Savings Should Drive Economic Recovery and Economic Growth in South Africa

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9th November, 2010

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Registration number: 2001/008506/08; VAT Registration Number: 4180196794

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1. Introduction

The recent recession contributed to a decline in consumer wealth, reduced incomes, unemployment, and increased poverty, factors which have affected savings and investment for growth. Although the South African economy is slowly recovering, the impact of the recession on South Africa's Households will continue and will have long lasting impacts on savings. The recession raised debates about the role of savings in economic recovery and growth in South Africa. This also raised questions of the role fiscal and monetary policies can play in creating a conducive environment for boosting savings. This brief reviews the elusive concept of saving in South Africa, the evolution of savings in the South African economy as well as the effects of the savings deficit.

Special focus will be given to the attitudes and savings behaviour of the different income groups and how their lack of financial literacy contributes to a weak savings culture. The brief concludes that the role of economic agents and regulators has been inadequate in fostering confidence and trust in the local financial system thereby leading to poor levels of domestic savings. A massive education drive on financial management and literacy and innovation in simple savings products for the low income groups as well as the middle income groups are key requirements in boosting consumer confidence and enhancing a long term savings culture.

2 Views on Saving in South Africa

2.1 The definition and measurements of saving

Is there a clear understanding of what constitutes savings among the different income groups? Should risk benefits and short term insurance be defined as savings? The way individuals define and view savings also affects their ability to save. The measurement of private and public saving is fraught with conceptual problems, with some income groups defining savings as "**putting away something to secure buying in the future"**. Savings need to be defined more broadly to include savings for a rainy day, savings to buy goods, to long term investment for retirement in a workplace, as well as individual pensions.

The amount households save varies with household composition as well as the levels of employment. The BMR survey found out that large households and households with children and people entering the job market find it difficult to save at all, whilst younger people are “living for the moment” rather than saving for the future. Some parents are quite comfortable by not saving and by investing in the future education of their children as those children will look after them. This has an impact on savings as well as the capital accumulation of the young adult as they start looking after their parents without accumulating their own savings at an early age.

Africans in the low income groups are more inclined to save from a more communal or Ubuntu perspective in stokvels, burial societies, and grocery schemes, which generates a sense of solidarity among members and families. Their attitudes towards the uses of savings define how they interact as communities to save for a purpose. These communal methods of savings could be invested in, ensuring that individuals save in community institutions they trust.

However, not enough is being done in South Africa to develop a culture of saving from an early childhood onwards. There is need to re-introduce the “piggy bank” or “savings box” as a strategy to develop a culture of saving from early childhood.

2.2 Why are South African Households not saving?

Putting money aside for short term emergencies and even for retirement is proving to be too difficult for most South Africans. Most South Africans in the low income groups and the middle income groups have no plans to save and no regular savings plans at all. About 72% of adult South Africans are not saving at all, and about 80% have not even changed their saving plans or increased their savings even with the present favourable savings environment of a low inflation rate.

2.2.1 Low Income Levels

The most obvious barrier to savings in South Africa is lack of income or too little income. High unemployment constrains the ability of individuals to make regular savings contributions. There are high unemployment rates across race and gender from the ages of 18-24 and this affects the ability to start saving early. The fundamental crisis of poverty and unemployment has a debilitating factor on a savings culture. About 35,3 million almost 70% of South Africans earn less than R12,200 per annum. Furthermore, consumerism is common among the middle class as they continue to live on credit, with mounting personal debt, thereby compromising their ability to save.

Although the favourable influences to the savings environment such as the marginally low inflation rate, the negotiated wage increases and the economic boost of the FIFA world cup, it is still hard to ensure that individual households and especially the low income households save. There is still a need for innovative and simple measures to encourage savings with all different income groups.

2.2.2 Lack of Trust and Consumer Confidence in the Local Financial System

The nation’s lack of faith in financial advisers and brokers in the financial system has affected individuals and households attitudes towards savings. Most income groups do not trust stock brokers and financial advisers whom they think only care about securing high commission for themselves and financial institutions are perceived to be self centred and benefiting business more than actual customers. Africans showed a clear preference for group savings schemes or saving societies rather than banking at formal financial institutions. There is low confidence with the broader formal banking industry, suggesting a future strategy to change this negative consumer perception is urgently required. What should be the role of the banking sector, how should trust be restored in the financial banking sector?

Most people want to start saving but they are faced with complexity of choice. More focus needs to be on simple, low cost savings products that are actively promoted through the media. Products such as Fundisa (education Savings products) RSA retail bonds and exchange need to be more actively marketed and given some kind of Government backing.

The financial agents have to grapple with the issues of broadening access of financial services to the people and at the same time reduce costs and also take out the complexity of the financial services. There is indeed increasing demand for greater access and high levels of innovation to meet the different groups at the same time rebuilding the trust factor. The economic agents and the financial sector have to work hard in convincing the public about their products. They need to reduce complexity of savings and investment choices. As well as design good savings plans and systems and simplify savings instruments. The financial services industry needs to develop and promote real outcomes material for consumer needs to regain trust with consumers. The need for good and effective regulation and supervision should be underscored.

