

# Plugging the UAE savings gap



The pandemic has further reinforced the need for new, flexible ways to help expatriate employees save for the future – rather than just rely on end-of-service gratuities, says **Ms Reena Vivek of Zurich Workplace Solutions.**



**T**he ever-growing savings shortfall among expatriate employees in the UAE needs urgent attention. The ‘2020 UAE Security and Savings’ survey by Mercer, released earlier this year, is among various research studies that highlights this. It found that as many as 45% of expatriate employees either had no means to maintain a decent standard of living in their retirement, or plan to work beyond retirement age to derive enough income. Further, the study revealed a lack of financial awareness among respondents with 61% saying they had no long-term savings.

This followed an earlier YouGov (Workplace Savings) survey, in mid-2017, which showed 72% of employees were not confident they were saving for a comfortable retirement.

To make the situation even more of a concern, the most common source of a lump-sum payment at retirement, the mandatory end-of-service benefit (EOSB), is far from sufficient to ensure an adequate standard of living in retirement.

## Impact of COVID-19

The arrival of COVID-19 has widened this savings gap. Its impact on the economy, financial markets and businesses, for instance, has inevitably created uncertainty, depleted existing savings and resulted in job insecurity across many sectors.

Yet, at the same time, the pandemic has reinforced the importance of savings – both in terms of employees building them up and in continuing to focus on them from a long-term perspective.

Under the current environment, it is important that individuals who want to save can access the right solutions. It is also critical for organisations to step up and deliver solutions that offer greater transparency and ease-of-access via digital enablement. In essence, we need to help remove some of the barriers to savings that individuals experience.

## FEATURE – PENSIONS

### Perception versus reality

Judging by how many employees behave when it comes to savings, the lack of financial preparedness for retirement is no surprise. For example, expatriates in the UAE are well-known for believing they won't be in the UAE for too long, or that the EOSB will be sufficient to cover their retirement needs.

Yet an increasing number of expatriates tend to stay longer in the region than they might plan at the outset. And it is often seen that when employees move between companies, they use their EOSB payout to settle debts or meet short-term expenses.

This general short-sightedness also conflicts with what these same employees seem to want: the ability to amass retirement savings in a disciplined way via efficient, low-cost access to a range of instruments.

Against this background, as a workplace scheme to meet EOSB liabilities and help employees save, the DIFC Employee Workplace Savings (DEWS) has therefore turned out to be a timely initiative since its launch in February 2020.

It leverages the recent trends in digitisation to deliver a workplace savings solution which employers can provide by using new and flexible ways to encourage employees to plan for their financial future.

The current economic environment underscores the value of DEWS for about 1,100 DIFC companies and more than 18,000 employees to date. For companies, the plan offers a structured way to manage their end-of-service gratuity (EOSG) liabilities. For employees, they have the reassurance of their EOSG being held in trust on their behalf. Additionally, they can also use DEWS to grow their savings pot by topping up their EOSG via salary deduction.

In short, the DEWS plan has, during recent months:

- Ensured the security of EOSB for employees;
- Helped employees get access to a low-cost savings solution that also allows them to make voluntary contributions through salary deductions; and
- Aided employers in smoothing their cash flows through regular contributions, and reducing the financial burden of making unplanned, lump-sum payments.

Ultimately, this offers the potential for long-term financial planning using a regulated and efficient platform.

### Investing in the future

An effective scheme for EOSB that also encourages and facilitates a savings culture fits into the wider vision for the UAE to ensure, among other big-picture objectives, financial resilience and stability.

At a practical level, employees can follow a step-by-step guide to investing that enables them to start in a small and manageable way by making regular savings. This will create discipline, where they can ignore negative financial news, or market 'noise', and instead accumulate wealth over time.

Against this backdrop, savings will naturally start to accumulate to enable employees to plan in a more structured, consistent and effective way for their financial future. This should, over time, go some way to addressing some of the savings shortfall for UAE expatriate employees. 

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## Letter to the Editor

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