Individual savings behaviour in an

Emerging Market context

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Abstract

This paper investigates how individuals in emerging markets, specifically South Africa, approach their savings decision. The researcher attempts to identify those attributes most desirable to emerging market consumers, in so far as the allocation of their disposable income to saving is concerned.

In the wake of one of the biggest financial crises to hit the modern world, there is going to be increased scrutiny into how financial institutions and countries capitalise their balance sheets. The manner in which financial advice is given to individuals will face similar scrutiny as such the subject matter requires even greater understanding.

Human beings in some parts of the world are living increasingly longer. Longevity risk is the risk that people may live for longer than the average expected. This poses risks of uncertainty of the quantum of financial assets to build up in preparation for retirement. These are pertinent reasons for the need for a study of this nature.

The research found that stereotypical understandings of the profile of a typical emerging market individual are being challenged. As such organisations looking to take advantage of business opportunities present in these markets need to be cognisant of this change in shaping their business strategies.

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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Table of Contents

1. INTRODUCTION TO RESEARCH PROBLEM

1.1 RESEARCH PROBLEM

An understanding of the relationship between saving and investment provides an important insight into the process of economic development. This is because economic growth critically depends on capital accumulation and capital accumulation stems from investment which depends on domestic and foreign capital. Hence, increased saving leads to higher economic growth through capital formation (Ang, 2007).

A current account deficit on the balance of payments – the place where countries record their monetary transactions with the rest of the world (www.investopedia.com) – highlights the extent to which an economy is at the mercy of foreign sources of saving. For countries that practice a freely floating exchange rate, the volatility observed in their currency – as capital flows in and out of the country – further demonstrates this economic vulnerability.

While there is general agreement among development economists on the important role of saving in economic growth, there has been considerable debate over the appropriate economic policies to promote saving and its deployment into growth-generating investment (Reinhardt, 2008). In the wake of one of the biggest financial crises to hit the world there is going to be increased regulation of how financial institutions capitalise their

balance sheets, how they distribute investment advice and products to their clients. Given that tax payers, through various governmental authorities, were called upon to resuscitate the capital markets, it is expected that governments are going to be applying increasing pressure on how this industry conducts its business.

On the level of individual households, saving also plays a role as a protection mechanism against the vagaries of economic changes (Du Plessis, 2008). Therefore it would stand to reason that, in a world of greater uncertainty, people would be doing as much as they can to protect and in fact build domestic balance sheets, so as to withstand future income volatility.

1.2 PROBLEM STATEMENT

The paper is going to investigate which of the plethora of savings vehicles available to consumers is most readily used and why? Through this process the researcher hopes to identify those attributes most desirable to emerging markets consumers in so far as the investment of their funds is concerned. This may result in the use of this work as useful tool to policy makers in the establishment on vehicles designed to bolster domestic capital resources.

1.3 RESEARCH QUESTIONS

The researcher is looking to contribute to an increased understanding of the drivers of the decision-making process individuals follow in deciding which saving vehicle to utilise. The questions will fall into the following categories:

- How much planning goes into the saving decisions made within the household?

- Which saving vehicle is utilised to build wealth and financial stability?

  o Why is this vehicle chosen as opposed to other available alternatives?

  o For what purpose do individuals save: wealth accumulation, precautionary or for specific consumption?

- Do individuals feel sufficiently knowledgeable as to how to make their own saving choices?

  o If not which avenue is followed to attain the information desired so as to make an informed decision?

The tests that the researcher will be conducting are on: education particularly financial literacy; product awareness and knowledge; and motives for individual savings.

2. LITERATURE REVIEW

At its most simple level saving can be defined as any income not spent (www.economist.com). However with the wide array of investment vehicles and products available to modern day consumers this definition may be too simplistic and may need to be broadened for it to have a wider application and relevance. In an economic sense the act of saving can include any of the following: hard assets (such as real estate), bank savings, direct stock market investments, endowments, unit trusts, guaranteed products, stokvels or credit unions, and property (www.savingsinstitute.co.za). This list is not exhaustive but highlights the more commonly used saving approaches which we will discuss in the body of this research.

The economist continues to explain that for an economy to grow it needs to invest financial resources into units of production. These are then responsible for the creation of employment; they will drive economic growth and should ultimately result in improved social welfare. Savings are therefore the source of investment in an economy. The implication is that countries that do not save may not be well positioned to drive their own economic growth.

The findings of a robust long-run cointegrated relationship between domestic saving and investment suggest that any change in domestic saving will be closely associated with a change in investment (Ang, 2007). It is therefore vital that financial sector policies encourage the accumulation of domestic savings to build up national capital reserves. Ang

continues to caution against relying purely on domestic savings to fund growth, as they may be limited, stressing that policy makers need to find a balance between domestic and foreign sources of capital – with the latter being used predominantly to subsidize shortfalls from domestic sources.

2.1 SAVING DEFINED

According to Keynesian economics saving is the excess of income over expenditure on consumption (www.marxist.org). Keynes continues to suggest that the principle of saving can be used intercheably with investment. This is because investment refers to the actual purchase of assets. Following this definition investment includes, therefore, the addition of capital equipment, whether it consists of fixed capital, working capital or liquid capital. As such the investor foregoes current consumption in the anticipation that the savings can be employed to generate income at some future date.

At a national level traditional economic theory says that a country's total investment must equal its total savings (www.economist.com). However in the advent of globalisation this belief has become less true. The advent of globalisation has resulted in the easing of the ability to move capital between regions of excess capacity to those in need of capacity. As such nations with relatively lower savings are able to attract foreign investors should they lack investment opportunities in and look to diversify away from their countries.

van der Ploeg (2007) discussed a concept called genuine saving. The research defined this as public and private saving at home and abroad, net of depreciation, plus current spending on education – to capture changes in intangible human capital – minus the depletion of natural exhaustible and renewable resources minus damage to stock pollutants (CO_2 and particulate matter). The concept can be simplified into a formula as follows:

S_G = $S_{PU} + S_{PR} - D + C_E - R - P$ where

S_G = genuine saving

S_{PU} = public saving

S_{PR} = $S_D + S_I$ (private saving = domestic saving (S_D) plus saving internationally (S_I))

D = depreciation

C_E = consumption spending on education

R = renewable resources

P = pollutants

In addition to difficulties caused by the various measures of saving, analysis is complicated by the different data sets used and the different sets of independent variables included in multivariate analyses (Yuh and Hanna, 2010). Studies have found that age, income, net worth, education, household composition, and uncertainty are key attributes related with household saving. Typically annual saving increases up to the point where household income has reached a maximum. Thereafter it begins to decline and becomes negative upon retirement. As such the assumption, in multivariate statistical analyses, that income is constant renders it ambiguous due to the age effect.

2.2 MACRO-ECONOMIC CONSIDERATIONS

Low saving rates reduce economic growth and make economies more dependent on capital imports to maintain investment (Toder, 2009). Low levels of saving have the effect of limiting economic growth by capping the pool of investible capital, increasing the dependence on imported capital from nations with relatively higher rates of saving. The external deficits required to maintain domestic investment and growth may not be sustainable in the long-run and put countries at risk if external sources of finance should decrease suddenly. Even where foreign capital continues to fund domestic investment levels, countries with lower savings levels ultimately experience slower improved living standards as income earned locally is expatriated to the origins of the capital invested.

Domestic investment may experience a collapse as a result of external crises should the supply of foreign funds scheduled for investment domestically dry up (Joyce and Naybar, 2007). Companies that had raised funding offshore may no longer be able to do so as a result of deteriorated credit if the accompanying devaluation increases the effective value of existing external liabilities (Joyce and Nabar, 2007). As such, in order to remain financially stable and well capitalised to fund its growth trajectory, a country needs to ensure that it is sufficiently funded domestically so as to not be entirely dependent on international flow of funds.

Economic theories suggest that the welfare-maximizing savings rate is the one that smoothes lifetime consumption. Such maximization, however, is computationally terrifying

and demands many simplifying assumptions. This theoretical approach facilitates advances in understanding and offers useful general guidance for retirement planning (Pang, and Warshawsky, 2009). (Kibet, Mutai, Desterio, Shem, and Owuor, 2009) also show that most studies on the impact of interest rates on savings have been varied. Few have considered the impact of credit as a factor influencing saving.

2.2.1   The Cost of Financial Intermediation

The financial institution through which individuals manage the majority of their finances is a bank. In 2005 FinMark Trust commissioned survey was the purpose being to establish the impact of bank costs on the use of banks by individuals. The countries involved in the study were Brazil, India, Kenya, Malaysia, Mexico, Nigeria and South Africa.

The survey used a benchmark of 2% to represent the maximum proportion of disposable income that individuals would be prepared to spend on transaction related costs. A further assumption was made on the lowest, but sustainable, cost that a bank could charge for providing its services and that figure was $20 annually. Combining these two assumptions results in an estimate of the lowest level of income required to open a bank account, summarised by the formula below:

- Annual income * 2% = $ 20 therefore

- Annual income = $ 20 / 2% = $ 1 000

The findings of the research are summarised in Table 1 below. The table compares the proportion of the population that would be able afford a bank account at various annual bank charges.

Table 1: Bankable adult individuals at various bank cost levels, PPP adjusted

Annual bank costs		$20	$40	$60	$80	$100	$120
Implied annual income threshold based on the 2% affordability benchmark		$1 000	$2 000	$3 000	$4 000	$5 000	$6 000
Malaysia	Bankable population	16 245 000	11 457 553	8 721 991	7 187 128	6 185 192	5 471 156
	Bankable % Adult population	100%	71%	54%	44%	38%	34%
India	Bankable population	696 273 609	327 612 061	210 780 985	154 148 687	120 930 018	99 177 094
	Bankable % Adult population	99%	46%	30%	22%	17%	14%
Mexico	Bankable population	59 860 288	39 916 213	31 492 134	26 617 046	23 361 671	20 999 677
	Bankable % Adult population	89%	59%	47%	39%	35%	31%
South Africa	Bankable population	20 237 713	14 596 874	12 057 375	10 528 301	9 477 116	8 696 634
	Bankable % Adult population	65%	47%	39%	34%	31%	28%
Brazil	Bankable population	82 106 968	57 035 211	46 087 204	39 619 236	35 234 261	32 014 255
	Bankable % Adult population	65%	45%	37%	31%	28%	25%
Nigeria	Bankable population	19 074 428	11 996 092	9 145 795	7 544 458	6 498 123	5 751 879
	Bankable % Adult population	25%	16%	12%	10%	9%	8%
Kenya	Bankable population	5 766 458	3 395 506	2 490 924	1 999 401	1 685 990	1 466 749
	Bankable % Adult population	32%	19%	14%	11%	9%	8%

Source: World Development Indicators, Genesis calculations

The table above shows that banking in South Africa is relatively more costly than in Malaysia, and that it is more in line with Brazil, but it is much cheaper than Kenya. For an individual earning $3 per day (PPP-adjusted) operating a bank account was relatively more expensive in South Africa than in India or Malaysia, in line with Brazil but a lot less expensive (and with higher functionality) than in Nigeria, Kenya and Mexico. More specific interpretation of the findings summarised above show that at annual banking costs of $ 20

India would be able to bank 99% of it bankable adult populace while Nigeria only would be able to bank only 25% of her bankable adults.

### 2.2.2 Availability and Use of Credit

Many people's incomes are insufficient to cover basic necessities, so people will many times rely on some form of credit facility to enable them to negotiate periods characterised by financial difficulty (Scott, 2007). Rogg (2000) in Kibet et al (2009) suggests that access to credit will have the following impact on savings: impatient consumers will be enticed to borrow and spend more in the present and therefore save less. Individuals who currently save will decrease their saving as future needs will be financed with readily available credit. Alternatively no change will occur in those individuals who are very conservative and extremely risk-averse.

