The reasons for the low market penetration of banking services in South Africa

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Abstract

It is estimated 16-million out of a potential 30-million adults in South Africa are currently unbanked. A number of collaborative initiatives between the banking sector and the government have been introduced to address the problem with limited results. This study focuses on interrogating the data obtained through the FinScope 2005 survey to challenge the assumptions on which these initiatives are based.

The FinScope 2005 survey interviewed 3885 individuals across all nine provinces in South Africa. In addition to the banking status of the respondent, information was gathered on financial literacy, employment and trust in the banking segment. Frequency analysis, descriptive statistics, tests of independence and correlation matrices were used to determine the relationships between financial literacy, employment and trust and the banking status of the respondent.

The respondent's banking status was found to be dependent on financial literacy and employment but there was no evidence of dependence on trust in the banking segment. The correlation between the dependent variables was found to be low indicating that individually they do not fully explain the banking status. Further research is recommended to create a representative model.

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Masters of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University.

Warwick James Gill Date

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Chapter 1: Introduction

1 Introduction

In an address at the Gordon Institute of Business Science (GIBS) in 2006, South African President, Thabo Mbeki, stated that the reduction of poverty was one of the primary objectives of the government. Porteous (2003) proposes that expanded access to financial services is one of the key components required to meet this objective. Financial services such as insurance and secure savings play an important role in mitigating the effects of income shock due to death and illness thereby reducing vulnerability to poverty. Additionally, a sustainable route out of poverty includes the ability to take advantage of income generating opportunities through the investment of money over time. His proposal is supported by empirical research conducted by Burgess, Pande and Wong (2005) in India in which they found evidence that state-led expansion of the rural branch network and targeted lending towards the poorer sections in Indian society was associated with a significant reduction in rural poverty over the period of 1961-2000.

2 Research motivation

The FinScope 2005 survey (FinScope, 2005) estimated the number of unbanked adults in South Africa to be 16.4 million out of an adult population of 30.7 million (53%). This represents a decrease in unbanked individuals from the 2004 survey of only 1%. Included in the unbanked figure are previously banked and never banked individuals with the number of previously banked individuals increasing by 1.2% (from 3.721 million to 3.766 million) between 2004 and 2005 and the number of never banked individuals decreasing by 1.2% (from 12.767

million to 12.621 million). This indicates that despite the uptake of services by never banked individuals, previously banked individuals are simultaneously closing their products indicating a failure of the sector to meet their needs.

Comparative statistics on unbanked individuals in other countries are difficult to obtain. In 2001, South Africa had a banked population of approximately 40% in comparison to America's 90%, Brazil's 35% and Kenya's 5.6% (Porteous, 2003). In 2004, South Africa had an unbanked population of 55% (FinScope, 2004) compared to Botswana's figure of 57% (FinScope Botswana, 2004). These figures indicate that South Africa has a fairly low unbanked figure when compared to developing countries but a high unbanked figure when compared to developed countries.

2.1 Motivation for banking the unbanked

In addition to the social implications of having a large proportion of the population operating outside of the formal banking sector, there are a number of economic reasons to promote access to financial services.

- There is a link between the development and the depth of financial services within a country, economic growth and poverty reduction.
- The unbanked population represent the largest area of potential growth for the banks.
- One of the primary risks facing business in South Africa is country risk. An increase in the number of banked individuals and a reduction in poverty will help in reducing this risk.

2.2 Government led initiatives

The South African government, in combination with the financial sector has developed a number of initiatives to respond to the challenge of banking the unbanked. Foremost of these is the financial sector charter (FSC) signed in August 2002. The parties to the FSC committed themselves to "actively promoting a transformed, vibrant, and globally competitive financial sector that represents the demographics of South Africa, and contributes to the establishment of an equitable society by effectively providing accessible financial services to black people and by directing investment into targeted sectors of the economy." (Financial Sector Charter, p 1). The charter recognises that there has been an inadequate response from the sector to the increase in demand for financial services, the national level of savings and investment is insufficient to support sustained economic growth and that access to first order financial services is fundamental to the development of the South African economy. One of the primary purposes of the FSC is to ensure that strategies will be put in place to ensure effective access to first order products and services for all individuals. To understand this purpose, it is necessary to unpack the definitions of effective access and first order services.

- Effective access: for all non-insurance products and services effective access is defined as the client being within 20 kilometres of the nearest service point at which first order financial services can be undertaken. In the case of long-term insurance instruments, accessibility is defined as the proximity of financial advisors to community-based infrastructure. The products and services must be appropriately and affordably priced and the

structuring and describing of the products and services must be easy to understand.

- First order products and services: includes transaction products and services, savings products and services, credit for low income housing, agricultural development and black Small and Medium Enterprises (SME) and insurance products and services.

The Charter aims to ensure provision of access to products and services to individuals that fall within the All Media Product Survey (AMPS) Lifestyle Service Measure (LSM) 1 to 5 categories. The AMPS LSM category into which an individual falls is determined by analysing 29 variables related to education, household appliances and access to services such as running water (SAARF, 2005). The LSM 1-5 categories cover individuals from rural areas with primary school education earning less than R1000 per month with minimal access to services through to individuals with matric education in urban areas earning up to R2500 per month with access to water, electricity and flushing toilets. Approximately 60 percent of the South African population fall into these categories. By 2008, the FSC requires that 80% of individuals that fall within these categories have effective access to transactional and savings products and services.

Based on the definition of effective access, it is clear that the FSC approaches the challenge of banking the unbanked from the assumption that the main reasons for the lack of access to banking services in the LSM 1-5 categories are the complexity and affordability the products being offered and the distance of the nearest point of service to the unbanked individual. The Mzansi account

was developed on the basis of these assumptions and launched as a collaborative effort between the banks in October 2004. Combining a simplified pricing structure with interbank operability, it was anticipated that five million of the potential 14 million[1] unbanked individuals would apply to become cardholders (Bedford, 2004). FinScope 2005 data (table 8) indicates that this projection is optimistic, particularly in the LSM 1-5 category where only 13% (2.5 million individuals when extrapolated to the entire South African population) of the respondents indicated that they had heard of the account and considered opening it. Over 50% of the individuals within these categories had not heard of the Mzansi account. Of those who had heard of the account, less than 10% of the individuals stated the reason for not having one as being either the bank is too far from where they live, the fees are too high or the account operation is too complex. These results indicate that FSC and particularly the Mzansi account does not address the core reasons behind the lack of penetration of banking services in the unbanked population.

The Dedicated Banks Bill is another initiative currently under consideration. The intent of the bill is to create a second-tier banking system to allow retailers and cellular companies to enter the banking industry in prescribed areas such as deposit taking and lending. The success of the initiative will rely on the appetite of retailers and cellular companies to enter the market as well as the validity of

[1] This figure is taken from an article published in the SA Banker in 2004 based on information available at that time.

the underlying assumption that access is the primary reason for the lack of penetration of banking services in South Africa.

3 Alternative assumptions

Bedford (2004) identifies additional reasons in trust, communication security and cultural views on the source of wealth as potentially being related to the low penetration of banking services. Koenderman (2000) proposes financial literacy as a potential determinant of the propensity of a customer to have a banking relationship while Sishuba (2005) states that the majority of unbanked individuals cite the lack of money or employment as the reason for not having a bank account. These alternate explanations have not been taken into account in the formulation of the FSC or dedicated banks bill and were not used in the design of the Mzansi account. It is possible that their exclusion from the assumptions can explain the lack of success of these initiatives.

4 Methodology

The results of the FinScope 2005 survey were used to analyse the dependency between financial literacy and banking status, employment and banking status and trust in the banking sector and banking status. The methodology classifies as secondary data analysis and is reliant on the quality and representativeness of the data collected during the FinScope 2005 survey. The data is analysed using frequency analysis, descriptive statistics, tests for independence and correlation.

5 Structure of report

Chapter one provides the context and motivation for the research and summarises the key findings.

Chapter two evaluates the literature relevant to the context.

Chapter three formulates the specific questions to be investigated.

Chapter four discusses the research methodology applied, the motivation for the choice of methodology and the potential limitations.

Chapter five presents the results of the data analysis.

Chapter six analyses the results of the data analysis in the context of the questions formulated in chapter three and the literature discussed in chapter two.

Chapter seven draws conclusions from the analysis and provides recommendations.

6 Conclusions

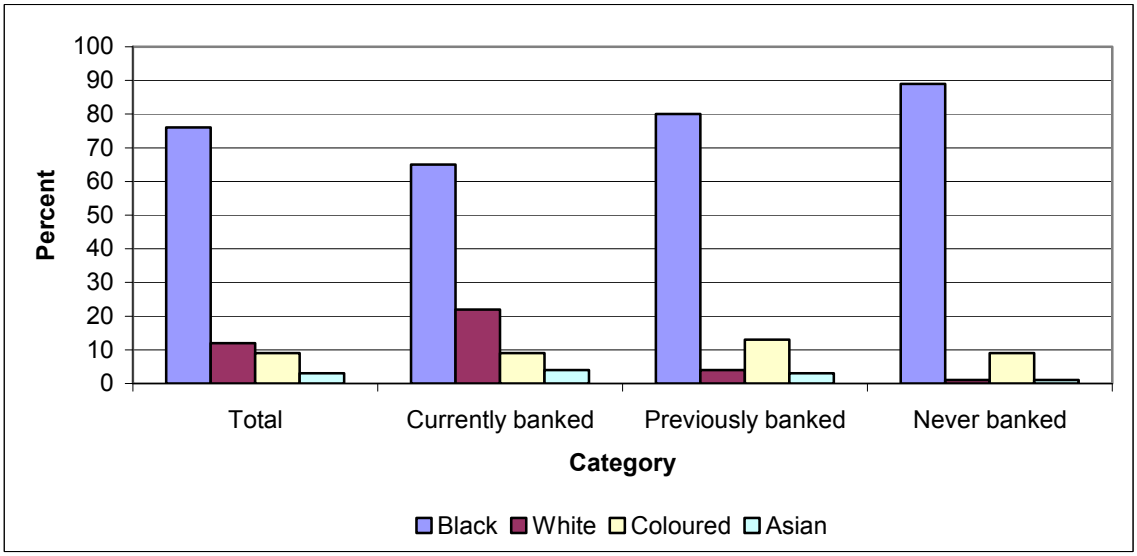
Evidence of dependence was found between financial literacy and banking status as well as employment and banking status. No evidence of a dependency between trust in the banking sector and banking status was found. The correlation between the dependent variables is low indicating that when taken in isolation, they are unable to fully explain the respondent's banking status. Further research is required to develop a model that accurately represents the interdependencies between the variables and banking status.

Chapter 2: Review of the relevant literature

1 Introduction to literature review

The FinScope 2005 survey (FinScope, 2005) estimated the number of unbanked adults in South Africa to be 16.4 million out of an adult population of 30.7 million. This represents a decrease in unbanked individuals from the 2004 survey of only 1%. The distribution of unbanked individuals is also skewed across the race groups due in part to the apartheid history of South Africa. FinScope 2005 surveyed 3885 individuals and discovered that 89% of the never banked individuals were black even though they constituted only 76% of the sampled population. The results of the survey are shown in Figure 1 below.

Figure 1: Dispersion of banked and unbanked individuals



This skewed distribution has resulted in the problem of providing services to the unbanked being seen by many in the financial sector as a social problem. While this is one aspect of the problem, viewing it purely as a social problem is unlikely to result in the focus necessary to address the root cause. The review

of literature thus extends beyond the bounds of the reasons why there is a lack of penetration of services into the unbanked population and places the problem in the context of GDP growth and poverty reduction. Within this context, the South African government initiatives are reviewed to expose their underlying assumptions that are then challenged through the analysis of international case studies and other relevant literature. Finally, alternative methods to reach the unbanked are discussed.

2 Growth, poverty reduction and the financial sector

Imboden (2005) suggests that financial systems provide three main contributions to economic growth:

- Efficient allocation of resources across time periods and individuals (or institutions) leading to the use of capital in projects with the highest returns.
- Drive a savings culture increasing the economic rate of return on new investments.
- Mitigate risk contributing to an increase in the volume of production and trade.

She also points to a number of studies that produce evidence that economic growth and a deepening financial sector are mutually reinforcing. The Department for International Development (DFID, 2004) quote evidence from research performed King and Levine in which they found extensive evidence of a strong, positive relationship between financial development indicators and growth. In their study, King and Levine studied 80 countries during the period of 1960 to 1989 using several different measures of financial growth and conclude

that a country that increased the amount of financial intermediation from the mean of the lowest country growth quartile to the highest country growth quartile would likely increase its per capita growth rate by one percent per annum. Their research further suggests that financial sector development factors alone may account for 20% of the growth differences between the fastest and slowest growing countries. Favara (2003) challenges their conclusions through the use of updated data and a variety of econometric methods. He concludes that financial development does not spur economic growth, the link between financial development and economic growth is not linear and that under certain assumptions, the estimated effect of financial development on economic growth may be negative. However, he does acknowledge the inadequacy of some of the proxies for financial sector development and recommends that further research be undertaken to confirm the conclusions.

While most authors agree that financial sector development and economic growth are linked and mutually reinforcing, there is still much debate on the direction of causality. Waqabaca (2004) studied financial sector development and the impact on economic growth in Fiji using data from 1970 to 2000 and concluded that the direction of causality was from economic growth to the development of the financial sector. In contrast Wachtel (2003) examined the ratio of broad money supply (used as a financial indicator) to GDP using data for 47 countries and concluded that the direction of causality was from financial sector development to economic growth. However, he does highlight a number of improvements that can be made to the methodology used and casts some doubt on the global validity of the conclusions. Research into the direction of

causality is ongoing and may be influenced by a number of country-specific factors.

