

?

5 4 3

4 3 5

FSM – Segmentation Model

based on FinScope™ surveys
in South Africa, Namibia and
Botswana



FINMARK TRUST

MAKING FINANCIAL MARKETS WORK FOR THE POOR

FinMark Trust

FinMark Trust was established in March 2002 with initial funding from the UK's Department for International Development (DFID). FinMark Trust is an independent trust whose business is controlled by 6 trustees from countries in Southern Africa. FinMark Trust's mission is summarized in the slogan "Making Financial Markets Work for the Poor". In pursuit of this objective, FinMark Trust aims to promote and support policy and institutional development towards the objective of increasing access to financial services by the un- and under-banked of Southern Africa (South Africa, Botswana, Lesotho, Swaziland and Namibia).

FinScope™



FinScope is an initiative aimed at researching the financial behaviour of South and southern African citizens.

The project is co-funded by FinMark Trust and participating sponsors, who through their sponsorship secure access to the research findings and FSM segmentation model. FinMark Trust launched the South African programme in 2002, with a pilot study of 1,000 urban households. The 2003 and 2004 research programmes covered 3,000 urban and rural households nationally in South Africa. The sampling methodology was designed and compiled by Professor Stoker of Stats SA, using the statistical frame of the Census 2001. The HSRC structured the sample maps and the field work was expertly executed by Research Surveys.

The survey is conducted annually with the intention of building dynamic financial market development, by affording focus to drive product and service innovation.

Introduction

About FSM

FinScope measures effective access to and use of financial services, along with how people manage their money and what drives financial behaviour. The research delivered a robust segmentation or continuum of the financial market in terms of access to financial services from those who have full access (the "fully banked") through to those who have no access at all. The FSM model classifies people into tiers based on a variety of measures.

The model is being developed on a combination of four broad components:

- Financial penetration (take-up of a comprehensive list of financial services, both formal and informal);
- Attitudes to money, this yielding two classifications, namely – financial knowledge and control and financial discipline;

- Physical access to banks;
- Connectedness and optimism

An algorithm, which will be universally applicable, classifies a person into one of eight tiers for each of the above components and will greatly enhance any other segmentation tools in use.

The algorithm classifies a person into one of eight tiers for each of these five measurers. A final (sixth) summary classification, the FSM itself, is the sum of these five measures rescaled back into eight tiers, so that each measure contributes the same weight in the final result. Normally all six classifications would be shown, with the FSM being used as the major class against which to profile people. So for example, one would measure a person and classify them, perhaps as

- Financial penetration Tier 6;
- Physical access Tier 5;
- Financial knowledge and control Tier 6;
- Financial discipline Tier 5;
- Connectedness and optimism Tier 7;
- With FSM Tier 6.

This then provides a classification scheme as well as key diagnostics.

Financial penetration

Given the original objectives, at least a part of the FSM must measure the extent and the nature of financial products and services take-up. The list of relevant products and services (banking products, savings and investment products specifically and insurance/-assurance products) in the FinScope questionnaire were grouped into eight tiers based on an analysis that examined how product usage patterns correlated via a Burt matrix/correspondence analysis approach. This yielded a product continuum that was then subjected to a scree analysis that aided in the allocation to tiers.

For each of the three categories of product or services (banking, savings and investment, and insurance/-assurance products), a person's **highest** tier is calculated and the overall financial tier is a simple average of these three highest tiers (rounded).

The advantage of this approach is that changes in the product/service list do not affect the whole algorithm; new products can be simply added to the appropriate tier and old ones deleted as necessary. (See table 1 – Sample of Seven Tiers).

Physical access to formal financial institutions

Access is a key indicator of both barriers to entry as well as of future delivery of financial services. Access in the FSM is summarised by two components. The time-taken was chosen as it differentiated better and more consistently between people than did "cost-to-get-to-the bank".

Attitudes to money

The financial penetration questions have an income correlation. Given the high Gini coefficient (measured as 60 based on monthly households income in the FinScope 2003 questionnaire) income almost always emerges as a key differentiator between people. Accordingly relevant variables that were specifically NOT correlated with income were sought. These also had to differentiate between people in a meaningful way. A further requirement was that these attitudinal questions should be able to be answered by both banked and un-banked people equally easily. This was achieved by eliminating variables that did correlate with income or assumed, either implicitly, a banked state. The remaining attitudinal self-descriptors were analysed via the same Burt matrix/correspondence analysis route, akin to a nominal-level factor analysis, to determine the underlying continua, if any.

Two such relevant continua emerged with respect to attitudes to money. The analysis allocates a score to each self-descriptor with which a person agrees. These are summed for that person and transformed so as to fall between 10 and 89.9. This is divided by ten and the integer value of this core is taken for that individual's tier allocation on the two attitudes to money continua.

The transformation formula for the Financial Discipline tier allocation is as follows:

$$\text{Tier}_{fd} = 1 + \text{INT} ((0.83 (21 + s_i))/10) \text{ where } s_i \text{ refers to the scores above.}$$

The formula for the Financial Knowledge tier allocation is

$$\text{Tier}_{fk} = 1 + \text{INT} ((0.97(15 + s_j))/10)$$

Both these classifications could probably be simplified, once their behaviour has been assessed.

Connectedness and optimism

The FinScope questionnaire included the Research Surveys Everyday Quality of Life Index (EQLi™). This is because any understanding of financial take-up must be influenced not only by wealth issues but also by an understanding of people's life circumstances, the major influences in their lives, their happiness levels and their level of connectedness with the world. Necessarily, again, parts of the EQLi™ correlate with income, so that, while knowing the full measure is useful in terms of analysis of the full FinScope dataset, for the purposes of a key summary measure, only those components not correlated with income are necessary. These turn out to be the variables that describe how people are connected to their networks and how happy they are. Networks are important filters people use in processing information and making decisions. Happiness levels influence the confidence with which decisions are taken as well as the level of involvement people use when processing information. This was felt to be a key indicator in showing how people might react to new financial ideas. Hence, this has been included as a

specific component on the overall FSM, rather than just as a diagnostic. There may still be some debate around this decision.

The scoring regime and transformation formula are given below, following the same principles adopted in the attitudes to money measures.

$$\text{Tier}_{co} = 1 + \text{INT} ((1.28 (48 + s))/10)$$

The FSM itself

The initial FSM was the simple (rounded) average of the five above tier levels. However, this results in an FSM distribution that, being the average of five reasonably Independent means has rather too low a standard deviation. It also turns out to be rather non-normal. The critical issue is that the low standard deviation and the rounding procedure yields very few people in FSM tiers one, two and eight. Accordingly, a transformation was applied that had the effect of increasing the standard deviation without changing the scale. This utilised a s-shaped curve of the form:

$$Y = x/(x + e^{(a-bx)}) \quad \text{for } 0 = x, y = 1$$

In this case, in order to obtain a transformation that spread the distribution of people from the midpoint of the distribution, values of a and b that set $y = x = 0.5$ were chosen.

The relation between a and b is

$$b = 2(a \ln(0.5))$$

A final value of $a = 2.2$ was adopted.

This yields eight tiers for the sum, S, of the five components measures (this sum ranging from five to 40) that classifies people as follows:

- Tier 1:S:5 to 15 (637 in the sample; 25% of the weighted population)
- Tier 2:S:16 to 18 (522 in the sample; 20% of the population)
- Tier 3:S:19 to 21 (227 in the sample; 8% of the population)
- Tier 4:S:22 to 24 (337 in the sample; 12% of the population)
- Tier 5:S:25 to 27 (427 in the sample; 14% of the population)
- Tier 6:S:28 to 30 (370 in the sample; 10% of the population)
- Tier 7:S:31 to 33 (280 in the sample; 6% of the population)
- Tier 8:S:34 + (184 in the sample; 4% of the population)

There is a case to break tier 1 into a tier 1a (S:5 to 12 – 104 people;4%) and a tier 1b (S:13 to 15 – 533 people; 21%), as a means of allowing us to identify the extremely disadvantaged. Such people will probably not be found often in urban areas, so such a breakdown may not generally be necessary in normal banking studies, but it may be useful here.

A key approach in the development of the various measures that go into the FSM uses, as mentioned earlier, a Burt matrix/correspondence analysis approach. This approach was adopted because it takes no assumptions as to the ordinality (nominal, ordinal, interval, ratio) of the various scales used in the FinScope questionnaire. Further, it is based on the common finding that, especially in terms of attitudes and psychographics, and often in terms of aspects of behaviour, people generally fall along continua or spectra, and that real clusters, as marketers like to envisage them, are rare. In these situations, typical cluster analysis algorithms work by **producing** clusters rather than by **identifying** clusters. Further, the process is heavily influenced by the variables chosen (adding even one new variable can dramatically change the result), by the choice of distance measure and the actual clustering algorithm used. As a result, such clusters are usually highly unstable and not readily reproducible.

A segmentation exercise should start with this notion of continua or spectra as a basic premise, and seek to use rather than hide this essential reality.

The approach is outlined in principle below:

The process of constructing each continuum involves first generating a matrix akin to a correlation matrix. For self-descriptors where an agree/disagree scale has been used, the "agree" responses to each indicator statement are tabulated as both rows and columns in a table. In some cases, a more complete use is made of the scale points by tabulating each scale point of each indicator statement as both the rows and columns in a single table.

These square tables (called Burt matrices) are then subjected to either Correspondence Analysis or Non-Metric Multi-Dimensional Scaling. This process is essentially similar to a principal components analysis but without the necessity of assuming that the (ordinal) scales used are interval, a generally unwarranted but common assumption. Such an approach also allows one to mix variables of different ordinality, so that it becomes a general and very robust technique.

