



FinScope 2010

A Livelihood Approach



Give a man a fish...



methodological journey

Mzansi Financial
Income generation profile
Who are they? Landscape
BACKGROUND
Unlocking the essence
Remittances
Barriers
inclusion
informal
Credit and loans
Banking
Insurance
formal uptake
Savings

unserved

South African living



1. Background



1. Background

Making financial markets work for the poor



- A **diverse financial system** has the ability of bringing poor people into the **mainstream** of the economy allowing these individuals to also contribute more actively. To achieve this successfully, we need to challenge our current paradigms.
- FinMark Trust South Africa has been promoting the **drive for financial inclusion** since 2003. The **main aim is to:**
 - **IMPROVE PEOPLE's livelihoods** – to achieve this we need to **start with UNDERSTANDING LIVELIHOODS** and the **REALITIES** of South African people

1. The 2010 journey



A change in approach for the FinScope 2010 survey:

- **Introduction of Livelihood Model**

To provide **knowledge** on:

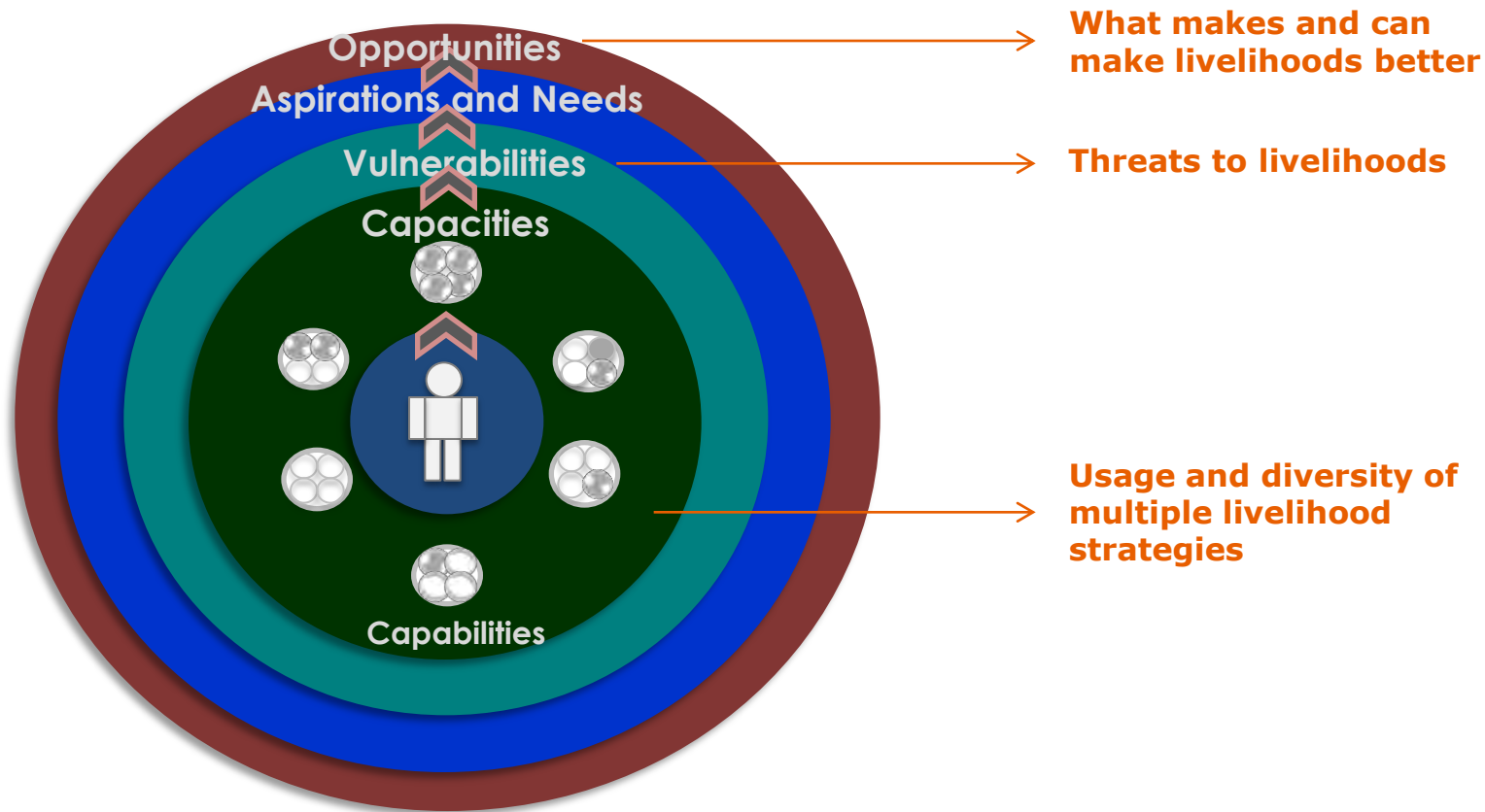
- the **situations and strategies** adopted by individuals to **generate an income**,
- in relation to the **opportunities, vulnerabilities** and **barriers** to **financial inclusion** they experience or face.

- **Why?**

- Move from **just** understanding financial landscape from a **product perspective** to understanding the financial landscape **within context of livelihood dynamics and the current realities** of South Africans influencing financial inclusion.
- **This understanding should assist** in the facilitation and design of **appropriate** financial structures, mechanisms and products **driven by people's realities, or elicit opportunities beyond the financial landscape that can contribute to the sustainability of livelihoods**

1. The 2010 journey

Understanding livelihoods:



1. Background

Research Objectives



Livelihood capacity

- Focus on how **different individuals and households** within communities have **different livelihood outcomes, different access** to livelihood **capacities and capabilities and are affected by other factors in different ways.**
- In the longer term the impact of **livelihood strategies** on financial inclusion can be understood.

Financial landscape

- **Understanding the use of and demand for financial services**
- **Track usage** of financial products across both formal and informal sectors.
- Identify how **people's financial services needs and perceptions are evolving and if evolving** in favour of the poor and/or under-served , i.e. promoting "pro-poor" innovation in the financial sector.
- Identify how well the financial markets (formal and informal) are currently **meeting people's needs.**



2. The methodological journey



2. The methodological journey



Research design

- Household survey of 3900, 60 min F2F interviews conducted nationally
- Questionnaire was translated into vernacular languages
- Qualitative methodology through ethnographic observations provided an appropriate vehicle for providing richer meaning to the data.

Sampling methodology

- Representative sample at national, provincial and urban / rural levels (weighted and benchmarked to Stats SA 2009 adult population estimates)
- Enumerator Area-based → 650 EA
- Selection of individual respondent per household by Kish Grid method

Respondent profile

- Universe = **Adult population - South African residents 16 years and older**
Total Adult Population – minimum age defined by the age at which individuals can enter into a legal financial transaction in their own capacity

3. Unlocking THE ESSENCE of South African living

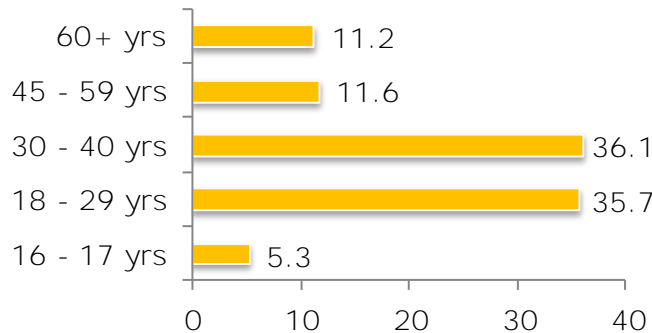


3. Unlocking the essence of South African Living

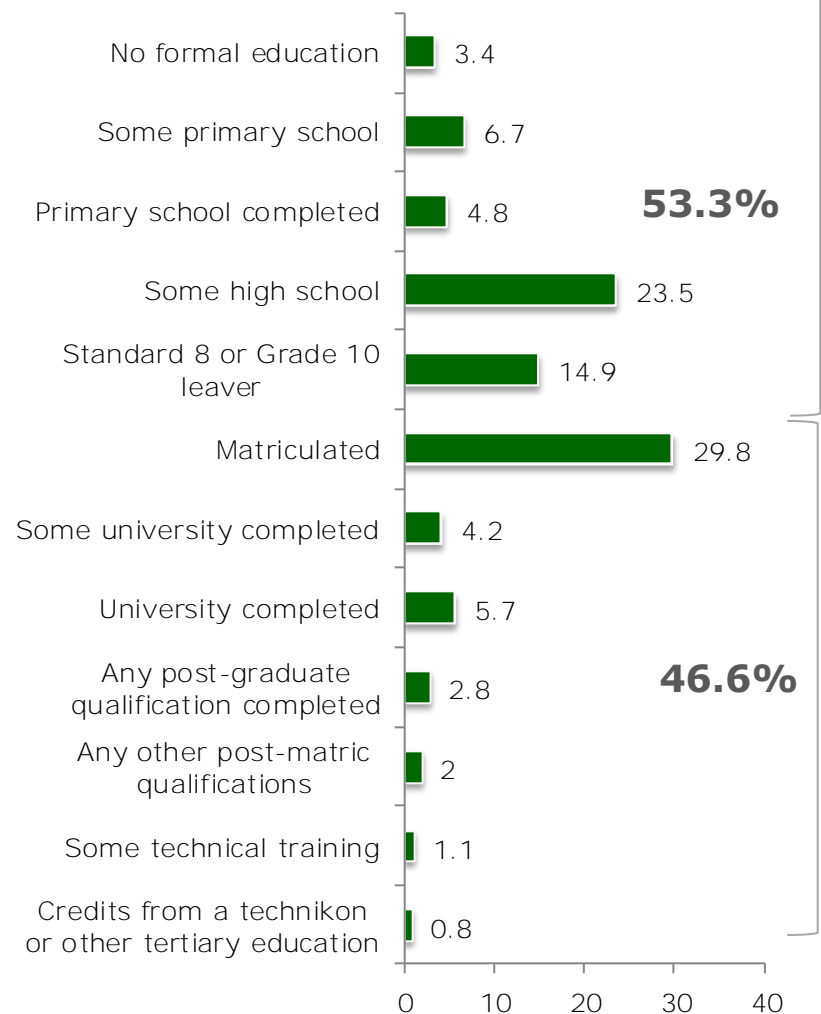


Overall: 16+ who are they?

Age



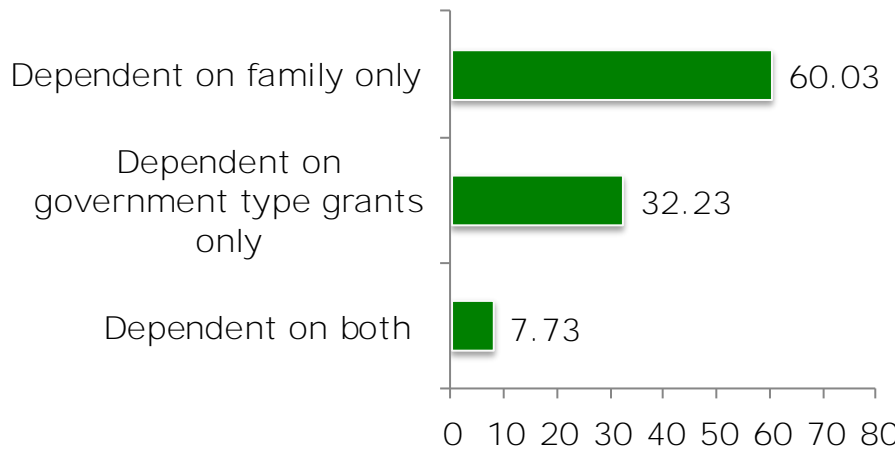
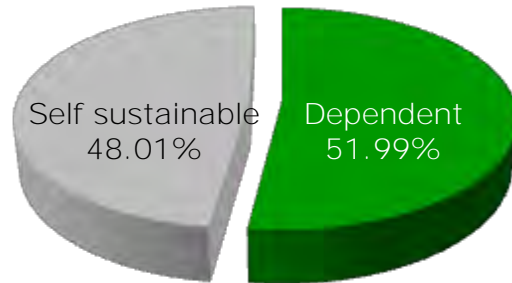
Level of education



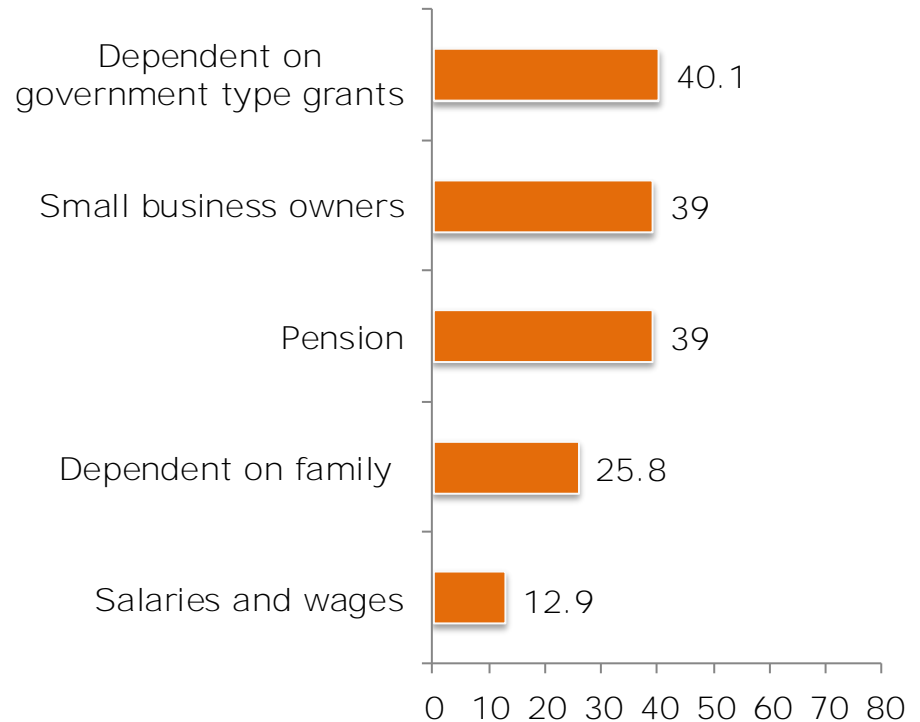
3. Unlocking the essence of South African Living