Holden and Prokopenko (2003) argue that the relationship between economic growth and the distribution of income in a country are critical for understanding the impact of gross domestic product (GDP) growth on poverty. They suggest that there is an association between financial market development and high income in countries. In their research into the financial development, economic growth and poverty alleviation in upper, middle and low income countries, two indicators of financial development are used, credit to the private sector as a percentage of GDP and interest rate spread. South Africa is classified as an upper middle-income country although it has higher rates of credit to the private sector and a lower interest rate spread than comparative countries (Figure 2 and Figure 3 respectively). This indicates that South Africa has a relatively developed financial sector when compared to other upper middle-income countries and therefore should be experiencing higher rates of GDP growth. The research, however, only takes the banked sector into account and does not include data on the large unbanked population. Including data on the individuals outside of the formal banking sector will result in a higher interest rate spread potentially bringing the figures more in line with other upper-middle income countries. They conclude that financial sector development is necessary for economic growth and that it is an important pre-condition for poverty alleviation when supported by macroeconomic stability and the promotion of sound institutions and financial policy instruments.

Figure 2: Private sector lending as a percentage of GDP.

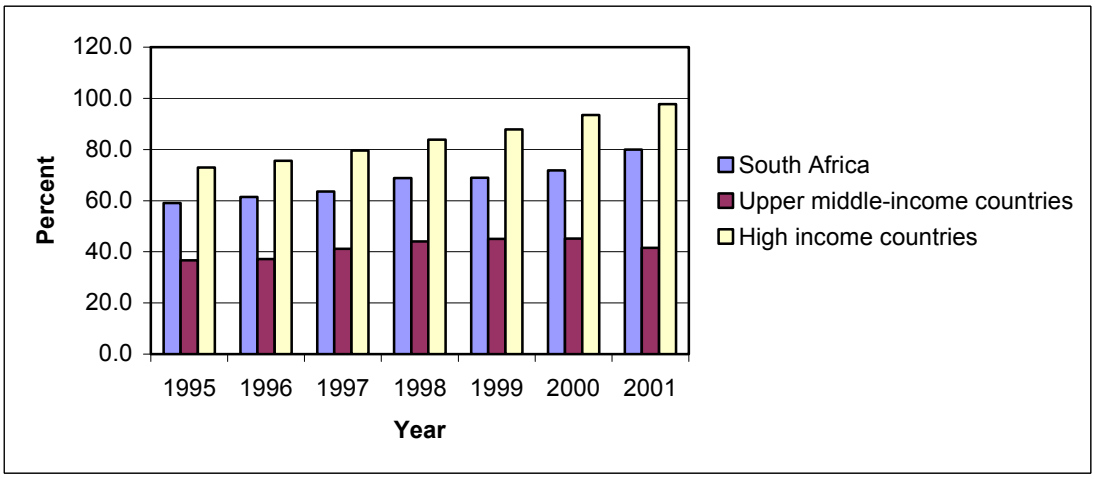
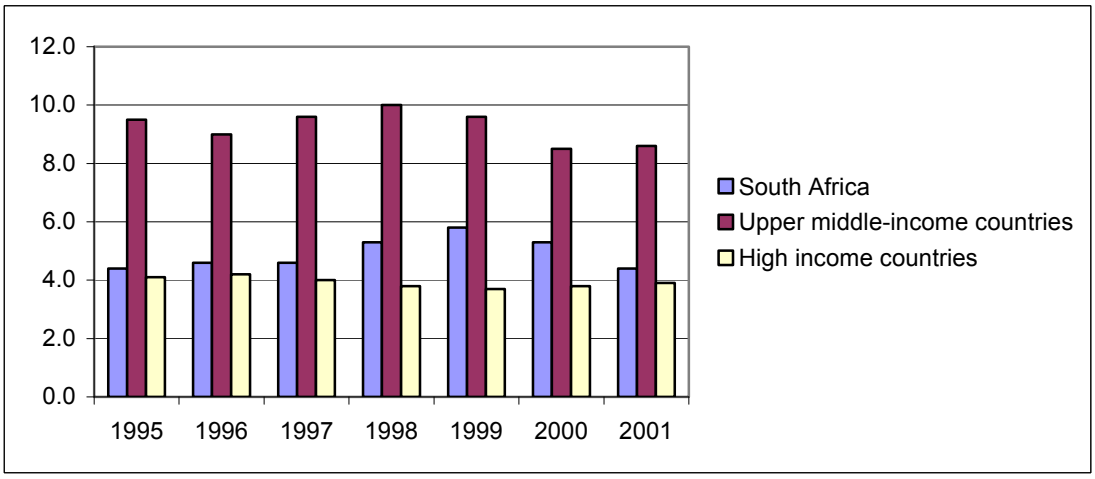


Figure 3: Interest rate spread.

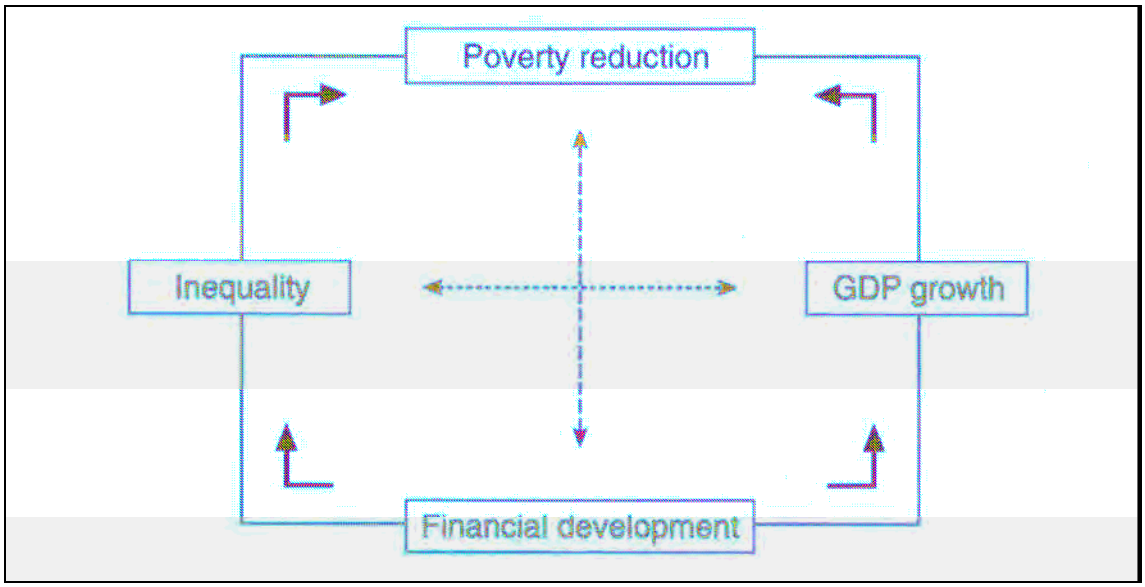


These conclusions are supported by the research of Burgess, Pande and Wong (2005) into the link between the provision of financial services and the reduction of poverty in India. They conclude that the state-led expansion of the rural branch network and targeted lending towards the poorer sections in Indian society contributed to a reduction in rural poverty over the period of 1961-2000.

Literature on the link between financial sector development and poverty reduction is limited. Jalilian and Kirkpatrick (2005) extended the research

establishing the link between financial development and economic growth by testing for a causal link between financial sector growth and poverty reduction. In their research, they attempt to understand the interdependencies between poverty reduction, inequality in distribution, GDP growth and financial development as represented in Figure 4 below.

Figure 4: The interdependencies between poverty, inequality, growth and financial development.



They utilise data on macro variables sourced from the World Bank and financial development indicators sourced from the International Monetary Fund (IMF) but caution the reliability of the data on poverty and inequality as it was aggregated from multiple data sources. Their results support the previous evidence that financial development is linked to economic growth with the causality running from financial development to economic growth. In addition they find that the impact is most pronounced at lower income levels suggesting that poorer developing countries will gain most from financial development. The conclusions on the link between financial development and poverty reduction

suggest that financial development has a positive effect on poverty reduction and that the income of the poor changes as much as the average income. Based on the empirical results, they conclude that financial sector development does contribute to poverty reduction and recommend that further investigation should be initiated to understand how specific financial policies can be used to reduce poverty in low income countries.

This evidence, combined with the relatively developed state of the South African financial services indicate that there is room for the financial services sector to play a more active role in poverty alleviation through the provision of banking services to the unbanked.

3 Key government initiatives

The government and financial sector have initiated a number of programmes in an attempt to provide services to the unbanked segment. The key initiatives include the adoption of the Financial Sector Charter (FSC), the introduction of the dedicated banks bill and the rollout of the Mzansi account.

3.1 Financial Sector Charter

In August 2002, the parties to the Financial Sector Charter (FSC) committed themselves to "actively promoting a transformed, vibrant, and globally competitive financial sector that represents the demographics of South Africa, and contributes to the establishment of an equitable society by effectively providing accessible financial services to black people and by directing investment into targeted sectors of the economy." (Financial Sector Charter, p 1). The FSC recognises:

- There has been an inadequate response from the sector to the increase in demand for financial services.
- The sector has not been effective in providing credit to entrepreneurs, particularly black businesses.
- The national level of savings and investment is insufficient to support sustained economic growth.
- There is a large second economy, resulting in a pool of funds circulating outside of the formal financial system.
- Access to first order financial services is fundamental to the development of the economy.

In terms of the FSC, strategies will be put in place to ensure effective access to first order services for all individuals. First-order services include banking services, particularly transactional and savings accounts, and credit for small enterprises as well as poor households. Effective access is defined as the individual being within a distance of 20kms from the nearest service point, appropriately and affordably priced products and having financial products and services described in a simple and easy to understand manner. By implementing these strategies, the sector will promote a savings culture, increase the accumulation of savings and direct them towards development initiatives.

2008 targets have been set in which 80% of Living Standards Measure (LSM) 1-5 are required to have effective access to transactional and savings products and services as defined above. In addition, the charter tackles the issue of consumer education. Institutions within the sector have committed to investing

0.2% of post tax profits into consumer education to allow for improved decisioning on their finances and lifestyles. The focus of the institutions has largely been on the access to transactional and savings products through initiatives such as Mzansi, rather than the provision of credit. While this should improve the savings culture and allow for the redistribution of funds from an investment perspective, there is still work to be completed to ensure that the investment is directed to the under-developed segments of the South African economy.

3.1.1 Mzansi

Ryan (1997) stated that South Africa offers one of the most sophisticated electronic banking services in the world, but that the cost and complexity of the services put them out of reach of ordinary South Africans. The Mzansi account was launched in October 2004 as an attempt to bring a low cost, low complexity product into the reach of ordinary South Africans and thereby assist in meeting the objectives of the FSC. The primary measurement of the success of the initiative has been the number of accounts opened and Postbank has consistently out-performed the big four banks in this regard. Postbank relies on the extensive footprint of the Post Office and their success in opening Mzansi accounts lends credibility to the key assumption that access is one of the primary reasons for the lack of penetration of financial services in South Africa.

3.2 Dedicated Banks Bill

The banking sector is highly concentrated with Absa, Standard, First National Bank and Nedbank (the big four) accounting for almost 99.7% of the entire payments throughput by the end of 2003 (Falkena, Hawkins, Luus, Masilela,

Pienaar and Shaw, 2004). In 2004, The Falkena Task group recommended that increasing participation in the banking sector required the following:

- The government should introduce a multi-tiered baking system, implementing legislation that will enable the formation of second and third tier banks.
- The feasibility of transforming the Postbank into a state owned bank that can provide deposit taking and electronic transmission facilities should be investigated. The mandate of the Postbank should be limited to the lowest-income groups and the unemployed.

The Draft Dedicated Banks Bill was released as the result of the working groups constituted during the Nedlac summit in 2004. The aim of the bill is to improve access to basic banking services for low income and historically disadvantaged communities through the lowering of some of the existing requirements provided for in the Banks Act No.94 of 1990. The intent of the proposed changes to legislation is to affect innovation in the banking sector and reshape the sector over the next decade through the creation of a second-tier banking system operating in prescribed areas such as deposit taking and lending. Adoption of the bill will allow for the entry of retail groups and cellular service providers into the banking sector with lower overheads, utilising their brand strength and footprint to change the landscape of access to financial services.

4 Customer reasons for the lack of banking relationship

Porteous (2003) identifies access, affordability and product features as being some of the major reasons for the poor not having bank accounts. His research is based primarily on the ACNielsen FutureFact Marketscape survey from 2002

and is specific to the South African market. His conclusions are supported by Chirwa's (1999) research into the delivery of financial services to the poor in Malawi where he identifies some of the key borrower's side factors to access to formal credit as being high travel costs to institutions as well as high transaction costs. Chirwa supports the relevance of these factors through an analysis of the impact of the Village Bank approach to the delivery of financial services to the poor. The Village Bank approach targets women in communities providing the foundation for them to form a group of individuals (constituting a Village Bank) to whom credit can be granted. Credit is granted to the group as a whole and allocated by the group amongst the members. The members are jointly and severally liable for each other's loans. He proposes that the improved access and subsidised interest rates leading to lower costs are the primary reasons for the success of the initiative from the borrower's perspective. However, the group formation is based on the trust between the individuals and the community performs the management of the Village Bank. It is possible that the success of the initiative is also attributable to the trust the individual members have in each other and ease of communication between the members. Bedford (2004) supports this view by identifying additional potential reasons in trust, communication, security and cultural views on the source of wealth.