When properly chosen indicator statements have been used, the analysis clearly reveals the relevant continua or gradients, the role that each statement plays in contributing to those axes, and the overall differentiating power of the axes. Ultimately, after eliminating duplicates and after some cleaning, what results is a set of scores for a relevant set of statements/items on a number of possible differentiating dimensions. These dimensions and weights can be likened to LSM-type constructions. The scoring regime is often scaled so as to produce a distribution that runs from 0 to 100, for ease of use and interpretation, although this is not always necessary.

For the FSM measures, eight tiers were adopted and so a different scaling approach was used as already outlined above.

Financial penetration measures

For the three financial products, the approach that put all scale points of all items into the input matrix was adopted. The distances between the scale points for each product individually were then calculated from the first two axes of the output. An extract of the output (for insurance/assurance) is given in table 2. The maximum values can be regarded as an indicator of a product's relative place in terms of financial penetration.

A scree analysis on the maximum scores was conducted to assist in the allocation of products to tiers.

The variance accounted for in the analysis used for the tier allocation was 65%.

Physical access measure

The physical access measure was initially generated in the same way but shortened for the FSM measure itself to include only the most differentiating components. The final tier allocation was done via an analysis that linked the products and access information. The data used for the tier allocation accounted for 70% of the variation in the input matrix.

Attitudes to money

As noted earlier, attitudinal self-descriptors that did not correlate with income were sought. The "agree" responses of these statements were analysed using the same Burt matrix/correspondence analysis approach, with these that did not provide differentiation being deleted. This yielded what has been tentatively named the "Financial discipline" measure. It is more accurately described as a measure that runs from distrustful/-credit dependent to cautious/disciplined. The variance explained by this measure accounts for 60% of the variation of the input matrix.

The second attitudinal measure in the FSM is what has been termed "Financial knowledge and control". It was the first attitudinal measure derived but, in its original form, has a strong wealth correlation. Accordingly, it was re-derived with the strongest wealth-correlated components omitted. The new measure accounts for 37% of the variation in the input matrix.

Connectedness and optimism

The measure derived accounts for 36% of the variation in the associated Burt matrix. Other axes relate to health and fitness aspects, but this measure is the most general and accounts for the most variation.

The proposed FSM questionnaire

In order to achieve the objective of eventually having a standard set of questions which could be applied to any future research questionnaire, the questions appearing in the questionnaire in Table 3 must be asked in order to achieve the FSM scoring.

Concluding remarks

The FSM algorithm development work has been applied to the FinScope dataset. While the data as a whole makes intuitive sense, there are a few areas in the data where certain questions could be asked. As with all development work, the first go around does not always provide a one hundred percent flawless result. The developers of the model value any constructive input to making the model more complete.

The FSM algorithm has been produced by Neil Higgs of Research Surveys, with input from David Porteous, Darrell Beghin, Bob Currin and Michael O'Donovan, who all played a role in influencing the final choice of variables used. The algorithm should be regarded as a prototype for now and will be fine-tuned in the light of comments and new data. Some possible areas where this might occur have been noted above. However the FSM prototype addresses at least at an initial level the need for better market segmentation in financial services.

We invite constructive input towards possible improvement to the model. Please direct comments to the FinScope Website: www.finscopeinfo@finscope.co.za

Table 1

	Miscellaneous products/ services informal/formal	Savings and investments	Insurance/assurance
Tier 1	None	None	None
Tier 2	Loan – friend/family	Stokvel/savings club	None
Tier 3	Savings book ATM card Savings/transaction account Post Office savings account	Burial society Lending to others	None
Tier 4	Store account/card Employer Loan Loan – microlender Personal bank loan	Improving home Buying/making goods to sell	Funeral policy
Tier 5	Club loyalty card Credit card Store loyalty card Debit card House loan – friend/family House loan – government House loan – employer	Unit trusts Vouchers Investment in livestock	Provident fund Pension fund Education policy
Tier 6	Bond/mortgage Fixed deposit Current account	Timeshare Starting a business Collectables Investment in property to rent	Insurance for credit Life/assurance Medical aid Home owner insurance
Tier 7	Money market account Garage card	Investment in own business Investment in vacant land Off shore investments Holiday home/second home	Car insurance Retirement annuity Endowment/ investment policy

Table 2

			Max
Funeral policy with a big institution	Never/don't know	0	4.1
	Used to have	2.2	
	Have now	4.1	
Life/assurance policy	Never/don't know	0	5.7
	Used to have	2.8	
	Have now	5.7	
Retirement annuity	Never/don't know	0	6.6
	Used to have	3.3	
	Have now	6.6	
Provident fund	Never/don't know	0	4.6
	Used to have	2.1	
	Have now	4.6	
Pension fund	Never/don't know	0	5.0
	Used to have	2.5	
	Have now	5.0	
Endowment/investment policy	Never/don't know	0	6.6
	Used to have	3.4	
	Have now	6.6	
Home owner insurance	Never/don't know	0	7.1
	Used to have	3.6	
	Have now	7.1	
Medical aid	Never/don't know	0	5.8
	Used to have	2.9	
	Have now	5.8	
Hospital plan	Never/don't know	0	9.3
	Used to have	4.7	
	Have now	9.3	
Medical insurance	Never/don't know	0	10.2
	Used to have	5.1	
	Have now	10.2	
Insurance you personally took out to maintain credit payments	Never/don't know	0	5.6
	Used to have	3.6	
	Have now	5.6	
Disability insurance	Never/don't know	0	8.6
	Used to have	4.3	
	Have now	8.6	
Education policy	Never/don't know	0	5.0
	Used to have	3.1	
	Have now	5.0	
Household insurance	Never/don't know	0	9.0
	Used to have	4.6	
	Have now	9.0	
Car insurance	Never/don't know	0	6.6
	Used to have	3.4	
	Have now	6.6	

Table 1

Financial Summary Measure (FSM) Self Completion Questionnaire

Name _____

Tel _____

Email _____

Introduction

In this survey, we will be asking you about things to do with money and some questions about yourself. All answers are strictly confidential. Now, please go to the first question.

Thank you

1. Please indicate which, if any of the following products and services you have and use, or which activities apply to you. Please tick appropriate box(es).

General Accounts and Services	Have now and use
An ATM card/Savings book/Post Office savings account/Savings or transaction account	
A debit card/Credit card/House bought by borrowing from government scheme/House bought by borrowing money from employer, friend or family/Loan from a mashonisa/Informal money lender or personal loan from a bank/Store loyalty card that gives you cash back (such as Clicks)/Other club or loyalty cards	
Current or cheque account/Fixed deposit bank account/Mortgage bond or housing loan	
Garage or petrol card/Money market account	
Loan from a friend or family	
Loan from an employer/Loan from a micro-lender (such as Credit Indemnity, Capitec etc)/Store card where you buy on account and pay later (such as Edgars)	
Vehicle finance/An overdraft	
Investments and Savings	
Timeshare/Investment in property, house or flat that you rent out/Collectables (antiques, carpets, paintings, art, coins or stamps)/Running your own business	
Holiday home or investment in a second home/Investment in vacant land or plot/Investment in your own business/Off-shore investments	
Investment in farm land/Shares on the stock exchange/Investment in someone else's business	
Investment in cattle or livestock/Unit trusts/Buying and exchanging vouchers for cash or goods	
Stokvel or savings club	
Burial society/Lending to others and benefiting from the profit or interest	
Buying or making goods to sell/Improving your home	
Insurance/Assurance	
Funeral policy with a big institution	
Life/assurance policy/Home owner's insurance/Medical aid/Insurance taken out to maintain credit payments	
Retirement annuity/Endowment or investment policy/Car insurance	
Provident fund/Pension fund /Education policy	
Hospital plan/Medical insurance/Disability insurance/Household contents insurance	
2. IF YOU HAVE NO BANK ACCOUNT GO TO Q3. If you indicated that you have and use any type of bank account, what is the average time you currently spend travelling to get to the bank? Please tick appropriate box.	
Under 5 minutes / About 5 minutes	
About 10 minutes	
About 15-20 minutes	
About 20-30 minutes	
About 30-45 minutes	
About an hour or more	

3. **IF YOU HAVE A BANK ACCOUNT GO TO Q4.** If you do not have a bank account, what is the main reason/s for not having one? Please tick appropriate box.

Reason/Reasons	
Don't have a regular income or job or earn too little / Don't qualify to open an account	
The bank is too far from where I live	
I prefer dealing in cash	
It's expensive	
Other	
4. Please indicate which ONE statement below applies to you, by putting a tick next to the appropriate box/statement.	
My life is close to my ideal	
My life is fairly close to my ideal	
My life is not close to my ideal	
My life is not at all close to my ideal	
5. Below is a list of statements on financial matters. Please indicate with which you agree by putting a tick next to the one(s) you agree with. IF YOU DISAGREE WITH A STATEMENT OR DON'T KNOW, PLEASE LEAVE BOX BLANK.	
Statements (agree responses)	Agree
Taking loans should be avoided as much as possible	
With money you trust your own experience or knowledge rather than advice or promises of others	
If you save or invest regularly, eventually the small amounts mount up and you'll be secure	
In times of need you would rather deal with people you know than with a large organisation	
You would rather deal face to face with a person rather than with an electronic device, even if the device is quicker	
When it comes to money, young people know more than older people	
You don't trust informal associations like savings clubs	
You are prepared to use technology	
You often don't feel in control of your finances	
Banks take advantage of poor people	
You love spending money to buy things even if you have to use credit to do so	
When buying on credit it ends up being more expensive than you thought it was	
You try to save regularly	
You do not like carrying cash	
You hate owing money to anyone	
When you make financial decisions, you like to get advice from family or friends	
Having a bank account makes it easier to get credit	
To get ahead in life, one needs to take some risks	
You are worried that you won't have enough money for old age	
You prefer to save where money is safe, even if the interest rate/return is a little lower	
You go without basic things so that you can save	
You know quite a bit about money and finances	
You avoid banking machines such as ATM's as much as possible	
You can easily live without having a bank account	
People often ask your advice on financial matters	
You usually read the finance pages in newspapers and magazines	
You are saving for something specific, such as a car, a holiday, an appliance or furniture	
You have a good idea of what interest or returns you get on the money you save	

6. Below is a list of statements that might or might not apply to you. Some of these statements might appear strange and private. However, we do need your honest responses to be able to understand you better as an individual. Please indicate which ones apply to you by putting a tick next to the appropriate box/statement.

