FSCA
Financial Sector Conduct Authority

Financial literacy, competency and education

Briefing Report No. 9

based on the results of the 2020 Financial Literacy Baseline Survey

A (con)fident nation?
A profile of financial scamming in South Africa

From a financial consumer education perspective, the topic of financial scams is critical. People prone to being possible victims of scams should be identified and targeted to receive financial education messaging about how to more effectively recognise risky, predatory and fraudulent financial activities. It should also aim to promote familiarity with the recourse mechanisms available to them, as well as sharing lessons from scam experiences with others in their communities. Some of the most common financial scams include high-yield investment scams, advance fee scams, pyramid schemes, Covid-19 funeral/burial society scams, and internet and social media fraud.

In this briefing report, we examine the views of South Africans towards risk-taking, the self-reported experience of financial scams, and the degree to which the public believes it is able to easily recognise different types of scams.

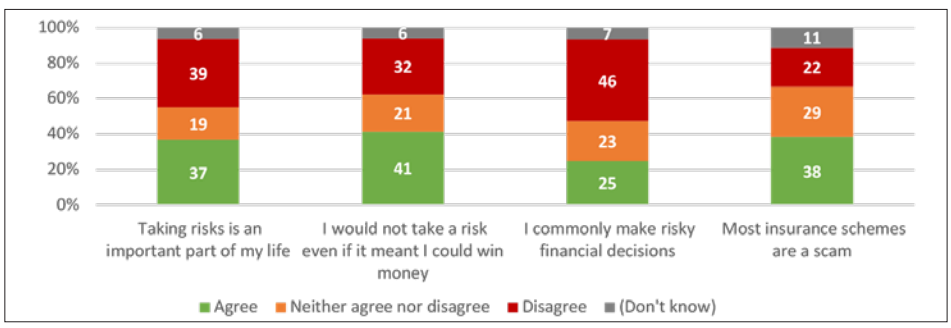
BACKGROUND TO THE STUDY

As part of on-going efforts by the FSCA to better understand, monitor and promote financial literacy in South Africa, the Human Sciences Research Council (HSRC) was commissioned to undertake surveys that examine financial knowledge, attitudes and behaviour among adult South Africans. The first round of surveying was conducted in 2010, with replications occurring in 2011, 2012, 2013, 2017 and 2020. The surveys consist of nationally representative samples, which mean that the results reflect the views of South Africans aged 16 years and older. In the 2020 survey, questions on financial scamming were included for the first time and the results are discussed in this brief.

RISKY FINANCIAL BEHAVIOUR

To better understand the phenomenon of scamming in South Africa, it is important to understand the appetite for risky behaviour among South Africans, since people who are prone to risky financial behaviour are typically more likely to become victims of scams. To this effect, it is evident from **Figure 1** below that 37% of South Africans feel that risk-taking is an important part of their lives, 32% would take risks if they could make money and 25% actually make risky financial decisions. In addition, about a quarter (22%)

Figure 1: Risky financial behaviour, 2020 (%)



Source: FSCA Financial Literacy Baseline Survey (2020)

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of South Africans trust most insurance schemes. These findings suggest that between a quarter and two-thirds of South Africans are prone to risky financial behaviour and therefore vulnerable to being potential victims of scams. Although this is concerning, it should be noted that the largest proportion of South Africans remain resolutely risk averse. It is also notable that a relatively large contingent of South Africans neither agreed nor disagreed with these statements, showcasing some ambivalence with regards to risky financial behaviour. These findings suggest that a sizable proportion of South Africans can potentially become victims of financial scams.

In order to understand which socio-demographic groups are more prone to risky financial behaviour, a financial Risk Taking Index (FRTI) was created. The questions above were recoded, added to represent a score of 0-100 whereby higher scores indicate more risky financial behaviour. Those that tend to be risk takers, who tend to make risky financial decisions and who are not wary of insurance schemes were identified as more likely to be scammed. When analysing this index, it was found that male consumers were significantly more prone to embark on risky financial behaviour than female consumers while there was no significant difference between different race groups. A clear socio-economic bias was found, with the educated, employed and the non-poor being more inclined to be risk takers. Financial risk-taking is therefore associated with better-off socio-economic circumstances.

