



# Financial Literacy in South Africa: Results of a national baseline survey 2012





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This booklet highlights the most significant research findings of the baseline national survey entitled:

*Financial Literacy in South Africa: Results of a baseline national survey.*

The report was prepared for the Financial Services Board (FSB)

by

Human Sciences Research Council (HSRC)

Democracy, Governance & Service Delivery (DGSD)  
Research Programme

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The comprehensive report can be viewed on [www.fsb.co.za](http://www.fsb.co.za)

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**Mr Dube Tshidi,  
Chief Executive Officer  
of the Financial  
Services Board**

The Financial Services Board (FSB) is proud to launch the results of a national baseline survey on financial literacy in South Africa, which is a first of its kind. The Human Sciences Research Council (HSRC) was commissioned to conduct the baseline study of the financial literacy of all South Africans across all walks of life, cultures, races and ages.

Thanks to the baseline study, we now have sound empirical evidence regarding which members of society are most vulnerable and where attention is needed most.

The results of the baseline study give us rich and composite data on how South Africans save, manage their budget and spend, borrow and plan for their financial future. Financial literacy is not only for the poor and uneducated. Even the educated can get themselves into financial trouble if they do not have a proper understanding of financial concepts, products and common "debt traps". When we look at the hardships that many households go through daily, the results highlight how important it is to give people the information and resources they need to make sound financial decisions.

The baseline study eliminates the 'one-size-fits-all' approach in taking financial literacy programmes to South Africans. This will enable the FSB and its stakeholders in the financial sector to take the message to consumers of the need for financial control, proper financial planning, being able to choose financial products and improving their knowledge and understanding of the financial industry.

With substantial supporting facts and figures, the FSB can gain support for and implement structured programmes to targeted groups. We hope to make a dynamic mind-shift within the years to come and will use this study to benchmark our progress.

We are dedicated to investor education and our mission is to provide South Africans with the knowledge, skills and tools necessary for financial success throughout life.

We hope that this study can be used by all our stakeholders to assist them and ourselves with the task ahead.

Regards,

Dube Tshidi

## Introduction

Meaningful participation in the formal financial sector is beyond the reach of many South Africans. The increasing diversification of financial products on offer has complicated financial decision-making for ordinary South Africans. The growing complexity of the financial environment highlights the importance of financial understanding and consumer financial awareness as never before.

In 2011, the FSB commissioned the Human Sciences Research Council (HSRC) to undertake a study of financial literacy in South Africa. The specific objective of the study was to determine the levels of financial literacy in the country. This would be used to inform public financial education policy and assist in developing strategies to improve overall levels of financial literacy.

The FSB's financial education programme has previously been hampered by having very limited data available about the financial knowledge, attitudes, skills and behaviours of consumers in South Africa. The purpose of this survey, the first of its kind in South Africa, has been to undertake a national study in order to generate information on the levels of awareness, knowledge and understanding of financial literacy in South Africa.

Against this backdrop, the consequences of not having the necessary skills to make sound financial decisions becomes severe. This is particularly true in times of economic instability. It is during these times that resources may be more limited and negative financial events, such as the loss of a job or a sharp decline in income are more frequent. Not only has managing day-to-day finances become more difficult, but there are also greater risks in getting it wrong.

This report therefore provides descriptive and analytical findings organised around the four core domains of **financial control; financial planning; choosing appropriate financial products and knowledge & understanding**.

A synopsis of the key and detailed findings within each of these domains is provided. This is followed by a composite financial literacy score for South Africa and how the FSB plans to use this study in future.

# Research Methodology

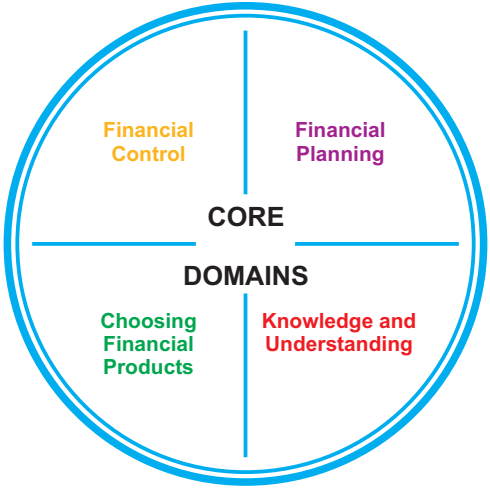
The research contained in this study is based on a pilot survey carried out by the Organisation for Economic Co-operation and Development (OECD) in 2010. In the pilot survey, 20 questions were used to obtain internationally comparable indices which measured levels of financial literacy across 13 countries. The 20 questions were further expanded to 202 questions which were used for this survey in order to acquire insight into South African financial literacy levels.

A representative sample of 2 972 South Africans participated in the survey.

The target population for the FSB financial literacy survey was individuals aged 16 years and over who lived in South Africa. The survey selected people specifically living in households, hostels and other structures.

Enumerator Areas (EAs) from the 2001 Census formed the Primary Sampling Unit (PSU), of which 500 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 years or older, was selected randomly as a respondent to complete the questionnaire in the language of his or her choice. The fieldwork commenced in September 2011 and ended in October 2011.



## KEY FINDINGS:

### Financial Control

It is evident that with regards to financial control, there are clear divisions among subgroups in South Africa. Individuals with different levels of educational attainment, gender, population group and urbanisation seem to reflect different levels of financial control.



**Men have  
better  
financial  
control than  
woman**

Results from the analysis show that the financial control score is significantly lower for:

- Women relative to men;
- Those aged 16-29 relative to those 30 years and older;
- Black Africans relative to all other population groups; Coloured people relative to Indian and White people;
- Those with no schooling; primary schooling or some secondary schooling relative to those who have Matric (Grade 12) or tertiary education; those with Matric relative to those with a tertiary education;
- Those with a low or medium living standard relative to those with a high living standard;
- Those living in rural traditional areas, rural farms and informal settlements relative to those living in urban formal areas;
- isiXhosa speakers relative to speakers of English, Afrikaans and isiZulu; and
- Those in the Eastern Cape and Limpopo relative to those living in Western Cape, Northern Cape, Free State, KwaZulu-Natal, Gauteng, North West and Mpumalanga.

# **DETAILED FINDINGS:** **Financial Control**

## **Personal involvement in money management**

A vital building block of financial literacy is financial control. One of the key measures used to determine financial control is querying who is responsible for daily money management in a household.

