

FinScope

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Presentation

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Presentation structure

- FinMark Trust
- FinScope - introduction, history, future
- Syndication
- Impact
- Information architecture – supporting FS development
- Questionnaire, methodology
- Key findings
- FSM segmentation model

FinMark Trust background

- FinMark Trust – “making financial markets work for the poor”
- Non-profit, funded by DFID
- Expiry March 2007
- All segments of financial markets
- Catalytic approach, but evident legacy
- Multiple projects, often knowledge based
 - Advocacy, facilitation

FinMark Trust - future plans

- Political and commercial initiatives on African continent
- Opportunities for advocacy-based MFMW north of SACU's borders
- Information-led – FinScope Africa being part of the plan
- Trustee approval for mandate change and to apply for funding post 2007

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FinScope - introduction

- An approach to collecting information on financial markets
 - Rules-based but designed to be flexible
 - Changing
- Aims to benefit policy makers and private sector
 - Content rich
- Unique public/private funding model
- Spin off strategy in SA



FinScope – a brief history

2002

- Desk research
- Pilot study in SA (800 households)

2003

- 2003 research project rolled out to 3000 households in SA
- FSM prototype developed
- Pilots conducted in BNLS countries
- Financial Sector Charter launched

2004

- 2004 SA exercise enhanced and run again
- FSM validated and found to be consistent with 2003 findings
- Full surveys in Botswana and Namibia
- Zambia, Uganda

FinScope – future plans

- FinScope SA spun off; housed and managed on behalf of syndicate partners by a SA institution
 - University? Foundation?
 - Role model/template/laboratory/centre of excellence
- FinScope BNLS increasingly adopted by private sector institutions in support of their regional strategies
- FinScope Africa (RoW?): private sector support with initial donor funding

FinScope – private/public partnership

Biggest syndicate yet in SA in 2004



Botswana – 2004 – 50% co-funded



Namibia – Bank Windhoek joint venture 2004

FinScope – funding arrangements

- Unique public private approach
- FinMark Trust funding R7.3m to date
- Total expected cost (SA) around R3.0m incl VAT(2004: R2.5m) - \$450k
- Research house c70%
- Confirmed commitments R2.85m – likely final position 150% cost covered

Surplus proposed to be retained
and used to endow the future
“home”

Syndicate member benefits

- Input to questionnaire development – more options in 2005 (core & subsets)
- Full database to mine at will
- Application opportunities for FSM model
- One internal presentation of findings
- Better market understanding
- Access to valuable data for a tenth of its real cost
- Opportunity to differentiate even more?

FinScope – funding arrangements

- Need for realism – syndication is hard!
- Uniquely SA factors behind the success of PP model
 - Depth of SA financial system
 - Financial Sector Charter
 - Role of Banking Association
- Outside SA, lack of big indigenous players
 - “a head office decision”
- Political commitment to A2F not strong – no pressure on local banks

FinScope – impact

- FSM helping to refine product concepts
- Fresh insights into complex nature of SA's financial markets - formal and informal
- Support to Charter processes
- Support to legislative processes
 - Tiered banking, pensions
- Too early to evaluate impact in B&N

Information Architecture Vision


- Turning data to knowledge
- All data within FinMark Trust, all projects and subject matters
- Creating & building themes around the consumer
- Sharing the learning and disseminating the data

Why all of this??

- Major shifts in the market and the population
- Understanding ignites appetite and encourages acceptance

Market Development - Commercial initiatives

- Launch of Mzansi on 25 October aims to offer basic, affordable banking services
- Capitec launches current account paying 10% on all deposits; also launch pre-paid debit card plus in association with Mastercard with POS roll-out
- Teba Bank enables customers to make deposits at supermarket tills via EasyPay
- Pick 'n Pay's 'Go Banking', operated as a division of Nedbank, continues to expand customer base
- ABSA is placing 70% of all new ATMs rolled out (about 400 this current financial year) in previously disadvantaged communities and it has created two mobile banks to take banking to the people
- Standard Bank planning 200 new sites for 2005, mainly in townships
- FNB is rolling out mini ATMs and mobile branches



Market Development - Legislative initiatives

- Tiered Banking
 - Dedicated Banks Bill and Cooperative Banks Bill will create new points of access in to the banking system
- Consumer Credit Bill
 - Aims to create a more responsible lending environment for micro lending
- Financial Sector Charter
 - Blueprint for the transformation of the financial services sector containing very real access targets
 - Composition of the Charter Council now agreed

FinScope background

- Continuum of financial markets
- Absence of other financially focused, publicly available studies
- To inform business and policy makers
- To create a demand side perspective
- Independent and impartial reflection
- On-going, credible measure of the market

