

The Use of Financial Inclusion Data Country Case Study: **SOUTH AFRICA**

The Mzansi Story and Beyond

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1. Country Context

At the beginning of the millennium South Africa was still very much a country in transition. Whilst the establishment of democracy in 1994 and the resultant constitutional changes and developmental initiatives gave hope to millions of people, economic exclusion was still the reality for a large proportion of South Africans. The Government recognised at the time that access to financial services is one of the key stepping stones on the path to sustainable economic development. As a clear governmental policy objective was (and remains) redressing the skewed development of the past, increasing pressure was being brought to bear on financial service providers to actively extend access and improve usage of appropriate financial services by all South Africans.

The financial services sector in South Africa is well developed and characterised in most sectors by well-established private companies, with significant infrastructure and sophisticated operational capabilities, a wide range of products covering multiple markets segments and typically well-capitalised. The banking sector was a prime example of this, with the four major retail banks at the time dominating the local retail market with a market share of approximately 90%. The banks were cautious at that stage though, as the consequences of a credit bubble implosion has just led to a run on some smaller banks and the demise of one of the most prominent smaller bank. Although there were some notable movements to engage lower-income segments, the banks by-and-large focussed on middle- and upper-income individuals and established business and corporate clients. The concentrated nature of the industry also did not engender a sufficiently competitive environment promoting innovation, which meant that new business models and innovative access means were not high on the agenda.

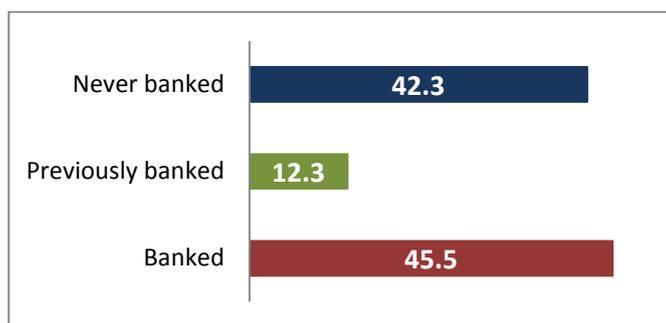
State-owned financial services enterprises are the exception in South Africa, given the dominant position of the private sector. However, the Postbank has been a financial services division of the South African Post Office for many years. Although not a full bank, it offers savings and transactional services through the national Post Office network.

2. Financial Inclusion Status in 2004

South Africa has a number of data sources on the uses of financial services. In the case of banks, some supply-side data are available from the banks themselves, the industry representative body (the Banking Council of South Africa, renamed the Banking Association of South Africa), the regulator (the South African Reserve Bank), the Payments Association of South Africa and independent payments service providers. Demand-side data is measured through a number of national surveys, the most pertinent being the annual FinScope surveys conducted by FinMark Trust, a South African NGO focusing on advancing financial inclusion now extending its services to other African and Asian countries. FinScope survey results are validated through comparison with other national surveys, notably the All Media and Products Study of the South African Audience Research Foundation, formerly the South African Advertising Research Foundation.

An assessment of basic financial inclusion in South Africa based on FinScope data revealed the following for formally banked adults in 2004:

Figure 1: % of Formally Banked South African Adults 2004



Source: FinMark Trust FinScope 2004

The banked figure has been steadily increasing over the previous decade, but this increase was slow and the extent of usage remained heavily skewed to higher-income individuals, as shown in table 1:

Table 1: % Formally Banked, by LSM¹ 2004 Table 2: Cash Expenditure by LSM 2005

LSM group	% Formally Banked
1 - 2	24
3 - 4	32
5 - 6	48
7 - 8	81
9 - 10	94

Source: FinMark Trust FinScope 2005

LSM group	% Households	% Cash Expenditure
1 - 2	19.3	2.5
3 - 4	17.6	9.0
5 - 6	17.5	23.2
7 - 8	12.2	18.6
9 - 10	13.5	46.7

Source: Martins, JH (2006)

The survey results (Table 1) confirmed that low-income groups had a far lower formally banked rate than the national average. Table 2 showed the relative “buying power” of the groups and showed the gap that existed for LSM groups 3 - 6, where there was a clear need for financial services, but low usage. The national goal of transformational development, particularly in disadvantaged groups, was not being enabled through financial inclusion.

