Financial literacy, competency and education

Briefing Report No. 4

based on the results of the 2020 Financial Literacy Baseline Survey

A financially resilient nation?
Making ends meet and coping strategies

The National Consumer Financial Education Strategy (NCFES) was approved in 2013 with the overarching vision of increasing the fiscal capability and, by extension, financial well-being of all South Africans. The strategy was designed by a committee headed up by National treasury and made up of regulators, ombuds, associations and stakeholders from the financial industry. The NCFES identified poor fiscal management as a serious challenge facing the country, with many consumers struggling to cope in the face of financial shocks. This is partly due to persisting structural inequalities, vulnerability, and marginalisation in the country. A significant number of households frequently face a situation where their income does not adequately cover their living costs. As a result of this, there is a growing interest in understanding how people respond to such shortfalls, based on a recognition that inadequate coping strategies could fundamentally undermine an individual's long-term financial wellbeing. Of particular concern are unsustainable debt arrangements that consumers may resort to in periods of financial duress.

Using a unique dataset, this research brief will report on experiences of financial shortfalls, and the ways people cope in response to such situations. A special focus will be debt burdens and public perceptions of fiscal liability. The brief will show that debt-related responses to financial duress are quite common amongst many communities in South Africa. Data for this brief was drawn from a detailed report commissioned by the Financial Sector Conduct Authority (FSCA).

SURVEY OVERVIEW

As part of on-going efforts by the FSCA to better understand, monitor and promote financial literacy, capabilities, and well-being in South Africa, it commissioned the Human Sciences Research Council (HSRC) to undertake a series of surveys that, among other things, has examined consumers' experiences of financial duress. This survey series has been designed to assist with the identification and monitoring of consumer vulnerability. This will inform the development and targeting of strategies to improve financial literacy levels in the country and to further inform the financial education policies of the FSCA and its stakeholders.

Surveying began in 2010, with replications occurring in six different periods

Report prepared by

Financial Sector Conduct Authority

Financial Sector Conduct Authority (FSCA)
Riverwalk Office Park, Block B
41 Matroosberg Road
Ashlea Gardens Ext. 0081
Pretoria
T: 0800 20 37 22 I www.fsca.co.za

and

Human Sciences Research Council (HSRC)
Developmental, Capable and Ethical State (DCES) research division

April 2022

Authored by:
Jare Struwig
Benjamin Roberts
Steven Gordon
Lyndwill Clarke
Caretha Laubscher

(2011, 2012, 2013, 2015, 2017 and 2020). The 2011 and 2020 survey rounds were in-depth baseline surveys while the other survey rounds focusing on updating a module of core indicators. The use of nationally representative samples in these surveys allows the HSRC to present data that reflect the views of adults (aged 16 years and older) living in South Africa. The surveys were administered using face-to-face interviewing, with realised sample sizes ranging between 2500 and 3100. The data was benchmarked to the latest available mid-year population estimate released by Statistics South Africa (Stats SA). Ethical sign-off for all survey protocol and documents was received from the HSRC Research Ethics Committee (REC).

