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FINANCIAL WELL-BEING AMONGST DIFFERENT RACES IN SOUTH AFRICA

Abstract:

Financial well-being can be perceived as a function of an individual’s physical and emotional factors pertaining to their financial position and the level of satisfaction they feel in terms of their financial status. This research study aimed to place investors in a certain category of financial well-being based on their race. Data for this article was purposefully collected using a quantitative questionnaire which was electronically distributed to 600 investors within the South African market. A self-report measure for financial well-being was used where participants had to rate their own level of financial well-being. This research found that there are statistically significant differences in individuals’ level of financial well-being amongst different groups of race. More specifically, results suggest that White individuals have a higher perceived level of financial well-being compared to their Black, Indian, and Coloured counterparts. However, no significant difference was found between the racial groups as low financial well-being was dominant in all four groups. Higher levels of perceived financial well-being will lead to more optimistic investment decisions which will be constructive to portfolio asset managers in creating investor profiles.

Keywords:

financial well-being, financial wellness, economic well-being, race

JEL Classification: J15, D14, D92

1. Introduction

An individual's level of well-being is influenced by his or her personal satisfaction levels within six relevant areas, namely economic, financial, personal, relaxation, healthiness, and environmental (Van Praag *et al.*, 2003:30). Specifically, financial well-being can be seen as a relevant aspect of welfare and expediency (Jansen van Vuren, 2015:19).

Taft *et al.* (2013:64) are of the opinion that financial well-being is a function of physical and emotional determinants of an individual's financial position and the level of satisfaction they feel in terms of their financial status. Alternatively, financial well-being can be viewed as the manner in which individuals control their money on a daily basis, make short-term precautionary savings, set financial goals, create wealth management tools, and gain financial confidence (Jansen van Vuren, 2015:20). The terms financial well-being, economic well-being, and financial wellness are often used interchangeably to refer to the same ideology (Joo, 1998:11; Jansen van Vuren, 2015:20). Economic well-being refers to an individual's satisfaction with their income and savings as well as their awareness of opportunities; ability to make ends meet, and sense fairness of the reward distribution system (Vosloo, 2014:17).

Alternatively, financial wellness can be viewed as a proactive approach to maintaining healthy and stable wealth. An individual's financial health can include the level of satisfaction with the physical and emotional aspects of their financial situation, financial stability, as well as the necessary levels of financial resources (Joo, 1998:48). As such, financial well-being could additionally represent an individual being financially independent, healthy, and carefree in terms of their current financial situation. Moreover, the degree to which individuals have financial adequacy and security can also be used to refer to the concept of financial well-being (Xiao *et al.*, 2006:109). It is noteworthy to mention that financial well-being can be measured in both subjective and objective measures (Cox *et al.*, 2009:144). Subjective measures focus on individuals' level of satisfaction regarding their financial statuses (Porter, 1990:22); whereas, commonly used objective measures include income and net worth (Xiao *et al.*, 2006:109-110). The ability to effectively manage resources is a vital component of financial well-being; however, many individuals express high levels of dissatisfaction with the financial aspect of their lives (Lown & Ju, 1992:105-106).

In South Africa especially, high levels of extremely low financial well-being prevail as social-economic factors such as income inequality, high inflation which curbs disposable income, high poverty persistence and high unemployment exist (Hesse, 2018). A previous study by Schotte et al., (2017) acknowledged that having good financial well-being involves being free from poverty whereby one is able to afford the basic necessities needed in life. This financial stability involves being able to have the freedom to decide on what their income is spent on as well as having the freedom to do short-term and long-term financial planning. Most importantly, good financial well-being entails having a financial cushion which can allow an individual to take on more risk but also acts as a buffer against adverse financial shocks. In South Africa, such financial stability still remains a challenge and potentially unattainable for the majority of the population (Schotte et al., 2017). In general, the asset management industry has mostly concentrated on a narrow field of listed stocks. The alternative lies in a new generation of asset managers driven by better investment options with the potential to provide a significantly greater multiplier effect for society (Alexander Forbes, 2018). Therefore, this research article aims to identify the perceived level of financial well-being for South Africans, based on their race. The purpose is to encourage better investment options that actually meets the current populations' needs to enhance financial well-being.

