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Marketing financial services to the previously excluded in South Africa

Theo Donavon Arthur

A research report submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Business Administration.

Johannesburg

December, 2008

Abstract

Limiting access to a company's services or discouraging the demand coming from certain customers is not an uncommon practice. Suppliers of services and goods often select a target market that would provide a minimum expected value and exclude the rest. In the financial services sector the lower income segment have always been excluded on the basis that they do not provide this minimum expected value (Sharma, 2003). In South Africa, however there is a renewed interest in targeting this lower income sector. This renewed interest in targeting the lower income sector in post apartheid South Africa is not just because there is value and benefits to companies who target this market (Prahalad, 2004), or the recognition that financial service development causes growth and poverty alleviation (Porteous, 2004; Beck, 2004), but it is also in place to address the imbalances caused by an apartheid system.

Although South African financial service providers find themselves with similar challenges of a developing economy, the South African environment is a unique one. Practices of exclusion have not just segmented on the basis of income, minimum value expectations, education and status but also on race. In re-entering this market, many providers are finding themselves unprepared for the challenges of this once excluded sector.

Whilst cost, accessibility, insufficient discretionary income and literacy have been identified as the key factors that hinder the consumption of financial services, the Financial Sector Charter of 2003 identified that the South African financial sector had failed to increase participation of the previously excluded and limited access to its services (Crotty, 2005; Prahalad, 2004; Barr, 2004; Sharma, 2003). By committing to the targets of the Charter many of these financial institutions, which include banks, long - term insurers, short - term insurers, re-insurers, collective investment schemes, investment managers, retirement funds and licensed exchanges, find themselves targeting a market which they previously excluded. A further challenge to financial service

providers in South Africa is that little research has been conducted on the unique situational variables that impact the South African economy.

The purpose of this study is therefore to identify and explore the challenges that the previously excluded market presents to financial service providers who wish to re-enter this market in South Africa. It also investigates the appropriateness of segmentation tools and assesses how best to target this market.

The research methodology employed focussed on a literature review which aimed to identify the factors that influence financial service consumption. It then discusses the various segmentation models and the best strategy to target this market. Focus groups were used to gain insight and understanding of this market. Data was then collected and analysed.

The findings and discussion highlight that it is imperative to understand the changing demographics, social and cultural influences and the impact of historical practices prior to providing financial services to a market that was previously excluded. Factors that are unique to South Africa i.e. self exclusion, crime, non traditional market instruments and costs were also identified. These factors are discussed in this study.

It is hoped that this study will assist providers of financial services in formulating strategy that would increase consumption of its products and services and in so doing contribute to the growth of the economy whilst addressing the imbalances of the past.

Declaration

I, Theo Donavon Arthur declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the University of the Witwatersrand. It has not been submitted before for any degree or examination in this or any other university.

_____

Theo D. Arthur

Signed at _____

On the _____day of _____ 2008.

Dedicated to Kalia and Kaell Arthur
who have helped me keep perspective
on what is important in life

May you live every day of your life. JONATHAN SWIFT

Acknowledgements

I wish to express my thanks to:

- Yvonne Saini, my supervisor, for her advice and guidance in completing this research project.
- Kesh Arthur, for her valuable support and for persevering with me throughout the MBA programme.
- Paulus and Maggie Arthur, for their encouragement and contribution to this research project.

TABLE OF CONTENTS

ABSTRACT II

DECLARATION IV

ACKNOWLEDGEMENTS V

LIST OF TABLES XII

LIST OF FIGURES XIII

LIST OF APPENDICES XIV

CHAPTER 1 ..... **1**

INTRODUCTION **1**

1.1 PURPOSE OF THE STUDY 1

1.2 CONTEXT OF THE STUDY 1

1.3 SCOPE OF THE STUDY 7

1.4 PROBLEM STATEMENT 8

1.5 DELIMITATIONS AND LIMITATIONS 9

1.6 DEFINITIONS AND TERMS 9

1.7 ASSUMPTIONS 11

1.8 SIGNIFICANCE OF THE STUDY 11

CHAPTER 2 13

LITERATURE REVIEW 13

2.1 INTRODUCTION 13

2.2 FINANCIAL SERVICE CONSUMPTION IN THE LOWER INCOME SECTOR 15

2.2.1 FINANCIAL SERVICES 15

2.2.2 CONSUMPTION IN THE LOWER INCOME SECTOR 16

2.3 REASONS WHY FINANCIAL SERVICE PROVIDERS ARE TARGETING THIS LOWER INCOME MARKET 18

2.3.1 VALUE AT THE BOTTOM OF THE PYRAMID 18

2.3.2 FINANCIAL SERVICE DEVELOPMENT AS A MEANS OF GROWTH AND POVERTY REDUCTION 19

2.4 FACTORS THAT INFLUENCE FINANCIAL SERVICE CONSUMPTION 20

2.4.1 ACCESSIBILITY, APPROPRIATENESS AND AVAILABILITY 20

2.4.2 INCOME 21

2.4.3 COSTS 22

2.4.4 REGULATION 22

2.4.5 FINANCIAL LITERACY 23

2.4.6 CUSTOMER PERCEPTIONS, TRUST AND REPUTATION 24

2.5 TOOLS USED BY FINANCIAL SERVICE PROVIDERS TO SEGMENT AND PROFILE 25

2.5.1 LIVING STANDARD MEASURE 26

2.5.2 FINANCIAL STANDARD MEASURE 26

2.5.3 SEGMENTATION BY USAGE 26

2.5.4 BENEFIT SEGMENTATION 27

2.5.5 SERVICE SEGMENTATION 27

2.5.6 TIME AS A SEGMENTING TOOL 28

2.5.7 BEHAVIOURISTIC BASIS FOR SEGMENTATION 29

2.6 HOW BEST TO TARGET THIS MARKET 30

2.6.1 UNDERSTAND THE CONSUMER AND THEIR FINANCIAL NEEDS 30

2.6.2 ALTERNATIVES AND CHOICES 31

2.7 CONCLUSION 32

CHAPTER 3 33

RESEARCH METHODOLOGY 33

3.1 INTRODUCTION 33

3.2 RESEARCH DESIGN 33

3.2.1 QUALITATIVE 33

3.2.2 DESCRIPTIVE 34

3.3 METHOD 34

3.3.1 FOCUS GROUPS 34

3.4 POPULATION AND SAMPLE 35

3.5 DATA COLLECTION 36

3.6 DATA ANALYSIS 36

3.7 VALIDITY AND RELIABILITY 36

3.7.1 INTERNAL VALIDITY 37

3.7.2 EXTERNAL VALIDITY 37

3.7.3 RELIABILITY 37

3.8 CONCLUSION 37

CHAPTER 4 ..... **38**

FINDINGS **38**

4.1 DEMOGRAPHICS AND PROFILE OF THE FOCUS GROUPS 38

4.2 FINANCIAL SERVICE USAGE 41

4.3 FACTORS THAT INFLUENCE FINANCIAL SERVICE CONSUMPTION 45

4.4 HOW CAN THIS MARKET BE SEGMENTED? 50

4.5 HOW CAN THIS MARKET BE TARGETED? 51

CHAPTER 5 ..... **53**

DISCUSSION **53**

5.1 FINANCIAL SERVICE USAGE 54

5.2 THE FACTORS THAT INFLUENCE FINANCIAL SERVICE CONSUMPTION 56

5.2.1 ACCESSIBILITY, APPROPRIATENESS AND AVAILABILITY 56

5.2.2 EMPLOYMENT INCOME 58

5.2.3 AFFORDABILITY / COSTS 59

5.2.4 LITERACY 60

5.2.5 SELF EXCLUSION 62

5.2.6 UNIQUE ATTITUDE, VALUES AND PREFERENCES 63

5.2.7 POOR ARE VICTIMS OF CRIME 65

5.2.8 SPENDING PATTERNS 65

5.2.9 WORK PATTERNS 66

5. 3 SEGMENTING THIS MARKET 67

5.3.1 SEGMENTATION TOOLS 67

5.3.2 CHANGING CUSTOMER PROFILE 69

5.3.3 FINANCIAL DECISION MAKERS 70

5.4 TARGETING THIS MARKET 71

5.4.1 UNDERSTANDING THE CONSUMER 71

5.4.2 PRODUCT DEVELOPMENT 71

5.4.3 IDENTIFY AND TARGET THE DECISION MAKER 73

CHAPTER 6 74

CONCLUSION AND RECOMMENDATIONS 74

6.1 CONCLUSION 76

6.2 RECOMMENDATIONS FOR FUTURE RESEARCH 80

APPENDICES 81

A. REFERENCES 81

B. DISCUSSION GUIDE – FOCUS GROUPS 87

C. INTERVIEW GUIDE 89

D. CONSISTENCY MATRIX 93

LIST OF TABLES

Table 1	LSM Characteristics by Population	3
Table 2	LSM Characteristics	3
Table 3	LSM 1 - 5 Profile	4
Table 4	Summary of Focus Group Profile	41
Table 5	Bank Account Ownership	55
Table 6	Interview Guide	88
Table 7	Consistency Matrix	92

LIST OF FIGURES

Figure 1	Stockvel membership across LSM	6
Figure 2	Income spread in South Africa	7
Figure 3	Education levels	24

LIST OF APPENDICES

a. References 81

b. Discussion Guide – Focus Groups 87

c. Interview Guide 89

d. Consistency Matrix 93

Chapter 1

INTRODUCTION

1.1 PURPOSE OF THE STUDY

The purpose of this study is to identify and explore the challenges that the previously excluded market present to financial service providers who wish to re-enter this market in South Africa. It is hoped that this study will assist providers of financial services in formulating strategy that would increase consumption of its products and services and in so doing contribute to the growth of the economy whilst addressing the imbalances of the past.

1.2 CONTEXT OF THE STUDY

The Financial Sector Charter, a voluntarily developed charter which came into effect in South Africa in January 2004, committed its participants to actively promoting a transformed, vibrant, and globally competitive financial sector that reflected the demographics of South Africa, and contributed to the establishment of an equitable society by effectively providing accessible financial services to black people and by directing investment into targeted sectors of the economy (Financial Sector Charter, 2003).

One of the key objectives of the Charter was to increase effective access of first - order retail financial services to a greater segment of the population, within Living Standard Measure (LSM) 1- 5. In the LSM 1 – 5 sector, the financial sector specifically undertook to increase access to transaction products and services to 80 %, increase access of bank savings products and services to 80

% and increase access in life assurance products and services to 80 % (Financial Sector Charter, 2003).

By committing to the targets of the Charter many of these financial institutions, which include banks, long - term insurers, short - term insurers, re-insurers, collective investment schemes, investment managers, retirement funds and licensed exchanges, found themselves targeting a market which they previously excluded or were not geared to. Although South African financial service providers find themselves with similar challenges of a transitional or developing economy, the South African environment is distinctive in its practices of exclusion on the basis of race or colour and not just income, minimum value expectations, education and place of residence.

In re-entering this market, many providers are finding themselves unprepared for the challenges of this once excluded lower income sector. It is therefore imperative to understand this market prior to marketing to this market.

The Lower Income Sector (LSM 1 – 5) in South Africa

The lower income sector is classified according to the Living Standard Measure (LSM) model that classifies households into different living standard groups according to a variety of characteristics i.e. household assets, access to services (water, electricity, sanitation) and geographical location.

Table 1 is an indication of the population spread in the different LSM groups. It can be observed in Table 1 that 55.9 % of South Africa's population falls in the lower income sector.

Table 1 LSM Characteristics by Population

	LSM 1	LSM 2	LSM 3	LSM 4	LSM 5	TOTAL
NO OF PEOPLE	1492887	3406504	3693204	4488081	4320118	17400794
% OF POPULATION	4.8	11.0	11.9	14.4	13.9	55.9

Source: South African Advertising Research Foundation AMPS 2007 RA

Table 2 presents the characteristics of a consumer in LSM group 1 - 5, based on the 2007 AMPS research survey and Table 3 the profile of a household in this sector.

Table 2 LSM Characteristics

	LSM 1	LSM 2	LSM 3	LSM 4	LSM 5
SEX	female	male	female	male	female
EDUCATION	primary	some high school	some high school	some high school	some high school
AREA	rural	rural	rural	urban/rural	urban
HOUSING	traditional hut	house / matchbox	house	house	house
SERVICES	minimum access	water on plot	electricity / water on plot	electricity / water on plot / flush toilet	electricity / water on plot / flush toilet

Source: South African Advertising Research Foundation AMPS 2007 RA

Table 3 LSM 1 - 5 Profile

Characteristics of LSM 1 – 5
- the average household income is R2100 - there are 5 people in each house - 14 % of LSM 1- 5 depend on child grants - 10 % on old age pensions - 4 % on other grants - 35 % have a bank account and 50 % say they can live without a bank account - 21 % belong to a burial society - 7 % lost the main wage earner in the last 12 months

Source: Finscope 2006

Findings of the Financial Diaries (2005) have found that:-

- the underlying needs of the poor households for financial services are similar to those of higher income groups

- poor households manage their livelihoods through a relatively large number of instruments

- these instruments are both formal and informal – and formal and informal services appear complementary, so that the use of informal services is not necessarily displaced at higher incomes

- The single most used category of financial service is gift or interest free loans to friends and family – a non market service. However, next are market-provided instruments even if informal,

such as store credit, the giving of interest bearing loans and using money guards.

Formal instruments used include banks. In 2001, 11 353 000 adult South Africans had at least one form of basic bank account. This left 17, 6 million adults who did not use a bank account of any sort. In 2006, 15 868 856 were banked and 15 267 944 were unbanked. Of these unbanked, 3 580 557 were previously banked, indicating that only 11 687 387 were never banked (Finscope, 2006).

