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The banked population drops during the recession - especially amongst the young and poor

New facts and figures from FinScope 2009

FinScope South Africa is a comprehensive survey of financial use and behaviour that tracks changes on a yearly basis. With South Africans and the rest of the world trying to surface from a recession, the challenges facing the nation continue to be immense.

Below are some of the highlights of the key areas from the 2009 survey.

Banking – the banked population declines but Mzansi remains a growth point

In 2009, the banked population decreased by 442 000 people or 2.2 percentage points to 19.6 million despite a 2.5% growth in the population of 16 years and older from 32.0 million to 32.8 million. This is the first year since the survey was implemented in South Africa in 2003 that a drop in the banked population has been observed. South Africans have returned to banking levels similar to those observed in 2007: 60% of the population are banked as opposed to 63% who were banked in 2008. Those never banked have risen by 7% and those previously banked but are no longer banked have risen by 22%.

This drop in banking penetration can be specifically observed amongst the most vulnerable groups of South Africans, as well as new entrants to the 16+ population and younger people.

Amongst those aged 16 and 17 years old, employment has dropped from 5% in 2008 to virtually zero, with unemployment rising from 8% to 13%. Almost certainly as a direct result, the proportion of these young people who are banked has dropped from 18% to 11% - which means that, despite a rise in the number of people in this age group by 175 000, the total number banked has dropped by 100 000. A loss of another 300 000 banked people occurs in the age group 18 to 20 years and another 500 000 in the 25 to 35 year old age group. Some of these losses are partly countered by modest increases in other age groups, especially those aged 60 years and over.

The percentage of people in LSM[1] 1-5 who are banked has dropped from 49% in 2008 to 44% in 2009. In addition, the percentage of banked people who earn less than R1000 per month has dropped from 39% in 2008 to 32% in 2009. The main reasons these people cite for not being banked are that they have no job (57%) and that they have no money to save (40%). The percentage of banked people who earn R1000 to R1999 per month has dropped from 77% in 2008 to 67% in 2009. The main reasons these people cite for not being banked are not having a job

[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. 2008 LSM figures are based on SAARF's 2006 algorithm. 2009 LSM figures are based on SAARF's 2008 algorithm.

(31%) and having no money to save (37%). This is unfortunate especially since there has been a concerted drive to open the banking sector to lower income groups. However, since many lower income people simply use a bank account as a place to “park” savings safely, when low incomes or a lack of disposable income causes savings to drop, the need for a bank account falls away. The challenge is to ***increase the depth of usage and promote the benefits of banking*** beyond a savings device. A time when every rand counts also means that fees may become a bigger issue, and raises the question of whether bank accounts as currently structured are out of reach of low-income earners.

In addition, the incidence of banked people has dropped amongst females and those with lower levels of education.

The R1000 to R1999 claimed personal income group has grown from 12% to 17% of the population over the past year. This is largely driven by the increase in old age and disability grants to R1010 in April this year. Since grant holders have a lower banked percentage – 57% in 2009 - this partly explains the drop in banking in this income band. South African society shows high levels of dependency with 19% of people claiming that government grants are their main source of income, and another 20% citing money from other people (mainly family and friends) as their main source of income. Given a society with such dependency, the reasons that this group cites for not banking are quite understandable – every bit of money is needed to stretch as far as possible.

The percentage of people in LSM 9-10 who are unbanked has increased for the first time since tracking began in 2004: 2008 saw only 3% of people in LSM 9-10 being unbanked, while 2009 saw 6% of these people being unbanked.

One of the more positive findings of the 2009 study has been the growth in usage of the Mzansi account, launched in 2004 to cater for the lower LSM market and encourage more people to become banked. Thirteen percent of South Africans have an Mzansi account, compared to 11% who had the account in 2008. This year, we see that two out of three Mzansi holders say that their Mzansi account is their first bank account. In addition, one in four Mzansi holders claim to have opened an Mzansi account to receive a government grant.

Looking at the most frequent monthly transactions amongst the banked population, 90% of banked South Africans claimed to withdraw money at least once a month followed by 53% who say that they buy airtime at least once a month.

Credit and loans

Aversion to debt can be based on people’s levels of agreement with the following statements:

- You hate owing money to anyone 87%
- Taking loans should be avoided as much as possible 74%

Compared with 2008, the percentage of people who agree to these statements remains stable. These attitudes can perhaps be attributed to the fact that a high proportion of South Africans are cautious of debt, for example, believing that when buying on credit, it ends up being more expensive than they thought it would be (71% agree).

Twenty-four percent of South Africans say that they are currently borrowing or owe money that has to be repaid. This percentage has dropped from 28% in 2008. Twelve percent mentioned that they are borrowing informally, from friends, family or colleagues and 3% said they were borrowing formally, in the form of a personal loan from one of the big banks. Forty-one percent say that they have never borrowed money from anyone or any place.