FinScope vision

- Supply a credible measure of the market
- Reflect the continuum of the Southern African consumer market
- Be impartial and informative
- Create a segmentation model, not based purely on income, – but reflecting the continuum
- Tracking capability

Questionnaire

- Developed with syndicate input
- Tracking with previous year
- Support the FSM model
- **Content:**Demographics, psychographics
 - Money sources, risk profiles
 - Financial knowledge & discipline
 - Savings & investments
 - Product/service penetration – formal & informal
 - Access issues

SA study methodology

- Coverage and methodology - 2005
 - 3 900 face-to-face interviews commissioned
 - Nationally representative sample, drawn by Enumerator Area
 - Stratification and multi-stage sampling using GIS
 - EA maps supplied by the HSRC
 - The Financial Summary Measure (FSM) included in the study
 - Questionnaire translated into six vernacular languages
 - Research Surveys and SAtoZ – major research suppliers to date

SA study methodology

Respondent profile

Universe = all adults 16+ years residing in South Africa
50% males and 50% females
65% non-metropolitan and 35% metropolitan

EA classifications

Urban formal = Municipal towns and the like
Urban informal = Squatter areas (no streets)
Rural formal = Includes commercial farms, hostels, mines
Tribal land = Independent states/deep rural, self-governing territories

Some findings

- Some highlights from 2004 study ...

How many people are banked?

No. of banked adults in South Africa (2004) = 13 197 589

(Anyone who currently uses: ATM/Debit/Credit card, a Savings Book/Post-Office Savings/Savings/Transmission Account, Current/Cheque Account, Fixed Deposit, Garage Card, Money Market account or a Mortgage)

No. of previously banked adults in South Africa (2004) = 3 563 036

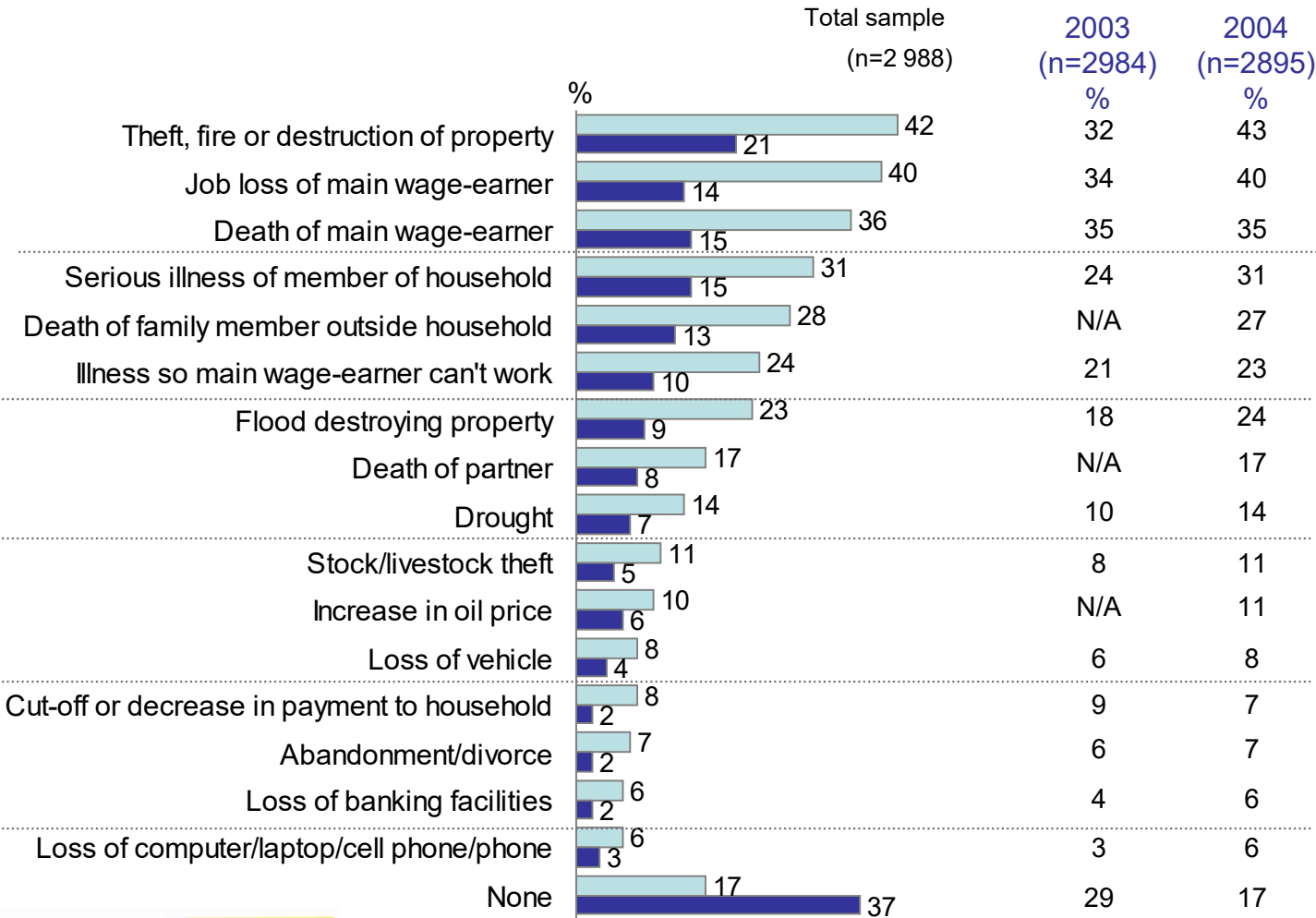
No. of never banked adults in South Africa (2004) = 12 272 785

