



BRANCHLESS BANKING

Testing remote access models for Southern African countries

By Oxford Policy Management

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About this publication

This report is a short summary of a review of 30 models of remote access banking initiatives from around the world. The purpose of the study was to identify models that might work in Southern Africa for offering access to financial services outside the traditional delivery channels of bank branches and life insurance offices.

It was commissioned by the FinMark Trust and conducted by a team of consultants from Oxford Policy Management (Steve Peachey, Carolina Sanchez and Robert Stone) working together with independent consultants based in Washington, Maputo and Johannesburg (Jeremiah Grossman, Alice Keugler and Keith Smith).

The models were taken from Southern African countries and from countries outside the region, and case studies of these are available in the full report. The main geographical areas of innovation in this field are Africa and the Americas, together with a few countries in Asia. Most of the models are domestically rooted but a few emerge from the remitting end of the international remittance chain. About half the models are African and the other half are from outside the continent.

The models have been developed by a range of organisations, including banks, insurance companies, microfinance institutions, cellphone operators, card processors and information technology systems providers.

Without diminishing the importance of the expanded access these initiatives can deliver, it needs to be noted that in countries where acute poverty is the binding constraint on the use of financial services the models described are not going to overcome that fundamental lack of cash-based economic activity by poor, largely rural communities.

A copy of the full report, *Testing remote access models in Southern African countries*, is available on the FinMark Trust website, www.finmarktrust.org

Introduction

Remote access refers to two distinct strands of innovation: remote in the sense of enabling access to the services of financial institutions without people having to enter their traditional outlets, even though the customer may be close; and remote in the sense of being outside the geographical areas where financial institutions have their traditional outlets.

There are two key aspects of remote access. The first is the use of technology to enable people who are not served by financial institutions to start using financial services without having to access them through traditional bank branches. This can overcome a geographical barrier to access but it is often also important in bridging the social gap between the informal, unbanked segments of society and the formal structures of branch or office-based financial services.

Technology has been crucial in getting small-scale banking services around the world out of the banking hall and into environments that poorer people find less intimidating. The mobile phone in particular has attracted attention as a personal point of potential access and is used by a growing number of explicitly pro-poor cellphone banking services.

The second aspect is the use of technology to overcome the cost barriers to geographical outreach. There are few bank branches in poorer sparsely populated areas of developing countries. In Africa, many national populations are both poor and rural. This can often more than double the already high cost of using financial services because of the time and cost involved in reaching outlets. The challenge in providing workable remote access is threefold: the service needs to be socially inclusive, physically accessible, and the financial costs need to accommodate the sporadic and low-value use that the unbanked in poorer and remoter areas are likely to make of any service.

The overall cost of delivering financial services is pertinent to closing both types of gaps, the social and the geographical barriers.

Transformational versus additive

There is a qualitative and a quantitative dimension to opening up access. Transformational banking provides services in such a way that unbanked people are targeted. Additive initiatives simply supply another channel for the banked. Some models are more transformational than others.

Figure 1 shows a hierarchy of expanded outreach that can be used to assess how transformational different remote access models are likely to be.

