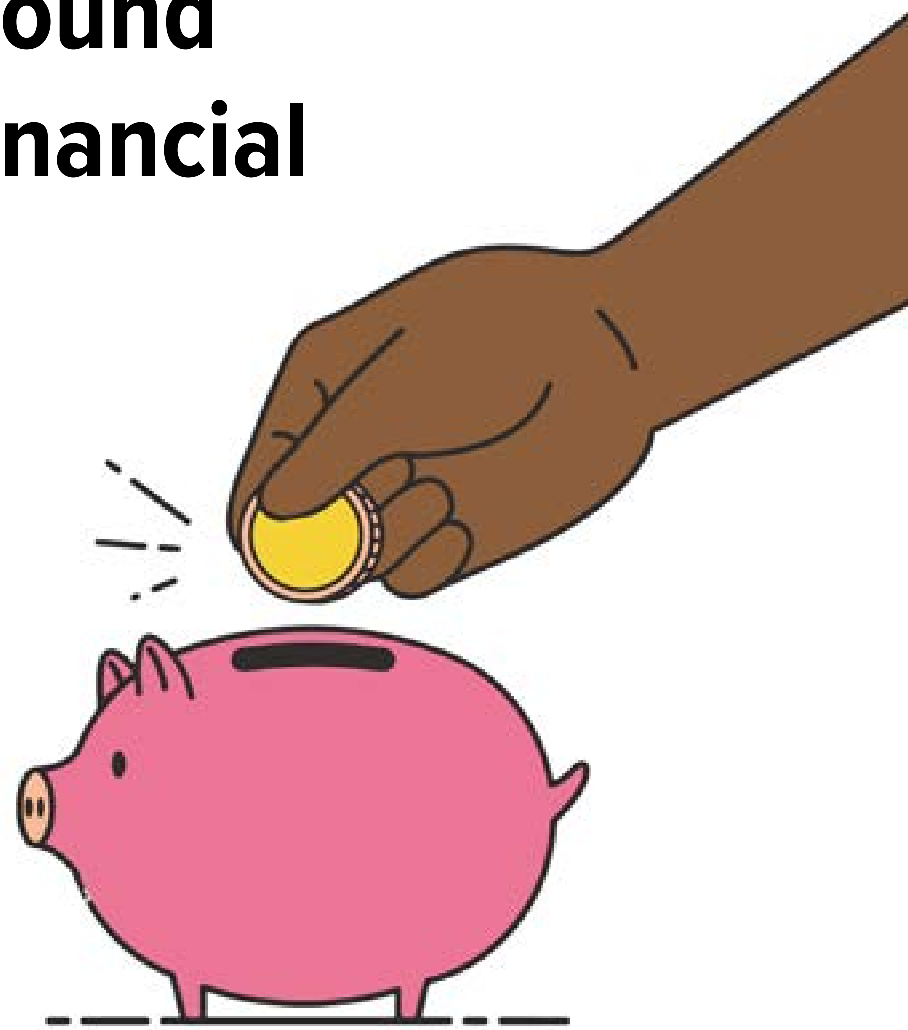
The Buzz Around Access to Financial Services by Individuals



By Lusanda Batala | Peer Reviewed

Abstract

Expanding access to financial services is seen as a promising means of dealing with developmental challenges, reducing poverty, and promoting economic development. Greater access to financial services is essential to people's well-being as it promotes entrepreneurship, moves people out of poverty, and provides hope for a better economic future. Tools such as savings, payment, and credit services are crucial to smoothing household-level consumption, helping insure against risk, and allowing investment in education and other capital forms. As a result, many developing countries have committed to increasing people's access to financial services, especially the poor. However, achieving access to financial services remains a challenge despite this high-level importance. This article focuses on the determinants of individuals' access to financial services. It uses available literature and the National Income Dynamics Survey (NIDS) data for analyses.

Introduction

Globally, countries strive towards poverty alleviation or reduction – with international institutions such as the World Bank (WB) and the United Nations Development Programme (UNDP) foregrounding poverty reduction in their primary goals. Poverty encapsulates different multidimensional phenomena and depends on the context and perspective of an individual. Muhammad Yunus, winner of the 2006 Nobel Peace Prize, defines poverty as including joblessness, illiteracy, landlessness, homelessness, powerlessness, and lacking adequate capital, facilities, or food. Therefore, poverty alleviation reduces these conditions for an individual or a community. However, according to Shil (2009), the poor require assistance to overcome these conditions.

Various strategies have been proposed to overcome developmental challenges such as poverty. Some of these strategies include better nutrition, birth control, increasing girls' education, and more substantial property rights. UNDP believes that economic growth cannot reduce poverty, improve equality, and produce employment unless it is inclusive. Furthermore, UNDP indicates that despite progress since the Heads of State and Government endorsed the Millennium Development Goals (MDGs) in September 2000, human poverty remains a challenge. However, globally, there is an acknowledgement that there has been a reduction in extreme poverty – a decrease of about 650 million during the last three decades. Despite this progress, more than a billion people worldwide still live in extreme poverty.

