

FinScope South Africa 2012



Making financial markets work for the poor

FINSCOPE



Introduction

Increased financial inclusion has been recognised as crucial to encouraging home ownership, household savings plans and the expansion of small business as avenues for pro-poor growth in South Africa. Thus, increased financial inclusion is recognised as a vehicle for sustainable and inclusive growth development by the South African Government.

Government has undertaken a number of initiatives to accelerate financial inclusion over the years, which has included promoting entry into the banking sector; creating an enabling framework for cooperative banks, facilitating the entry of smaller dedicated banks, improving the governance arrangements of Postbank, introducing deposit insurance for cooperative banks, amongst others. The challenge for the financial sector is how to address the concerns of the unbanked and under-banked customers and provide them with solutions within the context of the structure of each financial institution and the regulatory environment.

The FinScope survey is a research tool which was developed by FinMarkTrust. 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 in 16 countries.

FinScope South Africa is neither a private sector, nor a wholly 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 FinScope South Africa are:

- 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 to increase and deepen financial inclusion.

FinMarkTrust, an independent trust based in Johannesburg, South Africa, was established in 2002, and is funded primarily by UKaid from the Department for International Development (DFID) through its Southern Africa office. FinMarkTrust's purpose is 'Making financial markets work for the poor, by promoting financial inclusion and regional financial integration'. FinMarkTrust 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, ranged from major banks, to life and short term insurance service providers, the retail sector, as well as various regulators and Government Departments such as the National Credit Regulator, the Financial Services Board and the National Treasury.

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

2012 syndicate members



How to become a syndicate member and benefit from FinScope

Any organisation can be a FinScope South Africa syndicate member through paying a participation fee which is determined by dividing the survey costs between syndicate members. FinMark Trust facilitates the implementation of the survey on a year-to-year basis but, being a not-for-profit organisation, seeks no profit through its implementation. The survey costs are on a recovery basis only.

Syndicate members can provide input into questionnaire development and have full access to the FinScope dataset as well as the findings once the survey findings have been launched. The dataset is supplied to syndicate members in the software format they require – e.g. SPSS, Esprit, Softcopy etc. Syndicate members, therefore, have the benefit of a full national survey at about a tenth of the cost of conducting such a study on their own.

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);
- 3900 face-to-face interviews conducted by TNS during June to August 2012.

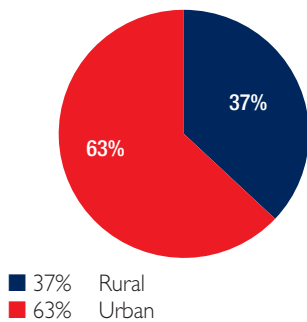


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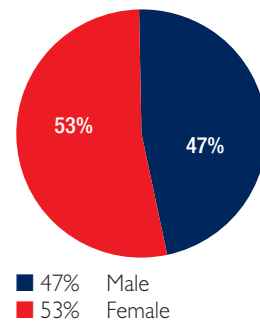
Understanding the lives of South Africans

- South Africa is largely urbanised with more than a third of the population (37%) living in rural areas;
- 41% are under the age of 30 years (an age that FinScope data shows as not yet economically settled);
- 50% of South Africans receive money through a formal salary/wage or generate their own income, while 33% receive money from others and 29% receive government grants;
- 51% of the adult population earn less than R2000 per month (including 12% who do not have an income at all).

