

Financial Literacy in South Africa: Results of an OECD/INFE pilot study

Executive Summary

Report Prepared for

The Financial Services Board (FSB)

Riverwalk Office Park, Block B,
41 Matroosberg Road,
Ashlea Gardens Ext. 0081,
Pretoria

by

Human Sciences Research Council (HSRC)

Democracy, Governance & Service Delivery (DGSD) research programme

Benjamin Roberts and Jarè Struwig

09 June 2011

<Not for citation>

THE AIM OF THE SURVEY

The primary overall objective of this study is to gather baseline information about financial literacy in South Africa, in order to assist the Financial Services Board (FSB) to fulfil their vision of helping all South Africans to achieve sound financial management and to provide the relevant financial information to facilitate this for consumers. The FSB Consumer Education programme has previously been hampered by the very limited data available about financial knowledge, attitudes, skills and behaviours of consumers in South Africa. The purpose of this project, the first of its kind in South Africa, is therefore to undertake a national study to generate information on the levels of awareness, knowledge and understanding of financial literacy and systems in South Africa.

The broader objectives of the FSB study are to determine levels of financial literacy in South Africa, to benchmark these against those of other countries, to inform public policy relating to low financial segments and to assist in developing strategies to improve financial literacy. This report provides descriptive findings organised around financial capability: money management; planning ahead; choosing products and staying informed. The organising categories are illustrated in Figure 1. The latter areas represent important issues identified by the Organisation for Economic Co-operation and Development (OECD).

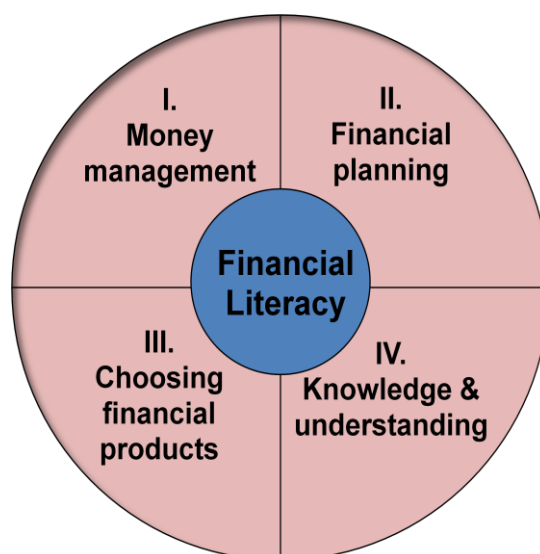


Figure 1

RESEARCH METHODOLOGY

Three thousand one hundred and twelve South Africans participated in the survey, a sample representative of the country's population. The target population for the FSB financial literacy survey was individuals aged 16 and over who lived in South Africa, specifically comprising people living in households, hostels and other structures. Enumerator areas (EAs) from the 2001 Census formed the primary sampling unit (PSU), of which five hundred

EAs were selected throughout South Africa. Within each PSU or EA a total of 7 visiting points or households were selected for interviewing, using random sampling. One household member who was 16 or older was selected randomly as a respondent to complete the questionnaire in the language of his or her choice. The fieldwork commenced on 10 November 2010 and ended on 20 December 2010.

MANAGING MONEY

Making Ends Meet

Respondents were asked whether, in the year prior to being interviewed, they had personally experienced a situation whereby their income did not quite cover their living costs. More than two-fifths (44%) responded affirmatively, with slightly over half (53%) indicating that this had not happened to them. Financial difficulty was more prevalent for women (47%) relative to men (41%), the 30 - 60 age groups rather than 16 -19 year-olds, and for black and coloured respondents more than white and Indian. Those with little education, those unable to work, part-time workers and work-seekers suffered the greatest income shortfalls.

A follow-up question on coping strategies to help get through these times of financial duress indicated that the most common response was to borrow food or money from family or friends, which was reported by around half (49%) of those who were unable to live within their means. This implies that informal and familial networks matter most for South Africans during hard times. A second common strategy was to scale back on expenditures or to merely do without, which was mentioned by close on a third of those (30%) who encountered financial difficulty. Others mentioned borrowing from employers, the pawning of assets, taking a loan from a savings or loan club, and withdrawing funds from a flexible home loan account.

Analysis by various socio-demographic characteristics of respondents showed that those relying more on their social networks in times of financial hardship were women, black and coloured respondents, and those with lower levels of schooling. The higher the educational status, the greater the likelihood of working overtime to create extra finance, but this group were also the most inclined to pay their bills late or miss out on payments.

