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KEYNOTE ADDRESS
South African Savings Institute Savings Month Launch 2013

Sandton

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Chairperson of SASI - Prem Govender and the board

IDC and its leadership, the SARB, FSB, Academia

SASI partners - Nedbank: Anton de Wet; OldmMutual, Metropolitan, ABSA and others

Ladies and gentlemen

Good morning and thank you for inviting me to speak to you on this important occasion. I would like to thank the South African Savings Institute for keeping the savings flag up high.

Today, I want to focus my address on the importance of savings, especially by individuals and households. In this regard, I will propose some practical ways through which we can encourage South Africans to save.

Researchers have come up with four reasons why people struggle to save. They are:

- **Loss aversion**

Loss aversion refers to people's fears of losing what they currently own.

Studies show that people would rather keep what they have rather than seek to gain more. Similarly, consumers feel that consumption today is "at hand" and postponing consumption to a later date is seen as a loss.

Researchers recommend that one way to overcome loss aversion would be for financial institutions to make gains from saving vivid, concrete and tangible to savers. For example, products must be named according to their intended purpose. A good example could be funeral plans.

- **Status quo bias**

A lot of people do intend saving, but never do because of inertia and the tendency to revert to the status quo. In an experiment among Kenyan farmers at harvest time, one group was asked at harvest time to contribute to a savings account for the purchase of fertiliser for the new planting season. The other group was not informed about the accounts but offered the opportunity to buy fertiliser closer to the planting season. Of the farmers who were asked at harvest time to contribute to the savings account, 57% bought fertilisers in the next planting season, compared to only 17% of the farmers in the third group. This study emphasises that people are biased towards the status quo even when a change will be in their best interest. The need for nudges, in this case immediate deposits, got the farmers to act.

- **Undoing the dual self**

Dual self is about the fact that people have conflicting preferences. They, therefore, need ways to overcome temptation. Financial institutions should come up with innovative ways to incentivise individuals to save for the long term.

- **Paying attention**

People also fail to save because they are easily distracted. Paying attention to one's goals is part of the battle to getting there. Research shows that we eat more when watching television because we do not pay attention to what we are eating.

Similarly, people who do not focus on their future financial needs save less. Micro loans and other debts occupy people's attention because lenders are always reminding them about debt payments. The result is that people are more aware of debt than savings. In fact, in richer countries, banks remind clients to save for a rainy day. The opposite is true in poorer countries. And yet, as we all know, the rain does come, unless you are in the Sahara dessert.

Financial institutions can use cell phone messaging, for example, as an effective tool for sending reminding users of financial services about savings. A study in Peru, Bolivia and the Philippines has found that people who received SMS reminders about their savings targets saved 6% more than people who did not.

There is, therefore, a challenge for South African financial institutions and micro financial institutions in particular to spend more resources on designing and testing products for the poor as well, so that they can improve the quality and quantity of access to financial products and services. Financial institutions should help the poor to save their way out of poverty rather than helping them borrow to finance excessive consumption.

Investment in financial knowledge

Lack of knowledge about financial matters disempowers us. So, government and the private sector, both as employers and providers of financial services, have a big role to play in improving levels of financial literacy.

The need to increase levels of financial literacy has become even more urgent given the fact that governments and employers have, over the years, been shifting greater financial risks onto individuals. This shift gained even further momentum in the wake of the global financial crisis in 2008. For example, support for state sponsored pension funds is declining around the world and some governments are also reducing healthcare benefits. Of course, the shift away from defined benefit to defined contribution pension funds began many years before the financial crisis. These developments have shifted the responsibility to save for a secure future to the individual. But do individuals understand the implications of these shifts?

Sadly, the majority of workers are not aware of the risks they face now or will face in the future. In addition, they neither have the skills nor the knowledge to manage risks such as longevity and market risk.

The world of finance is always changing and therefore introduces complex products, which makes their comparison difficult. And too much choice often leads to no decision at all.

There is evidence that financially literate adults have a higher probability to save and plan for their retirement. In addition, higher financial literacy can lead to better ability to handle money and participate in various financial instruments, and thereby enabling wealth creation. Most South Africans, for example, still associate “savings” with a bank saving account. Yet there are there are numerous other savings vehicles such as collective investment schemes and insurance policies, which cater for different risk appetites.

Similarly, with higher levels of financial literacy, individuals can shop for relatively cheaper debt and manage their debt better. And in fact, financial literacy can alert them to the dangers of excessive and reckless debt, which tends to be associated with excessive consumption.

How do we then provide for financial literacy in our nation? Are we, Government and the private sector, taking the financial literacy to schools, workplaces and places of worship? Who is best suited to provide the education? Will financial institutions be neutral enough not to use financial literacy initiatives to push their own products?

Financial literacy has many facets, from basic schooling to teaching learners basic skills such as accounting, how to plan and budget, open bank accounts and using credit wisely, to financial institutions taking responsibility for ensuring their customers understand and can access financial products and services. Businesses, Government and non-governmental institutions can assist with this critical role.

In conclusion

All of us have a role to play in raising the level of savings in South African, especially among individuals and households. For as Mark Twain once observed: “A lack of money is the root of all evil.”

With these few words I declare the Savings Month (campaign) officially launched. Let **savings be a way of life for a prosperous future and a be a legacy we leave for the next generation!**

I thank you.