

FINMARK TRUST

Making financial markets work for the poor



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FinScope South Africa 2004: media release

By choice, most South Africans would keep their money in a bank. But many don't have access to a bank account. FinScope 2004 reveals that:

On banking:

- ❑ 46% (13.2 m) of the adult population (16+) are currently banked; 42% (12.3m) have never had a bank account: no significant change on comparable figures for 2003
- ❑ Banks' service fees and minimum balances are perceived as high especially by the previously banked but overwhelmingly the main reasons why people say they do not bank is the lack of a job or regular income
- ❑ Un-banked people don't know how to open bank accounts and are confused by technology
- ❑ Only 44% of people live near a bank. On average, people claim to travel for 20 minutes to get to a bank, at an average cost of R12.30
- ❑ 19% of South Africans don't have an ID document which they believe is necessary for opening a bank account

On insurance:

- ❑ Only 11% of the population (16+) have a formal life insurance policy. 15% have a funeral policy with a big institution whereas 20% of the population contribute to a burial society (for 18+, usage is 21% down from 24% in 2003). On average, more than R65 per month is contributed to a burial society.
- ❑ 21% of the population either don't know about long term insurance or have never thought about it. Of those who have a long term insurance, 44% have more than one policy.
- ❑ For short term insurance, 7% of the population has car insurance with 6% having home owners and household contents insurance. Usage at lower income levels is negligible.

On housing:

- ❑ 78% of whites view their house as a tradeable asset, compared to only 24% of blacks

On savings:

- Savings accounts at banks are easily the most popular way people save (37%).
- Only 9% have a pension fund with only 7% having a retirement annuity.

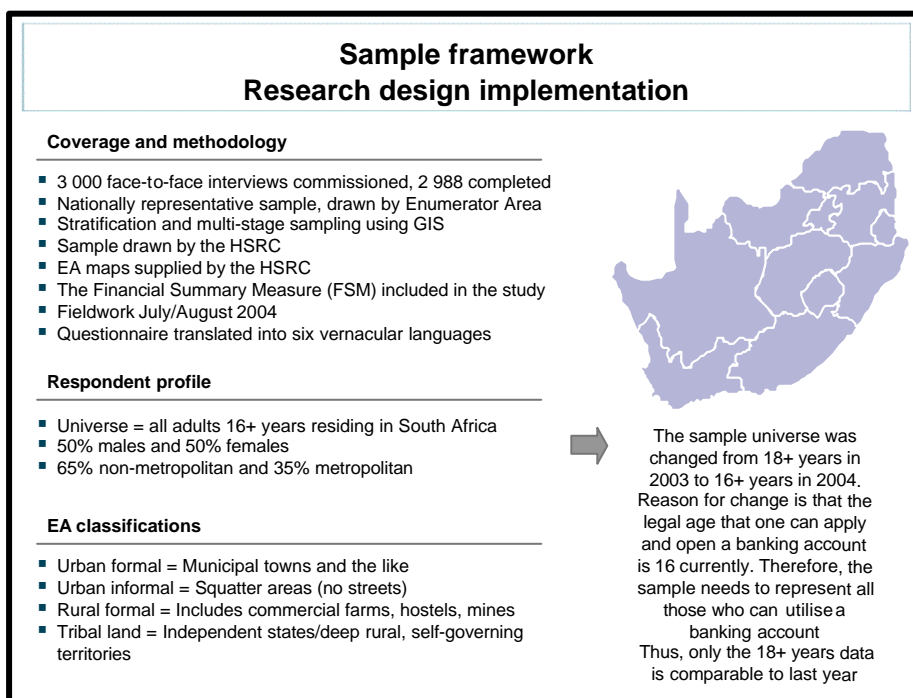
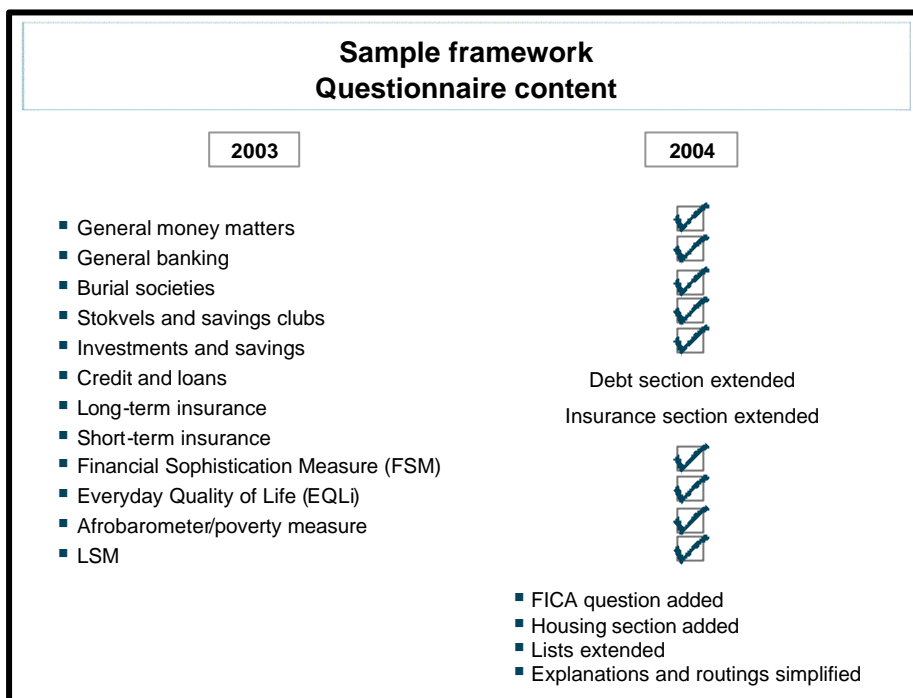
These insights come from FinScope SA 2004, a comprehensive national household survey of financial services, needs and usage among all South Africans. They highlight the barriers poor people encounter when they attempt to gain access to financial services. And they will assist policy makers in both the public and private sector to remove or reduce the barriers.

