Credit and Borrowing in South Africa

FinScope Consumer Survey South Africa 2012

National Credit Regulator

FINMARK TRUST
Making financial markets work for the poor

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Acknowledgements

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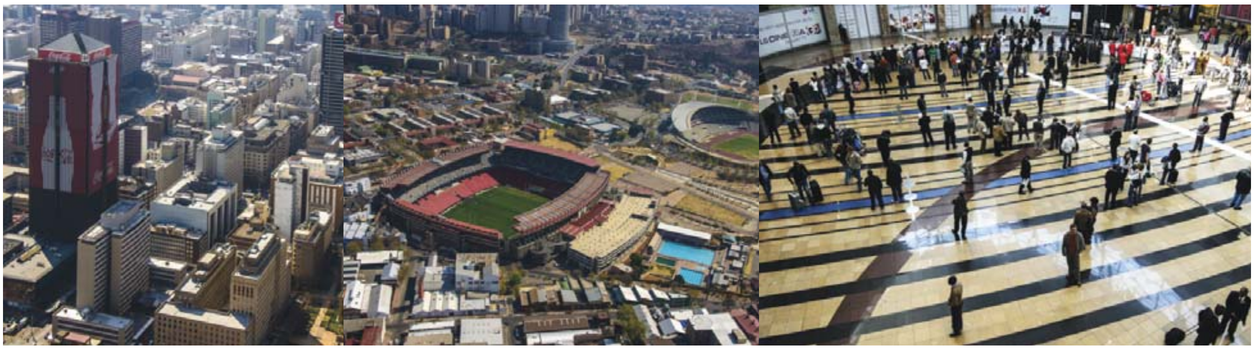
Any conclusions or recommendations stated here are those of the authors and do not necessarily reflect official positions of syndicate members.

Acronyms and abbreviations

ATM	Automatic Teller Machine
CEO	Chief Executive Officer
DFID	Department for International Development (UKaid)
EA	Enumeration Area
FMT	FinMark Trust
FNB	First National Bank
HDIs	Historically disadvantaged individuals
LSM	Living Standard Measure
NCR	National Credit Regulator
PPS	Probability Proportion to Size
SA	South Africa
SASSA	South African Social Security Agency
Stats SA	Statistics South Africa
SMS	Short Text Message
SMME	Small, medium and micro enterprises
SPSS	Statistical Package for Social Scientists



Definitions

Term	Definition
Access Strand	A measurement of financial inclusion across the formal-informal institutional provider continuum.
Active credit consumers	Active credit consumers are those who have an obligation to pay a credit provider and/or have an account with a supplier of goods or services (e.g. telecommunications service providers, doctors, plumber, HP, etc).
Additive	Financial services that target existing customers.
Adults	Those aged 18 years or older.
Banked	Individuals using one or more traditional financial product supplied by banks.
Credit	Obtaining funds from a third party with the promise of repayments of principal and, in most cases, with interest and arrangement charges in exchange for the money.
Demand-side barriers	Demand-side barriers to access to financial services relate to characteristics inherent to individuals that prevent them from using financial services such as perceived insufficient income, low levels of financial literacy and lack of trust in financial institutions.
Formal other	Individuals using one or more financial product supplied by formal financial institutions which are not banks.
Formal products	Products provided by government regulated financial institutions such as commercial banks, insurance companies and microfinance institutions.
Formally included	Individuals using formal financial products supplied by institutions governed by a legal precedent of any type. This is not exclusive usage, as these individuals may also be using informal products.
Financial access landscape	A measurement of usage of both formal and informal products across the four main product groups: transactions, savings, credit and insurance.
Financially served	Individuals using one or more formal and/or informal financial product.
Financially excluded	Individuals who are not using any formal or informal financial product.
Financial inclusion	The extent to which the adult population in the country engages with financial products and services such as; savings, transaction banking, credit and insurance, whether formal or informal.
Historically disadvantaged individuals (HDIs)	Adults 16 years and older, LSM 1 – 5, residing in non-metro areas
Informal products	Financial services provided by individuals and/or associations which are not regulated by government such as savings clubs and private moneylenders.
Informally served only	Individuals who are not using any formal financial products but who are using one or more financial products supplied from an informal source, such as a savings club or informal moneylender.
Informally served	Individuals who make use of informal financial products (regardless of whether or not they use formal financial services and products)
Insurance	Payment of a premium for risk of an event happening, where payout is made if or when the event occurs.
Metro	Major cities in South Africa, including Cape Town, Johannesburg, Pretoria, Durban, and Port Elizabeth
Non-metro	Rural areas, small towns and secondary cities
Remittances	The sending and receiving of money between people in one place, to people in another, using formal and/or informal means.
Savings	Safeguarding and accumulating wealth for future use.
Supply-side barriers	Supply-side barriers to access to financial services, relate to factors inherent to financial service providers that prevent individuals from using their services, such as location of access points, and the cost of using their services.
Transactional	Financial services that use cash or other means (such as cheques, credit cards, debit cards or other electronic means) to send or receive payments.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1 Introduction

This report summarises findings from the FinScope Consumer Survey South Africa 2012, focusing on credit and borrowing. The report has been commissioned by the National Credit Regulator (NCR) in order to further understand credit behaviour in South Africa and the potential implications for policy and regulation.

1.1 National Credit Regulator

The National Credit Regulator (NCR) was established as a regulator under the National Credit Act No. 34 of 2005 (The Act) and is responsible for the regulation of the South African credit industry. It is tasked with carrying out education, research, policy development, registration of industry participants, investigation of complaints, and ensuring the enforcement of the Act.

The Act requires the NCR to promote the development of an accessible credit market, particularly to address the needs of historically disadvantaged persons, low income persons, and remote, isolated or low density communities.

A key constraint in pursuit of this objective has been the lack of comprehensive information about borrowing behaviour, including the levels and usage of credit and loan products, as well as the factors contributing to or inhibiting borrowing in South Africa. Against this background, the NCR commissioned a report focusing on credit and borrowing behaviour in South Africa, using the FinScope South Africa 2012 findings.

1.2 FinMark Trust and FinScope

FinMark Trust is an independent trust which had been established with initial funding from the UK's Department for International Development (DFID). The purpose of FinMark Trust is "Making financial markets work for the poor" across Africa. This is done by promoting and supporting financial inclusion, regional financial integration, as well as institutional and organisational development, in order to increase access to financial services for the un-served and under-served in Africa. In order to achieve this, FinMark Trust commissions research to identify the systemic constraints that prevent financial markets from reaching out to these consumers and by advocating for change on the basis of research findings.

Thus, FinMark Trust developed the FinScope tool. It is a nationally representative survey of how people source their income, and how they manage their financial lives. In South Africa, FinScope is conducted annually since 2002. It is used to better understand money matters in South Africa, with an emphasis on the market needs and attitudes to both formal and informal financial offerings and usage. In 2010, the FinScope South Africa survey was expanded to include a livelihoods framework which gives further insight into people's lives. To date, FinScope surveys have been conducted or initiated in 16 countries.

FinScope assists in establishing credible benchmarks and indicators of financial inclusion, while at the same time providing insights into market obstacles to growth and highlighting opportunities for policy reform and innovation in product development and delivery. FinScope findings can therefore be of value both to policymakers who wish to develop policy aimed at improving the functioning of financial markets, to private service providers who are able to design product strategies around the segmentation and trends highlighted by the data, and to donors and non-governmental agencies who wish to support increased financial inclusion to specific regions or population groups.

1.3 Survey objectives

The main objective of FinScope is to measure and profile the levels of access to financial services by all adults in South Africa, across income ranges and other demographics, and making this information available for use by key stakeholders such as policy-makers, regulators, and financial service providers.

Information provided by the survey helps extend the reach of financial services in the country, as it provides an understanding of the adult population in South Africa in terms of:

- Livelihoods and how they generate their income;
- Their financial needs and/or demands;
- Their financial perceptions, attitudes, and behaviours;
- Their demographic and geographic distribution;
- The obstacles they face and the factors that would have an influence on their financial situations;
- Current levels of access to, and utilisation of, financial services and products (formal and/or informal);
- The landscape of access (i.e. types of products used in terms of transactions, savings, credit, insurance and remittances);
- Drivers of financial products and services utilisation;
- Barriers to utilisation of, and access to, financial products and services;
- The size of the market; and
- The commonalities and differences between different market segments.

1.4 A syndicated approach

Since its inception in 2003, the FinScope study in South Africa has been following a syndicate-funded approach, involving by design a range of stakeholders from the private and public sectors in the country. The syndicate members form an integral part in the FinScope questionnaire design and offer valuable insight into consumer demand behaviour. The syndicate members also use the annual FinScope 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. FinScope South Africa 2012 syndicate members include the National Credit Regulator (NCR), National Treasury, Nedbank, First National Bank (FNB), Old Mutual, ABSA, Standard Bank, Postbank, Liberty, and Metropolitan Life.

2 Methodology of the study

The table below gives an overview of the survey methodology applied. The analytical framework is summarised in Appendix A.

As borrowing is highly complex and dependent on a number of sometimes seemingly unrelated factors, this report also triangulates some findings from qualitative research that was conducted in conjunction with the survey to explore individual personas and stories around credit and borrowing. As such, several explorative interviews were conducted with a range of adults LSM 3 – 6, in the Polokwane area. To further illustrate behavioural and attitudinal perspectives regarding money management, a few stories from the South African Community Capability Study are included, which was conducted by the Centre for Democratising Information (Prinsloo 2012)[1].

Table 1: Methodological overview

Logistics	Details
Methodology	Face-to-face, pen and paper interviews
Respondent profile	Adult population – South African residents 16 years and older (minimum age is defined by the age at which individuals can enter into a legal financial transaction in their own capacity)
Sample	n= 3 900, nationally representative individual-based sample Sample drawn by Dr. Ariane Neethling, based on Stats SA 2011 mid-year population estimates Sample drawn systematically with Probability Proportional to Size (PPS), Enumerator Area (EA)-based (650 EAs and six interviews per EA) To identify respondents, two further levels of random sampling was applied: • Households were randomly selected within each sampled EA • Individual respondents were then randomly selected from a list of all adult members (16 years and older)in the selected household using the Kish grid method
Coverage	Nation-wide
Questionnaire	± 60 minutes , translated into isiXhosa, isiZulu, Sesotho, Setswana, Sepedi and Afrikaans
Fieldwork	May to July 2012, conducted by TNS
Data management and analysis	Survey data was weighted and validated by Dr. Ariane Neethling
Dissemination	Data management and analysis (including back checks and data capturing in SPSS) was conducted by TNS with technical support from FinMark Trust

[1] Prinsloo, Melani 2012. The South African Capability Study – Managing Money. Centre for Democratising Information. http://www.cdi.org.za/

3 Study findings

3.1 Understanding the context

Borrowing behaviour and financial inclusion cannot be understood in isolation, but needs to consider the context of other dynamics within a country or community. To fully comprehend financial inclusion, it is important to know things like the demographic profile of the population, the different ways in which people generate income, and their life realities. These and other questions are core to understanding the financial inclusion landscape within a country or community.

The survey is based on Stats SA 2011 mid-year population estimates (as the new Census was not realised at the time of the survey inception). At that time, the South African adult population (16 years and older) was estimated to be 33.7 million. South Africa is largely urbanised with 63% of the population living in urban areas. Approximately 53% of the adult population is female. The majority of adults (52%) are within LSM 5 – 6. However, 7.2 million adults in South Africa (21%) are within LSM 1 – 4, which face considerable vulnerabilities such as limited access to infrastructure (water, sanitation, and electricity). People residing on tribal land or in urban informal areas are particularly affected.

Figure 1: LSM breakdown by gender and location

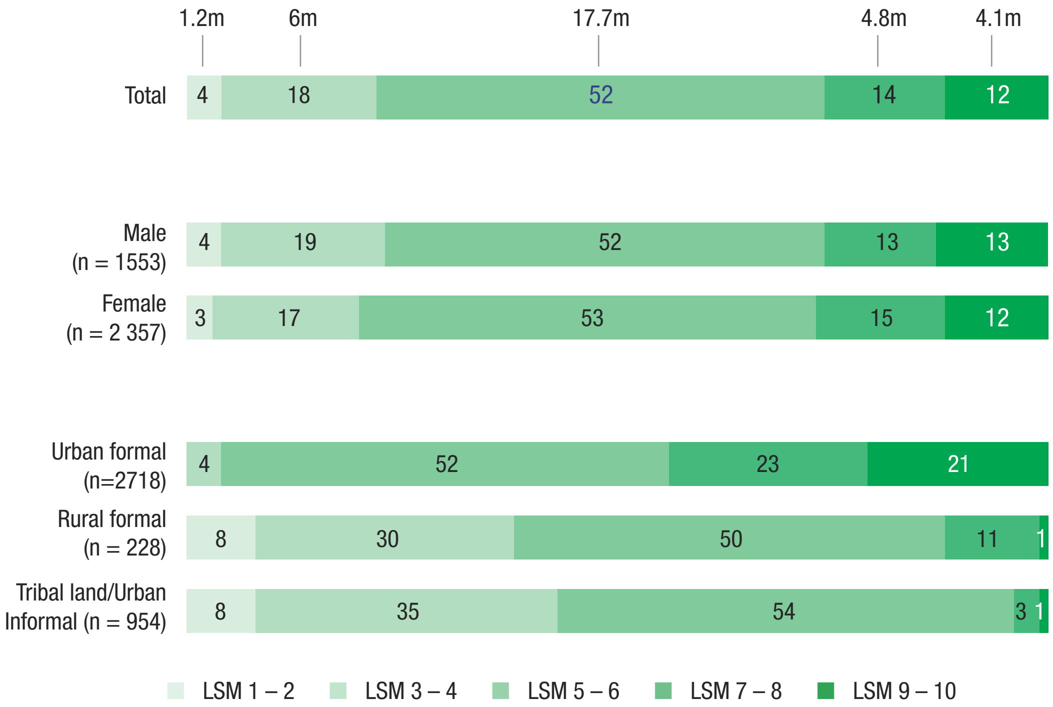


Figure 2: Overview of infrastructure challenges for LSM 1 – 2 and LSM 3 – 4

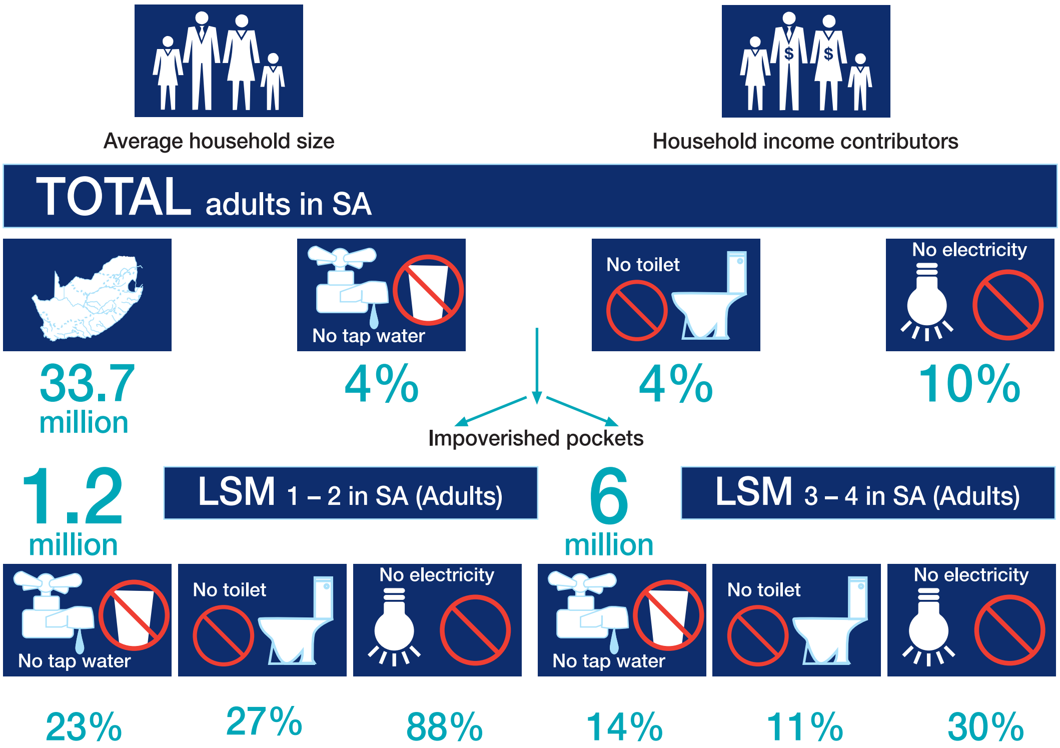
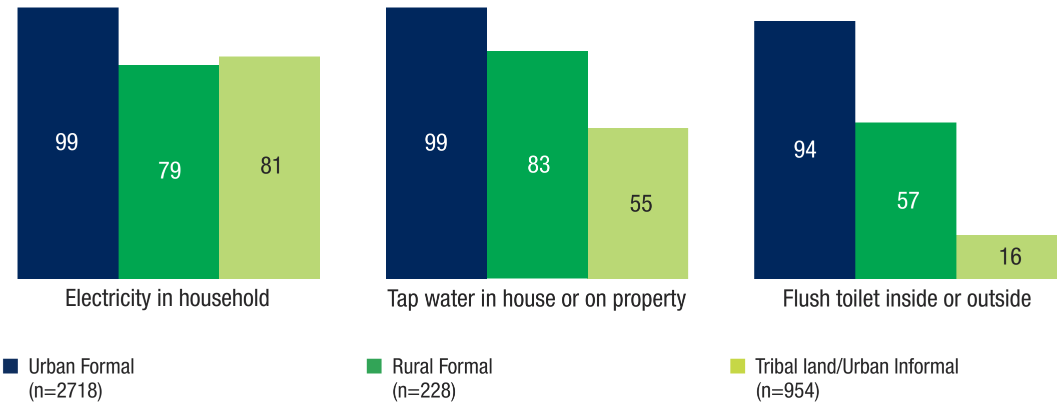


Figure 3: Access to infrastructure by location



Infrastructure challenges not only relate to water, sanitation and electricity, but also to the physical proximity to (financial) institutions. On average, an adult in South Africa reaches the nearest bank branch within 27 minutes. An adult in LSM 1 – 4, however, needs an average of 50 minutes to reach the nearest branch from home. The average time for adults residing in urban formal areas to reach a bank branch is 20 minutes, and for adults in rural formal areas is 43 minutes. For adults residing in urban informal areas or on tribal land it takes 51 minutes on average to reach a bank branch.

Figure 4: Average distance to institutions by LSM

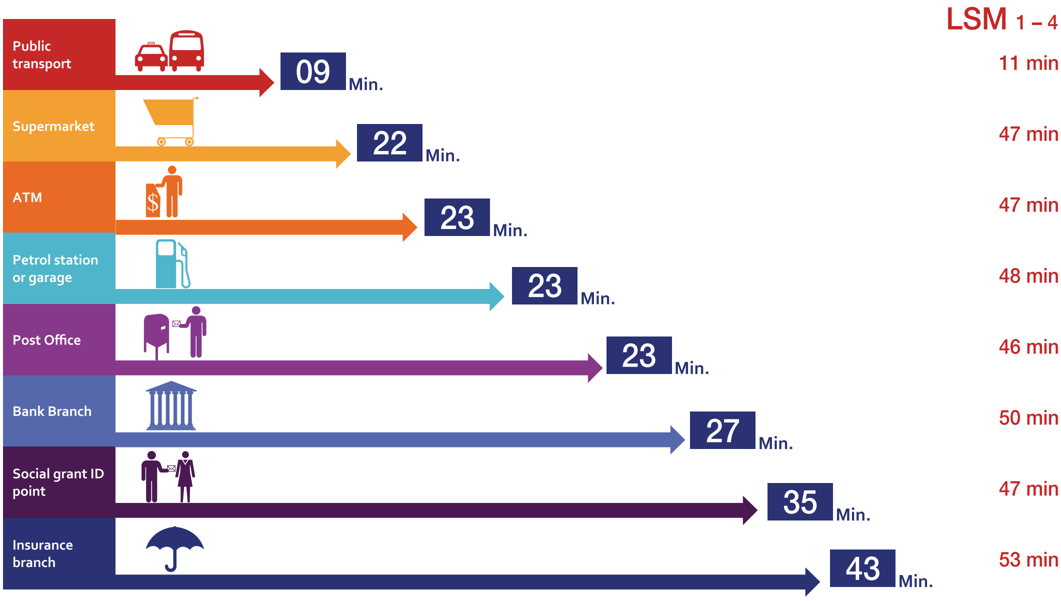


Figure 5: Average distance to institutions by location

	Total	Urban Formal	Rural Formal	Urban Informal/ Tribal Land
Public transport	09 02	07 29	22 04	10 53
Supermarket	22 32	11 56	41 01	46 07
ATM	23 04	12 01	41 04	47 01
Petrol station or garage	23 19	11 52	39 28	47 02
Post Office	23 43	12 41	41 02	44 45
Bank branch	27 46	20 05	43 11	51 14
Social grant ID point	35 09	23 09	41 17	47 05
Insurance branch	43 05	28 13	46 59	55 03

The South African adult population is relatively young, with 41% of adults being younger than 30 years (an age that Finscope data shows as not yet economically settled). 37% of adults in South Africa have Matric and a further 39% have some high school education. Although education levels among the youth seemed to improve (i.e. more people with Matric), unemployment and dependency on others for income is far above average. While 28% of adults in South Africa claim to be unemployed, 44% of 21 to 29 year olds claim to be unemployed, and 40% of 21 to 29 year olds claim to receive money from others (compared to 33% in total). Many young adults supplement their income with piece jobs. Accordingly, half of piece job earners are under 30.

In total, every second adult in South Africa receives a salary/wage, including those who work full-time (29%), those who work part-time (15%) and some of those who have piece jobs (11%). A third of adults receive money from others (e.g. from friends and family), and 29% receive a Government grant, while 7% of adults in South Africa receive no money at all.

