

Financial Literacy in South Africa

Results of a 2013 national survey update

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Studying Financial Literacy in South Africa



- In 2013, the FSB commissioned a **financial literacy update module** to be administered as part of the HSRC's annual **South African Social Attitudes Survey (SASAS)**
 - This follows the FSB commissioned OECD INFE pilot module on financial literacy in 2010, the 2011 FSB Baseline Survey and the 2012 national update.
- **Assist in:**
 - Identifying potential needs and gaps in terms of specific aspects of financial literacy, and groups at risk
 - Developing a composite financial literacy score for monitoring purposes
- **OECD Financial literacy definition:** “a combination of awareness, knowledge, skills, attitude and behaviours necessary to make sound financial decisions and ultimately achieve individual financial wellbeing”

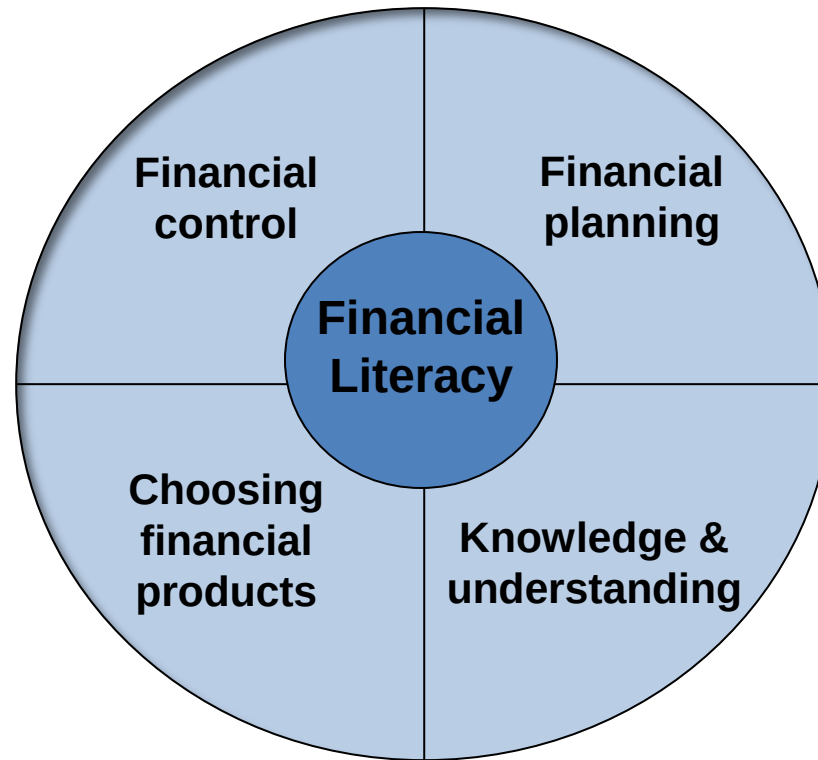




Measuring Financial Literacy



- Definitions of **financial literacy** are divergent
- Different **subcomponents** of financial literacy: **aptitude in financial management** versus **knowledge of financial concepts**



Multidimensional approach: four components
Included OECD INFE Core module and select supplementary items, together with South African specific content



Composite Measure of Financial Literacy



Selecting indicators

- **Assumption:** financial literacy is multidimensional and cannot be measured by a single indicator. Retention of OECD financial literacy domain structure
- Each domain should strive, where possible, for a combination of **attitudinal and behavioural measures**
- **Parsimonious set of indicators** in each domain; core indicators that can be updated and monitored in-between major national financial literacy surveys
- Indicators should **measure major features** of that dimension of financial literacy, not conditions experienced by small numbers of people - do not want measures that capture almost no-one or almost everyone
- Acknowledges that individuals may score relatively high in one domain but poorly in another: assume that financial literacy is **cumulative (or additive) rather than cancelling**





Composite Measure of Financial Literacy



Constructing composite domain scores

- ***Standardisation of measures***
 - Indicators made comparable through use of standardised 0-100 scaling
- ***Weighting and aggregation***
 - Assumption of equal weighting of measures
 - Aggregation: simple additive approach (standardised indicators added together and an average domain score produced)

Constructing overall financial literacy score

- In deriving the overall financial literacy score, each of the four domains were assigned equal weights
- This means that none of the four dimensions was treated as more important than the others.
- The four domain scores were averaged to create the final composite indicator





Quantitative Methodology



- Survey conducted by **Human Sciences Research Council (HSRC)**
- Nationally representative of the population 16 years and older living in private households in the 9 provinces
 - **Primary sampling units:** 500 census enumerator areas (EAs), stratified by province, geography type and majority population group
 - **Secondary sampling units:** 7 household visiting points randomly selected per EA
 - One respondent 16+ years randomly selected per household
- Of 3,500 addresses issued **2,885** interviews achieved
- Responses to the **survey voluntary and confidential**, collected by **face-to-face interview**
- Data collection: **November-December**



Financial Control Domain



Financial Control Domain Indicators



Eight indicators:

- (1) Personal involvement in daily HH money management
- (2) Presence of a household budget
- (3-5) Considered approach to personal finances
 - Careful spending
 - Paying bills timeously
 - Closely monitoring financial matters
- (6-7) Making ends meet
- (8) Spender vs saver

Summary: someone with high financial control tends to be involved in daily financial decision-making processes, exhibits careful approach to personal finances, prefers saving over spending money, and lives in a household that budgets and is able to make ends meet.





Financial Control Domain



Money Management	Presence of a Household Budget	Careful Spending	Paying Bills Timeously	Closely Monitoring Financial Matters	Making Ends Meet	Main Coping Response	Preference for Spending or Saving
SASAS 2010	SASAS 2010	SASAS 2010	SASAS 2010	SASAS 2010	SASAS 2010		SASAS 2010
Baseline 2011	Baseline 2011	Baseline 2011	Baseline 2011	Baseline 2011	Baseline 2011	Baseline 2011	Baseline 2011
SASAS 2012	SASAS 2012	SASAS 2012	SASAS 2012	SASAS 2012	SASAS 2012	SASAS 2012	SASAS 2012
SASAS 2013	SASAS 2013	SASAS 2013	SASAS 2013	SASAS 2013	SASAS 2013	SASAS 2013	SASAS 2013



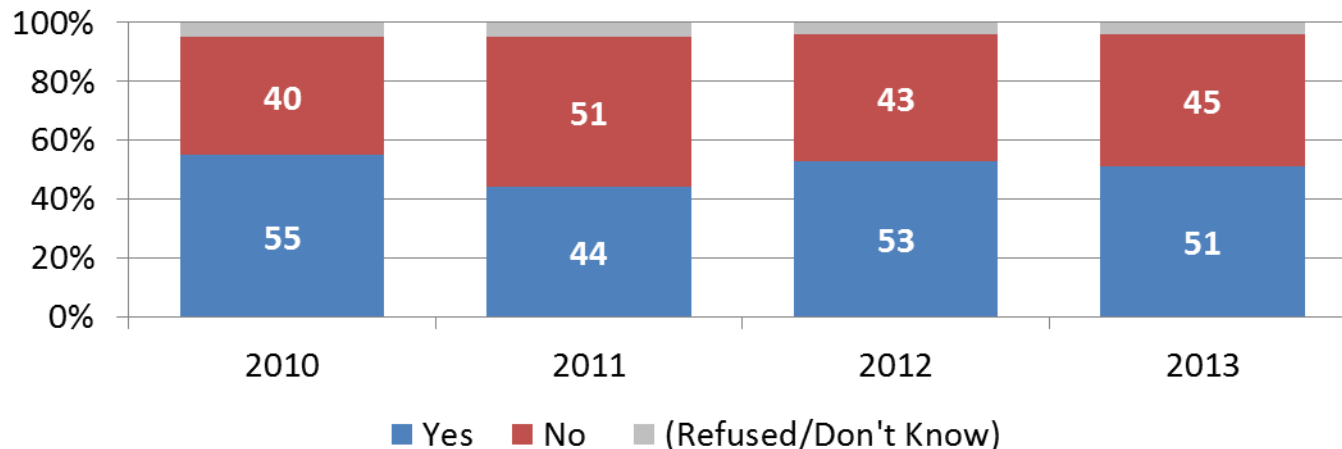
Household money management and budgeting



- Almost two-thirds (63%) of adult South Africans were involved in **household daily money management**.
 - Patterns have remained stable over the four years (64%, 63%, 61% in 2010-12)
- **Presence of a household budget** was reported in 51% of cases in 2013. This has fluctuated in a relatively narrow range between 2010 and 2013.



Do you have a household budget?





