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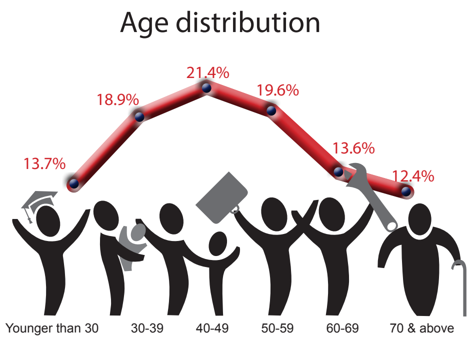
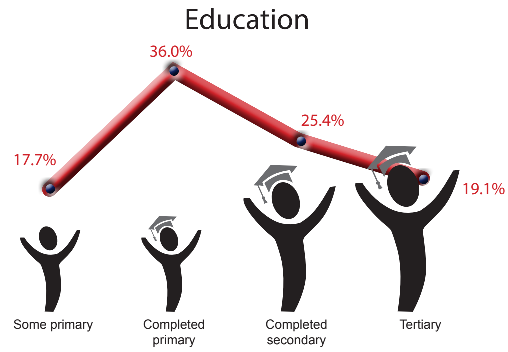
Purposeful collaboration towards Financial Wellness in South Africa

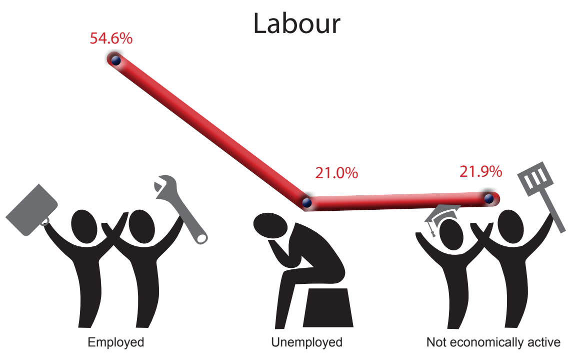
South African Household Financial Wellness Index 2012

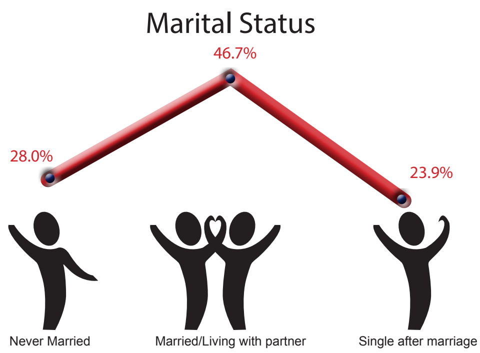
Momentum/Unisa South African Household Financial Wellness Index: 2012

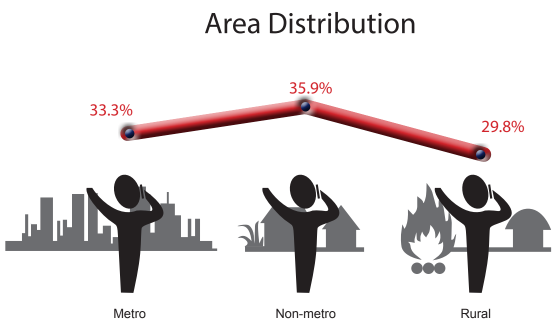
During 2012 the Personal Finance Research Unit (PFRU) within the Bureau of Marker Research (BMR) at Unisa conducted research on a nationally representative sample of 3533 households in order to determine the financial wellness of households in South Africa. By means of such research the Momentum/Unisa South African Household Financial Wellness Index was constructed for 2012. The following reflects the demographics of the households that were interviewed:

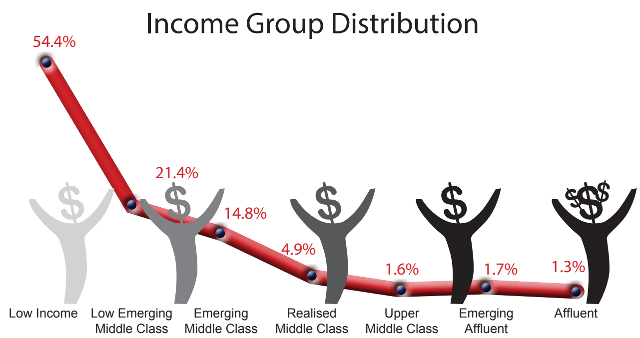






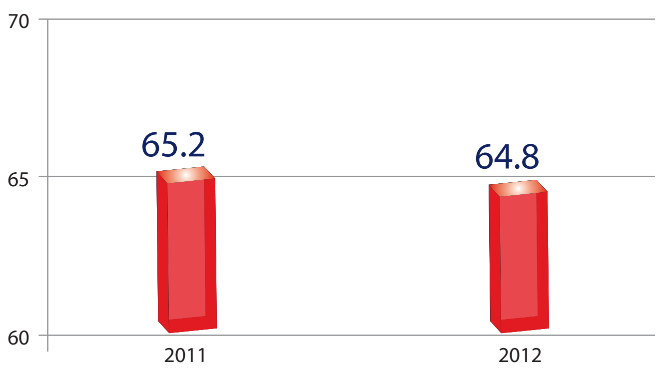






In 2012, when compared to 2011, the state of South African households' financial wellness worsened in real terms!

Real Average Financial Wellness: 2012 Terms[1]



The research revealed that on average the South African household sector remained in the Drifting Well Financial Wellness category, but moved closer to Drifting Unwell. This means that on average South African household's financial wellness situation remained unstable.

Anchored Unwell	Drifting Unwell	Drifting Well	Anchored Well
(0- <30)	(30- <60)	(60- <80)	(80- 100)

However, due to South Africa's unequal societal structure, the percentage of households per wellness category provides a more informed view of the state of households' financial wellness than is the case when household income alone is being used as an indicator of household financial wellness. Compared to 2011, proportionally more households are Anchored Unwell (5.6% vs 4.5%) and fewer are Anchored Well (26.4% vs 27.2%).

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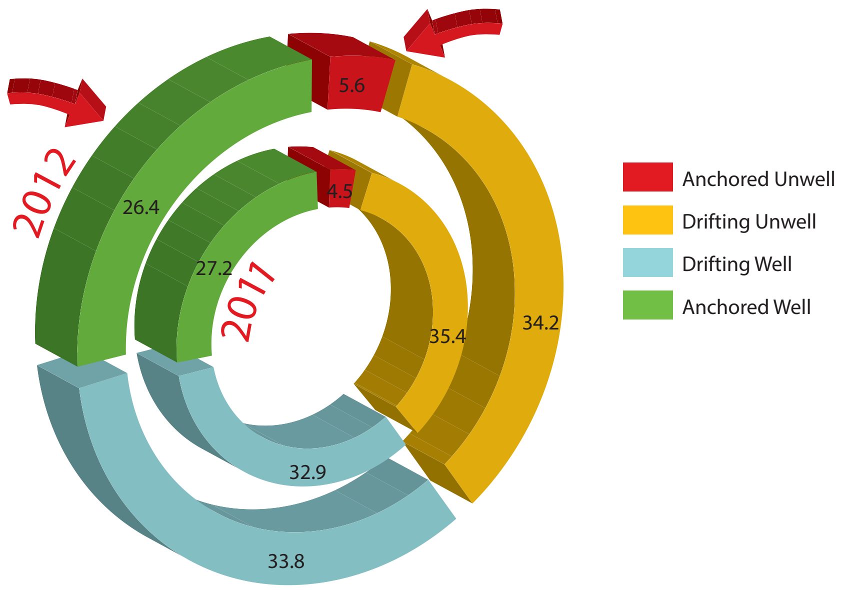


The Economic Environment

Macro-economic circumstances were not conducive towards improving household financial wellness. For instance, economic growth slowed from 3.5% in 2011 to 2.5% in 2012, average consumer price inflation increased from 5.0% to 5.7% and the official number of unemployed persons increased by more than 250 000 persons during 2012. These factors combined to negatively affect many households' income earning capability, their income's ability to finance expenses, their capacity to accumulate wealth and improve their dwellings, as well as their prospects to better education/skills.

