



Case study – using FinScope to support the formulation and implementation of financial sector policy

Access to reliable and regularly updated information on the financial sector is important for formulating and monitoring the impact of financial sector policy on financial market development and conduct. The availability and quality of such data varies from country to country. Sources usually include financial sector providers, the regulators, government statistics, academia, donor projects, international organizations (International Monetary Fund, Financial Stability Institute, The World Bank), and perhaps in some cases the advertising and marketing industry players. Typically the data collected reflects records and activities of the suppliers of financial services, and rarely the perspectives of the users of financial services, especially those using informal products.

In FinScope's Southern African experience, reliable data on usage of, need for, and behaviour towards financial services from the consumer perspective is weak. Moreover, the fact that existing data reflects information from legal entities in the financial sector, it can either underestimate the levels of access because it does not capture the informal financial sector, or overestimate formal sector access due to multiple product usage by one individual. Through the magnifying lens of the FinScope demand side data, it is possible to get closer to the realities on levels of access to, and inclusion of a country's financial sector.

The following case study elaborates on the application of the FinScope data by South African National Treasury (SANT) as it continues its work towards building more inclusive financial markets.

First a few pointers on the kind of information FinScope can provide for financial sector policy:

- A snapshot on the range of financial services that individuals and their households use from a range of financial sector providers in both the formal and informal sector. This data can be analysed by different market segments and will identify the sources of access by these segments for the population as a whole.
- Updates on the snapshot for tracking developments and changes in the market, and to monitor the extent to which a country's financial sector is becoming more inclusive. This is very important for monitoring the impact of financial access policies, as well as the impact of other policies and regulations on financial access.
- Producing and tracking financial access indicators, such as those proposed by the World Bank¹
- Understanding usage, barriers, needs, attitudes by market segments and towards different types of products and providers.

South Africa's National Treasury

The South African Government is faced with the challenges of supporting sustained economic growth while eliminating South Africa's historical imbalances. As stated in its Accelerated and Shared Growth Initiative - South Africa (ASGISA), the South African Government will seek to "use leverage of the First economy to address the Second economy"². Increased levels of public expenditures will be used, among other areas, to address access to finance thus supporting ASGISA objectives of poverty reduction and employment creation.

SANT's vision for the financial sector is "to promote an equitable and efficient financial sector in South Africa, thereby contributing to sustainable economic development."³ In its financial sector policy the SANT is guided by four fundamental principles of financial regulation which include:

- Financial stability
- Prudential soundness
- Competition
- Consumer protection

In view of its vision of the financial sector, SANT has added a fifth fundamental principle to sound financial regulation which is that of financial access. The focus therefore of financial policy and regulation is one of maintaining financial stability while improving standards and access for consumers.⁴

To further its understanding of trade-offs between financial stability and financial access, and given the patchiness of data on financial access, since 2005 the SANT has become a syndicate member of the FinScope South Africa survey. SANT will take a leadership role in data on financial access, using it to benchmark and monitor financial sector developments, review impact of legal and regulatory reform on access, and define policies to support financial sector development without compromising stability.

Financial Sector Policy Support continued

The SANT Financial Sector Policy Unit conducts regular research to monitor trends in the financial sector. Its data source include the regulators (the South African Reserve Bank, the Financial Services Board, and the newly established National Credit Registrar), financial sector associations such as the Banking Association, the Life Offices Association, and the Johannesburg Stock Exchange, and other international agencies such as the Financial Stability Institute. FinScope has now been included to the list of data sources that SANT will use to monitor trends in the financial sector and for policy formulation.

Already SANT has used the data for policy formulation in the retirement industry. FinScope data was analysed for policy recommendations on the provision of affordable and appropriate vehicles to provide adequately for retirement. This analysis looked at current usage of savings instruments for retirement, attitudes towards savings for retirement and extent of potential demand for savings retirements instruments. The analysis has assisted SANT in engaging in an informed debate with industry on defining the creation of business models that meet the needs of low income households and are affordable.

The FinScope SA data will also be used by SANT to monitor the impact of the AML/CFT regulations on access to finance. Following initial analysis sponsored by the FinMark Trust on the impact of legislation on access where the AML/CFT legislation was found to be particularly constraining, the SANT has taken a lead role in further understanding the impact of AML/CFT on access. The SANT sits on a FIRST Initiative cross-country study to (1) assess the impact on access to financial services of AML/CFT regulation in a selection of developing countries and (2) to develop practical tools to assist developing countries with the implementation of those elements of the FATF Recommendations that may impact on access to financial services.