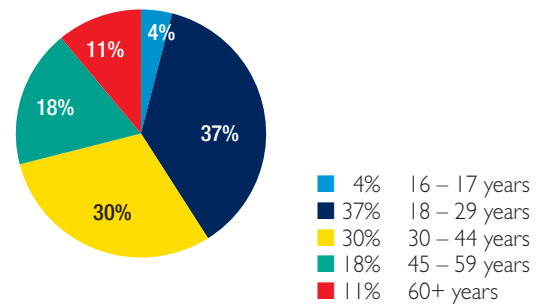
Urban/Rural



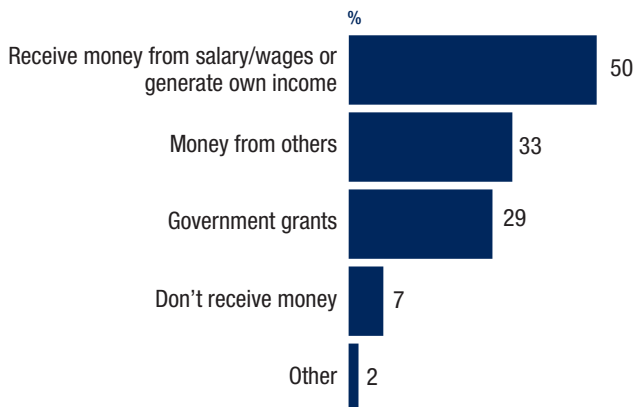
Gender distribution



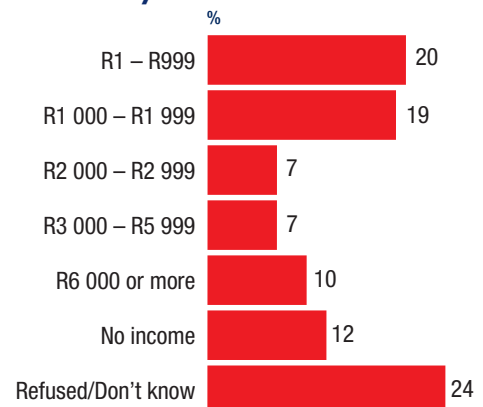
Age distribution



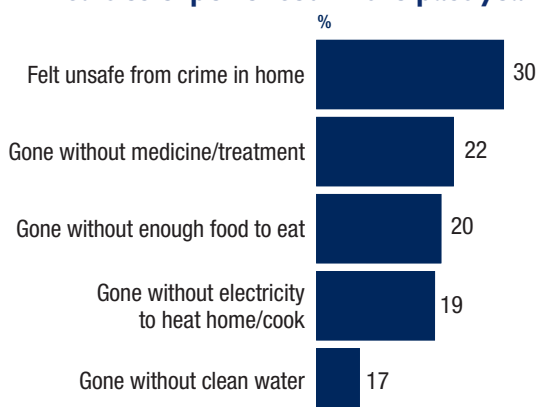
Sources of income



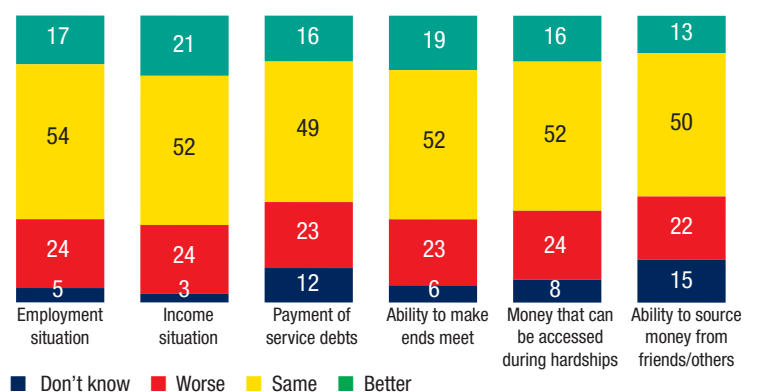
Personal monthly income



Difficulties experienced in the past year



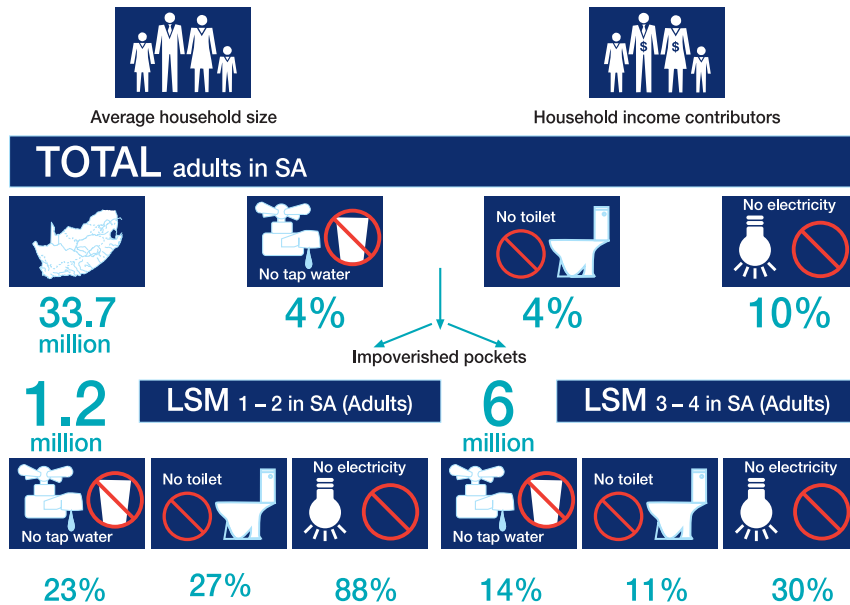
Household financial situation compared with previous year





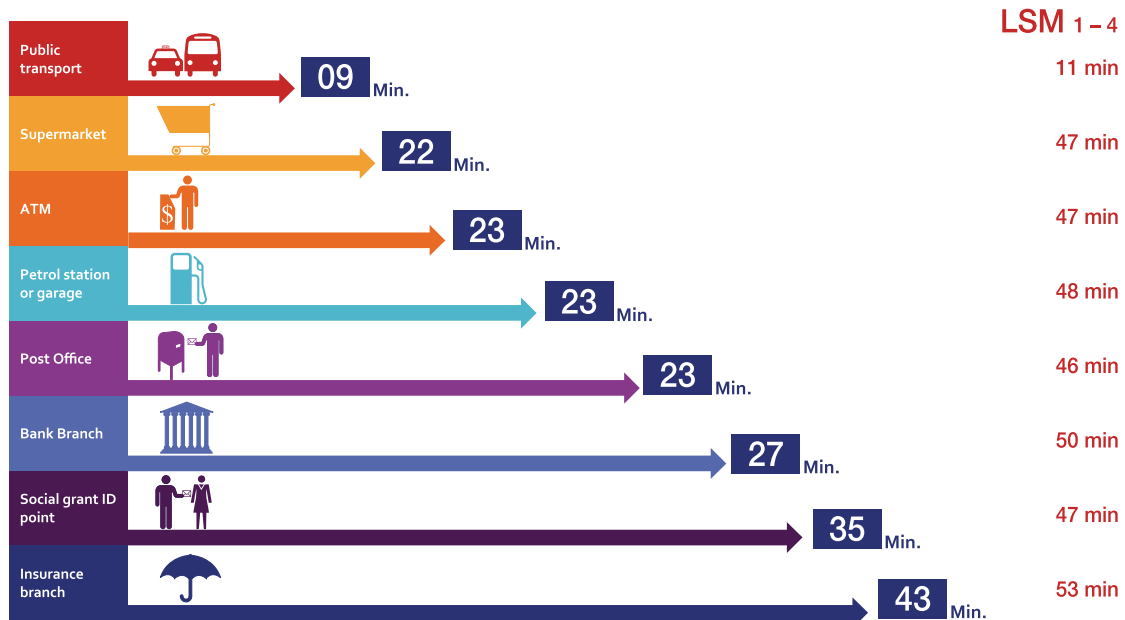
Contextualising the drive for greater financial inclusion – pockets of poverty in South Africa

- 53% of adult individuals say their household employment situation is the same as that of 2011, while 24% say it has worsened;
- 7.2m adults (21% of population) fall in LSM 1 – 4 and have limited access to infrastructure. 62% of this group live on tribal land;
- For the 12 months preceding the survey, 20% of households claimed to have often or sometimes gone without enough food to eat because they did not have enough money to buy food.