2011	2012
For every 4 jobs created the number of unemployed increased by 1 person.	For every 4 jobs created the number of unemployed increased by 12 persons.

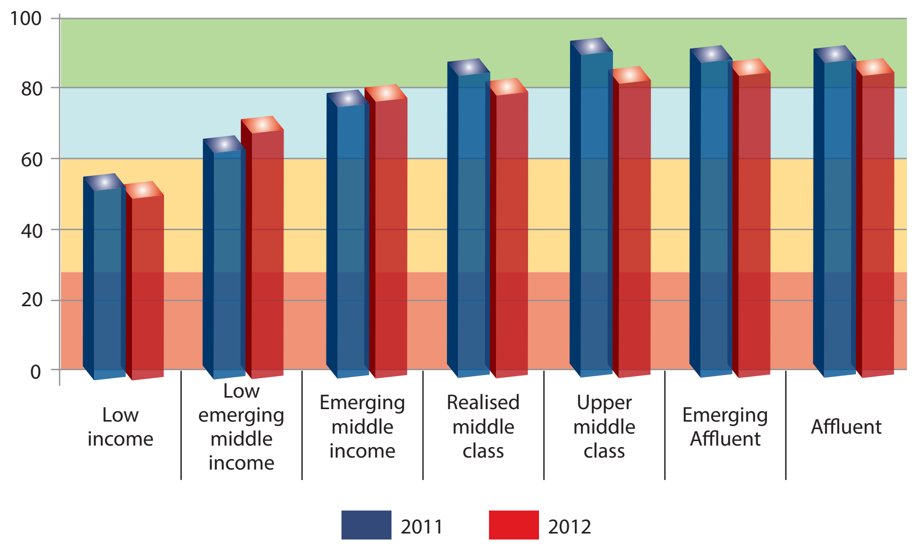
Financial wellness deteriorated for most income groups during 2012

Compiling The Momentum/Unisa South African Household Financial Wellness Index: 2012

Households have five types of capital that were measured to determine their financial wellness. Each type of capital influences all the other forms of household capital. Such forms of household capital are Physical capital (Income and Expenditure), Asset capital (Assets, Liabilities, Net Wealth), Human capital (Education, Skills), Environmental capital (Dwelling type) and Social capital (Personal empowerment). To derive an overall Household financial wellness index, a multiplicative approach was used where the final wellness result is the interactive product of the five types of household capital compared to being the additive product.

Demographic Household Financial Wellness Features

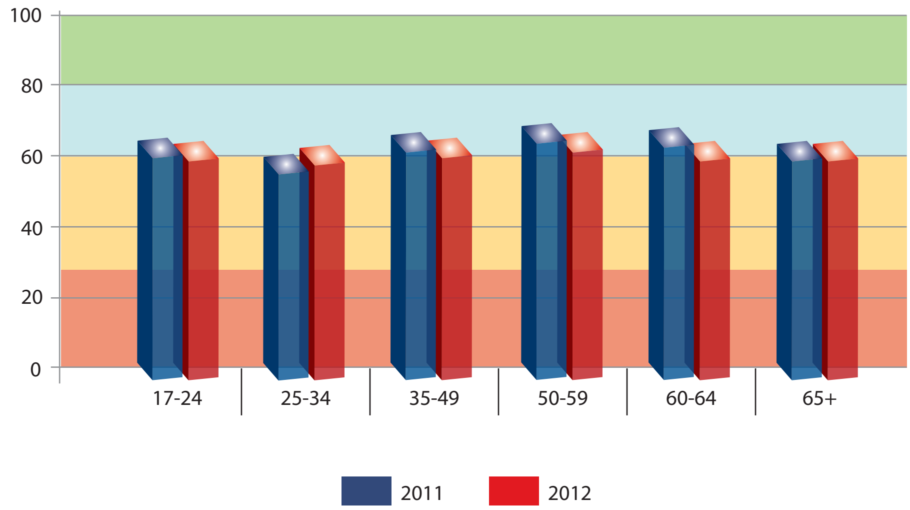
Apart from the Low emerging middle income group, financial wellness deteriorated for all income groups during 2012.



