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**Editorial contact:** *FinMark Trust*  
 Mark Napier (082 456 5036)  
 Darrell Beghin (082 497 5017)

*TNS Research Surveys*  
 Neil Higgs (011 778 7500)  
 Rob Powell (011 778 7500)

## Optimism – a driver of financial decisions

There has, in recent years, been a considerable increase in “consumer confidence” types of measures because, in general, one’s confidence in one’s future drives how one approaches decisions in life. For example, more optimistic people are generally more likely to use credit, make big-ticket decisions, save for the future and plan for the longer term. By contrast, those who are more pessimistic will tend to be more conservative and short-term in their decision-making. They may hold off on major purchases, buy “comfort” products more and save and plan for the future less.

TNS Research Surveys has developed, as part of its quality-of-life suite of measures (EQLI™), a general optimism measure. This measure was included in FinScope 2008, the annual study of South African financial habits and attitudes, conducted in the last quarter of 2008. The measure gives a score to each person in the 3 900 sample that runs from 0 (most pessimistic) to 100 (most optimistic).

### The optimism measure

The zero-to-100 optimism spectrum can be divided into five partitions, characterised as follows:

	Total %	0 to 40 %	40.1 to 60 %	60.1 to 80 %	80.1 to 90 %	90.1 to 100 %
I don't feel well most of the time	8	22	16	6	3	3
I consider myself physically fit	58	32	41	53	63	84
I feel well and in good health	62	31	41	55	75	92
I feel lonely	8	33	11	6	5	3
I don't know very many people	9	25	11	6	10	6
I don't think people think much of me/respect me	6	50	8	2	0	0
I have a varied life with lots of different activities	32	7	7	22	34	79
My life has meaning and purpose	63	4	15	62	100	100
I am satisfied with what I have achieved in my life	37	4	13	29	42	77
I have many dreams but will never achieve them	19	46	25	25	8	4
I experience feelings of depression or hopelessness	9	67	12	7	2	0
I feel like my life is emotionally empty	6	33	11	4	1	1
I have enough leisure time to be happy	47	11	22	37	69	79
I regard myself as a spiritual person	45	29	37	40	47	64
Generally, I am a happy and cheerful person	59	32	38	54	61	93
I feel alive and energetic	58	28	31	57	63	94

From this, it is clear that the most pessimistic group are indeed lost – they lack self esteem, are greatly depressed, have given up, have poor support structures and are significantly less healthy. The top group is, by contrast, fit, energetic, positive, driven, have varied and fun lives and are satisfied with where their lives are going.

Tentative names for these five groups are:

- 0 to 40: The lost
- 40.1 to 60: Pessimists
- 60.1 to 80: Middle of the road
- 80.1 to 90: Optimists
- 90.1 to 100: Driven optimists

### The demographics of optimism

		Total %	The lost %	Pessimists %	Middle of the road %	Optimists %	Driven optimists %
Race	Black	76	81	77	79	77	69
	White	11	8	7	8	12	21
	Coloured	9	9	12	10	9	6
	Indian/Asian	3	3	3	2	2	4
Gender	Male	47	54	46	46	45	49
	Female	53	46	54	54	55	51
Age group	16 to 17	5	3	3	4	6	8
	18 to 21	15	12	10	14	20	18
	22 to 24	8	6	8	9	8	6
	25 to 29	14	12	13	16	12	16
	30 to 34	12	10	14	11	13	9
	35 to 39	13	14	13	14	12	12
	40 to 44	12	16	11	13	10	10
	45 to 49	5	5	6	5	5	5
	50 to 54	3	3	3	3	2	3
	55 to 59	3	3	3	3	3	3
	60 to 69	8	12	9	8	6	6
70 and over	3	2	6	2	2	3	
LSM	1	2	2	4	1	2	-
	2	5	9	5	5	6	2
	3	8	11	9	11	8	2
	4	15	20	20	14	18	9
	5	20	26	19	23	17	17
	6	23	18	25	23	21	24
	7	10	6	10	9	10	13
	8	5	1	4	4	6	10
	9	6	4	3	6	7	8
	10	6	4	3	4	5	14

	2007	2008				
	Total %	Total %	Black %	White %	Coloured %	Asian %
The lost	6	6	6	4	5	5
Pessimists	25	23	23	15	29	23
Middle of the road	30	34	34	24	35	27
Optimists	17	18	18	19	17	12
Driven optimists	20	21	19	39	13	32

There are differences by demographics with white and Indian/Asian people being somewhat more optimistic. There is a weak wealth correlation, but this is really evident only in the *Driven optimists* group and *The lost* group, which also has more males than average. Younger people also have a slight tendency to be more optimistic. However, all demographics contain all levels of optimism.

In general terms, the optimism measure shows little change from 2007 to 2008 – there is a slight positive movement.