Figure 6: Working status and sources of money

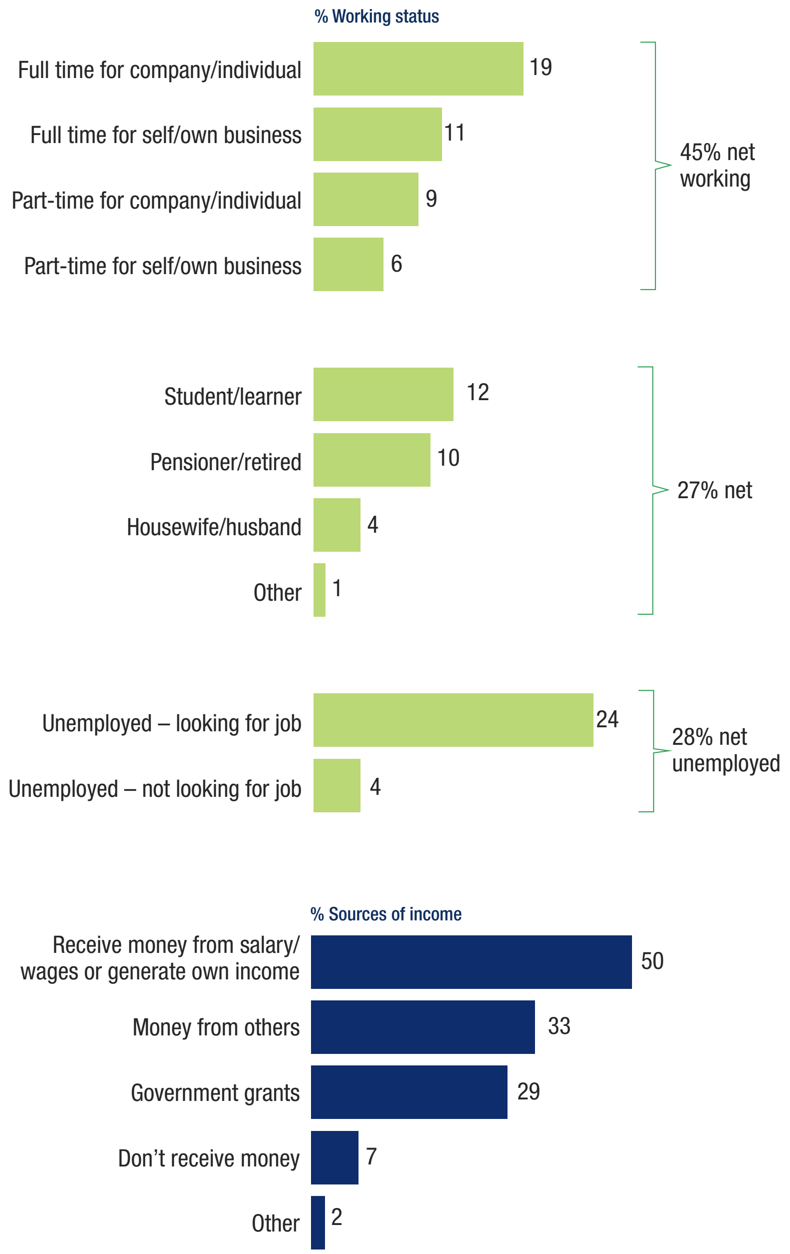
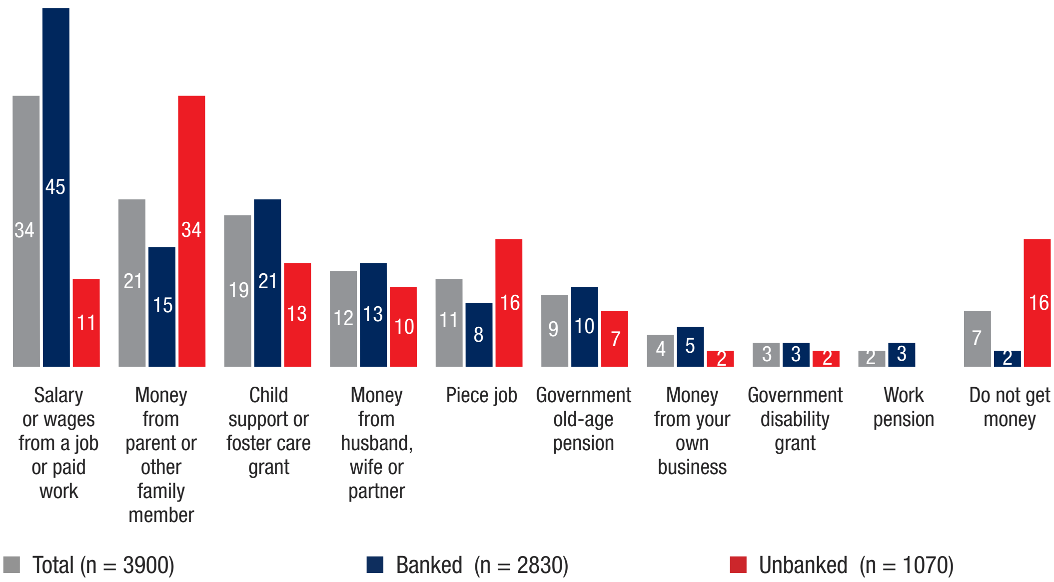


Figure 7: Top 10 sources of money among the banked and unbanked



Personal monthly incomes are relatively low, especially among young adults in South Africa. In total, 46% of adults receive less than R3 000 a month. It also needs to be considered that the average household size is four, and on average only one or two people contribute to the household income. In addition, economic challenges such as slow economic growth, and rising inflation, fuel and food prices affect the overall financial situation of individuals and households. As such, many South Africans are increasingly experiencing financial stress and hardship, whether brought about by a lack of employment or a reduction in purchasing power due to rising prices and inflation. FinScope uses the so-called Afro-barometer to assess changes in the living conditions over time. In this regard the 2012 findings indicate that South Africans find day-to-day living difficult, as many increasingly lack enough cash and food. Although there has been some improvement, 20% of households claimed to have often or sometimes gone without enough food to eat because they did not have enough money to buy food.

Figure 8: Personal monthly income

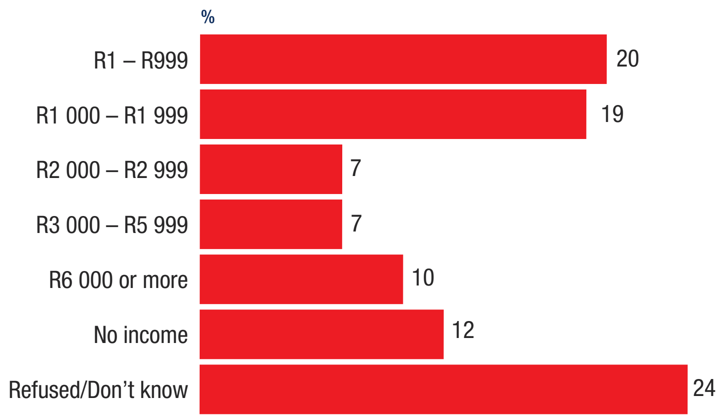


Figure 9: Difficulties often/sometimes experienced in the past year

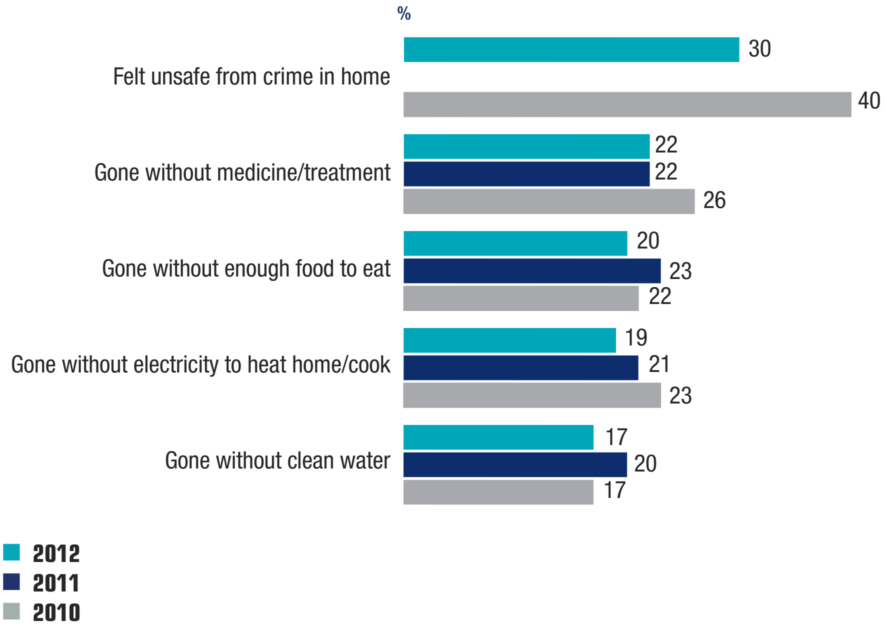
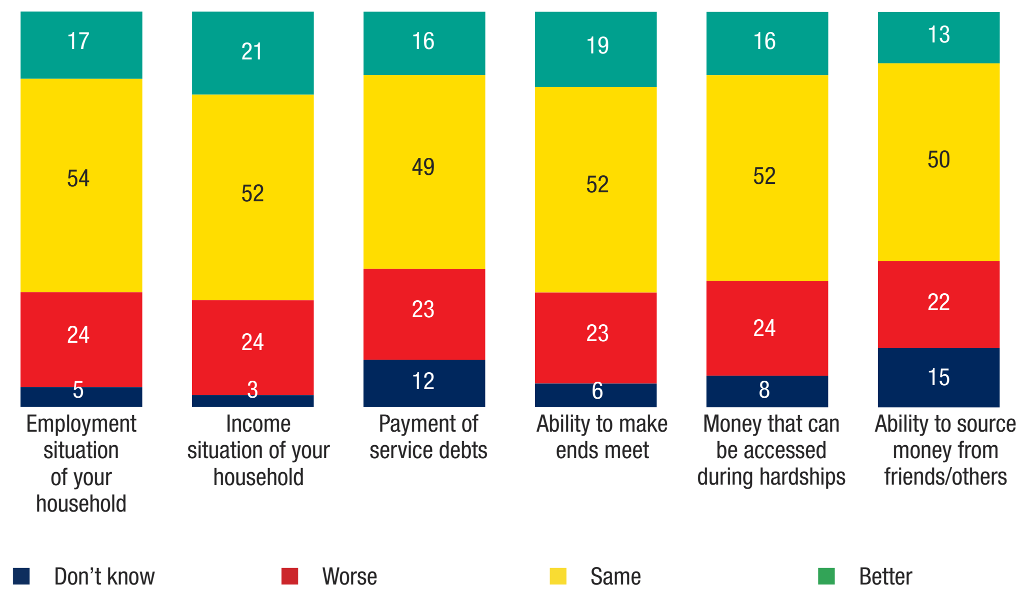


Figure 10: Household financial situation compared with previous year



About 23% of adults said that their household financial situation is worse compared to last year. This hardship resulted in an increase in borrowing behaviour and decrease in savings. The reasons for borrowing are closely related to the economic challenges people experience.

Understanding the lives of historical disadvantaged persons

For the purpose of this report, historically disadvantaged individuals (HDIs) are defined as those deprived of some of the basic necessities or advantages of life, derived from the areas they reside in such as rural, peri-urban, non-metro areas, and the Living Standard Measure (LSM) 1 – 5 which combines a range of assets or lack thereof. Combining LSM and area classification, 39% of adults in South Africa (= 13 155 679 individuals) could be classified as HDIs, living in non-metropolitan areas and coming from households classified as LSM 1 – 5. The large majority (74%) reside in rural areas. 47% are under the age of 30 (an age FinScope data shows as not yet economically settled). Many rely on others for income: 37% receive Government grants and 33% receive money from others. As such, many have low levels of income: 69% earn less than R2000 per month, including 14% who do not have an income at all. Many historically disadvantaged individuals face infrastructure challenges, relating to water, sanitation, and electricity, but also to physical proximity to (formal financial) institutions: 40% take longer than an hour to reach a bank branch.

Figure 11: HDI age distribution

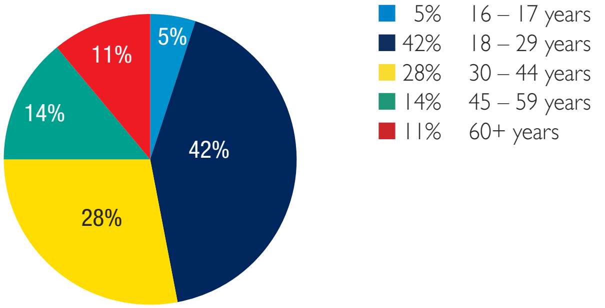


Figure 12: HDI gender distribution

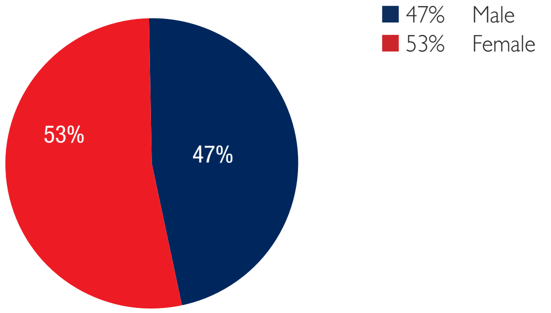


Figure 13: HDI – urban/rural

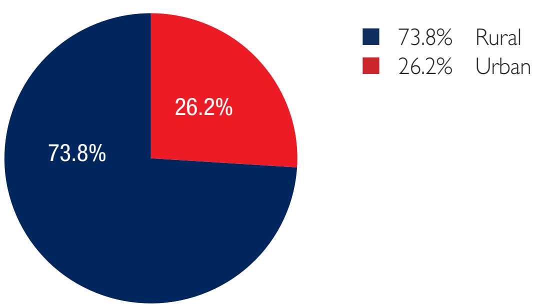


Figure 14: HDI sources of money and personal monthly income

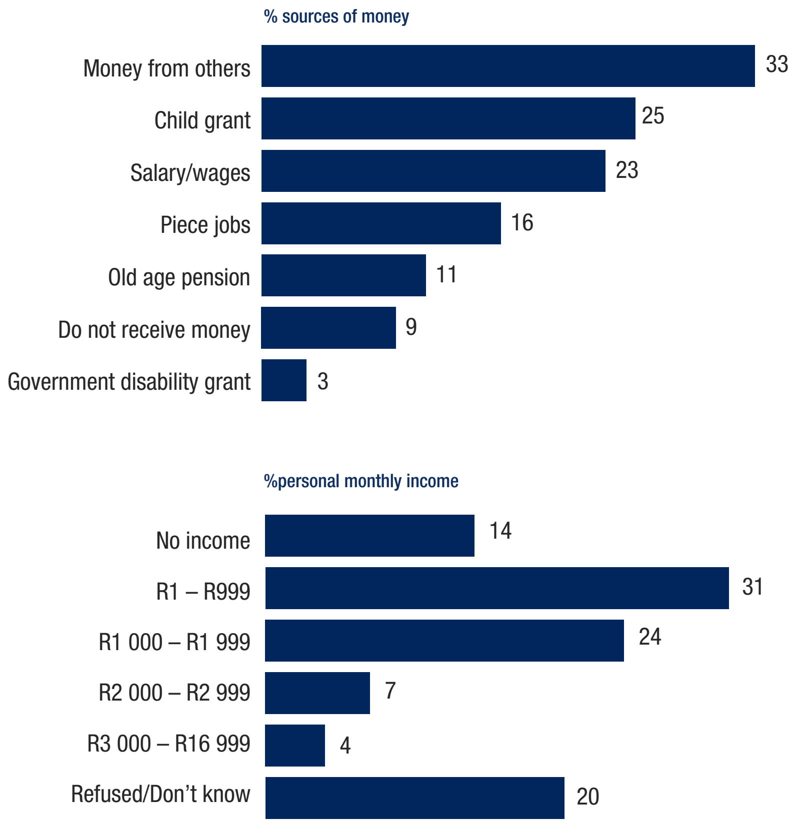
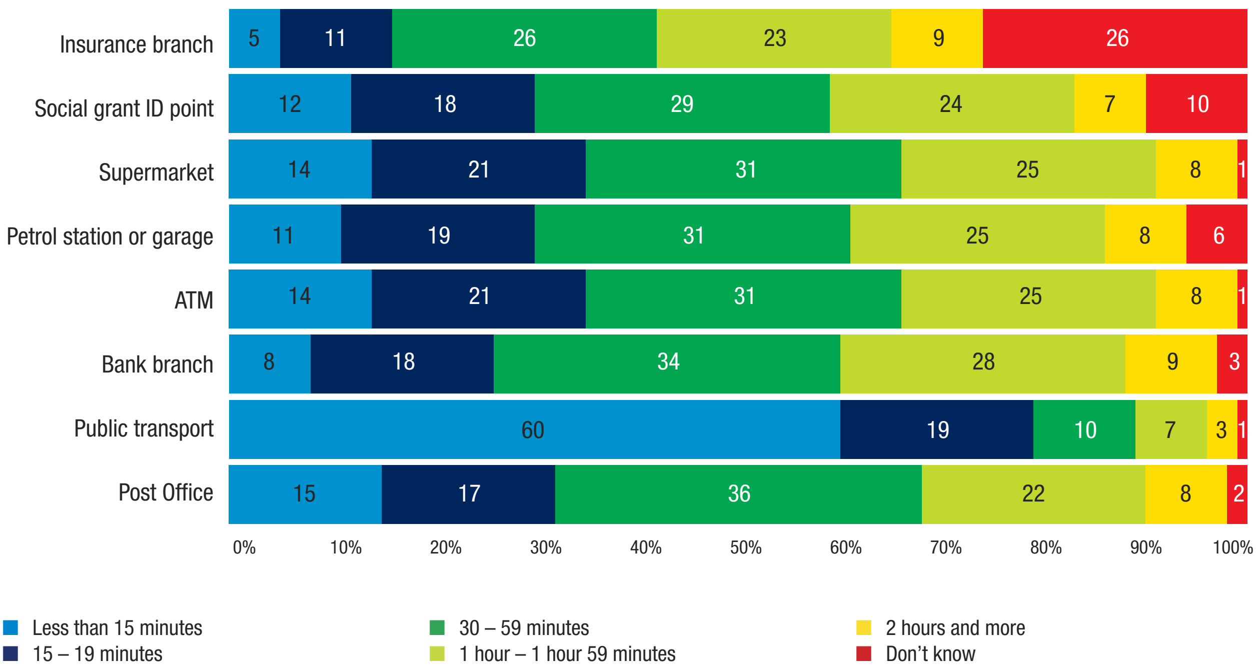


Figure 15: HDI average distance to institutions



3.2 Financial inclusion – overview

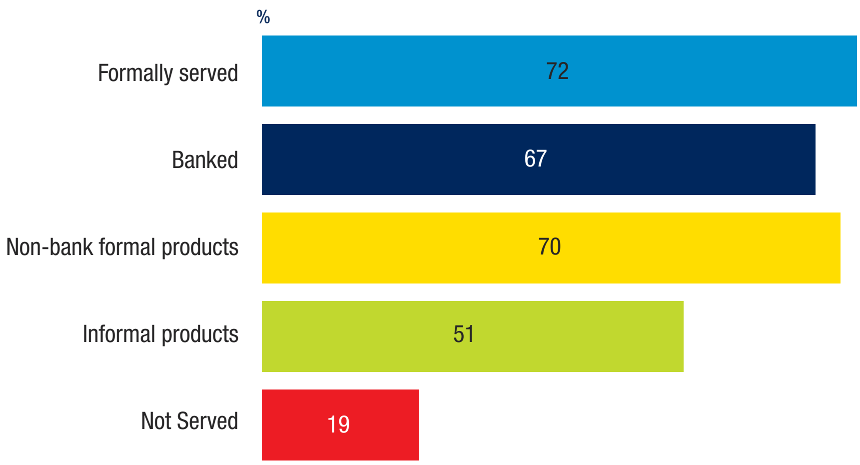
This section describes overall financial inclusion – summarising overall levels of financial inclusion and product uptake, including banking, savings and investment, insurance, and remittance. Information regarding credit and borrowing is contained in detail in the chapter following this section.

3.2.1 Overall financial inclusion

Financial inclusion (both informal and formal) increased considerably from 73% in 2011 to 81% in 2012, mainly due to an increase in banking. As such, women experienced a greater increase in financial inclusion mainly due to the introduction of the new South African Social Security Agency (SASSA) grant system.

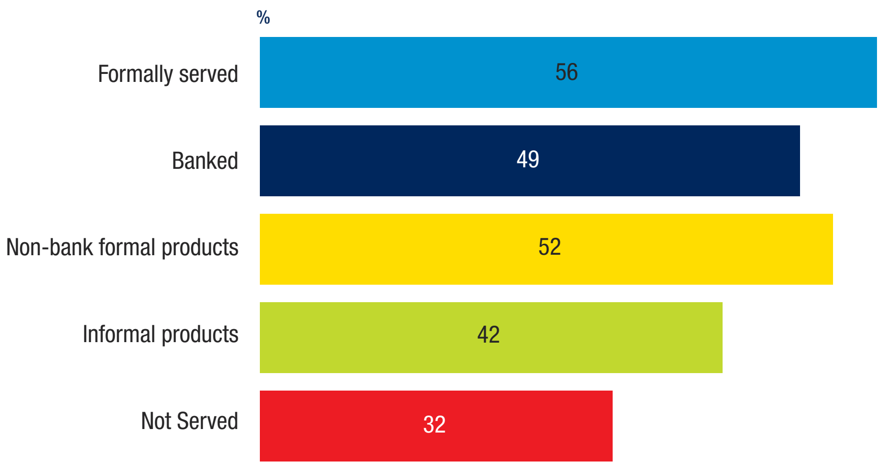
Almost 40% have a product portfolio stretching across the Access Strand – meaning they use a combination of financial products and services (both formal and informal) to meet their financial needs. FinScope shows that 72% of adults are formally served including both banked and other formal non-bank products and services. 67% of adults are banked in South Africa (22 514 009 individuals) but only 24% of adults rely exclusively on banking services. The majority of adults (70%) have/use formal non-bank products/services (23 491 419 individuals), and 51% of adults have/use informal mechanisms to manage their finances (17 353 333 individuals)while 19% have/use no financial products or services to manage their finances. If they save, they keep their money at home and their only coping mechanism is a reliance on family and friends.

Figure 16: Financial inclusion overview



FinScope shows that levels of financial inclusion are lower among historically disadvantaged individuals (HDIs). 56% of HDIs are formally served including those who are banked (49%) and/or have other formal non-bank products and services (52%). 42% of HDIs have/use informal mechanisms to manage their finances while32% have/use no financial products or services, i.e. they are financially excluded.