How do we best service people?

While South Africa has fairly good infrastructure in urban areas, rural infrastructure is difficult to access particularly for poor people. The challenge is to find innovative solutions to reach these people, who live outside the core urban infrastructure.

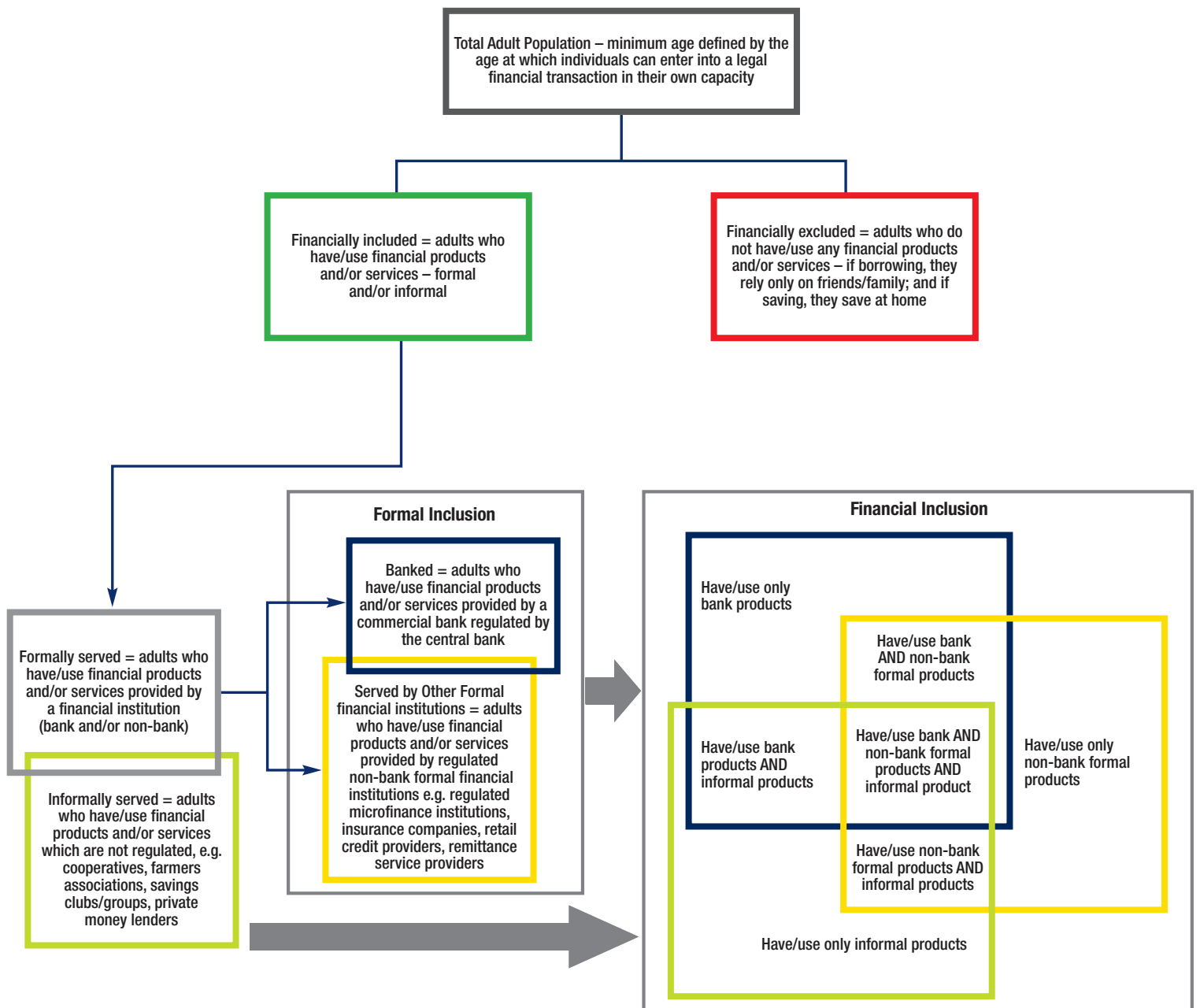




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Financial inclusion

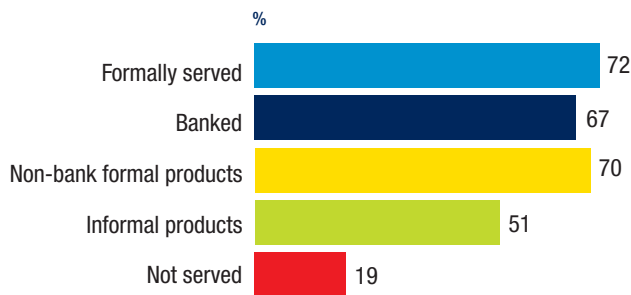
The FinScope survey uses the following categorisation to describe levels of financial inclusion:





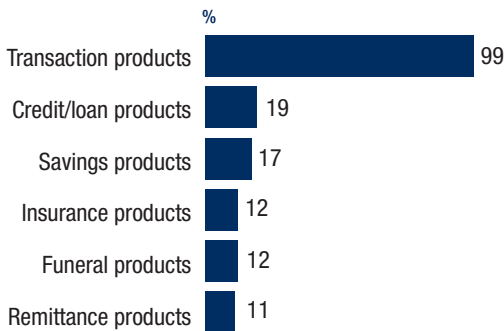
Financial inclusion in South Africa

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



- 72% of adults are formally served, including both banked and other formal bank products/services;
- 67% of adults are banked;
- 70% of adults have/use other formal non-bank products/services;
- 51% of adults have/use informal mechanisms for managing their finances;
- 19% have/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 a reliance on family and friends.

