Financial literacy, competency and education

Briefing Report No. 5

based on the results of the 2020 Financial Literacy Baseline Survey

Prepared for a rainy day?

The presence of emergency funds in South Africa

BACKGROUND OF THE STUDY

As part of on-going efforts by the FSCA 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, 2017 and 2020. The surveys consist of nationally representative samples, which imply 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 policies. This brief presents select findings from the survey rounds and illustrate emergency fund changes over the years.

EMERGENCY FUNDS

The presence of emergency funds helps offset the financial duress that could be experienced during periods of unemployment, loss of income, reduced income, or other similar occurrences. The COVID-19 pandemic has once again highlighted the crucial importance for South Africans to possess at least some emergency funds. The absence of such funds is likely to result in appreciable vulnerability in the face of shocks and lengthen the time it takes to recover economically.

To gauge the presence of emergency funds among the adult public in South Africa, the 2020 FSCA Financial Literacy Baseline Survey asked respondents the following question: "Have you set aside emergency or rainy-day funds that would cover your expenses for 3 months, in case of sickness, job loss, economic downturn, or other emergencies?". The results indicate that only a quarter of adults (26%) have such funds in place (**Figure 1**). The majority (71%) indicated that they have

Figure 1: Share of South Africans who have at least three months' worth of emergency funds set aside, 2020 (percentage)

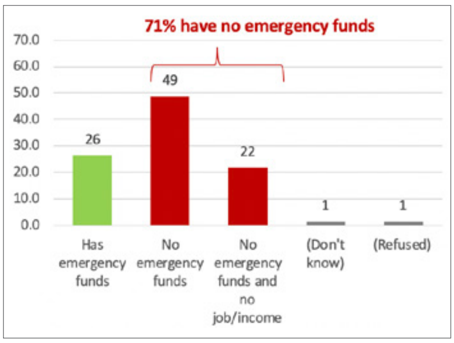
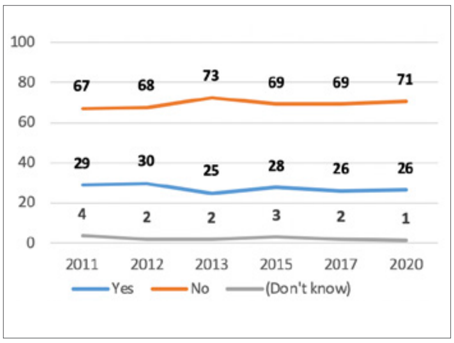


Figure 2: Share of South Africans who have at least three months' worth of emergency funds set aside, 2011-2020 (percentage)



Source: SASAS 2020 FSCA Financial Literacy Baseline Survey

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no emergency funds and a nominal share (2%) was uncertain or refused to answer the question.

The FSCA Financial Literacy Survey has monitored this indicator over time and (**Figure 2**) demonstrates that there have only been minor fluctuations over the course of the decade with regards to this indicator. The existence of emergency funds varied between a low of 25% and a high of 30% over the surveying points during the decade. Only between a quarter and a third of South Africans have emergency funds at any given point in time. Interestingly, there was no apparent lack of change in the figures between the 2017 and 2020, suggesting that COVID-19 has not further reduced the relatively small proportion of the public with emergency funds. The picture is nonetheless a sobering one.

FACTORS ASSOCIATED WITH EMERGENCY FUNDS OVER TIME

To better understand the factors that are significantly associated with the presence of emergency funds in 2020, a multiple logistic regression analysis was conducted. This analysis allows for the dominant socio-demographic predictors of the existence of emergency funds to emerge when a set of different variables are jointly considered. Results showed the following as critical variables associated with emergency funds:

- **Education:** tertiary-educated adults are more likely to report the presence of emergency funds than those with lower levels of education.
- **Employment status**: Employed adults are more inclined to report having emergency funds than unemployed work-seekers, learners and students, as well as other labour inactive adults.
- **Poverty status:** independent of the class-related variables above, those classifying themselves and their household as non-poor are more likely to report that they have emergency funds relative to those classifying themselves as poor or 'just getting by'.
- **Other variables** that were not statistically significant controlling for other factors include gender, race, and age group.

