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Big increases in banking and burial society membership - an overview of facts and figures from FinScope™ South Africa 2007

For the third year in a row there has been a marked increase in the take-up and use of financial products in South Africa. FinScope™ South Africa shows that this trend continued in 2007, with a dramatic improvement in the number of people who are banked, and that the drive to bring more people into the banking system appears to be working. While uptake of most types of financial services grew, the funeral sector, and particularly informal burial societies, was the standout product in 2007.

The net result is that three out of four South Africans use some form of financial product, compared with only two out of three last year. South Africa is becoming a more financially inclusive society,

Concerns over having enough money for old age, the continuing struggle with debt, and the need to provide for basic food and shelter are widespread. Fear of crime continues to rise, and those sectors of society that are least able to protect themselves, both physically and financially, live with the most fear. Nevertheless, people generally feel more connected and optimistic than they did twelve months before and also more in control of their financial lives.

FinScope™ SA 2007 offers a comprehensive set of data on a range of financial arenas and highlights past trends and potential growth opportunities. A few key findings are detailed below:

Banking

- ❑ The proportion of the South African population 16 years and older with a bank account reached 60% in 2007. This is not only a significant increase in growth from 2006, when it was 51% (and 2005 when it was 46%) but also an increase in the growth *rate* of the banked population. The growth rate was measured at 11% per annum in 2006 and was up to 20% in 2007. In contrast, the growth rate of South African adults in general is in the region of only 1%. Growth in banking has therefore far outstripped growth in the population as a whole.
- ❑ The Financial Sector Charter, signed in October 2003 by those committed to extending access to formal financial institutions, contains a significant target of ensuring that 80% of LSM 1-5 South Africans have effective access to first-order retail banking products by 2008. Although the proportion of banked adults in LSM 1-5¹ is recorded at only 44%, this segment has seen a growth rate of 26%, bigger than any of the higher LSM segments. In addition, a further 4% of

¹ LSM or Living Standards Measure is a categorisation ranging from 1 to 10 used extensively by marketers and advertisers as a means to segment the population. It is crude proxy for wealth, with the lower LSM groups comprising the most impoverished end of the spectrum. LSM figures are based on the 2005 algorithm.

this segment has access to first-order retail banking products by using someone else's bank account.

- ❑ The expected correlation between being banked and wealth has been confirmed by the FinScope™ data on a yearly basis, but interestingly, 6% of adults in LSM 8-10 still do not have a bank account.
- ❑ Entry-level banking products remain at the top of the list of products used, with 55% of adults having an ATM card and 43% using a savings/transaction account. The next highest are debit cards, Mzansi accounts and credit cards at 25%, 10% and 9% respectively.
- ❑ On using these products, 98% of banked adults claim to use their bank accounts to withdraw cash. Cash deposits are the next highest transaction at 53%. This is followed by balance enquiries and statement requests at 32% and 25%.
- ❑ There is little difference between the proportion of banked female adults and banked male adults at 59% and 61% respectively. This compares favourably with the 2005 study, which showed that the proportion of banked female adults and banked male adults was 50% and 44% respectively. The gender gap in banking appears largely to have been closed.
- ❑ Despite the increase in banking use in 2007, there is still a marked desire for education on banking and finances, with 29% wishing to learn how to make effective use of savings products, 27% wanting to know how interest rates work, 24% asking for information on drawing up and managing a budget effectively, and 21% seeking to understand how interest rates are calculated.

Mzansi account

- ❑ Use of an Mzansi account has increased from 2% in 2005 to 6% in 2006 and 10% in 2007. In real number terms, more than one million new Mzansi accounts were opened in the 12 months preceding the survey. A further 9% of the population has considered opening one.
- ❑ Mzansi appears to be well-targeted at its intended customer base - 800 000 new Mzansi accounts were opened by LSM 1-5 in 2007.
- ❑ Awareness of the Mzansi account is on the rise, having increased from 46% in 2005 to 55% in 2006 and 62% in 2007.
- ❑ Despite this increased awareness, more than half the adult population, around 57%, say they do not know enough about Mzansi. However, 85% of those aware of Mzansi, perceive it to be a product for all South Africans, making Mzansi a product that is poised to continue to grow, provided the desired information is adequately available.
- ❑ Despite the growth and positive impact that Mzansi has had on the financial arena by making banking more affordable, among those aware of the product, one-third claim that they still cannot afford the bank charges.

