

Bankable Frontier
Associates



**South African Financial Diaries and the Mzansi Initiative:
Five Years Later**

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EXECUTIVE SUMMARY

1. *Background of this report:* The Mzansi account is an entry-level bank account developed by the South African banking industry and launched collaboratively by the four largest commercial banks together with the state-owned Postbank in October 2004. By December 2008, more than six million Mzansi accounts had been opened, a significant number for a country with an adult population of approximately 32 million. A recent Bankable Frontier Associates (BFA) report on the introduction of Mzansi provided a number of insights into both the successes and shortcomings of the initiative. This current report, which provides further insights into Mzansi using Financial Diaries, was initiated to investigate further questions about *how* Mzansi clients have used the account.

2. *Objectives of this report:* The main objective of this report is to shed light on a number of questions about the usage and savings patterns of Mzansi account holders. Specifically, it aims to answer:

- i. How do households incorporate Mzansi into their overall portfolio of financial instruments? Do they stop saving in their informal devices? Do they move from Mzansi to other formal financial products?
- ii. How do households use Mzansi accounts compared to other financial instruments? Do they pull their money in and out of the account, rather than saving for the long term?
- iii. How does having Mzansi change savings patterns? Do households save more, or less? Are they better able to accumulate more savings over time?

3. *Methodology of this report:* This report uses a rich household-level, panel data set called the Financial Diaries. The original set of Financial Diaries took place over the course of a year in 2004 in three different areas of South Africa: Diepsloot, outside of Johannesburg; Langa, near Cape Town; and Lugangeni, near Mount Frere in the Eastern Cape. A set of revisits to the original Financial Diaries households took place between June and November 2009. The sample size of the Financial Diaries data set is small, only 125 households, but the data is extremely rich and detailed, capturing daily income, expense and financial transactions alongside a continuous stream of qualitative data.

4. *Key findings:*

(a) Using the Financial Diaries dataset, we develop a set of indicators that help describe changes in savings behaviour, including usage, accumulation within a month (expressed as a ratio over monthly income) and balances (expressed as a ratio over total financial assets). We consider these measurements not just for bank accounts but also for other formal instruments, such as retirement



annuities and provident funds, and informal instruments such as saving in the house, money guarding and savings clubs.

(b) We found a general increase in income across the Financial Diaries sample in the last five years, even when taking inflation into account. The median household in the sample had an increase in per capita income of 2.4%, adjusted for inflation. However, this growth in income has not been uniform across either the sample sites or households within those areas. The households from the urban area of Langa experienced a 15% real increase in median per capita income and diaries households in the rural village of Lugangeni had a 3.8% real increase in median per capita income, while diaries households in the urban township of Diepsloot experienced a drop of 1.3% in the median real per capita income.

(c) This increase in income appears to have translated into a higher rate of savings out of income. In the overall sample, the monthly savings rate (into both formal and informal instruments) increased from 20% of income in 2004 to 23% of income in 2009. In the areas that experienced higher growth in income (Langa and Lugangeni) the savings rate increased more, while savings rates fell in Diepsloot.

(d) A substantial part of this new savings was in bank accounts. Over the entire sample, bank use and savings increased between 2004 and 2009. Bank usage increased from an average of 2.9 transactions per month to 5.0. Accumulation within banks increased slightly on average from 10.6% to 11% of income per month. But more strikingly, bank balances increased from 33% of financial assets to 48% of financial assets. Some of this increase was new savings as discussed above. Some of the increase came from shifts away from informal devices—there was a decrease in monthly savings club contributions (*stokvels* or *umgalelos*) from 19% of income in 2004 and to 13.5% of income in 2009. Savings in the house also decreased, from an average balance of 19.3% of financial assets in 2004 to 17% of financial assets in 2009. Therefore, general patterns of savings appear to be shifting slowly away from informal devices and into formal devices.

(e) We find it difficult to attribute this increase in bank usage and savings strictly to the Mzansi initiative. There is weak evidence (statistical significance at the 10% level) that the increase in bank use and bank balances for Mzansi users was higher than non-Mzansi users. One reason for this result, however, is that one third of Mzansi users had never before had a bank account, and therefore, any increase in use or savings would have been significant compared to zero in 2004. There is no evidence that a corresponding decline in informal instrument usage is any stronger for Mzansi users than non-Mzansi users.

(f) We used the richness of the Financial Diaries dataset combined with other financial sector innovations that occurred between 2004 and 2009 to explore other potential reasons for the increase in



bank savings, such as the introduction of new bank branches or a new push to have grant payments paid into bank accounts. We found very strong evidence (at the 1% level) that people who had bank branches brought closer to their homes used those accounts more. However, there is little evidence to suggest that this increased usage increases savings in the bank. Nor, for that matter, does it appear that having grant payments made through the bank increases savings either. Qualitative evidence from grant recipients makes it clear that notions of grants being stopped if left in bank accounts, as well as concerns about crime, long ATMs lines and bank charges, are a continuing concern and may be restricting the accumulation of savings in the bank.

(g) We find that general gains in economic prosperity is leading to higher savings rates in general and in banks in particular in South Africa. The weak evidence discussed above suggests that Mzansi may have been a factor that has not only brought unbanked households into the banking system, but also seems to have compelled them to use and save in the bank. We do not have the evidence base to judge whether this would have happened without Mzansi, and we suspect that other contributing factors, such as improved roads between villages and towns, may well have also played a role.

(h) This new set of Financial Diaries data provides not only insights into the contributions of financial inclusion policies to higher formal financial instrument use, but also provides us with a benchmark to understand how quickly, or slowly, household savings patterns may change. This provides us with a better set of expectations of how quickly and how much financial service policies may affect household behaviour.



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All errors are our own.

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1. Purpose and objectives of this report

How does one measure savings? Do households exhibit savings behaviour through regular use of their bank account, which can then be estimated through the level of activity? Or does savings behaviour require regular attempts to put aside money and increase the balance within the account? Or is it not at all about activity or balances, but more about the quality of choices made about where to keep one's money - where it is safest, or where one earns the highest return? Or does it require a look at all three measures?

This multifaceted conceptual view of savings makes it difficult to determine what drives better savings behaviour. The South African Financial Sector Charter (2003) spurred the initiation of two measures which attempted to facilitate improved savings behaviour. First, the Charter pushed for banking institutions to bring physical infrastructure, such as branches and ATMs, closer to poorer populations. Second, the Charter set the stage for the introduction of the Mzansi account in October 2004, a low cost basic bank account offered by the four main banks and the Postbank.

Five years later, with the Charter now inactive, whether or not the introduction of these two measures made any difference to the savings behaviour of low income households remains a source of much debate. For example, a recent report on Mzansi¹ pointed out that a total of 6 million new accounts were opened by August 2008, two thirds by people who had never been banked. However, similar to the inactivity rates of the nearest equivalent accounts (NEAs), 42% of the Mzansi accounts opened at private banks had become inactive over the same period.

