

An analysis of financial literacy in the target market of a state-owned bank

by

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ABSTRACT

An analysis of financial literacy in the target market of a state-owned bank

The South African Postbank Limited has been tasked by Government with a social mandate to provide basic financial services to people receiving low income and people living in rural areas. Personal financial literacy is an essential element which affects financial inclusion in the target market of a state-owned bank. To achieve the bank's social mandate and its objective, it would be vital to determine whether people in low income and rural demographics are financially literate. Financial literacy is defined as the ability to manage your money on a day-to-day basis, do future financial planning, choose sound financial products and have appropriate financial knowledge and understanding. Various factors influence the level of financial literacy of a person and in order to improve the financial literacy of a person, cognisance should be taken of that person's age, gender, living conditions, income-level and socio-economic elements. It will be beneficial for a state-owned bank, in order to reach its social mandate, to implement financial educational programmes to increase financial literacy. The latter will increase the amount of potential customers and thus promote financial inclusion in the long run. The sample in low income and rural areas has been found to be the most wanting in financial literacy and therefore it is crucial to address this shortcoming in the target market of the state-owned bank in order to reach the social mandate of financial inclusion.

Keywords

Financial literacy; state-owned bank; financial services; financial education; low income and rural areas; financial inclusion; South African Postbank Limited Act 9 of 2010; Postbank; sustainability of social mandate; target market of a state-owned bank; day-to-day money management; financial planning; choosing appropriate products and financial knowledge and understanding;

OPSOMMING

‘n Analise van finansiële geletterdheid in die mark van ‘n staatsbank.

Die Suid Afrikaanse Posbank Beperk is ‘n sosiale mandaat gegee deur die Staat om basiese finansiële dienste te verskaf in lae-inkomste gebiede en informele nedersettings in Suid-Afrika. Persoonlike finansiële geletterdheid se direkte gevolg is dat mense ingesluit word in finansiële dienste. Om die sosiale mandaat te bereik om mense in te sluit in finansiële dienste, is dit belangrik om te bepaal of die mark van die staatsbank finansiëel geletterd is. Finansiële geletterdheid kan gedefinieer word as ‘n persoon se bevoegdheid om sy finansies op ‘n dag-tot-dag basis te bestuur, om finansiëel te kan beplan, die regte finansiële produkte te kan kies en laastens, finansiële kennis en begrip te hê. Sekere faktore beïnvloed ‘n persoon se vlak van finansiële geletterdheid in die samelewing en hierdie faktore sluit ‘n persoon se ouderdom, geslag, lewenstandaard, inkomste en sosio-ekonomiese elemente in. Dit sal tot die voordeel wees van die staatsbank om finansiële opvoedkundige programme te implementeer sodat finansiële geletterdheid kan verbeter en die bank sodoende in staat stel om sy sosiale mandaat kan bereik. Finansiële opvoedkundige programme sal die hoeveelheid potensieël kliënte vergroot en finansiële insluiting tot gevolg hê. Daar is bevind dat die steekproef van ‘n populasie in ‘n lae-inkomste en informele nedersetting, in hierdie studie, lae vlakke in finansiële geletterdheid het. Dus is dit uiters belangrik dat die staatsbank die tekortkominge in finansiële geletterdheid in sy mark aanspreek sodat die sosiale mandaat bereik kan word.

Sleutelwoorde

Finansiële geletterdheid; staatsbank; finansiële dienste; finansiële opvoeding; Suid Afrikaanse Posbank Beperk Wet 9 van 2010; Posbank; volhoubaarheid van ‘n sosiale mandaat; mark van ‘n staatsbank; dag-tot-dag finansiële bestuur; finansiële beplanning; onderskeid tussen finansiële produkte en dienste; finansiële kennis en begrip.

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CHAPTER 1 - NATURE AND SCOPE OF STUDY

1.1 Introduction

The United States President's Advisory Council on Financial Literacy defines personal financial literacy as "the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being". Personal financial literacy is more than just being able to balance a cheque book, compare prices or get a job. It also includes skills like long-term vision, planning for the future and the discipline to use those skills every day (PBS Online, 2008:1).

There has never been a more important time for people to improve their financial capabilities (The Basic Skills Agency, 2006:3). Financial literacy is popular due to the critical economic situation occurring all over the globe. This economic crisis made citizens look for means to manage their finances properly and grow it with the lowest risk possible (Tenorio, 2011:1). New ways to earn and spend money, together with increasingly complex financial services make it essential for individuals to gain the necessary skills, knowledge and understanding to make informed decisions and effective choices regarding their finances (The Basic Skills Agency, 2006:3).

To make wise decisions on where to invest and what financial services to utilise, a person should be financially literate. If the person is not financially literate he/she will not utilise the services or some of the services which a financial institution can provide.

Due to the importance of financial literacy in economic growth and development, South Africa also initiated various programmes to improve financial literacy. The programmes were developed by various NGO's, large financial institutions and the South African Government (Piprek *et al.*, 2004:18). However, despite multiple financial literacy initiatives, South Africans remain underserved by programmes offering financial education (Piprek *et al.*, 2004:3). This is particularly the case in low income and rural communities where 40% of South Africans reside and 57% of that 40% earn less than R515 per capita per month (Leibbrandt, 2010:37). There are some exceptional financial educational programmes funded, developed and implemented by the private sector, but many financial institutions have very limited activities or none at all in the financial domain (Piprek *et al.*, 2004:3).

Financial literacy is a continuum along which all consumers may move, although market structures may be creating particularly vulnerable groups such as in the low income and rural areas. At the same time, financial and government services are evolving quickly and in ways that place a greater burden of responsibility on individuals regarding informed decision making (SEDI, 2008:1).

One of the benefits of financial literacy is financial inclusion. The more people are aware of the types of financial services offered in the market and how they can be uniquely beneficial, the more likely they are to use those services (Khan, 2010:1). This inclusion was also identified as an important factor in a partnership document between The Financial Services Roundtable and Operation Hope Inc. signed in Washington DC, US (Bartlett & Bryint, 2009:1). The partnership claimed that a national effort by financial institutions should be to measure the magnitude of financial literacy and promote the goal and efforts of financial institutions to ensure the presence of their members in the underserved financial literacy market.

1.2 Motivation

The lack of financial literacy is becoming increasingly important as innovation and globalisation are increasing the range and complexity of financial services on offer (EBF, 2009:3). This lack of financial literacy will make it difficult for people to understand financial matters and will have significant consequences on their ability to interact with financial institutions (EBF, 2009:4).

The South African Post Office has been tasked by the Government of South Africa to bring a state-owned bank into operation. A public bank will be able to cater for the vast number of people in South Africa that are not able to utilize normal banking services due to income and other entry barriers. Most South African banks do not cater for low income citizens. According to a report in 2009 the banks in South Africa were colluding to stifle effective competition in the financial sector. Costs levied were exorbitant and not calculated on the basis of real expenses (Joubert, 2009:1). They charge exuberant costs for transactions and are not readily accessible for people in rural areas and are overall very credit-unfriendly to people who are not creditworthy (Creamer Media Reporter, 2010:1).

According to ANC Youth League spokesman, Floyd Shivambu, the financial sector, including banks and insurance companies, are not helping South African people, particularly the black majority and Africans in particular (Creamer Media Reporter, 2010:2). He said the black middle class owned nothing and owed banks large amounts of money for housing and vehicle loans, and those in huge empowerment deals were indebted for life because they would not be able to pay back the banks before they died. His vision has been realised by the Government and as such the capitalisation of Postbank will resolve into a state-owned bank that will try to address the downward spiral of financial inclusion within South Africa.

The South African Postbank Limited Act 9 of 2010 (the “Act”), which was assented to by the President of South Africa on 10 December 2010, specifically addressed the mandate of the bank in section 2(c):

“expanding the range of banking services and developing into a bank of first choice, in particular to the rural and lower income markets as well as communities that have little or no access to commercial banking services or facilities;”

This mandate specifically narrows down the market segment which the bank intends to provide services to and its vision of financial inclusion. The logic for this mandate is undeniable, especially if one takes into account that some banks have been colluding to create high costs and are not serving low income citizens in rural areas, which constitutes 40% of the general population.

The South African Postbank (“Postbank”) is mandated to “*expand banking services*” in “*rural and lower income markets*”. In order to deliver this mandate, people will have to be convinced to use the services of Postbank. The fulfilment of the mandate is vital for the growth and development stage and will ensure future profitability and sustainability. It could be argued that to deliver on the social mandate, as stated above, the financial literacy of the target market, rural and low income citizens must be considered and addressed. As previously mentioned, rural and low income citizens are underserved by financial education and research has shown that these people are particularly under financial stress which indicates the need for a higher level of financial literacy (Samy, n.d.:57).

Therefore the question that needs to be answered is whether there is a need for financial education in the target market of a state-owned bank, such as Postbank. Will it be essential for a state-owned bank, like Postbank, to focus on increasing financial literacy in the target market to create confidence in the bank and to move citizens to utilise the banking services it will provide? Thus, will it be necessary for a state-owned bank, like Postbank, to create and implement a framework or strategy to increase financial literacy in the rural and low income market to successfully reach its social mandate?

The purpose of this study will be to evaluate financial literacy in the target market of a state-owned bank according to the social mandate. The study will attempt to determine whether the target market of a state-owned bank is financially literate.

The financial literacy construct is very broad in the sense that it does not specify the areas to which it is to be quantified (Samy, n.d.:57). An attempt will be made to conceptualise and define financial literacy holistically and develop an appropriate survey questionnaire to obtain an academically sustainable measure of financial literacy. The international Organisation for Economic Co-operation and Development (OECD), which is deemed to be the international standard to measure and develop a national framework for financial literacy (OECD, 2009:2), will be used as a basis for the study which will be expanded upon.

1.3 Problem statement

Flowing from the abovementioned motivation it is clear that the level of financial literacy of low income and rural areas are important to establish, as this will influence the way in which the strategy of the bank is formulated for the future. In order to reach the social mandate that is stated in the Act, the level of financial literacy within the target market must be determined.

1.4 Objectives of the study

The research objectives of this study are divided into two categories:

1.4.1 General objectives

- I. To determine whether the target market of a state-owned bank in the social mandate is financially literate (Addressed in Chapter 3);
- II. To determine whether a state-owned bank should address financial literacy in the target market of the social mandate (Addressed in Chapter 4).

1.4.2 Specific objectives

- I. To conceptualise and define financial literacy by determining what the variables are that will render a person financially literate (Addressed in Chapter 2);
- II. To determine the interlinked elements of being and becoming financially literate (Addressed in Chapter 2);
- III. To determine the levels of the process for a person to become financially literate (Addressed in Chapter 2);
- IV. To determine the demographic factors that influence financial literacy (Addressed in Chapter 2);
- V. To determine the relationship between financial literacy, rural and low income demographics and the state-owned bank (Addressed in Chapter 2);
- VI. To determine which models and frameworks can be used to address financial literacy (Addressed in Chapter 2);
- VII. To determine whether the target market in the social mandate of a state-owned bank is financially literate (Addressed in Chapter 3).

1.5 Hypothesis

The hypothesis can be stated as follows:

H₀ - People in low income and rural areas are not financially literate.

H₁ - People in low income and rural areas are financially literate.

1.6 Research methodology

The research pertaining to the general and specific objectives consist of two phases, namely a literature review and an empirical study.

1.6.1 Literature review

The purpose of this section will be to evaluate the relevance of financial literacy in the target market of a state-owned bank's social mandate by conducting a literature review of secondary, academically reviewed articles and grey literature which will lead to a broad understanding of the concept of financial literacy.

As stated before, the financial literacy construct is very broad in the sense that it does not specify the areas to which it is to be quantified (Samy, n.d.:57). Therefore primary and secondary resources will be utilised to define financial literacy and determine how it should be measured and how the concept can be narrowed down to apply to the South African market.

The model and framework suggested by the international Organisation for Economic Co-operation and Development (OECD), which is deemed to be the international standard to measure and develop a national framework for financial literacy, will be used as basis for this study as well as the design of the questionnaire (OECD, 2009:2). The sources for the literature review will consist of primary and secondary resources, including, but not limited to, white papers, government documents, unpublished manuscripts, journals, books, articles and internet websites.

The literature review will firstly attempt to define the concept of financial literacy and the variables which it consists of. Secondly, the process and the levels of financial literacy will be explored. Thirdly, there will be focused on the demographic factors that play a

role in financial literacy and finally, financial literacy in the target market of the state-owned bank as well as frameworks and models to address and facilitate financial literacy will be determined.

1.6.2 Empirical study

1.6.2.1 Research design

On the outset the most important factor to consider is who will be included in or excluded from the research (OECD, 2009:3). The first factor that needs to be considered is age. Age is one of the factors that are closely associated with financial literacy (Van Rooij, 2007:61). Financial literacy is found to be low in young participants and the highest among older participants (Gallary, 2010:10). Participants older than the age of 15 will be selected and included in this research, with no higher limit, as they will form the immediate target market of Postbank.

The second factor is gender. According to previous research gender shows large differences in the levels of financial literacy (Gallary, 2010:10). Therefore both genders will be considered in this research to determine where the most vulnerability in relation to financial literacy is.

The third factor identified is education. Education is deemed to be an important factor that will play a role in the level of financial literacy (Haiyang, 1998:15). The level of education is also consistently found to be associated with both basic and advanced financial literacy (Van Rooij, 2007:74). Thus the level of education of the participant will be questioned. All levels of education will be included in the research.

The final 3 factors are wealth or income, residential area and employment status. These factors are of particular importance as they should directly correlate with the social mandate of the state-owned bank. Academically, these factors are very relevant in general. Households that are deemed to be of higher income usually reflect a high level of financial literacy, whereas low income households usually display a low level of financial literacy (Beal, 2003:65).

Further, people living in socially-disadvantaged areas, such as the rural areas in South Africa, displays a low level of financial literacy (ANZ, 2008:1). Research also indicated that the employment status of a person strongly correlates to his/her level of financial literacy (Gallary, 2010:10). Participants that are employed and unemployed will therefore be included. However, participants will be limited to those of low income and rural areas which will fall within the scope of the social mandate of the state-owned bank, Postbank.

Existing surveys have used a range of methods from personal interviews, telephone interviews, web surveys to self-completing survey questionnaires (OECD, 2009:13). The survey method that will be used in this study is a multiple answer questionnaire that will be distributed to the population that fall within the ambit of the abovementioned factors.

This will be a self-completing survey, the reasons for the selection of this type of survey method being low cost, relatively fast turnaround time and greater chance of reaching a large number of participants geographically (Economic and Social Research Council, 2007:1).

The questionnaire will be designed to cover 4 different concept areas. The areas are day-to-day money management; financial planning; choosing appropriate products and financial knowledge and understanding (OECD, 2009:4). These areas are identified in most of the surveys done by other countries, such as the United Kingdom, and are generally accepted to be areas that will be the most effective measure of financial literacy (Atkinson *et al.*, 2006:16).

The questions of the survey will be based on “yes”, “no” or “don’t know” and is therefore closed ended questions. The participants will be selected from a rural and low income population in the North-West Province, South Africa, and will be requested to complete the questionnaire. These participants will be randomly selected and identified.

1.6.3 Ethical considerations

The necessary permission from the respondents in the sample will be obtained after they have been thoroughly and truthfully informed about the purpose of the survey.

Confidentiality agreements will be signed to ensure the respondents' rights to privacy.

The research will be preceded by a thorough review of the literature to ensure, as far as possible, that the research that is being proposed has not already been done elsewhere.

Use of data or research for this study will not be without acknowledgement and permission where appropriate and the surveys will be correctly analysed and interpreted to ensure that misleading results are not given.

1.7 Limitations of this study

This study will only focus on a specific area in the North-West Province, South Africa, and will not be a national survey. The study will specifically look at the financial literacy levels of rural and low income individuals and no other demographic or geographic factors. This study has no other limitations.

1.8 Chapter outline of study

The chapters in this dissertation are presented as follows:

Chapter 1 – Research Proposal and Problem Statement

Chapter 2 – Literature Review

Chapter 3 - Empirical Study

Chapter 4 – Conclusions, limitations and recommendations

CHAPTER 2 – BROAD SCOPE OF FINANCIAL LITERACY

2.1 Introduction

In chapter 1, the background for addressing financial literacy in the target market of a state-owned bank was established. The problem associated with the need to establish the level of financial literacy in the target market of the state-owned bank was highlighted and specific objectives were identified.

The world of consumers is becoming increasingly complex and research indicates that levels of consumer and financial literacy among adults, parents and young people alike are insufficient to cope with many of these complexities (MCEETYA, 1999:1). This drove the topic of financial literacy to the top of the priority list of most banks, governments, countries and other financial institutions.

Financial literacy has been an issue in many countries, including developed and westernized societies (Samy *et al.*, 2008:56). Developed and emerging countries and economies have become increasingly concerned about the level of financial literacy of their citizens. This has stemmed in particular from shrinking public and private support systems, shifting demographic profiles including the ageing of the population, and wide-ranging developments in the financial marketplace (PISA, 2010:7).

There are also serious trends on crises factors that are fuelling the need for financial literacy (PISA, 2010:8). The first factor is risk. Recently most of the risk has moved from government to the individual and most people are unaware that they do not have sufficient knowledge to manage their financial situation.

The second factor is increased individual responsibility. This is very much accompanied by the first factor. Individuals are becoming more responsible for their own financial literacy. The lack of financial literacy could challenge an individual in the day to management of his or finances.

The third factor is the increased supply of financial products and services. Consumers are faced with ever changing financial services and due to the profitability of the

market, more and more businesses are providing financial services to consumers. The overwhelming availability of products and services demand a consumer to have adequate financial knowledge to make an informed decision in relation to the services he or she requires.

All of the above factors contribute to the need of financial literacy and importance to define the standard of competency and skill a consumer must have to successfully interact in the financial services arena. If financial literacy can be conceptualised and its applicability in the target market of a state-owned bank could be defined, it will contribute to negate the crises factors that consumers in rural and low income areas are faced with.

In this chapter an attempt will be made to conceptualise the term “financial literacy” and to identify the various factors that define a person or consumer to be financially literate. A literature study will be done on the definition of financial literacy, the variables it consists of and finally the demographic factors that influence a person’s level of financial literacy.

The literature study in chapter 2 will also examine the target market of a state-owned bank and framework or models will be looked at, nationally and internationally, on how financial literacy can be addressed and approached.

2.2 Conceptualising financial literacy

2.2.1 Defining financial literacy

Defining financial literacy is very difficult as various definitions can be found in research. A starting point will be to look at the general definition of literacy before exploring the “financial” aspect thereof.

Literacy in general has been defined as the state of being ‘able to read and write’ (Wagland, 2006:2). Some define it as the application of knowledge, understandings, skills, values and the related decisions that impact on self, others, the community and the environment (MCEETYA, 1999:1). By using this definition for “literacy”, one can

derive a definition for “financial” literacy. Vitt *et al.* (2000) applied this logic and conceptualised the following definition for financial literacy:

“The ability to read, analyse, manage and communicate about the personal financial conditions that affect material well-being. It includes the ability to discern financial choices, discuss money and financial issues without (or despite) discomfort, plan for the future, and respond competently to life events that affect every day financial decisions, including events in the general economy”

This definition for financial literacy, which is also embraced by journals, captures the ability to read, analyse, manage and communicate about the personal financial conditions that affect material well-being of consumers (Samy *et al.*, 2008:57). This is further in line with the view that it is a prerequisite, to be financially literate, that all of these elements exist (Wagland, 2006:3).

Another definition is the one suggested by Hogarth (2002:3) which indicates that the behaviour of a financially literate person can be described as someone that is knowledgeable and informed about his financial situation, understands the concepts of managing financial resources and finally uses the knowledge and understanding to implement his/her financial decisions

Other definitions have also been suggested by Mason and Wilson (2000:14). It is proposed that the term “financial literacy” is synonymous with understanding or meaning-making and that this meaning-making is a prerequisite for the achievement of desired financial literacy levels. The individual’s ability to obtain, understand and evaluate the relevant information necessary to make decisions with an awareness of the likely financial consequences is a good description of financial literacy (Mason & Wilson, 2000:16).

According to Mason and Wilson (2000:33),

“it is important to note here that financial literacy can only ensure individuals are informed to make decisions, it cannot ensure the 'right' decision is actually made. This is because, inter alia, individuals do not always make decisions based purely on economic rationality”.