There are too many duplicated and complicated savings and financial product options with financial services consultants perceived to be untrustworthy or ill informed about the multitude of similar product options available. Furthermore, confidence levels about whether people have saved enough for retirement are not strong. Financial education is increasingly important in dealing with this problem. The Old Mutual Savings Monitor showed that people who had a financial plan for the next five years saved more. More education needs to be done around managing money and financial planning. A lot can be done at company level to educate people about their retirement funding.

Supporting existing networks such as Stokvels and Burial societies to build on the success of communal banking and Ubuntu could be a way of building consumer confidence. The need for sound and trustworthy savings institutions in the country is a must, building new infrastructure to support, advice and trusted advisers, consumer access to regulated professional advice should be the basis for rebuilding trust.

2.2.3. Social Attitudes affect Savings Behaviour

Social attitudes towards financial planning among key demographics including the young and low wage earners shape the weak savings culture. In a study of savings behaviour conducted by the Bureau of Market Research (BMR) 2010 among five different household groups of: the retired market, referred to as the Silent generation; mass income group, (with an income of 0-50 000 per annum); emerging middle income, (with an income of R50 000 - 300 000 per annum); realised middle income, (with an income of R300 000 - 750 000 per annum); affluent income group (with an income of R750 000 per annum and above); The retired group is the group that saves significantly more than they spend and were found to be more confident on financial matters, and were disciplined with good financial management skills. They also have sound investment knowledge and were informed citizens able to save and in a diversity of savings and investment portfolios. The retired group’s advice is that a savings culture should start from early childhood.

However they argue that financial advisers are perceived as not well trained and lack knowledge of all savings options and they focus primarily on personal reward. The retired group prefers to get financial advice from friends and financial advisers.

The mass income group is barely satisfied with their financial situation and can hardly save, most of them in this category do not regard their income as enough to finance living expenses and have very little satisfaction with their current saving and investment and retirement plans. Most of their saving schemes are the community saving schemes such as stokvels, burial societies and grocery schemes. For this mass income group saving means “putting away something to secure buying in the future” money is usually put away in “jars and tins under the bed to meet unexpected expenses.”

The emerging middle income group find it hard to save and almost 50% are in financial trouble and live on credit. They lack confidence in their ability to regularly save money or pay off new charges on credit cards on a monthly basis. Although they do invest and save in a variety of savings and investment schemes they do not trust stock brokers and financial advisers whom they think only care about securing high commission for themselves and financial institutions are perceived to be self centred and benefiting business more than actual customers.

The realised middle income group have high levels of confidence of managing their own finances and have a high level of satisfaction with current financial situation and own knowledge of personal finances. However they have a clear distrust of banks and have a preference for companies such as PSG Consult, Old Mutual and Sanlam.

Affluent group is fairly confident of managing finances and is financially secure and they take personal responsibility to gain knowledge of existing and new financial products. The varying knowledge and experiences of savings of the different income groups suggests that savings and investment portfolios could be designed to meet the demands and needs of the different groups in order to encourage savings. The isonomic agents and financial institutions need to invest in market surveys in order to understand the different needs of these groups in order to design suitable, simple and user friendly savings packages.

Africans in the lower income groups generally regard savings as cash available at a given point in time and not necessarily as investments allowing for interest of returns.

Therefore, the fundamental issues that affect savings are the low participation of most adult South Africans in the economy, an unemployment rate of 24%, issues around economic policy, economic growth and financial illiteracy.

2.3 The role of policy and regulative frameworks

2.3.1 Is Fiscal and Monetary Policy Playing an Effective Role in Creating a Savings Environment?

The effectiveness of monetary policy and fiscal policy is key to encouraging or discouraging a savings culture. Avoidance of large deficits by government will be conducive to prudent savings behaviour. Lower economic growth outcomes and higher fiscal deficits pose significant risks to the outlook and can be negative for savings. The impact of monetary policy on savings is unpredictable. When lowering policy rates economic activity could be stimulated leading to increased incomes and savings. If interest rates are kept at levels that are too low they also penalise savings-thus prolonging the process of rebuilding balance sheets. An environment characterised by low and stable inflation gives rise to more sound savings. However reliance on short term monetary policy measures to control savings should be avoided.

However government policy could do more to encourage financial savings. Monetary and fiscal policies are some of things that government has to rectify in order to rescue the situation and provide a condition that may lessen the effects that would occur in the future. This requires that the population be educated on the importance of saving and on the range of available savings vehicles.

2.3.1.1 Compulsory savings

Although under the current saving environment, pension reform may not lead to a higher gross saving rate, this does not mean that a mandatory pension system should not be introduced. For example, the establishment of a compulsory social security and retirement savings scheme for all citizens would greatly enhance the accumulation of savings in the country. A recent Sanlam Benchmark Retirement Survey found that most of the active retirement fund members interviewed indicated that they prefer to be forced to save. A significant 73% would not opt out of compulsory contributions if given the choice whilst an overwhelming 87% would not reduce contributions if they had the option.