Also from FinScope 2004 is a range of statistics about the financial profile of South Africans, which highlight important and now very topical issues surrounding access. They too will guide policy makers and financial service providers in identifying markets and targeting products accurately for those markets.

Note: when making comparisons with 2003 data two factors must be taken into account:

- 1. First, the age of the sample population has been reduced from 18 to 16, thus increasing the overall population. For comparative purposes we include year-on-year comparisons with the 18+ population.**
- 2. Secondly, the 2003 data has been benchmarked against the finalised 2001 census data (which became available only in 2004). Inevitably this has caused some minor, statistically insignificant, changes to the 2003 figures.**

The framework



Banked vs un-banked

Currently banked 2004 (16+): 13 197 589 (45,5%)

Previously banked 2004 (16+): 3 563 036 (12,3%)

Never banked 2004 (16+): 12 272 785 (42,3%)

A comparison of data on the 18+ population shows an apparent decline in the numbers of the banked since 2003 but this is not statistically significant (i.e. it is within the statistical margin of error inherent in the sampling process) and should not be viewed as a negative trend:

- ❑ Currently banked 2004 (18+): 12 996 529 (48%)
- ❑ Currently banked 2003 (18+): 13 302 162 (49%)

The apparent decline is likely to be attributable to the benchmarking process undergone as part of this year's survey following the release of finalised 2001 census data.

In essence there has been no significant change in the numbers of banked and un-banked. The impact of various commercial and legislative changes (e.g. the Mzansi account, tiered banking legislation) designed to improve access to financial services will hopefully start to show from next year.

FinScope 2004 findings show a racial hierarchy of access to financial services, with whites at the top, followed by Asians, coloureds and blacks. Employment, an urban formal environment, affluence and education play a major part in creating the hierarchy.