Informal instruments used include stokvels. Stokvels are the country's most common form of savings and are the most widely used amongst the lower income sector. On average, stokvel members contribute between 2 % and 8 % of monthly income to their stokvel, with a higher proportion at the lower LSM group.

The fact that 65 % of stokvel members have a personal bank account indicates that stokvels do not substitute, but rather complement formal financial services (Finscope, 2006). Some have more to do with income generation through staging events than with savings as such. Stokvels or co-operatives may have the advantage of low cost and easy access but carry unique risks to their members.

The distribution of stokvel membership across LSM groups is shown in Figure 1.

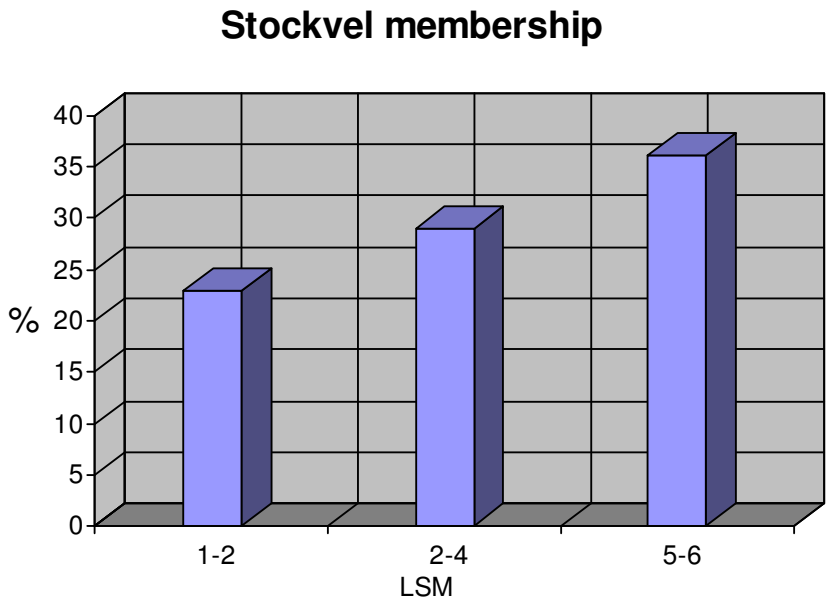


Figure 1 Stockvel membership across LSM (Finscope 2006)

According to Finscope (2006), Stokvel users are:-

- 97 % black
- 71 % female
- 45 % live in tribal lands
- 41 % live in urban formal areas
- 51 % are in age group 30 – 44

Usage of formal and informal instruments however is based on employment or an income earned. According to Finscope (2006), 15 % of the total respondents in South Africa did not earn an income, 35 % earned between R1 – 499, 38 % earned under R1000 and 74 % of the total respondents earned below R2000.

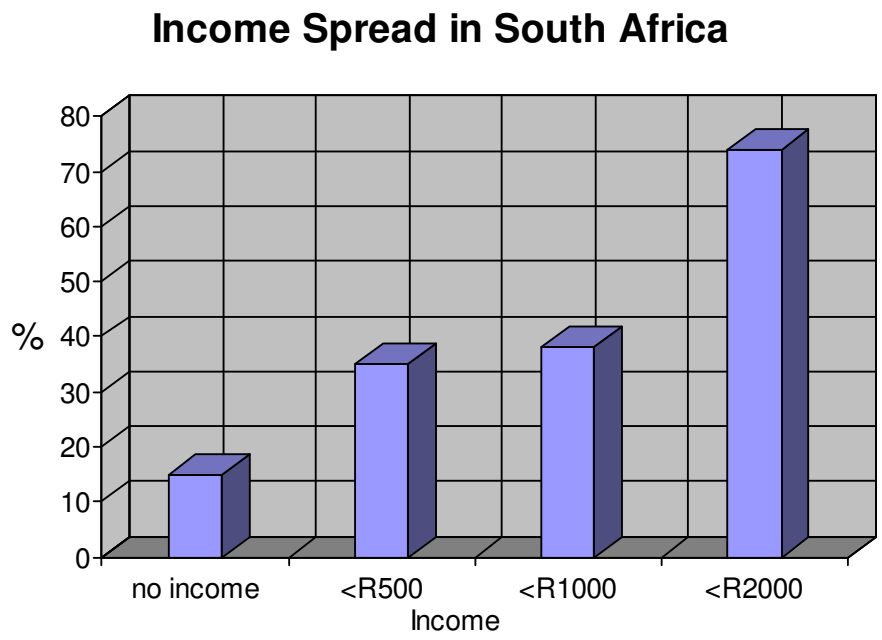


Figure 2 Income spread in South Africa (Finscope 2006)

Although Prahalad (2004) proposed that there is value and benefits to companies who target this lower income sector, it is imperative for companies to understand the changing demographics, social and cultural influences and the impact of historical practices prior to providing financial services to a market that was previously excluded.

1.3 SCOPE OF THE STUDY

Financial services in South Africa broadly covers all financial products and services provided by long term insurers, short term insurers, re-insurers, collective investment schemes, investment managers, retirement funds, licensed exchanges, banks, consumer finance companies or any other organisations that deal with the management of money. These can be categorised into transaction banking, savings, credit and insurance.

Due to the broad product and service offerings in the financial service sector, this study focuses on the insurance industry and more specifically on the long term insurance offering of funeral and life cover in the lower LSM market.

1.4 PROBLEM STATEMENT

1.4.1 Main Problem

The aim of this research is to identify the factors that influence financial service consumption amongst those in the lower income sector and to investigate the challenges that these present to providers of financial services.

1.4.2 The Sub Problems

The first sub problem

The first sub problem is to identify the factors that influence financial service consumption in South Africa in the LSM 1 – 5 group.

The second sub problem

The second sub problem is to assess how this market can be segmented for inclusion and the appropriateness of segmentation models in targeting this market.

The third sub problem

The third sub problem is to establish what providers of financial services need to do to serve the needs of these customers.

1.5 DELIMITATIONS AND LIMITATIONS

Although the research focussed on the financial sector and the challenges of marketing to the lower LSM, interviews and focus group discussions were restricted to long term insurance products and more specifically to funeral and life cover.

Affordability in these groups limited the exposure and knowledge of long term insurance products and services to primarily funeral and family benefits.

Although it was observed that respondents did not self – censor their views, most preferred to communicate via the most senior member of the group. Cultural and social practices bestow this responsibility to the senior members in a gathering.

Focus groups were drawn from informal settlements in the Gauteng area, an urban area in South Africa which is home to many rural immigrants seeking employment and a better life.

Although an interpreter was used, most respondents preferred to communicate in English and sought assistance and clarity from colleagues.

1.6 DEFINITIONS AND TERMS

LSM – The Living Standard Measure (LSM) is the most commonly used tool to segment markets in South Africa. LSM is highly correlated with household income and measures things that people have. Essentially LSM is a 'here and now' measure. The measure is calculated at a household level (Finscope, 2004).

FSM – Financial Standard Measure. This measure is designed to segment the market not only on what customers have or earn, but also on key psychological elements. This is to provide a holistic understanding of a

person's current engagement with financial services, as well as his/her motivation and capacity to engage in the future. This is essentially a financial service measure (Finscope, 2004).

FSC - Financial Sector Charter. In January 2004, the Financial Sector Charter came into effect in South Africa, as a result of the Financial Sector Summit hosted by the National Economic Development and Labour Council (Nedlac), the multilateral social dialogue forum on social, economic and labour policy. The Nedlac partners – government, business, labour and community constituencies – negotiated the Financial Sector Summit Agreements on transforming the financial sector and signed the Summit declaration on 20 August 2002. The Charter committed its participants to actively promoting a transformed, vibrant, and globally competitive financial sector that reflected the demographics of South Africa, and contributed to the establishment of an equitable society by effectively providing accessible financial services to black people and by directing investment into targeted sectors of the economy. (Financial Sector Charter, 2003).

Insurance - Insurance is a contract between the insurer and the policy owner (policyholder) whereby a benefit is paid to the designated beneficiary (or beneficiaries) if an insured event occurs which is covered by the policy. To be a life insurance policy the insured event must be based upon the life (or lives) of the people named in the policy. Life policies cover for sickness, disabilities, death and funeral benefits.

Stokvel - A stokvel is a savings scheme by a group of people who save a regular amount each month. Each person then gets a chance to have the month's collected cash. Low-income families have been saving through stokvels and burial societies for a long time. Minimum investments into stokvel investments are very low. They are at the discretion of the people forming the stokvel. An important element of the stokvel model is trust. Members have to be fairly confident that the other members will keep up their monthly payments, especially after having received the cash.

1.7 ASSUMPTIONS

The following were the underlying assumptions when the study was conducted:

a. The respondents' views were representative of the views of the sectors that they were drawn from.
b. The respondents from focus groups provided normal perceptions and perspectives.
c. The respondents were free to discuss the use of informal financial products.

1.8 SIGNIFICANCE OF THE STUDY

This study was intended to identify and interpret the challenges that South African financial service providers faced in marketing to a sector which they previously excluded.

During this study it was found that this renewed interest in targeting the lower income sector in post apartheid South Africa was not merely due to there being value and benefits to businesses who targeted this market (Prahalad, 2004), or due to financial service development causing growth and poverty alleviation (Porteous, 2004; Beck, 2004) but was also in place to address the imbalances caused by an apartheid structure that limited access on the basis of race.

This study will also assist all who target this market in understanding the factors that result in self exclusion.

The identification and exploration of the challenges that financial service providers face, may also assist service providers in formulating strategy that may enhance their probability of success.

New factors contributing towards self exclusion, which have previously not been identified, are also discussed in this study.

Chapter 2

LITERATURE REVIEW

This chapter outlines the literature used to derive the research questions against which the research was conducted. The purpose of this study was to identify the factors that influence financial service consumption in South Africa, with particular reference to those in the lower income sector (i.e. LSM 1-5). It also investigated the appropriateness of segmentation models used to segment this market and then looked into how financial service providers could target this market.

A foundation was therefore set for the proposed research, which aimed to investigate how financial service providers can increase consumption of their services and products in this lower income sector.

2.1 INTRODUCTION

Limiting access to a company's services or discouraging the demand coming from certain customers is not an uncommon practice. Kotler (2000), states that each segment in the market presents a somewhat different opportunity, which firms will want to study in different parts of the market before taking a position. Limiting access requires, first, the choice of segments to be avoided and, second, the choice of specific means to "ward off" the undesired customers (Turner, 1996).

Suppliers of services and goods often select a target market that would provide a minimum expected value and exclude the rest. In the financial services sector the lower income segment have always been excluded on the basis that they do not provide this minimum expected value (Sharma, 2003). Increasing

competitive pressures in the financial environment, significant changes in regulation, technology advancements, enhanced product choice, increased product and market information and globalization are some of the factors that contribute to financial service providers targeting the segments that provide a minimum expected value.

In South Africa however there is an increasing focus on this lower income sector. This renewed interest in targeting the lower income sector in post apartheid South Africa is due to the recognition that financial service development causes growth and poverty alleviation (Porteous, 2004; Beck, 2004) and that businesses who target this market can still achieve value and benefits (Prahalad, 2004). Although South African financial service providers find themselves with similar challenges of a developing economy, the South African environment is a unique one. Practices of exclusion have not just segmented on the basis of income, minimum value expectations, education and status but also on race. In re-entering this market, many providers are finding themselves unprepared for the challenges of this once excluded sector.

Whilst cost, accessibility, fluctuating income and literacy have been identified as the key factors that hinder the consumption of financial services, the Financial Sector Charter of 2003 identified that the South African financial sector had failed to increase participation of the previously excluded and limited access to its services (Crotty, 2005; Prahalad, 2004; Barr, 2004; Sharma, 2003). By committing to the targets of the Charter many of these financial institutions find themselves targeting a market which they previously excluded or were not geared to. A further challenge to financial service providers in South Africa is that little research has been conducted on the unique situational variables that impact the South African economy.

Understanding the consumer and the factors that influence financial service consumption in this lower income sector are key if one wishes to segment and market to this sector to increase consumption.

2.2 FINANCIAL SERVICE CONSUMPTION IN THE LOWER INCOME SECTOR

2.2.1 Financial Services

Financial services refers to the services provided by the finance industry. Financial services is also used to describe organizations that deal with the management of money and includes merchant banks, credit card companies, consumer finance companies, government sponsored enterprises, and stock brokerages. Financial services in South Africa broadly covers all financial products and services provided by long term insurers, short term insurers, re-insurers, collective investment schemes, investment managers, retirement funds, licensed exchanges, banks, consumer finance companies or any other organisation that deals with the management of money.

Financial services in South Africa is covered in the four basic market categories:-

Transaction banking – these are services offered by banks for day to day transactions i.e. ATM cards, debit cards, electronic payments.

Savings – keeping money aside for a future purpose or need. Bank savings accounts, unit trusts, pension and provident funds, endowment funds and even informal products such as stokvels or savings club membership.

Credit – a form of lending money to a borrower in return for future repayments that include micro loans, credit cards, hire purchase and retail credit.

Insurance – accepting cover against a defined risk or event in return for the payment of a premium. Includes life insurance, disability cover, funeral cover, short term insurance and membership to informal quasi-insurers such as burial societies.

It is believed that a basic bank account which allows for day to day safe storage of value and for transmission of funds would strengthen the backbone of the financial sector, on which other financial services such as credit and insurance also depend for expansion of access. The pattern of bank account ownership correlates strongly with the LSM, based largely on observable durable goods ownership, which in itself reflects income and education factors.

