

South Africa's financial trends through the looking glass

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The findings of the 11th annual FinScope South Africa Consumer Survey were shared with an audience spanning Johannesburg and Cape Town in early November. The survey, which was developed by FinMark Trust and is conducted in partnership with TNS Research Surveys, provides insight into trends in the financial sector, with specific reference to levels of adult financial access across all income levels and demographics.

With a view to reflect on what is being done well, as well as what still needs work, Powell began on a positive note by showing that there has been an increase in those who are formally served financially, from 72% in 2012 to 79% in 2013. 75% are banked, 51% use other formal, non-bank services and 51% use informal financial management mechanisms. 16% still choose not to partake in any formal or informal financial services, although this is down from 19% in 2012. A trend seen across various areas in the survey is the tendency for respondents to overlap and use a combination of formal and informal financial services and products.

Moving on to look at LSM groups, Powell discussed that an increase in access to services such as water and electricity has meant a greater desire for appliances in the home, and a resulting shrinkage of LSMs 1 and 2 and growth of LSMs 7 to 10. In addition, there has been a decrease in those who rely on others for income and those who borrow money from family and friends, meaning these individuals are becoming more self-sustaining. Other factors also contribute to life improving for some, with full-time employment increasing, those with no income decreasing, and the number of people earning between R3000 and R8000 per month increasing. This is an important consideration because it is likely that such people's needs are changing in terms of the financial services they require.

Those who remain without services and within the lower LSM groups are most often in remote, hard-to-reach areas, such as rural parts of Mpumalanga, Limpopo, the Eastern Cape and KwaZulu-Natal, and their lack of services largely correlates with lack of access to financial services, too. People making up these LSM groups expect more from the government because they believe there is little likelihood of positive change occurring in terms of employment and income. It is perhaps here that financial institutions need to innovate in order to reach these groups of people and appeal to their specific requirements, in an attempt to improve their lives in some way.

However, regardless of economic standing, Powell mentioned that the sense of community in South Africa is alive and well, with the proliferation of burial societies and stokvels (seen across LSM groups) evidence of a willingness to help each other.

The trend to overlap across formal and informal financial service provision must, nevertheless, be noted once again. The FinScope survey found that more people, especially in the R3000 to R8000 income bracket, are using credit or taking out loans, in an increased engagement with formal financial services, especially in terms of secured and unsecured loans. The lower income brackets still engage in informal borrowing, although in general this is declining. This perhaps speaks to a more positive experience to be had in formal credit engagement - informal borrowing can create social pressure and carry high interest. Unsecured loans taken out from banks, retail stores and insurance companies are most often done so for developmental reasons (building and renovating), followed by monthly and personal expenses and education.

Be that as it may, 12.5-million people in South Africa are showing signs of financial insecurity, with 4.7-million over-indebted. The majority of these tend to be women, earning income and taking credit from several places (formal and informal), who are trying to manage money in effective ways and who often borrow money for legitimate reasons but experience stress in attempting to pay it back. It would be useful for such people to have guidance with regard to sound financial decision-making.

This type of advice could also serve to help with the concept of saving, and the idea of delayed gratification versus instant gratification. In 2013, 13% of respondents saved through a bank, with overall bank savings growing from R3.9-million to R4.7-million, while provident fund and education policy saving also increased, driven especially by the R3000 to R8000 income bracket. However, the majority of saving continues to be done in informal ways, such as between neighbours or in stokvels. The main reason for this is that a large number of people receive a variable income, which means they need to access their savings easily.

Across the board, the primary reason for saving is in case of emergency, regardless of which financial mechanism is used. Funeral and burial cover is also saved for in the long term, while saving for a car is done in the short term, with food often bought using informal savings. The question must be raised here as to whether people are using the right mechanisms for the type of saving they are undertaking.

Shifting to look at the insurance category, Powell noted the increase in people entering into formal insurance, up from 6.2-million in 2012 to 7.8-million in 2013. While asset insurance has seen an increase in uptake among those earning R8000 and above, life insurance has also grown in the R3000 to R8000 income bracket. This speaks to less engagement with burial societies and more with funeral policies, although one can also supplement the other.

Then, moving squarely away from the traditional, Powell examined some of the survey's findings with regard to mobile banking in South Africa. Notably, 90% of adults living in the country now claim to use mobile phones, equating to 33-million, while eight-million use the internet. That said, while mobile banking has increased, 71% still do not use it, mainly due to lack of penetration in rural areas. The suggestion here is for financial institutions to look at alternative ways of making mobile banking appealing to a wider range of the population by, for example, using the USSD format instead of WAP, so that those with simpler devices are also able to make use of mobile services offered.

Mobile connectivity aside, 3.5-million more South African adults are banking this year, with 1.9-million being South African Social Security Agency (SASSA) card holders and 1.5-million being new banking entrants. However, banking is often a single transaction (simply used as a means to withdraw a salary, for example), and it would be useful to find ways to develop this.

And that is the essence of the findings from this year's FinScope survey - that while there are certainly developments and improvements when it comes to access to and usage of financial products and services, there is also significant room for further development. Powell believes that the aim going forward should be to work on including the excluded. He noted that there are currently 5.7-million people who are classified as 'hard to reach'. However, this can be broken down to show that 2.9-million remain very difficult to access (with no money and no mobile phone), but the other 2.8-million do have some money and a mobile phone. Looking even deeper, while half of these individuals get their money from their parents, the other half earn their own money, and 570,000 of these live in urban areas and fall within LSMs 4 to 5. It is perhaps this segment, then, which is the most accessible starting point for innovative, socially relevant financial institutions to target.

To sum up the findings of the 11th annual FinScope South Africa Consumer Survey, Powell ended with five key take-outs for the country's financial sector to consider: on the positive side, there are encouraging signs of upward mobility, growth in formal product engagement, and an overall increase in banking. Areas still to be developed or improved include that the marginal increase in saving is offset by a higher growth in borrowing, as well as the continued need to focus on banking as a means to include the excluded. The challenge going forward is to capitalise on what is already working, and improve on what is not.

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