It can therefore be argued that literacy must be distinguished from the outcomes of the financial decision people make. The person might have the necessary financial literacy level, but achieving these outcomes will be incidental to financial literacy.

Another definition for “financial literacy” suggested by Katy *et al.* (2000:3) is the ability to understand financial terms and concepts and to translate that knowledge skilfully into behaviour that will benefit the consumer financially.

All of the abovementioned definitions try to conceptualise and define financial literacy; however, financial literacy is far more complex than the simple definitions stated above. Financial literacy consists of various factors and these factors collectively will define a person to be financially literate. To define financial literacy, broader principles and factors have been developed to allow for the application in the 21st century (Wagland, 2006:4).

The next section will explore the variables and factors that collectively will determine a person’s level of financial literacy. Due to the various definitions that currently exist for the term, a better approach will be to look at “financial literacy” from a methodology approach in identifying the various elements of financial literacy and their contributing factors which define a person to be financially literate.

2.2.2 Variables that define a person as financially literate

2.2.2.1 Introduction

The OECD defined financial literacy to consist of various factors and these factors collectively will determine a person’s level of financial literacy. The overarching variables that define financial literacy practically for the consumer are day-to-day money management; financial planning; choosing appropriate products and financial knowledge and understanding (OECD, 2009:4). These areas are identified in most of the surveys done by other countries, such as the United Kingdom, and are generally accepted to be areas that will be the most effective measurements of financial literacy and is the most encompassing factors that collectively will define a person to be financially literate.

The general contention is that these factors will collectively define a person to be financially literate and further also determine the competency level which such a person operates within the financial market.

2.2.2.2 Day to day money management

Day-to-day money management can be divided into 3 categories, firstly financial control, secondly making ends meet and finally attitudes towards financial management (OECD, 2009:5).

Financial control includes elements such as budgeting, keeping of records and knowing what your expenses are (OECD, 2009:5). It is therefore people's ability to manage the outcome of their income. The consequences of the financial decisions we make today will affect us in the future. People displaying low levels of financial control tend to ignore the expenditure limits of their income (ANZ, 2008:7).

The trade-offs we make in budgeting for spending, saving and borrowing determine our financial well-being (Brunton, 2006:22). This well-being is directly linked to the financial control a person exhibits on a day-to-day basis. In many situations a single person in a household is responsible for the management of their financial resources. If this person exhibits low levels of financial control, it will affect the whole household who is dependent on such an income.

"Making ends meet" determines how long the person is able to work effectively with his/her money. It also determines how easy it is to keep up with payments and other bills (OECD, 2009:5). The recent economic crisis has hit individuals hard, hindering their ability to make ends meet (FINRA, 2009:6). Individuals should be cautious not to spend all their income but rather plan for the month ahead to avoid running out of money. Due to low levels of income, this creates a challenge for various social economic groups (ANZ, 2008).

Attitudes to financial management include a person's ability to withstand buying goods on credit and rather save, as well as the ability to control impulse buying habits (OECD, 2009:6). Many individuals display a position of saving for a product than buying on

credit due to factors such as interest rates (ANZ, 2008:6). However, individuals may be faced with such a lust for the product that saving for it is a timely exercise.

2.2.2.3 Financial planning

Financial planning is closely related to day-to-day management of financial resources as discussed above. The difference is that financial planning refers to a more long-term situation where the future is taken into consideration. Individuals are increasingly in charge of their own financial security and are confronted with ever more complex financial instruments (PISA, 2010:7). However, there is evidence that many individuals are not well-equipped to make sound saving decisions and the failure to plan shows ignorance of financial responsibility and concepts (Lusardi, 2008:1).

As this is a future exercise, our goals and decisions influence our financial planning (Brunton, 2006:39). Our financial planning decisions have an impact on our income, worth and well-being of ourselves and others (Brunton, 2006:21). Individuals with low levels of financial planning in a household, for example, will have a wider impact as their financial decision and planning will not only affect them but the household holistically.

Since the future is inherently uncertain, individuals and families also need to make provisions to buffer themselves against financial emergencies or shocks. Being able to weather shocks not only contributes to financial stability at the individual and family level but also increases the stability of the economy as a whole (FINRA, 2009:8).

In simple terms this is the provision for an emergency, which usually includes elements such as savings/insurance held, financial provision for retirement and anticipated expenses such as health care, education and known or unknown events in the future (OECD, 2009:5). People with high levels of financial literacy will therefore show high levels in savings, insurances held for unexpected events, financial provision for retirement, etc. Financially capable consumers will anticipate future needs and act accordingly (Fessler *et al.*, 2010:4).

A person should have the ability to look after him/herself if there is a major loss of income (ANZ, 2008:21). Risk is part of financial planning and needs to be understood and managed through planning (Brunton, 2006:67).

Individuals in low income demographics tend to try to save and financially plan ahead, but due to limited financial capacity they tend to struggle to achieve this objective (ANZ, 2008:11). It is vital for individuals to be able to save, even with limited resources. It is not necessarily the amount that is saved but rather the discipline to do so. It should also be noted that those with lower financial literacy were more likely to fuel statements such as “*there’s no point trying to save because there’s never enough money*” and “*saving is not something I need to do*” (ANZ, 2008:25).

2.2.2.4 Choosing appropriate products and services

When looking at the ability to choose financial products and services, two fundamental questions need to be answered (OECD, 2009:6). The first is whether people shop around before they buy a financial product and secondly which product features were considered before it was bought.

Taking adequate steps to choose financial products that meet one’s needs is another basic component of financial capability (Fessler *et al.*, 2010:12). It defines a person’s ability to look at a product or service, evaluate the advantages and disadvantages, and determine appropriateness and then only engaging the service or product. The application of these principles is noticeable in the banking sector.

It was found that a number of people tend to manage their banking fees on a regular basis. These individuals showed a high level of financial literacy and proved that they are capable of effectively managing a financial portfolio (ANZ, 2008:29).

Lack of comparison shopping was most evident amongst those exhibiting relatively low levels of financial literacy (ANZ, 2008:37). Failing to have the ability to determine the appropriate service will make it problematic for a person to function adequately in the financial market (FINRA, 2009:12).

It has been suggested further that having knowledge of the different ways to pay for goods and services, which one to choose, and their advantages is an essential element of good money management and is linked to the person's financial ability (Brunton, 2006:17). To this extent the use and availability of web-based services are dramatically increasing the individual's capability to interact and properly select products and services.

2.2.2.5 Financial understanding

This is the most important factor of all the above mentioned. Without financial understanding the individual will not be able to effectively achieve the previously mentioned factors as they, by implication, need some level of understanding.

Financial understanding has three core concepts which includes keeping up to date with financial matters, understanding key concepts relating to financial matters and knowledge of financial products or services (OECD, 2009:6).

Understanding financial records and other matters are important if consumers are to keep track of their finances (Brunton, 2006:15). To have an understanding of the necessary financial terms and concepts is a necessity to be financially literate (Brunton, 2006:16).

The use of most sources of financial information and advice was higher amongst those with financial literacy. It should be kept in mind that people tend to need the information when the demand or financial capacity is there (ANZ, 2008:36). This is particularly the case in low income areas, as people in these areas are not faced with products and services which demand the need for financial information.

In general, people's understanding of savings is relatively well; however, they fail to grasp certain concepts like inflation which is an important aspect especially with reference to saving (Brunton, 2006:25). Further, people with low levels of financial literacy tend to struggle with terminology such as asset, liability, net worth, secured loan and equity (Brunton, 2006:8).

One of the elements in financial understanding and information is the ability to understand consumer rights. Awareness of one's rights and responsibilities as a consumer of financial products and services represents an important aspect of financial literacy and defines a person's ability to actively partake in financial services (ANZ, 2008:104). In South Africa the individual should be able to understand the concepts contained in the Consumer Protection Act and the Financial Services and Advisory Act.

The level of financial understanding can manifest in certain problems for example 75% of people find information on financial products confusing and most consumers (92%) said they would read more information on financial products if it was written in plain English. Many people do not shop around for other services because they do not understand the concepts and financial jargon that is attached to advertisements and thus make it difficult for a consumer to make informed decisions relating to financial services (Central Bank of Ireland, 2004:1).

What is noticeable is that, to make sound financial decisions, individuals need to be equipped not only with at least a rudimentary level of financial knowledge, but also with the skills to apply what they know to actual financial decision-making situations and all too often a gap exists between self-reported understanding and real-world behaviour (FINRA, 2009:17).

2.3 Process of financial literacy

What is further of more importance is the process through which an individual must travel to increase and maintain his/her financial skills and literacy. It is evident that financial literacy is not a once-off process as it is an incremental exercise of knowledge, skills and understanding.

Financial literacy is not only elements, as discussed in the previous section, but is a process that leads to a favourable outcome for the individual, whom is the one that ultimately needs to be financially independent and participate in the financial market (Mason & Wilson, 2000:23). Due to the vast changes in the financial markets and the financial arena, society is faced with constant waves of financial uncertainty which they must cope with and understand.

As can be noticed, the process of financial literacy can be very diverse and in some instances will grasp at the definition and interlinked concepts surrounding financial literacy. This section will attempt to define the interlinked concepts within a process for a person to become fully financially literate.

2.3.1 Three interlinked elements in the process to become financially literate

There are three interlinked elements in the process for a person to become fully financially literate. Firstly, it is financial knowledge and understanding, secondly, financial skills and competence and thirdly, financial responsibility through competence and confidence (The Basic Skills Agency, 2006:4).

2.3.1.1 Financial knowledge and understanding

Financial knowledge and understanding allow people to manage and manipulate money; this allows people to acquire the skill to deal with financial matters (The Basic Skills Agency, 2006:4). It is thus the ability to make sense of and manipulate money in its different forms, uses, and functions, and making the right choices for one's own financial needs (SEDI, 2008:6).

To be financially literate, as indicated in the previous section, the outcome should be focussed on ensuring adequate income, avoiding excessive debts, creating a financial cushion for life emergency and crisis situations and finally the consumer must know how to assert his/her rights, all of which can only be achieved with adequate financial knowledge and understanding (Anušić, 2011:8).

People should not only learn about financial literacy but should also be able to have the skills that accompany it. They must have an understanding of the concepts first before they can develop a skill and competence to use the knowledge they learned (Mason & Wilson, 2000:13).

2.3.1.2 Financial skill and competence

Financial skills and competence will enable people to apply the knowledge and understanding in financial situations, thus they will be able to plan, manage and resolve

financial problems (The Basic Skills Agency, 2006:4). This will include both predictable and unexpected situations and also the ability to manage any financial opportunities (SEDI, 2008:1).

Financial skills is more than just related to financial instruments and models , but is also coupled to disciplines that is closely related such as numeracy. Skills are vital for individuals that need financial literacy. Skills include generic cognitive processes such as accessing information, comparing and contrasting, extrapolating and evaluating – applied in a financial context (PISA, 2010:13).

Three types of skills must be obtained to be financially literate. The first is the skill to seek relevant financial information (Wagland, 2006:1). First of all, financially literate people should be able to recognize their need to look for relevant financial information, have the ability to identify the nature and extent of the financial information appropriate to their particular situation, and they need to be able to find it effectively and efficiently (Wagland, 2006:2).

The second skill entails a critical evaluation of relevant financial information. Financially literate people will not only critically evaluate the various investment choices provided by their savings, they will also question whether the annual report of their funds provide sufficient information on which to base their decision (Wagland, 2006:5).

The final set of skills is the utilization of this financial information to make beneficial financial decisions. A financially literate person is able to use information with understanding and acknowledges cultural, ethical, economic, legal, and social issues surrounding the use of information to make financial decisions (Wagland, 2006:6)

2.3.1.3 Financial responsibility

Financial responsibility is the ability to appreciate a wider impact of financial decisions both on a personal and a general social economic level (The Basic Skills Agency, 2006:4). This is of particular importance to family members, to encourage them to understand and partake in financial literacy in order to increase their financial literacy (SEDI, 2008:6).

At this point the person displays the ability to understand financial concepts, to apply the skills which they obtain, to have the confidence to engage third parties to access and use financial services competently. Only at this point the individual will make financial decisions that will benefit the general socio-economic environment and will contribute to the enhancement of financial inclusion for the wider society.

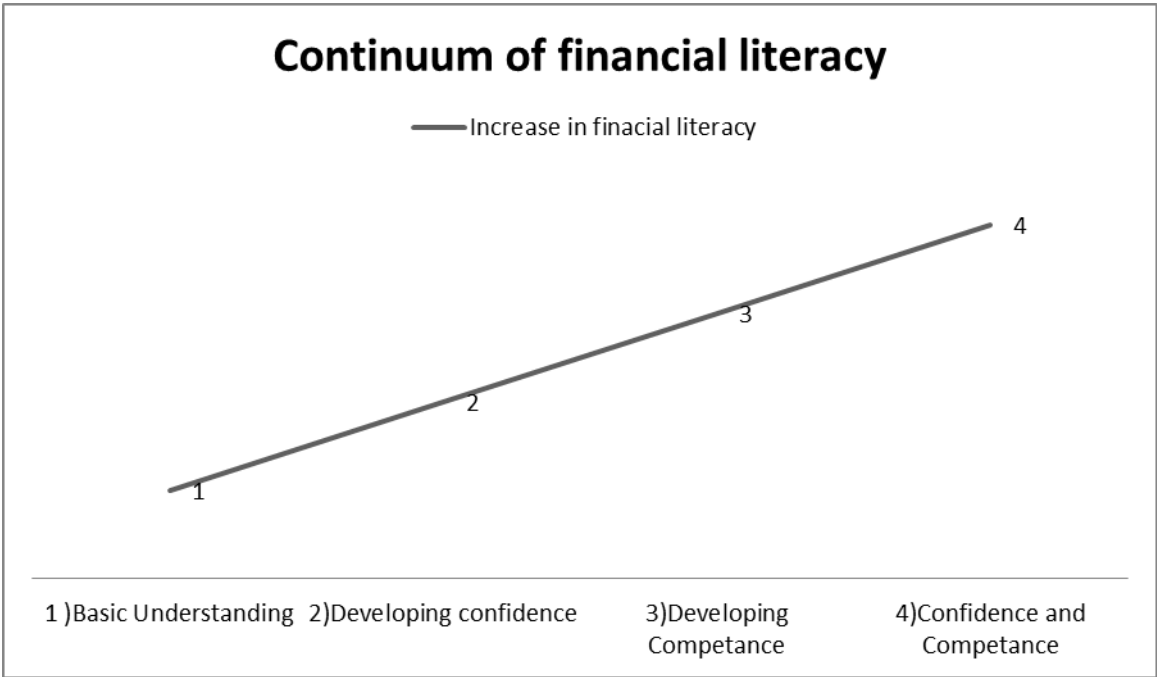
2.4 Levels in the process of becoming financially literate

2.4.1 Introduction

The three interlinked elements discussed above form the foundation of the levels a person need to travel through in order to be deemed financially literate. The Department for Education and Skills, Personal, Social and Health Education Guidance in the United Kingdom (2000) suggests that there are various levels through which a person should travel to be financially literate.

The framework suggested by this department was interpreted into a continuum consisting of four levels as depicted in Figure 1.

Figure 2.2: Continuum of financial literacy



(Source: Own).

The travelling of a person through the continuum can practically be found in European countries. In the beginning education starts by focussing on money basics such as opening a bank account. Budgeting skills, including managing credit and debt, the issues of investment, saving and retirement, insurance and risk management are addressed as the person becomes more literate (EBF, 2009:14).

Financial literacy is not a skill which is acquired in a once-off training programme. Rather, it is a process which starts with basic education and evolves over the life of a person as his levels of understanding improve (Piprek *et al.*, 2004:17).

Due to this reasoning it was found that literacy is viewed as an expanding set of knowledge, skills and strategies that an individual builds on throughout life, rather than as a fixed quantity, a line to be crossed, with illiteracy on one side and literacy on the other (PISA, 2010:13).

There is a greater responsibility and informed decision making on individuals as they travel in the continuum. Financial skills, understanding and confidence will only continue to increase in importance and will define the person's financial ability as a he/she progress in the continuum (SEDI, 2008:1).

To progress through the levels the person must have an understanding of nine components (The Basic Skills Agency, 2006:4):

1. Different types of money payment
2. Income generation
3. Income disposal
4. Gathering financial information
5. Financial planning
6. Risk and return
7. Personal choices and financial implications
8. Consumer rights
9. Implications of finance

Most of these components are universal to those identified by Certified Financial Planners (Haiyang, 1998:2). What can be inferred from the components and levels are that financial literacy should be objectives for change in behaviour over a period of

time. This implies that it should enable people to make optimal financial decisions which will lead to a level of confidence in financial matters and thus a willingness to explore to make appropriate decisions (Piprek *et al.*, 2004:7).

2.4.2 Level 1: Basic understanding

The first level in the continuum is basic understanding. A person must understand the basic principle of the financial services for example that saving options can enable him to spend in the future.

This level is synonymous with a prerequisite for the achievement of desired outcomes or objectives of the person to become financially literate (Mason & Wilson, 2000:32). This is linked to the person's understanding of basic concepts about managing assets.

Financial literacy programmes must be focused on creating understanding to change behaviour (Piprek *et al.*, 2004:41). This approach enables the person to obtain basic understanding that will affect change and start the process into the next level (EBF, 2009:14).

Basic understanding must be accompanied by certain concepts to qualify the person to move to the next level in the continuum. According to MCEETA (1999:3) these attributes will include:

1. Understanding that money includes more than notes and coins;
2. Understanding that money comes from a variety of sources and is limited;
3. Understanding that money is used to exchange goods and services;
4. Understanding that money can be kept to meet wants and needs;
5. Understanding the differences between wants and needs.

2.4.3 Level 2: Developing confidence

The person must develop confidence to utilise his/her basic knowledge about the financial service to move him/her to consider and use the financial services offered. He/she should have confidence in the institution and the service that is being provided. This implies a level of confidence in financial matters, a willingness to ask and explore, and the ability to make appropriate decisions (Piprek *et al.*, 2004:7).

In this level, the person must understand the nature and forms of money, how it is used and the consequences of consumer decisions in order to be confident (Wagland, 2006:7). Financial literacy involves not only the knowledge, understanding and skills to deal with financial issues, but also non-cognitive attributes. These attributes include the motivation to seek information and advice in order to engage in financial activities and the confidence to do so and effect an action with financial consequences (PISA, 2010:13).

At this level this person could be confident but not competent. A good example of this is a person that has a bank account but still uses “stokvels” as a savings method. He is confident enough to use a specific financial service, but he is unable to apply it to different situations and this leads us to the next level.

2.4.4 Level 3: Developing competence

Competence is the application of the consumer’s confidence, financial knowledge and skills in a range of changing contexts (Wagland, 2006:7). After the person gained knowledge and skills to have confidence to effectively use financial services, he or she will start gaining competence in the use of financial services.

During this level the person should now be able to obtain enough knowledge and understand financial services to broaden the scope of services he/she can be exposed to and further be able to apply such knowledge and understating competently in various situations.

Knowledge and understanding can be used to confidently make competent financial decisions. Competence is generally also accompanied by certain concepts and according to MCEETA (1999:7) these include:

1. Using money to buy basic goods and services;
2. Comparing the value of similar items;
3. Ordering spending preferences.

2.4.5 Level 4: Confidence and competence

During the final level, the person can be deemed relatively financially competent. He/she should be able to obtain information by themselves and interpret the information to make sound personal financial decisions. The person must therefore be able to understand and analyse financial information and act accordingly with or without minor help (Mason & Wilson, 2000:13).

The reason why researchers are concerned with an individual's ability to understand and analyse financial information, is that his/her actions are thought to be dependent on the ability to reach this level and therefore it is an indication that understanding, confidence and competence in financial literacy have been reached (Mason & Wilson, 2000:11).

It is important to note that due to legislative and economic changes and changes in individuals' life circumstances, financial markets create a continuing state of transition, which require individuals to continuously make complex financial decisions to meet their needs and responsibilities. In order to do this, individuals need to be lifelong learners (Wagland, 2006:4).

When an individual travels through these levels, he/she will most probably be financially literate (Lusardi, 2008:8). These individuals must then be able to competently make saving and investment decisions, have knowledge beyond the fundamental financial concepts, and have an understanding of the relationship between risk and return; how shares and other financial instruments work; and finally manage assets profitably (Lusardi, 2008:7). This is not widespread, even among a sample of highly educated respondents (Lusardi, 2008:10).

