



Access to financial products in Zambia: an analysis based on FinScope data

February 2007



This presentation is incomplete without the accompanying oral commentary (see end of presentation)



Agenda

- 1. Welcome and objectives
- 2. Common segmentation models
- 3. Usage of financial products
- 4. Access frontier for a bank account in Zambia
- 4. Access frontier for insurance in Zambia
- 4. Access frontier for MEL loan in Zambia



Objectives

- Provide a 'broad-brush' picture of the Zambian consumer market
- Provide an overview of usage of financial products with emphasis on Banking, Insurance and Microfinance
- Introduce various research tools and approaches to analysing consumer data (segmentation, developing value propositions, usage strands, access frontier)

Agenda

1. Welcome and objectives

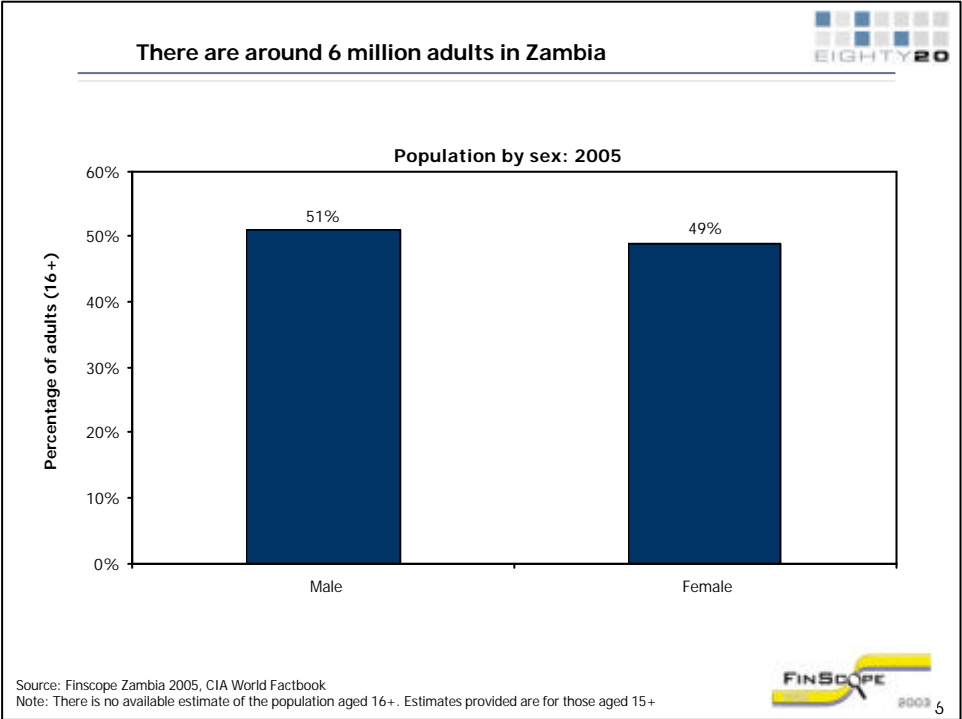
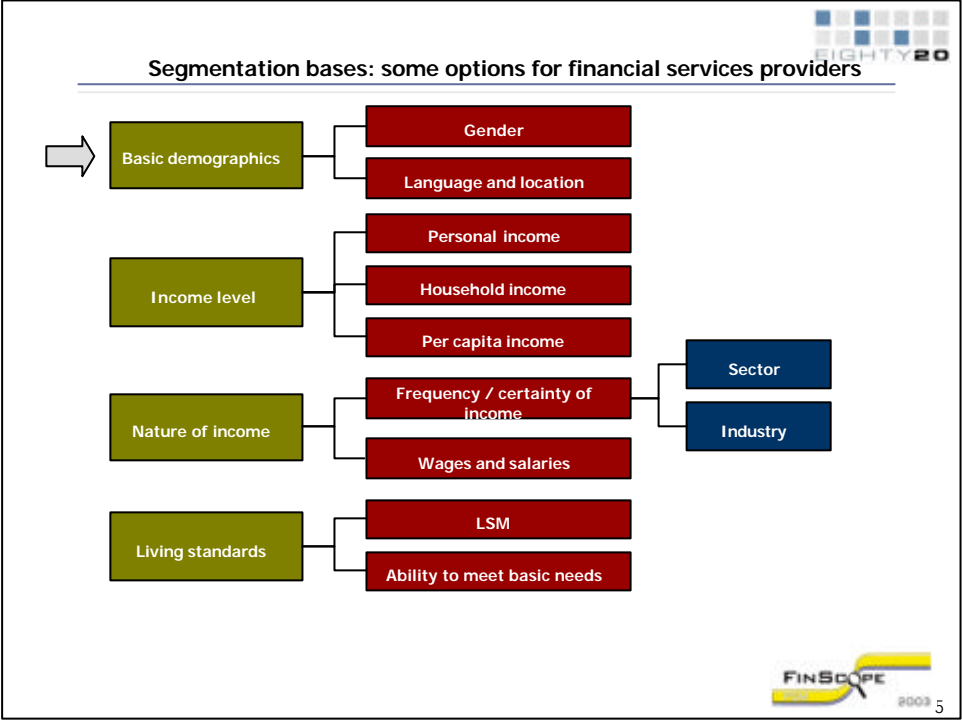
2. Common segmentation models

3. Usage of financial products

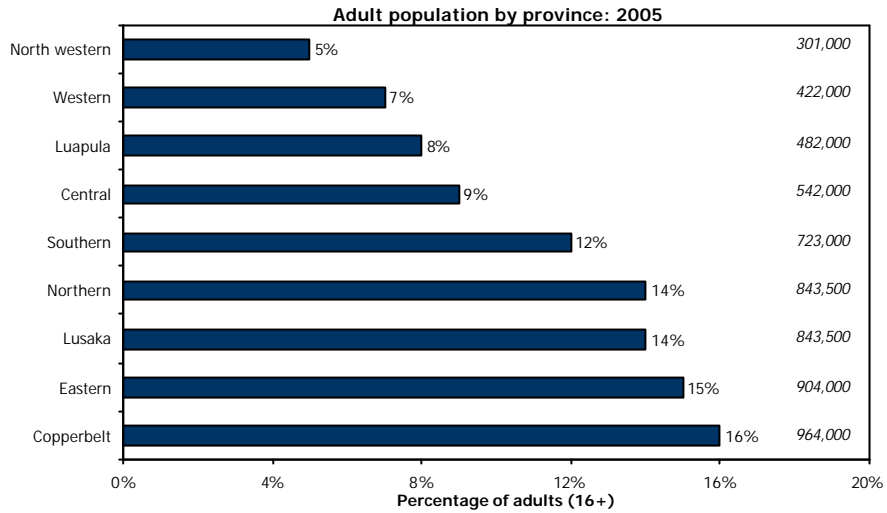
4. Access frontier for a bank account in Zambia

4. Access frontier for insurance in Zambia

4. Access frontier for MEL loan in Zambia



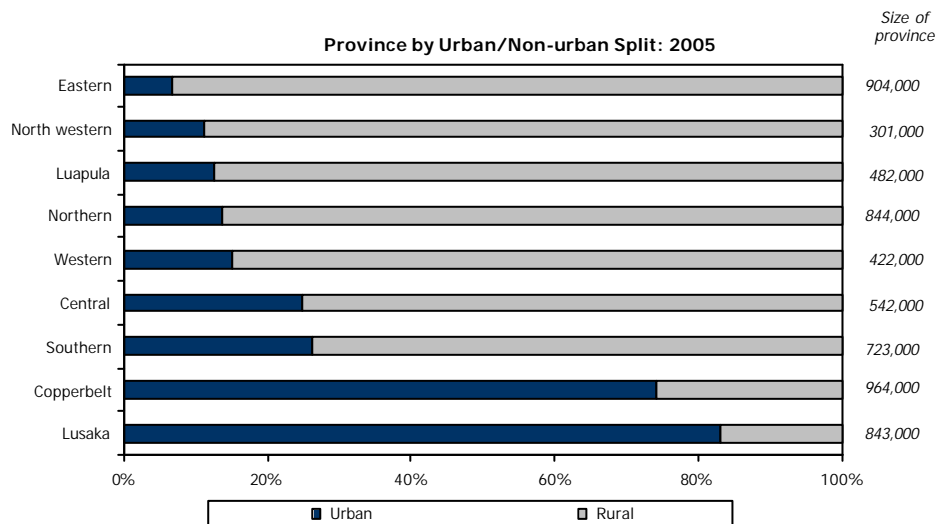
The Copperbelt has the largest population



Total estimated adult population at 2005: 6,025,060 (!)

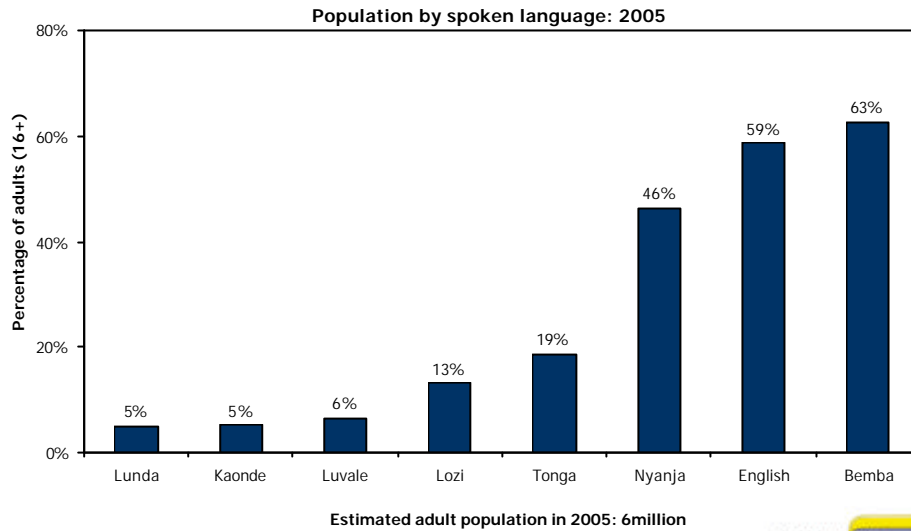
Source: Finscope Zambia, CIA World Fact Book

Lusaka is the most urbanised province while the Eastern province has the highest proportion of people in rural settings



Source: FinScope Zambia 2005

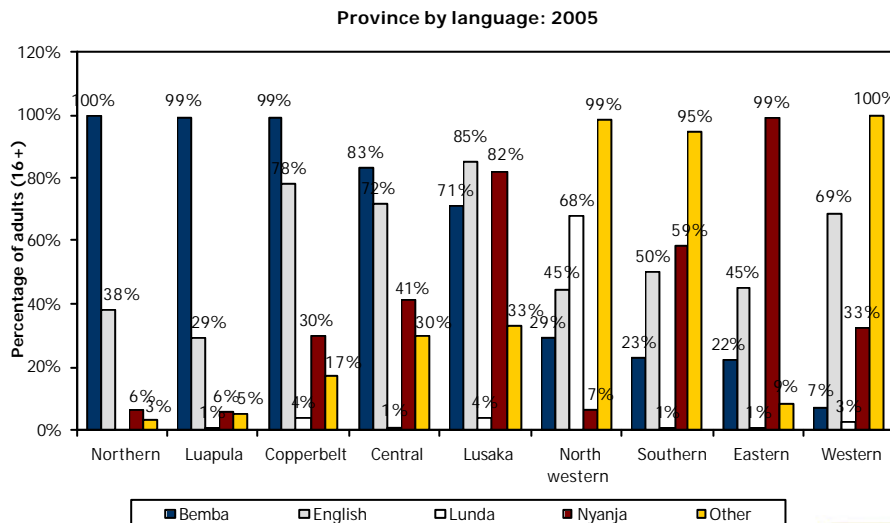
Many people speak more than one language. Bemba is the most widely spoken language followed very closely by English and Nyanja



Source: FinScope Zambia 2005



There is significant variation in language across provinces

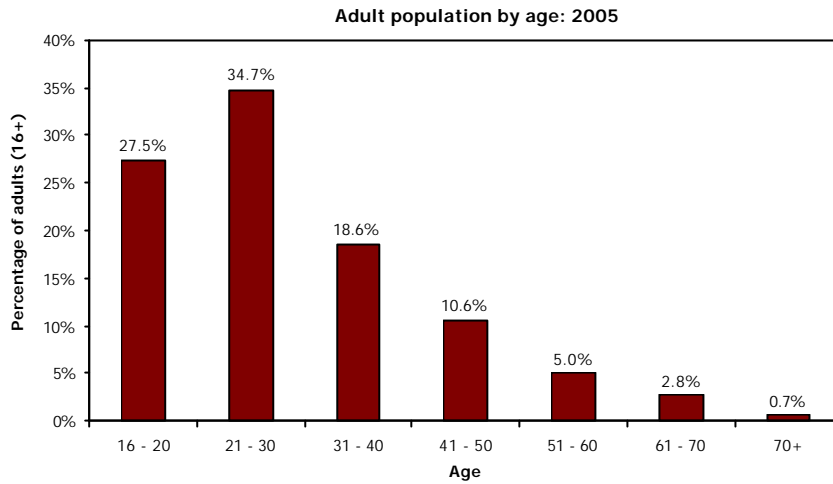


Source: FinScope Zambia 2005

North Western: Kaonde (56%) and Luvale (53%), Southern: Tonga (93%) and Nyanja (59%), Western: Lozi (100%)



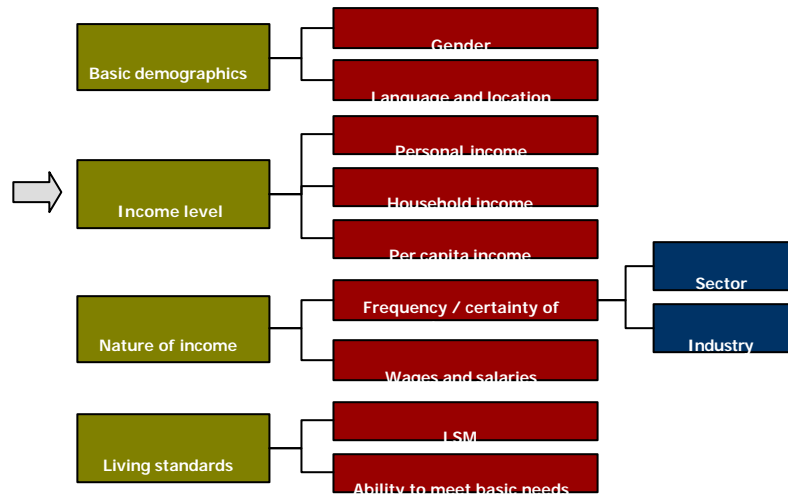
Over 1/3 of adults are between the ages 21 and 30



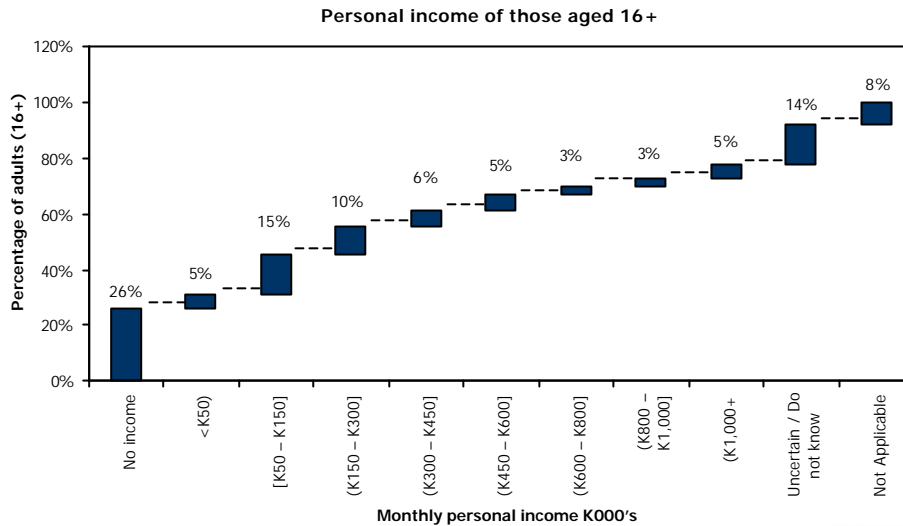
Total estimated population 2005: 6 million

Source: FinScope Zambia 2005

Segmentation bases: some options for financial services providers



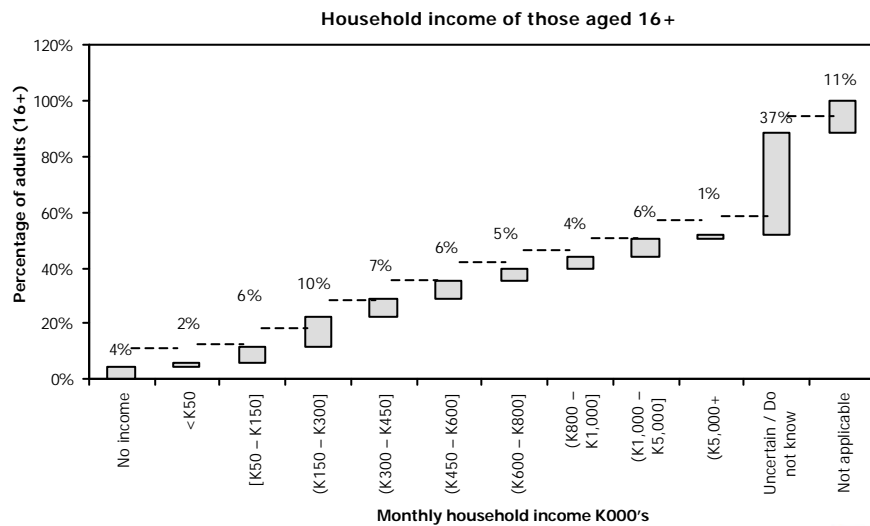
Based on FinScope Zambia 2005, 46% of adults aged 16 or more earn less than K150,000 per month. A relatively high proportion do not know their income



Source: FinScope Zambia 2005



Household income may be a more useful proxy for ability to purchase. Again, many people do not know their household income

