

Access to finance and financial services

Judi Hudson

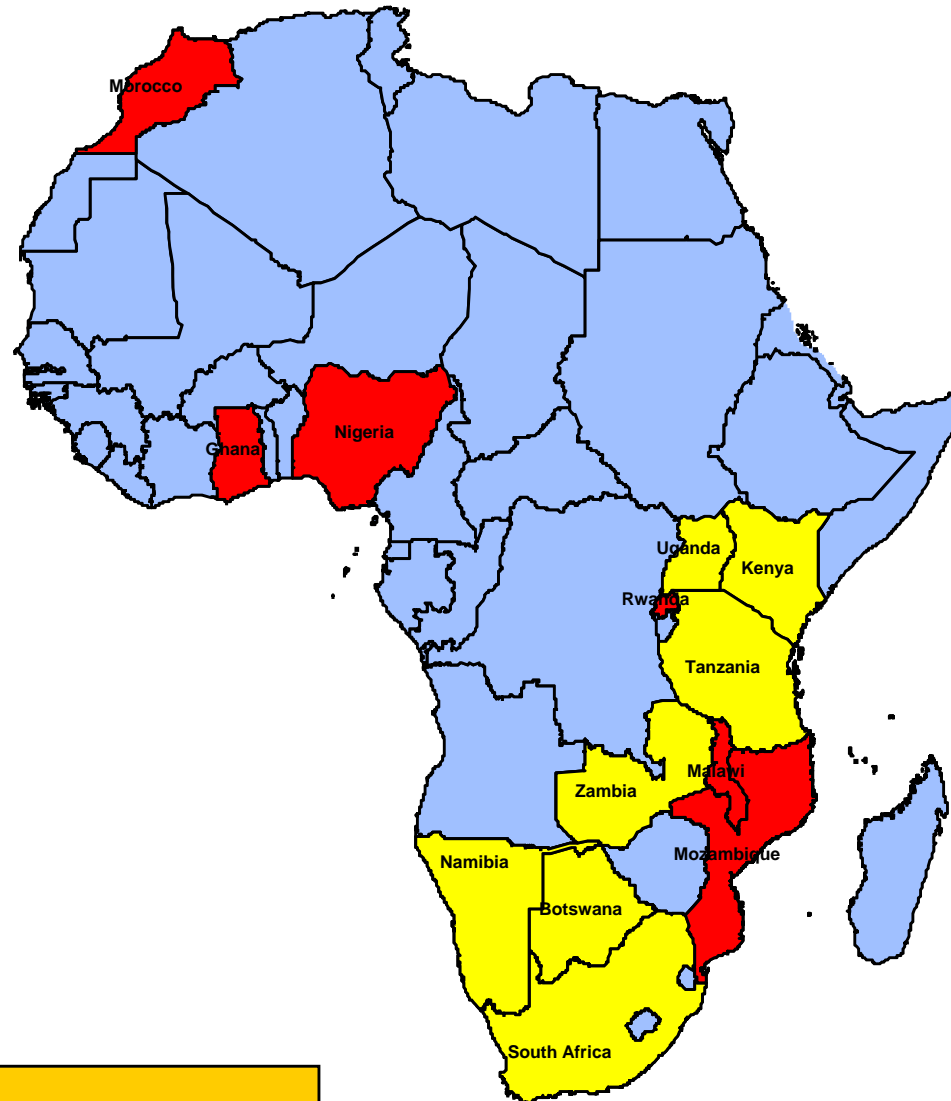
Consultant

FinMark Trust

