



*Making financial markets
work for the poor
work for the poor*

FinScope - South Africa

2006



Agenda - Johannesburg



- 08:30 - 09:30 Breakfast
 - 09:30 - 09:45 Opening address (Nkosana Mashiyi – Chief Director Banking Development and Financial Access, National Treasury)
 - 09:45 - 10:45 Survey highlights (Mark Napier)
 - 10:45 - 11:00 Questions
-
- 11:15 - 12:50 In depth survey review (Rob Powell - RS)
 - 12:50 - 13:00 Questions and closing (Darrell Beghin - FMT)

Agenda – Cape Town



- 08:30 - 09:30 Breakfast
 - 09:30 - 09:45 Opening address (Marshall Rapiya – Head, Group Schemes, Old Mutual)
 - 09:45 - 10:45 Survey highlights (Mark Napier - FMT)
 - 10:45 - 11:00 Questions (Mark Napier)
-
- 11:15 - 12:50 In depth survey review (Rob Powell - RS)
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FinScope objectives



To track changes between 2004, 2005 and 2006 (based on 16+ age group) with emphasis on the financial sector

Understand factors influencing the financial services sector – employment, poverty, access to services, living standards and the like

Understand who is engaging in the financial services sector – who is using what?

Understand the reasons people are not using financial service categories

Determine how people are engaging with financial service categories

Understand the different needs and behaviours of people through segmentation – the Financial Services Measure (FSM)

FinScope South Africa is a perceptual study – that is, it seeks to understand the perceptions of South Africans relating to financial service providers

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2006 South African syndicate members

- The 2006 South African syndicate members are Absa, Financial Services Board (FSB), First National Bank (FNB), Liberty Life, Metropolitan, National Treasury, Nedbank, Old Mutual, Sanlam, Standard Bank and Teba Bank
- Syndicate members form an integral part in questionnaire design and offer valuable insights into consumer demand behaviour



Validity of the study

Professor Stoker – (leading expert in the field of complex sampling)

- “Based on the benchmarking that was done, no indication of any unusual adjustments was found. All adjustment factors of the weights were within acceptable limits. The benchmarking programme that [is used] clearly indicates any abnormality that might exist in the data set.”

	AMPS 16+ data	FinScope™ 16+ data
Total Population	30903002	31136800
Race:	%	%
Black	75	77
White	13	11
Coloured	9	9
Asian	3	3
Gender:	%	%
Male	50	50
Female	50	50
Age:	%	%
16 – 17	6	4
18 – 29	33	33
30 – 44	31	33
45 – 59	18	18
60+	12	12

	HSRC 16+ data	FinScope™ 16+ data
Marital status:	%	%
Single	55	51
Divorced	2	3
Widowed	7	7
Housing:	%	%
Town/cluster House	4	4
Shack in Backyard	2	1
Informal Shack	10	11
Education:	%	%
No Schooling	6	6
Some primary	9	9
Some secondary	44	40
Matric	27	25
Degree	2	3

Overall findings

Overall growth of 11% in the number of people banked (from 14,3 to 15,9 million), dramatically exceeding population growth of 1%.

The proportion of banked adults rose from 46,6% to 51% in a population of approximately 31,1 million South African adults

Bank usage by LSM 1-5 increased from 32% in 2005 to 35% in 2006

Largely driven by growth in Mzansi now used by 1,9m people, or 6% of the population

Increase in informal product usage – both burial societies and stokvels

Increase in formal funeral policies (mirroring increase in burial society usage) but not in other forms of long term life insurance

Use of short term insurance still very low (no growth compared to 2005): practically no one in the black community (2%) or LSM 1-5 (negligible) uses short term insurance

Significant decrease in the lowest FSM tier

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How many people are banked?

Population estimates 16+ years

- Faster growth in banking than in the population as a whole
- Approximately 1,5 million moved into the 'banked' population in comparison to only 400 000 new people entering the 16+ market in 2006 year

	2006		2005		2004
No. of banked adults in South Africa	15 868 856	↑ 11%	14 324 508	↑ 4%	13 765 690
No. of previously banked adults in South Africa	3 580 557	↓ 5%	3 765 935	↑ 1%	3 721 274
No. of never banked adults in South Africa	11 687 387	↓ 7%	12 621 808	↓ 1%	12 767 299
No. of un-banked adults in South Africa	15 267 944	↓ 7%	16 387 743	↓ 1%	16 488 573
Total population size	31 136 800	↑ 1%	30 712 251	↑ 1%	30 254 264

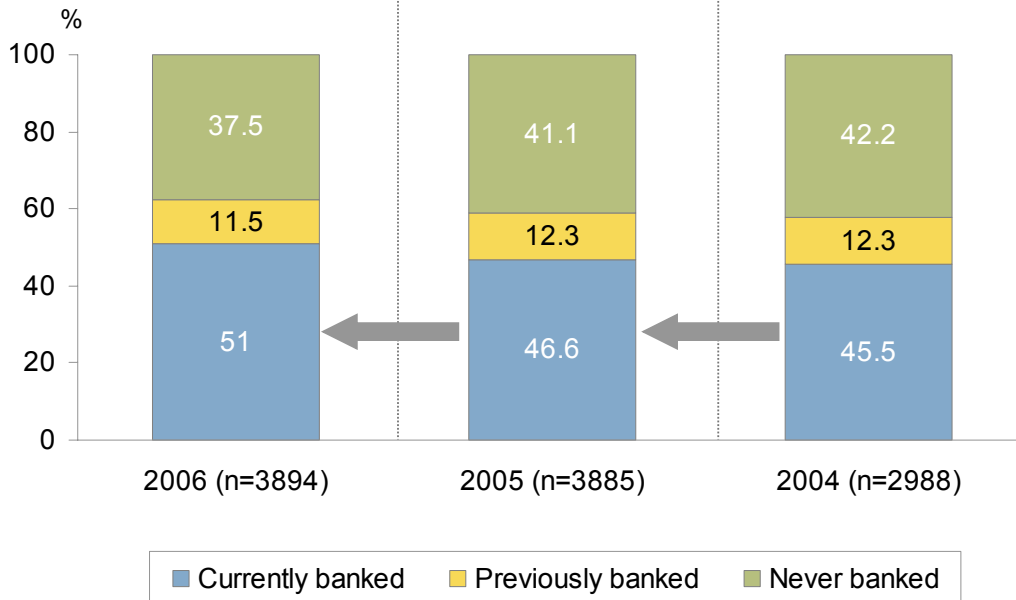
*Based on 2004/2005/2006 mid-year population estimates (Census 2001 base data)

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

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Tracking the banked market

- 4,6% increase in the proportion of currently banked people from 2005 to 2006
- 3,6% reduction in "never banked"



Source: P4

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Tracking the banked market – where is growth?