Of the currently banked:

- ❑ 64% are black;
- ❑ 23% are white;
- ❑ 8% are coloured; and
- ❑ 5% are Asian.

Of the previously banked:

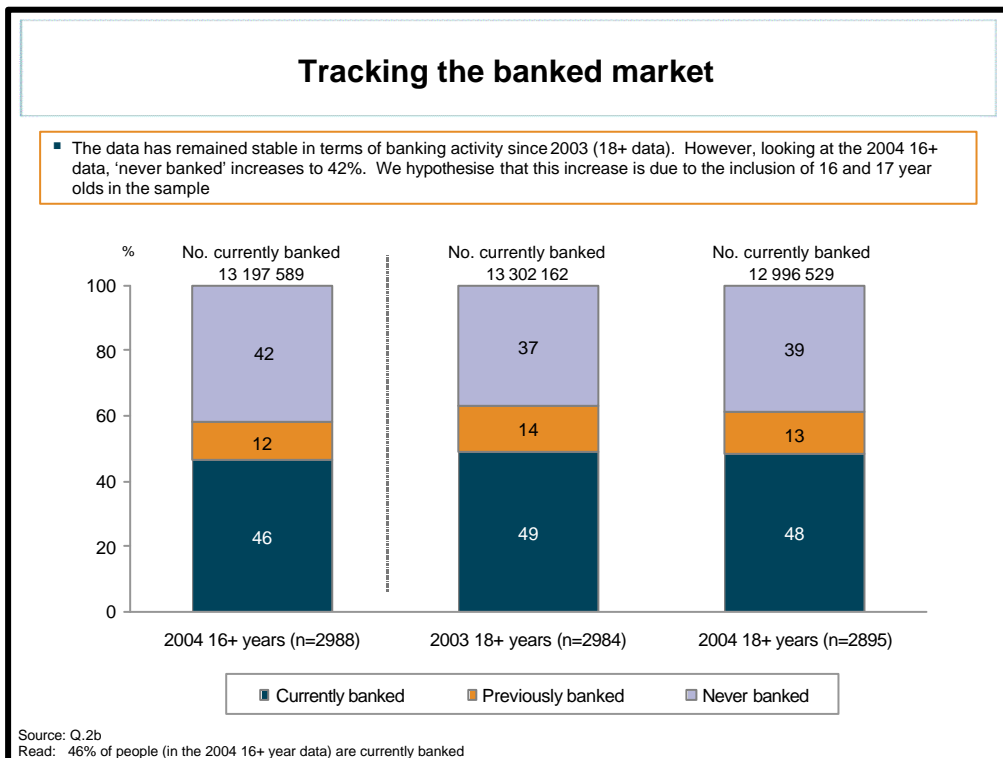
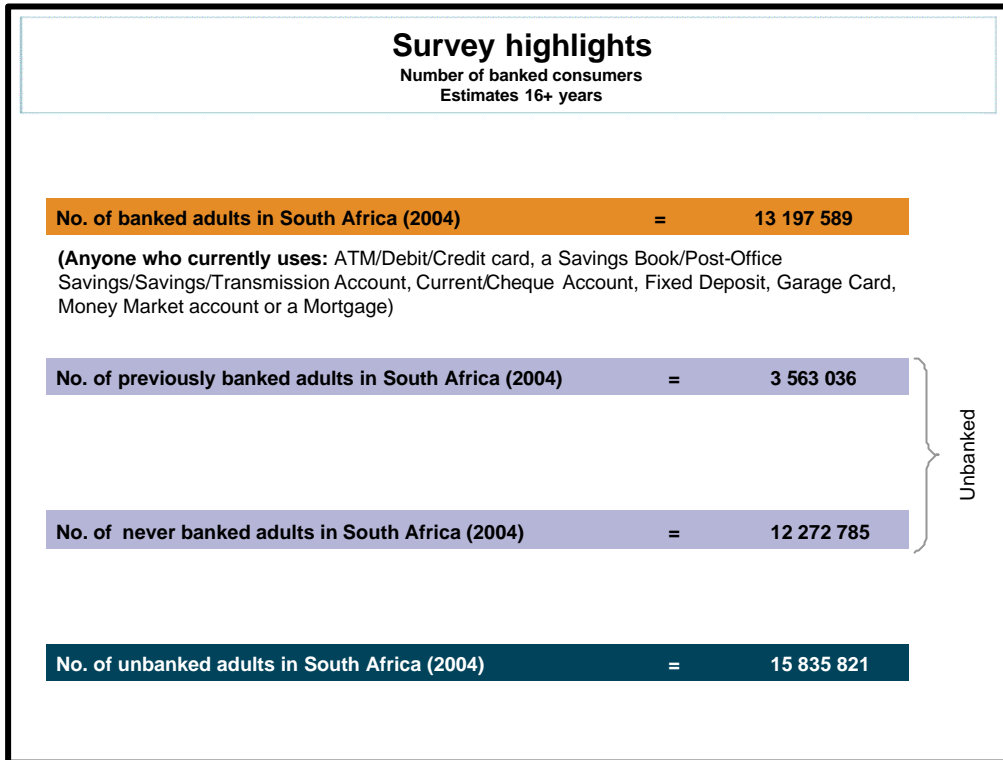
- ❑ 83% are black;
- ❑ 3% are white;
- ❑ 13% are coloured; and
- ❑ 1% are Asian.