Un-banked

No. of un-banked adults in South Africa (2004) = 15 835 821

Perceived household risks

Factors likely to impact finances

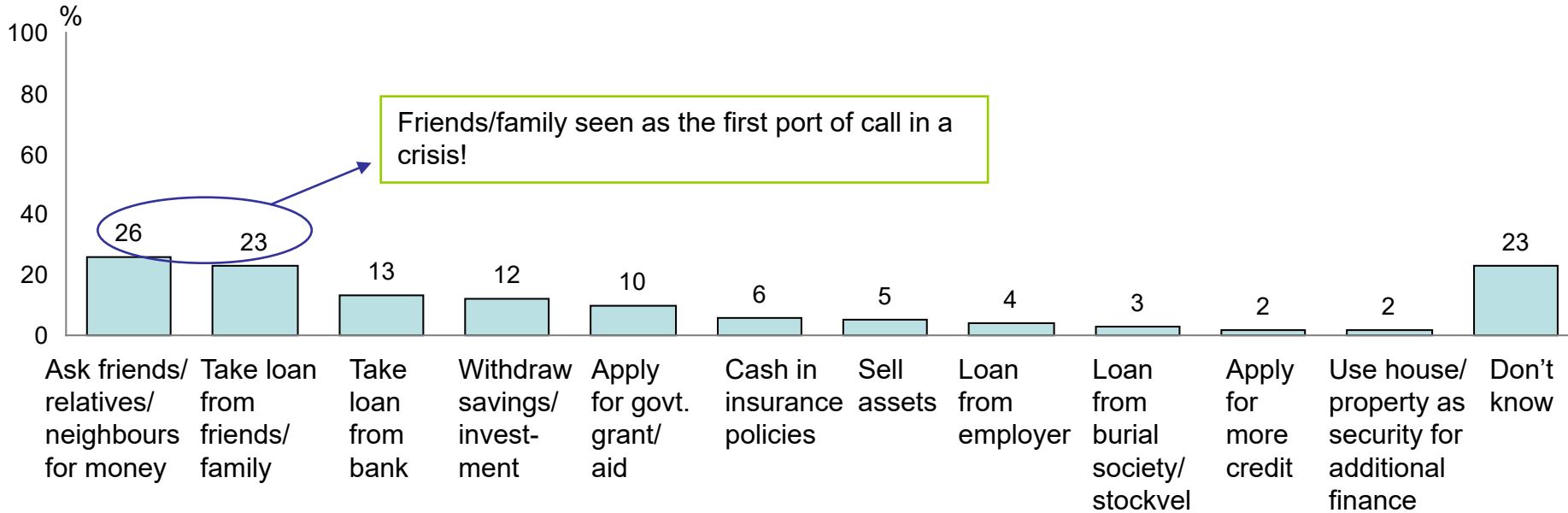


- After shelter, the next greatest threat is the loss of income from the main wage-earner of the household
- Overall, there are many other concerns before loss of banking facilities becomes an issue

