Financial Literacy Report 2015 Summary

Rands and Sense: Financial Literacy in South Africa

OVERVIEW OF THE STUDY

Background. As part of on-going efforts by the FSB to better understand, monitor and promote financial literacy in South Africa, the Human Sciences Research Council (HSRC) has been commissioned to undertake surveys that examine financial knowledge, attitudes and behaviour among adult South Africans. This first round of surveying was conducted in 2010, with replications occurring in 2011, 2012, 2013 and 2015. The surveys consist of nationally representative samples, which mean that the results reflect the views of South Africans aged 16 years and older. The series has been designed to assist with the development of strategies to improve financial literacy levels and inform financial literacy policies. It has also been used to develop financial literacy targets that are included as part of the National Consumer Financial Education Strategy (NCFES, 2013). This summary presents select findings from the latest survey round (2015) and emerging changes over recent years in order to stimulate discussion among the public, policymakers and industry stakeholders. The detailed report entitled *Financial Literacy in South Africa: Results from the 2015 South African Social Attitude Survey (SASAS),* outlines the conceptual framework as well as the results and is available at https://goo.gl/q7z58W

Measuring financial literacy. The measures of financial literacy that we use for the survey series build on a conceptual framework developing by the OECD International Network on Financial Education (INFE). At its heart is the recognition that financial literacy is a complex, multi-dimensional concept which combines awareness, knowledge, skills, attitudes and behaviour. This theoretical framework clusters financial literacy and behaviour into four financial dimensions or domains: (a) financial control; (b) choosing and using appropriate financial products; (c) financial planning; and (d) knowledge and understanding. A total of 33 indicators covering the four domains are used to create combined scores and monitor progress in these domains.

MONITORING FINANCIAL LITERACY OVER TIME

Focussing on the four principal domains namely (a) financial control, (b) financial planning, (c) financial knowledge and (d) choosing appropriate products a financial literacy score were developed measuring success in each of the domains over time. As can be seen from the table below, the overall financial literacy score has remained relatively stable over time. During this period, the subdomain scores have however fluctuated with notably financial control increasing over time and financial planning decreasing over time. As could be expected, product choice and financial knowledge scores have generally remained stable over the time period as has the overall financial literacy score.

Table 1: Financial literacy scores (mean scores on a 0-100 scale)

Domain	2011	2012	2013	2015
Financial control	58	61	61	63
Financial planning	53	50	48	48
Product choice	45	46	44	46
Financial knowledge	56	55	56	58
Overall financial literacy	**54**	**54**	**52**	**55**

FINANCIAL CONTROL

Figure 1: Financial control among South Africans

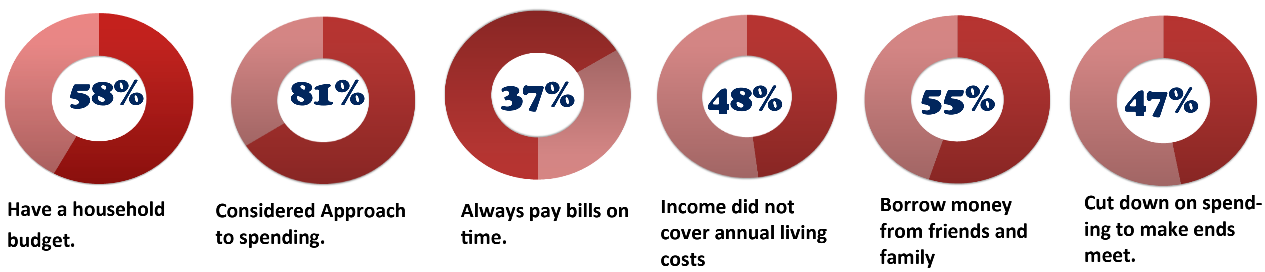


Table 2: ***Coping strategies employed to make ends meet, 2010 - 2015 (multiple response table %)***

Coping strategies	2010	2011	2012	2013	2015
Existing resources:					
Cut back on spending, spend less, do without	30	35	43	39	48
Draw money out of savings	9	13	13	18	13
Sell something that I own	8	12	9	8	11
Access credit by using existing contacts or resources:					
Borrow food or money from family or friends	49	55	41	40	55
Borrow from employer/salary advance	4	5	4	4	4
Take a loan from my savings and loan clubs	2	4	4	4	3
Pawn something that I own	2	4	3	2	5
Take money out of a flexible home loan account	1	0	2	1	1

