

FINANCIAL BEHAVIOUR OF ESTONIAN HOUSEHOLDS

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The article is based on the outcome of the survey of Estonian households' financial behaviour, which Emor has conducted since 1998¹. The survey covers the real ways the households receive their income and pay their taxes and purchases as well as their preferences. The following brief overview focuses primarily on more significant changes in households' financial behaviour during the last year (2002 vs 2001).

In 2002, Emor conducted the survey from 28 August to 10 September. 1037 households were surveyed, interviewing 18-year-old and older members. The survey methodology was similar to previous years. Eesti Pank was one of the contractors of the survey; Emor holds the copyright and property rights to the outcome. The publication of the overview is authorised by Emor; when quoting, kindly refer to the original.

■ Residents' Linkage to Banks ■

In order to get a comprehensive picture of Estonian residents' financial behaviour, primarily of the use of cash and bankcards in paying for goods and services, it is important to know how many people use banking services. **According to the 2002 survey, 88% of the interviewees claimed being bank customers.** The figure has been growing over the years: in 2001 there were two and in 2000 six percentage points less of bank customers². Considering that in 2002 nine per cent of the interviewees were 70 years old or older, the indicator is very high.

■ Payment Habits and Preferences ■

Receiving Income

More than 60% of Estonian residents who are 18 years old or older receive wages, a third receives pension, another third various state benefits and a sixth receive other income (rent, income from the sale of gardening products, etc). Majority of wages and state benefits are disbursed to the beneficiaries' bank account, most of the pensions and other income is

¹ See brief overviews of previous surveys in Eesti Bank Bulletin No 8, 2000, pp 8–16 and No 11, 2001, pp 38–42.

² For the sake of simplicity, statistic deviations are considered neither here nor later.

received in cash. It is significant that **in 2002 for the first time in the last years the receiving of income in cash dropped considerably and collection on bank accounts increased.** This trend was similar in **all types of income**, but most – by 16 percentage points – the share of cash decreased in paying out pensions.

In receiving income, Estonian residents prefer **the way they have been using up to now.** For example, most of wage earners and beneficiaries of state benefits prefer bank accounts; most of the pensioners prefer the pension to be paid in cash. As in 2002, by different types of income the number of people using bank account increased the most, also the number of people preferring this option went up. Among the group receiving other income, those preferring receiving of income on bank account was the largest (about a seventh). While in case of all types of income, the way of receiving depends primarily on **how the income is paid**, in case of pension, state benefits and other income the residents consider also **convenience** and **security.** The residents who collect pension or other state benefits in cash also state that **it would be too complicated to change the way of receiving.**

Payment for Purchases

More than half of Estonian households pay for their daily shopping and larger purchases **only in cash**, although their share against 1999 has decreased by 40 and 32%, respectively. Meanwhile, the number of people who prefer to pay for daily purchases in cash has dropped by about a third, and of those who prefer cash as a way of payment for larger purchases – by a quarter (see Figure 1).

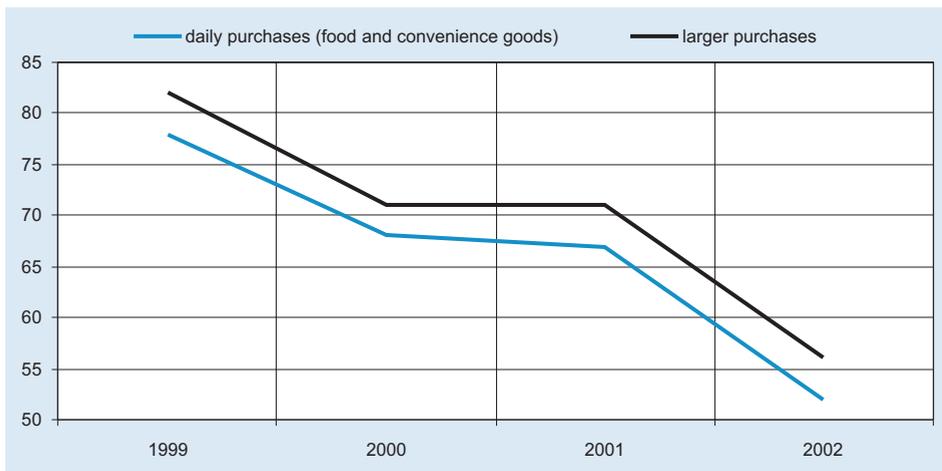


Figure 1. Households whose main purchaser paid for the purchases only in cash (share of all households, %)

Parallel to a growth in the share of receiving income on bank account, also the share of families using bankcards and preferring to do so has grown. Against 2001, the

group of bankcard users has primarily increased at the expense of residents below forty and residents of small towns. In choosing the way of payment, **habits, convenience** and (in case of the bankcard) also **security** are considered. It is remarkable that while about a third uses primarily bankcard to pay for daily purchases and about a third to pay for larger purchases, in reality there are by about 8–9 percentage points more people who prefer this way of payment. There is a card payment growth potential among all population groups, except non-Estonians.

