



Runnymede Trust response to Savings Accounts and Health in Pregnancy Grant Bill

The Runnymede Trust is a social policy research organisation focused on race equality and race relations. We work by identifying barriers to race equality and good race relations; enabling effective action for social change; and influencing policy at all levels through providing thought leadership and robust evidence.

General Comments

Our recent report, *Why Do Assets Matter*¹, considers the role of assets from the perspective of ethnicity. More broadly, it evaluates how assets are currently distributed among people of varying characteristics, and whether measures could be taken to increase asset-holding in the United Kingdom today. One of our key findings is that Black and minority ethnic (BME) people have fewer and lower-value asset-holdings than white people. Although there are many reasons for this lower asset wealth, asset-building policies could potentially provide BME people with different and multiple benefits. Having few or minimal assets – or indeed having no assets – will cause problems for people who run into financial difficulty or require emergency funds to buy a product they need. Assets can also impact on people's capacity to take up everyday financial goods and services. There is evidence that those who save early on in life are more likely to save through their lifetimes and build up assets this way. Evidence also tells us that assets, whether saved for or otherwise acquired, have a marked effect on a person's life-chances.

As such we are deeply concerned that the government's recent decision to scrap the Child Trust Fund and Savings Gateway will have a disproportionate impact on Black and minority ethnic (BME) people. Evidence has shown that both programs have the potential to allow many BME people on lower incomes to rely less on credit and debt. Also, we believe that the equality impact assessment has been insufficient in failing to suitably recognise the lower earning power of ethnic minorities in the labour market (as well as women and disabled people). This lower earning power translates into a less ability to set money aside in savings, and ultimately results in lower asset holding, lower social mobility, and less ability to pursue their own aims in life.

On the Saving Gateway

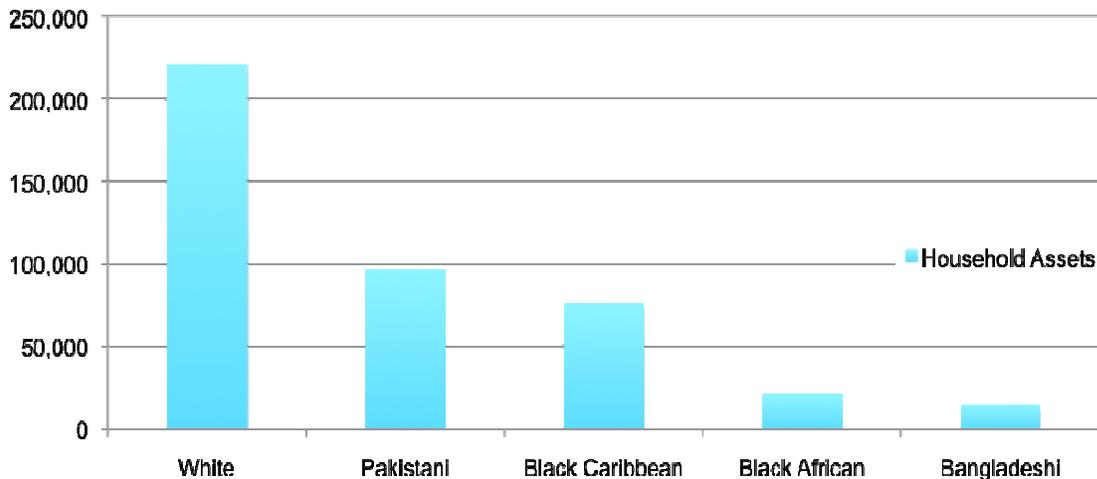
We believe that the Saving Gateway would have been valuable to many Black and minority ethnic people, especially as evidence suggests that such matched schemes are one of the only proven ways of motivating low-income people to save.

Data show that BME people in particular have low levels of savings. Over 60% of Asian and Black British people have no savings at all, twice the rate for White British people (Khan 2010a; DWP 2008). Furthermore, even where BME people have savings, they are likely to have smaller amounts and hold them in less diverse products: Ipsos-MORI survey data found that BME groups held anywhere from one-eighth to one-third as many investment types as white groups (see Khan 2008). ONS data suggests that less than 5% of BME people have savings of more than £20,000 (this compares to 13% for the wider population) (ONS 2005, in Khan 2008, 2010a). Whether it's a

¹ Khan, O. *Why Do Assets Matter: Assets, Equality, Ethnicity: Building towards Financial Inclusion*. London: Runnymede Trust, 2010

question of cash savings, ISAs, Premium Bonds or Stocks and Shares, all BME groups are much less likely to have savings than white groups (see Khan 2010a: 15). In Chart 1, we reproduce data from the Wealth and Assets Survey, showing that while the average White British household has assets of £220,000, Pakistani households have £97,000, Black Caribbean £76,000, Black African £21,000, and Bangladeshi only £15,000.