Individuals make use of credit facilities, such as credit cards, to pay for household requirements due to lacking the adequate income to pay for these basic needs. Unplanned for expenditure may lead people into greater levels of debt. The response from the debt providers, once individuals increase or require greater debt facilities, incorporates one or a variety of combinations of the following: increased interest rates; charge fees or penalties; and increase credit limits. The net effect of all these actions is the reduced likelihood that the individual will be able to quickly settle their debt. Therefore, trying to change people's attitudes towards over-consumption will not solve this problem, because buying basic necessities is not over-consumption but merely maintaining existence (Scott, 2007).
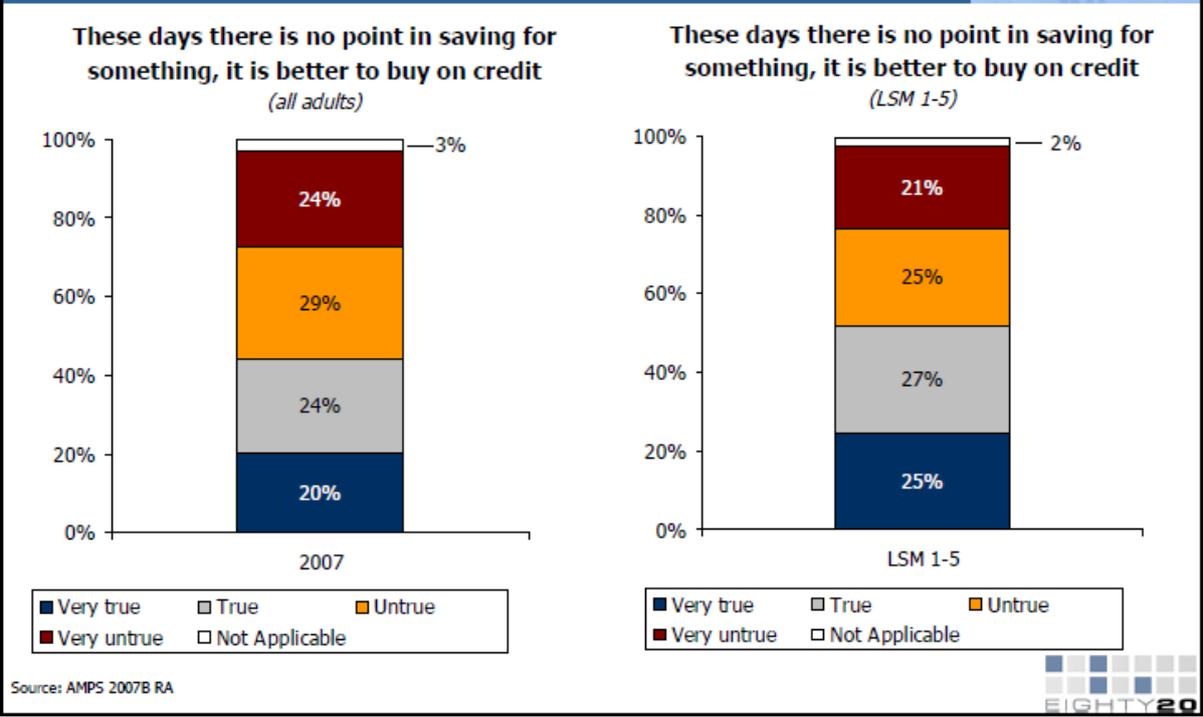
Source: AMPS 2007

The charts above are taken from AMPS survey conducted in 2007 and point to the attitude that South Africans have developed around credit and its use as opposed to saving for consumption. The adult population appears evenly divided on the appropriateness of the use of credit to fund purchases as opposed to utilising savings. There is negligible difference when the whole population is compared to the lower level LSM (1 – 5). However this may be attributed to the smaller absolute numbers of South African adults in the higher LSM, as such their impact on the group readings may have been negligible.

2.2.3 Tax

Concerning taxation of saving, the terms of the debate have shifted from how to make the tax system neutral to how to use the tax system most effectively to raise saving (Toder, 2009). Taxation on any economic activity at the same rate may not alter economic decision making as taxpayers will not reduce their liability by altering behaviour.

Redistribution from rich to poor and social insurance against income losses are basic functions of the welfare state. Yet public policy discussions rarely acknowledge that in modern welfare states, a large part of the taxes levied to finance social transfers merely redistribute resources from one stage in the taxpayer's life cycle to another (Bovenberg, Hansen, Sorensen, 2008).

In other words, a considerable part of the tax bill does not redistribute resources from the lifetime rich to the lifetime poor but is essentially income that the taxpayer transfers to himself over his own life course (Bovenberg et al 2008).

As an alternative or supplement to tax-financed transfers, the consumption-smoothing function of the welfare state can be accomplished also through savings schemes that link taxes and benefits on an individual level. In such a scheme, workers contribute part of their earnings to an individual savings account that is debited when the owner draws social-insurance benefits. At the time of retirement, any surplus on the account is used to supplement retirement benefits (Bovenberg et al 2008).

2.2.4   Interest Rates

The impact of higher real deposit rates on saving is unclear, as the substitution and wealth effects work in opposite directions. While higher deposit rates increase the return to saving, they also make it possible for households to meet objectives with a lower volume of savings. Furthermore inflation may affect saving behaviour through other channels. One frequently mentioned in the literature is the uncertainty that an inflationary climate may create.

Indeed, numerous studies have used inflation as a measure of macroeconomic instability. Here again, however, the effect on saving is not clear. On the one hand, uncertainty about inflation may cause households to accelerate purchases to avoid possibly higher future prices. On the other hand, uncertainty over future economic conditions may cause households to increase precautionary saving (Reinhardt, 2008).

What will be interesting to ascertain is whether any of these widely accepted economic indicators have any impact on the decision making of those individuals who were historically economically marginalised in South Africa? Secondly it would be interesting to understand whether the measurements actually have any meaning to the extent that they can alter behavioural patterns.

2.3 LIFE CYCLE CONSUMPTION HYPOTHESIS

The standard model for analysing saving behaviours was the life cycle model of consumption and saving (Modigliani and Brumberg 1954) in (Yuh and Hanna, 2010). In this framework, individuals and households choose a consumption path that will maximize their expected lifetime utility. The theory is built around the ideology that the individuals endeavour to maintain an unchanging level of incremental satisfaction over a period of time. This smoothed consumption does not however suggest that expenditure remains unchanged.

Pang and Warshawsky (2009) suggest that the lifecycle of individuals can be roughly divided into two phases. The first phase is the working years during which, individuals earn, consume and save for retirement. The second phase is retirement during which individual draw down their accumulated wealth to support consumption. Their research further shows that in order to maintain a similar living standard before and after retirement, the retirement income funded by savings should reach a certain percentage of preretirement earnings commonly known as the replacement rate.

Theoretically, the required replacement rate can be lower than the full preretirement earnings due to retirees typically paying lower taxes and also being less inclined to spend as much on work related clothing and travelling for example. Offsetting this decrease in expenditure is an expected increase in spending on health care services particularly if the individual has no or insufficient medical insurance (Pang and Warshwsky, 2009).

The theories were developed in the 1950s, which was a time of negligible consumer debt (Scott, 2007). Scott further highlights that in order to build a mathematical model from which the theory is based would require some simplifying assumptions namely: individuals are rational; they have access to complete markets (perfect information and foresight); and they have stable, well defined preferences.

The consequence is that responsibility for one's spending is completely removed from external or market forces and resides only with the individual consumer. A key limitation of the life cycle consumption model is that individuals are able to make rational decisions in developing a lifetime plan for consumption and saving. Evidence shows that in practice, many workers are unable to enter retirement with sufficient financial resources (Scott, 2007).

2.4 INCOME AND WEALTH EFFECT

Saving is less directly dependent on current income, but rather it is relative to past as well as expected income (Yuh and Hanna, 2010). Households that expect earnings to increase will have relatively low to negative levels of savings, particularly if it is a younger household. As the household ages the proportion of income allocated to savings should increase. The study concludes by saying that the higher the anticipated real income growth, the lower current savings should be.

The above assertions are somewhat supported by the wealth effect. This economic principle suggests that as people get wealthier, they consume more (www.economist.com). This effect has significant repercussion for monetary policy. This is because, as interest rates rise, future income from investments such as equities is discounted at higher rates than previously, resulting in reduced valuation of assets. Owners may choose to respond to this perceived reduction in wealth by spending less. An interest rate reduction has the opposite effect.

Economists disagree on the wealth elasticity of consumption. The concept of elasticity is an attempt to measure the propensity to spend as a result of a one percentage point change in wealth (www.economist.com). Different consumers may have different wealth elasticities. For instance if most of the increase in wealth goes to poorer people this may have a different wealth effect than if most of it went to people who are already wealthy.

The manner in which the wealth is increased will also have an impact on elasticity. Assuming individuals have established their wealth through listed equities, a sharp increase in the value of their holding will not necessarily result in increased spending, particularly if consumers believe this price spike to be temporary in nature. However misreading the increase as prolonged only to have a stock market correct, may result in a reduction in spending that could be so deeply entrenched as to cause a recession.

2.5 HIERARCHICAL NATURE OF SAVING

A study by Daveney, Anon, and Whirl (2007) proposes that savings motives are organized in a hierarchy, and that individuals move up the hierarchy as lower-level motives are satisfied. The study appears to be loosely based around principles derived from Maslow's hierarchy needs. It is hypothesized that those who move up the hierarchy from no savings to a higher level or levels will be younger, better educated, in good health, with more income, willing to take more risk, and have longer planning horizons (Beverly, McBride, and Schreiner 2003; Bould 1980; Bryant 1990) in (Daveney, Anong, and Whirl, 2007).

Further it was found that individual's tolerance for risk had an impact on moving from a state of no savings to, at the least, the establishment of saving for basic needs. The findings highlight that it is imperative for consumer educators and financial advisors to assist individuals in making sense of their risk tolerance and the impact that will have on their savings behaviour.

2.5.1   Planning, Education and Financial Literacy

With the movement from defined benefit to defined contribution, individuals are increasingly in charge of their own financial security after retirement (Lusardi, 2008). The onus is now on the worker to determine both how much to save for retirement as well as their pensionable wealth.

Moreover, the complexity of financial instruments has increased and individuals have to deal with new and more sophisticated financial products. Individuals with higher levels of education feel less intimidated by the institutional environment within formal financial services relative to others with lower levels of education (Kibet, Mutai, Desterio, Shem, and Owuor, 2009). These considerations raise some questions regarding individual ability to adequately plan for their savings.

Planning is a vital and decisive factor in a household's wealth accumulation. One basic method of testing whether individuals, consistent with theory, plan ahead for the future is the extent to which they plan for their retirement. Table 2 reports the distribution of household wealth holdings across different degrees of retirement planning for two groups of households of the same age but in different time periods: the Early Baby Boomers (age 51–56 in 2004) and the Older Cohort (age 51–56 in 1992) (Lusardi, 2008).

Table 2: Distribution of household wealth across differing degrees of planning

A. Early Baby Boomers: Age 51 – 56 in 2004					
Group	% of Sample	25th Percentile	Median	Mean	75th Percentile
Planning					
Hardly at All	27.9%	9 000	**79 000**	315 579	271 000
A Little	17.0%	62 800	**173 400**	356 552	390 500
Some	27.7%	51 000	**189 000**	365 354	447 200
A Lot	27.4%	54 000	**199 000**	517 252	470 000
B. 1992 Older Cohort: Age 51 – 56 in 1992					
Group	% of Sample	25th Percentile	Median	Mean	75th Percentile
Planning					
Hardly at All	32.0%	10 100	**76 910**	224 311	200 610
A Little	14.3%	37 700	**126 560**	343 110	292 170
Some	24.8%	71 360	**172 340**	340 340	367 300
A Lot	28.9%	71 390	**173 690**	353 520	356 800

Source: Lusardi, 2008

The table shows that planners have significantly more wealth than non-planners. At the median level planners are able to build up more than twice the amount of wealth as non-planners. Differences are even more pronounced at the first quartile of wealth distribution. For many, lack of planning is tantamount to lack of saving. There is more negligible difference at the means. This may be due to the fact that some of the wealthy households admitted to not giving much thought to their retirement. What is noteworthy is that the table suggests that some thought towards one's retirement results in far greater wealth than none.

Lusardi (2008) continues to suggest that one reason individuals do not engage in planning or are not knowledgeable about pensions or the terms of their financial contracts is that they lack financial literacy. The findings would be less concerning if individuals utilised the services of professionals and financial experts in reaching their saving decisions. The reality is that only a small proportion of households consult either financial advisers; bankers; certified public accountants; and other professionals. The balance of the households depended on informal sources of information.

2.5.2   Social Influences

Bjornskov, Dreher, and Fischer (2008) identified four attributes that lead to the maximisation of life utility. Firstly, higher relative income or socio-economic status increases well-being according to virtually all studies. Secondly, higher levels of education also tend to be positively associated with life satisfaction. Thirdly, being unemployed exerts a strongly negative influence on individual well-being that cannot be alleviated to any substantial degree by the social security net. The fourth variable is age, whereby satisfacttion roughly decreases until people reach their mid-40 s after which satisfaction increases again.

Consumption possibilities are also influenced by governments in two broad ways. Firstly the state provides private as well as public goods such as education and infrastructures. These goods do not only affect today's bundle of consumption goods, but also provide the basis for future economic prosperity.

The second component is related to how the redistributive government policies might well affect personal socio-economic positions and perceived fairness of the allocation of resources in society. The degree of income inequality affects the relative income position of individuals and thus might influence their well-being. Relatively poor people may be demotivated by the inequalities present in their societies. Conversely they may see the inequality as an opportunity to advance their own ambitions.