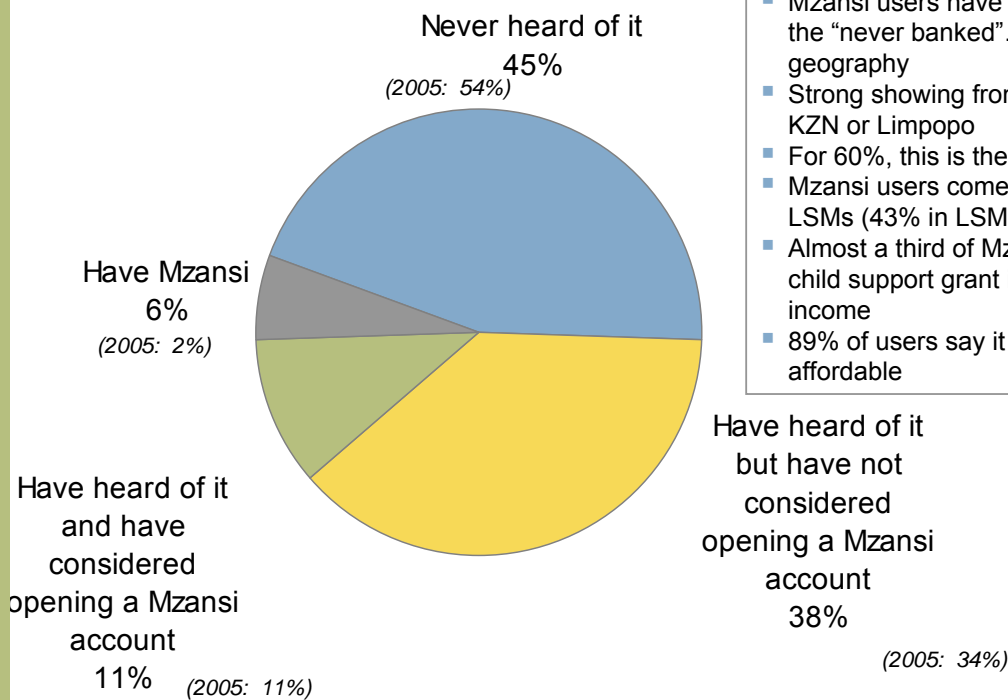
	Banked in 2006		Banked in 2005		Banked in 2004
Race	%		%		%
Black	45 (n=2135)	↑5	40		38
White	91 (n=707)		91		92
Coloured	53 (n=759)	↑10	43		41
Asian	58 (n=293)		68		83
Gender	%		%		%
Male	52 (n=1947)		50		48
Female	50 (n=1947)	↑6	44		44
Area definition	%		%		%
Urban Formal	66 (n=2694)	↑9	57		55
Urban Informal	52 (n=264)	↑16	36		36
Rural Formal	41 (n=250)		36		32
Tribal Land	30 (n=678)		30		32
LSM	%		%		%
LSM 1-2	21 (n=502)		20		24
LSM 3-4	35 (n=837)		32		32
LSM 5-6	61 (n=1232)	↑12	49		48
LSM 7-8	80 (n=694)		75		81
LSM 9-10	93 (n=629)		90		94
Personal Monthly Inc	%		%		%
No Income	15 (n=736)		16		Income breaks not directly comparable
R1-R499	35 (n=643)	↑14	21		
R500-R999	38 (n=607)		37		
R1000-R1999	74 (n=372)		72		
R2000-R3999	94 (n=345)		92		
R4000-R7999	96 (n=304)		95		
R8000+	98 (n=242)		97		

Source: P4 Read: 45 percent of black people are banked in 2006

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The Mzansi story – where growth is/can happen

(n=3894)

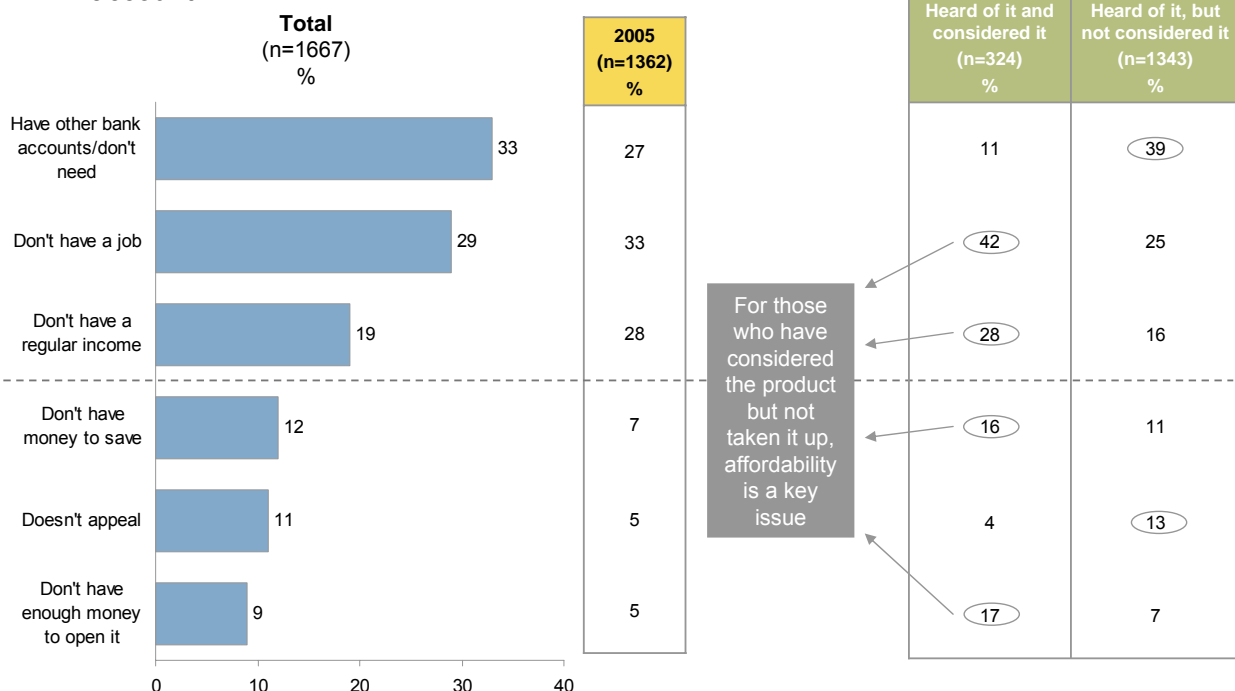


- Mzansi users have similar characteristics the “never banked”....except in geography
- Strong showing from Gauteng, not from KZN or Limpopo
- For 60%, this is their first bank account
- Mzansi users come from the middle LSMs (43% in LSMs 5-6)
- Almost a third of Mzansi users say the child support grant is their main source of income
- 89% of users say it makes banking more affordable

Source: M1

Barriers to opening an Mzansi account

- Having another bank account is the main reason for not opening an Mzansi account