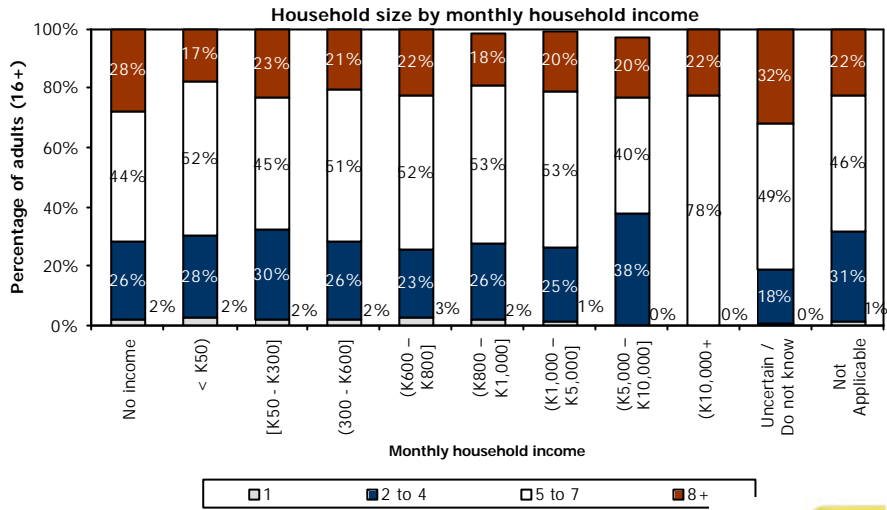


Source: FinScope Zambia 2005

62% of those below the age of 20 do not know what their household income is
 15% of household heads do not know what their household income is
 17% of main income earners do not know what their household income is



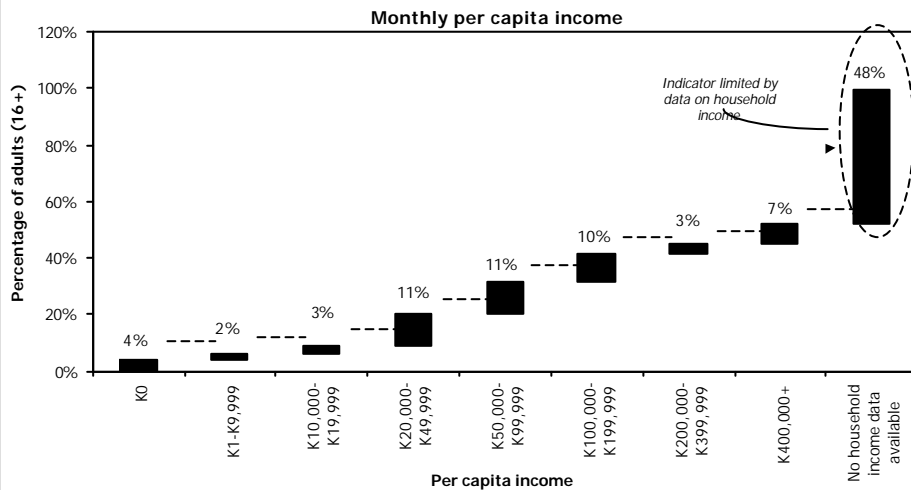
Households are relatively large across all income bands. 75% of adults have more than 5 members of their households



Source: FinScope Zambia 2005

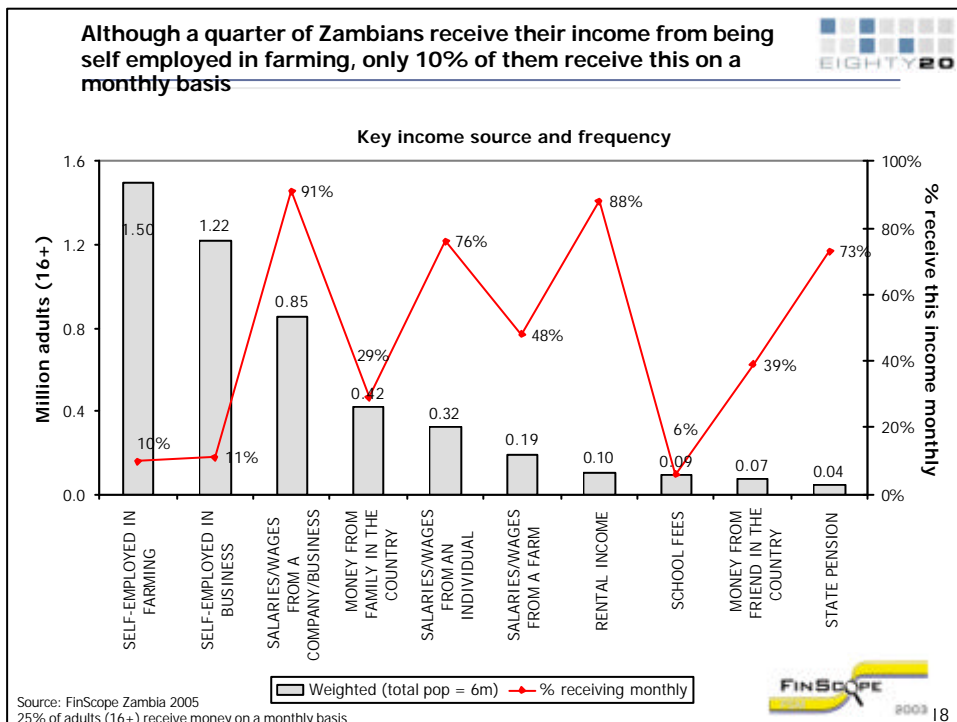
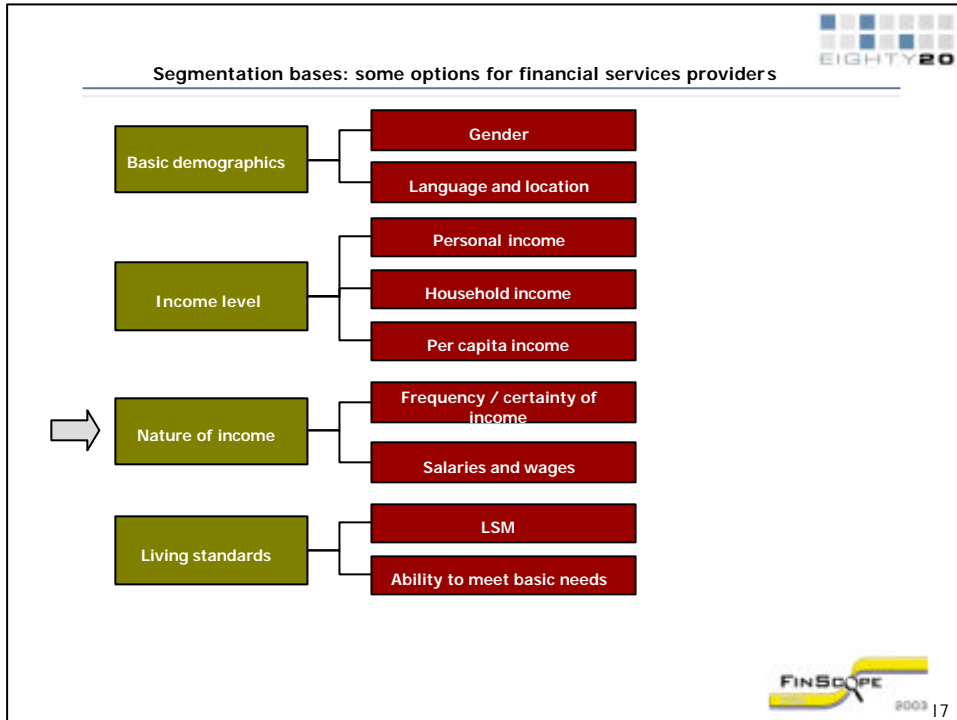


Over 30% of adults have a per capita income of less than K100,000 per month. According to the CSO, the food basket is around K114,000 per person

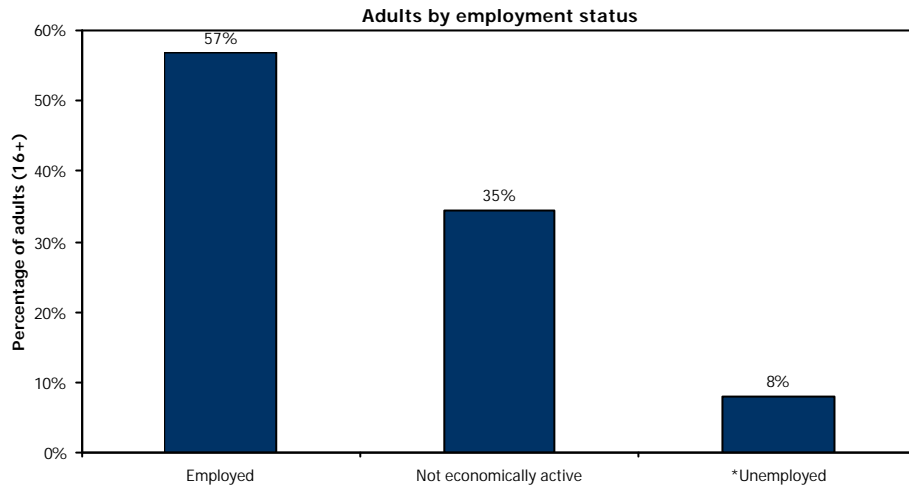


Source: FinScope Zambia 2005, CSO (food basket for a family of 6 in November 2006 was K685,115. The basket for food and basic needs for this family was K1,105,351)
 Note: per capita income based on number of people in household and household income. No adjustment is made for children. Mid point of the household income band has been used in the calculation





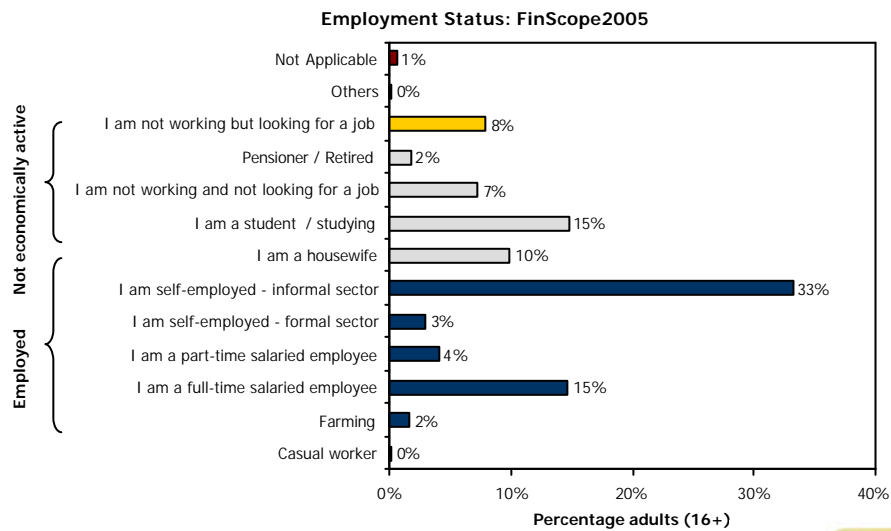
12% of economically active Zambians below the age of 65 are unemployed



Source: FinScope Zambia 2005
 * Those who answered yes to "I am not working but looking for a job"



A relatively high proportion of the population are students



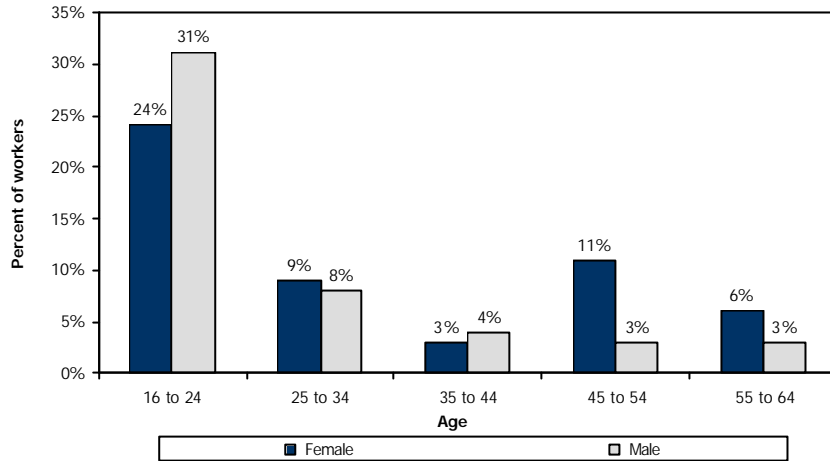
Source: FinScope Zambia 2005



The unemployment rate is highest among young men



**Unemployment rate by age and gender: 2005



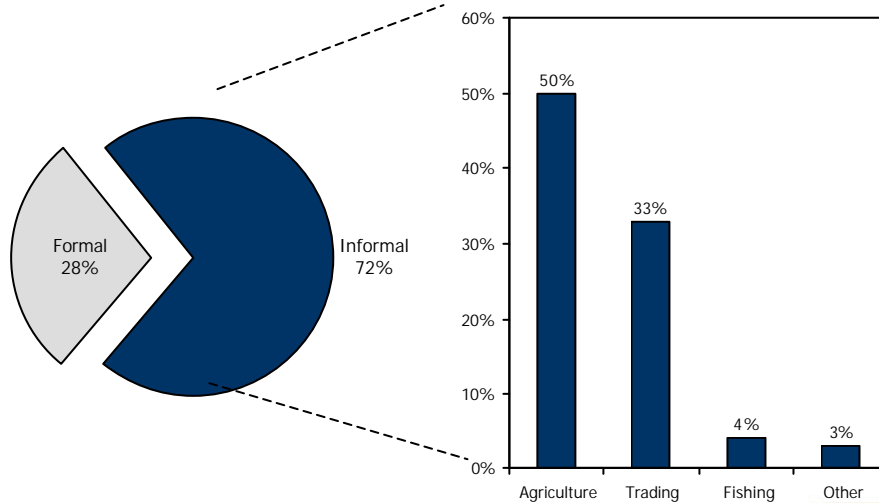
Source: FinScope Zambia 2005
 Labour force participation: 55% of women are economically active compared with 74% of men
 * Those who answered yes to "I am not working but looking for a job"
 **Percentage of unemployed to economically active



Over 70% of those who are employed work in the informal sector.
 Agriculture and trade dominate that sector



Employment by sector: 2005



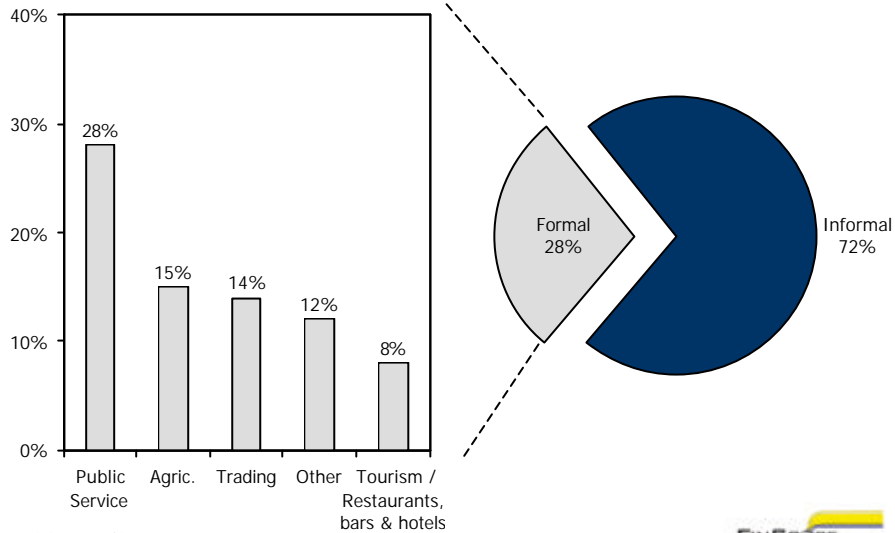
Source: FinScope Zambia 2005



Within the formal economy, the public sector is the most significant employer



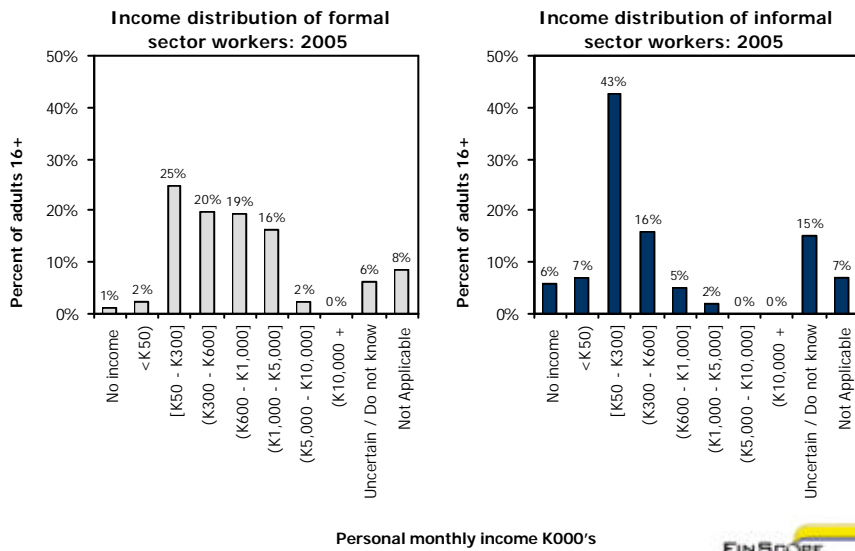
Employment sector by formal and informal: 2005



Source: FinScope Zambia 2005
 Note: Other important industries in the private sector include manufacturing (6%), transport and communications (5%), construction (3%), mining (2%), financial (2%)



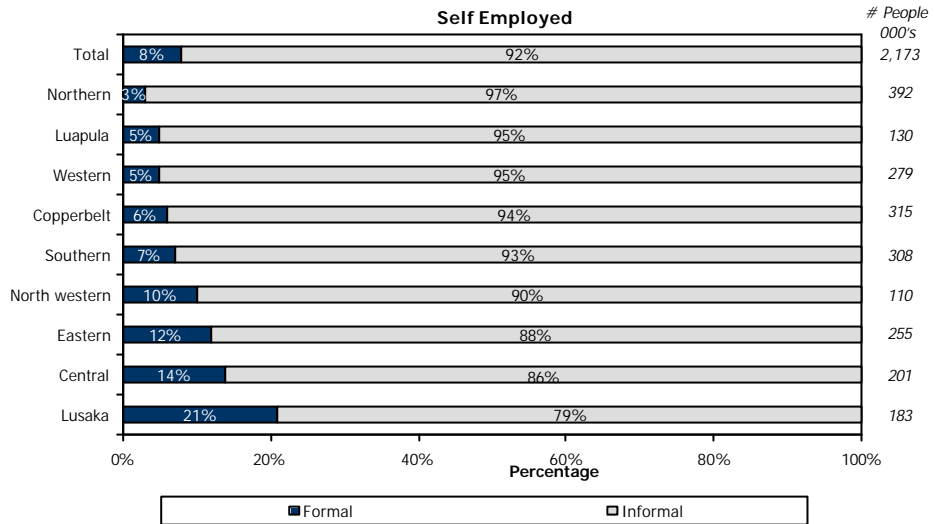
56% of those employed in the informal sector earn K300,000 or less per month compared with 28% of those in the formal sector



