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## Original Article

# Bank of mum and dad

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**ABSTRACT** In this article, Stephen Tiley, a Pensions Manager for Wincanton Plc and a Volunteer Adviser for the Pensions Advisory Service, ponders over whether we have become over reliant on financial institutions. In particular, he questions whether a return to more traditional values and family self-help, or perhaps mutual organisations, could serve consumers and society better. This coincides at a time of greater scrutiny of charges for defined contribution pension schemes in the United Kingdom as auto-enrolment into pensions by all UK employers kicks off. These are Stephen's personal views and not necessarily those of his employer. Stephen does not have an interest in Zopa except as a customer.

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We have all probably heard of the 'Bank of Mum & Dad'. The 'institution' that all youngsters, and the *not so young*, sometimes call upon to assist with buying a first home, or supporting college studies, or when we marry perhaps or at some other major event in our lives.

In fact, in many cultures, the 'Bank of Mum & Dad' extends to grandparents too, and aunts and uncles. In fact, in some cultures, at weddings monetary gifts are bestowed on the happy couple and written down in a book so that a record is kept. Presumably, next time there is a wedding in the family you are expected to reciprocate, after all it is only fair.

Many immigrants into the United Kingdom have built successful businesses – sometimes from humble beginnings, and many have relied on family and extended family to finance these enterprises. Almost without question, it is accepted that the older members of the family are looked after, often in the family home, and

they will willingly lend a hand with the grandchildren and pass on their culinary skills to the not so grateful daughters-in-law. There is never a question of an older member of their society going cold or hungry, or lacking support in their day-to-day needs.

If you examine the financial ecosystem at work here, you will see that 'normal' financial institutions are largely frozen out. Mortgages are not often required as the older generation and extended family all lend a hand. Pensions are not so important because a thriving family business becomes the 'money engine' and supports the family and parents/grandparents, who often live in the same household or in properties nearby, thereby creating a local support network. Therefore, less social care is required from wider society.

Another example of traditional financial institutions being frozen out is the credit union and local currency systems based on barter. Or the online version of a kind of exchange between borrowers and lenders that can be found at [www.zopa.com](http://www.zopa.com). This cross matches borrowers and lenders in the personal loan market enabling loans

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to be split into multiples of £10. This means one loan can be financed by hundreds of lenders, which spreads the risk for individuals. The exchange takes a small fee and tax is payable on interest received via your tax return. Could this idea be extended further? Let me explain my idea.

Just as the retired need an income in retirement, so do younger generations need somewhere to live. Increasingly, the natural fit between retirement capital and finance required for a home purchase becomes clearer. In other words, mortgage repayments on a fixed interest basis could provide the retirement income and the younger generation uses the retirement capital to buy a home. This could be from elders in the family or a wider network via an exchange similar to Zopa. There would need to be some form of pooling and mutual insurance to cover exceptions and early/late deaths, but in principle the source of capital (retirement funds) and mortgages for homes would appear to be broadly compatible.

However, where we often seem to go wrong in society is when we allow the 'swollen financial services industry' (phrase coined by Vince Cable M.P., Business Secretary in the UK Government) to complicate matters and skim off too high a

margin for administration and profit. What can work well in families suddenly becomes an expensive quagmire of charges, regulation and red tape. This is almost like an additional tax on our savings. We would all be angry at having a car stolen and yet similar value is often extracted over several years from savers in personal pensions in the United Kingdom because of legacy high charges still being applied to these individuals.

We save, usually paying tax, unless in a tax exempt product such as an Individual Savings Account in the United Kingdom, or a pension scheme, but often so much is extracted in charges, commission or running costs (or all three) that we find our depleted savings failing to buy a decent income. This is currently mainly due to ultra low interest rates, the catalyst having been errors by Government, banks and regulators. Thus, no wonder that those families that have super 'Banks of Mum, Dad *and* extended family' do relatively well without the need to resort to many of the financial products that so many of us have come to regard as 'normal'. Perhaps, we need to think again and consider where our money goes and could a mutual solution work better?