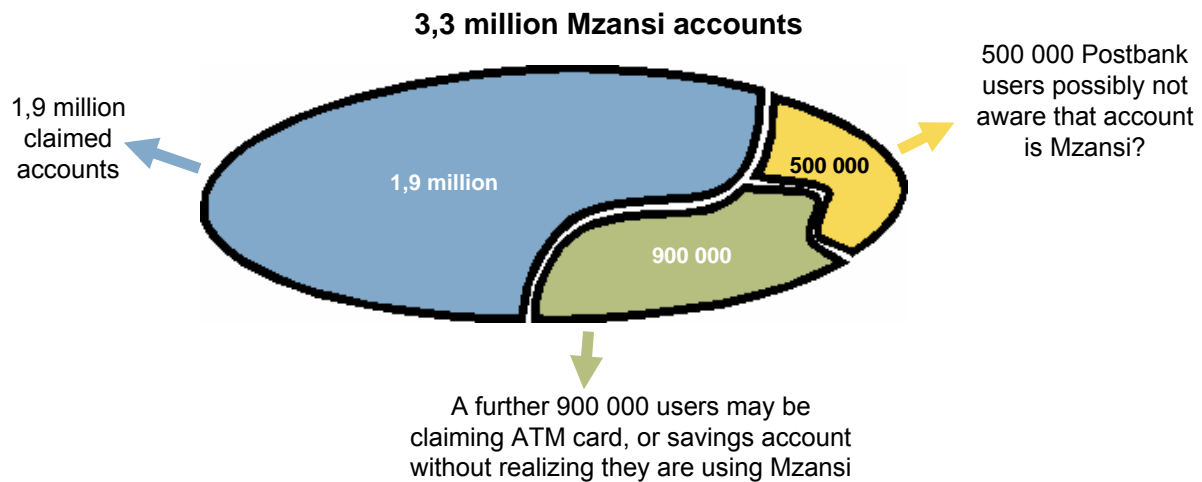


Source: M2 Based on those who have heard of Mzansi account

The Mzansi tally problem

The financial sector claims 3,3m Mzansi accounts in total but only 1,9m South Africans claim usage of this product. Why?

- May not want to own up to having an Mzansi – 41% say it is a “poor man’s account”
- May not be aware that they are using a Mzansi account - NB Postbank accounts . All, or certainly most, Postbank accounts have been converted to Mzansi accounts in the past year and yet 39% of Postbank account holders do not claim usage of an Mzansi account. Some Mzansi account users may also only view their account as simply a “savings account” or an “ATM card”.



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LSM 1-5

Total population	31,136,800
LSM 1 - 5	19,674,798
LSM 6 - 7	6,860,000
LSM 8 - 10	4,602,002

- 63% of the total adult population
- Average *household* monthly income is R2 100 (average of 5 people in the household)
- 14% of LSM 1-5 rely on child grants for income, 10% on old age pensions and 4% on other types of grants
- 35% have a bank account but 50% of LSM 1-5 say they can live life without one
- 21% belong to a burial society - 7% *lost the main wage earner in the last year*
- Although 77% of LSM 1-5 adults have electricity in their homes, only 27% have flush toilets and only 3% have access to hot running water
- 23% have matriculated
- 16% of LSM 1-5 belong to upper FSM tiers 5-8 – limited means/wealth is not necessarily and indicator of financial sophistication or understanding

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LSM 1-5 and the Financial Sector Charter access targets

- Banking is increasing in LSM 1-5 overall – but is declining in the lower LSM 1 and 2 segments
- Similarly there are decreases in LSM 1 and 2 for long term and short term insurance
- Life insurance does not contribute much to overall long term insurance figures. If one excluded funeral cover, the relative use of this form of insurance is low. Either people have a life product as well as a formal funeral product, or the incidence is nominal
- Short term insurance has declined and is simply not featuring in the lower LSM1-5 segments

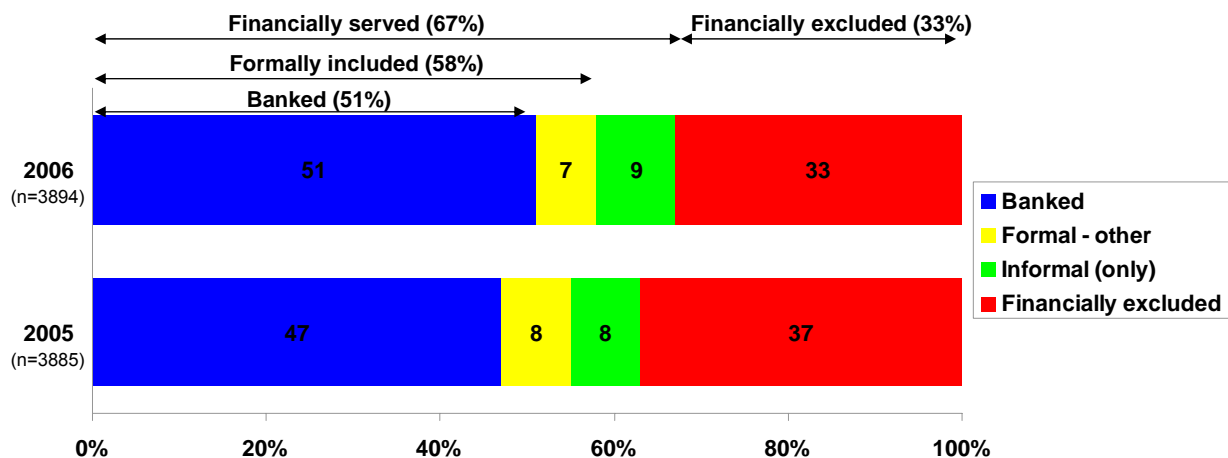
ACCESS AND USAGE FIGURES FOR LSM 1-5

Banking		Long term insurance		Short term insurance		Formal funeral cover	
Access Target: 80%		Access Target: 80%		Usage Target: 6%			
		Usage Target: 22%					
2005	2006	2005	2006	2005	2006	2005	2006
32%	35%	10%	9%	1%	0%	7%	7%

Long term insurance includes life insurance, formal funeral cover, loss of earnings insurance, retirement cover, investments
 Short term insurance includes asset insurance, travel insurance and credit insurance
 Formal funeral cover excludes burial societies and funeral cover through an undertaker

Access strand of financial services

- Growth is being driven mainly by formal banking products although the increased contribution from informal products is evident in the strand.
- Note – many users of informal products also hold bank accounts



Where is growth in informal sector coming from?

- There has been an overall increase in the percentage of people using informal products between 2005 and 2006 – both in usage of burial societies and in savings clubs
- Tribal land bias
- Could the increase be driven by the increased fear of death (burial societies) due to HIV?
- Or is it simply an access question – physical distance but also the fact that people tend to get money advice from family networks or the community
- High degree of cross over with formal banking – 65% of stokvel users are banked, 53% of burial society users are banked

	2006 (n=3894)	2005 (n=3885)	2004 (n=2988)
Belong to a burial society	19	14	21*
Stokvel/umgalelo/savings club	7	5	7
Other savings club	1	1	N/A

Source: P1

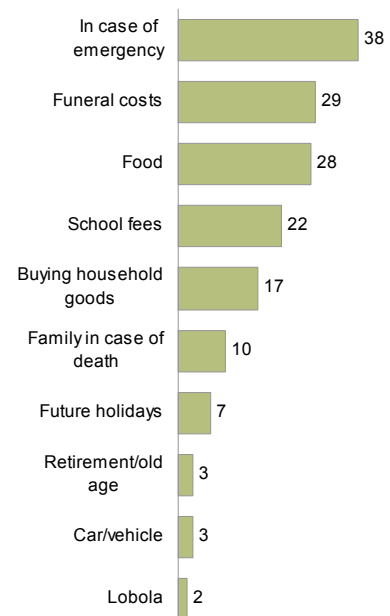
*Note: questionnaire structure change between 2004 and 2005 may account, in part, for drop between 2004 and 2005

Stokvels – who is using them and what for?

