AN ANALYSIS OF PERSONAL FINANCIAL LITERACY AMONG ADULTS IN VHEMBE DISTRICT MUNICIPALITY

by

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DECLARATION

I declare that **AN ANALYSIS OF PERSONAL FINANCIAL LITERACY AMONG ADULTS IN VHEMBE DISTRICT** is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references.

I further declare that I have not previously submitted this work or part of it, for examination at Unisa for another qualification or at any other higher education institution.

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15 June 2016

LANGUAGE PRACTITIONER

18 May 2016

TO WHOM IT MAY CONCERN

I hereby declare that I have edited the dissertation entitled "An analysis of personal financial literacy among adults in Vhembe District" written by Mr Adam Aifheli Ndou.

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ABSTRACT

Until recently, personal financial management has become increasingly important for consumers as in the past. Literature indicates that consumers in rural and low-income areas are the most financially vulnerable and depends mostly on unsecured loans to finance their daily expenses. The primary objective of this study was to evaluate the level of financial literacy among adults in Vhembe District Municipality in Limpopo, South Africa. The results indicate that the level of financial literacy among adults in Vhembe District Municipality is low (38.73%). The low levels of financial literacy have serious consequences for an adult's personal financial management skills and lead to their inability to make correct financial decisions. The study concludes by suggesting interventions that could help adults to improve their level of financial literacy, manage and sustain their financial well-being.

Keywords: Financial literacy, personal financial management, Vhembe District Municipality, financial management, financial planning.

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LIST OF ABBREVIATIONS

ANZ	-	Australia and New Zealand Banking Group
ATM	-	Automated teller machine
BMR	-	Bureau of Market Research
EBF	-	European Banking Federation
EC	-	European Commission
FSA	-	Financial Services Authority
FSB	-	Financial Services Board
GDP	-	Gross domestic product
LOA	-	Life Offices Association
MFRC	-	Microfinance Regulatory Council
MLA	-	Micro Lenders Association
NCR	-	National Credit Regulator
NPO	-	Non-profit organisation
OECD	-	Organisation for Economic Co-operation and Development
SARB	-	South African Reserve Bank
SASI	-	South African Savings Institute
TBSA	-	The Basic Skills Agency
UK	-	United Kingdom
UNISA	-	University of South Africa
US	-	United States
VAT	-	Value-added-tax

CHAPTER 1

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Personal financial management in today's world is highly complex compared to generations ago and the ability to manage personal finances has become increasingly important (Robb & Woodyard, 2011). Studies have elaborated on the complexity of financial information needed for decision making (Epstein, 2007; Pickard, 2007; Coppin, 2006). The fact that some receivers of financial information lack the financial literacy to comprehend the symbols used in it complicates financial decision making. This indicates the need for people to improve their financial capabilities (The Basic Skills Agency (TBSA), 2006). Financial literacy is popular due to the critical economic situation occurring all over the globe. This economic crisis has forced citizens look for means to manage their finances properly and grow it with the lowest risk possible (Shahrabani, 2012). 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 (TBSA, 2006).

Studies have shown that individuals with greater financial literacy are more likely to participate in financial markets and to invest in stocks (Van Rooij, Lusardi & Alessie, 2011). Moreover, financially literate individuals are more likely to choose mutual funds with lower fees (Hastings, Mitchell & Chyn, 2011). The other benefit 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). This inclusion was also identified as an important factor in a partnership document between The Financial Services Roundtable and Operation Hope signed in Washington DC, USA (Bartlett & Bryant, 2009). The partnership claimed that a national effort by financial institutions should be made 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.

The lack of financial literacy is becoming increasingly important as innovation and globalisation are broadening the range and complexity of financial services on offer (European Banking Federation (EBF), 2009). This lack of financial literacy makes it difficult for people to understand financial matters and has significant consequences on their ability to interact with financial institutions (EBF, 2009). Gustman, Steinmeier and Tabatabai (2012) state that lack of financial knowledge affects individual ability to create wealth. Financial illiteracy can be regarded as a communication barrier, similar to bad connections, poor acoustics or any other distraction. Any one of these barriers will lead to a state of uncertainty when decisions must be made. Shuttleworth (2011) emphasises that individuals who are less financially literate might feel overwhelmed and uncertain when confronted with highly complex financial information. According to Smith (2005:59), “decision making under conditions of uncertainty always provides the possibility of sub-optimal choices”. Oseifuah (2010) cautions that a financially illiterate person may be unable to budget appropriately to meet expenditures and to identify financial products that meet his/her needs.

The recent global economic downturn, coupled with the rising prices of basic commodities and services, increasing debt and persisting unemployment has meant hard times for adults in South Africa. Shahrabani (2012) argues that the global crisis has caused South Africans to accumulate high debts. The South African economy has shown limited signs of recovery (Organisation for Economic Co-operation and Development (OECD), 2013) and consumers’ debt-to-income levels remain high (West, 2013). New credit granted to consumers increased by R10.22 billion from R109.72 billion for the quarter ended September 2012 to R119.94 billion for the quarter ended December 2012 (National Credit Regulator (NCR), 2013). The number of consumers with impaired records also increased, by 95 000 quarter-on-quarter from 9.25 million to 9.34 million. Over 360 000 consumers have applied for debt counselling, with a monthly average of 6 500 (NCR, 2013). The growth in household liabilities in quarter ended December 2012 was driven by an increase in unsecured debt (Bureau of Market Research (BMR), 2013). Savings rates continue to be low: household savings for the quarter ended December 2012 remained unchanged at 1.7 percent (South African Reserve Bank (SARB), 2013). Kibuuka (2007) maintains that lack of adequate savings may result in low-income households resorting to expensive short-term debt to finance unexpected expenditures.

Rural and low-income area consumers are the most financially vulnerable and are facing high financial stress due to high debt level and debt servicing costs and this is a great concern (Finmark Trust, 2012a). The majority of unsecured loans are granted to vulnerable consumers, who are unable to make the repayments (NCR, 2013), despite the National Credit Act forcing lenders to do affordability assessment. The aggressive marketing strategy and reckless lending has contributed to high debt levels in South Africa (SARB, 2013).

In this context, it is imperative that consumers in rural and low-income areas have a basic knowledge of money matters and the ability to make appropriate choices to meet immediate and long-term needs. The purpose of this study was to determine the financial literacy of adults in Vhembe District Municipality around the domains of financial control, financial planning, choosing appropriate financial products, and financial knowledge and understanding. Vhembe District Municipality comprises four local municipalities: Makhado, Musina, Thulamela and Mutale. It has a population of 1 240 035 million in 274 460 households covering 21 407 km2 of the Province (Vhembe District Municipality, 2013). The researcher is not aware of any study conducted in Vhembe district on financial literacy among adults. The study attempted to determine whether adults in Vhembe District are financially literate, and also to propose recommendations.

1.2 PROBLEM STATEMENT

Studies by Finmark Trust (2012b), Financial Services Board (FSB) (2012), BMR (2013), the National Credit Regulator (NCR) (2012), Collins (2005) and TransUnion (2012) indicate that consumers in low-income and rural areas are financially vulnerable, spend more than they earn and experience financial pressure. Considering these studies, it is imperative that the level of financial literacy in rural and low-income areas be established, especially among adults, as they are the ones responsible for household financial management and wealth creation. Thus, the research problem was to quantitatively measure and analyse the level of financial literacy among adults in Vhembe District, a rural area in Limpopo. The question that arose was as follows: What is the overall level of financial literacy of adults in Vhembe District Municipality?

Individuals need financial knowledge to manage day-to-day financial matters (Helppie, Kapinos & Willis, 2010). Adults must plan for long-term investments for their retirement and children's education. They must also decide on short-term savings and borrowings for a holiday, a deposit for a house, a car and a loan. Additionally, they must manage their own medical expenses and life insurance needs. Adults have a strong influence on their children's life; poor financial management and a high debt life style may be adopted and passed from one generation to another. As Lusardi (2012) says, adults around the world are responsible for securing their families financial well-being.

The increasing diversification of financial products on offer has complicated financial decision-making for ordinary South Africans (FSB, 2012:6). The growing complexity of the financial environment highlights the importance of financial understanding and consumer financial awareness as never before (Hilgert, Hogarth & Beverly, 2003). 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, Mitchell & Curto, 2010). Volpe, Chen and Liu (2006) assert that a lack of financial knowledge would negatively affect an individual’s ability to save.

The level of financial literacy of a person will determine his or her personal and social well-being (Travnichek, 2008). Braunstein and Welch (2002) emphasise that economic decision making is affected by the level of financial literacy.

1.3 OBJECTIVES OF THE STUDY

1.3.1 Primary objective

The primary objective of this study was to evaluate the level of financial literacy among adults in Vhembe District Municipality in Limpopo, South Africa, with specific reference to day-to-day money management, financial planning, choosing appropriate financial products and services and financial knowledge and understanding, and hence to fill the gap in the current financial literacy literature.

1.3.2 Secondary objectives

In order to achieve the primary objective of the study the following secondary objectives were investigated:

i. To determine the level of financial literacy among adults in Vhembe District Municipality.
ii. To establish the relationship between demographic factors and financial literacy among adults in Vhembe District Municipality.
iii. To determine the money management behaviour among adults in Vhembe District Municipality.

1.4 LITERATURE REVIEW

The purpose of this section is to conduct a review of secondary and academically reviewed literature. De Vos, Strydom, Fouche and Delport (2006) explain that a literature review is undertaken to get clear understanding of the nature of the problem identified, to help focus and shape the research question, and to link the current research to the previous research.

The literature review focus is on personal financial management, personal financial literacy in South Africa and the state of financial literacy in European countries, the United States (US), other Western countries, sub-Saharan Africa and in the Vhembe District.

1.4.1 Personal financial management

The world of personal finance is broad, challenging and growing rapidly as compared to years back. In today's world individuals are faced with high interest rate, low gross domestic product (GDP), limited resources and high inflation. These factors require individuals to manage their finances more prudently than ever before to ensure that a healthy financial lifestyle is maintained effectively to avoid failing into debt traps and financial problems. Poor financial management may lead to a high level of indebtedness and a low level of savings. Personal financial management generally focuses on effective and efficient day-to-day management of finances to achieve financial goals and mainly includes financial planning, money management, income and asset protection, managing expenditures, investment planning, retirement planning and estate planning (Garman & Forgue, 1998).

High debt levels remain a challenge to South African households. The South African households' financial wellness index indicates that household nominal liabilities increased by 11 percent in the fourth quarter of 2012 compared to the previous period of 2011 (Momentum, 2012). The increase is mainly attributed to an increase in unsecured debt offered to households in rural and low-income areas. Furthermore, in total 73 percent of households were not financial well in 2012, and the financial wellness score declined from 65.23 points in 2011 to 64.77 points in 2012 (Momentum, 2012).

The higher debt situation is not improving in South Africa. Household debt to disposable income increased from 78.0 percent in the fourth quarter of 2014 to 78.4 percent in the first quarter of 2015 (SARB, 2015). The situation is expected to worsen due to electricity tariff hikes, load shedding, limited job creation, adjustments to personal income taxes and interest rates increases.

Despite an increase in the debt servicing cost to disposable income ratio from 9.3 percent to 9.4 percent in the first quarter of 2015 compared to the fourth quarter of 2014 (SARB, 2015), the National Credit Regulator (NCR) reveals that impaired records and accounts increased in the first quarter of 2015. Consumers with impaired records rose by 146 000 from 10.26 million to 10.41 million and impaired accounts increased from 22.28 million to 22.38 million compared to the fourth quarter of 2014 (NCR, 2015).

Saving is a serious problem in South Africa, especially in low income and rural areas. In the first quarterly bulletin released in March 2015, the SARB indicated that the household saving rate remained unchanged at 0.2 percent in the fourth quarter of 2014 and first quarter of 2015, though the disposable income of households increased. It was broadly matched by the increase in nominal consumption expenditure over this period. Household consumption expenditure increased at an annualised rate of 2.8 percent in the first quarter of 2015 (SARB, 2015). The problem is that individuals are spending almost all of their income on consumption and servicing debt, resulting in little, if any, of their income being left for savings or investments. Kotze and Smit (2008) maintain that there is a lack of a comprehensive saving culture in South Africa. Lack of adequate savings may result in households resorting to debt to finance unexpected expenditures, and could also impact on government long-term expenditures, as individuals make insufficient provision for old age, an additional burden that the government will have to manage.

It is against this background that the impression is created that South Africans are not managing their finances effectively. Therefore the day-to-day money management behaviour of South Africans had to be investigated further, especially in areas where financial vulnerability is high. The third secondary objective of this study was therefore to determine the money management behaviour among adults in Vhembe District.

Globally, not only in South Africa there is evidence in literature that individuals lack knowledge of personal finance. Volpe et al. (2006) conducted a study among American working adults, assessing their level of financial knowledge. The findings indicate that Americans do not have adequate knowledge about personal finance. Therefore there is an increasing need for financial literacy, to enable individuals and households to make better and more informed financial decisions. The primary objective of this study was therefore to determine the level of financial literacy among adults in Vhembe District Municipality.

1.4.2 Personal financial literacy among adults in South Africa

Financial literacy is an important element of individuals' ability to manage finances properly. The complexity of managing finances has increased rapidly and requires individuals to be financially literate to make financial choices. Financial literacy is defined as how well an individual understands and uses financial information. According to Yates and Ward (2011), financial literacy is about enabling people to make informed confident decisions regarding all aspects of budgeting, spending and saving, the use of financial products and services. Holzmann (2010) argued that in the end, a financially literate individual should demonstrate desired financial behaviour in all aspects of their finances.

The challenges facing the realisation of personal financial literacy in South Africa are substantial. These involve rectifying the inequalities of South Africa's past dominated by substantial division of wealth along racial and geographical lines.

Since 2003 Finmark Trust has been conducting annual surveys in South Africa, measuring and profiling levels of access to and use of financial services by all consumers in South Africa, across income ranges and other demographics, in order to better understand money matters. It should be noted that these surveys do not measure the level of financial literacy. The first national baseline financial literacy study was conducted by the FSB in 2012 among adults. The results revealed how South Africans save money, budget and spend, borrow and plan for the future. To make ends meet, the majority (56%) of respondents said they would borrow food or money from family or friends, and just over a third would cut back on expenditure or do without certain items.

Other such studies have also been conducted. Collins (2008) sampled households in low-income areas of Langa, Diepsloot and Lugangeni to measure debt levels. The results indicated a high level of indebtedness. This was also supported by De Clercq, Van Aardt and Venter (2010), indicating that in addition to high debt levels, consumers in rural areas tends to use more informal debt. Kibuuka (2007) found that the high exploitation of informal debt is due to lack of financial knowledge.

Peterson (2011) surveyed households in North West to analyse financial literacy in the target market of state banks. The study revealed lack of financial literacy and found that financial inclusion will enhance financial knowledge. Symanowitz (2006) surveyed Grade 12 learners in different public and private schools of South Africa and the results pointed to low levels of financial literacy. Louw (2009) surveyed third-year North-West University students' financial literacy competency and the findings indicated a lack of competency. Maistry's (2010) study revealed that adults' economic and financial decisions are poor and that adults lack basic financial concepts. Gcabo (2003) found an absence of equal sharing of money management in households. Kotze and Smit (2008) revealed a lack of a comprehensive savings culture in South Africa. This was also supported by Finmark Trust (2012a) which found that only 42 percent of adults are saving. Shuttleworth (2011) is of the opinion that adults are uncertain about their financial future.

The extensive literature review indicates that adults' personal financial literacy in low-income and rural areas has received limited attention in South Africa and there is increasing financial vulnerability in rural and low-income areas. Therefore there is an increasing need to examine personal financial literacy in low-income and rural areas. This study did not focus on debt levels or consumer financial vulnerability, as this area has been sufficiently studied. It focused strictly on personal financial literacy among adults in Vhembe District Municipality.

1.4.3 The state of financial literacy in European countries

In order to manage personal finance effectively and respond to economic conditions and financial challenges imposed, consumers should be financially literate (Worthington, 2006). In response, financial literacy surveys have been conducted worldwide to understand the financial levels of consumers and recommend possible courses of action. The review of existing financial literacy surveys in European countries is outlined.

The Financial Services Authority (FSA) (2006) in the United Kingdom (UK) surveyed 5 328 adults to measure the levels of financial capability in the domains of managing money, planning ahead, choosing products and staying informed. The results revealed a below average score of financial capability, indicating that 70 percent of adults at all income levels do not plan ahead and make no provision for an unexpected drop in income.

Klapper, Lusardi and Panos (2012) surveyed 1 000 consumers in Russia to measure the level of financial literacy. The survey found that only 41 percent of respondents had an understanding of the working of interest compounding and only 46 percent could answer a simple question about inflation. Financial literacy was not only low in the general population, but was particularly severe among specific groups such as women, those in the low-income and rural areas and those with low level of education.

The EBF (2009) reported on the survey carried out in Hungary on the level of financial literacy. The survey found that consumers were not aware of basic financial terms, and 70 percent of respondents were not aware of the meaning of inflation. Generally, financial literacy was found to be below average, indicating lack of financial knowledge.

1.4.4 Financial literacy reports in the United States (US)

In the US several surveys have been conducted on financial literacy. Lusardi and Mitchell (2008) found widespread financial illiteracy among the US population. Most adults cannot perform simple economic calculations and do not have knowledge about the basic concepts of finance. Furthermore, Lusardi and Mitchell (2008) emphasised that financial literacy affects financial decision making and that ignorance about financial concepts can be associated with the failure to participate in activities such as retirement planning, stock market, and may cause poor decision making behaviour when borrowing money. Mandell (2008) conducted a survey on behalf of the Jump $tart Coalition and surveyed 1 030 young American adults to determine the level of financial literacy. The average score was 48.3 percent, indicating a low level and lack of basic financial knowledge. Lusardi et al. (2010) also measured financial literacy among young adults. The results showed that financial literacy among respondents was low and only 27 percent of young adults knew about risk diversification. The Securities and Exchange Commission (2012) surveyed 4 800 American retail investors to determine the existing level of financial literacy. The findings showed consistently that these investors lacked basic financial literacy. The FINRA Investor Education Foundation (2012) assessed financial capability of American adults, and the results indicated that many Americans struggle to make ends meet, plan ahead and make sound financial decisions. Harris Interactive (2012) surveyed 1 007 adults to measure financial literacy on behalf of the National Foundation for Credit Counselling. The results generally indicated an average score of 56 percent.

In Canada, Buckland (2010) interviewed and surveyed a group of low-income Canadian adults. The results showed evidence of financial literacy among low-income respondents. They had learnt to cope with strict budgets, used diversified activities to raise their income and were fairly knowledgeable about relevant government programmes and banking services. Carpentier and Suret (2012) administered a survey to 1 814 Canadian investors who managed their own stock portfolios, in order to estimate the level of investors' financial knowledge and rationality, concluding that their knowledge scores were generally low and they were also generally unaware of gaps in their financial knowledge.

1.4.5 Financial literacy in other Western countries

Menzies (2013) in New Zealand conducted a national survey on behalf of the Commission for Financial Literacy and Retirement Income (CFLRI) to measure financial knowledge levels of 852 adult New Zealanders. The results indicated a 40.72 percent overall financial knowledge score, indicating that the level of financial knowledge was low among adults in New Zealand.

In Australia financial literacy studies have been undertaken mainly by financial institutions. Australia and New Zealand Banking Group (ANZ) commissioned Roy Morgan Research to survey 3 502 Australian adults' level of financial literacy in components of keeping track of finances, planning ahead, choosing financial products, staying informed and financial control. The survey found that generally financial literacy was low and that 36 percent of respondents experienced dealing with money as stressful (Roy, 2003).

The extensive literature review indicates that financial literacy is a global problem and adults present low levels of financial literacy. Lusardi and Mitchell (2011) analysed financial literacy globally, motivated by the fact that, in an increasingly risky and globalised marketplace, consumers must be able to make well-informed financial decisions. Their results showed that financial illiteracy is widespread even in well-developed financial markets as in Germany, the Netherlands, Sweden, Italy, and New Zealand.

1.4.6 Financial literacy in sub-Saharan Africa

In this section personal financial literacy studies in selected sub-Saharan African countries are explored. An extensive review of financial literacy in these countries is undertaken to gain insight into and more knowledge about the current status of financial literacy.

Finmark Trust (2009) has conducted surveys on access to finance and financial literacy in sub-Saharan Africa. The surveys indicate a lack of awareness of basic financial products and concepts such as savings accounts, interest on savings, and insurance on loans in Mozambique and Malawi. In Kenya the results indicate that many people have difficulties in day-to-day money management planning behaviour, and are unable to make ends meet.

1.4.7 Personal financial literacy among adults in Vhembe District

Personal financial literacy, for the purpose of this study, is centred on the domains of day-to-day money management, financial planning, choosing appropriate financial products and services and financial knowledge and understanding.

There is no disputing the financial vulnerability of individuals in low-income and rural areas, and the limited amount of research on financial literacy conducted in these areas. Collins (2005) indicates that poor households have much more complex financial lives, using many more financial instruments, than may have been expected. This leads to confusion and a feeling of intimidation by the financial sector, and therefore they turn to informal lenders for credit. According to Collins (2008), low-income and rural area consumers are over-indebted because of informal debts. Given the complexity of the economy and the financial decisions required in everyday life, from comparing credit card offerings to choosing methods of payment, to deciding how much to save, where to invest and how to get the best loan, individuals need financial knowledge to manage day-to-day financial matters (Helppie, Kapinos & Willis, 2010). The current study supports the argument of Helppie et al. (2010) by determining the level of financial literacy among adults in Vhembe District Municipality.

From a comprehensive review of literature, limited research on personal financial literacy has been conducted in Vhembe District Municipality. Oseifuah (2010) conducted a study in financial literacy and youth entrepreneurship in South Africa, focusing on this municipality. The results reveal financial literacy among the youth to be above average and contributing positively to entrepreneurship skills. This current study adds to and extends the existing knowledge on financial literacy literature in Vhembe District Municipality by focusing on adults as a specific population.

The primary objective of this study was to evaluate the level of financial literacy among adults in Vhembe District Municipality in the domain of day-to-day money management, financial planning, choosing appropriate financial products and services and financial knowledge and understanding. These domains were adopted from the framework for the development of financial literacy baseline surveys developed by the OECD (2009).

1.4.7.1 Day-to-day money management

Money management includes budgeting and record keeping, together with awareness of one's own financial position (Mandell & Klein, 2007). The survey in this study measured the extent to which adults take responsibility for and control of financial matters, and obtained information about the respondents' attitudes and behaviour towards financial management.

1.4.7.2 Financial planning

The extent to which people have plans in place to ensure their future financial security is another core indicator of financial literacy (Brunton, 2013). The survey measured how and whether adults plan for unexpected events, as well as planning for things they know will happen in the medium- to long-term, such as retirement, and financial advice in general.

1.4.7.3 Choosing appropriate financial products and services

The ability to choose appropriate products that meet one's needs is also considered a fundamental part of financial literacy, including an awareness of the features and risks associated with different financial products, and shopping around before buying products (Fessler, Schurz, & Wagner, 2010). The study specifically measured whether adults shop around before choosing financial products, considers interest and read terms and conditions, and determined which sources they rely on when making a financial decision.

1.4.7.4 Financial knowledge and understanding

To make sound financial choices, individuals require not only a basic level of financial knowledge, but also the skills to apply this knowledge in their financial decision-making (Helppie et al., 2010). The study measured basic knowledge and understanding of general financial concepts and information.

1.5 RESEARCH METHODOLOGY

Cormack's (2000:118) definition of research methodology is as follows: "research methodology refers to the adopted method that is followed by a set of procedures applicable for a particular study". A brief overview of the research methodology will be provided in this section, with more detail in chapter 4.

The research design, data collection methods, questionnaire design, population, sampling, data analysis and reliability and validity are explained in this section in order to achieve the objectives of the study.

1.5.1 Research design

A quantitative approach with an exploratory and descriptive design was applied in this study. This study intended to collect a large volume of data and establish the relationship between variables using statistical analyses; hence a quantitative approach was deemed relevant. Quantitative research is based on the measurement of quantity and is used to express or explain a specific phenomenon in an amount or quantity (Kothari, 2008). An exploratory design was used to gain more insight into the study phenomenon. This was done in the form of a literature review. A descriptive design provided valuable information as to what variables were worth testing quantitatively and described the relationship and characteristics between the variables. This is discussed in detail in chapter 4.

1.5.2 Data collection

Data collection is the process of collecting data from respondents for research purpose using different data collection methods, and different sources (Marczyk, 2005). In this study data was sourced from secondary and primary sources. Secondary data represented data collected by means of the literature review through exploratory research to shape the study. Primary data represented data collected afresh from respondents by means of a self-administered questionnaire designed specifically for this study. The questionnaire was delivered and collected by hand at respondents' homes by the researcher with the assistance of fieldworkers. Data was collected from all four local municipalities in Vhembe District.

1.5.3 Questionnaire design

Questionnaire design is the process of creating and structuring research questions to investigate research problems and ultimately meet study objectives. This should consider aspects of wording, sequence, length, arrangement and distribution (Brink, 2012). In designing the questionnaire the researcher paid special attention to these aspects to ensure that the questionnaire was properly designed. This was done by considering the guidelines, notes and proposals contained in the core questionnaire in measuring financial literacy surveys developed by the OECD (2011). Furthermore a pilot study was conducted to test the questionnaire to ensure that it measured what it was intended to measure.

To ensure that information about personal financial literacy among adults in Vhembe District was collected, closed-ended questions were designed and divided into five main sections as follows:

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

1.5.4 Population

In the current study, the population comprised adults in four local municipalities in Vhembe District. The four local municipalities involved were Thulamela, Makhado, Mutale and Musina.

1.5.5 Sampling

Sampling may be defined as the selection of some part of an aggregate or totality on the basis of which a judgement or inference about the aggregate or totality is made (Dhawan, 2010). There are several sampling methods which are discussed in detail in chapter 4. For the purpose of this study, probability sampling methods consisting of proportionate stratified sampling and systematic sampling were used because they afforded all adults in Vhembe District an equal chance to be part of the study. Furthermore, they afford an opportunity to apportion a percentage to each local municipality (i.e. Makhado, Musina, Mutale and Thulamela) in determining sample size and allowed a large area to be covered by selecting households from both sides of the street systematically, as adults were visited at their homes. The sample size of the study consisted of 300 adults from all local municipalities. In selecting the sample size, issues relating to representativeness, homogeneity, precision to make inferences, and the desired confidence level were considered.

1.5.6 Data analysis

For the purpose of this study, Microsoft Excel, descriptive analysis, inferential analysis and Statistical Package for the Social Sciences (SPSS) software were utilised to analyse data.

MS Excel spreadsheets were used to capture data to allow for further analysis. Descriptive analysis aimed to describe the data by investigating the distribution of scores for each variable and by determining whether the scores for different variables were related to each other (Blaxter, 2010). According to Brink (2012), the following features such as frequency and central tendencies were used to describe and summarise the data. Inferential analysis is important for this study, as it allows inferences to be drawn from the study results. Further statistical analysis was done by SPSS with the services of a statistician.

1.5.7 Reliability and validity

It is argued in literature that the researcher should ascertain that the reliability and validity of the data collection instruments are ensured. Thus the researcher should ensure that the data collection instruments are measuring what they are supposed to measure (Denzin, 2009). Furthermore, a link should be established between data collection instruments and the literature sources on which theoretical concepts are based. Denzin (2009) defines reliability as the degree to which the instrument used for data collection is consistent and produces the same results for repeated trials, while validity means that the scores received from the participants are meaningful indicators of the construct being measured. In the current study reliability was ensured by conducting a pilot study to determine clarity and consistency of the questionnaire. A literature review was conducted to link the conceptual framework of personal financial management and personal financial literacy with the questionnaire to ensure that objectives of the study were achieved. Validity in this study was ensured by focusing on face and content validity of the measuring instrument.

1.6 SCOPE AND DEMARCATION OF THE STUDY

The limitations and delimitation of the study are now outlined in detail.

1.6.1 Limitations of the study

According to Laws, Harper and Marcus (2003:42), limitations of the study refers to possible challenges that could affect the research such as time limitation, access to participants and how the researcher intends dealing with these concerns. The researcher anticipated a number of challenges when conducting this study, these being lack of sufficient funds, access to participants' homes and differing levels of literacy. Also adults fear exposing their financial position and financial management practices, which could have limited the study.

1.6.2 Delimitation of the study

The study focused specifically on adults' financial literacy in Vhembe District in Limpopo, South Africa, and was not a national survey. Vhembe District comprises four local municipalities: Makhado, Musina, Thulamela and Mutale. It has a population of 1 240 035 million, in 274 460 households covering 21 407 km2 of the province. Its race composition is 98.2 percent black, 0.1 percent coloured, 0.4 percent Indian and 1.1 percent white (Vhembe District Municipality, 2013). The population focused on was adults in Vhembe District.

This study did not investigate financial vulnerability, as this area has been studied sufficiently.

1.7 SIGNIFICANCE OF THE STUDY

Personal financial management is highly complex, and individuals' ability to manage personal finances is imperative. Epstein (2007) emphasises that the personal financial literacy framework is complex and includes the ability to perform financial control and financial planning, choose appropriate financial products and have financial knowledge and understanding. According to Robb and Woodyard (2011), individuals' financial well-being is incumbent on their own actions, attitude and behaviour. No evidence could be found of research on personal financial literacy among adults in Vhembe District. The study provided information on how adults manage day-to-day financial matters, plan for short- and long-term investments, and choose appropriate financial products, and on their financial knowledge and understanding.

The community will benefit from the study because the findings and recommendations will be handed to Vhembe District Municipality, with the aim of assisting them in gaining an understanding of the current level of adults' financial literacy. This will further assist the municipality when formulating policies in developing and expanding on financial literacy programmes. For future researchers, the study will provide baseline information on the recent status of adults' level of financial literacy.

1.8 ETHICAL CONSIDERATIONS

Punch (2005) explains that ethical principles should be internalised in the personality of the researcher so that ethical decisions become part of the researcher lifestyle. This study title was submitted, accepted and registered with the Faculty of Economic and Management Sciences of the University of South

Africa (Unisa), Department of Finance, Risk Management and Banking, and complied with the Code of Ethics of the university.

The researcher obtained an ethical clearance certificate from Unisa and signed an agreement with Vhembe District Municipality to conduct a study. The researcher maintained professional behaviour, honesty and integrity during the research and has ensured that proper citation and reference techniques were used to acknowledge sources. Respondents were assured that information provided would be anonymous and confidential. Furthermore, participation in the study was voluntary.

1.9 DEFINITION OF CONCEPTS

1.9.1 Literacy

Literacy in general terms is defined as the state of being able to read and write.

1.9.2 Personal financial literacy

Personal financial literacy is defined as how well an individual understands and uses personal finance-related information.

1.9.3 Personal financial management

The concept of personal financial management is often defined as a set of activities, including planning and decision making, organising, leading, implementing and controlling the allocation of income and the accumulation of wealth by an individual, with the aim of achieving financial goals effectively.

1.9.4 Adult

An adult is referred to a mature, fully developed person from the age of 18 years and above, and for the purpose of this study this definition was accepted.

1.9.5 Vhembe District Municipality

Vhembe District is a district municipality in Limpopo, comprising four local municipalities: Makhado, Musina, Thulamela and Mutale. It has a population of

1 240 035 million in 274 460 households covering 21 407 km2 of the province. Its race composition is 98.2 percent black, 0.1 percent coloured, 0.4 percent Indian and 1.1 percent white (Vhembe District Municipality, 2013).

1.10 CHAPTER OVERVIEW

The research chapters are presented as follows:

Chapter 1- Introduction

The chapter provided the background to and rationale for conducting the study. The problem statement and objectives of the study were introduced. The problem statement was stated as follows: 'What is the overall level of financial literacy among adults in Vhembe District Municipality?' The primary objective and secondary objectives of the study were stated. The chapter also introduced literature reviewed on personal financial management and personal financial literacy. Furthermore, the research methodology, scope and demarcation of the study, ethical considerations, definition of concepts and chapter overview were highlighted.

Chapter 2- An overview of personal financial management

The chapter provides a detailed overview of personal financial management, by covering the meaning, components and importance of the concept. The chapter also covers personal financial planning. Furthermore, management of personal finances is highlighted. This provides a picture of how individuals are managing their personal finances. It is established in this chapter that individuals in rural and low-income areas are financially vulnerable and that this necessitated the need to investigate the level of financial literacy among adults in Vhembe District.

Chapter 3- Theoretical concepts of personal financial literacy

A detailed review of theoretical concepts of financial literacy is provided in this chapter. This covers various definitions of financial literacy, core elements of financial literacy, indicators of financial literacy, levels in the process to become financially literate, benefits of high levels of financial literacy, consequences of low levels of financial literacy and the demographic influence on financial literacy. It is established in this chapter that financial literacy is an important aspect of an individuals' ability to manage finances effectively and lack thereof could leads to over-spending, lack of retirement and investment planning, making incorrect financial decisions and ultimately indebtedness, which could threaten their financial wellness and well-being.

Chapter 4 - Research methodology

The methodology followed when conducting the study is outlined in detailed in this chapter. The research was designed around quantitative, exploratory and descriptive research to collect secondary and primary data. Questionnaires were used as the data collection instrument. The population and the sample size were specified with the study as being delineated to Vhembe District Municipality to evaluate the level of financial literacy among adults. The chapter also covers data analysis, reliability and validity, ethical considerations and permission to conduct the study requested from Vhembe District Municipality.

Chapter 5 - Analyses and interpretation of the results

This chapter provides an analysis and interpretation of the study results. Data collected through questionnaires is analysed. The results are presented in graphs, tables and figures, along with their interpretation. The chapter further indicates the overall level of financial literacy of respondents in Vhembe District Municipality.

Chapter 6 - Summary, conclusions and recommendations

The chapter provides conclusions to the primary objective and each secondary objective of the study. The study limitations, recommendations to Vhembe District Municipality and suggestions for further research are indicated.

CHAPTER 2

AN OVERVIEW OF PERSONAL FINANCIAL MANAGEMENT

2.1 INTRODUCTION

In chapter 1, the background of the study was established. The third secondary objective of this study was to determine money management behaviour among adults in Vhembe District. In search of sound conceptual understanding of money management behaviour, textbooks, published reviews, and articles in journals were reviewed.

The chapter is organised into four parts. Part 1 consists of section 2.2, in which personal financial management is defined and a definition is adopted for the purpose of this study, and components of and the importance of personal financial management are highlighted. Part 2 consists of section 2.3 on personal financial planning. This section presents the definition of personal financial planning, personal financial planning life cycle, personal financial planning process and the benefits of personal financial planning. Part 3 consists of section 2.4, management of personal finances, which focuses on important areas in managing personal finances and problems associated with personal financial management. Part 4 consists of section 2.5, the need to solve personal financial management problems.

2.2 DEFINITION, COMPONENTS AND IMPORTANCE OF PERSONAL FINANCIAL MANAGEMENT

This section focuses on defining personal financial management, the components and the importance of personal financial management.

2.2.1 Definition of personal financial management

Studies by Gitman and Joehnk (2008), Madura (2004), Garman and Forgue (2011), Rosefsky (2002) and Hirsch (2005), fail to adequately define the concept of personal financial management. They use the concept of personal financial planning and define it as “the process of developing and implementing plans to achieve financial objectives”. They emphasise that financial planning consists of more than just saving and investing, and it begins by recording in writing the financial objectives and goals that reflect values, attitude, wants and needs in order to prepare for the future by budgeting and increasing investment returns.

Other studies (Loix, Pepermans, Mentens, Goedee & Jegers, 2005; Swart, 2002; Godwin, 1990) use alternative terms to define personal financial management. Swart (2002) describes the personal financial management process as including the planning, organising, leading and control of the money matters of the household. Godwin (1990:103) uses the concept of family financial management and defines it as “the planning, implementation, and evaluating by family members that are involved in the allocation of their current flow of income and their stock of wealth towards meeting the family’s financial goals’’. Loix et al. (2005) use the concept of household financial management and define it as the household’s ability to perform estimates, budget and bookkeeping.

For the purpose of this study, personal financial management is defined as a set of activities, including planning and decision making, organising, leading, implementing and controlling the allocation of income and the accumulation of wealth by an individual, with the aim of achieving financial goals effectively.

2.2.2 The components of personal financial management

Garman and Forgue (1988) developed a framework of components of personal financial management which is widely used globally. The components include financial planning, money management, managing expenditure, income and asset protection, investment planning, and retirement and estate planning.

Other authors in personal financial management have extended the framework; Gitman and Joehnk (2008) include taxation; Whittaker, Heystek and Metz (1990) include financial advice; Gordon-Fish (1994) includes employment; Swart (2002) includes emigration planning; Ernst and Young (2004) include health care, marriage and divorce; while Dewing (1995), Rosefsky (2002) and Woerheide (2004) include accommodation. These components form the framework of personal financial management. Therefore knowledge and understanding of these components enables individuals and households to make better and more informed choices about the application of limited resources to reach financial goals.

2.2.3 The importance of personal financial management

Personal financial management affects everybody. Compared to a generation ago, adults now live in a world of greater financial complexity and are uncertain about their financial future (Struwig & Plaatjes, 2007). Therefore it is imperative for adults to comprehend the components of personal financial management to ensure sound financial decisions.

The main secret to personal financial management and planning is to be aware of many factors that may influence an individual's financial situation positively or negatively at the present time or in the future (Swart, 2002). Furthermore personal financial management is becoming increasingly complex and important for the following reasons, among others:

- Changing economic conditions
- Changing political climate
- Inflation
- The larger number of financial institutions
- Advertisements in the media
- A multitude of financial instruments and products; and
- Conflicting financial advice

It is against this background that efficient personal financial management is necessary to apply individuals' and households' limited resources effectively to satisfy unlimited needs. Budgeting has been found to be an effective tool to management personal finances. Kidwell and Turrisi (2004) indicate that budgeting can change spending patterns of individuals through successfully regulating finances and reducing unnecessary spending.

Kotze and Smit (2008) state that lack of financial management knowledge contributes not only to household indebtedness, but also to low prevalence of venture creation and the high failure rate of South African small and medium-sized enterprises. This indicates that financial management affects everybody, and lack thereof has serious consequences.

Personal financial management addresses the great difficulty of getting a little money. It is about learning to manage income and wealth to satisfy desires in life or to create more income and more wealth, and creating productive assets and resources that can be used to create future economic benefit. In other words, it is about learning how to get what you want and how to protect what you have.

Swart (2002) highlights the following as the most common benefits of personal financial management:

- Many individuals and households find out more about their current financial situation for the first time.
- Financial needs are identified.
- Households risks are identified.
- Reasons for cash flow problems are identified.
- There is budgeting regarding expenses and investments to reach immediate, short-, medium- and long-term goals.

