Gateway so it is not necessarily increasing saving particularly, although some people said they were cutting down on things like food that they bought out, so there is some increased savings but also it is just changing the way people do save. It is sending a message as well that we think this is a good thing to do and we are going to help you to do it.

Dr Prabhakar: Just a couple of quick comments. I think the evidence on auto enrolment, drawing on the US and also early indications here, is that auto enrolment into workplace pensions will get people on it and so it will increase membership of the scheme. So to that extent you might say well, we can apply this sort of idea elsewhere. There is just one worry about some of these ideas. Behavourial economics is the rationale for this kind of thing and there a danger that it is treated as people are fairly passive. It appeals to the inner Homer Simpson in you. The issue then would be that you get people on the savings ladder but then what happens? There was a report by the DWP in 2012 where they did a review and they made the point that in the UK there has been much more attention paid to getting people on the savings ladder but then what happens when they are actually there. You can default people into things, but there is a danger that the default might not necessarily be optimal for people because if they default into a pension that might not give them a high enough replacement rate, ie income, out of retirement compared to income in retirement. So there is one issue which is that if it is based on a view of people are not going to do much and you are defaulting people left, right and centre, it then leads on to your second point, if you sign up people, people will opt out because of the status quo bias inertia, the question is what do you do with them then. If you are building your whole public policy based on that, if I am passive I am going to do nothing. The next question is how do you get people to think is this default right for me; should I opt out. Here I think you have to open up beyond these kinds of policies. Incentives is a standard economic approach, that is right, and people will respond to incentives, but that is not enough either. For example, New Zealand have the KiwiSaver scheme, which is similar, where people get auto enrolled into a particular savings scheme, and official statistics say that about half of the people who defaulted into their default provider are still with that provider five years later and they do not do much. The New Zealand Government recently had a review of the arrangement with the providers and the providers now have to provide some sort of financial education. Of course there is a whole other debate about financial education, but, number one, yes, auto enrolment, but I think the worry is what do you do once people are actually enrolled? That leads into your second question which is how do you then engender activity? That would then mean going beyond the assumptions that underlie this whole approach anyway and incentives is one and financial capability is another. I am sure there are others.

Mr Pond: That is really interesting, thank you.

Q. Ms Williams: My brain is racing, thank you. Your point about that kind of default behaviour we see it across all activities. I have not changed my fuel provider in 20 years. I have not changed my bank account in 20 years. I like them. That is absolutely evidenced across the whole piece, so I really agree with that. My question back is if it is a savings pot and you said the good is not the enemy of the best, then as long as there is an ethical and regulatory oversight that makes sure that the savings product is not actually doing any harm, is it terrible that people are not moving around and checking they have got the best rate? If we care less about that the savings growing and more that they have a savings pot, in an ideal world you would want the savings to grow at the best possible rate, but do we not care here about having savings and they are protected and that you can access them when you need to, so it is not losing value but it is not necessarily growing?

Dr Prabhakar: I do not want to get into an argument about this, but there is one issue to do with potential manipulation of people because there has been some concern within philosophy that unless people are fully informed, if they are not making these active choices themselves and they are not fully aware, it is kind of going behind their back. Even if it is in my best interests, there is a loss in personal autonomy, so even if it is in my interests in terms of I will get good savings, it is like are people doing what is best for me and where is my choice in all of this? That is putting it very crudely. You could say if you provide information and people are transparent and so on ---

Q. Ms Williams: We are talking about inertia to move not to start, but it is a good point.

Dr Prabhakar: I understand that, but I think this manipulation concern is a real one. The second point, if I have understood your point, is that you can into this default and people will benefit from this default, but my point is that if you have got a whole diverse population and we have to set one default, for example, how do I know that one default will be right for the whole population because it might benefit some people but it might not benefit others. In terms of making policy, we can shape one default but you might then say to me we could have more complex defaults, but then what would they look like? This issue of if I have been defaulted into something, what is that thing I am being defaulted into and how can I be sure that is good for the whole population - that is my concern. Not just my concern as if it is me.

Prof Rowlingson: But then it does mean it is important to inform people and tell people that they have been defaulted into a particular scheme and give them the option. They still have the option of opting out, so they still have autonomy in that sense. It is a just a different way of doing things.

Dr Prabhakar: Just on that point yes, I am being told that, but that assumes a set of assumptions about my behaviour which is different from the nudge behaviour because the nudge behavior says, "I will stick to the status quo. I don't understand all this. I am just going to follow the line." I am provided with information but if I am this 'nudgee' I just ignore that.