judih@finmark.org.za

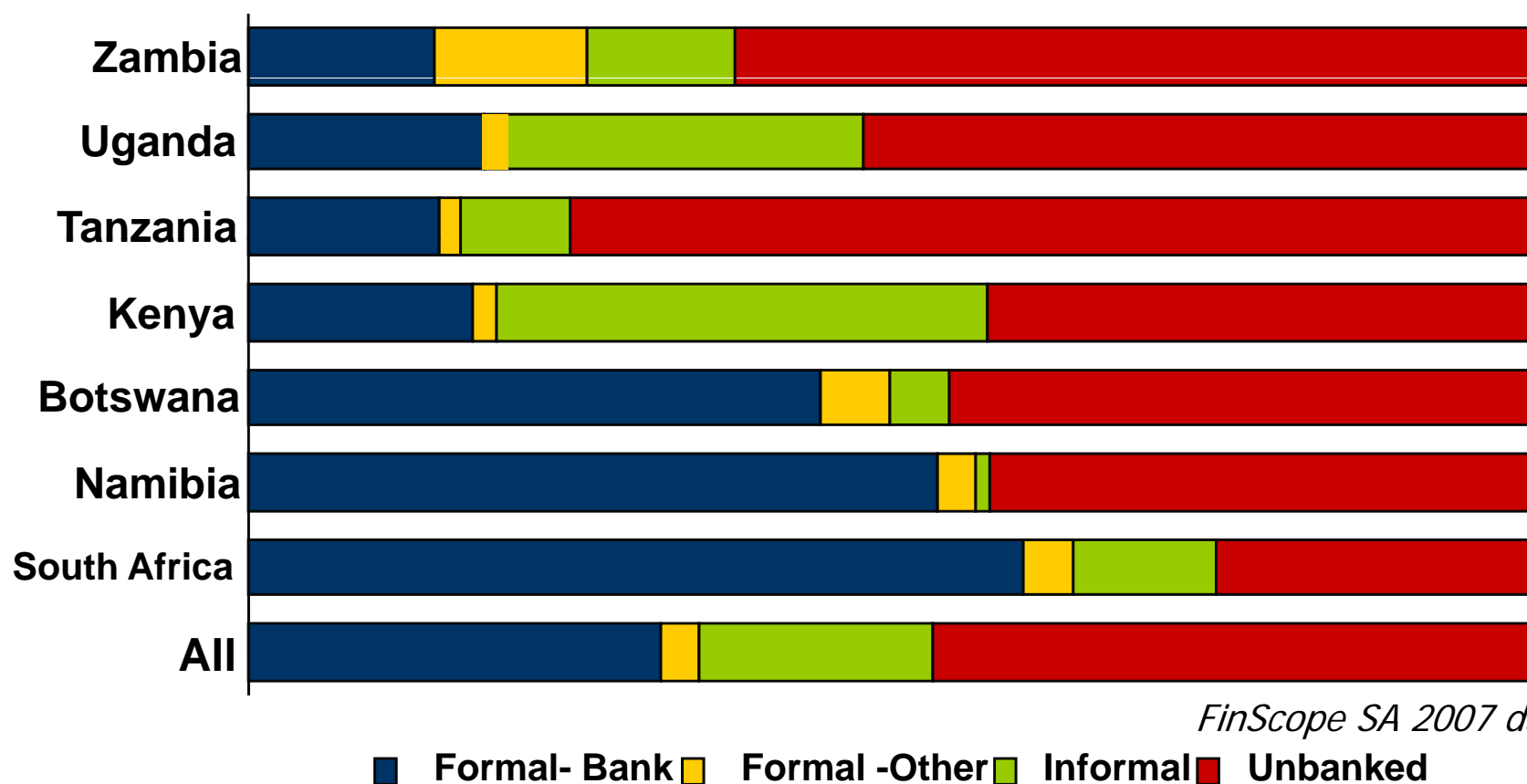
September 2008

FinScope in Africa



