

# Win & Save

Exploring the potential of a lottery savings scheme in the UK

Nicole Gicheva



## FIRST PUBLISHED BY

The Social Market Foundation, September 2019  
11 Tufton Street, London SW1P 3QB  
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ISBN: 978-1-910683-73-6

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## ACKNOWLEDGEMENTS

The SMF is grateful to the Provident Financial Group for sponsoring this report. The views in the report do not necessarily reflect those of the Provident Financial Group. The Social Market Foundation retains full editorial independence with respect to its research.

The author is grateful to all those who participated in the roundtable discussion held as part of the work. The author would like to thank Nigel Keohane and Andrew Barlow for their input during the project.

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## EXECUTIVE SUMMARY

This report assesses the potential merits of an innovative policy designed to help address the weak financial resilience and low savings levels among lower-income households: a *Win & Save* Scheme, a hybrid savings and lottery product. The report goes on to describe how it could potentially benefit households on lower income and to identify how such a scheme could best be introduced and would operate.

### The problem

Household savings provide financial resilience, help smooth spending over time and cover unexpected costs. However, saving in the UK is declining: 46% of the population did not save any money in the past two years, and many who do save are under-saving.

Households on lower incomes are not only more likely to have a lower level of savings; they are also more likely not to have saved in the past two years and not to hold any saving stock (in a savings account or a cash ISA).

Specific circumstances and behaviours affect the ability and willingness of households on lower incomes to save. For example, volatile incomes can act as a barrier to committing to a traditional form of regular saving behaviour observed among more affluent households. Consumers may distrust financial services, potentially because of past experiences such as hidden charges, and financial products themselves may be perceived to be (and actually be) inappropriate for households seeking to set aside small sums irregularly.

Government policies, such as the Savings Gateway and increasing the personal tax-free allowance on ISAs, have not succeeded in incentivising short-term savings, especially among lower-income households, who would benefit the most from having a safety net in place.

### The concept: *Win & Save*

Participants would purchase a ticket in order to win a monetary prize, but a proportion of the ticket price would be deposited into a savings account held by the purchaser, with the remainder going towards a lottery prize fund. Structuring the product in this way would attract consumers from other gambling products to *Win & Save* and boost their financial resilience. We argue that building up a savings buffer would be of greater value to lower income consumers than contributing to 'good causes' through the National Lottery. Meanwhile, putting some of the principal into the prize fund means that prizes can be larger and the chances of winning greater than they would be under a traditional prize-linked savings approach. International evidence and academic studies suggest that savings schemes with a prize element can be particularly attractive to lower-income groups.

In short, the intention would be to transform the habit of gambling into a form of saving.

### What it would mean for consumers

Assuming a ticket price of £2.50, and a government subsidy, this would mean that a person buying two tickets a week could save around £250 within a year. If the scheme were to attract a consumer base equivalent to 10% of National Lottery users, this would generate just over £681,000 in weekly prize money. The prizes should be 'life-changing' sums for lower-income

groups but not set at the same levels as some lottery prizes. We propose a selection of various prize breakdowns in the report, with the top prize being a six-figure sum up to £250,000.

W&S would be available in shops and other outlets as well as online.

- The savings would be channelled either into a default savings account run by NS&I or into an individual's pre-existing savings account with a financial services provider.
- The Government would provide a subsidy to the savings as it does for ISAs and Help to Save.

*Win & Save* allows individuals to experience the excitement of entering a lottery whilst creating a 'win-win' situation by building up their savings resources at the same time.

### How the policy could be introduced

We envisage that the policy would require new regulation as this would be a hybrid financial services and gambling product. The report argues that the most effective way of introducing the product would be for the Government to ask the National Lottery to develop this product as part of the renewal of its licence in 2023.

## CHAPTER 1: INTRODUCTION

This chapter analyses the underlying reasons behind the low savings rate and stock of savings among households on modest and low incomes, from volatile incomes to the failure of existing savings schemes to increase the financial resilience of these households.

### The UK's savings challenge

#### Why savings matter

Household savings are vital for wellbeing, living standards, and economic growth. They provide financial resilience and help households smooth their spending over time and prepare for unexpected events.

Individuals and households on low incomes are especially in need of a short-term savings buffer as they may be more likely to experience income shocks through unemployment or a reduction in hours. Factors such as ill-health and family breakdown could lead to a more significant additional material disadvantage, as there is less room for manoeuvre budgets to cope with such shortfalls. In addition, households on low incomes are likely to find it more difficult to manage unanticipated costs such as a car repair or white good replacement. Research shows that four in ten people on a lower income who struggle to save experience an income shock, such as a broken boiler or car repairs, at least once every six months.<sup>1</sup> To help cover unexpected bills, six in ten people would turn to borrowing, and a third would cut back on essentials, such as food or heating.<sup>2</sup>

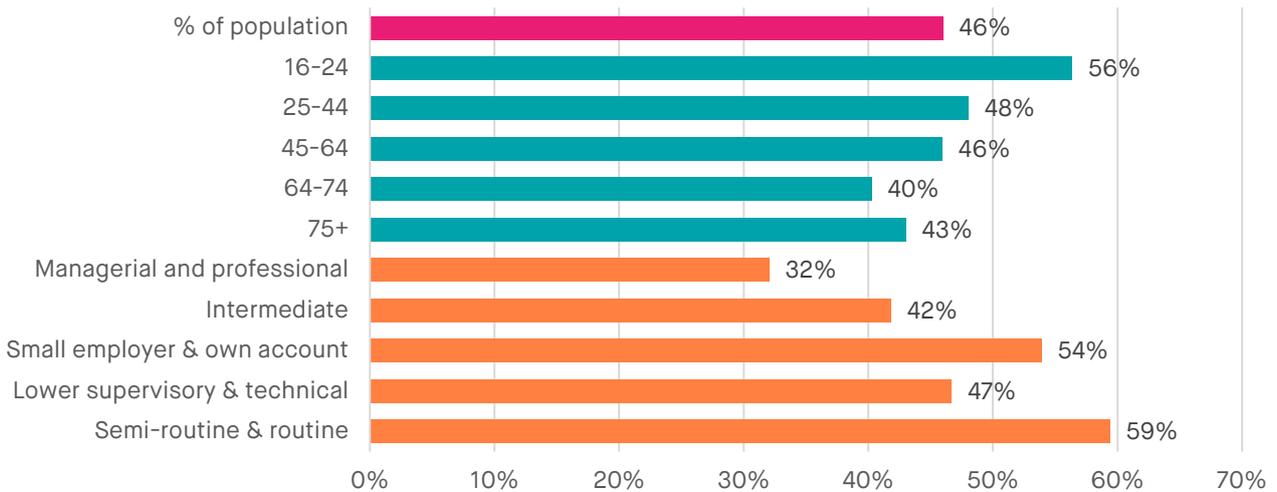
Having a buffer can provide reassurance and strengthen wellbeing, as well as reduce reliance on expensive forms of credit. For instance, analysis by Stepchange finds that if every household in the UK had at least £1,000 in accessible savings, the number of households in problem debt could be reduced by 500,000.<sup>3</sup>

#### Low savings rate and lack of financial resilience among lower income households

Saving rates have, however, been declining for several decades. Historically, UK households have saved less than the European (EU28) average.<sup>4</sup> In the first quarter of 2017, the domestic savings ratio fell to its lowest level in 20 years and continues to be well below the historic national average.<sup>5</sup> Many households are not saving and many who are, are under-saving. Previous SMF research revealed that 26.5 million working age adults had less than three months' salary in savings in 2012-2014.<sup>6</sup> The Money Advice Service estimates that two in five working age adults have less than £100 in savings.<sup>7</sup>

Our analysis of the Wealth and Assets Survey reveals that 46% of the UK population have not saved any money during the past two years. Non-saving behaviour is predominant among the young and those working in lower-skilled (and lower-paid) occupations. Three in five (59%) of individuals from semi-routine and routine socio-economic backgrounds did not save over the past two years. As illustrated in Figure 1, the proportion of savers is higher among older working age groups and among higher-skilled occupations.

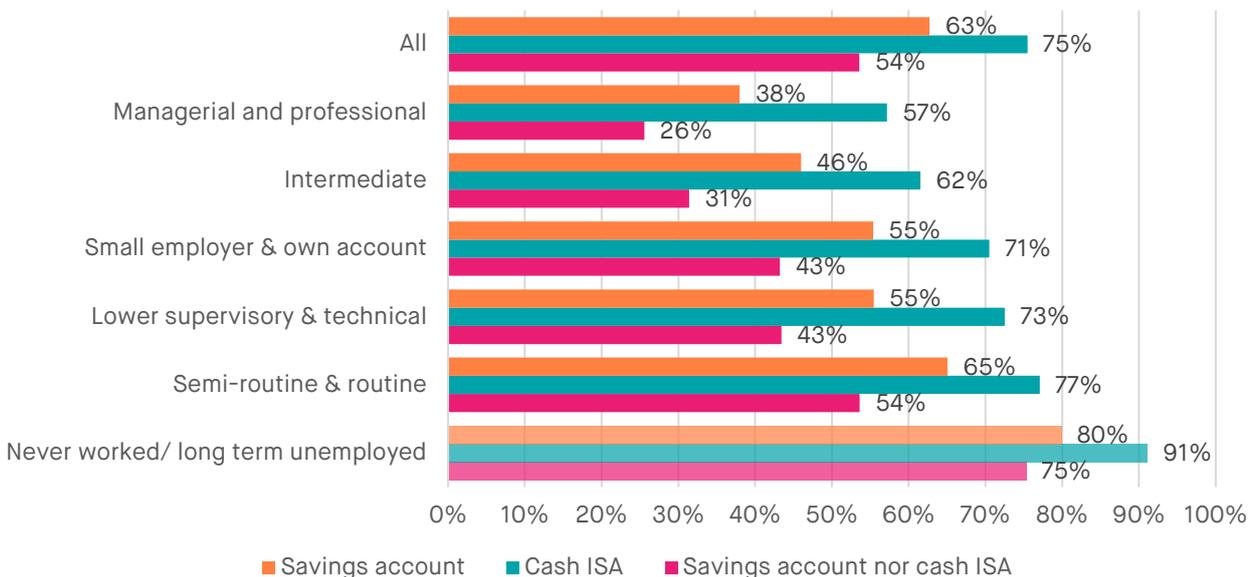
**Figure 1: Savings activity - Proportion of UK adults who did not save in the past two years**



Source: SMF analysis of Wealth and Assets Survey (Wave 5, 2014-2016)

As well as being more likely not to have saved any money in the past two years, people from lower socio-economic backgrounds are also much less likely to hold a stock of savings. Figure 2 outlines the proportion of people with no stock of savings (those without a savings account or a cash ISA, and those who do have a savings account or a cash ISA opened in their name, but currently have a balance of zero pounds deposited). Over half (54%) of people in semi-routine and routine occupations have no liquid savings,<sup>8</sup> compared to one in four (26%) amongst individuals from a managerial or professional background.

