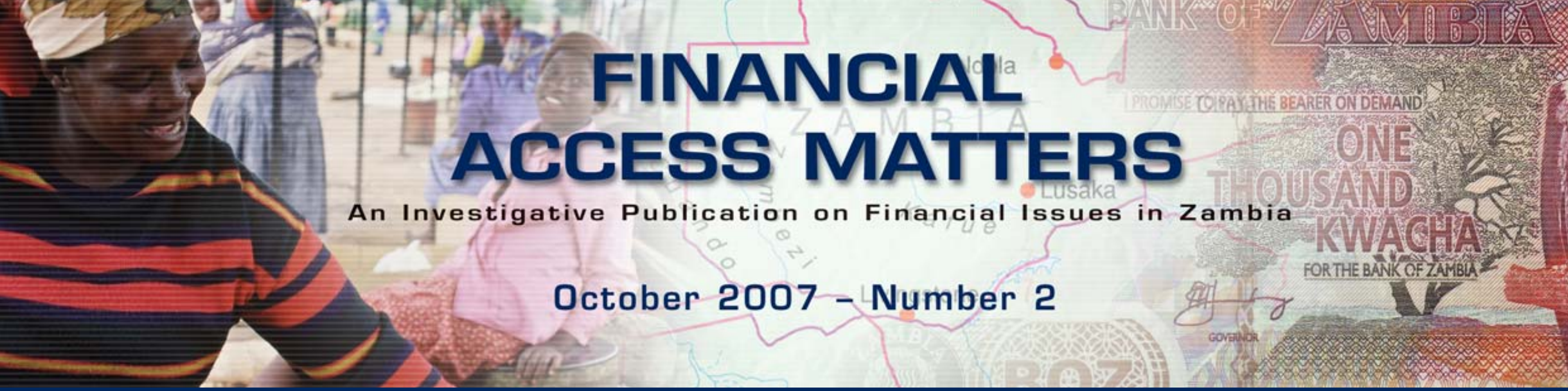

# FINANCIAL ACCESS MATTERS

An Investigative Publication on Financial Issues in Zambia

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## MEASURING MARKET POTENTIAL: THE FINANCIAL ACCESS FRONTIERS

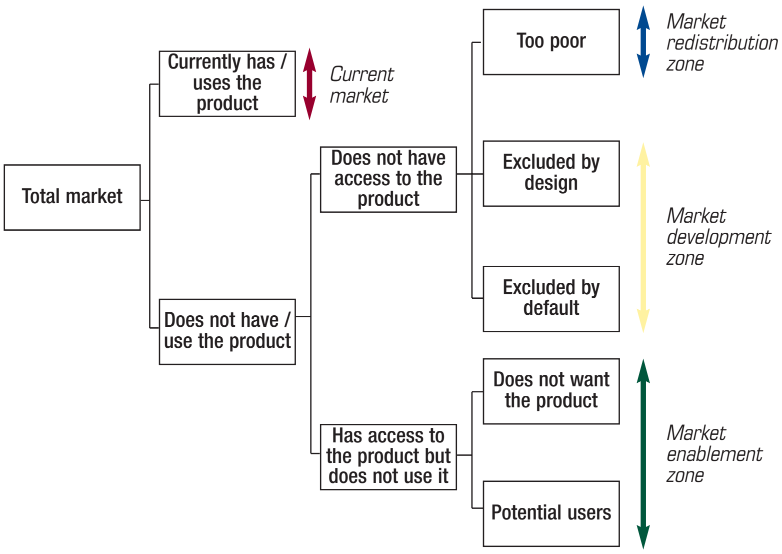
### Introduction

Access to finance is an important topic for policymakers in Zambia. Research shows that there is a strong relationship between access to finance and economic growth. But what do we mean by access? Several researchers have noted that access to financial services and usage of these services are not necessarily the same thing. Many more people have access to a financial service or product than those who choose to use it. Various factors can impede effective access. Product providers may restrict access with basic requirements with which prospective clients must comply, such as a minimum or maximum age, minimum income levels or sectors of employment. Not being near to service points may also be a barrier to access. Affordability may curtail access to a product when the minimum contribution stipulated by the product provider is too high. Access to contractual savings products that require a monthly contribution may be limited to those who have a regular income. Awareness of a product and how to buy it are also prerequisites for effective access. Any analysis of access is therefore more complex than a review of usage. It means that the features of any product, such as pricing and product structure, and the way in which it is marketed, sold or serviced – that is, all aspects of the value proposition – must be looked at relative to the characteristics of the market.

### The access frontier

The access frontier methodology[1] can be used to guide an analysis of access. This methodology segments the market into those who currently use the product; those who don't use the product but have access to it; and those who do not have access to the product. This last segment is further broken down into those who do not have access because they appear to be too poor; and those who do not have access because various features of the product effectively exclude them from using it. This segmentation profile is illustrated in Figure 1.

**Figure 1 – The access frontier**




Those who are too poor for a product fall into the **market redistribution zone** – so called because redistributive interventions, as opposed to market-driven interventions, may be required to meet the needs of this segment.