FREQUENCY OF ATTEMPTED SCAMS AND THE ABILITY TO RECOGNISE SCAMS

Figure 2. Frequency of reported attempts to scam South Africans

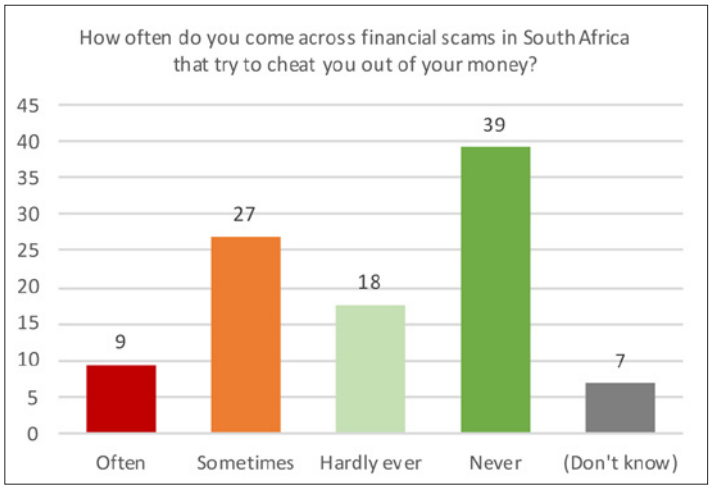
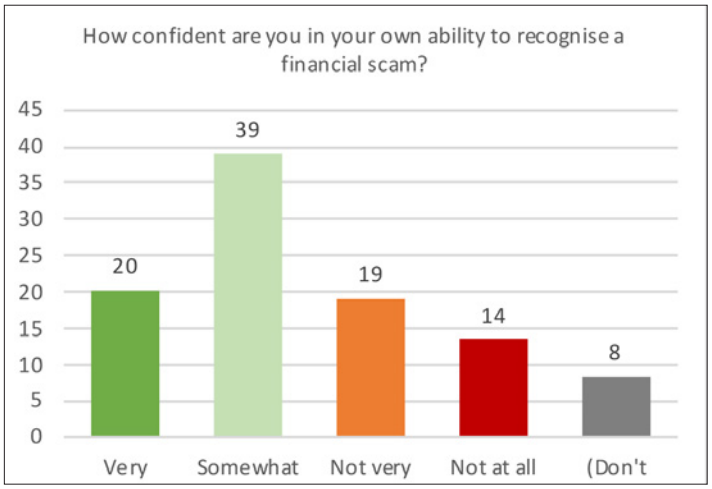