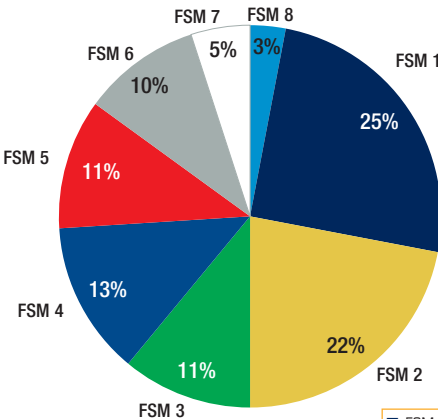
Statements	Apply to me
I don't feel really well most of the time	
I consider myself physically fit	
I feel lonely	
I feel alive and energetic	
Generally I am a happy and cheerful person	
I don't know very many people	
People very seldom ask me for advice	
I have a varied life with lots of different activities	
I don't feel I really belong – I want to be more accepted	
I regard myself as a spiritual person	
I don't really have a really close relationship with anyone	
I have many dreams in life but will never achieve them	
I feel well and in good health	
My life has meaning and purpose	

FSM Mechanics

What sizes are the FSM segments?

(n=2988)

16+ years



■ FSMs 1-3 contributes almost 60% of the overall sample

Stability of FSMs = Comparison 2003/2004

	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

What tiers make up the FSM?

%	FSM 1 (n=553)	FSM 2 (n=550)	FSM 3 (n=351)	FSM 4 (n=363)	FSM 5 (n=374)	FSM 6 (n=379)	FSM 7 (n=249)	FSM 8 (n=169)
Financial penetration:								
Tier 1	87	73	33	8	-	-	-	-
Tier 2	12	22	47	58	47	16	2	-
Tier 3	1	4	15	23	27	17	3	-
Tier 4	-	1	4	7	16	29	13	4
Tier 5	-	-	1	3	8	24	29	8
Tier 6	-	-	-	1	2	12	27	23
Tier 7	-	-	-	-	-	2	20	42
Tier 8	-	-	-	-	-	-	7	22
Physical access:								
Tier 1	94	86	87	62	26	6	-	-
Tier 2	2	3	6	2	-	-	-	-
Tier 3	9	27	34	15	6	1	-	-
Tier 4	1	7	19	17	10	6	3	-
Tier 5	-	-	7	20	17	14	7	2
Tier 6	-	-	6	24	32	25	16	5
Tier 7	-	-	2	9	21	25	37	33
Tier 8	-	-	-	7	13	30	37	60
Financial discipline:								
Tier 1	-	-	-	1	-	-	-	-
Tier 2	8	1	-	-	-	-	-	-
Tier 3	27	9	3	4	1	1	-	-
Tier 4	40	31	20	13	6	4	3	-
Tier 5	22	42	37	32	31	24	16	9
Tier 6	3	16	36	38	37	42	53	44
Tier 7	-	1	4	11	23	26	28	41
Tier 8	-	-	-	-	2	3	1	7
Knowledge and control:								
Tier 1	42	24	27	13	4	1	-	-
Tier 2	57	63	62	52	33	16	5	1
Tier 3	11	28	34	31	20	7	2	-
Tier 4	-	6	18	29	34	25	13	4
Tier 5	-	1	10	15	27	31	28	10
Tier 6	-	-	2	6	11	28	33	30
Tier 7	-	-	-	2	3	8	17	38
Tier 8	-	-	-	-	-	1	7	17

What tiers make up the FSM? (continued)

%	FSM 1 (n=553)	FSM 2 (n=550)	FSM 3 (n=351)	FSM 4 (n=363)	FSM 5 (n=374)	FSM 6 (n=379)	FSM 7 (n=249)	FSM 8 (n=169)
Connectedness and optimism:								
Tier 2	2	—	—	—	—	—	—	—
Tier 3	3	1	1	—	—	—	—	—
Tier 4	9	2	3	4	1	—	—	—
Tier 5	26	8	8	11	3	2	—	—
Tier 6	30	24	19	24	17	11	6	1
Tier 7	26	47	39	37	46	40	36	16
Tier 8	4	19	30	23	32	46	58	83

- For each sub-index, we note that the overall scores per tier increase as FSM does
- Basically, some people in FSM 8 may not achieve the highest tier on each sub-index but, overall, they have the highest level of sophistication netted. That is, a person may be highly financially involved but not be very optimistic about the future but they still will be in the top FSM tier
- The tiers are based on attitudinal and usage dimensions and not only on wealth indicators as wealth is not necessarily the only contributor to how people experience the financial environment
- Note that essential barriers are the access and actual penetration and usage

FSM by psychographic statements

See back of brochure for enlargement hereof

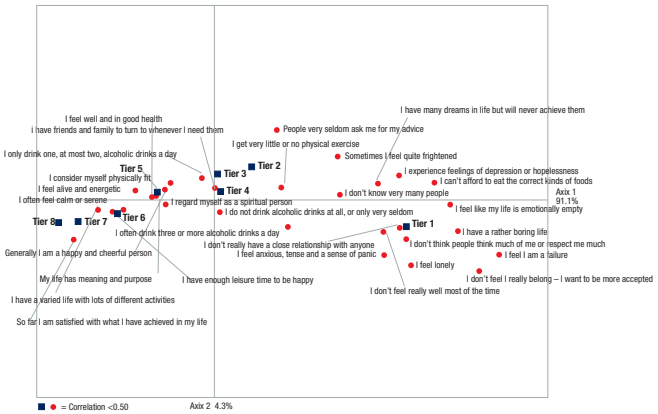


Inertia = 0.12

- Tier 1 tends to be less sophisticated about financial matters and need much explanation
- Tier 8 is far more financially sophisticated and does not lack understanding

FSM by well being

See back of brochure for enlargement hereof



Inertia = 0.12

- Tier 1 tend to be far more insular and unhappy
- Tier 8 feel fulfilled with life and happy in their worlds

Using LSMs and FSMs

Traditionally LSM has been used as a standard segmentation tool for the South African market. LSM essentially categorises people based on their access to, and ownership of a variety of products and lifestyle related elements. These include elements like – the province in which you live, the type of dwelling you live in (traditional hut etc) and whether you have a VCR in your home. It is evident that LSM is closely correlated with income as the more money you have the better placed you are to have access to products and services that make up the algorithm.

In the financial sector however, wealth and access to services and products does not adequately explain how people deal with finances. An example would be that although someone is poor, and does not have access to products and services that would put them into a higher LSM, they may be financially astute and be actively involved in savings, financial planning etc. If we were to simply segment the market on LSM this person would be classified in a lower LSM. This would then lead us to assume that this person could be targeted to need access to financial products etc. However, this is not the case as the individual is already financially astute and engaging in the financial services sector.

A few examples from FinScope SA 2004 which highlight the need to utilise FSM as well as LSM in trying to understand the market follow. Note that this strongly indicates that when looking at people from a financial perspective FSM is far stronger in terms of explaining both behaviour and situation than LSM.

Example 1: in Case 1606 (FinScope SA 2004), with an extraordinarily high claimed numbers of policies, where the respondent claims to live in a traditional hut, has a water tap that only works sometimes, and has no electricity in the village. The respondent has also noted that she has a radio in the home and a battery-operated television set, but no other product and service variables contained on the LSM.

According to the algorithm, the respondent is part of LSM 1, even though she claims to earn R4 000 per month working full time in governmental services. At this stage, access to the policies claimed makes more sense, as they could well be offered to employees in the public sector.

Thus, we highlight the concerns that we could experience with LSM relating only to products and services owned. LSM basically presumes a lifestyle and correlated income status relating to ownership of these products and services. They do not take into account the choice of a traditional lifestyle, or the subjective classification of home.

Example 2: Case 1661 (FinScope SA 2004), the respondent claims to have a vehicle but lives in a traditional hut. On probing, it becomes evident that the house is built in a traditional style, but has attributes

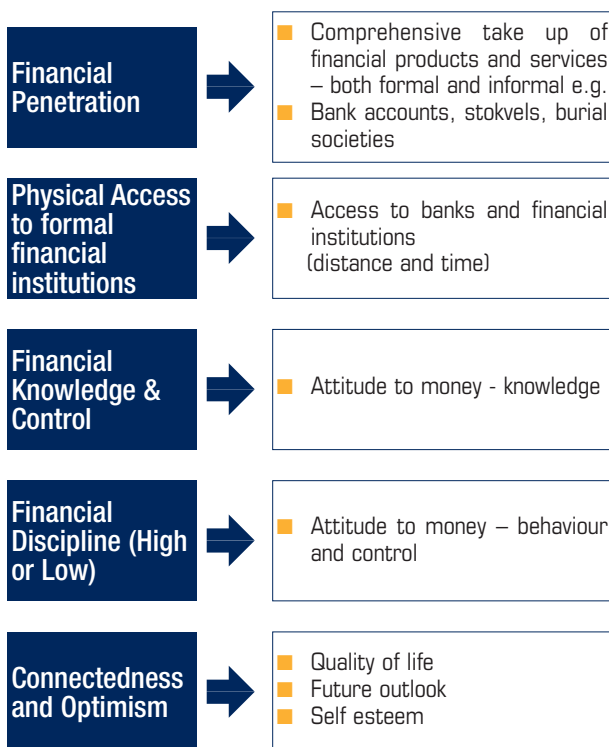
that caused our back-checking to query whether the home would really be considered a traditional hut - even though the respondent claims to have no electricity and consumables. On closer investigation, we discovered that the respondent in question works full time and transports goods for the people in the area in which he lives - hence the need for a vehicle and vehicle insurance.