- Financial crises are identified in time.
- The individual takes responsibility of their own financial future.
- The influence of new legislation on households' money matters is undertaken more readily, even though it may be accepted with difficulty.
- The uncertainty surrounding retirement planning is removed.
- It becomes possible to retire with financial independence.
- Provision is made for maintenance of a particular standard of living before and after retirement.
- The entire household is involved in the budget process and learns more about money matters.

Struwig and Plaatjes (2007) emphasise that knowledge of personal finance is required to improve an individual's standard of living and reduce financial problems, which can have detrimental effects on an individual's life at home and work. Swart (2005) argues that individuals with knowledge of basic money matters can take responsibility for their financial future, are self-confident, have a financial advantage over others, are financially informed, understand household finance and limitations, possess entrepreneurial skills, are able to plan their debt and are financially independent after retirement.

2.3 PERSONAL FINANCIAL PLANNING

This section gives an overview of personal financial planning. This is done by defining personal financial planning, highlighting the personal financial planning life cycle, exploring the personal financial planning process and discussing the benefits of personal financial planning.

2.3.1 Defining personal financial planning

The secret to personal financial management and financial planning is to be aware of all or as many as possible of the factors that could influence an individual's financial future positively or negatively. Personal financial planning is an organised process identifying not only financial goals, but also life goals and ensures the maintenance of a person's required standard of living. It also uses a number of mechanisms to enhance well-being from a psychological point of view and reflects the desire to predict or control the environment in which the individual lives to be prepared financially. It includes managing aspects such as risk, retirement, estates, investments, budgets and insurance (Rootman, Kruger, Bakhuis & Fourie, 2014).

Personal financial planning also refers to a systematic process that considers important elements of an individual's financial affairs in order to fulfil financial goals and provides individuals with the knowledge to acquire, apply and control financial resources more effectively and efficiently (Gitman & Joehnk, 2008:7).

2.3.2 Personal financial planning life cycle

The personal financial life cycle will be influenced by and dependent on the human life cycle of each individual due to different needs, risk profiles, financial goals, financial knowledge and family dynamics. Masilo (2014) states that although every individual has a specific financial plan, there is a general financial life cycle pattern that applies to most people, comprising a series of stages based on age, marital status, dependants, income level and net worth. Swart (2002:9) describes the human life cycle in five phases, namely the youth years (20-30), family years (30-40), career years (40-50), pre-retirement years (50-60) and retirement years (65 and above). In view of the human life cycle, it is evident that individuals should consider financial planning mainly during the family, career and pre-retirement years to save and provide for retirement. Swart (2002) further elaborates that as individuals move through the life cycle, financial needs will stay constant, increase, decrease, fluctuate, be permanent or be temporary. Thus accommodation, food and clothing needs are more likely to stay constant, with cost of living increasing, home loans to be paid decreasing, emergency situations in households fluctuating, estate duty or provision for retirement being permanent and a child at university or a bank loan to be repaid being temporary.

It is therefore widely agreed and accepted that during the human life cycle, the financial needs must be planned for continuously in line with the life cycle to avoid financial difficulties and embarrassments as reflected in table 2.1.

Table 2.1: The financial planning life cycle

Cycle	**Formative years**	**High school and tertiary years**	**Career-working years**	**After Retirement**
Priorities	Early development	Career planning Budget Saving	Budget Housing Saving Investments Credit control Income tax Retirement planning Estate planning Insurance planning	Budget Investment management Estate planning

Source: Adapted from Swart (2002)

It is evident from the above table that financial priorities change as individuals move through the financial planning cycle. The priorities and preferences will change according to individual circumstances. Similarly, individuals' planning and priorities will differ in accordance with the different levels at which they find themselves in terms of human and financial needs.

2.3.3 Personal financial planning process

The key to successful money management is developing and following a personal financial plan (Swart, 2012). Personal financial planning is the process of managing money to achieve personal economic satisfaction. This planning process allows individuals to control their financial situation. Every person, family, or household has a unique financial position, and any financial activity therefore must also be carefully planned to meet specific needs and goals (Swart, 2012).

Furthermore the financial planning process is complicated by the number of factors to consider, by their complex relationships to each other, and by the profound nature of these decisions, because how an individual finances their life will, to a large extent, determine the life that they live. The process is also, often enormously, complicated by risk: they are often making decisions with plenty of information, but little certainty or even predictability. Elger (2003) states that the personal financial planning process is an exercise in applying risk management techniques at an individual level, which should include the more comprehensive identification of risks which individuals face, the appropriate prioritisation of these risks and their effective management.

Even though individual needs differ, the same steps in the personal financial planning process can be followed. Gitman and Joehnk (2008) divide this planning process into three activities: analysing present financial situation, setting financial objectives and preparing a budget for the achievement of these objectives. The first activity shows individuals where they are at the present moment, the second indicates where they would like to be in future, and the third shows individuals the ways or methods of getting there.

According to Swart (2002), the personal financial planning process can be briefly explained in several steps as follows:

2.3.3.1 Gathering information

Information need to be gathered about the following, among others things: details of the family such as names, ages, marital status, matrimonial arrangements, gender and health; income statement; balance sheet which clearly indicates the present construction of the estate, such as fixed property, equities rights, cash, investments and liabilities; insurance portfolio with a summary of immediate cover, claim values, death benefits, disability benefits, annuities, provident funds, group insurance, pension benefits, employee benefits and anticipated inheritance.

The potential earning ability of persons in the household, as well as any other potential source of income must be included here. Furthermore, information must be gathered on the person’s liquidity preferences, attitude towards risk or security, political views and views about the country’s economic prospects. Individuals should be able to determine their present financial position, since further financial decisions and plans will be based on it and other aspects identified.

2.3.3.2 Preparing personal financial statements

Individuals should prepare a personal income statement and a balance sheet. It is recommended that a specialist in the field be consulted to assist with preparing these financial statements, especially if individuals are unable to prepare these themselves. A personal income statement should indicate the financial activities that took place over a specific period and includes income, expenditure and contributions towards savings and investments.

A personal balance sheet indicates an individual’s welfare, which is reflected in the way in which assets are funded and not by the number of assets owned. The link between income statement and balance sheet is the amount of equity capital, which is calculated by deducting total liabilities from total assets. Any positive contribution towards savings and investments will lead to an increase in wealth. Similarly, a negative contribution leads to a decline in wealth.

2.3.3.3 Identification of objectives and needs

This process involves undertaking an evaluation of persons involved, linking objectives to time and listing priorities. This step process is briefly outlined below.

- **Evaluation and persons involved**

  Before individuals can decide what they wish to achieve, they must consider what is important to them. Someone who wishes to achieve success will have to work better and harder and do without holidays. Other may have a more balanced approach. It is recommended that married people involve the entire family in setting objectives.

- **Linking objectives to time**

  The formulation of objectives is a statement by a person of the prospects of their financial future. Personal financial planning therefore centres on objectives and how to achieve them. Objectives should be linked to specific time horizons because most objectives can be achieved by using more than one method. Time horizons are mainly categorised into short, medium and long-term objectives.

  Short-term objectives are aspired to in the early stage of the life cycle and must be very specific. Funds for such objectives are generated from current income, savings and investment plans. Alternatively funds may be borrowed, or hire- purchase or lease agreements may be used. Medium-term objectives usually occur during the working years and stretch over the largest part of the life cycle. The achievement of objectives during this stage is a prerequisite for the achievement of objectives in the long-term. Spending patterns could be adjusted to provide for needs over the medium term. Long-term objectives provide the greatest flexibility during the planning phase with retirement planning usually the most prominent planning component of the last stage of the life cycle. Therefore individuals of all ages will have short-medium- and long-term objectives.

- **Listing of priorities**

  Objectives must be listed in order of importance. A distinction must be made between urgent and important needs. It may be urgent to get a telephone at home, but it is more important to draw up a valid will. Higher priority must be given to important needs because of the negative financial implications of not being able to meet those needs.

2.3.3.4 Identification of constraints

There are always external influences or constraints that have to be taken into consideration in personal financial planning. These are factors that may restrict or even be entirely in conflict with the personal objectives and needs that have been identified. Examples of such factors are income tax, untimely death, retirement, illness and liability risk.

2.3.3.5 Comparison of current situation with identified needs

Information regarding an individual's current situation shows that planning has been done to date. A comparison between the current situation and all identified needs indicates which needs have already been provided for, and which needs still have to be provided for. In essence the needs that have not been provided for should receive attention. Needs with a low priority may already have been met. The priority list indicates needs with a high priority that have not been met and that would require more funds than needs with a lower priority. In that case, consideration should be given to replacing needs with lower priority with those with higher priority. This would mean that more funds would be available for needs with higher priority, since those with lower priority would have been set aside.

2.3.3.6 Analysis of investment opportunities

Before any decisions are made to meet certain needs, an analysis of existing investment opportunities is necessary. It is essential to examine the purpose of each investment alternative, as well as the advantages and disadvantages involved in each alternative investment. For example, although savings may earn relatively low interest if invested in a fixed deposit for six months, this would nevertheless provide more liquidity than a fixed investment over a ten-year period.

2.3.3.7 Development of the plan

During this phase, an individual must decide which investment will provide for which needs. Risks should be covered by an appropriate investment plan. Needs are expressed in terms of risks involved in the occurrence of certain events. Table 2.2 indicates needs in terms of risks and investment plan required.

Table 2.2: Financial needs and investment plan

Type of risk	Insurance
1. Personal risks -Loss of income - untimely death - disability - illness or injury	 - life insurance - disability insurance - medical aid
2. Property risks - theft or damage to vehicle - loss of or damage to home - loss of or damage to personal property	 - vehicle insurance - home owner's insurance - personal property insurance
3. Liability risks - liability resulting from home ownership	 - home owner's insurance - vehicle insurance

- liability resulting from vehicle ownership - liability resulting from negligence	- comprehensive insurance

Source: Adapted from Swart (2002)

In order to develop a plan, individuals must choose an insurance company and decide on the specific amount required for each risk and the monthly premium that is affordable, on the basis of their personal budget.

2.3.3.8 Evaluate and monitor the plan

The last step in a successful financial plan is to periodically evaluate and the revise plan. The planned spending and saving must be compared to the amount actually spent and saved. This step will allow the individual to measure progress toward goals. If individuals find that they are not reaching their goals or that family members are dissatisfied with the way money is spent or saved, the goals must be revised. Personal financial planning is a lifelong process and has to be re-evaluated, adjusted and re-adjusted. It has to be flexible enough to be responsive to unanticipated needs, robust enough to advance toward goals and all the while be able to protect against unimagined risks (Swart, 2012).

2.3.4 Benefits of personal financial planning

The long-term financial goal and benefit of personal financial planning is financial independence after retirement. Thus a retired person would not depend on family, the state or friends for income. Moreover, that person would not have to continue working after retirement in order to survive (Swart, 1997). Furthermore, early, systematic personal financial planning will determine each individual’s financial future. Some will starve to death after retirement, others will just survive, some will be relatively comfortable and a few will retire very wealthy. Therefore personal financial success depends entirely on planning early enough to be able to accumulate the necessary wealth to sustain retirement.

According to Rootman et al. (2014), regardless of the negative history, personal financial planning has many benefits. Some of these include maintaining a balance of income and capital, maintaining the value of purchasing power, minimising taxation legally, acceptable investment returns, financial independence at retirement, security for individual's family and protection against major financial risks, expected or unexpected. This can be done through insurance and can improve a country's GDP and economic growth through increasing available funds for consumer consumption and investment, as well as government spending.

Gitman and Joehnk (2008) indicate that successful, sound financial planning brings rewards, such as improved standard of living, wise spending habits and increased wealth. Of course, planning alone does not guarantee success, but having an effective, consistent plan can help individuals to use resources wisely.

Personal financial planning is not only for the wealthy, everyone needs financial planning. Whether a person has a lot of money or not enough, they still need personal financial planning. If they have enough money, personal financial planning can help them spend and invest wisely.

Literature has shown that people with a financial plan tend to save more money, feel better about their progress and make more appropriate decisions – no matter what their income. Moreover, a written financial plan is far more effective than a mental one. Seeing a plan in writing will help individuals to remember what actions are necessary to reach the goals and it helps to check progress more easily than relying on memory alone.

2.4 MANAGEMENT OF PERSONAL FINANCES

An individual, who wishes to achieve financial independence at retirement or protect assets that are mortgaged if they die, faces the risk of not having the money to do so if personal finance is managed ineffectively. In this section important areas in managing personal finances, and the problems associated with personal financial management are discussed.

2.4.1 Important areas in managing personal finances

Management of personal finances includes and should carefully consider the budgeting process and various aspects of credit, savings and planning for the future, as well as income tax planning.

2.4.1.1 Budgeting

The budgeting process includes drawing up and operating a budget, taking income expenditure into consideration and helping people live within their income (Swart, 2002). Important aspects of expenditure to consider are, firstly, avoiding the trap of failing to plan for all expenses; secondly, identifying financial and major expenditure; thirdly, organising personal financial records and determining current financial position and, lastly, using statements to assist with financial planning (Swart, 2002). A study by Kidwell and Turrisi (2004) suggests that individuals do not keep a detailed financial record and do not have a budget in place.

2.4.1.2 Credit

Credit appears to be the major cause of financial downfall for many individuals and important factors for consumers to understand include the various forms of debt, applying for credit, credit record, credit management, the cost of credit, excessive debt, bankruptcy and credit and the law (Rosefsky, 2002). The levels and the cost of debt have become so high that consumers do not have enough money left to save after their debts have been covered (Kotze & Smit, 2008).

Furthermore, Kotze and Smit (2008) emphasise that the unmanageably high levels of debt and an ignorance of and disregard for savings influence consumers' ability to start and manage new businesses. According to Woerheide (2004), borrowers globally are unable to repay their debt, and this has placed pressure on their disposable income and economic growth.

Credit can be used to reach financial goals if is utilised appropriately. This requires individuals to manage credit effectively and make a distinction between good and bad credit. Good credit is often associated with buying a house, financing an income-generating asset, repairing and improving a home. Bad credit is linked to using overdraft facilities and credit cards to finance daily expenses, buying something beyond one's means on credit, wishing to impress friends, buying unnecessary goods, buying something that depreciates in value, inability to control spending habits, being materialistic and buying something because everybody else has it (Swart, 2002).

2.4.1.3 Savings and future planning

Savings and planning for the future is an important aspect of money management, and individuals should understand the various concepts, including estate and retirement planning, planning a will, reasons for savings, the importance of saving, setting savings targets, the savings process, places to save, available types of savings instruments, advice for becoming a disciplined saver, special purpose accounts, comparison of savings accounts and savings plans, and savings versus investing (Swart, 2002). The FSB (2012) argues that South Africans lack a comprehensive savings culture because they spend the majority of their income. South Africans save between 1 and 2 percent of their disposable income (Kotze & Smit, 2008). The importance of saving is only realised when the need for it arises, and then it is often too late.

2.4.1.4 Taxation planning

Individuals should know about the basics of income tax planning, including how to determine their tax calculation liability and the different types of taxes payable, the definition of tax, the principles of income tax, the Income Tax Act, the importance of keeping tax records, managing taxes, the various ways to pay tax and places to get help (McCorkle, Bannister, Brown, Clow, Heckman & O'Niel, 2002). Determining one's taxation liability involves understanding the tax year and tax rates, methods of avoiding tax, tax-cutting strategies and tax evasion versus tax avoidance, as well as how to document income and expenses, how to complete a tax return and what to do if one is audited (Rosefsky, 2002).

Furthermore, individuals should be aware of different types of taxes, which include value-added-tax (VAT), estate duty tax, capital transfer tax, transfer duty and stamp duty, as well as the tax implications of retirement and its impact on a will and Standard Income Tax on Employees (SITE) (Swart, 2002).

It is evident that to manage personal finances, individuals should demonstrate the ability to make sound financial choices, discuss money and financial issues without discomfort, plan for the future and respond competently to life events that affect everyday financial decisions, including events in the general economy.

2.4.2 Problems associated with personal financial management

South Africa's personal finances have been attracting considerable bad press recently, due to exceedingly high levels of debt, increases in interest rates and a depleted saving ratio (SARB, 2013). The debt management practices of individuals give the impression that South African households manage their finances inadequately, resulting in inadequate savings which have a negative impact on the economy at large (Kotze & Smit, 2008). It is suggested in literature that financial vulnerability and consumer money management behaviour are serious problems associated with personal financial management and may pose serious financial difficulties.

2.4.2.1 Consumer financial vulnerability

Finmark Trust (2012a) indicates that South Africans are financially vulnerable, mainly those in low-income and rural areas. It is suggested that consumer financial vulnerability is a feeling of being financially stressed. This depends on various factors both outside a person's control, such as adverse economic conditions, and those that are specific to individual control, including savings and debt. De Clercq (2013) identifies events and conditions that will cause consumers to become financially vulnerable, which include, but are not limited to, unpredictable events, economic shocks both domestic and international, uncertainty, volatility and factors such as a lack of skills and sub-optional financial decision making.

Finmark Trust (2012a) further identifies aspects which define consumer financial vulnerability as follows:

- Income vulnerability, which includes job security, income growth, social grants and the ability to access transfers from family and friends
- Savings vulnerability, which is influenced by the savings and assets that a person can access when times are tough
- Expenditure vulnerability, which depends on various factors including whether a consumer is able to deal with rising costs of food and transport, or is living within their means
- Debt service vulnerability, which is driven by the cost of servicing debt and the level of debt a consumer, has.

De Clercq et al. (2010) specify that the major predictors of consumer financial vulnerability appear to be as follows:

- High levels of unemployment
- High poverty rates
- High debt and debt servicing costs ratio
- Low savings rates
- Bad financial planning due to low financial literacy
- Cancelling policies to cover debts
- Consumer living beyond their means
- Breakdown of inter household and community level health transfer mechanisms

Furthermore, consumer financial vulnerability is associated with an inability to manage personal finances and leads mainly to stress, high debt levels, negative economic consequences, a decline in individual health, broken families, divorce and fragmented relationships, bankruptcy and debt judgments, underperforming employees and a loss of productivity (De Clercq et al., 2010). Consumers may not currently experience financial vulnerability, but could become vulnerable when they, for instance, sense the risk that they may become unemployed, unable to service debts or unable to cope with financial emergencies (De Clercq, 2013). Thus it is important to note that consumer financial vulnerability is not necessarily an actual state of over-indebtedness but rather the consumer's sense or experience of a state of financial vulnerability.

2.4.2.2 Consumer money management behaviour

Central to personal financial management is money management behaviour or financial behaviour. These concepts are used interchangeably in literature. In essence, individuals need to demonstrate proper and good financial behaviour in order to be able to evaluate the financial options available to them, manage finances effectively and gain financial security (Kotze & Smit, 2008). Financial behaviour, as defined by Rootman and Antoni (2015), refers to the actual financial decisions consumers make in the financial market, linked to their levels of saving, debt and spending, with the main focus on understanding how consumers make decisions and identifying the common mistakes they make. It is argued in literature that individuals are not regulating their finances properly.

Overspending is one of the major financial problems facing consumers in South Africa. These problems are exacerbated by addictive spending, poor budgeting and incurring too much debt. It is argued that consumers overspend usually because they do not keep track of their expenses, they have access to credit cards and do not have any financial goals. Moreover, financial problems experienced by consumers result from poor money management behaviour. It is also indicated that money management behaviour is influenced by and closely associated with consumers' financial knowledge, skills and attitudes (Rootman & Antoni, 2015).

According to Shuttleworth (2011:98), financial knowledge refers to consumers' ability to understand financial information and use such knowledge to make informed and responsible financial decisions. Financial skills refer to the ability to apply financial knowledge to manage personal finance. Shuttleworth (2011) further explains that financial attitudes refer to the consumers' thoughts, feelings and opinions about financial issues. Therefore, consumers must be willing to take the necessary steps to transmit financial knowledge and apply financial skills, which is mainly dependent on their financial attitude. This will usually influence consumers' decisions about financial products and services they purchase, how they spend their cash and determine specific financial behaviour.

The Personal Finance Research Centre (2010: 8-21) highlights some of the most common errors consumers make regarding their personal financial management that could indicate poor money management behaviour and increase financial vulnerability:

- Not planning for the unexpected – many South Africans die before the age of 50 and seldom have sufficient life assurance to enable dependants to maintain their standard of living. Life assurance is essential since there are usually no or very little savings to compensate for the loss of income due to the death or disability of a family member.

- Not having short-term insurance – numerous motor vehicles on South African roads are not covered by short-term insurance. Should the drivers of these vehicles be involved in an accident, the lack of short-term insurance could lead to financial ruin.

- Not belonging to a medical aid scheme – many consumers prefer self-insurance regarding their medical costs, but this could be inadequate in the event of severe medical emergencies.

- Not saving – various sources confirm that South Africans generally have a low savings rate, which may result in insufficient retirement funds. In the light of higher levels of population ageing, the need for adequate retirement provision is essential.

- Inadequate budgeting – the lack of proper budgeting could result in consumers not saving enough and not managing their debt.

- Living off credit – consumers make use of credit facilities to finance their consumption as well as their perceived standard of living. Such bad financial management could increase financial vulnerability in several ways: should interest rates increase, it will be necessary to pay more to service debts, or, in the event of job losses, debts will need to be repaid when there is no source of income.

- Not managing credit or store card debt – this is mentioned as the main reason consumers experience financial hardship. Too much credit and store card debt makes it difficult to make ends meet.

- Not reading loan agreements carefully – one of the main purposes of the National Credit Act is to ensure that consumers are protected from loan sharks. However, it is the responsibility of consumers to ensure that they read and understand all the clauses of their credit agreements.

- Not following basic rules of investing – this involves good financial management practices such as an individual not investing all their money in the same asset, calculating the risks associated with investments, not being too conservative, not making emotional decisions, being alert to commission-driven products, knowing what the costs of the investment are and not taking the time or effort to determine the validity of investment plans.
- Not planning for a long life – due to factors such as longevity and inflation, consumers are underestimating the funds they will require at retirement and thus become financially vulnerable at a time when they should be free of debt with adequate income.

2.5 THE NEED TO SOLVE PERSONAL FINANCIAL MANAGEMENT PROBLEMS

Individuals are confronted with complex financial decisions required to manage their personal finances on a day-to day basis and the complexity of the financial industry also adds to individuals' struggle to manage finances. It is argued that individuals are not being responsible when it comes to management of their finances. This is coupled with a low savings rate and high level of debt which, overall, suggests that money management behaviour needs to change. All of the above are attributed mainly to lack of financial knowledge.

It is suggested that individuals who lack financial information would experience financial difficulties and are more likely to struggle with financial planning. Thus, it is necessary for individuals to acquire knowledge about personal financial issues to ensure that they evaluate financial choices, manage finances effectively and secure their financial future. Rootman and Antoni (2015) indicate that saving and responsible spending behaviours can be improved as consumers' financial knowledge and inclusion increase. Therefore individuals who have financial information are more likely to improve their financial management skills. Thus financial literacy plays an important role in managing finances effectively and serves as a basis for budgeting, saving and effective use of credit, and permits individuals to have the necessary knowledge to achieve financial goals and could improve the overall ability to manage money. Clearly the importance of and need for financial literacy cannot be overemphasised. Therefore it is imperative that financial literacy be a top priority for individuals.

2.6 SUMMARY

In chapter 2, personal financial management was discussed in detail including several definitions of personal financial management, the components and the importance of personal financial management, personal financial planning, management of personal finances and the need to solve personal financial management problems. For the purpose of this study personal financial management was defined as a set of activities, including planning and decision making, organising, leading, implementing and controlling the allocation of income and the accumulation of wealth by an individual, with the aim of achieving financial goals effectively.

It was established that to manage personal finances effectively, individuals should demonstrate the ability to make the right financial choices, discuss money and financial issues without discomfort, plan for the future and respond competently to life events that affect everyday financial decisions, including events in the general economy. Knowledge of personal finances is required to improve individuals' standard of living and financial problems which can have detrimental effects on their life at home and work. Furthermore, literature indicates that people with a financial plan tend to save more money, feel better about their progress and make more appropriate decisions no matter what their income.

Literature suggests that South Africans manage their finances inadequately, resulting in high levels of debt, inadequate savings and financial downfall for many individuals. South Africans also lack financial knowledge to make proper financial decisions and save less of their disposable income. Given the complexity of the economy and the financial decisions required in everyday life, poor management of finances by South Africans, high debt levels and financial vulnerability of especially those in low-income and rural areas, there is an increasing need to investigate the financial literacy of individuals in rural and low-income areas. Thus financial literacy is the major factor affecting personal financial management. In chapter 3, the focus is on personal financial literacy.

CHAPTER 3

THEORETICAL CONCEPTS OF PERSONAL FINANCIAL LITERACY

3.1 Introduction

In chapter 2, an overview of personal financial management was given and a lack of proper financial management was established. The problems associated with poor financial management and the need for financial literacy was identified.

In chapter 3 a literature review is undertaken to explain theoretical concepts of personal financial literacy using a systematic approach reviewing textbooks, published reviews, and articles in journals. The World Wide Web and the Unisa library were utilised as a database using keywords such as literacy, financial literacy and financial education, in search of relevant literature to the study.

The chapter outlines the definition of personal financial literacy, core elements of personal financial literacy, indicators of financial literacy, levels in the process of becoming financially literate, the benefits of high levels of financial literacy, consequences of low levels of financial literacy, the demographic influence on personal financial literacy, and financial education and training.

3.2 DEFINITION OF PERSONAL FINANCIAL LITERACY

A starting point will be to consider the general definition of literacy and make a distinction between financial capability, financial education, economic literacy and financial literacy. These terms are often used interchangeably in literature even though they have different meanings. Finally, the financial literacy concept will be explored in detail by incorporating various definitions in order to identify the most suitable definition for this study.

A Chambers Century Dictionary reference to the meaning of the term 'literacy' dating back from the 15th century is the ability to read and write (Robinson, 1996:797). This definition is also supported by Wagland (2006) as a general state of being able to read and write. According to Brown, Saunders and Beresford (2006), there is more to literacy than just being able to read and write, and they define literacy as using printed and written information to function in society, to achieve one's goals and to develop one's knowledge and potential. By using these definitions of literacy, a definition of financial literacy can be formulated. Literacy is important because people who are literate no longer have to be content with what other people choose to teach them, but can find out for themselves what they want to know.

Financial capability is the term preferred in the UK (Atkinson, McKay, Kempson & Collard, 2006) and it covers four domains: managing money, planning ahead, choosing products and staying informed. Financial capability is defined by the Financial Services Authority (FSA) (2005) as individuals' ability to make informed decisions. These individuals are numerate and can budget and manage money effectively. Orton (2007) summarise financial capability as a set of financial knowledge, skills, competence and behaviours among individuals. Thus a financially capable individual is one who has the skills and confidence to be aware of financial opportunities and their own financial situation, to know where to go for help, to make informed choices and to take effective action to improve their well-being. Low-income families, for example, have to accept that they cannot afford certain expensive durable goods. Brown et al. (2006) are of the opinion that financial capability is a more suitable term than financial literacy because it incorporates attitudes, skills, knowledge and understanding. Therefore financial capability as a term is fairly acceptable for the purposes of this study, as it also embraces the confidence of individuals to engage in personal financial management.

The OECD (2005:26) describes financial education as “the process by which consumers improve their understanding of financial products and concepts and, through information, instruction, and advice, develop the skills and confidence to become more aware of financial risk and opportunities to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being”. The focus of financial education is to equip individuals and families with the ability to negotiate the money management issues necessary for them to make self-enhancing life choices (Vitt, Reichbach, Kent & Siegenthaler, 2005). Therefore the foremost aim of financial education is to improve financial literacy by providing information, instruction and advice. Theoretically one would concur that with proper outreach, financial education serves as a mechanism to increase individuals’ level of financial literacy.

Economic literacy, according to Finmark Trust (2012a), refers to the general knowledge about the functioning of the economies. This involves the understanding of concepts such as scarcity, prices, interaction of supply and demand, inflation, opportunity cost, marginal analysis and regulations. Black (2006) equates economic literacy with financial literacy, and states that there are skills required from consumers, savers, investors and responsible citizens in order to function effectively. The skills include problem solving, decision making, economic reasoning and analysing real-life situations.

Financial literacy is a broader concept, and policymakers in both developed and emerging countries are increasingly recognising its importance (Xu & Zia, 2012). According to Samy, Tawfik, Huang and Nagar (2008), these countries are also extremely concerned about the levels of financial literacy of their citizens.

While there is no standard definition of financial literacy, a number of attempts to define the concept have been made. A suitable definition of financial literacy can be derived by studying existing definitions. Table 3.1 provides an overview of several definitions of financial literacy.

Table 3.1: Definitions of financial literacy

Source	Definition
National Foundation for Educational Research (1992)	The ability to make informed decisions regarding the use and management of money.
Garman & Forgue (1988)	Knowing the facts and vocabulary necessary to manage one's finances successfully.
Hogarth (2002)	It means different things to different people. For some it is quite broad, encompassing an understanding of economics and how household decisions are affected by economic conditions and circumstances. For others, it focuses quite narrowly on basic money management, budgeting, saving, investing, and insuring
OECD (2005)	The combination of awareness, knowledge, skills, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial well-being.
Mandell (2008)	The ability to use knowledge and skills to manage financial resources effectively for lifetime security.
Australian Bankers Association (2013)	Individuals' ability to gain practical understanding of financial matters and the consequences of their own behaviours that will affect their financial well-being.

The first factor to consider from the definitions mentioned in table 3.1 is that financial literacy is a more complex and continuous process than the simple definitions stated above. According to Xu and Zia (2012), individuals must be equipped with relevant information to enhance their capabilities to navigate a complex array of financial products, including pensions and home loans, and to make sound financial decisions. The continuity aspect is acknowledged and supported by the statements by Anthens (2004), Brown et al. (2006) and Mandell (2008) that financial literacy is not an absolute state; it is a range of abilities that is subject to variables such as age, family, culture and residence. Financial literacy refers to an evolving state of competency that enables each individual to respond effectively to ever-changing personal and economic circumstances. Measuring the level of financial literacy would, therefore, be similar to balancing an account, and indicates competence compared to requirements at a specific point in time.

The second important issue to note about financial literacy definitions is that they include everyone, from individuals, communities and managers to business people. According to Hogarth (2002), financially literate individuals should make better decisions for their families, increasing their economic security and contributing to community economic development. Although not included in this table, there are definitions of financial literacy specifically addressed at managers and business people. According to Marriott and Mellett (1996) financial literacy is defined as "the manager's ability to understand and analyse financial information and act accordingly". Mason and Wilson (2000) state that every manager will be involved in decisions relating to the acquisition, allocation and utilisation of resources and these processes certainly have financial characteristics. In order to function effectively, every manager needs to have a degree of financial literacy. There is an important benefit for business people who are financially literate. Financial literacy helps them to function effectively at work because they are able to evaluate information needed to make decisions that have financial ramifications or consequences (Brown et al., 2006).

Thirdly, the definition of financial literacy has been criticised for being a broad construct and not embracing the psychological and behavioural dimensions. According to Samy et al. (2008), the financial literacy construct does not specify the areas to which it is to be quantified. Furthermore, it may be inappropriate to conclude that an individual is financially illiterate if they lack knowledge of credit card interest rates or minimum balance payments, since that person may simply not believe in having a debt situation or lifestyle. Balati (2007) highlights that financial literacy definitions do not embrace the psychological and behavioural dimensions of motivation and confidence to engage in personal financial management. Therefore, the definition of financial literacy does not identify the level or depth of individual literacy and it can be construed as being the least delineated construct. Mason and Wilson (2000) state that this inadequate conceptualising of financial literacy is due to the synonymous use of terms to mean financially capable, financially aware and financially knowledgeable. Hence the following definition of financial literacy is proposed, as provided by Vitt et al. (2005): Personal financial literacy is the ability to read, analyze, 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 discomfort, plan for the future, and respond competently to life events that affect everyday financial decisions, including events in the general economy.

The consistent themes running through these definitions of financial literacy, are being knowledgeable, educated and informed on the issues of managing money and assets, banking, investments, credit, insurance and taxes; understanding the basic concepts underlying the management of money and assets and using the knowledge and understanding to plan and implement financial decisions. Financial literacy, as stated by Mohamad (2011), is a concept which includes financial knowledge, familiarity with and experiences in finances, financial skills and financial awareness. The totality of this in the end determines how individuals make their financial decisions.

For the purpose of this study financial literacy is defined as adults' ability to manage money on a day-to-day basis, planning for the future, choose appropriate financial products and services and understand financial concepts.

3.3 CORE ELEMENTS OF PERSONAL FINANCIAL LITERACY

In the previous section various definitions of financial literacy were explored in order to identify a suitable definition for the study. It can be seen that there are numerous definitions. The definition by Vitt et al. (2005) assisted in identifying the core elements of financial literacy. From the definition these core elements are identified as the ability: to read, analyse, manage and write about personal financial conditions that affect material well-being, make financial choices, discuss money and financial issues without discomfort, plan for the future and respond competently to life events that affect everyday financial decisions and events in the general economy.

The core elements of financial literacy highlight the interlinked elements in the process for a person to become financially literate. The Adult Financial Capability Framework was developed by FSA (2005) to measure financial capability. This framework was also supported by TBSA (2006:44). The framework identifies elements of financial capability as financial knowledge and understanding, financial skills and competence, and financial responsibility. According to Van Nieuwenhuyzen (2009), generally there is no clear distinction between the core elements of financial literacy and financial capability when compared. These elements will be highlighted in detail.

3.3.1 Financial knowledge and understanding

Financial knowledge and understanding according to TBSA (2006), is the ability to make sense of and manipulate money in its different forms, uses and functions, including the ability to deal with everyday financial matters and make the right choices for one's own needs. Roy (2003) emphasises that financial knowledge and understanding deal with the level of ability to compare the advantages and disadvantages of different payment methods. The understanding of where money comes from and goes to includes the ability to read a pay slip and recognise household expenses and financial commitments.

A financially literate individual should ensure adequate income, avoid excessive debts, create a financial cushion for life emergency and crisis situations and finally know how to assert their rights (Huston, 2010). Adequate financial knowledge and understanding will make this possible.

Individuals should not only learn about financial literacy but should also have the skills that accompany it. They must have an understanding of the concepts first before they can develop skills and competence to use the knowledge they have acquired (Huston, 2010).

3.3.2 Financial skills and competence

Financial skills and competence entail the ability to apply knowledge and understanding across a range of contexts including both predictable and unexpected situations (FSA, 2005). They include necessary skills to allow individuals to plan, monitor, manage and resolve any financial problems or opportunities.

Financial skills are more than just related to financial instruments and modules; they also call for a range of specific skills which need to be underpinned by basic levels of literacy and numeracy (Carswell, 2009). Skills include firstly, gathering relevant financial information, secondly, evaluating the relevant financial information and, lastly, utilising this financial information to make beneficial financial decisions. Collins (2007) indicates that well-developed financial skills are necessary for effective money management.

Financially literate people should be able to recognise 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 be able to use this information (Huston, 2010).

3.3.3 Financial responsibility

Financial knowledge and understanding, and financial skills and competence alone are not enough to ensure that people manage their financial affairs appropriately. They must be prepared to take whatever steps necessary to apply their knowledge and exercise their skills. This is largely a question of responsibility.

The FSA (2005) explains that financial responsibility is the ability to appreciate the wider impact of financial decisions on personal circumstances, the family and the broader community, and to consider the social and ethical issues. TBSA (2006) also adds that financial responsibility enables people to understand and appreciate their rights and responsibilities. They understand the need and have the right skills and attitudes to plan, analyse, decide, evaluate and monitor financial decisions and choices. They also understand various sources of advice and guidance available.

Being financially literate therefore entails the ability to understand financial concepts, to apply the skills obtained and to have the confidence to engage third parties to access and use financial services competently. Only at this point will the individual be able to make financial decisions which will benefit the general socio-economic environment and contribute to the enhancement of financial inclusion for the wider society.

3.4 INDICATORS OF FINANCIAL LITERACY

The literature on financial literacy identifies various indicators that define a person as financially literate. The OECD (2011) has identified these variables as the domain of money management, planning for the future, understanding of financial products and basic financial knowledge.

According to Orton (2007) and De Clercq and Venter (2009), individuals should demonstrate a combination of awareness, knowledge, skills, attitude and behaviour necessary to make sound financial decisions and ultimately achieve financial well-being.

The FSA (2006) surveyed the British population and established a baseline measure of financial capability. It identified variables to define a person as financially capable. These are discussed below.

3.4.1 Managing money

The focus group respondents identified managing money as a vital part, and indeed a key part, of financial capability. They felt that people who were financially capable would certainly be making ends meet and managing their money on a day-to-day basis. For most of these respondents, money management involved being in control of one's financial resources, monitoring income and keeping some kind of record of expenditure. Aspects that they viewed as important are aspects like were keeping track of personal finances, predictable future expenses, people's attitudes toward credit and their spending habits (FSA, 2006:17).

3.4.2 Planning ahead

The second domain that was identified was planning ahead. They viewed people who were financially capable to be able to deal with sizeable financial commitments that they know are coming and make adequate provision for their future. These included people who would plan ahead in order to minimise the impact of reduction in income or a large expenditure. Retirement was seen as long-term planning; also to be considered were significant financial changes for which people may be making plans, or are at least seeing the need for making such plans. People who are successfully planning ahead are the ones most likely to be considering unexpected events and planning for them. Attitude towards planning was also considered to be part of this domain of financial capability (FSA, 2006:17).

3.4.3 Choosing appropriate financial products

In this domain, a financially capable person should make appropriate product choices and thus it is an important aspect of financial capability. Focus groups in the study agreed that people need a good awareness of the types of financial products that are available. The respondents said that they were less certain that a financially capable person should keep up to date with changes relating to terms and conditions of specific types of products. They viewed it as more important that a financially capable person should know when to seek advice when necessary than spending time looking up new information. These kinds of people will know when to say no to sales persons and when to switch providers, and will know the key features of the products that they are buying (FSA, 2006:18).

3.4.4 Getting help, information and advice

The final domain of financial capabilities comprises people's knowledge of financial matters. It considers how often people keep abreast of key financial matters, and their use and awareness of mechanisms for dealing with problems or complaints should they arise. The persons interviewed in this study said that they viewed a financially capable person as one who is able to complain about poor service, and would know how to complain effectively (FSA, 2006: 18).
Mandell (2008), points out that a financially capable person is one who has the knowledge, skills and confidence to be aware of financial opportunities, to know where to go for help, to make informed choices and take effective action to improve their financial well-being. The general consensus is that these factors will collectively define a person to be financially literate and also determine the competency level at which such a person operates within the financial market. This person is able to appreciate the wider impact of financial decisions on

personal circumstances, the family and the broader community, and to understand rights, responsibilities and sources of advice.

3.5 LEVELS IN THE PROCESS OF BECOMING FINANCIALLY LITERATE

Financial literacy is a process through which individuals must navigate a complex array of financial products, including pensions and home loans, and make sound financial decisions (Xu & Zia, 2012). It is evident that financial literacy is not a once-off process, as it is an incremental exercise of knowledge, skills, attitude, behaviour and understanding. This section will attempt to identify various levels in the process to become financially literate.

