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EDUCATING THE NEXT GENERATION IN FINANCES FOR A RESOURCED, STABLE, AND RESPONSIBLE SOUTH AFRICA

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ABSTRACT

This paper is part of a working paper series in responsible financial management in the South African context. In this paper we examine the aggregate level of household indebtedness, the historical levels of unsecured loans, and the statistics of civil cases for debt. On the basis of our literature review, we observed that South Africans, in general, are heavily indebted.

The authors are of the view that the bleak picture painted by reports covered in our literature review is symptomatic of the low levels of financial literacy in South African society. Thus, it was deemed crucial that the next generation is surveyed to estimate their financial literacy maturity. In this regard, the financial literacy levels of students that are studying towards an accountancy qualification in the South African context were surveyed. This survey was carried out in order to determine their grasp of the use of funds in the context of debt and spending.

In terms of the research approach, this study followed the Jump\$tart Coalition's criteria for determining levels of financial literacy. Accordingly, a mean score below 60% is considered financially illiterate. Results indicate that on aggregate, students that are studying towards an accountancy qualification scored 63.49%, which is close to a level deemed financially illiterate by the Jump\$tart Coalition. This confirms our assumption that in general, South Africa has a low level of financial literacy.

Keywords: *Accounting qualification; financial literacy; indebtedness; South Africa*

1. BACKGROUND AND INTRODUCTION

Previous studies confirm that there is a relationship between financial literacy and over indebtedness. A study conducted by French and McKillop (2014) highlight that “a lack of financial literacy is correlated with higher debt burdens, incurring greater fees, loan defaults and loan delinquency”.

Other researchers that agree with French and McKillop’s (2014) notion that there is a relationship between the level of indebtedness and financial literacy include Campbell (2006), Bucks and Pence (2008), Gerardi, Goette, and Meier (2010), Disney and Gathergood (2013), and Duca and Kumar (2014).

Accordingly, the aforementioned researchers propose that the main cause of financial illiteracy is an inability to understand interest rate calculations, which leads to higher debt burdens, high costs of borrowings, and ultimately defaults (Campbell, 2006; Bucks & Pence, 2008; Gerardi et al., 2010; Disney & Gathergood, 2013; Duca & Kumar, 2014).

Brown, Grigsby, van der Klaauw, Wen, and Zafar (2015) agree with the abovementioned reasons regarding the relationship between financial literacy and indebtedness. They observe that in the American context, “young Americans are heavily reliant on debt and have clear financial literacy shortcomings”. Additionally, they lament the fact that there aren’t sufficient studies on the relationship between financial education and subsequent debt behaviour.

In the South African context, Eiselen and Nkoutchou (2012) point out that debt among South Africans is a significant challenge, in the sense that debt is often used for the purpose of consumption. If debt is used for the purpose of consumption, Nkoutchou and Eiselen (2012) suggest that this reduces retirement savings, as part of these savings are used to repay the incurred debt. Sabri and Juen (2014) support this view, and they justify it by stating that expenses do not disappear upon retirement, indeed while debt is being repaid; expenses also have to be taken care of.

It is crucial that individuals have high a grasp of their financial needs and are able to achieve financial balance (Ryan & Ryan, 2016). For the balance to be achieved, Swart (2016) suggests that there should be efficient personal financial management, business management, and national management. This study focuses on personal financial management. In this regard, this study deemed it crucial that the next generation is studied to establish their financial literacy maturity.

For the researchers’ purpose, students who were studying towards an accountancy qualification at the University of Johannesburg in South Africa were surveyed, which is the main limitation. However, the choice of participants, which is students in this case, is crucial, as individuals’ needs tend to change

throughout their lifecycle, and factors change. In this regard, Family Economics and Financial Education (2015) argues that financial planning also changes, therefore targeting this group of society, which is deemed to be at the entry level of adulthood, will contribute in ensuring that the next generation is well versed in finances, for the purpose of a well-resourced, stable, and responsible South Africa. The main objective of the study is to understand the financial literacy maturity of South African students.

The researchers used four factors as a proxy of financial literacy, namely:

- the students' ability to understand their income;
- their grasp of spending patterns and debt;
- their grasp of savings and investments; and
- their grasp of money management.