It is widely believed that economic growth helps to reduce poverty and improve individuals' welfare. However, Todaro (1997) points out that economic progress can increase growth, but does not necessarily guarantee the wellbeing of the poorest members of society. Beck (2007) also states that the close relationship between financial development and growth does not necessarily indicate that financial development contributes to poverty alleviation. Instead, the characteristic of growth is either with rising income inequality and poverty or falling income inequality and poverty (Inoue and Hamori, 2010). The implicit assumption is that if financial development improves growth, that automatically reduces poverty. However, this assumption might not be accurate as income distribution can worsen, resulting in disproportionate gains from growth transfer to the non-poor.

Expanding access to financial services is seen as a promising means of dealing with developmental challenges, reducing poverty, and promoting economic development. Greater access to financial services is essential to people's well-being as it promotes entrepreneurship, moves people out of poverty, and provides hope for a better economic future. Tools such as savings, payment, and credit services are crucial to smoothing household-level consumption, helping insure against risk, and allowing investment in education and other capital forms. As a result, many developing countries have committed to increasing people's access to financial services, especially the poor. In May 2015, 54 institutions across 61 countries signed the Maya Declaration pledging to recognise the importance of access to financial services, to develop policy, and to implement sound regulatory frameworks (Villasenor, West, and Lewis, 2015: 2–3).

However, achieving access to financial services remains a challenge despite this high-level importance. Banks have struggled to expand access to poor or low-income individuals, especially in developing countries. According to Morduch et al. (2009), about 2.5 billion people globally are unbanked. In most cases, the unbanked are the poor without assets as security when looking for loans. In addition, many unbanked individuals want to make transactions at too small a scale to attract much interest from profit-seeking institutions (Cull et al., 2009b; Johnston and Morduch, 2008). Furthermore, the 2014 World Bank Global Financial Index Report indicates that the gender gap on access to financial services is not narrowing, with a global average difference at seven percentage points on account ownership (58% for women and 65% for men) between 2011 and 2014. The gender gap is at nine percentage points on average in developing countries, with some countries experiencing a higher gap. Access to a transaction account is a first step towards broader access to financial services, as it allows an individual to store money and to send and receive payments – and acts as a gateway to other financial services.

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Collins et al. (2009) believe that what drives the financial activities of the poor are basic needs such as food, health, and school fees – as well as other sizeable expenses and, where possible, investment opportunities when they arise. The World Bank (2001b) identifies three critical areas for assessing the impact of finance on economic performance: contribution to economic growth, contribution to poverty reduction, and the ability to lead to financial stability. Therefore, understanding the determinants of access to financial services is critical.

Theoretical Basis and Review

Finance is at the core of the development agenda. Development practitioners argue that efficient and well-functioning systems are essential in properly allocating resources to improving opportunities and reducing poverty. The World Bank Policy Research report (2008: 21) indicates that 'improving access and building inclusive financial systems is a goal relevant to economies at all levels of development.'

The theory indicates that the challenge for better access to financial services is more significant than ensuring that more people access basic financial services. It is also about enhancing the quality and reach of credit, savings, payments, insurance, and other risk management products to facilitate sustained growth and productivity. The lack of inclusive financial systems results in poor households' reliance on their internal resources to invest in education, entrepreneurship, or growth opportunities. Moreover, there is a likelihood that imperfections, such as information asymmetries and transaction costs, are binding to talented poor individuals.

Stijin (2005) indicates that access to financial services consists of the demand and supply sides. The demand side focuses on the choice made by individuals about the services offered by financial institutions. The supply side is about financial services provision. Theories on access to financial services give a general framework for financial services and intermediation demand. Several theories exist in the literature on how individuals decide to access financial services, including: rationality theory, bounded rationality theory, theory of satisficing, prospect theory, intertemporal theory, delegated monitoring theory[1], information asymmetry theory, and transaction cost theory[2] (Scholtens and Wensveen, 2003). The delegated monitoring and rational choice[3] theories explain the demand for financial services. In contrast, the information asymmetry and the transaction cost theories deal with the supply side dimension of access to financial services.

The most influential theories which explain individual behaviour in response to a decision towards consumption and savings/borrowing include the 'Life Cycle Hypothesis' (Ando and Modigliani, 1963; Modigliani and Ando, 1957; Modigliani and Brumberg, 1954) and the 'Permanent Income Hypothesis' (Friedman, 1957). The bases for these hypotheses are on the assumptions that individuals are rational beings who respond in predictable ways to changes in incentives and that borrowing or savings are ways to 'smooth consumption' in facing income fluctuations. These models assume perfect capital markets; however, they suggest that individuals generally consider their consumption based on their income pattern. Therefore, the analysis of these models helps understand individuals' behaviours in response to income expectations.