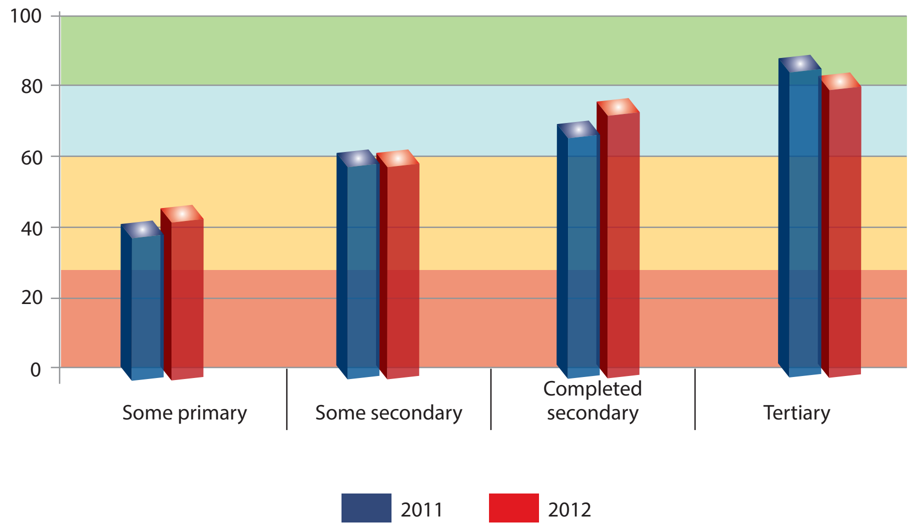
Category	Annual household income
LI (Low income)	< R58 093
LEMI (Low emerging middle income)	R58 094 – R160 982
EMI (Emerging middle income)	R160 983 – R382 127
RMC (Realised middle class)	R382 128 – R662 676
UMC (Upper middle class)	R662 677 – R907 101
EMA (Emerging Affluent)	R907 102 – R1 396 336
AFF (Affluent)	R1 396 337+

The financial wellness of the unemployed and economically inactive deteriorated in 2012

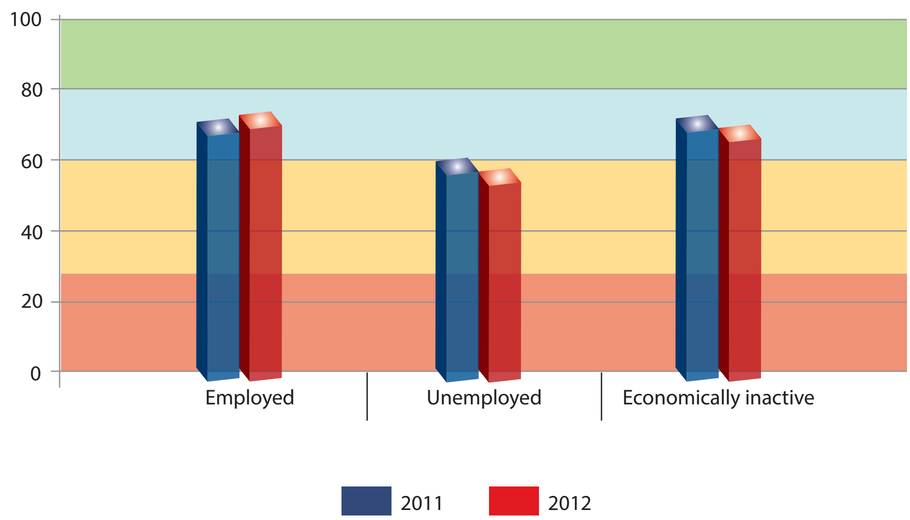
The financial wellness of only the 25 – 34 age group improved in 2012, whilst that of the 50 – 64 age group declined dramatically. However, they remain in the Drifting Well group.