Those who do not currently have access to a product for other reasons fall into the **market development zone** – as the market develops and technology changes they are likely to be able to access the product in the future.

Those who do have access to a product but are not current users lie in the **market enablement zone**.

The access frontier methodology is particularly well suited to assess products with specific features that explicitly, or implicitly, exclude segments of the market on the basis of objectively quantifiable criteria. For example, prospective banking clients might be required to present a salary slip to open an account, effectively excluding those without a formal job. It is relatively easy to use survey data to quantify the segment of clients excluded from accessing a product for this reason.

[1] The Access Frontier Methodology was developed by David Porteous and is outlined in a 2005 paper called *The Access Frontier as an Approach and Tool in Making Markets Work for the Poor*, available at http://www.finmark.org.za/documents/2006/July/AccessFrontierTool.pdf

However, when effective access is impeded by subjectively determined factors, applying the methodology becomes more complex. Physical proximity is an example. Individuals may differ on the extent to which they regard distances or travel times to various access points as acceptable or not. Quantifying a physical access constraint would therefore be fairly difficult and certainly open to dispute. Affordability is another obvious example of a subjective constraint, as the question of whether a product is affordable or not, in part, reflects the preferences of the individual.

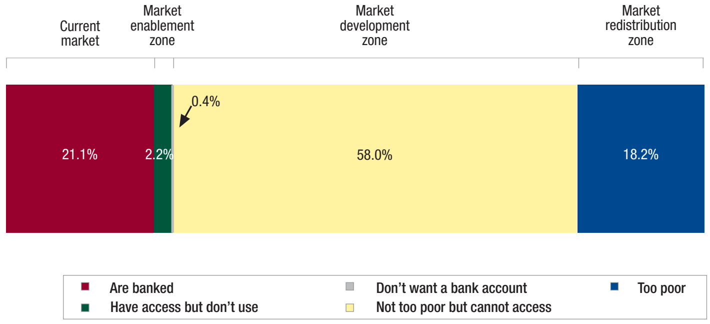
In such cases, various proxies can be used to indicate the impact of these subjective constraints. The analysis in this booklet should therefore be regarded as a point of departure for further discussion and debate rather than a definitive view on the question of access to financial products.

A range of formal products are explored, including bank accounts, various insurance products (funeral insurance, car insurance, homeowner and household contents insurance) and microfinance loans. The analysis is presented for a single, typical product in each category. Each product and provider has its own client-qualifying criteria, target markets, physical footprints and operating models. The access frontiers apply to the specific product chosen for the analysis. If another product had been selected, the resulting access frontier might well look different.