Then, according to the General Theory, Keynes states that the marginal propensity to save and hold financial assets depends on subjective and objective factors. The strengths of these factors differ enormously among individuals with divergent socio-economic conditions. Similarly, the lifecycle theory predicts that an individual's consumption and saving behaviour will change considerably with income, wealth, age, marital status, and other socio-economic conditions during various stages of the individual's life. Since the equilibrium demand for a financial asset is a function of income or wealth, which in turn is related to the demographic conditions of an individual, changes in the demographic variables would not only affect the level of income and wealth but also affect the demand for financial assets.

Modern development theory emphasises the central role played by the imperfection of financial markets. The shortcomings of the financial market determine the extent to which the poor can borrow to invest, for example, in education. Thus, finance influences the efficiency of resource allocation throughout the economy and the comparative economic opportunities of individuals from relatively rich or poor households. Improving access, then, means improving the degree to which financial services are available to all at a fair price. Since use is observable, it is easier to measure financial services, but usage is not always the same as access. Unlike general equilibrium models and the aggregate regression methodology, the micro-analyses often focus on the direct effect of access to finance on individuals' well-being, without always considering possible spillover and the indirect effects highlighted in the general equilibrium analyses.

The ecosystem approach is also relevant as it can find and analyse possible factors affecting access to financial services. Moore (1993) indicates that access to the financial services ecosystem consists of the environment and stakeholders: STEP (Socio-demographic, Technological, Economic and Political) describes the environment and ecosystem; STEPE considers the same factors, with the additional final component referring to Ecology (Davenport and Prusak, 1997). Despite the development of various models describing the environment, researchers regard STEP as the most appropriate because of the simplicity of its four basic dimensions of the ecosystem and its spheres as significant factors that could affect access to financial services.

What Does the Empirical Literature Say?

Access to financial services has demand and supply conditions (Claessens, 2006; Beck et al., 2009). The main barriers to accessing financial services have been the supply side, with limited focus on demand – bearing in mind that the demand constraints can result in voluntary exclusion. However, the discourse on access to financial services has mainly believed that all exclusion is involuntary. Empirical studies employing questions such as 'did the individual receive credit in the past year or not', without probing the willingness to access financial services, implicitly make such an assumption by outlining their questions in such a way that the possibility of voluntary exclusion is by the nature of the study design and implementation.

Much empirical research has been conducted to understand the factors that lead an individual to access financial services. The studies have unearthed vital findings that help propose policy interventions that could help deal with the developmental challenges of accessing financial services, especially for the poor. The literature indicates a considerable number of studies that have unearthed factors or determinants that lead to access to credit (Kochar, 1997; Atieno, 1997; Jabbar et al., 2002; Pal, 2002; Pitt and Khandker, 2002; Zeller and Sharma, 2002; Swain, 2007; Barslund and Tarp, 2008). There has also been a fair amount of focus on the determinants of access to savings (Deaton, 1992; Gurgand et al., 1994; Muradoglu and Taskin, 1996; Spio and Groenwald, 1996; Kimuyu, 1999; Aryeteey and Udry, 2000; Kiiza and Pederson, 2002). These dynamics are also similar for South Africa, where the analysis of factors is skewed towards credit (Okurut, 2006; Chauke et al., 2013) and with some focus on savings aspects (Chipote and Tsegaye, 2014; Zwane et al., 2016). However, the focus on the analysis of determinants on access to insurance in developing countries has been limited compared to access to credit and savings (Bendig et al., 2009; Asfaw, 2003; Jütting, 2003; Gine et al., 2008; Gine and Yang, 2007).

Research work that concentrates on the determinants of access to bank bonds (home loans) is limited. As the literature has shown, most research has focused on other basic banking transaction services, such as bank accounts and personal loans. As a result, the factors that influence access to a bank home loan have been overlooked. A study by Ford and Jones (2001) indicates that product features, emotional influences and reputation, credibility, and external factors all influence an individual in the decision-making process on accessing a bank bond loan.

Devlin (2002) indicates that professional advice, interest rates, another account with the financial institution, higher social class, higher household income, higher education attainment, and financial maturity are essential determinants of accessing a bank bond loan. Ngugi and Njori (2013) indicate that tax incentives, cost of capital, land registration systems, and loan maturation period are determinants of mortgage finance access. According to Jones and Stead (2020), the effective demand for housing is constrained by the inaccessibility of affordable finance and mortgages, especially for those working informally. Kamau (2018) indicates that income level, political environment, collateral, and interest rates are determinants of housing finance access. Olawumi, Adewusi, and Oyetunji (2019) indicate income, nature of the occupation, type of collateral, years of the banking relationship, loan duration, and loan sector as significant determinants of access to mortgage finance in Nigeria.