3. The Mzansi Initiative

3.1. The Financial Sector Charter and Public-Private Collaboration

The slow pace of development in the low-income market segments contributed to a national concern. The banking industry, both in response to the pressure from government and a growing realisation that economic transformation constitutes a sound and responsible business objective, with financial inclusion a key component of such an objective, responded by committing to the Financial Sector Charter (FSC).

The FSC was formalised in 2004 and was essentially a social pact between government, labour, organised civil society and the financial services sector to both transform the sector and for the sector to play a quantifiable and meaningful role in steering the use of financial services towards specific developmental objectives. The FSC was codified and contained undertakings and targets

¹ LSM is the acronym for living standards measure, widely used in South Africa as an index of social welfare. It does not include but correlates closely with income. The higher the LSM, the higher the standard of living.

for a variety of development objectives, including increased usage of financial services, improved access to these services and a commitment to (with an associated target expenditure) on-going financial literacy efforts. The financial access targets are listed in Annex A. Participation in the Charter was voluntary, although most major financial institutions participated for the period during which the Charter was operative (2004 - 2008). Industry targets were disaggregated into organisational targets through the industry representative bodies.

Monitoring was done on a structured basis through regular reporting, overseen by a FSC Council. For banking products for example, the individual banks reported take-up of the products (e.g. the Mzansi bank account) and the distribution of its sales and transactional infrastructure to the industry representative body, the Banking Council of South Africa, later renamed the Banking Association of South Africa (BASA). These figures were then reported to the FSC Council who ascertained compliance to agreed targets. Meeting (and exceeding) the targets improved the standing of participating financial institutions in terms of obtaining state and related business.

The government was represented in the Charter process by National Treasury. The primary reason for this is that National Treasury carries the mandate for financial sector policy and has a particular focus on financial sector development and financial inclusion. Lessons from the Charter process have been and are being incorporated into policy measures and initiatives by National Treasury. General input into the process was obtained from other government department and agencies, notably the transformational objectives from the Department of Trade and Industry.

3.2. Mzansi Account

To meet their FSC commitments the banking industry decided on a joint approach, with a basic bank account and a local remittance service being the first two agreed products. For the basic bank account, the four major banks and the Post Office/Postbank jointly developed the Mzansi brand geared towards the low-income segment. All other banks were invited to join this initiative, but for a variety of reasons none of the smaller banks took up the offer.

The lack of knowledge about the low-income market amongst the four major banks was the main rationale behind this innovative collaboration. It was reasoned that market development through extensive advertising and awareness campaigns would be necessary and that it would be cost-effective to share these costs, as well as the costs associated with product development. There was no doubt also an element of risk-sharing involved in the decision to co-operate, as it was not known how viable and acceptable this initiative would be, hence some reputational risk was associated with this effort.

Because of the South African Competitions Act, neither pricing nor product features for Mzansi account could be decided jointly. The approach was therefore to agree some principles on which features and pricing could be based. The agreed principles centred on the following:

Brand	Prominent use of the Mzansi brand, through the use of the associated logo and value-for-money proposition
Card-based	The account had to have an associated debit card, with normal debit card functionality and operational in the fully interoperable South African payment environment.
No “penalty” for using other banks’ infrastructure	In South Africa the use of another bank’s (other than the issuing bank) infrastructure, particularly ATMs, results in a premium service fee having to be paid by the user. The agreement was that this premium will be waived and the interbank fees were adjusted to reflect this agreement.
Affordable	There was an agreement that a defined basket of transactions will not exceed an agreed amount that was deemed affordable by the target market. This upper limit was significantly lower than the cost for typical bank products.
No monthly or management fee	Most transactional accounts attract some set monthly fee in South Africa. It was agreed that the Mzansi account will not attract this fee.