Porteous (2004) states that bank accounts serve as an anchor for the delivery of other formal financial services such as credit or insurance; but also because there is considerable data on usage and non-usage patterns in both developed and developing countries. The approximate 40 per cent usage level in South Africa was compared with other countries at similar and different levels of development:

- USA: 90 per cent
- Brazil: 35 per cent (household basis)
- Kenya: 5,9 per cent *(Source : Porteous, 2004)*

2.2.2 Consumption in the Lower Income Sector

By design, markets develop approaches and strategies that use commercial and traditional tools to segment and market to this lower income group. However research from around the world found that these approaches may not be successful in some countries.

In Kenya, Johnson (2001) found that financial services consumption was influenced by social structures and not just cost. Johnson (2001) states that the extent of fragmentation of the financial markets in Kenya could be explained by the underlying social structures and that financial cost was not the only factor that determined consumption. Ruthven (2001) found that the professional money lenders in a West Delhi squatter settlement were recognised for their convenience, speed and even the dignity they provided. The issue of dignity

related to the impact of the transaction on the social capital of the borrower and his / her community.

Worthington's (2005) studies in China illustrate the complexities of entering the Chinese markets. He sums up by acknowledging that although regulation restricts entry into the Chinese financial market, providers entering this market need to be aware of the cultural impediments to entering this market.

The Chinese tradition is to spend according to your income and thus borrowing is seen to be a sign that a person is incapable of making ends meet. The Chinese tend to pay in full, in cash, and to finance this they often seek help from informal channels. Another cultural nuance to take account of is the 'face' issue. It is the worst thing imaginable for Chinese people to lose face in front of other people, particularly those whom they know (Worthington, 2005).

Understanding the variety of cultures in China is important. The market of 1.3 billion Chinese is not homogenous; there are stark differences between urban and rural consumers and wide disparities between the various regions and cities. Research suggests that consumers from various regions are significantly different in terms of purchasing power, attitudes, lifestyle, media use and consumption patterns.

Stevenson and Plath (2006) show that the American Hispanic segment has grown in size and importance over the last decade, but Hispanics differ markedly from their non-Hispanic counterparts in terms of financial product preferences and investment asset portfolio composition. Further, Hispanic Americans trail their non-Hispanic white counterparts in terms of breadth and depth of financial holdings, particularly in the area of more risky but historically higher return categories.

Stevenson and Plath (2006) also state that even though it may be possible to treat Hispanic Americans as a single group for comparative purposes, reaching the group requires a unique single marketing approach because there is ample support for the notion that Hispanic Americans display attitudes, values, and

consumption preference that are quite different from their non-Hispanic white counterparts.

The cultural and value differences between Hispanic Americans and non-Hispanic white Americans make it unlikely that a single marketing message would be equally effective in serving the needs of the two groups.

Stevenson and Plath (2006) also talk about the strong support for the relationship between ethnicity and consumer patronage patterns. Ethnicity exerts a significant impact on consumer education patterns, household product selections and family shopping preferences. They also state that the different buyer behaviour could be explained by the different value orientations.

2.3 REASONS WHY FINANCIAL SERVICE PROVIDERS ARE TARGETING THIS LOWER INCOME MARKET

2.3.1 Value at the Bottom of the Pyramid

Hart and Prahalad (2002) state that the perception that the bottom of the pyramid is not a viable market fails to take into account the growing importance of the informal economy among the poorest of the poor, which by some estimates accounts for 40 – 60 percent of all economic activity in developing countries.

Perception of market opportunity is a way many managers are socialised to think and the analytical tools they use. Most companies dismiss the bottom of the pyramid because they judge the market based on income or selections of products and service appropriate for developed countries.

Prahalad (2004) proposes that the poor should not be viewed as victims by businesses, governments and donor agencies but instead as resilient and

creative entrepreneurs as well as value-demanding consumers. He also challenged this 'dominant logic' thinking where he shows that there is value at the bottom of the pyramid. He proposes that there are tremendous benefits to businesses who choose to serve the poor in ways responsive to their needs.

Hart and Prahalad (2002) also reveal that for companies with the resources and persistence to compete at the bottom of the world economic pyramid, the prospective rewards include growth, profits, and incalculable contributions to humankind.

2.3.2 Financial service development as a means of growth and poverty reduction

There is increasing evidence that financial sector development causes growth and poverty reduction; hence there is a strong argument for active promotion of financial sector development (Beck, 2004; SARB, 2004). The evidence suggests that financial sector development can have a significant impact on growth and poverty reduction, and that low rates of financial sector development can create a poverty trap – a vicious circle which can lock countries into a low level of development even when other conditions for growth, such as educational attainment, are met (DFID, 2004).

Financial sector development can also reduce poverty. First it has an indirect effect, through its positive impact on growth, as evidence suggests that growth is usually good for the poor. It can also have a more direct impact, to the extent that it results in increased access to financial services for the poor. Access to financial services allows the poor to benefit from the financial sector functions that stimulate overall growth. For example, the provision of bank accounts can enable the poor to accumulate funds in a secure place over time in order to finance a large, anticipated future expenditure, or to build up reserves that can be used when there are unexpected fluctuations in income and expenditure. This feature can be particularly important for those with low and variable

incomes. Bank accounts can thus reduce the vulnerability of the poor, and minimise the negative impacts that shocks can sometimes have on both immediate and long-run income prospects.

There is a close correlation between financial sector deepening and the overall rate of economic growth. This means that usage of financial services is not a follower of growth, but may be a driver of growth. The implication is that, as part of a growth strategy alone, there is reason to promote the development of financial markets. Beck et al (2004) goes further to report cross-country macro economic evidence that financial development has a disproportionately positive effect on the poor.

2.4 FACTORS THAT INFLUENCE FINANCIAL SERVICE CONSUMPTION

2.4.1 Accessibility, Appropriateness and Availability

Gibson, Scott and Ferrand (2004) proposed that while markets work in a variety of ways, ultimately they benefit the poor by being accessible and appropriate. In making markets work for the poor, accessibility and appropriateness are necessary conditions (Porteous, 2004). Research must also consider where the poor live as well as their work patterns. (Prahalad, 2004)

Porteous (2004) also argues that too much access may not always be good. He states the case of micro finance in South Africa which illustrates that too much access could result in negative consequences for a market and other interlinked markets.

Conservative estimates indicate that 60 % of low–income groups and 80 % of the lowest income groups do not have access to banking services (Crotty, 2005). Finmark Trust (2005) had estimated that 14 million, of a potential population for banking services of 28 million, are unbanked.

For households, the consequences of being without access to financial services are severe. Households deprived of saving facilities are unable to accumulate for life crises and future purchases (Crotty, 2005). For communities, isolation from financial services can mean that economic activity drains away from the area.

According to Finscope (2003) 56 % of the respondents who were banked needed to take public transport to get to the bank, indicating that physical access to financial institutions was still an issue. Finscope (2006) indicates that it takes someone in LSM 1 - 5 and banked approximately 28 minutes longer to get to a bank compared to an individual in the LSM 6 – 10 segments.

2.4.2 Income

Markets cannot be expected to work for consumers without income; hence the conceptual problem in developing societies is how to separate income constraints on usage from other constraints. This is critical to making policy choices that harness markets for the poor, as opposed to addling them with unbearable burdens.

The Life Officers Association (LOA) also acknowledges that economic factors influence the level of income within the lower LSM group. This fluctuating income does not present a good foundation for long term investment.

According to Finscope (2006), 15 % of the total respondents in South Africa did not earn an income, 35 % earned between R1 – 499, 38 % earned under R1000 and 74 % of the total respondents earned below R2000.

Bage (2004) states that it is not only their small income that characterises most poor people, but also the irregularity of this income. Basic financial services can help stabilise the financial situation of poor people and can contribute to fighting poverty in rural areas. However, with little secure income or collateral, poor

people are seldom able to obtain financial services from banks and other formal financial institutions. Through microfinance institutions such as credit unions, financial non-governmental organisations and even commercial banks, poor people can and do obtain small loans, receive money from relatives working abroad and safeguard their savings.

2.4.3 Costs

Costs impact on whether consumers will access financial services or not. In South Africa, this has resulted in non market instruments that typically offer cheaper alternatives to poor people than market instruments. Prahalad (2004) however stresses that the key is affordability without sacrificing quality or efficacy.

A task group appointed by the South African Treasury and the Reserve Bank found that the transfer of money, making a payment and the cost of credit are all substantially higher for an unbanked individual than a banked person (Crotty, 2005). These additional costs do not take into consideration the time and inconvenience - and even danger – that is often involved in effecting payments when the individual does not have access to banking facilities (Crotty, 2005).

2.4.4 Regulation

Porteous (2004) states, that as a result of its fragility, the financial sector tends to be the most heavily prudential and functionally regulated sector in most economies. Onerous consumer protection laws for example may change the level and distribution of transaction costs. Where institutions are weak or over-regulated, the costs and risks to firms and people engaging in markets may be so high as to make it unprofitable, in which case market failure follows. This type of market failure is less well recognised and understood.

In South Africa the insurance industry is one of the focus areas for legislators (Symeonidis, 2001). Linked to the deregulation of financial services has been the introduction of regulations specifically promulgated to protect the consumer (Ryan, 2001). Consumer protection regulations include consumer privacy laws, data protection, marketing restrictions, disclosure requirements and regulations governing financial advice (Corcoran, 1999; O'Connor, 1999). These regulations can limit the potential of the substantial customer database as a source of competitive advantage.

Regulation imposed by Government has now forced financial service providers to provide products that are affordable, simple and accessible and products that provide a high awareness (Financial Sector Charter: Access Interpretation for Life Insurers, 2005). The underlying logic is simple; disclosure makes consumers more aware and it is this awareness that results in the consumer's desire for 'value for money' (Shelton, 1995).

2.4.5 Financial Literacy

For some low-income households, lack of financial education with respect to account ownership, budgeting, saving, and credit management is a significant barrier to personal financial stability. The benefits of financial education are not likely to be fully captured by any one financial institution because an educated consumer will shop for financial services among competing providers. (Stevenson, 2005)

Increased levels of financial literacy are also necessary for understanding, accessing and using bank services (Sharma 2003). For more complex products like insurance products, this would be even more difficult to understand.

Finscope (2006) reports that 6 % of the respondents in South Africa had no formal education, 17 % had been educated to primary school level and only 13 % of the total respondents had post matric qualifications.

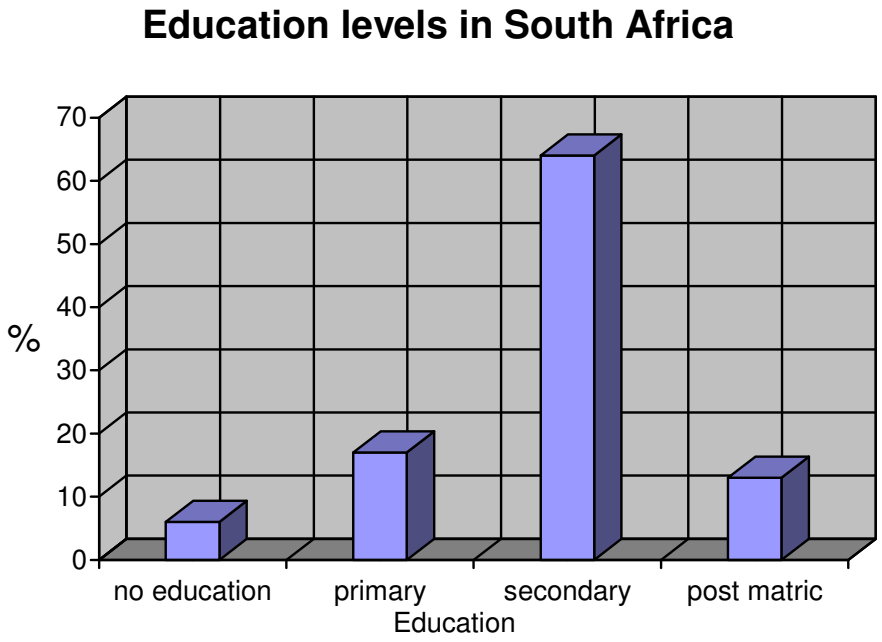


Figure 3 Education levels (Finscope 2006)

2.4.6 Customer perceptions, trust and reputation

Sharma (2003) notes that people also create self exclusion barriers. Such psychological barriers are based on negative views, mistrust and feelings of intimidation, resulting in disadvantaged clients' belief that banks are not for them.

Corcoran (1999) identified that the customer perception or the changing of these perceptions is critical. A respectable brand name in itself is not enough to attract life customers. What is required further is for customer perceptions to be altered (Corcoran, 1999). The mindset of consumers must be altered so that they can notice the benefits (Corcoran, 1999).

Consumers require honesty, plain speaking, to be in control, to determine the pace, information and long term relationships based on trust (Shelton, 1995), particularly when they purchase insurance products. Trust between, and the

good intentions of, the partners in a relationship cannot be in doubt. Communications must be open, honest and frequent (Berry 1995; Bitner, 1995; Clark and Payne, 1995). Enhancing the quality of the relationship is likely to stimulate client retention.

Mitchell & Wiesner (1992 in Laing, 1994) argue that selection decisions in acquiring financial advice and purchasing financial services are heavily weighted by factors such as trust, professionalism and reputation.

A trustworthy reputation is a source of competitive advantage in that it can enhance the value of an offering (Devlin & Ennew, 1997). A good reputation mollifies the reservations and qualms of a consumer when they purchase a product (Devlin & Ennew, 1997). It can be seen as a key proxy for the quality of the service on offer (Bharadwaj, Varadarajan & Fahy, 1993). Specifically, in the event of purchasing complex products, notably insurance products, the value add of reputation increases as consumers rely more heavily on experience and credence qualities (Devlin, 2000).