Financial Control Attitudes



Attitudes to Money Management Scale					
		2010	2011	2012	2013
Affordability: Before I buy something I carefully consider whether I can afford it	Always	61	60	60	52
	Often	21	17	21	25
	Infrequently/Never	18	23	19	23
Timeous: I pay my bills on time	Always	34	32	42	30
	Often	26	20	22	17
	Infrequently/Never	40	48	36	53
Monitoring: I keep a close personal watch on my financial affairs	Always	36	30	38	32
	Often	28	22	27	28
	Infrequently/Never	36	48	35	40
Spending: Money is there to be spent	Agree	42	34	37	43
	Neutral	18	17	19	18
	Disagree	39	47	42	38

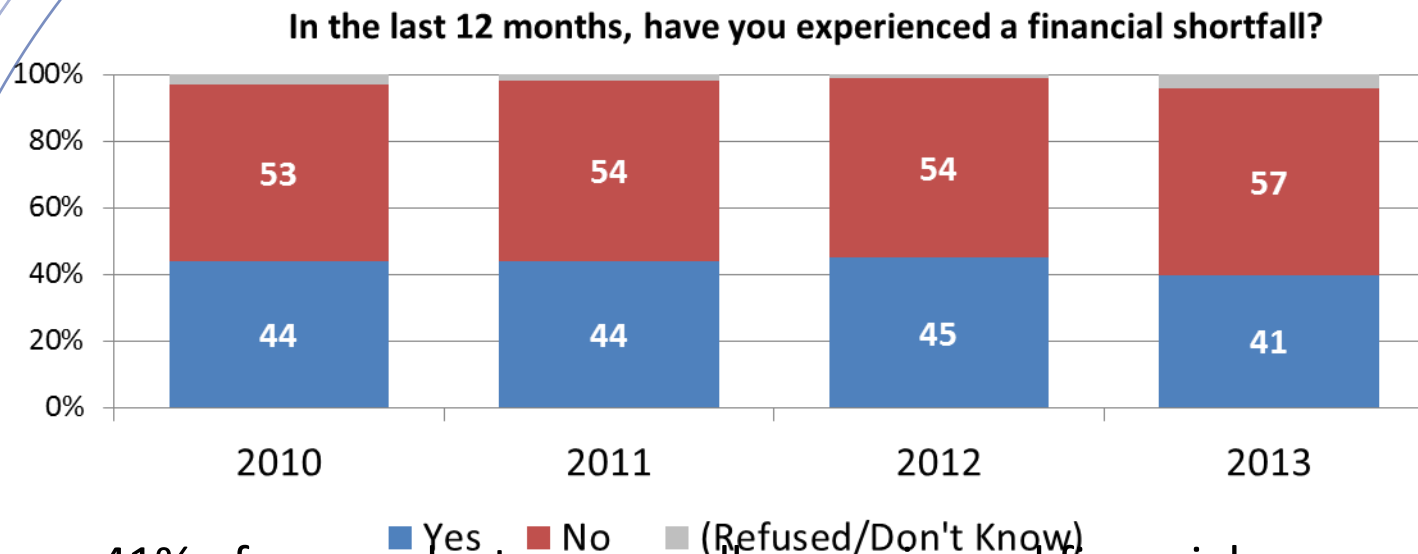


The **South African youth** exhibited significantly lower scores than **their older counterparts** on **all attitudinal indicators** in the table.

Significant differences were observed based on **levels of educational attainment**, suggesting that education is a **salient factor underlying beliefs about financial control**.



Making Ends Meet



- 41% of respondents personally experienced financial shortfalls in 2013.
 - Marginally lower than observed in 2010 to 2012
- **Two common coping responses remain:** borrowing from family/friends (40%); cutting back on spending or doing without (49%) – continued nominal reliance of financial products.





Coping with Financial Shortfalls



	2010	2011	2012	2013
Existing resources:				
Cut back on spending, spend less, do without	30	35	43	39
Draw money out of savings	9	13	13	18
Sell something that I own	8	12	9	8
Access credit by using existing contacts or resources:				
Borrow food or money from family or friends	49	55	41	40
Borrow from employer/salary advance	4	5	4	4
Take a loan from my savings and loan clubs	2	4	4	4
Pawn something that I own	2	4	3	2
Take money out of a flexible home loan account	1	0	2	1
Creating resources:	5	17	14	9
Fall behind/go beyond arranged amount:	9	10	10	9
Access additional credit:	6	17	7	7
Take out a loan from an informal provider/moneylender	5	12	4	3
Take out a personal loan from a formal financial service	1	3	3	3
Take out a payday loan	0	1	1	1
Borrow from existing credit line:				
Apply for loan/withdrawal on pension fund	1	2	2	2
Use credit card for a cash advance or to pay bills/buy food	1	3	2	2
Use authorized, arranged overdraft or line of credit	0	1	1	1
Other				
(Do not know)	2	5	3	4
(Refused to answer)	2	2	2	5

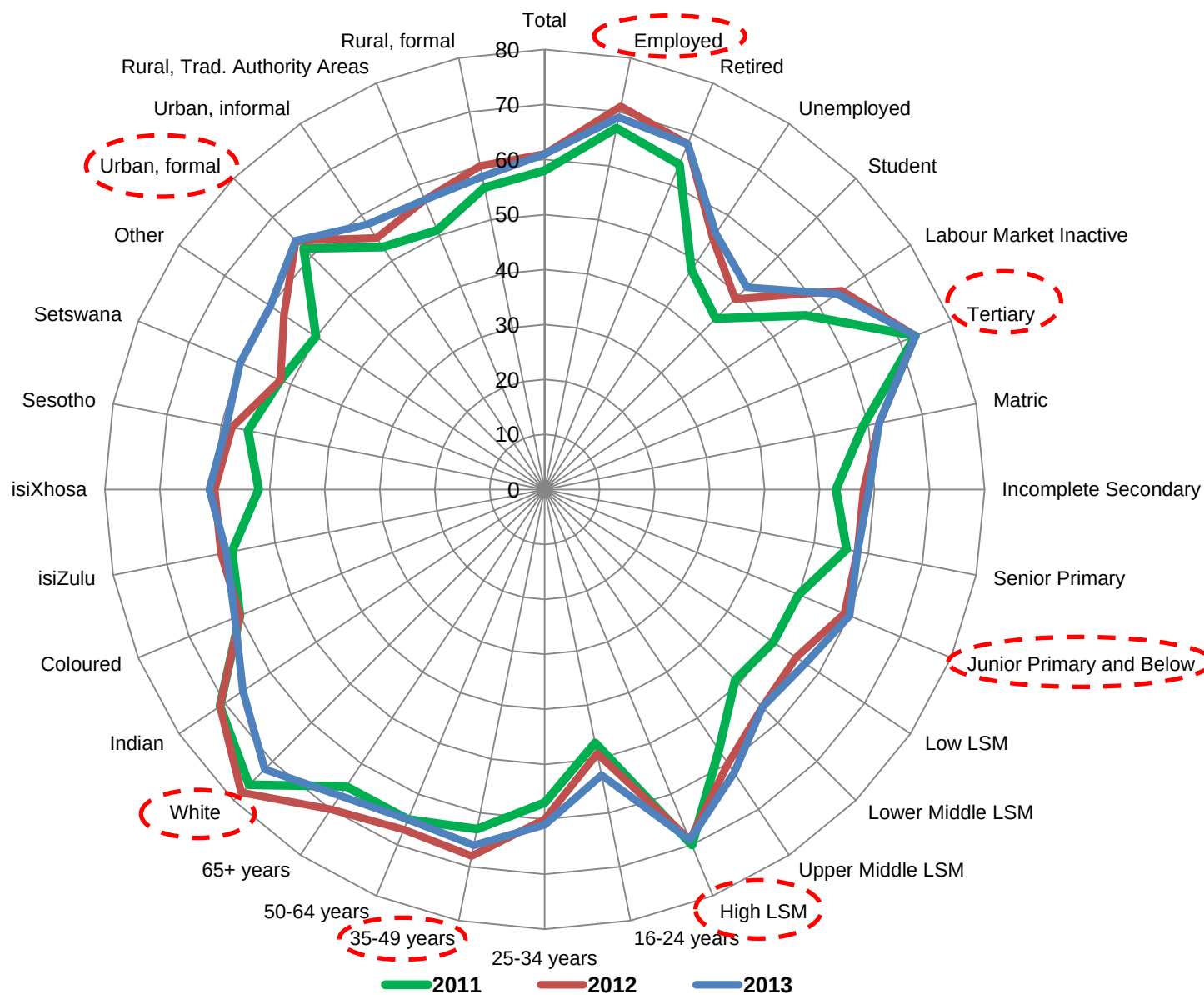


Financial Control Domain Scores 2011-2013





Financial Control Domain Score (2011-2013)



Financial Planning Domain



Financial Planning Domain Indicators



Five indicators:

- (1) Tends to set and strive to achieve long term financial goals
- (2) Has emergency funds or rainy day funds
- (3) Preference for spending money vs long-term saving
- (4) Living for today vs long term provisioning
- (5) Saved money in last 12 months

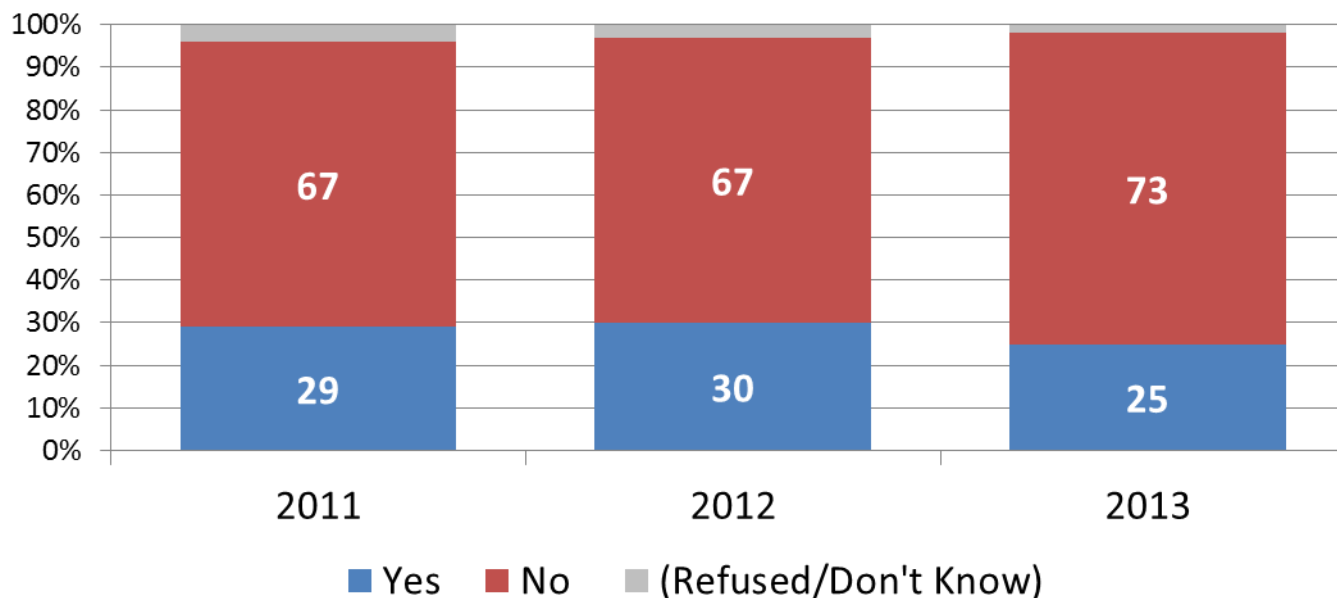
Summary: someone with a high financial planning score tends to set financial goals and work hard to meet them, prefers to save for the long term and worries about tomorrow, has emergency funds in place and has managed to save recently (through a formal savings product or informal means).





Emergency or rainy day funds

Have you set aside emergency or rainy day funds that would cover your expenses for 3 months?



Share reporting emergency or rainy day funds declined from 30% in 2012 to 25% in 2013.





Savings Behaviour



In the past 12 months have you been saving money in any of the following ways?				
	2010	2011	2012	2013
Paying money into a savings account	32	28	23	21
Saving cash at home or in your wallet	22	32	20	22
Building up a balance of money in your bank account	17	20	16	12
Saving in a stokvel or any other informal savings club	9	11	7	6
Giving money to family to save on your behalf	9	10	6	7
Buying financial investment products, other than pension funds	3	5	4	3
Saving in some other way (remittances, buying livestock or property)	2	5	3	2
None of the Above	26	31	50	48

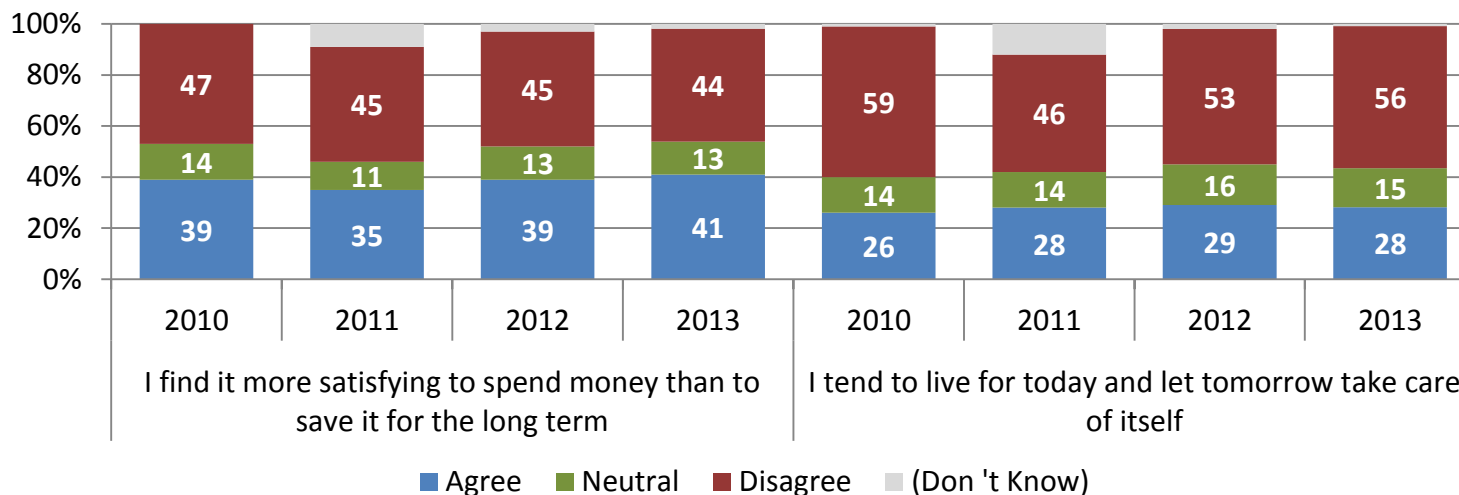


Attitudes to long term planning



- **49%** always/often sets and pursue long-term financial goals; 20% sometimes; 28% doing so seldom or never.
- **41%** find it more satisfying to spend money than to save it for the long term (**44% preferred saving** and 13% neutral)
- **28%** say they tend to live for today and let tomorrow take care of itself (**56%** preferred to plan for tomorrow; 15% neutral)
- **43%** believed that money is there to be spent (**38%** preferred to save and 17% remained neutral).

Do you agree or disagree with the statment?