From the survey it was clear that:

- Approximately two-thirds of South Africans aged 16 years and older (63%) play a direct role in managing the household budget.
- A third of South Africans are reliant on other people for financial management.
- Gender is not important for determining responsibility for daily money management.
- Population group is an important factor, with White (79%) and Indian (73%) South Africans more likely to play a direct role in managing the household budget compared to their Coloured (63%) and Black African (60%) counterparts.

of South  
Africans are  
reliant on other  
people for financial  
management



**Table 1: Responsibility for daily household money management (percentage)**

|                                      | South Africa | Male | Female | Black African | Coloured | Indian | White | Low LSM | Medium LSM | High LSM |
|--------------------------------------|--------------|------|--------|---------------|----------|--------|-------|---------|------------|----------|
| <b>You</b>                           | 30           | 30   | 29     | 30            | 25       | 30     | 30    | 47      | 30         | 24       |
| <b>Other family member</b>           | 28           | 31   | 26     | 31            | 24       | 20     | 12    | 20      | 33         | 24       |
| <b>You and your partner</b>          | 20           | 20   | 21     | 17            | 19       | 32     | 43    | 17      | 15         | 29       |
| <b>You and another family member</b> | 13           | 13   | 13     | 13            | 19       | 11     | 6     | 9       | 13         | 15       |
| <b>Your partner</b>                  | 5            | 3    | 7      | 5             | 9        | 5      | 8     | 5       | 5          | 6        |
| <b>Someone else</b>                  | 3            | 2    | 3      | 3             | 4        | 2      | 1     | 0       | 3          | 2        |
| <b>Nobody</b>                        | 1            | 1    | 1      | 1             | 0        | 0      | 0     | 2       | 1          | 0        |
| <b>Total</b>                         | 100          | 100  | 100    | 100           | 100      | 100    | 100   | 100     | 100        | 100      |

# Household Budgets

The presence of a household budget is suggestive of a positive awareness relating to financial management. The survey found that:

- Less than half of South Africans (44%) have a household budget, with 51% of the population not having a household budget.
- The higher the level of education or the greater the income, the greater the likelihood of reporting a household budget.
- Age affects budgeting, as the likelihood of budgeting progressively increases with age.

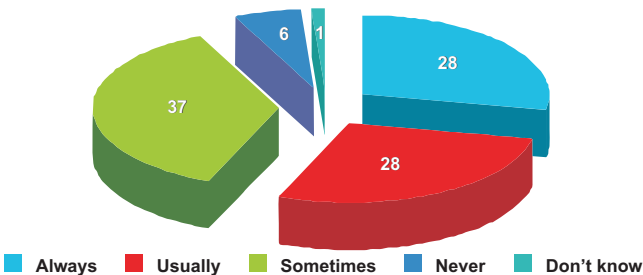
**56% of South Africans always or usually stay within their budgets**

Table 2: Respondents with a household budget (percentages)

|                        | South Africa | Male | Female | Black African | Coloured | Indian | White | Low LSM | Medium LSM | High LSM |
|------------------------|--------------|------|--------|---------------|----------|--------|-------|---------|------------|----------|
| Yes                    | 44           | 46   | 43     | 39            | 46       | 68     | 67    | 23      | 37         | 60       |
| No                     | 51           | 49   | 52     | 55            | 49       | 31     | 30    | 76      | 57         | 34       |
| Don't know/<br>Refused | 5            | 5    | 5      | 6             | 4        | 1      | 2     | 1       | 5          | 6        |
| Total                  | 100          | 100  | 100    | 100           | 100      | 100    | 100   | 100     | 100        | 100      |

Slightly more than half of all South Africans (56%) always or usually stay within their budgets while 43% indicated that they sometimes or never stay within their budgets.

Figure 1: Households staying within budget



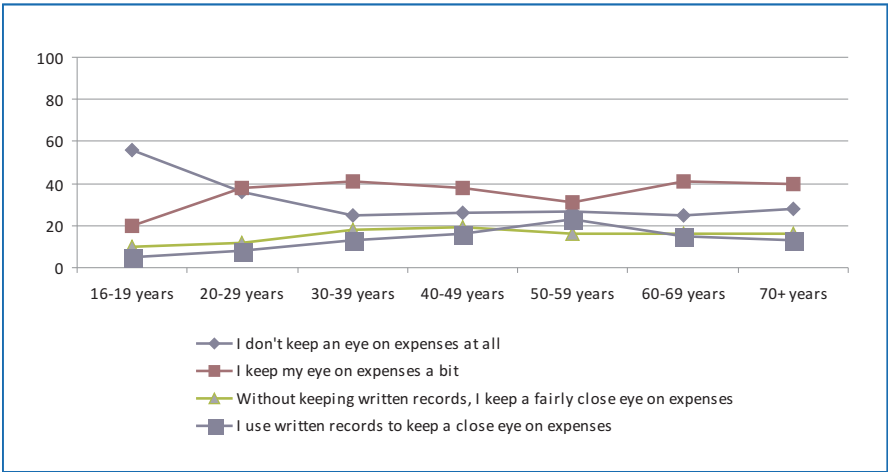
# Monitoring expenses

The study also investigates the extent to which South Africans personally monitor their regular expenses. The survey revealed that:



- Just under a third of South Africans (32%) do not keep an eye on expenses, while 37% monitor their expenses to some extent. Only 27% keep a close eye on their expenses, with or without written records.
- Gender is not an important indicator regarding personal monitoring of regular expenses.
- There is an incremental relationship between monitoring personal expenses and education: approximately 85% of all South Africans with tertiary education and 52% of those with no schooling monitor their regular expenses to some extent.
- Age is important. More than half (56%) of 16-19 year olds do not keep an eye on expenses at all.

**Figure 2: Keeping a personal watch on finances by age**



Many South Africans are not financial record keepers. Just over half (52%) of the population keep copies of bank statements, major purchases (53%) and bills such as electricity or school fees (55%). Fewer keep copies of tax forms (32%), financial service agreements and contracts (31%) and loan or hire purchase statements (29%).

## Making ends meet

Current rises in the cost of living and a higher inflationary environment are eroding the disposable income of South African consumers. Due to its reflection on people's behaviour in times of economic crisis, this makes questions surrounding 'making ends meet' particularly important. When looking at financially responsible behaviour, it was found that:

- Regardless of age, sex, race or level of education, the majority (77%) of South Africans always or often carefully consider whether they can afford something before they buy it.
- Just more than half (52%) the population always or often pay bills on time with 11% never paying bills on time.
- Just more than half of the nation's consumers (53%) keep a close personal watch on their financial affairs with 43% setting long-term financial goals.

**Table 3: Financially responsible behaviour (percentages)**

|                                                                             | Always | Often | Some of the time | Seldom | Never | Don't know/ Refused | Total |
|-----------------------------------------------------------------------------|--------|-------|------------------|--------|-------|---------------------|-------|
| <b>Before I buy something, I carefully consider whether I can afford it</b> | 60     | 17    | 12               | 3      | 6     | 1                   | 100   |
| <b>I pay my bills on time</b>                                               | 32     | 20    | 24               | 6      | 11    | 7                   | 100   |
| <b>I keep a close personal watch on my financial affairs</b>                | 30     | 22    | 20               | 10     | 13    | 5                   | 100   |
| <b>I set long-term financial goals and work hard to achieve them</b>        | 23     | 20    | 20               | 10     | 22    | 6                   | 100   |

From the table above, it is clear that South Africans exhibit prudent financial behaviour and tend to be cautious and exhibit financially responsible behaviour.