The research literature on poverty and child development is saturated with studies that document the negative effects of poverty on children (Hardaway and McLoyd, 2009). A comparison between individuals who did not grow up poor and those who did found that adults who grew up in poor families earn less income, complete fewer years of of school, and are over three times as likely to be poor as adults (Corcoran 1995; Heflin and Pattillo 2006) in (Hardaway and Mcloyd, 2009).

Middle class parents with an educational level equal to or greater than their children's teacher, were more likely than their working class counterparts to see themselves as equals with the teachers and establish a partnership with the teacher. Working class parents on the other hand tended to be more apprehensive in their dealings with the teachers and distinguished their parenting from the teaching instruction at schools. Parents who responded positively to the idea of a home-school partnership were able to accumulate advantages for their children more than those who did not, in part because teachers

expected all parents to contribute equally to their children's education (Hardaway and Mcloyd, 2009).

As discussed earlier credit cards enable people to spend more than they currently earn. They can do this to attain a living standard that equates to living in a higher class level (Scott, 2007). The prevalence of conspicuous consumption witnessed in today's society is largely driven the wide array of goods available to the consumer. Credit cards allow individuals to access these items of clothing, holidays, and fine dining.

2.6 DETERMINING ADEQUATE SAVING

Research is divided on the decision of whether people save sufficiently for retirement. Logically it is difficult to establish how, as an external observer, you can reach a conclusion of how much is sufficiently saved by a third party. Further is the issue of whether future retirees' anticipated lifestyles should be compared with historic benchmarks or with their own pre-retirement income or consumption. Researchers in the United States differ widely in their assessments of whether people are saving enough for retirement (Toder, 2009).

Longevity risk is the risk that people may live for longer than the average expected. This poses risks of uncertainty of the quantum of financial assets required in preparation for retirement. Individuals may reduce this risk by buying annuities at retirement age. However, whereas the purchase of annuities at retirement age provides insurance against longevity risk as of this age, a young individual saving for retirement faces substantial uncertainty as

to the level of aggregate life expectancy, and consequently annuity prices, that they will face when they retire (Cocco and Gomes, 2008).

A financial markets technology that is a partnership between government and the community at large is compulsory individual accounts. These protect people by allowing individuals to make withdrawals from the accounts even if the account balance is negative. In this way, the government in effect provides liquidity insurance and alleviates capital-market imperfections (Bovenberg et al, 2008). The government uses the expected contributions into the scheme as collateral enabling the state to provide the credit facility. This liquidity provides critical relief for the lower income earners who frequently struggle to borrow making it challenging for them to smooth their consumption and brace themselves during periods of shocks.

The concept suggests that lifetime redistribution as well as liquidity and lifetime income insurance give rise to moral hazard. Individuals may be incentivised to keep their contributions at a minimum while maximizing on their withdrawals. The state should therefore regulate withdrawals so as to ensure they are only utilised for pre-determined purposes only. Furthermore the savings need to be compulsory, at the very least up to a predefined maximum limit.

3. PROPOSITIONS

The analysis of the academic body of work available in conjuction with the secondary data available informs the propositions listed below. However before stating these propositions I need to summarise existing data. It is drawn from the 2010 Amps surveys and details various instruments individuals, in South Africa, utilize to save and invest. The data has been subdivided along racial lines to give insight into the level of savings activity prevailing in each broad racial group. The data is represented at the individual level, by summing the number of individuals in each racial group that utilises a certain instrument as their chosen investment vehicle.

Table 3: A) Summary of investment vehicles used, in South Africa, by racial group

	Black	Coloured	Indian	White	
Endowment	352,964	64,187	48,707	277,768	
	1.50%	2.60%	5.18%	5.75%	
Policies	288,978	41,615	23,936	61,275	
	1.22%	1.68%	2.54%	1.27%	
Retirement Annuity	668,913	181,911	73,695	715,936	
	2.84%	7.36%	7.83%	14.83%	
Stock Market	68,023	14,679	9,536	148,269	
	0.29%	0.59%	1.01%	3.07%	
Unit Trust	285,558	41,228	44,098	342,617	
	1.21%	1.67%	4.69%	7.10%	
Property	21,926,255	2,127,906	740,944	3,281,909	
	92.94%	86.10%	78.75%	67.98%	
Racial Total	*23,590,691*	*2,471,526*	*940,916*	*4,827,774*	**31,830,907**
	100%	*100%*	*100%*	*100%*	**100%**

Source: http://www.eighty20.co.za

Property appears to be the investment asset of choice for all the race groups accounting 93% of Black, 86% of Coloured, 79% of Indian and 67% of White savings basket. I have my

reservations about these property numbers, as I suspect they may account for primary residence as well as additional properties. For that reason it may be overstating the true figure of property investment in the country.

Table 3: B) Summary of investment vehicles used, in South Africa, by product type

	Black	Coloured	Indian	White	Product Total
Endowment	352,964	64,187	48,707	277,768	*743,626*
	1.11%	0.20%	0.15%	0.87%	*2.34%*
Policies	288,978	41,615	23,936	61,275	*415,804*
	0.91%	0.13%	0.08%	0.19%	*1.31%*
Retirement Annuity	668,913	181,911	73,695	715,936	*1,640,455*
	2.10%	0.57%	0.23%	2.25%	*5.15%*
Stock Market	68,023	14,679	9,536	148,269	*240,507*
	0.21%	0.05%	0.03%	0.47%	*0.76%*
Unit Trust	285,558	41,228	44,098	342,617	*713,501*
	0.90%	0.13%	0.14%	1.08%	*2.24%*
Property	21,926,255	2,127,906	740,944	3,281,909	*28,077,014*
	68.88%	6.69%	2.33%	10.31%	*88.21%*
					31,830,907
					100%

Source: http://www.eighty20.co.za

In spite of the small number that White people, as a racial group, comprise in this study – particularly when compared to the Black racial group – they make up the highest number of users of retirement annuities – 725 936 (2.25%), the stock market – 148 269 (0.47%), and unit trusts – 342 617 (1.08%). This may be a direct result of the legacy of the economic structure of the country that has yet to be corrected or to correct itself. The stock markets represent the least used, of all the investment vehicles investigated, with a mere 240 507 users or 0.76% of the sample investing through this platform.

Proposition 1

There are more people that do not save than those that do save.

1.1 Individuals with higher levels of education tend to save more.

Proposition 2

Direct investments into the stock markets comprise the least used method of saving.

Proposition 3

Black South Africans save for specific purposes with a shorter time horizon.

3.1 The primary saving methodology is focused on collective and societal schemes.

3.2 Family and friends represent the most frequently used source for financial advice.

Proposition 4

Few individuals actively plan for and monitor their savings.

Proposition 5

Access to credit has reduced the requirement to save in order to afford certain items.

4. RESEARCH METHODOLOGY

The research took the form of a two phased descriptive study. Existing data, from sources such as Eighty20, Statistics South Africa (StatsSA), and the Savings Institute of South Africa (SASI) was collected. These data formed the basis of propositions the researcher investigated. On the basis of the data already presented, the researcher conducted a survey to give a greater degree of richness and depth thereto.

At its most rudimentary level a descriptive study concerns a univariate question or hypothesis in which we ask about, or state something about the size, form, distribution or existence of a variable (Blumberg, Cooper, Schindler, 2008). The researcher envisaged that this approach could enable the reader to crystallise the understanding of a concept he may already have been aware of but without qualified evidence of its truth. The unit of analysis was the individual. This unit described the level at which the research was conducted and focused on improved understanding of individual behaviour.

Individuals within South Africa who were financially independent made up the population of the research. The key reasons for this were: ease of access to these individuals given that the researcher also resided in the country, further the other sources of data based their research on the same population. The history and the social make-up of the country would render the findings of this study may be applicable in other parts of the world. Finally the South African populace comprised of a segment of people that have only recently undergone democratic liberation and economic emancipation and the researcher believed

would be interesting to track how they have adopted these liberties to enable them to build lasting wealth.

The researcher made use of non-probability sampling to select subjects for the research. However it was highly likely that there may be difficulty with getting responses for the survey. As such the researcher had to make use of snowballing, which also presented problems with the data. To ensure that the sample chosen was representative of the population the researcher segmented his sample in accordance with estimated demographics of South Africa as shown in Table 4 below.

Table 4: Mid-year population estimates for South Africa by population group and gender, 2011

Population Group	Male		Female		Total	
	Number	**% of male population**	**Number**	**% of female population**	**Number**	**% of total population**
African	19 472 038	79.4%	20 734 237	79.5%	40 206 275	79.5%
Coloured	2 188 782	8.9%	2 351 008	9.0%	4 539 790	9.0%
Indian / Asian	626 690	2.6%	648 177	2.5%	1 274 867	2.5%
White	2 227 526	9.1%	2 338 299	9.0%	4 565 825	9.0%
Total	**24 515 036**	**100.0%**	**26 071 721**	**100.0%**	**50 586 757**	**100.0%**

Source: Statistics South Africa

As such Table 5 below summarises the breakdown of the sample that the researcher aimed to get responses from.

Table 5: Segmentation of sample

	Male	Female	Total
Black	40	40	80
Coloured	4	5	9
Indian / Asian	1	1	2
White	5	4	9

The questionnaire that researcher utilised, is shown in Appendix 1. It was drawn from a variety of surveys conducted by FinScope, Eighty20, and StatsSA. It was broken down into three broad categories. The first section collected demographic information. The second section attempted to collect data on income and spending patterns. The third section attempted to collect information on attitudes towards money.

Given the resources available and the location of the researcher, most of the data was collected in an around the Gauteng province. The methodology the researcher used to collect data was to brief 25 individuals on the purpose of the research. These individuals then filled in an online version of the survey and forwarded it to a further three respondents, whose gender and race was selected by the researcher – so as to ensure consistency with the desired sample.

The sample size was a limitation in this research. But for the black grouping some of the other racial groups may be rendered statistically insignificant. As such a subsequent study could be conducted that may yield more statistically rigorous data, for the other racial groupings. The researcher anticipated that the results may be concentrated in the Gauteng area. This province represented the most economically productive province in the country and therefore the research participants possibly represented the most financially astute individuals. The existence of a large body of non-academic work on the subject matter may have influenced the formation of the questionnaire.

5. RESULTS

This section presented the findings of the data collected. The researcher represented each question of the survey conducted graphically. There were respondents who, while agreeing to participate in the survey, did not complete all the questions. As such some of the questions were skipped entirely or answered incompletely. This resulted in an inconsistent sample of responses per question.

The survey was split into three broad categories. The first was designed to collect basic demographic information, so as to build a profile of the respondents. The idea was that the researcher could use this information if any need for further data segmentation was warranted.

Chart 1: Gender breakdown
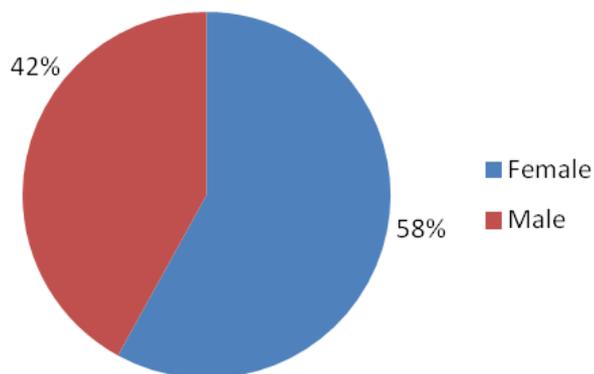
The survey participants were predominantly female (58%) and the balance (42%) was male. The respondents were predominantly (79%) of the Black ethnic group, in line with the population demographics, as shown in Table 4.

Chart 2: Ethnic composition
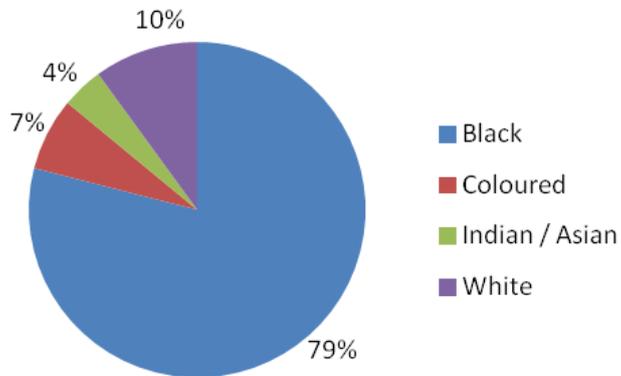
The researcher found individuals in the age groups 20 – 30 and 31 – 40 more receptive to the choice of survey methodology. As such these two segments comprised the largest participants in the survey at 63% and 33% respectively, as shown by Chart 3.