The proxy that was utilised to gauge financial literacy on students is consistent with other proxy methods deployed in similar studies. In this regard, it is noted that French and McKillop (2014) observed that the Organisation for Economic Cooperation and Development (OECD) have already developed internationally comparable survey data on financial literacy and capability. Accordingly, the OECD's Financial Literacy Measurement Sub-group has identified a number of dimensions of financial literacy, which include numeracy and money management skills (French & McKillop, 2014). Furthermore, it is observed that the Jump\$tart Coalition utilises similar criteria to determine levels of financial literacy.

2. LITERATURE REVIEW

The National Treasury (2016) report estimates that only 6% of South Africans will be able to retire financially independent. Some of the factors on this estimate are due to debt burdens and lack of financial education. Using economic and financial statistics, Monden (2009) demonstrates that individuals with debt burdens are less financially secure compared to people who are less indebted.

According to van Rooij, Lusardi, and Alessie (2012), financially sophisticated individuals do not face difficulties in processing and gathering information. As such, Rooij et al. (2012) suggest that these individuals stand a better chance of making astute financial decisions. This point is reiterated by Lusardi and Mitchel (2014) and Gaudecker and Von (2014), who posit that there is a positive relationship between financial knowledge and astute financial decision-making.

Several studies have raised the question of over-indebtedness in South Africa (Swart, 2016; Ritha, 2015; Chipote & Tsegaye, 2014). To understand the extent of over-indebtedness in South Africa, the researchers sought to explain the process from the default phase through to the stage of being listed on the national credit bureau. According to the Credit Ombudsman (2011) as cited in Moloi (2014) the term 'default' means an economic agent (person or company) is in default in their obligation. Moloi (2014) has described this as a situation where an individual has failed to make payment as per a stipulated agreement. In terms of South African law, the lender has a recourse in which they can ask for a court judgment against the defaulter.

Accordingly, a judgement is a court order requested by a credit provider when a borrower has failed to make the payment as per their agreement. The following process is ordinarily followed by the lender to obtain a court order, namely the issuance of a summons, which informs an individual or company concerned of the court appearance, which allows them to come forth to present themselves. Where an individual or company concerned fails to appear in court, a default judgement is then issued and entered onto the credit bureau's system (Credit Ombudsman (2011) in Moloi, 2014).

To further understand the extent of over-indebtedness, researchers accessed the Statistics South Africa's (StatsSA) (2015) Survey of Statistics of Civil Cases for Debt. According to this report, as of February 2015, 24 858 civil judgements for debt amounting to R357 million were recorded (StatsSA, 2015). The Stats SA report indicates that the largest contributors to the total value of judgements were:

- other debts (R102,2 million or 28,6%);
- money lent (R97,0 million or 27,2%); and
- services (R56,6 million or 15,9%).

Much as the StatsSA report indicates that the number of civil judgments had declined, they remain at high levels. For instance, StatsSA indicates that from 01 March 2014 to 28 February 2015 the number of civil summonses issued for debt reached 56 843, whereas the number of civil judgements recorded for debt were 24 858.

According to the *Research on the increase of unsecured personal loans in South Africa's credit market*, prepared on behalf of the National Credit Regulators, as of 2012, unsecured lending was the highest growing, in the form of loans that were advanced by credit providers. In this regard, the report indicates that this form of loans accounted for 49.4% of the year on year growth of the total loans advanced in 2012, representing a year on year growth of R39 946 611 269. Could it be that some of the defaulters that are part of the StatsSA's Survey of Statistics of Civil Cases for Debt had actually taken unsecured loans?

The concerns regarding indebtedness are also raised in the Quarterly Bulletin of the South African Reserve Bank (SARB) (2017). In this report, SARB appears to be lamenting the fact that household debts were increasing in the country. In this regard, SARB observed that "Household debt increased marginally in the fourth quarter of 2016" (SARB, 2017), however, they did concede that "as a percentage of annualised disposable income, household debt had decreased from 74.1% in the third quarter of 2016 to 73.4% in the fourth quarter. On balance, the cost of servicing household debt as a percentage of disposable income inched lower from 9.6% in the third quarter of 2016 to 9.5% in the fourth quarter".

