

SAVINGS &
INVESTMENT MONITOR



OLD MUTUAL SAVINGS & INVESTMENT MONITOR

RESEARCH UPDATE EDITION 8

JULY 2013



DO GREAT THINGS



OLDMUTUAL



SAVINGS &
INVESTMENT MONITOR



SAVING & INVESTING IN SOUTH AFRICA

THE FACTS

DO GREAT THINGS



OLDMUTUAL

WHAT IS THE SAVINGS & INVESTMENT MONITOR?

The Old Mutual Savings & Investment Monitor
is an **annual survey**



of metro **working South African**

saving & investment
behaviours & attitudes



Survey is conducted bi-annually but released annually

RESEARCH METHODOLOGY

MAIN SURVEY



Tracking study to
look at trends



Face-to-face
interviews



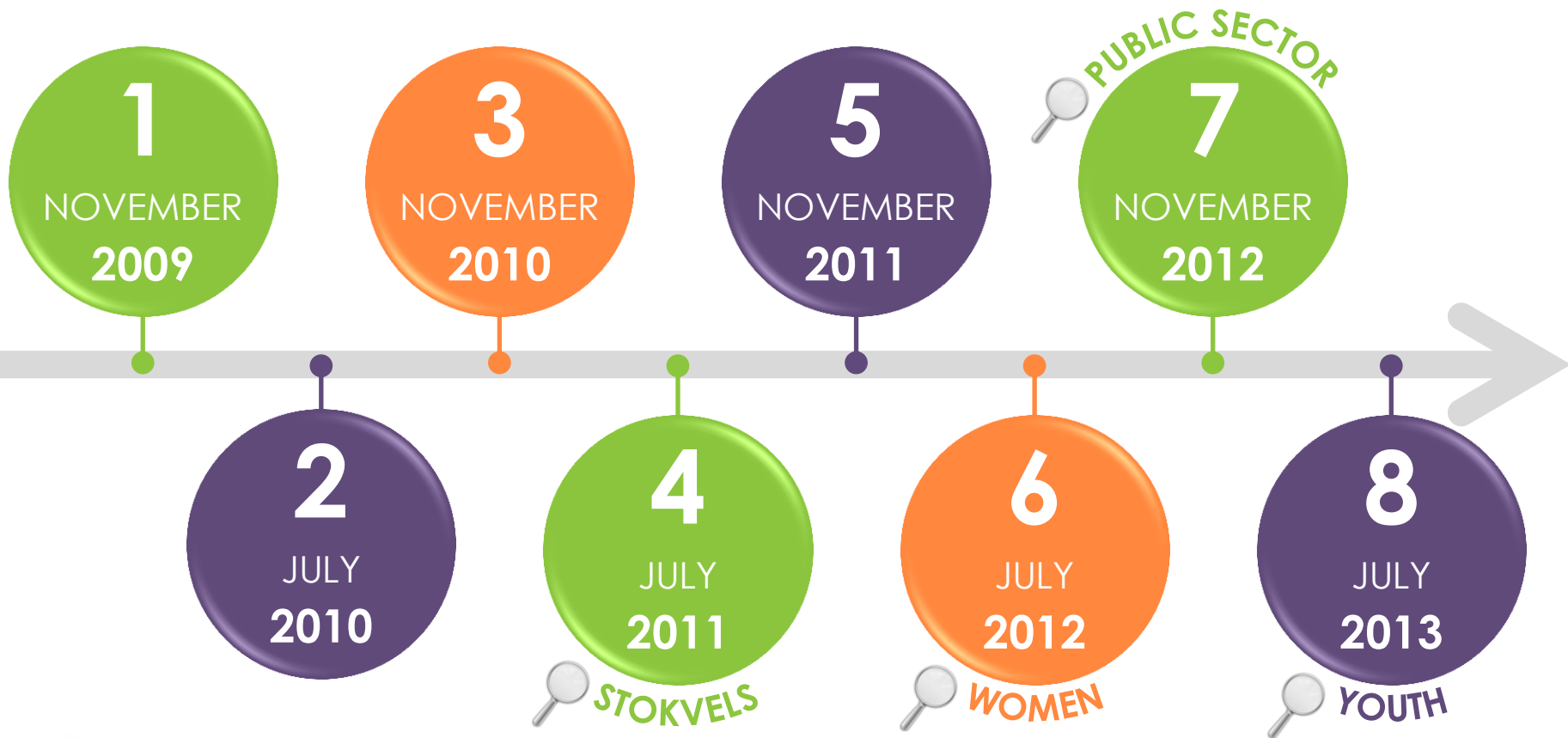
Weighted to the
SA working metro
population
(AMPS)



Conducted by
independent
research house,
*Peppercorn
Research*



HISTORY OF THE SAVINGS & INVESTMENT MONITOR



DEFINITION OF SAVINGS & INVESTMENTS



putting
money
away

into savings
accounts, policies
& investments

holding
back on
spending

and using that money
to pay debt faster, like
putting extra into your
home loan

THE CONTEXT



**Consumer
Confidence
Index fell to
9 year low
in Q1 2013**



**Interest rates
remained
stable @ 8.5%**

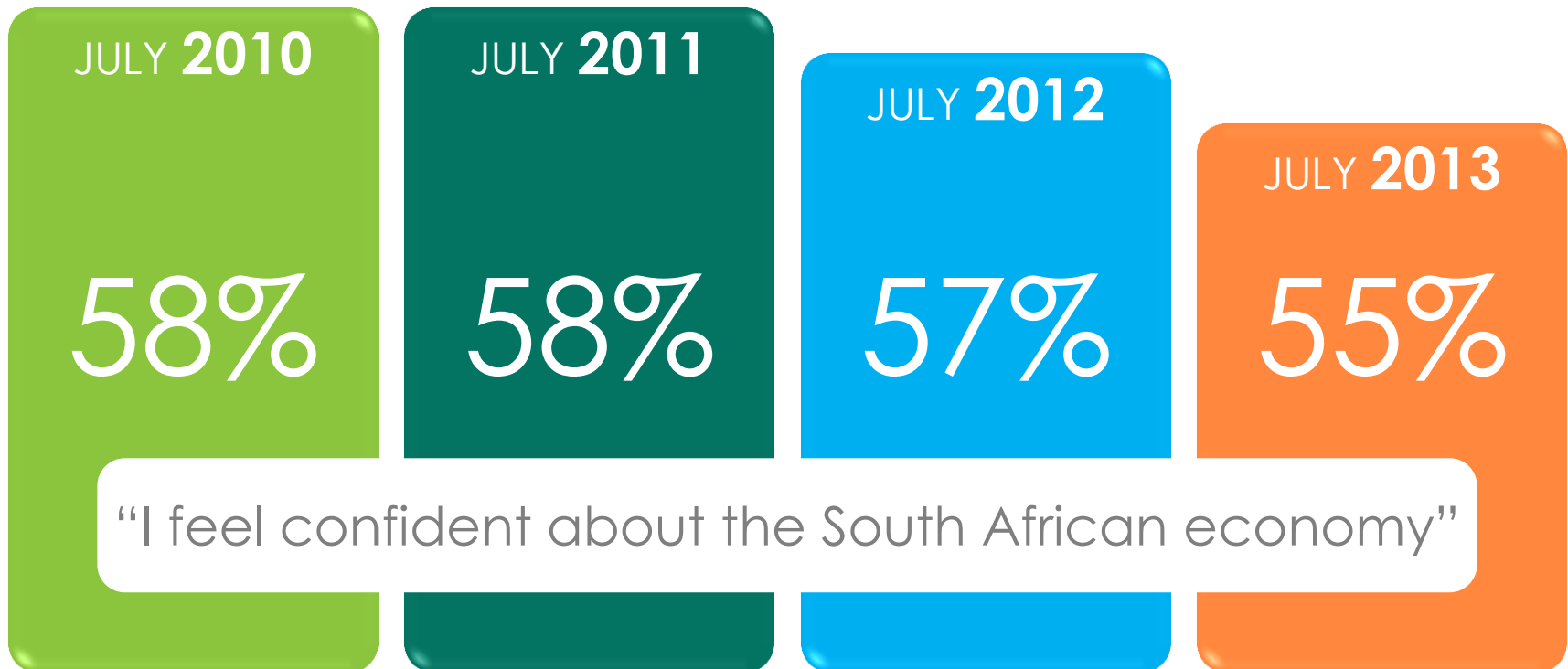


**SA CPI
remained
within range
(May: 5.46%)**



**Petrol price
increases**

CONFIDENCE IN THE SA ECONOMY



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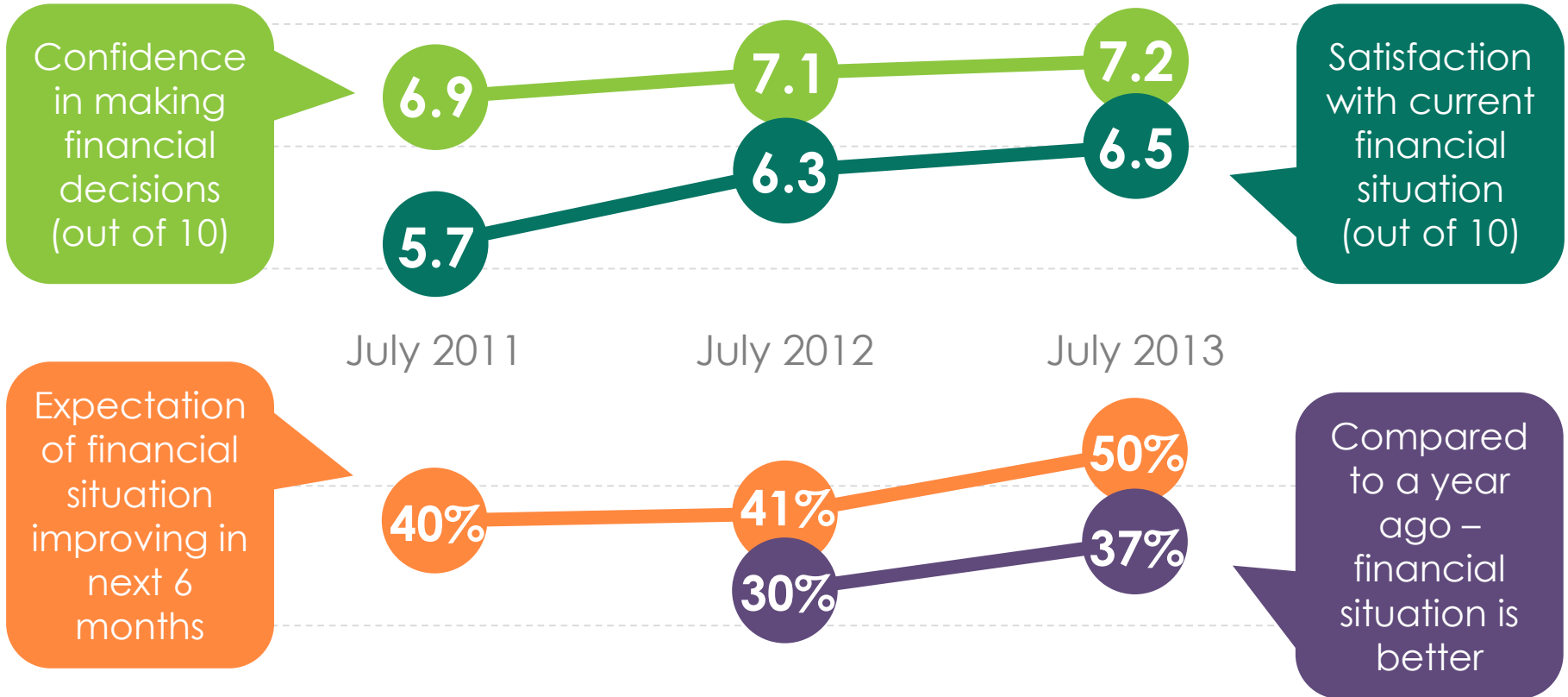


MAIN SAMPLE

Representative of Working,
Metropolitan Households



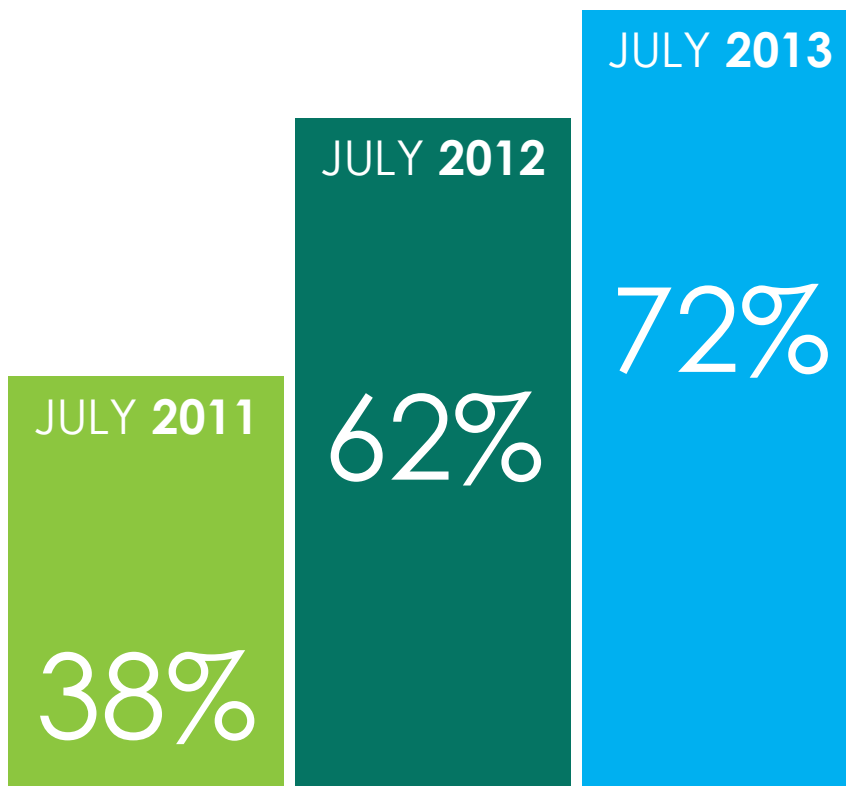
MORE POSITIVE MINDSET ABOUT FINANCES



HOW ARE PEOPLE COPING?



Higher income households are cutting down on luxuries



Middle and lower income households are requiring more intensive budgeting and planning of their finances

WHAT ARE CONSUMERS DOING?

"We made our children walk to school instead of taking a taxi. Now my child sells sweets at school for her bus fare."

(Less than R6k pm)

"We cut down on annual holidays. If I get a bonus at work, I'll pay extra into my bond."

(R20k – R39 999 pm)

"We have had to budget our money and spend less on luxuries. We also had to look at ways to get better returns on our assets."

(R40k+ pm)

"I'm saving up for a car so that I can start up a business and earn extra income."

(R20k – R39 999 pm)

"My wife got put on short-time and we had to downscale. We now think twice before going into debt because we can't make the required repayments."

(Less than R6k pm)



FROM THERE TO HERE...



Panicked

**More focused
attention to finances**

**Recalibrating
finances**

SAVINGS &
INVESTMENT MONITOR



WHAT ARE CONSUMERS SAVING FOR?

WHAT ARE CONSUMERS SAVING FOR?