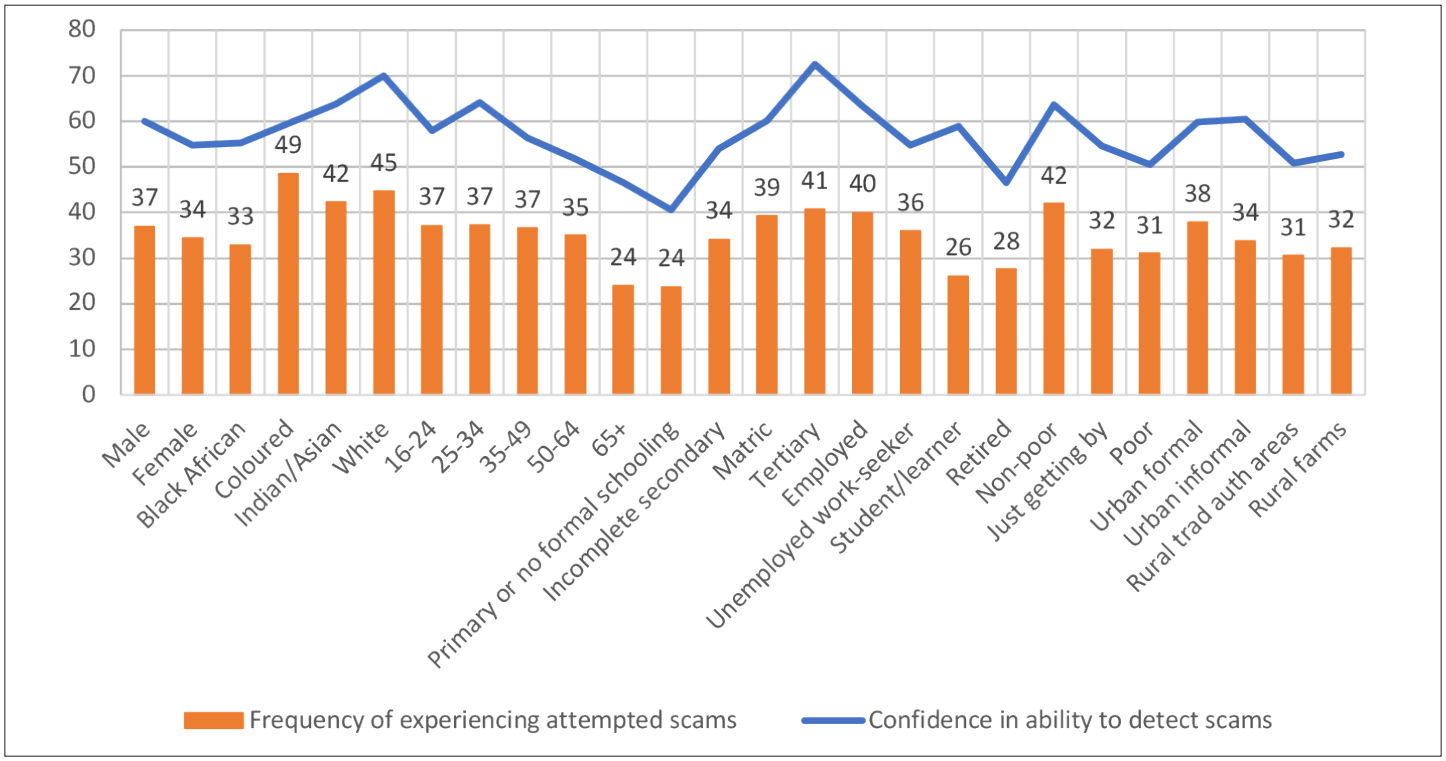
Figure 3. Self-reported ability to recognise financial scams



Just under a tenth (9%) of South Africans said they are often confronted with financial scams which try to cheat them out of their money (**Figure 2**). About a quarter (27%) stated this sometimes happens and 18% said it hardly ever happens and 39% stated it never happens. The rest (7%) said they did not know. Twenty percent of South Africans were confident that they would be able to recognise a financial scam, with another two fifths (39%) somewhat confident (**Figure 3**). A third of consumers were either not very confident (19%) or not at all confident (14%) that they would be able to recognise a financial scam. The rest were unsure. Therefore, almost 40% of South Africans are not confident in their ability to detect scams.

To determine which subgroups were most likely to experience scams and which had the confidence to detect scams, two indexes were created. These indexes were created by recoding responses to the questions "How often do you come across financial scams that try to cheat you out of your money?" and "How confident are you in your ability to recognise a financial scam?" Responses to these questions were recoded and converting into 0-100 mean scores. The results of the mean scores per subgroup are shown in **Figure 4** and it is evident that

Figure 4: Financial scams by select socio-demographics



Source: FSCA Financial Literacy Baseline Survey (2020)





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> *"2.6 million adults report being a victim of a scam between 2015 and 2020"*

significant subgroup differences exist in terms of the issue. Men reported a significantly higher incidence of being approached in terms of attempted scamming relative to women.

South Africans from minority race groups (especially coloured South Africans) were especially prone to attempts at being scammed. Conversely those 50 years and older were least prone to experience attempted scamming. A stark educational gradient was found, with those with a matric and tertiary education reporting many more incidences of attempted scamming. As could be expected, a strong socio-economic gradient was evident with the employed and non-poor mostly targeted. Residents of formal urban areas were also targeted more than those living in other geographic areas.