Figure 17: HDI financial inclusion overview

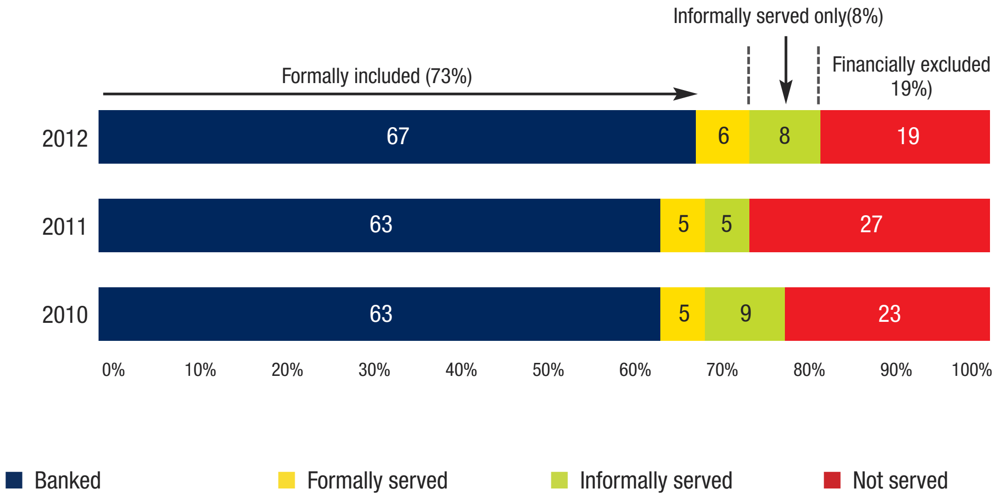


Access Strand

In constructing this strand, the overlaps in financial product/services usage are removed, resulting in the following segments:

- Individuals who have/use commercial bank products (67%) – a significant increase (4% points) compared to 2011;
- Individuals who have/use formal non-bank products/services but no commercial banking products (6%);
- Individuals who only rely on informal mechanisms and no formal products (8%); and
- Financially excluded individuals (19%) who do not use any financial products (neither formal nor informal), to manage their financial lives.

Figure 18: Access Strand



Income seems to be a significant barrier to financial inclusion, i.e. the uptake of financial products and services. Looking at LSM 1– 5, 30% of adults are financially excluded, meaning that they do not use any financial products or services (neither formal nor informal) to manage their financial lives, compared to 19% in total. The levels of financial exclusion are the highest among those without any income (63%), or those who receive an irregular income, e.g. adults with piece jobs (32%), and those who receive money from others (25%).

There are also significant differences between rural and urban levels of financial inclusion – while about three quarters of adults (74%) are banked in urban areas; only 54% of adults in rural areas have/use commercial banking products. The informal sector plays an important role in pushing out the boundaries of financial inclusion, which is more pronounced in rural areas.

Looking at the gender divide, it is interesting to note that women are moving faster into the banking system then men, mainly due to the new SASSA grant system. Thus, women are more likely than men to be financially included in 2012 (84% compared to 77% respectively).

Figure 19: Access Strand by source of income

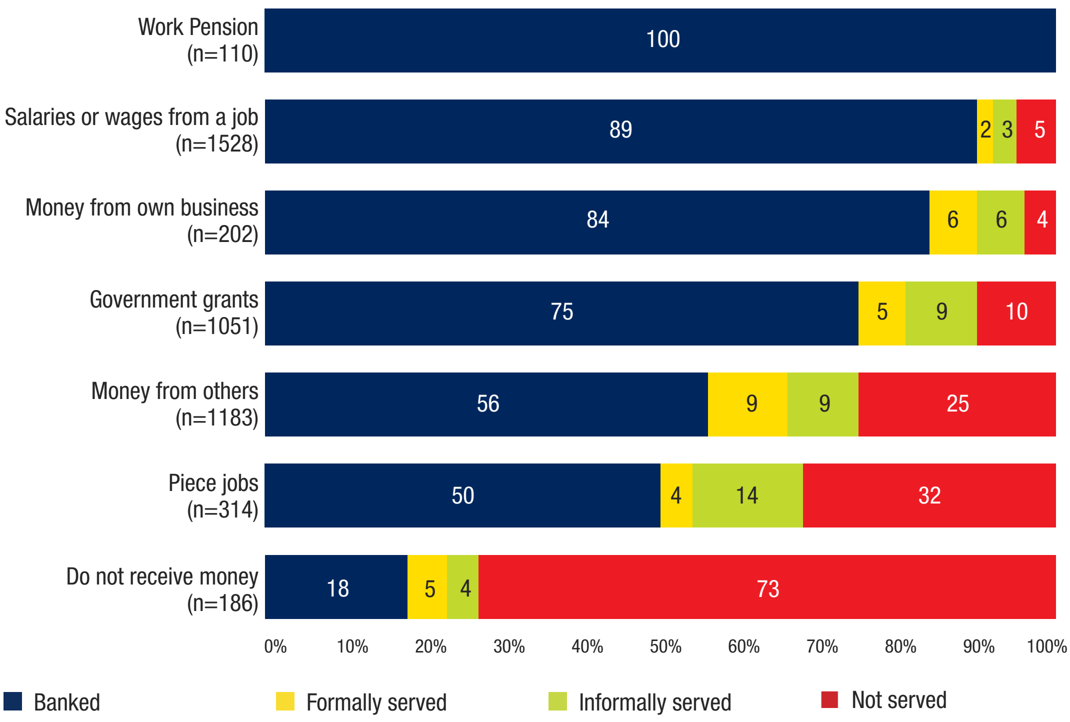


Figure 20: Access Strand by location

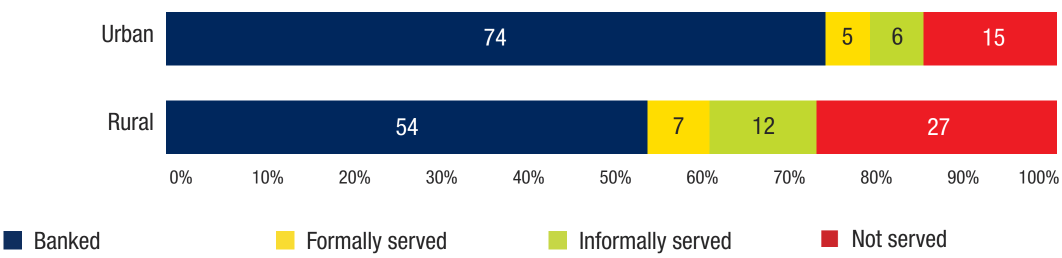


Figure 21: Access Strand by gender

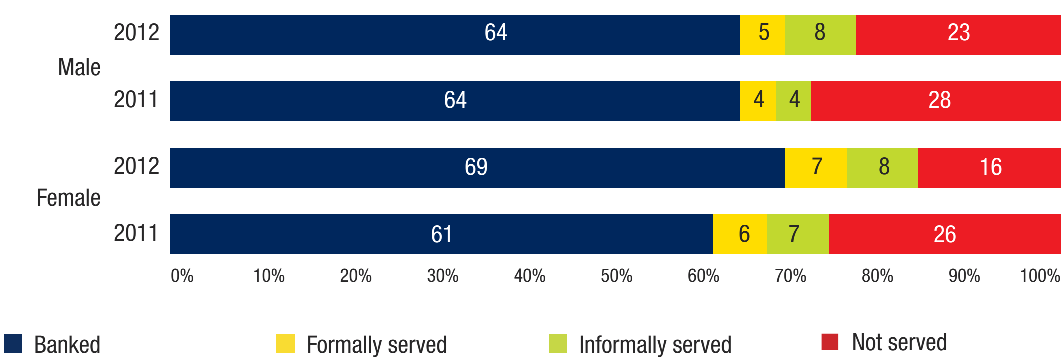
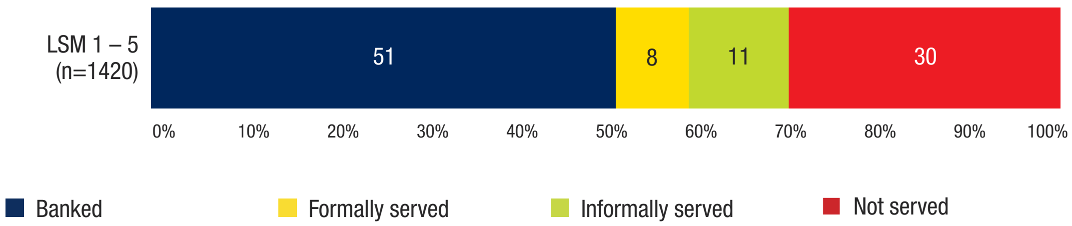
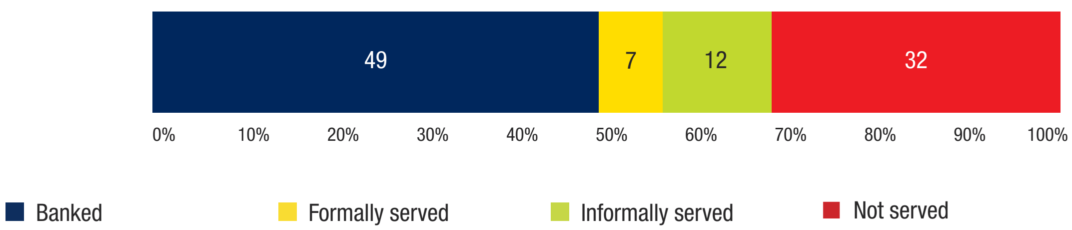


Figure 22: Access Strand LSM 1 – 5



The Access Strand for historically disadvantaged individuals shows that 49% have/use commercial bank products, 7% have/use formal non-bank products/services but no commercial banking products, while 12% of HDIs only rely on informal mechanisms and no formal products, and 32% do not use any financial products (neither formal nor informal) to manage their financial lives.

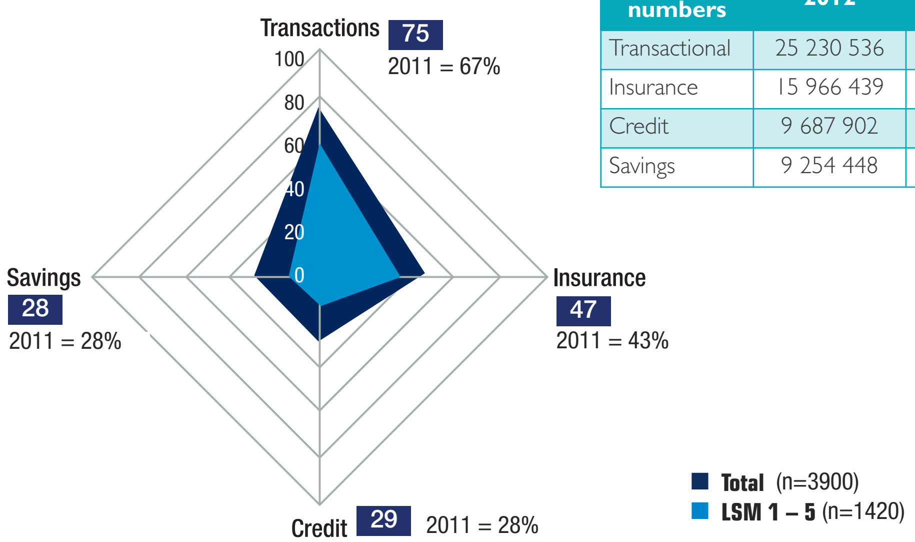
Figure 23: HDI Access Strand



Landscape of Access

Financial inclusion is largely driven by transactional products and services as shown in the Landscape of Access. While banking is largely driven by transactional products (99% of banked adults in South Africa have/use a transactional product), the use of other formal non-bank products and informal products is driven by funeral cover (31% of adults who use non-bank formal products have/use funeral cover products, and 53% of adults who use informal mechanisms are members of burial societies). 29% of adults who use financial products and services, have credit/loan products.

Figure 24: Landscape of Access



Actual numbers	2012	2011	2010
Transactional	25 230 536	22 665 427	22 740 526
Insurance	15 966 439	14 660 699	16 690 375
Credit	9 687 902	13 288 269	11 008 480
Savings	9 254 448	11 313 370	11 640 080

Product uptake among historically disadvantaged individuals is also driven by transactional products, although product uptake in general is lower. 21% of HDIs, who use financial products and services, have credit/loan products. The table below provides details regarding product uptake among HDIs.

Figure 25: HDI Landscape of Access

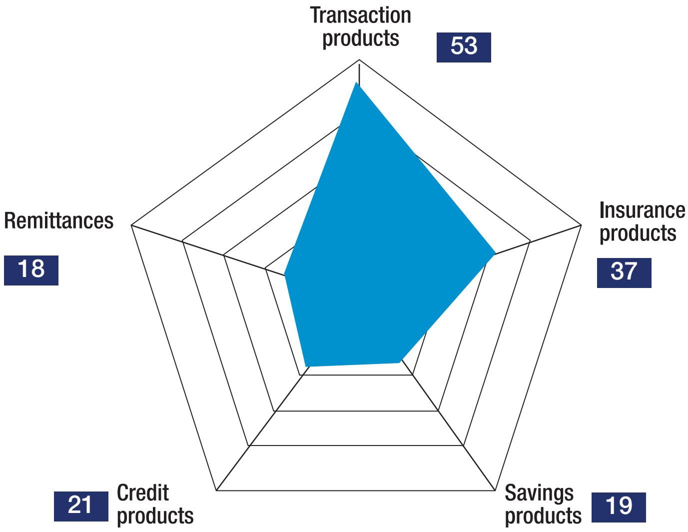


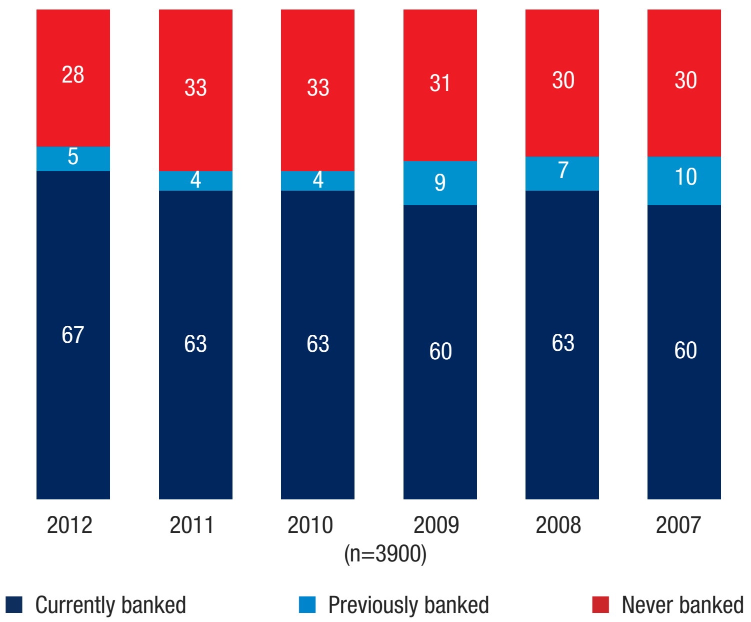
Table 2: HDIs financial services consumption

Banking products	%
ATM/Debit	43
Savings account	28
Mzansi account	5
SASSA MasterCard	5
Cellphone banking	3
Funeral policy	2
Transactional account	2
Current or cheque account	1
Fixed or notice deposit account	1
Savings book	1
Credit and loan products	**%**
Store card	5
Personal loan from a bank	1
Borrowing from family/friends	10
Borrowing from a colleague	1
Borrowing from a local spaza	1
Borrowing from mashonisa	1
Borrowing from a stokvel/society	3
Borrowing from an employer	1
Funeral	**%**
Funeral	%
Belong to a burial society	30
Funeral policy with a bank	3
Funeral cover through an undertaker	8
Funeral with an insurance company	1
Savings products	**%**
Deposit account	2
Savings book	1
Stokvel	5
Savings clubs	4
Keep cash at home	6

3.2.2 Banking

In total, 67% of adults are banked in South Africa (22 514 009 individuals). There has been a considerable increase in the banked population this year after it remained relatively stable in the past years, from 60% in 2009 to 67% in 2012, mainly due to the introduction of the new SASSA grant system.

Figure 26: Tracking the banked 2007 – 2012



Introduction of new SASSA system

29% of adults in South Africa receive a form of government grant – mainly child support/foster care grant (19%). The introduction of the new SASSA grant system (whereby social grants are paid into a bank account and recipients can use a MasterCard) contributed to the significant increase in the banked population, particularly at the bottom of the pyramid (LSM 1 – 2 increased from 23% in 2011 to 49% in 2012) and among women (69% of women are banked). 12% of adults in South Africa have a SASSA MasterCard. Of those receiving a social grant, 75% are banked – up from 60% in 2011. Across people registered on the new SASSA system, 87% said they like it, and 83% agreed with the statement that the cheapest way to withdraw money from a shop till is using the new SASSA MasterCard.

Figure 27: Distribution of grants

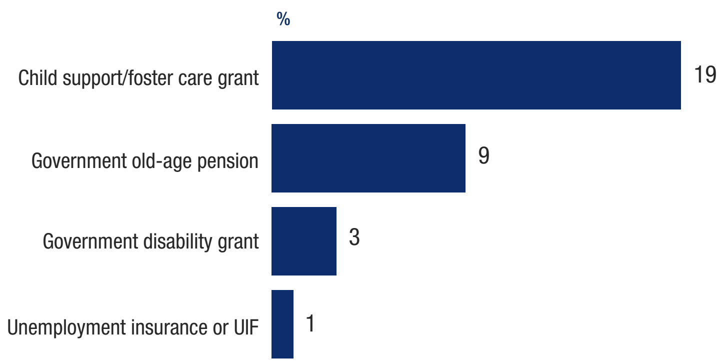
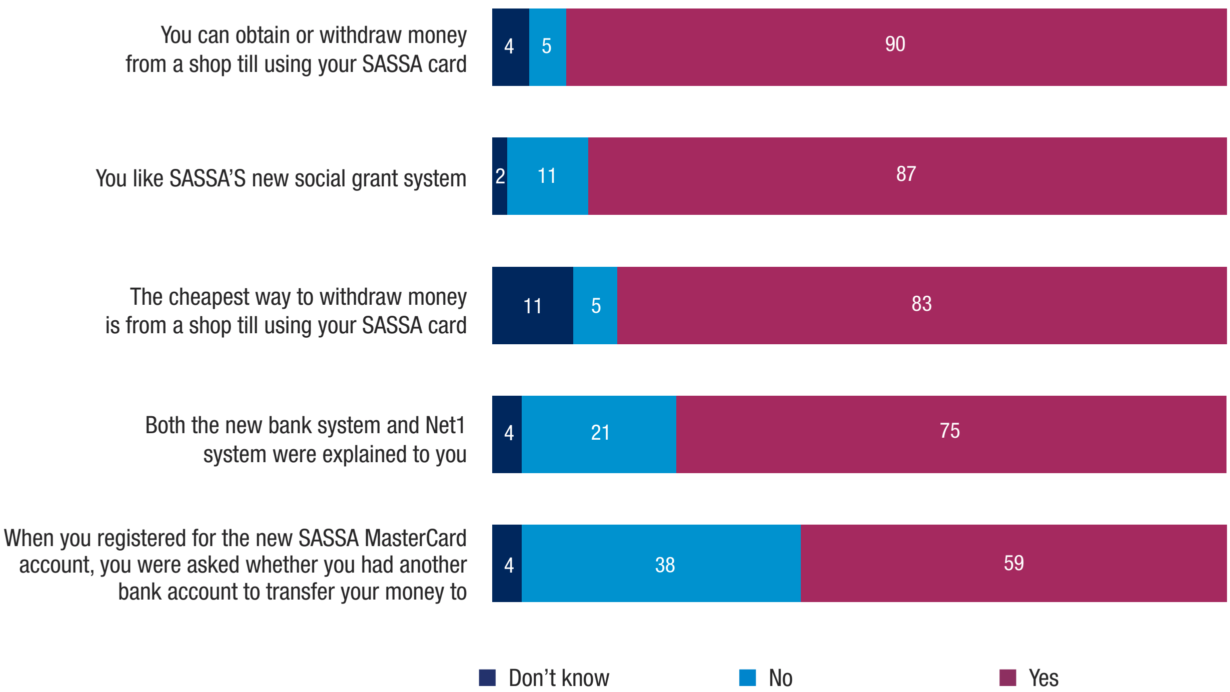


Figure 28: Perceptions of the new SASSA system



The uptake of other banking products also increased from 2011 to 2012 as follows: ATM / debit card usage has increased from 52% to 61%, savings account usage has increased from 30% to 39%, cellphone banking has increased from 8% to 11%, and retail store point withdrawals has increased from 7% to 25%. However, there has been a drop in Mzansi usage, mainly due to other product migration.

Although more people in South Africa are banked compared to last year, there is room for improvement to deepen engagement with the banking sector through moving from basic banking and monthly cash withdrawals to full service banking that helps people to manage their financial lives. More than a third of adults in South Africa (34%) take out all their money as soon as it is deposited into their bank accounts. These individuals are predominantly from lower LSM groups; residing in rural areas, females, earning an irregular income from piece jobs, and receiving social grants.

Figure 29: Attitudes to banking by level of financial inclusion

High		Average personal monthly income	Attitudes to banking
Full service banking	Size: 9.6m	R7 600	52% agree that it only makes sense to have a bank account if you receive money regularly and reliably; 26% banking fees too expensive
Monthly cash withdrawal at store till using bank card/ Prefer bank card purchases to cash	Size: 5.8m	R2 000	43% take out all money as soon as deposited
Do NOT withdraw all at once every month	Size: 3.4m	R1 900	14% unsure which bank account best; 8% too complicated to open bank account
Basic banking – withdraw all at once every month	Size: 3.7m	R1 400	17% unsure which bank account best
Unbanked	Size: 11.2m	R750	57% not enough money for bank account; 22% unsure which bank account best; 18% too complicated to open bank account
Low			

3.2.3 Savings and investment

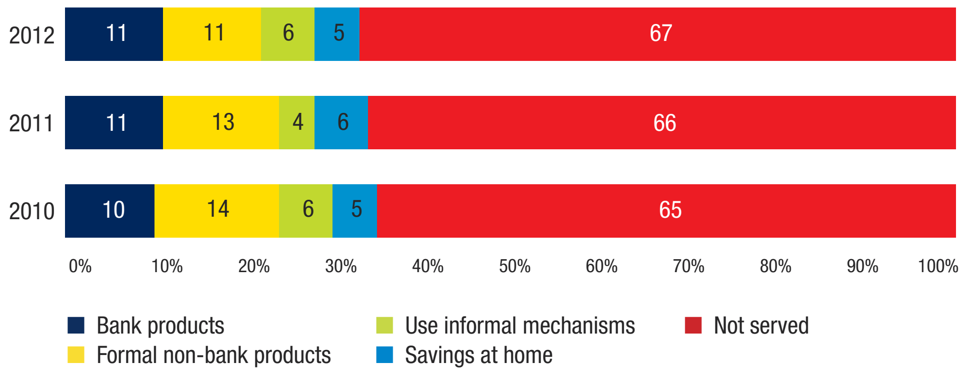
The majority of adults in South Africa (67%) do not save (= 22.7 million), which is a slight increase compared to last year. Those without savings skew to the unbanked and under 30 year olds. 22% of adults are formally served, including those who use bank products (11%) and those who use other formal non-bank products (16%). 11% of adults use informal mechanisms such as savings groups, 9% save at home, and 2% give their money to someone else for safe keeping.

