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AUHF conference 2013: Mobilising capital for housing finance
Mauritius, 11-13 September 2013

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Address

Dear ladies and gentlemen,

It is a great honour and privilege for me to address the words at this year's conference as President of the International Union for Housing Finance.

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The International Union has played in its 99 years long history an important role in sharing and distributing knowledge on housing finance. It is worthwhile to keep up this mission by putting an even stronger emphasis on an extensive collaboration with regional associations like the African Union for Housing Finance. We need to further strengthen our cooperation and therefore I would be very happy to listen and respond to your needs and expectations that you place on an international union for housing finance.

Introduction – the importance of saving

But let's turn to the topic of my speech now: saving – and why it is important.
Every day, many people get up and believe in miracles. But I am not talking about the people you might have in mind now. I am talking about the people working in the finance industry who apparently often believe that money comes from the capital markets or the central bank. But that is just as true as the belief that electricity comes from the socket. In fact, an essential principal of economics is too often forgotten: That every investment, every new loan must be matched by savings – coming either from national or international savers.

Many "experts" neglected that topic as "saving" does not make hearts beat faster, saving is just boring. Furthermore, small savers have often been perceived as an uneasy and not profitable clientele. However, private households are responsible for a substantial part of the savings in both developed and developing economies.

Saving – a source of wealth for individuals and nations

[FOLIE 4]

Yes, Ladies and Gentlemen – I think it is safe to say – that your and my wealth is due to the fact that you and your fellow countrymen save. This is why saving should be of all our concern. Saving regularly is a sustainable and safe way to wealth for both the nation and the individual. Saving generates wealth over time. People save because they want to put money aside for emergency purposes or their retirement, but also because they want to buy a house and need equity for that. In the case of developing countries, savings provide an important financial safety net for poorer households in cases of emergency. It also plays here a critical role in financing productive activities and can foster microenterprises. At the macroeconomic level, savings can trigger sustained economic growth. Evidence also shows that the accumulation of savings helps to create a domestic capital base that makes economies less dependent on foreign capital and more resistant to capital market and currency fluctuations.

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The example of China – emergence through private saving

Take for instance China and its phenomenal economic growth since the 1980's. Many believe that exports were the driver of growth. But China ran deficits in the 1980s before turning into relatively small surpluses until 2004. Only from 2005 onwards there is a surge in the current account surplus. Thus, if China's growth appears not to be explicitly led by exports what was then the reason? The answer is: investments! Investments that have primarily been funded by internally generated savings because the capital account in China is essentially closed, especially in terms of financial capital. And household saving has been and continues to be the largest piece of gross national saving. China's high growth and emergence in the world economy has been made possible in part by the willingness of its households to save a high fraction of their income.

This is why we should care about the mobilisation of savings of the small private savers – for developing countries it might be the key element for economic growth and prosperity, for developed countries it might play an important role for financial stability and the protections of existing wealth.

How we can mobilise savings

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The wealth of households and the wealth of nations are apparently interlinked and saving plays an important role in this connection. The essential question is how we can make saving a more desirable "product" given the super-low interest rates that prevail and an overabundance of consumption options. But especially in developing countries there is another obstacle: the lack of a vigorous savings mobilisation policy by the financial industry. Only a combination of factors like proximity, accessibility, attractive products and services as well as safety will offer a key to the success in mobilising savings deposits. It is up to the government to support these efforts, they have a key role in setting the right incentives and in creating conducive institutions that foster a saving culture. We can think of many instruments to reach this goal ranging from marketing campaigns, through the institutional design of the social security and financial system, to paying a bonus for households that save.

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The link between deposits and housing

[FOLIE 8]

But what makes saving and deposits especially important for housing, housing finance, and affordability? There are at least three reasons for that:

First, deposits – especially retail deposits of small savers – are one of the major sources for mortgage finance which comes without surprise as it usually is relatively cheap funding channel.

Second, deposits have proven in the global financial crisis to be a comparatively stable funding source.

Third, low levels of savings undermine household affordability for housing. Poor households – you for sure agree with that – usually operate on the edges of their affordability. What choice do these poor households without any savings have if they want a mortgage? They are stuck between a rock and hard place. Either they do not take a loan at all – or they have to take very high loan-to-value mortgages. Of course, high LTV mortgages create risk concerns for lenders, and this is reflected in the premium applied on interest rates. This of course decreases affordability and puts these vulnerable borrowers at an extra risk – as 100% mortgages mean because of the high leverage already a lot of risk for the borrower. We would never recommend this to someone with low or medium income.