Again, the subjectivity of the housing description is evident, as well as the choice of life, an area that does not necessarily correlate to income and interaction in the financial sector.

It was through the inability of LSM's to explain these anomalies in the financial markets and thus the need to understand the financial services market specifically that the FSM was borne. A key point behind the philosophy of the measure is that it includes measures to do with financial uptake, access and barriers (which will show a correlation with wealth) and measures to do with financial "savvy" and optimism/connectedness, the components of which were originally chosen to minimise an income correlation. As income and access to products and services are not always a sound measure of financial sophistication. This means that the final FSM measure itself will show some correlation with income but –

1. this is not as direct as, say, LSMs; and
2. the original idea was that the underlying measures would also be scrutinised, to provide the additional insight

The output of the FSM model is thus the summary of a variety of financial dimensions as shown below.

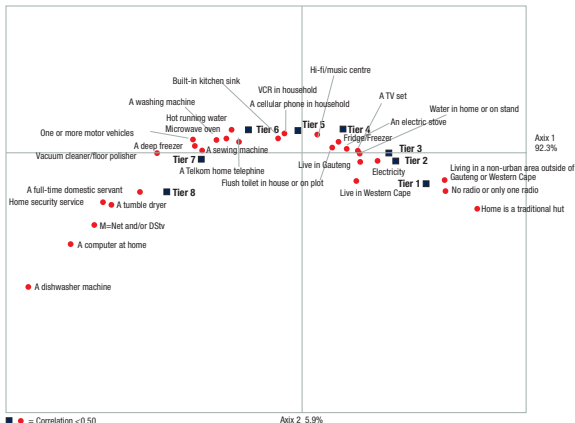


However, as LSM is widely used as a segmentation measure by most major organisations in South Africa it was important to understand the link between FSM and

LSM. A brand mapping exercise indicates how to look at the attributes that make up LSM correlated to the FSM levels:

How is LSM mapped against LSM variables?

See back of brochure for enlargement hereof

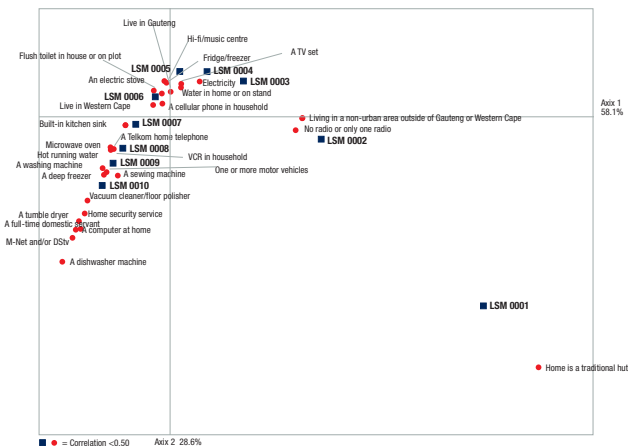


Inertia = 0.63

■ Note the major factor that influences LSM 1 is that these people live in a traditional hut

What is the distribution of LSM variables by FSM tiers?

See back of brochure for enlargement hereof



Inertia = 0.12

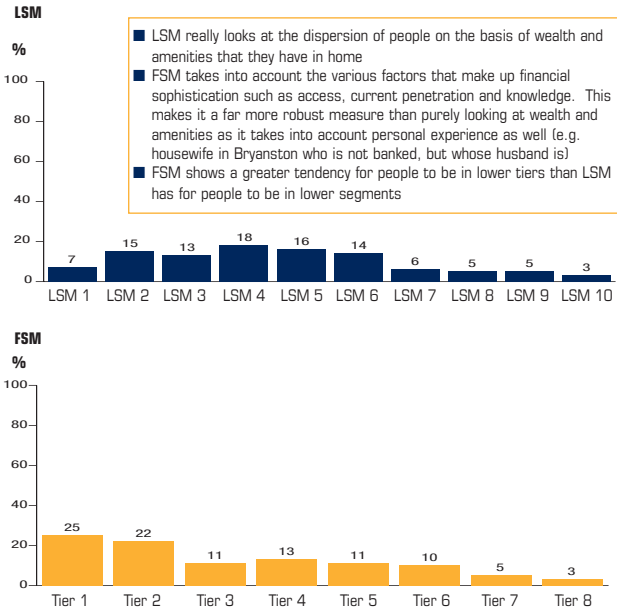
- FSM tiers show a very similar distribution pattern to LSM, except the variables are better dispersed amongst the tiers
- FSM tiers seem to describe and distribute exactly what LSM levels do – they just explain far more than that as well
- FSM and LSM have wealth links, but FSM may well be a much better assessment of financial issues than purely wealth or possessions

When looking at the maps it is interesting to note that the attributes are better spaced along the FSM continuum. What this shows is that FSM is equal, if not better, in terms of segmenting the market on the attributes which make up LSM. It is possible to deduce that FSM, while taking financially relevant issues into account, also shows a strong correlation with the inputs of LSM. It basically takes LSM and makes it even better from a financial services environment perspective.

When correlating FSM by LSM, 95% of people who fall into LSM 1-5 also fall into FSM 1-5. This shows that although there is correlation to a large degree, it is the “differences” that give the FSM data the value it currently has.

How does LSM compare to FSM?

(n=2988)



In summary:

- FSM and LSM both have a correlation with wealth and with each other, however LSM is a better measure to utilise when discussing product related situations (targeting certain LSM's with a new product type) as lifestyle has far more impact on product choice. FSM is a far better measure when understanding financial service environment as it specifically relies on variables related to finances in its input
- LSM relies on access to products and services and other lifestyle characteristics
- FSM relies on financial elements
- Both LSM and FSM have their place in understanding the financial market, but when looking specifically at the financial sector FSM is far more robust and avoids anomalies based on lifestyle attributes
- FSM is equally good at defining the attributes that make up LSM, if not better

Thus in all analysis relating to the FinScope data, we utilise LSM's and FSM's to better understand the consumer market.

Insights to the FSM tiers

(Based on FinScope SA 2004 findings)

Who are these people?

FSM 1

	Sample (n=2988)	FSM 1 (n= 553)
Race:		
Black	77	87
White	11	1
Coloured	9	11
Asian	3	1
Gender:		
Male	47	44
Female	53	56
Age:		
16-17	7	11
18-24	21	26
25-34	25	21
35-49	26	25
50 +	21	17
Banking level:		
Currently banked	46	-
Previously banked	12	20
Never banked	42	80

	Sample (n=2988)	FSM 1 (n= 553)
LSM:		
1-5	67	88
6-7	19	12
8-10	14	-
Personal monthly income:		
No income	24	42
R1-R750	37	49
R751-R1500	13	7
R1501-R2000	4	1
R2001-R4000	7	-
R4001-R6500	3	-
R6501-R9500	2	-
R9501-R13000	1	-
R13001+	1	-
Geographical area:		
Tribal land	28	40
Rural formal	6	8
Urban informal	8	9
Urban formal	58	43

FSM 2

	Sample (n=2988)	FSM 2 (n= 550)
Race:		
Black	77	88
White	11	2
Coloured	9	9
Asian	3	1
Gender:		
Male	47	47
Female	53	53
Age:		
16-17	7	12
18-24	21	31
25-34	25	22
35-49	26	18
50 +	21	17
Banking level:		
Currently banked	46	4
Previously banked	12	22
Never banked	42	74

	Sample (n=2988)	FSM 2 (n= 550)
LSM:		
1-5	67	82
6-7	19	13
8-10	14	5
Personal monthly income:		
No income	24	41
R1-R750	37	46
R751-R1500	13	7
R1501-R2000	4	1
R2001-R4000	7	1
R4001-R6500	3	-
R6501-R9500	2	-
R9501-R13000	1	-
R13001+	1	-
Geographical area:		
Tribal land	28	35
Rural formal	6	8
Urban informal	8	10
Urban formal	58	47

FSM 3

	Sample (n=2988)	FSM 3 (n= 351)
Race:		
Black	77	86
White	11	4
Coloured	9	8
Asian	3	2
Gender:		
Male	47	46
Female	53	54
Age:		
16-17	7	8
18-24	21	18
25-34	25	25
35-49	26	23
50 +	21	26
Banking level:		
Currently banked	46	37
Previously banked	12	18
Never banked	42	45

	Sample (n=2988)	FSM 3 (n= 351)
LSM:		
1-5	67	79
6-7	19	17
8-10	14	4
Personal monthly income:		
No income	24	21
R1-R750	37	50
R751-R1500	13	19
R1501-R2000	4	2
R2001-R4000	7	2
R4001-R6500	3	2
R6501-R9500	2	1
R9501-R13000	1	-
R13001+	1	-
Geographical area:		
Tribal land	28	34
Rural formal	6	6
Urban informal	8	7
Urban formal	58	53

FSM 4

	Sample (n=2988)	FSM 4 (n= 363)
Race:		
Black	77	81
White	11	6
Coloured	9	9
Asian	3	4
Gender:		
Male	47	48
Female	53	52
Age:		
16-17	7	5
18-24	21	15
25-34	25	32
35-49	26	29
50 +	21	19
Banking level:		
Currently banked	46	87
Previously banked	12	4
Never banked	42	9

	Sample (n=2988)	FSM 4 (n= 363)
LSM:		
1-5	67	69
6-7	19	22
8-10	14	9
Personal monthly income:		
No income	24	6
R1-R750	37	40
R751-R1500	13	28
R1501-R2000	4	9
R2001-R4000	7	10
R4001-R6500	3	1
R6501-R9500	2	-
R9501-R13000	1	-
R13001+	1	1
Geographical area:		
Tribal land	28	28
Rural formal	6	5
Urban informal	8	9
Urban formal	58	58