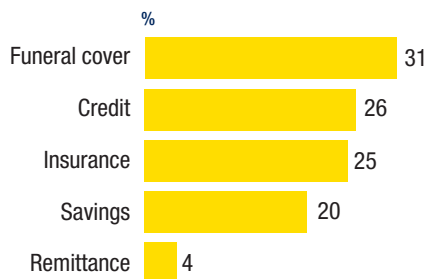
What drives banking?



Bank usage in South Africa is mainly driven by transactional products:

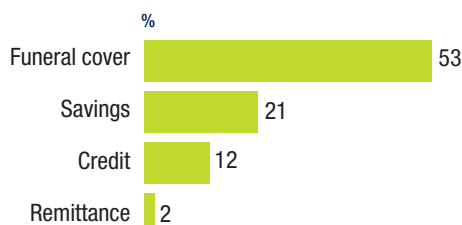
- 99% of banked adults have/use transaction products;
- 19% have/use credit products;
- 17% have/use savings products;
- 12% have insurance and funeral products respectively;
- 11% use the bank/banking products for remittance purposes.

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

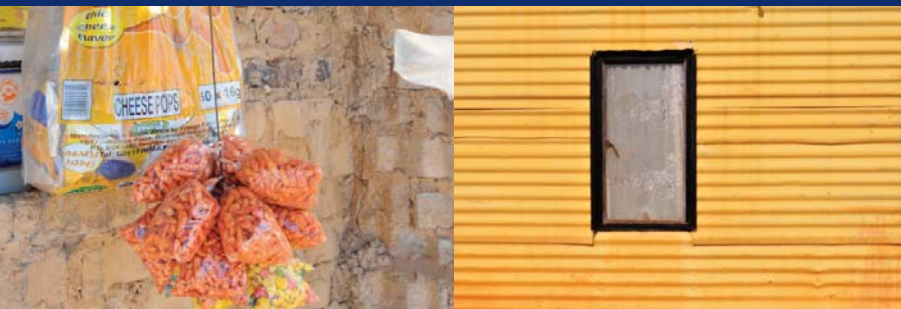


- 31% of adults who use non-bank formal products have/use funeral cover products;
- 26% have/use credit products such as store cards;
- 25% have/use insurance products that include short-term and long-term products;
- 20% have/use savings products;
- 4% use remitting products/services such as Post Office or MoneyGram.

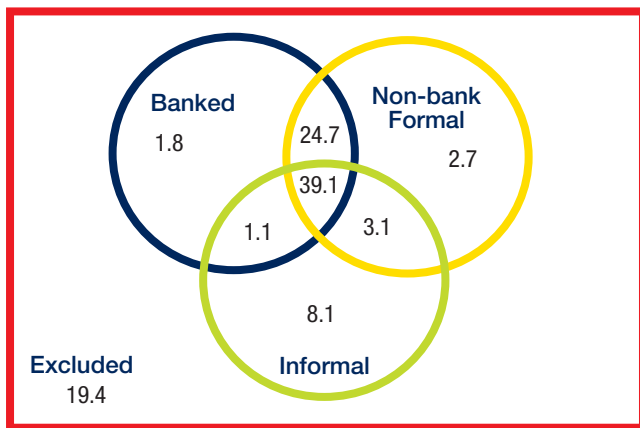
What drives the use of informal products?



- 53% of adults who use informal mechanisms are members of burial societies;
- 21% of adults belong to stokvels/savings groups;
- 12% borrow from informal lenders such as mashonisa;
- 2% use informal remittance mechanisms such as paying taxi or bus drivers to take money to those they support financially.



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Overlap in product usage

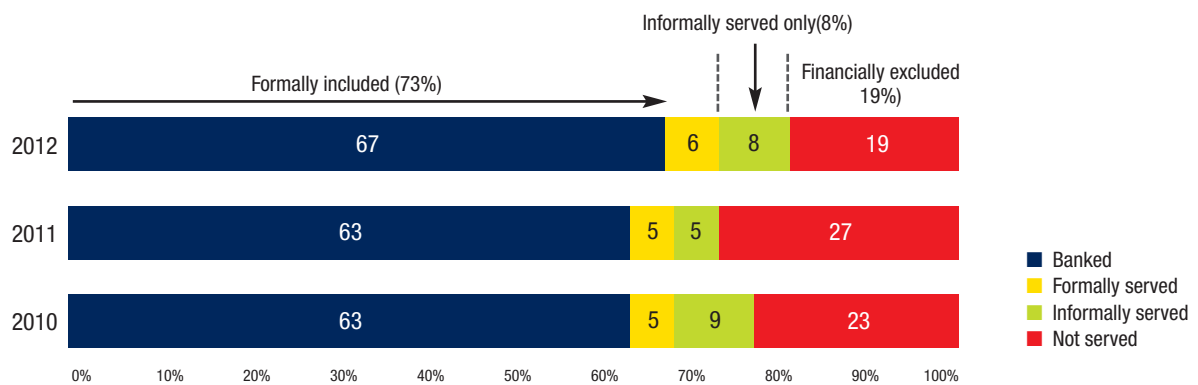
Consumers generally use a combination of financial products and services to meet their financial needs. Someone could for example be banked, and receive his/her salary through a bank account, but could also belong to a savings group to enable him/her to get quick access to money during an emergency or for unforeseen expenses.

- Only 2% of adult individuals rely exclusively on banking services;
- Almost 40% use a combination of formal and informal mechanisms to manage their financial needs, thus indicating that their needs are not fully served by the formal sector.

