

## **Keynote Address at the 10<sup>th</sup> Anniversary of the South African Savings Institute and Launch of Savings Month 2011**

**FINANCE MINISTER PRAVIN GORDHAN**

**13 JULY 2011**

Good morning and thank you for inviting me to speak to you on this important occasion. We celebrate today the 10<sup>th</sup> anniversary of an important institution in our country, the South African Savings Institute. Government, through the National Treasury, has worked closely with SASI since its inception in 2001. Ten years on, the need for a savings culture is no less important, especially in the dynamic and evolving economic landscape where we find ourselves. The importance of savings for our goal of sustainable and inclusive economic growth is recognised in the inclusion of a target of a 6% private saving rate in my performance agreement signed with President Zuma.

### **Why such low saving rates?**

Compared with our peers internationally, South Africa's savings rate has not performed well. The 2010/11 Global Competitiveness Report notes that South Africa's gross saving rate equated to 16 per cent of GDP in 2009, compared to China's 52 per cent; India's 37 per cent; and Russia's 22 per cent in the same year.

It is no coincidence that these are the economies that lead the way in the 21<sup>st</sup> Century. These are the countries whose populations are investing heavily in their

nation's development, just as the Japanese turned their war-racked country into an economic superpower in the 20<sup>th</sup> Century. The prospects of South Africa's developmental programme hinge on our people making the same commitment to our progress. We need to ask ourselves if we can mobilise our resources as a nation in a way that recognises the importance of savings in reaching our developmental goals.

For too long South Africa's savings rates have been significantly lower than its economic and structural characteristics permit. We are missing out on the savings dividend that should result from having a large workforce relative to the retired population, not least because the high rates of youth unemployment means that the dependency ratio is not as low as it should be.

Most worrying is the overall lack of savings by South African households. Between 2001 and 2010, the household savings rate declined by an average of 0.1% of GDP every year. There are various reasons why: people's 'short-term' outlook, the lack of transparent and cost-effective savings products, and poor financial awareness among potential savers. So is the consumerist attitude in South Africa, which often has the ultimate impact of more and more people being highly indebted. A new mind set is needed about our actions and the long-term consequences of those actions.

Of course, one of the most important factors in this equation is the persistence of high unemployment, which means people may not be earning enough income to save or might have to use up their savings during lengthy spells out of work.

A sub-optimal equilibrium of low rates of savings and investment, low employment-intensity of production, and slow productivity growth has emerged. Yet a positive spark to any one of the three elements can generate a positive virtuous cycle of faster capital accumulation, job creation and technological advancement. The sustainable and inclusive growth central to the New Growth

Path and the outcomes approach is one such spark; higher savings rates are another.

### **Why is saving important**

An entrenched savings culture among South Africans would achieve important goals at both an individual level and for the country as a whole. A high savings rate would allow us to meet our investment needs domestically, supporting the government's commitment to a developmental state without borrowing from other countries and their investors. This would make us less reliant on volatile short-term capital inflows for funding, which can easily reverse and pose risks of instability for an emerging economy like ours.

SASI has been spreading the message of the many benefits of savings for individuals too. For example, savings provide individuals with a decent retirement, a basic right that only 10 per cent of South Africa's pensioners currently enjoy. The rest of the elderly population – many of whom were once able to work and provide for themselves – is forced to rely on Government or others for support when they stop working.

Savings also allow individuals to protect themselves against unforeseen events. Insurance against short-term risks like car accidents and loss of property, and against longer-term risks like death or disability, is an important form of saving. Medical aid contributions also ensure that we do not need to maintain large cash reserves to meet unpredictable health care needs.

But we need to go beyond what we term 'necessities' in terms of the role of savings. 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 (the car that adorns the neighbour's driveway or the watch that weighs down their wrist.)

One of SASI's initiatives involves teaching children to save, inculcating the importance of saving for items that they want and need. As adults we should lead by example – show our young people the value of setting money aside each month for an overseas trip, for a deposit on a house, and for our children's education.

Beyond these goals, South Africans should establish a culture of saving for a rainy day. No matter how well we manage our finances, events occur that we don't have control over. Without savings, such 'rainy days' can wash away our money and drown us in debt.

### **What Government is doing to help**

Government is considering a number of reforms and initiatives to support and encourage household savings. Earlier this year, the National Treasury released a policy document called, '*A safer financial sector to serve South Africa better*'. This document touches upon important issues, such as financial inclusion, consumer protection, private and public sector retirement reforms, and the costs and transparency of financial products. A safer financial sector can go a long way in encouraging higher savings among consumers.