Factors likely to impact finances Factors likely to happen

Dealing with life events

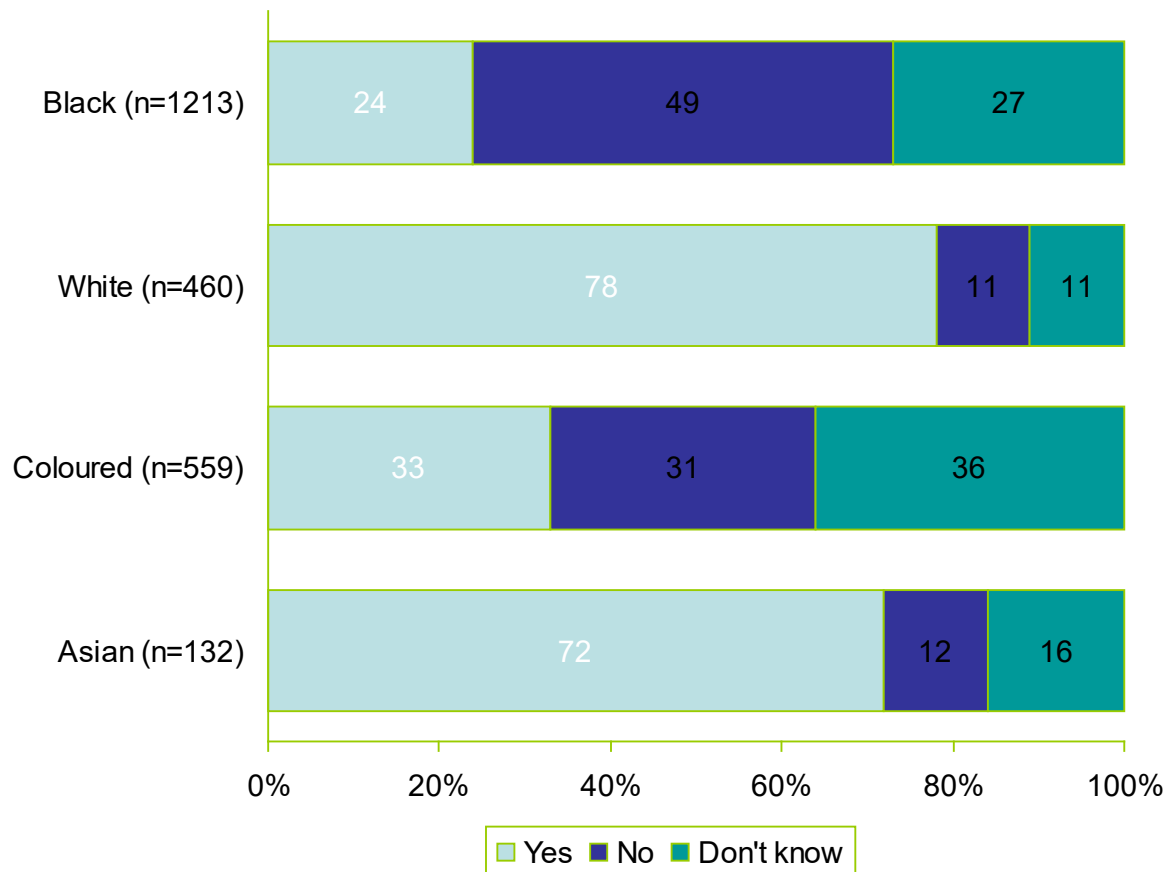
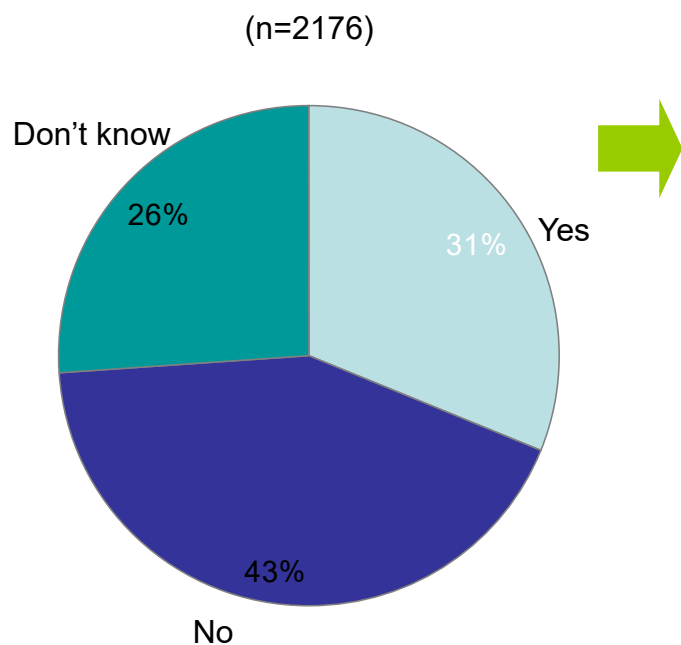
Only one in eight people believe that approaching the bank for a loan is the way to deal with financial life events



2003 18+ (n=1423)	N/A	33	12	15	21	10	12	5	4	1	N/A	6
2004 18+ (n=1861)	26	23	14	13	11	6	5	4	3	2	2	22

Homes as tradeable assets?

- Most people do not view their houses as a tradable asset. This skews towards black people and the lower LSMs – implications for houses as surety?