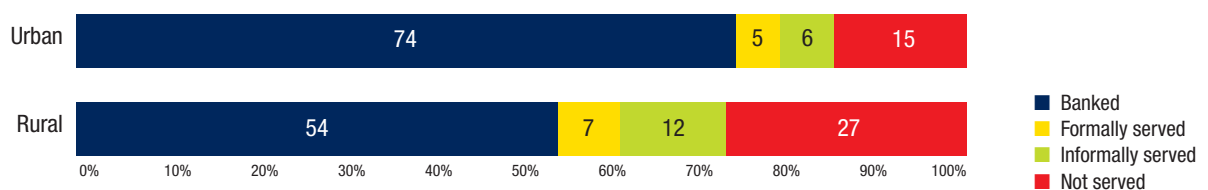
Access Strand for South Africa

The FinScope approach uses the Financial Access Strand to understand financial inclusion. In constructing this strand, the overlaps in financial product/service usage are removed, resulting in the following segments:

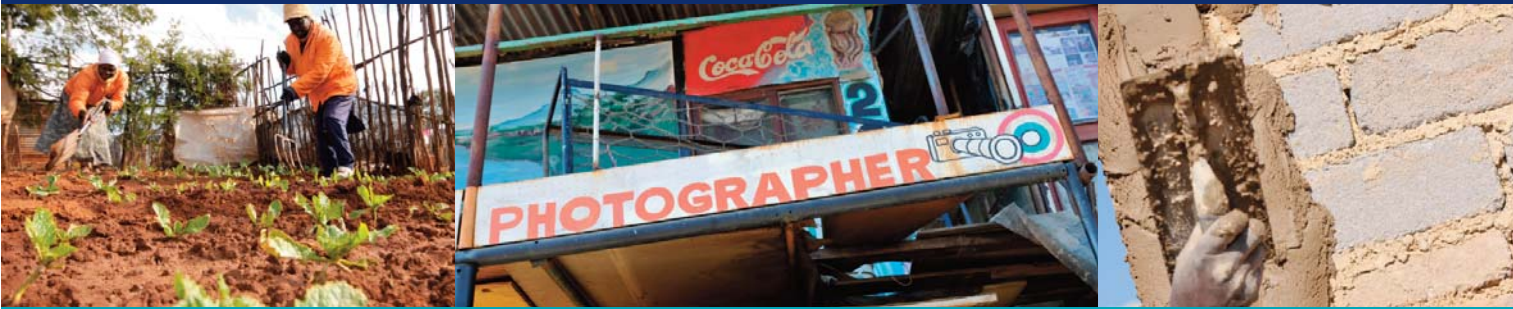
- Individuals who have/use commercial bank products (67%) – a significant increase (4%) compared to 2011;
- Individuals who have/use formal non-bank products/services but no commercial banking products (6%);
- Individuals who only rely on informal mechanisms and no formal products (8%);
- Financially excluded individuals (19%) (i.e. do not use financial products – neither formal nor informal – to manage their financial lives).



Comparing rural and urban

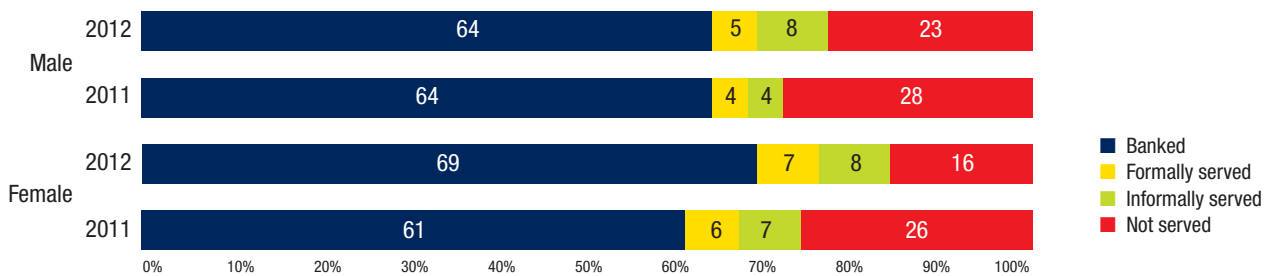


- There are significant differences between rural and urban levels of financial inclusion - while about three quarters of South Africans are banked in urban areas, only 54% of adults in rural areas have/use commercial banking products;
- The informal sector plays an important role in pushing out the boundaries of financial inclusion, which is more pronounced in rural areas.



