



**The use and adoption of first-order retail banking products by the urban
and peri-urban employed low-income populace of South Africa**

Kirsten Victoria Smith

27528937

A research project submitted to the Gordon Institute of Business Science,
University of Pretoria, in partial fulfilment of the requirements for the degree of
Master of Business Administration.

13 November 2008

ABSTRACT

This study aimed to investigate the adoption and the use of first-order retail banking product by those individuals who are classified as being low-income earners and who reside (for the purposes of employment) in urban and peri-urban areas.

The Financial Sector Charter of 2003 stated that the improvement and consequent increase in the access to formal financial services could contribute towards sustained economic growth, development and social transformation in South Africa. The purpose of this research is to gain insight into the adoption and usage of first-order retail banking products in an effort to better understand what could be done to improve access to these services and products.

A total of 140 individuals across three sectors were interviewed with regards to their adoption of, use of and perceptions of banking institutions and bank accounts in South Africa. The results, in graphic form, were analysed in order to discern similarities and / or discrepancies so that conclusions could be drawn.

It was concluded that while banking institutions and bank accounts were seen in a positive light, perceptions regarding the purpose and functionality of banking institutions and bank accounts as well as the available products and their usage, came across as being the largest hindrance to first-order retail banking product adoption and usage amongst low-income individuals in the urban and peri-urban areas.



DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master 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. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

Name: _____

Signed: _____

Date: _____



ACKNOWLEDGEMENTS

I would like to gratefully acknowledge the persons and organisations who were instrumental in the completion of the research:

Michael Goldman, my supervisor, whose enthusiasm, encouragement, advice and enormous amount of patience has led to the completion of this research project.

Jeff Wiggill, Tammie Fritz and the First Tech Group of Companies who provided me with access to and facilities with to interview respondents.

My family and friends (especially my mom and dad) whose unstinting support, love and patience took all forms and was made available to me at all hours of the day and night.

CONTENTS

Abstract	i
Declaration	ii
Acknowledgements	iii
List of tables and figures.....	vii
Glossary	x
1. Introduction to the research problem	1
1.1. Introduction.....	1
1.2. Background to the South African economy.....	2
1.3. Motivation for the research	5
2. Theory and literature review	9
2.1. Government legislation.....	9
2.1.1 The Financial Sector Charter.....	9
2.1.1.1 Targets	10
2.1.1.2 Mzansi Bank Accounts	10
2.1.2 The Dedicated and Co-operative Banks Bill.....	11
2.1.2.1 Dedicated Banks Bill.....	11
2.1.2.2 Co-operative Banks Bill	12
2.2 Defining access to financial services	12
2.2.1 The Financial Access Strand.....	12
2.3 Defining the low-income populace.....	14
2.3.1 LSM 1-5.....	14
2.3.2 The Bottom of the Pyramid	15
2.3.3 Minimum Living Level	16
2.3.4 Financial Services Measure.....	16

2.4	Low-income financial services	18
2.4.1	Demand and supply.....	18
2.4.2	Formal and informal instruments	19
2.4.3	Factors affecting formal financial product adoption and use.....	20
2.4.3.1	Education and language.....	20
2.4.3.2	Perceptions of financial service providers and offerings.....	22
2.4.3.3	Physical access	23
2.4.3.4	Account costs	23
3	Research questions.....	25
4	Research methodology.....	27
4.1	Research design.....	27
4.2	Population and unit of analysis	28
4.3	Sampling and size	29
4.3.1	Sample group 1: Formal sector	29
4.3.2	Sample group 2: Informal sector.....	30
4.4	Secondary / comparative population	31
4.5	Data collection	32
4.6	Data analysis	32
4.7	Research limitations	33
4.7.1	Cultural and language constraints	33
5	Results.....	34
5.1	Section A	35
5.2	Section B	38
5.3	Section C.....	42
5.4	Section D.....	43
5.5	Section E	49

6	Discussion of results.....	53
6.1	What factors hinder low-income individuals in their adoption of first-order retail banking products?	53
6.1.1	Reasons for adoption	54
6.1.2	Education and literacy levels	56
6.1.3	Initial knowledge	57
6.1.4	Reasons for not opening a bank account	57
6.1.5	Banking institutions and banking product perceptions.....	58
6.1.5.1	Product and service provision.....	59
6.1.5.2	Mitigating factors	61
6.2	What influences low-income individuals in their use of first-order retail banking products?	63
6.2.1	Bank account usage	63
6.3	Sub-question	65
6.3.1	Formal and informal financial instruments	65
6.3.2	Methods of payment of income.....	67
6.3.3	Methods of payment for purchases	69
7	Conclusion.....	72
7.1	Overview.....	72
7.2.	The adoption of first-order retail banking products	72
7.3.	The use of first-order retail banking products	74
7.4.	Recommendations to financial institutions.....	75
7.5	Recommendations for future study.....	76
7.6	Conclusion.....	77
	References	78
	Appendix 1: Interview questionnaire	88

LIST OF TABLES AND FIGURES

Table 1:	FSC access targets for financial services.....	10
Figure 1:	The segments of the Access Strand.....	13
Figure 2:	The Access Strand of financial services.....	14
Figure 3:	The Bottom of the Pyramid in South Africa	15
Figure 4:	The broad components of the Financial Services Measure (FSM)	17
Figure 5:	Changes in the sizes of the FSM segments	17
Figure 6:	Ideal service providers as perceived by the respondents to FinScope 2006	22
Figure 7:	Percentage of individuals in possession of one or more first-order retail banking products (i.e. a bank account).....	35
Figure 8:	English and / or Afrikaans literacy levels in terms of the highest level of primary / secondary education received	36
Figure 9:	Sources of first knowledge of banking institutions and bank accounts.....	37
Figure 10:	Reasons given for the adoption of one or more bank accounts.....	38
Figure 11:	Average usage, in terms of frequency, of bank accounts.....	39
Figure 12:	Average usage, in terms of purpose, of bank accounts.....	40
Figure 13:	Reasons for not opening a bank account.....	42
Figure 14:	Respondents' associations of banking institutions with products offered	43
Figure 15:	Respondents' association of bank account uses.....	44

Figure 16:	Respondents' understanding of bank charges and interest rates	45
Figure 17:	Respondents' opinion on the safety of banking institutions as a holder of their (the respondents') money	46
Figure 18:	Respondents' reasons for citing banking institutions as being unsafe places in which to store their (the respondents') money	47
Figure 19:	Respondents' feelings towards banking institution branches and their employees	48
Figure 20:	Respondents' opinion on the convenience of banking institutions and ATM's in terms of location	48
Figure 21:	Financial instruments, other than bank accounts, used by the respondents.....	49
Figure 22:	Actual methods of payment of income to respondents.....	50
Figure 23:	Actual methods of payment for purchases by respondents...	50
Figure 24:	Preferred methods of payment of income to respondents.....	51
Figure 25:	Preferred methods of payment for purchases by respondents.....	52
Figure 26:	Possession of bank accounts with respect to reasons for adoption	55
Figure 27:	Reasons for non-possession of bank accounts for tiers 3 and 4 (weighted).....	58
Figure 28:	Percentage of respondents who associate banking institutions and banking products with saving and storing their money	59

Figure 29:	Percentage of respondents who associate banking institutions and banking products with the ability to carry out transactions effectively	59
Figure 30:	Percentage of respondents who associate banking institutions and banking products with access to forms of liquidity	60
Figure 31:	Percentage of respondents who associate banking institutions and banking products with risk mitigation	60
Figure 32:	Use of formal and informal financial instruments.....	65
Figure 33:	Actual and preferred methods of income payment for tiers 3 and 4 formal.....	67
Figure 34:	Actual and preferred methods of income payment for tiers 3 and 4 informal.....	68
Figure 35:	Actual and preferred methods of purchase payment for tiers 1 and 2.....	69
Figure 36:	Actual and preferred methods of purchase payment for tiers 3 and 4 formal.....	70
Figure 37:	Actual and preferred methods of purchase payment for tiers 3 and 4 informal.....	70



GLOSSARY

Definitions of terms and acronyms

- **ATM** Automated Teller Machine
- **BBBEE** Broad Based Black Economic Empowerment
- **Burial society** An informal group that insures one another against funeral costs
- **FSC** Financial Services Charter of 2003
- **FSM** Financial Services Measure
- **LSM** Living Standards Measure
- **Mashonisa loan** A loan from a township moneylender or “loan shark” who lends out his or her own money
- **Money guarding** Looking after someone else’s money or having someone look after your money
- **Salary timing** An informal arrangement with two or more people where money is rotated throughout the month as each gets paid
- **Stokvel / umgalelo** An informal savings club with other people

1 INTRODUCTION TO THE RESEARCH PROBLEM

1.1 INTRODUCTION

South Africa's embattled past, and more specifically the legacy of its grand apartheid regime, have left the country with a dividing line between the informal and formal financial systems.

"The apartheid system severely distorted the South African financial system. A handful of large financial institutions, all linked closely to the dominant conglomerates; centralize most of the country's financial assets. But they prove unable to serve most of the black community," (RDP, 1994, part. 4.7)

In the past the financial system of South Africa's first world economy excluded large sections of the population thus leaving South Africa's third world economy to develop its own informal forms of financial institutions (Centre for Social Science Research, 2004). The dynamic changes that continue to take place in South Africa since 1994 are allowing an increased penetration of formal financial institutions into previously excluded sections of the population – causing the dividing line between the systems to become less distinct (Centre for Social Science Research, 2004).

However, what remains unknown are the details of how these changes are reflected in the various aspects of formal financial transactions including size and frequency and the reasons why different financial instruments are adopted and used.

1.2 BACKGROUND TO THE SOUTH AFRICAN ECONOMY

The building blocks of the South African economy were laid over the three centuries beginning with the first visit of the Dutch East India company's ships led by Jan Van Riebeeck in 1652 and ending with the election of the National Party to power in 1948 (Lewis, 1990).

Modern South Africa's economic shape began to take form with the mineral revolution, specifically with the discovery of diamonds in Kimberley and gold in the Transvaal in 1867 and 1887 respectively (Burger, 2008). These two natural resources accounted for South Africa being turned from an agricultural and trading backwater into an economic resource of great value (Lewis, 1990). The mineral revolution coincided with both a new era of imperialism and the scramble for Africa, which consequently brought imperial power and influence to bear in Southern Africa like never before (Burger, 2008). This set in motion the basic economic, legal, demographic, and political forces that have governed the development of modern South Africa ever since (Lewis, 1990). For example, the beginning of the migrant labour system occurred around this time. Labour was required on a massive scale for the mining operations and this could only be provided by the Africans who had to be drawn away from their land (Burger, 2008).

The Union of South Africa was created by Britain in 1910 with the country's new constitution being drafted by an all-white South African convention. The 19th-century, formally non-racial franchise was retained by the Cape Province but failed to be extended elsewhere in the Union where rights of citizenship were reserved for whites alone (Burger, 2008). At this time, a number of institutions,

attitudes, laws and practices were in place including the migrant labour system for recruiting black mine workers, restrictions on jobs and franchises by race and the conflicting interests of black and white (Lewis, 1990). By 1936, however, Africans had been removed from the voter's role of the Cape Province (Burger, 2008).

By 1948, both the development of the economy and substantial structural changes had not only brought the vast minority of whites into the modern sectors of the economy but had also drawn nearly 2 million blacks into urban employment (Lewis, 1990). Not only was the integration of the black labour force with the white-owned economy soon visible to all, but black South Africans had acquired greater skill sets during World War 2 which led to an unprecedented raise in their consciousness (Lewis, 1990). Taking over control, the Nationalist Party promised to make whites secure and prosperous by enforcing a program of racial classification and separation in all aspects of life in South Africa (Lewis, 1990). This strategy of single-minded segregation came to be known as grand apartheid.

Some of the many acts of law that were passed by the Nationalist Party during this period were the Bantu Education Act (1952) that was designed to prepare Africans for a lower place in the economy and society; the homelands policy that restricted Africans to living in their designated homelands but allowed them to become temporary residents in white South Africa for the purposes of employment (i.e. they became migrant workers) (Lewis, 1990); and the Usury Act (1968) that excluded the non-white races from many forms of financial asset ownership.

By the late 1960's, economic policy was forced to undergo significant modifications as the impossibility of implementing single-minded segregation was made increasingly clear (Lewis, 1990). Changes included a movement of economic activities into the homelands and greater labour mobility. A shift in government's vision towards double-minded segregation also occurred (Hoernle in Lewis, 1990). This shift involved the development of separate political and administrative institutions and viable economic units for Africans regardless of whether or not it made economic sense for the country as a whole (Lewis, 1990).

In the late 1970's, it became increasingly clear that South Africa was being placed in an impossible economic and financial situation by apartheid and the effort required to maintain it (Lewis, 1990). Incentives were provided to businesses to encourage their expansion into the homelands, but over a half century of neglect was not easy to make up and progress in this area was slow (Lewis, 1990).

In the 1980's, major sections of the business community came to oppose government policy. These sections were largely motivated by the growing recognition that sustained economic expansion would only be possible if major changes in the basic features of apartheid, including the development of a stable, skilled black labour force, were to take place (Lewis, 1990).

After a long negotiation process that was sustained despite much opportunistic violence from both the right wing and its surrogates, South Africa's first democratic election was held in April 1994, where the ANC emerged victorious (Burger, 2008).

Since 1994 the first world sector of the South African economy has grown and there has been a corresponding growth in the financial services sector. However, almost half of South Africa's population of 47 million remain on the edge of the economy (in the developing sector) and are disconnected from formal financial services (Arora and Leach, 2005).

Despite the progress made to date, there is still a persistence of two economies in one country (Burger, 2008). The dual nature of South Africa's economy is somewhat different to the dual economies normally found in developing countries (Lewis, 1990). The South African economy does not possess the sizeable traditional agricultural sector that provides an economic base for large numbers of rural people, and a large "informal" service sector to provide a transition from the traditional to the modern sector (Lewis, 1990). Rather, South Africa possesses one sector, classed as sophisticated and first world, which overlays another sector which is a distinctly developing economy in nature (Arora and Leach, 2005).

1.3 MOTIVATION FOR THE RESEARCH

A key challenge to the new government in 1994 was to reconcile South Africa's first world banking sector, characterised by well established infrastructure and technology but limited participation, with the enormous demand for financial services by the South African population – over 60% of the adult population were excluded from any formal financial services in 1994 (Kirsten, 2006). Furthermore, in light of the discrimination in the ownership of assets and places

of residence, and considering the low levels of wage income and education, it is hardly surprising to find that, pre-1994, there was little evidence of significant financial asset ownership amongst South Africa's black communities (Lewis, 1990).

An increasing amount of pressure has been brought to bear on the development and empowerment of the disadvantaged majority of the community living in poverty. The financial sector has a critically important role in this process and must somehow find a way to open up traditional banking services to low-income people (Schoombee, 2000). The financial sector has been recognised as an important tool to bridge the divide between South Africa's first and second economies (Kirsten, 2006).

The South African government, working with its social partners, has developed the Accelerated and Share Growth Initiative for South Africa (AsgiSA) which aims to raise the country's growth trajectory to an average of at least 6% between 2010 and 2014 (Burger, 2008).

Coupled with the aim for economic growth, is the need for the economic empowerment of previously disadvantaged individuals. One of the ways in which such empowerment is being made possible is in the form of broad-based black economic empowerment (BBBEE) of which access to financial services is considered to be an important part (Financial Sector Charter Council, 2003).

There are four sources of resource problems – theories, everyday observations, practical problems and previous research (Huysamen, 2001).

The Financial Sector Charter (2003) presented researchers with a practical problem – that of ensuring that 80% of LSM 1-5 have effective access to first-order retail banking products by 2008. At the time of the drawing up of the Financial Sector Charter approximately 21% of LSM 1-5 had effective access to first-order retail banking products. LSM or Living Standards Measures represent levels of people who have been segregated according to certain demographic and living standards measures (The South African Advertising Research Foundation, 2004).

The Financial Sector responded to this challenge with the introduction of the Mzansi national bank account (priced significantly lower than the current offerings) which was made available through all four of the major banks and the South African Post Office.

Despite the initial apparent success of the Mzansi account, the FinScope South Africa survey of 2006 reported that only 44% of LSM 1-5 had effective access to first-order retail banking services – a shortfall from the 2008 target of 36%.

The FinScope survey (FinMark Trust, 2007) also picked up a surprisingly high percentage of urban currently unbanked people (21% - total, 35% - Mzansi account holders) who have had bank accounts but have abandoned them. Reasons for this abandonment were not probed as the finding was unexpected.

The aim of this study is to probe the actual use and adoption, by low-income individuals, of the first-order retail banking products that are available to them. The study will also look at the motivation of these individuals to adopt and use such products.

Increased knowledge of the actual situation and the responsible motivating factors will hopefully lead to a better understanding of why the targets of the

Financial Sector Charter and other related goals have remained unreachd, which in turn could lead to a revision of the plan of action of the government with respect to access to the financial services sector by the majority of the South African population.

2 THEORY AND LITERATURE REVIEW

For over a century in South Africa there was systematic, legally enforced, differential access to all the processes by which individuals could have participated in economic development – acquisition of skills, migration to higher-paying jobs, ownership of land and reproducible assets, and access to credit (Lewis, 1990).

The principle method of wage payment to a black South African in the apartheid era was cash or “in-kind” (Lewis, 1990), which removed the need for a bank account. Furthermore, bank account ownership by non-whites was largely discouraged prior to the democratisation of South Africa (Lewis, 1990).

2.1 GOVERNMENT LEGISLATION

The new government (post-1994) had put in place a number of legislations in order to correct the imbalances in the financial services sector. Three of the most relevant pieces will be discussed here.

2.1.1 The Financial Sector Charter

Launched in 2003, the Financial Sector Charter embodied an agreement among the major players in the financial sector – banks, insurance companies, brokers and exchanges – on a set of targets, related to service provision and empowerment, in areas such as banking services to low-income populations,

black employment and ownership in the financial sector and support for black entrepreneurship (Kirsten, 2006).

2.1.1.1 Targets

The Charter put in place a number of targets that all financial services companies were expected to pursue. A summary of the targets relating to access to financial services is presented in Table 1.

Table 1: FSC access targets for financial services

Products	2008 Access Target	2006 Actual Usage
Transaction Accounts	80%	51%
Bank Savings Products	80%	
Life Insurance Products	23%	10%
Collective Investment Savings Products	1%	unknown
Short Term Risk Insurance Products	6%	6%

Source: Adapted from the Financial Sector Charter (2003), pg. 9; and the FinScope 2006 findings brochure, pg. 19

2.1.1.2 Mzansi Bank Accounts

One of the initiatives resulting from the Charter was the Mzansi account. Launched in 2004, the account aimed to extend banking services to low-income earners and those living beyond the reach of the banking services that were available at that time (Kirsten, 2006).

All that was required to open one of these accounts was a valid ID number. No management fees were charged and account holders were granted one, free

cash deposit a month. Transactions were limited to deposits, cash withdrawals, debit card payments and transfers.

Mzansi accounts were and still are available at any of South Africa's "big 4" banks (ABSA, Nedbank, Standard Bank and First National Bank) as well as the South African Post Office.

2.1.2 The Dedicated and Co-operatives Banks Bill

The National Treasury proposed a new banking regulatory framework that sought to create a tiered structure and thus make way for a new class of low-cost banking institutions whose purpose would be to provide retail financial services to clients who are currently not serviced through products provided by the commercial banks (Kirsten, 2006).

2.1.2.1 Dedicated Banks Bill

These second-tier banks would be commercial enterprises in possession of banking licences which would allow for the provision of a restricted number of banking services (Kirsten, 2006). The banks would be sub-divided into Savings Banks and Saving & Loans Banks.

Globally, the establishment of dedicated banks has gone from strength to strength with particularly successful examples evident in Latin America (Schoombee, 2004).

This bill is still in the draft stages.

2.1.2.2 Co-operative Banks Bill (2004)

These third-tier banks would be member-based deposit-taking financial services cooperatives and credit unions (village banks) (Kirsten, 2006). At present, these institutions operate under exemption from the Banks Act.

This study looks to understand some of the possible reasons behind the failure to reach some of the targets as specified in the Financial Sector Charter (2003), despite government's assistance in terms of legislation.

