THE ONLY SOURCE YOU NEED ON TAX-FREE SAVINGS ACCOUNTS

July 2017

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

A project by

Researching Capital Markets & Financial Services

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KEY FIGURES

459,848 *of which* **207,172**

tax-free savings accounts have been opened since inception in March 2015

are new accounts opened between 1 March 2016 and 28 February 2017

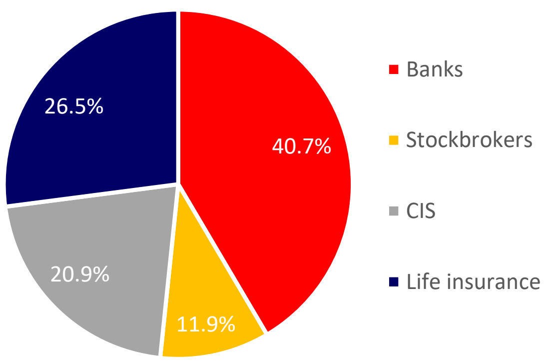
bringing total savings as at 28 February 2017 in all accounts to

R5.174bn

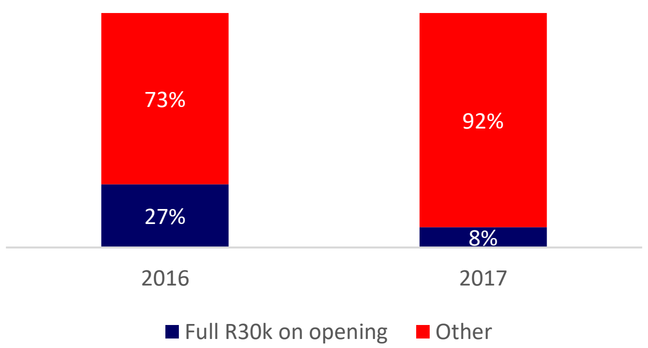
implying an average account value of

R11,251

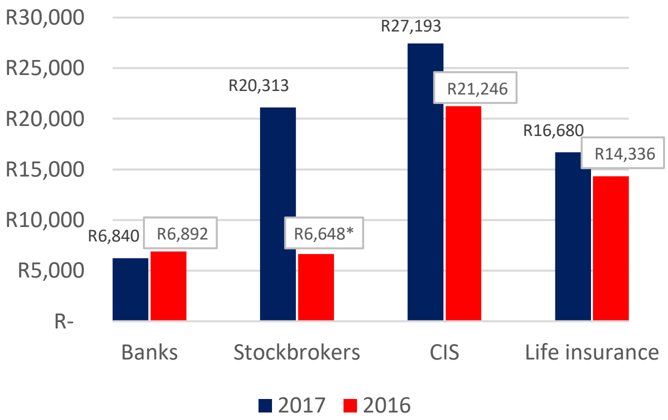
TYPES OF ACCOUNTS OPENED
(By percent of assets under management)



PROPORTION INVESTING FULL R30K ON OPENING

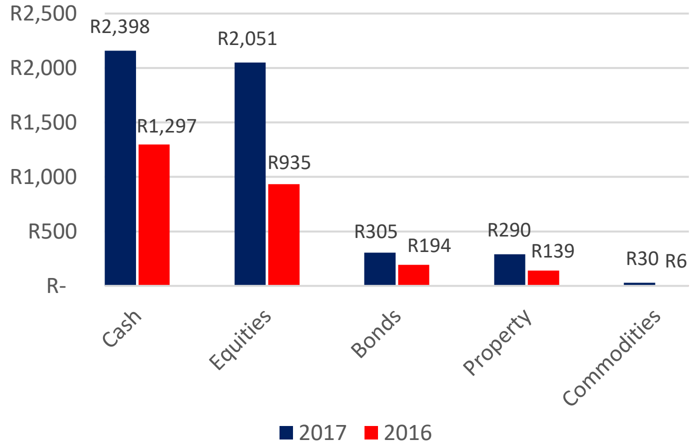


AVERAGE ACCOUNT VALUE BY TYPE



The stockbroker year-on-year figures are not directly comparable (see methodology page 4).

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



EXECUTIVE SUMMARY

- **General:**
  - This study focused on all TFSA providers including stockbrokers, asset managers, banks and life insurers. A total of 26 respondents participated in a questionnaire sent in March 2017, though some were from different 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.
  - This is Intellidex's third survey of TFSAs. The first, published in August 2015, covered the first four months of TFSAs. The second covered the period 1 March 2015 to 28 February 2016. This third report covers the period 1 March 2016 to 28 February 2017.
  - 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.

