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Chequeing out banking

One of the mandates of the South African government is to improve access to financial products and services, particularly among the previously disenfranchised. Various initiatives are under way. According to FinScope™ SA 2006, a study to monitor consumer use and perceptions of the financial sector, the proportion of South Africans over the age of 16 who are currently banked has reached 51%. This is up significantly from 2005 (46,6%), highlighting positive movement in improving financial access.

Are banks really necessary?

The Financial Services Charter, signed in 2003 sets out to provide financial access to 80% of LSM¹ 1 - 5 by 2008. But is being banked something that is needed and desired within the greater community? Forty-four percent of South Africans agree with the statement, "*You can easily live your life without a bank account.*" White adults are most dependent on formal banking with only 24% agreeing with this statement. However, for the other races, there is no clear consensus on whether one can live without a bank account or not. Responses to the statement were: black (46%), coloured (48%) and Asian/Indian (53%). One cannot assume that the wealthier segments of the population are dependent on banking. Although it is true that the perceived need for banking correlates positively with affluence, there is still a significant portion of LSM 9 - 10 who agree that one can easily live without a bank account. The figures by LSM are as follows:

- LSM 1 - 2 - 55%
- LSM 3 - 4 - 49%
- LSM 5 - 6 - 43%
- LSM 7 - 8 - 35%
- LSM 9 - 10 - 20%

How are banks perceived - as helpful or as exploitative and untrustworthy entities?

The ambivalent attitude people have to banks is reflected in the attributes with which banks are associated. The attributes that most South African residents associate with banking are as follows:

- You trust them - 58%
- There are long queues for their services - 51%
- They treat you with respect - 50%
- Is your ideal service provider - 49%
- Having an account gives you status in the community - 41%

¹ LSM is a categorisation from LSM 1 – 10, used extensively by marketers and advertisers as a means to segment the population. It is a crude proxy for wealth, with the lower LSM groups comprising the most impoverished end of the spectrum.

There is little consensus on how banks are perceived, with approximately the same number of people associating them with the attributes above as those not associating them with those attributes. However, for many people, status is associated with having bank account. Only 25% of people believe that bank charges are too high, and 22% claim that using their systems and technology is difficult.

Perceptions between LSM 1 - 5 and LSM 6 - 10 differ. Adults in LSM 1 - 5 are less trusting of banking, and are less likely to feel that banks treat them with respect. Only 41% consider banks to be their ideal service provider, leading to the hypothesis that these individuals do not feel that banks cater for their needs. The differences in the responses between the two groups are shown in the table below:

	LSM 1 - 5 %	LSM 6 - 10 %
You trust them	53	67
There are long queues for their services	49	55
They treat you with respect	41	65
Is your ideal service provider	42	61
Having an account gives you status in the community	40	43
The charges are too high	21	33

Although only 23% of people agree with the statement, "*Banks take advantage of poor people,*" the belief in this sentiment increases with income, urbanisation and LSM. It is of concern that this negative perception of banking exists most strongly among the most influential members of society.

Fifty-seven percent of people believe that having a bank account makes it easier to get credit.

How many South Africans are banked?

Between 2005 and 2006, the number of South Africans with a bank account rose by around 1.5 million, reaching over 15.6 million. This represents a real growth in the banking sector, with increases in the banked population significantly exceeding what would be expected as a result of population growth. The number of banked people overall increased by 10,8%, while the total 16+ population increased by only 1,4% to 31.1 million. The proportion of the population that is banked rose from 46.6% in 2005 to 51% in 2006.

Much of this increase is the result of new entrants into the market from LSM 1 - 5. The percentage of people who are formally banked in LSM 1 - 5 rose between 2005 and 2006 from 31% to 35%. This represents almost 800 000 people entering the financial services arena. That most of these new entrants are making use of Mzansi accounts bears witness to the great strides this product has made over the last twelve months.

The number of people banked by race is as follows:

- o Black- 45%
- o White - 91%
- o Coloured - 53%
- o Indian/Asian - 58%

As logic would predict, there is a strong correlation between an increase in wealth and an increase in the likelihood of being formally banked. However, there are always those who seem to buck societal trends. The figures reveal that not all South Africans who are considered to be wealthier (LSM 5 - 10), are formally banked. Even in LSM 9 - 10, 7% of adults are unbanked.

Although a small portion of the population, it is worth noting that 3% of the unbanked population, although not having a bank account themselves, use the bank account of someone else. This amounts

to more than 500 000 people. This phenomenon is highest in the white community at 13%. The main transaction type conducted by these individuals is cash withdrawals (81%).

Gender issues are also interesting. In the 2005 study, there were more males than females who were banked (50% vs 44%). This imbalance appears to be rectifying itself, with the figures for 2006 indicating that 52% of males are banked, and 48% of females.