In terms of confidence in the ability to detect scams, a clear pattern emerged which showed that those most likely to have been scammed are also most likely to have confidence in their ability to detect scams.

TYPES OF SCAMS

To understand the extent of actual scamming, a question was asked about whether a person had been a victim of a financial scam within the past 5 years. In total, 85% of people indicated that they had not been a victim of a financial scam (**Figure 5**). Six percent indicated they had been scammed and another 6% stated that they were uncertain. Using Statistics South Africa's 2021 mid-year population estimates, this six percent equates to approximately 2.6 million people. This suggests that about 2.6 million adults reported being a victim of a scam

Figure 5. Reported victim of financial scams in last 5 years

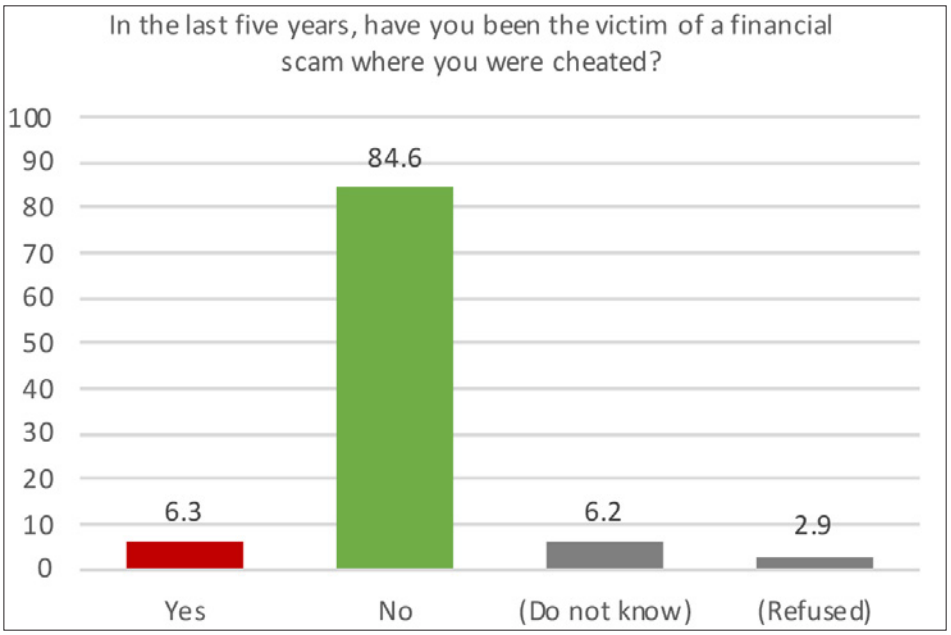
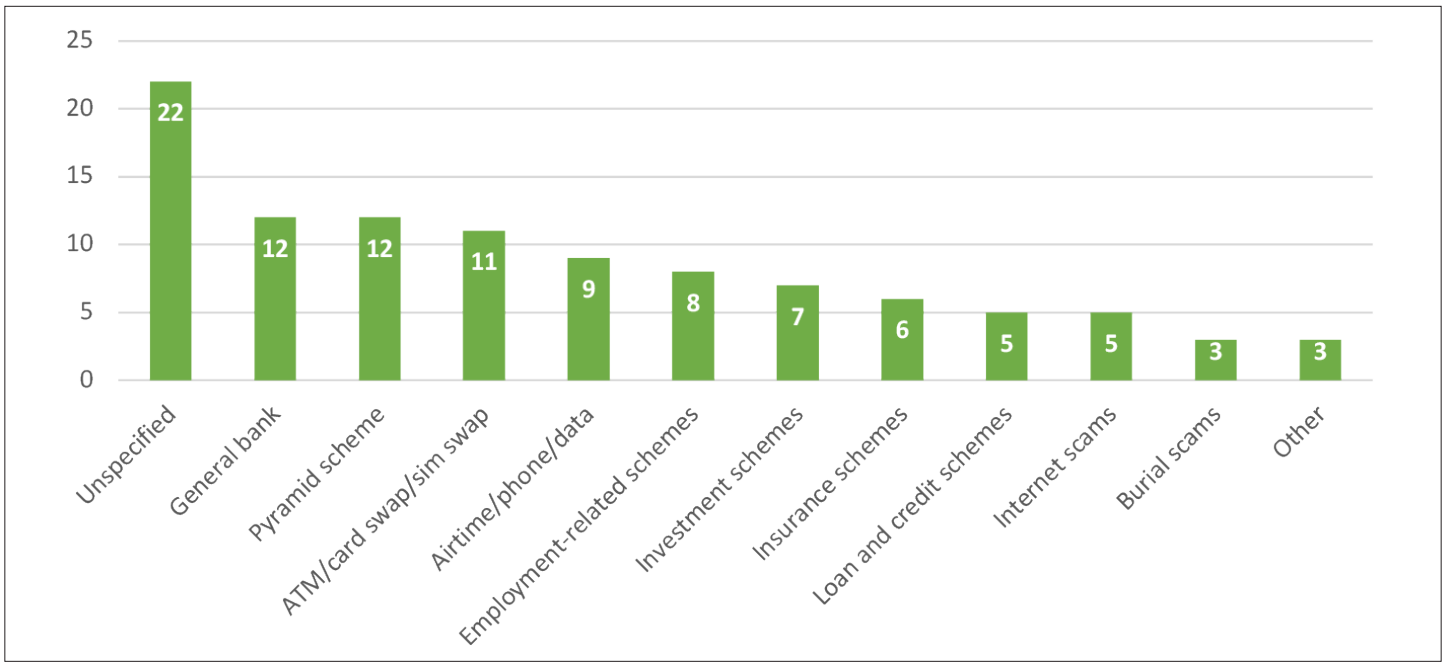