Children's Education
(based on those with dependent children)



Emergency Expenses



Retirement



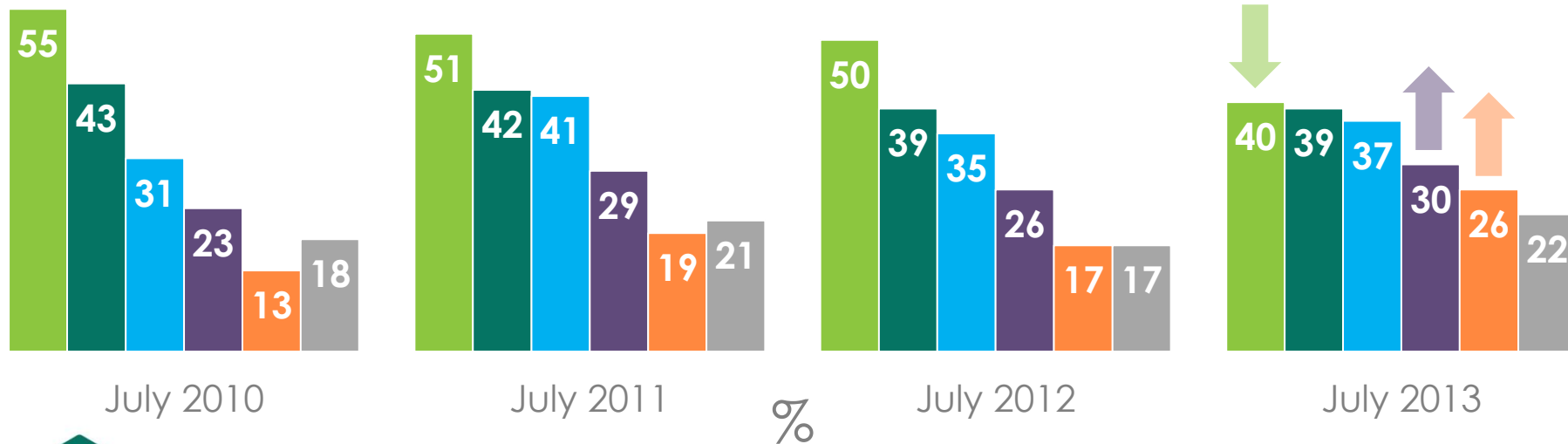
Funeral Expenses



Pay Off Debt



Home Improvements



WHAT ARE CONSUMERS SAVING FOR? (by income)



Children's Education
(based on those with dependent children)



Emergency Expenses



Retirement



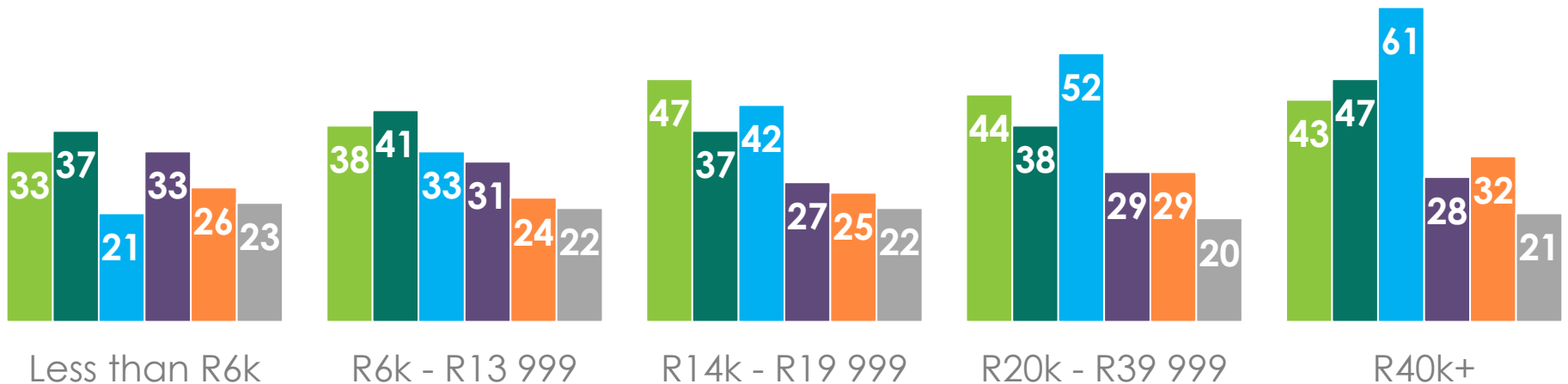
Funeral Expenses



Pay Off Debt



Home Improvements



% July 2013



SAVINGS & INVESTMENT VEHICLES USED





FINANCIAL GOALS FOR NEXT FIVE YEARS

July 2013

Buy property

23%

Provide for
children's education

16%

Buy a car

15%

Invest in my
own business

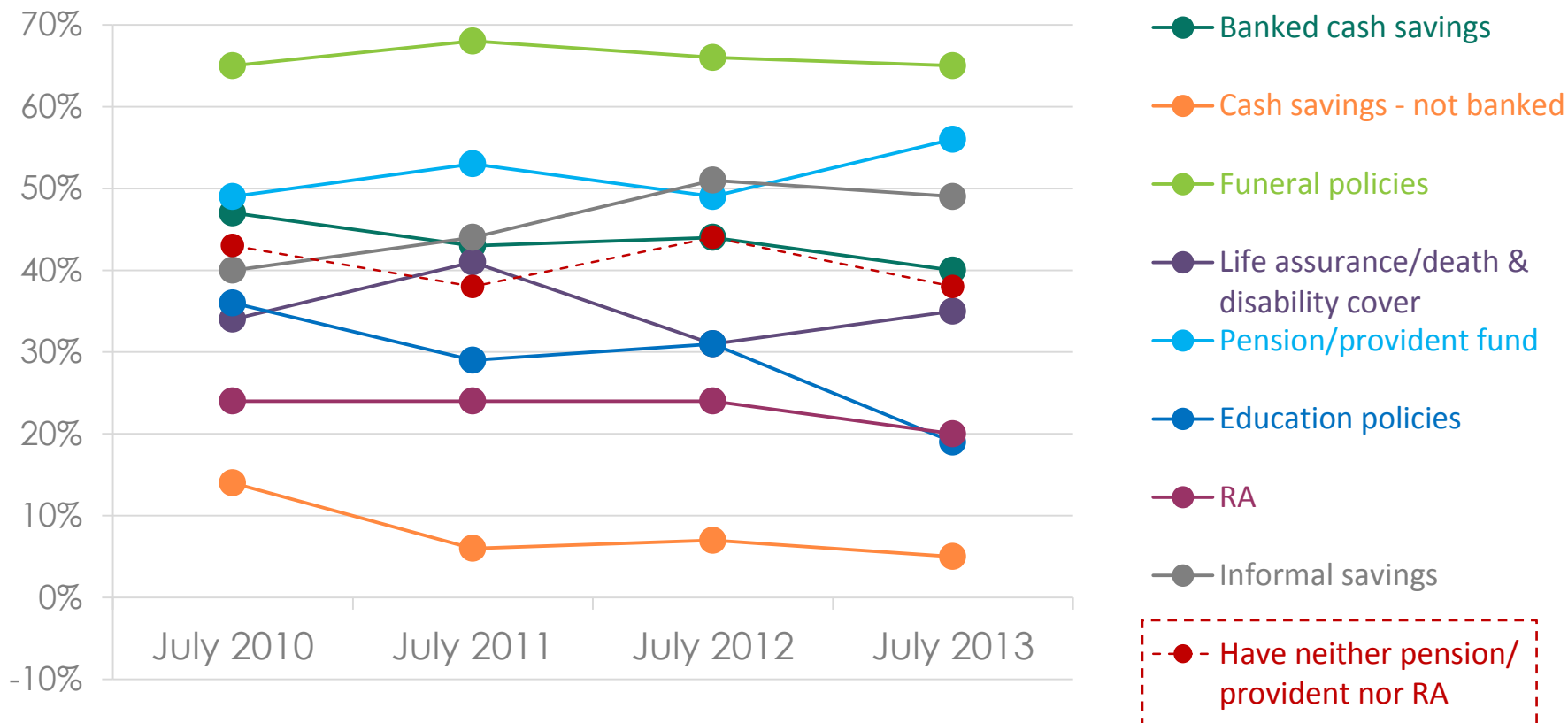
23%

Go on
holiday

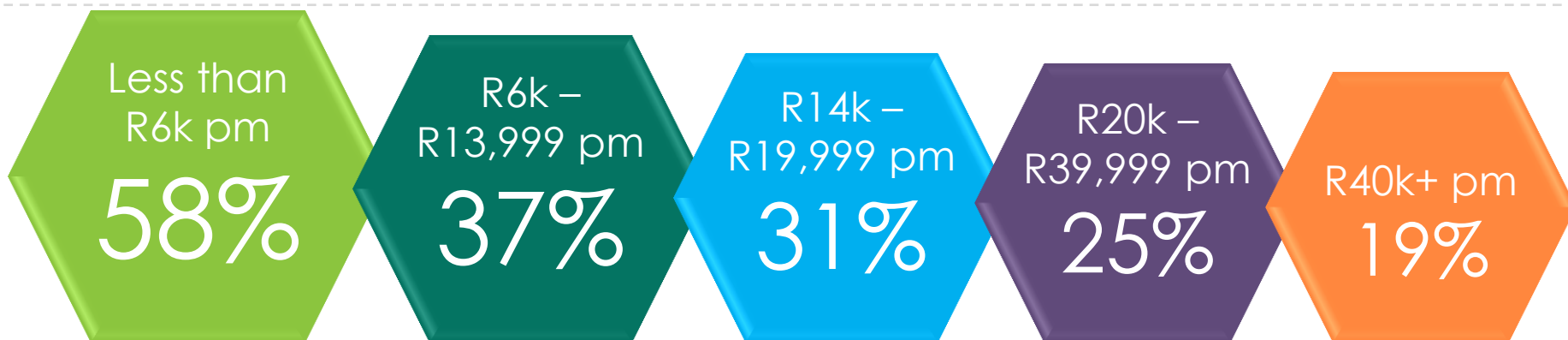
14%



SAVINGS & INVESTMENT VEHICLES USED



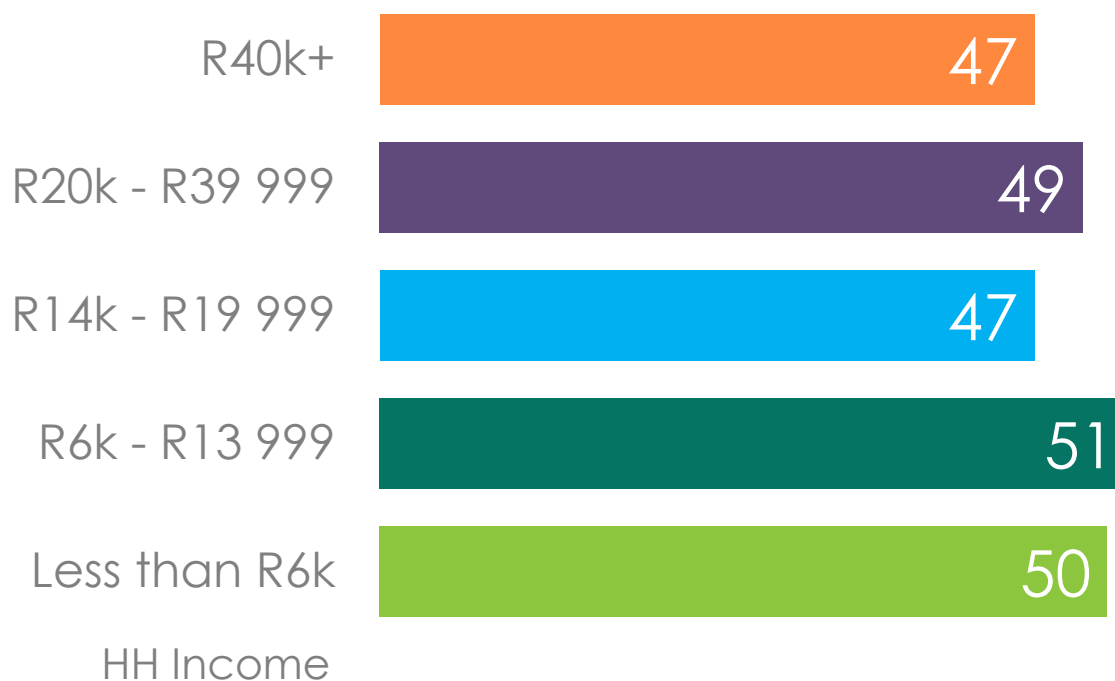
Have neither pension/provident nor RA



2013 Household Income

INFORMAL SAVINGS – STOKVELS

Contribute to stokvels on a monthly basis – based on Black households



% July 2013



SIZE OF THE STOKVEL MARKET – UPDATE

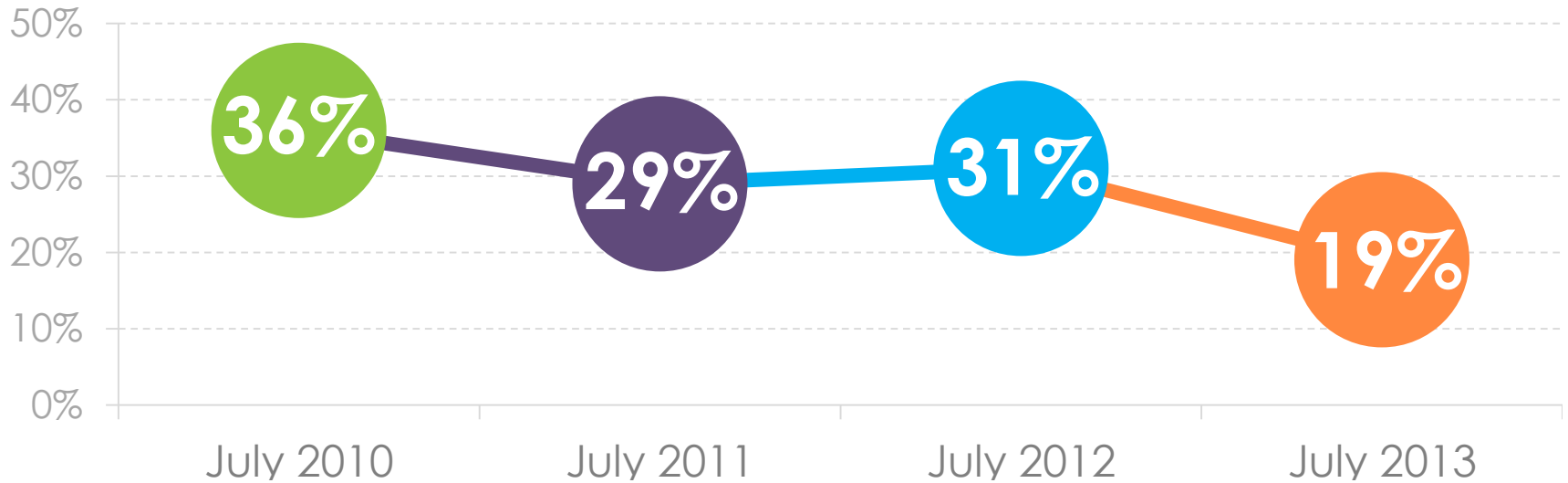
In **2011**, Old Mutual estimated the size of the **SA stokvel market** to be approximately

