

FULL REPORT & METHODOLOGY • JANUARY 2011

consumer savings  **Monitor**
ING DIRECT

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Introduction

Richard Doe



CEO, ING DIRECT (UK)

ING DIRECT
Saving feels good

Welcome to the latest **ING Direct Consumer Savings Monitor**, which covers the fourth quarter of 2010 and the year in general.

It was certainly a testing year for Britons, yet it's clear that they managed a delicate economic balancing act, cutting down on debt despite an environment of rising prices and falling real wage levels.

Unfortunately, it seems that this balancing of the books came at the expense of savings, with ordinary Britons' accessible reserves falling across the year.

However, a minor reversal of this trend did take place in the final quarter of the year, with savings balances beginning to recover.

We know that consumers were stricter with their spending over the Christmas period, but our findings also suggest that a significant factor in this savings 'bounce' was the government's proposed increase of tuition fees, which has encouraged parents to kick start savings plans for their children's education, or increase the amount that they are already saving.

Whether this re-ignites the nation's saving habit is yet to be seen, but there is certainly appetite to do so – with Britons clearly determined to restore savings balances in 2011.

We hope that these good intentions translate to a real reversal of savings erosion. However, as ING Senior Economist James Knightley explains on page 11 – those hoping to re-stock their reserves will come up against a number of challenges in 2011, making such New Year's resolutions more difficult than imagined.

Britons are clearly determined to restore savings balances in 2011. We hope these good intentions translate to a real reversal of savings erosion.

Why do we need the ING Direct Consumer Savings Monitor?

While there is a wealth of industry data on spending, consumer confidence and house prices, there is a lack of information available on the amount of accessible savings people have available.

While the ONS Household Savings Ratio is a comprehensive economic measure, it is unsuitable for our cause because it includes things that most people wouldn't consider as saving. For example, the mortgage, the largest monthly bill, is partly counted as savings because it contributes to the pay-down of debt.

Britain's total 'savings pot' of households' cash and deposits is monitored by the Bank of England. However, simply dividing this total by the adult UK population gives a result that is heavily skewed by the small number of people with very large savings balances. This problem also exists in a range of other survey-based measures.

Key findings

The latest ING Direct Consumer Savings Monitor is based on tracking research conducted in Q4 2010 (October-December)¹. It reveals the following key information:

Figure 1 - Key Findings

	MEDIAN SAVINGS (Stock)	CHANGE	MEDIAN MONTHLY INCOME (Net)	MONTHLY INCOME EQUIVALENT (Savings Cushion)
Q1 09	£2,020	-	£1,246	1.62
Q2 09	£1,881	-£149	£1,276	1.47
Q3 09	£1,950	+£74	£1,285	1.52
Q4 09	£2,055	+£113	£1,283	1.60
Q1 10	£1,886	-£182	£1,307	1.44
Q2 10	£2,050	+£164	£1,305	1.57
Q3 10	£1,771	-£279	£1,304	1.36
Q4 10	£1,834	+£63	£1,299	1.41

Source: ING Direct Consumer Savings Monitor

- The ordinary man or woman in the UK currently has **£1,843** in readily accessible cash savings in banks and building societies
- This is a **rise of £63 (+3.6 per cent)** since the previous quarter, but an overall decline of **£211 (-11 per cent)** across the year
- This figure equates to just over **1.4 times average monthly take home pay**, which currently averages **£1,299**
- **26 per cent** of Britons have no savings whatsoever
- Unsecured debt rose during the quarter, with levels of borrowing on loans and credit cards increasing by **£132 (+5 per cent)** to an average of **£2,812** (see figure 6 on page 8), but across 2010 debts fell by **£234 (7.7 per cent)**

Unless otherwise stated, all data in charts and tables are sourced from the ING Direct Consumer Savings Monitor

¹ Full details of methodology included in Appendix

Discussion

2010 - A difficult year for savings

As seen in figure 2 below, savings balances have gradually fallen across the year, following a similar but more drastic pattern than in 2009:

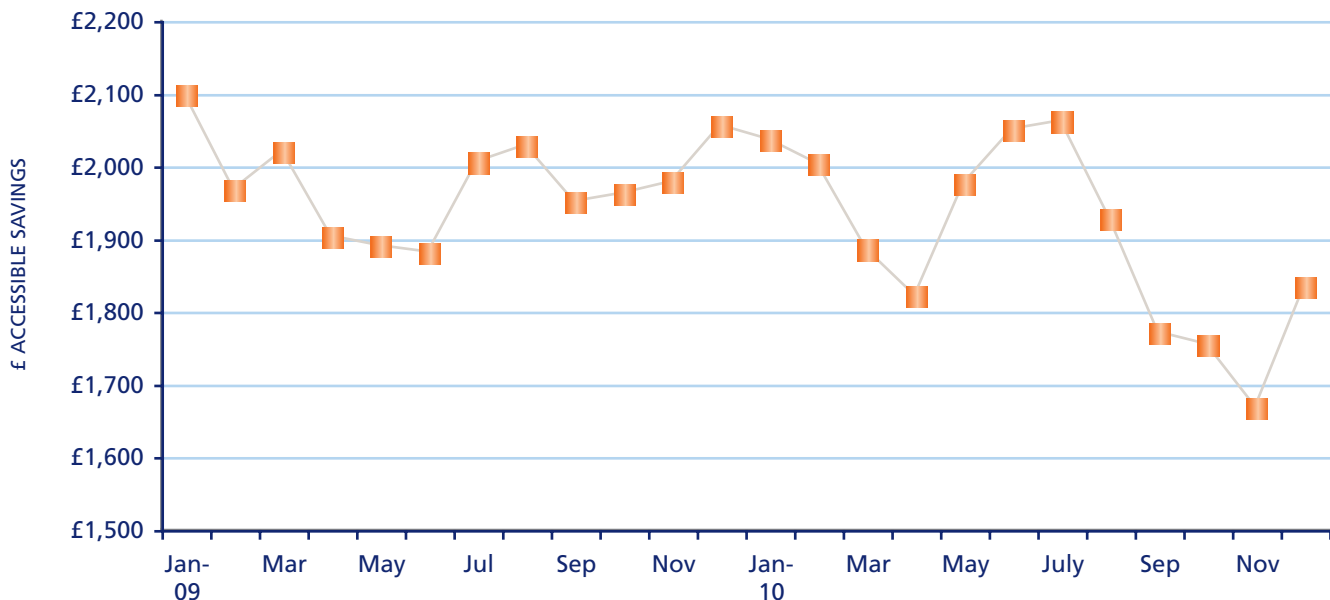
- Gradual decline in savings levels during the first half of the year
- A noticeable recovery during the year midpoint (end of Q2/beginning of Q3)
- Steep decline in the autumn
- A minor recovery in the fourth quarter

Attitudinal questioning within the Consumer Savings Monitor has identified common pressures on consumers' finances across the year, which helps us explain the trends:

- An intense period of debt reduction following the Christmas period
- A major 'savings investment' in Cash ISAs between April and June
- Savings drawn on to pay for holidays and meet back-to-school costs in the late summer and early autumn
- Further use of savings in the lead up to Christmas to pay for gifts

The fact that the autumn fall and December 'bounce' were more extreme in 2010 is explained in more detail on page 9 (Q4 in focus).

Figure 2 - Monthly variation in savings levels since 2009



Discussion

Savings motives

As seen in figure 3 below, the primary motive for saving remains the desire to build up funds for use in an emergency, but there has also been a clear increase in people saving for 'big ticket' items such as holidays, cars or home improvements in 2010. A greater prevalence of such short-term savings would also partially account for the erratic fluctuations in savings levels in 2010.

Saving for children's education costs was also a key savings motive for parents, especially in the final quarter of 2010. This is discussed in detail on page 9 (Q4 in focus).

Figure 3 - Reasons for saving (2009 & 2010)

	Q4 2009	Q4 2010
To build up an emergency buffer	34%	33%
To get married	4%	5%
To go on holiday	22%	30%
To cover bills eg electricity gas etc	9%	10%
To pay off credit card	6%	6%
Home improvements	11%	14%
To have a baby	3%	3%
Buy a new car	5%	8%
Buy a second hand car	6%	6%
Buy a new TV	3%	4%
Deposit for a new property	9%	11%
Other	9%	8%

Why have savings declined?

As ING economist James Knightley explains later in this report (see page 11), several economic factors such as high inflation, falling real income levels and persistent levels of unemployment have squeezed ordinary people's finances and ultimately mean that they are using savings to meet these expenses (reflected in fig. 4). The reduction of debt at the expense of savings has also been a clear theme throughout 2010 (see page 8).

