

**Survey Highlights
including FSM Model**

**FinScope™
South Africa 2005**



FINMARK TRUST

MAKING FINANCIAL MARKETS WORK FOR THE POOR

FinMark Trust

- Established in 2002, FinMark Trust is an independent trust whose business is controlled by six trustees from countries in Southern Africa
- In pursuit of our goal of “making financial markets work for the poor”, FinMark Trust promotes and supports institutional and organisational development which will increase access to financial services by the un- and under-banked in Africa
- The two main strategies in achieving this end are to ensure improved functioning of financial markets by addressing legislative obstacles and the promotion of pro-poor innovation in the financial sector by supporting organisations which seek to develop new products or processes
- Underwritten and co-ordinated by FinMark Trust and participating syndicate members, the FinScope Research Programme was initiated to achieve a measure and understanding of consumer demand within the financial services arena
- The objective of the FinScope South Africa initiative is to catalyse the creation of a new, universally accepted and authoritative benchmark of money matters among South Africans, with particular emphasis on the market needs and attitudes to both informal and formal financial offerings and product usage
- FinScope is a perceptual study measuring the overall consumer perceptions on financial services and matters



FinScope SA 2005 Objectives

- To track perceptual changes in the South African environment between 2004 and 2005 (based on 16+ age group) with emphasis on the financial sector
- To understand the factors influencing the financial services sector in South Africa – employment, poverty, access to services, living standards and the like
- To understand who is engaging in the financial services sector – who is using what?
- To understand the reasons people are not using financial service categories
- To determine how people are engaging with financial services.
- To understand the different needs and behaviour of people through segmentation – the Financial Services Measure (FSM) – and to use this as a tool to define engagement in the financial sector and to facilitate change

SA 2005 Syndicate Members



These parties co-operated in the design of the questionnaire, rendering new insights into consumer demand behaviour.

Syndicate members have utilised the FinScope information to review and innovate their approach to their markets, with some exciting new innovations being launched.

SA 2005 Survey Methodology

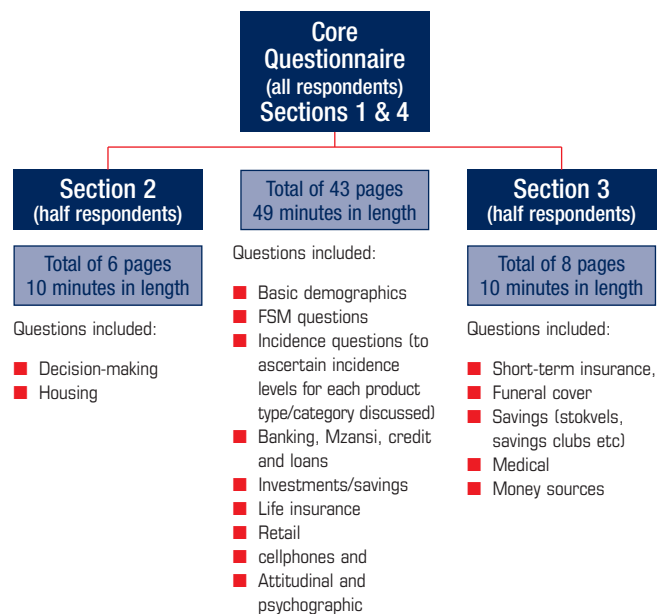
The survey targeted 3900 households nationally to facilitate extrapolation of the survey findings at national and spatial level through the use of enumerator areas and the FSM model.

These definitions were applied to the 2001 Census Enumerator Areas:

- Urban Formal Municipal Towns & the Like
- Urban Informal Squatter Areas (No Streets)
- Rural Formal Includes Commercial Farms, Hostels, Mines
- Tribal Land Deep Rural

Individuals over the age of 16 years and older were targeted. Research Surveys executed the study in field and conducted all the analysis of the findings.

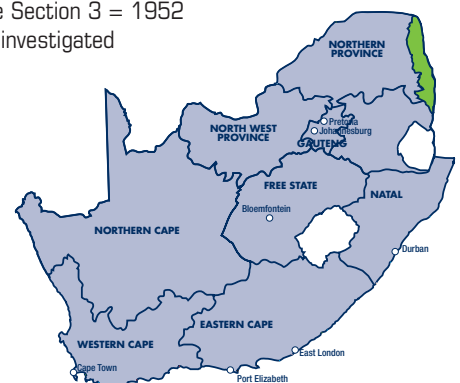
NEW QUESTIONNAIRE FORMAT



The total number of pages was 57 – more than in 2004, allowing for more questions and therefore more indepth analysis is possible. Individual interviews took less time than last year, reducing interview fatigue.

SAMPLING AND METHODOLOGY

- Sample of 3885 which included 6 interviews per EA of which
 - Sample Section 2 = 1962 and
 - Sample Section 3 = 1952
- 650 EA's investigated



RESPONDENT PROFILE

- Universe = South African residents 16+ years
- 50% male and 50% female
- Living in households/structures
- 65% non-metropolitan and 35% metropolitan

COVERAGE AND METHODOLOGY

- 3885 face-to-face interviews
- Representative sample at a National level, drawn by Enumerator Area
- Stratification and multi-stage sampling using GIS
- Sample drawn by Professor Stoker, ex Stats SA and thought leader in complex sampling
- EA maps supplied by the HSRC
- Questionnaire translated into Sotho, Xhosa, Zulu and Afrikaans

SAMPLING METHODS

- Sample drawn systematically with Probability Proportional to Size (PPS)
- Enumerator Area (EA) – based sampling
- National representative sample (weighted and benchmarked to Census 2005 estimate information)
- Complex sample design = stratification and multi-stage sampling procedure
- Selection of individual respondent per household by Kish Table method (random selection, those 16+ yrs of age)

SAMPLE – AMPS VS. CENSUS DATA

	AMPS 2003B	FINSCOPE 2005
Population source	BMR data based on Census 1996 figures and adjusted via other sources	2005 mid-year estimates based on Census data 2001
Sample drawn	n=25 114	n=3 885, quotas placed on gender Based on randomly generated EAs Six interviews conducted per EA
Weighting	Weighted back to the adjusted BMR figures from the census in 1996	Weighting based in EA profiles and then benchmarked to the South African census information 2001

- It was decided that the sample should reflect the universe that is utilised by the government – in this case, the Census 2001 data
- The Census data is also more up-to-date and, although contested, is the data that is readily accepted as being the most up-to-date reflection of the South African environment
- Constructing the sample from EAs is the most accurate way of sampling on a purely random basis – everyone has equal probability of being selected to be interviewed

SA Survey Content

	2003	2004	2005
● General money matters	✓	✓	✓
● General banking	✓	✓	✓
● Burial societies	✓	✓	✓
● Stokvels and savings clubs	✓	✓	✓
● Investments and savings	✓	✓	✓
● Credit and loans	✓	✓	✓
● Long-term insurance	✓	✓	✓
● Short-term insurance	✓	✓	✓
● Financial Services Measure (FSM)	✓	✓	✓
● Everyday Quality of Life (EQLi)	✓	✓	✓
● Afrobarometer/poverty measure	✓	✓	✓
● LSM	✓	✓	✓
● Legal question added		✓	✓
● Housing section added		✓	✓
● Brand lists extended		✓	✓
● Explanations and routings simplified			✓
● cellphones			✓
● Retail			✓
● Split questionnaire – specified sections			✓

The Financial Access Strand

The hypothesis focuses on the financial system in its broadest sense and assumes all adults in a country, will fall into one of three broad segments across the ACCESS STRAND. The segments are differentiated by current product usage indices ranging from people who are financially captured, to those people who use informal products and finally to those people who use no products.

The Access Strand explained:

- The **Financially Captured** segment: “Formal” products that are supplied by institutions governed by a legal precedent of any type e.g: Cheque Account or Funeral Policy. Thus a formal organisation that must be bound by legally recognised rules. Adults who currently use at least one or more of these products are included in this segment. This is not exclusive usage, as they can also currently use “informal” products.

This segment includes people operating within the broader financial services market and therefore needs to be divided into two sub-segments for more accurate cross country comparisons viz.: “Formal – bank” and “Formal – other”.

The **“Formal – bank”** sub-segment comprises any adult who currently uses one or more traditional banking product supplied by a financial institution. This is not exclusive usage, these adults can also currently use “formal-other” products or an “informal” products.

“Formal – other” sub-segment includes any adult who currently uses one or more other formal product not supplied by a financial institution, e.g: funeral policy or store account. These are mutually exclusive and are recorded separately to compare those people who are currently active within the traditional financial banking sector with those who are not

- The **Development Frontier** segment: “Informal” products that operate without legal governance that would be recognised e.g: Burial society or smaller savings club. Adults who currently use one or more of these “informal” products are included in this segment. This is exclusive usage – the adults in this segment cannot currently use any “formal” products.
- The **Financially Excluded** segment: Adults who neither have “formal” nor “informal” products. Any adult who is currently not using **any** of these products is included in this segment and is said to be “un-banked”.
- The common rationale for segmentation to be applied across all countries is to be based on product type rather than product descriptor i.e: formal products versus informal products, rather than transaction account versus saving scheme in South Africa.

The future ...

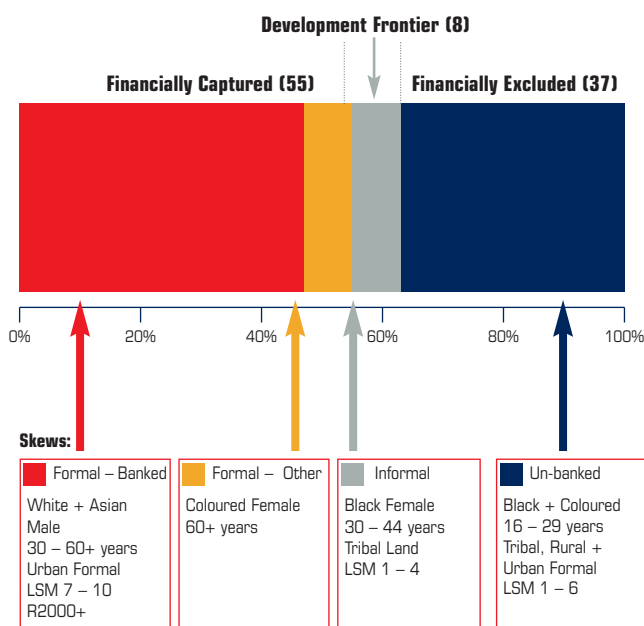
FinScope is an exciting innovation, proving its worth in South Africa, with demand for similar studies growing in other countries. Enquiries have been received from Nigeria, Egypt and Ghana, while studies are being set-up in Uganda, Zambia and Tanzania.

The programme is portable and forms a critical information base for organisations wanting to reach the poor and to identify new market opportunities. It is also effective in exposing possible barriers to consumer uptake. The questionnaire evolves over time as subject areas require focus and market insights grow.

Knowledge is power; and in the transformation process FinScope is set to become a critical reflection of the successes and failures in elevating consumers economically.

For information on FinMark Trust and FinScope, please call FinMark Trust on 011 315 9197 or consult: www.finmarktrust.org.za or www.finscopeafrica.com

ACCESS STRAND OF FINANCIAL SERVICES

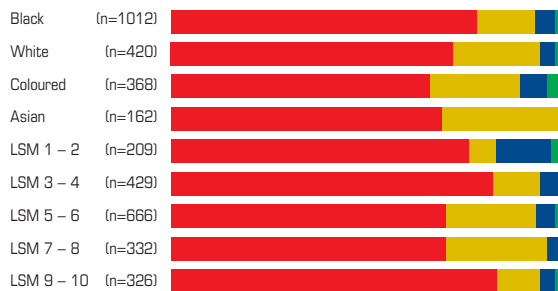


These are some of the 2005 SA Survey highlights. A more comprehensive understanding can be obtained by mining the FinScope database. Information contained herein was proudly produced by Research Surveys.

Lifestyles and living conditions

DO PEOPLE OWN OR RENT?

- There has been a decrease in the number of people renting their homes since 2004
- Black people are most likely to claim to own their home
- Asians are the largest percentage to rent their homes
- More people from LSM 5 – 8 rent their homes than any other LSM group



2005 (n=1962)		2004 (n=2988)	
Own	74%	Own	76%
Rent	17%	Rent	24%
Other	7%	Other	n/a
Don't know	2%	Don't know	n/a

	Own %	Rent %	Other %	Don't know %
Black (n=1012)	78	15	5	2
White (n=420)	72	22	4	2
Coloured (n=368)	66	23	7	4
Asian (n=162)	69	30	1	–
LSM 1 – 2 (n=209)	76	7	14	3
LSM 3 – 4 (n=429)	82	12	5	1
LSM 5 – 6 (n=666)	70	23	5	2
LSM 7 – 8 (n=332)	70	26	3	1
LSM 9 – 10 (n=326)	83	11	4	2

PERSONAL EXPERIENCE WITH HOUSING PRODUCTS

- Only 6% of people have a mortgage bond currently, 5% of which to buy and 1% to improve their home

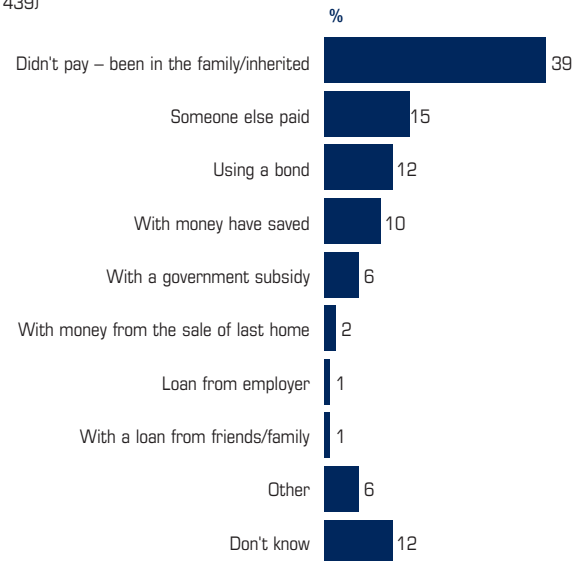
(n=3885)

	Have now – use %	Never had %	Used to have %	Have now – don't use %
To buy	Mortgage bond	5	92	3
	Loan (micro-lender)	–	100	–
	Loan/subsidy (govt)	–	99	1
	Loan (employer/friend)	–	99	1
To improve	Mortgage bond	1	98	1
	Loan (micro-lender)	–	100	–
	Loan/subsidy (govt)	–	99	1
	Loan (employer/friend)	–	99	1