Banking products used

Entry level banking products, such as ATM cards and savings/transaction accounts, are the main banking products used by South Africans. The table below shows the penetration of various product types in the population, by total population and by race:

	Total %	Black %	White %	Coloured %	Asian/Indian %
ATM card	48	42	87	47	54
Savings/Transaction account	38	34	63	43	46
Debit card	15	11	45	16	16
Current or cheque account	7	2	38	7	10
Credit card	7	2	37	8	11
Mzansi account	6	7	4	2	0
Post Bank account	4	4	2	2	0
Savings book	3	3	5	4	5
Fixed deposit bank account	3	2	11	3	5
Personal garage card	2	0	13	2	2
Money market account	1	0	4	0	0
Cell phone banking	1	1	7	2	0

In analysing these figures, it is important to bear in mind the relative sizes of the population groups. For example, although the penetration of debit cards is far higher in the white community, the actual number of white consumers who hold debit cards is less than the number of black consumers who have them: 1,5 million versus 2,5 million respectively. However, as a population group, white consumers have the greatest depth of penetration of banking products, being the most likely to make use of more sophisticated products such as garage cards, credit cards, fixed deposit banking and the like.

That having a bank account is merely a temporary holding device for money, or a mechanism for salary payment, is reflected in the fact that 41% of banked people claim that money is withdrawn as soon as it is deposited into a bank account.

Cellphone banking has found a claimed audience of approximately 1% of the population - around 450 000 people. In terms of perceptions, 19% of people believe cellphone banking can be trusted if backed by a company like Cell C, Vodacom, Virgin Mobile or MTN. The potential here is highlighted by the fact that 15% of the population are unbanked but have a cellphone.

Motivation for being banked/unbanked

Among adult South Africans who are banked, the primary reasons given for being banked are:

- o To save - 71%
- o To withdraw money when you need it - 58%
- o To keep money safe - 55%
- o To deposit money from an employer - 30%

Although savings is the reason with the highest mention, few South Africans actually manage to save. Therefore, overclaiming seems to be fairly high, or saving is perceived differently to how we see it.

Among the unbanked, unemployment and not having money to save are the main reasons given for not being banked.

Transactional behaviour and transactional channels used

The most frequently conducted transaction is a cash withdrawal (98%), followed by cash deposit (53%), balance enquiry (36%) and the requesting of a statement (29%).

The banked population is still heavily reliant on the traditional branch network, with around two-thirds frequenting a branch at least once a month. Although use of ATMs is high (86% claiming at least once a month), mistrust of technology is still evident. The branch is preferred for depositing money, as it is considered safer and more trustworthy. Eighty-nine percent of cash withdrawals are made at an ATM and 95% of deposits are made at a branch.

Although ATMs are associated with consumers feeling comfortable using them (74%), convenient (67%) and more affordable (64%), they are also perceived as unsafe (36%) and only 50% of people regard them as trustworthy. Only 5% of people believe branches are unsafe and 68% believe they are trustworthy.

Conversely, other banking methods such as the internet, telephone and mobile banking, still have a long way to go in terms of building trust, knowledge and consequent use. This clearly indicates the challenge financial institutions face in educating the mass of consumers about new banking methods, especially as we move further into the electronically orientated 21st century.

The cost and time involved in getting to a bank is significant when considering banking transactions. Although the average time to get to a bank is 21 minutes, this average figure does not allow insight into the actual dynamics. The time taken to get to the bank is quickest for the white community at 10 minutes travelling time, and longest for the black community at 25 minutes. It takes coloured and Asian/Indian adults 16 and 15 minutes respectively. For those living in tribal lands, it takes more than half an hour to travel to the nearest branch. It is evident that the more impoverished sectors of society have to travel the furthest to reach a bank, and are also most likely to use public transport for the trip. Although 60% of the banked population use public transport, this figure is 79% for the black banked population. The average cost of a return trip for these individuals is R12. Therefore, physical access adds an extra cost to banking for poorer people.

Summary

The proportion of the South African banked population appears to be increasing steadily. Significant growth was recorded between 2004 and 2005, and again (to an even greater degree) between 2005 and 2006.

Although more people are banked, banking is still in its infancy in the way in which banking products are being used by most individuals, particularly the poor. Continued education is needed to ensure that South Africans actually understand the benefits of being banked, over and above using these institutions for short-term cash storage. Also, the persistent aversion to technology means comfort levels and trust need to be built around technological options to alleviate the pressure being felt in the branches. Finally, and key to continued entry into the financial sector, is the need for innovative new products that truly address the needs of the poor, and the effective communication of the value they offer.

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 consumer 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.

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