

Rands and sense

Financial literacy in South Africa

The recent global economic downturn, coupled with the rising cost of basic commodities and services, increasing debt and persisting unemployment, has meant hard times for many. In such a context, it is imperative that South Africans have a basic knowledge of money matters and are able to make appropriate choices to ensure their immediate and longer-term needs. **BEN ROBERTS** and **JARÉ STRUWIG** present findings from an ongoing collaborative project aimed at measuring and monitoring levels of financial literacy, both within the country and relative to other nations.

Data for this study draws from the 2010 round of the nationally representative South African Social Attitudes Survey (SASAS), conducted annually by the HSRC since 2003. The sample size for the 2010 round was 3 112 individuals, aged 16 years and older, living in private households.

A module of questions on financial literacy, funded by the Financial Services Board (FSB) and developed by the OECD International Network on Financial Education (INFE), provided an international and robust measure of financial literacy. The OECD defines financial literacy as 'a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing'.

The results capture the way in which South Africans approach day-to-day money management, planning for the future, and the choosing of financial products, together with their level of basic financial knowledge. South Africa was one of 13 countries to pilot this new module.

FINANCIAL CONTROL

Financial control is an aspect of money management that includes budgeting and record keeping, together with awareness of one's own financial position. The survey included measures on the extent to which households share responsibility for financial matters, as well as information about the respondents' attitudes and behaviour towards financial management.

In terms of making ends meet, nearly half (44%) of South African adults had personally experienced income shortfalls in the year prior to interviewing. Of those experiencing financial difficulty, the most common coping responses were either to borrow in cash or kind from family and friends, cutting back on spending, or doing without. Other strategies hardly feature, with only a nominal reliance on financial products to help address deficits.

With respect to household money management and budgeting, 64% reported some per-

sonal involvement in household daily money management (27% solely; 37% jointly), while 55% indicated the presence of a household budget. These are positive financial behaviours, but it is important that being engaged in financial decision-making and monitoring is accompanied by prudent attitudes to saving and spending. In this respect, South Africans display a broadly favourable view of their approach to financial management – they tend not to make impulsive purchases, pay bills on time, and closely watch their personal finances. However, they hold a more ambivalent, inconsistent view on 'money is there to be spent' (Table 1).

LONGER-TERM PLANNING

The extent to which people have plans in place to ensure their future financial security is another core indicator of financial literacy. Planning for the future includes making provision for unexpected events, as well as making plans for things one knows will happen in the medium- to long-term, such as retirement.

We tested several attitudes on long-term planning (Table 1). Firstly, 47% stated that they find it more satisfying to save for the long-term than spend money, with 39% giving preference to spending. The second statement in Table 1 shows that 26% of people agreed that they were more likely to 'live for today', while the majority, at 59%, disagreed with the statement. Finally, 55% mentioned that they always or often plan financially for the long-term, compared to 22% who never or seldom do.

With regard to savings behaviour, a significant majority used at least one type of savings instrument in the year prior to interviewing. Paying money into a savings account or building up a balance of money in a bank account were the most common responses. Saving cash at home or in one's wallet was also quite prevalent (18%). In terms of emergency funds, 59% would only be able to survive between one and three months without external assistance if they lost their main income source.

CHOOSING FINANCIAL PRODUCTS

The ability to choose appropriate products that meet one's needs is also considered a fundamental part of financial literacy, including an awareness of the features and risks associated with different financial products, as well as shopping around before buying products. Many financial literacy studies have suggested that capabilities in this area tend to be relatively weak.

The results indicate that South African adults have a moderate to low level of awareness of financial products (Figure 1). There was a basic familiarity with only half of the 14 different financial products asked about, with 91% aware of bank accounts and 66% aware of credit cards. Barely half the adult population had heard of insurance policies, *stokvels* and private pension funds, and less than a third knew about of retail bonds, stocks and shares, and microfinance loans.

As for access to financial services, 20% possessed none of the 14 products, with the most common financial product being a bank account (68%). A relatively low proportion reported holding the other products.

KNOWLEDGE

To make sound financial choices, individuals require not only a basic level of financial knowledge, but also the skills to apply this knowledge in their financial decision-making. The survey administered 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 tested knowledge of concepts such as mathematical division, inflation, interest rates and compound interest.

The responses at the national level suggest that South African adults know a few basic financial concepts, but that financial knowledge is not especially broad-based. Only 6% were able to answer all eight questions correctly, while 43% were able to answer half or less of the questions correctly. Knowledge was substantially



lower among those with limited education, discouraged work-seekers, those looking after the home, those aged 70 years and above, and poor households.