R38.6
billion
per annum

The current estimate is approximately

R45.1
billion
per annum

EDUCATION POLICIES



54% of parents have “no idea” as to what the future costs of education will be



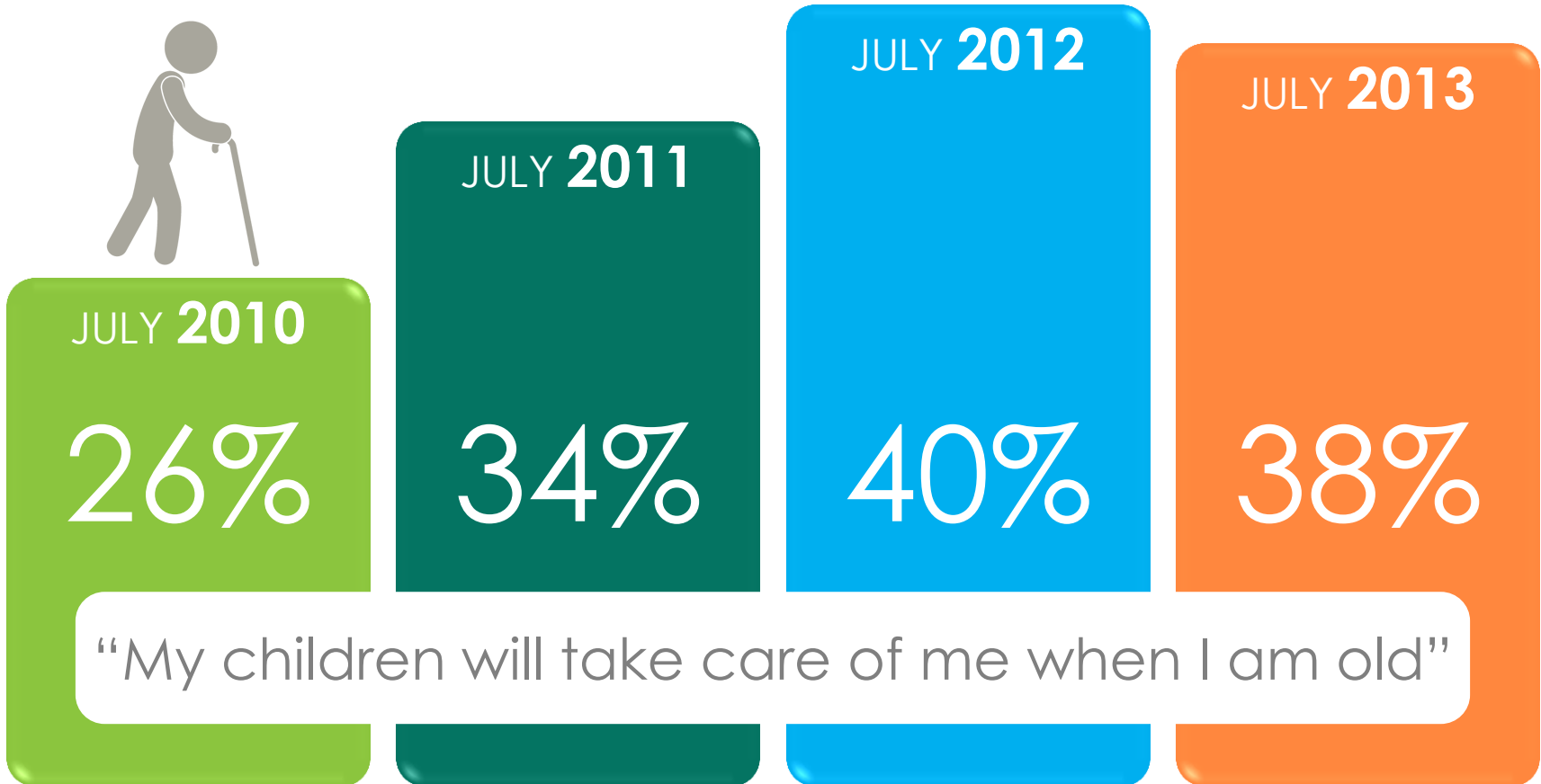


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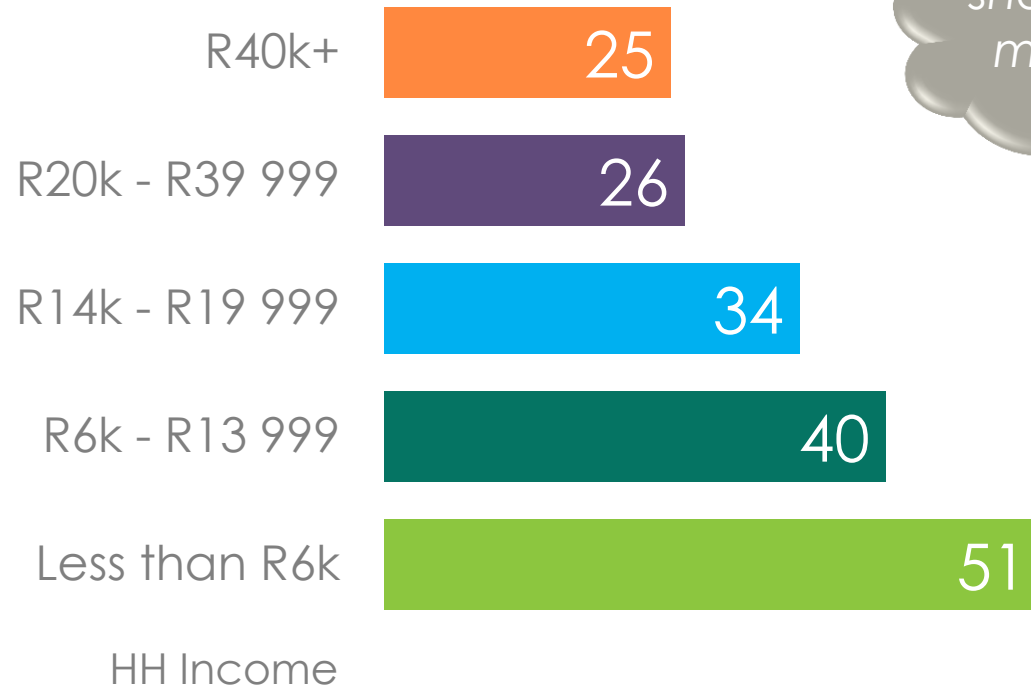


DEPENDENCY

DEPENDENCY ON CHILDREN



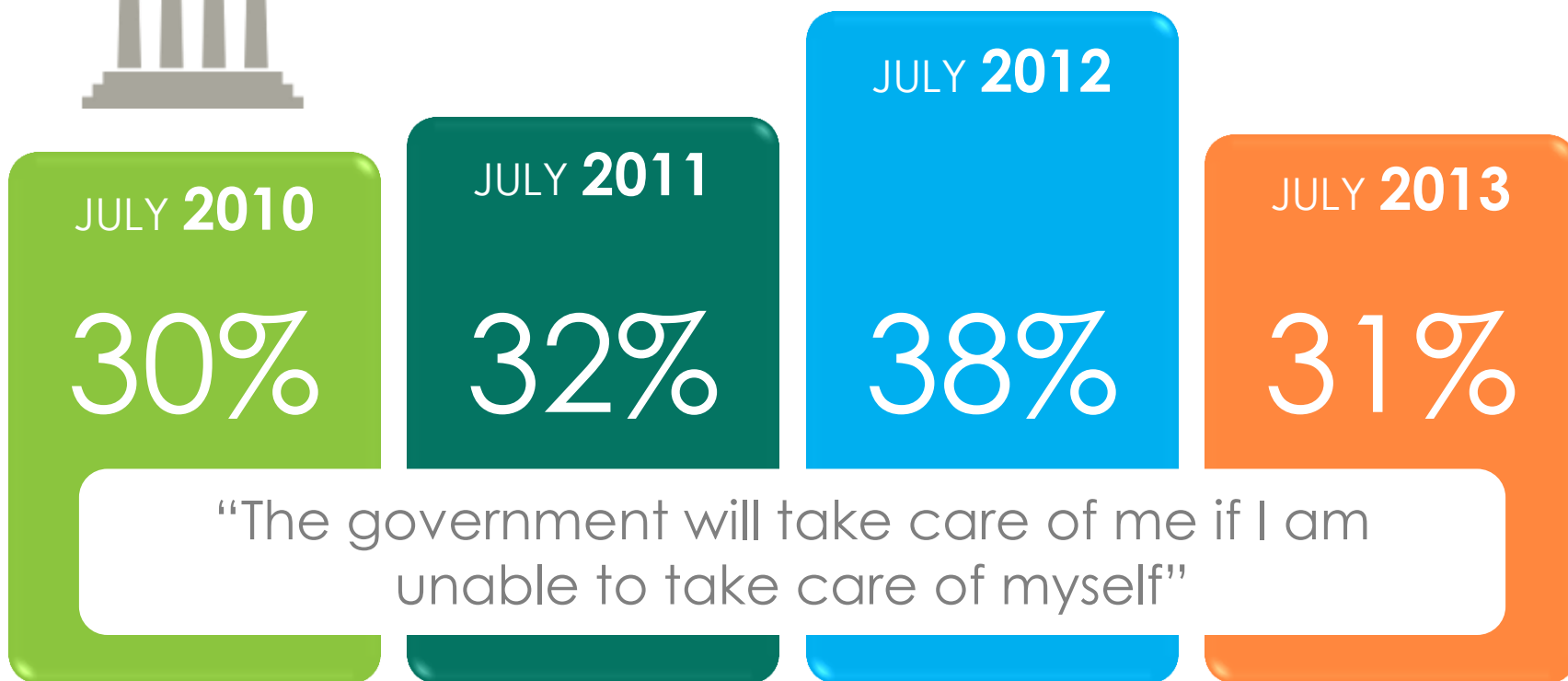
DEPENDENCY ON CHILDREN (by income)



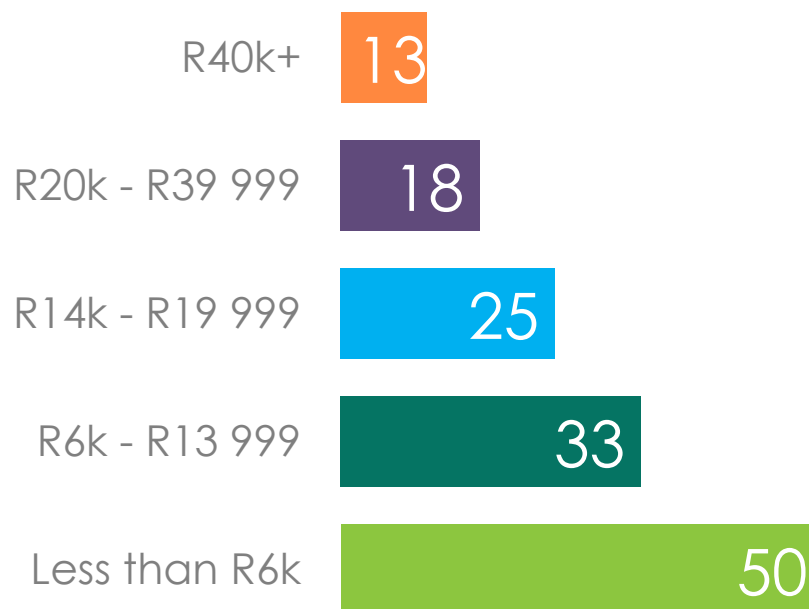
% July 2013



DEPENDENCY ON GOVERNMENT



DEPENDENCY ON GOVERNMENT (by income)



% July 2013

THE OLD MUTUAL SANDWICH GENERATION INDICATOR

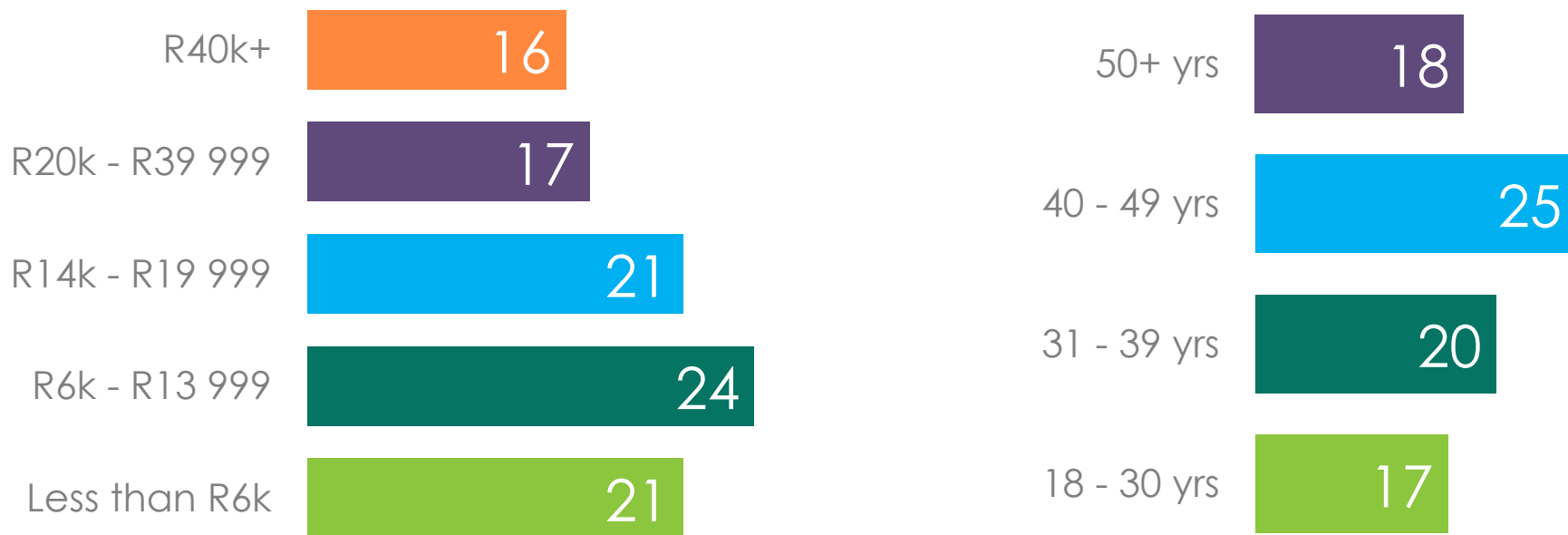


SANDWICH GENERATION

Based on HH Income



Based on Age



% July 2013

SAVINGS &
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DEBT



DEBT



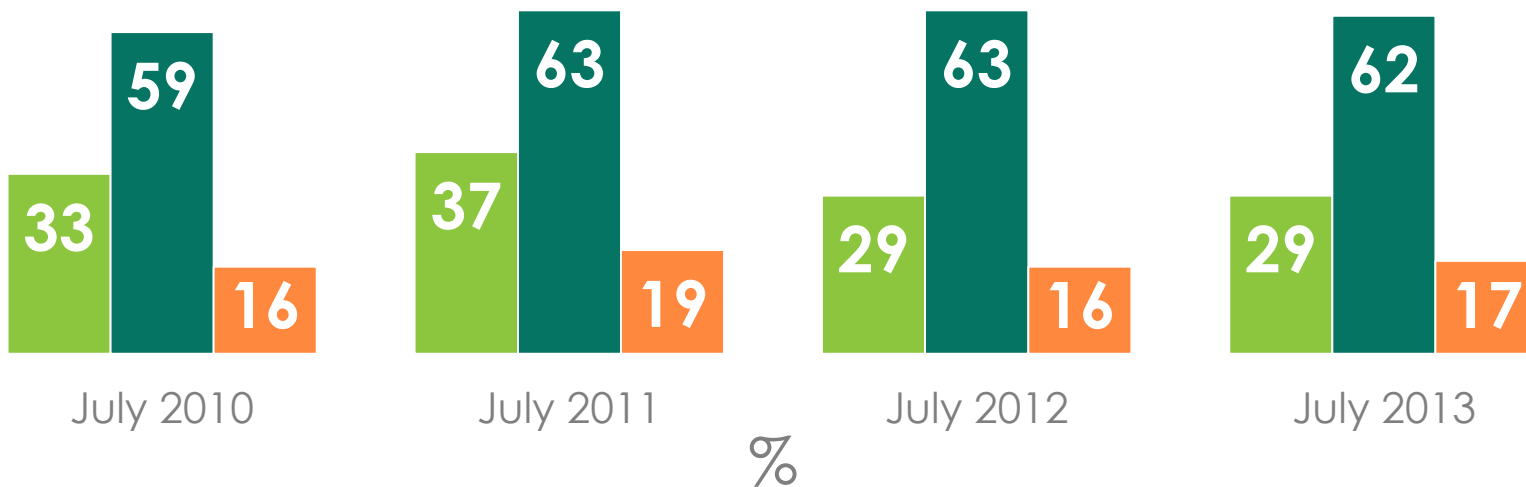
At least one credit card



At least one store card



A personal loan from a financial institution



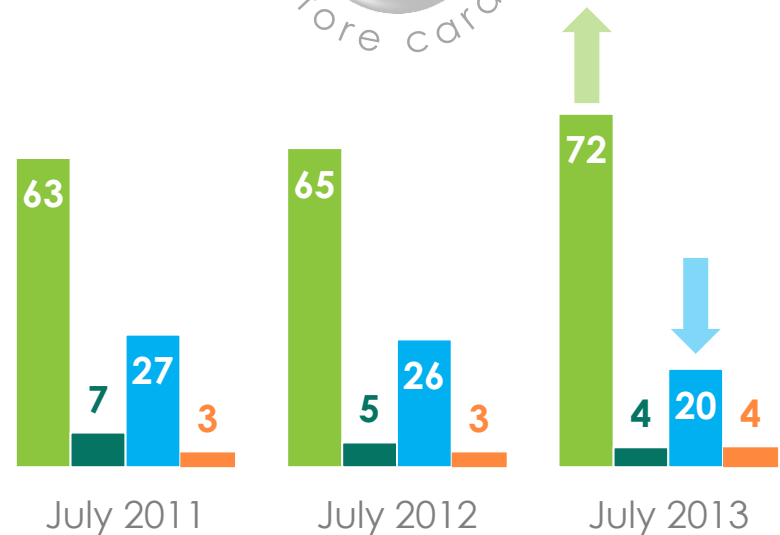
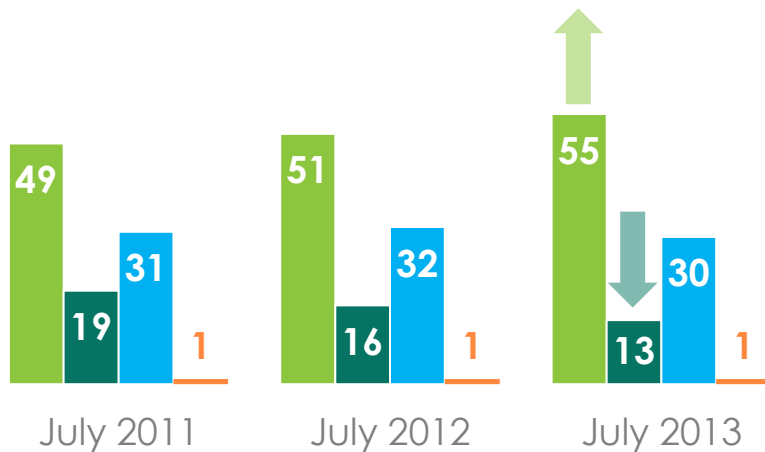
CARD REPAYMENT PATTERNS