Overall: Income generation profile



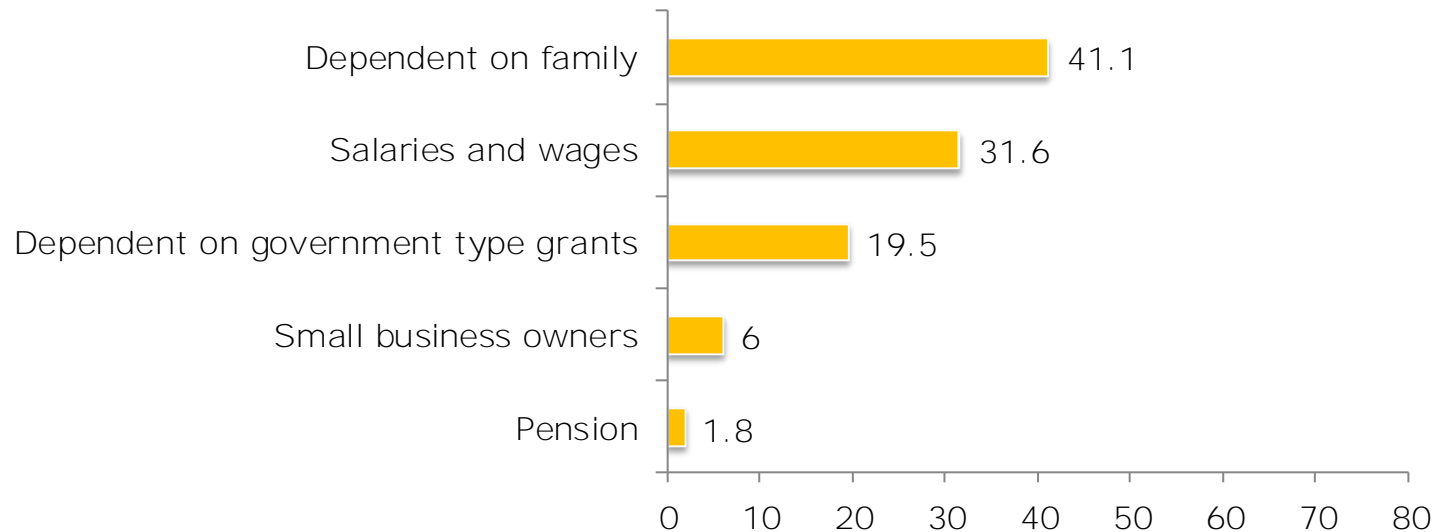
More than one source of income



3. Unlocking the essence of South African Living



Income generation



3. Unlocking the essence of South African Living



The unserved

23.5 % of the current South African population is **unserved**,

thus they have NO products. If we want to serve these individuals we need

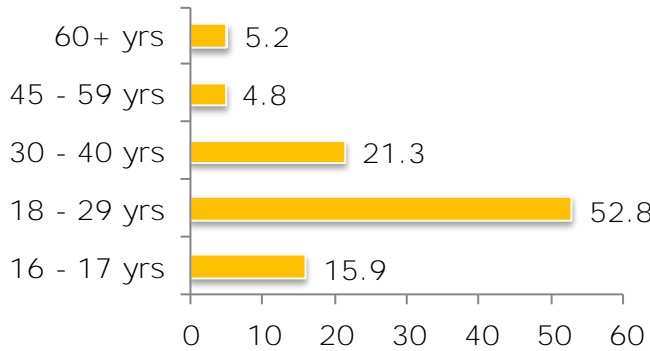
to again **understand THEIR realities**

3. Unlocking the essence of South African Living

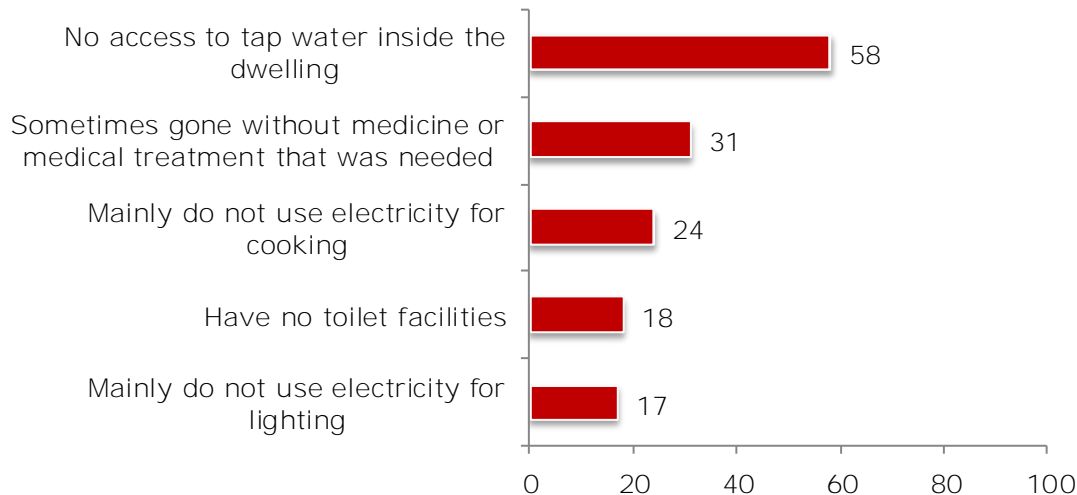


Unserved: 16+ who are they?

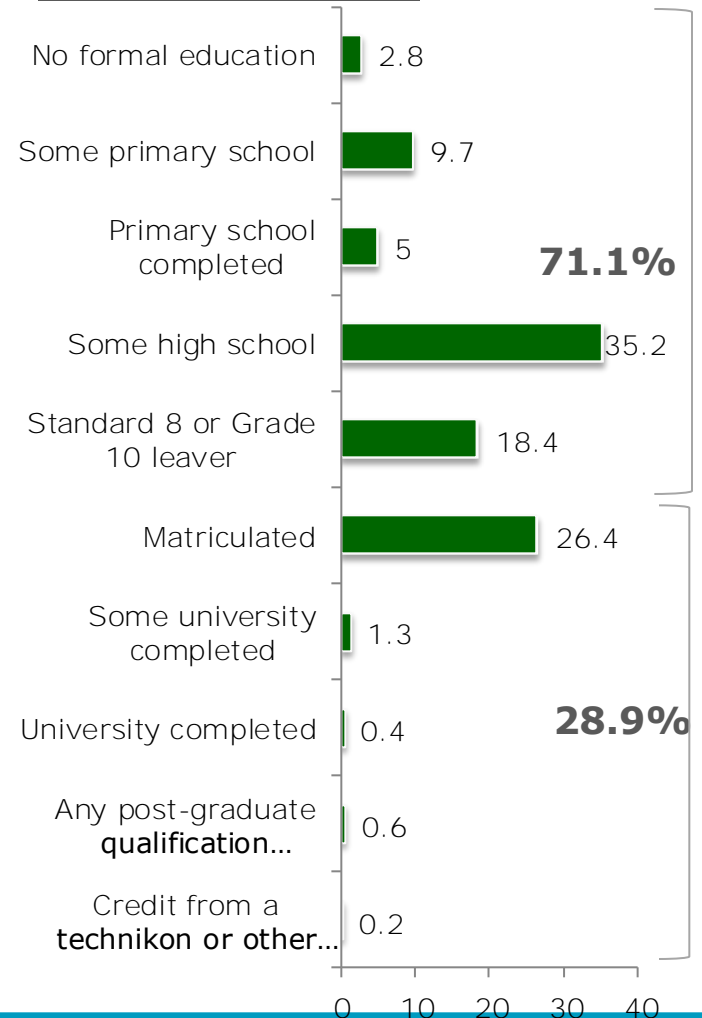
Age



Does your household have no



Level of education

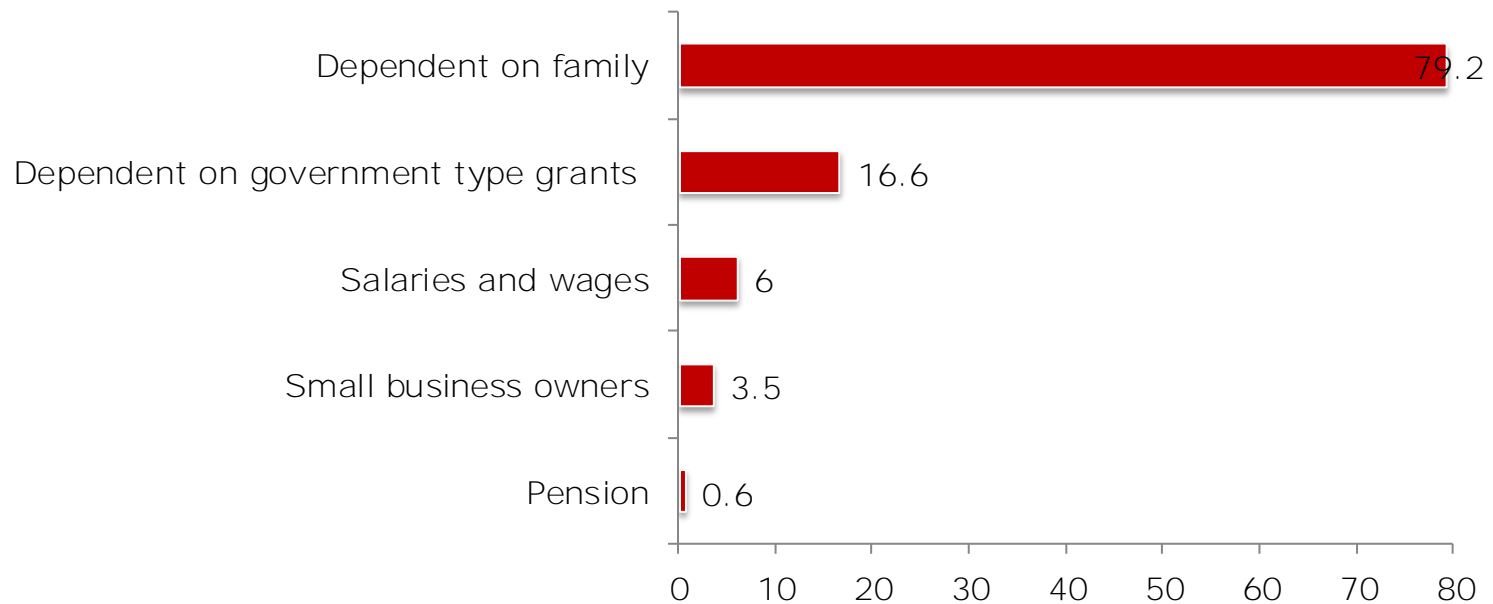


3. Unlocking the essence of South African Living



Unserved: Income generation profile

Income generation



4. Attributes of the unserved



Key attributes

1. Frequently have **problems making ends meet**
2. Personal **finances is stressful and a real burden**
3. Often **go without cash income**
4. **Limited access to basic amenities a daily reality**

4. Attributes of the unserved



Vulnerabilities

1. Loss of income

- **Death** of or loss of income from main income earner
- **Illness** within household or family

2. Expense

- **Medical Emergency**
- **Funerals**

3. Unsustainable interventions

- **Sporting events**, such as the Soccer World Cup, help to build the nation

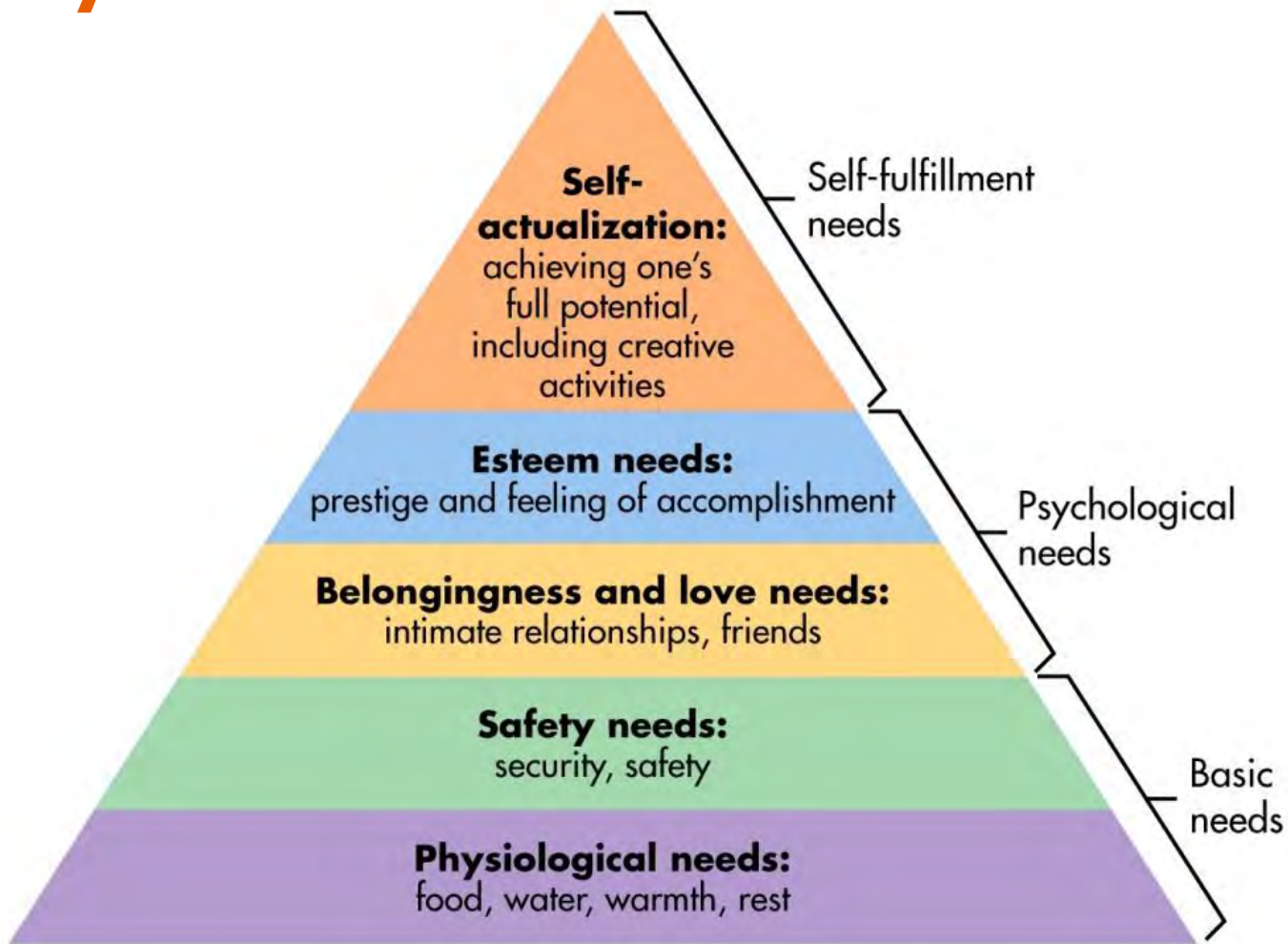
4. Attributes of the unserved

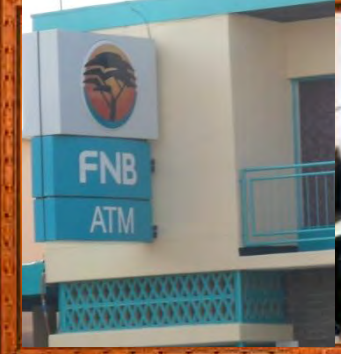
Aspirations



- ***Not to worry about food***
- ***To get grant from the government***
- ***Get a driver's license***
- ***Get a bursary***
- ***Better education***

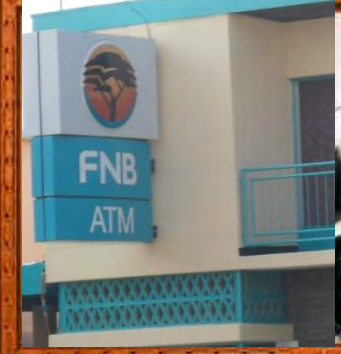
4. Context to the South African reality





5. Money management





5.1 Savings

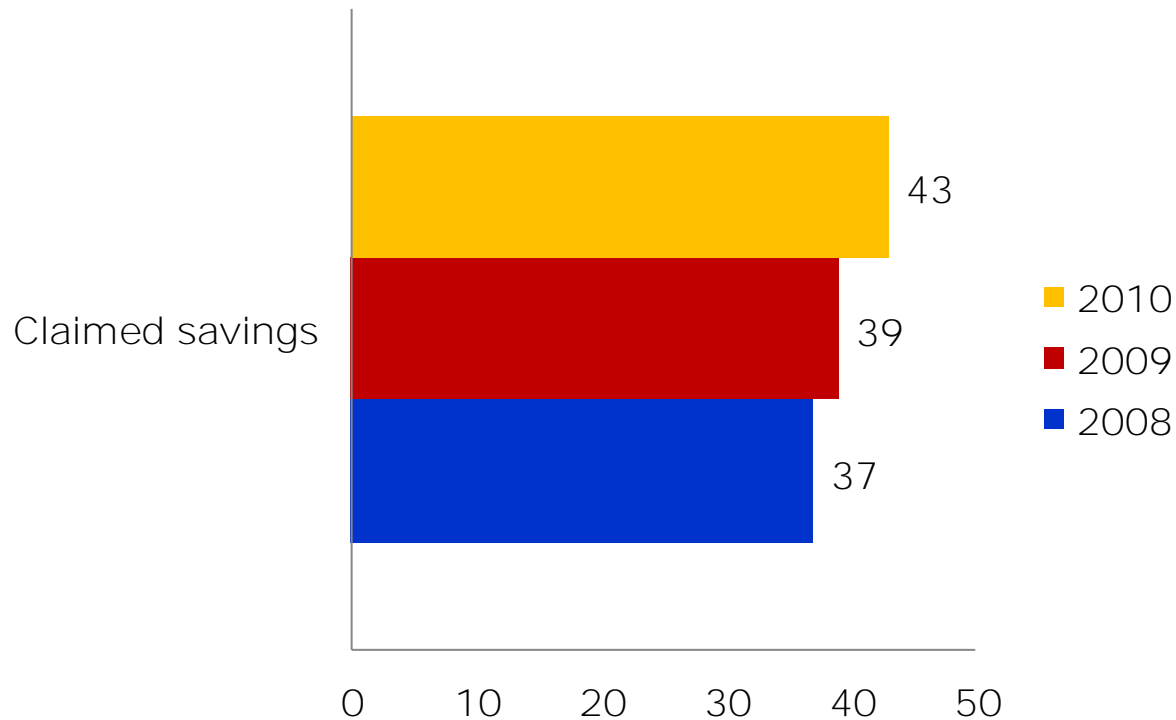


5. Money management



5.1 Savings in general

Do you have savings?

