Insurance and investment: savings banks and asset-based welfare

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Financial History Workshop, Brussels, 27 May 2016

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The paper examines the promotion of savings in the context of what has been described as the move from insurance to investment in the relationship between citizens and the state. It considers the replacement of collective services and resources available to all citizens with individual resources that it is the responsibility of the individual to manage. The history of savings banks offers a parallel which contributes to the argument being conducted in the 21st century.

Today's 25-year-olds need to save the equivalent of £800 a month over the next 40 years to retire at 65 with an income of £30,000 a year, according to Rebecca Taylor, director at the Chartered Institute for Securities and Investment (*Financial Times* 12 February 2016)

Introduction

The statement quoted above attracted instant reaction from thousands of *Financial Times* readers. Was it essential for young people in Britain to save this amount (over €1000 per month)? And was this a realistic expectation, or a sign of massive economic failure that they were being enjoined to do this whilst coping with low pay and debt from student loans?

Some replies quoted their own success via investments in securities or property: 'Those early payments you make when you are young will attract compound interest over time, and contribute most strongly towards the growth of the pot as a whole.'

But a respondent warned:

That logic goes in reverse when real interest rates are negative: money saved early is eroded more by inflation than money saved later in life. And as Japan has shown us, ZIRP or NIRP[1] can go on for decades, so this is a legitimate concern (Pepin, *Financial Times* 19 February 2016)

The argument about pension saving is part of a wider one about saving in general, and about the use of assets modelled on savings accounts as a new form of welfare. Aimed at individuals, this new kind of welfare represents a transition from the provision of income and services to the conferring of assets with specified uses, and so from insurance of citizens as a group to investment in people as individuals. This is rightly viewed as a significant change: it has, though, common features with the introduction in the 19th century of savings as a substitute for other forms of welfare via savings banks. This paper considers and discusses these features and their implications.

Insuring and investing

Writing in 2015, Craig Berry describes Britain as 'a hollowed-out state'. What has been dug out of it, he argues, are collective identity and collective interest. Instead of the provision of services and benefits that are jointly available to all citizens who need them, the state has become 'a set of purely technocratic instruments…the servant of individual utility-maximisers' (Berry 2015).

The key word here is 'individual'. The government's objective, it is argued by critics like Berry, is no longer to provide services and resources that can be used by all those who need them, but to confer on individuals distinct and separate assets for their private use. Finlayson (2009:400) spells it out more fully as 'the opening up of routes through which a variety of state and non-state agencies may act directly on

[1] ZIRP or NIRP= zero interest rate policy or negative interest rate policy

individuals with the aim of remaking them into people who will be willing and able to care for themselves in an open and financialised economy'.

The crucial idea is that people will 'care for themselves'. Instead of public services and resources available to those who need them, citizens individually have assets that they must manage in order to service their needs through the market (Prabhakar 2013). This is termed asset-based welfare (ABW), because it 'emphasises the importance of individuals acquiring and accumulating assets of various sorts as a way of promoting economic and social development' (Gamble and Prabhakar 2005). Its supporters argue that it generates 'greater long-term thinking and planning for the future, increased participation in the community and *investments* in self, financial instruments and enterprise for greater returns' (Sherraden 2003, emphasis added). Langley (2006: 116) describes this move as the 'displacement' of insurance by investment. This is a metaphor that works in two senses. Insurance allows individuals to protect themselves against risk by *joint* membership of a fund. The costs of the joint risk are shared between all the fund members. The fund's ability to pay the costs created (claims against the fund) is managed by actuarial valuation of the incidence of risk and the deployment of reserves as investments. Collective insurance schemes such as National Insurance in the UK or social health insurance in Germany (see e.g. Barnighausen and Sauerborn 2002) provide cover for citizens in the case of retirement, illness etc. provided they have complied with relevant conditions.

Under the 'investment' approach the government allocates sums of money to individual citizens. The return to the state is that the recipient uses this (earmarked) money to achieve a particular outcome. And the individual is required to make further investment decisions in order to achieve the intended result. So the success

of the investment depends on the government's choices (**how much** money, what it is to be used for, **who** is to receive it) and also the decisions made by those who receive the benefit. Before discussing the significance of this change in welfare policy, the next section of the paper identifies a number of asset-based welfare systems that have been/are used internationally.

Approaches to asset-based welfare

ABW can take a number of forms and its potential use may be more or less restricted, in terms of the amount available and the choices available to the recipient. This section of the paper identifies some of the major programmes that are or have been made available**.**

Individual Development Accounts (IDAs) are intended to 'include all of the poor in asset accumulation policies and to make asset accumulation life-long' (Sherraden 2003) in the form of schemes matching individual savings with additional money from the sponsor (government, private or NGO). Largely a US institution, introduced in the late 1990s (Zdenek 1996), they are normally open to people earning 200% or less of the Federal Poverty Income level and are conditional on the fund being used only for an approved purpose, e.g. home buying, education or setting up a business (see e.g. Aaron 2007). Over the last decade, more than 85,000 IDAs have been opened in programs administered by more than 1,100 sites across the USA (data from http://cfed.org/programs/idas/ida_basics/).

