Limited emergency savings among South Africans, report shows

While the Covid pandemic revealed that very few South Africans had savings for financial emergencies, the *2023 Old Mutual Savings and Investment Monitor* (Omsim) shows, that the number of people saving for the unexpected has remained static as consumers battle to make ends meet in a high inflation environment in which costs are rising.

Source: Pexels

The *2023 Old Mutual Savings and Investment Monitor* (Omsim) reveals that the Covid pandemic exposed the limited financial preparedness of South Africans for emergencies.

Despite this wake-up call, the number of people saving for unforeseen circumstances has remained unchanged due to the ongoing struggle of consumers to cope with rising costs in a high inflation environment.

John Manyike, head of financial education at Old Mutual, points out that in 2020 only 27% of respondents had a savings buffer to sustain themselves for more than three months.

As the impact of the Covid pandemic lessened, up to 39% of Omsim respondents reported in 2022 that they were saving for a 'rainy day'. This 2022 rate has stayed the same this year.

Currently, 30% have savings to sustain themselves for only a month or less."Omsim respondents are still saving for emergencies as a personal priority, but many struggle to make progress in building their savings. In particular, women and lower-income earners are least likely to have a savings buffer to last them more than three months.

“While emergency fund levels have stagnated, people have also resorted to relying on credit to make ends meet. Omsim shows that the use of credit and store cards has increased. At least 55% of those surveyed have loans from a bank, friends and family, employers, financial service providers or microlenders.”.

Since 2020 the research shows that:

- Bank credit card use has increased from 63% to 73% (edging up from 71% in 2022).The use of store credit cards and shop accounts changed from 58% to 61%. (up from 57% in 2022).
- Car finance has increased from 34% to 41%. (up from 39% in 2022).
- Revolving credit or overdrafts have climbed from 25% to 28%. (was 28% in 2022).

To manage debt, one in four Omsim respondents report having approached creditors to try and reschedule payments. At least 12% have taken out loans to consolidate their debt, while 11% have applied for formal debt review and counselling.

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“Understandably, in these tough times, people are doing what they must to survive. But borrowing more has consequences. With rising inflation, the Reserve Bank has increased interest rates to cool spending. These increases mean that credit costs on cards and loans are rising, and more money is flowing out of household budgets to meet these costs.

“The lesson is that credit is costly. To avoid the cost curve and preserve income, we should be consolidating spending, reducing debt, and settling and closing the accounts that attract high interest. Over time, this will increase available personal income,” says Manyike.

The good news, he says, is that banks are reporting an increase in the use of savings accounts and other investment products. Stokvels have been the biggest driver of the country’s savings culture. Looking back to 2017, 32% of Omsim respondents belonged to more than one stokvel, and that figure has risen to 61%. However, tight budgets have also impacted these informal savings vehicles.

The importance of personal financial planning

“Attention must also be paid to building long-term savings, assets, and personal legacies. Although respondents listed building retirement funds as a priority, only 30% of those who left or changed jobs in the past 24 months preserved all their retirement savings. Most concerning is that 30% cashed out all their pension-fund provisions.“

At a time when consolidating finances and building workable plans for the future should be a personal priority, we are still taking a DIY approach to financial planning. With only 40% of respondents getting professional help to build retirement and create savings plans, it appears that there’s still a strong misconception that personal financial planning is only for the rich,” says Manyike.

Having a budget and sticking to it is the key to managing money and having it work for you. Knowing where your money is going shows where you can reduce costs. Once costs are under control, getting advice on savings and investments should be the next step.

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Getting an advisor means having an expert who will help you understand complex savings and investment matters and can identify the solutions that match your financial goals and available money.

Regular consultations will mean that your plans are in step with life changes like marriage or having children. Professional planning advice also means that investment decisions are based on facts rather than emotions. This prevents hasty, uninformed, and costly investment decisions.

“As Old Mutual, we undertake Omsim to help people understand savings trends and financial attitudes. Taking note of these behaviours helps us all identify our personal financial strengths and weaknesses, and hopefully take action. Correcting mistakes and taking steps to build strong financial futures then becomes simpler. Knowing better means that we can do better,” says Manyike.

> *You knowthings are really dire when you have to borrowfrom friends and family. That's why its important to not live beyond your means. Always budget. Find out more: https://t.co/JyrlYEI046 pic.twitter.com/cDpnLJ3o7D— Old Mutual SA (@OldMutualSA) July 24, 2023*

Free innovative Artificial Intelligence FE

Old Mutual is leading the charge in enhancing financial literacy across South Africa by introducing an Artificial Intelligence based multi-channel financial education tool. The digital platform will deliver tailor-made financial education modules to individuals throughout South Africa, combining both physical and digital teaching methods to maximise accessibility and impact.

Manyike explains: “The key differentiator of this tool is its use of empirical data, allowing for continuous monitoring and evaluation of participants' behavioural changes and the program's overall influence on their lives”. Known as the "On The Money Digital Tool," the initiative is transforming the landscape of financial education in South Africa through its comprehensive approach, engaging participants through in-person workshops and online platforms.

"The tool will also enable employers to track employee financial wellbeing through the data provided.By harnessing real-time integration and leveraging empirical data, "On The Money Digital Tool" effectively tracks how participants integrate financial lessons into their daily money management routines,” concludes Manyike.