Financial literacy, competency and education

Briefing Report No. 1

based on the results of the 2020 Financial Literacy Baseline Survey

Rands and Sense: Financial literacy in South Africa

OVERVIEW OF THE STUDY

Background. 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 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 inform the National Consumer Financial Education Strategy (NCFES, 2013). This summary presents select findings from 2012 onwards and illustrates emerging changes over years.

Before discussing financial literacy in South Africa, it is important to give an overview of macro-economic trends that typically have a bearing on financial behaviour and financial literacy. As can be seen from **Figure 1**, South Africa's Gross Domestic Product (GDP) per capita declined prior to the transition in 1994, after which a growth period was experienced. The 2008 global financial crisis severely impacted South Africa and the country entered a recession in 2009. Slow economic growth followed over the 2009-2013 period, mainly due to poor investor confidence. Another financial recession occurred in 2014, and current Gross National Income (GNI) went into decline.

As for unemployment (**Figure 2**), the period between 2003 and 2007 showed a decreasing trend, but this was reversed between 2008 and 2019, as jobs were lost and the labour market could no longer accommodate new entrants. Unemployment amongst those with an advanced education became a serious problem for the first time in decades, growing from less than 4% in 2008 to 14% in 2019.

The impact of the COVID-19 pandemic on the economy was severe. The size of the overall economy contracted by 7% in 2020 and GDP per capita (constant 2010 US$) fell from $7,346 in 2019 to $6,748 in 2020 (**Figure 1**). In this report, we examine patterns of financial literacy over the last decade against these macro-economic developments.

Figure 1:
GDP per capita (South Africa)

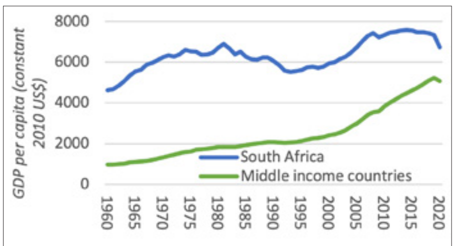
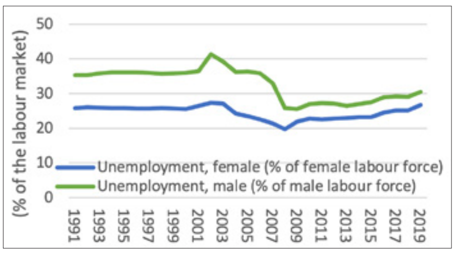


Figure 2:
Percentage unemployed by gender



Source: World Bank World Development Indicators database

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MEASURING AND MONITORING FINANCIAL LITERACY OVER TIME

Measuring financial literacy. The measures of financial literacy guiding the survey series builds on a conceptual framework developed by the Organisation for Economic Co-operation and Development (OECD) International Network on Financial Education (INFE). 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 namely (a) financial control; (b) financial planning; (c) choosing and using appropriate financial products; 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.

With reference to **Table 1**, for each of these four financial literacy domains, scores were calculated to measure progress over time. During the 2012-2020 period, the subdomain scores have fluctuated, but this variation has tended to occur within a fairly narrow and stable range. Of the four domains, three recorded their lowest scores in 2020. The only exception was financial planning, with the score similar to 2017.

An overall financial literacy score was constructed, based on a simple average of the four domain scores outlined above. This too has remained relatively stable over time, varying between 55 and 52 out of a possible 100, but dropped to its lowest level in 2020. It is conceivable that the COVID-19 pandemic and the prolonged economic crisis it produced had an impact on the financial literacy domains and the overall score - hence the decline in 2020.

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

Domain	2012	2013	2015	2017	2020
Overall financial control domain	61	62	63	62	59
Overall financial planning domain	50	48	48	47	47
Overall product choice domain	48	48	48	46	44
Overall financial knowledge domain	57	56	60	58	51
Overall financial literacy	**55**	**54**	**55**	**54**	**52**

Note: Orange-shaded cells represent the lowest averages and green-shaded cells the highest averages over the period.