Personal Involvement in Money Management

Respondents were asked who in their household was responsible for day-to-day decisions concerning the managing of money. Of those interviewed, 27% indicated that they assumed sole personal responsibility for daily money management in their household, 22% managed household finances jointly with their partner, while 15% stated that they performed this task jointly with another family member. Therefore, approximately two-thirds of South Africans aged 16 years and older (64%) directly play at least some role in managing the household budget. The remaining third of survey respondents are reliant on other people for financial planning.

Household Budgets

The presence of a household budget is suggestive of a positive awareness relating to financial management. The reporting of the existence of a household budget was relatively common (55%), with 37% suggesting otherwise and 8% uncertain or refusing to answer. There is a considerable gradient of difference in relation to population group. Coloured and black respondents (46% and 53% respectively) were significantly less likely than white and Indian respondents (76% and 70% respectively) to report that they had a household budget. This finding reflects material disadvantage and social inequalities that continue to characterise South African society. There is a relationship between educational attainment and household budgeting, as well as a link to income: the higher the education or the greater the income, the more likelihood of reporting a household budget (75% and 6% respectively). Age also affects budgeting, as the figure progressively increases for those in their twenties, thirties and forties, becoming highest for people about to enter their retirement years (68%).

Attitudes towards Spending and Saving

A considerable majority of respondents (61%) acknowledge that, prior to making a purchase, they always carefully consider whether they can afford it, with an additional fifth (21%) suggesting that they do this often. Only a tenth give affordability some thought before making an outlay. Although this is a broadly reassuring message, South Africans tend to be less likely to state that they unfailingly pay their bills on time or constantly keep a close watch over their personal finances. Only about a third of people indicated that they are always diligent in doing these activities (34 and 36% respectively).

To further gauge beliefs about spending and financial control, respondents were asked the extent to which they agree or disagree with the statement that “money is there to be spent”. It would appear that South Africans are polarised in their views in this regard. Some 42% tended to agree with this perspective (with 15% strongly agreeing), 18% were neutral, while 39% tended to disagree (with 18% strongly disagreeing).

FINANCIAL PLANNING

Making provision for the future

In order to assess to what extent people make suitable provisions for future unforeseen adverse circumstances or alternatively for planned life events (purchasing a car, paying for lobola and other wedding expenses, or the eventuality of retirement), respondents were asked how long they could manage if they lost their main source of income. Fifteen percent of respondents felt they did not know how long they could manage for, 14% would not be able to manage for even a week, a further fifth (20%) thought they could last between a week and a month, with the largest group (25%) feeling they could manage between one and three months. These findings suggest that a majority of South

Africans only have small reserves to draw upon in the face of a sudden loss of income, before being forced to rely on other forms of coping strategy.

In order to understand who are the most vulnerable in terms of financially sustaining themselves over a period of time, subgroup analyses were done on key socio-demographic variables. The results showed that the groups who could only sustain themselves for the shortest period were as follows: women, the 16 – 19 year age group, coloured people, people with low Living Standard Measure (LSM), those with low educational attainment and people living in rural formal areas. Interestingly, people in the Northern Cape would be able to sustain themselves the longest, whilst people in the Eastern Cape, Free State and Mpumalanga were the most vulnerable.

CHOOSING FINANCIAL PRODUCTS

Respondents were read out a list of fourteen products by the interviewer and requested to say which of them they had heard of before. The most common financial product that South Africans are aware of is a bank account, mentioned by 91%. The second most common product, namely a credit card, is known by two-thirds (66%) of respondents. This is followed closely by a post office savings account (65%) and policies such as those offered by Sanlam or Old Mutual (63%). Other products which were familiar to more than half the respondents were insurance (such as home content insurance, car insurance and funeral insurance), stokvels, and a private pension fund.

Men were generally more knowledgeable than women, and those 70 years and older were familiar with fewer products on average (mean score 5.8) than those aged 30-39 years and 40-49 years (both 7.2). In relation to population group, white South Africans were on average aware of four more products than African respondents (10.3 compared with 6.2). The reason for this racial difference in awareness of financial products appears to be due to socio-economic inequalities, especially educational attainment and employment status.

Product holding and purchase

Respondents were then asked which, if any, of the products they currently held at the time of interview. This helps to construct a general picture of levels of access to financial services in the country. Although a sizable share (20%) indicated that they possessed none of the fourteen financial products listed and 5% refused to answer, 75% of respondents stated that they possessed at least one of them, with respondents on average holding two ($M=1.78$) of the different types of products.

Respondents were subsequently requested to specify whether they had chosen any of the listed products during the last two years, irrespective of whether they still possessed them. Nearly two-fifths (38%) said that they had not done so, with 55% choosing one or more products during this period. An estimated 38% had chosen a single product with a national average of 1.18 products. This would seem to convey a sense that for that segment of South African society that is accessing financial products and services, there has been a fair amount of activity in the market in recent years.

