

# FinScope South Africa 2011



Making financial markets work for the poor

**FINSCOPE**



## Introduction

Financial inclusion has gained the South African government's attention and recognition as a vehicle for sustainable and inclusive growth and development. Through the Department of National Treasury, the government has played a key role in facilitating the adoption of the Financial Sector Charter in 2004 to promote financial inclusion in South Africa.

In addition, government in recent years has undertaken a number of initiatives to accelerate financial inclusion. These include promoting entry into the banking sector; creating an enabling framework for co-operative banks, improving the governance arrangements of Postbank, introducing deposit insurance for co-operative banks, taking forward the Financial Sector Charter; and improving access to housing and small business finance.

The FinScope survey is a research tool which was developed by FinMark Trust. It is a nationally representative survey of how individuals source their incomes, and how they manage their financial lives. It also provides insight into attitudes and perceptions regarding financial products and services. To date, FinScope surveys have been conducted or initiated in 17 countries.

FinScope South Africa is neither a private nor donor/government initiative. By design, it is intended to involve a range of stakeholders in a syndicate, thereby enriching the survey through a process of cross-cutting learning and sharing of information. The objectives of the FinScope SA survey were:

- To measure levels of financial inclusion (i.e. the proportion of the population using financial products and services – formal and informal);
- To describe the landscape of access (the types of products and services used by financially included individuals);
- To identify the drivers of, and barriers to, the usage of financial products and services;
- To stimulate evidence-based dialogue that will ultimately lead to effective public and private sector interventions that will increase and deepen financial inclusion.



Established with initial funding from the UK's Department for International Development, FinMark Trust is an independent trust whose business is controlled by seven trustees from countries in Southern Africa. FinMark Trust's purpose is 'Making financial markets work for the poor; by promoting financial inclusion and regional financial integration'. It does this by conducting research to identify the systemic constraints that prevent financial markets from reaching out to these consumers and by advocating for change on the basis of research findings. Thus, FinMark Trust plays a catalytic role, driven by its purpose to start processes of change that ultimately lead to the development of inclusive financial systems that can benefit all consumers.



## A syndicate approach

FinScope South Africa is designed to involve a range of stakeholders as members of a syndicate. This process has enriched the survey and the shared results have contributed meaningfully to members who have a common interest in financial market trends as well as financial inclusion.

Syndicate members in South Africa have, over the years of implementation, included major banks, life and short term insurance service providers, the retail sector, and various regulators and government departments such as the Micro Finance Regulatory Council (MFRC), now the National Credit Regulator (NCR), the Financial Services Board and the National Treasury.

The FinScope survey is dynamic. The content is evaluated on an annual basis by syndicate members to ensure that most recent financial market trends are addressed and taken into consideration. During this process, it is ensured that changes to the survey content do not affect core FinScope indicators which are used for trend analysis and tracking changes in the financial system over time.

## 2011 syndicate members



## How to become a syndicate member and associated benefits

Any organisation can be a FinScope South Africa survey syndicate member provided they pay a participation fee which is determined by sharing the survey costs amongst syndicate members. FinMark Trust facilitates the implementation of the survey on an annual basis but, as a not-for-profit organisation, seeks no profit through its implementation. Determining the survey costs is approached on a cost recovery basis.

Syndicate members have the right to contribute to questionnaire development and have full access to the FinScope data set as well as the findings once the survey results have been launched. The data set is supplied to syndicate members in the software format they require, such as SPSS, Esprit or Softcopy. Syndicate members therefore have the benefit of a full national survey at a fraction of the cost of conducting such a study independently.

## Sample and methodology

- Nationally representative individual-based sample of South Africans aged 16 years and older
- Sample frame and data weighting conducted by Dr A Neethling (weighted and benchmarked to StatsSA 2011 mid-year population estimates information)
- 3900 face-to-face interviews conducted by Ask Afrika (during August-October 2011)



# Making financial markets work for the poor

## Understanding the lives of South Africans

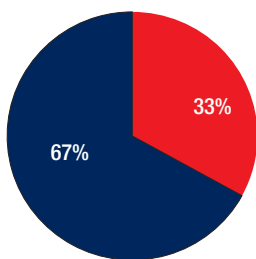
- One third (33%) live in rural areas
- 43% are under the age of 30 years (an age that FinScope data show as not yet economically settled)
- 54% of South Africans are dependent on others for their income (33% obtain money from others and 21% from government grants)
- 44% of the adult population earn less than R2000 per month