The empirical research findings are a mixture of different conclusions. For example, Pitt and Khandker (2002) indicate that households with a female head are negatively related to financial services. On the other hand, some researchers indicate that household size is an essential determinant of access to financial services (Dror et al., 2007; Swain, 2007; Barslund and Tarp, 2008). Other studies indicate that age negatively correlates with demand for informal credit (Barslund and Tarp, 2008) and the demand for insurance (Chankova et al., 2008; Gine et al., 2008).

Several other studies indicate that an individual is more likely to access financial services, especially loans (Kiiza and Pederson, 2002; Pal, 2002; Pitt and Khandker, 2002) or contract insurance with increasing income or wealth of the individual (Jütting, 2003; Pauly, 2004; Bhat and Jain, 2006; Dror et al., 2007; Gine et al., 2008). Lower levels of income have a negative correlation with access to financial services. Beck and Brown's (2011) empirical findings indicate that having a bank account increased with income and education. The literature suggests that banking services are standard for individuals who reside in urban areas, male heads, individuals with higher levels of education (university), and individuals with formal employment. A study by Woodruff and Martinez (2008) found that education and household assets have significant associations with opening accounts in urban areas, while the wealth, expenditure, and ownership of an agricultural business are substantial in opening accounts in rural households. These findings show the importance of assets ownership as a determinant of access to financial services. Using an ordered Probit model, Arun and Beindig (2010) measured the determinants which affect a household's decision to participate in none, one, two, or all three types of financial services. The three financial services under assessment were savings, credit, and insurance. The findings indicate that access to financial services is a diversified measure to cope with the consequences of risks. The study finding is that access to financial services is a function of the individual's past shocks. Therefore, the study concludes that broadening access to financial services for the poor and increasing financial literacy among low educated, illiterate, and some religious groups would raise awareness about the benefits of financial services, which would serve as efficient risk management strategies.

Ololade and Olagunju (2013), Nandru, Byram, and Rentala (2016), Soumaré, Tchana Tchana, and Kengne (2016), Khan, M.I. (2017), Kandari, Bahuguna, and Salgotra (2020), Mhlanga and Denhere (2020) all analysed the determinants of access to financial services. Their findings indicate that income, education, marital status, lack of guarantor, high-interest rate, age, race, gender, place of residence, and employment status matter concerning access to financial services. Beck, Demirguc-Kunt, and Peria (2006) indicate that there are several ways in which the importance of broad financial services outreach is justified. One of the ways is the importance of a well-developed financial system for economic development and poverty alleviation (Beck, Demirguc-Kunt and Levine, 2004; Honohan, 2004a). Another way is the Schumpeterian process of 'creative destruction' about economic structure revolution from within through creating a new form by destroying the old state. Finally, access to financial services is about inclusivity, hence the need to revolutionise the financial system to include those excluded. The literature indicates that economies with better developed financial systems experience a faster drop in income inequality and more rapid poverty reduction.

The World Bank economists have done most research in banking competition, focusing on determinants of access to and use of financial services (Beck et al., 2007; Claessens, 2006; Honohan, 2008). For example, Berger and Hannan (1998) indicate that banks that are not in a competitive environment tend to be less efficient when compared to those subjected to more competition. In addition, the degree of competition can affect the efficiency, quality of products, and degree of innovation (Claessens and Laeven, 2005). Beck et al. (2007) indicate that physical infrastructure for connectivity and information is positively and significantly associated with access to financial services. The implication is that the costs of delivering banking services are reduced by better infrastructure, leading to increased access to banking services.

Burgess and Pande (2005) indicate that India's strategy to expand bank branches to rural areas led by the state assisted in reducing poverty. On the other hand, in Malawi, Brune et al. (2011) indicate that increased financial access through commitment savings accounts in rural areas improves the well-being of the poor as it provides access to their savings for agricultural input use. Furthermore, Allen et al. (2012) indicate that giving financial access to those who do not have it in Kenya can improve financial access. Also, Kumar (2013) indicates branch penetration as an essential dimension that impacts access to financial services. The study shows further that expanding branch networks has a considerable impact on access to financial services in India.

The studies that focused on the impact of banking concentration on access to financial services indicate a positive association between banking concentration and having a bank account (Owen and Pereira, 2018; Marin and Schwabe, 2013). However, Ardic et al. (2011) and Kendall et al. (2010) indicate that there is a negative relation between the market share of the five largest banks (concentration ratio) and the penetration of deposit accounts (bank accounts). They argue that the banking sector's competitiveness is essential for access to financial services. The studies mostly use cross-country data for their analysis.