Through the number of accounts opened, it appears that Mzansi has indeed succeeded in the sense that it has put transactional banking services within reach of a larger portion of the population. However, a number of questions remained, particularly about whether and how households were *using* Mzansi accounts, and whether they helped change savings patterns and flows of the poor. In an effort to provide deeper information to these questions, an in-depth household survey was used to gather direct information from the intended beneficiaries of the Mzansi accounts. In the process of discovering overall changes in household savings behaviour, we found we could compare Mzansi behaviour to other

¹ Bankable Frontier Associates. 2009. "The Mzansi Bank Account Initiative in South Africa: Final Report" found on www.finmark.org.za.



factors, such as bank branches moving closer to living areas and grant payments being paid directly into bank accounts.

The objective of this report is to use this set of in-depth data to develop nuanced views of savings behaviour and then to examine household level changes in savings patterns before and after the introduction of Mzansi and other financial sector initiatives.

2. Methodology

The report uses a panel data set of financial diaries,² a unique method of collecting household level financial flows. These data are not based on self-reported “diaries,” but a year-long series of fortnightly household interviews to track daily income, expenditure and financial transactions. The sample is focused on black households in three rural and urban areas of South Africa: Diepsloot, just outside of Johannesburg, Langa, an area of Cape Town and Lugangeni, a village close to Mount Frere in the Eastern Cape. With the intent of examining diversity in households within those areas, the sample is drawn across different dwelling types and wealth levels.

The original dataset is complemented by a recent round of “revisit” interviews with the original sample of households that took place between June and November 2009. The revisit process to each of the three survey sites took a total of seven weeks: one week to reconnect with the previous respondents, two weeks to conduct a “refresh” interview to update changes in household membership, sources and levels of income, and the closing and opening of financial instruments, and then four weeks to do two fortnightly diaries questionnaires, capturing a full month’s worth of actual household cash flows.³

Table 1 below shows the changes between the 2004 and 2009 sample. Across all three areas, there was attrition of household of about 17%. It was not always easy to re-connect with the original Financial Diaries households. In rural Lugangeni, for example, we were able to find 49 out of the original 59 households. Eight of those households were changed completely because the 2004 member had died and new members had come to live in the same house. Because the entire dynamic of the household

² The Financial Diaries was a research project based at the University of Cape Town and funded by the Ford Foundation, FinMark Trust and the Micro Finance Regulatory Council of South Africa. Please see www.financialdiaries.com for more information.

³ This actually ended up being, on average, 35 days, slightly longer than one month, which makes us pleased because we are then assured that we are capturing all the major monthly cash flows, even if they get paid at a slightly different time every month.



would have changed from 2004, we dropped these households from the sample. In two of the Lugangeni households that remained in the sample, the head of household had died and we interviewed child-headed households. Within an original sample of 48 Diaries households in Diepsloot, we were able to locate 39. There were six deaths,⁴ and another three households had moved and were not able to be located. In Langa, the sample changed more because households had moved away, particularly from the informal settlement areas. Only one household refused to participate.⁵

In total, we were able to find 125 of the original Financial Diaries households, which have 169 economically active individuals. These 169 individuals is the sample upon which the analysis below is based.

Table 1: Financial Diaries Sample: Changes between 2004 and 2009

	Total sample	Diepsloot (Urban)	Langa (Urban)	Lugangeni (Rural)
2004 households	152	48	45	59
2009 households	125	39	37	49
2009 individuals that are economically active	169	54	53	62
Household moved away	10	3	5	2
Household passed away	16	6	2	8
Household refused to participate	1	0	1	0

One of the benefits of Financial Diaries is that the data is more detailed than can generally be provided by a one-time questionnaire. A relational database was specially built for the Financial Diaries to aid data collection and allowed for household-specific questionnaires to be generated, based on data from the previous interview. Field workers calculate an on-the-spot reconciliation of household cash flow statements, which allowed them to easily target cash flows that households may have forgotten or avoided discussing. Both of these elements meant a higher precision of recall, even for small financial transactions.

One tool that we use to check data on a real-time basis is the margin of error for each two-week interview. An example shows how this margin of error is calculated. The account in Table 2 is for a 50

⁴ Sadly, many of them were young – the average age of those that passed away was 41. There were deaths in other households, but these six were deaths in which the households disappear, i.e. it was the head of the household where the dependents were absorbed into other households which were outside of the sample or in other areas.

⁵ This is regrettable because the original participant was very helpful, but in this revisit, he was prevented from participating by his wife, who had since joined him in Langa from the Eastern Cape!



year old woman, whom we will call Pumza, who lives with her three children and one grandchild in Langa, Cape Town. Table 2 shows her complete set of cash flows for April 2004, the combined results of two interviews. Pumza supports her family with profits from cooking and selling sheep intestines on the street, with a bit of extra income from a monthly government child grant. In addition, in April, her eldest daughter worked a few days at a casual job and she also received some money from her aunt. She and her children also belonged to eight different savings clubs over the year: most were to save for Christmas and one was to help fund her cash flow requirements for business inventories. However, she found the other members were not responsible about paying and she needed to take a loan from a moneylender. The payout only came late in the month, and she used it to pay back the moneylender loan in May.

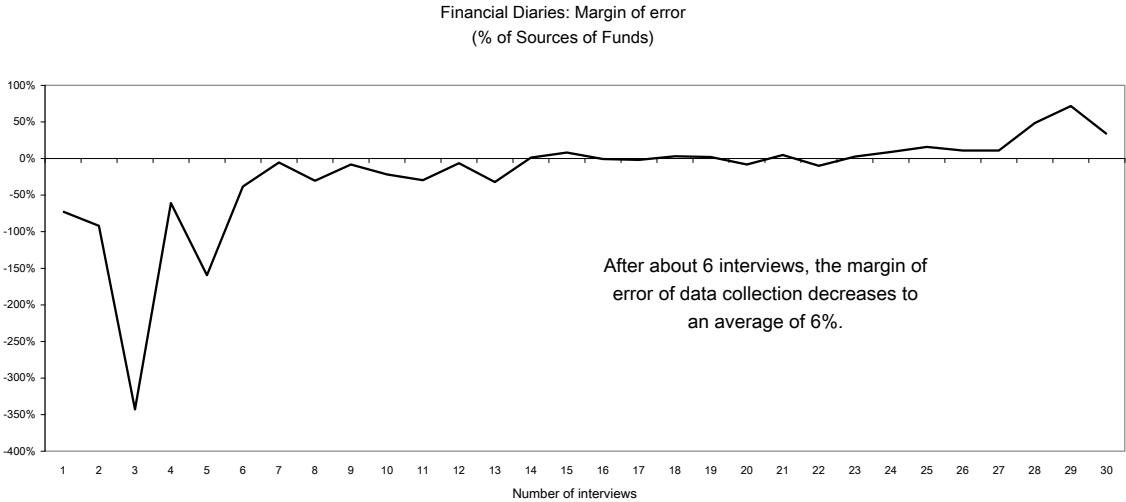
Table 2: Pumza's Sources and Uses of Funds, April 2004

<u>Sources of funds</u>		<u>Uses of funds</u>	
<i>Operational</i>		<i>Operational</i>	
Casual wage	R 338	Food	R 553
Business revenues	R 1417	Business inventory	R 774
Child grant	R 169	Business expenses	R 13
Remittances received	R 176	Paraffin	R 39
<i>Financial</i>		Electricity	
Received mashonisa loan	R 150	Household products	R 299
Savings club payout	R 605	Transport to work	R 78
		Newspapers, magazines	R 7
		Vodacom container	R 20
		Penalties and fines	R 7
		Personal (haircut)	R 13
		Clothing	R 111
		<i>Financial</i>	
		Savings club payment	R787
Total	R2854	Total	R2844
Survey margin of error (R2854 – R2844) = R 10			



As Pumza's cash flows show, the sources of funds coming into the household from income and from financial receipts in April totalled R2854, and the uses of those funds, for expenditures and financial outflows, totalled R2844. The difference between the two is the survey margin of error, which was R10 in this example. The survey margin of error is a measure of how well the Financial Diaries captured all the cash flows of the household. Chart 1 below shows the aggregated margin of error across the entire 2004 sample of households and suggests that after 6 diary interviews, the margin of error decreases substantially.

