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JUNE 2016

A STUDY OF TAX-FREE SAVINGS ACCOUNT TAKEUP IN SOUTH AFRICA

A project by

intellidex

Researching Capital Markets & Financial Services

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KEY FIGURES

262,493

TFSA accounts had been opened by institutions between 1 March 2015 and 29 February 2016

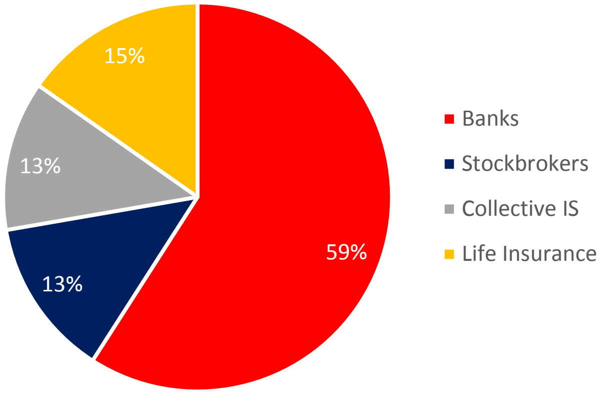
R2.6bn

Of savings were held in these accounts as at 29 February 2016

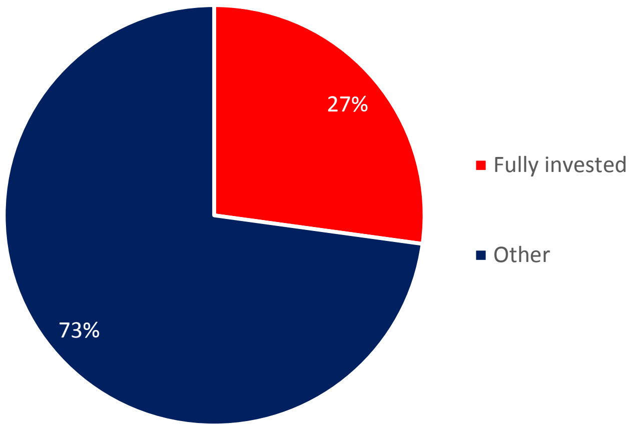
21%

Of accounts opened are estimated to be first-time savers

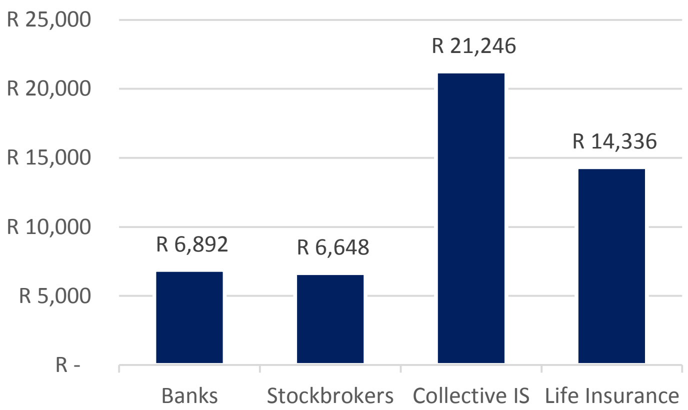
TYPES OF TFSA OPENED
(By percent of assets under management)



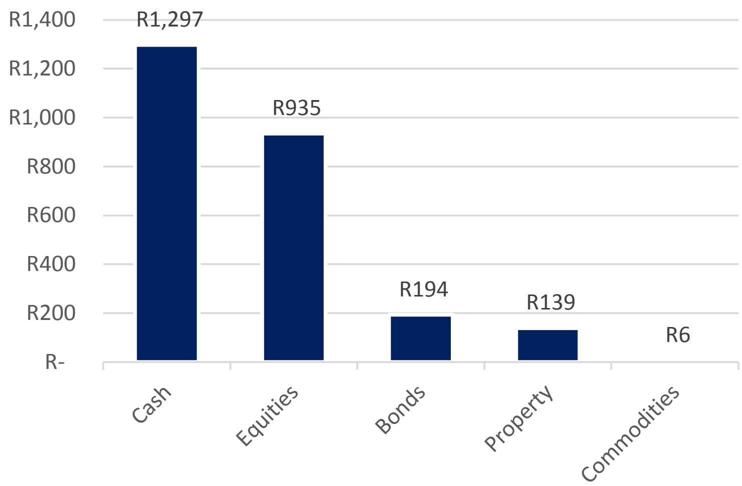
PROPORTION INVESTING FULL R30K ON OPENING