In an article in the Financial Mail, Koenderman (2000) identifies customer education on their rights and the handling of personal finances as being a major impediment in banking the unbanked while Lyons and Scherpf (2004) demonstrate a link between education and the propensity of a customer to open an account. They further suggest that the success of any programme targeting the unbanked should not be measured by the number of accounts opened but

by whether the programme has provided the unbanked with the skills necessary to make sound financial decisions based on their circumstances. They argue that previous initiatives in the United States that have focused on providing low cost accounts have had limited success and analyse the impact of the Money Smart financial education program on the unbanked. The Money Smart program focuses on encouraging individuals to open a bank account through education on account maintenance, effective budgeting, the importance of saving and how to use credit effectively. A post-program survey revealed that only 18 of the 92 unbanked participants did not intend to open a bank account.

Sishuba (2005) states that the majority of unbanked individuals cite a lack of money or employment as the reason for not having a bank account. His view is supported by Beverly, Tescher and Romich (2004) who reference research performed by Hogarth, Anguelov and Lee in which they noted that unbanked individuals in America are likely to have lower incomes than banked individuals and are more likely to be unemployed.

This indicates that the reasons why people remain unbanked may not be limited to access and affordability and are likely to be more complex in the South African context.

5 Bank challenges in banking the unbanked

The unbanked segment is seen as being unprofitable, creating reluctance on the part of the banks to enter the segment in a meaningful way. Chirwa (1999) identifies high transaction costs, imperfect information and the wide geographical distribution of potential customers as contributing factors to banks

reluctance to enter the unbanked segment. Bedford (2005) argues that 90% of new customers are attained through their walking into a branch indicating that a branch presence is required to attract new customers. He states further that human contact is necessary to attract the clients and the unbanked customers require high human contact. The evidence points to a requirement to expand branch networks and utilise high human contact touch points to reach the unbanked – requiring significant investment that may not be recovered by the revenue generated by the customers it attracts.

6 Alternate banking models

Bielski (2002) identifies in-store banking with private label cards as an alternative to increasing the branch and ATM footprint of an existing bank. Lafferty Limited (2004) showcase a branch franchising arrangement as another alternative while First National Bank are already well advanced with their rollout of mini-ATMS. Non-traditional methods of expanding reach will need to be investigated to increase the penetration of banking services in South Africa.

Chapter 3: Research questions

A large proportion of the South African population remains unbanked, limiting the growth potential of the country and hindering the government goal to reduce poverty. The initiatives currently underway to address the situation rely on the assumptions that lack of accessibility, the features of products and the cost of services are the main hindrances to reducing the number of unbanked people. The FinScope survey has collected detailed data related to the financial services sector on an annual basis since 2003. Included in the data is information related to employment, financial literacy and reasons for not having a bank account. The research questions focus on the relationships between these and other variables to create a more thorough basis of assumptions on which future interventions can be based.

Question 1: Is there a correlation between financial literacy and the propensity to have a banking relationship?

Question 2: Is there a correlation between employment and the propensity to have a banking relationship?

Question 3: Is there a correlation between trust in the banking sector and the propensity to have a banking relationship?

Question 4: To the extent that the correlations in questions 1 to 3 are proved, what reasons are stated for the lack of a banking relationship?

Chapter 4: Research methodology

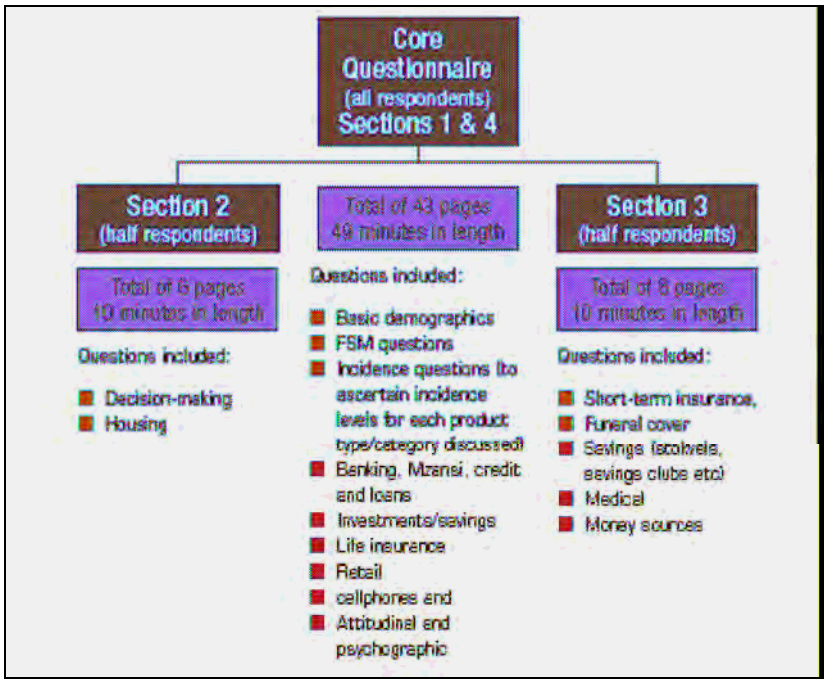
The intent of the research is to better-understand the reasons for the low market penetration of banking services in South Africa through analysis of the correlation and interdependencies between financial literacy, employment, trust in the banking sector and the propensity to have a banking relationship.

1 Method

The FinMark Trust was established in 2002 with the mission of "Making Financial Markets work for the poor" (FinScope website). FinScope is an initiative of the FinMark Trust focused on surveying the financial services needs and usage across South Africa and has been gathering data since 2003. The data from the 2005 survey was used as the basis of the research due to its comprehensive coverage of needs and usage and the large sample size. As such the research method qualifies as secondary data analysis where quantitative statistical techniques were used to answer the questions posed.

The 2005 FinScope survey targeted 3900 households nationally to allow for the extrapolation of the findings to national level (FinScope, 2005). Only individuals 16 years and older were interviewed through the use of a structured questionnaire and trained interviewers. The methodology was designed and constructed by Statistics South Africa using the statistical framework of the 2001 Census. In 2005 the questionnaire was divided into four sections covering the core questions (sections 1 and 4), decision-making (section 2) and insurance, savings and money sources (section 3). Sections 1 and 4 were completed for all individuals where sections 2 and 3 were each completed for half the individuals so as to reduce interview fatigue.

Figure 5: Questionnaire Structure (FinScope, 2005)



2 Population of relevance

The population of relevance was defined as all South African residents of age 16 years and older living in households or structures.

3 Sampling method

The sampling methodology used in the survey was analysed according to Welman and Kruger's (2001) definitions applied to the sampling information available in the FinScope 2005 results brochure (Finscope 2005). The brochure describes the sampling as follows:

- National level representative sample drawn by enumerator area (EA). Six interviews were conducted per EA.
- Stratification and multi-stage sampling using Geographic Information Systems (GIS).

- Sample drawn systematically with probability proportional to size (PPS).
- Selection of individual respondent per household using the Kish table method (random selection of individuals).

From this information it is clear that probability sampling was used, as it is possible to determine the probability that any element of the population will be included in the sample. This allows for the estimation of sampling error, which allows for testing of the representativeness of the sample.

EAs were used as the grouping from which random elements were drawn to form the sample. An EA is defined as "The smallest geographical unit (piece of land) into which the country is divided for census or survey enumeration, of a size able to be enumerated by one census fieldworker (enumerator) in the allocated period. EAs typically contain between 100 and 250 households." (Statssa, 2001, p. 5). 650 EAs were investigated to form a representative sample using PPS combined with GIS. From each of these EAs, six households were randomly selected for interviewing. Within each household, the individual respondent was selected randomly using the Kish table method applied to individuals 16 years and older. Based on this information, stratified random sampling was used allowing for a representative sample of the population to be drawn with a greater degree of accuracy than pure random sampling. The type of sampling used can also be classified as cluster sampling.

4 Data collection and validity

The FinScope 2005 survey is a correlational design where each individual was measured on multiple variables during a single interview (Welman and Kruger,

2001). Interviewers used a structured questionnaire to collect the data. There was no room for the interviewer to deviate from the questionnaire. The data collected was largely of a nominal and ordinal nature where the responses serve to distinguish the individuals in terms of the attribute being measured.

5 Data analysis

The nominal and ordinal nature of the data limited the statistical techniques able to be applied to the data to descriptive statistics, correlation, hypothesis testing, frequency analysis and chi-square analysis (Welman and Kruger, 2001). The majority of the fields were not normally distributed but due to the large sample size the central limit theorem applies allowing parametric methods to be applied to the data (Statsoft, 2006).

The survey produced 8342 fields of information across sections 1 to 4. Respondents completed sections 1 and 4 and either section 2 or 3. Section 3 focused on insurance, funeral cover, savings and investments, medical aid the source of money and therefore was not relevant in answering the questions posed in Chapter 3 resulting in the exclusion of all fields related to section 3. The remaining fields were further reduced by verifying their relevance in answering the questions posed in Chapter 3 resulting in a final set of 729 fields being used in the analysis, grouped as per Table 1 below.

Table 1: Grouping of fields for analysis

Category	Number
Access	27
Affordability	6
Attitudes	126
Banking Status	79
Behaviour	123
Communication	22
Decision-making	1
Demographics	14
Education	55
Employment	14
Excess cash	19
Financial perceptions	58
Ideal way of banking	6
Mzansi	1
Negative experience	24
Parameter	1
Perceptions of Mzansi	13
Preferred interaction	12
Reasons for no banking relationship	60
Reasons no Mzansi	25
Reasons why I'd like to have an account	14
Reliability	6
Retail offers	7
Time to get to bank	1
Time/accessibility	6
Trust	8
Unique ID	1

Only 16 fields from section 2 were used in the analysis, where analysis was performed using data from these fields, all data for respondents who did not answer section 2 was excluded. Due to the structure of the questionnaire and the number of fields related to each question, sub-indexes were created to enable the analysis. The detail of these indexes is shown in appendix 1.

The data was analysed primarily through frequency analysis of responses grouped by LSM and banking status. Descriptive statistics were used to confirm the conclusions related to financial literacy. Variables related to financial literacy, employment and income were cross-tabulated against banking status and the reasons stated for not having a bank account to understand the

dependencies between variables. These dependencies were then analysed further through correspondence analysis.

6 Limitations

The data was found to have a lower than expected proportion of respondents within the LSM 1 to 5 categories potentially due to the population of relevance being defined as individuals living in households or structures. The percentage of unbanked respondents that fall within these categories is higher than the percentage of those that fall into the LSM 6 to 10 categories resulting in a smaller component of unbanked respondents within the sample. The structure of the questionnaire resulted in some questions related to trust only being asked of banked respondents making conclusions on the dependency between trust and banking status difficult to analyse. The nominal and ordinal nature of the variables restricted the statistical techniques that could be applied to the data to basic frequency analysis, descriptive statistics, tests for independence and correlation matrices.

Chapter 5: Results

1 Introduction

The sample represents the responses of 3885 individuals randomly selected from 650 EAs across all nine provinces in South Africa to a structured questionnaire. The structure of the questionnaire ensured that the interviewer was able to extract information on the respondent that was used to determine the relevant questions to be asked. As a result, not all questions were asked of all respondents and it is important to keep the response group in mind when viewing and interpreting the results.

2 Demographics

Basic demographic information was collected on all respondents to allow for the segmentation of analysis. The results presented in this section do not have any exclusion criteria applied. Table 2 indicates the percentage of respondents by gender and race per province.

Table 2: Respondents by gender, race and province

		Province									
Gender	**Race**	**EC**	**FS**	**GP**	**KZN**	**MP**	**NP**	**NC**	**NW**	**WP**	**Total**
Male	Black	12.41%	11.02%	13.80%	16.39%	10.13%	13.01%	4.67%	11.52%	7.05%	**25.92%**
	White	8.40%	11.85%	24.69%	7.90%	10.12%	5.93%	6.42%	10.86%	13.83%	**10.42%**
	Coloured	14.40%	5.87%	11.73%	6.93%	3.20%	2.93%	21.60%	4.80%	28.53%	**9.65%**
	Indian	6.21%	0.69%	18.62%	47.59%	7.59%	7.59%	2.76%	3.45%	5.52%	**3.73%**
	Asian	27.27%	0.00%	27.27%	0.00%	36.36%	0.00%	0.00%	9.09%	0.00%	**0.28%**
Male total		**11.58%**	**9.37%**	**16.11%**	**15.03%**	**8.75%**	**9.11%**	**8.13%**	**9.47%**	**12.45%**	**50.01%**
Female	Black	12.54%	10.68%	14.89%	16.65%	9.89%	13.03%	4.31%	11.07%	6.95%	**26.28%**
	White	8.73%	11.47%	23.19%	7.48%	9.73%	4.99%	7.23%	10.72%	16.46%	**10.32%**
	Coloured	15.05%	6.18%	11.29%	6.18%	3.49%	2.96%	22.58%	5.11%	27.15%	**9.58%**
	Indian	3.76%	0.00%	15.79%	52.63%	7.52%	9.02%	2.26%	4.51%	4.51%	**3.42%**
	Asian	20.00%	0.00%	20.00%	6.67%	20.00%	6.67%	0.00%	6.67%	20.00%	**0.39%**
Female total		**11.69%**	**9.17%**	**16.01%**	**15.14%**	**8.55%**	**9.11%**	**8.24%**	**9.37%**	**12.72%**	**49.99%**
Total		**11.63%**	**9.27%**	**16.06%**	**15.08%**	**8.65%**	**9.11%**	**8.19%**	**9.42%**	**12.59%**	**100.00%**

The FSC specifically targets individuals in the LSM 1 to 5 categories. Figure 6 provides a breakdown of the percentage of respondents per LSM. Only 23% of

the total respondents fall within the categories targeted by the FSC. Figure 7 indicates the race make-up per LSM clearly showing a skewed race distribution.