2. Literature review

Previous research has assessed the relationship between a wide range of demographic factors as well as financial and economic variables with regards to financial well-being (Lown & Ju, 1992:106). Race has been proposed as a determinant of financial satisfaction (Ali *et al.*, 2015:139). Joo and Grable (2004) conducted a study wherein determining factors that influence financial satisfaction were analysed; among these factors tested is participants' race. A proposed framework suggested that an individual's race directly affects their financial satisfaction (Joo & Grable, 2004:32); however, the results indicated that race is indirectly related to financial satisfaction (Joo & Grable, 2004:41; Gerrans *et al.*, 2014:150). Compared to other demographic factors, there are few studies that have investigated the impact of race and different ethnicities on financial decisions. Brüggen *et al.* (2017:232) mention that there is some evidence that race can potentially have an influence on an individual's level of financial well-being. Similarly, Robb and Woodyard (2011:62) mentioned that there is a possibility that race may explain differences in financial behaviour; of which the latter has an influence of financial well-being (Gutter & Copur, 2011:700). Based on that, it can be assumed that race has an indirect relationship with individuals' financial well-being level.

The results from a study conducted by Loibl and Hira (2005:18) suggest that smaller household size, older age, employment, being male, white, and married is what makes a contribution towards financial satisfaction. Similarly, in a paper exploring the impact of personal income on financial satisfaction and on perceived income, DePianto (2011:773) found that White males had higher returns to personal income compared to Black individuals and White females. Based on this finding it can be assumed that White individuals, specifically males, earn higher returns which contribute positively to their level of financial well-being. Delefrooz and Paim (2011:10092) conducted a study in which its purpose was to examine determinants that influence financial wellness; additionally, it was deemed reasonable to assume that race, among various other demographics, has a direct effect on financial wellness (Delefrooz & Paim, 2011:10094). The findings indicated that race (Joo & Grable, 2004:32), along with age, gender, education, marital status, length of employment, and financial literacy have no direct effect on financial wellness.

Sabri *et al.* (2012:156) mentioned that the results from previous studies conducted separately by Xiao *et al.* (2009) and Shim *et al.* (2010) suggested that financial well-being is positively related to gender, age, and race. Similarly, Sabri *et al.* (2012:163) found that race, gender, and place of origin are associated with an individual's level of perceived financial well-being. Black and Hispanic individuals are less likely than White individuals to own stocks; therefore, it is possible that the wealth of Black and Hispanic individuals might grow at a slower rate than that of White individuals (Yao *et al.*, 2005:51). Based on the previously stated, it can be assumed that due to a slower growth rate in wealth, Black and Hispanic individuals will likely be less satisfied with their financial position and report on a lower level of financial well-being (Mabalane, 2015:34). Alternatively, White individuals will be more likely to be satisfied with their finances and report a higher level of financial well-being. A possible explanation for Black and Hispanic individuals not owning stock is that minority groups have received less exposure to information regarding investments (Yao *et al.*, 2005:53); and consequently, are less likely to participate in financial markets.

Husniyah and Fazilah (2012:1) conducted a study that sought to find the differences in financial well-being among the main ethnicities in Malaysia by using various measures of financial well-being. The differences in financial well-being among the ethnicities were highly significant. Chinese families, as opposed to Malay and Indian families, perceived themselves as having better financial well-being (Husniyah & Fazilah, 2012:10).

Financial risk tolerance is one factor that could explain why there are financial well-being differences between ethnicities (Dickason & Ferreira, 2018:10853). Financial risk tolerance refers to the amount of risk; or the willingness of an individual to take risks when making a financial decision (Hallahan *et al.*, 2004:57; Grable, 2016:19); such as investing money for the purpose of accumulating money for retirement. Higher risk tolerance levels lead to increased financial risk-taking, which usually results in higher returns (Fuertes *et al.*, 2012:18). When individuals earn higher returns, their financial situation is positively influenced and as a result, it is appropriate to assume that their level of financial well-being is also increased. Previous studies have found White individuals are more financial risk-tolerant and earn greater returns than their non-White counterparts (Zhong & Xiao, 1995:107; Yao *et al.*, 2005:51). This may justify as an explanation of why some studies have found that White individuals have a higher level of financial well-being compared to non-White individuals.

3. Methodology

The following sections within the methodology represent the research approach and instrument used, the sample size, formulated hypothesis and statistical analysis.

3.1. Research instrument

A South African investment company carried out the survey during 2018, whereby gatekeeper's permission was obtained to use the data for research purposes. The survey was electronically distributed to the participants via the company's system and responses were captured electronically. Section A of the survey collected the demographic information of the participants. This section expanded on the demographical background of the sample where race is concerned. The majority of the participants were White individuals with a count of (382), followed by Black individuals with (108), Indians/Asian (56) and Coloureds (54). Section B asked participants questions regarding their perception of their current financial well-being (FWB) status. The InCharge Financial Distress/Financial Well-Being Scale (IFDFW scale) provided by the Consumer Financial Protection Bureau was used. The standard scale administers precise and clear changes to a participant's response regarding financial well-being using eight items (Prawitz *et al*., 2006:43), identified by the Delphi experts ranging from 0 to 10. The IFDFW scale score is a standardised number ranging from 0 and 100, where 0 represents the lowest financial well-being and 100 represents the highest financial well-being (Consumer Financial Protection Bureau, 2015). IFDFW scale obtained a Cronbach alpha value of 0.956 which makes this scale highly reliable to use in this research context. The scale made way to categorise participants' financial well-being into three categories namely low financial well-being that was categorised with a mean score of 1.0-4.0, average financial well-being means a score of 4.1-6.9, and high financial well-being with a mean score 7.0-10.0 (Prawitz *et al*., 2006:45).