Q. Ms Williams: Can I just understand that? If we are going to think about policy, then from what you have said, I think that implies that there is an obligation on the policy maker and the policy regulator to make sure that if there is a single default that default option is constantly monitored to make sure it is providing the best possible option for the majority of people, wherever possible.

Dr Prabhakar: Putting it crudely you could set a default with the lowest common denominator

Q. Ms Williams: But it has to be monitored.

Dr Prabhakar: Yes.

Q. Dr Khan: I am going to pick this up. I did some work with NEST on their default, so I would be happy to talk internally about that. I agree with a lot of it, as I just said to Rajiv and Karen will know. I was interested to pick up the Child Trust Fund as an example because you have done some work on it and there were defaults on that. I know you have done some work looking at whether or not low income people actively chose those options or went to default. Do you feel there are any lessons there we can take away? If we were to advocate the Child Trust Fund, would there be any tweaks to it that you would recommend, to exclude the top quintiles or anything like that? If we have got an opportunity to think about that kind of scheme, why in particular should we go for a Child Trust Fund or do you think there are other long-term products? If we are looking to provide not just a short-term product but the long-term one that Rajiv was talking about, do we want to renew the Child Trust Fund and what lessons can we learn from it?

Prof Rowlingson: I have never been such a big fan of Child Trust Fund as of Saving Gateway because, as Rajiv says, it locks the money in for 18 years. I know that is part of the point of trying to get people to think long-term, but something like the LiSA, lifetime savings account, is a better way of doing it for people so they are incentives to keep money in the accounts because of the way bonus payments can work, but also you can get access to it because people on low incomes do not want to lock their money up for such a long-term. They might have a really pressing need next year or even next month, and so if they think it is going to be locked up they will not put the money in there. That is a bit of an issue with the Child Trust Fund, although I can understand why many academics particularly like idea of a baby bond and a universal asset policy. I can see some of the attractions of it but I think if money is tight I would definitely put more money into a Saving Gateway-type product or a lifetime savings account.

While we are looking long-term, I do not think you have pensions on your list of issues that you are covering, but we put that in our financial monitoring report last year for the first time because we think pensions is something that should come under the financial inclusion banner and there are real issues with defaults on the workplace pensions as they are at the moment, which Rajiv has hinted at when talking about defaults more generally, but because that default is not a very helpful one, it will not help people that much, they will not have that much when they retire if we stick with the default. The Government knows they have to increase the defaults but that is difficult when again people do not have a lot of money. I just wanted to put that on the table. Pensions is a huge field which is why often when we talk about financial inclusion people skip it out of the picture, but I think we should try to cover that one too if we can.

Q. Chairman: You are quite right.

Dr Prabhakar: Just a quick rejoinder. I pretty much, it seems odd to say, agree with a lot of what Karen has said on this. The Child Trust Fund, without getting too much into a debate about that, do you treat it as a savings policy or do you treat it as another type of policy? As a savings scheme, for all of the sorts of reasons that Karen mentioned, I think there are various shortfalls and here in some ways a policy like the Saving Gateway is better. I am actually a fan of the Child Trust Fund but not as a savings policy. funnily enough. I am a fan of it for other reasons which is the idea of universal citizenship and so on, I guess. I do not want to detract from the focus but as a policy I am in favour of renewing it, although I do not think savings is the best argument for it, for the sort of reasons that Karen mentions.

Q. Mr Coppack: Just picking up on what Sian said earlier around the need for monitoring of defaults for example, Karen, you said earlier on about a non-profit body perhaps being created that represented the interests of savers. Could you say a little bit more about that? Also is there a present organisation that could perhaps take it on already?

Prof Rowlingson: There is an idea that came out of the Policy Commission, particularly from Paul Cox, who is an academic at the University of Birmingham and also an adviser to NEST so he works within NEST as well. I do not think we had any particular recommendations in terms of detail but a general idea was floated which seemed to be very popular when it came out. It got a lot of media attention and people thought that this sounds like a good idea, but I do not think it has gone much further than that. The idea was a relatively modest one. We would not spend a lot of savers' money on this but to help promote them. I cannot think of an organisation. There is the Money Advice Service, which is obviously a different kind of beast, but I suppose it does its bit in trying to support people that might want to save. I do not know. It was a broad idea floated.

Q. Ms Williams: Could the Money Advice Service do more?

Prof Rowlingson: They do seem to be doing more and more. They are expanding quite a lot. It was more to champion savings to focus on it rather than have an organisation that covered a whole range of different kinds of activities to give it a real peer focus, which seems to be lacking I think.