Figure 6: Types of scams people report experiencing (%)



Source: FSCA Financial Literacy Baseline Survey (2020)

between 2015 and 2020 (95% confidence interval: between 2.0 and 3.3 million).

Those that indicated that they had been scammed were requested to describe the type of scam they were involved in. As can be seen from **Figure 6**, a majority of descriptions were very generic and unspecified (22%) and included phrases such as "they took my money" or "it was cheating". The general bank category included phrases such as "stolen from the bank", "bank scam", or "money withdrawn from my account". In 12% of the cases pyramid schemes were specifically mentioned, followed by scams involving sim cards or ATM cards (11%), scams involving airtime, phones, or data (9%), scams involving promises about jobs (8%), investments (7%), insurance (6%), loans (5%), and online or internet scams (5%). Scams involving burial schemes and competitions to win money were less frequently mentioned. Other types of scams related to vehicle purchase and interest rates were mentioned by less than 1% of South Africans.

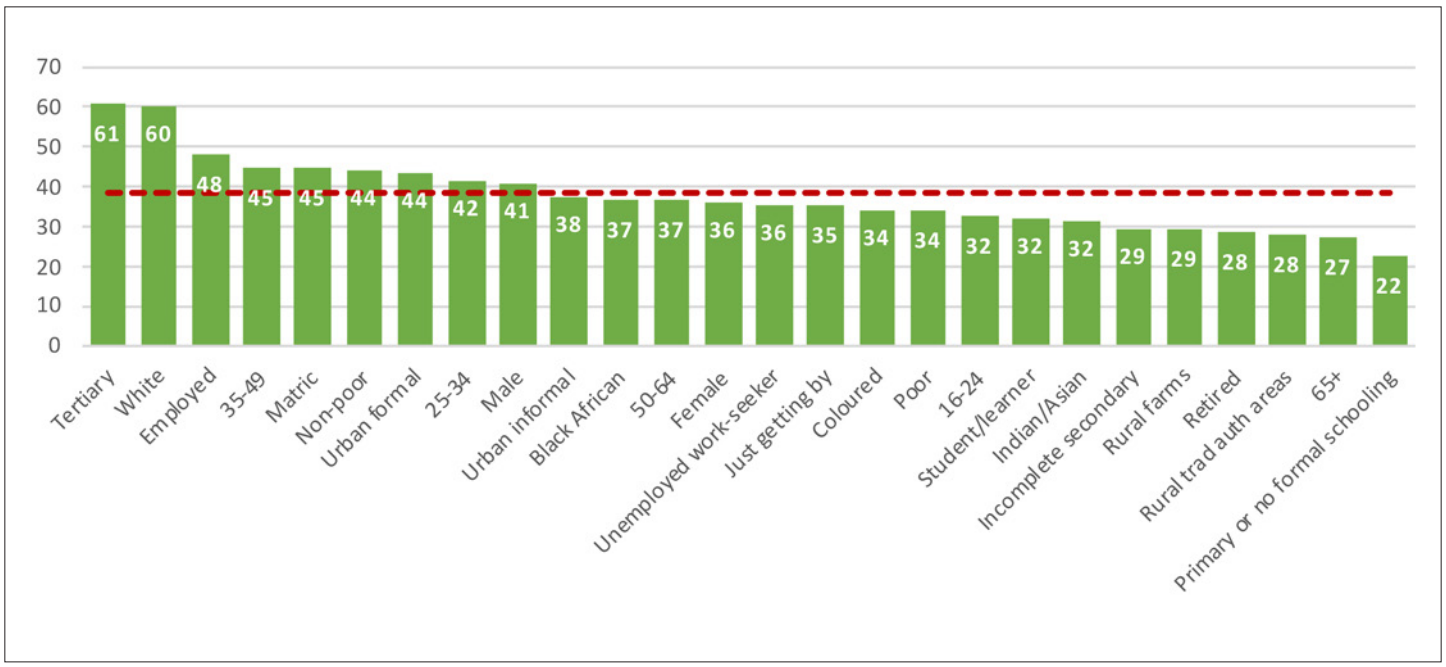


PYRAMID SCHEMES

The most common scam that people identified was a pyramid scheme scam. This type of scam is common and often introduced to people by family, friends and colleagues. To better determine who should be targeted via educational campaigns to ensure that people do not get scammed via a pyramid scheme, a question was included to determine consumer knowledge about pyramid schemes. As is evident from **Figure 7**, distinct disparities exist in knowledge across different socio-demographic groups in the country. The privileged socio-economic groups including the tertiary educated, whites, and the employed were more knowledgeable about pyramid schemes. Those with no primary or incomplete secondary schooling, residing in rural traditional authority areas or farms were less knowledgeable about pyramid schemes, rendering them most vulnerable.

The study also identified those with a primary or no formal education, the elderly (65 years and older), those in rural traditional areas and rural farms, as well as the retired, and students and youngsters as highly vulnerable groups with regards to a lack of knowledge pertaining to financial scamming. These groups had lower than average knowledge scores. This indicates that these groups are more likely to make poor decisions about scams, rendering them vulnerable to scams and fraud. Given the vulnerability of these groups, it is necessary to recognise the need to target them with messaging about scams as part of broader financial consumer education programmes. There is a need to make sure that this cohort receives remedial, community-based financial education messaging about how to recognise risky, predatory and fraudulent financial activities.