The literature on mobile usage for accessing financial services indicates that mobile banking, from a demand side, does offer a great solution to individuals in emerging markets that have access to a mobile phone (Ismail and Masinge, 2012). One of the great benefits of mobile banking is minimising the time and distance that an individual spends visiting a bank branch, making financial services more accessible (Ismail and Masinge, 2012). According to Mago and Chitokwindo (2014), mobile banking in Zimbabwe leads to the poor's quick adoption of mobile banking. This is mainly due to mobile banking's access convenience and ease of use.

Besides the benefits of mobile banking, the literature analyses the factors that lead individuals to mobile banking. A study by Shaikh, Karjaluoto, and Chinje (2015) indicates that trust plays an essential role in promoting the continuous usage of mobile banking. Van Deventer, de Klerk, and Bevan-Dye (2017) believe the interest in mobile retailing and mobile financial services will continue to grow. Nevertheless, the trust is likely to discourage many potential customers and impede its growth. According to Roy et al. (2000), mobile transactions will increase and mature through the Internet. However, its success will depend primarily on achieving and upholding a certain level of trust. Another study by Kang, Lee, and Lee (2012) indicates that perceived usability, channel preference, and value are critical for sustained mobile banking usage. Mathew, Sulphey, and Prabhakaran's (2014) research on perceptions and intentions of mobile banking users indicate that usefulness and facilitating conditions are the most critical factors. Masrek et al. (2013), whose research focused on technology trust and mobile banking satisfaction, indicate that trust creates a positive relationship with mobile banking satisfaction. A study by Yu (2014), which looked at factors influencing consumers to transition from

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online to mobile banking, indicates that relative attitude and subjective norm positively motivated respondents to switch from Internet to mobile banking while relative perceived behaviour control deterred respondents from transitioning.

Furthermore, the literature indicates that banks' integrity plays an essential role in influencing customers' trust in mobile banking. Lin (2011) believes that if there is a lack of trust between the retail bank and the customer, the relationship is unlikely to succeed and continue. Another important factor relates to the system quality of mobile banking – ease of use, ease of navigation, visual appearance (Gu et al., 2009), and speed of access to mobile banking (Kleijnen et al., 2004). For example, Zhou (2013) indicates that mobile banking customers expect to make mobile account payments and access financial records easily, anytime and anywhere. In cases where information is out-of-date, incomplete, inaccurate, or irrelevant, the retail banks' capability will be questionable and will jeopardise trust in the retail bank and its mobile banking system.

Kim et al. (2009) indicate that contracts, regulations, policies, laws, agreements, and feedback forums are forms of structural assurances that can increase trust between a retail bank and a customer. However, another factor is risk, where some customers might perceive mobile banking as risky and where they will require some confident assurance concerning its safety for better adoption. Nor and Pearson (2008) stress the importance of effecting structural assurance, guarantees, and legal and technological safeguards that improve the trustworthiness of the cybernetic environment.

Contextual Review of Access to Financial Services in South Africa

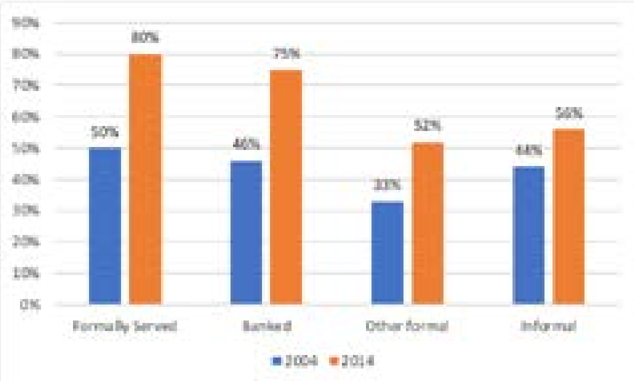
South Africa's financial system comes out of the mining boom of the late 1800s. As a result, it is known as developed and sophisticated. Based on the sophistication of the country's financial system, the logical expectation is that South Africa should be experiencing robust economic growth and be much more inclusive. However, according to the Global Financial Index data, South Africa's inclusivity is at about 54% of adults using a formal account to make deposits and withdrawals through banks.

However, even though South Africa performs better than the BRICS, the rest of Africa, and the rest of the developing world on account penetration, it still faces challenges. The account penetration in South Africa varies by the characteristics of the individual, such as income, residence, age, education, and gender. The gender disparity is evident, with women less likely to have an account compared to men. The World Bank Economic Update report (2013) indicates that the aggregate picture for South Africa conceals significant inequalities. South Africa experiences gaps in many areas of access to financial services. These are the gaps between the poorest and wealthiest quantiles: about 12 million adults still lack a basic bank account; only 35% of adults in the poorest 20% of income earners have formal accounts; 78% of the richest 20% do have accounts; and the distribution of account ownership is significant between the top and the bottom income quintiles.