FINANCIAL CONTROL

Main findings from the 2020 round

- Increasingly, decisions about household finances are being made by one household member.
- Just under half (46%) of South Africans report having a household budget. The presence of a household budget has been decreasing after 2015.
- A majority (65%) of the adult public carefully consider whether they can afford a purchase before doing so. This tendency has been diminishing over time.
- Just under half of South Africans (46%) report that they always pay their bills on time, with 28% sometimes paying bills on time and 21% never paying on time.
- Almost half of South Africans (46%) experienced a situation where their income did not cover their living costs in the year prior to being interviewed. The ability to make ends meet have been diminishing over time, a clear indication that South Africans are increasingly struggling on a day-to-day basis.
- More than a third (36%) of South Africans would rather spend money than save money for the long term with equivalent shares (36%) rather wanting to save and slightly more than a quarter (28%) neutral or uncertain in view.

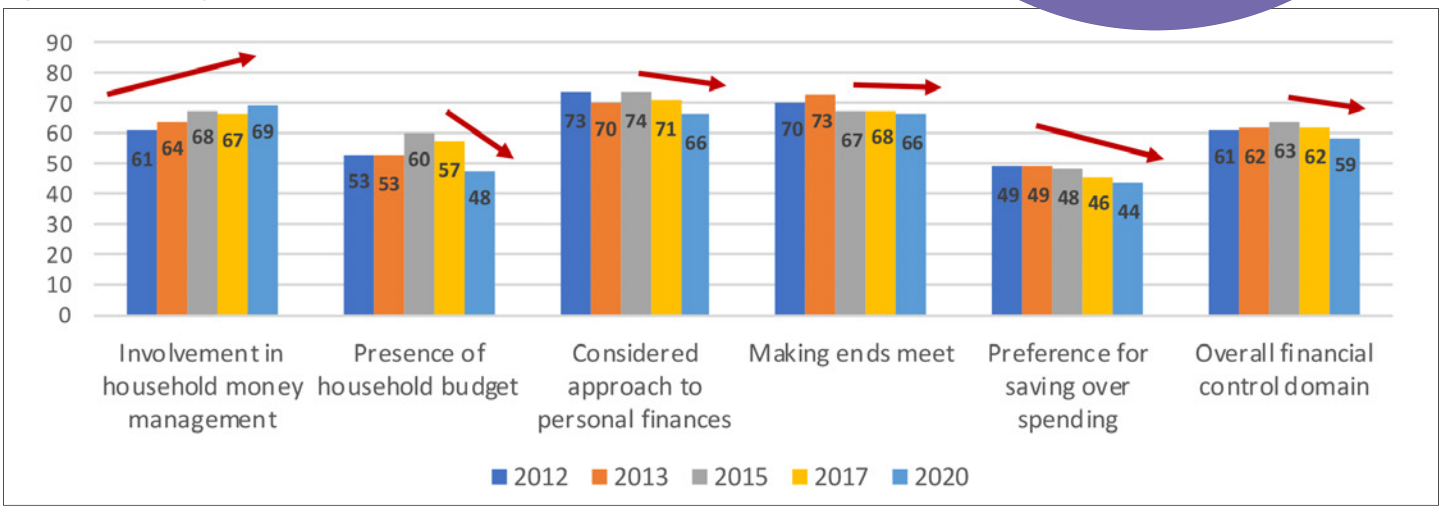
Change in financial control indicators over time

On aggregate, the financial control domain has remained fairly stable over time, with some decline witnessed in 2020 (**Figure 3**). The constituent indicators have however varied. It is evident that personal involvement in household money management has increased since 2012. Of particular concern is the decline in the share reporting the presence of a household budget and demonstrating a considered approach to personal finances. Given that the financial situation of most South Africans has deteriorated over this period, these trends might suggest an element of despondency, which is rather worrying and should be monitored. The ability to make ends meet has remained fairly stable since 2015, possibly as a result of more prudent financial behaviour. However, a worrying finding is that the preference for saving over spending has been decreasing.