Savings Strand

In constructing this strand, the overlaps in savings/investment product usage are removed, resulting in the following segments:

- Individuals who have/use savings products from a commercial bank (11%);
- Individuals who have/use savings products from formal non-bank institutions, but do not have savings products from a bank (11%);
- Individuals who only rely on informal mechanisms such as savings groups (6%);
- Individuals who keep all their savings at home, i.e. these individuals do not have or use formal or informal savings products or mechanisms (5%); and
- Individuals who do not save, neither at home nor through informal mechanisms or formal financial institutions (67%).

Figure 30: Savings Strand



Savings behaviour is directly linked to individual income – those who earn low income, no income, or irregular income (e.g. from piece jobs) tend not to save, save at home, or with other people. As such, the decrease in savings behavior mainly relates to a lack of funds (joblessness and lack of access to money). 4 in 5 of those who had cancelled a savings product said they could no longer afford it (skew 30 to 44 years, low education, and low income). Only a quarter of adults in South Africa (25%) claim they have enough money to save after covering all spending needs. Those who save (33%), save an average of R290 a month. Savers from LSM 1 – 5 put less money away every month (on average R 150 a month).

Adults in South Africa mainly save for emergencies. 58% of adults claim that it is important to have money available in case of an emergency. Other reasons for people to save include the following: providing for the family in the event of death (47%), funeral (own or someone else) (41%), old age/retirement (37%), as well as education/school fees (34%).

3.2.4 Insurance and risk mitigation

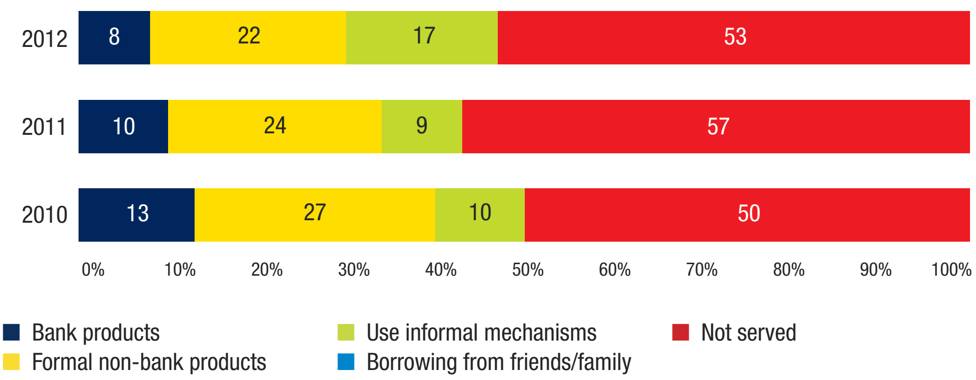
In South Africa, 53% of adults do not have any kind of financial product covering defined risks, which is a decrease from last year. Those without insurance products skew to lower LSMs and under 30 year olds. 30% of adults are formally served, including those who use bank products covering defined risks (8%) and those who use other formal non-bank products (28%). 28% of adults use informal mechanisms such as burial societies

Insurance Strand

In constructing this strand, the overlaps in insurance product usage are removed, resulting in the following segments:

- Individuals who have/use insurance products from a commercial bank (8%);
- Individuals who have/use insurance products from formal non-bank institutions, but do not have insurance products from a bank (22%);
- Individuals who only rely on informal mechanisms such as burial societies (17%); and
- Individuals who do not have any kind of financial product covering risk (53%).

Figure 31: Insurance Strand



Uptake of insurance is mainly driven by burial and funeral cover. 27% of adults are covered by burial societies, while 10% have funeral cover through a funeral parlour or undertaker, 8% have funeral cover with a bank, and 7% have funeral cover with an insurance company. Only 12% of adults have life cover and 10% have medical cover.

Qualitative research revealed that funeral insurance, and membership in burial societies is much more than a mechanism to cover funeral costs, especially for low LSM groups. Originally this was set up as an insurance scheme; however, it also has savings, credit, and payment facets for consumers. When asked about savings, many respondents describe their burial society contributions as a savings scheme, often while simultaneously describing it as a form of insurance. They further characterize the practice of making regular contributions as representative of strong financial discipline, something they believe should be valued in credit contexts (e.g. in loan applications). Some burial societies allow emergency loans from the funeral pool, effectively serving as credit institutions. And the mechanics of contribution and of payout touch on many of the core principles of payment solutions – payment over time, over distance, and across social networks. From a consumer perspective, funeral insurance and burial society membership can be viewed as the ultimate composite financial product, bringing together a variety of diverse financial behaviors.

3.2.5 Remittance

18% of adults either send or receive money to/from family members, parents, and children. Those who send and receive remittances are almost wholly separate groups: 10% receive remittances and 9% send remittances. Sending cash with family and friends is still the most common channel for both senders and receivers, followed by the bank/ATM. Of those who receive remittances, 4% claim this originates from outside South Africa.

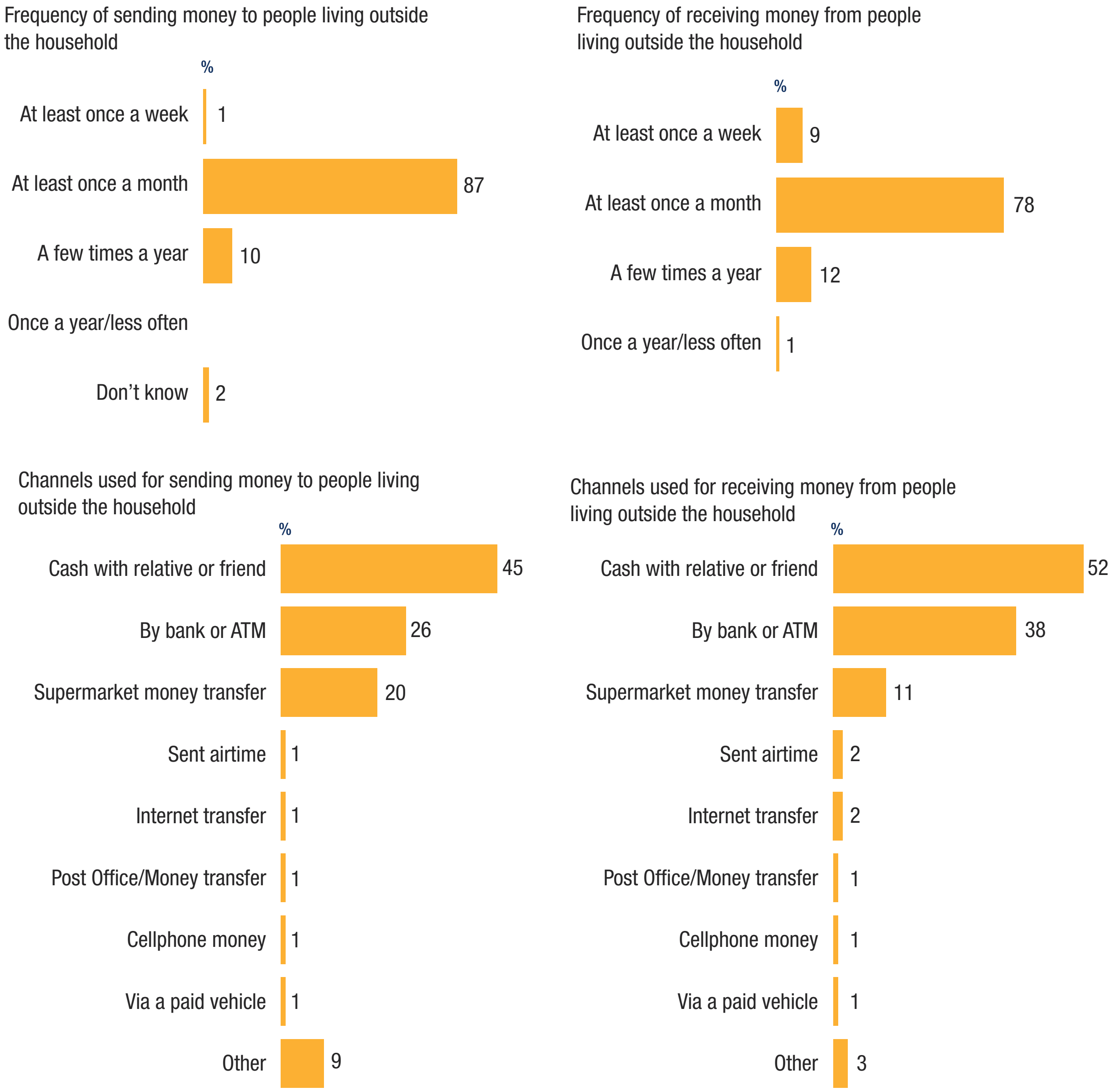
Sending money: 9% send money to people who live outside the household, and 7% send money to people who live outside South Africa. The large majority of people who send money to people living outside the household do so at least once a month (87%), mainly using cash transfers with relatives or friends (45%).

Receiving money: 10% receive money from people who live outside the household, and 4% receive money from people who live outside South Africa. The majority of people receive money at least once a month (78%), mainly using cash transfers with relatives or friends (52%).

"My child sometimes sends me that R1000 but if she did not come then I get less than a R1000. (Randfontein VP)

Source: South Africa Community Capability Study

Figure 32: Frequency and channels used for sending and receiving money



3.3 Borrowing and credit

3.3.1 Borrowing incidence and mechanisms

When reporting on borrowing, several issues need to be considered, such as definitions and terminology when looking at active credit consumers, claimed borrowing versus actual borrowing according to product uptake (FinScope and NCR definition), and the problem of under-reporting borrowing and indebtedness.

A. Active credit consumers

Active credit consumers are those who have an obligation to pay a credit provider and/or have an account with a supplier of goods or services (e.g. telecommunications service providers, doctors, plumber, HP, etc) and these obligations resulted in an entry on the consumer's credit record at credit bureaus. Credit bureaus create consumer credit profiles based on these credit information received from credit providers, utility service providers, and courts. The National Credit Regulator regulates and monitors registered credit bureaus and the quality of their data, and then compiles this information in the quarterly Credit Bureau Monitor.

According to the second quarter Credit Bureau Monitor 2012[2] , there are 19.6 million active credit consumers as of end of June 2012. While this number is based on supply-side information (from credit providers/utility providers), FinScope focused on demand-side data, asking the respondent directly about both claimed borrowing and credit/loan products they have. Given the fact that people usually under-report borrowing and being indebted, and often borrowing is not considered as having an account with a supplier of goods or services (e.g. cellphone account), these numbers vary considerably.

B. Claimed borrowing

In order to identify the landscape for credit and borrowing from a demand-side perspective, the first task is to identify those individuals who claim to be borrowing or not borrowing. Respondents were initially asked if they have borrowed in the past 12 months, have taken goods on credit in the past 12 months, are currently borrowing, or owe money and still need to pay it back. As such, 23.5% of adults in South Africa aged 16 years or older (= 7.9 million) claimed to have borrowed (including above mentioned categories), and 76.5% (= 25.8 million) claimed not to have borrowed. Over the past three years, there have been a steady increase in the total mentions of borrowing, in line with the adult population increase. However, there seems to be a decrease in claimed borrowing for 2012.

Table 3: Claimed borrowing 2009 – 2012

Statements about borrowing	Total	2009	2010	2011	2012
Total (responses)	31 984 140	32 777 139	33 022 675	34 069 098	33 739 399
Currently borrowing	9 068 390	7 889 635	8 740 783	9 966 056	7 801 657
%	**28%**	**24%** ▲	**26%** ▲	**29%** ▲	**23%** ▼
Not currently borrowing	22 499 020	24 432 788	24 156 449	23 728 466	25 937 742
%	**70%**	**75%**	**73%**	**70%**	**77%**
Refused	416 730	454 716	125 442	374 577	–
%	**1%**	**1%**	**1%**	**1%**	**–**

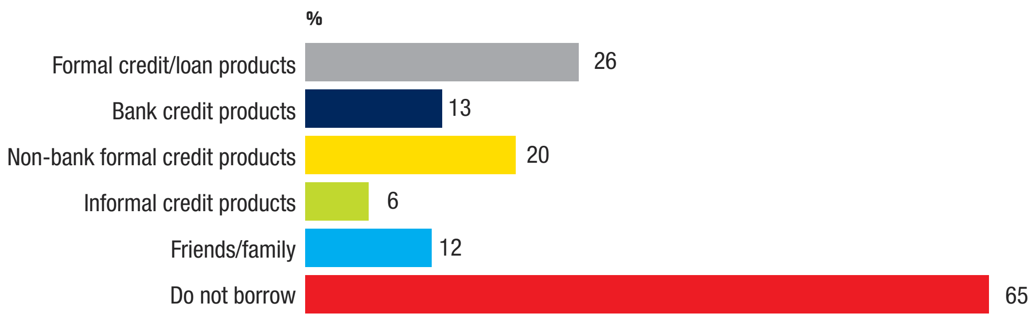
[2] NCR 2012. Credit Bureau Monitor Second Quarter June 2012. http://www.ncr.org.za/press_release/CBM.pdf

C. Borrowing according to product uptake

Respondents were asked to identify all the borrowing mechanisms and credit/loan products used, including formal products and services (store card or account, credit card, car loan, overdraft facility, loan from a bank including home loan, and personal loan from a retail store), as well as borrowing from informal sources (friends or family, burial, stokvel/umgalelo, savings clubs, colleagues or employer, local spaza, or mashonisa/loan shark).

Overview: 35% (= 11.8 million) of adults in South Africa claimed to borrow/have credit/products, and 65% (= 21.9 million) claimed not to borrow. 26% of adults are formally served, including those who use bank products for borrowing purposes (13%) and those who use other formal non-bank products (20%). 6% of adults use informal mechanism such as burial societies or money lenders in the community, and 12% borrow from family and friends.

Figure 33: Borrowing according to product uptake – overview

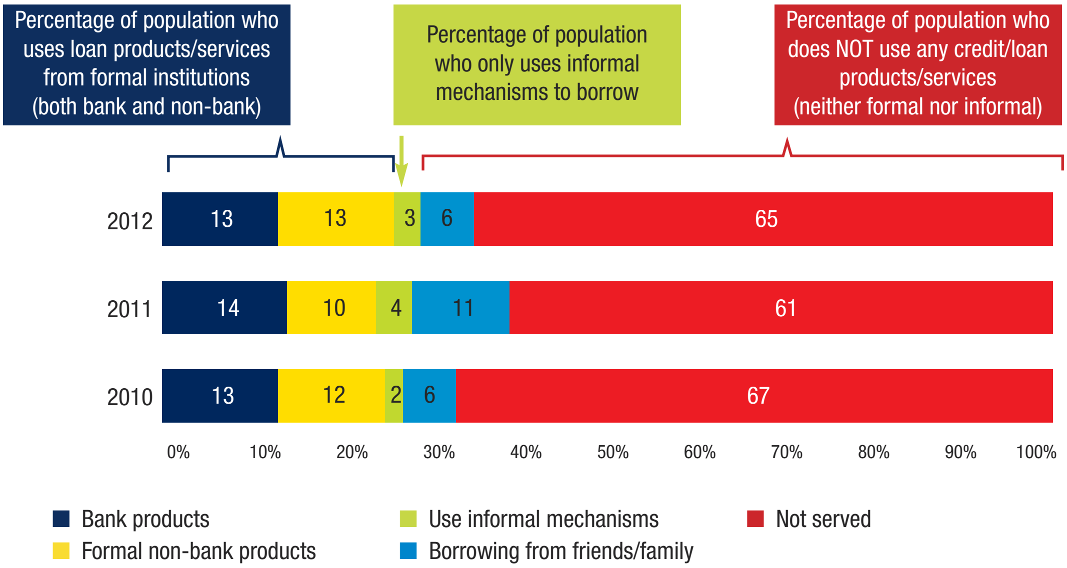


Credit Strand: In constructing this strand, the overlaps in credit/loan product usage are removed, resulting in the following segments:

- Individuals who have/use credit/loan products offered by a commercial bank (13%);
- Individuals who have/use credit/loan products from formal non-bank institutions, but do not have credit/loan products from a bank (13%);
- Individuals who only rely on informal mechanisms to borrow money (3%);
- Individuals who only borrow from family and friends, i.e. these individuals do not have or use formal or informal savings products or mechanisms (6%); and
- Individuals who do not borrow, neither from family nor friends nor from formal nor informal financial institutions (65%).

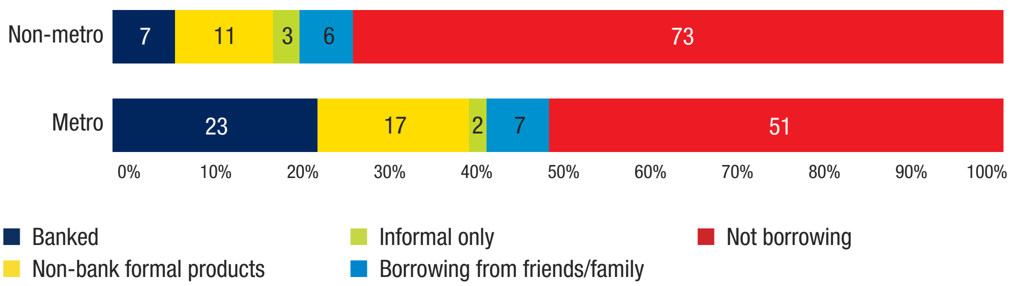
Tracking the changes in credit/loan product uptake, FinScope shows that the percentage of adults with credit products (formal and informal) has increased slightly from 28% in 2011 to 29% in 2012 (particularly due to an increase in non-bank formal credit products). However, including those who only rely on family and friends, overall borrowing has decreased from 39% in 2011 to 35% in 2012 – borrowing from family and friends accounted for the big increase in last year's figures from 9% in 2010 to 18% in 2011, and decreased to 12% in 2012. This decrease can be explained taking two issues into consideration: (1) increased financial stress changed borrowing behavior as family and friends might not have money available to lend, (2) the question changed slightly in 2012 – respondents were asked if they had borrowed money from friends and family that they had to pay back. Often, lines between a loan and a gift are blurry when borrowing money from friends and family.

Figure 34: Credit Strand



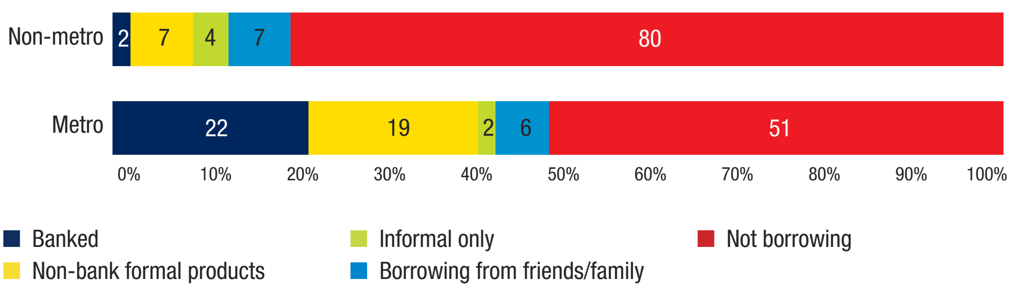
There are significant differences between levels of financial inclusion in metro and non-metro areas – while 23% of adults residing in metro areas have credit/loan products from a bank, only 7% of adults in non-metro areas borrow from banks. Borrowing from non-bank other formal institutions is also more pronounced in metro areas. In total, 27% of adults residing in non-metro areas claimed to borrow, compared to 49% in metro areas.

Figure 35: Credit Strand by location



Differences in access to credit/loan products are also evident comparing LSM groups. Only 20% of people in LSM 1 – 5 claimed to borrow, compared to 49% in LSM 6 – 10; and only 2% of adults in LSM 1 – 5 borrow from banks, compared to 22% in LSM 6 – 10.

Figure 36: Credit Strand by LSM



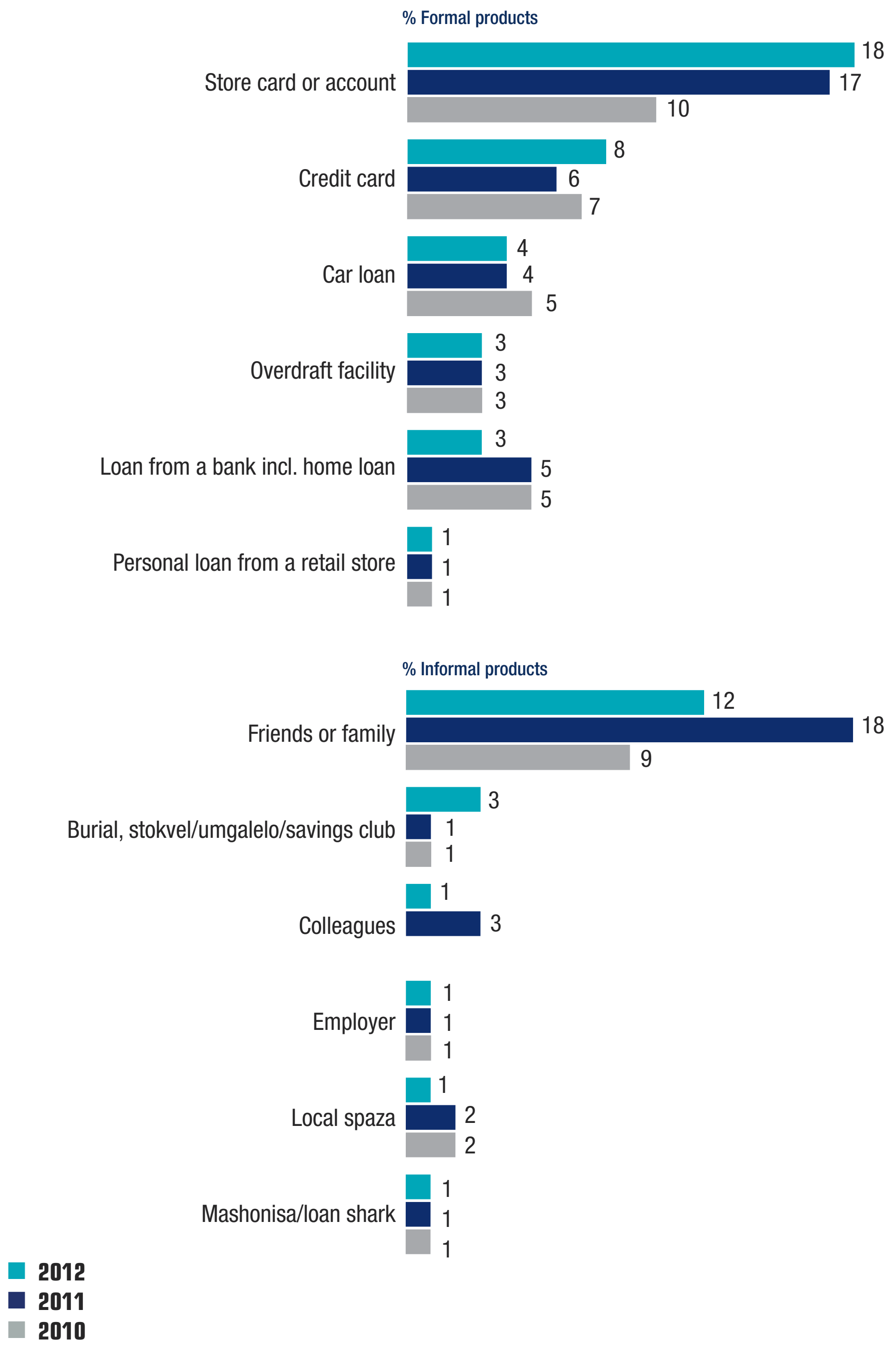
Product uptake

Overall, there has been a slight increase in the uptake of the following credit/loan products from 2011 to 2012: the uptake of credit cards increased from 6% to 8%, store cards and accounts from 17% to 18%, as well as borrowing from burial, stokvel/umgalelo and savings clubs from 1% to 3%. However, borrowing from friends and family has decreased considerably from 18% in 2011 to 12% in 2012.