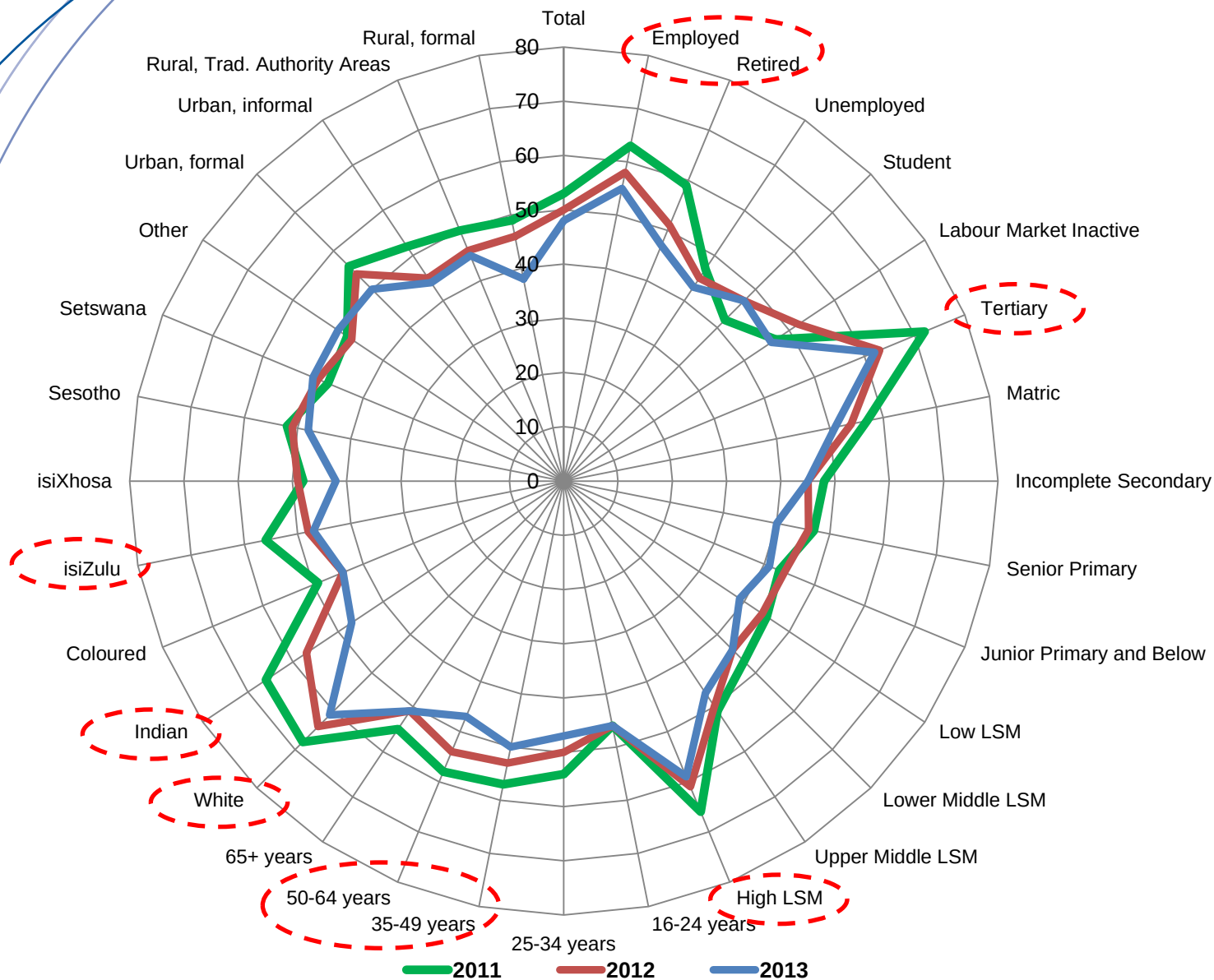


Financial Planning Domain Scores 2011-2013





Financial Planning Domain



Appropriate Product Choice Domain



Product Choice Domain Indicators

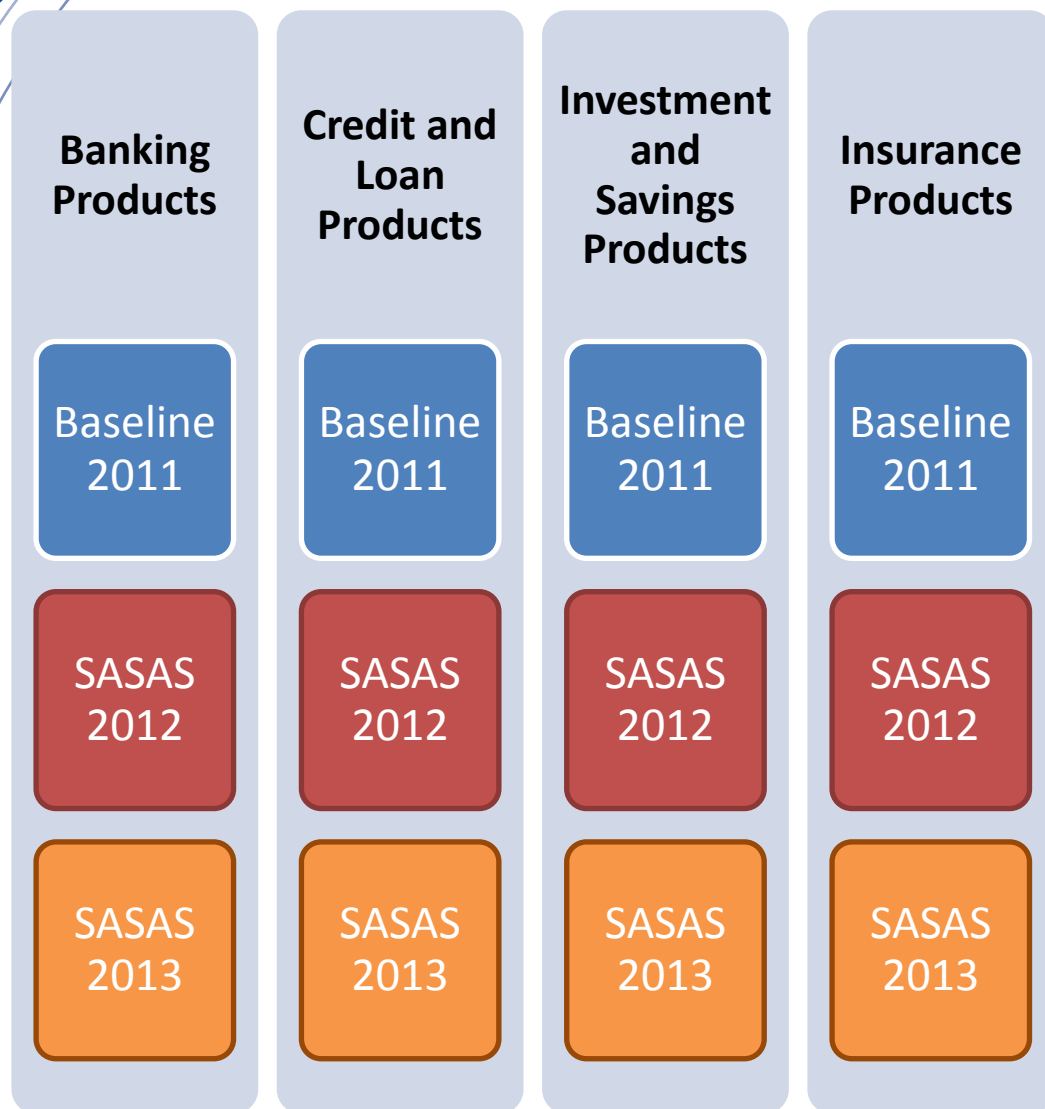


- **Twelve indicators:**
- **(1-4) Product awareness [range=0-50 products]**
 - continuous variable adding together number of banking products, credit and loan products, investment and savings products, and insurance products that respondents are aware of;
- **(5-8) Product holding**
 - Dummy variable with '1' assigned to respondents who currently hold at least one banking product, credit and loan product, investment and savings product, and insurance product.
- **(9-10) Financial product decision-making**
 - Combining two attitudinal measures: having clear idea of product need and informed product choice.
- **(11-12) No experience of regret about recent financial product choice**
 - Respondent does not regret any key financial decisions made in last year and did not pay for an unsuitable product in last five years.
- These item sets all converted to standardised 0-100 scores, after which an average of the four variables created to produce final domain score.





Financial Products: Awareness and Holding



- Modern **financial product markets** are highly complex, and **navigating such a market** is a difficult challenge.
- It is necessary to **investigate knowledge** and **usage of financial products** in the country.
- An understanding of the **popularity of certain kinds of products** among the general population is of **great benefit to financial education researchers** as well as to those working in the financial sector.



Banking Products



	2011		2012		2013	
	Awareness	Holding	Awareness	Holding	Awareness	Holding
Saving Accounts	86	45	85	47	84	47
ATM Card	76	29	78	34	69	28
Current or Cheque Account	51	10	55	11	52	11
Debit Card or Cheque Card	49	5	52	5	47	10
Mzansi Account	72	13	69	13	67	9
Credit Card	65	12	61	13	56	7
Fixed Deposit Bank Account	48	3	48	4	46	4
Post Office/Post Bank	62	11	53	10	50	3
Garage Card or Petrol Card	42	3	43	4	41	3
Home Loan from a Big Bank	41	6	41	4	37	3
Cellphone account	n/a	n/a	17	4	32	3
Savings Book at a Bank	38	2	38	2	36	1
(None of the above)	3	33	4	23	5	30



Credit and Loan Products



	2011		2012		2013	
	Awareness	Holding	Awareness	Holding	Awareness	Holding
Formal products						
Store Card	75	18	78	22	75	17
Lay-Bye	72	7	65	10	65	8
Loan from a Micro-lender	70	9	64	10	63	5
Loan from Friends or Family	65	6	56	6	59	10
Hire Purchase	55	7	51	5	54	5
Vehicle or Car Finance	54	2	47	4	45	4
Informal products						
Loan from Friends or Family	65	6	56	6	59	10
Loan from Informal Lender	60	7	53	6	56	1
Informal Savings Club	51	4	41	4	20	4
Overdraft Facility	31	3	37	2	33	2
Store Account with No Card	27	2	24	2	25	1
Loan from Local Spaza	24	2	23	1	22	4
Loan from an Employer	20	2	16	1	43	1
(None of the above)	4	58	8	50	8	55



