Nudging to secure our future

Insights from behavioural economics on the uptake of savings initiatives such as the South African tax-free savings account

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Contents

Executive summary

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Do we save enough in South Africa?

The benefits of saving are clear to many of us. Individually, saving can help us achieve greater financial stability. On a broader scale, the economy profits from a reduced dependence on international capital flows and greater funds for accelerated investment spending. This type of spending can build solid foundations for faster economic growth, poverty alleviation and job creation.

Despite the benefits of saving more, saving rates in South Africa remain worryingly low. In fact, we are incurring more debt than ever: household saving to disposable income is estimated at -0.8% in quarter 3 of 2016, while household debt to disposable income reached an estimated 75% in 2016.

Our national policy document, the National Development Plan of 2011 (NDP), sets out targets for our national savings. By 2030, South Africa should have a comprehensive system of social protection that includes, among others, mandatory- as well as voluntary retirement savings. According to the NDP, South Africa should increase its national savings, which includes household and government savings, from 16% to 25% of GDP. According to the International Monetary Fund (IMF), South Africa's current gross national savings is estimated at only 16.25% of GDP in 2016.

One response of National Treasury to the savings deficit has been the introduction of a tax-free savings account. The objective of this savings account is to create an incentive for household saving with contributions being tax deductible and accumulations tax deferred.

Taking advantage of this saving opportunity should be a clearly preferred option for many South African households. Indeed, in the period March 2015 to March 2016, over 200 000 tax-free savings accounts were opened in South Africa. This translates to around 700 new accounts every day, at an average account value of R9 785.

However, while there are many people opening tax-free savings accounts, there is still a large proportion of the population that has not. Furthermore those with tax-free savings accounts are most likely financially savvy, and would already have other savings vehicles in place.

Nudging to save

Given our objectives to accelerate the rate of saving in South Africa, can insights from behavioural economics help nudge South Africans to save more, specifically through the uptake of the tax-free savings account?

In South Africa, there are various solutions that aim to assist savers conduct financial planning. These initiatives can benefit from understanding how user interface and choice overload cause unintended consequences, at worst leading to deferral and non-participation. This understanding will be key to getting more utilisation out of current tools.

Behavioural interventions (nudges) are highly suitable in this context, as they help overcome the cognitive and psychological barriers to increasing savings. These nudges can work within existing institutional structures and savings programmes.

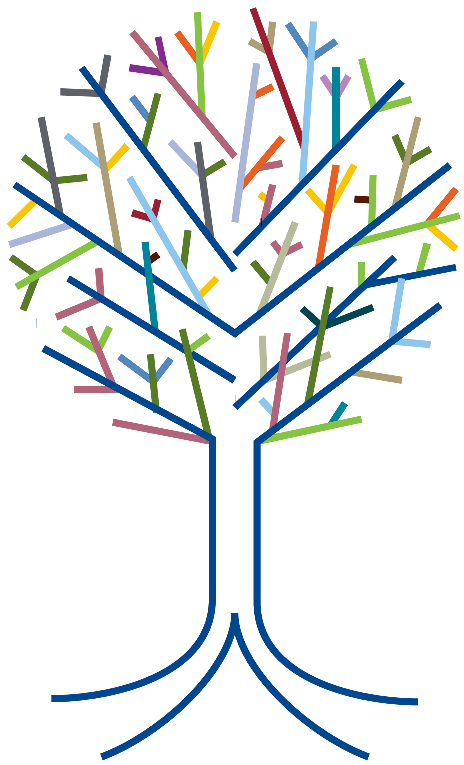
We suggest simple nudges inspired by behavioural economics as effective interventions to raise participation in savings initiatives.

These nudges:

- Reduce decision points
- Simplify interfaces
- Increase goal visibility
- Show perceived progress
- Leverage peer programs and social comparisons
- Simplify choices
- Suggest pre-commitment

Furthermore, lessons from our case study suggest the application of automatic enrolment and automatic escalation. Both tools are based on the above nudges and have proven to be effective tools to help people achieve greater financial security.

In South Africa, it is essential that we consider these savings nudges to build on the gains we have made through the introduction of the tax-free savings account and the strength of our current regulatory framework. We value continued support from various stakeholders, particularly the National Treasury and Financial Services Board. Furthermore, we welcome other initiatives that realise the goal of financial security for South Africans and our economy.



Perils of a non-saving culture

Perils of a non-saving culture

Financial distress of South Africans impedes efforts to save more

South Africans are finding it more difficult than ever to put aside sufficient funds for future needs. Currently, 56% of salaried adults do not have retirement financial products. [1] On average, the share of households without sufficient money for retirement was 41.5% in 2015. [2]

Some of government's efforts to improve standards of living for the poorest focus on a social welfare system. In 2015, social grants were channelled to close to 17 million South Africans. [3] However, the majority of the population is struggling to make ends meet with little scope to save for the future.

Rates of saving by South African households also remain poor due to rising costs of living. Headline inflation, a measure of overall changes in the cost of living, increased by a cumulative 66% since January 2008. Taking account of inflation, real disposable income per capita only increased by 6% overall since 2008. [4] This contributes to low household saving rates of -0.8% of disposable income in the third quarter of 2016 (see Figure 1).

It is therefore no surprise that South Africans experience daily financial pressures and uncertainties. If we evaluate our current financial behaviours, is there scope for us to improve our saving behaviours and reap the associated rewards? Indeed, we believe that our underlying cognitive biases interfere with sound financial decision making – a situation that we can mitigate through various behavioural interventions, imposed by ourselves or others.

And the rewards are worthwhile. Many economists agree that by increasing our savings, we can improve our standards of living through greater individual financial security and accelerated economic growth for South Africa as a whole. [5]

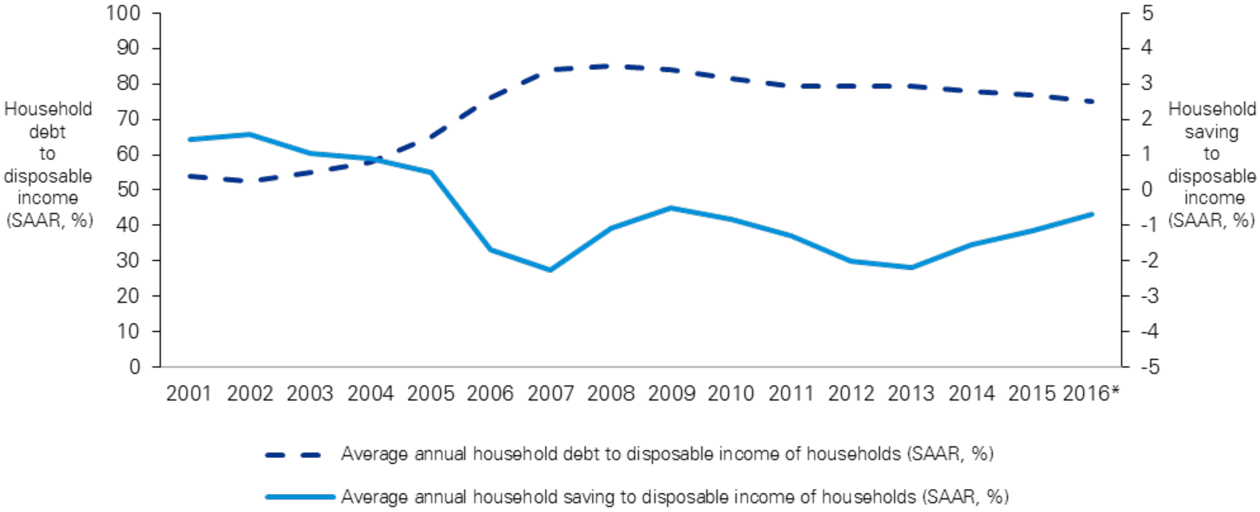
A long way to go: South African saving rates have declined

The ratio of household saving to disposable income has been on a long-term downward trajectory since the end of 2001. This could affect investment levels, as well as individual financial wellness and stability.