Other areas that SANT intend to use the FinScope data as a source of information to track the impact of financial regulation and policy on access include:

- Defining, tracking, and publishing key indicators of financial access. The financial access indicator work will also be used as a source of data for high-level meetings, briefings and speeches
- Ongoing review of access of low income households to financial services across all product categories and offered by all financial service providers including low income households
- Ongoing review of the AML/CFT and impact on access
- Ongoing review of the remittance market and impact of regulation
- Impact of the BASEL II standards on access to finance
- Monitoring of Financial Sector Charter (FSC) commitments towards achieving financial access targets and standards. The Financial Access Charter is an agreement between the financial industry and Government on transformation of the financial sector in key areas including black ownership and management, procurement, lending in targeted areas (housing, small business, agriculture, infrastructure) and financial access. The charter was agreed with Government in October 2003. See www.fscharter.co.za for more information on the FSC.

¹ World Bank, "Indicators of Financial Access: Household Surveys", September 2005

² Media Briefing, Deputy President Phumzile Mlambo-Ngcuka – Background Document a Catalyst for Accelerated and Shared Growth – South Africa, February 2006

³ Jonathan Dixon, Chief Director, Financial Sector Policy, Presentation at LOA Convention, August 2005

⁴ Ibid

Defining access to Financial Services – The Financial Sector Charter



Case study – how FinScope has contributed to an improved understanding of access to financial services across the market

The term 'access to financial services' is much misunderstood. For those who do not recognise the potential offered by those at the 'base of the pyramid', it has been defined as access to the physical financial services infrastructure, which is clearly only part of the solution to extending financial services. It was especially critical in the period running up to the signing of the Financial Sector Charter (in October 2003)¹ to develop a definition of access that was broadly acceptable to all stakeholders (the private sector, government, labour and community stakeholders) as the basis for further analysis. The independence of FinMark Trust and the quality of the FinScope data helped in this regard.

In responding to the need to understand the barriers to extending 'access', FinMark Trust, supported by FinScope, developed a definition of effective access, which has three main dimensions:

- geographic access: how far or near a consumer is from the point of service
- affordability: the cost of basic access relative to income
- product features affecting access: this is largely a negative check of those features which prohibit access.

In fact, while the Charter uses the same categories as those developed by FinMark Trust, "the definition in the Charter has even gone further than what FinMark [Trust] had in mind by being more specific on distance". (Motsa, 2003). Recognising that "[FinMark Trust's] role ... has been absolutely critical in helping to create access to financial services as a credible, serious subject, which can be understood and acted upon through detailed analysis" (Springfield Centre, 2005, in an impact assessment exercise carried out for FinMark Trust in which over 50 stakeholders were interviewed, mainly in SA but also internationally), it is FinScope that enables one to recognise what this means in practice. Without information provided by FinScope, it is not possible to assess what the real barriers to access to financial services are.

Why is FinScope different? Again the impact assessment gives some hints:

"First, technical competence and rigour. The findings presented by FinScope are believed and trusted. As important, those undertaking the survey and presenting its findings are seen to be professional and inspire confidence. Second, an emphasis on imaginative communication..... From the outset, FinScope has sought to present its findings in (visual) ways that are imaginative and memorable. It has striven to make its findings "real" – to be an accurate and insightful mirror on reality - for different types of user.

Third, a private product not a public good. Underpinning the above factors, FinScope's efforts to achieve credibility and relevance are shaped importantly by its [private sector] funding status."

In conclusion, whilst one can define access to financial services in a Financial Services Charter in abstract, without information such as that provided by FinScope one is unable firstly to measure the level of effective access or secondly to develop mechanisms to address access in an effective and (crucially) sustainable fashion.

"Across the full gamut of its stakeholders.....praise for FinScope is high and consistent" – Springfield Centre, 2005

¹ Signed in October 2003 the Financial Sector Charter (a copy can be downloaded from www.banking.org.za) committed the financial industry to achieving specific targets in key areas: black ownership and management, procurement, lending in targeted areas (housing, small businesses, agriculture, infrastructure) and, crucially for FinMark Trust, access to financial services. In essence, the Charter embedded access to financial services within a broad based black economic empowerment agenda. The Charter will be gazetted into law.