One free cash deposit	Cash deposits (as opposed to electronic or cheque deposits) typically attract a fee in South Africa. It was agreed that Mzansi account holders will have one free cash deposit transaction per month.
Use of Post Office branches	Mzansi account holders could withdraw funds and do basic enquiries at Post Office branches, irrespective of the bank involved in the issuing of the account.
Use of AML/CFT exceptions	It was agreed that Exemption 17 (see below) will be incorporated in the opening procedure of all Mzansi accounts.

Since banks were concerned, unnecessarily as it turned out, that there will be an erosion of revenue in their existing low-income products, both maximum balances and a limited range of transactions were introduced by individual institutions. Over time this proved counter-productive as these limitations reduced transaction volumes and reduced Mzansi revenue, as compared to established products, so the transaction limitations were gradually removed.

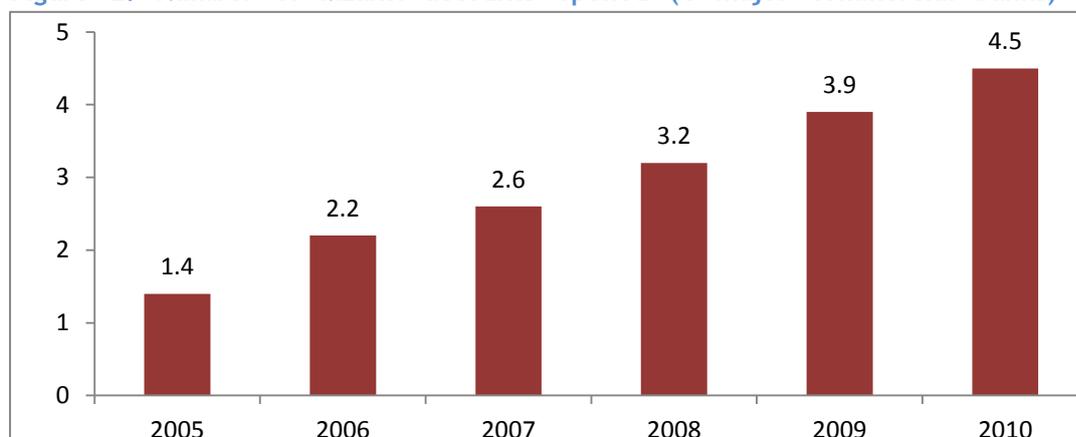
South African AML/CFT legislation was introduced in 2001 in the form of the Financial Intelligence Centre Act. Although the regulations did define appropriate measures for lower risk situations, these were not practical for the roll-out of a product like the Mzansi account. An agreement was reached with the regulator to introduce an adjustment (Exemption 17) that would still ensure that all clients are identified and verified, but that physical address details need not be verified. This was particularly relevant for the low-income segment, as a large percentage of potential clients simply did not have a verifiable address. The fact that a national identity system, with appropriate documentation, was well-entrenched aided significantly in efficient client on-boarding.

The roles of the Post Office and the Postbank need some clarification. The Postbank participated as an issuing bank and converted most of their existing savings account base into Mzansi accounts over time, taking advantage of the reduced interbank fees associated with the use of ATMs (Postbank had no ATM base). The Post Office, apart from providing the transactional network for the Postbank, also made their network available for transactional use by all Mzansi account holders.

During the first year significant joint marketing was undertaken, with joint awareness campaigns and literacy efforts. Thereafter marketing efforts and awareness campaigns were undertaken individually by each institution, but still using the established Mzansi brand.

The take-up of the product, depicted in Figure 2 below, exceeded expectations. This prompted the participating banks to continue promoting the product past the 2008 end date of the FSC.

Figure 2: Number of Mzansi accounts opened (4 major commercial banks) in millions



Source: The Banking Association of South Africa (2011)

The Postbank did not report sales figures separately, but the registration of all Mzansi accounts at Bankserv (now BankservAfrica), the major payment systems operator in South Africa, enabled a reliable estimate of at least 6 million Mzansi accounts opened in total. Given an adult population of approximately 30 million at the time, this was a significant achievement. This number, coupled with the market feedback that 72%² of the signed-up base stated that the Mzansi account was the first bank account that they opened, meant that the objective of attracting unbanked people was largely being met.