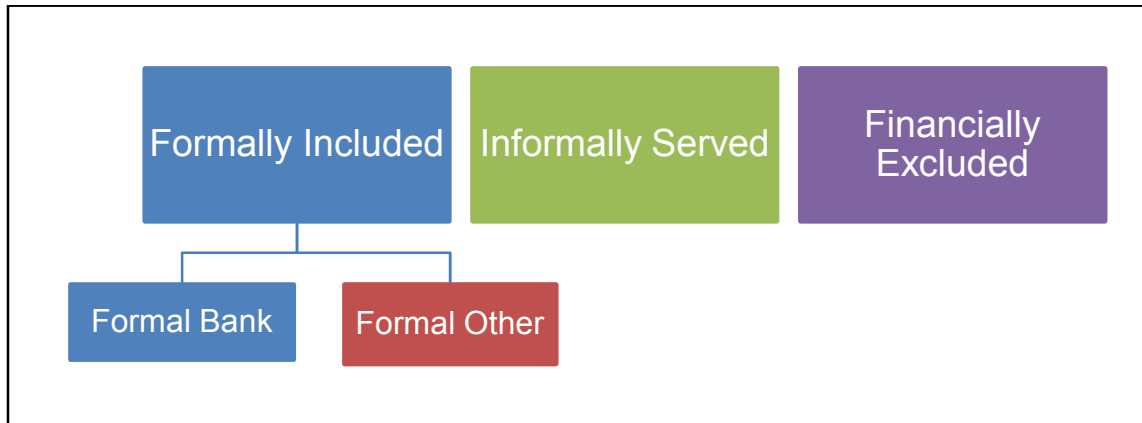
2.2 DEFINING ACCESS TO FINANCIAL SERVICES

Access to financial services refers not only to geographical access, but also to the availability of a supply of reasonable quality financial services at reasonable costs (Claessens, 2006). As there are no established procedures for measuring access itself, usage has often been used as a proxy. However, usage data were likely to understate access if it was assumed that although people have access to a particular product or service, they chose not to use it (Napier, 2006).

2.2.1 The Financial Access Strand

The Financial Access Strand focused on the financial system in its broadest sense and assumed that all adults in a given country would fall into one of three broad segments (figure 1) across the Access Strand (FinMark Trust, 2007).

Figure 1: The segments of the Access Strata



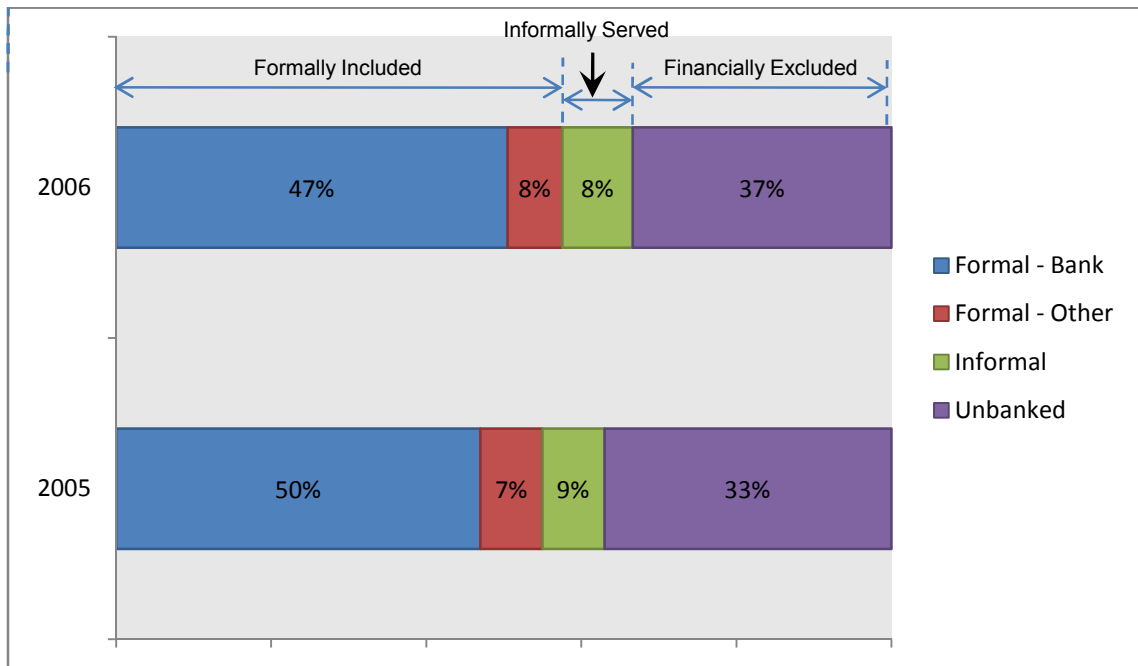
Source: Adapted from the FinScope 2006 findings brochure, pg. 7

The **Formally Included** segment consisted of those adults who made use of one or more products provided by those institutions who were governed by a legal precedent of any type (FinMark Trust, 2007). Adults included in this segment may also have used “informal products”. This segment was further divided into Formal Bank (products provided by financial institutions) and Formal Other (products not supplied by financial institutions).

The **Informally Served** segment consisted of those adults who used one or more informal products that operated without recognised legal governance (FinMark Trust, 2007).

The **Financially Excluded** sector consisted of those adults who are neither holders of formal nor informal products (FinMark Trust, 2007).

Figure 2: The Access Status of Financial Services



Source: Adapted from the FinScope 2006 findings brochure, pg. 7

Previous research has eluded to physical access as being the main reason why such a large portion of South Africa’s population have yet to possess a bank account. Part of this study investigates both physical access and access in its broader definition as possible deterrents to the possession of first-order retail banking products.

2.3 DEFINING THE LOW-INCOME POPULACE

2.3.1 LSM 1-5

LSM’s or Living Standards Measures were levels of people segregated according to certain demographic and living standards measures (The South African Advertising Research Foundation, 2004). They were the standard for

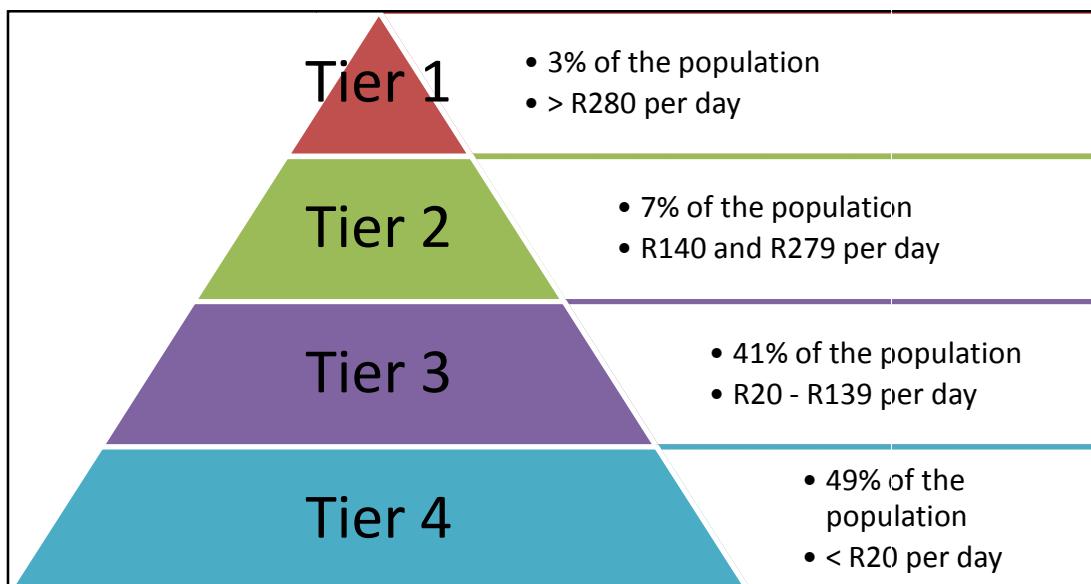
overall consumer market segmentation in South Africa (Porteous, 2003). 10 LSM's were defined.

In terms of the LSM's, low-income people were defined as belonging in LSM 1-5 (Porteous, 2003). It should be noted that the LSM's were calculated at a household level, were highly correlated with household income and measured things which people had (FinMark Trust, 2007). Essentially, the LSM's were a "here and now" measure.

2.3.2 The Bottom of the Pyramid

Hart and Prahalad (2002) divided the world economy into a pyramid with four tiers. Tier 1 was composed of the middle- and upper-income people from the developed world and a few of the rich elites from the developing world. Tier 4, on the other hand, was composed of over 4 billion people whose average per capita income was less than \$1,500 or less than \$1 a day.

Figure 3: The Bottom of the Pyramid in South Africa



Source: Adapted from Eighty20 Consulting's presentation to GIBS (2006), slide 5.

2.3.3 **Minimum Living Level**

In the absence of a method of calculating a poverty line that was universally accepted, the minimum living level (MLL) – as developed by the Bureau of Market Research at the University of South Africa (Unisa) – was often used as a basis.

The MLL stated the minimum financial requirements of the members of a household if they were to maintain their health and have acceptable standards of hygiene and sufficient clothing for their needs (Martins and Maritz, 2004: in Martins, 2007).

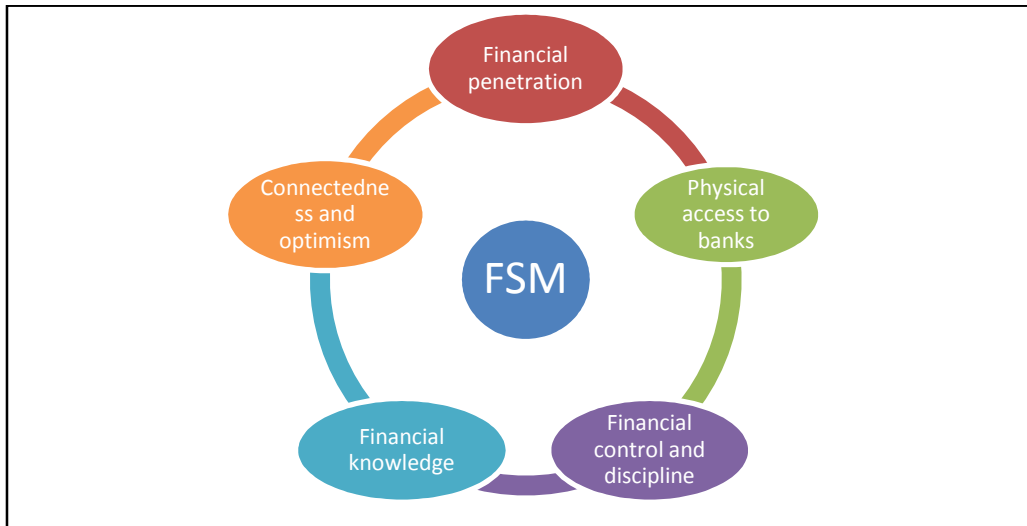
The average monthly MLL for South Africans residing in urban areas was classified as R2,500 (Martins and Maritz, 2004: in Martins, 2007) which translated to R30,000 per year.

2.3.4 **Financial Services Measure**

The Financial Services Measure (FSM) segmented the market on both earnings and key psychological elements (FinMark Trust, 2007).

The measure was essentially a financial services measure which was calculated at an individual level. It looked to the future and measured the products people had along with their perceptions (FinMark Trust, 2007).

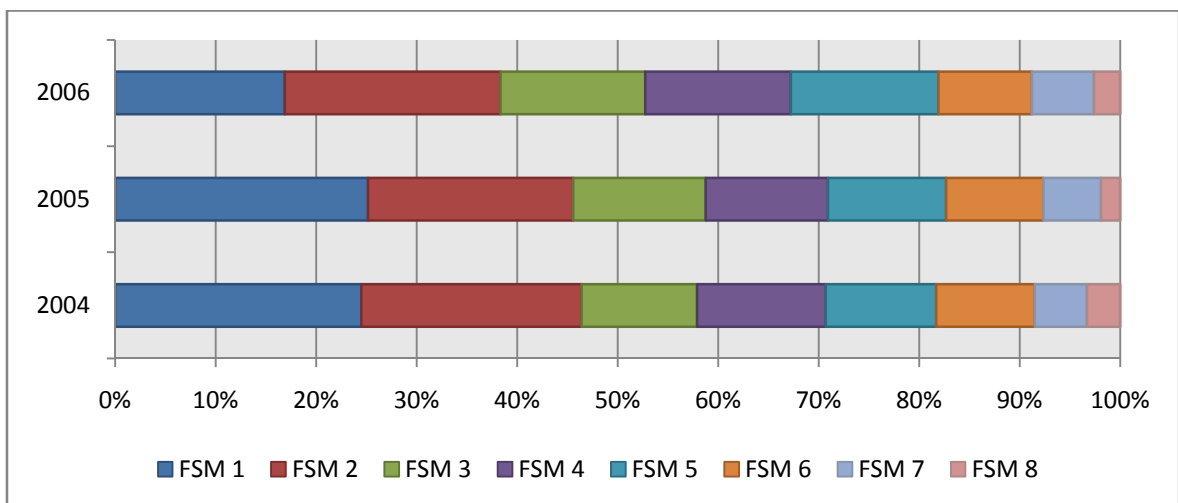
Figure 4: The broad components of the Financial Services Measure (FSM)



Source: Adapted from the FinScope 2006 findings brochure, pg. 8

The Financial Services Measure classified people into eight tiers based on a variety of measures. The goal was, and still is, to substantially reduce the number of people in the lower FSM groups over time. Such reductions occur as people became more aware of financial products and started utilising them, as well as increasing their knowledge and discipline.

Figure 5: Changes in the sizes of the FSM segments



Source: Adapted from the FinScope 2006 findings brochure, pg. 12

Current opinion is divided as to which method is the best in determining just who the low-income sector should consist of. For the purposes of this study, it was decided that the Tiers 3 and 4 from the Bottom of the Pyramid in South Africa (figure 3) would be used to define the low-income populace.

2.4 **LOW-INCOME FINANCIAL SERVICES**

2.4.1 **Demand and supply**

On the demand side the changing face of South Africa's population (with an increase in poverty and unemployment) had influenced the nature and characteristic of demand for financial services by low income and poor households. On the supply side, policy, legal and regulatory changes have impacted on the provision of services to low income and poor households (Kirsten, 2006)

In order to have understood demand, we must have understood the needs of low-income people with respect to financial services. According to Rutherford (1999) and Porteous (2003), the needs of the low-income group were as follows: a safe, secure place to store their money; the ability to pay and/or transfer money to remote beneficiaries safely and cost effectively; access to liquidity in times of need and access to risk mitigation mechanisms.

It could have been argued that financial needs began with basic and reliable ways to manage cash-flow and short-term expenses, as a lack of such ways often led people to rely on the mercy of predatory lenders or family and friends (Collins and Morduch, 2008).

Little research exists on the demand for formal financial services amongst the low-income population therefore this study aims to fill part of this gap in knowledge.

2.4.2 Formal and informal Instruments

South Africa has a dual economy (Arora and Leach, 2005) with the first world sector making use of formal financial instruments while the developing sector – which is largely made up of the informal sector – making use of informal financial instruments.

The Financial Diaries (Centre for Social Science Research, 2004) had classified financial instruments as follows:

Formal - bank accounts, pension/provident funds, unit trusts, funeral plans, loans from banks or micro-lenders, insurance, store/credit card, account/lay by, rent arrears, income arrears, wage advance, retirement/savings annuity, trade credit and debt under administration

Informal - stokvel/umgalelo, burial society, one-on-one lending/borrowing, credit at local spaza/shebeen, money guarding, stokvel/umgalelo loan, mashonisa loan, saving-in-house, salary timing and giving credit

According to the Financial Diaries (Centre for Social Science Research, 2004), a larger volume of transactions amongst low-income households went through formal financial instruments as opposed to informal financial instruments. It was

believed, however, that these figures may have been distorted by payroll banking transactions.

According to the Financial Diaries (Centre for Social Science Research, 2004), composite households (households across urban, peri-urban and rural areas) made use of a portfolio of financial instruments that consisted of 30% formal and 70% informal. This study investigates the portfolio specific to the urban and peri-urban areas.

2.4.3 Factors affecting formal financial product adoption and use

2.4.3.1 Education and language

Prior to the democratisation of South Africa, education was extremely unequal by race. The Bantu Education Act (1952) ensured that many Africans were restricted to an education that was designed to prepare them for a lower, more menial place in society and the economy (Lewis, 1990). In addition, during the apartheid era, South Africa was considered to be a bilingual state which meant that all schooling was carried out in these two languages despite what the mother-tongue of the learners may have been (Kamwangamalu, 2000).

For many Africans, the abrupt switch from their mother-tongue to English or Afrikaans as the medium of learning resulted in high failure rates and dropouts (Kamwangamalu, 2000). Dropout rates amongst Africans in both primary and secondary schools were high. In 1984, for example, only 36% of African pupils starting primary school were expected to complete secondary school.

The neglect of the education of Africans in South Africa has been a major focus of government policy since 1994. However, such a long history of neglect will take time to fix and in the meantime, the majority of Africans and thus of South Africa's low-income population have received a sub-standard education (if any) which has inadequately prepared them to deal with the realities of the 21st century (e.g. bank accounts).

Literacy levels

According to World Education (2007), literacy was defined as the ability to use reading and writing in order to get information. In terms of a grade level definition, people who have passed the 5th grade level are considered "functionally literate" (World Education, 2007).

FinScope (FinMark Trust, 2007) stated that the literacy levels of people in South Africa were 84%. It should be noted that these levels were not divided into income groups or geographical areas.

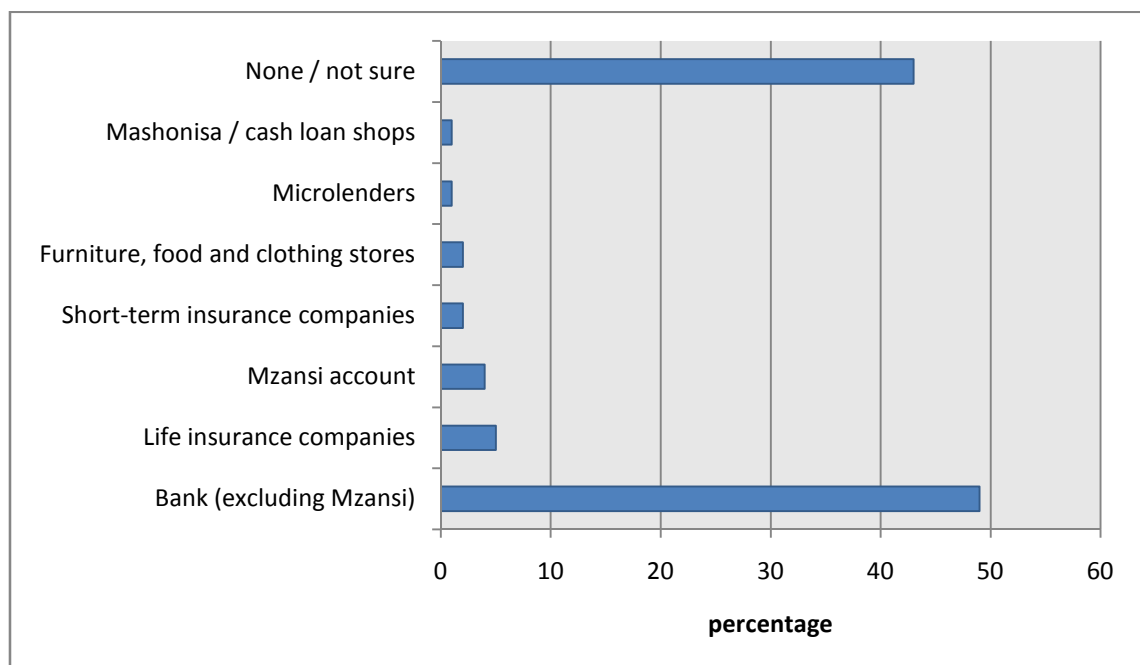
Research has shown that there is a direct correlation between levels of education and levels of wealth. What research doesn't show us is if there is a direct correlation between education levels and the possession or desire to possess first-order retail banking products. The possibility of this correlation will be investigated in this study.