The Child Trust Fund (CTF) was introduced to the UK by the New Labour government in 2002, setting up a savings plan with a £250 deposit for every child born in the UK. The deposit (in the form of a voucher) could be used to open either a cash account or a shares based savings scheme with an approved provider. Parents

could then add up to £1200 per year to the account. CTFs were launched with the objective of ‘promoting a savings habit’ by providing funds and access to suitable financial products. Supporters suggested they might also be used to ‘reward active citizenship’, with additional transfers made to CTFs in return for public-spirited activities such as volunteering (Maxwell and Sodha 2005).

Savings Gateway was a programme with the aim of boosting savings intended to be introduced by Labour in 2010, which would add 50p to every £1 saved by people on low incomes, after the account had been open for two years. Shortly before its planned launch date in 2010 it was scrapped (along with CTF) by the incoming Conservative/Liberal government (see http://www.theguardian.com/money/2010/jun/24/budget-gateway-saving-scrapped and http://www.bbc.co.uk/news/10376543)

Other asset-based programmes are more specific. In the UK the 2009 introduction of **personal health budgets** has allowed users to commission their own package of care and treatment (http://www.peoplehub.org.uk/) It continues to be extended – e.g. the 2016 recommendation of the introduction of ‘**personal maternity care budgets’** of up to £3000 per birth (NHS England 2016) for the pregnant woman to spend on her choice of health care provider.

In the US, China, Singapore and South Africa, **Medical Savings Accounts** (MSAs) are funds for individuals and households to use in saving for and spending on health care (Hsu 2010 and Wouters et al 2016). They are compulsory for employees in China and Singapore, voluntary elsewhere, and tax-exempt.

The **Help to Buy Scheme** was introduced in the UK in 2014. It offers alternative types of assistance: a 20% loan -so that the buyer can finance the rest of the

purchase with a 5% deposit and a 75% mortgage[2]; an ISA with a 25% government contribution on top of the amount saved, up to a maximum of £3000: and a government guarantee to underwrite loans from a variety of lenders. Different conditions are attached to each scheme: the ISA is available for first-time buyers anywhere in the UK, the loan is available for new-build houses in England only, but not restricted to first-timers: the guarantee applies to all UK purchasers, with a maximum property value of £600,000 (see https://www.helptobuy.gov.uk/)

The programmes briefly outlined above have some common features. They are aimed at individuals: they offer a financial product with some Government involvement, and they restrict its use. This may be via a time limit (the Savings Gateway required the account to be maintained for 2 years), defined purposes (funds to be spent only on specific products/services from approved providers) and/or limits on the amounts to be spent or invested.

Writing about these strategies has treated them as phenomena of the late 1980s and afterwards, products of the Big Bang, of Thatcherism and Reaganism, of New Labour and now of Conservative caps on benefits. They have been viewed as an unprecedented reversal of the welfare provision that characterised British society from the 1940s onwards. (See e.g. Langley 2006, Finlayson quoted by Prabhankar 2013, 659, Searle and Köppe 2014, Muggeridge 2014). But the principle that 'possessing is deemed to represent responsible citizenship' (Berry 2013:23) is not, I argue, a new phenomenon. In a number of significant ways, it follows arguments and strategies used in the creation and promotion of savings banks in Great Britain.

The following sections of the paper explore this process and consider the challenges it poses for contemporary schemes of ABW.

[2] From February 2016, buyers in London attract a 40% loan

Savings Banks in Great Britain and 'incessant self-discipline by the poor'[3]

Savings banks (SBs) were created in Britain at the beginning of the 19th century as a response to concerns about working class immiseration and dissatisfaction. The industrial and agricultural depression following the Napoleonic wars made the Poor Law system expensive and was accompanied by protests and riots (Luddites, Captain Swing, and the Peterloo Massacre). SBs were viewed by their promoters as a reaction that would reduce political and social risk in a number of ways. The banks were explicitly aimed at the working classes, as was made clear from the outset in their promotional material and in press coverage –e.g. the statement by McCulloch (1835, 110) that they were only 'for the receipt of small sums deposited by the poorer class of persons' Their only product was a savings account, with deposits invested in Government stock: loans for businesses or overdrafts were not offered. SBs were run by local elites -gentry and employers who could thus monitor the behaviour of their tenants and workers. This elite involvement would, it was claimed, improve relationships between the classes and contribute to 'the right management of the poor' (Chalmers, 1841). It was argued that saving would divert workers from their alleged bad habits and generate financial literacy. An SB trustee warned that 'poor people were like children: they wasted enormous sums of money because there was nobody at hand to gather the money from them and put it into a safe place' (*Sheffield and Rotherham Independent* January 1863)