Insurance

- ❑ Asset insurance has increased from 9% in 2006 to 11% in 2007, but 62% of respondents still say they would not consider taking out short-term insurance.
- ❑ Interestingly, car insurance figures have remained static despite an approximate 20% increase in car ownership, highlighting the increasing number of uninsured cars on the road. Similarly, despite 6% of adults claiming to have a home loan, only 3% claim to have homeowners' insurance.
- ❑ Short-term insurance has made no inroads into the LSM 1-5 category where use is practically non-existent.
- ❑ Figures for life insurance, loss of earnings insurance and medical insurance remained relatively static at around 10%, 4% and 10% respectively in 2007.
- ❑ The highest reason for not having any insurance is the lack of a job and this was claimed by between one in four and one in five of those who are uninsured.
- ❑ Recognition of the Zimele standard, the long-term insurance industry's proposition for the Financial Sector Charter, is negligible. This may be because the standard is still relatively new in the financial market.

Savings and investment

- Half the adult South African population (50%) try to save regularly while an almost equal proportion, 46%, are worried that they will not have enough money for old age. These figures are almost a reverse of 2006 when 43% tried to save and 51% worried about having enough money.
- This increase in positive attitude and ability to save is reflected in the proportion of South African adults who have some sort of retirement fund, increasing from 10% in 2006 to 13% in 2007. Similarly, investments have increased from 5% to 8%. The use of stokvels has declined slightly in the last year from 7% in 2006 to 6% in 2007.
- The savings mechanism used is linked to the reason for saving. Those keeping cash at home are most likely to be saving for medical emergencies or food; those who use informal savings clubs are most likely to be saving for emergencies or school fees; and those saving for retirement are more likely to have shares or endowment policies.

Debt

- A major event in South Africa's financial markets in 2007 was the introduction of the National Credit Act on 1 June 2007. Provisions in the Act, such as those dealing with reckless lending or disclosure, were intended to address the growing problem of overindebtedness, which FinScope™ South Africa has tracked for several years.
- The following statements, and their respective prevalence among the adult South African population, reflect a strong awareness of the pitfalls of debt.
 - *"You hate owing money to anyone"* - 88% agree.
 - *"Taking loans should be avoided as much as possible"* - 73% agree.
 - *"When buying on credit, it ends up being more expensive than you thought it would be"* - 70% agree.
 - *"You make sure every month that you have enough money to pay your accounts or instalments"* - 45% agree.
- On the flip side of the same coin, these statements help to explain why many South African adults are struggling to manage their debt.
 - *"You never seem to be able to pay off your debt, your debt just keeps on getting worse"* - 14% agree.
 - *"If you don't have enough money to pay all your debts, you pay one debt one month and the next month you pay another debt"* - 26% agree.
 - *"You love spending money to buy things, even if you have to use credit to do so"* - 25% agree.
- More than half of the adult population, around 53%, prefer to turn to people they know in times of need, rather than dealing with a large or formal organisation.
- More than five million adults, or 16% of the population, claim to have a store card which is used to defer payments until later. This is the highest claimed formal loan source, followed by a loan from a friend or family (5%) and then from a bank (4%). It is possible that these figures may be under-claimed because of the stigma of borrowing money.
- Only 22% of the adult population claimed to have heard of the National Credit Act and know what it meant; a further 22% had heard of it but did not know what it meant.
- When asked, 23% of credit users thought that the National Credit Act meant that all previous credit obligations would fall away.
- The National Credit Act had been in effect for three to six months during the time of fieldwork.

Housing

- Housing conditions are improving with 77% of the population now living in a brick house, compared to 71% in 2006.
- Eighty percent of the South African adult population claim that their home is owned by the household, of which 32% were inherited, 18% were given by a living family member, and 18% were built by the household.

- ❑ Only one-third of the population see their home as an asset that will grow in value, but this is up from one-quarter in 2006.