Despite being cautious, many South Africans endured financial hardship in 2011 with:

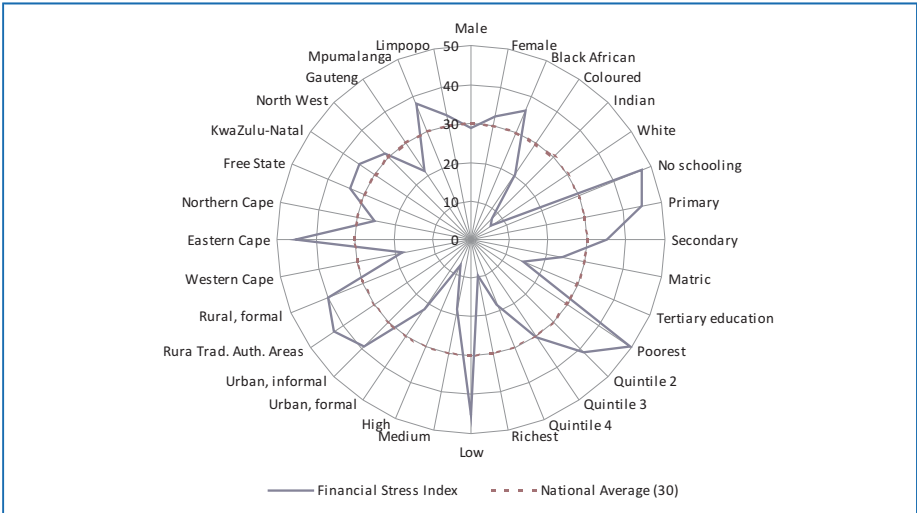
- Almost half (44%) of the population not being able to cover their living costs;
- Nearly half (49%) of South Africans finding it difficult to pay all their expenses and bills in a month;
- Half of all consumers often or sometimes going without a cash income; and
- Almost two-fifths (39%) going without medicine or medical treatment, 38% going without energy to cook food, 36% going without food to eat and 12% going without shelter.

**Table 4: Household deprivation during the past twelve months**

| In the last 12 months, how often has your family gone... | Often | Sometimes | Never | Don't know |
|----------------------------------------------------------|-------|-----------|-------|------------|
| .. without a cash income                                 | 16    | 34        | 49    | 1          |
| .. without medicine/ medical treatment                   | 10    | 29        | 60    | 1          |
| .. without energy to cook food                           | 8     | 30        | 62    | 1          |
| .. without enough food to eat                            | 7     | 29        | 64    | 0          |
| .. without good shelter                                  | 4     | 8         | 87    | 1          |

Using the questions above, a Financial Stress Index (FSI) was constructed to indicate which groups in South Africa are most stressed financially.

**Figure 3: Financial stress index**



The results indicate that some groups – particularly those with high living standards, those in the upper income quintiles and the well-educated, face significantly less stress than others. The groups who face the most stress are the poor, those in rural areas, the uneducated and black Africans.

**Few households have emergency funds**

Of all South Africans (in 2011),

- 34% just got by on their income;
- 27% saved money from their income;
- 11% spend some of their savings and borrowed money to get by; and
- 8% spend some of their savings to get by.

When a consumer's income does not match his resources, coping strategies have to be adopted. The strategy that two-fifths (41%) of such consumers relied on most was borrowing food or money from family or friends. Only a third of all consumers cut back on expenditure in order to make ends meet.

**Table 5: Financial measures relied on during times of financial stress**

| Which of the following does your household rely on most?        | Percent |
|-----------------------------------------------------------------|---------|
| Borrow food or money from family and friends                    | 41      |
| Cut back or spend less, do without                              | 15      |
| Work overtime to earn extra money                               | 9       |
| Draw money out of savings/transfer savings into current account | 5       |
| Take out a loan from an informal provider or moneylender        | 5       |
| Sell something that I own                                       | 3       |
| Take a loan from my savings and loan club                       | 2       |
| Borrow from employer or salary advance                          | 2       |
| Use credit card for cash advance, to pay bills, buy food        | 2       |
| Pay my bills late, miss payment                                 | 1       |
| Take out a personal loan from formal financial service provider | 1       |
| Take out a payday loan                                          | 1       |
| Pawn something that I own                                       | 1       |
| Other                                                           | 5       |
| Don't know/Refused                                              | 7       |
| Total                                                           | 100     |

## KEY FINDINGS:

# Financial Planning

Great emphasis has historically been placed on setting financial goals and working hard to meet them, saving for the long term and having emergency funds in place. However, modern consumerism encourages a less frugal approach, placing a greater emphasis on spending and less on saving.

Indeed, the average South African only scored 53 in the financial planning domain. This score is, however, not consistent across all subgroups.

Results from the analysis show that the financial planning score is significantly lower for:

- Women relative to men;
- Those aged 16-29 relative to all other age groups; those aged 20-29 relative to all those aged 30-60;
- Black African and Coloured people relative to Indian and White people;
- Those never married relative to married people; those divorced relative to those married;
- Those with a low or medium living standard relative to those with a high living standard;
- Those with no schooling, primary schooling or some secondary schooling relative to those who have Matric or tertiary education; those with Matric relative to those with a tertiary education;
- Those living in rural traditional areas, rural farms and informal settlements relative to those living in urban formal areas;
- Speakers of isiXhosa relative to speakers of English, Afrikaans and isiZulu;
- Those in the Eastern Cape, North West and Mpumalanga relative to those living in KwaZulu-Natal, Gauteng; and
- Those living in Limpopo, Free State, Western Cape relative to those living in KwaZulu-Natal.

**Modern consumerism places a greater emphasis on spending and less on saving.**



## DETAILED FINDINGS:

# Financial Planning

### Emergency funds

Prudent saving behaviour is essential for sound financial management. The survey revealed, however, that many respondents reported less than sagacious saving behaviour.

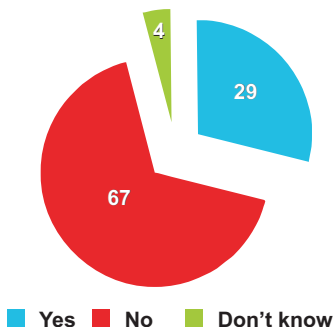


**56% of the population plan for the future**

- Just more than half (52%) of South Africans find it more satisfying to spend money than save for the long term.
- More than half (56%) of the population plan for the future, with 28% living for today.
- Just over two-fifths (43%) always / often plan financially for the long-term and 32% never / seldom do.

Less than one-third of South Africans (29%) reported setting aside emergency or rainy day funds that would cover expenses for at least 3 months. This implies that over two-thirds (67%) of all consumers will not be able to cover their expenses for 3 months in case of an emergency.