AVERAGE ACCOUNT VALUE BY TYPE



ASSET CLASSES HELD IN TFSAs
(By total assets per asset class type, Rm)



EXECUTIVE SUMMARY

- Headline findings:
    - Respondents believe 21% of the tax-free savings accounts (TFSAs) opened are by first-time savers, indicating that the accounts do have a reasonable effect in galvanising people to become savers. It should be noted that an unknown number of these are held by minors, where parents have effectively donated the balance.
    - Some 74% of the assets held in TFSAs are new to the firms that manage them. Some of these would have accrued to the firms in the absence of TFSAs, however it does indicate that the TFSAs provide a means for firms to attract new assets.
    - Bank accounts represent the largest number of TFSAs with 155,082 opened, representing 59% of the total.
    - One growing point of discomfort with the regulations is the R500,000 lifetime limit. Respondents say this discourages savers from investing now out of fear they may in future need to draw on the savings and thereafter face a reduced limit. Non-bank respondents also say the strong performance of cash accounts is absorbing savers' lifetime limits, curtailing the ability of potential clients to use the accounts for more tax-efficient purposes such as equity investing.

- This is Intellidex's second research project on TFSAs. The first, published in August 2015, covered the first four months of TFSAs. This second report covers the period 1 March 2015 to 28 February 2016 and includes cash deposit/call account figures from all banks whereas last year's survey did not.
- Excluding banks, 107,411 accounts were opened in the 2016 tax year, compared with 35,384 accounts in the first four months. Anecdotally, account closure during the period was minimal. This suggests that the rate of account openings was stable during the year, equating to about 700 per day.
- This study focused on all TFSA providers including stockbrokers, asset managers, banks and life insurers
- There were 27 respondents to a questionnaire sent in April 2016, though some were from different

WHY DID WE CONDUCT THIS RESEARCH?

Tax-free savings accounts (TFSAs) were introduced in South Africa on 1 March 2015. A key objective is to drive a change in savings behaviour by South Africans. At the same time Intellidex launched Savetaxfree.co.za as a supplier-neutral information portal on TFSAs to assist the public in understanding the new regime and identifying potential providers.

We wanted to understand trends in the use of TFSAs by the public and conducted our first survey in August last year. This is our second survey. We will continue to study development of the TFSA market.

divisions of the same firm (eg, banks' cash and stockbroking TFSA offerings)

- We estimate the sample includes more than 95% of the universe by assets and the results are a reliable guide to total market activity
- The main goals of the survey are to assess the impact of TFSAs on savings behaviour in South Africa and on institutions in the investment industry and the products they develop.
- Total assets in these accounts amount to R2.57bn, implying an average account value of R9,785.
- Of the firms that provided data in response to a question about whether the assets in TFSAs were new to the firm or transfers from existing accounts, 74% of TFSA assets were new to the firm (managers of R2.18bn answered the question with no particular bias to firm type), rather than transfers from other savings products.
- Similarly, 71,319 account holders (27%) invested the full R30,000 on opening the account but just 78,045 (30%) had invested the full R30 000 by the end of the tax year. This indicates relatively few users are successfully budgeting to allocate a monthly amount to the account so as to exhaust the allowance by year end. This is despite the fact that 34% of client accounts are funded from a monthly debit order, according to respondents.
- Some 144,622 (62%) of clients held existing accounts with their TFSA provider, implying that 38% of the accounts opened are by new clients to firms.
- The TFSA providers that provided data on how many clients were first-time savers and how many used debit orders believe 42,438 (21%, after rebasing to exclude respondents who did not answer this question) are first-time savers and 87,252 (34%, rebased) accounts are paid through monthly debit orders.