2.4.3.2 Perceptions of financial service providers and offerings

Despite banks being seen as the ideal service provider (figure 6), a large majority of low-income people regarded stokvels and burial societies as a better, more trustworthy place than a bank to save their money (FinMark Trust, 2007). In addition, banks were associated, by some people, with not getting their money immediately and for not being easily accessible” (FinMark Trust, 2007).

The majority (61%) of low-income and unbanked people were reportedly confused about financial matters and the financial services/instruments on offer (FinMark Trust, 2007) e.g. they didn’t understand how Mzansi, life insurance or short term insurance companies worked.

Figure 6: Ideal service providers as perceived by the respondents to FinScope 2006



Source: Adapted from the FinScope 2006 findings brochure, pg. 26

There is evidence to suggest that banking institutions are associated with status and respect (FinMark Trust, 2007). However, this evidence is not conclusive

and leaves us to wonder what other perceptions exist with regards to banking institutions and bank accounts. These perceptions are studied as a part of this research.

2.4.3.3 Physical access

Low-income people were more likely to make use of public transport which would have affected both the cost and convenience of access to bank facilities (Porteous, 2003). According to FinScope 2006 (FinMark Trust, 2007), 60% of people made use of public transport to get to a bank.

On average, it was calculated that it took someone who was part of LSM 1-5 approximately 28 minutes to get to a bank compared to 15 minutes for those in the wealthier LSM's (6-10).

The average cost of a return trip to a bank for those who used public transport was R11.58 (FinMark Trust, 2007) which was a large percentage of the income of someone living on less than R139 per day.

While we are aware of the facts surrounding access, in terms of public transport, a conclusive study does not exist to say that this adversely affects a person's intent to possess and use a bank account. Accessibility in physical terms is explored in this research study.

2.4.3.4 Account costs

The costs incurred in operating a bank account were often prohibitive, leading many individuals to seek financial services from informal sources (Claessens,

2006). At this point, it is interesting to note that the majority of banks operating in the South African retail market segment regarded fee income as being more important than interest income (Coetzee, 2005).

Evidence exists to indicate that the low-income population is price sensitive and therefore we can assume that the costs incurred in the process of actively making use of first-order retail banking products will affect adoption rates. This study investigates the perception of costs and this effect on adoption and usage rates.

3 RESEARCH QUESTIONS

In the review of the theory and literature, the most commonly stated reason for non-adoption of banking products is accessibility – this is evidenced by the Financial Sector Charter (2003) which states “through appropriate and accessible physical and electronic infrastructure”.

However, there may be other factors be they physical or emotional that affect an individual’s decision to both adopt and use one or more first-order retail banking services.

1:

What influences low-income individuals in their adoption of first-order retail banking products?

- 1.1 What are the reasons for opening a bank account by low-income individuals?
- 1.2 What is the perception amongst low-income individuals with regards to banks, bank accounts and account operations?
- 1.3 What impact does an individual’s knowledge base have on their decision to adopt a bank account?

2:

What influences low-income individuals in their use of first-order retail banking products?

- 2.1 What is the frequency of bank account usage amongst low-income employed individuals?
- 2.2 What are the reasons for using a bank account amongst low-income individuals?

The following sub-question is applicable to both research questions as stated above:

- 3.1 What are the preferences amongst low-income individuals in terms of ways and means of saving their money and paying for expenses?

4 RESEARCH METHODOLOGY

4.1 RESEARCH DESIGN

The methodology that was used in this study contained exploratory research elements. Exploratory research is conducted in order to clarify and define the nature of a problem (Zikmund, 2003). In this research study, we were looking to more fully probe and define the reasons for non-adoption, slow-adoption and abandonment of first-order retail banking products.

In order to conduct our research, both secondary and qualitative data were used.

Secondary data

Secondary data analysis is the preliminary review of data that has already been collected for other purposes in order to clarify issues in the early stages of a research effort (Zikmund, 2003).

Information sources for the collection of secondary data for this study included, but were not limited to, materials made available from The Financial Diaries studies and the Financial Sector Charter, statistics on the South African population available from StatsSA and the FinMark Trust, academic papers and case studies, and journal, newspaper and magazine articles.

Qualitative data

Qualitative data was collected by conducting personal interviews with those subjects who made up the research sample. Personal interviews allow for the clarification (by respondents) of questions asked, feedback and probing (in the case of unclear or incomplete responses) – characteristics which enable the researcher to obtain information that is precise and complete (Zikmund, 2003). The use of personal interviews allowed for the surveying of people across a range of literacy levels as an interview in its very nature removed the requirement of a respondent needing to be able to read a questionnaire. As a large part of the proposed population was illiterate, such a characteristic was important to the successful conduct of the research.

4.2 POPULATION AND UNIT OF ANALYSIS

A population can be defined as a complete group of entities (be it people, companies, stores etc.) that share a common set of characteristics (Zikmund, 2003).

Taking into account this definition, the population for this research study was defined as urban and peri-urban based (for employment purposes) individuals who earn, on average, less than R139 per day (Tier 3 and 4 of the South African economic pyramid – figure 3).

The unit of analysis was taken as an individual who displayed the characteristics of this population.



4.3 SAMPLING AND SIZE

The population of interest of this study was sufficiently large that research could only realistically be conducted on a sample of its (the population's) units. As a result, sampling frames had to be compiled.

A sampling frame may be described as a list compiled of each unit of analysis that is eligible for study (Huysamen, 2001).

Two separate sample frames were identified – those individuals who were employed in the formal sector (e.g. factory workers), and those individuals who were employed in the informal sector (e.g. street vendors).

(Note: As the respondents wish to remain anonymous, the sample frames cannot be disclosed as part of this document.)

4.3.1 Sample frame 1: Formal sector

The sampling frame for this group consisted of a list of 720 individuals, all of whom met the unit of analysis criteria.

In this study, the researcher had access to companies and employees from the industrial sector who were based in various urban and peri-urban areas and it was from these that the sampling frame was compiled.

A sample of 100 individuals were selected from the sample frame using simple random sampling, and invited to participate in the study. Simple random sampling occurs when each member of the population (or in this case, sample frame) have the same chance of being included in the sample (Huysamen, 1994, reprinted 2001). The simple random sampling was conducted using Microsoft Excel's random function. The target responsiveness rate of 100% (i.e.

100 respondents) was achieved with the first round of invitations. Had this not been the case, simple random sampling would have continued until such time as 100 respondents had responded positively.

The sample was limited to 100 individuals due to resource and time limits on the part of the researcher.

4.3.2 Sample frame 2: Informal sector

The sampling frame for this group consisted of a list of 50 individuals, all of whom met the unit of analysis criteria.

The sampling frame was compiled using the researcher's local contacts and through investigation. The researcher had selected individuals who were part of the target population, who were located in different geographical areas and who were involved in various forms of informal production and service rendering.

The sample of 50 was selected and using non-probability sampling, specifically convenience and judgement sampling, and invited to participate in the study. Non-probability sampling is a technique in which the sample units are selected on the basis of personal judgement or convenience (Zikmund, 2003). Convenience sampling is a form of non-probability sampling and occurs when the sampling frame or list is compiled using those people who are most conveniently available (Zikmund, 2003). Judgement sampling is another form of non-probability sampling whereby the sample is selected based on an appropriate characteristic of the sample members (Zikmund, 2003).

Of the 50 individuals who were invited, 30% consented to participate giving a responsiveness rate of 60%.

The sampling units were representative of the sample frames which, in turn, were representative of the proposed population of study.

4.4 SECONDARY / COMPARATIVE POPULATION

A secondary population of those individuals who were urban and peri-urban based (for employment purposes) and who earned, on average, more than R139 per day (Tier 1 and 2 of the South African economic pyramid (Eighty20 Consulting (2006), 2007)), were also included in order to provide a basis for comparison.

The sampling frame for this group consisted of 20 individuals, all of whom met the unit of analysis criteria.

In this study, the researcher had access to fellow MBA students and it was from here that the sampling frame was compiled.

A sample of 10 people was selected using non-probability sampling, specifically convenience and judgement sampling. Of the 10 individuals invited to participate, all 10 consented to do so thus giving a responsiveness rate of 100%.

The sample size for this group was deliberately small as it was intended to provide a loose comparison to the actual research subjects as selected in sample frames 1 and 2.



4.5 **DATA COLLECTION**

In the qualitative phase, data was collected by making use of direct participation by the respondents in the form of face-to-face interviews. The interviewer was guided by an open-ended questionnaire that had been drawn up by the researcher (see Appendix 1) and which was aimed to fill in the gaps of current knowledge. The questionnaire was flexible and certain responses during the first few interviews led to an enhancement of the questionnaire.

The interviews were recorded and subsequently transcribed. Data integrity was confirmed in two ways:

1. The interviewer repeated back all answers to the respondent in order to confirm that what was said was what was meant.
2. An impartial third party was given a sample of the interviews and confirmed that what was said on tape was accurately portrayed in the transcripts.

All respondents were given a brief introduction to the survey, including acknowledgement of their right to refuse to participate and their right to remain anonymous.

In some cases, a translator was required. The translator was an independent third party for whom the respondents' answers held no effect.

4.6 **DATA ANALYSIS**

Collected data is edited and coded in order provide the input that produces the information required to answer the research questions (Zikmund, 2003).

Secondary data was reviewed in order to identify common themes and knowledge gaps. These gaps were used to guide the analysis of the qualitative data collected.

Some of the variables were ordinal (natural ordering was possible) while others were nominal (no-natural ordering was possible). The ordinal variables were coded and frequency tables and / or histograms were drawn up so that the data could be analysed and both descriptive and inferential statistics were able to be obtained. Qualitative content analysis was performed so that patterns could be discerned amongst the responses.

4.7 RESEARCH LIMITATIONS

4.7.1 Cultural and language constraints

The researcher was white and fluent only in English and Afrikaans. This may have constrained the research as respondents may have felt uncomfortable in the presence of an interviewer who was so demographically apart from them and who was unable to speak their language.

An African translator was required to overcome this in some of the interviews that were conducted.



5 RESULTS

The gathered data was analysed and a summary of these results is presented below, in accordance with the questionnaire. These results do not include interpretations.

Categories:

- Tiers 1 & 2 - Those individuals earning above R139 per day and who are employed in the formal sector.
- Tiers 3 & 4 Formal - Those individuals earning less than R139 per day and who are employed in the formal sector.
- Tiers 3 & 4 Informal - Those individuals earning less than R139 per annum and who are employed in the informal sector.

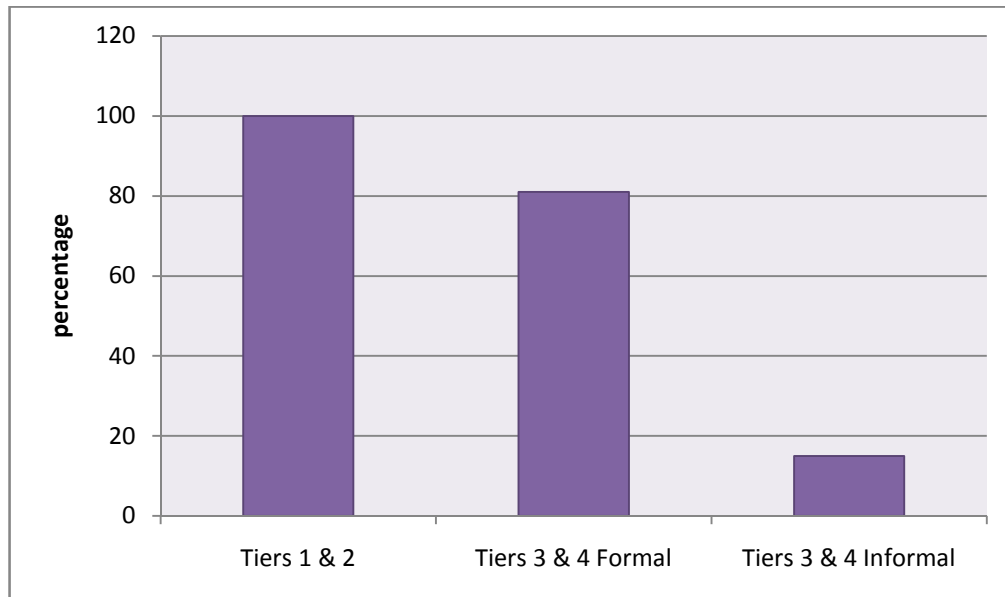
The English translations of some responses are provided.



5.1 **SECTION A**
(all respondents)

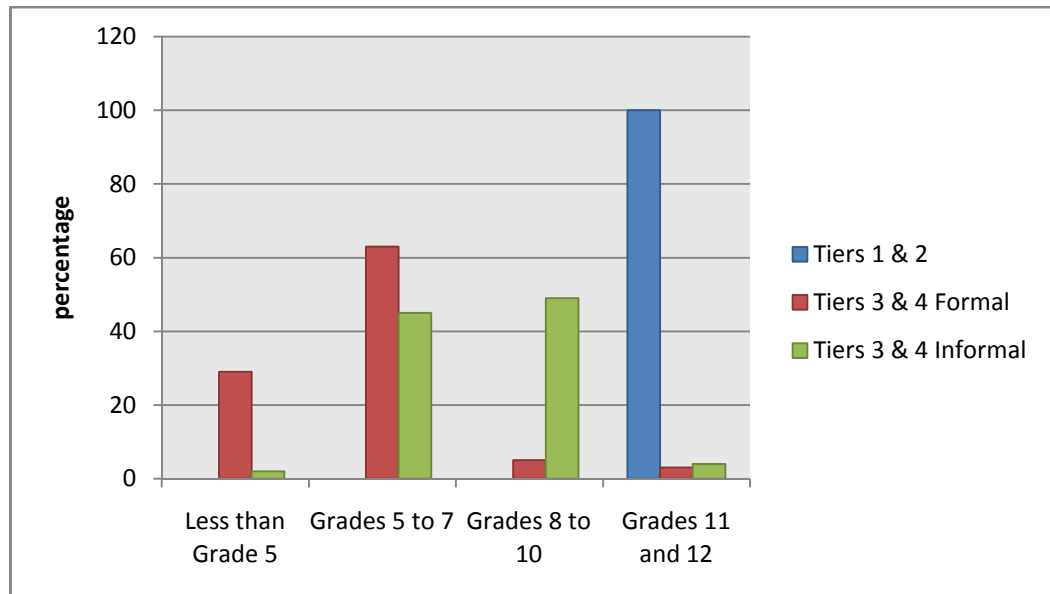
A1: Does the respondent have a bank account (this includes accounts held at the South African Post Office)?

Figure 7: **Percentage of individuals in possession of one or more first-order retail banking products (i.e. a bank account)**



A2: Are the respondents literate in English and/or Afrikaans?

Figure 8: English and/or Afrikaans literacy levels in terms of the highest level of primary / secondary education received

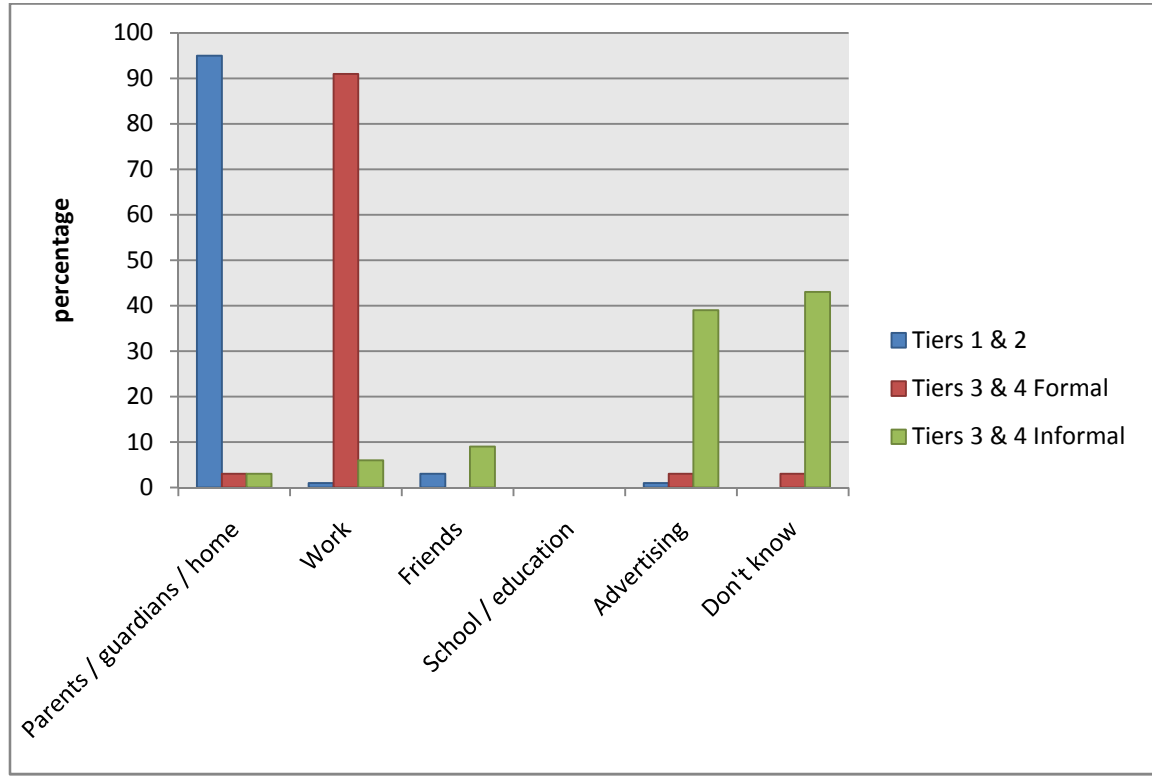


Some of the actual responses received were:

“I never went to school”, “the white madam said I didn’t have to go to school to do my job”, and “I can speak Zulu, why should I learn the white man’s language”.

A3: Where did the respondents first knowledge of banking institutions and bank accounts come from?

Figure 9: Sources of first knowledge of banking institutions and bank accounts



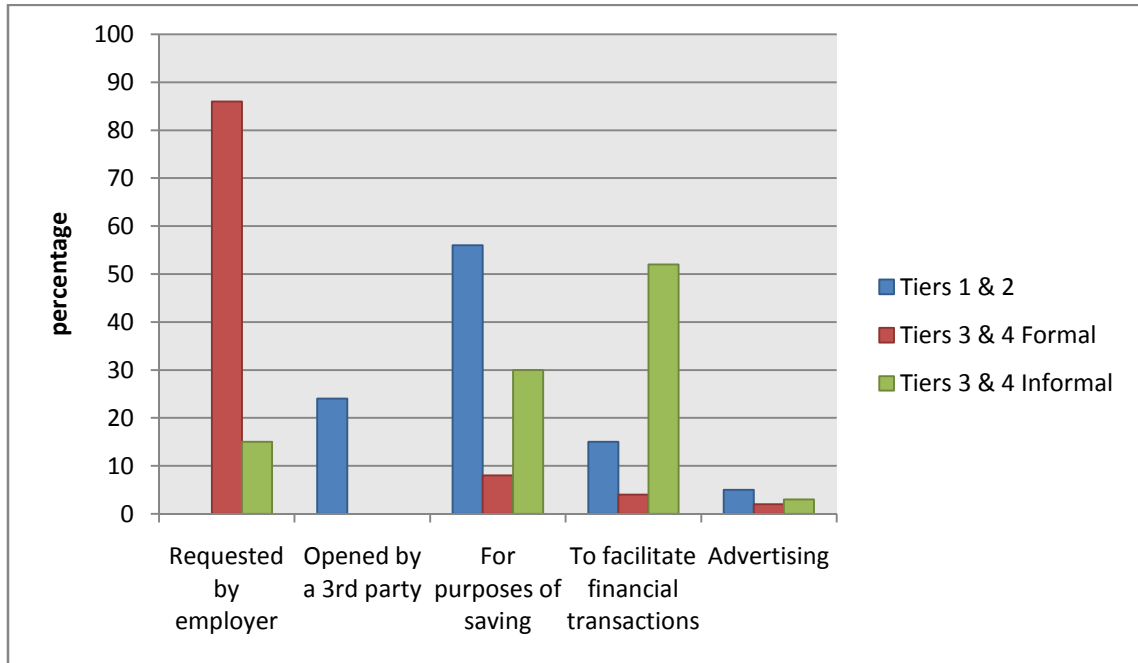
An actual response received was:

"I don't know, I thought bank accounts were for rich white people"

5.2 SECTION B
(for respondents in possession of bank accounts)

B1(a): Why were the bank account(s) opened?