The meaning of financial control

"Someone with high financial control tends to be involved in daily financial decision-making processes, exhibits careful approach to personal finances, prefers saving over spending money, and lives in a household that budgets and is able to make ends meet."

Figure 3: Measuring financial control over time



FINANCIAL PLANNING

Main findings from the 2020 round

- In 2020, two fifths (41%) of all adult South Africans said that they ‘always’ or ‘often’ set long-term financial goals and work hard to achieve them. A worrying trend is that just under a third (30%) seldom or never worry about setting long term financial goals. This proportion has remained relatively constant over time.

- The results indicate that only a quarter of adults (26%) have rainy day funds that would last for a period of 3 months or longer. The existence of emergency funds varied between a low of 25% and a high of 30% over the surveying during the past decade.

- Almost a third of South Africans (29%) would not be able to cover expenses for more than a month if they had to lose the main household income. About a fifth (16%) thought their household could cover expenses for at least a month but not three months. Only 24% of households would survive for three months or more without borrowing money or moving house.

- The 2020 survey showed that similar proportions of the public agreed and disagreed that they find it more satisfying to spend money than to save it for the long-term (36% versus 37%), with slightly more than a quarter (28%) neutral or uncertain in view. More disconcerting is the fact that nearly half (46%) of adults stated that they tended to live for today rather than worry about providing for their future needs, compared to a third (32%) that disagreed with this stance. This ambivalence is likely to reflect the difficulties involved in saving for the future where there are significant short-term financial needs that often require prioritisation.

- When asked about personal savings in the year before being interviewed, 44% stated that they have not been actively saving. Of those that had been saving, it emerged that paying money into a savings or bank account were the most popular forms of saving among adult South Africans. Saving by means of a stokvel had become a more common form of saving over the period.

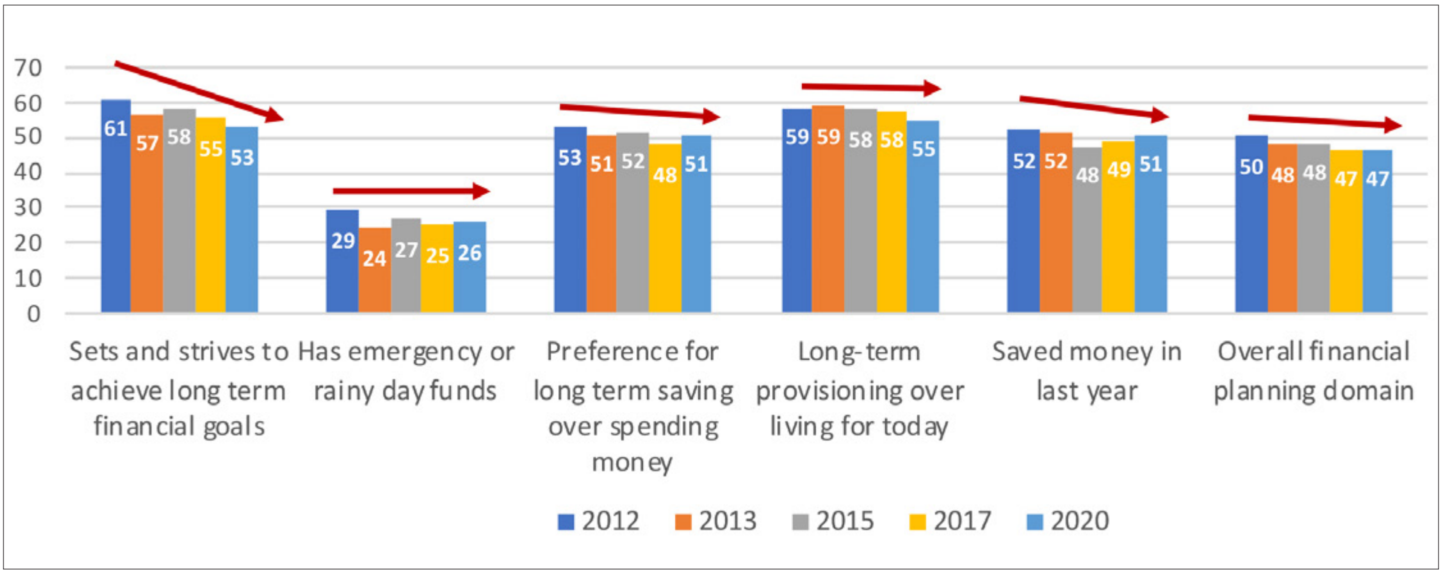
- A real concern that has been raised is that current and future generations will not be able to provide for themselves during retirement. Results from the study suggest that this is not an unwarranted concern. A third of South Africans have no retirement plan, and of those that do, more than a quarter (28%) were ‘not very’ or ‘not at all’ confident that they had done a good job of putting in place suitable financial plans for their retirement years.

