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## Are bankers effective fishermen?

A key objective of government is to improve access to financial services to the previously disenfranchised sector of our society, paying particular attention to the poor. The Financial Sector Charter, signed in October 2003 by those committed to extending access, contains a number of specific targets. One significant target is to ensure that 80% of LSM 1 - 5 South Africans has effective access to first-order retail banking products by 2008. The magnitude of this task is evident considering that this group comprises 63% of adult South Africans. However, this commitment will go a long way towards bringing the benefits of formal financial services to the majority of South Africans and in the process speed up economic development. These benefits include the ability to receive, store and transmit money safely, to protect against risk and to borrow to acquire and invest. It is believed that this freedom to transact through formal channels will allow a greater proportion of South Africans to contribute to economic activity, and ultimately grow the economy.

Therefore, one of the primary tasks facing financial service institutions operating in South Africa is to trawl the waters of the unbanked, particularly the previously disadvantaged, and to persuade them to use the offerings of the formal financial sector. However, banks must first design products better suited to the needs of poorer consumers, offering real value to people struggling to survive on very little.

### So, how 'banked' is South Africa?

A large percentage of South Africans, some 38%, have never had a bank account. Also, only 35% of South Africans falling into LSM 1 - 5 are currently banked, indicating that access to formal financial services falls far short of the 80% target set by government. This figure demonstrates the enormous task ahead of government and the financial service providers, and the exceptionally rapid up-take of banking services needed to reach its 2008 target. It is also of concern that 11% of South Africans have used a formalised banking service at some stage, but no longer do so. The added challenge is to ensure that the services and charges of the banks, as well as the overall value proposition, encourage those becoming formally banked to remain so.

However, the number of banked South Africans has risen markedly, increasing from 46,6% in 2005 to 51% in 2006. In real numbers, this represents an increase of more than 1,5 million people, and an increase of 2,1 million since 2004. The 2005 to 2006 increase in numbers represents a significant year-on-year jump, a phenomenon not seen in previous studies. However, the number of people exiting the banking sector has remained fairly constant, leading to the hypothesis that customer retention is an inherent problem.

### **So, who are the unbanked?**

South Africa reveals clear trends based on gender on many issues, including financial services. Of South Africans who have never been banked, 54% are female, even though a similar number of men and women face everyday life without a personal income.

Only 9% of white adult South Africans are not part of the banking fraternity. This figure is 55% for black South Africans, 47% for coloured people, and 42% for those of Indian/Asian extraction.

### **Does geography make a difference?**

South Africa is also typified by geographical disparities. The table below shows the percentage of adults in each province who are formally banked. It also demonstrates what proportion of adults in each province is classified into LSM 1 - 5, LSM 6 - 8 and LSM 9 - 10. LSMs, or the Living Standard Measures, are a crude proxy for wealth and are used extensively by marketers and the media as a categorisation tool.

Province	Percentage banked per province	Percentage falling into LSM 1 - 5	Percentage falling into LSM 6-8	Percentage falling into LSM 9 - 10
Eastern Cape	41	84	13	3
Free State	40	74	21	5
Gauteng	72	35	49	16
KwaZulu Natal	40	72	18	10
Mpumalanga	52	72	22	6
Limpopo	38	88	10	2
Northern Cape	33	72	24	4
North West	47	78	20	2
Western Cape	69	26	51	23

As is evident from the table above, Limpopo, Eastern Cape, North West and Free State respectively, are the most impoverished provinces. In these areas banking has its lowest penetration. The Northern Cape has been the least effective in attracting its inhabitants into the banking sector, with only 33% being formally banked. This may reflect distribution problems. The traditional brick-and-mortar bank operations may not be the most effective mechanism to bring banking to the formally disadvantaged in far-flung corners of South Africa.

Gauteng, as expected, typifies a province where many of its inhabitants are bridging the gap between the haves and the have-nots. The province with the second-highest proportion of residents falling into the upper echelons of the LSM categorisation also has half of its inhabitants falling into LSM 6 - 8. In contrast, the Western Cape is very much the province of the haves, with a relatively low proportion of inhabitants below LSM 4.

These provinces have been the most successful in attracting lower LSM individuals into becoming formally serviced by the financial sector. Although only one-fifth of South Africans are located in Gauteng, it houses 30% of the banked population. The Western Cape also fares well, representing 11% of the population, but 14% of the banked population.

### **Is wealth a good proxy for determining banking status?**

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 also reveal that not all South Africans who are considered to be wealthier (LSM6 - 10), are formally banked. Even in LSM 9 - 10, 7% of adults are unbanked.

## Summary

In 2003, the Charter set out ambitious targets to increase the banked population by 2008. With more than half the time set for achieving these targets having lapsed, it is imperative that government and the financial institutions take stock of performance to date. Although the number of banked individuals has surged since 2005, the objective of giving access to 80% of LSM 1 - 5 by 2008 seems unlikely to be achieved, unless there is some radical market shake-up.

*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.*