## Contextualising the drive for greater financial inclusion – daily realities

- 8% (2.8 million) are from households with no toilet facilities
- 9% (2.9 million) are from households that do not use electricity for cooking or lighting
- 18% are from households with no tap water in the house or yard
- 23% come from households that have 'gone without enough food to eat because they did not have enough money to buy food' at some stage in the 12 months prior the survey

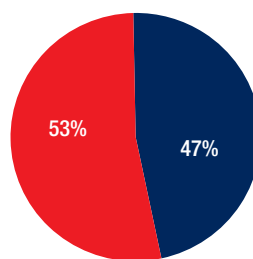
For a considerable proportion of the South Africans who face daily realities such as lack of proper sanitation, electricity, running water in their homes and making ends meet, financial inclusion might not be perceived as a priority. A strategy for financial inclusion should not be based on unrealistic expectations.

Urban/Rural



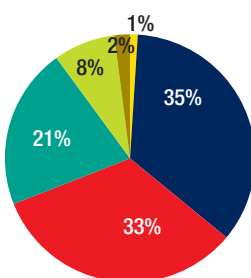
- 67% Urban
- 33% Rural

Gender distribution



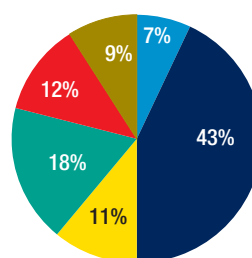
- 47% Male
- 53% Female

Source of income



- 35% Formal employment
- 33% Money from others
- 21% Government grants
- 8% Informal work
- 2% Pension/Investment returns
- 1% Other

Age distribution



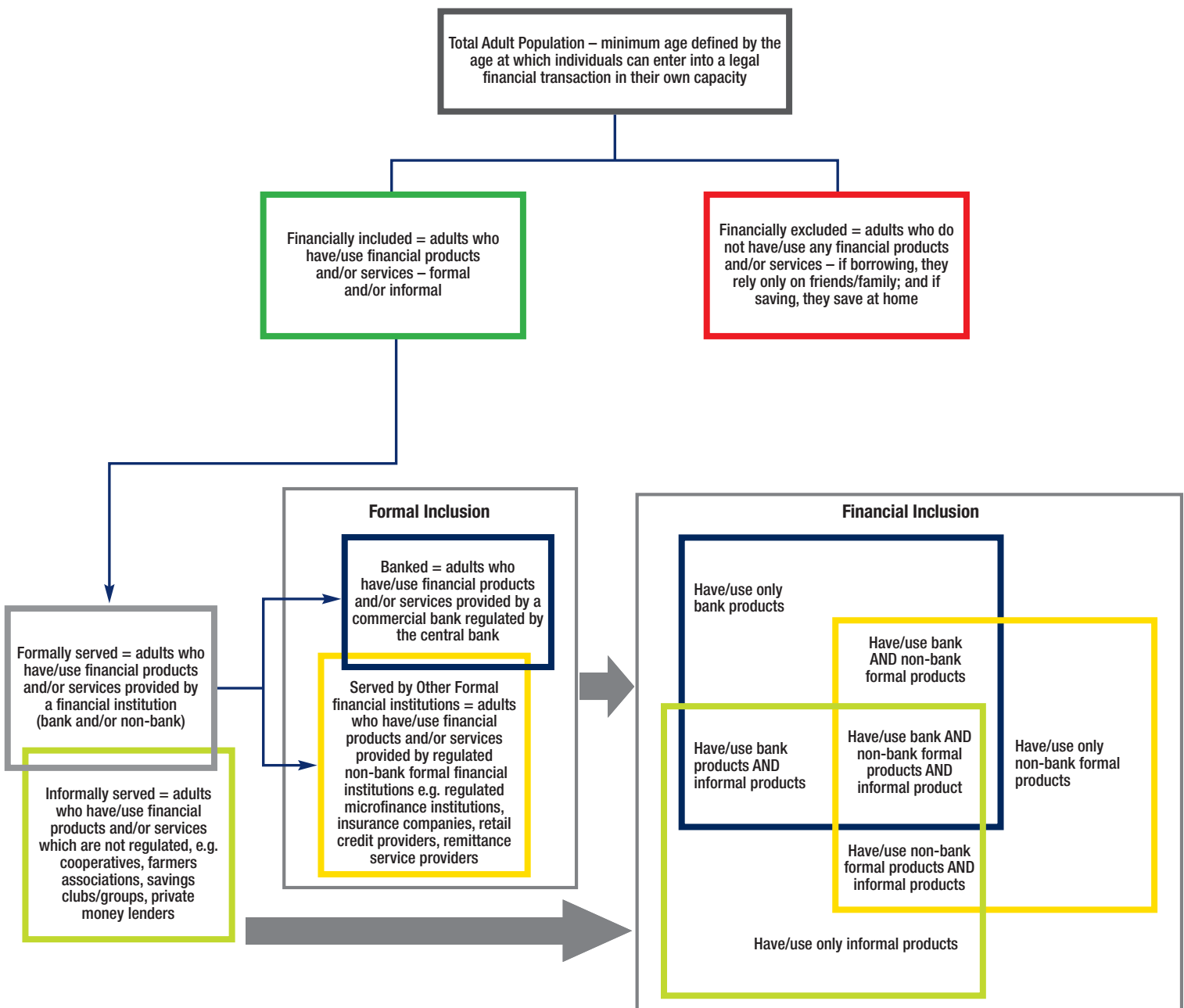
- 43% 16 – 30 years
- 11% 31 – 35 years
- 18% 36 – 45 years
- 12% 46 – 55 years
- 9% 56 – 64 years
- 7% 65+ years