Coping strategies (CONTINUED..)	2010	2011	2012	2013	2015
Access additional credit:					
Take out a loan from an informal provider/moneylender	5	12	4	3	7
Take out a personal loan from a formal financial service	1	3	3	3	3
Take out a payday loan	0	1	1	1	1
Borrow from existing credit line:					
Apply for loan/withdrawal on pension fund	1	2	2	2	2
Use credit card for a cash advance or to pay bills/buy food	1	3	2	2	3
Use authorised, arranged overdraft or line of credit	0	1	1	1	1
Other					
Creating resources:	5	17	14	9	13
Fall behind/go beyond arranged amount:	9	10	10	9	9
(Do not know)	2	5	3	4	0
(Refused to answer)	2	2	2	5	1

FINANCIAL PLANNING:

Figure 2: Financial planning among South Africans

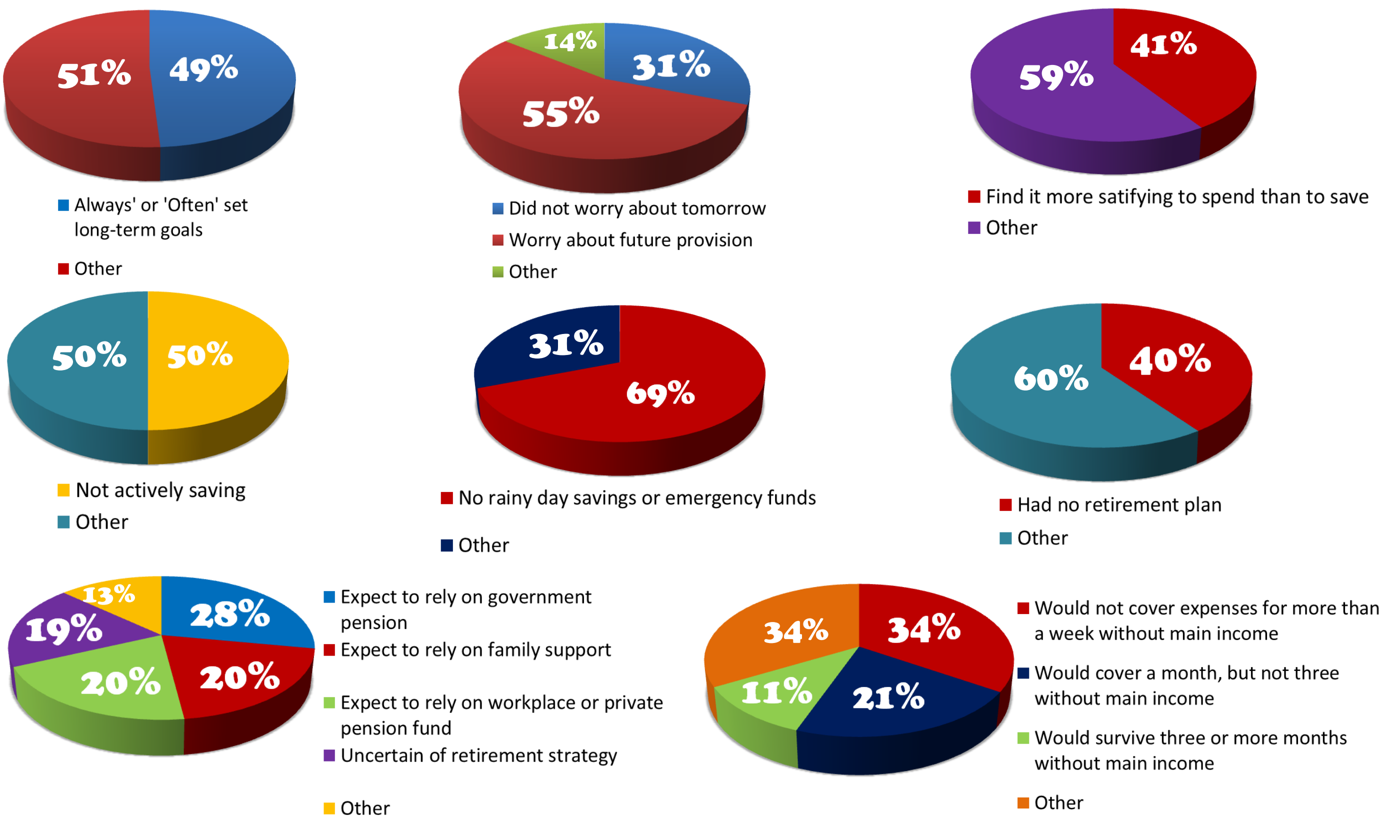


Table 3: Forms of savings, 2010-2015 (multiple response table, percentages%)