- **Headline findings:**
  - A total of 207,172 accounts were opened in the 12 months to end-February 2017 (averaging 567 accounts a day), bringing the total number of TFSAs opened since inception in March 2015 to 459,848.
  - Total assets in these accounts amount to R5,174bn, implying an average account value of R11,251.
  - The net number of accounts opened (after incorporating accounts closed) rose by 39% from the previous year.
  - Respondents believe that 13% of TFSAs opened in the year to end-February 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.
  - About 70% of the assets held in TFSAs are new to the firms that manage them (rather than being transferred from existing investments). While some of these would have accrued to the firms in the absence of TFSAs, it does indicate that the TFSAs provide a means for firms to attract new assets.
  - Of the 207,172 new accounts, 157,331 (76%) of clients held existing accounts with their TFSA provider.

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 2015. This is our third survey covering the 2017 tax year. We will continue to study development of the TFSA market.

METHODOLOGY

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:

- 28E Capital
- Absa Bank
- Absa Investment Management Services
- Absa Stockbrokers
- African Bank
- Coronation Fund Managers
- Discovery Life Investment Services
- EasyEquities
- Emperor Asset Management
- ETFSA.co.za
- FNB Cash Investments
- FNB Investments
- Glacier by Sanlam
- Investec
- MMI Holdings
- Nedbank Retail
- Nedgroup Investments
- Old Mutual Investment Group
- Old Mutual Life Assurance
- PSG Wealth
- Sanlam
- Satrix
- Standard Bank (cash)
- Standard Bank Online Share Trading
- Stanlib
- Thebe Stockbrokers

Questionnaires were sent to contacts at the relevant institutions. While most questions were quantitative, we also asked respondents some qualitative questions. We discuss these responses 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 March 2017 and covered the period 1 March 2016 to 28 February 2017.

Not all questions were answered by all respondents, particularly questions on the proportion of first-time savers, the proportion that already held accounts, and the proportion 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, and could not detect any significant bias.

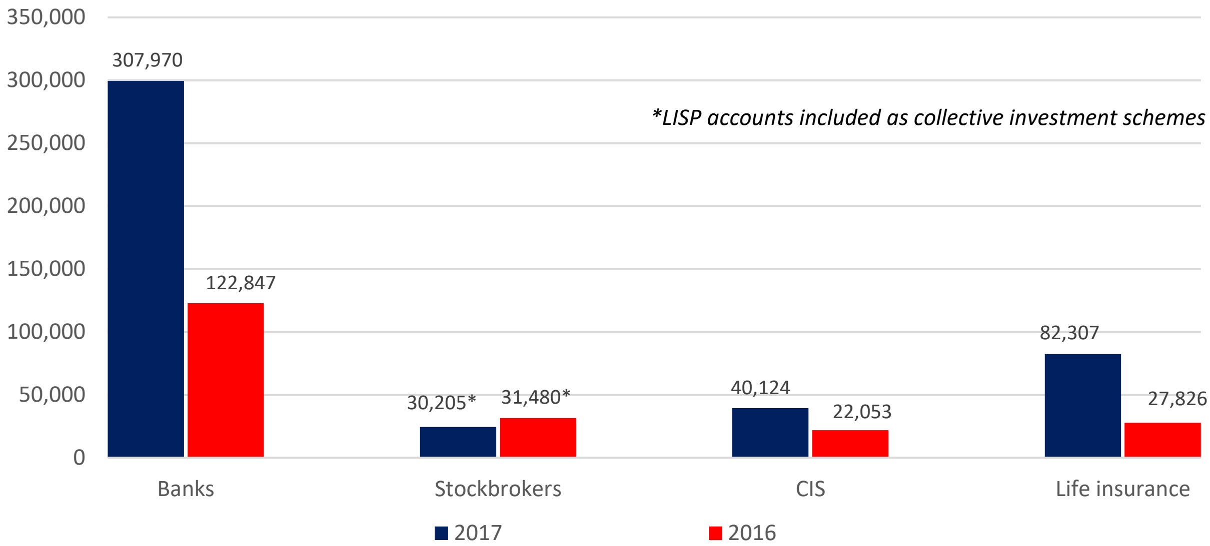
Some firms, particularly collective investment scheme providers, did not provide a breakdown by asset class. In such cases we used the asset allocation currently within that firms' balanced fund as a proxy for the asset allocation held within TFSAs. This estimation procedure did not apply to many firms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

Stockbroker account figures

In relation to the number of stockbroking accounts, the year-on-year figures are not directly comparable due to a change in the question. In last year's study we asked for total number of accounts opened, but discovered that many TFSAs were opened but lay dormant. This year we asked specifically for the number of accounts opened in which at least one deposit had been made.

