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SA Savings Institute Review

South African Savings Institute
10yr anniversary 2001-2011

Changing mindsets towards financial freedom: SAVE NOW

Prem Govender, Chairperson of SASI.

JULY is Savings Month, the annual national savings awareness campaign of the South African Savings Institute (SASI), which is the Institute's flagship event for the cause.

According to Prem Govender, Chairperson of SASI, nations that save enjoy a certain degree of self-reliance, excellent economic growth and citizen wellbeing, which was the motivation behind the establishment of the savings institute ten years ago.

"The need for a strong savings culture and hence a high savings rate to boost the economic growth of the country was paramount.

The Institute is committed to inculcating a culture of saving among South African citizens under four programme areas, which have guided its activities for the past 10 years. These programmes are: Research and Advocacy; Debate around key aspects of saving through roundtable discussions; the Provision of Education and Information; and Promotion and Awareness creation through campaigns such as the July National Savings Awareness Campaign, Teach Children to Save (TCTS SA™), Varsity Financial Literacy and the Festive Season Savings Campaign.

Savings Month is SASI's flagship vehicle for the cause. The objectives of the campaign are to:

Promote debate around key aspects of saving;

Raise awareness of the benefits of short, medium and long term planning;

Build relationships with key partners to leverage future opportunities;

Foster a culture of saving within a local and international context; and,

Complement the messaging being generated through the social security and retirement reform process, to make it meaningful and relevant to the youth as well, which will encourage them to start saving early in life, rather than leaving too late.

According to Govender, the current domestic economic situation, with rising inflation and slow growth, has exposed the vulnerabilities of income, expenditure, savings and debt servicing.

She says South Africa's gross domestic savings has fluctuated between 14% and 16% while household savings have been between 2.7% (1991) and -0.2% (2012:Q1) of their disposable income, with debt servicing hitting as high as 81% (2008).

"Subsequently, the country's GDP growth has not gone further than 6%. This puts South African consumers in a reasonably financially vulnerable position by income group.

"After 10 years of advocating for a culture of saving, South Africans still battle with managing their finances. While we acknowledge the external factors responsible for this stance, a clear lack of pragmatism is evident with many individuals and households in general.

"This has made many of them vulnerable to economic shocks thus compromising their financial wellbeing. Post the financial crisis many consumers reverted too quickly to their financial mismanagement behaviour.

"This scenario is of concern to the SASI especially since many of them had not fully recovered from the imbalance the crisis caused to their cash-flows and the cost of living seems to be progressively increasing.

"Financial literacy remains crucial to help consumers and households in general, to understand their role in a changing economy," says Govender. SASI emphasises that it's time for change!

"This year SASI is urging consumers to proactively take charge of their lives. As the Minister of Finance pointed out during SASI's 10-year anniversary, an entrenched savings culture means South Africans must develop an attitude of saving for major expenses and goals, instead of relying on easy credit and long repayments to purchase whatever luxury good seems desirable at the time.

"Consumers need to go beyond what we term 'necessities' in terms of the role of savings. This means that we need to change our mindsets about savings and financial health in general!

"In his 2012 budget speech, the Minister outlined government strategy to introduce tax-exempt short and medium term savings products, to encourage more consumers to manage their levels of debt and develop a strong culture of savings. SASI welcomes this strategy and is encouraged to pursue its mandate even more aggressively," says Govender.

She informs that in lieu of the above, SASI launches its traditional July National Savings Month Campaign on 4th July 2012 to remind consumers that the power is in their hands to either strive for financial freedom or remain continuously vulnerable.

"Economic challenges are part of the norm and households must learn to incorporate them in their plans, so as to overcome the negative impact associated with them. Thus the theme for this year's National Savings Month campaign is 'changing mindsets towards financial freedom: Save now'.

"A key feature of this year's campaign is the launch of a Savings and Investment Expo South Africa™, which will provide consumers with a platform from where they can receive first-hand experience of active participation in the savings and investments arena, from which many are excluded.

"The Expo is intended to be a long-term one-stop platform for productive interaction between the demand and supply sides of the financial sector including consumers, practitioners, regulators and policy makers," concludes Govender.

