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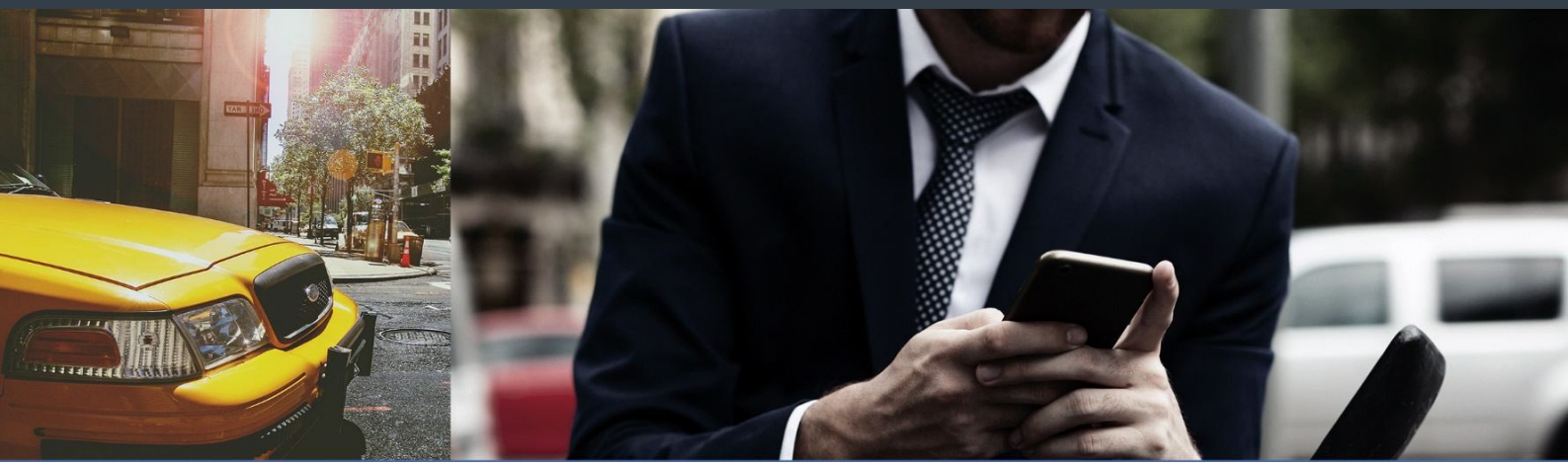

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South Africans need safety nets

Written by: Derrick Msibi, CEO, Stanlib Asset Management

Donald Rumsfeld, former US Secretary of Defence, once said; “There are known knowns; there are things we know we know. We also know there are known unknowns; that is to say, we know there are some things we do not know. But there are also unknown unknowns – the ones we don’t know we don’t know... it is the latter category that tend to be the difficult ones.”

Crises are inevitable – only their timing, scale and impact tend to be unknown or unknowable, while their ability to accentuate existing structural cracks or hidden problems is well known. However, in every crisis – even a pandemic – there is opportunity.

In SA, our general lack of ‘safety nets’ and/or ‘shock absorbers’ at both an individual and national level, has long been an issue.

After the 2008 global financial crisis, individuals and corporates took markedly different paths. The balance sheets of corporates were bolstered, and a healthy dose of conservatism led to an increase in overall corporate liquidity. Yes, the corporates paid dividends, but they were not reckless in their distributions. Corporate treasurers created funding lines and listed companies cultivated shareholder support to ensure that they were best placed to tap markets for long-term funding, as evidenced by the recent rounds of rights offers.

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In contrast, individuals did not necessarily reform their behaviour. As much as lenders tightened lending criteria, individuals' appetite or need for credit continued unabated. At the same time, the overall level of individual savings in formal structures such as bank deposits, unit trusts and general contribution to long-term savings has been measly.

As a result, when the crisis arrives, like the COVID-19 pandemic, there is no shock absorber – no 'rainy day' fund and, given already overextended credit lines, no further funding available. In fact, instead of being able to access credit in a time of need, the reality is that individuals will be under more pressure to meet their credit obligations.

In SA, the level of long-term savings since 2008 represented by pensions, has seen uninterrupted net cash outflows with benefits payments exceeding contributions. As a result, investment markets have patched the crack of a shrinking formal pensions market, like Botox papering over wrinkles. With our national funding needs increasing, the local pool of savings is insufficient, requiring offshore borrowing in hard currencies. As much as it is useful to have diversified sources of funding, raising hard-currency funding, when emerging markets are under pressure due to global uncertainty, becomes costly and unsustainable.

So, how do we paper over this savings crack? We all expect that governments will provide forms of social security as a safety net. The South African government was no exception during the COVID-19 lockdown.

However, we have to question the sustainability and appropriateness of a government solution here. We need a solution which goes beyond crack fixing and enables us to build the right foundations to help survive future crises. The time has come to empower individuals and provide them with the dignity to be able to fend for themselves; the imperative for a stronger South African savings culture is now greater than ever.

Individual personal financial planning must become a national priority. We should start by laying the foundations among our learners at school and seeking ways to reinforce a savings culture throughout their working lives, with potentially mandatory incorporation at critical junctures like starting a new job.

The importance of practical financial planning elements, like using insurance to protect us from potential crises, should be a critical part of the national education drive. Emerging research on individual financial planning shows that the biggest causes of financial hardship are events that may be insurable – like the death of a family member, vehicle accidents, and illnesses. COVID-19 has taught us lessons here, as did the last major pandemic in 1918, which was soon followed by the growth of the insurance industry.

As a country, we need to appreciate that long-term savings are a national asset. These savings should act as a shock absorber and therefore, it is necessary to shore up the current state of our savings. To achieve this, the efforts to create and sustain confidence in the savings industry need to take on a new dimension: savings need to be nurtured, protected from misuse and invested with a long-term perspective. This is one opportunity that can stem from the crisis – if we are willing to embrace it.

Corporates learnt some lessons from 2008/2009 and shifted their behaviour accordingly. This time around, individuals and the nation as a whole, will have to take some lessons and not pay school fees again when the next known unknown (crisis) surfaces. What we can be sure of, is that the next crisis will be bigger than this one and we have a duty to empower all South Africans to be ready.

Glacier Research would like to thank Derrick Msibi for his contribution to this week's Funds on Friday.

Derrick Msibi, CEO at Stanlib Asset Management

Derrick Msibi joined STANLIB Asset Management as the Chief Executive Officer in May 2017. STANLIB is a steward of R569 billion of customer investments in various investment strategies straddling listed and alternative investments. Prior to STANLIB, he was at Alexander Forbes Investments (previously Investment Solutions) which was responsible for R350 billion of clients assets and the leading multi-management firm in South Africa where he served as Managing Director from January 2009. Derrick is a Chartered Accountant with degrees in finance and accounting at bachelors, honours and masters level from the University of Cape Town. He is a holder of the Program for Management Development Certificate from Harvard Business School and a Certificate of Management (a corporate-customised programme) from London Business School.