Pay minimum installment

Pay in full at end of each month

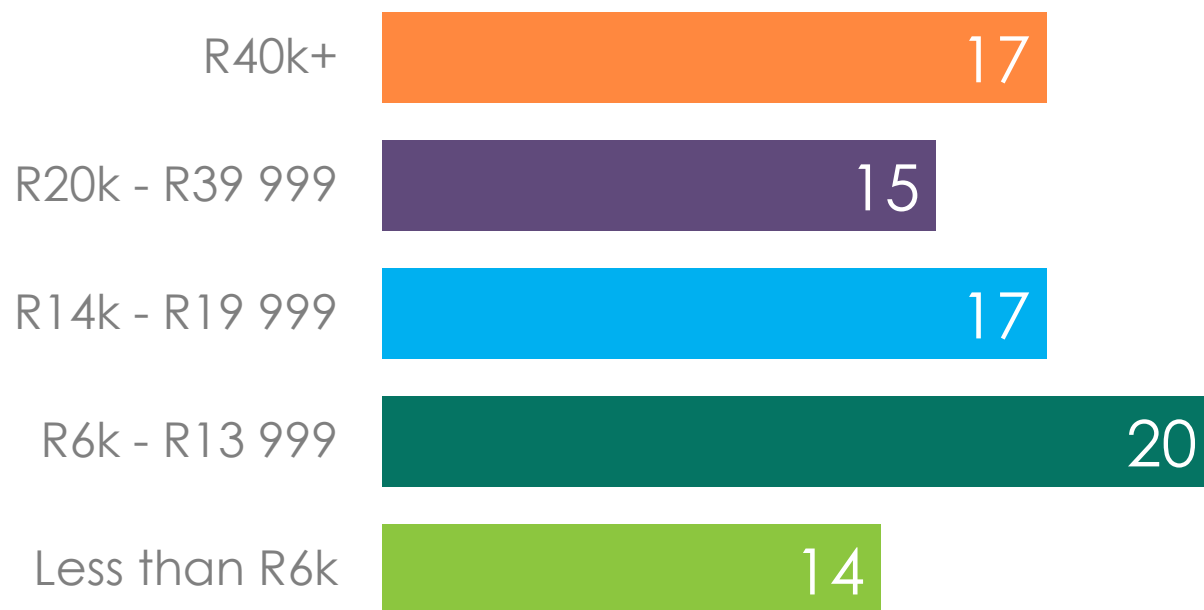
Pay required amount + extra

Pay irregularly



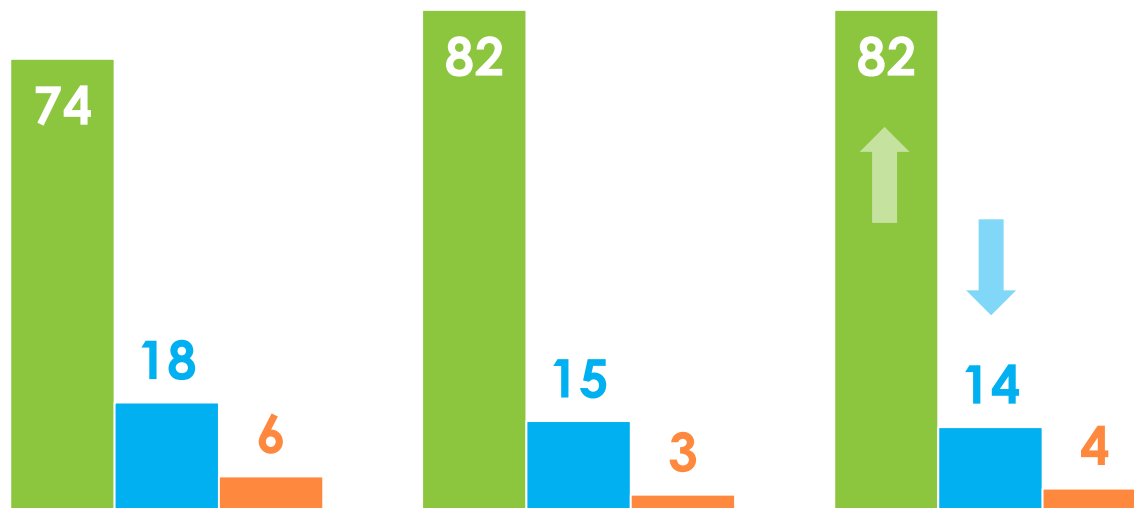
%

DEBT : PERSONAL LOANS



% July 2013

PERSONAL LOAN REPAYMENT PATTERN



July 2011

July 2012

July 2013

%

WHAT IS PERSONAL LOAN USED FOR?



Everyday Living Expenses



Funeral Expenses



Appliances/Furniture



Renovations/Improvements



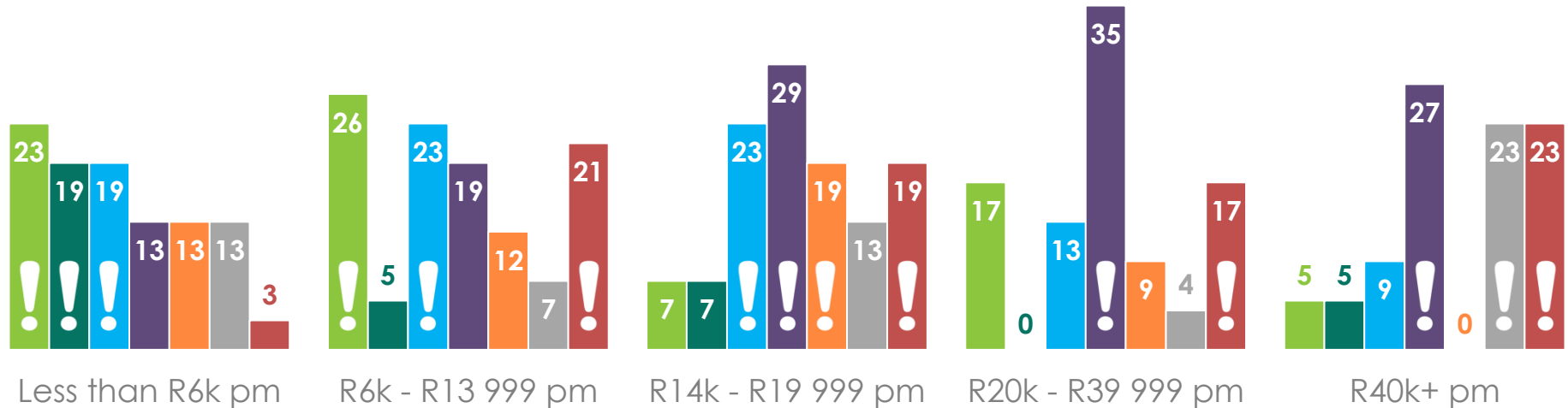
School Fees



Start My Own Business



Motor Vehicle Purchase



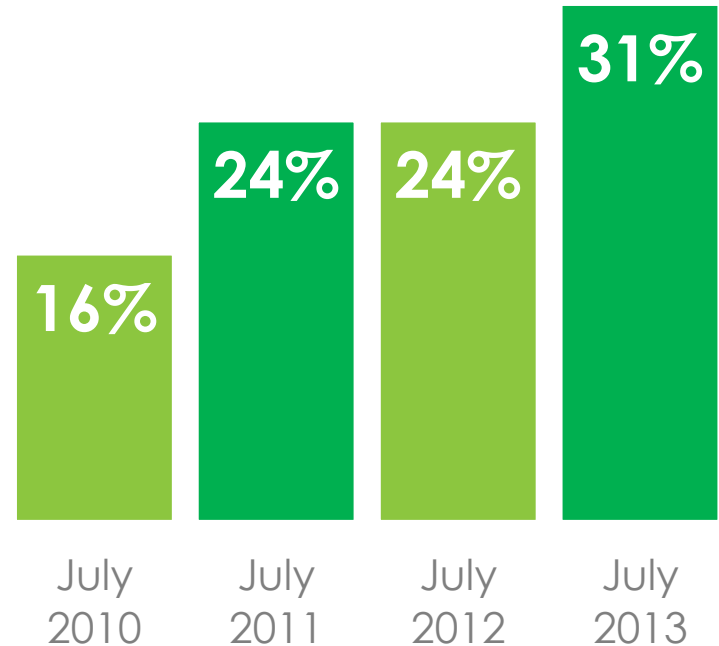
% November 2012

PROPERTY OWNERSHIP & BOND REPAYMENT

41%
own property

majority pay off
minimum monthly
installment

but incidence of
paying extra each
month has increased



SAVINGS &
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DRIVERS TO SAVE & APPETITE FOR RISK

DRIVERS TO SAVE

Knowing my money is safe

50

Earning enough interest / returns that beat inflation

46

Having a clear goal to save for

29

Immediate access to my funds

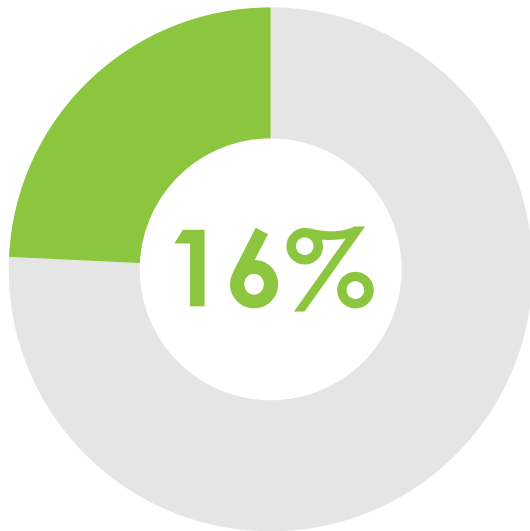
24

A guaranteed return / low risk

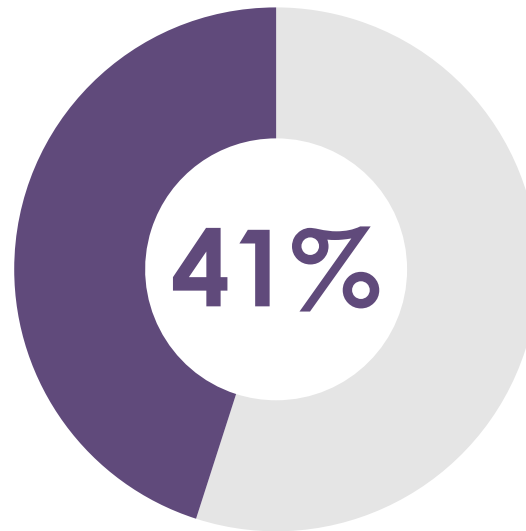
24

% July 2013

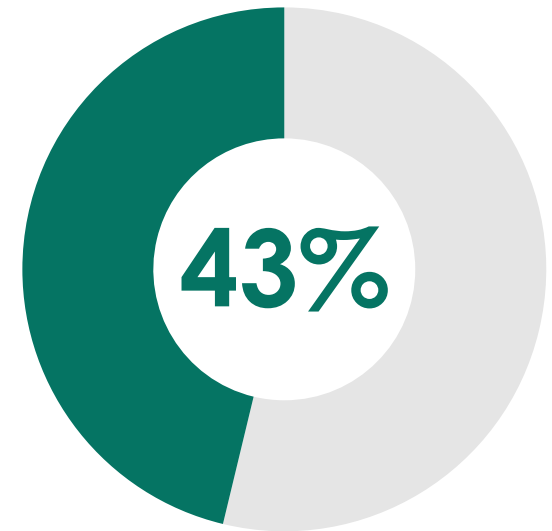
APPETITE FOR RISK



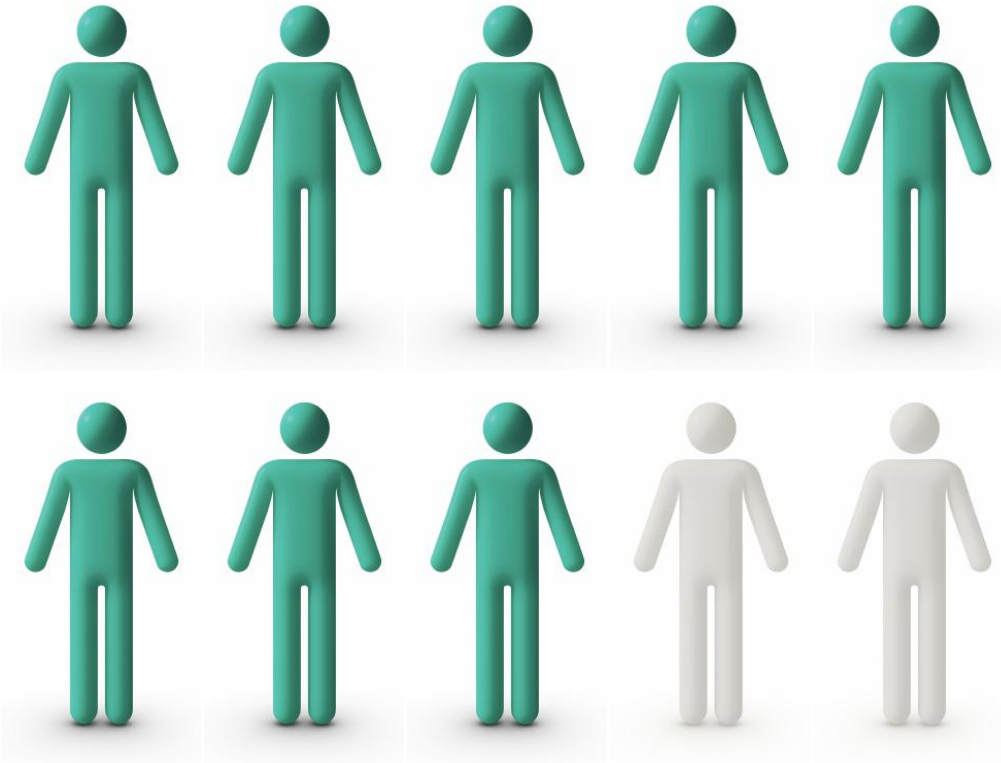
Potential for very high growth, but the risk of losing money is higher



Potential for moderate growth, with some risk of losing money



Guaranteed returns, low risk but may not beat inflation



80%

want to learn
more about

HOW TO SAVE

MONTHLY BUDGET

R 25 000 household income with 2 children and 1 car

R 2 580
Tax

R 3 500
Groceries

R 4 834
Bond
Repayment

R 2 500
Medical plan

R 3 500
Car
repayment

R 800
Cell phone

DEFICIT = R264

R 800
Day-to-day
spending /
entertainment

R 1 500
Water / lights /
electricity

R 350
Car
insurance

R 1 200
Petrol

R 3 200
School fees

R 500
Public transport



SAVINGS &
INVESTMENT MONITOR



2013 FOCUS YOUTH



WHO ARE THEY?

50%

live in Gauteng

88%

have access to the internet

13%

own property

20%

work in the public sector (including parastatals)



55%

of moms consider themselves to be "single moms"

30%

are married/
living together

6%

are self employed

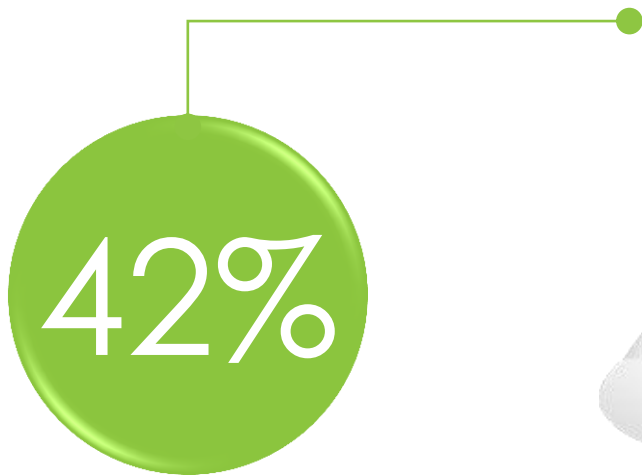
15%

do not have a matric

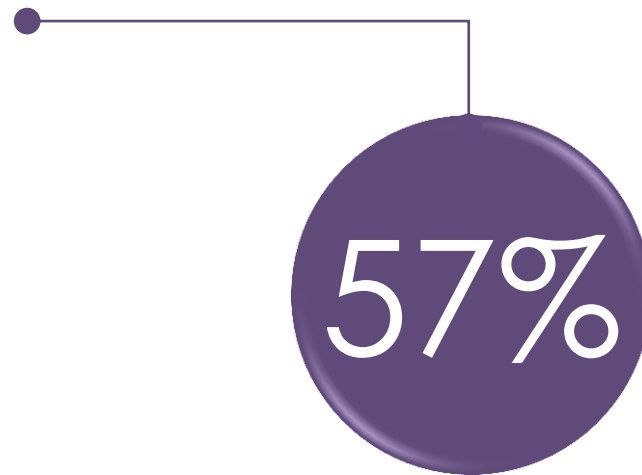
49%

still live at home
with their parents

THEY ARE OPTIMISTIC



claim to be
saving more
than they were
a year ago



believe that their
financial situation
will improve
in next 6 months

BUT THEY ARE STILL HAVING TO CUT DOWN ON EXPENSES



JULY
2013



JULY
2012



JULY
2011

HOW ARE THEY CUTTING BACK?