MONITORING CHANGES OVER TIME

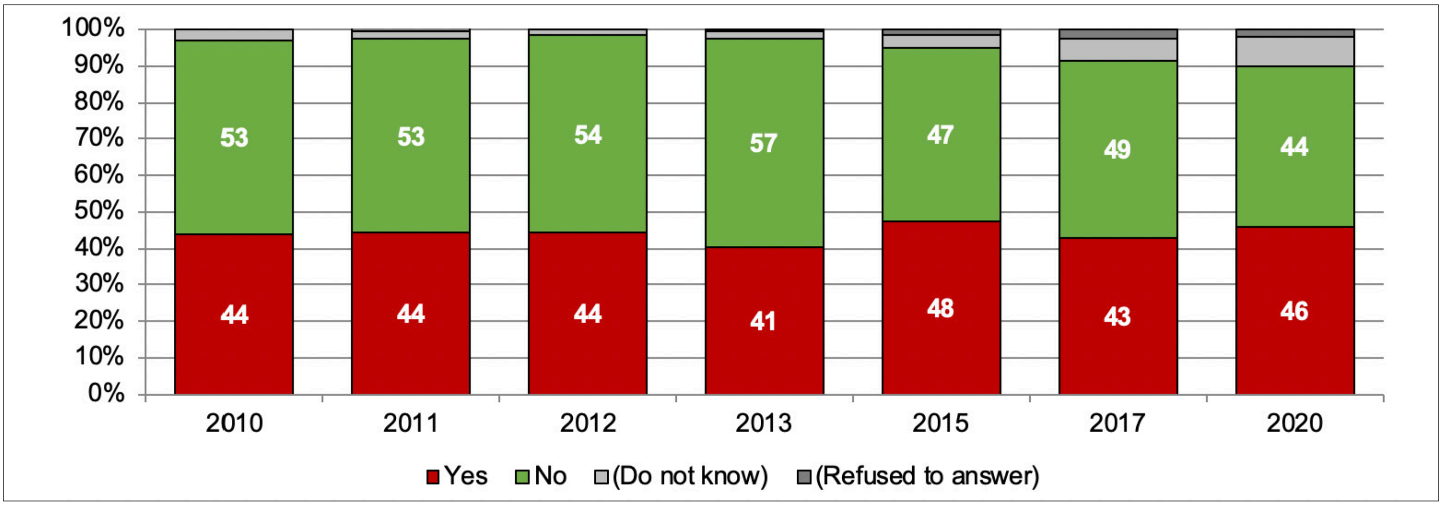
General difficulty in covering expenses and paying bills

To provide an initial indication of the level of financial strain faced by South Africans, survey participants were asked to report how easy or difficult it is for them to cover their expenses and pay all their bills in a typical month. Almost two-fifths (39%) of the adult populace in 2020 found it either difficult or extremely difficult to pay all their expenses and bills during a typical month. These results suggest that a significant minority share of the adult public find it tough to fulfil their financial commitments. Unsurprisingly, we found that the poor were significantly more inclined to experience challenges in covering monthly expenses. Only 13% of those classifying themselves as non-poor reported difficulty maintaining expenses and bills, compared with 43% of those just getting by, and almost three-quarters (73%) of the poor.

Experience of income shortfalls

Respondents were further asked whether they experienced a situation where their income did not cover their living costs in the year prior to interviewing. More than two-fifths (44%) of the adult population had experienced such a shortfall in 2010, indicating that many do not have economically sustainable lifestyles. There was little variation in the response of the average consumer to this question between 2010 and 2020, ranging only 7 percentage points over the period of observation. Despite this indicator being relatively stable, there were discernible upswings in the share of the public experiencing a financial shortfall in 2015 and 2020 (**Figure 1**). In 2020, just under half (46%) of consumers experienced an income shortfall, with a similar proportion (44%) experiencing no shortfall at all.

Figure 1: Share of South Africans who experienced an income shortfall in last year, 2010-2020 (%)



It should be noted that this measure only captures the incidence of income shortfalls and not the depth or severity of such experiences. This is important in making inferences about the personal financial impact of the COVID-19 pandemic, for instance. The lack of an appreciable decline in the ability to make ends meet on aggregate over recent years of evaluation does not mean that the frequency and depth of such shortfalls have not intensified.

National averages may also mask substantive differences between South Africans based on certain personal and household traits. This proved to be the case, with significant socio-economic variation evident in the personal experiences of income shortfall. Less educated people, unemployed work-seekers, and those living in informal urban settlements were the most likely to report this kind of economic vulnerability. In addition, women were more likely to experience a shortfall than men. A lifecycle effect was present, with 18-24 year-olds reporting less income shortfalls than other economically active age groups. Significant geographic differences were also evident with the residents of certain provinces (e.g., Eastern Cape, Free State and Limpopo) much more likely to report facing this kind of fiscal duress. Logistic regression analysis shows that age group, subjective poverty status, and province of residence remain the key socio-demographic predictors of income shortfalls when all background variables are examined simultaneously.