Forms of Savings	2010	2011	2012	2013	2015
Paying money into a savings account	32	28	23	21	19
Saving cash at home or in your wallet	22	32	20	22	13
Building up a balance of money in your bank account	17	20	16	12	17
Saving in a stokvel or any other informal savings club	9	11	7	6	10
Giving money to family to save on your behalf	9	10	6	7	6
Buying financial investment products, other than pension funds	3	5	4	3	3
Saving in some other way	2	5	3	2	2

Table 4: Expected source of retirement funding, nationally and by living standard level (multiple response table, %)

Retirement Source	South Africa	Low living standard	Medium living standard	High living standard
Government pension	28	34	30	25
Relying on children or other family	20	27	26	12
Workplace pension	13	5	8	21
Private pension plan	10	0	4	20
Rely on spouse/partner	9	6	9	8

Note: Table excludes all respondents who are retired.

Retirement Source	South Africa	Low living standard	Medium living standard	High living standard
Income generated by assets	3	2	1	6
Selling financial assets	2	3	1	4
Selling non-financial assets	1	1	1	2
Other	6	15	7	4
(Don't know)	19	16	20	17
(Refused)	7	7	5	10

Note: Table excludes all respondents who are retired.

APPROPRIATE PRODUCT CHOICE

- It is important to understand not only financial management and planning but product awareness and usage. The study asked about banking, credit and loan, investment and savings and insurance products.
- Making decisions about finances can be challenging and demanding, and people do not always make the correct decisions. For the period 2011-2015, the vast majority of South Africans reported that they had not regretted a financial decision. Very little variation can be noted over the period. The decision(s) most widely regretted related to savings or investment decision(s). The share of people who regretted a savings or investment decision was 10% in 2011 and 9% in 2015, a notable level of consistency over the period.

Table 5: Awareness and holding of different products, ranked in descending order of awareness within product type (%)

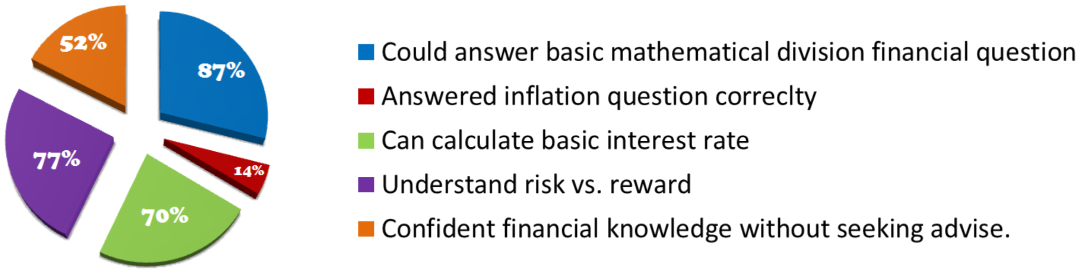
Awareness	Awareness	Holding
Banking products		
Saving Accounts	90	52
ATM Card	77	36
Credit Card	68	9
Mzansi Account	63	6
Debit Card or Cheque Card	62	17
Current or Cheque Account	59	10
Post Office/Post Bank	46	3
Home Loan from Bank	45	2
Savings Book at a Bank	37	1
(None of the above)	3	27
Credit and loan products		
Store Card	76	19
Lay-Bye	74	13
Loan from a Micro-lender	73	6
Loan from Friends or Family	68	14
Loan from Informal Lender	61	4
Vehicle or Car Finance	56	4
Hire Purchase	55	5
Informal Savings Club	54	5
Overdraft Facility	43	3
Loan from Local Spaza	29	7
Loan from an Employer	19	3
(None of the above)	4	53