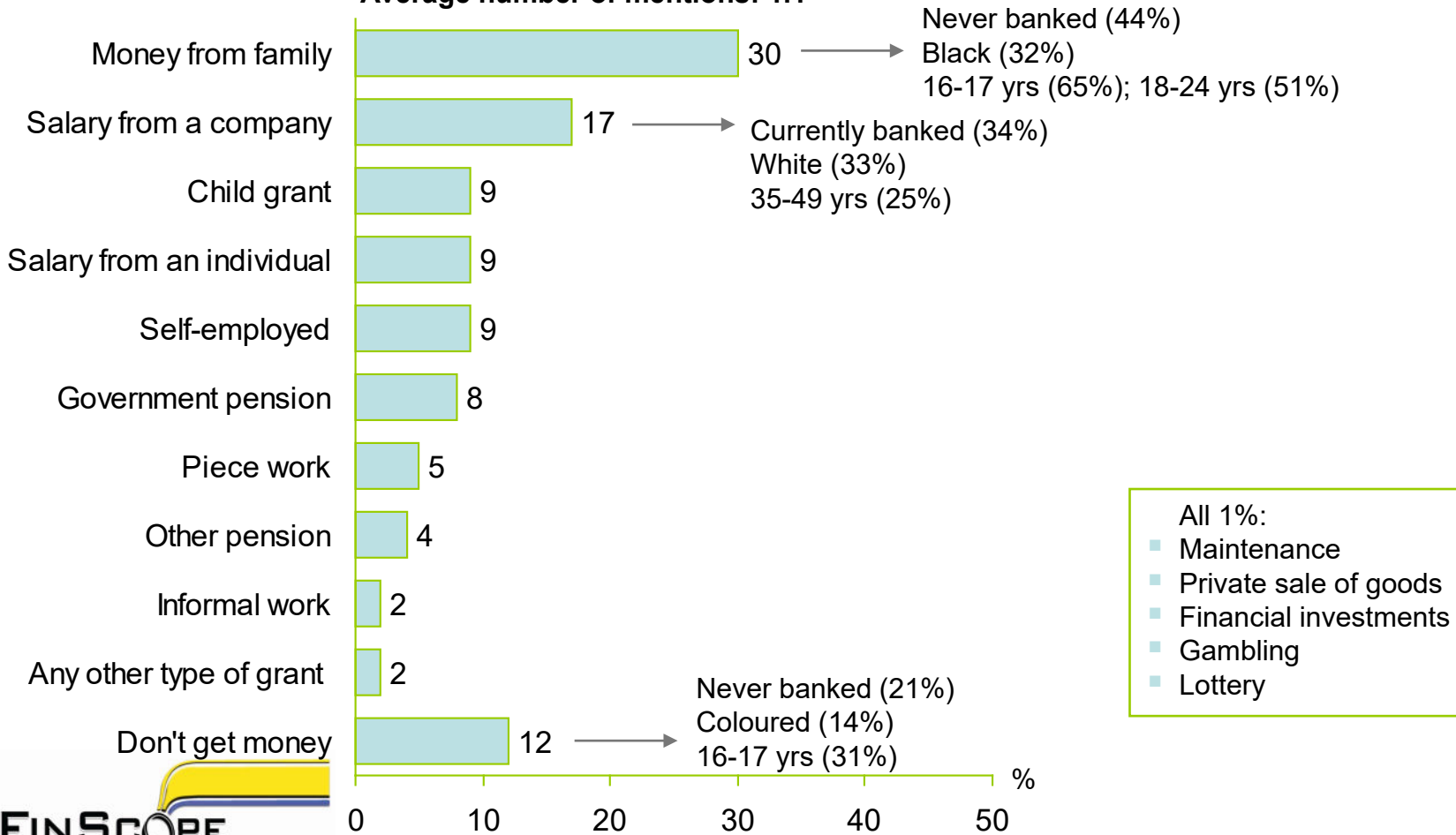


Income sources

- On average, consumers claim to have only one source of income – this is of concern as it indicates a lack of any back-up source
- Almost one-third of the population obtains money from friends/family as their main source of income

(n=2988)

