

# FINSCOPE 2003 - Lesotho Pilot

## Status on usage of financial services

Although 61% of respondents use any one type of formal financial service, usage of individual products is low.

- Only 18% of respondents say they have a current account, and this represents the highest percentage use of any product.
- Credit cards and current accounts have the largest loss of clients (27% and 20% respectively).
- Funeral policies are the most commonly used insurance product.
- The three most commonly used accounts are savings/transaction accounts (current account), store credit cards, and funeral accounts.
- Only 11% of respondents have ATM cards.
- 94% of respondents said they did not bank in South Africa.

Usage of informal financial services is high, but of a greater importance is the fact that respondents tend to use both formal and informal financial services.

- Of the financially included, 84% are using both formal and informal services.
- Informal financial services are used by 56% of the respondents. Burial societies are most commonly used (56%). Savings clubs are used by 11% of respondents, while only 6% claim that they use an unregistered moneylender.
- About 14% of respondents, who use an informal service, use both burial societies and savings clubs.

Those who are financially excluded, represent more than a third of respondents.

- 36% of respondents report not using any form of financial service, and 39% report that they don't use a formal financial service.

The user index shows that people generally do not use an array of formal financial products.

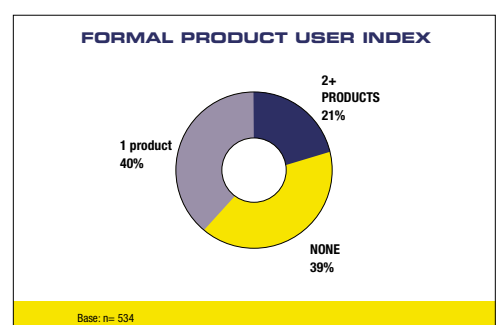
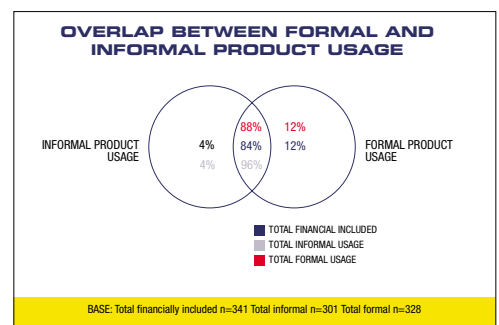
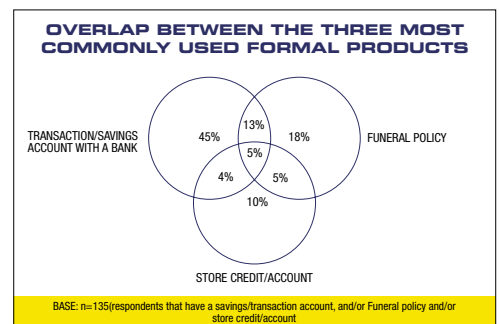
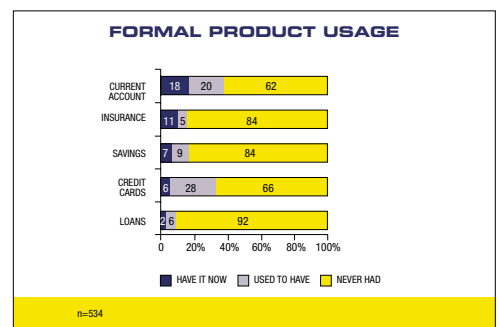
- On average respondents use 1 formal financial product (out of a user index of 25 products).
- Less than a third of respondents use more than 2 financial products.

There is extensive use of cash as payment medium.

- Cash is used to pay for food (96%), transport (95%) and clothes (76%).
- Cash is used most often to pay for furniture followed by lay-by, and store credit. Electronics are not purchased, and if they are, they are usually paid for in cash.
- Respondents receive income from 5.6 multiple sources. When adding all mentions of income sources, salary and wages has the highest mention (41%), followed by business activities (22%), and subsistence farming (13%). Remittances represented only 6% of mentions, and pension 1%. Additionally, 50% of households have salary and wages as a source of income.
- 84% of respondents who receive money as payment medium (vs. in-kind), say this is received in cash, 20% say via cheque, and 2% say it is deposited directly into a bank account. Income from a salary is received in cash (79%), then cheque (20%), and only 2% have it deposited into a bank account. Income from other sources (farming, business, remittances, pension, welfare grants) is received in cash most of the time.