Of the never banked:

- ❑ 89% are black;
- ❑ 1% are white;
- ❑ 9% are coloured; and
- ❑ 1% are Asian.

Looking at the 18+ population, the percentage:

- ❑ of blacks, among the currently banked, has fallen from 66% in 2003 to 64% in 2004;
- ❑ of whites and coloureds, among the currently banked, has remained stable at 23% and 8%; and
- ❑ of Asians, among the currently banked, has risen from 3% to 5%.



Why the un-banked?

Among all races groups, the main reason given for being unbanked is lack of a job and lack of income. Among the previously banked, the costs of banking and bad experiences with banking are also cited as reasons for remaining without a bank account. However, bank accounts remain the preferred way to store money: 73% of people say that, if they had a large sum of money, they would bank it. The most popular banking products are ATM cards (used by 40% of the population), transactions/savings accounts (35%) and debit cards (10%). People also make use of informal financial mechanisms: 21% of people belong to a burial society and 7% belong to an informal savings club

FinScope SA 2004

FinScope 2004 is based on 2988 face-to-face interviews, conducted in July and August 2004, with the help of questionnaires published in six local languages. Respondents were part of a nationally representative sample, drawn by Stats SA and the Human Sciences Research Council from the 2001 Census enumerator areas: 35% of respondents were in metropolitan areas and 65% in non metropolitan areas, including tribal land. Weights have been applied to survey results to generate national figures

More about FinScope sample

The FinScope sample can be broken down in various ways:

(16+ population)	%
Black	77
White	11
Coloured	9
Asian	3
LSM 1-5	67
LSM 6-7	19
LSM 8-10	14
Employed	39
Formal employment	24
Unemployed	30