In addition, South Africa's account penetration varies according to individual characteristics, such as income, residence, age, education, and gender. For example, in South Africa, 94% of adults with tertiary education have formal accounts, while only 43% of those with primary education or less have accounts. However, despite the impressive financial systems and account penetration performance, barriers to access call for new delivery mechanisms that consider the country's vast geographic segmentation – such as mobile and retail agent banking. Some of the obstacles cited by the unbanked relate to banking costs, lack of money, distance, lack of documentation, and low trust.

The challenge in South Africa persists beyond the unbanked population to the underbanked millions – that is, to people who hold bank accounts, but whose utilisation rate remains low. In South Africa, reliance on informal credit remains prevalent – such as borrowing from friends and family. The country has improved people's financial access over the past decade. Since 2004, some financial sector reforms have taken place: legislative (tiered banking, consumer credit bill, financial sector charter) and commercial (Mzansi account, Capitec, Teba, Pick' n Pay Go Banking). As a result of the financial sector reforms, the FinScope report (2014) indicates that the improvements increased banked customers and formally served clients.

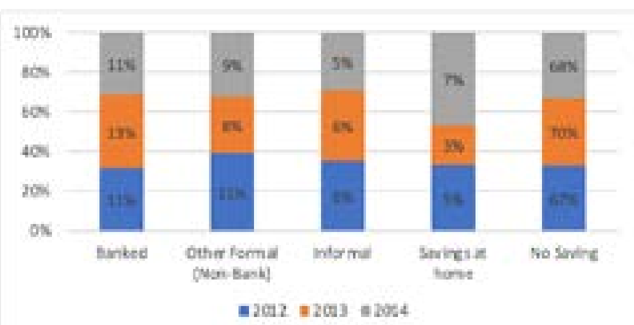
Figure 1: *Banked customers – comparison between 2004 and 2014*



Source: *FinScope South Africa, 2014*

The improvement in banking is mainly due to transactional banking. Savings and credit levels are still low in South Africa, whether through formal or informal means. In 2014, 68% of adult South Africans did not save at all.

Figure 2: *Rate of savings through various channels in South Africa*



Source: *FinScope*

In South Africa, institutional factors, product features, and individuals' socio-economic characteristics are the main factors influencing access to financial services. Location and conditions of the financial services institutions significantly affect access probability. Access to financial services tends to be limited only to those who are employed and earning a salary. However, there seems to be less focus on the poor, unemployed, self-employed, and informally employed.

The South African Case: Constraints to Accessing Financial Services

The Organisation for Economic Cooperation and Development (OECD) Report (2013) indicates that in South Africa, consumers have limited resources and skills to understand financial sector complexities. As a result, the inability to evaluate the appropriateness of financial products concerning personal circumstances, predatory lending, high levels of consumer debt, low saving rates, the proliferation of pyramid schemes and financial scams, high product service and penalty fees, lack of accessible and comparable pricing information, and limited knowledge of recourse mechanisms are some of the compelling consumer issues in South Africa.

Savings Related Constraints

One common reason South Africans always raise with regard to savings is affordability. However, considering some of the research findings, South Africans indicate that several factors influence an individual's decision to save or not, such as country demographics, income levels, income stability, and employment levels.

Unemployment in South Africa is very high in comparison to other international emerging economies. This predicament harms income levels and income stability in South Africa. In addition, the country has a very high age dependency ratio – at over 50%. South Africa's household debt level is also very high, at 78% of disposable income, making individuals vulnerable to interest rate hikes. As a

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result, consumers in South Africa are under pressure, and there is a rise in dependency ratios.

Contributing to the savings dilemma in South Africa, education and financial literacy play a vital role in the population's ability to save with the complexity of financial products. Individual factors that impact willingness to save in South Africa are much more complex. During uncertain times, there is a tendency to save more. This ensures that individuals have a buffer to fall back on during rainy days. However, the relative ease of access to credit in South Africa creates a disincentive to save. After the 2008 banking crisis, individuals in South Africa are much more cautious about where they invest. Often, this leads to financial institutions' mistrust and advice. This predicament further leads to individuals either procrastinating or not saving.

Credit-Related Constraints

According to Von Pischke et al. (1983), a lack of access to credit can perpetuate poverty. However, according to Zeller and Sharma (2000), providing credit to the poor is an effective strategy. Increased access to credit relaxes liquidity constraints, improves a household's risk-bearing ability and productivity, equips individuals with new skills, and encourages activities that could generate economic growth (Zeller, 2000; Parker and Nagarajan, 2001; Khandker, 2003).