Source: FinScope Zambia 2005



36% of adults are self employed. There are almost 40,000 self employed formal businesses owners in Lusaka

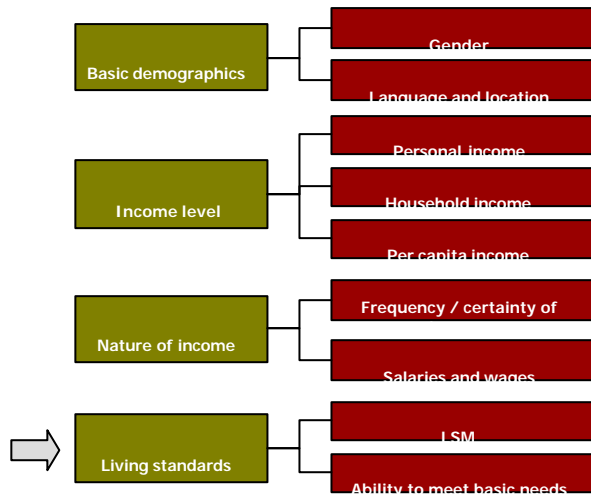


Source: FinScope Zambia 2005



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Segmentation bases: some options for financial services providers

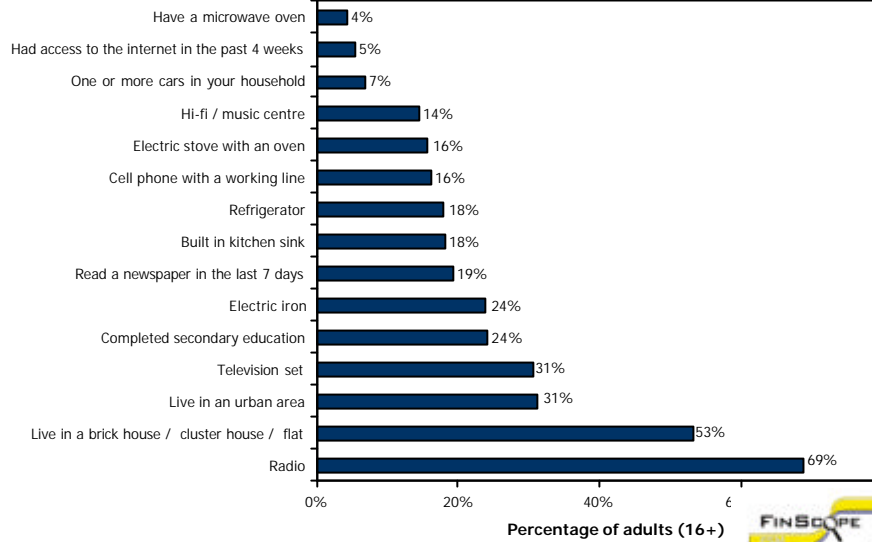


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Because income data is often unreliable or incomplete researchers / marketers often use lifestyle indicators



Typical lifestyle indicators: Do you / Do you have ... or have you ...?



Source: FinScope Zambia 2005

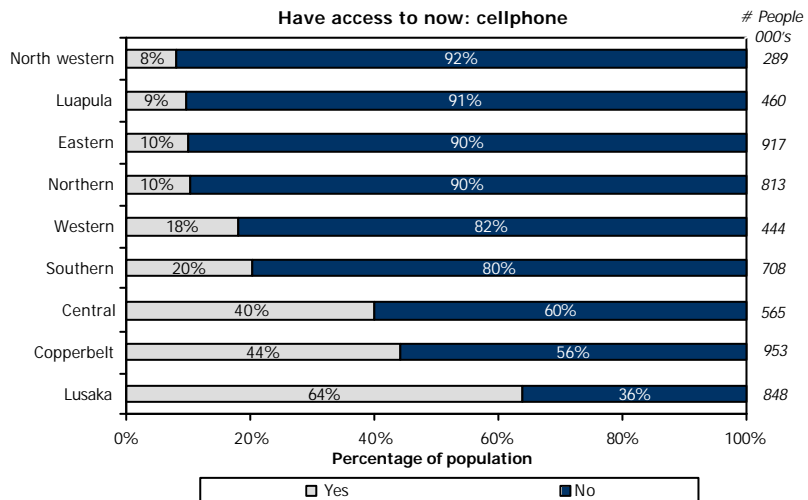


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Almost 2/3 of Zambians living in Lusaka have access to a cellphone



Have access to now: cellphone



Source: FinScope Zambia 2005

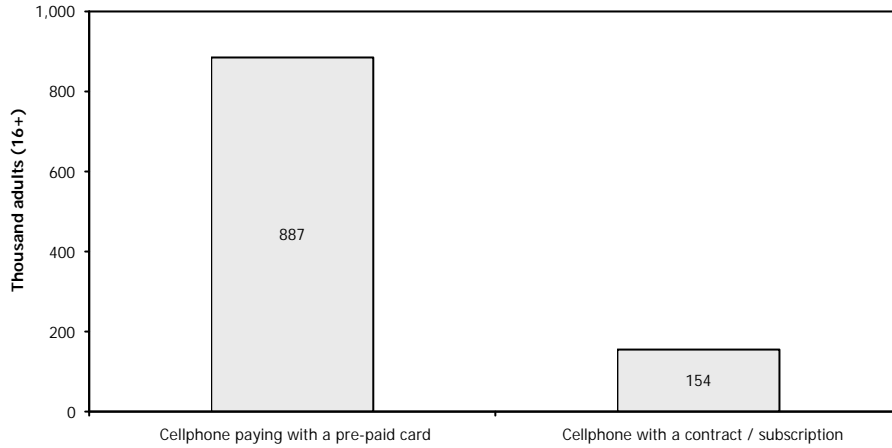


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In 2005, approximately 1 million Zambians owned a cellphone



Do you personally own a...



Source: FinScope Zambia 2005

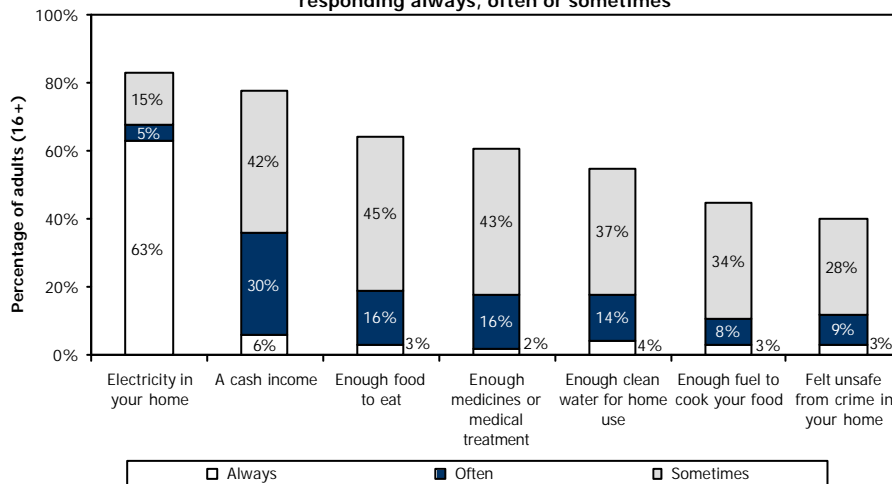


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In poorer countries indicators of the experience of poverty may be more useful



In the past year, how often has your family gone without ... Percentage responding always, often or sometimes



Source: FinScope Zambia 2005



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4. Access frontier for MFI loan in Zambia

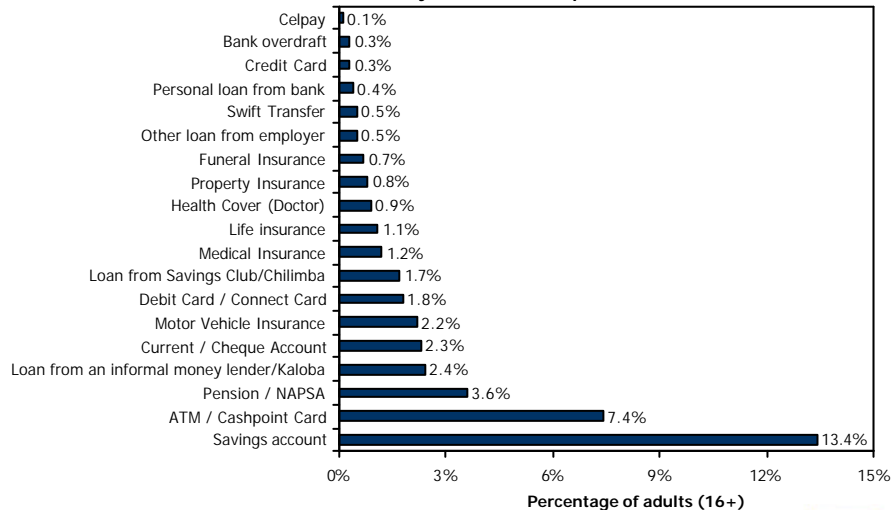


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Financial product penetration is very low



Most commonly used financial products

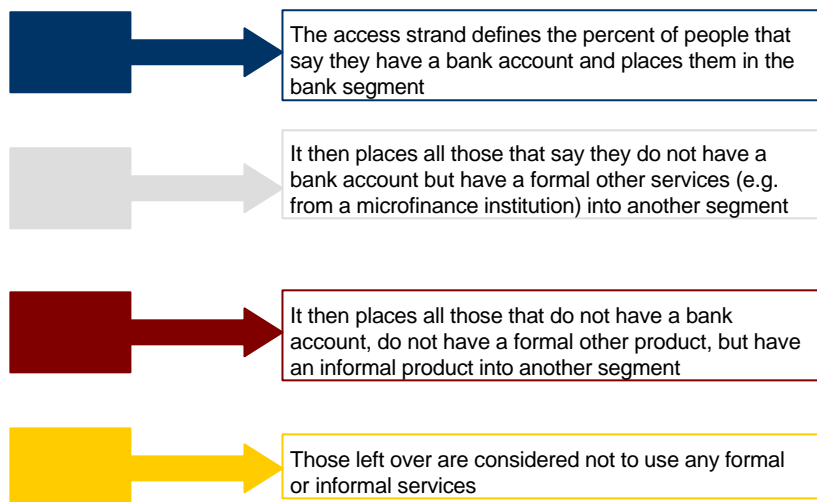


Source: FinScope Zambia 2005

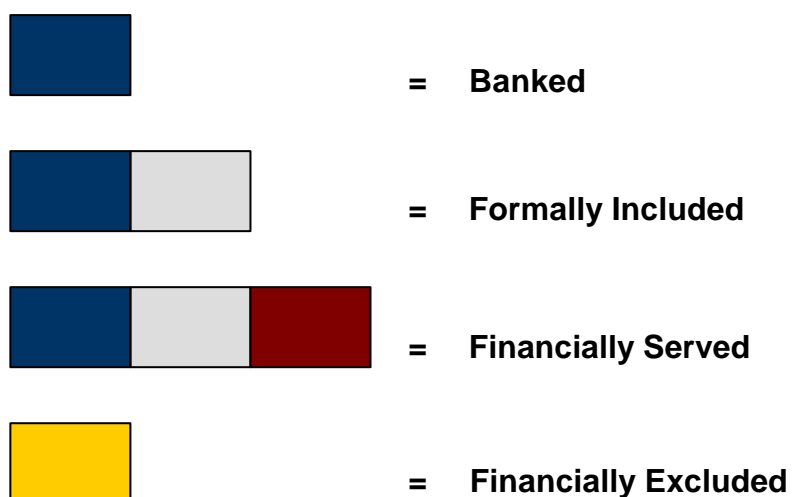


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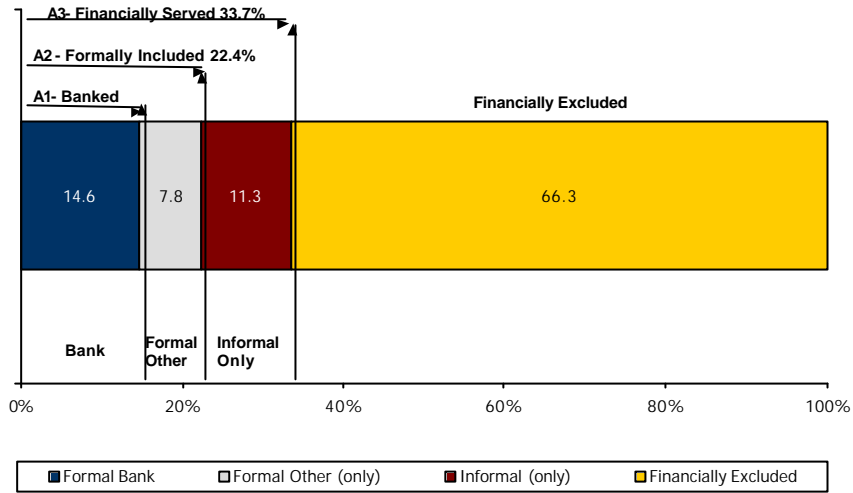
Product usage can be summarised in the form of an access strand



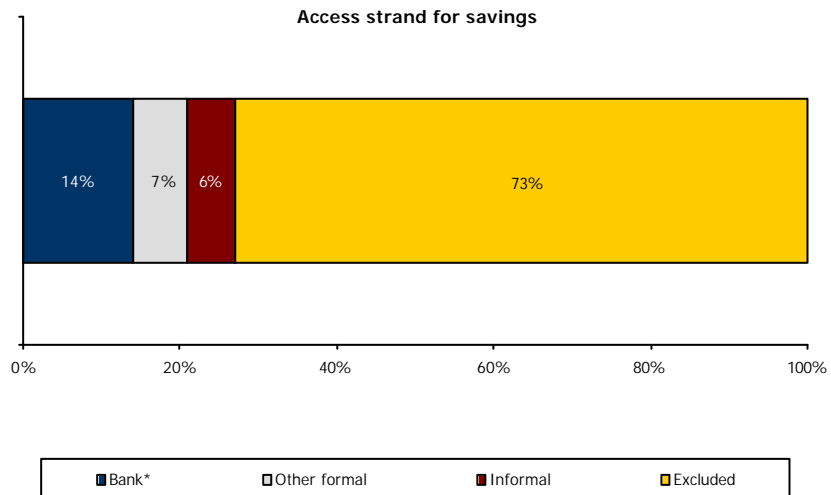
Financial access strand: continued



Two thirds of Zambia's adults are not served by formal or informal financial institutions



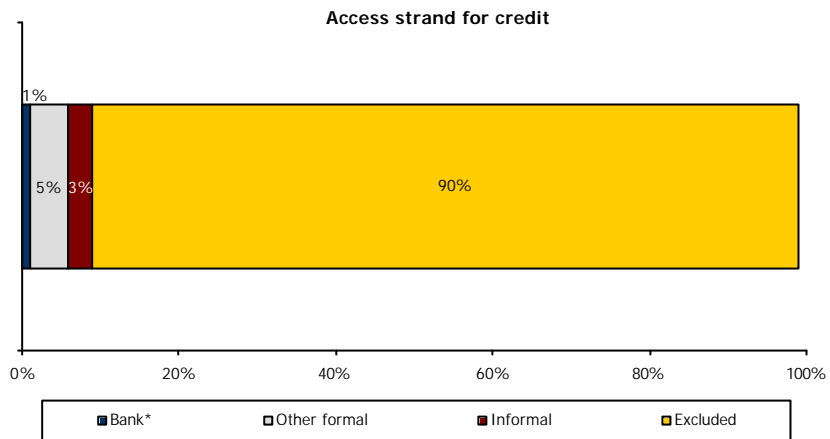
An access strand can be developed for different types of financial products. According to FinScope, three quarters of Zambians do not have any savings products



Source: FinScope Zambia 2005
 According to the survey, 22% of Zambians answered yes when asked if they saved regularly
 * Bank = any type of bank account