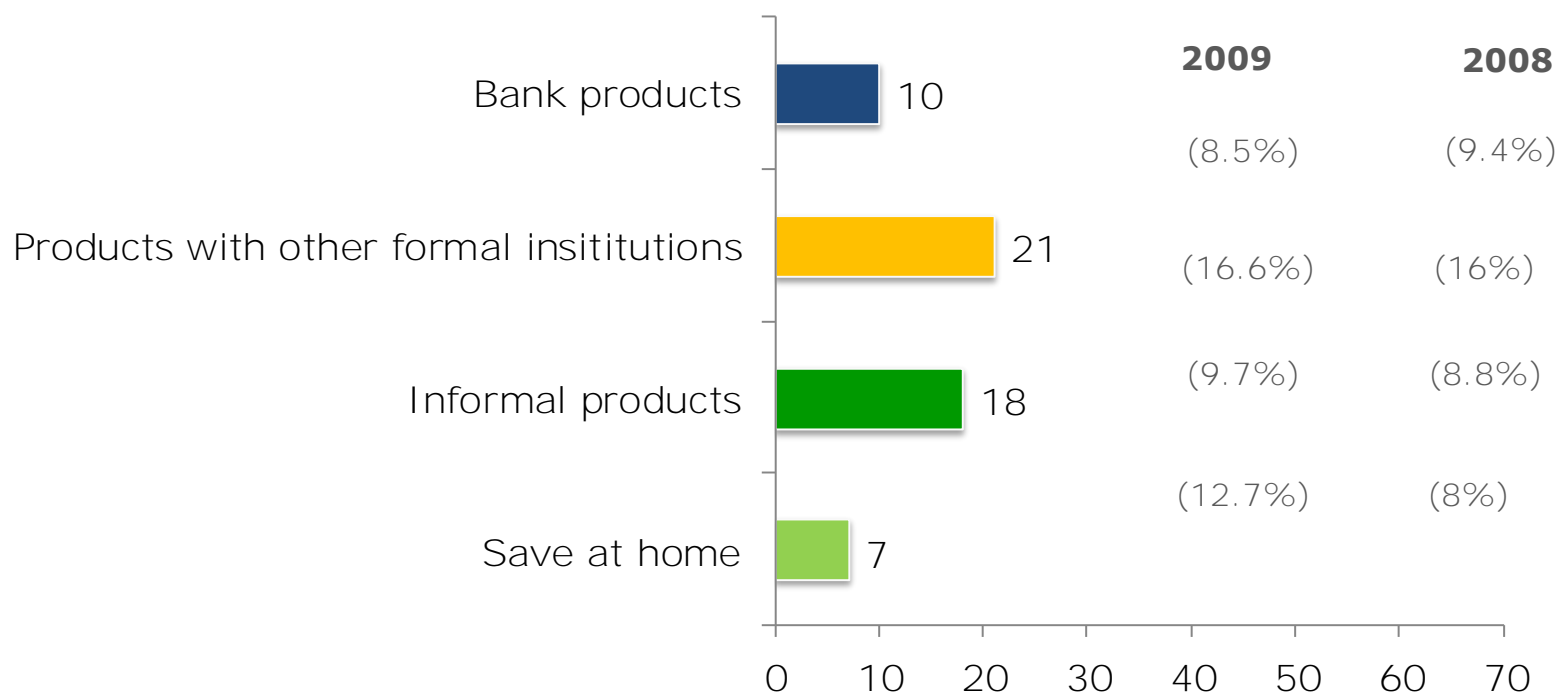


5. Money management

5.1 What's happening in the savings space?



Savings mechanisms/products

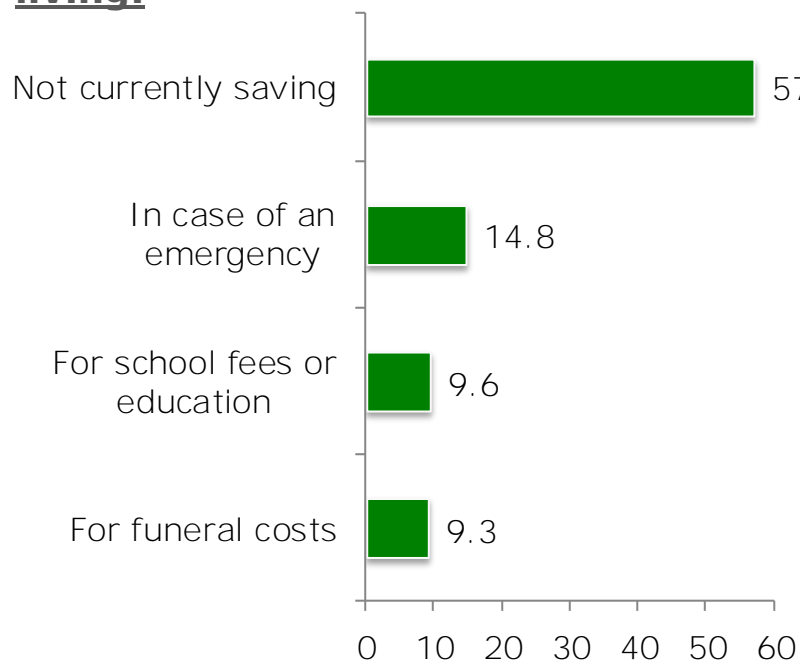


5. Money management

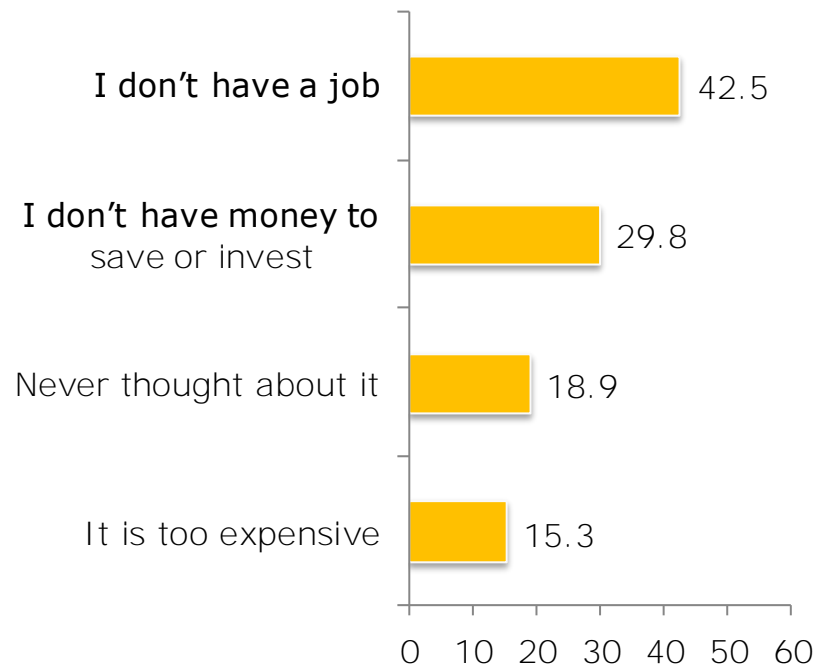


5.1 What's happening in the savings space?

Savers are saving to manage day-to-day living:



Those not saving cite:

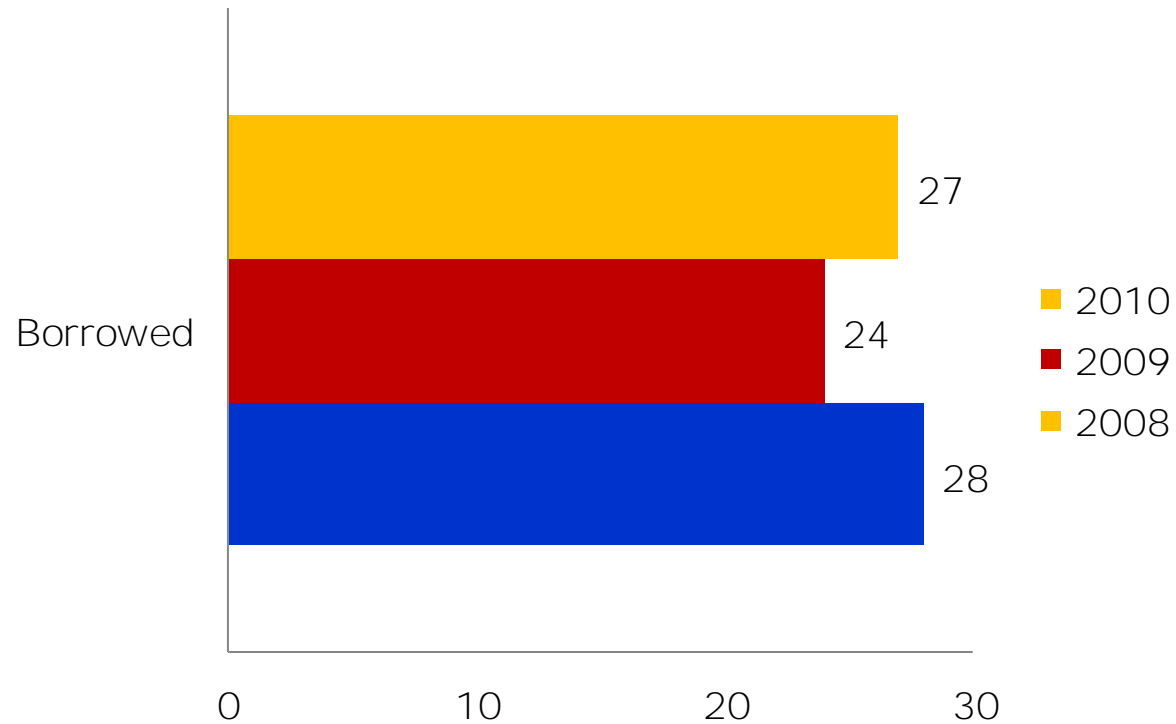




5.2 Borrowing behaviour

5. Money management

5.2 Borrowing behaviour

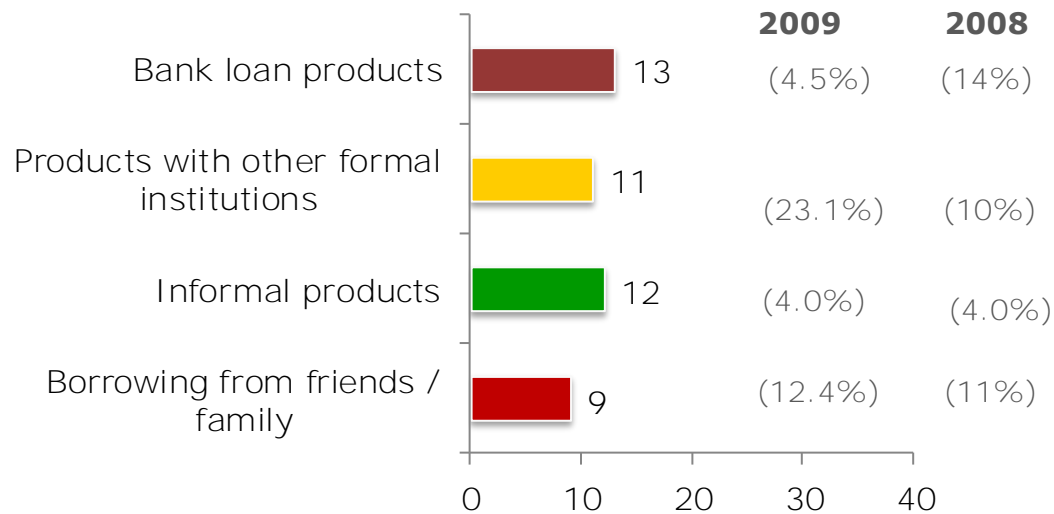


5. Money management

5.2 What's happening in the credit and borrowing space?



Borrowing channels / products

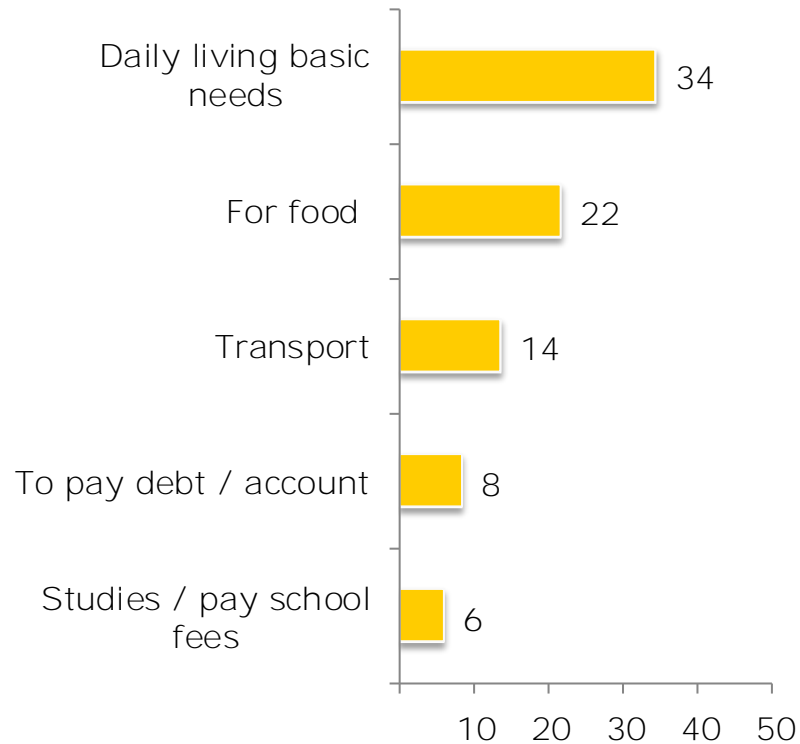


5. Money management

5.2 What's happening in the credit and borrowing space?

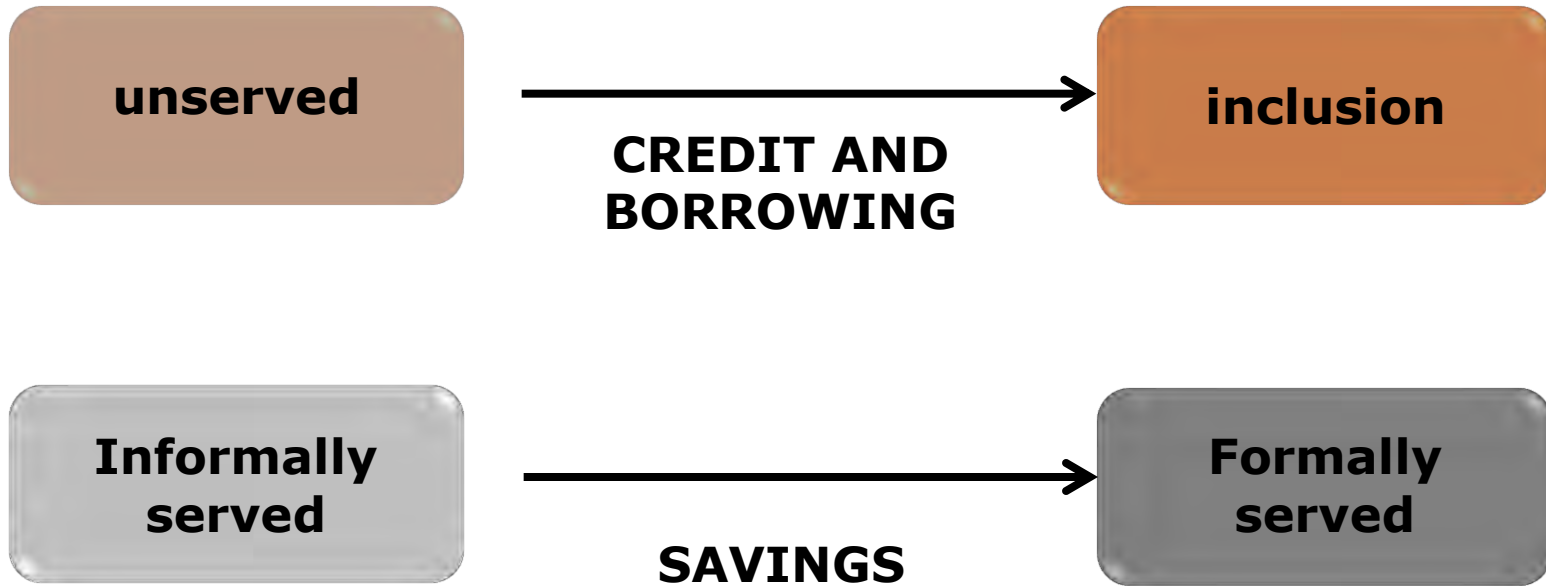


Borrowing channels / products



5. Money management

Two significant shifts and what it means





5.3 Remittances



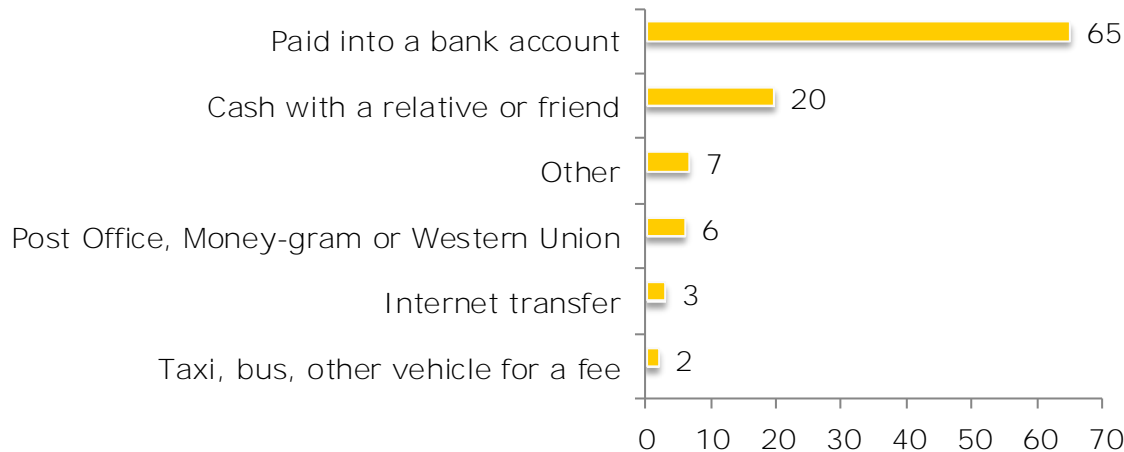
5. Money management

5.1 What's happening in the remittance space? Sending money

Sending money to someone living in a different place within South Africa



Overall, there is more receiving than sending of money happening, MULTIPLE SENDING





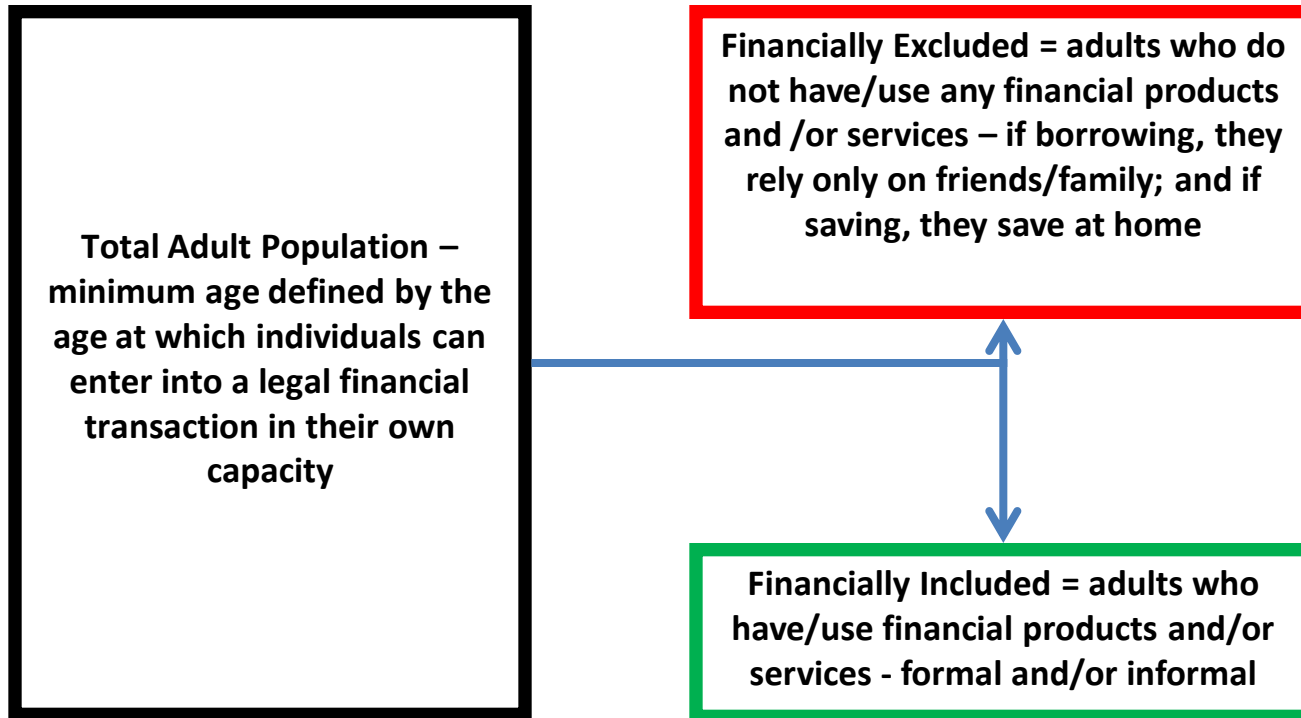
6. Financial inclusion



6.1 Defining financial inclusion



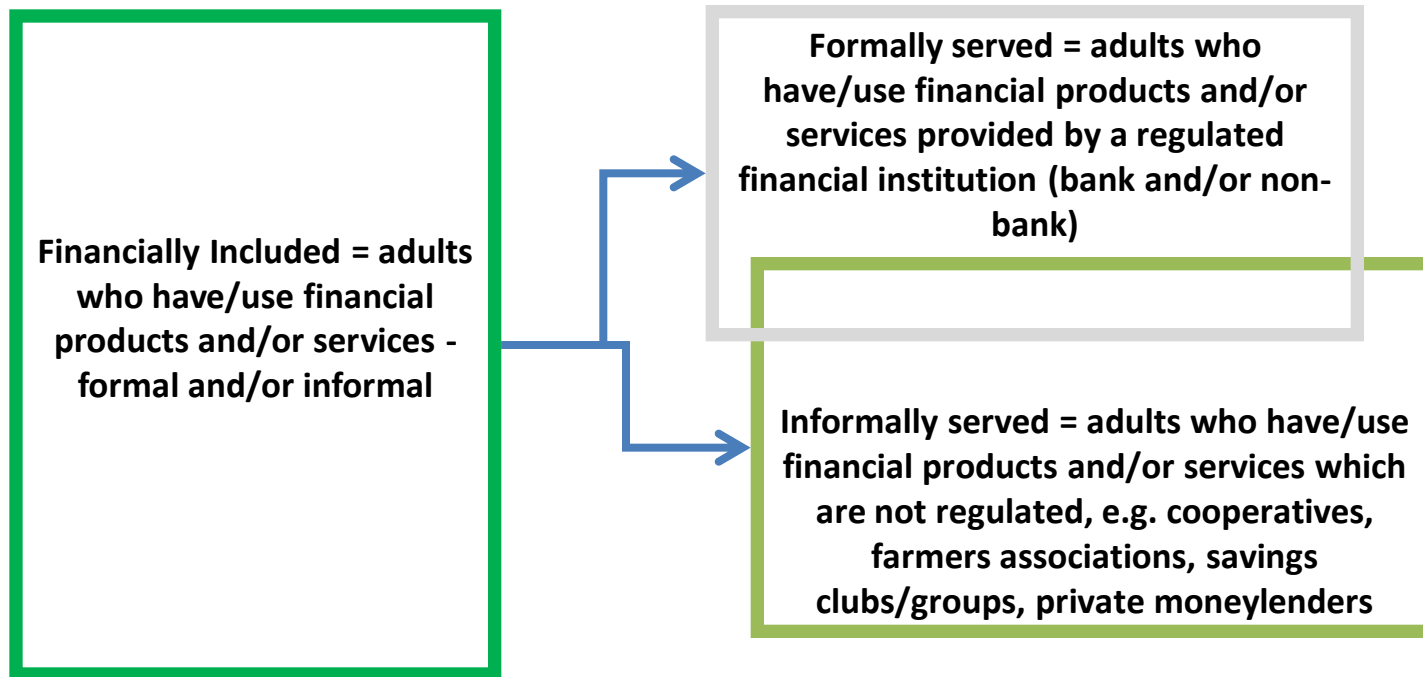
The FinScope methodology uses financial product usage to segment the adult population



6.1 Defining financial inclusion



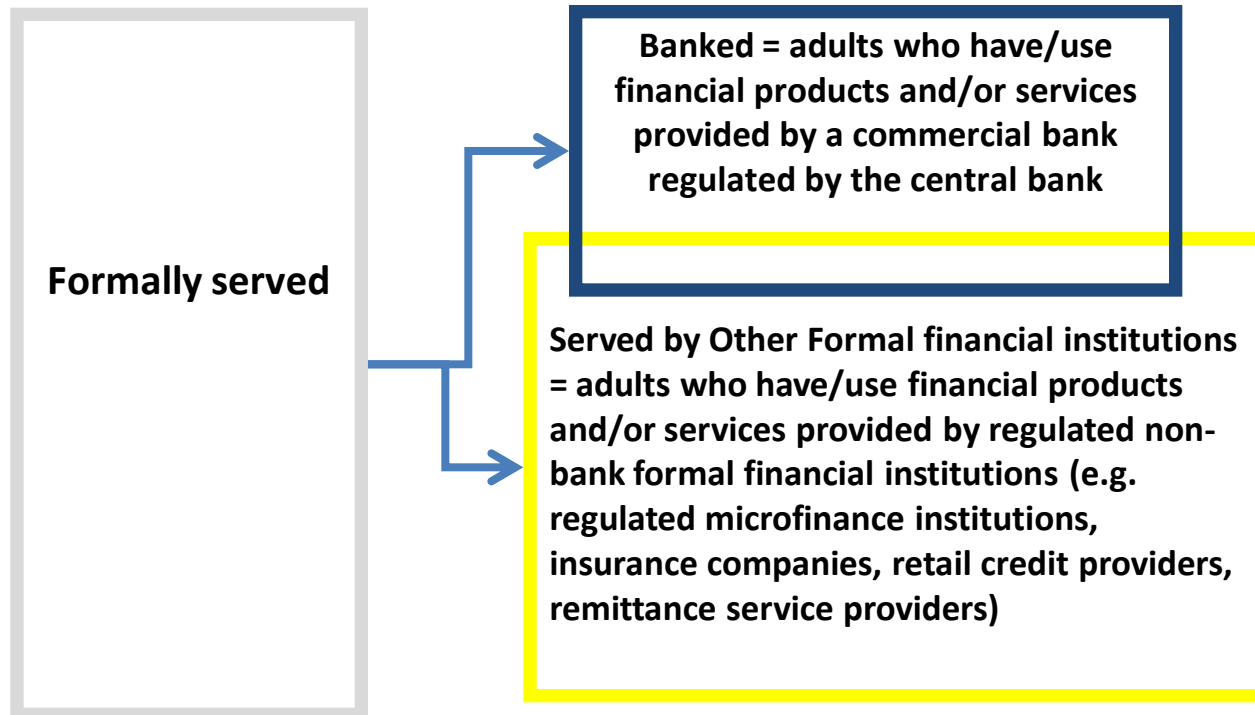
The FinScope methodology uses financial product usage to segment the adult population