Chart 3: Age groups
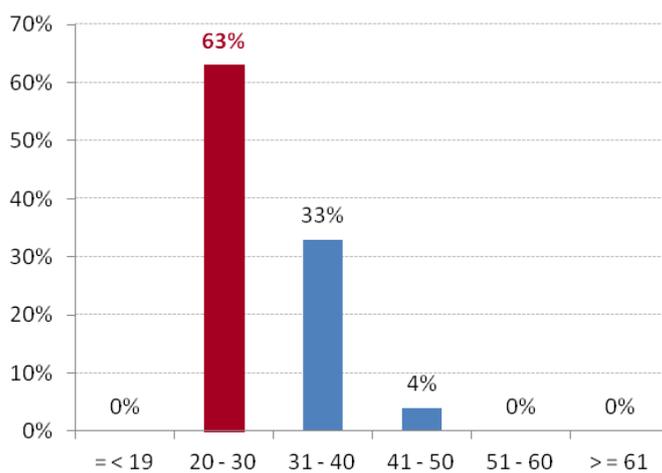
The vast majority of the respondents were relatively evenly split between respondents who were single and never married (39%), in a relationship or engaged (26%), and married (33%) as shown in Chart 4.

Chart 4: Marital status
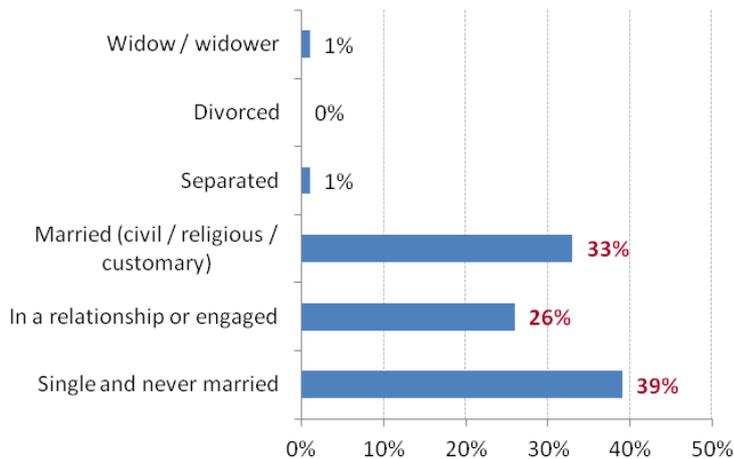
The researcher also had to understand the extent to which respondents have family members for whom they were financially responsible. Given the relatively young age the relatively small number of dependents confirmed what the researcher would have anticipated. 42% of respondents had no financial dependents, and this was in line with the number of respondents who were single and never married (39%). A further 53% of the respondents had between 1 – 4 financial dependents, and this was also in line with the number of respondents who were in a relationship or engaged or married (59%).

Chart 5: Financial dependents
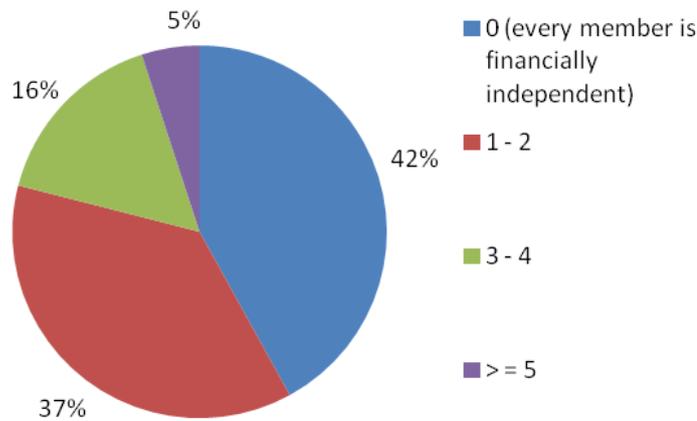
The theory spoke extensively about the impact of education on wealth accumulation. As saving is one of the components required to establish financial wealth, the researcher investigated the extent of academic achievement in his respondents. 92% of the respondents had completed at least an undergraduate degree. This revealed a higher level of education than the general population of the country.

Chart 6: Highest completed formal schooling
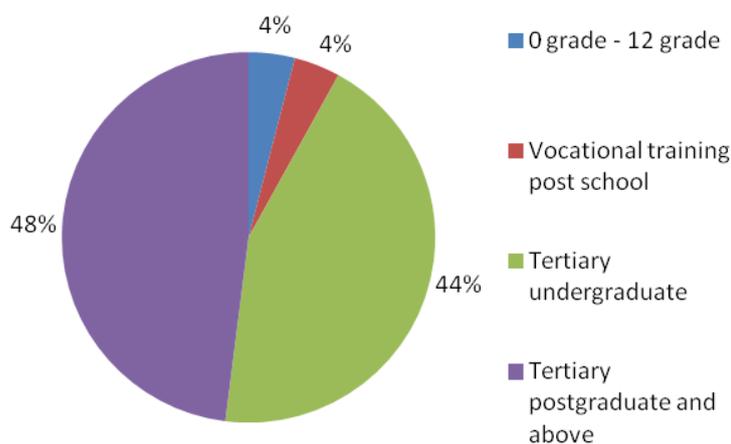
The researcher further tested the employment status of his respondents. The vast majority (90%) of the respondents were employed in a full time capacity, predominantly in finance, real estate and business services sectors (70%), as shown in Charts 7 and 8 respectively. Both these pieces of information corresponded to the high degree of education prevalent amoung the respondents. The balance of the respondents were fairly evenly spread along the remainder of the sectors the exception of mining and quarrying having no representation.

Chart 7: Employment status
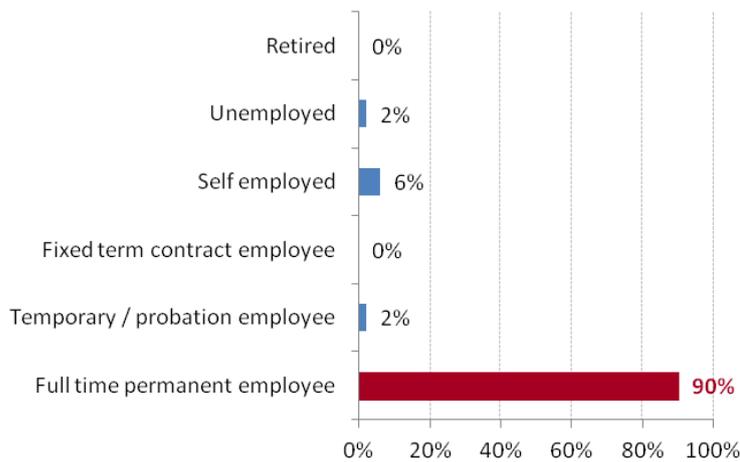
Chart 8: Industry of employment
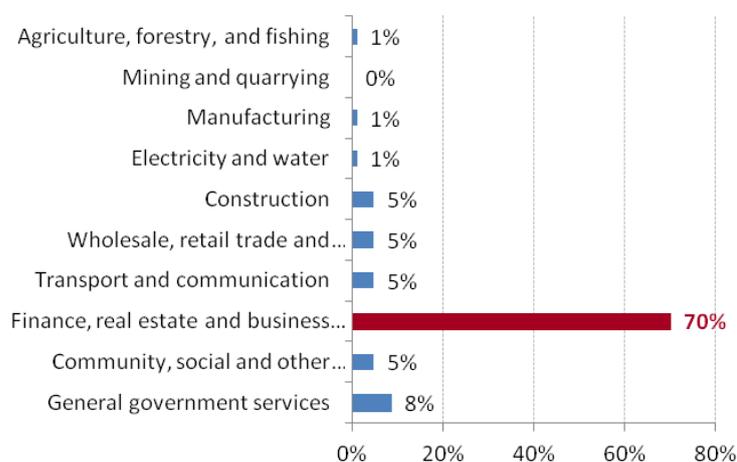
Finally the respondents had to estimate their total annual earnings. The earnings ranges were defined in accordance with the prevailing South African Revenue Services income tax brackets. The respondents had a larger representation (37%) in the highest income tax bracket than the researcher anticipated. This was also confirmed by the confidence exhibited by the respondents in their ability to retain their current employment as shown in Chart 10. Looking forward to the next 2 – 3 years 89% of the respondents were at least mildly certain of retaining the jobs.

Chart 9: Total annual income
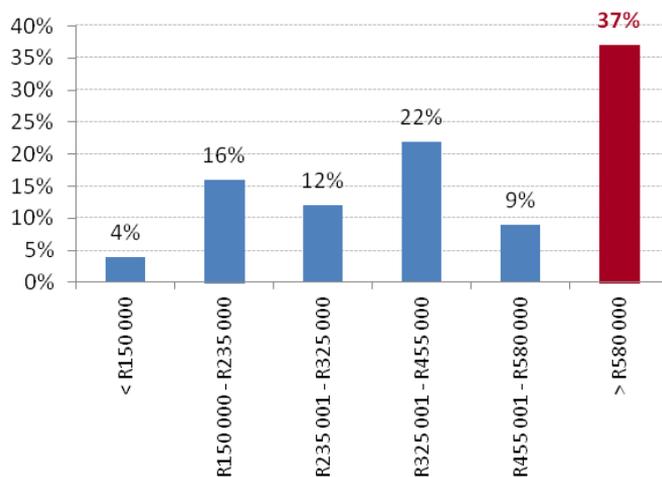

Chart 10: Employment confidence
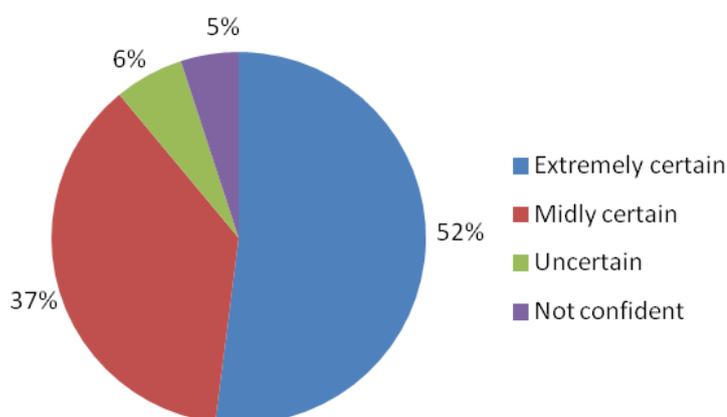
This section of the survey was intended to provide the crux of the research, given the direct nature of the questions asked. This section would also start to build some understanding of the drivers of savings behaviour. The overwhelming majority (78%) of respondents answered that they do save out of their current disposable income.

**Chart 11: Saving out of current income**
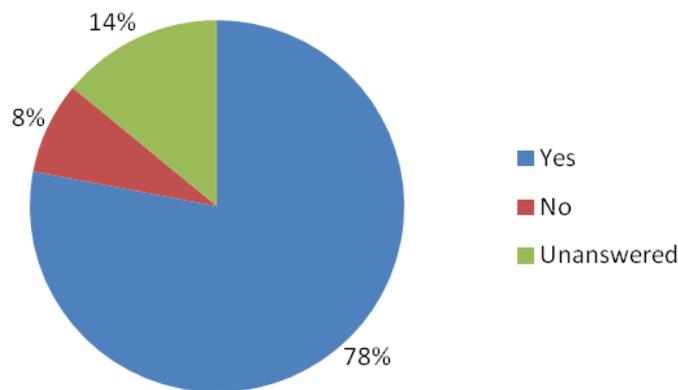
There was a vast array of reasons for saving. The three most important reasons identified for saving were future uncertainty (20%), asset accumulation (15%), and retirement (14%).

Chart 12: Reasons for saving
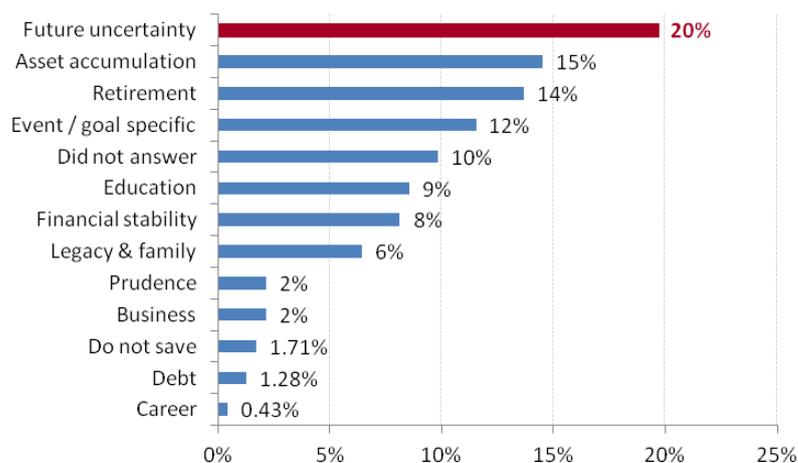
The majority (55%) of respondents saved lowest amount that the researcher allowed (less than 15% of disposable income), while only a paltry 4% saved more than 30%.