Average number of mentions: 1.1



FICA compliance

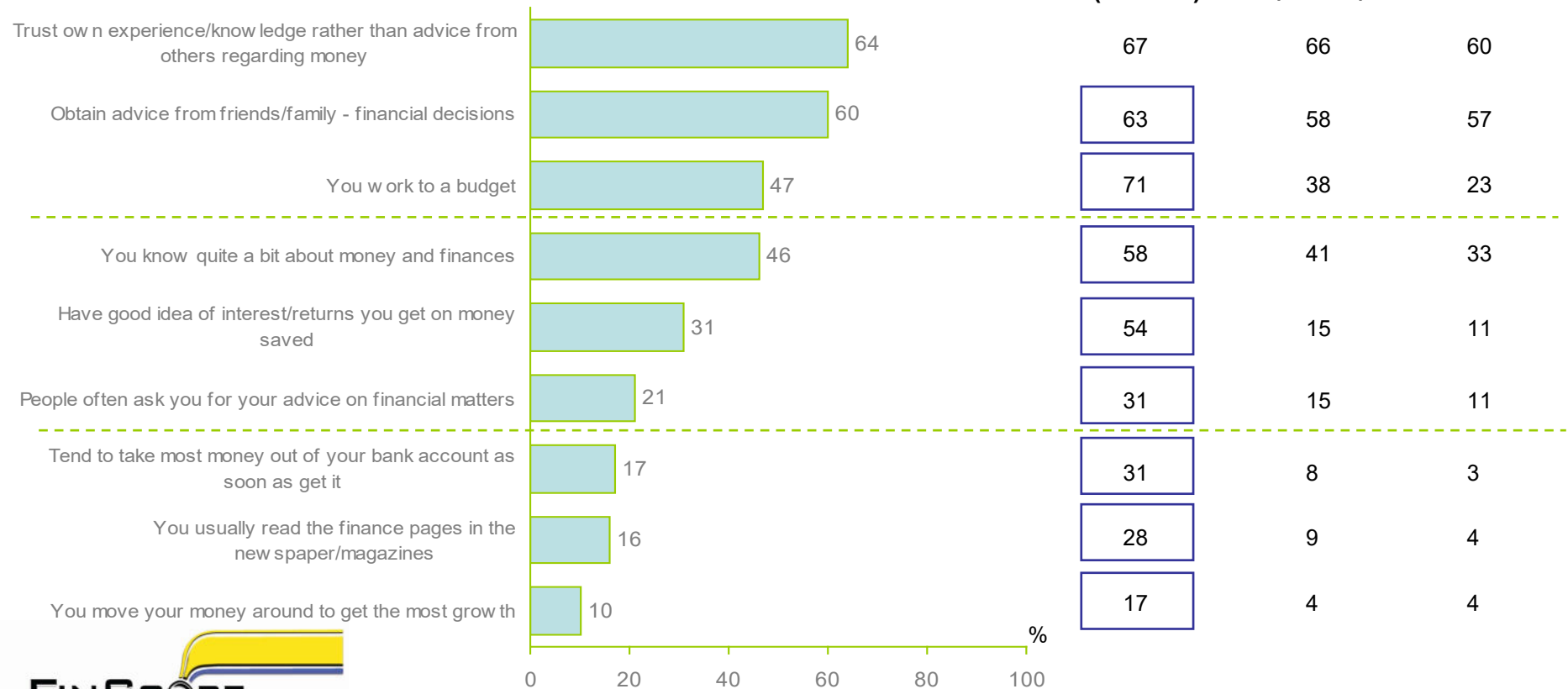
	Total (n=2988) %	Black (n=1570) %	White (n=655) %	Coloured (n=559) %	Asian (n=204) %	Urban Formal (n=2088) %	Urban Informal (n=195) %	Rural Formal (n=215) %	Tribal Land (n=490) %
ID book	81	80	83	80	88	83	72	81	79
Electricity/water bill	25	20	55	26	45	32	17	9	16
Bank statement	12	9	33	10	24	15	7	12	8
TV license	12	7	30	19	32	17	3	7	5
Municipal rates inv	10	7	22	16	26	15	4	5	2
SARS tax return	8	5	28	8	15	12	3	1	3
Telkom telephone account	6	2	29	10	29	11	1	3	0
Long/short term insurance policy	6	3	22	6	12	9	1	1	1
Passport	6	3	18	4	21	8	2	5	1
Lease/rental agreement	2	2	9	1	3	4	0	1	0
Other	1	1	1	2	3	1	0	0	1
None	13	15	4	13	3	10	23	17	16

Financial astuteness

- The market is saying they are more financial astute than what they really are as most people still seek advice or verification on their decisions
- Their claimed astuteness is not reflected in their behaviour
- Banked consumers claim to be the most astute overall, as do those in FSM 8

(n=2947)

Currently banked (n=1627) **Previously banked (n=345)** **Never banked (n=975)**



Banking services used

- Where banking products are being used, an ATM card/savings account is the first choice
- Noted increase in debit card usage

	2003 18+ years (n=2894)		2004 18+ years (n=2895)		2004 16+ years (n=2988)		AMPS data 2003B	
		%		%		%		%
ATM card	12005990	44	11296411	42	11454716	40	7454223	25
Debit card	1574038	6	2783288	10	2814186	10	-	-
Savings book	1358929	5	1252511	5	1317163	5	-	-
Post office savings acc	1293752	5	1021029	4	1055520	4	-	-
Savings/transaction acc	9973817	37	10014630	37	10114059	35	10332311	34
Current/cheque acc	1811158	7	1809357	7	1841740	6	1961134	7
Credit card	1315696	5	1459525	5	1509131	5	1339755	5
Fixed deposit bank acc	1105233	4	1010975	4	1029553	4	-	-
Garage/petrol card	521846	2	711718	3	696160	2	589016	2
Money market acc	255040	1	334995	1	329716	1		