**Figure 2: Stock of savings – Proportion of UK adults who hold no stock of savings**



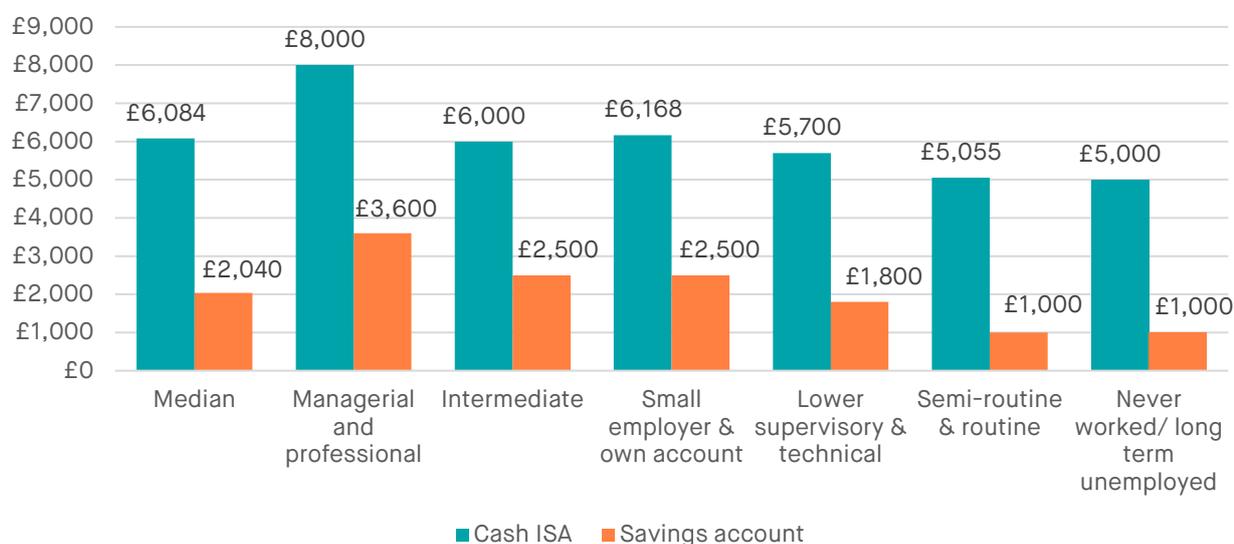
Source: SMF analysis of Wealth and Assets Survey (2014-2016).

Note: in each category, we consider individuals who do not have each type of product and individuals who do, but currently have a zero-balance

Finally, we observe that when low-income households do hold savings, they have much less in reserve. Individuals in semi-routine and routine occupations had an average of £5,055 deposited into a cash ISA and £1,000 in a savings account (given that the balance in each account was

positive), whereas the average person from managerial and professional background had saved £8,000 in a cash ISA and £3,600 in a savings account.

**Figure 3: Median stock of savings, by type of savings account and socio-economic group**



Source: SMF analysis of Wealth and Assets Survey (2014-2016)

Financial inclusion has improved with the number of unbanked adults falling in recent decades, however 1.5m adults were unbanked in 2015/16.<sup>9</sup> Households rely on a range of sources of credit through their lives, but analysis by the FCA shows that 15% of the population are over-indebted, 3.1 million people had an unauthorised overdraft over a 12-month period and a similar number used high-cost credit.<sup>10</sup>

### Why savings levels are low among households on modest incomes

#### Factors explaining why households on lower incomes struggle to save

We know from behavioural science that a set of biases and heuristics contribute to under-saving, thus meaning that individuals do not smooth their consumption in ways that economists predict would be efficient. Individuals can be focused on the short-term, they can view saving as a loss, and they may lack the discipline or information to save at a level which would allow them to accumulate a sufficient savings buffer.<sup>11</sup>

Specific circumstances and behaviours affect lower income households in particular. Barriers include:

- Due to **volatile incomes**, households find it difficult to commit to a traditional form of regular saving behaviour observed among more affluent households. A USA study found that many lower-income households thought it pointless to save since they could never do so with regularity, and, when they could, the amounts saved were small.<sup>12</sup>
- **Consumers may distrust financial services**, potentially because of past experiences (e.g. with overdrafts).
- **Products** may be perceived to be (and actually be) inappropriate for households seeking to set aside small sums irregularly.
- **There may be an absence of positive social norms** around saving behaviour among their peer groups.<sup>13</sup>

- In a low-interest environment, the compound interest rates offered by standard savings accounts may not act attract households unable to save large sums.

**Weakness of policies directed at lower-income savers**

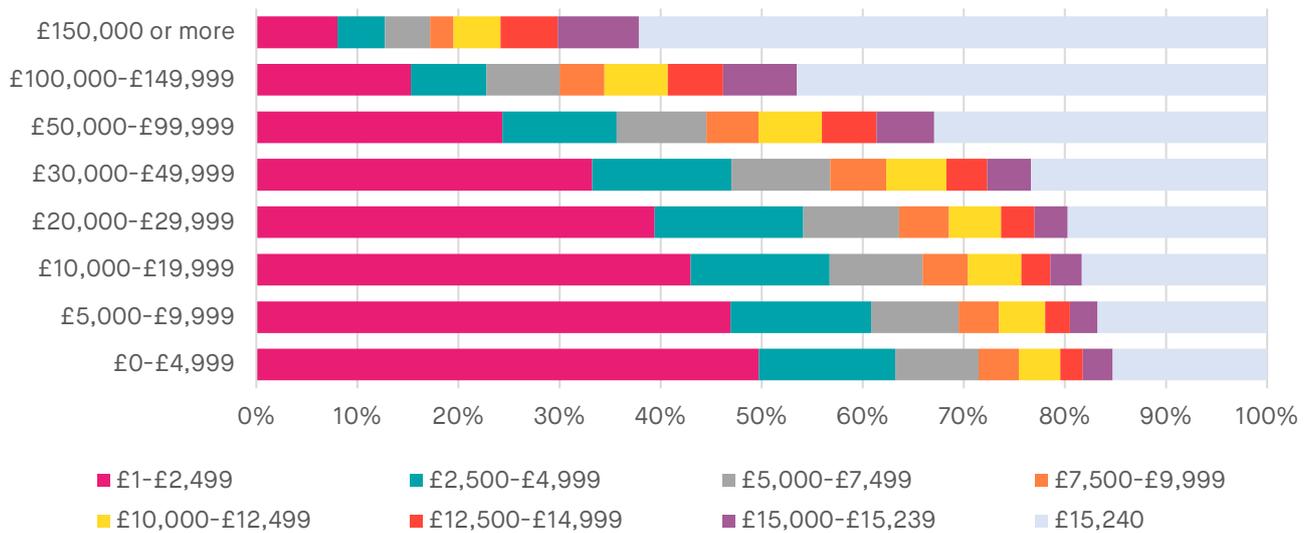
Government policies have not succeeded in incentivising short-term savings, especially among lower-income households, who would benefit the most from having a safety net in place. Below, we outline the most recent policy developments in this space and evaluate the reasons underpinning their inability to help low-income earners to put money aside.

*ISAs*

Individual Savings Accounts (ISAs) are a regulated product, provided by a variety of financial institutions such as banks, building societies, and credit unions. Recent policy has focused around increasing ISA allowances: an individual can now save up to £20,000 in ISAs the 2018/19 tax year, which is eligible for tax-free earnings. ISAs come at a high cost to the Treasury: in 2017/18, income tax relief for (adult) ISAs is forecast to reach £2.9bn.<sup>14</sup>

As previously argued by the SMF, ISAs largely act as subsidies to savers on higher incomes.<sup>15</sup> Above, we showed that a majority of those on lower incomes do not have a cash ISA. Figure 4 shows that most ISA users on lower incomes put in far below the maximum threshold. Increasing the threshold further therefore has mainly benefited higher-income savers.

**Figure 4: Number of individuals subscribing to ISAs in 2015-16, by income (y axis) and amount of subscription (legend)**



Source: SMF analysis of HMRC data<sup>16</sup>

*Help to Save*

Fully launched in September 2018, Help to Save (HTS) accounts are the latest government initiative to incentivise regular saving among lower-income households. Account holders can save a maximum of £50 per month, which earns a 50% tax-free interest for 4 years. To qualify, individuals must be either recipients of Universal Credit and earn at least the equivalent of working 16 hours at the national living wage or be eligible to receive Working Tax Credits or Child Tax Credits.<sup>17</sup>

The Treasury predicted that 350,000 individuals will use Help to Save, which translates into only one in ten of eligible workers.<sup>18</sup> An eight-month pilot stage saw Help to Save attract around 45,000 customers who saved over £3m.<sup>19</sup> This equates to £67 saved per account holder on average over the 8-month period, which is just over the maximum contribution allowance *per month*. The IFS noted that the funding for scheme in 2020-21 assumed that each eligible saver would receive a contribution of £20 in that year.<sup>20</sup> This would assume that each eligible saver saves £40.

The Government's intention behind HTS is to help those on low incomes 'build up a rainy day fund'.<sup>21</sup> This is the right aim. However, it is questionable whether the scheme is structured correctly around the behaviours and needs of low-income consumers. First, HTS is premised on regular monthly contributions, but evidence shows that low-income households struggle to commit to regular savings payments. Second, the size of reward is linked to the highest balance achieved during the first two years and the subsequent two years. This means there is a strong disincentive to withdraw money, yet we know that flexibility and access are important features for saving accounts for low-income consumers.

### Savings Gateway

The pilot schemes of the Savings Gateway provide useful insights about the behaviour of lower-income households with respect to saving. Effectively the predecessor to HTS, the Savings Gateway also offered a bonus of 50p per £1 saved, but the maximum monthly contribution was capped at £25 and accounts were only active for two years.