*"Am saving money so that I can open my own small business and not rely solely on my salary."
(R20k – R39 999 pm)*

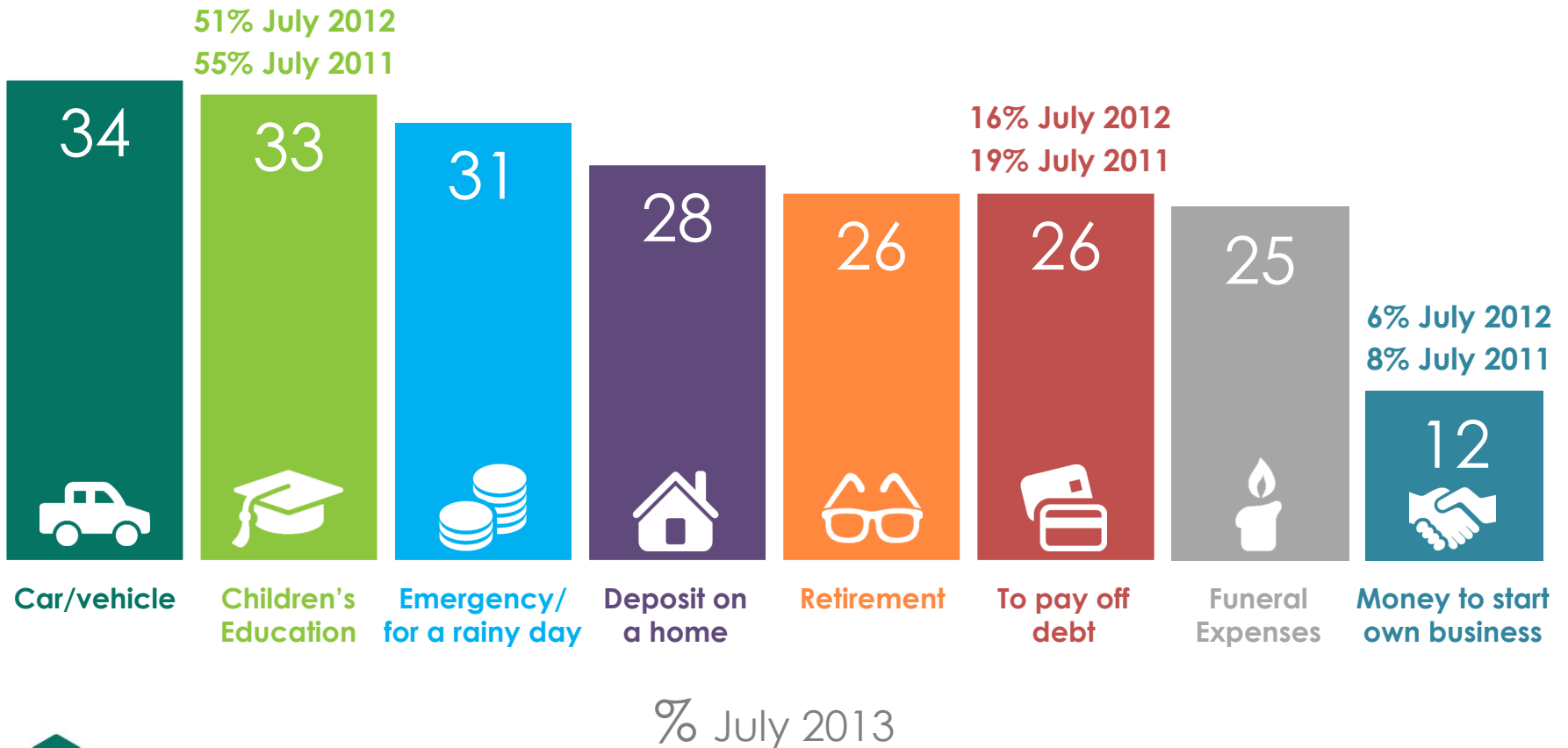
*"I keep away from my friends who are going to movies and braais."
(Less than R6k pm)*

*"Nothing has changed for me because we are a large family and we all contribute to costs and so far things have worked out."
(R6k – R13 999 pm)*

*"I sometimes walk to work instead of catching a taxi."
(Less than R6k pm)*

*"My lifestyle has changed: staying at home more often now. I don't go to clubs and movies as often as I used to."
(R6k – R13 999 pm)*

WHAT ARE THEY SAVING FOR?



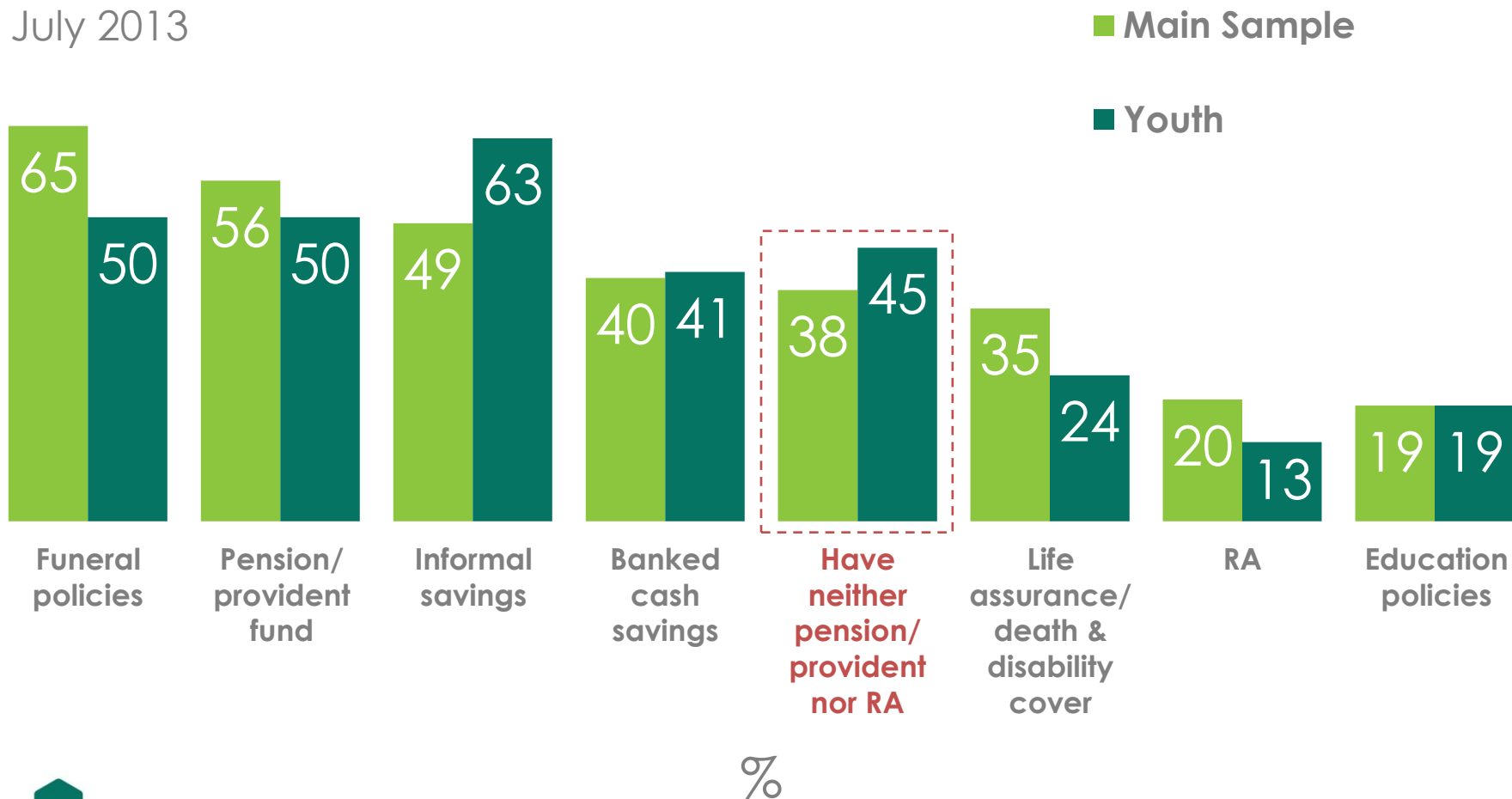
FINANCIAL GOALS NEXT 5 YEARS

July 2013



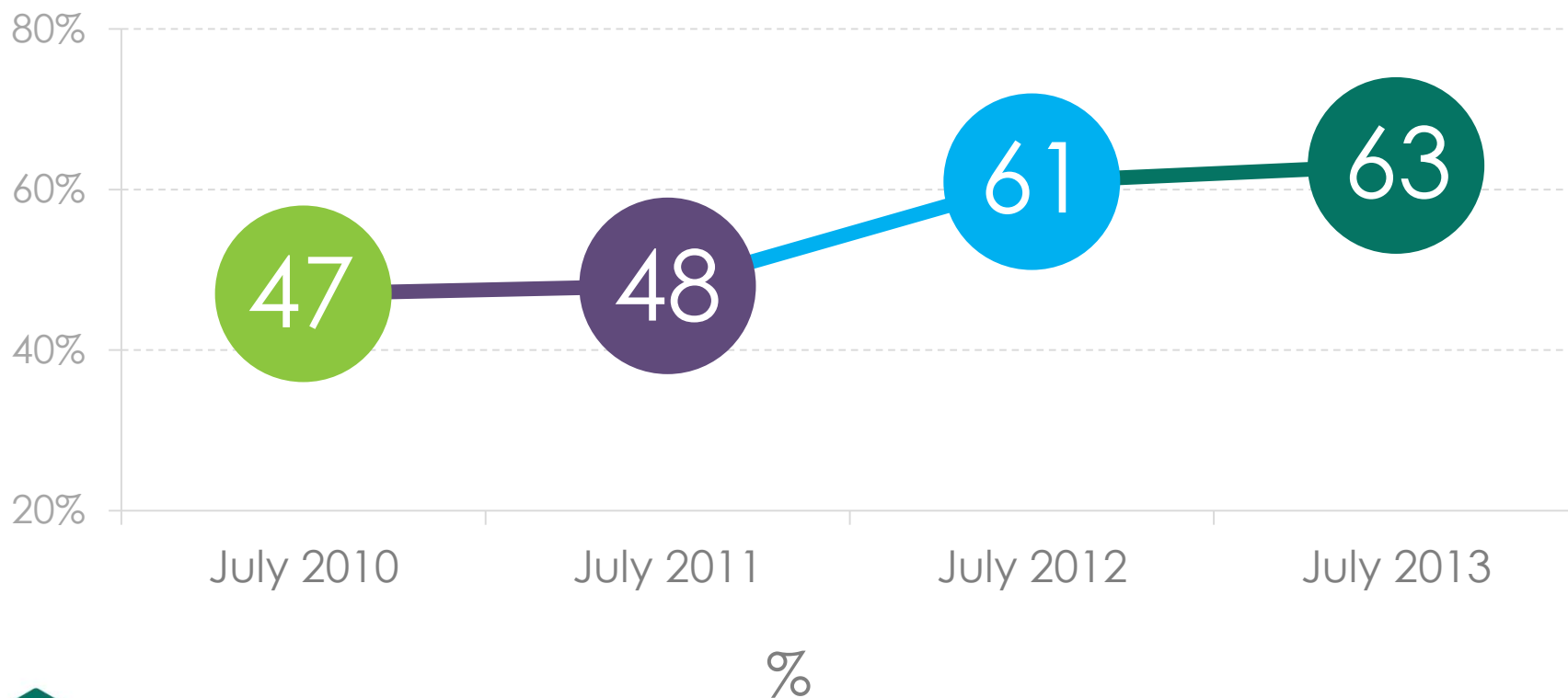
SAVINGS VEHICLES USED

July 2013



SIGNIFICANT INCREASE IN INFORMAL SAVINGS

Black Youth



DEPENDENCY

35%



believe that their children will take care of them when they are old

35%



believe that government will take care of them if they are unable to take care of themselves

45%



are planning on supporting their parents with another 16% not planning to, but realising that they will have to

17%

are in the Sandwich Generation up from 15% in July 2012, 14% in July 2011

DEBT



At least one
credit card



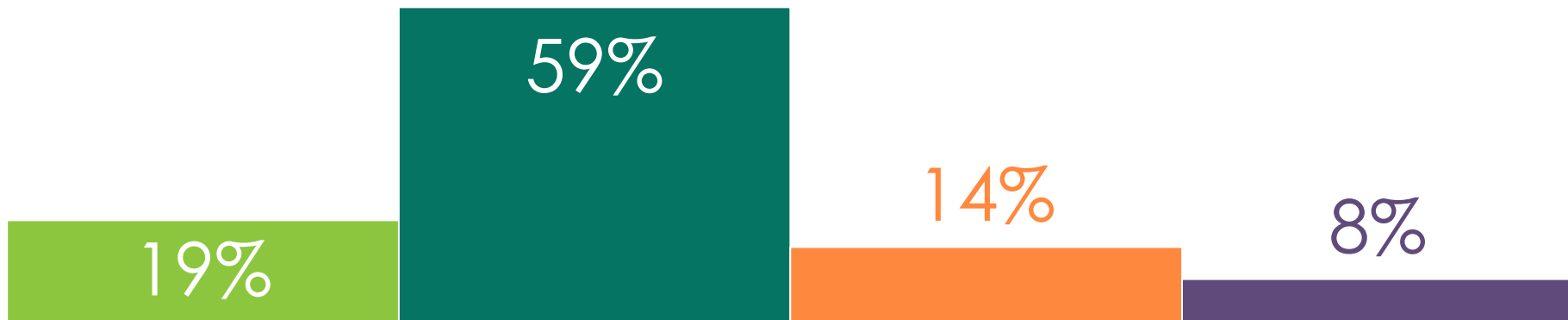
At least one
store card



A **personal loan**
from a financial
institution



A **personal loan**
from family/
friends



29% main sample

62% main sample

17% main sample

8% main sample

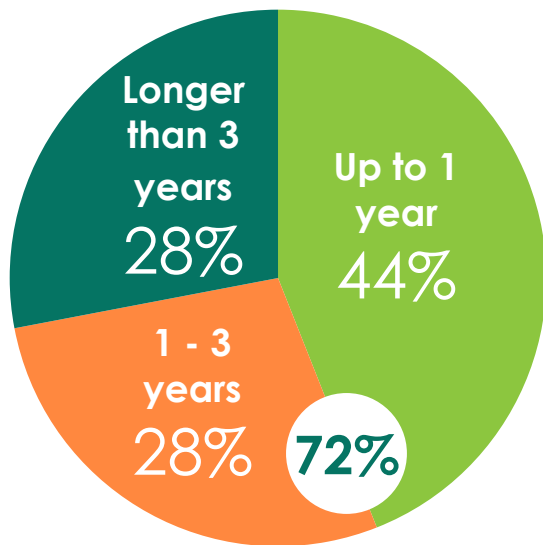
%

July 2013

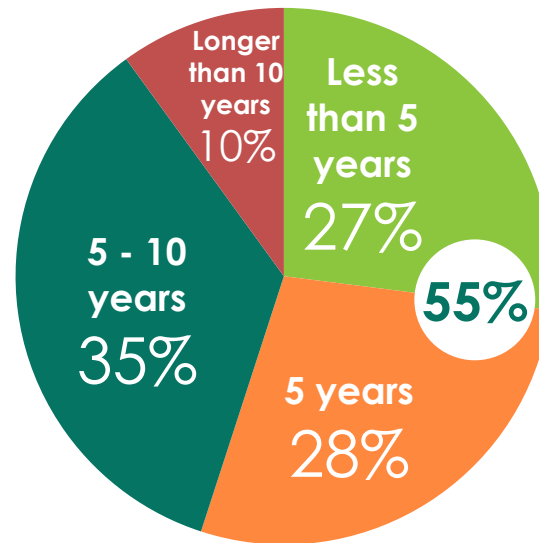


PERCEPTION OF SHORT, MEDIUM AND LONG TERM INVESTMENT PERIODS

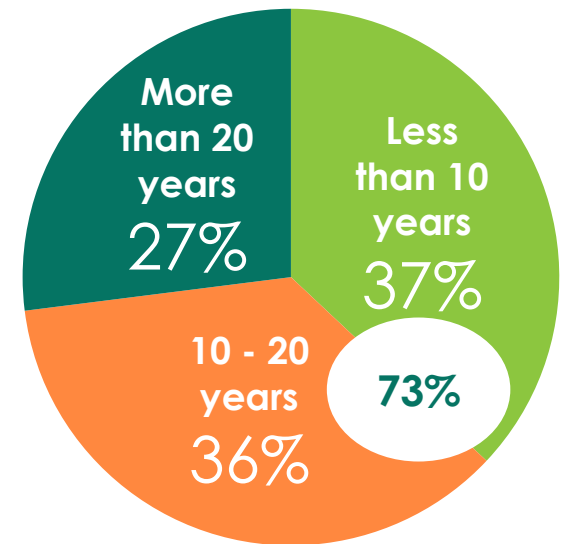
SHORT TERM



MEDIUM TERM



LONG TERM



INTERNET ACCESS & USAGE



88%
have
access to
internet



91%
access the
internet
via their cell
phone



67%
access the
internet
"on the go"