RESEARCH METHOD

The information contained in this report is based on a survey of the universe of TFSA suppliers in South Africa. The universe consists of:

- All registered banks
- All collective investment scheme providers
- All linked product providers
- All registered life insurers
- All equity members of the JSE
- The SA government

Not all eligible institutions have introduced TFSAs to the market. We therefore conducted initial research to determine which institutions are marketing TFSA products. The respondents were the following, although not all respondents answered all questions:

- 22seven
- Absa Bank
- Absa Investment Management Services
- Absa Stockbrokers
- Capitec
- Coronation Fund Managers
- Discovery Life Investment Services
- EasyEquities
- Emperor Asset Management
- ETFSA.co.za
- FNB (cash accounts)
- FNB Securities
- Glacier by Sanlam
- Investec
- MMI Holdings
- Momentum SP Reid
- Nedbank Retail
- Nedgroup Investments
- Nedgroup Private Wealth
- Old Mutual Investment Group
- Old Mutual Life Assurance
- PSG Wealth
- Sanlam
- Standard Bank (cash)
- Standard Bank Online Share Trading
- Stanlib
- Thebe Stockbrokers

Questionnaires were drawn up in Excel format and sent to contacts at the relevant institutions. While most questions were quantitative, we also asked respondents a number of qualitative questions, responses to which we discuss below. In all cases we undertook that specific data provided by institutions would not be distributed, but that only aggregate results would be made public.

The questionnaires were sent out in April 2016 and covered the period 1 March 2015-28 February 2016. Final responses were received in early June 2016.

Not all questions were answered by all respondents, particularly questions on proportion of first-time savers, proportion that already held accounts, and proportion that were fully funded at the start. In such cases we rebased the total to calculate meaningful percentages. We checked whether there was a bias in firm type in the data we had, and could not detect any significant bias.

Some firms, particularly collective investment scheme providers, did not provide a breakdown by asset class. In such cases we used the asset allocation currently within that firms' balanced fund as a proxy for the asset allocation held within TFSAs. This estimation procedure did not apply to many firms and in our view led to reasonable overall results in respect of asset allocations.

OVERALL FINDINGS

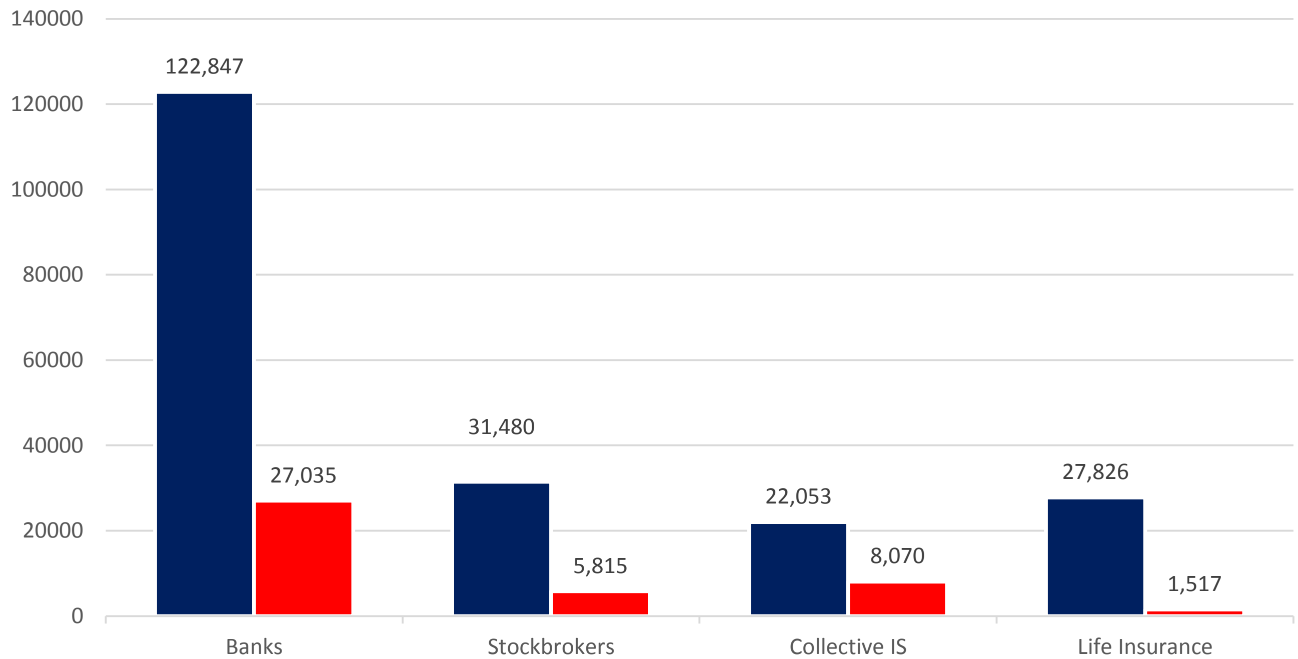
A sum total of 262,493 accounts have been opened by the firms who completed our questionnaire with R2.57bn of assets held in these accounts. This implies an average account balance of R9,785.