The two pilot schemes, in 2002 and 2007 respectively, saw over £5m deposited in savings by over 220,000 individuals.<sup>22</sup> Whilst many individuals are unlikely to have saved the full amount allowed, the Savings Gateway incentivised regular saving, with six in ten participants saving regularly two years after the pilot, compared to 40% of participants before the pilot was launched. In addition, participants were also more engaged with the financial market: over eight in ten had a savings account in a bank or building society two years after the pilot, in comparison to around 65% before.<sup>23</sup>

**Table 1: Summary of tax reliefs and subsidies for savings products**

	Help to Save	Cash ISA	Savings Gateway
Subsidy	50%	20% or 40% (based on income)	50%
Limit	£50 per month	£20,000 in 2018/19	£25 per month
Expiry	4 years	Year-on-year	2 years

### The need for innovation and tailored products

As the Government has acknowledged, there is good reason to seek to innovate to develop products that can help meet the financial needs of lower-income consumers. In the October 2018 Budget, the Treasury committed to 'launching a pilot of a new prize-linked saving scheme for credit unions', to boost financial resilience and awareness of credit unions.<sup>24</sup> This is an important and welcomed step.

Government policy has sought to establish a culture of saving, to encourage people to take responsibility and to value their future selves more highly today. As the SMF has argued previously, there is merit in seeking to foster a stronger culture of saving behaviour and for individuals to take more responsibility for their long-term futures.<sup>25</sup> However, we should also focus on facilitating activities which result in the accumulation of assets, irrespective of whether or not they promote savings habits. In other words, it is the end as much as the means that matters.

## Purpose of this report

The purpose of this report is to assess the potential merits of an innovative policy designed to help address the problem described above: a *Win & Save* Scheme, a hybrid savings and lottery product. The report goes on to describe how it could benefit lower-income households and to identify how such a scheme could best be introduced and would operate.<sup>26</sup>

The questions this research address include:

- What is a *Win & Save* scheme and what would be the features of a hybrid savings and lottery product?
- Why might a lottery-based product help increase savings levels of lower-income households? Who might we expect to participate?
- What is the case for and against pursuing a *Win & Save* policy rather than traditional prize-linked savings?
- How could the concept best operate in practice? And, how should such a scheme be regulated and overseen by policy?

The rest of the report is structured as follows:

- *Chapter 2* presents the concepts of prize-linked savings and a *Win & Save* lottery and analyses participation in the National Lottery;
- *Chapter 3* outlines the appeal of prize-linked savings products to policymakers through a select number of international examples;
- *Chapter 4* introduces our proposed product and its advantages over traditional prize-linked savings schemes;
- *Chapter 5* discusses the practicality and design of the scheme and the support which would be needed from the Government.

## Research methods

This research was conducted using data from the Wealth and Assets Survey (Wave 5, 2014-2016)<sup>27</sup> to identify the demographics of non-savers, and holders of premium bonds. Data from the Health Survey for England (2016)<sup>28</sup> was used to identify gamblers who play the National Lottery. Please note that the results from the Wealth and Assets Survey are UK-wide, whereas analysis of the Health Survey for England covers individuals in England only.

The report also draws on an expert roundtable discussion hosted by the SMF, which helped develop the concepts discussed below. Participants included consumer groups and charities, financial service providers, civil servants, and academics.

## CHAPTER 2: THE CONCEPT OF A WIN & SAVE LOTTERY

This chapter describes:

- The concept of a *Win & Save* lottery
- Established history of prize-linked savings in the UK
- Why schemes with a lottery element may attract people to save and why they may work for those on modest incomes

### Introducing the concept of a *Win & Save* Lottery

The SMF originally set out the concept of a lottery savings scheme in 2011 in our *Savings on a Shoestring* report.<sup>29</sup> The SMF considered the National Lottery's 14 million-to-one odds<sup>30</sup> and expected return of £0.45 on every £1,<sup>31</sup> and questioned whether the share of National Lottery tickets (currently 22%) which was paid towards 'good causes' benefited low income consumers, and whether a better 'good cause' for those on low incomes would be their future selves. We hypothesised that attracting participants from gambling would mean that the scheme engaged many on lower incomes and non-savers.

*Win & Save* would be designed fundamentally as a consumption product, with a lottery element and a savings element. Participants would purchase a ticket in order to win a monetary prize, but a proportion of the ticket price would be deposited into a savings account held by the purchaser, with the remainder going towards the lottery prize fund. Putting some of the principal at risk would mean that the prize could be set at an attractive level. We view the trade-off between this risk and the opportunity to win a major prize as a self-imposed savings tax - in this way, our product entices individuals to play in order to save (rather than to save in order to play, as traditional prize-linked savings schemes do).

*Win & Save* would be aimed at casual gamblers and specifically at lower-income households with high proportions of lottery expenditure and irregular (or non-existent) savings habits.

The intention would be to transform the habit of gambling into a form of saving: the player has an opportunity to win major prizes while a proportion of the ticket price is directed into a personal savings account. Modelled after the National Lottery's contribution to 'good causes', this consumption product would see participants contribute instead to their future financial resilience by having a proportion of the price diverted into a savings account. An additional advantage of the policy is that the habit of participating in the lottery may act as a gateway to saving and develop a habit of saving among non-savers.

### The history of prize-linked savings in the UK

Saving through gambling is not a new idea. Prize-linked savings (PLS) accounts were first offered in the UK in 1694 in a bid to raise revenue for English participation in the Nine Years War against France.<sup>32</sup> Lottery bonds, an early form of PLS, were found in many of the financial markets across Europe in the early 19<sup>th</sup> Century.<sup>33</sup>

UK Premium Bonds, which offer prizes but no base interest rate, have been popular with British consumers since their introduction in the mid-1950s. Premium Bonds are a traditional form of prize-linked savings. PLS accounts differ to standard savings accounts by substituting fixed interest returns with a lottery-like element. Instead of every account holder receiving regular and

marginal returns, a few randomly chosen account holders win cash prizes. The chances of winning are proportional to the balance of the account, which encourages people to grow their savings.

Each £1 Premium Bond is entered in a monthly draw with the chance to win tax free prizes ranging from £25 to £1million. The maximum an individual can invest is capped at £50,000.

SMF analysis reveals that one in ten people in the UK currently own Premium Bonds. We discuss the demographics of Premium Bonds holders in Chapter 4.

In the private sector, Halifax UK operates a Savers Prize Draw, a form of PLS which offers its customers with a chance to win one of 1,603 cash prizes every month.<sup>34</sup> However, as one of the qualifying criterion is having £5,000 in savings, and therefore excludes non-savers by default, our research does not seek to mirror this product.

### Why schemes with a lottery element may attract people to save and why they may work for those on modest incomes

Savings with a lottery element may attract consumers for a number of reasons. First, the products are fun in a way that financial products – for the wider population – are not. They may be able to attract those who are excluded (fully or partially) from traditional financial services.

Second, depending on their design, lottery saving schemes can combine partial or full security of the principal with a degree of exposure to upside risk.<sup>35</sup> For instance, under traditional prize-linked savings, the format can be described as ‘heads you win, tails you don’t lose’. This may appeal to the loss averse.

Third, more generally, behavioural economics suggests that some consumers may view saving as a monetary loss (because they cannot consume now). A lottery element may help them overcome this loss aversion.

Fourth, analysis of gambling behaviours also suggests that people on average suffer from unrealistic optimism: they misestimate small probabilities and overestimate their own chances of winning.<sup>36</sup> Subsequently, they purchase lottery tickets based on the size of the jackpot rather than the probability of winning the jackpot.<sup>37</sup>

Therefore, existing consumer demand for low-probability, large prize gambling products, such as a lottery, can be leveraged to encourage saving. Academic research on prize-linked savings identifies an unmet consumer demand for saving products which offer the (remote) prospect of changing wealth status, rather than incrementally building wealth with certainty.<sup>38</sup>

## CHAPTER 3: INTERNATIONAL EVIDENCE ON LOTTERY SAVING SCHEMES

This chapter assesses international evidence on savings with a gambling element, with a focus on prize-linked savings (PLS) schemes where the evidence base is impressive. It shows that:

- In surveys, lower-income households are positive towards savings with a gambling element.
- Schemes can be attractive to a broad range of demographics.
- Low income/non-savers are particularly likely to open PLS accounts.
- There is evidence of a substitution effect from gambling to prize-linked saving. Prize winners, on average, invest more rather than divest and PLS account holders increased total savings by an average of 1% of annual income.
- There has been increasing adoption of the concept in US states, including enabling legislation / regulation.

### Polling suggests interest in lottery-based saving schemes

A 2010 US survey found significant interest in prize-linked savings products among individuals with little actual savings, without regular saving habits, who play lotteries extensively, and are optimistic.<sup>39</sup> Non-savers were 70% more likely to demonstrate interest in PLS than those who regularly saved; individuals with savings between \$1 and \$2,000 were 2.5 times more likely to demonstrate interest than those with \$50,000 or more.<sup>40</sup> Individuals who had spent over \$100 on lottery tickets in the previous six months were 2.9 times more likely to demonstrate interest than individuals who had not.<sup>41</sup>

Academics have suggested that prize-linked savings are popular among lower-income households as they offer a perceived solution to the 'poverty trap',<sup>42</sup> regardless of how small the chances are of winning a large prize which would radically change their material conditions. A 2006 survey found that more than 20% of Americans considered winning the lottery as the most likely way for them to accumulate several hundred thousand dollars; this increased to 40% for individuals earning under \$25,000.<sup>43</sup>

### USA: *Save to Win*

Prize-linked savings were introduced in the USA in 2009 in the form of *Save to Win* (STW), a product piloted by nine credit unions in Michigan. STW has since expanded and is now offered by over 120 credit unions across 12 states.<sup>44</sup> As of October 2018, its success has led to 29 states passing legislation or relaxing restrictions to allow banks and credit unions to offer prize-linked savings products, with the state of California being the latest to change its laws.<sup>45</sup> In December 2014, the Senate removed legal impediments to federally chartered banks from offering such schemes. As of May 2018, there were 17 active prize-linked savings products available in the USA and a number being under development.<sup>46</sup>