Figure 7: South African's knowledgeable about pyramid schemes



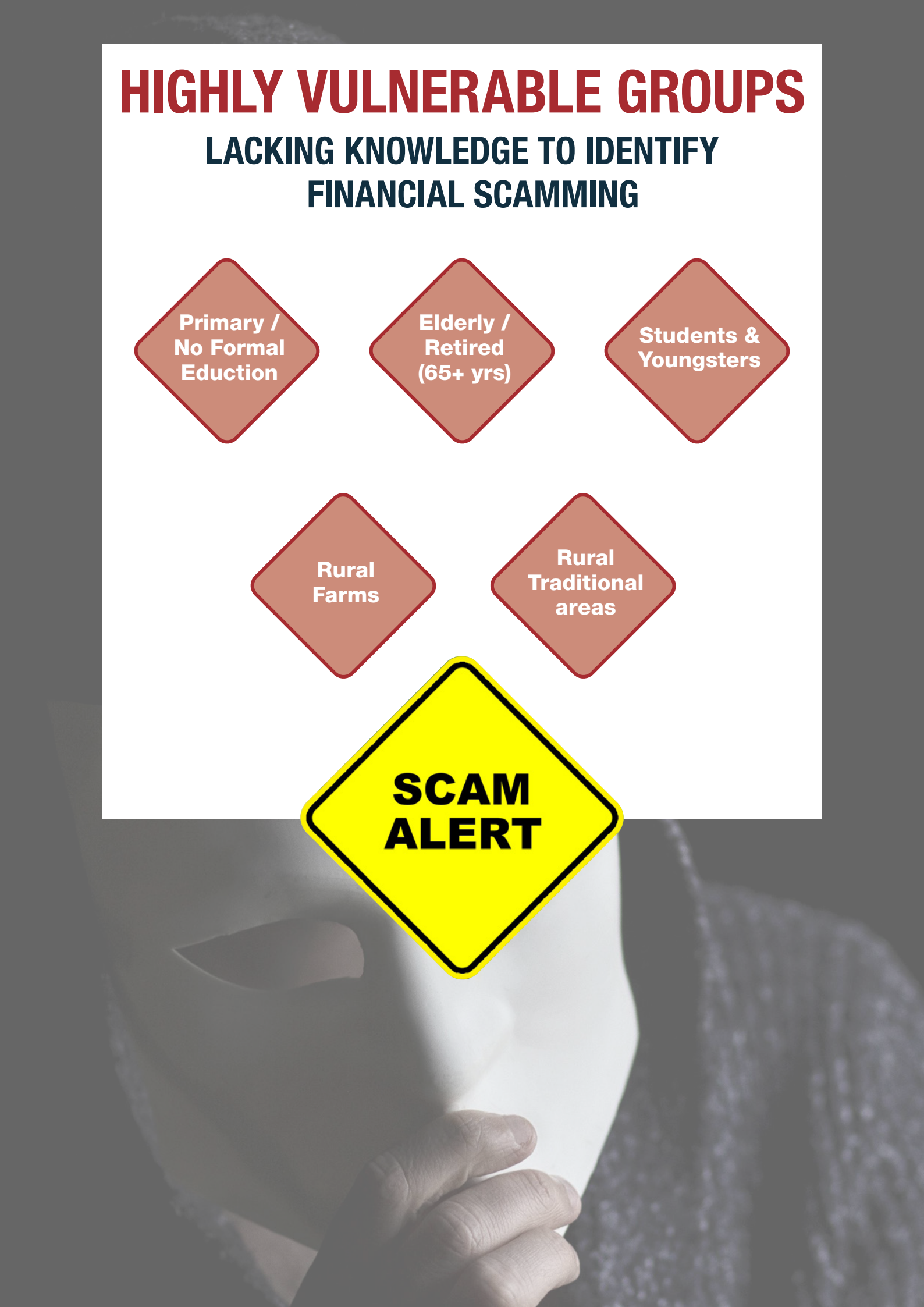
Source: FSCA Financial Literacy Baseline Survey (2020)



HIGHLY VULNERABLE GROUPS

LACKING KNOWLEDGE TO IDENTIFY FINANCIAL SCAMMING

- Primary / No Formal Eduction
- Elderly / Retired (65+ yrs)
- Students & Youngsters
- Rural Farms
- Rural Traditional areas



CONCLUSION

Scams have become one of the most common crimes globally, inflicting high levels of psychological and financial stress on people. Despite the profound impact, knowledge is scant about the reasons why certain individuals fall victim to scams while others remain resilient. In addition, research reveals mixed results about the impact of demographic characteristics (e.g., age) as well as personality variables (e.g., risk-taking) on individuals' susceptibility to scams. It is therefore hoped that this brief has facilitated a deeper understanding of the issue of scamming in South African society - contributing to helping develop preventive programmes and reducing the prevalence of scamming. The reader is encouraged to download the full FSCA report for more in-depth analysis, available at www.fsca.co.za and www.fscamymoney.co.za