In short, the data suggests that South Africans are living beyond their means: since the end of 2005, the ratio of saving to disposable income has fallen below zero. This means our incomes are insufficient to cover our consumption spending, leaving insufficient funds for saving. In turn, this leads to rising household debt, or negative saving (see Figure 1).

[1] Finmark Trust. (2015). *Finscope South Africa 2015 Consumer Survey.* [Online] Available: http://www.finmark.org.za/finscope-south-africa-2015-consumer-survey-launch-presentation/ [Accessed 21 October 2016].
[2] Momentum and UNISA. (2016). *SA Household Financial Wellness Index 2015.* [Online] Available: https://www.momentum.co.za/wps/wcm/connect/momV1/605a81bc-accb-4b47-8cff-b75c8b3ee0e2/Momentum+Unisa+Household+Financial+Wellness+Index+2015+Results.pdf?MOD=AJPERES [Accessed 21 October 2016].
[3] Ferreira, L. (2016). FACTSHEET: Social grants in South Africa – separating myth from reality. *Africa Check.* [Online] Available: https://africacheck.org/factsheets/separating-myth-from-reality-a-guide-to-social-grants-in-south-africa/ [Accessed 21 October 2016].
[4] KPMG calculations based on StatsSA P0141 - Table A and SARB QB (S-153) - September 2016 No. 281.
[5] Jagadeesh, D. (2015). The Impact of Savings in Economic Growth: An Empirical Study Based on Botswana. *International Journal of Research in Business Studies and Management* 2(9):10-21.

Figure 1: Ratios of household saving and debt to household disposable income, %



*Source: SARB QB (S-154) - December 2016 No. 282), *2016 is an average of Q1 to Q3*

The importance of saving for the economy

Saving is considered critical for economic growth and development.[6] Through the funds accumulated in savings, an economy can mobilise greater resources for capital formation. This, in turn, allows producers to take advantage of technological developments and improve their productivity levels. Enhanced productivity warrants higher real wages and in turn improves standards of living.[7]

Figure 2: Simplified view of the economic growth potential of saving

Insufficient savings are particularly problematic in light of South Africa's current account deficit of 4.1% of GDP.[8] A current account deficit implies that South Africa is a net borrower from the rest of the world. In order to raise investment capital, South Africa relies on volatile international capital flows. Domestic savings can reduce South Africa's reliance on foreign capital inflows and strengthen our financial stability.[9]

The importance of saving for households

On a household level, individuals choose to save for a variety of reasons, including:

- Financial independence (e.g. retirement and old age)
- Large expenditures (e.g. a deposit on a house, home repairs or a family holiday)
- Unforeseen expenses (e.g. funerals or medical emergencies)

Many people face demands that prevent them from adequately providing for the increasing costs of living, particularly the costs of education and healthcare. Furthermore, improved life expectancy means we will require more savings in old age. The perils of not saving sufficiently are clear: we are unable to pay for future expenses and do not have a sufficient buffer to shield us from a disaster.[10] This can also result in dependency on others or the state.

[6] Dutt, A.K. (2005). *International Trade in Early Development Economics.* In: Jomo, J.K.S. and Reinert, E.S. (eds). The Origins of Development Economics. India: Tulika Books.
[7] *ibid*
[8] SARB QB data for 2016Q3. In orthodox economics, the saving-investment balance or I-S balance is a balance of national savings and national investment, which is equal to the current account.
[9] Aizenman, J., Jinjarak Y. and Park, D. (2011). *Capital flows and economic growth in the era of financial integration and crisis 1990 – 2010.* National Bureau of Economic Research, Cambridge.
[10] Banerjee, A.V. and Duflo, E. (2012). *Poor Economics.* Penguin Books. London.

Tax-free savings accounts: South Africa's response to low saving rates?

South African policymakers have acknowledged that greater savings can serve as a pillar of stability for South Africa. Thus, one of the policy objectives of South Africa's economic blueprint, the National Development Plan of 2011 (NDP), is to increase national savings from 16% to 25% of GDP.[11] According to the International Monetary Fund (IMF), South Africa's current gross national savings is estimated at 16.25% of GDP for 2016. Emerging markets like India and Russia, on the other hand, boast saving rates of 33% and 24% respectively, arguably facilitating more sustainable economic growth.[12]

In response to low saving rates, the South African National Treasury recently introduced a tax-free savings account. The objective of this savings account is to create a savings incentive where the returns on these savings are exempt from dividend- and income tax.[13]

If successful, the tax-free savings accounts can help individuals and families achieve their savings goals and gain greater financial independence. However, critics argue that a maximum savings contribution of R30 000 per year, and R500 000 in a lifetime is limiting. Some point out that tax exemptions are already in place for interest income of up to R23 000 a year. In addition, retirement account contributions are also tax deductible.[14]

Thus, if South Africans are currently not saving sufficiently through interest-bearing accounts, why would they open a tax-free savings account, which is procedurally cumbersome and ultimately might not be as financially rewarding? Some critics argue that the tax-free savings tool, despite being targeted at lower- to middle-income households, is simply a window dressed advantage for those already in the know and with financial resources. However, we believe that there are various behavioural interventions ('nudges') that can further empower such tools making them more relevant and accessible to lower- to middle-income individuals.

Low savings just a problem of access?

Being unbanked reduces access to formal financial services, including savings tools

Formal financial institutions have struggled somewhat to attract the savings of poorer individuals, although they can often offer greater security and flexibility than some informal savings tools.[15] One reason for this may be only partial access for lower income households to formal financial services in South Africa. The 2015 FinScope survey showed that 23% of the population currently remains unbanked.[16]

Despite moderate improvements, there remains a general concern about the levels of financial inclusion due to:

- Low usage of digital payments
- Insurance predominantly driven by funeral cover
- A lack of relevant retirement products aimed at salaried low-income earners
- Growth in unsecured lending mostly used for short-term purposes[17]

The consequences can be significant. Of surveyed households, 33.7% have recently reported being in a state of financial distress or instability, often not having any cash on hand for emergencies and unexpected expenses.[18]

[11] National Planning Commission. (2011). *National Development Plan 2030 - Our future make it work*. The Presidency, Pretoria.
[12] World Bank data for 2016.
[13] National Treasury. (2016). *Press Release – Tax-Free savings accounts transfers*. National Treasury, Pretoria.
[14] Fischer-French, M. (2015). Keep your cash out of tax-free savings accounts - expert. *City Press*. [Online]. Available: http://city-press.news24.com/Personal-Finance/Keep-your-cash-out-of-tax-free-savings-accounts-20150522 [Accessed 24 September 2016].
[15] Fiorillo, A., Potok, L. and Wright, J. (2014). *Applying Behavioural Economics to Improve Microsavings Outcomes*. Ideas 42. [Online] Available: http://www.ideas42.org/wp-content/uploads/2015/05/Applying-BE-to-Improve-Microsavings-Outcomes-1.pdf [Accessed 15 September 2016].
[16] Finmark Trust (2016). *Finscope South Africa 2015 Consumer Survey Launch Presentation.* [Online]. Available: http://www.finmark.org.za/finscope-south-africa-2015-consumer-survey-launch-presentation/ [Accessed 15 September 2016].
[17] *ibid*
[18] Momentum and Unisa. (2014). *Household Financial Wellness Index 2014*. [Online]. Available: https://www.momentum.co.za/wps/wcm/connect/momV1/dcf4f61a-7d75-44be-8977-3f76a7863b33/momentum-unisa-household-financial-wellness-index-2014-full-report.pdf?MOD=AJPERES [Accessed 15 September 2016].

Thus, despite more savings products currently available to the public, savings in South Africa remain low.