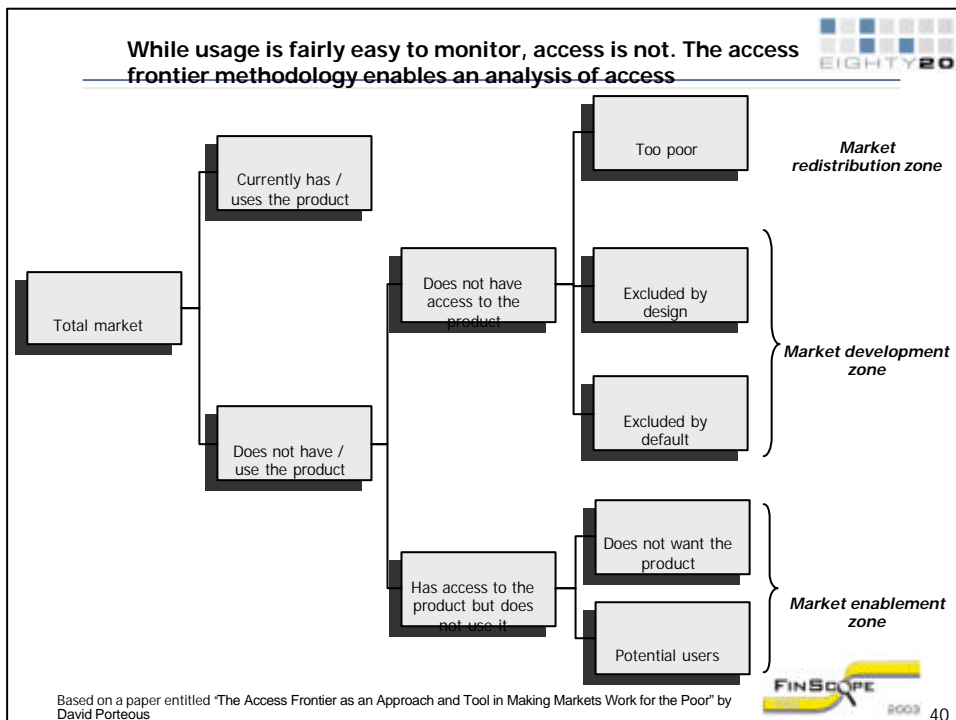
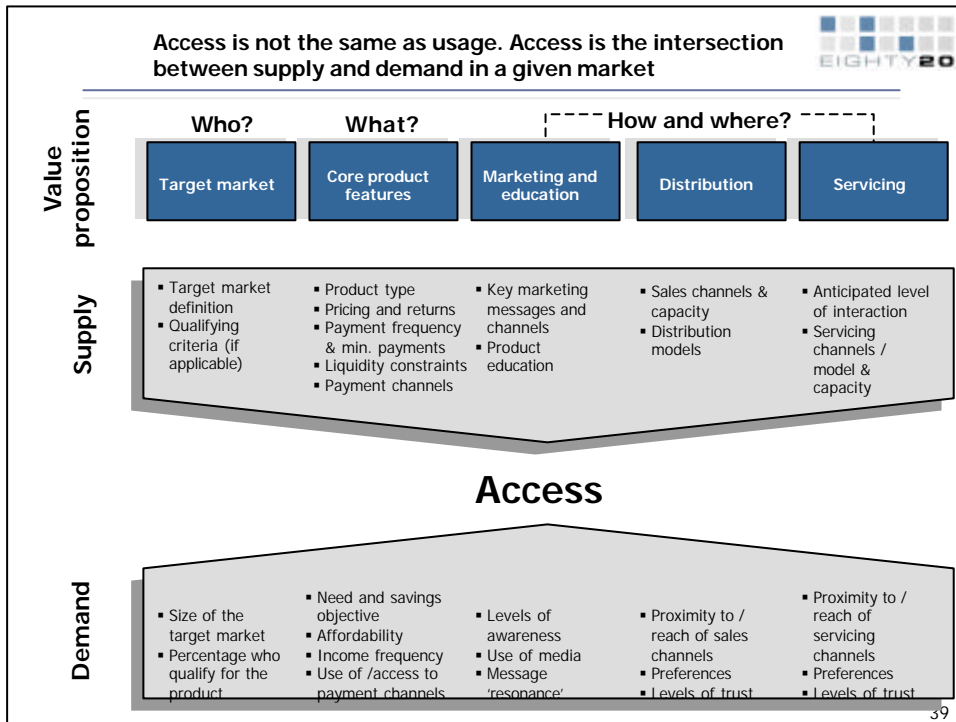
90% of Zambians do not currently use credit in any form

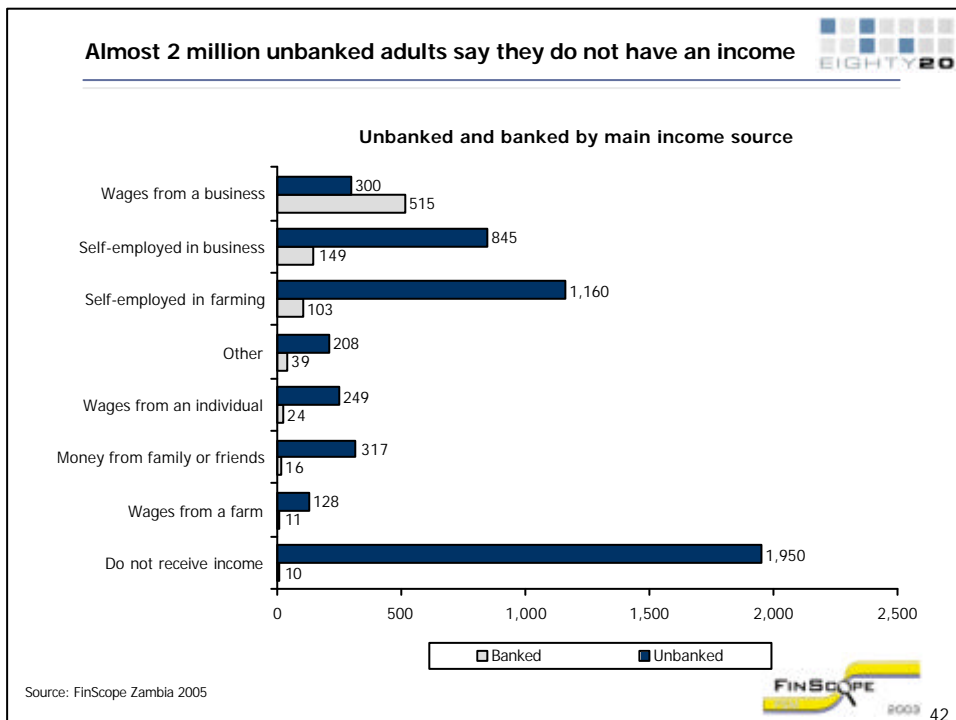
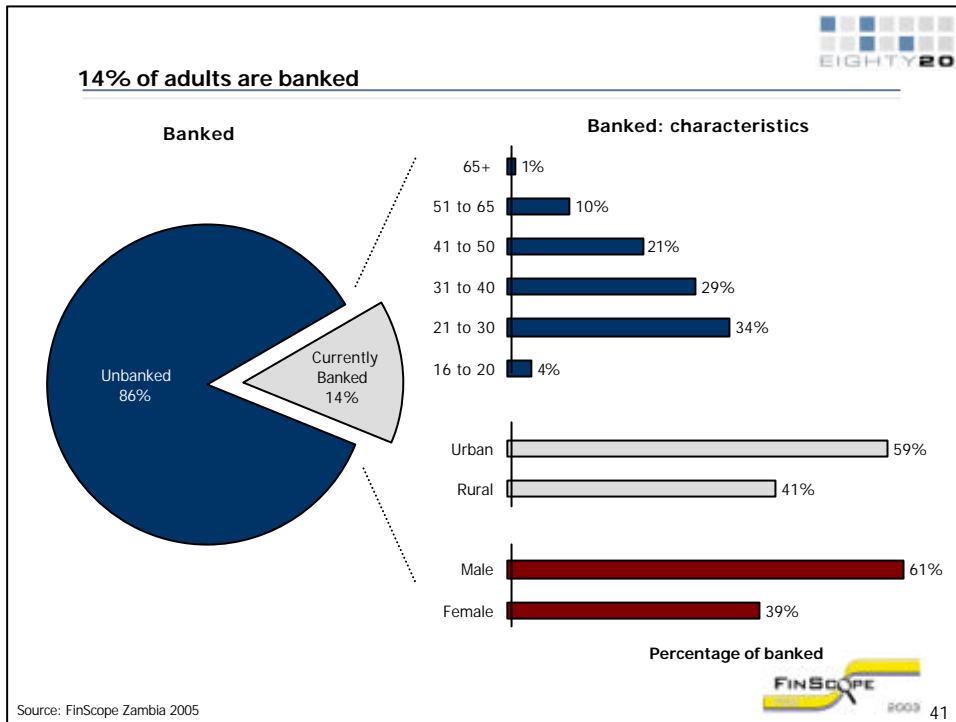


Source: FinScope Zambia 2005
 * Bank credit = credit card, overdraft, loan, personal/vehicle/house loan from a bank

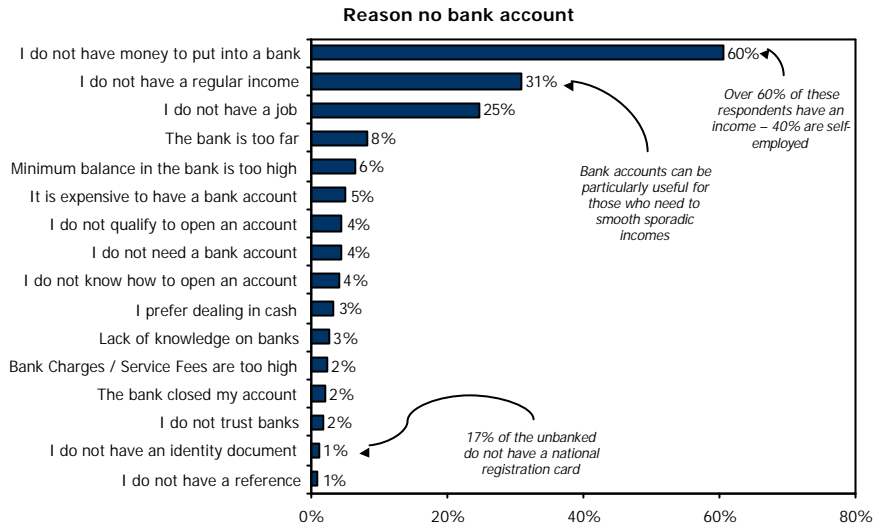
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We cannot populate the access frontier using data on reasons people do not have a bank account alone, although it can provide an insight into critical access barriers



Source: FinScope Zambia 2005

What is a bank account really for?

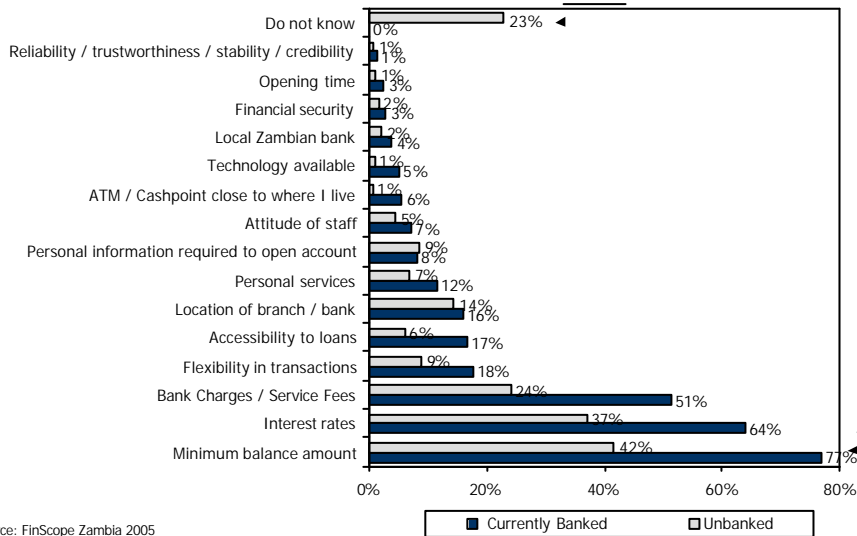


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Data on bank account purchase criteria also provides useful insights



If you were to open an account and had to decide which bank to have an account with, what are the factors you would take into account?



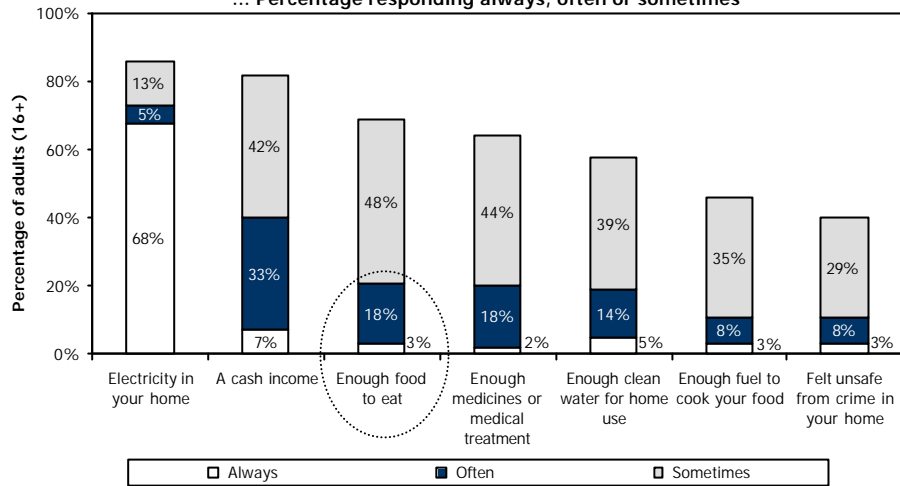
Source: FinScope Zambia 2005

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Data on experience of poverty is used to estimate the market redistribution zone for the unbanked



Unbanked only: In the past year, how often has your family gone without ... Percentage responding always, often or sometimes



Source: FinScope Zambia 2005

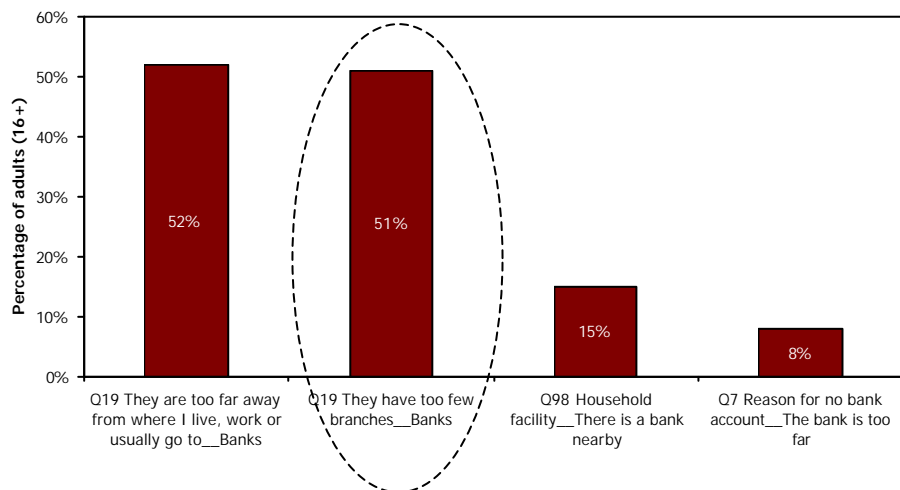


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Physical access is also an important barrier. Various indicators from the survey can be used to assess physical access



For those who are not too poor* and unbanked



Source: FinScope Zambia 2005

* Those who answered yes to often/always going without enough food for the family

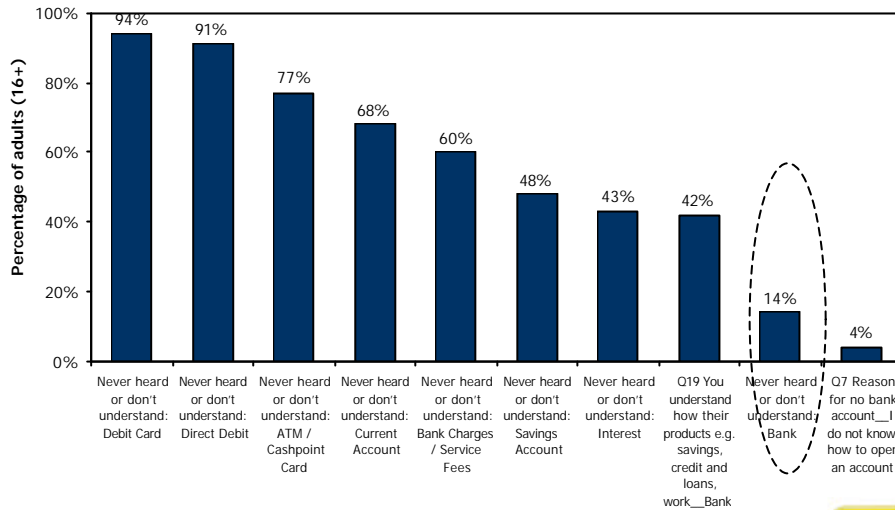


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Awareness is another important access constraint. According to FinScope awareness of terminology relating to banking products is low



For those who are not too poor* and unbanked



Source: FinScope Zambia 2005

* Those who answered yes to often/always going without enough food for the family



Affordability is also important. Various assumptions can be made to estimate the impact of affordability on access



Costs

- ATM Transaction: K1,500
- Statement retrieval: K10,000
- Deposit: Free
- Service charge K2,500

Usage

- 3 ATM transactions per month
- 2 statement retrievals per year

Affordability

- 2% of total monthly personal income on bank charges

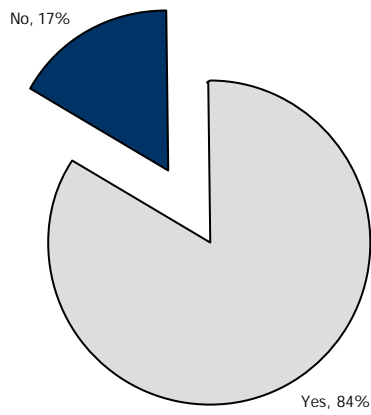


- Total charges = K8,667 pm
- Therefore total monthly personal income:
= K8,667 / 2%
= K433,350
→ Use K450,000 as a cut-off



There are other factors that may impede access

Unbanked: Do you have a national registration card?