2.5 CRITERIA USED BY FINANCIAL SERVICE PROVIDERS TO SEGMENT AND PROFILE

Market segmentation is the sub dividing of a market into distinct subsets of customers, where any subset may conceivably be selected as a market target to be reached with a distinct marketing mix (Kotler, 2000).

Kotler and Bloom (1984) suggest that markets using professional services may be segmented by the following variables: geographic, organisational demographics, psychographics and behaviouristic.
There are many tools that may be used to segment a market, either to target a specific sector or group or to exclude.

2.5.1 Living Standard Measure

Living standard Measure (LSM) is calculated at a household level. LSM is highly correlated with household income and measures things that people have whereas the Financial Standard Measure (FSM) is not necessarily correlated with personal income as it measures people's perceptions as well as the income that they earn. Essentially LSM is a 'here and now' measure (Finscope, 2004).

2.5.2 Financial Standard Measure

This measure is designed to segment the market not only on what customers have or earn, but also on key psychological elements. This is to provide a holistic understanding of a person's current engagement with financial services, as well as his/her motivation and capacity to engage in the future. This is essentially a financial service measure. Financial Standard Measure (FSM) looks to the future and takes into account potential future take up in the financial sector. FSM is calculated at an individual level (Finscope, 2004).

2.5.3 Segmentation by Usage

Dickson (l982) explains that markets can also be subdivided by usage. Market segmentation requires an understanding of the what, when, where, how and why of demand, therefore Dickson (1982) maintains that as demand results from the interaction of a person with his or her environment, a perspective that includes both the person and the situation is needed to explain demand and target marketing strategy.

Porteous (2004) also favours usage as a good measure. It is also stated that a market which works for the poor is one in which usage of the product by the poor people is increasing over time.

2.5.4 Benefit Segmentation

Lewis (1981) states that one needs to consider the importance that a consumer attaches to a combination of sensory, rational and emotional benefits expected from the product or service. He proposes that it is necessary to determine the perceived benefits of the service or product. Balakrishna (1978) also refers to this in cluster based segmentation below.

2.5.5 Service Segmentation

In *a priori* segmentation, as proposed by Balakrishna (1978), the bases for segmentation before the study is undertaken is selected with the most likely significant variables pertaining to the firm's market chosen first.

Cluster-based segmentation, which does not rely on choosing the segmentation variables in advance, is preferred when psychographic characteristics of a market or the benefits sought by the market are of interest (Balakrishna, 1978). Cluster-based segmentation depends on the reaction of customers to certain possible variables, resulting in grouping those with similar responses.

Flexible segmentation results in grouping those customers who display a similar reaction to a product offering. Using conjoint analysis and computer simulation, flexible segmentation offers management the flexibility of building up segments based on the consumers' response to alternative product offerings (under various competitive and environmental conditions). Following this process, the

marketer can use demographic information to ascertain the size of the resulting segments and to assess the potential profitability of the respective segments.

2.5.6 Time as a Segmenting tool

The difference in the perception of time is important to take into account in development of marketing strategies and to be included in any analysis of market segmentation, the development of products and services and the choice of market channels (Kotler and Armstrong, 1997).

Lindskog & Brege (1995) discuss how time is used as a variable in segmenting. Time is an important variable in market segmentation for defining the customer target groups, developing products and services and building the most efficient marketing channels. Some individuals and families are time-rich and others are time-poor. The degree of time-poverty or richness is more or less objectively or subjectively experienced.

From a marketing segmentation perspective the question of time richness and time-poverty in consumer behavior is important in several strategic aspects. The unit of analysis for consumption could be either at the individual level or the aggregate family level. Individuals could be time-poor, but collectively the family could be regarded as time rich with children and retired elderly people taking part in the buying and consumption processes.

Most professionals and parents with small children are time-poor. Many of the time-poor perceive time as their scarcest resource and the term “saving time” is often associated with time-poor. The main reasons for having such a large group of time-poor are that those employed have to work hard, freely or as a consequence of organizational pressure. The distinction between work and leisure is becoming more blurred, the increasing supply of goods, services and choices to fill up our time, the need to always be prepared for changes, to learn and acquire new knowledge, the consciousness that you yourself are in charge

and responsible for your future and the attraction of work. Time-poverty is associated with economic success (Lindskog & Brege, 1995).

2.5.7 Behaviouristic basis for segmentation

Kotler and Bloom (1984) favour the behaviouristic basis for segmenting markets using professional services. In behaviouristic segmentation, clients are divided into groups on the basis of their knowledge, attitude, use or response to an actual service or its attributes.

Under behaviouristic segmentation, Kotler and Bloom (1984) discuss the following means of segmentation: purchase occasion, benefits sought, user status, usage rate, loyalty status, buying structure, decision process stage, primary referral agent, attitude and marketing factors.

2.6 HOW BEST TO TARGET THIS MARKET

2.6.1 Understand the consumer and their financial needs

Increasing consumption in this previously excluded or lower income sector has its own challenges. Unless financial service providers have an understanding of the consumer and their financial needs, any strategy employed may not achieve its full objectives.

A prerequisite for any successful and effective marketing strategy is an in depth understanding of the customer (Golden and Zimmerman, 1986, Nicosia, 1966, McCarthy and Perrault, 1993, Mason, Mayer & Wilkinson, 1993). Marketing directors are thus faced with the challenge of managing the complex and dynamic market, and to recognise that the implications of demographic attributers such as age, occupation and income change from time to time. The companies that survive and prosper will be those who manage to capture the energy of these changes and to mould them into opportunities. This can be achieved by taking cognisance of the criteria important to the target consumer and to recognise that the demographic variables across these criteria are consistent.

Although cost, accessibility, fluctuating income and literacy have been identified as the key factors that hinder the consumption of financial services in South Africa, it is also imperative to understand the social, cultural and historical factors that influence the consumer and the decisions they make.

Porteous (2004), states that an important reason for non existence of these markets historically has been the inability to collect sufficient accurate information, at a cost that would make risk underwriting feasible at a retail level. Economist Robert Sculler (2002) confirms this to be one of the main reasons.

Gathering information alone on this market may not necessarily convert into intelligence to market to this sector. In the study of marketing financial services to Hispanic Americans, Stevenson and Plath (2006) support the notion that Hispanic Americans display attitudes, values and consumption preferences that are quite different from their non Hispanic white counterparts. Worthington (2005) discusses the impact of culture in China, whilst Johnson (2001) and Ruthven (2001) discuss the influence of social structures in Kenya and India respectively. Such groups may require their own unique marketing approach.

Prahalad (2004) proposes that the poor should not be viewed as victims by businesses, governments and donor agencies but instead as resilient and creative entrepreneurs as well as value-demanding consumers. By focusing on the 'bottom of the pyramid' consumer's capacity to consume, private-sector businesses can create a new market. The critical requirement is the ability to invent ways that take into account the variability in the cash flows of 'bottom of the pyramid 'consumers that makes it difficult for them to access the traditional market for goods and services oriented toward the top of the pyramid.

It is important to recognize that the poor have unique attitudes and preferences that should not be ignored (Stevenson & Plath, 2006; Johnson, 2001; Ruthven, 2001; Worthington, 2005; Prahalad, 2004; Porteous, 2004). Stevenson and Plath (2006) also highlight the importance of understanding the role of the financial decision maker in the household or community, as in the case of Hispanic women in America.

2.6.2 Alternatives and Choices

The involvement of the private sector at the bottom of the pyramid can provide opportunities for the development of new products and services which will also increase choice (Prahalad, 2004).
Porteous (2004) states that it is necessary to add the further conditions that, as usage increases, there must be alternative products available within a market or

functional substitutes in other markets. When the poor are converted into consumers, they get more than access to products and services. They acquire the dignity of attention and choices from the private sector that were previously reserved for the middle-class and rich.

2.7 CONCLUSION

Increasing competitive pressures, significant changes in the regulatory, structural and technological factors and government intervention are driving a renewed interest in this previously excluded market, especially in South Africa. South African companies are facing increasing challenges of not just a transitional economy but also the challenges of attracting a market that they previously excluded.

Whilst firms adapt to the dynamic environment by constantly examining the technological, social, legal, political and economic changes, they will not be able to serve the needs of their customers and therefore not achieve profit maximization if they ignore the impact of structural, historical and cultural factors that are unique to South Africa.

In creating a marketing strategy to reach this rapidly growing potential customer base, the financial services industry must recognise and adapt to this segment's unique attitude and preferences.

Chapter 3

RESEARCH METHODOLOGY

3.1 INTRODUCTION

Increasing competitive pressures, significant changes in the regulatory, structural and technological factors and government intervention are driving a renewed interest in this previously excluded market, especially in South Africa. South African companies are facing increasing challenges of not just a transitional economy but also the challenges of attracting a market that they previously excluded.

This study was intended to identify and interpret the challenges that South African companies face in marketing to a sector that they previously excluded.

3.2 RESEARCH DESIGN

3.2.1 Qualitative

Qualitative research was proposed to answer questions about the complex nature of phenomena, often with the purpose of describing and understanding the phenomena from the participants' point of view (Leedy & Ormrod, 2001).

A qualitative approach was proposed for several reasons:

a. the purpose of the research was to identify and explore,
b. some variables were unknown,
c. the research may encompass personal and strategic views,
d. the sample's size was relatively small

3.2.2 Descriptive

The research was descriptive and was classified as idiographic. Idiographic research is concerned with exploring particular cases or events and providing the richest picture of what transpires (Cornfold & Smithson, 1996).

The analysis of the content is described by Leedy & Ormrod (2001), as a detailed and systematic examination of the contents of a particular body of material for the purpose of identifying patterns, themes or biases based on the transcripts of the interviews as well as any noticeable non-verbal observations, historical information and experiences. It will provide information that may be difficult to access via formal research channels (O'Sullivan, Rice & Saunders, 1994).

The researcher was aware of and took cognizance of the following:

- Information provided by the respondents was coloured by their own perspective (Creswell,1994),
- Researcher's presence may have biased responses (Creswell,1994),
- Not all people were equally articulate and perceptive (Creswell,1994:150),
- Data may have been misinterpreted by the researcher relative to the intended meaning of the respondent (O'Sullivan, Rice & Saunders, 1994).

The researcher aimed to clarify the responses to achieve meaningful, non biased information.

3.3 METHOD

3.3.1 Focus Groups

Three focus groups were used to gain insight and understanding into this target market.

The focus groups involved analysing the responses of a relatively small number of individuals and a single focus group ranged from 6 to 12 individuals. The objective was not to generalise these results to the entire population, but rather to gain insight and understanding from these groups.

The benefits to participants of focus group research should not be underestimated. The opportunity to be involved in decision making processes, to be valued as experts, and to be given the chance to work collaboratively with researchers can be empowering for many participants (Goss & Leinbach, 1996). If a group works well, trust develops and the group may explore solutions to a particular problem as a unit rather than as individuals (Kitzinger, 1995).

Not everyone will experience these benefits, as focus groups can also be intimidating at times, especially for inarticulate or shy members. The method of focus group discussion may also discourage some people from trusting others with sensitive or personal information. In such cases personal interviews or the use of workbooks alongside focus groups may be a more suitable approach. Finally, focus groups are not fully confidential or anonymous, because the material is shared with the others in the group.

3.4 Population and sample

The population can be defined as all individuals who use financial services or potential users of financial services in South Africa who fall in the LSM 1 - 5 group. Due to the inclusion of income, either directly or indirectly, in the segmentation models, adults over the age of sixteen who are currently receiving some form of income through employment, grants, pensions, donations etc were included.

Three focus groups with a minimum of 6 individuals in each group were established. For convenience, the sample was drawn from the Gauteng region.

3.5 Data collection

Consent was requested from the respondent nominated to participate in the research. Upon acceptance, a draft of all the questions and a brief outline of the exercise as well as the outcomes were discussed with the respondents and the interviews were set up. Responses were confidential and would remain anonymous.

Focus groups were drawn from the lower LSM segment i.e. LSM 1-5 in the Gauteng region i.e. Soweto, Diepsloot and Honeydew. The selection was random and based on convenience.

3.6 Data analysis

The data analysis activity took place with the collection of the data.

All focus group sessions were transcribed verbatim. The interviews were then coded to ensure validity and reliability of the data. This was then followed by a thematic analysis. The thematic analysis explored the common themes that emerged over the interviews, using coding. These codes were grouped together into sub-themes and then themes. The links between the themes were identified and a model developed. This model was compared to the conceptual framework that was identified in the literature review.

3.7 Validity and Reliability

The study satisfied the requirements of both reliability and validity in that the design and data allowed the researcher to draw accurate conclusions about cause and effect and other relationships within the data as discussed by Leedy & Ormrod (2001).

3.7.1 Internal validity

Internal validity is important as it attempts to minimise alternative explanations for the results obtained (Leedy & Ormrod, 2001). The internal validity of the research was checked against accuracy and reality. Further comments and opinions were requested on new findings and observations and some topics have been included for further research.

3.7.2 External validity

To ensure external validity the findings need to be generalisable (Leedy & Ormrod, 2001). This implies that the sample is representative of the population (Leedy & Ormrod, 2001). However, the intent for qualitative research is not to be able to infer the findings onto the population. Rather, it is an attempt to interpret the event from a unique perspective (Creswell, 1994). The validity criteria to be used in this research are that they are cogent and plausible. The external validity of this research is enhanced in that it takes place in 'a real-life setting'. It is expected to be generalised, however, offering a unique perspective on the study.

3.7.3 Reliability

Reliability means that events are reproducible. It should be noted that the sample was not statistically representative of the entire population.