Figure 10: Reasons given for the adoption of one or more bank accounts



- Opened by a third party refers to the opening of an account by a parent or guardian
- Advertising refers to the opening of an account in response to a form of advertising.

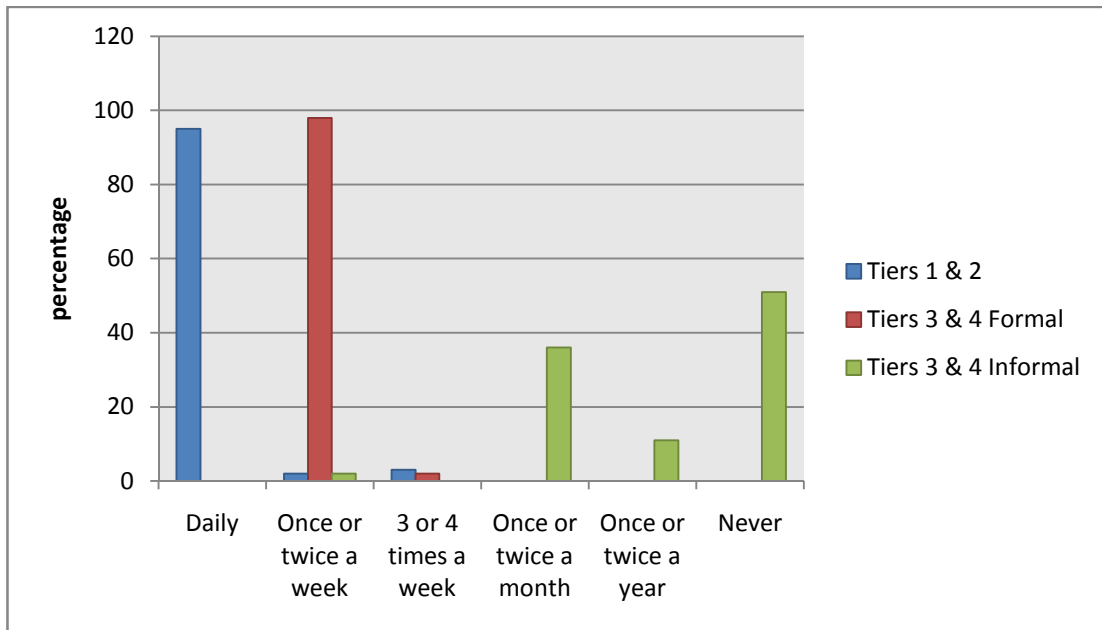
Some of the actual responses received were:

“my parents opened mine for me”, “my daughter’s madam opened her one, so I thought I must get one too” and “the boss told me too”.

One respondent said that he’d opened his bank account for investment. When asked if knew what investment was, he said, *“no, but the bank says that’s why you open an account”.*

B1(b): How Often are the Bank Accounts Used?

Figure 11: Average usage, in terms of frequency, of bank accounts



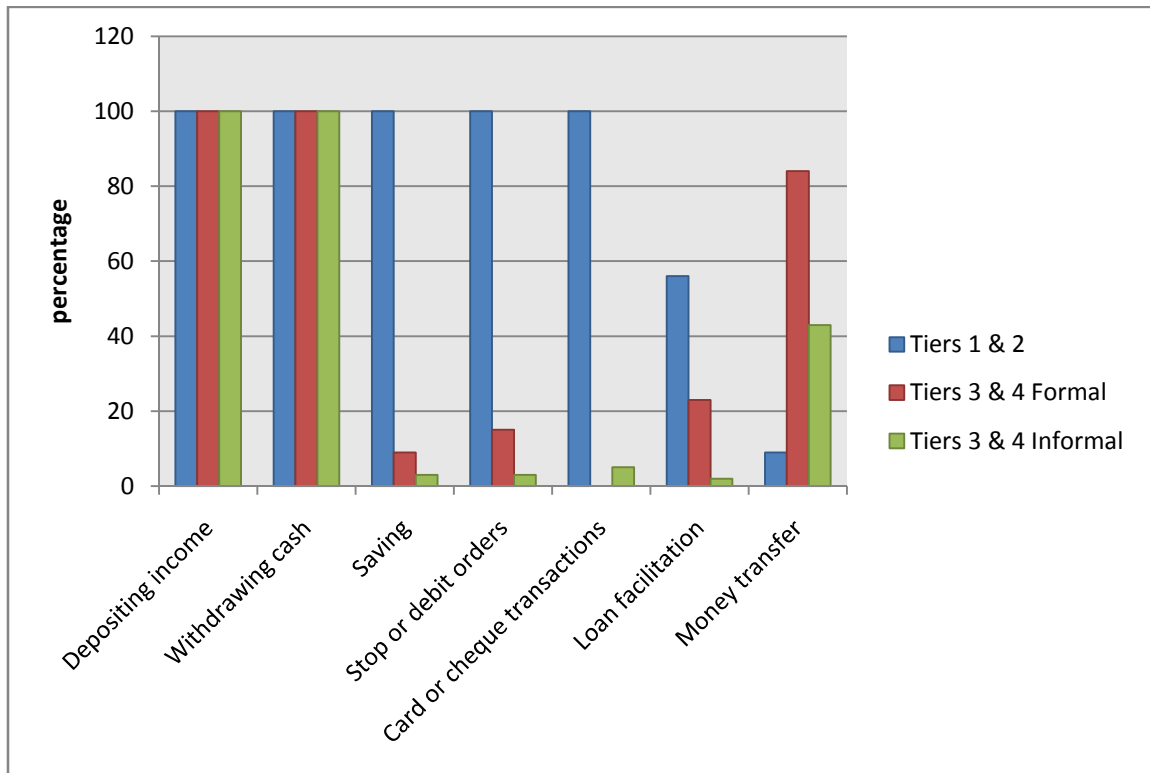
- The accounts used once or twice a year are used for the purposes of transferring money to a third party (most frequently to family members).

Some of the actual responses received were:

“I take money from the account on Friday, that’s when my wages are in. I don’t use it (the account) for anything else”, “I send money back home maybe at Easter and at Christmas” and “I had it (the account) when I was working for (previous employer) but now I don’t have money to put in it”.

B1(c): What are the bank accounts used for?

Figure 12: Average usage, in terms of purpose, of bank accounts



- Some respondents used their accounts for more than one purpose.
- Loan facilitation refers to the need to possess a bank account in order to apply for a loan.
- Money transfer refers to the transferring of money to a third party for purposes other than that of payment for services rendered (i.e. the transferring of money to family by a migrant worker.)

B2: What are the reasons given for infrequent or non-usage of bank accounts?

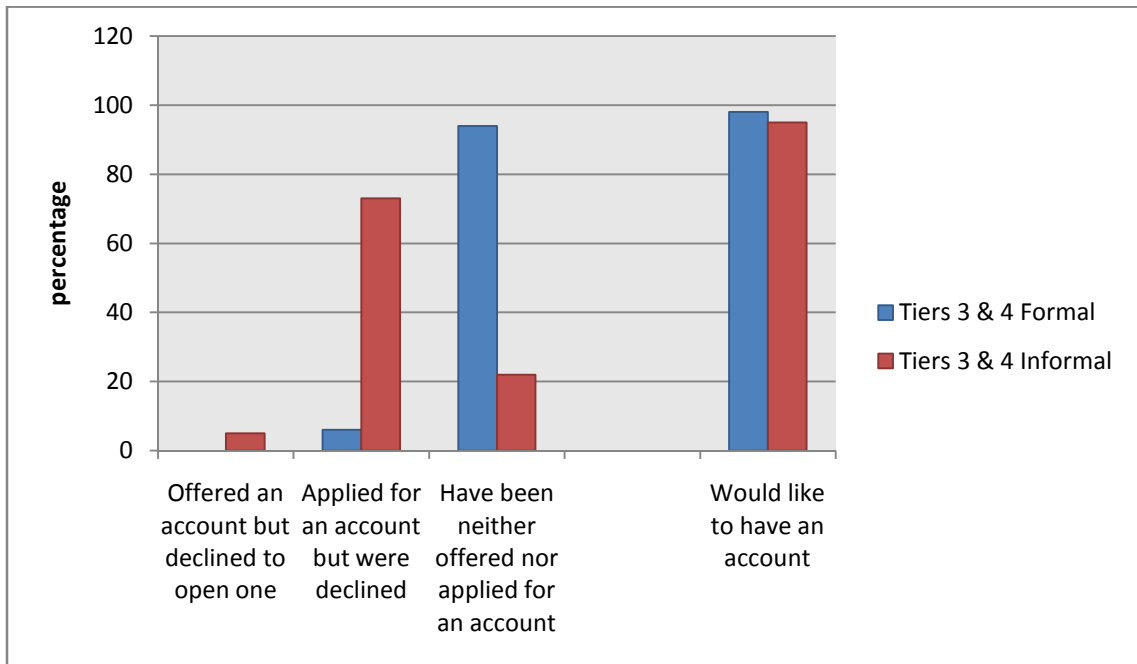
- Many respondents only opened their accounts as a way of facilitating money transfer which only occurs once or twice a year.

- The majority of respondents, especially those in the informal sector, cited the lack of necessity as a reason for no longer using their accounts. They opened their accounts in response to a request by a previous employer.



5.3 **SECTION C**
(for respondents not in possession of bank accounts)

Figure 13: Reasons for not opening a bank account



Some of the actual responses received were:

“Where do you go to open the account?”, “I want one (an account) but I don’t think they will give me one”, and “The lady (bank employee) told me I can’t have one”.

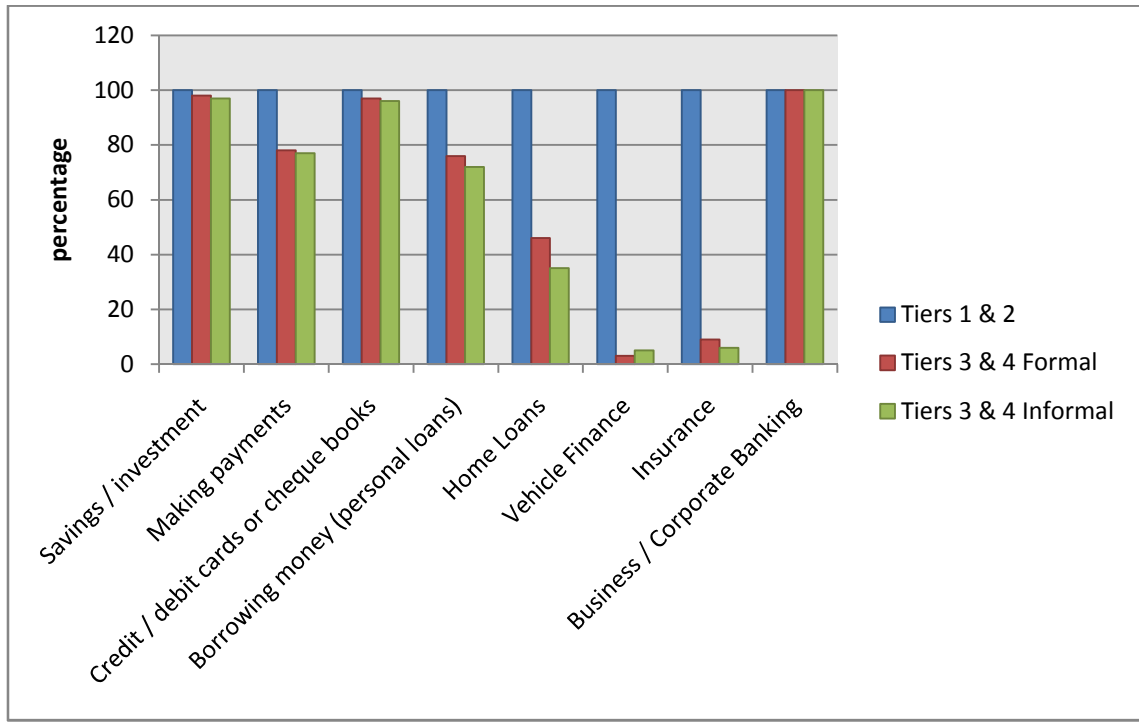


5.4 SECTION D
(all respondents)

D1: What do the respondents think the purpose of a banking institution is? Or

What products do the respondents associate with banks?

Figure 14: Respondents' associations of banking institutions with products offered



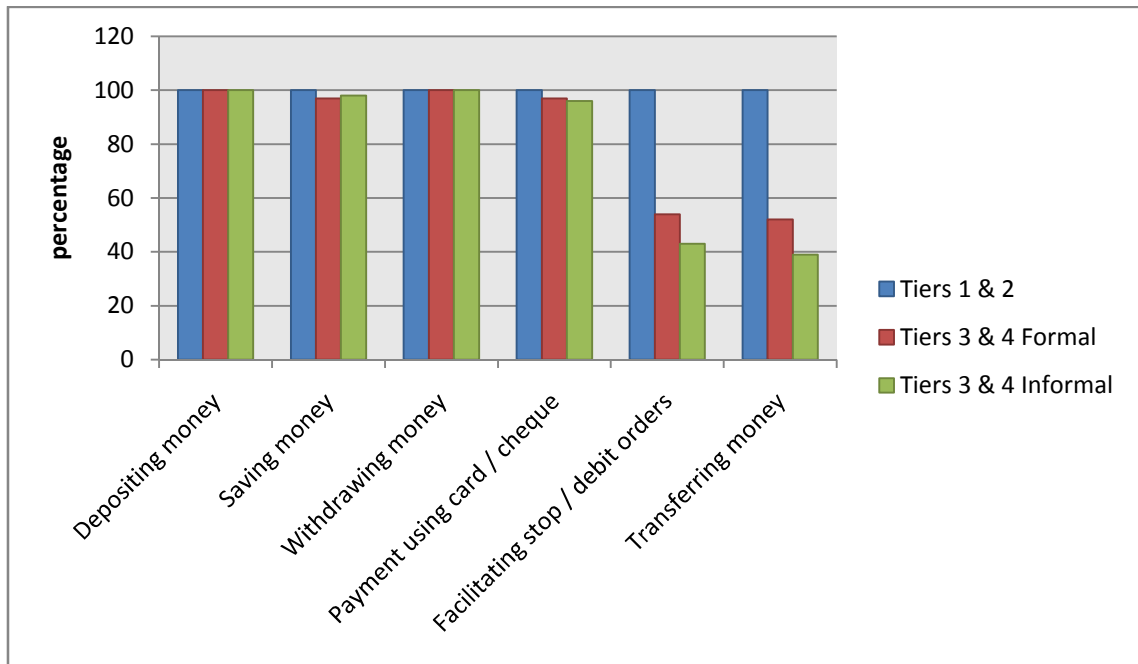
- The majority of respondents associated more than one product with a banking institution.

Some of the actual responses received were:

“The banks are for the rich people”, “they (the banks) take your money and don’t give it back”, and “It’s (the bank) for the white people”.

D2: What do the respondents think a bank account is for?

Figure 15: Respondents' associations of bank account uses



- The majority of respondents associated more than one use with bank accounts.

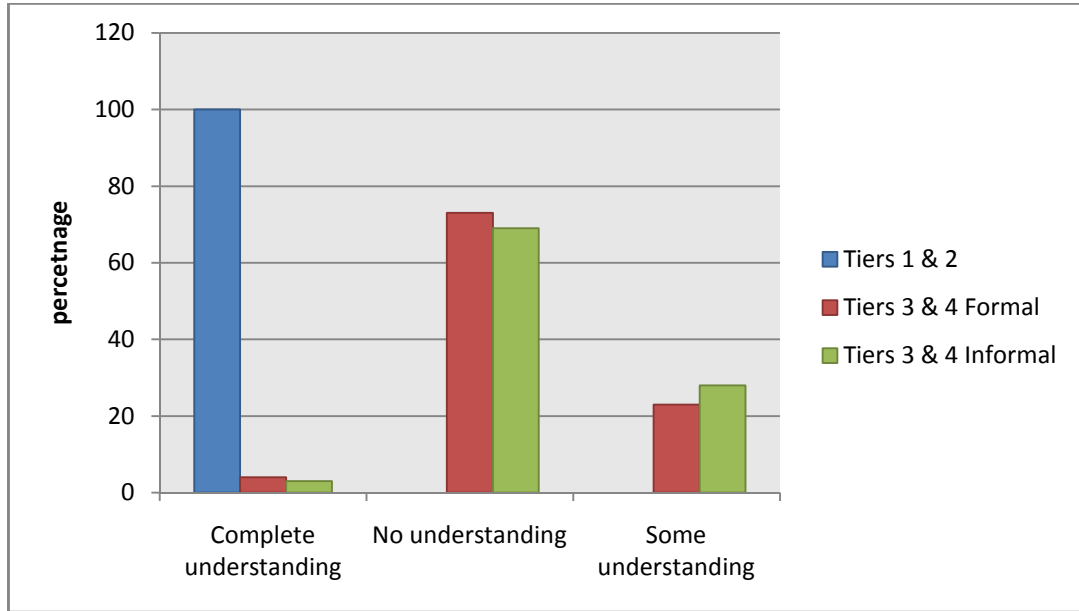
Some of the actual responses received were:

“You must have the account so you can get the free money from the bank” and

“The account is for the stop order”.

D3: Do the respondents understand how a bank account works (in terms of interest rates and charges)?

Figure 16: Respondents' understanding of bank charges and interest rates

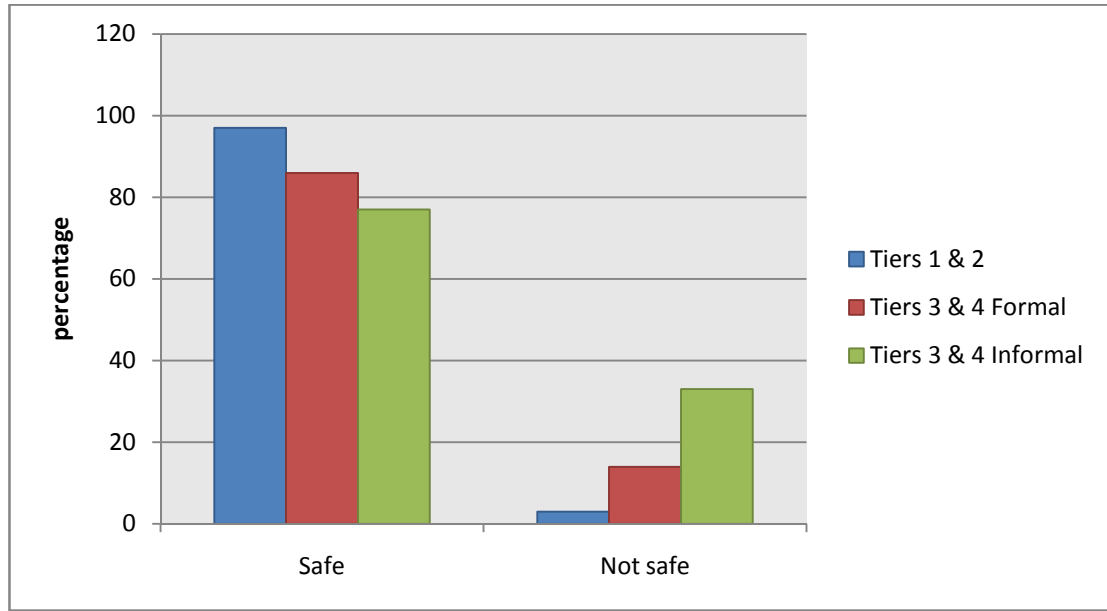


Some of the actual responses received were:

“No, no they (the banks) just take the money” and “You have to pay them to use the account”.

D4: Do the respondents think that a banking institution is a good and safe place to keep their money?

