Empowering the Filipino Saver

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The Philippine has a very low savings rate (as percentage of GDP) in the ASEAN region compared specifically to Thailand, Malaysia, Indonesia and Singapore. This is surprising as Overseas Filipino Workers (OFWs) alone already remitted 8.5 billion dollars to their families in 2004. Savings are key to our country's development as these are a major source of productive investments that will generate more output and employment. But what are the major reasons why savings have not been mobilized?

Economists often pinpoint the underdevelopment of the financial market as the key culprit for this low savings rate. Some often also argue that a big percentage of the population is below the poverty threshold or earning very low incomes and thus, savings will necessarily be small. While admittedly, the Philippines has lagged behind the ASEAN pioneers in the development of financial markets and has a small upper and middle classes, a major stumbling block really is the lack of information on the importance of savings and the availability and access to the various instruments among the general public. In fact, studies have shown that even the poor sectors have savings in various forms.

Let us look at a typical middle class saver. More often than not, his or her savings will be in the form of a time deposit in one of the major banks. Unfortunately, the interest rates of such instruments (probably ranging from 5 to 7.5%), especially the smaller ones are very low and not even enough to cover the current inflation rate of 8 to 8.5%. Worse, small depositors only place their hard earned money in savings deposits whose yields are even lower. The relatively more fortunate ones i.e. the bigger savers are able to put their surplus into "trust funds". Before, these were called "common trust funds" or CTFs and were higher yielding than the typical time deposits. The caveat though was that these instruments were not covered by the Philippine Deposit Insurance Corporation (PDIC). And that information on where the funds were invested was not transparent to the saver. More recently, the Bangko Sentral ng Pilipinas (BSP) has mandated banks to convert these into the more transparent "Unified Investment Trust Funds" (UITF).

Often times, though, information about varying instruments, their interest rates (which depends on how much you are willing to save or invest and the time it would be locked up) and the risks involved in such are not freely given. Thus a saver usually ends up with the low yielding, low risk time deposits of banks. One should really not wonder why the banks enjoy very wide profit margins. The interest rate differentials between savings and lending rates remain high despite the liberalization of the industry implemented almost a decade ago. OFWs for example, may not even know that there are savings instruments available in currencies other than the peso. Banks often times earn a lot from currency conversions (the host country currency into peso) as exchange rates fluctuate widely. For example, there are banks that offer time deposits or trust funds in dollars, euros or pounds.

The typical saver is also unfamiliar with more high yielding non-bank instruments like company stocks listed in the Philippine Stock Exchange, government treasury bonds and mutual funds share. An individual can buy or sell shares of stocks through an authorized broker. Profits are made when a saver is able to sell the shares when the price has gone up. Government treasury bonds are risk free

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high yielding instruments but usually have long lock up time e.g. five years. A mutual fund is a company that pools money from many savers, then invests them in a portfolio of stocks, bonds, short-term money-market instruments, other securities or assets, or some combination of these investments. Mutual fund companies, however, often lament that the playing field in attracting savers favors the more organized banking industry. There is a need to enhance competition among these providers, banks and non-banks, such that savers are able to access higher yielding and lower risk instruments.

Of course, also ingrained in the information problem is the promotion of a "saving culture". Given the consumerist slant of globalization today, the increasing power of advertisements, the easy access to credit cards and many others, households are enticed to spend their incomes rather than "save for a rainy day". Sometimes too, their saving and investment decisions are not based on sound judgment as they are prone to place their funds in pyramid scams or mismanaged pre-need and insurance firms (e.g. educational plans). Thus, financial literacy i.e. orientation seminars and public campaigns on the importance of savings at the household, firm and national levels must be implemented widely. Fortunately, key players in the financial market like the BSP, the PSE and the Securities and Exchange Commission are very keen to support such a program. There should also be increased awareness and information among potential groups of savers of the wide range of choices for savings so that they can maximize their returns and minimize their risks. A multi-stakeholder effort to empower the Filipino saver will not only promote the welfare of the individual households but the also the entire economy.