**Figure 4: South Africans with emergency funds to cover three months of expenses**

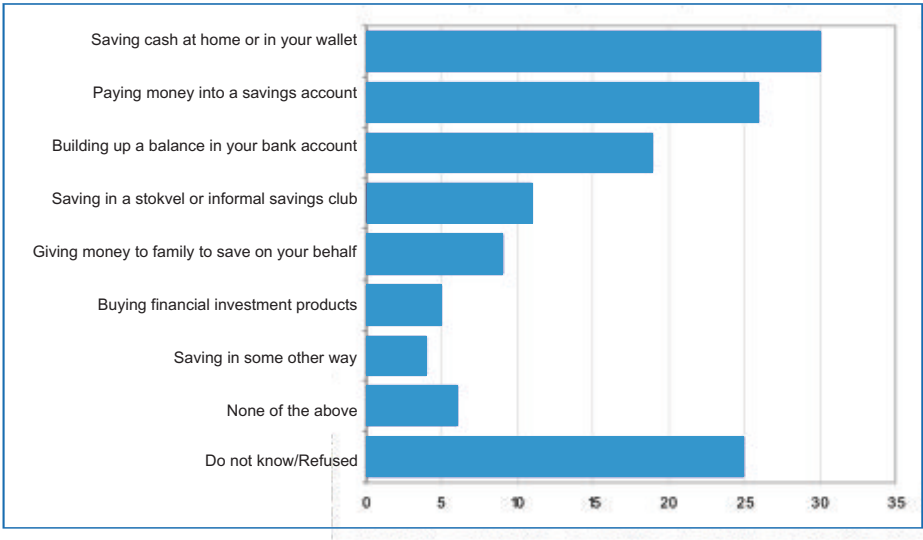


On the whole, findings suggest that a majority of South Africans only have small reserves that they could use to fund living expenses during prolonged times of income loss before they would be forced to rely on other coping strategies.

## Savings behaviour

The study revealed that most of the nation's consumers did not use formal savings mechanisms. South Africans that are able to save money mostly do it informally, such as saving money at home or in a wallet (30%), in a stokvel (11%) or giving money to a family member to save (9%).

**Figure 5: Savings behaviour**



## Retirement planning

The study was able to reveal interesting information on the retirement plans of the nation's consumers. The survey found that:

- On average, 47% of South African adults plan to draw on a government pension - more than 60% of which are among those with low living standards, low education and rural dwellers.
- A third (33%) intend to use private pensions and 22% private savings plans.
- More than 1 in 10 South Africans (13%) recognise the need to work beyond retirement age.
- Relying on family members to provide for retirement is an option for only about 1 in 10 South Africans. This is reported mostly by those nearing or already in retirement, those with no schooling and rural residents.

**Table 6: Items included in financial plans for retirement**

| <b>Which of the following is included in your financial plan for retirement?</b> | <b>Percent</b> |
|----------------------------------------------------------------------------------|----------------|
| Government old age pension                                                       | 47             |
| Workplace pension                                                                | 33             |
| Personal retirement savings plan                                                 | 22             |
| Continuing to work after retirement age to earn money                            | 13             |
| Relying on your spouse or partner to support you                                 | 10             |
| Relying on your children to support you                                          | 10             |
| Relying on financial support from your wider family                              | 9              |
| Using an inheritance                                                             | 6              |
| Moving to a cheaper property in the same area                                    | 3              |
| Moving to a cheaper area                                                         | 3              |
| Drawing an income from your own business                                         | 3              |
| Selling your financial assets                                                    | 2              |
| Selling your non-financial assets                                                | 2              |
| Other                                                                            | 3              |
| Don't know/Refused                                                               | 12             |

Only 44% are confident that their retirement income will ensure the standard of living they hope for. An equal share is sceptical.

Concern is especially high for people...

...aged 70+ years;

...with a low living standard;

...with limited schooling; and

...living in rural areas and informal urban settlements.

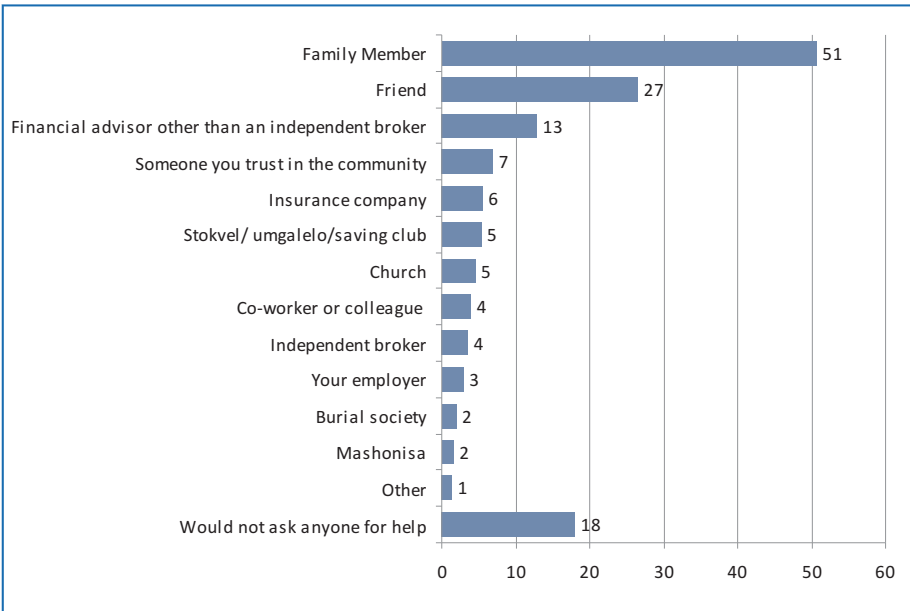
**Only 44% of the population will have enough money for retirement**



## Financial Advisers

In order to further understand decision-making and financial planning, South Africans were asked from whom they normally sought financial advice. Familial and friendship networks were the most popular sources of advice, while non-financial institutions – such as burial societies and stokvels – were the least popular.

**Figure 6: Financial advice-givers (percent)**



A large difference was noted for the living standard category:

- Of those with low living standards, 1% rely on independent brokers compared with 27% of those with high living standards.
- The nation's poor are more reliant on family, friends and informed community members.

**The poor are considerably more trusting of government, informal associations, friends and family and TV/radio than the wealthy. In contrast, the wealthy place more trust in independent brokers and financial advisors.**