STOKVEL USERS:

- 97% are **black**
- 71% are **female**
- 45% **live in tribal lands**
- 41% **live in urban formal areas**
- 51% age **30-44**
- Tend to be in **lower LSMs** (23% LSM 1-2, 29% LSM 3-4, 36% LSM 5-6)
- 65% are **banked** (higher proportion than in the whole population)

Why are people currently saving in a stokvel?



Burial societies – who is using them

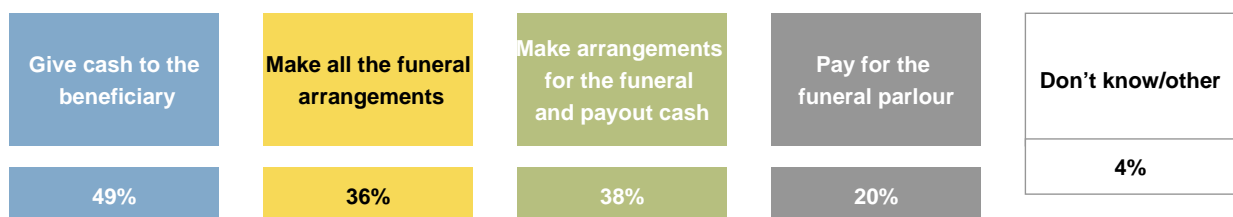
BURIAL SOCIETY USERS:

- 87% are **black**
- 59% are **female**
- 39% **live in tribal lands**
- 46% **live in urban formal areas**
- Tend to be older (38% are aged 30-44, 21% are aged 45-59, 18% are over 60)
- Unlike stokvels, people belonging to burial societies are less likely to be in LSM 1-2, however 34% and 38% are in **LSM 3-4** and **LSM 5-6** respectively
- Far higher incidence of burial society incidence falling into **FSM 3-4** (41% vs 29% for whole population)
- 53% are **banked** – lower than those using stokvels
- Perceptually burial societies are seen very differently from other forms of funeral cover. Value proposition for users by no means only financial – social factors are critically important

Source: profiling questions

Burial societies – payout options

- Burial societies seem to be better placed to help holistically in the case of a death, rather than just giving a cash payout – this links to the support and care associations (n=580)



Cash payments by burial society (n=421)

The average amount received from a cash payout from a burial society is **R4,140**

Average maximum no. of people covered

The average maximum number of people who are covered by any given burial society is **5.9**

Source: F8, F9, F10

Burial societies - contributions

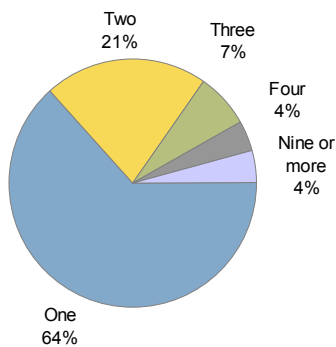
(n=3894)

Has bread winner passed away in the past year	%
Yes	5
No	95

(n=3894)

Contribution to funeral in the past year	%
Yes	8
No	92

Number of times contributed to family funeral in past year (n=293)



The average number of times that a person contributed to a funeral in the past year is 1.9

Of these, two thirds (67%) have a funeral policy, therefore funeral policies are not covering enough people, or paying out too little

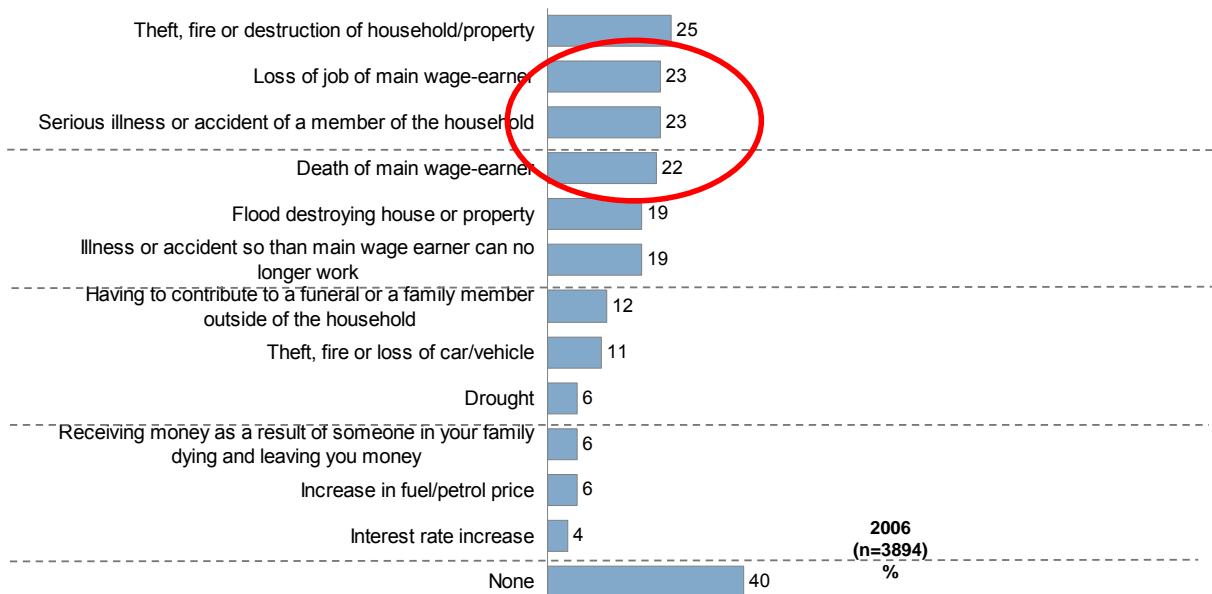
The average amount contributed to funeral: R1 637

Source: F13, F14, F15, F16

2

Financial aspects which could impact on finances

- FSM 1 and 2 most likely to cite no risk from the list impacting on their finances – possibly because they have nothing to lose
- Risk rankings show high levels of dependency on main wage-earner
- 5% of people claim to have lost a breadwinner in the past year



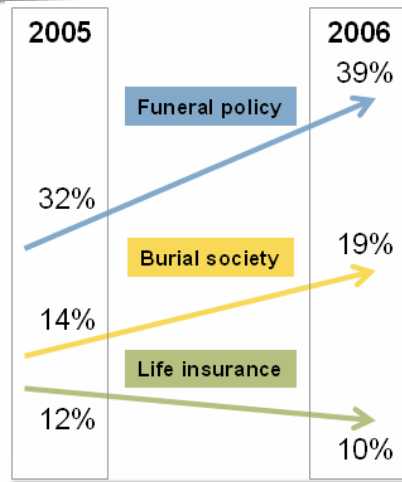
Source: DM3

2

The insurance story – has the press had an impact?