Not all firms answered all questions and so we have rebased to calculate proportions where they have not. Of those that answered on amounts invested, 71,319 account holders (27% of the base) invested the full R30,000 on opening the account but just 30% had invested the full R30,000 by the end of the tax year.

The TFSA providers that provided data on how many clients were first-time savers and how many used debit orders believe 42,438 (21%) are first-time savers and 87,447 (34%) are paid through monthly debit orders. Anecdotally we were told that many of the first-time savers are minors, so represent a part of combined family assets for existing savers. It follows that the success in converting non-savers to savers in the existing adult population will be less than the 21% figure implies.

In terms of the number of accounts, broken down by types, the following have been opened:

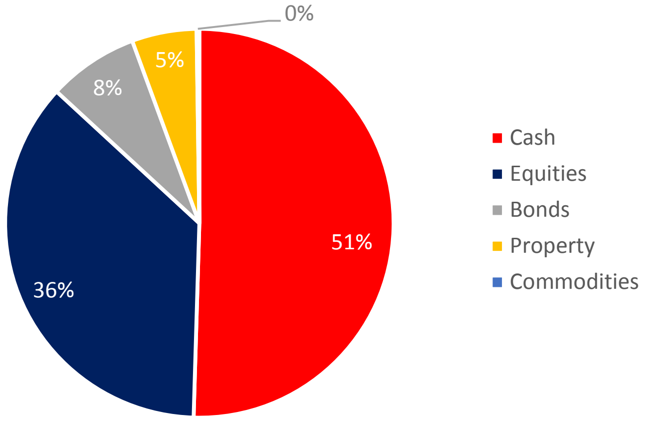
ACCOUNTS OPENED BY TYPE WITH NUMBER OF FIRST-TIME SAVERS
(Includes only those firms which provided data)



**LISP accounts were included as collective investment schemes*

From the point of view of asset classes, the majority of accounts opened have been in the form of deposit accounts held by banks. It follows that the majority of asset classes held in TFSAs is in the form of cash at just over 50%. That is followed by equity as per the graph below.

ASSET CLASSES
(By total assets per asset class type)



The different account types display different dynamics, not least in the average account balances held in the accounts. Because of this, we provide analysis of the data according to provider type in what follows.

CASH TFSAs

Cash-based TFSAs are proving the most popular in the market with 155,082 clients investing a total of R1.07bn. That averages out to R6,892 per account.

