Measuring consumer access to financial services in South Africa

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Introduction

It is recognised that access to financial services plays an important role in relation to economic growth, poverty reduction and social inclusion, as financial exclusion acts as a brake on the development of households (World Bank (2006)). However, measuring such access remains somewhat problematic and involves a number of compromises.

While access to financial services is sometimes conflated with access to credit or to a bank account, a more complete list should include the fact that consumers require the ability to:

- make payments
- save and make investments
- manage risk
- obtain credit and loans
- make financial provision for old age.

Such items are not easy to measure, and measurement is often confined to formal sector services.[2] For example, access to an entry-level bank account is often seen as a proxy for the ability to make payments and to save. As entry-level bank accounts may come with restrictions on payment types and have very low or zero interest payable on positive balances, their appropriateness as a proxy for these needs is arguable. However, it is widely acknowledged that access to an entry-level bank account may well be a necessary first step in acquiring the ability to make payments and to save.

The data on access to financial services remain relatively weak – for both developed and developing countries – especially if one thinks of access in broader terms than simply access to an entry-level bank account. Standards for measuring access are not widely established. Moreover, access is a nuanced subject, embracing availability, affordability and appropriateness, which are subjective and elusive to measurement. A proxy for access to financial services that is more readily amenable to measurement is the use of financial products; this has become the de facto alternative. Usage measures the coincidence of demand and supply of services, but cannot measure voluntary exclusion (where services are extended but not taken up) and involuntary exclusion (where services are not extended). Ideally, the measurement of access, rather than usage, should take account of both current use and voluntary exclusion (Claessens (2006)). Others have argued that the distinction between access and use is too fine a point to pursue and that the focus should be on the measurement of the latter (Honohan (2009)).

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[2] While it is acknowledged that there is widespread informal use of financial services, such as money guards, informal saving clubs and taxi drivers (to transmit funds), these are even less susceptible to measurement and are largely excluded from the discussion here.

The discussion below centres on an important aspect of the use of financial services – the number of accounts and the number of credit agreements. What is clear is that even the measurement of usage is not always straightforward. Data sources have variable accuracy and comparability. While regulators may be considered a neutral and accurate source, they can sometimes provide only incomplete statistics on basic data such as numbers of accounts or policies (see, for example, Mylenko (2009)). Data collected from providers and consumer surveys have coverage and accuracy problems. In particular, self-reporting by consumers of certain financial products, such as credit products, is particularly weak. Survey data also suffer from weak comparability over time and across countries (Cull and Scott (2009)). The present paper argues for an approach that employs a diverse number of sources in the hope that they will confirm each other. Where they do not, explanations need to be sought.

In South Africa, measuring access to financial services has been facilitated by the formation of the Financial Sector Charter (FSC) and the National Credit Act (NCA). The FSC placed the onus on financial sector firms to meet access and empowerment targets which were to be reported on an annual basis. Access standards based on physical accessibility, appropriateness to the needs of the un-served population, affordability, simplicity and non-discrimination were developed for each of the reporting industries. The standards were to form the basis of reporting to the FSC, in terms of achieving access targets, and were to be used in the evaluation of new and existing products for which firms claimed access points.[3] While events have subsequently overtaken this initiative,[4] the process has served to hone the understanding of industry participants and social partners alike on the complexity and nuances of access.

Around the same time that the FSC was being developed, a separate but related initiative led to the establishment of an industry-sponsored survey of consumers, known as Finscope™. The Finscope™ survey focuses on the financial products and services used by South African consumers.[5] The strength of this annual survey lies in its national coverage and its reporting on the use of banking services.

Parallel to this process has been the development and legislating of the NCA, whose remit includes all categories of consumer credit, by non-bank and bank providers alike. The NCA established the jurisdiction of the National Credit Regulator (NCR). Since the implementation of the NCA in 2007, credit providers have been required to report in some detail to the NCR.