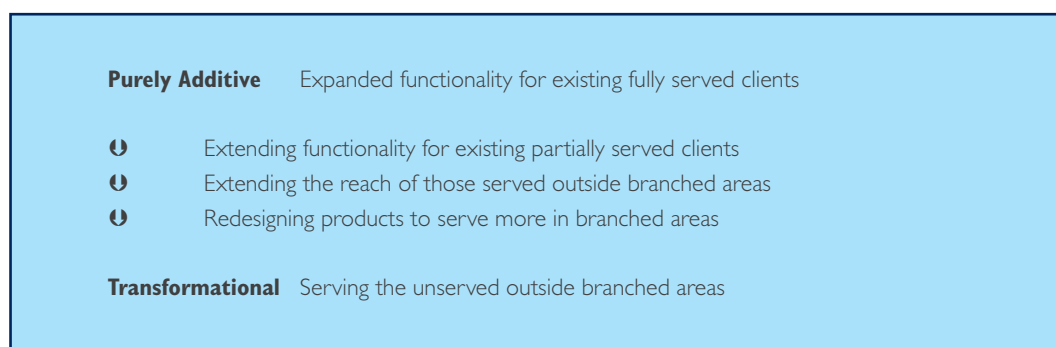


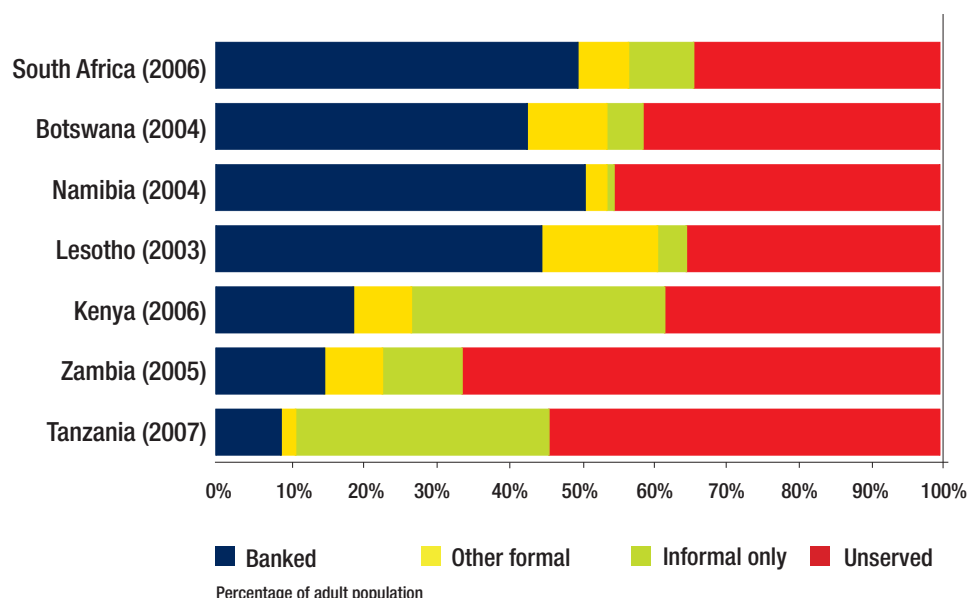
Figure 1: Hierarchy of outreach: from purely additive to transformational

A remote access service such as internet banking, that is of use only to people who are already likely to be fully served, is purely additive and does not expand access. By contrast, a card or cellular-based service that lets the existing served send money to unserved relatives is beginning to be transformational. It would be fully transformational if that transfer went into a remotely accessible account that allowed the recipient to then make payments, save and ultimately even borrow.

In a similar way, a card or cellular-based service that allowed the urban poor to access at least basic financial services at affordable costs is transformational, whereas one that only allows transactions to be effected outside a branch or insurance office at the same high cost of doing so inside would be purely additive.

Figure 2 compares a range of Southern and East African countries. It shows the scale of the challenge for those seeking to implement innovative solutions. The countries are ranked in order of purchasing power adjusted for per-capita gross domestic product (GDP). It is striking that even in the better-off countries, a third or more adults do not even use informal alternatives to regulated financial services. For the poorest countries this rises above a half.

Figure 2: Access in Eastern and Southern Africa



Source FinScope™

This does not mean that the unserved cannot be banked, and the microfinance revolution has shown that finance brought directly to the poor can have positive welfare benefits. The benefits are, however, not guaranteed.

Many remote access models presume a level of monetisation of day-to-day economic activity that might be true only of the better-off South African Custom Union (SACU) countries. These models will struggle to be relevant to people in poorer economies who are so far outside the monetary economy, let alone the banked one, that they do not even have enough money to join a zero-cost informal rotating saving and credit association. In these circumstances the starting point may have to be augmenting the cash flow of these people through social benefits.