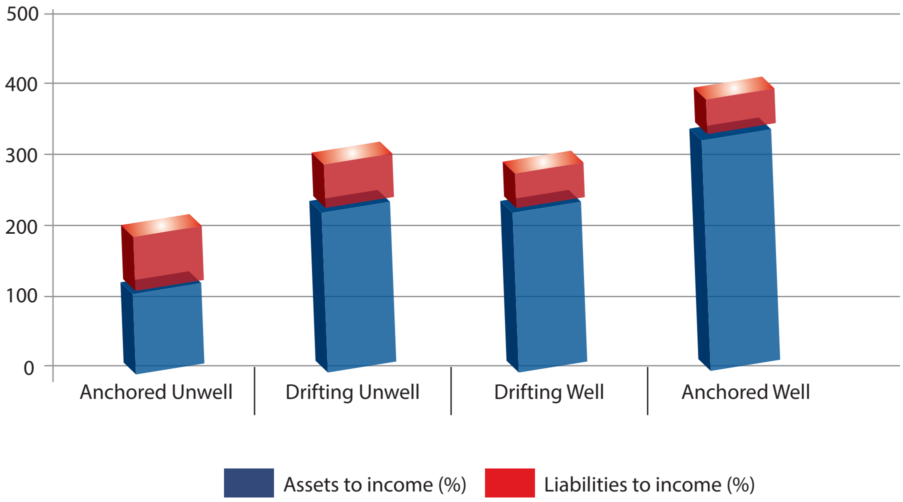
Although improving, the financial wellness of households with less than completed secondary education is the lowest and in a Drifting Unwell situation. The financial wellness of households with a tertiary education deteriorated, although it remained Anchored Well.



The financial wellness of the unemployed and economically inactive deteriorated in 2012, whilst that of the employed improved. Although the employed and economically inactive (mostly students and housewives) remained in the Drifting Well category, the unemployed are moving closer to becoming Anchored Unwell. Their situation remains very unstable.

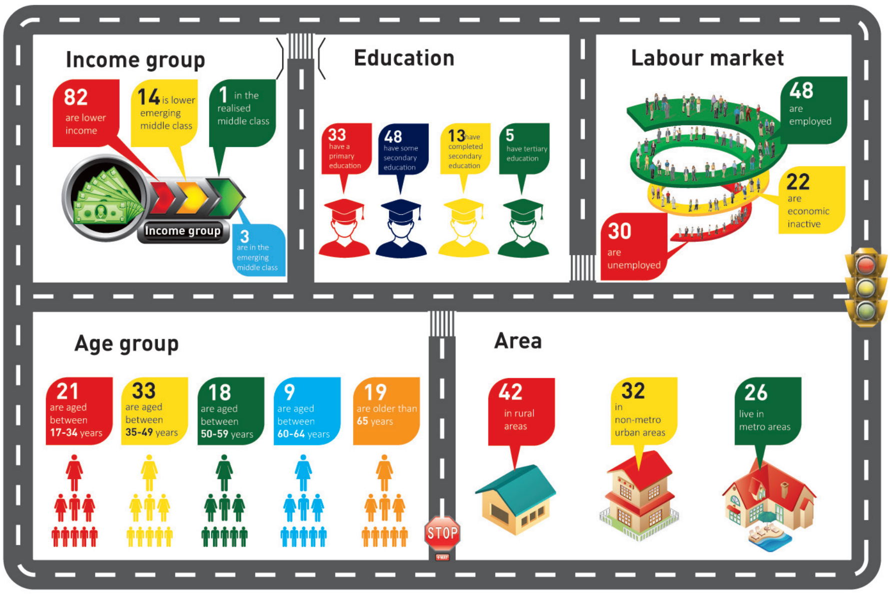


Although the assets to disposable income ratio of the Drifting Well and Drifting Unwell was the same in 2012, the Drifting Unwell has more liabilities, partly explaining their weaker financial wellness situation.