Figure 17: Respondents' opinion on the safety of banking institutions as a holder of their (the respondents') money

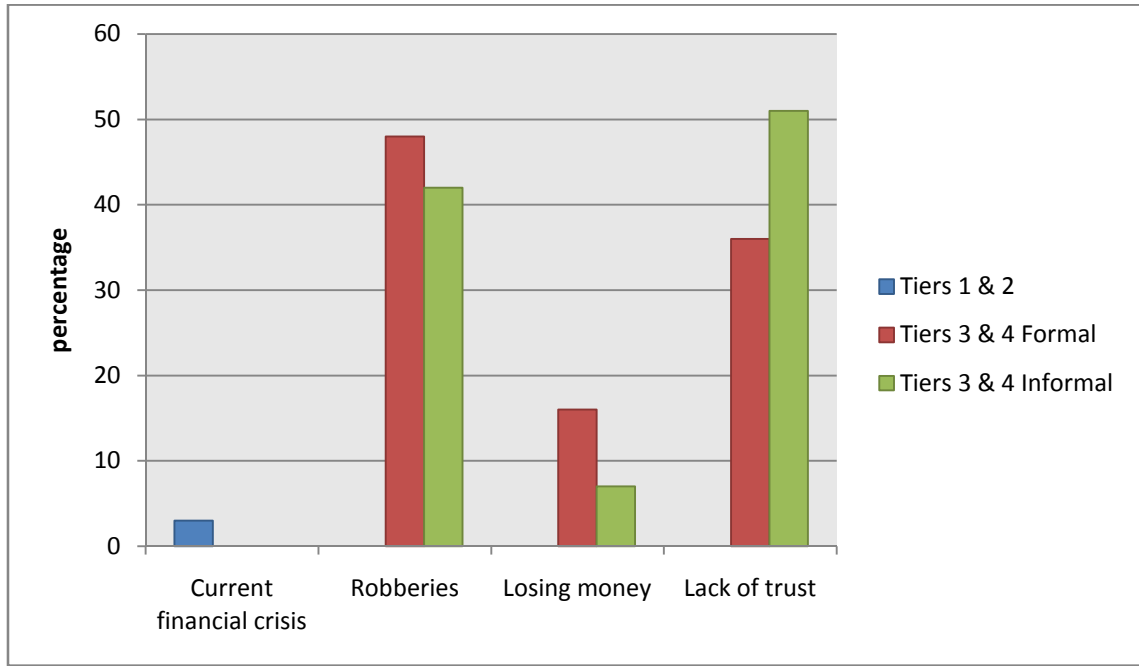


Some of the actual responses received were:

“The tsotsi’s steal your money from the bank”, “How do they (the banks) know which money is mine, maybe they can give it to someone else”, and “The money I can get from the machine is not the same money on my payslip – my money goes missing”.

D5: What are the respondents reasons for thinking that banking institutions are not safe places in which to keep their money?

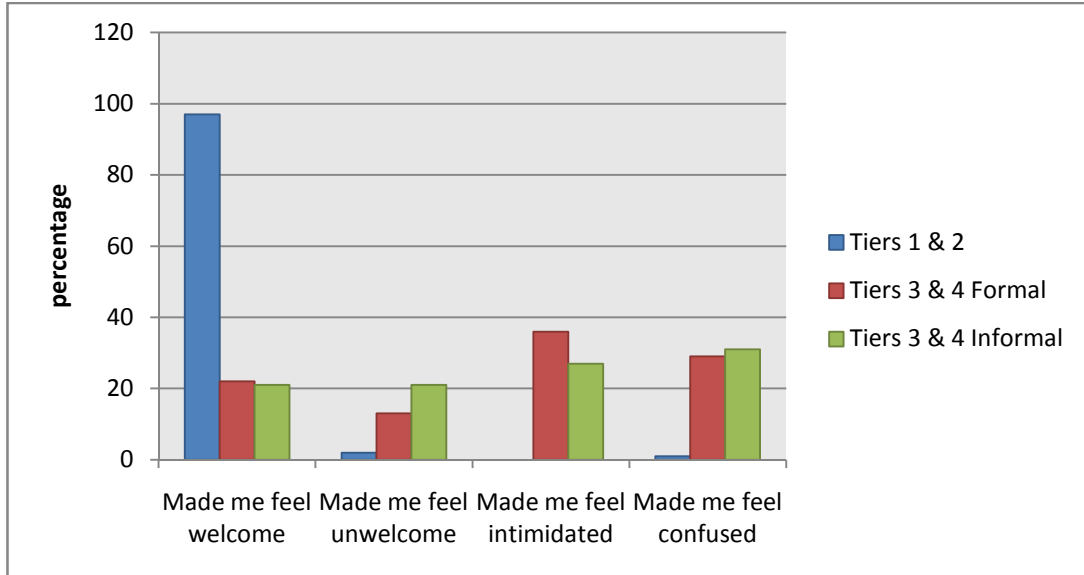
Figure 18: Respondents' reasons for citing banking institutions as being unsafe places in which to store their (the respondents') money



- The current financial crisis refers to fears of bankruptcy and / or a run on the banking institutions as a result of the current global financial crisis.
- Losing money refers to the opinion of many of the respondents that the banks just take some of their money as when they feel like it.
- Lack of trust refers to the respondents feelings towards the banking institutions and those that work in them.

D6: How do banking institutions make the respondents feel?

Figure 19: Respondents’ feelings towards banking institution branches and their employees

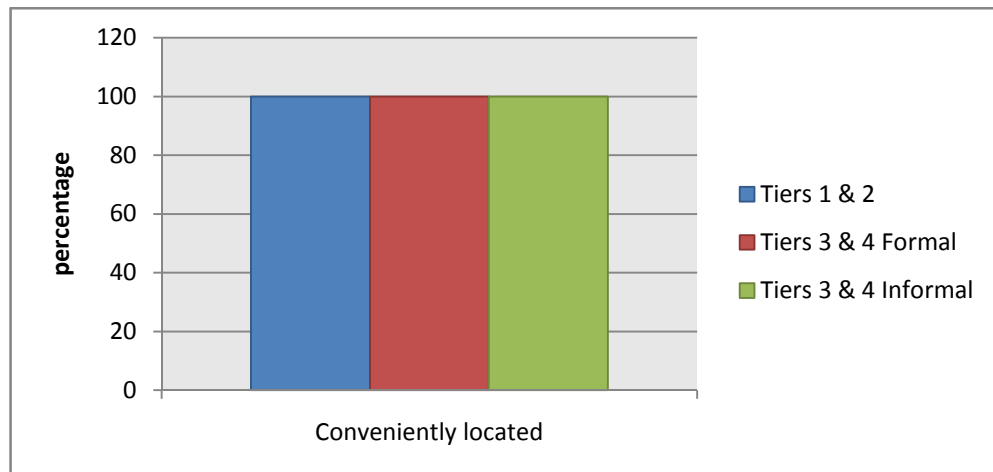


Some of the actual responses received were:

“I don’t know where to go”, “How does it work”, and “They don’t like me”.

D7: Do the respondents think that there are banks / ATMs located conveniently nearby for their use?

Figure 20: Respondents’ opinion on the convenience of banking institutions and ATMs, in terms of location

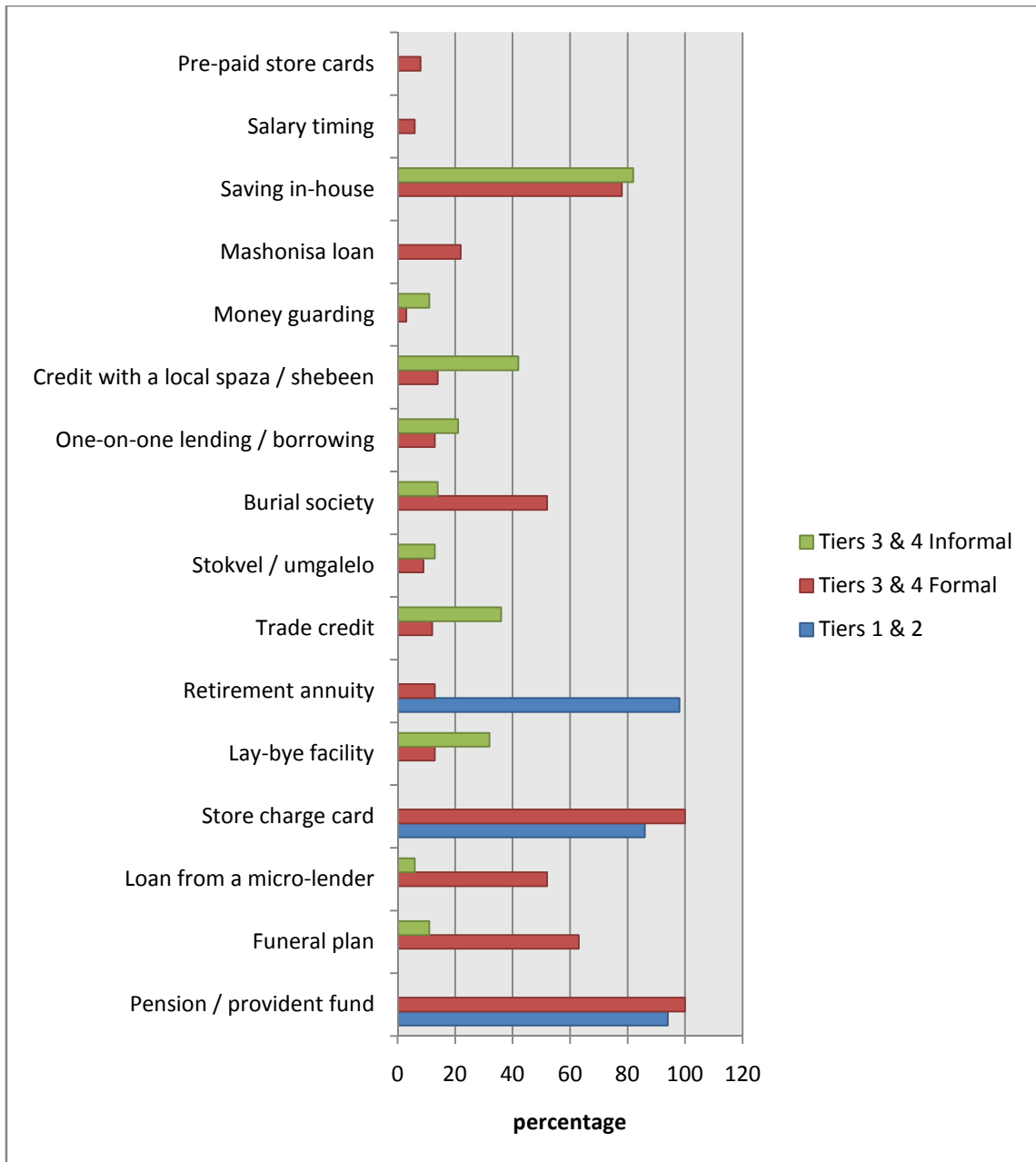




5.5 **SECTION E**
(all respondents)

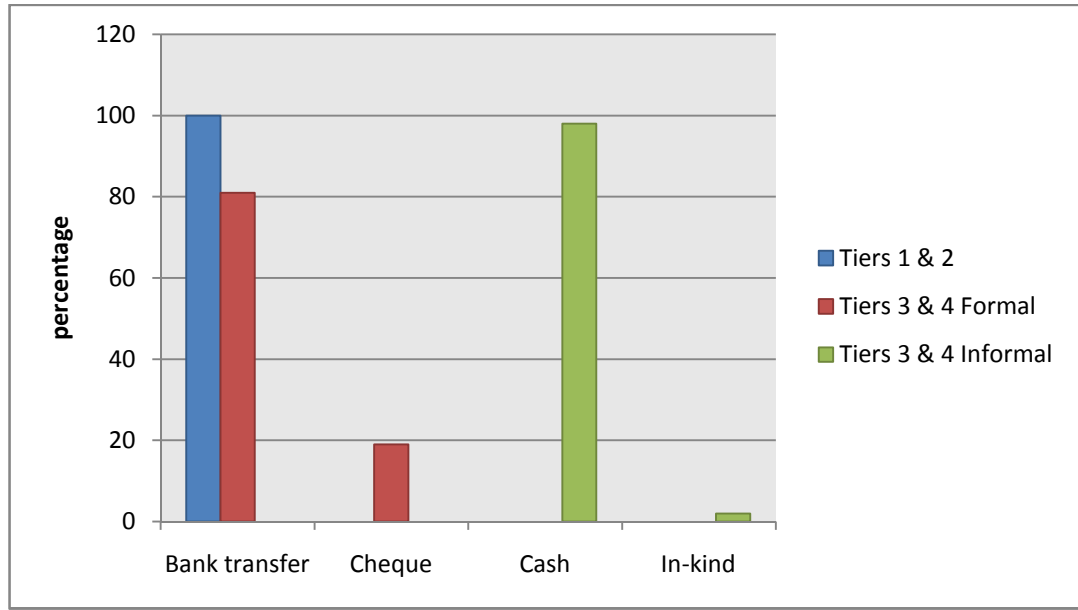
E1: What other financial instruments used by the respondents?

Figure 21: Financial instruments, other than bank accounts, used by the respondents



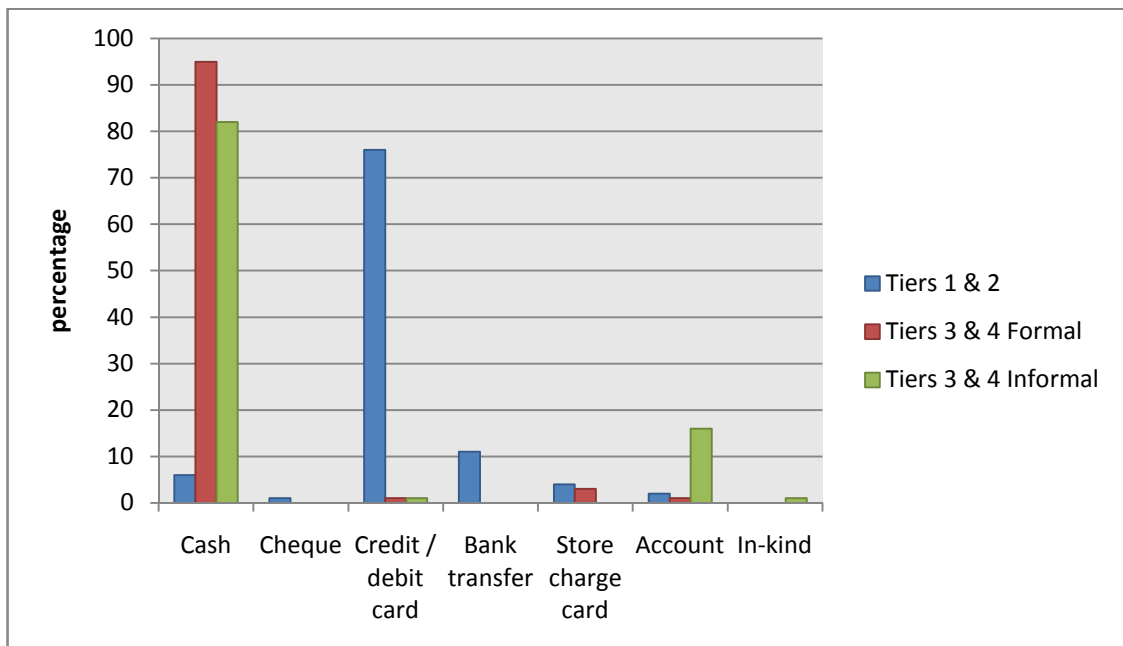
E2: How do the respondents receive their income?

Figure 22: **Actual methods of payment of income to respondents**



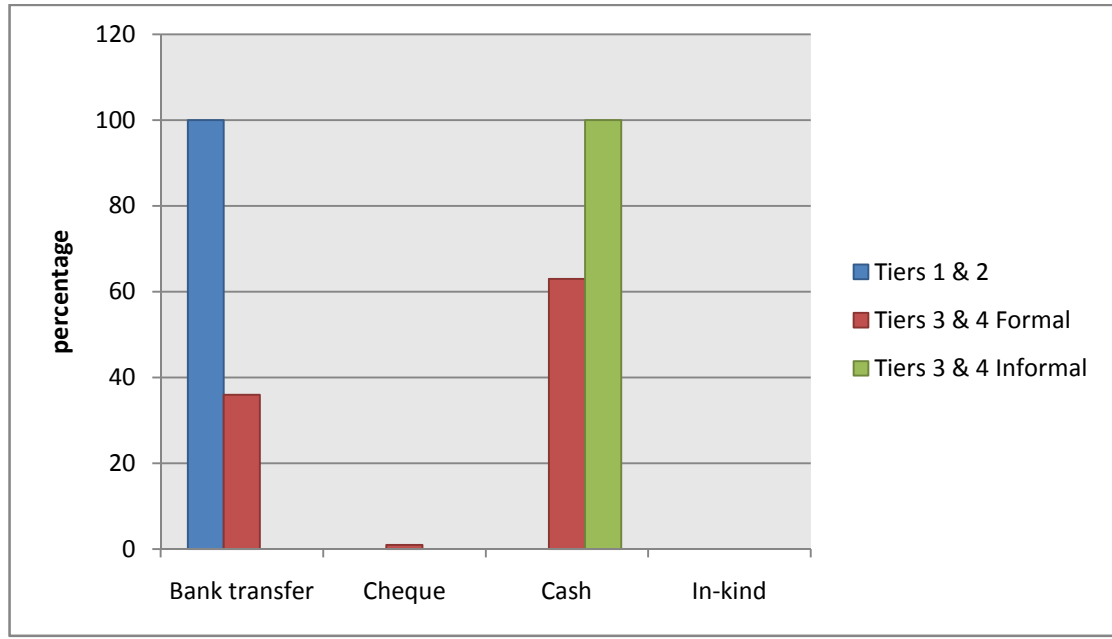
E3: How do the respondents make payments and / or pay for purchases?

Figure 23: **Actual methods of payment for purchases by respondents**



E4: How would the respondents like to receive their income?

Figure 24: Preferred methods of payment of income to respondents

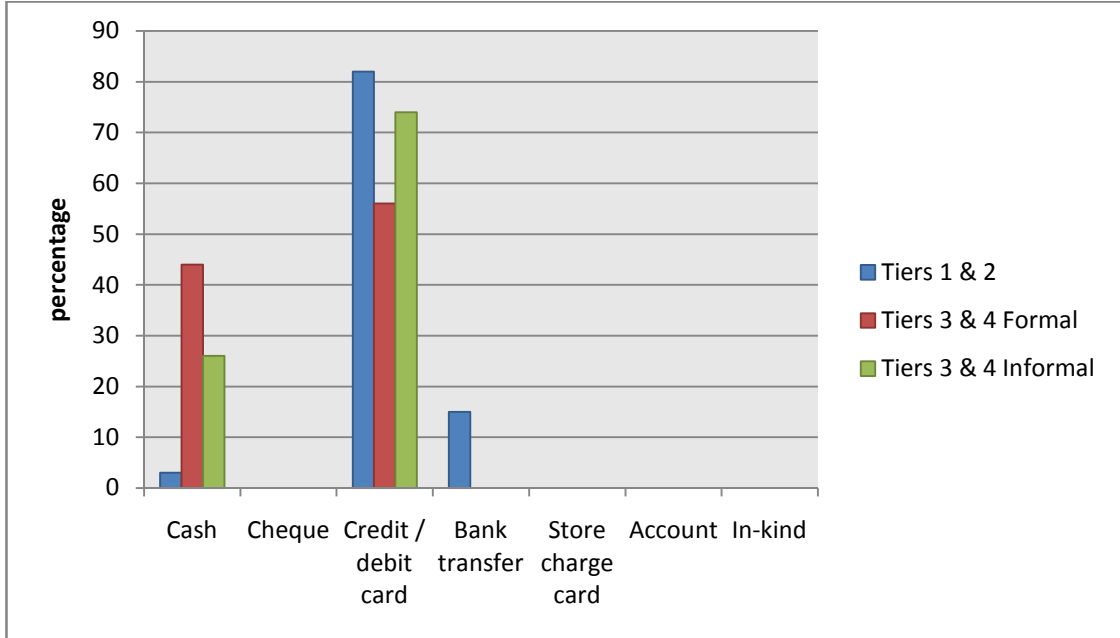


Some of the actual responses received were:

“I want to be paid with the cheque, then the moneylender can’t take my money”,
“Bank is safe, if they rob me on the train then they can’t take anything”, and
“Sometimes I need money so if I ask for a cheque because if I put it in the bank then the stop order takes it”.

E5: How would the respondents like to make payments and / or pay for purchases?

Figure 25: Preferred methods of payment for purchases by respondents



One of the actual responses received was:

“I want the card because then you have more money”.