#### **Save to Win: How it works**

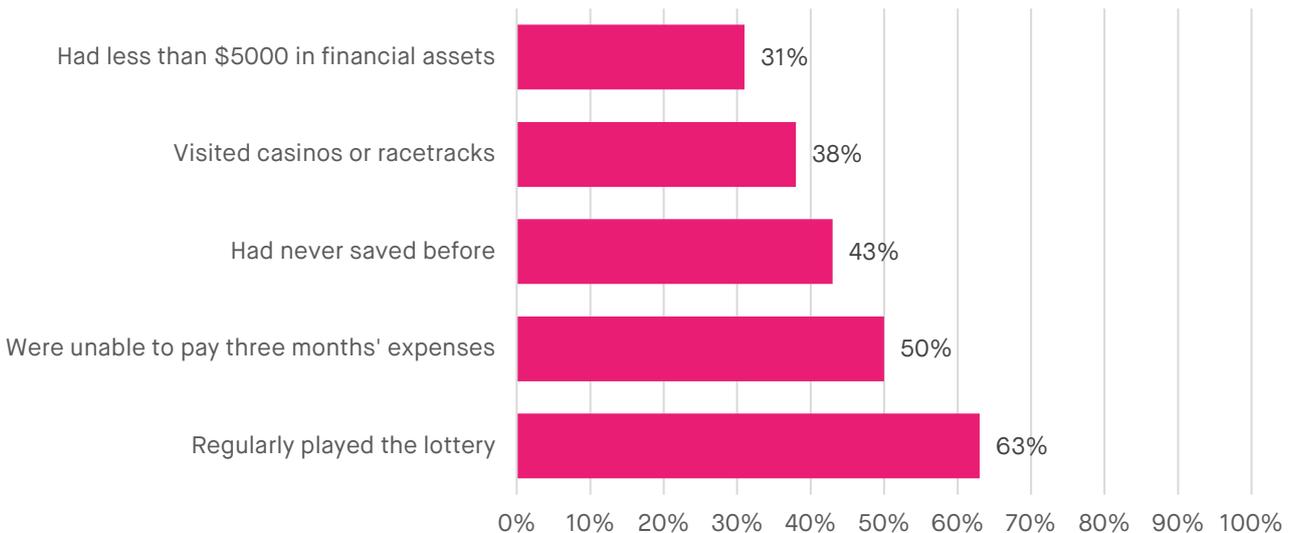
A minimum \$25 opening deposit gives a member a 12-month share certificate. Every \$25 deposit each month earns entry into a monthly, quarterly and annual draw, with a maximum of 10 entries each month. Prizes vary according to each state: monthly prizes range from between \$25 to \$50 and quarterly prizes from \$1000 to \$5000. Annual grand prizes vary more substantially but are generally significant sums of money. There are penalty fees for early

withdrawal to encourage saving. Participating credit unions pay Commonwealth, the non-profit service provider which operates STW, an upfront fee to administer the draws and provide marketing and branding for the product.<sup>47</sup>

*Save to Win* and other smaller prize-linked savings schemes offered by credit unions in the USA have encouraged members to open over 82,000 PLS accounts since 2009.<sup>48</sup> Between 9%-14% of these accounts were opened by new members who joined the credit union in order to access the product. Participants have saved a cumulative \$190 million with an average of \$2,409 saved in each account; \$2.73 million in total prizes has been awarded to over 30,000 winners.<sup>49</sup> Exposure to upside risk does appear to incentivise saving in a financial context.

The popularity of *Save to Win* among lower-income households and non-regular savers is encouraging. Between 86%-90% of STW account holders are classified as financially vulnerable, i.e. those who are non-regular savers, asset poor, on low to moderate income, with high debt or no emergency savings.<sup>50</sup> More specifically, 51%-66% had no emergency savings (of \$400) and 40%-67% did not save regularly. STW account holders also reported an abnormally high propensity to gamble, as Figure 5 below shows (representing 2011 survey data from Michigan).<sup>51</sup>

**Figure 5: Proportion of Michigan *Save to Win* account holders who:**



Source: SMF analysis of Commonwealth survey data (2011)

It is likely that the true amount of gambling among STW account holders is higher; it is well established that informal surveys investigating topics with an attached stigma such as gambling suffer from underreporting biases.<sup>52</sup>

**South Africa: Million a Month Account**

In South Africa, a prize-linked savings product *Million a Month Account* (MaMa) launched by First National Bank, the country's third largest bank, attracted R1.4 billion in deposits during the three years it was offered between 2005 and 2008.<sup>53</sup> This is a striking amount when compared to the R4.5 billion total savings held at the bank at the time. Individuals with no existing standard savings accounts were 12.2% more likely to open a MaMa account than those with savings accounts.<sup>54</sup> Individuals who had borrowed more than average were more likely to open MaMa

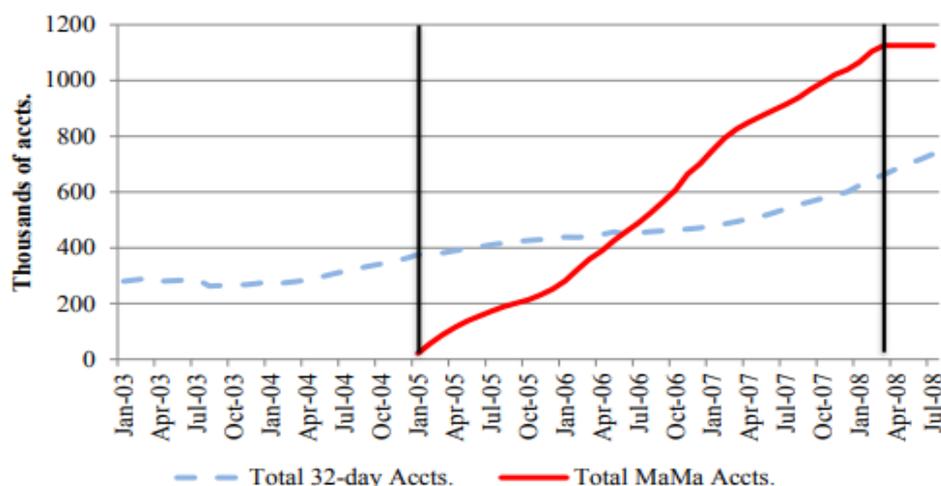
accounts, further suggesting the appeal of PLS to the financially insecure.<sup>55</sup> Reassuringly, prize winners were no more likely to close their accounts than non-winners and they often re-invested more than their prize winnings.

**Figure 6: Growth of the MaMa program**

### GROWTH OF THE MAMA PROGRAM

Panel A shows the total number of standard 32-day notice accounts and MaMa prize-linked accounts at First National Bank from January 2003 – July 2008, while Panel B shows the total balances held in these accounts (in Rand billions). In both charts, the vertical lines identify the beginning and end of the MaMa program, in January 2005 and March 2008, respectively.

*Panel A: Total number of 32-day and MaMa accounts, bank-wide (thousands of accounts)*



Source: Cole, Iverson and Tufano, 'Can Gambling Increase Savings? Empirical Evidence on Prize-linked Savings Accounts (Aug 2014)

### Elsewhere

A 2002 study focussing on prize-linked savings products offered by two banks with a presence across South and Central America found that PLS was particularly appealing to low-income households and attracted both the 'unbanked' as well customers from other banks.<sup>56</sup>

Prize-linked savings initiatives have also proved popular in developing countries, with successful products offered in Indonesia, Kenya and Pakistan among others.

### Academic evidence on prize-linked savings

Academic studies have assessed why prize-linked savings schemes could be attractive to policymakers.

### PLS products discourage the early withdrawal of savings

Experiments have been carried out as part of academic studies into the impact of prize-linked savings in India and the US. One experiment gave participants an endowment and a choice between different savings vehicles (including PLS) and withdrawal. It found that participants were much less likely to withdraw cash from their savings if the funds were kept in a PLS account rather than a standard savings account.<sup>57</sup> The difference was most marked among low savers and self-reported lottery players. The average savings rate was also higher when PLS was available as one of the options for saving (rather than only a traditional savings product).

### **There is a strong substitution effect between PLS participation and consumer gambling**

A study examining county by county data corresponding to the roll out of *Save to Win* (STW) in Nebraska in 2012, found that counties where STW was available experienced a 3.75% to 10.2% reduction in gambling in casinos that year.<sup>58</sup> There is also evidence that prize-linked savings schemes are substitutes to lottery gambling specifically, depending on the size of the prize fund. In South Africa, deposits into MaMa accounts were particularly high in periods where the South African national lottery jackpot was small; similarly, deposits were low during rollovers and high jackpots.<sup>59</sup>

Meanwhile, research shows that prize-linked savings participation mainly crowds out early withdrawal activity rather than other forms of savings, unless the interest rate available is high.<sup>60</sup> The study suggests that PLS will be successful in increasing a saving rate without reducing traditional savings especially when a saving rate is low and when an interest rate is low.<sup>61</sup> Both of these conditions are exhibited in the current UK landscape.

### **PLS products increase net savings**

A 2014 study found the introduction of prize-linked savings products increased total savings by an average of 12%.<sup>62</sup> Crucially, the demand for PLS accounts came from a reduction in lottery expenditure and general consumption.<sup>63</sup> It did not lead to a significant reallocation of demand away from other existing forms of saving. The study also found that the increase in total savings was most pronounced among those with the least reported savings. This finding is supported elsewhere.<sup>64</sup>

In the US, PLS products accounted for more than \$685m of savings in over 287,000 accounts since introducing the first such scheme in 2009.<sup>65</sup>

## CHAPTER 4: WIN & SAVE VERSUS TRADITIONAL PRIZE-LINKED SAVINGS PRODUCTS

This chapter explains why policymakers should pursue *Win & Save* (W&S) in preference to other saving products and other prize-linked savings products. Advantages could include:

- It would be designed to **compete with lottery products** rather than other savings products, and thus substitute activity away from gambling rather than saving. Such people are much more representative of lower socio-economic groups than holders of Premium Bonds.
- It could **appeal to low-income consumers** who distrust traditional financial services institutions or products, and to those who are unable to commit to regular savings behaviour.
- It could help **overcome loss aversion**, which can often thwart saving, by focusing attention on the prize rather than the immediate loss of money saved.
- **Larger prizes** would be available to attract participants compared to traditional PLS products because part of the principal is made available for the prize fund.
- It could be **more readily accessible** through more distribution channels.
- **Costs of entry could be lower.**

In addition, the chapter discusses why *Win & Save* could have positive implications:

- Given that lower socio-economic groups are as likely to participate in lotteries as more affluent groups, lotteries such as the National Lottery are a more regressive mechanism for funding social causes than taxes such as income tax.
- Analysis has suggested that historical NL 'good cause' funding has not been weighted towards more disadvantaged areas.

### Why the UK should pursue *Win & Save*

Our central argument is that a hybrid product like *Win & Save* would be the approach most likely to help lower-income consumers build up a savings buffer. We should not make the best the enemy of the very good.

In developing policy, there is a trade-off between opting for a product that would be objectively best for the consumer versus choosing an approach that in practice is most likely to attract non-savers and enable them to build up savings. Proponents of prize-linked savings can justifiably argue that their accounts are a very good savings product for those who participate, because the principal is never at risk. However, we describe below why, on balance, W&S is likely to be more successful at increasing the number of consumers on lower incomes who build up a savings buffer; and that the product would remain a good mechanism for them to build up their financial resilience.