**Chart 13: Percentage of income saved**
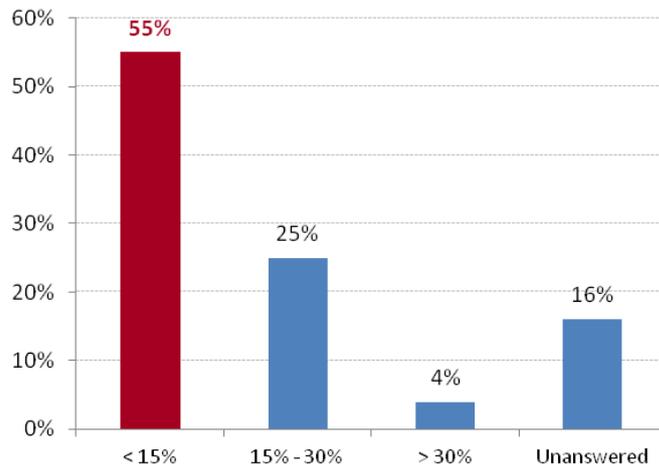
There was an extensive list of saving products put forward by respondents. The three most frequently utilised were bank savings account (34%), listed equity (13%), and real estate (12%). Given the data presented earlier, the researcher was surprised by the frequency with which listed equity was used.

Chart 14: Method used to save
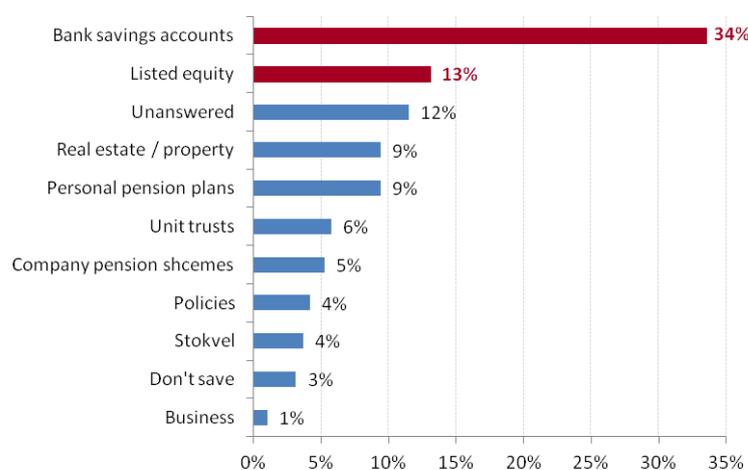
The key reason offered for the choices of saving instruments utilised was convenience (27%). Respondents considered this more important than their appropriate level of risk (15%), as well as future uncertainty (13%). This information may be very useful to financial services providers in shaping savings products.

Chart 15: Reasons for chosen method of saving
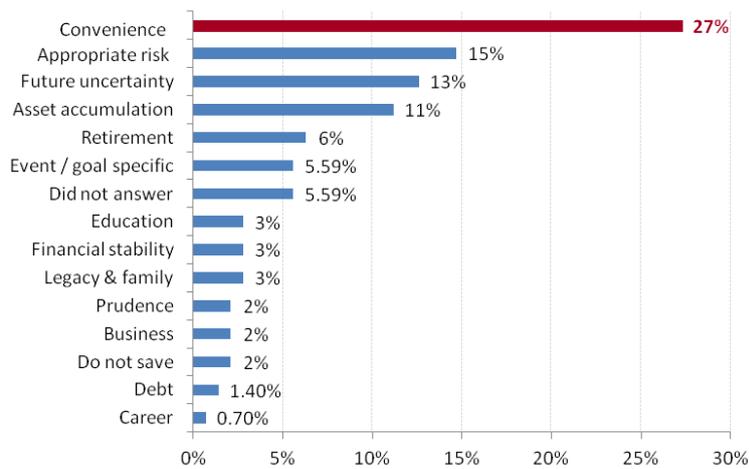
57% of the respondents had their savings focused in tenures of five years or less. Only 17% of the respondents looked beyond ten years with their saving focus.

Chart 16: Time period to which saving is focused
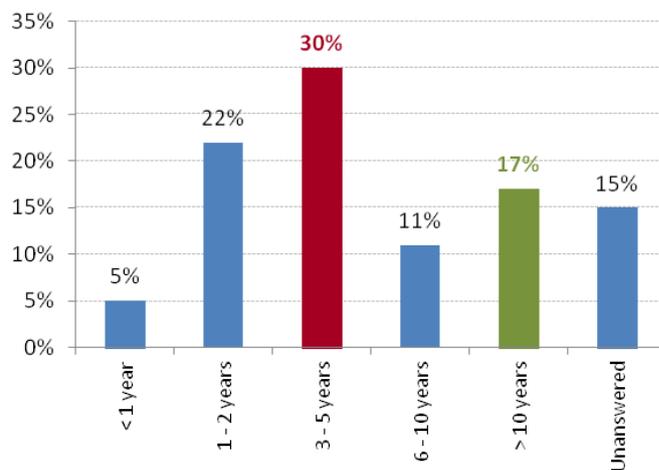
Current debt levels accounted for 31.5% the obstacles to additional saving. The researcher believed there was synergy between this reason and the belief that respondents could not afford to save more, the latter accounting for 32.3% of hindrance to additional savings.

Chart 17: Obstacles to saving more
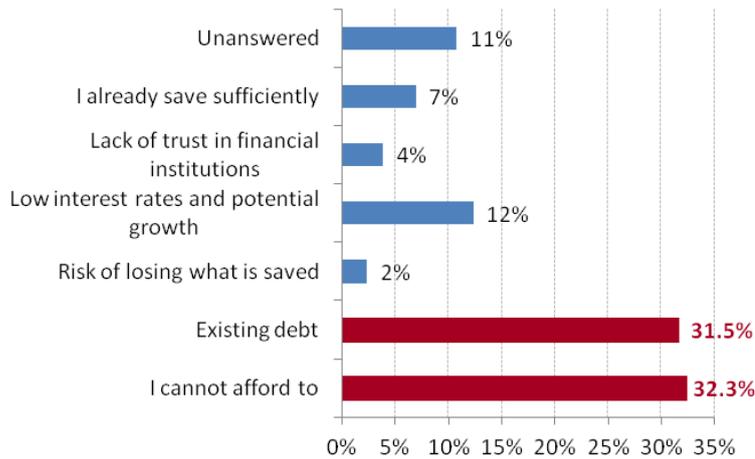
Chart 18 showed that where respondents spent more than they earned 33% borrowed and 21% spent out of their savings. Those individuals who selected "Other" were predominantly those who do not spend more than they earn. Other income subsidies mentioned were business interests over and above current employment, as well as drawing down on bonuses.

Chart 18: Income subsidy
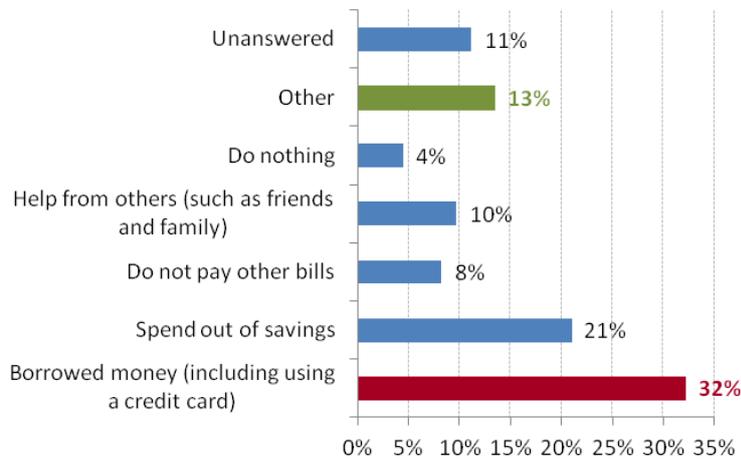
68% of respondents searched for at least one to five service providers when searching for the very best products and terms to save.

Chart 19: Intensity of searching for best saving solutions
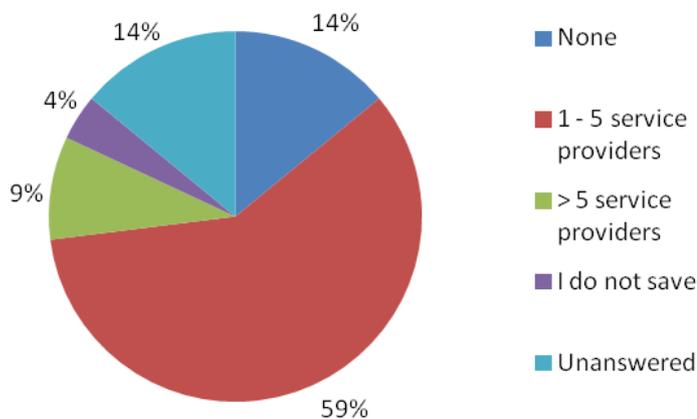
45% of respondents stated that they monitored their savings on a monthly basis. This appeared to correspond with the shorter time period towards which savings were predominantly directed. When compared to the most popular choice of saving vehicle, the

banks saving account, it also suggested that respondents may have been referring to the monthly transferring of funds settling into their saving account, but not necessarily the performance monitoring of the account.

Chart 20: Frequency of monitoring savings
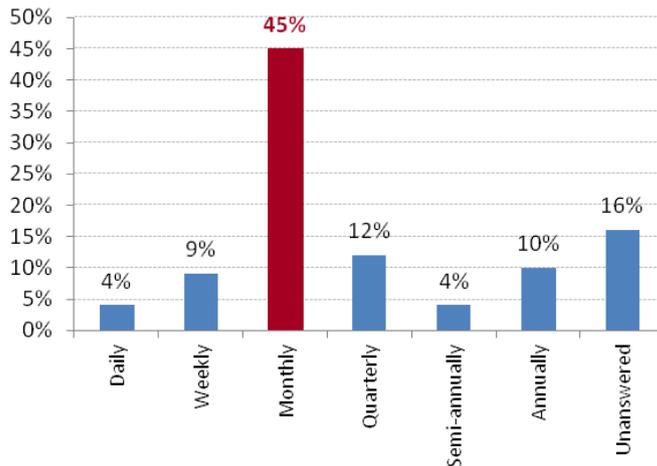
40% of respondents relied on their own knowledge and searching ability when considering their saving decisions. The other alternative used most frequently was financial advisors (19%). There was a relatively even usage of 12% to 15% of family and friends and financial institutions.

Chart 21: Source of information and advice
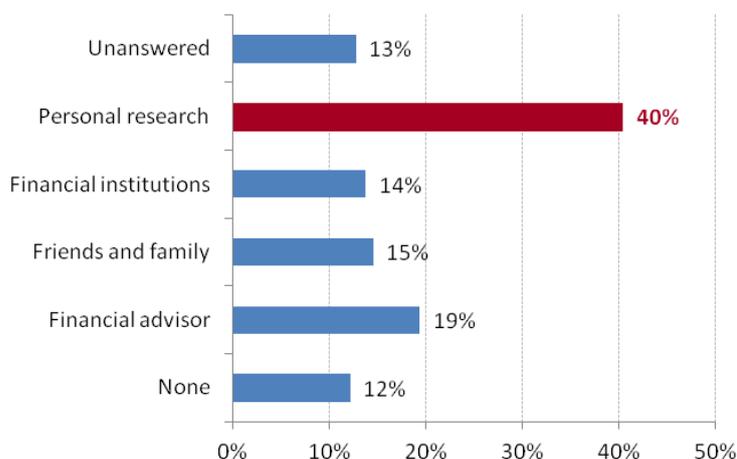
The final section of the survey was designed to identify respondent's attitudes towards money in general. The researcher envisaged that this section could be used to verify assertions made in earlier sections of the survey. While the previous sections were based on direct questions, the questions in this section were more qualitative in nature. The majority (65%) of respondents had a negative view of credit as shown in Chart 21. Chart 22 further emphasised this negative stance with 81% of respondents believing that it is wrong for individuals to fund the expenses of a vacation with debt.