2.5 Demographic factors that influence financial literacy

The most important factors that have been identified which play a role in financial literacy are age, gender, work experience, education and income. A strong correlation was found between financial literacy, age, gender and the education level of an individual (Lusardi, 2008:12).

2.5.1 Age

Age is one of the most prominent factors in the financial literacy framework. Age is a definitive contributing factor to the level of financial literacy (Haiyang, 1998:114). As a person progresses through his/her life cycle, he/she will get confronted with financial decisions that will force him/her to be a lifelong learner (Mason & Wilson, 2000:27).

The dynamics of financial literacy of a person also changes over their lifetime in response to their ever changing financial needs (Piprek *et al.*, 2004:1). The life cycle of an individual forces him/her to obtain financial skills at certain stages of their lifetime and this is most noticeable in younger generations.

Younger generations are not only likely to face ever-increasing complexity in financial products, services and markets, but they are more likely to have to bear more financial risks in adulthood than their parents. In particular, they are likely to bear more responsibility for the planning of their own retirement savings and investments, and the coverage of their healthcare needs; and they will have to deal with more complex and diverse financial products (PISA, 2010:9).

One must focus on young people to empower them to make informed consumer decisions and to manage their personal financial resources effectively (MCEETYA, 1999:2). Young people increasingly influence household spending and should understand the financial consequences of satisfying their needs and wants. Therefore their level of financial literacy is vital for the social economic situation.

Financial literacy was considered to be low among youth as most of the research showed that the level of complexities and variety in the financial world challenge their level of financial literacy and this makes the age of a person important for the purposes of financial literacy (Samy *et al.*, 2008:59).

2.5.2 Gender

This is not a prominent factor in literature such as age, although it does play an important role in financial literacy as a person's gender or interaction with other genders , such as in a marriage, could influence a person's level of literacy .

Females typically have longer life expectancy than males and often have interrupted careers. It suggests the need for females to save more than males during their working lives and due to this, women are found to have better understanding of finance in general, where men seem to have a better understanding of insurance and personal loans (Gallary, 2010:11).

It was also found that married couples overall are much more competent in personal finance. However, generally it was established that females have a lower financial literacy level than their male counter parts in their marriages (Haiyang, 1998:109).

2.5.3 Education and work experience

A person's education and work experience will have a tremendous impact on his or her level of financial literacy as the higher the education and work experience the more knowledgeable they are about financial matters (Haiyang, 1998:116). The level of education is also consistently found to be associated with both basic and advanced financial literacy (Gallary, 2010:12).

The more educated and experienced the person is, the higher his/her financial literacy (Lusardi, 2008:12). There are nevertheless a large portion of individuals with university degrees who display low levels of more advanced financial literacy skills (Gallary, 2010:13)

Research suggests that there is a link between financial literacy and family economic and educational background. Those who are more financially literate disproportionately come from highly educated and financially sophisticated families (PISA, 2010:10). However, occupations have also been found to influence financial literacy.

White collar occupations are associated with higher levels of financial literacy, whereas those in semi-skilled and unskilled blue collar occupations display lower levels of financial literacy. Individuals who work in the field of finance/banking or investment display higher levels of financial knowledge than those in other occupations (Gallary, 2010:13).

2.5.4 Income and social economic factors

The final factor is the income levels and people living in rural areas. It was established that a high correlation between low income and low levels of financial literacy exists (Haiyang, 1998:108).

Personal finance is becoming extremely more difficult and one of the consequences is that financial literacy is not addressed or improved under low income people. Many of low income individuals are recipients of welfare and subsidies making it more important for education in financial issues.

For many of the low income individuals, access to mainstream financial institutions, such as banks, is tenuous because of poor credit histories, insufficient and inconsistent cash flows, and lack of financial literacy (Servon & Kaestner, 2008:3). Due to this reason the source of information from which low income people obtain their financial knowledge will be questionable.

High debt of low income people is an indication that financial services fail to address their needs in the market (Kennickell, 2003:1). Another reason for this could be that banks fail to provide services to this sector. Banks are failing to address the needs of the low income communities and they are not located near these neighbourhoods nor provide products that are appropriate (Servon & Kaestner, 2008:272).

Low income and rural areas in South Africa have limited exposure to financial literacy programmes, however, the financial industry had been focussing on low income and rural areas (Piprek *et al.*, 2004:35). The top end of middle and higher income areas are overloaded with financial literacy programmes and education.

The community-based programmes launched in the lower end of the market have been doing exceptional work, but their outreach is limited due to a lack of resources (Piprek *et al.*, 2004:35). It was noted by Piprek *et al.* (2004:35-36) that "It is of concern that, even in the face of the strong commitment to financial literacy by the financial sector, poor and disenfranchised communities may remain neglected as the large institutions do not have the infrastructure to reach these communities – and may be less interested

as these communities do not present market expansion opportunities in the near future.”

One of the primary reasons why banks do not focus on low income markets is due to perceptions of the demand in that market. Many large banks do not see these markets as being lucrative (Servon & Kaestner, 2008:274). Servon and Keastner (2008:275) stated that “Overall, mainstream financial institutions’ service of low income communities continues to lag; however, some financial institutions and other purveyors of financial products have begun to recognize the potential for capturing these relatively untapped markets with new products. Financial institutions are investigating whether the lower cost of service that technology enables makes it worth the institutions’ effort to expend the resources necessary to capture these markets. Banks are now exploring the potential of information technology (IT) banking tools to serve low income customers and to attract the unbanked market”.

It is evident that low income people are faced with financial distress and challenges which directly influence their participation in financial products and services. Due to this reason, the individual is not given the opportunity to increase his/her financial literacy level and due to perceptions in the financial services market, especially for banks, they are not given the opportunity to participate in the financial markets that will increase financial literacy.

2.6 Financial literacy in the target market of a state-owned bank.

2.6.1 Introduction

As mentioned in the introduction in Chapter 1, the South African Government has mandated the South African Post Office to incorporate its division, Postbank, into a fully-fledged bank that will wholly be owned by the South African Government.

South Africa’s Government has realised that low income and rural areas are underserved with financial services and this prompted the development of a state-owned bank. Factors that sparked the need for this bank are low levels of financial education, increasing complexity and increased responsibility among individuals for making decisions that will affect their financial futures (Parrish & Servon, 2006:1)

Postbank's mandate is specifically set out in the Act. As mentioned in Chapter 1, the main objective is "expanding the range of banking services and developing into a bank of first choice, in particular to the rural and lower income markets as well as communities that have little or no access to commercial banking services or facilities".

To reach this objective of access to financial services and overall financial inclusion in low income and rural markets, the levels of financial literacy of the market must be considered. As it was established during this chapter, even if financial services are readily available and there is access, the use and participation of a person, in the financial services provided, are defined by his/her level of financial literacy.

It is not the access that lifts a person from poverty, but the ability to be literate enough to use the financial services available as a mechanism to move to financial independence. Raising an individual's financial literacy will support not only social inclusion but financial inclusion as well, and this essentially raises the wellbeing of the society (Mason & Wilson, 2000:16). Financial literacy has separated the disadvantaged individual from the financial mainstream and if they do not attempt to obtain financial competence and skills, it will be difficult to lift them from poverty and place them in the financial mainstream.

In order to understand the target market, which is low income and rural areas, we have to understand the factors, problems and elements that exist within this market, especially that which a state-owned bank must take cognisance of and consider in order to reach its social mandate.

2.6.2 Financial literacy of the target market and the state-owned bank

Given the complexity of current financial instruments and the financial decisions required in everyday life, from comparing credit card offerings to choosing methods of payments, to deciding how much to save, where to invest, and how to get the best loan, individuals need to know how to read and write financially (Lusardi, 2008:16).

Due to the complexities in the financial services, it is important for a person to function effectively in modern society. Many people living in these low income and rural areas are not only faced with low financial skills or literacy, but literacy overall and this makes

the challenge of becoming literate for these individuals far greater than other groups in society. There are a lot of benefits for banks to increase financial literacy of low income individuals. The first is moving people from alternative to mainstream financial institutions, secondly, getting people to save and invest more, and thirdly, educating people about products that meet their needs and then purchasing these products. The final benefit is probably the most motivating factor for banks and other financial services as financial literacy can be used as a mechanism to provide access to their services, thereby increasing their market share (Parrish & Servon, 2006:7).

Most probably the biggest social benefit of financial literacy is financial inclusion and this is what drives governments to establish state-owned banks to serve these target markets (Khan, 2010:1). For banks, not only state-owned, this means a new fertile sector that will provide high profits due to the sheer number of people that fall within this target market which must be served.

Banks are already busy amending their strategies and are directing their attention to low income markets. Banks that operate today demand new solutions and product offerings, geared towards recently redefined low income and rural customer segments. These new customer segments include people who are not yet fully integrated into society, and are therefore not in the mainstream financial system and low income families (EBF, 2009:58).

For the banks concerned, this scenario of low income and rural markets, which these customer segments are made up of, represents a challenge in the designing of new products that will penetrate the market (EBF, 2009:58). Banks will have to respond to these markets with development of micro-finance, migrant banking and financial education. All of which will be the broad objectives of a state-owned bank as this will be a driving factor for financial inclusion.

By increasing financial literacy in rural and low income areas, it will not only benefit the bank and the consumer, but the public at large. There is therefore an obligation on a state-owned bank, if its objective is financial inclusion, to increase the levels of financial literacy within its target market. The bank will have to provide education about financial knowledge to ensure that people's participation in financial services is sustainable.

Banking services should engage in financial literacy on various levels to contribute to the increase in financial education in low income and rural areas. These levels are suggested to be (Piprek et al., 2004:58):

1. Individual and institution level;
2. Sub-sector/association;
3. National level; and
4. Government support (which can imply any of the above three).

This is particularly important for a state-owned bank, such as Postbank, as it will be expected of this institution to participate in all of the levels to increase financial literacy due to the social mandate placed on it in the Act. The strategies for increasing financial literacy must effectively be managed on all of these levels.

To effectively bring such services to low income and rural areas, in all the above mentioned levels, the bank will have to accomplish essential tasks. The first is to create confidence in the service provider, which will be the bank. Banking services and other financial institutions have a long way to go in addressing confidence in financial services due their own history. Low social economic citizens have been victims of predatory conduct of financial services and thus a trusted relationship must be re-established (Servon & Kaestner, 2008:8)

Secondly, the bank must take an active role in the process of increasing financial literacy and this is possible by applying certain principles (Bartlett & Bryint, 2009:1):

1. Join government to reach a universal approach to increase financial literacy;
2. Promote and encourage high standards of fairness when dealing with consumers;
3. Partake in regulatory and legislative advocacy efforts surrounding the increase of consumer safety and fairness;
4. Provide broad based retirement and saving education to clients;
5. Cultivate relationships with non-profit organisations and partake in opportunities on a volunteer basis especially in low income areas; and
6. Engage primary, secondary and tertiary education institutions to provide funded programmes directed at increasing financial literacy.

A state-owned bank will be able to make huge contributions if it actively takes part in increasing financial literacy within its target market in the mentioned levels. Its contribution to strengthening citizens' financial capability and economic literacy is an excellent investment, simply because it is an investment in knowledge, which always pays the best interest of financial inclusion and welfare (Manz, 2010:1). The bank's support for economic and financial education is also a form of enlightened self-interest and this is further supported by five main reasons (Manz, 2010:2):

1. to enhance the effectiveness of monetary policy;
2. to ensure the smooth functioning of financial markets;
3. to support sustainable economic policies;
4. to promote economic and financial literacy as a public good and, by doing so, build their reputation and promote acceptance for their actions.

In other words, consumers who understand the workings of financial concepts will become clients and will partake as economic valuable citizens. This eventually will lead to an increase in the demand for financial services and will increase profits for a bank. Therefore a state-owned bank does not only have an obligation in terms of social mandate placed on it by Government, but also have an obligation to itself to ensure that the financial literacy of its target market is adequately addressed.

2.7 Models and frameworks to address financial literacy

2.7.1 Educational programmes

We established that financial literacy must be addressed and amended to achieve optimum results of financial inclusion and general financial welfare within the target of the state-owned bank. The obvious starting point, as these low income and rural areas are underserved, is to provide financial educational programmes. But where and how should an entity like a state-owned bank start to address education and affect financial literacy within its target market?

The best principle is to start teaching financial literacy at a young age (Bennet, 2009:1). It was established that 47% of adults fail to grasp the concepts of financial literacy (Haiyang, 1998:108). This could have been avoided if financial literacy concepts have been introduced at a very young age.

Financial literacy can be increased by incorporating certain factors into educational programmes (Bennet, 2009:4). These factors are:

1. Financial responsibility and decision making;
2. Relating income and careers;
3. Planning, managing money;
4. Managing credit and debt;
5. Risk management and insurance; and
6. Saving and investment.

It is important that the gap is breached between personal finance education, which is given to children still in school, and the full engagement of financial services (The Basic Skills Agency, 2006:3). Therefore the education should not only be academic in nature, but practical as well to ensure that the individual is able to use the skills practically on a daily basis.

Banks have taken an active part in the education of youngsters. The financial decisions students make when they are younger have an important influence on their financial situation and decisions when they are older (Cude, 2006:102). Focus should also be directed to the parents of these children as it was found that the parents of children have a significant influence on their level of financial literacy (Cude, 2006:108).

Increasing financial literacy for adults is much more difficult than for youngsters (Servon & Kaestner, 2008:278). It is suggested that financial education can be given at workplaces; however, the biggest challenge is not to provide the financial educational program but to move the individual to partake and optimally use it (Hilgert & Hogarth, 2003).

Low income and rural areas experience high levels of employment and therefore before embarking on an employee-based program to increase financial literacy, a proper evaluation should be done, as the literacy education could be ineffective for the adult in a rural and low income area (Piprek *et al.*, 2004:50). It is suggested that multimedia and community initiatives are more effective to reach people in the target market (Piprek *et al.*, 2004:2). The mechanisms and approaches are discussed later on, as well as which way will be the most effective to deliver the programmes.

Currently in South Africa, the Department of Education and BankSeta provides educational programmes directed at increasing financial literacy of adults (Piprek *et al.*, 2004:20). The private sector in South Africa is also partaking in the educational initiatives of these two organisations.

Standard Bank is one of the companies that play an active role in increasing financial literacy. Over 15 million South African adults remain excluded from the formal financial services sector. To address this problem, Standard Bank has created a business area, Community Banking, that focuses on developing and incubating businesses that provide solutions for under-served markets (Standard Bank, 2010:1). Their goal is to provide relevant and profitable solutions that extend financial services to previously excluded markets by meeting the needs of their clients. All of the financial literacy and product ventures are built on three principles; affordability, accessibility and dignity (Standard Bank, 2010:1).

Unfortunately in South Africa there is a very fragmented approach to financial literacy education and financial literacy, therefore initiatives have fallen short of achieving adequate levels of financial literacy (Piprek *et al.*, 2004:36). The private sector is waiting for the Government and the Financial Services Board to start a strategy to increase financial literacy and due to resource concerns; this is a daunting task for government funded institutions. The Financial Services Board has started with various initiatives to increase financial literacy in South Africa with the support of financial stakeholders; however there is still a need for an intervention from the private sector (Piprek *et al.*, 2004:36).

2.7.2 Preferences on how to deliver financial literacy education

The general population have individual preferences to how they receive financial management information. Some people are enthusiastic about an informative website, whereas others would like workshops or classes (Cude, 2006:106).

Clearer and better communicated information will lead to greater levels of financial literacy. Poor levels of financial literacy can be increased by providing information in a format that is understandable and focuses on increasing the financial skills of the individual (Mason & Wilson, 2000:8). The main sources that are generally used are

financial newspapers or magazines and especially internet website and financial institution publications have proved to be most effective (Gallary, 2010:15).

Those with the highest financial literacy are most likely to use financial newspapers or magazines to assist with their financial decision-making. Conversely, those with the lowest financial literacy levels are least likely to use financial newspapers or magazines (Gallary, 2010:15).

Research has found that there is a correlation between the use of online banking services and increasing a person's financial literacy (Servon & Kaestner, 2008:280). Multimedia is also an option to complement other educational programmes, by combining it with media, such as radio, the focus will be on basic generic financial principals which in return will increase the financial literacy in general (Piprek *et al.*, 2004:11). This is a good method to start with due to readily availability of cell phone applications and internet to the general public due to the mobile age. It will be an effective way to distribute information quickly and effortlessly to the general public.

Social interaction and also the use of social websites may affect financial decisions as people receive and process information through interacting with others (Gallary, 2010:15). Social norms fuel this notion as it will additionally influence people's decisions due to a desire to behave similarly to those in their social group. However, those who display high levels of advanced literacy are much less likely to rely on advice from family and friends, and much more likely to consult financial advisors (Gallary, 2010:16). In low income areas this will, however, be the most effective mechanism.

When offering financial information, the interpretation and meaning of it is important. One needs to be cautioned that the program that offers this information should not underestimate the complexity of financial literacy and that the education should be perceived and interpreted the way the communicator intends (Wagland, 2006:4).

The final issue to consider is the way in which you deliver educational programmes directly to low income and rural areas. As mentioned, one of the effective ways to deliver educational programmes is through social interaction. Furthermore, community-based programmes which primarily focuses on these types of communities and the dynamics within the particular group, contributes to its effectiveness. These

programmes are usually focussed on debt management and savings and will take the form of either individual or group sessions of participants that come from the poorest of poor (Piprek *et al.*, 2004:10).

2.7.3 International initiatives to address financial literacy

The international markets and environment has been actively initiating initiatives to increase or address financial literacy. In 2009 the Organisation for Economic Co-operation and Development (OECD) published a framework to guide organisations on how to measure and approach financial literacy surveys. These measures were interpreted and accepted by various other countries.

In the US, an Advisory Council on Financial Literacy was established in 2007, reporting directly to the President of the US, to focus on expanding access to financial services and increasing financial education for youth in schools and for adults in the workplace (EBF, 2009:7).

The importance of good financial education has been acknowledged at EU level. In the report on “A Single Market for 21st Century Europe” the European Commission has presented financial education as an essential component of its efforts to ensure that the Single Market can bring direct benefits to Europe's citizens, particularly by empowering them not just to shop around for the best financial services, but also to understand some essential basics of personal finance (EBF, 2009:8).

In Austria, a project entitled ‘debt-free through life’ involved around 4,000 young students between 2001 and 2007. Dedicated workshops targeted three groups of students (EBF, 2009:16):

1. The youngest group were from 11 to 13 years old, were taught basic financial principles, such as where money comes from and the fact that financial resources are limited;
2. The second group, aged between 14 and 15, learned of the concepts of saving, current accounts, cash and payment cards;
3. The third group, featuring participants aged up to 18, focused on life-planning, indebtedness and credit.

The Federation of Finnish Financial Services cooperates with several national organisations and associations in Finland to increase understanding of economics and financial issues (EBF, 2009:24). Target groups range from small children to senior citizens, over-indebted people and low income people.

Together with teachers and the Bank of Finland, a nationwide competition about financial knowledge is organised for pupils aged between 16 and 19, from approximately 80 schools each year. The Federation provides lectures on risk management at several universities and schools of economics. The Federation will also produce a series of short TV programmes about financial literacy (EBF, 2009:24).

2.8 Conclusion

In this chapter the term financial literacy was conceptualised, however it was determined that financial literacy is more than a mere definition, but a process through which an individual needs to travel.

Further, for a person to become financially literate, such a person must travel through various levels of financial literacy, such as basic understanding, confidence and competence. Certain demographic factors were identified that set the possible tone of a person's level of financial literacy which must be considered. These were identified as age, gender, education level and income.

Financial literacy in low income and rural areas are found to be low and the state-owned bank can use various models and frameworks to address financial literacy that will lead to financial inclusion and the achievement of the social mandate set out in the South African Postbank Limited Act 9 of 2010.

CHAPTER 3 – EMPIRICAL STUDY

3.1 Introduction

In the previous chapter knowledge was obtained about financial literacy through a literature study by looking at the aspects of financial literacy. The following elements were addressed:

1. Why financial literacy is important (Chapter 1);
2. The possible definition and concepts surrounding financial literacy (Chapter 2);
3. The process and interlinked elements to become financially literate (Chapter 2);
4. Demographic factors that play a role in financial literacy (Chapter 2);
5. Financial literacy of the target market and the state-owned bank (Chapter 2);
6. Models and frameworks to address financial literacy (Chapter 2).