Payment of Taxes

In 2002, in payment of taxes a major breakthrough took place in favour of interbank channels – about three fifth of all mapped regular payments and more than two fifths of non-regular payments went through banks. An especially remarkable increase – by 15 percentage points – took place in regular payments through banks. Three quarters of Estonian households make at least one regular payment through bank. Beginning from 2000, the share of households using interbank payment channels has increased by 17%. The share of regular payments through bank channels has grown during the same period by 49%.

The largest user group remained to be and the largest share belonged to **direct cash payments to service providers**. Two thirds of households use this mode to make at least one payment (see Figure 2). This is the way used for 29% of all regular payments. **In 2002, for the first time this method of payment for all taxes revealed a downward trend.**

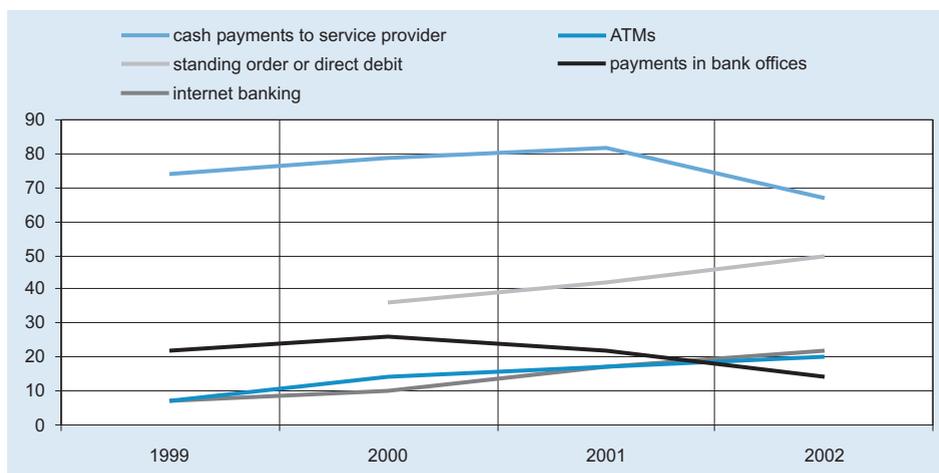


Figure 2. Ways of payment for regular payments by households (share of all households, %)

By interbank channels, the use of **standing order** and **direct debit** has been growing steadily. In 2002, the shares increased by a half and a quarter, respectively, and ranked the second by ways of payment. At the same time, previously popular **payment via post office** dropped about twice.

Payments through banks kept growing at the expense of **electronic payment channels** (free of charge standing order and direct debit, ATMs, fee-based Internet banking). Compared to 2001, the number of people using **Internet banking** increased by 29% in 2002, **standing order, direct debit** and **ATMs** by 10 percentage points less. The share and number of users of **telephone banking** and **payments in bank offices** kept shrinking. In the case of regular payments, the payments made in bank offices reached the lowest both by households and total number of payments in the last four years.

Most of the direct cash payments are made for gas, relatively many for satellite and cable TV, insurance and subscription of periodicals. However, the share of the latter group decreased considerably in 2002. In 1999–2002, direct cash payment to the service provider for fixed telephone services dropped the most (by 8–9 times). This is an excellent example showing how important is the service provider's targeted policy in choosing the ways of payment.

Also, **preferences in the ways of payment in making regular payments** follow the general trend – primarily the share of **banks' electronic channels of payment** (standing order and direct debit, Internet banking, ATMs) is increasing. Thereby, 27% of families would prefer to make regular payments by a standing order or direct debit. The preference of Internet banking has reached 18%. Payments in cash and credit orders submitted in the post office or bank office reveal a downward trend. **Three fifth of families prefer to use interbank payment channels in making regular payments** whereas over the last two years their share has increased by 15 percentage points.

Handling actual and preferred ways of payment together, we can conclude that usually the familiar way of payment is preferred whereas standing order and direct debit have the largest growth potential.

The choice is mostly subject to **convenience**; it ranks first in case of all(!) channels of payment. In case of traditional, the so-called old channels of payment (credit orders made in the bank office or post office, payment in cash directly to the service provider), also **habits** are very important. The share of the **price** of the service influencing the choice has shrunk. **Security** is also valued in making the choice.