

Financial Literacy Among South African (Youth) Undergraduate Students

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1. Introduction

1.1 Background

- Financial literacy is a crucial factor affecting individuals, households, financial institutions and the broader economy.
- Financial illiteracy has been cited by many commentators as a major reason for:
 - falling saving rates (Hilgert, Hogarth and Beverly, 2003),
 - mounting consumer debt (Stango and Zinman, 2007),
 - inadequate planning for retirement (Lusardi and Mitchell, 2006),
 - mismanagement of personal finances (Kotze and Smit, 2008)



- The term *financial literacy*, encompass several concepts ranging from:
 - Financial awareness and knowledge (e.g. financial products, financial institutions, and financial concepts)
 - Financial skills (e.g. ability to calculate compound interest payments); and
 - Financial capability (e.g. money management and financial planning)

(World Bank, 2012)

Financial literacy may be defined as:

- the ability of an individual
- to make informed judgements and decisions regarding
- the use and management of money (ASIC, 2003; Noctor, Stoney and Stradling, 1992). (to cite only one of several definitions)

- Recent studies have shown that financial literacy levels in developing countries are quite low.
 - -For example, a DFID (2008) study found that in 7 African countries only about a third (29%) of adults had a bank account and that approx. 50% used no financial products whatsoever.

- In South Africa, various studies have revealed that the level of financial literacy is alarmingly low (Godfrey, 2008; Eighty20, 2008; and Nieuwenhuyzen, 2009),
 - -For example, Godfrey (2008) found that 60% of respondents do not understand the term 'interest'.

Introduction



- Without doubt, improving financial literacy:
 - can benefit all levels of the economy and will support the financial services sector;
 - reduce social and economic exclusion; and
 - -spending power, innovation and competitiveness will increase and loan defaults will decrease (Currie, 2005).

Introduction ...cont'd Child&Youth Finance International

1.2. Problem statement

- According to Old Mutual:
 - 4.24 million Consumers have judgements or listings on credit bureaus.
 - Over two million consumers have Emolument Attachment
 Orders (Garnishee Orders) attracting monthly instalments of
 R780 million
 - 6 ooo cars and 2 ooo houses are being repossessed monthly.
 - Only about 6% of South Africans can retire financially secured.
 - The average debt to income of households is about 80%

(http://www.oldmutual.co.za)



- The problem addressed in this study is:
 - How financially literate are South African (youth) undergraduate students?



- The following research questions are examined:
 - What is the relationship between students' financial knowledge, and
 - gender, age and socio-economic status (SES)?
 - What is the relationship between students' financial knowledge and their financial attitudes?
 - To what extent are undergraduate students' financial knowledge correlated with financial influences?



1.3 Objectives

- -To investigate the personal financial literacy (knowledge, attitudes and behaviour) of a sample of undergraduate students by gender, socioeconomic status (SES) and programme.
- To evaluate how undergraduate students' financial knowledge and attitudes correlate with their financial behaviour

Introduction



1.4 Hypotheses

- H1: There is no significant difference between gender and age in financial knowledge (Literacy)
- H2: There is no significant difference between socioeconomic status and financial knowledge
- H3:There is no significant difference between financial attitude and financial knowledge.
- H4:There is no significant difference between financial influence and financial knowledge



2. Literature Review

- ECI Africa (2004) study on financial literacy programmes in South Africa revealed that:
 - despite initiatives by the government, the financial industry, non-profit organisations, the housing sector and private companies to improve financial literacy
 - South Africans remain underserved by programmes offering financial education (Piprek, Dlamini and Coetzee 2004).



Literature Review ...cont'd

- The same study found that there is a high level of confusion about financial concepts, even among fully banked individuals (Piprek et al. 2004).
 - This high level of confusion is an indication that there are still problems with financial capacity building and that there is the need to provide more financial literacy programmes in the educational system



Literature Review ...cont'd

- Kotzè and Smit (2008) investigated the perceptions of South African Business Management students (n=286) with a minimum of three years' working and management experience.
 - The study examined the students' financial literacy as well as their need and desire for financial education.
 - It was found that there is a need for increased financial education and financial literacy in South Africa.