OVERALL FINDINGS

ACCOUNTS OPENED BY TYPE
(includes only those firms that provided data)

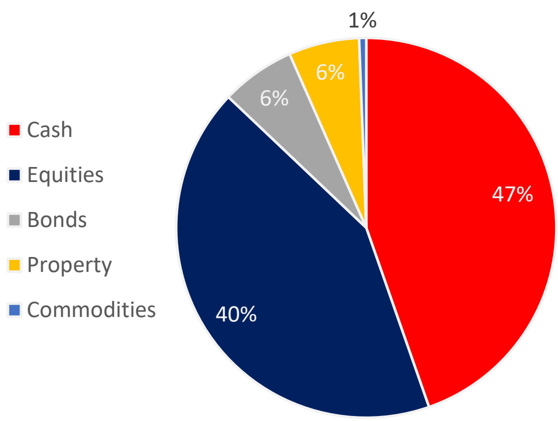


**The stockbroker year-on-year figures are not directly comparable (see methodology page 4).*

- With a total of 207,172 new accounts opened in the year to 28 February 2017, banks' cash TFSAs continue to dominate the market. The major asset class held in TFSAs is in the form of cash at just over 47% (from 51% the previous year), followed closely by equities, which rose from 36% to 40%.

- This is causing some consternation in that interest rates are low, so real returns are negligible or even negative. Respondents also point out that banks have a huge advantage in that they have an extensive client base from which to mine for tax-free accounts, and they already have those clients' Fica registrations on hand, making it far easier for them to open new accounts.

ASSET CLASSES
(By total assets per asset class type)



- Furthermore, there already is a tax exemption for interest earned on cash savings, subject to limits that would easily accommodate cash balances that could be saved in a TFSA.

- However, the other asset classes have seen strong growth in average account balances compared with banks.

- Total equities under management more than doubled to over R2bn. Similarly, the average value of CIS accounts grew by 29% to R27,452, while that of life insurance accounts rose by 16% to R16,680. In contrast, the average account value for bank balances barely changed.

- The average value in each stockbroker account is R20,313, but this cannot be compared with last year's figure, which included a large number of dormant accounts.

- A total of 49,841 TFSAs, or 13% of all accounts, have been opened by first-time savers since inception. It is important to bear in mind that National Treasury's goal in introducing tax-free savings is to improve South Africa's weak savings culture, particularly among lower- to middle-income groups. In that light, the number of accounts opened by first-time savers is closely watched. Treasury should be reasonably happy that the process is succeeding, although more middle- to upper-income groups are clearly capitalising on the opportunity. But with SA's high unemployment rate these figures are encouraging.

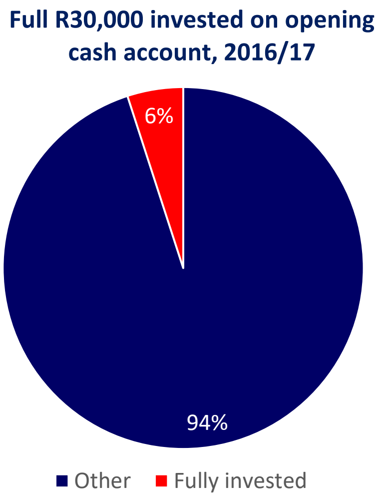
- Adding weight to the argument that the annual limits are not serving as a hindrance to low-income earners, only about 8% of new accounts invest the full amount on opening the account.