ONLINE SHOPPING



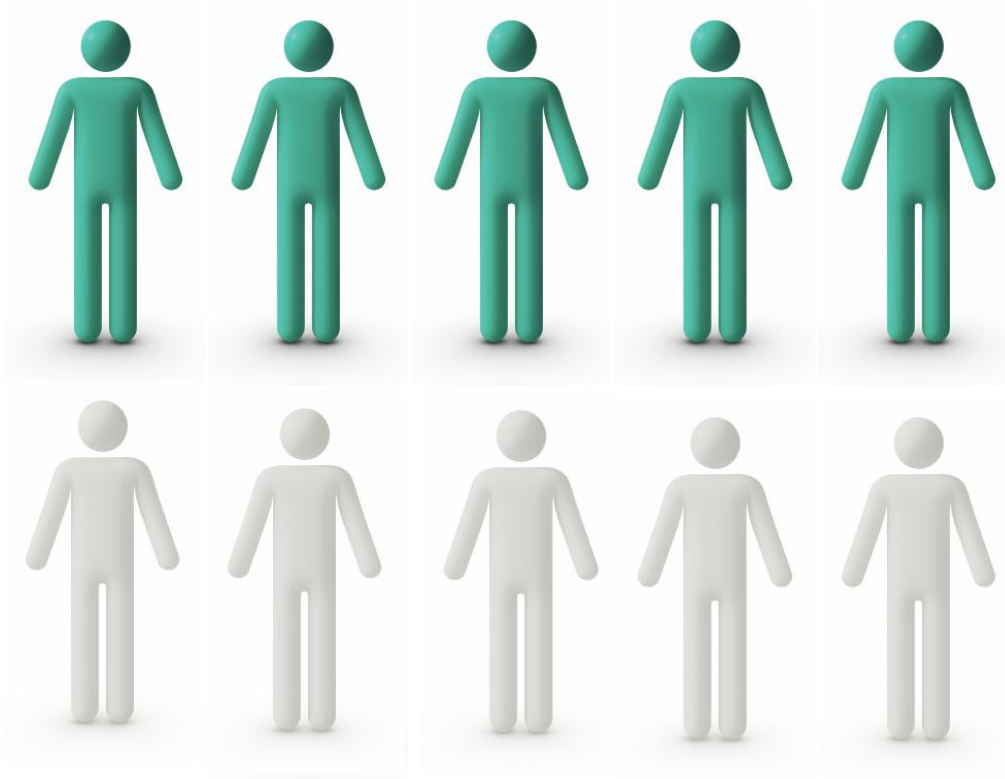


23%

regularly consult a
bank consultant for
financial advice

12%

regularly consult a
financial/adviser
for financial advice



50%

have *never* seen a
financial adviser

2

SAVINGS &
INVESTMENT MONITOR



SAVINGS & GROWTH GROWTH & SAVINGS







RIAN LE ROUX

DO GREAT THINGS



OLDMUTUAL

WHO SAVES AND WHY?

 Households	 Companies	 Government	 As a Nation
<ul style="list-style-type: none"> • Foregoing current consumption to enhance future consumption • i.e. HH's save to finance future big expenses & retirement 	<ul style="list-style-type: none"> • Savings = undistributed profits • These retained profits used to finance replacement & expansion 	<ul style="list-style-type: none"> • Saving = tax revenue > current spending • Excess tax revenues finance physical & social infrastructure investment 	<ul style="list-style-type: none"> • Saving = HH's + Co's + Govt • If Saving < Investment, we rely on foreigners to plug the gap or investment suffers

If we save too little?
Investment is a key driver of growth


A FEW IMPORTANT REMINDERS

Saving and investment interplay

- Sufficient saving is a necessary, *but not a sufficient*, prerequisite for investment
- Or, without savings, investment cannot occur (or little saving = little investment)
- *But*, sufficient savings **do not guarantee that investment will occur**

For investment to occur, macro-conditions must be conducive, e.g:

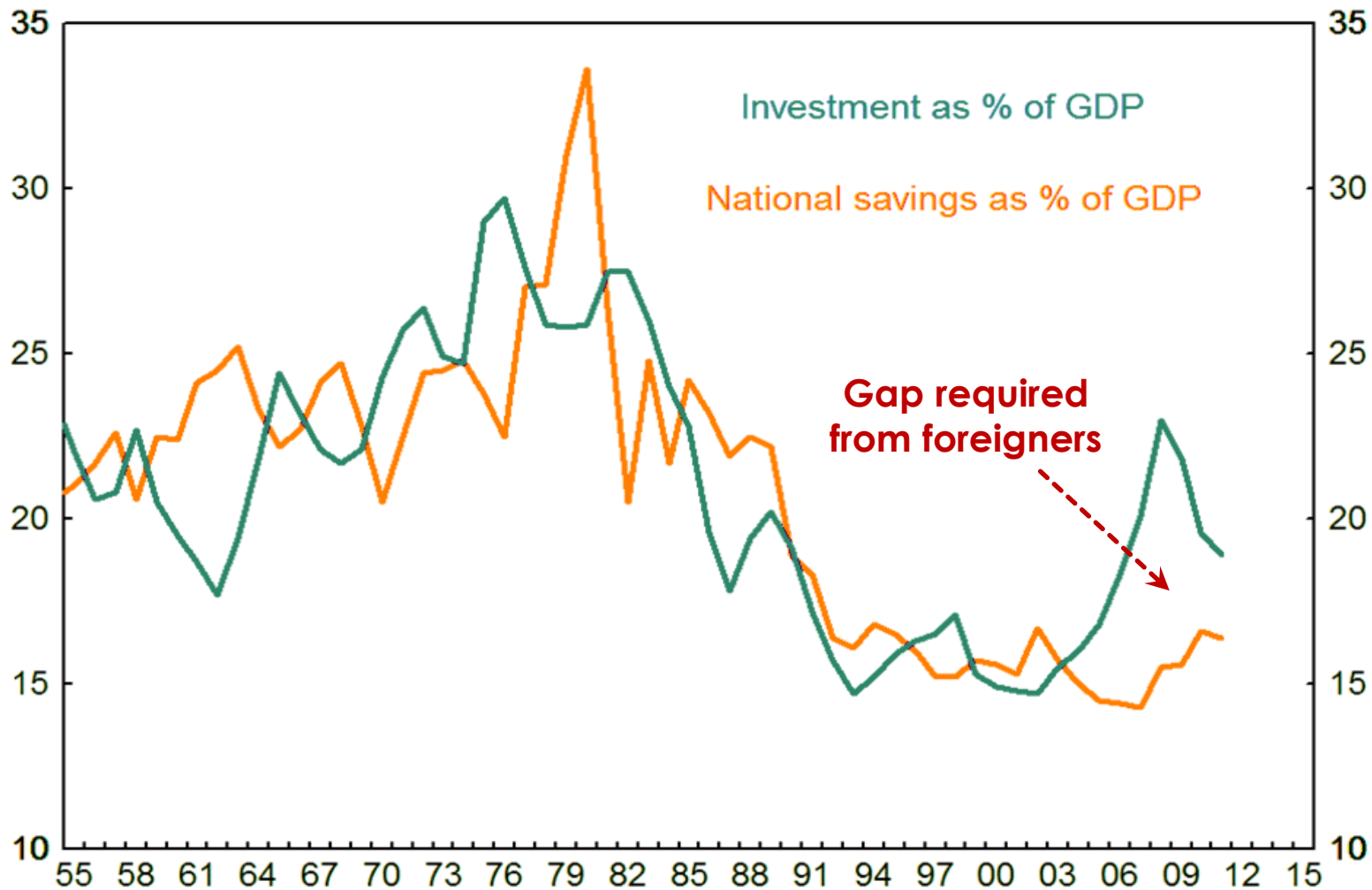
- Good macro-economic conditions and prospects
- A business-friendly environment, incl policy certainty and predictability (at macro and industry levels), good infrastructure, bureaucratic efficiency, political stability, entrenched property rights, etc, etc

Excess savings over investment will either seek a home elsewhere (abroad) or be returned to shareholders 



JULY 2012: SA'S NATIONAL INVESTMENT & SAVINGS

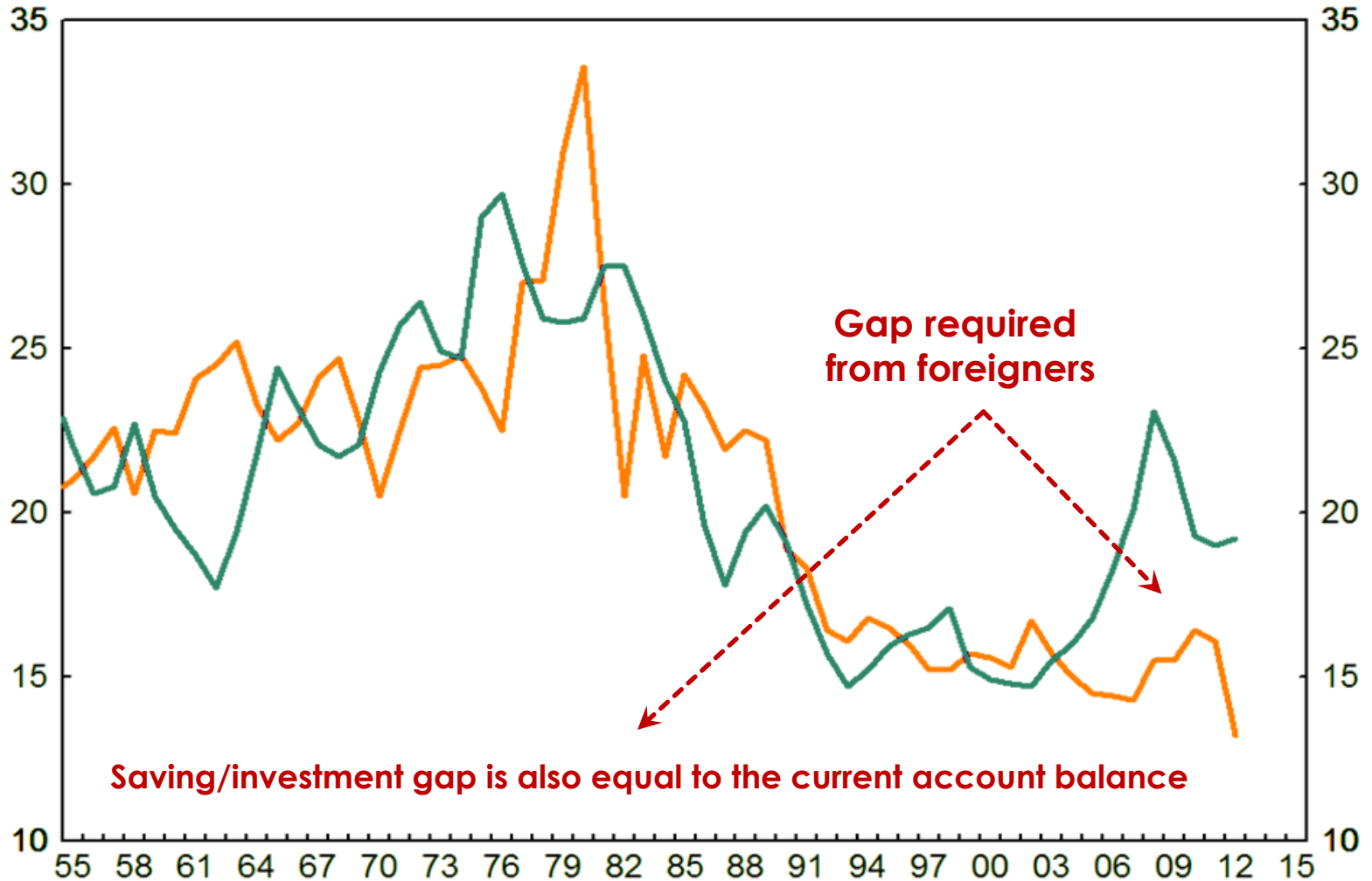
Gap is closing, but from the wrong direction & financing gap remains big





JULY 2012: SA'S NATIONAL INVESTMENT & SAVINGS

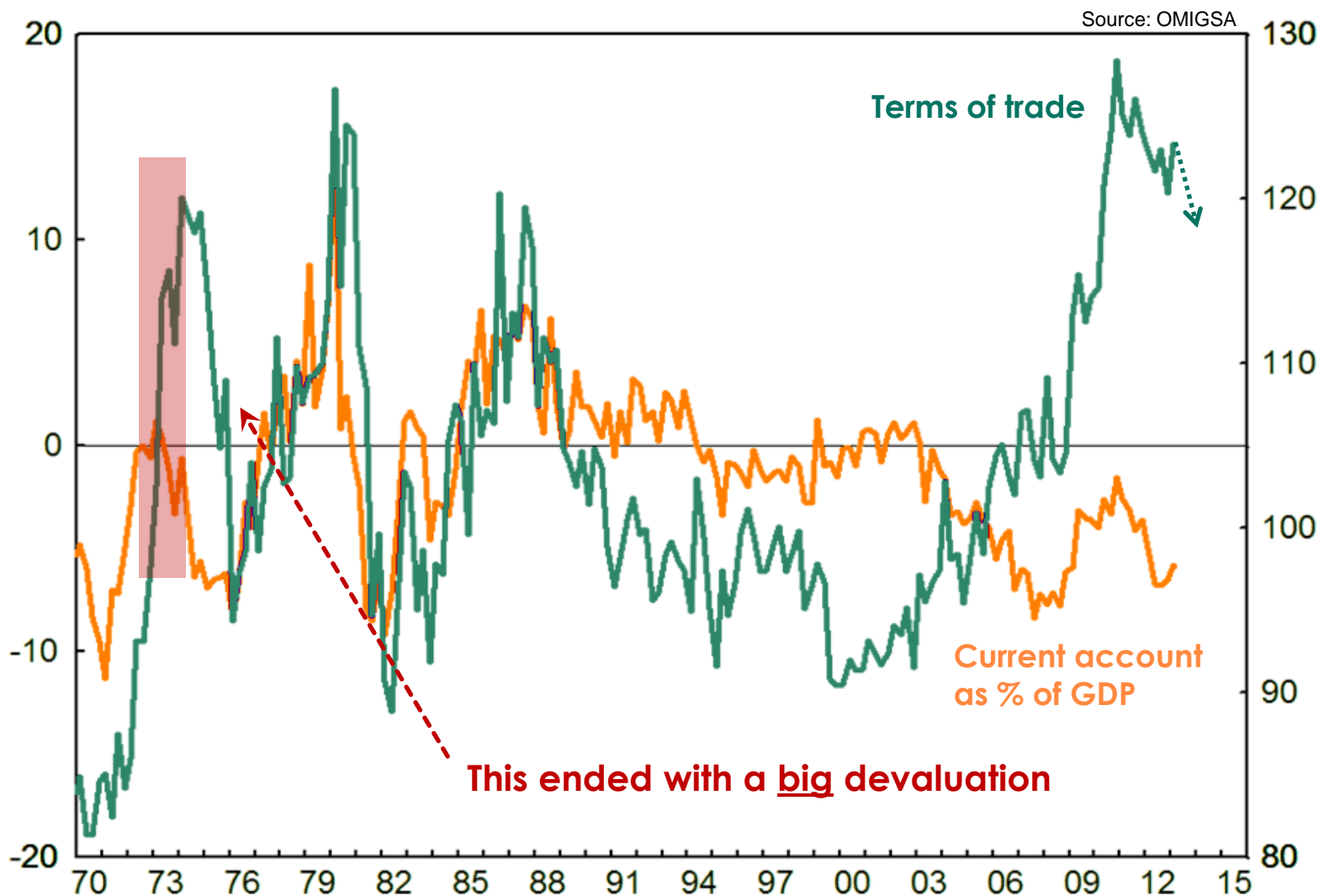
Trouble looming?