Consumer Financial Literacy



Case study – how FinScope is helping to address the critical issue of consumer financial literacy

The goal of making financial markets work for the poor depends on the poor consumer being able to engage with financial services providers from an empowered base – thus requiring a level of consumer financial literacy. It is clear that commercial providers benefit from a more financially literate consumer base through (a) an improvement in the quality of their business (e.g. fewer lapsed insurance policies or a better performing loan portfolio) (b) higher levels of public trust in providers and (c) an increase in the visibility of organisations in low-income markets. Without market intelligence, however, it is difficult for providers (or governments or NGOs) to know how to intervene to address the critical problem of low levels of consumer financial literacy.

FinScope has been able to address this information gap. Firstly, it has been able to identify the size of the problem where, for example, in 2004, FinScope found that only 34% of South Africa's adult population knew the correct word to describe 'annual price increases'. 88% had either never heard or did not know what an ombud was. 45% of the banked were "confused" on financial matters. And among the unbanked confusion was at 61%.

Secondly, FinScope's 'Financial Services Measure' (FSM) segmentation model has enabled stakeholders to know whom to target and how to track change. Financial sophistication is a key part of the formula that determines into which FSM segment a consumer falls. Through the FSMs FinScope was able to show that 55% of the population could be broadly defined as financially unsophisticated in terms of attitudes and access to financial services and that this lack of financial sophistication reached high up the income curve. It was also able to pinpoint where, geographically, financial sophistication was weakest.

FinScope has been used as a tool to support planning processes around consumer financial literacy by the The Financial Services Board (which has a statutory obligation to coordinate national policy in this area). Olivia Davids, responsible for co-ordinating consumer financial literacy at the Financial Services Board: "The FinScope surveys have played a major role in South Africa in identifying consumer financial education needs, in following consumer financial behaviour over time and in making valuable information available to others for their consumer financial education programmes".

It has also been used by the South African Insurance Association (SAIA) which was a FinScope syndicate member in 2005. Vivienne Pearson, from SAIA: "SAIA and its members are committed to the Financial Sector Charter, and in particular also to the access and consumer education requirements of the Charter. However, since the FinScope survey of 2003 indicated that short-term insurance only penetrated 0.2% of the lower income market, we realised from the word go that we needed to find out more about the market we needed to reach with appropriate and affordable products and educate in terms of financial literacy, before embarking on our initiatives. The information we received through the FinScope surveys, and especially our participation in FinScope 2005, was invaluable in this regard."

Housing Finance



Case study – the need for information to focus priorities on access to housing finance

Of all the challenges facing South Africa's changing financial markets, none is more politically charged or intractable than the challenge of providing housing finance to lower income people in a sustainable manner. Since 1994, nearly 2 million homes have been delivered under the government subsidy programme providing much-needed housing for the country's poorest households. While this programme will continue, the challenge today is also on how to drive privately-supplied housing finance towards the "base of the pyramid" so that people who qualify for only a partial subsidy (or none at all), who may nevertheless be poor, have a choice of appropriate and affordable products. The complexity in this market stems from the fact that well-functioning housing finance markets need not just appropriate and affordable financial products but also an asset to link housing to and land on which that asset can be built.

A wide range of policymakers and finance providers therefore need information on which to base interventions that will help to eliminate the obstacles that prevent housing finance markets working for the poor.

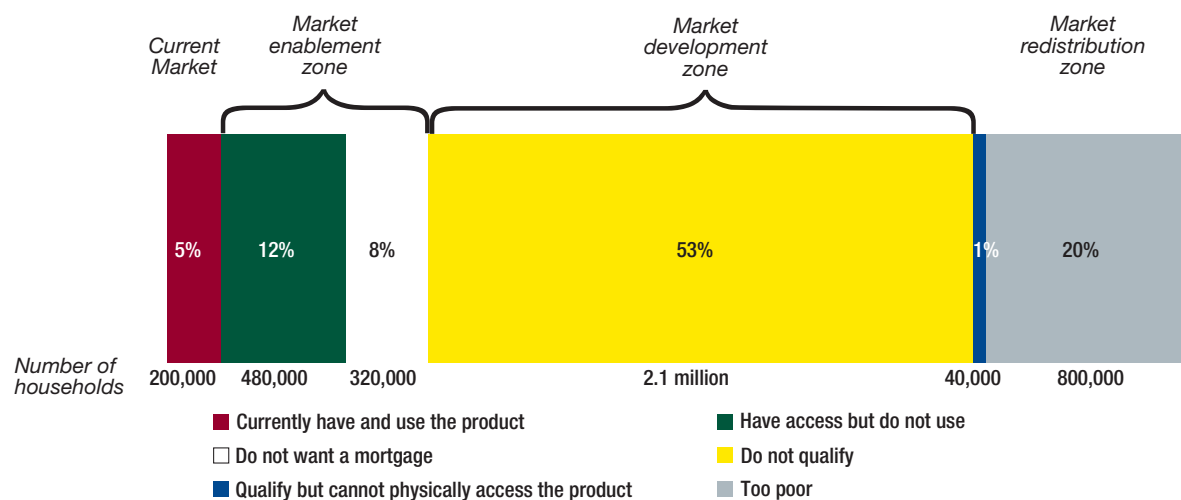
In recent years, South Africa has experienced some of the most dramatic increases in residential property prices – for example, prices rose by 32% in 2004. Thousands of poorer households have missed out on this for many reasons, not least because of a lack of appropriate housing finance products that would have enabled them to acquire a home. Since November 2003, the Financial Sector Charter¹ (FSC) signatories have explicitly targeted households earning between R1,500 and R7,500 as beneficiaries of housing credit. An estimated 870,000 households fall within this group, or 12 million people. In the two and a half years since the Charter was signed, it has been impossible to determine the extent to which access to housing finance by the poor has improved.