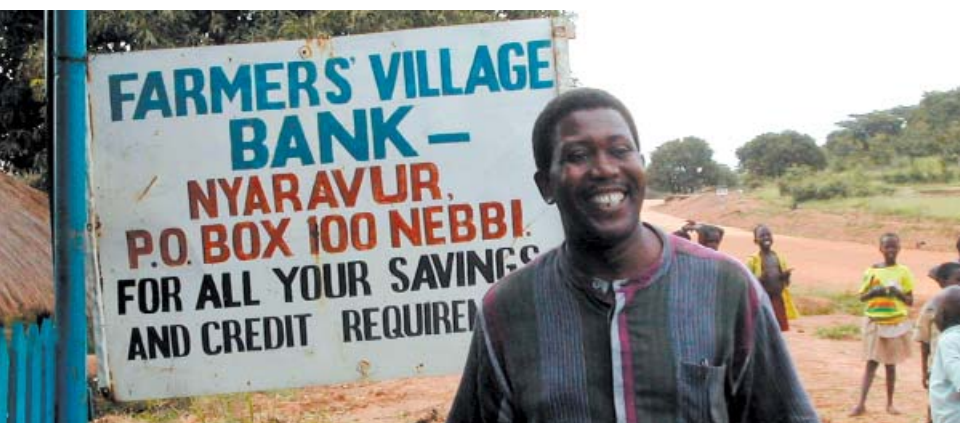
In countries with such low per-capita incomes, especially among the rural poor, such benefits can be funded for surprisingly low percentages of per-capita GDP. However, if social protection programmes are to help build access and alleviate poverty then the income flow created will need to be channelled via simplified pro-poor accounts rather than handed out as cash.

Models of development

To turn any flow of income into genuine access to financial services requires an element of supplier push. The common distinction drawn is between bank and non-bank led models. For example, a non-bank leader in remote access could offer electronic money transfers that leave the decision about when to use tranches of transferred funds in the hands of the recipient. This would create a de facto savings facility. Moreover, the information about the flow of money to a recipient could also ultimately support the supply of credit. It is, however, unlikely that a non-bank institution would so explicitly create such a substitute for banking services. To do so would bring the supplier within the regulatory net of banking services, with all the additional compliance cost this tends to imply.

Strategies adopted to avoid crossing into the bank regulatory domain include self-limitation and trust account arrangements to hold the collective float of customer funds in transit, and partnering with a regulated financial services provider to secure an account platform that holds such funds.

The first option is unlikely to deliver anything more than a money transfer service. The second provides necessary, albeit insufficient, conditions for full access to finance. The same possibilities present themselves in bank-led models – a bank that partners with a mobile phone operator to provide cellphone banking may see this as an extension of existing services to the banked or as a platform for reaching the unbanked.



The issue is not so much cost, as the fact that the card provides access (to credit) to previously unbanked, low-transaction value customers.

Another distinction is drawn between models that rely only on the principal supplier changing the way they supply financial services versus those that involve the principal working through some agency or correspondent network. Both alternatives can also encompass purely additive enhancements of service to the already served as well as genuinely transformational platforms for reaching the unserved.

For example, a standard debit card facility augmented to support cash-in/out and bill payment at a chain of retailers is likely to be more additive than transformational, whereas a card-based account for receiving social payments with the same functionality at the same chain of retailers is likely to be more transformational than additive. In the second case, the principal has created a new product specifically targeted at a group likely to have been previously unbanked.

This becomes even more transformational if the capacity to access small-scale credits is built into the payments/savings account. The issue is not so much cost, as the fact that the card provides access (to credit) to previously unbanked, low-transaction value customers.

Expansion or money transmission

The models reviewed for this study lead to the conclusion that the most significant dichotomy is between models that are aimed at expanding the balance sheet and those that are limited to money transmission.

Expanding the balance sheet involves existing financial service providers adapting their offering and using their balance sheet capacity to mobilise savings and premium income into lending and risk cover as well as providing payment mechanisms. Sometimes the decision to move “downmarket” emerges internally. For others it is mandated or encouraged from outside by government.

In most banking cases the institutions are publicly owned with an established mandate to serve the mass market – the objective of the move is explicitly to expand the outreach of banking services. These models tend to be transformational both in expanding the number of people with access and in the quality of service offered, as the suppliers make a relatively full offering across the range of services that are the focus of the debate about access, that is payments, savings, credit and risk cover.