- Most South Africans expect to rely on either a government pension (19%) or their children and other family members (12%) for support in retirement. Around a quarter (24%) of South Africans indicated they intended to rely on a workplace or private pension fund, with an equivalent share (19%) stating they were uncertain about their retirement strategy.

Change in financial planning indicators over time

On aggregate, the financial planning domain remained relatively stable, but a slight decrease over time is discernible (**Figure 4**). Among the constituent indicators, some variation is noticed – the most notable being the tendency to set and achieve long term financial goals. The share of South Africans with rainy day funds has remained stable over the period, with a quarter on average stating they have such emergency funds set aside. This is disconcerting, as one would have hoped to see this increase over time, as a basis for coping against any economic shocks that might arise. The same applies to the active saving of money, which has also not shown signs of improvement over the past decade.

Figure 4: Measuring financial planning over time



APPROPRIATE PRODUCT CHOICE

Main findings from the 2020 round

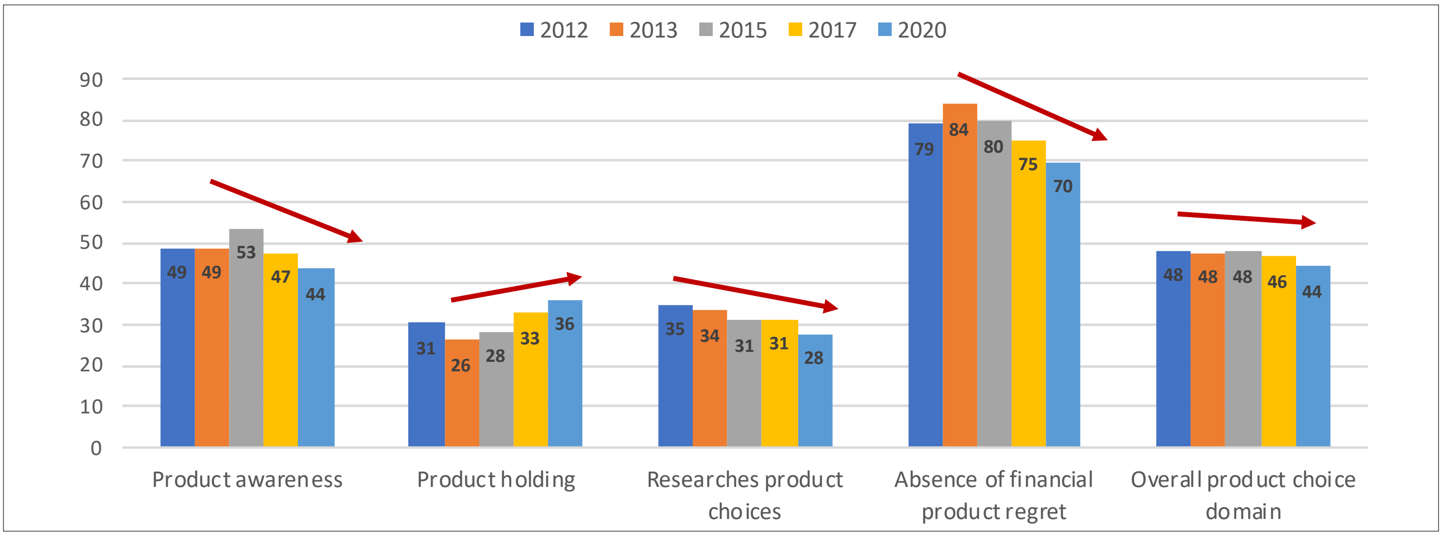
- **Product awareness and holding of different products:**
  - o Across the different types of financial products examined (banking, savings and investment, credit and loans, and insurance), there was a general decline in public awareness over time. With regard to banking products, the largest decline pertained to the Mzansi account and the greatest increase was in respect of cellphone accounts. For credit and loan products, there was a larger than average decline in relation to awareness of store account cards.
  - o Turning to the holding of different types of financial products, the patterns remained largely the same over the period, except for a few specific instances. The latter includes a general decline in the holding of Mzansi accounts, which aligns with the drop in awareness. The decline in the holding of store account cards may possibly reflect changes as a result of the COVID-19 pandemic. Conversely, a substantial increase was noted with regards to the holding of a post bank savings account. This is almost certainly a reflection of the partnership between the South African Social Services Agency (SASSA) and the South African Post Office in late 2018 to assist with the paying out of social grants.
- ***Informed product choices:*** Around 45% of South Africans agreed that they always research choices thoroughly before making any decision about financial products or services.
- ***Financial decision remorse and distress:*** Around 35% of South Africans said that they regretted a final decision made in the last 12 months and this mostly pertained to saving and investment products.

