

FINANCIAL BEHAVIOUR OF ESTONIAN HOUSEHOLDS

AS Emor (Emor Ltd) researchers have been carrying out annual studies of the financial behaviour of Estonian households¹ since 1998. The aim is to map changes in the households' financial behaviour opportunities and wishes, actual use of money and payment habits. The following is a brief survey of the two parts of the study – **links of the population to banks and the use of banking services and payment habits and preferences of the people.**

The present survey was conducted from 6 to 16 September 2000. The sample was drawn from the households residing permanently in the Republic of Estonia together with all their family members (an estimated 554,582 households, a total of 1,439,197 people as of 1 January 2000)². The respondents were 999 Estonian households, with at least 18-year-old or older representatives of the household interviewed³. Part of the results is given in the figures as a comparison of two or three studies (the two previous studies were carried out in October 1998 and 1999).

One of the commissioners of the study was Eesti Pank, the property rights and copyright of the results belongs to *AS Emor*. The present survey is published with the consent of Emor⁴.

About the Methodology of the Survey

The **territorial model** of the sample is based on the demographic statistics database of the State Statistical Office as of 1 January 2000. A two-stage choice was applied. First, the whole population was divided territorially into six layers. Then, a two-stage choice was carried out in each layer. The primary selection units (a total of **63 sample points**) were settlements (towns, townships, villages). The sample points (specified down to the source address level) were picked by a random selection method proportionately to the number of population in a particular settlement. The selection was based on the population register of *AS Andmevara* (Andmevara Ltd).

Then secondary selection units – households and individuals – were picked from the primary ones, **eight in each selection point**. The individuals to be polled were chosen **by the source address method** and **under the so-called young men rule⁵**. For an additional checking of the sample its socio-demographic structure was compared against the respective statistical indicators of the whole population. The maximum error margin deriving from the random choice procedure does not exceed $\pm 3.1\%$ at the credibility level of 95%.

LINKS OF THE PUBLIC TO BANKS AND USE OF BANK SERVICES

Links to Banks

82% of Estonian residents aged 18 and older regard themselves bank customers (911,000 people) and in recent years this number has not changed much. The profile of the bank customers is broadly similar to

that of the average population profile of Estonia. The share of Estonians, younger age groups (18–49-year-olds), employed, multiple earner families with children and representatives of higher social strata is slightly higher than average among bank customers. The majority of bank customers consider themselves to be linked to

¹ Household (also *family*) here denotes a group of people who share a common living space and common financial resources.

² According to the State Statistical Office.

³ As of 1 January 2000 there was 1,114,728 individuals in Estonia aged 18 or older.

⁴ The survey was compiled by Ants Kaasik from the Public Relations Department of Eesti Pank.

⁵ The source address method is a set of rules for choosing houses, apartments and households. In a household the youngest male family member aged 18 or older, who was at home at the time of interviewing was chosen as a respondent. If there were no males living at that address or if they were not at home, the youngest female family member aged 18 or older was chosen.

only one bank. As compared to 1999, the share of customers using several banks and the cross-use of banks has decreased. The majority of cross-use customers also consider one of the banks to be their main bank.

In 1998–1999 nearly half of the cross-use customers still mainly used the services of just one bank and had a passive account in the other bank(s), while this year the number of customers using more than one bank has decreased mainly on account of this customer group. In 1998 and 1999 passive accounts were owned by nearly half of the customers using more than one bank, in 2000 their share had decreased considerably.

The main reasons for using the services of more than one bank simultaneously are the same as in previous years. The most common reason is **the force of circumstances** – thus, for example, the employer may prefer to pay wages/salaries through a definite bank or the customer may be linked to that bank through a loan contract, for instance. The next most common reason was **risk management**. **The combining of services for getting the most**