HOUSEHOLD RESILIENCE IN THE FACE OF ECONOMIC SHOCKS

As a follow-up question on economic resilience, respondents were asked to assess how long their household could cover expenses (without borrowing money or moving house) if the principal source of income was lost. Only 24% of respondents stated that they would be able to cover expenses for a period of 3 months or more. The majority would not be able to cover expenses for a prolonged period with 16% stating between one and three months, 12% up to a month and 17% less than a week, (**Table 1**). This is a fairly sobering finding, as it suggests that a sizeable share of adults do not possess emergency funds and live in households where economic consequences of disruption to the primary income sources would have far-reaching effects on the ability to cope for more than a fairly short period of time.

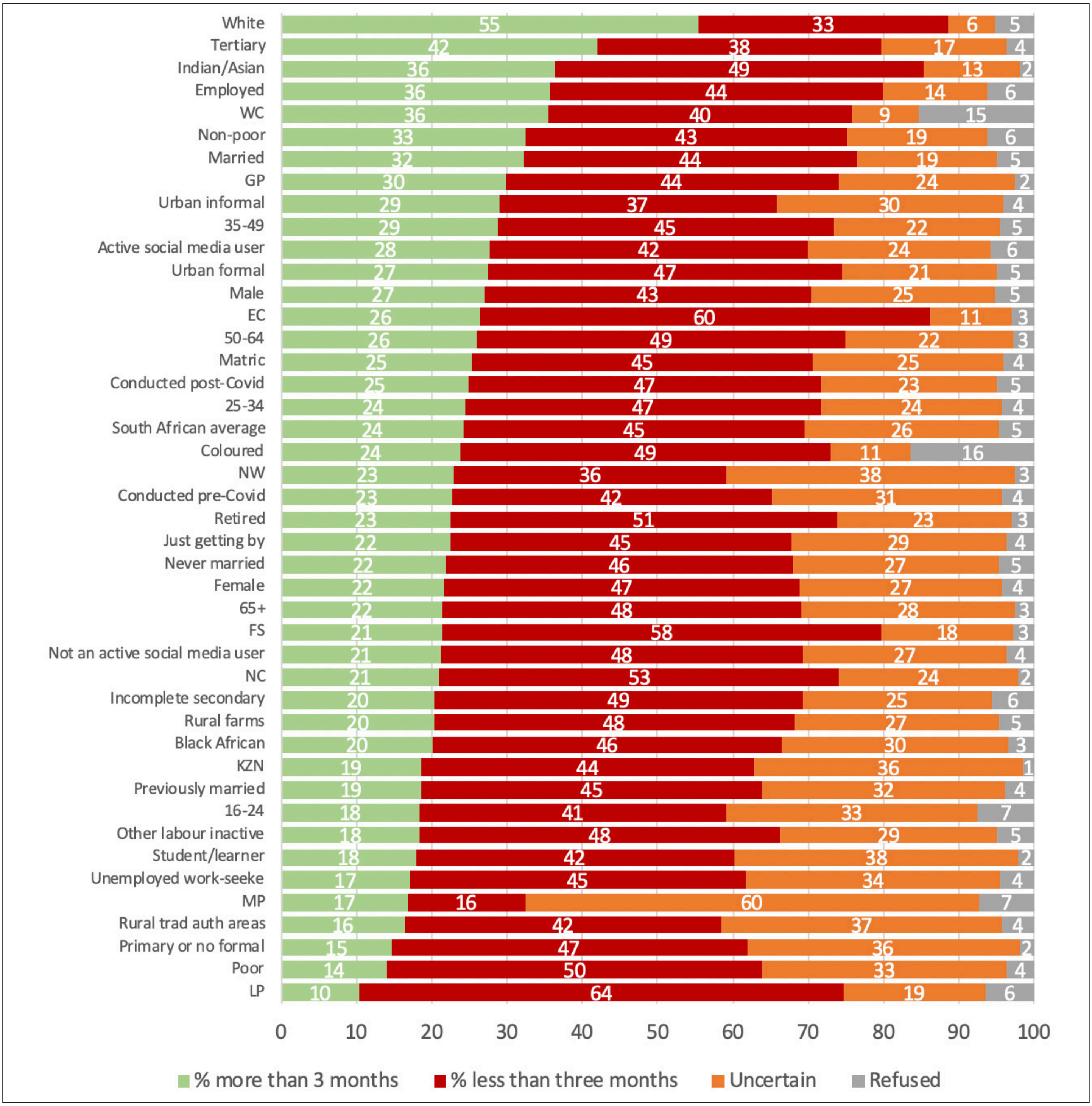
Table 1: Length of time household could maintain expenses if main income source was lost, 2010, 2011, 2015 and 2020 compared (percentages)

	2010	2011	2015	2020
Less than a week	14	21	15	17
At least a week, but not one month	20	17	19	12
At least one month, but not three months	25	17	21	16
At least three months, but not six months	11	11	11	9
More than six months	11	15	13	15
(Do not know)	15	18	19	26
(Refused to answer)	5	1	2	5
Total	**100**	**100**	**100**	**100**
% less than three months	*59*	*55*	*55*	*45*
% more than three months	*21*	*26*	*24*	*24*

Source: South African Social Attitudes Survey (SASAS) 2010, 2011, 2015, and 2020.