2.3.1.2 Tax incentives

There is a need to broaden the tax incentive for savings; the problem with the current tax incentives is that it only allows people to receive tax benefits if they invest in specific products, such as the retirement annuities. There is need to expand the types of products that allow for tax incentives. Compulsory Savings and Preservation of savings could another effective route for government policy, if people could save retirement funds from the age of 25 they would have enough funds for retirement but the problem is people do not save retirement funds when changing jobs. A recent study by Alexander Forbes showed that on average 90% of people cash in their retirement funds when changing jobs. A paternalistic approach to preserving savings could be useful and government policy could play a greater role here.

2.3.2 Government as Dis-saver could be a Problem

Low savings rates are a problem to South Africa as they condemn the country to an uncomfortable choice between low investment and growth, or excessive reliance upon volatile foreign capital which makes the country vulnerable to macroeconomic crisis as the recent global financial crisis has shown.

Government has a role in boosting the savings environment. The problem is that the government used to be a net saver but now it is dissaving. South Africa is a savings deficit country, meaning domestic absorption is in excess of income, there is a deficit on the current account on the balance of payments. However South Africa's savings rate has been on the decline since 1990. South Africa entered into the recession with a low savings rate since 1990. The average savings rate in the period 1985 to 1999 fell to around 18% from around 23 % in the period from 1960 to 1972. The **national savings performance during the 1990s deteriorated substantially to around 16%.** Although economic growth picked up in 2003 this was not accompanied by a savings renewal. The reasons for declining savings rates has been cited as Tax burdens, increased government spending because of a redistribution bias which favoured household consumption rather than savings. The unfriendly tax regime encouraged the middle class to channel income to corporate entities. Capital gains tax also allowed households to accumulate investment in asset markets such as houses and equities.

Gross private savings being the sum of savings by households and business people declined significantly in recent years dropping from a ratio of 19.1% of GDP in 1996 to only 10.6% of GDP in 2007 before recovering to 15.9% in 2009.

Usually higher growth precedes higher saving rather than the reverse. It is only after a sustained period of high growths that saving rates increase, **therefore the most powerful determinant of savings over the long run is economic growth.**

3. Views on Saving Programmes

With varying views on savings, how do you inculcate a savings culture?

(a) Financial literacy programmes on a national scale should be developed to meet the needs of specific groups through tailored interventions. Financial literacy is one of the most important interventions required to develop a better culture of saving in South Africa. The South African Savings Institute, whose efforts are centred around information and awareness should be supported by government and private sector to drive these financial literacy campaigns at a national level.

(b) In its efforts to reduce dependence on credit-driven growth and promote growth spurred by savings and investment, South Africa needs to develop public policy and private partnerships to reinforce a savings culture.

(c) Since South Africans in the low and middle income groups show a clear preference for group savings such as stokvels, burial societies, and grocery schemes, these could be taken up and be supported as a communal way of saving and making it fun by rewarding those that save more with different incentives.

(d) It is important for all groups to create a money management culture from an early age through education, and starting savings early has been recommended as the best way to foster a savings culture.

4. Conclusion and Recommendations

There is need for the financial industry, government, and other relevant stakeholders to stimulate a positive change towards savings, develop savings skills and a responsible attitude towards savings in South Africa. Well developed and properly regulated financial institutions are an important component of a broad balanced and efficient financial system that provides a sound basis for economic growth. The emphasis of policy should not only be on increasing savings but on removing the impediments to growth as most growth promoting policies may even result in a temporary decline in savings rates. The developmental state's role in creating a conducive environment through stabilisation, job creation and economic growth, should underpin all processes of encouraging savings.

In respect of the potential role of financial institution, a number of recommendations can be made to stimulate higher savings, and to help cultivate a savings culture in the broader South African population:

a) SASI should help government make savings a government priority and launch a high profile awareness campaign to imprint the issues of savings into the public mindsets. Above the line advertising such as Radio, TV and Talk shows could be used as part of the massive campaign to promote a savings culture.

b) Organised initiative designed to legitimise and garner public support for savings should be used to achieve policy action and change.

c) Financial education which provides effective personalised financial advice, planning and assistance to manage household finances is a must.

d) It is important for employees to get information about the volume of their retirement benefits and to seek proper advice where necessary. Education on retirement schemes is important for all. For instance, members need to know the risks/benefits of Defined Contributions and Defined Benefit plans.

e) Research stakeholders, such as the Academia, Bureau for Market Research, Genesis-Analytics, Old Mutual, Sanlam, SASI and others, to continue to provide quality data on savings habits, an understanding of the savings environment itself and the relationship between tax and savings in order to guide successful savings policy.

f) Financial agents and institutions need to develop innovative ways to encourage personal savings, through simple products and processes that are easy and address the savings needs of consumers. Further research should be done to find new innovative ways for different groups to save in society, for example how barter deals and pyramid schemes can be converted into savings mechanisms.

g) Further Research and information is required on the possible use of deposit insurance scheme as a mechanism and method of consumer protection.

h) The state, the banking sector, financial agents and all stakeholders, need to identify blockages against savings and optimise each other's resources to mitigate the high levels of poverty which could cause a huge hindrance to economic stability in the country.

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