Financial services providers therefore play a crucial role: by providing financial services that are broadly accessible and inclusive, they can broaden not only their client base, but also play an essential role in promoting a more equitable society. Indeed, becoming banked is a key step towards increasing access to a greater array of savings tools for South Africans.

However, while becoming banked and accessing savings accounts are clearly helpful, they are not the only changes we can make to help us save for the future.[19]

In this document

In the next section, we explore the roots of insufficient saving through the lens of behavioural economics. In the following sections we discuss:

- Why we do not save enough
- Possible nudges that can encourage us to save more
- What other countries do to stimulate household saving
- How the current regulatory framework can function as an enabler of saving nudges

In this way, we aim to provide some useful insights that assist South African policymakers and financial services providers to increase the uptake of savings tools like the tax-free savings accounts. Furthermore, through understanding the cognitive biases that may inhibit our ability to save more, we aim to offer individual savers the insights that can help them make better financial decisions for their future.

What is behavioural economics?

Behavioural economics is a relatively new field of applied economics, which merges principles from economics with those of psychology and neuroscience. It relaxes the assumption that individuals act in a rational and purely self-interested way. Behavioural economics is founded on the understanding that individuals also make decisions based on psychological, social, cognitive, and emotional impulses. Insights from behavioural economics help us analyse, understand and influence the decisions individuals make and improve the policies that exist to guide them.

[19] Banerjee, A.V. and Duflo, E. (2012). *Poor Economics.* Penguin Books. London.

Why don't we save enough?

Why don't we save enough?

Saving is a typical 'behavioural economics' problem in the sense that it is both cognitively difficult and requires self-control. Thus, the assumption that we can calculate how much to save and that we can implement that goal is far removed from the realities most savers face.[20]

Below we outline why we find saving so challenging. Specifically, we highlight that we have difficulty making choices when the consequences are spread out over time and the decisions are cognitively challenging. With a host of other social factors having an effect on our saving behaviour, the evidence suggests we should consider a more human decision-maker.[21]

Saving and behavioural economics: relevance for poor South Africans?

Some argue that poor South Africans may not be in a position to save.[22] Expenses for them tend to be large relative to their income. While income may arrive irregularly or in small amounts, expenses like school fees or medical emergencies are often large, lump sum costs that easily produce income shocks. As a result, poorer individuals face a particular challenge in saving enough and working towards achieving greater long-term financial stability.

However, poor individuals have particularly pertinent reasons to save, since a financial cushion can shield from an existential financial disaster. For example, as a result of saving, a small family-owned business does not have to spend its working capital to pay for medicines in the event of a medical emergency in the family. This avoids undermining the financial viability of the business and the family's main source of income.[23]

Research suggests that the challenges poorer individuals face in saving are more than a lack of access to conventional and simple options in the formal financial sector. The challenges can also be explained through the psychology of saving. Research shows that decision making plays out differently when poverty puts individuals in a highly vulnerable position.[24]

This points to significant challenges of both access and poverty alleviation. Furthermore, we can use nudges to overcome the challenges that poor individuals face in saving more. The challenges are not all externally imposed: many of them stem from human psychology.[25]

Before we dive deeper into potential behavioural interventions, we must first understand some of the fundamental barriers to saving:

1

Intention-action gap

2

Choice overload

[20] Mullainathan, S., and Shafir, E. (2013). *Scarcity: Why having too little means so much.* New York: Times Books.
[21] Soman, D. (2013). *Making policy through a behavioural lens.* [Online]. Available: http://policyoptions.irpp.org/magazines/nudge/soman/ [Accessed 15 September 2016].
[22] Loibl, C., Jones, L.E., Haisley, E. and Loewenstein, G. (2016). Testing Strategies to Increase Saving and Retention in Individual Development Account Programs. *Social Science Electronic Publishing.* [Online]. Available: http://dx.doi.org/10.2139/ssrn.2735625 [Accessed 15 September 2016].
[23] Banerjee, A.V. and Duflo, E. (2012). *Poor Economics.* Penguin Books. London.
[24] *ibid*
[25] *ibid*

The intention-action gap: knowing, but not implementing

To understand this first phenomenon, imagine the following separate scenarios:

Scenario 1: Option of additional reward in the near future

Would you rather receive R1 000 today or R1 200 a month from today?

Scenario 2: Option of additional reward in the distant future

Would you rather receive R1 000 a year from today or R1 200 a year and a month from today?

If you prefer R1 000 in scenario 1, but are willing to wait another month for an additional R200 in scenario 2, you are not alone. Results show that people are happier to wait an extra month for a larger reward when it is in the distant rather than near future. We tend to find it easier to make frugal decisions when they impact us in the more distant future, rather than in the near future, where the appeal of quick rewards dominates our choices.[26]

[26] Hershfield, H.E., Goldstein, D.G., Sharpe, W.F., Fox, J., Yeykelis, L., Carstensen, L.L. and Bailenson J.N. (2011) Increasing Saving Behavior Through Age-Progressed Renderings of the Future Self. *Journal of Marketing Research* 48:23-37.

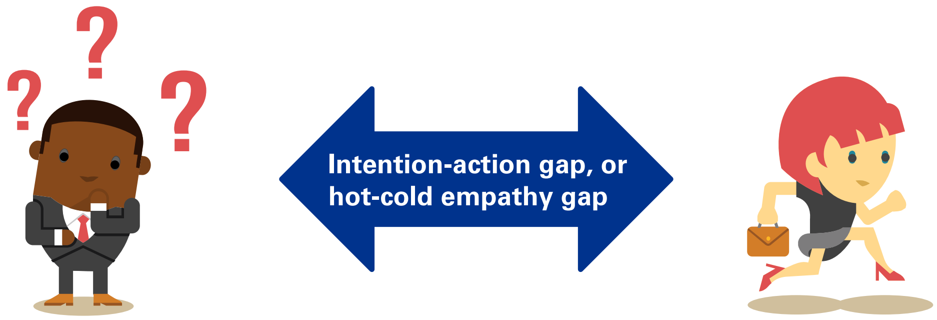
These outcomes can be explained by our tendency for impulsive decision making and desire for immediate gratification. Based on this, we can explain how we can spend now, and simultaneously plan to save in the future. Thus, we are continuously hopeful that tomorrow, we will be more patient than we are today.[27] Additionally, this may explain how we would spend money on certain temptation goods[28] today (e.g. alcohol, fast foods), but plan to spend the money more wisely tomorrow (e.g. on school fees, business investments).

To understand this inconsistency between our frugal long-run selves and our more impulsive short-run selves, we can draw on 'dual-self models'. In these models, we distinguish between two conceptual parts of our selves: the first part is a rational 'planner', most closely resembling the 'homo economicus' and the foundation of neo-classical economics.[29] The second part is the impulsive 'doer', generally swayed by the prospect of instant gratification.[30] The doer tends to deviate from the plans developed by the planner, creating an intention-action gap.[31]

Further to this, we associate two kinds of emotional states with our dual selves: hot and cold.[32] In a cold state, where the outcomes of our decisions are less imminent, we overestimate the self-control we will have at a later stage. When we reach the hot state, the consequences of our decisions are imminent and our minds turn to instant gratification.

