Technology Program Country Note

SOUTH AFRICA

May 2011

Overview[1]

Population:	49 million	(2010)
% Urban:	61	(2008)
% Aged under 15:	29	(2010)
GDP/capita (PPP):	$10,300	(2009)
Bank Branches:	2,698	(2010)
Bank Accounts:	28.3 million	(2009)
Mobile Subscriptions:	47 million	(2010)

South Africa has a well-developed banking infrastructure, with 2,698 bank branches, 8,785 automatic teller machines (ATMs), and no fewer than 109,454 point-of-sale (POS) devices.[2] This is amplified by PostBank's network of 2,300 outlets. The banking sector is highly concentrated within the so-called Big 4 commercial banks—ABSA Bank, First National Bank of South Africa (FNB), NedBank, and Standard Bank—which, collectively, have more than 90 percent of the retail banking market.[3]

The country also has a relatively high rate of access to financial services compared to other sub-Saharan Africa countries (see Figure 1). Sixty-three percent of South African adults have bank accounts.

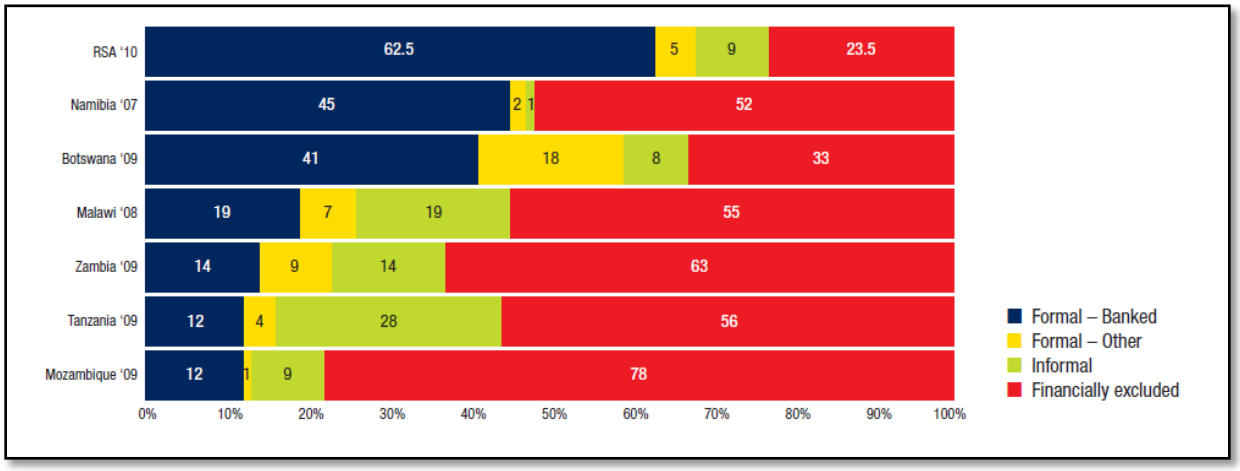
[1] Sources for data are Central Intelligence Agency, The World Fact Book, retrieved 21 September 2010, https://www.cia.gov/library/publications/the-world-factbook/geos/sf.html; Wireless Intelligence, retrieved 19 September 2010 https://www.wirelessinteligence.com; and CGAP/World Bank, *Access to Finance 2010*, http://www.cgap.org/p/site/c/template.rc/1.26.14235/.

[2] Data from South African Reserve Bank CGAP (2010), "Update on Regulation of Branchless Banking in South Africa." Available at http://www.cgap.org/gm/document-1.9.42404/Updated_Notes_On_Regulating_Branchless_Banking_South_Africa.pdf

[3] Executive Overview of the Report to the Competition Commission by the Enquiry Panel, p. 12, June 2008,

http://www.compcom.co.za/banking/Documents/sum%20docs/screen_sum.pdf.

Figure 1: Access to Banking in Seven African Markets



Source: FinMark Trust (2010), "FinScope South Africa: 2010."

The access-to-finance frontier grew considerably between 2004 and 2008, rising from 46 percent to near its present level of 63 percent, largely because of the Mzansi initiative. The Mzansi initiative made basic bank accounts available to the unbanked, primarily via card-based accounts accessed through ATMs. Recent evidence, however, suggests that a large number of these accounts may be dormant or are being used just to withdraw funds that are deposited into them by the government or employers. Banks do not promote Mzansi accounts because they consider these accounts to be unprofitable.

There is also considerable interest in government-to-person (G2P) payments, which reach one in four adults, with US$11 billion disbursed annually. One-third of G2P payments recipients receive their payment into a bank account that enables them to save and transact electronically. There may be room to leverage this into greater financial inclusion.