### W&S better reflects the behaviours and norms among low-income consumers

Analysis for the Financial Inclusion Taskforce at the University of Bristol has identified a range of barriers that prevent low-income households from saving. Their analysis concluded that consumers need help to prioritise saving over spending, and that saving for non-specific reasons was particularly difficult to achieve.<sup>66</sup> The researchers also found that fluctuating incomes and expenditures mean that such households find it problematic to commit to a traditional form of regular saving behaviour practiced by more affluent households. Instead, there is significant informal saving as well as sporadic saving taking place. Many people on a lower income do not

perceive that it is affordable to regularly put money aside into a separate savings account.<sup>67</sup> Indeed, a higher proportion of low-income households were saving informally rather than formally into a savings account.<sup>68</sup> Informal channels include savings stamps, irregular cash savings and saving clubs. The attractions of informal saving include: ‘the ability to save small and varying amounts conveniently, as and when people could afford to do so’; trust and familiarity with specific organisations; cultural traditions; and the fact that some schemes fulfilled a social function.<sup>69</sup> The research identified barriers including: access to products; trust of suppliers; and lack of appropriateness of formal savings products.<sup>70</sup>

Given what we know about the behaviours and constraints affecting lower-income consumers, *Win & Save* could provide such households with an accessible, simple, and easy to understand method to start building a savings pot. Additionally, we hope that in the long term, *Win & Save* could act as a gateway to developing a more regular savings behaviour and encouraging further participation in the financial market.

Practically, *Win & Save*, as a consumption product, is more accessible than a formal savings product. Participants build up savings by playing a game rather than depositing money into a specific account. Crucially, *Win & Save* also provides an alternative to lottery participation as it converts gambling activity into cash savings.

### **Advantages of being branded as a ‘gambling’ rather than a ‘savings’ product**

Research has shown that lower-income consumers find the formal concept and label of ‘saving’ as disempowering. Mistrust of financial services and banks has been shown in qualitative research to be a contributing factor to low income households not engaging with financial services.<sup>71</sup> Few lower-income households identify positively with being a ‘saver’, tending instead to identify with the ‘non-savers’ whom they saw as ‘normal’.<sup>72</sup>

By being designed and marketed as a gambling product with other benefits, W&S may be less affected by these negative norms and perceptions than a financial services product offered through financial service institutions.

A product marketed as a gambling product may also help overcome loss aversion. Evidence suggests that individuals may view savings as a loss. This has led to initiatives to help pre-commit consumers to saving behaviour so that they overlook this perceived ‘loss’. Examples include Save More Tomorrow. A number of Community Development Finance Institutions (CDFIs) and charities use debt repayments as a springboard for building up short-term savings, either by asking consumers to contribute larger sums than are needed purely to pay off the debt or by seeking to encourage consumers to continue contributing payments after the debt is paid off.

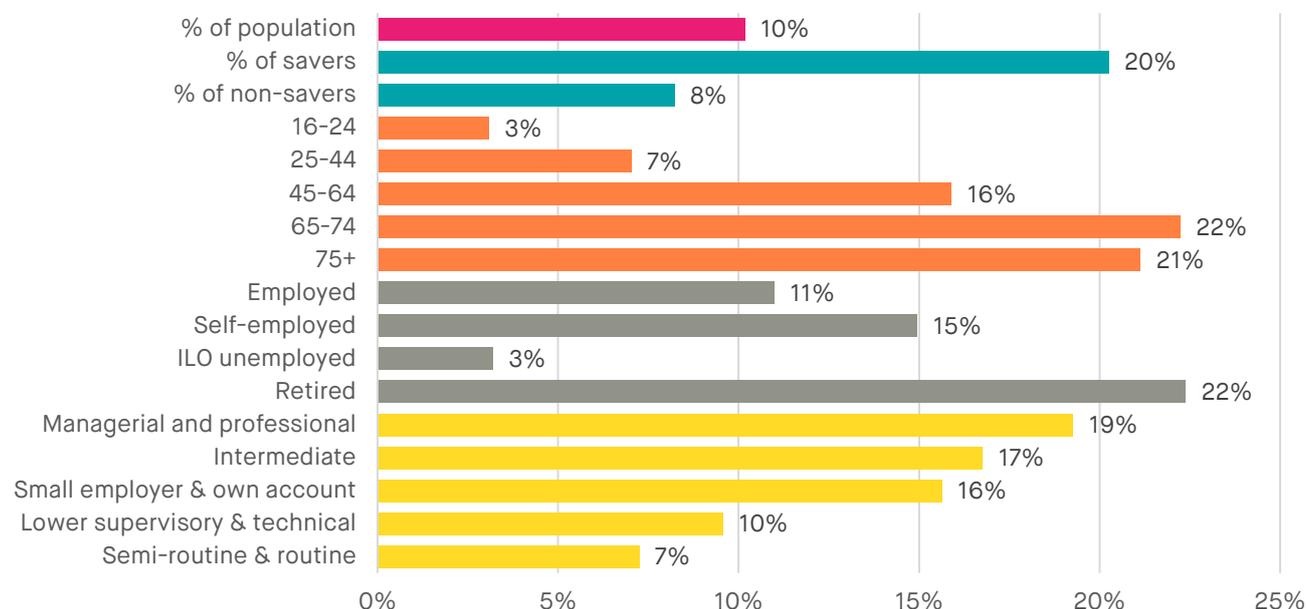
### **W&S would be better aimed at the target demographic of lower income consumers**

Prize-linked savings initiatives in the UK are dominated by Premium Bonds. The most recent annual report revealed that Premium Bonds have 21 million customers and more than £75 billion invested.<sup>73</sup> Investors can put a minimum of £100 or £50 for existing holders by standing order or electronic transfer.<sup>74</sup> The maximum that an individual can hold is £50,000. Each month two £1 million jackpots in the Premium Bonds prize draw are drawn, along with many smaller prizes.

Figure 7 shows that holders of Premium Bonds tend to be older, retired, and from higher socio-economic groups. As such, they are likely to have other assets and other types of savings.

Premium bonds are popular among savers: one in five of those who saved over the past two years hold at least one premium bond, compared to 8% ownership rate among those who did not save. In short, individuals for whom the Premium Bonds market works well are not in our target demographic of non-savers (and those) on low incomes.

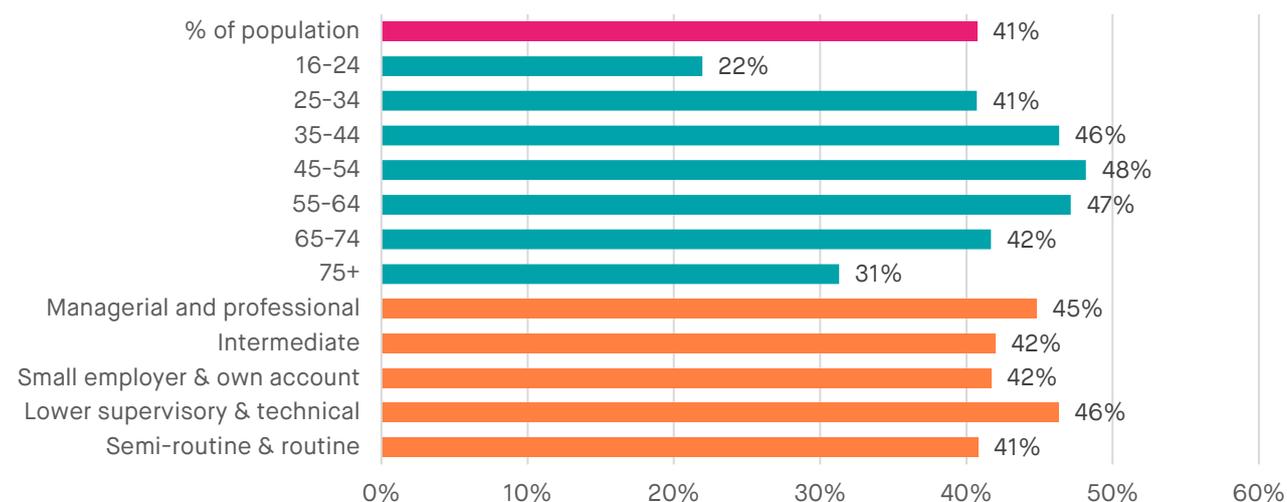
**Figure 7: Proportion of UK adults who hold Premium Bonds**



Source: SMF analysis of Wealth and Assets Survey (Wave 5, 2014-2016)

In contrast, in England, we note that participation in the National Lottery is evenly spread over socio-economic background, with 46% of gamblers being in lower supervisory and technical occupations and 45% coming from managerial and professional backgrounds. Analysis of the Health Survey for England shows that 41% of the population spent money on a National Lottery ticket in 2015.

**Figure 8: Proportion of adults in England who played the National Lottery in the last 12 months**



Source: SMF analysis of Health Survey for England (2016)

Traditionally, UK Premium Bonds have required a minimum £100 deposit. This price is much higher than the ticket price for *Win & Save*. The comparatively low cost of *Win & Save* should help low-income households with the transition from informal to formal methods of saving.

### **Larger gambling element and higher prize available through W&S**

To date, all forms of prize-linked savings have involved sacrificing the standard interest return on savings for a chance to enter a prize draw. Whilst the principal remains secure, the size of the prize funds is limited. As noted above, the financial product available in PLS arguably has benefits over W&S. First, none of the principal is at risk. This may offer assurance to the consumer, as well as ensuring that £1 is saved for each £1 purchased. Second, the act of purchasing a PLS ticket through a social lender such as a credit union may act to promote financial inclusion by establishing a relationship between the purchaser and the institution.

However, this approach restricts the lottery element of the product and, consequently, its potential appeal to non-typical savers. The increased risk (when compared to traditional PLS) makes *Win & Save* a more exciting product than Premium Bonds, which could widen its appeal to gamblers and regular lottery participants. Under a traditional PLS scheme, only the assumed yield (rather than the principal) is contributed to the prize pot, which results in lower prizes to be won. This may be insufficient to attract gamblers or tempt those who play other lotteries. Positioning our product close to gambling products such as those for the *Lotto* and *Euromillion* games, as well as scratch cards, is likely to offer strong opportunities for substitution. W&S aims to substitute gambling activity not saving activity.