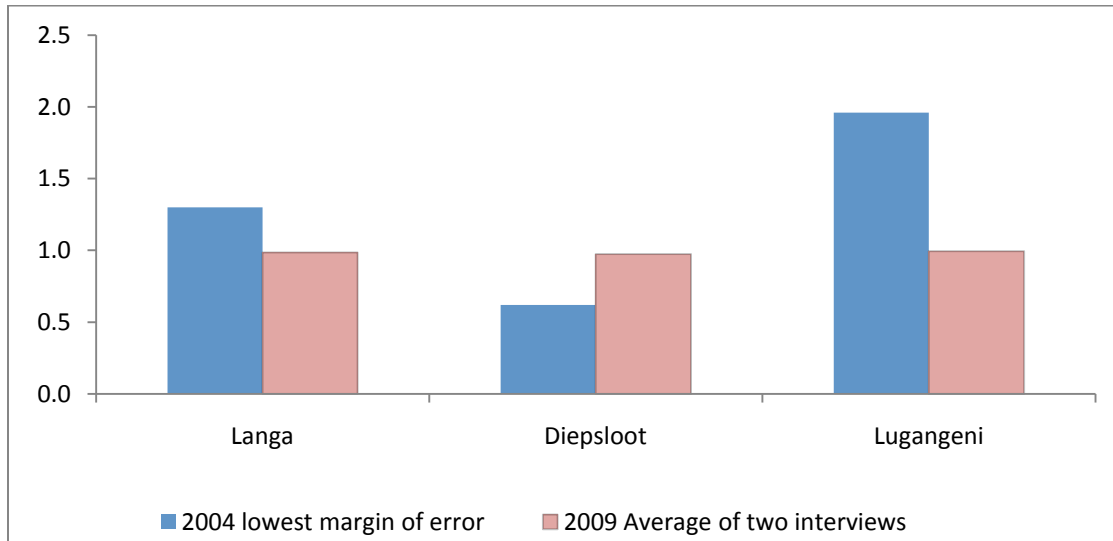
Chart 1: 2004 Financial Diaries Margin of Error (% of sources of funds)



When we revisited the original diaries households in 2009, we had the advantage of having a great deal of information about the household already in hand, as well as the experience of doing the diaries already. This meant we could gather high quality data even though we only saw the households for one month. Chart 2 below compares the margin of error, aggregated over the two revisit interviews, compared to the lowest margin of error in the same area in 2004. Note that both are well below the 6% of sources of funds benchmark discussed above, giving us assurance that we obtained quite robust data in the diaries revisits.



Chart 2: Margin of error for 2009 compared to lowest 2004 (% of sources of funds)



3. How have the Financial Diaries households done in the last five years?

We were pleasantly surprised to see that, on average, the Financial Diaries households were doing well, reflecting the improvement in the economy. Although economic growth in South Africa slumped in 2009, the average annual GDP growth rate from 2005 to 2008 was just under 5%. Economic growth has also come with relatively high inflation of about 7% on average in the last five years, a total of 41% accumulated price increase in the past five years. Nonetheless, the median household in the entire sample enjoyed a small increase in inflation-adjusted per capita income of 2.4%.

Most improvement was seen in the urban township of Langa, where per capita income increased in real terms by a median of 15%. More income came from salaried jobs and less from casual work, much more came from government grants and business profits, compared to 2004 (see Table 3). Remittances also decreased, indicating the households were becoming more self-sufficient.

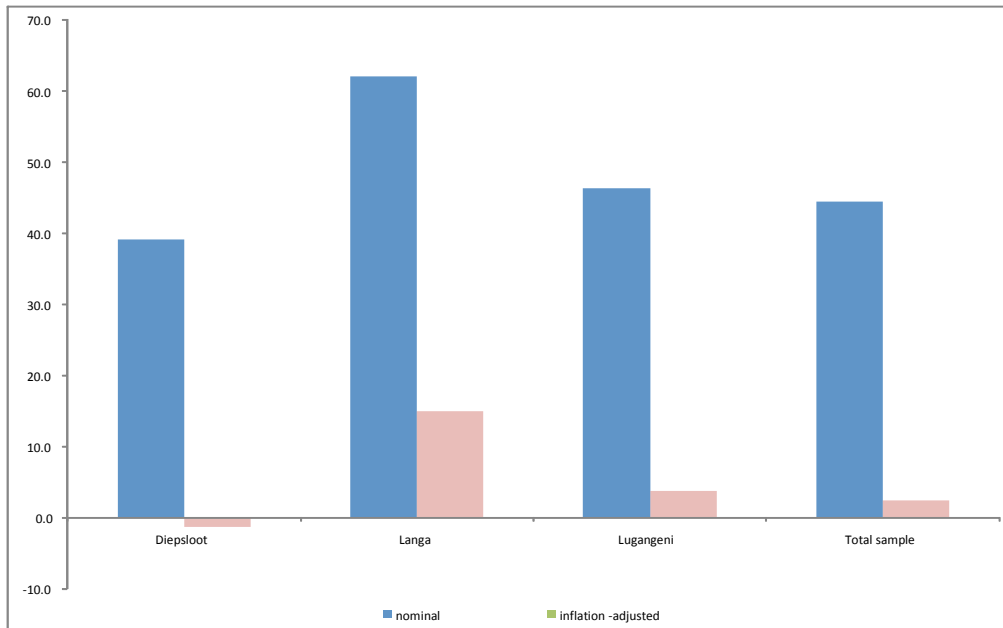
Improvement was also seen in per capita incomes in the rural area of Lugangeni, the median of which increased 3.8% in real terms compared to the same sample of households in 2004. We were not sure what to make of this, as government grants make up about 49% of the average household income in 2004, and 45% of the average household income in 2009 (see Table 3 below). Grant values have certainly increased over the past five years but not enough to account for a real increase in income. Grant recipient households had received, on average, a package of grants worth R827 (about \$127) in



2004 and the same households received an average R1079 (about \$154) in grants in 2009, which, given a 41% increase in prices, is actually a 7% inflation-adjusted *decrease*. We would rather attribute most of the real increase in incomes to regular wages, which have become a more important part of household income. Real wage-related income has increased an inflation-adjusted 10% over 2004 levels in Lugangeni.