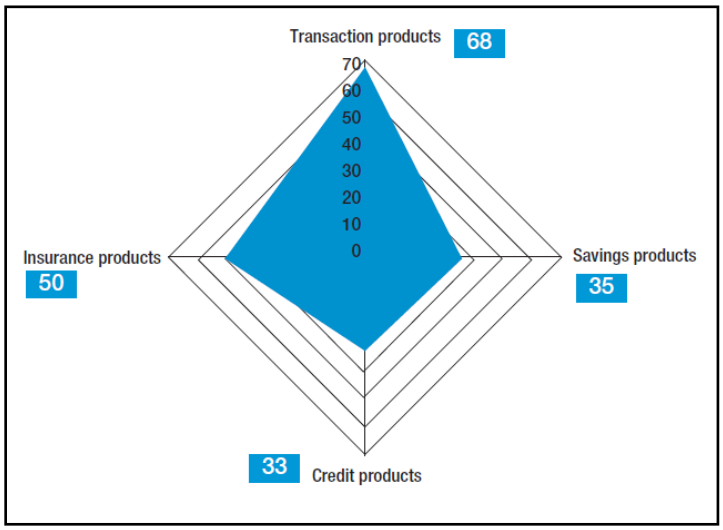
While South Africa is home to some of the earliest branchless banking pioneers that focus on mass market customers (WIZZIT and MTN Banking), branchless banking has not had a big impact on the access-to-finance frontier other than on the development of payment services. A new wave of branchless banking initiatives is emerging, with services that include M-PESA (launched by Vodacom with NedBank on 31 August), Standard Bank's Inclusive Banking (which is unfolding a strategy around cards and agents), FNB's mobile wallet, and several "virtual banks."

These new initiatives come at a challenging time. According to industry actors, the regulatory environment is marked by uncertainty (e.g., around know-your customer [KYC] requirements for account opening) in some areas and excessive requirements (such as the need to report each foreign exchange transaction individually) in other areas. Regulators, on the other hand, believe that branchless banking businesses have not availed themselves to the opportunities emerging in the industry. The private sector remains hesitant to innovate given harsh penalties for noncompliance with regulations.

The formal financial system has been most effective in delivering transactional banking and insurance products. While 63 percent of adults have bank accounts, 50 percent have a financial product that

covers a defined risk, such as life, burial, and health insurance.[4] However, access to savings and credit products is lower—only one-third of adults use these products. This yields a relatively uneven landscape of financial access in South Africa (see Figure 2).

Figure 2: Access Landscape, by Product Type



Source: FinMark Trust (2010), "FinScope South Africa: 2010."

The CGAP Technology Program has been active in the South African market for about five years. In 2006, CGAP partnered with FinMark Trust, the United Nations Foundation, and the Vodafone Foundation to analyze the profile of low-income users of mobile money (via a study of WIZZIT users). In 2007, CGAP and the UK Department of Financial Development (DFID) jointly sponsored a diagnostic of the regulatory environment for branchless banking, as part of the seven country process that led to the CGAP–DFID Focus Note "Regulating Transformational Branchless Banking."[5] In 2008, CGAP signed off on a grant agreement to support WIZZIT, the first South African firm to explicitly target low-income, unbanked consumers with branchless banking at any degree of scale. The grant concluded on 30 September 2010. WIZZIT used the grant to test three approaches to customer acquisition in a bid to put the company on a steeper growth trajectory. CGAP also analyzed WIZZIT's user base, yielding insights that flowed into a Focus Note gauging the reach of branchless banking in seven countries.[6]

As much or more so than any other country that CGAP works in, South Africa has institutions (FinMark, CENFRI, among others) with a high degree of expertise and insight into financial inclusion issues. The country's financial service providers are generally well-resourced and have an appetite for extending the reach of financial services. South African policy makers and regulators have established policy positions on many domains relevant to branchless banking.

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[4] FinMark Trust (2010), "FinScope South Africa 2010," available at http://www.finscope.co.za.

[5] The analysis was updated in 2009 as part of CGAP's contribution to the G-20 Financial Inclusion Experts Group.

[6] McKay and Pickens (2010), "Branchless Banking 2010: Who's Served? At What Price? What's Next?" Focus Note 66, Washington, D.C.: CGAP. http://www.cgap.org/p/site/c/template.rc/1.9.47614/

Situation Analysis

Policy and Regulatory Environment

Branchless banking in South Africa has been shaped by government action over the past decade, including using moral suasion to encourage banks to increase their reach to the unbanked, initiating relatively large flows of G2P payments, creating a policy position that allows only banks to offer most financial services, and defining flexibility (but not providing for total clarity) in anti-money laundering/combating the financing of terrorism (AML/CFT) and agent standards. The net effect has been more attention on the low end of the market than there might have been otherwise, with much of the innovation around access to finance being channeled through the Big 4 commercial banks. G2P flows may offer opportunities to reach those who are not included through the Mzansi Initiative. Several providers also report that it has taken them longer to launch new initiatives than they expected and that growth in number of customers is constrained by having to take a cautious interpretation of unclear regulations.

Mzansi Initiative

The Mzansi account initiative is duly credited with helping shift access to finance in South Africa substantially, though it appears to have largely peaked as a force for further financial inclusion gains. The Mzansi account is an entry-level bank account developed by the South African banking industry—largely due to public sector and civil society pressure—and launched in October 2004 by the Big 4 banks and state-owned PostBank. By December 2008, more than 6 million Mzansi accounts had been opened, a significant number for a country with an adult population of 32 million.

