

Savers' Review

Newsletter - November 2010



South African
Savings
Institute

"my savings, my future."



Savings Statistics in the SADC

Savings have slowed considerably throughout the SADC region in the past five years. In 2006, savings rates across the region averaged 15% of GDP. By 2009, they had dropped to an average of 9 percent of GDP. IMF projections indicate that average savings rates will recover slightly to about 11 percent of GDP by end 2010¹. This is well below the sub-Saharan rate of 20% of GDP, as well as the UN's benchmark 25% of GDP needed to reduce poverty. The contraction in savings in 2008 is largely attributable to the effect of the global financial crisis on export earnings, which constitute the largest source of transfers (apart from remittances) for many countries in this region.

However, savings rates are quite disparate across the region and mirror trends in the rest of Africa, with relatively high rates in resource-rich countries and very low or negative rates in tiny, fragile states such as Swaziland and Lesotho. In fact, by applying the UN's benchmark savings rate of 25% of GDP, we find that only 6 countries could potentially meet this goal in the short-to-medium term. They include Angola, Botswana, DR Congo, South Africa, Tanzania and Zambia and are characterised by the following:

1. High levels of foreign direct investments (FDI), export earnings and capital transfers. This is particularly the case in countries like Angola and Botswana. These result in high but volatile savings rates, that need to be maintained in order to sustain high growth
2. Relatively sophisticated payments infrastructure and relatively high penetration of banking services through bank and non-bank financial institutions. These can facilitate the mopping up of informal savings but relatively high transaction costs and negative interest rates continue to keep the majority of potential savers out of the system.

The rest of the region struggles to attain satisfactory domestic savings rates primarily because payments and banking infrastructure are weak or characterised by restrictive and inflexible account opening and credit procedures, negative real interest rates and high fees on low-balance savings accounts. In addition, high unemployment rates make it difficult for individuals to save.

The good news is that more governments are implementing initiatives and reforms designed to boost household savings. Table 2 shows the regulatory mechanisms in place in some of these countries. Unfortunately, these types of reforms are still limited to a few countries; South Africa, for instance has no official mandate for the promotion of savings.

Table 1: Domestic Savings in the SADC region as % of GDP (IMF, 2010)

Domestic Savings (Percent of GDP)	2008	% change (08-09)	2009	% change (09-10)	2010
Angola	40.7	-29%	29.0	3%	30.0
Botswana	34.6	-62%	13.0	67%	21.7
DR Congo	6.9	-90%	0.7	2357%	17.2
Lesotho	-19.9	-220%	-23.8	-6%	-25.3
Madagascar	9.1	-31%	6.3	-3%	6.1
Malawi	0.5	1140%	6.2	106%	12.8
Mauritius	12.5	-10%	11.2	-4%	10.7
Mozambique	1.6	38%	2.2	177%	6.1
Namibia	15.3	-39%	9.3	24%	11.5
Seychelles	-9.1	-109%	19.0	-77%	4.4
South Africa	18.8	-2%	18.4	11%	20.4
Swaziland	-0.2	-300%	-0.4	0%	-0.4
Tanzania	16.2	-3%	15.7	9%	17.1
Zambia	19.4	38%	26.8	-1%	26.4

Table 2: Recent regulatory reforms targeted at savings (CGAP, 2010)

Country	Separate agency	Dedicated team or unit
Botswana	<input checked="" type="checkbox"/>	
Lesotho	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Mauritius	<input checked="" type="checkbox"/>	
Swaziland	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Tanzania	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Zambia	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Zimbabwe	<input checked="" type="checkbox"/>	

¹ IMF Data Mapper



New Research on Savings in South Africa

A running theme in the national debate on savings is the role of government policy and initiatives. A recently released propensity matching exercise commissioned by the FinMark Trust², suggests that government social grants may have a positive effect on savings behaviour among recipients. Growth in the use of bank savings accounts and stokvels were 4 percent higher and 3.2 percent higher respectively, for grant recipients than similar individuals who were eligible but not grant recipients. However, grant recipients were less likely than their non-recipient counterparts to save in long-term instruments such as pension funds, retirement funds and unit trusts. The results of this research suggest that although social grants may increase the use of short-term and basic savings instruments, they may also dis-incentivise longer term savings behaviour. Nevertheless, the research highlights the important role this government initiative can play in boosting savings behaviour.