Investment and Savings Products



	2011		2012		2013	
	Awareness	Holding	Awareness	Holding	Awareness	Holding
Formal products						
Education Policy or Plan	55	3	55	6	52	5
Investment or Savings Policy	47	9	48	8	43	0
Shares on the Stock Exchange	38	1	38	2	39	1
Unit Trusts	33	2	35	2	32	2
Retirement products						
Pension Fund	72	12	66	12	68	8
Provident Fund	49	6	49	7	49	5
Retirement Annuity	42	6	41	7	39	5
Saving Clubs						
Informal Savings Club	68	12	59	13	60	10
Keep Cash at Home	51	10	46	13	51	21
Keep Cash with a Friend	41	3	36	3	41	5
Other Savings Club	11	3	9	2	9	1
(None of the above)	6	55	10	51	10	53



Insurance Products



	2011		2012		2013	
	Awareness	Holding	Awareness	Holding	Awareness	Holding
Short-term (asset) insurance						
Vehicle or car insurance	68	12	66	12	60	9
Household contents insurance	53	9	55	11	51	7
Cellphone insurance	61	9	59	9	58	5
Long-term insurance						
Life insurance	69	16	64	16	63	13
Medical aid scheme	67	16	60	13	56	9
Hospital cash plan	52	5	49	4	48	3
Funeral						
Burial society	64	19	60	23	58	21
Funeral cover (undertaker)	56	13	54	14	56	16
Funeral policy (insurance company)	50	8	46	8	42	7
Funeral cover (spaza shop/stokvel)	21	13	20	2	20	1
(None of the above)	4	44	8	38	9	44



Financial product decision-making and regret



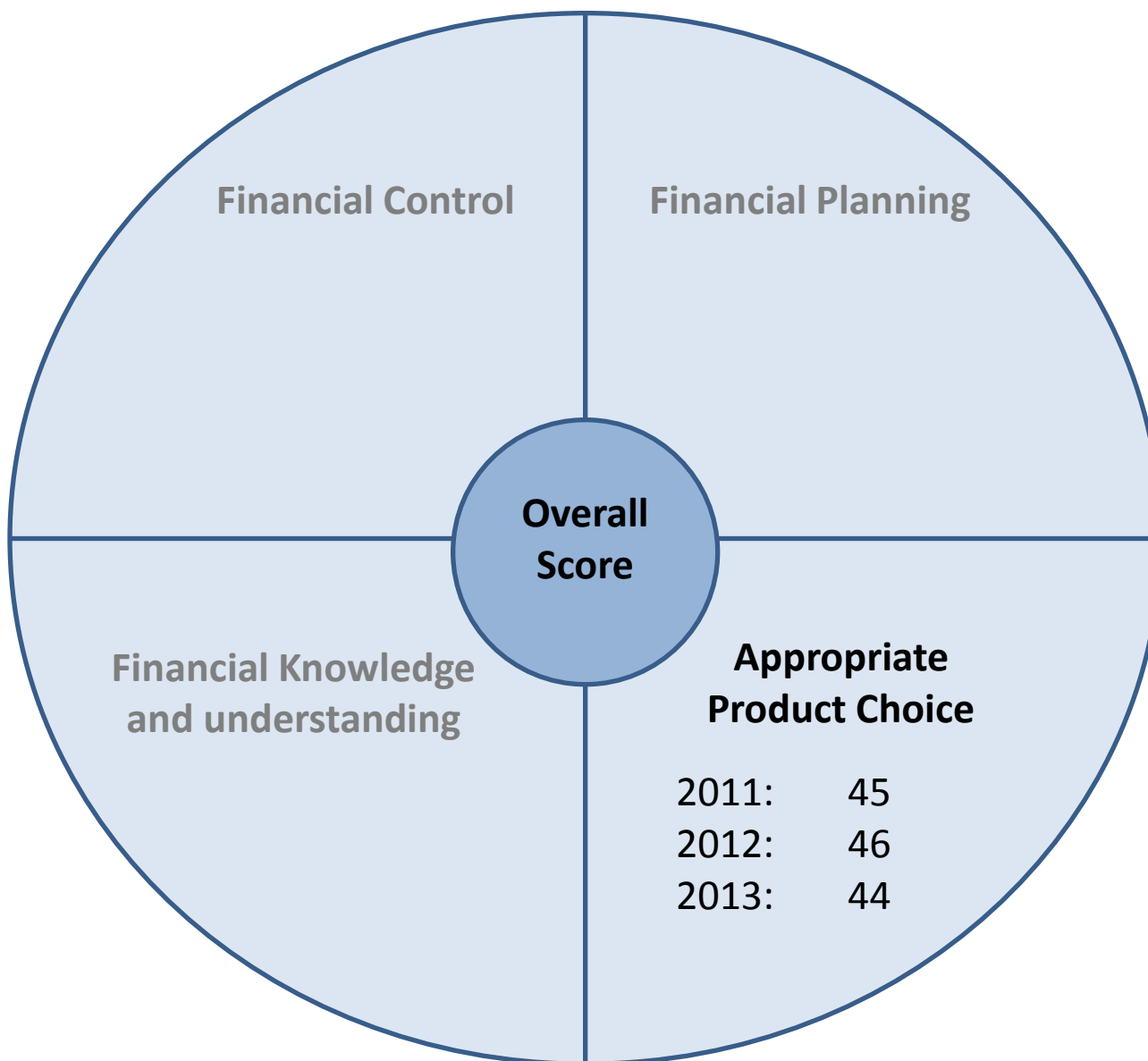
- The share of the adult public which believe **they have a clear idea of the products or services they need without consulting a financial advisor** has grown from 44% in 2011 to 51% in 2013
- More than half (55%) of the population reported that they **researched thoroughly before making financial decisions**
- **82%** indicated that they had not made any financial decision in the last 12 months that they had regretted; 18% did.

Regret about products:	2011	2012	2013
Savings or investments	10	7	7
Taking out a home loan	2	3	1
Taking out a loan or credit agreement	4	4	3
Insurance of any type	3	3	2
Tax	2	1	2
Managing credit/debt	4	5	2
(None of the above)	82	80	82
(Don't know)	4	3	6