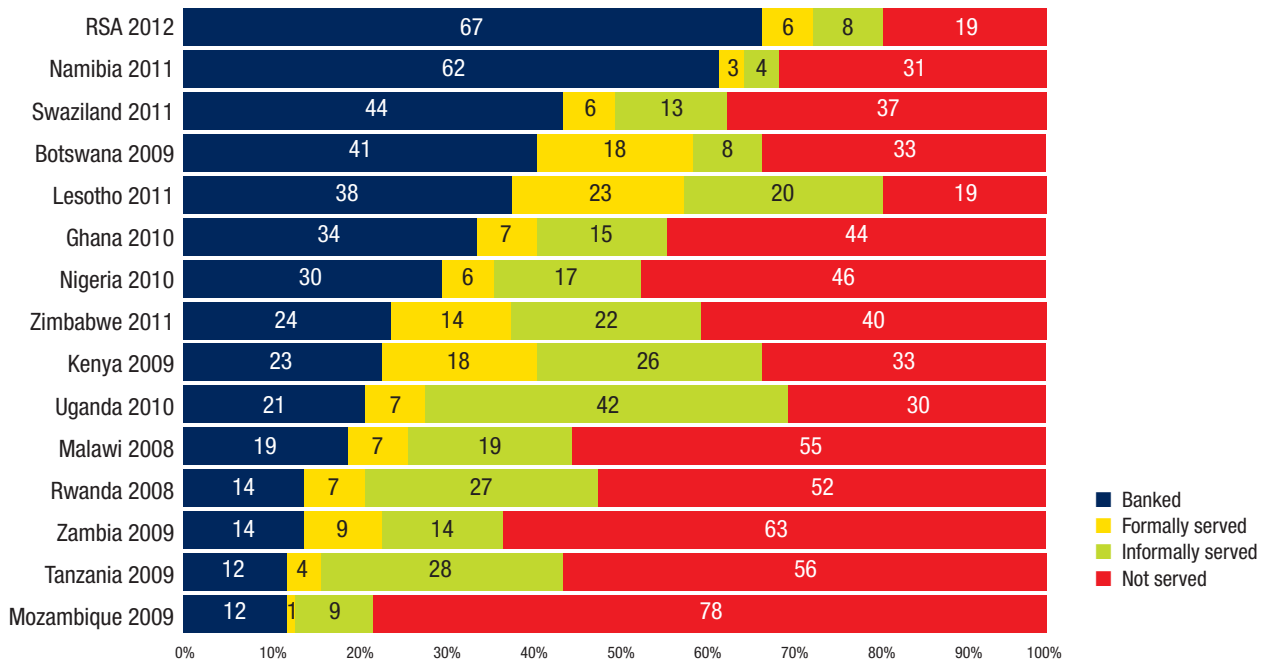
Comparing male and female

- Adult females are more likely than adult males to be financially included (84% compared to 77% respectively);
- More women than men are banked in 2012 largely due to the new South African Social Security Agency (SASSA) system. Hence, women are moving faster into the banking system than men.



Comparing levels of financial inclusion in Africa

A comparison of the South African Access Strand with that of other countries where FinScope surveys have been conducted.



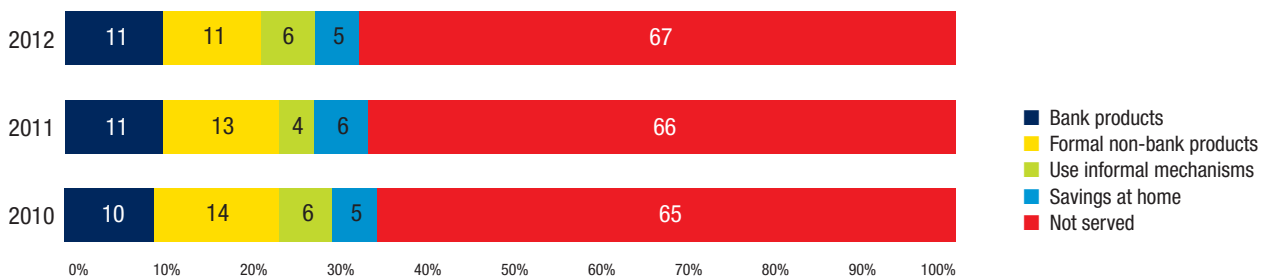
Understanding the levels of financial inclusion is only the first step. While insightful in itself, understanding is enhanced by exploring the products and services that individuals are likely to have/use under each category.

Making financial markets work for the poor

Savings and investment

- 67% of South Africans do not save;
- 5% keep all their savings at home (these individuals do not have or use formal or informal savings products or mechanisms);
- 6% rely only on informal mechanisms such as savings groups;
- 11% have/use other formal (non-banking) products and do not have savings products from a bank;
- 11% individuals have/use savings products from a bank.

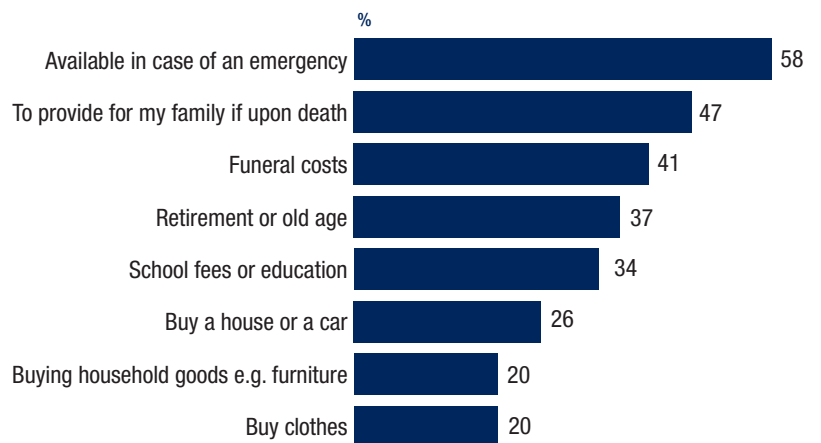
The Savings Strand



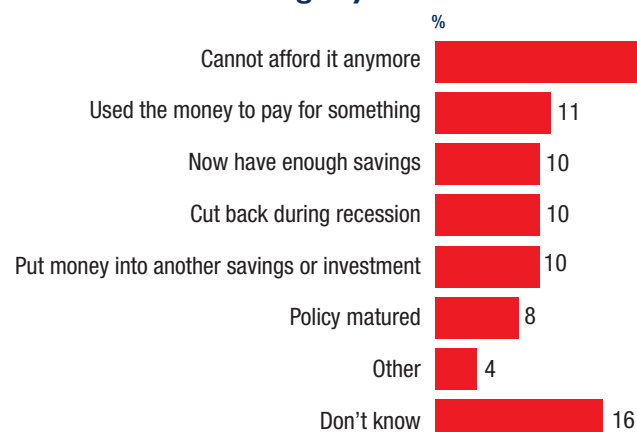
Drivers of savings

58% of adults in South Africa claim that it is important to have money available in case of an emergency. Other reasons for people to save include:

- Providing for the family in the event of death (47%);
- Funeral (own or someone else) (41%);
- Old age/retirement (37%);
- Education/school fees (34%).



