

Should you take a punt on prize draw savings?



In a response to the economic downturn resulting from the pandemic, governments around the world have lowered bank rates to 0% - or nearly 0% - in order to help reduce the economic impact.

This policy move has had a ripple effect on retail banks' deposit interest rates passed to customers with savings. Funds left in the bank effectively earn no interest and provide literally no benefit beyond any individual country's government backed money protection scheme and easy access.

Despite this, consumers and businesses still need to set aside funds for emergency savings and to cover drops in income.

Keen to keep a lid on interest payments, banks and building societies are now blurring the line between rewarding us for saving money with them and enticing us with a spot of gambling - Enter Prize-Linked Savings (PLS) accounts - which are starting to increase in popularity and usage.

Fundamentally, these types of products are similar to standard savings accounts, with the added benefit that account-holders are entered into regular prize draws to win cash prizes.

At a time when overspending and lack of budgeting can lead to falling behind on rent, mortgage or other debt payments like credit cards, having a savings cushion is a lifesaver.

The intention behind these currently popular accounts is to incentivise savings behaviors from individuals - and of course to increase business for the banks providing these products.

So let's explore the history of prize-linked savings accounts, benefits and drawbacks, what the future may hold, and is it worth taking a punt.

History of Prize-Linked Savings

The earliest form of PLS account was in 1694 in the UK as a way to repay military debt incurred fighting the '9 Years war' against the French (1688-1697).



The UK also has more recent experience of similar products through a government backed premium bonds program it launched over 60 years ago.

It is still very popular today - despite the prize fund dwindling on a regular basis.

For banks and individuals in the US, prize-linked savings has only been an option in the last decade.

But it's not just these two countries where you can find PLS accounts - They are available in a multitude of other countries. Here are just a few;-

Argentina, Colombia, Germany, Indonesia, Iran, Japan, Pakistan, Spain, South Africa, Sri Lanka, United Arab Emirates, Thailand and Venezuela... They are everywhere if you take a look.

How Prize-Linked Savings Accounts Work

PLS accounts can be any bank deposit account that earns deposit interest, but most commonly it's a standard savings account.

The bonus is that each customer is given entry into a regular draw for cash prizes, which would be paid into the savings account. For people who enjoy playing the lottery each week, these programs offer a similar function, but at no extra cost or exposure to loss of savings, though balanced by a much lower level of potential prize winnings of course.

Pros and Cons of Prize-Linked Savings Accounts



Motivation to build and maintain monthly savings balances:

These accounts are proven to lead to increases in savings over time, which ultimately should improve overall financial wellness of both individuals and each country.

Additional boost in savings through winnings: For those who do win prizes, there's an innate benefit to keeping the balance in your account to maintain the odds of winning again. The largest winnings in prize-linked savings campaigns are comparable to small-scale lotteries, but typically the prize pot is distributed to a wider number of people.

No risk of loss in deposit value: Entries into prize draws have no cost and deposits in accounts are not at risk. It's basically a regular savings account attached to a draw or promotion.

However, even with these benefits, a few large drawbacks for prize-linked savings exist:

Low monthly interest: As a core savings product, the interest rate is typically lower than other comparable bank offerings. Most bank deposits have little or no interest rate to offer currently, but if interest rates do increase in the next 12-18 months, PLS accounts may not be a worthwhile option.

Prizes are random: Similar to the lottery, participants have no direct control or clear notion of when or how much they may be win. Customers can't predict winnings as part of their financial planning for the year. Some are lucky, most are not!

An alternative of a higher-yield standard savings account (as the economy recovers) guarantees a better level of interest over time, which can help in meeting your financial goals.

Possible lack of immediate access to savings: Some banks do include delayed access to balances in PLS accounts, so this isn't a viable option if the money is likely to be needed instantly.

Future of Prize-Linked Savings Accounts and is it worth a Punt?



This new decade of 2020 as we all know, has started off with uncertain times due to the COVID-19 pandemic.

The initial reaction of the current instability in the economy and increasing unemployment has seen consumers reduce spending and prioritise savings.

With bank savings rates so low, people are bound to look towards alternatives with potential higher returns and low risk.

Prize-linked savings has become a popular option this year, both as people seek places to keep additional funds. Let's be honest, there's not much to lose in parking reasonably small amounts in these type of accounts for a chance to cash in on a large prize.

As bank rates start to rise once the economy stabilises, many people will probably change to traditional savings products for the reasons that I have already mentioned.

Therefore, banks would need to add additional features beyond a prize draw to achieve better, longer relationships and retain the account balances.

Fundamentally these type of products have a value in helping people to save on a regular basis and provide a pot of money that can be accessed relatively easily, should they need it in an emergency - With the added attraction of the possibility that they may win a nice sum in the prize draw.



But a little looking around will normally find something that offers a better return and still provides protection for your money with a similar level of access.

This should not be too surprising, as the total interest and prize money is effectively the total return the bank can afford to offer its customers.

It therefore follows that a straight-forward interest-paying account should provide a higher interest rate.

If like me, you look at them with a clinical financial eye, they're only a good bet as a serious place to put savings if you're lucky - And most people at best only have average luck, so you'll be worse off with your money in a PLS account.

In the end it's all about your mentality. They do protect your cash, so even if the returns don't look a good bet, it's fine to put a non-significant portion of your money in them, provided you're aware it's more for fun than returns.

Before deciding, use a calculator to look at the real odds of the account you are considering. If you're willing to take the gamble after that, then it's fine.

You may think: "I'm likely to get a small win occasionally and there's a chance of winning a nice larger prize". But the main point is that this isn't correct.

You're actually likely to win almost nothing, and there's a negligible (at best) chance of winning a large prize. If you know and you're OK with this, then it isn't a bad plan for that non-significant portion of your money - Otherwise, look elsewhere!