The development of means how to measure the level of financial literacy according to the knowledge that was gained in Chapter 1 and 2 will be vital for this study. An outline will be given on the empirical framework that was used to measure the level of financial literacy within the target market of the state-owned bank. This chapter will determine whether the target market of a state-owned bank is financially literate.

The results of the empirical study will also be discussed in this chapter and the chapter will provide a summary to highlight the most important conclusions that were drawn from the knowledge that was obtained through the study.

3.2. Purpose of this study

The general objectives set out in chapter 1 indicate the purpose of this study. To this effect the main objective or purpose was to determine the level of financial literacy of the target market of a state-owned bank.

The empirical study and the questionnaire were used to achieve the purpose of the study, namely to determine the level of financial literacy of a population in the target market of the state-owned bank.

3.3 Method of research for this study

There are four main methods of research which were identified by Krishnaswamy (2009:4). These methods include:

1. *Reporting* type research where data, information and statistics are provided and furnished which is used to draw conclusions from;
2. *Descriptive* type research where an event or characteristic is described by the use of an analysis of variables and their interaction;
3. *Explanatory* type research where answers are found by looking at the phenomenon and answering questions by using a hypothesis;
4. *Predictive* type research that uses constructs and models to forecast an event or predict an occurrence of an event.

This research focused on descriptive and explanatory methods to determine the level of financial literacy within the target market of the state-owned bank. The reason is that the purpose of this study was to determine whether the hypothesis in chapter 1 could be accepted or not.

3.3.1 Data collection methods

Methods commonly used to collect data are qualitative and quantitative for research purposes (Kothari, 2008:3).

Qualitative research is concerned with the quality of the phenomena, thus measuring the variables, and to verify certain theories (Kothari, 2008:3). This form of research is commonly used in social sciences, political studies and other studies closely related to the business environment. This type of research is most commonly used when one investigates the way people react, work, live and manage. With qualitative research the research observes a great deal and results are descriptive in nature rather than a set of numerical (White, 2003:28)

Quantitative research is based on the measurement of quantity and will be used to express or explain a specific phenomenon in an amount or quantity (Kothari, 2008:3). A quantitative method is designed to test relationships between variables (White,

2003:46). Quantitative research sets up a hypotheses or theory and therefore will be most appropriate for this study. The proposition is tested and then the hypothesis is either accepted or rejected based on the inferences that can be drawn from the data that is collected (White, 2003:47).

This study used numbers, graphs and tables to present the data that was obtained through a questionnaire. Quantitative research was the most appropriate as data will commence in words transformed into numbers, and are subjected to different levels of statistical analysis and manipulation and are then reported back in number and words (Blaikie, 2003:35).

3.3.2 The questionnaire

A questionnaire was used as the survey method to collect the data that formed the basis of this study. The quality of the questionnaire is very important and was considered. According to Saris (2007:8) there are three considerations and they were applied as follows:

1. The questions of the questionnaire were formulated in a way to measure the concepts of the study.
2. The questionnaire was controlled to the sample of the population it was intended for.
3. The quality of the questionnaire was tested, and this was done with the assistance of Statistical Consultation Services of the North-West University (Potchefstroom Campus)

In order to achieve a good quality questionnaire the process suggested by Peterson, (2000:14) was used to construct the questionnaire. The process that was followed is as follows:

1. Information was reviewed to determine input of the questionnaire. This was based on the knowledge obtained in Chapter 1 and 2 of this study.
2. A list of potential questions were prioritised that will satisfy the information requirements established in 1 above.
3. The questions were assessed and their wording was revised to allow optimal results. This was achieved with the assistance of Statistical Consultation Services of the North-West University (Potchefstroom Campus).

4. The structure of the questionnaire was determined. This was achieved with the assistance of Statistical Consultation Services of the North-West University (Potchefstroom Campus).
5. The questionnaire was evaluated to determine whether the objectives of the study would be achieved. This was achieved with the assistance of Statistical Consultation Services of the North-West University (Potchefstroom Campus).

3.3.3 The purpose and contents of the questionnaire

The purpose of the questionnaire was established in chapter 1 in the general objectives and was used to meet the empirical research, namely:

1. To determine whether the target market of a state-owned bank in the social mandate is financially literate;
2. To determine whether a state-owned bank should address financial literacy in the target market of the social mandate.

In order to achieve this objective the knowledge gained in Chapter 2 was used to determine the contents of the questions within the questionnaire. The questions were based on the guidelines and proposals contained in the framework for the development of financial literacy baseline surveys by the Organisation for Economic Co-operative Development (OECD, 2009). This framework contains proposals of questions that will be appropriate to measure the concepts below. The questionnaire was divided into 5 sections:

1. Section 1 – Demographics;
2. Section 2 – Day-to-day financial management;
3. Section 3 – Financial Planning;
4. Section 4 – Choosing appropriate products and services; and
5. Section 5 – Financial knowledge and understanding.

The demographic section (section 1) contained questions directed at the individual personally. The questions measured or determined age, gender, income levels, educational levels, work experience and employment status. These were introductory questions that indicated the profile of the person that was completing the survey or questionnaire.

Section 2 of the questionnaire contained closed ended questions where the respondents were asked questions about the day-to-day financial management of their income. The respondents could only answer “yes”, “no” or “don’t know”.

Section 3 of the questionnaire contained closed ended questions where the respondents were asked questions about their financial planning capability in relation to their income. The respondents could only answer “yes”, “no” or “don’t know”.

Section 4 of the questionnaire contained closed ended questions where the respondents were asked questions about their ability to choose products and services in the financial sector. The respondents could only answer “yes”, “no” or “don’t know”.

Section 5 of the questionnaire contained closed ended questions where the respondents were asked questions about financial knowledge and understanding of financial concepts. The respondents could only answer “yes”, “no” or “don’t know”.

3.3.4 Defining the population

The population was identified as people living within rural and low income areas of South Africa. The population consisted of people that fall within communities that have little or no access to financial services within rural and informal settlements. As indicated in the introduction of Chapter 1, 40% of South Africans earn less than R515.00 per capita per month. Further, 11% of South Africans earn between R0 and R50 000.00 per annum of which black South Africans represent 61,1% of the income distribution within South Africa (Aardt, 2009:1). The population was therefore the low end of the income distribution of South Africa that will formulate the target market of the state-owned bank, Postbank.

3.3.5 Defining the sample

In selecting the sample, the goal was to choose the sample representative of the population as defined above (Vaus, 2002:71). Further to this the quality, cost and feasibility factors were considered when choosing the sample (Greenfield, 2002:185).

Sampling did not take the form of convenience sampling as it would have been unrepresentative of the population (Moore, 2009:202). When working with probability

sampling, as in this study, the most appropriate form to ensure a representative sample of the population was simple random samples (Moore, 2009:205).

Simple random sampling ensured that bias was excluded in the sample as impersonal chance was used to obtain the data from the population (Moore, 2009:205). For this study simple random sampling was used to obtain the representation of the population.

The aim of this study was to measure financial literacy of the population as defined above. A pure random process was used to select the data from the sample frame. The questionnaire was distributed to the communities in low income and rural areas surrounding the city of Ventersdorp, North-West Province.

3.3.6 Conducting the empirical study

As mentioned the population consisted of individuals that live in rural and low income areas that fall in the low end of the income distribution framework of R0 to R50 000.00 per annum.

Community leaders were contacted in low income, rural and informal residential areas surrounding the town of Ventersdorp, North-West Province. These communities have little to no access to financial services.

The questionnaires were given to the community leaders, who handed out the questionnaires to their community members for completion and 1 month later the questionnaires were collected from the community leaders. The questionnaires were then given to Statistical Consultation Services of the North-West University (Potchefstroom Campus), where the questionnaires were processed and captured, after which data analysis was done.

3.3.7 Ethical considerations

All participants in the communities had an opportunity to complete the questionnaire. The completion of the questionnaire was the decision of the community member or participant and therefore no person was placed under duress to complete the questionnaire. The participants did not receive any compensation for the completion of

the questionnaire, the confidentiality of the participant was ensured by not including any information on the questionnaire that will identify the participant in any nature. The questionnaires and the reason for such were explained to the participant by the community leader in a language that the participant elected, should the participant at any point indicate that he/she did not understand.

3.4 Survey results

The survey results will be discussed in this section by looking at the validity of the survey and then analysing the results of the questionnaire.

3.4.1 Survey validity

To test the reliability of the questionnaire, the Statistical Consultation Services of the North-West University (Potchefstroom Campus) analysed the data and determined an overall Cronbach alpha for the whole of the questionnaire. The overall Cronbach alpha was determined to be 0.607.

The alpha is not good, but is acceptable and therefore shows good internal consistency of the items in the scale; however it does not mean that this scale is one-dimensional (Gliem & Gliem, 2003:87). This shows that the questionnaire is reliable.

3.4.2 Analysing the results

An amount of 102 people participated in this study. These participants live in remote rural areas surrounding Ventersdorp in the North-West Province of South Africa. These areas have little or no access to financial services and are identified as low income areas.

3.4.2.1 Demographic details of the participants

The survey questionnaire contained a section that the participant had to complete to capture the following profile details:

1. Gender;
2. Age;
3. Net income;

4. Household income;
5. Education level;
6. Working experience; and
7. Employment status.

The results of these profile details will be discussed below.

Gender

The following table sets out the frequency of the participants in the study:

Table 3.1: Gender of respondents.

	Male	Female	Total
Gender Number	40	62	102
Gender %	39.2	60.8	100

From table 3.1 it is evident that the most participants were females as they amounted to 60.8%.

The mean value for correct answers for males was 7.1750 with a standard deviation of 3.00331. The mean value for correct answers for females was 7.5645 with a standard deviation of 3.14471. Therefore, on average, males and females had the same amount of correct answers. The effect size for gender was 0.12 and thus there was not a practically significant difference. The P value for gender was 0.532 and was therefore not statistically significant.

Age

The following table sets out the frequency of the participants in the study for age:

Table 3.2: Age of respondents.

Age	Frequency	Percentage of Participant
18 - 28	37	36.3%
29 - 39	22	21.5%
39 - 49	25	24.6%
51 -77	18	17.6%

Total	102	100.0
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The youngest participant was 18 years old and the oldest participant was 77 years old. The average age of a participant in this study was 35.91 years with a standard deviation of 13.876.

The correlation coefficient for age was -0.137 , which indicated a small correlation that was not practically significant. The P value was 0.171 , which indicated that there was not a practical significant correlation.

Net Income

The following table sets out the frequency of the participants in the study for net income:

Table 3.3: Net income of participants.

Rand value	Frequency	Percentage
0 - 500	38	39.6%
501 - 1000	6	6.3%
1001 - 2000	26	27%
2001 - 3000	23	24%
3001 +	3	3.1%
Total	96	100.0
Missing	6	
Total	102	

In this study 33.3% of participants do not have any net income. The maximum income for a participant was R10400.00 and in average a participant earns a net income of R1296.91 with a standard deviation of R1543.98.

The correlation coefficient for net income was 0.184 , which indicated a small correlation that was not practically significant. The P value was 0.72 , which indicated that there was not a practical significant correlation.

It must be noted that 6 participants failed to answer this question.

Household income

The following table sets out the frequency of the participants in the study for household income:

Table 3.4: Household income of participants.

Rand Value	Frequency	Percentage
0 - 500	28	28.9%
501 - 1000	10	10.3%
1001 - 2000	24	24.7%
2001 - 3000	17	17.5%
3001 +	18	18.6%
Sub Total	97	100.0%
Missing	5	
Total	102	

In this study 19.6% of participants do not have any income. The maximum household income for a participant was R25000.00 and in average a participant had a household income of R2402.80 with a standard deviation of R3601.68.

The correlation coefficient for household income was 0.075, which indicated a small correlation that was not practically significant. The P value was 0.463, which indicated that there was not a practical significant correlation.

It must be noted that 5 participants failed to answer this question.

Education level

The following table sets out the frequency of the participants in the study for education levels:

Table 3.5: Education level of participants.

	Frequency	Valid Percentage
No formal Education	8	8.1

Completed primary school only	6	6.1
Not completed primary school	16	16.2
Not completed high school	41	41.4
Completed High School only	25	25.3
Obtained after high school a diploma or degree	2	2.0
Other	1	1.0
Sub Total	99	100.0
Missing	3	
Total	102	

Most participants did not complete high school or primary school and only 25.3 % of participants completed high school, whereas only 2% obtained education after they completed high school.

The correlation coefficient for education level was 0.365, which indicated a noticeable correlation. The P value was 0.000 and therefore indicated also a practical significant correlation. This indicated that the higher a person was qualified, the more correctly he answered the questions

It must be noted that 3 participants failed to answer this question.

Working experience

The following table sets out the frequency of the participants in the study for working experience:

Table 3.6: Working experience of participants.

Years	Frequency	Valid Percentage
0 – 5	61	70.1%
5 – 10	17	19.5%
11 - 15	5	5.7%
15 +	4	4.6%
Sub Total	87	100.0
Missing	15	
Total	102	

Most of the participants, 57.5%, had less than 3 years working experience. The maximum amount of years working experience was 36 and the minimum was 0. The average years of experience were 4.33.

The correlation coefficient for working experience was 0.010, which indicated a small correlation that was not practically significant. The P value was 0.927, which indicated that there was not a practical significant correlation.

It must be noted that 15 participants failed to answer this question.

Employment status

The following table sets out the frequency of the participants in the study for employment status:

Table 3.7: Employment status of participants.

	Frequency	Valid Percentage
Employed	49	48.5
Un employed	45	44.6
Other	7	6.9
Sub Total	101	100.0
Missing	1	
Total	102	

From table 3.7 it is evident there was an even distribution of employment status in the participants. It must be noted that 1 participant failed to answer this question.

The mean value for correct answers for employed participants was 8.1429 with a standard deviation of 2.86502. The mean value for correct answers for unemployed participants was 6.4444 with a standard deviation of 3.03432. Therefore, in average, employed participants answered more questions correctly than unemployed participants.

The effect size for employment status was 0.56 and thus there was a practically significant difference and shows a medium effect. The P value for employment status was 0.007 and indicated that the difference was statistically significant.

3.4.2.2 The answers to the questions

Each question of the survey had an appropriate answer. The answer to a question should have been either a “yes” or a “no”. Should the participant have indicated that he/she “don’t know” the answer, the indication would automatically be classified as incorrect. Therefore, any participant that indicated at any stage that he/she did not know the answer to the question, such an indication was grouped with the incorrect answer.

Each of the questions had only one valid answer that was counted to determine the financial literacy of the participant. The schedule below indicates the correct answers for the questions that were posed in the questionnaire to the participant. The correct selection of the answer is indicated below with an “A”.

Section 2 – Day-to-day management				
(Select applicable option)		Yes	No	Don't Know
6	Do you keep records of income and expenditure?	A		
7	Do you know how much money you have for daily living cost?	A		
8	Do you run short of money before your next salary?		A	
9	Do you keep up with payment of bills?	A		
10	Do you buy impulsively and buy things when you don't have the money		A	
11	Do you buy things on credit rather than waiting and saving up?		A	

Section 3 – Financial Planning				
(Select applicable option)		Yes	No	Don't Know
12	You have a sudden drop in income. Do you have enough money available to sustain your living?	A		
13	Do you have money available for a large unexpected expense?	A		
14	Do you have any risk insurance?	A		
15	Do you live for today and let tomorrows financial issues look		A	

	after / out for itself?			
16	Do you have provision for retirement?	A		

Section 4- Choosing appropriate products

(Select applicable option)		Yes	No	Don't Know
18	The best way to save money is to save in a bank account	A		
19	Do you shop around before you use a financial product or service	A		
20	Credit cards are regarded as the least expensive form of credit		A	
21	Two investments namely A and B have the same level of risk associated with them. A has a higher return than B. Thus B is the preferred investment choice.		A	
22	Do you consider the interest rate of a credit agreement before entering into the agreement	A		

Section 5 – Financial knowledge and understanding

(Select applicable option)		Yes	No	Don't Know
2 3	Do you read the financial sections of the newspaper or other printed media?	A		
2 4	Do you watch the news on TV to see the financial indicators for the day?	A		
2 5	Inflation is currently between 10 % and 11%		A	
2 6	The current prime lending interest rate is 14%		A	
2 7	If you feel that you have been mistreated during a loan application you can take the matter to the National Credit Regulator	A		
2 8	Do you think that inflation will affect your savings	A		

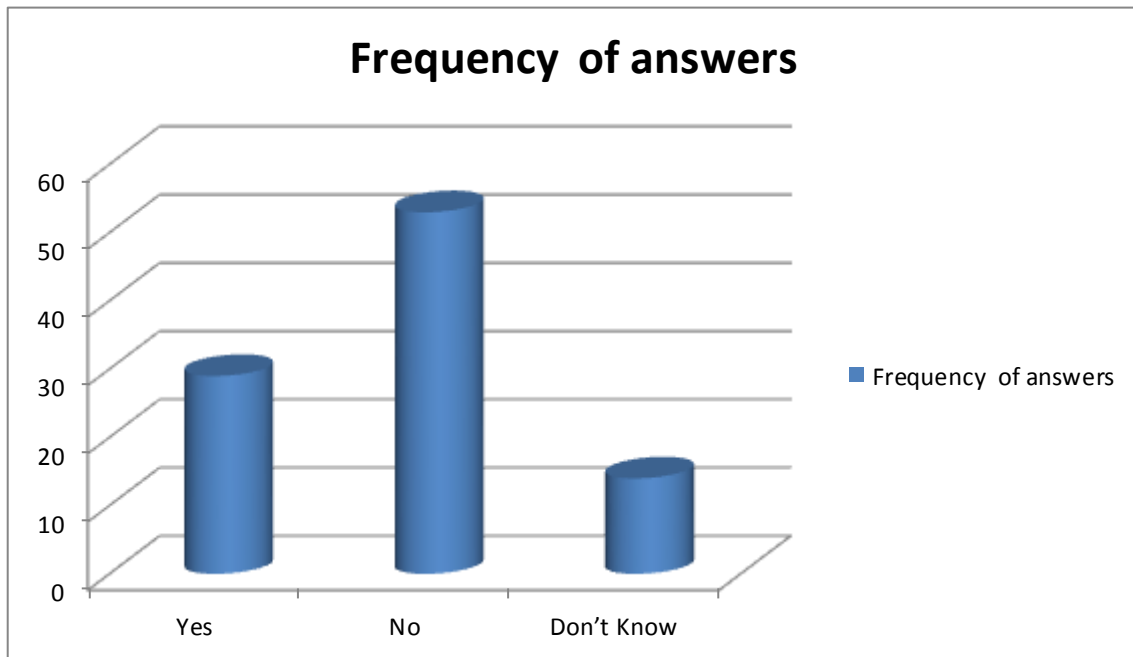
Each section with its questions will be discussed in relation to the frequency of answers given by the participants. The descriptive statistic mean value of the correct answer for each of the questions and the mean value of correct answers for the specific section will be indicated.

3.4.2.3 Section- by- section analysis of questionnaire

Section 2: Day - to - day management

Question 6: Do you keep records of income and expenditure?

Figure 3.1: Frequency of answers for question 6.