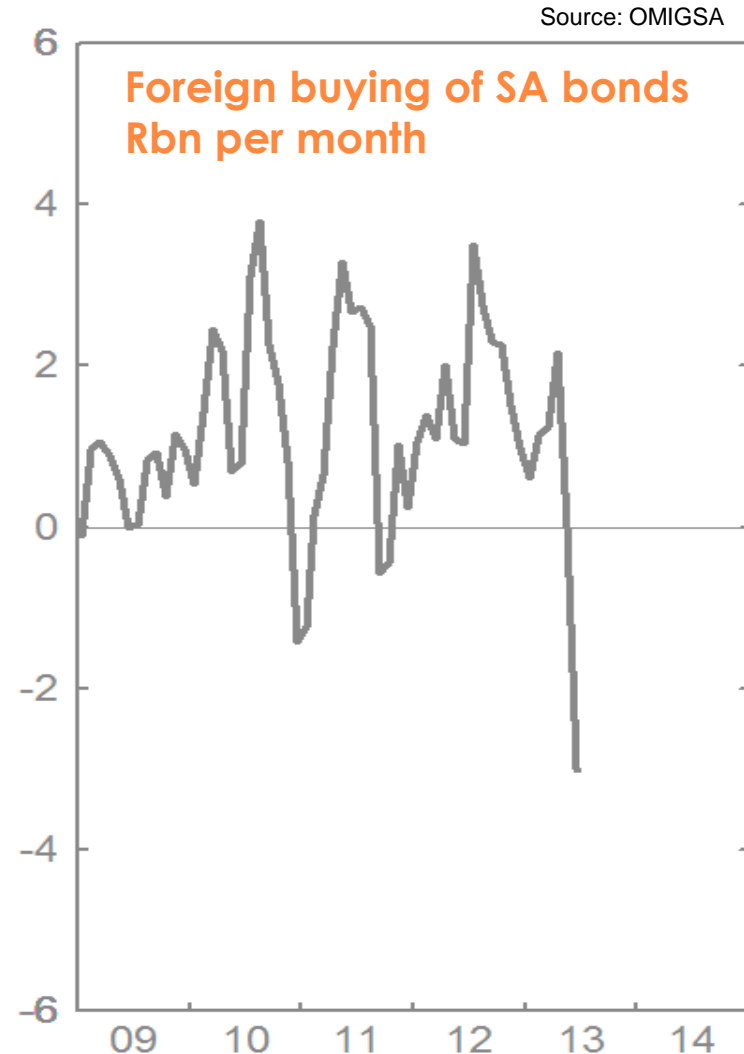
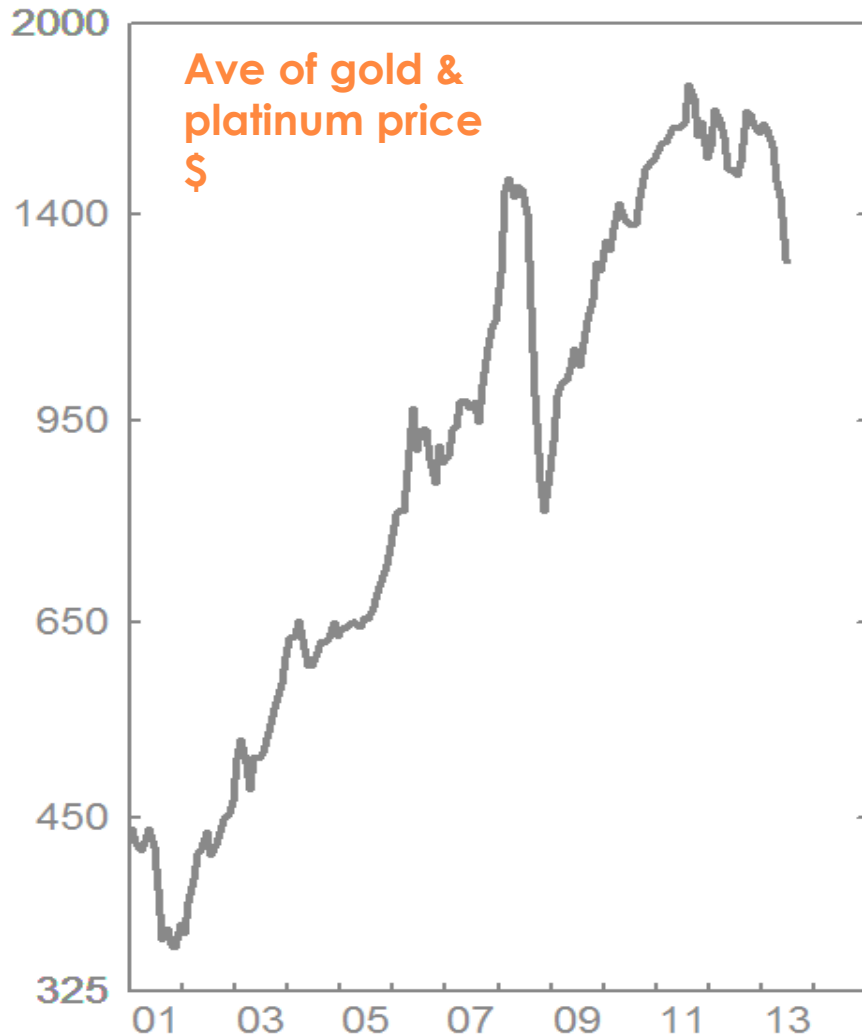
I HAVE BEEN CONCERNED ABOUT THE C/A DEFICIT SINCE LATE-2011

It has contributed to the ZAR slump (may not be over either)





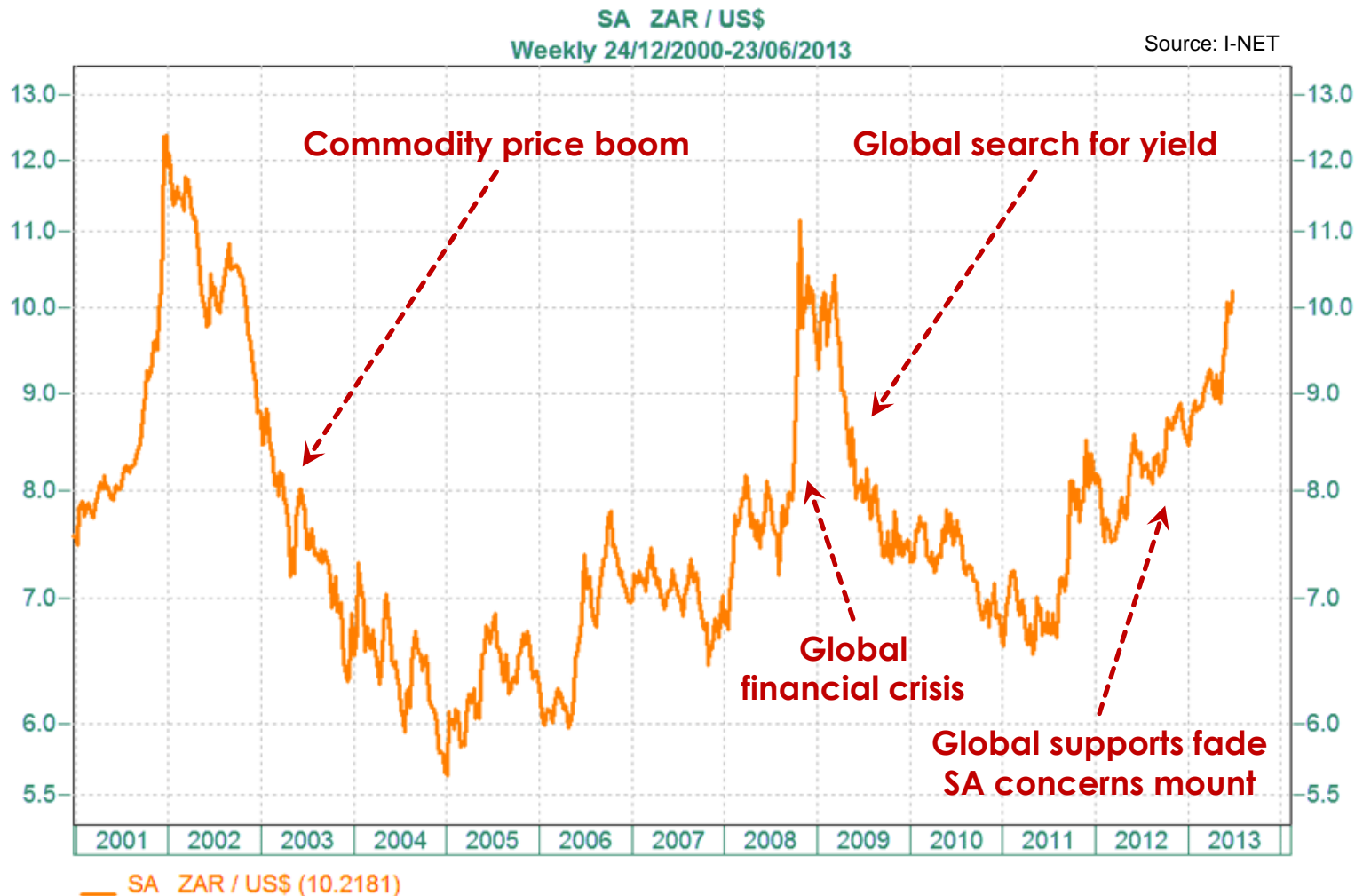
TWO KEY GLOBAL 'SUPPORTS' FOR THE ZAR OVER THE PAST DECADE RUN OUT SIMULTANEOUSLY



Source: OMIGSA

FADING GLOBAL SUPPORT & MOUNTING SA CONCERNS DRIVE ZAR SLUMP

Commodity prices fall as China slows, global search for yield fading as Fed flags 'tapering', weak SA fundamentals a big concern



WHY ARE FOREIGNERS CONCERNED ABOUT SA?

...talk about a Perfect Storm...

1 Current account deficit

(how will it narrow?)

2 Portfolio flows

(at risk from Fed 'tapering')

3 Budget deficit

(slow growth = another year of slippage?)

4 Growth

(slow & slowing)

5 Labour troubles

(more of 2012?)

6 Electricity shortages

(a short term risk and a long term bind)

7 Employment

(where will the jobs come from?)

8 Inflation

(risks from the ZAR?)

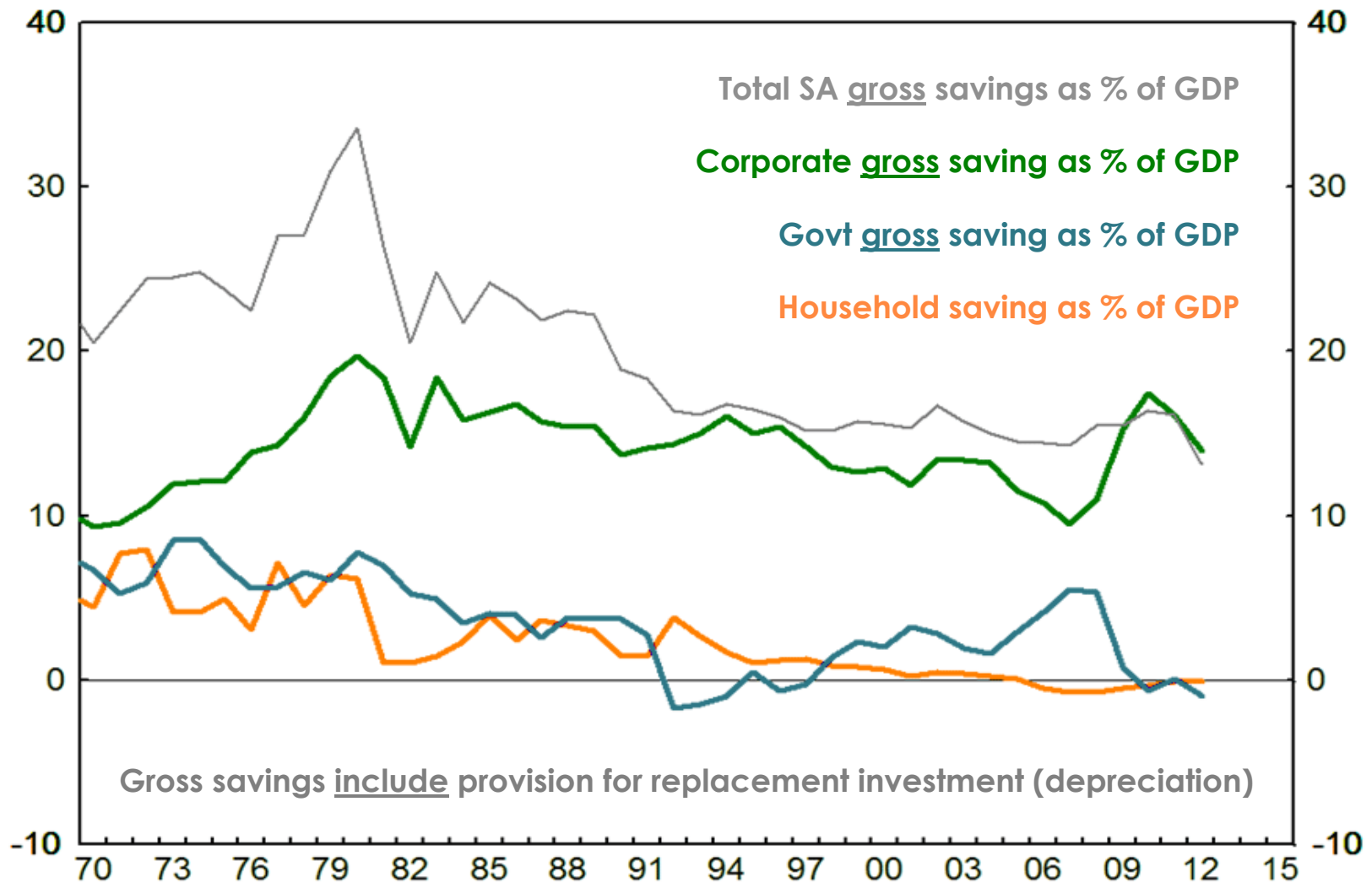
9 Politics & policy

(policy paralysis as 2014 election nears?)

10 SARB policy reaction function

(what if inflation spikes?)