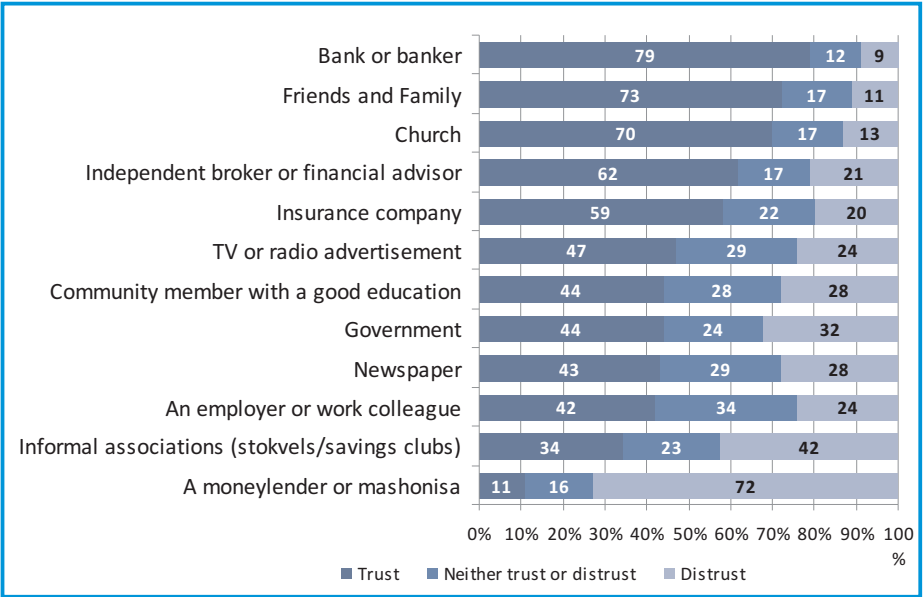


### **Levels of trust in identified advice-givers**

In order to understand who South Africans trust when seeking advice on financial matters, questions were asked on trust levels of different advice-givers.

- Confidence was mostly vested in banks (76%), family/friends (71%) and churches (65%).
- Moderate levels of trust were invested in independent brokers and advisors, insurance companies and tv/radio adverts.
- Lower confidence was expressed in employers/work colleagues.
- Lower confidence was also expressed for informal associations or moneylenders to provide good advice.

**Figure 7: Levels of trust in advice-givers**




**67% of the population holds at least one banking product**

**KEY FINDINGS:****Choosing financial products**

The product choice score remains at a low 45 for South Africans.



In the last 20 years, South Africans have been trying to disentangle themselves from a legacy of inequality in which access to financial products was almost exclusively the province of certain population groups. Our evidence suggests that although a measure of social mobility may have taken place, social inequality remains very much with us. The product choice domain score for South Africans remains low at 45 and the score itself is highly differential based on the obvious wealth disparity between provinces, social classes and population groups.

Results from the analysis show that the product choice score is significantly lower for:

- Women relative to men;
- Those aged 16-19 relative to those aged between 20 and 60; those aged 20-29 and 70+ relative to all those in their 40s and 50s;
- Black Africans relative to all other population groups, Coloured people relative to Indian and White people;
- Those never married, divorced, separated, widowed or married by customary laws relative to those married by civil laws or those married by both customary and civil laws;
- Those with a low living standard relative to those with a medium living standard or high living standard;
- Those with a medium living standard relative to those with a high living standard;
- All educational groups were statistically significantly different, with product choice scores increasing as the level of educational attainment increased;
- Those living in rural traditional areas, rural farms and informal settlements relative to those living in urban formal areas;
- isiXhosa, isiZulu, Setswana and Sepedi speakers relative to English and Afrikaans speakers;
- Those in Limpopo, Eastern Cape and Western Cape relative to those in the Northern Cape, Gauteng, KwaZulu-Natal; and
- Those in North West and Free State, relative to those living in Gauteng.

## DETAILED FINDINGS:

### Choosing financial products

The baseline study identified 4 primary financial product areas: banking, credit and loan, investment and savings, and insurance. The study asked South Africans to identify their awareness of different products in each of these product areas and what kind of products they held.



**29% of all consumers hold at least one credit and loan product**

Before the 4 primary financial product areas are discussed, it is important to note that the reported mean number of financial products South African consumers are aware of and possess has a class basis. The mean is highest for those with a tertiary education, White South Africans and those in regular self-employment. Household-level disadvantage plays a considerable role in product awareness as well as the number of products held by respondents. More wealthy South Africans are inclined to be aware of more products than their poorer counterparts. Unsurprisingly, the wealthy also have a greater tendency to own more products than the poor.



**55% of the population hold no investment or savings product**

**More than half  
(58%) of  
consumers hold  
no credit or  
loan products**

## Banking Products

The most common banking product that South Africans are aware of is a bank account, mentioned by 86% of the population – this is followed by an ATM card (76%) and a Mzansi account (72%).



- Two-thirds (67%) of the population holds at least 1 banking product.
- On average, South Africans hold 2 (M=2.08) banking products.
- A third (33%) of all consumers hold no banking products.
- Almost two-fifths (39%) of South Africans have taken out a banking product in the last 2 years.

**Table 7: Banking products held and chosen in the last 2 years (percent)**

|                             | Heard of the product | Currently hold the product | Chosen the product in the last 2 years |
|-----------------------------|----------------------|----------------------------|----------------------------------------|
| Savings account             | 86                   | 45                         | 21                                     |
| ATM card                    | 76                   | 29                         | 14                                     |
| Mzansi account              | 72                   | 10                         | 6                                      |
| Credit card                 | 65                   | 11                         | 6                                      |
| Post Office savings account | 62                   | 6                          | 4                                      |
| Current or Cheque account   | 51                   | 12                         | 4                                      |
| Debit card or Cheque card   | 49                   | 13                         | 5                                      |
| Fixed deposit bank account  | 48                   | 5                          | 3                                      |
| Garage card or petrol card  | 42                   | 3                          | 1                                      |
| Home loan from a big bank   | 41                   | 3                          | 1                                      |
| Savings book at a bank      | 38                   | 2                          | 1                                      |
| Other bank product          | 2                    | 0                          | 0                                      |
| None of the above           | 3                    | 33                         | 61                                     |

## Credit and Loan Products

- Credit and loan products that South Africans are most aware of are store cards (75%), lay-buys (72%) and loans from a micro-lender (70%).
- Just under a third (29%) of all consumers hold at least 1 credit and loan product.
- On average, South Africans hold 1 (M=1.7) of the products listed in **Table 8**.
- More than half (58%) of all consumers hold no credit or loan products.
- Just under a third (30%) of the population have taken out a credit or loan product in the past 2 years.

**Table 8: Credit and loan products held and chosen in last 2 years (percent)**

|                                  | Heard of the product | Currently hold the product | Chosen the product in the last 2 years |
|----------------------------------|----------------------|----------------------------|----------------------------------------|
| <b>Formal credit and loans</b>   |                      |                            |                                        |
| Store card                       | 75                   | 18                         | 10                                     |
| Lay-buy                          | 72                   | 7                          | 4                                      |
| Loan from a micro-lender         | 70                   | 6                          | 4                                      |
| Hire Purchase (HP)               | 55                   | 7                          | 5                                      |
| Vehicle or car finance           | 54                   | 7                          | 3                                      |
| Overdraft facility               | 31                   | 2                          | 1                                      |
| <b>Informal credit and loans</b> |                      |                            |                                        |
| Loan from friends or family      | 65                   | 9                          | 7                                      |
| Loan from informal money lender  | 60                   | 2                          | 2                                      |
| Loan from a stokvel/umgalelo     | 51                   | 3                          | 2                                      |
| Store account - you pay later    | 27                   | 2                          | 1                                      |
| Loan from local spaza            | 24                   | 4                          | 2                                      |
| Loan from an employer            | 20                   | 2                          | 2                                      |
| None of the above                | 1                    | 58                         | 68                                     |
| Don't know/Refused               | 0                    | 2                          | 2                                      |

## Investment and Saving Products

- Investment and saving products that South Africans are most aware of are pension funds (72%) and stokvels (68%).
- Just more than two-fifths (41%) of all consumers hold at least 1 investment or savings product.
- On average, South Africans hold 1 (M=1.67) of the products listed in **Table 9**.
- More than half (55%) of the population hold no investment or savings product.
- Just more than a quarter (26%) of South Africans have taken out a credit or loan product in the past 2 years.