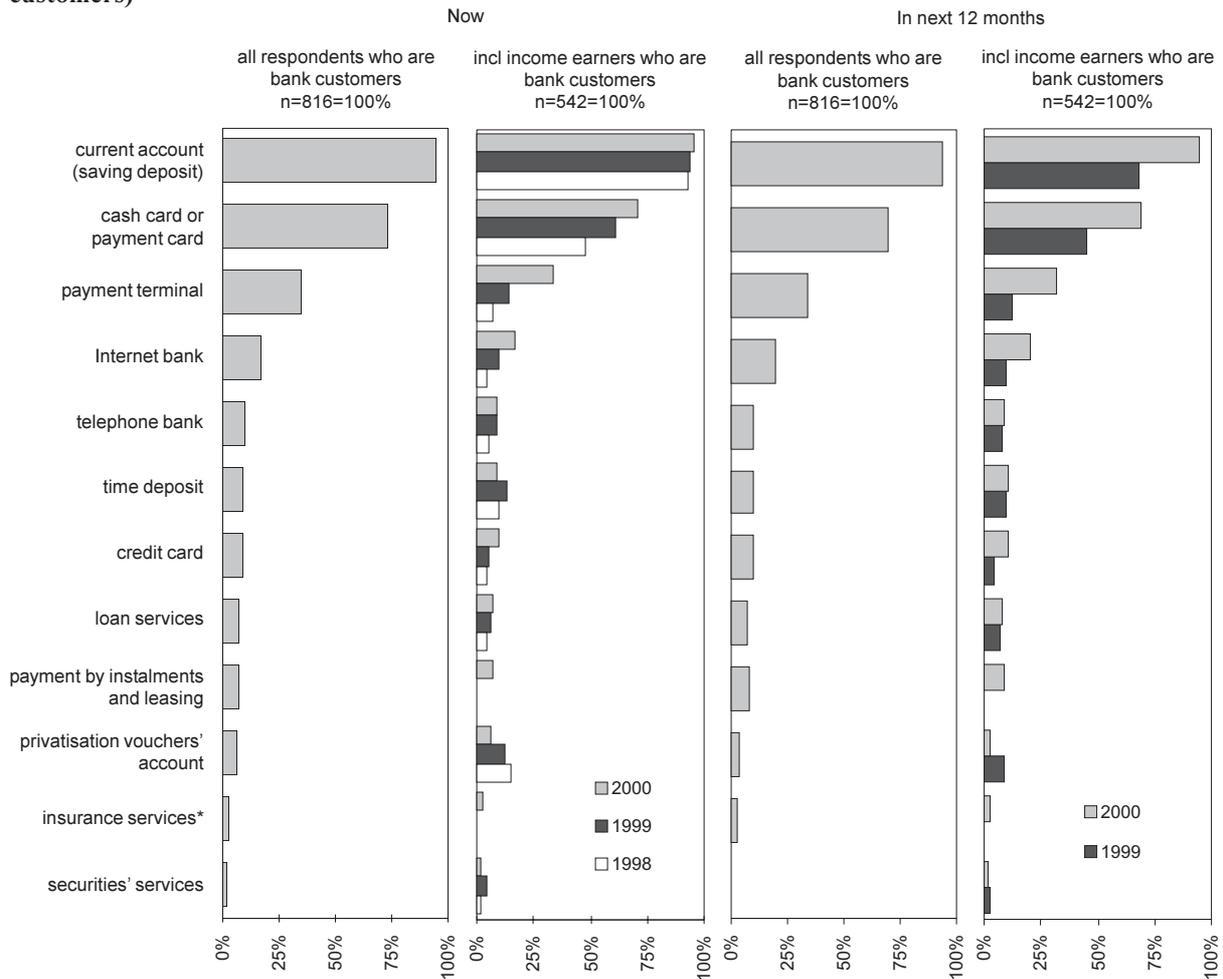
favourable terms was the most important consideration for just one tenth of multiple-bank-users.

Given the above considerations, customers of more than one bank are **people, who are relatively more active in actually using the services of different banks**. As a result, the share of customers planning to continue as clients of several banks has also increased considerably as compared to earlier years.

Use of Bank Services

It is quite natural that the two bank services with the biggest number of customers are **current account**, owned by 78% of the population above the age of 18 and 95% of the bank customers, and **bank card** (debit or credit card), owned by 60% of the population and 73% of the bank customers. By the number of users next come **payment terminals, Internet bank** and **telephone bank**. Other bank services are used by less than 10% of the customers (see Figure 1).

Figure 1. Use of bank services in the main bank and intention to do it in the next 12 months (% of bank customers)



* not asked in 1998 and 1999.

The use of most bank services has increased over the past year, with only the share of time deposit and privatisation voucher account holders decreasing. As compared to autumn 1999 the increase has been most remarkable in the use of **payment terminals** (+143%), followed by **credit cards** (+100%) and **Internet banking** (+70%). The number of customers using **telephone banking** and **loan services** has remained on the level of 1999.

In case of cross-use, a **current account** in another bank is used most actively as a prerequisite for access to other bank services.

Customers

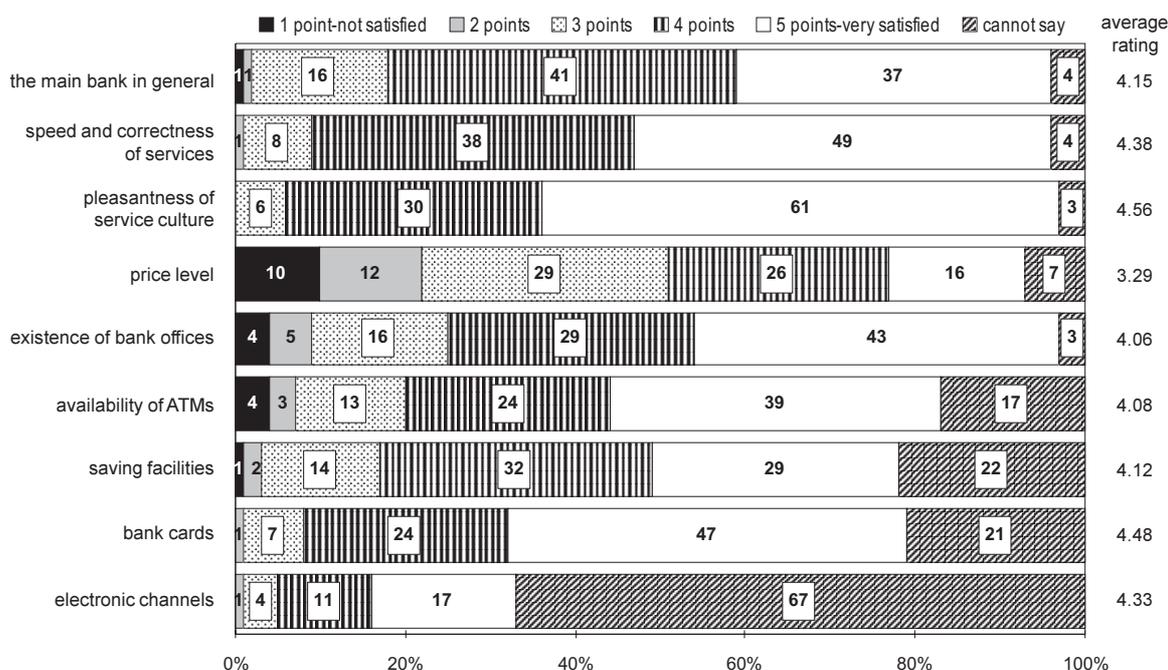
The users of bank services are characterised by the following tendencies:

- the profile of the users of **the current account** and **the debit card** as the most common types of bank services is similar to that of an average bank customer since the majority of bank customers are holders of both. However, the holders of debit cards tend to be younger (under 50), employed and residents of Tallinn;

- credit card** holders tend to be even younger (18–39-year-olds), male, non-Estonians, with higher education, either businessmen, top executives or top experts, mostly residents of Tallinn, but also of Tartu or Pärnu, with earnings substantially above the average and belonging to upper social strata;
- time deposits** are preferred by Estonians, pre-pension-aged (65 and older), but also by people with higher education who are either businessmen, top executives or top experts, residents of Tallinn, people with earnings above the average and belonging to upper social strata;
- the users of **payment terminals**, **Internet banking** and **telephone banking** tend to be Estonians, young (18–39-year-olds), with higher education (nearly half of Internet bank users), top executives and top experts, residents of Tallinn and members of upper social strata.

Thus, an **active bank customer**⁶ is more likely to be Estonian by nationality, young, with higher education, employed as a top executive or top expert, resident of Tallinn (or Tartu or Pärnu), with earnings above average and a member of upper social strata. In the next 12 months the number of users of **Internet banking** is expected to increase the most.

Figure 2. Satisfaction with bank services (% of bank customers, n=817=100%)



⁶ Here: a customer who uses other bank services besides the current account and a debit card.

Satisfaction with Bank Services and Major Problems

Satisfaction with Bank Services

The respondents were asked to rate various banking-related aspects on a scale of 5. The results are given for all bank customers (see Figure 2) and for the main income earners, in comparison with 1999 (see Figure 3).

The majority of bank customers are rather satisfied or very satisfied with different bank services (rated with 4 or 5 points). As compared to 1999, the average rating is 0.1 points higher. The highest ratings were given to pleasantness of customer service culture (average of 4.6 points); customers were also satisfied with bank cards. Customers were dissatisfied mainly with the price level, its justification and correspondence to quality

(average of 3.3 points, with 22% of the respondents' ratings at 1 or 2 points). Compared to 1999, satisfaction has increased the most (+0.24 points) with the availability of Automated Teller Machines (ATM). Satisfaction has reduced only for the price level and saving facilities. The average ratings of different banking services can be seen from Figure 4.

Main Problems Arising from the Use of Bank Services

Three fourths of the customers hold a debit or a credit card, over one third use payment terminals, one sixth Internet banking and one tenth telephone banking – thus nearly two thirds of bank customers make their payments outside the bank offices and more than one third still prefer tellers.

Figure 3. Satisfaction with bank services (% of family's main income earners who are bank customers)