For example, in the morning, planning for a dinner of fish and salad is aligned with our farsighted planner, who dominates in a cold state. However, in the evening, the appeal of fast food can be overwhelming, as the doer's hot state overrules the healthy decision made earlier. This intention-action or hot-cold empathy gap may explain why we find it difficult to stick to healthy diets, exercise or make consistently prudent consumption and saving decisions.[33] Thus, we must make concessions to our human nature through various self-control measures that help us follow through on the decisions we intended in the cold state.[34]

A dual-self model: one person, but two states of being



The farsighted *planner* makes considered decisions in a 'cold state'

The short-sighted *doer* makes impulsive decisions in a 'hot state'

[27] Banerjee, A.V. and Duflo, E. (2012). *Poor Economics.* Penguin Books. London.
[28] Temptation goods are those goods that make immediate claims on us without giving us anticipatory pleasure. Banerjee, A.V. and Duflo, E. (2012). *Poor Economics.* Penguin Books. London.
[29] Neoclassical economics is an approach to economics that links supply and demand to individuals' rationality and their ability to maximise utility. A central role-player in this view of the economy is the rational decision maker, often called 'homo economicus', or the economic man. In this concept, humans are viewed as consistently rational and narrowly self-interested agents who usually pursue their subjectively-defined ends optimally. Tittenbrun, J. (2013). The death of the economic man. *International Letter of Social and Humanistic Sciences* 11:10-34.
[30] Fudenberg, D. and Levine, D.K. (2006). A Dual-Self Model of Impulse Control. *American Economic Review* 96(5):1449-1476.
[31] Sheeran, P. (2011). Intention–behavior relations: a conceptual and empirical review. *European Journal of Social Psychology* 12:1–36.
[32] Loewenstein, G. (2005). Hot-Cold Empathy Gaps and Medical Decision Making. *Health Psychology* 24(4): 49-56.
[33] Samson, A. (2016). *The Behavioural Economics Guide 2016 (with an introduction by Gerd Gigerezer).* Behavioural Science Solutions Ltd. [Online] Available: www.behavioraleconomics.com/BEGuide2016.pdf [Accessed 15 September 2016].
[34] Wang, P. (2015). *How a Bowl of Cashews Changed the Way You Save for Retirement.* Time. [Online]. Available: http://time.com/money/3853922/richard-thaler-behavioral-economics-cashews/ [Accessed 15 September 2016].

What are the implications of the intention-action gap in relation to saving?

The implications of the intention-action gap are that we rationalise our decisions: yes, we want to save more, but not today. We will save more tomorrow. When we save, the sacrifice of not consuming is felt today. The rewards, on the other hand, are only felt in the distant future. For poorer individuals, the possibility of reaping the rewards in the future are particularly distant. In fact, their experience often shows that daily financial demands and temptations mean any cash that was put aside is used up before any larger rewards can be reaped.[35]

Therefore, various interventions to increase saving have aimed to connect us to our future selves, making us appreciate that we are the future recipients of our current saving. In a trial, participants exposed to their future (as opposed to present) self in the form of an age-progressed avatar in virtual reality environments committed twice as much money to a retirement account.[36]

In addition, when we frame saving for retirement as a sacrifice, we struggle to save enough. This is linked to the central behavioural economics concept of 'loss aversion', which predicts that a rand lost is felt more intensely than a rand earned. In our example, any funds that are not spent, but saved, may be perceived as 'lost', although, rationally speaking, these funds could provide even greater purchasing powers in the future.[37] Therefore, how we 'frame' foregoing current consumption in favour of greater future consumption emerges as essential in the effort to improve our savings performance.[38]

A simple strategy for helping people implement their savings goals is to allow them to pre-commit in advance with a commitment device that ensures that they follow through.[39] In this way, we can guard our savings, not only from others, but also from ourselves.[40]

Choice overload: too many choices can paralyse

Mainstream economics predicts that consumers value additional choices. In a market with plenty of choices, consumers supposedly benefit from the opportunity of finding a product or service that meets their exact requirements. Suppliers conversely benefit from the option to differentiate their product offerings to set themselves apart from other suppliers.

However, evidence suggests that consumers are negatively affected by abundant choice leading to a range of unexpected behavioural outcomes. First introduced by Alvin Toffler in 1971, overchoice, choice overload, or choice complexity occurs when, *"the advantages of diversity and individualisation are cancelled by the complexity of a buyer's decision-making process."*[41]

[35] Banerjee, A.V. and Duflo, E. (2012). *Poor Economics.* Penguin Books. London.
[36] Hershfield, H. E., Goldstein, D. G., Sharpe, W. F., Fox, J., Yeykelvis, L., Carstensen, L. L., and Bailenson, J. (2011). Increasing saving behavior through age-progressed renderings of the future self. *Journal of Marketing Research* 48:23-37.
[37] Benartzi, S., and Thaler, R. (2004). Save More Tomorrow™: Using Behavioural Economics to Increase Employee Saving. *Journal of Political Economy* 112(1):164-187.
[38] Fisher, P.J. and Montalto, C.P. (2011). Loss Aversion and Saving Behavior: Evidence from the 2007 U.S. Survey of Consumer Finances, *Journal of Family and Economic Issues* 32(1):4-14.
[39] In an experiment in the Philippines, clients were offered a new type of savings account that would be tied to each client's own savings targets. This target was either an amount, where the client would commit not to withdraw funds until the target was reached, or a date, where the client would commit to leave the money until the specified date. The client chose the type of commitment (amount or date) and the bank would enforce them. After a year, the balances in the savings accounts of those who were offered the account were on average 81% higher than the control group, although only one of four of the clients who had been offered the account actually signed on. Banerjee, A.V. and Duflo, E. (2012). *Poor Economics.* Penguin Books. London.
[40] Banerjee, A.V. and Duflo, E. (2012). *Poor Economics.* Penguin Books. London.
[41] Toffler, A. (1970). *Future Shock.* United States: Random House.

Evidence for choice overload is abundant in financial services

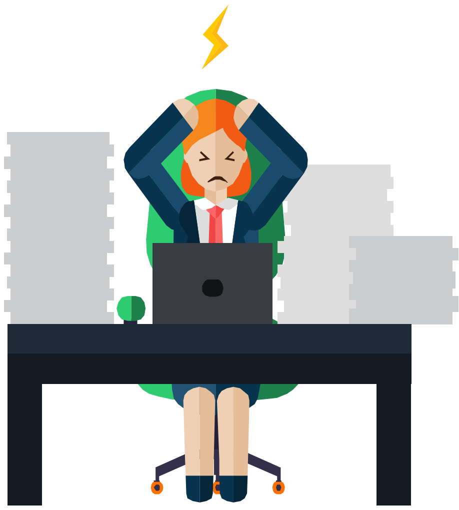
Why would individuals experience inertia in decision making and consistently stick with the default options provided by others?

Evidence from Sweden and the United States (US) indicates these behavioural outcomes are rooted in choice overload:

In Sweden, the government-led retirement plan allowed participants to form their own portfolios by selecting up to five funds from an approved list. Individuals could choose from a list of 456 approved funds, adding choice complexity both in terms of the number of options available, as well as the diversity of options across various dimensions, for example, risk relative to expected return.[42] In this scenario, participants consistently made sub-optimal choices and frequently opted for the default option. Furthermore, individuals who made active choices on their own accord did not necessarily end up with portfolios that did very well.[43]

