Digitisation of social grant payments and financial inclusion of grant recipients in South Africa – Evidence from FinScope surveys

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Abstract

A quarter of South Africans rely on social grants and the grant allows millions to access formal financial services. However, the extent to which social grants have contributed to financial inclusion of social grant recipients has not been documented. Therefore, this report was prepared to highlights the trends in financial inclusion among social grant recipients in South Africa looking at account ownership, access to saving, credit and insurance products.

It has been noted that social grant recipients enjoy higher level of financial inclusion in the form of account ownership evidenced by 100 percent of them owning a SASSA MasterCard that allows them to mobilise their money. This is remarkable compared to only 77 percent of adults in the country owning a bank account. Uptake of saving products has seen a slight decrease which might be due to increased pressure on disposable income from escalating cost of living. Uptake of credit products remained stagnant until 2012 and it has exhibited a significant rise since then which might be due to bundling of financial products such as loans with the social grant by the distributors. Similarly, uptake of insurance products has been increasing from year to year and much of it is in the form of funeral insurance.

1. Introduction and background

The South African social grant system is possibly one of the largest social welfare transfer systems in developing countries, with disbursements of R120 billion (approximately US$11 billion) budgeted for the 2013/2014 financial year and the government allocated R151.6 billion towards social grants in its 2017/18 budget. Social protection for white South Africans began in the 1920s and was extended to all the other recognised population groups ('coloured', 'Indian / Asian' and 'native black') by the 1960s. The arrangements reflected the highly skewed racially allocative principles of apartheid. By the 1980s, the National Party government started to move towards racial parity. Part of the political transition of the early 1990s required administratively separated social security systems operated across South Africa's racial group representative offices as well as its Bantustans to be incorporated into a unitary system based on the principles of racial equality and integration (for details see Woolard & Leibbrandt, 2013).

As of 2013, there were about 8.9 million social grant recipients[1] in South Africa. This means that more than one in four South African were direct beneficiaries of social grants. In 1994, there were about 2 million social grant beneficiaries in South Africa, the majority of which were old-age pensioners and disability grant recipients. Much of the increase in grants was due to the roll-out of child support grants. There are now 12 million registered child support grant beneficiaries out of the total of 17 million registered grant beneficiaries receiving grants every month. In 2012, the South African Social Security Agency (SASSA) introduced electronic payment system to effect payment of social grants to the beneficiaries using SASSA MasterCard. The aim of the new payment system was to reduce fraud in social grants and also to minimise the cost of disbursement (Mastercard,2012).

It is therefore interesting to understand how the introduction of SASSA MasterCard has impacted the financial inclusion of the poor in the country. Earlier studies reported that the grant enhances women's power and control over household decision-making in financial

[1] The number refers to adults that received social grants as opposed to number of grants reported by South African Social Security Agency(SASSA). According to SASSA, there were 16 million registered grant recipients in 2013 which corresponds to 9 million adults receiving grants reported using the FinScope survey data implying that a single beneficiary may receive more than one grant. A typical example would be a senior female/male receiving a child grant for her/his grandchildren and an old age grant for herself/himself.

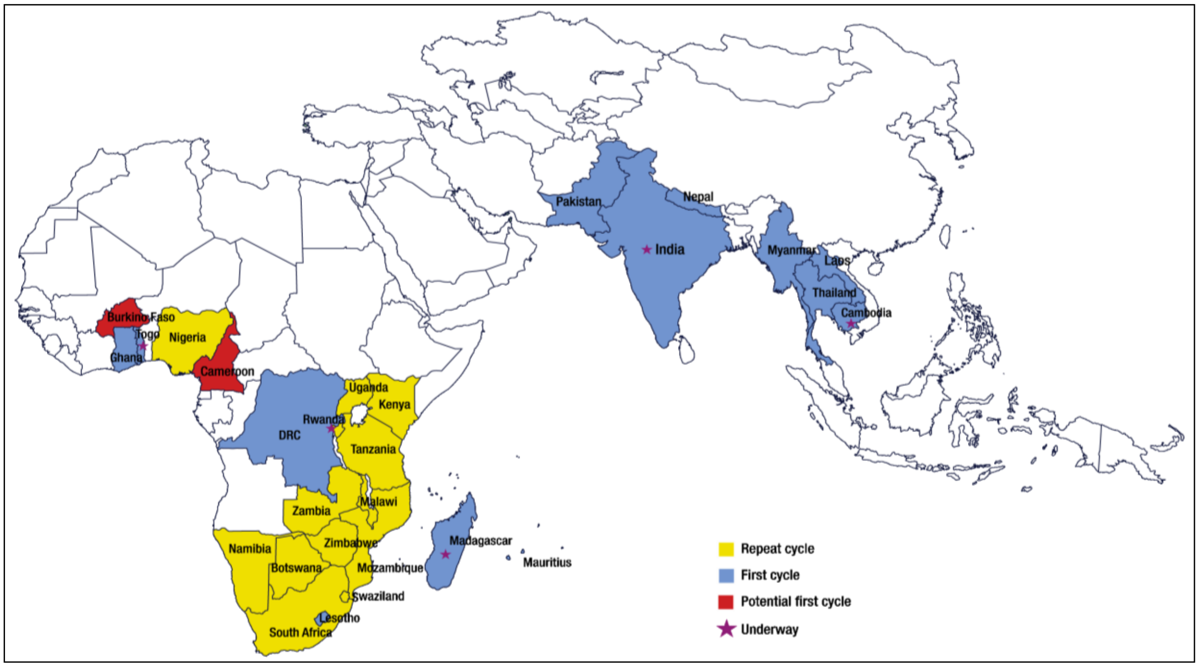
matters, general household spending and child wellbeing (see Patel, Hochfeld, & Moodley, 2013; Patel & Hochfeld, 2011; and Patel & Hochfeld, 2012). The grant also contributes to a reduction in poverty and inequality and enhanced human capacity with direct human development benefits for beneficiaries and their households (Patel (2008). However, all the previous studies emphasised only on the poverty related impacts of social grants while paying no attention to its role in expanding financial inclusion among the poor.