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A HEALTHY RESPONSE TO SHORTFALL

Since 2012, the HSRC research team has investigated how South Africans respond to financial duress in an effort to understand how consumers reacted to periods of economic shortfall. Fieldworkers probed respondents on what actions they took to mitigate an income shortfall. A wide variety of different strategies were put forward by those that experienced such a situation. In order to adequately categorise and understand these different strategies, let us examine non-debt responses for the period 2012-2020. These are strategies that do not expose the respondent to financial liability and have been classified by the NCFES as a healthy response to this kind of crisis.

One of the most common non-debt strategies adopted by the general pub-

lic was cutting back on spending (Table 1). In 2020, just over a third (35%) of all those who suffered a financial shortfall decreased their spending as a response. The popularity of this strategy appears to have diminished significantly since 2015. Drawing money out of savings was a strategy undertaken by almost a fifth (18%) of people experiencing a financial shortfall. As could be expected, drawing money from savings was a strategy reported by mostly those with access to full-time employment.

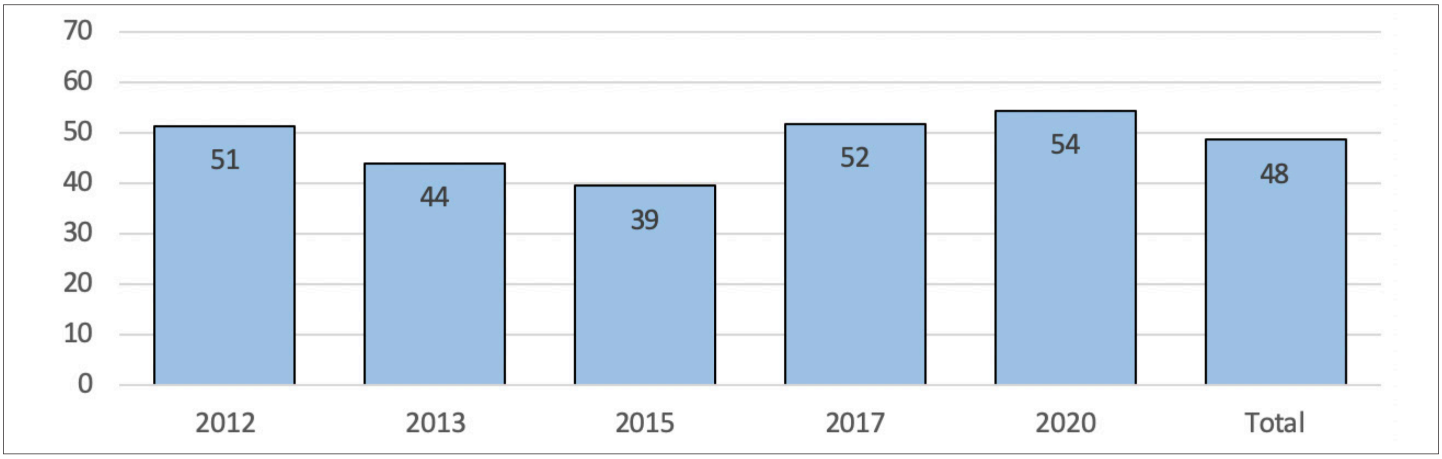
Table 1: Healthy strategies employed to make ends meet amongst those who experienced an income shortfall, 2011-2020 (multiple response table, %)

	2011	2012	2013	2015	2017	2020
Existing resources:						
Cut back on spending, spend less, do without	35	43	39	48	49	35
Draw money out of savings	13	13	18	13	13	18
Sell something that I own	12	9	8	11	11	8
Other						
Work overtime, earn extra money:	17	14	9	13	14	15
Fall behind/go beyond arranged amount:	10	10	9	9	7	7

Drawing To obtain a deeper understanding of individual responses to financial duress, respondents were asked which coping strategy was most important during recent periods of financial shortfalls. This question was to allow for a greater comprehension of primary coping strategies. Drawing on existing resources was one of the most important coping mechanisms in 2020. A quarter (24%) of those experiencing distress listed cutting back as their most important coping strategy. This is down from 31% in 2017 and this decline may represent a response to a prolonged economically difficult period which would have strained existing resources. To compensate the use of other resources (such as savings accounts) has increased in popularity.