HOW PEOPLE PAID FOR THEIR HOMES

- Majority of people have not required housing products as they have inherited their home or someone else has paid

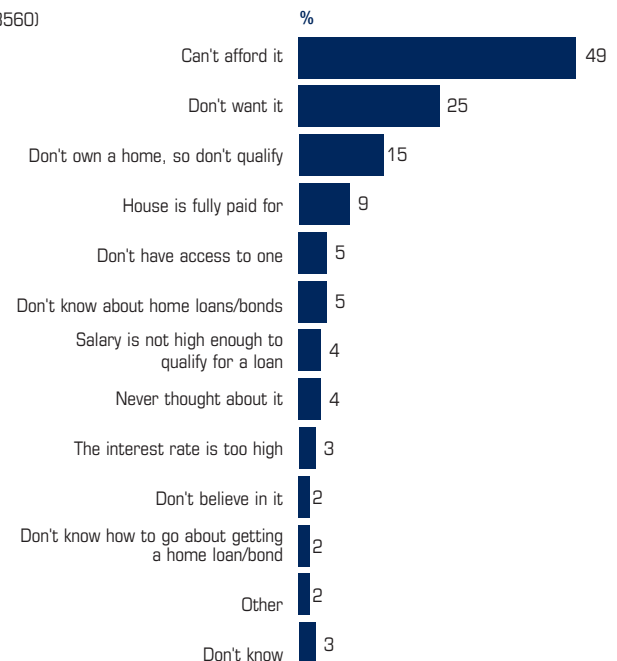
(n=1439)



MOTIVATION FOR NOT HAVING A HOME LOAN

- The key factor is not having enough money/affordability
- Only 6% of the population has a home loan

(n=3560)



NUMBER OF PEOPLE IN HOUSEHOLDS

- Black households tend to have more people living in them
- No real change in the number of people in households from 2004

(n=3885)

No. of people in household	Total 2005 (n=3885) %	2005				Total 2004 (n=2988) %
		Black (n=2028) %	White (n=806) %	Coloured (n=747) %	Asian (n=304) %	
1	7	7	11	5	5	7
2	14	10	35	15	17	13
3	17	17	17	17	23	16
4	20	19	23	21	20	19
5	15	15	10	19	20	17
6	11	12	2	11	6	9
7	6	8	1	5	4	6
8	4	4	1	3	3	5
9	2	3	–	1	1	3
10	2	2	–	2	–	2
11+	2	3	–	1	1	3

TRADE UNION MEMBERSHIP

- Trade union membership is very low, with the majority of the population not belonging to a Union (n=3885)

No. of people in household	Total 2005 (n=3885) %	Black (n=2028) %	White (n=806) %	Coloured (n=747) %	Asian (n=304) %
You personally belong to a trade union	6	6	7	7	11
Your spouse belongs to a trade union	2	2	3	1	1
One or more of your children belong to a trade union	-	-	1	-	1
One or more parents belong to a trade union	1	1	-	2	1
Others living in your household belong to a trade union	1	1	-	1	-
None	90	91	89	90	87

EMPLOYMENT STATUS

- The unemployed sector consists of the younger population, ages 18 – 29, black people and lower FSMs/LSMs

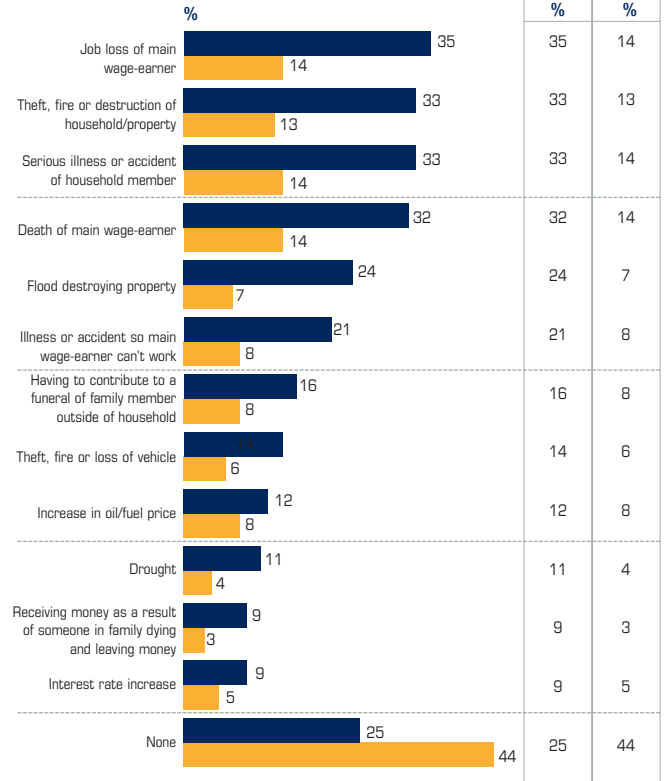
(n=3885)

		Total 2005 (n=3885) %	Skews
Unemployed	Not looking for a job	3	LSM1-2 (7%), FSM1(6%)
	Looking for a job	28	Black (33%), 18-29 (42%), LSM1-4 (39%), FSM1(47%)
Employed part time	Formal	4	30-40 (6%), Urban informal (7%), LSM 5-6 (6%), R1000-R1999 (15%)
	Informal	4	30-44 (6%), Rural formal (8%), LSM3-4 (7%), R500-R999 (8%)
Employed full time	Formal	20	White (37%), 30-44 (31%), Urban formal (25%), LSM7-8 (37%) LSM9-10 (41%), FSM7 (59%)
	Informal	5	45-59 (9%), Rural formal (20%), LSM1-2 (9%), R500-R2000 (10%)
Self-employed	Formal	3	White (9%), Asian (5%), 45-59 (5%), LSM7-8 (5%), LSM9-10 (9%), FSM7 (8%), FSM8 (22%)
	Informal	4	45-59 (7%), FSM5 (6%)
Pensioner/retired		13	White (25%) LSM7-10 (19%), R500-R999 (41%)
House-wife/House-husband		4	Asian (13%), 45-59 (8%), LSM9-10 (8%), No income (8%)
Student/Learner		13	16-29 (89%), No income (27%), R1-R500 (24%), FSM1 (14%), FSM2 (22%)
Other		2	R500-R999 (4%)

PERCEIVED RISKS

- The biggest concern is the continuity of the main wage-earner's job

(n=3885)



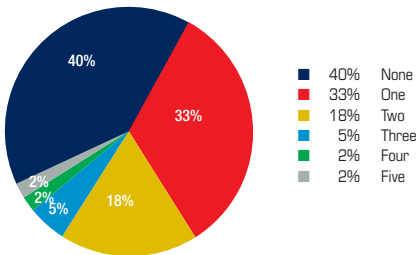
- Factors likely to impact finances
- Factors likely to happen

NUMBER OF FAMILY MEMBERS THAT HAVE DIED FROM ILLNESS IN THE PAST YEAR

- 40% of the population has experienced the loss of a family member not living in the household in the last year
- 20% of the population has experienced the loss of a family member living in the household
- 14% of the population consider the death of the main household wage-earner to be a likely occurrence

NUMBER OF PEOPLE JOB-HUNTING

- In over half of the households in South Africa there is at least one person currently looking for work (n=3885)

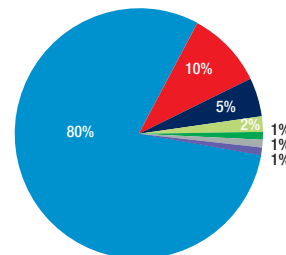


No. of people in household	% of total residents looking for work	% of total residents working	% of total residents under 16
1 (n=299)	10	7	83
2 (n=655)	18	10	65
3 (n=714)	22	17	46
4 (n=834)	20	19	39
5 (n=584)	21	15	35
6 (n=332)	24	12	31
7 (n=196)	24	8	27
8 (n=108)	24	4	26
9 (n=60)	24	3	23
10 (n=44*)	25	2	22
11+ (n=59)	24	3	21

Mean household monthly income	Money per head (average)
R2 713	R2 713
R4 796	R2 398
R3 873	R1 937
R4 610	R1 153
R4 319	R864
R3 419	R570
R2 792	R399
R2 988	R374
R2 655	R295
R2 727	R273
R3 098	-

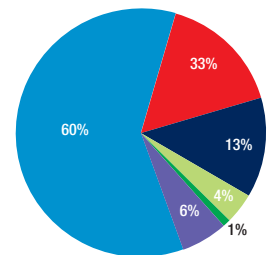
*Caution: Small base size

Living in household (n=3885)



- 80% None
- 10% One
- 5% Two
- 2% Three
- 1% Four
- 1% Five
- 1% Five+

Not living in household (n=3885)



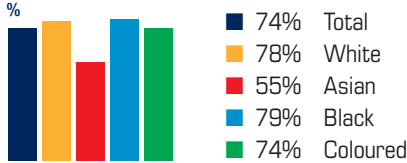
- 60% None
- 16% One
- 13% Two
- 4% Three
- 1% Four
- 0% Five
- 6% Five+

WHERE MONEY IS OBTAINED IN AN EMERGENCY

(n=1962)

	%	Black (n=1012) %	White (n=420) %	Coloured (n=368) %	Asian (n=162) %
Family members in household	53	56	40	52	41
Family members not in household	21	22	15	27	33
A bank	12	9	39	6	23
Friends	4	5	3	5	1
Someone you trust in community	3	4	1	1	1
Your employer	3	3	1	8	-
A stokvel/umgalelo/savings club	1	1	-	-	-
A micro-lender	-	-	-	1	1
Other	1	1	2	1	-

People who go to "family" first* – only white less than average



*Sum of "family members in household" and "family members not in household"

LIVING CONDITIONS

Percentage of respondents that said "often" or "sometimes" to statement

(n=1962)

	%	Black (n=2028) %	White (n=806) %	Coloured (n=747) %	Asian (n=304) %
Gone without cash income	45	53	7	28	19
Felt unsafe from crime in home	34	36	26	25	40
Gone without medicine/medical treatment	33	39	6	19	7
Gone without electricity in home	29	35	3	10	9
Gone without enough food to eat	27	31	4	14	5
Gone without clean water (drink/cook)	18	22	2	3	3
Gone without fuel to heat home/cook food	18	27	1	7	-
Gone without shelter	2	2	1	-	-

■ 2005
■ 2004

PREFERRED LOCATION TO ACCESS FINANCIAL SERVICES

(n=1962)

	%	
In shopping centres in the townships/location	39	Black (45%), urban informal (64%) FSM2 (45%), FSM3 (46%)
In shopping centres in the town/city centre	35	Black (36%), Coloured (36%), urban/rural formal (36%), FSM6 (41%), FSM7 (40%)
In the village near your home	32	Black (36%), tribal land (60%), FSM1&3 (39%), FSM2 (34%)
In shopping centres in the suburbs	30	White (58%), Asian (64%), urban formal (40%), FSM7 (51%), FSM8 (54%)
In the town/city centre	20	Black (21%), urban formal (22%), FSM4 (27%), FSM5 (26%)
In garages/petrol stations in the townships/location	16	Black (19%), urban informal (26%), FSM5 (19%)
In garages/petrol stations in the town/city centre	9	Rural formal (13%), FSM4 (13%), FSM8 (16%)
In garages/petrol stations in the suburbs	8	White (13%), FSM5 (12%)
At your place of work	5	White (7%), urban informal (7%), FSM7 (10%)
In office parks	4	White (6%)

HOW HAPPY ARE PEOPLE? Self-descriptors – Top 10

- Most categories decrease significantly with age, except spirituality
- 18 – 29 year olds are least happy with their achievement and are most despondent about their dreams
- Black population is least happy



Income generation is still a key issue in ensuring overall well-being

(n=3885)

	Total 2005 (n=3885) %	Total 2004 (n=2988) %
Friends/family to turn to	72	73
Cheerful/happy	59	57
Physically fit	52	55
Feel alive	51	50
Feel well/good health	50	54
Life has meaning	50	53
Seldom drink	47	50
Spiritual person	41	41
Have enough leisure	40	40
Satisfied with achievements	40	31

Everyday quality of life (EQLi index)

Overall (n=3885)	Black (n=2028)	White (n=806)	Coloured (n=747)	Asian (n=304)
66.7	62.6	85.5	72.6	81.0

FSM 1 (n=854) %	FSM 2 (n=682) %	FSM 3 (n=430) %	FSM 4 (n=451) %	FSM 5 (n=522) %	FSM 6 (n=479) %	FSM 7 (n=337) %	FSM 8 (n=130) %
56.1	63.3	70	68.1	72.5	80.7	86	88.8

Financial literacy

UNDERSTANDING OF FINANCIAL SERVICES/TERMS

- Understanding of cellphone banking, bad debt, assurance and internet banking is very low
- Key banking personnel and assistance bureau knowledge (Ombudsman, brokers and credit bureaux is also very low)

(n=3885)

	Never heard of	Heard but doesn't mean anything	Heard and knows what it means
Ombudsman	74	14	12
Underwriter	69	17	14
Pyramid schemes	56	19	24
Endowment policy	52	20	28
Broker	44	21	35
Retirement annuity	44	20	36
Internet banking	43	27	29
Cellphone banking	42	28	30
Term of loan	40	21	39
Assurance	40	26	34
Current account	38	21	41
Interest rate payable	37	23	40
Bad debt	37	20	43
Transaction account	35	22	43
Short-term insurance	35	25	40
Debit card	34	22	44
Credit bureau	33	23	44
Service fees	28	22	50
Credit card	24	23	53
Savings club	20	21	59
Credit	19	20	61
Stokvel/umgalelo	18	15	66
Life insurance	17	22	61
Insurance	13	21	66
Loans	12	18	71
Burial society	9	12	79
Savings account	9	13	78
ATM	7	10	83

FINANCIAL TRAINING REQUIRED

(n=3885)



AWARENESS OF FINANCIAL SECTOR LEGISLATION

What percentage of the population has heard about:

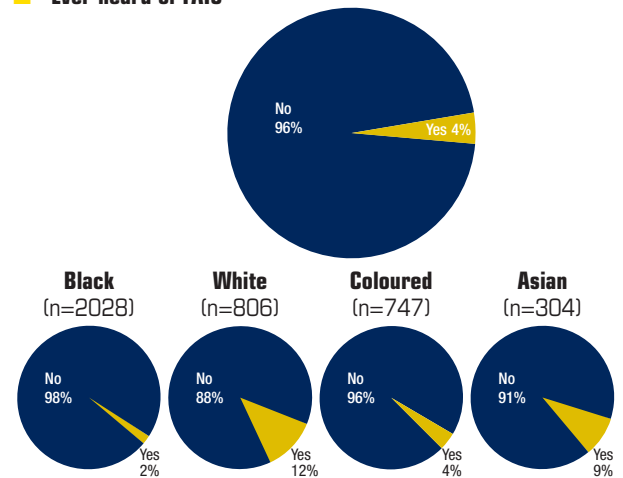
National Credit Bill	5%	(n=3885)
Financial Charter	3%	
FICA	2%	
Dedicated Banks Act	2%	
None of these	92%	



Most knowledgeable is the white population, with 75% responding "none of these"

Ever heard of FAIS

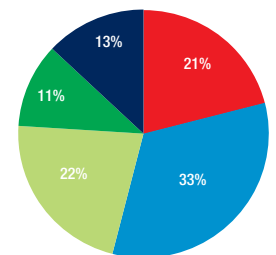
(n=3885)



DECISION MAKING IN THE HOME

(n=1962)

- 33% In consultation with partner
- 22% In consultation with other family/household members
- 21% Decide alone
- 13% Don't make decisions, but opinion asked
- 11% Don't make decisions, opinion not asked



Skews:

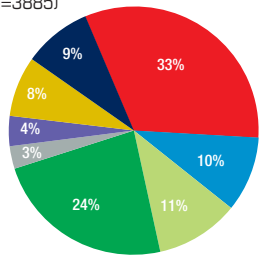
16 - 17 (26%)	Coloured (25%)	White (56%)
18 - 29 (21%)	Rural formal (26%)	30-59 (47%)
Tribal land (16%)	LSM 7 - 8 (26%)	Urban (36%)
R1 - R499 (19%)	FSM 6 (29%)	LSM 9 - 10 (58%)
No income (24%)	FSM 7 (26%)	R8000+ (56%)
FSM 1 (17%)	FSM 8 (28%)	FSM 6 (49%)
FSM 2 (23%)		FSM 7 (59%)
		FSM 8 (68%)
Black (25%)	16 - 17 (44%)	
Asian (27%)	LSM 1 - 2 (19%)	
18 - 29 (28%)	No income (26%)	
Tribal land (26%)	FSM 1 (20%)	
LSM 3 - 4 (26%)		
R1 - R499 (34%)		
R500 - R999 (28%)		
FSM 2 - 5 (27%)		

WHERE IS INCOME GENERATED FROM

- 67% of the population's income is generated by part-time or permanent work and through own business
- 33% of income is from family but this is only 11% in real money terms

Where income is derived from

(n=3885)

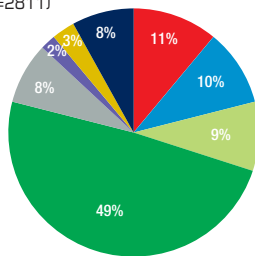


- 33% From family
- 24% Permanent work
- 11% Pension payout
- 10% Part-time work
- 9% Other
- 8% Social grants
- 4% Friends
- 3% Own business

Total SA % income in Rand terms

(weighted to personal monthly income)

(n=2811)



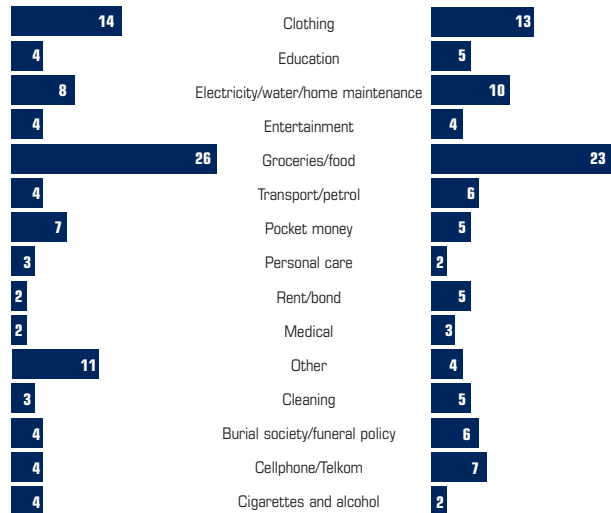
- 49% Permanent work
- 11% From family
- 10% Part-time work
- 9% Pension payout
- 8% Own business
- 8% Other
- 3% Social grants
- 2% Friends

WHERE DOES INCOME GO?

- 1/4 of income is spent on food in the country
- A surprising 2% is spent on "sins" (alcohol/cigarettes)
- Funeral/burials are the biggest income slice of financial service providers

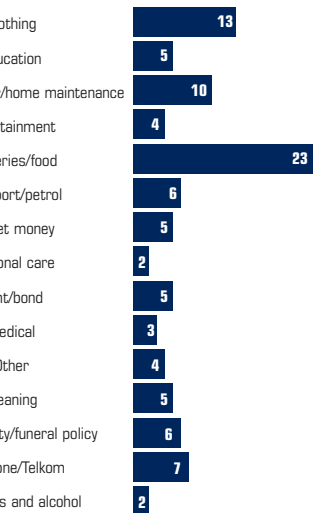
Average % share of wallet

(n=3885)



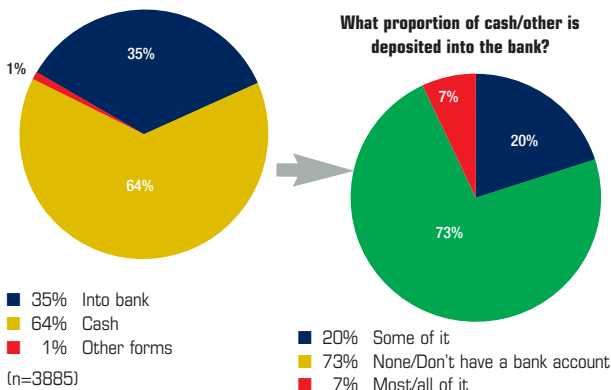
Total SA % share of wallet

(weighted to personal monthly income)



HOW DO PEOPLE RECEIVE THEIR MONEY

- 47% of money received does not end up in a bank



Banking Profiles

HOW MANY PEOPLE ARE BANKED

- Greater rate of growth in banked adults than in the population growth from the available population estimates in 2004 to estimates in 2005

		% Increase
No. of banked adults in South Africa in (2005)	= 14 324 508	4.0
No. of banked adults in South Africa (2004)	= 13 765 690	
No. of previously banked adults in South Africa (2005)	= 3 765 935	+1.2
No. of previously banked adults in South Africa (2004)	= 3 721 274	
No. of never banked adults in South Africa (2005)	= 12 621 808	-1.2
No. of never banked adults in South Africa (2004)	= 12 767 299	
No. of un-banked adults in South Africa (2005)	= 16 387 743	-1.0
No. of un-banked adults in South Africa (2004)	= 16 488 573	
Total population size (2005) *	= 30 712 251	+1.0
Total population size (2004) **	= 30 254 264	

* Based on 2005 mid year population estimates (Census 2001 base data)

** Based on 2004 mid year population estimates (Census data 2001 base data)

- Population estimates for 2004 multiplied by banked/un-banked percentages from FinScope 2004 - approximations

HOW THE BANKED/UN-BANKED POPULATION IS DISPERSED

- Black people still less likely to be banked
- Females less likely to be banked
- People living in tribal lands less likely to be banked

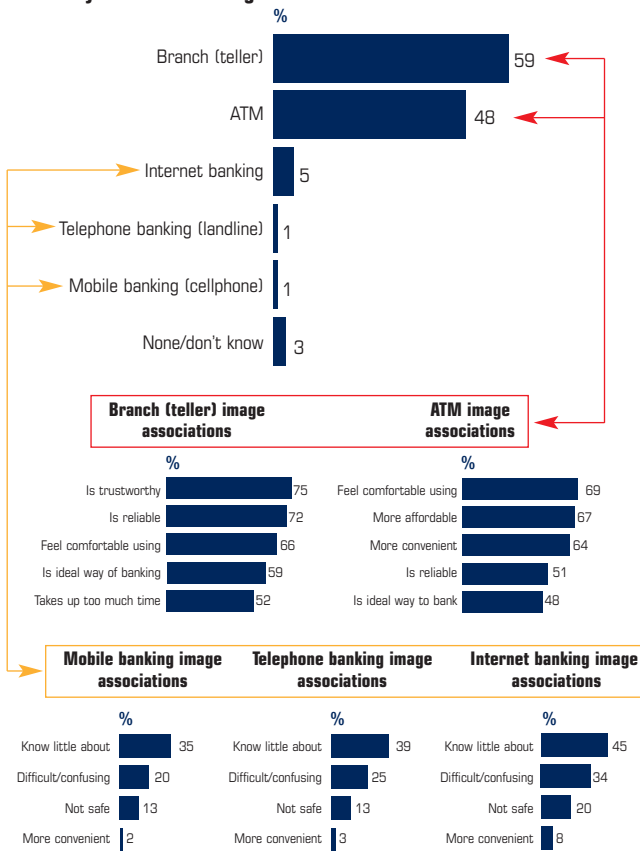
	Total (n=2988) %	Currently Banked (n=1628) %	Previously banked (n=353) %	Never banked (n=1007) %
Race				
Black	76	65	80	89
White	12	22	4	1
Coloured	9	9	13	9
Asian	3	4	3	1
Province				
Eastern Cape	14	14	18	12
Free State	6	5	6	8
Gauteng	21	29	19	14
KwaZulu Natal	20	17	23	23
Mpumalanga	7	8	6	5
Northern Province/Limpopo	11	8	5	16
Northern Cape	2	2	1	3
North West	8	6	10	10
Western Cape	11	11	12	9
Area definition				
Urban Formal	58	71	56	43
Urban Informal	7	5	10	8
Rural Formal	7	5	4	10
Tribal Land	28	19	30	39
Gender				
Male	49	52	50	45
Female	51	48	50	55

Banked definition: currently have an ATM/Debit/Credit card, a Savings Book/Post-Office Savings/Savings/Transmission Account, Current/Cheque Account, Credit card, Fixed Deposit, Garage Card, Money Market account, Mzansi or a Mortgage – (Mzansi account was not included in 2004 Banked definition as it was launched after the study for 2004 was concluded).

IDEAL BANKING TRANSACTION

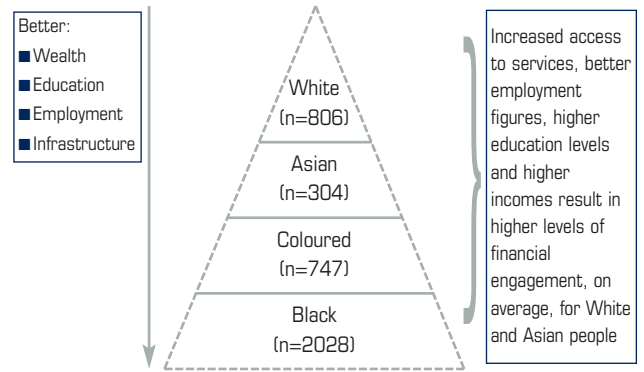
What is your ideal banking method?

(n=2093)



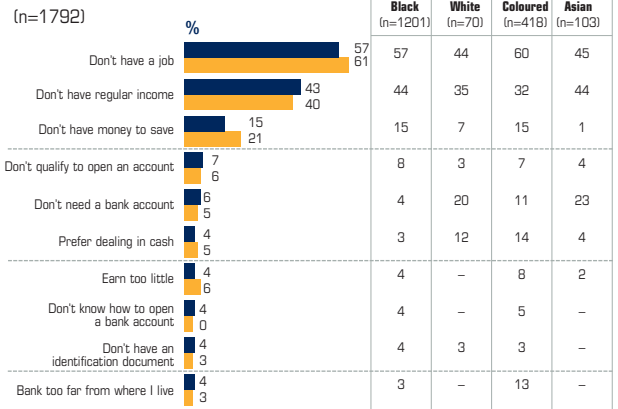
HIERARCHY OF ACCESS TO INFRASTRUCTURE/SERVICES

- Overall, white South Africans have better access to all amenities, and certainly earn more. They have better employment and education status than other race groups
- The Asian market has similar access to amenities as white people and is closer to the standards of income, education and employment experienced by white people than the other race groups
- Black and Coloured consumers have similar demographic profiles with black people being the most severely affected by lack of education and income



MAIN REASONS FOR BEING UN-BANKED

- Not having a job or regular income are still the main reasons for being un-banked



■ 2005 ■ 2004

HOW PEOPLE FUND THEIR RETAIL PURCHASES

- Groceries, clothing and appliances most likely to be bought with cash
- Large appliances least likely to have been bought by respondents

	Groceries %	Clothing %	Large Appliances %
Pay using cash	92	83	19
Pay using credit card	3	3	2
Pay by debit card	2	1	1
Pay with store credit card	1	12	2
Pay with vouchers	1	-	-
Pay by cheque	1	1	1
Pay by lay-buy	-	8	9
Pay using store account	-	3	6
Pay in installments	-	1	11
Pay via internet	-	-	-
Pay by cellphone	-	-	-
Other	-	-	-
Have not bought these items	6	4	54

MAIN ACCOUNTS HELD – BY RACE

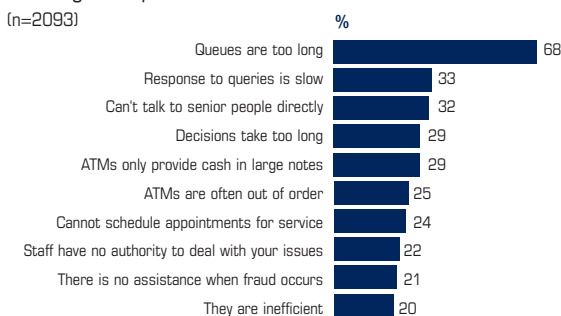
- White people are more likely to have credit cards and current/cheque accounts
- Black people have higher usage of Post Bank account and savings books than the average

Black (n=1166)		White (n=756)	
ATM card	(66%)	ATM card	(90%)
Savings/transaction acc	(53%)	Savings/transaction acc	(57%)
Debit card	(16%)	Debit card	(45%)
Post Bank acc	(8%)	Current/cheque acc	(44%)
Savings book	(6%)	Credit card	(35%)

Coloured (n=466)		Asian (n=224)	
ATM card	(60%)	ATM card	(86%)
Savings/transaction acc	(48%)	Savings/transaction acc	(67%)
Debit card	(31%)	Debit card	(39%)
Current/cheque acc	(9%)	Credit card	(19%)
Credit card	(5%)	Current/cheque acc	(11%)