However, Mzansi accounts have high levels of inactivity (42 percent of accounts opened are dormant), and they are mostly used to withdraw cash (93 percent), which is indicative of a "dump and pull" use profile, where accounts are used primarily to receive incoming funds (e.g., from an employer, remittance, or government payment). Banks report that there is little evidence that Mzansi accounts have been a gateway through which new clients are accessing or paying for other types of financial services, such as funding specialized savings accounts or insurance premiums, at least from the same bank.[7] Research indicates an increase in the proportion of poor household's financial assets kept in banks, but it is not possible to conclusively link this to the availability of Mzansi accounts.[8]

The use profile of Mzansi accounts may be linked to the design of the products offered by banks, which were concerned that Mzansi accounts would cannibalize more lucrative products. As a result, Mzansi accounts were launched with built-in limits on number and types of transactions permitted, as well as on which channels could be used (with high fees on face-to-face channels). Some of these limits were

[7] Bankable Frontier Associates (2009), "The Mzansi Bank Account Initiative in South Africa," report commissioned by FinMark Trust, Johannesburg.

[8] Bankable Frontier Associates (2010), "South African Financial Diaries and the Mzansi Initiative: Five Years Later," report commissioned by FinMark Trust, Johannesburg.

lifted or changed over time. The use profile, combined with low pricing, made Mzansi accounts unattractive to banks: for example, monthly fee revenue per Mzansi account was US$1.50 compared with an estimated US$5 for the closest equivalent account offered by the Big 4 banks.[9] At the end of 2009, with uncertainty about the continued existence of the Financial Sector Charter—an agreement between banks and civil society—much of the momentum around Mzansi accounts was lost. Banks still offer Mzansi accounts, but without the considerable marketing efforts employed before. The market is turning toward other ways to offer quality products to a wider slice of South Africa's unbanked (see the "Industry Overview" section below).

The first phase of a new Financial Sector Charter was gazetted for public comment in December 2010, thereby getting one step closer to officially forming part of the supporting legislation to the Broad-based Black Economic Empowerment Act (BBBE Act).[10] The first phase of the Draft Financial Sector Code (as the gazetted Charter is now referred to) explicitly excludes financial access targets. Representatives from labor unions, community organizations, the financial sector, and government are currently negotiating the next set of financial access targets. It still unclear how the Financial Sector Charter's gazetting will influence the evolution of Mzansi bank accounts. Discussions with the Big 4 banks and other stakeholders indicate that banks may attempt to systematically move Mzansi account holders into other products lines that could be more suitable for clients and more profitable for banks.

Government-to-Person Payments

The South African Government makes payments of R88 billion (US$11 billion) to 14 million people. Child grant programs and subsidies to the disabled and elderly make up the bulk of social transfers, which are received by one-quarter of all South African adults.[11] The government pays more than R2 billion (US$286 million) annually in administrative fees to institutions delivering the payments, making this a lucrative market. Primary responsibility lies with the South African Social Security Administration (SASSA), which, in 2008, took over the functions and staff from the Ministry of Social Development.[12] SASSA's strategic plan for 2008–11 calls for a strategic review of the payment system for social grants, including benchmarking the current payment methods against domestic and international payment systems and others that use advanced technologies. Contracts for delivering payments are awarded on a province-by-province basis. Three companies won lucrative contracts to disburse payments, the two largest being ABSA AllPay and Net1.

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[9] BFA (2009), "The Mzansi Bank Account Initiative In South Africa," available at http://www.gatewaytosavings.org/cmsdocuments/MzansiProject-FINAL_REPORT_March202009.pdf .

[10] Department of Trade and Industry (2010), "Phase I of Financial Sector Charter gazetted for public comment," media release, available at http://www.dti.gov.za/mediareleases/financial_charter.pdf (accessed March 2011).

[11] FinMark Trust (2010), "Finscope 2009," available at http://www.finscope.co.za/.

[12] Pickens, Porteous, and Rotman (2009), "Banking the Poor via G2P Payments," Focus Note 58, Washington, D.C.: CGAP and DFID. Supplemented by interviews during CGAP mission in S. Africa, May 2010.

Bank-Led Financial System

South African policy gives primacy to banks in the functioning of the financial sector, but regulators are aware of some of the limits this has created for nonbanks and for the interoperability and efficiency of the payment system. South African Reserve Bank (SARB) is in the process of writing a new vision document to guide its work until 2015. A first draft of the new vision document has been written and will be shared with a select group of stakeholders for comment before final release.

Only banks registered under the Banks Act are allowed to engage in "the business of banking," which includes taking deposits from the general public. Accordingly, nonbanks wishing to offer branchless banking services that entail taking deposits from the public can do so only in partnership with a bank. In November 2009, the National Payment System Department of SARB issued a Position Paper on Electronic Money[13] restating its position that only banks are permitted to issue electronic money. The paper indicated that SARB would "participate in initiatives aimed at providing secure payment instruments for the general public, including the unbanked and rural communities." It also suggested some services of a pure person-to-person payment variety might be made by nonbanks.

SARB has long been waiting for legislative authorities to move ahead with a bill that would allow for the creation of a new class of "dedicated banks." If passed into law, it could, for example, allow for Vodacom's M-PESA to be established as a "transactional bank" or firms, such as WIZZIT, to gain their own license. The "dedicated banks" bill has not progressed as quickly as hoped. It has been criticized as a watered down version of the Banks Act that does not address the unique needs and circumstances of a potential second tier of banks.