## Financial inclusion

The FinScope survey uses the following categorisation to describe levels of financial inclusion:

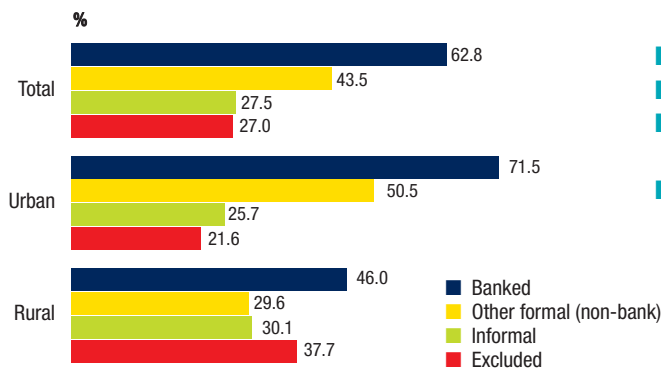




# Making financial markets work for the poor

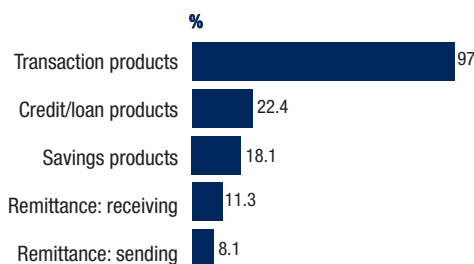
## Financial inclusion in South Africa

The legal age at which an individual in South Africa can open a bank account is 16 years, therefore the adult population is defined as all individuals aged 16 years and older:



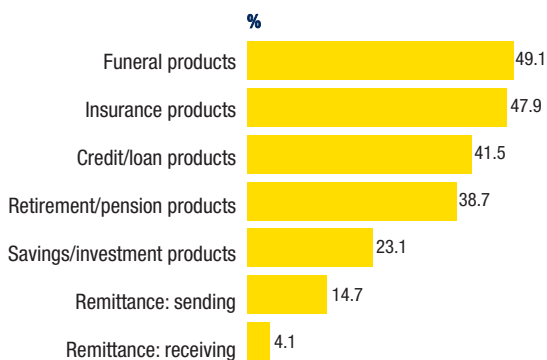
- 62.8% of South African adults are banked (21 184 871 individuals)
- 43.5% of adults have/use formal non-bank products/services
- 27.5% of adults have/use informal mechanisms for managing their finances
- 27.0% use no financial products or services to manage their finances. If they save, they keep their money at home and their only coping mechanism is reliance on families and friends