Of the set of items, while most were able to supply correct responses to the basic arithmetic question (80%) and inflation questions (78%), the proportion responding correctly decreased somewhat in relation to interest on loans (66% correct), but considerably in relation to issues of interest rates on savings and compound interest (45% and 37% correct responses respectively). Even though there does seem to be a broad appreciation of the fact that high-return investments often entail high risk (73% declaring this 'true'), there is widespread ambivalence about risk diversification, with only 48% believing that it is less likely you will lose all your money if you save it in more than one place.

CONCLUDING REMARKS

The survey findings represent an initial contribution to a broader exercise aimed at harmonising the measurement of financial literacy globally. They also test a multidimensional approach to form a concept of financial literacy in South Africa that is based upon assessing individual capabilities in relation to the four components discussed in this article. The results indicate that South Africans exhibit moderate to low levels of financial literacy on many indicators across the four domains, and that a sizable proportion of the population is under strain to maintain financial commitments. They also highlight the need for the forthcoming National Strategy on Financial Education to promote an improved awareness of financial products and concepts in addition to increasing financial inclusion.

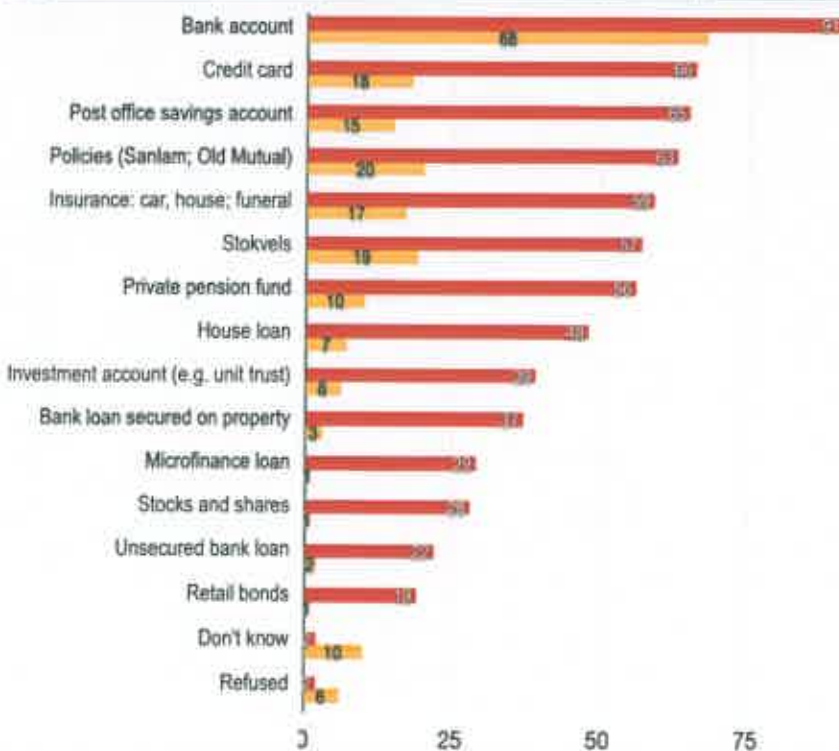
At the same time, there is an associated need to measure progress in implementation and ensure adaptable, evidence-based policy. To this end, the HSRC is currently undertaking a comprehensive baseline assessment of financial literacy on behalf of the Federation of Small Businesses (FSB) and National Treasury. This will assist in identifying needs, gaps and target groups. Periodic evaluations of the cumulative effect of interventions to improve financial literacy are also being planned. It is only by adopting such practices that we can ensure that suitably targeted and adaptive policy, programmatic and project-based interventions serve to progressively realise the vision of a financially capable citizenry that is able to make informed decisions in the face of risk and vulnerability. ◀◀

AUTHORS: Ben Roberts and Jaré Struwig, are SASAS coordinators, Democracy, Governance and Service Delivery research programme, HSRC. The report on which this article is based is available on the FSB website (www.fsb.co.za).

Table 1: Responses to attitude statements about money management and planning (%)

	Always/often	Sometimes	Seldom/never	Don't know/refused	TOTAL
I keep a personal watch on my financial affairs	65	17	16	3	100
I pay my bills on time	60	19	16	5	100
Before I buy something I carefully consider whether I can afford it	83	10	6	0	100
I set long-term financial goals and work hard to achieve them	55	14	22	3	100
	Agree	Neutral	Disagree	Don't know/refused	TOTAL
I find it more satisfying to spend money than to save it for the long-term	39	14	47	1	100
I tend to live for today and let tomorrow take care of itself	26	14	59	1	100
Money is there to be spent	42	18	39	1	100

Figure 1: Awareness and current possession of different financial products (%)





**Cape Town's global
competitiveness
under the gun**

**MONEY
MATTERS**
But do we know
how to use it?

Disclosing HIV status

Is it the right thing to do?

**Suffer the
little children**

To foster or to adopt?