A regulatory category for smaller, cooperatively owned banks was established with the promulgation of the Cooperative Banks Act in 2007. The Cooperative Banks Development Agency (housed within National Treasury) is jointly responsible, with SARB and National Treasury, for the supervision of cooperative banks. Although no cooperative bank has been licensed yet, according to National Treasury, the licensing of the first such bank is imminent.

Under the National Payment Systems Act, access to the national payments and settlement system is reserved for banks; nonbanks can access the system only through joint ventures with banks that are members of the payment system or through co-branding programs with such banks. In practice, the Big 4 banks control the governance of the national payment system, a situation that, according to South Africa's Competition Commission, has given banks an opportunity to abuse market power and that has yielded elevated prices for consumers. The Competition Commission recommended opening up payment card schemes to nonbanks and permitting nonbank payment service providers to participate in clearing and settlement activities "in appropriate low-value or retail payment streams."[14]

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[13] SARB Position Paper, Electronic Money, National Payment System Department, NPS 01/2009, November 2009.

[14] Executive Overview of the Report to the Competition Commission by the Enquiry Panel, p. 41, June 2008, http://www.compcom.co.za/banking/Documents/sum%20docs/screen_sum.pdf.

SARB's Payments Department published a position paper on interoperability in January 2011.[15] Its goal is to encourage (but not mandate) a move to interoperability, leading to more affordable services for South Africans while encouraging innovation. The paper clearly establishes interoperability as a "principle" to be "sought and maintained wherever feasible in the sphere of the payment system." It, furthermore, states that SARB will not encourage the development of separate closed-loop systems. In particular, SARB will provide its support to payment systems that adhere to the following principles:

- Give preference to "generally accepted international as opposed to proprietary standards"
- "[C]onform to uniform and open standards"
- Lead to a scenario in which "co-operation exists between payment stakeholders"

Although the deposit-taking and settlement system remains the domain of banks, a new category of payment provider is being allowed into the system. There are many so-called bill payment providers in South Africa. SARB is aware of 120 such entities and is responsible for their supervision under Directive 2/2007 to the National Payment System Act (No. 78 of 1998). The directive defines bill payment providers or "system operators" as entities that provide services to "any two or more persons in respect of payment instructions."[16] System operators are not allowed to take deposits. The supervision and oversight function of SARB includes on-site visits to these entities. As of February 2011, 80 percent of these entities had been visited by SARB.

Other Key Regulatory Domains

Branchless banking services are also regulated in three areas: KYC standards for signing up new accounts as required by the Financial Intelligence Act (FICA), use of agents beyond bank branches and ATMs, and foreign exchange controls as they pertain to potential products concerning international remittances.

KYC standards. Regulations offer several exemptions intended to ease account opening for lower income South Africans. In 2004, the Ministry of Finance issued Exemption 17, which lowered documentary standards (e.g., proof of address, which is particularly difficult for the estimated one-third of South Africans who live in informal dwellings). Exemption 17 established account balance and transaction limits to lower the risk these accounts might be used for criminal purposes. Exemption 17's lowered documentary standards for KYC applies only to opening domestic accounts and does not facilitate formal cross-border money transfers in any way. In an attempt to create a more inclusive formal cross-border money transfer sector, SARB and FIC are considering an exemption similar to Exemption 17 for cross-border money transfers. Discussions and research on such an exemption started in 2010, and a draft of the exemption was to be shared with representatives of the banking sector on 3 March 2011. It is not clear what the outcomes of this meeting were.

[15] South African Reserve Bank, National Payment Systems Department (2011), "Position Paper on Interoperability," Position Paper: NPS 01/2011.

[16] Republic of South Africa (2007), "Directive for conduct within the national payment system in respect of system operators, Directive 2 of 2007," Directive to National Payment System Act 78 of 1998, Pretoria.

In 2006, SARB issued Circular 6, which enabled non-face-to-face account openings for accounts meeting the requirements of Exemption 17, but subject to an even lower transaction limit. In practice, the openings provided in the regulation have not yielded widespread use by banks (some of the reasons for this are explored in greater detail below). In addition to the lower KYC requirements as contained in Exemption 17 and Circular 6, the South African Government issued an exemption to full KYC requirements for prepaid (stored value) cards. "Prepaid instruments" are exempted from full KYC requirements in cases where individual transactions do not exceed R200, the available balance does not exceed R1,500, and the monthly turnover of transactions on the instrument does not exceed R3,000.[17] The reloading of value on these cards/instruments "can only be done by means of an online system requiring the client to enter a personal identification number," and the card/instrument "cannot enable the remittance of funds, the withdrawal of funds or the receipt of cash as part of the transaction for goods and services in any way whatsoever."

Although Exemption 17 allows room for more relaxed approaches to KYC requirements for clients, banks often adhere to a stricter standard while asking for more guidance from FIC.[18] The situation has not been helped by official communication from FIC where it indicated its preference for a stricter approach to KYC requirements, even though regulation may allow for a more lenient approach. A July 2009 joint statement by the Banking Ombudsman and FIC clearly indicated that the "most prudent and practical" approach to complying with the record keeping requirement for client identification would be in the form of a *copy* of the client's identity document.[19] The statement does not, however, indicate whether this should be an electronic or hard copy. WIZZIT offers an illustrative example of the regulatory uncertainty on KYC requirements: it claims its account opening rates have been substantially hampered by lack of clarity from regulators on how its bank partner should apply the reduced KYC exemptions.[20]

Some banks are, however, starting to test traditional interpretations of the compliance requirements of Exemption 17. While most banks interpret Exemption 17 as requiring them to keep hard copies of the identity documents of clients, some banks, such as Capitec, are starting to keep electronic copies.