Awareness	Awareness	Holding
Savings products		
Pension Fund	74	11
Informal Savings Club	69	16
Education Policy or Plan	57	5
Provident Fund	57	8
Investment or Savings Policy	48	6
Retirement Annuity	47	6
Shares on the Stock Exchange	46	2
Unit Trusts	41	2
Keep Cash at Home	41	12
Keep Cash with a Friend	37	4
Other Savings Club	7	1
(None of the above)	9	55
Insurance products		
Life insurance	72	16
Vehicle or car insurance	71	9
Medical aid scheme	71	13
Cellphone insurance	67	8
Burial society	66	28
Household contents insurance	59	7
Hospital cash plan	57	3
Funeral cover (undertaker)	56	17
Homeowners' insurance	51	6
Funeral policy (bank)	49	9
Disability insurance or cover	48	3
Funeral policy (insurance company)	48	11
Loan protection insurance	40	2
Funeral cover (spaza shop/stokvel)	23	2
(None of the above)	4	38

FINANCIAL KNOWLEDGE

To understand financial literacy in South Africa, it is necessary to understand the extent of financial knowledge that an individual possesses. Knowledge is the most common, and perhaps the most recognisable, element of the numerous definitions of financial literacy. The following are the main findings.

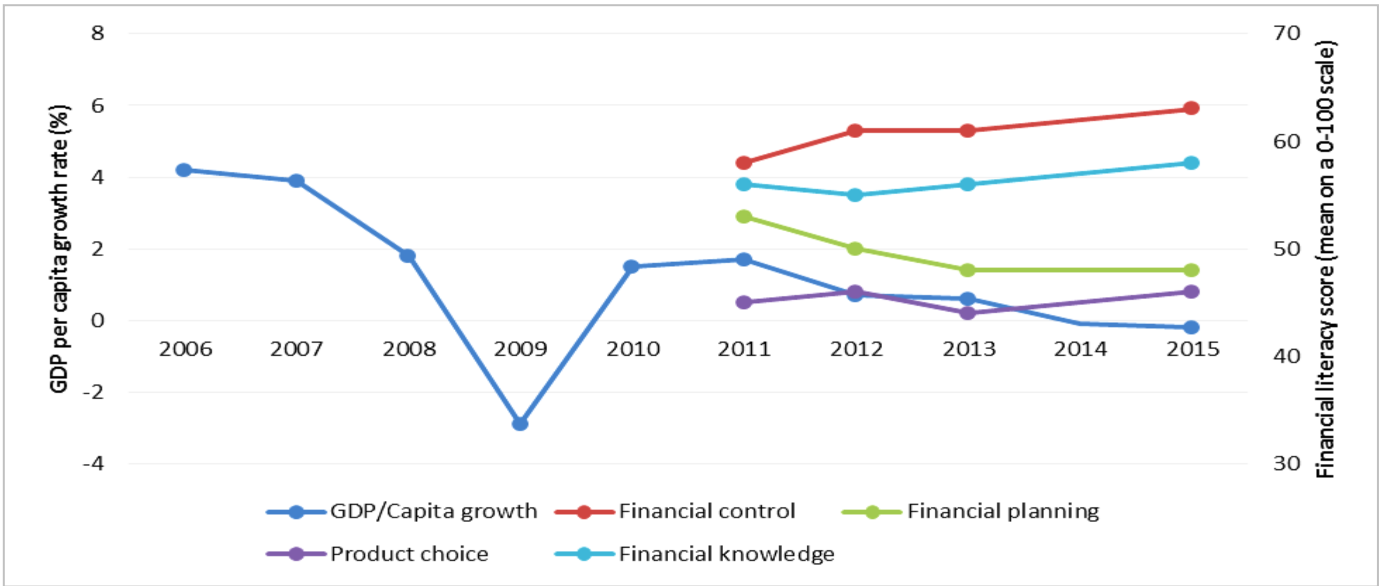
Figure 3: Financial Knowledge among South Africans



ECONOMIC CONTEXT AND FINANCIAL LITERACY

- The concept of financial literacy does not exist in isolation, and is likely to be influenced and informed by broader socio-economic macro-developments in a given country context.
- In the graph below, these domains are juxtaposed against GDP per capita over time.
- Although the graphs should be interpreted with caution given the fairly limited time series on financial literacy, the emerging patterns presented in the graph are both plausible and intuitive.

