

Press release: January 2009
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A picture of the financial industry for 2008

FinScope South Africa is a comprehensive survey of financial use and behaviour that tracks changes on a yearly basis. South Africans found themselves in a very different economic and financial environment in 2008, and although South Africa was relatively sheltered from international economic troubles, the challenges facing the nation continue to be immense.

Below are some of the highlights of the key areas of interest from the 2008 survey.

Banking

The banking population grew 20% between 2006 and 2007; three million people joined the banked population. However, in 2008 this growth slowed to an additional 1.1 million people claiming to have a bank account, taking the banked population to 63%. However, banks have made enormous strides in targeting lower income groups and in 2008, 49% of people in LSM1-5¹ were banked. Interestingly, this population cluster also decreasing in size, implying that people who previously belonged to this group have moved upward in the LSM spectrum. The continued growth of the banked population can perhaps be attributed to the roll-out of government grants. More than one in five adults receives a government grant and 55% of these grant recipients are banked.

When asked which financial areas they would most like to be educated on or informed about, the responses among banked South Africans indicated that sound money management cannot be assumed. The most pressing areas in which education is desired are how to make effective use of savings products (31%), how to manage and draw up a budget (30%) and how interest rates are calculated (29%).

As in 2007, cash withdrawals (99%) and cash deposits (56%) are the most frequent transactions, followed by the request for balance enquiries (48%) and statements (39%). The latter two transactions increased significantly in 2008 – in 2007, 32% of banked adults claimed to request balance enquiries and 25% claimed to request statements. One possible reason for this may be that South Africans are feeling more financially stretched this year than last, and as such are more observant of their bank balances.

The Mzansi account was launched in 2004 to cater for the lower LSM market and encourage more people to become banked. The awareness level of the Mzansi account in the total population is 66%, showing a continued increase from the 62% recorded in 2007 and 55% in 2006. This entry-level bank account continues to be successful at achieving its aim of drawing previously unbanked people into the banking sector. However, its growth has slowed dramatically from levels seen in the past.

² 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 SAARF's 2005 algorithm

Mzansi is most prevalent in the black market, but good growth occurred in the coloured and white markets between 2007 and 2008. When probed as to their motivation for opening a Mzansi account, the majority of account holders claim to have made this decision independently (61%). A further 17% claim to have been encouraged by friends and family to take out the account and 13% opened the account as their employer wanted them to do so for salary purposes. Eight percent opened the account to receive a government payment such as a child grant or other benefit.

Credit and loans

Most individuals have an aversion to debt based on their levels of agreement with the following statements:

- You hate owing money to anyone: 86%
- Taking loans should be avoided as much as possible: 74%

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). In addition, over one in four South Africans do not feel in control of their finances.

Twenty-eight percent of South Africans claim to be currently borrowing money, contrasting to 13% in 2007 and 12% in 2006. What is immediately evident is the reliance of the white and Indian/Asian markets on formal credit providers. In contrast, the black and coloured markets are users of both formal and informal sources of credit. In the informal market, the most prevalent source of financial aid is from societal networks, namely friends and family. Although this dominates across all race groups, it is by far the most prevalent in the black market.

One in six adult South Africans (over 5.2 million people) has some form of formal debt. Credit cards and store cards/accounts are the most prevalent forms, with their incidence significantly higher among whites than other race groups.

Over half of the population claim never to have borrowed money from anyone. In 2008, 7% or almost 2.3 million people in South Africa state they could not survive without borrowing money, as opposed to 3% in 2007. Five percent also claim to sometimes purchase items to their full credit limit. The main driver of debt is to access money to purchase food. Ten percent of South African adults, or nearly 3.2 million people, had asked or applied to borrow money for this purpose in the twelve months prior to the study.

Insurance

The overall lack of insurance products indicates that South Africans are generally underinsured even though they express a desire to be insured.

Although there was an increase in funeral products from 2006 to 2007 (39% to 46% respectively), in 2008, the overall percentage of people in South Africa with some sort of funeral product decreased to 43%. This decrease was driven by a reduction in the percentage of people who belong to a burial society. In 2007, 29% of people belonged to a burial society. In 2008 that figure dropped to 25%.