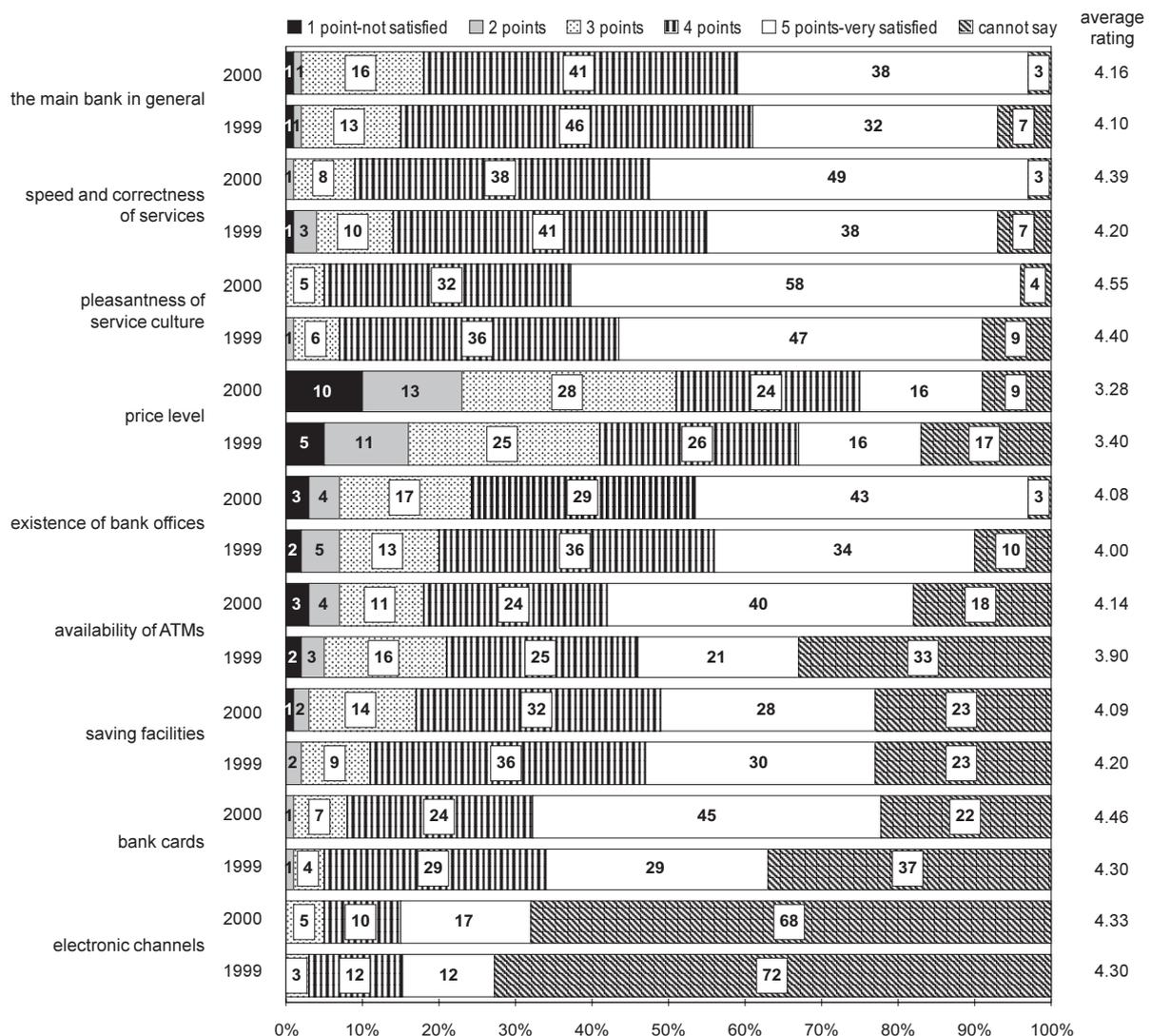
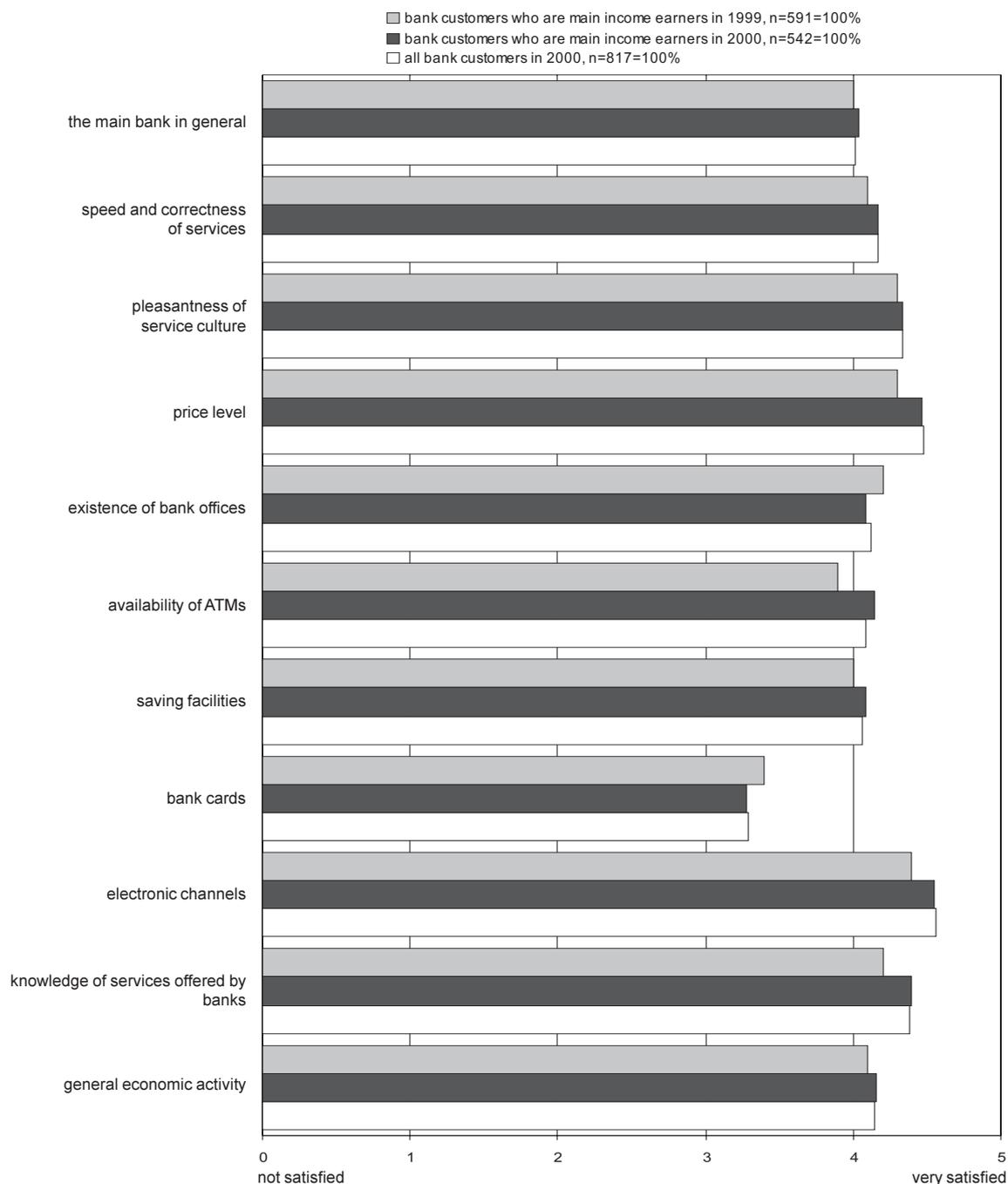