6 DISCUSSION OF RESULTS

Of relevance to all of the research questions is the geographical accessibility of banking branches to the respondents.

Figure 19 speaks to this, with 100% of respondents, across all tiers claiming to have at least one bank branch and ATM conveniently located near them. This may give the impression that the goals of FSC in terms of geographical access are close to being met. However, it is important that we remember that these results occurred in the urban and peri-urban areas where bank branches and ATMs proliferate and not in rural areas where the distance to the nearest bank branch or ATM may be quite substantial.

6.1 WHAT FACTORS HINDER LOW-INCOME INDIVIDUALS IN THEIR ADOPTION OF FIRST-ORDER RETAIL BANKING PRODUCTS?

- **What are the reasons for opening a bank account by low-income individuals?**
- **What is the perception amongst low-income individuals with regards to banks, bank accounts and account operations?**
- **What impact does an individual's knowledge base have on their decision to adopt a bank account?**

6.1.1 **Reasons for adoption**

The results as depicted in figure 7 show the following:

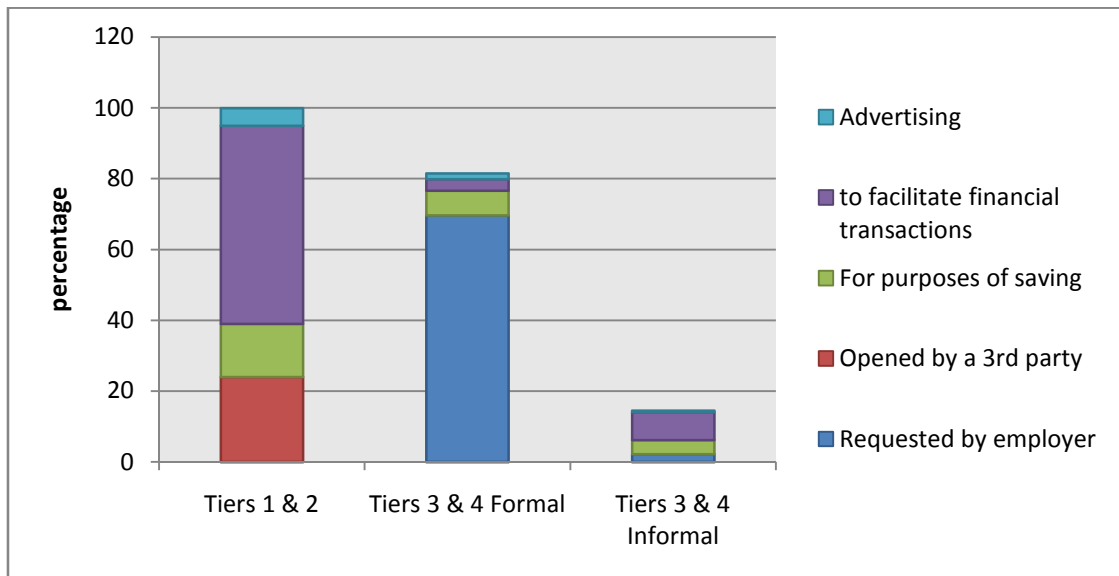
There is a 100% possession of bank accounts with regard to tiers 1 and 2. This result was expected and further serves to cement the idea of tiers 1 and 2 being the benchmark against which we should measure tiers 3 and 4 in terms of adoption and use of bank accounts.

Tiers 3 and 4 differ from the formal to the informal sector with respect to possession with the informal sector having 81% possession and the informal sector having only 15% possession.

Using the weighted results from tiers 3 and 4 (both formal and informal), we can calculate that 31% do not possess a bank account.

There is an obvious discrepancy with regard to the possession rates between tiers 3 and 4 formal and tiers 3 and 4 informal. It is possible that this may be explained by looking at the reasons for adoption of bank accounts amongst these two sectors. For this purpose, figure 26 was constructed using a combination of figure 7 (possession rates) and figure 10 (reasons for adoption).

Figure 26: Possession of bank accounts with respect to reasons for adoption



It is evident that the majority of the possession for tiers 3 and 4 formal may be attributed to employer requests. The majority of the respondents from tiers 3 and 4 formal were adamant that they only opened a bank account at the request (and in some cases, the demand) of their employer.

If we assume this to be true for all the respondents in tiers 3 and 4 (both formal and informal) who opened a bank account at their employers' request, and adjusted the figures accordingly, then the bank account possession rates for tiers 3 and 4 formal and tiers 3 and 4 informal would fall to 11% and 12% respectively.

These adjusted possession rates lead to a new average unbanked rate of 88%. In mitigation of this, many of these respondents admitted that it was entirely possible that they would have opened a bank account for the purposes of saving or money transfer if they hadn't already possessed one.

6.1.2 Education and literacy levels

Competence in English is seen as a prerequisite for participation in the national political and economic system (Kamwangamalu, 2000). Evidence of this may appear in the financial sector where the majority of literature, in terms of advertising and public opinion, with regards to financial products, is presented in English with Afrikaans coming a close second.

Both FinScope 2006 (FinMark Trust, 2007) and UNICEF (2006) agree on an adult illiteracy rate of 16% - meaning that 16% of adult South Africans can neither read nor write.

A look at figures 7 and 8, reveal that two possible correlations may exist between bank account possession and education (literacy) levels:

A grade 11 or 12 education (matric) may have a positive influence on individuals in terms of their decision to adopt a bank account, while an education of less than grade 5 may have a negative influence on individuals in terms of their decision to adopt a bank account.

However, no definite trend is visible and we are unable to conclude that increasing levels of education result in increasing levels of bank account possession.

Possible reasons for this lack of trend could include the varying reasons for adoption, most noticeably the admission that the majority of bank accounts were opened at an employer's request; a lack of logic in deciding to open a bank account – evident from some of the responses that include "*because my daughter has it*"; and the fact that some of the accounts were opened by a third party.

6.1.3 **Initial knowledge**

Initial knowledge is the first awareness that the respondent had of banking institutions and bank accounts.

Unsurprisingly, the majority of respondents in tiers 1 and 2 cite their homes (parents / guardians) as the first source of knowledge. Most respondents in these categories saw bank account possession as a “*right of passage*” in that it was a sign of being grown-up if you possessed one. Coupled with this awareness of bank accounts was an understanding of how they (the bank accounts) functioned.

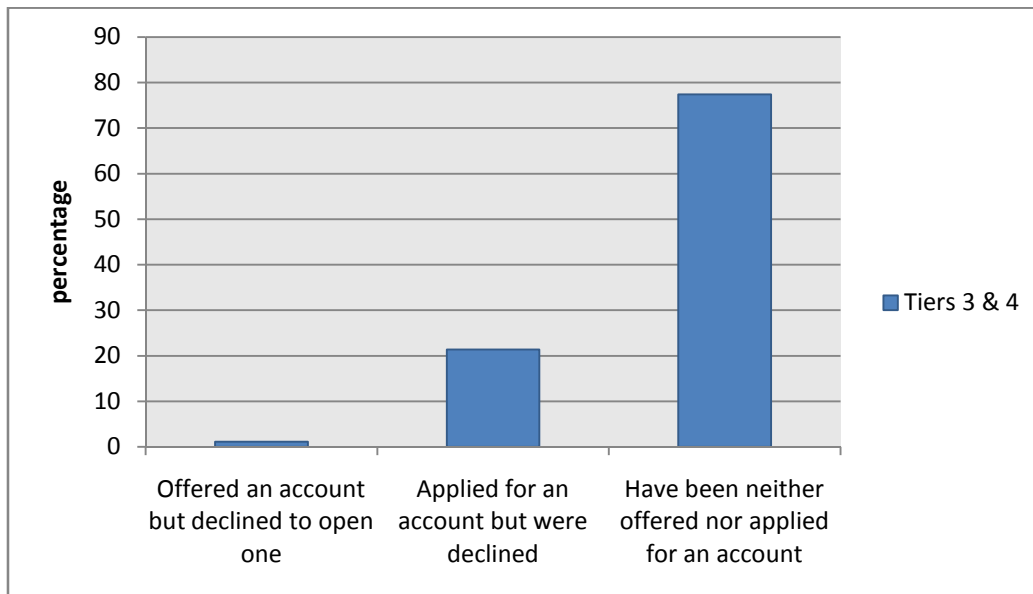
By examining the results obtained in figure 7 and figure 9, we can see that a possible positive correlation exists between possession of bank accounts and parents / guardians and / or the home as the initial source of knowledge.

However, strong negative correlations appear to exist between possession of bank accounts and friends as the first source of knowledge and advertising as the first source of knowledge, neither of which seem logical.

6.1.4 **Reasons for not opening a bank account**

If we weight and combine the results obtained from figure 13, we are able to get a clear picture of the overall standing of tiers 3 and 4 with respect to not opening bank accounts.

Figure 27: Reasons for not opening a bank account for tiers 3 and 4 (weighted)



It can be seen that while 97% (weighted average) of unbanked respondents from tiers 3 and 4 would like to possess a bank account, 77% of them have been neither offered an account nor applied for one.

Many respondents were unclear as to the steps to take in order to open a bank account, while others were unsure of their eligibility for a bank account.

6.1.5 Banking institutions and banking product perceptions

According to Rutherford (1999) and Porteous (2003), the financial instrument needs of the low-income group are as follows: a safe, secure place to store their money; the ability to pay and/or transfer money to remote beneficiaries safely and cost effectively; access to liquidity in times of need and access to risk mitigation mechanisms.

6.1.5.1

A reorganisation of the data from figures 14 and 15 helps to give a clearer understanding of whether tiers 3 and 4 feel that banking institutions and bank accounts are able to meet their financial instrument needs.

Figure 28: Percentage of respondents who associate banking institutions and banking products with saving and storing their money

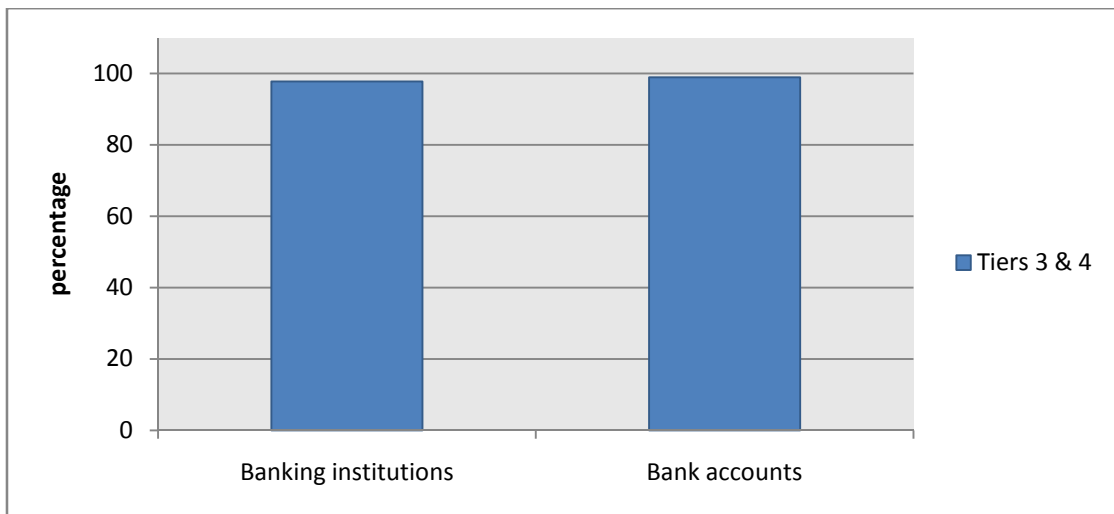


Figure 29: Percentage of respondents who associate banking institutions and banking products with the ability to carry out transactions effectively

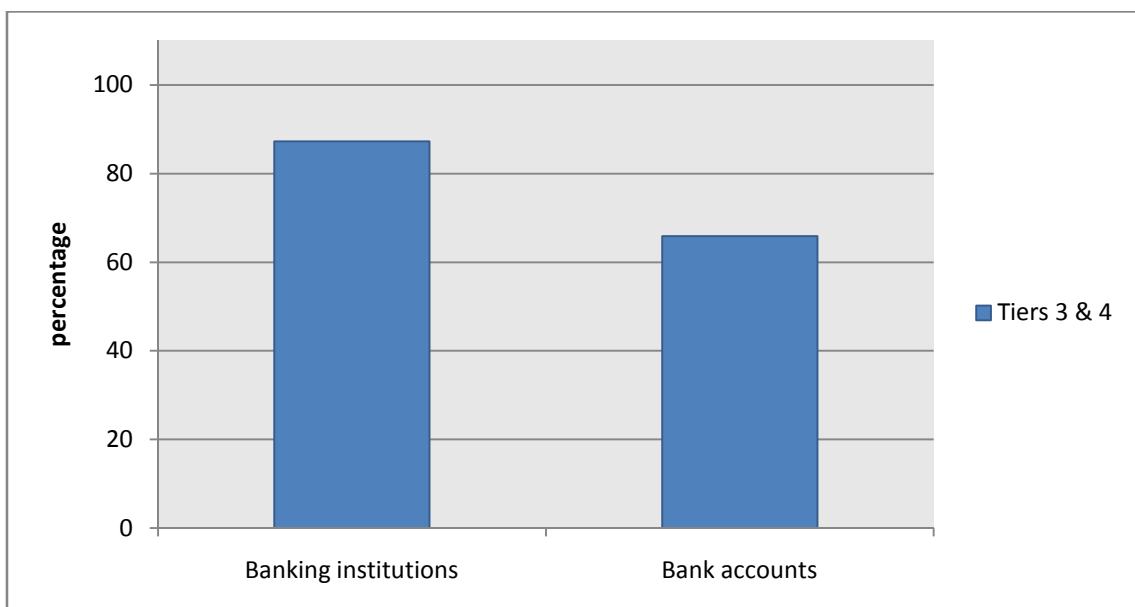


Figure 30: Percentage of respondents who associate banking institutions and banking products with access to forms of liquidity

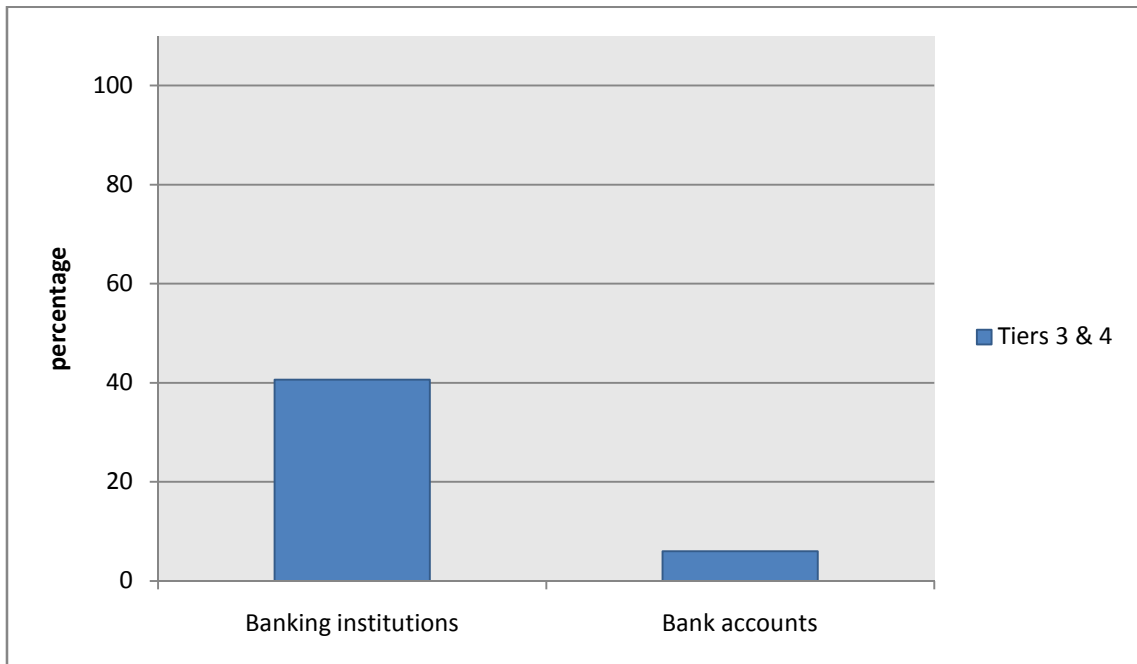
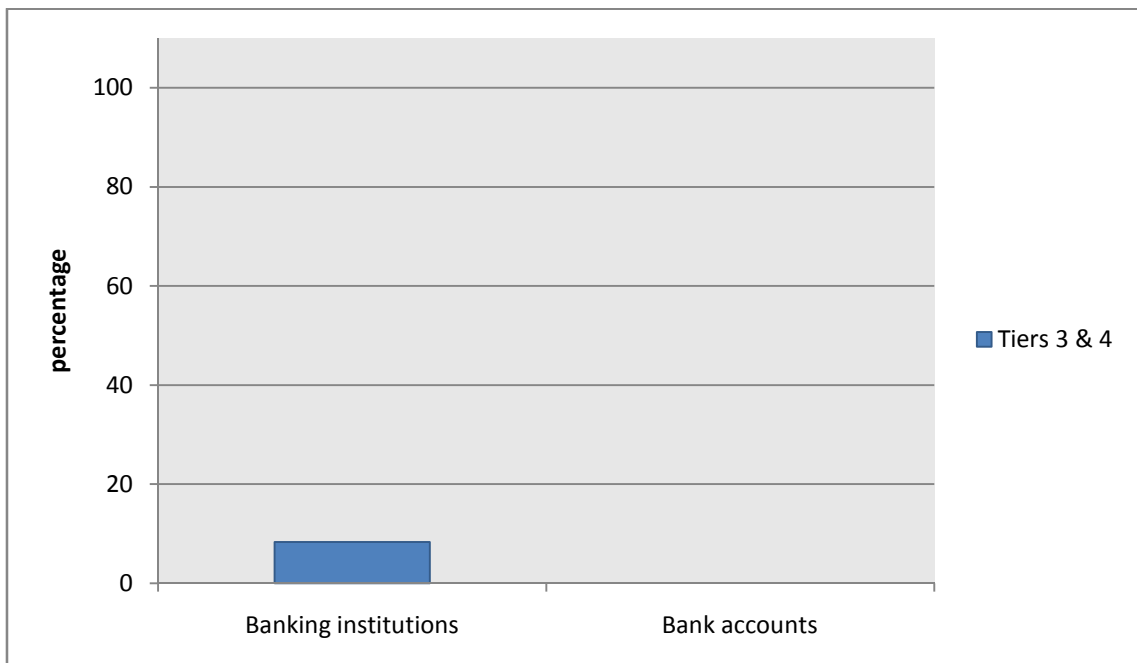


Figure 31: Percentage of respondents who associate banking institutions and banking products with risk mitigation



From figures 28 through to 31, it can be seen that the respondents in tiers 3 and 4 perceive that it is possible for banking institutions and banking products to meet their financial instrument needs in terms of a safe, secure place to store their money (figure 28); the ability to pay and/or transfer money to remote beneficiaries safely and cost effectively (figure 29) and access to liquidity in times of need (figure 30). However, banking institutions and banking products are not perceived as meeting the respondents' needs in terms of access to risk mitigation mechanisms.

6.1.5.2 Mitigating factors

Mitigating factors in terms of respondents perceptions regarding safe and secure places in which to store money are given in figures 17 and 18. In figure 16, if we weigh the results for tiers 3 and 4, we see that 18% of respondents do not feel that a bank is a safe and secure place to store their money.

Reasons given include:

A fear of robberies (47%). All respondents who cited this as a reason were under the impression that thieves would steal *their* personal money. This speaks to a lack of awareness with regards to the overall functioning of banking institutions and banking accounts.

Losing money (14%). All respondents who cited this reason referred to only being able to withdraw a lesser amount than was deposited. Figure 16 speaks to the respondents' level of understanding when it comes to bank charges and interest rates. Tiers 1 and 2 claim a complete understanding (100%) which would correlate with their total lack of fear with regards to losing money.

The majority (72%) of respondents from tiers 3 and 4 claim to have no understanding of how bank charges or interest rates work, while a smaller number (24%) have some idea. Only 4% of the respondents from tiers 3 and 4 claim to have a complete understanding of how bank charges and interest rates work.