Discussion continued

Figure 4 - Reasons for drawing on savings in 2010

	2010
Paying for day-to-day expenses such as bills, or groceries	41%
Paying for a holiday	29%
Paying for home improvements or home repairs	20%
Paying off credit cards, loans, or hire purchase agreements	19%
Buying clothing, gadgets or other 'leisure shopping'	13%
Buying a car, or pay car-related expenses	12%
Spending money on entertainment, or eating/drinking out	12%

Savings winners and losers

As seen in the demographic breakdowns (fig. 5), certain cross sections of society have also seen their savings fall more than others across 2010:

Figure 5 - Median savings by age, gender and marital status

AGE	Q4 2009	Q4 2010	09-10 Change	% Change
16 - 24	£863	£461	-£402	-47%
25 - 34	£1,095	£557	-£552	-49%
35 - 44	£1,443	£1,049	-£394	-27%
45 - 54	£2,576	£2,727	+£151	+6%
55+	£5,404	£5,077	-£327	-6%
GENDER				
Male	£2,858	£2,667	-£191	-7%
Female	£1,538	£1,194	-£334	-22%
MARITAL STATUS				
Single	£1,539	£1,243	-£296	-19%
Married	£2,785	£2,462	-£323	-12%
INCOME				
Low (<22k)	£773	£582	-£191	-25%
Med (22k-47k)	£2,635	£2,283	-£352	-13%
High (>47k)	£5,628	£5,060	-£568	-7%

Discussion continued

2010 Savings winners and losers continued...

- **Young people** – Young people (16-24) have the lowest savings balances (£461) and along with the 25-34 age cohort, have seen the greatest proportional decline in their savings in 2010 when compared with other groups analysed by the ING Direct Consumer Savings Monitor.
- **Women** – In contrast to 2009, during which women narrowed the ‘savings gap’ between the sexes, women’s savings levels have fallen significantly in 2010. While the reasons for the financial gap between genders are complex, it is clear that unemployment has hit women harder than men this year (up 23 per cent on January 2009 levels compared to 18 per cent for men²). Women are also more likely to prioritise spending on the family over saving and be more reliant on their partner to put away savings.³
- **Single people** – Singletons have savings balances that are almost half those of married people. This is because they tend to be younger and also more severely affected by unemployment as they don’t have a partner who they can rely on financially should they lose their job. They are also adversely affected by inflation as they can’t share many set costs with a partner.
- **Low earners** – When studying the three main income groups within our sample, we see that all groups have seen their savings decline but lower income groups have been more severely affected. This supports the view that it is the increased cost of living causing the fall in savings levels, as these would disproportionately affect those people on lower incomes.

The upside of savings erosion...Debt reduction

Despite a general decline in savings levels in 2010, Britons continue to make good progress in reducing their debts, with levels of unsecured debt down 7.7 per cent (£234). However, taking the reduction of debt and savings into account, the ordinary Briton is now just £13 better off than they were a year ago. This would have been a greater figure if not for the moderate rise in unsecured debt seen in the final quarter of 2010 (see fig. 6) – the first recorded rise in debt since Q3 2009.

It is also possible that the latest rise in credit balances has occurred because savings have fallen to such a low level that consumers no longer feel comfortable relying on these reserves to service debt. This would also suggest that there is a minimum level of accessible savings that consumers feel they should have in case of an emergency.

Figure 6 - Levels of unsecured debts

	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010
Unsecured debts	£3,046	£2,950	£2,737	£2,680	£2,812

² Labour Force Survey: Unemployment by Age and Duration to data available Jan 2011

³ Fawcett Society: Women’s lifetime savings patterns. June 2007 and ONS Labour Force Statistics

Discussion continued

Q4 in focus

While a number of key trends continued in 2010 – namely falling debts and savings – the final quarter of the year bucked the trend, with savings recovering slightly and debts rising.

Findings from the ING Direct Consumer Savings Monitor suggest two key factors influencing this trend: The use of credit cards during Christmas and the government's changes to tuition fees encouraging parents to save.

The typical consumer reduced their Christmas spend over the festive period, spending on average 11 per cent less than in 2009 (£490 compared to £548). It's interesting to note that in Q3 consumers reported a strong desire to rely less on credit over the Christmas period, yet it seems that many succumbed to temptation – with the average consumer adding to their credit balances in Q4 by £132 (+5 per cent).