Table 4: Credit and loan products held 2007 – 2012

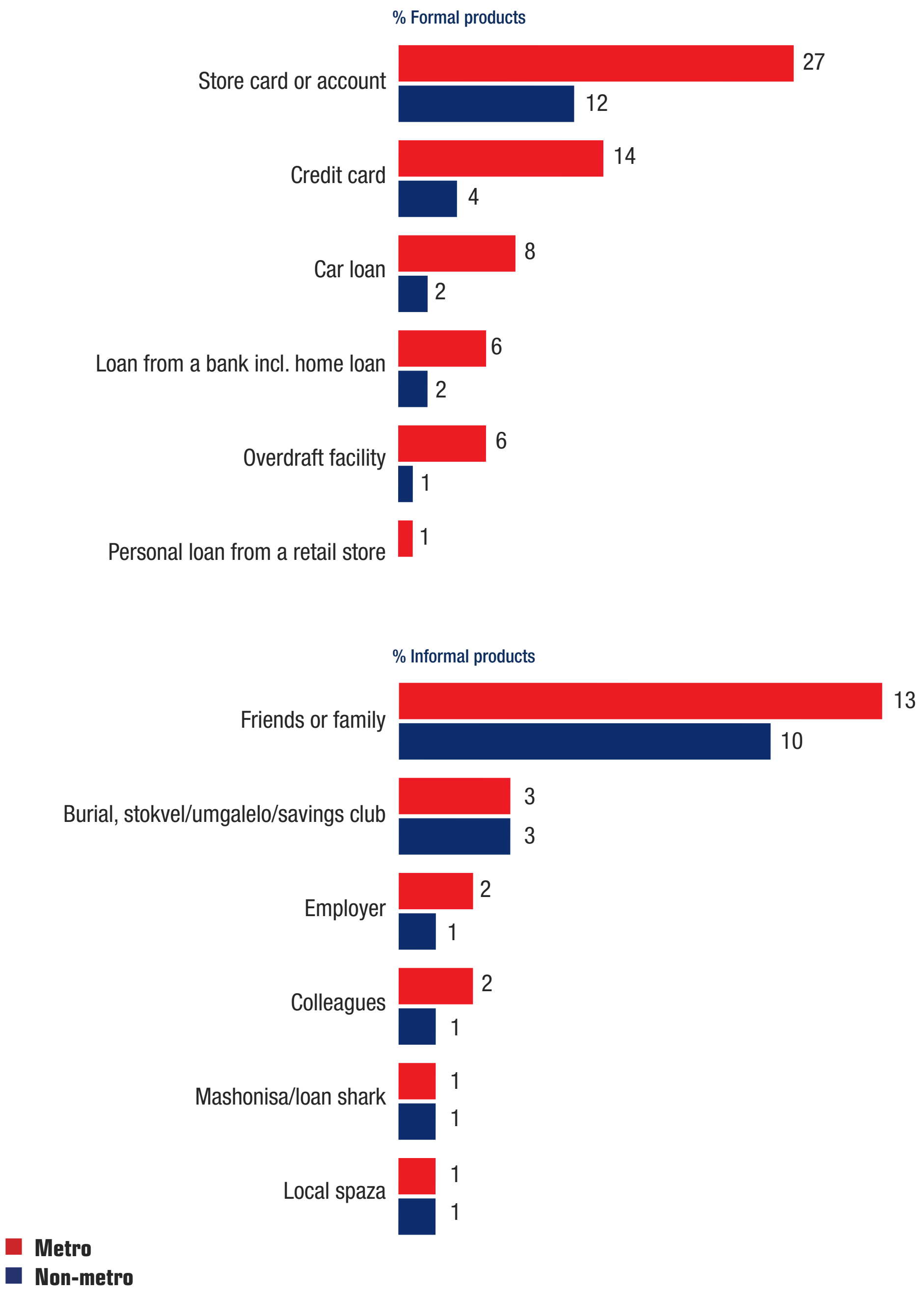
	2012	2011	2010	2009	2008	2007
Credit and loan products held – formal	**25%**	**24%**	**24%**	**24%**	**16%**	**26%**
Store card or account	18	17	10	19	9	16
Credit card	8	6	7	8	5	9
Home loan	6	5	5	5	5	6
Vehicle finance through bank or dealer	4	4	5	4	3	3
Personal loan from big bank	3	5	5	3	3	4
Overdraft facility	3	3	3	3	2	2
Personal loan from smaller bank	n/a	1	1	1	1	1
Personal loan from a retail store	1	1	1	3	2	5
Credit and loan products held – informal	**15%**	**15%**	**8%**	**14%**	**13%**	**8%**
Borrowing from friends or family	12	18	9	12	11	5
Borrowing from colleague	1	3	n/a	n/a	n/a	n/a
Borrowing from local spaza	1	2	2	1	1	1
Borrowing from a mashonisa/loan shark	1	1	1	2	1	n/a
Borrowing from a stokvel/umgalelo/savings club	3	1	1	1	1	1
Borrowing from employer	1	1	1	0	1	1
Borrowing from or arrangement with pawn shop	0	0	0	0	0	n/a

Figure 37: Product uptake



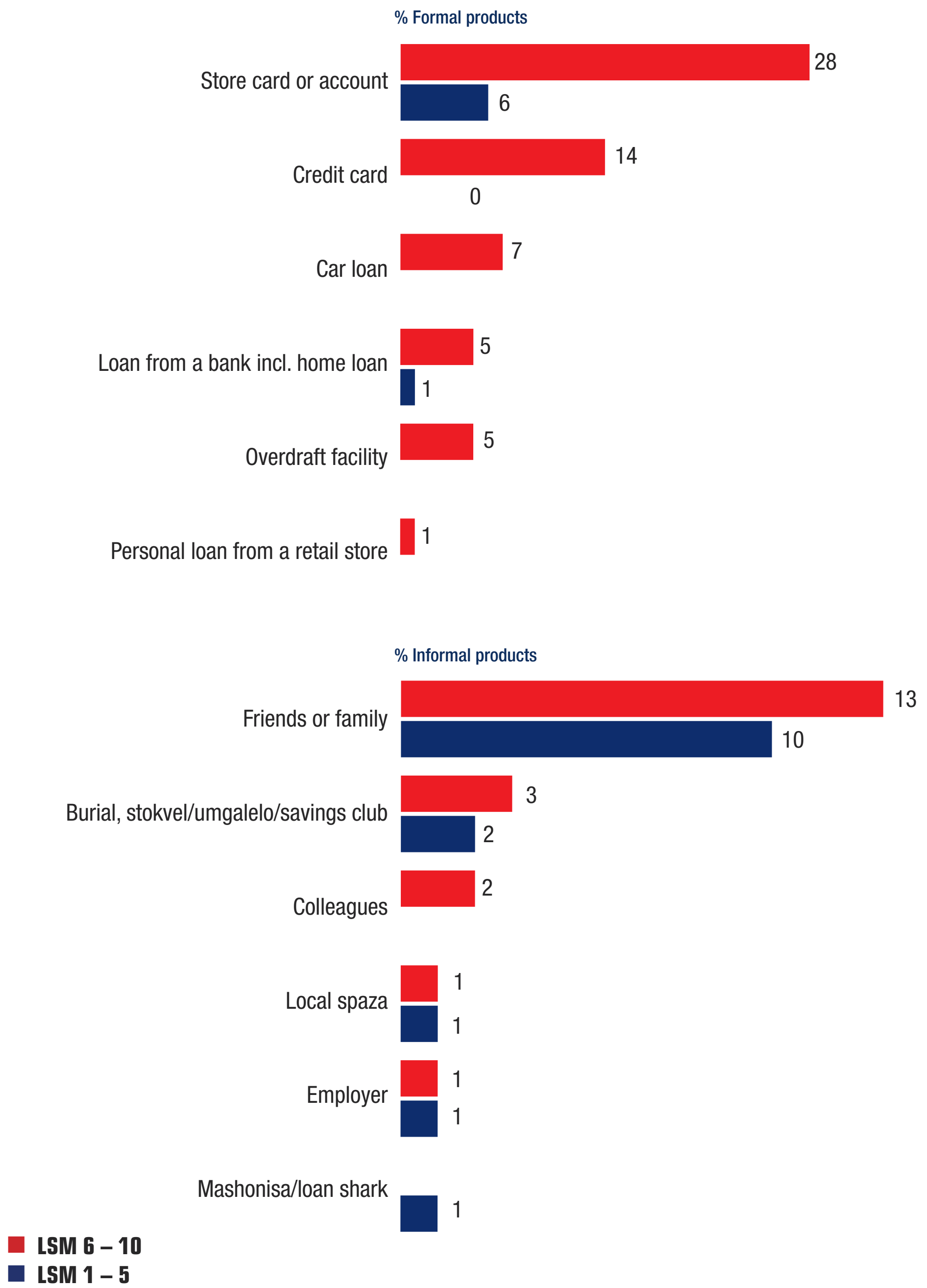
There are significant differences between levels of financial inclusion in metro and non-metro areas. However, the ranking of products remains the same. Formal product uptake is driven by store cards/accounts, both in metro and non-metro areas. Nevertheless, the uptake differs. While 27% of adults residing in metro areas have a store card/account, only 12% of adults in non-metro areas use this service. 14% of people in metro areas have a credit card, compared to only 4% in non-metro areas. Borrowing from friends and family is also slightly higher in metro areas – 13% and 10% respectively. Burial societies, stokvels, and savings clubs are equally popular in metro and non-metro areas.

Figure 38: Product uptake by location



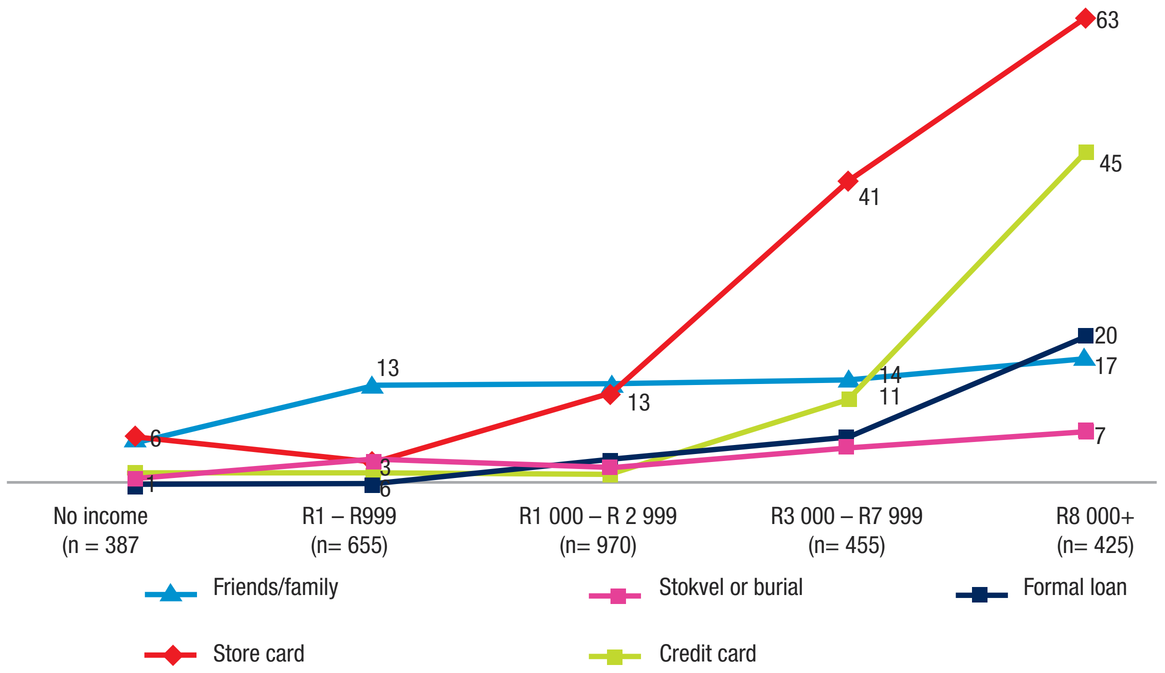
Differences in access to credit/loan products are evident comparing LSM groups. Only 6% of people in LSM 1 – 5 have a store card/account compared to 28% of adults in LSM 6 – 10. While 14% of adults in LSM 6 – 10 have a credit card, almost nobody in LSM 1 – 5 has one. Differences in the uptake of informal mechanisms are not that stark. 13% of adults in LSM 6 – 10 claimed to borrow from friends compared to 10% in LSM 1 – 5. However, 5% of adults in LSM 6 – 10 borrow from colleagues, compared to almost nobody in LSM 1 – 5.

Figure 39: Product uptake by LSM



Product uptake, particularly of store cards, credit cards, and formal loans increases with income as illustrated below. Access to loans from family does not lower their propensity to seek out formal credit as reasons for borrowing vary considerably between the sources.

Figure 40: Product uptake by income



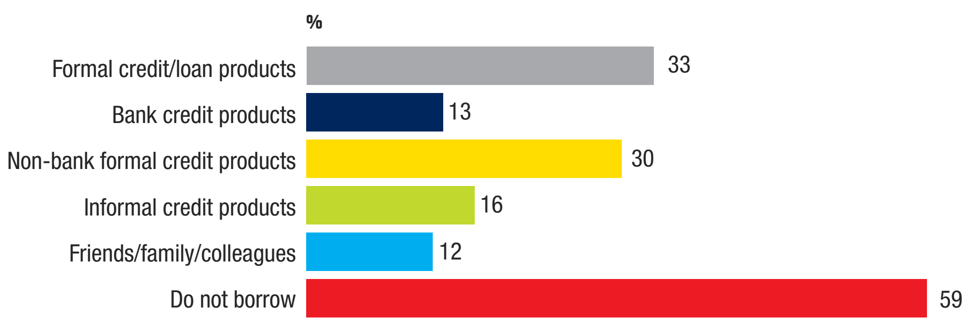
D. Borrowing according to product uptake – NCR

Using the NCR definition, including those who have an account with a supplier of goods or services (e.g. telecommunications service providers, doctors, plumber, etc.) the figures increase and are closer to the active credit consumer figures as reported in the second quarter Credit Bureau Monitor 2012. Another difference that needs to be considered here is that of borrowing from colleagues. In the FinScope definition, borrowing money from colleagues is included under the category 'informal', whereas for the NCR definition, colleagues are included under 'friends/family/colleagues'.

Note: Going forward, this report uses the NCR definition of borrowing, i.e. active credit consumers.

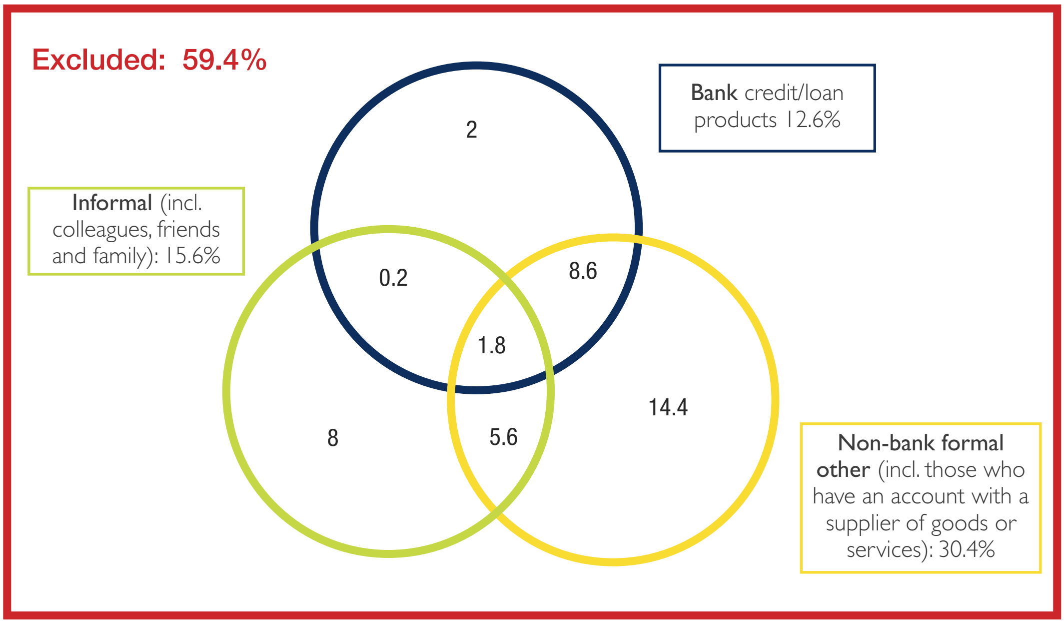
Overview: 41% of adults in South Africa (= **13.8** million) claimed to borrow/have credit/loan products (including those who have an account with a supplier of goods or services), and 59% (= 19.9 million) claimed not to borrow. 33% (= 11.1 million) of adults are formally served, including those who use bank products for borrowing purposes (13% = 4.4 million) and those who use other formal non-bank products (30% = 10.1 million). This figure increased considerably including suppliers of goods and services, such as telecommunication providers. 16% (= 5.4 million) of adults use informal mechanisms such as burial societies or money lenders in the community, and 12% (= 4 million) borrow from family and friends.

Figure 41: NCR borrowing according to product uptake – overview



Overlaps in credit product/service usage: Consumers often use a combination of credit financial products and services. However, those who borrow from banks and those who borrow from informal sources such as family, friends and colleagues are almost entirely different groups. Only 2% of adults borrow both from the banking sector and from informal sources.

Figure 42: NCR overlaps in credit product/service usage



Josephine, a retail saleswoman, on credit:

Josephine borrows from both informal and formal sources. Long-term needs are fulfilled by the formal sector. A credit card helps for smaller payments, providing access to revolving credit. When times are tough, the immediacy of short-term loans from loan sharks puts food on the table for her children and orphaned grandchildren.

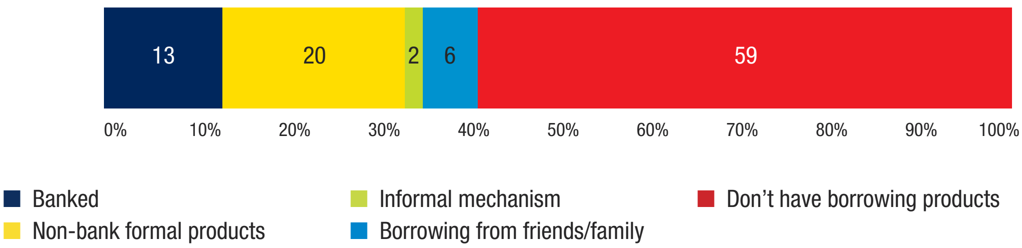
Source: FinScope qualitative research

Credit Strand

In constructing this strand (following the NCR definition), the overlaps in credit/loan product usage are removed, resulting in the following segments:

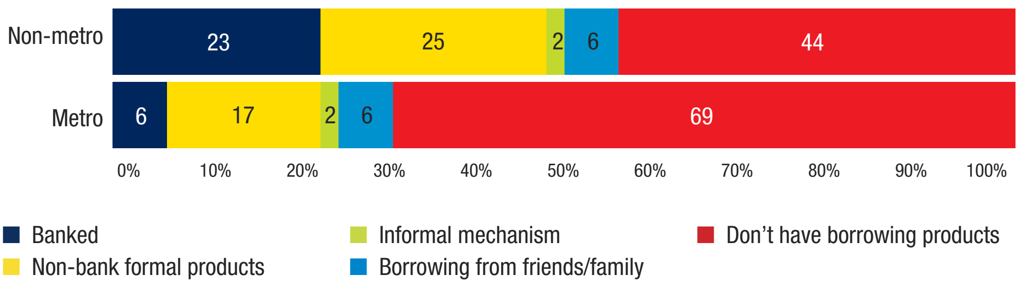
- Individuals who have/use credit/loan products offered by a commercial bank (13%);
- Individuals who have/use credit/loan products from formal non-bank institutions (including those who have an account with a supplier of goods or services), but do not have credit/loan products from a bank (20%);
- Individuals who only rely on informal mechanisms to borrow money (2%);
- Individuals who only borrow from family, friends, and colleagues, i.e. these individuals do not have or use formal or informal savings products or mechanisms (6%); and
- Individuals who do not borrow, neither from family nor friends nor from formal nor informal financial institutions (59%).

Figure 43: NCR Credit Strand



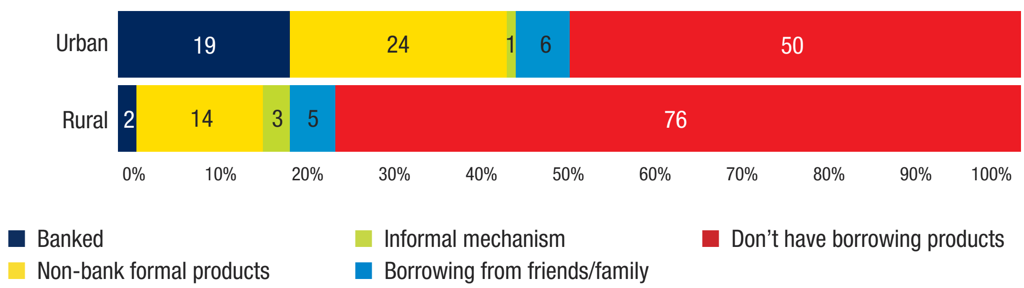
As previously mentioned, there are significant differences between levels of financial inclusion in metro and non-metro areas. According to the adopted NCR definition of borrowing, 56% of adults residing in metro areas borrow with large access to credit from banks (23%) and other formal non-bank institutions (25%); compared to 31% of adults in non-metro areas who claim to borrow, with limited access to credit from banks (6%) and other formal non-bank institutions (17%).