Lack of trust (39%). Respondents who cited this reason spoke to a lack of trust in that they did not know the people who worked at the bank and therefore were unable to form a bond of trust with them. Many respondents were unable to understand how the bank could tell whose money was whose and they admitted to fearing that the bank would get them mixed up. Other factors that could contribute to a lack of trust include not being made to feel welcome, feeling intimidated and feeling confused when visiting a bank branch.

The current financial crisis. This is only applicable to tiers 1 and 2 who fear a run on the banks. Tiers 3 and 4 are unaware of the financial crisis or the effect it could have on South African banks.

6.2 WHAT INFLUENCES LOW-INCOME INDIVIDUALS IN THEIR USE OF FIRST-ORDER RETAIL BANKING PRODUCTS?

- **What is the frequency of bank account usage amongst low-income employed individuals?**
- **What are the reasons for using a bank account amongst low-income individuals?**

6.2.1 Bank account usage

If we look at figure 11, we can see that those respondents who are formally employed (namely tiers 1 & 2 and tiers 3 & 4 formal) make use of their bank accounts on a weekly basis, with tiers 1 and 2 making more frequent use (95% report daily use) than tiers 3 and 4 formal. Tiers 3 and 4 informal, on the other hand, make less frequent use of their bank accounts. A possible explanation for the discrepancy in usage between tiers 3 and 4 formal and tiers 3 and 4 informal is that the majority of the formal employees receive their wages on a weekly basis via bank transfer and the only way to access this money would be card usage or withdrawals thus accounting for the minimum once per week usage.

A few respondents amongst tiers 3 and 4 cited that their only reason for having a bank account was to facilitate money transfer to family members in the rural areas. As money transfer may only take place over holiday periods or at times of monetary windfalls (i.e. bonus times), usage of the bank accounts may be infrequent.

A possible explanation for the non-usage of bank accounts amongst tiers 3 and 4 informal is lack of necessity. Some respondents, who were previously formally employed, may have had to open a bank account in order for their wages to be paid. Since they are no longer formally employed, wage transfer and thus bank account usage may have become redundant. Other individuals may have opened accounts in response to reasons other than employer say-so and have, for reasons due to poverty (e.g. being unable to afford bank charges or simply not having money to deposit) stopped making use of the bank accounts.

In terms of purpose of usage (refer to figure 12), the respondents from all tiers make use of their bank accounts in order to deposit income (if they have it) and to withdraw cash. In these cases, the bank account would serve as a “piggy bank”.

Tiers 1 and 2 make full use of their accounts, taking advantage of as many of the facilities provided by the banks as possible. Tiers 3 and 4 make limited usage (less than 10%) of facilities other than depositing, withdrawing and money transfer. While this discrepancy could speak to differences in income between the tiers, it is more likely to be because tiers 3 and 4 have a lack of understanding of the facilities on offer, their eligibility for these facilities and how to use them.



6.3 SUB-QUESTION

The following sub-question is applicable to both research questions as stated above:

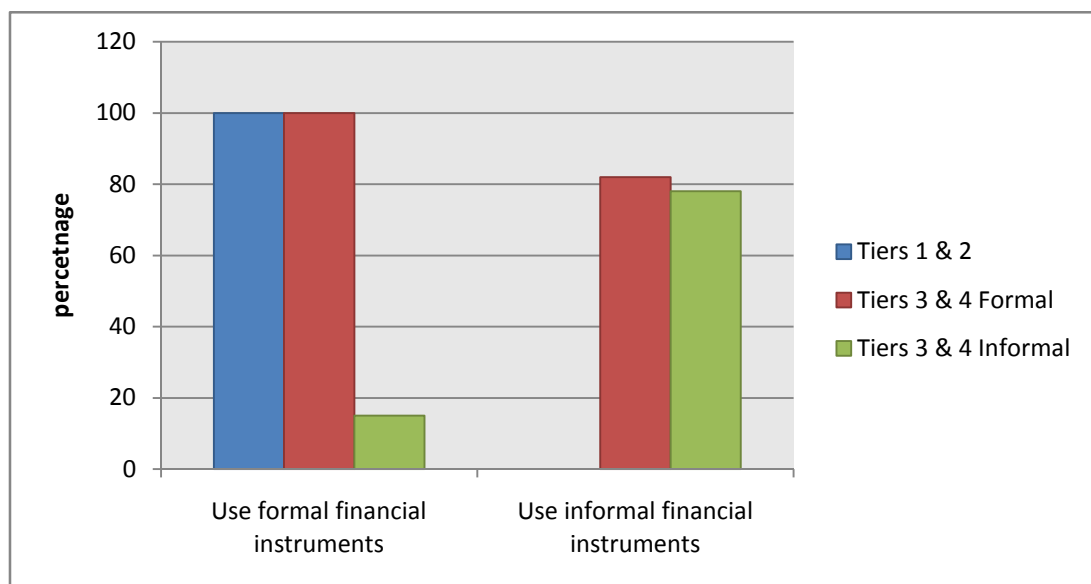
- **What are the preferences amongst low-income individuals in terms of ways and means of saving their money and paying for expenses?**

6.3.1 Formal and informal financial instruments

The initial findings of the Financial Diaries Studies (Centre for Social Science Research, 2004), indicate that the poor (tiers 3 and 4), despite their limited income, actively manage their money across a large number of formal and informal financial instruments.

A combination of the data from figure 7 and figure 21 give a clear indication of this.

Figure 32: Use of formal and informal financial instruments



All respondents from both tiers 1 and 2 and tiers 3 and 4 formal make use of one or more formal financial instruments. In fact, a larger volume of usage appears to be through formal financial instruments as opposed to through informal instruments however this may be distorted as a result of payroll banking transactions (Centre for Social Science Research, 2004).

In line with the findings of the Financial Diaries Studies, it is clear that all respondents (across all tiers) make use of financial instruments in some form or another. Tiers 1 and 2 and tiers 3 and 4 formal would appear to favour formal financial instruments whilst tiers 3 and 4 informal favour informal financial instruments. Possible reasons for this could be that tiers 1 and 2 and tiers 3 and 4 formal receive wages / salaries in the form of a direct bank transfer – the choice to use a bank account (formal instrument) may not be theirs; and tiers 3 and 4 informal, through not having a formal employment, may be denied access to some forms of formal financial instruments (e.g. loans, store charge cards etc.).

If we look at figure 21, saving in-house is a favoured instrument amongst tiers 3 and 4. This may be understandable for tiers 3 and 4 informal as only 15% of these respondents have a bank account and thus in-house saving may be their only option. However, 81% of tiers 3 and 4 formal have a bank account, while 82% of them save in-house. It is possible that the reasons for this are related to perceptions of the safety of banking institutions and bank accounts.

6.3.2 Methods of payment of income

Looking at figure 22 and figure 24, it is clearly evident that the respondents in tiers 1 and 2 are receiving their income in their preferred method – bank transfer. However, it is possible to construct combinations of figure 22 and figure 24 for tiers 3 and 4 (both formal and informal) so that we may be able to clearly compare their actual income payment methods with the preferred income payment methods.

Figure 33: Actual and preferred methods of income payment for tiers 3 and 4 formal

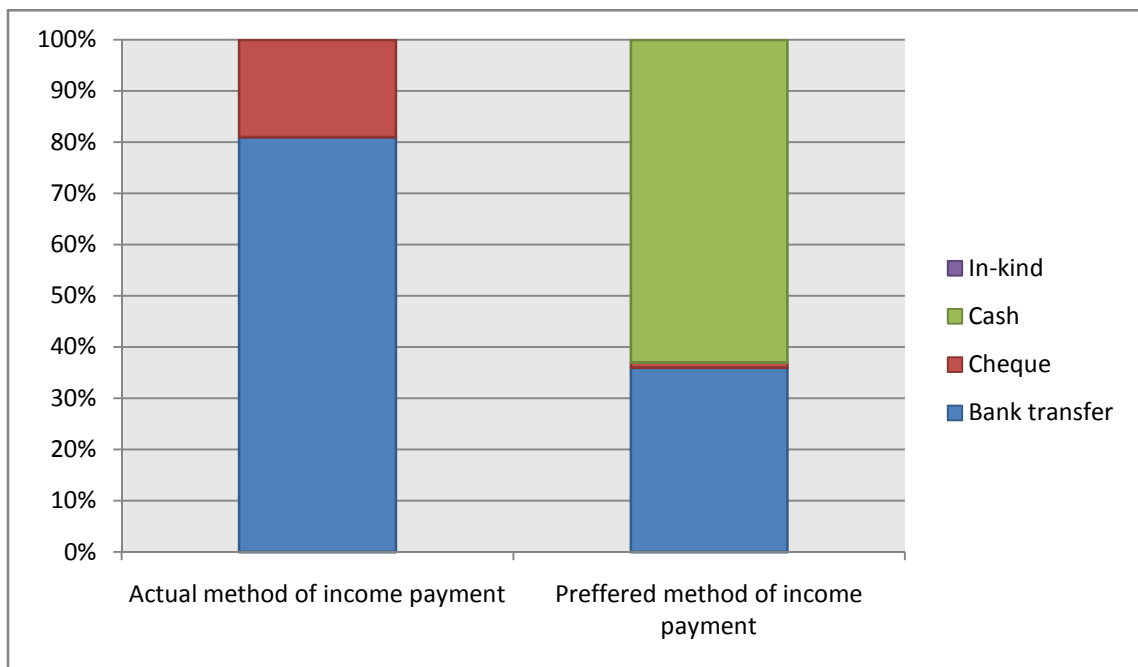
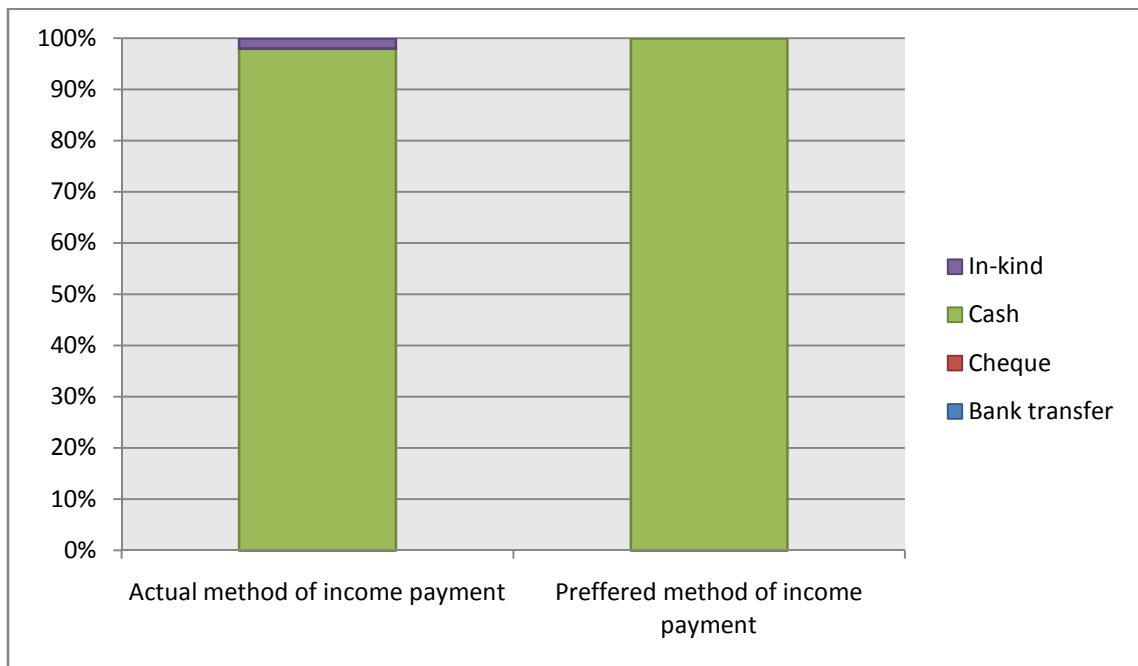


Figure 34: Actual and preferred methods of income payment for tiers 3 and 4 informal



The biggest discrepancy occurs with tiers 3 and 4 formal where the majority of their income is actually paid by bank transfer where the preference would be for cash. A number of respondents in this sector have stop /debit orders that come off their bank accounts which they may wish to avoid paying through lack of funds in their bank accounts. Some respondents in this sector also have mashonisa loans and may have handed over their ATM cards to these moneylenders so that they (the moneylenders) may deduct their payments as required. If the respondents prevent their income from going into their bank accounts then the moneylenders would be unable to extract payment.

Tiers 3 and 4 informal, like tiers 1 and 2, are content, on the whole, with their actual method of income payment – cash.

6.3.3 Methods of payment for purchases

It is possible to construct combinations of figure 23 and figure 25 for all tiers so that we may be able to clearly compare their actual purchase payment methods with the preferred purchase payment methods.

Figure 35: Actual and preferred methods of purchase payment for tiers 1 and 2

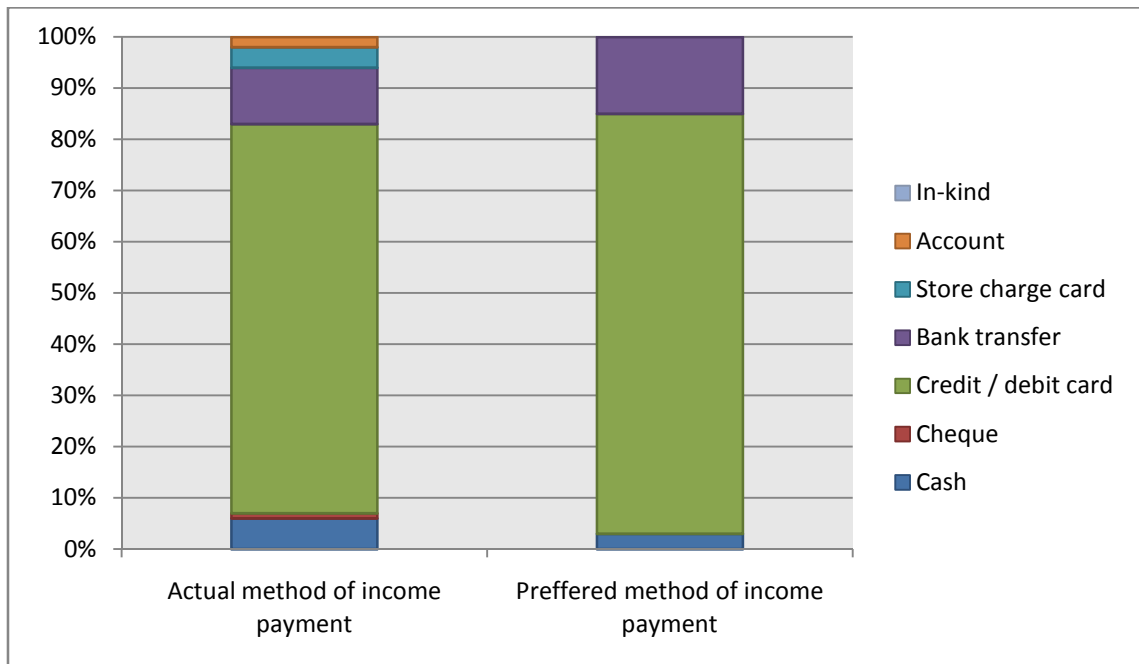


Figure 36: Actual and preferred methods of purchase payment for tiers 3 and 4 formal

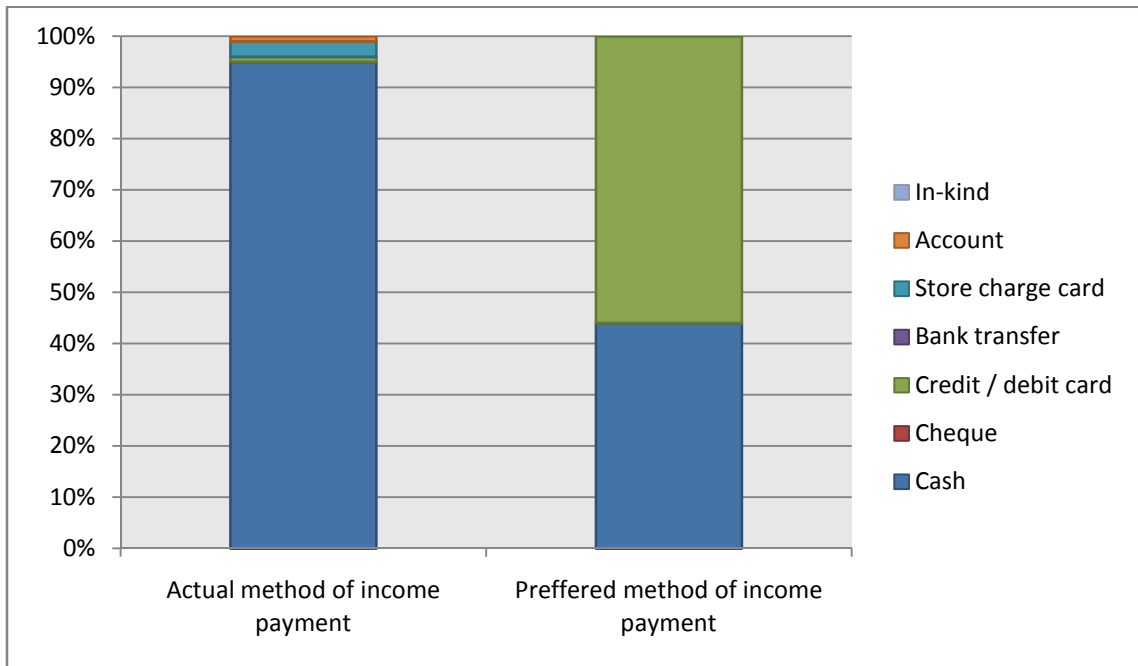
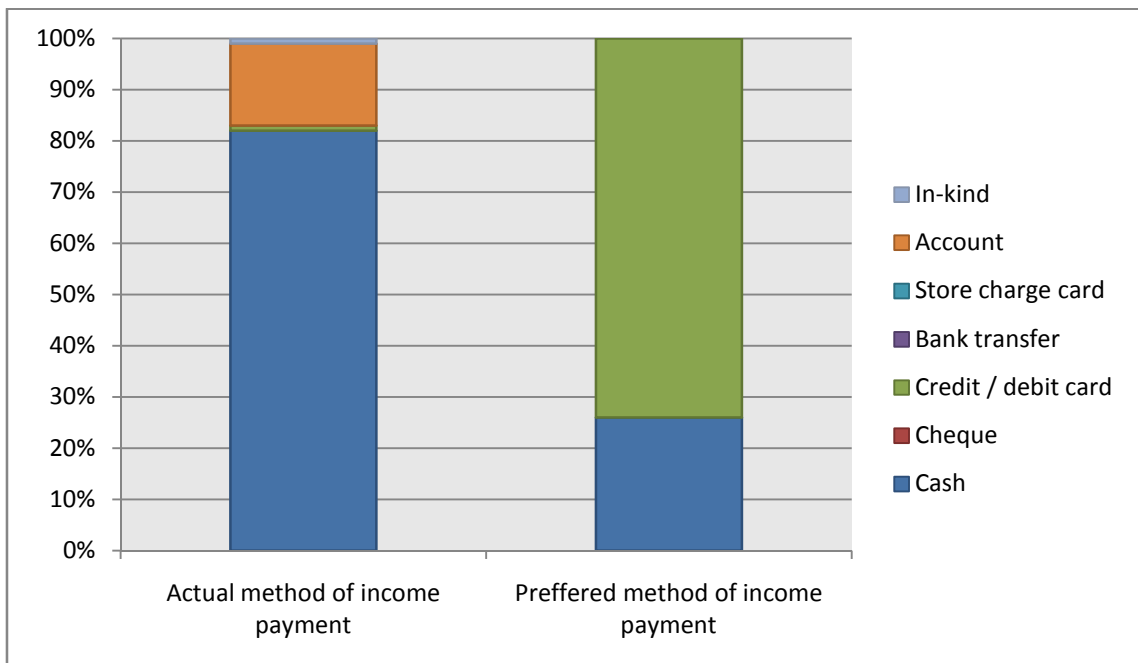


Figure 37: Actual and preferred methods of purchase payment for tiers 3 and 4 informal



As evidenced by figures 55, 56 and 57, there is a correlation amongst tiers 1 and 2 as to actual versus preferred purchase payment methods with the majority of respondents preferring payment via credit / debit card.

