FinScope continues to be a significant voice and currency in financial inclusion

FinMark Trust’s mandate:

“Making financial markets work for the poor by promoting financial inclusion and regional financial integration as well as institutional and organisational development, in order to increase access to financial services for the unserved and underserved”

FinScope has been conducted in South Africa since 2003
Since its inception in 2003, the South African FinScope study has followed a syndicate-funded approach, involving a range of stakeholders from both the private and public sectors.

Syndicate members form an integral part of the FinScope SA questionnaire design and offer valuable insight into consumer demand behaviour.

Syndicate members also use the annual FinScope SA results to develop new products or processes and to enrich the overall objective of increasing financial inclusion in South Africa through a process of cross-learning and sharing of information.
The survey in 2015 was expanded to allow for greater data interrogation

**Respondent profile**
- Universe: Adult population in South Africa
- South African residents 16 years and older

**Coverage and methodology**
- Fieldwork conducted **14 July – 02 September 2015**
- Computer Aided Personal Interviews (CAPI) conducted face-to-face – change from previous years’ PAPI (pen and paper)
- Questionnaire reviews included reordering of some questions and the addition of new questions
- Questionnaire **translated** into isiXhosa, isiZulu, Sesotho, Setswana, Sepedi and Afrikaans
- **Total of 5,000** interviews conducted – up from **3,900** interviews conducted in previous years

**Sample and fieldwork validation**
- Nationally representative sample (weighted/benchmarked to Stats SA 2015 mid-year estimates)
- Sample drawn systematically using **Probability Proportional to Size** (PPS) sampling
- ** Enumerator Area (EA)-based, 834** EAs (up from **650** EAs in previous years) and six interviews per EA
- To identify respondents, **two further levels of random sampling:**
  - **Households** randomly selected within each sampled EA
  - **Individual respondents** randomly selected from sampled households using the Kish grid
Introducing Q-FIM
expanding quality of inclusion

The context in 2015

Unpacking quality of inclusion

Financial behaviour

Financial Attitudes
Introducing Q-FIM expanding quality of inclusion

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2015 market landscape

GDP growth at market prices (Q/Q) %

Consumer Confidence Index %

9,825,644 people are unemployed (26%)

11.1m people coming from household supported via social grants

Households are under more financial pressure

Increased pressure as households have fewer income earners

Fewer people being aided financially by friends and family

<table>
<thead>
<tr>
<th>Source of Money</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary/Wages</td>
<td>33</td>
<td>34</td>
</tr>
<tr>
<td>Money from others</td>
<td>21</td>
<td>28</td>
</tr>
<tr>
<td>Government grants</td>
<td>28</td>
<td>30</td>
</tr>
<tr>
<td>Don't get money</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Money from own business</td>
<td>6</td>
<td>7</td>
</tr>
</tbody>
</table>

Fewer people being aided financially by friends and family.
Introducing Q-FIM: expanding quality of inclusion

The context in 2015

Financial Attitudes

Financial behaviour

Unpacking quality of inclusion
Quality of financial inclusion is about having a balanced and efficient portfolio of financial products, irrespective of background and ability

Payments and transactions, credit, insurance and savings are the four main components of good financial management.

Building a balanced portfolio across these four product sectors illustrates good financial practices.

Q-FIM is about measuring how these four sectors are represented and engaged with.

People are grouped into three categories: Adequately served, Moderately served and Thinly served.
Quality of financial inclusion is based on the range of products held to create the ability to save, insure, borrow and transact.

- **Thinly served**: Have a non-optimised portfolio of financial products.
- **Moderately served**: Have a more diversified product repertoire but it is not optimised yet.
- **Adequately served**: Have a balanced portfolio of products that are suited specifically to their financial wants and needs.