Transferring funds is done regularly outside of the banking system.

- Despite the fact that remittances as a source of household income only represented 6% of mentions, a high number of respondents receive (63%) and send (47%) money to/from family and friends. There is very little use of formal financial services and funds are mainly transferred through family and friends or delivered personally.



# Characteristics of the sample

The sample is best segmented by urban/rural.

**Urban/rural characteristics.**

- Rural:** The head of household is typically 46 years old, has a low level of education and tends to be female. The majority of rural households earn less than L300/mth, have on average 5.5 members, and on average 5.8 multiple sources of income with 1.4 people earning this income. Only 6% of rural households have a cellphone.
- Urban:** The typical head of an urban household is similar in age (43 years), equally male or female, and more educated than their rural counterparts (30% matric and above). More than a third of households earn more than L1000/mth. Households have 4.6 members, an average of 4.9 multiple sources of income with 1.5 people earning this income, and 30% of urban households have a cellphone.

**Income profile:** The majority of sampled households earn between L1-300/mth (48%), while 39% earn L301-1000/mth, and 13% earn more than L1000/mth.

**Value behaviour:** From a set of 12 questions dealing with attitudes toward family, community and personal aspirations, factor analysis identified three value dimensions (communalism or community-orientation; family-orientation; and individual-materialism). Exploratory regression analysis however showed that in Lesotho these values were a weaker predictor of product usage than urban/rural.

## Profiling and understanding demand

**Profile of an informal user is not much different to the profile of the formal user, and urban/rural location is only important as a determinant of formal usage.**

- The use of informal services does not differ significantly between rural and urban areas, although formal usage differs.
- Urban people use significantly more products than rural people.
- Rural and urban respondents do not differ in terms of demographic characteristics besides income. It is hypothesised that the difference in product usage is due to a lack of physical access and awareness.
- The financially excluded tend to be rural.

**In general there is high awareness and positive attitudes to banks, with some dissimilarity in views between urban and rural households.**

- Although the profile of urban and rural are very similar in terms of attitudes and values, urban households are more aware of banks than rural households and also more positive than their rural counterparts.
- Awareness is one of the strongest predictors of formal product usage and the more aware people are, the more formal products they use.
- Attitudes to banks can be directly correlated with usage. Although, in general people have a positive attitude towards banks, those that do not have a bank account or have fewer products are more likely to have a negative attitude to banks.
- Safety and trust are the biggest obstacles to using banks for rural people, and for urban people it is high cost and slow growth of money. Of these problems, perceptions about safety is the biggest predictor of usage. People with more safety concerns were found to have fewer products.

**Both informal and formal savings products are viewed as good ways to save money, while ways to invest money tend to be more conservative.**

- Respondents consider a savings account at a bank and saving with a burial society as excellent ways of saving money. The financially excluded have similar preferences but a much stronger preference for burial societies.
- The respondents view being well insured as the preferred instrument of money investment. Retirement fund and property maintenance are also seen as very good ways to invest. The financially excluded hold similar views.

**Factors that appear to influence household financial needs relate to death and illness.**

- Respondents view death of a household member (68%), illness in the household (39%), and funeral expenses (29%) as having the largest impact on the financial security of the household. The only difference found between urban and rural is that funeral expenses have more of an impact for the latter.
- Funeral expenses (71%), paying back debt (71%), and unexpected hospitalisation (47%) were stated as the most likely unexpected expense. They cope with funeral expense using a combination of burial insurance, income, and borrowing from family and friends.
- When expenses exceed income, households tend to cope financially by relying on a combination of actions. The most common coping mechanisms were cutting down on household expenses (84%) and borrowing money (37%).

**Time and transport costs are equally important issues to be addressed in increasing access to ATMs.**

- 80% of respondents need to use public transport to get to a bank/ATM. 77% of these respondents say it takes more than 30 minutes to get to a bank/ATM. It takes more than 30 minutes for 84% of rural respondents to get to a bank/ATM, compared to 34% of urban respondents. It costs on average a rural person L15.70 in transport costs to get to a bank/ATM compared to L5.02 for an urban person.

**Further expansion in cell phone coverage is needed to open opportunities for use of cell phone technology in financial service provision.**

- 10% of households have a cellphone and 28% of current account holders have a cellphone. Only 6% have a landline phone at home. Only 5% of the financially excluded have a cell phone.

