

PRIZE-BASED SAVINGS More Interesting than Interest



The Opportunity

According to the *Federal Reserve's 2004 Survey of Consumer Finances*, only 47 percent of American families currently have savings accounts, a decrease of eight percentage points from 2001. The Brookings Institution estimates that there are 8.4 million Americans with annual incomes of less than \$25,000 and no checking or savings account. Research indicates that income, more than any other factor, is the primary determinant of savings assets. Age, race, and ethnicity are also contributing factors.

What's more, every year Americans pour their hard-earned money into slot machines, black jack tables, poker games, and other forms of legalized gambling. According to Tufano and Schneider (2006), Americans—including many low-income earners—spent nearly \$80 billion on gambling entertainment during 2003, at a time when the national household savings rate was heading toward zero and would soon slide into negative numbers.

In addition, a 2005 survey commissioned by the Consumer Federation of America (CFA) and the Financial Planning Association® (FPA) discovered that nearly 40 percent of low-income earners think it is more practical for them to accumulate significant savings by winning the lottery than by actually following a systematic plan for saving.

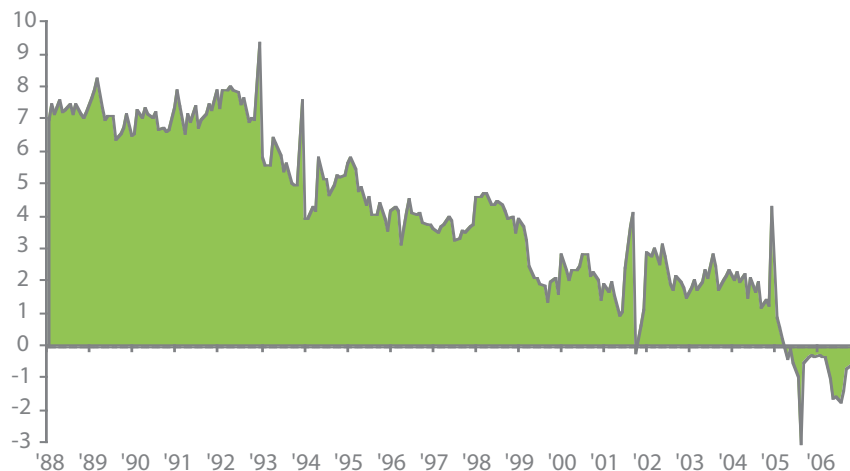
Of course, financial planners, policymakers, and economists agree families must have savings to survive financial emergencies, plan for the future, and retire comfortably. The challenge, then, is to combine the fun and excitement of gaming with the practicality and seriousness of saving to achieve the best of both worlds.



DR. PETER TUFANO
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"Several other countries have been very successful offering Prize-based Savings accounts to help increase national savings rates. These products have great potential in the U.S. and credit unions are in a unique position to help consumers save."

Figure 1: Household Savings (As a Percent of Disposable Household Income)



Source: Bureau of Economic Analysis, as presented by CUNA Economics & Statistics

The Solution

Consider that credit unions can develop an account that encourages savings by offering an opportunity to win attractive prizes along with *no chance of losing the investment*. What's more, credit unions can define and organize the prizes as sweepstakes (similar to promotions regularly run by major credit card companies) to avoid the gambling stigma and address legal and regulatory compliance issues.

To participate, members simply deposit money into a specific *Prize-based Savings* account. Members earn an entry into the sweepstakes drawing for each dollar or incremental dollar amount deposited. They can deposit or withdraw from the account as needed, and there

is no penalty for withdrawal. However the more members save, the greater their chance of winning a prize in the sweepstakes drawing.

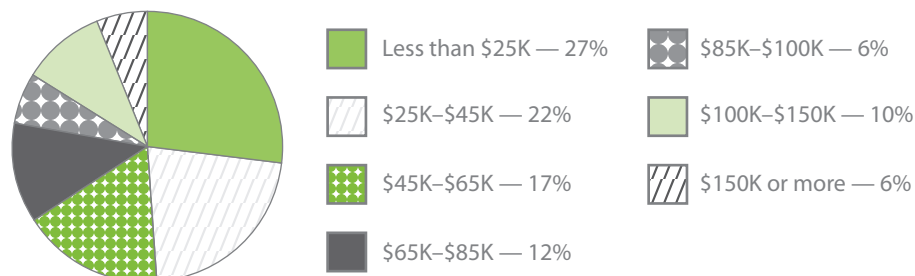
As a way to offset the cost of prizes, a credit union may elect to minimize the interest rate on this account, or to forego paying interest altogether. For example, if the regular share savings account is paying one percent, consider establishing the *Prize-based Savings* account at 0.5 percent and use the difference to fund the prizes. Although there may not be sufficient funds to offset the early rounds of prize drawings, credit unions should view this early investment as a marketing expenditure.