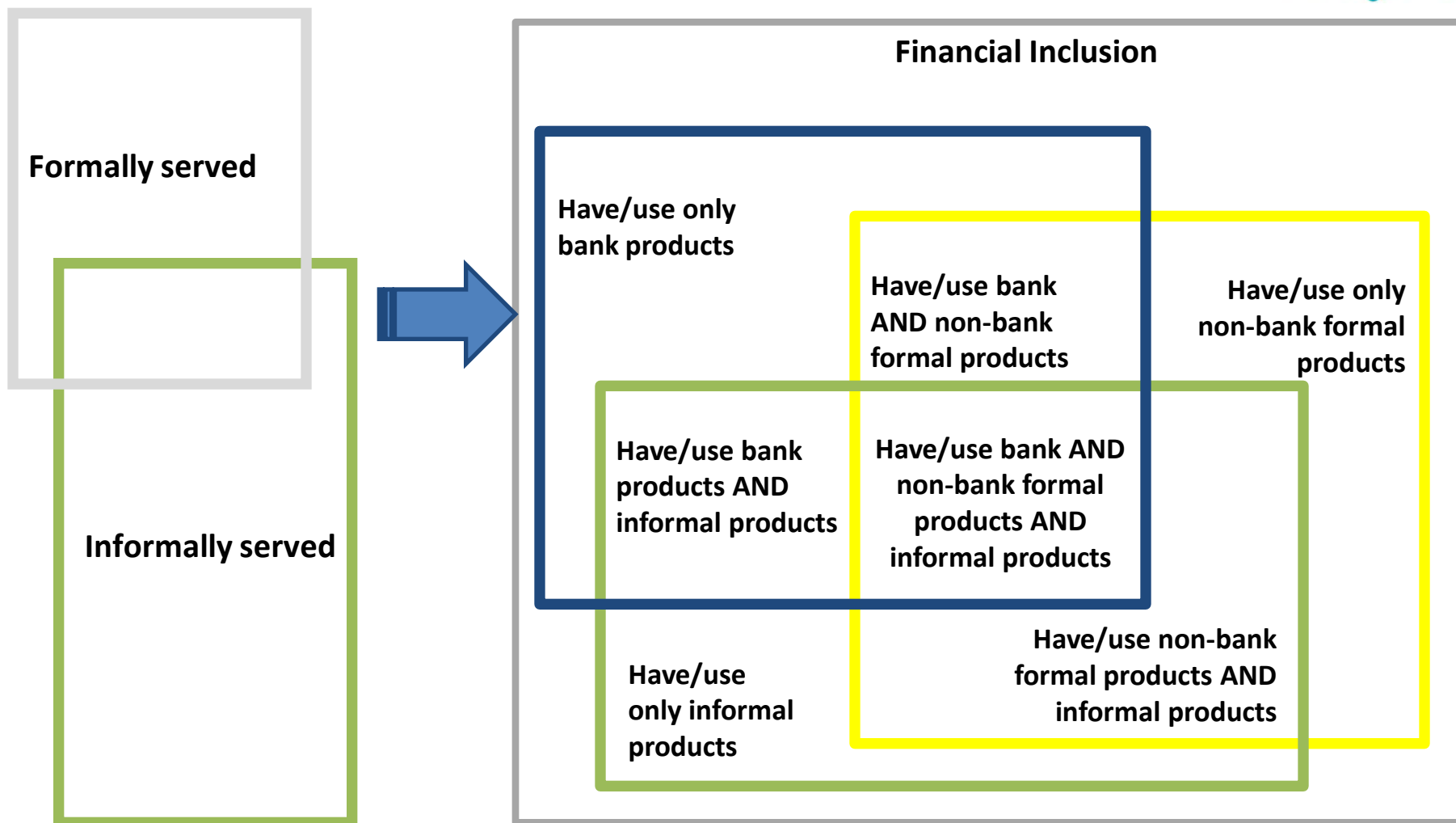
6.1 Defining financial inclusion



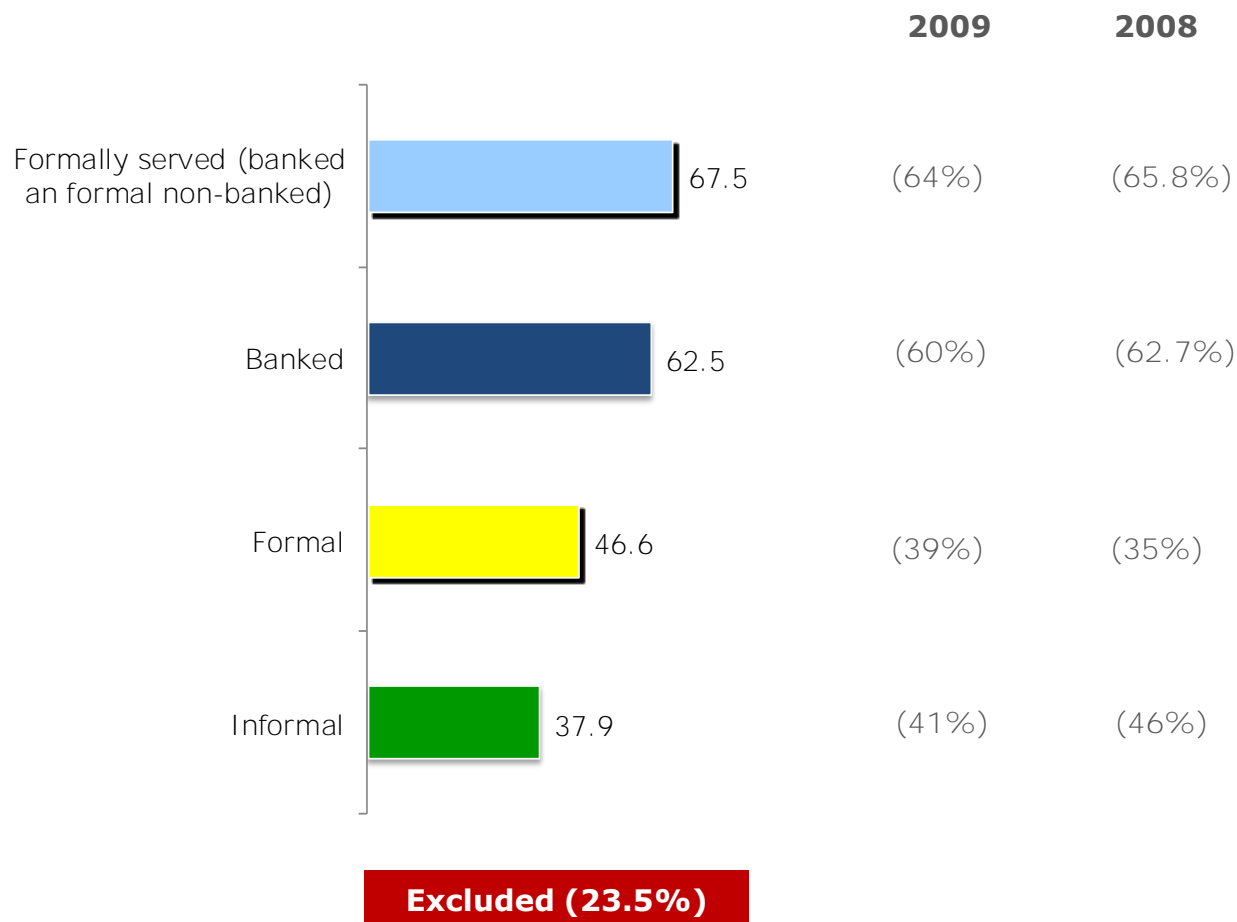
The FinScope methodology uses financial product usage to segment the adult population