When household resilience was considered by socio-demographics, it was found that the tertiary educated, employed and the non-poor were more likely to report being able to cope for a period longer than three months than those with no or only a primary school education, unemployed work-seekers, and the poor. Controlling for variables in a regression, black African adults were less likely than white adults to maintain living expenses for more than 3 months. Only 10% of Limpopo-based residents said they would be able to maintain expenses for 3 months or longer if they lost their main source of income

Figure 3: Length of time households could maintain expenses if main income source was lost, by select socio-demographic attributes, 2020 (%, ranking highest to lowest based on the 'more than three months' category)



Source: South African Social Attitudes Survey (SASAS), 2020.

SOURCING EMERGENCY FUNDS

A third (33%) of people prefer to draw first on any personal savings for emergency funds (**Figure 4**). A similar share (32%) referred to familial support to help them secure emergency funds to make ends meet. This speaks to the salience of one's family network as a safety net in times of need in South Africa. Between a tenth and 15% mentioned finding a job or a job with better conditions (13%) or borrowing funds (10%). Less than a tenth reported that they would sell off personal assets (8%) or rely on the charity of others (5%). Fairly sizeable minority shares indicated that they were unsure of what they would do (11%), or that they would simply be unable to leverage such funds (14%).

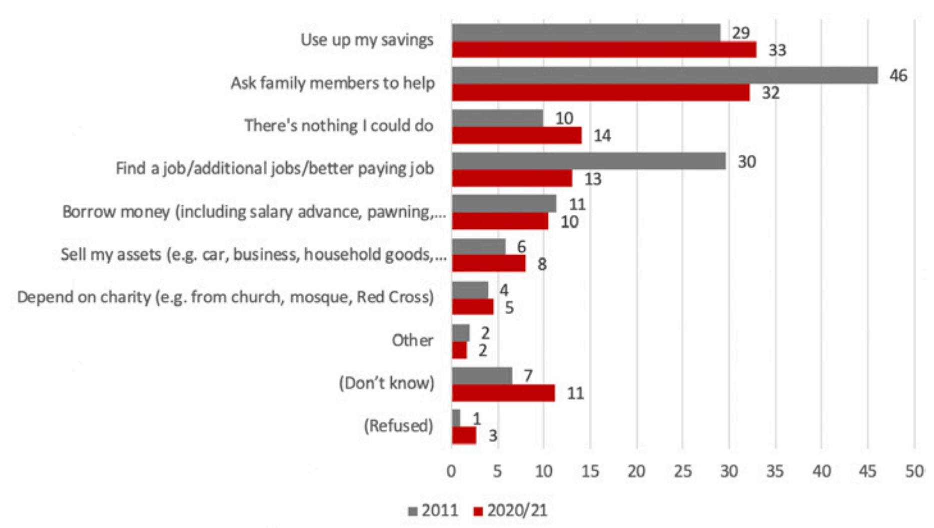
This reaffirms that relatively few South Africans have provisioned for unforeseen events or circumstances, and that in the absence of this or kin support, most would be left to rely on riskier financial options that would increase precarity or, even worse, no real options at all.

Comparing findings to 2020 (**Figure 4**), the bar chart indicates that two fundamental changes have occurred over the intervening decade.

- There has been a distinct decline in the reported likelihood of asking for help from family members. Even though this remains a dominant response in 2020, it fell 14 percentage points from 46% to 32%, resulting in it going from the most cited option in 2011 to the second most common response in 2020.
- Secondly, finding a job or a better paying job fell from 30% in 2011 to 13% in 2020.

The changes above probably reflect mounting economic strain in society over the last decade. Rising unemployment levels and economic downturn increased the difficulty of securing employment or a job with better remuneration. These factors are also likely to have decreased the ability of families to provide financial support to family members in need. All other response options changed five percent or less.