The overall KYC compliance burden appears to be aggravated by a parallel legislative initiative—the 2009 amendment to the Regulation of Interception of Communications Act (RICA)—which, in an anti-crime-inspired effort, required mobile network operators (MNOs) to perform face-to-face identification and verification for all mobile subscription (SIM) cards. This undermines the non-face-to-face account origination model that SARB introduced for low-value mobile banking and also makes it difficult for the

[17] Republic of South Africa (2010) R.454, Financial Intelligence Centre Act (38/2001): Exemption in terms of the Act, "Government Gazette," 33211:80-83, 28 May.

[18] McKay and Pickens (2010).

[19] Financial Intelligence Centre (FIC) and Ombudsman for Banking Services (2009), "Joint Statement: Clarification on the obligations of accountable institutions on verifying client identities, and record keeping," July 2009, Johannesburg.

[20] In recent discussions with FIC, staff indicated that they are open to a flexible approach to KYC requirements and facilitating the evolution of new business models. However, in discussions with several market players rolling out new approaches to agent banking, KYC requirements was identified as one of the single biggest obstacles to the success and cost efficiency of these models. These banks (and other market players) also indicated that FIC has not been as open to allowing new models and approaches to KYC as hoped.

several million foreigners living in South Africa to comply.[21] Although RICA's official KYC requirements pose significant barriers, anecdotal evidence indicates that this is not nearly as strictly applied as the FICA KYC requirements. Unlike the KYC approach followed for FICA, representatives of MNOs and sellers of mobile subscription cards typically only look at the identity document of a mobile subscription card holder and do not make a copy.

Use of agents. The South African regulatory framework gives wide discretion to banks to use nonbank third parties to offer banking services beyond their traditional branch network, either as agents or through outsourcing arrangements.[22] In a common refrain, providers say there is not a great deal of guidance on applying this flexibility. Regulators seem to be in a mode of waiting for industry to make proposals, and then advising on the specifics of the case at hand. For example, Vodacom reports regulators have imposed strict procedures not just for customer registration for its new M-PESA service, but also for registering the retailer outlets that will act as the cash-in and cash-out points. Vodacom clearly feels the process of understanding what constitutes a permissible approach to the use of agents has slowed down the launch of M-PESA considerably. Discussions with some banks revealed that, apart from the uncertainty around the broad regulatory space for agents, the accreditation requirements being set for agents under the Financial Advisory and Intermediary Services (FAIS) Act also pose a problem.

Foreign exchange controls. South Africa maintains a strict exchange control regime. Only a few institutions are permitted to deal in foreign currency, and they are required to maintain a complex reporting system. This regime increases the cost of international remittances to providers—and thus to customers—and reporting requirements have complicated the development of branchless banking channels for international remittances. The regime currently requires reporting to SARB on each individual foreign exchange transaction. In an attempt to lower the costs associated with formal remittances, SARB's Foreign Exchange Department is considering allowing the foreign exchange transaction reporting to be done in bulk, for example, at the end of the day, rather than individually for each transaction. It is not clear at this stage how this will work in practice and the impact that it will have on cost.

Industry Overview

There are a number of industry experiments on branchless banking for poor clients—some are substantially scaled, others are more nascent. Generally, South African providers have had more success reaching the low end of the market using card-based approaches than using mobile approaches, in part, because of the country's large network of ATMs and POS terminals that are easily accessed with a card. Given a strong policy stance in favor of bank-based models, nonbanks have generally had less success to date in South Africa than in some other markets. In contrast to most other markets on the continent, South Africa's microinsurance industry has made some headway with low-income customers.

[21] De Koker, (2010) "Will RICA's customer identification data meet anti-money laundering requirements and facilitate development of transformational mobile banking in South Africa?" unpublished manuscript of report drafted for FinMark Trust.

[22] McKay and Pickens (2010).

Big 4 Banks

Standard Bank is perhaps the most advanced of the big banks in its strategy to serve the low-income market. It has recently gone through an internal restructuring exercise and has aligned the entire business around three customer segments (*i*) Business Banking; (*ii*) Personal Banking (aimed at customers with incomes over R8,000/US$1,150 per month); and (*iii*) Inclusive Banking (for customers with incomes below this level). Standard Bank estimates that it has 5.2 million customers that fall into the Inclusive Banking segment: 2 million Mzansi customers; 3 million e-plan customers, and 200,000 customers that have been recruited under the Community Banking pilot, which has been rolled into the Inclusive Banking group. Standard Bank claims that this group of customers is currently loss making, and it wants to explore whether the branchless banking approach, piloted as Community Banking, can be expanded to serve this entire segment. It has signed up 8,000 "bank shops" or agents, of which 3,700 are active, in 12 communities. It expects to expand to 25 communities and 10,000 agents by the end of the year. When they sign up, customers receive a debit card, which can be used cheaply at "bank shops" that provide a full range of financial services or at a higher cost at their existing branch and ATM network. Standard Bank has exited from a mobile money joint venture with MTN (discussed below).