3.8 Conclusion

The researcher used the focus groups to obtain insights from respondents as a qualitative technique.

Chapter 4

Findings

This chapter summarizes the results and findings obtained from the study. Although an attempt was made to follow the study objectives by grouping common themes, it must be noted that in many instances the information received was linked and influenced other themes. The findings of this study are reported in the following way :- profile of the focus groups, financial service usage amongst this group, bank account need and usage, the need for long term products and funeral cover, the factors that influence consumption of financial services and preferences in segmenting and marketing strategies.

4.1 Demographics and profile of the focus groups

The focus groups were selected from the Gauteng area in the regions of Soweto, Diepsloot and Honeydew. Most participants moved into these residential areas in the past 3 – 5 years, migrating from the rural areas of Tzaneen, Pietersburg and Kwa-Zulu Natal in search of employment. Once employment or some form of income was secured, more family members were invited to seek employment in these urban areas. Relative to the income earned in rural areas, many were prepared to leave school to earn more money in the urban areas.

Individuals, who resided in the area for over 40 years, were there as a result of land zoning practices during the apartheid era. These residents supported at least 2 – 4 dependents which included parents, spouses, children and grand children.

There was equal representation of males and females in the group from black communities. The groups ranged from age 19 to 65. Some were not aware of

their correct age and used events, mainly political to estimate their age e.g. *'I was a young girl when my father came to work in the mines. He needed a special pass in those days to leave home. '*

The issue of an Identity book, which was a prerequisite for most financial activities i.e. employment seeking, grant applications, opening bank accounts, was a sensitive issue for many. Many were unhappy with the incorrect date of birth recorded in these and the impact this had on them applying for pensions, employment and grants.

The right to education was also a sensitive issue with the respondents. Although some were disappointed with not being able to read or write, they demonstrated that they were able to read the basics i.e. time on a clock, counting of wages and salary, name and details on a bank card. Others demonstrated that they were able to read and understand complex documents.

All, except the younger participants, were married with at least 2 males having more than one wife. Those who were financially dependent on the respondents included spouses, parents, children and grand children.

The groups had a mix of unemployed, permanently employed, casually employed and those who lived on grants. The permanently employed were those who had recently moved to Gauteng and were prepared to work for a lower income. The casually employed were mainly the permanent residents who were prepared to work for 3 employers who paid a higher daily rate which resulted in a higher accumulated monthly salary when compared to the permanently employed.

It was interesting to note that some of those interviewed were previously employed by large companies like Standard Bank, Department of Education, Department of Health, Johannesburg Municipality and the Ford Motor Company. Due to retrenchments a few who had previously been in the upper LSM 6 – 10 group now found themselves in this lower LSM group.

Unemployment within the group was a result of technological changes i.e. employers upgrading to latest technology or the installation of new machinery to decrease costs and increase quality and production. Unemployment was also due to economic changes which resulted in smaller companies closing their doors. Emigration, which saw many entrepreneurs leave the country after the new government was elected in 1994, also resulted in job losses.

Those interviewed were comfortable with having the discussion in English although some difficulty with a few financial terms was experienced. To clarify these potential misunderstandings, many preferred to consult with their colleagues rather than use the interpreter or the focus group leader. Although participation in the group was good, it was observed that the majority were at ease to let the elders or senior members lead the discussion - a clear sign of social and cultural discipline. Many also preferred the verbal communication medium and requested that they not be asked to read or write their responses.

Those who lived in shacks used communal water and sanitation facilities. With no electricity, they were dependent on gas, batteries, candles and wood for light, cooking and heat. Some had recently received assistance from the government and had upgraded to brick structures.

In the absence of basic services on their premises many used the facilities of their employers to charge their cell phones, use sanitation facilities, and wash their clothes.

Table 4 Summary of focus group profile

SEX	Female	50 %
	Male	50 %
AGE	Youngest	19 years
	Oldest	65 years
	Average	42 years
EDUCATION	No schooling	17 %
	Primary	22 %
	High school	61%
	Post matric	0
DEPENDENTS	0 - 2	11 %
	3 – 4	61 %
	> 4	28 %
EMPLOYMENT	Unemployed	33 %
	Permanent	22 %
	Casual	33 %
	Grants	12 %
HOUSING	Traditional house / shack	84 %
	House	16 %
SERVICES	Electricity / water on plot	87 %
	Electricity / water / flush toilets	11 %

4.2 Financial Service Usage

a. Bank Accounts

Employment was a prerequisite by banks to open an account. *'No job, then no bank account. I was asked to bring a letter from my boss.'*

For those who were employed on a casual basis, bank account transfers were not acceptable. A young man, twenty four years old, left his job in a construction

company because his employer asked him to open a bank account to transfer his earnings.

One respondent indicated that he had two accounts because his employer asked him to open the second account, at the same bank as his employer, so that he would receive his money immediately and not wait for 24 – 48 hours, for the funds to be cleared.

Another respondent indicated that he had two accounts because the second account did not require a R50 minimum balance to keep his account active. *'I was told that if I took the last R50 out of my account then they would close it. Why must I beg for my money? I don't have food to eat.'*

To open an account, no minimum balance is required in a general savings account, unlike the Msanzi accounts. Although the costs of traditional saving accounts were far higher than the Msanzi accounts, many preferred these.

Those who were transferring money to their homes in the rural areas were happy with the money transfer system that reduced the amount of money being transported in person. It also saved them the time and cost of a trip home. Amounts of R200 – R 500 were transferred, mainly to a child dependent's account.

The older respondents remembered the 'book system' that was used by banks which gave a sense of security i.e. no one could steal their money, they were always able to see the balances and that no one could access their books like the card system which requires a pin.

Security and financial literacy risks were also raised in that some felt that their hard earned money could be stolen.

b. Transaction banking

Those in the lower income group preferred not to use automatic teller machines (ATM), debit or credit cards. This was primarily due to fear of operating the ATMs and the risk of losing their money. Some commented on the long queues on pay day as well as the high costs e.g. *'Why should we pay for our money?'* The location of ATMs in the malls also made them easy targets to criminals, highlighting the impact of crime. Those who did use the facilities commented that they were not allowed to withdraw all their money. To access all their funds they were told to close their accounts.

c. Savings

Those in LSM 1- 5 have unique spending patterns where little or none is saved. 'With *no food to eat, there is no money to save.'* The priority is on living for the day. Even for those who indicated the desire to save, the high costs of withdrawing these funds discouraged them from doing so. e.g. *'It costs us R20 in taxi fares to go and get R100 or R200 of our savings.'*

d. Credit

Those in LSM 1 – 5, indicated that they borrowed regularly from family, friends and employers. *'It is easier for us to borrow twenty rands from my neighbour and give it back to him once I am paid. We poor people always pay our debt. There are also no forms for us to fill as people know us and we will never borrow and not pay. We know that the banks will not give us money.'*

e. Insurance

A regular income above a certain amount, not just employment, was a prerequisite for insurers to offer life and funeral cover to those in this group. *'These people need us to have a job and pay them every month. '*

The fear of being without a job and losing all that they had paid in also discouraged them from purchasing these products. *'I used to have a funeral policy and when I didn't pay for one or two months, they took all my money. I paid for 2 or 3 years and when I lost my job and couldn't pay; they told me I lost all my money. '*

Others preferred to work directly with the banks than with the salesmen who visited them at their homes. *'My neighbour's daughter had a funeral policy with the bank and when she died they paid immediately. I think I like that. '*

Certain restrictions and exclusions also discouraged the use of these products. *'I don't know if I will be covered if I have aids (HIV / AIDS), I don't want to know, someone told me that it is no use paying.'*

f. Use of non traditional market instruments

Not all approved the use of non traditional instruments. Some encountered bad experiences with stokvels. No respondents in the groups used stokvels or funeral societies, the main reason being that erratic income could result in some premiums not being paid. *'They don't care, if you skip one month, they take your money and you lose'.*

Borrowing small amounts of money for daily needs like bread or taxi fares is common with neighbours, family and employers. Some people were happy for the employer to deduct this at the end of the month. Although this assists with their daily needs, it also reduces the amount of cash that they need to carry in person when paid. Some have offered to work additional hours or extra days to repay this.

4.3 Factors that influence financial service consumption

a. Accessibility, Appropriateness and Availability

All were familiar with the major banks i.e. Standard Bank, ABSA, FNB and Nedbank. A few were familiar with the long term insurers i.e. Metropolitan, African Life and Old Mutual. The services and products of Momentum and Liberty Life were not known.

The activities of the banks were identified as money transfer, grant collection, salary and wages collection and safe keeping of money. The activities of insurers were identified as funeral cover and life insurance providers.

The benefits of using financial institutions were mixed with the thinking that banks are useful only if you have large amounts of money, banks are needed for money transfer, banks are there to take your money, banks are unsafe and banks will only listen to you if you have money or earn a wage.

There were no perceived benefits of using long term assurors as respondents did not see the need for others to benefit from their death. Having food on the table was a greater priority than paying for life cover. The risk of defaulting on payments meant that the policy would be cancelled e.g. *'I missed one premium because I didn't have a job and they cancelled everything without giving my money back, the money that I had paid for the last three years.'*

There were mixed reactions for the need to have these companies around. The reason for this was that many were not familiar with the full product offerings of these companies.

Only one respondent in the three groups had physically visited an insurance company, this being with her church pastor who was not happy with the advice of the intermediary. Most product purchases were done at home or at their place of employment with an intermediary on a face to face basis.

Once policies were sold, it was difficult to contact the representative who sold the policy. One respondent remarked, *'I only saw the man when he came to visit (at his company in Gauteng). Once when I tried to contact him, I had to call Durban because his office was in Durban. When I called a lady answered. I don't know whose wife that is. I put the phone down. '* This highlights the issue with after sales service, which at times is efficient but clashes with the distribution channels that were initially used to purchase the policy i.e. face to face. It also highlights the inability of service providers to accommodate the social and cultural practices i.e. a black male will not speak to a woman without her husband being present.

More than 50 % of the respondents had at least made one visit to a bank.

When questioned why they had visited the banks or insurance companies, the responses were:-

- *my boss asked me to go with him to open an account*
- *my pastor suspected that my policy did not exist*
- *someone told me to go straight to the company to see if that man worked for them*

The reasons for not visiting were:-

- they (banks) do not want to do business with us if we don't have money
- we know that they don't want to do business with us, because they made me fill in a lot of forms which I did not understand

The reasons for not visiting insurance companies were:-

- not being employed
- the high costs
- the fear of skipping one premium will result in all their money being lost
- the lack of understanding what these companies do
- and more importantly the fear of communicating in a foreign language (English) and not knowing the processes

When asked if they thought that these companies were interested in them the responses were:-

- *they didn't care in those days, why should they care now, they only spoke Afrikaans to us then* (in apartheid days)*, why should they care now*
- *we had to sit on the floor when we saw a white man and look down and only speak when spoken to*
- *I think that they only want our money, we need jobs and money*
- *We are poor people, no one cares*

When asked if these companies had something which they needed, funeral policies were the only choice. *'Older people don't want to burden others with their funeral. They also want some dignity in death. '*

b. Income

33 % of the participants were unemployed and 12 % lived on government grants. Providing for their own as well as their dependents' survival was more important than saving for their death.

For those who were permanently employed, it was found that a significant portion of their income was transferred to their homes in the rural areas.

Previous experience either directly or indirectly with these companies included:-

c. Costs

- A 60 year old widow with three dependents who earned a grant of R500 paid an initial deposit of R360 and thereafter R60 per month (12 % of her monthly income) for her funeral cover. When the pastor approached the burial society / funeral service provider to query the costs, he was offered

a reduced premium of R40. Similar cover at other providers cost R20 per month with no deposit.

d. Regulation

- One individual responded that *'Banks give you so many forms and another form and another form. When you see these forms that you don't understand, you know that they don't want us.'*

e. Financial Literacy

- Although some were disappointed with not being able to read or write, they demonstrated that they were able to read the basics and understood basic financial terms.

- Those who did experience difficulty with a few financial terms consulted with their colleagues or senior participants to clarify any misunderstandings.

f. Customer Perceptions, Trust and Reputation

i. Intermediaries and Advice

- A staff member of Standard Bank insisted that the respondent sign the forms whilst he was in their office, in spite of him requesting to take the documents home to study them. She did not tell him that he couldn't access the money for at least 5 years.
- One individual reported that when a lady who collected premiums on behalf of the company could not be traced, the company refused to assist in spite of the respondent producing receipts.

- An insurance agent who was a member of the respondent's church invested the money for her. The respondent was unable to draw the funds when needed. If the respondent withdrew early then the agent was going to lose her commission.

ii. Terms and Conditions

- When one of the respondent's husband died, his life policy did not pay because the insurance company insisted on non-disclosure. The wife was adamant that the insurance agent completed the forms and asked her husband to sign the forms without disclosing the health conditions.
- An insurance agent, who represented a woman whose husband had died, told her not to claim from the policy which had a 'double accident cover', because she would not receive any money. The church pastor advised her to contact the company directly; she did and was paid out for this benefit.

iii. Beneficiaries

- When asked about the relationship with their agents, they remarked that *"agents don't tell you to complete the beneficiaries. Some of them put in their own names as beneficiaries. The policy document also goes to them, we have no proof, and they keep it. They load themselves as beneficiaries. "*

iv. Representation and Fraud

- When a funeral policy / life cover paid out, the agent took the money to invest it. He was introduced by someone in the community and promised to grow the money. The agent was never seen again.