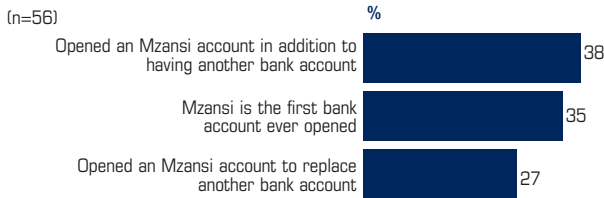
TOP 10 NEGATIVE EXPERIENCES WITH BANKS

- The most regular negative association with banks is the length of queues



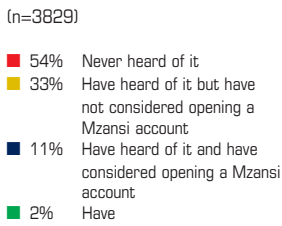
EXPERIENCE WITH MZANSI ACCOUNTS

- 35% of the accounts opened are new accounts
- 15% of opened accounts are not being used
- Total number of accounts: 550 983
(confidence level 430 000; 690 000) – 2% of population
- Total number presently being used: 469 028



AWARENESS OF THE MZANSI ACCOUNT

- Low LSMs and FSM 1 have not heard of Mzansi
- Black people are most likely to be considering the account

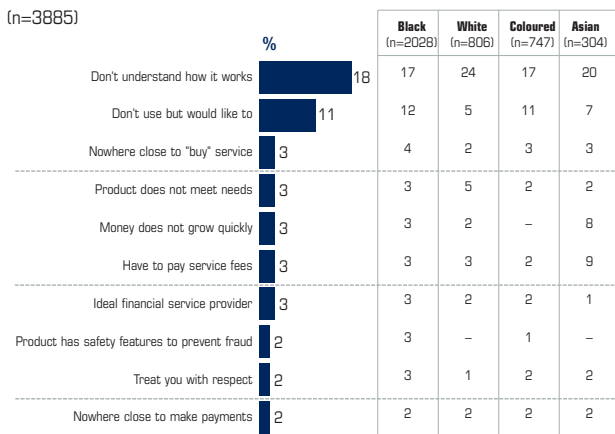


Skews:

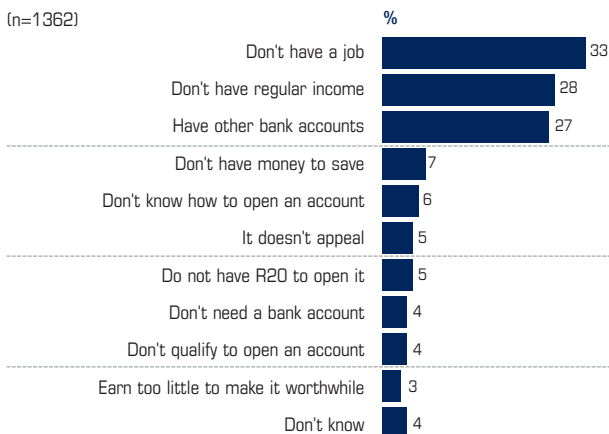
White (88%)	Banked (42%)	Black (14%)
Coloured (86%)	White (41%)	Other races (1%)
60+ years (82%)	18 – 29 years (40%)	Tribal land (18%)
Rural formal (65%)	Rural formal (65%)	LSM 3 – 4 (14%)
LSM 1 – 2 (65%)	LSM 5 – 6 (42%)	R1 – R499 (16%)
LSM 9 – 10 (83%)	R1000 – R3999 (48%)	FSM 2 (18%)
R8000+ (74%)	FSM 4 (45%)	FSM 3 (15%)
FSM 1 (65%)	FSM 5 (47%)	
FSM 8 (79%)		

WHAT DEFINES MZANSI ACCOUNTS

- Black and Coloured people would like to use it



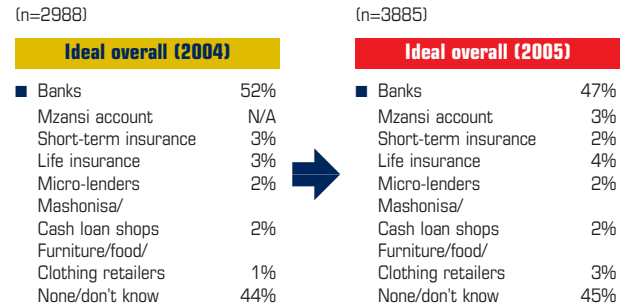
REASONS FOR NOT OPENING A MZANSI ACCOUNT



Imagery perceptions of financial service providers (FSP)

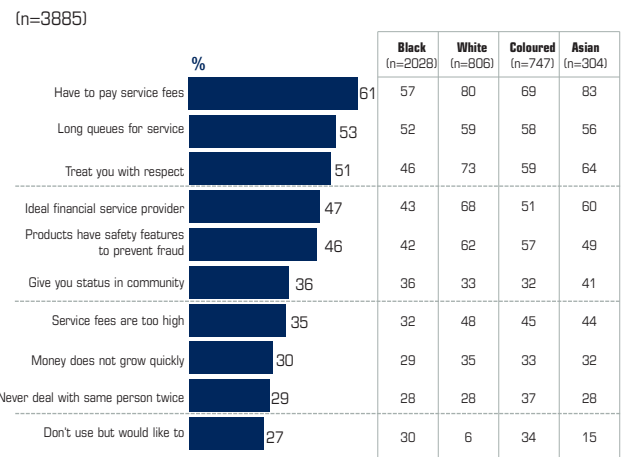
IDEAL FINANCIAL SERVICE PROVIDERS

- Banks are still seen as the most ideal service provider, however there is a percentage drop in 2005 with Mzansi taking a small share
- Growth in retailers being seen as the ideal service provider



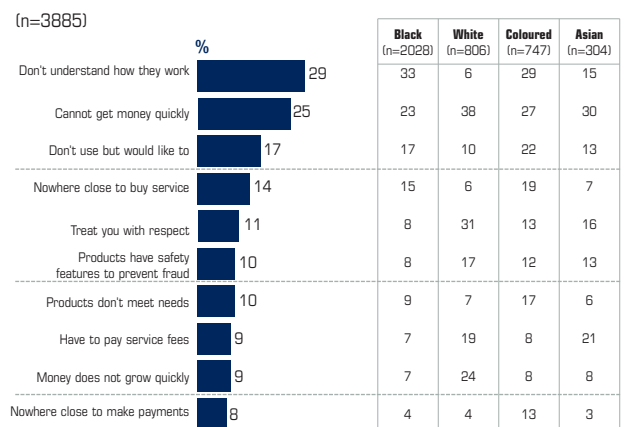
PERCEPTIONS OF BANKS

- Top two perceptions are negative: paying service fees and standing in long queues for service
- Less than half of respondents see banks as the ideal financial service provider, skews mainly from black people



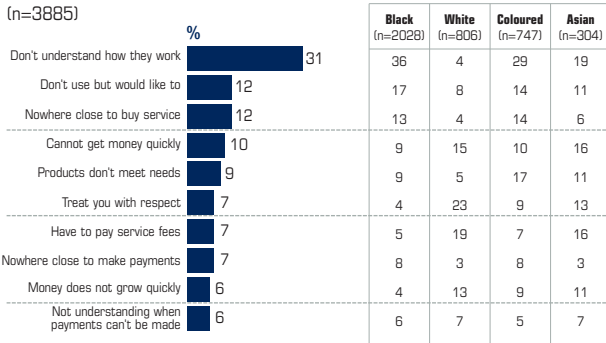
PERCEPTIONS OF LIFE INSURANCE COMPANIES

- There is a lack of education and access to life insurance companies
- There is a negative image of not getting money back quickly enough, especially in the white market



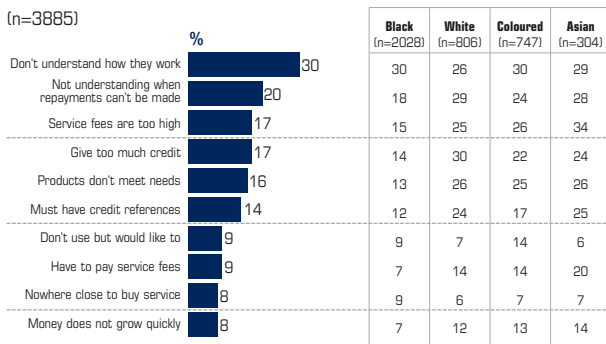
PERCEPTIONS OF SHORT-TERM INSURANCE

- There is a lack of education on how short-term policies work overall and specifically among black people



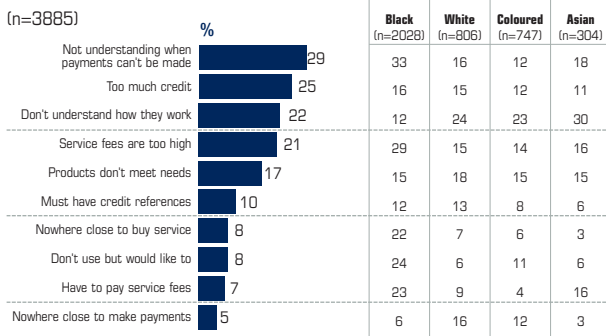
PERCEPTIONS OF MICRO-LENDERS

- Not that much knowledge about micro-lenders – high “don't understand” claim
- Not enough flexibility when repayment commitments cannot be met



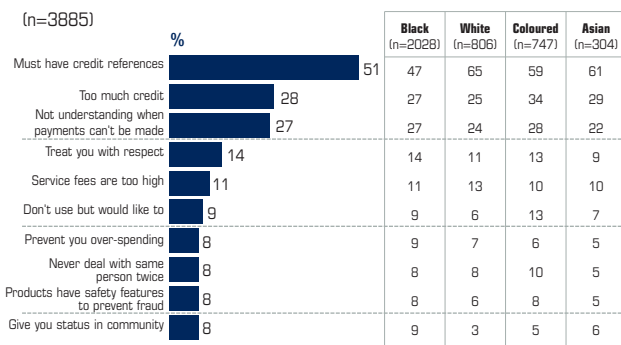
PERCEPTIONS OF MASHONISA/CASH LOAN SHOPS

- Black people feel that mashonisa/cash loan shops are not understanding when repayment commitments cannot be met
- They provide too much credit
- Less likely to have 'do not understand' mentioned than micro lenders – confusion in the market



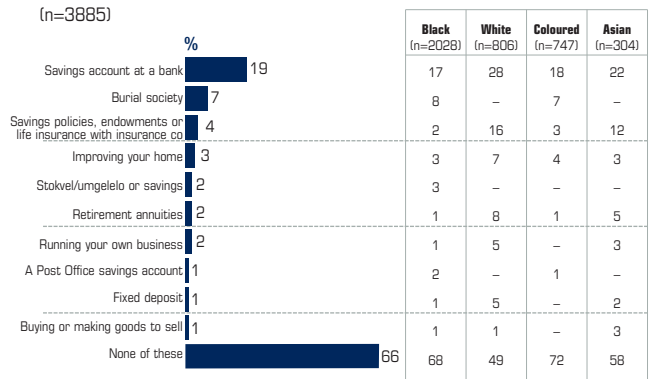
PERCEPTIONS OF RETAILERS

- Retailers are seen to require credit references when opening accounts and once given an account they provide too much credit



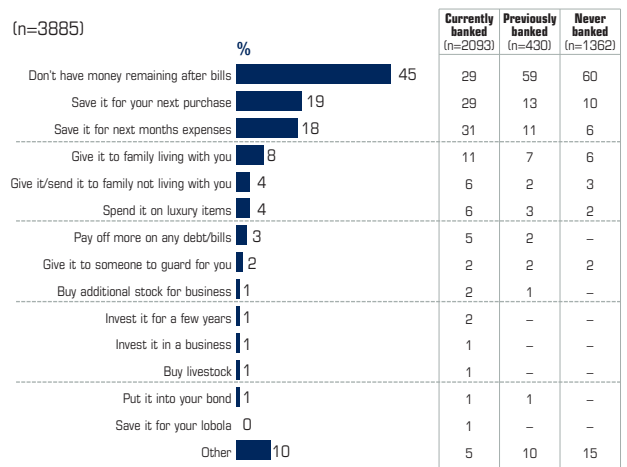
Savings and Investments

WAYS IN WHICH PEOPLE ARE INVESTING MONEY



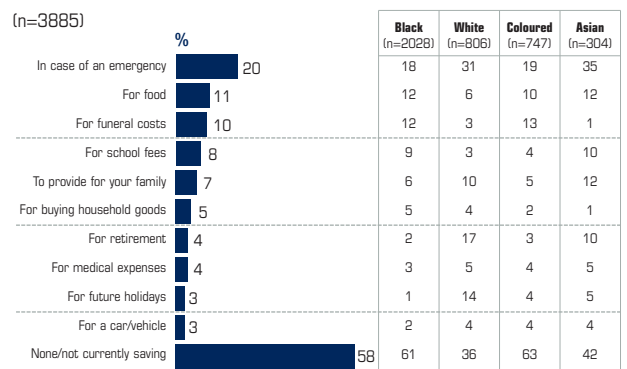
WHAT PEOPLE ARE DOING WITH REMAINING/ EXCESS MONEY

- 45% of people do not have money remaining after paying bills
- Of those that do, a large portion is saved for future expenses/purchases



WHAT ARE PEOPLE CURRENTLY SAVING FOR

- Black and Coloured people find it difficult to save because of lack of funds, when they are able to, it is often for food



WHAT THE MARKET IS SAYING ABOUT SAVING

- People trust themselves above others when it comes to advice – 45% distrust informal associations
- People would rather take the safer route of saving with a bank and invest long term

(n=3885)

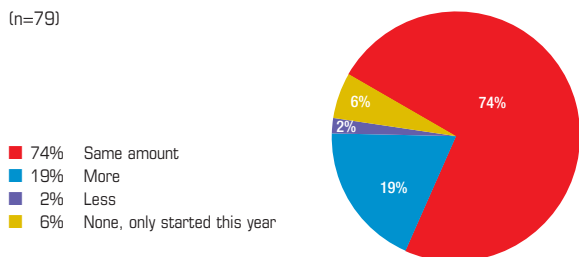
	%	Black (n=2026)	White (n=806)	Coloured (n=747)	Asian (n=304)
Trust own experience/knowledge above others	67	66	71	73	67
Saving regularly, creates security over time	66	62	87	67	74
Money security is more important than interest rate	55	52	78	50	67
Banks are best for a long-term goal	53	49	69	59	63
Young people know more than older people	51	66	35	45	46
Concerned about having enough for old age	50	51	48	46	36
Work to a budget	47	41	80	53	73
Can easily live without a bank account	46	49	21	50	42
Distrust informal saving associations	45	40	68	57	58
Save regularly	41	36	73	36	53
Pay more to have trustworthy people handle money	38	36	55	31	41
Save for a long term goal with insurance company	36	34	51	32	44
Know what interest/returns is paid on savings	29	23	67	23	47
Go without basic things to save	27	26	31	23	27
Are saving for specific goal (e.g. holiday, furniture)	24	21	45	19	32
Give money to a moneyguard for safe keeping	18	19	15	14	13

Informal savings clubs

PAYING MORE OR LESS INTO SAVINGS CLUB

- 20% of members are paying more into their savings club than in 2004

(n=79)

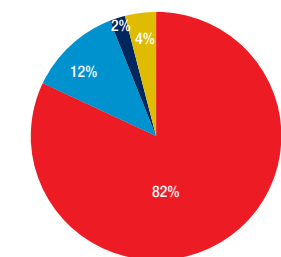


STOKVEL MEMBERSHIP

- Majority of members belong to one stokvel with between 9 – 12 people in the club, on average

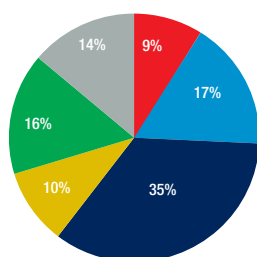
(n= 79)

How many savings groups/ clubs belong to?