These two initiatives have provided potentially rich sources of data on access both to banking services and to credit. In the following two sections, the discussion highlights some of the strengths of these data sources and concludes with suggestions on how to improve the measurement of access.

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3 See Feasibility (2005) and the *2006 Annual Review* of the FSC Council.

4 The Financial Sector Charter was a voluntary commitment by the financial sector industries in South Africa to redress inequalities borne of the apartheid years. The FSC aimed to address empowerment and access and has subsequently been superseded by the broad-based black economic empowerment (BBBEE) Codes of Good Practice legislated and regulated through the Department of Trade and Industry.

5 The Finscope™ survey has been in operation since 2003, although a change in the population sampling base in 2005 means that the years 2005–07 are comparable. In 2008, the questions changed once again.

Access to bank accounts

The use of an entry-level bank account is often seen as the primary proxy for access to financial services, with the number of accounts an obvious initial indicator for access and usage. Even such an apparently simple indicator presents problems related to consistency.

While such data could ideally originate from central bank sources, through the returns of registered banks and cooperatives, the data are not always – as in the case of South Africa – reported to the central bank.

Moreover, banks use different definitions of account dormancy, which can prove to be vexatious where attempts are made to track improvements in access. The issue of dormancy is important, as it may provide an indication of the lack of appropriateness of such services. For example, if bank accounts are opened, but not used, it may be that the reality of fees and charges are discouraging use.

The Mzansi account, which is a standardised entry-level bank account offered by the big four banks and the Post Office, was launched in 2004. The measurement of dormancy here is complicated by the fact that, for the banks, dormancy is taken to mean that customers make no transactions for 12 months, whereas the Post Office employs a 24-month period.

In South Africa, the annual reports of the major banks typically provide information on the number of accounts and clients. This raises the problem of interpretation. The number of accounts cannot be seen to provide information on the number of uniquely serviced individuals, and even data on the number of clients suggest double-counting, as individuals may hold accounts at different banks. Moreover, the measurement of access begs the question of access to what – are all bank accounts equivalent? It is here that a framework of access standards is useful as a point of departure. The reference here to interpretation and to a framework of access standards indicates that measurement cannot stand on its own – we need some kind of analysis (theory) within which measurement makes sense. Theory needs data and data need theory.

The Finscope™ consumer survey, which has been published since 2003, has proven to be a useful source of data, given the absence of official data. Honohan and King (2009) note that the survey is "driven by a market research and market development perspective…the impression [is] that the Finscope™ approach has much of the market survey about it". The Finscope™ survey is a "product-based" survey. So, for example, respondents are not asked if they have an account with a bank, or have access to one, but are instead deemed to be banked if they make use of any of a number of specifically named banking products or services. The list of products and services tracked by Finscope™, together with the results for 2005–07, are shown in Table 1 below.

While the Finscope™ survey is nationally based and is large – with 3,900 respondents in the 2007 survey – there is some evidence to suggest that this somewhat exhaustive product-based survey approach can be mimicked by official, rather than industry-based, surveys – such as labour force surveys – where financial products and services would be dealt with at a more general level. For example, the question: "Do you have a bank account?" could be asked, instead of employing the Finscope approach, which is to ask: "Do you use any one of the following products and services …?" (Cull and Scott (2009)).

Table 1

Self-reporting by consumers on the use of banking services

	2005	2006	2007
Total	**47%**	**51%**	**60%**
% share of respondents with different banking products/services			
Mzansi account	2	6	10
ATM card	44	48	55
Debit/cheque card	14	15	25
Savings book at a bank	3	3	3
Post Bank transaction account	N/A	N/A	1
Post Bank savings account	N/A	N/A	4
Savings/transaction account	33	38	43
Current/cheque account	7	7	8
Credit card	6	7	9
Fixed deposit account	4	3	3
Personal garage/petrol card	2	2	2
Money market account	1	1	1
Cellphone banking	N/A	1	4
Notice deposit account	N/A	N/A	2
Call account	N/A	N/A	0
Village bank account	N/A	N/A	0

Source: Finscope^{TM}, 2007. N/A implies that the question was not asked in previous years.