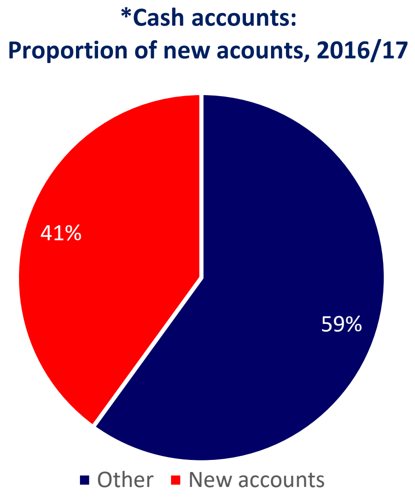
CASH TFSAs

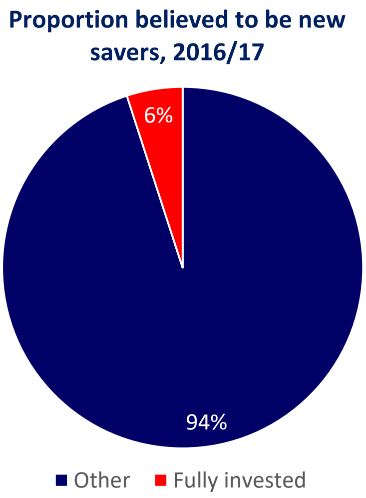
Cash-based TFSAs are proving the most popular in the market with 307,970 clients (125,017 of those opened in 2016/17) investing a total of R2,107bn. That averages out to R6,841 per account.

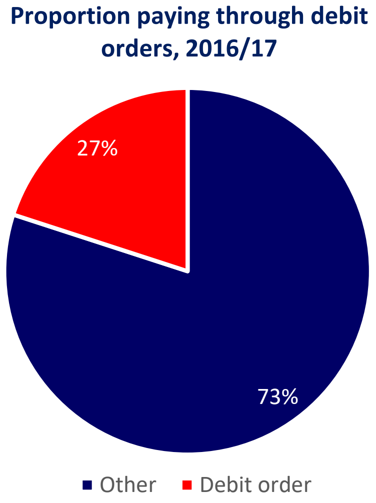
While 41% are new accounts, the banking institutions believe 31,769 (6%) of these clients are first-time investors. Investec, Capitec and African Bank offer fixed-term deposits while Standard Bank, FNB and Absa offer call accounts.

A relatively small portion of these have invested the full amount allowed: 18,321 (6% of total accounts) invested R30,000 on opening the account and 21,413 (7,5% of total accounts) had invested that amount by tax year-end. Nearly a third of account holders (83,779) are paying through monthly debit orders.









STOCKBROKER TFSAs

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

A total of 30,205 clients have opened TFSAs with stockbrokers (14,928 of those in the 2016/17 tax year) with assets totalling R614m, giving an average of R20,313 per account. Three providers dominate the market, with several firms having opened a very small number of TFSAs. As noted in the methodology section above, year-on-year comparisons are not applicable.

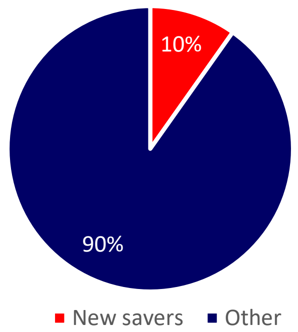
All but five stockbrokers answered the question on how many were first-time savers (in 2016/17). The respondents say 2,910 clients (about 10% of all stockbroker accounts) are first-time savers while 12,018 (49%) held existing accounts with them.

Stockbrokers who responded say that 2,257 (8%) TFSAs invested the maximum annual amount allowed of R30,000 on opening the account in 2016/17, with 10,489 (38%) having invested the full amount by 28 February 2017.

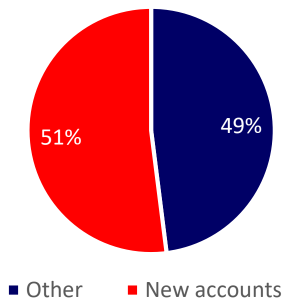
Close to 8,400 (31%) of these clients invest through monthly debit orders. This indicates that stockbrokers have had more success than the rest of the market in ensuring that clients stick to a disciplined monthly savings regime.

About 91% of assets held in TFSAs are new assets, according to brokers who provided this information.

Proportion believed to be new savers, 2017



New versus existing stockbroker accounts, 2017



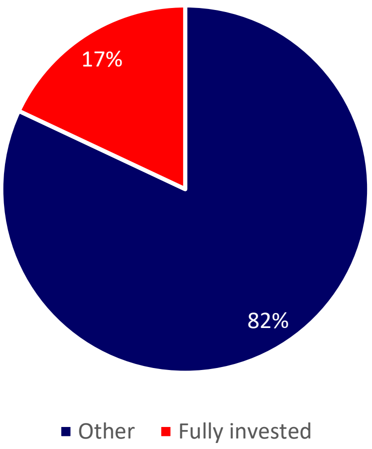
COLLECTIVE INVESTMENT SCHEME/LISP TFSAs

A total of 40,127 clients have opened TFSAs investing in collective investment schemes through asset managers and linked investor service providers (Lisps), with 18,629 (46% of total accounts) of those opened during the 2016/17 tax year.