Mobilising savings to stimulate the economy must be done in partnership

GROWING South Africa's savings pool cannot be achieved without a partnership based on trust between Government and the savings and investment industry. This is according to Johan van Zyl, Chairman of the Association for Savings and Investment South Africa (ASISA) and CEO of Sanlam who was speaking at the opening of the ASISA Assembly in Johannesburg recently.

The Assembly attracted some 250 representatives from the savings and investment industry, National Treasury, the Financial Services Board (FSB), the JSE and organised labour. The aim was to collectively debate practical solutions to the challenge of increasing South Africa's savings pool, protecting it, and then deploying it responsibly in support of the national development agenda.

"By finding long-term solution to this vexed problem we will be creating a win-win situation not only for our industry, but also for Government, the private sector as a whole and the citizens of this country," says Van Zyl.

Van Zyl firmly believes that the solution does not include Government getting involved in the provision of financial services. He adds, however, that if in the context of South Africa's unique challenges Government believes that it does need to get involved in providing solutions that will improve savings, this should happen in partnership with the private sector where the necessary infrastructure and expertise are already in place.

"Government's real focus should, however, be on ensuring regulatory and policy certainty. The aim should be to create a stable environment underpinned by level playing fields, which will encourage private sector initiatives to increase the country's savings rate."

Van Zyl points out that capital, both foreign and local, will sit on the sidelines and wait for clear signs of how it will be treated once committed.

"We all know that uncertainty is the biggest disincentive to investments," he adds.

He says South Africa has come to a major juncture in its history where increasing the growth rate of the economy in an inclusive way is imperative. Growing the savings pool and job creation are two critical components.

"The efficient provision of financial services has an important contribution to make in achieving this objective, and as ASISA we accept the challenge enthusiastically. We will therefore continue to support and participate in all initiatives that will take us forward on this road."

However, says Van Zyl, a key requirement is regulatory certainty.

"While I agree that it is important for Government to set a firm course for our industry from a regulatory perspective, I need to caution against rushing changes that will have a significant impact on our industry, its intermediaries and our clients.

"While I maintain that in some instances our industry is being forced to swallow internationally prescribed medicine when it is not suffering from the same global cough, I am also exceptionally pleased about the fact that National Treasury and the FSB continue to engage with us proactively and frequently on issues that need to be addressed."

A good example, according to Van Zyl, is the ongoing engagement around National Treasury's policy document, 'A safer financial sector to serve South Africa better'.

Van Zyl says ASISA has what it takes to partner with Government on issues of national importance such as stimulating the economy by increasing the savings pool. ASISA is empowered by a mandate from an industry that manages assets of more than R4-trillion. This industry is considered the custodian of the nation's savings and is recognised as one of the country's biggest contributors to the national GDP.

Government gets tough on saving for retirement

SOUTH AFRICA'S retirement industry faces long-anticipated reform as government has been considering plans to make retirement saving compulsory for everyone in employment at least since 2004, according to Nomtha Mthembu, professional assistant in the employment law department at Garlicke & Bousfield.

She says Government plans to introduce the National Social Security Fund to which all working people will be required to contribute. While waiting for the major proposed changes, some changes will be fast tracked; as the Minister of Finance indicated in his 2012/2013 budget speech the end of provident funds can be expected on 1 March 2014.

"The proposals came about as a result of identifying that when members resign they withdraw from provident funds, usually receiving poor benefits, and that they then cash these benefits and consume them before retirement.

"This results in members retiring with an inadequate means of support. Simply put, the build-up of savings is disrupted as members do not retain their benefits in preservation funds when they change jobs."

In addition, Mthembu says Government seems to have realised that the means test for state benefits acts as a disincentive against income earners, particularly low income earners, in making their own provision for retirement.

"This is so since the means test for old age assistance favours lump sum benefits. When a member resigns or retires from a provident fund, he or she receives a lump sum benefit and once the lump sum has been consumed, the member easily qualifies for the old age assistance without any penalties.

"The government is therefore seeking to compel income earners to provide for their retirement in the form of pension structures where a member can only consume as a lump sum, a third of the accrued benefit and is compelled to purchase an annuity, or what is known as a pension, with the balance."