## What drives banking?



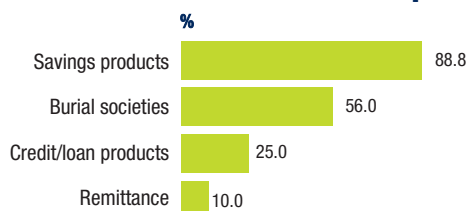
- 97% of banked adults have/use transaction products
- 22.4% have/use credit products
- 18.1% have/use savings products
- 16.9% use the bank/banking products for remittance purposes (3 671 637 individuals)

## What drives the use of other formal (non-banking) products?



- 49.1% of adults who use non-bank formal products have/use funeral cover products
- 47.9% have/use insurance products that include short-term and long-term products
- 41.5% have/use credit products such as store cards
- 38.7% have retirement products (retirement annuity; provident fund and pension fund)
- 23.1% have/use savings products
- 16.8% (2 464 724 individuals) use remitting products/services such as Post Office services and MoneyGram

## What drives the use of informal products?



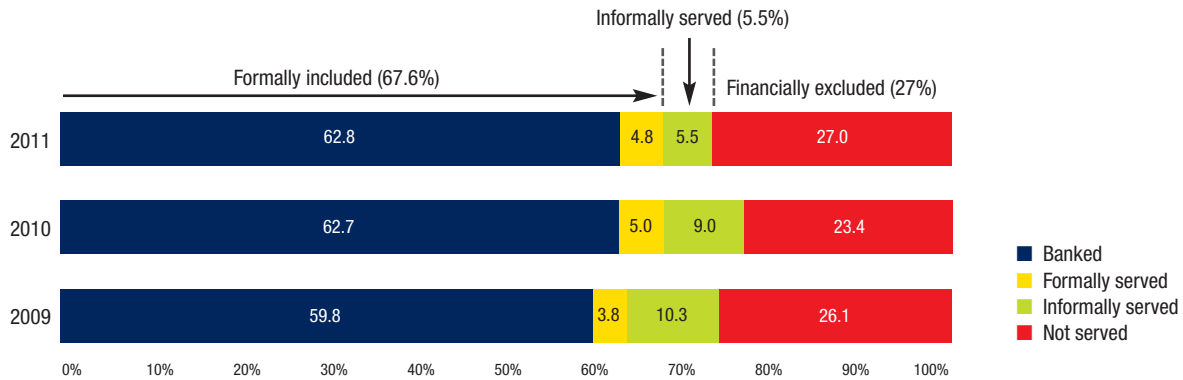
- 88.8% of adults who use informal mechanisms belong to stokvels/savings groups
- 56% are members of burial societies
- 25% borrow from informal lenders such as mashonisas
- 10% use informal remittance mechanisms such as paying taxi or bus drivers to take money to those they support financially



## Access Strand for South Africa

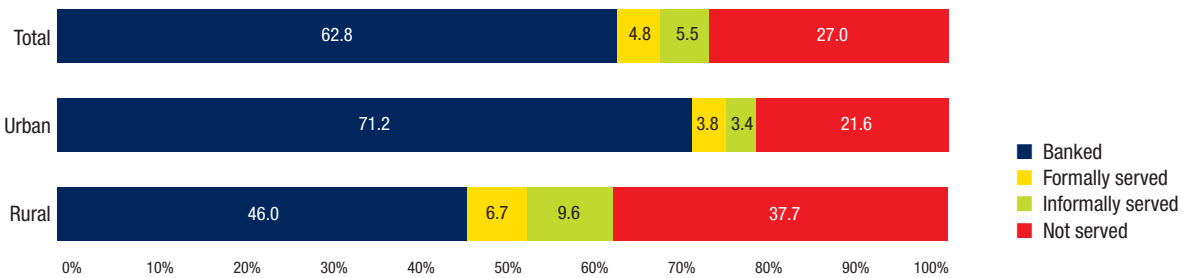
The FinScope approach uses the Financial Access Strand to compare levels of financial inclusion across countries. In constructing this strand, the overlaps in financial products/service usage are removed, resulting in the following segments:

- Financially excluded individuals
- Individuals who have/use informal products/services and no formal products
- Individuals who have/use formal non-bank products/services and no commercial bank products
- Individuals who have/use commercial bank products