Literature Review ...cont'd

- Oseifuah (2010) examined the relationship between financial literacy and youth entrepreneurship in the Vhembe District, South Africa (n=39).
 - Financial literacy level was measured based on responses on mathematical literacy, computer literacy, financial attitude, knowledge and financial behaviour.
 - The results revealed that the level financial literacy among youth entrepreneurs in the Vhembe District is above average.
 - However, due to the small sample size (n= 39), the results cannot be generalized.



3. Methodology

- The study was conducted among students at the University of Venda (UNIVEN) in Thohoyandou, Limpopo Province of South Africa during the second semester of 2011 (July 2011).
- There are eight schools: Agriculture, Education, Environmental Sciences, Health Sciences, Human and Social Sciences, Law, Management Sciences, and Mathematical and Natural Sciences. The sizes of the schools, in terms of student enrolment, are shown in table 1 below:



| Name of School | Student Enrolment | Percentage |
|-------------------|-------------------|----------------|
| Agriculture | 437 | 4.2 |
| Education | 2038 | 19.7 |
| Environmental Sc. | 1265 | 12.2 |
| Health Sc. | 908 | 8.8 |
| Human and SS | 1616 | 15.6 |
| Law | 1206 | 11.7 |
| Management Sc. | 1817 | 17.6 |
| Math & Nat Sc. | 1040 | 10.1 |
| Total | 10327 | 99.9* * |
| | | Rounding error |



3.1 Data collection method

• A structured questionnaire was constructed based on previous studies (see ANZ Survey of Adult Financial Literacy in Australia: Final Report, 2003; the Media Research Consultants Pte Ltd, 2005; Jorgensen, 2007; Chen and Volpe, 1998; Nieuwenhuyzen, 2009) to collect data for the study.



- The questionnaire contains 39 content questions on:
 - financial attitude, knowledge, behaviours, and influences, as well as 12 personal characteristics items.
- The financial knowledge section consists of 6 questions on general financial knowledge, the financial attitude section comprises 7 questions, the financial behaviour section contains 8 questions, and the section on influences contains 6 questions.



- The questionnaire for the pilot study was administered only to final (third) year Bachelor of Commerce (Accounting) students. [The final study will cover all 8 Schools after ethical clearance has been secured from the university's Research Ethics Committee]
- In all, 50 questionnaires were administered to students who volunteered to participate in the study.



3.2 Data Analysis

- The data were analysed using the SPSS
 Statistical software. The study investigated personal financial literacy based on:
 - personal characteristics of gender, age, socioeconomic status as well as financial attitudes and other influences on their level of financial literacy (knowledge).



4. Discussions and conclusion

- 1. A surprising low levels of financial literacy exist among accounting students at university of Venda (only 38% of accounting majors are financially knowledgeable)
- 2. This study supports the findings of other studies conducted in South Africa (Kotze and Smidt 2008, ECI Africa 2004), which have recommended for increased financial education and financial literacy in South Africa.



- 3. The study also reveals gender differences in financial literacy with male accounting students more likely to be more knowledgeable about financial matters than their female counterparts.
 - This affirms a 2002 study by Haiyang and Volpe on financial literacy among college students in the USA that found that women generally have less financial knowledge about personal finance than their men colleagues



Discussions and conclusion ...cont'd

- 4. Surprisingly, the socio-economic status of parents measured by income levels did not have any relationship with students' financial literacy levels.
- 5. The study reveals further that students who are more financially knowledgeable (literate) are thriftier, i.e. they are more astute in spending since they know the implications.



Discussions and conclusion ...cont'd

- 6. Financial knowledge (literacy) among students was found not to be related to having regular savings plans.
 - This might be attributed to the fact that most of the students are from low income households and may not have much to save even if they are financially literate.
- 7. Again results show that students who regularly participate in their family financial decisions and who have had formal training in money management or personal finance were more to be financially literate



Discussions and conclusion ...cont'd

- Overall, this pilot study reveals that Bachelor of Commerce (Accounting) students at the university of Venda are not knowledgeable in simple financial facts and that may impact negatively on their lives through incompetent financial management.
 - This calls for an URGENT, SYSTEMATIC AND SUSTAINED programme for financial education of South Africa's youth



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