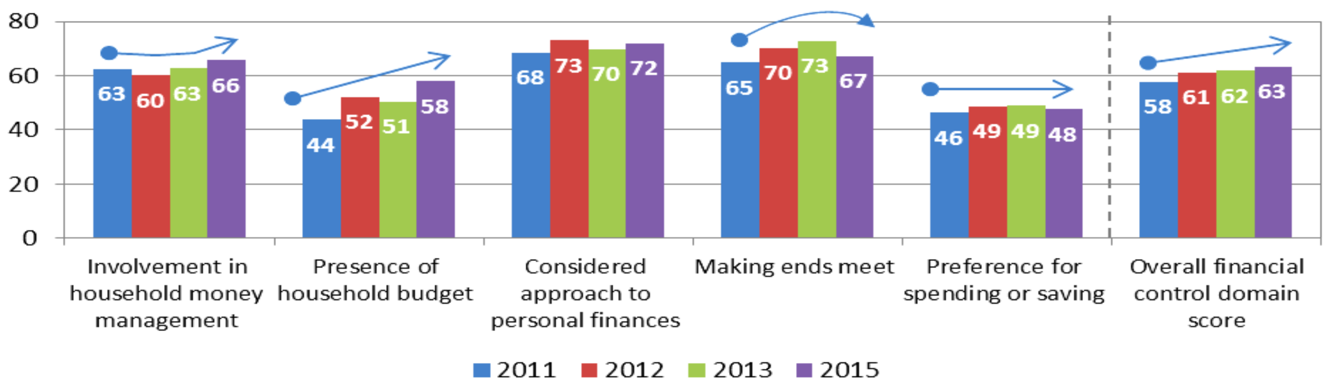
Figure 4: Growth in GDP per capita and financial literacy domain scores



- As hard economic times set in, the adult public tends to respond by adopting a more careful approach to managing their finances in order to make ends meet –hence the upward trend in financial control. Conversely, people find it more difficult to provide for the future through savings behaviour-hence the downward trend in financial planning. In effect, the short term needs get prioritised over longer-term security.
- Intuitively, one would not expect considerable short- to medium-term fluctuations in the product choice or financial knowledge domains. The product choice domain combines product awareness, product holding, and product-related regret, and as illustrated in the graph, did not change much during this period. Likewise, financial knowledge is generally acquired by a slow, accumulative process informed by educational programmes and, as such, did not change to a significant extent over fairly short amount of time.

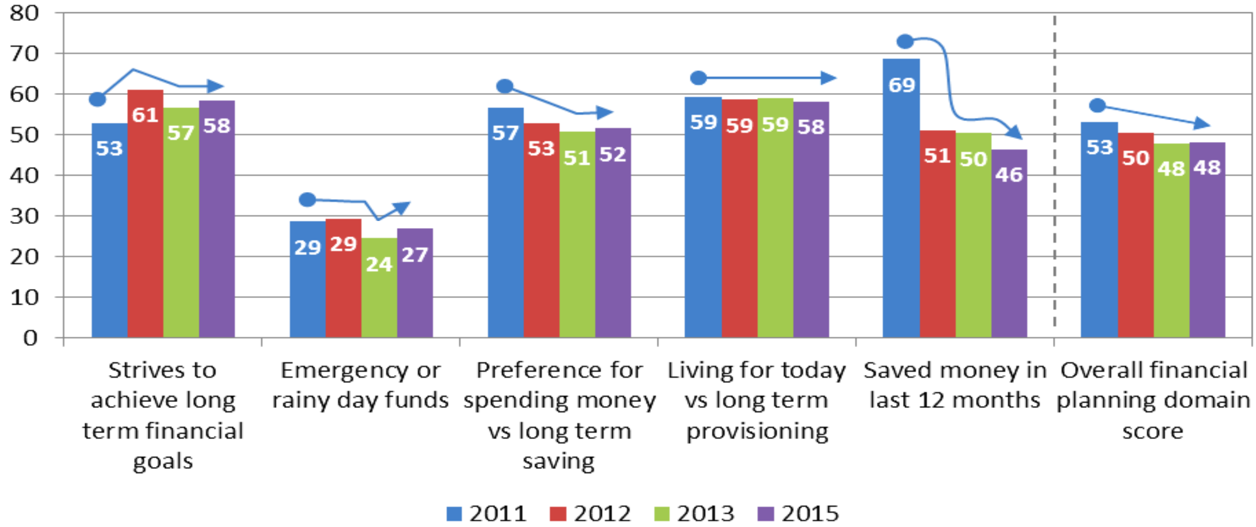
In order to better understand the relationship between this macro-economic indicator and the financial control and financial planning domain, the financial control and financial planning domains were examined in more detail to ascertain which of the constituent indicators underlying the aggregate domain score appears to be changing the most.