- 27% of South African adults are financially excluded (i.e. do not use financial products – neither formal nor informal, to manage their financial lives) – a significant 4% increase compared to 2010
- 67.6% of South African are formally served – 62.8% have/use bank products/services and 4.8% have/use non-bank formal products/services but not commercial bank products
- 1.6 million South Africans (16+) rely only on informal financial products or services – a decline of 1.4 million from 3 million recorded in 2010

## Comparing rural and urban



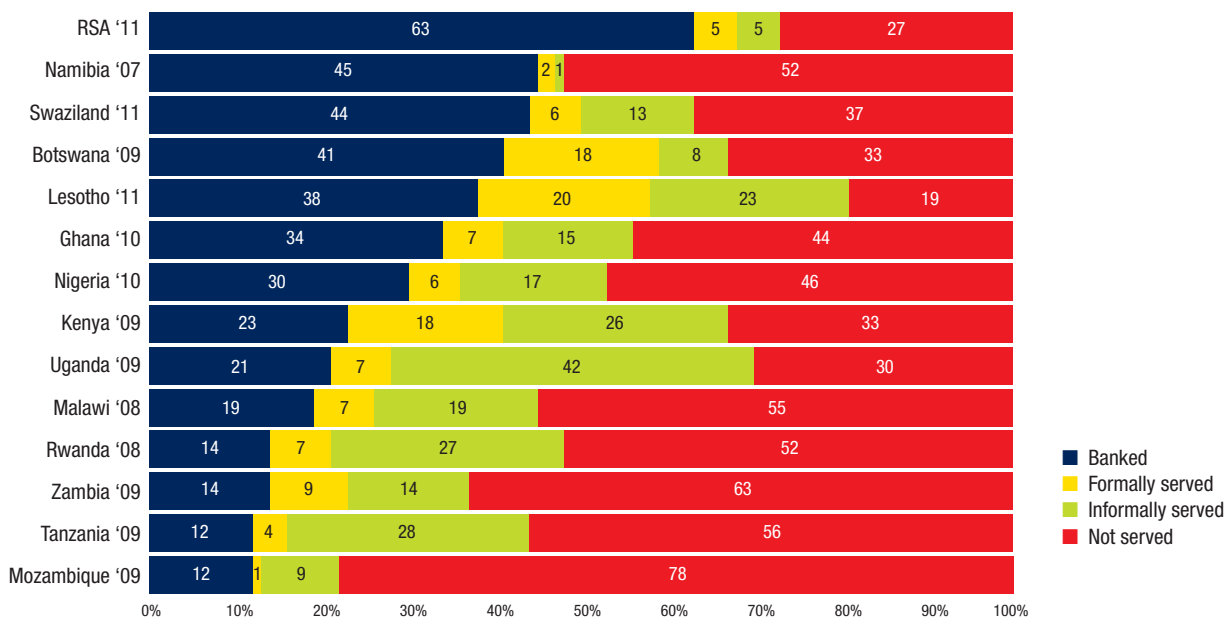
- The most significant difference between rural and urban levels of financial inclusion is in the usage of bank products – 71.2% of urban adults are banked compared to 46% of rural adults
- The informal sector plays an important role in pushing out boundaries of financial inclusion – this role is significantly more pronounced in rural areas



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## Comparing levels of financial inclusion in Africa<sup>1</sup>

Compared to other African countries where FinScope surveys have been implemented, the South African Access Strand illustrates that other countries face significantly more challenges in moving towards serving the financially unserved.

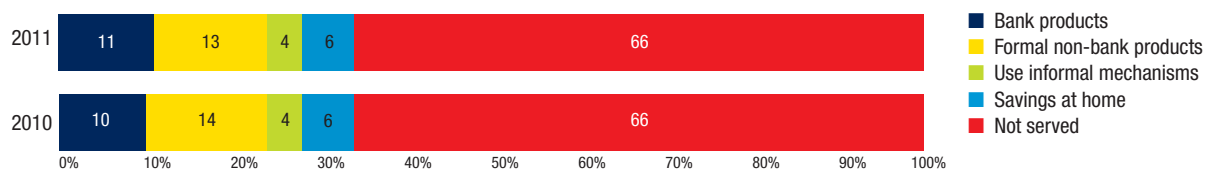


<sup>1</sup> Countries in Africa where FinScope surveys have been conducted

## Savings, borrowing, remittance and insurance

Understanding the levels of financial inclusion is only the first step. While insightful in itself, this understanding is enhanced by exploring the products and services that individuals are likely to have/use under each category of inclusion.