3.3. Increased access as part of the initiative

Part of the FSC targets included improved physical access, both in terms of acquiring financial products (sales points), as well as transaction points. The overarching objective was to bring financial services within reach of everyone. The initial targets were agreed as follows:

- At least 80% of the target market (LSM 1 - 5) must be within 20 km of a service point (branch or ATM)
- At least 80% of the same target market must also be within 20km of a transaction point (non-ATM, but where an electronic transaction can be performed)

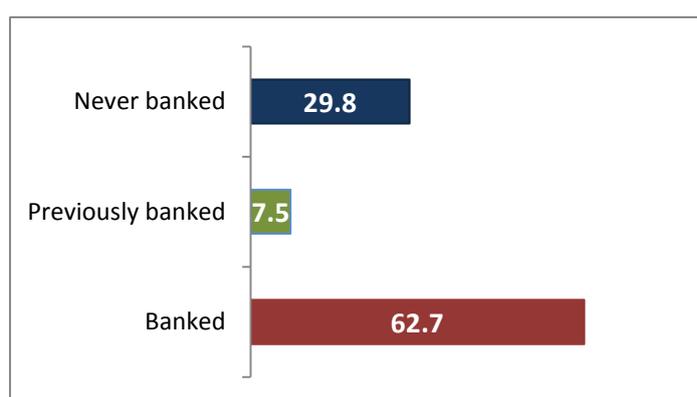
These targets were easily met and were later amended to 15 km for service points and 10 km for transaction points soon after the commencement of the FSC. The revised targets were also met by 2008.

The measurement of progress towards the target and its subsequent upgrading were made possible by the monitoring of the points of presence through geospatial information mapping, matching the points of presence to population centres and densities. This exercise also relied on the banks to provide geocoded information on all points of presence to the industry representative body, who commissioned a 3rd party service provider to map this data to the available census data, with LSM categories, and provide a realistic measure of meeting the objectives.

3.4. Financial Inclusion Status in 2008

The financial inclusion status increased significantly from 2004 to 2008, the period covered by the FSC, as shown in table 3 below.

Figure 3: % of formally banked South African adults 2008



Source: FinMark Trust FinScope 2008

Table 3: % Formally Banked by LSM

LSM group	% Formally Banked
1 - 2	31
3 - 4	50
5 - 6	62
7 - 8	84
9 - 10	97

Source: FinMark Trust FinScope 2008

The increase from 45.5% to 62.7% in formally banked adults was significant, as was the improved usage in LSM 3 - 6, considerably narrowing the usage gap with higher LSM as groups compared to

² Based on *The Mzansi Bank Account Initiative in South Africa*, a report commissioned by FinMark Trust and undertaken by Bankable Frontier Associates LLC in 2009

2004. These figures underscored the conclusion that the Mzansi account was primarily used by the intended market segments. The same survey data also indicated that the increase in the formally banked indicator was not only due to the number of Mzansi accounts introduced, but to the continued take-up of other low-income products offered by the banks.

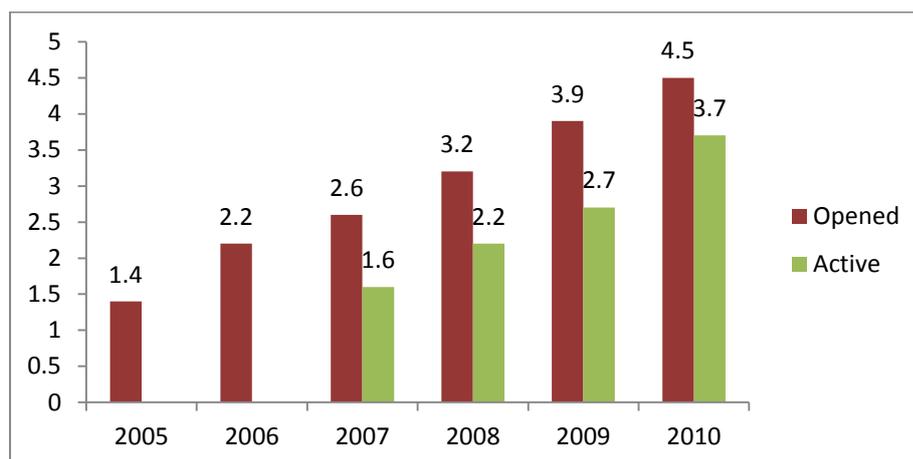
3.5. Was the Mzansi account successful?