## The access frontier for bank accounts

Using data from FinScope™[2] about issues such as proximity and awareness, together with various usage and expenditure assumptions that inform an analysis of affordability, an access frontier for a basic transaction account has been developed (see Figure 2). The analysis is restricted to those who have an income from any source, including salaried employment, informal business income and remittances, as those who do not have an income are unlikely candidates for a bank account.

**Figure 2 – Access frontier for transaction banking – excluding those with zero personal income**




The product used in this analysis has the following pricing parameters: K2 500 monthly fee, K1 500 per ATM withdrawal, K10 000 per statement retrieval, initial deposit of K100 000. It is assumed that a user would make three ATM withdrawals a month and would obtain a statement twice a year. In addition, users would allocate a maximum of 2% of personal income towards transaction banking costs. The minimum monthly income required to sustain this product would be K450 000.

The frontier indicates that few people in Zambia have access to banking services (for this product usage provides a good indicator of access). A significant barrier to access is proximity. Around 50% of potential clients who are not in the redistribution zone say there are too few banks nearby; around 50% associate with banks the statement, "They are too far away from where I live, work or usually go".

Awareness of banking terminology is also limited. More than two-thirds of potential clients do not understand the term "ATM" or "cashpoint card". Fourteen percent do not understand the word "bank". The impact of constraints relating to "know your client" requirements, while certainly a factor for some products, is limited compared to these other constraints.

The analysis does not incorporate the effect of required minimum balances on access, a critical factor that, according to FinScope™, directly affects where, or indeed whether, people bank. According to data published by the Bank of Zambia[3], account-opening balances range from K50 000 to as high as K1 000 000.

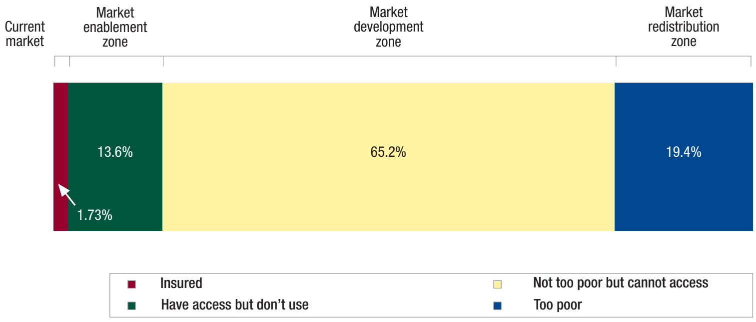
## The access frontier for insurance

### Funeral insurance

Because funeral insurance is regarded as a household product, the analysis on access has been restricted to the head of the household only. An access frontier has been developed using survey data to assess barriers such as physical proximity and awareness (see Figure 3). An assumption about the maximum a household would spend on funeral insurance (5% of household income in this analysis) is used to assess affordability.

Critical access barriers for funeral insurance include physical access, affordability and awareness.

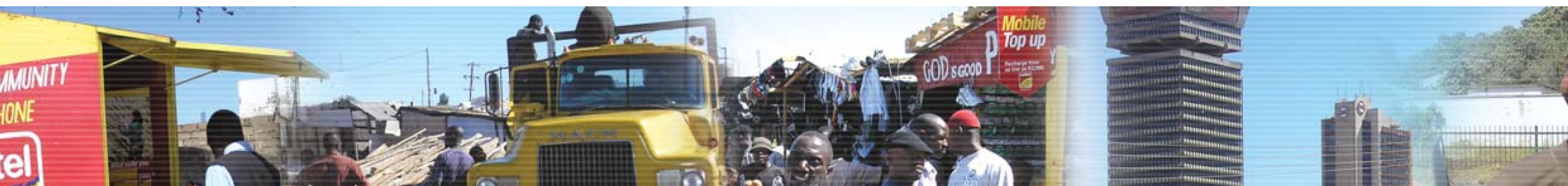
**Figure 3 – Access frontier for funeral insurance – household head only**




The product used in this analysis is available to those aged 18 to 65. Minimum premiums are K1 000 per person per month. It is assumed that a household has six people and that the monthly premium is K6 000.