Urgent measures must be taken to restore consumers' trust in the life industry
- October 28, 2006

PENSION FUND ADJUDICATOR
2006/08/27 - Carte Blanche
Last year, Pension Funds Adjudicator Vuyani Ngalwana made a number of landmark rulings in favour of people who had suffered at the hands of the life insurance industry. Carte Blanche told their story. Since then, Vuyani's confrontation of the powerful life insurance industry has elevated him - in the eyes of the man on the street - to hero status. We get to know this man who fights for consumers' rights



Life assurers started 2006 on the defensive. At the end of 2004, a damning report by independent actuary Rob Rusconi pointed out the poor value for money from one of the cornerstone products of the life industry, the retirement annuity (RA). Because RAs cannot mature before the policyholder reaches 55, they often have long terms, of 20-30 years. Sometimes more than 75% of the first-year's premium is swallowed up in commission. When clients stop paying premiums and make the policies paid up, they often end up with only a fraction of the contributions they have made.

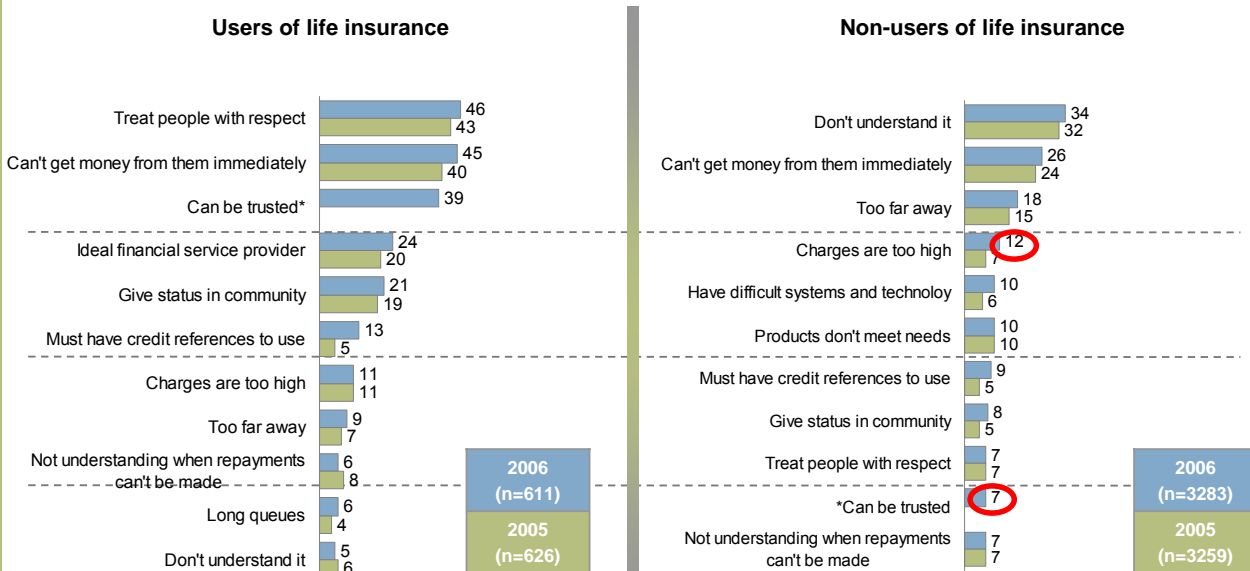
At the recent Parliamentary hearing on how costs can ravage your retirement savings, the Life Offices' Association (LOA), which represents most life assurance companies, attempted to dismiss cheaper unit trust retirement annuity (RA) options.

His findings sparked public debate and parliamentary investigations, followed by the findings of the pension fund adjudicator (PFA) and the recent agreement between the government and the life industry. This will see about R3 billion paid back to members of retirement annuities and endowment policyholders. The agreement also set minimum standards on the level of costs that can be deducted by life companies for early termination.

Source: P1
 "Urgent measures..." Personal Finance, November 20, Bruce Cameron
 "At the recent..." Personal Finance, November 20, Bruce Cameron
 "His findings sparked..." Mail and Guardian, January 16, Maya Fisher-French
 "Life assurers started..." www.topcompanies.co.za, Stephen Cranston

Perceptual changes for life insurance

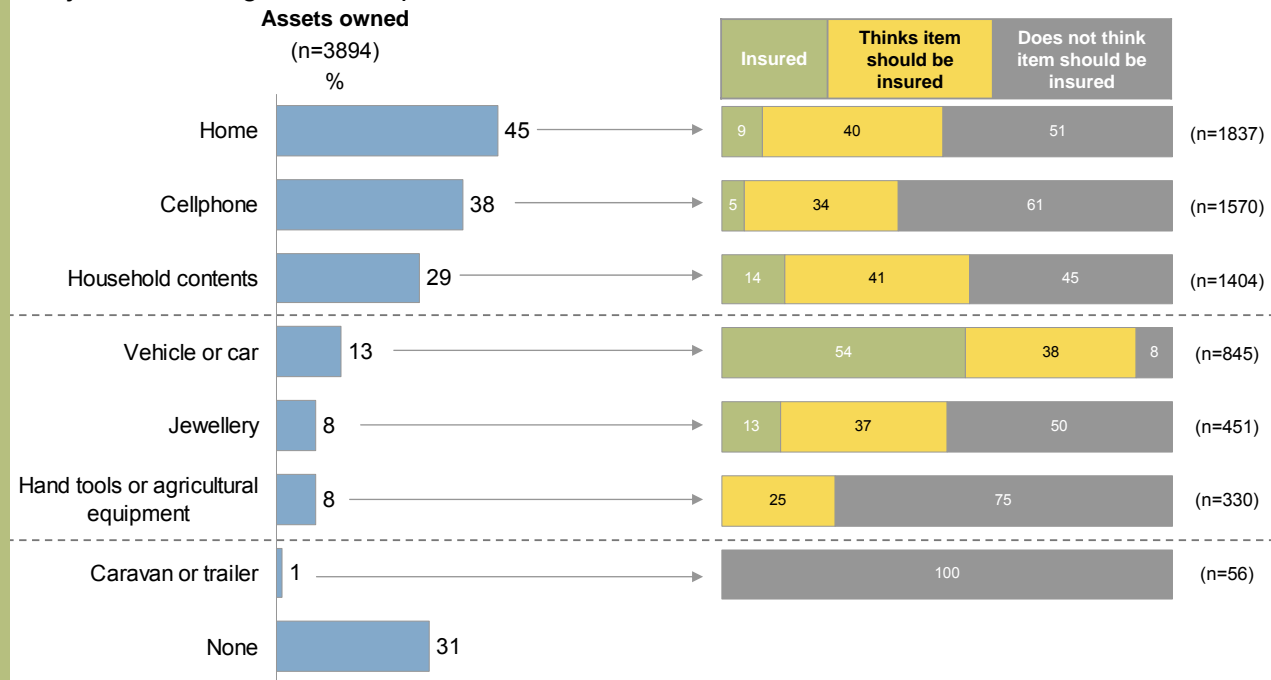
- Trust remains an issue - only 7% of non-users associate life insurance with "can be trusted"
- More non-users this year associate life insurance with high charges



Source: DM3
 *Note: "Can be trusted" unavailable in 2005

Asset assessment

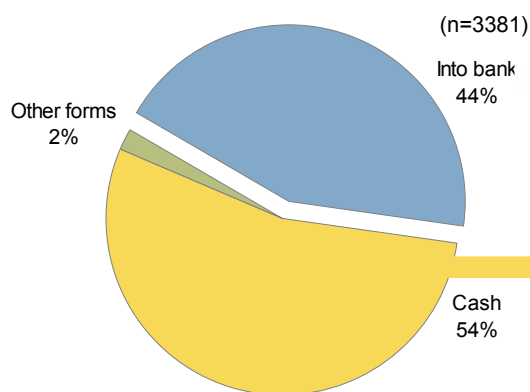
- Short term insurance has very low penetration – especially in LSM 1-5
- Considerable potential for home insurance, household contents and cellphone insurance – are people not seeing the value in their possessions or just not finding a suitable product?



