Financial Well-being

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Authors and contributers

Alexander Forbes
Research Institute

The Institute of Race Relations recently reported that 20 years of BEE initiatives have yielded disappointing results: only 15% of the relevant South African population directly benefited[1]. One of the key lessons is that redistribution by itself is not the answer for long-term transformation. Beyond increasing employment, what's needed for transformation for all South Africans may well be helping individuals to learn how to effectively harness and deploy their financial resources to meet their own needs now and in the future.

Rethinking the traditional employee benefits model

Employee benefits should have represented the primary focus of South Africans' savings and protection strategies. But in the necessary shift from the defined benefits (DB) model to the defined contribution (DC) model, the delivery of these critical social protections became fragmented, due to the risk transferring from the employer to the individual.

The financial planning burden of a lifetime and the ultimate achievement of financial well-being now rests squarely on the shoulders of individuals. Yet in many ways, the individual has never been less engaged – and for good reason. Even if benefits are only delivering a fraction of an individual's retirement needs, this is of little consequence if individuals and their families are not even able to address their day–to-day financial needs.

In last year's edition we concluded that people would continue to remain disengaged unless, as an industry, **we addressed each individual's full financial journey over their lifetime, and not simply their retirement.**

For many stakeholders, this suggested a greater focus on enhancing financial capability, in other words, an individual's ability to make good financial decisions. But financial capability simply isn't engaging enough. ***To secure financial transformation for all individuals, we needed to shift the conversation beyond building financial capability towards enhancing financial well-being***. The concept of financial well-being is something distinctively different from simply expanding a person's financial awareness, capability or wellness. It strives to capture the individual's willingness to engage, because it allows individuals to create a direct link between financial capability and achieving their own prioritised ends for themselves and their families – to secure **what** matters most to them, which is to provide for **who** matters most to them – their loved ones.

As Gale, Goetz and Britt point out in the *Journal of Financial Therapy*: "An individual's and a family's financial health can vary from the perspective of different family members (both within and across generations), across regions of the country, continent or world, across religions, across ethnic and cultural backgrounds, and across generational cohorts. Can a family be financially sound, but individually and interpersonally unhappy? Can an individual or family be financially at risk, but emotionally and relationally very happy? What role does family history, personal characteristics,religious and spiritual beliefs, and physical health have in one's definition of financial health? How does the difference that one has between defining their wants and needs determine financial well-being? What roles do compassion, charitable giving, consumerism, social justice and concern for the environment have on financial well-being?[2]"

Financial well-being is a radical departure from what the financial services industry has been built on. It requires a far more collaborative interaction between the individual and their service provider on every financial touchpoint, whether it's about their health, their long-term savings and short-term emergency cushions, their income and asset protections, or their funding requirements to service dreams for themselves and their families.

And this is where our thought-leading concepts make the boldest suggestions.

> “ Individuals will only truly transform their behaviour when we shift the conversation from building financial capability to enhancing their understanding and empowering financial-wellbeing. ”
>
> *Edward Kieswetter*

Critical focus areas for transforming the financial services industry

Where do we see the most important areas for rethinking the current model?

The ambit of our industry The financial services industry mainly operates within one particular area of the market: people with money to spend. This isn't specifically a wealth issue. Shop floor workers and miners have money in the form of retirement savings, which also requires professional attention. But people in financial crisis also need some sort of professional assistance. The challenge is that the financial services industry and debt industry are separately governed. They need to be integrated to offer a holistic view for individuals.

The nature of our consulting practices and how they are delivered Regulatory change is rapidly changing our notions of commission-driven advice. The financial services industry is being asked to rethink its business model on many different levels. But the more important question is what kind of 'advice' or 'financial assistance' do people really need. "Treating Customers Fairly" (TCF) requires that we move away from a hard product sell and offer more of an advice solutions approach.

The nature of the products we offer For the last three decades financial services companies have been offering increasingly complex financial products to provide more 'choice' to individuals. However, research shows that whether it is in the area of healthcare, income insurance cover, insurance against the cost of death, asset insurance cover or even investments, many of these complex offerings have actually led to poorer financial decision-making and outcomes for individuals.

Benefits Barometer 2015: Financial Well-being argues for a return to simplicity. Not necessarily in the mechanics of how these products are constructed, after all they do need to solve complex problems, but in the way we communicate options and the way we offer choice.

The nature of people's engagement on their personal financial journey The workplace represents a compelling point of engagement with the individual. Here we can offer advice and services to individual employees based on their personal needs and where they are in their personal financial journey. Not only that, we can also improve employee engagement for companies by reducing employees' financial stress and enhancing productivity.