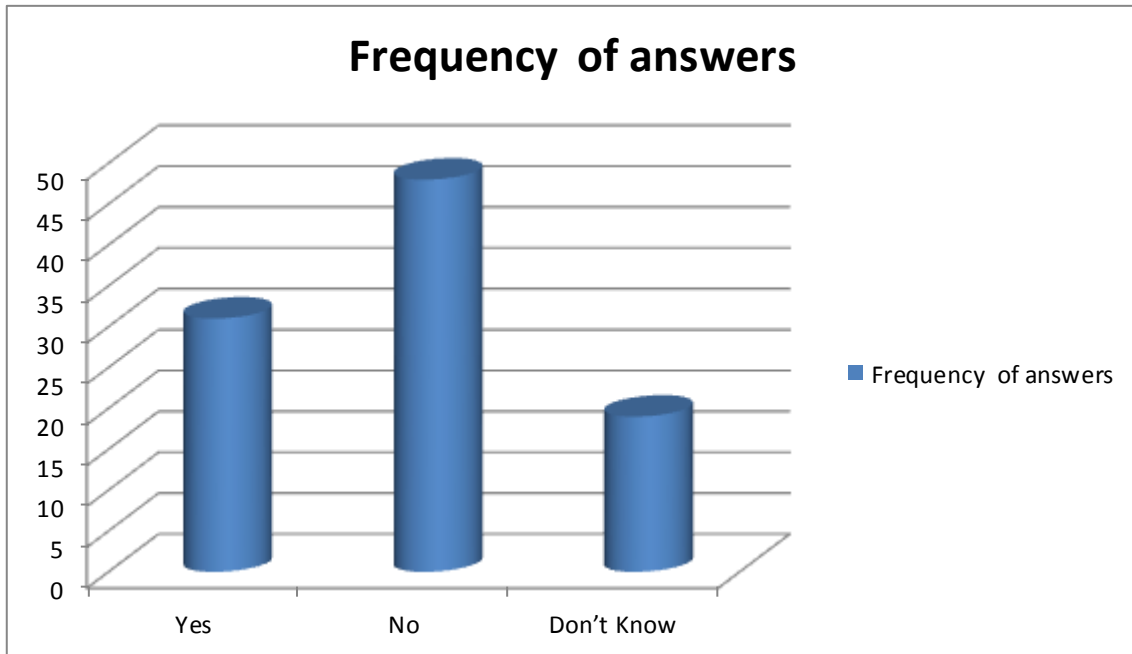
For this question 29 participants answered “yes”, 53 participants answered “no” and 14 participants indicated that they “don't know” the answer. Six participants neglected to answer this question.

As indicated the correct answer for this question was “yes” and therefore the descriptive mean value of correct answers by participants was 28%.

Majority of the participants, 53%, didn't keep records of their expenditure. Only 28% of the sample indicated that they were keeping records of their expenditure. Therefore the participants fail to properly manage their money on a day-to-day basis as they do not keep record of their expenditure.

Question 7: Do you know how much money you have for daily living cost?

Figure 3.2: Frequency of answers for question 7.



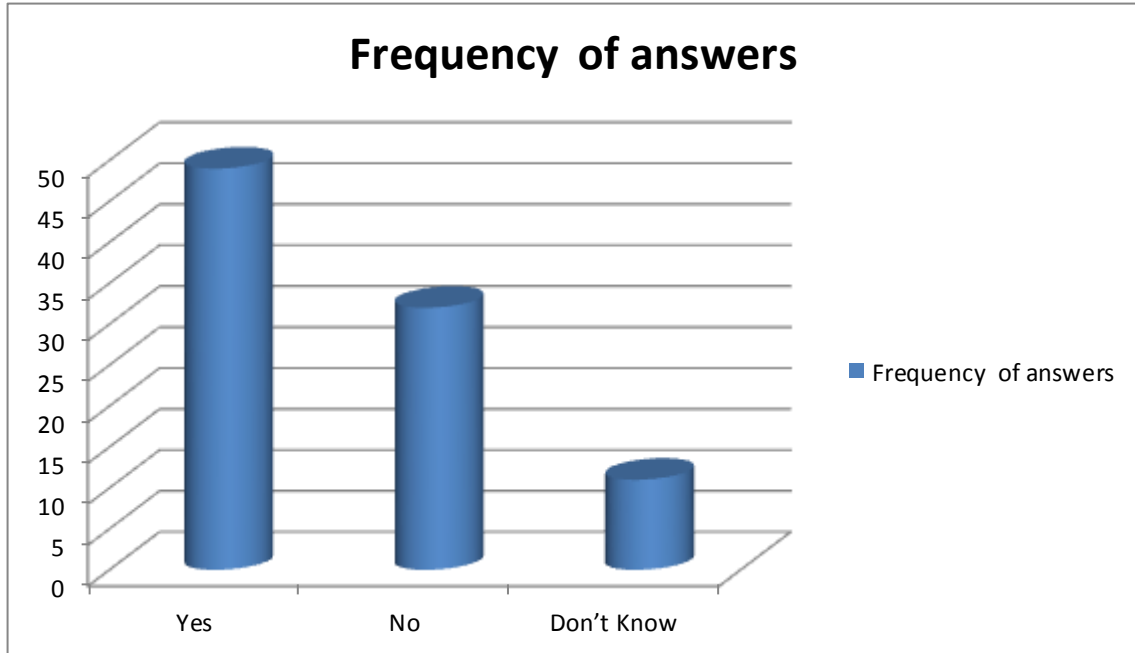
For this question an amount of 31 participants answered “yes”, 48 participants answered “no” and 19 participants indicated that they “don’t know” the answer. An amount of 4 participants neglected to answer this question.

As indicated, the correct answer for this question was “yes” and therefore the descriptive mean value of correct answers by participants was 30%.

Most of the participants, 48%, did not know the amount of daily living costs they have in relation to their income. Only 30% of the participants are currently informed on how much money they have for living cost.

Question 8: Do you run short of money before your next salary?

Figure 3.3: Frequency of answers for question 8.



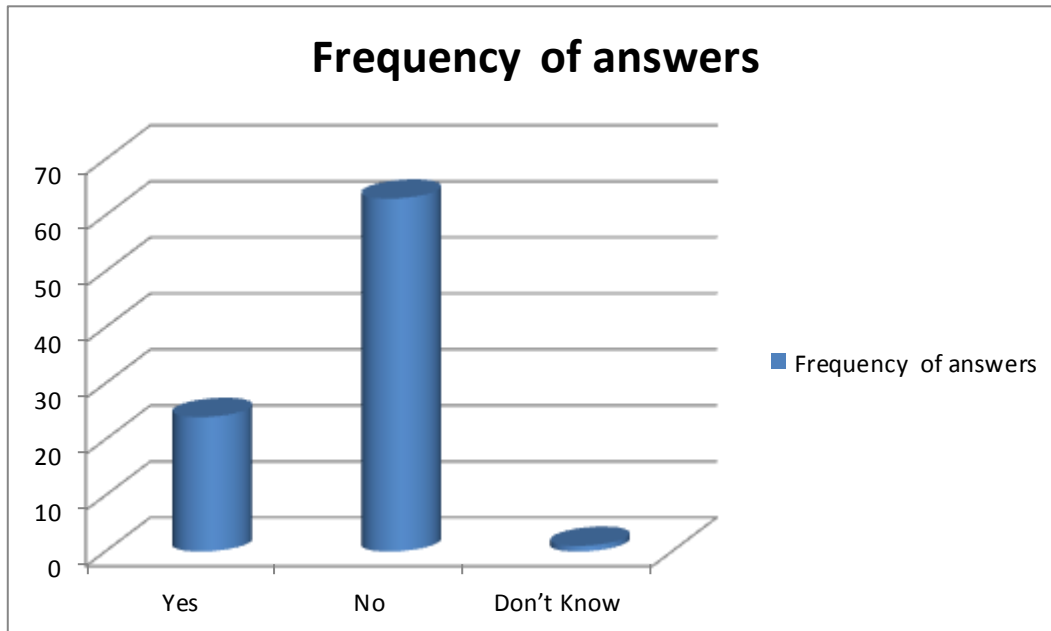
For this question an amount of 49 participants answered “yes”, 32 participants answered “no” and 11 participants indicated that they “don’t know” the answer. An amount of 10 participants neglected to answer this question.

As indicated, the correct answer for this question was “no” and therefore the descriptive mean value of correct answers by participants was 31%.

Participants tend to run out of money before their next salary and only 31% of the sample plan to ensure they don’t run out of money before their next salary.

Question 9: Do you keep up with payment of bills?

Figure 3.4: Frequency of answers for question 9.



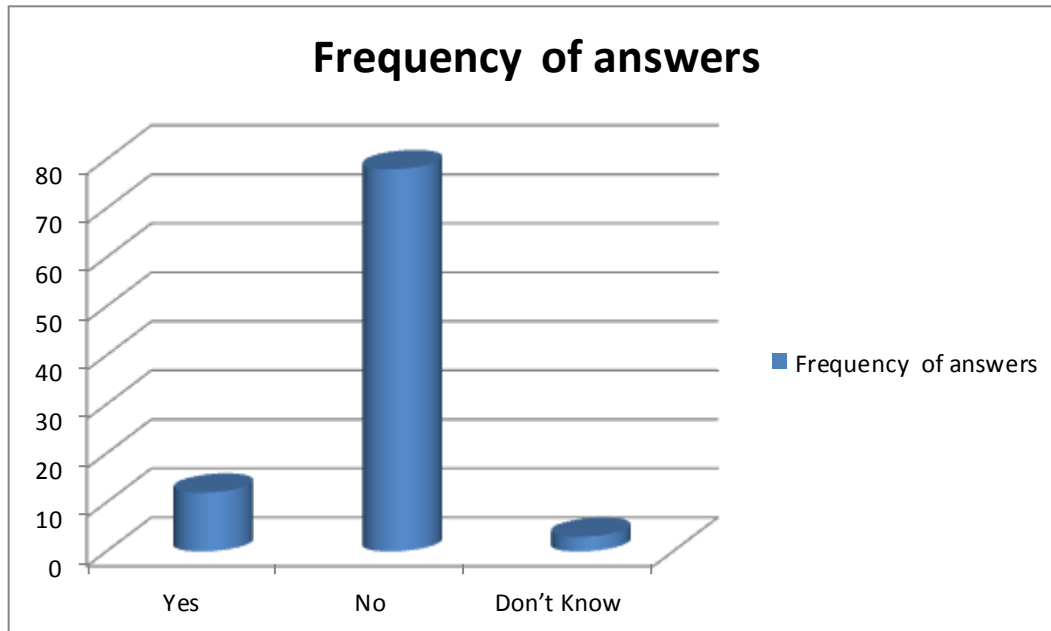
For this question an amount of 24 participants answered “yes”, 63 participants answered “no” and 1 participant indicated that he/she “don’t know” the answer. An amount of 14 participants neglected to answer this question.

As indicated the correct answer for this question was “yes” and therefore the descriptive mean value of correct answers by participants was 24%

Majority of participants, 63%, indicated that they do not keep up with bills. Only 24 % of the sample is able to make payments timely.

Question 10: Do you buy impulsively and buy things when you don't have the money?

Figure 3.5: Frequency of answers for question 10.



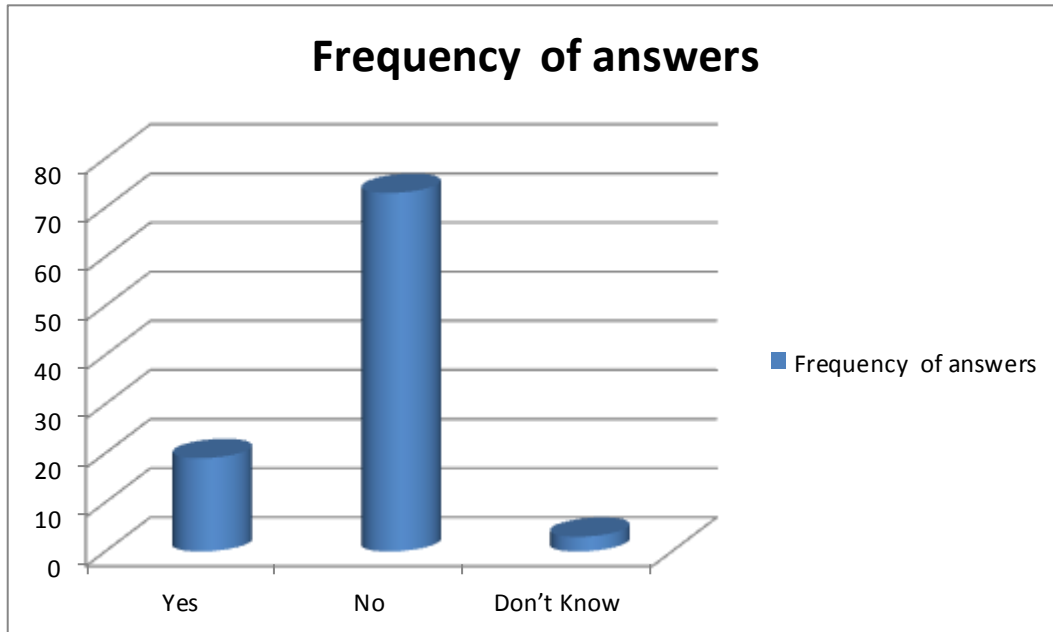
For this question an amount of 12 participants answered “yes”, 78 participants answered “no” and 3 participants indicated that they “don’t know” the answer. An amount of 9 participants neglected to answer this question.

As indicated the correct answer for this question was “no” and therefore the descriptive mean value of correct answers by participants was 76%.

The participants, 76%, do not buy things impulsively when they do not have the money.

Question 11: Do you buy things on credit rather than waiting and saving up?

Figure 3.6: Frequency of answers for question 11.



For this question an amount of 19 participants answered “yes”, 73 participants answered “no” and 3 participants indicated that they “don’t know” the answer. An amount of 7 participants neglected to answer this question.

As indicated the correct answer for this question was “no” and therefore the descriptive mean value of correct answers by participants was 72%.

Most of the participants, 72%, indicated that they won’t buy on credit but will rather save for the item.

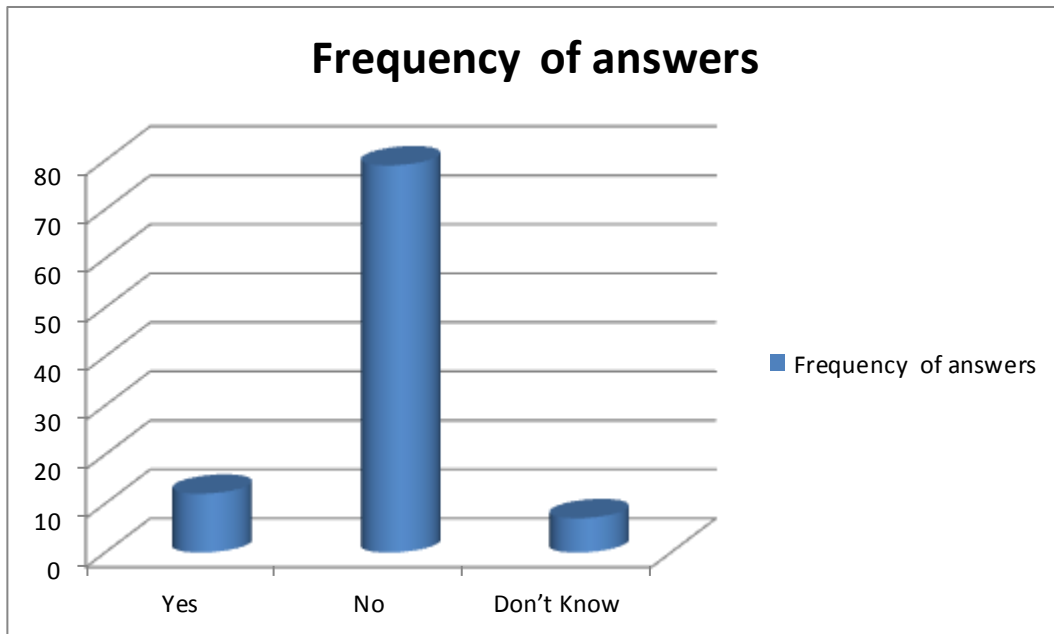
Average mean value of correct answers for this section

The average descriptive mean value of participants that answered the questions correctly was 43.5%. Therefore, 43% of the participants are managing their money properly on a day-to-day basis. Questions 10 and 11 were outliers in the questioning and indicated that the participants, in the majority, won’t buy products if they do not have the cash. However, this can also be due to the fact that they do not qualify for credit and therefore are not able to buy on credit rather than with cash.

Section 3: Financial Planning

Question 12: You have a sudden drop in income. Do you have enough money available to sustain your living?

Figure 3.7: Frequency of answers for question 12.



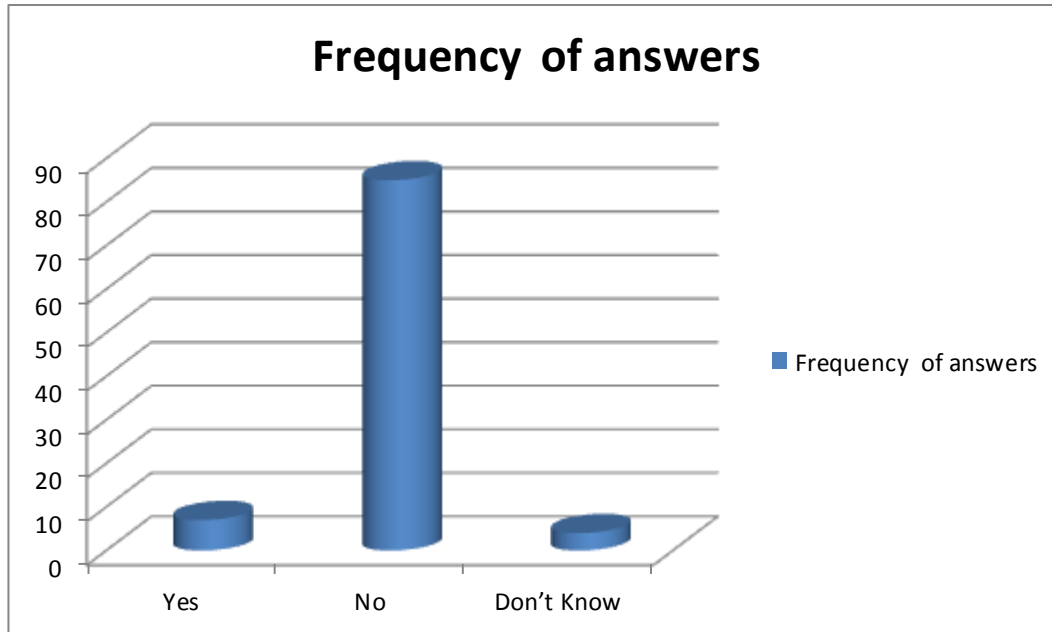
For this question an amount of 12 participants answered "yes", 79 participants answered "no" and 7 participants indicated that they "don't know" the answer. An amount of 4 participants neglected to answer this question.

As indicated the correct answer for this question was "yes" and therefore the descriptive mean value of correct answers by participants was 12%.

The participants in the majority, 79%, indicated that they do not have enough money to sustain them after a sudden drop in income. Only 12% indicated that they will be able to support themselves.

Question 13: Do you have money available for a large unexpected expense?

Figure 3.8: Frequency of answers for question 13.



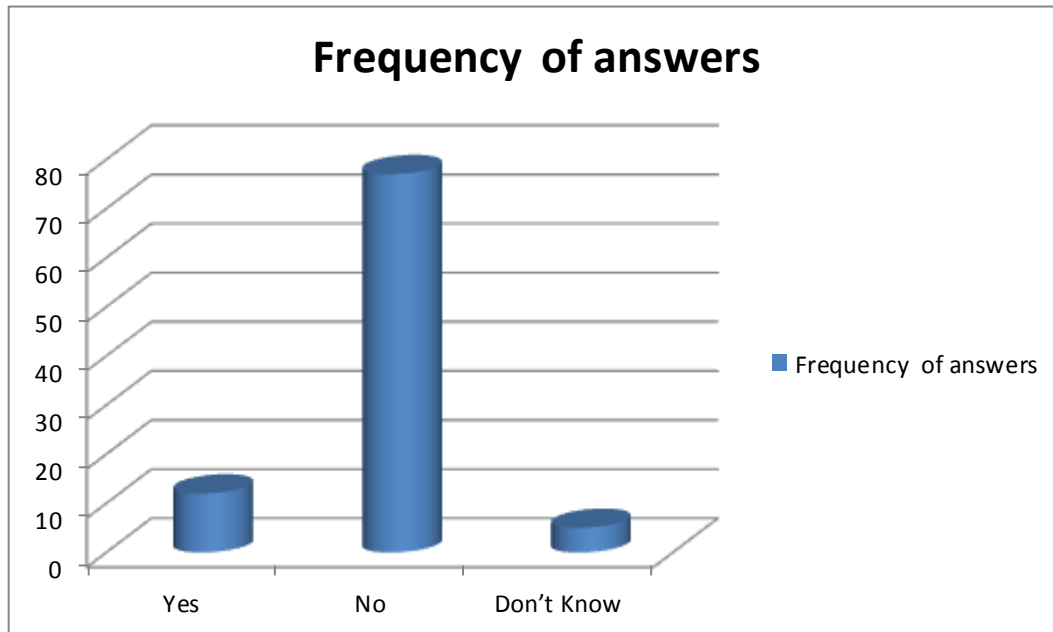
For this question an amount of 7 participants answered “yes”, 85 participants answered “no” and 4 participants indicated that they “don’t know” the answer. An amount of 6 participants neglected to answer this question.