Money transmission models help clients move spending power across space to support transactions. The main supplier focus is on the infrastructure that allows money to be moved securely and allows this to be securely anticipated. When banks lead the transmission, the transit float is in customer accounts. A non-bank organisation has to transfer away the balance sheet risk for managing the float. This involves either partnering with a financial service provider, using their customer account and treasury infrastructure, or using a trust account at a bank holding the net amount of the float.

Money transmission models have come about in three different ways. Some owe their genesis to changes in social payments policy; others are driven from the remitting end of international migrant transfers; and others arise from a need for domestic money transmission.

Examples – international

Balance sheet models

Balance sheet expansion models are characterised by increasing outreach through moving out of traditional branches and creating completely new distribution channels in co-operation with others.

The best-known examples are the Brazilian banks that have opened banking correspondent (agency) networks, enabled by a change in banking regulations. Correspondent banking in Brazil created, in a period of five to six years, around 12.5 million new accounts and six to seven million active accounts specifically targeted at the previously unbanked. Moreover, in just two years around 30% of Brazilian municipalities with no branch of any bank at all were opened up to basic banking services via banking correspondents. **Caixa Economica Federal** (the state savings bank) works with the Public Lottery House Association (Abraelo), and Brazil's largest private bank **Bradesco** works with the Brazilian postal service, Correios. The state-owned **Banco do Brasil** and foreign-owned Lemon Bank also have large networks of correspondents. Banco do Brasil established a specialist subsidiary, **Banco Popular do Brasil**, to deliver the new agent-based business. Lemon Bank was a new investment by Argentinean investors specifically built around the banking correspondent approach. This approach has been transformational in both dimensions of remote access – allowing the geographically close but socially excluded a less intimidating form of access, and extending that into remote areas not served by existing distribution networks.





Bansefi of Mexico demonstrated the value of migrant-friendly remote access by opening explicitly pro-poor accounts to receive social payments and remittances from migrant relatives. Bansefi already had its low-value savings account, Bonasar, and added the Oportunidades payments account for social payment receipts. Bansefi research shows that within three to four cycles, money in the Oportunidades account stops being withdrawn as cash in full on the date of the incoming social payment, and in a further three to four cycles the first signs of additional voluntary savings being credited to the account start to appear alongside the mandated incoming social payments.

Bansefi extended its potential to meet low-income clients' needs for safe, cost-effective ways of receiving remittance income by negotiating agreements with a number of US banks. Incoming remittances can now go into either Bansefi's basic or special pro-poor savings/transactions accounts. The charges are lower than Western Union or similar agencies and, perhaps more importantly, incoming remittance flows can be transferred to special savings accounts that then qualify the account holder (who may be the remitter or the recipient) for access to special governmental housing finance or education loans. Customers can use their cash flow to build up the track record needed for the sort of lending done by these institutions. This allows Bansefi customers to access credit even though their bank is statutorily barred from providing such a facility.

Another initiative to bring and then grow the financial activity of people in poor communities onto the balance sheets of an already accessible banking system was the former Thai government's **Village Fund** and **Peoples Bank** initiative. The first was a revolving fund of about US\$2 500 for each community unit to invest in priority community projects. To cater for enterprising people who wanted to build on the gains of the collective investment Peoples Bank offered individual microcredits.

Another major state bank already established in branch-based savings and microcredit business but now looking for other ways of reaching remote customers is Chile's **BancoEstado**. Its microfinance loan officers operate out of their home branches with specially made computer equipment that includes georeferencing software to identify actual and potential client locations, which allows the loan officer to call up a client's record with a map reference.

All these initiatives include an element of banks providing their own microcredit service. There are also examples of banks in India and West Africa partnering with MFIs to extend access. **ICICI** of India, **Caisse Nationale d'Epargne Benin (CNE)** and **PosteFinances** of Senegal either decided not to enter the microcredit market in their own name (ICICI) or were not allowed to by law (CNE and PosteFinances).