Improvements in households in urban Diepsloot were more varied. At the median, households are now earning 1.3% less per household member than in 2004, adjusted for inflation. However, this is not uniform across the sample and many households are earning substantially more than the median. This is due not only to an increase in income, but also to a more stable source of income, as shown in Table 3. More income is coming from regular jobs, and less from the irregular earnings of small business. Interestingly, rentals are a much bigger source of income than they were in 2004. Diepsloot is a new township and as households become more established, and particularly as they begin to receive RDP homes,⁶ they build shacks in their backyards for rental. Accordingly, the number of households earning money from rentals increased from four to fourteen since 2004.

Chart 3: Median changes in monthly per capita income between 2004 and 2009⁷



⁶ These are government provided homes under the Reconstruction and Development Programme (RDP).

⁷ Data for both 2004 and 2009 is for exact days during the year when the 2009 revisits took place.



Table 3: Sources of income

Average percent of income from each source across the sampled households

	Total sample		Diepsloot		Langa		Lugangeni	
	2004	2009	2004	2009	2004	2009	2004	2009
Salaried job	42%	41%	59%	53%	57%	60%	15%	18%
Government grants	23%	24%	5%	3%	13%	18%	49%	45%
Business profits	7%	8%	11%	12%	9%	12%	3%	2%
Casual work	6%	5%	7%	8%	5%	1%	5%	5%
Rental income	1%	6%	1%	15%	1%	5%	1%	0.4%
Remittances	16%	11%	16%	5%	13%	3%	20%	19%

4. Financial behaviour: Changes from 2004 to 2009

How did this general increase in income translate into changes in financial behaviour? In order to answer this question, we first define several measurements of savings that the Financial Diaries data allows us to use. Second, we look at the bank account openings of each area. And then third, we apply these definitions of savings to each area and look at the changes between 2004 and 2009.

Defining savings behaviour

As we went through the Financial Diaries data, household by household, we could envision three distinct and increasingly complex measures for savings behaviour:⁸

- 1) Use: This was determined simply by whether the households used the account within the one month Diary Revisit period. We quantified this by counting the number of deposits and withdrawals over the sample time period.
- 2) Accumulation: We measured accumulation in terms of how much money, on net, was accumulated in the financial instrument over the one month Diary Revisit period.⁹ This number could be positive, if money was saved, or it could be negative, if money was withdrawn. This was somewhat difficult to make a clear assessment of, because it may be that the day after we

⁸ The “final frontier” of this assessment would be welfare change, e.g. the ability to pay for unforeseen shocks, or to make productive investments, etc. This assessment was found to require a great deal more work and therefore is beyond the scope of this note.

⁹ Note, although we check as many official statements as possible in the Financial Diaries, households generally do not receive regular bank statements. We therefore count on the margin of error at every interview to tell us whether we have a complete set of data.



finished our interviews, the household withdrew all the money in the account, essentially not savings for more than one month. However, given that the 2004 Diaries revealed that households were rarely able to accumulate savings in bank accounts for more than a month, we felt somewhat justified in using a month as a relevant period of accumulation. We measure accumulation over income in the same period.

- 3) *Balance*: Moreover, we also measured the *balance* within the savings instrument at the end of the period in 2009 compared to the end of the same period in 2004. This would take into account not just saving during the diaries revisit month, but also saving since the household started using the instrument. We measure balances over financial assets (net savings in all savings instruments).
- 4) *Portfolio shift*: We made a normative judgement that a portfolio change for the “better” is defined as a net shift in savings flows from what might be seen as a high risk savings place, such as saving cash in the house, to a lower risk savings place, such as the bank account. To do this, we compared the accumulation ratios between instruments and noted the changes from 2004 to 2009. We calculated the ratios above for six different types of savings instruments: bank accounts, saving in the house, money guards, savings clubs, retirement annuities and provident funds,¹⁰ but we focus on bank accounts, savings in the house and savings clubs as these were most ubiquitously used.

Increased take-up of bank accounts

A striking change in the financial landscape of the Financial Diaries portfolios is the substantial take-up of bank accounts. In the Diepsloot households, where the number of banked households was already high, the number of households in the 2009 sample of 39 without a bank account has reduced from five at the end of 2004 (12.5%) to two (5%). Moreover, those who already had a bank account opened additional accounts. Twenty-six of a total of 93 bank accounts now held by this sample were opened in the last five years, 21 of which were opened by households that already had bank accounts. Pushing this spate of bank account openings was likely the 2007 opening of the nearby Diepsloot Mall, which put all major banks at the doorstep of Diepsloot,¹¹ since two thirds (17) of the accounts that have been opened since 2007 have been at the Diepsloot Mall. We discuss the implication of this further in

¹⁰ There would be the equivalent of 401Ks or IRAs in the U.S.

¹¹ Nearby in this case means walkable from all parts of Diepsloot.



Section 6. Only 9 of these new accounts were Mzansi accounts, however (one other Mzansi account was opened at the end of 2004). The other accounts were mostly NEAs.

In Lugangeni, there was also a significant take-up of bank accounts. The households in the sample previously had 56 open accounts, and now the same sample has 71 open accounts. In 2004, 42% of these same households had *no* member with a bank account and in 2009 only 21% have no members with a bank account. Since the end of 2004, a total of 31 new bank accounts were opened.¹² One of those new accounts was in the far away town of Port Elizabeth, but the remainder were opened in the nearby town of Mount Frere.¹³ Nearly half of these new accounts were opened in the second half of 2009, perhaps driven by the push to receive government grants directly into bank accounts. Ten of these new accounts were Mzansi accounts – there had been no Mzansi accounts opened before the end of 2004.

In Langa, bank account expansion was more stagnant. The Langa sample had 58 accounts over the 37 households in 2004, while the same sample of households had only 57 bank accounts in 2009. This happened partly because various bank account holders had moved or passed away and thus fell out of the sample, but it was also a process of conscious bank account closings. Only ten accounts were opened since the end of 2004. Of these, four were opened by households that had never before had a bank account. Four of the accounts that were opened since the end of 2004 were Mzansi accounts (three more were opened before the end of 2004), but only one of those were opened by a household that had never before been banked. Three of these new accounts were opened at the new nearby Vangate Mall in Athlone, which opened at the end of 2005. This mall has branches for FNB, ABSA, Nedbank and Standard Bank. It is not as close to Langa as the Diepsloot Mall is to Diepsloot, and it requires crossing a bridge over the N2. However, a number of respondents expressed how much easier and safer they felt going to the Vangate Mall was compared to their other alternatives. We explore the implication of having the Vangate Mall in Section 6.

¹² This means that 16 accounts were closed, but this is mostly due to households members leaving the household than them “closing” the account per se.

¹³ A 30 minutes taxi ride away on the newly paved road; 45 minutes on the old, poorly maintained road.