3.2 Sample size

This study has a population target of South African investors whose involvement made a significant contribution towards investor profiles for investment companies. With regards to this article, an investment company was used, as it granted permission to allow for the use of their company's client base data. The sample was gathered through a purposeful sampling method. Purposeful sampling was the most effective method since it involved identification and selection of people or groups of people that have the knowledge about or experience about a phenomenon of interest (Palinkas et al., 2015:534). Therefore, purposeful sampling was more suited in order to identify individuals who formally invest by means of an investment company. The selection was done in order to obtain a sample that is unbiased and the sample was selected randomly. An investment company in South Africa distributed the questionnaire to 3000 of its investors. The researcher aimed to analyse a final sample size of 650. The sample included both female and male investors from all the nine provinces in South Africa. A sample size of 600 participants (n = 600) was collected, as these participants completed the questionnaire.

3.3 Hypothesis

The following hypothesis was formulated and is aligned with the primary objective of this paper, which is to analyse the influence of race on the financial well-being of South African investors.

H0: mean of FWB of race group 1 = mean of FWB of race group 2

H1: mean of FWB of race group 1 ≠ mean of FWB of race group 2

The hypothesis mentioned above suggests that there is no variation with regards to race and the financial well-being of South African investors.

3.2. Statistical analysis

For the purpose of this study, data were analysed through the use of statistical package IBM, Statistical Package of Social Studies (SPSS) Version 25. The data analysis involves the use of an ANOVA analysis.

4. Empirical results and discussion

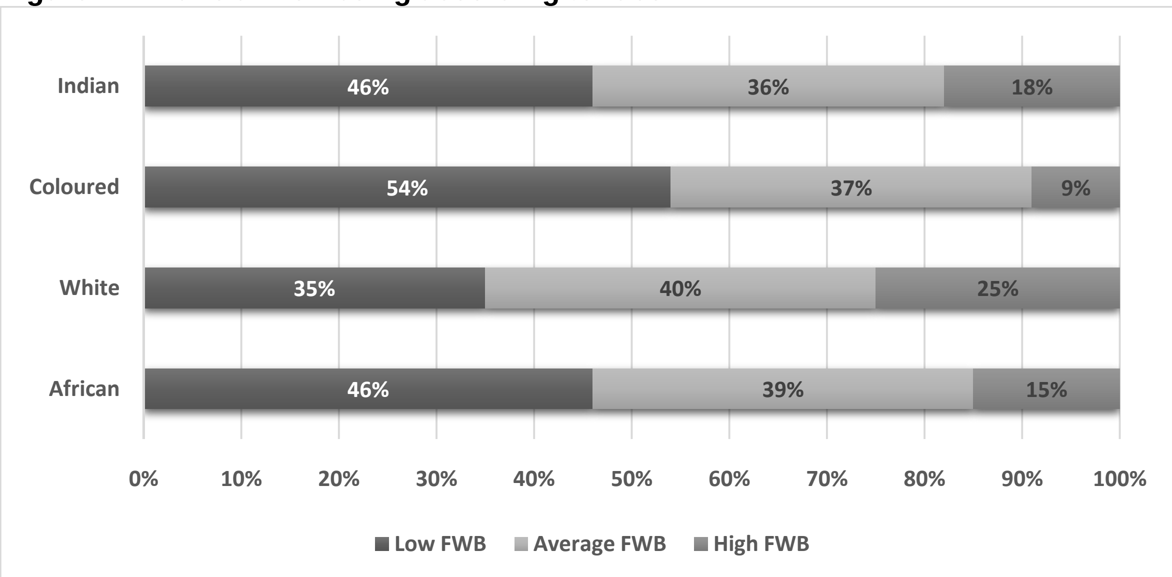
Participant results for their subjective financial well-being were divided based on their race to see whether there is a difference in how they perceive their own financial well-being. Table 1 indicates the cross-tabulation of the investors' subjective financial well-being based on their racial classification.