- 82% One
- 12% Two
- 2% Three
- 4% Six or more

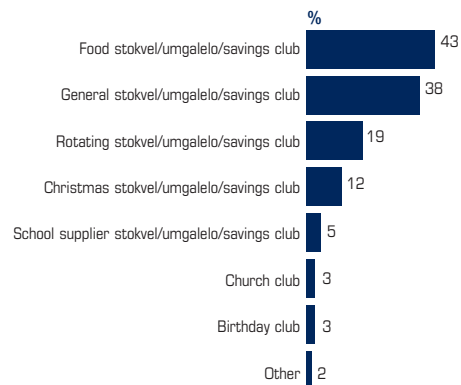
How many people in (1st) savings club?



- 9% 1 - 4 people
- 17% 5 - 8 people
- 35% 9 - 12 people
- 10% 13 - 15 people
- 16% 16 - 25 people
- 14% More than 25 people

TYPES OF SAVINGS/INVESTMENT CLUBS

- Saving for food appears to be the highest motive for saving (n=79)



FUNERAL/BURIAL COVER

- Funeral cover through an undertaker skews FSM 4, 6 and 7
- Burial society not prevalent in lower FSMs
- "Funeral policies" and a "funeral cover with your employer" skews upper FSMs

(n= 3885)

	Total (n=3885) %	FSM 1 (n=854) %	FSM 2 (n=682) %	FSM 3 (n=430) %	FSM 4 (n=451) %	FSM 5 (n=522) %	FSM 6 (n=479) %	FSM 7 (n=337) %	FSM 8 (n=130) %
Burial society	14	10	13	17	18	15	17	9	10
Funeral policy (individual)	12	1	2	2	15	20	38	51	45
Funeral cover/insurance from employer	3	1	1	2	4	3	5	16	16
Funeral cover through undertaker	8	6	6	9	12	8	11	10	7

NUMBER OF FUNERAL/BURIAL POLICIES PEOPLE HAVE

- Generally, people only have one policy to cover funeral/death expenses

	Funeral policy with a big institution (n=307)	Funeral cover/insurance from employer (n=83)	Burial society (n=235)	Funeral policy with an undertaker (n=141)
One	75	71	91	95
2 - 3	17	12	4	2
4 - 5	1	4	1	1
Don't have this type of policy	7	11	4	3

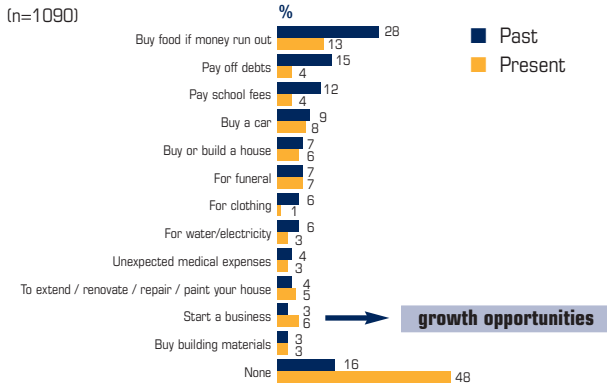


These individuals have previously claimed to have this type of policy – there is confusion in the minds of consumers?

Credit and Loans

REASONS FOR BORROWING MONEY (PAST AND FUTURE)

- The main reason for borrowing money is to cover food basics
- 48% of South Africans do not see themselves taking out a loan/borrowing money in the future
- 25% of the market has "ever taken" out a loan



Of those who have ever taken a loan:

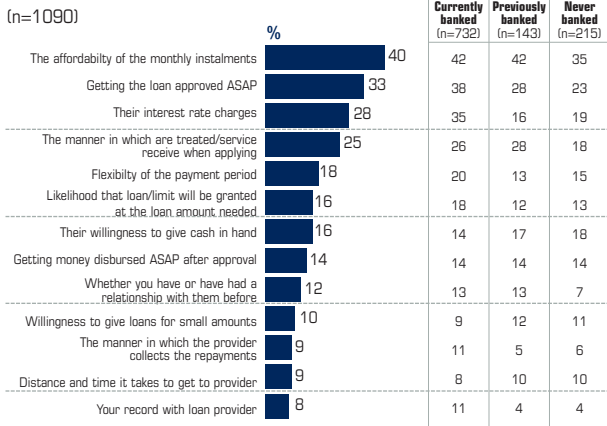
Banking Status:

Currently banked (n=2093)	33%
Previously banked (n=430)	33%
Never banked (n=1362)	14%

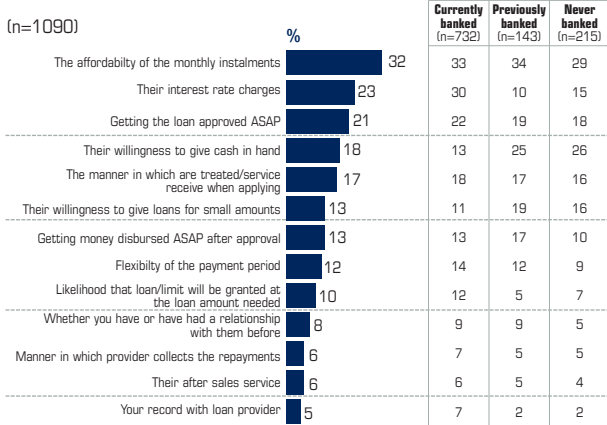
Race:

Black (n=2028)	22%
White (n=806)	41%
Coloured (n=747)	32%
Asian (n=304)	18%

FACTORS DETERMINING WHERE TO OBTAIN A LONG-TERM LOAN



FACTORS DETERMINING WHERE TO OBTAIN A SHORT-TERM LOAN



PERSONAL EXPERIENCE WITH RETAIL CARDS

- Experience with retail cards is similar to 2004

(n=3885)

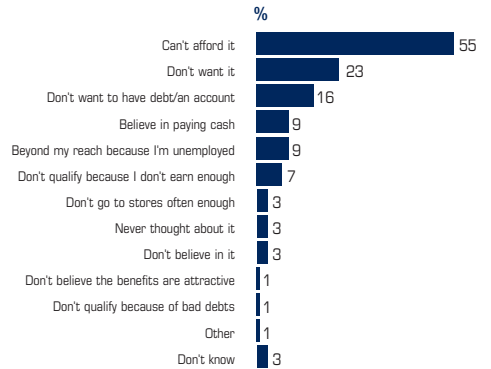
2005 – Have now & use

	2005 Never had %	2004 (n=2988) Have now & use %	2004 (n=2988) Never had %
Store card where buy on account and pay later (e.g. Edgars)	75	18	75
Store loyalty card that gives cash back (e.g. Clicks)	94	6	93
Other club/loyalty cards (e.g. Ster-Kinekor)	98	2	97
Retail store account	88	NA	NA

MOTIVATION FOR NOT HAVING STORE OR RETAIL CARDS/ACCOUNTS

- Lack of money and not wanting to get into debt are major motivators for not having store or retail cards/accounts

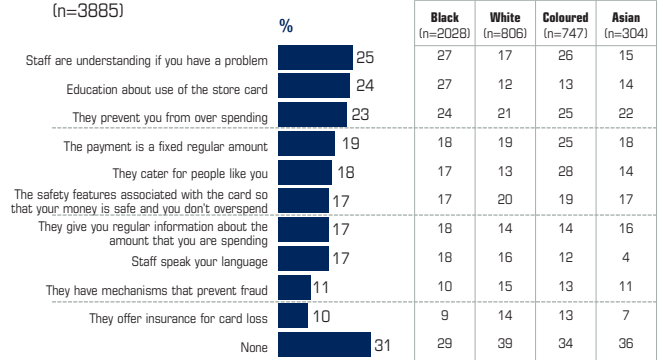
(n=2907)



IMPORTANT FACTORS CONSIDERED WHEN GETTING A STORE CARD/ACCOUNT

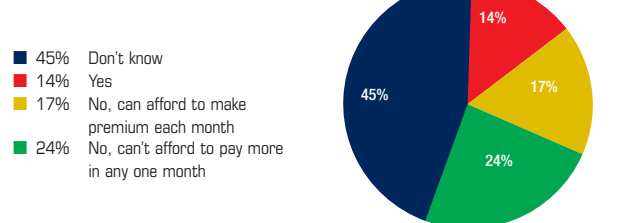
- People want understanding if they can't pay – the attribute people often link to retailers is their lack of understanding
- Education on card use is also important

(n=3885)



SKIP A MONTH AND PAY MORE IN OTHER MONTHS TO MAKE UP THE DIFFERENCE

(n=3885)

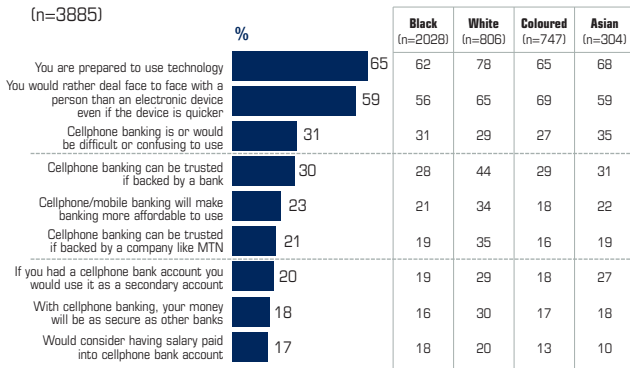


Skews:

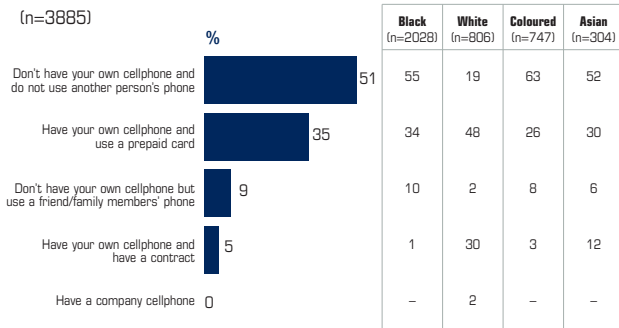
Coloured (53%)	Coloured (18%)	White (35%)	Black (27%)
16-17 years (53%)	Rural formal (20%)	Asian (28%)	Tribal land (30%)
60+ years (57%)	LSM 5-6 (18%),	Male (20%)	LSM 1-2 (28%),
Rural formal (53%)	LSM 7-8 (16%)	Urban formal (22%)	LSM 3-4 (27%)
LSM 1-2 (55%)	R1000- R500-R999 (55%)	R1000- LSM 7-8 (26%),	No income (27%),
FSM 1 (62%)	R1999 (20%)	LSM 9-10 (35%)	R1000- R1999 (28%),
FSM 2 (48%)	FSM 5-6 (19%)	R4000+ (36%)	FSM 2-5 (27%)
		FSM 6 (31%)	
		FSM 7 (47%)	
		FSM 8 (56%)	

WHAT THE MARKET IS SAYING ABOUT CELLPHONES

- People are willing to learn and benefit from new technology
- Cellphone banking is likely to increase as people understand and trust technology