The data in Table 2 below shows an increasing use of bank accounts in South Africa since 2004. According to Finscope^{TM}, an average annual growth rate of 10.4% has been achieved since 2004, when there were 12.9 million banked individuals, and 2008, when it estimated that 20 million people had active bank accounts. This trend is confirmed by the AMPS Living Standard Measure (LSM) survey, which is also a consumer survey but of a far more general nature, with the questions based on institutions, such as: "Do you have an account with any of the following banks?" Both surveys show trends which accord with the reported growth in the client base of the major retail banks. While the growth rates recorded by the surveys vary, the trend is in the same direction.

Table 2

Measures of the number of banked individuals

Source	**Banked individuals (in millions)**				
	2004	**2005**	**2006**	**2007**	**2008**
Finscope	12.9	14.3	15.8	19	20
AMPS LSM	11.9	13	14.1	15.3	17.5
Estimated major banks' client base	11.1	12.5	14.1	16.6	18
Mzansi accounts opened	0.5	2.1	3	4.9	6
Annual growth rates		**2005**	**2006**	**2007**	**2008**
Finscope		10.9%	10.5%	20.3%	5.3%
AMPS LSM		9.2%	8.5%	8.5%	14.4%
Estimated major banks' client base		12.6%	12.8%	17.7%	8.4%

Sources: All Media Product Survey, various; Bankable Frontier Associates, 2009; Finscope^{TM}, 2007, 2008.

The number of Mzansi accounts has ballooned since their launch in October 2004. The data reflect the number of accounts opened, but not necessarily those in use. By the end of 2008, it was estimated that 6 million Mzansi accounts had been opened, of which 3.5 million were active (Bankable Frontier Associates (2009)).

Access to credit

The information sources for access to credit have recently been bolstered by the advent of the NCA. Prior to the NCA, the provision of credit to consumers, including the quantum in value and in number of loans, could only be estimated. While there was reporting of the loan book by banks, non-banks did not report their loans to any authority except for micro lenders, who were regulated by exemption to the Usury Act, and reported to the Micro Finance Regulatory Council (MFRC). Data on the number of loans were not collected systematically. Data regarding trends in non-bank loans, such as furniture accounts, could be gleaned from patchy reporting to StatsSA, but the annual reports of listed non-bank firms were the only useful source in some cases.

Self-reporting of credit data by consumers through survey instruments has generally proven to be unreliable in that consumers tend to understate their use of such products and services. The Finscope™ survey has proven to be no exception. For example, while it estimated that 14% of the total adult population had a loan or facility in 2007 – up from 11% in 2006 – only 1% of the population admitted to having a micro loan (from a formal provider), and none admitted to having a loan from an informal provider. This compares to the 8.3 million formal micro loan accounts reported to the MFRC at that time (statistics of the loans registered under the exemption notice, 29th period, December 2006). While it could be argued that some degree of the underreporting relating to financial services may be due to the complexity of the products and standards (for example, customers may not always be aware that they have an overdraft facility), it may also arise from the perceived intrusiveness of the survey questions (Honohan (2009)) and the reluctance to admit to the use of such products.

In Table 3 below, the Finscope™ data on access to credit are reported, reflecting the results for 2005–07.

Table 3

Self-reporting by consumers on access to credit

Per cent

	2005	**2006**	**2007**
Adult population with a loan	**10**	**11**	**14**
Personal loan from a bank	2	3	4
Personal loan from a retail store	..	..	0
Loan from friend or family	3	4	5
Loan from an employer	1	0	1
Loan from a micro lender	1	1	1
Loan from a development agency	..	..	0
Loan from a village bank	..	..	0
Loan from an informal money lender	0	0	0
Loan from a stokvel/umgalelo/savings club	1	1	1
Loan from or arrangement with a pawn shop	..	..	0
Loan from a local spaza	0	0	0
Vehicle/car finance through a bank or dealer	2	2	3
Vehicle/car finance from elsewhere	0	0	0
Overdraft facility	1	2	2

Source: Finscope™, 2007.