Chart 22: Attitude towards loans
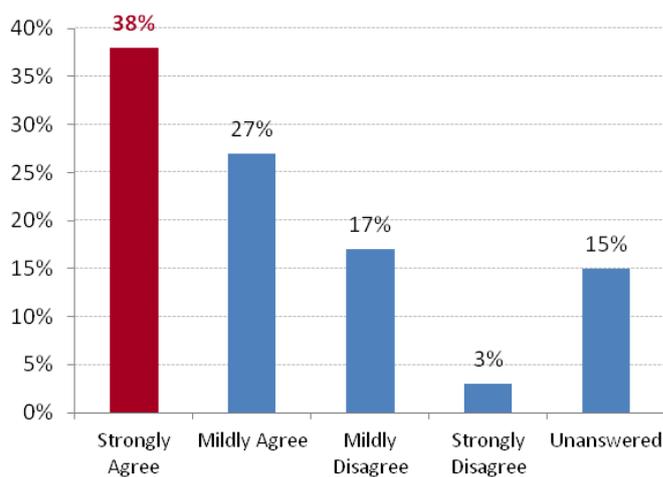
Chart 23: Attitude towards funding vacations with credit
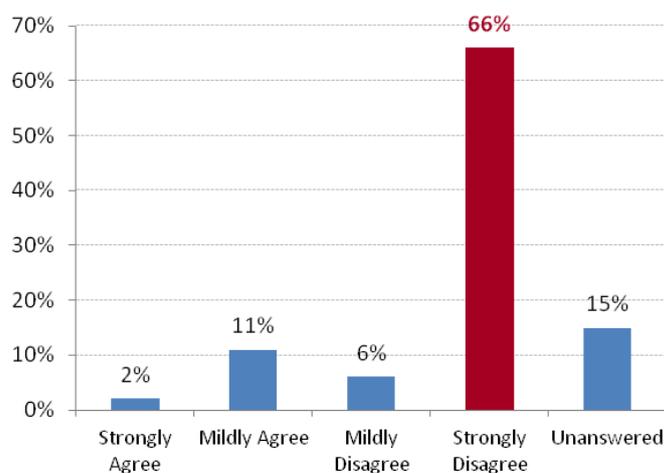
Respondents further affirmed that they had greater faith in their own knowledge and experience than that of others in financial matters. 54% of respondents trusted their own experience than the advice of others on financial matters.

Chart 24: Attitude towards financial advice
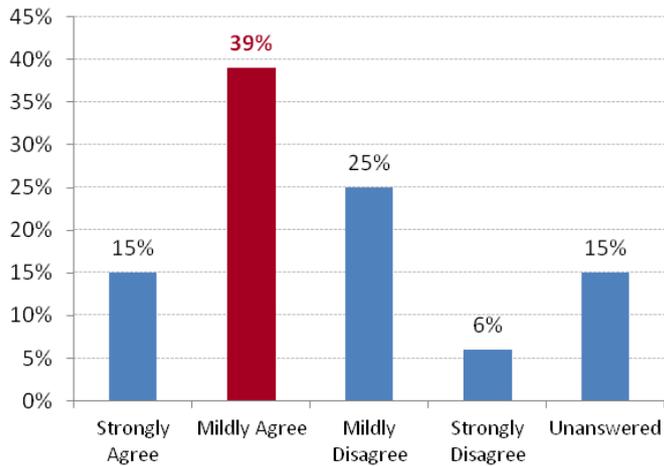
There was an overwhelming (81%) belief that small incremental savings would, over time accrue to significant sums that could secure one's future.

Chart 25: Attitude towards value of incremental saving
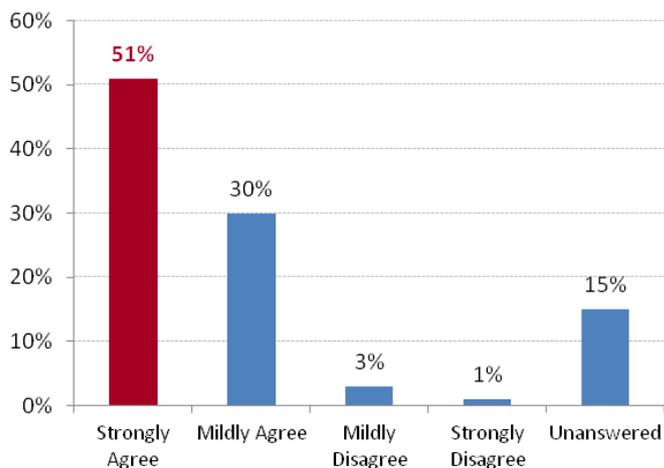
While respondents were in resounding agreement with the principle that saving incrementally could secure their financial future, there was inconclusive evidence that their own savings would be adequate post-retirement.

Chart 26: Attitude towards sufficiency of own savings
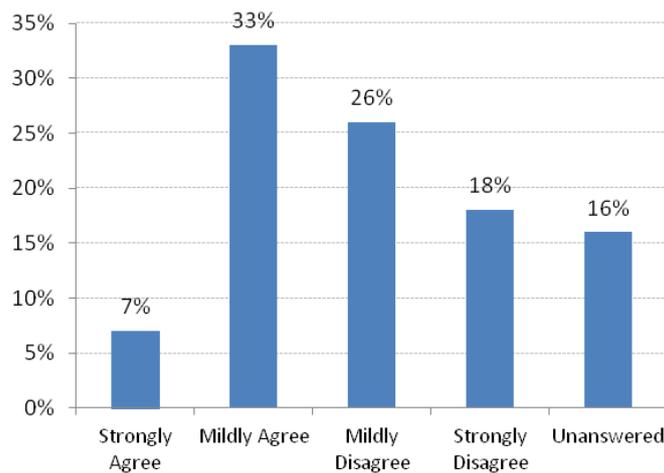
There was further inconclusive evidence with regards to the source of advice individuals prefer to utilise for financial decisions. There was a relatively even split, 33% agreeing and 30% disagreeing, to getting advice from family and friends

Chart 27: Attitude towards financial advice from family and friends
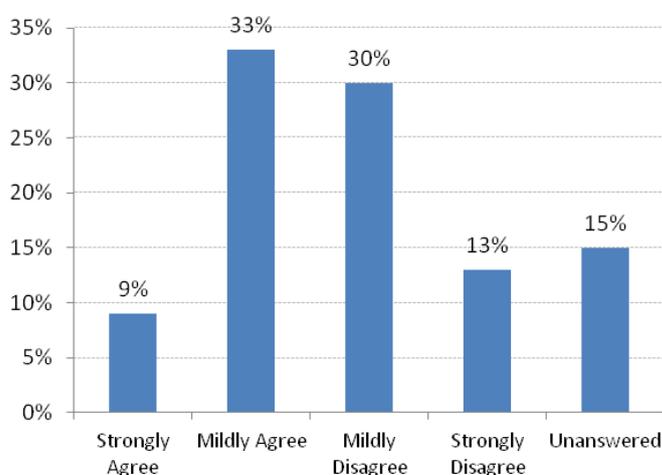
The majority (73%) of respondents were overwhelmingly confident about their knowledge of the returns that their respective investments earned them.

Chart 28: Knowledge of savings returns achieved
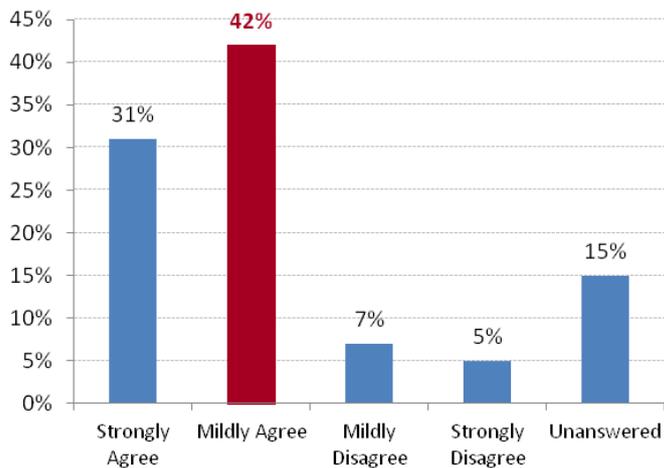
The tax regime applicable to savings instruments appeared to have an impact on the choice of instrument used. 56% of respondents agreed to be influence by the prevailing tax structures. The degree of influence required further investigation.

Chart 29: Influence of tax treatment of savings
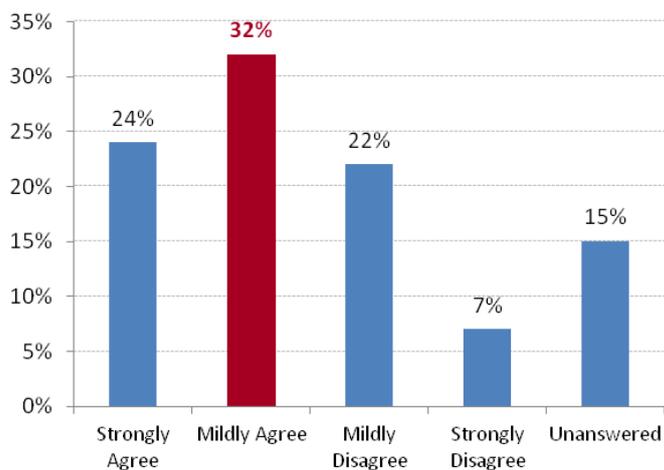
Finally, 63% respondents kept themselves informed of financial developments by reading the finance sections of their chosen print media. This supported the assertion made previously, where respondents trusted their own knowledge and skill in so far as conducting research on their finances was concerned. Further support of this was the fact that the large majority of respondents were employed in the finance, real estate and business services sector. Therefore to read the finance sections of various media may well have been done to keep up to date with industry developments.

Chart 30: Reading of financial publications
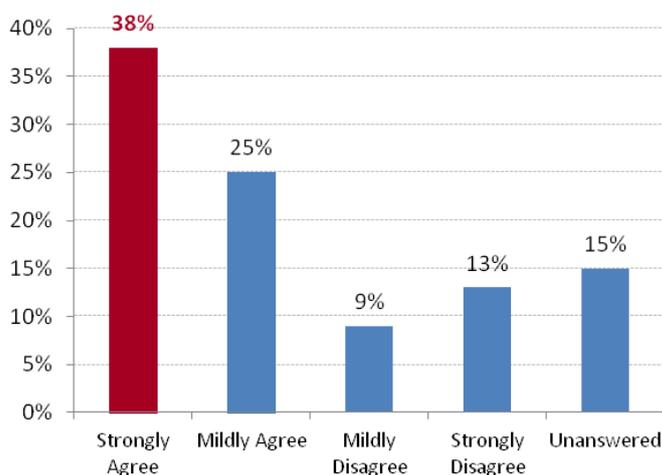
In summary, the sample surveyed represented a young, well educated and therefore upwardly mobile group of individuals. This was evidenced by the earnings profile of the sample and the confidence of job retention – in spite of the prevailing economic conditions globally – that the sample expressed. The data may have appeared to contradict or dispel some of the propositions that the researcher had anticipated, but this will be discussed at length in the proceeding chapter.

6. DISCUSSION OF RESULTS

This section attempted to make sense of the results presented, in the previous chapter, and made specific reference to the five propositions that this body of research was intended to investigate.

Proposition 1: There are more people that do not save than those that do save.

Yuh and Hanna (2010) introduced some of the difficulties associated with measurement of savings. Their research found that the pertinent attributes influencing savings were age, income, net worth, education, household composition, and uncertainty.

The response to the question, "Do you save out of your current income?" was responded to resoundingly positively. 88% of the respondents said they do save and only 12% responded saying they do not save. On the face of it this disproved the first proposition. However, when we looked a little deeper at the composition of the respondents in conjuction with the literature, it was not that clear that this proposition had indeed been disproved.

The sample of this survey was not the best representation of the South African population. The most important characteristics that distinguished the sample surveyed from that of the population within which they existed are the level of education, and income. 89% of the respondents surveyed had at least an undergraduate degree and the highest frequency income group belonged to the highest income tax bracket.

The data showed that the employment structure of the South African economy, and the incentives on employers to employ black individuals, was paying off for those those respondents of black ethnicity who had the appropriate levels of education and training. Furthermore the incomes of the respondents were skewed in favour of the higher income earners, with a staggering 33% of respondents earning in the highest income tax bracket.

Academic literature lent support to the findings of the research above as it suggested that there was a positive correlation between education levels and earnings potential. Additionally the overwhelming majority of the respondents were employed in the very broad finance, real estate and business services sectors. Finance was therefore the forte of this sample and one would expect that their personal finances would reflect this.

As it was phrased Proposition 1 was perhaps to broad. However with the sample of respondents chosen not being a fair representation of the population, measuring the proposition purely as it was stated – based on this sample – Proposition 1 was incorrect. A

cautionary note was warranted: that may not represent the true state of individual saving behaviour in the country.

1.1 Individuals with higher levels of education tend to save more.

The intricacy of financial products had increased over time (Kibet et al, 2009). As such individuals with greater levels of education were much better placed to understand the mechanisms through-which the instruments operated. It was this complexity that made it very difficult for individuals with lower levels of education to engage with financial services providers, to the same extent that their more educated counterparts could.

The data also supported the assertion that individuals who were better educated tended to earn more. The higher income placed those individuals in a better position to allocate funds to a variety of uses. Further they were more inclined to understand the instruments at their disposal that could be used to accumulate even greater amounts of wealth.

In light of the response to Proposition 1, this sub-proposition had been proven true. The vast majority (88%) of the sample saved at least 15% of their disposable income. This was in spite of high indebtedness levels.

Proposition 2: Direct investments into the stock markets comprise the least used method of saving.