A key constraint in understanding the parameters of the housing finance challenge has been the lack of information. Research conducted for the FinMark Trust found that banks are not willing to make data available on the size of their low income loan books or their annual advances to this segment. Some banks claim that this information is too sensitive to reveal, while others prefer to wait until such statistics have been audited. Some have also argued that banks currently do not collect their data in such a way where loans targeted at low income clients might be isolated and analysed. The lack of reliable trend data with respect to the usage of mortgage products in the target market frustrates efforts to assess the extent to which usage has increased and how far down the household income scale such lending extends.

In 2006, FinMark Trust commissioned a paper charting the housing finance access frontier, using FinScope data. The paper found that notwithstanding impressive Banking Association SA figures of R16,7 billion of housing lending to the FSC target market since November 2003, only 5% of the target market currently has access and fully 53% of households in the target market do not qualify for the privately supplied mortgage products that are currently available.

¹ Signed in October 2003 the Financial Sector Charter (a copy can be downloaded from www.banking.org.za) committed the financial industry to achieving specific targets in key areas: black ownership and management, procurement, lending in targeted areas (housing, small businesses, agriculture, infrastructure) and, crucially for FinMark Trust, access to financial services. In essence, the Charter embedded access to financial services within a broad based black economic empowerment agenda. The Charter will be gazetted into law.

Housing Finance continued



This information has captured the interest of the press as well as the Banking Association SA. The National Department of Housing has also been interested and has requested a presentation on the material. It is hoped that the data will contribute towards encouraging banks and the Banking Association SA to reconsider the targeting of their products, so that access to housing finance is indeed enhanced.

Insurance



Case study – creating baseline data on insurance for all stakeholders

Insurance is an area that has received little donor attention except in terms of building supervisory capacity or through a focus on delivering insurance via NGOs and mutuals. And yet, FinScope has demonstrated that insurance is often one of the most demanded forms of financial service. It has found that 8 million South Africans (37% of adults) are members of informal (mutual) funeral insurers, contributing approx \$1bn per annum to managing these risks. Whilst the banked population in SA is 48% (18+), funeral insurance covers a number of household members. Accordingly, FinScope allows one to state that that funeral insurance is the *most* demanded (and used) financial service in South Africa. (FinScope 2004)

As Nic Kohler, Executive Director of Hollard Life, pointed out at the Life Offices Convention (2005), the life insurance industry had for years thought that the lower income market may actually have been oversold. However, after the life industry joined the FinScope syndicate in 2004, it found that the market was in fact considerably underserved. FinScope has therefore identified the scale of the challenge facing the life industry but also allowed it to set realistic, yet demanding, targets for expanding access to insurance as part of its Financial Sector Charter commitments.

Ironically, the term 'insurance penetration', which is used by insurers to describe insurance premium as a percentage of GDP, bears no relation to the penetration of insurance into the consumer market. South Africa is famed for having the highest life insurance penetration in the world (11.53% premium/GDP as against 4.22% premium/GDP in the US: Swiss Re 2005) yet FinScope SA shows that less than 10% of the population has (formal) life insurance. It is therefore apparent that the South African regulator had been regulating a successful and stable industry – yet only for a tiny majority of the population. The rest of the population have only had informal products to fall back on. As the growing discontent from the population shows, this is neither politically desirable or sustainable.