This paper therefore examines the impact of SASSA MasterCard on financial inclusion of beneficiaries in the country using FinScope South Africa consumer survey data, one of the most comprehensive nationally representative surveys conducted in the country. Availability of FinScope survey since 2003 means the paper has benefited from analysis of trends in the profiles of social grant recipients from 2003 to 2016.

2. The FinScope Survey

The FinScope survey is a core research tool recognised globally as a credible demand-side survey that allows users to understand consumer behaviour, attitudes to and perceptions on financial products, services and their personal finances. FinScope does not seek to replicate what censuses and household surveys (or other surveys like Findex, former AMPS, and TGI) do – it provides a deeper insight into consumer behaviour with the objective of allowing users to draw useful insights about how people access financial services to manage their money and use technology to conduct financial transactions. So far, 35 FinScope surveys were implemented of which 29 were FinScope Consumer and 6 were FinScope Micro Small and Medium Enterprises(MSME). In Africa, 22 FinScope surveys were implemented and the rest 7 were implemented in Asian countries including Pakistan, India, Cambodia, Thailand, Lao, Nepal, and Myanmar.

Figure 1: FinScope surveys footprint



Source: FinMark Trust

The FinScope Consumer survey was first launched in South Africa in 2003 and has been implemented every year since then. For the purpose of this paper, we used FinScope South Africa 2003, 2007, 2011, and 2016. We used 2004 FinScope data where variables are not available in the 2003 datasets. The trends in social grants and financial inclusion profile of the recipients are examined using tables and graphs.

In South Africa, FinScope survey covers adults aged 16 years and above. The survey is administered face-to-face using Computer Assisted Personal Interviewing (CAPI) methodology. The sample is designed using rigorous statistical standards in order to ensure reliable representation of the underlying adult population. Survey fieldwork, data capture, data cleaning and dataset finalisation is conducted by a suitable professional organization with the capacity, controls and processes to ensure the highest quality of interviewing and final data. The sample is weighted by a professional to be representative of the underlying (national adult) population based on the design weights with adjustments made for variations in response across key variables such as age-sex and household composition, household and area levels as well as known population values for key variables.

The approach to questionnaire design and analysis used in FinScope is driven strongly by a Livelihoods Framework. The FinScope Livelihoods Framework is inspired by the Sustainable

Livelihoods Framework approach (DFID, 2000) to eliminate poverty through development and program implementation. FinScope survey focuses on individuals but the livelihoods framework situates these individuals in both their community and household contexts. The factors covered in the FinScope Livelihoods framework are:

i. Community factors, which include access to infrastructure and financial institutions as well as membership of and participation in community institutions.
ii. Household factors, which include household structure, role of the individual in the household and influence of the individual in household decision-making.
iii. Individual factors, such as:
    - Demographics e.g. age, gender, level of education;
    - Life stage and product needs;
    - Financial attitudes and behaviour;
    - Financial engagement in different product categories, including banking, borrowing, insurance, savings and investment; and
    - Drivers and barriers to product uptake.

3. Financial inclusion of social grant recipients: the role of SASSA MasterCard

The concept "financial inclusion" is core to the FinScope methodology. Based on financial product usage, the bankable population is firstly segmented into two groups: the 'financially excluded' and the 'financially included'. The 'financially excluded' segment refers to individuals who manage their financial lives without the use of any financial products or mechanisms external to their personal relationships. To further understand financial inclusion, the 'financially included' segment of the population is taken through a further step of segmentation. As the 'financially included' segment of the population comprises individuals who have/use formal and/or informal financial products and mechanisms, this second step in the segmentation seeks to identify:

- Those individuals who have or use products or services from financial institutions that are regulated through an Act of law (formal financial institutions) – the 'formally served' segment of the population;
- Those individuals who have or use products or services from financial institutions that are not regulated (informal financial institutions and mechanisms) and/or use community based organisations/mechanisms to save or borrow money – the 'informally served' segment;
- Those individuals who have or use both formal and informal products and services.