**Non-optimised**

- 50% of the population
- 16,332,149 people

**Optimised**

- 28% of the population
- 9,091,455 people

- 22% of the population
- 7,045,878 people

*NOTE: All Q-FIM classifications are based on the financially included base.*
The profile of the thinly served illustrate a group that is doing well and can build a balanced portfolio but haven’t

- **17%** earn R3 000+ per month
- **62%** are 30 years and older... *life stage is not associated with financial confidence*
- **20%** work for a company while **16%** are retired / pensioners
- **33%** have matric and higher education
- **10%** are in LSM 8-10

(TNS)
The Moderately served group optimise portfolios to some extent

- Earn less than R3 000 per month: 51%
- Have matric or some high-school education: 80%
- Are younger than 45 years of age: 73%
- Fall between LSM 1-6: 63%
- Run their own businesses: 27%
- Live in Gauteng: 30%
The Adequately served have a well-balanced portfolio

- 46% Earn less than R8 000 per month
- 64% Are younger than 45 years of age
- 52% Run their own businesses
- 43% Fall in LSM 7 or lower
- Almost 60% Have a matric or lower level of education
- 11% Live in non-metro areas
Illustrating optimisation possibilities where demographic profiles are similar. Introducing Xolani and Zakes...

## DEMOGRAPHIC PROFILE

<table>
<thead>
<tr>
<th>Name</th>
<th>Xolani</th>
<th>Zakes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q-FIM Score</td>
<td>Thinly served</td>
<td>Adequately served</td>
</tr>
<tr>
<td>Access Strand</td>
<td>Banked</td>
<td>Banked</td>
</tr>
<tr>
<td>Province</td>
<td>KZN</td>
<td>KZN</td>
</tr>
<tr>
<td>Metro / Non-metro</td>
<td>Non-metro</td>
<td>Non-metro</td>
</tr>
<tr>
<td>Language</td>
<td>Zulu</td>
<td>Zulu</td>
</tr>
<tr>
<td>Personal Monthly Income</td>
<td>R3 000-R5 999</td>
<td>R3 000-R5 999</td>
</tr>
<tr>
<td>Age</td>
<td>45-59 years</td>
<td>45-59 years</td>
</tr>
<tr>
<td>Work Status</td>
<td>Employed</td>
<td>Employed</td>
</tr>
<tr>
<td>Education</td>
<td>Some high school</td>
<td>Some high school</td>
</tr>
</tbody>
</table>
Optimising the portfolio ensures higher level of control and behavioural change

<table>
<thead>
<tr>
<th></th>
<th>Xolani</th>
<th>Zakes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use digital payments / transactions</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Savings</td>
<td>No</td>
<td>Medium term and informal savings</td>
</tr>
<tr>
<td>Credit</td>
<td>No</td>
<td>Developmental, unsecured</td>
</tr>
<tr>
<td>Insurance</td>
<td>Funeral (2)</td>
<td>Funeral (2)</td>
</tr>
</tbody>
</table>

**Attitudinal Proximity:**

Xolani finds dealing with finance institutions stressful but believes it is important to save and avoid credit. Financial security is important. There is interest to develop a broader portfolio.

Zakes feels he understands the different banks but remains concerned that he does not save enough. Financial security is important as is the ability to change products to suit his needs.
Introducing Q-FIM expanding quality of inclusion

The context in 2015

Unpacking quality of inclusion

Financial behaviour

Financial Attitudes
While financial inclusion is static, we do see a softening of informal product usage and an increase in formally served:

- 32.5m adults are financially included in 2015 versus 31.4m last year
- A higher proportion of LSMs 1-2 are excluded, but exclusion decreased across LSM 3-6 and LSM 9-10

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formally served</td>
<td>84</td>
<td>80</td>
</tr>
<tr>
<td>Banked</td>
<td>77</td>
<td>75</td>
</tr>
<tr>
<td>Other formal (non-bank)</td>
<td>59</td>
<td>52</td>
</tr>
<tr>
<td>Informal</td>
<td>52</td>
<td>56</td>
</tr>
<tr>
<td>Excluded</td>
<td>13</td>
<td>14</td>
</tr>
</tbody>
</table>
Comparing Overall Access Strand and Quality of Financial Inclusion measure (Q-FIM)

### Overall Access Strand

- **2015**
  - Banked: 77
  - Other Formal (non-bank products): 6
  - Informally served only: 3
  - Excluded: 13

### Quality of Financial Inclusion Measure

- **2015**
  - Thinly served: 50
  - Moderately served: 28
  - Adequately served: 22
Those excluded are not just those people in difficult to reach environments. There are concerning numbers in urban areas.