Change in financial product choice indicators over time

On aggregate, the appropriate product choice domain remained fairly stable, with a slight decrease since 2017 (**Figure 5**). Among the constituent indicators, some variation is noticed – the most notable is that the absence of financial regret has been declining. This is a sign of consumers becoming more regretful about recent decisions they have made regarding financial products during economically tough times. Interestingly, product awareness has been decreasing since 2013 but holding has been increasing. Given that research on product choice has been diminishing, this might again produce an increase in financial regret in future.

> **The meaning of appropriate product choice:**
>
> *“A higher product choice score is given to someone (i) with a broad awareness of different types of banking, credit/loan, savings and investment, and insurance products; (ii) holding at least one of each of these four product types; (iii) who believes they have a clear understanding of their product needs and who undertakes detailed research before choosing a product; and (iv) who has no regrets about recent financial product decisions (last year) and who has not taken an unsuitable product (last 5 years).”*

Figure 5: Measuring financial product choice over time



FINANCIAL KNOWLEDGE

Main findings from the 2020 round

- In 2020 only seven in ten (70%) of South Africans could answer a basic mathematical division financial question correctly.
- Few South Africans understood inflation rates and only half could calculate simple interest rates.
- Only about a quarter (23%) of South Africans could correctly answer a question pertaining to interest on a deposit and only 28% could calculate compound interest.