The TBSA (2006) suggests that there are various levels through which a person should navigate to be financially literate, which are basic understanding, developing confidence, developing competence and functioning with confidence and competence. These levels were interpreted into a continuum consisting of four levels as depicted in figure 3.1.

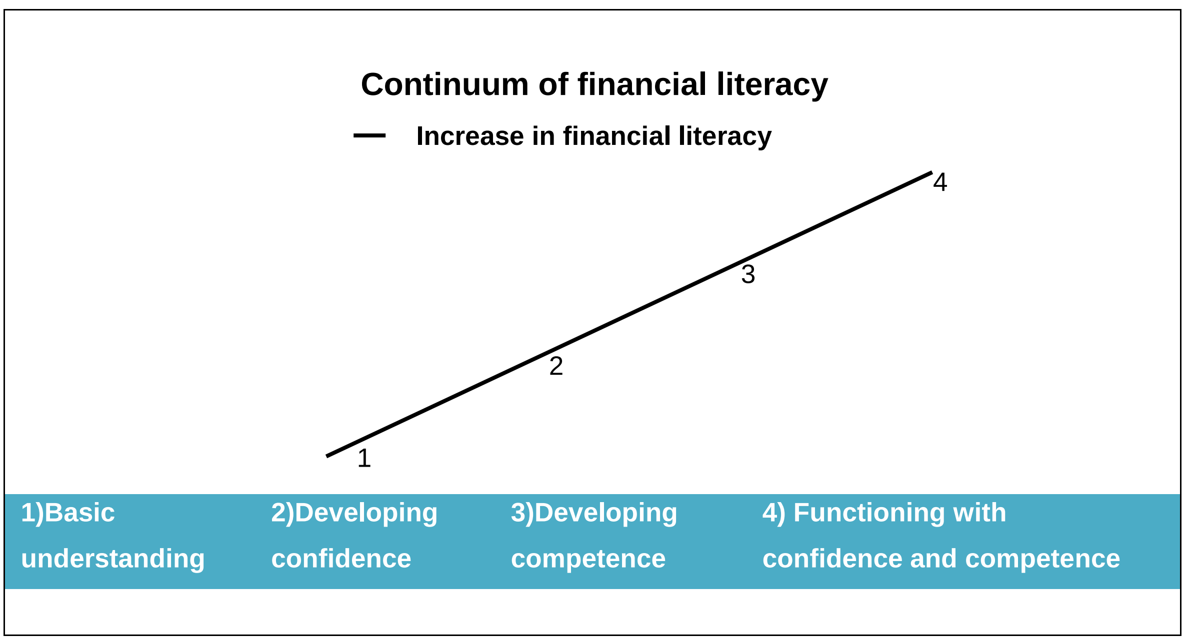

Figure 3.1: Continuum of financial literacy

Source: Adapted from Peterson (2011)

3.5.1 Basic understanding

The first level in the continuum is basic understanding and is referred to as a prerequisite for the achievement of desired outcomes or objectives of the person to be financially literate (Mason & Wilson, 2000). A person must understand the basic principles of financial services. According to TBSA (2006), this level is extremely important because individuals need to understand that money includes more than notes and coins, it comes from a variety of sources and is limited, it is used to exchange goods and services and it can be kept to meet wants and needs. This level will be supplemented from time to time by information gathered for specific purposes and through financial literacy programmes offered (FSA, 2005). The additional information will be assimilated and understood in the context of an individual's existing body of knowledge. Some of the information through the process will be forgotten, but what is not forgotten will add to the individual's knowledge and understanding (TBSA, 2006).

3.5.2 Developing confidence

The second level is developing confidence to utilise basic knowledge about finances and using the financial services offered. TBSA (2006) explains that this level is aimed at individuals who have a basic understanding of finances, the skills required to make informed financial judgements and the ability to use appropriate financial services. At this level an individual must develop and demonstrate confidence in dealing with financial matters and understanding the consequences of poor financial decisions (TBSA, 2006).

3.5.3 Developing competence

The third level is developing competence. Wagland (2006) defines competence as the application of an individual's confidence, financial knowledge and skills in a range of changing contexts. An individual should gain the necessary knowledge and skills to have confidence to engage in financial matters effectively. According to TBSA (2006), this level is aimed at those individuals who have a basic understanding of and confidence in handling financial services and require more knowledge and skills to meet their needs. During this level an individual should be able to apply such knowledge and understanding competently in various situations.

3.5.4 Functioning with confidence and competence

At this level an individual can be deemed relatively financially competent. Capuano and Ramsay (2011) maintain that individuals at this level should be proficient in the following key competencies:

- Money basics, including numeracy and money management skills
- Budgeting, including the ability to keep track of expenses and income
- Saving and planning
- Borrowing and debt literacy, including knowledge of different types of loans such as secured and unsecured personal loans, and home loans
- Understanding financial products, including the ability to determine whether independent advice has been or will be given; the ability to decide between advisors and not just financial products; understanding product features and investment considerations such as risk, return, interest rates, compound interest, simple interest and inflation; the ability to compare products by shopping around and understanding concepts such as diversification and risk minimisation.
- Recourse and self-help, which includes whether consumers have the ability to protect themselves by understanding dispute resolution procedures, taking redress against financial institutions and being able, where possible, to identify and take action against fraudulent schemes.

These competencies should enable individuals to make optimal financial decisions which will lead to a level of confidence in financial matters and to have an understanding of the wider ethical, social, political and environmental dimensions of finances. Remund (2010) emphasises that there is a greater responsibility for informed decision making on individuals as they progress through the continuum levels. Being financially literate is a lifelong process. With the constant and quick changes in personal and economic circumstances, individuals need new knowledge and skills to manage their finances successfully (Szpringer, 2007).

The clear implication is that an individual can progress through these levels by formal or informal learning or, possibly, through experience. Indeed, to be financially literate requires knowledge, skills, motivation and confidence in more than just one area of personal finance and money management.

3.6 THE BENEFITS OF A HIGH LEVEL OF FINANCIAL LITERACY

The higher the level of financial literacy, the greater the benefit for people because it helps them make better financial decisions and gives them more control over their money (Kefela, 2010). Higher levels of financial literacy have been found to be related to debt and debt management, with more financially literate individuals opting for less costly home loans and avoiding high interest payments and additional fees (Gerardi, Goette & Meier, 2010). In this section the benefits of high levels of financial literacy for individuals, the economy, community and financial system will be reviewed.

It would seem that increased retirement planning, increased investment and saving, life skills and bargaining power, financial efficiency and improved financial behaviour are the most prominent benefits of a high level of financial literacy for individuals.

3.6.1 Increased retirement planning

There is a positive relationship between financial literacy and retirement planning, and the importance of retirement planning and financial independence at retirement cannot be over-emphasised. Financially literate individuals have a greater capacity to plan for retirement; this is achieved by financial efficiency which results in saving money, making an effort to set aside money and enhanced ability to set realistic goals and select suitable investments to realise those retirement goals (Jappelli, 2010). Thus a better informed individual will save for the future, for retirement and for unforeseen circumstances and emergencies.

Bucher-Koenen and Lusardi (2011), Fornero and Monticone (2011), Lusardi and Mitchell (2011) and Van Rooij et al. (2011) report that households who are more financially knowledgeable are more likely to plan for retirement, concluding that there is a positive and strong relationship between financial literacy and retirement planning, in the context of Germany, Italy, the US and the Netherlands. Furthermore, Lusardi and Mitchell (2011) found that around the world, financial literacy is critical to retirement security. According to Cole, Sampson and Zia (2010), adults in both developed and emerging economies who have been exposed to financial education are subsequently more likely to save regularly, pay off credit cards and plan for retirement. This shows that financially literate individuals have the ability to plan ahead and the vision necessary for retirement. As a result, financial literacy increases awareness of the importance of planning for retirement and leads to positive behaviour change.

3.6.2 Increased investment and saving

Evidence indicates that financial literacy is strongly correlated to an individual's saving and investment behaviour. Van Rooij et al. (2011), in an analysis of Dutch survey data, found a causal effect of financial literacy on stock market participation. Abreu and Mendes (2010) emphasise that financial literacy not only enhances market participation, but also encourages and increases sound investment strategies, such as portfolio diversification. Calvet, Campbell and Sodini (2007), analysing Swedish households, found that financial sophistication increases with financial wealth and household size and is positively correlated to holding risky assets.

According to Gallery and Gallery (2010), higher levels of education and financial literacy have a positive impact on an individual's ability to understand risks associated with various investment types and asset allocation options, and these individuals would highly consider risk and return when choosing an investment. Thus a higher level of financial literacy leads to an increase in savings and investments, and has a positive effect on an individual's saving patterns, ability to make sound investment decisions and overall wealth creation.

3.6.3 Life skills and bargaining power

Good financial behaviour is achieved through the development of knowledge and skills, which provides the basis for making informed decisions (Chen & Volpe, 1998). Thus a skilful and knowledgeable person with a good attitude is in the best position to make the most of life's opportunities and to budget and plan spending.

According to Swart (2005), personal financial knowledge and skills are without a doubt the most significant life skill because they offer individuals financial advantage over others, their self-confidence grows, they have the ability to take personal responsibility for their financial future, they know how to handle their personal finances, they understand household finances and its limitations, they participate in compiling a budget, they are financially informed, they have a better chance of financial success in business, they possess entrepreneurial skills, they have the ability to plan their debt, they live purposefully with their own objectives and they should be financially independent in retirement. Moreover these skills lead to numerous career opportunities, either as an employer or employee.

The European Commission (2007) recognised that financial literacy gives consumers greater bargaining power through understanding finance and terms in consumer contracts. As a result, consumers can gain better deals and demand more from service providers. In light of the fact that contact with financial institutions is necessary for a normally productive and enjoyable life, the ability to understand financial institutions and the products they offer is an important benefit of financial literacy. Jappelli (2010) emphasise that better informed consumers are collectively able to influence the ways that financial institutions are managed, and thus reward those institutions which offer better quality products and services, at the best value. Thus financially literate consumers are able to shop around for better prices and negotiate discounts, and they fully understand their rights.

3.6.4 Financial efficiency

According to Capuano and Ramsay (2011), financial literacy results in financial efficiency. This refers to the use of financial products and investing without waste and unnecessary cost. Financial literacy allows individuals to increase and better manage their earnings and therefore better manage life events like education, illness, job loss or retirement and to live more efficiently.

Financial efficiency includes selecting the best value product on the market, and paying the lowest possible price on the market for a particular product or service, which is achieved by comparison shopping (European Commission, 2007). Jappelli (2010) supports this, by emphasising that individuals who understand financial issues make better choices of financial services for their particular needs and they are less likely to purchase products without comparing prices. Lusardi and Mitchell (2011) link financial efficiency with debt literacy, which includes financial knowledge of debt and how best to avoid and manage debt. Furthermore, financially literate individuals are more likely to understand where to get help in remedying debt, are careful when taking out debt and understand the importance of repaying it.

Thus, financial efficiency results in avoiding unnecessary expenses, choosing the right financial products and paying low interest rates. The end result is more disposable income and more money to save and invest, which translates to a better quality of life, realising financial goals and healthy household financial position.

3.6.5 Improved financial behaviour

Financial literacy increases an individual's financial decision making power and preparedness to cope with the financial demands of daily life (Lusardi, 2003). Roy (2003) surveyed Australians to measure budgeting, saving and investment behaviour. The findings indicate that individuals who had undergone a retirement and personal risk management course seemed to understand the importance of prioritising needs to balance income and expenditure. Power, Hobbs and Ober (2011) found in their study that, in particular, business students were more financially literate than non-business students in relation to sound financial decisions and familiarity with savings and investments. Kezar and Yang (2010) indicate that financial literacy improves individuals' understanding of financial products, services and concepts, so they are empowered to make informed choices, avoid pitfalls, know where to go for help and take other actions to improve their present and long-term financial well-being. Therefore, it would seem that financially literate individuals are able to practise good financial behaviour and improve their wealth, income, savings and credit ratings, manage debt relative to assets and home ownership, and accumulate retirement savings.

In addition to the benefits identified for individuals, financial literacy is important because it benefits the economy, community and financial system. Huston (2010) states that financially literate consumers can make more informed decisions and demand higher quality services, which will encourage competition and innovation in the market. They are also less likely to react to market conditions in unpredictable ways, less likely to make unfounded complaints and more likely to take appropriate steps to manage the risks transferred to them.

Capuano and Ramsay (2011) list considerable benefits of financial literacy to the community, in particular enhancing inclusion in the financial markets and increasing the awareness by the public of financial issues, thereby creating an informed citizenry which can evaluate the appropriateness of government financial policies and assess the actions of financial institutions. Thus financial literacy allows people to engage with finance industry and not have to rely on higher cost debt and loans from informal lenders. Financial literacy therefore increases social inclusion and gives people the knowledge and understanding required to access particular products which allow them to borrow and become more financially active.

3.7 CONSEQUENCES OF LOW LEVELS OF FINANCIAL LITERACY

Studies have found that low levels of financial literacy can have serious implications for financial behaviour. People with low financial literacy are more likely to have problems with debt (Lusardi & Tufano, 2009), less likely to participate in the stock market (Van Rooij, Lusardi & Alessie, 2007), less likely to choose mutual funds with lower fees (Hastings & Tejeda-Ashton, 2008) and less likely to accumulate wealth, manage wealth effectively and plan for retirement (Stango & Zinman, 2007). It has also been found that individuals with lower financial literacy levels are more likely to have higher inflationary expectations which further exacerbate the negative social and economic consequences of poor financial literacy (De Bruin, Vanderklaauw, Downs, Fischhoff, Topa & Armantier, 2010). Low levels of financial literacy have the following prominent consequences for individuals:

3.7.1 Spending more than their income

Atkinson and Kempson (2004) found that young people in UK aged 18-24 years are increasingly over-borrowed and getting into difficulties because of low levels of financial literacy. According to Lorgat (2003), workers find themselves in financial crises because of a need to spend their income on costly goods, such as branded clothes and cell phones, for the purpose of fitting into a society where these goods have become necessities rather than luxuries. Anthens (2004) supports this and refers to the instant gratification mentality of individuals which lures them into spending more on what they want and but do not necessarily need.

It would seem that in order to live the standards set by society, people buy these goods on credit. As a result, debt levels are increasing and negatively affecting individuals' savings. During the third quarter of 2013, it was reported that South African consumer debt increased by 1.24 percent compared to the previous quarter (NCR, 2013). This is despite the warning by the then Reserve Bank Governor Gill Marcus, for consumers to tighten their spending belts (SARB, 2013).

3.7.2 Not keeping financial records

A study by Kidwell and Turrisi (2004) found that budgeting can change spending patterns of individuals, because of the successful regulation of finances. Unnecessary spending is curbed and budget maintenance is met with a favourable attitude. It was found that 45 percent of students with better financial knowledge keep detailed financial records, compared with only 29 percent of the students with less financial knowledge. The research conducted by Chen and Volpe (1998) suggests that more knowledgeable groups regulate their spending patterns and decisions by keeping detailed financial records.

3.7.3 Not planning and implementing a regular investment programme

The planning and implementation of a regular investment programme is important for individuals to achieve their investment goals (Chen & Volpe, 1998). This is increasingly dependent on the ability to make effective investment decisions from an increasing number of complex mutual funds (Morrin, Broniarczyk, Inman & Broussard, 2008). Studies have found that individuals with low levels of financial literacy are more likely to be confused by complex mutual funds (Morales, Kahn, McAlister & Broniarczyk, 2005), causing them to delay their choice or simply decide not to make a decision, and walk away from the choice task at hand (Chernev, 2005). It would seem that individuals' inability to make investment decisions in dealing with complex mutual funds directly affects their ability to plan and implement a regular investment programme.

Compared to more knowledgeable investors who are able to plan and implement regular investment programmes, those with less knowledge are less likely to be aware of the importance of asset allocation to a portfolio's long-term performance, less likely to incorporate allocation strategies into their decision strategies and are more likely to view investments in isolation rather than in combination with other investments (Morrin et al., 2008). Furthermore, Kahn and Wansink (2004) point out that, individuals with less investment knowledge would have more difficulty in categorising and differentiating funds along meaningful attributes such as asset class and more likely to be impacted by structural aspects of investment programmes, and the sheer number and variety of funds offered for investment.

It would seem that in order to plan and implement a regular investment programme, individuals must be aware of different investment products and be able to make effective decisions when confronted with complex financial products. Thus individuals with low levels of financial literacy struggle to make a choice and are unable to make informed financial decisions. Consequently, they fail to have a regular investment programme.

3.7.4 Making incorrect financial decisions

Individuals' financial well-being is increasingly determined by the ability to make complex financial decisions. According to Kotze and Smit (2008), the interest rates in South Africa in 2004 to 2005 were at low levels compared to previous years, which presented consumers with higher disposal income. Due to a lack of financial knowledge consumers opted to increase debt instead of using the low interest rates to clear debt. Shuttleworth (2011) indicates that the financially illiterate feel uncertain when confronted with highly complex financial information.

It would seem that low levels of financial literacy influence individuals to make not only incorrect financial decisions, but also financial decisions irrelevant to their situations. An individual with more debt should clear those debts when interest rates are at low levels rather than taking more debt, while someone with less or no debt might see this as an opportunity to take-out good debt. Low levels of financial literacy make this decision making process more complicated.

Clark, Morrill and Allen (2010) assert that workers nearing retirement who possess incomplete knowledge may make suboptimal retirement choices. As a result, they might not achieve the highest possible lifetime utility given their available assets. Furthermore, Clark et al. (2010) emphasise that low levels of financial literacy and incorrect assumptions about the generosity and eligibility conditions of retirement programmes can lead workers to plan to retire at ages that are either too young or too old.

3.7.5 Over-confidence

Individuals with low levels of financial literacy are more likely to lack financial knowledge, and also tend to be more confident about their abilities to make financial decisions and conduct financial matters (Lusardi & Mitchell, 2011). This has serious consequences on their financial matters, since they base their decisions on their confidence and not on the available information, resulting in poor decisions.

Individuals tend to overestimate their financial knowledge and self-assessment of creditworthiness, which has negative consequences. About a third of consumers in the US overestimate their own credit ratings and this is associated with a lack of financial knowledge (Xu & Zia, 2012). Courchane, Gailey and Zorn (2008) demonstrate that inaccurate self-assessment of credit can lead to adverse financial events, including having a higher annual percentage rate on a home loan.

Having explored the consequences of low levels of financial literacy, it is also important to consider the factors that could have an influence to the levels of financial literacy for individuals.

3.8 DEMOGRAPHIC INFLUENCE ON FINANCIAL LITERACY

One objective of the current study was to establish the relationship between demographic factors and financial literacy in Vhembe District. This will be explored in the subsequent section.

There is a strong correlation between financial literacy and demographic factors (Chen & Volpe, 2002). In 2003, Beal and Delpachitra surveyed 798 Australian students to determine the factors influencing their personal financial literacy scores. The survey found that gender, work experience and income level contributed to higher levels of financial literacy (Beal & Delpachitra, 2003). Studies by Murphy (2005), Worthington (2006), Buckland (2010) and Altintas (2011) showed that variables such as age, gender, marital status, educational level, employment status, area of education and income have a strong influence on the level of financial literacy.

The most important factors influencing financial literacy that have been identified by these international studies and that pertain to this study are age, gender, work experience, education, income and socio-economic factors.

3.8.1 Age

Age is one of the most prominent demographic factors in the financial literacy framework and strong positive associations have been identified between age and most behavioural indicators of financial literacy (Buckland, 2010). According to Xu and Zia (2012), financial literacy tends to peak among adults in the middle of the life cycle, and it is usually lowest among young people and the elderly. In the US, individuals in the prime age group (25-65) tended to do about 5 percent better on financial literacy questions than those under 25 or over 65 years of age (Lusardi & Mitchell, 2011). This is consistent with people learning and having more exposure to financial transactions as they move through their lives. Finke, Howe and Huston (2011) indicate that financial knowledge scores decline by about 1 percent each year after age 60. Thus financial literacy levels follow an inverted U-shape with regard to age.

A Study by Allen, Edwards, Hayhoe and Leach (2007) revealed low levels of financial literacy among young people, while Almenberg and Säve-Söderbergh (2011) and Bucher-Koenen and Lusardia (2011) showed higher levels among young adults.

3.8.2 Gender

In literature gender plays a prominent role in an individual's level of financial literacy. While there are low levels of financial literacy among the youth and the older population in general, there are marked gender differences in financial literacy (Lusardi & Mitchell, 2011). There is a general agreement in the empirical literature that females have lower levels of financial literacy than males (Fonseca, Mullen, Zamarro & Zissimopoulos, 2012).

Chen and Volpe (2002) surveyed a group of 1 800 college students in order to investigate the gender differences in personal financial literacy, concluding that women generally have less knowledge about personal finance topics and are less enthusiastic and less confident in financial matters. Al-Tamimi and Kalli (2009) surveyed United Arab Emirates investors, the findings revealed that financial literacy was far from the desired level and that females had a lower level of financial literacy than males. Zissimopoulos, Karney and Rauer (2008) found that less than 20 percent of middle-aged college-educated females were able to answer a basic compound interest question compared to about 35 percent of college-educated males of the same age. These differences between females and males were statistically significant. Lusardi and Mitchell (2008) found similar gender differences among older respondents and strong evidence confirming that many women do not do well in financial calculations and do not have a firm grasp of inflation and risk diversification.

Other studies have investigated the reasons behind the different levels of financial literacy between men and women. Smith, McArdle and Willis (2010) found that within couples men tend to specialise in handling finances, and married, divorced and widowed women are less likely to develop their financial knowledge. Lusardi (2012) points out that women tend to live longer than men, have shorter work tenures and lower earnings and levels of pension or survivor benefits. These factors put women at higher risk than men of having financial problems. Furthermore, women tend to have lower attachment to the labour market, with interrupted careers because of childbearing and family caretaking roles, and thus potentially fewer financial resources over the lifecycle (Zissimopoulos et al., 2008).

It would seem that there is a strong correlation between gender and financial literacy, with females generally having lower levels of financial literacy than males. Females tend to suffer from to low wealth levels and poor financial well-being during retirement.

3.8.3 Education and work experience

An individual’s education and work experience have associations with some of the behavioural indicators of financial literacy, suggesting they are important in some areas but not others (ANZ, 2011). Completion of formal post-secondary education is strongly positively associated with choosing financial products and staying informed but does not appear to be important in keeping track of finances, planning ahead or financial control (ANZ, 2011). Furthermore, being in a blue collar occupation has a slight negative association with keeping track of finances and planning ahead, while being in a white collar occupation is positively associated with staying informed about finances (ANZ, 2011). This is in line with findings of Gallery and Gallery (2010).

In literature there is strong evidence that the level of education and work experience have tremendous impact on individuals’ overall level of financial literacy. Lusardi and Mitchell (2011), report that those with a lower education are more likely to have lower levels of financial literacy than those with a higher level of education. Furthermore, individuals who work in the field of finance/banking or investment display higher levels of financial knowledge than those in other occupations (Gallery & Gallery, 2010).

It would seem that level of education and work experience are consistently found to be associated with levels of financial literacy. The more educated and experienced an individual is, the higher the level of financial literacy.

3.8.4 Income level

Studies have found a relationship between income level and financial literacy. ANZ (2011) found that individuals’ income level has a relatively strong positive association with financial control, meaning that in general higher income individuals exercise more financial control. Furthermore, income level has a slight negative association with keeping track of finances, suggesting that higher income individuals tend to track their finances less closely than lower income individuals, who need to manage their finances more closely (ANZ, 2011). It also has a slight positive association with planning ahead, reflecting a tendency for higher income individuals to make more use of financial planners and insurance (Lusardi, 2012).

It was established from the early 1990s that there is a high correlation between low income and low levels of financial literacy (Chen & Volpe, 1998). In recent years other empirical research has focused on low-income people (Atkinson et al., 2007; Buckland, 2010; Almenberg & Säve-Söderbergh, 2011) and the results showed evidence of a low level of financial literacy among low-income respondents.

3.8.5 Socio-economic factors

Xu and Zia (2012) indicate strong regional disparities in financial literacy, as measured by awareness of financial terms and institutions, particularly between urban and rural areas. For many individuals from the rural areas, access to mainstream financial institutions, such as banks, is tenuous because of low levels of financial inclusion, which leads to utilisation of informal debt (Kibuuka, 2007). According to Servon and Kaestner (2008), banks are failing to address the needs in rural areas because they are not located nearer to communities, nor do they provide products that are appropriate. Individuals in urban areas have easy access to banks and other financial institutions (Servon & Kaestner, 2008). This has an impact on individuals' financial knowledge. FSB (2012) conducted a national baseline financial literacy study in South Africa. The results indicate that in terms of financial planning, financial control and choosing appropriate financial products, individuals living in rural traditional areas, rural farms and informal settlements score are significantly lower than those living in urban areas. Thus socio-economic factors have an impact in individuals' level of financial literacy.

The scope of personal financial literacy is broad and to a certain extent confusing to individuals. Individuals must understand their personal circumstances and the ever-changing and complex financial markets in order to manage their personal finances and make appropriate financial decisions. Thus individuals must be trained and educated about finances. Financial education and training is discussed below.

3.9 FINANCIAL EDUCATION AND TRAINING

Improving financial literacy through education programmes has become a global issue and has gained the attention of a wide range of banking corporations, government, educational institutions and consumer and community interest groups (Gallery & Gallery, 2010). The OECD (2005) defines financial education as “the process by which financial consumers/investors improve their understanding of financial products, concepts and risks and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being”. Thus financial education goes beyond the provision of financial information and advice, and should lead to increased financial literacy and offer several benefits to consumers, economy and society. Therefore the provision and influence of financial education and training on financial literacy are discussed in the section below.

3.9.1 The influence of financial education and training on financial literacy

In an increasingly complicated global marketplace, a lack of financial literacy can have a negative effect on individuals, organisations and society (Shuttleworth, 2011). Individuals who tend to be confused and intimidated by the complexity of the financial information may not be able to select the most effective financial choices available to them (Kotze & Smit, 2008). The financial sector has also not been spared the rapid transformation and technological developments being experienced in the modern information age; newer products continue to emerge more rapidly than ever and in some cases even quicker than consumers can cope (Jayamaha, 2008). These developments and the lack of financial literacy necessitate a more focused financial education of consumers around the world (Walstad, Rebeck & MacDonald, 2010).

Firstly, financial education can help to reduce the demand-side barriers to financial inclusion by making consumers aware of their rights, so that they can better avoid scams and abuse from unscrupulous financial sector providers. In turn, this can help to promote the demand for formal financial products and services. To be effectively included in financial markets, consumers need not only to have access to safe and regulated financial products, but also to be aware of their existence, understand their terms and conditions and be able to compare products so as to choose the most appropriate for their needs (Messy & Monticone, 2012).

Secondly, financial education can empower consumers to better manage their personal and household resources, both on a day-to-day basis and over a long-term horizon. Given the little money available to poor households, it is important that they be able to budget and plan short-term expenses, avoiding borrowing to make ends meet and unnecessary spending. Moreover, as poor consumers often rely on highly uncertain income sources from the informal sector, they need to be able to plan and save in order to smooth their income fluctuations and to deal with unexpected personal or family expenses without falling into over-indebtedness (Jayamaha, 2008).

Thirdly, financial education is also relevant for the small-scale entrepreneurial activities that often constitute an important source of revenue for poor households. Due to the relative scarcity of formal jobs, many individuals become own account workers, with sometimes a blurred distinction between personal and business finances. Greater financial literacy can empower vulnerable individuals to successfully manage and develop small-scale or micro-enterprises, improving their management skills and the appropriate use of financial products for their businesses (Walstad et al., 2010).

Furthermore, improved financial literacy can potentially strengthen the efficiency of financial markets. Consumers who are better informed about financial risks and opportunities, and who are more aware of their own rights and responsibilities in relation to financial institutions can contribute to developing better functioning financial markets. Moreover, by fostering long-term saving, financial education can promote the development of formal financial markets and infrastructure, ensuring that the financial sector makes an effective contribution to real economic growth (Menzies, 2013).

Bernheim and Garrett (2003) used a household survey to analyse the effect of employer-based financial education on the saving behaviour of employees, both in general and for retirement. Their cross-sectional analysis found a positive correlation between financial education programmes and savings, with sufficient controls to suggest that the relationship is positive and strong.

Lusardi (2003) used survey data to examine the impact of attending retirement seminars on savings behaviour among older households. The study found positive effects on savings behaviour, particularly for those with lower education and low initial savings. Clark, D'Ambrosio, McDermed and Sawant (2006) evaluated the impact of attending financial education seminars on desired retirement age and expected levels of retirement income, using a pre-test and post-test survey. They found changes in both retirement goals and saving behaviour. Hung and Yong (2010) conducted a randomised experiment to analyse the effect of the provision of financial advice on a hypothetical portfolio allocation task. They found that individuals who seek advice improve their investment performance compared to those who do not.

Globally, literature suggests that financial education has an influence on financial literacy and, if properly and appropriately designed, can yield positive results and improve the level of financial literacy. Thus literature indicates a strong and positive relationship between financial education and financial literacy.

3.9.2 The provision of financial education and training

South Africans, similar to other nationalities, should be financially literate. Being part of the global economic environment, they should contribute to establishing social cohesion and applying effective decision making. South Africa has the challenge to integrate a diverse population with its financial markets and, similar to other countries, to decrease government involvement in regulation and support. Kidwell and Turrisi (2004) suggest that adults should be educated in financial issues, such as retirement planning, credit, savings, debt consolidation and investment, in order to equip them with essential financial skills to manage their personal finances effectively.

Table 3.2 depicts financial literacy programmes in South Africa provided by different organisations, institutions, non-profit organisations (NPOs) and government departments.

Table 3.2: Financial literacy provision in South Africa

Provider	Content
Financial industry • National or broad industry level • FSB • NCR Sector level • Life Offices Association (LOA), SA Insurance Brokers Association, SA Insurance Association, Savings and Cooperative League, Microfinance Regulatory Council (MFRC), Micro Lenders Association (MLA) and SA Savings Institute (SASI) Institutional level • Banks, insurers, assurers, funeral schemes • Corporate foundations	Broad-based financial literacy • Concept of money • Budgeting • Savings • Consumer education • Investigate consumer complaints • Ensuring enforcement of wise lending Category specific • Focus on products/suppliers such as banking, assurance, insurance credit unions and investments Product-class • Product specific such as the use of ATMs, opening of savings account, home loans and unit trusts
Non-profit organisations • Trusts, consumer bodies • You and Your Money • Consumer bodies • Vuka Trust • The Read Trust • Unions	• Financial education, financial counselling • Financial literacy as a sub-component of a programme • Poverty alleviation, consumer rights and protection
The housing sector • Home Loan Guarantee Company • National Urban and Reconstruction Agency • The Rural Housing Loan Fund • The National Department of Housing	Promoting the training of home ownership, concept of savings, building homes, financial implications of owning a home and empowering consumers to make informed decisions
Private consulting firms • Summit Financial Partners • Vukani Africa Investment Management Services	Financial literacy through employee-based programmes • General financial wellness, over-indebtedness and financial abuse

• Ikhumiseng Consulting	• Transforming consumers into investors

Sources: Adapted from Van Nieuwenhuyzen (2009:77)

The South African government and its collaborative efforts are not the only contributors to financial literacy education and training. The financial industry also plays a major role, and the type of involvement of the financial industry is determined by the level at which it originates. The level can be at national level, the broad financial industry, sector specific bodies, individual institutions, or corporate foundations. At national level the FSB aims to present a multimedia campaign funded by a trust in collaboration with various role players. The NCR is mandated with regulating the South African credit industry to ensure that the industry abides by the Act and promotes the development of an accessible credit market, particularly to address the needs of historically disadvantaged persons. The NCR also provide financial education to consumers with a view to reducing over-indebtedness and reckless spending in South Africa.

The corporate foundations of some financial institutions are the major contributors of financial education programmes. African Bank's money school and Standard Bank contribute towards financial literacy education at school level. At sector level, the Banking Council has implemented various initiatives targeting a broad audience on topics such as over-indebtedness. The MFRC has initiated various educational programmes on the rights of consumers. The MLA also plays a vital role in education on consumer rights and rights when borrowing. The SASI have focused their initiatives on debt management, the importance of saving and different savings instruments. The LOA educational initiative aims to educate current and potential life assurance clients on assurance issues.

Financial education in South Africa started in the early 1990s and is driven by government, NPOs and the financial industry. The provision of financial literacy education in South Africa has been limited, specifically for adults in rural and low-income areas. It is clear that financial education is a serious matter and can be improved and increased in areas where financial literacy is severely low.

Literature indicates that there is an increase in financial literacy education programmes globally. These programmes must have an impact on consumers' financial literacy and most importantly, improve consumers' financial behaviour.

3.10 SUMMARY

In this chapter, financial literacy was conceptualised. It was found that defining financial literacy can be rather difficult as noted in the literature, since individuals have different viewpoints pertaining to financial literacy. Also from the literature it seems there is no common definition of financial literacy.

The study adopted a definition by Vitt et al. (2005) "Personal financial literacy is the ability to read, analyze, manage, and communicate about the personal financial conditions that affect material well being". Specifically for the purpose of this study financial literacy was defined as an adult's ability to perform financial control, planning for the future, choose appropriate financial products and services and understand financial concepts to respond competently to life events that everyday financial decisions.

Furthermore, elements of personal financial literacy, indicators of financial literacy and the benefits and consequences of high and low levels of financial literacy were highlighted. It was found that there is a strong positive relationship between levels of financial literacy and retirement planning, investment and saving, life skills and bargaining power and financial behaviour. Thus financially literate individuals are able to manage money, plan ahead, choose financial products suitable to their conditions and most importantly are confident when dealing with finance. Demographic factors were found to have an influence on financial literacy. Financial education and training was also reviewed with specific reference to the influence on financial literacy and also the provision of financial education and training. It was indicated that financial education and training has an influence on financial literacy. In chapter 4, the research methodology is discussed.

CHAPTER 4

RESEARCH METHODOLOGY

4.1 INTRODUCTION

The previous chapter focused on personal financial literacy and financial management literature. This chapter focuses on the methodology adopted during the research.

Research methodology is a way to systematically solve social and business problems (Jha, 2008). It may be understood as the science of studying how research is done scientifically. Cormack's definition (2000) of research methodology is the adopted method that is followed by a set of procedures applicable for a particular study. The purpose of this chapter is to explain the research methodology used to analyse the level of financial literacy among adults in Vhembe District Municipality.

This chapter outlines the research design, delimitation of the study, population, sampling, data collection, questionnaire design, reliability and validity, data analysis, permission to conduct the study and ethical considerations in detail.

4.2 RESEARCH DESIGN

The research design is the arrangement of conditions for collection and analysis of data in a manner that combines relevance to the research purpose with economy in procedure. In fact, the research design is a conceptual structure within which research is conducted and constitutes the blueprint for the collection, measurement and analysis of data. More explicitly, the research design is a plan that specifies the sources and types of information relevant to the research problem, a strategy specifying which approach will be used for gathering and analysing the data and also includes the time and cost budgets. In brief, the research design must at least contain a clearer research problem statement, procedures and techniques to be used for gathering information, the population to be studied and methods to be used in analysing data (Dhawan, 2010:36-39).

For the purpose of this study, a quantitative approach with an exploratory and descriptive design was applied for the collection of data to analyse and measure the level of personal financial literacy among adults in Vhembe District. The source and type of data, the techniques used to collect data and analysis and interpretation of data are discussed in detail below.

4.2.1 Quantitative research

Quantitative research is based on the measurement of quantity and is used to express or explain a specific phenomenon in an amount or quantity (Kothari, 2008). This method is designed to test relationships between variables and aims to achieve greater control over the study population, by describing variables, examining the relationship between identified financial variables and determining the cause and effect between these variables (White, 2003). Gerrish and Lacey (2006) explain that quantitative research portrays a stable and predictable world and that the researcher can control external influences. The above view of Gerrish and Lacey (2006) is shared by De Vos et al. (2006:15) and Mouton and Marais (1990:155-156), who qualify the quantitative research approach in social sciences as more formalised and explicitly controlled.

Quantitative research involves studies that make use of statistical analyses to obtain their findings. Key features include formal and systematic measurement and the use of statistics (Marczyk, 2005). Quantitative methods use large, random samples from which to gather data, and they require that the researcher remain in the neutral non-interactive role so as to remove any bias that could affect the outcome of the study. Data is often numerical in nature, collected using reliable and valid tools and methods, and analysed using statistical techniques. Results and findings are methodologically presented following statistical data analyses, focusing on deductive and logical reasoning (Marczyk, 2005).

In this study quantitative research was used because it was relevant to the research problem and objectives. The primary objective of this study was to evaluate the level of financial literacy among adults in Vhembe District Municipality in Limpopo rather than to explore and evaluate meanings. Therefore quantitative research would explain general financial literacy and daily money management behaviour among adults in Vhembe District. Survey research is used to collect data in numerical form from a large sample by means of questionnaires following a standardised procedure.

The exploratory and descriptive designs are discussed below to explain and comprehend the research design further.

4.2.2 Exploratory research

Wood and Ross-Kerr (2006:120) and Mouton and Marais (1990:43) define exploratory studies as "the in-depth exploration of unknown areas to gain more insight and to undertake an investigation, to determine priorities and to develop new hypotheses". Parahoo (2006:184) states that "all research explores phenomena". Brink (2012:11) maintains that "exploratory studies explore the dimensions of a phenomenon that are manifested and related to the phenomenon being explored".

Exploratory data was sourced in the form of a literature review of journals, articles, books, completed dissertations, research reports and government publications. The analysis of exploratory data provided insight into and an understanding of personal financial literacy and financial management. Furthermore, exploratory data also provided the framework upon which research questions were structured.

4.2.3 Descriptive research

According to Wood and Ross-Kerr (2006:120), Parahoo (2006:184) and Burns and Grove (1997: 250-251), the descriptive study design aims to "gain more information about one or more characteristics of the population or phenomenon within a particular field of study''. These authors argue that the descriptive design may be used for the purpose of developing theories, identifying problems within current practice, justifying current practice, making changes and examining what other organisations do in similar and different situations. The intention of this study was to provide a picture of personal financial literacy as it occurs in daily practice.

Descriptive research is often used as a precursor to quantitative research designs, with the general overview giving some valuable pointers as to what variables are worth testing quantitatively (Jackson, 2009). Bhandarkar and Wilkinson (2010) state that descriptive studies are the ones that aim at describing accurately the characteristics of a group, community or a group of people, in which their age composition, gender composition and occupational distribution may be studied and used to establish the relationship between variables and describe the situation.