Figure 4. Average rating to various bank services (ratings on a scale of 5)



A quarter of bank customers do not own or use a BANK CARD. The majority of them **do not feel a need for it.** These are either passive customers (owning a bank card allows a whole range of other bank operations), their income is low and the account is small, wages are paid in cash, or the use of a bank card is not possible at their place of residence. A small proportion of people without a bank card does not have it because of their **conservative attitude** or for **economical considerations.**

Only one fifth of bank cardholders have experienced problems with their cards. Most commonly, the card

has been “swallowed” by an ATM, the machine has been malfunctioning or broken. There have also been problems with identifying the holder and in one case out of ten the absent-minded customer has forgotten his/her PIN code of left the card in an ATM.

Nearly two thirds of bank customers do not use PAYMENT TERMINALS for making payments. More than 33% said they had **no need for this** as they use other channels, more suitable and convenient for them. Another reason given was **conservatism** – people are ignorant or afraid to use payment terminals, consider

it uncomfortable or unaccustomed, or have **no physical access to payment terminals** – there is none available in a convenient place (of residence), or the customer does not own a bank card.

Over four fifths of bank customers never use INTERNET BANKING. The majority of non-users **do not own a computer or have Internet access** and nearly a quarter said that they had **no need for it.**

The number of TELEPHONE BANK users is the smallest as compared to other bank services.

Use of Bank Cards and ATMs

As stated above, **three fourths of bank customers hold a bank card.** As compared to earlier years, **the use of bank cards in paying for daily purchases** has become more widespread – in 1999 half of cardholders did not use it for making payments, while this year the share of

passive cardholders has decreased below one third. **The share of people using bank cards for payment, on the contrary, has increased to nearly two thirds of the total number of cardholders.**

Bank cards are mainly used to pay for **purchases worth more than 100 kroons.** Over the past year the share of people wishing to use the bank card at every opportunity has increased, as well as the share of those who have set a certain lower limit for themselves, starting from 50 or more kroons.

The use of the ATMs has also become more active similarly to the use of cards for everyday shopping. Like in 1999, only a fraction of cardholders never use ATMs for cash withdrawals. The share of people withdrawing money from ATMs **several times a week** has increased, while the share of people withdrawing cash just a couple of times a month has decreased. The sums of cash withdrawn at one time have not changed much since 1999 – **over half of withdrawals are in the range of 100–500 kroons.**

PAYMENT HABITS AND PREFERENCES

Paying for Purchases

Paying in cash is still the dominating type of payment when purchasing **food products and daily goods**, as well as **major durables.** However, every year the share of card payments and the number of people preferring this method of payment has increased (see Figures 5 and 6). This tendency is continuing: now less than 10% of the families pay for their daily purchases with the card,

while actually twice as many would prefer to pay by card. A similar tendency can be seen in paying for larger purchases.

Cash payments are more often preferred by non-Estonians, older people (50 plus), pensioners and workers, people with lower educational level, residents of Ida-Virumaa county, those in the low-income bracket and members of lower social strata. **Card payments** are

Figure 5. Way and preference of payment for food and manufactured goods of the person mainly making purchases in a family (% of all households)