Figure 6: Respondents by LSM

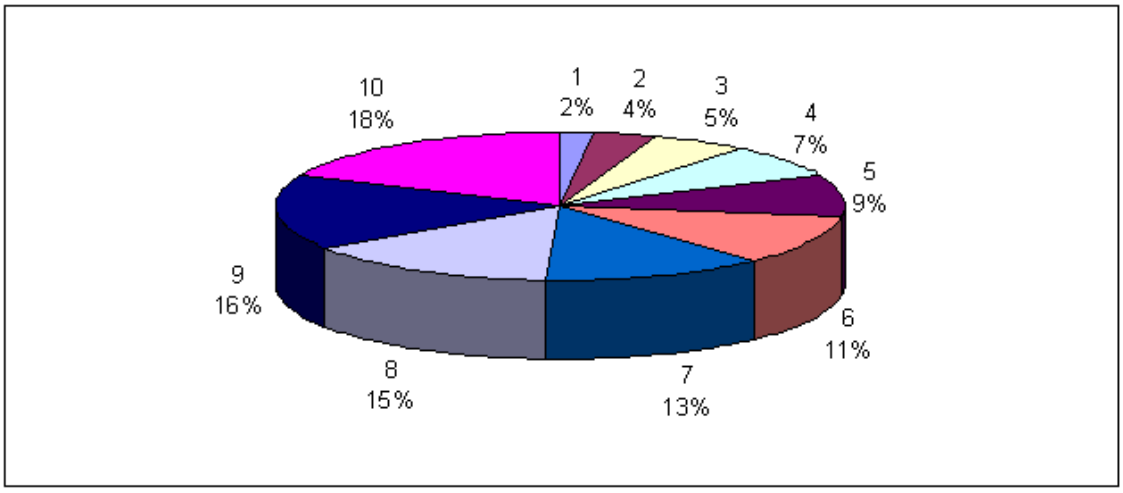
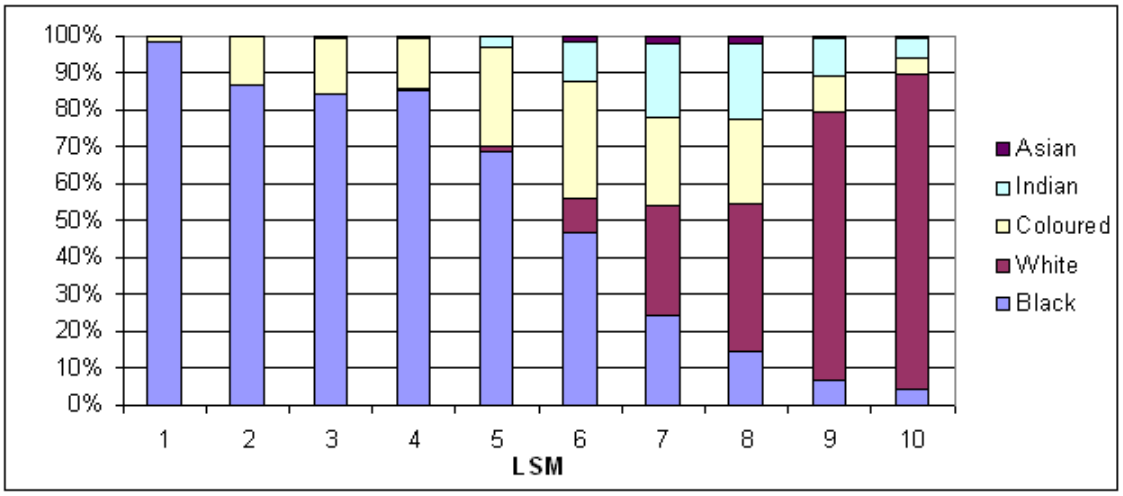


Figure 7: Race by LSM



The banking status of an individual is derived based on the respondent's experience with a number of banking products including credit and debit cards, current accounts, savings accounts and the Mzansi account. Currently banked is defined as an individual who has an account (whether or not they currently use it), previously banked is defined as an individual who does not have an

account currently but used to have at least one and never banked is defined as anyone who has never had a bank account. Table 3 maps LSM against banking status with the total column indicating the percentage of the sample represented by the LSM and the total row showing the banking status percentages of the sample. Table 4 is structured similarly mapping education level against banking status.

Table 3: Banking status by LSM

	Banking Status			
LSM	Currently	Previously	Never	**Total**
1	18.26%	16.52%	65.22%	**2.96%**
2	20.19%	10.87%	68.94%	**8.29%**
3	27.03%	14.05%	58.92%	**9.52%**
4	34.76%	15.45%	49.80%	**12.66%**
5	39.66%	14.66%	45.68%	**16.68%**
6	58.62%	13.34%	28.04%	**17.17%**
7	71.75%	9.21%	19.05%	**8.11%**
8	85.62%	5.75%	8.63%	**8.06%**
9	91.86%	2.33%	5.81%	**8.85%**
10	92.98%	3.01%	4.01%	**7.70%**
Total	**53.87%**	**11.07%**	**35.06%**	**100.00%**

Table 4: Banking status by education level

	Banking status			
Education Level	Currently	Previously	Never	**Total**
No formal education	17.70%	5.31%	76.99%	**2.91%**
Some primary school	28.17%	13.49%	58.33%	**6.49%**
Primary school completed	30.56%	22.55%	46.88%	**8.67%**
Some high school	42.27%	13.41%	44.32%	**40.13%**
High school completed	68.97%	8.11%	22.93%	**27.62%**
Some university	85.48%	2.42%	12.10%	**3.19%**
University completed	93.75%	3.98%	2.27%	**4.53%**
Any other post-matric qualification	91.01%	3.93%	5.06%	**4.58%**
Some technical training	91.67%	0.00%	8.33%	**0.62%**
Credits from a technikon or other tertiaty education	87.88%	3.03%	9.09%	**0.85%**
Completed apprenticeship	100.00%	0.00%	0.00%	**0.41%**
Total	**53.87%**	**11.07%**	**35.06%**	**100.00%**

Table 5 maps the employment status of respondents to their banking status with Table 6 providing a similar view based on personal income.

Table 5: Banking status by employment

	Banking Status			
Employment	Currently	Previously	Never	Total
Retired	66.43%	13.14%	20.43%	14.15%
Full time formal	90.00%	3.15%	6.85%	22.37%
Full time informal	57.51%	4.66%	37.82%	4.85%
Part time formal	68.67%	11.45%	19.88%	4.17%
Part time informal	35.66%	22.38%	41.96%	3.59%
House wife	47.39%	12.17%	40.43%	5.78%
Student	33.57%	2.58%	63.85%	10.71%
Self employed formal	85.09%	8.07%	6.83%	4.05%
Self employed informal	53.78%	11.76%	34.45%	2.99%
Unemployed looking	20.78%	19.00%	60.22%	22.62%
Unemployed not looking	25.40%	23.02%	51.59%	3.17%
Other	51.61%	16.13%	32.26%	1.56%

Table 6: Banking status by monthly income

	Banking status			
Monthly personal income	Currently	Previously	Never	Total
No income	22.03%	15.87%	62.10%	16.71%
R1 - R499	21.51%	12.54%	65.95%	21.54%
R500 - R999	41.18%	17.79%	41.03%	17.94%
R1 000 - R1 499	66.37%	18.14%	15.49%	5.82%
R1 500 - R1 999	75.61%	7.32%	17.07%	4.22%
R2 000 - R2 499	83.48%	9.57%	6.96%	2.96%
R2 500 - R2 999	95.28%	2.83%	1.89%	2.73%
R3 000 - R3 999	94.07%	3.70%	2.22%	3.47%
R4 000 - R4 999	95.00%	5.00%	0.00%	2.57%
R5 000 - R5 999	95.18%	0.00%	4.82%	2.14%
R6 000 - R6 999	96.72%	3.28%	0.00%	1.57%
R7 000 - R7 999	96.43%	1.79%	1.79%	1.44%
R8 000 - R8 999	97.92%	0.00%	2.08%	1.24%
R9 000 - R9 999	95.65%	0.00%	4.35%	0.59%
R10 000 - R10 999	98.08%	1.92%	0.00%	1.34%
R11 000 - R11 999	100.00%	0.00%	0.00%	0.44%
R12 000 - R12 999	94.74%	0.00%	5.26%	0.49%
R13 000 - R14 499	100.00%	0.00%	0.00%	0.39%
R14 500 - R16 999	100.00%	0.00%	0.00%	0.46%
R17 000 - R19 499	100.00%	0.00%	0.00%	0.31%
R19 500 - R21 999	100.00%	0.00%	0.00%	0.23%
R22 000 - R24 999	100.00%	0.00%	0.00%	0.10%
R25 000 - R29 999	100.00%	0.00%	0.00%	0.18%
R30 000 - R34 999	100.00%	0.00%	0.00%	0.05%
R35 000 - R41 999	100.00%	0.00%	0.00%	0.08%
R42 000 - R49 999	100.00%	0.00%	0.00%	0.03%
R50 000 - R61 999	100.00%	0.00%	0.00%	0.03%
Refuse to answer	91.60%	3.92%	4.48%	9.19%
Uncertain/Dont know	64.71%	4.41%	30.88%	1.75%

3 Stated reasons for not having a bank account

Respondents were only asked the questions related to not having a bank account if they were classified as either previously or never banked. The responses were not prompted and multiple mention was allowed. The values presented in Table 7 show the percentage of respondents either previously or never banked who mentioned each reason. The total column represents the percentage of all respondents who mentioned the reason.

Table 7: Reason for no bank account frequency by LSM

	LSM										
Reason	1	2	3	4	5	6	7	8	9	10	Total
No Job	57.45%	59.14%	51.48%	53.89%	61.89%	59.06%	46.07%	55.56%	39.29%	38.10%	56.25%
No regular income	47.87%	42.80%	35.19%	40.81%	43.73%	38.41%	44.94%	33.33%	39.29%	42.86%	40.90%
No money to save	10.64%	14.01%	16.67%	15.89%	12.28%	13.04%	8.99%	15.56%	3.57%	4.76%	13.56%
Don't qualify	12.77%	6.23%	2.96%	9.35%	5.37%	6.52%	6.74%	2.22%	3.57%	0.00%	6.31%
Don't need	3.19%	4.67%	2.59%	5.30%	5.37%	9.42%	8.99%	11.11%	21.43%	23.81%	6.14%
I don't know	0.00%	3.50%	11.48%	8.10%	5.37%	3.62%	6.74%	6.67%	3.57%	4.76%	6.03%
I earn too little	5.32%	7.39%	6.30%	6.23%	4.60%	3.62%	3.37%	0.00%	3.57%	0.00%	5.19%
I prefer cash	4.26%	3.89%	3.33%	2.49%	4.09%	8.70%	8.99%	6.67%	3.57%	14.29%	4.80%
Bank is too far	7.45%	5.45%	2.96%	3.74%	1.79%	2.90%	4.49%	0.00%	0.00%	4.76%	3.40%
No ID Document	5.32%	4.28%	1.48%	3.74%	3.07%	4.35%	2.25%	0.00%	3.57%	0.00%	3.29%
Don't know how to open	7.45%	7.00%	3.33%	3.43%	2.30%	1.09%	0.00%	2.22%	0.00%	4.76%	3.29%
Too expensive	3.19%	3.11%	2.22%	2.49%	2.30%	2.90%	2.25%	2.22%	0.00%	4.76%	2.57%
Bank charges are too high	1.06%	2.33%	1.85%	1.87%	1.28%	1.45%	4.49%	6.67%	3.57%	4.76%	2.01%
I have to keep a minimum balance	1.06%	1.17%	2.22%	1.87%	1.79%	1.09%	1.12%	0.00%	0.00%	4.76%	1.56%
Other	1.06%	0.39%	0.74%	0.93%	0.00%	1.81%	7.87%	4.44%	10.71%	0.00%	1.34%
Use someone else's bank account	1.06%	0.00%	0.74%	0.62%	1.02%	1.45%	2.25%	8.89%	7.14%	9.52%	1.28%
I don't want to pay service fees	0.00%	1.56%	0.00%	1.87%	1.28%	1.81%	2.25%	2.22%	0.00%	0.00%	1.28%
I don't trust banks	1.06%	2.33%	0.37%	0.93%	1.28%	0.36%	3.37%	0.00%	0.00%	0.00%	1.12%
I save via other	0.00%	1.17%	0.37%	0.93%	0.00%	0.36%	0.00%	0.00%	0.00%	0.00%	0.45%
Don't speak my language	0.00%	0.39%	0.37%	0.31%	0.26%	1.09%	0.00%	0.00%	0.00%	0.00%	0.39%
I prefer to give it someone in the community to guard	1.06%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	4.76%	0.11%

While the Mzansi account is included in the definition of banking status, the questionnaire focused specifically on the reasons for not having a Mzansi account. Table 8 indicates a low penetration of Mzansi accounts across all LSM categories with 63.32% of all respondents having not heard of it. Table 9

provides the reasons for not opening a Mzansi account based on the responses of individuals who had heard of it. The responses were unprompted with multiple mention possible.