Ideal financial service providers

Ideal overall

- Banks (52%)
- Insurance companies (3%)
- Micro-lenders (2%)
- Mashonisas/cash loan shops (2%)
- Furniture/food/clothing retailers (1%)
- None/don't know (44%)



See banks as ideal overall:

- Black (47%) - 48% none/don't know
- White (82%)
- Coloured (48%) - 49% none/don't know
- Asian (70%)

Ideal for loans

- Banks (47%)
- Micro-lenders (4%)
- Mashonisas/cash loan shops (4%)
- Insurance companies (2%)
- Furniture/food/clothing retailers (1%)
- None/don't know (48%)



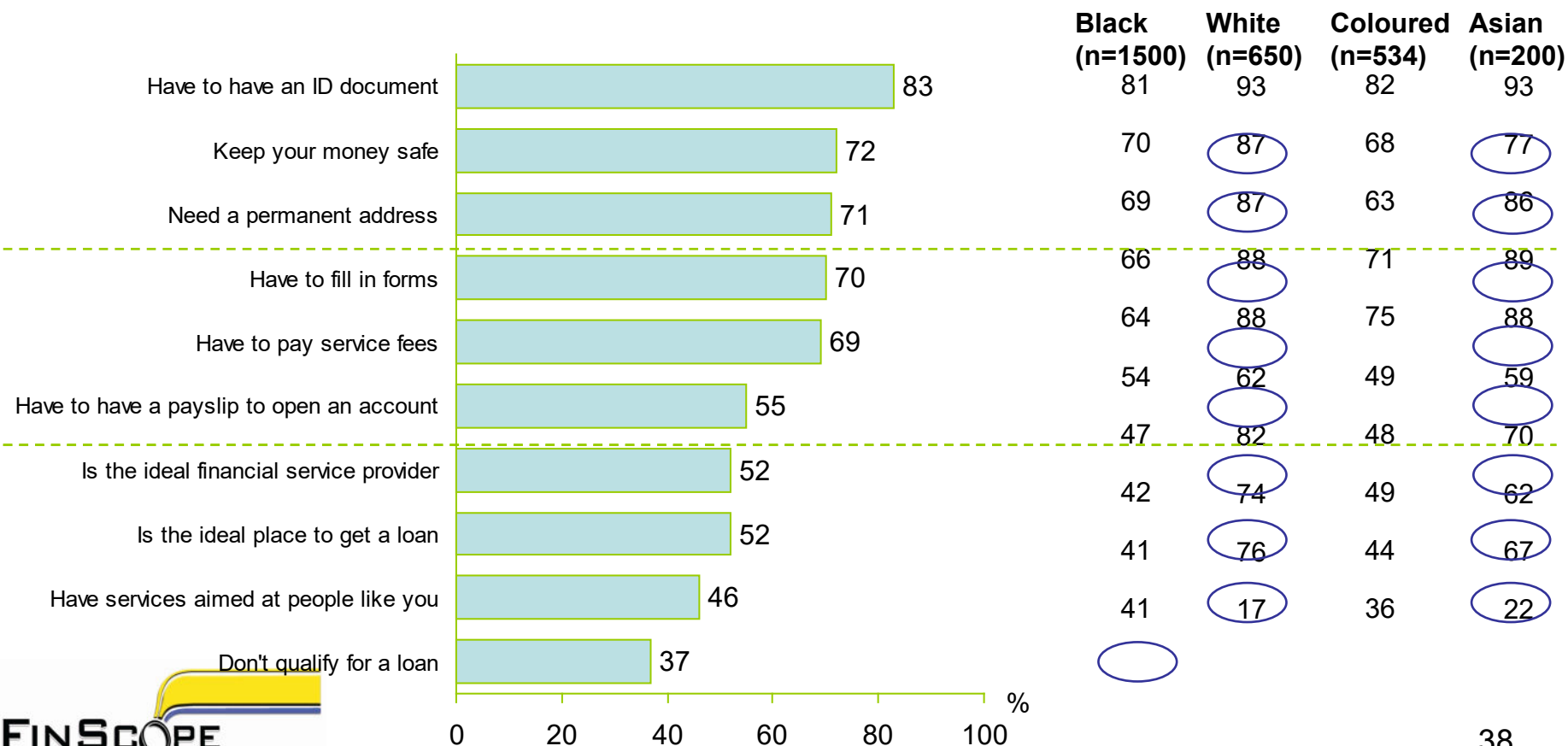
See banks as ideal for loans:

- Black (42%) - 53% none/don't know
- White (74%)
- Coloured (49%) - 43% none/don't know
- Asian (62%)

Defining banks

- Banks are perceived as being the ideal financial service provider, particularly amongst white and Asian consumers
- Service fees are an issue for the market as a whole
- Of all the FSP's, banks are also rated the highest overall wrt money not growing quickly (36% - Asian and white skew), technology being difficult to use (33% - black skew), being forced to keep a high minimum balance (32% - white skew) and being too far away and expensive to get to (19% - black skew)

(n=2884)



With whom are loans typically taken out?