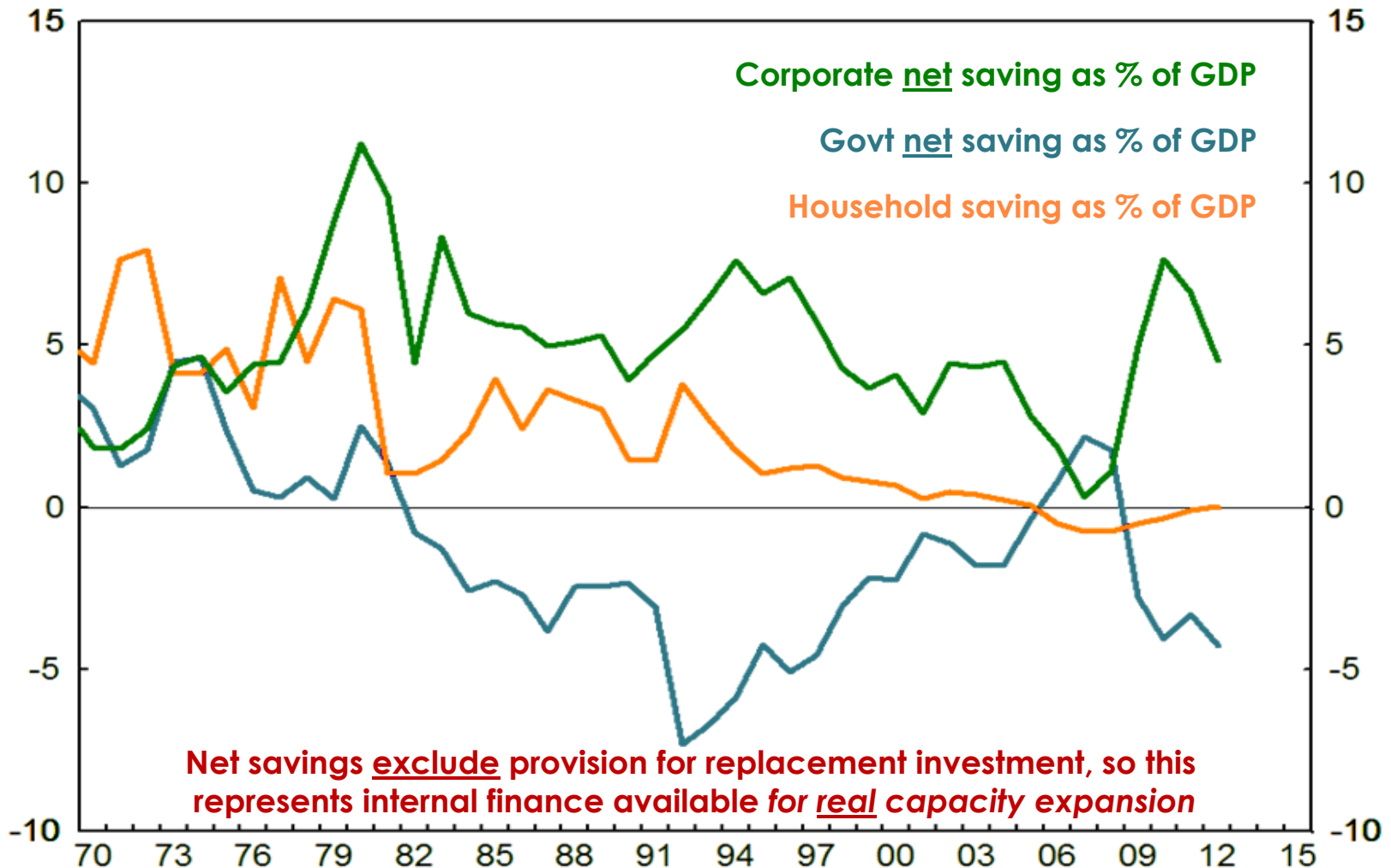
GROSS SAVING: WHO IS SAVING AND WHO NOT



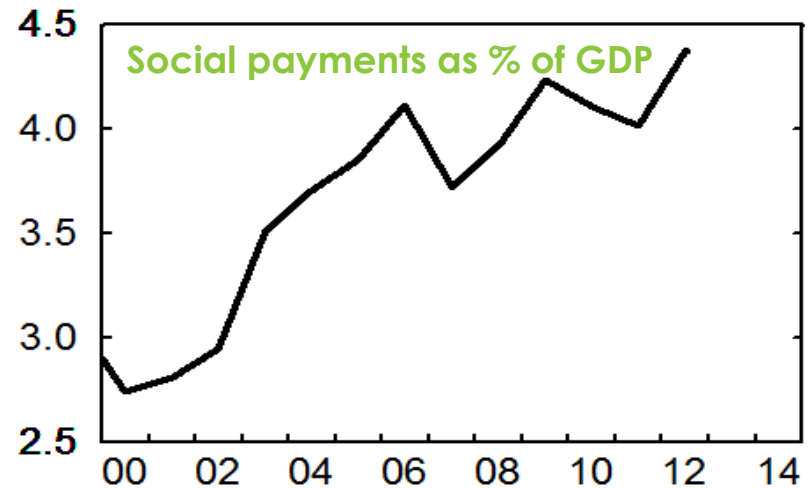
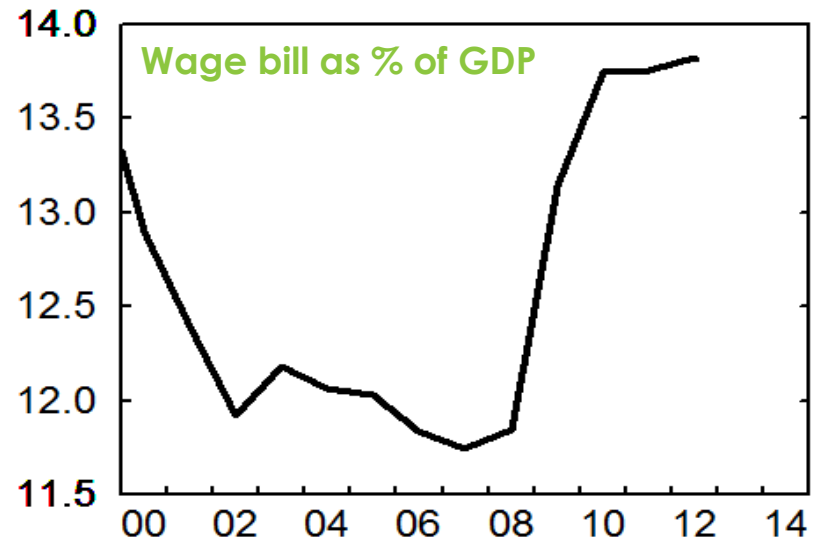
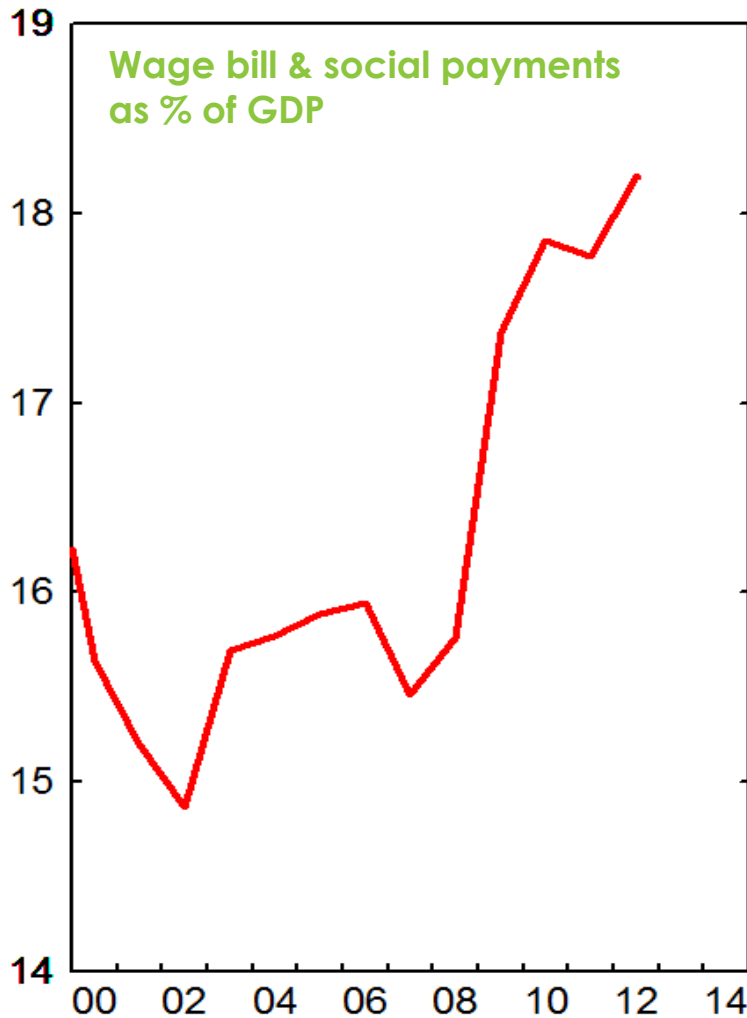


NET SAVING: WHO IS SAVING AND WHO NOT

Here the deterioration in gov't's savings is particularly worrisome

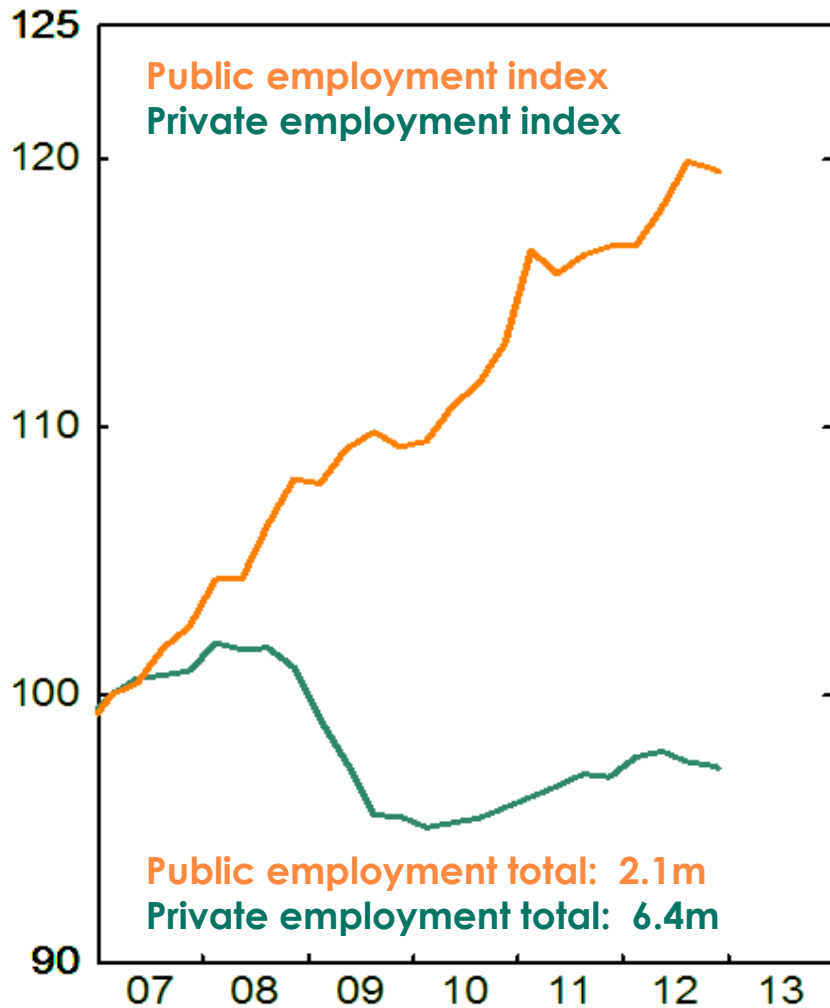


WHY GOVT SAVING HAS COLLAPSED: TOO MUCH CURRENT SPENDING





PUBLIC VS PRIVATE EMPLOYMENT AND WAGE SETTLEMENTS



WHAT DO THE “10 CONCERNS” HAVE TO DO WITH SAVINGS?

10 individual concerns boil down to 3 broad ones...

1

**Slow growth trap,
little employment,
heavy government
dependency**

- All three above harm economic role players' ability & willingness to save
- As a lack of saving can harm investment, a self-feeding vicious circle can occur

2

Big deficits

- C/A financing may not always be available, forcing investment & growth lower
- Current-spending driven fiscal deficit implies:
 - limited room for infrastructure expansion
 - risks crowding out private investment
 - raising govt saving through higher taxes will lower private sector saving ability/willingness
- The results of both above may be same as in 1

3

**Social and/or fiscal
stability at risk?**

- Both these are bad for growth & saving (the latter will flee abroad)
- Yet again, the risk of a vicious circle occurs

SA'S MANY STRENGTHS SUGGEST A HIGH GROWTH POTENTIAL

SA is a constitutional democracy, politically stable, entrenched property rights, contract enforcement is high, independent judiciary & high tax compliance

SA economy generally flexible ('survived' many, many crises)

Many world class companies, a solid culture of entrepreneurship

Strong financial sector with sound regulatory oversight & deep capital markets



Macro-economic institutions have credibility & macro policy generally conservative

Huge mineral wealth, huge tourism potential & proximity to Africa are key strengths

Young population with a rapidly growing middle class & well-developed social security system are sources of growth & stability

WHAT ARE THE KEY OBSTACLES THAT NEED ATTENTION?

1

Binding infrastructure backlogs

- Infrastructure expansion enhances economy's ability to grow faster & improve efficiency
- Public infrastructure expansion tends to crowd in private investment

2

Improve the efficiency, capacity & professionalism of the public sector

- Constraints adversely affect infrastructure expansion & private sector growth
- Corruption & wasted spending are scourges that have many adverse effects

3

Enhance the labour absorption ability of the private sector

- Labour relations, labour practices, regulatory burden, quality of education, ongoing training all matter
- But, most of all, faster economic growth & policy certainty

The NDP is a good policy guide as it addresses all these issues

'Doing nothing' holds ratings-, fiscal-, social- & currency risks

SA HOUSEHOLDS AND SAVINGS

Only 2 things drive savings

1. Ability to save
i.e. need sufficient income
2. Willingness to save
income available, choose to save or not



SA situation

- Many simply do not have ability to save: will rely on govt/ family aid
- Many do have ability to save, but choose not to or simply fail to realise that they need to save more

FOR THOSE WHO CAN SAVE...

SA households save way too little
(& make poor investment decisions)



For **future liabilities:**
kids' education, depreciation of residence, etc

For **retirement**
(most discover this with a shock, far too late)

Discretionary savings often go into low yielding investments or ones that lose people all of their capital

DC members:
Largely oblivious as to whether their retirement provision is sufficient
I suspect many are badly under-provided

DB Members:
Largely oblivious as to whether their retirement provision is sufficient
Do not fully consider the possibility of below-inflation pension increases (requiring additional provision)

Many, many will discover 3 years into retirement they could not really afford the luxuries of the previous 25+ yrs

AVERAGE TOTAL RETURNS (% P.A.)

1960 – May 2013

Sector	10 years 60-69 (%)	10 years 70-79 (%)	10 years 80-89 (%)	10 years 90-99 (%)	14 years 00-13* (%)	53 Years 60-13* (%)	What we expect* (%)
Shares	15.8	21.3	26.7	16.6	17.8	19.5	11.0
LT Gilts	4.5	6.8	11.8	19.5	14.2	11.6	8.0
Cash	4.4	8.2	14.8	16.2	8.8	10.4	5.5
Inflation	2.5	10.3	14.7	9.4	6.0	8.4	5.5

* Our estimates

Balanced fund of 60:30:10

Over 53 years: 16.2% vs 8.4% inflation = 7.8% real

Going forward: 9.6% vs 5½% inflation = 4.1% real

HOW MUCH MUST YOU SAVE? – A GUIDE

35 years worked			
% saved	Inv. Return	% of pension taken	Pension as % of last salary
13	9.0	6.5	32
30	9.0	6.5	75
13	13.5	6.5	75
13	9.0	15.0	75
17.5	12.0	6.5	75

- All examples above assume 9% p.a. salary gain & 6% p.a. inflation
- Realistic overall Investment Returns going forward ± 8% - 10% p.a. (vs 17½% previous 14 years)
- **Message? Can't rely on high investment returns to build your capital, people will have to save far more**

SUMMARY AND CONCLUSIONS

SA'ans
save too little
& often make
poor
investment
decisions

So,
many are
ill-prepared
for retirement,
without
knowing it

It will be
very difficult
to rectify

Remember:
In retirement
you need
a growing
income



- ↓
- Ability to save inhibited by various factors
 - Investment returns will be lower
 - Large percentage of people already 'far behind'

SOME WISE WORDS SOMEONE ONCE TOLD ME...

*The biggest present you
can give your children
is to never become
dependent on them*
(retirement provision)

*The biggest present you
can give yourself is to
make your children
independent of you*
(education)

WHAT SHOULD PEOPLE DO NOW?

A FEW THINGS...



- retirement
- 'big asset' replacements
- health
- children's studies
- caring for parents and/or children
- inflation
- etc



REMEMBER: Time is your best friend when it comes to capital building



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Old Mutual Investment Group (South Africa) (Pty) Limited

Physical Address: Mutualpark, Jan Smuts Drive, Pinelands, 7405

Telephone number: +27 21 509 5022

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SA'S 5 DEFICITS: CURRENT ACCOUNT, BUDGET, GROWTH, EMPLOYMENT & POLICY DIRECTION

	GDP growth 2013 forecast #	Unemploy- ment rate #	CA balance % of GDP #	Budget balance % of GDP #	Total CA & budget balance
Norway	2.3	3.5	12.0	13.4	25.4
Singapore	2.3	1.9	19.2	0.7	19.9
Taiwan	2.5	4.2	10.7	-1.8	8.9
Switzerland	1.2	3.1	7.1	0.3	7.4
Sweden	1.4	8.7	7.1	-0.1	7.0
South Korea	2.2	3.2	3.2	2.6	5.8
Malaysia	4.6	3.3	7.5	-1.9	5.6
Hong Kong	3.1	3.5	1.2	2.3	3.5
Denmark	0.5	5.8	4.6	-2.6	2.0
Russia	2.8	5.7	2.4	-0.5	1.9
China	7.9	4.1	1.8	-2.0	-0.2
Thailand	4.4	0.6	1.8	-3.1	-1.3
Argentina	3.5	7.9	0.8	-2.6	-1.8
Mexico	3.7	5.0	-1.0	-1.8	-2.8
Chile	4.9	6.2	-4.2	1.0	-3.2
Indonesia	6.2	5.9	-1.8	-1.9	-3.7
Australia	2.7	5.5	-3.7	-1.0	-4.7
Czech Rep	0.7	7.7	-2.3	-2.9	-5.2
Brazil	3.0	5.7	-3.0	-2.8	-5.8
Canada	1.7	7.2	-3.1	-3.2	-6.3
Poland	1.4	14.0	-3.3	-3.3	-6.6
India	6.3	9.9	-3.9	-5.0	-8.9
Turkey	3.5	10.5	-6.5	-2.8	-9.3
South Africa @	2.1	25.4	-5.3	-4.6	-9.9
Hungary	0.8	11.8	-10.2	-3.5	-13.7



THANK YOU