Figure 5: Changes in mean scores on financial control indicators, 2011-2015



- The presence of a household budget is the indicator that has altered most over the period, and is the primary driver of the upward trend in financial control.
- Apart from domestic financial budgeting, the ability to make ends meet also improved between 2011 and 2013, with the domain score rising from 65 to 73 during this time. In 2015, there was however a reversal in the reported ability to make ends meet. The other three measures used in deriving the financial control domain score were more stable during this period.

Figure 6: Changes in mean scores on financial planning indicators, 2011-2015



- Turning now to the financial planning domain, we witnessed an aggregate year-on year decline in mean scores between 2011 and 2015. A range of patterns is evident and it is immediately apparent that the ability to save money has shown the largest decline over recent years and only a modest share of South Africans indicate that they have rainy day or emergency funds set aside.
- The remaining three measures address an ethic regarding financial planning. There is a modest increase in efforts to try and realise long-term financial goals, as well as a slight fall in views regarding the preference for long-term saving over spending money.
- These attitudinal patterns reaffirm the message that South Africans want to plan for the future and strive hard to do so, but macroeconomic realities and daily economic struggles act as impediments to realising such ambitions.

CONCLUSION

- It is important to reiterate here the consequences of financial illiteracy. Low levels of financial literacy negatively affect financial consumers in a myriad of ways, including the incapability to assess the suitability of financial products in relation to personal needs. Financial illiteracy also undermines saving and makes individuals more vulnerable to predatory lending and financial scams. The ability of an individual to start a business can be affected by her or his financial knowledge, capability and understanding; therefore, financial illiteracy undermines entrepreneurship in South Africa. The country faces considerable challenges of overcoming unemployment, poverty and inequality during a prolonged period of global economic uncertainty and slow growth. Such challenges are compounded by low levels of financial literacy amongst the public.

- The purpose of using a composite index that measures financial literacy is to provide a tool that government and other stakeholders can use to monitor progress in levels of financial literacy. This report finds that on average, financial literacy scores among South Africans is low (55/100). The report asserts that a considerable portion of the country's adult population may therefore not be satisfactorily equipped to make important financial decisions. However, despite this, there is evidence that South Africans tend to have an attitudinal preference to save, but economic realities often hinders saving behaviour. A clear trend was noted in terms of a macro economic indicator (GDP growth) and financial behaviour.

- Across all domains constructed for this report, a clear class and human capital bias was evident. Those with high educational attainment and in the upper economic classes were far more likely to demonstrate high financial knowledge and positive financial behaviour. It is clear, therefore, that in understanding financial literacy in the country we have to acknowledge the vital significance of individual access to human and economic capital. Age was statistically associated with financial literacy with youngerst being more financially literate than their older counterparts. A common finding in many studies of financial literacy is gender basis. However, this study was unable to find any statistically significant correlation between financial literacy and gender. This suggests that women in South Africa have adapted to the financial marketplace with the same proficiency as men.

- The composite financial literacy index is a useful tool for policy-makers. Using this measure, the research team identified salient socio-demographic differences in financial literacy. The data presented in this report shows that positive trends in financial literacy is consist with the priorities of the NCFE Strategy. In its design of interventions to assist vulnerable groups in South Africa, the Strategy prioritises certain groups and particularly the poor. The data presented in this research report shows that the Strategy is targeting the right groups and that financial literacy amongst the poor has marginally improved over the period 2011-2015. Economic status remains the most robust predictor of financial literacy identified by the research team and is a powerful correlate of the overall financial literacy score.

DISCLAIMER

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