Table 1: Cross-tabulation of investor's well-being based on race

	Financial Well-Being		
	Low	**Average**	**High**
Black	46.3%	38.9%	14.8%
White	35.3%	40.1%	24.6%
Coloured	53.7%	37.0%	9.0%
Indian	46.4%	35.7%	17.9%
Pearson Chi-square	14.769	P	0.022

Table 1 is an indication of the cross-tabulation of the investors' subjective financial well-being according to their race. The financial well-being of investors was divided into low financial well-being, average financial well-being and high financial well-being. The Pearson chi-square value of 14.769 and a p-value of 0.022, which was significant at a level of 5 percent. This indicates a relationship between the financial well-being of South African investors and their race. Results further indicate that Coloured individuals have the lowest financial well-being at (53.7%) followed by Indian (46.4%), Black individuals (46.3%) and White individuals (35.3%). White individuals have the highest average category for financial well-being (40.1%), followed by Black individuals (38.9%), Coloured individuals (37.0%) and Indian individuals (35.7%). White individuals also have the highest financial well-being at (24.6%), followed by Indian individuals at (17.9%), Black individual (14.8%) and Coloured individuals (9.3%).

Figure 1: Financial well-being according to race



4.1. Analysis

When comparing the overall mean financial well-being for the sample value of 38.25 was found which is indicative of a dominant low financial well-being amongst all South African racial groups. White investors were found to have the highest mean value of 40.50 but this still falls into the low financial well-being category. African investors follow this category with a mean financial well-being score of 34.81. The lowest financial well-being score was recorded for coloured investors with a 32.51 score. Table 2 below indicated that there does indeed exist a difference in the perceived level of financial well-being amongst the racial distribution in South Africa as a significant value was found ($p < 0.05$).

Table 2: Analysis of variance

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	8.301	3	2.767	4.928	0.002
Within Groups	334.658	596	0.562		
Total	42.958	599			

Table 3: Test of homogeneity of variances

(I) Ethnicity		Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
AFRICAN	White	-0.20748	0.08166	0.055*	-0.4179	0.0029
	Coloured	0.12963	0.12489	0.727	-0.1921	0.4514
	Indian	-0.02910	0.12339	0.995	-0.3470	0.2888
WHITE	African	0.20748	0.08166	0.055*	-0.0029	0.4179
	Coloured	.33711*	0.10894	0.011*	0.0565	0.6178
	Indian	0.17838	0.10722	0.344	-0.0979	0.4546
COLOURED	African	-0.12963	0.12489	0.727	-0.4514	0.1921
	White	-.33711*	0.10894	0.011*	-0.6178	-0.0565
	Indian	-0.15873	0.14292	0.683	-0.5269	0.2095
INDIAN	African	0.02910	0.12339	0.995	-0.2888	0.3470
	White	-0.17838	0.10722	0.344	-0.4546	0.0979
	Coloured	0.15873	0.14292	0.683	-0.2095	0.5269

Table 3 indicated the test of homogeneity of variances where the assumption of homogeneity was not violated since a value of 0.002 was also found. A significant difference was found between White investors perceived FWB and the perceived FWB of black ($0.05 < 0.1$) and coloured investors ($0.01<0.05$) financial well-being. South African investors in the current market will tend to make more pessimistic investment decisions. Avoid any risky investments that may put any strain on their current level of FWB. These results concur with previous researchers (Loibl & Hira, 2005:18; DePianto, 2011:773) who also found white individuals to have a slightly higher level of financial well-being.

Black investors were found to also have lower financial well-being when comparing the mean values. The reason, therefore, could be that Black individuals are less likely to own stocks and that their wealth grows at a slower rate than White individuals (Yao *et al.*, 2005:51).

5. Conclusion

In short, financial well-being refers to a function of physical and emotional determinants of an individual's financial position and the level of satisfaction they feel in terms of their financial status. Previous research suggested that there is some evidence that race can potentially have an influence on an individual's level of financial well-being. Therefore, when measuring financial well-being, it is vital that other demographic variables such as race be investigated and considered when measuring financial well-being. In the new democratic South Africa, race as a demographical factor and other factors have an influence in financial markets.

The primary objective of this research was to determine whether race plays a role in the individuals' level of financial well-being. Furthermore, this research aimed to place investors at a certain level of financial well-being based on their race. Based on the results of ANOVA a significant difference in how different races in South Africa perceive their own financial well-being was found. Despite this difference, the perceived financial well-being score for all racial groups fell into the low financial well-being category. Therefore, all four racial groups in South Africa were found to perceive themselves to have low financial well-being. Coloured individuals had the most extreme low financial well-being but there was no significant difference when compared with black and Indian individuals. Higher levels of perceived financial well-being will lead to more optimistic investment decisions which will be constructive to portfolio asset managers in creating investor profiles. However, in this research article the majority of investors were found to have low financial well-being. Therefore, South African investors in the current market will tend to make more pessimistic investment decisions and preferably avoid any risky investments that may put any strain on their current level of financial well-being.

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