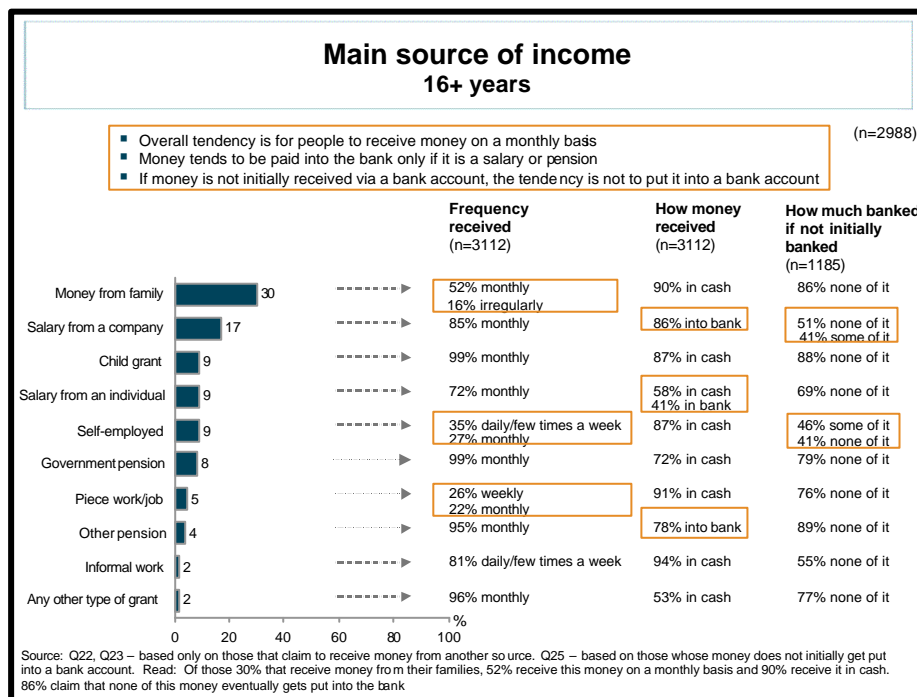
A cash economy

There is a high person-to-person money transfer rate. For 30% of South Africans, the main source of income is money from family. The trend is most marked among FSM 1 (38%), FSM 2 (43%) and FSM 3 (32%).

Only 17% of respondents mentioned salary from a company as their main source of income. And few of these are at the low end of the FSM scale: 1% of FSM 1 and 2% of FSM 2. Most are in the higher FSMs: 35% of FSM 5, 42% of FSM 6, 50% of FSM 7 and 48% of FSM 8. This clearly points to the need for financial service providers to look beyond payroll as the driver for access to financial services – especially in light of the Financial Services Charter.

Next most important sources of income are child grants (9%), salary from an individual (9%), self-employment (9%) and government pension (8%). Self-employment is highest among FSM 8 (27%) and lowest among FSM 1 (4%).

12% of South Africans say they have no income at all. This is particularly the case in the lower FSMs: 25% of FSM 1 and 17% of FSM 2.



Why FinScope?

One of FinScope's objectives is to understand the difference between the banked and the unbanked. Launched in 2003, FinScope was developed by FinMark Trust, following a pilot of 1 000 households in urban areas in 2002. It is funded by a syndicate of institutions and is currently coordinated and underwritten by FinMark Trust. FinScope is to become an annual benchmark survey, which will assist in monitoring the financial sector's progress towards achieving the Financial Sector Charter (FSC) targets. A section on housing has been added to the 2004 survey and questions on debt and insurance have been extended.

Comparisons of 2004 results with FinScope 2003 have been complicated by a change in the average age of the sample. The pilot study and FinScope 2003 sampled adults 18 years and older, while the latest survey sampled adults of 16 years and older. The inclusion of younger people, who are unlikely to have bank accounts, has increased the proportion of the unbanked in South Africa. The reason for the change is that the sample selected should represent all who can use a bank account and the minimum age at which people can apply to open an account is 16. Also the FSC targets are based on the population 16+ years. Where appropriate, figures that are comparable with those published last year have been made available.

FSMs: who's what

The FinScope findings have generated a new segmentation model: the Financial Summary Measure (FSM), designed to complement existing segmentation models – e.g. the Living Standards Measure (LSM) developed by SAARF (South African Advertising Research Foundation), utilising the All Media & Products Survey (AMPS). Unlike most, the FSM model is not income dependent and also measures behaviours and attitudes, which are important behaviour drivers. There are 8 segments or tiers identified by the model across the population spectrum.