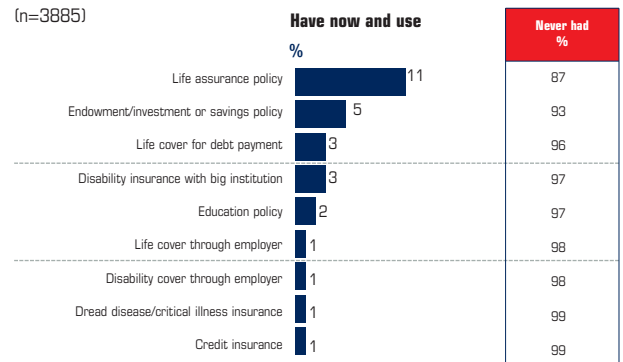


CELLPHONE USAGE

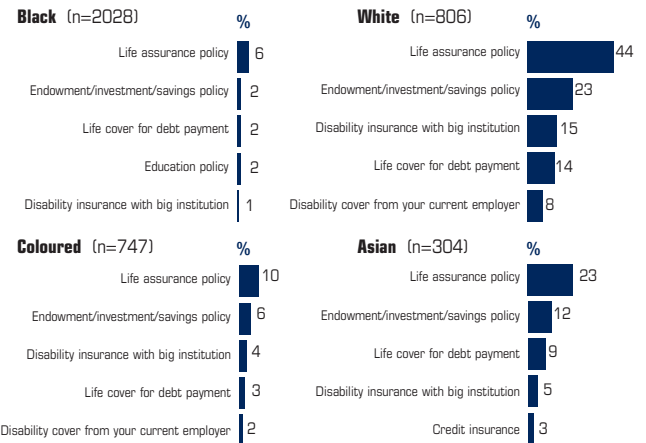


The Insurance Sector

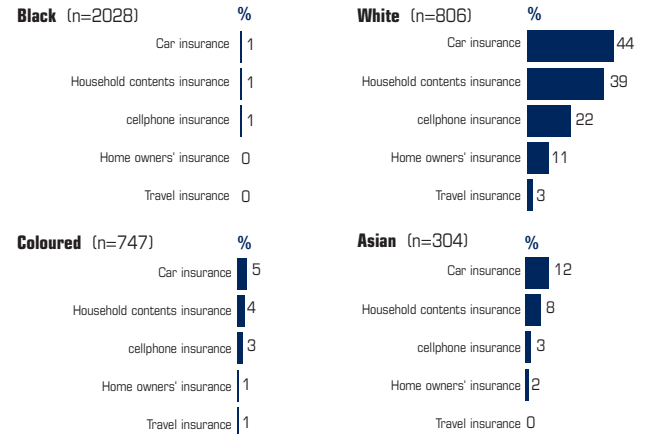
LIFE INSURANCE PRODUCTS PEOPLE USE



LIFE INSURANCE PRODUCTS USED BY RACE GROUPS

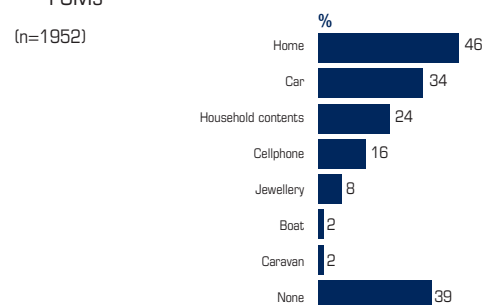


SHORT-TERM INSURANCE PRODUCTS USED BY RACE GROUPS



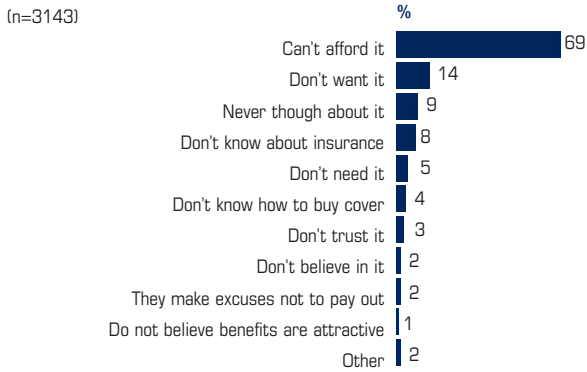
WHICH ASSETS PEOPLE WOULD LIKE COVERED

- Homes and cars are the main assets that people would insure short-term – this reflects incidence of insurance overall
- 38% of people would not insure anything – skews to lower FSMs



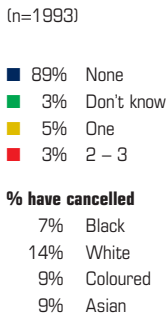
MOTIVATION FOR NOT HAVING LIFE INSURANCE

- 65% of the population does not have life cover
- Lack of money is the key factor to not having life cover



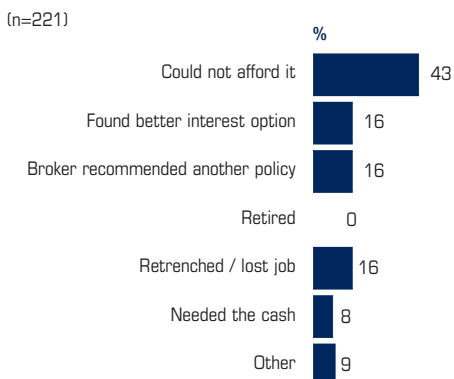
INCIDENCE OF LIFE INSURANCE POLICY CANCELLATION

- Fewer people are cancelling their life insurance policies



REASONS FOR CANCELLING LIFE INSURANCE

- Lack of funds is the main reason for people cancelling their life insurance policies



Hierarchy of Product/Service Uptake

Transaction Accounts

- ATM card
- Savings/transaction account
- Post Bank account
- Debit card
- Mzansi account
- Current/cheque account
- Store loyalty card (Cash Back)
- Garage card/petrol card
- Other club/loyalty cards

Savings

- Savings/transaction account
- Savings book at a bank
- Stokvel/umgalelo/savings club
- Post Bank account
- Endowment/investment policy
- Retirement annuity
- Education policy
- Pension fund
- Fixed deposit bank account
- Provident fund
- Other savings clubs
- Money market account

Insurance

- Belong to burial society
- Funeral cover
- Funeral policy
- Medical aid
- Life insurance/assurance policy
- Funeral cover/insurance
- Life cover
- Car insurance
- Household content insurance
- Disability insurance
- Hospital plan
- Home owners' insurance
- Medical insurance
- Cellphone insurance
- Life Cover (employer)
- Disability cover (employer)
- Dread/critical illness
- Travel insurance
- Professional insurance

Credit and Loans

- Loan from friend/family
- Store card (buy on account)
- Retail store account
- Loan from an employer
- Credit card – Visa/Master
- Borrowed money from stokvel
- Loan from informal money lender
- Personal loan from bank
- Loan from a micro-lender
- Home loan (house)
- Vehicle finance through bank
- Home loan (build)
- Overdraft

FSM – Segmentation Model

Introduction

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 has four broad components:

- Financial penetration (take-up of a comprehensive list of financial services, both formal and informal);
- Attitudes to money, this yields two classifications, namely – “financial knowledge and control” and “financial discipline”;
- Physical access to banks;
- Connectedness and optimism

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

The algorithm classifies a person into one of eight tiers for each of these five measures. 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 as the final classification.

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 lists as they appear in the questionnaire do not affect the whole algorithm; new products can be simply added to the appropriate tier and old ones deleted as necessary.

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 59,1 based on monthly households income in the FinScope 2005 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 both banked and un-banked people should be able to answer the attitudinal questions equally easily. This was achieved by eliminating variables that correlated with income or assumed, even 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 score 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:

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

The formula for the Financial Knowledge tier allocation is

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

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

Connectedness and optimism

The FinScope questionnaire includes 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 of how people might react to new financial ideas. Hence, this has been included as a specific component in 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.

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

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 measured (this sum ranging from five to 40) that classifies people as follows:

- Tier 1:S:5 to 15 (854 in the sample; 25% of the weighted population)
- Tier 2:S:16 to 18 (682 in the sample; 20% of the population)
- Tier 3:S:19 to 21 (430 in the sample; 13% of the population)
- Tier 4:S:22 to 24 (451 in the sample; 12% of the population)
- Tier 5:S:25 to 27 (522 in the sample; 12% of the population)
- Tier 6:S:28 to 30 (479 in the sample; 10% of the population)
- Tier 7:S:31 to 33 (337 in the sample; 6% of the population)
- Tier 8:S:34 + (130 in the sample; 2% of the population)

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 makes 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.

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. The maximum values can be regarded as an indicator of a product's relative place in terms of financial penetration.

A scree analysis was conducted on the maximum scores 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 those 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, had 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 1 must be asked.

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 round does not necessarily provide a 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 as new data indicates the need. 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

Financial Services Measure (FSM) Questions

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 masonisa/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 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	

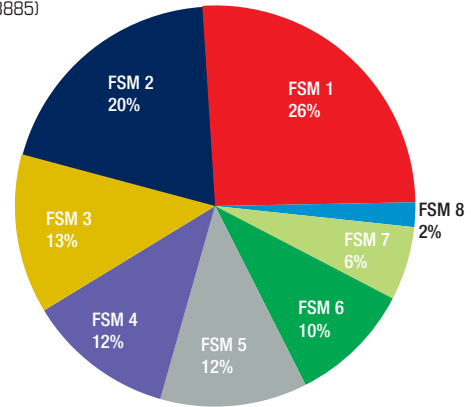
6. Below is a list of statements that might or might not apply to you. Some of these statements might appear strange and private. However, we do need your honest responses to be able to understand you better as an individual. Please indicate which ones apply to you by putting a tick next to the appropriate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

(n=3885)



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

Stability of FSMs = Comparison 2004/2005

	2005 16+ (n=2988) %	2004 16+ (n=????) %
FSM 1	26	25
FSM 2	20	22
FSM 3	13	11
FSM 4	12	13
FSM 5	12	11
FSM 6	10	10
FSM 7	6	5
FSM 8	2	3



- 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=854)	FSM 2 (n=682)	FSM 3 (n=430)	FSM 4 (n=451)	FSM 5 (n=522)	FSM 6 (n=479)	FSM 7 (n=337)	FSM 8 (n=130)
Financial penetration:								
Tier 1	93	80	46	7	2	1	-	-
Tier 2	6	16	44	58	49	23	2	-
Tier 3	1	4	8	22	20	18	7	-
Tier 4	-	1	1	10	18	24	17	-
Tier 5	-	-	1	2	9	28	45	26
Tier 6	-	-	-	1	1	6	19	27
Tier 7	-	-	-	-	-	1	8	35
Tier 8	-	-	-	-	-	-	1	13
Physical access:								
Tier 1	88	69	33	6	-	-	-	-
Tier 2	1	1	2	-	-	-	-	-
Tier 3	10	20	26	12	4	1	1	-
Tier 4	1	7	15	22	11	5	3	-
Tier 5	-	2	8	20	24	9	3	-
Tier 6	-	1	11	22	28	25	12	75
Tier 7	-	-	4	15	22	32	34	26
Tier 8	-	-	1	4	12	28	47	67
Financial discipline:								
Tier 1	-	-	-	-	-	-	-	-
Tier 2	13	1	1	-	-	-	-	-
Tier 3	29	11	5	4	1	1	-	-
Tier 4	37	29	21	15	6	5	2	-
Tier 5	19	41	37	36	33	29	26	8
Tier 6	2	15	29	35	44	44	47	49
Tier 7	-	3	7	8	15	20	23	37
Tier 8	-	-	-	1	1	1	2	5
Knowledge and control:								
Tier 1	27	8	5	1	-	-	-	-
Tier 2	63	51	25	23	3	1	-	-
Tier 3	9	27	30	23	18	5	-	-
Tier 4	1	10	21	29	33	17	8	1
Tier 5	-	3	12	17	24	28	22	9
Tier 6	-	1	7	4	17	33	34	28
Tier 7	-	-	1	2	5	14	26	46
Tier 8	-	-	-	-	1	3	9	16

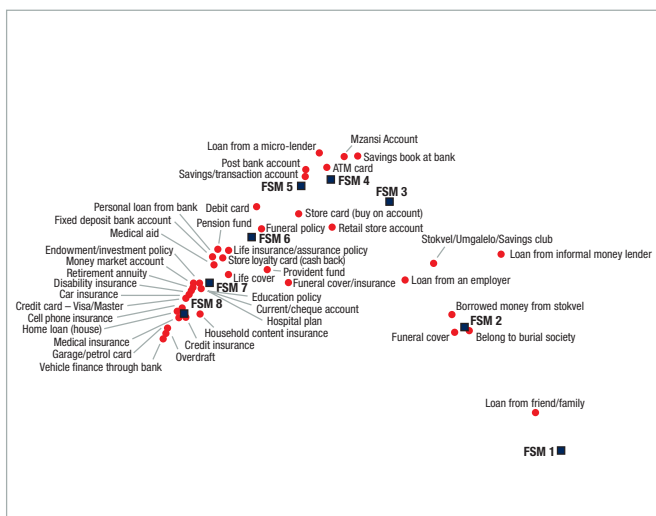
What tiers make up the FSM? (continued)

%	FSM 1 (n=854)	FSM 2 (n=682)	FSM 3 (n=430)	FSM 4 (n=451)	FSM 5 (n=522)	FSM 6 (n=479)	FSM 7 (n=337)	FSM 8 (n=130)
Connectedness and optimism:								
Tier 2	–	1	–	–	–	–	–	–
Tier 3	3	1	–	–	–	–	–	–
Tier 4	9	2	3	3	2	1	–	–
Tier 5	19	10	10	6	5	1	–	–
Tier 6	34	21	23	24	17	7	5	1
Tier 7	31	44	43	48	47	43	30	23
Tier 8	3	21	20	19	29	47	65	76

- 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 products utilised

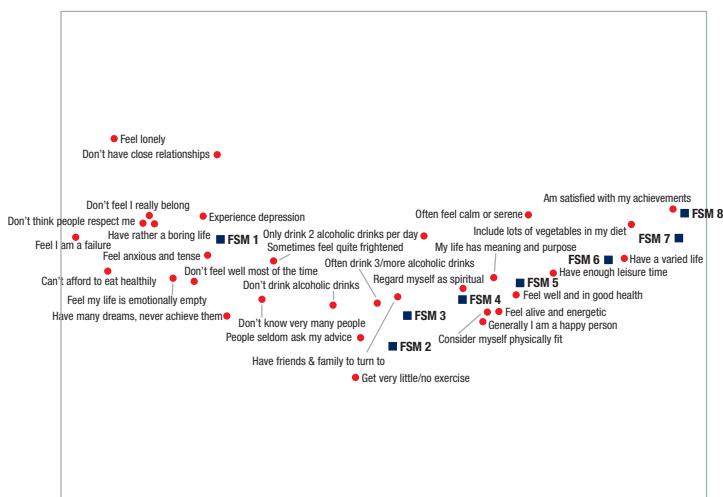
See back of brochure for enlargement hereof



Inertia = 0.12

FSM by well-being

See back of brochure for enlargement hereof



Inertia = 0.12

Using LSMs and FSMs

Traditionally LSMs has been used as the standard tool for analysis of the South African consumer market. The LSM is not a lifestyle typology or a “psychographic” segmentation tool. It is simply a robust indicator of the “principle axis” of the South African consumer market – an axis or index which is essentially a reflection or measure of “standard of living”, “poverty”, “wealth” or “affluence”. The LSM is derived from a principal components analysis of data, collected via surveys of the population, reflecting the responses essentially to the ownership of 29 different variables. It is evident that the LSM is closely correlated with income as the more money a person has, the better placed he/she is to have access to the products and services that make up the LSM algorithm.

In the financial sector however, wealth and access to services and products does not adequately explain how people deal with their finances. An example of this is that although someone is poor, it does not necessarily follow that they are not financially astute. In fact research has shown that the poor are more likely to “vote with their feet” and move to a more cost effective financial service than are the more wealthy.

Examples from the FinScope studies have highlighted the need to use FSMs as well as LSMs in trying to understand the complex South African consumer market.

Example 1: In 2004 we found a respondent with a high claimed number of insurance policies from a respondent claiming to live in a traditional hut, with a water tap that only works on occasion and where there is no electricity in the village. The respondent also noted that she had only one radio in her home and a battery operated television set, but no other product or service variables contained in the LSM algorithm.