In this study descriptive research was used to measure and provide a picture of the general level of financial literacy and daily money management behaviour among adults in Vhembe District. It was also used establish the relationship between demographic factors (i.e. age, education level, gender, marital status, income level, race and employment status) and level of financial literacy by studying frequencies, averages, mode and median, analysed through the statistics approach.

4.3 DELIMITATION OF THE STUDY

The study focused specifically on adults' financial literacy in Vhembe District in Limpopo, South Africa, and was not a national survey. Vhembe District comprises four local municipalities: Makhado, Musina, Thulamela and Mutale. The focused population was 429 052 adults between the ages of 21 and 60 years. Adults in prisons, other correctional services facilities, hospitals, military bases and police stations were excluded from the study due to high level of access barrier. The study focused on visiting respondents at their homes. This study did not investigate financial vulnerability, as this area has been sufficiently studied.

4.4 POPULATION

In research the term "population" does not automatically mean people, but is the full set of cases from which a sample is drawn (Saunders, Lewis & Thornhill, 2003). The population is the study object to which the research problem applies and may consist of individuals, groups or human products (Welman & Kruger, 2001). Polit and Beck (2006) argue that the accessible population encompasses cases from the target population that are accessible for the study. Dhawan (2010) refers to the population as the total items about which information is desired. The total population for this study is 429 052 adults between the ages of 21 and 60 years in Vhembe District.

Table 4.1: Population statistics in Vhembe District Municipality

Municipality	Population	Population (%)	Number of households	Age (years)		
				0-20	**21-60**	**61 and over**
Thulamela	602 819	48.6	133 388	298 396	208 575	95 848
Makhado	471 806	38.1	104 569	233 544	163 245	75 017
Mutale	108 215	8.7	23 878	53 566	37 442	17 207
Musina	57 195	4.6	12 625	28 311	19 790	9 094
Total	1 240 035	100	274 460	613 817	429 052	197 166

Source: Adapted from Vhembe District Municipality (2013)

4.5 SAMPLING

Sampling may be defined as the selection of some part of an aggregate or totality on the basis of which a judgement or inference about the aggregate or totality is made (Dhawan, 2010). Adams, Khan, Raeside and White (2007:87) state that "sampling is the process of selecting study participants for the purpose of classifying a population under study". It provides the opportunity to reduce the amount of data to be collected into subgroups rather than including all possible areas (Marczyk, 2005).

4.5.1 Sampling method

The two most commonly used sampling methods are probability sampling and non-probability sampling. Probability sampling is also known as random sampling or chance sampling where every item of the population has an equal chance of inclusion in the sample. It consists of simple random sampling, systematic sampling, stratified sampling and cluster sampling. Non-probability sampling is the sampling procedure which does not afford any basis for estimating the probability that each item in the population has of being included in the sample. It consists of accidental sampling, quota sampling, theoretical sampling, purposive sampling, systematic matching sampling and snowball sampling (Dhawan, 2010).

For the purpose of this study probability sampling methods, namely proportionate stratified sampling and systematic sampling, were appropriate because they afforded all adults in Vhembe District an equal chance to be included in the sample. The findings from these sampling methods can be generalised to the entire population.

Proportionate stratified sampling groups the population into a number of no overlapping subpopulations or strata, and sample items are selected from each stratum in the same proportion as they occur in the population (Dhawan, 2010). In this study Vhembe District municipality is divided into four strata, namely

Makhado Municipality, Musina Municipality, Mutale Municipality and Thulamela Municipality. The proportionate percentage of each municipality to the entire population was used to determine the sample size of each stratum as indicated in table 4.2 to ensure that it was representative of the population.

Systematic sampling involves the selection of units in a series according to a predetermined system by selecting every nth case on the list (Williman, 2006). The first household was selected randomly; thereafter every 10th household from both sides of a street was selected and if an adult was not available, the subsequent household was selected and the cycle repeated until the sample size was reached.

4.5.2 Sample size

Dhawan (2010) points out that before selecting the sample, a decision has to be taken concerning sampling unit, sampling frame and sampling element. The sampling unit may be a geographical one such as a state, district, village, house, or flat, or it may be a social unit such as a family, club or school. A sampling frame is a master list of all samples in the population from which a representative sample can be drawn (Dhawan, 2010). For the purpose of this study sampling unit is Vhembe District Municipality and the sampling frame was the geographic maps obtained from the Vhembe District Municipality website indicating villages, towns, streets and households. The sampling element was adults between the ages of 21 and 60 years. Dhawan (2010) indicates that there would naturally be a certain amount of inaccuracy in the information collected, leading to sampling error. To reduce sampling error in this study, the researcher ensured that the sampling procedure was adhered to and that the sampling frame was free of duplication, accurate and representative of the population.

In selecting the sample, variables such as homogeneity, the precision with which the researcher wants to make inferences to the population and the level of confidence desired are important (Dhawan, 2010). The goal is to choose the sample representative of the population (Vaus, 2002). Further to this, the quality, cost and feasibility factors were considered when choosing the sample (Greenfield, 2002). Rasmussen, Ostergaard and Beckmann (2006) describe a sample as a smaller group within larger groups. Maylor and Blackmon (2005) indicate that a sample represents part of the study population that will be studied, in order to understand the population from which the sample was drawn. The larger the sample size, the better, but having considered the above factors the sample size of 300 adults between the ages of 21 and 60 years was drawn from both genders, as well as from various income groups from all four municipalities using both proportionate stratified sampling and systematic sampling methods. The sample size of each municipality was based on its proportion to the entire population.

Table 4.2: Proportionate stratified sample size of adults in Vhembe District Municipality

Municipality	**Proportion (%)**	**Sample Size**
Thulamela	48.6	146
Makhado	38.1	114
Mutale	8.7	26
Musina	4.6	14
Total	100	300

Source: Author

4.6 DATA COLLECTION

Marczyk (2005) describes the data collection instrument in quantitative studies as a device that identifies and objectifies the data collection process. Gillis and Jackson (2002) regard data collection as a process of gathering information from identified respondents to answer the research questions, utilising different data collection instruments such as questionnaires, interviews and checklists. In this study data was sourced from secondary and primary data sources.

4.6.1 Secondary data

Secondary data was historical and existing data that was sourced from journal articles, books, completed dissertations and government publications through exploratory research. It provided insight into and an understanding of the personal financial literacy conceptual framework and an overview of personal financial management. It also provided a framework upon which the questions to be posed to participants were designed.

4.6.2 Primary data

Primary data refers to data collected from sources such as individuals or organisations through the data collection method (Dhawan, 2010). In this study primary data was information collected afresh, and for the first time from adults in Vhembe District by means of a questionnaire.

To commence collecting primary data, a meeting was held with the Vhembe District Municipality acting municipal manager to inform the municipality of the intention to commence data collection. The acting municipal manager also contacted all four local municipal managers by telephone to convey the message further to the communities so that they could expect visitors in their homes. The collection of primary data for the study commenced four days after this meeting.

The researcher and four fieldworkers were responsible for collecting primary data in all four local municipalities by delivering questionnaires by hand to respondents' homes during the day. They allowed for a week to complete the questionnaires. Follow-up visits were conducted to collect outstanding questionnaires, but not all questionnaires were collected mainly due to respondents' unavailability and questionnaires that were not completed.

4.6.3 Data collection instrument

The task of data collection begins after the research problem has been defined and the research designed. The methods of collecting data greatly depend on the nature of the research and there are several methods which can be used to collect data for survey research. Dhawan (2010) lists them as the observation method, interview method and questionnaire method.

To collect primary data, the questionnaire method was used in this study. Questionnaires are the most generally used instrument of all, according to De Vos et al. (2006), because they are easy to administer, inexpensive and offer anonymity. Polit and Beck (2006), De Vos et al. (2006) and Burns and Grove (1997) note that questionnaire contain various degrees of structures such as open-ended and closed-ended questions. Questionnaires also have advantages and disadvantages. According to Gray (2005), the advantages of a questionnaire are that it is generally inexpensive, simple, less time consuming than interviews and respondents can remain anonymous. It also offers great facility in collecting data from large, diverse and widely scattered groups of people and places less pressure on the respondents for immediate response, the respondents are given ample time and can consider each point carefully before actually putting the reply in writing (Bhandarkar & Wilkinson, 2010). However, some disadvantages have also been recorded: mailing questionnaires can be costly, response rates may be low and respondents may provide socially accepted responses and fail to answer important aspects in questions (Gray 2005).

The questionnaires utilised in this study were self-administered, and were delivered by hand to respondents at their homes and a period of a week was given to complete them. The questionnaire contained statements followed by multiple-choice response alternatives on which respondents were requested to react according to their current financial situation and knowledge, where a value was assigned to the response alternative. The rating scale was also used.

According to Polit and Beck (2006:309) and Burns and Grove (1997:362), a rating scale lists a series of response options for a variable based on an underlying descriptive continuum. For Parahoo (2006:293) scales of options are made up of statements that respondents need to rate.

4.6.4 Pre-testing the data collection instrument

The purpose of the pre-testing is to identify problems with the questionnaire and ascertain knowledge in the actual field condition (Singh, 2007). Testing refers to the process of checking that the respondents will not misinterpret the questions, and to ascertain whether the collected data will be reliable and valid to achieve the objectives of the study (Marczyk, 2005). A full pilot study was not conducted; nevertheless pre-testing of the questionnaire was done by printing 12 questionnaires and distributing them to a small sample of the target population. The results indicated that respondents understood the questions and also provided valuable information which assisted in refining the questionnaire to achieve a standardised set of questions.

4.6.5 Fieldworkers

Four fieldworkers were recruited to assist in data collection, due to fact that the population and sample size was large and scattered over a large area. The primary roles of fieldworkers were to distribute and collect questionnaires at respondents' homes, explain the importance of the study to respondents and clarify any issues relating to the study.

The selection criteria of fieldworkers were based on having matriculated, language and general knowledge of Vhembe District Municipality. They were trained and familiarised with the questionnaire, consent form, participants information sheet, how to introduce themselves to respondents and the objectives of the study.

4.7 QUESTIONNAIRE DESIGN

Singh (2007:71-72) notes that “caution should be taken in phrasing questions to avoid double barrel questions, questions leading to ambiguity, the personal wording of questions, loaded questions, unfamiliar terms and jargons in questions, and the complexity of questions”. In the design of the questionnaire, the researcher considered questions that would meet the objectives of the study and gave attention to formulating aspects such as careful wording of questions, sequence, length, arrangement and distribution of questions as indicated by Brink (2012). Dhawan (2010) emphasise that in order to make the questionnaire effective and to ensure quality of the replies received, a researcher should pay attention to the question- sequence in preparing the questionnaire and ensure that a proper sequence is maintained which will reduce considerably the chances of individual questions being misunderstood.

In addition to pre-testing of the questionnaire, the questionnaire was assessed by a statistician. The pre-testing results and statistician’s input provided valuable information and assisted with refining the questionnaire to achieve a standardised set of questions. The reason for standardisation is to ensure that all the respondents reply to the same set of questions with exactly the same wording.

The purpose of this study was to obtain information about personal financial literacy among adults in Vhembe District. The literature study, through exploratory research, served as the basis for personal financial literacy issues and processes from which the questionnaire were developed and designed. The questions were based on the guidelines and proposals contained in the core questionnaire in measuring financial literacy surveys by the OECD (2011).

The questionnaire contained closed-ended questions. Closed-ended questions have the advantage of being easily standardised, simple to administer, quick and relatively inexpensive to analyse (Bhandarkar &Wilkinson, 2010) and were more appropriate to this study. The questionnaire was divided into five sections:

- **Section 1 – Demographics:** Questions in this section were intended to provide respondents' information relating to their age, race, marital status, and gender, and income level, source of income, educational level, employment status and local municipality where they resided.
- **Section 2 – Day-to-day money management:** These questions dealt with respondents' daily money management behaviour, including budgeting, record keeping, awareness of their financial position, taking financial responsibility and general attitude towards financial management.
- **Section 3 - Financial planning:** These questions illustrated and measured the respondents' financial security and how and whether they planned for unexpected events, education for children, as well as planning for things they knew would happen in the medium- to long-term period. The questions also determined how respondents sourced financial advice and saved money and their overall planning for retirement and investment.
- **Section 4 - Choosing appropriate financial products and services:** This section determined the respondents' awareness of and ability to choose different financial products and services, such as banking, credit and loans, insurance, investment and savings which met their financial needs.
- **Section 5 – Financial knowledge and understanding:** This section dealt with the respondents' knowledge and understanding of financial concepts necessary to make sound financial decisions.

4.8 RELIABILITY AND VALIDITY

According to Gay and Airaisan (2003), quantitative researchers use reliability and validity as the link between concepts and operational level research to ensure that the measuring instrument is accurate and measures what it intends to measure.

4.8.1 Reliability

For Denzin (2009), reliability measures the extent to which results are consistent and accurate over time, representing the total population under study. For Gay and Airaisan (2003:121), reliability refers to a “measuring instrument yielding the same results under comparable circumstances if repeated on the same person or used by two different researchers”. Reliability testing has characteristics of dependability, consistency, accuracy and comparability (Creswell & Clark, 2007).

To ensure the reliability of the measuring instrument, the questionnaire was pre-tested to determine the clarity of questions, their relevance, completeness, consistency and the time required to complete the questions. According to McMillan and Schumacher (2006), the stability of the measuring instrument is achieved by giving it to experts to evaluate. For this purpose, the questionnaire was assessed by a statistician. To test reliability further, research questions were compiled in a manner that only one aspect was measured at a time, and designed in view of sensitivity, appropriateness and generalisation. Consistency in the format of the questions was maintained with a structured questionnaire which was based on the theoretical framework of the study.

4.8.2 Validity

Validity is an important term in research and refers to the conceptual and scientific soundness of the study. Its primary purpose is to increase the accuracy and usefulness of findings by eliminating or controlling as many confounding variables as possible, which allows for greater confidence in the findings of the given study (Graziano & Raulin, 2010).

According to Henning, Van Rensburg and Smit (2004), validity refers to the measuring instrument and what it is supposed to measure in terms of the context of the study. For Gillis and Jackson (2002), questionnaire validity is an examination of the truth to the extent to which the questionnaire as a research instrument provides data that relates to the meaning of the variable concept. Pilot and Beck (2006) categorise the different types of validity into face, content, criterion-related and construct validity. De Vos et al. (2006) assert that construct and criterion takes years of examining. It was not the purpose of this study to determine construct and criterion validity.

This study determined face and content validity. Face validity is the means through which the measuring instrument measures what it is supposed to measure (Brink, 2012). To achieve face validity, questions were designed according to the objectives of the study. Marczyk (2005) views content validity as how true the questions comprehensively and appropriately measure the concepts that are being studied. Content validity was achieved by determining the clarity of questions, their relevance, completeness, consistency and time required to complete questions by pre-testing questionnaires.

4.9 DATA ANALYSIS

Data represents the fruit of a researcher's labour because it provides the information that will ultimately allow it to describe phenomena, predict events, identify and quantify differences between conditions, and establish the effectiveness of interventions (Marczyk, 2005). Because of its critical nature, data should be treated with the utmost respect and care and should be analysed with appropriate tools to give correct and relevant study results to ensure that the primary and secondary objectives of the study are achieved.

Data analysis can help a researcher interpret data for the purpose of gaining meaningful insights into the problem being examined. For the purpose of this study, Microsoft Excel, descriptive analysis, inferential analysis and SPSS software were utilised to analyse data.

MS Excel was used to capture data in spreadsheets to ensure that data was prepared sufficiently for statistical analysis. This tool was utilised because it can cater for large volumes of data and produce effective and efficient results.
Descriptive analysis was used to analyse data which was collected through the questionnaire and allowed the researcher to describe the data and examine relationships between variables. It also provided information about the overall representativeness of the sample, aiming to describe the data by investigating the distribution of scores on each variable and by determining whether the scores on different variables were related to each other (Blaxter, 2010).

According to Brink (2012), features such as frequency and central tendencies are used to describe and summarise the data. In terms of this study, frequency is reported in terms of numbers and percentages and in the form of tables and graphs. Parahoo (2006) explains central tendency as measuring the numbers expressing the most average scores in a distribution in terms of the mean, median and mode to manipulate data mathematically and analysed statistically.

The mean illustrates how variables are distributed, whereas the median identifies variables in terms of how many times they occur and what the midpoint is of the lowest and highest variables. The mode indicates how frequently variables appear in the study.

Inferential analysis was used in the current study because it can draw inferences from the study sample and estimate the population parameter (Parahoo, 2006). This is done through a sample statistic which is used to estimate the corresponding population parameter. The primary objective of the study was to evaluate the level of financial literacy among adults in Vhembe District and therefore an inference had to be drawn from the study sample to generalise to the entire population of Vhembe District Municipality.

All statistical analyses in this study were computed by a statistician using SPSS software. Blaxter (2010) explains that SPSS enables input of raw data to modify and reorganise it and to carry out a wide range of simple, statistical and multivariate analyses ranging from listing the frequencies of different responses, calculating means through cross-tabulation, correlation, regression analyses and testing statistical significance of the results.

4.10 PERMISSION TO CONDUCT STUDY

The research proposal and data collection instruments along with the application letter were submitted to Vhembe District Municipality to request permission to conduct the study. The acting district municipal manager granted permission to collect data. The data collection procedure, objectives of the study and the questionnaire were also presented to the acting municipal manager. Prior to collecting data a meeting was held with the acting district municipal manager, who then informed all four local municipal managers of the study by telephone and they were urged to extend the message to the communities.

4.11 ETHICAL CONSIDERATIONS

De Vos et al. (2006) highlight that ethical principles in research would include avoidance of harm to respondents, informed consent, privacy and cooperation, competence of the researcher and publication of findings.

The ethical issues relevant to this study are ethical clearance certificate, informed consent, avoidance of harm to respondents, privacy, permission to conduct the study and publication of results. The researcher obtained an ethical clearance certificate from Unisa ethical committee, as an approval that the research has met the ethical requirements. The respondents were provided with information about their rights, documented on the consent form. They were not exposed to undue physical or psychological harm.

Anonymity and confidentiality of respondents were preserved by taking precautionary measures to protect their right to privacy: only a code identified the respondent, names and dates have not been used in any reports when publishing the results. Research results were made available to respondents upon request.

4.12 SUMMARY

The research methodology and design used in this study were discussed in detail in this chapter.

In this study the quantitative approach with an exploratory and descriptive design were used, because they were relevant to the nature of data required to measure the level of financial literacy in Vhembe District. Data collection, the questionnaire design, pre-testing of the questionnaire, the population, sampling and data analysis were explained in this chapter. Furthermore, the issues of reliability, validity, permission to conduct research and ethical considerations were also addressed. In the next chapter, analyses and interpretation of results will be discussed.

CHAPTER 5

ANALYSES AND INTERPRETAION OF THE RESULTS

5.1 INTRODUCTION

The previous chapter focused on the methodology used in the study. The purpose of this chapter is to provide the results of data collected through questionnaires in Vhembe District Municipality in Limpopo from adults regarding their level of financial literacy. This also includes determining the response rate. The data was captured through Excel spreadsheets and then analysed by means of SPSS. Descriptive analysis was also used to analyse data. The results are presented through frequency tables, pie charts and bar charts, with a brief interpretation of the results.

The descriptive mean value for the sections (domains) of day-to-day money management, financial planning, choosing appropriate financial products and services and financial knowledge and understanding were determined through descriptive analysis. However, not all variables were included as some variables were only outliners of financial responsibilities, money management behaviour and financial attitude. These were used to determine the overall financial literacy level.

The interrelationship between demographic factors and financial literacy was investigated to determine whether there was any relationship and, if so, what its influence was. Only demographic factors that presented enough variation of the sample are paired with financial literacy variables.

The questionnaire used to collect data contained closed-ended questions and was divided into the following five sections:

- Section 1: Demographics and background information
- Section 2: Day-to-day money management

- Section 3: Financial planning
- Section 4: Choosing appropriate financial products and services
- Section 5: Financial knowledge and understanding

5.2 RESPONSE RATE

Response rate is a function of contacting respondents and gaining cooperation and often refers to the total number of respondents who completed and returned the questionnaire (Jha, 2008). A higher response helps the researcher to be sure that the findings represents the population and can be used to draw inferences. It is argued in literature that the self-administered method of data collection has a high response rate. Furthermore, aspects of anonymity and confidentiality contribute positively to a high response rate. This is consistent with the response rate in this study.

Respondents in this study were adults from Vhembe District Municipality in Limpopo. Following a successful pre-testing, 300 questionnaires were printed and used for the study. Each respondent was given one questionnaire. The results are based on the responses of 246 respondents who completed the questionnaires. The response rate in this study is therefore 82 percent.

The study results are discussed in detail below, summarised and presented in graphs and tables categorised into demographic and background information, day-to-day money management, financial planning, choosing appropriate financial products and services and financial knowledge and understanding.

5.3 DEMOGRAPHIC AND BACKGROUND INFORMATION

Demographic and background information was requested in order to compile a profile of respondents who were living in Vhembe District at the time of the study and to obtain information which might have a bearing on the findings of the study. This section covered nine variables: local municipality in which adults lived, age, gender, marital status, race, highest level of education, employment status, income and source of income. Each of these variables was analysed independently and if there was enough representation of the sample, it was then paired up to determine its influence on personal financial literacy among adults in Vhembe District. As indicated in figure 5.1, the majority of respondents (45.53%) were from Thulamela, followed by Makhado (38.21%), Mutale (10.57%) and Musina (5.69%). This is in line with the population distribution in Vhembe District and the sample size.

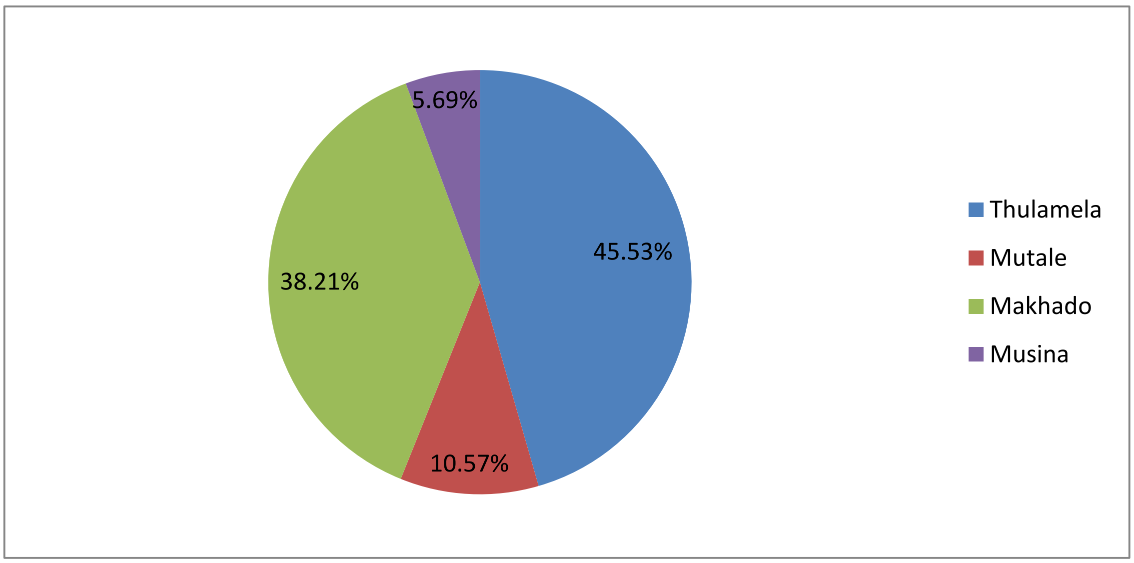

Figure 5.1: Local municipalities in Vhembe District

Source: Author

It is suggested in literature that age has an influence on financial literacy. The study conducted by Buckland (2010) present age as a well-known demographic factor in the financial literacy framework and as having a strong association with most behavioural indicators in financial literacy. Table 5.1 indicates the age of respondents in this study. Most respondents (38.2%) were between the ages of 31 and 40 years, 26 percent were between 41 and 50, 22 percent were between 21 and 30 and 11.8 percent were between 51 and 60. Aged below 21 were 1.2 percent and 0.8 percent were older than 61.

Table 5.1: Age of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	< 21 years	3	1.2	1.2	1.2
	21- 30 years	54	22.0	22.0	23.2
	31- 40 years	94	38.2	38.2	61.4
	41- 50 years	64	26.0	26.0	87.4
	51 - 60 years	29	11.8	11.8	99.2
	61 – above	2	0.8	0.8	100.0
	Total	246	100.0	100.0	

Source: Author

More respondents (58.13%) were females and a smaller number were males (41.87%). Gender differences remain statistically significant in Vhembe District. It would seem that females were more enthusiastic to share personal financial matters than males, but it is commonly accepted that statistically, females out number males in this district. Figure 5.2 indicates respondents' gender.

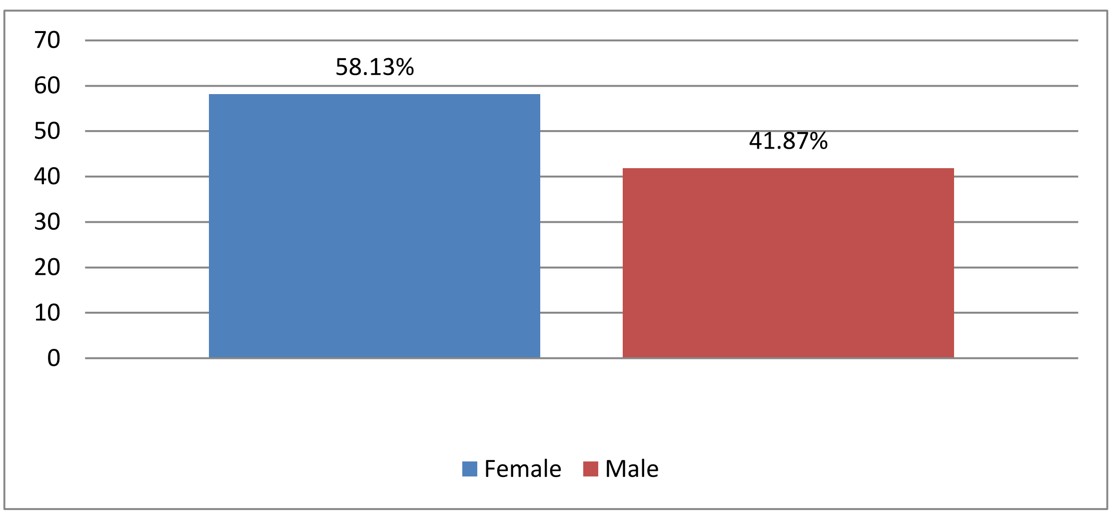

Figure 5.2: Gender of respondents

Source: Author

With regard to marital status and race of respondents, the study indicates that most respondents (31.71%) were married, followed by those who were single (30.49%), divorced 11.38 percent, 9.76 percent were separated and 9.76

percent were co-habiting and the least respondents (6.91%) were widowed. Blacks (83.33%) dominated the study, followed by 8.54 percent coloureds, 4.47 percent Indians and whites (3.66%). This represents the population in Vhembe District and may indicate that the majority of respondents were black females.

Education level seems to have an influence on individual level of financial literacy. ANZ (2011) suggests that education level has an association with some behavioural indicators of financial literacy, but not all areas of financial literacy. Lusardi and Mitchell (2011) maintain that individuals with a lower education level are more likely to have low levels of financial literacy than those with a higher level of education. Figure 5.3 indicates that a larger number of respondents (28.86%) had matriculated, 21.54 percent had obtained a degree, 20.73 percent had a diploma, 19.11 percent had primary education 5.28 percent had no formal education, 3.66 percent had obtained an honours degree and 0.81 percent had a master's degree. Historically, the education level of adults was predominantly at a lower level but this is no longer the case as people who are determined to face all the challenges and obtain a degree have more job opportunities available to them and they are eager to take up better positions.

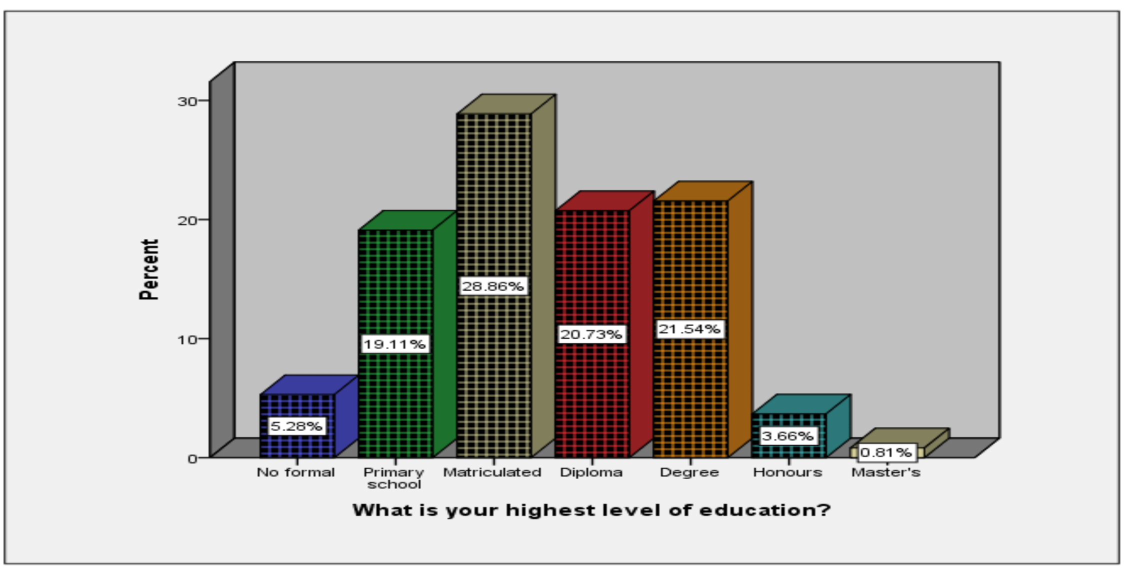

Figure 5.3: Respondents highest level of education

Source: Author

South Africa is characterised by a high level of unemployment, poverty and inequalities. It is argued in literature that individuals in rural areas earn less, are financially vulnerable, with a high rate of unemployment and higher poverty levels compared to individuals in urban and semi-urban areas. Figures 5.4 and 5.5 support this. Figure 5.4 indicates that most respondents (39.84%) were employed, 34.55 percent were unemployed, 10.16 percent were self-employed, 9.76 percent were temporarily laid off and 5.69 percent wee retired. Therefore more respondents (44.71%) were unemployed.

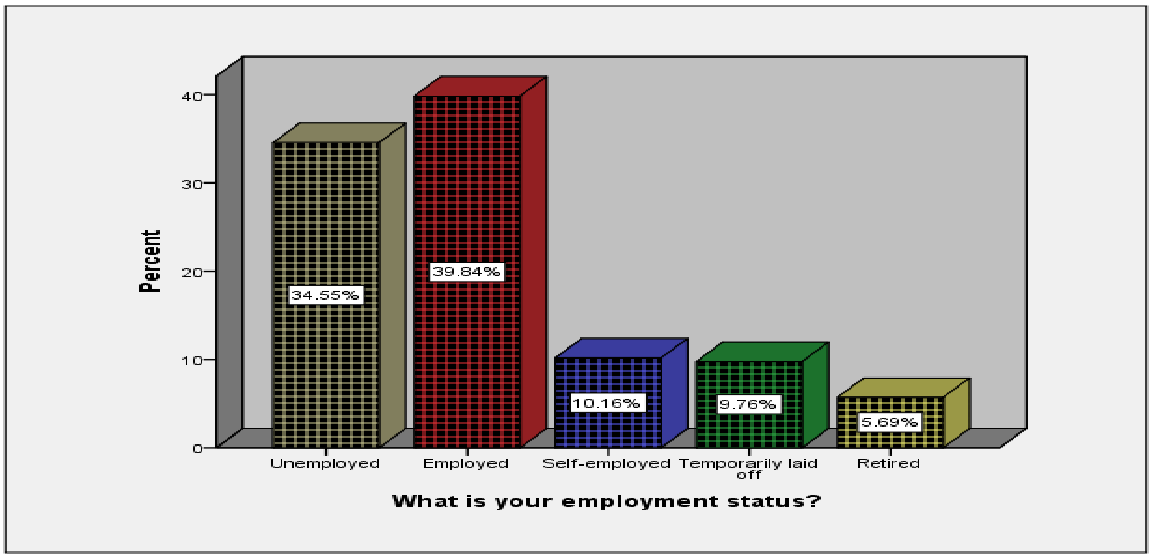

Figure 5.4: Employment status of respondents

Source: Author

With regard to income level, figure 5.5 indicates that most respondents (45.53%) earned less than R5 000, 18.70 percent earned between R5 000 and R10 000, 10.5 percent earned between R10 000 and R15 000 and 13.01 percent earned between R15 000 and R20 000. Those who earned between R20 000 and R25 000 represented 8.13 percent of respondents. Only 3.5 percent of respondents earned R25 000 to R30 000, with the least number of respondents (0.81%) earning R30 000 to R35 000. This supports the findings in figure 5.3 that a high number of respondents had a lower level of education and only a few had high degrees earned a high income in the marketplace. Therefore adults in Vhembe District are in the low-income bracket.

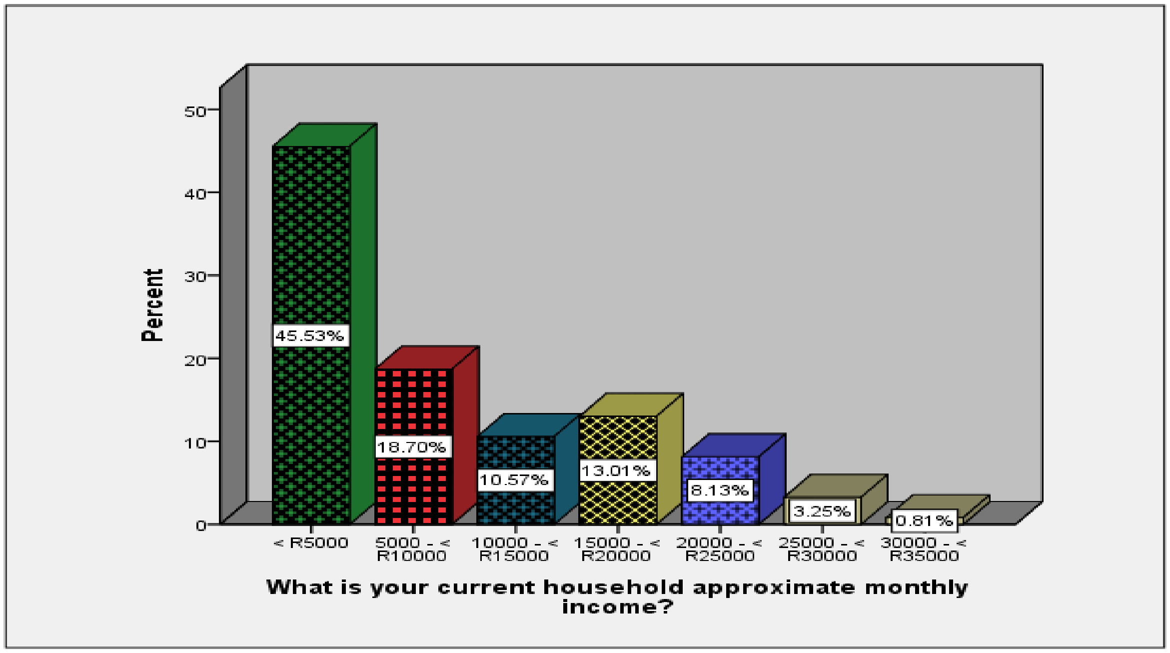

Figure 5.5: Monthly income

Source: Author

Salaries were found to be the main source of income. Most respondents (45.12%) were dependent on a salary, followed by government grants (23.17%), family assistance (18.29%) and self-employment income (10.57%). The least number of respondents (2.85%) depended on retirement income. This indicates that 41.46 percent of the respondents did not have a secure income as they depended on the government and family members. This could further indicate that most respondents were in poverty and were financially vulnerable. This supports the findings by the FSB (2012) that individuals living in low-income and rural areas experience continued financial pressure and struggle to make ends meet.

5.4 DAY-TO-DAY MONEY MANAGEMENT

Day-to-day money management forms an essential part of an individual's financial literacy. This study analysed and measured adults' day-to-day money management and found some positive and negative indicators which were used to determine their financial literacy score. This section covered eleven (11) variables: financial responsibility, dealing with financial matters, budgeting, keeping financial documents, income versus monthly expenses, action when expenses are more than income, affordability consideration, paying monthly instalments, monitoring financial affairs, setting long-term financial goals and buying on credit rather than saving for items. This section also provides the descriptive mean for correct answers for certain variables which were used to determine the financial literacy score. The results are presented in detail below.

As per figure 5.6, most respondents (34.96%) took sole responsibility for daily household money management. Second highest were respondents who relied on a family member (24.80%), followed by those who relied on their partner (19.92%), managed money jointly with their partner(13.82%) and managed it jointly with a family member (6.50%). Therefore most respondents (55.28%) were responsible for managing money. The findings show how people in the family took effective decisions regarding the use and management of money. The adults surveyed took responsibility for managing finances, which is a positive sign of good financial management.

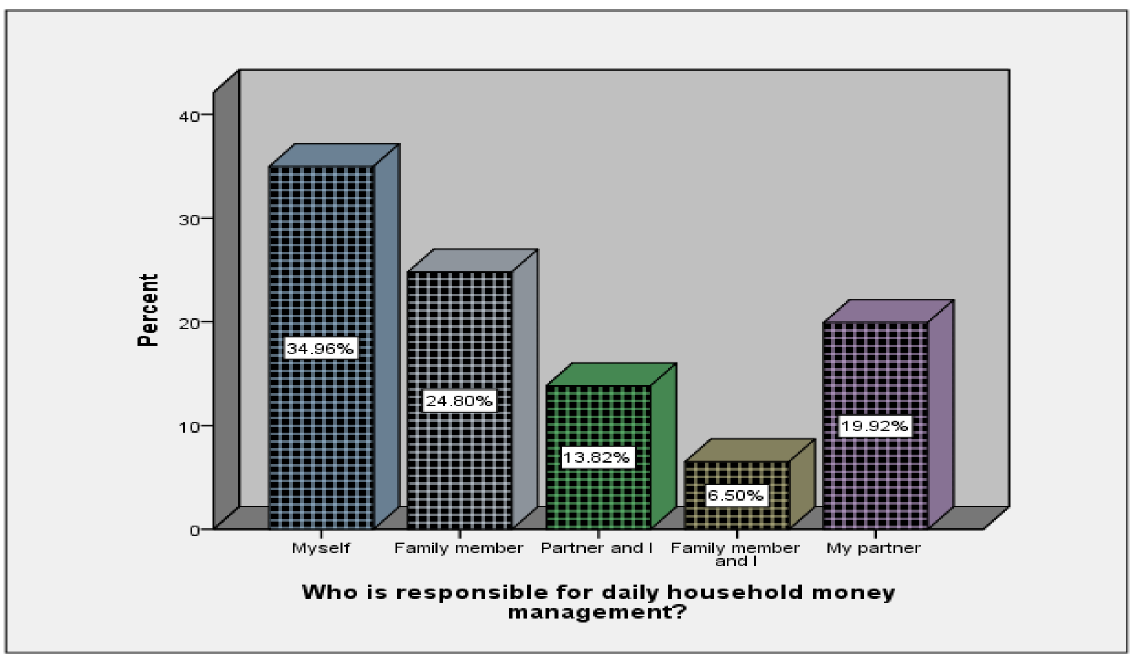

Figure 5.6: Daily household money manegement

Source: Author

Financially literate individuals are able to deal with financial matters without discomfort to make financial choices and relevant financial decisions. Respondents in Vhembe District seemed to be struggle in dealing with financial matters. Figure 5.7 indicates that a larger number of respondents (57.32%) did not enjoy dealing with financial matters but 42.68 percent enjoyed dealing with financial matters. This may be supported by findings in figure 5.4, which shows that more respondents (44.71%) were unemployed, and figure 5.5, which indicates that most respondents earned less than R5 000. The answer ‘yes’ is taken to be the correct option for this question and this was used as the descriptive mean value in determining the mean for the day-to-day money management section (domain).