The increase in savings is being strongly attributed to the government's proposed changes to tuition fees. One in eight parents (13 per cent) has started a university fund in response to the proposed fee increase. This trend is most common amongst parents of children under five, suggesting the adoption of long term saving, similar to US-style 'college funds'. And of those already saving, around one in 10 parents has increased the amount they save as a result of the fee rises (see fig. 7).

Figure 7 - Parents opinions in light of the government's changes to tuition fees

THE GOVERNMENT IS PLANNING TO INCREASE TUITION FEES SO THAT THEY ARE CAPPED AT £9,000 PER STUDENT. IN WHAT WAYS HAS THIS AFFECTED YOUR FINANCIAL PLANNING?	AGE OF CHILD				
	0-5 YRS	6-10 YRS	11-15 YRS	16-17 YRS	ALL
I have already started saving more towards my child/children's education as a result of this announcement	11%	8%	9%	13%	10%
I have set up a dedicated savings account to fund my child/ren's university education	15%	13%	11%	13%	13%
I am reassessing whether a university education is the right route for my child/ren	10%	9%	15%	13%	12%
Funding my child's university education has become my main savings goal	4%	6%	9%	11%	7%
I am encouraging my child/ren to save up more money in order to cover future university costs	8%	9%	9%	15%	10%
I plan to start saving more in future in order to fund a university education for my children	24%	23%	11%	5%	16%
My children are reassessing whether university will be right for them	5%	5%	14%	24%	12%
None of these	37%	42%	48%	45%	43%

As a result savings amongst those people most likely to have young children have increased dramatically in Q4 (see fig. 8), supporting the theory that changes to tuition fees has prompted parents to save.

Discussion continued

Q4 in focus continued...

Figure 8 - Quarterly change in savings Q3 2010 to Q4 2010

AGE	Q3 2010	Q4 2010	QUARTERLY CHANGE	% CHANGE
16 - 34	£451	£518	+67	+14.9%
35-54	£1,616	£1,654	+38	+2.3%
55+	£4,892	£5,077	+185	+3.8%

Alternatively, many are reconsidering the value of higher education. Around a quarter of 16-17 year olds (24 per cent) are rethinking their options in light of the hikes and one in eight (13 per cent) parents of teenagers are reassessing whether university is right for their child considering the increased cost. Despite this reluctance, 10 per cent of parents of teenagers see saving for their child's university education as their main savings goal.

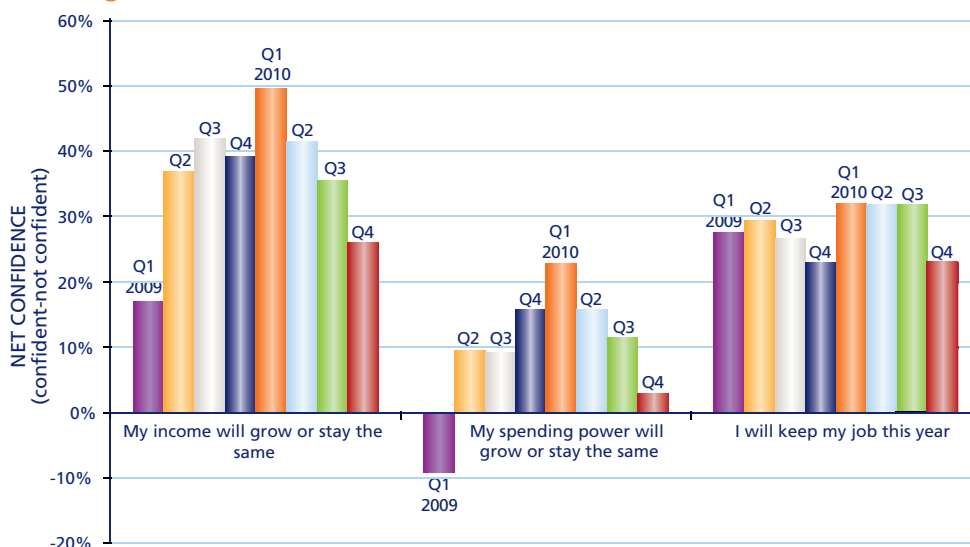
Prospects for 2011

As far as what 2011 has in store for the British public, ING senior economist James Knightly discusses the prospects for savers in detail later in this report (page 11), but consumer attitudes give us clues to how they will behave financially in the new year:

Spending - We have already seen consumers reign in spending across the Christmas period and this could very well continue into 2011. Nearly half of respondents (45 per cent) questioned as part of the ING Direct Consumer Savings Monitor said they would be spending less in Q1 2011 as a direct result of the rise in VAT. Confidence in job prospects, earnings and spending power are all down following the highs seen in Q1 of 2010 (see fig. 8).