Table 8: Mzansi awareness by LSM

	LSM										
Mzansi awareness	1	2	3	4	5	6	7	8	9	10	Total
Have a mzansi account	0.87%	1.24%	2.43%	2.85%	1.39%	1.35%	0.63%	0.64%	2.03%	2.01%	1.62%
I have never heard of it	72.17%	66.46%	54.32%	48.37%	52.93%	56.07%	66.67%	78.91%	84.30%	86.96%	63.32%
I have heard of it but not considered opening	14.78%	23.91%	28.38%	37.80%	35.80%	35.08%	27.94%	18.21%	13.08%	10.03%	27.57%
I have heard of it and considered opening	12.17%	8.39%	14.86%	10.98%	9.88%	7.50%	4.76%	2.24%	0.58%	1.00%	7.49%

Table 9: Reason for no Mzansi by LSM

	LSM										
Reason	1	2	3	4	5	6	7	8	9	10	Total
No job	45.16%	42.31%	35.00%	33.33%	30.41%	21.83%	13.59%	4.69%	2.13%	0.00%	26.73%
No regular income	38.71%	38.46%	27.50%	27.08%	22.30%	15.85%	12.62%	1.56%	0.00%	0.00%	21.00%
No money to save	0.00%	6.73%	6.88%	8.33%	2.70%	2.11%	2.91%	0.00%	0.00%	0.00%	4.04%
I don't have R20 to open one	12.90%	6.73%	6.88%	3.33%	4.05%	1.76%	1.94%	0.00%	0.00%	0.00%	3.60%
Don't know how to open	6.45%	5.77%	3.75%	2.50%	2.03%	2.82%	1.94%	1.56%	0.00%	0.00%	2.72%
Don't qualify	3.23%	1.92%	1.25%	1.67%	4.05%	3.17%	1.94%	0.00%	0.00%	0.00%	2.35%
No ID document	9.68%	2.88%	1.88%	3.33%	1.69%	1.41%	0.97%	0.00%	0.00%	0.00%	1.98%
I earn too little	3.23%	1.92%	2.50%	2.08%	1.69%	1.41%	0.97%	0.00%	0.00%	0.00%	1.62%
Other	0.00%	1.92%	1.88%	1.67%	1.69%	1.76%	0.00%	1.56%	0.00%	0.00%	1.47%
Bank is too far	9.68%	4.81%	1.88%	1.67%	0.34%	1.06%	0.00%	0.00%	0.00%	0.00%	1.40%
I don't know	6.45%	0.96%	2.50%	1.25%	0.34%	0.35%	0.00%	4.69%	2.13%	0.00%	1.17%
Don't need	0.00%	1.92%	0.63%	0.83%	1.35%	1.76%	0.97%	0.00%	0.00%	0.00%	1.10%
I have to keep a minimum balance	0.00%	0.00%	0.63%	0.83%	1.35%	2.11%	0.97%	0.00%	0.00%	0.00%	1.03%
It doesn't appeal	0.00%	1.92%	0.00%	0.42%	0.34%	1.06%	0.97%	0.00%	0.00%	3.03%	0.66%
I prefer cash	0.00%	2.88%	0.00%	0.42%	0.34%	1.06%	0.00%	0.00%	0.00%	0.00%	0.59%
I don't trust banks	0.00%	0.96%	0.00%	0.00%	1.35%	1.06%	0.00%	0.00%	0.00%	0.00%	0.59%
I don't want to pay service fees	0.00%	0.00%	0.00%	0.00%	1.01%	0.70%	2.91%	0.00%	0.00%	0.00%	0.59%
Too expensive	0.00%	0.00%	0.00%	0.42%	0.34%	1.06%	0.97%	0.00%	0.00%	0.00%	0.44%
Use someone else's bank account	0.00%	0.00%	0.00%	0.00%	0.00%	1.06%	0.97%	0.00%	0.00%	0.00%	0.29%
Low interest paid on balances	0.00%	0.00%	0.00%	0.00%	0.34%	0.35%	0.97%	0.00%	0.00%	0.00%	0.22%
I don't have proof of residence	0.00%	0.96%	0.00%	0.00%	0.34%	0.00%	0.00%	0.00%	0.00%	0.00%	0.15%
It is confusing to use	0.00%	0.96%	0.00%	0.00%	0.00%	0.35%	0.00%	0.00%	0.00%	0.00%	0.15%
I have another bank account	0.00%	0.00%	0.00%	0.00%	0.68%	0.00%	0.00%	0.00%	0.00%	0.00%	0.15%
It is a poor man's bank account	0.00%	0.00%	0.63%	0.00%	0.00%	0.35%	0.00%	0.00%	0.00%	0.00%	0.15%
Don't speak my language	0.00%	0.00%	0.00%	0.42%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.07%

4 Frequency analysis

Currently banked respondents were asked questions on whether or not they trusted various banking methods. Table 10, Table 11 and Table 12 summarise the percentage of respondents in each LSM category who indicated they trust the banking method, feel it is unsafe and feel it is reliable respectively.

Table 10: Trusted methods of banking

	LSM										
Trustworthy	1	2	3	4	5	6	7	8	9	10	Total
Branch	90.48%	81.54%	88.00%	73.10%	78.99%	74.94%	73.89%	66.42%	58.54%	58.63%	70.43%
ATM	28.57%	33.85%	38.00%	45.03%	39.30%	47.83%	43.36%	51.12%	54.75%	52.52%	47.06%
Telephone banking	0.00%	0.00%	1.00%	0.00%	0.78%	1.28%	0.88%	2.24%	3.80%	6.83%	2.25%
Internet	0.00%	0.00%	0.00%	0.00%	1.56%	2.56%	3.54%	6.72%	7.28%	25.18%	6.35%
Cellphone banking	0.00%	0.00%	1.00%	1.17%	0.39%	1.02%	1.33%	1.49%	2.22%	4.32%	1.62%
None/don't know	0.00%	3.08%	2.00%	7.02%	5.06%	5.63%	6.19%	6.72%	6.96%	4.68%	5.64%

Table 11: Unsafe methods of banking

	LSM										
Are not safe	1	2	3	4	5	6	7	8	9	10	Total
Branch	0.00%	13.85%	5.00%	6.43%	3.11%	7.93%	6.64%	3.36%	2.85%	7.55%	5.64%
ATM	57.14%	47.69%	41.00%	38.60%	45.53%	36.83%	39.38%	34.70%	31.65%	31.29%	37.27%
Telephone banking	23.81%	15.38%	14.00%	9.94%	13.23%	11.76%	10.18%	13.81%	8.23%	10.43%	11.51%
Internet	19.05%	12.31%	14.00%	15.20%	14.40%	19.18%	15.49%	25.75%	26.58%	13.31%	18.59%
Cellphone banking	19.05%	7.69%	14.00%	7.60%	9.34%	11.25%	11.50%	13.43%	12.97%	11.87%	11.47%
None/Don't know	23.81%	24.62%	32.00%	38.60%	33.46%	34.53%	36.73%	34.70%	37.66%	42.09%	35.93%

Table 12: Reliable methods of banking

	LSM										
Are reliable	1	2	3	4	5	6	7	8	9	10	Total
Branch	76.19%	80.00%	79.00%	69.59%	72.76%	70.84%	69.47%	71.27%	64.87%	62.23%	69.57%
ATM	47.62%	41.54%	43.00%	53.80%	50.97%	50.90%	51.33%	55.22%	58.54%	55.04%	52.75%
Telephone banking	0.00%	0.00%	1.00%	0.58%	1.17%	0.26%	0.44%	1.12%	3.48%	5.04%	1.67%
Internet	0.00%	0.00%	1.00%	0.00%	1.95%	1.79%	4.42%	5.60%	7.59%	25.90%	6.40%
Cellphone banking	0.00%	0.00%	0.00%	1.17%	0.39%	1.02%	0.88%	1.49%	1.90%	3.96%	1.43%
None/Don't know	0.00%	0.00%	2.00%	3.51%	3.89%	4.09%	2.65%	4.48%	3.16%	2.16%	3.25%

All respondents were asked to rate their understanding of various financial concepts. The frequency of responses by LSM category and banking status are shown in tables 13 to 16.

Table 13: Concepts understood by LSM

	LSM									
Concept	1	2	3	4	5	6	7	8	9	10
Savings	59.13%	54.66%	64.05%	71.54%	84.57%	90.40%	96.19%	97.76%	98.84%	97.99%
Transaction	13.91%	17.08%	23.78%	27.64%	44.60%	55.62%	72.70%	82.11%	89.83%	88.96%
Current	14.78%	11.18%	18.38%	25.00%	35.80%	55.02%	77.46%	88.18%	94.48%	92.64%
Debit Card	10.43%	10.25%	18.11%	30.08%	37.96%	61.92%	75.56%	87.86%	93.31%	94.31%
Credit Card	17.39%	16.46%	27.84%	38.62%	54.17%	71.51%	84.76%	94.25%	97.38%	96.32%
Cellphone banking	2.61%	6.83%	11.89%	15.65%	24.23%	38.08%	52.70%	72.20%	78.49%	80.94%
ATM	67.83%	59.94%	71.89%	77.64%	87.81%	93.40%	95.56%	97.76%	98.55%	98.33%
Bad Debt	13.04%	18.01%	25.14%	25.41%	41.36%	55.47%	70.48%	84.98%	89.53%	90.30%
Credit	32.17%	29.81%	40.54%	48.37%	60.65%	76.31%	85.71%	93.61%	95.06%	95.99%
Interest Rate Payable	11.30%	10.87%	17.30%	22.97%	34.57%	54.72%	67.94%	83.71%	89.24%	88.96%
Internet Banking	2.61%	6.21%	8.92%	13.82%	21.14%	37.03%	49.84%	73.16%	84.01%	82.94%
Loans	54.78%	47.83%	62.70%	59.96%	73.61%	80.51%	87.30%	92.01%	94.19%	93.98%
Savings Club	45.22%	34.16%	48.38%	47.15%	60.03%	64.17%	69.21%	79.87%	80.81%	82.61%
Service fee	29.57%	19.57%	25.95%	34.76%	52.01%	61.02%	75.56%	88.18%	91.28%	92.98%
Stokvel	55.65%	54.97%	62.97%	65.04%	67.44%	60.87%	54.60%	59.11%	59.88%	63.55%
Term of loan	13.04%	13.98%	17.84%	25.61%	34.88%	50.07%	63.49%	77.64%	84.30%	83.95%
Bureau	13.91%	12.73%	24.05%	30.28%	37.50%	58.47%	67.30%	77.32%	85.76%	85.95%
Pyramid scheme	2.61%	4.97%	7.57%	9.35%	15.28%	31.48%	43.49%	59.11%	72.09%	73.24%

Table 14: Concepts heard of but not understood by LSM

	LSM									
Concept	1	2	3	4	5	6	7	8	9	10
Savings	19.13%	27.95%	20.00%	15.04%	9.88%	6.30%	2.86%	0.96%	0.87%	1.67%
Transaction	24.35%	22.05%	21.62%	25.81%	26.70%	25.04%	15.56%	10.86%	6.40%	8.36%
Current	20.00%	19.25%	21.35%	22.36%	29.48%	25.34%	11.75%	6.71%	3.20%	6.02%
Debit Card	25.22%	21.43%	22.16%	22.56%	30.40%	21.89%	15.56%	7.99%	4.07%	4.01%
Credit Card	31.30%	27.02%	27.03%	30.28%	29.78%	20.39%	10.48%	3.19%	1.74%	3.34%
Cellphone banking	26.09%	13.98%	17.57%	25.61%	35.49%	36.58%	34.92%	19.81%	15.12%	16.72%
ATM	15.65%	18.94%	15.41%	12.60%	8.33%	4.65%	2.86%	1.28%	1.45%	1.67%
Bad Debt	30.43%	17.08%	17.30%	23.78%	22.84%	22.19%	15.56%	7.99%	6.69%	7.69%
Credit	26.96%	22.36%	26.49%	23.58%	22.53%	16.49%	10.16%	3.83%	4.65%	3.34%
Interest Rate Payable	26.96%	19.57%	20.27%	26.83%	29.32%	26.09%	20.32%	10.86%	8.14%	9.36%
Internet Banking	20.87%	13.66%	19.46%	24.19%	32.25%	38.08%	35.56%	22.36%	11.63%	14.05%
Loans	16.52%	25.78%	21.89%	23.37%	18.98%	14.99%	10.16%	6.71%	5.23%	5.35%
Savings Club	18.26%	22.67%	22.16%	24.39%	22.22%	22.94%	20.32%	13.42%	9.88%	10.03%
Service fee	25.22%	26.71%	24.86%	27.24%	26.08%	22.64%	15.24%	7.35%	5.23%	6.02%
Stokvel	16.52%	13.35%	15.14%	15.04%	15.28%	18.59%	20.00%	18.85%	20.93%	21.07%
Term of loan	22.61%	18.01%	23.78%	22.36%	22.69%	24.44%	18.73%	12.14%	9.59%	11.71%
Bureau	27.83%	23.91%	21.89%	25.41%	32.87%	21.74%	17.78%	13.10%	10.17%	10.37%
Pyramid scheme	17.39%	7.76%	12.43%	18.90%	21.45%	22.79%	24.13%	20.77%	13.95%	15.38%