Other requirements to open a bank account

- 2 Passport size photos
- Reference letters – employer/legal practitioner
- Initial deposit of K100,000
- Proof of address

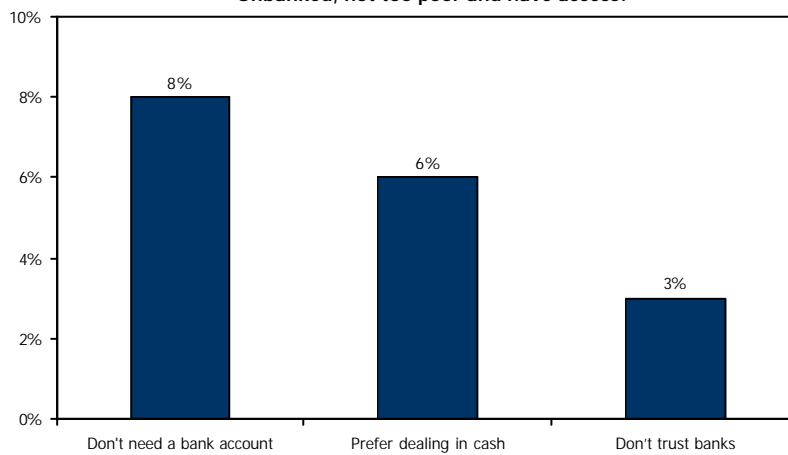


The impact of these requirements has not been analysed

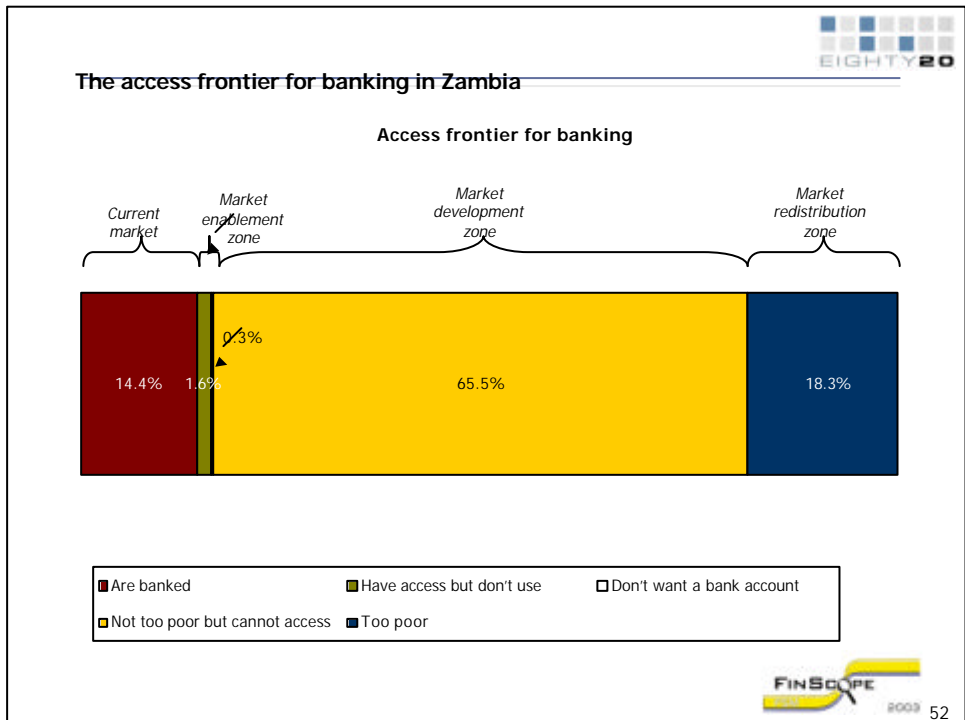
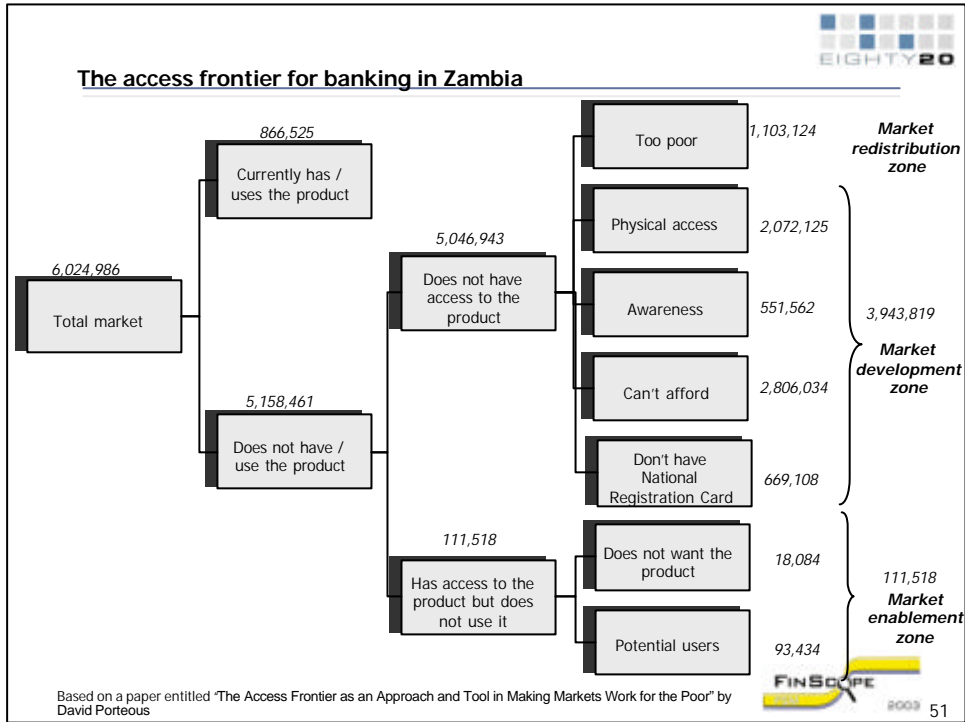
Source: FinScope Zambia 2005

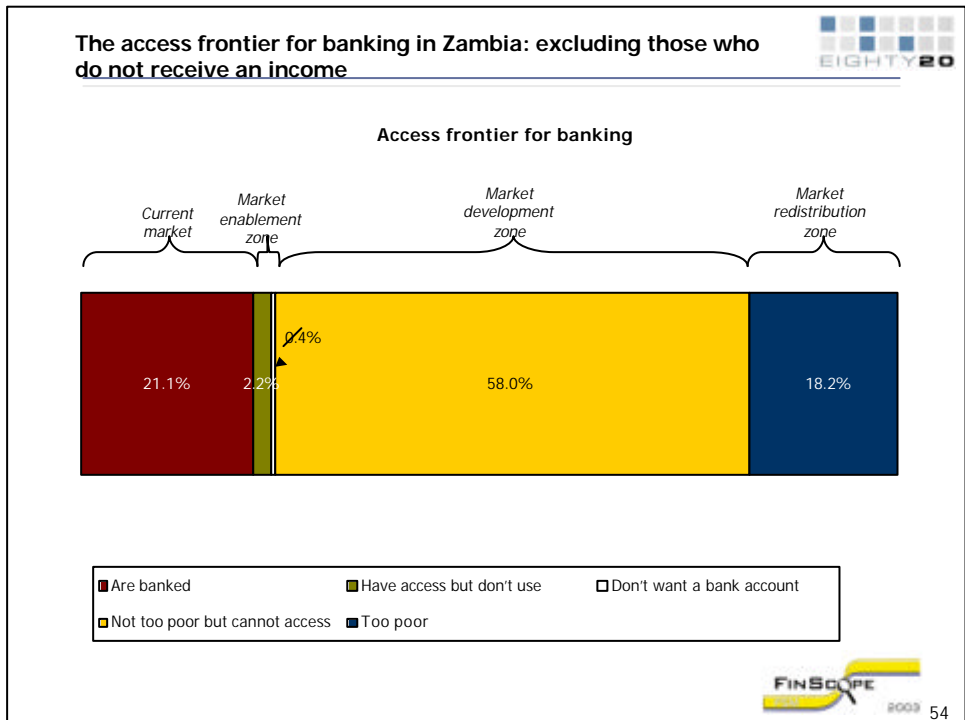
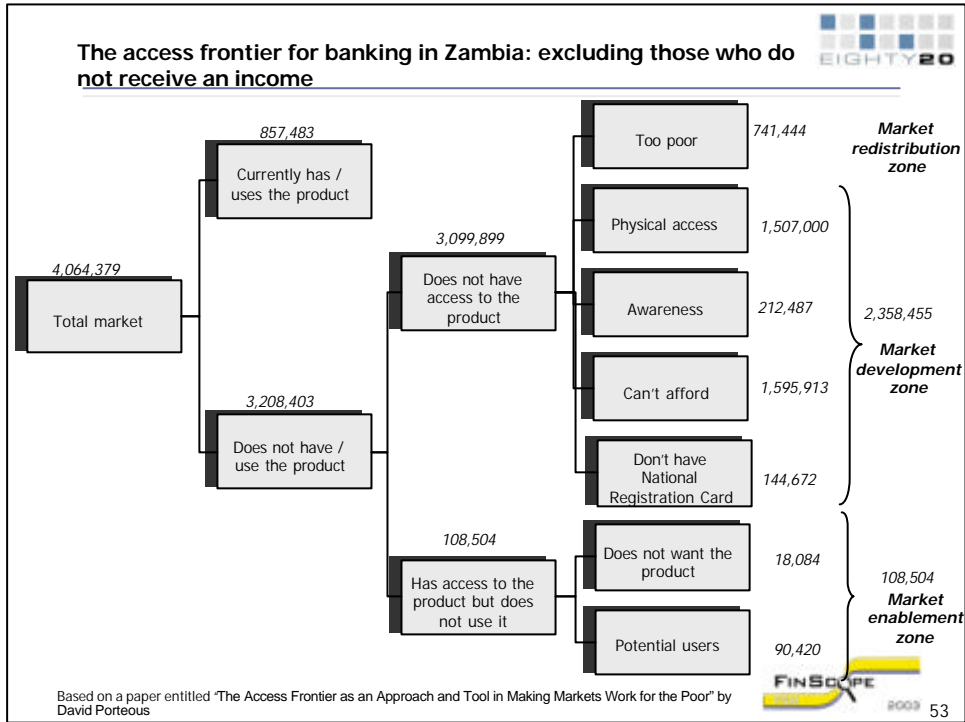
The percentage who have access and choose to be unbanked appears to be very small

Unbanked, not too poor and have access:



Source: FinScope Zambia 2005

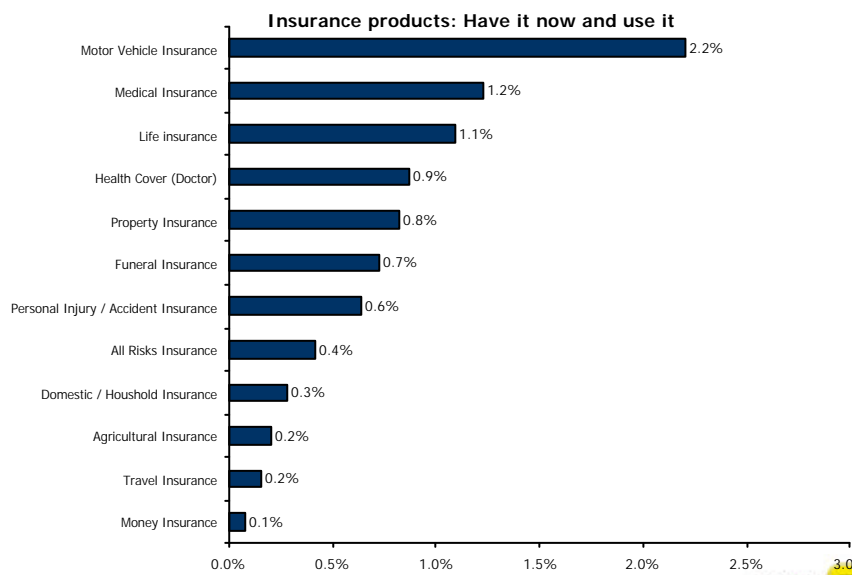




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Very few people in Zambia have insurance products

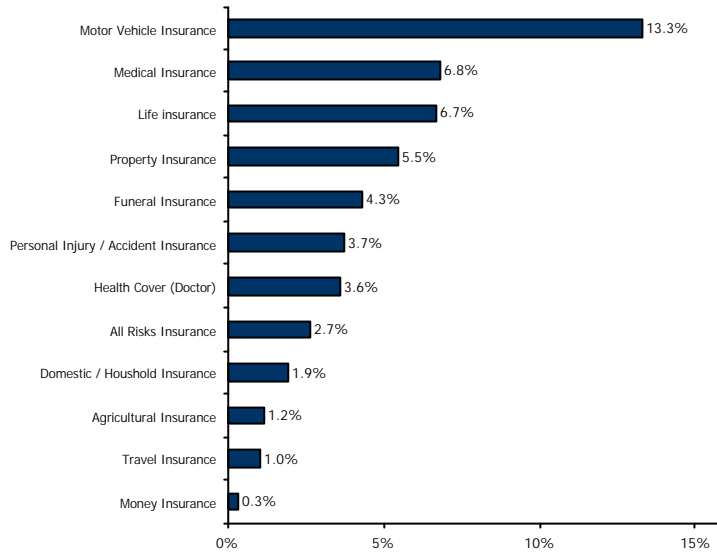


Source: FinScope Zambia 2006

Even within the banked population, penetration of insurance products is low



Insurance products used by banked population: Have it now and use it



Source: FinScope Zambia 2006

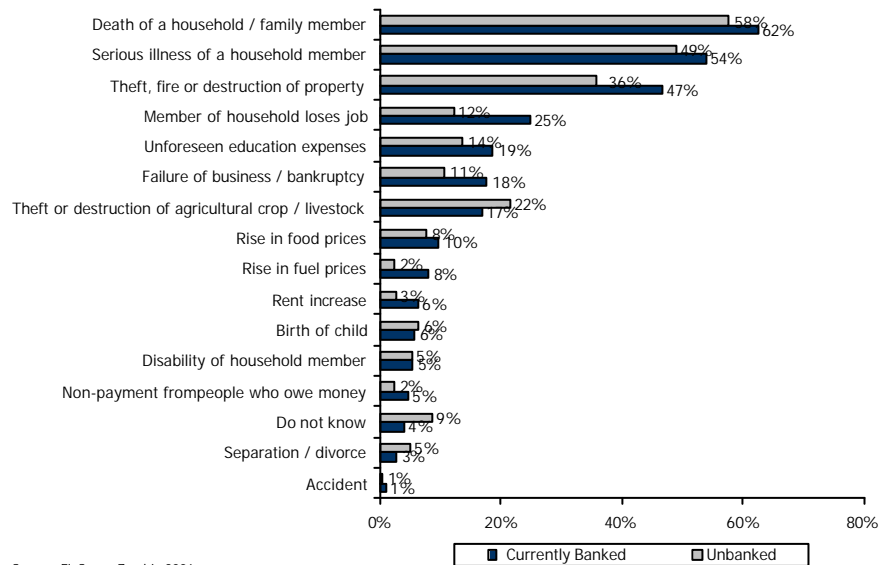


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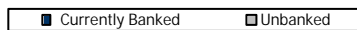
... although insurable risks are perceived to be relatively high in the market



Events most likely to happen that have a major impact on finances



Source: FinScope Zambia 2006

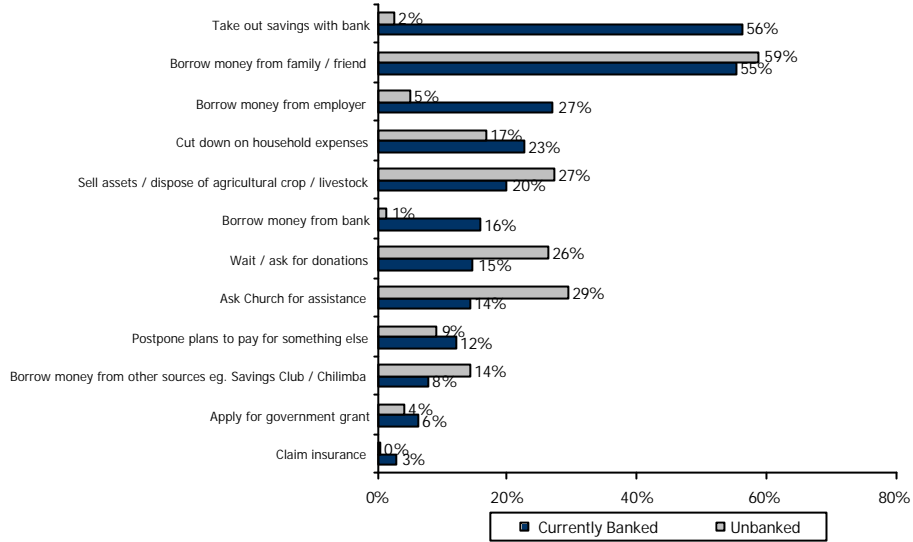


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The vast majority of the market will draw down savings, or rely on family and friends or other social networks. Credit, which increases vulnerability, is also fairly common



Coping strategies if risk event occurs



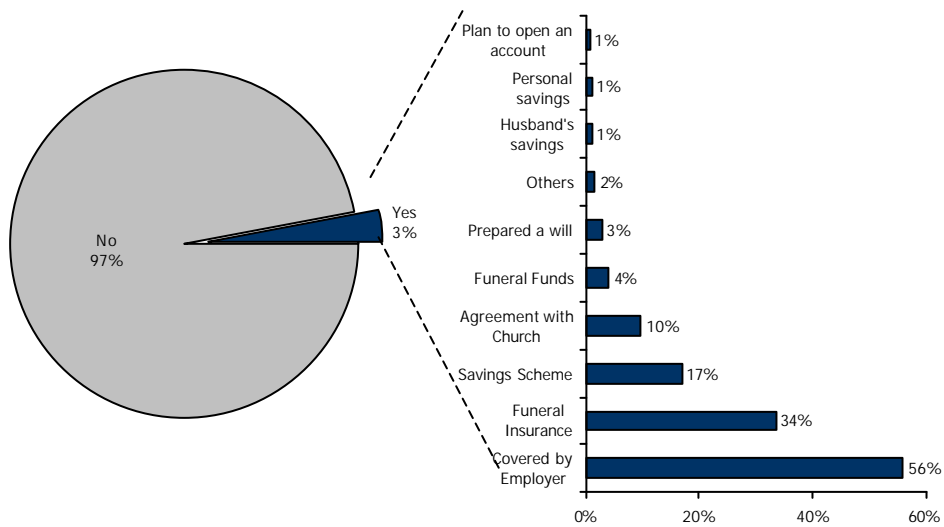
Source: FinScope Zambia 2006

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Very few people of all ages have made provisions for their own funerals



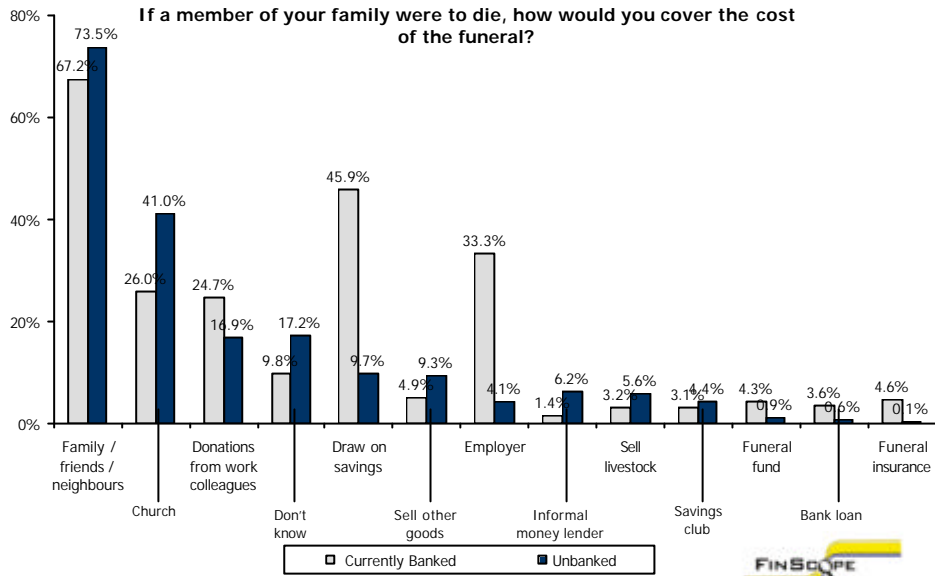
Have you made provisions to cover the costs of your funeral? If so, how?