**Table 9: Investment and savings products held and chosen in last 2 years (percent)**

|                                  | Heard of the product | Currently hold the product | Chosen the product in the last 2 years |
|----------------------------------|----------------------|----------------------------|----------------------------------------|
| <b>Formal products</b>           |                      |                            |                                        |
| Education policy or plan         | 55                   | 6                          | 3                                      |
| Investment or savings policy     | 47                   | 9                          | 4                                      |
| Shares on the stock exchange     | 38                   | 2                          | 1                                      |
| Unit trusts                      | 33                   | 2                          | 1                                      |
| <b>Retirement products</b>       |                      |                            |                                        |
| Pension fund                     | 72                   | 12                         | 5                                      |
| Provident fund                   | 49                   | 6                          | 3                                      |
| Retirement annuity               | 42                   | 9                          | 4                                      |
| <b>Savings clubs</b>             |                      |                            |                                        |
| Stokvel                          | 68                   | 12                         | 8                                      |
| Keep cash or savings at home     | 51                   | 10                         | 7                                      |
| Entrust savings to an individual | 41                   | 3                          | 2                                      |
| Other savings club               | 11                   | 1                          | 1                                      |
| None of the above                | 6                    | 55                         | 70                                     |
| Don't know/Refused               | 2                    | 4                          | 4                                      |

## Insurance products

Insurance products were more common than credit and loan products or investment and savings products.

- Insurance products that South Africans are most aware of are life insurance policies (69%) and car insurance (68%).
- Just under two-thirds (64%) of the population hold at least 1 insurance product.
- On average, consumers hold 2 (M=2.3) of the products listed in **Table 10**.
- Less than half (44%) of South Africans hold no insurance products.
- Just under a third (31%) of the population have taken out an insurance product in the past 2 years.

**Table 10: Insurance products held and chosen in last 2 years (percent)**

|                                     | Heard of the product | Currently hold the product | Chosen the product in the last 2 years |
|-------------------------------------|----------------------|----------------------------|----------------------------------------|
| <b>Short-term (asset) insurance</b> |                      |                            |                                        |
| Vehicle or car insurance            | 68                   | 12                         | 6                                      |
| Cell phone insurance                | 61                   | 9                          | 5                                      |
| Household contents insurance        | 53                   | 9                          | 3                                      |
| Homeowners' insurance on building   | 42                   | 5                          | 2                                      |
| <b>Long-term insurance</b>          |                      |                            |                                        |
| Life insurance or life cover        | 69                   | 16                         | 7                                      |
| Medical aid scheme                  | 67                   | 16                         | 6                                      |
| Hospital cash plan                  | 52                   | 5                          | 2                                      |
| Disability insurance or cover       | 40                   | 2                          | 1                                      |
| Insurance that pays your loan       | 35                   | 3                          | 1                                      |
| <b>Funeral insurance</b>            |                      |                            |                                        |
| Belonging to a burial society       | 64                   | 19                         | 8                                      |
| Funeral cover through an undertaker | 56                   | 13                         | 7                                      |
| Funeral policy (insurance company)  | 50                   | 8                          | 4                                      |
| Funeral policy with a bank          | 44                   | 6                          | 3                                      |
| Spaza shop /stokvel funeral cover   | 21                   | 2                          | 1                                      |
| Belonging to a burial society       | 64                   | 19                         | 8                                      |
| None of the above                   | 4                    | 44                         | 67                                     |
| Don't know/Refused                  | 1                    | 2                          | 2                                      |

## Gathering Information for Financial Decision-Making

It is a fair assumption that the financially literate, as far as possible, try to make informed decisions regarding their finances, but the HSRC study found that many lack the confidence. The survey revealed that:

- Only 44% of all South Africans are confident of their financial knowledge and need no advice, compared to 36% who are not confident.
- Of all consumers, 55% claimed to research products thoroughly when making a financial decision, compared to 25% who did not.

Those with high levels of educational attainment were more likely to conduct research before making a financial decision when compared to those with low levels of educational attainment.

## Getting financial assistance

In order to understand the power relationship between ordinary South Africans and financial institutions, the survey asked how confident a respondent felt that she/he could make an effective complaint against a bank or financial institution. It was revealed that about 46% of the population indicated that they were confident that they could make an effective complaint and with 41% reporting that they were 'not feeling confident'. More than 12% either refused to answer or responded they did not know.

A lack of confidence could be linked to an inability to detect unsuitable financial products. Only a minority of consumers were able to identify financial products in their portfolio that did not suit them. Of the total respondents, 5% indicated that they had discovered an unsuitable financial product in their portfolio in the last 5 years. The financial products identified as unsuitable ranged from household content insurance to a loan from a *mashonisa*. The financial products that were identified most often were credit cards, bank accounts (or a card linked to a bank account) and store cards (or account).

## Seeking advice

The survey found that few South African made use of professional financial advice. The survey findings indicated that:

- A total of 78% of the population had not sought professional financial advice in the last year; and
- Only 13% of all consumers sought advice on savings /investments and 8% in relation to insurance.

## Getting quality advice

The study found, interestingly, that the majority of South Africans did not experience a problem finding appropriate financial advice. The survey found that 65% of all consumers reported no problem getting relevant and good advice; 8% experienced difficulty and 24% said they have not / would not seek advice.



**65% of consumers reported no problem in getting good financial advice.**

**Table 11: Identifying problems finding advice-givers**

|                                                                     | Percent |
|---------------------------------------------------------------------|---------|
| You did not know where to look for advice                           | 46      |
| You could not find the advice you were looking for                  | 26      |
| You did not understand the advice you were given                    | 20      |
| You could not get advice at a time to suit you                      | 19      |
| Got different answers for the same question                         | 17      |
| There were so many advisors available you didn't know who to choose | 14      |
| You got advice but you didn't know whether to trust it or not       | 9       |
| You followed the advice you were given and later regretted it       | 5       |

**KEY FINDINGS:****Knowledge and understanding**

Domain scores discussed thus far have focused on the application of financial knowledge to life circumstances, an individual's saving practices, product choices, willingness to set financial goals, etc. It is necessary, however, to measure not only aspects of behaviour, but also pure cognitive understanding on basic mathematics, inflation, interest and risk investment in order to better understand financial literacy in South Africa.