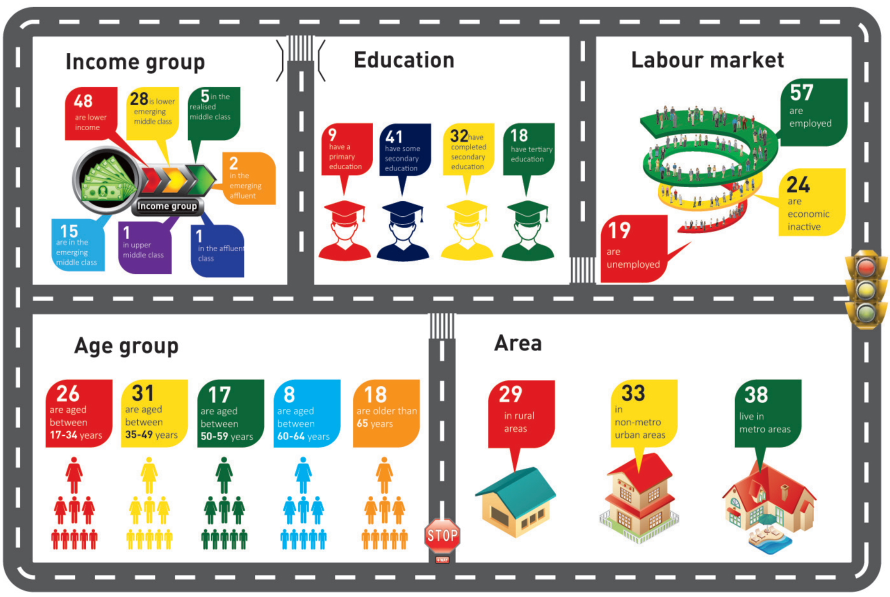


Household Financial Wellness Villages

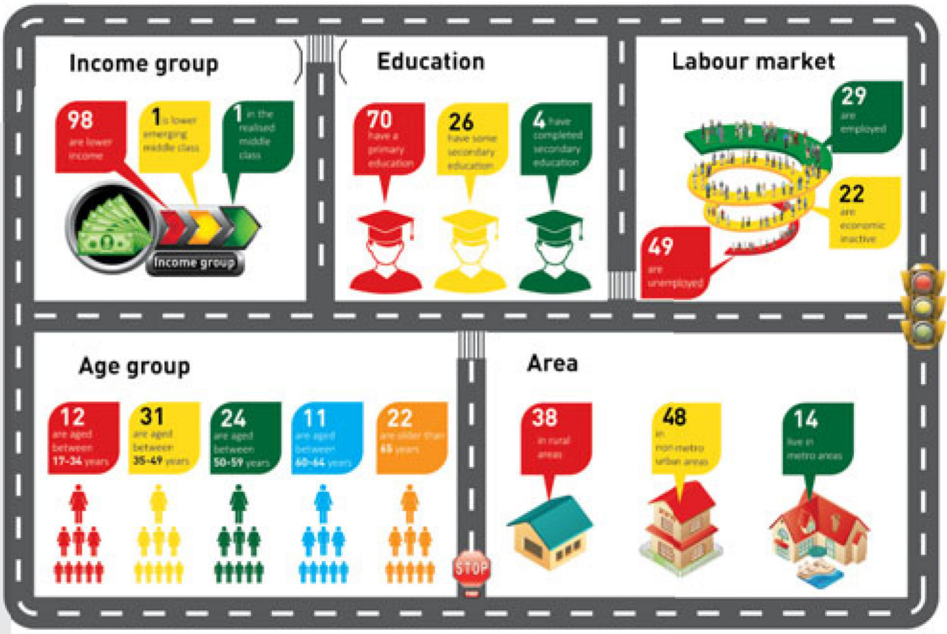
The Drifting Unwell as a village of 100



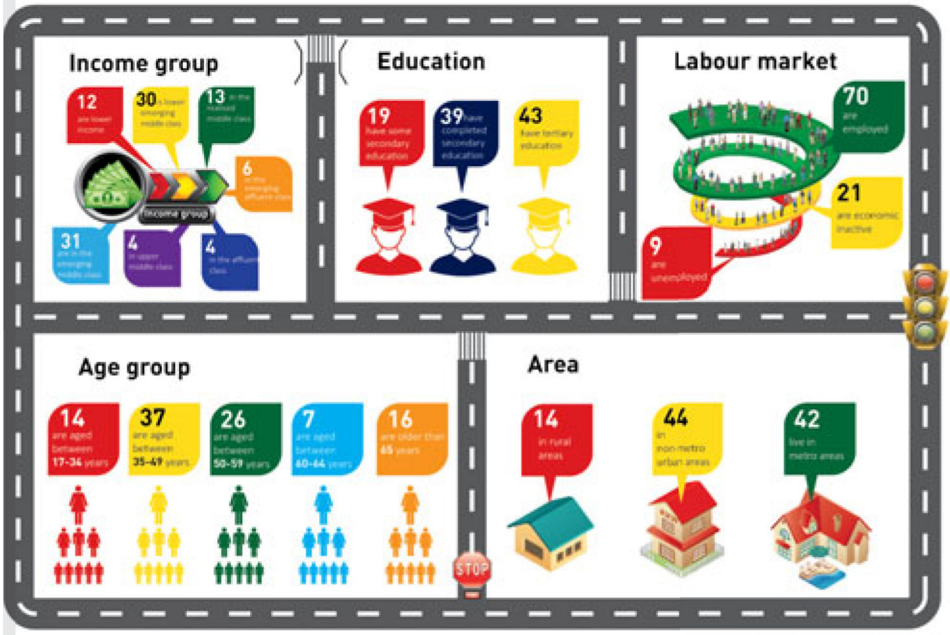
The Drifting Well as a village of 100



The Anchored Unwell as a village of 100



The Anchored Well as a village of 100



What is evident from the differences in the characteristics of the four wellness categories is that different interventions are required for each group instead of there being one overall solution that will be applicable to all four groups. For those households reflected in the Anchored Unwell category, access as well as completion of secondary education, obtaining employment thereby reducing their dependency on social grants, generating higher incomes and having access to the job and business opportunities as well as economies of scale provided by urban areas would be required to start their journey to financial wellness. This journey will be a long term journey and it would not be possible to move from Anchored Unwell to Anchored Well without several levels of intervention over time.

In contrast to the Anchored Unwell, the Drifting Unwell are better educated, more are employed, they are earning higher levels of income and more are residing in metro areas. For this group quantity issues such as the quantity of jobs, business opportunities, skills, incomes and urban opportunities and economy of scales are still an important issue as was the case with respect to the Anchored unwell, but for them the quality of jobs, business opportunities, incomes, skills and urban opportunities and economies of scale are increasingly important to provide impetus to their wellness journey.

For the Drifting Unwell households to improve their financial wellness, it would require of them to improve their education up-skill themselves to be able to find better employment that will result in them earning higher levels of income. Almost 20% of the households in the Drifting Well category have a tertiary education and 30% completed secondary school, more than half are employed, their income levels are in the middle to higher income classes