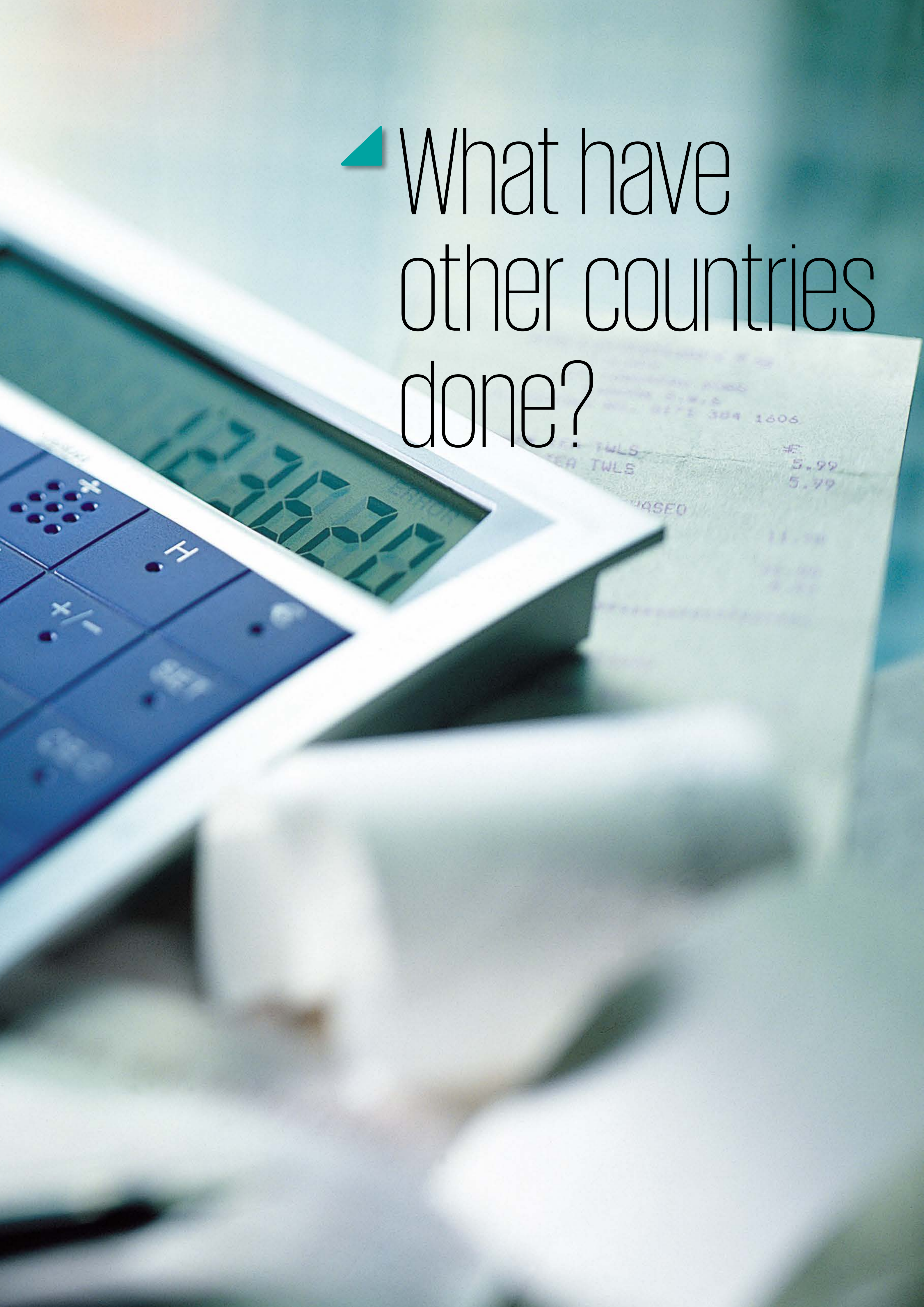
In the US, an analysis of retirement-fund choices showed that employees could choose from retirement packages ranging from two to 59 options. These 401(k) plans aim to incentivise employees to save for retirement through tax shelters and employer matches. A rational analysis by individuals would indicate the option of participating in these plans is superior to the option of not participating. However, when given two options, 75% participated in a 401(k) plan, but when given 59 options, only 60% did.[44]

The experiences some employers and governments have had with automatic enrolment plans show the importance of accounting for inertia and choice overload in the design of savings plans.[45]



[42] Cronqvist, H., and Thaler, R. H. (2004). Design choices in privatized social-security systems: Learning from the Swedish experience. *American Economic Review* 94(2):424-428.
[43] *ibid*
[44] Iyengar, S. and Jiang, W. (2003). *How More Choices Are Demotivating: Impact of More Options on 401(k) Investment.* [Online] Available: http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.195.1624&rep=rep1&type=pdf [Accessed 15 September 2016].
[45] Thaler, R. and Benartzi, S. (2004). Save More Tomorrow™: Using Behavioral Economics to Increase Employee Saving. *Journal of Political Economy* 112(1).

What have other countries done?



What have other countries done?

Through an international review of saving initiatives, we aim to gain insight from the experiences of other countries. What saving initiatives have they adopted and what has worked well?

One notable experience was the KiwiSaver in New Zealand, which used automatic enrolment as a key nudge. The introduction of the programme resulted in a 500% increase in the amount contributed to savings schemes per year. KiwiSaver was introduced in 2007 and to date, more than 2.5 million New Zealanders have saved around NZD30 billion (approximately R320 billion) through the combined contributions of employees, employers and the government. If a person is between 16 and 64 years old, and is employed, he/she is automatically enrolled in KiwiSaver.[46]

[46] KPMG. (2015). *Investing in the future: New Zealand funds management industry update.* [Online]. Available: https://home.kpmg.com/content/dam/kpmg/pdf/2015/10/KPMG-funds-management-2015-web-v2.pdf [Accessed 15 September 2016].

Table 1: International comparison of countries with saving initiatives

Country	Type of initiative	Purpose of the initiative	Process of participation	Savings uptake	Potential unintended or negative outcomes
United Kingdom 	Individual Savings Accounts (ISA)	Increase savings for retirement and reduce the burden on government	The public can open accounts through banks, brokers, credit unions, etc.	Total adult ISA subscriptions up by 8.35% compound annual growth rate (CAGR) between 2010/11 and 2015/16[47] ISA subscriptions increased 37.66% between 2013/14 and 2014/15[48]	Exacerbate income inequality in the event of unequal access Limited future tax revenue
United States 	Traditional and Roth Individual Retirement Arrangements (IRA)	Increase savings for retirement	The public can open and contribute to a traditional IRA or Roth IRA through banks	Total assets held in traditional IRAs grew from USD2.4 trillion in 2000, to USD6.4 trillion in 2014[49] This period saw a 7.26% CAGR	Exacerbate income inequality in the event of unequal access
	Save More Tomorrow™	Encourage and aid in increased saving of middle- and low-saving households	Save More Tomorrow™ automatically enrols employees in a 401(k). Participants commit in advance to allocating a portion of their future salary increases toward retirement savings	78% of individuals invited joined the plan. 80% of joiners remained in the programme for 40 months Average saving rates increased from 3.5% to 13.6%[50]	15% of savings were shifted from other savings schemes; 85%, however, constituted new savings
New Zealand 	KiwiSaver	Increase savings for retirement	If a person is between 16 and 64 years old, and is employed, he/she will automatically be enrolled in KiwiSaver. KiwiSaver contributions are deducted from employees' before-tax pay. Investment earnings are taxed, but withdrawals from KiwiSaver are tax-free.	In 2016: NZD 5.06 billion contribution to scheme providers, up from NZD 1.04 billion in 2008[51] Contributions up 21.86% CAGR in this period	Strict liquidity policy hampered investor returns and investment
Canada 	Tax-Free Savings Account	Increase savings and investments	In person, over the phone or online – via a commercial bank	Total fair market value of the TFSA up by 34.3% CAGR between 2010/11 and 2013/14[52]	Exacerbate income inequality in the event of unequal access Limited future tax revenue

[47] HM Revenue and Customs. (2016). *Individual Savings Accounts (ISA) statistics*. [Online]. Available: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/547217/Full_Statistics_Release_August_2016.pdf [Accessed 15 September 2016].
[48] An increase of £20 billion in 2014-15 was due to the alterations to ISA regulations implemented on 1 July 2014 leading to an increase in contribution limits to £15 000 and investment structure changes.
[49] Statista. (2016). *Total assets of traditional Individual Retirement Accounts in the United States from 2000 to 2014 (in billion U.S. dollars)*. [Online]. Available: https://www.statista.com/statistics/187894/traditional-ira-total-assets-in-the-us-since-2000/ [Accessed 10 October 2016].
[50] Benartzi, S., and Thaler, R. (2004). Save More Tomorrow™: Using Behavioural Economics to Increase Employee Saving. *Journal of Political Economy* 112(1):164-187.
[51] KiwiSaver. (2016). *Payments to Scheme providers by Source*. [Online]. Available: http://www.kiwisaver.govt.nz/statistics/annual/contributions/annual-long-description-payments-providers-source.html [Accessed 15 September 2016].
[52] Canada Revenue Agency. (2014). *Tax-free Savings Account statistics*. [Online]. Available: http://www.cra-arc.gc.ca/gncy/stts/tfsa-celi/2014/ [Accessed 15 September 2016].