### The Savings Strand



The Savings Strand focuses on the usage of savings and investment products by adult South Africans, resulting in the following segments:

- Individuals who do not have/use savings products/services (66%)
- Individuals who keep all their savings at home (these individuals do not have or use formal or informal savings products or mechanisms) (6%)
- Adults who have a formal savings/investment product (24%), and those who rely only on informal mechanisms such as stokvels (4%)

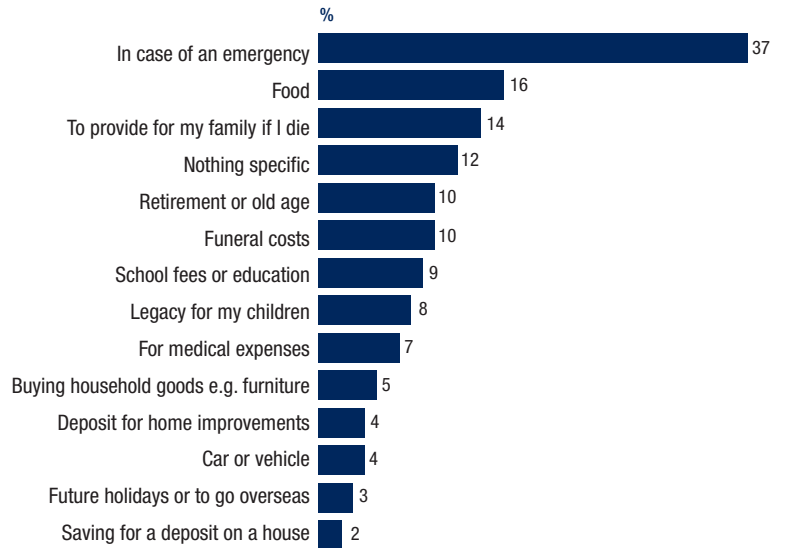




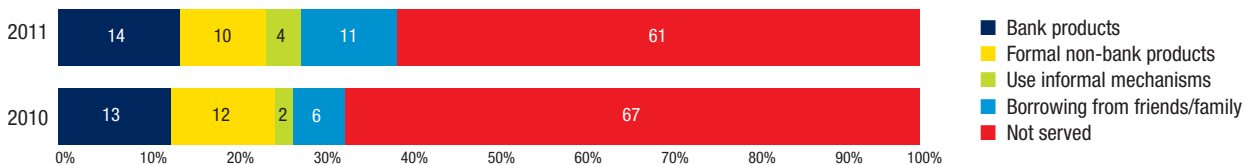
## Drivers of savings

34% of South Africans (16 years and older) have/use savings products, with the main reasons cited for savings being:

- Emergency
- Money for food
- Providing for the family in the event of death



## The Credit Strand

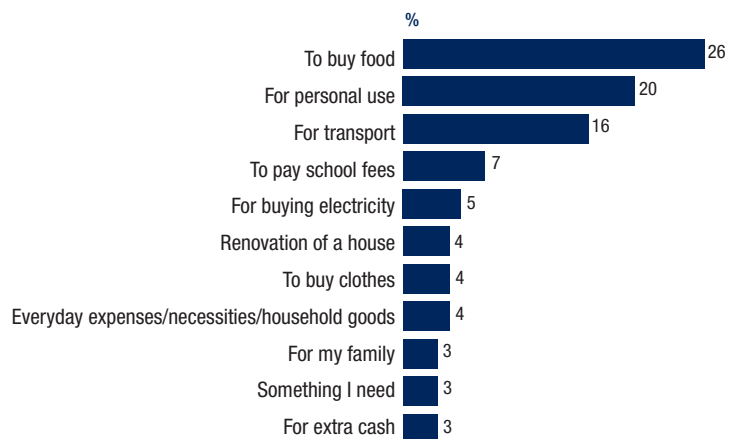


- 14% of South African adults have credit/loan products offered by a bank
- 10% of individuals do not have credit/loan products from a bank, but have credit/loan products from another formal financial institution
- 4% of adults only rely on informal borrowings
- 11% of the adult population do not have any credit products (formal or informal) – if they borrow, they borrow from family and/or friends
- 61% do not use any form of credit products