First National Bank (FNB) has the most widely used mobile banking service in South Africa, with 2.6 million users (34 percent of all customers), of which two-thirds earn less than R100,000 (US$15,000) per year. FNB is trying to migrate as many Mzansi customers as it can to a pay-as-you-go product accessed via mobile with no annual fee and one low fee for all transactions. It is also exploring ways to use its mobile platform to bridge the gap between the banked and the unbanked. One innovation allows bank customers to send money from their own account to a "mobile wallet" of unbanked customers. The recipient does not have his or her own account, but simply a claim on the sender's account. Withdrawals can be done at FNB's network of ATMs, which has been upgraded to work without cards. The interface on the recipient's phone has the "look and feel" of an account, and there has been strong uptake of the service.

FNB is not investing in an agent network, but it is exploring two innovative ways of expanding its reach in a cost-effective manner. The first approach is a merchant-operated, mini-ATM targeted at low-density, low-income, predominantly rural areas that cannot sustain a bank branch or typical ATM. The mini-ATMs are placed in small retail stores and consist of a POS-type device mounted on an FNB-branded display stand. They offer cash withdrawals up to R1,000 (US$140), balance inquiries, and prepaid purchases. The mini-ATM does not physically dispense cash; it instead prints out a voucher that is then handed to the cashier at the retailer, who then pays out the cash from the till. FNB has rolled out 700–1,000 mini-ATMs. Its other experiment is with "cashless bank branches" that can perform a limited number of transactions, but need less security as there is no cash on the premises. These are usually combined with one or more secure ATMs that can perform both cash-in and cash-out transactions.

ABSA is South Africa's largest retail bank with 11 million customers. It has recently gone through a restructuring exercise and has aligned around three customer segments that are very similar to those identified by Standard Bank. ABSA's high net worth customers make up the Retail Affluent segment, then there is the Core Middle Market, and the largest segment (with 7 million customers) is the Entry

Level and Inclusive Banking segment. ABSA is one of the major providers of G2P payments on behalf of the Government of South Africa, and it has won contracts for 3.5 of the 9 provinces tendered by the government. It currently makes payments to 2.2 million beneficiaries—60 percent of whom are paid in cash and 40 percent of whom receive their funds into a Sekulula account, which is specifically designed for this market. The Sekulula account has no minimum balance requirement, permits two free withdrawals a month, and includes a debit card that can be used at Visa merchants. ABSA has invested heavily in new ATMs to serve these customers, including some ATMs that use biometrics to verify the identity of beneficiaries, but it does not have plans to deploy an agent network.

NedBank is the smallest of the Big 4 and has traditionally focused on middle- and upper income customers. As part of a strategy to shed this image and to grow, it aggressively signed up Mzansi customers, and now it has more accounts than any of the other Big 4 banks. Like the other banks, it is finding that these customers are unprofitable and that many accounts are dormant. Vodacom selected NedBank as its bank partner for its launch of M-PESA in the South African market in August 2010. NedBank wants to be more than a passive partner, and the relationship with Vodacom seems to be good, although take up of M-PESA so far has been slow. They hope to migrate dormant and low activity Mzansi accounts onto this lower cost platform. M-PESA is discussed further below.

Other Bank Players

Several other banks are relevant players on the landscape. **Capitec Bank** is an aggressively growing institution that has rapidly built a nationwide network of more than 400 low-cost branches, mostly through the acquisition of microlending stores. It offers a Global One transaction account as a complement to its core business of consumer lending. This is the only product that it offers, and it does not segment customers. The only differentiation is on the cost of credit (which is lower for customers that have a Global One account). A new customer can walk into a branch where the bank can capture biometric information and issue a card on the same day. The account has more features than the Mzansi account offered by the Big 4 banks, and it is competitively priced. Capitec has traditionally targeted black, lower income consumers as a segment it believes is underserved, but many higher income customers are also signing up for accounts. Capitec is focusing aggressively on customer acquisition and growing its branch infrastructure. Its branches are low cost, and the branches keep very little cash on the premises, so the cost advantage of an agent network is much lower for Capitec compared to that of the Big 4 banks.

PostBank is a major player in the South African banking market due to its infrastructure (more than 2,300 outlets nationwide) and mandate to provide banking facilities to excluded people. It operates as a division of the South African Post Office. By law, PostBank must accept deposits on behalf of other banks. WIZZIT has used this service to create a nationwide deposit footprint for itself; others are considering following suit. PostBank is still signing up Mzansi customers, even though the Big 4 banks have all but stopped marketing this product. PostBank receives technical assistance from the World Savings Bank Institute.

WIZZIT is credited as the first branchless banking initiative in South Africa to focus on low-income, unbanked consumers and attain any degree of scale. It launched in 2005, providing a debit card and mobile-enabled bank account via its bank partner, South African Bank of Athens. WIZZIT's customer acquisition strategy centers on using WIZZKids—typically unemployed, low-income, black individuals who operate essentially as franchisees, selling WIZZIT starter packs to new customers.