Also in Pakistan and interest from India

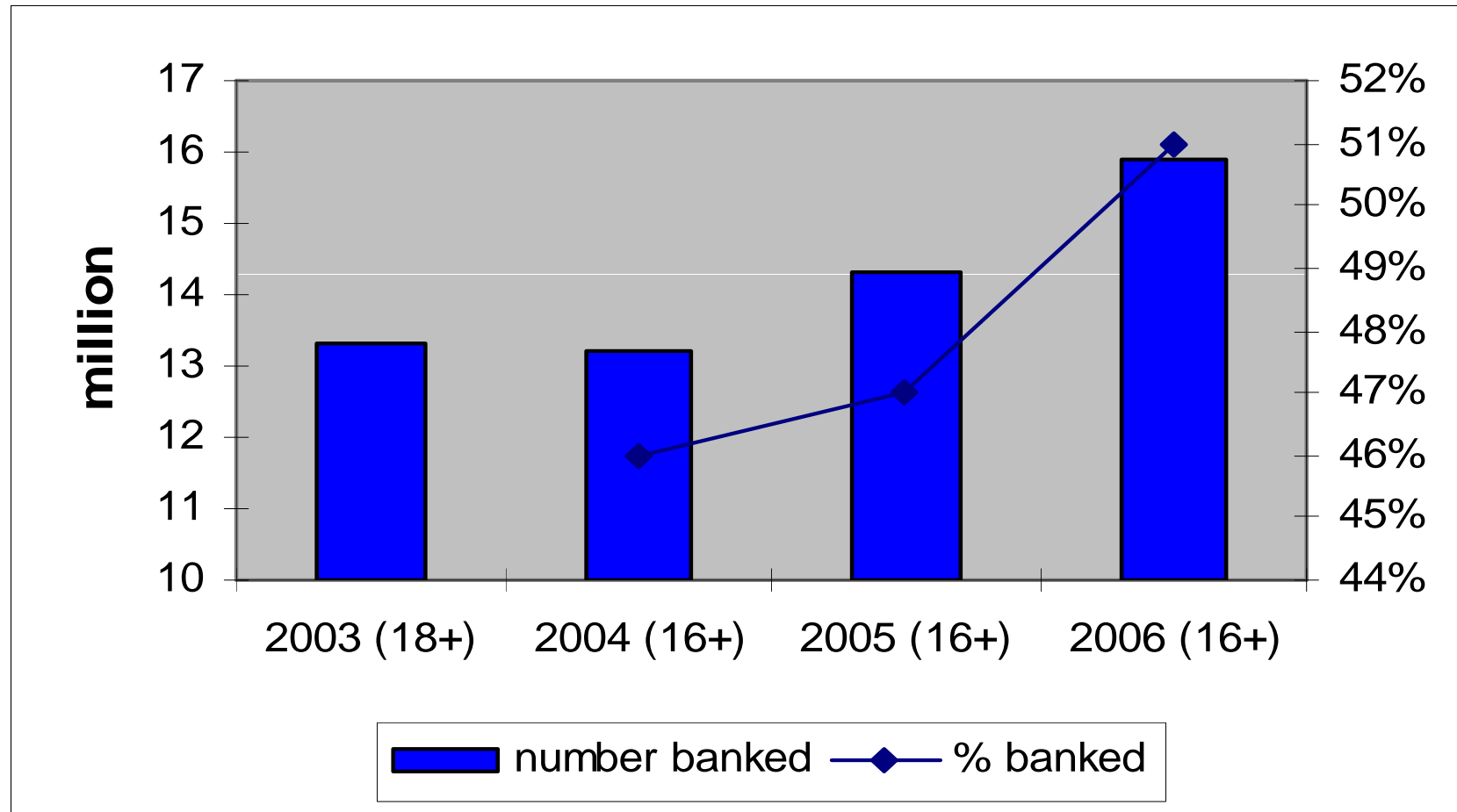
The state of access in Southern & Eastern Africa