Source: FinScope Zambia 2006

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In addition, there is limited provision for funerals of family members



Funeral insurance



Basic product description

Basic product features

- Funeral expense cover
- Minimum sum assured K500,000
- Lowest premium K1,000 per month

Availability

- Between the ages of 18 and 65

Sales channels

- Brokers, agents, direct marketing
- Financial institutions such as banks and microfinance institutions

Premium collection

- Premiums paid annually, bi-annually, quarterly, monthly
- Cash, cheque, debit order
- Branch, agent, post office

Client requirements

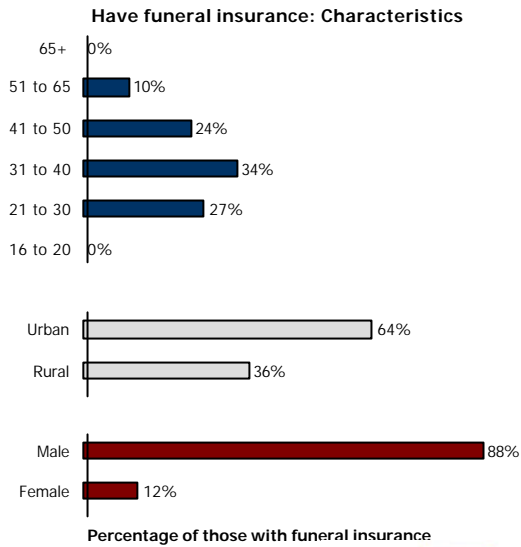
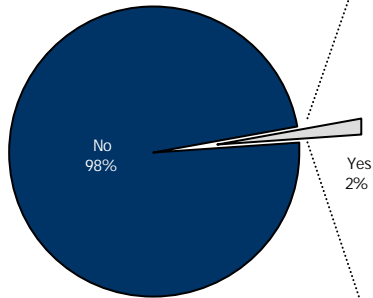
- National registration card or passport



Because funeral cover is often for multiple lives, the analysis is restricted to the head of the household. Use of funeral insurance is exceptionally low



HH head: have funeral insurance

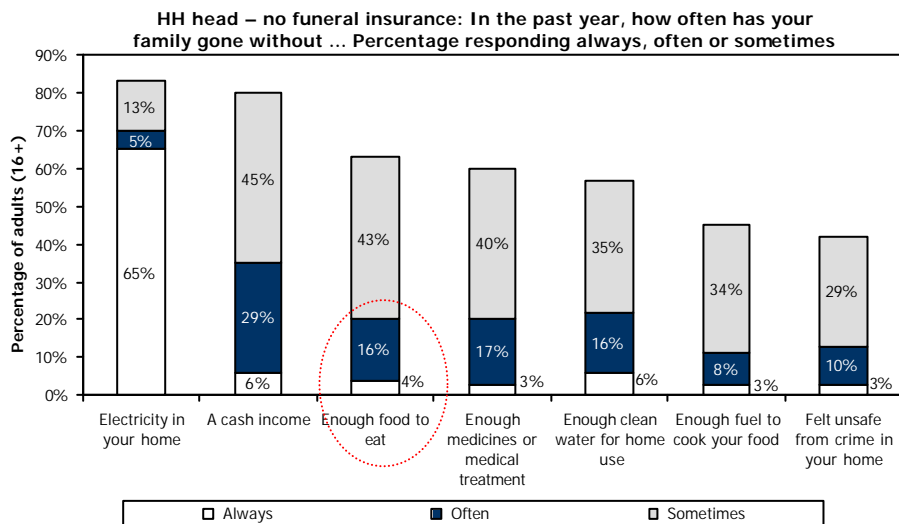


Source: FinScope Zambia 2005



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Estimating the market redistribution zone for those without funeral insurance

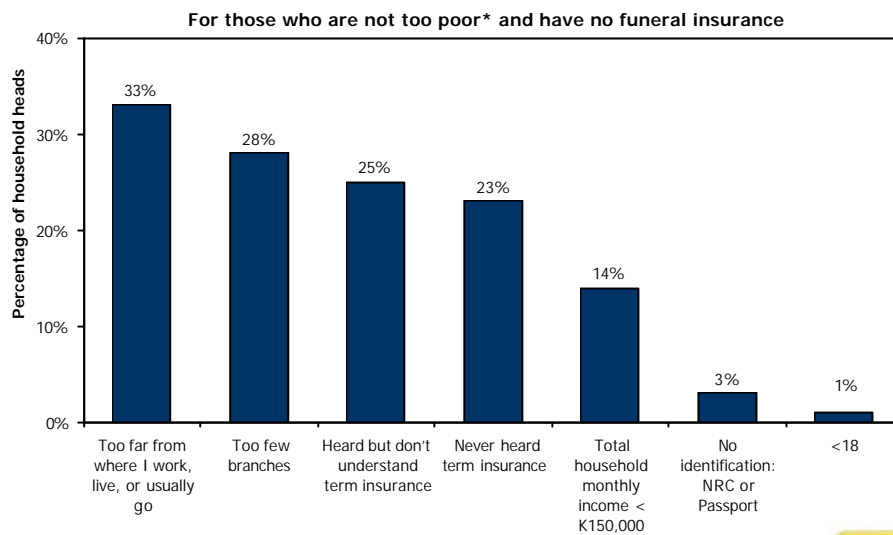


Source: FinScope Zambia 2005



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Various factors limit access, including physical proximity, awareness and affordability



Source: FinScope Zambia 2005

* Those who answered yes to often/always going without enough food for the family



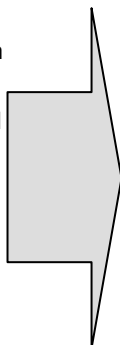
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Estimating the affordability of funeral insurance



Costs and assumptions

- Premium K1,000pm per person
- Average household size = 6
- 5% of total monthly household income on funeral insurance

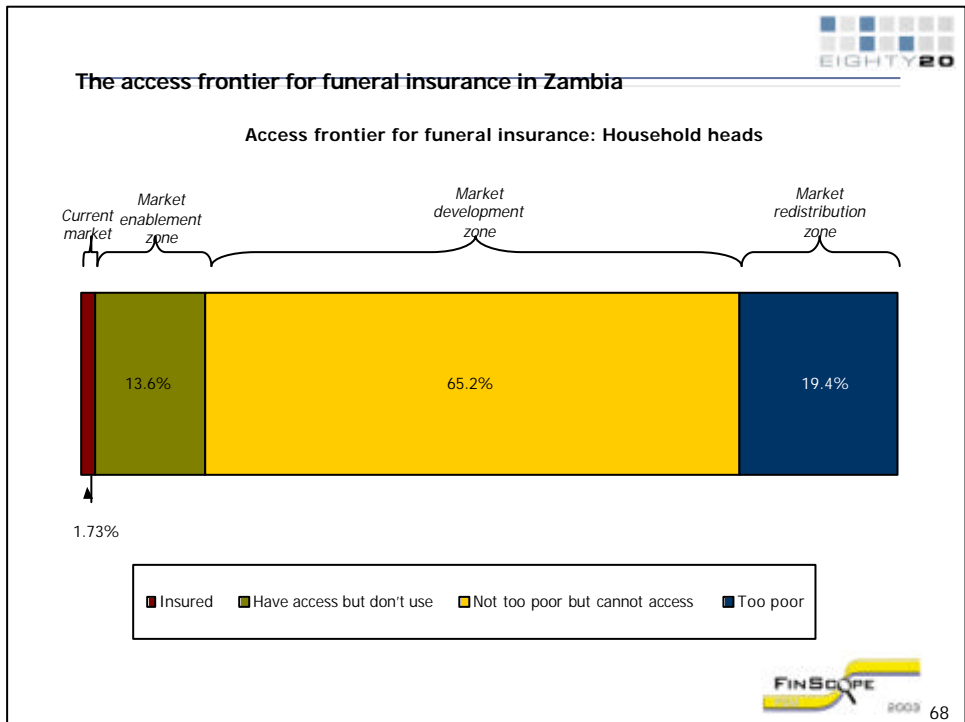
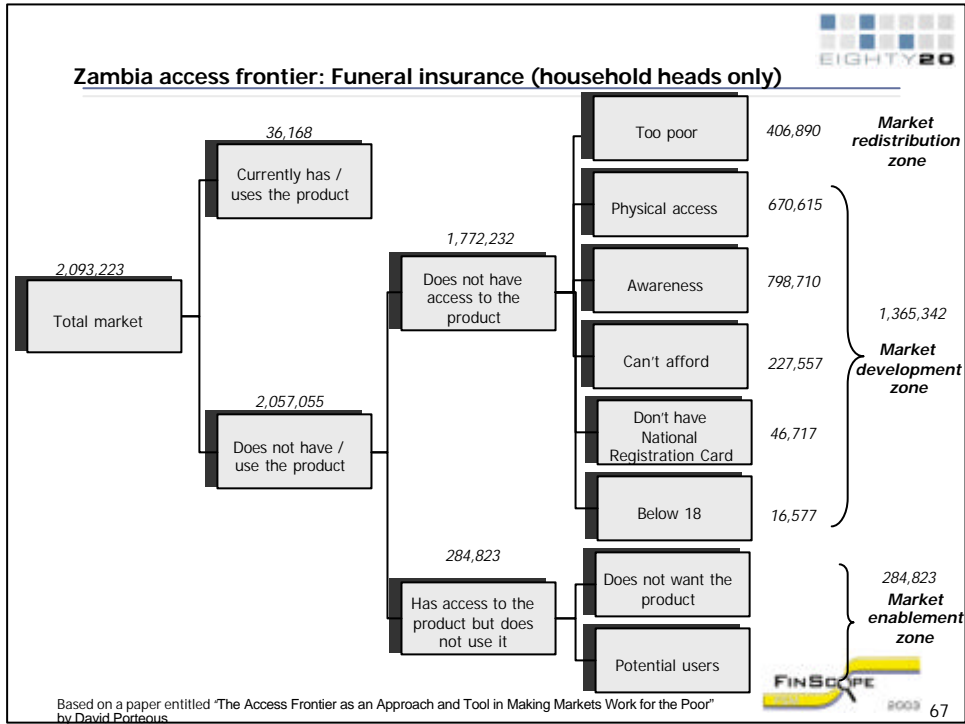



Calculation

- $6 \times K1,000 = K6,000 \text{ pm}$
- Therefore total monthly household income:
 $= K6,000 / 5\%$
 $= K120,000$
 $\rightarrow \text{Use K150,000}$



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Vehicle insurance

Basic product description

<div style="background-color: #003366; color: white; padding: 5px; text-align: center; margin-bottom: 10px;">Basic product features</div>	<ul style="list-style-type: none"> ■ Basic 3^d party vehicle insurance ■ Minimum sum assured K10,000,000 ■ Lowest premium K450,000 per annum
<div style="background-color: #003366; color: white; padding: 5px; text-align: center; margin-bottom: 10px;">Availability</div>	<ul style="list-style-type: none"> ■ 18 and over
<div style="background-color: #003366; color: white; padding: 5px; text-align: center; margin-bottom: 10px;">Sales channels</div>	<ul style="list-style-type: none"> ■ Brokers, agents, direct marketing
<div style="background-color: #003366; color: white; padding: 5px; text-align: center; margin-bottom: 10px;">Premium collection</div>	<ul style="list-style-type: none"> ■ Premiums paid annually or quarterly (higher premium for quarterly) ■ Cash, cheque ■ Branch, agent
<div style="background-color: #003366; color: white; padding: 5px; text-align: center; margin-bottom: 10px;">Client requirements</div>	<ul style="list-style-type: none"> ■ Vehicle registration documentation




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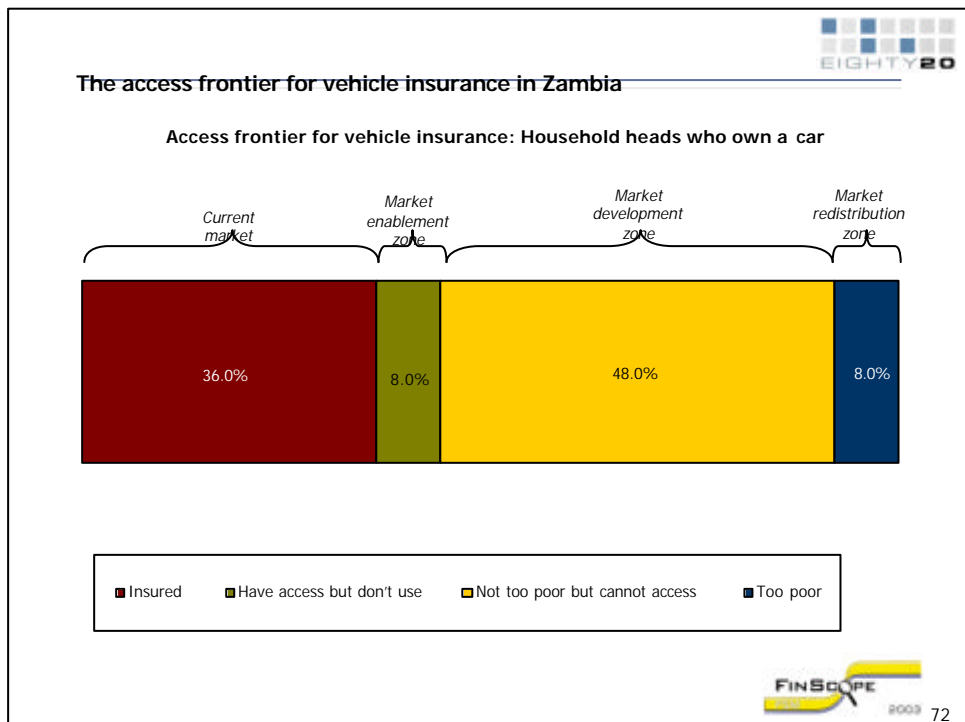
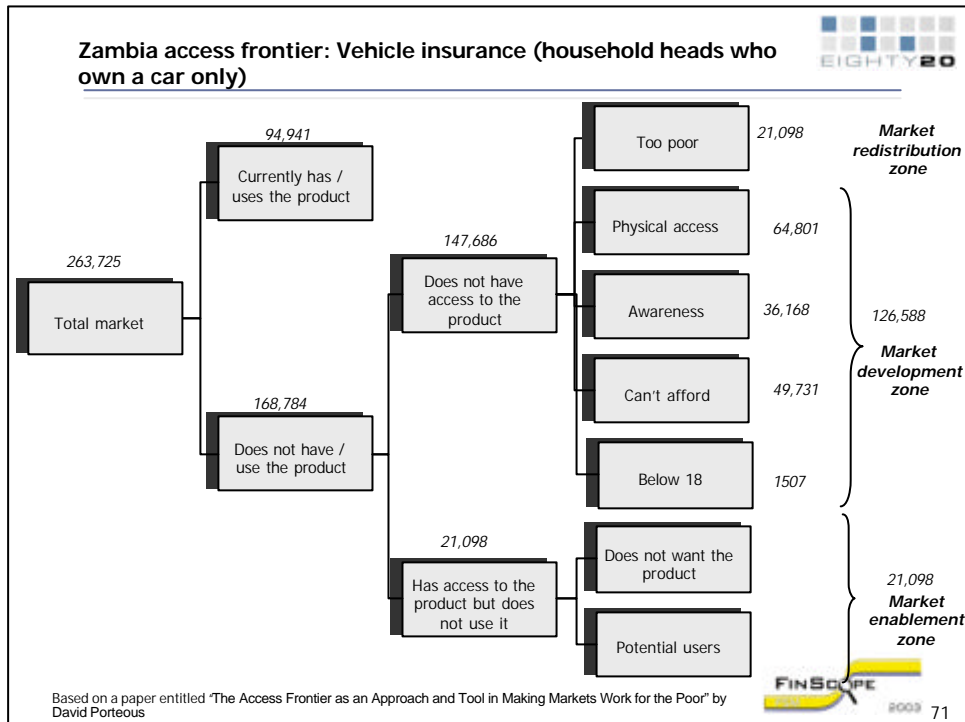


The Access Frontier for vehicle insurance

<div style="background-color: #cccccc; padding: 5px; text-align: center; margin-bottom: 10px;">Total market</div>	<ul style="list-style-type: none"> ■ Derived from Finscope Zambia 2005 ■ Household heads (no question on personal car ownership) ■ Have a car (use own car to bank, rise in fuel price likely to happen respondent, have a vehicle loan, petrol/diesel regular expense, one or more cars in the household)
<div style="background-color: #cccccc; padding: 5px; text-align: center; margin-bottom: 10px;">Too poor</div>	<ul style="list-style-type: none"> ■ Often/always go with not enough food for the family
<div style="background-color: #cccccc; padding: 5px; text-align: center; margin-bottom: 10px;">Physical access</div>	<ul style="list-style-type: none"> ■ Say that there are too few branches or are too far away
<div style="background-color: #cccccc; padding: 5px; text-align: center; margin-bottom: 10px;">Awareness</div>	<ul style="list-style-type: none"> ■ Don't understand the term insurance
<div style="background-color: #cccccc; padding: 5px; text-align: center; margin-bottom: 10px;">Can't afford</div>	<ul style="list-style-type: none"> ■ Based on assumption that 5% of household income can be spent on the product ■ Minimum total monthly income set at K800,000 (vehicle insurance K450,000 per annum) ■ No adjustment made for lump sum payment upfront (materially impacts on affordability)
<div style="background-color: #cccccc; padding: 5px; text-align: center; margin-bottom: 10px;">Don't want the product</div>	<ul style="list-style-type: none"> ■ Cannot assess