ICICI of India involves the biggest potential increase in access. Like all commercial banks in India ICICI has to direct 40% of its lending to priority sectors and just short of half of this must go to agriculture and rural finance. ICICI decided to focus on Self-Help Groups which have about 50 million members across an adult population of nearly 750 million. Its starting point was to grow a tiered sales force of in-house project managers and outsourced co-ordinators/promoters, with promoters targeted to start 20 new groups in return for which they would receive a financial incentive. After about two years this approach had created 12 000 new groups benefitting 200 000 to 300 000 poor people.

CNE is one of the most innovative postbanks in West Africa with a large market penetration. Its strength helps lift access in Benin overall despite poor levels of monetisation. It has done this despite having the limited mandate typical of many African postbanks. It has got round these limitations by a series of partnerships, including one with Finadev, a microfinance institute (MFI) with broad experience in Africa.

PosteFinances was asked to run the collective savings accounts for certain women's groups. Groups that had received in-kind development aid such as boreholes, pumps and milling machines, were required to put regular contributions into a sinking fund designed to pay for maintenance and ultimately the replacement of the aid equipment. As almost always happens when poor people are given a mandated savings account, they started using it for voluntary savings. PosteFinances noted this additional business and realised that these women's groups were eligible for microcredits from the federations under which such groups are organised in Senegal. The bank then



arranged to disburse these credits and collect the subsequent payments through the same collective accounts used for the sinking fund savings.

In a further variation on this theme of branched banks working with grassroots organisations to build both kinds of remote access, **Barclays Bank of Ghana** developed an onlending scheme for informal sector *susu* savings collectors. Informal financial services play a major role in Ghana in substituting for the lack of widespread access to formal banking services. There are thousands of *susu* collectors in Ghana, each with hundreds of clients, from whom they collect small amounts each day, charging a fee for looking after their savings. Traditionally *susu* collectors had limited capacity to provide lending services. Barclays Bank Ghana formed an on-lending partnership with the collectors and the Ghana Co-operative Susu Collectors Association. The uniqueness of this partnership stems from the way two radically different financial intermediaries – at opposite ends of the spectrum in terms of size – have linked together to benefit from the strengths and advantages of the other.

Banks are not the only financial service providers seeking to bolster their balance sheets, and of course profits, by working with grassroots microfinance providers. Two interesting parallels with ICICI come from subsidiaries of international insurance group **AIG** in India and Uganda. An AIG joint venture with **Tata Group** of India is developing a network of start-up insurance agents using hand-picked poor rural women to visit client households to initiate and then service regular premium microinsurance policies.

The model used by **AIG Uganda** is more like the second phase of ICICI's microcredit expansion – 1.6 million lives are now covered for accidental death through partnerships with 26 Ugandan MFIs. The initial impetus came from FINCA, an international MFI working in Uganda, which approached AIG for standard group personal accident cover – the sort that allows credit card companies to offer all of their customers accident cover for any international travel booked on their cards.

There is a long history of direct sales and servicing of basic financial services by agent-collectors. **Delta Life** of Bangladesh, a for-profit company listed on the Dhaka Stock Exchange, serves the low-income market without donor support or technical assistance. Regarded as the "Grameen Bank of microinsurance", Delta has pioneered 10-15-year endowment policies that combine savings, insurance and credit and now serve more than a million low-income people.

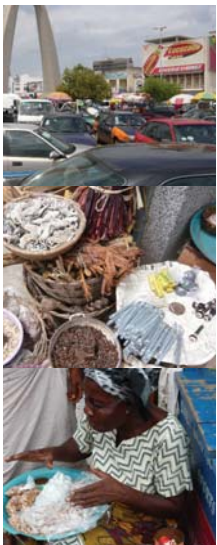
National Savings Institute of India is an arm of the Ministry of Finance that designs and administers a range of short- to medium-term savings products and provident funds or long-term retirement savings but does not distribute these. The products are available at post offices, selected state banks and a couple of private banks.

There are thousands of susu collectors in Ghana, each with hundreds of clients, from whom they collect small amounts each day, charging a fee for looking after their savings.

Money transmission – payments

The role of social payments as a stimulus to the development of banking correspondent networks in Brazil has already been mentioned. However, none of the social payments models identified outside Southern Africa is purely transaction focused. They have required some modification of existing point of sale (POS) technology but this has rarely been revolutionary.