Measuring financial behaviour changes

Table 4 shows savings behaviour changes for the overall sample using these three different measures. The results are striking. First, bank usage increased significantly, about 72% across the sample and even in rural Lugangeni where the nearest bank was, and continues to be, in Mount Frere, a crowded taxi-ride away, costing about R10 one way and taking about 30 minutes.¹⁴ Second, although bank users don't seem to be saving more out of their monthly steady income, it does appear that they have been able to increase their balances by saving more in the bank on an ad hoc basis. Bank savings was worth 48% of financial assets in 2009 versus 33% in 2004.

Cross sectional regressions that can segment these results across such characteristics as age and gender provide unsurprising evidence that bank accounts are used significantly more by the younger and better off members of the sample, while balances kept in the house are higher for those who are older and have lower incomes. However, the more interesting panel data analysis – where individuals are compared to their own earlier behaviour – discussed below, provides more granular insights into the association of these changes with Mzansi, closer bank proximity and direct deposit grant payments.

Table 4: Changing financial behaviour among Financial Diaries households

	Bank accounts						Saving in the house		Savings clubs	
	Usage (Number of transactions)		Accumulation over month (Divided by income)		Balance at end of period (Divided by financial assets)		Balance at end of period (Divided by financial assets)		Accumulation over month (Divided by income)	
	2004	2009	2004	2009	2004	2009	2004	2009	2004	2009
Diepsloot	2.5	4.4	7%	14%	50%	76%	19%	17%	19%	14%
Langa	2.9	4.5	15%	14%	20%	38%	13%	14%	24%	16%
Lugangeni	3.6	5.9	15%	6%	33%	32%	27%	19%	15%	14%
Total sample	2.9	5.0	11%	11%	33%	48%	19%	17%	19%	14%

Does this increased bank account usage appear to have constituted a shift away from informal financial devices, like saving in the house and savings clubs, or is it new savings? We look at both of these explanations in turn. Chart 4 shows the accumulation within any savings instrument out of income

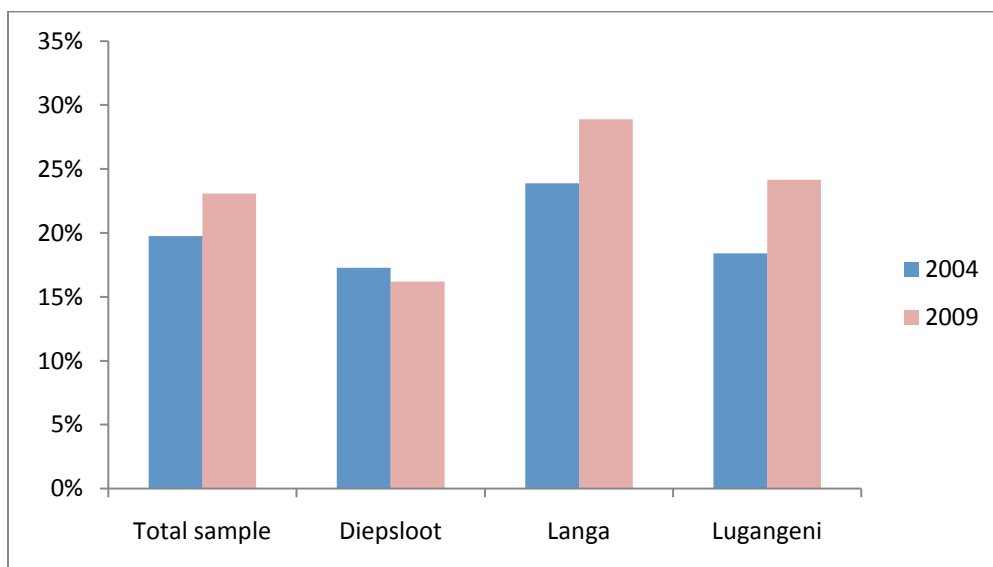
¹⁴ We're wondering if an improvement in the road from Lugangeni to Mount Frere isn't partly responsible for some of the changes in savings behaviour that we see here.



within a month¹⁵ for 2004 and 2009. It shows that, with the exception of Diepsloot, there has been a slight increase in savings rates from 2004.

Looking at what happened in other parts of the portfolio, which are shown in Table 4, provides a more mixed answer. Third, savings in the house has declined significantly, with balances down from 19% overall in 2004 to 17% in 2009 with the highest drop in Lugangeni. Fourth, monthly contributions to savings clubs also decreased slightly, with savings clubs garnering only 14% of income on average, compared to 19% in 2004. These trends are generally uniform across the urban areas, but in rural Lugangeni there is less use of all of the financial instruments shown here. Yet savings rates have increased overall, and we can largely point back to the increase in formal employment to tie these points together. There was more saving in retirement annuities and in provident funds, which come with more formal employment in Lugangeni.

Chart 4: Savings rates of Financial Diaries households
(2004 and 2009, as % of monthly income)



5. How much did Mzansi have to do with these changes?

A key question is then, to what extent can we credit Mzansi for this shift towards bank account savings? One place to start is to type and count Mzansi users within this sample, which was more challenging

¹⁵ The exact same month-long periods were used between 2004 and 2009 for every household.



than we had anticipated. Second, we compare the same savings measures used above in sample of Mzansi-using versus non-Mzansi using households.

Counting and typing Mzansi users

Determining who does and who does not have an Mzansi account was more difficult than one might imagine. The Mzansi account was launched just as the 2004 Financial Diaries data collection was finishing, so its take-up was only assessed in the 2009 Diaries Revisits. Therefore, when we first revisited the households, we asked them right away whether anyone in the household was an Mzansi account holder. In Diepsloot, for example, we found that 16 households reported having Mzansi accounts. However, once we started doing the refresh interview and getting more details about their financial instruments, we realized that several of them did not report their status correctly. For example, five people who initially said they had an Mzansi account, actually, we discovered after more interviews, did not. Alternatively, two claimed not to have an Mzansi account, but, as it turns out, they did. We found similar experiences in the other two areas. As one can imagine, one can easily remember which bank one has an account with, but the type of account (particular the branding on the account) is not frequently referred to and therefore remembered.

We segmented Mzansi users depending on whether they, or someone in the household, already had a bank account. The objective of Mzansi was to entice the unbanked into the banking system by offering them a low cost, basic account. In Diepsloot, however, the number of households without a bank account before Mzansi was launched was already quite low (12.5%), i.e. most Mzansi account holders in the Diepsloot sample already had a bank account. In Lugangeni, where the unbanked rate was fairly high, half the Mzansi users were first time users. We were also interested to see how many had closed their Mzansi accounts, as the BFA 2009 Mzansi report found that the percentage of those opening Mzansi accounts who later became “inactive” (namely, had not used it for 12+ months) was quite high, although not much higher than inactive rates in non-Mzansi NEAs. We only found 1 out of the 28 Mzansi users in the entire sample who actively closed their account (as opposed to letting it fall dormant).

Bringing together the account opening activity discussed above and the Mzansi account take-up, we can see, in the last row of Table 6, that across all areas, a little more than one third of new account openings



were Mzansi accounts. If these patterns are reflected across low income areas throughout South Africa, we can begin to see why there was significant take-up in Mzansi within the population.