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Household contents insurance

Basic product description

Basic product features

- Cover to non-fixed household contents – such as TV, hi-fi, etc.
- Lowest premium K250,000 per annum
- Cover available only to houses that are deemed to be secure structures

Availability

- 18 and over

Sales channels

- Brokers, agents, direct marketing

Premium collection

- Premiums paid annually
- Cash, cheque
- Branch, agent

Client requirements

- Proof or purchase of items / serial numbers / physical inspection

The Access Frontier for household contents insurance

Total market

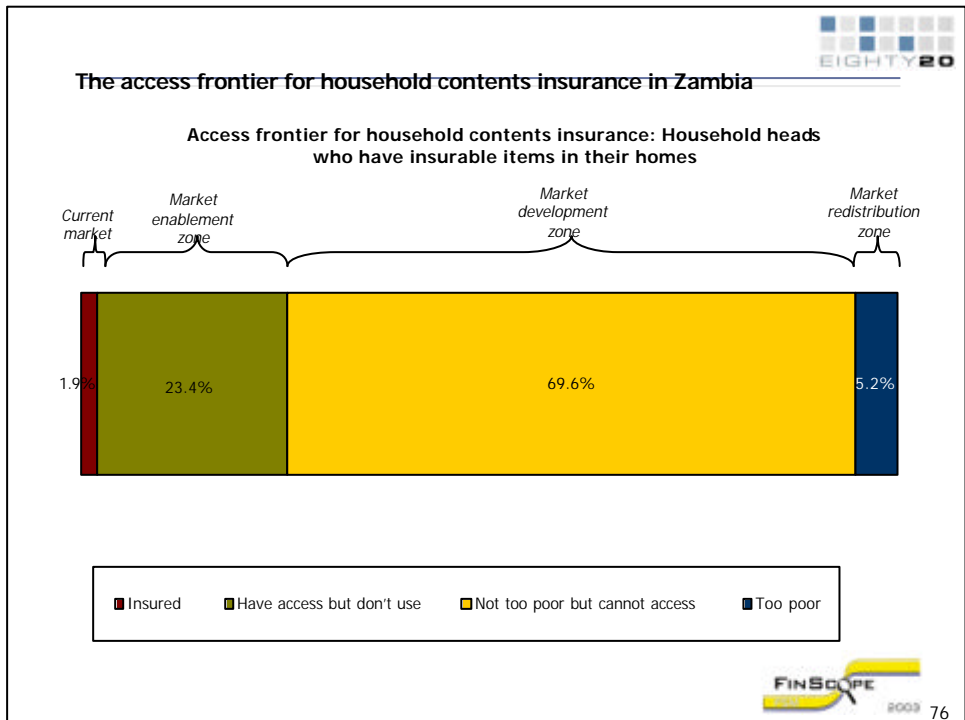
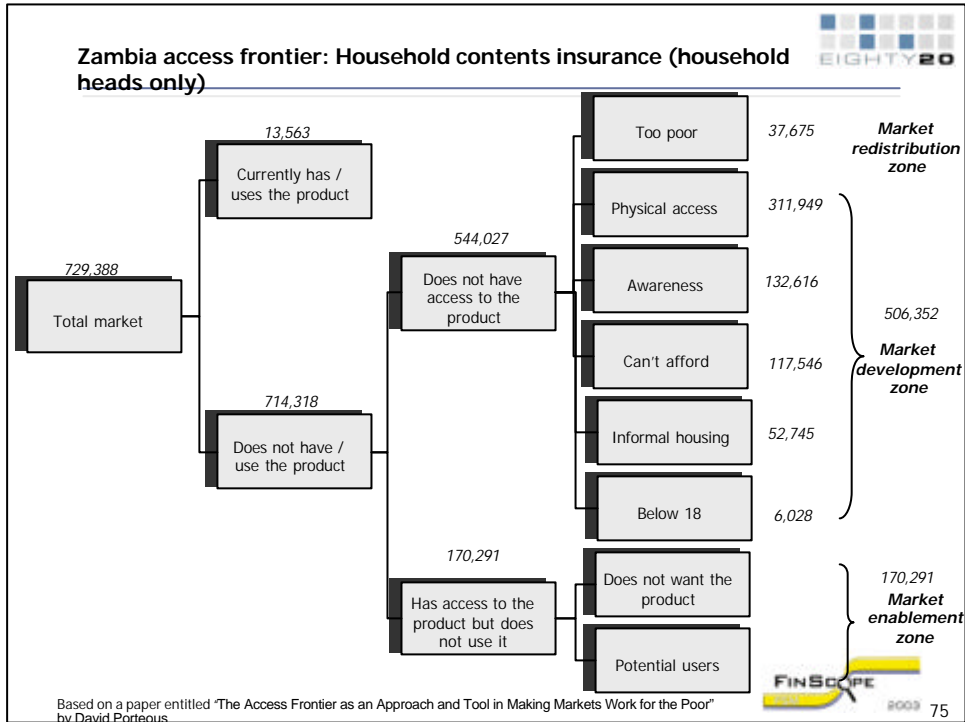
- Derived from Finscope Zambia 2005
- Household heads (household product)
- Have items worth insuring (television, hi-fi, microwave, etc.)

Can't afford

- Based on assumption that 5% of household income can be spent on the product
- Minimum total monthly income set at K450,000 (household contents insurance K250,000 per annum)

Informal housing

- Traditional or informal accommodation



Property insurance

Basic product description

Basic product features

- Cover to household structure and fixed-items
- Lowest premium K250,000 per annum
- Cover available only to houses that are deemed to be secure structures

Availability

- 18 and over

Sales channels

- Brokers, agents, direct marketing

Premium collection

- Premiums paid annually
- Cash, cheque
- Branch, agent

Client requirements

- Title deeds
- Full evaluation report of house

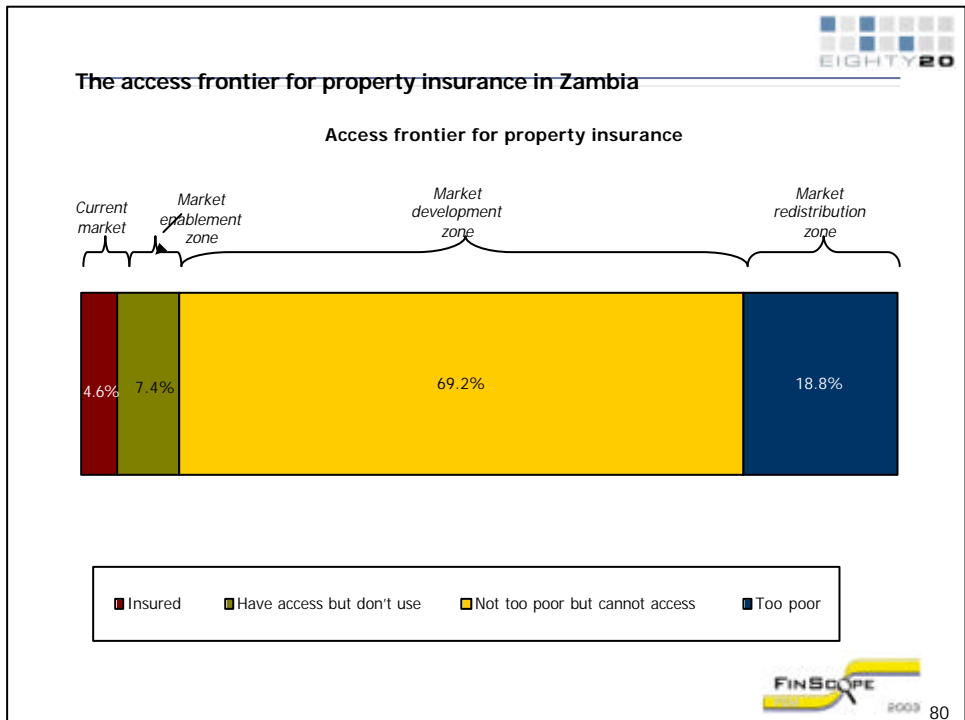
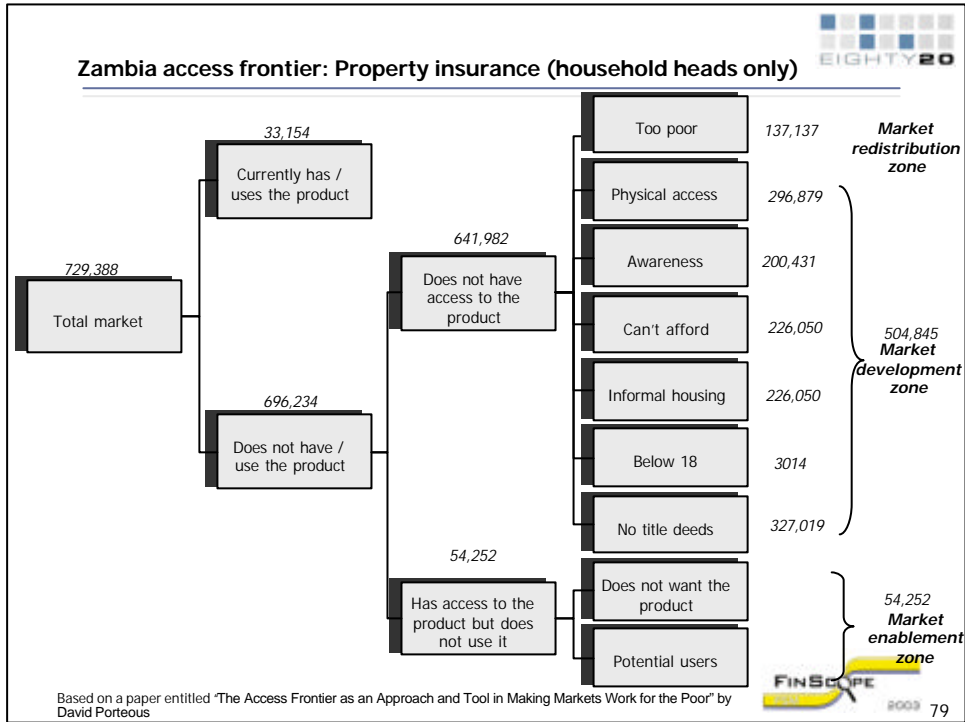
The Access Frontier for property contents insurance

Total market

- Derived from Finscope Zambia 2005
- Household heads (household product)
- Own the property

Can't afford

- Based on assumption that 5% of household income can be spent on the product
- Minimum total monthly income set at K450,000 (property insurance K250,000 per annum)



Agenda



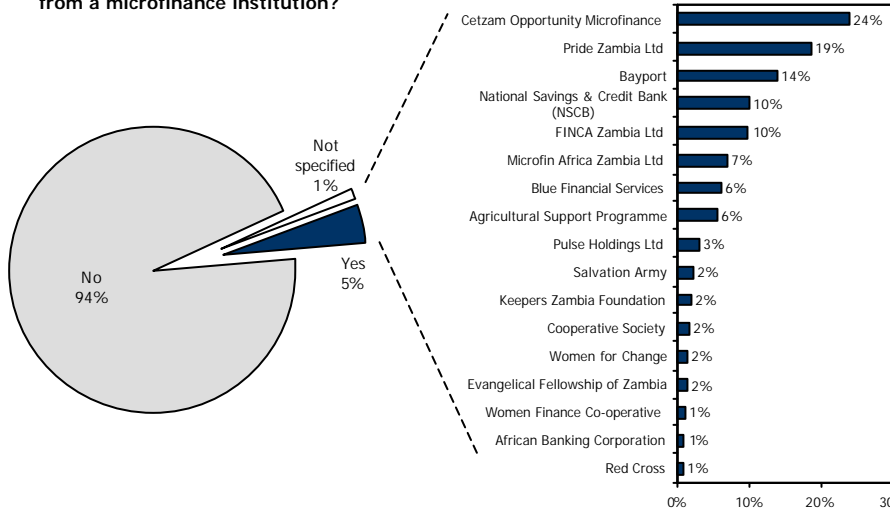
- 1. Welcome and objectives
- 2. Common segmentation models
- 3. Usage of financial products
- 4. Access frontier for a bank account in Zambia
- 4. Access frontier for insurance in Zambia
- 4. Access frontier for MFI loan in Zambia



Around 5% of adults have used a microfinance institution now or in the past. If the analysis is restricted to those who say they have a business, the percentage increases to 8%

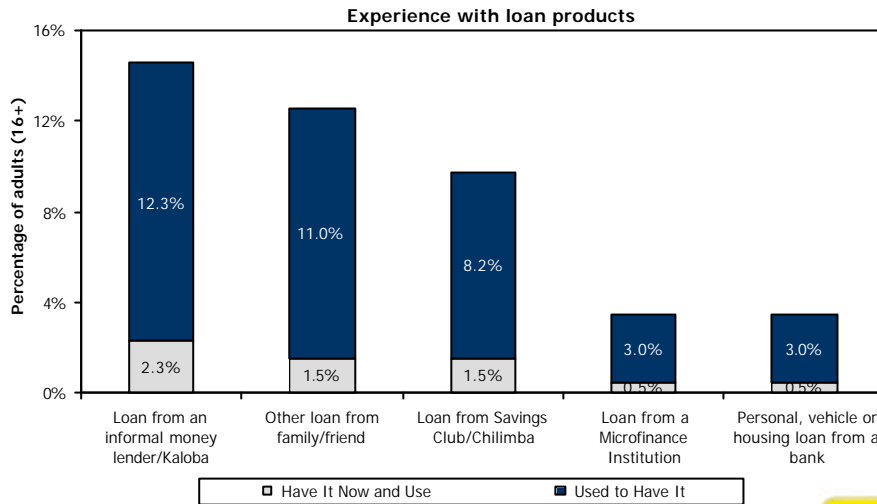


Have you had or do you have now any financial service (saving, credit, insurance) from a microfinance institution?



Source: FinScope Zambia 2005

Around 3.5% of adults currently have or have had a loan with a MFI. Informal money lenders are the most common source of credit

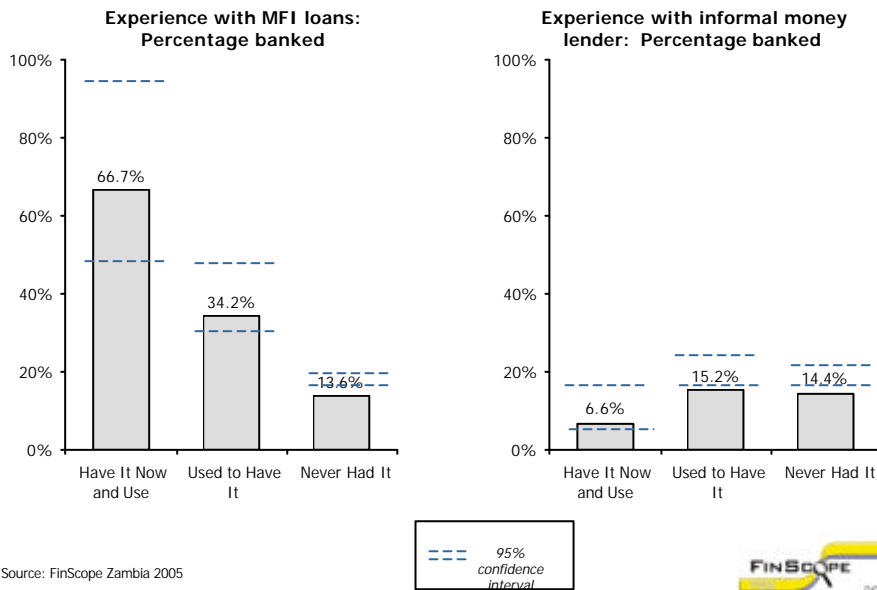


Source: FinScope Zambia 2005



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A relatively high proportion of MFI borrowers are banked



Source: FinScope Zambia 2005




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MFI loan

Basic product description

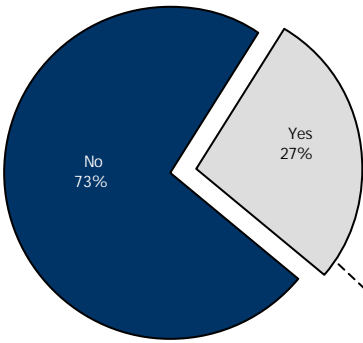
Basic product features	<ul style="list-style-type: none"> ■ Loan made to business owners for business purposes ■ Mutual guarantee ■ Minimum loan size: K6 million ■ Group size: 20
Affordability	<ul style="list-style-type: none"> ■ Instalment maximum of 38% of income ■ Minimum instalment of K450,000 per week ■ Implied minimum monthly income of K236,000 per group member (use K300,000 as a cut off for affordability)
Sales channels	<ul style="list-style-type: none"> ■ MFI offices and officers
Premium collection	<ul style="list-style-type: none"> ■ Instalments paid weekly ■ Instalments collected by Group Treasurer
Client requirements	<ul style="list-style-type: none"> ■ Business owner with a business plan ■ Identity document, proof of residence, proof of income ■ Some sort of credit history ■ No bank account necessary

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According to FinScope there are roughly 1.6 million business owners in Zambia. Three quarters are in agriculture or trade. Only 16% of business owners say their businesses are registered

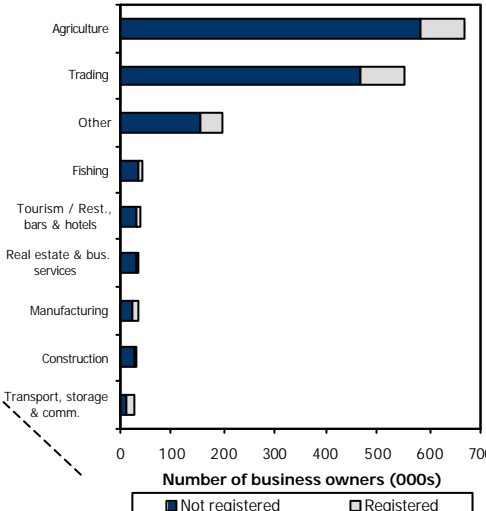
Do you have your own business?