HITTING THE JACKPOT IN OTHER COUNTRIES

Combining the need to save with the lure of "winning," *Prize-based Savings* programs have been used successfully and extensively in other countries. The evidence from those programs shows they are attractive to consumers.

- The United Kingdom's government offers "Premium Savings Bonds" that automatically enroll holders in a monthly tax-free prize lottery. Since the 1950s, 23 million bondholders have generated 26 billion pounds.
- Latin America offers a lottery-linked deposit account with daily prizes of cars and cash (valued at \$20,000–\$25,000), as well as monthly cash payouts well in excess of \$200,000, and other monthly prizes (e.g., consumer goods) valued at \$500–\$1,000 each.
- In Mexico, the bank gained 485,000 accounts and \$178 million in deposits over a two-year period.
- In Venezuela, they successfully generated 697,000 accounts and \$642 million in deposits.
- Other countries with prize-based deposit accounts include Sweden, Tokyo, Germany, Turkey, Kenya, Indonesia, Spain, and Pakistan.

Figure 2: Distribution of U.S. Households by Annual Income (2005)



Source: U.S. Census Bureau, *Current Population Survey*, 2006 Annual Social and Economic Supplement.

MEMBER BENEFITS

- Build long-term saving habits to better prepare for the future.
- Fun and excitement with the chance to win prizes.
- Positive financial return.
- No adverse entry requirements, no penalties for early withdrawal, and no hidden fees.

CREDIT UNION BENEFITS

- Help people develop good saving habits.
- Attract low-cost deposit dollars.
- Attract new members.
- Increase product use among existing members.

Target Market

The potential market for *Prize-based Savings* is probably larger and more diverse than one might expect. Given experiences with this type of program in other countries, an obvious U.S. target market is low-income and underserved households. According to the *Federal Reserve's 2004 Survey of Consumer Finances*, roughly one-third of U.S. households have incomes of less than \$30,000 per year. In addition, nearly nine percent of U.S. households have been identified as unbanked; that is, they do not have a transaction account with a traditional financial institution.

In addition, research suggests there may be a secondary target market composed of higher-income individuals whose primary motive is to participate in the account for a chance of winning prizes. Consider *The Washington Post* survey (1997)—it found that middle-income Americans are actually the

market segment most likely to play the lottery. Americans with annual household incomes of \$45,000 to \$65,000 (17 percent of the population) play most often, followed by those with annual household incomes of \$25,000 to \$45,000 or 22 percent of the population (see Figure 2, page 7).

All told, the potential market for this product may encompass as much as two-thirds of U.S. households. And given that 37 percent of non-members are eligible to join a credit union, there is considerable potential for credit unions to attract new members with the *Prize-based Savings* account.

Marketing Tactics

Marketing is key to this product's success. Because the product concept is new to the U.S. marketplace, credit unions will need to start from scratch to build product awareness. Begin by training the entire staff using "mock accounts" in which they can participate to generate understanding and excitement. This will enable employees to easily and enthusiastically explain the product and a member's ability to win prizes. Viral marketing—where consumers spread the word to friends, family, and co-workers—will be a primary driver as winners and prizes are featured. In addition, a mix of print, radio, point-of-sale, and direct mail promotions can be used to generate awareness and excitement. Similar to other new product launches, the marketing expense should be considered an investment in the early stages and should be measured accordingly.

Credit unions have great flexibility in designing the specific features of the account according to their market or institutional needs. There are several ways to customize the program by utilizing and varying the following features:

- The amount required to participate.
- The account's interest rate.
- The frequency of the prize drawings.
- The value of the prize (cash award or consumer good).
- The rules governing the number of entries permitted for participants.

The prize(s) need to be alluring enough to attract member and potential member interest, yet affordable for the credit union. Offering periodic weekly or monthly prizes should keep members engaged and interested. In addition, a large grand prize offered annually or biannually to pique member interest may drive program participation and a long(er)-term commitment to saving.