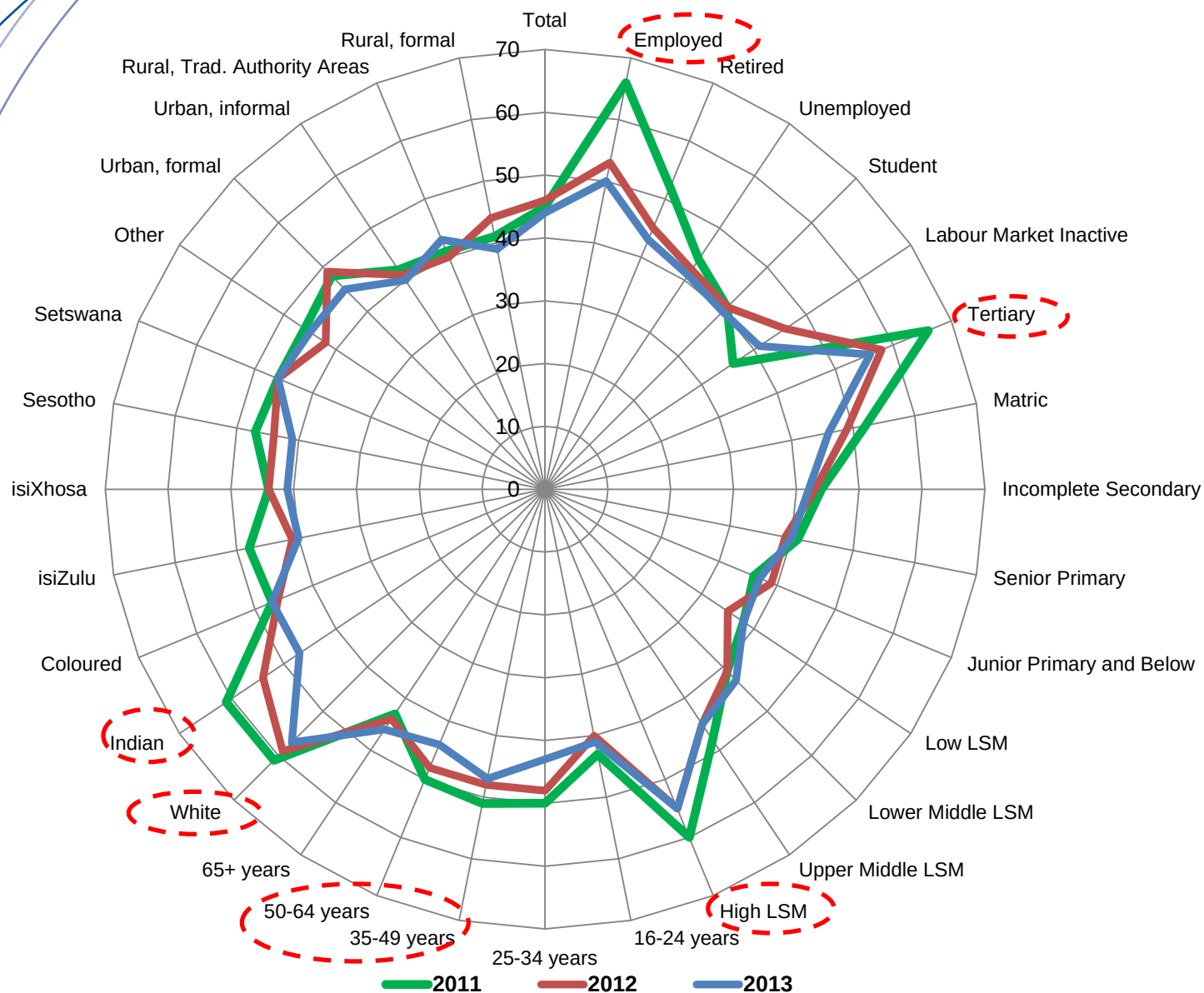


Product Choice Domain Scores 2011-2013





Product Choice Domain



Financial Knowledge and Understanding Domain



Financial Knowledge and Understanding Domain



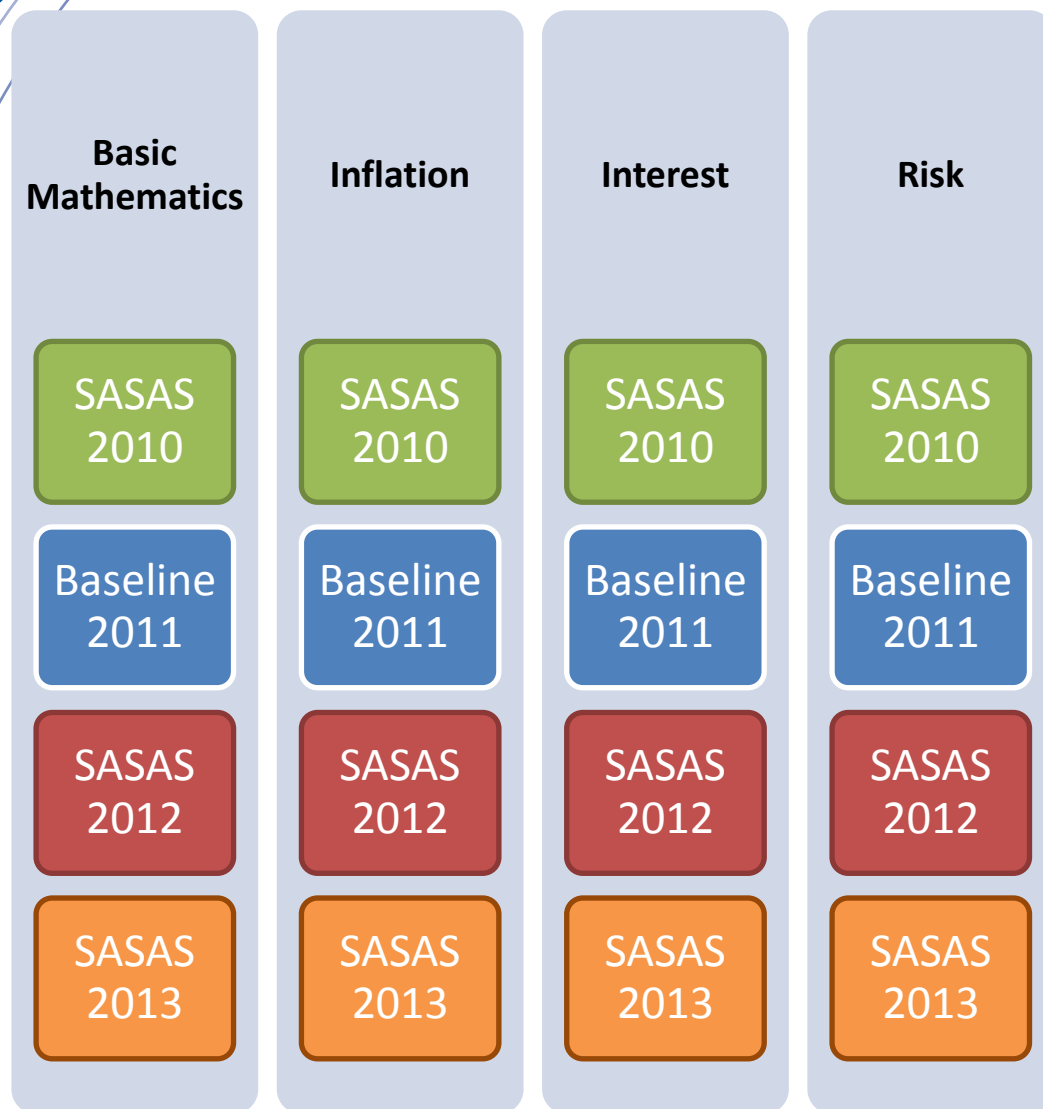
Eight proposed indicators: knowledge quiz,

- (1) Basic mathematical division
- (2) Effects of inflation
- (3) Interest paid on loans
- (4) Interest on deposits
- (5) Compound interest
- (6) Risk of high return investments
- (7) Effects of inflation on cost of living
- (8) Risk diversification
- **Summary:** someone with high financial knowledge and understanding has a familiarity with most or all of the aforementioned basic concepts





Financial Knowledge

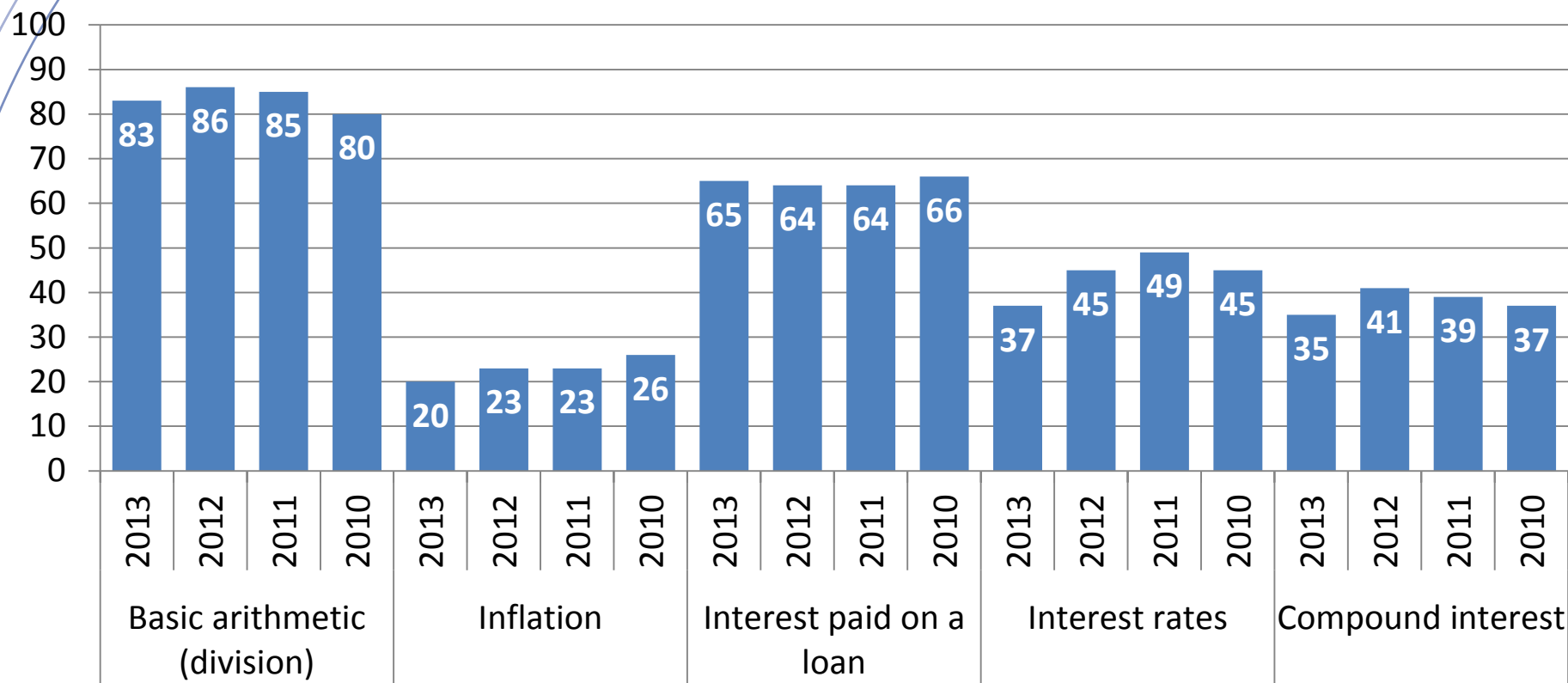


- Almost **half of the financial literacy studies** reviewed used “**financial literacy**” and “**financial knowledge**” interchangeably
- Different elements of financial knowledge are covered by almost all surveys on financial literacy with a **priority given to numeric questions** as numerical skills are considered important in **building financial skill**