Credit - While credit balances increased over Christmas, consumers estimate that within six months they will have returned to pre-Christmas debt levels (£2,680).

Figure 7 - Consumer confidence



✓ Economist Commentary



James Knightley
ING Senior Economist

While the UK's economic prospects improved through 2010, the situation for savers clearly didn't. Unfortunately the environment for saving is going to get even tougher in 2011 as the combination of a weak labour market, difficult credit conditions and high inflation erode the pot of cash that households can use to save.

Headline figures suggest that employment in the UK has risen by around 300,000 since the start of 2010, but the detail indicates that all of these jobs have been part-time workers with aggregate full time employees remaining 800,000 lower than the April 2008 peak. We remain hopeful that private sector job creation will gradually increase through the year and more than offset job losses resulting from government spending cuts. However, wage growth is failing to keep pace with the cost of living and this is likely to remain the case through 2011 as higher VAT and rising food and fuel bills eat into the pot of cash available for households to save or spend. Cuts to benefit payments will exacerbate the issue for many.

It is possible for households to both spend and save more despite shrinking real disposable (after tax) incomes, but we would need to see an increase in borrowing to fill this gap. The Bank of England's credit conditions survey suggest it is going to become easier to borrow, however, the same survey shows the demand does not appear to be there. Indeed, our own research bears out householders' desire to see their debt levels shrink.

Consequently we take the view that there are two possible outcomes for savings behaviour this year. Firstly, households continue to run down their savings in order to allow them to maintain their lifestyles. This though would make it more difficult for them to cope with possible financial shocks, such as redundancy. The alternative is that they do save more, but this would mean less money available to spend on goods and services. This would hurt the growth prospects of the economy and increase the risk of persistently high unemployment in the UK.

This is a difficult quandary for the household sector and one that will persist until we see real household incomes start to pick-up. This is unlikely to happen until 2012 when the impact of VAT is not being so keenly felt and a gradual improvement in economic activity starts to push up employment and wages. Unfortunately, 2011 appears likely to be a repeat of 2010.

Appendix: Methodology

In order to establish an accurate and up-to-date profile for ordinary UK adults and reflect trends in the profile of UK adults through 2009 and 2010, researchers drew upon a range of sources including the British Household Panel Study, the DWP Financial Resources Survey (FRS), and the HM Revenue & Customs Marketable Wealth data.

Based on this profile, a sample of 1,300 people deemed to be fully representative of UK adult population, up to and including the 95th percentile of savings wealth, is selected on a monthly basis by PureProfile, a leading online quantitative research panel. This sample includes approximately 1000 savers (approx 25 per cent of UK population do not have savings). In order to prevent any time discrepancy, the sample is interviewed over the same seven day period beginning in the last week of every calendar month. The sample is asked an identical standard series of tracking questions every month. These tracking questions commenced in January 2009 and are run on a monthly basis. Quotas are continually monitored and adjusted to take account of any changes in the profile of UK savers, using FRS and the quarterly nationally representative waves of the ING Consumer Savings Monitor research.

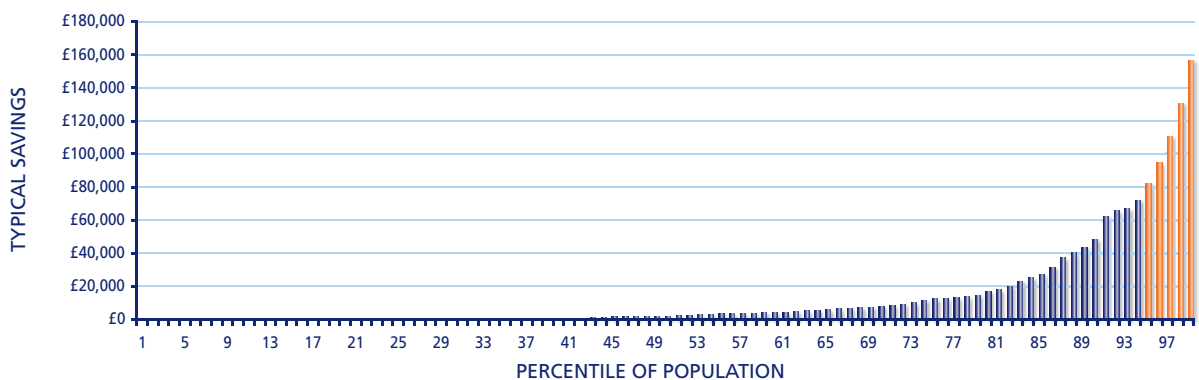
The figures are published quarterly and are based upon 'three month' rolling averages. Monthly and quarterly figures are centred on the first day of the final month in that quarter in question (e.g. our March, or Q1 figures, are 'centered' on March 1st – an average of samples collected Jan 27th to Feb 4th, Feb 25th to March 4th, and March 27th to April 4th).