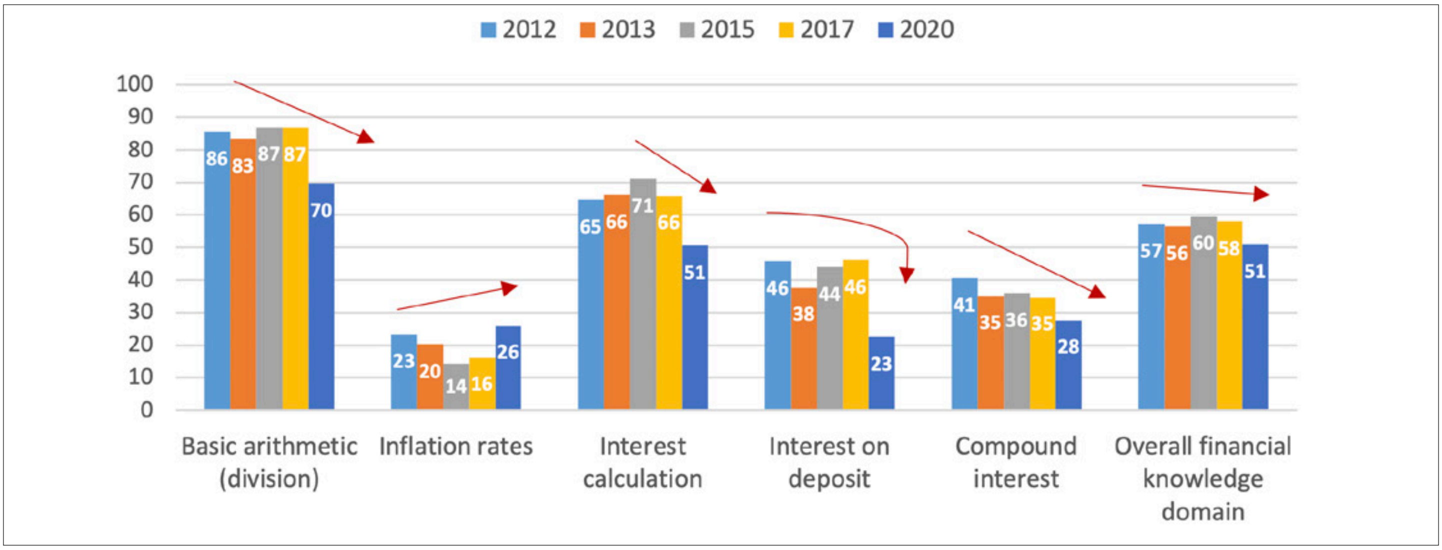
Change in financial knowledge indicators over time

There has been a noticeable decline in the overall financial domain score between 2017 and 2020 (**Figure 6**). Although any attempt at explaining the underlying motivation for this decline would be speculative at this stage, it is plausible that COVID-19 related stress prior to and during the field round of this research might have resulted in a decrease in the willingness or cognitive ability to respond to these questions.

The meaning of financial knowledge

"Someone with high financial knowledge and understanding has a familiarity with a range of basic financial concepts."

Figure 6: Measuring financial knowledge over time



CONCLUSION

This briefing report has considered patterns of financial literacy among South African adults over the 2012 to 2020 period. The latter part of this period was a time of slow economic growth and fiscal instability. This included allegations off gross misappropriation of government funds (state capture) and the downgrading of South Africa's long-term foreign currency credit. This had a compounding effect on the challenges of unemployment, poverty and inequality. These South African dynamics reflect a time of global economic uncertainty, including the onset of the COVID-19 pandemic. The extreme hard times that South Africans faced has impacted financial literacy. Indications are that this economic duress was accompanied by heightened feelings of financial stress and despondency - hence the observed downturn in many of the indicators.

The average financial literacy score across all the rounds was 52 out of a possible 100. This suggests that South African consumers generally have limited skills to understand the complexities of the financial sector. This renders them vulnerable to predatory lending, financial scams and acquiring inappropriate financial products or services. A substantial share of the country's adult population therefore remains insufficiently prepared to make appropriate financial decisions. As a result, there is a continued need for comprehensive financial consumer education programmes, complemented with a range of consumer protection measures.

In this short briefing report, detailed subgroup analysis could not be presented. The figures in this brief are therefore based on aggregate numbers. These national averages mask response subnational variation and the vulnerabilities being experienced by specific subpopulations, such as the poor, on certain indicators. From a policy and intervention perspective, it remains crucial to understand the nature of persisting as well as new and emerging vulnerabilities and how these impact financial risks across the various indicators and domains. 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