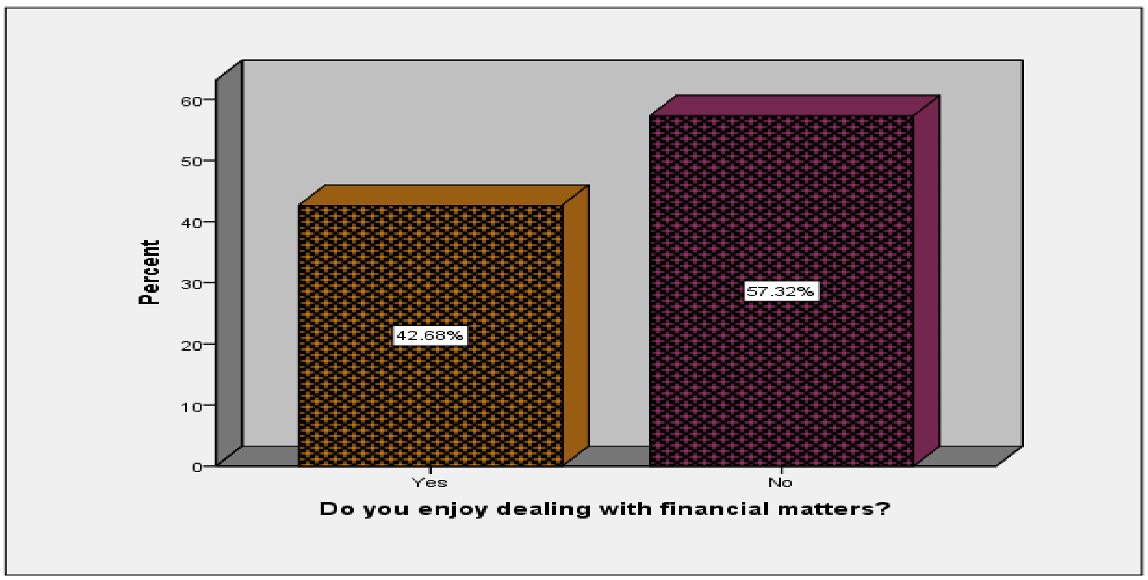

Figure 5.7: Dealing with financial matters

Source: Author

A budget has been found to be an effective tool to monitor spending. Kidwell and Turrisi (2004) explain that budgeting can change spending patterns of individuals through successfully regulating finances and reducing unnecessary spending.

Figure 5.8 reveals that most respondents (50.41%) in Vhembe District used a budget but 49.59 percent did not. This is a positive indicator of financial literacy.

However, the t gap (0.82%) between those who used a budget and those who did not is very slight. The answer ‘yes’ is taken to be the correct option for this question.

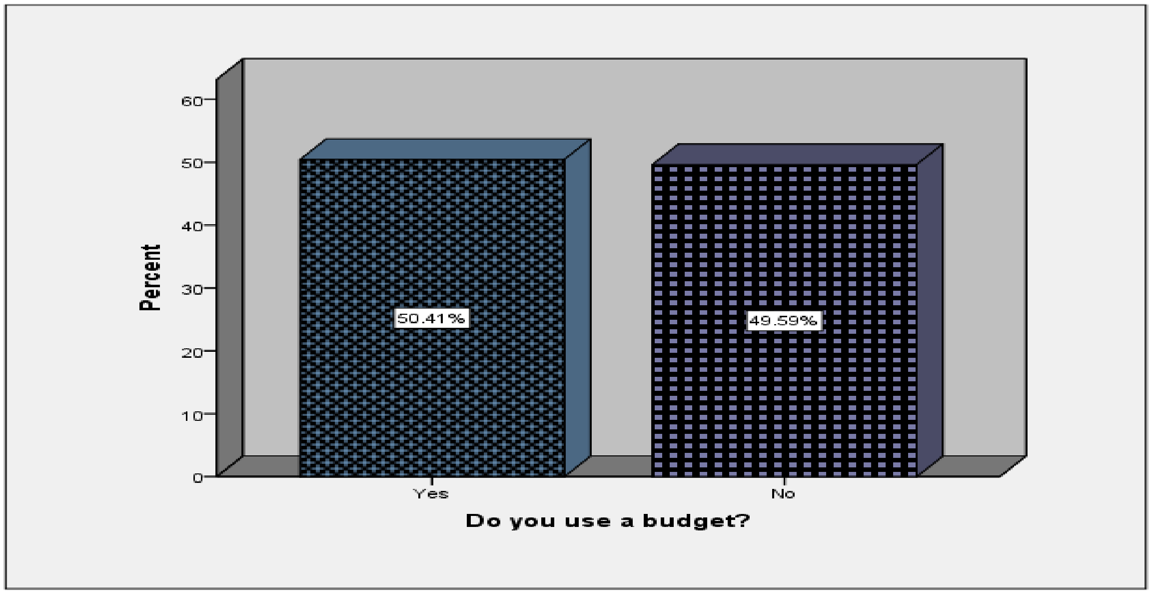

Figure 5.8: Budgeting

Source: Author

Record keeping is an important part of financial literacy. Chen and Volpe (1998) suggest that those with a higher level of financial literacy are more likely to keep financial records. As seen in figure 5.9, most respondents (52.03%) kept financial documents but 47.97 percent did not. It appears that there is a lack of information and education for about keeping financial documents in order to make better decisions about personal financial literacy issues. This could indicate a lack of financial literacy. The answer ‘yes’ was taken to be the correct option for this question.

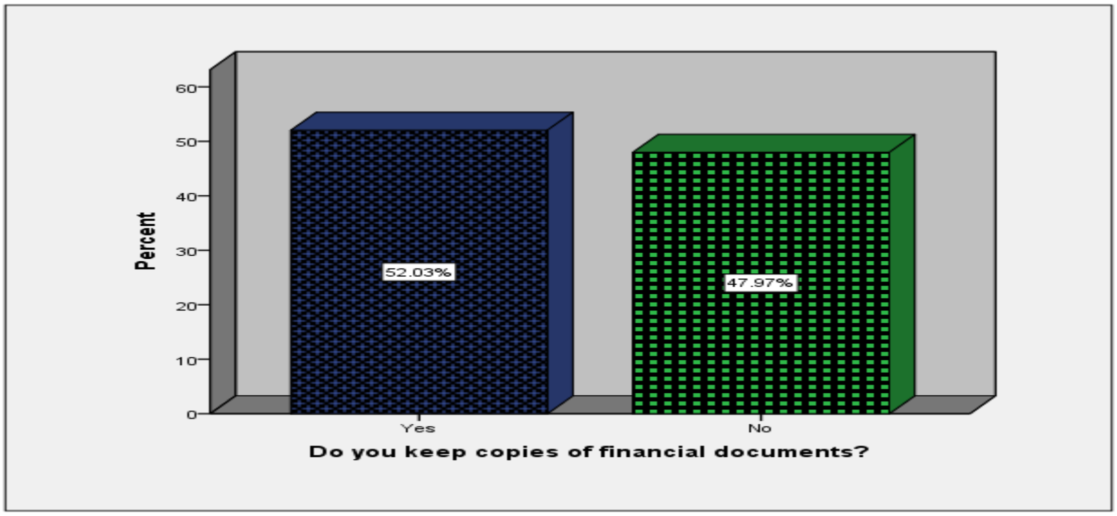

Figure 5.9: Keeping financial documents

Source: Author

Individuals should determine their monthly expenses through budgeting and ensure that they do not overspend and that they save a portion of their income. When income is not covering monthly expenses, this indicates a financial problem and must be addressed urgently. Figure 5.10 shows that the income of the majority of respondents (72.76%) did not cover their monthly expenses but 27.24 percent were confident that their income covered their monthly expenses. The answer 'yes' was taken to be the correct option for this question.

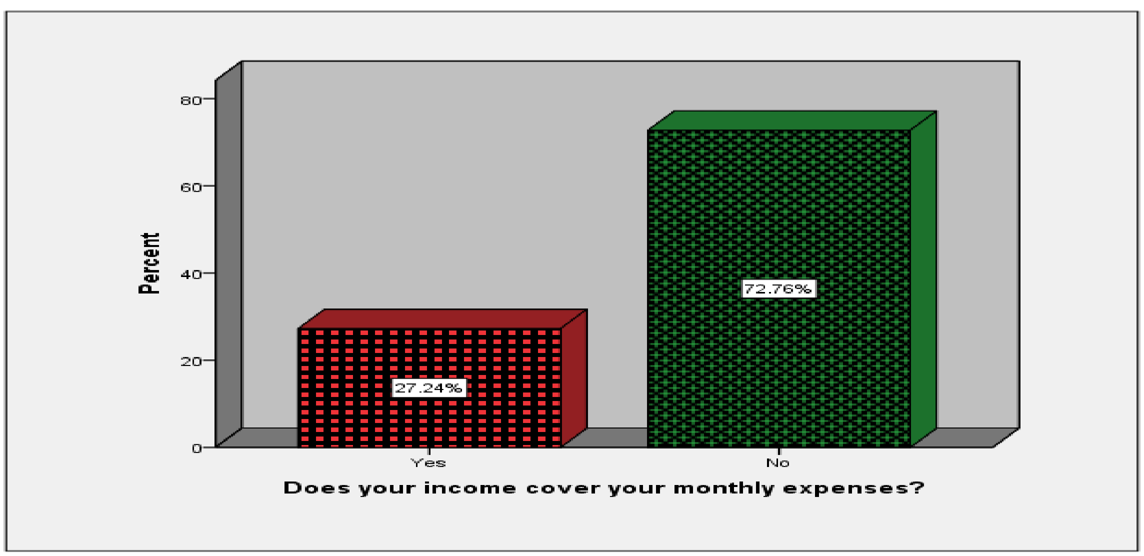

Figure 5.10: Income and monthly expenses

Source: Author

A follow-up question was asked to determine money management behaviour when income did not cover monthly expenses. Figure 5.11 indicates that a larger number of respondents (15.85%) cut back on spending; this is a positive indicator of money management behaviour. However, there was also a high number of respondents (10.57%), (10.16%) and (9.76%) who resorted to borrowing money from a family member, paying instalments late and taking out loan from Mashonisa, respectively. This is a potential indicator of financial literacy that is not well respected. Adults should be able to invest for financial stability rather than taking out more credit. This question was not used in determining scores. It is an indicator of poor money management behaviour.

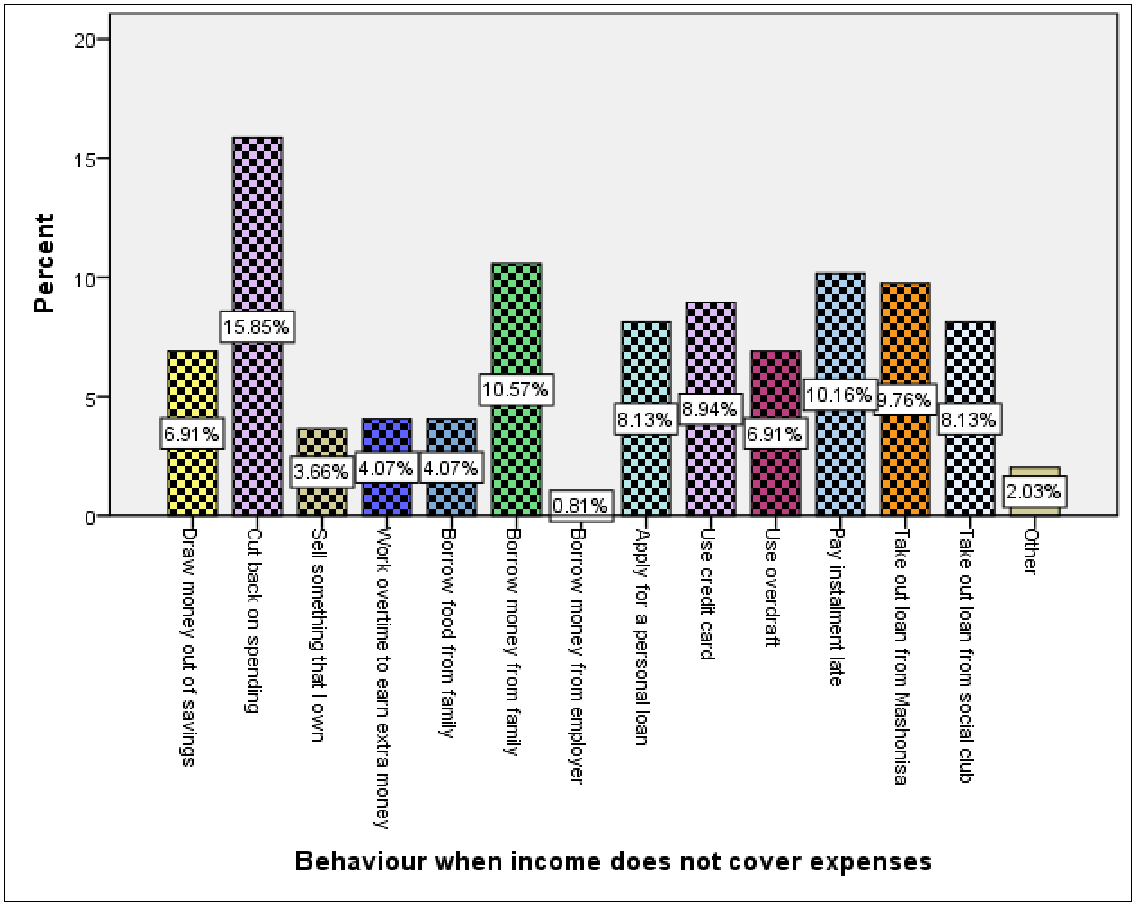

Figure 5.11: Behaviour when income does not cover expenses

Source: Author

Individuals should always check affordability before buying to avoid overspending and falling into debt. Figure 5.12 reflects a mixed view when it comes to considering affordability before buying by adults in Vhembe District. A large number of respondents (45.12%) never considered affordability, 45.93 percent sometimes considered it and 8.94 percent always considered it. This could imply a lack of sound money management behaviour by the majority. Lusardi and Mitchell (2011), state that individuals with a lower level of financial literacy are more likely to be over-confident about their financial position and financial decision making abilities. The answer 'always' was taken to be the correct option for this question.

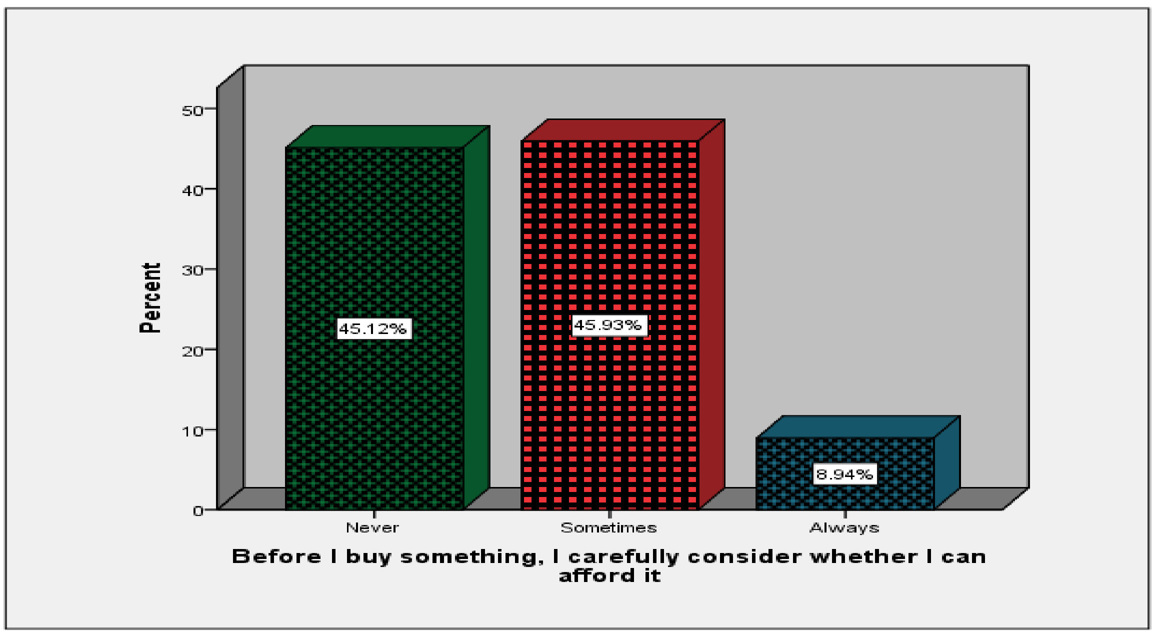

Figure 5.12: Affordability consideration

Source: Author

It is extremely important to keep up with monthly commitments and pay instalments on time to ensure that accounts do not fall in arrears and to avoid repossession of valuables such as houses and cars. Paying instalments on time is central to good money management behaviour. Figure 5.13 shows that most respondents (43.09%) never paid instalments on time, 33.33 percent undertook sometime responsibility to pay instalments on time and 23.58 percent always did as they used a budget. This could indicate that adults lack basic money management behaviour. The answer ‘always’ was taken to be the correct option for this question and this was used to calculate the descriptive mean to determine the level of financial literacy.

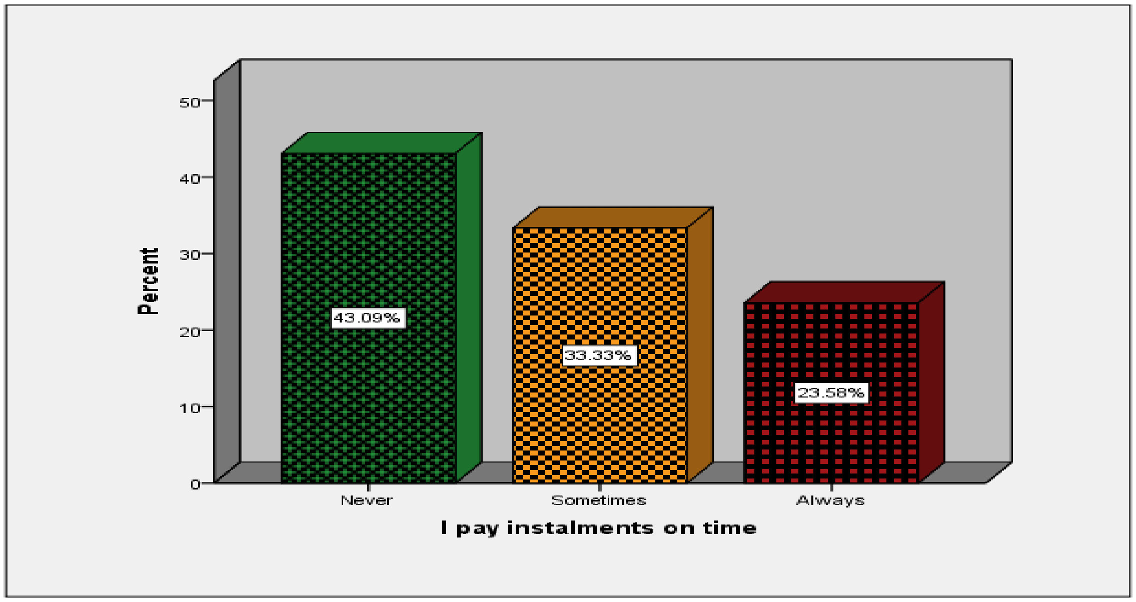

Figure 5.13: Paying instalments on time

Source: Author

According to figure 5.14, the majority of respondents (53.66%) never kept a close watch on financial affairs, 33.74 percent sometimes did and 12.60 percent always believed it to be an important aspect of their life. Not keeping a close watch on financial affairs is a negative sign of financial literacy and could lead to indebtedness and low savings if the individual is not aware of their financial position. The FSA (2006) argues that keeping a close watch on financial affairs allows individuals to predict future expenses and control spending. The answer ‘always’ was taken to be the correct option for this question.

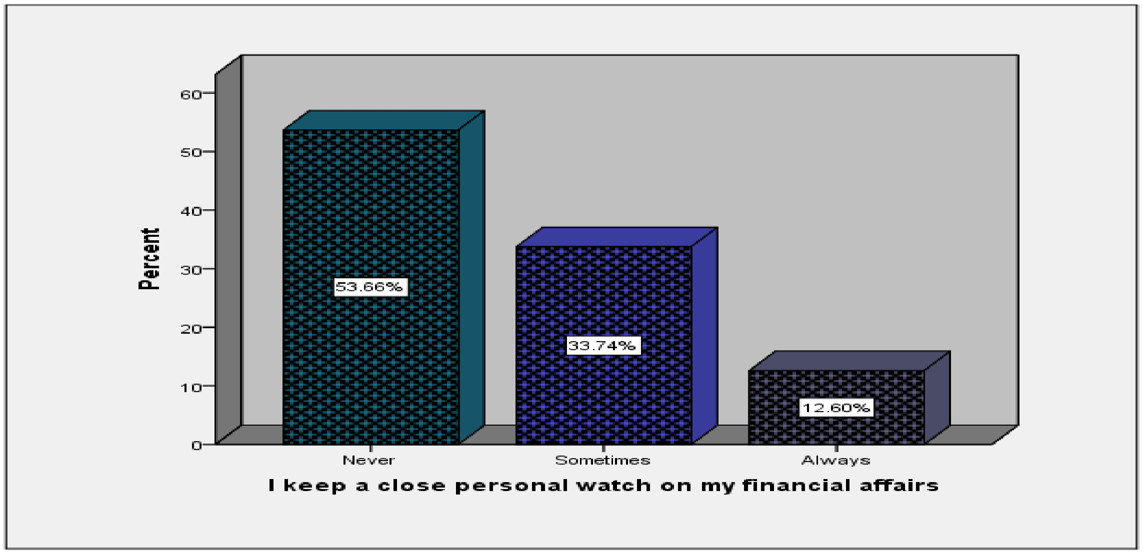

Figure 5.14: Keeping close watch on financial affairs

Source: Author

Regarding setting long-term financial goals, figure 5.15 reflects that the majority of respondents (59.76%) never set long-term financial goals and therefore did not work hard to achieve them, 29.67 percent sometimes did and 10.57 percent always did. Financial skills, knowledge and competence appear to be lacking in Vhembe District. Financially capable individuals are more likely to set financial goals and make adequate provision to achieve those goals (FSA, 2006). The answer ‘always’ was taken to be the correct option for this question.

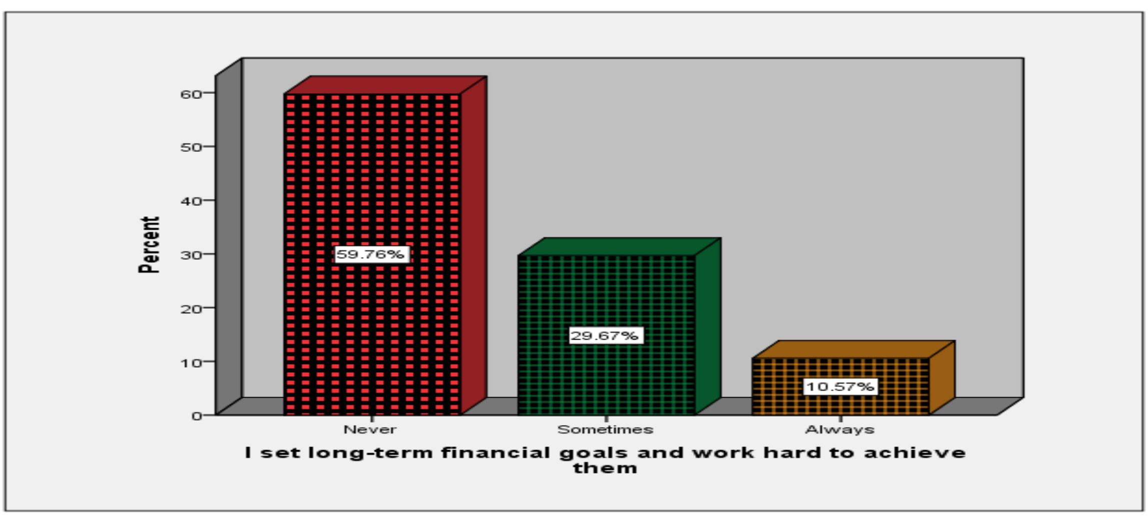

Figure 5.15: Setting long-term financial goals

Source: Author

Indebtedness is a serious problem in South Africa and it is suggested in literature that South Africa is a buy-now-pay-later society. Figure 5.16 seems to support this argument because most respondents (52.85%) sometimes bought on credit rather than waiting and saving up for the item, 24.39 percent always bought on credit rather than saving for the item and 22.76 percent never did so and had decided not to develop this habit of buying on credit. This indicates that the majority (77.24%) of adults buy on credit rather than saving for the item. Adults appear to lack basic knowledge and skills to make some important decisions to avoid accumulating large amounts of debt that may contribute to finance failure. Saving habits seem to be poor. Individuals are encouraged to save for the items rather than buying on credit.

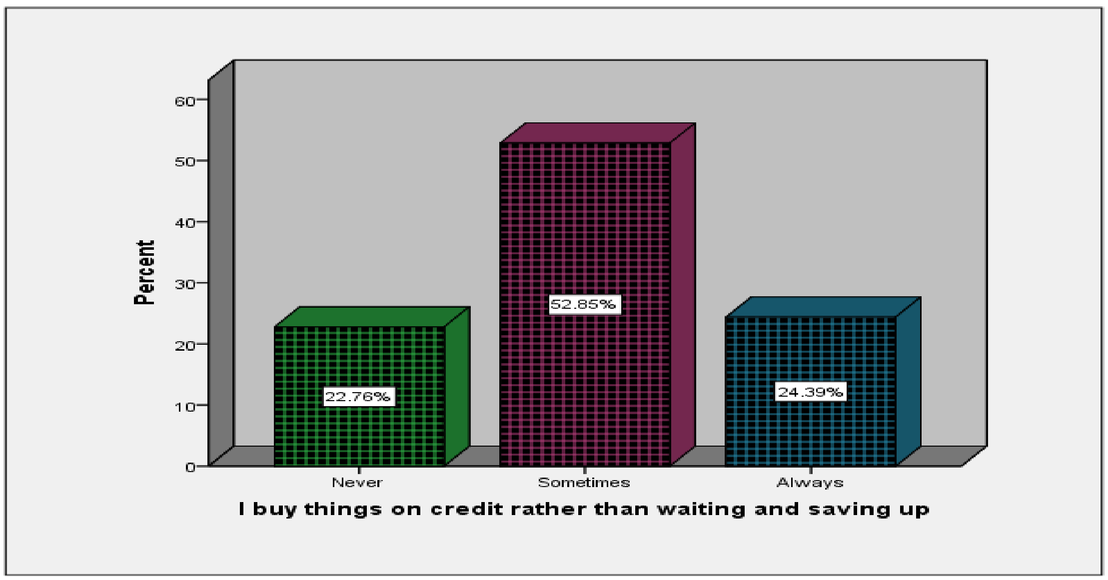

Figure 5.16: Buying on credit rather than saving for the item

Source: Author

5.5 FINANCIAL PLANNING

Financial planning is an important element for individuals to consider in financial affairs to ensure that financial goals are reached and avoid financial difficulties currently and also in future, especially during retirement. It is greatly argued in literature that only 6 percent of South Africans are financial well during retirement. This study used financial planning as a domain to analysed financial literacy among adults in Vhembe district. This domain covered twelve (12) variables, comprising saving for emergency, education and retirement, risk planning, availability of a will (testament), overall financial plan, money saving patterns, spending more satisfying than saving, living for today and not worrying about tomorrow, risk taking in saving and investment, money is there to be spent and financial advice. The results are discussed in detail below.

Figure 5.17 shows that the majority of respondents (69.11%) did not have emergency funds to cover unexpected expenses and only 30.89 percent did. Many adults acquire basic financial knowledge through school, yet this knowledge may not be sufficient for them to become informed about personal financial literacy. Insufficient funds could be a problem. This is supported by findings in figure 5.10 which indicate that 72.76 percent of respondents' income did not cover monthly expenses, thus leading to a difficulty in saving. The answer 'yes' was taken to be the correct option for this question.

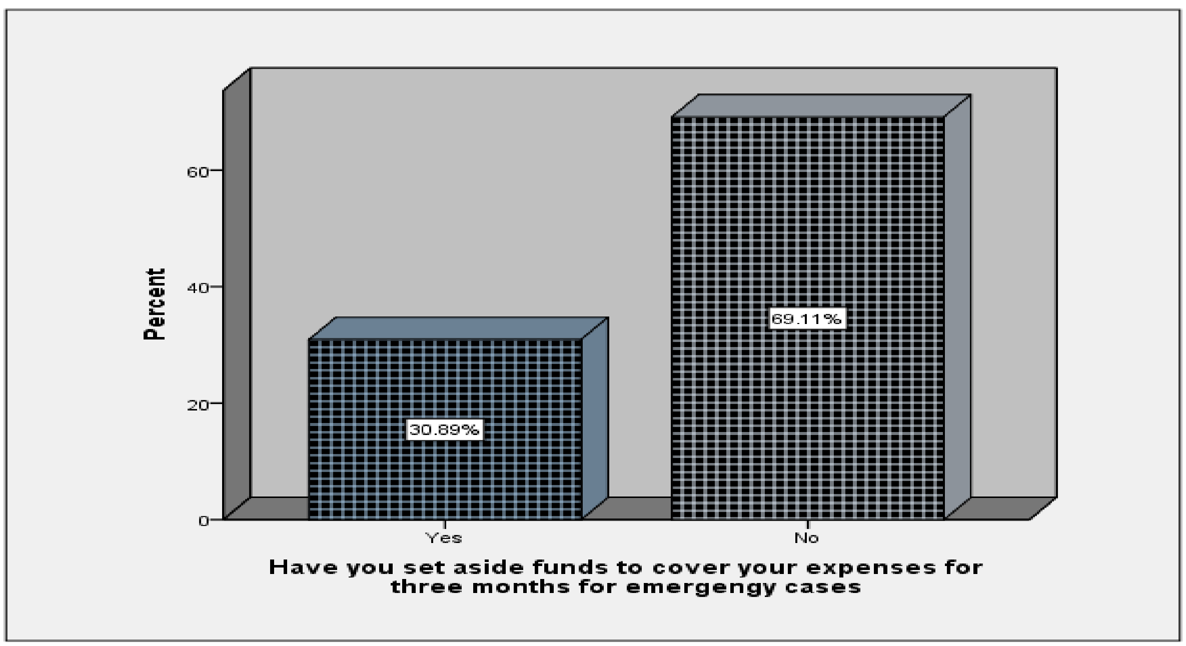

Figure 5.17: Emergency funds

Source: Author

With regard to saving for children's education, figure 5.18 reflects that a large number of respondents (59.76%) did not set aside any money for their children's education and 40.24 percent did. Evidence in literature suggests that a lower level of financial literacy does contribute negatively to individuals' saving behaviour and ability to make sound saving decisions. Education is a basic need and adults should strive and make it a priority to save for their children. The answer 'yes' was taken to be the correct option for this question and this score was used in calculating the descriptive mean to determine the level of financial literacy.

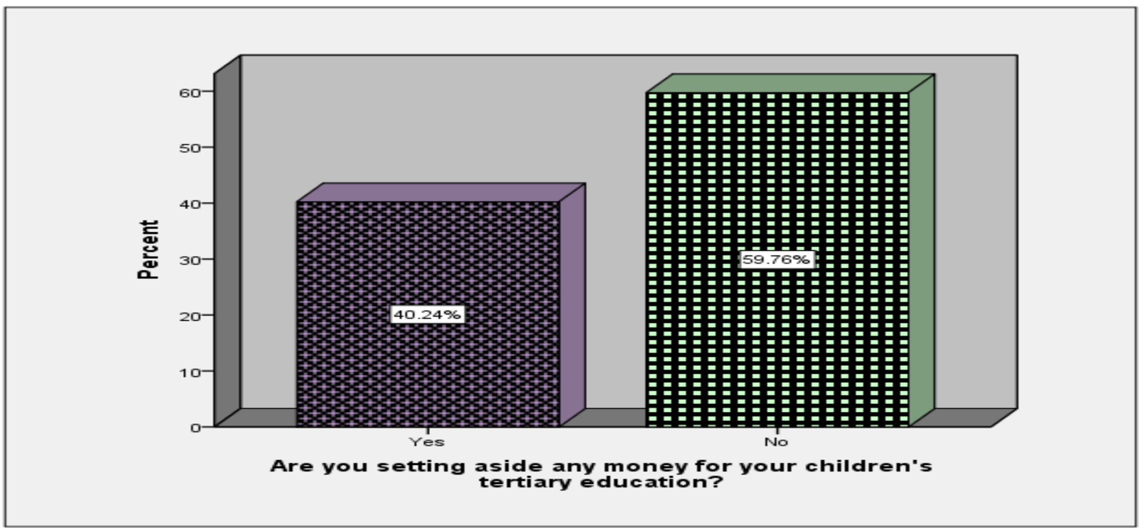

Figure 5.18: Saving for children's education

Source: Author

This study also investigated retirement saving. Respondents had to choose yes or no to the question whether they were saving for retirement. The findings in figure 5.19 show that the majority of the respondents (58.54%) were not saving for retirement while 41.46 percent were. The findings support Kotze and Smit (2008) that in general South Africans lack a savings culture. It is understood from literature that financially illiterate individuals would struggle to make appropriate provisions to save for retirement. Van Rooij, Lusardi and Alessie (2011) maintain that individuals with a lower level of financial literacy are less likely to plan for retirement. The answer 'yes' was taken to be correct option for this question.

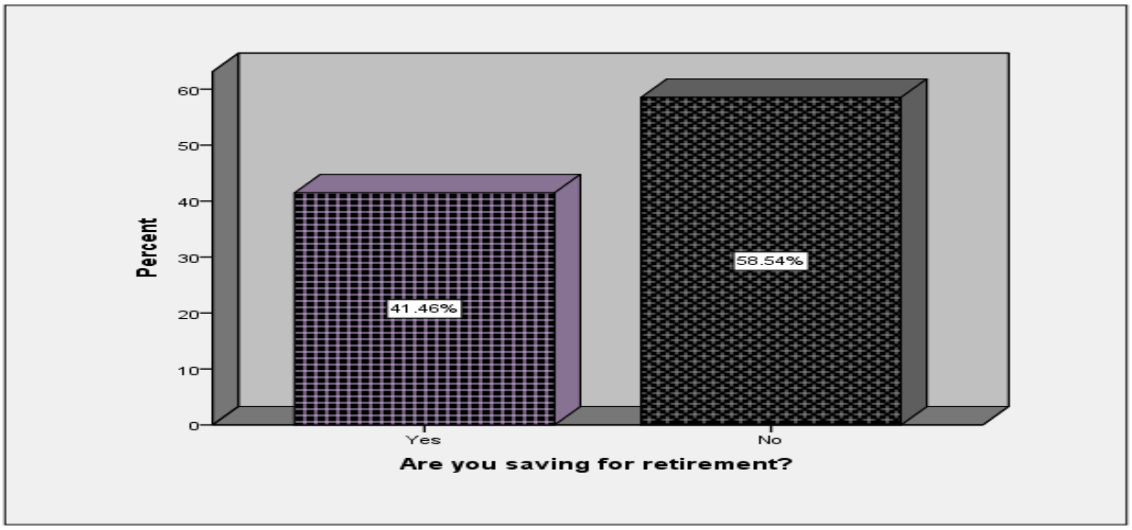

Figure 5.19: Retirement saving

Source: Author

Concerning risk insurance such as car insurance, life cover, household insurance, funeral cover and medical aid, the findings in figure 5.20 shows that the majority of the respondents (52.44%) did not have risk insurance and 47.56 percent did. Lack of financial knowledge could be the reason for this situation, and financial education and awareness are required to improve financial knowledge to ensure that adults are financially skilled and competent. The answer 'yes' was taken to be the correct option for this question.

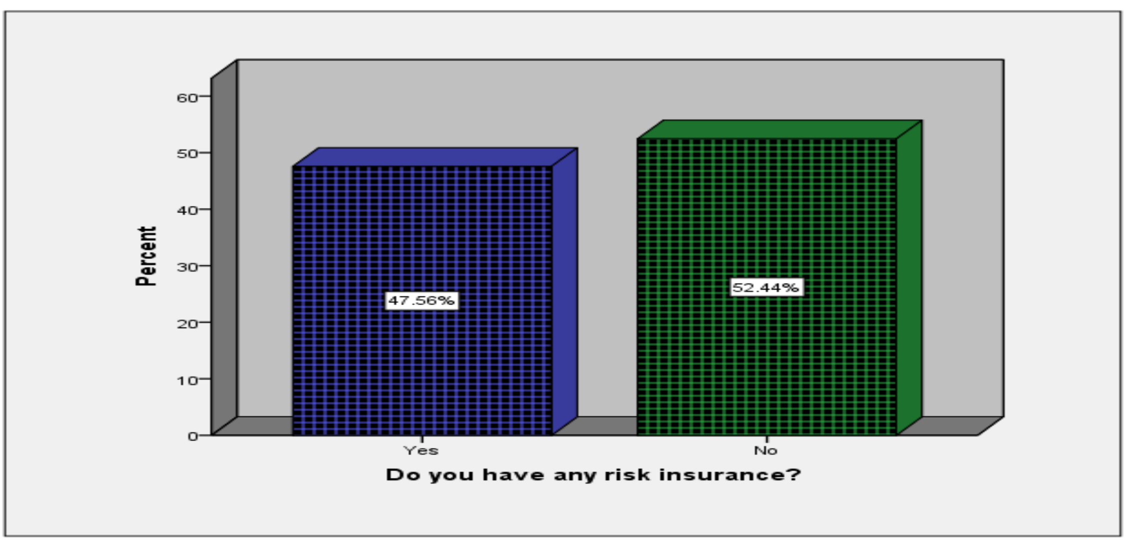

Figure 5.20: Risk insurance

Source: Author

A will (testament) forms an integral part of financial planning. It is important that individuals distribute their wealth and assets appropriately to avoid family feuds and conflicts after they have passed away. As figure 5.21 shows, the majority of respondents (67.07%) did not have a will (testament) and 32.93 percent did. This could indicate that respondents were more focused on surving in the present complex economic conditions than thinking about the future. Financial education seems to be necessary to empower adults to understand the importance of a will (testament). The answer ‘yes’ was taken to be the correct option for this question.