Funeral cover and burial societies

- ❑ Forty-six percent of South Africans 16 years and older claim to have funeral cover of some kind. This is an increase from 39% in the previous year and represents more than 14,5 million people. This figure is relatively high compared to the use of other financial insurance products, and is in part explained by the fact that 4% of South African adults experienced the death of a main wage earner in the household in the year prior to the study.
- ❑ Almost all of the increase can be attributed to increased membership of informal burial societies, up from 19% to 29%.
- ❑ The financial burden of a funeral, in addition to the emotional burden, is difficult for people struggling to make their earnings cover the cost of basic necessities. Although more than one-quarter of those people holding some form of death policy do not know what they would be paid out in the event of a death, the expected payout among those who do is R6 000. Given the number of households that have lost a main wage earner, this figure is rather alarming. Although funeral insurance may assist in the funeral costs, that main wage earner, along with an average of only one other minor wage earner, would have been responsible for bringing in an average household income of almost R5 000 every month.
- ❑ The market is dominated by informal offerings, with 29 % of adults over the age of 16 belonging to a burial society and 21% having some other funeral policy. In addition to burial society membership, a further 18% of people benefit from someone else being a member of a burial society.

Telecommunication

- ❑ The percentage of adult South Africans 16 years and older who use a cellphone is 66%, a figure representing almost 21 million people and almost five times more than the number using Telkom landlines (14%). In 2006, the percentage of cellphone users was 53%: there had therefore been growth of 25% in the 12 months preceding the 2007 study. Interestingly, the biggest growth rate is in the LSM 1-5 sectors, where the penetration rose from 40% in 2005 to 54% in 2007.
- ❑ Unsurprisingly, the number of prepaid cellphone users outweighs the number of contract cellphone users. But the gap between these two user groups is huge with prepaid users outnumbering contract cellphone users by a factor of ten.
- ❑ With the functionality of cellphones increasing, it is no surprise that making calls is not the only use claimed, The average user frequently uses 2.8 functions on his/her cellphone. Use patterns are as follows:
 - Making calls (99%)
 - SMS/MMS services (84%)
 - Games and entertainment (26%)
 - Photo/video functions (22%)
 - Organisational functions - diary, calendar, reminders, alarm (18%)
 - Buying and selling airtime via phone (12%)
 - News and information obtained via a cellphone (10%)
 - Mxit/MIG (7%)
 - Banking (4%)
 - Internet services (3%)
- ❑ From these figures, it can be seen that cellphone banking has not made a significant entry into the financial arena as yet: it is used almost exclusively by those in LSM 5 and above.

Quality of life

- ❑ South Africa is becoming wealthier with the average household income increasing by 14%. In monetary terms, the average household income increased from R4 200 in 2006 to R4 800 in 2007. Access to amenities, on both the basic everyday level as well as luxury goods, has also increased.
- ❑ Despite the increased wealth, household sizes are increasing, requiring the household income to stretch further from an average household size of 4.8 in 2006 to 5.2 in 2007. The number of children in the household also continues to increase in spite of the declining birth rate, highlighting the fact that many families are caring for children who are not their own.
- ❑ Unsurprisingly, there has been an increase in the number of people feeling unsafe from crime from 36% in 2006 to 39% in 2007. The crime rate, along with persistent high levels of unemployment, continues to have far-reaching negative consequences for many people in the country.

The great divide between the rich and the poor remains starkly evident. While there are extremely encouraging increases in the penetration of financial services products, both formal and informal, and encouraging improvements in basic living conditions, there are now even more pressures on household amenities and finances. Households are becoming larger and people are living in ever increasing fear of crime. South Africa continues to be a highly polarised society, with enormous inequality.

FinScope™ was launched in 2003 by the FinMark Trust. It establishes 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 2007, 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 September and November 2007. A nationally representative sample was drawn, which was weighted and benchmarked to the 2007 mid-year estimates based on the Census 2001 estimate information.

The 2007 South African syndicate members are: Absa, African Bank, First National Bank (FNB), Liberty Life, Metropolitan, National Treasury, Nedbank, Old Mutual, Post Office, Zurich, Sanlam and Standard Bank.