As noted in the discussion above, there is not much literature on students' financial literacy in the South African context. This study will contribute to the discourse aimed at financial literacy of South African university students. Having dealt with the question of debt and spending in the form of irresponsible spending and ultimately over-indebtedness, as observed in the analysed reports above, the researchers reiterate that the main aim of this paper is to survey students that are studying towards the accountancy qualifications to establish their financial literacy maturity levels. The researchers state that their choice of surveying accounting students was informed by the fact that that these students are expected to be future financial leaders/advisors, thus promoting financial responsibility in the broader South African economy. Below, the research process followed is explained, which is then followed by a presentation of results, and then the summary and conclusion are provided.

3. RESEARCH PROCESS

The researchers reiterate that the main objective of the study is to understand the financial literacy maturity levels of South African students. Convenient sampling was used, and as such, students that are studying towards an accountancy qualification at the University of Johannesburg in South African were surveyed. It is noted that this is also the main limitation of this study.

In terms of the research population, first, second, and third year Bachelor of Accounting (BAcc) students at the University of Johannesburg were the targeted respondents. This meant a total number of potential responses was estimated at 1420 BAcc students, being 519 BAcc first year students, 495 second year BAcc students, and 406 third year BAcc students.

Following the sample frame selection, a questionnaire was designed with four main factors that were deemed to be a proxy of financial literacy. Earlier, it had been noted that our selected proxy that was used to gauge financial literacy on students had been deemed consistent with other proxy methods

deployed in similar studies. Table 1 below demonstrates the selected proxy of financial literacy for the purpose of this study.

Table 1 – Financial literacy proxies

Income	Spending and debt	Savings and Investments	Money Management
Questions concerning this concept included the grasp of what money is, how it is exchanged, where and how it is generated, and how it is disposed of.	These questions were concerned with budgeting, transactional accounts, costs of borrowing, and over-indebtedness.	Questions around this concept included risk, budgeting, savings, investments, taxation, and inflation.	These questions were concerned with budgeting and risk.

The questionnaires containing the questions relating to the table above were administered to respondents in October 2015. In terms of the research ethics of the University of Johannesburg, respondents were informed that they had the right not to participate in the survey. Those that opted to participate were further informed that they could stop at any time should they feel uncomfortable, and that there would be no repercussions for them whatsoever. To protect the identity of the respondents, they were informed that all personal identifiers would be removed, and that the collected data would be aggregated.

Of the 1420 potential responses, 652 responses were received, representing 45.9% of the targeted population, broken down as follows: 297 (57%) BAcc first year students; 243 (49%) second year BAcc students; and 94 (23%) third year BAcc students. Of the total valid responses, it was noted that 18 respondents did not indicate their level of academic year.

4. RESULTS PRESENTATION

As discussed in the preceding paragraphs, our questionnaire used four factors as a proxy of financial literacy, namely: grasp of income; grasp of spending patterns and debt; grasp of savings and investments; and grasp of money management.

For the purpose of this paper, the BAcc students' grasp of their personal spending patterns and debt was the factor that was employed. The questions posed for the spending and debt proxy, tested the students' grasp of the concept of debt and the resulting implications in the form the high cost of borrowing. The results of spending patterns and debt are presented below.

		Academic year level			
		<i>1st year</i>	<i>2nd year</i>	<i>3rd year</i>	<i>Aggregate</i>
A	Which of the following statements is NOT correct about most ATM (Automated Teller Machine) cards? You can get cash anywhere in the world with no fee.	86.90%	85.90%	88.20%	86.70%
B	If you are behind on your debt payments and go to a responsible debt counselling service organisation such as Debt Counselling South Africa, what help can they give you? They can work with those who loaned you money to set up a payment schedule that you can meet.	80.80%	85.90%	83.70%	83.20%
C	Which of the following statements is TRUE? Banks and other lenders share the credit history.	67.10%	72.90%	71.70%	70.00%
D	Under which of the following circumstances would it be financially beneficial to you to borrow money to buy something now and repay it with future income? When you need to buy a car to get a much better paying job.	69.80%	68.80%	72.50%	69.80%
E	Which of the following credit card users is likely to pay the GREATEST amount in finance charges per year, if they all spend the same amount per year on their cards? Erin, who only pays the minimum amount each month.	55.30%	57.50%	62.20%	57.20%
F	Scott and Eric are young men. Each has a good credit history. They work at the same company and make approximately the same salary. Scott has borrowed R12 000 to take a foreign vacation. Eric has borrowed R12 000 to buy a car. Who is likely to pay the lowest finance charge? Eric will pay less because the car is collateral for the loan.	55.10%	54.10%	57.80%	55.10%
G	Barbara has just applied for a credit card. She is an 18-year-old high school graduate with few valuable possessions and no credit history. If Barbara is granted a credit card, which of the following is the most likely way that the credit card company will reduce its risk? It will start Barbara out with a small line of credit to see how she handles the account.	50.70%	48.80%	66.00%	52.20%
H	Which of the following statements best describes your right to check your credit history for accuracy? Your credit record can be checked once a year for free.	23.50%	48.30%	27.50%	33.70%
I	Aggregate score	61.15%	65.28%	66.20%	63.49%