## Drivers of borrowing

39% of South Africans (16 years and older) have/use credit products. Credit behaviour is driven by consumption and payments of accounts and debts:

- 26% of people who are borrowing, do so to purchase food and/or groceries
- 20% borrowed for unspecified personal use



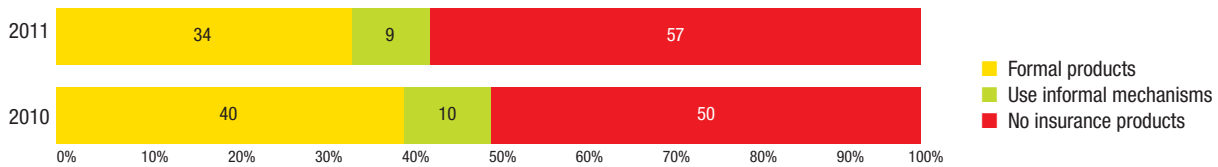




# Making financial markets work for the poor

## Risk and insurance

### Insurance Strand



- 57% of the adult population do not have any kind of financial product covering risk
- 34% have some formal financial product covering defined risk, whilst 9% (3.1 million) of the adult population rely only on burial societies for funeral cover

### Main risks

- Funeral costs
- Death of income earner
- Loss of employment
- Illness/medical expenses
- Natural disasters
- Unable to work

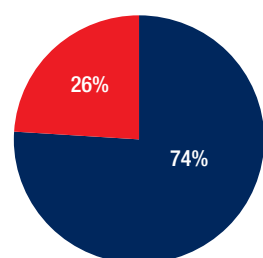
### Main coping mechanisms

- Using savings
- Claiming from insurance
- Borrowing
- Selling something

Just more than half (53%) of the adult population do not know what they would do should their perceived risks happen.

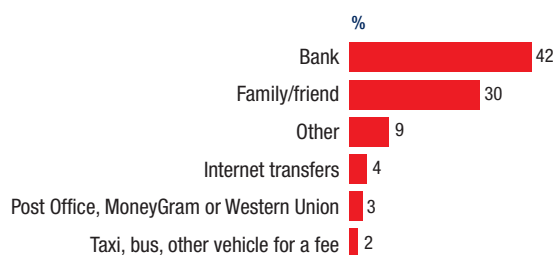
## Incidence of remittances

- 26% of adult South Africans are either sending (5.2 million) or receiving (5.3 million) money to or from family members, parents and children
- 42% of individuals who remitted in the 12 months prior to the survey did so through a bank account or banking product such as MPesa, eWallet or CashSend



- 26% Remittance: Sent/received money
- 74% Did not send/receive money

### Remittance mechanisms

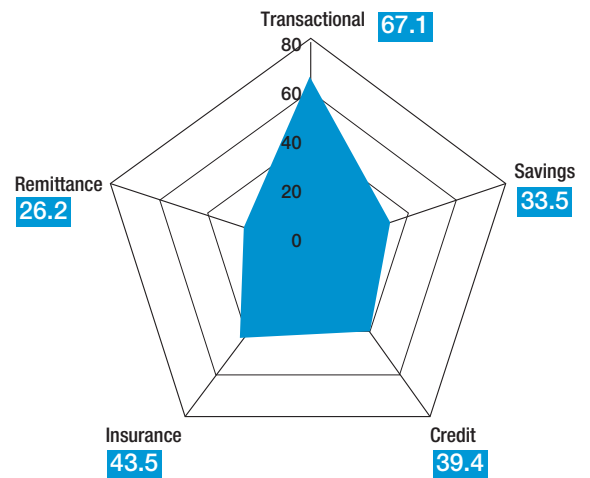




## The Landscape of Access

The FinScope approach uses the 'Landscape of Access' diagram to illustrate the degree to which individuals (aged 16 years and older) have/use financial products and services. The diagram depicts, on its five axes, the percentage of adults that have or use:

- Transactional products/services
- Savings products/services
- Credit products/services
- Insurance products/services
- Remittance products/services



## What is driving the Landscape of Access?

### Transactional

- 83% of the banked population withdraw money from an ATM monthly
- 21% swipe their debit/cheque card at a store/shop monthly

### Insurance

- 31% of adults with financial products covering defined risk have life cover
- 28% belong to a burial society
- 23% have a funeral policy with a bank
- 21% have/use funeral cover
- 20% have/use medical aid