As indicated the correct answer for this question was “yes” and therefore the descriptive mean value of correct answers by participants was 7%.

Most of the participants, 85%, indicated that they do not have money for an unexpected expense and only 7% of the participants will be able to sustain an unexpected expense.

Question 14: Do you have any risk insurance?

Figure 3.9: Frequency of answers for question 14.



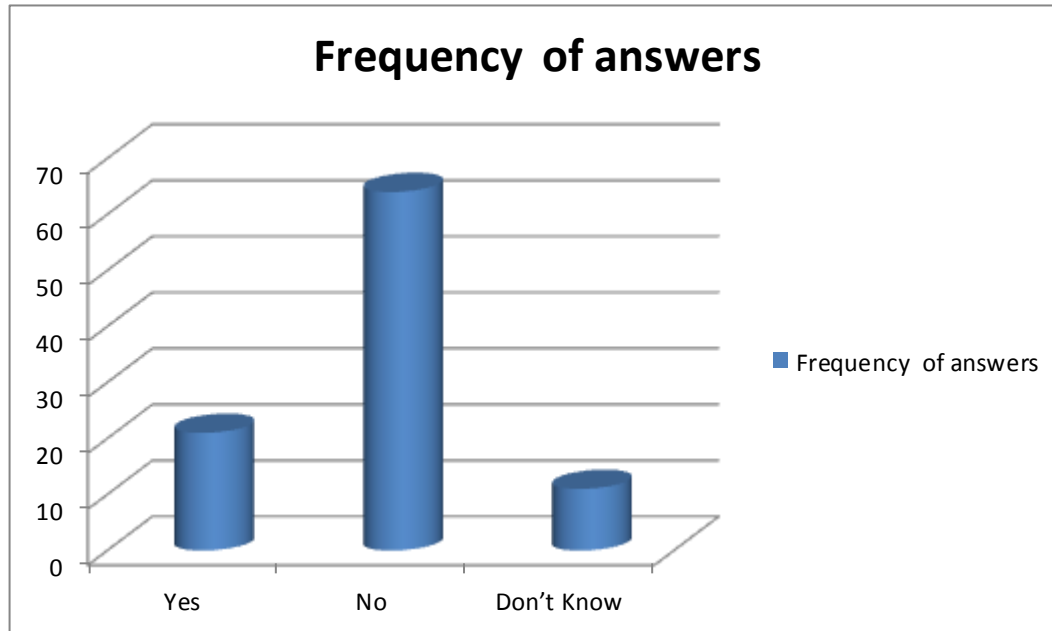
For this question an amount of 12 participants answered “yes”, 77 participants answered “no” and 5 participants indicated that they “don’t know” the answer. An amount of 8 participants neglected to answer this question.

As indicated the correct answer for this question was “yes” and therefore the descriptive mean value of correct answers by participants was 12%.

A small amount of participants, 12%, is currently making provisions for risk in their financial portfolio. Most participants, 77%, indicated that they do not have a risk insurance policy, therefore not providing for unexpected events.

Question 15: Do you live for today and let tomorrow's financial issues look after / out for itself?

Figure 3.10: Frequency of answers for question 15.



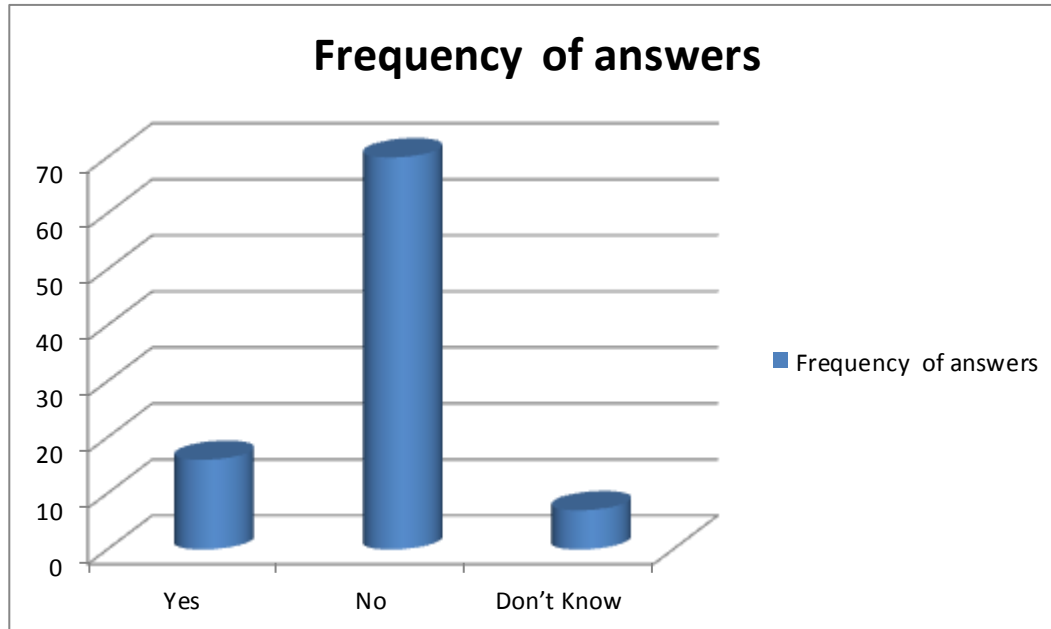
For this question an amount of 21 participants answered “yes”, 64 participants answered “no” and 11 participants indicated that they “don’t know” the answer. An amount of 6 participants neglected to answer this question.

As indicated the correct answer for this question was “no” and therefore the descriptive mean value of correct answers by participants was 63%.

Participants, 63%, do attempt to manage their money as they indicated that they do not merely leave tomorrow’s financial issue to look after itself. Therefore a participant is very short sighted in his/her planning of the future and possibly sees this question to relate only to the financial issues of tomorrow. Thus planning seems to be done on a day-to-day basis rather than long term which will be more appropriate.

Question 16: Do you have provision for retirement?

Figure 3.11: Frequency of answers for question 16.



For this question an amount of 16 participants answered “yes”, 70 participants answered “no” and 7 participants indicated that they “don’t know” the answer. An amount of 9 participants neglected to answer this question.

As indicated the correct answer for this question was “yes” and therefore the descriptive mean value of correct answers by participants was 16%.

Only 16% of the participants provide for their retirement. The majority of participants, 70%, are either unable or unwilling to make provision for retirement.

Average mean value of correct answers for section 3

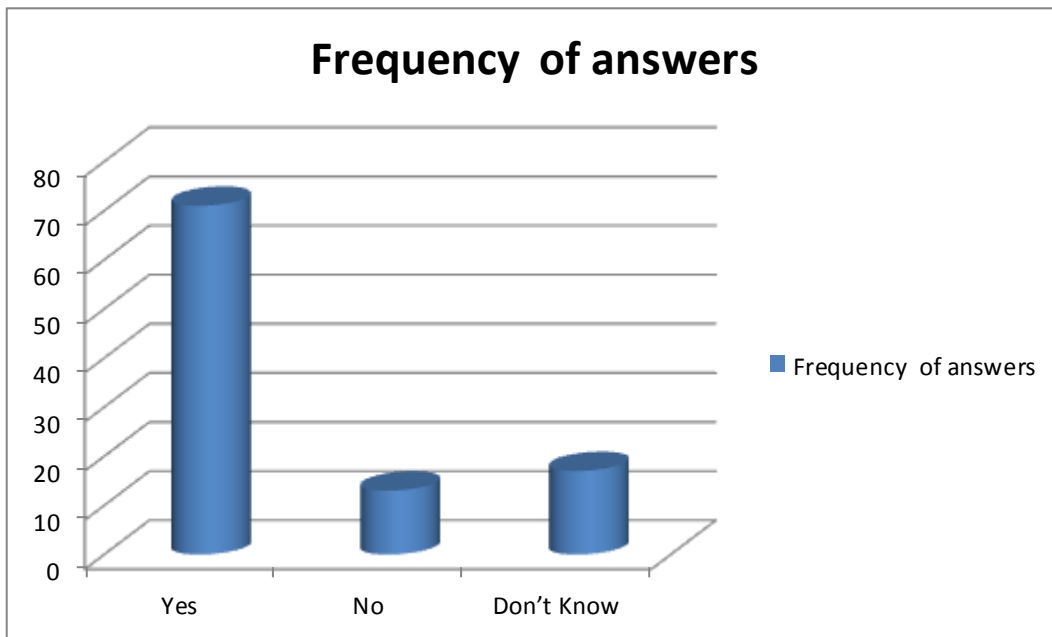
The average descriptive mean value of participants that answered the questions correctly was 22%.

It is evident that on average only 22% of the participants do proper financial planning and are able to look at long and short term risks and address such to mitigate any adverse effects.

Section 4: Choosing appropriate products

Question 18: The best way to save money is to save in a bank account

Figure 3.12: Frequency of answers for question 18.



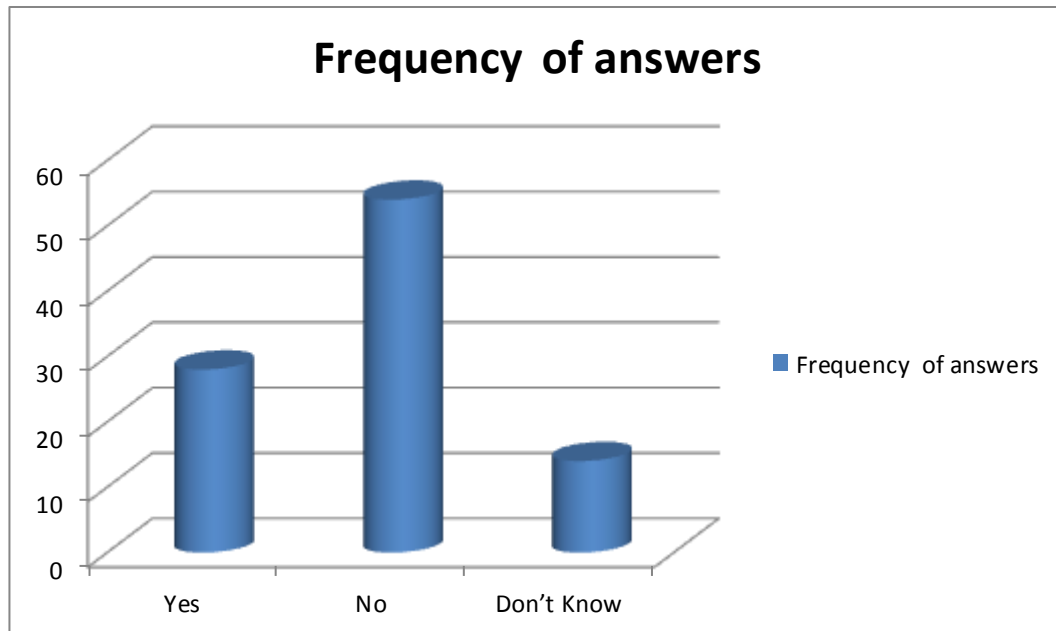
For this question an amount of 71 participants answered “yes”, 13 participants answered “no” and 17 participants indicated that they “don’t know” the answer. An amount of 1 participant neglected to answer this question.

As indicated the correct answer for this question was “yes” and therefore the descriptive mean value of correct answers by participants was 70%.

The majority of the participants, 70%, indicated that the best way to save money is by saving it in a bank account.

Question 19: Do you shop around before you use a financial product or service?

Figure 3.13: Frequency of answers for question 19.



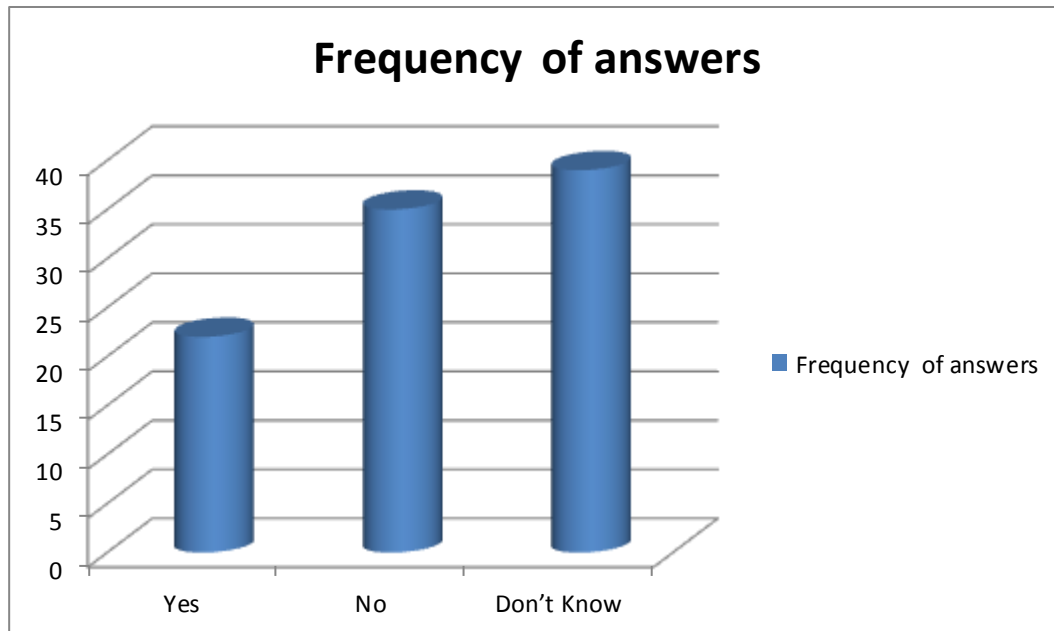
For this question an amount of 28 participants answered "yes", 54 participants answered "no" and 14 participants indicated that they "don't know" the answer. An amount of 6 participants neglected to answer this question.

As indicated the correct answer for this question was "yes" and therefore the descriptive mean value of correct answers by participants was 27%.

A percentage of 27% participants shop around for a financial product before engaging a service provider. The remainder of the participants do not shop around before engaging a service provider.

Question 20: Credit cards are regarded as the least expensive form of credit

Figure 3.14: Frequency of answers for question 20.



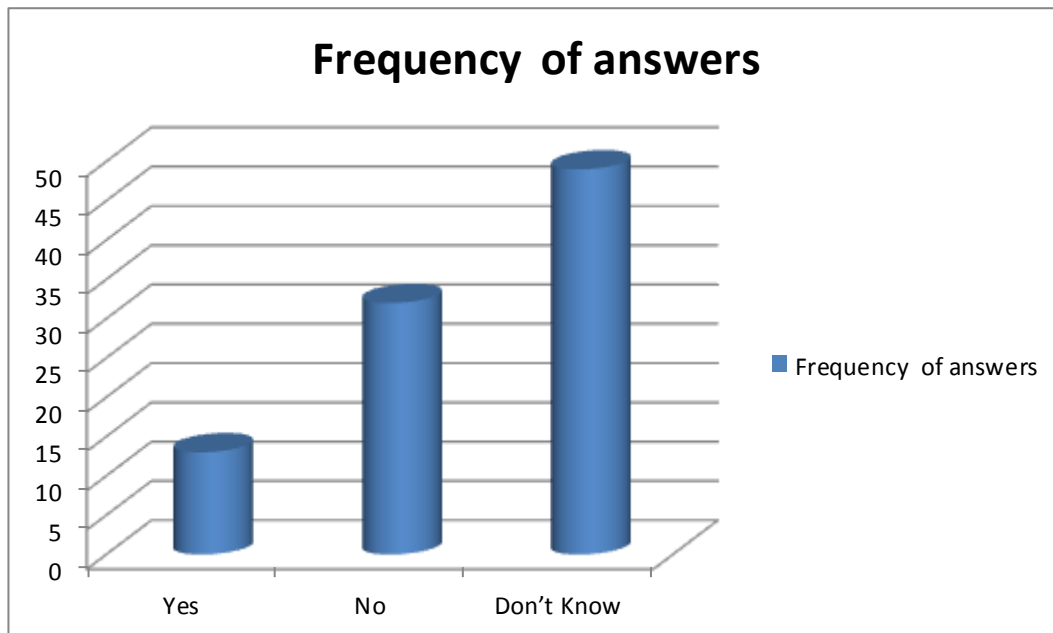
For this question an amount of 22 participants answered “yes”, 35 participants answered “no” and 39 participants indicated that they “don’t know” the answer. An amount of 6 participants neglected to answer this question.

As indicated the correct answer for this question was “no” and therefore the descriptive mean value of correct answers by participants was 34%.

Only 34% of the participants indicated that they knew that credit cards are not the least expensive form of credit. The remainder of the sample is under the impression that credit cards are the least expensive form of credit.

Question 21: Two investments namely A and B have the same level of risk associated with them. A has a higher return than B. Thus B is the preferred investment choice.

Figure 3.15: Frequency of answers for question 21.



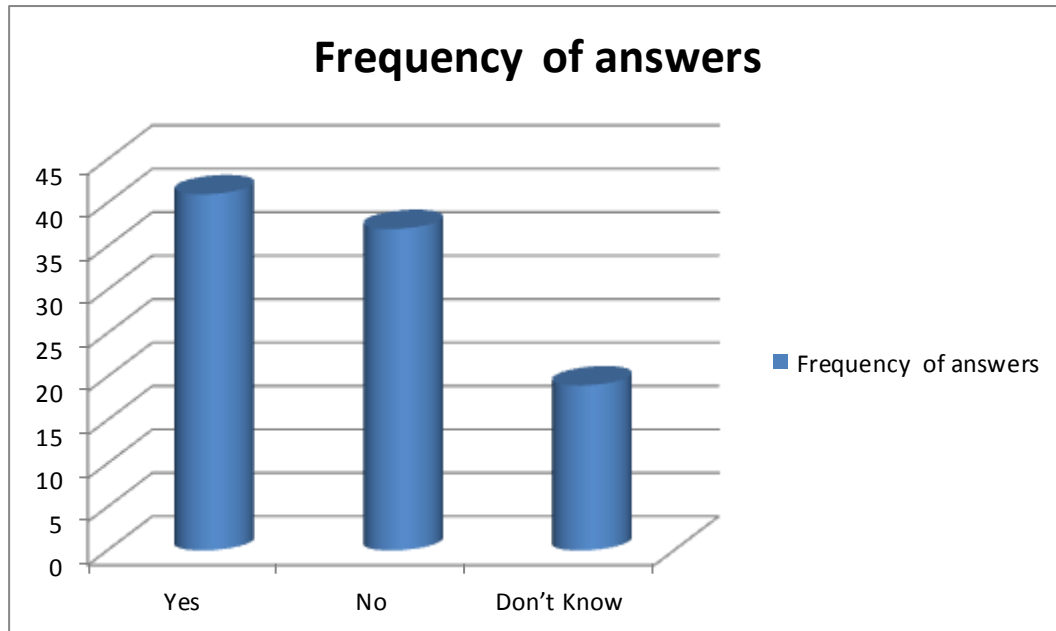
For this question an amount of 13 participants answered “yes”, 32 participants answered “no” and 49 participants indicated that they “don’t know” the answer. An amount of 8 participants neglected to answer this question.

As indicated the correct answer for this question was “no” and therefore the descriptive mean value of correct answers by participants was 31%.

Participants, 69%, were unable to indicate when an investment will be preferred with a higher return and thus not able to determine the most appropriate investments with the same risk profile.

Question 22: Do you consider the interest rate of a credit agreement before entering into the agreement?

Figure 3.16: Frequency of answers for question 22.



For this question an amount of 41 participants answered “yes”, 37 participants answered “no” and 19 participants indicated that they “don’t know” the answer. An amount of 5 participants neglected to answer this question.

As indicated the correct answer for this question was “yes” and therefore the descriptive mean value of correct answers by participants was 40%.

A small number of participants, 40%, consider the interest rate of a credit card before the credit agreement is entered into. The remainder of the participants enter into credit agreements without considering the interest rate.