Of those excluded in urban areas:

- 59% are male (1.5m)
- 48% are aged 18-29 (1.2m)
- 61% have some high school (15.5m)
- 78% LSM 1-6
- 50% have no income
While there is a slight increase in banking, banking seems to still be driven by SASSA and the ownership of ATM and debit cards.

SASSA card holders are consolidating accounts and moved from the following:

- ATM/debit card (-1.3m)
- Mzansi (-587k)
- Postbank (-516k)
- Savings account (-1.4m)
37% use digital payment mechanisms, but how can this be extended and enhanced for more people?

<table>
<thead>
<tr>
<th>Activity</th>
<th>Daily</th>
<th>Once a week</th>
<th>Once a month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Get cash from ATM</td>
<td>2</td>
<td>39</td>
<td>45</td>
</tr>
<tr>
<td>Get cash at store till using ATM card</td>
<td>1</td>
<td>15</td>
<td>26</td>
</tr>
<tr>
<td>Paying bills through bank account</td>
<td>1</td>
<td>21</td>
<td>7</td>
</tr>
<tr>
<td>Do electronic bank transfers/EFT/debit order</td>
<td>3</td>
<td>17</td>
<td>8</td>
</tr>
<tr>
<td>Deposit cash at ATM</td>
<td>3</td>
<td>13</td>
<td>22</td>
</tr>
</tbody>
</table>
Over half of the adult population have smartphones, so we have the option to enhance the digital transactional uptake.

Basic usage such as buying airtime is the most common activity amongst cellphone banking users.
Remittances have dropped slightly, which could be linked to fewer people being financially aided by friends and family. Remittances through cellphone increased from 1.5m to 1.9m.
Remittance has declined, and interestingly driven by higher income households

**Skews:**

- 25% LSM 7-8 (1.8 million)
- 39% LSM 8-10 (498K)
- 23% Male (4.1m)
- 25% Age 30-44 (2.9m)
People are also remitting less frequently

**Frequency of receiving money from outside of the household**

- Once a week: 6% (2015) vs 8% (2014)
- Few times a year: 11% (2015) vs 8% (2014)
- Once a month: 80% (2015) vs 83% (2014)

**Channels**

<table>
<thead>
<tr>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supermarket</td>
<td>42</td>
</tr>
<tr>
<td>Bank/ATM</td>
<td>43</td>
</tr>
<tr>
<td>Cash with fam/friends</td>
<td>28</td>
</tr>
<tr>
<td>Cellphone money</td>
<td>23</td>
</tr>
<tr>
<td>Through airtime</td>
<td>2</td>
</tr>
</tbody>
</table>

- More people are optimising lower costs (R4+) by remitting via a bank (2.5m to 3.4m)
- 1.1m more people are paying higher fees remitting via a supermarket (R10+; 2.2m to 3.3m) and cellphone (R5+; 1.5m to 1.9m)
Introducing Q-FIM expanding quality of inclusion

The context in 2015

Unpacking quality of inclusion

Financial behaviour

Transactions/Banking
Insurance
Credit
Savings

Financial Attitudes
Insurance has seen a decline, potentially driven by quality and affordability issues.

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal</td>
<td>34</td>
<td>38</td>
</tr>
<tr>
<td>Informal</td>
<td>27</td>
<td>35</td>
</tr>
<tr>
<td>Not insured</td>
<td>50</td>
<td>40</td>
</tr>
</tbody>
</table>
18.5m adults are insured. But only 6.6m have non-funeral insurance and 5.5m have 2 or more funeral cover products.

Drop in life insurance evident amongst those age 18-29 (24% to 15%) and those earning R1,000 – R2,999 (9% to 5%).

10% (3.7m 2015) vs 6% (2.2m 2014) have considered cancelling insurance/investment policies to pay back money they have borrowed.
Declines are seen in almost all provinces, but particularly the Western Cape.