The Mzansi initiative was successful in promoting take-up of bank accounts, but much less so in promoting their usage. There has been much discussion about the relatively low rate of usage of Mzansi accounts, the low average balances compared to other products, and the low rate of active accounts. There is no doubt that active use of the account, particularly for first-time users, requires on-going support and reinforcement. To what extent the lower average balances is the result of the lower LSM levels being the primary users as opposed to inadequate product features and insufficient client literacy engagement is a moot point; it is probably the result of a number of factors.

The measurement in 2007 of the relatively high percentage of inactive users resulted in increased awareness campaigns and more targeted sales efforts by the banks, leading to an active percentage (82%) by 2010 which exceeded the historical active percentage for low-income products. This is reflected in Table 4 below.

There is no doubt that the Mzansi account was a major contributor to the extension of financial services to the unbanked and the improvement in financial inclusion in the country. In the eyes of the users it legitimised the banks' entry into the lower income market and it gave the banks invaluable exposure to the dynamics of banking these segments. The issues of active usage, change in transactional behaviour and improvement in the propensity to save remain as issues that that requires continued focus and intervention. At the same time, the Mzansi account also pointed to the limitations of a joint approach, especially as saturation levels were being reached. The necessary stimulus for innovation appears to be lacking in this environment, particularly as the banks perceived a "second brand" being created.

Figure 4: Mzansi Accounts opened vs. active accounts (4 major banks)



Source: *The Banking Association of South Africa (2011)*

4. What happened after Mzansi?

4.1. Further Exploration of the Low-income Market

The Financial Sector Charter was not applicable after 2008, although banks continued to market the Mzansi product. However, momentum was certainly not the same as in the years immediately following 2004 and take-up levels declined. There was also feedback from the market that the Mzansi account was perceived as a “poor man’s” account, because it was positioned separately from other bank products.

The banks, including innovative smaller banks, also intensified the exploration of new business models. There were some major initiatives in the mobile space, exploring different versions of a branchless banking model, with some of those initiatives still on-going. There were also a number of initiatives involving co-operation between retailers and banks, with some essentially offering a banking service through a retailer, whilst others focussed on more limited services, e.g. store-to-store remittances enabled through the banking infrastructure. Some of the initiatives were not successful, whilst others (the remittance service being one) continue to be successful to this day.

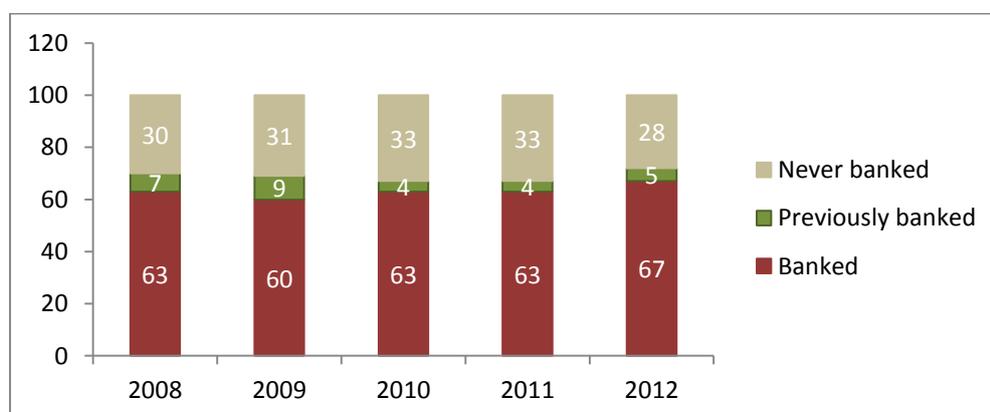
It is fair to characterise this period as one where institutions were using their newly-found appetite for the lower-income market to explore new territories with new partners, but the impact on improving financial inclusion in terms of the percentage of banked adults was negligible (see figure 5 below). The effect of the global economic situation and the reduction in growth rates was a further exacerbating factor in this muted impact.