Who is ultimately responsible for an individual's well-being?

On some level, we will all be held to account. Realistically though, let's ask who might actually be able to get the work done? It is evident that getting this right demands significant investments into technology, research and resourcing. This in turn demands increasing involvement from the private sector.

In Africa, the resourcing obstacles facing developing economies have necessitated even greater dependencies on the private sector. This has certainly been the case for the delivery of such social protections as retirement savings and medical aid. We must collectively think more creatively about how innovative new services can be funded and whose interest they best serve: the individual; the employer; the government? Everyone stands to benefit or, if ignored, to lose.

Repositioning the financial services industry

There's a brand new job profile required of the financial services industry if we are going to instigate real change. As such, we now sit at a critical crossroads in our evolution, both as a company and as an industry. It's patently clear that a dramatic shift in thinking is required to achieve an agenda of financial well-being.

Alexander Forbes's thought leadership is contained in, among others, its ***2015 Benefits Barometer: Financial Well-being*** publication. We therefore present in this ***Benefits Barometer*** a potential roadmap, and invite robust debate and engagement to the provocative challenge we have put to the industry in order to transform the lives of individuals and our society.

> **We invite robust debate and engagement to the provocative challenge we have put to the industry.**

Executive summary

Providing the background story

The important message from *Benefits Barometer 2013:*The employee benefits system was that the employee benefits model was failing to deliver on its full potential to provide for a member's physical, mental and financial well-being. The dialogue between the various stakeholders1 had simply become too fragmented, leaving gaping holes in delivery. Pursuing this line of discussion in *Benefits Barometer 2014*: Fine-tuning the employee benefits system made it increasingly clear that two key stakeholders were disengaging. The first to disengage was the employer. The defined contribution model had relieved the employer of the burden of risk in assuring adequate outcomes for members. There was little perceived incentive for them to step back into the fray.

> **Unless the industry starts focusing on members' welfare throughout their financial journey and not just at retirement, there is no way we are going to get individuals to engage with their savings.**

Far more troubling, though, was the fact that the members themselves appeared to be disengaging from the process. A combination of more immediate economic demands and increasingly complex decision-making requirements were gradually taking their toll: where possible, members were opting out rather than opting in.

Perhaps the most important insight of Benefits Barometer 2014 was that unless the industry started focusing on members' welfare throughout their financial journey and not just at retirement, there was no way it was going to get individuals to engage with their savings.

Fine-tuning the employee benefits system argued that if we could transform the employee benefits industry from one where members were accommodated with en masse solutions that were relatively undifferentiated from one sector to the next, to one where we could start designing solutions that met the explicit needs of a given individual or family, we stood a far better chance of getting individuals to engage with what was on offer. But this left us with an important part of the puzzle unresolved: how to get the employee to re-engage? That demanded that we get more fully involved in the individual's own financial journey. To do this, we needed to shift the focus away from improving financial literacy and financial capability to a concept of financial well-being.

In *Benefits Barometer 2015:* Financial Well-being, this is exactly what we set out to do.

With a new language comes a new solution

Financial well-being is about leveraging financial insights and know-how to deliver on what matters most to the individual.

This term is quite distinct from many other terms we currently use in the sector. As an industry, and often as employers, trustee boards, and Government, what we are typically talking about is an individual's ability to navigate and make correct use of an often bewildering array of financial products. The correct term for this is financial capability.

Financial well-being, hBy borrowing liberally from development specialists such as the World Bank, we identified these four factors as being:-being' framework. It looks at what people are trying to achieve in life, what matters to them and what gives their lives meaning. It also takes into account people's full lives, not simply how they would assess their lives at one point in time, but how their full journey is supported by good financial decisions.

When we shift the focus from financial capability to financial well-being we introduce an important new dimension. Research repeatedly shows us that all individuals tend to be bad decision-makers when it comes to financial matters. This is primarily a function of the four critical filtering modes that influence financial decision-making.

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- **The two distinctly different ways our brains process information.**
  Much of financial advice and financial education presumes we use the slow, deliberative process of debating financial choices to make our decisions. In fact, 90% of decision-making is driven by our fast, automatic system of processing information.
- **Our social context.**
  We often presume individuals act autonomously when it comes to financial decisions. In fact, social context plays a far more influential role. The social context provides an invaluable key to unlocking the decision-making puzzle.
- **Our mental models.**
  These may or may not be framed by social context, but provide individuals with a shortcut for managing complex information.
- **Our money mindsets.**
  Here, psychological dispositions, both to money in general and to the human interactions required to address money issues, take centre stage.

Addressing financial well-being involves a delicate balance between respecting individual and group values and recognising that people are looking for guidance. This guidance needs to address both what people can expect their money to do for them and how to get the most out of what they have.