Table 5: Typing Mzansi users (Number of accounts)

	Total sample	Diepsloot	Langa	Lugangeni
Already had a bank account	12	7	2	3
Household member already had a bank account	7	1	4	2
Never had a bank account prior to opening Mzansi	8	2	1	5 ¹⁶
Closed Mzansi by time of revisits	1	0	1	0
Total Mzansi accounts ever opened	28	10	8	10
Total open Mzansi accounts	27	10	7	10
Mzansi % of all new accounts opened	34%	35%	40%	32%

Did Mzansi change savings behaviour?

Judging from the qualitative comments of the households when asked about Mzansi, we were left with the impression that Mzansi had a significant effect on savings behaviour:

- Some say that because charges are smaller, they can save more: *“She has just started (with the Mzansi account) but she noticed that the charges are much better than other bank account, she could save more.”* (She did indeed use and save more in her Mzansi account) *“It has changed the way she manages her money because there are less charges in Mzansi account.”* (She also saved more in her Mzansi account than in other accounts.)
- Some appreciate that the account will stay open even if deposits have not been made: *“With Mzansi account one does not panic when one can not make deposit for some months because the account will still be active. Low cost is also the benefit of the Mzansi account.”* (He used and saved less in Mzansi than in other previous accounts.)
- However, others suggest that Mzansi charges are not very different: *“Mzansi account has not changed anything because she is still charged when depositing money.”* (She actually used and saved in her Mzansi accounts more.)

¹⁶ One person in the Lugangeni sample opened an Mzansi account and hadn’t previously been banked and then opened another Mzansi account after that one, with another bank. This account is counted once in first time banked and once in previously banked.



Table 6 brings the quantitative evidence to bear on these comments, by breaking the sample into households that have Mzansi accounts and those that do not and comparing the same measures of savings behaviour seen in Table 4. We see that these data do indeed suggest that Mzansi account holders have increased their *usage* of bank accounts more than those who do not have Mzansi accounts – as a whole, there was nearly a three-fold increase in Mzansi account usage versus a mere 53% increase in non-Mzansi account users. Mzansi users also appear to have increased their balances more than non-Mzansi users. As this build up seems not to come from monthly accumulation, it may be that these balances come from ad hoc deposits rather than building little by little over the month. Monthly accumulation out of income in bank accounts is flat between 2004 and 2009 and in some areas it has dropped and become negative. What this suggests is that households may be building up balances in other instruments (such as savings clubs – see that accumulation there has increased for urban Mzansi users) and then shifting a lump sum to the bank.

If we look more closely at the statistical significance of these results by running regressions,¹⁷ we do indeed see a statistically significant (albeit weak, i.e. at the 10% level) larger increase in both bank use and bank balance associated with Mzansi users compared to non-Mzansi users. However, this does not necessarily tell us anything more than what we might expect, as roughly one third of the Mzansi users in this sample never had a bank account before, and hence would have zero use and zero balances in 2004. Moreover, there is not a corresponding decrease in savings in the house and any changes in savings club accumulation that is large enough to be significant for Mzansi users versus non-Mzansi users.

We might conclude therefore that, at least for this sample, Mzansi may indeed have been part of the general trend towards bank usage and savings that we see in the overall sample. However, the statistical significance of this result is not particularly strong, and it doesn't appear to be accompanied by any significant shifts out of informal instruments.

¹⁷ Panel regressions were run across a sample of 169 individuals and controlled for log per capita income, a dummy variable for having a bank account in a nearby branch, a dummy for Mzansi and a dummy for getting paid a grant into a bank account. These regressions were run separately for bank use, bank balance, bank accumulation, saving in the house balance and savings club accumulation.



Table 6: Changes in financial behaviour — Mzansi versus non-Mzansi households

	Bank accounts						Saving in the house		Savings clubs	
	Usage (Number of transactions)		Accumulation over month (Divided by income)		Balance at end of period (Divided by financial assets)		Balance at end of period (Divided by financial assets)		Accumulation over month (Divided by income)	
	2004	2009	2004	2009	2004	2009	2004	2009	2004	2009
Mzansi users	0.9	3.3	3%	4%	23%	60%	19%	16%	10%	11%
Diepsloot (10 individuals)	0.9	2.8	-0.7%	11%	27%	63%	14%	11%	5%	17%
Langa (5 individuals/7 accounts)	0.6	3.6	2%	-7%	44%	60%	16%	4%	0%	13%
Lugangeni (9 individuals/10 accounts)	1.1	3.3	8%	-1%	10%	31%	27%	36%	14%	12%
Non-Mzansi users	3.4	5.2	13%	13%	37%	46%	18%	16%	20%	14%
Diepsloot	3.0	4.9	10%	15%	57%	79%	17%	14%	21%	9%
Langa	3.1	4.6	15%	17%	15%	52%	12%	17%	25%	17%
Lugangeni	6.2	4.0	13%	7%	35%	27%	25%	16%	15%	14%

Profiles of “successful” and “unsuccessful” Mzansi users

Numbers alone can hide the individual stories that are presented by each household. Within the Mzansi sample alone, we see stark contrasts between those that usefully brought the account into their savings patterns and those to whom it did not make much of a difference. Thandi,¹⁸ from Lugangeni, is one of the former. She had never been banked nor was anyone in her family. After she started a job in June 2009 at a construction company building a new road from Mount Frere to Lesotho, she opened an Mzansi bank account with Standard bank. The bank account is also used by Thandi’s daughter who runs an airtime and moneylending business from home. She is in town frequently buying airtime vouchers. Between the two of them, use of the account skyrocketed – they used the account a total of 15 times during the 72 days¹⁹ that we interviewed them. Moreover, they were able to accumulate a significant portion of the financial worth in the account, 22% of their financial worth by depositing 24% of their income. At the same time, they used their saving in the house considerably less, from saving 100% of their financial worth there to only 78%. They also used to use savings clubs and they put through 34% of

¹⁸ Names have been changed to protect the identity of the respondents.

¹⁹ We interviewed grant recipient households for an extra month, as discussed in section 9.



their income into these in 2004. They still use them but now they put only 12% of their income into these devices. (MSIP04)

Ruth, who lives in a backyard shack in Langa, had the exact opposite experience. Her income has decreased substantially in real terms between 2004 and 2009. She works as a house cleaner and she had a particularly well-paying job which abruptly stopped in 2008. She's taken on two more houses to clean, but in total she only gets paid R740 per month when she used to get paid R1440. Moreover, her working daughter left the household. The daughter still gives her money, but not as much as when they were cohabiting. Because she gets paid in cash, Ruth did not really use the account over the time period, though she had another bank account in 2004 which she used much more. Accumulation went from 10% in 2004 to 0% in 2009, while the balance went from 15% of financial assets in 2004 to 0 now. She still makes substantial contributions to savings clubs, which are her main form of savings. (L03P03)

Another question is whether Mzansi accounts have led to the opening of other financial instruments. We find little in the data to support that this is happening, with the exception of one potential example in Diepsloot. Rebecca and her husband already had savings accounts with Standard Bank but she opened an Mzansi account with ABSA in 2004 (in Randburg, which is close but not as close as Diepsloot Mall) and then a money building account with ABSA in 2009 at the Diepsloot Mall. Although this may seem at first to be a perfect set up, where she could build up balances in the Mzansi account and then deposit them into the money builder account, the data don't provide any evidence that this is happening. During the revisit month of the study, she withdrew almost all of the R4000 she had deposited to open the money builder account. From her Mzansi account, in which she had a balance of R2000, she withdrew R1116 during the month. At first glance, this may look like she is not able to accumulate savings effectively, but we learned that her daughter died in May and she needed to pay about R14000 from her savings to help with this. In addition, she needed to host a traditional feast during the month we saw her in association with the funeral. Had this funeral not happened, we don't know whether Rebecca would have been able to accumulate more savings and if Mzansi would have been part of the system to do it.