The next step in the segmentation seeks to better understand or unpack the 'formally served' segment of the population – i.e. individuals who have or use products or services from financial institutions that are regulated through an Act of law (formal financial institutions). This step further segments the formally served population into:

- Those individuals who have or use products or services from licensed commercial banks that are regulated by the central/reserve bank – the 'banked' population;
- Those individuals who have or use products or services from financial institutions that are regulated through Acts of law but which are not commercial banks. Those individuals who have or use products or services from such institutions, comprise the 'Served by Other Formal financial institutions' segment of the population (referred to as 'Other Formal' segment);
- Those individuals who have or use products or services from both commercial banks and other formal financial institutions.

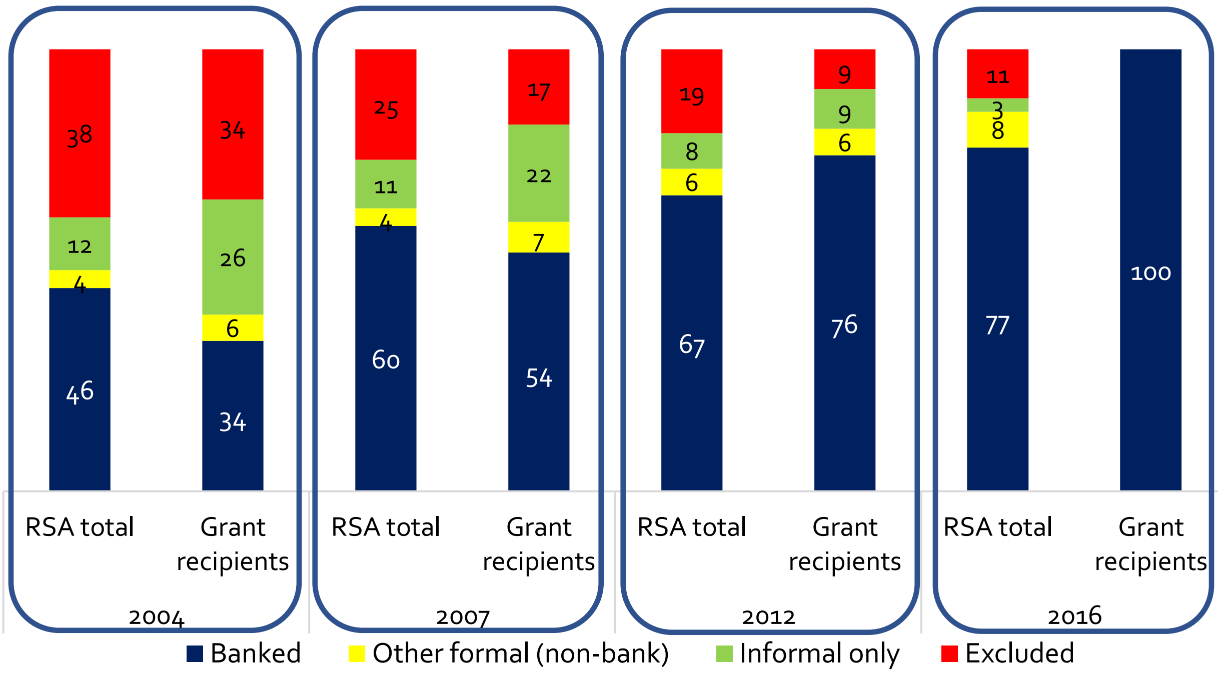
Finally, the segmentation process looks at the overlaps between the different population segments allowing for a better understanding of the following population segments:

- Those individuals who have or use only bank products and services;
- Those individuals who have or use bank and other formal products and services;
- Those individuals who have or use bank and informal products and services;
- Those individuals who have or use bank and other formal and informal products and services;
- Those individuals who have or use only other formal products and services;
- Those individuals who have or use only informal products and services;
- Those individuals who have or use other formal and informal products and services.

3.1 Trends in financial access between the grant recipients and South African adults

As a first step, the analysis was conducted using data on the overall South African adult population and compared to the grant recipient population with regards to financial access. The trend in financial inclusion of adults in South Africa shows a steady increase in the banked population from 2004 to 2016. As shown in Figure 2, only 46 percent of the adult population had a bank account in 2004 and this number has increased to 76 percent in 2016. Access to financial products from other formal financial institutions remained almost stagnant over the years. The importance of informal financial providers has been diminishing over the years falling to 5 percent in 2016 from 12 percent in 2004. The proportion of banked adults increased by 30 percent in 2016 compared to 2004, making the banking sector a key contributor to a decrease in financial exclusion. In general, the dynamism in financial inclusion platform in South Africa is mainly driven by the banking sector and increase in the banked population led to a 30 percent decrease in financial exclusion in the country.