No
73%

Yes
27%

Industry

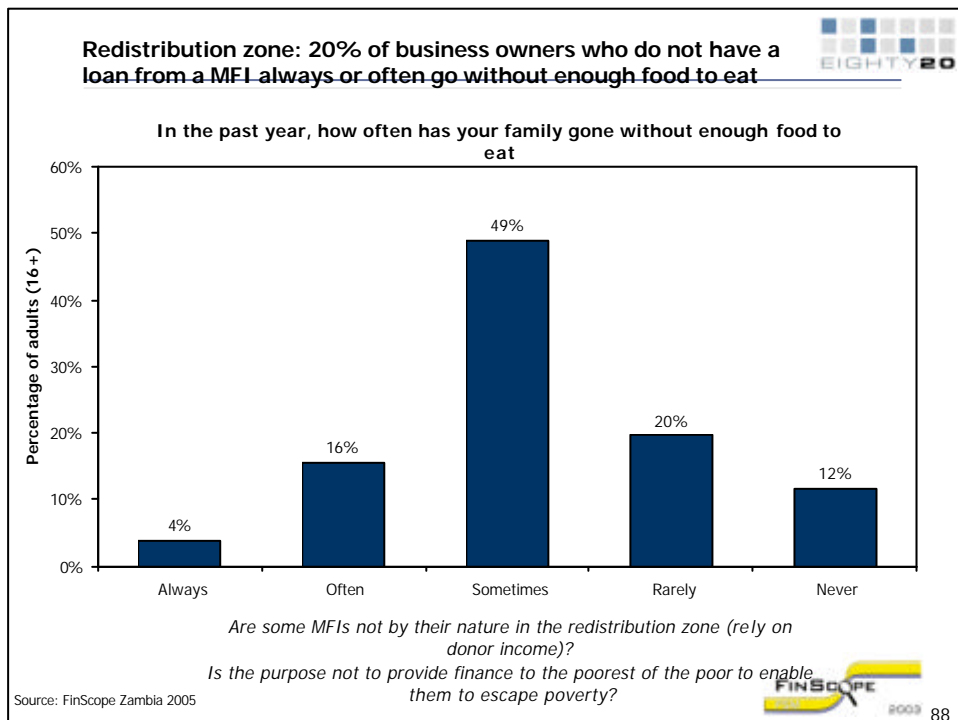
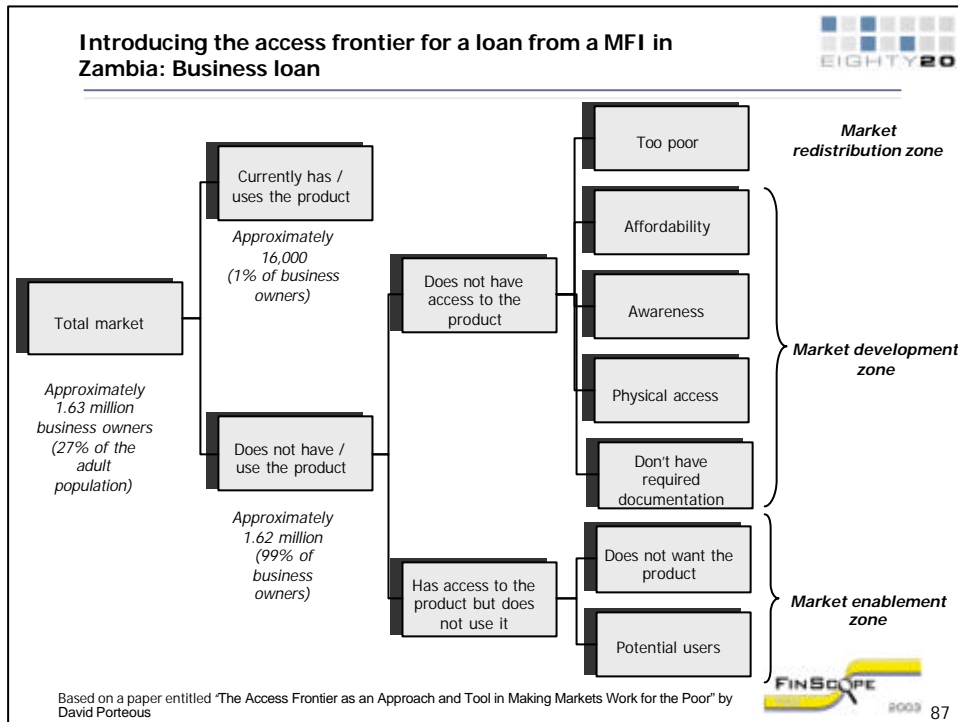


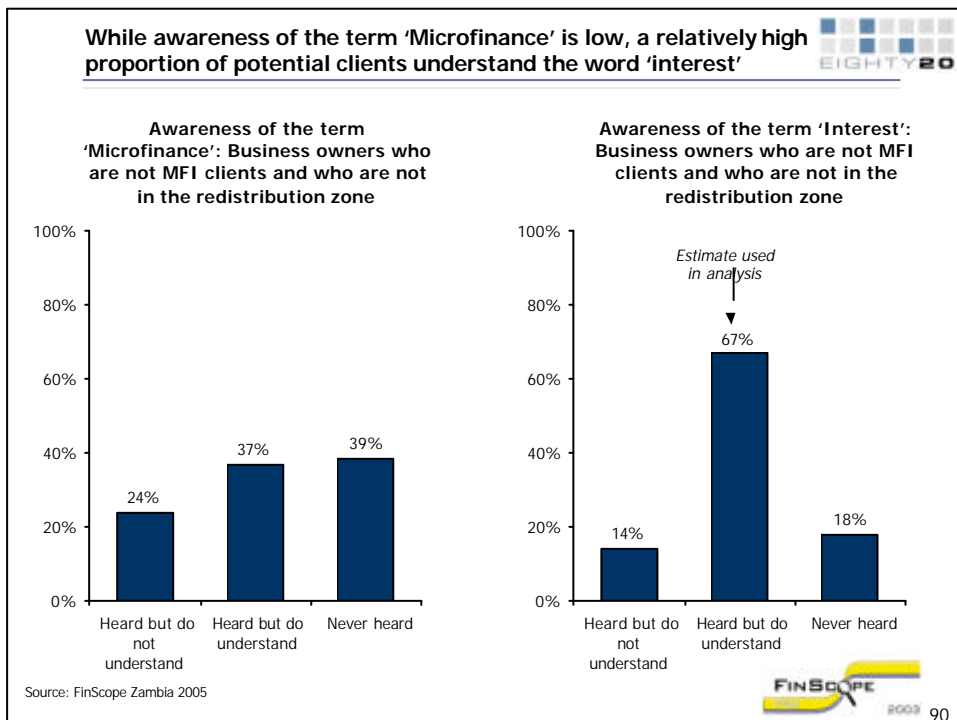
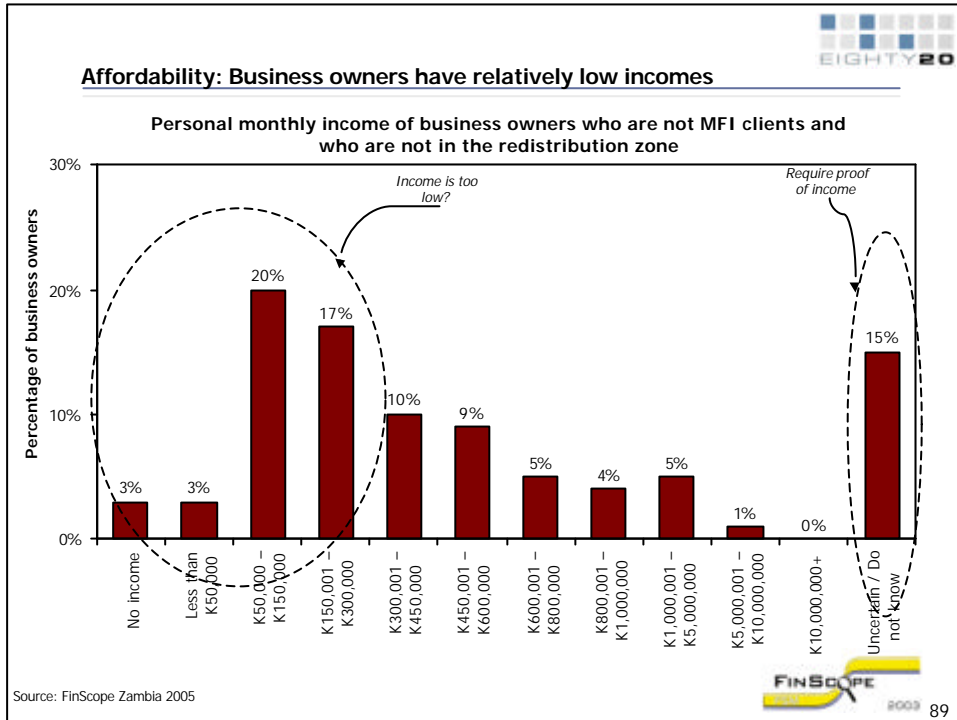
Number of business owners (000s)

■ Not registered □ Registered

Source: FinScope Zambia 2005

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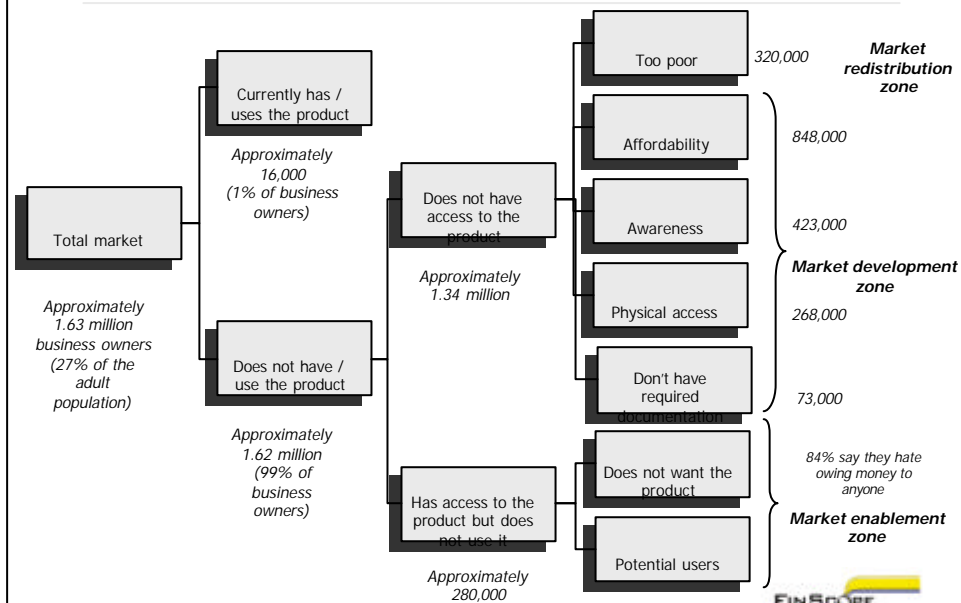
Other requirements

- Identity document**
 - 5.6% of potential clients (i.e. business owners who are not MFI clients and who are not in the redistribution zone) do not have an identity document

- Proximity**
 - 64% of potential clients who are not in the redistribution zone live in rural areas
 - 21% of potential clients who are not in the redistribution zone associate the statement "They are too far away from where I live, work or usually go to" with MFIs (estimate used in analysis)
 - 18% of potential clients who are not in the redistribution zone associate the statement "They have too few branches" with MFIs

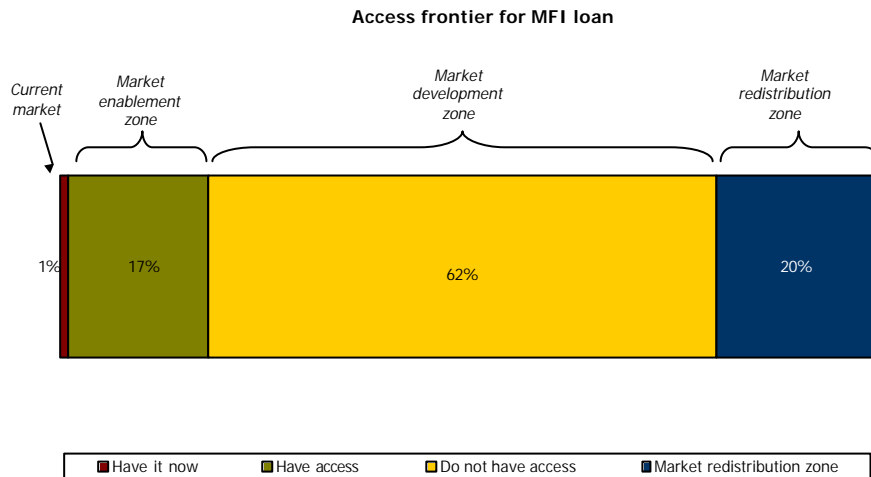
- Credit history and prudent lending**
 - 5% of potential clients who are not in the redistribution zone have been refused a loan previously
 - 13% of potential clients who are not in the redistribution zone have or have had a loan from a 'formal' source including banks or employers – many therefore do not have a credit history
 - 11% of potential clients who are not in the redistribution zone are currently paying 25% or more of monthly income on debt servicing

Introducing the access frontier for a loan from a MFI in Zambia: Business loan



Based on a paper entitled "The Access Frontier as an Approach and Tool in Making Markets Work for the Poor" by David Porteous

The access frontier for a MFI loan in Zambia



General comments

- Both banks and insurers stressed the importance of understanding the history of Zambia as a precursor to assessing the question of access to financial services
- The transition from socialist past where the state provided to the present where households need to take financial responsibility for lifecycle events and financial shocks is still underway
- This has clear implications for financial services providers who must contend with an expectation on the part of potential clients that others (such as employers or the state) will take care of their financial futures
- As highlighted in the data formal providers have focused primarily on those in formal employment. The data shows that there is a sizeable market of people who are not employed in the formal sector who appear to be able to afford formal products. It is of course critical to ensure that all aspects of the value proposition (not only pricing) are aligned with the needs of the market
- There is much concern about the impact of new regulation on all industries, but in particular on the microfinance industry. Based on comments made by some, it would appear that there is a lack of clarity about the regulations, what is required of the individual companies in order to comply (MFIs) and what the impact of regulations would be, for example on distribution (insurance and banking). This is despite the fact that the industries were represented during the process of drafting legislation. Perhaps there is a need for further interaction between individual institutions and regulators
- In all industries awareness by end-users of financial products appears to be a significant barrier. However, as was highlighted by one of the participants, awareness goes hand in hand with availability of the service. If service providers are in the market, awareness levels will clearly improve.

Insurance

- Despite the perceived significant financial impact of a death in the household, there is limited usage of insurance, formal or informal. This is partly explained by differences in culture - death is not spoken about. It is also partly explained by employer contractual provision of funeral benefits for employees and their household members (this includes the provision of basic benefits such as a coffin).
- In addition, the 'death industry' itself is relatively undeveloped. For example, there are few funeral parlours and families tend to make many of the funeral arrangements themselves.
- There is widespread reliance on social networks to fund expenses associated with a funeral – even traders at the Soweto market collect contributions from each other when there is a funeral in the household. It is not clear whether this is a result of the lack of insurance mechanisms or an underlying cause of the lack of insurance mechanisms (which is the cause and which is the effect?).
- However, in most cases available funding for funerals (through employers or social networks) is insufficient to cover the full costs of a funeral – indicating that there is scope for 'top-up' cover.
- In general most of the insurers present agreed that the industry faced a real challenge in increasing awareness about insurance. There was some discussion about the need for an industry-wide initiative as individual firms are unlikely to invest optimally in a campaign which generates high external benefits (companies who do not invest also benefit).
- As with microfinance institutions, insurers highlighted factors such as the lack of roads which makes some markets inaccessible. They also noted the need for community development in general as a pre-condition for the extension of insurance services.
- The analysis on car insurance highlighted a discrepancy between car ownership and insurance ownership in the data. While this can partly be attributed to a lack of clarity within the questionnaire (it does not ask about individual car ownership, and it is not clear about the type of car insurance – third party or comprehensive). It is plausible that this discrepancy, in fact, exists and that there are many drivers who do not have third party insurance despite the legal requirement to do so. That the industry does not have a good sense of this highlights the importance of consumer surveys and research.
- The impact of annual premium collections was not explicitly modelled in the analysis, but it is clearly an important access barrier (it impacts on affordability). Insurers opt for annual or infrequent collections because of the challenges and costs associated with premium collection. Insurers noted the high cost of debit order collection as an example.

Banking

- Banks have noted that there is potential to expand the market both within the traditional salaried employee segment as well as with those who work in the informal sector.
- A number of banks are opening new branches and exploring lower cost alternatives to 'high-street' branches. There is no certainty on whether banking correspondent models are legal – the regulator has had no proposals in this regard.
- The discussion on affordability focused primarily on the cost of specific transactions (most notably ATM transactions) and the need to make menus more understandable so that users select the most efficient transaction size rather than using the default options only. It was interesting to note that even sophisticated users party to the discussion were not using ATMs optimally.
- The impact of minimum balances on access is a critical issue, but one that has not been analysed. In this regard it is noteworthy that the single most frequently cited factor that might influence a client in switching bank accounts (for those who are banked) or in opening an account (for those who are not banked) is the size of the minimum balance. [It is not clear why the minimum balance is so critical – is this related to revenue generated on the float (must be very small) or risk management? If it is related to the latter, are there other mechanisms that could potentially enable banks to prevent clients from over-spending?]
- There was some discussion on the impact of Know Your Client requirements, particularly with regard to fixed addresses. One bank noted that it relies on community leaders to assist in this regard.

Microfinance

- Those who would like to establish a rural footprint mentioned the lack of physical access as a critical constraint they face in extending reach (lack of tarred roads was mentioned in particular) and one that has a material impact on cost structures
- A lack of financial infrastructure also hampers their ability to lend profitably. Credit bureaus are in their infancy, and there are limited affordable and accessible payment systems for collection of instalments
- Lenders also mentioned a culture of non-payment with limited mechanisms to manage fraud and to enforce contracts
- Provision of subsidised inputs to small businesses also appears to play havoc with clients of some lenders whose businesses focus on market provision of these goods. They are effectively put out of businesses when subsidised product is distributed.
- Lenders who provide consumer credit to employed individuals appear to rely heavily on salary deduction. While this enables lenders to manage delinquency risks an over-reliance on this mechanism (is there abuse?) creates its own instabilities. South Africa's history with Persal should be a strong warning. If employers, in particular in the public sector, discontinued access to payrolls some lenders would be unable to operate.