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South Africans shun the piggy-bank

There is a dearth of saving and investment in South Africa. Although a desire to save and invest is evident, an inability to do so, primarily because of a lack of funds, means that many South Africans survive without a safety net of any kind, according to FinScope™ 2006, a comprehensive study of South African financial habits. As a result many South Africans rely on debt provision or on friends and family in times of need.

What are South Africans' attitudes towards savings and investments?

Is South African savings behaviour solely financially driven, or are there attitudinal or knowledge barriers inhibiting a tendency to save?

One-third of people would like to be educated on how interest rates are calculated and work. As interest is the concept that underpins most formal savings mechanisms, this result points to a lack of knowledge about savings in general. Also, only 41% claim to understand what interest rates actually are. However, the general principle of saving is understood, with most people agreeing. *"If you save and invest regularly, the small amounts will add up and you'll be secure"*. Interestingly, this sentiment prevails across race, being most prevalent among white and coloured people.

However, in spite of recognising a need to save, 51% percent of South African adults do not believe that they will have enough money for their old age. This fear may be the result of any number of reasons, including lack of sufficient funds, depreciation of current funds, lack of relevant investment instruments and inflation. This is most prevalent among black and Asian adults, and other than the very young, is a cause of anxiety for all age groups.

South Africans appear to be mistrusting in financial matters, and many would rather rely on their own expertise when it comes to finance than accepting or seeking the advice of others. This trend is more prevalent the wealthier a person becomes. Therefore a dichotomy exists between individuals not feeling financially astute, but at the same time, not trusting others to be more knowledgeable than them in this area. This also points to the fact that no financial institution stands out as being more knowledgeable than any other and to the huge financial service provision gap that, arguably, needs to be filled.

Considering the income profile of most South Africans, it is also not surprising that most residents are risk averse, preferring to save where the risk is minimised, even if this results in a lower yield. That 24% of people did not know whether to agree or disagree with this statement also points to a lack of financial acumen. Although whites and Asians tend to evince more financial knowledge, they are also generally risk averse, with almost three-quarters of both races minimising financial risk for a potentially less rewarding return.

Responses to savings related questions are outlined below:

- *If you save and invest regularly, eventually the small amounts will add up and you'll be secure*
Total - 67% agree
 - White - 78%
 - Black - 64%
 - Coloured - 75%
 - Asian - 80%
 - LSM 1-5 - 61%
- *When it comes to money, you trust your own experience and knowledge rather than the advice/promises of others*
Total - 64% agree
 - White - 73%
 - Black - 62%
 - Coloured - 71%
 - Asian - 65%
 - LSM 1-5 - 61%
- *You prefer to save where your money is safe, even if the interest rate or return is a little lower*
Total - 57% agree
 - White - 74%
 - Black - 55%
 - Coloured - 57%
 - Asian - 74%
 - LSM 1-5 - 50%
- *You don't trust informal associations like stokvels (savings clubs)*
Total - 46% agree
 - White - 69%
 - Black - 41%
 - Coloured - 56%
 - Asian - 64%
 - LSM 1-5 - 40%
- *You try to save regularly*
Total - 43% agree
 - White - 69%
 - Black - 37%
 - Coloured - 52%
 - Asian - 60%
 - LSM 1-5 - 31%

So, who is saving and where are they investing money?

While South Africans generally seem to realise the importance of saving and investing money, it is not a priority for most, whether they simply do not have enough money left after covering basic necessities, do not understand the benefits of putting money away, or do not have the discipline. Over half of the population (57%) does not invest or save at all, whether this is in a formal product, money management such as paying off a bond faster, or a more informal way of investing such as buying livestock, or contributing to a burial society. This figure varies significantly by race; Black (61%), White (29%), Coloured (56%) and Asian (62%). Even among the banked population, 29% do not save or invest at all, highlighting that for these individuals, banking is purely transactional.

The most popular saving mechanisms are outlined in the table below:

	Total %	Black %	White %	Coloured %	Asian %
Savings or current account at a bank	28	24	54	32	29
Burial society	11	13	2	6	1
Savings policies, endowments or life insurance company	4	2	15	6	3
Stokvel/umgalelo or savings club	3	4	0	0	4
Retirement annuities	3	2	14	4	3
Post Office savings account	2	3	0	2	0
Improving your home	2	1	7	2	2

The actual percentage of South Africans who belong to stokvels/umgalelos or savings clubs is 7%. However, when directly asked about savings and investment products used, the percentage claiming to belong to such clubs declines to 3%. Perceptually, for some people, stokvels and the like are not considered to be saving or investment mechanisms.

Although a traditional savings or current account is the most popular savings mechanism across all race groups, for other product types, there are clear racial trends. As expected, informal savings and investment mechanisms such as stokvels and burial societies are most prevalent among the black population. Among whites, more sophisticated mechanisms find their highest penetration; home improvement (7%), fixed deposits (6%), voluntary contributions to a pension or provident fund (5%), paying a bond off faster (5%) and paying a vehicle off faster (5%). Investment in shares on the stock exchange is a truly exclusive activity, with only 1% of the white population, or around 35 000 people, doing so. Investment in a second home is only part of the lifestyle of about 46 500 white South African residents.

The role of savings clubs:

Seven percent of people belong to an informal savings club. Savings clubs find their highest incidence among adults between 30-59 years of age and among women (10%). It is also highest in Limpopo (14%), the Eastern Cape (9%) and Gauteng (8%) respectively.

The uses of these savings demonstrate the poverty in which numerous people live. The main reason for belonging to a saving club is to ensure that there is finance in the case of an emergency (38%), followed by funeral costs (29%) and food (28%).

Summary

Although the general need to save is widely acknowledged, few South Africans are setting aside or reserving money for future use. Almost 60% of the population does not save or invest at all, and about half are concerned that they will not have enough money for old age. The main reason for this phenomenon is surely for many people an inability to save due to a lack of funds, and possibly a misconception about the nature of saving and how to go about it. If poverty is the cause, as it seems to be, this situation is unlikely to change unless there are great strides in poverty alleviation, which will free up funds for such financial planning.

However, the lack of detailed but basic knowledge of the mechanics of savings and investment, added to the apparent reluctance to seek financial advice, underlines the continuing need for education on financial matters to empower people to make astute financial decisions.

FinScope™ was launched in 2003 by the FinMark Trust. 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 2006, a study to monitor use and perceptions of the financial sector in South Africa, was conducted by Research Surveys, South Africa's leading marketing insights company, on behalf of FinMark Trust and syndicate members. Face-to-face interviews were conducted among 3 894 South African residents aged 16 years and older, between June and August 2006. A nationally representative sample was drawn, which was weighted and benchmarked to the StatsSA 2006 mid-year estimates based on the Census 2001 estimate information.

The 2006 South African syndicate members are: Absa, First National Bank, National Treasury, Nedbank, Standard Bank, the Financial Services Board, Liberty Life, Metropolitan, Sanlam, Teba Bank and Old Mutual.