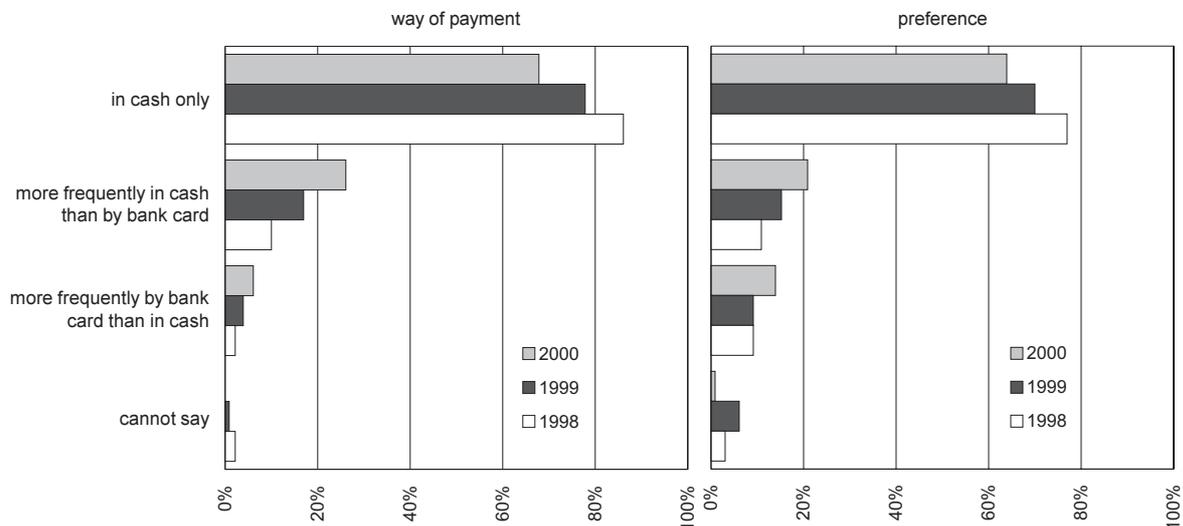
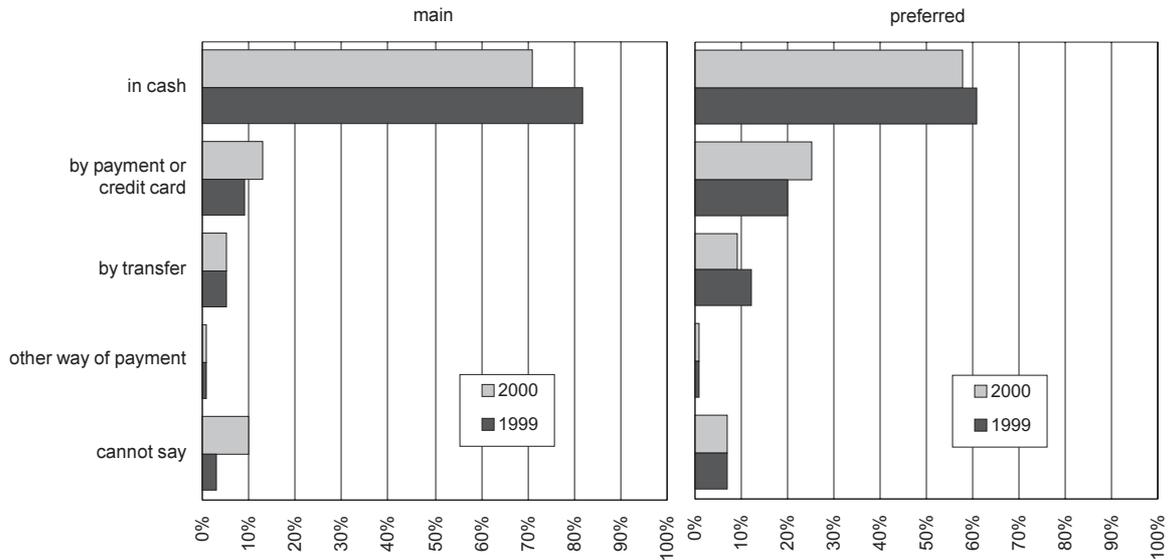


Figure 6. The main and preferred way of payment for bigger purchases (% of all households)



overwhelmingly preferred by Estonians, younger people (18–39-year-olds), people with higher education and social status, working as top executives or top experts, residents of Tallinn, people with above-average income and coming from upper social strata.

For those who use both cards and cash for payment of everyday purchases, but cash more often, one important reason is also lack of card terminals in many sales points.

All methods of payment are explained by **habit** and **convenience**. For the users of payment cards another important argument in favour is **security** (see Figures 7a and 7b). Most often, payment for everyday purchases with the card is not prevented by lack of opportunity or technical problems, but rather, people find **cash payments to be more pleasant**.

Regular Payments

The bulk of most common regular payments (communal services, electricity, telephone, cable TV, loan repayments, lease and insurance payments) are still made without using banks. **Various payments through banks account for less than two fifths of all regular payments.** As compared to 1999, the role of banks in

Figure 7a. Reasons for the way of payment for daily purchases (% of households where the respective way of payment is mainly used)

