**STATEMENT FOR THE RECORD**

On

**The United States House Committee on Financial Services**

**Subcommittee on Financial Institutions and Consumer Credit**

**hearing entitled:**

***"Examining Regulatory Relief Proposals for Community Financial Institutions, Part II"***

**Submitted by:**

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Chairman Capito, Ranking Member Meeks, and members of the Subcommittee, thank you for the opportunity to submit this statement for the record in connection with the July 15, 2014 hearing before the Subcommittee on Financial Institutions and Consumer Credit.

I serve as the Peter Moores Dean of the University of Oxford's Saïd Business School.[1] Prior to taking this appointment in 2011, I was a professor of finance at Harvard Business School for over two decades, and I received my AB (summa cum laude), MBA, and PhD degrees at Harvard University. I have spent much of the last 15 years studying the field of household finance, and most of my research and teaching deals with the financial service needs of low- to moderate-income households. I co-founded the non-profit, Doorways to Dreams Fund (www.d2dfund.org), which works to test new financial products and services for low- to moderate-income families; I co-founded the National Bureau for Economic Research's Household Finance Group; I sit on the FDIC's Committee on Economic Inclusion; and continue as an active researcher in the field. My testimony today reflects over a decade of my work on the topic of prize-linked savings, substantial research on savings in America, and over 300 years of history of this particular product serving as an effective savings vehicle.

**The Need for Increased Savings**

Personal savings are fundamental to household financial stability and to societal stability. Sadly, a large percentage of households across income levels are financially fragile, and do not even have sufficient savings for emergencies, let alone for expected, long-term requirements such as a child's education or retirement.[2] For example, in a methodology that my coauthors and I developed to measure financial fragility, a recent survey showed that 25% of Americans are "certain (they) could not" come up with $2000 within 30 days from any means and another 15% "probably" could not do so.[3,4] This outcome is striking in light of the potentially high return to savings and the significant financial and other costs correlated with financial fragility.[5,6] Although many individuals express a desire to save more, for many, there exist few safe, affordable options that appeal to them.[7,8] Americans' conceptions of "saving" are

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[1] For a full CV, see: http://www.sbs.ox.ac.uk/sites/default/files/profile_cvs/tufano_peter_cv.pdf

[2] Lusardi, Annamaria. 2011. "Americans' Financial Capability." NBER Working Paper n. 17103.

[3] Lusardi, Annamaria, Daniel J. Schneider, and Peter Tufano. 2011. "Financially Fragile Households: Evidence and Implications." Brookings Papers on Economic Activity (Spring 2011): 83–134.

[4] Lusardi, Annamaria. 2013. "The Financial Fragility of American Families." FINRA Investor Education Foundation.

[5] Dupas, Pascaline, and Jonathan Robinson. 2013. "Why Don't the Poor Save More? Evidence from Health Savings Experiments." American Economic Review 103 (4) (June): 1138–1171.

[6] Lusardi, Schneider, Tufano 83–134.

[7] Tufano, Peter, and Daniel J Schneider. 2008. "Using Financial Innovation to Support Savers: From

complex. Surprisingly, in our research using the ZMET market research technique, some Americans associate games of chance with savings[9]; a survey in 2006 by the Consumer Federation of America confirms this finding.[10]

There are clear economic benefits to increasing the household saving rate in the United States, and boosting Americans' savings should be a matter of public policy priority—a recent National Review article named the savings crisis America's second most serious domestic problem.[11,12] While public policy encourages long-horizon saving such as for retirement, little to no public policy encourages short-horizon saving, which is the primary savings goal for more than half the American population.[13]

## The History & Efficacy of Prize-Linked Savings

For over three centuries and across the world, prize-linked savings (PLS) programs have offered individuals the opportunity to win prizes for saving money. These products first appeared in 1694 and a version of prize-linked savings has been continuously offered in the United Kingdom since 1957, with widespread appeal.[14] PLS accounts offer savers a market-rate return in the aggregate, and no principal loss. In brief, the payment of prizes and interest delivers a competitive expected return to holders of PLS products, but the prize component—whereby some savers win large prizes—is particularly appealing to many. PLS accounts give accountholders lottery-like payouts, or periodic chances to win money or prizes.[15,16] Although the prize payouts are random, PLS programs differ from lottery in that the principal saved by accountholders is never at risk. However, similar to lottery, the chance to win is both

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Coercion to Excitement". in Insufficient Funds: Savings, Assets, Credit and Banking Among Low-Income Households. Eds. Rebecca Blank and Michael Barr (Russell Sage, 2008).

8 Dupas and Robinson 1138–1171.

9 For a description of the methodology employed, see Nick Maynard and Jeff Zinsmeyer, 2007, "The Mind of Low-to Moderate-Income Savers." Filene Research Institute Paper. Available at http://www.d2dfund.org/files/publications/Mind_of_Low_Income_Savers-ZMET.pdf

10 "How Americans View Personal Wealth Versus How Planners View This Wealth." Consumer Federation of America. 2006.

11 Williamson, Kevin D." The $5 Problem." *National Review Online*. Web. 11 July 2014.

12 "Another Penny Saved: The Economic Benefits of Higher US Saving." Oxford Economics, June 2014. Web.