Table 15: Concepts never heard of by LSM

	LSM									
Concept	1	2	3	4	5	6	7	8	9	10
Savings	21.74%	17.39%	15.95%	13.41%	5.56%	3.30%	0.95%	1.28%	0.29%	0.33%
Transaction	61.74%	60.87%	54.59%	46.54%	28.70%	19.34%	11.75%	7.03%	3.78%	2.68%
Current	65.22%	69.57%	60.27%	52.64%	34.72%	19.64%	10.79%	5.11%	2.33%	1.34%
Debit Card	64.35%	68.32%	59.73%	47.36%	31.64%	16.19%	8.89%	4.15%	2.62%	1.67%
Credit Card	51.30%	56.52%	45.14%	31.10%	16.05%	8.10%	4.76%	2.56%	0.87%	0.33%
Cellphone banking	71.30%	79.19%	70.54%	58.74%	40.28%	25.34%	12.38%	7.99%	6.40%	2.34%
ATM	16.52%	21.12%	12.70%	9.76%	3.86%	1.95%	1.59%	0.96%	0.00%	0.00%
Bad Debt	56.52%	64.91%	57.57%	50.81%	35.80%	22.34%	13.97%	7.03%	3.78%	2.01%
Credit	40.87%	47.83%	32.97%	28.05%	16.82%	7.20%	4.13%	2.56%	0.29%	0.67%
Interest Rate Payable	61.74%	69.57%	62.43%	50.20%	36.11%	19.19%	11.75%	5.43%	2.62%	1.67%
Internet Banking	76.52%	80.12%	71.62%	61.99%	46.60%	24.89%	14.60%	4.47%	4.36%	3.01%
Loans	28.70%	26.40%	15.41%	16.67%	7.41%	4.50%	2.54%	1.28%	0.58%	0.67%
Savings Club	36.52%	43.17%	29.46%	28.46%	17.75%	12.89%	10.48%	6.71%	9.30%	7.36%
Service fee	45.22%	53.73%	49.19%	38.01%	21.91%	16.34%	9.21%	4.47%	3.49%	1.00%
Stokvel	27.83%	31.68%	21.89%	19.92%	17.28%	20.54%	25.40%	22.04%	19.19%	15.38%
Term of loan	64.35%	68.01%	58.38%	52.03%	42.44%	25.49%	17.78%	10.22%	6.10%	4.35%
Bureau	58.26%	63.35%	54.05%	44.31%	29.63%	19.79%	14.92%	9.58%	4.07%	3.68%
Pyramid scheme	80.00%	87.27%	80.00%	71.75%	63.27%	45.73%	32.38%	20.13%	13.95%	11.37%

Table 16: Concept understanding by banking status

	Never heard of			Heard of don't understand			Understand		
	Banking status			Banking status			Banking status		
Concept	**Currently**	**Previously**	**Never**	**Currently**	**Previously**	**Never**	**Currently**	**Previously**	**Never**
Savings	1.10%	4.65%	16.89%	2.77%	7.91%	21.59%	96.13%	87.44%	61.53%
Transaction	13.43%	30.23%	50.07%	15.81%	24.65%	24.89%	70.76%	45.12%	25.04%
Current	14.09%	33.72%	55.73%	14.00%	25.81%	23.27%	71.91%	40.47%	21.00%
Debit Card	12.37%	30.93%	53.16%	14.38%	28.60%	22.76%	73.24%	40.47%	24.08%
Credit Card	7.36%	18.84%	37.52%	13.14%	25.12%	27.68%	79.50%	56.05%	34.80%
Cellphone banking	18.78%	44.42%	60.65%	26.61%	31.16%	23.72%	54.61%	24.42%	15.64%
ATM	1.58%	6.28%	12.33%	2.87%	6.05%	16.15%	95.56%	87.67%	71.51%
Bad Debt	16.24%	32.56%	53.08%	15.72%	19.07%	20.26%	68.04%	48.37%	26.65%
Credit	6.69%	13.49%	32.60%	11.75%	20.93%	22.54%	81.56%	65.58%	44.86%
Interest Rate Payable	14.67%	29.77%	56.39%	18.35%	27.91%	23.13%	66.99%	42.33%	20.48%
Internet Banking	19.64%	43.72%	63.80%	25.51%	33.26%	22.69%	54.85%	23.02%	13.51%
Loans	3.87%	7.21%	17.55%	10.56%	16.74%	23.13%	85.57%	76.05%	59.32%
Savings Club	10.75%	15.58%	32.82%	15.53%	23.26%	24.82%	73.72%	61.16%	42.36%
Service fee	11.28%	23.49%	41.56%	13.57%	23.72%	28.05%	75.16%	52.79%	30.40%
Stokvel	16.77%	17.44%	29.15%	17.82%	13.02%	17.84%	65.41%	69.53%	53.01%
Term of loan	18.87%	35.12%	57.71%	16.39%	25.81%	22.25%	64.74%	39.07%	20.04%
Bureau	15.00%	29.07%	49.63%	17.10%	26.51%	26.73%	67.89%	44.42%	23.64%
Pyramid scheme	33.16%	57.44%	76.58%	20.07%	21.40%	14.54%	46.77%	21.16%	8.88%

Table 17 summarises the frequency of responses to statements on trust across all banking statuses. The fields represented are related to the respondents attitude towards financial service providers.

Table 17: Trust statements by banking status

	Banking status								
	Currently			Previously			Never		
Statement	Agree	Disagree	N/A	Agree	Disagree	N/A	Agree	Disagree	N/A
Trust organisation other than bank	15.77%	73.24%	10.99%	15.58%	66.51%	17.91%	8.30%	54.19%	37.52%
Trust yourself rather than others	73.29%	21.93%	4.78%	70.47%	21.16%	8.37%	61.38%	24.16%	14.46%
Trust cellphone banking if backed by service provider	29.10%	25.94%	44.96%	18.14%	24.19%	57.67%	11.75%	16.08%	72.17%
Trust cellphone banking if backed by bank	41.18%	20.16%	38.65%	27.44%	23.26%	49.30%	18.21%	14.24%	67.55%

5 Descriptive statistics

The mean and standard deviation of responses across a number of fields related to financial literacy are presented in Table 18 grouped by the respondent's banking status. The results were tested to ensure the difference was not due to sampling error by applying two-sample T-tests where the level of significance is defined at 5%.

Table 18: Index means and standard deviations by banking status

		Banking status						
		Currently		Previously		Never		
Field	Note	Mean	St Dev	Mean	St Dev	Mean	St Dev	Significant
Understanding index	1	49.3	8.7	43.3	9.5	36.6	10.6	Yes
Education required index	2	1.8	2.1	1.9	1.8	1.7	1.8	No
Legal understanding index	3	0.36	0.9	0.15	0.6	0.05	0.3	Yes
Credit bureau understanding index	4	1.9	1.3	1.4	1.4	0.8	1	Yes

Notes to Table 18

1. The understanding index is the sum of the responses to the fields as defined in appendix 1. The mean is calculated on the total sum before being divided by the number of questions.

2. The education required index is the sum of the responses to the fields as defined in appendix 1. The mean is calculated on the total sum before being divided by four.
3. The legal understanding index is the sum of the responses to the fields as defined in appendix 1. The mean is calculated on the total sum before being divided by two.
4. The credit bureau index is the sum of the responses to the fields as defined in appendix 1. The mean is calculated on the total sum before being divided by two.

6 Tests for independence

The nominal and ordinal nature of the fields limited the analysis that could be performed to cross tabulation techniques where the dependence between variables is tested. The chi-square technique was applied to a number of fields, the results of which are shown in the tables below. The null hypothesis of the chi-square technique is that the fields are independent of each other. Where the null hypothesis is rejected, the table is populated with ‘Y’, where it cannot be rejected, the table is populated with ‘N’.

Table 19: Cross tabulation of financial literacy, banking status and reasons for not being banked

		Literacy Index				Branch		ATM		Telephone		Cellphone		Internet	
	Field	U	ER	LU	CBU	C	KL	C	KL	C	KL	C	KL	C	KL
	Banking status	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Reason for no bank account	No Job	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
	No regular income	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
	No money to save	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
	Don't qualify	Y	Y	N	N	N	Y	Y	Y	Y	Y	Y	Y	Y	Y
	Don't need	Y	Y	N	N	Y	Y	N	Y	Y	Y	Y	Y	Y	Y
	I don't know	N	Y	N	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y
	I earn too little	Y	N	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y
	I prefer cash	N	N	N	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y
	Bank is too far	Y	Y	N	N	N	N	Y	Y	Y	Y	Y	Y	Y	Y
	No ID Document	Y	Y	N	N	N	N	Y	Y	Y	Y	Y	Y	Y	Y
	Don't know how to open	Y	Y	N	Y		N	N	Y	Y	Y	Y	Y	Y	Y
	Too expensive	Y	N	N	N	N	N	N	N	Y	Y	Y	Y	Y	Y
	Bank charges are too high	N	N	N	Y	N	N	N	N	Y	Y	Y	Y	Y	Y
	I have to keep a minimum balance	Y	N	N	N	N	N	N	N	N	Y	N	Y	Y	Y
	Other	N	N	N	N	N	N	N	N	N	Y	N	Y	Y	Y
	Use someone else's bank account	Y	Y	N	N	N	N	N	N	N	Y	N	Y	Y	Y
	I don't want to pay service fees	N	N	N	N	N	N	N	N	N	Y	N	Y	Y	Y
	I don't trust banks	Y	N	N	N	N	N	N	N	N	Y	N	Y	Y	Y
	I save via other means	N	Y	N	N	N	N	N	N	N	N	N	N	N	N
	Don't speak my language	N	Y	N	N	N	N	N	N	N	N	N	N	N	N
	I prefer to give it someone in the community to guard	N	Y	N	N	N	N	N	N	N	N	N	N	N	N

Table key

- Literacy index
  - U – Understanding as defined in appendix 1.
  - ER – Education required as defined in appendix 1.
  - LU – Legal understanding as defined in appendix 1.
  - CBU – Credit Bureau understanding as defined in appendix 1.
- Channel (Branch, ATM, Telephone, Cellphone, Internet)
  - C – Confusing to use
  - KL – I know little about it

Table 20: Cross tabulation of employment, income, banking status and reasons for not being banked

			Full time		Part time				Self		Unemployed			
	Field	Ret	Fml	Infml	Fml	Infml	HW	Stu	Fml	Infml	Looking	Not looking	Oth	Inc
	Banking status	Y	Y	Y	Y	Y	N	Y	Y	N	Y	Y	N	Y
Reason for no bank account	No Job	Y	Y	Y	Y	N	Y	Y	Y	N	Y	Y	Y	Y
	No regular income	Y	Y	Y	N	Y	N	Y	Y	N	Y	Y	N	Y
	No money to save	N	Y	N	N	Y	N	Y	Y	N	N	Y	N	Y
	Don't qualify	Y	Y	N	N	N	N	Y	Y	N	Y	Y	N	Y
	Don't need	Y	N	N	N	N	N	N	N	N	Y	Y	N	Y
	I don't know	N	Y	N	N	N	N	Y	N	N	Y	N	N	Y
	I earn too little	Y	N	Y	Y	N	N	Y	Y	N	Y	N	Y	Y
	I prefer cash	N	N	Y	N	N	N	N	N	N	Y	N	N	Y
	Bank is too far	N	N	Y	N	N	N	N	N	Y	N	N	Y	Y
	No ID Document	Y	Y	N	N	Y	N	Y	N	N	N	N	N	N
	Don't know how to open	N	Y	Y	N	Y	N	Y	N	N	N	N	N	N
	Too expensive	N	N	Y	N	N	N	N	N	N	N	N	N	N
	Bank charges are too high	N	N	N	N	N	N	N	N	N	N	N	N	N
	I have to keep a minimum balance	N	N	N	N	Y	N	N	N	N	N	N	N	N
	Other	N	N	N	N	N	N	N	N	N	N	N	N	N
	Use someone else's bank account	N	N	N	N	N	Y	N	Y	N	N	N	N	N
	I don't want to pay service fees	N	N	Y	N	N	N	N	N	N	N	N	Y	N
	I don't trust banks	Y	N	N	N	N	N	N	N	N	N	N	N	N
	I save via other means	N	N	N	N	N	N	N	N	Y	N	N	N	N
	Don't speak my language	N	N	N	N	N	N	N	N	Y	N	N	N	N
	I prefer to give it someone in the community to guard	N	N	N	N	N	N	N	N	N	N	Y	N	N

7 Correlation

In the instances where the fields were found to be dependent on each other the correlation between the fields was calculated to understand the slope and magnitude of their dependence. The results are presented in the tables that follow.