Encouragingly, the proportion of adult South Africans who relied mostly on healthy strategies when confronted by income shortfall has increased over the period (**Figure 2**). The percentage who listed these strategies as most important increased from 39% of those experiencing shortfall in 2015 to 54% in 2020, a notable increase over a short period.

Table 1: Healthy strategies employed to make ends meet amongst those who experienced an income shortfall, 2011-2020 (multiple response table, %)



BORROWING AS A RESPONSE TO SHORTFALL

The NCFES views taking on debt as an unhealthy response to a financial shortfall. Taking on debt can weaken personal financial stability in the long-term, exposing consumers to unfavourable repayment plans. We noted a decline in a reliance on debt as a coping response to financial duress between 2015 and 2020. The proportion utilising this strategy dropped from 64% at the start of the period to 55% at the end. We reviewed the data to evaluate which groups utilised debt as a response to a situation most often when their income did not cover their living costs. It was apparent that this strategy was favoured mostly by the poor, the unemployed and the less educated.

One of the most popular debt-related responses to a financial shortfall was to borrow food or money from family or friends, a strategy undertaken by a third of adult consumers (**Table 2**). However, the share who utilised this strategy declined substantially between 2015 and 2020, falling from 55% at the start to 33% at the end. All other debt options were mentioned by less than a tenth of respondents, the most common being selling something that they own (9%), taking out a loan from a money lender (8%), paying bills late (7%), borrowing from a salary advance (6%), and taking a loan from savings or loan clubs (5%). Although a minority of consumers engaged in these activities, their prevalence is still worrisome as the terms of credit arrangements are frequently unsustainable.

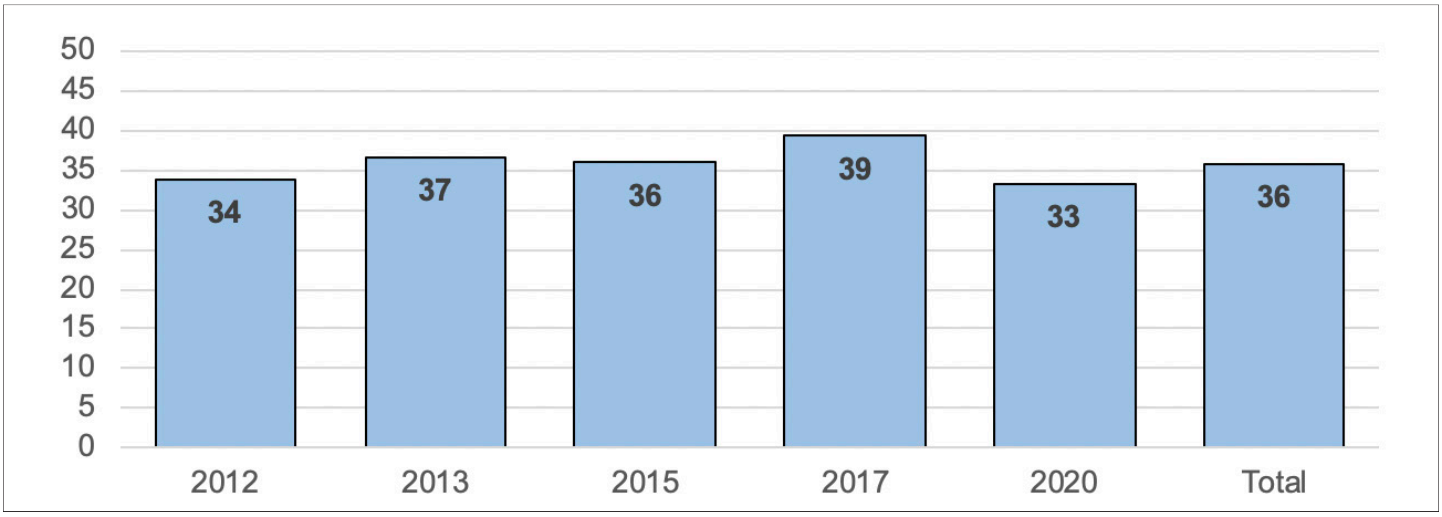
Table 1: Healthy strategies employed to make ends meet amongst those who experienced an income shortfall, 2011-2020 (multiple response table, %)