- **Western Cape**: Uninsured increased by 72%
- **Gauteng**: Uninsured increased by 33%
- **Limpopo**: Uninsured increased by 45%
- **Mpumalanga**: Uninsured increased by 45%

Number of people without insurance (non-funeral):
- 2015: 22,034,310
- 2014: 17,193,276
The decrease in insurance is observed across products but most significantly in funeral cover.

**Decrease driven by:**
- **Males:** 59% to 56%
- **LSM 9-10:** 53% to 49%
- **Black people:** 54% to 52%
- **All age groups:** 55%

**Decrease driven by:**
- **Males:** 63% to 61%
- **LSM 9-10:** 79% to 77%
- **Black people:** 28% to 24%

55% of those who don’t have non-funeral insurance say they can’t afford one.

In 2015, 4.6m South Africans declared they were no longer being insured versus 2.7m in 2014.
Introducing Q-FIM expanding quality of inclusion

Unpacking quality of inclusion

The context in 2015

Financial Attitudes

Financial behaviour

Transactions/Banking
Insurance
Credit
Savings
More people are tapping into credit mostly via formal products

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formally served</td>
<td>46</td>
<td>36</td>
</tr>
<tr>
<td>Informally served</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Friends &amp; family</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Not borrowing</td>
<td>53</td>
<td>56</td>
</tr>
</tbody>
</table>
Unsecured loans are the driving force behind the increase in credit access

People who have taken an unsecured loan have done so for short-term, essential needs such as:
- Food 26%
- Emergency 26%
- Transport fees 12%
- Bills 10%
- Clothes 10%

Who is taking an unsecured loan?
- 63% LSM 5-8
- 53% earn R1 - R7,999
- 41% aged 30-44 years
- 43% matric
Increasingly, people are struggling to stretch their money

<table>
<thead>
<tr>
<th>Statement</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Usually have problems making ends meet</td>
<td>28</td>
<td>24</td>
</tr>
<tr>
<td>You have more money than 3 months ago</td>
<td>18</td>
<td>13</td>
</tr>
<tr>
<td>Considered seeking help from someone for your debt problems</td>
<td>13</td>
<td>9</td>
</tr>
<tr>
<td>In the past year, you had problems with arrears payments</td>
<td>13</td>
<td>9</td>
</tr>
<tr>
<td>Considered seeking help for your debt problems</td>
<td>9</td>
<td>6</td>
</tr>
</tbody>
</table>

Agree
Across all regions, people are accessing more credit, particularly in KZN, FS and WC.

Number of people without credit

- Western Cape: increased by 200k people
- KZN: increased by 600k people
- Free State: increased by 140k people

2015: 20,015,292
2014: 21,254,210
Introducing Q-FIM expanding quality of inclusion

The context in 2015

Unpacking quality of inclusion

Transactions/Banking
Insurance
Credit
Savings

Financial behaviour

Financial Attitudes
An increase in savings is noted for the first time in 10 years

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formally served</td>
<td>23</td>
<td>20</td>
</tr>
<tr>
<td>Informally served</td>
<td>13</td>
<td>8</td>
</tr>
<tr>
<td>Save at home</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Not saving</td>
<td>64</td>
<td>68</td>
</tr>
</tbody>
</table>
The increased emphasis on savings, particularly the government push on tax-free savings, appears to have had traction.

- **Short-term**:
  - 2015: 9
  - 2014: 7

- **Medium-term**:
  - 2015: 4
  - 2014: 3

- **Long-term**:
  - 2015: 16
  - 2014: 16

- **6.9m (56%) of salaried people do not have long-term savings, impacting negatively on retirement.**

- **How can we encourage greater uptake of long-term savings across the socio-economic spectrum?**
Regions where people have started saving

Number of people not saving
2015: 24,033,498
2014: 25,189,579

North West
7% increase in people saving

Western Cape
6% increase in people saving

KZN
18% increase in people saving

Eastern Cape
10% increase in people saving
Reasons for savings driven by immediate essential needs, not longer term investments