4.2. Financial Inclusion Status in 2012

Figure 5 below shows the stagnation in the increase in the formally banked following the end of the FSC period. The situation only started changing again in 2012, as new business models started to mature (e.g. functionally rich mobile access to the banking accounts) and as the further level of electronic distribution of social grants started having an effect.

What is encouraging is the continued increase in the points of presence, as evidenced in Table 4. This showed that institutions were investing resources in enabling greater use of low-income products like Mzansi. This increase is one of the reasons why multiple product usage is steadily increasing, although the percentage of banked people remained relatively static until 2011 (Figure 6).

Figure 5: % of formally banked South African adults 2008 - 2012



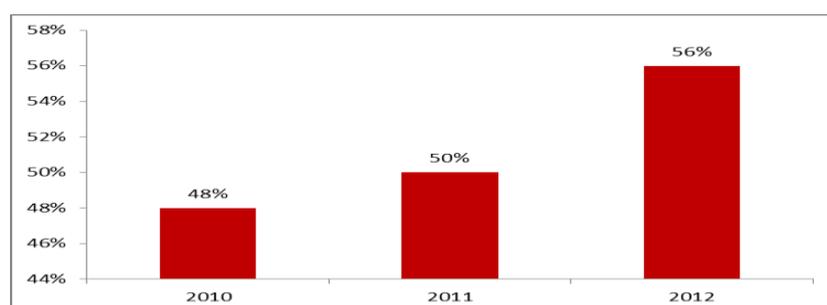
Source: FinMark Trust
FinScope 2008 - 2012

Table 4: Points of Service 2008 - 2011

	2008	2009	2010	2011
Bank branches	4,625	4,579	5,162	5,443
Limited services outlets	1,485	1,409	1,609	1,697
Bank owned ATM	11,406	18,019	19,792	21,535
Total ATMs	16,180	23,090	24,659	27,673

Source: Annual Reports of seven retail banks and South African Post Office
Bank branches include Post Office branches

Figure 6: % adults with more than one product from a formal service provider



Source: FinMark Trust
FinScope 2010- 2012

Affordability was and remains a point of contention. What is however encouraging is that the cost-to-user index of low-income products has, in real terms, been declining over the last few years (Table 5). The cost of banking services as a whole (Table 6 below) displays much wider fluctuations in the cost-to-user index, but also displays a downward trend over the last few years. This decline for low-income products can be attributed to the improved business models and increased volumes and bodes well for continued increased usage.

Table 5 - Inflation-adjusted index of the cost-to-user of banking services for low-income users, averaged over the cheapest offerings

Year	2010	2011	2012
Cost-to-user index	100	97.8	80.6

Source: Solidarity³ Bank Charges Report and Statistics South Africa

Table 6 - Inflation-adjusted index of the cost-to-user of banking services (major banks)

Year	2005	2006	2007	2008	2009	2010	2011	2012
Cost-to-user index	100	92.7	89.1	98.2	119.4	127.8	132.8	104.3

Source: Finweek⁴ Bank Charges Report and Statistics South Africa

4.3. Financial Sector Code

The FSC was replaced by the Financial Sector Code in 2012, which now places a legal requirement on all financial institutions to comply. The Code contains a negotiated set of updated objectives and targets, with reporting and monitoring done as previously for the FSC. Although Mzansi is still

³ Solidarity is trade union in South Africa that commissions an annual survey of entry-level bank costs

⁴ Finweek is a South African financial publication that similarly commissions an annual survey of banking fees

mentioned, the agreed product standards are now generic, dealing with affordability, appropriateness, clear communication of features and costs, non-discrimination, as well as some operational efficiency guidelines like payment inter-operability. The on-going focus on financial literacy and easy-to-use market-conduct support systems remain part of the agreed standards.

5. Key lessons

- ***A national forum or platform is a key enabler***

The Financial Sector Charter and Code structures are probably uniquely South African constructs, given the historical imbalances from South Africa's past political structures that have to be addressed. However, similar national platforms are key elements in advancing financial inclusion in a sustainable and beneficial way. The buy-in of the financial institutions and the support of government and society are all necessary to move forward. The period between the end of the FSC and the beginning of the Financial Sector Code provides evidence that a lack of focus leads to a lack of momentum in advancing financial inclusion.