According to the algorithm the respondent is part of LSM 1, even though she claimed to earn R4 000 per month working in government services. With this deeper understanding of the respondent, the access to the number of policies claimed makes more sense, as they could well be offered to employees in the public sector.

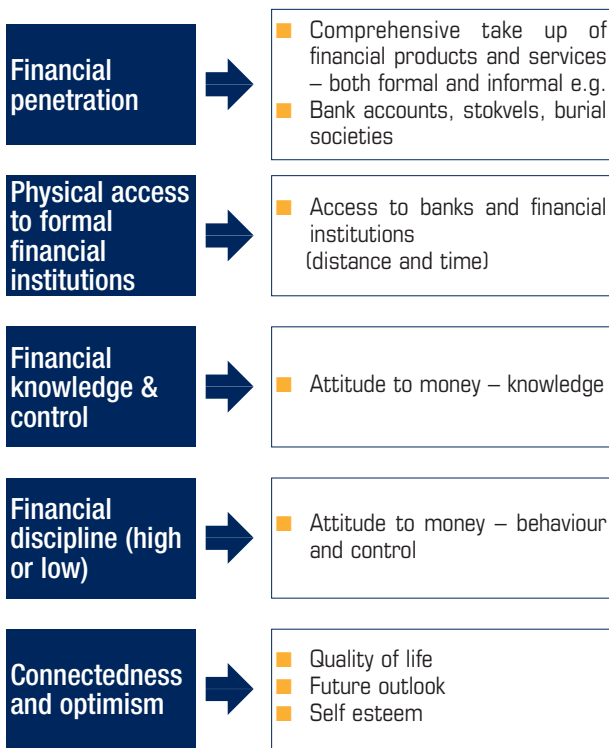
A second example was a respondent who claimed to have a vehicle and vehicle insurance but lives in a traditional hut with no electricity and consumables. On further investigation, it becomes evident that the house is built in a traditional style, but has attributes that caused the back-checking process to query whether the home would really be considered a traditional hut. It was also discovered that the respondent works fulltime and transports goods for people in the area in which he lives – hence the need for a vehicle and vehicle insurance.

Again, subjectivity of the housing description is evident, as well as choice of lifestyle, issues which do not necessarily correlate to income and interaction in the financial sector.

It was through the inability of the LSM to fully explain these anomalies in the financial markets and the need to understand financial markets specifically, that the FSM was born. A key point behind 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 that were 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 FSM measure itself shows some correlation with income but:

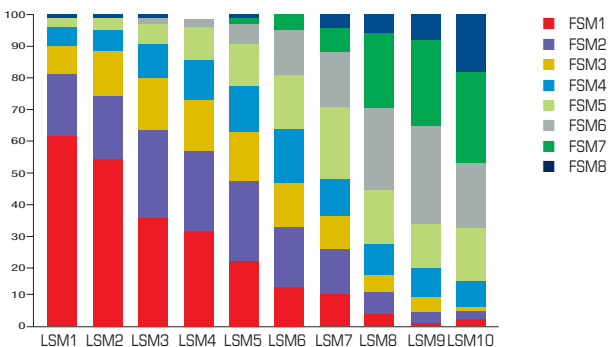
1. this is not as direct as the LSMs, and
2. the original idea was that the underlying measures would be scrutinised, to provide additional insight.

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

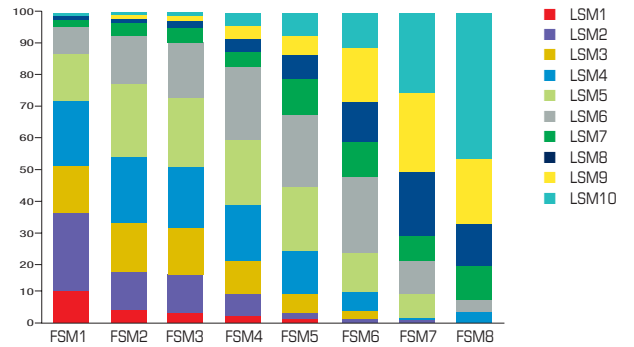


However, as the LSM continuum is widely used by most major organisations in South Africa, it was important to understand the link between the FSMs and LSMs. This becomes clear when directly comparing the FSM to the LSM, with a clear spread of FSM categories across the LSM continuum:

LSM SUMMARY



FSM SUMMARY

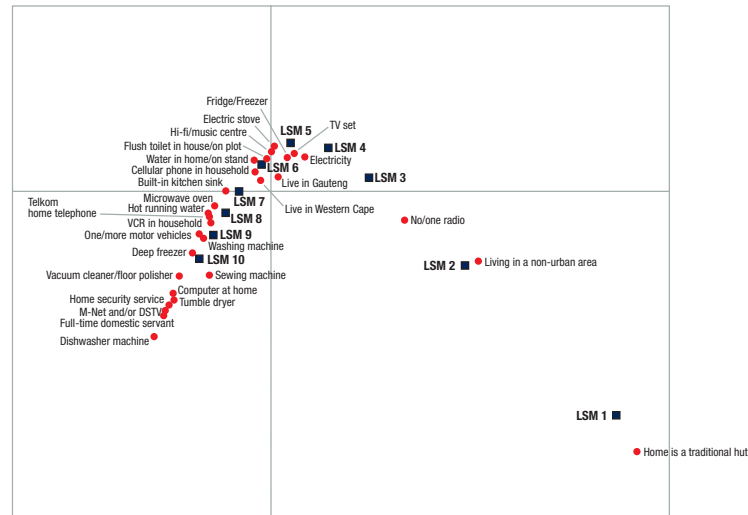


This type of analysis has assisted the financial industry to better understand the financial behaviour of the population across the LSMs. The so-called "emerging market" of LSM 5, 6 and 7 for example, has an FSM profile predominantly in FSM 1 to 5.

In addition, mapping exercises show how to look at the attributes that make up the LSMs correlated to the FSMs levels:

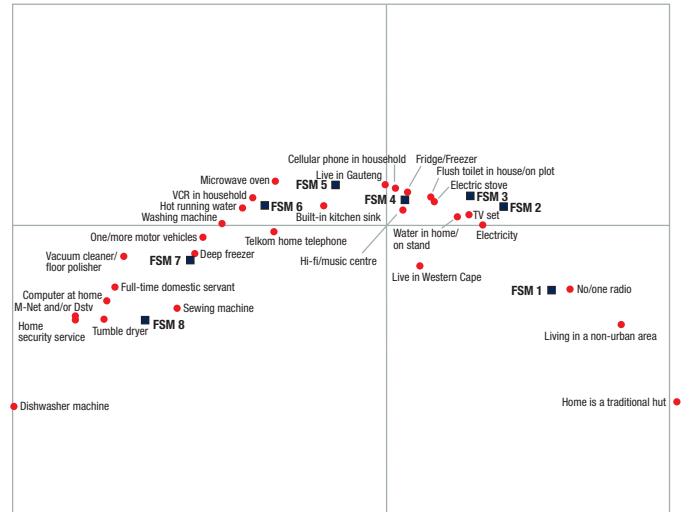
LSM mapped against LSM variables

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Distribution of LSM variables by FSM tiers

(See back of brochure for an enlargement hereof)

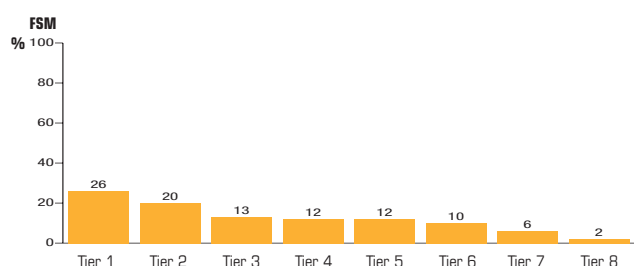
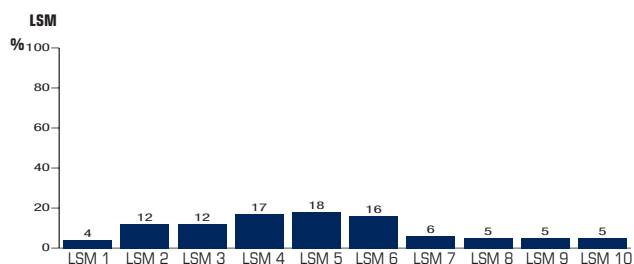


When looking at the maps, it is interesting to note that the attributes are better spaced along the FSM continuum. What it shows is that the FSM is equal, if not better, in terms of segmenting the market on the attributes that make up the LSM. It is possible to deduce

that FSMs, while taking financially relevant issues into account, also shows a strong correlation with the inputs of LSMs. It basically takes the LSM and makes it even better from a financial services analysis perspective.

When correlating LSM with FSM, 96% of people who fall into LSM 1 to 5 also fall into FSM 1 to 5. This shows that although there is a correlation to a large degree, it is the “differences” that give the FSM data the value it currently has.

How does the LSM compare to FSM in profile?



Summary:

- LSMs really look at the dispersion of people on the basis of wealth and amenities in their home
- FSMs take into account the various factors that take make up financial sophistication such as access, current penetration and knowledge.
- The major factor that influences LSM 1 is that of living in a traditional hut according to 2001 universal LSMs
- FSM tiers show a very similar distribution pattern to LSMs, except the variables are better dispersed among the tiers
- FSM tiers seem to describe and distribute exactly what the LSM levels do – but they explain far more than that as well
- FSMs and LSMs have wealth links, but FSMs may well be a better assessment of financial issues than purely wealth or possessions
- LSMs are a better measure to utilise when discussing product related situations (targeting certain LSMs with a new product type) as lifestyle has far more impact on product choice. The FSM is a better measure to understand the financial service environment as it specifically relies on variables related to finances in its input.
- Both LSMs and FSMs have their place in understanding the financial market, but when looking specifically at the financial sector, the FSM is far more robust as it avoids the anomalies based on lifestyle attributes.

Thus, in all analysis relating to the FinScope data, we utilise the LSMs and the FSMs to better understand the consumer market for financial product and services.

Brief insights to the FSM tiers

Who are these people?

FSM 1

Size: 26%	Sample (n=3885)	FSM 1 (n= 854)
Race:		
Black	77	88
White	11	1
Coloured	9	10
Asian	3	1
Gender:		
Male	49	46
Female	51	54
Age:		
16–24	28	32
25–34	26	24
35–49	24	22
50–59	10	11
60+	12	11
Banking level:		
Currently banked	47	1
Previously banked	12	17
Never banked	41	82

	Sample (n=3885)	FSM 1 (n= 854)
LSM:		
1–5	63	87
6–7	22	11
8–10	15	2
Personal monthly income:		
No income	20	35
R1–R999	44	58
R1000–R1999	10	4
R2000–R2999	5	–
R3000–R5999	7	–
R6000–R9999	4	–
R10000–R14999	1	–
R14500+	1	–
Refused/uncertain	8	2
Geographical area:		
Tribal land	28	42
Rural formal	7	10
Urban informal	7	7
Urban formal	58	40

FSM 2

Size: 20%	Sample (n=3885)	FSM 2 (n= 682)
Race:		
Black	77	88
White	11	2
Coloured	9	8
Asian	3	2
Gender:		
Male	49	47
Female	51	53
Age:		
16–24	28	37
25–34	26	27
35–49	24	19
50–59	10	8
60+	12	9
Banking level:		
Currently banked	47	6
Previously banked	12	24
Never banked	41	70

	Sample (n=3885)	FSM 2 (n= 682)
LSM:		
1–5	63	77
6–7	22	20
8–10	15	3
Personal monthly income:		
No income	20	28
R1–R999	44	62
R1000–R1999	10	6
R2000–R2999	5	1
R3000–R5999	7	1
R6000–R9999	4	–
R10000–R14999	1	–
R14500+	1	–
Refused/uncertain	8	1
Geographical area:		
Tribal land	28	33
Rural formal	7	8
Urban informal	7	11
Urban formal	58	48

FSM 3

Size: 13%	Sample (n=3885)	FSM 3 (n= 430)
Race:		
Black	77	84
White	11	2
Coloured	9	11
Asian	3	3
Gender:		
Male	49	46
Female	51	54
Age:		
16–24	28	35
25–34	26	27
35–49	24	16
50–59	10	9
60+	12	11
Banking level:		
Currently banked	47	43
Previously banked	12	18
Never banked	41	39

	Sample (n=3885)	FSM 3 (n= 430)
LSM:		
1–5	63	73
6–7	22	22
8–10	15	5
Personal monthly income:		
No income	20	18
R1–R999	44	59
R1000–R1999	10	15
R2000–R2999	5	3
R3000–R5999	7	2
R6000–R9999	4	–
R10000–R14999	1	–
R14500+	1	–
Refused/uncertain	8	3
Geographical area:		
Tribal land	28	34
Rural formal	7	6
Urban informal	7	8
Urban formal	58	53

FSM 4

Size: 12%	Sample (n=3885)	FSM 4 (n= 451)
Race:		
Black	77	77
White	11	7
Coloured	9	13
Asian	3	3
Gender:		
Male	49	45
Female	51	55
Age:		
16–24	28	20
25–34	26	27
35–49	24	27
50–59	10	11
60+	12	14
Banking level:		
Currently banked	47	90
Previously banked	12	4
Never banked	41	6

	Sample (n=3885)	FSM 4 (n= 451)
LSM:		
1–5	63	60
6–7	22	29
8–10	15	12
Personal monthly income:		
No income	20	9
R1–R999	44	39
R1000–R1999	10	19
R2000–R2999	5	11
R3000–R5999	7	10
R6000–R9999	4	5
R10000–R14999	1	1
R14500+	1	–
Refused/uncertain	8	7
Geographical area:		
Tribal land	28	25
Rural formal	7	8
Urban informal	7	6
Urban formal	58	62

FSM 5

Size: 12%	Sample (n=3885)	FSM 5 (n= 522)
Race:		
Black	77	70
White	11	18
Coloured	9	8
Asian	3	4
Gender:		
Male	49	50
Female	51	50
Age:		
16-24	28	25
25-34	26	29
35-49	24	28
50-59	10	9
60+	12	9
Banking level:		
Currently banked	47	99
Previously banked	12	1
Never banked	41	-

FSM 6

Size: 10%	Sample (n=3885)	FSM 6 (n= 479)
Race:		
Black	77	54
White	11	33
Coloured	9	7
Asian	3	5
Gender:		
Male	49	58
Female	51	42
Age:		
16-24	28	16
25-34	26	26
35-49	24	31
50-59	10	12
60+	12	15
Banking level:		
Currently banked	47	100
Previously banked	12	-
Never banked	41	-