### **Why there is a case for encouraging consumers to participate in W&S rather than lotteries**

#### **The National Lottery**

The National Lottery's overarching objective is to maximise returns for 'good causes' through selling Lottery products in an efficient and socially responsible way.<sup>75</sup> Since its launch in November 1994, the UK National lottery has paid out over £59 billion in prizes while raising over £35 billion for good causes across the country.<sup>76</sup> Whilst National Lottery draws are the most popular form of gambling, participation has been declining over the years.<sup>77</sup>

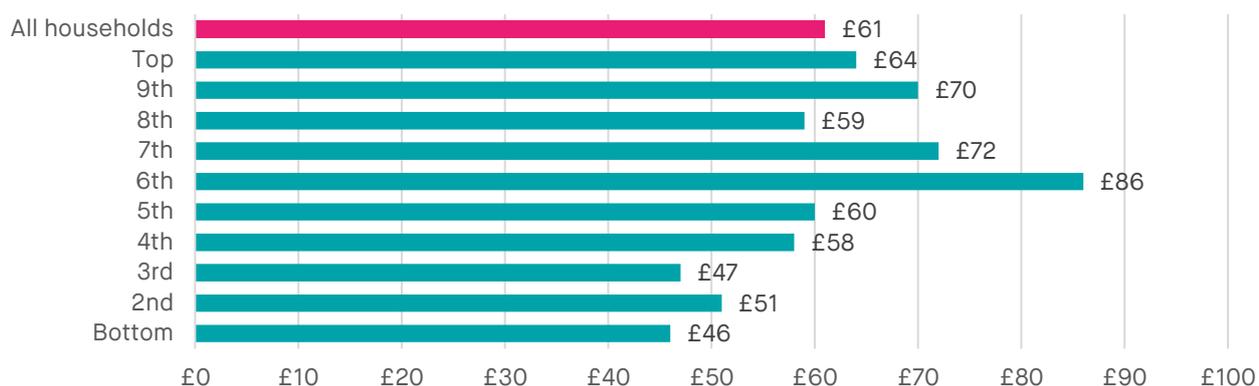
National Lottery funding for 'good causes' is handed out by six distributors, including the Big Lottery, Heritage Lottery Fund, Arts Council, British Film Institute, Sport England and Sport UK (there are also separate bodies in the devolved nations in some cases).<sup>78</sup>

#### **Concerns about the regressivity of lotteries**

The National Lottery has periodically come under scrutiny for its raising and allocation of funding for 'good causes', most recently with a number of MPs calling for more transparency over the distribution of Lottery sales and spending.<sup>79</sup>

In academic and political debate, there is an established concern as to whether lotteries act like regressive taxes.<sup>80</sup> Lotteries may be regressive in multiple ways. First, lower-income groups may be more likely to play the lottery than more affluent groups, and to purchase tickets more frequently.<sup>81</sup> ONS data shows that there is no clear pattern in terms of annual spending on Camelot National Lottery tickets across households.

**Figure 9: Average contribution towards the Camelot National Lottery Fund of all households, by decile of (equivalised) disposable income (£)**

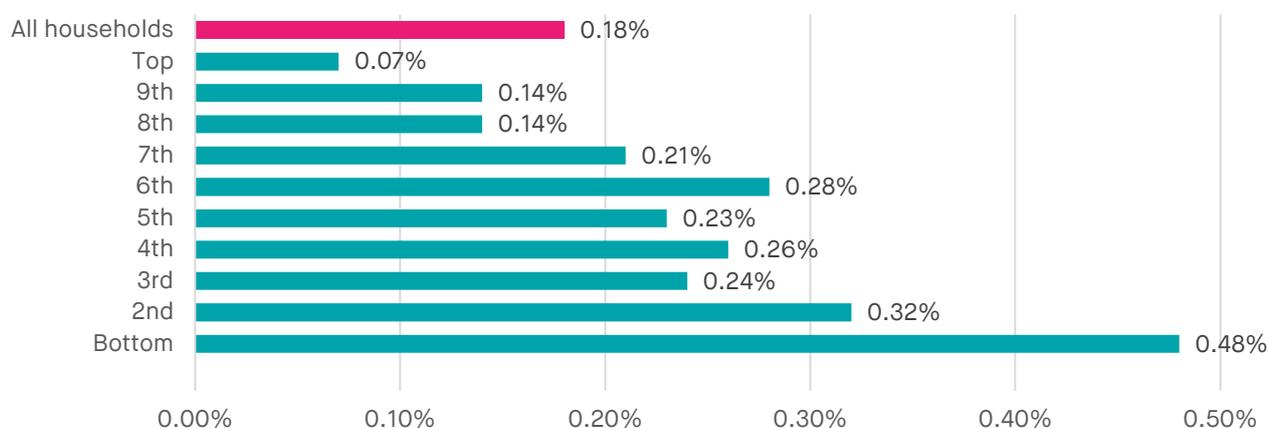


Source: SMF analysis of ONS data, 2017/18 <sup>82</sup>

Figure 8 shows that individuals in lower-skilled occupations are as likely to purchase lottery tickets as better paid workers. Academic research argues that the ‘good causes’ element of the lottery tax leads to revenues being raised very inefficiently<sup>83</sup> as individuals from lower socio-economic backgrounds are more likely both to play National Lottery games, and to spend more money on these games.<sup>84</sup> Academic research has shown that a small chance of winning a large reward is a more powerful motivation for participation in lotteries among lower-income populations.<sup>85</sup>

Second, lower-income groups spend a higher share of their (lower) disposable income on lotteries, and, therefore, contribute more to ‘good causes’ (as a proportion of their disposable income). This is shown in Figure 10, which illustrates households’ contribution towards the Camelot National Lottery Fund in 2017/18. Although the average annual contributions of all households amount to 0.18% disposable income, only households from the top three disposable income deciles contribute less to ‘good causes’ than the UK average. Alarming, households in the lowest decile contribute more than double the share of the UK average, at 0.48% of their disposable income. Therefore, this method of funding social causes is much less progressive than taxes such as income tax (which fall more heavily on those who have higher incomes).

**Figure 10: Average contribution towards the Camelot National Lottery Fund of all households, by decile of (equivalised) disposable income**



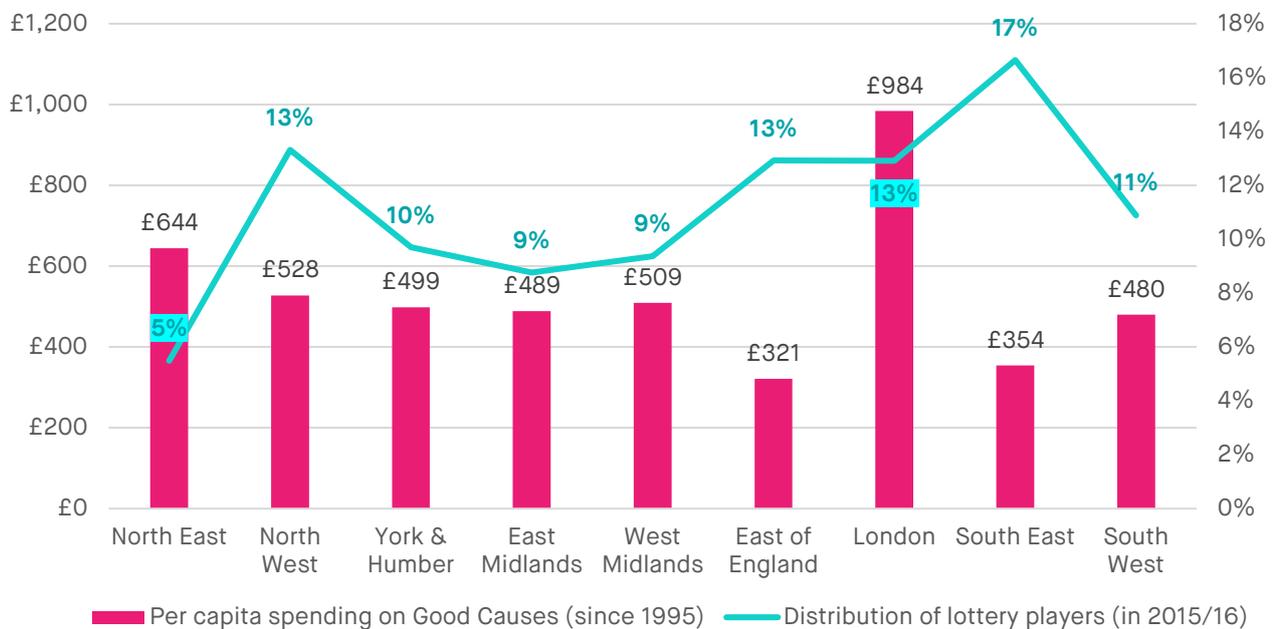
Source: SMF analysis of ONS data, 2017/18 <sup>86</sup>

A third factor that has led to concerns about the progressivity of the National Lottery is whether those on lower incomes benefit as much as more affluent groups from ‘good causes’. These issues are discussed in more detail below. Note, our intention here is not to question the social benefit of specific ‘good causes’.

**Distribution of National Lottery ‘good cause’ funding**

It is difficult to assess fully the distributional implications of funding for ‘good causes’. Our analysis highlights that regional spending on ‘good causes’ does not correspond closely to participation in the National Lottery. Since 1995, a disproportionately high share of the funding for ‘good causes’ has flowed to London (£984 per capita<sup>87</sup>) while the East of England and the South East attracted the lowest amount of funding per capita (£321 and £354, respectively). There is significant redistribution across regions: London and the North East are net beneficiaries, whilst the North West, the East of England, the South West and the South East are net losers (in terms of participation versus £ of good causes spent).

**Figure 11: National Lottery players and National Lottery spending on Good Causes, by region**



Source: SMF analysis of Health Survey for England (2016) and National Lottery data

Past research has suggested that more affluent areas win a larger share of funds from the National Lottery. Research finds that there is a tendency for big cities in the UK to win a disproportionate share of lottery grants, especially when it comes to arts funding: in the period 1995-2004, local authorities in metropolitan counties are estimated to have been granted per capita arts funding approximately £50 more than other local authority areas (controlling for education, social class, and ethnicity variation).<sup>88</sup> In London, this premia rises to £92 per capita.<sup>89</sup> MPs have complained that this preference felt by cities leads to less funding reaching towns, including in former coalfield and industrial communities. Analysis completed by Gloria De Piero MP of NL funding in 2014/15, found that the Cities of London and Westminster constituencies received £206m – compared with £73,000 for the Castle Point constituency.<sup>90</sup> This straightforward geographic dimension does not properly capture the beneficiaries of this spending as people are likely to travel into centres to access services funded by ‘good causes’.

Research completed in 2007 analysed the distributional impact of good cause funding across communities. Funding for each of the six categories of ‘good causes’ was shown to increase in accordance with the proportion of graduates in the area.<sup>91</sup> Allocation of grants was also associated with social class, especially in the arts and heritage categories – each percentage point increase in the proportion of ‘professionals’ (social class 1 or 2) raises the predicted per capita funding of heritage projects in the area by £2.27 (relative to the mean of £36.99).<sup>92</sup> It remains very difficult to assess with any great precision who benefits from National Lottery ‘good causes’.