- Role of family/friends critical – turned to for emergency assistance
- Banks and other institutions used more for planned purchases/events – if can qualify for a loan with them!

(n=2988)

Buying food (12%)

- Friends/family (81%)
- Employer (5%)
- Mashonisa (5%)
- Stokvel/burial society (5%)

Buy a house (6%)

- Bank/financial institutions (96%)

Buy clothes (6%)

- Retailer/local store (66%)
- Friends/family (25%)

Pay school fees (6%)

- Friends/family (55%)
- Bank/financial institution (14%)
- Employer (10%)
- Micro-lender (10%)
- Mashonisa (9%)

Pay off debts (5%)

- Friends/family (36%)
- Bank/financial institution (26%)
- Micro-lender (17%)
- Employer (15%)
- Mashonisa (7%)

Buy a car (5%)

- Bank/financial institution (87%)

Pay for funeral (4%)

- Friends/family (42%)
- Employer (22%)
- Stokvel/burial society (19%)
- Bank/financial institution (16%)
- Mashonisa (7%)

FSM

Financial Services Measure

FSM

- Financial Services Measure
- Categories measured:
 - Financial penetration
 - Knowledge and discipline
 - Well-beginning and connectedness
 - Physical access
- 8 Tiers for added insights
- Complements other segmentation models

Targeting the FSMs

Current situation

FSM 1

Poverty – no income, no employment
Access – far from services, little infrastructure

FSM 2

Access – far from services, little infrastructure
Knowledge – lack of understanding of services

FSM 3

Access – far from services, little infrastructure
Education – understanding finances

FSM 4

Access – far from services, little infrastructure
Education – investment for the future, responsibility

FSM 5

Risk education – understanding risk and returns
Investment education – understand growth of savings

FSM 6

Investment experience – advising the community
Mortgages – housing finance

FSM 7

Debt education – living out of their means?
Asset building – investment and retirement planning

FSM 8

Sophisticated and financially astute, seeking investment and growth opportunities

Possible solutions

Nothing really that can be done – issue of education, social renewal and job creation – social responsibility

Bringing banking to the communities, relevant products that are understandable – limited potential

Ease of access to services – mobile services? Making banking affordable – how money works

Mobile services, building asset bases particularly in home loans

How to achieve decent returns with low risks – new product needed?

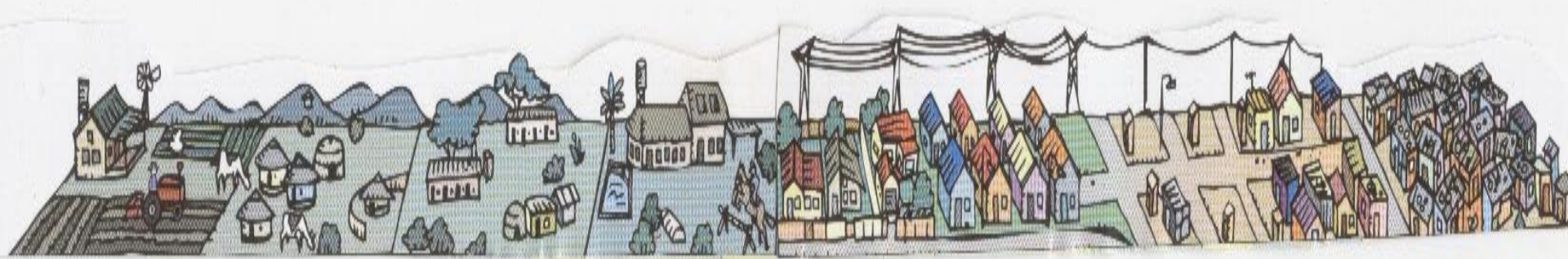
These people are connected and need to understand finance to explain to communities – financial mentors

Focus on building assets to underpin lifestyle
Debt products that are affordable – one debt system?

New products and innovation – value for money services

Conclusion

- Unique focus on financial markets, binds formal and informal together
- Impact on policy makers and service providers
- Accepted as authoritative and independent
- Funding model demonstrates commercial buy-in
- Adoption
 - Different usage patterns between banks
 - Banks lead the insurers
- Constantly being enhanced but base is fixed



Questions?

Thank you