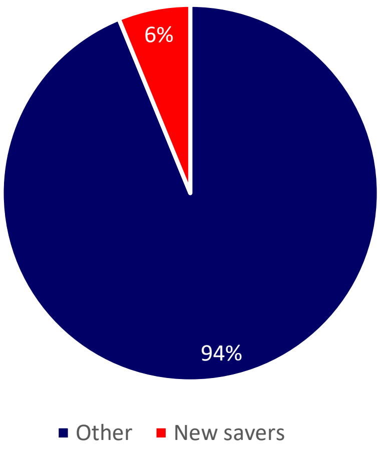
Clients investing through these vehicles are still investing the largest amounts. Total assets in the category amount to R1,091bn, averaging out to R27,193 per account, making this the category with the highest average balance. This category is likely to include many clients who are being advised by financial advisors with TFSAs being incorporated into a larger savings plan, and fewer self-directed clients. About 17% of new clients invested the full amount on opening the account.

Fund managers believe 6% are first-time savers, while 40% held existing accounts with the asset manager. In all, 36% of clients invest through monthly debit orders – significantly higher than stockbrokers but lower than life insurance policies. With 966 accounts closed so far, these accounts have been the least affected by the relative ease of access clients enjoy with these accounts.

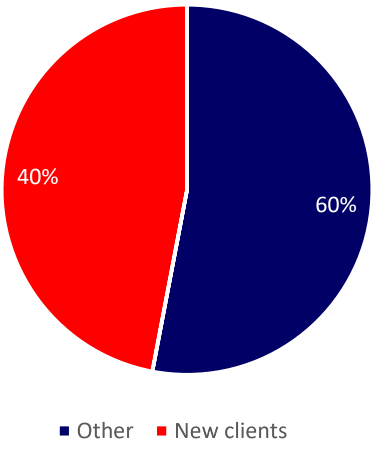
Full R30,000 invested on opening, 2017



Proportion of new savers, 2017



New versus existing CIS accounts, 2017



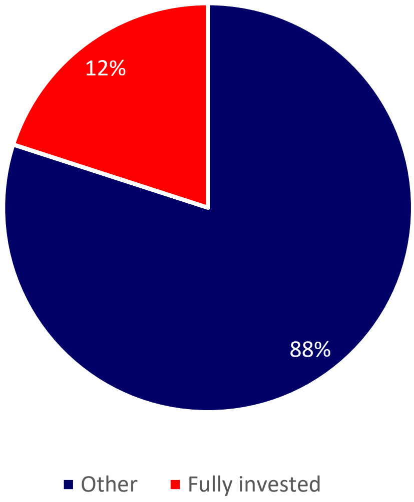
LIFE INSURANCE POLICY TFSAs

The high number of TFSAs within a life insurance wrapper, at 82,307 overall, second only to cash accounts, reflects the distributional strength of the large life insurance companies. Just under 55% use monthly debit orders. Total assets amount to R1,373bn, averaging R16,680 per account.

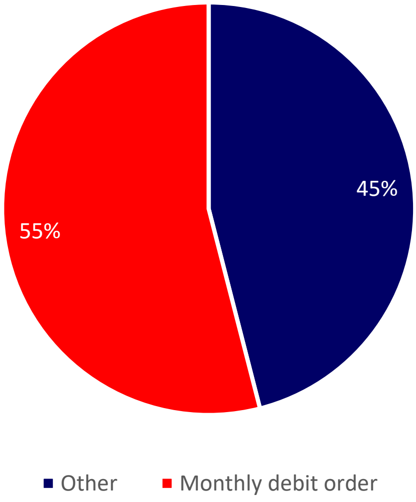
A total of 9,793 clients (12% of accounts) invested the maximum R30,000 on opening the account, while 18% had invested the full amount by 28 February 2017. A notable 15% are believed to be new savers, the highest among all the categories. About 54% of policy holders pay through debit orders, the highest of all account types, as can be expected given than the accounts are serviced through regular premiums. A total of 8,246 accounts have been closed since inception.

