

FINMARK TRUST

MAKING FINANCIAL MARKETS WORK FOR THE POOR

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FinScope™ 2005: a comprehensive nation wide survey of financial usage in SA

FinScope™ is a comprehensive national survey into financial usage and behaviour in South Africa. It was launched as a pilot in 2003 by FinMark Trust and has been run as a full study in all subsequent years. Its purpose has been to establish credible benchmarks for the use of, and access to, financial services in South Africa. And it was designed to highlight opportunities for innovation in products and delivery. The findings in 2003 and subsequent years have identified barriers to access for low income people and provided insights for policy makers, in both public and private sectors, who wish to remove or reduce the barriers.

FinScope™ SA 2005, based on 3 885 face-to-face interviews, was conducted by Research Surveys. FinMark Trust funded the 2002 pilot project and subsequent surveys were undertaken in partnership with financial service providers and other interested organisations, including South African government departments.

The 2005 South African syndicate members are: Absa, Edcon, First National Bank, MTN Banking, National Treasury, Nedbank, Rural Housing Loan Fund, the SA Insurance Association, Standard Bank, the Life Offices' Association of South Africa, Visa International (CEMEA Region) and TransUnionITC – the country's largest credit bureau. For the first time this year, the costs of the survey have been met by the syndicate members in full.

FinScope™ SA 2005 uncovered a wealth of information, on a range of subjects.

On banking:

- ❑ An estimated 14.3m people have a bank account in SA, 46.5% of the adult population (2004 - 45.5%). 16.4m, or 53.5%, do not have a bank account. Of these 12.6m (41%) have never been banked and 3.7m (12%) are previously banked.
- ❑ Between 2004 and 2005, the number of South Africans with a bank account rose by approximately 550,000 (or 4%). The percentage of banked people overall only increased by 1,1% because of an increase in the adult population (30,7m, up 450,000 or 1% as against 2004)
- ❑ As in previous years, not having a job and money is overwhelmingly the main reason given for not being banked

- ❑ Banks are still regarded as the ideal service provider (half of respondents) but service fees are the main reason why people have negative perceptions of banks
- ❑ Long queues are cited by 68% of banked people as a negative
- ❑ On average it takes people 20 minutes to get to a bank but it takes twice as long for people living in tribal areas to do so
- ❑ People would prefer to conduct banking on a one-to-one basis but almost half say that the ATM is the ideal way to bank.
- ❑ People know little about cellphone, telephone or internet banking
- ❑ Claimed use of ATM and debit cards has increased
- ❑ 91% of cash withdrawals are made at an ATM and 93% of deposits are made at a branch

Mzansi:

- ❑ Around 550 000 people (2% of the adult population) say they have an Mzansi account while only 470 000 say they use it
- ❑ 45% of the population is aware of the product
- ❑ 35% of accounts opened are new, i.e. the first account the holder has ever had
- ❑ People using the account say it makes banking more affordable (90% of respondents) and understandable (88%)
- ❑ Main transactions are ATM, cash withdrawals and deposits
- ❑ People who are aware of the product claim they don't know how it works
- ❑ It is seen as a poor man's account but at the same time it is seen as a product for all South Africans, indicating confused market imagery and perception
- ❑ Communication is not reaching the primary markets of LSM 1-2 and FSM 1-2
- ❑ Black and coloured consumers show most interest in using Mzansi but lack of money and jobs are a barrier

Insurance:

- ❑ Only 13% of people have some form of life insurance, while only 9% have a short-term policy
- ❑ Insurance penetration levels remain extremely low in the LSM 1-5 population - 4% have formal life assurance, less than 1% have short term insurance
- ❑ Even where people are generally in full time employment and banked, short term insurance is rare (e.g. in 4% in FSM4)
- ❑ Many people claim not to understand how either short or life insurance works – 31% claim they do not know how short term insurance works
- ❑ Radio and TV feature favourably as mediums for communication on life insurance
- ❑ Personal contact is the best way to sell both short term and life insurance, either through company representatives or brokers
- ❑ Cash is the preferred means of payment

- ❑ Most people give unaffordability as the main reason for not buying cover
- ❑ Life insurance policies skew towards white and Asian people

Savings and investment:

- ❑ 33% of people claim they use a savings/transmission account and 19% of people claim to use savings accounts to invest their money in
- ❑ 20% are currently saving in case of an emergency and 11% are saving to buy food
- ❑ 6% have a pension fund and 6% have a retirement annuity
- ❑ The vast majority of stokvel users (75%) are paying the same into their stokvels as they were last year; indeed stokvel membership appears to be declining (5% of total)
- ❑ People would rather know their investments are safe but earning a low return than the reverse
- ❑ On average, whites invest more and use formal investment structures and services
- ❑ 45% of people say that they do not have money left to save after paying their monthly expenses

Debt:

- ❑ The main reason for borrowing is to buy food
- ❑ Many people borrow from family and friends
- ❑ Only 25% of the market say they have ever had a loan and of these 37% claim to still have a loan
- ❑ Affordability of monthly instalments and how quickly the loan will be approved determines where people will take out long term loans
- ❑ 45% of people say they have no money after paying their bills

Housing:

- ❑ Only 5% of people have a mortgage bond specifically to buy a home
- ❑ Most people claim to own their homes
- ❑ People tend to stay in their homes for a long period – 72% have been living in their homes for more than five years and 50% for over ten years
- ❑ Only 5% of people see their homes as a tradable asset and only 2% feel they could sell their homes
- ❑ 7% use their home for business purposes
- ❑ Consumers would turn to their loan provider if they were unable to meet their home loan repayments

Funeral cover and burial societies:

- ❑ 34% claim to have funeral cover of some kind
- ❑ More people claim to belong to burial societies (14%) than claim to have funeral policies (12%)
- ❑ 11% claim to pay more now than last year towards their burial society
- ❑ Unaffordability is the main barrier to funeral cover

- ❑ Funeral policies with large institutions are paid by debit order and stop order while funeral policies and burial societies are paid in cash
- ❑ Funeral cover/insurance from employers is either paid by stop order or salary deductions
- ❑ High death levels are currently being claimed

Cellphones:

- ❑ 49% of people have access to a cellphone, either their own or someone else's
- ❑ At least two-thirds of the banked population and at least one-third of the unbanked population have access to a cellphone
- ❑ 35% have their own phone with prepaid calling and only 5% have their own phone on contract
- ❑ FSM 3-5 are the heaviest users of pre-paid cellphones
- ❑ Some market segments are positive about cellphone banking but many people still prefer dealing face to face
- ❑ 23% of the population say that cellphone banking will make the cost of banking cheaper

Retail:

- ❑ Excluding bank accounts and funeral or burial insurance, retail financial products (store cards or accounts) are the most commonly used financial service (23% of total)
- ❑ White consumers are most likely not to look to retailers for the provision of financial products
- ❑ Funeral cover and education plans rank favourably as financial products which most black consumers would like to see retailers offering
- ❑ 92% of groceries purchases are paid for in cash and 83% of clothing bought is with cash
- ❑ Generally retailers are not seen as organisations that offer insurance and loan facilities.

Quality of life:

- ❑ Nearly half of South Africans claim that they sometimes or often go without a cash income. One-third of black people say that they often or sometimes go without food
- ❑ Most South Africans have monthly incomes of less than R1 999
- ❑ In real rand terms, most income comes from part time or permanent work
- ❑ But many people rely on the salaries and wages of others to survive
- ❑ 17% of black households have experienced income or job loss due to illness.
- ❑ 86% of black people use public hospitals or clinic but only 55% have nearby access to them

Literacy:

- ❑ 61% of the adult population (16+) have not matriculated and 20% have received no high school education
- ❑ 71% of people have never heard of anyone being under debt administration
- ❑ There is no understanding of consumer protection or legislative issues

- ❑ Only half the population know what a credit card is and understand what a service fee is
- ❑ Virtually no one knows what an ombudsman and underwriter are.

The great divide in South Africa is still very evident with the same demographic groups falling into the “have” and “have not” segments. Access and a lack of understanding are still problematic among lower FSM segments. And despite improvements the extension of financial services remains a major challenge.

The access targets for banking contained in the Financial Sector Charter appear almost unachievably distant. Mzansi, while making some impact as a new entrant, has clearly not succeeded in bringing sufficient numbers of the unbanked into formal banking to make an impact on overall percentages of unbanked.

Retail financial services could play a major role in future in bringing financial services to the mass market. Store cards and accounts are the most commonly used form of financial product after bank accounts while many in the black population would like to see retailers offering funeral, education and savings products.

Cellphone access continues to grow. At least one third of the unbanked have access to a cellphone. Whilst cellphone banking is believed likely to appeal to the unbanked, they are generally not yet aware of cellphone banking. Those who are aware of it believe the cost of banking will be cheaper with cellphone banking.

For more information: <http://www.finscope.co.za/>