Operational and Other Considerations

Simplicity is a key element of *Prize-based Savings*. Operationally, it should be as simple as establishing a new share/savings account that accepts both member deposits and withdrawals. Structured as a share account, the *Prize-based Savings* account can easily be implemented using most credit union data processing systems along with a product code for tracking purposes. Spreadsheet analysis can be used to determine prize eligibility and to randomly select prize winners.

Bear in mind that there are some potential risks involved with this product offering. Of most concern is the possibility that since this product encourages consumers to save in gradually increasing amounts to qualify for more opportunities to win a prize, it may be perceived as promoting gambling. To mitigate this risk, internal and external communication should bring clarity to two key points: 1) participation is optional, and 2) there is no chance of losing the investment (their money). In addition, prize winners will be liable for applicable taxes as defined by federal and state regulations. This should be disclosed, along with program guidelines and rules, when accounts are established.

Proof of Concept

In conjunction with Dr. Peter Tufano of the Harvard Business School, the i³ group is currently studying member participation in and behavior resulting from a *Prize-based Savings* product. In fact, the \$596M Centra Credit Union (Columbus, Indiana) is in the process of piloting a new account called “*Super Savings*” that enables members to win prizes by saving money. Focus groups were used to help determine member interest, account structure, and prize types. Members receive one entry for every average monthly balance increment of \$25 in their *Super Savings* account. Each month, more than \$1,300 in prizes such as laptop computers, DVD players, gas, music downloads, and grocery cards are given away. And quarterly prizes that double the winner’s *Super Savings* balance (up to \$1,000), and an annual \$5,000 luxury trip prize are yet to come. Rather than foregoing interest altogether, the credit union pays a relatively low 0.5 percent on its *Super Savings* account (compared to 1.4 percent on its regular savings account).

Super Savings is being tested at two branches: the Clarksville, Indiana, Wal-Mart branch, and the Whitakers, North Carolina, Cummins Engine plant branch. These branches were chosen because they represent two distinct

markets—one, a closed environment where most employees are long-term credit union members, and the other, a new market with demographics that match the likely target market for *Prize-based Savings* products. Marketing messages for both the *Super Savings* account and traditional savings products are also being tested.

Preliminary pilot results show that the product is in fact reaching the market for which it was originally intended—especially those who find it difficult to save. Furthermore, mall intercept surveys indicate that a third of local retail shoppers have no regular savings plan, and that 58 percent have spent money on gambling during the past six months. Centra Credit Union will launch the *Super Savings* account credit-union-wide in early 2007.

Mark Forsyth, Vice President, Lending, National Institute of Health Federal Credit Union, (Rockville, Maryland) comments, “The i³ group is very pleased with the level of interest that credit unions across the country have already expressed. Perhaps it’s the timing since most credit unions could use deposits! Or perhaps it’s the simplicity of the idea.”

Either way, it helps that credit unions are familiar with sweepstakes offers and that launching a new savings account type takes a relatively short period of time.



Getting Started

Imagine the potential should this type of account take off at credit unions! With the right type of publicity (e.g., on *Late Night With David Letterman's* regular feature: Is it something, or is it nothing?), a few quick wins by credit unions could easily snowball into a discussion of public policy and considerable exposure for credit unions.

While it's tempting not to, credit unions should do some preliminary research and analysis before proposing and establishing *Prize-based Savings*. Consider the following steps to determine the extent to which your

members and potential members need a product to increase savings in the U.S.

- 1 Graph your members' average savings balances over the last five years. Is it increasing? Decreasing?
- 2 Break down current savings balances into categories and look at the demographic composition of members with no-to-low savings. This should help you determine the target market within your existing membership.
- 3 Seek out demographic data (e.g., annual incomes) for your entire field of membership to determine the market size and potential for attracting new members with this account.

4 In addition, you should consult with legal counsel as to state and local laws and regulations governing sweepstakes and distribution of randomized prizes. After establishing program feasibility, baseline measures, and the guidelines and rules governing the program, implementation can be quickly accomplished. While piloted as a sweepstakes, there exists an opportunity to gather important consumer data which (if programs are successful) could ultimately lead to a change in regulations to permit a lottery-linked product.



More Information

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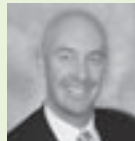
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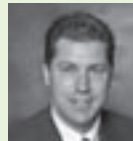
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