Reasons for not saving anymore

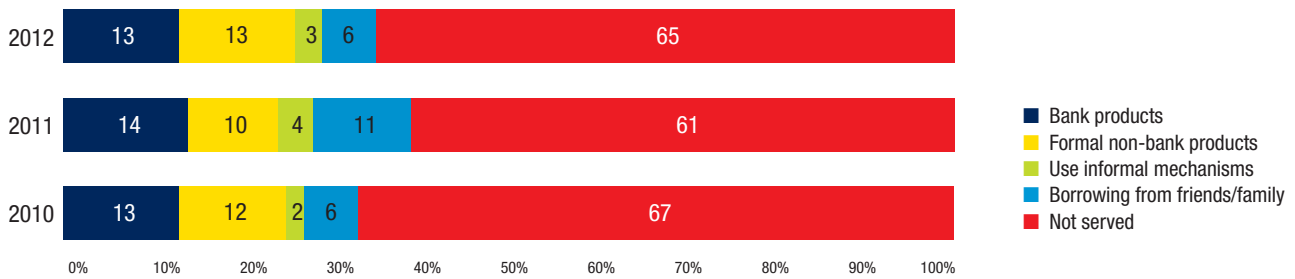


- Of those who have had investment/savings products, 47% state that they no longer have this because they cannot afford it anymore.



Borrowing and credit

The Credit Strand



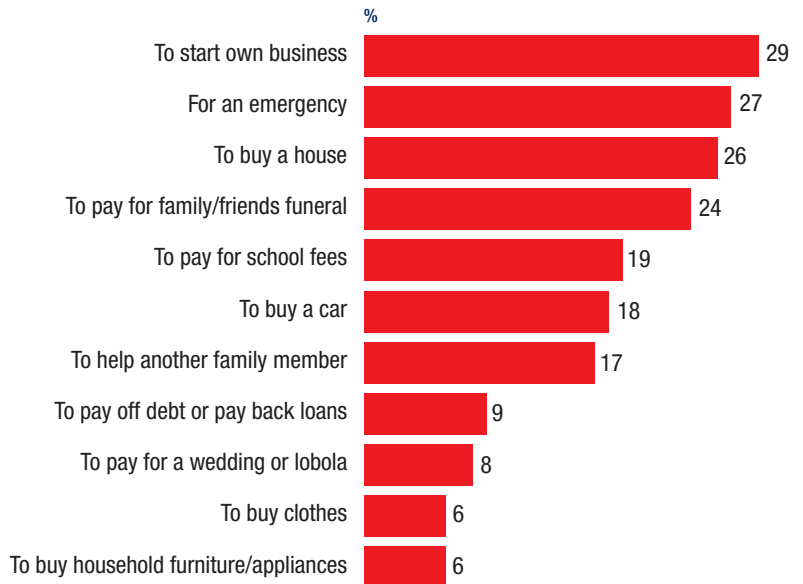
- 13% of South African adults have credit/loan products offered by a bank
- 13% individuals do not have a credit/loan product from a bank, but have a credit/loan product from another type of formal financial institution;
- 3% of adults rely only on informal borrowings;
- 6% of the adult population do not have any credit products (formal or informal), they only borrow from family and/or friends;
- 65% do not borrow.

Borrowing needs

- 29% of adults in South Africa claim that they definitely would borrow money to buy or start their own business;

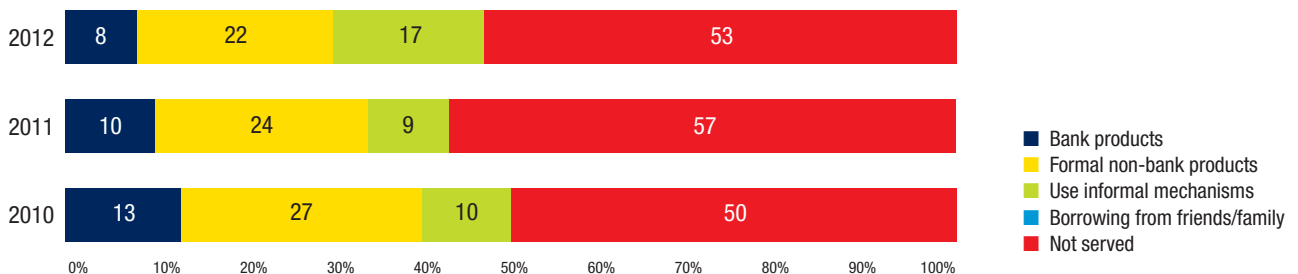
Other reasons people borrow include:

- For an emergency (27%)
- Buying a house (26%)
- Paying for funeral costs (24%)



Insurance Strand

- 53% of the adult population do not have any kind of financial product covering risk;
- 30% have some formal financial product covering defined risk, whilst 17% of the adult population rely only on burial societies.





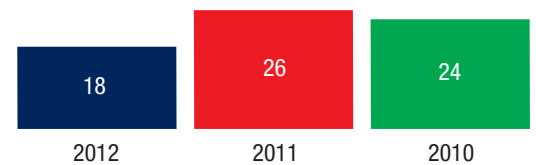
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Remittance

Incidence of remittances

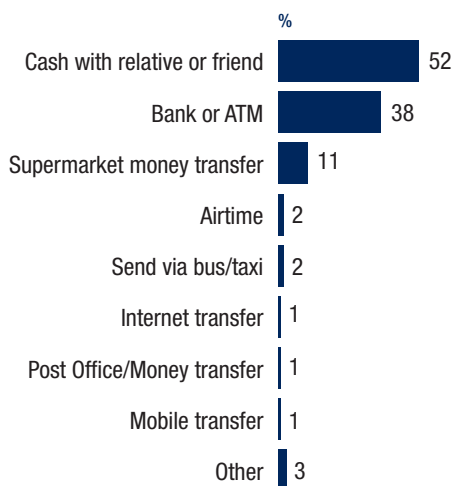
- 18% of adults in South Africa either sent or received money to or from family members, parents, and children within South Africa;
- 4% of remittance receivers, received money from people who live outside South Africa;
- 7% of remittance senders, sent money to people who live outside South Africa.