<table>
<thead>
<tr>
<th>Reasons</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emergencies</td>
<td>40%</td>
</tr>
<tr>
<td>Food</td>
<td>21%</td>
</tr>
<tr>
<td>Funeral costs</td>
<td>12%</td>
</tr>
<tr>
<td>Take care of family after death</td>
<td>13%</td>
</tr>
<tr>
<td>Retirement or old age</td>
<td>11%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Those with long-term saving:</th>
</tr>
</thead>
<tbody>
<tr>
<td>for Emergencies, for Retirement/old age, to</td>
</tr>
<tr>
<td>provide for their family if they die</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>With medium-term savings:</th>
</tr>
</thead>
<tbody>
<tr>
<td>for an Emergency, for Food, for School fees</td>
</tr>
<tr>
<td>or Education</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Those with short-term savings:</th>
</tr>
</thead>
<tbody>
<tr>
<td>for an Emergency, for School fees/Education,</td>
</tr>
<tr>
<td>for Food</td>
</tr>
</tbody>
</table>
Introducing Q-FIM - Expanding quality of inclusion

The context in 2015

Financial attitudes

Unpacking quality of inclusion

Financial behaviour

Financial Attitudes
People desire financial security, whilst some have optimised financial services to ensure greater financial control. Yet behaviour does not demonstrate this.

- Financial security is very important to me: 70%
- I am satisfied with the financial products/services used: 44%
- Since using financial services, I feel much more in control of my finances: 43%
- Have considered the financial products for my situation: 45%
- I keep track of money that I get and spend: 32%
- When buying a product/service, it is explained: 31%
- I know how much I spend on my premiums: 26%
- Before buying a product/service, I get quotes: 22%
- Have a written budget for spending/earnings: 15%
Overall, people feel they know which bank is best, but don’t understand product differences or costs

<table>
<thead>
<tr>
<th>Statement</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>You know which bank account is the best for you</td>
<td>61</td>
</tr>
<tr>
<td>Banking fees are too expensive</td>
<td>59</td>
</tr>
<tr>
<td>Understand the differences (banks)</td>
<td>44</td>
</tr>
<tr>
<td>Understand difference between banking products offered</td>
<td>42</td>
</tr>
<tr>
<td>Actively find out what you are paying in bank fees</td>
<td>42</td>
</tr>
<tr>
<td>Banks provide solutions for your everyday problems</td>
<td>29</td>
</tr>
<tr>
<td>Have switched banks in the past year</td>
<td>6</td>
</tr>
</tbody>
</table>

LSM 1 – 4 are less certain around which accounts and products are best suited to them, as well as the associated bank fees.
Less than half of people have a cautious view of credit cards, a worryingly high number of bad credit sentiment.

Credit cards are dangerous, you can spend more money than you have: 46%

Credit cards are the greatest thing, you can buy things you can't afford: 27%

If you really want something, you can buy it on credit, and not wait: 24%

Those earning R12 000 – R24 999 had the highest level of agreement around the danger of credit cards.
Despite a challenging macro environment, we have not seen dramatic changes in financial behaviour.

It is promising to note some increase in savings this year, possibly driven by the “tax free” drive.

Worryingly insurance has seen declines, mostly driven by burial cover reduction. The increase in unsecured loans, and the very short term rationale for loans poses a concern. We can see that people are not as engaged attitudinally as they could be and there are clear attitudinal concerns in the data.
Inclusion is no longer about access but rather about optimising people’s product usage

- Education could focus on the following areas
  - Where are products and needs gaps?
  - What products best suit people’s needs?
  - Where can people get these products?
  - Which channels can be optimised?
  - And how can these products be optimised?

- Find ways to move people from unsecured credit to a savings mindset

- Insurance needs to address reputational concerns around credibility, flexibility and the reward vs risk mentality. In addition:
  - How can the industry reach more salaried people for longer term savings?
  - And how can health plan providers overcome industry challenges?

- Providers need to ensure that increases to credit enables productive capacity or improves the quality of life
Thank you.