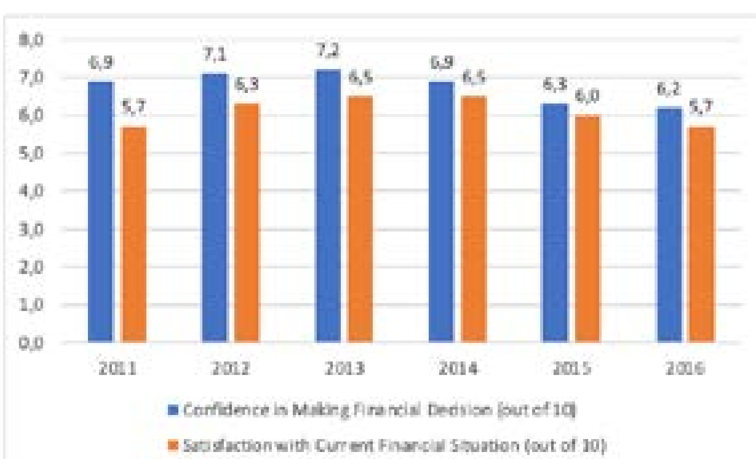
Credit constraints have various implications on an individual's well-being, such as effect on consumption in the short run and poverty reduction. Other effects of credit constraints relate to individuals' inability to cope in times of income shocks to smooth consumption (Zeldes, 1989) and the failure of an individual to invest in education and health (Behrman et al.,1982). Some of the main reasons the poor in South Africa do not have access to credit include: a lack of salary due to unemployment, a poor credit record, a lack of correct documentation, or the amount asked being too much.

Stylised Facts on South Africa's Access to Financial Services

Prior to 1994, South Africa's financial services were primarily accessible to non-black individuals (Meagher and Wilkinson, 2002). Following the Financial Service Charter (FSC) policy recommendations, the 'Mzansi' account was initiated in 2004, offering entry-level bank accounts. The initiative was broadly about the outreach of financial services: scale (number of clients), depth (poorer clients), scope (wide range of services), and breadth (reaching different social groups). The aim was to deal with the imbalance in access to financial services. Commercial banks and state-owned financial institutions took this as a lead to expanding access to financial services.

The depth target of outreach was that 80% of poor households should have access to transaction and savings products and services. Since the financial sector reforms started in 2004, South Africa's overall access to financial services has improved. However, the poor still lag behind. The 2011 Financial Services Board Financial Literacy Report indicates that most South Africans use basic products such as bank accounts. Still, only 39% are aware of more sophisticated alternatives such as unit trusts. This is a significant missed opportunity and points to the need for more consumer education on available choices of financial services. The outcome agrees with the Old Mutual Savings and Investment Monitor Survey that indicates that about 80% of South Africans are interested in learning more about savings (see Figure 3 below). However, South Africans' confidence in making a financial decision has been decreasing since 2013. A lack of financial knowledge could be the reason. These findings point to the need for a savings culture revival in South Africa.

Figure 3: *South Africans' attitudes about finances*



Source: *Old Mutual Savings and Investment Monitor Survey*

State of Credit Access in South Africa

Credit extension is an essential link in the transmission mechanism that relays changes in monetary policy to changes in the total demand for goods and services and the general level of economic activity. In addition, credit availability makes it easier for individuals to spend. South Africans use different forms of facilities to access credit. These can be either through formal institutions such as banks, through semi-formal institutions such as microlenders and store cards, or through informal institutions such as family, friends, and stokvels.

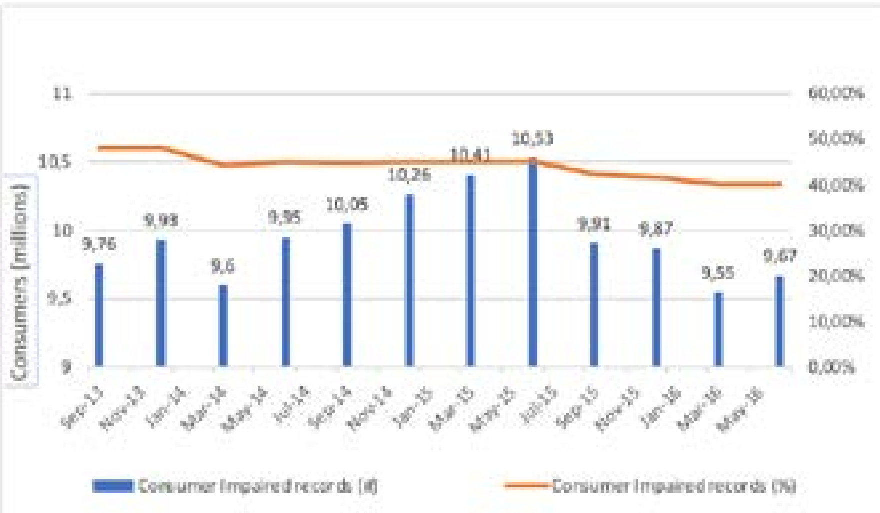
According to the National Credit Regulator (NCR), during the third quarter of 2015, different credit facilities were used or granted to households in South Africa. These entail mortgage loans, developmental credit, short-term loans, unsecured loans, and other secured loans. The Finscope consumer survey (2015) indicates that most South Africans are getting credit through formal products driven by unsecured loans that are used for short-term necessities, such as food (26%), emergencies (26%), transport fees (12%), bills (10%), and clothes (10%). Throughout the country, individuals can access credit led by those in KwaZulu Natal (12%), followed by the Free State (11%) and the Western Cape (10%).