We note that funding from the National Lottery grant distributors contributes to important schemes which benefit many in society, including schemes that aim specifically to benefit low income groups. For instance, Big Lottery funding is being used to help design a financial inclusion scheme which will benefit from funding that the Government is releasing from dormant bank accounts.<sup>93</sup>

## CHAPTER 5: MECHANISM AND DELIVERY

This chapter considers the practical challenges associated with *Win & Save* such as the channels of purchase, provision, and saving mechanism. We also discuss our proposed pricing structure and prize accumulation.

### Purchasing and distribution

We envisage the consumer experience of purchasing a *Win & Save* ticket to be as similar as possible to purchasing a National Lottery ticket. Our aim is also to make the act of saving as frictionless as possible.

We envisage that the product would be made distributed through a number of channels:

- **Physical distribution:** As it is ultimately a consumption product, a ticket should be readily available to buy in a variety of physical outlets, including supermarkets, convenience stores, and petrol stations, in the same way that National Lottery tickets are available. Physical purchases permit access to the product to the unbanked, the digitally excluded and the digitally untrusting, as well as enable impulsive participation. Winners will be notified either by post or by telephone, subject to their preference.

To assist with physical distribution, we envisage utilising the strategies employed by high street supermarket and pharmacy reward schemes, as three quarters (77%) of the UK population are already members of a loyalty programme.<sup>94</sup> First-time *Win & Save* participants will have to register an account at the kiosk where they will be issued a pay-point card and a pair of keychain fobs. Upon further participation, individuals will have their card or fob scanned by the retailer, which will top up their pay-point card automatically with the proportion of the ticket price which is to be saved. To prevent potential restriction of participating in *Win & Save* as imposed by an individual not having their card or fob on their person, the retailer will also be able to issue a coupon to assist linking the purchase of the ticket to the individual player at a later time.

- **Digital distribution:** *Win & Save* tickets will also be available to buy online and/or via a user-friendly, free to download app. Digital delivery will link a user's profile and purchase history to their chosen savings account (or use a default pay-point account in the absence of a preferred option), which simplifies the process of depositing the proportion of the ticket price which is to be saved. An online account will also make notifying winners of their prizes quicker and easier.

### Structure of the market

Through our research and discussions, we have shortlisted two potential ways of structuring the market: a regulated monopoly with a licence given or sold to a third party (as in the National Lottery), or regulation of the product which would then be provided by the market (like ISAs). Internationally, prize-linked savings accounts tend to be provided via the latter channel. In the USA, there were 17 active PLS products as of May 2018, with more being developed. These schemes are provided by a market of financial institutions, mainly credit unions, but also fintech companies and even prepaid cards issued by retailer Walmart.<sup>95</sup> Additionally, three community banks were also developing their own prize-linked savings products.<sup>96</sup> Anecdotally, we have

heard that credit unions were used as the delivery mechanism in the USA because a legal loophole meant that these were the only organisations which were allowed to offer such products.

The UK has a maturing market for lotteries. The National Lottery competes against ‘Society Lotteries’ and gambling companies, although the NAO reports that the DCMS has stated that it is not aware of evidence of significant substitution of sales between the Lottery and Society Lotteries to date.<sup>97</sup> Society Lotteries include the People’s Postcode Lottery and the Health Lottery. Society Lotteries sell tickets and offer a gambling product that diverts part of the ticket price into contributions to a designated charity(s). Since the Gambling Act 2005, this sector has grown and £255.56 million was raised for ‘good causes’ in 2016-17.<sup>98</sup>

We acknowledge the potential benefits of products being delivered by a market of providers. Competition for consumers could lead to innovation in prizes, and new and better products being developed in the long run. Providers may also develop new ways to encourage financial engagement among participants. However, as described in Table 2 and below, the advantages of a regulated monopoly are likely to be greater, at least initially.

**Table 2: Pros and cons of different market structures**

	Regulated monopoly	Regulated product delivered by the market
How it would work	<ul style="list-style-type: none"> <li>An organisation would be given a licence by the Government to develop and offer the W&amp;S product.</li> </ul>	<ul style="list-style-type: none"> <li>The Government (in consultation with the regulator) would create a new regulated product. This would regulate the proportion of funds that went into savings, and where the savings are held. Organisations with the requisite licences (e.g. from the FCA and Gambling Commission) would be allowed to offer the product.</li> <li>It could potentially be delivered in the same form as a Society Lottery.</li> </ul>
Advantages	<ul style="list-style-type: none"> <li>Simple for consumers to understand (e.g. prize, ticket price and name would be consistent across different outlets).</li> <li>Simple to market.</li> <li>Potential economies of scale in delivery and marketing.</li> <li>Could potentially benefit from brand power of existing monopoly lottery.</li> </ul>	<ul style="list-style-type: none"> <li>Potential for competitive pressure and innovation (e.g. in savings product, prizes and financial engagement) from different suppliers.</li> </ul>
Disadvantages	<ul style="list-style-type: none"> <li>Less innovation, though the market could potentially be opened up in the future.</li> </ul>	<ul style="list-style-type: none"> <li>Reliant on market interest before proof of concept.</li> <li>Multiple providers may mean that each has insufficient scale to offer meaningful prizes, though federal structure could be adopted as in the USA.</li> </ul>

First, a single provider would have the scale to make marketing and administration simpler and more cost effective. This would assist consumers with understanding the concept behind *Win & Save*, as prizes and ticket prices would be constant across outlets. The overall prize pot would also be maximised, which would in turn incentivise even higher participation, and generate a higher level of saving. A single regulated monopoly could benefit from government backing and develop credibility as a brand. For example, the National Lottery's credibility benefits from the fact that it has government backing and is broadcast on BBC1.<sup>99</sup> We note also the national lotteries have not welcomed the competition when PLS schemes have been set up as competition in other countries.

The National Lottery's licence is up for renewal in five years in 2023. Now is the time to think imaginatively about how W&S could be part of its new licence.

## Regulation

Our discussions have led us to believe that regulatory change would not be necessary to establish a new prize-linked savings product.

However, we envisage that new regulation would be needed to enable W&S. Because it is a hybrid product, comprising a gambling element and a savings element, W&S would require oversight by two regulators. The regulation of financial services products is carried out by the Financial Conduct Authority, whilst the regulation of lotteries is through the Gambling Commission. Given part of the principal is gambled, the product would not fit within existing FCA definitions of an investment. Meanwhile, W&S would not qualify under the 2005 Gambling Act which covers society lotteries. This legislation puts limits on the number of tickets that can be sold per year and per draw as well as limits on the prize size. The Government recently consulted on reforms to the regulation of society lotteries.<sup>100</sup> It also defines a 'society' as being established and conducted for 'charitable purposes'; 'for the purposes of enabling participation in, or of supporting, sport, athletics or a cultural activity'; or for 'any other non-commercial purpose not for private gain'.<sup>101</sup> As the beneficiary of W&S would be the private individual in the form of deferred spending it is unlikely that it would qualify under this condition. The National Lottery operates under a licence from Parliament and has its own legislation.<sup>102</sup>

We therefore recommend that legislation should be taken forward which would enable the creation of a hybrid product such as W&S. Given that we envisage that initially at least the product should be offered by a monopoly provider, we propose that the National Lottery be asked to develop this product as part of its new licence.

We note the current work by the Innovate team at the FCA and its 'Regulatory Sandbox'. The Sandbox 'allows businesses to test innovative propositions in the market, with real consumers.'<sup>103</sup> In whatever way W&S is taken forward, we propose that this FCA team be engaged closely. This would be particularly valuable if the concept was developed and delivered by the market.

## Savings vehicle

Our starting position on the saving vehicle for W&S is that:

- Any vehicle must be highly trustworthy among the target user group. This favours making use of a government or government-backed institution, such as National Savings and Investments or NEST.
- A strong default policy will be needed for two reasons. First, many participants are likely to buy the product due to its lottery element, and therefore their motivation to select a savings provider is likely to be low as is their knowledge of the savings market. They will require protection. Second, the aim is to make the product as frictionless as possible. It is likely that having to choose an account from the market may lead potential participants to drop out.
- It would be preferable for individuals to have the option to allocate savings to pre-existing savings accounts where they already have them.

Therefore, we suggest that the Government establish NS&I as the default savings vehicle, but that individuals be able to opt for money to be diverted into existing savings accounts elsewhere.

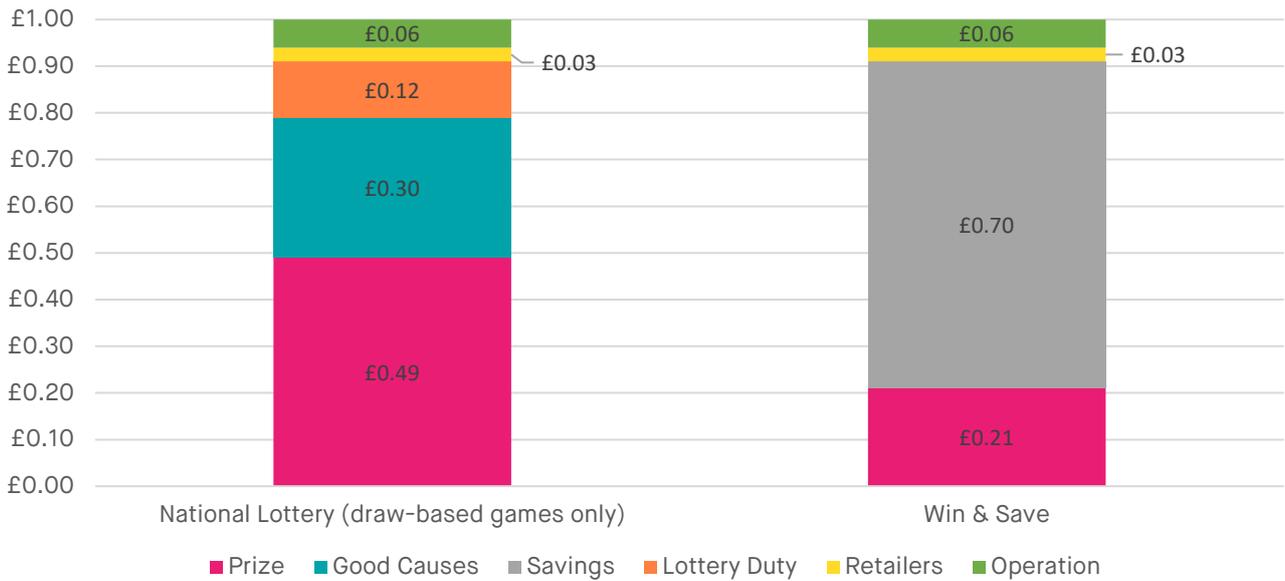
## Price and prize

### **Win & Save vs National Lottery draw-based games**

As *Win & Save* aims to incentivise customers to switch from other gambling products, we studied the pricing structure of National Lottery tickets (draw-based games only) and based the funding breakdown of *Win & Save* tickets on this structure. Figure 12 below provides these in more detail.