Workers' own organisations – friendly societies and proto-trades unions – were to be discouraged. They might be inefficiently run, and they were also potentially subversive through members' meetings providing a forum for political dissent. But saving, via the SBs gave the working classes a stake in society. The saver would not

[3] Stedman Jones 1983, 193

subvert the British state if his money were invested in it. (See Maltby 2014). Both Liberal and Conservative proposals for extending the franchise mid-century included the idea of extending the vote to men with a savings bank balance of £50 as this provided evidence of their reliability and responsibility.

The trustees running the SBs were anxious to demonstrate that they were achieving their social and political goals. Annual reports included breakdowns of their savers' occupations, to show that they were indeed attracting the working classes. (And not, as critics claimed, simply offering the middle classes a relatively safe place to deposit spare cash- see Maltby 2014). The savings banks grew and spread rapidly- nearly 600 of them spread over Great Britain by the mid-19th century.

But their numbers declined after that. Partly this reflected concerns about their security (there were major frauds) and accessibility (many were run by amateur volunteers and open only a few hours a week). There was also the complaint that they offered low returns – their interest rates did not compare well with, for instance, the new generation of building societies (see e.g. Samy 2008:7). And the assertion that the SBs were safer and better-run than friendly societies or cooperatives (see e.g. Maltby 2014) did not counterweigh the objections.

The SBs had been conceived to subject the working class to financial management and to direct their behaviour, on the principle that that savings should be for the long term. Chalmers had claimed that they were

'A counteractive to dissipation…connected with the high qualities of foresight sobriety and self-command…begetting a sense of propriety…a stake and an interest in the social order, in the peace and stability of the commonwealth' (1841: 28).

This had always been subject to political challenge. A Chartist newspaper warned in 1840 that the banks were a cynical form of discipline. They did not create stakeholders out of savers, but

'by placing them in the position of national creditors, they manage to get them into a predicament where …fear of loss…will prevent them from…any effort likely to displace our present race of irresponsible rulers' (*Chartist Circular* 1840).

There was by the end of the 19th century a more general recognition that many of those who did not save were those who could not save, and that a version of asset-based welfare operating through the banks and social pressures was not a way to relieve poverty. The SB model of saving for the long term, via formal institutions with no possibility of credit, and difficulties in short-term withdrawals, started to be recognised as inappropriate. (See e.g. Ross1983 and Webley and Nyhus 2001). It was not as flexible as SBs in Scotland and in mainland Europe, which were more useful for small and growing businesses and deployed a wider range of financial services (Maixé-Altés 2009, 39, 56)

Advocates of the individualistic approach to poor relief via moral injunctions issued warnings that general state-sponsored welfare provision was potentially corrupting. Octavia Hill, for instance warned of the dangers of

'creating a body of thriftless, ungracious, mendicants, living always on the brink of starvation, because taught to look to what may turn up… Neither the remedial, nor the incurable evils can ever be rightly met *en masse*. It is singly and by those who know the sufferers, that the right methods of starting them afresh, or the only safe granting of pensions, can be arranged' (Hill 1886 quoted in Whelan 1998).

She advocated the monitoring of individual behaviour, with support dependent on individuals' plans to improve their condition, e.g. via short-term loans rather than

donations (see e.g. Humphreys 1995). Charity was explicitly viewed as an investment which needed to generate a return, e.g. A supporter of the Charities Organisation Society (COS) with which Hill was closely linked, described it as:

Your almsbroker: Like as ye consult him of the Stock Exchange, touching the best investments to be made in stocks and shares, even consult the committee of thy district as to where, when and how to give thy bounties. They will find ye safe and profitable investments and openings. (Anon 1871)

The 20th century saw the emergence in the UK and elsewhere of a consensus about the need for support and benefits on a collective basis that ran counter to the politics and philosophy of the SB founders and of the COS. SBs changed into competitors for the major High Street banks, via their progressive amalgamation into Trustee Savings Banks and their acquisition by Lloyds. The COS came under increasing attack for its stigmatisation of the poor as feckless and its apparent belief that 'unearned income injures the poor but not the rich' (Townshend 1911:11). It lost its importance in policy-making with the inception of welfare state provision following the 1909 introduction of the state pension in Great Britain.

The growth of ABW and the invocation of savings accounts can arguably be seen as an unwinding of the mid- 20th century consensus. The next section of the paper reviews this, comparing 21st and 19th century arguments and strategies.