When asked what the main reason was for borrowing money or taking out a loan in the past 12 months was, to get food when money has run out (11%) was the highest response. In addition, 16% mentioned that they often have to borrow money from friends and family to buy basic items.

Eight percent of people have a credit card. Nineteen percent or 6.4 million South Africans say that they have a store account where they can buy goods and pay later. This has increased from 16% in 2007. Sixty-six percent of credit or store card holders say that they only pay off the minimum amount or instalment each month, 25% say they pay off their full balance every month, 35% say they sometimes use their credit or store cards to their full credit limit, 28% say that whenever they go to close or cancel their cards they are tempted to buy something else and only 12% mentioned that their store or credit cards are paid up or they are not using them.

Insurance

In the FinScope survey, people are asked about the products that they personally have. This does mean that actual coverage may be higher, as people may not have a product but be covered under someone else's policy. Nevertheless, between 2007 and 2008, the percentage of people who personally had some form of funeral or burial product declined. In 2009, this trend continued and 40% of people claim to personally have a funeral or burial product compared to 43% in 2008 and 46% in 2007. This decrease was driven by a reduction in the percentage of people who personally belong to a burial society. Twenty percent state that they belong to a burial society. This has declined from 25% since last year.

In contrast, personal life assurance holdings has increased from 10% in 2007 and 12% in 2008 to 14% in 2009. Of those people who don't have life assurance, 13% mentioned that they just do not want it.

In 2008, 34% of South Africans said that they would like to have loss of earnings insurance. In the midst of increasing unemployment in 2009, that figure has dropped to 29%. Far less South Africans are interested in this type of insurance than previous years, and only 3% actually have this kind of insurance.

In 2009, 10% of South Africans personally claimed to personally have medical insurance. Thirty-two percent of South Africans without personal medical insurance said that in the past 12 months they had needed medical treatment. However, medical aid is considered costly with 35% of people without it saying that they can't afford it.

In 2009, as in 2008, there were few changes in the short-term insurance market with the overall percentage of people with some form of personal short-term insurance at 11% versus 10% in 2008. Overall, vehicle insurance is the most popular kind of short-term insurance at 7%.

Savings

Despite difficult financial times, 47% say that they try to save regularly and 28% say that they have a good idea of what interest or returns they get on investments. This year we see an increase in the percentage of people stating that they keep cash at home, at 13% compared to 8% in 2008. Eight percent say they belong to a stokvel or savings club.

Forty-four percent say that they are worried that they won't have enough money for old age. This has dropped from 55% last year. However, few people have retirement products; only 14% have a retirement or pension product. The main reasons that people cite for not having a pension or retirement plan are not having a job (47%), not having money to invest (30%) or never having thought about it (11%).

Financial literacy

The survey shows that there are still high levels of misunderstanding of key financial terms, particularly in the arena of debt. In fact, this year we note a slight decrease in knowledge and understanding of these terms. People were asked to confirm if they had never heard of each of a set of financial terms, had heard of each but did not know what it meant or had heard of each and knew what it meant.

Knowledge of terms relating to debt, credit and the National Credit Regulator (NCR) have decreased slightly, and knowledge relating to the National Credit Act (NCA) specifically, is low. Although the NCA is still relatively new, it is discouraging that there is no improvement in consumer knowledge. Only 24% of people had heard of the NCR or NCA and knew what these terms meant. Forty-one percent have heard of and know what bad debt means, 30% have heard of and know what personal credit record means and 25% have heard of and know what counselling about debt means.

Knowledge of formal financial matters is strongly linked to wealth (and, hence, exposure to the formal financial system) and, hence, race. This has important implications for those dealing with people entering into the formal financial system and formal financial agreements. It means that special care needs to be taken so that such people are carefully coached about what it all means. The need for more financial education and training is clear, although slow progress is evident in the 2009 data. The decrease in knowledge about the National Credit Act is of some concern. Indeed, on all issues regarding the use of credit in any form, there is a clear need for greater financial literacy.

FinScope was launched in 2003 by the FinMark Trust (www.finmarktrust.org.za). Its purpose is to establish credible benchmarks on the use of, and access to, financial services in South Africa. It is 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 2009, 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 July and September 2009. A nationally representative sample was drawn, which was weighted and benchmarked to the 2009 mid-year estimates based on 2007 Community Survey estimate information.

The 2009 South African syndicate members are: Absa, First National Bank (FNB), Liberty Life, Metropolitan Life, National Treasury, Nedbank, Old Mutual, Standard Bank and Teba Bank.

About FinMark Trust

FinMark Trust is a non-profit organisation funded primarily by the UK's Department for International Development (DFID). Its mission is to make financial markets work for the poor. It conducts research across Africa and looks at bringing about systematic change in the financial services sector based on its research findings. FinMark Trust engages with multiple stakeholders from the public and private sectors,as well as with academia, donors and civil society groups. Please visit www.finmark.org.za for more information.

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