When it comes to retirement, a task team on Retirement and Social Security reform has been established to ensure our pensioners receive a decent income in their old age. A key component of this work is a proposed national social security fund, which will provide government-guaranteed pensions, as well as paying benefits to workers who become disabled or die before retirement. All workers will contribute to this fund, so all workers will benefit from the basic level of protection that this fund will provide. Not only will the reforms lead to an increase in national savings, but they will certainly result in an increase to the *incidence* of saving: low-income workers who at present are structurally excluded

from occupational arrangements will no longer be totally vulnerable to financial shocks.

The social security proposals will not disrupt existing savings arrangements unduly, but they will seek to improve them. A worrying trend that one must mention in our current retirement system is the lack of preservation when people change jobs. According to the 2010 Sanlam Survey, between 70 and 80 per cent of individuals who change jobs cash in their retirement savings, rather than transfer it to another fund.

Government feels strongly about the need to preserve retirement savings, especially as these are a long-term source of savings for the economy as a whole. However, we do also recognise that in extreme instances, for example the sudden loss of a job, people may need some form of limited withdrawals from their retirement savings. The proposed social security reforms will be cognizant of the fact that such flexibility is necessary in a developing economy, but they will be predicated on minimising the need for such withdrawals: the social security fund will be closely aligned to workers' needs, meaning that it will provide an income when they are not earning a wage.

Government is also engaging with the financial services industry to examine the various savings products offered, with the aim of trying to make these more transparent and cost effective.

Of course, it is vital that those entrusted with looking after our savings and providing financial advice ascribe to the highest standards of integrity and training. Recent pension scandals have provided a timely and unhappy reminder of the need to enhance governance and educate trustees, if necessary, through legislation. We will continue to engage with the industry on this.

We also need to find ways to align and orient those savings that we have with our national goals. How do we get those funds invested in projects to build roads,

hospitals, and transport infrastructure? The right energy and attitude is needed to become part of the national development effort to drive a growing and dynamic South African economy.

Government has also developed its own set of affordable and safe savings products, available directly to savers. The RSA Retail Savings Bonds were introduced by the National Treasury in 2004; since then South Africans have invested a total of R9.3 billion in these bonds. Today, there are close to 77 000 active investments in the bonds, and over 37 000 active investors. Given the success of these products, we are planning to introduce a New Top-Up Retail Savings Bond this year, aimed at attracting smaller investors. Currently, we have two series of bonds on offer – the Fixed Rate and Inflation linked bonds. Each need a minimum investment of only R 1 000. In our interactions with the public however, we realised that many more people would invest if they had the option to top up their investment rather than have a once-off investment. The National Treasury is therefore working on a new series of bonds, the Top-Up bonds, to meet this need. These bonds will need a minimum investment of only R500 and will also allow investors to top up this investment whenever they can. They can top-up for as little as R100. At the end of the three year investment period, they will also have the change to rollover (or reinvest) their payout. Like all our Retail Bonds, they will carry no fees or commission costs at all. We hope to see more and more South Africans, and especially the youth, take advantage of the competitive rates and the security that the bonds provide.

### **Co-operative Banks and financial inclusion**

We should also note the important role played by lower-tier banks like co-operative banks. These banks, which are member-based, encourage savings in a trusted common-bond set-up and provide an affordable, accessible and convenient alternative to those who may otherwise be financially excluded from the formal financial system. Encouraging savings in co-operative banks is particularly important because co-operative banks reach people who are situated in deep rural areas. It is because of this important role played by co-operative

financial institutions that Government has put in place proper measures to supervise them through enacting the Co-operatives Banks Act in 2007. There are two cooperative banks that are currently registered with the agency; one with 20 000 members and around R10 million in funds, and another with 400 members and funds of around R20 million. There are also around 122 co-operative financial institutions. In our interactions we have realised that there are barriers to entry of these types of institutions into the financial sector and we have engaged with the industry to address this. The entry of co-operative and other such institutions will allow for more diversity, bringing greater variety and vibrancy to the financial sector.

Together with the Financial Services Board, the National Treasury is also prioritising consumer protection and financial literacy. Under the 'Twin Peak' model for our supervisory regime, the South African Reserve Bank will focus on prudential supervision, while the Financial Services Board dedicates itself to the supervision of market conduct. We believe this model will deliver enhanced value to the consumers of financial services and products.

## **Conclusion**

As we mark SASI's tenth anniversary, let us work together to drive the savings message across South Africa. Savings Month 2011 kicks off today, with the theme 'Save Now'. We have highlighted the importance of this message for our country's future. South Africans must help to achieve the target of increasing our household saving rate so that our country can achieve its potential. We must think of what we really need and consider what riches we can one day achieve as a country, rather than be dazzled by the fool's gold of today's consumerism. We must all come to the party – Government, industry and individuals. Together we can save for a better country and future.

Thank you.