Table 21: Correlation between financial literacy, banking status and reasons for not being banked

		Literacy Index				Branch		ATM		Telephon		Cellphone		Internet	
	Field	U	ER	LU	CBU	C	KL	C	KL	C	KL	C	KL	C	KL
	Banking status	-0.53	-0.02	-0.19	-0.20	-0.13	-0.19	-0.24	-0.24	-0.32	-0.43	-0.29	-0.43	-0.41	-0.50
Reason for no bank account	No Job	-0.30	0.02	-0.12	-0.12	-0.09	-0.13	-0.16	-0.16	-0.22	-0.29	-0.20	-0.29	-0.27	-0.34
	No regular income	-0.25	0.06	-0.10	-0.10	-0.07	-0.11	-0.13	-0.13	-0.18	-0.24	-0.16	-0.24	-0.22	-0.28
	No money to save	-0.14		-0.06	-0.06	-0.04	-0.06	-0.07	-0.07	-0.09	-0.13	-0.09	-0.13	-0.12	-0.15
	Don't qualify	-0.08	0.08				-0.04	-0.05	-0.05	-0.06	-0.08	-0.06	-0.08	-0.08	-0.10
	Don't need	-0.08	-0.05			-0.03	-0.04		-0.05	-0.06	-0.08	-0.06	-0.08	-0.08	-0.10
	I don't know		-0.02		-0.06		-0.04	-0.05	-0.05	-0.06	-0.08	-0.06	-0.08	-0.08	-0.10
	I earn too little	-0.12		-0.03	-0.04		-0.03	-0.04	-0.04	-0.06	-0.08	-0.05	-0.08	-0.07	-0.09
	I prefer cash				0.00		-0.03	-0.04	-0.04	-0.06	-0.07	-0.05	-0.07	-0.07	-0.09
	Bank is too far	-0.07	0.04					-0.04	-0.03	-0.05	-0.06	-0.04	-0.06	-0.06	-0.07
	No ID Document	-0.08	0.05					-0.03	-0.03	-0.05	-0.06	-0.04	-0.06	-0.06	-0.07
	Don't know how to open	-0.16	0.04		-0.06				-0.03	-0.05	-0.06	-0.04	-0.06	-0.06	-0.07
	Too expensive	-0.04								-0.04	-0.05	-0.04	-0.05	-0.05	-0.06
	Bank charges are too high				-0.01					-0.04	-0.05	-0.03	-0.05	-0.04	-0.06
	I have to keep a minimum balance	-0.06									-0.04		-0.04	-0.04	-0.05
	Other										-0.04		-0.04	-0.04	-0.04
	Use someone else's bank account	0.03	0.03								-0.04		-0.04	-0.04	-0.04
	I don't want to pay service fees										-0.04		-0.04	-0.04	-0.04
	I don't trust banks	-0.07									-0.04		-0.04	-0.03	-0.04
	I save via other means		0.05												
	Don't speak my language		0.01												
	I prefer to give it someone in the community to guard		0.02												

Table key

- Literacy index
  - U – Understanding as defined in appendix 1.
  - ER – Education required as defined in appendix 1.
  - LU – Legal understanding as defined in appendix 1.
  - CBU – Credit Bureau understanding as defined in appendix 1.
- Channel (Branch, ATM, Telephone, Cellphone, Internet)
  - C – Confusing to use
  - KL – I know little about it

Table 22: Correlation between employment, income, banking status and reasons for not being banked

			Full time		Part time				Self		Unemployed			
	Field	Ret	Fml	Infml	Fml	Infml	HW	Stu	Fml	Infml	Looking	Not looking	Oth	Inc
	Banking status	-0.12	-0.38	0.00	-0.07	0.05		0.19	-0.13		0.35	0.09		-0.42
Reason for no bank account	No Job	-0.11	-0.31	-0.10	-0.10		0.05	0.09	-0.09		0.42	0.09	-0.04	-0.31
	No regular income	-0.12	-0.25	-0.07		0.07		0.14	-0.06		0.24	0.05		-0.24
	No money to save		-0.11			0.05		0.09	-0.04			0.08		-0.12
	Don't qualify	-0.05	-0.08					0.08	-0.04		0.05	0.05		-0.09
	Don't need	0.10									-0.06	0.09		-0.03
	I don't know		-0.07					0.05			0.07			-0.08
	I earn too little	0.06		0.10	0.03			-0.05	-0.03		-0.06		0.06	-0.08
	I prefer cash			0.04							-0.05			-0.05
	Bank is too far			0.07						0.04			0.05	-0.05
	No ID Document	-0.03	-0.04			0.03		0.08						
	Don't know how to open		-0.04	0.04		0.03		0.04						
	Too expensive			0.05										
	Bank charges are too high													
	I have to keep a minimum balance					0.03								
	Other													
	Use someone else's bank account						0.08		0.03					
	I don't want to pay service fees			0.04									0.04	
	I don't trust banks	0.04												
	I save via other means									0.06				
	Don't speak my language									0.06				
	I prefer to give it someone in the community to guard											0.06		

8 Conclusion

The data shows distinct trends in terms of the frequency analysis with some relationships being evident between fields. However, the correlation coefficients between the fields are generally very low indicating limited predictability. It is not possible to prove causality from the data.

Chapter 6: Discussion of results

1 Introduction

The South African banking sector has failed in its attempt to significantly improve the penetration of banking services. The government, in consultation with the banking sector has attempted to address the situation through the introduction of the FSC in 2002, the Mzansi account in 2004 and the pending enactment of the dedicated banks bill. Each of these initiatives is based on the assumptions that the primary reasons for the failure of the banking sector to meet the market needs are access, affordability and product features. There is a significant amount of literature to support these assumptions, however there is also a growing body of literature to suggest that there may be other factors that influence the propensity of an individual to open and use a bank account. Three additional factors, financial literacy, employment and trust in the banking sector are investigated to determine their impact in the South African market through analysis of the data collected by the FinScope 2005 survey.

2 Overview of the respondents

The FinScope 2005 survey interviewed 3885 individuals across all nine provinces in South Africa. The sample composition by race, gender and province is displayed in Table 2. The gender split is 50% male and 50% female with the race composition by gender showing a similar distribution. The sample distribution across provinces is also consistent between the gender groups.

Figure 6 displays the breakdown of respondents by LSM category. The distribution of respondents by LSM category is not representative of South

Africa's LSM category distribution. According the AMPS 2005 (SAARF, 2005) survey, approximately 40% of the population fall into the LSM 6 to 10 categories while 60% of the population are in the LSM 1 to 5 categories. Only 23% of the respondents to the FinScope survey are within the LSM 1 to 5 categories indicating a bias towards the upper-end of the LSM range. As the objectives of the FSC are targeted towards the LSM 1 to 5 range, this presents some challenges in the analysis of the results. The large size of the sample does mitigate the effect of the bias to an extent.

Based on their responses to a number of bank account usage-related questions, respondents are classified as currently banked, previously banked or never banked. The combination of previously and never banked respondents form the unbanked population. The banking status is presented by LSM category in Table 3 showing an increase in the percentage of unbanked respondents in the lower LSM categories. Only 7% of respondents in LSM 10 are classified as unbanked versus 81% of respondents in LSM 1. Sixty-eight percent of individuals in the LSM 1 to 5 categories are classified as being unbanked.

3 Financial literacy and the propensity to have a banking relationship

Koenderman (2000) identifies that customer education on their rights and the handling of personal finances is a major impediment in banking the unbanked. His view is supported by Lyons and Scherpf (2004) who are able to demonstrate a link between education and the propensity of a customer to open a bank account in America. The FinScope 2005 survey asks a number of questions that can be used to understand the respondent's level of education

and financial literacy. From a demographics perspective, the education level of the respondent is captured while there are also a number of questions related to their understanding of financial terms and concepts. These fields are used to create a proxy of financial literacy and their relationship to the respondent's banking status is investigated.

Table 4 presents the percentage of respondents per banking status within each education level. It is evident that there are significantly more unbanked individuals at lower education levels than at higher education levels. The section of the questionnaire that targeted the understanding of various financial concepts provides greater insight into the financial literacy of respondents. Table 13 indicates a trend across virtually all financial concepts that the concepts are less understood in the lower LSM categories. Transactional and savings products are specifically targeted by the FSC as being products to which individuals in LSM 1 to 5 should have access. The difference in understanding of transaction, current, debit card and credit card (transactional products) across the LSM categories is significant with less than 20% of respondents in LSM 1 understanding any of the terms and over 50% of the respondents having never heard of the terms (Table 15). At the LSM 5 category, these figures improve slightly with approximately 50% of the respondents understanding the concepts and only 30% having never heard of them. Savings products are comparatively well understood. When viewed in combination with the low penetration of banking services in the LSM 1 to 5 categories, it is evident that there is potentially a correlation between the financial literacy and the propensity to have a bank account.

This evidence is supported by the results presented in Table 16. The same trend as noted in the LSM analysis is repeated when the frequency of response is grouped by the respondent's banking status. Never banked respondents have a lower understanding of the concepts than previously banked respondents with the highest understanding being demonstrated by currently banked respondents. The difference in understanding between previously banked and currently banked respondents indicates a possible causality from financial literacy to banked status.

In addition to the questions asked on financial concepts, specific questions were asked on the understanding of the legal context in which banks operate, areas where the respondents would like additional education and their understanding of credit bureaus. These fields are aggregated into indexes to enable further analysis as described in appendix 1. Table 18 summarises the mean and standard deviation of these indexes per banking status group. The results are inconclusive for all indexes other than the index of understanding, an index based on the understanding of financial concepts. The difference in means between the different banking statuses supports the previous evidence that the understanding of financial concepts is lower in the unbanked group. Despite the statistical significance of the difference in means based on the legal understanding index and credit bureau understanding index, the difference in means is marginal and the standard deviation large in comparison to the mean. There is little difference in the understanding of the legal context or credit bureaus based on banking status, although the data does show that the understanding of these concepts is poor across all banking statuses. Despite the evidence that the understanding of financial concepts is poor in unbanked

individuals, the low mean of the education required index indicates that the respondents do not believe they require further education.

Table 19 confirms that the financial literacy indexes and banking status are related and introduces a number of additional indicators of financial literacy. Banking method knowledge and understanding is represented by the respondent's views on whether the method is confusing to use and their level of knowledge about the method. Cross-tabulation of the banking status against the methods indicates that the banking status is not independent of the responses to the banking method questions. Table 21 shows the correlation coefficients between the literacy indexes, banking method understanding and banking status. The negative correlation indicates that an increase in understanding is related to a higher propensity to be banked. The correlation coefficients are generally low indicating that there are other factors influencing the banking status even though the fields are related.

From the frequency analysis, it is clear that financial literacy is related to banking status and therefore the propensity of a respondent to have a bank account. The higher the financial literacy of the respondent, the more likely they are to have a banking relationship.

4 Employment and the propensity to have a banking relationship

Sishuba (2005) states that the majority of unbanked individuals cite a lack of money or employment as being the primary reason for not having a bank account. This is in contrast to Porteous' (2003) views that the primary reasons are access, affordability and product features. Sishuba's view is validated by the

data presented in Table 7 where the top two reasons as to why the unbanked respondents have no bank account are ‘no job’ and ‘no regular income’. Fifty-six percent of respondents stated no job as a reason why they had no bank account and 41% stated an absence of a regular income. In comparison, only 3% stated that the bank is too far and 2% that the charges are too high. A similar trend is evident in Table 9 where the top two reasons for not having a Mzansi account are also stated as ‘no job’ and ‘no regular income’.

Table 5 provides additional evidence of a relationship between employment and banking status. Approximately 75% of unemployed respondents are unbanked whereas only 7% of respondents employed full-time in the formal sector are unbanked. The link between monthly income and banking status is examined in Table 6 with the percentage of unbanked individuals dropping with a rise in income. Table 20 presents the cross tabulation between employment, income and banking status indicating that banking status is dependant on employment status and income. The magnitude and slope of the correlation between employment, income and the respondent’s banking status is displayed in Table 22. The correlation coefficients are small indicating that there are other factors that have an impact on banking status. The strongest correlations are between income, full time formal employment and unemployed but looking for a job and banking status. This indicates that income and employment have an impact on banking status.

Income and employment are the primary reasons stated for the lack of a banking relationship and these statements are validated by the relationship between these fields and banking status. Respondents with lower income and

respondents who are unemployed are less likely to be banked than those who are employed and earn a regular income. The direction of causality cannot be determined by the data presented.

5 Trust and the propensity to have a banking relationship

Bedford (2004) identifies a number of additional potential reasons for the lack of a banking relationship including a lack of trust in financial institutions. The FinScope 2005 survey asks few questions related to the respondents trust of financial institutions. Fields are available on the respondent's perceptions of various methods of banking including the trustworthiness of the method, which methods are considered unsafe and which methods are considered reliable. Unbanked individuals were not asked these questions preventing analysis of the responses based on banking status.

Table 10 summarises the percentage of responses to the trustworthiness of banking methods by LSM category. Branches are the most trusted method of banking with 70% of respondents indicating they perceived it as being trustworthy. A higher percentage of respondents in the lower LSM categories view the branch as being trustworthy than respondents in the higher LSM categories. Forty-seven percent of respondents see the ATM as a trustworthy method of banking with higher percentages of respondents being noted in the higher LSM categories. Telephone banking, internet banking and cellphone banking are not seen as being trustworthy methods of banking.

Table 11 provides an indication of banking methods that are seen to be unsafe. Branch, telephone banking, internet banking and cellphone banking are not

seen as being unsafe, while ATM banking is seen as being comparatively unsafe with 37% of respondents indicating they perceive it as unsafe. The question is not definitive on the definition of safe and may have been interpreted from the perspective of personal safety and not financial safety.

Table 12 presents results on the reliability perceptions of the banking methods. Branch and ATM are seen as being reliable whereas telephone banking, cellphone banking and internet banking are not seen as being reliable. The same tendency as was present in the responses to trusted methods of banking is evident in the responses to reliable methods of banking in that the branch is seen as being more reliable by respondents in the lower LSM categories and ATM is seen as being more reliable by respondents in the upper LSM categories.

From these results it is clear that the branch and ATM are still seen as the most trusted and reliable methods of banking despite the ATM being seen as potentially unsafe. While only based on responses from banked individuals, this may present a challenge to initiatives designed to reach the unbanked through non-traditional methods.