Source: P1, ST1, ST2 Based on total market.

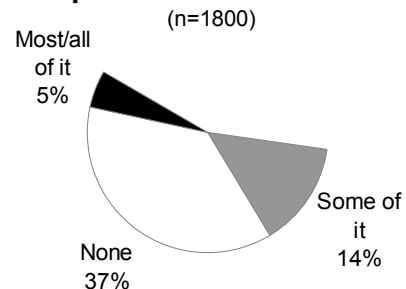
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Money in the market



- In 2005, 35% of transactions involving receipt of money, saw money going straight into the recipient's bank account

What proportion of cash/other is deposited into the bank?



- 37% of money received does not end up in a bank – showing a sharp positive decline (2005 - 47%)
- This seems to be driven mostly by the increase in ATM cards and savings accounts seen this year rather than a credit card change
- This 'unbanked' money is observed most frequently in the poorer segments

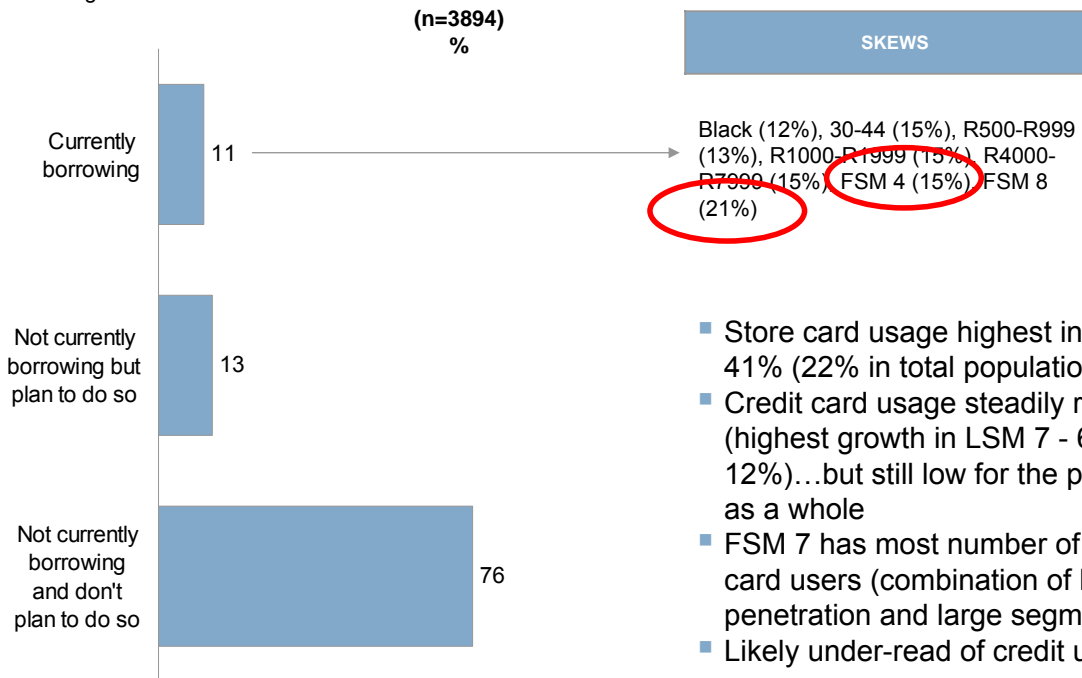
	2006 (n=3894)	2005 (n=3885)
ATM card	48	44
Savings/transaction accounts	38	33
Credit card	7	6

Source: SOM3, SOM4

6

Incidence of borrowing (claimed)

- Borrowing especially prevalent in the 'emerging' financial market (FSM 4) and established FSM 8 segments

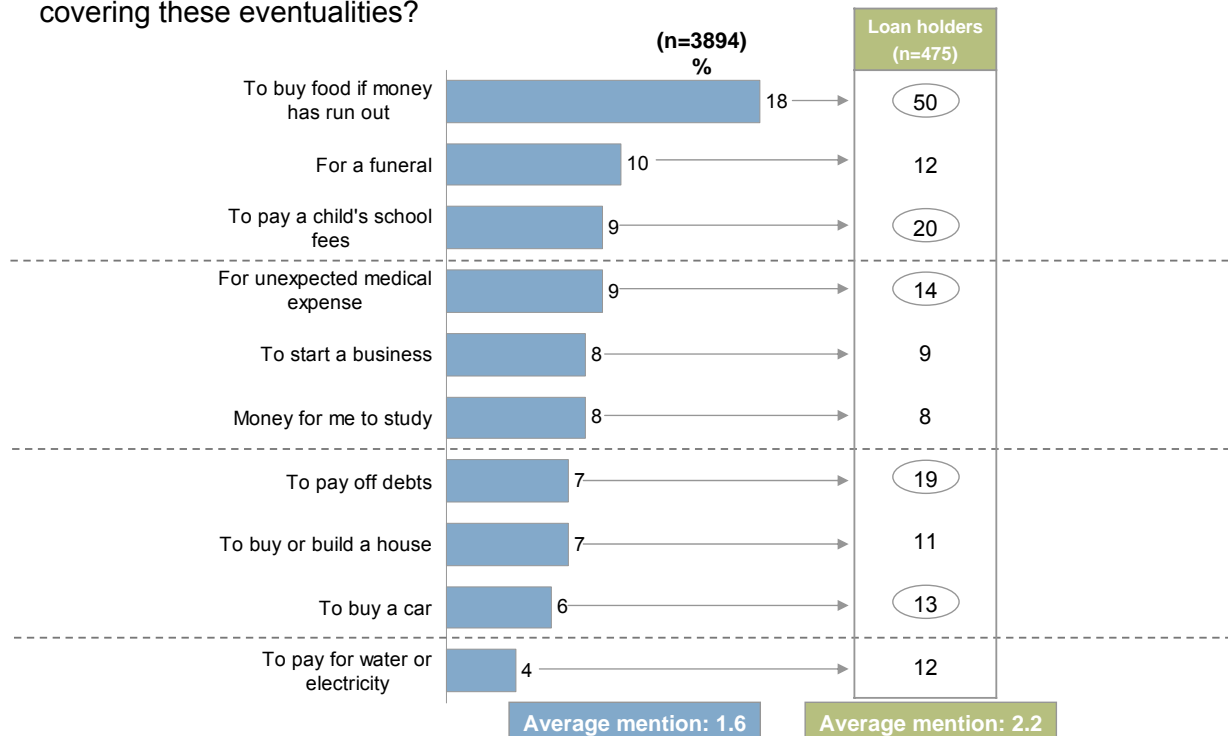


Source: CL1

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Reasons for borrowing money or wanting to borrow

- Debt as "saving down" as opposed to "saving up" - potential for savings and insurance products to cover funerals and education so as not to have debt covering these eventualities?