Figure 44: NCR Credit Strand by location



A similar picture emerges when using another location definition, such as an urban/rural split. As such, 50% of adults residing in urban areas borrow with access to credit from banks (19%) and other formal non-bank institutions (24%); compared to 24% of adults in rural areas, who have limited access to credit from banks (2%) and other formal non-bank institutions (14%).

Figure 45: NCR Credit Strand urban/rural



Income and other assets (LSM) seem to be a significant barrier to financial inclusion, i.e. the uptake of credit/loan products and services. Using the adopted NCR definition, only 23% of people in LSM 1 – 5 claimed to borrow, compared to 56% in LSM 6 – 10; and only 2% of adults in LSM1 – 5 borrow from banks, compared to 22% in LSM 6 – 10. As such, the levels of financial exclusion (i.e. those who do not use any credit/loan products or other mechanisms to borrow money) are the highest among those without income (81%), and those with low levels of income earning less than R3 000 a month.

Figure 46: NCR Credit Strand by LSM

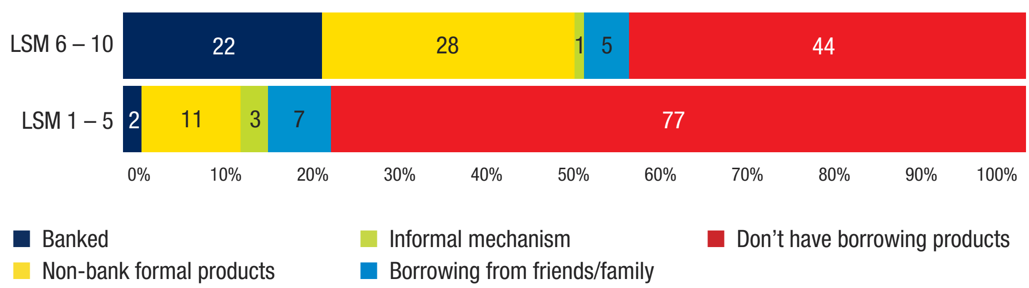
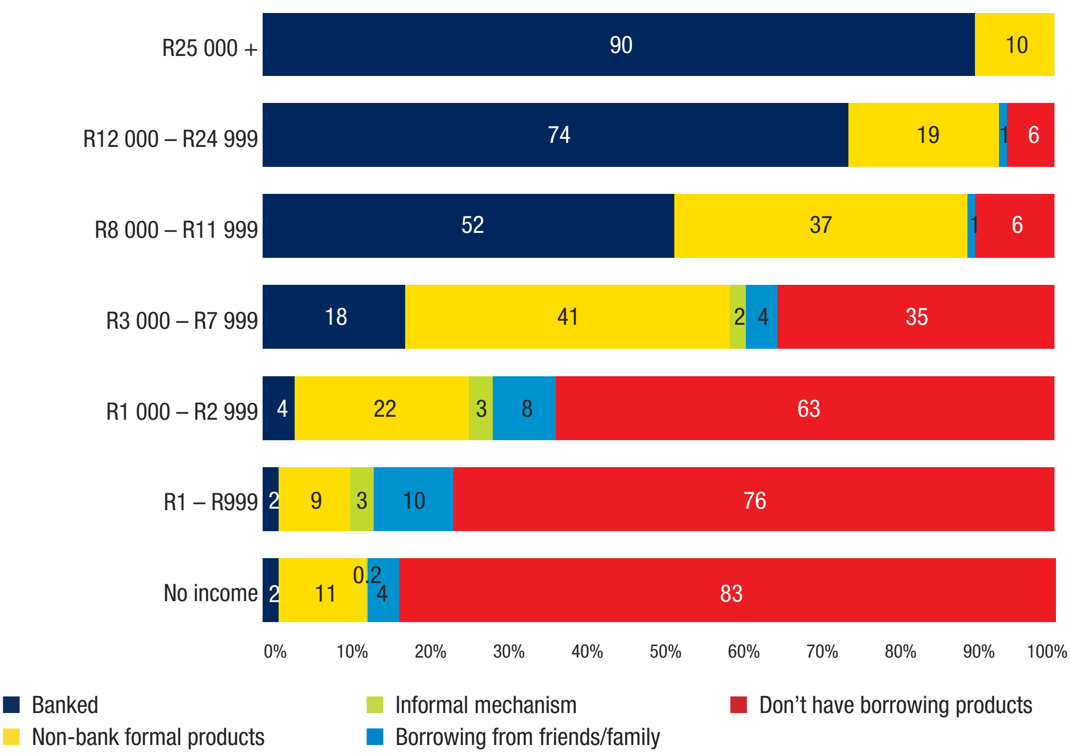
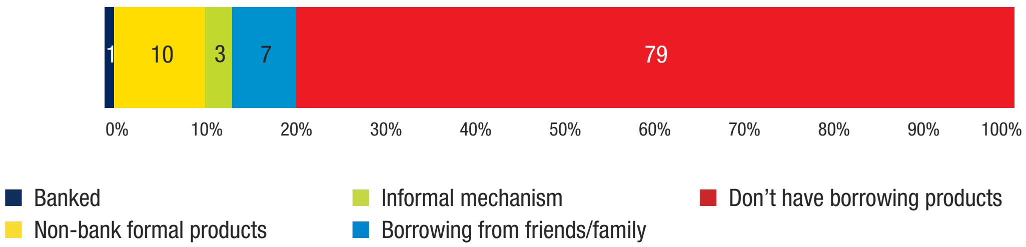


Figure 47: NCR Credit Strand by income



Similar to LSM and location-based Credit Strands, the levels of inclusion for HDIs are lower compared to the overall figures. 79% of historically disadvantaged individuals claimed not to have borrowed. While only 1% have/use credit/loan products offered by a commercial bank, 10% have/use credit/loan products from formal non-bank institutions (but do not have credit/loan products from a bank), and 3% only rely on informal mechanisms to borrow money. 7% of HDIs only borrow from family, friends, and colleagues i.e. these individuals do not have or use formal or informal savings products or mechanisms.

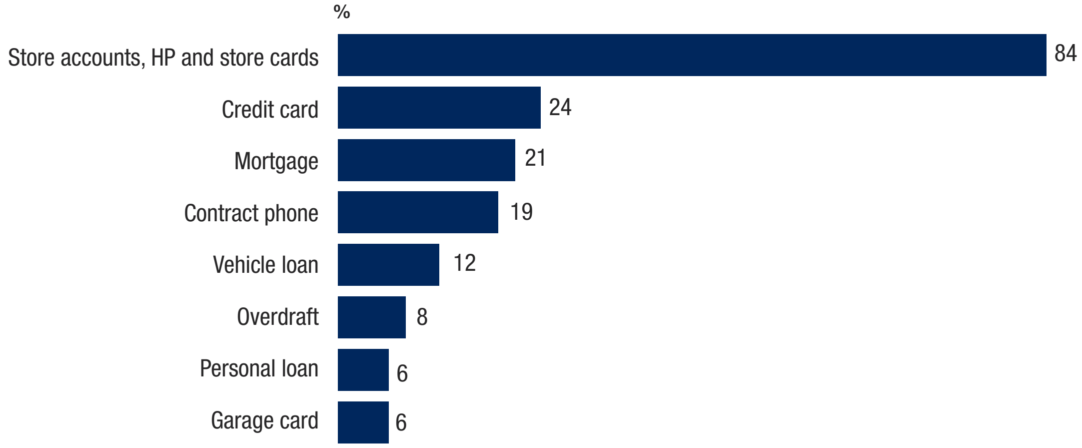
Figure 48: HDI Credit Strand



Product uptake

Formal borrowing is largely driven by store account and hire purchase, followed by credit card and mortgage. 8.5 million active credit consumers spend their own money paying store account and hire purchase installments at least once a month. 1 in 5 (2.2 million) pay a mortgage, home loan or bond on a monthly basis.

Figure 49: NCR product uptake



3.3.2 Profile of adults who borrow/ do not borrow

Active credit consumers skew towards white, female, aged 30 to 59, living in metro areas, urban, LSM 6 – 10, with incomes above R3 000. Those who have formal credit/loan products (both bank and other formal non-bank) skew towards white, aged 30 to 59, living in metro areas, urban, LSM 6 – 10, with incomes above R3 000. Borrowing from informal sources is more common among black and coloured, females, aged 30 to 44. There are fewer differences with regard to location, LSM and income. People who do not borrow/ do not have access to credit/loan products skew towards black, below the age of 30 or older than 60 years of age, residing in non-metro and rural areas, without income or low levels of income.

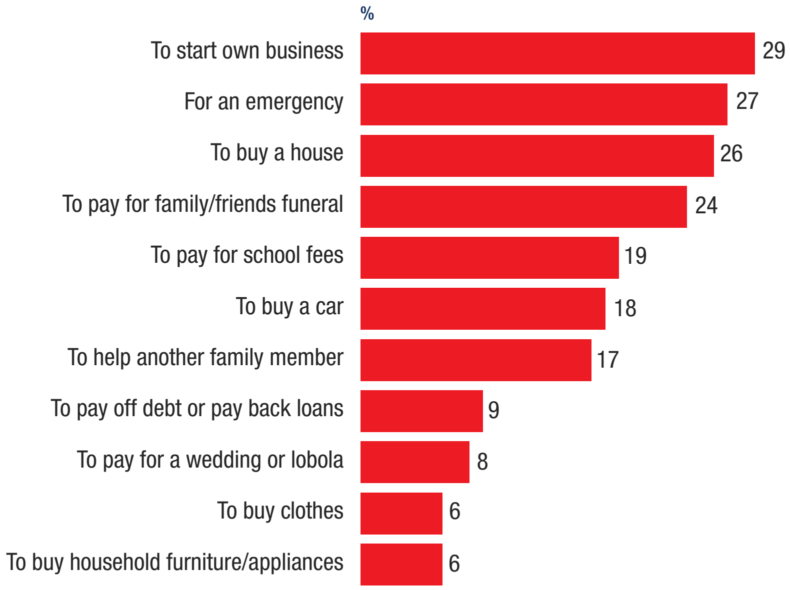
Table 5: Profile of active credit consumers

	Total population (n=3900)	Active credit consumers total (n=1836)	Formal credit/loan products (n=1529)	Informal credit/loan products (incl. friends, family, colleagues) (n=546)
Race	%	%	%	%
Black	77	35	26	17
White	10	43	35	13
Coloured	3	55	52	7
Asian	11	74	71	9
Gender	%	%	%	%
Male	53	43	33	18
Female	47	39	32	13
Age	%	%	%	%
16 – 17	4	17	11	8
18 – 29	37	31	22	14
30 – 44	29	53	43	19
45 – 59	18	52	43	17
60+	12	33	28	10
Metro/Non-Metro	%	%	%	%
Metro	38	56	47	18
Non-metro	62	31	23	13
Location	%	%	%	%
Rural	37	24	16	13
Urban	63	50	42	17
LSM	%	%	%	%
LSM 7 – 8	47	23	12	14
LSM 9 – 10	53	56	50	16
Personal income	%	%	%	%
No income	12	17	13	6
R1 – R999	21	24	10	15
R1 000 – R2 999	26	35	26	17
R3 000 – R7 999	10	65	59	22
R8 000 – R11 999	3	90	88	27
R12 000 – R24 999	4	93	93	23
R25 000+	1	100	99	22
Refused/Uncertain/Don't know	24	45	39	12

3.3.3 Reasons for borrowing

29% of adults in South Africa claim they definitely would borrow money to buy or start their own business. Other reasons people would borrow for include the following: for an emergency (27%), buying a house (26%), and paying for funeral costs (24%).

Figure 50: Borrowing needs



Rolphy is 31 years old, living with his family and his 2 children. With high unemployment in the area and low levels of education, he decided to start his own business. However, low and irregular levels of income make it difficult for Rolphy to borrow money from formal sources.

Hence, he relies on small loans from friends and family, which help him to manage cash flow but it is not enough to expand his business. He seeks safe ways to borrow money and better ways to manage his unstable income.

"I want to borrow from banks but I don't think they'll lend to me." "Payments from my customers are unstable. I feel a lot of stress running my business."

Source: FinScope qualitative research

Borrowing behaviour

Borrowing in 2012 continues to be linked to essential purchases such as food and bills – of those who have borrowed money in the past 12 months prior to the FinScope survey, 32% said this was for food, which is a significant increase from 18% in 2010 and 26% in 2011. This is more severe for people in low LSM groups and non-metro areas as every second adult LSM 1 – 5 who borrowed money in the past 12 months said that this was for food, compared to 22% for adults in LSM 6 – 10. In metro areas a quarter of adults borrowed to pay for food, compared to 39% of adults residing in non-metro areas. This borrowing behavior suggests that people continue to experience financial strain and at times tend to spend more than they have available. People mainly borrow from informal sources for food to off-set short term slumps in income.

"Sometimes we also have to make up to our friends who bought things for us during the month… Scratch my back, I will scratch yours."

(Randfontein VP) Source: South Africa Community Capability Study 2012

"I wish I can have a full-time job that will earn me more money. All I want is to feed the children. I cannot let them go hungry."

Natalie, 41 years old, takes care of 6 children. She has a part-time cleaning job which pays her R1,500 a month and is also entitled to foster care grants of R1,500 a month. Her income is not sufficient to cover her living costs. She started borrowing from banks two years ago and has since been borrowing from different institutions. One of the largest loans (R14,000) was used to buy a water tank and to put electricity in the house. Another recent loan was used for a burial. Recently, she was looking for smaller banks as they are the ones least concerned about her credit history. Although Natalie has been trying to pay off parts of her loans, she estimates that the amount owed to banks still exceeds R27,000. Natalie is currently paying R1,200 a month to cover minimum payments and interest. Lately, faced with the pressure to feed her family, Natalie has resorted to borrowing R400 from a loan shark that lives in her village. Natalie is fully aware of the high interest rate (40%), but feels that she does not have a choice.

Source: FinScope qualitative research

Figure 51: Reasons for borrowing by LSM

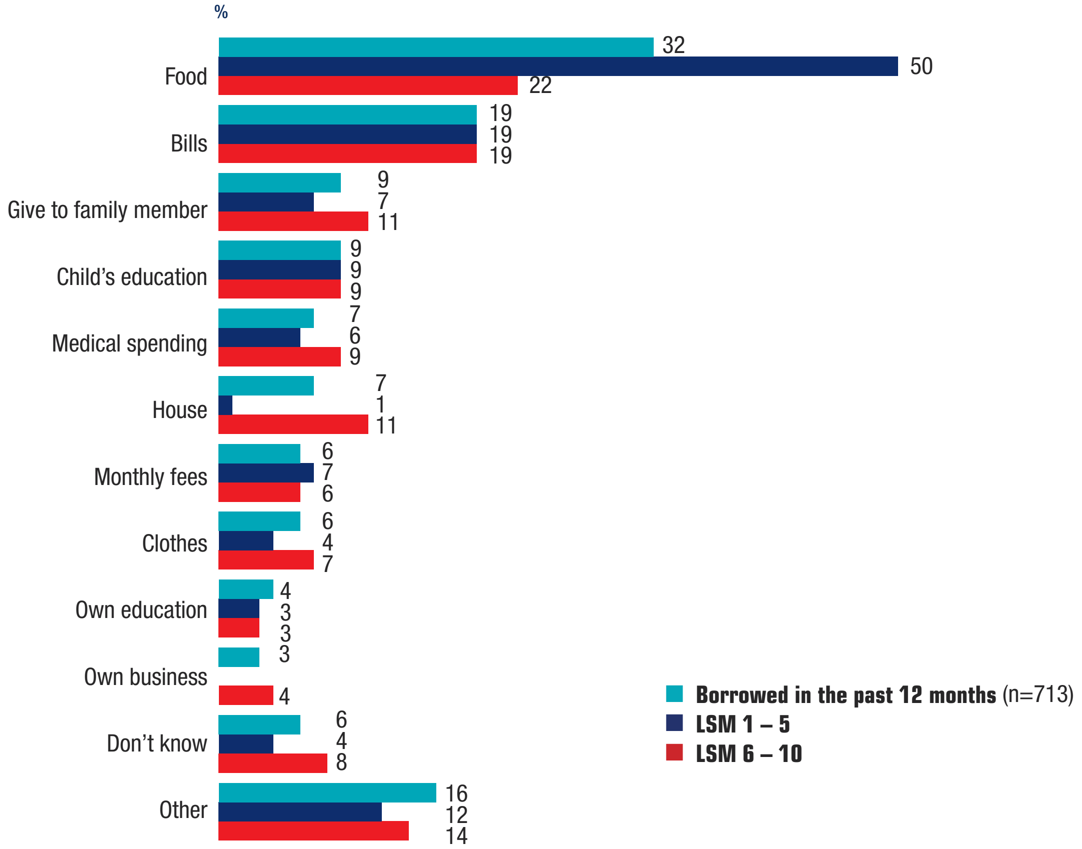


Figure 52: Reasons for borrowing by location

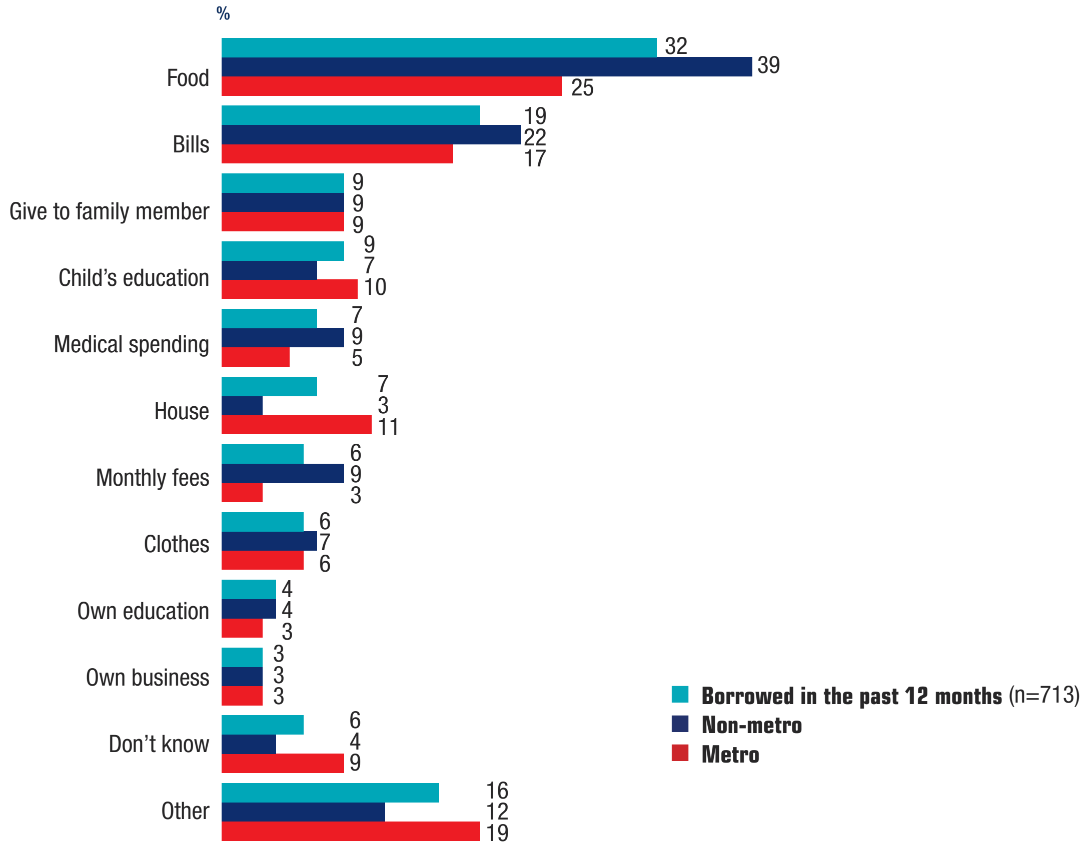
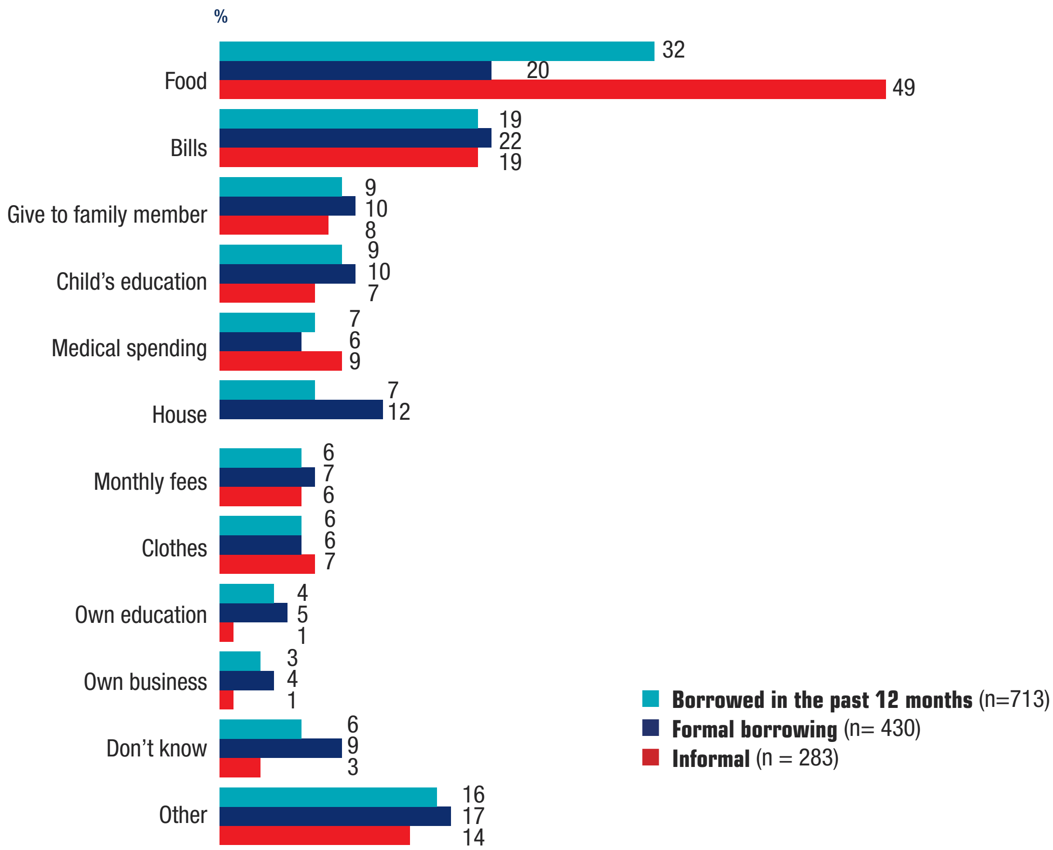


Figure 53: Reasons for borrowing formal versus informal mechanisms



People borrow money for the largest household expenses, i.e. food and bills.