The wealth effect suggested that as people got wealthier, they consumed more. This was due to the fact that as interest rates rose, future income from investments such as equities was discounted at higher rates than previously, and resulted in reduced valuation of assets. Investors therefore were more inclined to spend less as their wealth declined. The opposite effect was true of interest rate decreases.

The manner of wealth accumulation was be affected by the degree of consumption elasticity. Individuals who accumulated their wealth through equities were not necessarily driven to spend more as their equity values increased. Increased spending was only driven the view of that asset value appreciation would be prolonged.

In light of the movement in listed equity prices in recent years, the researcher had anticipated that respondents would be less inclined to use this as a primary method of investment. The chart below showed the JSE All Share Index performance over the last five years.

Chart 31: JSE All Share Index
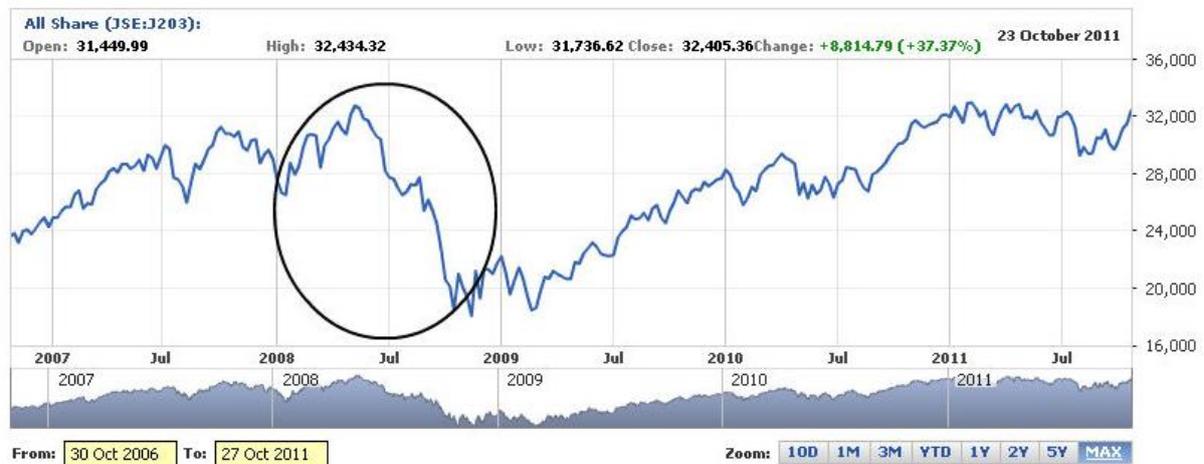
Source: www.fin24.com

The JSE All Share Index was used as a proxy for equity performance. The chart above demonstrated the impact of equity investing during volatile periods or market conditions characterised by increased uncertainty. From approximately May-2009 to September-2009 listed equity investors lost close to 45% of their asset value, as a result of the market moves during that period. With that in mind, the researcher had anticipated respondents to approach listed equity markets with some apprehension notwithstanding the recovery they had undergone since.

Most of the respondents to the research were professionally employed on a full time basis. As well as being highly educated, these individuals trusted their own knowledge and expertise in matters financial. As such the stock markets represented an attractive investment avenue.

Another dimension to the South African labour landscape, that warranted mentioning, was that of skills retention. The demand for skilled individuals continued to be fierce. As such companies utilised a variety of methods to retain talent. One of those was employee share option packages. These may have accounted for the interest and willingness to invest in the stock markets from the respondents.

The Black, Coloured, and Indian respondents would be most keenly aware of the possiblities presented through the stock markets. This interest was, in part, the result of a government initiative to redress the economomic imbalances of the country's past called black economic empowerment (BEE). One of the facets of BEE was that it provided previously disadvanteged individuals the opportunity to invest in listed companies through preferentially priced structures. High profile BEE successes such as the MTN Asonge scheme had heightened the interest in stock market investing to the previously disadvantaged individuals in South Africa.

As such Proposition 2 was proven incorrect. Stock market investing proved to be the second most popular method of saving among this group of respondents.

Proposition 3: Black South Africans save for specific purposes with a shorter time horizon.

This proposition was proven partially true. Given the relative youth of the sample as well as the most important reason offered for saving, future uncertainty – as shown in Chart 33, one would have expected the saving time horizon to be focused much further into the future. However, approximately 65% of respondents said their most important focus was shorter than five years as shown in Chart 32.

Chart 32: Black South Africans saving time period

Most important time period when thinking of savings
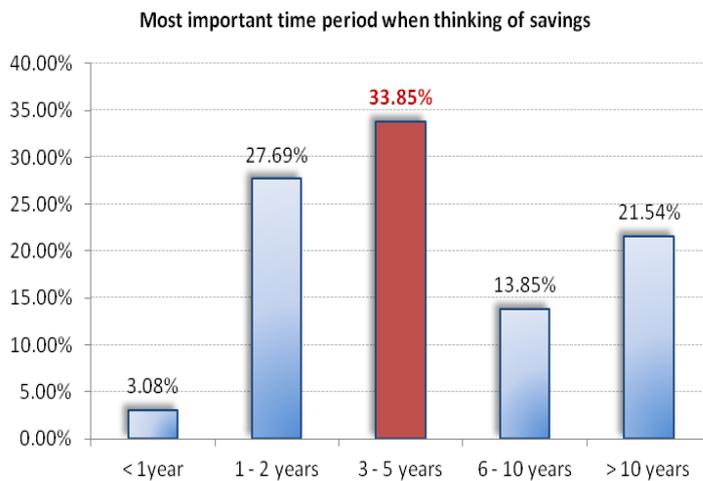
Chart 33: Black South Africans reasons for saving

Most important reasons for saving

Reason	Percentage
Uncertainty / future	24.05%
Event specific (eg holidays)	**17.09%**
Asset accumulation	15.19%
Retirement	13.29%
Education	12.03%
Financial stability	10.13%
Legacy	3.16%
Prudence	2.53%
Business	2.53%

0.00% 5.00% 10.00% 15.00% 20.00% 25.00% 30.00%
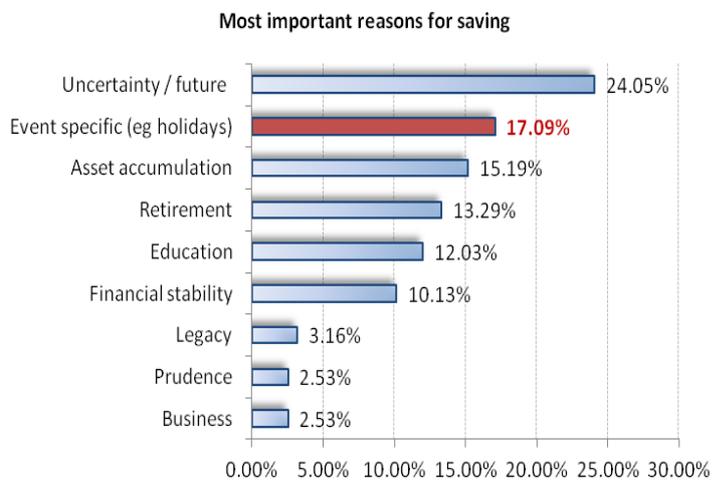
There may be another reason for why saving was particularly short term focused, and this reason was independent of ethnicity. Theory suggested that this group of individuals, between the ages of 20 – 40, was still in the asset accumulation phase of their lives. Asset accumulation was typically acquired through debt. As such individuals going through this phase of their lives tended to be far more focused on debt reduction and elimination than saving.

Saving initiatives therefore, took on a far more focused stance, predominantly on weddings and leisure activities. Chart 17 also verified this assertion, with a combined measurement of 73% of respondents asserting that the obstacles to further saving were debt levels as well as an inability to afford to save more. Conceivably it was possible that these two reasons were causal, but that was an inference and was not explicitly investigated.

Chart 32 showed the time period selected as the most important when considering savings by black respondents as being 3 – 5 years. Chart 33 highlighted the drivers of saving by black respondents as being future uncertainty (24%) and specific events (17%). The most frequent reasons offered for event specific saving included: holidays, weddings, and funerals. This supported Proposition 3, even though that was not at the top of the list of reasons to save.

Retirement only came in fourth in the list of reasons for saving. This suggested that respondents were less focused on retirement as they still had a significant number of "employable" years remaining before needing contemplate their retirement. This was a false sense of security. The sooner individual's started saving for retirement the better. This enabled investors to experience the power of compound interest on accumulated savings contributions. This short term focus did correspond with the time period of saving focus. It was very short term focused emphasising that retirement was not top of mind to this group of respondents.

3.1 The primary saving methodology is focused on collective and societal schemes.

This sub-proposition was proven incorrect. A simple bank saving account was the most preferred method of saving as shown in Chart 34. This corresponded with the overal samples frequency of monitoring saving, which was monthly. Listed equity was the second most used method of saving. This corresponds with the higher overall level of education of this sample. Further it was substantiated by the industry within which most of the respondents were employed namely, finance, real estate and business services.

Chart 34: Black South Africans method of saving

Methods of saving

Method	Percentage
Bank savings accounts	40.00%
Listed equity	16.00%
Personal pension plans	11.20%
Real estate / property	8.80%
Policies	7.20%
Stokvel	5.60%
Unit trusts	4.80%
Company pension schemes	4.80%
Business	1.60%
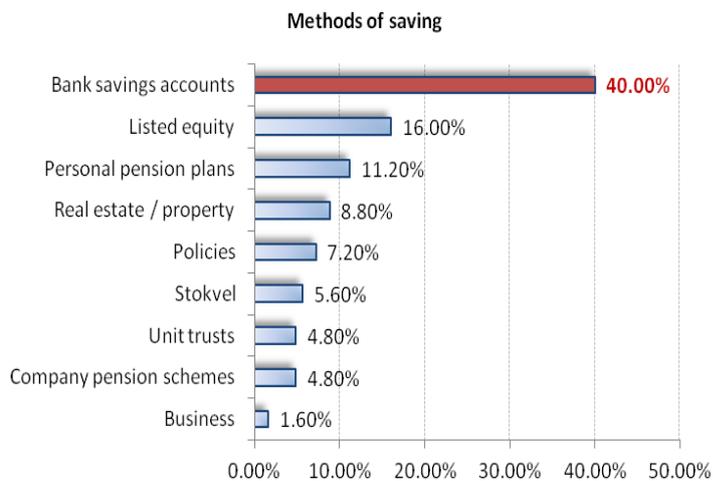
Saving schemes such as stokvels featured towards the least used methods. Where utilised respondents substantiated that this was also used as a social gathering of friends, and not the primary tool used for saving.

Real estate and property proved to be a confusing asset class. The researcher had to field a number of questions from survey participants wanting to understand how to account for primary residence. The lack of clarity and consensus in measuring saving had been discussed already, and the property confusion experienced by respondents was but one example thereof.

The researcher would suggest that primary residence not be considered as a saving vehicle. The primary reasons for which people purchase a home was because they needed a place to live. Astute purchasers of property then sought to acquire property in neighbourhoods that exhibited a potential or history of price appreciation. The primary purpose however was not price appreciation but the provision of shelter.

However, accelerated bond repayments could be seen as saving. By accelerating their bond repayments individuals paid more than the minimum required to service the debt for each payment period. The additional amount paid therefore could be considered as disposable income as it was the amount remaining after having accounted for expenses. Therefore as individuals would not have consumed that income, and logic would follow that the income could be considered as having been saved.

It was possible to measure the benefit associated with accelerated debt repayment. Each additional repayment made over and above the minimum required in accordance with the

instalment plan, went directly to reducing the capital outstanding. This had the impact of reducing the subsequent interest expenses associated with the borrowing. As such the interest saved could be invested for the sole purpose of achieving financial growth.

3.2 Family and friends represent the most frequently used source for financial advice.

Following from the results of the earlier sub-proposition, Proposition 3.1 was also proven incorrect. Most respondents trusted their own skill or that of a broker or advisor far more than that of friends and family. Chart 35 below summarised the sources of financial information used by black respondents.

Chart 35: Black South Africans source of saving information

Source of information and advice utilised

- Collegues, friends and family
- Financial publications
- Internet
- Self
- Broker / advisor / banker
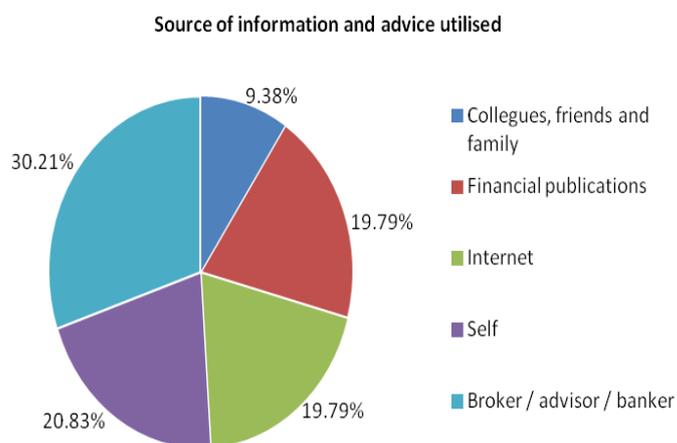
When you considered the use of the internet as a source of investment information, this was further demonstration that the respondents believed in their own knowledge and

expertise. The combination of the use of the internet and self reliance amounted to 41% of respondents' belief in their own abilities when choosing how to save.