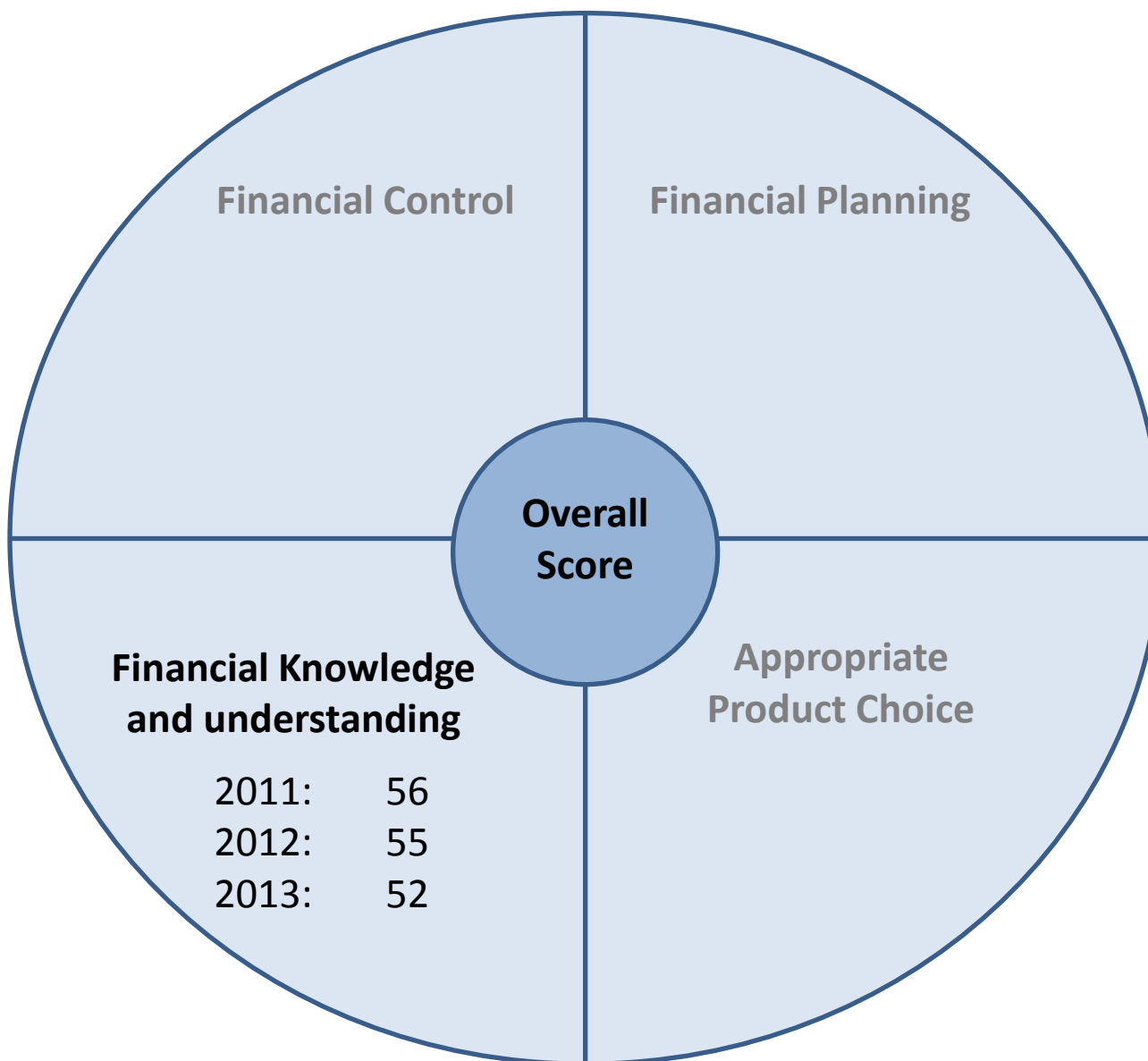
Knowledge Quiz Trends

Correct Answers on the Financial Literacy Quiz



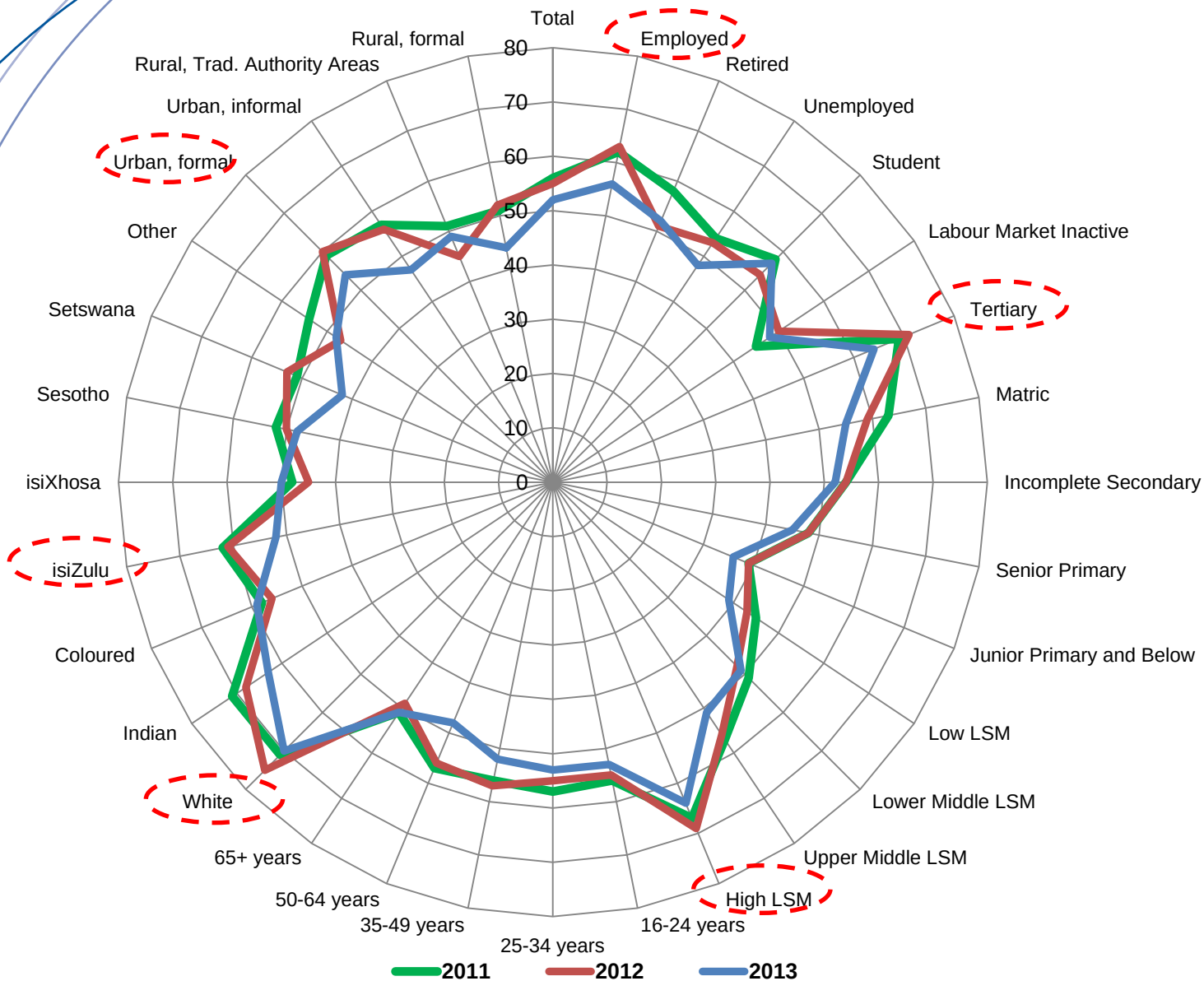


Financial Knowledge Domain Scores 2011-2013





Financial Knowledge Domain



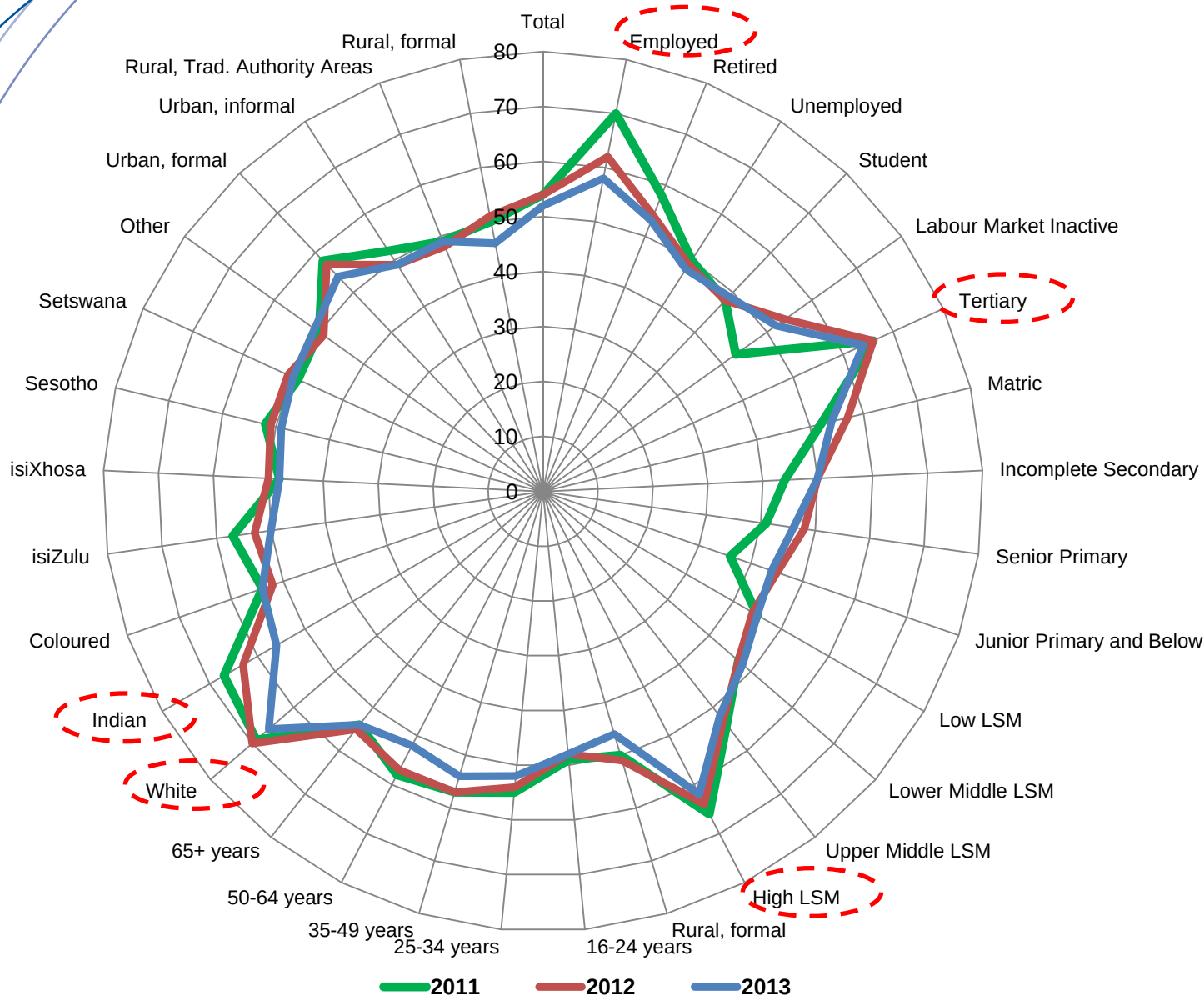


Overall Financial Literacy Score and Multivariate Findings





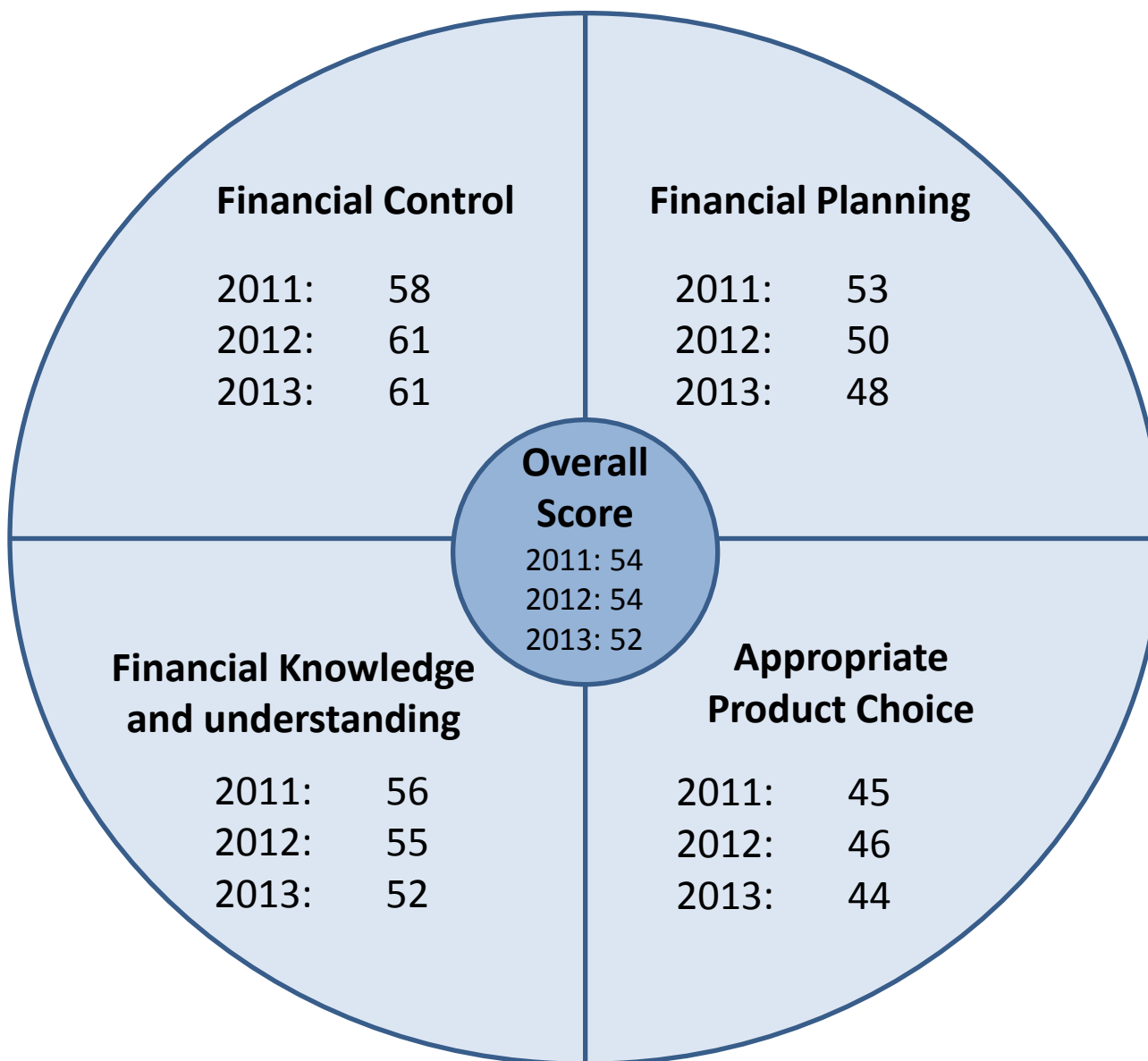
Overall Financial Literacy Score





Financial Literacy

Domain and Overall Scores, 2011-2013





Conclusion



The **trend data** suggests that the more affluent in South Africa have suffered a **decline in financial capacity** in the **recent period**.

Materially better-off South Africans report **lower financial capacity** than in 2011, which may be a response to a **period of relatively slow economic growth**.

Amid difficult economic times, the South African financial consumer face a number of challenges. For **poorer citizens**, financial capacity (already low) has **remained relatively stagnant**.





Conclusion



The **purpose of the financial literacy instrument** over the **last three years** has been to **provide a tool that the FSB, government and other stakeholders** can use to monitor progress in **levels of financial literacy**.

Financial Education Policy: Survey data and measures has assisted by....

- ...identifying target groups
- ...provided comparable year-on-year measure

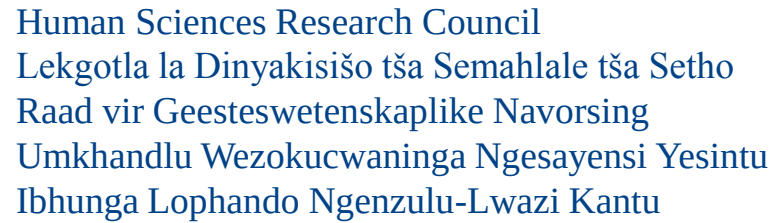
Evaluation approach:

- Show which socio-demographic groups being reached
- Which messages are getting through to risk groups
- The rate at which societal change is occurring

Intentions for the future research in South African Social Attitudes Survey (SASAS)...

- Repeat core financial literacy core module year-on-year
- Repeat every 3-5 years, full financial literacy module





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