A sizeable portion of these have invested the full amount allowed: 46,000 invested R30,000 on opening the account and 51,000 had invested that amount by tax year-end. About 42,000 are paying through monthly debit orders.

The banking institutions believe 26,035 (22% of the base of those banks which answered the question) of these clients are first-time investors while 100,298 (65% of the base) held existing accounts with them.

Investec and Capitec offer fixed-term deposits while Standard Bank and Absa offer call accounts. FNB offers both.

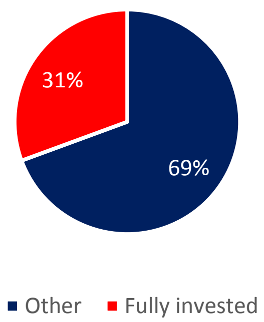
Qualitative feedback

There was near unanimity among the banks in wanting the limits raised. Suggestions included raising the annual limit for individuals aged 65 or over; raising the limit annually in line with inflation and other tax rebates; and simply raising the limit to R50,000.

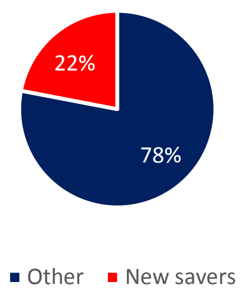
There was some concern expressed about the penalties imposed if a client invested more than the R30,000 limit, described as "quite extreme".

Banks were generally less positive about the impact of TFSAs in terms of generating a savings culture in SA, with most saying it would probably generate some savings. None said it was likely to have a noticeable or very positive impact.

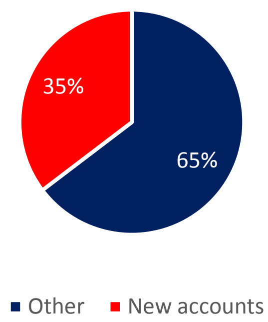
***ON OPENING**
(*full R30 000 limit invested*)



***FIXED DEPOSIT ACCOUNTS: PROPORTION BELIEVED TO BE NEW SAVERS**



***FIXED DEPOSIT ACCOUNTS: PROPORTION OF NEW ACCOUNTS**



*Includes only those firms which provided data

STOCKBROKER TFSAs

TFSA clients are not allowed to invest directly in JSE-listed companies but invest in ETFs that are registered as collective investment schemes or similar pooled investments, such as discretionary managed portfolios of stockbrokers. We included two firms that are not stockbrokers, but provide services similar to ETF-based stockbroker accounts in the universe for stockbrokers.

A total of 34,639 clients have opened TFSAs with stockbrokers with assets totalling R230.3m, giving an average of R6,648 per account. Two providers dominate the market, with several firms having opened a very small number of TFSAs.

All but one stockbroker answered the question on how many were first-time savers. Of those who answered the question, 5,815 clients (18%) are first-time savers while 12,126 (39% of the base) held existing accounts with them. This indicates that stockbrokers have been successful in using TFSAs to attract new clients.

Of the full universe of stockbroking TFSAs, more than 3,000 (9%) invested the maximum annual amount allowed of R30,000 on opening the account, with 6,343 (18%) having invested the full amount by 28 February 2016. More than 3,400 clients invest through monthly debit orders. This indicates that stockbrokers have been more successful than the rest of the market in ensuring that clients stick to a disciplined monthly savings regime.

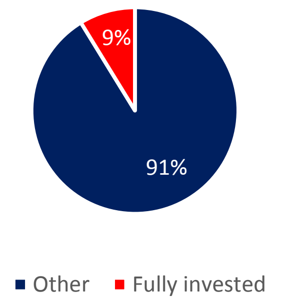
Some 93% of assets held in TFSAs are new assets for the firm, according to brokers who provided this information. That is considerably higher than the rest of the market, supporting the view that stockbrokers have generally been successful in attracting new clients with TFSAs.