Average mean value of correct answers for section 4

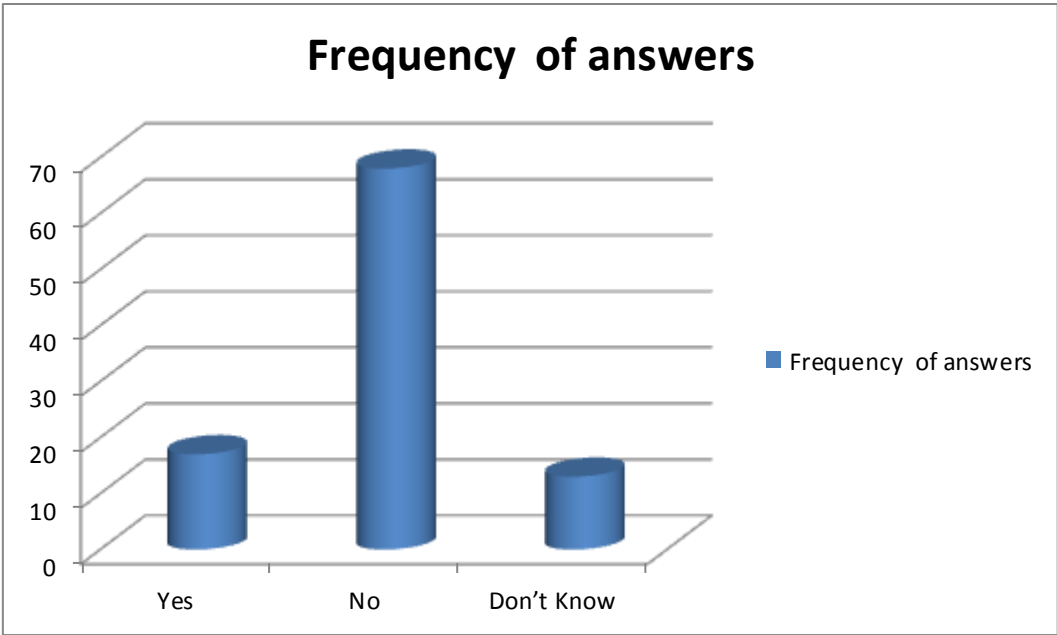
The average descriptive mean value of participants that answered the questions correctly was 40.4%.

Only 40.4% of the participants are converse enough to determine an appropriate financial product before they enter into an agreement or use a financial service.

Section 5: Financial knowledge and understanding

Question 23: Do you read the financial sections of the newspaper or other printed media?

Figure 3.17: Frequency of answers for question 23.



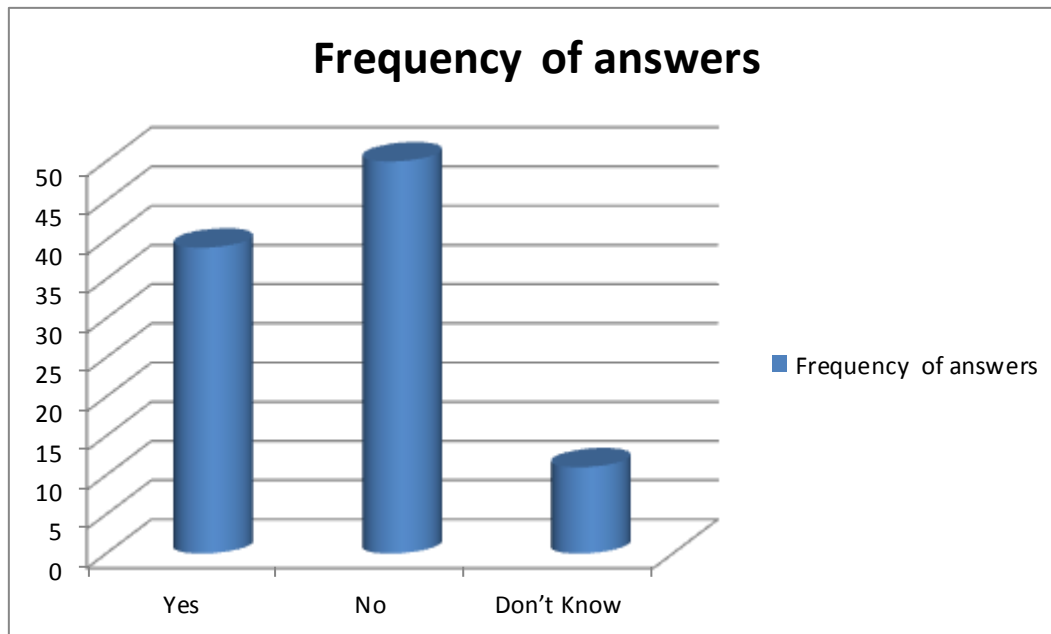
For this question an amount of 17 participants answered “yes”, 68 participants answered “no” and 13 participants indicated that they “don’t know” the answer. An amount of 4 participants neglected to answer this question.

As indicated the correct answer for this question was “yes” and therefore the descriptive mean value of correct answers by participants was 17%

Participants, 83%, do not read financial sections of newspapers and other printed material.

Question 24: Do you watch the news on TV to see the financial indicators for the day?

Figure 3.18: Frequency of answers for question 24.



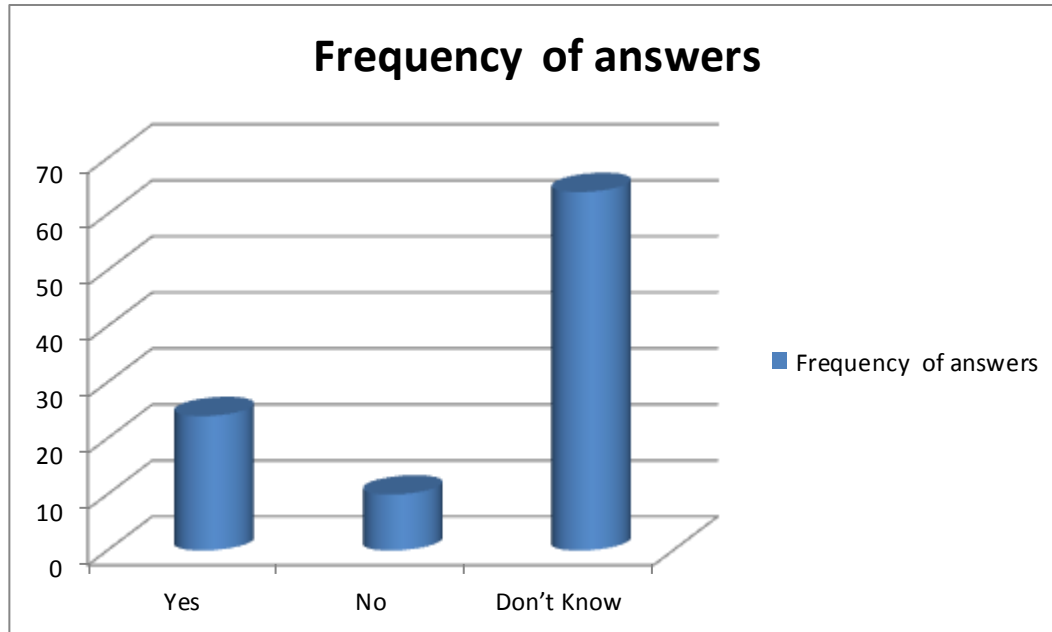
For this question an amount of 39 participants answered “yes”, 50 participants answered “no” and 11 participants indicated that they “don’t know” the answer. An amount of 2 participants neglected to answer this question.

As indicated the correct answer for this question was “yes” and therefore the descriptive mean value of correct answers by participants was 38%.

Only 38% of the participants will watch TV or news to see the financial indicators for the day.

Question 25: Inflation is currently between 10 % and 11%

Figure 3.19: Frequency of answers for question 25.



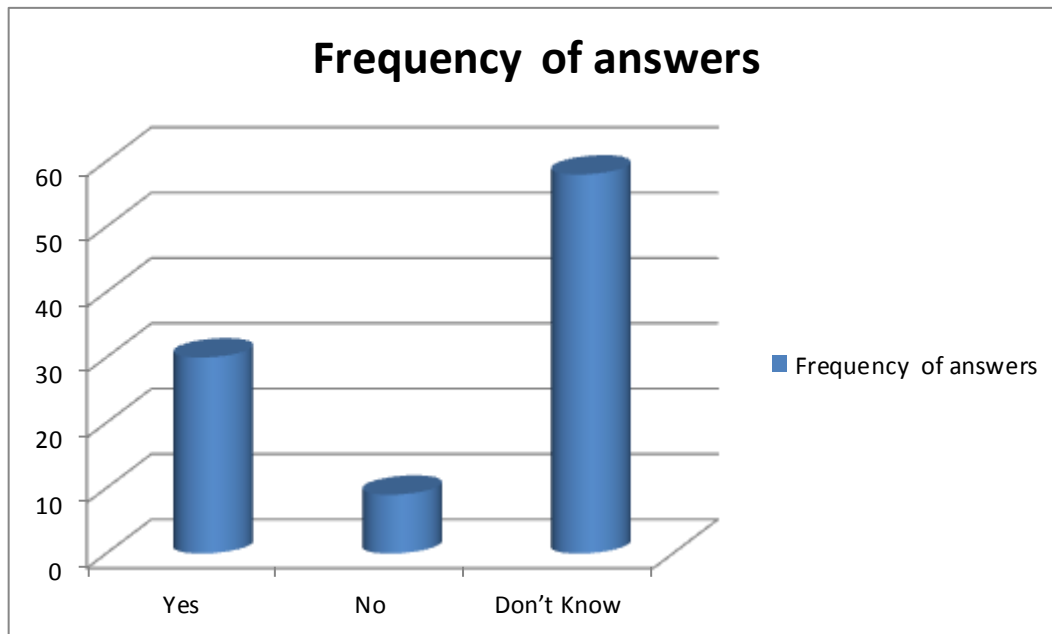
For this question an amount of 24 participants answered “yes”, 10 participants answered “no” and 64 participants indicated that they “don’t know” the answer. An amount of 2 participants neglected to answer this question.

As indicated the correct answer for this question was “no” and therefore the descriptive mean value of correct answers by participants was 10%.

Most of the participants, 90%, did not know the current inflation rate.

Question 26: The current prime lending interest rate is 14%

Figure 3.20: Frequency of answers for question 26.



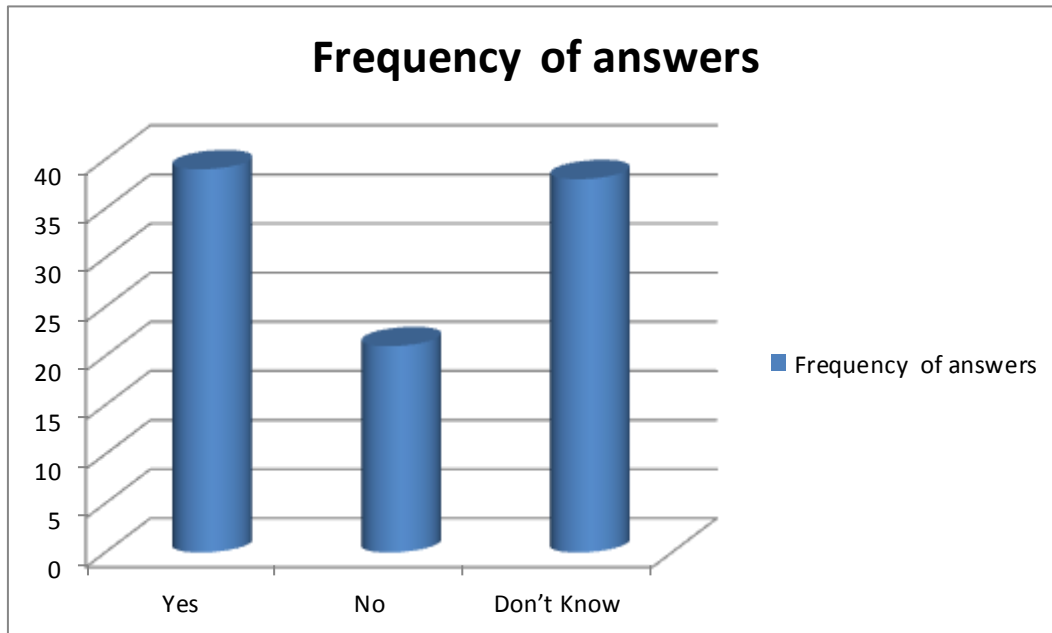
For this question an amount of 30 participants answered “yes”, 9 participants answered “no” and 58 participants indicated that they “don’t know” the answer. An amount of 5 participants neglected to answer this question.

As indicated the correct answer for this question was “no” and therefore the descriptive mean value of correct answers by participants was 9%.

Only 9% of the participants knew what the prime lending rate within South Africa currently is.

Question 27: If you feel that you have been mistreated during a loan application you can take the matter to the National Credit Regulator

Figure 3.21: Frequency of answers for question 27.

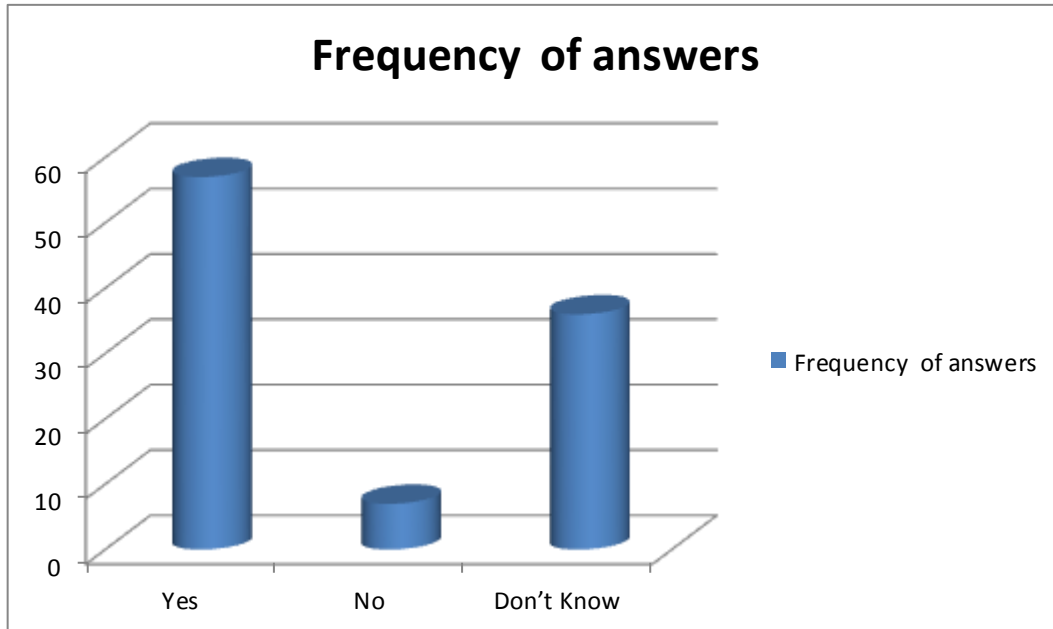


For this question an amount of 39 participants answered “yes”, 21 participants answered “no” and 38 participants indicated that they “don’t know” the answer. An amount of 4 participants neglected to answer this question.

As indicated the correct answer for this question was “yes” and therefore the descriptive mean value of correct answers by participants was 38%.

Question 28: Do you think that inflation will affect your savings?

Figure 3.22: Frequency of answers for question 28.



For this question an amount of 57 participants answered “yes”, 7 participants answered “no” and 36 participants indicated that they “don’t know” the answer. An amount of 2 participants neglected to answer this question.

As indicated the correct answer for this question was “yes” and therefore the descriptive mean value of correct answers by participants was 56%.

Although the minority of participants know what the current percentage for inflation is, a larger percentage, 56%, does know that it affects their savings.

Average mean value of correct answers for section 5

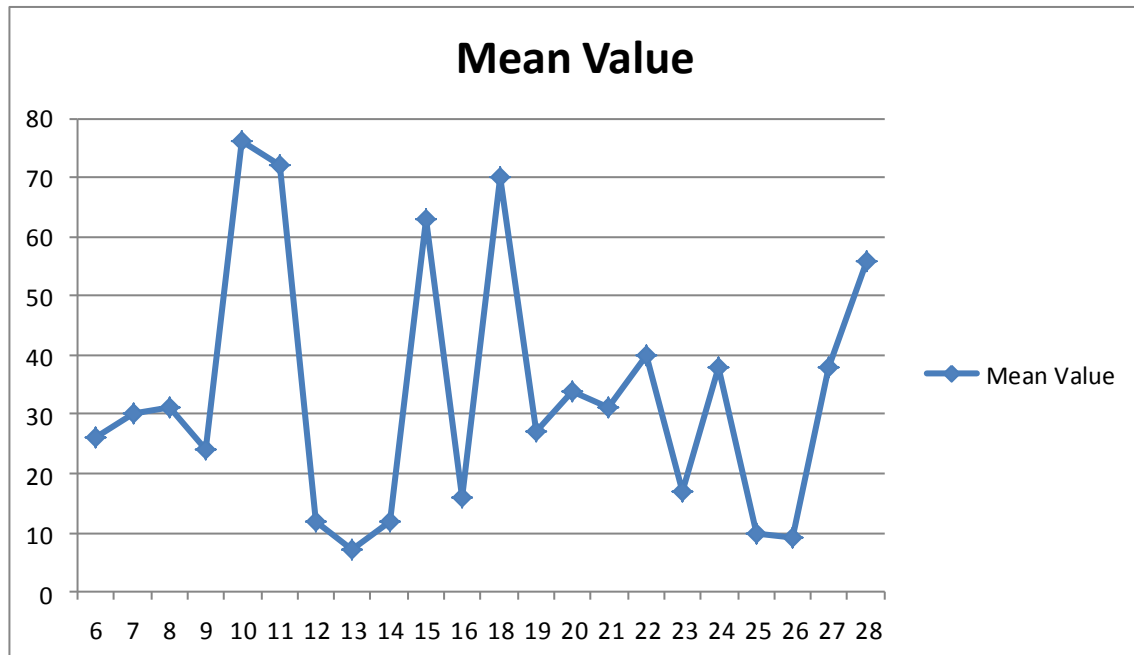
The average descriptive mean value of participants that answered the questions correctly was 33.6%.

Participants on an average of 33.6% have adequate financial knowledge and understanding of financial concepts.

3.4.2.4 Summary of descriptive mean values for questions.

The following diagram plots the mean values for the correct answers of each of the questions as discussed in paragraph 3.3.2.3 above.

Figure 3.23: Summary of descriptive mean values for questions.



The average of the descriptive mean value of all the questions was 33.5 %. Therefore, a participant on average answered 33.5 % of the questions correctly.

3.4.2.5 Hypothesis

The hypotheses can be stated as follows:

H_0 - People in low income and rural areas are not financially literate.

H_1 -People in low income and rural areas are financially literate.

Majority of questions in the questionnaire could not be answered by the participants and on average a participant only answered 33.5% of the questions correctly. It is therefore submitted that the H_0 hypothesis can be accepted that the sample of people in low income and rural areas are not financially literate.

4. Summary

This research focused on descriptive and explanatory methods to determine the level of financial literacy within the target market of the state-owned bank. The study further used numbers, graphs and tables to present the data that was obtained through a questionnaire and quantitative research was the most appropriate to test the hypothesis.

The population was identified as people living within rural and low income areas of South Africa. The population was people that fall within communities that have little or no access to financial services within rural and informal settlements. A pure random process was used to select the data from the sample frame. The questionnaire was distributed to the communities in low income and rural areas surrounding the city of Ventersdorp, North-West Province.

It was determined that the questionnaire distributed was reliable as it had an overall Cronbach alpha of 0.607.

The sample of this population in this survey, overall, displayed a poor level of financial literacy in most of the questions asked in the survey. There are pockets of excellence, however, overall the sample struggle to manage their money on a daily basis, does not have sufficient knowledge about different financial products or services, fail to plan for the long term and does not have adequate understanding and knowledge of financial concepts

CHAPTER 4 – CONCLUSIONS AND RECOMMENDATIONS

4.1 Introduction

One of the benefits of financial literacy is financial inclusion (Khan, 2010:1). The more people are aware of the types of financial services offered in the market and how they can be uniquely beneficial, the more likely they are to use those services. (Khan, 2010:1).

The South African Postbank Limited Act 9 of 2010 (the “Act”), which was assented to by the President of South Africa on 10 December 2010, specifically addressed the mandate of the bank in section 2(c):

“expanding the range of banking services and developing into a bank of first choice, in particular to the rural and lower income markets as well as communities that have little or no access to commercial banking services or facilities;”

The main objective of this mandate is to ensure financial inclusion of people within this target market. The direct effect, as indicated in Chapter 2, of financial literacy is financial inclusion. This chapter will specifically focus on the second general objective whether a state-owned bank, like Postbank, should address financial literacy in the target market of the social mandate.