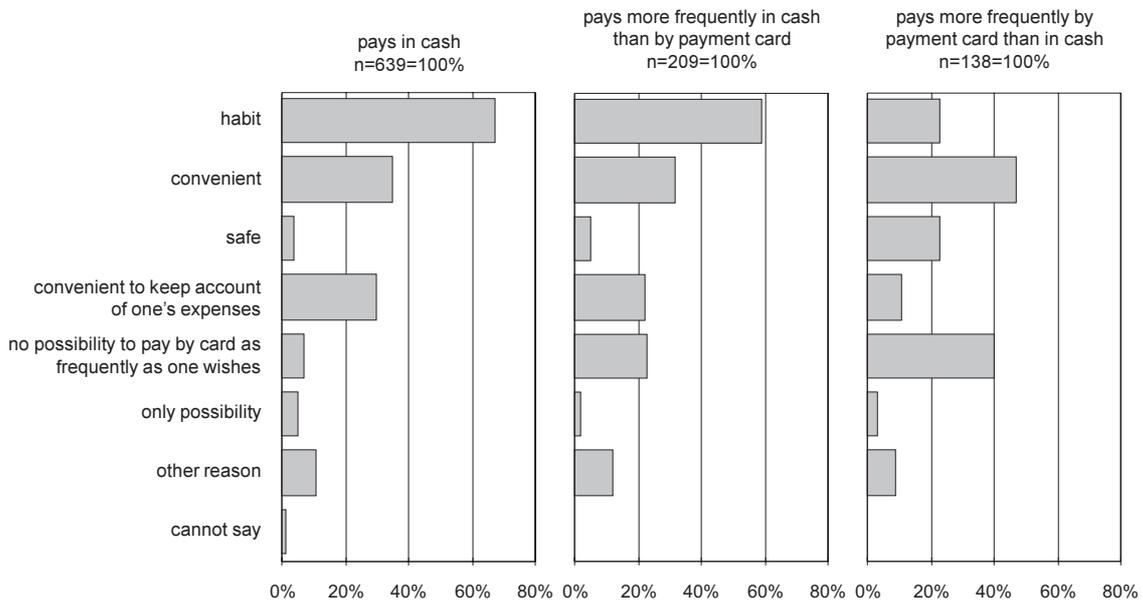
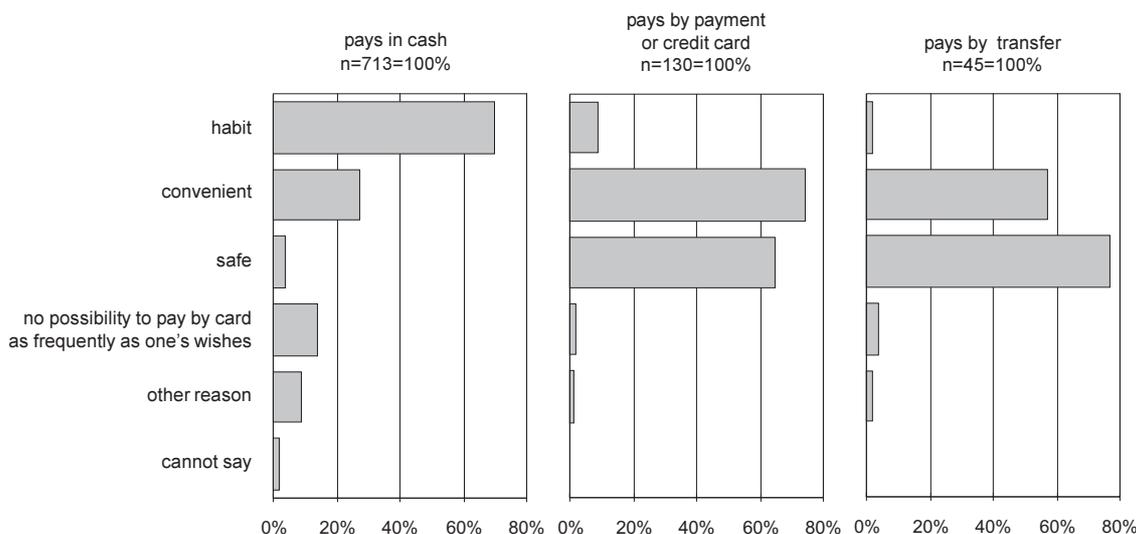


Figure 7b. Reason for the way of payment for larger purchases



mediating regular payments has slightly increased, thanks to the reduction of payments at both postal offices and cash payments directly to the service provider.

Like in previous years, there are two most popular ways of making regular payments. **Cash payments directly to the service provider** are used by nearly four fifths of Estonian families in case of at least one payment and in this way slightly over a third of all payments are made. Another common way is **making payments at post offices**. The number of people resorting to this method of payment has increased due to the closure of bank offices in rural areas.

The number of people using other methods of payment is relatively small, if taken separately. **The number of households preferring the cheaper methods of payment – direct debit payments, payment terminals and Internet banking** (the first two are free of charge and only *Hansapank* charges for Internet payments) – **has increased the most**. The use of **direct debit orders** has even increased more than 2.5 times in a year. The number of **standing order payment** users, which increased considerably in 1999, has not changed much this year. **The share and number of users of the two most common methods of payment (directly to the service provider and through the post office) are the largest for all regular payments**. The only exceptions here are **loan, lease and instalment payments**, which are mostly done by standing orders or direct debit orders.

Payments directly to the service provider are most common for paying **gas and satellite or cable TV bills** (used by almost two thirds of the purchasers of those services). **Electricity bills and newspaper subscriptions** are most commonly paid through post offices, while standing and

direct payment orders are besides loan and lease also often used for paying **telephone bills and insurance**.

