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## More get bank accounts but SA financial divide persists – FinScope™ 2006

FinScope™ 2006, a comprehensive national survey of financial use and behaviour in South Africa, shows that the drive to bring more people into the banking system appears to be working. The FinScope™ survey in some ways reveals new opportunities: few South African say they have life insurance, and half the population feels they have not saved enough for old age.

The survey also reveals a great need for financial education. While people see the value of saving, they do not seem to understand the difference between saving and investment. In any case, investment and even saving money is uncommon – and so is borrowing. Where people do borrow, they do so mainly to buy food, pay for funerals, school fees or medical expenses. The reason is clearly the degree of poverty: 17% of South African say they have no income at all, and nearly one third of South Africans testify that they do not even have enough to eat.

FinScope™ SA 2006 uncovered a wealth of information, on a range of subjects.

### **On banking**

- Between 2005 and 2006, the number of South Africans with a bank account rose by around 1,5 million, reaching a total of 15,9 million people. This represents a real growth in the banking sector, with increases in the banked population (11%) significantly exceeding what would be expected as a result of the population growth (1%). The proportion of banked adults rose from 46,6% to 51% in a population of 31,1 million South Africans.
- The banked population still relies heavily on the traditional branch network, with around two-thirds frequenting a branch at least once a month. Although use of ATMs is high (86% at least once a month), mistrust of technology is still evident. The branch is considered safer and more trustworthy for depositing money.
- The primary benefit associated with a bank account is the ability it affords one to save.
- On average it takes people 21 minutes to get to a bank.
- Long queues are cited by 51% of people as a negative association with banks.
- Eighty-nine percent of cash withdrawals are made at an ATM and 95% of deposits are made at a branch.
- Claimed use of ATM and Mzansi accounts has increased.
- The Financial Sector Charter, signed in October 2003 by those committed to extending access, contains a number of specific targets. One of the most significant is to ensure that 80% of LSM 1 – 5 South Africans have effective access to first order retail banking products by 2008.
- Unemployment and not having money to save are the main reasons given for not being banked.
- The banking sector as constituted at present appears to lack relevance for a significant portion of the population. Almost one in five currently unbanked South Africans would not like a bank

account as they cannot see how it would benefit them. Forty-four percent claim that they could easily live their lives without a bank account.

## **Mzansi**

- Fifty-five percent of the population is aware of Mzansi, a significant increase from the 46% recorded in 2005.
- Sixty percent of people with an Mzansi account claim this is their first bank account, signifying the product is now being used by its primary target market.
- Six percent of the population use the account, an increase of four percentage points since 2005. This represents a growth of almost 250% year on year.
- Main transactions are ATM cash withdrawals and to a far lesser extent, deposits.
- Almost 60% of South Africans who've heard of the account claim not to know enough about it. It is considered a poor man's account by about four in ten of those aware of it, and almost a third of this audience claim that it is still unaffordable.
- Black and coloured consumers show the most interest in using Mzansi but lack of money and unemployment are barriers.

## **Insurance**

- Only 10% of South Africans say they have some form of life insurance. As would be expected, penetration varies considerably by race:
  - Black - 5%
  - White - 39%
  - Coloured - 20%
  - Indian/Asian - 15%
- Cars are the assets most comprehensively covered by short-term insurance, although only 7% of adults insure a vehicle. However, 54% of car owners have vehicle insurance.
- Almost a third of adults are uneducated when it comes to either long-term or short-term insurance. These individuals claim not to understand how insurance works, emphasising the need for continued education about financial matters, particularly among the previously disadvantaged.
- Personal contact is the best way to sell insurance, either through company representatives or brokers. Banks are also mentioned as favourable distributors.
- Most people give affordability as the main reason for not buying cover, though some individuals may not believe the benefits are worth the cost of cover.

## **Savings and investment**

- Looking at products categorised as investments, more people claim stokvels (savings clubs) (7%), followed closely by retirement annuities (6%) and pension funds (6%). Black people are twice as likely to belong to a stokvel as they are to have a pension/provident fund or retirement annuity. People may still misunderstand the difference between saving and investment.
- Sixty-seven percent recognise the benefit of saving, agreeing with the statement, "*if you save and invest regularly, eventually the small amounts will add up and you will be secure*".
- However, 51% are concerned that they will not have sufficient funds for their old age.
- The incidence of saving or investing in South Africa is low: over half of the population (57%) does not invest or save at all, whether in a formal product, money management such as paying off a bond faster, or a more informal way of investing such as buying livestock, or contributing to a burial society.
- Seven percent belong to an informal savings club. The reasons for these savings demonstrate the poverty in which numerous people live. The main reason for saving is an emergency (38%), followed by funeral costs (29%) and food (28%).
- A minority (2%) invest in a savings or investment policy. The same number has an endowment policy with death or disability cover.
- Knowledge of how to save is also limited - 33% of adults would like education on how interest rates work. Only 41% claim to understand what interest rates are.
- People would rather know their investments are safe but earning a low return than the reverse.
- On average, whites invest more and use formal investment structures and services.