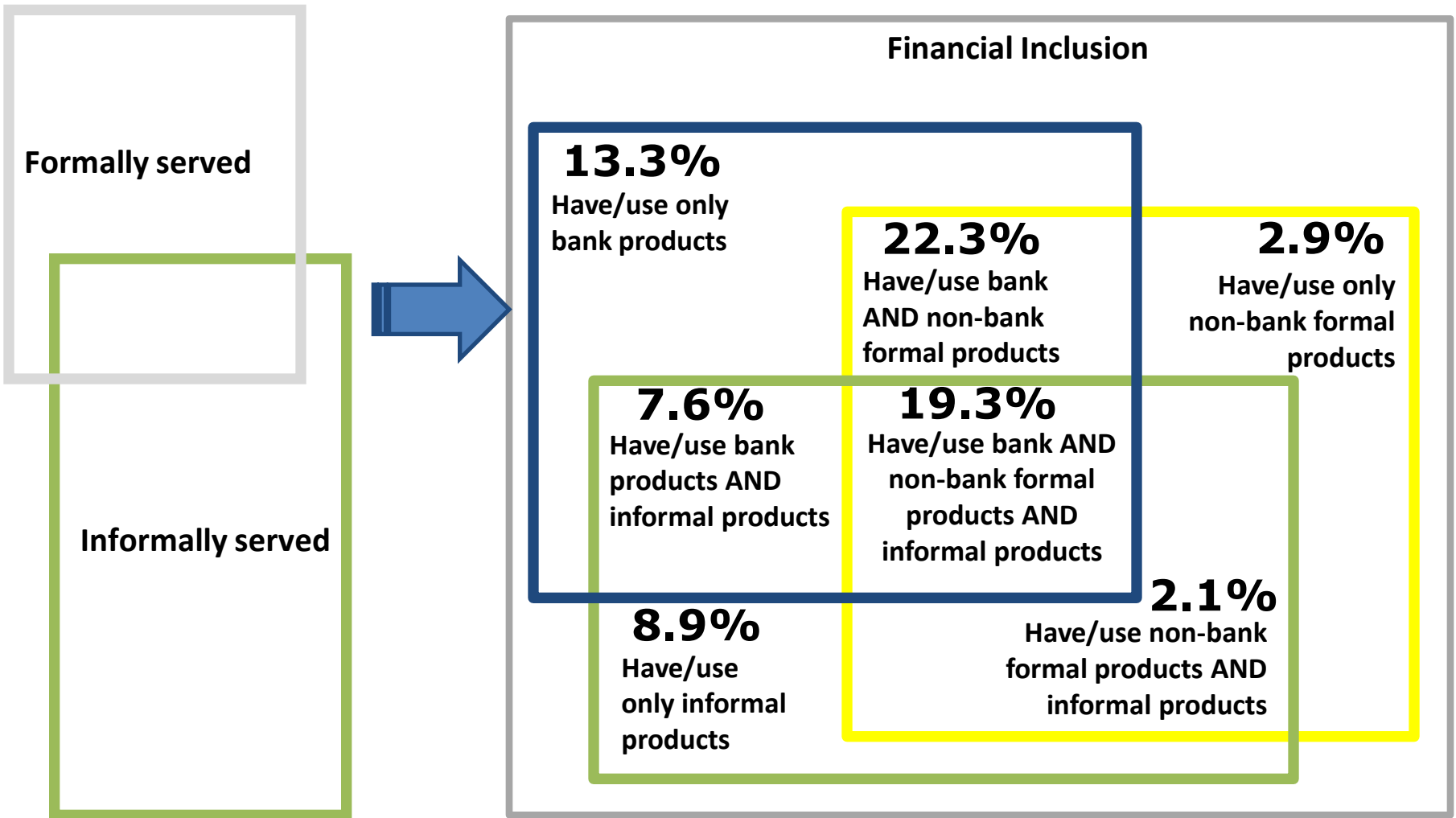
6.1 Defining financial inclusion



6.1 Financial inclusion

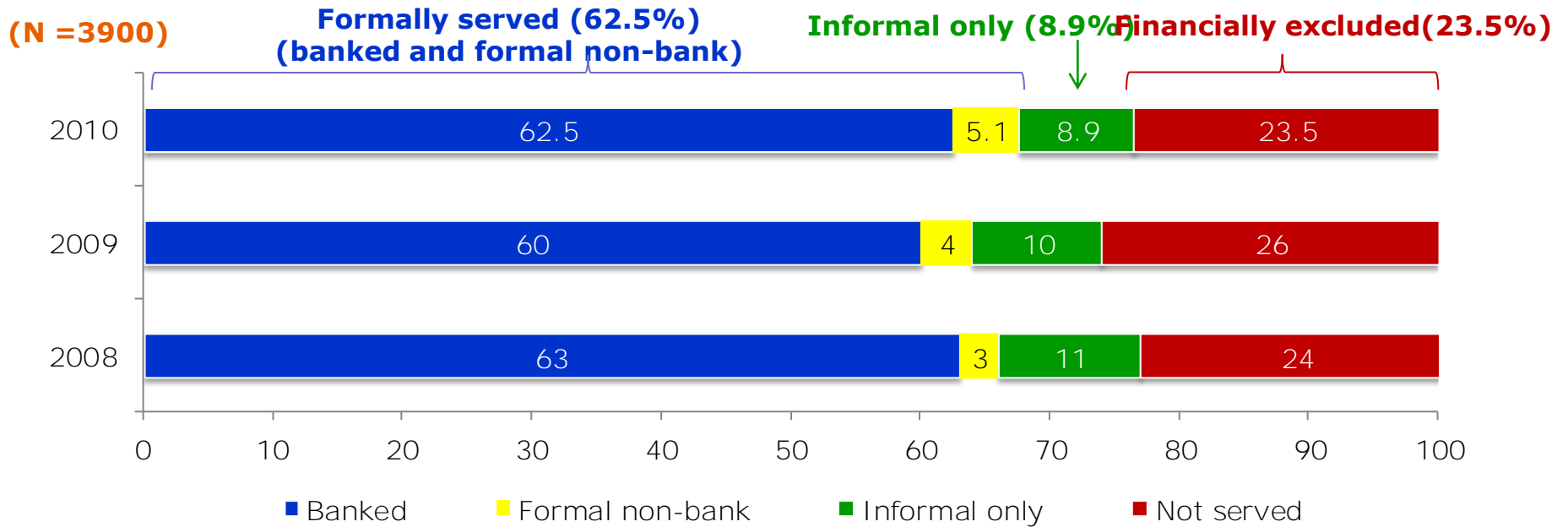


76% of the informally served use formal products, it is about choice



6.1 Financial inclusion

Access strand

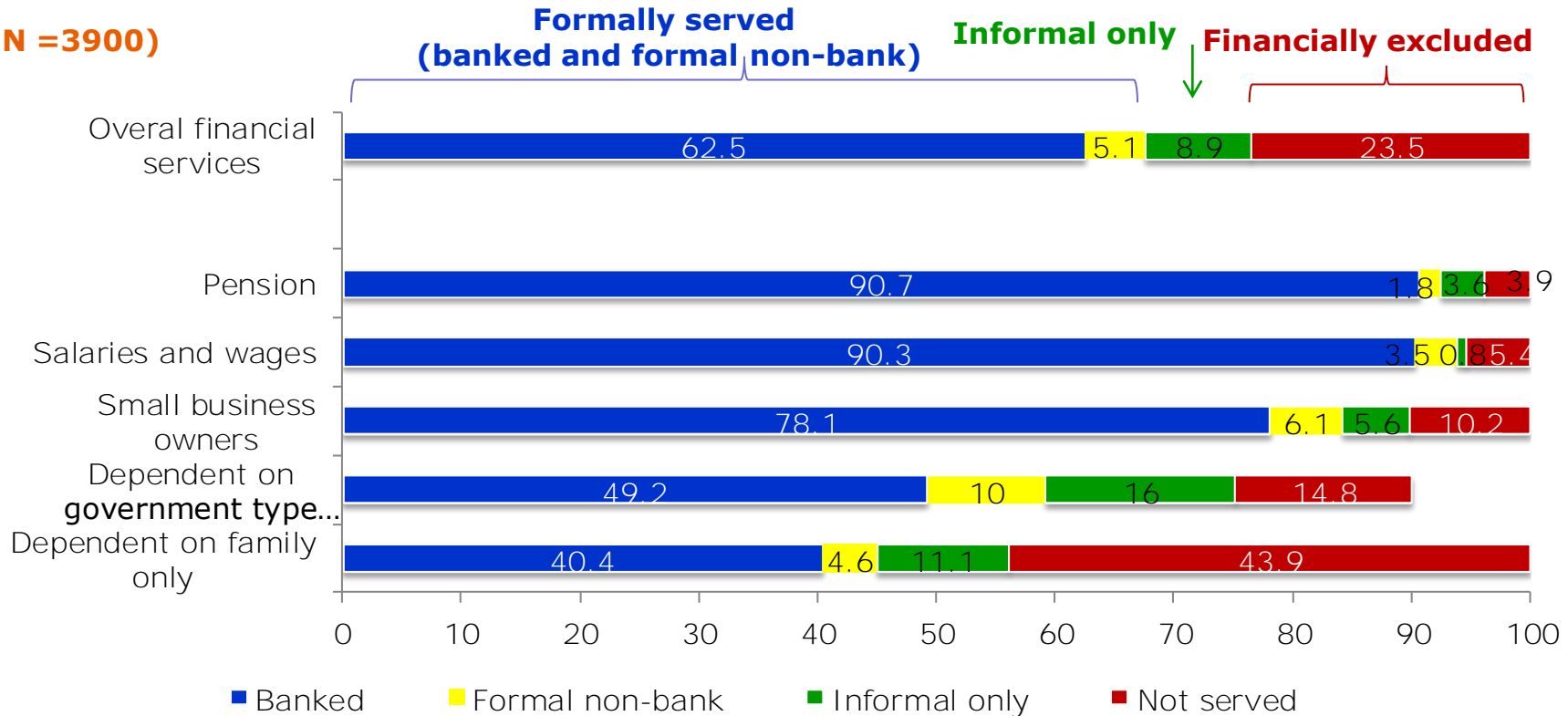


6.1 Financial inclusion

Access strand



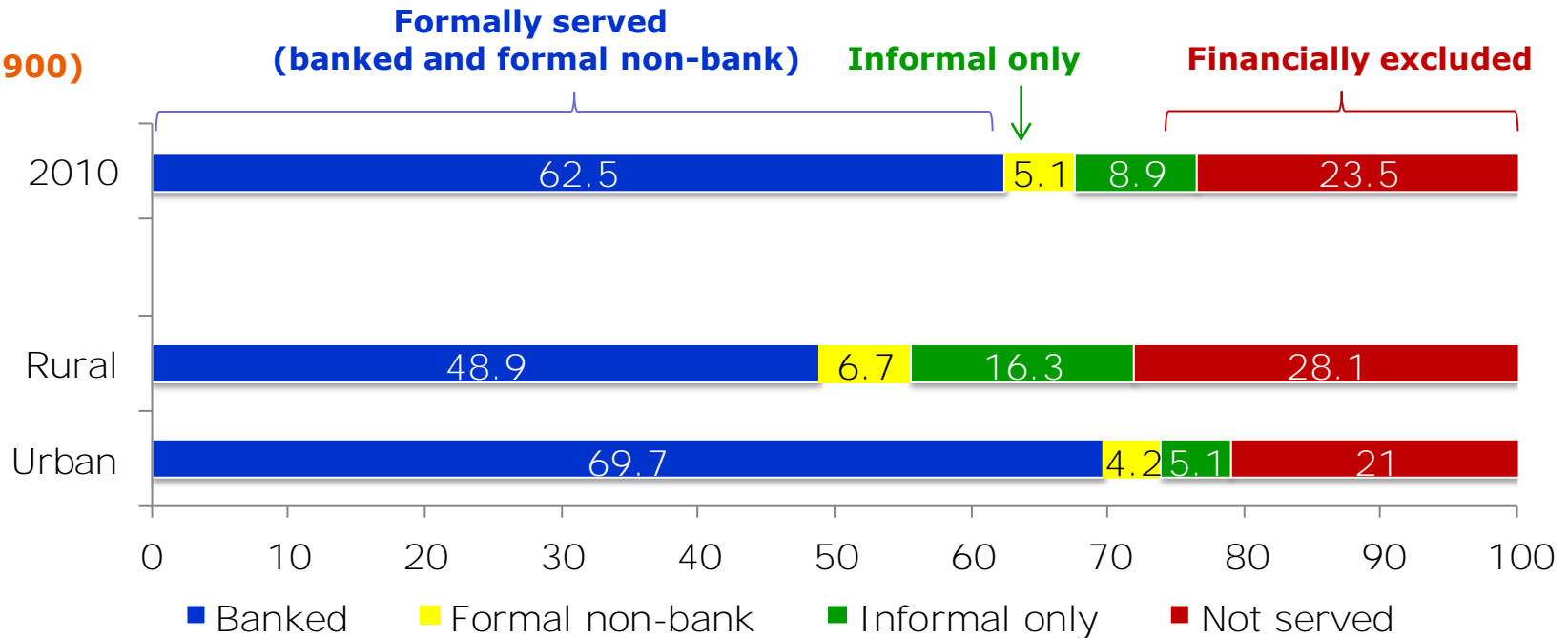
(N = 3900)



6.1 Financial inclusion

Urban – Rural access strand

(N = 3900)

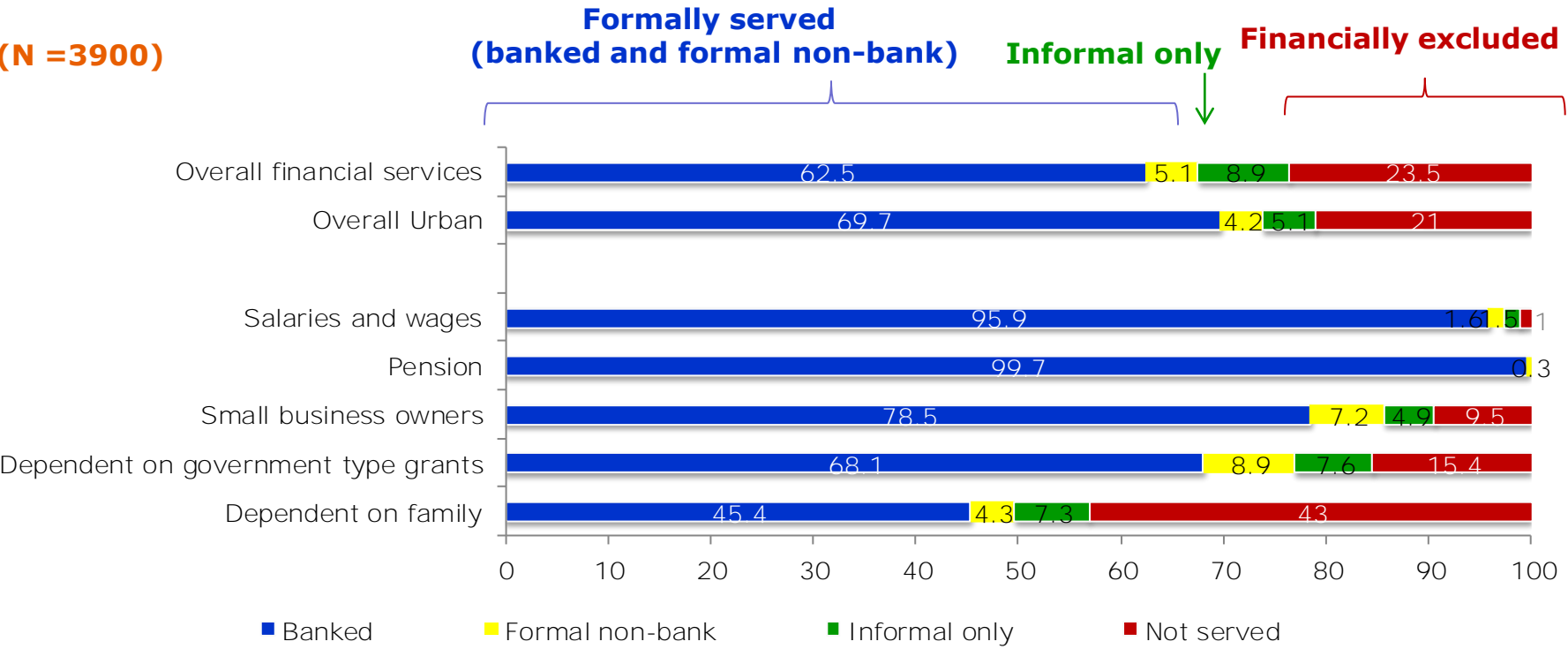


6.1 Financial inclusion

Urban



(N =3900)

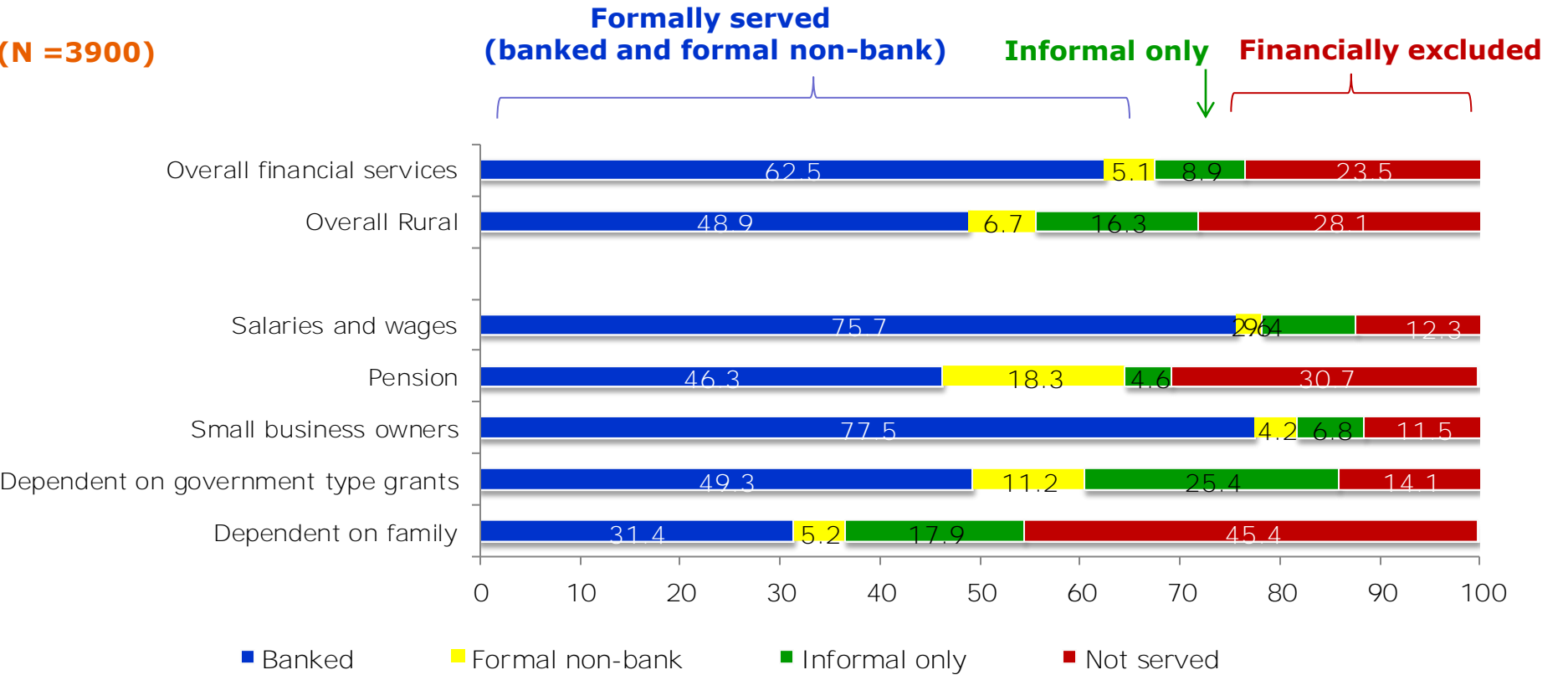


6.1 Financial inclusion

Rural



(N =3900)

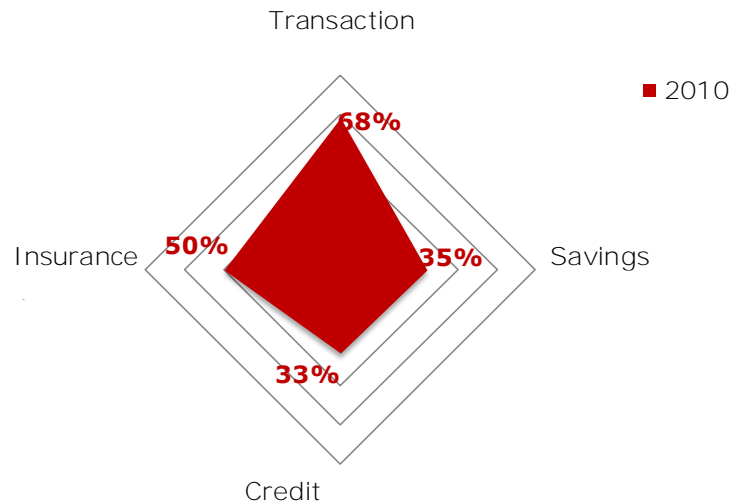


6.2 Landscape of financial access

The FinScope landscape of access describes the percentage of the adult population:



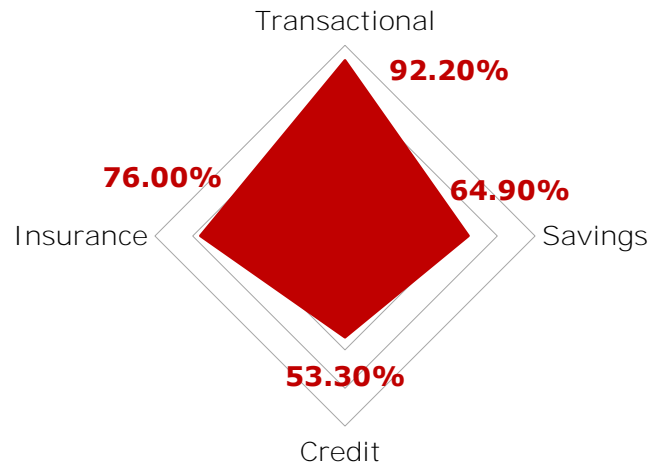
- **68% who have/use TRANSACTIONAL formal or informal**
- **33% who have/use CREDIT - formal or informal**
- **35% who have/use SAVINGS - formal or informal**
- **50% who have/use INSURANCE - formal or informal**