[2] FinScope™ is a demand-side survey exploring how adults interact with financial markets. A FinScope™ survey was conducted in Zambia in 2005. More information can be found at www.finscopeafrica.com.

[3] Data as at 30 June 2006. It is a statutory requirement in Zambia for registered commercial banks to publish their tariffs on a quarterly basis.

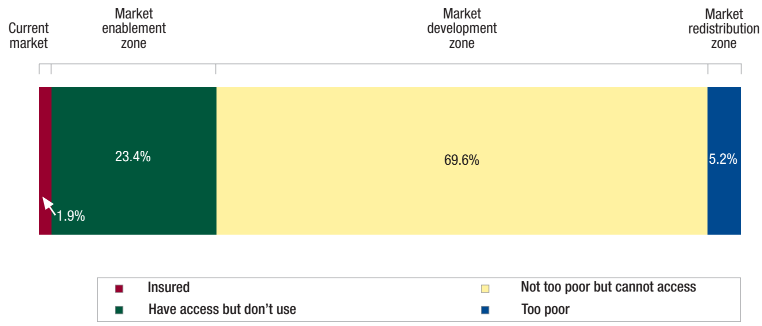


### Household contents and homeowner insurance

A similar analysis is undertaken for household contents (see Figure 4) and homeowner insurance (see Figure 5). As with other insurance products, the analysis of these household products is restricted to household heads only.

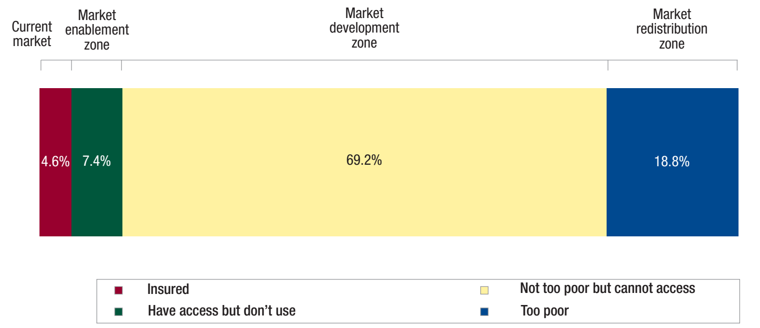
The market enablement zone for household contents insurance is relatively large. This is partly a function of the market itself: many of those with insurable items, typically consumer durables, are relatively affluent.

**Figure 4 – Access frontier for household contents insurance – household head where there are insurable items (e.g. TV, fridge) in the household**




The product used in this analysis is available to those aged 18 and over. Minimum premiums are K250 000 a year paid annually. Only households living in secure structures can buy household contents insurance.

**Figure 5 – Access frontier for homeowner insurance – household head (homeowner)**



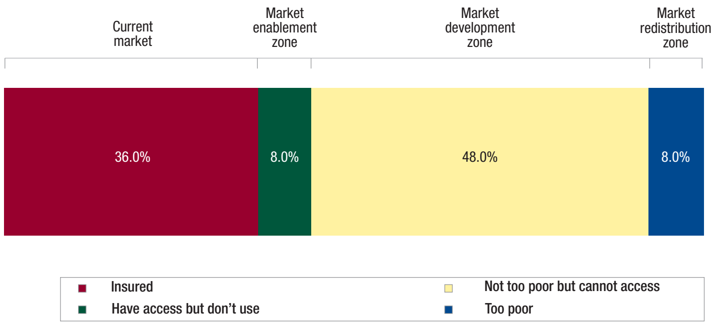

The product used in this analysis is available to those aged 18 and over. Minimum premiums are K250 000 a year paid annually. Only households living in secure structures can buy homeowner insurance.

### Car insurance

This analysis of access to car insurance is restricted to those who appear to have a car – although it is not possible to determine this with accuracy using FinScope™ as car ownership can be ascertained only for the household rather than for an individual. The analysis is restricted to the head of the household on the supposition that if the household owns a car, the head of the household is likely to be the direct owner.