Figure 2: Access Strands in South Africa (% of adult population)



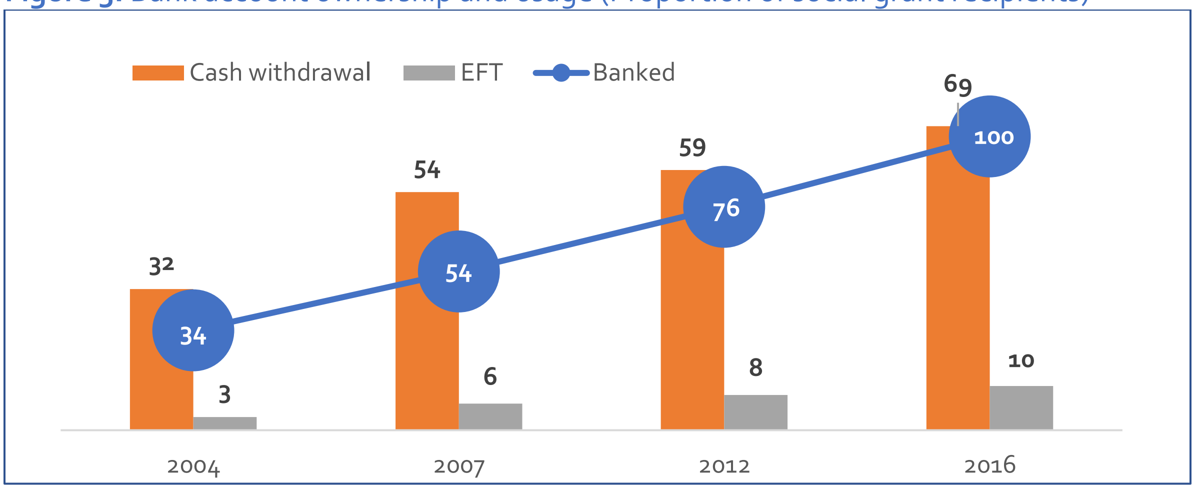
Source: FinScope South Africa Surveys

Analysis of financial inclusion of social grant recipients shows significant change over the years. As shown in Figure 2, only 34 percent of grant recipients had a bank account in 2004 but the figure increased to 100 percent in 2016. Interestingly, although grant recipients were less banked than the overall population in 2004 (banked adults were 44 percent of the population compared to only 34 percent of grant recipients having a banking account) the picture has started changing since 2012-the year in which SASSA MasterCard was introduced. In 2012, 76 percent of grant recipients were banked and this is 9 percent more than the figure for the banked adult population in the country. Similarly, 19 percent of adults were financially excluded in 2012 while a comparable figure for the grant recipients was 9 percent implying that grant recipients enjoyed a better financial inclusion status than the overall adult population in the country. By 2016, all the grant recipients were banked while only 76 percent of the adult population had a bank account.

The benefit of financial inclusion accrues to account holders when they use bank accounts as a store of value and or to manage liquidity by accessing credit. Hence, we analysed the extent of usage of bank accounts among social grant holders using the frequency of transactions. More specifically, we measured usage based on whether or not social grant holders are using their bank account to execute a particular type of financial transaction on a daily/regular basis. As shown in Figure 3, cash withdrawal is the most frequently used transaction and it has seen an increasing trend over the years. This implies that social grant holders use their bank account as a mailbox[2] from which they withdraw the money that has been transferred from SASSA. This implies that social grant holders rarely use their bank accounts as a store of value and or to access credit.

Usage of Electronic fund transfer (EFT) has seen a steady but slow increase over the years. However, it represents only a small proportion of social grant holders implying that grant holders often transact using cash. Given that cash withdrawals attract a transaction fee, social grant holders experience loss of value as a result of failure to use EFT.

Figure 3: Bank account ownership and usage (Proportion of social grant recipients)