In South Africa, WIZZIT has a registered customer base of approximately a quarter million. However, WIZZIT has had difficulty getting onto a steeper growth trajectory needed to reach profitability, and it had difficulty converting registered customers into active, frequent users who use WIZZIT as their primary account. Its slow growth may be attributed to its relatively unknown brand and the lack of a strong retail distribution network. WIZZIT is exploring an option to establish WIZZIT-branded mini-branches that would give the firm its own brand image and physical presence in the market. WIZZIT has, however, attracted commercial investment and equity stakes from the International Finance Corporation (IFC), Africap, and Oikocredit. The company has sold the WIZZIT platform to banks in Romania, Tanzania, and Zambia and claims to now have a positive cash flow.

Several consortia are positioning themselves as virtual banks using a model that is similar to the WIZZIT model, where they partner with a bank with little or no retail presence of its own. **Mercantile Bank** is involved in several deals, some of which are at the very early stage, and it is very secretive about its plans. Players with the best chance of being successful are those that have a strong brand, with high customer affinity, and have worked out a solution to the distribution challenge.

Retail players, such as **Shoprite,** might be well positioned in this regard, although other retailers have tried to enter the market with very limited success. **DrawCard**, whose sister company (ATM Solutions) is the largest provider of ATMs in the South African market, is another interesting player. Other players are looking to exploit their retail brand to create a white label bank in a similar fashion to **VirginMoney,** which has partnered with ABSA.

Mobile Network Operations

Vodacom is the subsidiary of Vodafone, which owns the M-PESA platform and has 50 percent of the market share in South Africa. Vodacom faced several challenges in South Africa that it did not encounter in Kenya; these difficulties caused it to delay a succession of planned high-profile public launches for M-PESA in South Africa. Regulation forced Vodacom to partner with a bank and imposed (in Vodacom's view) strict procedures on customer registration and retailer outlet registration. On 31 August 2010, Vodacom and NedBank finally launched M-PESA, with money transfers as the primary offering, but with plans to implement additional services, such as paying bills and buying goods. Customers can sign up for M-PESA at a number of large retail chains (PEP, Pick 'n' Pay, Massmart, Edgars, among others). Take up has been modest so far, with 3,000 agents and an estimated 120,000 customers enrolled. Social and cultural factors may prove to be as big a challenge as regulation and technological issues. Many of the target customers are skeptical of poor quality, costly or badly designed products aimed at the bottom of the pyramid that do not meet their needs or are seen as stigmatizing. In addition, branchless banking

initiatives in South Africa have so far had more success with cards, which have a social status, than mobile telephones.

Other MNOs are not yet active in the mobile money space. **MTN** is launching services in several other African markets, but, in South Africa (where it has 30 percent of the market share), it has withdrawn from the space after quietly exiting in 2010 from MTN Mobile Money, a joint venture with Standard Bank. MTN Mobile Money was launched in 2005 but failed to gain traction, in part due to an unsuccessful initial launch (which saw the provider run afoul of the regulator around its application of KYC standards) and the difficulty most of its customers had getting the relevant menu onto their phones. MTN made total investments of nearly R600 million (US$80 million) in the joint venture, and it is now hesitant to spend more money without a solid business case.

Other Players

Nonbank payment service company **Net1** offers smartcard-based accounts, through which it processed more than 12 million social welfare payments per quarter in 2009. Net1 clients can use their cards to save, purchase, and transfer through one of the company's temporary cash points (established monthly in many communities) or a network of several thousand merchants equipped with biometric POS devices. More than one-third of government grants disbursed by Net1 were withdrawn at a POS terminal in the quarter ended March 2009, more than double the rate in mid-2005.[23] Net1 had also launched credit services for social grant recipients, with its portfolio peaking at more than US$13 million in late 2008. However, the company has decided to get out of this line of business, in part due to public perceptions about charging high interest rates to low-income welfare beneficiaries. Net 1 has been criticized for its high fees and proprietary system and has recently been embroiled in a legal dispute with the Government of South Africa, which hoped to exit from some of the agreements that it had with Net 1.

There are several microinsurance schemes with interesting "branchless" dimensions to them. Regulations restrict how insurers can use third parties to sell insurance, but several have concluded deals with retailers to operate as "passive" distributors: starter packs are stocked on the retailer's shelves, with initial purchase covering the first month's premium and the retailer capturing key identity information from the customer at the time of sale. This approach has led to several hundred thousand funeral insurance policies sold via large retail chains by the likes of Hollard Insurance (in combination with PEP stores).

The approach is being tried with smaller, more rural shops. **Hollard** has also partnered with Take it Eezi, a rural and township-based vendor network, to provide funeral insurance called "My Funeral Card" to the low-income market in South Africa. It uses a GPRS-enabled POS terminal to sell the insurance, as well as prepaid airtime and electricity. Metropolitan sells its Family Burial Cover policy through the network of 1,200 Wiredloop spaza shops—small, semi-formal stores that Wiredloop equips with a

[23] Net1 SEC Filings, March 2009 (quarterly) and September 2005 (annually).

handheld POS device. There are some signs of a battle for client ownership between insurance companies and the retail chains, which are generally the brands known by customers. Shoprite, for example, markets its own branded funeral insurance product side by side with the products of Old Mutual, Metropolitan, and Union Life.[24]

As many as 120 payment companies have entered the market recently. **Shoprite/Checkers** and **Spar** have both launched domestic remittance services. Shoprite's service, backed by Capitec Bank, is available at 300 of its 800 stores and has done R3 billion (US$430 million) in volume in the first year since launch. Spar has entered the market with a very similar product that is available at 300 of its 800 stores with the same pricing point of R9.95 (US$1.5) per transaction. It has done 100,000 transactions and transferred R200 million (US$29 million) in the first six months after launch.