The chapter will focus on the following:

1. Emphasising the motivation for this study;
2. Highlighting the findings of this study regarding the objectives and draw conclusions;
3. Making recommendations;

4.2 Motivation for study

As indicated in Chapter 1, the South African Post Office has been tasked by the Government of South Africa to bring a state-owned bank into operation. The objective

of the South African Postbank Act is to bring financial services to rural and low income areas where there is little to no access to financial services.

It was determined in Chapter 2 that financial literacy and financial inclusion is directly correlated and that the mere access to financial services is not enough, the individual must have the appropriate skill and knowledge to use the services offered. For the bank to reach its objective, a clear understanding must exist on whether the target market is financially literate.

The target market of the state-owned bank was identified in this study to be people living in low income and rural areas that have little or no access to financial services. It was established in Chapter 2 that these individuals have low levels of financial literacy. Therefore the objective of a bank cannot only be to provide the service to these individuals but educate them on the use of these services. By increasing the financial literacy of the individual, it will have the correlating effect of including him/her in the financial services market

This study focused on the people falling in low income area with limited or no access to financial services. The average income for participant in this study was R1296.91. This is in line with the sample focus identified in chapter 3.

The level of financial literacy of low income and rural areas are important to establish as this will influence the way in which the strategy of the bank is formulated for the future. In order to reach the social mandate that was stated, the level of financial literacy within the target market must be determined.

The research objectives of this study were to determine whether the target market of a state-owned bank in the social mandate is financial literate and whether a state-owned bank should address financial literacy in the target market of the social mandate.

In the following section the conclusions and recommendation on the general objectives, as indicated above, and the specific objectives , as mentioned in chapter 1, will be discussed and elaborated upon.

4.5 Conclusions and recommendations

4.5.1 Conclusions to the objective: “To conceptualise and define financial literacy by determining what the variables are that will render a person financially literate”

It was concluded that the definition of financial literacy is multi-dimensional and that it is difficult to define the concept of financial literacy. Financial literacy was defined as the ability to read, analyse, manage and communicate about personal financial conditions that affect a person’s wellbeing.

It was also suggested to be the ability to understand financial terms and concepts and translate that knowledge skilfully into behaviour that will benefit the consumer financially.

It was however concluded that financial literacy is far too complex to assign a simple definition and that it rather consists of various factors and variables that collectively will determine a person’s level of financial literacy. The variables that were identified are:

1. Day-to-day management;
2. Financial planning;
3. Choosing appropriate products and services; and
4. Financial understanding;

It was determined that these variables collectively will define a person as financially literate or not. The variables mentioned above each identify a specific area of financial literacy in which the individual must show competency.

Although these variables will define a person as financially literate, the literature also indicated that there is a process through which an individual must travel to increase and maintain his/her financial skills and literacy. This process contains various elements.

4.5.2 Conclusions to the objective: “To determine the interlinked elements of being and becoming financially literate”

There are three interlinked elements in the process for a person to become fully financially literate. Firstly, it is financial knowledge and understanding, secondly, financial skills and competence and thirdly, financial responsibility through competence and confidence.

In the process these interlinked elements create levels through which a person must travel to be deemed financially literate.

4.5.3 Conclusions to the objective: “To determine the levels of the process for a person to become financially literate”

In chapter 2 a continuum was suggested through which an individual will travel in order to become financially literate. The framework suggested that there are four steps or levels to increase the financial literacy of an individual.

The first level in the continuum is basic understanding. A person must understand the basic principle of the financial services for example that saving options can enable him to spend in the future.

The second level is when the person must develop confidence to utilise his/her basic knowledge about the financial service to move him/her to consider and use the financial services offered. He/she should have confidence in the institution and the service that is being provided. This implies a level of confidence in financial matters, a willingness to ask and explore, and the ability to make appropriate decisions.

The third level is the application of the consumer’s confidence, financial knowledge and skills in a range of changing contexts. After the person gained knowledge and skills to have confidence to effectively use financial services, he/she will start gaining competence in the use of financial services.

During the final level, the person can be deemed relatively financially competent. A person should be able to obtain information by himself/herself and interpret the information to make sound personal financial decisions.

Various variables were identified that will define a person as financially literate. The overarching variables that define financial literacy practically for the consumer are day-to-day money management; financial planning; choosing appropriate products and financial knowledge and understanding.

In this study each of the variables was used, as defined in Chapter 2, to determine whether the sample can be defined as financially literate. Each of the variables and the findings in the study will be discussed.

- Day-to-day financial management

In chapter 2 we determined that day-to-day money management can be divided into three categories, firstly, financial control; secondly, making ends meet; and finally attitude towards financial management.

In this study it was found that people had very low financial control as they failed to keep records of their expenditure and income. Only 30% of the participants are currently informed on how much money they have for living cost.

The study indicated that the participants tend to run out of income before their next salary is paid and that 63% of the sample fail to keep up with their bills on a monthly basis.

What is noticeable is that the study indicated that the sample do not buy things impulsively on credit if they don't have the money and further that they do not buy things on credit before waiting and saving up. This could possibly be explained by the National Credit Act of South Africa that strictly controls credit of individuals. Due to low income and the fact that they do not keep up with bills it would explain why they don't buy on credit as they would be deemed to be, in terms of the National Credit Act, credit unworthy.

On average only 43,5% of the participants answered the questions correctly and thus, overall, the sample is not managing their money on a day-to-day basis. This indicates a low level of financial literacy.

- Financial Planning

In chapter 2 it was determined, in simple terms, that this is the provision for an emergency, which usually includes elements such as savings/insurance held, financial provision for retirement, and financial provision for anticipated expenses such as health care, education and known or unknown events in the future.

The participants in the majority, 79%, indicated that they do not have enough money to sustain them after a sudden drop in income. Only 12% indicated that they will be able to support themselves and a further 85% indicated that they do not have enough money for an unexpected expense.

The provision for risk is also an indication of financial literacy. In this sample only 12% of the participants are currently providing for unexpected risks in the future. What is interesting is that most participants, 63%, do attempt to manage their money as they indicated that they do not merely leave tomorrow's financial issue to look after itself. Therefore a participant is very short sighted in his/her planning of the future and possibly sees this question to relate only to the financial issues of the very next day. Thus it seems as if planning is done on a day-to-day basis rather than long term which will be more appropriate. This conclusion is supported by the minority, 16%, of participants that indicated that they are making provision for the long term by way of a retirement plan. Overall, only 22% of the participants in the sample answered this question correctly and therefore they don't do financial planning properly for the short and long term.

- Choosing appropriate products

In chapter 2 it was determined that when looking at the ability to choose financial products and services, two fundamental questions need to be answered. The first is whether people shop around before they buy a financial product and secondly which product features were considered before it was bought.

The study indicated that the sample of participants see banking services as a most appropriate way to save money. However, as indicated, they fail to shop around for financial products before engaging a service provider and thus the first fundamental question must be answered in the negative.

Product features such as interest rates and risk profiles, as indicated in chapter 2, must be considered by a person. In this study it was found that the sample is under the impression that credit cards are the least expensive form of credit and 69% of the sample could not determine whether an investment is preferred based on the risk profile provided. The sample, 60%, also does not consider the interest rate of a credit agreement before entering into such an agreement. Therefore the sample was unable to answer the second fundamental question correctly of being able to consider product features.

In general the sample answered the questions of testing their ability to choose appropriate products incorrectly. Only 40.4% of the participants are converse enough to identify an appropriate financial product before they enter into an agreement or use a financial service.

- Financial knowledge and understanding

This was identified as the most important aspect. We determined in Chapter 2 that financial understanding was divided into three core concepts which include keeping up to date with financial matters, understanding key concepts relating to financial matters and knowledge of financial products or services.

An overwhelming 83 % of the participants in this study do not read the newspaper and other printed material relating to finance. Only 38 % of the participants will watch TV or news to determine the financial indicators for the day.

This abovementioned results indicate the lack of participants' knowledge in relation to inflation and interest rates. The sample indicated that 90% of the participants did not know what the current inflation rate is and only 9% of the participant knew what the prime lending rate within South Africa currently is. This is indicative of their lack of

keeping up to date with financial matters that influence their lives as 56% of the participants did know that inflation influences their savings.

The sample indicated that only 38% knew that they should approach the National Credit Regulator if they feel that they have been mistreated in any way. This is a fundamental right in South Africa and participants should have been aware of such a right and this is directly linked to their failure to read or obtain financial knowledge.

Overall the participants had difficulty to answer this question and only 33.6 % of the participants were able to answer the questions correctly.

4.5.4 Conclusions to the objective: “To determine the demographic factors that influence financial literacy”

Age was found to be one of the most prominent factors in financial literacy. It was determined in the literature study that young generations will face more complex financial decisions than that of their older counterpart. It was established that the older a person gets, the more financially literate he/she becomes. In the sample group of this study no correlation existed between the level of financial literacy of a person and his/her age.

Gender was investigated and the literature indicated that there is a need for females to save more than males during their working lives and due to this, women are found to have better understanding of finance in general, where men seem to have a better understanding of insurance and personal loans. In the sample group of this study no correlation existed between the level of financial literacy and the gender of a person.

A person's education and work experience will have a tremendous impact on his/her level of financial literacy. The higher the education and work experience, the more knowledgeable they are about financial matters. In this study a noticeable correlation existed between a person with higher education and financial literacy. The more qualified the person, the better his/her financial literacy. Work experience did not show any correlations, however, employment status did indicate that a medium effect exists on financial literacy and thus employed participants were found to be more financially literate.

The final factor that was identified in chapter 2 was the income levels and people living in rural areas. It was established that a high correlation between low income and low levels of financial literacy exists. The sample in this study were people who have a low income and are living in rural areas with no or little access to financial services. The study confirmed the literature review that people living in rural areas with low income have a tendency to be financially illiterate. Overall, the participants in this study had a financial literacy level of 33.5 %. This is not adequate and the sample from the population is therefore financially illiterate.

4.5.4 Conclusions to the objective: “To determine the relationship between financial literacy, rural and low income demographics and the state-owned bank”

The motivation for the South African Government to establish a state-owned bank is financial inclusion in rural and low income areas that have little or no access to financial services.

It was determined that the mere access to services is not enough and that participation in banking services are very depended on the person’s level of financial literacy. This will raise social inclusion and wellbeing of people falling in the scope of this study.

It was determined that people in these areas are not only challenged from a financial literacy perspective, but literacy overall. Providing and addressing financial literacy was found to be beneficial for banking services. It is seen to be a new fertile sector waiting for the picking by a company. This segment of customers was identified as people who are not in the mainstream of financial services and that banks find it difficult to respond to this market.

Providing financial education in the target market will benefit the public at large as the increase in their knowledge will reach the objective of financial inclusion. This can be achieved by participating in all levels within South Africa. The bank must create confidence in its services and must play an active role in the process of educating people about financial literacy.

In other words, consumers who understand the workings of financial concepts will become clients and will partake as economic valuable citizens. This eventually will lead

to an increase in the demand for financial services and will increase profits for a bank. Therefore a state-owned bank does not only have an obligation in terms of social mandate placed on it by Government, but also has an obligation to itself to ensure that the financial literacy of its target market are adequately addressed.

4.5.5 Conclusions to the objective: “To determine which models and frameworks can be used to address financial literacy”

Educational programmes were identified as a starting point in rural and low income areas. These educational programmes should start at a young age. Factors were identified that should be included in educational programmes for example financial responsibility and decision making.

Banks need to take part actively in the education of youngsters as their financial decisions will have an important influence on their future. Focus should also be directed at the parents of these youngsters.

Increasing financial literacy in adults is challenging and employee-based programmes were found to be the best way to deliver such education and should be combined with multimedia and community initiatives. At the moment South Africa has a very fragmented approach to education and therefore state-owned banks need to fill such a gap to bring about change.

The following preferences on how educational programmes can be delivered were identified:

1. Informative websites;
2. Providing information in an unambiguous format;
3. Online services and other multimedia;
4. Social interaction;
5. Clear and understandable language; and
6. Community-based programmes.

The following international initiatives were identified:

1. Publication of frameworks to guide organisations on how to address financial literacy;

2. Establishment of councils to address financial literacy;
3. Dedicated workshops for youth and students; and
4. Financial knowledge competitions.

4.5.6 Conclusions to the objective: “To determine whether the target market in the social mandate of a state-owned bank is financially literate”

As indicated in the summary of chapter 3 and paragraph 4.5.3 above, it is evident that the sample of the target market in this study is overall not financially literate.

The participants cannot adequately manage their money on a day-to-day basis and they tend to run out of money before their next paycheque. It appeared as if participants do not buy on credit if they don't have the money, although this can be explained by the strict credit regulations currently within South Africa.

The sample does not sufficiently plan for short and long term financial risks. Although they try to address the short term aspect of financial risk, it still remains very limited. Participants are found wanting, especially, in long term financial risks.

Participants are not able to determine the most appropriate financial product. The study indicated that the sample does understand that saving in a bank account is most appropriate; however, they cannot apply their minds to interest rates which are fundamental for saving purposes.

The financial knowledge of participants and their interaction to receive such knowledge are very limited. The sample was unable to indicate interest rates and inflation that affect their savings and income. They are also poorly informed on the recourse they have for credit malpractice by a service provider.

Overall the sample of the target market is not financially literate. Direct relationships and correlations exist between the level of financial literacy and a person's education level and his/her employment status. The more the participant was qualified, the higher his/her level of financial literacy was. Employed participants showed a higher level of financial literacy than their unemployed counterparts.

Therefore the hypothesis that the sample of the target market of a state-owned bank is not financially literate can be accepted.

4.5.7 Conclusions to the objective: “To determine whether a state-owned bank should address financial literacy in the target market of the social mandate”

As stated, the mandate of the state-owned bank, Postbank, is very specific. It should ensure that financial inclusion is established for citizens in rural and low income areas who have little or no access to financial services.

The knowledge gained in Chapter 2 indicates that the direct effect of financial literacy is financial inclusion and social economic wellbeing. In order to achieve the mandate set out in this study it is evident that it will not be sufficient to merely provide access to financial services. The bank should play an active role in increasing the level of financial literacy within its target market to ensure a long term client base for the future.

The achievement of the mandate is therefore linked to the strategy of the state-owned bank. The study supports that a state-owned bank should address financial literacy within its target market in order to successfully reach the objective of financial inclusion.

In this study it was found that the sample does understand that banking services is the most appropriate way to save. This is positive for the bank, however, to rely only on the fact that participants know that it is proper to save in a bank is one-dimensional. The remainder of the study indicated that the participants do not have knowledge about interest rates and inflation and that their general financial literacy is very low. One can conclude that although they do know it is proper to save in a bank, they will not be able to differentiate services offered by banks as they are elusive to those differentiating factors.

The conclusion and recommendation is that for Postbank to reach the mandate of financial inclusion, it will have to go further than mere providing access to financial services. The bank will have to be engaged on all levels in South Africa and ensure that financial literacy is addressed within low income and rural areas.

The bank must provide financial education to its target customers. This can take place through workplace education, multimedia, online services or community-based programmes. The bank will have to play an active role in these programmes and it will enable them to promote and educate people surrounding the services which it will offer. This will create a sustainable client base which will be in line with the social benefit of financial inclusion.

This will foster a beneficial social economic climate that will increase economic participation. This will ensure that the bank creates confidence in the market and move the target market in low income and rural areas to use the financial services provided by the bank.

4.6 Further research possibilities

Further research possibilities were identified which can be noted:

1. Determine whether there is a difference in the level of financial literacy of various generations;
2. Determine on which level in the process of financial literacy the target market of the state-owned bank is;
3. Determine the most appropriate approach to deliver a financial literacy educational program to the target market of the state-owned bank;
4. Establish the most efficient and effective educational program to improve financial literacy;
5. Determine whether regions in South Africa have different levels of financial literacy;
6. Determine whether there is a direct correlation between the financial wellbeing of a person and his/her financial literacy; and
7. Determine whether educational programmes alone are sufficient to address financial literacy.

4.7 Final concluding remarks

It is evident from the study that the sample of the target market of the state-owned bank is not adequately financially literate. The social mandate of the bank is to provide people in rural and low income areas access to financial services. This alone will not

be sufficient to reach the social mandate of financial inclusion as the bank will have to be able to convince the target market to make use of its services. This can only happen if the citizen understands and can apply the differentiating factors between services offered by the state-owned bank and other institutions. Such a citizen will be able to identify the benefit of using the services of a state-owned bank and this will ensure sustainability of the mandate.

The state-owned bank will have to address the inadequate financial knowledge of the target market to enable them to realise the advantage of using the services of the bank. This will enable the person, in that target market, to be socially and financially independent and to pierce the veil of their inadequate knowledge about the financial sector. Therefore the mere provision of access to financial services will not be enough to reach and sustain the mandate.

The bank will have to play an active part on all levels in South Africa to ensure that citizens are educated about financial concepts that will enable them to be economically valuable. There seems to be pockets of financial literacy excellence within the sample. This can be capitalised on and used as an entry level when drafting educational programmes for the target market. This will lead to a demand in financial services which will create a promising social economic environment.

Financial literacy for the future will be vital for every citizen. Governments all over the world realise this and is actively taking part in a financial literacy revolution. In South Africa the obligation is not only on the state-owned bank, but on all institutions, whether public or private, to create an economic valuable citizen. This will not only be beneficial for the public at large, but also for the banking sector as it will plant the seed for sustainable industry growth in the future.

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Annexure A: Survey Questionnaire

INTRODUCTION

Dear Participant

Financial literacy in rural and low income areas is of great concern. The level of financial literacy of a person will determine his or her personal and social well-being. Financial literacy has been found to promote financial inclusion in social disadvantaged areas and seen as a mechanism to improve the financial wellbeing of a community and the individual.

The following questionnaire is to determine the level of financial literacy of a person and to identify areas of concern. You are therefore kindly requested to complete it honestly and to the best of your knowledge. All the information will be confidential and anonymous.

Your participation is highly appreciated.

Section 1 : Demographics

1	My gender is (Select applicable option)	Male	1	Female	2
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2	My Age is _____ Years
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3	My net income per month is R_____ per month	3.2	My household income per month is R_____ per month
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4.1	I have (Select applicable option)	No formal Education	1
		Completed primary school only	2
		Not completed primary school	3
		Not completed high school	4
		Completed High School only	5
		Obtained after high school a diploma or degree	6
		Other	7
4.2	I have _____ years working experience.		

5	I am currently (Select applicable option)	Employed	1
		Unemployed	2
		Other	3

Section 2 – Day to day management

(Select applicable option)		Yes	No	Don't Know
6	Do you keep records of income and expenditure?	1	2	3
7	Do you know how much money you have for daily living cost?	1	2	3
8	Do you run short of money before your next salary?	1	2	3
9	Do you keep up with payment of bills?	1	2	3

10	Do you buy impulsively and buy things when you don't have the money	1	2	3
11	Do you buy things on credit rather than waiting and saving up?	1	2	3

Section 3 – Financial Planning				
(Select applicable option)		Yes	No	Don't Know
12	You have a sudden drop in income. Do you have enough money available to sustain your living?	1	2	3
13	Do you have money available for a large unexpected expense?	1	2	3
14	Do you have any risk insurance?	1	2	3
15	Do you live for today and let tomorrow's financial issues look after / out for itself?	1	2	3
16	Do you have provision for retirement?	1	2	3

Section 4- Choosing appropriate products				
(Select applicable option)		Yes	No	Don't Know
18	The best way to save money is to save in a bank account	1	2	3
19	Do you shop around before you use a financial product or service	1	2	3
20	Credit cards are regarded as the least expensive form of credit	1	2	3
21	Two investments namely A and B have the same level of risk associated with them. A has a higher return than B. Thus B is the preferred investment choice.	1	2	3
22	Do you consider the interest rate of a credit agreement before entering into the agreement	1	2	3

Section 5 – Financial knowledge and understanding				
(Select applicable option)		Yes	No	Don't Know
23	Do you read the financial sections of the newspaper or other printed media?	1	2	3
24	Do you watch the news on TV to see the financial indicators for the day?	1	2	3
25	Inflation is currently between 10 % and 11%	1	2	3
26	The current prime lending interest rate is 14%	1	2	3
27	If you feel that you have been mistreated	1	2	3

	during a loan application you can take the matter to the National Credit Regulator			
28	Do you think that inflation will affect your savings	1	2	3