- ***A holistic approach, with a developmental mind set, is required***

Given the dependency of improving financial inclusion on an eco-system of enabling initiatives and basic infrastructure, it is imperative that the developmental links are established and addressed simultaneously, in as far as that is possible. Simply making sure someone has a bank account is but the beginning of the real challenge - the capability and opportunity to use this service to start actually improving lives are areas that have to be addressed.

- ***Measurement, agreed indicators, targets and monitoring are prerequisites***

It is pointless starting an initiative without an assessment of the current status. Similarly, informed and specific targets focus efforts and drive initiatives. Monitoring the effect of initiatives in a quantifiable way is the only way in which to realise that adjustments are necessary.

- ***Adjust the approach over time, where necessary***

Based on indicators, changes in the environment can be detected and should be acted on. The decline in the take-up rate for Mzansi accounts and the market feedback that perceptions were changing from positive to a "poor man's" product were clear indications that the end of the joint effort had been reached and that full competitive forces, within the agreed framework of the Financial Sector Code, should be utilised and encouraged.

Reference

Martins, JH. 2006. *Household Cash Expenditure by Living Standards Measure Group*. Journal of Family Ecology and Consumer Sciences, Vol. 34, 2006.

Annexure A

Financial Sector Charter

The following is not the complete Charter, but just those points directly pertinent to financial inclusion. It is quoted verbatim, except where references have been replaced with comments in *italics*.

8. Access to Financial Services.

8.2 In terms of the Declaration of the Financial Sector Summit on 20th August 2002, it was agreed that strategies would be put in place to ensure that the financial sector is more efficient in the delivery of financial services, which enhance the accumulation of savings and direct them to development initiatives. Insofar as it relates to access to financial services, specific actions were agreed in relation to:

- Ensuring the provision of first order retail financial services including:
 - sustainable and affordable banking services;
 - contractual saving schemes; and
 - credit for small and micro enterprise and poor households.
- the development of sustainable institutions to serve poor communities;
- the regulation of Credit Bureaux;
- discrimination;
- HIV/AIDS; and
- supporting higher levels of savings and investment overall.

a. In respect of this charter, the financial sector commits itself to substantially increase effective access to first order retail financial services to a greater segment of population within LSM 1-5. The financial sector specifically undertakes:

- i. by 2008 to make available appropriate first order retail financial service, affordably priced and though appropriate and accessible physical and electronic infrastructure such that:
- 80% of LSM 1-5 have effective access to bank services (*as defined*)
 - 80% of LSM 1-5 have effective access to bank services products (*as defined*)
 - a percentage (to be settled with the life insurance industry) of LSM 1-5 households have effective access to life assurance industry products and services(*as defined*)
 - 1% of LSM 1-5 plus 250,000 have effective access to formal collective investment saving products and services (*as defined*); and
 - 6% of LSM 1-5 plus 250,000 have effective access to formal collective investment saving products and services (*as defined*).

- ii. in accordance with the arrangements concluded with Government and DFI's (*as defined*) to originate the low-income housing loans, agricultural development loans, and loans to black SME's necessary to achieve the desire breakdown of targeted investments (*as established*). For the purposes of determining the value of loans originated in terms of this paragraph, any loan which falls within the definition of the first order retail financial services or product (*as defined*) will be taken into account.
- iii. Each sub-sector will determine, in consultation with the Charter Council how the sub-sector targets will be divided between the individual financial institutions in the sub-sector.
 - b. Each financial institution commits, from the effective date of the charter to 2008, to annually invest a minimum of 0.2% of post tax operating profits in consumer education. Consumer education will include programmes that are aimed at empowering consumers with knowledge to enable them to make more informed decisions about their finances and lifestyles
 - c. The financial sector furthermore commits to:
 - the elimination of discrimination in the provision of financial services;
 - supporting the establishment of third tier community based financial organization or alternative financial institutions.