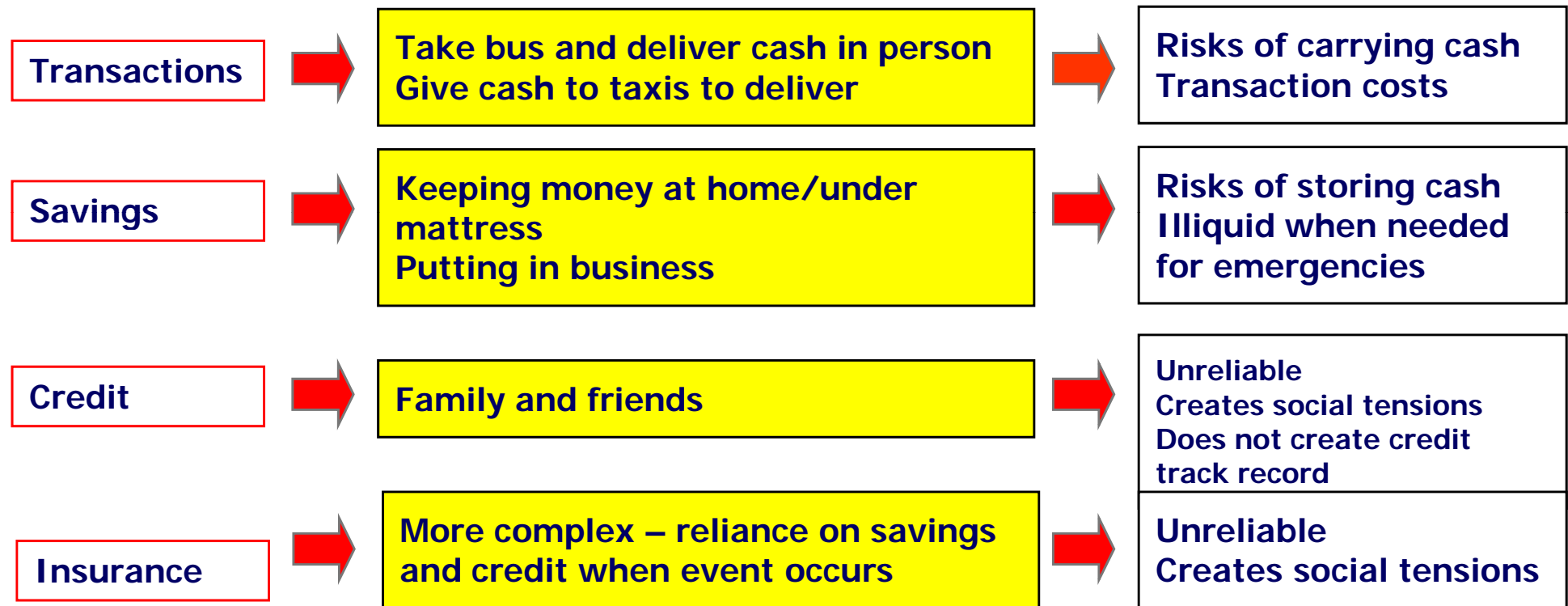


Banked, plus Formal Other = Formally Served

Formally served, plus Informal Other = Financially Included

Number & % banked in South Africa: FinScope SA 2003-2006





Because a segment of the population is excluded it does not mean there isn't a need, or that they are not engaging in activities that fulfil the functions of transactions, credit, savings and risk mitigation. They are probably using sub-optimal alternatives or solutions.

Overview of presentation



FinScope SA 2007

Focus groups

FinScope SA 2007



Credit and loans



13% of people claim they are currently borrowing, an increase from 11% in 2006.

Those that have borrowed are predominantly married or living with a partner, aged 30 – 59 years and currently banked.

Credit and loans



Fewer people claim to be struggling under debt burdens but the ***appetite for future credit has increased***, and is particularly high amongst singles, black people, younger age groups. The desire for credit is moving down the income and lifestage scale.

Credit and loans



More people are claiming to dislike owing money (88%) and think taking loans should be avoided (73%).

While these attitudes are most prevalent amongst higher LSMs those currently banked; the lowest LSM 1 – 2 are most likely not to be borrowing money

Credit and loans



The most common reason for applying to borrow money was to buy food (4%), followed by debt repayment (3%) and school fees (2%).
77% of all loans accepted to buy food are from friends and family, highlighting the importance of informal lending in everyday life.

Credit and loans



Banks, retail stores and life insurers tend to be most associated with treating people well, debt consolidation, and having a previous record of helping you to get a loan.

Mashonisas are associated with high interest rates, people scared of what they might do.

Credit and loans



Awareness and understanding of the NCA is positive:

22% claimed to have heard of it and to know what it meant, an additional 22% claimed to have heard of it but did not know what it meant and 56% had never heard of it.

Approach to questionnaire design

Credit and loans



Those with loans were more knowledgeable about the terms of the NCA, but also most ***likely to be misled*** by statements with just under a quarter believing that the new NCA means all previous credit obligations fall away and a third thinking a credit provider phoning regularly to remind them to pay is a good thing.

Credit and loans



Store cards, although declining slightly, are the most common form of credit amongst all racial groups.
Vehicle finance is the second most common source of credit in the white and Asian markets, whilst loans from friends and family is the second most common credit source amongst black people

- Focus groups

Focus groups

6 focus groups conducted in Johannesburg, Polokwane and Richards Bay.
Groups conducted in English in Johannesburg, and in vernacular in non metro groups.