and almost 40% of them are residing in metro areas. These households were more successful in their journey towards financial wellness than the previous two groups. For these households to improve their financial wellness status, they need to ensure that their education and skills are improved to a higher tertiary level as more than 40% of the Anchored Well households have a tertiary education, more than 70% of them are formally employed or formal sector entrepreneurs and are in the emerging middle class or higher income groups. Furthermore, the quality of the said education, job and business opportunities, incomes and metro areas is imperative to stabilize consumers within the Anchored Well group. In this case a private school as against a public school education, receiving a professional qualification from one of South Africa or the world's premier universities, providing a professional or essential service and being well connected within a metro area are important determinants of becoming Anchored Well.

Only 26,4% of South African households are satisfied with their financial wellness

Consequences and Comments

With only 26.4% of South African households most probably being satisfied with their financial wellness, frustrations are starting to accumulate amongst households. Social unrest, violent labour strikes and protests against some government policies such as non-deliverance of school books and the Gauteng freeway e-tolling system, serve as examples of households' dissatisfaction with their circumstances. At the same time, government's redistributive policy options to transfer funds from the financially well to the increasing number of financially unwell households are narrowing as the financially well households are shrinking in proportion to the total number of households. The situation is becoming serious and decisive leadership from government, the private sector and labour unions will be needed to restore stability and increase the number of financially well households.

What do the results of the 2012 Momentum/Unisa South African Household Financial Wellness Index mean in terms of economic policies and business strategies?