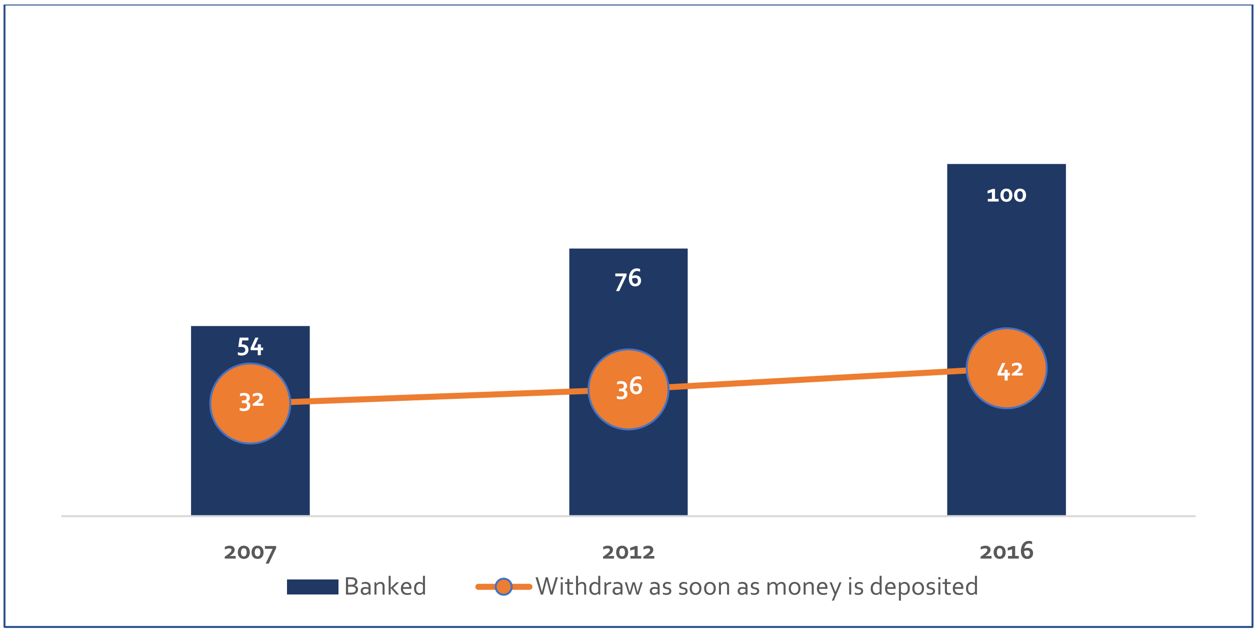


Source: FinScope South Africa Surveys

[2] See for details UNCDF 2016 UNCDF (2016) Lost in the mail: Why bank account access is not translating into usage, accessed on May 29,2017, URL: http://map.uncdf.org/%E2%80%9Clost-mail%E2%80%9D-why-bank-account-access-not-translating-usage.

Further analysis of the patterns of usage of SASSA MasterCard accounts by grant recipients has been made to gain a deeper insight into the manner in which the accounts are used. We used the FinScope question "As soon as money is deposited into your account, you take all of it out" which was available for 2007 onwards. As shown in Figure 4, the proportion of those who took all the money out was 32 percent and has shown a slight increase to 36 percent in 2012. By 2016, the figure increased to 42 percent. This is understandable because the SASSA MasterCard accounts are designed to distribute grants and the recipients are poor people who entirely rely on the money to cover living expenses. Large proportion of the social grants holders are child support grant holders and the amount they get is R380 which is by far less that the absolute poverty line. Therefore, it is not surprising to see that more than a third of the grant recipients withdraw the money entirely as and when it is deposited to their accounts.

Figure 4: Proportion of social grant recipients withdrawing money immediately vs the banked



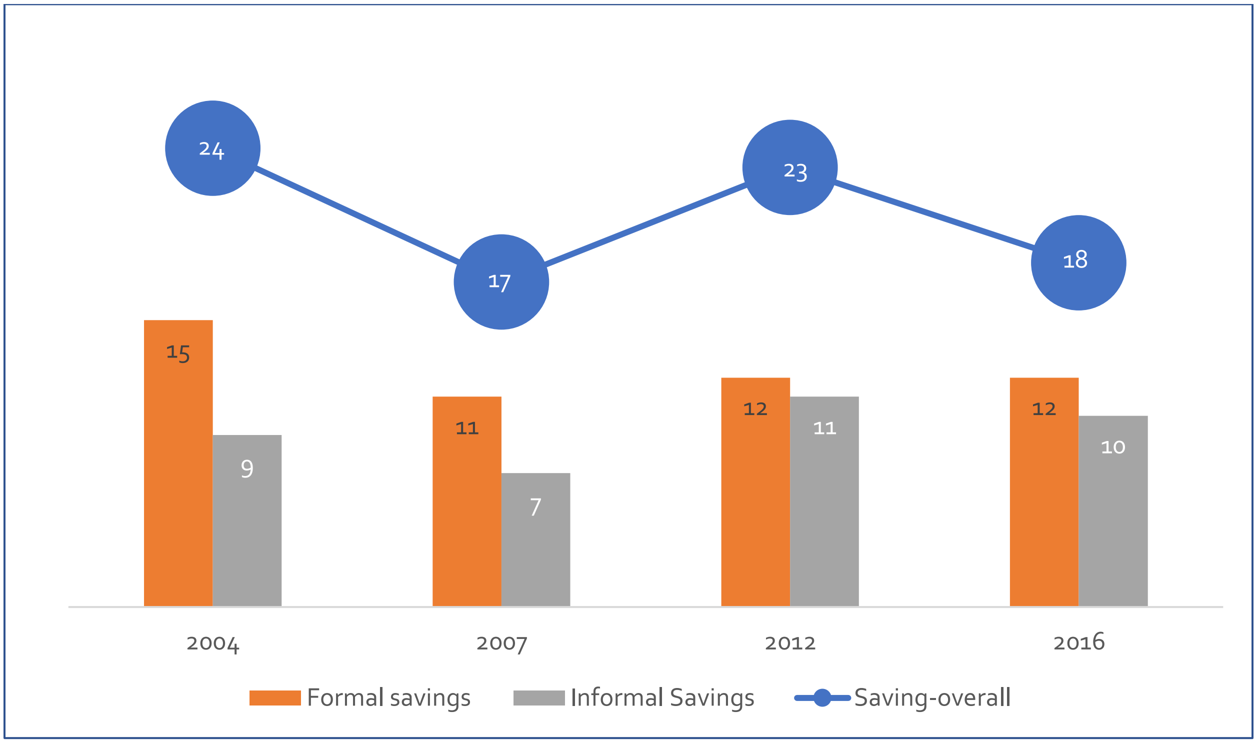
Source: FinScope South Africa Surveys

3.2 Saving trends among grant recipients

Access to saving products allows people to save money left over from current consumption and used for various purposes in the future. Saving can be used to meet liquidity requirements. It can also be used to invest in one's development including paying for own or children's education, buying house, expanding existing business or starting up a new one etc. Although saving is affected to a large extent by the amount of disposable income, financial literacy might play a very important role (see Lusardi, 2008). Consequently, while some low-income people may manage to set aside portion of their income in the form of saving, those that earn more may not keep any saving due to lack of financial literacy.