Measuring financial well-being, then, becomes a dynamic and evolutionary process. We start with financial capability and, as the individual moves step by step to achieving financial goals that resonate with their priorities, we expand the engagement to ensure that they have at least been able to establish an adequate floor of financial stability, both for today and in the distant future. Then we gradually leverage that individual's evolving skills set to extend their range of life options.

How do we know if we are winning? It's all about building trust and keeping the individual engaged because we've addressed their needs. If the individual is still with us throughout that journey then, on some level, we've probably won.

Whose job is this and how do we get it done?

There are three significant parties who have the potential to play a key role in this transformation agenda. The first is the market conduct regulator. For the past few years the regulator played a powerful role in terms of professionalising the industry, addressing the inefficiencies in retirement funding, and challenging the industry practices around pricing and distribution. One further area deserves greater scrutiny if we are going to get to the heart of financial stability in South Africa, and that is the world that intersects lending, debt management and transition to financial viability.

As things currently stand, the industry separates the treatment of debt management from the treatment of credit management and wealth creation. And yet they are two sides of the same, ever-spinning coin. As such, there is no effective continuum from getting someone out of debt and ensuring they move on to financial stability and financial well-being. This is where we need the regulator's support in creating a more effective resolution model.

Another key player in the continuum is the employer. One way or another employees associate financial support with their employer. That said, when employees are financially stressed, productivity plummets. So there is a vested interest from both parties in getting financial well-being right. But employers have tried numerous variations on financial wellness programmes – often to little avail. The language is often either oriented around getting an employee out of crisis or around removing enough financial stress so that employees can offer more value to the employer. As such this approach can lead employers to neglect the well-being aspect which would allow them to keep employees engaged over the long term.

In truth, we have a limited ability to assess what's really working and why. Every stakeholder has a different reason for promoting these programmes, which can obscure our ability to tell whether or not a programme has been successful. Both defining and measuring success in these programmes need to become a focus.

But there are signs of hope. By shifting the focus from financial wellness, which seeks to address issues of concern to the employer, to financial well-being, which addresses employee concerns, it is possible to improve these programmes. The 'journey' is less about accumulating a body of knowledgeand more about learning how to let go of potentially dysfunctional behaviours. It's about building up a more effective way to get money and finances to address your specific hopes, fears and dreams. This involves much more innovative ways to engage the employee, building more interdisciplinary teams that can handle the full service continuum, and continuing to monitor success to identify what is working and what isn't.

Finally **the financial services industry** itself, typically as represented by the financial planner or adviser, has its part to play. But its new role will only be effective if we can change the way they interact with their clients. Advisory conversations – whether about insurance, healthcare, savings and investments, or knowing that we all need to be prepared for the eventuality of death – need to be framed in the language of well-being. This involves acknowledging that spending money isn't always the answer, that what people want to achieve is embedded in their overall well-being, and that they have alternative strategies to solve problems beyond money. By helping people to have these conversations, advisers can help individuals to optimally employ their resources to support their overall well-being.

Looking at the numbers

The last section of Benefits Barometer focuses on the insights we can currently derive from a variety of data sources, both internal and external. The question we are asking is how effective are employers at delivering on employee well-being issues. This is a work in progress. But by combining information we can get from reports companies make publicly available, with data derived from our Member Watch™ database, a picture is slowly beginning to emerge.

To lead in this section, Michael Rea from Integrated Reporting & Assurance Services (IRAS) provides a discussion for employers as to what publicly available data can say about the level of focus a company exhibits on employee wellness. The data is particularly telling, more for its absence than for its accuracy. The data paints the picture of a corporate scene that is only beginning to appreciate why this data provides important insights, not just to potential investors, but potential employees, current employees, unions and the employers themselves; and about how engaged the employer is on managing this aspect of their employees' lives.

Data from our Member Watch™ database provides an additional perspective for employers by providing industry comparisons of benefit structure, contribution rate, replacement ratios and more.

Ultimately the story for each sector is pulled together by our sector-specific benefits barometer readings. This helps readers identify the critical issues that may be impacting on each specific sector's ability to translate employee benefit programmes into employee well-being.

References

1 Jeffery (2014)
2 Gale, Goetz & Britt (2012)

FINANCIAL WELL-BEING | EMPLOYEE BENEFITS | FINANCIAL PLANNING | FINANCIAL TRANSFORMATION | FINANCIAL SERVICES | CONSULTING | MENTAL MODELS | MONEY MINDSETS | FINANCIAL CAPABILITY | MARKET CONDUCT | INTEGRATED REPORTING

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