6. Closer bank proximity: Does it matter?

In the process of understanding what impact Mzansi has had on the Financial Diaries households, we couldn't help but notice another potential impact in both Diepsloot and Langa. In both of these areas, new shopping malls brought branches much closer than they were in 2004. The take-up of accounts in these branches were significant. In Diepsloot, 14 households opened accounts at the nearby Diepsloot Mall, while 3 households in Langa opened accounts in the nearby Vangate Mall.²⁰ Altogether, this is 25% of all new bank accounts opened in the past five years across the sample, not much less than the 34% that were Mzansi accounts. So we felt this was a new facet of financial life that was worth exploring.

Again, from qualitative comments, respondents have both positive and negative views about whether these nearby bank branches should help them save money:

- Some cite crime as a benefit of going to these nearby branches: *"She is scared to use the local ATM because of crime. She prefers to travel to town to make withdraw some money or go to Vangate Mall which is nearer."* (She used and saved in her account much more than in 2004.)
- Some suggest that it is easier to get cash if there is an emergency as well as easier to deposit more frequently: *"He indicated that to have a bank or ATM near him allows him to make withdraw at any time of the day and night should there be an emergency. Since there is a bank in Diepsloot Mall he goes there twice a month to deposit money into his son's account."* (He used the account less than before but saved more.)
- But others suggest that having cash closer by may make them want to withdraw rather than keep the money in the bank: *"ATM closer to home makes her want to withdraw cash even if there is no emergency."* (She did use her account more, but she saved more in the bank and less in the house so her fears weren't warranted!)

²⁰ It is worth point out two things. First, while Diepsloot Mall is in walking distance to all households in Diepsloot, some are certainly further away than others. In Langa, this is even more the case and we find that the three who opened accounts there all live in the Old Flats area which is across the N2 highway. Moreover, although we assume that those who open an account at these nearby bank branches will mostly transact at these branches, this may not be the case. They may transact at other branches, that are perhaps closer to their work, or others who did not open their accounts at these branches may in fact transact at them anyway. Therefore, segmenting the sample into those who opened accounts at these branches does not necessarily mean that such a segmentation also achieves distinguishing who actually *uses* these closer branches. This detail, unfortunately, we do not have.



We take a deeper look at households that have accounts at nearby branches, compared to those that did not open an account at the nearby branch, in Table 7. We see that certainly people who opened accounts at nearby bank branches increased their account usage more – an increase in use between 2004 and 2009 by nearly three times compared to a doubling for those who do not have accounts at nearby branches. When we run regressions on this data, we, again, see that this result is highly significant (at the 1% level). This increased usage could have, theoretically, increased accumulation (as households left money in the bank and did not take it into the house) or decreased accumulation (they withdrew money more often and therefore left less behind). Table 7 seems to suggest that the former is more likely to be true, i.e. that individuals with higher proximity to their bank branches appear to have had slightly larger increases in accumulation and balances, with corresponding decreases in savings in the house. However, the regression results on these data suggest that, other than bank usage, being closer to the bank does not indeed increase the accumulation or bank balances in the bank.

Table 7: Changes in financial behaviour — those with accounts at new nearby branches versus those who do not

	Bank accounts						Saving in the house		Savings clubs	
	Usage (Number of transactions)		Accumulation over month (Divided by income)		Balance at end of period (Divided by financial assets)		Balance at end of period (Divided by financial assets)		Accumulation over month (Divided by income)	
	2004	2009	2004	2009	2004	2009	2004	2009	2004	2009
Nearby Mall households	1.4	4.4	4%	14%	18%	57%	23%	22%	8%	16%
Diepsloot (14 households)	0.8	3.5	4%	15%	15%	52%	26%	21%	3%	11%
Langa (3 households)	1.0	8.7	7%	13%	33%	77%	21%	20%	27%	3%
Non-nearby Mall households	3.2	6.3	5%	8%	28%	38%	35%	25%	14%	6%
Diepsloot	3.0	4.8	9%	14%	65%	86%	13%	9%	21%	10%
Langa	3.2	4.2	16%	15%	19%	34%	12%	13%	26%	17%



Profiles of “successful” and “unsuccessful” nearby bank users

Two examples again draw out the detail behind these aggregate numbers. Xolile, who lives in the Old Flats of Langa, has had both NBS and Postbank accounts, but he used them very little in 2004. He then opened a new account at Nedbank at the Vangate Mall in 2007. We found he is making substantially more transactions – 11 within the month compared to the 3 he made during the same time period in 2004 on the other two accounts. The amount he is accumulating also reflects that he started a new job in 2007 as a builder earning about R5600 per month. He accumulated about 21% of that income every month in the new account during the 2009 revisit period.

In contrast, Kenneth, who lives near the Diepsloot Mall in Diepsloot, is also making more transactions in his new Diepsloot Mall account– 2 during the month compared to 1 in an account he had in Fourways in 2004. However, he is not accumulating in this new account at all, same as in the previous account. He’s managing to keep the balance with which he opened the account, but with no increase.

7. Direct deposit grant payments

When we were revisiting households in Lugangeni and we realized how many people had opened and were using bank accounts, we began to wonder what might have motivated this. Then we heard that the Lugangeni grant recipients were experiencing a change in their payment system that was being implemented across South Africa – they were being asked to provide bank details so their grants could be deposited directly into their account. Given that two third of the households receive at least one grant, this is a significant portion of the sample affected. We saw that this change had already prompted a large number of bank account openings — 38% of all the new bank accounts opened by the sample households were opened in the three months prior to the Financial Diaries revisits.²¹ Our previous experience in the 2004 Financial Diaries was that only three households (5% of the sample at the time) who received their grant via a bank account, and they simply withdrew the entire amount all at once, leaving nothing behind. In November 2009, 29% of all grant recipient households received their grants via bank accounts. The others receive their grants either from the cash point or via a

²¹ We noted that few of these new account openings were Mzansi accounts. To find out what options a grant recipient might find from the various banks in Mount Frere, we sent a field worker to inquire. Some banks have introduced different products so rarely are people encouraged into Mzansi accounts. FNB, for example, has a special social grant account, which was, as field worker was told, less expensive than an Mzansi account. The Post Office has a social grant debit card which allows a certain number of free withdrawals. Both ABSA and Standard Bank suggested that grant recipients open other accounts than Mzansi.



supermarket when they purchase groceries. Receiving direct deposit could potentially open the door to further savings in the bank, so we decided this was worth exploring for an extra month in the field.