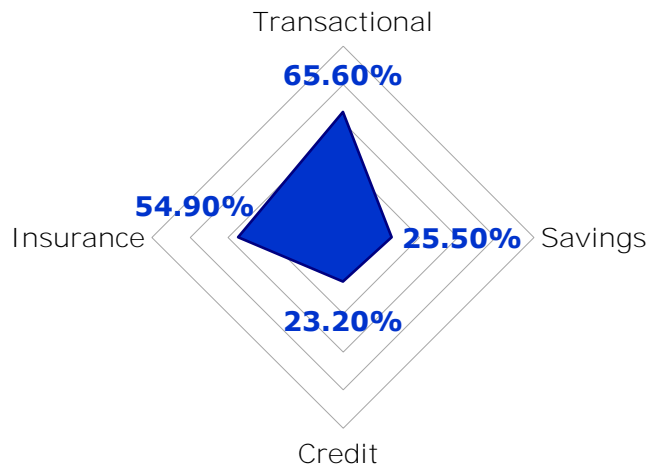
6.2 Landscape of financial access



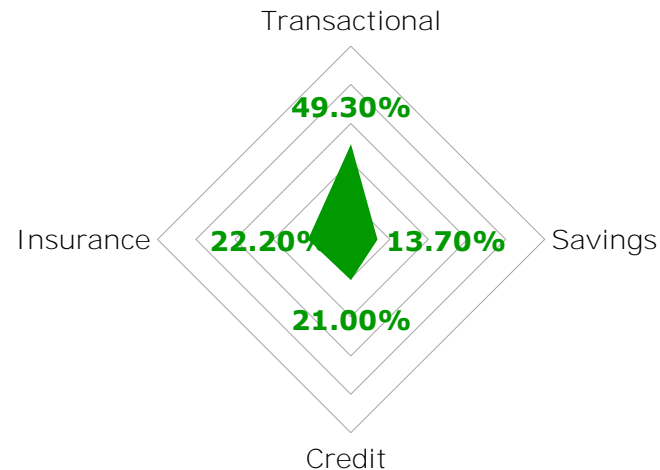
Salaries and wages



Dependent on government type grants



Dependent on family

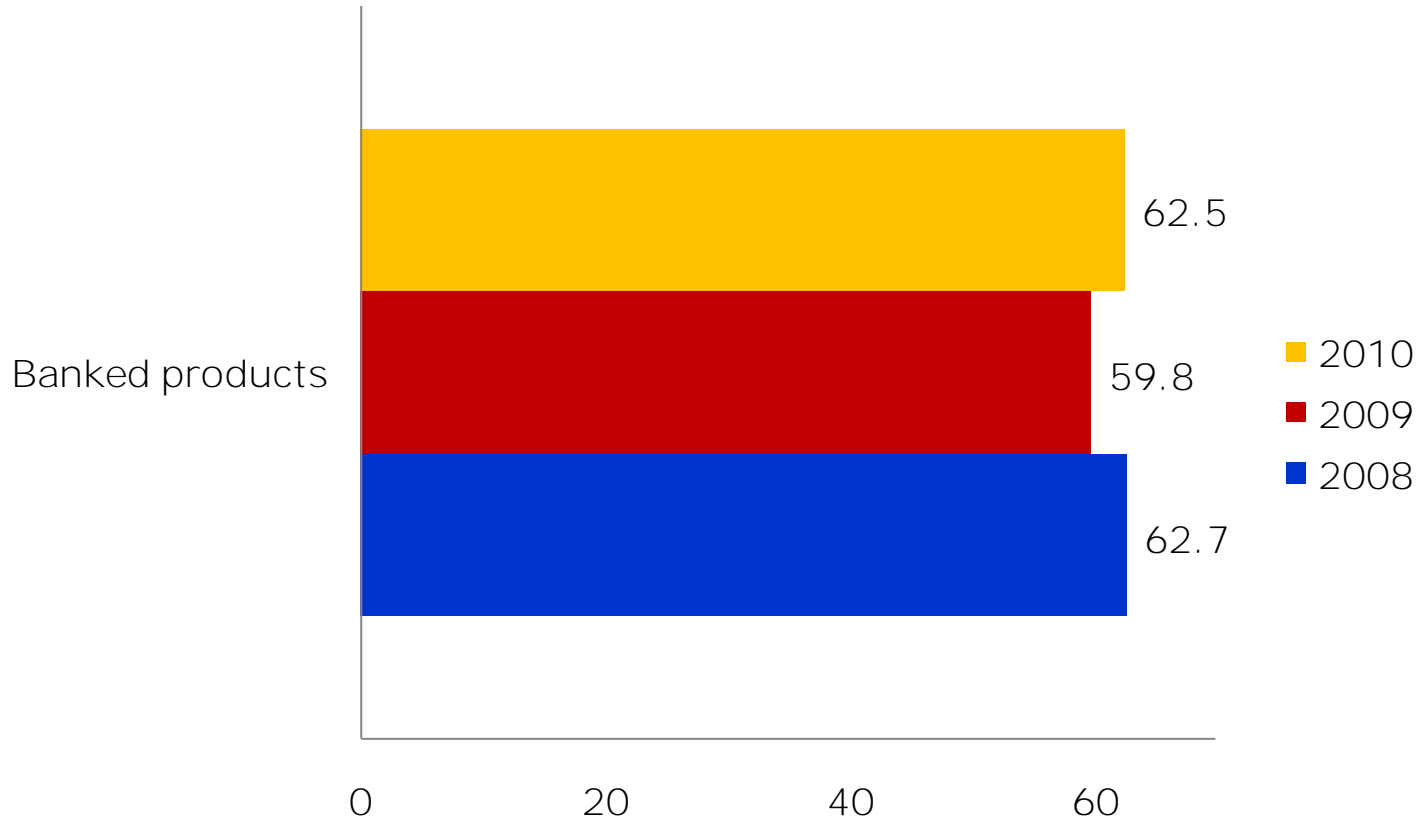




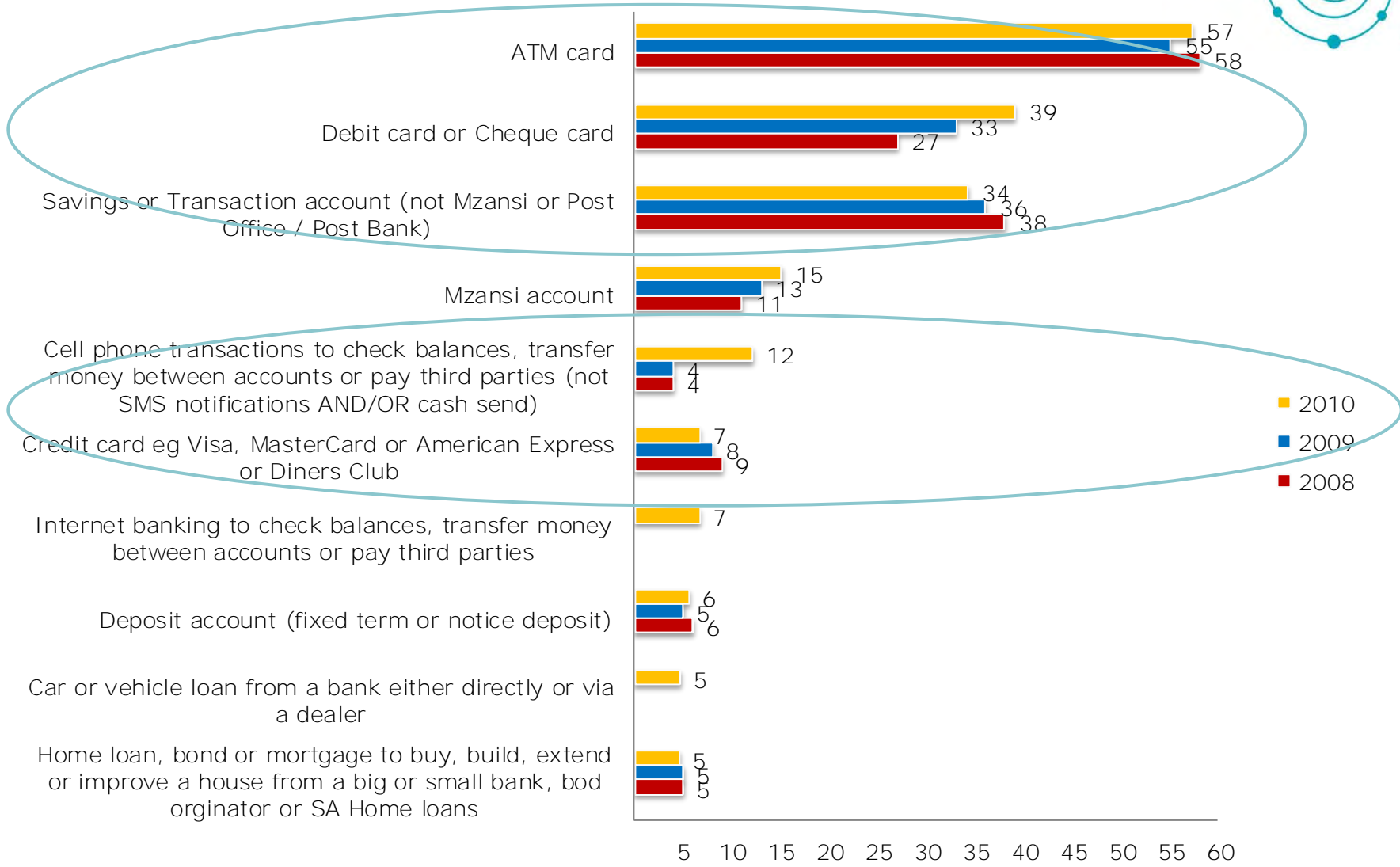
7. Banking



7. Banking



7.1 Main Banking Products Held



7.2 Mzansi

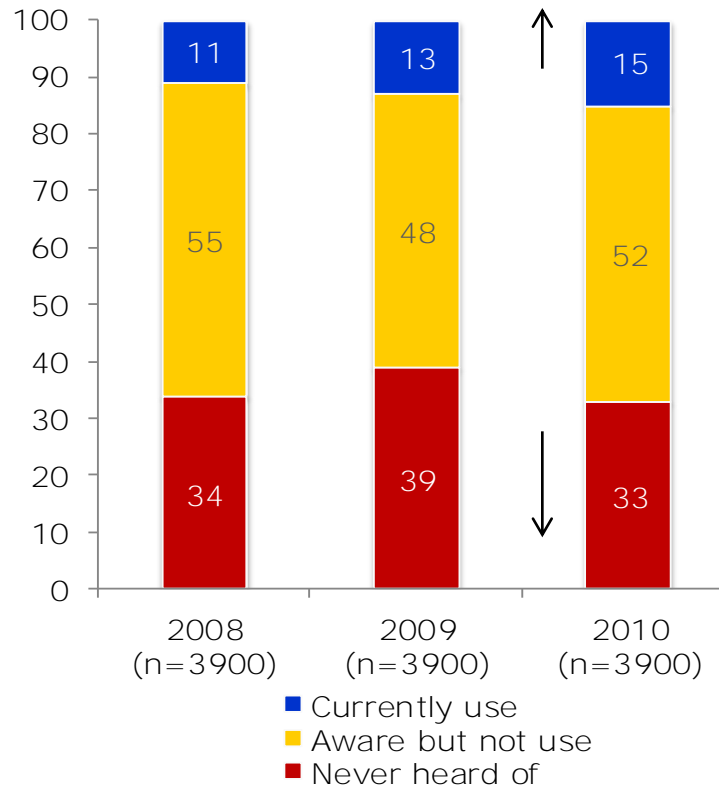


2010 Users profile:

39% receive social grant

23% personally earn less than R1 000pm

39% LSM 1 - 5



2009 Users profile:

37% receive social grant

39% personally earn less than R1 000pm

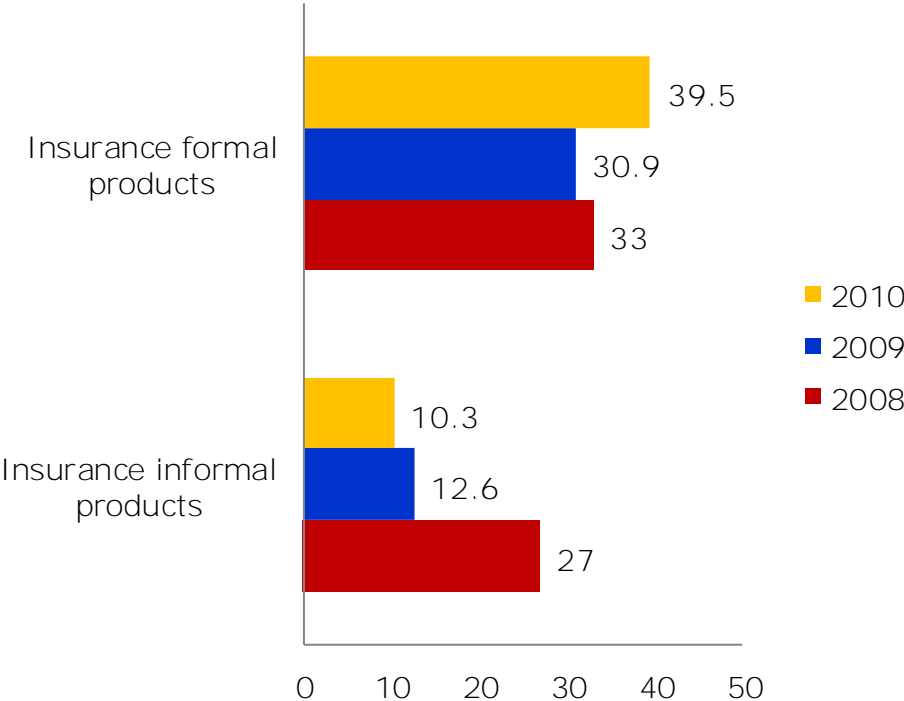
56% LSM 1 - 5



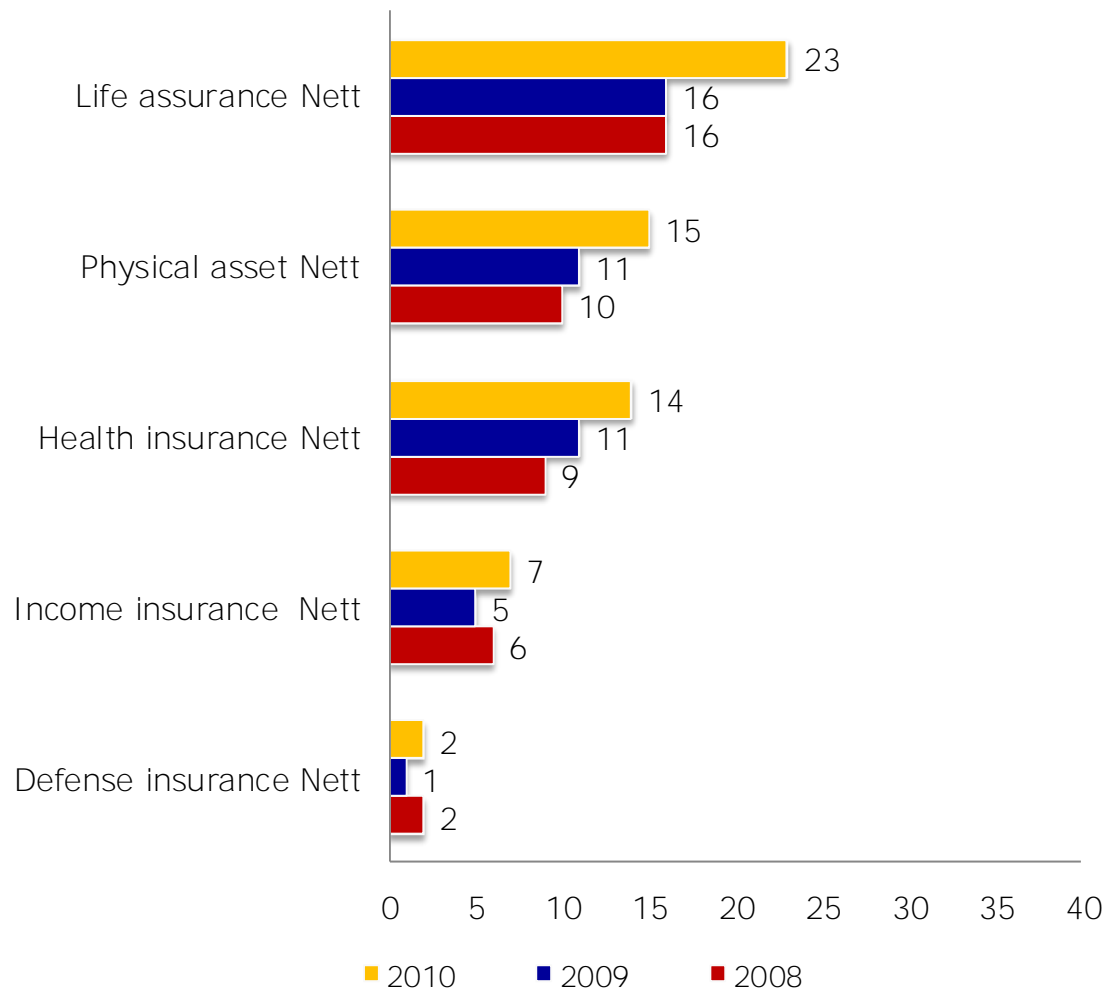
8. Insurance



8. Insurance



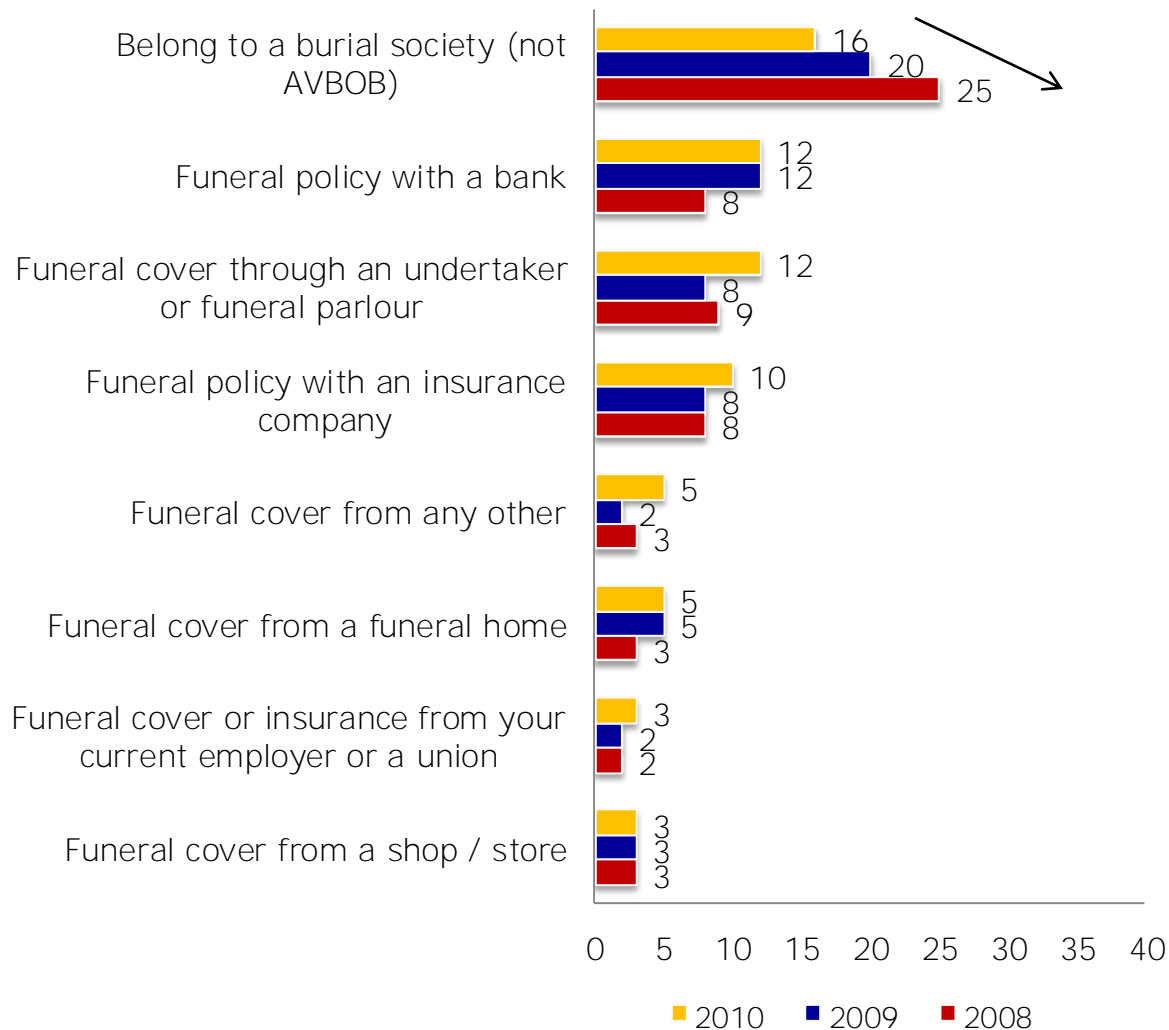
8. Overall insurance



8. Overall Funeral cover



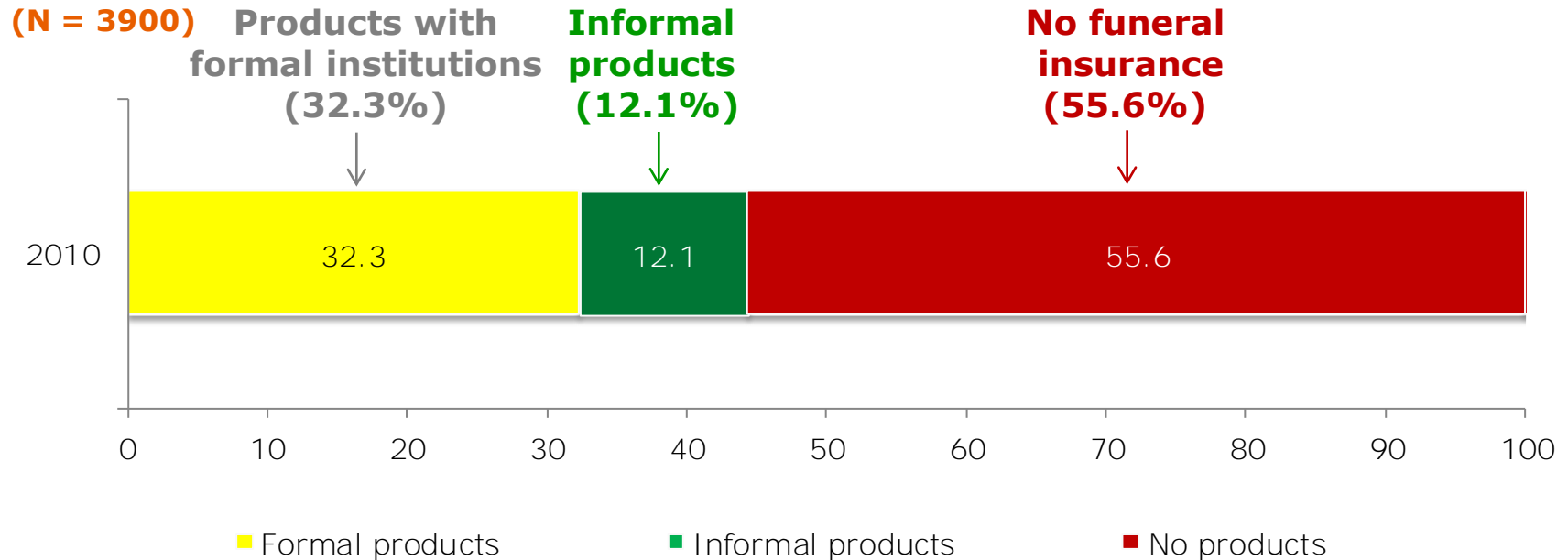
Funeral cover : nett 44%
(2009 = 40%, 2008 = 43%)



8. Insurance

Funeral insurance

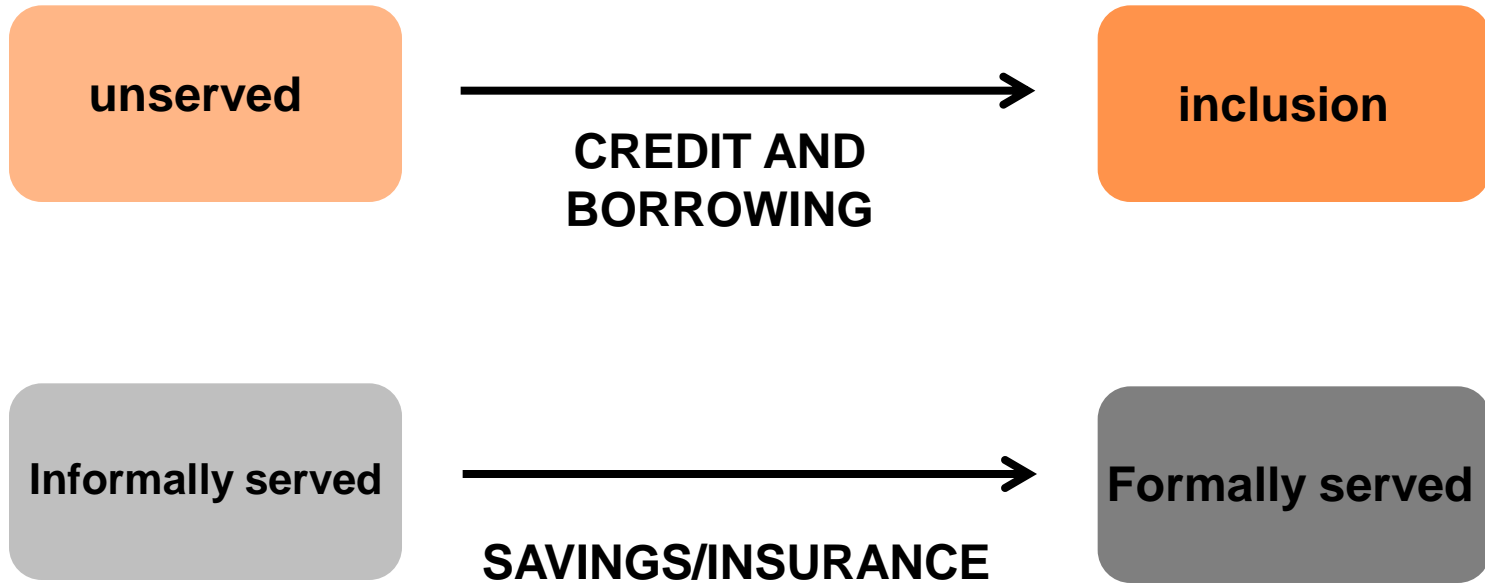
Funeral insurance strand



Formally served		
Informal product: 12%		

5. Money management

Two significant shifts and what it means





9.1 Drivers of formal uptake



9.1 Drivers of formal uptake



Income generation activities & LLH strategy needs

Income generation

- *Salaries and wages*
- *Earn between R3,000 - R9,999*

Money management

- *Saving*
- *Insurance*
- *Having money available to spend*

Life view

- *A clear sense of direction for the future*
- *Satisfied with lifestyle*
- *Optimism about lifestyle*
- *Aspirations – ambitious, financially secure*

Decision making

- *Being able to make own financial decisions*

9.1 Drivers of formal uptake



Attributes driving insurance up-take

More likely to take up insurance if the previous characteristics

apply and the following vulnerabilities exist:

Fear of -Loss of income - main perceived risk - uptake of insurance

- *Death of or loss of income from main income earner*
- *Death of other family member/s excluding main income earner*
- *Loss of my employment*

Expense Funeral

Crime is a reality – asset insurance





9.2 Drivers of informal uptake



9.1 Drivers of informal uptake



Income generation activities & LLH strategy needs

Income generation

- *Dependant on family*
- *Dependant on government type grants*
- *Earn between R1,000 - R1,249*

Networks

- *Strong sense of community involvement*
- *Heavy reliance on community networks (friends, family, someone in community to rely on)*

Value

Strong sense of association with "own" (culture; language etc)

Strong belief that "Government will take care" (sense of entitlement)

9.1 Drivers of informal uptake

Vulnerabilities – is informal insurance adequate?



Death & Loss of income

- ***Death of or loss of income of main income earner***
- ***Death of other family member/s excluding main income earner***
- ***Becoming disabled***
- ***Losing Government grant***
- ***Loss of Social Grant***





10. Barriers to financial inclusion



10. Barriers to Financial inclusion



Banking

- No money to save : 30.4%
- No job : 26.3%
- No regular income : 26%

Borrowing

- No job : 37.8%
- Don't want to have debt : 25.3%
- Can not afford it : 23.1%

Life insurance

- No job : 22%
- Never thought about it : 15.3%
- It is too expensive : 18.2%
- Prefer to use funeral or burial cover : 14.4%

Household insurance

- Don't have any contents or possessions to insure : 25.1%
- No job : 20.8%
- Don't need insurance : 18.2%

Medical aid

- Can not afford it : 41.3%
- Use a cheap or free clinic or hospital : 40.4%
- Too expensive : 24.7%

Funeral cover

- No job : 41.4%
- No regular income : 15.1%
- Never thought about it : 12.4%

Retirement

- No money to invest : 26.2%
- No job : 47.5%
- Never thought about it : 17.5%

Savings

- Never thought about it : 18.9%
- No money to save or invest : 29.8%
- No job : 42.5%



11. Key take outs



11. Key take outs



Income generation

The three main income generation activities for the South African adult population are:

1. Salaries and wages
2. Grants
3. Small Business

Financial Institutions tend to look for salaries & wages, this market is saturated, they have what they need. If we want to increase inclusion, we cannot continue to focus only on these individuals

If we look at the small business owners, they are often also not the ideal target market for financial institutions, yet they have significant transactional needs