Reactions to ABW

ABW schemes require the use of a savings account, which can normally be used only for a limited range of objectives – house purchase, medical costs, education etc. So- does directed saving necessarily make people better off if it means that they have assets in a savings account instead of in another (possibly more useful) form?

The 19th SBs presented a number of access problems. One was simply availability –

there were numerous attacks on their short, inconvenient opening hours- but there was also the management of savers. Cases were reported of SB volunteers who sent savers away because they were taking out money for unnecessary purposes. And some SBs were avoided by local workers because their employer was a trustee who could monitor their balances and use the information in pay negotiations. (See e.g. *Daily News* 14 October 1851). Other forms of money management were often seen as more attractive despite the injunctions against financial riskiness.

Aaron, reviewing a study of the use of IDAs, notes that the evidence produced indicated changes in asset holdings but not in net worth for those who took part. He comments

'These findings mean that if one subsidizes saving and stipulates it be used for certain purposes, policy can boost asset holdings of some but not all types, but net worth seems not to respond. It is still unclear whether altering the composition of assets and liabilities, but not net worth, will contribute to the long-term well-being of the poor' (Aaron 2007: 359).

In the Institute of Actuaries debate about the future of pension provision and the need for reform, a speaker warned that a compulsory savings regime

'assumes that there is a single savings regime which will deliver well for everyone, and this is not true. Everyone's financial and household circumstances are likely to differ, as well as their employment history and their ability or propensity to bear risk'. (Institute of Actuaries 2005: 750)

The take-up of SBs by the poor was a disappointment to their promoters. The 19th century saw constant criticism of the British failure to save, evidenced by the constant calls for SBs to educate the public, and by COS suspicion of applicants as

feckless rather than needy. The possibility that SBs were not the best choice for the poor was not a subject for discussion.

There is a variant of this problem in relation to Help-to- buy funding. It assists with house purchase, representing a place to live and potentially an asset for the long term that can later be turned into funds to use after retirement. But there are problems in its general usefulness. There is a consensus that Help-to-buy has pushed up property prices since its 2014, because it has stimulated demand without any corresponding increase in new house building (Shelter 2015). This has made it more difficult for a group of some 4.4 million private renters in the UK to follow suit. But in the long term, if the value of the house does not appreciate over time, or it is not saleable, it is not an asset than can be liquidated. Help-to-buy is help in acquiring an asset, but again it may not be the most useful asset. Intervening in the market appears to have made house purchase (and house rental) more expensive for those outside the scheme. But it cannot offer a guarantee that the price paid is a long-term investment which can be converted into other resources such as help in retirement.

This links with another feature of ABW- its impact on the market in which it operates. A recent study of medical savings accounts (Wouters et al 2016: 10) concludes that 'Country experiences with MSAs indicate the schemes have generally been inefficient and inequitable and have not provided adequate financial protection. The impact of the schemes on long-term health-care costs is unclear. The lack of interpersonal risk pooling in MSAs is a key limitation'

The problems identified include the uncertainties associated with health- when illness strikes, how long for, and how to make appropriate choices of treatment.

Wouters et al suggest that lobbying by financial institutions, and political pressures, may have a large role in the adoption of MSAs. For private providers, health budget schemes (like MSAs and the proposed birth budgets) create a pool of new customers who lack experience in their choice of services. Hsu (2010: 8) quotes Robinson 'It has been said that MSAs "reflect a philosophical shift in emphasis from collective to individual responsibility" (Robinson 2005: 1199).Errors may be irretrievable for people who spend on the wrong services and have no recourse to state health provision.

The promotion of SBs in the 19th century and the promotion of ABW in the 21st have important features in common. These include targeting the low-paid, giving choice of use within closely defined parameters, and requiring financial decision-making. The SB promoters claimed that use of the banks would encourage thrift, discourage self-indulgence, and provide long-term security, along with a commitment to the established order– a financial stake in the country. The working classes were offered the extension of the franchise in exchange for the evidence of 'sober orderly habits' that a bank balance provided (McCord 1967: 383).

There are powerful echoes of these slogans in the invocation by New Labour of a stakeholding society, the call for thrift and financial literacy as demonstrations of morality, the reinvention of the citizen as individual- a possessor and investor rather than the member of a community. There is a reluctance to engage with the possibility that saving is not always a feasible solution to poverty, and that income rather than assets are the best way of keeping citizens engaged in society. Ongoing financial crisis has contributed to governments' interest in ABW as a cheaper option. But

crisis has also made ABW a less appropriate solution. There is a need to unpick and explore the political forces behind the shift from insurance to investment, and understand how far it is a regressive rather than a progressive movement. Comparison between the 21st and 19th century models for investment in the poor is arguably a useful way of doing so.

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Notes