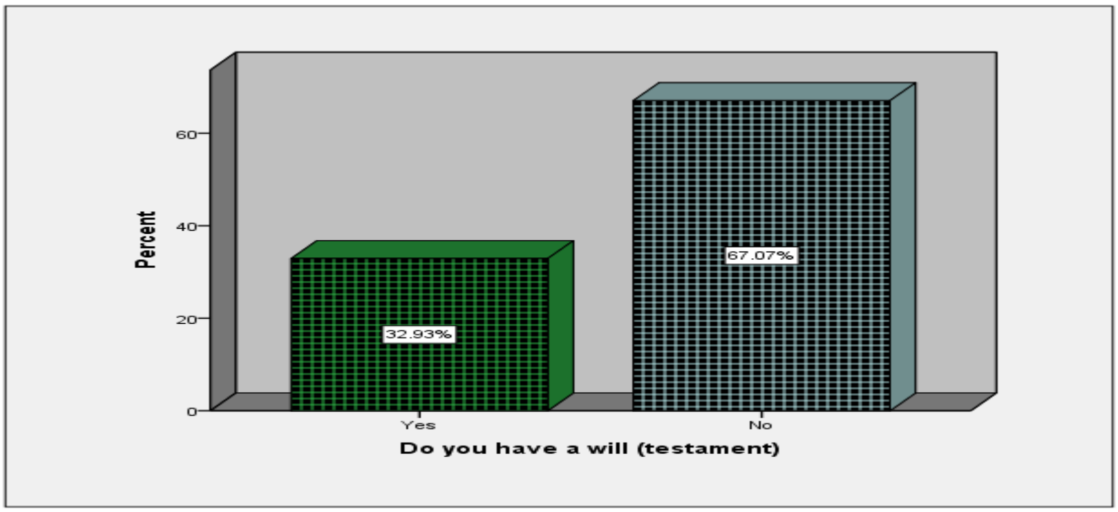

Figure 5.21: Will (testament)

Source: Author

With regard to a comprehensive financial plan, figure 5.22 shows that most respondents (49.59%) planned to survive by means of the government pension, 21.95 percent on a workplace pension and 13.01 by continuing to work after retirement age to earn money. The topic of financial plans needs to receive attention among adults in Vhembe District Municipality as these findings shows that there is a problem of over-reliance on government pension. This may have a negative impact on government spending in future and could affect other government programmes and service delivery. Adults need to be financially literate to have a financial plan for retirement. This question was used as an indicator of financial planning.

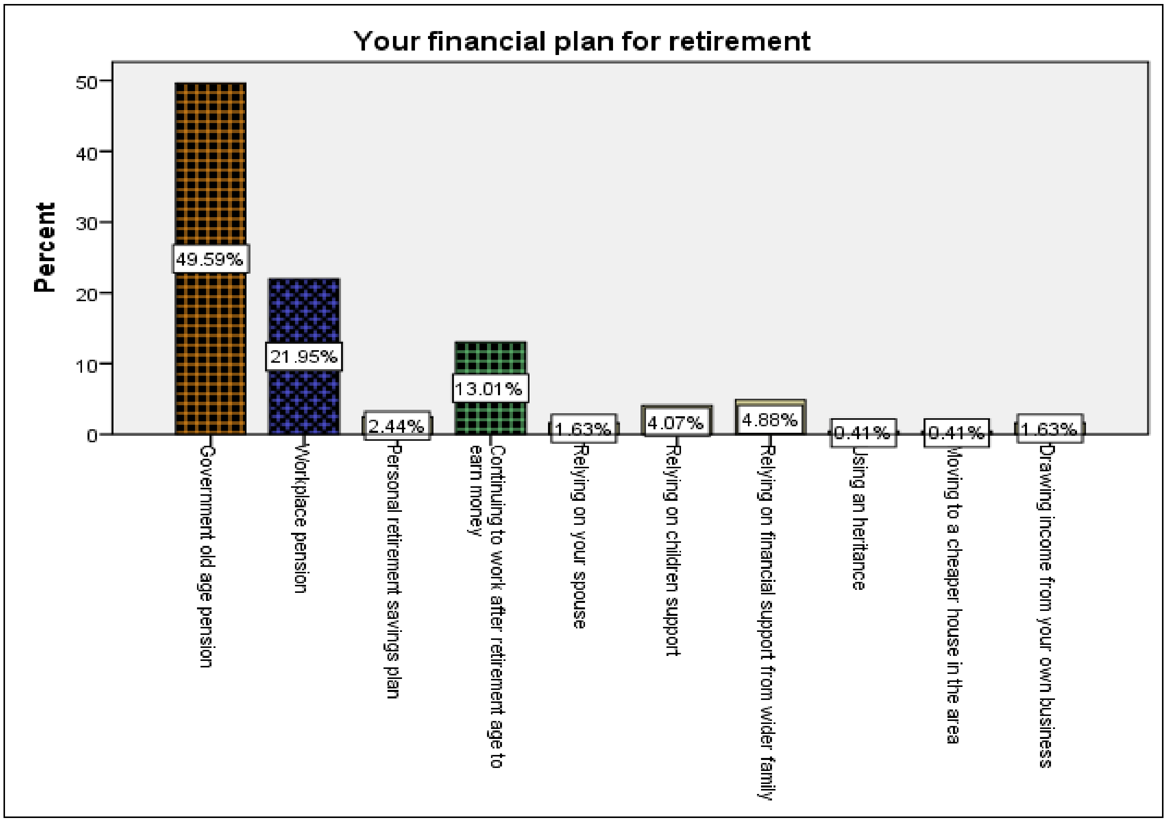

Figure 5.22: Financial plan for retirement

Source: Author

Respondents were asked to determine which channel they save the money. More respondents (28.05%) saved cash at home, 24.39 percent deposited money into savings accounts, 21.95 percent saved in an the informal saving club (stokvel) and 16.26 percent gave money to family members to save on their behalf. The least number of respondents (9.35%) bought financial investment products to save. This confirms the findings by De Clercq et al. (2010) that many households in rural areas keep their money at home. This indicates that financial knowledge is necessary to ensure that adults understand that financial institutions are more suitable for saving money than at home or giving it to family members to save. Gallery and Gallery (2010) argued that financial literacy has an effect on individuals' saving patterns. This question was not included in determining the mean. However, it was used to determine money management behaviour.

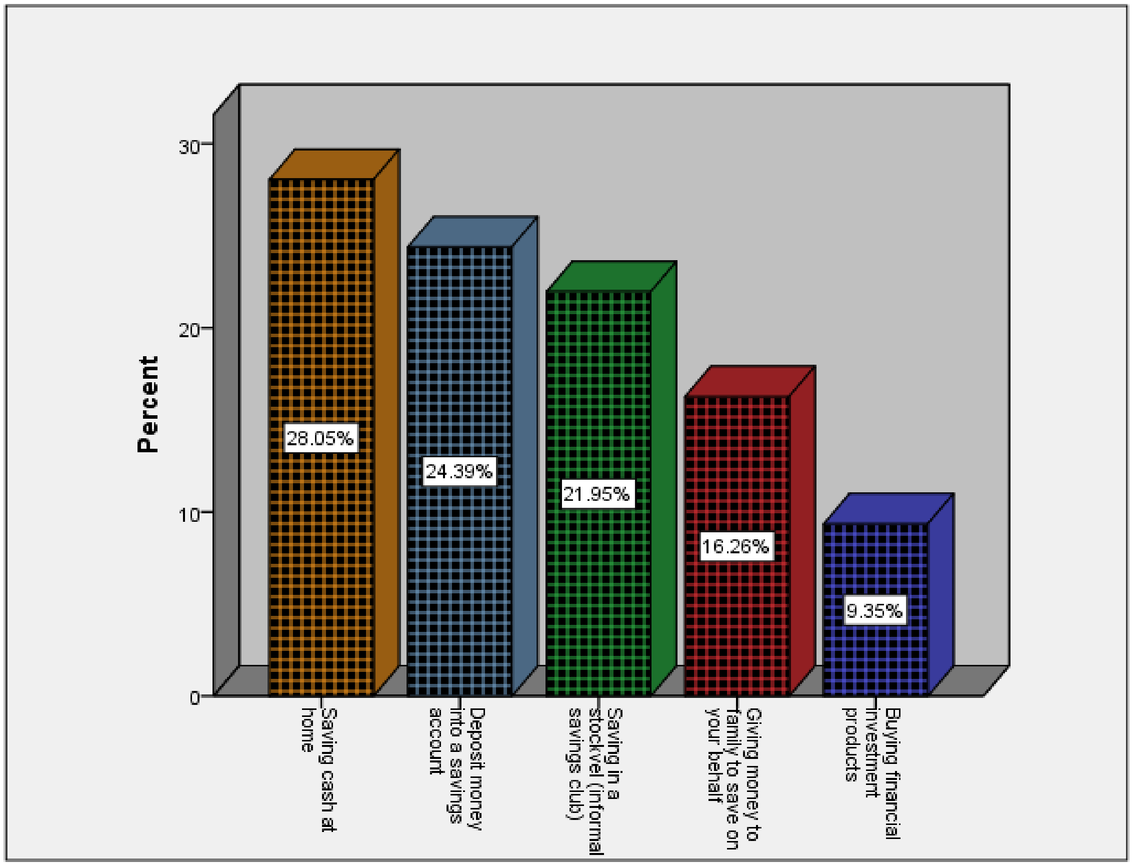

Figure 5.23: Money saving patterns

Source: Author

Attitude towards financial matters is important and will eventually determine and influence financial behaviour. It was against this background that respondents were asked financial attitude questions. The findings are indicated in figures 5.24 - 5.27.

As is evident from figure 5.24, the majority of respondents (74.39%) found it more satisfying to spend money rather than save it, while 25.61 percent disagreed. This supports the findings in figure 5.19 that most respondents did not save for retirement. Chen and Volpe (1998) indicate that financial attitude affects how individuals spend and save money. A lack of financial knowledge eventually has a significant influence on financial issues. Individuals should not find it more satisfying to spend money rather than save it. The answer 'disagree' was taken to be the correct option for this question.

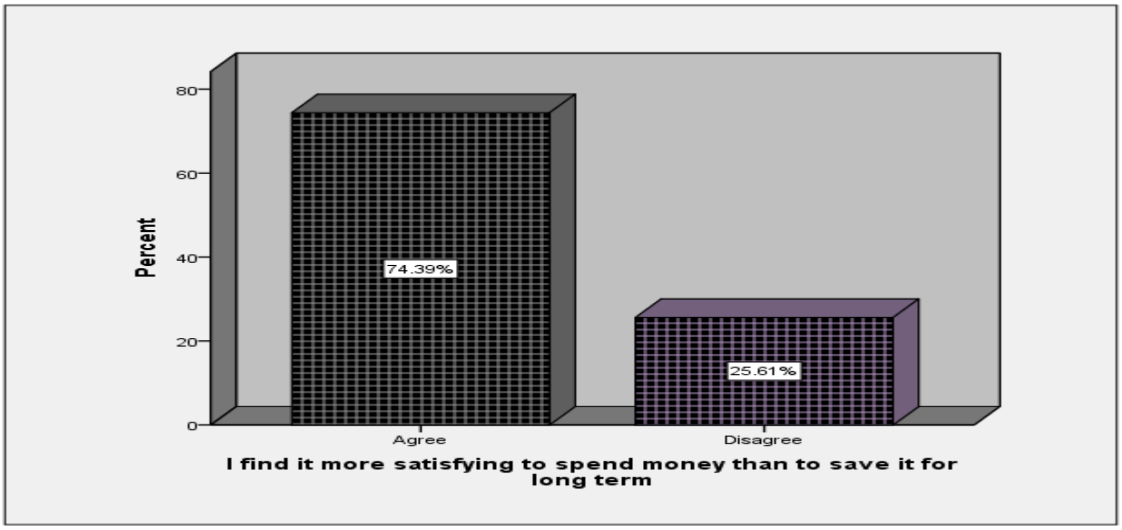

Figure 5.24: Satisfied with spending than saving

Source: Author

It is argued in literature that the majority of South Africans, especially in rural communities tend to live for today and not worry about what will happen tomorrow. Figure 5.25 reveals that the majority of respondents (67.48%) tended to live in this way, while 32.52 percent considered the eventuality of tomorrow in their finances. This could indicate a negative attitude towards financial matters and a lower level of financial literacy. This answer 'disagree' was taken to be the correct option for this question.

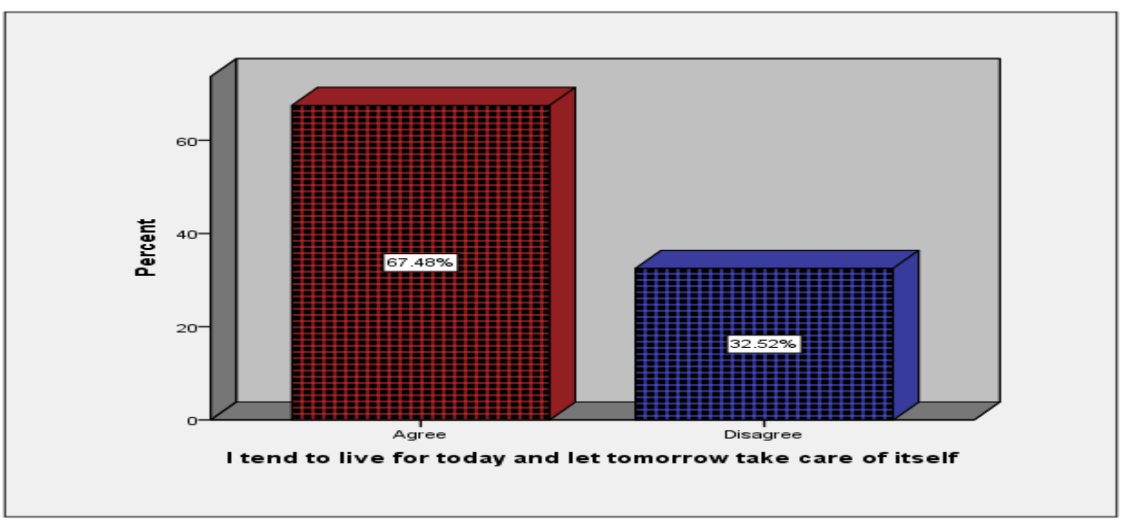

Figure 5.25: Living for today and not worrying about tomorrow

Source: Author

Risk attitude and understanding are important in investment. It is suggested in literature that the higher the risk the higher the return. It can be seen in figure 5.26 that most respondents (55.28%) would not risk their money when saving or making an investment and 44.72 percent were prepared to face risks when saving and investing. Lack of financial knowledge and attitude seems to be the contributing factor for this response. Adults have to be motivated to learn more about personal financial literacy as they are confronted with more financial decisions. The answer ‘agree’ was taken to be the correct option for this question.

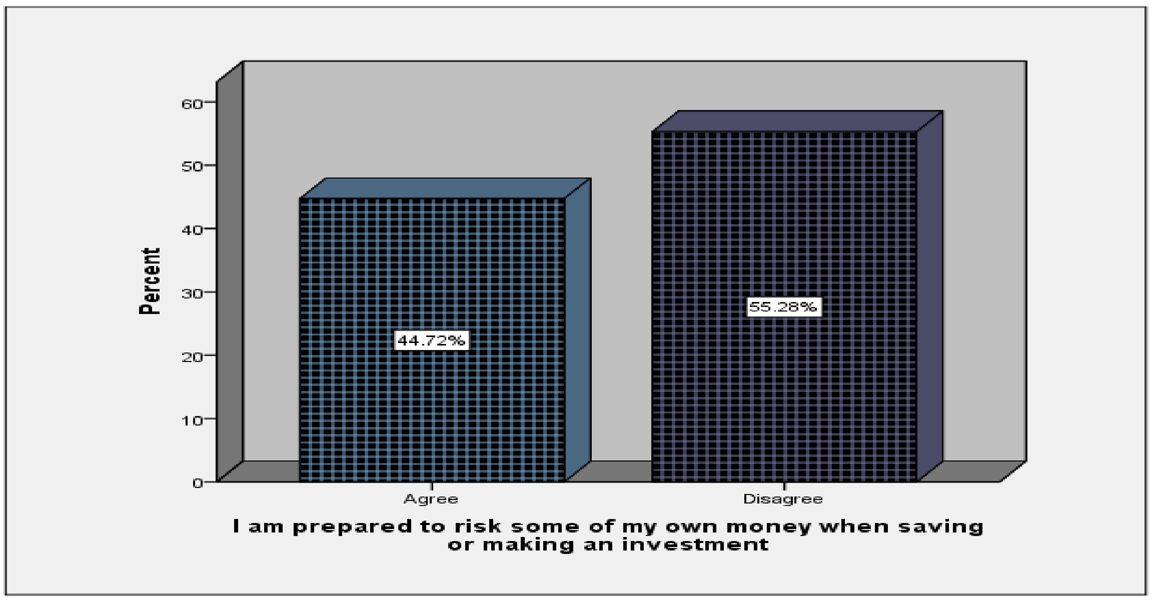

Figure 5.26: Risk taking in saving and investment

Source: Author

In its first quarterly bulletin the SARB (2015) indicated that household spending has increased while the savings rate has remained low. This study measured attitude towards spending. Figure 5.27 indicates that the majority of respondents (77.24%) believed that money was there to be spent and 22.76 percent did not agree. This supports the argument in literature that financial attitude will have an impact on overall financial behaviour. Financial attitude seems to be a problem among respondents. The answer ‘disagree’ was taken to be the correct option for this question.

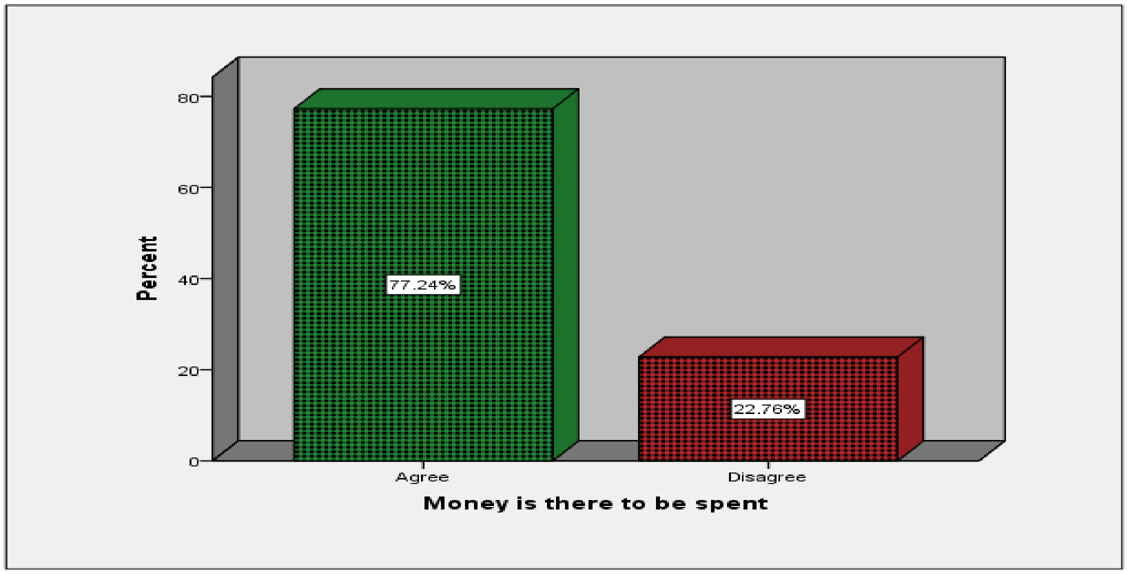

Figure 5.27: Money is there to be spent

Source: Author

Sourcing appropriate financial advice forms part of financial planning. Individuals with a higher level of financial literacy are able to determine where to go for financial advice. Professional financial advice is mostly recommended as it focuses specifically on individual financial needs. Figure 5.28 reflects that most respondents (29.27%) relied on family members for financial advice, 24.80 percent did not ask anyone, 12.20 percent trusted their stokvel/saving club, 8.13 percent had confidence in friends, 6.10 percent counted on people they trusted in the community and 4.07 percent of respondents depended on the church for advice. This indicates how respondents were better able to socialise as they could express what they had learnt from informal finance means, such as parents or the community where they lived, without using the services of a professional financial advisor, even though they had marginally lower financial knowledge. This question was not included in calculating the mean but was used to determine money management behaviour.

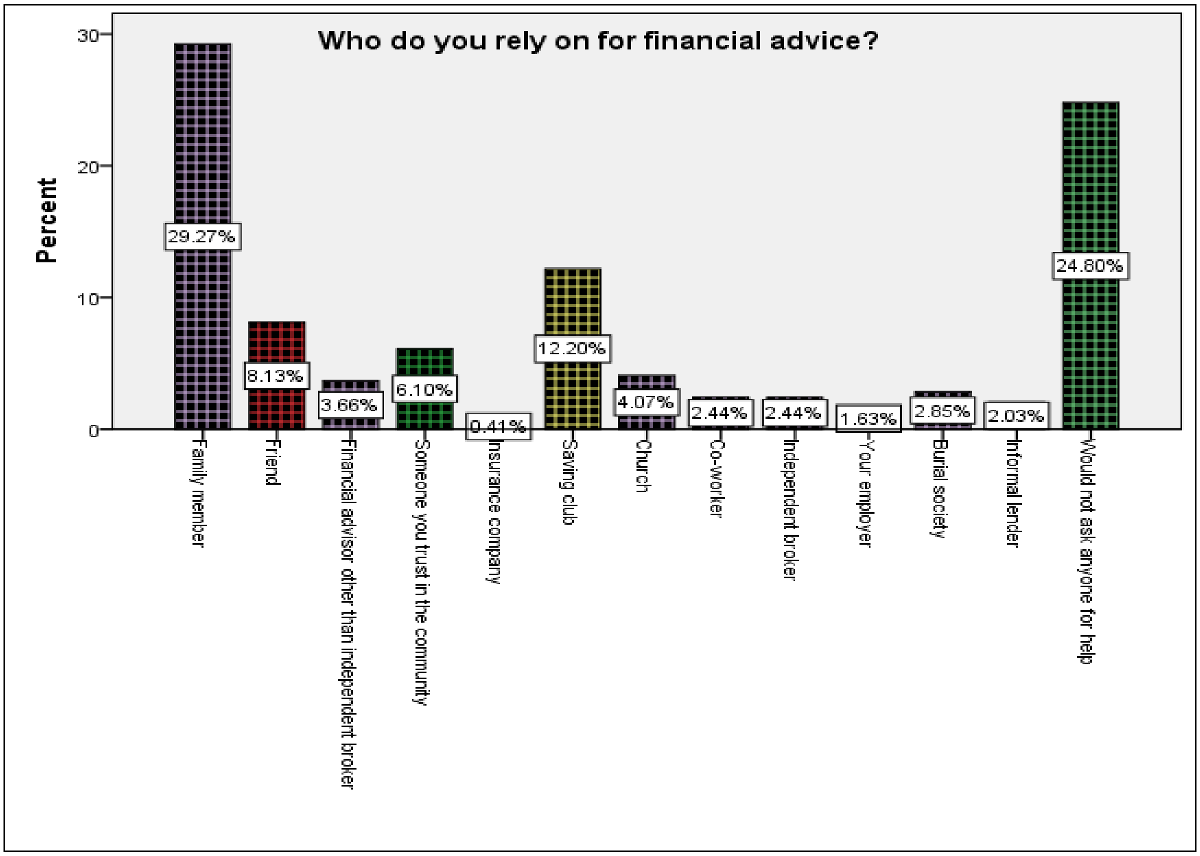

Figure 5.28: Source of financial advice

Source: Author

5.6 CHOOSING APPROPRIATE FINANCIAL PRODUCTS AND SERVICES

Choosing appropriate financial products was also one of the domains used in this study to analyse financial literacy in Vhembe District. Fessler et al. (2010) argue that individuals with a higher level of financial literacy are more likely to choose financial products appropriate to their financial situation. The ability to choose appropriate financial products and services is greatly influenced by shopping around before buying financial products, considering interest, interrogating terms and conditions and sourcing financial advice to ensure that a sound financial decision is made. These factors were covered in this section and are presented below.

As shown in figure 5.29, that most respondents (52.85%) never shopped around before buying financial products but 47.15 percent did. Individuals have complicated financial decisions as they find themselves carrying large amounts of loans or gathering card debts. These conditions hinder their ability to shop around as they deal with shops in places where they have accumulated debts. Jappelli (2010) points out that, individuals with a higher level of financial literacy are more likely to shop around for better prices, negotiate discounts and fully understand terms and conditions of finance contracts. This seems not be the case among the respondents. The answer ‘yes’ was taken to be the correct option for this question.

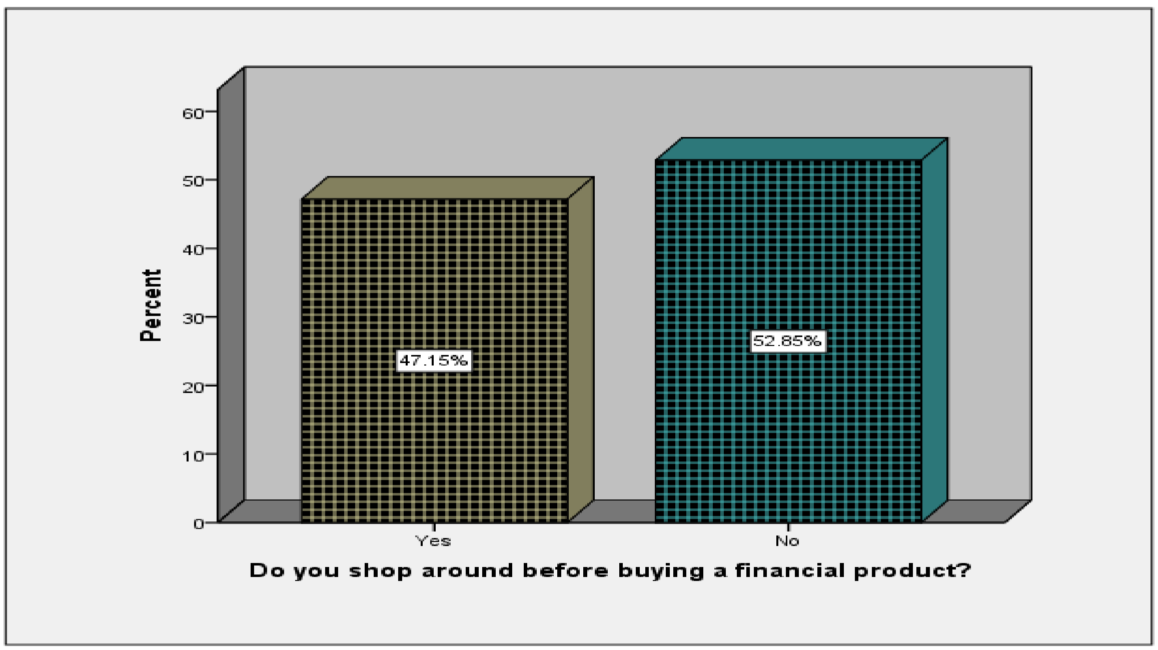

Figure 5.29: Shopping around before buying

Source: Author

It is important that individuals consider interest when buying financial products and services. Figure 5.30 reflects that most respondents (58.54%) did not consider the interest rate when buying financial products and services but 41.46 percent did. interest. This could support the findings in figure 5.29 above that respondents did not shop around for better financial deals. The answer ‘yes’ was taken to be the correct option for this question.

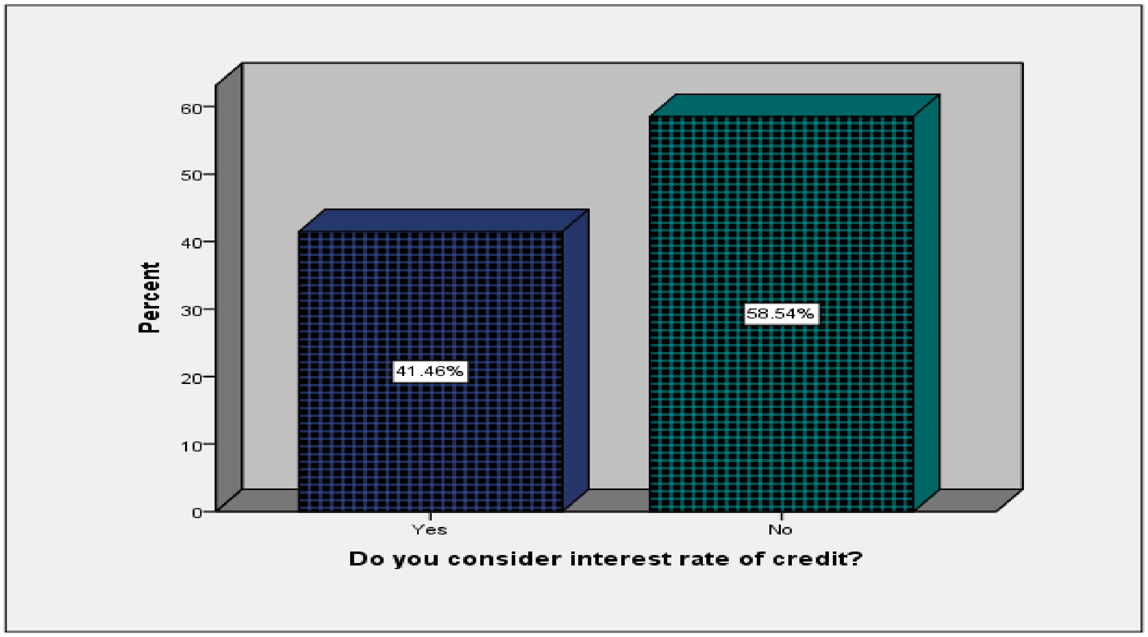

Figure 5.30: Interest consideration

Source: Author

To make sound financial decisions when choosing appropriate financial products and services, individuals need relevant information from reliable sources. Respondents were asked to determine which source of information they relied on. Figure 5.31 reflects that most respondents (58.13%) relied on family members and friends for advice when buying financial products, 15.04 percent relied on information found on the internet, 9.76 percent used the media (radio and television), 6.91 percent relied on information from a bank and 4.88 percent relied on a financial advisor. The heavy reliance on family members and friends could be risky because this advice could be based on the family or friends' preferences or because they have purchased the product before, not because it is based on sound financial knowledge which financial advisors and financial institutions possess. This question was not included in mean determination.

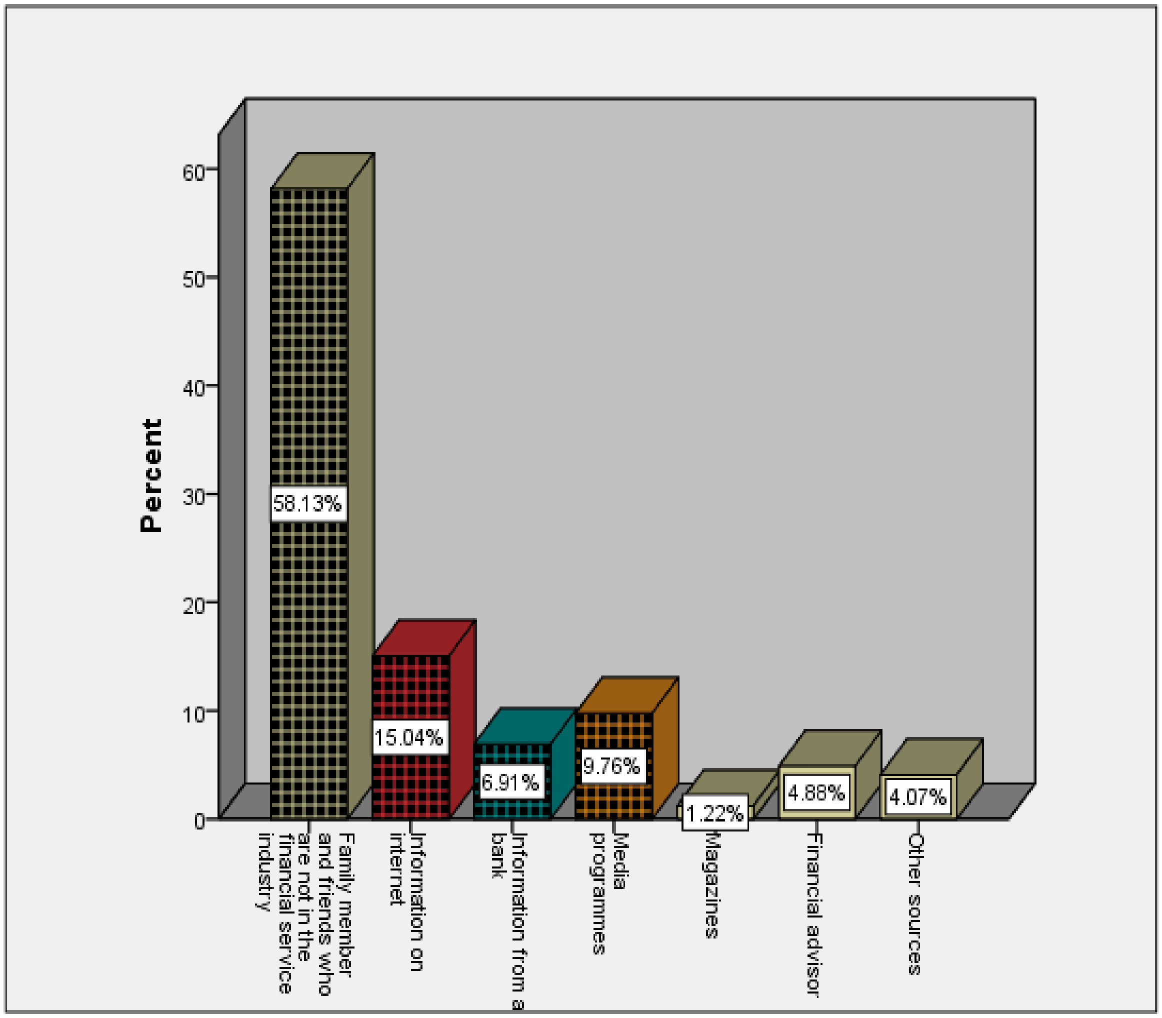

Figure 5.31: Source of information for financial advice

Source: Author

Individuals generally should read terms and conditions before entering into any form of contract not doing so could lead to serious problems in future. Figure 5.32 indicates that the majority of respondents (61.38%) did not read terms and conditions before buying financial products, although 38.62 percent did. This indicates a lack of financial responsibility among respondents because important information is contained in terms and conditions, including the repayment terms, interest rate and the buyer's rights and obligations. The answer 'yes' was taken to be the correct option for this question.

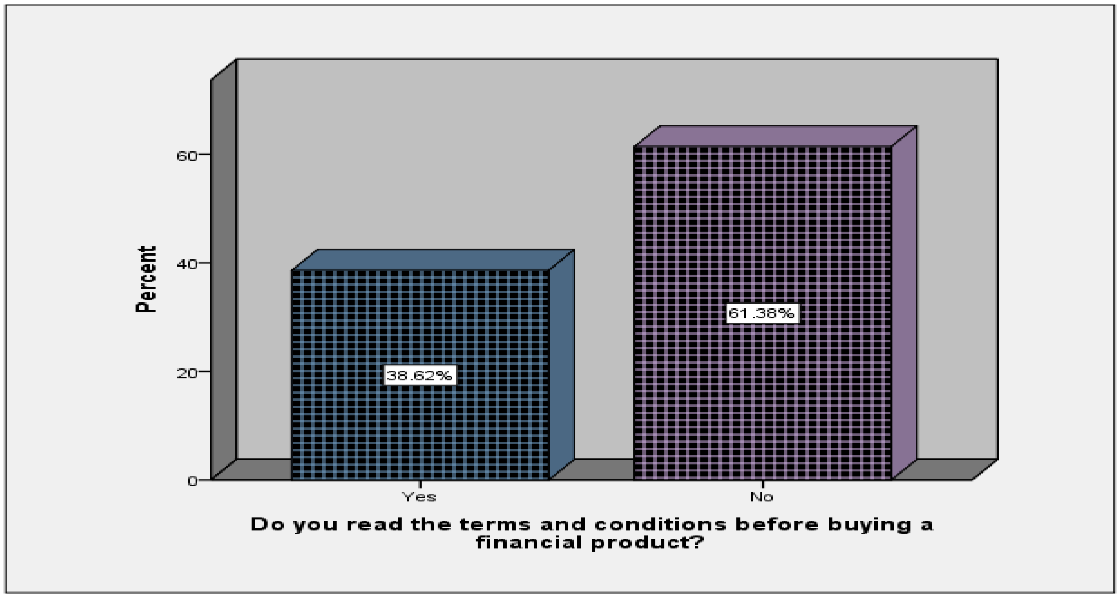

Figure 5.32: Reading terms and conditions

Source: Author

5.7 FINANCIAL KNOWLEDGE AND UNDERSTANDING

Financial knowledge and understanding are necessary for individuals to navigate through complex financial and economic concepts. This section covered eight variables to determine knowledge and understanding of retirement income, VAT, interest calculations and payment, credit reports, inflation, bank accounts and credit bureaus. The findings are presented in graphs below.

Figure 5.33 indicates the responses to the question: what is retirement income paid by the company? Most respondents (46.75%) chose pension as the correct option for this question, 19.51 percent said social security, 19.11 percent called it dividend income and 14.63 percent said premium income. It is important to note that 53.25% chose incorrect options. The respondents therefore showed a lack of knowledge regarding fundamental financial concepts. This problem could have implications for financial behaviour.