- When asked who they preferred to deal with, they remarked that *'one can trust no one these days; people even steal from us who have nothing.'*

- When asked if they used burial societies they commented that *'If burial societies know that you have additional cover they will charge you more to take all your money.'*

4.4 How can this market be segmented?

The general consensus is that the respondents in this lower income group feel that they are not part of the target market of financial service providers. Comments received to back this claim include:-

- *we can't find their offices here* (referring to life insurance companies)
- *they want us to speak in their language and on the phone*
- *there are no boards or signs with these companies names* (referring to advertising)
- *we don't hear them on radio or see them on TV*
- *they are smartly dressed with suits*

It was apparent from this exercise that the financial decision maker is not necessarily the person who earns the salary or wage. Women working as domestic workers displayed a strong desire to make these decisions and spend their income, whilst men who transferred money back to their homes, left this to the wife or teenage child.

When the groups were questioned why they would use these companies, the responses were:-

- *if my family member or senior individual in the community recommends them*

- *if I have enough money, I may consider them*

When the groups were questioned why they would not use them, the responses were:-

- *they steal from us the poor, even though we have nothing*
- *why is their print so fine, we don't trust them*
- *its their people who steal from us* (referring to their representatives)

When the groups were asked if they had access to these companies, what they would ask them to change, the responses were:-

- *Sometimes we will have to take a day off from work to get to the bank, especially if we work on Saturdays*
- *There are long queues in the banks and at ATMS in the malls especially at month ends or when we get paid*
- *The companies should ensure that individual representatives who sell their policies are honest. There should be no fine print*
- *Agent should learn to be true and faithful – the company must ensure this.*

4.5 How can this market be targeted?

Life cover is not a priority to the lower income sector. Whilst they have dependents who may benefit from this, having food on the table is more important than paying for a product that would benefit their beneficiaries.

Funeral cover is a must because those in the lower income sector do not wish to burden others with this cost. They also wish to die with dignity and pride.

Some individuals asked for the following benefits from products being designed for them: -

- premium payment holidays, to counter erratic income
- guarantees of money (lock in period) to prevent all premiums being lost
- easy access for purchasing and at claim stage
- minimum requirements from contracted burial societies

Chapter 5

Discussion

In 2004, when Prahalad challenged the 'dominant logic thinking', he attempted to show the value at the bottom of the pyramid and also the tremendous benefits of targeting this market. He also proposed that the poor not be viewed as victims by businesses, governments and donor agencies but instead as resilient and creative entrepreneurs as well as value demanding consumers.

At the same time in South Africa, a voluntary financial sector charter was being developed to actively promote a transformed, vibrant, and globally competitive financial sector that reflected the demographics of South Africa. A charter that contributed to the establishment of an equitable society by effectively providing accessible financial services to black people who predominantly fell in LSM 1 – 5, by directing investment into targeted sectors of the economy. Even though the South African financial sector is generally recognised as world class in terms of its skilled workforce, adequate capital resources, infrastructure and technology, as well as a conducive operating, regulatory and supervisory environment, it has failed to increase participation of the previously excluded and limited access to its services (FSC, 2003).

Providers of financial services in South Africa are not just faced with the challenges unique to South Africa but also the challenges of a transitional economy. Increasing competitive pressures in the financial environment, significant changes in regulation, technology advancements, enhanced product choice, increased product and market information and globalization are some of the factors that contribute to financial service providers targeting the segments that provide a minimum expected value.

This section discusses financial service usage in South Africa; the factors that influence financial service consumption, including new findings, the

appropriateness and effectiveness of segmentation tools and finally looks into the best ways to target this market.

5.1 Financial Service Usage

Financial services in South Africa include all financial products and services provided by insurers (long term, short term and re-insurers), collective investment schemes, investment managers, retirement funds, licensed exchanges, banks, consumer finance companies and any other organisation that deals with the management of money.

Of the four basic market categories (i.e. transaction banking, savings, credit and insurance), transaction banking and insurance were identified to be the most commonly used. The high cost of saving (i.e. transaction costs) led many to store earnings at home. Costs are even higher for over the counter dealings due to the preferred face to face interactions of this lower income group. The high incidence of crime and the risk of losing all one's money, which is usually stored in an informal settlement, have developed an interesting spending pattern amongst this group. Earnings, especially weekly or monthly income, are usually spent within a day. This group prefers to live in debt and settle these debts when paid. This reduces their transaction costs, the cost of borrowing, and also enables them to access money in an easy, convenient and hassle free way.

At least one third of the respondents, who were banked, had two bank accounts. Having a bank account does not necessarily result in financial service usage. Although table 6 below shows an increasing trend in bank account ownership from 2001 to 2006, it must be noted that individuals with multiple accounts distort these figures resulting in an increase in the number of unbanked.

Table 5 Bank Account Ownership

	2001	2006	% CHANGE
BANKED	11 353 000	15 868 000	39.7
UNBANKED	17 600 000	15 264 000	-13.2

Source: Finscope 2006

An interesting observation within the groups was that none of the members participated in a stokvel. Although income and employment were key factors in determining participation, existing stokvel members were extremely thorough in screening and accepting new members. The general feeling was that if community members could apply such stringent assessments, it would be much harder to access funds from a bank that didn't know one.

Credit or borrowing was influenced by social structures, similar to studies in Kenya and India by Johnson (2001) and Ruthven (2001) respectively. However whereas in India, money lenders who provided this service were recognised for their convenience, speed and dignity, in South Africa most borrowing was from family and friends at usually low or nil cost.

As the poor are victims of economic and technological changes, daily survival or satisfying the daily needs takes priority over long term commitments to savings and long term insurance. The need and desire to have funeral policies amongst the employed and unemployed however was strong.

Consumers of financial services will only engage with providers or use their services or products if there are sufficient funds or earnings to do so. This includes both traditional and non traditional instruments. The factors that contribute to the usage of financial services are therefore:-

- employment, which provides a source of income
- government grants i.e. child or pensioner grants
- financial support from family and friends
- spending patterns
- costs
- access to funds rather than accessibility and availability of services

Financial service usage is also strongly influenced by self exclusion due to historical, social and cultural practices, crime, work patterns and spending patterns. These are discussed later in this report.

5.2 The factors that Influence Financial Service Consumption

5.2.1 Accessibility, Appropriateness and Availability

Gibson, Scott and Ferrand (2004) proposed that while markets work in a variety of ways, ultimately they benefit the poor by being accessible and appropriate.

The importance of making financial services accessible to the lower income households is also raised in the Financial Sector Charter which considers accessibility, costs and transparency as key. The banking sector had committed to improving effective access to transaction banking to a level of 80% of poor people by 2008. The weight of the definition of access in practice is given to the geographic criteria – those within twenty km (now changed to fifteen km) of a bank service point (LOA, 2004). Banks, which were on most public transport routes, were easily accessible in urban areas. The migration of individuals to urban areas to seek employment has also resulted in increased access to these services. However in rural areas, additional costs had to be incurred to get to a bank.

Life and funeral service providers, however, were difficult to access as participants were unaware of these providers, their services and products. There was also little evidence to confirm that these providers had promoted their products and services in these areas or to this market.

Some participants, who were aware of the basic life insurance products, saw no benefits of purchasing these or engaging with long term insurance companies. For these participants, this knowledge of life insurance products had come from previous membership in their company's retirement funds. Unless financial service providers demonstrate the need as well as the benefits of their products and services, increasing access may not necessarily increase usage.

Although Crotty (2005) estimates that 60 % of low income groups and 80 % of the lowest income group did not have access to banking service, it was found that all in the focus groups had access to banks; however, self exclusion, crime, employment and economic factors influenced their usage.

Appropriate

The participants in the focus groups confirmed the need for funeral cover but were sceptical about the need for life insurance. The reluctance to purchase life cover was due to individuals seeing no need for others to benefit from their death and the fact that the cost of life insurance was high relative to funeral cover. Some participants were prepared to pay as much as 12 % (R60 of a R500 grant) of their monthly income to pay premiums, indicating the need and desire to have funeral cover. Even those unemployed wished that they could afford funeral cover.

Availability

The LSM 1-5 market has a preference for face to face interaction when purchasing financial products. The absence of financial service providers in these residential areas does impact on consumption. The poor also prefer to

deal directly with the company rather than with a representative who visits them at home.

5.2.2 Employment / Income

According to Finscope (2006), 15 % of the total respondents in South Africa did not earn an income, 35 % earned between R1 – 499, 38 % earned under R1000 and 74 % of the total respondents earned below R2000.

Although the study conducted by Finscope (2006) showed the average household income of this group to be R2100, the average income in the focus groups was far below the R2100. Migration to the urban areas is responsible for the over supply of labour and hence the lower income demands. It was interesting to note that some respondents preferred to be casually employed because this paid a higher daily rate which resulted in a higher accumulated monthly salary. The downside of such an arrangement is that no contracts of employment are put in place and that employees forfeit benefits like leave, sick leave, unemployment insurance and bonuses.

It is not just the current employment status or income that influences consumption, but many who were employed were also wary of the risks of becoming unemployed in the future. The perceived fear of being without a job and losing all that they had paid in also discouraged them from purchasing these products. These statements from the groups confirm this fear, i.e. *'I used to have a funeral policy and when I didn't pay for one or two months, they took all my money'* and '*I paid for 2 or 3 years and when I lost my job and couldn't pay; they told me I lost all my money. '*

Furthermore, a regular income above a certain amount, not just employment, was a prerequisite for insurers to offer life and funeral cover to those in this group. As expressed by one member of the group, *'these people need us to have a job and pay them every month. '*

Economic conditions, changes in the political environment and technological changes were cited as reasons for job losses and unemployment. For those who were permanently employed, it was found that a significant portion of their income was transferred to their homes in the rural areas.

With many being turned away from banks due to not being employed and others having their bank account closed due to no regular income, accessing other products like long term insurance products was perceived to be impossible. A basic bank account is needed to access products and services of financial service providers.

The poor are adversely affected by economic and technological changes. 33 % of the participants in the focus groups were unemployed and 12 % lived on government grants. Providing for their own as well as their dependents' survival was more important than saving for their death. This presents a compelling case for financial service providers to explore joint initiatives with government departments responsible for social grants and unemployment benefits.

5.2.3 Affordability / Costs

Costs impact on whether consumers will access financial services or not. In South Africa this has resulted in the use of non market instruments that typically offer cheaper alternatives. The cost of borrowing from employers, family and friends was a much cheaper and convenient form of borrowing.

In some cases however, the issue of access to their money was more important than the cost i.e. individuals had opened a second bank account to access all their funds rather than keep a minimum balance in the account that offered lower costs. 33 % of all banked participants had two bank accounts.

For individuals who transferred money to their families back home the relatively high cost of the transfer was not an issue. When compared to the costs of transporting these funds, the time taken to travel, the loss of income to physically transport these funds and the inconvenience, the costs were insignificant.

It was interesting to note the importance placed on the need for funeral policies by the poor. Although the cost of funeral cover differed widely by service provider, many accepted the first offering that was presented to them or that they had access to. With increasing costs on some products, many asked immediate family to assist with the payments of the premiums on some of these products in an effort to keep their cover in force.

This also highlights the fact that consumers were not aware of the way these policies are structured i.e. funeral policies were not underwritten and did not have a savings component to them, therefore the policies could be switched or stopped at any time.

One respondent was prepared to pay the higher costs based on the service that her neighbour received from a bank when her mother had died. Although this indicates that individuals are prepared to pay for quality, efficacy and service, it was apparent from this exercise that there are unscrupulous providers who ignore affordability and quality factors which Prahalad (2004) referred to. It is these, mainly region specific providers that discourage the use of financial services.

5.2.4 Literacy

In a study conducted in 2006, Finscope (2006) reports that 6 % of the respondents in South Africa had no formal education, 17 % had been educated to primary school level and only 13 % of the total respondents had post matric qualifications. Sharma (2003) commented that increased levels of financial

literacy are also necessary for understanding, accessing and using bank services and that for more complex products like insurance products; this would be even more difficult to understand.

Although some were disappointed with not being able to read or write, they demonstrated that they were able to read the basics and understand basic financial terms. Many also preferred the verbal communication medium and requested that they not be asked to read or write their responses.

Whilst Stevenson (2005) remarked that the lack of financial education with respect to account ownership, budgeting, saving, and credit management for some low-income households is a significant barrier to personal financial stability, it was interesting to note that those in this group have distinctive ways of overcoming this. Many use family, friends, employers and senior members in the communities to assist. Children, in the age group 12 – 18 were often asked to interpret documentation, handle funds and in some cases, make financial decisions in the absence of the bread winner i.e. electronic money transfer is often done to a child's account - a child who can read and write and use the ATMs (Automated Teller machines).

The purchasing of life and funeral cover however is primarily in the hands of the bread winner or husband. Although the benefits of financial education are not likely to be fully captured by any one financial institution because an educated consumer will shop for financial services among competing providers according to Stevenson (2005), lower income households depend more on credence factors of trust and integrity and purchase from the first individual who offers a face to face interaction. Participants usually respond to the first provider who has a genuine interest in them, someone who provides a face to face service and someone who provides a simple solution.

The poor are also dependent on other sources for guidance and decision making. It is crucial for providers wishing to target this market to identify these individuals or institutions. Many of the participants in the focus groups

depended on employers, church elders, social groups and older children to assist with this.

Although literacy influences consumption of services, those interviewed had an above average understanding of financial terms. Participation in the groups was good, and many sought the assistance of elder or senior members - a clear sign of social and cultural discipline.

5.2.5 Self Exclusion

In the purchase of financial services, consumers rely more heavily on experience and 'credence' qualities (Devlin, 2000:228; Devlin & Ennew, 1997; Bharadwaj, Varadarajan & Fahy (2003).