Country	Type of initiative	Purpose of the initiative	Process of participation	Savings uptake	Potential unintended or negative outcomes
Brazil 	Savings Accounts (Caderneta de poupança)	Provide monthly saving and investment incentives	The public can open accounts through banks, brokers and credit unions among others The accounts pay a fixed, tax-free rate of 0.5% per month (plus a base rate) to every saver, by every bank [53]	With more than 40 million savers, the savings account is the most popular investment in the country [54]	Increased resources in savings accounts may draw resources away from Treasury bonds If the government had levied a 15% tax on the incentivised savings and investments, it would have collected R$1.7 billion in 2015 [55]
India 	Mutual Funds	Improve individuals' financial stability and increase savings	The public can open accounts through banks, brokers and credit unions among others	Figures vary, however, data suggests that in the first eight months of 2015/2016, around 3.5 million new investors put their money in mutual funds [56] This was viewed as a welcome sign, especially since mutual funds in India saw continuous capital outflows since 2008/2009 [57]	The tenure of such schemes vary between 3 and 5 years. This makes them impractical to lower income households, who have higher income fluctuations

It appears that many initiatives do not meet policymakers' expectations of large increases in savings. It is therefore worthwhile to consider how the application of behavioural economic principles can reverse this outcome.

[53] Itau BBA. (2012). *Savings Accounts in Brazil: Quick Facts.* [Online]. Available: https://www.itau.com.br/itaubba-es/analisis-economicos/publicaciones/macro-vision/savings-accounts-in-brazil-quick-facts [Accessed 18 November 2016].
[54] InfoMoney. (2013). *Caderneta de poupança: entenda os prós e contras.* [Online]. Available: http://www.infomoney.com.br/infograficos/caderneta-de-poupanca [Accessed 9 January 2017].
[55] Castelar, A. (2015). *Putting a Price Tag on the Cost of Loan Subsidies.* [Online]. Available: http://www.armandocastelar.com/index.php/en/blog/164-putting-a-price-tag-on-the-cost-of-loan-subsidies [Accessed 18 November 2016].
[56] Dhanorkar, S. (2016). How are people investing in MFs? Find out. *The Economic Times.* [Online]. Available: http://economictimes.indiatimes.com/wealth/invest/how-are-people-investing-in-mfs-find-out/articleshow/51066087.cms [Accessed 17 November 2016].
[57] The Associated Chambers of Commerce and Industry of India. (2015). *Mutual Fund India.* [Online]. Available: https://mutualfundindia.com/Images/Research/PdfPaths/4a9861211a1740328205cd607cbc29e8MutualFundScreeners_Nov_2015_v1.pdf [Accessed 18 November 2016].

How can we incentivise saving?

How can we incentivise saving?

Introducing nudges and improved choice architecture

Behavioural economics departs from the traditional notions of trying to change individuals' behaviour through financial incentives. Simply put, the way in which choices are presented to individuals plays a significant role in changing behaviour.[58] This notion of 'choice architecture' is gaining ground in policymaking circles.

In many instances, nudges are faster, easier and cheaper to implement than broader regulatory changes.[59] Furthermore, nudges are potentially more impactful. This is because they target the fundamental cognitive and psychological drivers of decision making.[60] However, there is a strong caution that successful nudging policy depends a great deal on context and, therefore, we must ensure the use of an evidence-based approach during the design stage of any behavioural nudging solution.[61]

In the context of encouraging a greater uptake of tax-free savings accounts by South Africans, it is worthwhile to consider the use of policy nudges. Empirical evidence shows that nudges have significantly raised savings in the US, for example. These solutions include to:

- Use decision points (or a simplification thereof)
- Change user interfaces to increase accessibility and user-friendliness
- Visually and constantly remind people of their savings goals through goal visibility
- Utilise peer programmes and social challenges to make individuals conscious of where they rank against their peers
- Remind people of their progress
- Use pre-commitment aids to eliminate the fear of losing out on instant gratification
- Simplify choice when users are resistant or struggle to commit to a particular course of action

These are examples of tools we can implement to guide individuals towards achieving their savings goals.

[58] Ly, K. and Soman, D. (2013). *Nudging around the world.* University of Toronto, Rotman School of Management. [Online]. Available: cd-www.rotman.utoronto.ca/-/media/files/programs-and-areas/behavioural-economics/nudging%20around%20the%20world_Sep2013.pdf [Accessed 15 September 2016].
[59] *ibid*
[60] *ibid*
[61] *ibid*

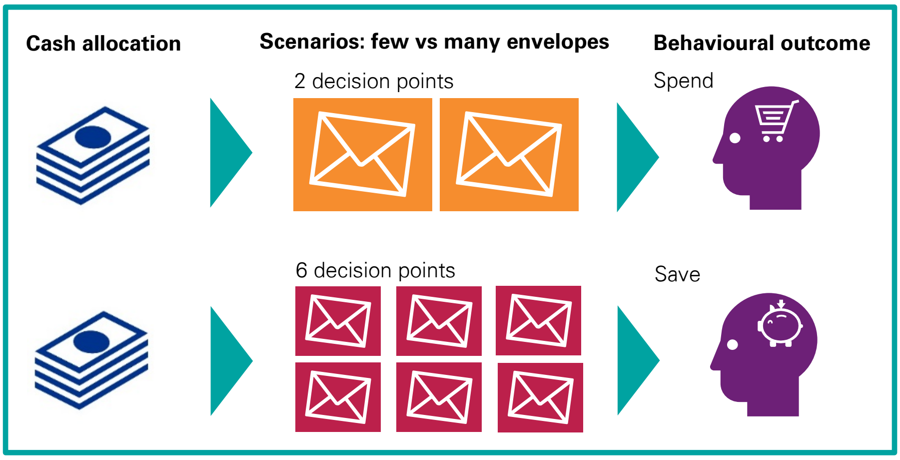
Nudges to increase household saving

Below we outline a selection of nudges we could use to make saving easier for South Africans:

Consider the power of decision points

When individuals face multiple decisions in one process, they are prompted to pause to think about the decision they are about to make.

This is illustrated in an experiment in which participants received earmarked money separated into a few, or many, individual envelopes. The process of having to open a new envelope to access their money slowed down the participants and forced them to reconsider how they will use the money. The more envelopes participants needed to open, the more frugal they were with their cash allocation.



Thus, the process of reconsidering allowed participants to be more forward-thinking and therefore more likely to save.[62]

Simplify interfaces

How individuals interact with the tools at their disposal changes their behaviour. What if it was not only incredibly easy to save, but tools were designed to reward impulsive saving? Marketing and product packaging are designed to prompt impulsive spending. What if tools were designed to reward us when we save impulsively?

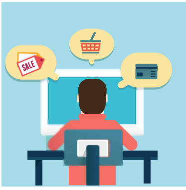
For example, through a changed interface, individuals can be prompted to save an additional amount in their bank account a few days before their next pay check, rather than splurge their left-over income. This solution can be implemented using mobile banking applications which can trigger certain options based on a particular day in an individual's salary cycle.