- **Informal credit users :**
Borrow money from friends and family, mashonisa or employer
- **Formal credit Users :**
Borrow money from a bank, credit card or overdraft facility
- **Non users of credit :**
People who do not use informal or formal credit

No.	Area	Race	Criteria
1	Johannesburg (metro)	Black	Informal Credit Users
2	Johannesburg (metro)	Mixed	Formal Credit Users
3	Polokwane (non metro)	Black	Non users of credit
4	Polokwane (non metro)	Black	Formal credit users
5	KZN Richards Bay (non metro)	Black	Informal Credit users
6	KZN Richards Bay (non metro)	Black	Non users of Credit

Worries and risks in the South African context



Lack of Money was a central worry amongst respondents:

- Respondents mentioned that money was hard to hold onto and that saving has become almost impossible.
- A person's earnings is not enough to cover the things they want and need.
- Respondents said that they worry that at some point they may not have enough money to send their children to school, to have a retirement fund and to pay off their debts.
- Due to the mounting expenses of everyday living, some respondents have been forced to take out loans, credit and borrow money from various sources.

Worries and risks contd.



Actions taken to lessen these worries:

- Take out loans
- Stop accounts from retail stores such as Edgars
- Try get advice on managing borrowed money and saving from the bank
- Cut back on expenses
- Cancel policies such as education policies, life insurance, retirement, medical aid

***In Tswana they have a
good name for money.
They call it blood. We all
know you can't live
without blood***

**Formal user, Polokwane,
group 4.**



***I survive through
loans to cover my
needs
Non user,
Polokwane, group 3***

Respondents had mainly negative comments regarding their overall perceptions of credit



Negative

People who work are more in debt.



"More money; more credit"
Formal user, Johannesburg, group 2.

Having borrowed money creates trouble in your life.



"When they start phoning you and threatening you with repossession..." Formal user, Johannesburg, group 2

Even if items are bought on credit, people do not advertise this.



"No one will ask you how you bought that, as long as you don't say, I bought it on credit" Respondent, group 2.
"Yes, people are ashamed to talk about their credit and they will say I bought it cash" Non user, Polokwane, group 3.

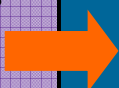
Credit and borrowed money is something that should be avoided but respondents feel that the current economic situation has forced them to get borrowed money even though they don't want to.



"Even if you made a conscious decision not to go the loan shark route, the situation forces you to go to them for a loan"
Formal user, Polokwane, group 4.

Positive

Borrowed money helps you get the things you want.



"...when you need money you can get credit, so it helps you get the things you want"
Formal user, Johannesburg, group 2.

Understanding the dangers associated with credit



How do people become over indebted?

- Gambling
- Paying for debts with further borrowed money
- Buying things they want but can't afford
- Buying big purchases such as a house or car or paying for tertiary education
- Not having medical aid and having medical expenses paid for from a loan
- Using borrowed money to open a business and then business lands up being unsuccessful
- Having fun and living an expensive life
- Funeral expenses

Understanding the dangers associated with credit



- **What happens when someone has too much debt?**
- They avoid coming to terms with their debts
- They take drastic measures such as become alcoholic or commit suicide
- They are blacklisted
- They gamble to try win back money
- The bank repossesses things
- They must consolidate their debts