The trends in saving exhibits peaks and troughs over the years where the troughs occurred in 2007 and 2016 while the peaks occurred in 2012. The level of saving shows a sharp decline in 2016 compared to 2004 which might be due to increased cost of living or a change in consumption habit of grant recipients.

Figure 5: Savings trends among social grant recipients



Source: FinScope South Africa Surveys

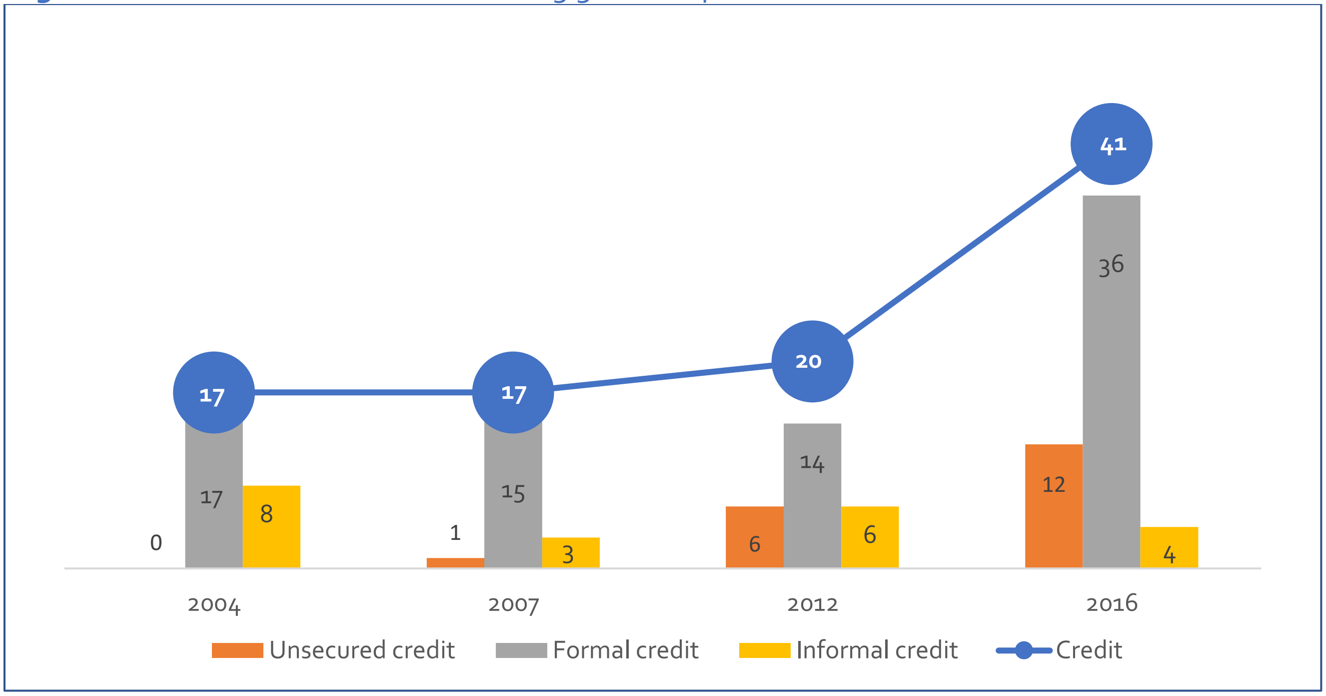
Social grant recipients may exhibit lower than average savings behaviour as they conceptually perceived as less well-off and in need of financial aid. Saving through the SASSA accounts may reflect very lowly in formal savings as there is a push for transacting on the cards. The terms and conditions of use seem to discourage savings behaviour and encourage higher rates of withdrawals due the three-month dormancy rule (see Net1 terms and conditions for use of SASSA cards/ accounts).

3.3 Borrowing trends among grant recipients

Credit allows people with consumption smoothing and hence in maintaining a lifestyle even when earnings fall short of expenditure. It also allows people to respond to unexpected events such as illness, job loss, and emergencies (Hodson et al., 2014). Credit also enables individuals to start a business by accessing start-up capital. It also helps individuals to finance their education allowing them to specialise in skills useful for industrial development (De Gregorio & Kim, 2000). In general, consumer credit has come to be regarded as empowering consumers to make better lives for themselves by leveraging future earning potential (Kilborn, 2005).