FSM 5

Size: 11%	Sample (n=2988)	FSM 5 (n= 374)
Race:		
Black	77	68
White	11	17
Coloured	9	10
Asian	3	5
Gender:		
Male	47	45
Female	53	55
Age:		
16–17	7	–
18–24	21	17
25–34	25	28
35–49	26	33
50 +	21	21
Banking level:		
Currently banked	46	99
Previously banked	12	1
Never banked	42	–

Sample (n=2988)	FSM 5 (n= 374)
LSM:	
1–5	67
6–7	19
8–10	14
Personal monthly income:	
No income	24
R1–R750	37
R751–R1500	13
R1501–R2000	4
R2001–R4000	7
R4001–R6500	3
R6501–R9500	2
R9501–R13000	1
R13001+	1
Geographical area:	
Tribal land	28
Rural formal	6
Urban informal	8
Urban formal	58

FSM 6

Size: 10%	Sample (n=2988)	FSM 6 (n= 379)
Race:		
Black	77	61
White	11	29
Coloured	9	5
Asian	3	6
Gender:		
Male	47	46
Female	53	54
Age:		
16–17	7	–
18–24	21	12
25–34	25	26
35–49	26	37
50 +	21	25
Banking level:		
Currently banked	46	100
Previously banked	12	–
Never banked	42	–

Sample (n=2988)	FSM 6 (n= 379)
LSM:	
1–5	67
6–7	19
8–10	14
Personal monthly income:	
No income	24
R1–R750	37
R751–R1500	13
R1501–R2000	4
R2001–R4000	7
R4001–R6500	3
R6501–R9500	2
R9501–R13000	1
R13001+	1
Geographical area:	
Tribal land	28
Rural formal	6
Urban informal	8
Urban formal	58

FSM 7

Size: 5%	Sample (n=2988)	FSM 7 (n= 249)
Race:		
Black	77	35
White	11	51
Coloured	9	7
Asian	3	7
Gender:		
Male	47	47
Female	53	53
Age:		
16–17	7	1
18–24	21	13
25–34	25	23
35–49	26	34
50 +	21	30
Banking level:		
Currently banked	46	100
Previously banked	12	–
Never banked	42	–

Sample (n=2988)	FSM 7 (n= 249)
LSM:	
1–5	67
6–7	19
8–10	14
Personal monthly income:	
No income	24
R1–R750	37
R751–R1500	13
R1501–R2000	4
R2001–R4000	7
R4001–R6500	3
R6501–R9500	2
R9501–R13000	1
R13001+	1
Geographical area:	
Tribal land	28
Rural formal	6
Urban informal	8
Urban formal	58

FSM 8

Size: 3%	Sample (n=2988)	FSM 8 (n= 169)
Race:		
Black	77	10
White	11	73
Coloured	9	8
Asian	3	9
Gender:		
Male	47	59
Female	53	41
Age:		
16–17	7	2
18–24	21	6
25–34	25	25
35–49	26	32
50 +	21	35
Banking level:		
Currently banked	46	100
Previously banked	12	–
Never banked	42	–

Sample (n=2988)	FSM 8 (n= 169)
LSM:	
1–5	67
6–7	19
8–10	14
Personal monthly income:	
No income	24
R1–R750	37
R751–R1500	13
R1501–R2000	4
R2001–R4000	7
R4001–R6500	3
R6501–R9500	2
R9501–R13000	1
R13001+	1
Geographical area:	
Tribal land	28
Rural formal	6
Urban informal	8
Urban formal	58

FSM Banking Profiles

Main bank by FSM tier 16+ years

- Some of the upper FSM tier people use ABSA as part of their financial portfolio rather than as their main institution (higher incidence in banks used 56%)
- Dominant use of Standard Bank in FSM tier 3

	Banked (n=1628) %	FSM 3 (n=130) %	FSM 4 (n=308) %	FSM 5 (n=369) %	FSM 6 (n=379) %	FSM 7 (n=249) %	FSM 8 (n=169) %	2003 18+ (n=1718) %	2004 18+ (n=1614) %
ABSA	35	19	32	35	40	39	48	31	35
Standard Bank	27	40	23	30	27	26	21	30	28
FNB	20	22	18	18	20	25	17	21	20
Post Bank	5	9	10	7	1	–	–	6	5
Nedbank	3	–	1	1	4	5	10	3	3
NBS	3	–	5	4	3	2	3	3	3
Peoples Bank	3	4	5	2	1	1	–	2	3
Ithala	2	5	5	1	1	–	–	–	2
Teba	1	1	–	2	1	–	–	1	1

Transactions conducted regularly by FSM tier 16+ years

- Not surprisingly, the higher FSM tiers have more sophisticated banking needs
- Nevertheless, the need for access to cash is universal, regardless of FSM tier

	Banked (n=1628) %	FSM 3 (n=130) %	FSM 4 (n=308) %	FSM 5 (n=369) %	FSM 6 (n=379) %	FSM 7 (n=249) %	FSM 8 (n=169) %
Cash withdrawals	98	97	98	98	98	99	100
Cash deposits	58	50	52	56	65	63	64
Transfers between accounts	14	–	4	7	16	38	53
Cheque deposits	14	4	2	8	19	33	52
Account payments	10	1	2	5	9	29	40
Electronic bank transfers	6	–	–	4	5	13	31
Draw a cheque	3	–	–	1	2	11	19
Average number of mentions	2.0	1.5	1.6	1.8	2.1	2.9	3.6

Form 1 & 2 too small for analysis in the banked sector – not shown

Cost and time taken to travel to bank by FSM tier 16+ years

- Accessibility is a bigger problem for the lower FSM tiers
 - More likely to use public transport
 - This costs more
 - Also takes more time to get to a bank
 } Can least afford it
- Nevertheless, the need for access to cash is universal, regardless of FSM tier

	Total (n=1628) %	FSM 3 (n=130) %	FSM 4 (n=308) %	FSM 5 (n=369) %	FSM 6 (n=379) %	FSM 7 (n=249) %	FSM 8 (n=169) %
Use public transport for going to the bank	55%	85%	77%	66%	41%	21%	2%
Average cost of return trip	R12.30	R15.40	R12.70	R11.10	R11.30	R9.40	R3.50*
Average time taken	20.3 mins	36.8 mins	26.4 mins	19.9 mins	14.3 mins	11.0 mins	7.0 mins

* Caution small base size

Product uptake profiles

Experience of products and services

FSM 1

(n=553)

Bank Account %	Never Had	Used to have	Have now & use	Have now – don't use
ATM card	87	13	–	–
Debit card	99	1	–	–
Savings book	93	7	–	–
Post office savings acc	97	3	–	–
Savings/transaction acc	86	14	–	–
Current/cheque acc	100	–	–	–
Credit card	100	–	–	–
Fixed deposit bank acc	100	–	–	–
Garage/petrol card	100	–	–	–
Money market acc	100	–	–	–

Loans %	Never Had	Used to have	Have now & use	Have now – don't use
Personal loan (bank)	100	–	–	–
Loan (friend)	82	15	2	–
Loan (employer)	98	2	–	–
Loan (micro-lender)	100	–	–	–
Loan (informal)	99	1	–	–
Loan (stokvel)	99	–	1	–
Vehicle finance	100	–	–	–
Overdraft	100	–	–	–

Housing %	Never Had	Used to have	Have now & use	Have now – don't use
Mortgage bond	100	–	–	–
House bought (govt)	100	–	–	–
House bought (employer)	100	–	–	–

Retail Cards %	Never Had	Used to have	Have now & use	Have now – don't use
Store cards (e.g. Edgars)	96	3	1	–
Store loyalty card (e.g. Clicks)	100	–	–	–
Other club card (e.g. Voyager)	100	–	–	–

FSM 2

(n=550)

Bank Account %	Never Had	Used to have	Have now & use	Have now – don't use
ATM card	81	15	4	–
Debit card	97	2	1	–
Savings book	90	10	–	–
Post office savings acc	96	3	1	–
Savings/transaction acc	80	17	2	–
Current/cheque acc	100	–	–	–
Credit card	100	–	–	–
Fixed deposit bank acc	99	1	–	–
Garage/petrol card	100	–	–	–
Money market acc	100	–	–	–

Loans %	Never Had	Used to have	Have now & use	Have now – don't use
Personal loan (bank)	99	1	–	–
Loan (friend)	78	18	5	–
Loan (employer)	98	2	–	–
Loan (micro-lender)	99	1	–	–
Loan (informal)	99	1	–	–
Loan (stokvel)	97	2	1	–
Vehicle finance	100	–	–	–
Overdraft	100	–	–	–

Housing %	Never Had	Used to have	Have now & use	Have now – don't use
Mortgage bond	100	–	–	–
House bought (govt)	100	–	–	–
House bought (employer)	100	–	–	–

Retail Cards %	Never Had	Used to have	Have now & use	Have now – don't use
Store cards (e.g. Edgars)	88	6	4	1
Store loyalty card (e.g. Clicks)	98	1	1	–
Other club card (e.g. Voyager)	100	–	–	–

FSM 3

(n=351)

Bank Account %	Never Had	Used to have	Have now & use	Have now – don't use
ATM card	57	14	27	2
Debit card	96	2	2	–
Savings book	80	13	6	1
Post office savings acc	89	8	4	–
Savings/transaction acc	59	10	29	2
Current/cheque acc	98	1	–	–
Credit card	99	–	–	–
Fixed deposit bank acc	97	3	–	–
Garage/petrol card	100	–	–	–
Money market acc	100	–	–	–