13 Bricker, Jesse et al. 2012. "Changes in U.S. Family Finances from 2007 to 2010: Evidence from the Survey of Consumer Finances." Federal Reserve Bulletin. Board of Governors of the Federal Reserve System.

14 Tufano, Peter. 2008. "Saving Whilst Gambling: An Empirical Analysis of UK Premium Bonds." American Economic Review 98 (2) (April): 321–326.

15 Tufano 321–326.

16 Kearney, Melissa Schettini, Peter Tufano, Jonathan Guryan, and Erik Hurst. 2010. "Making Savers Winners: An Overview of Prize-Linked Savings Products." in Financial Literacy: Implications for Retirement Security and the Financial Marketplace. Eds. A Lusardi and O.S. Mitchell. (Oxford University Press, 2011).

motivating and fun, increasing participation. In the UK, they were described as "Savings with a Thrill" and in South Africa they were described as products with "Everything to gain, and nothing to lose."[17]

Historically and globally, PLS products have had particular appeal among non-savers, the unbanked, and low-income families.[18] The first large-scale prize-linked savings product available in the United States, Save to Win ™, launched in Michigan in 2009 and is now available in four states. Since 2009, over 50,000 accountholders, a large percentage of whom are financially vulnerable, have collectively saved more than $94 million in the account.[19] Accountholders become quite engaged with the product and keep the accounts open longer than other comparable savings products.[20]

Recent experimental research confirms the field results described above. Researchers in the US and Australia have demonstrated that PLS products increase accountholders' total savings in experimental settings, and that this effect is larger among accountholders with low initial savings balances.[21,22] There is also evidence that winning a prize tends to materially increase the savings the winner holds in her PLS account by substantial amounts, and that the "buzz" from the winning increases demand for PLS products as well.[23] This latter point shows the difference between this type of savings and others—your neighbor's winning a prize can motivate your savings.

## The Impact of the American Savings Promotion Act

Despite their long, successful international history, prize-linked savings products are relatively new in the United States, in part due to legal and regulatory challenges facing financial institutions that would like to offer these products. Under current law, states need to pass laws that allow financial institutions under their jurisdiction to offer PLS accounts, or "savings promotion raffles." However, these

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[17] "A Short History of Premium Bonds." National Savings and Investments, Oct. 2006.

[18] Guillén, Mauro F, and Adrian E Tschoegl. 2002. "Banking on Gambling: Banks and Lottery-Linked Deposit Accounts." Journal of Financial Services Research 21 (3): 219–232.

[19] Hahnel, Amanda, and Melanie Kwon Duch, 2014. "Save to Win Impact: 2013 Overview." Doorways to Dreams Fund.

[20] For example, in 2010, three pilot credit unions offering Save to Win were able to calculate rollover rates in their more traditional 1-year CD products from 2009 to 2010. The weighted average rollover rate at these credit unions for Save to Win was 81% versus 51% for their traditional 1-year CD. See: Abbi, Sarika, Amanda Hahnel, Maynard, Nick, and Smith-Ramani Joanna. 2012. "Playing the Savings Game: A Prize-Linked Savings Report." Doorways to Dreams Fund.

[21] Atalay, Kadir, Fayzan Bakhtiar, Stephen Cheung, and Robert Slonim. 2012. "Savings and Prize-Linked Savings Accounts." 6927. IZA Discussion Paper Series.

[22] Filiz-Ozbay, Emel, Jonathan Guryan, Kyle Hyndman, Melissa Schettini Kearney, and Erkut Y Ozbay. 2013. "Do Lottery Payments Induce Savings Behavior ? Evidence from the Lab."

[23] Cole, Shawn, Benjamin Iverson, and Peter Tufano. 2014. "Can Gambling Increase Savings? Empirical Evidence on Prize-linked Savings Accounts." http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2441286

laws can only apply to non-profit financial institutions like credit unions, because existing federal regulations prohibit banks and thrifts from offering PLS products.

The American Savings Promotion Act (H.R. 3374) removes these barriers and enables all depositories to offer PLS products by creating a narrow exemption for federally-insured financial institutions to voluntarily offer prize-linked savings products. The bill maintains the overall ban on depositories' ability to offer lottery products and does not require any financial institution to offer a PLS product. The bill does not pre-empt state law. Individual states will still need to pass legislation permitting financial institutions under their jurisdiction to offer PLS products. Finally, the products must be voluntarily purchased by consumers. The Act simply gives states, financial institutions, and consumers the right to choose to save in this manner. The American Savings Promotion Act is a market-based solution to the savings problem in this country. It does not require any government subsidy, but rather leverages the financial services industry by providing them a product tool to better serve customers.

Based on my research and my experience with household finance as well as my studies of PLS in the United Kingdom, South Africa, and the United States, I believe that expanding access to PLS accounts will help solve the savings crisis in America. As demonstrated in the marketplace through the Save to Win product and in other research, the product has a positive appeal to low- to moderate-individuals and to non-savers; not just motivating them to start to save, but helping them develop a long-term savings habit that will result in increased financial security.

Thank you for the opportunity to submit this statement. I would be happy to answer any questions or discuss this issue further with members of the Committee.