Figure 54: Personal monthly expenditure by location

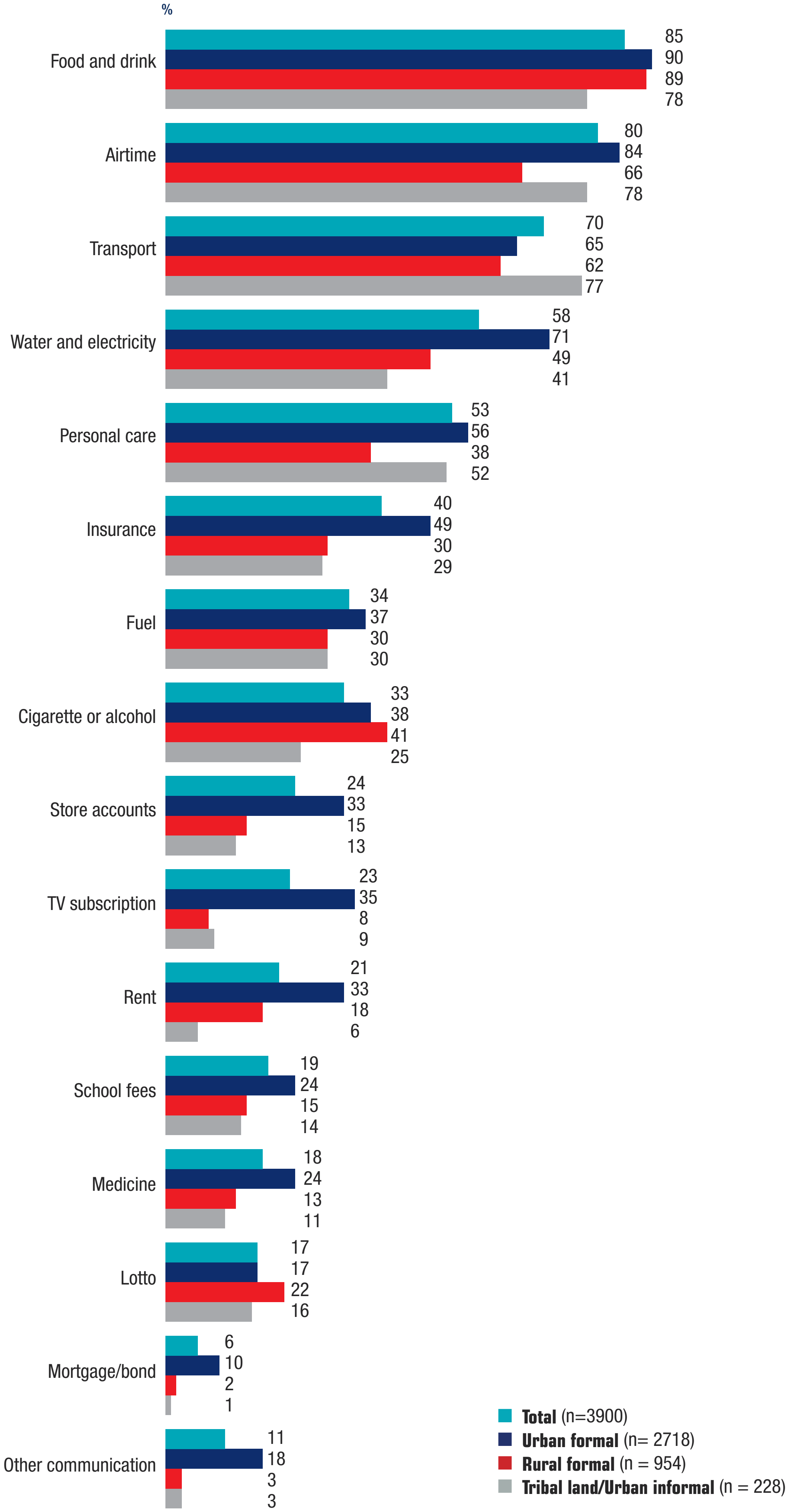
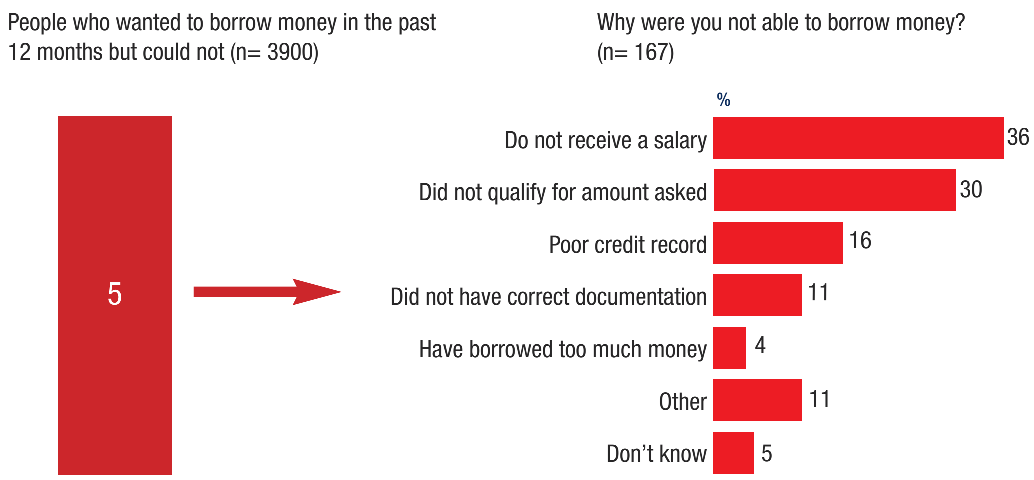


Figure 55: Borrowing attitude and reasons for borrowing by level of financial inclusion

3.3.4 Barriers to borrowing

5% of adults in South Africa who wanted to borrow money in the past 12 months prior to the survey could not get a credit/loan mainly because of insufficient and irregular funds. 36% said that they were not able to borrow money because they do not get a salary. 30% did not qualify for the amount they asked for.

Figure 56: Barriers to borrowing



3.3.5 Attitudes to borrowing, money management and finances

Borrowing: 76% of adults do not like to borrow in case they are not able to pay it back, and 43% would be embarrassed if they had to borrow. 46% think having a bank account makes it easier to get a loan. 22% would borrow from a money lender or mashonisa if they had no other option.

Lucien is a 44 year old poultry farmer from Chebeng. Despite wishing to expand his business, Lucien has not considered taking a loan for fear of not being able to pay back. He believes all bank loans are inflexible in their terms, so he would rather borrow from family or friends if needed. However, he feels uncomfortable using personal relationships for large loans, so he doesn't borrow.

Source: FinScope qualitative research

"I never borrow money from the bank because I believe I will end up paying more."

Money management: As the level of financial stress increases, so too does the the role of credit change as illustrated below. 37% of adults in LSM 1 – 5 often have to spend more money than they have available. A quarter of adults in South Africa usually have problems making ends meet, especially those in LSM 1 – 5.

Table 6: Attitudes to money management by LSM

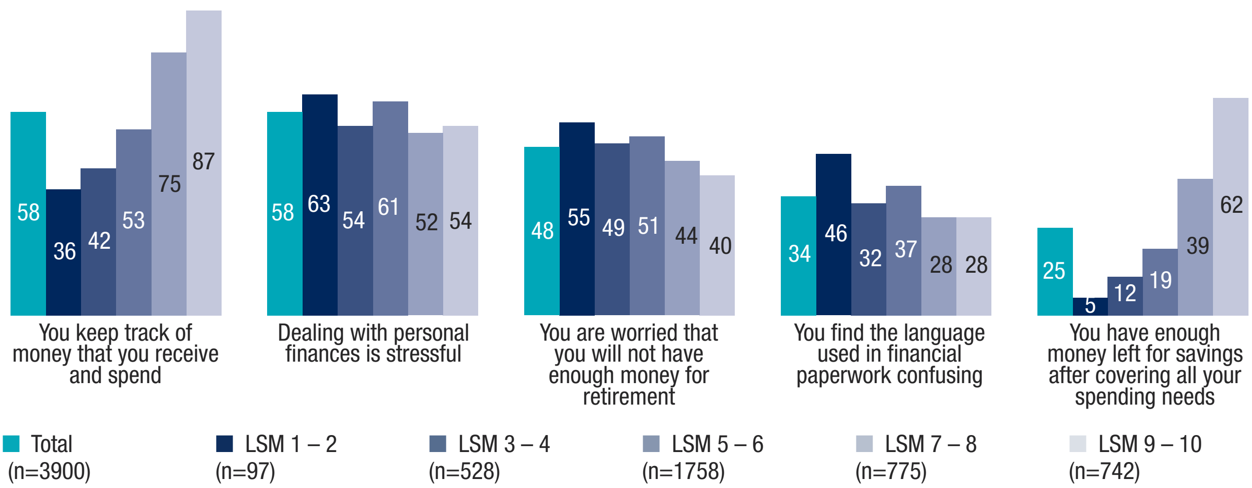
Statements	Percentage of adult population (%) who agreed with the statement		
	Overall	LSM 6 – 10	LSM 1 – 5
You often have to spend more money than you have available	29	26	37
You usually have problems making ends meet	25	22	35
You have considered going to see someone to help you with your debt problems	12	12	13
You have considered cancelling insurance or investment policies to pay back money that you owe	9	10	7

Table 7: Attitudes to money management by income

Statements	Percentage of adult population who agreed with the statement							
	Overall	No income	R1 – R999	R1 000 – R2 999	R3 000 – R7 999	R8 000 – R11 999	R12 000 – R24 999	R25 000 +
You often have to spend more money than you have available	29	25	40	34	28	30	19	15
You usually have problems making ends meet	25	23	35	33	22	21	6	14
You have considered going to see someone to help you with your debt problems	12	5	8	14	19	26	11	7
You have considered cancelling insurance or investment policies to pay back money that you owe	9	3	3	11	8	16	16	7

Finances: Of those adults in South Africa in LSM 1 – 2, only 35% claim that they keep track of the money that they receive and spend, compared to 87% of adults in LSM 9 – 10. The majority of adults in South Africa find dealing with personal finances stressful, especially people in lower LSMs. Of those adults in South Africa in LSM 1 – 2, 46% find the language used in financial paperwork confusing, compared to 28% in LSM 7 – 10. Only 5% of adults in LSM 1 – 2 claim that they have enough money left for savings after covering all their spending needs, compared to 62% in LSM 9 – 10.

Figure 57: Attitudes to personal finances – agreement with the statements



3.3.6 Other behaviours related to borrowing

Psychological factors that influence borrowing behaviour such as risk tolerance and financial discipline, are taken into consideration during the qualitative research conducted in conjunction with the survey.

Risk tolerance versus risk aversion

The qualitative research showed that people who are risk averse preferred to have a buffer against unforeseen events, and hence are more likely to save, and less likely to borrow. As such they are less likely to use credit products and are comfortable with products that offer only simple returns. In turn, those who were highly risk-tolerant, are more comfortable using combinations of leveraged credit products and are curious about investments that could reap bigger rewards.

Risime, a 24-year old student, views borrowing as a high-risk expense. He disapproves of the concept of credit and would prefer to achieve his dreams through savings and acquisition of concrete assets.

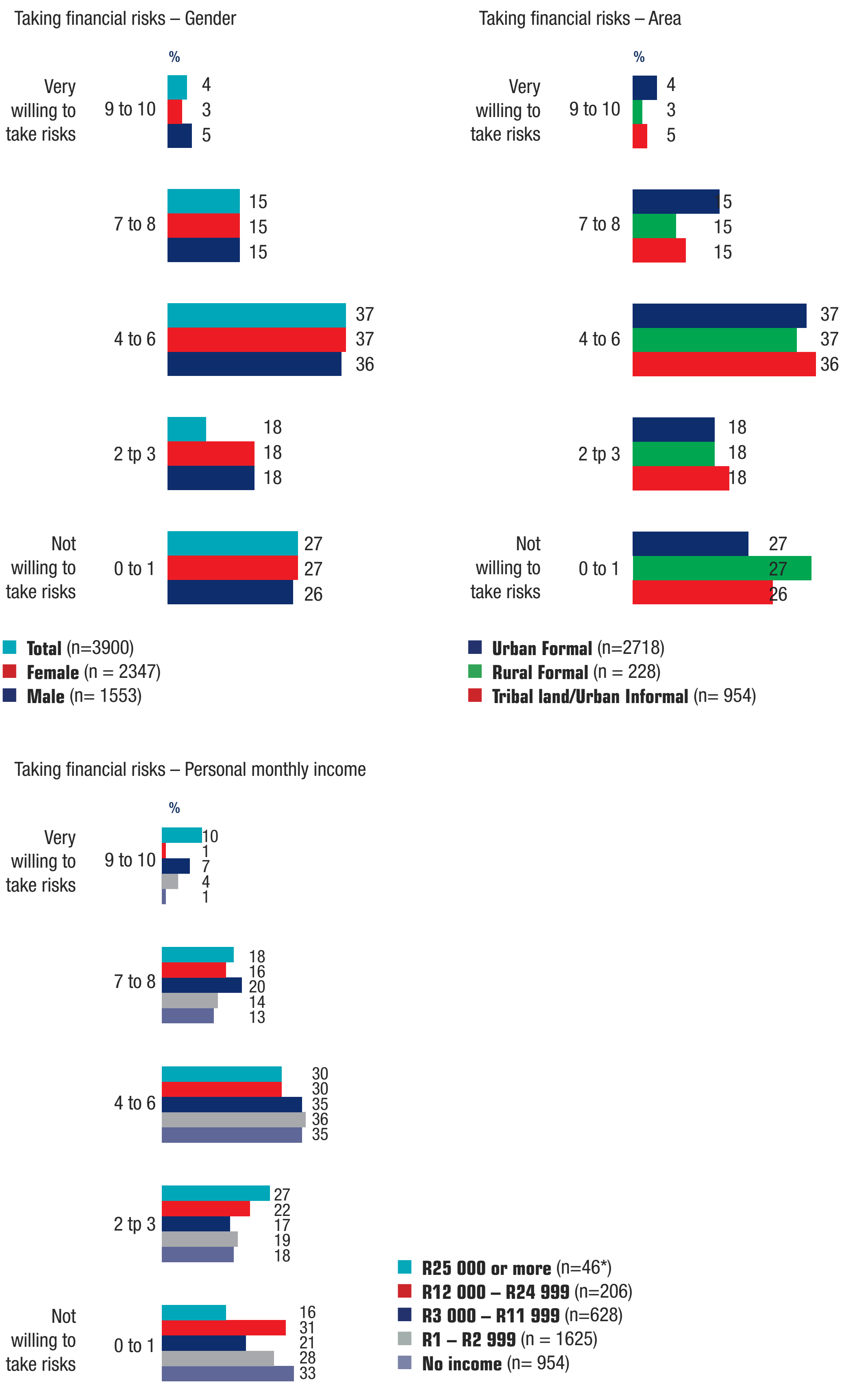
Josephine, a salaried saleslady, feels trapped in an irrecoverable debt cycle initiated by the necessity to pay for the burial of her husband and two children. She has no problem taking out multiple leveraged loans.

LOW — HIGH

The FinScope survey results show that 4% of adults in South Africa gave themselves a high score of 9 – 10 in terms of willingness to take risks with their own money. Risk tolerance skews towards male, adults residing in urban formal areas, and those with higher incomes.

The FinScope survey results show that 4% of adults in South Africa gave themselves a high score of 9 – 10 in terms of willingness to take risks with their own money. Risk tolerance skews towards male, adults residing in urban formal areas, and those with higher incomes.

Figure 58: Willingness to take risks



Financial discipline

People who were highly disciplined seemed to be more adept at managing their limited incomes. They ensured that they don't get into debt, avoid especially long-term liabilities, and save for the future. In turn, people who were less disciplined with their money often relied on informal group services or other support mechanisms to manage their financial lives.

John, a self-employed orange distributor, is uneducated and finds it difficult to budget and account for expenses. He and his wife believe savings clubs are the only way to save, as the group enforces discipline.

Respect, an informal trader, has very irregular income, so takes great care to manage her expenses. She carefully decides when and how she can treat herself ("I'm going to buy ice-cream tomorrow", after careful deliberation).

LOW — HIGH

During the South African Community Capability Study 2012, several people site their lack of self-discipline as a major challenge in working constructively with money. Several people explain how important it is that money must be 'out of site' and even 'out of mind' (from themselves) for that money to indeed be safe.

"It's (managing money) a good and bad thing to manage money, because I constantly think about that money instead of working and doing gardening and saving more, instead I am thinking about that money."

(Randfontein CWP)

"I used to do commerce and they taught us that the more you earn, the more your debts will also increase especially if you cannot manage your money."

(Randfontein CWP)

"There are months where you manage a bit but you can see that it is an uphill. You try to keep it but it (money) quickly goes out the other way. Then you try and get help from a relative who tries to help you when they can. But when it is little you are forced to work according to the money that you have at that time so that you are able to avoid the same financial problems every month. There are times where there are problems but with the little that you have, you have to get by... So you have to make sure that you use the money wisely. "

(Randfontein CWP)

Social group membership

In total, 27% of adults in South Africa belong to a burial society. Burial society membership skews to black South Africans, female, and those living in rural areas and tribal land. Often, people belong to more than one social group. In total, 31% of adults in South Africa belong to a burial, stokvel, and/or savings group. Again, membership skews to black South Africans, female, and those living in rural areas, and on tribal land. The large majority of adults (74%) who belong to a social group (burial, stokvel, and/or savings group) pay their membership fees before they pay for anything else, indicating the importance social group membership holds. It is also important to note, that these social groups often fulfill a range of financial needs including savings, credit, insurance, and payment facets.

Figure 59: Social group membership by location

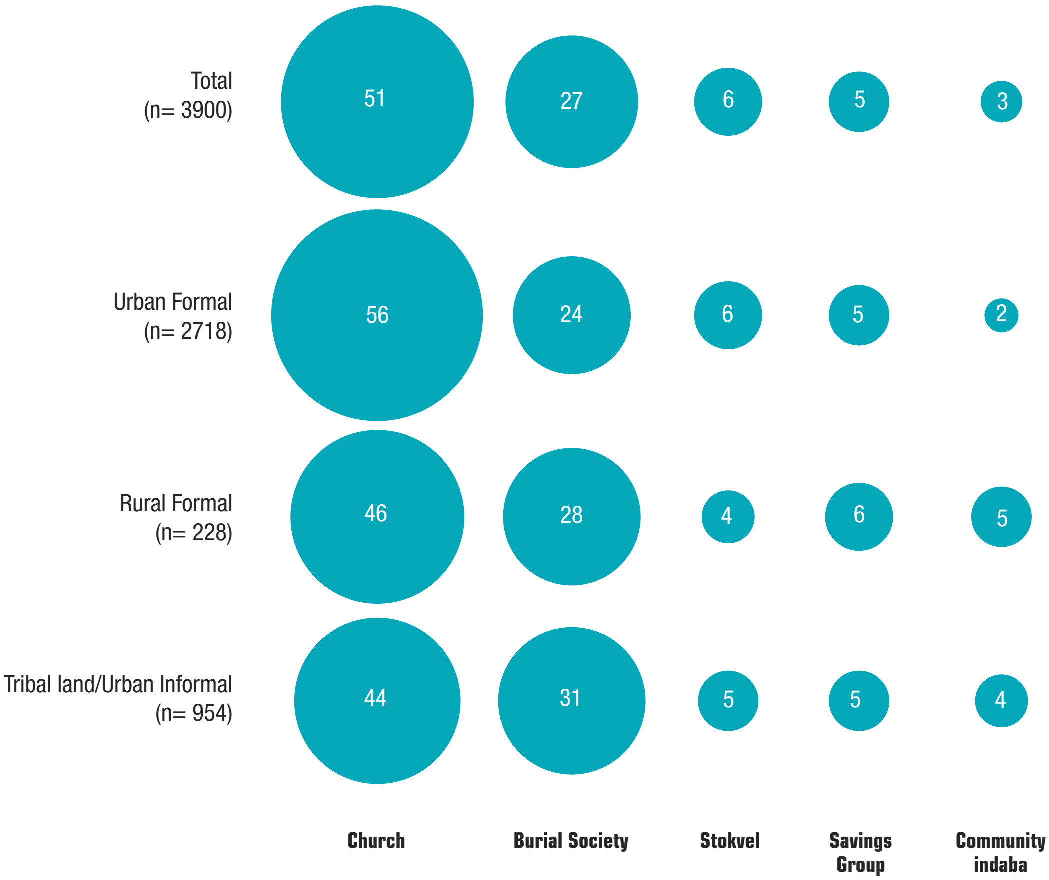


Figure 60: Social group membership by gender

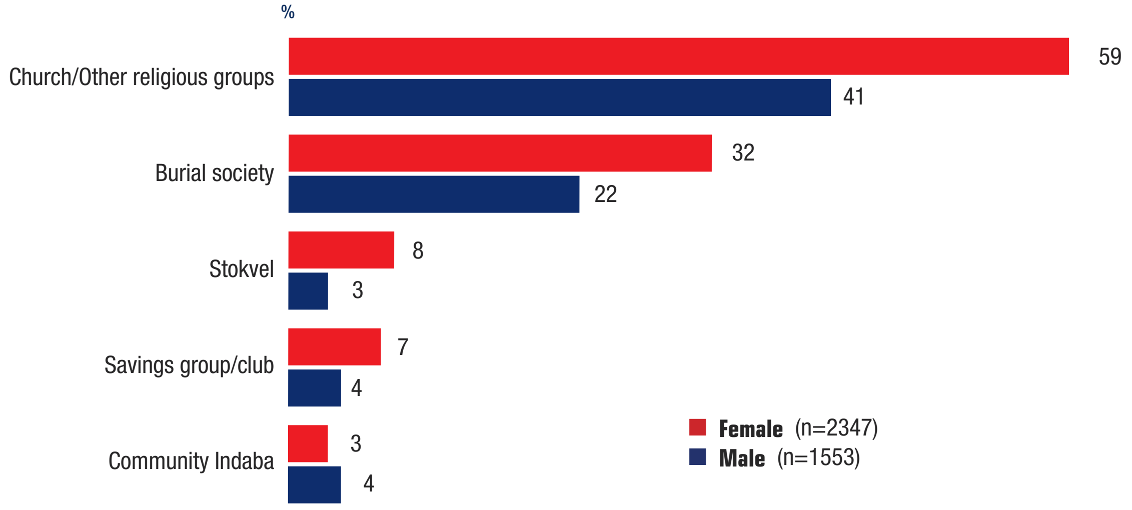


Figure 61: Percentage of those belonging to a burial, stokvel and/or savings group

