Financial planners play a key role

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When it comes to household debt, it seems that South Africans really know how to be trendsetters. According to a recent report by Fin24, the average South African pays as much as 79% of every rand on repaying debt.

This is staggering if one considers the implications of this. According to tradingeconomics.com, the current average monthly wage in South Africa (correct as of the last quarter of 2015) is R17 387/m; and if we apply the 79% payment logic, the average South African spends about R13 735/m on debt.

This leaves little room to breathe. After debt the average South African has R3 652 to get them through the month. One then wonders why there is no savings culture in the country.

The root of the problem

Despite this, there is a mind-set in South Africa that more needs to be done when it comes to savings. Sankie Morata, Chairperson of the Financial Planning Institute, feels that South Africans know that they need to reach their financial goals, but this does not translate into higher savings rates.

If we look at the above scenario, one cannot help but ask how a person who has R3 652/m is expected to save.

"We need to do some serious studies into the phycology around spending. Why is it that we talk about this only when we are in dire situations? We need to sit with our children and make them financially savvy," says Morata.

This sentiment was echoed by Lyndwell Clarke, Head of Department Consumer Education at the Financial Services Board. He feels that a lot of education also needs to take place at school level. There is no financial orientation at Grade 11 or 12 levels where students are ready to focus on furthering their education or entering into the workplace.

It's all about the bling

Coupled with this is the fact that South Africa has a culture of instant gratification. Clarke points out that some South Africans like to show off their wealth by purchasing luxury vehicles or living lifestyles that are beyond their financial means.

There is legitimacy to this thought pattern. Karen Muller, Head of Growth Market Solutions at Sanlam, says that financial education without understanding behavioural economics is problematic. How are people going to work with money if they are not taught how to?

While we like to stand back and say that we are not the offending party in this situation, more people live on credit than we would care to admit. This is evidenced by a recent report in the media which said that some South Africans are three months behind on their debt repayments. While compound interest can be used in your client's favour, cumulative interest on debt is nothing but the enemy. In this situation, clients have to pay off three month's of interest on debt before even getting to paying off the debt.

Ripple out

So how do we start to encourage a culture of savings? I often use Bruce Lee's famous quote: *drop a pebble in the ocean, you don't know where the ripples travel to*. **If clients are going to start savings towards retirement, be it among lower income earners or higher income earners, they have to realise that they are in it for a sustained period of time and that they need to save within their means.**

The first thing that needs to change is how clients view retirement. While a house and a car are your client's most valuable tangible assets, they won't be possible if their most intangible asset – their ability to earn an income – is compromised. This is true for their working life and it should be true for their retirement.

So now we have presented the thought to the client, and we have the goal clear in our minds. How do we get there? For most people, it is through investments and purchasing a retirement product.

But what do lower income earners do? Are there products focused on the portion of society that exists on the fringes of the financial services industry? How do we bring them in?

While there are very few products focused on lower income earners, insurers are working on improving this. Muller says that there is no reason why insurers can't focus on this, insurers need to focus on developing a product that will ultimately add value to the market that they want to capture. Distributing this has been a problem in the past, but with technology, this is becoming easier and more cost effective.

The bottom line is that the cliché of you are the master of your own destiny is more pertinent now than before. Society has just lost focus on their savings goals and how detrimental debt is to saving towards ones future.

Editor's Thoughts:
Some debts (such as mortgage and vehicle finance) are unavoidable. Other debts such as credit cards and personal loans are. Financial planners have a key role to play in the future of the country and creating a savings culture. How do we work with clients to support this? Please comment below, interact with us or email me your thoughts anton@didimata.co.za