

FINSCOPE 2003

Botswana, Namibia, Lesotho & Swaziland Pilots

Ground breaking market research – the first survey to document trends in demand and use of financial services.

About FinScope

FinScope is market research on demand for financial services in the Southern African Customs Union (South Africa, Botswana, Namibia, Lesotho and Swaziland). FinMark Trust piloted FinScope in Botswana, Namibia, Lesotho and Swaziland (BNLS) to test and showcase the importance of demand side information in financial market innovation and growth. The BNLS research builds on the experience of FinScope in South Africa.

About FinMark Trust

FinMark Trust is dedicated to "Making Financial Markets Work for the Poor" of southern Africa. Its role as facilitator in financial market development is achieved through promoting and supporting policy and institutional development, catalysing innovation, influencing thinking, and providing information. The intention is to assist financial service providers to maximise their market opportunities, and to innovate so that households, particularly the financially excluded, have effective access to financial services.

About FinScope BNLS

FinScope BNLS's aim was to pilot test the research methodology and tool, and begin the process of:

- Understanding usage and need for financial services,
- Measuring effective access to financial services,
- Identifying market segments, and
- Assessing opportunities for expansion of financial services.

The research tool was designed in response to requests from financial service providers and policy makers for information about demand issues, and the general supply landscape for financial services. The research collected information on:

- Usage of financial services – both formal and informal.
- Profiles of users and non-users.
- Attitudes, preferences and awareness around financial institutions and financial services.
- Household risk management and coping strategies.
- Income expenditure patterns, and property ownership.
- Access and attitudes to technology.
- Values which drive behaviour (Psychographics).

Important definitions

Demand for both formal and informal financial service providers was captured. Formal financial institutions are commercial banks, insurance companies, registered moneylenders, savings and credit cooperatives, microfinance NGOs, post office banks or equivalent, and other development banks providing retail services. Informal institutions are burial societies, stokvels, and unregistered moneylenders. The financially excluded do not use either formal or informal financial services. The un-banked are those that do not have any banking service.

The pilot sample

The sample sizes for FinScope BNLS pilot, covering both urban and rural areas, was: Botswana – 500; Namibia – 800; Lesotho – 500; Swaziland – 600. A three-step probability proportional-to-size (PPS) sample method was used for selecting households. Head of the household was interviewed. The relatively small sample sizes, though sufficient for pilot purposes, do limit the analysis at a national level.

Exploratory analysis on segmentation models

It has become standard practise to segment financial services markets using broad, non-specific variables such as gender, urban-rural location and income. The assumption is that people who make up these segments are uniform. This may not be true. FinScope explored other ways to segment the market by looking at values, perceptions, infrastructure, and culture. Exploratory regression analysis shows that these values can be predictors for some elements of financial behaviour, and this was particularly the case for Botswana and Namibia.

Way forward – breaking new ground

Through financing by a syndicate of users, FinMark Trust intends to repeat FinScope BNLS in 2004 as a comprehensive nationwide survey in each country that will deepen the knowledge of demand for financial services. FinScope 2004 will build on the pilot to test new ways of segmenting the market and develop a Financial Summary Measure (FSM) of access to financial services, similar to that currently being tested in South Africa. FinMark Trust invites interested users – financial service providers, multi and bi-lateral donors, and government – to build on this ground breaking research by joining the FinScope funding syndicate for each country. The syndicate will finance annual surveys of credible and reliable information on demand for financial services.

Amongst other benefits, the information can be used to:

- Ensure a favourable policy environment for financial innovation and development,
- Investigate new and profitable market opportunities and segments for financial services.
- Improve or design new financial products and delivery mechanisms.
- Design support initiatives aimed at promoting financial development that will benefit the poor.
- Track and measure access to financial services.

This package contains a CD-rom with the full data set for FinScope BNLS, the questionnaire, and research method. The inserts highlight the research results by country.

FINSCOPE 2003 – South Africa

A study of the financial access and behaviour of the South African population – Towards defining a segmentation model that will classify a person into eight FSM tiers

FinScope 2003 South Africa is the most comprehensive survey exclusively focused on the financial service needs and usage across the entire South African population. FinScope South Africa is underwritten and co-ordinated by FinMark Trust and funded by a syndicate consisting of: ABSA Bank, African Bank, FNB, Metropolitan, Standard Bank, Teba Bank, and the Microfinance Regulatory Council. It was launched on November 11, 2003.

Highlights from the FinScope 2003 launch presentation by David Porteous, FinMark Trust CEO, November 11, 2003.

Majority use cash transactions:

- The South African financial landscape is still cash based.
- The majority of people, 26%, rely on money from family, person to person transfers, as a source of income.
- The majority of adults (18+) receive their income in the form of cash. Those that are salaried receive their income through a bank, but only 20% are salaried.
- This represents opportunities for technology innovation in transaction/transmission services.

Half the population use a bank account – and are termed “banked”:

- About 51% of the adult population have a bank account, 35% have never had a bank account, and 14% were previously banked.

The unbanked represent a significant portion of the economy:

- There are almost 10 million adults that never had a bank account.
- These are mainly black (87%), young (49% between 18-34 yrs), and unemployed (51%).

Unemployment is the main reasons for being unbanked:

- 68% of people that do not have a bank account say this is because they do not have a job.
- Only 13% say that they don't need a bank account or would prefer dealing in cash.
- The 14% (3.7m) that used to have a bank account, and do not have one now, say this is because they have no job (54%).

People have positive attitudes to banks:

- 73% say that if they received a fairly large sum of money and did not spend it immediately, they would put it in a bank.

Opportunities for financial service providers:

The challenge for providers in reaching the unbanked market is to understand behaviours and attitudes across the population towards financial services and other related products in order to design suitable financial products and delivery channels.

A new approach is proposed to understand the continuum of financial behaviour within the formal and informal retail financial services markets. A Financial Summary Measure (FSM), based on four broad components, is being tested and debated as a method to segment the market for financial services into 8 tiers. The FSM measures:

- Financial penetration (take up of a comprehensive list of financial services, both formal and informal).
- Attitudes to money, based on financial knowledge, control and financial discipline.
- Physical access to banks.
- Connectedness and optimism.

People can be classified into any 8 tiers of the FSM. The FSM algorithm will be available soon industry wide.