A report by Genesis Analytics (not yet released) also highlights the role of government in increasing account ownership and potentially, savings. Currently, the South African Social Security Agency (SASSA) disburses grants to 13.8 million recipients, 65% of which receive their payments in cash. The cost of these cash transfers is about 8% of the total value of grants disbursed, whereas in other economies where bank accounts are used, the cost is between 2% and 4% of the total value of the grants. Currently, the PostBank has an arrangement with SASSA to disburse grants. Further research is needed to evaluate ways in which social grants can be disbursed directly into bank accounts at more financial institutions.

Despite the potential impact that government initiatives can have on household savings, discussions by Mr Monde Mnyande³, Advisor to the Governor and Chief Economist at the South African Reserve Bank (SARB), at SASI's Annual Savings Workshop (September 2010) indicated that the SARB will continue to apply traditional monetary instruments to encourage household savings. While this is critical for financial sector policy, direct interventions are needed to increase

household savings. For instance, a recent Sanlam Benchmark Retirement Survey⁴ found out that most active retirement fund members prefer to be forced to save. Therefore, more paternalistic approaches to driving domestic savings may include a mandatory social security fund or tax benefits for a broader range of savings products as well as targeted financial education campaigns.

Finally, there is initial evidence to suggest that different income groups view savings differently. A study by Pretoria-based Bureau of Market Research (BMR)⁵ found that low and middle-income groups lack confidence in their ability to save whereas higher income and especially retired individuals are well informed and satisfied with their savings behaviour. Low-income Africans in particular do not view savings as a means to maximise returns on investment but as cash available in the future for purchases. As a result, they are more inclined to save in informal savings groups than in a bank or other formal investment firm.

In conclusion, a lot more information on how South Africans save and what government interventions may help boost savings is becoming increasingly available. Translating the available research into action should be the next priority for key stakeholders such as SASI, SASSA, the National Treasury as well as financial service providers.



² The Use and Effectiveness of Social Grants in South Africa

³ The Role of Monetary Policy in Influencing Savings Behaviour in the South African Economy

⁴ Sanlam Benchmark Retirement Survey 2010

⁵ Description of Research: Exploring Economic and Non-Economic Factors Impacting on Savings Behaviour and Planning

Savers' Review



New Global Research on Savings

International research is informing savings product design by applying insights from economic theory and psychology. Although constraints to savings are often supply-driven and technical, such as complicated features and pricing, it is often psychological barriers that make saving difficult even when supply is no longer an issue. Researchers at Connecticut-based Innovations for Poverty Action (IPA) and MIT's Poverty Action Lab have been testing ways in which savings can be made easy for low-income individuals⁶. Their recommendations are based on the following theoretical constructs:

- Loss aversion:** In simple terms, this means that people fear losing things much more than they appreciate gaining things. Therefore, saving today is perceived as a "loss" of present consumption rather than a "gain" towards future consumption. Product design should aim to minimise this sense of loss through naming conventions that emphasise the "gain" (e.g. a house savings account) or that reward clients when they make a deposit (e.g. a bonus or matched funding).
- Status quo bias:** This indicates that the best predictor of future behaviour is current behaviour. In other words, people need to be prompted to save if they are not currently doing so. Therefore, when marketing a product, financial institutions should encourage people to open accounts on the spot. The likelihood of opening a savings account diminishes the more people wait or "think about it".
- Dual Self:** This refers to the competing preferences that people have to consume now or consume later. Given the choice, people will consume now. Therefore, commitment savings products that pay out only when certain conditions are met are more useful than highly liquid accounts. For instance, accounts with time or balance goals encourage people to keep making deposits until the goal is met.
- Attention constraints:** These refer to distractions or other demands on disposable income by family and friends. Eliminating distractions can be done by sending reminders by sms or mail to encourage people to keep making regular deposits. Also, being part of a savings club such as a stokvel is a proven way to resist temptation.