[FOLIE 8]

Mobilising pension assets for housing finance

Sometimes the savings do exist already but they are not put to use. In many countries exist saving vehicles that have accumulated a large bulk of private savings: pension funds - be they public or

private. However, a good strategy how to use these assets for financing housing needs is often missing.
Basically, there are two strategies how these assets could be used to finance housing. First, the end-user could be target or, second, the pension funds could invest into the housing market.

Let's talk about the end-user models first. Using your own pension assets for buying a house – thus transferring the "pension in money" to a "pension in stones" – seems to be evident as the own house saves rental payments when retired. Allowing for the full or partial withdrawal of pension assets for the purchase of a house is probably the most simple and straightforward possibility to use pension assets for housing. But there are more possibilities: pension funds could provide guarantees for members to take out loans from a third party, or the pension funds could offer themselves mortgage products on the market – for members and non-members.
The assets of pension funds can be also channeled into the housing market without targeting the end user – either by using direct investments in housing developments, or by acquiring equity and purchasing debt or other investment vehicles. Almost all pension funds have real estate investments in their portfolio. And although real estate is usually the favourite "alternative asset" of pension funds their aggregate investment in it is usually only about 5 per cent. This comes without surprise as pension funds usually invest mostly in low-yield but safe "core-assets''. However, studies considering the situation in developed financial markets found that most efficiently diversified balanced portfolios have real estate investments in the range of 10 to 15 per cent of total assets. So there is an upward though limited potential – but this potential can be only used if the asset class real estate is considered by the pension funds as predictable and if risk is tamed. For that, not only the right investment vehicles must be in place but government policies should also care for the stability of the housing market.
Given the fact that pension funds prefer to invest in "core assets", it is also sensible to consider the creation of an asset class that channels funding to the housing market and is at the same time a "core asset". In Europe, we have made good experience with the Covered Bond for instance. But it requires good and strict regulation.

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Bausparen – a tailor-made product for saving for housing

But let's return to the normal customer. Mobilising private savings for housing purposes is best done if the right product is in place, a product that links the savings with a housing loan. Bausparen, for example, is a tailor-made product for saving for housing: first coin for coin, then stone for stone. Bausparen links a saving phase to the right to receive a housing loan. The interest rate of this loan is usually below the market rate and predetermined at the time of the conclusion of the contract. The loans are of course with fixed interest rates and in local currency. The basic principles of Bausparen are based on cooperative values and ideas of self-help, self-responsibility and solidarity and are therefore perfectly suited for developing countries.

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You can split the Bauspar process into three distinct stages:

1. The savings period: Usually 40 to 50 % of the contract sum is saved in monthly installments and thus allocated to the collective of savers.
2. The allotment: In Germany, the customers save for five or six years, before a loan offer is made. Once the customer has completed the savings period, the customer is entitled to get a loan. The size of the loan usually consists in the difference between the contract sum and the amount saved. Since the Bauspar system is managed as a closed collective fund scheme, the Bauspar institutions refinance the loans they provide to their customers via previous savings and customers' loan repayments.
3. The loan period: The customer repays the loan on the basis of the agreed and fixed interest rate.

Advantages of Bausparen in a nutshell

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In general, saving for housing comes with many advantages for the borrower, the lender, the financial market and the government. Bausparen helps to save up private equity for the down payment which reduces the risks – for both borrower and lender. As it is also a comparatively cheap and stable source of long-term funding in local currency, the Bauspar system helps to lower interest rates for housing loans. In effect, housing and housing finance become more affordable!

Last but not least, saving for housing and reduced leverage in the financing process have benefits for the whole economy as well. It helps to tame house price inflation, so that house price bubbles are made less likely. An overall more stable economy is the result. And if you might think that Bausparen will only substitute other savings products, then I can calm you down. That is not true in Europe. In Germany, for instance, Bauspar savers save almost twice as much as people without Bauspar contract! Furthermore, the Bauspar loan is only one part of the housing finance package, the customer will usually still need a normal mortgage.

The role of the IUHF

Designing working and stable housing finance markets is a most important but difficult task for governments and the finance industry. One might think that it should be easy to decide for a stable, safe and affordable housing finance system – and not the opposite. But it is not as there are many forces pushing into the wrong direction. Many crashed housing markets and the global financial crisis are the result.

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That is why we should take the chance to make the International Union for Housing Finance once again a strong voice of the housing finance industry – not only internationally but also on a regional scale. Only cooperation, the sharing of information, common interests and challenges are a good basis for success.

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Conclusion

Ladies and Gentlemen, I would be very happy to continue and deepen the discussion. Every one of you is invited to take part in it for the profit of all of us – including all the people outside of this conference room!

Thank you very much for your attention!