According to this analysis, most car owners are uninsured and relatively few appear to have access to the product – primarily because of affordability, awareness and physical access, although having a car would minimise such barriers. The analysis does not incorporate the impact on access of lump sum requirements where premiums must be paid annually or quarterly (see Figure 6).

**Figure 6 – Access frontier for car insurance – household head where there is a car in the household**




The product used in this analysis is available to those aged 18 and over. Minimum premiums for third party insurance are K450 000 a year paid annually or quarterly, with slightly higher premiums if paid quarterly.

**The insurance market**

Three comments about insurance in general are worth making:

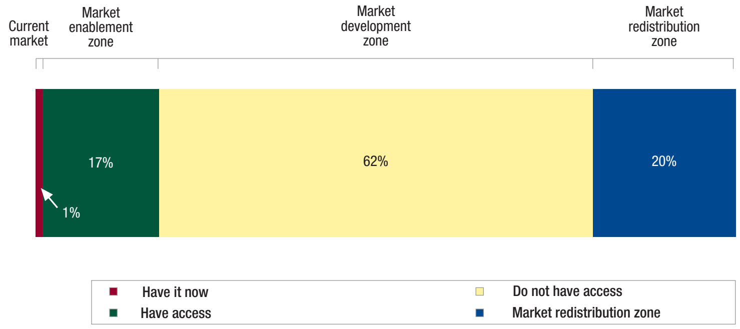
- The levels of awareness about insurance are low. According to FinScope™ about 50% of potential clients do not understand the word "insurance". The absence of informal insurance in the Zambian market poses an additional challenge for providers. Not only is a there a lack of familiarity with terminology, but experience of the concept of insurance is also limited.
- The payment of annual premiums is an issue. There is no data in FinScope™ to enable an assessment of the impact of a lump sum premium payment on access. However, it is likely that this constrains access significantly as it imposes a financial burden on potential clients each year when premiums must be paid. In addition, many people who might be able to afford insurance may withdraw from the market because of the premium payment schedule. The enablement zone for insurance products could therefore be a potential market in which smaller premiums are collected more frequently. In the case of household contents and homeowner insurance, the enablement zone is noticeably larger than the present market, indicating scope for growth.
- The natural limit of the market is unknown. Of those who seemingly have access to insurance products, it is not clear how many made an informed choice not to use the product. There is no data in FinScope™ to indicate the size of this segment. In the case of insurance, it's likely that many people would choose to absorb the risks associated with theft, loss or damage to belongings or property rather than pass them on for a cost.

## Access frontier for a loan from a microfinance institution

An access frontier for a microfinance loan for productive purposes is limited to business owners only. The analysis of this sector, using the access frontier methodology, is complicated by the underlying pro-poor focus of many microfinance institutions. Some products and institutions by their nature target the poorest of the poor – those who would be in the market redistribution zone for other financial products. Indeed, for some institutions, redistributive mechanisms such as donor funding are critical, although increasingly microfinance institutions are encouraged to become financially sustainable. A more difficult conceptual issue about the redistribution zone is that, more so than with other financial products, the hope is that microfinance loans will help users to emerge from poverty.

Nevertheless, the methodology has been applied to a fairly high-value loan targeting small businesses owned by the near-poor as opposed to those who live in extreme poverty. The analysis highlights the limited use of credit products by business owners, and indicates that many would not be able to access the product under review, primarily because of affordability – a finding specific to the underlying product. Awareness and physical access are also significant barriers (see Figure 7).

### Figure 7 – Access frontier for a microfinance loan – business owners




The product used in this analysis is available to business owners only using a mutual guarantee as collateral. Loans are granted to groups of 20 borrowers. The minimum loan size is K6-million and the instalment is K450 000 per week from the group. Loan officers collect instalments and bank accounts are not a requirement.

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