Loans %	Never Had	Used to have	Have now & use	Have now – don't use
Personal loan (bank)	96	3	–	–
Loan (friend)	82	15	4	–
Loan (employer)	94	4	2	–
Loan (micro-lender)	98	2	–	–
Loan (informal)	97	3	–	–
Loan (stokvel)	97	3	–	–
Vehicle finance	98	1	–	–
Overdraft	99	1	–	–

Housing %	Never Had	Used to have	Have now & use	Have now – don't use
Mortgage bond	99	1	1	–
House bought (govt)	100	–	–	–
House bought (employer)	99	1	–	–

Retail Cards %	Never Had	Used to have	Have now & use	Have now – don't use
Store cards (e.g. Edgars)	84	6	10	–
Store loyalty card (e.g. Clicks)	98	1	2	–
Other club card (e.g. Voyager)	99	1	–	–

FSM 4

(n=363)

Bank Account %	Never Had	Used to have	Have now & use	Have now – don't use
ATM card	20	8	70	3
Debit card	89	3	5	3
Savings book	77	13	10	–
Post office savings acc	82	6	11	1
Savings/transaction acc	25	4	68	3
Current/cheque acc	96	3	1	–
Credit card	99	1	–	–
Fixed deposit bank acc	95	3	2	1
Garage/petrol card	100	–	–	–
Money market acc	98	2	–	–

Loans %	Never Had	Used to have	Have now & use	Have now – don't use
Personal loan (bank)	96	3	1	1
Loan (friend)	75	18	6	1
Loan (employer)	92	6	1	1
Loan (micro-lender)	92	6	1	1
Loan (informal)	91	6	2	1
Loan (stokvel)	94	5	–	1
Vehicle finance	99	–	–	1
Overdraft	99	–	–	1

Housing %	Never Had	Used to have	Have now & use	Have now – don't use
Mortgage bond	97	1	1	1
House bought (govt)	99	–	–	1
House bought (employer)	99	1	–	1

Retail Cards %	Never Had	Used to have	Have now & use	Have now – don't use
Store cards (e.g. Edgars)	66	3	23	1
Store loyalty card (e.g. Clicks)	95	–	3	1
Other club card (e.g. Voyager)	99	–	–	1

FSM 5

(n=374)

Bank Account %	Never Had	Used to have	Have now & use	Have now - don't use
ATM card	9	2	87	1
Debit card	79	2	17	2
Savings book	79	11	9	-
Post office savings acc	85	4	10	1
Savings/transaction acc	15	4	79	2
Current/cheque acc	94	2	3	1
Credit card	95	1	2	1
Fixed deposit bank acc	93	2	4	1
Garage/petrol card	99	-	-	1
Money market acc	99	-	-	1

Housing %	Never Had	Used to have	Have now & use	Have now - don't use
Mortgage bond	90	6	3	1
House bought (govt)	99	-	-	1
House bought (employer)	96	1	2	1

Loans %	Never Had	Used to have	Have now & use	Have now - don't use
Personal loan (bank)	91	6	2	1
Loan (friend)	77	19	3	1
Loan (employer)	95	4	1	-
Loan (micro-lender)	93	3	4	-
Loan (informal)	94	4	1	1
Loan (stokvel)	97	2	-	1
Vehicle finance	94	4	2	-
Overdraft	99	-	1	1

Retail Cards %	Never Had	Used to have	Have now & use	Have now - don't use
Store cards (e.g. Edgars)	56	7	34	3
Store loyalty card (e.g. Clicks)	91	2	6	1
Other club card (e.g. Voyager)	97	1	2	1

FSM 6

(n=379)

Bank Account %	Never Had	Used to have	Have now & use	Have now - don't use
ATM card	4	1	92	3
Debit card	65	4	26	5
Savings book	70	18	9	3
Post office savings acc	82	11	4	2
Savings/transaction acc	16	4	77	3
Current/cheque acc	79	3	16	2
Credit card	85	3	11	1
Fixed deposit bank acc	85	5	9	1
Garage/petrol card	95	1	3	-
Money market acc	97	-	3	-

Housing %	Never Had	Used to have	Have now & use	Have now - don't use
Mortgage bond	81	10	8	1
House bought (govt)	97	1	2	-
House bought (employer)	99	-	1	-

Loans %	Never Had	Used to have	Have now & use	Have now - don't use
Personal loan (bank)	81	10	8	1
Loan (friend)	80	17	2	-
Loan (employer)	94	4	2	-
Loan (micro-lender)	91	6	3	1
Loan (informal)	93	6	-	1
Loan (stokvel)	95	4	1	-
Vehicle finance	85	8	6	1
Overdraft	94	3	2	1

Retail Cards %	Never Had	Used to have	Have now & use	Have now - don't use
Store cards (e.g. Edgars)	45	10	44	1
Store loyalty card (e.g. Clicks)	80	2	16	2
Other club card (e.g. Voyager)	92	3	3	1

FSM 7

(n=249)

Bank Account %	Never Had	Used to have	Have now & use	Have now - don't use
ATM card	2	1	95	1
Debit card	47	3	45	5
Savings book	70	22	7	1
Post office savings acc	87	8	3	2
Savings/transaction acc	18	6	76	-
Current/cheque acc	55	2	42	-
Credit card	60	3	37	-
Fixed deposit bank acc	73	8	18	1
Garage/petrol card	81	3	15	1
Money market acc	91	1	8	-

Housing %	Never Had	Used to have	Have now & use	Have now - don't use
Mortgage bond	59	13	27	-
House bought (govt)	95	3	2	-
House bought (employer)	94	4	2	-

Loans %	Never Had	Used to have	Have now & use	Have now - don't use
Personal loan (bank)	65	16	19	-
Loan (friend)	81	15	5	-
Loan (employer)	93	6	1	-
Loan (micro-lender)	91	6	3	-
Loan (informal)	96	4	-	-
Loan (stokvel)	98	1	1	-
Vehicle finance	69	13	18	-
Overdraft	81	5	12	2

Retail Cards %	Never Had	Used to have	Have now & use	Have now - don't use
Store cards (e.g. Edgars)	35	10	53	1
Store loyalty card (e.g. Clicks)	64	5	31	-
Other club card (e.g. Voyager)	88	2	8	2

FSM 8

(n=169)

Bank Account %	Never Had	Used to have	Have now & use	Have now - don't use
ATM card	2	6	90	2
Debit card	34	3	68	5
Savings book	62	24	10	3
Post office savings acc	81	12	3	4
Savings/transaction acc	26	11	63	-
Current/cheque acc	29	4	64	3
Credit card	28	11	59	3
Fixed deposit bank acc	60	7	32	2
Garage/petrol card	54	4	39	4
Money market acc	77	6	13	5

Housing %	Never Had	Used to have	Have now & use	Have now - don't use
Mortgage bond	31	11	56	2
House bought (govt)	95	2	1	2
House bought (employer)	94	-	3	3

Loans %	Never Had	Used to have	Have now & use	Have now - don't use
Personal loan (bank)	64	16	18	3
Loan (friend)	89	7	4	-
Loan (employer)	94	2	3	1
Loan (micro-lender)	95	1	3	1
Loan (informal)	97	1	1	1
Loan (stokvel)	96	2	1	1
Vehicle finance	46	20	34	-
Overdraft	67	1	18	4

Retail Cards %	Never Had	Used to have	Have now & use	Have now - don't use
Store cards (e.g. Edgars)	38	10	49	2
Store loyalty card (e.g. Clicks)	58	6	35	1
Other club card (e.g. Voyager)	74	6	18	2

Top 10 potential investment opportunities by FSM tier 16+ years

(n=2988)

- Top five potential investment opportunities identical
- In lower FSM groups, investment in self rather than external investments preferred – lack of understanding/tangibility?
- FSM 4 consider investment products – reality?

FSM 1	FSM 2	FSM 3	FSM 4
<ul style="list-style-type: none"> ■ Savings at bank ■ Starting a business ■ Burial society ■ Improving your home ■ PO savings account ■ Stokvel/savings club ■ Investment in cattle/livestock ■ Investment in own business ■ Buying/making goods to sell ■ Policies with insurance company 	<ul style="list-style-type: none"> ■ Savings at bank ■ Starting a business ■ Burial society ■ PO savings account ■ Improving your home ■ Investment in own business ■ Policies with insurance company ■ Investment in cattle/livestock ■ Stokvel/savings club ■ Buying/making goods to sell 	<ul style="list-style-type: none"> ■ Savings at bank ■ Starting a business ■ Burial society ■ Improving your home ■ PO savings account ■ Buying/making goods to sell ■ Investment in own business ■ Policies with insurance company ■ Investment in cattle/livestock ■ Stokvel/savings club 	<ul style="list-style-type: none"> ■ Savings at bank ■ Starting a business ■ Improving your home ■ Burial society ■ PO savings account ■ Policies with insurance company ■ Unit trusts ■ Investment in own business ■ Shares on stock exchange ■ Retirement annuities

- Increasing identity with insurance companies as FSM tier increases
- FSM 8 profile following different trend to other FSM tiers!