Q. Dr Khan: I had a slightly different question. I was looking at the data on savings and one of the things that strikes me is that even assets - and I do not know if you have a view on this - such as home ownership, there has been an increase in home ownership. To what extent, looking at those data, it appears that a lot of low income groups used to have more diverse savings schemes until the right to buy was implemented and since then people tend to have one savings wealth item if they are in the bottom half and it is their house. It is not on our list, but I was just curious; do you have any thoughts about what we might do in that space? Do you like part ownership schemes? Do you think rather we should be encouraging people to develop other kinds of assets in that space?

Dr Prabhakar: Before I start, just a brief rejoinder to Martin's question and also a little bit to Karen. The fact is when it is non-profit, is the non-profit bit important in the sense of public trust? Is that why as opposed to profit making --- we have not even mentioned the financial crisis so far.

Q. Mr Pond: Crisis? What crisis?

Dr Prabhakar: Here I do not know. This is a question for Karen. Was the choice of non-profit shaped by a perception that the public will not trust financial services to look after their savings? Was that why it is non-profit?

Prof Rawlingson: To some extent I think being independent was probably the more important point, independent of the financial services sector.

Dr Prabhakar: Could that be profit making then?

Prof Rawlingson: I personally could not see why not. I do not think that was so much the issue as much as being independent because of the trust issue. Again from other reviews, the savings market is not seen as very competitive. Banks do not go out to encourage people to save in the way they do to borrow and the interest people get on savings is not as good as some economists argue it really ought to be. Why is that? What are the barriers, not collusion going on with the banks, but there is something happening that savings products are not as attractive as they should be.

Dr Prabhakar: Again just on that point, one criticism could be that government does not want people to save at all. It wants people to spend because they want a consumer-led recovery. We can spend all the time worrying about how to get people to save, but if interest rates are at zero or thereabouts and we want a consumer-led boom actually one question - again of these big overall questions in the background - is that. Leaving that aside, I just mention that.

On Omar's point, again there is some criticism within the political economy that says part of the problem, let's get into housing, some people are very critical and saying that part of the problem with the British economic cycle is that successive Governments of any stripe have pumped home ownership and what this has done is that you keep getting these consumer booms, house price booms and all the rest of it. What we should do is get away from all that. So to that extent, equity share schemes might be seen as an alternative to that, but a cynic might say this is just spreading this home ownership virus even further. I am just making the point.

Prof Rowlingson: I think Rajiv is absolutely right. The incentive to save through home ownership has been huge in many ways and some people have benefited from that, not just in terms of right to buy, and your primary residence being exempt from Capital Gains Tax but also buy-to-let and other properties and so on, so we could look at how we tweak that system of taxation around housing to try to disincentivise that kind of saving because people do need a portfolio of saving. To put all of your eggs in one basket in your home is such a risky thing to do. It is not a wise thing to do. People should have different forms of saving for different purposes and different assets for different purposes. We have put far too much into housing. Part ownership does come with some problems. I do not think it has been as successful as people might have hoped. It is quite complex and if you want to move it can be quite difficult, so I think there are some issues there. One suggestion by Susan Smith, who is a geographer and mistress at Girton College, Cambridge is about trying to divorce housing services, as she puts it, from housing wealth, so potentially somebody who rents could save in a product that is linked to house prices so that we all benefit, if you like, from increasing house prices. You are not risking your home on whether the housing market goes up or down; you are risking a proportion of your savings in that field. If you can divorce tenure from wealth that might be a useful thing to do so that everyone can be part of that but in a way that is manageable in terms of risk.

Q. Dr Khan: You could have £5,000 or £10,000 as opposed to needing to have a huge deposit on a one-bedroom flat.

Dr Prabhakar: One quick comment on one thing. You have some people who might say "It is rational for me to try to buy a house instead of having savings."

Prof Rowlingson: Or a pension.

Q. Dr Khan: Part of the reason I am asking is I was quite disturbed by how many people agree with the statement a house will provide more for me when I am older than my pension will.

Prof Rowlingson: It has gone down recently. We did ask again recently. It used to be 66 per cent saying housing and 33 per cent pension. It is more like 58 now, so it has come down. People are a bit more questioning of housing because of what has happened but pensions are not exactly doing that well either.

Chairman: Any other questions from the Commissioners? Thank you both very much indeed. We have run exactly to time.