- **Median figures**

In order to define as accurately as possible what the 'ordinary' Briton has set aside, our study uses median figures throughout. Our research partners have also used independent data to create a model for the UK savings distribution at the top end of the scale, which represent the wealthiest five per cent of the population who are systematically under-represented in all 'nationally representative' polling. This allows us to maintain the consistency and accuracy of the survey sample in order to find the true 'man in the middle'. For comprehensibility and given the fact that non-experts may not understand the word 'median' alone, we take the word 'average' to refer to median figure - both with respect to income and saving levels.

In practice, our focus on the median average UK adult delivers figures on average savings that are around four to eight times lower than mean averages. This is because mean averages are skewed hugely towards the wealthier end of the savings scale (Fig 13). Our focus on the median UK saver thus delivers a far more accurate view of the savings levels of 'the man in the middle'.

Figure 15 -Model of savings distribution across UK population



Source: FDS International

Appendix: Methodology continued

- **Definition of 'savings'**

We define savings as monies held in bank accounts as a form of cash reserve. This includes cash held in traditional savings accounts including cash ISAs, as well as 'spare cash' held as a buffer in current accounts and funds held in fixed term accounts that can be accessed (with or without penalty). It does not include equity ISAs or accounts where cash is locked away for months/years.

- **Confidence Intervals**

Confidence intervals have been calculated on the basis of effective sample size, taking into account design effects (i.e. weighting) upon the data and are available from FDS International.

- **Percentage of monthly income and savings as 'multiplier' of income**

In order to calculate the percentage of monthly income being saved and map this onto savings, FDS research used historic data on gross domestic income obtained from Bank of England / ONS trend series derived from the Expenditure and Food Survey. For full details of the government definition of gross domestic income is available upon request from FDS international (see contacts on pg 15).

In order to carry forward this trend data to the present day, with monthly figures, we use a proprietary forecasting model based upon government figures, which is checked against forecasts produced by leading economics forecasters Oxford Economics.

- **Interest rates**

Interest added by savings providers to savers' balances is taken into account using latest monthly CACI data on interest for total stock of savings. All figures include interest accumulated.

- **Historic data**

In order to reconstruct trends in levels of savings among ordinary UK adult savers between 1982 and 2008, researchers have drawn upon Bank of England trend data on retail deposits from individuals (excluding discontinuities), HM Revenue & Customs Marketable Wealth data (excluding housing), the British Household Panel Study, DWP Financial Resources Survey and Expenditure and Food Survey (prevalence of saving) and industry data (CACI) and retrospective recall questions (on accessibility of savings) in the April wave of our savers survey. Historic data on incomes is obtained from Bank of England / ONS trend series derived from the EFS.

- **Debt calculation**

As part of the ING Direct Consumer Savings Monitor quarterly tracking, we ask survey recipients to record their current level of outstanding unsecured debts from credit cards, overdrafts, personal loans and hire-purchase agreements. Outstanding debts refer to those remaining after bills have been paid (so credit paid off in full each month would not be included).

Appendix: Methodology continued

- Debt calculation continued...

Using this data we produce a *mean* average. In tracking debt levels, the *mean* average gives a better indication of average debt levels among UK people than the *median*. This is because the distribution of debt is considerably different to that of savings, in that a larger number of people report having no debt than report having no savings.

Therefore if we were to report on the median debt we would calculate a figure that is either zero or very small, which would not give us a sensible indication of average debt levels among the typical UK person. Therefore in this instance we have chosen to use the mean figure as this is better suited to the distribution of debt.

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