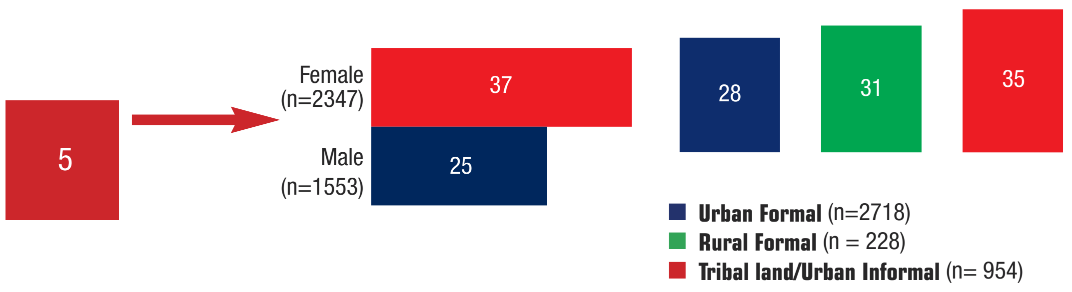


Figure 62: Percentage of those who pay social membership fees before paying anything else

You pay your burial, stokvel or savings group fees before you pay anything else

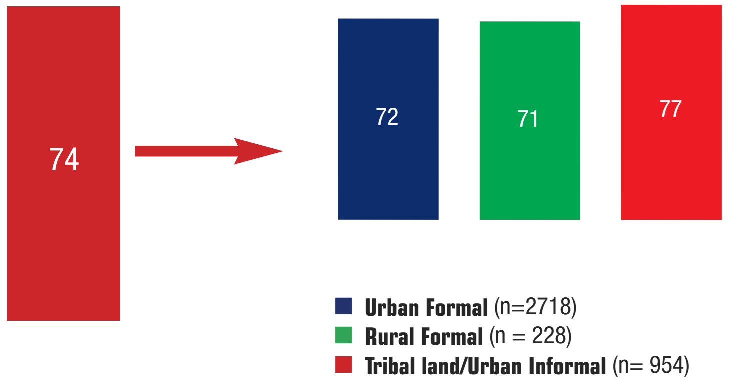


Figure 63: Social lending

Who people have lent money to over the past 12 months

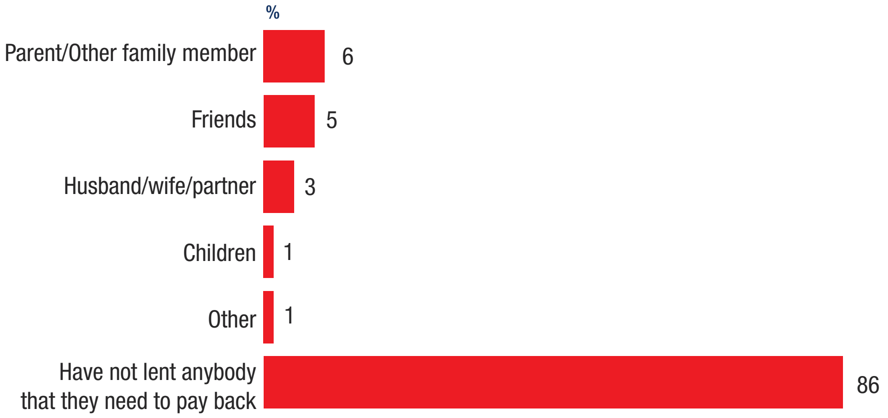


Figure 64: 'Extremely important' financial needs claims across product holdings

Low scores
High scores

	%	Formal investments or retirement (n=902)	Stokvel, savings or investment clubs (n=356)	Give to others or keep at home (n=336)	Informal funeral (n=1014)	Formal funeral (n=953)	Life insurance or life cover (n=646)	Income insurance or loss of earnings insurance (n=133)
Available in case of an emergency	58	73	72	66	63	68	73	74
Provide for your family if you pass away	47	62	67	50	57	60	62	60
To pay for funeral for you/someone else	41	47	56	47	51	45	45	50
For old age or retirement	37	56	40	39	37	51	59	50
To pay for school fees	34	41	49	32	39	41	40	53
To buy a house or a car	26	40	36	26	26	33	38	45
To buy furniture etc. for the house	20	22	24	17	22	24	24	27
To buy clothes	20	16	24	25		17	19	25
To pay back loans	17	26	23	11	19	21	25	28
To pay for wedding/lobola	13	15	13	15	12	12	12	20

4 Conclusions and recommendations

FinScope South Africa 2012 illustrated that 73% of adults in South Africa are formally included. The proportion of adults who are banked has increased from 63% in 2011 to 67% in 2012. Due to the new SASSA grant system more women than men are now in the banking system. The informal sector plays an important role in financial inclusion, particularly in the rural areas. Almost 40% have a product portfolio stretching from bank to formal non-bank to informal. Current products and services seem to focus on adults who receive a regular salary. Although formal institutions are likely to target these individuals, large portions of the South African population are not regular salaried employees. Historically disadvantaged individuals in South Africa remain impoverished with lower levels of access to formal financial services, including access to credit/loans.

As such, data was analysed based on location and LSM. Those in LSM 1 – 5 living in non-metro areas are most deprived, facing infrastructure challenges, financial hardship, and low levels of financial inclusion. HDIs are less likely to use financial products and services to manage their financial lives, and if they do, they often rely on family and friends, as well as informal mechanisms.

Table 8: Financial inclusion summary total versus HDI

Financial inclusion	Total adult population	HDIs (LSM 1 – 5 residing in non-metro areas)
Formally included	72%	56%
Banked	67%	49%
Other formal	70%	52%
Informal	51%	42%
Excluded	19%	32%

In order to assess the incidence of borrowing, three definitions were adopted:

1. Claimed borrowing (have borrowed or taken products on credit in the past 12 months)
2. Actual borrowing according to product uptake
3. Actual borrowing following NCR definitions of borrowing. The NCR definition of borrowing includes those who have an account with a supplier of goods or services (e.g. telecommunications service providers, doctors, plumber, HP, etc).

Figures vary considerably but can be explained by the different definitions, different time frames (FinScope asked about borrowing in the past 12 months), as well as the fact that people often under-claim borrowing and indebtedness. In fact, 43% of adults said they would be embarrassed if they had to borrow.

Table 9: Incidence of borrowing summary

Financial inclusion	Claimed borrowing	Actual borrowing based on product uptake	Actual borrowing based on product uptake – extended NCR definition	Active credit consumers (Credit Bureau Monitor 2012)
Percentage of adult population	23.5%	35%	41%	57%
Estimated number	7.9 million	11.8 million	13.8 million	19.6 million

Access to formal financial services and products (including credit) is affected by three main factors:

- **Physical proximity** to financial institutions: 40% of historically disadvantaged adults take longer than an hour to reach a bank branch. The challenge is to find innovative solutions to reach these people.

- **Affordability** of financial products and services: Many formal financial products are not affordable to low-income earners. 69% of HDIs earn less than R2 000 per month, including 14% who do not have an income at all. The challenge is to find affordable credit solutions and to reduce the high risk profile many HDIs face (low income earners, lack of collateral) – possibly through triangulation of credit information for different sources.

- **Appropriateness** of services: Many formal financial products and services do not suit HDIs circumstances, including access to credit (particularly secured loans). HDIs have limited assets that could be used as collateral. Hence, most HDIs rely on unsecured loans, family and friends. As such, appropriateness (or lack thereof) refers to a range of factors. The challenge is to develop products and services that suit HDIs circumstances and reduce the dependency on and vulnerability of internal networks.

Hence, the following is recommended from a consumer, credit provider, and policy perspective.

Consumer perspective

Store cards: Formal borrowing is largely driven by store accounts and hire purchase. 8.5 million active credit consumers pay store accounts and hire purchase installments at least once a month. The incidence of increased borrowing or reckless lending using store cards needs to be monitored closely.

Consumer education: The total cost of credit needs to be disclosed, including credit life, in a clear and plain language. 34% of adults find the language used in financial paperwork confusing.

Research on push factors and coping mechanisms: Research needs to be conducted into what 'pushes' consumers into over-indebtedness, including the reliance on friends and family, and the use of informal products. Given their financial hardship, HDIs mainly borrow to pay for food and bills. However, productive reasons such as housing or to start a business often require larger loans which usually cannot be provided by informal sources.

Debt management: Furthermore, the coping mechanisms of consumers should be assessed in detail, especially for those who find themselves in a debt trap. Only 12% of adults considered seeking help for their debt problems.

Credit provider practices

NCR compliance: Compliance needs to be monitored, particularly the application of affordability assessment tools by credit providers to limit extension of credit to already over-indebted consumers. Furthermore, credit agreements need to be clearly set out with the use of plain language.

Products and services for HDIs: From a supply-side perspective, formal institutions are likely to target individuals who receive regular incomes (salary or wage from a company). However, only 23% of HDIs receive a salary/wage. Credit or financial products from credit providers that are specifically designed for HDIs and LSM 1 – 5 need to be assessed to study the extent of inclusion. As such, a robust analysis of the supply market for credit provision is required to understand the availability of consumer credit and its growth over the last five years.

Trends and developments

Borrowing incidence: The disjuncture between the claim that 79% of HDIs have not borrowed, against behaviours of borrowing, needs to be understood better.

Informal money lenders: Examine the magnitude of consumers who resort to informal money lenders and loan sharks due to inaccessibility of formal credit providers, and thus rendering these consumers vulnerable to high interest rates. The FinScope results show that 22% of adults would borrow from a money lender or mashonisa if they had no other option.

Policy and regulation

SASSA grants: The Department of Social Development needs to be engaged regarding debit order deductions from the social grant account. 37% of HDIs receive government grants – although this could be considered as 'regular' income, the current regulatory framework (which aims to ensure grant beneficiaries receive their full grants) does not allow deductions from social grants except for limited funeral insurance premiums. In the past, lenders could be re-paid via debit orders by grant beneficiaries with regular bank accounts deducting the money after the grant was paid. SASSA had no control over this. Under the new system, SASSA has attempted to ensure that no deductions are allowed other than those the agency has authorized. Section 20(3) of the Social Assistance Act states "a beneficiary must without limitation or restriction receive the full amount of a grant to which he or she is entitled before any other person may exercise any right or enforces any claim in respect of that amount". And 20(4) "Despite subsection (3), the Minister may prescribe circumstances under which deductions may be made directly from social assistance grants: Provided that such deductions are necessary and in the interest of the beneficiary." A SASSA directive, as part of a SASSA drive to regulate loan sharks, bans deductions from social grants for loan products sold after 1 June 2012 and a temporary directive allows lenders to deduct up to 25% of a social grant for existing policies. However, following a very broad reading of section 20 (3) it could be argued that a credit provider could debit directly from the bank account into which the grant is paid and would, therefore, not be debiting directly from the grant but from the bank account.

There is some evidence in the press that suggests that service providers are thinking along these lines. If this reading is universally accepted, and debit orders would be given effect too, off the Grindrod bank account into which the SASSA payment is made, this could be the lesser of the evils. Firstly, Grindrod bank, as a registered bank, should be obliged to meet the AEDO/NEDO requirements, ensuring that no service provider gets a preferential opportunity on the debit order. And secondly, of real importance is the fact that debit orders would enable the government to have visibility of what type of debit orders are on these accounts. This monitoring ability is of greater preference to a framework where there is no visibility, when debit orders are disallowed on these accounts. In this instance the repayment of loans to service providers by the SASSA recipients are likely to be made in cash, outside the monitoring capability of the government. The government is in a far stronger position to regulate accordingly where it is able to monitor outflows from the SASSA accounts.

Information: Focus on efforts that assist in furthering access to the information required by credit providers will contribute to reduce the barrier of access to credit, for example for SMME's and particularly where youth are concerned.

SMME finance: Borrowing in order to start or buy a business was mentioned as the most important reason why people would borrow (borrowing needs). However, many HDIs do not fulfil the requirements to actually receive a loan from a formal institution for that purpose. Lenders usually require the following: formal registration, bank account, financial records, collateral (savings), and/or operating for a year or longer. As such, a key barrier to SMME financing is the cost of engagement by the credit provider, particularly in relation to determining risk profile. The credit market is segmented by the relative costs of engagement for the provider – as these costs rise, the provision of credit declines. Using existing business models, where the information normally used to assess risk is absent, risk evaluation becomes less robust and the risk assessment process becomes uncertain, thus raising the cost of the risk assessment as well as the monitoring costs. The uncertainty introduced by a lack of: a regular income stream; credit information as well as physical address and the low level of record-keeping, results in murky risk-profiles. Often the accounts of enterprises are inseparable from those of the household as the household may well use funds borrowed for business purposes. According to the FinScope Small Business Survey South Africa 2010 there are 3.8 million unregistered businesses that do not track income or turnover or use a bank account. As a result the expected loss and revenue no longer lend themselves to estimation, and the risk to lenders is, in these circumstances, very high. Many credit providers cannot operate with traditional models of risk in this segment of the market. Efforts that assist in furthering the access to information required by credit providers will contribute to reducing the barrier of access to credit for SMME's, for example, a small business credit bureau, using any historical data on client financial behaviour or credit-related variables that can be used to calculate the risk of extending credit, or even alternative models for credit scoring, like psychometric scoring.

Consumer education: From a policy perspective, Finscope results also indicate that education plays an important role in improving an individual's access to financial credit markets and reducing their dependence on internal networks.

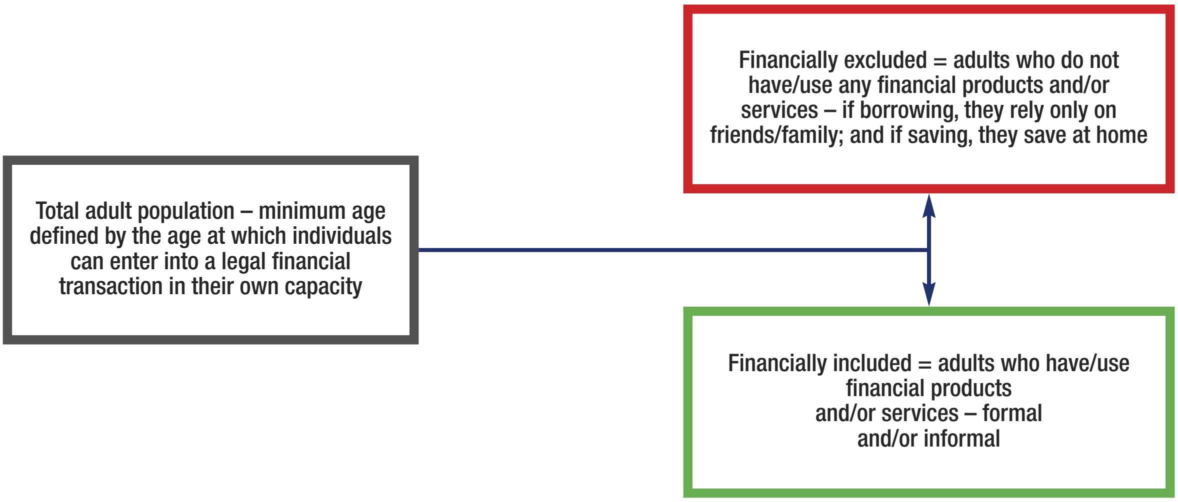
Cost-effective access to research: It is advisable to utilise the syndicate approach to conduct annual market reviews of both the demand and supply of the credit market to enable close monitoring of the trends and development of the market.

Consumer education: A continued focus on consumer education is recommended to promote an understanding of the total cost of credit, and the determination of affordability, and encourage product comparison behaviour.

Consumer financial services needs are balanced with a complex interplay of low incomes to meet their insurance, savings, and borrowing needs, often at the expense of one or the other. The challenge for deepening financial inclusion in South Africa is to find ways of balancing both the formal and informal sector offerings to meet consumer needs, without creating usage barriers for those who depend on these mechanisms.

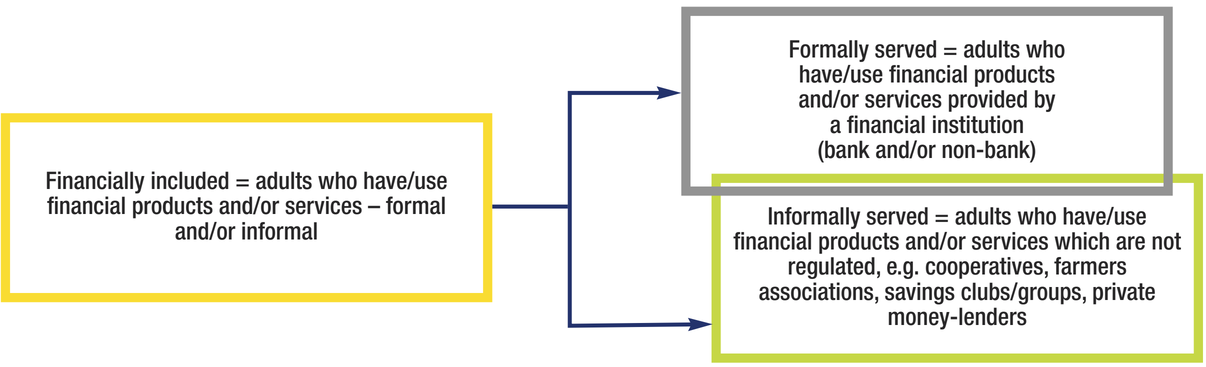
Appendix A: Analytical framework

Defining financial inclusion: 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':

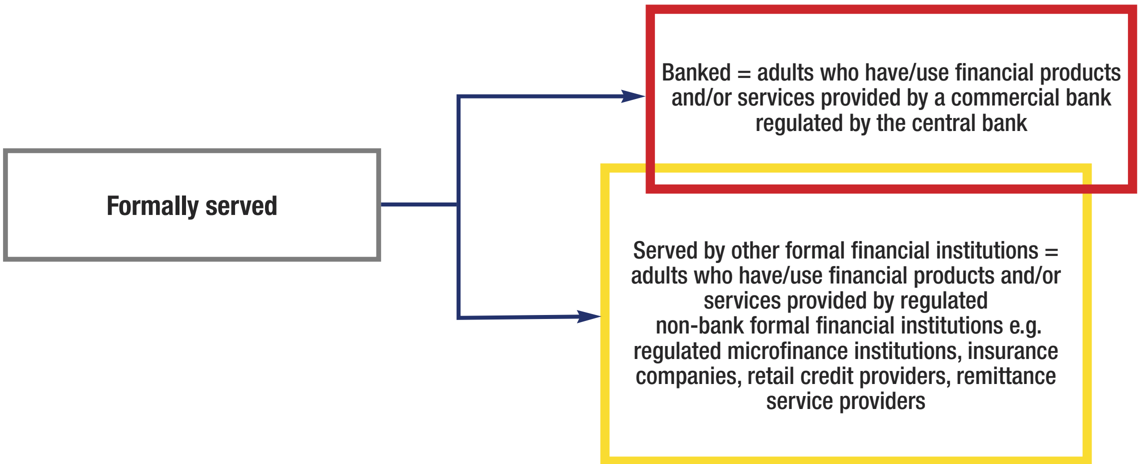


The 'financially excluded' segment refers to individuals who manage their financial lives without the use of any financial products or mechanisms external to their personal relationships. To further understand financial inclusion, the 'financially included' segment of the population is taken through 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.

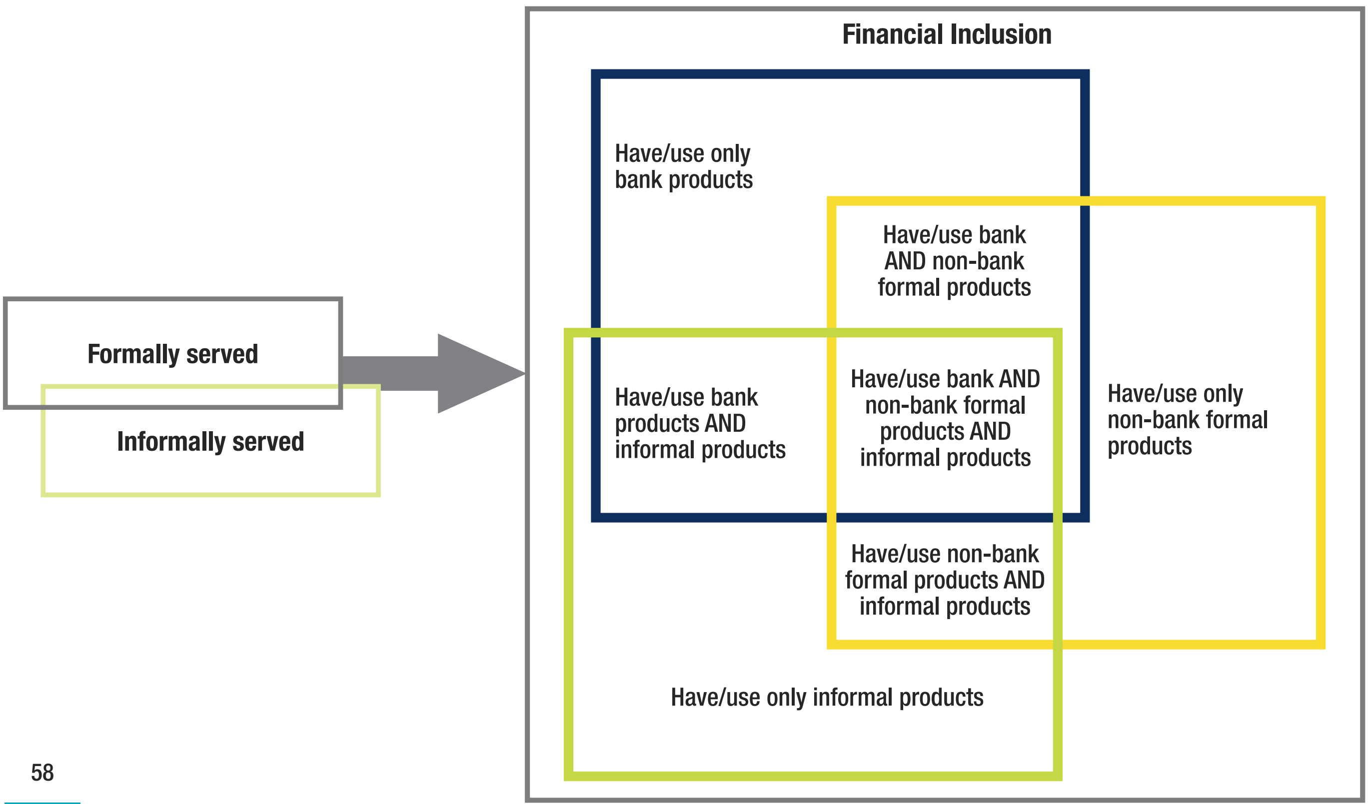


- Those individuals who have or use products or services from financial institutions that are regulated through Acts of law but which are not commercial banks. Those individuals who have or use products or services from such institutions, comprise the 'Served by Other Formal financial institutions' segment 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.



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