The data above appear to belie the 17.6 million credit-active individuals listed by the credit bureaus (NCR (2009), Credit Bureau Monitor) and provider data discussed below.

The NCR has recently released data (for banks and non-banks) on the number of credit agreements undertaken by individuals. The data suggest that, in June 2008, there were almost 36 million credit agreements (see Table 4 below). The information is based on returns submitted to the NCR by the top 45 registered providers.

A similar, but independent, survey was conducted by Feasibility in the third quarter of 2008, on behalf of the NCR. The exercise canvassed the same top 45 providers, together with a number of other specialist providers. In spite of a broader survey base, the Feasibility exercise identified almost 32 million agreements. It is not known whether, in the intervening period, the providers revised some of their categorisations (as they are required to report to the NCR only on individuals and some small businesses), or whether there was a nonchalant approach to a non-official (although officially sanctioned) survey.

What both data sources reveal is that the number of agreements and their book value appear to be complementary and, indeed, such data cannot be independently interpreted. For instance, while the number of store cards amounted to 11.7 million by the end of June 2008, (over six times the number of mortgages) the value of store card facilities amounted to R14.2 billion in aggregate, not R729.5 billion. Moreover, for such analysis to add to our knowledge of access, more needs to be known about the distribution of such accounts and agreements.[6] Both consumer and provider survey data can help to provide insights into such matters.

Table 4

Reporting by providers on access to credit

Agreement type	Number of agreements (millions)		Value of book (R billions)	
Jun 2008	NCR data	Feasibility survey	NCR data	Feasibility survey
Mortgages	1.8	1.9	R706.40	R729.50
Other credit agreements: asset finance, furniture loans Of which:	5.8	5.1	R231.10	R188.20
Asset finance		1.8		R176.00
Furniture loans		3.3		R12.20
Credit facilities: overdrafts, credit cards, store cards Of which:	22.8	19.8	R133.10	R88.20
Overdrafts		2.0		R37.10
Credit cards		6.1		R36.90
Store cards		11.7		R14.20
Unsecured credit and short-term credit	5.3	5	R45.80	R36.10
Total	35.7	31.8	R1,116.40	R1,042.00

Source: Feasibility, "Pricing of and access to consumer credit", 2009; NCR, Consumer Credit Report, June 2008.

6 This is the topic of another paper: Feasibility (2009): "Pricing of and access to consumer credit".

Conclusions

This paper has shown that even an apparently simple proxy of access (the number of bank accounts or credit agreements), is fraught with measurement problems. The problem is no simpler for matters such as the number of insurance policies or investment products. For example, South Africa has one of the highest penetration rates in terms of long-term insurance, even for developed countries, and yet the distribution of such polices is highly skewed.

Underlying the discussion is the age-old debate about the relationship between measurement and theory. This paper has concentrated on the measurement side, but measurement needs to be supplemented by an appropriate theory. Indeed, some would argue that the theory dictates what is to be measured. Now that the FSC has essentially been relegated to obscurity, some of the finer detail of what is meant by "access" may well be lost. The outcome may be even more emphasis on measurement, at the expense of theory.

The approach of establishing access standards for the range of financial industries is a necessary starting point in the measurement and analysis of something so important – and so intractable. It constitutes an approach which suggests that both theory and measurement matter. Such a framework, which can make use of both official returns and consumer and provider surveys, may well provide the best possible information on access trends – which are vital both to state policy and to company strategy – and would be greatly superior to a focus on a single elusive quantum.

> "When you cannot measure what you are speaking about, when you cannot express it in numbers, your knowledge is of a meagre and unsatisfactory kind." (Lord Kelvin)
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> "When you can measure what you are speaking about, when you can express it in numbers, your knowledge is still of a meagre and unsatisfactory kind." (Frank Knight)
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> "But do I thus measure, O my God, and know not what I measure?" (The confessions of St Augustine)

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