Sent/received money



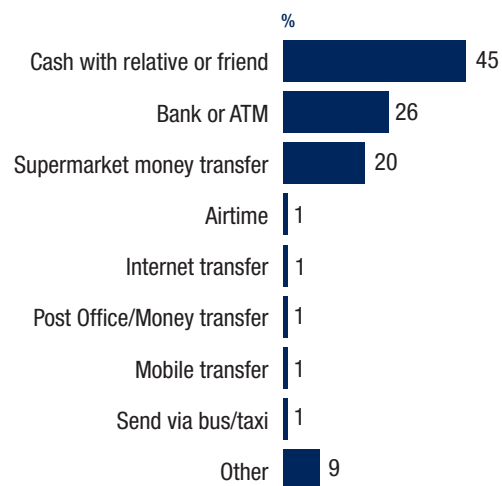
Remittance mechanisms

Channels used for receiving money from people living outside ones household



- 52% received money in cash from a friend or relative;
- Of those who received remittances, 78% received money at least once a month.

Channels used for sending money to people living outside ones household

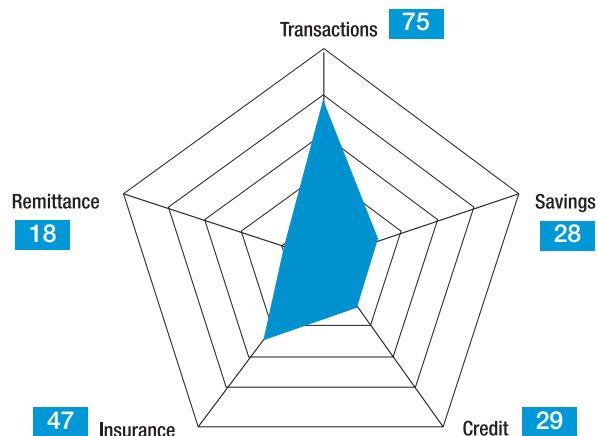


- 45% of those who sent money, did so in cash through a friend or relative;
- 26% of individuals who remitted in the past 12 months prior to the survey did so through a bank or ATM;
- Of those who sent money, 87% did so once a week.

The Landscape of Access

The Landscape of Access looks at the types of products taken up by consumers and describes the percentage of adults that have or use formal and informal products/mechanisms (excluding those who borrow or save from/with friend and family):

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





Key take-outs

Although financial sector interventions are aimed at increased inclusion, the lives of consumers will only be improved if the products and services that they take up are used for the purposes of their financial needs.

FinScope South Africa 2012 illustrated that 73% of adult South Africans are formally included and that:

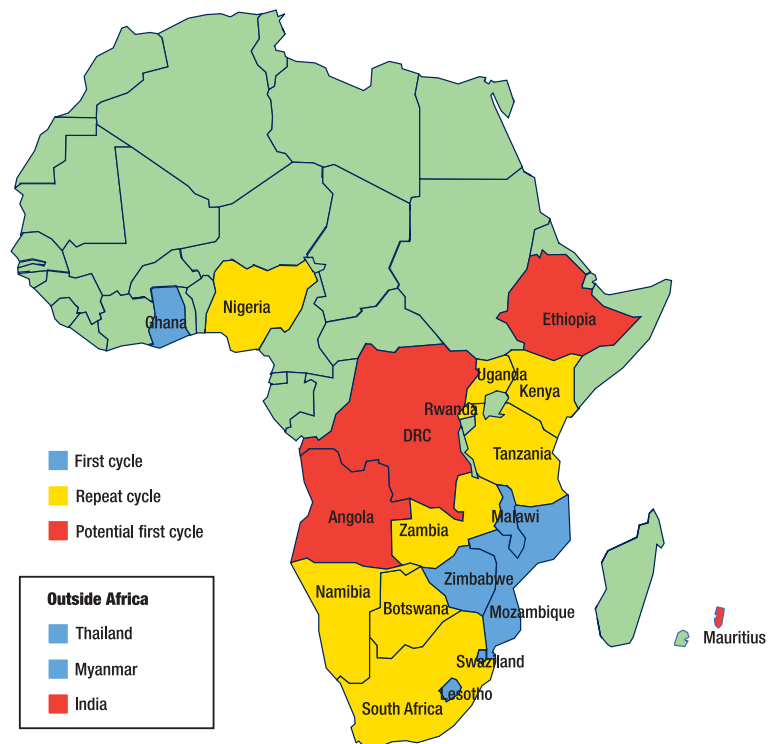
- The proportion of adults who are banked has increased from 63% in 2011 to 67% in 2012;
- Due to the new SASSA system, more women than men are now in the banking system;
- The informal sector plays an important role in financial inclusion, particularly in the rural areas. Almost 40% have a product portfolio stretching from bank to formal non-bank to informal;
- Current products/services seem to focus on adults who receive a regular salary. Although formal institutions are likely to target these individuals, a large portion of the South African population are not regular salaried employees;
- Rural areas of South Africa remain impoverished. Those who live mostly in the rural areas are hard to reach and they find it difficult to access formal channels. The challenge is to have innovative solutions to reach these people.
- Consumer financial services needs are balanced with a complex interplay of low incomes to meet their insurance, savings, borrowing needs, often at the expense of one or the other.

The challenge for deepening financial inclusion in South Africa is to find ways of balancing both the formal and informal sector offerings to meet consumer needs, without creating usage barriers for those who depend on these mechanisms.

FinScope footprint

FinScope surveys have been conducted in 16 countries (including Pakistan). This allows for cross-country comparison and sharing of findings which are key in assisting ongoing growth and strengthening the development of financial markets.

FinScope South Africa 2012 contains a wealth of data based on a nationally representative sample of the adult population of South Africa. The dataset which was collected under the syndicate funding model is available in SPSS format from FinMark Trust at a cost.



Contact

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