As shown in Figure 5, social grant recipients access to credit has remained relatively stable until 2012 and it skyrocketed in 2016 which might be due to increased availability of credit. Significant portion of the growth in indebtedness among social grant recipients is driven by formal credit. With only 4 percent of grant recipients accessing informal credit in 2016 compared to 8 percent in 2004, the role of informal credit has declined significantly. Analysis of indebtedness based on type of loan shows that although unsecured credit was inexistent in 2004 it has shown a marked growth in recent years. In particular, since 2012 when only 6 percent of grant recipients had unsecured credit, this figure doubled by 2016. This might be due to increased availability to grant recipients of parallel financial services such unsecured loan. It has been widely reported that Net1, the distributor of social grants, provided to grant recipients various financial services such as loans, insurance, airtime and electricity (see AmaBhungane, 'AmaBhungane: How Net1 flouts the financial rules', Daily Maverick. April 4, 2017).

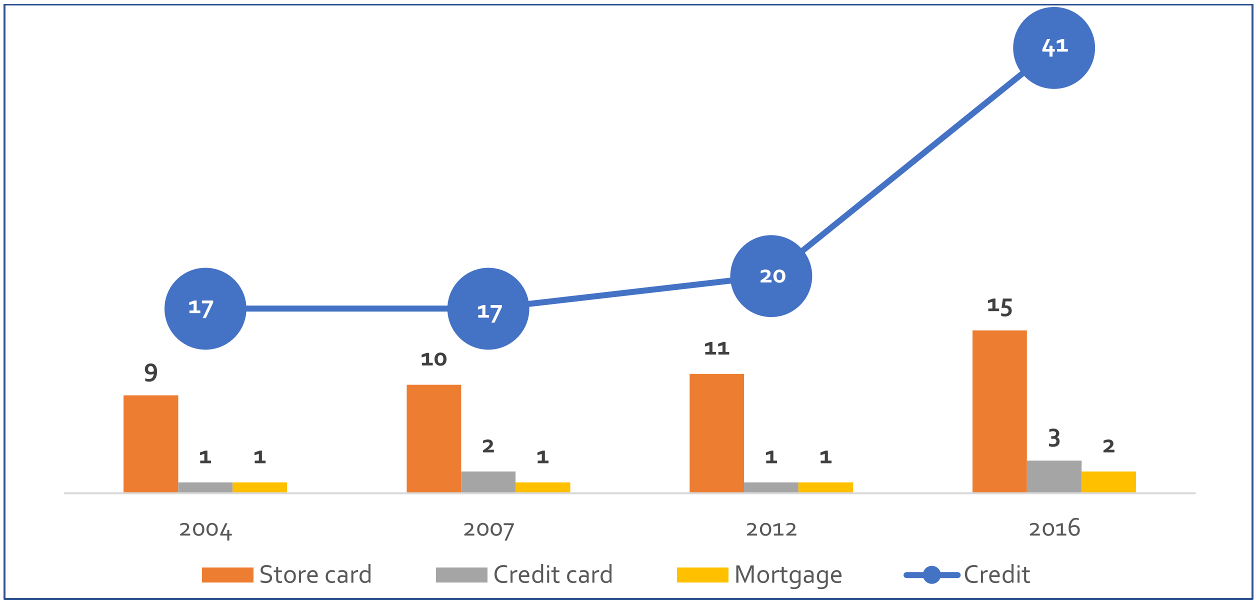
Figure 6: Trends in access to credit among grant recipients



Source: FinScope South Africa Surveys

Analysis of components of credit shows that store cards are the major drivers of credit among social grant recipients. There is a marked increase in store cards in 2016. Store cards will constitute significant proportion of consumer credit if the same trajectory continues into the future. Credit card and mortgage loans understandably constitute only a small percentage of the credit accessed by grant recipients.