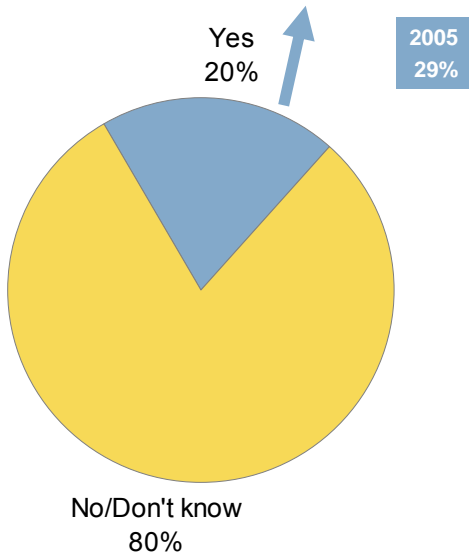
Source: CL4 - Top ten

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Debt administration

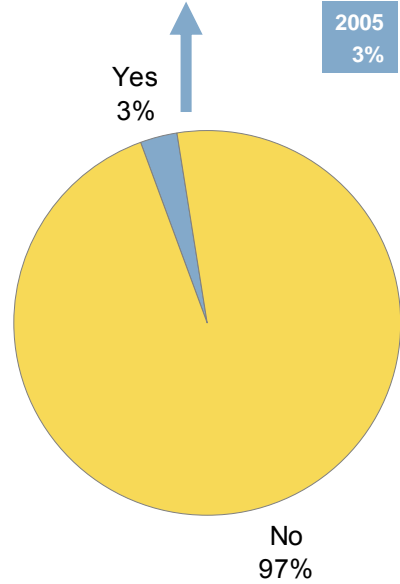
Ever heard of someone being under debt administration?

Currently Banked (29%), White (47%), Coloured (30%), Urban Formal (27%), LSM 7-8 (39%), LSM 9-10 (45%), FSM 3 (24%), FSM 5 (26%), FSM 6 (38%), FSM 7 (41%), FSM 8 (59%)



Ever personally been under debt administration?

Previously Banked (5%), Coloured (5%), FSM 5 (6%), FSM 6 (6%)

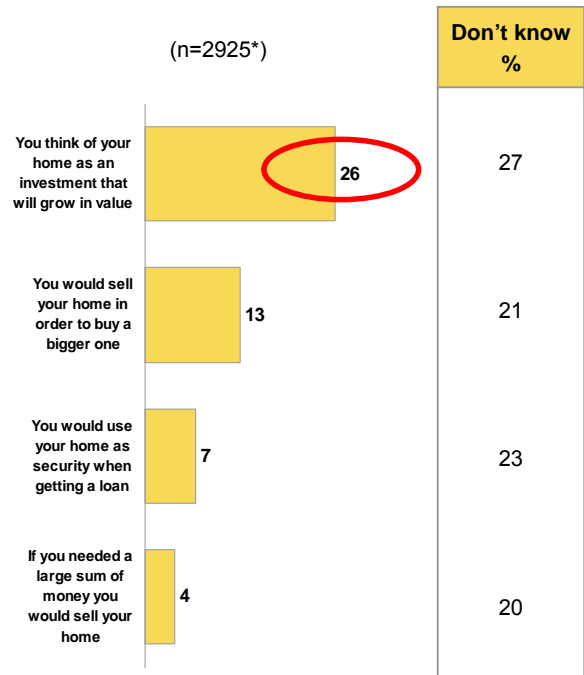
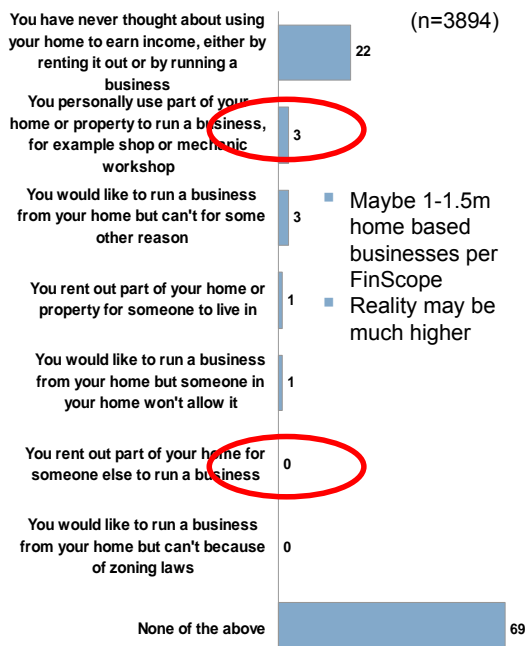


(n=3894)

Source: CL5, CL6

Perceptions of the home

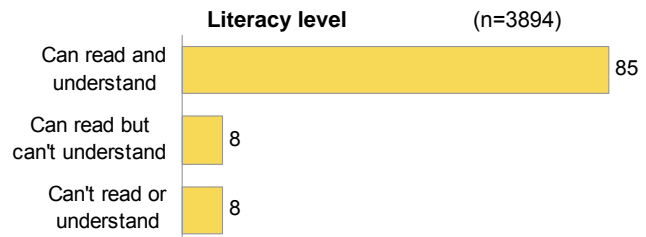
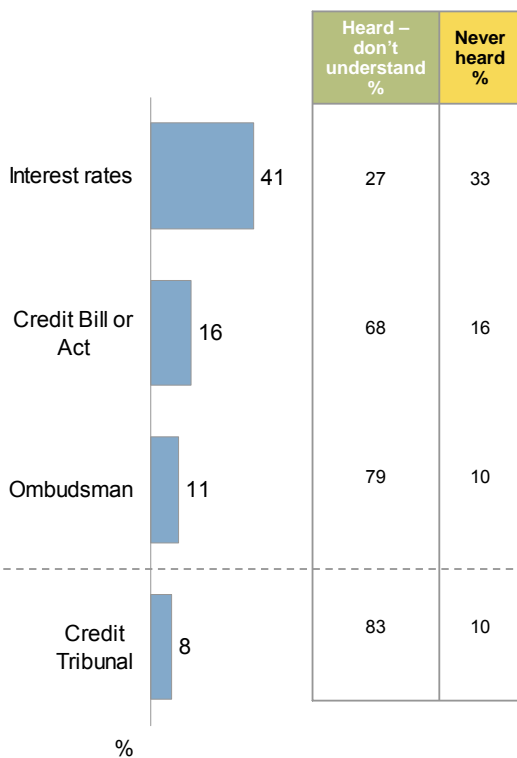
- Only one quarter of home owners see their home as an investment that will grow in value
- Low mention of use or desired use of home as an income generator