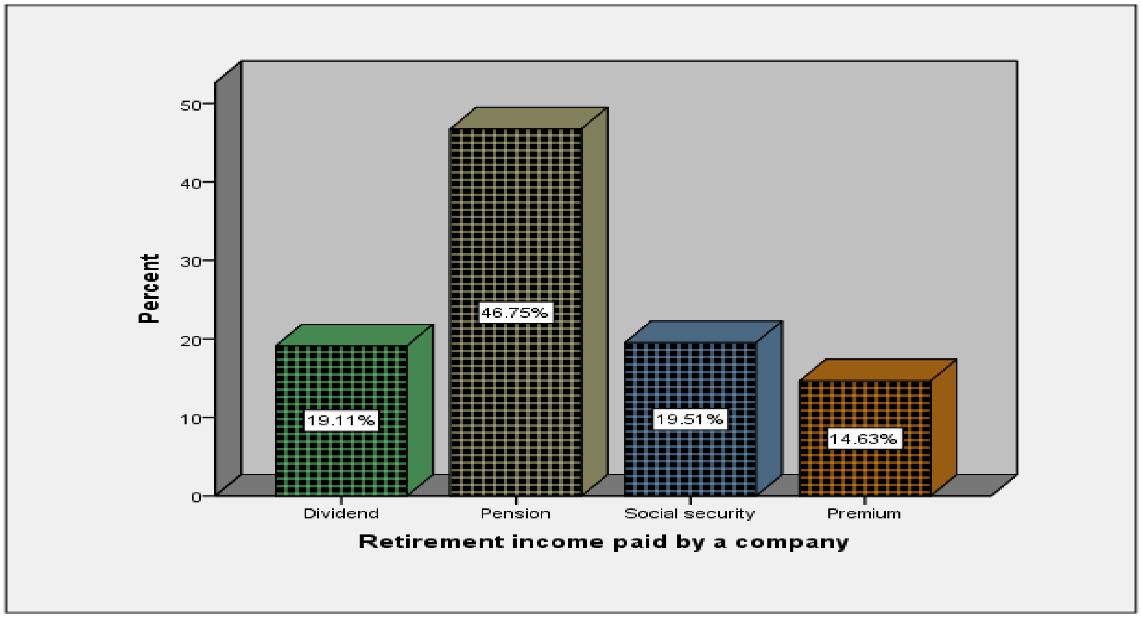

Figure 5.33: Retirement income

Source: Author

VAT affects every consumer in South Africa and is paid when goods and services are bought. It is widely expected that consumers should have a basic knowledge and understanding of VAT. Figure 5.34 indicates otherwise, with most respondents (36.59%) choosing that VAT is paid when buying goods and services as the correct option for this question, 22.76 percent indicating that the percentage of VAT is 6 percent, 20.73 percent saying that people should not pay VAT if income is too low and 19.92 believing that the government will deduct VAT from salaries. It important to note that generally the majority of respondents (63.41%) chose incorrect options as they did not have a basic knowledge and understanding of VAT.

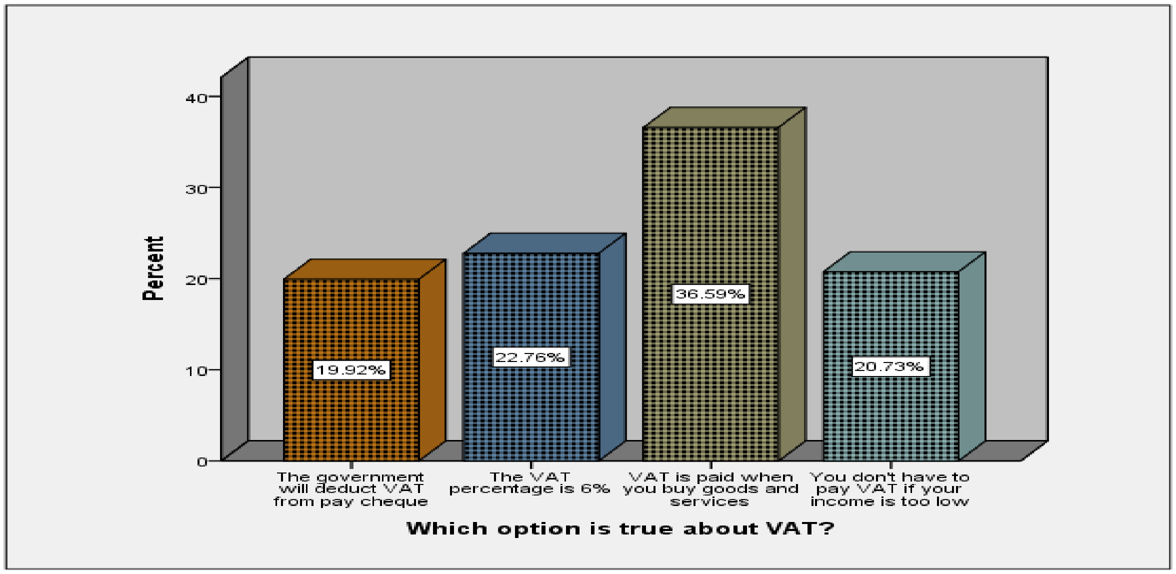

Figure 5.34: Value added tax (VAT)

Source: Author

Knowledge of interest calculations was tested and the findings appear in figure 5.35. A large number of the respondents (40.65%) chose R0 as the correct option for this question, 25.20 percent accepted R5 as true, 24.80 percent chose R30 and 9.35 percent chose R10. The findings further indicate that the majority (59.35%) chose incorrect options. This indicates a lack of basic financial knowledge and financial calculation skills.

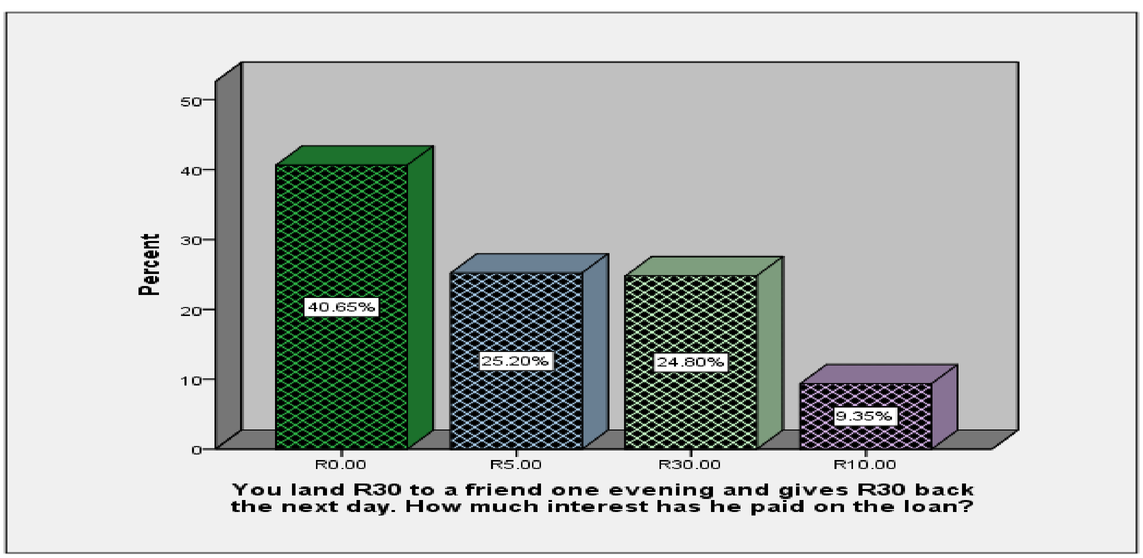

Figure 5.35: Interest calculation knowledge

Source: Author

Regarding credit report knowledge and access, figure 5.36 indicates that the majority of respondents (69.51%) had never obtained a copy of their credit report in the last 12 calendar months while 30.49 percent had. This could indicate a lack of financial awareness and responsibility. It is argued in literature that financial awareness improves financial behaviour because individuals are aware of their financial status. Individuals should obtain a copy of their credit report to verify their credit and financial wellness. A credit report is useful because individuals can also detect fraudulent transactions performed without their knowledge and protect themselves against identity theft. The answer 'yes' was taken to be the correct option for this question.

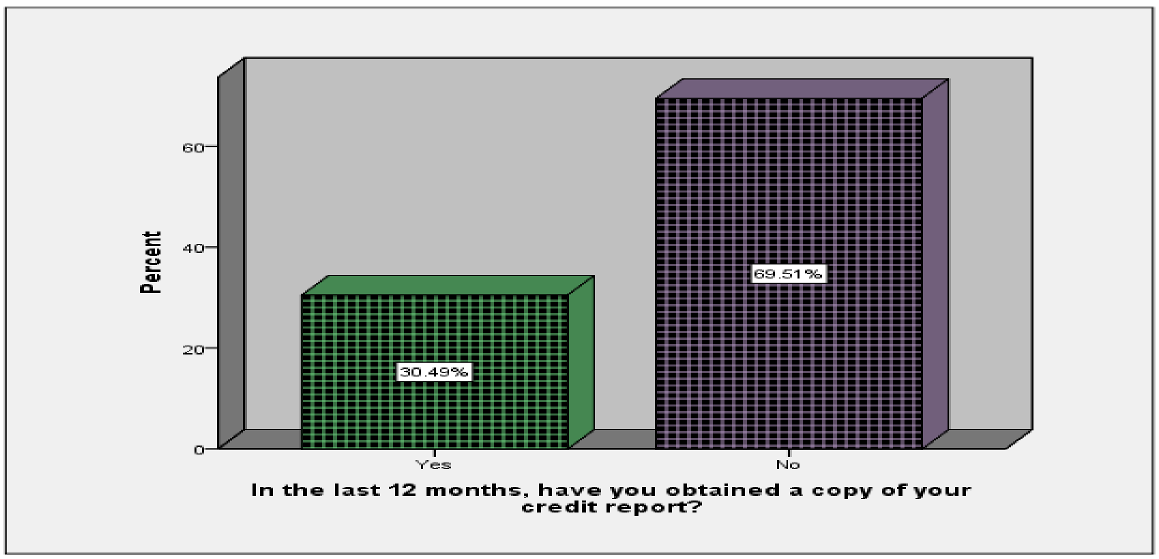

Figure 5.36: Accessing credit report

Source: Author

Concerning inflation, figure 5.37 shows that most respondents (56.50%) agreed that inflation represents a continuous increase in prices and affects purchasing power, whereas 43.50 percent disagreed with the statement. This is a positive sign that the majority understand financial and economic concepts, which could improve financial decisions. Wagland (2006) is of the opinion that basic financial knowledge is required first before developing skills and competence to make accurate financial decisions. The answer 'agree' was taken to be the correct option for this question.

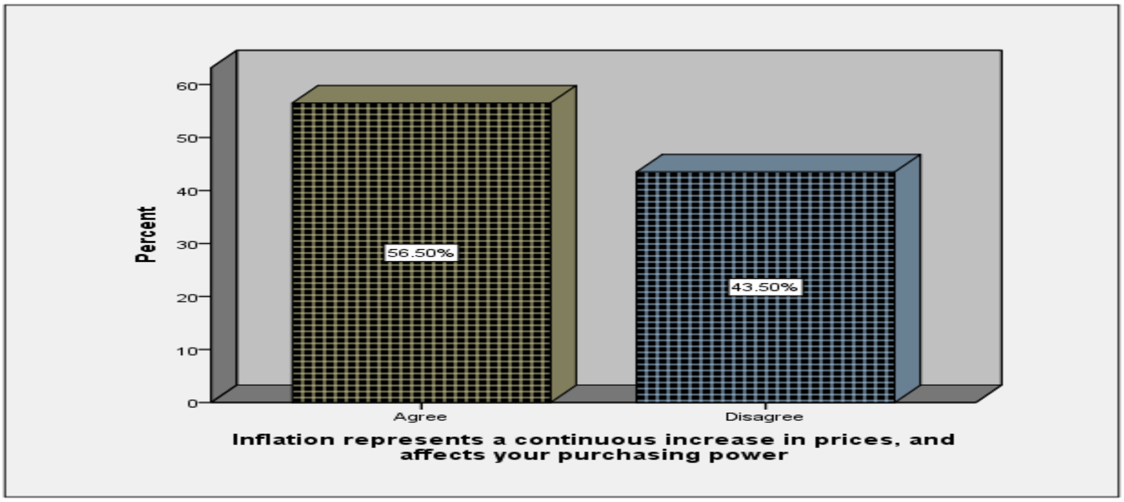

Figure 5.37: Inflation

Source: Author

This study analysed financial knowledge and understanding further by focusing on respondents' knowledge of banking products. The findings in figure 5.38 show that a large number of respondents (70.73%) agreed that a bank account is necessary to have an automated teller machine (ATM) card, and 29.27 percent disagreed. Respondents seemed to be highly knowledgeable on this question and it is a positive sign of financial literacy. This could be attributed to an increase in financial inclusion in Vhembe District. The answer 'agree' was taken to be the correct option for this question.

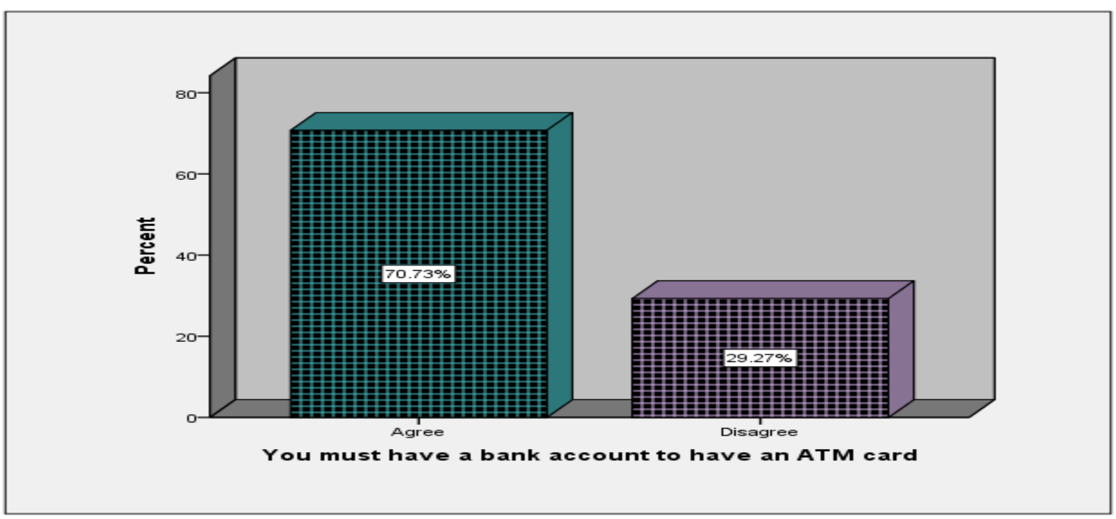

Figure 5.38: Bank account and ATM card

Source: Author

Credit cards are one of the most used banking products in South Africa (NCR, 2013). This study analysed whether adults in Vhembe District were knowledgeable about interest on credit cards. The findings in figure 5.39 show that the majority of respondents (52.03%) disagreed with the statement and were aware that interest is paid on credit cards. A total of 47.97 percent believed that no interest was paid on credit cards. This indicates that respondents had a basic knowledge of credit card functionality. The answer 'disagree' was taken to be the correct option for this question.

Figure 5.39: Interest on credit cards

Source: Author

The NCR credit bureau monitor (NCR, 2013) reveals an increase in debt defaults leading to most accounts being in arrears for more than three months. This has a negative effect on a consumer's credit profile. Respondents were asked a question to determine whether they knew that non-payment of debts could affect their profile negatively. As seen in figure 5.40, the majority of respondents (60.16%) agreed that if monthly instalments were not paid, their name would be negatively affected at the credit bureau and 39.84 percent did not agree with the statement. This indicates that respondents were aware of the consequences of non-payment of debt, and this could encourage them to rectify the situation. This is a positive sign of financial knowledge and understanding. The answer 'agree' was taken to be the correct option for this question.

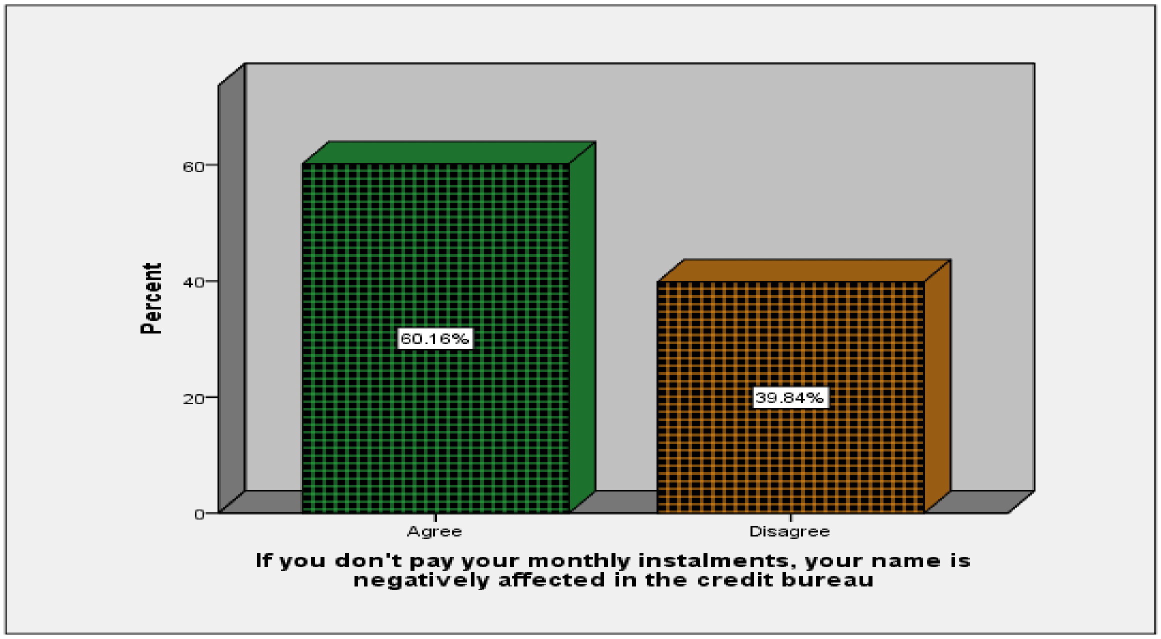

Figure 5.40: Knowledge of credit bureau

Source: Author

5.8 INTERRELATIONSHIP BETWEEN DEMOGRAPHIC FACTORS AND FINANCIAL LITERACY

It was the objective of this study to establish the relationship between demographic factors and financial literacy. In chapter 3, literature suggests that demographic factors could influence an individual's level of financial literacy. These factors were included in the questionnaire as indicated in the demographic and background information above. In this section, demographic information with enough representation of the sample and variation were paired with financial literacy items to determine if there was any relationship between demographic factors and the level of financial literacy among adults in Vhembe District. Gender, age and education provided enough representation of the sample and variation, and were paired with budget, keeping copies of financial documents and saving for retirement, respectively. This was done through systematic analyses of scientific literature, cross-tabulation tables and correlation tests.

5.8.1 Gender and use of budget

The study investigated which category of gender used a budget in the Vhembe District. Table 5.2 depicts the cross-tabulation:

Table 5.2: Gender and use of a budget

		Do you use a budget?		Total
		Yes	No	
Gender	Male	53	50	103
	Female	71	72	143
Total		124	122	246

Source: Author

The results of table 5.2 show that the significant numbers of the respondents (143) were females and 103 were males. Most males (51.46%) used a budget but 48.54 percent did not. Some 49.65 percent of females used a budget, whereas 50.34 percent did not. This indicates that by a slight percentage more males used a budget than females. This confirms the findings of previous studies (Lusardi & Mitchell, 2008; Zissimopoulos et al., 2008; Chen & Volpe, 2002) which identified gender as an influence on financial literacy levels, with males managing their finances better.

5.8.2 Age and keeping copies of financial documents

Respondents in Vhembe District have answered questions on both aspects of keeping copies of financial documents and age. This was to determine their financial knowledge in keeping the financial documents such as receipts for major purchases, tax records or loan agreements. This had to correspond with a certain age group of respondents in this study.

The cross-tabulation in table 5.3 indicates the relationship between age and the tendency to keep copies of financial documents.

Table 5.3: Age and keeping copies of financial documents

		Do you keep copies of financial documents?		Total
		Yes	No	
Age	< 21 years	1	2	3
	21 - 30 years	21	33	54
	31 - 40 years	50	44	94
	41 - 50 years	44	20	64
	51 - 60 years	12	17	29
	61 – above	0	2	2
Total		128	118	246

Source: Author

The results show that the majority of the respondents (66.67%) below 21 years old did not keep copies of financial documents and only 33.33% did. This did not improve much among respondents aged 21 to 30 because 61.11 percent did not keep copies of financial documents and 38.89 percent did. There was an improvement regarding respondents from 31 to 40 years old, where 53.19 percent kept copies but 46.81 percent did not. This indicates an increase in keeping financial documents with age. Furthermore, most respondents (73.33%) between 41 and 50 kept copies and only 26.67 percent did not. Of those respondents from 51 to 60 years old, 41.38 percent kept copies but 58.62 percent did not. This indicates that most respondents below 21 years old and 21 to 30 years old did not keep copies of financial documents, whereas those 31 to 40 years old and 41 to 50 years old did. However, there is a decline when it comes to respondents aged 51 to 60, as they were found not to keep copies of financial documents. This supports the findings of previous studies (Buckland, 2010; Xu & Zia, 2012) which indicated that financial literacy tends to peak among adults in the middle of their life cycle and is usually the lowest among young adults and older people.

5.8.3 Education and saving for retirement

The study determined if there was any influence between saving for retirement and level of education. The Pearson correlation was the statistical technique used to compute table 5.4.

Table 5.4: Education level and saving for retirement

		What is your highest level of education?	Are you saving for retirement?
What is your highest level of education?	Pearson correlation	1	-0.435**
	Sig. (2-tailed)		0.000
	N	246	246
Are you saving for retirement?	Pearson correlation	-0.435**	1
	Sig. (2-tailed)	0.000	
	N	246	246

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Author

The above findings in table 5.4 are all significant and indicate that there is a relationship between the two variables examined. In this case, the indicator of highest level of education is negatively correlated (R = - 0.435) with the factor of saving for retirement. This means that education was not found to be an influence on a respondent's ability and or inability to save for retirement. This supports findings by the ANZ (2011) that education level has an influence on some of the behavioural indicators of financial literacy but not on others.

This study was able to establish a relationship between demographic factors and an influence was determined regarding gender and the use of a budget, age and keeping copies of financial documents. However, the influence of education on saving for retirement was not established, it was negatively correlated.

The following demographic factors were not tested due to lack of enough representation and variation of the sample:

- Local municipality
- Marital status
- Race
- Employment status
- Income
- Main source of income

5.9 DESCRIPTIVE MEAN VALUE

The objective of this study was to evaluate the level of financial literacy among adults in Vhembe District. To achieve this objective, descriptive analysis was used to determine the descriptive mean value for each section (day-to-day money management, financial planning, choosing appropriate financial products and services and financial knowledge and understanding) as indicated below. This was achieved by compiling the frequency of correct options for each question in a section and dividing it by the number of questions. Not all questions were included in the day-to-day money management, financial planning and choosing appropriate financial products and services sections because some questions were only indicators and outliners of financial behaviour and responsibility. The financial knowledge and understanding section included all the questions.

5.9.1 Descriptive mean value for day-to-day money management

In this section 9 questions were included to determine the descriptive mean value. Questions relating to responsibility for daily household money management (figure 5.6) and behaviour when income did not cover monthly expenses (figure 5.11) were not included, but were used to determine money management behaviour.

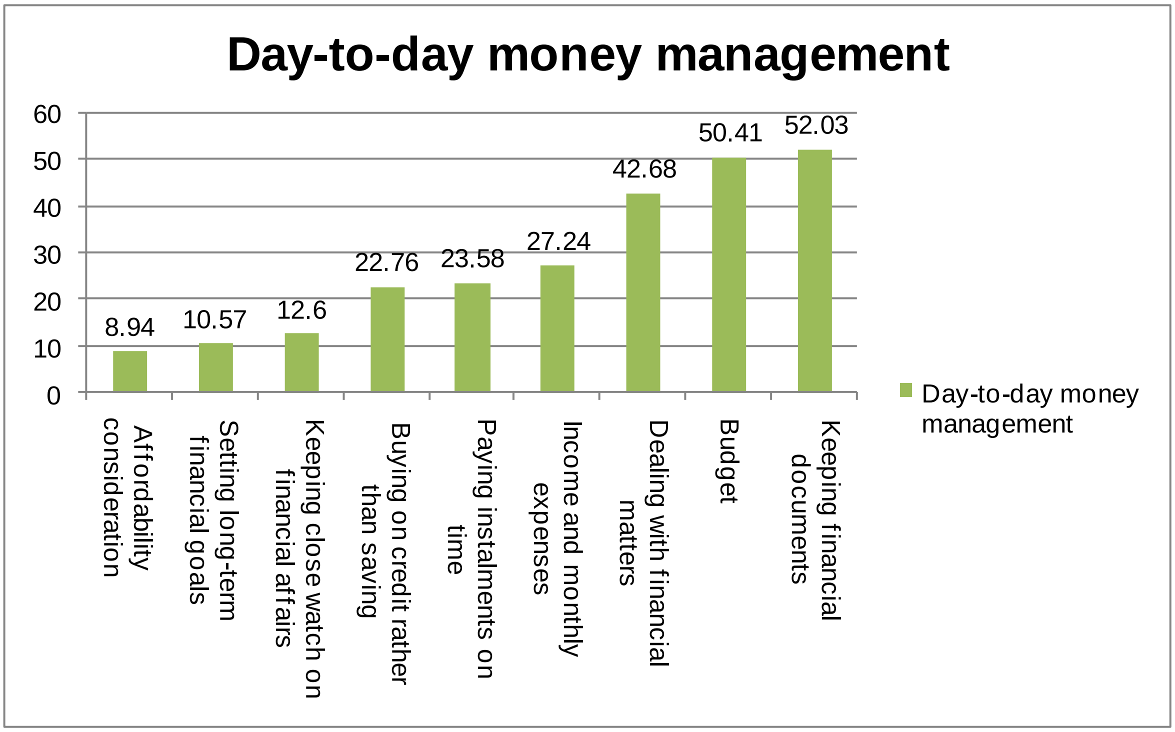

Figure 5.41: frequency of correct options for day-to-day money management

Source: Author

To determine the descriptive mean value of financial literacy for this section, the frequency of the correct option for each question, excluding two outliners and indicator questions, was created as indicated in figure 5.41 above. The sum of all frequencies of correct options (250.81) in this section was divided by the number of questions (n = 9). The findings are indicated in table 5.5.

Table 5.5: Descriptive mean value for day-to-day money management

N	Valid	9
	Missing	2
Average(Mean)		27.87%

Source: Author

The ability to make financial choices, discuss financial issues and apply day-to-day money management skills to make important financial decisions appears to be lacking and leads to high debt accumulation and financial distress.

5.9.2 Descriptive mean value for financial planning

The financial planning descriptive mean value for correct options comprises 9 questions as indicated in figure 5.42. Three questions were not included. These questions were about financial plan for retirement (figure 5.22), money saving patterns (figure 5.23) and financial advice (figure 5.28).

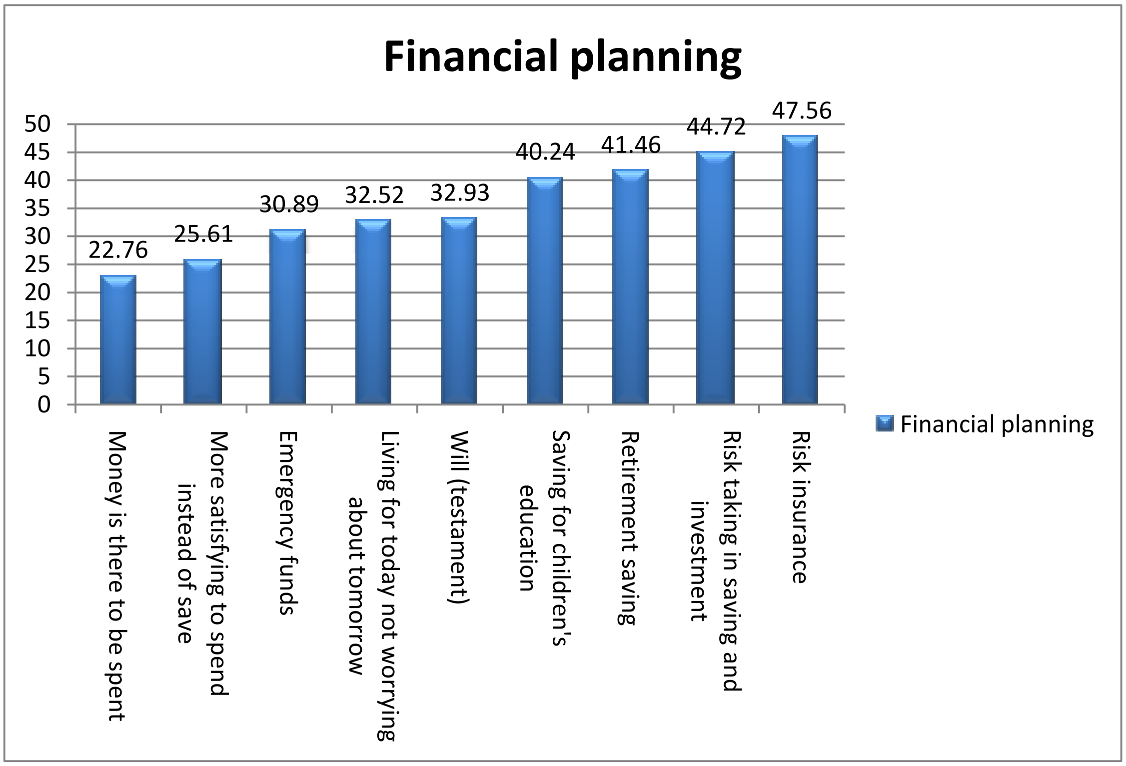

Figure 5.42: Frequency of correct options for financial planning

Source: Author

Table 5.6 indicates descriptive mean value, calculated by adding all frequencies of the correct options (318.69%) indicated in figure 5.42 above and dividing by the number of questions (n = 9).

Table 5.6: Descriptive mean value for financial planning

N	Valid	9
	Missing	3
Average (Mean)		35.41%

Source: Author

5.9.3 Descriptive mean value for choosing appropriate financial products and services

In this domain, 3 out of 4 questions were included in determining the descriptive mean value. The question relating to source of information for financial advice (figure 5.31) was not included. It was used as an indicator of financial behaviour. The frequency of the correct options as indicated in figure 5.43 totalled (127.23) and was divided by the number of questions (n = 3). The results are indicated in table 5.7.

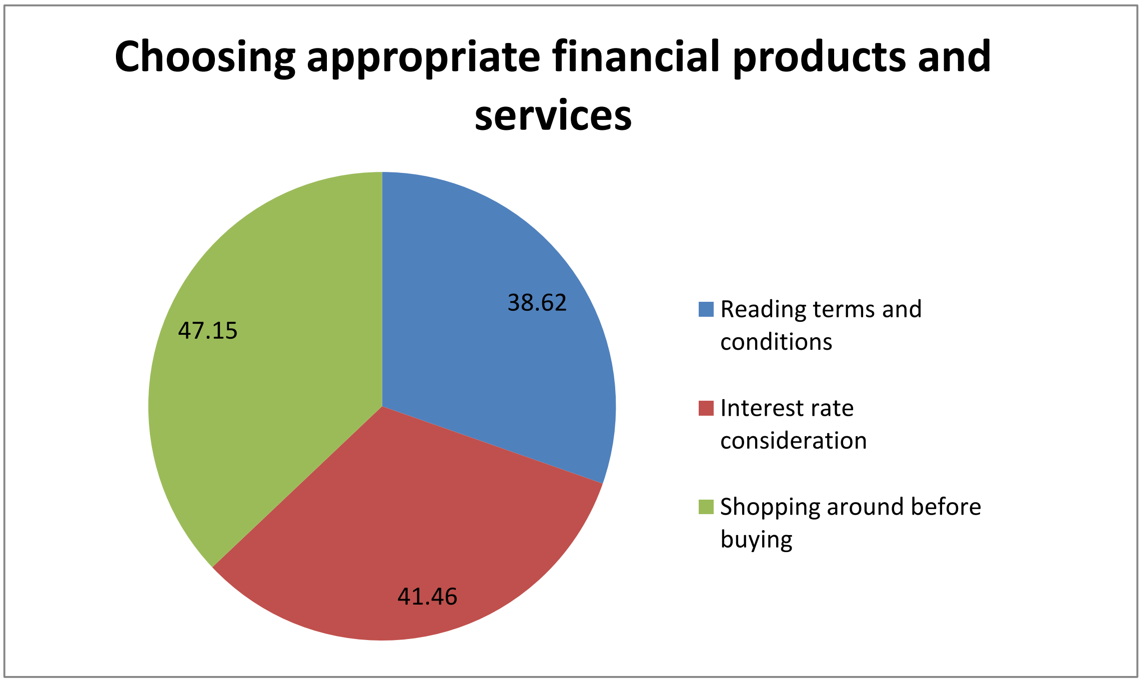

Figure 5.43: Frequency of correct options for choosing appropriate financial products and services

Source: Author

The descriptive mean value for respondents that chose the correct options is 42.41 percent as indicated in table 5.7. This means that 42.41 percent of respondents were able to choose financial products and services that were suitable for and relevant to their financial situation. This could further indicate most respondents were unable to make appropriate financial choices about products and services.

Table 5.7: Descriptive mean value for choosing appropriate financial products and services

N	Valid	3
	Missing	1
Mean		42.41%

Source: Author

5.9.4 Descriptive mean value for financial knowledge and understanding

To determine the descriptive mean value in this domain, all 8 questions were included. The frequency of correct options as indicated in figure 5.44 totalled (393.9) and was divided by the number of questions (n = 8). The results are presented in table 5.8.

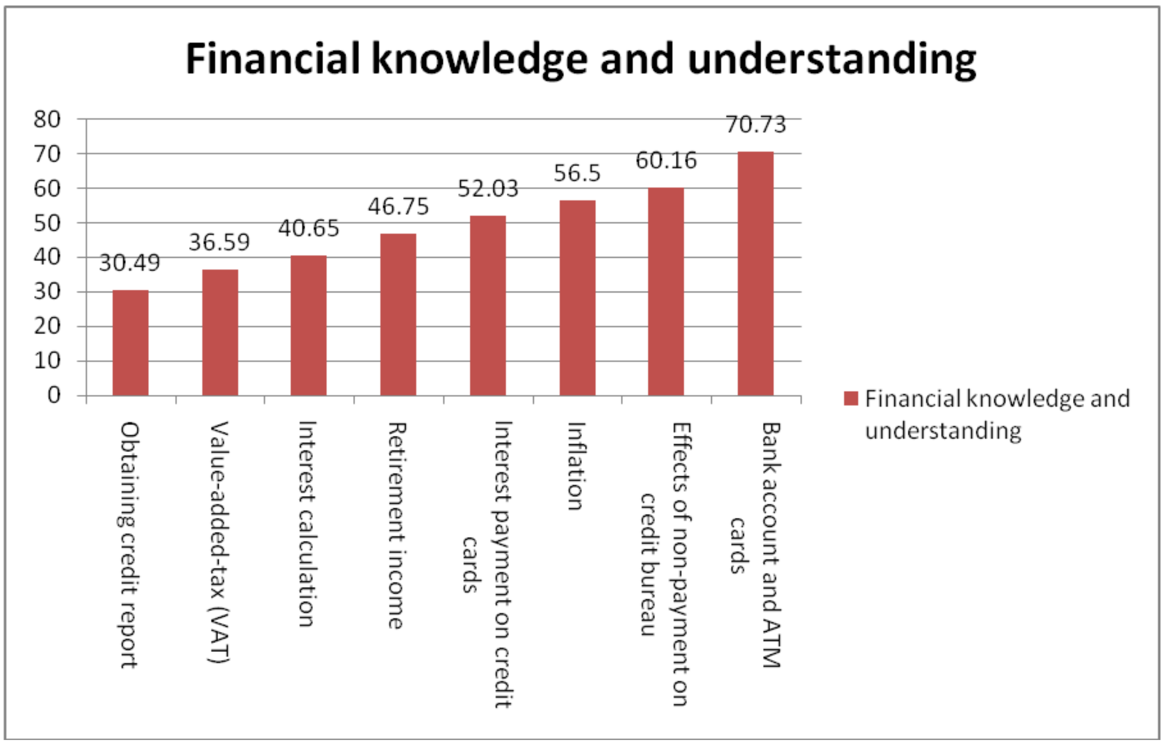

Figure 5.44: Frequency of correct options for financial knowledge and understanding

Source: Author

Table 5.8 indicates the results of the descriptive mean value of respondents that chose the correct options. The mean is 49.24 percent.

Table 5.8: Descriptive mean value for financial knowledge and understanding

N	Valid	8
	Missing	0
Mean		49.24%

Source: Author

5.10 FINANCIAL LITERACY LEVEL OF RESPONDENTS

To determine the overall financial literacy level of respondents, the descriptive mean values of all financial literacy domains were summarised as indicated in figure 5.45. The results indicate that respondents chose most options (49.24%) correctly in the financial knowledge and understanding domain, followed by 42.41 percent in choosing appropriate financial products and services. In the financial planning domain 35.41 percent chose options correctly. In day-to-day money management respondents performed poorly with 27.87 percent of correct options being chosen, which is the lowest in all domains as indicated in figure 5.45.

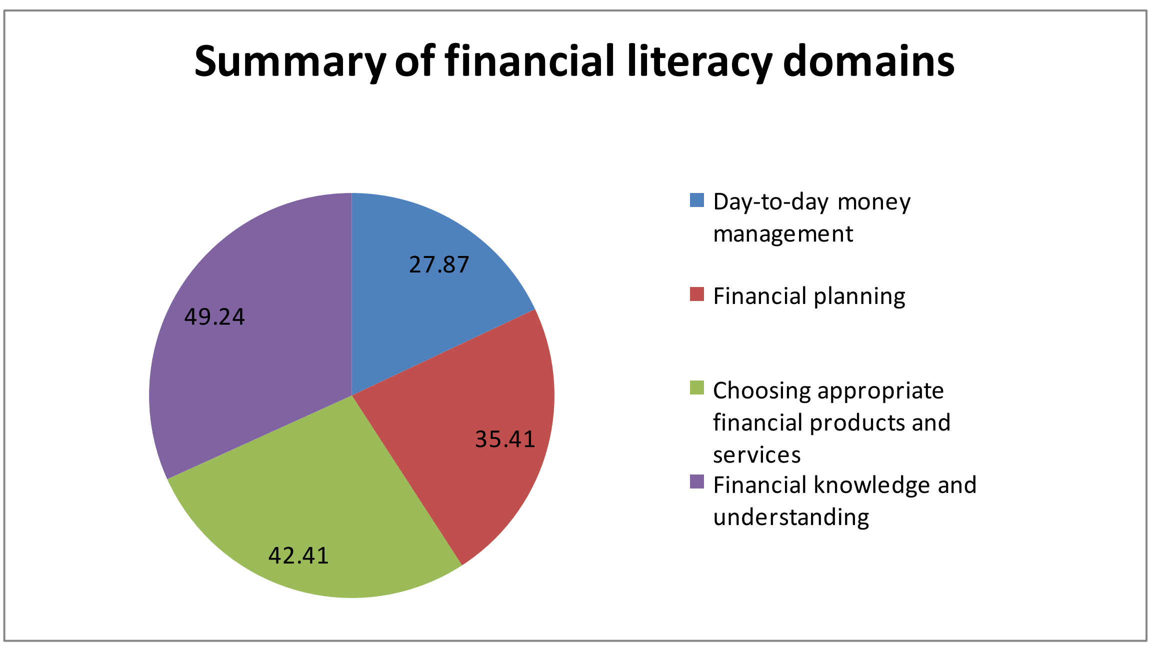

Figure 5.45: Summary of financial literacy domains

Source: Author

The sum of the descriptive mean value (154.93) of all domains was divided by the number of domains (n = 4) as indicated in table 5.9. This indicates that the overall level of financial literacy among respondents in Vhembe District is 38.73 percent.