It was apparent that individuals had created self exclusion barriers either thorough direct or indirect experiences. Sharma (2003) noted that people create these psychological barriers based on negative views, mistrust and feelings of intimidation.

What was evident in this exercise is that these negative views were often associated with personal experiences, which dated back almost 20 – 30 years. The barriers of mistrust were often associated with how people felt cheated, their only savings taken from them and the lack of respect by financial service providers; this being the result of the actions of service providers or their representatives.

Some felt that the increased number of forms to open accounts and purchase funeral cover was a deliberate attempt by financial service providers to exclude them. Financial Service providers need to demonstrate with actual delivery of services and products that this is not the case e.g. as one woman remarked *' when my neighbour died, the bank paid all her fees and did her funeral. She did not have a single problem, I like that."*

Corcoran (1999) identified that the customer perception or the changing of these perceptions is critical. A respectable brand name in itself is not enough to attract life customers. What is required further is for customer perceptions to be altered" (Corcoran, 1999). The mindset of consumers must be altered so that they can notice the benefits (Corcoran, 1999).

5.2.6 Unique Attitude, Values and Preferences

'Older people don't want to burden others with their funeral. They also want some dignity in death. '

It is critical for providers of financial services to have not just a broad understanding but a deeper understanding of the attitudes, value orientations, buyer behaviour and financial preferences of this market to achieve their objectives when targeting this market.

In marketing financial services to the Hispanic American, Stevenson and Plath (2006) found that the financial services industry must recognise and adapt to the segment's unique attitudes and preferences when creating its marketing strategy. Johnson (2001) found that the financial services market in Kenya was influenced more by social structures rather than costs, whilst Ruthven (2001) found that money lenders in India were recognised for their convenience, speed and dignity. Worthington (2005) illustrated the complexities of culture in entering the Chinese markets.

The South African context is also unique in that the country has to a large extent been influenced by a society of separation based on the practices of apartheid. The impact on consumption could still be noticed in how respondents self exclude from certain services and products. Whilst the underlying needs of the poor households are similar to those of higher income groups (Financial

Diaries, 2005), these factors have contributed greatly to differences in product preferences, service requirements and marketing approaches.

Prahalad (2004) proposes that the poor should not be viewed as victims by businesses, governments and donor agencies but instead as resilient and creative entrepreneurs as well as value-demanding consumers. Interactions with the groups demonstrated this entrepreneurial spirit and thinking e.g. women preferred to work casually for more than one employer to receive a higher monthly income; some rented accommodation closer to their employer.

It is important to recognize that the poor have unique attitudes and preferences that should not be ignored (Stevenson & Plath, 2006; Johnson, 2001; Ruthven, 2001; Worthington, 2005; Prahalad, 2004; Porteous, 2004) and understanding the consumer, their attitudes, values and preferences and the factors that may have shaped these is key if financial service providers wish to increase consumption in this sector.

Financial service providers must also be receptive to the behaviour and cultural practices when interacting with this sector. Widely accepted western practices may clash with such customs and traditions e.g. in some cultures money is accepted with both hands clasped together which conflicts with receiving money from an ATM. The use of call centres has highlighted that individuals do not wish to speak to a machine, they wish to speak their own language and they will not speak to persons whom they are not familiar with. As one respondent indicated, he did not wish to speak to the woman from the service provider because he did not know whose wife it was and her husband was not present. – *'I phoned, but I didn't know whose wife I was speaking to, so I put the phone down. '*

5.2.7 Poor are victims of crime

It is a sad reality that those who win the trust of the poor sometimes abuse this privilege for self gain. The lack of accountability by organisations that employ such representatives is also evident. The poor often accept this and believe that any efforts to correct it will be futile.

Exploiting the issue of financial literacy, some representatives frequently signed application forms, added their names as beneficiaries and churned business by investing pay outs for commission. As a result of this, companies repudiated claims on the basis of non disclosure and restricted access to funds. Although this is being addressed in South Africa, Porteous (2004) stated that as a result of its fragility, the financial sector tends to be the most heavily prudential and functionally regulated sector in most economies.

Whilst these regulations are in place to protect the consumer, they may prevent consumers from accessing their services i.e. the requirement of being employed, providing proof of employment from employers, providing proof of residence.

As commented by an elderly mother, working as a domestic worker, 'banks *give you so many forms and another form and another form. When you see these forms that you don't understand, you will know that they don't want us.'*

5.2.8 Spending Patterns

One aspect where little or no research has been gathered is the spending patterns of the poor i.e. spend cycle, daily needs and credit facilities.

Those in this lower LSM have a high dependency on family and friends for their daily financial needs i.e. taxi fare, money for bread and milk. It is easier for

people to access these small amounts from close sources and pay them back when the money is available or when they get paid.

Whilst similar to the Chinese tradition of spending according to your income (Worthington, 2005), those interviewed indicated that they did not borrow more than what they earned. Whilst borrowing in China is seen as a sign of a person being incapable of making ends meet, in South Africa it is used to overcome the hurdles of crime and reduce costs.

Borrowing in this manner also:-

- reduces the risk of carrying large amounts of money on them
- reduces the amount of funds for safe keeping in their informal settlement
- reduces transaction costs in that no interest is charged by family and friends or employers
- gives easy access to the funds – close proximity
- reduces time spent on standing in long queues to withdraw funds
- results in no costs or charges

As in Kenya where Johnson (2001) found that financial services consumption was influenced by social structures and not just cost, similar patterns were observed in South Africa.

5.2.9 Work Patterns

Although accessibility and appropriateness are key elements in making markets work for the poor, Prahalad (2004) adds that availability and work patterns and how the poor live must also be considered. The migration of people to urban areas to seek employment means that people can access financial services in the urban areas. There is however still an issue in the rural areas where money is being spent i.e. money earned in the urban areas is sent home to the rural areas and spent there.

An interesting observation was how the work patterns and changing demands of those in upper LSMs created the need for domestic help and care givers. The need for women as domestic workers and care givers in Gauteng has increased, raising the demand and hence the income earned.

5. 3 SEGMENTING THIS MARKET

Kotler and Bloom (1984) suggest that markets using professional services may segment by geographic, organisational demographics, psychographics and behaviouristic variables. In profiling and segmenting consumers in this market it is key for providers of financial services to be conscious of the factors and practices that may have shaped people's beliefs and values.

5.3.1 Segmentation tools

Although the study did not concentrate on the effectiveness of the tools, observations are included in this study to demonstrate the need for a mix of tools rather than a single approach.

The most commonly used is the LSM model which groups people on the basis of what they have at a household level. It also measures income on the basis of wages and salaries but ignores the dependence of some employees on their employers to provide their daily meals, as well as access to clean water and toilet, the provision to wash and iron their clothes and the use of electricity, especially in the case of charging their cell phones. Many of the women were given food to take home where they worked. This led to increased disposable income i.e. income which would normally have been spent on basic items is now used on clothing and in some cases money transferred back home.

The FSM which is also used in South Africa is calculated at an individual level and takes into account the potential future take up in the financial sector.

Although it gives a holistic understanding of a person's current engagement with financial services, as well as his/her motivation and capacity to engage in the future, it ignores the fact that the poor may rely on non traditional market tools as well as the fact that individuals may rely heavily on others to engage with the system i.e. indirectly through son or daughter, through employer, through wife or husband, through trusted and respected community members.

Although Porteous (2004) prefers usage to be a good measure and states that a market which works for the poor is one in which usage of the product by the poor is increasing over time, it is also critical to identify the reasons for non usage.

Taking into consideration the sensory, rational and emotional benefits expected from the product or service which Lewis (1981) discusses, the perceived benefits of the funeral cover are dying with dignity and pride and not burdening the individuals who are left behind with the costs of the funeral.

The benefits of savings or life cover were a low priority in the lives of those in this category as taking care of immediate or daily needs left little or none to save or contribute to life cover.

When considering segmenting on the basis of service using cluster based segmentation and psychographic characteristics, similar responses and reactions were recorded. However service delivery could only be tested at the claim stage and not during the life of the product. It seems that once a product is sold to an individual in this group, service will only be required at claim stage. Individuals are prepared to pay for years without regularly checking whether the policy is still in force or not. This demonstrates the trust in the organisation or the individual who sold the policies.

The difference in the perception of time is important to take into account in the development of marketing strategies and to be included in any analysis of market segmentation, the development of products and services and the choice of market channels (Kotler and Armstrong, 1997). To assume that the lower

income group is time-rich because they have different work patterns, needs and leisure activities is often mistaken. The measure of time as a segmenting tool is not as efficient if the work patterns of those in these groups are not considered. Even though time-poverty is associated with economic success. (Lindskog H & Brege S, 1995), there is evidence from the work patterns of the groups interviewed that they are not time rich. Being late at a labour pick up point could mean no pay for the day.

Most employed and unemployed leave home at 4:30 – 5:30 in the morning. The average travel time of the groups interviewed was 1 to 2 hours travel to get to their place of employment or place of seeking employment and another 1 to 2 hours to return home. When considering that those in this group prefer the face to face method of purchasing, this leaves little time except for Saturdays or days off from work to go to the bank, go to home affairs, take children to school etc.

Although there are many behavioural factors that may be used to segment (Kotler and Bloom, 1984), the knowledge, attitude, use or response to and actual service or its attributes may have been influenced by historical practices which further defined the social and cultural practices.

Whilst looking into purchase occasion, benefits sought, user status, usage royalty, loyalty status, buying structure, decision process stage, primary referral agent, attitude and marketing factors it is key to understand the reasons for non usage and the factors that contribute to self exclusion.

5.3.2 Changing Customer Profile

It is expected that those who fall in his category will progress through the ranks from LSM 1 to 5. It is clear that those interviewed were aware of the fact that they where being targeted when they climbed into the next categories, especially categories 6 and 7.

Another aspect which was mentioned is that banks and insurance companies do insure you when you have little money with the expectations that this will not change. i.e. underwriting is done at inception which does not track the financial and personal changes over the life of the relationship. This questions the integrity of the information which provides the intelligence for market strategies.

Of importance in this exercise is the number of people who were previously employed and fell in LSM 6 – 7 and who now fall into this LSM 1 –5 category. Some were employed by the government in the health and education sectors, whilst others were employed by large corporate banks, motor manufacturers and the agricultural sector. With the need to increase financial service consumption to drive growth and alleviate poverty it is sad that large industries have failed to assist with the process of increasing consumption through education and the social well being of those whom they employed.

5.3.3 Financial Decision Makers

Stevenson and Plath (2006) also highlight the importance of understanding the role of the financial decision maker in the household or community, as in the case of Hispanic women in America. Targeting such individuals in South Africa may assist with the process of increasing consumption.

The poor have unique ways of overcoming the hurdles of access, literacy and time constraints. Understanding their spending patterns will give an indication of how children, employers, wives, family and friends are used to access money, confirm financial transactions, interpret conversations and also assist with transactions at ATMs, money transfer, payment of funeral policy premiums and reconciling wages and income earned.

5.4 TARGETING THIS MARKET

5.4.1 Understanding the consumer

Gathering information alone on this market may not necessarily convert into intelligence to market to this sector. In the study of marketing financial services to Hispanic Americans, Stevenson and Plath (2006) supported the notion that Hispanic Americans display attitudes, values, and consumption preferences that are quite different from their non Hispanic white counterparts. Worthington (2005) discusses the impact of culture in China, whilst Johnson (2001) and Ruthven (2001) discuss the influence of social structures in Kenya and India respectively. Such groups may require their own unique marketing approach.

Porteous (2004), states that an important reason for non existence of these markets historically has been the inability to collect sufficient accurate information, at a cost that would make risk underwriting feasible at a retail level. Economist Robert Sculler (2002) confirms this to be one of the main reasons. It is critical for providers of financial services to collect sufficient accurate information and understand the consumer, the attitudes, preferences, value orientations, social styles and the influence of external factors.

5.4.2 Product Development

In developing products for this market, financial service providers should:-

Engage with and Involve Audiences

The involvement of the private sector at the bottom of the pyramid can provide opportunities for the development of new products and services which will also increase choice and create a new market. The critical requirement is the ability to invent ways that take into account the variability in the cash flows of 'bottom

of the pyramid'consumers that makes it difficult for them to access the traditional market for goods and services oriented toward the top of the pyramid (Prahalad, 2004).

In creating a market for this audience, financial service providers will need to engage and get involved with this audience. Understanding the cultural and social practices may direct service providers to the key individuals and groups they need to engage with. The absence of products for this group is surely due to the lack of information and the perceived risks that this group carries. By engaging with the group, risks could be minimised and relevant products developed (Prahalad, 2004).

Devise products that are relevant and appropriate

Financial service providers should develop products that address the financial literacy issues, the erratic income as well as the guarantees of not losing any contributions.

As there is a close correlation between financial sector deepening and the overall rate of economic growth, financial service providers must demonstrate that their products and offerings will contribute to poverty reduction that will benefit those in this group. This means that usage of financial services is not a follower of growth, but may be a driver of growth. The implication is that, as part of a growth strategy alone, there is reason to promote the development of financial markets.

Define Benefits that mean something

Life cover is not important to the lower income sector. Whilst they have dependents who may benefit from this, having food on the table is more important than paying for something intangible that benefits the beneficiaries.

Funeral cover is a must because those in the lower income sector do not wish to burden others with the costs. They also wish to die with dignity and pride.

Freedom Of Choice, without being pushed

The involvement of the private sector at the bottom of the pyramid can provide opportunities for the development of new products and services which will also increase choice (Prahalad, 2004).

When the poor are converted into consumers, they get more than access to products and services. They acquire the dignity of attention and choices from the private sector that were previously reserved for the middle-class and rich.