One household member, in particular, caught our eye as someone who successfully leveraged a grant payment into a bank account, which also happened to be an Mzansi account, into saving more there. Busisiwe receives both an old age grant and a child grant via the bank. She had another bank account, also with Standard Bank, which she didn't really use, but then she opened this one in 2006 and uses it a lot more - 9 times over the month compared to 2 times during the same period in 2004. She saves about 20% of monthly income in the bank, the balance of which is now 20% of her total financial assets. At the same time she is saving much less of her balance in the house – from 59% to 7% of financial assets.

However, Table 8 shows that Busisiwe is unusual in *how much* her savings patterns have changed but not *the direction* in which they changed. In general, households that received grant money into the bank used the bank more than they might have before (for those who had a bank account before) and more, an average 6.3 times a month, than those who received their grant in cash. Again, regression results suggest that this is statistically significant at the 10% level. However, they did not accumulate more in the bank nor increase their balances than those who received their grant in cash.

Table 8: Changes in financial behaviour—receiving grants via the bank versus receiving grants in cash

	Bank accounts						Saving in the house		Savings clubs	
	Usage (Number of transactions)		Accumulation over month (Divided by income)		Balance at end of period (Divided by financial assets)		Balance at end of period (Divided by financial assets)		Accumulation over month (Divided by income)	
	2004	2009	2004	2009	2004	2009	2004	2009	2004	2009
Receipt in cash (19 individuals)	1.6	4.9	11%	25%	19%	65%	35%	25%	21%	13%
Receipt in bank (12 individuals)	3.2	6.3	5%	8%	28%	38%	37%	31%	14%	6%

Some of the qualitative work that we pursued during our extra month in the field provides some understanding of why the results in Table 8 might not be stronger for those that received their grant in the bank.

First, those who receive their money via the bank appreciate the convenience of doing so:



- *Majili likes to use the bank because it is convenient. She takes out what she need and go back to bank and withdraw if she needs more money. She did not wait in the queue for long (about an hour) on the grant pay day.*
- *Nozipho likes to get her grant from the bank because one is not always available on the grant payment day to be in the cashpoint. To receive money from the bank one could collect one's money when one is available. There is also no bank charges if one is a grant recipient when one makes a withdrawal of one's grant money. In Oct, she was in the queue for five minutes for her turn to use the ATM (she went to town in the mid day on the pay day).*
- *Manguta is very old and could not walk for long distance. She thinks it is a very good idea to collect her social grant via bank because she could send her daughter to collect her money for her. She does not leave any money behind in her account because she believes her grant money would be stopped if she did. In October her daughter-in-law left home around 8 o'clock and it took 2 hours in total to get Manguta's grants.*

However, many others are concerned about SASSA taking the grant away if money is left behind, or that the bank themselves will eat up any money left behind with charges, or that someone else will take any money left behind. They also have some lingering concerns about the safety of the bank, the inconvenience of long lines and the high charges:

- *Matshezi is quite uncomfortable in using the bank because they are full during the pay day. She does not leave money behind because they always think one has lots of money other than grant therefore she thinks she should not save money in the bank.*
- *Manbongo regrets opening a bank account to receive her grant because it charges her R30 as a fee. Instead of getting R240 she only receives R210. In October, Mambongo went to the bank the same day as the grant was paid into her account. She went there as early as six o'clock in the morning and she was in the queue for four hours. She thinks that bank is not safe because she does not know everyone in the queue and thugs are waiting in town to take people's groceries. She does not think that the SASSA will take away grant but the bank could take money away for charges if you leave money behind.*
- *Nondimiso withdraws all the money in the bank because if one leaves it at the bank you won't find it because someone will go and withdraw for you and money will disappear. In October, she visited the post office the same day as the grant was paid. She went to the bank around six in the morning. She was in the queue from six in the morning to six in the afternoon. The post office extended its operating hours to make sure everyone is served.*

Those who are still receiving their grants from the cash point are reluctant to change. They tell us why:

- *Majili is thinking to use the bank sometime, but she is concerned about the security. Also, using the cash point is more convenient because it is not too far away from her home. She also believes that if one leaves money in the bank then the grant would be taken away.*
- *Mangwanya does not like to use the bank because she thinks she would be confused by the machine(e.g. the ATM). To receive the grant via cash point has its advantages because it is closer to her home and she does not need to pay for transport to get to town.*
- *Thandi likes to receive her grant in cash and she worries about needing to use the bank to collect her grant. The advantage of being paid in cash is that the pay point is close to her home, it is safe and she gets every cent of her money. She thinks the bank is not safe because*



one needs to be in the queue early in the morning to collect one's grant.

Several grant recipients obtain their grants via purchases at a shop, and this respondent was particularly articulate about her thoughts on collecting her grant from bank:

- *Majali collects her grant by withdrawing at the till in a shop. When she does this, she needs to buy certain amount of good from that particular shop. She would consider using the bank in later stage but she does not like to use the bank because she is not able to operate ATMs. The advantage to get money from the shop is that she gets all her money and no charges are leveled but it is not easy for saving as when money is in your hand, you tend to spend it than save. She is not interested in using bank because the bank is for the new generation and elderly die in the queue and thugs are waiting outside the bank and want to take your money.*

Given this feedback, it seems that banks looking to capitalize on this new requirement have much to overcome in terms of consumer perceptions. For banks who wish to capture this new market of bank account holders, substantial resources will need to be mobilized to change these perceptions if more savings activity is to occur.

8. Conclusions

We have found that in the last five years, poor households have started to use banks more, building up larger balances and started to tilt their savings portfolios away from certain informal instruments, like saving in the house and savings clubs. This pattern is particularly evident among younger and higher income people in this sample.

Beyond higher real per capita incomes, the reason for this embrace of banks is not entirely clear. During the interim five years between the panels of the Financial Diaries survey, the Financial Sector Charter sought to increase the number of banked households by pushing banks to open more branches and ATMs near low income areas and encouraged the introduction of Mzansi. Moreover, in the last year, SASSA has pushed government grantees to receive their grants via the bank rather than in cash. The evidence presented here suggests that no single factor, in isolation, can be pointed to as even a leading factor which has contributed to the increased use of banks described in this report. We find a weak association between Mzansi and higher use and savings in banks, but, given how many Mzansi users were previously unbanked, this is not surprising.



Among several key lessons from this exercise, we have learned a great deal about how much, or how little, financial behaviour can change in poor households within a short space of time. We certainly have examples of strong take-up in financial products among low-income households in developing countries—M-Pesa would be an obvious recent example—but we rarely have evidence of how households are using these instruments and how it shifts the overall portfolio or financial patterns. We are encouraged by the slow movement in the savings portfolios of poor households away from the house and towards the bank. With the Financial Diaries data, we have a benchmark of amount of change in financial portfolios that can potentially happen within five years, and the tools with which to measure that change.