In addition, could banks use local shopkeepers to take deposits? This would be possible, as long as the local shopkeeper issues the depositor a receipt for the money that the bank is legally obligated to honour, ensuring that the depositor is protected. This would remove the barriers to saving that many face who are not in close proximity to bank branches and do not have access to online banking.[63] Furthermore, when paying at the till people can round up their purchases with the additional amount transferred to their savings plans.[64]

[62] Soman, D. and Cheema, A. (2011). Earmarking and partitioning: increasing saving by low-income households. *Journal of Marketing Research* 48:14-22. A main effect of partitioning reveals that savings were higher when the earmarked amount was partitioned.
[63] Banerjee, A.V. and Duflo, E. (2012). *Poor Economics*. Penguin Books. London.
[64] An example of this is the Bank Your Change™ initiative offered by First National Bank.

Increase goal visibility 	By creating a sense that the future holds promises and the rewards of saving are not impossibly far away, we can set up our thinking in a way that will elicit the right financial behaviours. If we feel we will have opportunities to realise our aspirations, we will have a strong reason to cut down on purchasing temptation goods and will invest in the future. Contrary to this, if we feel we have nothing to lose, we tend to make decisions that reflect this belief.[65] Reminders that serve to increase goal visibility can increase our motivation which prompts us to save. In an experiment, researchers stuck pictures of participants' children to envelopes into which they deposited periodical savings.[66] The participants with these pictures tended to save more than those without pictures, increasing the likelihood of achieving their savings goals by up to 27 percentage points.[67] Another suggestion would be regularly messaging participants about what they stand to achieve by completing a particular savings goal.
Show perceived progress 	Another solution is to leverage the effectiveness of 'perceived progress'.[68] Research shows that a limited attention span plays a role in saving behaviour.[69] By receiving regular feedback about what individuals have achieved and how far they have to go in terms of their savings goals raises their motivation to save. These reminders or 'attention shocks' may be particularly effective when they focus on inducing a one-time change with 'sticky' consequences (e.g., enrolment in a pension fund, or automatic payment of annual car registration fees).[70]
Leverage social comparisons 	By adding an element of competition among peers, individuals can feel they have a heightened sense of accomplishment. Evidence from the United Kingdom shows that members in a group of peers increased their savings when they and their peers routinely met to discuss progress and outcomes.[71] In another experiment, households were sent letters encouraging them to pay taxes on time. When these letters included a statement of peer performance (for example stating that '90% of people in the United Kingdom pay their taxes on time') these letters were more effective.[72] Indeed, such social comparisons are powerful and can serve as an incentive to take up savings tools like the tax-free savings account.

[65] Banerjee, A.V. and Duflo, E. (2012). *Poor Economics.* Penguin Books. London.
[66] Cheema, A. and Bagchi, R. (2011). The Effect of Goal Visualization on Goal Pursuit: Implications for Individuals and Managers. *Journal of Marketing* 75(2):109-123.
[67] Soman, D. and Cheema, A. (2011). Earmarking and partitioning: increasing saving by low-income households. *Journal of Marketing Research* 48:14-22.
[68] Zhou, R. and Soman, D. (2003). Looking back: Exploring the psychology of queuing and the effect of the number of people behind. *Journal of Consumer Research* 29(4):517–530.
[69] Karlan, D., McConnell, M., Mullainathan, S. and Zinman, J. (2016). Getting to the top of mind: How reminders increase saving. *Management Science* Jan 2016.
[70] *ibid*
[71] Kast, F., Meier, S. and Pomeranz, D. (2012). *Under-savers anonymous: Evidence on self-help groups and peer pressure as a savings commitment device.* Discussion Paper Series, Forschungsinstitut zur Zukunft der Arbeit, No. 6311. [Online]. Available: http://nbnresolving.de/urn:nbn:de:101:1-201204239864 [Accessed 15 September 2016].
[72] Kast, F., Meier, S. and Pomeranz, D. (2012). *Under-savers anonymous: Evidence on self-help groups and peer pressure as a savings commitment device.* Discussion Paper Series, Forschungsinstitut zur Zukunft der Arbeit, No. 6311. [Online]. Available: http://nbnresolving.de/urn:nbn:de:101:1-201204239864 [Accessed 15 September 2016].

Simplify choices 	Providing a large number of options would clearly have its benefits - if people were perfectly rational, if they had no cognitive limitations, if they evaluated options on a single metric called ‘utility’. However, none of these assumptions are truly representative of real people. By streamlining choices (through improved interfaces or the organisation/elimination of options), people are more likely to become active and follow a particular course of action.[73] We are limited in our ability to process large volumes of information and the finance industry is indeed rife with choice complexity. Thus, if savings tools were designed to provide individuals with simple options based on their preferences, it would assist them in their decision making.[74] Another means of simplifying saving decisions is to outsource the decision entirely by designing a default option, potentially supported by automatic enrolment in a savings scheme. Here, based on the perception of trust, the individual relies on an expert to make decisions for him/her.[75]
Suggest pre-commitment 	When individuals consider events that are in the future, they are more likely to be rational and wise about their choices. When these same events are in the present, they are much more likely to act impulsively. Thus, the best way of nudging people to make wiser financial decisions is to ask them to commit to making those choices for the future.[76] We illustrate how we can apply pre-commitment as a nudge in the case study Save More Tomorrow™ which follows in the next section.

[73] Soman, D. (2010). Option Overload: Dealing with Choice Complexity. *Rotman Magazine* Fall 2010.
[74] *ibid*
[75] *ibid*
[76] Benartzi, S., and Thaler, R. (2004). Save More Tomorrow™: Using Behavioural Economics to Increase Employee Saving. *Journal of Political Economy* 112(1):164-187.

Case study: Save More Tomorrow™

In attempting to address low saving rates, behavioural economists Benartzi and Thaler designed a programme where they altered the choice architecture of retirement plans through behavioural economics. Their programme targeted employees who failed to join a retirement plan or made low contributions. The approach was simple: employees would commit a portion of their future salary increases towards their retirement savings, but at a later stage.[77]

For a number of reasons, individuals and households are reluctant to save. These reasons include the pain associated with foregoing consumption and/or the difficulty of making complex decisions. These biases in decision making produce suboptimal investment returns. In other words, people fail to adequately provide for their future financial needs.[78]

In their programme, Save More Tomorrow™ (SMT), Benartzi and Thaler aim to resolve these biases. Employees were automatically enrolled in SMT and given an option to opt out of the plan at any time to ensure they felt comfortable about joining.[79] Additionally they were invited to commit themselves automatically to increase their savings, when their future pay increased.

Below, we give a quick overview of the two key mechanisms employed in this programme: automatic enrolment and automatic escalation.

Automatic enrolment

One means of addressing the reluctance to save is to make saving a default action, where people have to opt out of saving, rather than opting in.[80] In other words, they are automatically enrolled in a savings scheme through their employer.

Insights from behavioural economics indicate that people prefer to save more in the future than in the present. By taking away the pain of having to save now, and by default saving later, the outcome of automatic enrolment is that employees participate in the savings scheme sooner, and participation rates are higher.[81] According to Benartzi and Thaler, this mechanism has shown to increase participation rates by 25 percentage points.[82] Thus, simplifying the enrolment process alleviates the reluctance people experience in joining a savings scheme.

Automatic escalation

It is difficult to answer the question of how much to save in order to provide adequately for full income replacement during retirement. Very often, individuals will employ a rule of thumb and simply save an amount they believe is sufficient. What further complicates this is the large number of options we face when choosing the right investment configuration.