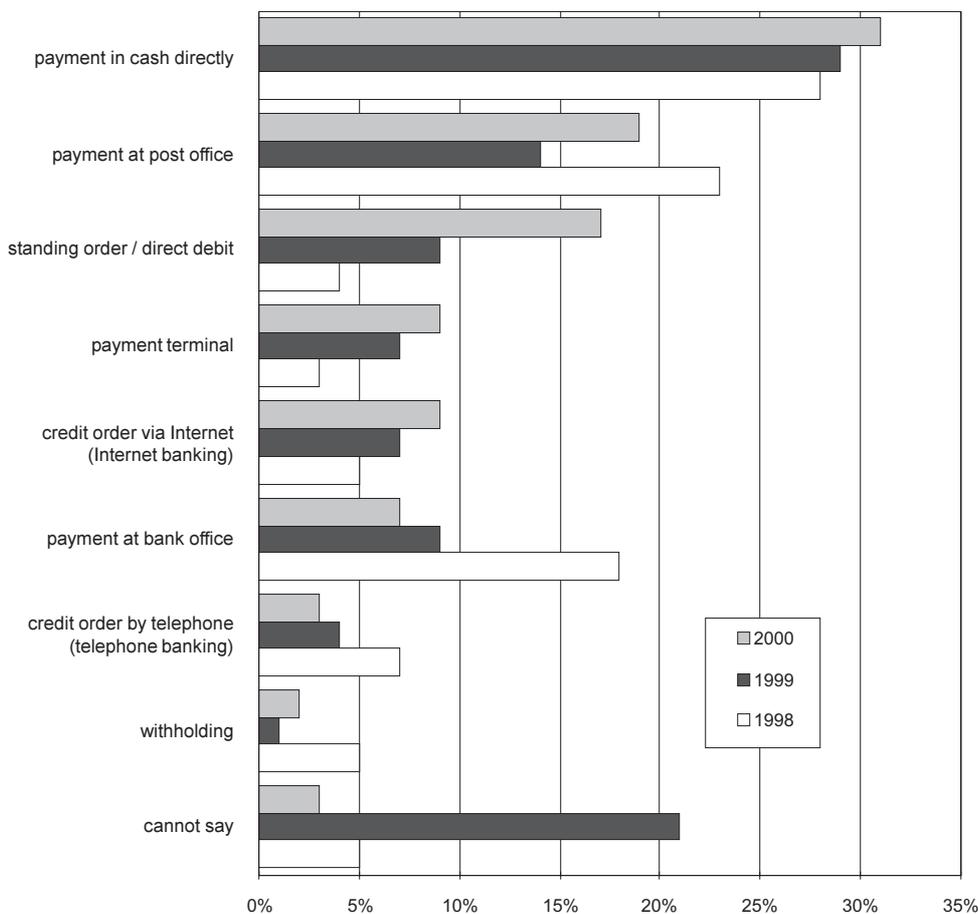
But is there any difference between payment preferences and actual payment practice? Like in reality, a great number of households would also prefer to pay regular bills **in cash directly to the service provider** or **pay at the post office** (see Figure 8), but their number is 2–3 times smaller than the actual number of current users. The share of people preferring **standing and direct payment orders** has nearly doubled over the past year.

On the whole, we can say that **over half of all households prefer extra-bank ways of payment** and that **less than half of all households wishes to pay their bills through banks**. The main reason for preferring one or another way of payment is **convenience**. **The force of habit** also plays an important role in selecting one of the three most common ways of payment (payment order at the bank, payment at the post office and directly to the service provider). **Lower price** is an important consideration for choosing payment terminal, Internet bank and, in particular, payment directly to the service provider. **Security** is important for telephone and Internet banking.

Receiving Income

94% of Estonian residents aged 18 and older receive some kind of income. Nearly three fifths of those people get **wages/salaries**, one third get a **pension** and one third receive **other state benefits**.

Two thirds of employees and workers, nearly a quarter of pensioners and over two thirds of state benefit receivers has the money paid to their bank

Figure 8. The most preferable way of making regular payments (% of all households)

accounts. Thus, slightly over three fourths of pensioners receive their income in cash.

Comparing the profile of people receiving their income in different ways we can notice a number of regularities. Thus, **cash** is more often paid to non-Estonians, blue-collar workers, rural residents and people in a lower income bracket. The profile of people whose earnings are paid **only to the bank account** is closest to the national average, with only the share of 30–49-year-olds being slightly higher.

Similarly to paying for purchases and bills, the preferred way of receiving income depends heavily on the current

way of receiving it: **the majority of people getting wages, salaries and state benefits prefers it to be paid to their bank account, the majority of pensioners prefer cash.** The big gap between reality and wishes can be noticed among people, who receive wages and salaries or state benefits in cash – a big part of them would prefer to receive it in some other way.

The main reason for getting paid for work in a certain way is that **it is not paid in any other way**, while for pensioners the main consideration is **convenience**. People receiving wages and salaries, pensions or state benefits to their bank account also pointed out **security** considerations. The share of all other reasons was small.