In 2008, there were few changes in the short-term insurance market with the overall percentage of people with some form of short-term insurance remaining static at 10%. Of the people who hold a short-term insurance product, on average, two kinds of policies are held. Overall vehicle insurance is the most popular kind of short-term insurance at 7%. Black people have very little insurance, with the highest being cellphone insurance at 2%.

Life assurance is the most common form of long-term assurance and is the only assurance category that seems to have increased from the previous year. Life assurance/life cover has increased from 10% in 2007 to 12% in 2008. However, of those people who don't have life assurance, 18% mentioned that they just do not want it.

Although 34% of South Africans indicated that they would like to have some form of loss of earnings insurance, only 6% of South Africans have this type of insurance. This again indicates how underinsured South Africans are, even though they desire insurance.

Medical insurance has shown a slight decrease from 10% in 2007 to 8% in 2008. Medical aid is perceived to be costly and 51% mentioned that the main reason why they did not have medical insurance was that they could not afford it.

Savings

In 2008, people expressed pro-saving sentiments. Sixty-nine percent of people believe that if one saves and invests regularly, eventually the small amounts will add up and 29% of people have a good idea of what interest or returns they get on their investments.

People seem to be more concerned about saving money for old age. In 2008, 55% of people were worried about having enough money for old age, compared to 46% in 2007. Although South Africans seemed to be worried about providing for their old age, we do not see a marked increase in their provisions towards saving for retirement. In both 2007 and 2008, only 13% of people had some sort of retirement plan. In 2008, the main reasons that people cite for not having a pension or retirement plan are not having a job (48%), not having money to invest (32%) or never having thought about it (9%). When investigating people's knowledge of retirement-specific terms, people seem to understand only the very basic of terms and this may be one contributor the lack of provision for retirement and old age.

In 2008, 28% of South Africans had some sort of savings or retirement product, whether formal or informal. Formal investments show a slight increase from 8% in 2007 to 10% in 2008. Of the South Africans who have a formal investment product, the majority are white and Asian. Informal savings has increased over the past three years. In 2007, 13% of people had an informal savings mechanism, as opposed to 15% in 2008. The increase in informal savings products from 2007 to 2008 was driven by stokvels. Stokvel growth is most evident in the black population, having increased from 7% in 2007 to 11% in 2008.

Financial literacy

The survey shows that there are still high levels of misunderstanding – or no knowledge at all – of key financial terms, particularly in the arena of debt. People were asked to say 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 improved slightly, however knowledge relating to the National Credit Act (NCA) specifically is low and although increasing, the increase is rather slow. As in 2007, knowledge was limited about what consumer rights and obligations were involved in taking out credit. Although the NCA is still relatively new, it is discouraging that not much improvement in consumer knowledge has happened between 2007 and 2008. Only 26% of people had heard of the NCR or NCA and knew what these terms meant.

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 2008 data. The relatively low growth 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 great need for greater financial literacy.

Optimism

Optimism is one of the drivers behind how one plans and runs one's life, with more optimistic people being greater users of credit, being more financially confident and knowledgeable, being better financial planners and, as a result, having fewer concerns about the future.

Over a third of the South African population aged 16 years and over is classified in the optimistic arena overall. These people will make financial decisions differently from the third of people who are in the pessimistic arena. The latter need more information, reassurance and detail to make their decisions, taking longer over the process. The former will use that detail only when absolutely necessary and will make quicker decisions. This has implications in communicating financial matters to different groups. These implications are important as it requires the communicator to realise that their audience may not have the same state of mind as they might assume even without thinking about it.

FinScope was launched in 2003 by the FinMark Trust (www.finmarktrust.org.za). It was an attempt to establish 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 2008, 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 August and October 2008. A nationally representative sample was drawn, which was weighted and benchmarked to the 2008 mid-year estimates based on 2007 Community Survey estimate information.

The 2008 South African syndicate members are: Absa, First National Bank (FNB), Liberty Life, Metropolitan Life, National Treasury, Nedbank, Old Mutual, Sanlam, Standard Bank and Teba Bank.

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