### What does this mean for financial markets?

In terms of broad financial penetration, the average number of types of product or service used shows a trend that increases with increasing optimism. While this is due in part to the weak wealth correlation, the change is greater than this suggests:

- The lost 3.6 types of product/service
- Pessimists 4.0
- Middle of the road 4.6
- Optimists 4.8
- Driven optimists 7.0

There are some other interesting findings too:

- The incidence of holding of the Mzansi account peaks among *Optimists* at 15% – it averages 10% for all the other groups.
- The use of credit cards among *Driven optimists* is three times the average of the other four groups.
- The same is true of current accounts, fixed deposits and notice deposits, and investment accounts.
- The same is true of bonds of all types, personal loans from banks, overdrafts and car finance.
- The same is true of formal insurance and assurance products, and retirement products.
- Savings accounts show a steadier increase with increasing optimism. This is more likely to be simply the wealth link, suggesting that, once one reaches the *Driven optimist* level, one's behaviour on other account types changes in a more radical way:
  - The lost 25% have a savings or transaction account
  - Pessimists 31%
  - Middle of the road 38%
  - Optimists 40%
  - Driven optimists 45%
- Borrowing from friends and family is highest in the bottom three groups.
- Store cards have double the incidence at 14% among *Driven optimists* compared with all other groups.

All this suggests that, the additional wealth notwithstanding, *Driven optimists* are much more likely to be more forward-thinking financial planners. In line with this, *Driven optimists* are much more likely than other groups to have a better knowledge of credit issues, particularly in knowing one's rights and how interest rates can be used to one's advantage. They also have a better idea of how compound interest works. It is clear that these people are more confident and assured.

This is in line with current thinking about how our brains work when it comes to processing marketing messages and making everyday decisions.

Traditional marketing, advertising and research models assume that people have to be made to pay attention to marketing messages, that they (passively) absorb them, react to them with the thinking part of their minds (that is, cognitively) and act independently of each other, optimising their choices by determining the relative utility of different options (adding up the "points" they feel different choices offer them relative to key attributes).

We now know that this is nonsense. People mostly use instinct in processing information and in making decisions, including financial decisions. These instinctive decisions (termed "fast and frugal heuristics") are the automatic shortcuts we use every day to make all the decisions we

need to make just to survive. We simply don't think about every decision or react to every ad with our conscious minds. Nor do we need to.

Most marketing messages and activities receive little or no conscious attention but our *instinctive unconscious* is continually responsive to them – it is our ancient survival mechanism. All these brand encounters (touchpoints) simply create an uncomplicated unconscious mental movement *towards* or *away from* the brand. This is stored in the unconscious part of our brains and represents our current (and very enduring) brand memory.

While people mostly use instinct, cognition plays a small and variable role, this variability being largely dependant on a *person's relationship with the brand/category/organisation* (which may vary by *occasion*) and her or his *general feeling of well-being* (or optimism).

People with higher levels of well-being or optimism use instinct (fast and frugal heuristics) more while those with lower levels agonise cognitively more before making a (still largely) instinctive decision. This affects how different people perceive ads and what types of marketing interventions are best suited to them. Further, more optimistic people have greater influence on those around them than do pessimistic people: hence, identifying how optimistic people think and act is a key issue.

### **Broad financial attitudes**

The three top groups are more likely to know their credit history than the bottom two groups: 16% do NOT know their credit history in the top three groups compared with 23% in the bottom two groups.

The top two groups, although they use credit more than other groups, are more likely to want to get out of debt quickly than less optimistic groups. They also are less worried than the bottom three groups about having enough money for their old age (47% vs 60%) and are more willing to engage with large institutions and technology than the bottom three groups.

Overall, 26% of people do not feel in control of their finances – but this rises to 40% for *The lost group*. And while 40% of people feel that a bank account is not essential to running one's life, this figure drops to 34% for *Driven optimists*.

### **Summary**

Optimism is one of the drivers behind how people plan and run their lives, with more optimistic people being greater users of credit, more financially confident and knowledgeable, better financial planners and, as a result, having fewer concerns about the future.

Just over a third of the South African population aged 16 years and over is classified in the optimistic arena overall. These people will make financial decisions differently from the third of people who are in the pessimistic arena. Those in the broad pessimistic category need more information, reassurance and detail to make their decisions, taking longer over the process. The optimists will use that detail only when absolutely necessary and will make quicker decisions. This has implications in communicating financial matters to different groups: communicators must realise that the members of their audience may not have the same state of mind as they might assume.

*FinScope was launched in 2003 by the FinMark Trust ([www.finmarktrust.org.za](http://www.finmarktrust.org.za)). 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 2008, a study to monitor use and perceptions of the financial sector in South Africa, was conducted by TNS Research Surveys, South Africa's leading marketing insights company, on behalf of FinMark Trust and syndicate members. Face-to-face interviews were conducted among 3 900 South African residents aged 16 years and older, between August and October 2008. A nationally representative sample was drawn, which was weighted and benchmarked to the 2008 mid-year estimates based on 2007 Community Survey estimate information.*

*The 2008 South African syndicate members are: Absa, First National Bank (FNB), Liberty Life, Metropolitan Life, National Treasury, Nedbank, Old Mutual, Sanlam, Standard Bank and Teba Bank.*

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