Figure 4: Sourcing emergency funds – envisaged actions to make ends meet if money equivalent to one month's income is needed, 2011 & 2020 (%, multiple response, ranked highest to lowest on 2020 figure)

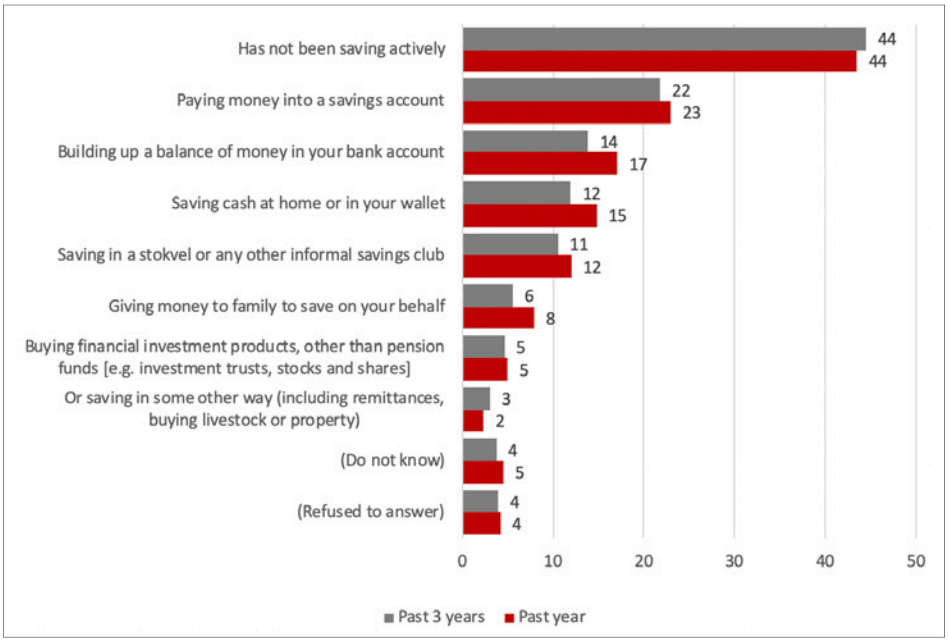


Source: South African Social Attitudes Survey (SASAS), 2011 and 2020.

SAVINGS BEHAVIOUR

It is frequently stated by policymakers, academics, as well as financial industry practitioners, that the country lacks a savings culture. In this section, savings behaviour is reviewed as well as changes in saving behaviour over time. **Figure 5** shows that more than two-fifths (44%) have not been actively saving in the year prior to interviewing. Those that have been saving typically save in a savings account, build up a balance in a bank account, save in their wallet, or in a stokvel or informal savings club.

Figure 5: Self-reported savings behaviour in the past 12 months and 3 years respectively, 2020 (%, multiple response)



Source: South African Social Attitudes Survey (SASAS), 2020.

Looking at savings over time, savings behaviour has been fairly constant since 2012. However, a noteworthy trend is that, over time, saving cash at home has become less prevalent. Conversely, saving in a stokvel, or informal savings club has almost doubled since 2012.

Table 2: Self-reported savings behaviour in the past 12 months, 2012-2020 (cell %, multiple response table)

	2012	2013	2015	2017	2020
Paying money into a savings account	21	21	20	25	23
Building up a balance of money in a bank account	16	14	17	16	17
Saving cash at home or in your wallet	20	19	14	15	15
Saving in a stokvel or any informal savings club	7	5	8	10	12
Giving money to family to save on your behalf	6	6	5	7	8
Buying financial investment products	3	3	3	5	5
Saving in some other way	2	1	2	3	2
(Has not been saving actively)	47	48	51	48	44
(Do not know)	1	2	1	1	5
(Refused to answer)	2	3	2	3	4

Source: South African Social Attitudes Survey (SASAS), 2012, 2013, 2015, 2017 and 2010-2020.

CONCLUSION

As a rule of thumb, good financial practice dictates that a person or household should have emergency funds to the value of three months' salary. This brief report showed that only 24% of South Africans have savings or emergency funds that could last at least three months. This picture is rather sobering and confirms official statistics about gross nominal saving rates in South Africa, which is substantively lower than the world average. Despite the difficulty of high costs of living and high unemployment rates in South Africa, saving should be encouraged, even nominal amounts of R50 per month can make a difference in the long run. The reader is encouraged to download the full FSCA report for more in-depth analysis, available at www.fsca.co.za and www.fscamymoney.co.za