5.4.3 Identify and target the decision maker

Stevenson and Plath (2006) state that other useful marketing tactics include understanding Hispanic cultural heritage, valuing the role of Hispanic women in financial decision making, clearly identifying the benefits of product and service features and utilising direct mail and telemarketing.

In the current environment, both wives and children are increasingly taking on the responsibility of spending income received and are forced to make decisions. Children as young as 12 are also used, due to their understanding of the monetary terms and the working of ATMs. With more complex decisions which include funeral benefits, the wives are happy to make this decision on behalf of their husbands.

Chapter 6

Conclusion and Recommendations

6.1 Conclusion

Although this research provides cross country research and experience in improving consumption of financial services amongst the lower income groups, it identifies the unique challenges of the South African environment. It also highlights that the diverse approaches different countries follow are not necessarily the best approach for South Africa.

Financial service providers in South Africa will need to focus on ways to encourage the use of their products and services and remove the barriers that impact on consumption. By removing these barriers and deepening financial sector development, providers will be contributing to the overall rate of economic growth. By promoting the development of financial services, providers will be contributing to poverty reduction and upliftment of the poor, since there is sufficient evidence to support that financial development has a disproportionately positive effect on the poor. There is consensus that better access can play a potential key role in inclusive growth and development. Providing financial services to the less served can lift people out of poverty.

RESEARCH QUESTION ONE

What are the factors that influence financial service consumption amongst the lower income sector?

Accessibility, appropriateness and availability have been identified as key factors that contribute to financial service consumption. Usage, however, is not only determined by accessibility, appropriateness and availability but on a number of factors, of which a steady income is key. In South Africa this income

is normally realised through formal or casual employment and government grants. 33 % of the participants in the focus groups were unemployed and 12 % lived on government grants.

In some cases, not just a regular income, but a regular income above a certain limit, was a prerequisite for financial service providers to provide their services and products. Another factor that poses a barrier to service providers wishing to engage with this lower income sector is the potential threat of future earnings being affected by economic, political and technological changes which adversely affect the poor. With little secure income or collateral, poor people are seldom able to obtain financial services from banks and other formal financial institutions.

Although the impact of cost was considered, it was interesting to note that when the poor assessed the perceived benefits to outweigh the costs, it was not an issue. They were prepared to purchase funeral policies to remove this burden from family and friends. The ease and convenience of money transfers often outweighed the costs, as individuals realised the benefits of convenience, speed and safety. It was observed that the poor were prepared to pay for quality, efficacy and service rather than look at price and cost. For those who were banked, access to the funds was more important than saving, even if this came at a higher cost.

Whilst the lack of financial education for some low-income households is a significant barrier to personal financial stability, it was interesting to note that those in this group have distinctive ways of overcoming this. Even though literacy influences consumption of services, those interviewed had an above average understanding of financial terms. Family, friends and employers are often relied upon to assist. Children, in the age group 12 – 18 were often asked to interpret documentation, handle funds and in some cases, make financial decisions in the absence of the bread winner.

What was also apparent in the exercise is that individuals create self exclusion barriers either thorough direct or indirect experiences. This was based on

negative views, mistrust and feelings of intimidation. Negative views were often associated with personal experience from an apartheid environment. The barriers of mistrust were often associated with how people felt cheated, their only savings taken from them and the lack of respect by financial service providers. Self exclusion barriers were also created due to the high crime rate in the country as well as the unlawful behaviour of the representatives. Mitchell & Wiesner (1992 in Laing, 1994) argue that selection decisions in acquiring financial advice and purchasing financial services are heavily weighted by factors such as trust, professionalism and reputation.

The groups displayed unique attitudes, values and preferences. Interactions with the groups demonstrated the entrepreneurial spirit and thinking of this group e.g. women preferred to work casually for more than one employer to receive a higher monthly income and some rented accommodation closer to their employer to save on transport costs.

Financial service providers must also be receptive to the behaviour and cultural practices when interacting with this sector. One aspect where little or no research has been gathered is the spending patterns of the poor i.e. spend cycle, daily needs and credit facilities. Although accessibility and appropriateness are key elements in making markets work for the poor, Prahalad (2004) adds that availability and work patterns and how the poor live must also be considered. The migration of people to urban areas to seek employment means that people can access financial services in the urban areas. There is however still an issue in the rural areas where money is being spent i.e. money earned in the urban areas is sent home to the rural areas and spent there.

Those in this lower LSM have a high dependency on family and friends for their daily financial needs i.e. taxi fare, money for bread and milk. It is easier for people to access these small amounts from close sources and pay them back when the money is available or when they get paid.

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RESEARCH QUESTION TWO

How can this market be segmented?

By design, markets develop approaches and strategies that use commercial and traditional tools to segment and market to this lower income group. However research from around the world found that these approaches may not be successful in some countries.

The cultural and value differences between Hispanic Americans and non-Hispanic white Americans make it unlikely that a single marketing message would be equally effective in serving the needs of the two groups.

There are various tools that may be used to segment and market. What differentiates the South African economy though is the growing middle class and the migration of people into the upper LSM's (either through work, empowerment deals or family support).

Although there are many behavioural factors that may be used to segment, it is key to understand how the actual service or its attributes may have been influenced by historical practices which further defined the social and cultural practices.

Whilst looking into purchase occasion, benefits sought, user status, usage royalty, loyalty status, buying structure, decision process stage, primary referral agent, attitude and marketing factors it is also important to understand the reasons for non usage and to explore the factors that contribute to self exclusion.

It is vital for financial service providers to understand the changing customer profile in this group. It is expected that those who fall in his category will progress through the ranks from LSM 1 to 5 and some into LSM 6 and 7. Of importance in this exercise is the number of people who were previously employed and fell in LSM 6 – 7 and who now fall into this LSM 1 –5 category.

In developing products for this market, financial service providers must explore the reliance on non traditional market tools as well as the fact that individuals may rely heavily on others to engage with the system.

Financial service providers must also identify and understand the role of the financial decision maker in the household or community. Targeting such individuals, which in most cases does not refer to the individual who earned the income, may assist with the process of increasing consumption.

The poor have unique ways of overcoming the hurdles of access, literacy and time constraints. Understanding their spending patterns will give an indication of how employers, family and friends are used to process financial transactions.

Traditional models and tools may not necessarily be the correct tools to segment this market. Financial service providers may want to consider a combination of the tools.

RESEARCH QUESTION THREE

How can financial service companies target this market?

Gathering information alone on this market may not necessarily convert into intelligence to market to this sector. Attitudes, values, and consumption preferences that are quite different from conventional thinking may exist. Such groups may require their own unique marketing approach.

In creating a market for this audience, financial service providers will need to engage and get involved with this audience to minimise risks and develop relevant and appropriate products. The inclusion of this market can provide opportunities for the development of new products and services which will also increase choice and create a new market.

The product benefits should address the needs of individuals in this group and also give the individual freedom of choice with alternatives without being pushed or forced to purchase a product.

Providers of financial services who wish to enter this market should identify and target the decision maker. In this exercise it was clear that the decision maker is not necessarily the person who earned the income.

Limiting access to a company's services will always be practised as customers who do not provide a minimum expected value will be excluded from a company's strategy. There is no doubt that the historical practices have shaped the way in which financial services, both formal and informal are being consumed in South Africa. Even those who have gained access owing to recent developments in financial services for the low income people are often underserved.

This study was intended to identify and interpret the challenges that South African financial service providers faced in marketing to a sector which they previously excluded. The identification and exploration of the challenges that financial service providers face, may also assist service providers in formulating a strategy that may enhance its probability of success.

6.2 Recommendations for future research

Perform statistical analysis on the profile of the consumer with statistics provided by Amps, Finmark trust and Statistics SA to understand the changing profile of the consumer.

Understand the spending patterns of the poor and show the impact on financial service consumption.

Understand the work patterns of the poor and show their impact on financial service consumption.

Understand how the work patterns and changing lifestyles of those in the upper LSM influence consumption amongst the lower income sector.

Are financial service companies speaking to the right decision makers? Do they know who they are?

APPENDICES

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b. Discussion Guide – Focus Groups

1. INTRODUCTION

Welcome and thank you for joining us for this discussion.

My name is Theo Arthur and I will be the facilitator for this study regarding the challenges that financial service companies have in targeting the market that they previously excluded. During this discussion, we will be sharing our ideas and opinions about different issues, and I will also ask for your advice and suggestions and what you think about these issues.

We are here to talk freely and openly; there are no right or wrong answers. Different people have different opinions and experiences, so if you disagree with something I say or with something anybody else in the group says, please feel free to say what you think. This will make the discussion more valuable for everyone. Everybody's opinion is important, which is why we invited you all here. We are also conducting discussions with other groups in the Gauteng area.

Everything that is said in this discussion will be treated as confidential by the researchers involved in this project. That means that nobody will be identified in person. When we report on the findings, we will make sure that everybody remains anonymous and that no response could be linked to a specific person.

I will be recording our discussion with these tape recorders. This is only for research purposes. Nobody but the researchers will listen to the tapes, and nobody will be able to identify you by name on the tape. The only reason I need to record the discussion is so that I can be reminded in detail of what was said in each discussion group afterwards.

The discussion will take about 2 hours.

Are there any questions before we begin?

Before we begin, let's get to know each other a little better. Let's go round the table and introduce ourselves, where we live, what we do and so on.

c. Interview Guide

DATE			
AREA			
DEMOGRAPHICS	**AGE**	min max average	
	POPULATION GROUP	Black White Asian Coloured	
	LANGUAGE	Eng Zulu Afrikaans other	
	GENDER	Male Female	
	EDUCATION	No Primary Secondary Tertiary Secondary other	
	MARITAL STATUS	Married Single Divorced	
	DEPENDENCY	Bread winner Dep on family Dep on other	
	SUPPORT	self immediate family ext family friends child – own child – other other	
	EMPLOYMENT STATUS	Employed Unemployed	

		Part time Other	
	INCOME SOURCE	Wages Daily pay Grant Family Friends	
	INCOME	Daily Weekly monthly	
LSM CATEGORY	**1** **2** **3** **4** **5**		
USAGE	**TRANSACTION** **SAVINGS** **CREDIT** **INSURANCE**	Cash Card – debit Atm Post office Unit trusts Other Loans Credit cards Hire purchase Life policies Burial Societies Stokvels	
BANK ACCOUNT	**Opened**	Yes No	
		Use own Use other Other Method	

3. FACTORS THAT INFLUENCE FINANCIAL SERVICE CONSUMPTION

1. How many of you have heard of banks, long term insurers, short term insurers and private banks (e. g. Standard Bank, Barclays, ABSA, Nedbank, First National, Capitec etc) and Liberty life , Old Mutual , Metropolitan Life and African Life ? *(testing understanding of service providers)*

2. What do you think these companies do? (*try and record colloquial terms used for these and why)*

3. Why do you think it is necessary to have these companies around? *(testing understanding of service providers)*

4. How many of you have visited a bank or insurance company? *(testing access, appropriateness, relevance and availability)*

5. Why did you visit them? Reasons for not visiting. (*(testing access, appropriateness, relevance and availability, income, literacy, costs as well as perceptions)*

6. Do you think that these companies are interested in you? Why would you say so?

7. Do these companies have something which you need? Why do you need this?

8. What was your experience with these companies ?

4. SEGMENTATION

9. Do you see any advertising or bill boards in your area? *(testing target market)*

10. Why would you use these companies?

11. Why would you not use them?

12. What can these companies do to help you?

13. If you had access to these companies what would you ask them to change?

5. HOW TO TARGET

14. Value proposition - what is the perceived value of engaging / how can value be added.

15. Income (*indication of numbers*)
    - I don't have a regular income
    - I don't have a job
    - I earn too little to make it worthwhile
    - I use someone else's bank account

    (testing economy, preference through employer, other)

16. Regulation (*impact on consumption)*
    - FICA requirements / no stand address / residential and postal issues
    - Does it protect and why do you think it is in place?
    - How does it protect?
    - Is it necessary and why?

17. Access and Usage
    - I don't have an ID
    - I don't qualify to open an account
    - You have to keep a minimum balance
    - I don't know how to open an account
    - Don't want to pay service fees
    - The bank is too far from where I live
    - Its expensive to have a bank account

18. Choices / Alternatives (*testing if similar to upper LSM's)*
    - Preferences and why

e. Consistency Matrix

Table 7. Consistency Matrix

Research Problem – To identify the factors that influence financial services consumption amongst the lower income sector and to investigate the appropriateness of the segmentation and marketing strategies.			
Sub Problem	**Source of theory**	**Source of Data**	**Analysis**
Research Question One What are the factors that influence financial service consumption?	Johnson (2001), Ruthven (2001), Worthington (2005), Stevenson & Plath (2006), Porteous (2004), Gibson, Scott and Ferrand (2004), Prahalad (2004), Crotty (2005), Finscope (2004), Stevenson (2005), Sharma (2003), Corcoran (1999), Mitchell & Wiesner (1992), Laing (1994), Devlin & Ennew (1997), Bhaadwaj et al (1993), Devlin (2000)	Direct interaction and interviews in focus groups, through structured format and questionnaires	Content Analysis
Research Question Two How can this market be segmented?	Kotler (1980), Finscope (2004), Dickson (1982), Porteous (2004), Lewis (1981), Balakrishna (1978), Kotler & Armstrong (1997), Lindskog & Brege (1995), Kotler & Bloom (1984)	Direct interaction and interviews in focus groups, through structured format and questionnaires	Content Analysis

Research Question Three How can financial services target this market?	Stevenson & Plath (2006), Porteous (2004), Sculler (2002), Nguyen et al (2005)	Direct interaction and interviews in focus groups, through structured format and questionnaires	Content Analysis