## **Debt**

- The main reason for borrowing money is to buy food. Thereafter, funerals, school fees and medical expenses become the most pressing needs.
- The most likely source of obtaining a loan is family or friends.
- Only 11% of the market claim to currently have a loan. This is higher among the banked segment (15%).
- Affordability of monthly instalments, interest rate charges and how quickly the loan will be approved determine where people will take out long-term and short-term loans.

## **Housing**

- Seventy-one percent of South Africans claim to live in a brick house. However, 13% of the population live in a traditional hut.
- Access to amenities is as follows:
  - Electricity - 86% (82% among black South Africans)
  - Hot running water - 28% (12% among black South Africans)
  - Flush toilet - 52% (39% among black South Africans)
- On average, there are 4,8 people per household
  - Black - 5,1
  - White - 3,1
  - Coloured - 4,5
  - Indian/Asian - 4,9
- Most people claim that their household owns their home (82%). This is lowest among whites (65%), where the incidence of renting accommodation is highest (31%).
- Only 8% of homeowners financed their home with a mortgage.
- Seven percent of homeowners claim that the government paid for their home, while an additional 4% claim to have a government subsidy. These figures are substantially higher in the coloured community.
- Consumers would most likely turn to their loan provider if they were unable to meet their home loan repayments.

## **Funeral cover and burial societies:**

- Five percent of adult South Africans, or 1.6 million people, were affected by the death of a main breadwinner in the past twelve months.
- Eight percent have contributed to a family funeral in the same period.
- Thirty-nine percent claim to have funeral cover of some kind:
  - Black - 36%
  - White - 47%
  - Coloured - 59%
  - Indian/Asian - 25%
- Belonging to a burial society is the most common form of funeral cover (19%), followed by coverage through an undertaker (9%) and then an insurance company (8%)
- Twenty-three percent claim to pay more now than last year towards their burial society.
- Affordability is the main barrier to having funeral cover.

## **Telecommunication:**

- Twenty-nine percent of people claim not to make use of a cellphone, Telkom phone or other form of telecommunication.
- Only 2% use of the internet, at work, home or elsewhere.
- Thirty-five percent have no cellphone in the household. This figure is only 10% among white adults.
- Sixteen percent of adults have a Telkom phone in the household.
- Eighteen percent avoid banking machines such as ATMs as much as possible.
- Fifty-seven percent would rather deal with a person than an electronic device, even if it is quicker.

- However, 65% claim that they are prepared to use technology.

## **Retail**

- Cash is king when it comes to paying for groceries (91%). Use of debit and credit cards for grocery purchase is low at 4% and 3% respectively.
- Use of lay-bys (13%) and store credit cards (10%) is higher when paying for clothing.
- Over half of adult South Africans have not bought large appliances or furniture. Among those who have, cash is still the preferred payment method.
- Twenty percent of adults have either a store credit card, or a loyalty card of some kind, or a store account for the purchase of household goods. Although 20% or those without such a card or account do not want one, for the majority lack of money is the main barrier to access.

## **Source of finance**

- Seventeen percent of adults do not have any source of income.
- The main sources of income are as follows:
  - Money from family member/friend - 23%
  - Salary/wage from a company - 19%
  - Child grant - 11%
  - Salary/wage from an individual - 9%

## **Quality of life**

- One in five South Africans claim that they cannot afford to eat properly.
- One-third of black people say that they often or sometimes go without food.
- Nearly half of South Africans claim that they sometimes or often go without a cash income.
- Fear of crime in the home is also prevalent, particularly among Indian/Asian and black people. Thirty-nine percent of black adults and 43% of their Indian/Asian counterparts claim to have felt unsafe in their homes due to crime in the last 12 months.
- One-third have access to a nearby hospital or emergency services.
- Eleven percent live in a squatter shack.
- Only 36% of adults over 16 have matriculated, while a further 40% have completed some high school education. Financial literacy is poor, measured by the level of understanding of financial terms and concepts.

The great divide in South Africa is still marked by the historically defined demographic groups falling into the "have" and "have-not" segments. The quality of life of many South Africans is pitiable, and the number living without a stable source of income is cause for concern. South Africa is still a polarised society, with enormous inequality still largely along racial lines.

*FinScope™ was launched in 2003 by the FinMark Trust. It was an attempt to establish credible benchmarks for the use of, and access to, financial services in South Africa. It was designed to highlight opportunities for innovation in products and delivery. The findings in 2003 and subsequent years have identified barriers to access for low income people and provided insights for policymakers, in both the public and private sectors, who wish to remove or reduce the barriers. For more information see: <http://www.finscope.co.za>*

*FinScope™ SA 2006, a study to monitor use and perceptions of the financial sector in South Africa, was conducted by Research Surveys, South Africa's leading marketing insights company, on behalf of FinMark Trust and syndicate members. Face-to-face interviews were conducted among 3 894 South African residents aged 16 years and older, between June and August 2006. A nationally representative sample was drawn, which was weighted and benchmarked to the StatsSA 2006 mid-year estimates based on the Census 2001 estimate information.*

*The 2006 South African syndicate members are: Absa, First National Bank, National Treasury, Nedbank, Standard Bank, the Financial Services Board, Liberty Life, Metropolitan, Sanlam, Teba Bank and Old Mutual.*