FinScope has therefore allowed a much better understanding of a critically important market, both from a formal and informal perspective. This has been able to inform the decisions taken by government, regulators and commercial insurers in understanding and serving the market effectively.

Social Grants



Case study – how FinScope data, especially in its spatial form, has supported policy implementation around the payment of social grants in South Africa

FinScope has refined the South African Department of Social Development's (DOSD) policy formulation and strengthened the action plans of its implementing arm (the South African Social Security Agency, SASSA), in respect of bank accounts and other financial services for social grant beneficiaries.

DOSD's own 2004 survey of social grant beneficiaries included questions, patterned after those in FinScope, to determine the existing usage of bank accounts and the propensity for beneficiaries to prefer payment into a bank account, versus the currently predominant cash payment method. In turn, the stronger comparability of the DOSD and FinScope data allowed FinMark Trust to make more robust policy recommendations to DOSD, such as the types of beneficiaries that DOSD may first target and the product features most likely to find favour with beneficiaries.

DOSD's geographic information system, SOCGIS, also has incorporated insights from FinScope into its design, mainly in the pay point attribute information attached to each spatial record. SOCGIS, in collaboration with the FSA database¹, will assist SASSA to spatially optimise its delivery of payment and social security services. Having incorporated elements such as point of sale proximity, mobile phone access, and type of bank branch, SASSA will have a better idea of all of the options available for beneficiaries to link into the national banking infrastructure.

FinScope's insights on microcredit, funeral, and burial insurance have also helped DOSD to consider its policies and potential actions around controlling the access of beneficiaries to these services at pay points. Many unscrupulous players have exploited unsuspecting beneficiaries with usurious and aggressive microcredit and shoddy insurance scams, thereby prompting DOSD to consider banning all such services. However, the FinScope studies have highlighted the importance of these financial services, and therefore encouraged DOSD to reconsider how it can both protect the consumer rights of beneficiaries, while still ensuring provision of highly demanded financial services.

¹ The FSA database, now in demonstration, is a multi-tier database developed by FinMark Trust that combines data from various governmental and non-governmental sources in a way that allows financial access to be represented spatially across the country. The database combines physical data, such as roads and rivers, with bank data (such as ATM and bank branch outlets), with public information, such as the whereabouts of sports grounds and schools, with FinScope to create a rich planning tool for commercial and policy use.

ABSA



Case study – study of how South Africa's largest retail bank has used FinScope to support its mass market strategy

Absa is South Africa's largest retail bank. It is capitalized on the Johannesburg Stock Exchange at around R80bn and in the year to 31 March 2005 made headline earnings of R5.5bn. Together with UK-based Barclays, which acquired a controlling interest in Absa in 2005, it is one of the African continent's pre-eminent financial services groups. Absa has been a syndicate member of FinScope since 2003 and has recently also supported the FinScope Small Business pilot which aims to create baseline information on small business activity.

Absa is a co-signatory to the Financial Services Charter, the document under which SA's financial services industry committed itself to racial transformation and to extending access to financial services to the poor. Usage of bank accounts among poorer people (Living Standards Measure 1-5) stands at 32% according to FinScope and the banking industry has committed to ensuring that 80% of LSM1-5 have effective access to bank accounts by 2008.

For Absa, as for the other banks, this requirement to comply with the Charter, as well as the growing recognition that this part of the market is an economic opportunity in own right, has created an urgent need to develop a much better understanding of this underserved part of the market and FinScope has been able to support this process.

As Sonja van Vliet, of Absa's New Business Opportunities says: "[FinScope gave us]...major assistance on a sub-segmentation exercise not to look at the mass market as a globulous mass of poor customers with very basic financial needs but to understand the nuances of the formal and informal activities of the mass market which may have limited income but a universe of needs". Absa invested substantial sums in this exercise which took FinScope's Financial Services Measure (FSM) segmentation as the basis for developing a customer value proposition for this emerging market segment.

The FSM, which segments consumers according to their usage of financial products, their access to financial services, their financial sophistication and their quality of life, allows banks to develop a detailed understanding of how consumers interact with the financial services industry. Because FinScope uses area-based sampling methods, it is possible to represent the population by FSM geographically practically down to street level, providing the basis for very accurate and efficient strategic marketing.

