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SA needs more financial education

While South Africa boasts an 88% basic literacy level, how does this translate into financial literacy? The latest data from the annual study of South African financial habits and attitudes, FinScope 2008, conducted in the last quarter of 2008, shows that there are still high levels of misunderstanding – or no knowledge at all – of key financial terms, particularly in the arena of debt. People were asked to say if they had never heard of each set of financial terms, had heard of each but did not know what it meant or had heard of each and knew what it meant.

	2007	2008		
	Heard of and know what it means %	Heard of and know what it means %	Heard of but don't know what it means %	Never heard of %
Bad debt	47	43	19	38
Personal credit record	33	36	19	45
Pension Fund Act	33	32	25	42
National Credit Act or NCA	22	26	23	50
Counselling about debt	19	25	19	57
Garnishee order or emolument order	17	22	16	62
Debt administration	18	21	17	62
Interest rate capping	13	17	20	62
NCR Certificate	10	17	17	67
Debt re-scheduling	12	16	15	70
Co-operative Banks Act	10	13	14	73

While more people know about personal credit records and other terms related to debt, the consequences and remedies remain less well-known. It is clear that more education is needed about the whole area of debt.

What has changed this year?

With the exception of “bad debt” and “Pension Fund Act”, knowledge of all terms showed small but significant improvements. However, it is clear that much more education about some of these terms is needed. Particularly disappointing is that knowledge of the NCA, widely regarded as world-class legislation (especially in light of the recent global financial meltdown), remains low and is increasing rather slowly.

Differences by race

There are major differences in knowledge between the different race groups, but this is almost completely correlated with LSM¹ or wealth.

¹ LSM or Living Standards Measure is a categorisation ranging from 1 to 10 used extensively by marketers and advertisers as a means to segment the population. It is crude proxy for wealth, with the lower LSM groups comprising the most impoverished end of the spectrum.

It is still a sad fact of South African life that wealth and race are strongly linked. This is not to say that poorer people are less astute with their money but that their exposure to the formal banking system and its processes is more limited. This has important implications for the banking and retail sectors when it comes to communicating to poorer people who are taking out loans, using credit or opening accounts. Special care needs to be taken in advising them of the possible consequences of what they are doing. Further, if they do fall foul of the system, it is easy for them to become bewildered by what happens next, making them an easy target for less scrupulous practitioners. Language may also come into play here.

The table below gives a racial breakdown of the response to the question, "Have you heard about this financial term and do you know what it means?"

	2008				
	Total %	Black %	White %	Coloured %	Indian/Asian %
Bad debt	43	34	83	55	77
Personal credit record	36	27	80	46	66
Pension Fund Act	32	26	65	41	58
National Credit Act or NCA	26	19	68	28	61
Counselling about debt	25	17	65	34	47
Garnishee order or emolument order	22	16	58	24	48
Debt administration	21	14	58	27	45
Interest rate capping	17	11	49	18	46
NCR Certificate	17	11	45	19	34
Debt re-scheduling	16	10	47	17	36
Co-operative Banks Act	13	8	40	14	34

The National Credit Act in more detail

People were also asked to agree or disagree with various statements, some true and some not true, about the NCA to probe their knowledge of this key legislation in more detail.

	Total 2007 %	Total 2008 %
Agreement with incorrect statements		
The new NCA means all your previous credit obligations fall away	15	15
You have the right to miss up to six payments in a yearly cycle	12	11
Having your loan provider phone you regularly to remind you to pay is a good thing	24	31
Agreement with correct statements		
You have the right to five quotes before you take credit	26	25
You have a right to a copy of your credit history	45	41
You have the right to a full explanation of your credit agreement	54	48
You have the right to a full explanation of fees and interest that will be charged	54	49
You have the right to have your debt rescheduled or restructured	31	34
You have the right to challenge your personal information on the credit bureau or register	38	35
You may apply for counselling for your debts	32	33
Consolidating your debt makes financial sense	30	32

As in 2007, knowledge was limited about what consumer rights and obligations involved in taking out credit were. Although the Act is still relatively new, it is discouraging that consumer knowledge has not improved much between 2007 and 2008.

Knowledge of retirement issues

This is a new section in the 2008 study and looked at people's knowledge of these more sophisticated issues:

	2008		
	Heard of and know what it means %	Heard of but don't know what it means %	Never heard of %
Retirement age	43	17	39
Retirement planning	31	21	48
Retirement annuity or income	26	18	56
Pension fund preservation	25	23	52
Tax savings on retirement contributions	18	17	65
Lump sum injection	13	16	71
Fund transfer options	12	14	74

The same race/wealth patterns are evident here too, where it is clear that only the most basic concepts about retirement issues are at all well-known. For many people, especially poorer people, the concept of retirement planning may well be almost impossible to visualise due to their impoverished circumstances. Indeed, 67% of LSM groups 1 to 5 have no knowledge of any of the terms above.

Sources of financial advice and what people want to know

Other than banks and friends and family, people turn mainly to brokers or financial advisers for advice- 29% of respondents mentioned these people as a source of information. The workplace or the employer was mentioned by 9%, community leaders by 6% and churches by 6%. All other sources had a 5% or lower response level. A third said they would not ask for help. Wealthier people tend to rely more on formal sources of knowledge while the less wealthy tend to use informal sources more. The poorest of the poor have less need of financial advice.

As in previous years, the top topics about which people want to know more are how to make effective use of savings products and how interest rates work and how they are calculated. People also want to know how to draw up and manage a budget effectively. All these topics were mentioned by about three out of ten people and all have higher responses than in 2007, perhaps because of the way interest rates and inflation rose in 2008.

Other areas of interest, stated by about a quarter of the sample, are how to select the best investment products and how to insure or obtain life cover. Linked to this was a desire to find the best companies for insurance. One person in five was interested in educating their children on financial matters. Only a quarter of the sample evinced no interest in more financial information.

Summary

Knowledge of formal financial matters is strongly linked to wealth (and, hence, exposure to the formal financial system) and race. This has important implications for those dealing with people entering into the formal financial system and formal financial agreements. Special care needs to be taken that such people are carefully coached about financial matters. The need for more financial education and training is clear. The relatively low growth in knowledge about the National Credit Act is of some concern. Indeed, on all issues regarding the use of credit in any form, there is a great need for greater financial literacy.

The interest in savings vehicles, interest rates and running a budget are positive and represent opportunities for service providers. However, the relative lack of knowledge over retirement planning and planning for one's old age generally must be a concern for the future.

FinScope was launched in 2003 by the FinMark Trust (www.finmarktrust.org.za). It was an attempt to establish credible benchmarks for the use of, and access to, financial services in South Africa. It was designed to highlight opportunities for innovation in products and delivery. The findings in 2003 and subsequent years have identified barriers to access for low income people and provided insights for policymakers, in both the public and private sectors, who wish to remove or reduce the barriers. For more information see: <http://www.finscope.co.za>

FinScope SA 2008, a study to monitor use and perceptions of the financial sector in South Africa, was conducted by TNS Research Surveys, South Africa's leading marketing insights company, on behalf of FinMark Trust and syndicate members. Face-to-face interviews were conducted among 3 900 South African residents aged 16 years and older, between August and October 2008. A nationally representative sample was drawn, which was weighted and benchmarked to the 2008 mid-year estimates based on 2007 Community Survey estimate information.

The 2008 South African syndicate members are: Absa, First National Bank (FNB), Liberty Life, Metropolitan Life, National Treasury, Nedbank, Old Mutual, Sanlam, Standard Bank and Teba Bank.

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