Life insurance TFSAs have unique features in that they provide for some protection from creditors in the event of

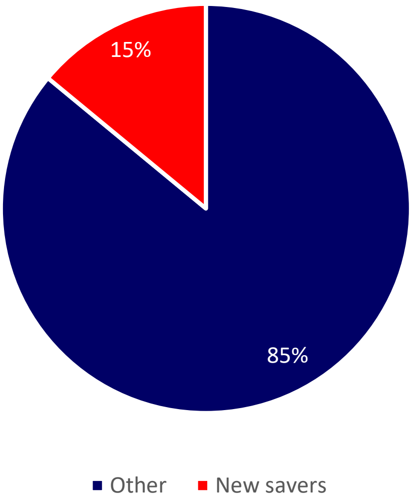
Full R30,000 invested on opening live policy TFSA, 2016/17



Proportion of life policy TFSAs paid via monthly debit orders, 2016/17



Proportion of new life policy TFSAs believed to be new savers, 2016/17



insolvency and tax advantages in the event of death. Proceeds to named beneficiaries are excluded from the deceased estate for the purposes of estate management fees. While life insurers tend to offer both unit trust and life-wrapper TFSAs, so far life wrappers have proven far more popular.

QUALITATIVE FEEDBACK

- Respondents have welcomed the hike in the annual limit to R33,000 from R30,000, particularly as the increase exceeds the inflation rate. However, most say it is likely to have a marginal impact at best, with some saying it is not enough in terms of client demand. One firm summed up the situation: "For higher net worth individuals the R33,000 limit is too small. However, lower-income groups have not been able to fully utilise their annual limits."

  Supporting their view is the fact that since inception, only 37,192 account holders (8.1%) have invested the full R30,000 on opening the account and just 53,361 (12%) had invested the full R30,000 by the end of the tax year (post the survey, the annual limit was raised to R33,000 a year). This indicates that the ceiling is no hindrance to low-income earners, and that 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.

  One respondent spelt out the benefits of the higher limit over the long term: "The higher annual limit is positive for clients. To illustrate, for a parent saving for a child's education, maximising the full R30,000 limit would have saved an approximate R983,000 from the time the child is born to when they turn 18 (assuming rate of growth in line with inflation at 6%). An additional R3,000 would result in a cumulative R1,081,000 after 18 years. So, the additional amount can in this instance add R98,000 to savings over the 18-year period. If this is communicated well enough, it should encourage client demand."

  One bank, however, believes it is the lifetime limit of R500,000 that is the biggest barrier to entry for TFSAs: "Investors that may need to access their cash in a few years' time are reluctant to contribute to TFSAs as doing so will reduce their lifetime limit and if they do access their cash thereafter, they will not be able to replace the cash without further reducing their lifetime limit." The bank pointed out that the UK's equivalent, the individual savings account, has no lifetime cap. "Therefore, investors are able to put all liquid cash into an ISA. SA should either scrap the lifetime cap or at least increase it."

- The dividends withholding tax was raised from 15% to 20% in this year's National Budget, and 60% of respondents reckon the hike will increase demand for TFSAs.

- There were strong calls from market players for improved education around TFSAs as well as for more marketing of the product, particularly focusing on the importance of saving. One respondent said the government and industry needed to work together to promote those two aspects.

- Educational efforts should focus also on the difference between tax-free savings and tax-free investments. One respondent said: "The extent to which interest-bearing accounts (ie, savings accounts) effectively "waste" the tax-free allowance, as the amount of interest earned is below the minimum taxable threshold anyway. Added to this, banks are at a significant advantage to other providers of tax-free accounts as they do not need to Fica clients again before opening a tax free savings account for them, whereas "new" tax-free providers have an onerous regulatory burden."

- Similarly, another respondent suggested a different class of tax-free account for investments: "A clearer distinction needs to be made between the bank-type TFSA products versus the investment/brokerage products, which are investments rather than savings. The universal TFSA leads to a lot of clients thinking that the account is a savings account that pays interest. In an investment context, we are dealing with investments in equity products and so an acronym like TFIA (tax-free investment account) would lead to a clearer understanding of the fact that they are quite different animals."

- Other concerns related to improving the ease of transfers across institutions to enable customers to more effectively manage their funds, and a review of the penalty charges levied by the South African Revenue Service.

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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