Table 5.9: Overall financial literacy level of respondents

N	Valid	4
	Missing	0
Mean		38.73%

Source: Author

This could indicate a lack of proper day-to-day money management and financial planning, an inability to choose appropriate financial products and services and a lack of financial knowledge and understanding, which appears to be a problem.

5.11 SUMMARY

This chapter covered demographic and background information to establish information relevant to the study. The purpose was to understand the population from which the sample was sourced in order to analyse the level of financial literacy based on four domains, namely day-to-day money management, financial planning, choosing appropriate financial products and services and financial knowledge and understanding. The results presented a response rate of 82 percent, which was acceptable.

The demographic information highlighted that most respondents (45.53%) were based in Thulamela local municipality and were black (83.33%), which is in line with the population distribution in Vhembe District. Most respondents (58.13%) were female, with a large number (38.2%) between the ages of 31 and 40 years. The study showed that most respondents (31.71%) were married. Regarding education level, most respondents (28.86%) had matriculated. Vhembe District has a high unemployment rate with most respondents

(44.71%) being unemployed. The majority of respondents (45.53%) earned less than R5 000 mainly from a salary (45.12%) and government grants (23.17%). The study suggests that there is a relationship between gender and financial literacy, with more males (51.46%) using a budget than females to manage their finance. Furthermore, the study also suggests a relationship between age and financial literacy with most respondents (53.19% and 73.33%) in the middle of their life cycle, aged 31 to 40 and 41 to 50, respectively, keeping copies of financial documents. However, the study did not establish the relationship between education and ability to save for retirement, and the correlation was negatively correlated at ($R = -0.435$).

The day-to-day money management domain indicated that most respondents (34.96%) took sole responsibility for daily household money management. This is a positive sign of money management behaviour and financial responsibility. The majority of respondents (57.32%) did not enjoy dealing with financial matters, but most (50.41%) used a budget to manage their finances. This study highlights that the majority of respondents (52.03%) kept copies of financial documents. The income of most respondents (72.76%) did not cover their monthly expenses. It was encouraging to note that most respondents (15.85%) cut back on spending when they were in that situation. However, it was also noted that a number of respondents (10.57%), (10.16%) and (9.76%) borrowed money from family members, paid instalments late and took out loans from Mashonisa, respectively, in order to cover monthly expenses. This study suggests that affordability checks are a serious problem among respondents, with only 8.94 percent considering whether they could afford an item before buying it. A Large number of respondents (43.09%) never paid instalments on time and most (53.66%) never kept a close watch on their financial affairs. This study also found that the majority of respondents (59.76%) never set long-term financial goals and therefore did not work hard to achieve them. Most respondents (52.85%) bought on credit rather than waiting and saving for the item. The descriptive mean value score for day-to-day money management was found to be 27.87 percent, which indicates that respondents' money management behaviour is not good or effective.

The financial planning domain plays an extremely important role in determining whether individuals will be able to achieve financial goals and wellness during retirement. This study highlights that the majority of respondents (69.11%) did not have emergency funds for unexpected expenditure. Most (59.76%) were not saving for their children's education or for retirement (58.54%) and most (49.59%) planned to survive on the government pension during retirement. This study found that most respondents (52.44%) did not have any risk insurance or a will (testament) (67.07%). A large number of respondents (28.05%) saved money at home but not with financial institutions. The majority of respondents (74.39%) found spending more satisfying than saving for the long term, with 77.24 percent believing that money was there to be spent. Most respondents (67.48%) lived for today and did not consider future financial commitments. The majority of respondents (55.28%) were not prepared to risk money when saving. It was also found that respondents did not use professional financial advisors, with most (29.27%) relying on a family member for financial advice and a high number (24.80%) not asking anyone. The descriptive mean value score for the financial planning domain was found to be 35.41 percent, which indicates a lack of proper financial planning.

Financial products and services are part of our daily lives and there is an increasing need to choose them appropriately. The choosing appropriate financial products and services domain was analysed. This study highlights that most respondents (52.85%) never shopped around before buying financial products and services and did not consider the interest rate (58.54%). Most respondents (58.13%) relied on family members and friends for advice when buying financial products and services and did not read terms and conditions of financial contracts (61.38%). The descriptive mean value score for choosing appropriate financial products and services was 42.41 percent which suggests that respondents did not choose financial products and services appropriately.

The financial knowledge and understanding domain is considered to be a cornerstone of financial success. This study found that most respondents (53.25%) did not know that the retirement income paid by the company is pension, that VAT is paid when buying goods and services (63.41%). Most respondents (59.35%) failed to answer the interest calculation question correctly. Most respondents (69.51%) had not obtained a copy of their credit report in the last 12 months and agreed that inflation represents a continuous increase in price and affects purchasing power (56.50%). A Large number of respondents (70.73%) agreed that it is necessary bank account in order to have an ATM card. Most respondents (52.03%) were aware that interest is paid on credit cards and were also aware that if monthly instalments are not paid, their name would be negatively affected in the credit bureaus (60.16%). The descriptive mean value score for this domain was 49.24 percent, which is the highest score in all domains, indicating that respondents chose (49.24%) correct options. However, this could also indicate a lack of financial knowledge and understanding.

The overall financial literacy level among respondents was found to be 38.73 percent. This indicates that the level of financial literacy among respondents in Vhembe district is low. This is evidence of financial illiteracy and would suggest the need for a more focused financial education among residents of the Vhembe District in order to improve their levels of financial literacy to manage finances effectively. The next chapter will highlight the summary, conclusions and recommendations of the study,

CHAPTER 6

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.1 INTRODUCTION

In the previous chapter the findings of the study were discussed in detail. This study specifically focused on personal financial literacy. It is widely accepted in literature that the individual’s level of financial literacy will definitely affect, determine and contribute to their overall financial and social well-being.

The primary objective of this study was to evaluate the level of financial literacy among adults in Vhembe District Municipality in Limpopo, South Africa, with specific reference to day-to-day money management, financial planning, choosing appropriate financial products and services and financial knowledge and understanding.

To achieve the primary objective of the study the following secondary objectives were investigated:

- To determine the level of financial literacy among adults in Vhembe District Municipality.
- To establish the relationship between demographic factors and financial literacy among adults in Vhembe District Municipality
- To determine the money management behaviour among adults in Vhembe District Municipality.

The main objective of this chapter is to provide a comprehensive conclusion to the study. Firstly, a brief summary of each chapter is given. Secondly, conclusions are drawn about the level of financial literacy among adults in Vhembe District Municipality. Thirdly, suitable recommendations are made based on the results of the study discussed in chapter 5. Fourthly, the limitations of the study are discussed. Lastly, suggestions for further research are highlighted.

6.2 SUMMARY

Summaries are now provided of the chapters thus far.

Chapter 1 indicated the motive for undertaking the study and the plan used to complete the research. The background of the study was introduced, followed by the research problem statement and objectives of the study. The status of financial management practice in South Africa, especially in rural and low-income areas, was introduced. The state of financial literacy among adults in South Africa, Vhembe District and worldwide was highlighted from a comprehensive review of literature which supported the formulation of domains necessary to analyse the level of financial literacy in Vhembe District. The methodology used to conduct the study was introduced. The scope and demarcation of the study, significance of the study and code of ethics considered during the research were discussed. The concepts related to the study were defined.

Chapter 2 provided an overview of personal financial management through a review of literature. Personal financial management is becoming increasingly complex due to changes in economic conditions, political climate, inflation and larger number of financial institutions, all of which necessitate a more efficient and effective management of personal finances by individuals. Thus the importance of personal financial management in an individual's life cannot be underestimated. This was highlighted in the chapter, together with the definition and components of personal financial management.

The contention in literature is that personal financial planning is the cornerstone to financial freedom. It was against this background that the chapter covered personal financial planning. It was established that personal financial planning is a process targeting not only financial goals, but also overall life goals and should be undertaken at an early stage of the human life cycle to prevent financial difficulties, especially during retirement. Thus the personal financial planning process depends on an individual's specific needs, risk profiles, financial goals and family dynamics, and includes gathering financial information, preparing personal financial statements, indentifying objectives and needs, identifying constraints, comparing the current situation with identified needs, analysing investment opportunities, developing the plan and evaluating and monitoring the plan. Thus the long-term benefit of personal financial planning is financial independence, an improved standard of living, wise spending habits and increased wealth.

Furthermore, important areas in managing personal finances and problems associated with personal financial management were highlighted. Budgeting, credit, saving and planning for the future and income tax planning were identified as important areas in the management of personal finances. Therefore individuals must pay more attention to these important areas to manage finances effectively. Financial vulnerability and consumer money management behaviour were identified as the most prominent problems associated with personal financial management in South Africa, especially among adults in rural and low-income areas. Thus adults in rural and low-income areas are financially vulnerable, resulting from an inability to manage finances which is closely associated with poor money management behaviour. This leads to high debt levels, stress, decline in health, broken families and deteriorating financial well-being. It was against this background that the last section of the chapter focused on the need to solve and reduce personal financial management problems. It was emphasised that there was a need to investigate personal financial literacy in rural and low-income areas, specifically Vhembe District Municipality.

Chapter 3 specified the theoretical concepts of personal financial literacy which was the main theme of investigation in this study. An in-depth review of concepts associated with personal financial literacy was necessary. The chapter covered various definitions of personal financial literacy and it was established that the consistent themes of these definitions include financial knowledge, understanding the basic concepts of money management and using knowledge and understanding to plan and implement financial decisions. The personal financial literacy definition for the purpose of this study was indicated in the chapter and involved the domains of day-to-day money management, financial planning, choosing appropriate financial products and services, and financial knowledge and understanding. This definition was used in designing the questionnaire.

The chapter also highlighted the core elements together with the indicators of financial literacy. It was established that core elements of financial literacy are classified into financial knowledge and understanding, financial skills and competence, and financial responsibility. The FSA (2006) notes, that the indicators of financial literacy entail the ability to demonstrate effective money management behaviour to make sound financial decisions.

The chapter also covered the levels in the process of becoming financially literate. TBSA (2006) suggests that to become financially literate, an individual should follow the process of basic understanding, developing confidence, developing competence and functioning with confidence and competence. Thus financial literacy is a continuous incremental and lifelong process of knowledge, skills, attitude, behaviour and understanding.

The benefits of a high level of financial literacy and the consequences of a low level of financial literacy were also identified. The benefits are increased retirement planning, increased investment and saving, life skills and bargaining power, financial efficiency and improved financial behaviour. The consequences of a low level of financial literacy include spending more than income, not keeping detailed financial records, not planning or implementing a regular investment programme, making incorrect financial decisions and over-confidence. Therefore financial literacy remains an important part in an individual’s life in managing finances and should be treated as such to ensure that the individual’s financial well-being is improved.

The chapter further focused on demographic influence on financial literacy. A secondary objective of this study was to determine which demographic factors have an influence on adults’ financial literacy in Vhembe District. It was against this background that demographic factors were reviewed, which also formed part of the questionnaire. Literature identifies age, gender, education and work experience, income level and socio-economic conditions as the most prominent demographic factors that influence financial literacy.

The chapter concluded with financial education and training. The influence of financial education and training on financial literacy and the provision of financial education were reviewed. It was established that financial education and training has an influence on financial literacy and that there is an increasing need for financial literacy programmes globally to empower individuals and improve their levels of financial literacy.

Chapter 4 dealt with the research methodology and design used to answer the research question. The quantitative approach, together with an exploratory and descriptive design, was used in designing questions and collecting secondary and primary data. Data was collected from all four local municipalities in Vhembe District by the researcher with the assistance of trained field-workers using self-administered questionnaires which were pre-tested to confirm reliability and validity. The questionnaire obtained information on the following: demographics, day-to-day money management, financial planning, choosing appropriate financial products and services and financial knowledge and understanding. Respondents were sampled by following a rigid sampling technique and visited at their homes, where the questionnaire was distributed and collected after a week. The tools used in analysing the collected data were introduced. Permission to conduct the study and ethical considerations were also highlighted

Chapter 5 covered the analysis and interpretation of data collected through questionnaires among adults in Vhembe District. The response rate was substantial. The results were analysed by means of SPSS with Excel spreadsheets used to capture the data. The results were presented in frequency tables, pie charts and bar charts and were also interpreted.

Chapter 6 concludes the study by covering the results of the research. Conclusions of each study objective are highlighted and the necessary recommendations based on the results are made. The chapter also covers the limitations of the study and provides suggestions for further research.

6.3 CONCLUSIONS OF STUDY OBJECTIVES

In this section the conclusions of the primary and secondary objectives and the overall study conclusions are discussed. There were a number of significant findings from this study which were reported in chapter 5. The primary objective of this study was to evaluate the level of financial literacy among adults in Vhembe District in Limpopo, South Africa, with specific reference to the domains of day-to-day money management, financial planning, choosing appropriate financial products and services and financial knowledge and understanding. The findings indicate that the level of financial literacy among respondents in Vhembe District is 38.73 percent, as indicated in chapter 5. It could therefore be concluded that the overall level of financial literacy of respondents in Vhembe District Municipality is low.

The following secondary objectives were investigated:

6.3.1 To determine the level of financial literacy among adults in Vhembe District Municipality

To determine the overall level of financial literacy among adults in Vhembe

District Municipality, the level of financial literacy was investigated around the domains of day-to-day money management, financial planning, choosing appropriate financial products and services and financial knowledge and understanding by determining the descriptive mean value for the correct answers for each domain, as indicated in chapter 5. The results indicate the level of financial literacy for day-to-day money management (27.87%), financial planning (35.41%), choosing appropriate financial products and services (42.41%) and financial knowledge and understanding (49.24%). This shows low levels of financial literacy in all domains. However, it could be argued that respondents showed a better and encouraging level of financial literacy in financial knowledge and understanding domain, even though it is still low. This supports the findings by the FSB (2012) that individuals in low-income and rural areas are struggling to manage their finances and make ends meet. This is attributed to low levels of financial literacy. This is in line with other studies: Atkinson et al. (2007), found that lower income individuals' level of financial literacy falls between the middle or lower half of the level, with Lusardi and Mitchell (2011) showing that globally low-income areas have a low level of financial literacy. Cole and Fernando (2008) note that levels of financial literacy in developing countries remain comparatively low. However, this study's results contradicted findings by Buckland (2010) of financial literacy among low-income Canadian adults.

6.3.2 To establish the relationship between demographic factors and financial literacy among adults in Vhembe District Municipality

The second secondary objective was to investigate the relationship between demographic factors and financial literacy among adults in Vhembe District. The results, as indicated in chapter 5, establish a relationship between gender and financial literacy. Most males (51.46%) were found to use a budget. This is line with findings by Lusardi and Mitchell (2008) that males manage their finances better. Age was found to influence the factor of keeping copies of financial documents, with most respondents aged 31 to 40 (53.19%) and 41 to 50

(73.33%) keeping copies. This supports the finding by Xu and Zia (2012) that financial literacy is high among adults in the middle of their life cycle. Buckland (2010) also established the relationship between age and financial literacy among low-income Canadian adults. The level of education was found in literature to influence the level of financial literacy. However, this current study found a negative correlation (R=-0.435) between education and the ability to save for retirement. This indicates that respondents with a higher education level did not save for retirement. This supports the findings by ANZ (2011) that education has an influence on certain financial behavioural indicators but not all.

Some demographic factors could not be further analysed due to a lack variation or enough representation of the total sample, namely local municipality, marital status, race, employment status, income and main source of income. However, it could therefore be concluded from the demographic factors analysed that gender and age had an influence on the level of financial literacy while education level did not.

6.3.3 To determine the money management behaviour among adults in Vhembe District Municipality

The third secondary objective was to determine the money management behaviour among adults in Vhembe District Municipality. The indicators of good money management behaviour and benefits were given in chapter 2. The results, as indicated in detail in chapter 5, show on the positive side that most respondents took responsibility for daily household money management (34.96%), used budget (50.41%), kept copies of financial documents (52.03%) and made an effort to try to cut down on spending (15.85%) when confronted by the situation.

However, a number of findings are of great concern and suggest that respondents' money management behaviour is poor. Most respondents did not pay instalments on time (43.09%), their income did not cover their monthly expenses (72.76%), they did not always check affordability (91.06%), they did not keep a close watch on financial affairs (53.66%), they did not set long-term financial goals (59.76%), they did not save for retirement (58.54%) for their children's education (59.76%) or for emergency (69.11%), they saved their money at home (28.05%), they did not review credit reports (69.51%) or shop around for better financial products and services (52.13%), they did not consider interest rates (58.54%) and bought on credit rather than saving for the item (52.85%), and they took out loans from family members, friends and Mashonisa to finance daily expenses (30.49%).

This shows that respondents' did not save and invest efficiently, could not manage credit effectively, overspent and did not plan for the future, even though some were found to be using a budget. This means that they did not use their budget effectively to successfully regulate finances and thus reduce unnecessary spending. This supports the findings by Kidwell and Turrisi (2004) that individuals do not budget efficiently and effectively to manage personal finances. It is concluded that respondents' overall money management behaviour is extremely poor and contributes to over-indebtedness and continued deteriorating financial well-being Vhembe District. This is in line with the findings by Momentum (2012) that 73 percent of South African households are not financially well which is mostly attributed to an increase in unsecured debt offered to households in rural and low-income areas. This supports the findings by Finmark Trust (2012a), NCR, (2013) that the financial behaviour of consumers in rural and low-income areas is poor and they are financially vulnerable.

6.4 CONCLUSIONS OF THE STUDY

In light of the study results and objectives discussed above, this study provided insight into the levels of financial literacy among sampled adults in Vhembe District Municipality. The overall level of financial literacy was found to be low

(38.73%). Adults achieved the worst results in the day-to-day money management domain (27.87%) and better results in financial knowledge and understanding (49.24%). It is concluded that low levels of financial literacy have serious consequences for an adult's personal financial management skills and lead to their inability to make correct financial decisions, inadequate financial planning and implementation of regular investment programmes and their tendency to spend more than their income.

Regarding the influence of demographic factors on the level of financial literacy, this study established that adult males were more likely to have higher levels of financial literacy (51.46%) than adult females (49.65%). Adults in the middle age group were more likely to have higher levels of financial literacy (53.19%) than young adults (38.89%) and older adults (41.38%). Financial literacy was found to grow with age and decline after the adults reach a peak age. The level of education was found to have no influence on an adult's level of financial literacy.

This study further indicated that although adults were using a budget and taking responsibility for daily household money management, their overall money management behaviour was poor and contributed to overspending, lack of debt control and inability to save. It is also concluded that low levels of financial literacy among adults (38.73%) seems to be one of the main contributing factors towards the overall poor money management behaviour among adults. This indicates that adults in Vhembe District Municipality have to reconsider their money management behaviour with the ultimate goal of improving their financial situation and moving away from the notion of “buy now, pay later”. Financial literacy could play a crucial role in improving money management behaviour and financial knowledge and understanding by educating adults on matters related to financial control, financial planning and appropriate financial behaviour. However, adults must be willing to change their mindset and tendencies towards money management.

Based on these findings, recommendations are made in the next section with regard to relevant financial literacy interventions to improve financial literacy among adults in Vhembe District Municipality.

6.5 RECOMMENDATIONS

This study has indicated low levels of financial literacy and poor money management behaviour among sampled adults in Vhembe District Municipality and has also established the relationship between demographic factors and financial literacy. It is strongly argued in literature that individuals with low levels of financial literacy are affected negatively, mainly in their ability to understand matters of a financial nature, financial decision making, behaviour and knowledge. This in turn affects their overall financial well-being, leading to confusion about when to save, when to spend, managing a budget, choosing appropriate financial products and services and knowledge to attend to other initiatives such as financing their children's education and planning for retirement. Financial literacy should be prioritised to ensure that an adult's financial management skills are developed to improve their money management behaviour to ensure that they manage their finances successfully and avoid overspending and indebtedness. It is against this background that recommendations are made below.

It is recommended that adults review their spending behaviour and ensure that they check affordability before buying. They also need to use a budget effectively, ensure that they pay instalments on time and avoid taking out loans to finance daily expenses when income does not cover monthly expenses. It is extremely important and recommended that adults should keep a close watch on their financial affairs to ensure that they live within their means and consider reviewing credit reports in order to know their creditworthiness and detect any fraudulent activities to prevent identity theft.

It is further recommended that adults change their attitude and beliefs towards money, namely that money is there to be spent and that they should rather spend instead of saving, and thinking that tomorrow will take care of itself. Therefore they need to start saving for unexpected expenditure, retirement and their children's education and take out risk insurance such as funeral cover, car insurance, household insurance, life cover and medical aid. They should ensure that they set long-term financial goals and work towards achieving them to fulfil their financial plan.

There a general agreement in literature that financial education plays an important role in the financial management of individuals and more information about financial matters increases individuals' financial knowledge and understanding, and could lead to improved financial behaviour. It is recommended that Vhembe District Municipality NPO's such as Vuka Trust and 'You and Your Money', which work with communities, especially in rural areas, to visit the local municipalities and conduct financial literacy workshops. It is advisable that the contents of the workshop training focus mostly on basic financial skills development, be targeted specifically for adults and be presented in a language which they understand. Training workshops should be made short, practical and mostly approached from the adult basic education view.

The Vhembe District Municipality should further encourage residents to take financial literacy seriously and initiate financial literacy wellness campaigns in all four local municipalities, aiming at addressing low levels of financial literacy. This could be done during July, National Savings Month, to educate residents on the importance of financial literacy with regard to savings and also to lives in general. The municipality should also partner with the financial services industry in Vhembe District Municipality to provide financial education to residents in all local municipalities.

Government departments and financial institutions offer financial wellness programmes to their employees. Adults and residents who are employed by these institutions are advised to enquire with their respective employers about the programmes offered and make the necessary arrangements to attend with the ultimate goal of improving their levels of financial literacy and financial wellbeing.

The findings and recommendations of this study should be useful to both Vhembe District Municipality and its residents as it provides the levels of financial literacy among sampled adults and paints a picture of how adults are managing their finances on day-to day basis. Possible solutions have also been provided.

6.6 LIMITATIONS OF THE STUDY

Limited research has been conducted on financial literacy in South Africa, especially in rural areas. This created a challenge when sourcing literature pertaining to the study and integrating the results of the available studies coherently.

A further limitation is that there is no standard definition of financial literacy or measurement of this in literature. A number of studies have attempted to define financial literacy and establish a basic measurement of financial literacy, but it was established that financial literacy means different things to different people. This study adopted the commonly used definition as indicated in chapter 3.

No or low levels of general literacy also posed a limitation and affected data collection negatively. Some adults did not understand the questionnaire and withdrew from participating in the study. Furthermore, even though confidentiality and anonymity were guaranteed, respondents were reluctant to participate in the study. They feared exposing their financial position and displayed a lack of trust. High crime levels in the South Africa, Vhembe district

Municipality not being an exception, also contributed to respondents fearing to allow fieldworkers in their homes.

There were several service delivery protests in Vhembe District Municipality at the time of data collection, particularly in Giyani and surrounding areas. This compromised the fieldwork, creating a serious challenge in gaining access to respondents. Therefore generalising to all adults is limited.

6.7 SUGGESTIONS FOR FURTHER RESEARCH

Personal financial literacy literature indicates that limited research has been conducted on the topic of financial literacy in South Africa, especially in rural and low-income areas. It is against this background that there is an increasing need for further research on financial literacy in these areas.

The following serve as suggestions for further research:

- Expand the research further by conducting studies in other district municipalities in the province (i.e. Capricorn, Mopani, Sekhukhune and Waterberg districts).
- Investigate the impact of financial literacy on adults' productivity in the workplace, in Vhembe District Municipality.
- Conduct research to assess financial management skills among youth in Vhembe District
- Conducted research to determine the most appropriate financial literacy educational program and delivery among adults in Vhembe District to address financial illiteracy.
- Conduct research on financial literacy among adults in low-income and rural areas in other provinces.

6.8 CONCLUDING REMARKS

Financial literacy is becoming increasingly important and its importance is emphasised as having an integral effect on personal financial management. High debt levels, low levels of savings, changing economic conditions and highly complex financial information are challenges faced by individuals. Thus individuals should be financially literate to deal with these challenges.

The present study investigated the level of financial literacy among adults in Vhembe District Municipality by means of the quantitative research, with an exploratory and descriptive design, using self-administered questionnaires to collect primary data. The researcher and trained field-workers delivered by hand questionnaires at respondents' homes. The SPSS and Excel spreadsheets were used to analyse data. The findings indicate low level of financial literacy (38.73%) among adults in Vhembe District Municipality. The study recommends that all adults should change their attitudes towards personal financial management and acquire the necessary financial knowledge through financial education and training to improve their level of financial literacy.

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ANNEXURE A: Request to conduct study

Adam Aifheli Ndou
610 Santa Maria
543 Leyds Street
Muckleneuk, 0002
Cell phone: 072 502 9142
Work : 012 319 1913
Email: adam.ndou@gpaa.gov.za
: adamndou57@gmail.com

The Municipal Manager
Vhembe District Municipality
Private Bag X5006
Thohoyandou
0950

08 October 2013

PERMISSION TO CONDUCT STUDY

RESEARCH SUBJECT: ANALYSIS OF PERSONAL LITERACY AMONG ADULTS IN VHEMBE DISTRICT

INSTITUTION: UNISA FACULTY: ECONOMIC AND MANAGEMENT SCIENCES

I am a master's student studying with the University of South Africa (UNISA) under the guidance of Professor M.S. Ngwenya in the Department of Finance, Risk Management and Banking. The purpose of this study is to measure the level of financial literacy among adults in Vhembe district around the domain of financial control, financial planning, choosing the appropriate financial products, and financial knowledge and understanding.

UNISA university of south africa

The objectives of the study are:

- To determine the level of financial literacy among adults in Vhembe district.
- To establish the relationship between demographic factors and financial literacy.
- To determine money management behaviour among adults.

Data will be collected using questionnaire containing statements followed by multi choice response alternatives on which respondents are requested to react according to rating scale where a value is assigned to each response alternative. The intention is to commence with collecting data from April to June 2014, from all four municipalities; Thulamela, Musina, Mutale and Makhado. Respondents shall give consent in terms of information requested and may refuse to take part in the study.

Enclosed please find the research proposal marked Appendix A and a letter from University of South Africa as Appendix B.

Yours truly,

Adam Aifheli Ndou (Researcher)

Cc:

Professor MS Ngwenya
COD: Department of Finance, Risk Management and Banking
School of Management sciences
College of Economic and Management Sciences
Room 5-121 AJH Van Der Walt Building
Preller Street, Mucleneuk Ridge, Pretoria
PO Box 392, UNISA, 0003 South Africa
Tel: +27 429 4937. Cell: 082 481 7958, Fax: 086 641 5379
Email: ngwenms@unisa.ac.za

ANNEXURE B: Permission to conduct study

VHEMBE DISTRICT MUNICIPALITY
PRIVATE BAG X5006, THOHOYANDOU, 0950
TEL: 015 960 2000, FAX: 015 962 1017
Website: www.vhembe.gov.za

Ref: 4/4
Enq: Tshimange T.B.
Date: 31 March 2014

ATTENTION: Adam Aifheli Ndou

. APPLICATION TO CONDUCT A RESEARCH: YOURSELF

1. Your letter dated 20 March 2014 refers
2. It is with pleasure to inform you that your request mentioned above is hereby granted to you.

Kind Regards

MUNICIPAL MANAGER
MAKUMULE M.T

01/04/2014
DATE

ANNEXURE C: Participant information sheet

Participant Information Sheet

<u>RESEARCH SUBJECT</u>: AN ANALYSIS OF PERSONAL FINANCIAL LITERACY AMONG ADULTS IN VHEMBE DISTRICT

PO BOX 392 Dept of Finance, Risk Management and Banking, Unisa, 0003 South Africa

Researcher: Adam Aifheli Ndou, 605 Nedholm 543 Leyds Street Muckleneuk 0001 adamndou57@gmail.com Telephone: 012 319 1913/ 072 502 9142

Dear Respondent

You are invited to participate in an academic study conducted by Adam Aifheli Ndou, a master's student under the supervision of Professor M.S Ngwenya of the Department of Finance, Risk Management and Banking at the University of South Africa.

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 purpose of this study is to measure the level of financial literacy among adults in Vhembe district around the domain of financial control, financial planning, choosing the appropriate financial products, and financial knowledge and understanding.

The questionnaire comprises mostly about financial literacy statements extracted from literature, and should take approximately 15 to 30 minutes to complete. Therefore you are kindly requested to complete honestly and to the best of your knowledge. Responses will be collected after a period of a week, and will at all times be treated as confidential, anonymous and not be made available to any entity or third party.

University of South Africa
Preller Street, Muckleneuk Ridge, City of Tshwane
PO Box 392 UNISA 0003 South Africa
Telephone: +27 12 429 3111 Facsimile: +27 12 429 4150
www.unisa.ac.za

Copies of your answers will be stored by the researcher for a period of 5 years in a locked cabinet and after that will be shred; electronic information will be stored on a password protected computer and will be deleted permanently thereafter.

A report of the study will be shared with Vhembe District Municipality, available to participants on request and may be submitted for publication, but individual participants will not be identifiable in such a report.

Your participation to the study is of importance and would be appreciated. This study is voluntary and you are under no obligation to consent to participation. If you decide to take part, you will be given this information sheet to keep and be asked to sign a written consent form. You are free to withdraw at any time and without giving a reason. Should you require any further information, please do not hesitate to conduct Adam Aifheli Ndou.

Thank you for taking time to read this information sheet and participating in this study.

Signature……………………….

Adam Aifheli Ndou (Researcher)

University of South Africa
Preller Street, Muckleneuk Ridge, City of Tshwane
PO Box 392 UNISA 0003 South Africa
Telephone: +27 12 429 3111 Facsimile: +27 12 429 4150
www.unisa.ac.za

ANNEXURE D: Consent Form

Consent Form
<u>RESEARCH SUBJECT</u>: AN ANALYSIS OF PERSONAL FINANCIAL LITERACY AMONG ADULTS IN VHEMBE DISTRICT
PO BOX 392 Dept of Finance, Risk Management and Banking, Unisa, 0003 South Africa
Researcher: Adam Aifheli Ndou, 605 Nedholm 543 Leyds Street Muckleneuk 0001 adamndou57@gmail.com Telephone: 012 319 1913/ 072 502 9142
Dear Respondent
You are invited to participate in an academic study conducted by Adam Aifheli Ndou, a master's student under the supervision of Professor M.S Ngwenya of the Department of Finance, Risk Management and Banking at the University of South Africa.
The purpose of this study is to measure the level of financial literacy among adults in Vhembe district around the domain of financial control, financial planning, choosing the appropriate financial products and services and financial knowledge and understanding.
The questionnaire comprises mostly about financial literacy statements extracted from literature, and should take approximately 15 to 30 minutes to complete. Therefore you are kindly requested to complete them honestly and to the best of your knowledge.
Responses will be collected after a period of a week, and will at all times be treated as confidential, anonymous and will not be made available to any entity or third party. Your participation to the study is of importance and would be appreciated. Should you require any further information, please do not hesitate to conduct Adam Aifheli Ndou.

Please tick as appropriate	**Yes**	**No**
1. I have read the questionnaire.		
3. I understand that I may refuse or withdraw from the study at any time without giving a reason.		
4. I may ask for more information about the study.		
5. I understand that all information on the study shall be treated as confidential and anonymous.		
6. I shall not be identified in the study report.		
7. I agree to take part in the study.		
Participant signature:		
Date:		

ANNEXURE E: Questionnaire

Financial Literacy Questionnaire

Please complete all questions and mark with a (x) in the box were applicable. Where applicable, you may mark more than one response alternative.

An Analysis of Personal Financial Literacy among adults in Vhembe district

Section 1: Demographics

1. If your answer is yes to this question, please continue answering other questions.

	Yes	No
Do you live in Vhembe district?		

2. Which municipality in Vhembe district are you currently living?

Thulamela	1
Mutale	2
Makhado	3
Musina	4

3. Age

Less than 21 yrs	1
21 -30 yrs	2
31- 40 yrs	3
41- 50 yrs	4
51-60 yrs	5
60 yrs and more	6

4. What is your gender?

Male	1
Female	2

5. What is your marital status?

Single	1
Married	2
Separated	3
Divorced	4
Co-habiting	5
Widowed/widower	6

6. Which of the following best describes your race?

African	1
White	2
Asian	3
Coloured	4

7. What is your highest level of education?

No formal education	1
Completed Primary school	2
Matriculated	3
Diploma	4
Degree	5
Honours	6
Master's	7
PhD(doctorate)	8

8. What is your employment status?

Unemployed	1
Employed	2
Self-employed	3
Temporarily laid off	4
Retired	5

9. What is your current household approximate monthly income?

Less than R 5 000	1
R 5 000 to less than R 10 000	2
R 10 000 to less than R 15 000	3
R 15 000 to less than R 20 000	4
R 20 000 to less than R 25 000	5
R 25 000 to less than R 30 000	6
R 30 000 to less than R 35 000	7
R 35 000 to less than R 40 000	8
R 40 000 to less than R 45 000	9
R 45 000 to less than R 50 000	10
R 50 000 and more	11

10. Which one is the main source of income in your household?

Government grant	1
Wages or salary	2
Retirement income	3
Self employed earnings	4
Family assistance	5

Section 2: Day-to-day money management

11. Who is responsible for daily household money management?

I am responsible	1
Family member	2
Partner and I	3
Family member and I	4
My partner	5

12. Do you enjoy dealing with financial matters?

Yes	1
No	2

13. Do you use a budget?

Yes	1
No	2

14. Do you keep copies of financial documents? (such as receipts for major purchases, tax records, loan agreements)

Yes	1
No	2

15. Does your income cover your monthly expenses?

Yes	1
No	2

16. What do you do in case of a typical month when your income/salary finish before time (end of the month)?

Draw money out of savings	1
Cut back on spending	2
Sell something that I own	3
Work overtime to earn extra money	4
Borrow food from family or friends	5
Borrow money from family or friends	6
Borrow money from employer	7
Apply for a personal loan from formal service provider(including bank)	8
Use credit card	9
Use overdraft	10
Pay instalments late	11
Take out loan from Mashonisa	12

Take out loan from social club(stokvel)	14
Other	15

17. How often do you do the following? **Indicate your frequency by circling never(1), sometimes(2), always(3)**

	Never	Sometimes	Always
Before I buy something, I carefully consider whether I can afford it	1	2	3
I pay instalments on time	1	2	3
I keep a close personal watch on my financial affairs	1	2	3
I set long-term financial goals and work hard to achieve them	1	2	3
I buy things on credit rather than waiting and saving up	1	2	3

<u>Section 3: Financial planning</u>.

18. Have you set aside emergency or rainy day funds that would cover your expenses for 3 months, in case of sickness, job loss, economic downturn, or other emergencies?

Yes	1
No	2

19. Are you setting aside any money for your children's tertiary education?

Yes	1
No	2

20. Are you saving for retirement?

Yes	1
No	2

21. Do you have any risk insurance? (such as car insurance, life cover, household insurance, funeral cover, medical aid)

Yes	1
No	2

22. Do you have a will (testament)?

Yes	1
No	2

23. Which of the following are included in your financial plan for retirement? **Mark all that apply.**

Government old age pension	1
Workplace pension	2
Personal retirement savings plan	3
Continuing to work after retirement age to earn money	4
Relying on your spouse or partner to support you	5
Relying on your children to support you	6
Relying on financial support from your wider family	7
Using an inheritance	8
Moving to a cheaper property in the same area	9
Drawing income from your own business	10
Selling your financial assets(such as stocks, bonds or mutual funds)	11
Selling your non-financial assets (such as a car, property, jewels, etc.)	12
Other	13

24. How do you save your money? **Choose one response**.

Saving cash at home	1
Deposit money into a savings account	2
Saving in a stokvel or informal savings club	3
Giving money to family to save on your behalf	5
Buying financial investment products(shares, bonds, unit trusts)	6
None of the above	7

25. Indicate whether you agree or disagree with the following? **agree (1), disagree (2)**

	Agree	Disagree
I find it more satisfying to spend money than to save it for long term	1	2
I tend to live for today and let tomorrow take care of itself	1	2
I am prepared to risk some of my own money when saving or making an investment	1	2
Money is there to be spent	1	2

26. Who do you rely on for financial advice?

Family member	1
Friend	2
Financial advisor other than independent broker	3
Someone you trust in the community	4
Insurance company	5
Stokvek/saving club	6
Church	7
Co-worker or colleague	8
Independent broker	9
Your employer	10
Burial society	11
Mashonisa/ informal lender	12
Other	13
Would not ask anyone for help	14

Section 4: Choosing appropriate financial products and services

27. Do you shop around before choosing/buying a financial product (credit and loans, banking products, insurance, investments and savings products)?

Yes	1
No	2

28. Do you consider interest rate of credit/ investment agreement before entering into such agreement?

Yes	1
No	2

29. Which sources of information do you feel most influenced your decision to take out financial products? **Mark all that apply**.

Family member and friends who are not in the financial service industry	1
Information found on the internet	2
Information picked up in the a branch of a bank	3
Newspaper articles	4
Television or radio programs	5
Magazines	6
Financial advisor	7
Other source	8

30. Do you read the terms and conditions before buying/choosing a financial product (credit and loans, banking products, insurance, investments and savings products?

Yes	1
No	2

Section 5: Financial knowledge and understanding

31. Retirement income paid by a company is called:

A dividend	1
Pension	2
Social security	3
Premium	4

32. Which of the following is **true** about value added tax (VAT)?

The government will deduct VAT from your pay cheque	1
The VAT percentage rate is 6%	2
VAT is paid when you buy goods and services	3
You don't have to pay VAT if your income is too low	4

33. You lend R30 to a friend one evening and he gives you R30 back the next day. How much interest has he paid on this loan?

R00.00	1
R5.00	2
R30.00	3
R10.00	4

34. In the last 12 months, have you obtained a copy of your credit report?

Yes	1
No	2

35. Indicate whether you agree or disagree? **Agree (1), Disagree (2**).

	Agree	Disagree
Inflation represents a continuous increase in prices, and affects your purchasing power.	1	2
You must have a bank account to have an ATM card	1	2
You don't pay interest on credit cards	1	2
If you don't pay your monthly instalments, your name is negatively affected in credit bureau	1	2

Thank you for participating in the study