Microcredit

One of the most far-reaching financial sector developments in South Africa has been the arrival and development of a market-driven microcredit model. Several international development communities funded microcredit programs in South Africa, including the Get Ahead Foundation (GAF) and the Small Enterprise Foundation (SEF). The initiatives lead commercial banks in South Africa to start providing microcredit directly through their branch networks and wholesale funding to the central Micro Credit Institutions (MCIs) for on-lending to the poor. Thus, there has been an increase in the supply of microcredit.The main weakness of developing the microcredit model in South Africa is that it primarily focused on employed individuals to meet consumption spending needs. As a result, it misses the opportunity to finance entrepreneurial ideas with income-generating prospects, as per the standard microcredit model.

In 2007, the government of South Africa passed the National Credit Act (NCA) and later the National Credit Register (NCR). These assisted with transparency, discipline, accountability, and fairness in the microcredit market. However, in 2010, South Africa's microcredit sector and the majority of the poor were plunged into a crisis of over-indebtedness. In 2012, nearly half of the 19 million credit-active consumers had 'impaired' credit records (meaning they were three or more months in arrears), while a further 15% were 'debt stressed'.

Figure 4: *Consumers with impaired credit records*



Source: *National Credit Regulator (NCR), 2016*

State of Savings in South Africa

In South Africa, domestic savings constitute three tiers: government, private sector, and individual households. Government is a net spender, detracting from the net domestic savings rate and widening the current account deficit. In addition, individuals in South Africa are not saving much at a net level.

Therefore, out of the three tiers, the private sector is the only sector that contributes to domestic savings.

Domestic Savings as a percentage of Gross Domestic Product (GDP) has been decreasing in South Africa. The downward trend is from 20% between 1960 and the late 1990s to 13.2% in 2012. South Africa's average domestic savings between 1975 and 2012 are lower than other BRIC emerging market economies, with the exception of Brazil (see Table 1 below).

Table 1: *Domestic savings, 1975 – 2012*

Emerging Economy	Average Domestic Savings Percentage
China	42%
Russia	28%
India	25%
South Africa	19%
Brazil	17%

Source: *Investec, 'The poor state of savings in SA'*

Conclusion

Therefore, based on the available literature, we can conclude that the critical commonly identified factors that have the most significant impact on access to financial services are: age, income, education, employment, and the accessibility of financial institutions. Other additional determinants include household size, gender, marital status, wealth, financial institutions, distribution of banks, banking competition, and utilising mobile banking. However, the literature is not convincing concerning the effect of competition within the banking industry and whether competition can determine access to financial services. The literature indicates that greater bank competition strengthens financing obstacles and generates higher loan rates. However, a view exists that lower competition encourages incentives for banks to invest in soft information. Conversely, a higher level of competition lowers investments in banking relationships and leads to deteriorated access to services such as credit. A noticeable gap in the literature relates to subjective issues as determinants of access to financial services, such as an individual's self-assessment of their level of satisfaction with their life or well-being. For example, individuals who assess themselves as dissatisfied with their well-being are likely to be disinterested in accessing financial services. Therefore, socio-economic indicators show the influence of individual characteristics in access to financial services.

Notes

1. The delegated monitoring theory basis is on financial institutions that can act as trusted monitors for net savers (Diamond, 1984). This means delegation of the role of safekeeping of savings by depositors to financial intermediaries. Financial service providers have a fiduciary relationship with their clients to ensure no depreciation in deposits. The theory is on the demand side of access to financial services because individual savers perceive financial intermediaries as entities that can delegate their responsibilities.

2. The transaction cost theory is about the emergence of financial intermediaries to utilise economies of scale and transaction technology. The critical element of the approach includes costs associated with gathering and processing information that is needed to decide the transaction process, successful contract negotiation, and policing and enforcement of contracts (Benston and Smith, 1976).

3. Neo-classical economists promulgate the rational choice theory. The rational choice theory of demand for financial services involves typically an account of the following: (i) the desire for financial services (savings, credit, and money transfer services); (ii) nature and type of services provided by the financial institutions; (iii) the condition of services provision. The rational choice theory is based on the fundamental principle that the choices made by the individual are the best choice to help them achieve their objectives in light of all the uncontrollable factors.

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