The FSM measurement categories are:

- ❑ Financial penetration (service consumption);
- ❑ Physical Access to these services;
- ❑ Attitudes towards money including financial knowledge and control and
- ❑ Connectedness and general well-being

	2004 16+ (n=2988) %	2003 18+ (n=2984) %	2004 18+ (n=2895) %
FSM 1	24.5	26.2	23.2
FSM 2	21.9	20.8	20.9
FSM 3	11.5	8.4	11.3
FSM 4	12.8	11.9	13.3
FSM 5	11.0	13.9	11.9
FSM 6	9.8	9.8	10.6
FSM 7	5.2	5.7	5.3
FSM 8	3.3	3.4	3.6



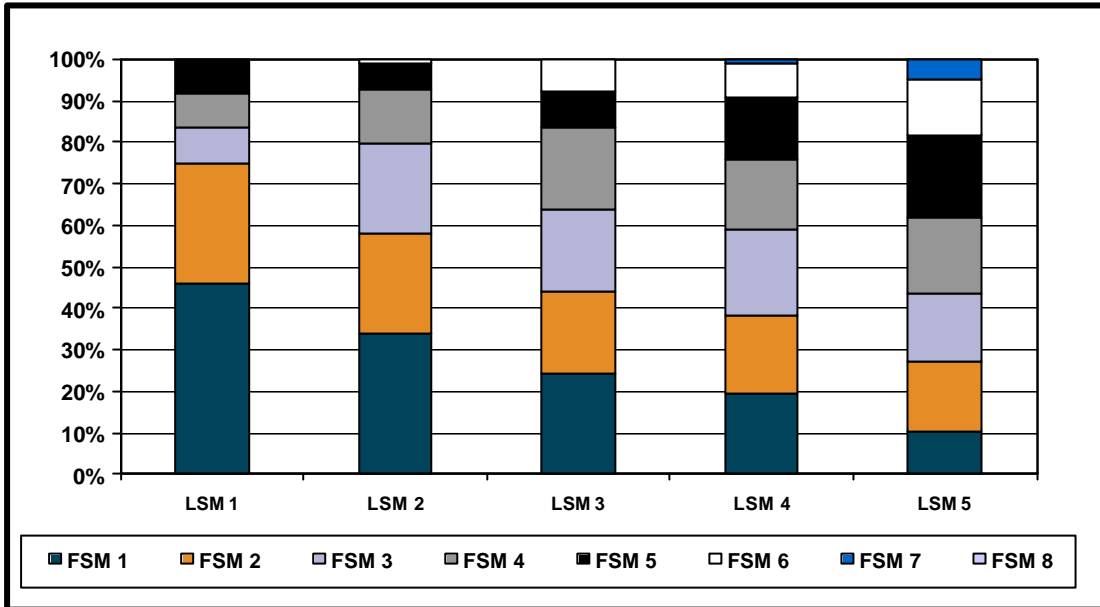
- FSMs are stable in terms of key diagnostics such as race, gender, LSM and geographical location
- FSMs are based on key elements relating to the financial experience of people, and minor movements are expected
- The end goal is to substantially reduce the number of people in the lower FSM groups over time as these people become more aware of financial products and start utilising them