The reported mean number of financial products currently possessed is highest for those with a tertiary or technical/vocational education, white South Africans and those in regular self-employment. Household-level disadvantage plays a considerable role in the number of products held by respondents, as product hold increases significantly in parallel with self-reported household income status and living standard level. Residents in formal urban areas are also more inclined to hold financial products than in other areas.

Decision-making and recent product choice

Among those that indicated that they had bought a product in the last two years, each was asked to specify the manner in which the product was chosen. Nearly half (48%) considered several products from different companies before deciding. Another fifth (19%) said that they contemplated the range of products available from one company before deciding, while a small proportion (6%) shopped around but realised that there were no other products to consider. Above-average shares of respondents reported that they did not shop around in the cases of stokvels (26%), post office savings accounts (22%), bank accounts (21%), credit cards (19%) and household, vehicle or funeral insurance (18%). It seems that comparison shopping is especially common in relation to house bonds, investment accounts, policies (with Sanlam, Old Mutual, etc.) and private pension funds.

Sources of product information

When choosing a financial product, consumer decisions are most informed by product-specific information from a branch of a bank (28%), family and friends who are not in the financial services industry (22%), as well as television and radio programmes (17%) and television advertisements (16%). These four information sources account for 57% of all responses provided, rising to 63% if one also includes the 6% reporting the importance of advice from family and friends working in the financial sector. These figures are applicable to bank accounts and credit cards.

In terms of private pension funds, equivalent importance is attached to television adverts and bank-based information (both 26%), followed closely by television or radio programmes (21%). Also notable is the higher than average percentages of consumers being influenced by financial advisors or brokers (14% – the highest of any product), the sales staff of product providers (11%), internet websites (9%), as well as newspaper adverts. The choice of post office savings accounts is determined more by advice from family and friends (30% out of and 14% in the financial sector) and newspaper articles (16%). Junk mail (11%) received more mentions than average. For investment accounts, media coverage emerges as marginally more important than information from a branch of a bank. The advice of employers (11%) is the highest of all the products examined.

KNOWLEDGE AND UNDERSTANDING

A core component of the financial literacy survey was a short set of questions in the form of a quiz, in order to provide an assessment of the familiarity and proficiency of South

Africans with basic financial concepts. The items test knowledge of concepts such as mathematical division, inflation, interest rates and compound interest.

An overwhelming majority of respondents (80%) were able to supply the correct numerical answer to the first quiz item on mathematical division. The second item explored knowledge of inflation by asking people to say whether, using the same example, the subjects would be able to purchase less, more, or an equivalent amount if they were to wait a year to receive their money.

Barely a quarter (26%) chose the response that was expected (i.e. the subjects would be able to purchase less in a year's time than today), with a third (32%) stating that they would be able to buy more or an equivalent amount in a year's time. There were two additional response options that were not read out to the respondents, namely 'it depends on inflation' and 'it depends on the types of things that they want to buy'. Overall, these responses were mentioned by 16% and 10% of respondents respectively.

It could be argued that, in the South African context, those responding in this manner actually possess a good grasp on inflation, as official consumer price inflation data from Statistics South Africa shows that between January 2010 and January 2011 the overall Consumer Price Index (CPI) rose 3.7 percent. As for those answering that the situation would depend on the items purchased, there is again merit in this response, because planning to purchase certain products such as a car or household appliance would enable them to buy more or an equivalent amount in a year's time, based on last year's CPI data.

Understanding of interest and compound interest

The responses to the two subsequent items on interest and compound interest received on a savings account suggest that respondents struggled cognitively with these elements of financial literacy. The first question asks people to estimate how much would be in a savings account after a year, assuming a 2% rate on an initial R100 deposit. While 45% provided a correct response, 17% answered incorrectly and 8% offered irrelevant answers. What is telling is that 28% stated that they did not know the answer. A similar pattern is found in relation to the compound interest statement, which asked respondents to indicate, using the same example, how much would be in the savings account after a five-year interval. In this instance, 37% provided correct answers and 28% incorrect answers. Again, approximately a fifth of respondents (24%) registered their uncertainty.

Understanding of investment risk and return

Two questions were also included in the quiz that were designed to test the respondent's ability to weigh up risk and return on investments. The responses indicate that South Africans are quite sceptical about potential investments that offer the prospect of getting rich quick, with nearly three-quarters (73%) acknowledging that such schemes also pose the risk of quick losses too. A fifth of respondents (20%) disputed the likelihood of loss in relation to investments promising sizable returns, while 7% were unsure.