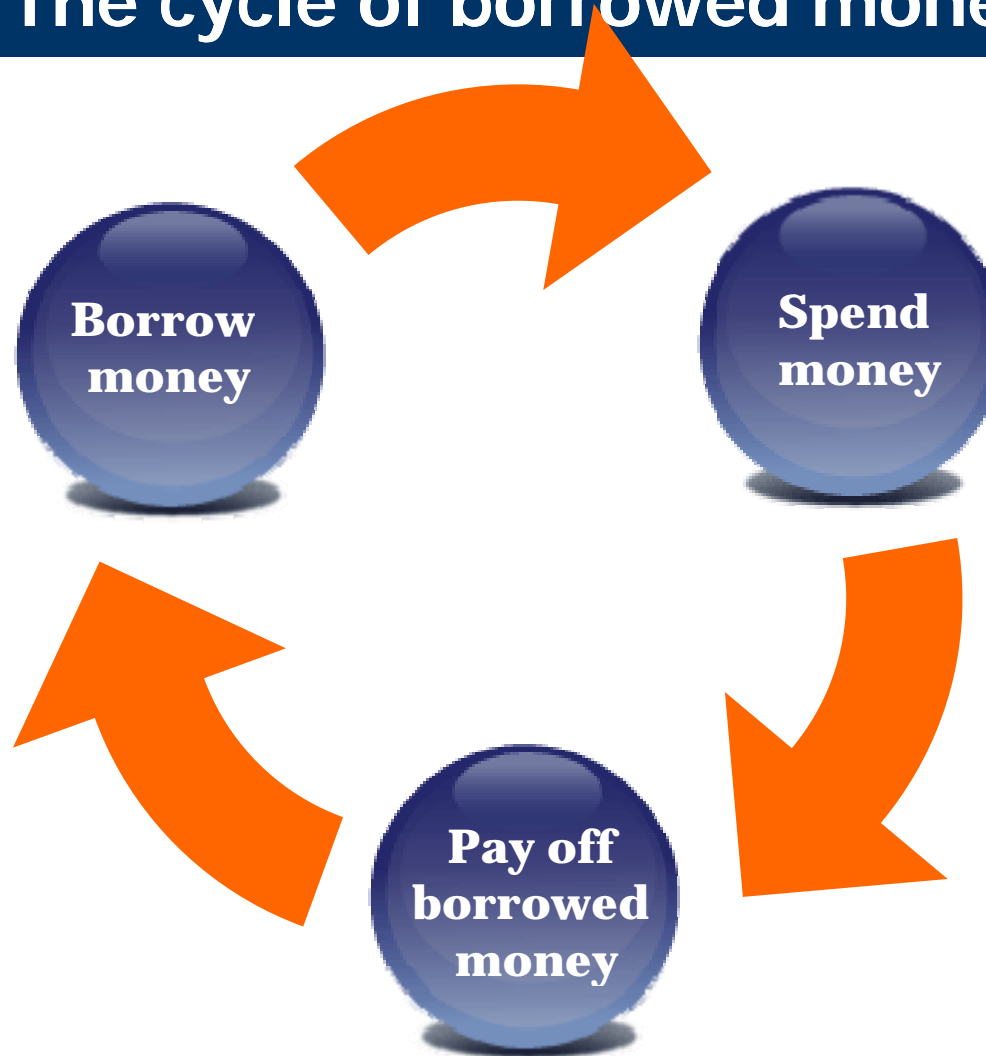
Where do people with too much debt go for help or advice?

Friends and family
Financial advisors
Banks

What happens when someone is denied credit?

They go to a loan shark

The cycle of borrowed money



“Every time I get money it’s to pay someone for something I borrowed and I’m always in debt” Informal user, Johannesburg, group 1

“I get paid and I pay off borrowed money then I borrow again, then I pay again, life goes on...” Informal user, Johannesburg, group 1

“When the month ends I pay my credit card; the very same day I take the credit card to buy food, it just a continuation, there’s no end” Formal user, Johannesburg, group 2

“It’s a vicious cycle” Formal user, Johannesburg, group 2

Respondents perceived borrowed money as resulting in a cycle

Loan from a bank

Advantages

“Less interest”

(lower interest rates) than other methods of borrowing money

Disadvantages

The bank needs several **documents** before one can be considered for a loan making the process lengthy

A person must be **employed**

If one cannot pay back the money lent, **blacklisting** can result

Interest rates fluctuate

Not flexible with repayments

“Hidden costs”

“

They call it riding the camel, which means you are borrowing money either from the loan sharks or the bank. The meaning of this is, if you ride the camel it is very difficult to get off”

**Formal user,
Polokwane, group 4**

Loan from a bank

Although respondents prefer going to a bank, they don't make use of it as much as they use loan sharks due to the perceived barriers that make usage difficult



Respondents would theoretically rather use a **bank** than a Mashonisa or loan shark to borrow money.

However, there are a number of barriers as well as the perceived **lengthy process** involved in borrowing money from the bank

- They had to have many documents to obtain a loan
- The loan took a longer period to be granted than the loan from a loan shark

These drive people to use Mashonisas and micro-lenders.

Formal users did mention that they had obtained a loan from their bank and found the process not to be problematic

“You can simply go to the bank; but if you are not working then they’ll ask you for things like a pay slip and its not easy”
Informal user, Johannesburg, group 1

“It’s a long process; its boring”
Informal user, Johannesburg, group 1

Borrow from loan shark or mashonisa

Advantages

Money is obtained

immediately

If you have a relationship with the loan shark, you can lie or **"tell stories"** to avoid making repayments.