Statements related to trust were made to all respondents in which they had to state whether they agreed or disagreed with the statement. The result of the frequency analysis of their responses is presented in Table 17. None of the results indicate a lack of trust in the banks for either banked or unbanked individuals. An interesting aspect of the responses is that a large percentage of the respondents did not respond to the questions on cellphone banking representing a potential lack of understanding of the concept.

There is no evidence to support the proposition that a lack of trust in banks is related to the propensity to have a banking relationship. It is however interesting that traditional banking methods are seen as being more trustworthy and reliable than electronic methods presenting a potential obstacle to the use of technology to increase the penetration of banking services in South Africa.

6 Reasons stated for lack of a banking relationship

The sections above show that there is a correlation between financial literacy and the propensity to have a banking relationship as well as between employment and the propensity to have a banking relationship. There is no evidence to indicate that there is a similar relationship between trust and the propensity to have a banking relationship. The financial literacy indicators and employment fields are cross tabulated against the reasons stated for a lack of a banking relationship to understand whether or not there is a dependency between the indicators and the reasons stated by the respondents. Table 19 and Table 20 show that there are multiple instances where the fields are not independent of each other. In order to explore the dependence further, correlation matrices were run on the fields where dependence was evident, these results are presented in Table 21 and Table 22. With the exception of relatively high correlation coefficient between the reason ‘no job’ and the field ‘unemployed and looking for a job’, there are no meaningful correlation coefficients. This indicates that while the fields and reasons are related, they are not predictive of one another and that there are other variables that need to be analysed to fully explain the reasons.

Chapter 7: Conclusion

The intent of the research was to better understand the reasons for the low market penetration of banking services in South Africa. In terms pinpointing the reasons and providing policy-changing direction to the banking sector and government, the research has fallen short of its objectives. It has, however, highlighted the fact that the reasons are complex and inter-related and that the data available to analyse the reasons is inadequate.

1 Context

One of the primary objectives of the South African government is poverty reduction. To achieve this objective it is necessary to create a stable macro-environment in which sustained economic growth can be achieved. The banking sector plays a vital role in this by effectively allocating resources, driving a savings culture and mitigating risk. In addition there is research that shows that a developed financial sector is a causal factor in economic growth and can be linked to poverty reduction. South Africa has a well-developed financial sector that has failed to achieve penetration in the lower LSM categories of the market resulting in a large unbanked population in comparison to developed countries. In addition to the country benefits of increased economic growth and poverty reduction, the unbanked segment represents the largest untapped, potentially profitable market for the banks.

The government, in consultation with the banks have introduced a number of initiatives to increase the penetration of banking services with limited success. These include the adoption of the FSC, the rollout of the Mzansi account and the impending enactment of the dedicated banks bill. Each of these initiatives is

formulated on the assumptions that access, affordability and product features are the primary reasons why people remain unbanked. There is a growing body of literature that indicates that these may not be the primary reasons for people remaining unbanked and that financial literacy, trust in the banking sector and employment are elements that should be taken into account.

2 Research questions

The research focused on analysing the relationship between financial literacy, trust in the banking sector, employment and the propensity to have a banking relationship. It further attempted to relate these to reasons for not having a bank account as stated by unbanked individuals. Data from the FinScope 2005 survey was sourced and analysed using frequency analysis, descriptive statistics, tests for independence and correlation analysis.

3 Results

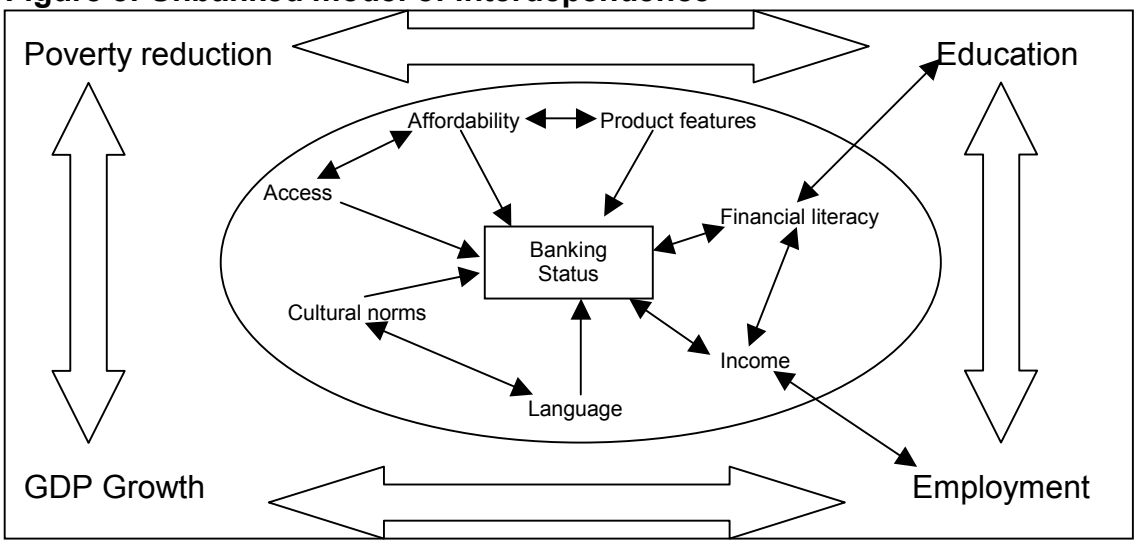
The analysis revealed that financial literacy is a determinant of the banking status of an individual and that higher financial literacy increases the propensity of an individual to be banked. A causal relationship between financial literacy and banking status is difficult to determine with the available data although it appears as though causality runs from financial literacy to banking status. However, the correlation between financial literacy and banking status is low. Employment and income were also found to be determinants of banking status with the likely causality running from employment to banking status. Once again, the correlation between employment, income and banking status proved to be low indicating that it does not fully explain banking status. No evidence of trust being a determinant of banking status was discovered although it is

evident that the traditional methods of banking are still seen as being more reliable and trustworthy than electronic means. Multiple dependencies were discovered between fields related to financial literacy, employment, income and the reasons for not having a bank account. On further investigation, the correlation coefficients were found to be low, indicating that these fields are not effective predictors of the stated reasons why respondents remain unbanked.

4 The unbanked model of interdependence

The multiple dependencies between variables combined with the low correlation coefficients indicates that to be able to effectively predict the banking status of an individual, multiple variables need to be taken into account simultaneously. It is also likely that there are dependencies between the predictive variables (examples: education level and financial literacy, education level and employment) that need to be taken into account. A number of these variables are influenced by macro factors related to economic growth, poverty reduction and financial sector development. The model in Figure 8 is proposed as a basis for further research.

Figure 8: Unbanked model of interdependence



The section outside of the oval represents the macro-factors that have an impact on the banking sector and the likely predictor variables of banking status. The main variables that are likely to influence banking status are shown inside the oval with the dependencies and interdependencies between variables indicated by the arrows. Current South African research focuses mainly on the variables of access, affordability and product features and their impact on banking status. There is little research on the interdependence between these variables. The research presented here has revealed some of the relationship between financial literacy, income, employment and banking status but does not take into account the inter-relatedness of the predictor variables nor the impact of banking status on these variables. It also does not take into account the macro factors such as the impact of education on financial literacy, employment and income. Cultural norms and language are suggested as being additional variables that may impact banking status although little empirical research has been performed to confirm this.

5 Recommendations

The analysis performed highlighted a number of limitations of the data collected through the FinScope 2005 questionnaire. Foremost among these limitations is that the sample is not representative of the entire South African population due to the population of relevance being defined as South African residents of age 16 years and older living in households or structures. The restriction of 'living in households or structures' excludes the poorest members of the population both in the cities as well as in the rural areas. This is evident in the under-representation of LSM 1-5 categories in which the highest percentage of

unbanked individuals is found. The initiatives that have been launched by the government and banking sector are based on LSM-based targets and measured as such. If the population of relevance is expanded to South African residents 16 years and older, a more relevant sample will be obtained allowing for improved analysis. The structure of the questionnaire can also be improved to ensure that more questions are asked of all respondents. By way of example, the questions related to trust, reliability and safety of banking methods were only asked of currently banked individuals, excluding previously and never banked respondents and preventing analysis related to the dependence between trust and banking status. The results of the questionnaire are also highly dependent on the respondent's ability to communicate effectively and their honesty in answering the questions. The portion of the questionnaire that investigates financial literacy should be revised to test the respondent's understanding rather than ask their understanding. The data can also be enhanced through the introduction of questions that explore the reasons behind the statements and choices made by the respondents.

Despite the limitations of the data, it is clear that there is a dependency between financial literacy and the propensity to have a bank account. The FSC currently requires that banks invest 0.2% of their post-tax profits in customer education. This is apparently insufficient given the low levels of financial literacy evident in the sample. Customer education should not be left to individual banks but should rather be co-ordinated at a national level with the banks contributing funds and intellectual capital to the effort. This will enable targeted education on the right subjects to the right individuals.

The analysis has also shown that there are multiple variables related to banking status as represented in Figure 8. Recommendations for immediate further research are to explore the interdependencies between education and financial literacy, education and employment and financial literacy and income. There is also scope to test the dependence of an individual's banking status on cultural norms and language and to further explore the variable of trust in the banking segment. Detailed analysis of these variables will allow for the formulation of a comprehensive model explaining the reasons for the low penetration of banking services in South Africa.

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Appendix 1

Financial Literacy Indexes

Financial understanding index

Fields Used	Value Range
QFL2.Understanding of financial services - Savings account	1-3
QFL2.Understanding of financial services - Transaction account	1-3
QFL2.Understanding of financial services - Current account	1-3
QFL2.Understanding of financial services - Debit card	1-3
QFL2.Understanding of financial services - Credit card	1-3
QFL2.Understanding of financial services - Cellphone banking	1-3
QFL2.Understanding of financial services - Burial society	1-3
QFL2.Understanding of financial services - ATM	1-3
QFL2.Understanding of financial services - Bad debt	1-3
QFL2.Understanding of financial services - Credit	1-3
QFL2.Understanding of financial services - Interest rate payable	1-3
QFL2.Understanding of financial services - Internet banking	1-3
QFL2.Understanding of financial services - Loans	1-3
QFL2.Understanding of financial services - Savings club	1-3
QFL2.Understanding of financial services - Service fee	1-3
QFL2.Understanding of financial services - Stokvel	1-3
QFL2.Understanding of financial services - Term of loan	1-3
QFL2.Understanding of financial services - Credit bureau	1-3
QFL2.Understanding of financial services - Pyramid schemes	1-3

Value definition	Value
Never heard of this word	1
Heard this word but dont know what it means	2
Heard of this word and know what it means	3

Index calculation

Sum of responses to all fields divided by number of questions and rounded to zero decimal places

Index interpretation

1 - Low Understanding
2 - Medium Understanding
3 - High Understanding

Education requirements index

Fields Used	Value Range
QFL3.Areas of finance people want education on - How interest rates work and are calculated	0-1
QFL3.Areas of finance people want education on - Understanding and managing your personal credit profile/record	0-1
QFL3.Areas of finance people want education on - How to make proper use of the services banks offer	0-1
QFL3.Areas of finance people want education on - How to be able to save more money	0-1
QFL3.Areas of finance people want education on - How to make effective use of technology (such as cellphone or ATMs) to better manage your finances	0-1
QFL3.Areas of finance people want education on - Skills and tools on managing credit	0-1
QFL3.Areas of finance people want education on - How to better understand the services and products provided by financial service providers, e.g.insurance and retail	0-1
QFL3.Areas of finance people want education on - How to draw up and manage a budget effectively	0-1
QFL3.Areas of finance people want education on - Training/education on debt counselling to better manage your credit	0-1
QFL3.Areas of finance people want education on - How to work out your credit worthiness (how much credit you can afford)	0-1
QFL3.Areas of finance people want education on - Other	0-1

Value definition	Value
No education required	0
Education required	1

Index calculation

Sum of responses to all fields divided by 4 and rounded to zero decimal places

Index interpretation

0 - No education requirement
1 - Low education requirement
2 - Medium education requirement
3 - High education requirement

Legal understanding index

Fields Used	Value Range
QFL6.Have people heard of the charter etc? - Financial Sector Charter	0-1
QFL6.Have people heard of the charter etc? - Dedicated Banks Act	0-1
QFL6.Have people heard of the charter etc? - National Credit Bill	0-1
QFL6.Have people heard of the charter etc? - FICA	0-1
QFL7.Have peple heard of FIAS?	0-1

Value definition	Value
No	0
Yes	1

Note: The value 2 represented 'no' for QFL7 - for the purpose of the index, the value 2 was changed to 0

Index calculation

Sum of responses to all fields divided by 2 and rounded to zero decimal places.

Index interpretation

0 - No legal understanding
1 - Low legal understanding
2 - Medium legal understanding
3 - High legal understanding

Credit bureau index

Fields Used	Value Range
QDM11.Credit bureau statements - You have heard of credit bureau	1-3
QDM11.Credit bureau statements - You know how credit bureaux work	1-3
QDM11.Credit bureau statements - You are listed with a credit bureau	1-3
QDM11.Credit bureau statements - You know how to deal with a credit bureau	1-3
QDM11.Credit bureau statements - You are able to get hold of your credit profile/record	1-3

Value definition	Value
Agree	1
Disagree	2
Not applicable/Don't know	3

Index calculation

The values for disagree and not applicable/don't know were set to 0. The responses to all fields were added, divided by 2 and rounded to zero decimal places.

Index interpretation

0 - No credit bureau understanding
1 - Low credit bureau understanding
2 - Medium credit bureau understanding
3 - High credit bureau understanding