### Credit

- 53% of people who are borrowing, borrow from friends, family and/or colleagues
- 44% have a store card – 98% of adults who have/use store cards claim to use their store card monthly

### Savings

- About a third (30%) of people who are saving, keep their cash or savings at home
- 21% have both investment and deposit (fixed or notice) accounts
- 11% are members of stokvel groups

### Remittance

- 42% remit through bank/banking products such as bank accounts, M-Pesa, eWallet, CashSend



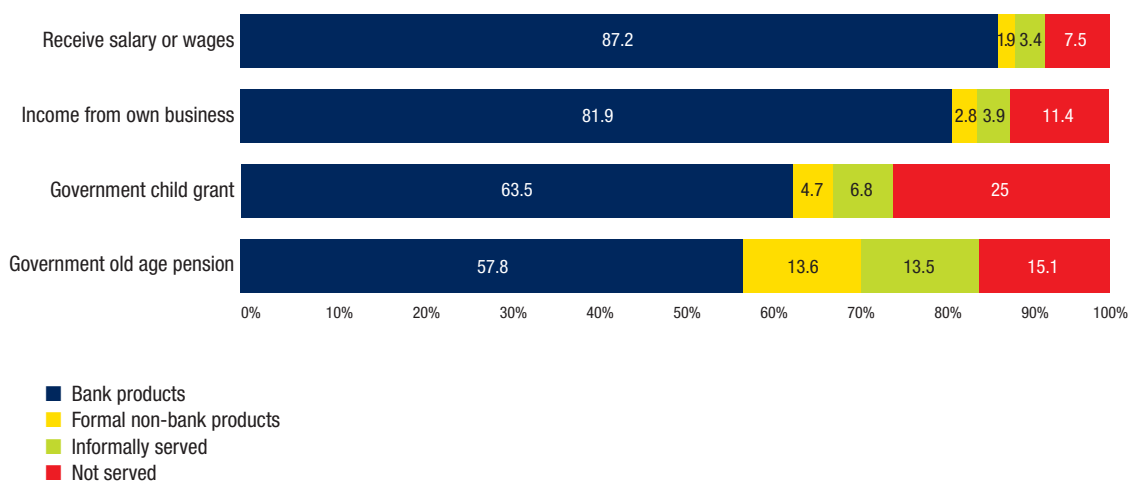
# Making financial markets work for the poor

## Key take-outs

- The financially excluded population (9.1 million individuals) of South Africa is faced with the reality of having to rely on low levels of income:
  - 65% receive money from others
  - 15% are dependent on government grants for income
  - 23% earn less than R1000 monthly

In striving to increase financial inclusion in South Africa, one should consider the following diagram, which endeavours to illustrate that the understanding of both the demand and supply-side is crucial:

## Access Strand based on income source



- 87.2% of the population that receive a salary or wage from a company and 81.9% who receive income from their own businesses, are banked.
  - From a supply-side perspective, formal institutions are likely to target these individuals. From a demand-side perspective, those who receive salaries and wages are likely to need a formal product for the purpose of processing their salaries and wages. The FinScope survey seems to suggest that this market is almost saturated in terms of formal inclusion.
- 32% of the population without formal financial products/services are individuals with small, inconsistent and irregular incomes, such as those who rely on remittance, government grants and piece jobs.
  - From a demand-side perspective the financial behaviour of these individuals is driven by daily needs. They are likely to save and borrow small amounts (informally) – quick access to savings and credit would be a key requirement;
  - Evidence from FinScope surveys suggests that this is often the reason why these individuals resort to informal mechanisms. The challenge for the formal sector is to find ways of leveraging off the informal sector (e.g. through providing services to savings groups) without creating usage barriers for those who depend on these mechanisms.



## FinScope footprint

FinScope surveys have been conducted or initiated in 17 countries (including Pakistan) and this allows cross-country comparisons and sharing of findings which are key in assisting ongoing growth and strengthening the development of financial markets.



## Contact

For further information about FinScope South Africa 2011, please contact:

Jabulani Khumalo  
 jabulanik@finmarktrust.org.za

Tel +27 11 315 9197 | Fax +27 86 518 3579  
 www.finmarktrust.org.za | www.finscopeafrica.com