The solution Benartzi and Thaler proposed was one of automatic escalation. This is based on the principle of people preferring to exercise self-control in the future because they find it difficult in the present moment. By allowing employees to pre-commit to save more when they receive a pay rise, they do not face the internal struggle of seeing their disposable income decrease and saving is not felt as a loss.[83] Automatic escalation therefore addresses loss aversion as employees no longer perceive a loss in their take-home pay.[84]

[77] Benartzi, S., and Thaler, R. (2004). Save More Tomorrow™: Using Behavioural Economics to Increase Employee Saving. *Journal of Political Economy* 112(1):164-187.
[78] Benartzi, S., and Thaler, R. (2007). Heuristics and Biases in Retirement Savings Behaviour. *Journal of Economic Perspectives* 21(3):81-104.
[79] Benartzi, S., and Thaler, R. (2004). Save More Tomorrow™: Using Behavioural Economics to Increase Employee Saving. *Journal of Political Economy* 112(1):164-187.
[80] *ibid*
[81] *ibid*
[82] Benartzi, S., and Thaler, R. (2007). Heuristics and Biases in Retirement Savings Behaviour. *Journal of Economic Perspectives* 21(3):81-104.
[83] *ibid*
[84] Benartzi, S., and Thaler, R. (2004). Save More Tomorrow™: Using Behavioural Economics to Increase Employee Saving. *Journal of Political Economy* 112(1):164-187.

Did you know?
Even Nobel laureates adopt simple rules of thumb to manage life's complexity.

Nobel laureate Harry Markowitz, one of the pioneers in modern portfolio theory, used the following simple rule when making his retirement decisions:

"I should have computed the historic covariances of the asset classes and drawn an efficient frontier. Instead … I split my contributions fifty–fifty between bonds and equities"

Source: Richard H. Thaler, Cass R. Sunstein (2012). Nudge: Improving Decisions about Health, Wealth, and Happiness. Penguin, UK.

Another feature of the programme, which gives comfort to employees, is that they are free to opt out of the programme whenever they wish.

According to Benartzi and Thaler, SMT has shown to have a significant impact on saving rates.[85] In the first application of the programme, employees who chose to join (and 78% of those invited to join the plan did so) ended up almost quadrupling their saving rate from 3.5% to 13.6% in less than four years.[86] Such successes have led to the broader adoption of these behavioural economics principles. In the US, the percentage of US employers who offer 401(k) plans that automatically enrol employees and escalate saving rates increased to 56% for automatic enrolment and 51% for automatic escalation in 2011, up from 14% and 0% in 2003, respectively.

Below, we have summarised the key benefits associated with the SMT:

Automatic enrolment

- Overcome inertia in participation
- Leverage inertia to keep people in the scheme

Automatic escalation

- Overcome decision points and cognitive complexity
- Overcome loss aversion
- Overcome intention-action gap

[85] Benartzi, S., and Thaler, R. (2004). Save More Tomorrow™: Using Behavioural Economics to Increase Employee Saving. *Journal of Political Economy* 112(1):164-187.
[86] Benartzi, S. and Thaler, R.H. (2013). Behavioral Economics and the Retirement Savings Crisis. *Science* 339:1152-1153.

Regulatory considerations

Regulatory considerations

National Treasury states that financial sector policies and regulations aim to improve the national saving rate through reforms to the legislative framework governing the savings industry and through implementing retirement reform proposals.[87]

Following the promulgation of the Financial Advisory and Intermediary Services (FAIS) Act in 2002, the ongoing implementation of the Treating Customers Fairly (TCF) aims to foster positive outcomes for customers and the ethical provision of financial services. Financial services providers can employ behavioural economics to further the aims of TCF and engrain TCF in their corporate culture. This is because behavioural economics is founded on principles such as timeliness, relevance and ease of use. These match the outcomes of TCF by ensuring the customer's needs are met. Thus, behavioural economics can help give substance to TCF.

Automatic enrolment in tax-free savings accounts

In relation to the adoption of automatic enrolment as a vehicle to increase the uptake of savings initiatives, we must consider two questions from a regulatory perspective:

1

Are there any regulations that prohibit or constrain the use of automatic enrolment as a vehicle for tax-free savings accounts?

2

If not, is the regulatory framework appropriate for the proposed vehicle?

Section 12T(8) of the Income Tax Act and Government Notice 172 of 25 February 2015

Section 12T of the Income Tax Act, No. 58 of 1962 provides for a tax-free investment (TFI). According to section 12T(1)(c), the TFI must comply with regulations made under section 12T(8). National Treasury published regulations under section 12T(8) with government notice 172 of 25 February 2015. The Act read with the regulations, essentially provides that TFIs can only be provided by a licenced bank, long-term insurers, a manager of registered collective investment schemes, the National Government, a mutual bank or a co-operative.

In the context of automatic enrolment, these traditional savings vehicles may not be adequate. A pension fund, for example, would not qualify as an investment vehicle. This is because the regulations prohibit it and because a pension fund invests on behalf of the fund and not individual participants.

Employers investing on behalf of employees

Taking into account consumers' rights in terms of the Consumer Protection Act, No. 68 of 2008, there is no outright ban on automatic enrolment. We believe the employer/employee relationship is best placed to introduce such a scheme.

According to the FAIS Act, if an employer invests funds on behalf of his/her employee, such employer would have to be registered with the Financial Services Board. This would suit those employers who are currently registered Financial Services Providers. These include short- and long-term insurers, financial institutions such as banks, investment and asset management firms.

Based on our argument for nudges, the TFI option could be enhanced to bring about a significant increase in total South African household savings. Therefore, a form of automatic enrolment should be encouraged. Policymakers can use our legislative framework to facilitate the implementation of a TFI instrument with the use of automatic enrolment.

[87] National Treasury. (2016). *2016/17 Annual Performance Plan.* [Online]. Available:
http://www.treasury.gov.za/publications/Annual%20Performance%20Plan/NT%20APP%202016-20.pdf [Accessed 12 January 2017].

What does this mean for South Africa?

What does this mean for South Africa?

Where are we now?

In South Africa, the tax-free savings account means that contributions are tax deductible and accumulations are tax deferred. As a result, taking advantage of this saving opportunity should be the clear choice for South African households. However, there is still a large proportion of the population that has not opened a tax-free savings account.

Why do we need greater savings?

Saving offers many rewards, not only for individuals who can improve their living standards and achieve more financial stability, but also for the larger economy.

What does national policy say?

Our national policy blueprint, the NDP, sets out targets for our national savings targets.[88] The retirement savings and risk benefit gap should be closed through reforms, including mandatory contributions, with consideration given to subsidising these contributions for low-income or periodic workers.[89]

What can a nudging strategy do to help?

Given our objectives, can insights from behavioural economics help nudge South Africans to save more, specifically through the uptake of the tax-free savings initiative?

In South Africa, there are various solutions that aim to assist people with financial planning. For example, SAVETAXFREE.co.za is designed to help savers navigate the complexity of choosing a suitable tax-free savings account. Such initiatives can benefit from understanding how issues like user interface and choice overload cause unintended consequences, at worst leading to deferral and non-participation. This understanding will be key to getting more utilisation out of current tools for everyone.

Nudges are highly suitable in this situation. They can overcome the behavioural barriers to increasing savings, especially when many underlying structures and programmes are already in place. These nudges should:

- Utilise decision points
- Simplify interfaces
- Increase goal visibility
- Show perceived progress
- Leverage peer programs and social comparisons
- Simplify choices
- Suggest pre-commitment

Furthermore, lessons from our case study suggest automatic enrolment and escalation are effective tools to help savers achieve greater financial security.

In South Africa, it is essential that we consider these savings nudges to build on the gains we have made through the introduction of the tax-free savings account and the strength of our current regulatory framework. We would like continued support from various stakeholders, particularly the National Treasury and Financial Services Board. We would welcome other initiatives that realise the goal of financial security for South Africans and our economy. Applying consumer-centric thinking will be instrumental in taking saving to the next level.

[88] National Planning Commission. (2011). *National Development Plan 2030 - Our future make it work.* The Presidency, Pretoria.
[89] *ibid*

As a firm deeply rooted in local realities and offering an extensive global footprint with a multitude of areas of excellence, KPMG is positioned to be the preferred partner in business for behavioural economics solutions.

As KPMG Economics, we partner with KPMG Data Analytics, People and Change, Ethics, as well as various industry-oriented teams to be a market leader in behavioural economics solutions.

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