The results of the Index show that current business strategy and government economic policy paradigms aimed at enhancing the economic wellness of consumers/citizens, are to a large extent outdated. Typical 'business as usual' strategies and policies simply do not have the same positive direct, indirect and induced (multiplier) effects that they had in the past.

Whereas current strategies and policies are, in essence, demand-driven with a strong customer empowerment focus, the lessons learnt from other developing country contexts where high levels of inclusive economic growth – namely GDP growth benefitting the populace as a whole – were experienced, point towards the efficacy of strategies and policies that are in many respects the opposite of strategies and policies currently holding sway in South Africa. Based on this insight the following are some of the strategies and policies that may be considered:

- Revamping the South Africa educational and training system to measure quality (performance of learners against international standards) as against quantity (i.e. percent of grade 12 learners passing the matric exam). The focus of the educational system should also be changed from a focus purely on academic skills to labour market, entrepreneurial (business) and life skills. It is important that business strategies should also focus on the re-education and re-skilling of their own workforces as well as their customers/community.

- Instead of focusing solely on the demographic transformation of society, the focus should be on socioeconomic transformation. The aim of transformation should not be to effect a comprehensive redistribution of income/wealth/wellness, but rather to create the ability among poorer/unwell households to improve their own socioeconomic conditions. The positive action approach followed in the European context is an excellent example of this. Businesses should also become involved in socioeconomic transformation endeavours to ensure far higher levels of Corporate Social Responsibility (CSR) aligned with the country's objectives. Momentum's endeavours to become involved and to structure the wellness journey of its clients are an excellent example in this regard.

- Changing the development agenda away from demand-side measures (i.e. providing social grants to millions of people each month and by protecting trade unions at the expense of new jobs) to a focus on supply-side measures (i.e. strengthening institutions such as government, municipalities, schools, NGOs, enterprises). The aim should be to create effective suppliers of goods and services (via employing people) within a regulatory framework that will create certainty but not impede the activities of producers. It is imperative that businesses become more strongly involved in enterprise creation as well as assist with the business growth of clients and the community.

- Ensuring fiscal discipline and limited government while using the tax system to incentivise production, exports, employment, business creation and community engagement. It is imperative that businesses should respond to such incentives and advise government on which incentives are required.

Just because you can afford it doesn't mean you should buy it.

Suze Orman

- Addressing the large number of structural imbalances in the economy as a matter of urgency. At present the transmission path from economic growth to employment to household incomes to household expenditures back to economic growth does not function adequately due to a number of structural imbalances (i.e. the disjoint between skills required and skills demanded in the labour market, products demanded and products supplied by manufacturers, etc).

- Ensuring that the demand and supply-side policies that are formulated are indeed implemented, monitored and evaluated. The low level of development strategy and policy implementation, monitoring and evaluation is one of the major reasons for the relative stagnation with respect to broad-based household wellness growth in South Afirica.

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1 Comparison of Wellness Scores as determined by means of the Wave 1 and Wave 2 Wellness Surveys

During 2012 the results of the Momentum-Unisa 2011 Financial Wellness survey were released. It appears from the results of this survey that an average Household Financial wellness score of 59.3 was obtained for 2011. The results of the 2012 study recently became available finding an average score of 64.77 with the result that in nominal terms households appeared to have made great strides in their average financial wellness between 2011 and 2012. However, in econometric terms any indication of growth in nominal terms is problematic because of the fact that changes in prices were not factored into the equation giving rise to the wrong conclusions being drawn with respect to year-on-year growth at constant prices.

In order to determine to what extent the average financial wellness of South African households really increased or decreased during the period 2011 to 2012, 2012 was used as a base year and the 2011 rand values with respect to incomes and asset values were converted to 2012 constant prices in order to calculate real household financial wellness growth between 2011 and 2012. This conversion was effected by using available SA Reserve Bank household consumption expenditure price deflators for the period 2011 to 2012. By means of this calculation it was determined that the real average score for 2011 was 65.23 with the implication that although there was an improvement in average financial wellness in nominal terms as indicated above, in real terms the average financial wellness of households actually declined.