Qualitative feedback

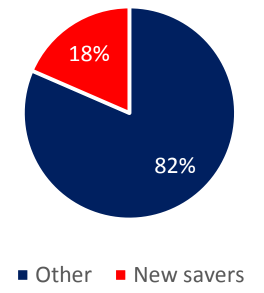
Stockbrokers were slightly more pessimistic about TFSAs this year compared with last year's survey.

***ON OPENING**

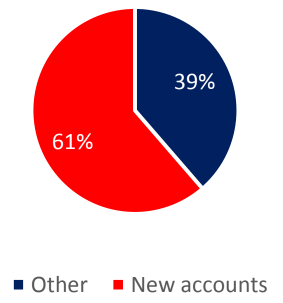
(*full R30 000 limit invested*)



***STOCKBROKER ACCOUNTS: PROPORTION BELIEVED TO BE NEW SAVERS**



***STOCKBROKER ACCOUNTS: PROPORTION OF NEW ACCOUNTS**



*Based only on those firms which provided data

There was a strong call for more education on the benefits of tax-free savings and on saving generally, and specifically on the value of an equities-based tax-free "investment" account (with multiple sources of tax waived) over a cash-based tax-free "savings" account (with only interest earned on a tax-free basis). One broker says the field is loaded in favour of the banks, which have "a major captive market of existing banking clients, but by channelling them into savings products, the full benefit of the tax-free dispensation is not utilised, and over the long term, as long as we have negative real interest rates, savers will get poorer in real terms. Every rand put into a savings account reduces the lifetime [limit] available for investment accounts."

One major broker says TFSAs are not as successful as they could be because South Africans still do not have a culture of saving. It noted that account applications had risen strongly initially but tapered off due to the economic climate.

Most brokers made no comment on whether the limits should be raised but one stated: "Rather than simply raising the limit, we would like to see TFSAs and the legislation be more flexible in order to promote saving over longer time periods."

However, they remain reasonably positive about TFSAs achieving National Treasury's primary goal of fostering a savings culture in SA. Half of them say TFSAs will "probably generate some savings", 17% think they are likely to have a noticeable impact and a third believe they will have a "very positive impact on savings".

COLLECTIVE INVESTMENT SCHEME/LISP TFSAs

A total of 32,712 clients have opened TFSAs investing in collective investment schemes thr ough asset managers and linked investor service providers (Lisps).

Clients investing through these vehicles are investing the largest amounts. Total assets in the category amount to R695m, averaging out to R21,246 per account, making this the category with the highest average balance. This category is likely to include many clients who are being advised by financial advisors with TFSAs being incorporated into a larger savings plan and fewer self-directed clients. Some 44% of clients invested the full amount on opening the account.

Fund managers believe 18.5% are first-time savers, while 33% held existing accounts with the asset manager. In all, 46% of clients invest through monthly debit orders – significantly higher than stockbrokers but lower than life insurance policies.

Qualitative feedback

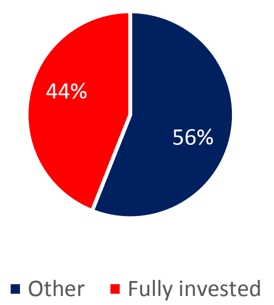
The majority (62.5%) believe TFSAs are likely to have a “noticeable” or “very positive” impact in promoting a savings culture in SA while one respondent felt they would make no difference. CIS providers are therefore the most positive about the impact of TFSAs on savings.

Most TFSA providers in this category were non-committal on the limits, but one firm recommended that the annual limit be reviewed every three to five years in line with inflation, rather than annually, because limit changes result in costs to the providers in terms of application forms, marketing material and staff training.

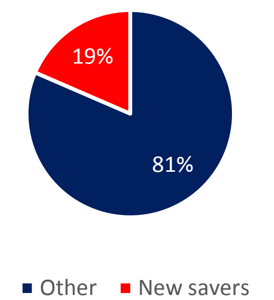
Another did call for the lifetime limit of R500,000 to be increased because some investors are nervous to invest into a TFSA in case they need to access funds in the next few years, thereby reducing their lifetime limit without being able to “replace” the amount.