Don't need to be employed to obtain loan and one does not need to provide documentation.

Loan sharks will never deny you a loan

Disadvantages

Interest is very high and loan sharks determine their own interest rates

Serious consequences result in not paying back the money in time. Respondents mentioned things such as being **beaten up, witchcraft and getting arrested**

Loan sharks are seen as the **most dangerous** and the worst way to borrow money

"I went to a loan shark for an amount of R500 and I could not pay it back. They came and repossessed my fridge" Non user, Polokwane, group 3

"Their interest is too high, you borrow R100 and you pay R50 interest. If you have borrowed R5000 you will never be able to pay it back" Formal user, Polokwane, group 4

Borrowing from a stokvel

Advantages

Little or no interest

You don't need to be employed to borrow money from a stokvel

"Since I am unemployed, I rely on stokvel" Informal user, Richard's Bay, group 5

In some instances you can borrow money if you are not a member

Disadvantages

If members don't feel they can trust you, you will not be able to borrow money

"We have stokvel for R500 a month...I bought my kitchen cabinets for R3500 from stokvel money"
Informal user, Richard's Bay, group 5

"We have 2 types of stokvel, we have the one where you can use the money on a weekly basis and then we have the one where we save money up to the end of the year. We rotate and when the stokvel is coming to you, you get R900" Informal user, Richard's Bay, group 5

Stokvel is all about the **trust and relationships** between members. It is very **community** orientated, also called 'a society' by respondents. Members rely on stokvel to help them save and borrow money and take turns

Borrowing from family and friends

Advantages

No interest

There is no fixed rate to pay back and repayment is lenient

There is no formal agreement or contract

One does not always have to pay money back

Disadvantages

Can result in tension amongst family members. *"It causes friction and fights amongst family and friends"* Formal user, Polokwane, group 4

Usually only **small amounts** are borrowed from family members. Sometimes payments are made in other ways such as "paying back" in the form of material goods or entertainment.



"It's difficult and you don't always pay back what your family members borrowed you" Formal user, Polokwane, group 4

Borrow from spaza shop

Disadvantages

Advantages

No interest

Shop owner knows
and **trusts** you
Your name is written
in a **book and you
pay later**
Convenience

There is a **limit**
as to how much
you can take

“Like sugar; when I go there I’ll ask Mama Sepati to give me sugar and she will take her book and write that I took this and that; tomorrow I can come and take another one...and at the end of the month I give her all the money. There is another place for beers as well. I used to go to this other place where they write you in the book” Informal user, Johannesburg, group 1

Although there is an unwritten limit as to how many items a person can take on credit from the spaza shop, respondents mentioned that they go to **several different spaza** shops for various items.

“I think it boils down to trust. You can’t go to Pick ‘n Pay and ask if you can borrow something and pay it back later, even if your dad is the manager there. If you go to the spaza shop, they know you, they trust you and they know where you live” Informal user, Johannesburg, group 1.

The National Credit Act

- Respondents had a **mixed** and generally **unclear** understanding of the role of the NCA.
- Most respondents had heard of it and the NCR and assumed that it was to do with having **too much debt or borrowed money.**
- **Some respondents believed:**
- That as a result of the NCA some people who have a large amount of debt would be relieved from some of this debt.
- The NCA controls people's borrowing and spending and limits how much borrowing people can do.
- That as a result of the NCA, stores must do a background financial check on customers before granting them credit and should not grant credit to someone who has too much debt.
- That the NCR acts as a police-like organisation where people who are blacklisted or have a bad credit record are monitored.

“You get there because of your bad credit record and that means that you can’t get any credit whatsoever from anywhere” Informal user, Richard’s Bay, group 5.



“It has made it more difficult for people to just go and borrow relentlessly” Formal user, Johannesburg, group 2.

Concluding remarks

- Lack of efficient financial service provision means that poor people are either forced to use inefficient provisions often at high cost (eg. high transactions costs, high interest rates on loans) or they do not have access to certain financial products
- This restricts the economic opportunities open to the poor – most obviously the case with credit
- Credit is often a survival tool
- Real advice/financial education needed, particularly on the NCA
- Formal application procedures can force people to use disadvantageous means



FINMARK TRUST

MAKING FINANCIAL MARKETS WORK FOR THE POOR

Thank you..