Given that black Africans were the single largest ethnicity in the country. South African has a vested interest in the financial soundness of this population group. That is the reason the researcher thought it imperative to analyse this group's saving behaviour in isolation.

Proposition 4: Few individuals actively plan for and monitor their savings.

Lusardi (2008) introduced how critical planning was for household wealth accumulation. The key measurement indicator of that literature was the extent of planning towards retirement. From this study there was evidence that suggested that respondents did very little planning towards their retirement.

This proposition was also proven partially correct. 65% of the respondents only did moderate searching for the absolute best service providers, terms, and products as shown in Chart 19. Further the largest instrument used to save was a bank saving account. These accounts could be used for transactional banking as well, and therefore were not the best instruments to use for saving. However 67% of respondents also monitored their saving performance at least monthly. Chart 28 shows that 86% of the respondents claimed to have a fairly good idea of the returns they achieved with their saving products.

Chart 25 showed the attitude that respondents had towards the ability to accrue sufficient income to fund their retired life using small incremental savings over time. A staggering 96% of respondents believed that it was possible to accumulate sufficient amounts to fund retirement using small incremental amounts. On the other hand Chart 26 displayed that respondents did not believe that their own savings would be adequate to sustain their retired life. Only 46% of the respondents believed they would have saved enough for retirement.

The second most frequently used method of saving was direct investments into equity markets. Most academic writing, as well as the most successful known investors, suggested that listed equity investments should be used as long term, buy and hold instruments. Monitoring these investments as frequently as some of the respondents claimed may have left them vulnerable to volatility in market moves that could be costly. Increased frequency of monitoring investments might not necessarily result in improved investment performance. On the contrary, it may have led to worse performing savings as investors perhaps got caught in the volatility of intraday, intraweek, or monthly movements that were not linked to the underlying fundamentals of the stock.

Proposition 5: Access to credit has reduced the requirement to save in order to afford certain items.

For most people, their income was insufficient to meet their basic requirements. So there were times where people needed to resort to debt to make up the deficit (Scott, 2007). The literature also put forward that access to credit resulted in people exhibiting greater impatience for the attainment of material desires, and consumers sacrificed future needs in exchange for current consumption. Ultimately these two factors conspired to reduce the amount of saving that individuals undertook.

There were some conflicting responses to questions designed to test this proposition. As such it was difficult to reach a definitive answer to the question. 77% of respondents believed that taking out loans should be avoided as much as possible, Chart 22. However when faced with the challenge of cash flow 36% of respondents borrowed money to subsidise the shortfall. Furthermore, in Chart 23, 74% of respondents were vehemently opposed to using debt to fund holidays which lent some support to the claims that respondents preferred to avoid debt as much as possible.

To summarise, there appeared to be a segment of emerging market individuals who were highly educated, very confident of their abilities, and were far more individualistic than their socially-oriented fore-fathers. This group was more reliant on their own skill and expertise when considering saving decisions.

7. CONCLUSION

Economic development requires an appreciation of the connection between saving and investment. Saving is the fuel that drives the creation of investment capital, the backbone of any growing economy. As such higher levels of saving can lead to higher levels of economic activity and growth. This topic, therefore, deserves every bit of the attention it attracts. All research that can advance the understanding of the drivers of improved saving should be treated with dedicated attention.

7.1 EDUCATION

Conducting this research was a deeply personal and rewarding process. I was able to reflect on my own understanding and treatment of money. What is abundantly clear is that as financial markets are currently structured, and the trajectory that their ongoing evolution is driving them towards, they are increasingly suited to individuals with higher levels of education. To be able to extract maximum value from the products and services the industry can offer necessitates an appreciation and a comfort with financial terms that enable the individual to appropriately engage with their chosen service providers.

In a world characterised by shortages of skilled employees education is also the tool to uplift individuals out of suffocating poverty. Individuals who were able to invest in their education are reaping the rewards of better paying employment opportunities. Further, the research highlighted the growth in the services sector as the employer of choice.

7.2 ACCESS TO CREDIT

It is difficult to ascertain which came first, an insatiable appetite for credit from consumers or a plethora of creative ways of extending credit from debt providers. What is abundantly clear is that, easy access to debt may serve to plug the deficit created by spending more than individuals earn. However this debt has the tendency of accelerating to levels that become increasingly difficult to manage. The result is consumers who are overleveraged and therefore suffer higher borrowing costs and ultimately struggle to prize away precious resources towards wealth creating saving and investing activities.

7.3 LONGEVITY RISK

I noted with some concern the shortage of long term orientation in saving focus of the majority of the respondents to this research. Most respondents to this research seemed content with looking five years forward, in spite of their relative youth. This is in stark

contrast to the increasing longevity of humans across the planet. The post retirement longevity versus income saved contrast is a ticking time bomb, for most individuals as well as the governments that will invariably be responsible for the well being of these individuals.

The ability of governments to finance public health care and corporations to fund post retirement benefits is leading them to increasing their gearing levels making it hard to conceive how this debt will be serviced. Ultimately this lack of disciplined capital accumulation creates a loop of negative consequences that have macro-wide ramifications.

7.4 RESEARCH LIMITATIONS

The manner, being an online survey, in which the research was collected ultimately, conspired to create a specific type of sample. This sample was not a fair representation of the South African population. The sample allowed an insight into the younger and more educated segment of the population. A repeat of this exact research on the lower income may be warranted to gain a more complete picture of the state of individual saving behaviour in the country.

There were a number of responses that were incomplete. These unanswered questions made it exceptionally difficult to interpret some of the questions and make inferences there from. Perhaps a face to face approach, while it would be more time-consuming, would yield slightly better results.

7.5 **RECOMMENDATIONS FOR FUTURE RESEARCH**

Given how widely it is used, an investigation into how financial institutions attract and administer the simple saving account offering, requires more in depth analysis. The idea being to identify how this facility may be an avenue for banks to tailor far more constructive saving products linked to this account. There are pockets of examples of banks trying this initiative, by structuring saving accounts that direct a proportion of available funds to listed equity, for example. The simpler the product is to administer and operate, for the client, the more attractive it may appear and therefore the more than likely to be taken up.

Further, more research could be directed towards financial education specifically. For, if educated individuals struggle to make sense of the most basic of financial principles, what hope do those of lesser education have? This is particularly important in the South African, and broader African context, as financial institutions are struggling to penetrate the unbanked segments of the populations.

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9. APPENDICES

9.1 Questionnaire

GORDON INSTITUTE OF BUSINESS SCIENCE

Individual saving behaviour in an Emerging Market context

Researcher: Reggie Mlangeni – reggiex@live.co.za
Supervisor: Mike Holland – mholland@pricemetrics.co.za

I am doing research on what drives individual savings decisions. To that end, you are asked to take no more than fifteen minutes to answer the questions that follow. It is envisaged that this will help uncover the reasons for the low levels of savings in South Africa, and similar countries. Your participation is voluntary and you can withdraw at any time without penalty. Of course, all data will be kept confidential. By completing the survey, you indicate that you voluntarily participate in this research. If you have any concerns, please contact me or my supervisor. Our details are provided above.

1. **Basic demographic and background information: this seeks to build a profile of the respondent.**

    a. Please specify you gender

    ○ Female

    ○ Male

    b. Please specify your ethnicity

    ○ Black

    ○ Coloured

    ○ Indian / Asian

    ○ White

    c. Please indicate your age group, in years

    ○ = < 19

    ○ 20 – 30

    ○ 31 – 40

    ○ 41 – 50

    ○ 51 – 60

    ○ > = 61

d. Please indicate your marital status

○ Single and never married

○ In a relations or engaged

○ Married (civil / religious / customary)

○ Separated

○ Divorced

○ Widow / widower

e. How many members of your family depend on your financial support?

○ 0 (every member is financially independent)

○ 1 - 2

○ 3 - 4

○ > = 5

f. What is your highest formal schooling completed?

○ 0 grade – 12 grade

○ Vocational training post school

○ Tertiary undergraduate

○ Tertiary postgraduate and above

g. What is your current employment status?

○ Full time permanent employee

○ Temporary / probation employee

○ Fixed term contract employee

○ Self employed

○ Unemployed

○ Retired

h. If you are working, in which industry do you work? (You can choose more than one)

○ General government services

○ Community, social and other personal services

○ Finance, real estate and business services

○ Transport and communication

○ Wholesale, retail trade and hotels and restaurants

○ Construction

○ Electricity and water

○ Manufacturing

○ Mining and quarrying

○ Agriculture, forestry and fishing

i. Please give an estimate of your total **annual** income before taxes. This figure should include salaries, wages, pensions, dividends, rents, interest and any other income.

○ < R 150 000

○ R 150 000 – R 235 000

○ R 235 001 – R 325 000

○ R 325 001 – R 455 000

○ R 455 001 – R 580 000

○ > R 580 000

j. Looking forward to the next 2 – 3 years, how confident do you feel about being able to keep your current job?

○ Extremely certain

○ Mildly certain

○ Uncertain

○ Not confident

2. **Saving and spending patterns. This section asks questions about your saving behaviour to get a sense of how you think about and therefore allocate your financial resources.**

    a. Do you save out of your current disposable income?

       ○ Yes

       ○ No

    b. List the three most important reasons for why you save?

       ○

       ○

       ○

    c. How much – as a percentage of your current income – do you save?

       ○ < 15%

       ○ 15% - 30%

       ○ > 30%

    d. List the three methods you use most frequently to save – in order of most used to least used.

       ○

       ○

e. Why do you use the above methods?

○

○

○

f. Which of the following time periods is currently most important to you when thinking about your savings?

○ < 1 year

○ 1 – 3 years

○ 3 – 5 years

○ 5 – 10 years

○ > 10 years

g. Which of the following stop you from saving more money than you do now?

○ I cannot afford to

○ Existing debt

○ Risk of losing what is saved

○ Low interest rates and potential growth

○ Lack of trust in financial institutions

○ I already save sufficiently

h. If your spending is more than your income, what do you utilise to make up the difference? (Choose all the options that apply)

     ○ Borrowed money (including using a credit card)

     ○ Spend out of savings

     ○ Do not pay other bills

     ○ Help from others (such as friends and family)

     ○ Do nothing

     ○ Other (please specify):

i. How much searching, for the very best terms, do you undertake when making decisions about saving?

     ○ None

     ○ Moderate (1 – 5 service providers)

     ○ Extensive (> 5 service providers)

     ○ I do not save

j. How often do you monitor your saving?

     ○ Daily

     ○ Weekly

     ○ Monthly

     ○ Quarterly

     ○ Semi-annually

     ○ Yearly

k. What sources of information and advice do you utilise regarding your saving decisions?

○

○

○

3. Culture and attitude towards money. This section asks you several questions regarding your beliefs about money in general. For the following statements, please indicate the degree to which you agree or disagree with them along the scale as shown below.

Agree   **Disagree**
◄──►

a. Taking out loans should be avoided as much as possible

○ Strongly   ○ Mildly   ○ Mildly   ○ Strongly

b. It is right for people to borrow money to cover expenses of a vacation

○ Strongly   ○ Mildly   ○ Mildly   ○ Strongly

c. With money I trust my own experience and knowledge rather than advice of others

○ Strongly   ○ Mildly   ○ Mildly   ○ Strongly

Agree   **Disagree**
◄──►
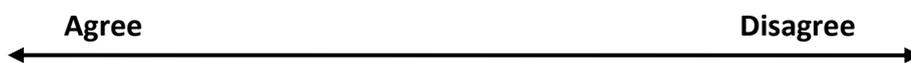
d. If I save regularly, eventually, the small amounts will add up and secure my future

○ Strongly   ○ Mildly   ○ Mildly   ○ Strongly

e. My current retirement contributions are adequate to sustain my life after retirement

◯ Strongly   ◯ Mildly   ◯ Mildly   ◯ Strongly

f. When I make financial decisions I like to get advice from family and friends

◯ Strongly   ◯ Mildly   ◯ Mildly   ◯ Strongly

g. I have a good idea of what interest or returns I get on the money I save

◯ Strongly   ◯ Mildly   ◯ Mildly   ◯ Strongly

h. The tax regime has a significant influence on my choice of saving vehicle

◯ Strongly   ◯ Mildly   ◯ Mildly   ◯ Strongly

i. I usually read the finance pages in newspaper and magazines

◯ Strongly   ◯ Mildly   ◯ Mildly   ◯ Strongly