Financial Summary Measure- FSMs

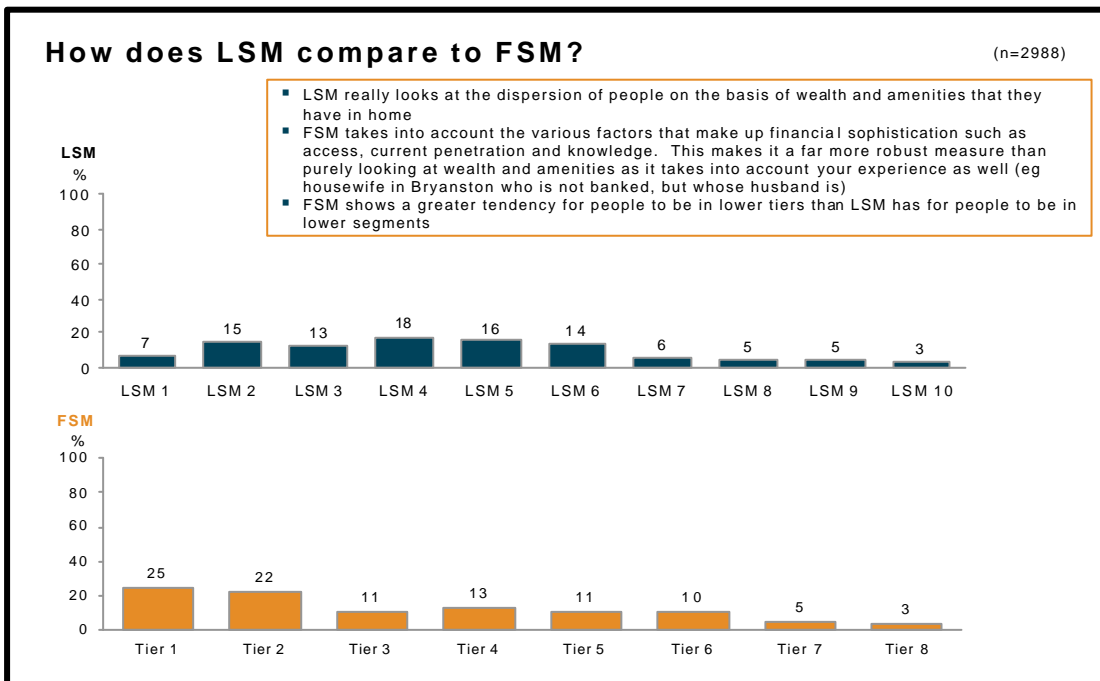
More than just wealth indicators to effectively segment markets
Understanding consumer behaviour drivers (and in time behaviour predictors) can create market edge
Full market continuum needs understanding
Categories measured in the model:
 Financial penetration
 Physical access
 Financial discipline
 Knowledge of and control of finances
 Connectedness and optimism
2004 data has validated the model – stable, segments well and is consistent with 2003 findings !!
 Only 3% of South Africans fall into the top FSM segment
 FSM1 and 2 comprise 47% of the market

FSM 1 makes up 25% of the sample while FSMs 1-3 make up almost 60%
The movement of people from FSM 1 up the scale towards FSM 8 will reflect the success or not of the drive to expand financial service access to low income people.

LSMs and FSMs



The FSM model can be applied in conjunction with other segmentation models—the most common within South Africa being the LSM



Issues of access:

- ❑ 57% of the population has access to a Telkom public phone;
- ❑ 46% to a cellphone
- ❑ 19% to Telkom at home
- ❑ 9% to a PC
- ❑ 6% to a fax
- ❑ 6% to the Internet
- ❑ 5% to e-mail

Quality of life

- ❑ Black people are more likely to be unemployed while whites have the highest number of retired or pensioned people as a result of their older population profile;
- ❑ 60% of households are headed by someone with a bank account and 64% of people claiming to be household heads are employed;
- ❑ Only 1% of South Africans earn more than R13 000 a month. The biggest segment (37%) earns R1 to R750 a month; and, on average, one income earner in a household supports four people;
- ❑ Among black people 30% have on occasion gone without medical treatment, 31% have gone without enough food to eat, 27% have gone without electricity in the home; 18% have gone without fuel for heating and cooking and 18% have gone without clean water;
- ❑ 78% of people live in formal dwellings while 76% claim ownership of their dwellings. On average four people live in a home, with the highest number among black people and those living on tribal land.
- ❑ People perceive the greatest financial threats to be shelter destruction, job loss, death of the main bread winner and serious illness of a household member.
- ❑ 68% of both coloureds and Asians describe themselves as cheerful/happy, 66% of whites and 54% of blacks. 74% of both blacks and coloureds say they have friends and family to turn to, 71% of Asians and 67% of whites; and
- ❑ 68% of whites describe themselves as in good health, 61% of coloureds, 53% of Asians and 51% of blacks.