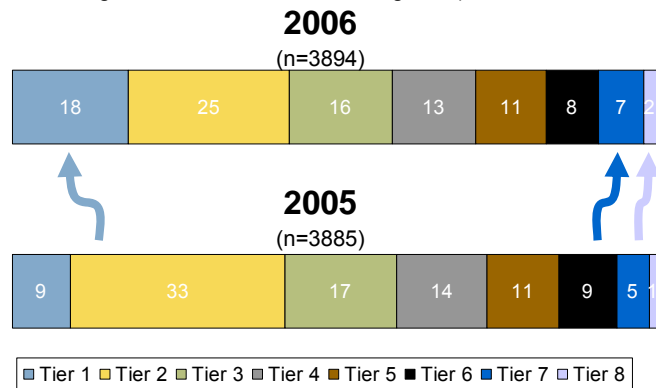
Source: H2, H3

*Based on people who claim to own their home

Overall literacy and knowledge of financial terms



Shifts in lower two financial knowledge tiers from the FSM and upper end (the ignorant becoming more ignorant; the knowledgeable become more knowledgeable)

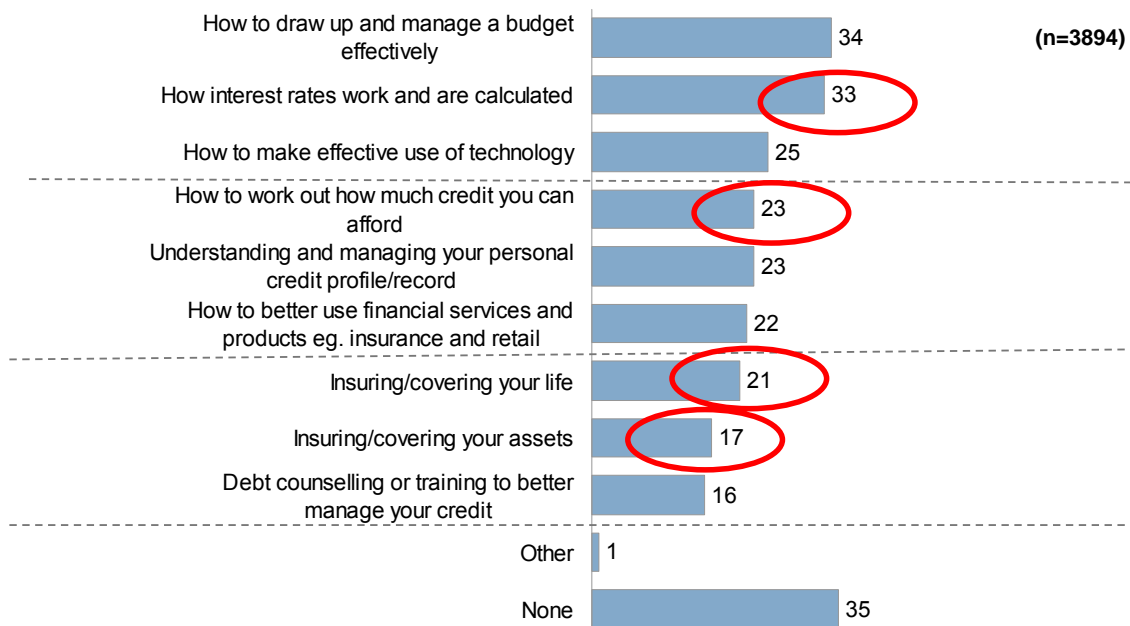


Source: OFL3

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What people want to know about?

- People who don't want information are more likely to be wealthier - they probably feel they have enough information
- They also tend to be the very low income earners (LSM 1 or 2) – these people may not be interested in information as they have nothing and don't perceive value in the information



Source: FL2

3

Child grants

- 11% of the population is claiming to receive income in the form of child grants
- This skews above the norm on:
 - Black (14%)
 - Tribal land (15%)
 - 18-44 (15%)
 - Personal monthly income R1-R499 (40%)**
 - FSM 3-4 (16%)
 - Informally served (20%)**
- But, only 3% of LSM 1 claim a child grant**
- These people tend to be in remote areas, with access posing a real problem
- Possible use of Mzansi to allow accumulation of child grants without the need for physical travel to collect
- COMMUNICATION essential – these people need education on the benefits attached, eg: how to claim and how to get the money safely and affordably (through Mzansi?)

- 31% of Mzansi account holders claim to receive income in the form of child grants
- Of people who claim to receive money in the form of child grant, 17% also claim to have a Mzansi account, compared to 6% of the total population

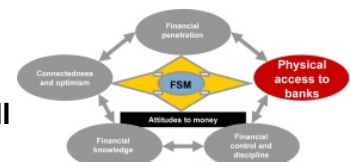
** Caution: extremely small base size (n=29)

3

FSM is reflecting the changes

- **Financial penetration** - effect of Mzansi 2005 -2006. People moved out of tier one and spread across higher tiers two to four. Growth in informal offerings has also affected this migration up the penetration tiers
- **Financial access** – there is a marked decrease in physical barriers to banking, but an increase in psychological barriers (i.e. people preferring to deal in cash and the like)
- **Control and discipline** – there have also been shifts up the continuum in this FSM sub-tier. This may be that people who have entered into the banked environment feel more in control through product engagement. Shifts are seen across the board on this continuum except in the very top tier which remains constant from 2005
- **Connectivity and optimism** - overall people seem to be feeling more optimistic about their lives in this country this year. People are also more likely to be finding touch points and gaining positive networks
- **Knowledge** – this is the only sub index which bucks the trend. Those in the know are becoming more knowledgeable, and the ignorant more ignorant. This is an essential challenge – to get information to the lower tiers in the country

The changes that have occurred in 2006 are significant, both in banking and in other sectors. The FSM reflects these changes with Particular reference to product penetration, accessibility and overall financial discipline



Concluding remarks



Some of the access frontiers are moving – this is very positive. But some of the low hanging fruit has now gone.

Knowledge has re-emerged as a key priority area. People may be increasingly aware but not understanding. Physical barriers to access, though still formidable, may be less of an issue than the psychological barriers.

This speaks to the emphasis we place on the consumer in FinScope. The picture we have of SA's people, and their attitudes towards money management, is becoming much sharper. We must not ignore the facts.

The importance of tracking over time. Long term trends count; year on year changes do not.

A rich database reflecting the diversity of SA's financial markets. This presentation does little more than offer some insights.

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FinScope Africa and other developments



We have been busy!

Completed data now in SA, Botswana, Namibia and Zambia – Zambia launched in November 2006

Completed field work in Kenya, Tanzania and (nearly) Uganda: launches scheduled for early 2007

Ghana, Nigeria...and Pakistan

FinScope Small Business pilot (Gauteng) – launched in November 2006 - and FinScope Mobile Banking – to launch in early 2007

Why? Dearth of information on consumers, operating climate for financial service providers is challenging, new policy frameworks are being explored.

Regional dimension – political and commercial.

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FinScope Africa and other developments



We would welcome your support – financial and non-financial – that will allow us to conduct FinScope in 20 countries over the next 5 years

Value proposition (beyond the market data) - a rand invested in market development may offer a better long term ROI than own research

Collaborative effort – Mzansi and FinScope both show that collaboration can work

We need to scale up – both for survey implementation and for analysis and advocacy too

We look forward to working together on this initiative

THANK YOU