One asset manager believes that most people who need access to TFSAs have yet to be exposed to them. “At this stage, we find that most people who are interested in these products are already aware of the importance of saving. Those who need it the most will find it difficult to reach the limit of R30,000.”

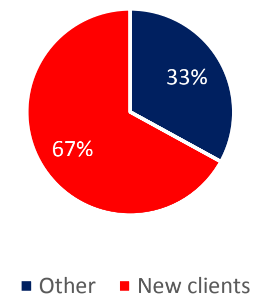
***CISs: ON OPENING**
(*full R30 000 limit invested*)



***CISs: PROPORTION BELIEVED TO BE NEW SAVERS**



***CISs: PROPORTION OF NEW ACCOUNTS**



*Includes only those firms which provided data

LIFE INSURANCE POLICY TFSAs

The high number of TFSAs within a life insurance wrapper, at 40,060 second only to cash accounts, reflects the distributional strength of the large life insurance companies. About three-quarters use monthly debit orders. Total assets amount to R574.3m, averaging R14,336 per account.

A total of 7,755 clients (19%) invested the maximum R30,000 on opening the account while 8,792 had invested the full amount by 28 February 2016. Just 6% are believed to be new savers, indicating that the life insurance product is more popular in the established savings market. Over 76% pay through debit orders, the highest of all account types, as can be expected given than the accounts are serviced through regular premiums.

Life insurance TFSAs have unique features in that they provide for some protection from creditors in the event of insolvency and tax advantages in the event of death. Proceeds to named beneficiaries are excluded from the deceased estate for the purposes of estate duty. While life insurers tend to offer both unit trust and life-wrapper TFSAs, so far life wrappers have proven far more popular.

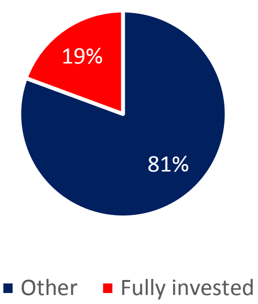
National Treasury is acting to remove the estate duty benefits of life-based TFSAs, in one of the only amendments so far to the regulations since their introduction. In the 2016 budget review, Treasury described this as an unintended consequence of the TFSA regulations. However even after this amendment, life wrappers will have a cost benefit in that they will lessen the size of the estate for the calculation of executor fees.

Qualitative feedback

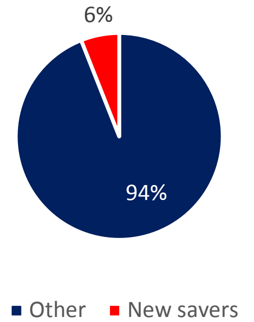
Life insurers provided limited feedback. One made a strong call for limits to be raised if TFSAs were to make a "real impact", noting that the annual limit in the UK was close to half SA's lifetime limit. "While I appreciate that the British environment is different to the SA one, we still need to be doing everything to encourage people to invest for the long term, and this product seems to be doing that." In contrast, another company said its clients had raised no significant views in relation to the limits.

None of the insurers believed TFSAs would have a "very positive impact" in promoting a savings culture.

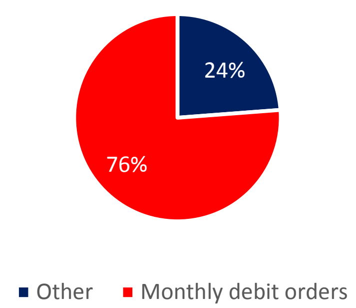
***LIFE POLICIES: ON OPENING**
(full R30 000 limit invested)



***LIFE POLICIES: PROPORTION BELIEVED TO BE NEW SAVERS**



*LIFE POLICIES: PROPORTION WITH MONTHLY DEBIT ORDERS



*Includes only those firms which provided data

MORE INFORMATION

Intellidex undertakes commissioned research to assist financial service providers' strategies. Please contact Colin Anthony by email canthony@intellidex.co.za or call 010 072 0472 for more information

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