Measuring knowledge and understanding allows us to discern the relationships between class, formal education and geographic location in terms of general financial knowledge and understanding. The national average for this domain is 56 which indicates a score that is not extremely low but at the same time does not inspire confidence. As we have observed with the other domain scores discussed, there is a considerable level of disparity between subgroups in South Africa.

Results from the analysis show that the financial knowledge score is significantly lower for:

- Women relative to men;
- Those aged 70+ relative to those in their 20's, 40's and 50's;
- Black Africans relative to all other population groups; Coloured people relative to Indian and White people;
- Those with a low living standard relative to those with a medium living standard or high living standard; those with a medium living standard relative to those with a high living standard;
- All educational groups were statistically significantly different, with product choice scores increasing as the level of educational attainment increased;
- Those living in rural traditional areas relative to those living in urban formal and informal areas; rural farms relative to urban formal areas;
- isiXhosa, Sesotho, Setswana and Sepedi speakers relative to English, Afrikaans and isiZulu speakers;
- Those in the Free State relative to those living in KwaZulu-Natal, Western Cape, Mpumalanga, Gauteng and Limpopo;
- Those in the Eastern Cape relative to those living in KwaZulu-Natal, Western Cape, Mpumalanga and Gauteng;
- Those in North West, Northern Cape, Limpopo, Gauteng and Mpumalanga relative to those in the KwaZulu-Natal and Western Cape; and
- Those in the Western Cape relative to those in KwaZulu-Natal.

# DETAILED FINDINGS:

## Knowledge and understanding

### Knowledge of financial concepts

To evaluate financial knowledge, South Africans were exposed to a battery of questions covering some fundamental concepts of economics and finance experienced in everyday life. These included subjects such as basic mathematics calculations, interest paid, interest received and knowledge of compound interest.

**Table 12: Knowledge of financial concepts**

|                                  | Correct | Incorrect | Don't know |
|----------------------------------|---------|-----------|------------|
| Basic arithmetic question        | 85      | 5         | 9          |
| Inflation question               | 23      | 61        | 15         |
| Interest paid on a loan question | 64      | 24        | 12         |
| Interest rate question           | 49      | 21        | 30         |

An overwhelming majority of respondents (85%) were able to supply the correct numerical answer to the first item on mathematical division. However, the concept of interest was understood by less than 50% of South Africans.

Disturbingly, not even a quarter (23%) of all consumers could answer questions on inflation and struggled cognitively with these elements of financial literacy.

In order to evaluate differential levels of financial knowledge and understanding across population subgroups, a composite Financial Knowledge Index (FKI) was developed.

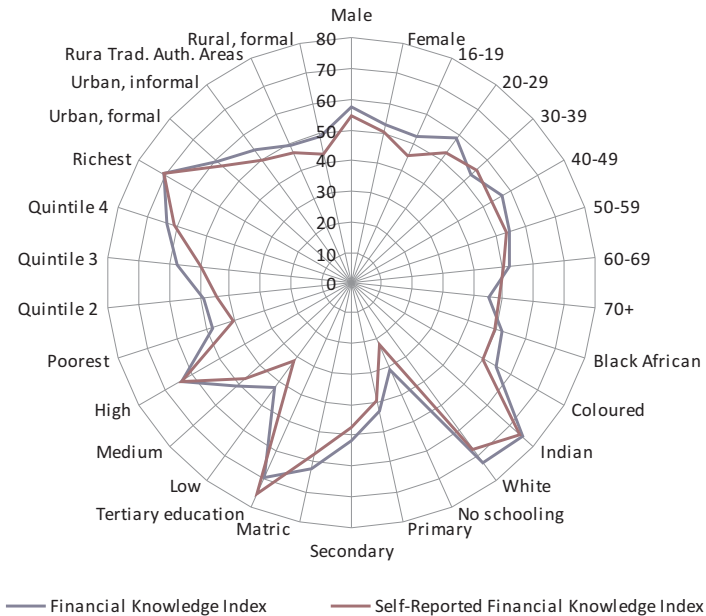
This constructed measure, based on a respondent's answer to specific questions on financial knowledge, was compared to a self-reported measure of knowledge.

Scores were converted to a 0-100 score, with '0' representing a complete lack of knowledge and '100' complete knowledge.

**16-19 year olds - higher than average knowledge domain score but lower than average on other 3 domains due to lifecycle effect.**



**Figure 8: Financial Knowledge Index and Self Reported Financial Knowledge Index**



The FKI revealed that:

- Richer household per capita income quantities scored considerably higher than their poorer counterparts.
- Higher education levels contributed to higher financial knowledge.
- Spatial development also played a role with residents in urban spaces – whether formal or informal – reporting higher index scores than residents in rural geographic locations.

### Identifying knowledge gaps

The study allowed respondents to identify gaps in their financial knowledge. South Africans indicated that they would like to receive more information on or to be better educated in making more effective use of savings products, managing budgets and calculating interest rates.

**Disturbingly, only 23% of the population understand Inflation.**



**Higher  
education  
levels  
contributed to  
higher financial  
knowledge**



**Table 13: Reported knowledge gaps in financial knowledge**

| <b>Knowledge gap</b>                                              | <b>Percent</b> |
|-------------------------------------------------------------------|----------------|
| How to make effective use of savings products                     | 31             |
| How to draw up and manage a budget effectively                    | 25             |
| How interest rates work                                           | 24             |
| How interest rates are calculated                                 | 18             |
| Insuring or covering your life                                    | 18             |
| How to select the best investment products                        | 17             |
| How to better use insurance, bank and retail stores               | 16             |
| How to make effective use of technology, such as cellphones       | 14             |
| Insuring or covering your assets                                  | 12             |
| How to get a copy of your personal credit profile or record       | 10             |
| How to read and understand your personal credit profile or record | 9              |
| How to work out how much credit you can afford / pay back on      | 9              |
| Counselling or training to better manage your credit              | 7              |
| What fees may be applied to any credit agreements that you enter  | 7              |
| Other                                                             | 1              |
| None                                                              | 28             |

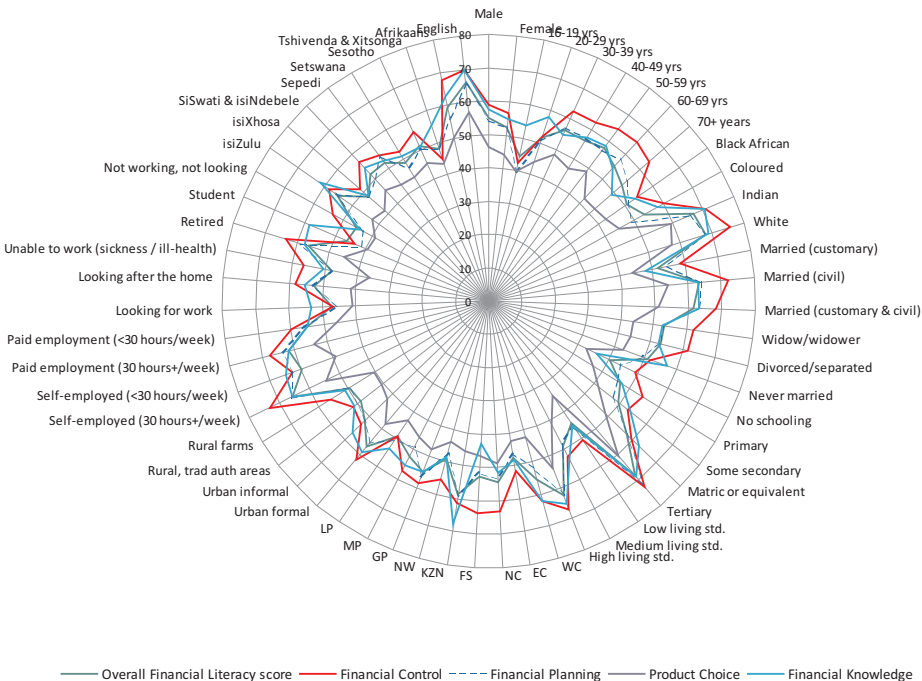
**KEY FINDINGS:****Financial literacy score results**