Household Assets



Although we accept that other factors may be equally important for explaining the variance in savings rates, Runnymede research has highlighted where ethnicity may be a factor, principally for designing *effective* policy that will benefit everyone. Whether that policy is the Saving Gateway or some other scheme, effective policy must respond to the actual needs and behaviour of the people it seeks to benefit, and do so in a way that actually works to increase saving.²

Interest rates are not always intuitive in terms of likely returns, especially for those unfamiliar with financial products and services, whereas matched savings are more straightforward to calculate and predict, and typically offer larger increases for a consistent saver (e.g. £1 for every £2 saved). One important aspect of the scheme is that it incentivises consistent saving, in that those who save for, say, 10 or more months in a year can expect greater returns. We hope that the current government will at least reconsider this scheme – one of the few known to increase saving for low income people – as public finances improve.

On the Child Trust Fund

We believe that the Child Trust Fund scheme has enabled many BME people on lower incomes to protect themselves and their families from hardship and to rely less on credit and debt. Furthermore, it has encouraged a culture of savings among people, many of whom have not done so before. An additional benefit of the CTF regards life chances: an 18-year old with savings is more likely to consider training, education or other activities

² See Khan, O. *Saving Beyond the High Street: A profile of saving patterns among black and minority ethnic people*. London: Runnymede Trust, 2010

and not simply take the first low-pay job on offer. In this sense, the policy contributes to personal autonomy, a goal that financial inclusion policies should aim for more generally. Also, financial education taught in classrooms might have little effect if children and young people do not have any assets or savings they can manage. As such, the CTF can make the learning experience more concrete. We do not believe that most criticisms of the CTF have appreciated all of these benefits.

The scrapping of CTF is particularly ill-timed, as the scheme has been designed to encourage people to engage in financial institutions, institutions that many citizens currently mistrust. Trust is a central issue in BME and migrant communities' lives, as decades of exclusion from the mainstream sector has engendered significant distrust of mainstream practices. Research has shown that BME consumers strongly emphasise intangibles such as respect, trust, safety, security, and a sense of belonging³: subtle manifestations of disrespect, frequently unintended, are perceived as messages of exclusion – an attitude that mainstream organizations in turn often see as overreaction to simple procedural matters. The CTF provides an ideal platform to increase the financial capability of migrant and BME families and therefore their willingness to engage with the mainstream financial sector.

Here it is perhaps worth highlighting that *parents* made the initial decision regarding CTFs. Given the higher proportion of BME younger people, and that many BME people are fairly distant from the financial mainstream, the CTF was at least for some parents their *only* interaction with mainstream financial institutions. Consider also the case of mothers who do significantly more caring duties and may have even less engagement with the financial mainstream. Given that mothers often have responsibility for the financial decisions of children even in the most traditional of households, the scrapping of the CTF has removed one of the only means for mothers, especially migrant and ethnic minority mothers, to engage with the mainstream. Because critics of the CTF have failed to understand its wider benefits in terms of behavioural change, social mobility and increased personal autonomy, they haven't realised the consequences of it being scrapped.

Concluding remarks

It would be useful to know whether the Saving Gateway has been scrapped solely for budgetary reasons, or if the government doesn't agree that matched savings increase savings rates for low-income people. We understand that budgetary pressures may require many otherwise good policies to be scrapped or put on hold, but we would like to know if the government would consider a similar kind of matched savings scheme in the future. We understand that the government is more skeptical of the Child Trust Fund, although we do not believe they have responded to some of the key benefits it was designed to provide.

Assets are valuable not simply for financial reasons, but for their knock-on effect on social mobility, personal welfare and autonomy. As the ultimate goal of asset-building policies such as the Saving Gateway and Child Trust Fund is financial inclusion – which will in turn enhance social inclusion – their axing is doubly disappointing. This will impact significantly on BME people, who tend to have lower employment rates, lower incomes, less savings and are likely to be hit the hardest by the forthcoming cuts.

³ See for instance Sawady, E. R. and Tescher, J. *Financial decision making processes of low-income individuals*. Joint Centre for Housing Studies. Cambridge, Mass: Harvard University, 2008.