	2011	2012	2013	2015	2017	2020
Access credit by using existing contacts or resources:						
Borrow food or money from family or friends	55	41	40	55	47	33
Borrow from employer/salary advance	5	4	4	4	4	5
Take a loan from my savings and loan clubs	4	4	4	3	3	5
Take money out of a flexible home loan account	0	2	1	1	2	1
Access additional credit:						
Take out a loan from an informal provider/moneylender	12	4	3	7	4	8
Take out a personal loan from a formal financial service	3	3	3	3	3	3
Take out a payday loan	1	1	1	1	0	2
Borrow from existing credit line:						
Apply for loan/withdrawal on pension fund	2	2	2	2	2	2
Use credit card for a cash advance or to pay bills/buy food	3	2	2	3	2	2
Use authorised, arranged overdraft or line of credit	1	1	1	1	0	1

Examining which debt-related approaches to shortfall were rated as most important over the last five SASAS rounds, borrowing from family or friends was, perhaps unsurprisingly, the most relied upon. As a primary strategy, this informal debt-related approach became less popular between 2015 and 2020, declined by seventeen percentage points. Interestingly, the proportion of those who resorted to loans from informal moneylenders as a primary strategy increased over the period.

Of those consumers who experienced a recent shortfall, about a third told fieldworkers that debt was their primary coping strategy in 2020 (**Figure 3**). This represents a moderate decline from what was observed in 2017.

Figure 3: Percentage of those who relied most on borrowing when confronted by income shortfall, 2012-2020



LIABILITY AND DEBT BURDENS

Many adult consumers living in South Africa are currently suffering under a debt burden. To better understand how people experienced fiscal liability in the country, respondents were asked if they agreed or disagreed with the following statement: “I have too much debt right now”. A fifth (19%) of the adult population agreed with the statement in 2020 and 59% disagreed. The remainder either gave a neutral answer or said that they did not know. Responses to this question did not change significantly between 2015 and 2020. Adult consumers in certain provinces (e.g., Limpopo) reported much lower levels of debt anxiety than in others (e.g., Free State).

To better comprehend the debt burden that ordinary people are currently under, SASAS respondents were asked if they were in debt. About half (55%) of the adult populace admitted owing money to someone. Survey participants were then asked whether they were keeping up with these debt commitments at the moment. Of those who had commitments of this type, many said that they struggled to keep up. About a fifth (21%) of the indebted adult public stated that servicing their loans was very difficult and 22% stated it was somewhat difficult. People who had difficulty with their debt commitments also tended to report having bad credit.

We found that about a third (30%) of the adult indebted population worried a lot about the burdens caused by their loans. About a fifth (19%) said that they were worried a little and 24% told fieldworkers that they were somewhat worried. We discovered relatively high levels of self-reported difficulty in Limpopo and Gauteng, suggesting that people in those provinces struggle with their debt burden. Marital status was found to be an important correlate of debt anxiety. Widows were, in particular, found to be especially liable to express this kind of worry.

CONCLUSION

The data represented in this brief provides policymakers with unique insight into the ways adult consumers in the country cope with financial distress. Healthy strategies employed by consumers were recorded for a majority of those who experienced an income shortfall in 2020, an improvement over what was seen in 2015. This finding shows some positive trends in financial literacy that are consistent with the priorities of the NCFES. However, concerns still exist with regard to the debt-related behaviour of consumers. A significant minority of consumers experience a significant debt burden, and a majority of the indebted population reported substantial levels of anxiety about their current fiscal liability. 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