The largest share of the price of a National Lottery draw game ticket contributes towards the prize fund (£0.49 per £1, or 49%), and a third is donated to 'good causes' (£0.30 per £1). As *Win & Save*'s main aim is to build the financial resilience of players, the largest proportion of sales will be deposited into the buyer's savings account or pay-point card, at a rate of 70% (or £0.70 per every £1). A further 21% (£0.21 per £1) will be allocated towards the prizes. At this rate, if 10% of National Lottery players switch<sup>104</sup> from participating in draw-based games operated by the National Lottery to buying tickets to *Win & Save*, the annual prize pot generated will amount to over £35m.

**Figure 12: Funding breakdown, per £1 of sales**



Source: National Audit Office

The proportion of each £1 in National Lottery sales going to retailers (3%) and operations (6%) remains unchanged for *Win & Save*, as these are beyond the scope of this research. We do not see a reason why these costs may vary.

National Lottery sales are subject to lottery duty, currently at 12% of sales. *Win & Save* could potentially receive a lawful lottery status (under the 2005 Gambling Act) and be exempt from paying lottery duty. Typically, non-commercial lotteries, private lotteries, work lotteries, residents’ lotteries, customer lotteries, society lotteries, and local authority lotteries are exempt from paying lottery duty.<sup>105</sup> Premium Bond winnings are tax exempt.

**Savings contribution**

The two most popular National Lottery games are the *Lotto* and *Euromillions*, a single ticket of which costs £2.00 and £2.50, respectively. A ticket to *Win & Save* will be priced at £2.50, in order to generate larger savings over the longer run. At this price level, a single ticket purchase deposits £1.75 in a player’s chosen savings account or pay-point card.

**Taxpayer subsidy**

There is a strong case for W&S saving accounts to receive a subsidy from the Government. As discussed above, many government initiatives have proven ineffective in encouraging lower income households who do not save or have insufficient level of savings to start doing so. Instead, they mainly benefit those who already save and savers on higher incomes.

With extra funding from the government, a higher proportion of the ticket price will translate into savings; this would reduce the gambling dimension by decreasing the overall amount of money an individual would lose if they do not win a prize. Simultaneously, the prize pot would remain sufficiently large to entice participation away from other society lotteries. Additionally, association with the government would translate to *Win & Save* being perceived as a more trustworthy product. When evaluating Help to Save proposals, Ipsos MORI polling found that

government branding is viewed upon favourably by 58% of respondents (on Working Tax Credits).<sup>106</sup>

We would favour a higher level of subsidy in keeping with schemes that target lower income savers. Below we describe how different subsidies convert into typical sums available at the end of the year.

We acknowledge that any level of subsidy would apply universally to all *Win & Save* participants. Therefore, it would also top up the savings of individuals who may already have sufficient savings. However, low-income individuals who would benefit most from starting to build up their savings are more likely to benefit from this subsidy. As discussed in Chapter 1, current (and past) Government interventions which reward savings mainly benefit existing savers or individuals who are better-off.

**Table 3: Variation in savings, if prize pot held consistent**

Subsidy	39% (suggested)	20%	0%
Saving set aside from ticket purchase	£1.75	£1.75	£1.75
Subsidy per ticket (£2.50)	£0.68	£0.35	£0.00
Saving (total, per ticket)	£2.43	£2.10	£1.75
Annual savings (plays once a week)	£126.36	£109.20	£91.00
Annual savings (plays twice a week)	£252.72	£218.40	£182.00

### **Win & Save prizes**

The size of the prizes to be given away is one of the main components which will attract individuals to play *Win & Save*. Whilst the ideal amount of money which would provide financial stability to a household is subjective and varies from person to person, a 2012 research by Halifax estimates that more people consider winning up to £100,000 to be life changing, than winning more than £1m.<sup>107</sup> Other research suggests that income of \$100,000 (£78,450<sup>108</sup>) is optimal for life satiation in Western Europe.<sup>109</sup>

As already mentioned, if 10% of gamblers who play the National Lottery participate in *Win & Save*, the annual prize pot will amount to £35,417,450, or just over £681,000 to be won per week. These prizes will be distributed in full every week and could be divided in a number of ways, such as those suggested by Table 4 below.

**Table 4: Proposed prizing structures (per week)**

Prize structure 1	Prize structure 2	Prize structure 3
<b>£100,000</b> x 5	<b>£250,000</b> x 1	<b>£100,000</b> x 4
<b>£50,000</b> x 2	<b>£100,000</b> x 2	<b>£75,000</b> x 3
<b>£10,000</b> x 5	<b>£75,000</b> x 3	<b>£5,000</b> x 10
<b>£5,000</b> x 3	<b>£1,500</b> x 4	<b>£1,500</b> x 4
<b>£1,500</b> x 3		
<b>£500</b> x 23		

Alternatively, we are also considering the opportunities to offer more innovative prizes, such as paying off the winner’s mortgage or rent, or contributing towards tuition fees (where applicable).

**National vs local coverage**

Offering *Win & Save* as a nation-wide consumption product would maximise the prize pot available to be won, and therefore attract more players. However, we recognise that a more localised scheme might have a different set of benefits to encourage participation.

Although each entry to any lottery gives a participant an equal chance of winning a prize, independently of any previous winnings, lottery players exhibit a number of behavioural heuristics which incite them to continue to buy tickets. One such heuristic is the availability bias, under which participation is increased the easier it is for an individual to imagine winning the top prize. Availability bias is one of the main drivers of the popularity of society lotteries – under a more local scheme, participants are more likely to overestimate their chances of winning as they are more likely to be aware of a member of their community who had won a prize in the past.

A localised scheme would increase investment in the local economy as NS&I and savings accounts providers will deposit the holdings generated by *Win & Save* into local projects. However, we do not anticipate this factor to have a significant incentive towards participation.

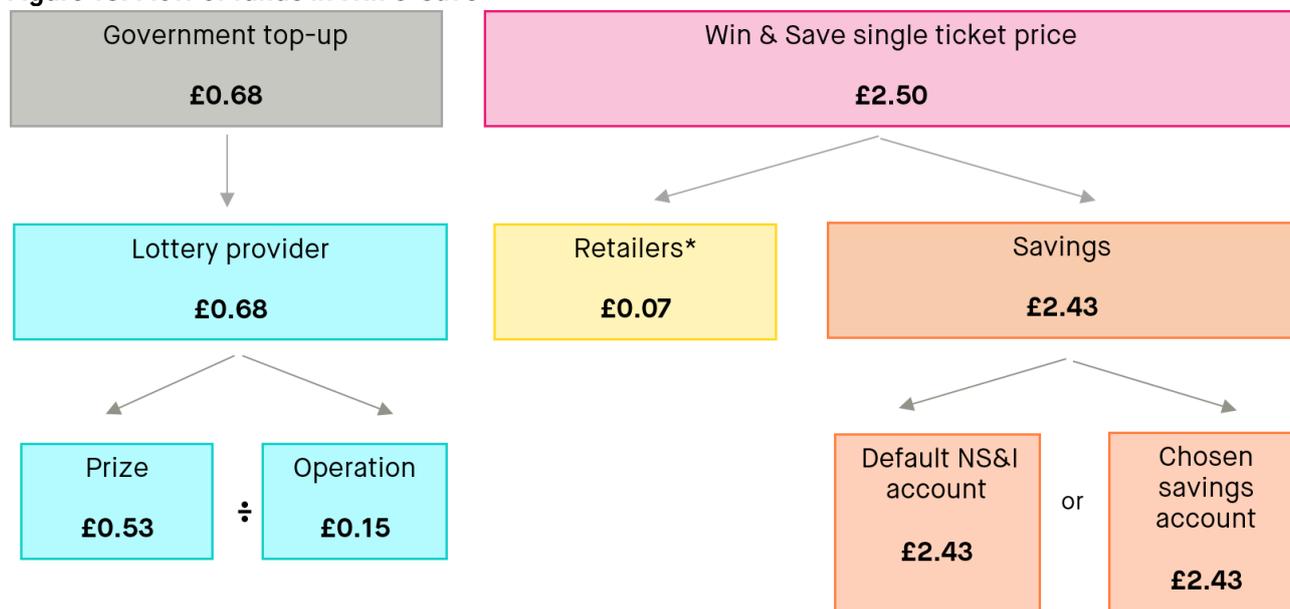
We advocate *Win & Save* be a national scheme. UK-wide coverage would benefit from economies of scale as the one-off set up cost will be easier to finance. Additionally, *Win & Save* will be easier to market, as retail and advertisement strategies are unlikely to differ greatly throughout the country. Most importantly, a national product will generate the highest prize pot, which would attract more consumers, who will in turn contribute more funding to prizes, and so on.

**Summary: Flow of funds**

This section provides an overall picture of the flow of funds in *Win & Save*. A single *Win & Save* ticket, representing one chance to win a weekly prize, is priced at £2.50. The majority of the ticket purchase cost, 70%, is automatically saved: 21% is contributed to the overall prize pot; operation costs account for 6% of sales, and retailers retain the remaining 3%. For practical reasons we propose that the Government subsidy cover the costs of the operation of the lottery. The government subsidy could easily be applied to the default NS&I accounts. However, it would be practically more difficult for the Government to provide top-ups to individuals’ bank accounts

held across multiple institutions. This suggested approach avoids the logistical challenge of diverting subsidies into bank accounts.

**Figure 13: Flow of funds in *Win & Save***



### Next steps to delivery

As discussed above, our preferred approach would be for W&S to be offered through the licensed national lottery. However, ahead of this, or if W&S were to be pursued through the market, we suggest that further feasibility work would be beneficial. This could include:

- **Testing the regulatory feasibility:** We believe that initial feasibility work could be conducted by an organisation authorised by the FCA. The FCA’s Sandbox can provide bespoke guidance to firms on new products, potential waivers or modifications to rules as part of the test, and informal steers.<sup>110</sup> The Sandbox has so far taken 4 cohorts through the process and is seeking proposals for its fifth cohort. There is also scope for the Sandbox to convene discussions between different regulators to advise on product development. This would be very beneficial and could involve the FCA and the Gambling Commission.
- **Consumer testing.** The feasibility study could also include consumer testing to assess:
  - attitudes and behaviours towards a hybrid product;
  - product branding and marketing;
  - optimal use of the prize fund to attract interest.

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