Figure 7: Trends in access to credit and components among grant recipients



Source: FinScope South Africa Surveys

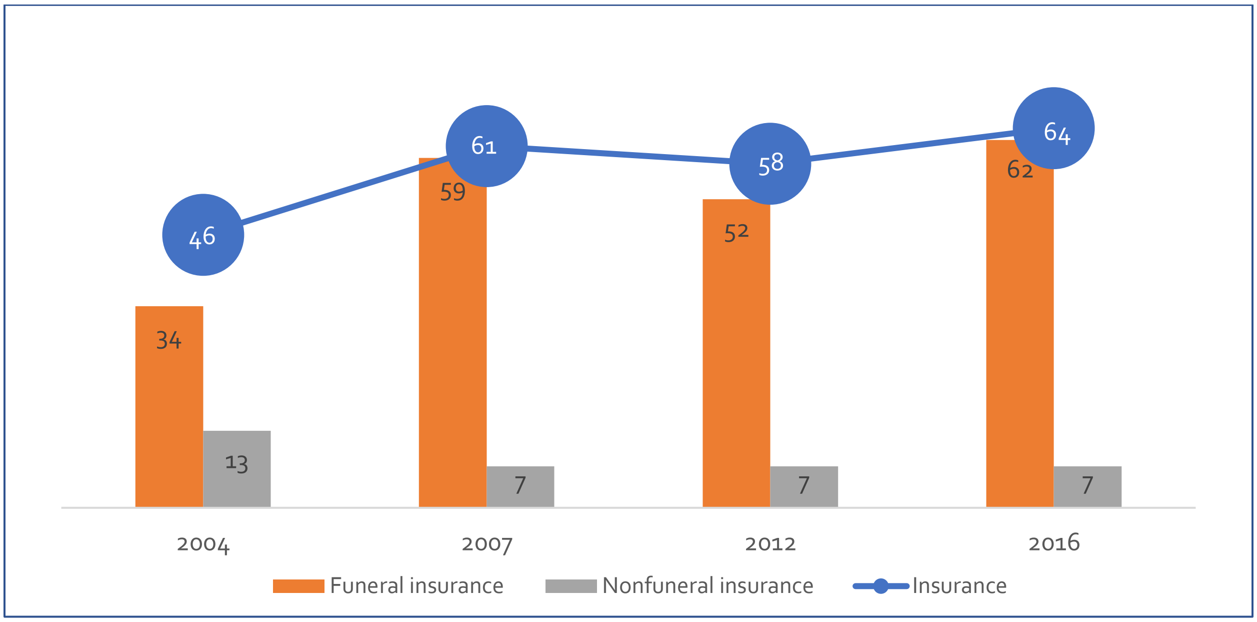
3.4 Trends in access to insurance

Insurance provides coverage against risks of different types including loss of assets or deterioration in income generating capacity. It allows individuals to spread the financial burden of an unexpected event over many years. In the absence of insurance, people would experience a significant financial shock that would adversely affect them for the rest of their lives. While property insurance enables one to recover the damaged or lost assets, life insurance products allow the holder or beneficiaries to maintain a life style when the policy holder passes away or experiences events that lead to deterioration in the income generating capacity.

In addition to the foregoing products that are often provided by only formal financial institutions, there are other insurance products that help individuals cover unexpected costs such as funeral expenses provided by both formal and informal institutions. Although the magnitude of funeral expenses can be fairly estimated, existence of uncertainties around occurrence of the event makes it an insurable event. Funeral insurance (often called funeral cover) is provided by formal financial institutions such as insurance companies and banks as well as informal institutions such as community clubs.

As shown in Figure 7, there is generally an increasing trend in uptake of insurance products between 2004 and 2016 with a slight drop in 2012. A large proportion of the insurance is in the form of a funeral cover. Uptake of funeral insurance has shown a significant increase over the years from 34 percent in 2004 to 62 percent in 2016. Non-funeral insurance has seen a significant decline over the same period falling to 7 percent in 2016 from 13 percent in 2004. A massive increase in funeral cover is partly driven by increase in the supply of funeral insurance. Partly, it is driven by bundling of social grants with other financial services such as loans and funeral insurance (AmaBhungane, 'AmaBhungane: How Net1 flouts the financial rules', Daily Maverick. April 4, 2017). While increase in the uptake of funeral insurance is not a concern on its own, prevalence of abuse by suppliers of the product (see for details Bester et al (2005) calls for special attention by the regulator to ensure that the poor are protected from exploitative practices.

Figure 8: Trends in access to insurance by grant recipients



Source: FinScope South Africa Surveys

In general, social grant recipients enjoy a better access to account ownership than the rest of adults in the country. However, uptake of saving products has seen a slight decline over the years which might be attributed to increasing pressure on grant recipient's due to escalating cost of living. In contrast, uptake of credit products has increased and, unsecured credit has worryingly been rising from year to year. Grant recipients' uptake of insurance products has also seen a sustained increase with much of it is in the form of funeral insurance.

4. Conclusions

A quarter of South Africans rely on social grants and the grant allows millions to access formal financial services. However, the extent to which social grants have contributed to financial inclusion of social grant recipients has not been documented. Therefore, this report was prepared to highlight the trends in financial inclusion among social grant recipients in South Africa looking at account ownership,usage of accounts, access to saving, credit and insurance products.

It has been noted that social grant recipients enjoy higher level of financial inclusion in the form of account ownership evidenced by 100 percent of them owning a SASSA MasterCard that allows them to mobilise their money. This is remarkable compared to only 77 percent of adults in the country owning a bank account. However, most social grant recipients use their bank account as a mailbox and they take out the whole money in one or more withdrawals. This deprives them of the benefits they could have generated from a bank account that includes accessing credit or insurance products.

Uptake of saving products has seen a slight decrease which might be due to increased pressure on disposable income from escalating cost of living. Uptake of credit products remained stagnant until 2012 and it has exhibited a significant rise since then which might be due to bundling of financial products such as loans with the social grant by the distributors. Similarly, uptake of insurance products has been increasing from year to year and much of it is in the form of funeral insurance.

Whether grant recipients are being targeted particularly for credit and insurance products may well be founded as FinScope reveals significant increases in product uptake since the introduction of SASSA cards/accounts. Likelihoods of over-indebtedness amongst the grant recipients may theoretically prove to be higher than the general adult population. These are areas of research where further research can prove useful in unveiling the usage of financial products by grant recipients.

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