Tiers 3 and 4 (both formal and informal) would prefer to pay for purchases with a credit / debit card while at present they make use of cash. This is something that the banking institutions should take note of in terms of product provision for these sectors. In mitigation of this however, are that a number of respondents associated a bank card with having more money. Deeper discussions with them revealed both an area of confusion as to the differences between a credit card and a debit card; and a misunderstanding with regards to the functionality of credit cards – they thought that the limits for the credit cards were “*a gift*” or “*for free*” and that such money would never need to be repaid.



7 CONCLUSION

7.1 OVERVIEW

While the research was by no means exhaustive, interesting insights into the reasons for and against the adoption and use of first-order retail banking products were gained.

On the whole, banking institutions and bank accounts were seen in a positive light but perceptions regarding the purpose and functionality of banking institutions and bank accounts as well as the available products and their usage, came across as being the largest hindrance to first-order retail banking product adoption and usage amongst low-income individuals in the urban and peri-urban areas.

Geographical access was not perceived to be a problem.

7.2 THE ADOPTION OF FIRST-ORDER RETAIL BANKING PRODUCTS

The majority of adoptions of first-order retail banking products amongst low-income individuals occurred as a result of employer requests, with saving and the facilitation of financial transactions coming a close second and third respectively.

There are correlations evident between being illiterate and adopting a bank account and between parents (guardians or the home) as being the first source of knowledge about bank accounts and adopting a bank account.

Both of these conclusions speak to the need for an older and / or wiser figure (a parent or employer) to encourage bank account adoption. Bank account possession and usage should thus be encouraged amongst the older population so that a “trickle-down” effect can occur whereby youths adopt accounts because their elders have influenced them do so as a result of their own positive experiences with them.

97% of low-income individuals who do not yet possess a bank account would like to do so. Of this 97%, 77% have been neither offered a bank account, nor have they applied for one. The individuals concerned may fear being made unwelcome or being intimidated by bank branches and their employees; or alternatively they may be unaware of how to apply for a bank account. A clearer understanding of application processes needs to be facilitated amongst the low-income population.

The majority of low-income individuals associated banking institutions and bank accounts with saving and transacting, however very few associated them with access to liquidity and risk mitigation. This speaks to a need for increased awareness, on the part of low-income individuals, as to the variety of products on offer.

On the whole, lack of knowledge and understanding, be it in terms of the products available, benefits to be gained, usage or bank functionality seemed to

be the biggest hurdle to bank account possession amongst the respondents as it significantly reduces their positive perceptions of banking institutions and first-order retail banking products.

7.3 THE USE OF FIRST-ORDER RETAIL BANKING PRODUCTS

Individuals employed in the formal sector make far more frequent usage of their bank accounts than those employed in the informal sector do. Much of this usage can be attributed to payroll transactions, while many individuals only made use of their account in order to facilitate money transfer to family in other areas. It would appear that the majority of respondents did not perceive that their accounts could be used for much else other than the most basic of transactions (depositing money, withdrawing money and transferring money)

It would be advantageous for all low-income individuals to be made aware of the benefits of diversifying their usage on their accounts (e.g. the use of a debit card, which would work out cheaper than constantly drawing out cash). This would hopefully discourage individuals from ceasing to use their accounts in the event that they should lose their formal employment. After all, many youths, who have yet to enter the employment sector, have bank accounts therefore a steady income does need to be a prerequisite for using an account.

7.4 RECOMMENDATIONS TO FINANCIAL INSTITUTIONS

As perception appears to be the single biggest factor contributing to the overall adoption and use of bank accounts amongst low-income individuals in urban and peri-urban areas, financial institutions should concentrate their efforts on changing negative perceptions and enhancing positive perceptions. The best way to do this is through education.

Education of low-income individuals with respect to banking institutions and first-order retail banking products can take many forms. Suggestions and recommendations include:

Awareness campaigns with regard to the products on offer and how such products would be able to assist individuals with the management of their finances should be specifically targeted at low-income individuals and in their own language,

The development of products targeted specifically at low-income individuals (in the spirit of Mzansi) that aim to meet the needs that are currently being fulfilled by informal financial service providers. Examples include: savings products that are linked to burial / funeral plans; and a savings / transaction account that is tailored to families where all family members are able to withdraw money, using their own cards, up to a limit set by the head of the family.

The sponsorship of personal financial management courses or workshops in both primary and high schools so that youths are made aware, at a young age, of just what banking institutions and bank accounts are for, the benefits they offer, and how they work.

Improved marketing concepts in terms of applications for accounts should be designed. The possibility of remote and/or mobile application stations could be

explored. Perhaps induction courses should be offered when an individual applies for an account. The course should include instruction on applicable fees and how they are calculated, applicable interest rates, how to use the account and the various usage options available.

7.5 RECOMMENDATIONS FOR FUTURE STUDY

In recent years, the majority of research on the marketing of both new and existing banking products and services has been done on the upper and middle income markets (Abratt, Bendixen, & Saunders, 2005). Despite the limited research into the low-income market and thus the consequent failure of banking institutions to understand this market, the poor were still acquiring the products and services on offer. However, because of a lack of understanding, on the part of the poor, as to how these products and services function, they (the products and services) were often misused leading to a breakdown in the relationship between the bank and the customer (Abratt, Bendixen, & Saunders, 2005). As the poor tended to rely heavily on word-of-mouth recommendations, this breakdown in relationship could lead to a destruction of the brand and reputation of a banking product or service (Moore, 2000 in Abratt, Bendixen, & Saunders, 2005).

Gaps still exist in our knowledge of financial services provision to low-income individuals.

Future study opportunities include, but are not limited to:

Studies could be conducted into the psychological or emotional aspects of adopting and using formal financial instruments. Motivation for this comes from FinScope 2006 (FinMark Trust, 2007) which found that many people associate banks with status; and the lack of trust which many of this study's respondents appeared to have with regards to banking institutions.

In-depth studies should be carried out into exactly what individuals on all income-levels know and understand about banking products and how they function. This is motivated by the fact that it remains unclear as to how much an individual understands when they say they have "complete understanding" of banking functionality. A better understanding of their understanding could lead to improved education on the subject which in turn, could lead to greater adoption and usage.

Comparative studies could be done between South Africa and other developing countries in terms of financial services provision to the poor. Motivation for this is the possibility of adapting the success of other countries (e.g. India and Grameen Bank, and Latin America with their dedicated, third-tier banks).

Studies such as FinScope and the Financial Diaries should be continued in order to monitor progress in terms of formal financial services adoption.

7.6 CONCLUSION

This research has accomplished what it aimed to do: to investigate the adoption and use of first-order retail banking products and services amongst urban and peri-urban low-income individuals. Some of the results were as expected while others came as a surprise. However, the conclusions that we were able to draw

and the recommendations that have been made should greatly assist with the understanding of low-income financial service needs and provision therefore.

REFERENCES

Abratt, R., Bendixen, M., & Saunders, S. (2005) Banking patronage motives of the urban informal poor. *Journal of Services Marketing*, 21(1), 52-63.

Albright, A., Winston, W., & Zappe, C. (2006) *Data Analysis and Decision Making*. 3rd ed. Ohio: Thomson South-Western.

Anderson, J., & Billou, N. (2007) Serving the World's Poor: innovation at the base of the economic pyramid. *Journal of Business Strategy*, 28(2), 14-21.

Arora, S., & Leach, J. (2005) Towards Building an Inclusive Financial Sector: Lessons from South Africa. *Economic and Political Weekly*, April 23, pp. 1726-1730.

Benjamin, D., Choi, J., & Strickland, A. (2008) Social Identity and Preferences. Ithaca: Cornell University. Available from http://www.arts.cornell.edu/econ/dbenjamin/Social_identity_and_preferences.pdf (accessed 22/05/08).

Beshouri, C. (2006) A grassroots approach to emerging market consumers. *The McKinsey Quarterly*, 4, 61-71.

Burger, D. (ed.) (2008) *South Africa Yearbook 2007/2008*. Pretoria: Government Communication and Information System.

Burger, D. (ed.) (2005) *South African Yearbook of Law* 2007/2005. Pretoria:

Government Communication and Information System.

Carter, M., & May, J. (2001) One Kind of Freedom: Poverty Dynamics in Post-Apartheid South Africa. *World Development*, 29(12), 1987-2006.

Caskey, J. (2002) Bringing Unbanked Households into the Banking System.

Washington D.C.: Brookings. Available from

http://www.brookings.edu/articles/2002/01metropolitanpolicy_caskey.aspx

(accessed 20/05/08).

Centre for Development and Enterprise. (2006) Accelerating Share Growth:

Making markets work for the poor in South Africa. Johannesburg. Available

from http://www.cde.org.za/article.php?a_id=223 (accessed 20/05/08).

Centre for Social Science Research. (2004) Findings in Brief. Midrand: FinMark

Trust. Available from

<http://www.financialdiaries.com/files/Findings%20in%20brief.pdf> (accessed

28/05/08).

Centre for Social Science Research. (2004) Focus Note: Financial Instruments

of the Poor. Midrand: FinMark Trust. Available from

<http://www.financialdiaries.com/files/Financial%20Instruments%20of%20the%20>

[0Poor.pdf](http://www.financialdiaries.com/files/Financial%20Instruments%20of%20the%200Poor.pdf) (accessed 28/05/08).

Centre for Social Science Research. (2004) Sample Overview: Who are the Financial Diaries households? Midrand: FinMark Trust. Available from <http://www.financialdiaries.com/files/SAMPLE%20OVERVIEW%20-%20Who%20are%20the%20Financial%20Diaries%20households.pdf> (accessed 28/05/08).

Centre for Social Science Research. (2004) The Financial Diaries Project - Background and Methodology. Midrand: FinMark Trust. Available from http://www.cssr.uct.ac.za/resources/method_200304.zip (accessed 28/05/08).

Claessens, S. (2006) Access to Financial Services: A Review of the Issues and Public Policy Objectives. *The World Bank Research Observer*, 21(2), 207-240.

Coetzee, J. (2005). Banking the unbanked in South Africa: The practical implications on branch banking. Pretoria: Economic Society of South Africa. Available from <http://www.essa.org.za/download/2005Conference/Coetzee.pdf> (accessed 20/05/08).

Collins, D., & Morduch, J. (2008) Banking Low-Income Populations: Perspectives from South Africa. Midrand: FinMark Trust. Available from http://www.financialdiaries.com/files/Banking%20low%20income%20population_s.pdf (accessed 28/05/08).

Cook, K., Crouch, W., & Katzer, J. (1991) *Evaluating Information*. New York: McGraw-Hill Inc.

Damien, P., Kirshna, M., & Ramaswamy, V. (2007) Drivers of Customer Satisfaction for Financial Services: Implications for Product Offerings and Service Delivery. Michigan: University of Michigan. Available from <http://hdl.handle.net/2027.42/35793> (accessed 20/05/08).

Eighty20 Consulting (2006) . (2007, July 12). *The Bottom of the South African Pyramid*. Gordon Institute of Business Science, University of Pretoria.

Financial Sector Charter Council. (2003). Financial Sector Charter. Johannesburg: Financial Sector Charter Council. Available from http://www.fscharter.co.za/attachement_view.php?pa_id=50&PHPSESSID=0556139ea20277b3a7cb86dd6331f53 (accessed 20/05/08).

FinMark Trust. (2007) 2006 Survey Findings Brochure. Midrand: FinMark Trust. Available from http://www.finscope.co.za/documents/2006/Brochure_SA06.pdf (accessed 13/08/08).

Gomes, R., & Lawson, M. (2005) Pro-Poor Macroeconomic Policies Require Poverty and Social Impact Analysis. *Development Policy Review*, 23(3), 369-384.

Hammond, A., & Prahalad, C. (2004) Selling to the Poor. *Foreign Policy*, May/June, 30-37.

Hammond, A., & Prahalad, C. (2002) Serving the World's Poor, Profitably. *Harvard Business Review*, September, 48-57.

Hart, S., & London, T. (2004) Reinventing strategies for emerging markets: beyond the transnational model. *Journal of International Business Studies*, 35, 350-370.

Hart, S., & Prahalad, C. (2002) The Fortune at the Bottom of the Pyramid. *Strategy+Business* 26, 2-14.

Hart, S., & Simanis, E. (2008). *Beyond Selling to the Poor: Building Business Intimacy Through Embedded Innovation*. Michigan: University of Michigan.

Available from:

http://www.erb.umich.edu/Research/Initiatives/colloquiaPapers/Beyond%20Selling%20to%20the%20Poor-Stu_Hart.pdf (accessed 20/05/08).

Hart, S., & Simanis, E. (2008). *The Base of the Pyramid Protocol: Toward Next Generation BoP Strategy*. Michigan: University of Michigan. Available from <http://www.bop-protocol.org/docs/BoPProtocol2ndEdition2008.pdf> (accessed 20/05/08).

Huysamen, G. (2001) *Methodology for the Social and Behavioural Sciences*. Cape Town: Oxford University Press.

Kamwangamalu, N. (2000) Language policy and mother-tongue education in South Africa: The case for a market orientated approach. In: *Georgetown University Round Table on Languages and Linguistics, 2001*. Georgetown: Georgetown University Press: 119-134.

Karnani, A. (2007) The Mirage of Marketing to the Bottom of the Pyramid.

California Management Review, 49(4), 90-111.

Kirchgeorg, M., & Winn, M. (2006) Sustainability Marketing for the Poorest of the Poor. *Business Strategy and the Environment*, 15, 171-184.

Kirsten, M. (2006) Linkages between formal and informal financial institutions to extend financial services to poor people. Midrand: Development Bank of South Africa. Available from

[http://www.dbsa.org/Research/Documents/Linkages%20between%20formal%20and%20informal%20financial%20institutions%20to&20extend%20](http://www.dbsa.org/Research/Documents/Linkages%20between%20formal%20and%20informal%20financial%20institutions%20to%20extend%20) (accessed 28/05/08).

Kirsten, M. (2006) Policy Initiatives to expand financial outreach in South Africa. In *World Bank / Brookings Institute Conference, May 30-31, 2006, Washington D.C. USA*. Washington DC: World Bank.

Lewis, S. (1990) *The Economics of Apartheid*. New York: Council on Foreign Relations.

London, T. (2008) The Base of the Pyramid Impact Assessment Framework: Understanding and Enhancing Value Creation. William Davidson Institute, University of Michigan. Working Paper, February.

London, T. (2008) *The Base-of-the-Pyramid Perspective: A New Approach to Poverty Alleviation*. William Davidson Institute, University of Michigan. Working Paper, January.

Lusch, R., & Vargo, S. (2004) Evolving to a New Dominant Logic for Marketing. *Journal of Marketing*, 68, 1-17.

Lusch, R., & Vargo, S. (2008) Service-dominant logic: continuing the evolution. *Journal of the Academy of Marketing Science*, 36, 1-10.

Martins, J. (2007) Household budgets as a social indicator of poverty and inequality in South Africa. *Social Indicators Research*, 81, 203-221.

Napier, M. (2006) Provision of Financial Services in South Africa. *Liberalisation and Universal Access to Financial Services*. Washington DC: OECD Publishing.

Porteous, D. (2003) The demand for financial services by low-income South Africans. Midrand: FinMark Trust. Available from <http://www.finmarktrust.org.za/documents/2003/SEPTEMBER/demandFS2.pdf> (accessed 28/05/08).

Prahalad, C. (2005) *The Fortune at the Bottom of the Pyramid*. New Jersey: Wharton School Publishing.

Prinsloo, M. (2008) Community-based participatory research. *International Journal of Market Research*, 50(3), 339-354.

RDP. (1994). The Reconstruction and Development Programme - Part 4.

Johannesburg: African National Congress. Available from

<http://www.anc.org.za/rdp/rdp4.html#4.7> (accessed 28/10/08).

Rutherford, S. (2001) The Microfinance Market. Midrand: FinMark Trust.

Available from

<http://www.financialdiaries.com/files/The%20Microfinance%20market.doc>

(accessed 28/05/08).

Rutherford, S. (1999) The Poor and their Money: An essay about financial services for poor people. Midrand: FinMark Trust. Available from

<http://www.unCDF.org/mfdl/readings/PoorMoney.pdf> (accessed 28/05/08).

Schoombee, A. (2000). Banking for the Poor: The Successes and Failures of South African Banks. Canada: International Development Studies Network.

Available from <http://www.devnet.org.nz/conf/Papers/schoombie.pdf> (accessed 11/05/08).

Schoombee, A. (1999) Linkage Banking for Micro-Enterprises in South Africa.

South African Journal of Economics, 67(3), 418-438.

Schoombee, A. (2004) South African Banks and the Unbanked: Progress and

Prospects. *South African Journal of Economics*, 72(3), 581-603.

The South African Advertising Research Foundation. (2004). The SAARF Universal LSM Descriptors. Johannesburg: The South African Advertising Research Foundation. Available from <http://archive.saarf.co.za/ppt.htm/LsmdescriptorsAugust2004.files/frame.htm> (accessed 30/05/08).

TNS Research Surveys. (2007) *Finscope SA 2006*. Johannesburg: FinMark Trust.

UNICEF. (2006) South Africa: Statistics. UNICEF. Available from http://www.unicef.org/infobycountry/southafrica_statistics.html (accessed 03/11/08).

Weiser, J. (2007) Untapped: strategies for success in underserved markets. *Journal of Business Strategy*, 28(2), 30-37.

World Education. (2007) Health and Literacy Compendium: Definition of terms. Boston: World Education. Available from http://healthliteracy.worlded.org/docs/comp/Introduction/define_terms.html (accessed 04/11/08).

Zikmund, W. (2003) *Business Research Methods*. 7th ed. Ohio: Thomson South-Western.

Appendix 1

RESPONDENT NUMBER:	
INTERVIEW DATE:	

SECTION A: All respondents

- A1. Do you have a bank account?
(this includes accounts held at the South African Post Office)

- A2. What was the highest level of schooling that you completed?

- A3. From whom / where did you obtain your first knowledge of banking institutions and bank accounts?
(e.g. parents, friends, work)

If the respondent answered YES to question A1 - please complete sections B, D and E only
If the respondent answered NO to question A1 - please complete sections C, D and E only





SECTION B: Respondents in possession of a bank account(s)

B1. Please complete the table:

	How long has the account been open?	Why was the account opened?	How often is the account used?	What do you use the account for?
1				
2				
3				
4				
5				

B2. If any of the accounts in the above table (B1) have remained unused for longer than a month, please ask the respondent to explain why?



SECTION C: Respondents not in possession of a bank account

C1. Has the respondent ever been offered a bank account or been asked to get one?

C2. If the respondent answered yes to the above question, please ask them to explain why they refused to open the offered account?

C3. Has the respondent ever applied for a bank account and been refused?

C4. Would the respondent like to have a bank account? Please ask the respondent to provide a reason.

C4. What reason(s), other than those given in questions C1 - C3, does the respondent have for not being in possession of a bank account?



SECTION D: All respondents

D1. What does the respondent think a bank is for?

D2. What does the respondent think a bank account is for?

D3. Does the respondent understand how a bank account works? Ask the respondent to explain.
(in terms of depositing money, withdrawing money and charging of fees)

D4. Does the respondent think that a bank account is a good and safe place to keep their money?



D5. If the respondent answered NO to the above question (D4), please ask the respondent to explain why.

D6. How does the respondent feel about banks? What impression do banks give him/her?

D7. Is there a bank(s) that conveniently located for the respondent to use?



SECTION E: All respondents

E1. Please complete the table below:

Instrument	Have / Use	If yes, why this and not an equivalent product available through a bank
Pension / Provident Fund		
Funeral Plan		
Loan from a Micro-lender		
Store Card		
Lay-bye		
Retirement Annuity		
Trade Credit		
Stokvel / umgalelo		
Burial Society		
One-on-one lending / borrowing		
Credit at local spaza / shebeen		
Money guarding		
Mashonisa loan		
Saving-in-house		
Salary timing		
Pre-paid store cards		

E2. How are your wages paid to you?
(i.e. cheque, bank transfer, cash, other)



E3. How do you make payments / pay for purchases?
(i.e. cheque, bank transfer, cash, store card, account, other)

E4. If the respondent had a choice, where would he or she like to store (put away) his or her money?

E5. If the respondent had a choice, how would he or she like make payments?