The main argument of this research is that all people find it difficult to save. However, those with more income often have default mechanisms such as direct debits from a bank account for instance, that make it easier to save. Low-income individuals because they are often unemployed and operate out of the formal financial system, often lack such mechanisms.

Furthermore, innovative mechanisms need not be expensive and can be implemented by any type of financial institution regardless of asset size. In fact, non-bank financial institutions have a very important role to play. The data below shows the relative importance of commercial banks but also the role that non-bank financial institutions can play. For instance, in advanced economies they boost savings as a % of GDP by 21%. In contrast, in SSA they account for only a 4% increase in savings as a % of GDP.

Table 1: Deposits in Commercial Banks as % of GDP (IMF FAS, 2010)

Region	2005	2006	2007	2008	2009
Sub-Saharan Africa	29	33	34	36	36
Middle East and North Africa	65	66	69	70	77
Central and Eastern Europe	43	49	55	52	56
Latin America and Caribbean	65	66	67	69	72
Asia (excluding Japan)	40	42	43	42	47
Advanced Economies	149	157	172	170	164

Table 2: Deposits in Banks and Non-Bank Financial Institutions as % of GDP (IMF FAS, 2010)

Region	2005	2006	2007	2008	2009
Sub-Saharan Africa	33	36	38	41	40
Middle East and North Africa	77	80	83	80	95
Central and Eastern Europe	44	51	59	55	59
Latin America and Caribbean	69	69	74	75	77
Asia (excluding Japan)	49	52	54	54	60
Advanced Economies	168	177	194	190	185

⁶ Helping the Poor Save More

Products and Initiatives: Basic Savings⁷

Products	Institution(s)	Features	Distribution	Pricing	Website
RSA Retail Savings Bond	National Treasury	<ul style="list-style-type: none"> • Must be SA resident, over 18 • Investment amounts of between R1000 and R5 • Fixed interest rates of between 8 and 8.50 • 2 to 5 year investment terms 	Pick n Pay Post Office Online	No charges, commission or fees.	RSA Retail Savings Bond
Pure Save	Standard Bank	<ul style="list-style-type: none"> • Must be SA resident, over 18 • Investment amount as low as R50 • Maestro debit card • Interest rate of 2%– 3.5% 	Any Standard Bank Branch	No monthly fee. Withdrawal fees apply.	Pure Save Account
Money Builder	ABSA	<ul style="list-style-type: none"> • Must be SA resident, over 18 • Investment amount as low as R20 • Maestro debit card • Interest rate of 2.35 – 4.95% 	Any ABSA Branch	No monthly fee. Withdrawal fees apply.	MoneyBuilder Account
Just Save	Nedbank	<ul style="list-style-type: none"> • Must be SA resident, over 18 • Investment amount as low as R50 • Maestro debit card • Tiered 	Any Nedbank Branch	No monthly fee. Withdrawal fees apply.	Just Save Account
Smart Account	FNB	<ul style="list-style-type: none"> • Must be SA resident, over 18 • Investment amount as low as R50 • Visa debit card • Interest rate of 0% 	Any FNB Branch	Monthly fee of R10.50. Minimum transaction fees of R22.50.	Smart Account
Global One	Capitec Bank	<ul style="list-style-type: none"> • Must be SA resident, over 18 • Investment amount as low as R50 • Maestro debit card • Interest rate of 7% 	Any Capitec Bank Branch	Monthly fee of R4.50. No withdrawal fees at retail tills.	Global One Savings Account
Smart Save	PostBank	<ul style="list-style-type: none"> • Must be SA resident • Investment amount of R50 • Interest rate of 0% on balances below R5000 • Highest rate of 2.9% on balances above 25, 000 	Any Post Office Branch	No monthly fee. R0.60 for minimum deposit. R5.25 for minimum withdrawal.	Smart Save

⁷ Each edition will focus on a particular type of product e.g. fixed deposit, unit trusts OR theme e.g. education, retirement, mobile banking