Renee Roux (Head of Marketing Intelligence at Absa): "Until FinScope there was no single source of information that provided us with an in-depth understanding of the lifestyles of different segments of the SA population...FinScope, together with its FSM model, really gave us that edge in terms of getting such an insight that we could really develop a customer value proposition for the mass market".

Botswana



Case study – of policy impact in Botswana

Following a pilot study in 2003, FinScope was run as a full study in 2004 and launched in February 2005. The study was funded 50% by FinMark Trust and 50% by 5 private sector institutions from the banking and insurance sectors. Publication of the findings coincided with two important events for the financial sector in Botswana:

- a review of options concerning the possible merger and privatization of Botswana Savings Bank (BSB) and the National Development Bank (NDB); and
- the Mid-Term Review (MTR) of National Development Plan 9 (NDP 9).

Botswana's economic and social development policy framework is laid out in successive National Development Plans; NDP 9 covers the period 2003-2009. The MTR was prepared during 2005 and approved by Parliament in December 2005. The timely release of findings from FinScope meant that FinMark Trust was able to inform the policy debate around access to banking, such that this topic features for the first time in a government policy statement.

Chapter 7 of the MTR, on Finance and Banking, notes that "Much remains to be done in expanding services to the unbanked. A recent survey (FinScope) found that 57% of the population is currently unbanked....Simultaneous with this situation, the commercial banks operating in Botswana are earning an exceptionally high return on equity by international standards. In light of this combination, there is an important social opportunity for the commercial banks to reinvest some of that return in extending banking services to the unbanked" (paragraph 164).

It is worth recording that the March 2006 Budget speech continues this theme: "There is an important opportunity for innovative formal sector financial services institutions to expand services to those members of the public that currently do not have access to their services".

In the MTR of NDP 9, reference is also made to the future of BSB and its possible merger with NDB, perhaps leading to privatization. "However, in doing so (privatizing BSB), it would be important not to lose sight of BSB's role in serving lower income groups". Because FinScope had highlighted the fact that BSB was market leader in rural areas (with 35% of the market) FinMark Trust was able to highlight the possible risks that a poorly executed merger and privatization of BSB could have on access to banking in rural areas, and among lower income groups more generally.

The statements in the Mid-Term Review will provide the basis for the formulation of policy over the next three years, and should become enshrined in NDP 10, the preparation of which starts in 2007. FinMark Trust sees the Government's commitments to improving the provision of financial services to unbanked communities as providing a strong basis for round table discussions with financial sector stakeholders, possibly with a view to drawing up a form of financial access charter to guide future developments in this area.

Bank Windhoek



Case study – of innovation by a leading formal sector provider.

Bank Windhoek is one of Namibia's leading banks. It has 43 branches and 61 ATMs across the country and in the year to 30 June 2005 made a net profit of N\$169m (US\$27m).

In 2003 Bank Windhoek was awarded a grant from DFID's Financial Deepening Challenge Fund (FDCF) which assisted the bank in extending its branch network to the rural and remote communities in Namibia, especially in the far north and south of the country, which were for some time excluded from the formal banking system. The grant also enabled Bank Windhoek to do a comprehensive market study into the needs of the "unbanked" market (FinScope), the development of a credit scoring model which could be used in servicing that market and the development of affordable and accessible products.

Bank Windhoek was FinMark Trust's syndicate partner on FinScope, contributing 50% of the costs of the study. Their motivation for participating in FinScope was to gain insights into the markets and needs of existing and future clients who had been traditionally excluded from Namibia's formal banking system. FinScope would be, as they describe it, the "route marker" to getting to understand these new markets and clients. FinScope has enabled Bank Windhoek to engage in innovation that truly responded to the needs of its markets, as the success of the EasySave product demonstrates.

Aimed at those earning less than N\$1,500 per month (US\$240), EasySave has the following features:

- no payslip is required when opening an account
- no deposit fees are charged and withdrawal fees are low
- minimum balance of only N\$20 (US\$3) to be kept in the account
- monthly service fee of only N\$2 per month
- free life insurance cover worth N\$2,500 (US\$400)

The product was launched on 14 November 2005 and by April 2006 had already attracted 20,000 individual savers, saving in aggregate N\$6m (US\$1m). The vast majority of these clients are new to the bank – there has been insignificant cannibalization of the existing client base. A credit product, EasyCredit, also designed using FinScope findings, is being piloted in community branches at the moment and already a total of 80 loans have been taken up.

FinScope has therefore been used by Bank Windhoek as a critical part of a formal strategy to target consumers of financial products and services at the base of the financial pyramid.