Dependency

52% of South African are dependent on others for their income. As opposed to being a risk this is posing an often unrecognised opportunity as these transfers could be formally/safely channelled through a formal system, which can impact positively on livelihoods.

A lot of individuals have a strategy in place to build a sustainable income, and financial institutions should keep this in mind. Individuals develop their financial sustainability by **adopting specific strategies to sustain their livelihoods. One shouldn't only look at salaries & wages, but at how individuals plan to ensure a more predictable or sustainable income for themselves.** Sustainability will be built if we support livelihood strategies effectively. This should be recognised by the entire framework not only the financial service providers.,

11. Key take outs



The unserved market

Due to the realities of the inserved market their aspirations are very basic. Financial service providers need to look at this as potential opportunities – not just for the private sector but also for government. If the unserved are supported in their more basic needs, it could lead to more sustainable incomes. Financial inclusion is not the biggest intervention necessarily for the unserved, but effective support of their livelihood strategies can lead to financial inclusion. These interventions should however be sustained – (Soccer World Cup).

Financial inclusion is not the biggest intervention necessarily required for the unserved, but rather effective support of their livelihood strategies which can lead to financial inclusion. This group of individuals have a very strong belief in the SA Government of the day, believing that the government will take care of them and their needs (sense of entitlement). If we want to extend the boundaries of inclusion we will have to know and understand the daily realities of the unserved. If not, the already served will grow to be served even better and the unserved will continue to be unserved.

Money management

A very positive take out from FinScope 2010 is the emerging pattern of increased savings. This increase is also evident in an increasing shift from the informal to formal providers. This is supported by the Reserve Bank, as this is to be expected after a recession, when individuals are increasingly cautious, spend less and are even more likely to save. The challenge going forward will be the sustainability of these emerging behaviours.

Even on the lowest income levels, increased saving were evident. This means that the lack of saving **is linked to financial literacy issues as opposed to “not being able to”**.

Ensuring more secure or save saving is another identified opportunity due to an increased realisation **of the significance of “save” saving**.

11. Key take outs



Money management

Borrowing and credit also increased, and also using less risky mechanisms (family and friends).

This means:

- South African are recovering from the recession
- Spend less, save more, and feel safer to borrow
- All of this is done more cautiously
- Financial literacy seem to have increased but still need sustained attention

Credit and borrowing is contributing to the shift from being excluded to being included (rather than borrowing from family and friends the shift is towards borrowing informally)

Similarly savings and insurance contribute towards the shift from being informally served to being formally served.

A significant myth, demystified

38% of the Adult population use informal products and mechanism. The informal sector therefore playing a very significant role in the financial inclusion in South Africa. Contrary to popular believe FinScope shows that individuals do not necessarily use informal products because they have no choice (i.e. no access to formal services). FinScope findings show that $\frac{3}{4}$ individuals who use informal products also use formal products. For them it clearly is a choice and not a situation of not having options.

This is specifically true with regard to burial societies, 12% of the formally served are also members of burial societies, clearly indicating that these informal sector organisations address a specific need which is not met by the formal sector.

Teach a man to fish...





Thank you!