An examination of each individual financial domain score has allowed the identification of common trends and themes to emerge from the analysis. However, in order to better depict these common themes, an overall financial literacy score was calculated. This score, which stands at 54, allows financial literacy to be measured nationally and across sub-groups.

Results from the analysis show that the overall financial score is significantly lower for:

- Women relative to men;
- Those aged 16-19 relative to those aged between 20 and 60; those aged 20-29 relative to all those in their 30's, 40's, 50's and 60's;
- Black Africans relative to all other population groups; Coloured people relative to Indian and White people;
- Those with a low living standard relative to those with a medium living standard or high living standard; those with a medium living standard relative to those with a high living standard;
- All educational groups were statistically significantly different, with product choice scores increasing as the level of educational attainment increased;
- Those living in rural traditional areas, rural farms, urban informal and informal areas relative to urban formal areas;
- isiXhosa, Tshivenda & Xitsonga and Setswana speakers relative to English, Afrikaans and isiZulu speakers;
- Those in the Eastern Cape and Limpopo relative to those living in Western Cape, Northern Cape, KwaZulu-Natal and Gauteng;
- Those in North West relative to those in Western Cape, KwaZulu-Natal and Gauteng; and
- Those in the Free State, Mpumalanga, Gauteng, Western Cape relative to those in KwaZulu-Natal.

Figure 9: Overall financial literacy scores by select socio-demographic variables

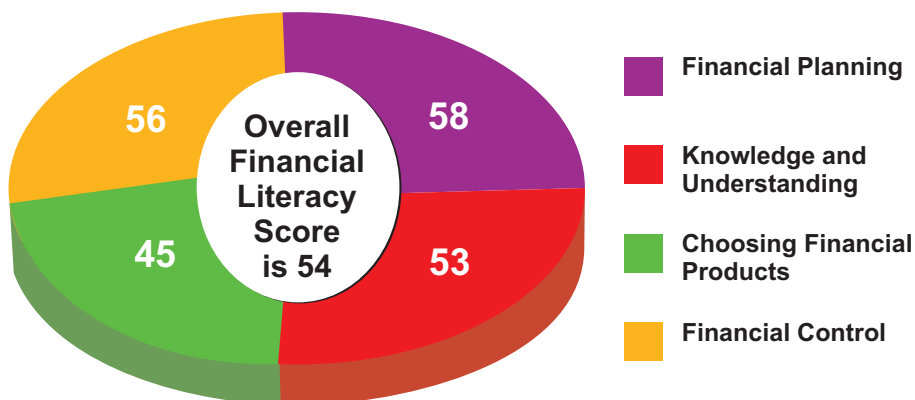


**The Financial Literacy Score of South Africans is 54**



**DETAILED FINDINGS:****Financial literacy score results**

Using the OECD framework, a financial literacy score was calculated for each of the 4 core OECD domains as well as the overall financial literacy score for South Africa. This is calculated and is portrayed in the figure below.



As would be expected, all of the domains had a class and education bias. The scores were highest for those with a higher living standard and also for those with higher education levels. Household level and personal disadvantage thus play a considerable role in the financial domain scores, as well as in the financial literacy scores. Wealthy and educated South Africans are inclined to score higher than their poorer and less educated counterparts.

## Conclusion

The results of this financial baseline study confirm the apprehensions of National Treasury. Not only did a considerable number of South Africans display very low levels of financial literacy, but only a minority relied on experts for financial advice and guidance.

**The baseline study eliminates the “one-size-fits-all” approach in taking financial literacy to all South Africans.**

This suggests that a substantial proportion of the country's population may not be adequately equipped to make sound financial decisions. Indeed, the baseline study provides strong evidence for the existence of low levels of financial knowledge in South Africa. The findings of the study supports a more comprehensive and aggressive programme of consumer financial education.

The creation of a single score to measure financial literacy creates a better understanding of financial knowledge in modern South Africa. It is now possible to accurately present financial literacy in the country with a single measure that has the potential to inform decision-making at a policy level.

The financial literacy index provides the means by which we can



- (i) measure an individual's understanding of financial management and thus his/her ability to make good financial decisions;
- (ii) determine how consumers cope with the growing complexity of financial products;
- (iii) better understand where consumers look for important information and objective advice; and
- (iv) learn from whom consumers access financial products and services.



**The study will be repeated in the next 3-5 years to review the financial literacy levels of South Africans**

This study can provide a platform for researchers to reach a common framework of analysis. In addition, the findings will better allow collaboration and co-ordination of financial sector stakeholders to raise the financial literacy levels of all consumers in South Africa.

Moreover, it will now be possible to measure and monitor the cumulative effect of interventions and societal progress by comparing the baseline to subsequent surveys.

The financial literacy index can provide some measure against which the success of financial education programmes can be assessed. Further, the index can assist in

determining whether policy and programme objectives are being achieved.

The brief description of the typography of financial literacy in South Africa highlights the need for policy-makers to target specific regions for financial consumer education interventions.

To be effective, financial consumer education programmes must be aware of the need to differentiate between individuals and groups. Resources available for consumer financial education are not infinite and relying on a “one-size-fits-all” approach would only lead to ineffective interventions and poor outcomes.

## Next steps

Subsequent to this study, the following will take place:

- An annual update of key indicators as identified in the OECD Pilot Survey.
- The survey instrument and data will be made available on the FSB's website ([www.fsb.co.za](http://www.fsb.co.za)) and the future Consumer Education website so that organisations, researchers and others can use the results to develop and implement financial education programmes that address the financial literacy needs of all South Africans.
- Continuous analysis of the survey data in order to inform the risk-based approach articulated by National Treasury for addressing the financial education needs of consumers.
- The study will be repeated in the next 3 to 5 years to assess the impact of efforts to increase the financial literacy of South Africans.





For a copy of the comprehensive report visit [www.fsb.co.za](http://www.fsb.co.za),  
Enquiries can be emailed to [CED.consumer@fsb.co.za](mailto:CED.consumer@fsb.co.za)  
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Department.

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