Other stakeholders

Compared to some other countries in which CGAP works, there are more domestic experts on branchless banking and allied topics, with considerable levels of knowledge, in South Africa. Chief among them is FinMark Trust. FinMark Trust seeks to catalyze change in financial markets to make them work better for the poor. To this end, it conducts research to identify the systemic constraints that prevent financial markets from reaching these consumers and advocates for change on the basis of research findings. DFID has recently approved a GBP 20 million (US$32 million) grant over five years to FinMark Trust for a regional program in SADC countries. CGAP and FinMark Trust have collaborated in the past, including co-producing the first public analysis of unbanked mobile money customers in South Africa.

The Centre for Financial Regulation and Inclusion (CENFRI) is a nonprofit think tank that supports financial sector development and financial inclusion through facilitating better regulation and market provision of financial services. CENFRI conducts research, advises, and develops capacity-building programs for regulators, market players, and other parties operating in the low-income market in South Africa and elsewhere.

The Economic Policy Research Institute (EPRI) is a nonprofit that carries out research supporting the objectives of economic growth, job creation, and redistribution. It is active on G2P issues. Genesis Analytics is a for-profit consultancy with inclusive financial services as one of its practice areas. ExactConsult is an emerging consultancy with a particular focus on payments. There are also several independent consultants, or individuals, who are associated with international consultancies, but based in South Africa.

[24] CENFRI (2010), "Reaching the client: Update on microinsurance innovation in South Africa," report prepared for FinMark Trust.

Key Challenges and Opportunities

The overall environment for branchless banking is uneven. Despite considerable efforts from the government and big banks to promote financial inclusion following the Financial Sector Charter, there is still a long way to go to reach the unbanked and those that are banked in name only, making only limited use of the products that they have signed up for.

Challenges

- **Big 4 banks are uncertain about branchless banking aimed at low-income consumers.** The consensus among the banks is that efforts so far have not been profitable. Banks have also noticed that MTN Mobile Banking and WIZZIT have both struggled to reach this market segment, and there are profitable alternatives for banks at the upper end of the market. Competition is emerging from a second tier of banks that are aggressively targeting the low-income customer segment, but it is nonetheless clear that the big banks will have the biggest impact on financial inclusion, in the short term at least, and it is still not clear that they will invest heavily in this approach.

- **Customers demand more from products being offered.** South African consumers are not content with products they view as substandard or "second class" (which is part of the perception of Mzansi accounts). M-PESA may be able to fill this gap, and at present, Vodacom appears to be the one MNO investing heavily in mobile money. MTN has been burnt by its unsuccessful joint venture with Standard Bank and appears to be concentrating on mobile money in other African markets, but that could quickly change if M-PESA sees substantial uptake.

- **Lack of clarity from SARB**. The banking industry and SARB appear to have different expectations about how to manage low-value accounts. The regulations appear to leave room for banks to use new approaches to signing up and serving customers, but banks are afraid that the regulator will react negatively if they try to innovative. SARB seems to want industry to take the initiative to interpret the regulations; banks want more clarity in terms of what will be allowed. SARB protests that the industry needs to innovate. No matter where reality lies, both sides admit there is a bit of an impasse right now.

Opportunities

- **The government is committed to financial inclusion.** Policy makers maintain that financial inclusion remains high on their agenda. Political pressure in South Africa remains very high to ensure that groups are not systematically excluded. To this end, a new Financial Charter will be negotiated between the government and the banks in the near future. The Government of South Africa is a member of the G-20 group that aims to measure the scale and depth of financial inclusion, and it is already exploring ways in which it can harness the large flow of G2P payments to promote financial inclusion by promoting the transfer of payments into bank accounts.

- **Financial sector policy makers are aware of limits in the current regulatory environment.** It is clear both the National Treasury and SARB (particularly the Payment System Unit) are cognizant of imperfections in regulations and want change. There are also some interesting models based on prepaid cards and mobile wallets that are emerging in the market.

- **There is a commitment to reduce the cost of international remittances.** The government, embarrassed by a recent World Bank report that showed that South Africa was among the most expensive countries in the world from which to send remittances, is committed to removing regulatory barriers that have been identified through a consultation with the private sector.

- **The competitive landscape continues to create pressure for innovation.** Competition—among the Big 4 banks; new entrants, such as Capitec; and up-and-coming "virtual banks"—is sufficiently strong to maintain focus on new approaches to serving customers. The Big 4 banks have an added incentive to find new channels to serve large numbers of existing dormant and/or unprofitable customers.

- **Strong potential partners focus on financial inclusion.** FinMark Trust and CENFRI, among others, have strong capacity, relationships, and experience in the financial inclusion domain.

- **South Africa is highly influential in the region.** Policy makers and regulators in other countries in the SADC region follow developments in South Africa very closely. Many of the biggest banks in South Africa also have operations in other African countries, and successful business models are highly likely to be exported to other countries.