FSM 5	FSM 6	FSM 7	FSM 8
<ul style="list-style-type: none"> ■ Savings at bank ■ Starting a business ■ Improving your home ■ Burial society ■ Policies with insurance company ■ Investment in own business ■ PO savings account ■ Unit trusts ■ Retirement annuities ■ Investment in property to rent 	<ul style="list-style-type: none"> ■ Savings at bank ■ Improving your home ■ Starting a business ■ Policies with insurance company ■ Investment in own business ■ Investment in property to rent ■ Unit trusts ■ Burial society ■ Retirement annuities ■ Shares on stock exchange 	<ul style="list-style-type: none"> ■ Savings at bank ■ Investment in property to rent ■ Policies with insurance company ■ Starting a business ■ Retirement annuities ■ Unit trusts ■ Improving your home ■ Investment in own business ■ Pay bond sooner ■ Holiday home/second home 	<ul style="list-style-type: none"> ■ Pay bond sooner ■ Investment in property to rent ■ Retirement annuities ■ Savings at bank ■ Policies with insurance company ■ Unit trusts ■ Holiday home/second home ■ Investment in own business ■ Improving your home ■ Shares on stock exchange

Investment opportunities to avoid by FSM tier 16+ years

(n=2988)

- Investing in others generally not seen as a viable option, either through lending money or investing in their business
- Many of the investments indicated perhaps not ones to avoid but just not available?
- Stokvels/savings clubs not perceived as good investment opportunity

FSM 1	FSM 2	FSM 3	FSM 4
<ul style="list-style-type: none"> ■ Lending money for profit or interest ■ Investment in someone else's business ■ Timeshare ■ Holiday home/second home ■ Stokvel/savings club ■ Buying and exchanging vouchers ■ Off-shore investments ■ Investment in cattle/livestock ■ Pay bond sooner ■ Investment in vacant land ■ Shares on stock exchange 	<ul style="list-style-type: none"> ■ Lending money for profit or interest ■ Holiday home/second home ■ Investment in cattle/livestock ■ Investment in someone else's business ■ Buying and exchanging vouchers ■ Timeshare ■ Investment in farm land ■ Stokvel/savings club ■ Investment in vacant land ■ Collectables 	<ul style="list-style-type: none"> ■ Lending money for profit or interest ■ Stokvel/savings club ■ Investment in someone else's business ■ Buying and exchanging vouchers ■ Holiday home/second home ■ Collectables ■ Timeshare ■ Investment in farm land ■ Investment in vacant land ■ Off-shore investments 	<ul style="list-style-type: none"> ■ Lending money for profit or interest ■ Investment in someone else's business ■ Timeshare ■ Stokvel/savings club ■ Buying and exchanging vouchers ■ Holiday home/second home ■ Collectables ■ Investment in cattle/livestock ■ Investment in farm land ■ Shares on stock exchange

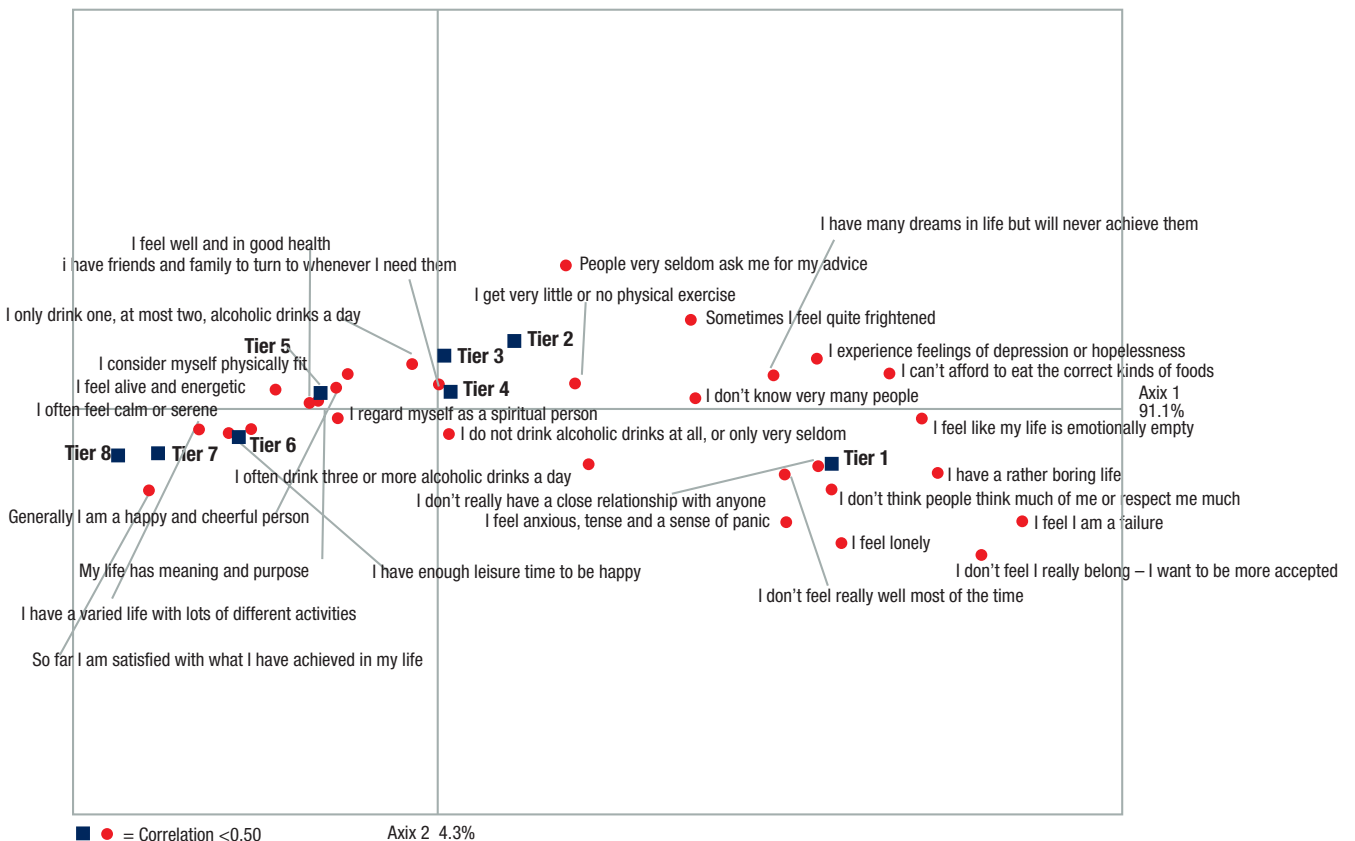
- Again, investing in others not popular
- Also, Stokvels/savings clubs perceived as an investment to avoid

FSM 5	FSM 6	FSM 7	FSM 8
<ul style="list-style-type: none"> ■ Lending money for profit or interest ■ Investment in someone else's business ■ Timeshare ■ Investment in cattle/livestock ■ Stokvel/savings club ■ Buying and exchanging vouchers ■ Holiday home/second home ■ Collectables ■ Off-shore investments ■ Investment in farm land 	<ul style="list-style-type: none"> ■ Lending money for profit or interest ■ Investment in someone else's business ■ Timeshare ■ Investment in cattle/livestock ■ Stokvel/savings club ■ Buying and exchanging vouchers ■ Off-shore investments ■ Collectables ■ Investment in farm land ■ Shares on stock exchange 	<ul style="list-style-type: none"> ■ Stokvel/savings club ■ Lending money for profit or interest ■ Investment in someone else's business ■ Timeshare ■ Investment in cattle/livestock ■ Buying and exchanging vouchers ■ Investment in farm land ■ Buying/making goods to sell ■ Burial society 	<ul style="list-style-type: none"> ■ Stokvel/savings club ■ Investment in cattle/livestock ■ Investment in someone else's business ■ Lending money for profit or interest ■ Buying and exchanging vouchers ■ Timeshare ■ Investment in farm land ■ PO savings ■ Burial society ■ Buying/making goods to sell



Inertia = 0.12

■ Tier 1 tends to be less sophisticated about financial matters and needs much explanation
 ■ Tier 8 is far more financially sophisticated and does not lack understanding