Looking at individual scores, it is apparent that first year students are closer to the levels deemed 'financially illiterate' compared to their counterparts. In this regard, first year level students scored 61.2% on aggregate, whereas second year students and third year students scored 65.3% and 66.2% on aggregate respectively.

It is understandable that the first year students scored on a level close to financial illiteracy due to the fact that some of the financial concepts regarding the sources and the use of funds may not yet have been presented in their syllabus. However, what is of concern is that second and third year students, on aggregate, scored below 70%. In general, the supposition would be that finance students at second and third year level would score higher percentages than the general populace.

5. SUMMARY AND CONCLUSION

This paper sought to survey students that are studying towards accountancy qualifications so that the researchers could establish the students' financial literacy maturity levels. The choice of surveying accounting students was

informed by the fact that these students are expected to be future financial leaders/advisors, thus promoting financial responsibility in a broader South African economy.

To construct the survey methodology, the researchers followed the Jump\$start Coalition's criteria for determining the level of financial literacy, where a mean score below 60% is considered to fall under the category of financially illiterate. The researchers established that by scoring 61.2%, first year level students scored closer to the levels that the Jump\$start Coalition criteria would have deemed financially illiterate, compared to their counterparts who scored higher.

On the other hand, both second year and third year students scored 65.3% and 66.2% on aggregate respectively, which is five to six points higher than the mean score of 60%. On the basis of the Jump\$start Coalition's criteria, researchers deem these students to be semi-financially literate.

There would generally be a supposition that finance students already engaged in second and third year studies would have scored higher percentages than the general populace as a result of their theoretical exposure to financial concepts. However, and as can be seen from the data presented above, this is not the case. Thus, it raises uncomfortable questions as to whether or not undergraduates with accounting/financial qualifications would themselves be prone to the over-indebtedness that is currently crippling most South African consumers.

A further uncomfortable thought is whether or not these students who we expect to be future financial leaders/advisors so that they can be at the forefront of promoting financial responsibility in a broader South African economy have acquired the necessary capabilities that could lead to a South Africa that is resourced, stable, and responsible.

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POUČAVANJE SLJEDEĆE GENERACIJE O FINACIJAMA ZA BOLJU, STABILNIJU I ODGOVORNIJU JUŽNU AFRIKU

SAŽETAK RADA

Ovaj članak je dio skupine radova o odgovornom financijskom menadžmentu u kontekstu Južne Afrike. Bavi se istraživanjem ukupne zaduženosti domaćinstava, povijesnim razinama nesigurnih pozajmica i statistikom građanskih parnica vezanih za dugovanja. Obzirom na postojeću literaturu zaključili smo da su stanovnici Južne Afrike znatno zaduženi.

Autori smatraju da loša slika zaduženosti prikazana u izvješćima zapravo dokazuje nisku razinu financijske pismenosti društva u Južnoj Africi. Stoga je izuzetno bitno procijeniti financijsku pismenost sljedeće generacije. U svezi s tim provedeno je istraživanje o financijskoj pismenosti studenata računovodstva u kontekstu Južne Afrike. Istraživanje je provedeno kako bi se utvrdila njihova sposobnost korištenja sredstava u kontekstu zaduživanja i potrošnje.

U istraživanju su korišteni JumpStart Coalition kriteriji pri određivanju financijske pismenosti. Srednji rezultati ispod 60% se smatraju financijskom nepismenošću. Ukupni rezultati su pokazali da studenti računovodstva postižu razinu od 63.49%, što je vrlo blizu razini financijske nepismenosti prema JumpStart Coalition. Time se potvrđuje pretpostavka da općenito Južna Afrika ima nisku razinu financijske pismenosti.

Ključne riječi: kvalifikacija iz računovodstva; financijska pismenost; zaduženost; Južna Afrika