FSM 7

Size: 6%	Sample (n=3885)	FSM 7 (n= 337)
Race:		
Black	77	33
White	11	55
Coloured	9	8
Asian	3	3
Gender:		
Male	49	56
Female	51	44
Age:		
16-24	28	10
25-34	26	22
35-49	24	36
50-59	10	16
60+	12	16
Banking level:		
Currently banked	47	100
Previously banked	12	-
Never banked	41	-

FSM 8

Size: 2%	Sample (n=3885)	FSM 8 (n= 130)
Race:		
Black	77	19
White	11	69
Coloured	9	7
Asian	3	5
Gender:		
Male	49	69
Female	51	31
Age:		
16-17	28	2
18-24	26	18
25-34	24	44
35-49	10	18
50+	12	17
Banking level:		
Currently banked	47	100
Previously banked	12	-
Never banked	41	-

Sample (n=3885)	FSM 5 (n= 522)
LSM:	
1-5	63
6-7	22
8-10	15
Personal monthly income:	
No income	20
R1-R999	44
R1000-R1999	10
R2000-R2999	5
R3000-R5999	7
R6000-R9999	4
R10000-R14999	1
R14500+	1
Refused/uncertain	8
Geographical area:	
Tribal land	28
Rural formal	7
Urban informal	7
Urban formal	58

Sample (n=3885)	FSM 6 (n= 479)
LSM:	
1-5	63
6-7	22
8-10	15
Personal monthly income:	
No income	20
R1-R999	44
R1000-R1999	10
R2000-R2999	5
R3000-R5999	7
R6000-R9999	4
R10000-R14999	1
R14500+	1
Refused/uncertain	8
Geographical area:	
Tribal land	28
Rural formal	7
Urban informal	7
Urban formal	58

Sample (n=3885)	FSM 7 (n= 337)
LSM:	
1-5	63
6-7	22
8-10	15
Personal monthly income:	
No income	20
R1-R999	44
R1000-R1999	10
R2000-R2999	5
R3000-R5999	7
R6000-R9999	4
R10000-R14999	1
R14500+	1
Refused/uncertain	8
Geographical area:	
Tribal land	28
Rural formal	7
Urban informal	7
Urban formal	58

Sample (n=3885)	FSM 8 (n= 130)
LSM:	
1-5	63
6-7	22
8-10	15
Personal monthly income:	
No income	20
R1-R999	44
R1000-R1999	10
R2000-R2999	5
R3000-R5999	7
R6000-R9999	4
R10000-R14999	1
R14500+	1
Refused/uncertain	8
Geographical area:	
Tribal land	28
Rural formal	7
Urban informal	7
Urban formal	58

FSM Segment Definitions

Destitute 46% of the population	FSM 1 n=854	Very low income, black women and men, live in the tribal lands, no amenities, no/very little financial behaviour, not household heads, despondent about life, LSM 1-5
	FSM 2 n=682	Low income, younger black men and women, live in tribal lands and informal urban settlements, very little financial behaviour (some family loans, some funeral/burial society), despondent about life, LSM 1-5
Development of entry level financial services involvement 24% of the population	FSM 3 n=430	High income levels, younger black people, live in tribal lands, access still a problem due to location, much higher financial interaction (35% have ATM card, 25% have savings/transaction account), more positive about life, LSM 1-5
	FSM 4 n=451	Most people earn money, predominantly urban formal, access a problem, mostly matriculated, higher financial involvement (79% have ATM card, 60% have savings/transaction account, 25% have a store card) LSM 6-7
Products suitability 22% of the population	FSM 5 n=522	Earn over R1000 per month, urban formal dwellers, white people, prefer cash, currently trying to save, all banked, (92% ATM card, 77% savings/transaction account, 14% life insurance, 10% medical aid), LSM 6-7
	FSM 6 n=479	Earn over R2000 per month, urban formal, white males (still black predominance), enjoy life, all banked, (93% ATM cards, 75% savings/transaction account, 15% credit card, 20% car insurance, 15% retirement annuity, 28% medical aid) LSM 6-10
Product diversity 8% of the population	FSM 7 n=337	Earn higher than R3000, urban formal, white males, more likely to be married, slightly older, all banked (33% home loans, 11% personal loan, 51% store card, 51% funeral policy, 48% car insurance, 56% life insurance policy), 52% medical aid) LSM 8-10
	FSM 8 n=130	Earn higher than R6000, high employment, university completed, white male, all banked (62% home loan, 36% vehicle finance, 56% store card, 45% funeral policy, 76% car insurance, 68% household content insurance) LSM 8-10

Increased income
Increased financial activity

*Based on skews from the norm.

Observations and summaries

GENERAL ISSUES

- Large portion of people rely on the salaries and wages of others to survive.
- Most of the income in the population in real Rand terms comes from part-time or permanent work. 29% of people receive money from family and friends and 28% of the population is unemployed but is looking for a job. In over 50% of households at least one or two people are currently looking for a job.
- The majority of South Africans earn below R1999.00 per month.
- There is an increase in the number of people earning an income in the home – only 6% of households have no claimed income. Only 35% of income is paid into banks.
- Health issues are severely impacting on the economic viability of families. 17% of black households have experienced income or job loss due to illness.
- 86% of black people utilise public hospitals or clinics to receive treatment but only 55% have nearby access to these facilities – which means having to travel to receive medical treatment. Generally people do not have the means to cope with medical expenses.
- Accessibility to services still needs to be addressed.

FINANCIAL LITERACY

- 71% of people have never heard of any one being under debt administration.
- Generally younger people desire most knowledge about financial services – people are interested in learning how to:
 - To be able to save more money,
 - Understand how interest rates work and how to calculate them
 - How to draw up and manage a budget
 - To make effective use of technology
- There is no understanding of legalised protection and legislative issues – for example only 2% of the population have heard about the FICA act.
- FSM 1 consumers are not interested in education – it's not applicable to their lives.
- Only half the population knows what a credit card is and understand "service fee", virtually no one knows what an Ombudsman and underwriter are.
- Lower LSMs display more financial discipline, higher FSMs show less control – possibly because they have easier access to credit whilst the poorer consumer has to make his/her money go further.

RETAIL

- 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 purchased are paid for in cash, and 83% of clothing bought is with cash. Only 12% of clothing bought is paid for with store credit cards.
- People would prefer to pay their accounts personally with cash.
- There is a perception that once people are given a store card they are allowed too much credit and spend beyond their means – thereby getting themselves into debt.
- Negative associations with retailers include: the need for credit referencing and the over-provision of credit.
- Generally retailers are not seen as organisations for offering insurance and loan facilities.

CREDIT AND LOANS

- 25% of the market has "ever taken out" a loan, and of these 37% currently still have a loan.

- People who have taken out a loan fall into FSM 7 and FSM 8 more often than the on average.
- The affordability of the monthly installments and how quickly the loan will be approved determines where people will take out long term loans.
- The main reason for borrowing is to buy food.
- Many people are borrowing from their friends and family.
- Confusion exists around Mashonisa/cash loan shops and the micro lenders. Micro lenders have higher "don't understand how they work" claims than Mashonisa. 30% claim not to know how micro lenders work.
- Mashonisa/cash loan shops are seen to give too much credit and 29% of people feel they not be understanding when consumers have difficulty in repaying their loans.
- 45% do not have any money remaining after paying their bills.

LIFE AND SHORT TERM INSURANCE

- Many people claim not to understand how either short or life insurance works – 29% claim not to be interested in how insurance works.
- Radio and TV feature favourably as the media 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 paying for both types of insurance and most people claim un-affordability as the main reason for not buying cover.
- Life insurance policies skew toward White and Asian people.
- People would turn to professionals and organisations for advice on short-term insurance.

SAVINGS AND INVESTMENTS

- 19% are using savings accounts.
- 20% are currently saving in case of an emergency and 11% are saving for food.
- 23% are paying more into their stovels this year than in 2004.
- People would rather have their investments safe and earn a lower return than the reverse.
- On average whites invest more and use formal investment structures and services.

BURIAL SOCIETIES AND FUNERAL COVER

- More people claim to belong to burial societies than to having funeral policies.
- 11% of people claim to pay more now than last year towards their burial society.
- Many people claim lack of affordability as the main barrier to having funeral coverage.
- Funeral policies with large institutions are paid by debit order and stop order, whilst 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, and people fear the loss of income through the possible death of the main wage earner.

CELLPHONES

- 49% of people have access to a cellphone either their own or someone else's.
- 35% of people have their own phone with prepaid calling and only 5% of people have their own phone on a contract.
- The youth generally have the cellphone bills paid for them, while 67% of people are responsible for their own monthly payment of their cellphone account.
- Cell C is perceived to have the lowest tariffs and best specials.
- Some market segments reflect positively for cellphone banking, but even though cellphone banking has potential, many people still prefer dealing face to face.

BANKING

- On average it takes 20 minutes to get to a bank (one-way).
- Long queues seem to be the biggest negative association – 68%.
- Not having a job and money is the main reason cited for not being banked.
- People would like to conduct banking on a one to one basis, most people know little about, and question the safety of alternative banking instruments. People are afraid of technology and feel that there is still a need for personal service in some areas of banking.
- Claimed use of ATM and Debit cards has increased in 2005.ATMs are used more often than going into a branch – 91% of cash withdrawals are conducted at an ATM 93% of deposits are done in a bank.

MZANSI

As the Mzansi product was only launched in October 2004 and the FinScope fieldwork was carried out during June – August 2005, a limited penetration and exposure is to be expected.

As can be expected with new product launches, awareness and understanding is likely to increase over time.

- 45% of the population is aware of this product.
- 35% of accounts opened are new accounts.
- 2% of the population are using the account.
- Main transactions are ATM, cash withdrawals and deposits.
- People who claim to be aware of the product claim they do not understand how it works. This is substantiated by the responses received on the benefits offered by Mzansi accounts.
- It is seen as a poor man's account and at the same time a product for all South Africans, indicating a confused market imagery and perception.
- Communication is not reaching the primary markets of LSM 1 – 2 and FSM 1 – 2.
- Black and Coloureds consumers reflect the highest desire to use Mzansi, but the barrier still appears to be lack of money and jobs.

HOUSING

- The majority of people claim to own their homes, but only 5% currently have bonds.
- People tend to stay in their homes for a long period of time – 73% have been living in their homes for more than 5 years and 50% for over ten years.
- Only 5% of people see their homes as tradable assets; and only 2% feel that they could sell their homes.
- 7% use their home to run their businesses from.
- Consumers would turn to their loan provider if they were unable to meet their home loan repayments.

CONCLUSION

- The Gini coefficient is 59.1 (based on MHI) and 69.7 (based on PMI). 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 amongst the lower FSM segments – communication needs to be carefully targeted in appropriate media and languages.
- The extension of financial services, together with the economic development and upliftment of South Africans remains an unconquered challenge.

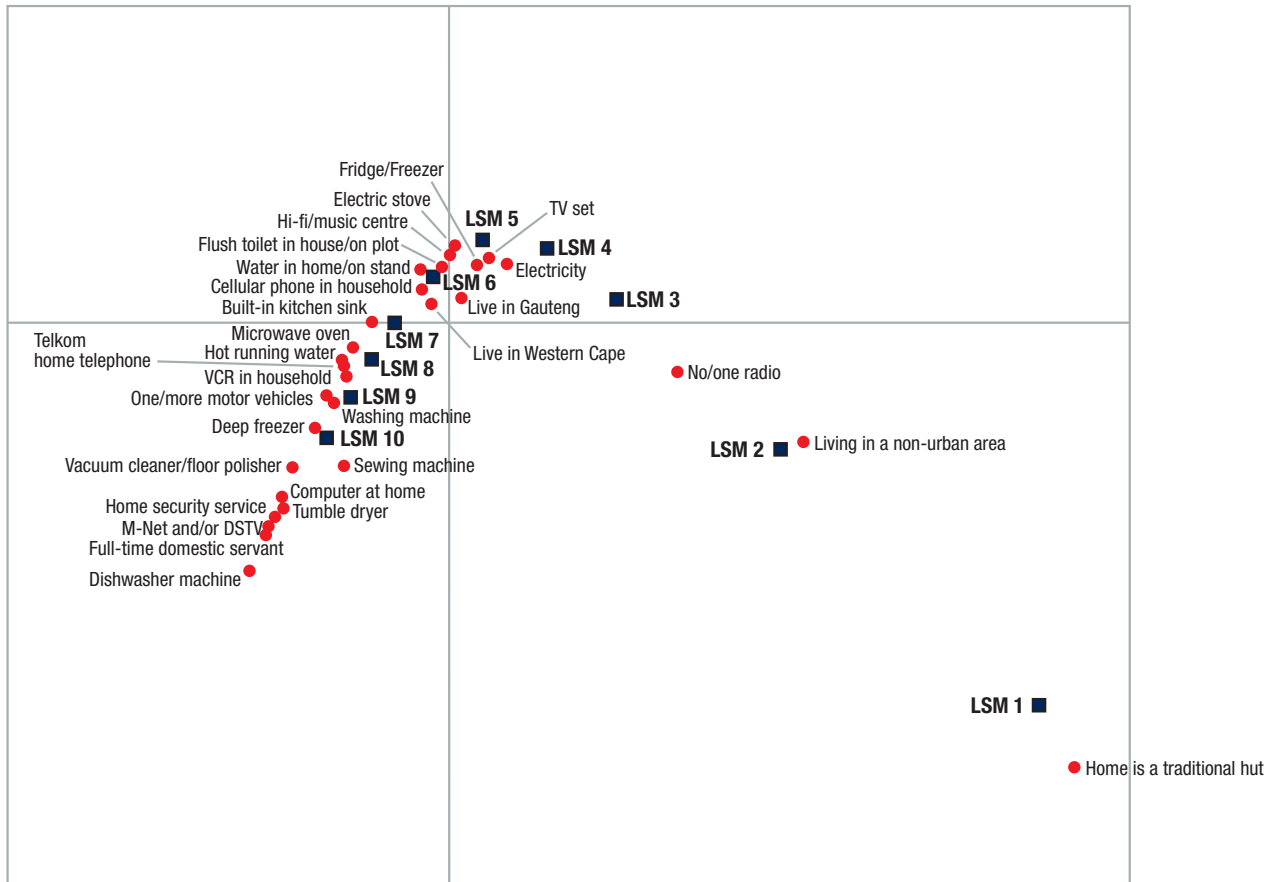


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LSM mapped against LSM variables



Distribution of LSM variables by FSM tiers