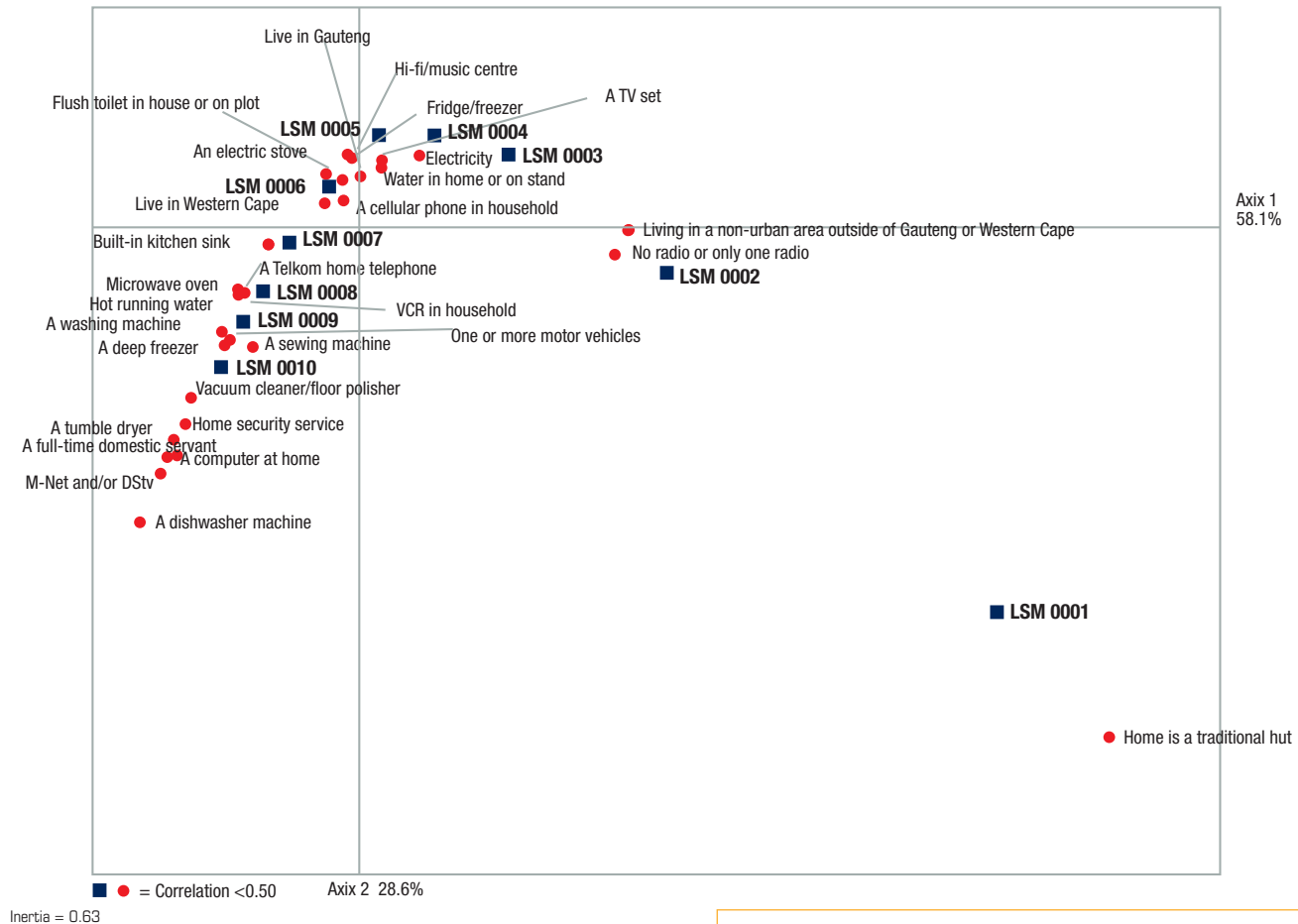


Inertia = 0.12

■ Tier 1 tend to be far more insular and unhappy
 ■ Tier 8 feel fulfilled with life and happy in their worlds

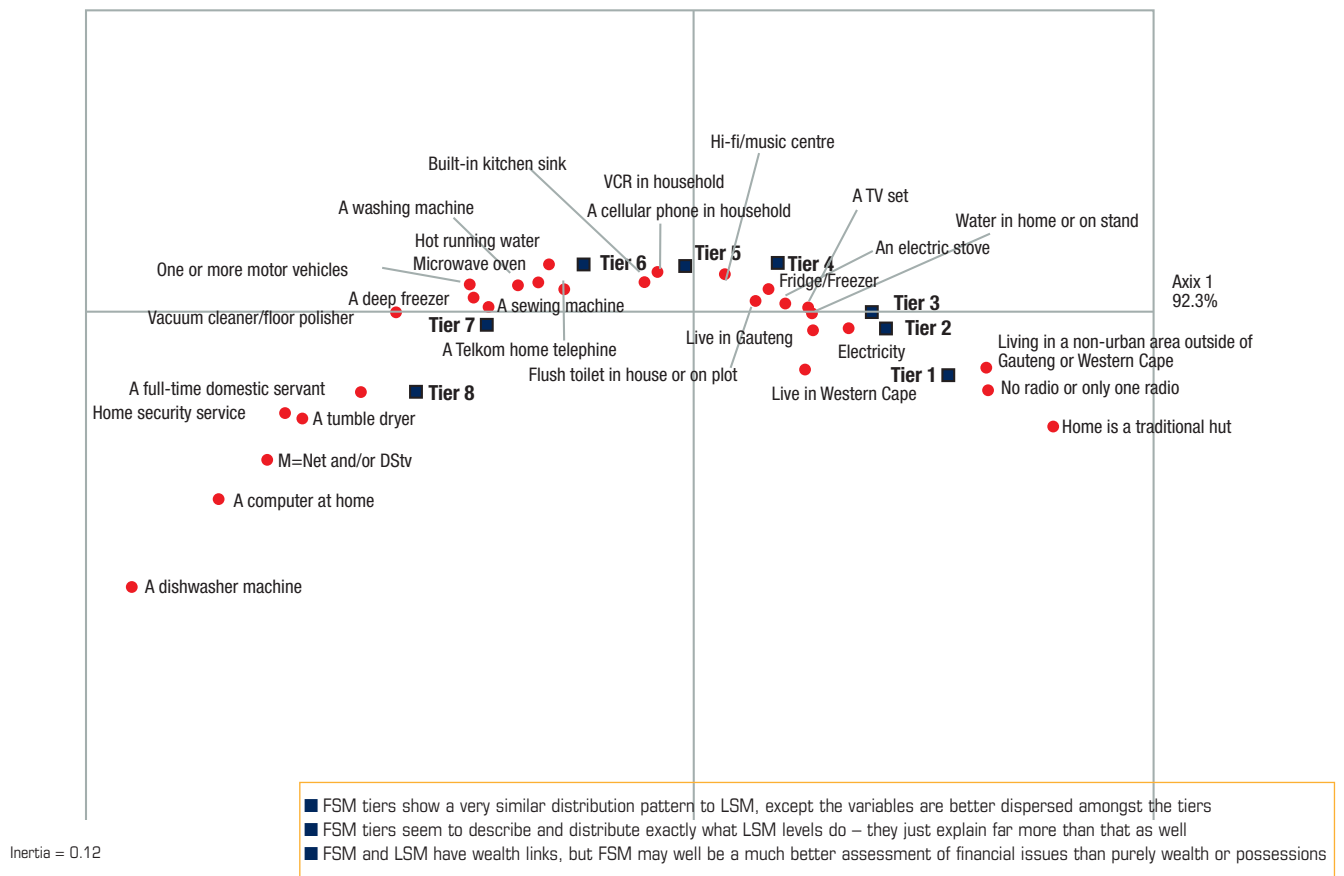
How is LSM mapped against LSM variables?

n=2988



What is the distribution of LSM variables by FSM tiers?

n=2988



FSM tier profile summaries

	Demographics	Psychographics	Banking Status
FSM 1	<ul style="list-style-type: none"> Black LSM 1-5 Lower income (<R750) Most likely to be living in Tribal lands Less educated (High school: 10%) 78% have people in home looking for work Most likely to live in a traditional hut 	<ul style="list-style-type: none"> Feel life is emotionally empty and boring Most likely to feel alone Can't afford to eat well and feel unhealthy Have dreams but feel they will never achieve them Low levels of optimism and connectedness 	<ul style="list-style-type: none"> No current banking activity but some previous banking Previously used saving facilities and ATMs Some loan activity – mostly from friends Low access, low penetration
FSM 2	<ul style="list-style-type: none"> Black Lower LSM, some LSM 8-10 Lower income on average Most likely to be living in Tribal lands Less educated (High school: 10%) 78% have people in home looking for work Most likely to live in a traditional hut 	<ul style="list-style-type: none"> Advice is not sought from friends/family Sometimes feel frightened Physically inactive Not very connected Seek advice from others Prepared to take risks to get ahead 	<ul style="list-style-type: none"> Feel it's difficult to get a loan Don't like owing money Low level of banking; high levels of previously banked More likely (than FSM 1) to have store cards Some loan activity Entry level banking – have accounts (ATM, savings) Low access but higher than FSM 1
FSM 3	<ul style="list-style-type: none"> Black, 50/50 gender split, tend to be older Lower LSMs Lower incomes More likely to be in Tribal lands but also live in urban formal areas 	<ul style="list-style-type: none"> Slightly more connected than FSM 2; have support of friends/family Avoid banking machines Don't like to carry cash Reasonably optimistic 	<ul style="list-style-type: none"> Majority are un-banked and higher currently banked than previously banked Predominantly use ATMs and savings accounts Don't currently have loans, but have had them previously Use store cards Very small element of housing loans
FSM 4	<ul style="list-style-type: none"> Represented by the black, coloured and Asian population LSM 1-7 Higher average income – majority have an income Have better facilities e.g. Flush toilets 	<ul style="list-style-type: none"> Less optimistic than FSM 3 Do not drink at all 	<ul style="list-style-type: none"> High levels of banking - big differential from FSM 1-3 Loans from friends/-family High levels of ATM and savings account usage Take risks – prepared to put money into accounts with higher interest Go without basics to save More likely to take money out of a bank account immediately Higher levels of financial discipline than FSM 1-3
FSM 5	<ul style="list-style-type: none"> More likely to be white, female 35-49 yrs LSM 6-7 Higher incomes Urban formal dwellers 	<ul style="list-style-type: none"> Feel alive and energetic Spiritual beings Feel physically fit Perceive life to have meaning and purpose 	<ul style="list-style-type: none"> Mostly currently banked Physical access to facilities is problematic Use loans predominantly from friends Some element of cheque accounts but mostly ATMs and savings accounts Ask for advice Move their money to get better growth Low risk – prefer to engage in safe investments
FSM 6	<ul style="list-style-type: none"> More likely to be Asian and white, slightly older LSM 6-10, higher salaries Live in urban formal areas Have hot running water and a Telkom phone 	<ul style="list-style-type: none"> Calm Have leisure time Satisfied with achievements 	<ul style="list-style-type: none"> Everyone is banked – still some access problems Work with a budget Know their return on investments Advise others in terms of financial matters Use mostly loans from friends but also some usage of bank loans No housing finance High store card usage
FSM 7	<ul style="list-style-type: none"> Asian, white and older populations LSM 6-10 High income earners All have some level of education 	<ul style="list-style-type: none"> Happy, optimistic people Perceive life to have meaning and purpose Live the 'High Life' 	<ul style="list-style-type: none"> Everyone is banked High incidence of loans, mortgages Highest number of store cards Saving is important (for a car, holiday) Lower than expected financial discipline
FSM 8	<ul style="list-style-type: none"> Almost exclusively white Skewed towards older males LSM 8-10 High income Majority live in urban formal areas Have access to technology and communication methods Everyone has some high school 90% of the household are not actively seeking work 	<ul style="list-style-type: none"> Well rounded Optimistic Connected Some stress levels 	<ul style="list-style-type: none"> Everyone is banked Less loan and store card activity than FSM 7 Higher mortgage usage Read financial articles



789 6

Tel +27 11 315 9197 Fax +27 11 645 6896

www.finmarktrust.org.za

www.finscope.co.za