Although technology enabled, none of them could be described as technology driven. This all took place within a broader thrust to expand access to banking by expanding balance sheets.



Money transmission – remittances

A different picture emerges with international remittance models, although when these are bank-led the distinction between a pure transaction focus and balance sheet expansion can be hard to maintain.

Caixa Economica Federal of Brazil, which built the largest correspondent network off an initial social payments initiative, also expanded into the international remittance market. In 2004, it launched an internet based E-Caixa facility allowing migrant workers with bank accounts and internet access abroad to credit domestic Caixa accounts. For migrant Brazilian workers in the US the bank also negotiated to place the remote satellite-enabled Caixa Acqui terminals, which it developed for its banking correspondents in the domestic lottery network, in the US branches of one of the major Portuguese banks with which Caixa has international correspondent banking relationships. E-Caixa is more additive than transformational as it works only for migrant workers in the formal sector of their host countries. The second model is less clear cut and depends on the AML-CFT (anti-money laundering and counter-terrorist financing) processes of the bank hosting the terminals. When the discretion available on small transactions is used to waive full know your customer (KYC) rules – particularly residence verification and acceptance of foreign passports for ID – then the service is available to both formal and informal migrant workers. If, however, the same identification and proof of residence requirements that apply to account opening at the host bank are needed, then the second model is not transformational either.

Another Latin American remittance-based initiative is **CBUSA**, Citibank's dedicated banking brand for Mexican migrant workers with a Binational card account operating in both countries. The authorised signatory (the recipient) has access to all ATMs and merchants displaying the Visa logo. This approach avoids problems with cross-border application of KYC rules and card issue to the recipient (both done by Banamex, a regulated financial services provider in Mexico). The CBUSA model has clear parallels with Barclays-Absa/Stancic's ownership of other banks operating across Southern Africa.

A version of the CBUSA Binational card can be run by two unlinked entities in countries at either end of a remittance corridor: International MFI **Opportunity International** and international bank **HSBC** have developed a co-branded affinity card that can be topped up via the internet. Remittance involves getting the card account set up by HSBC and then crediting it with spending power. The card is then physically issued by Opportunity International. Each organisation handles its own customer authentication, which means the product is available only to migrant workers in the formal sector of the remitting country with sufficient identification and proof of residence to meet normal KYC rules.



The **Tuxedo Blue Diamond** cash-credited pre-paid card in the UK is not unlike the HSBC-Opportunity International card but with no remote issuer in the recipient country and the customer interface being an internet website rather than a financial services supplier. The card is, however, issued by a licensed UK financial services company, Northampton Building Society, and distributed in bubble-packs bought from small-scale retailers in areas known to be frequented by incoming migrants. The packs cost around \$20 and contain registration instructions plus the card and a paying-in book useable free at any Barclays Bank branch, and for a fee at post offices. The pack also gives directions to the website for extra detail in a range of languages. A separate tamper-resistant letter sharing a common customer ID to the bubble pack is also handed over at the time of purchase and contains a PIN code. Registration requires only a copy of the photo page of the migrant's passport plus contact details in the UK and contact details for the authorised user in the recipient country, but no verification of either of these.

The **Ikobo International** internet credited pre-paid card is similar to the Tuxedo Blue Diamond Card in basic form – a financial services institution provides the regulated framework for a non-bank (IT) company to supply a pre-paid debit card. It is different in three key respects. First, crediting of the card can be done only via the internet using a bank debit card so some of the Consumer Due Diligence is already done. However this makes it virtually impossible for an unbanked remitter to use. Second Ikobo will arrange for the issued card to be delivered using Federal Express. And third, it is much more expensive with transfer fees ranging from 8% for small (\$100 transfers) down to 3.5% for larger (\$1 000 plus) transactions.



Money transmission – domestic

SmartPay and its competitor **G-Cash**, both of the Philippines, offer cellphone-based money transmission services. With both it is possible to pay for goods, pay bills, make person-to-person (P2P) transfers and top-up airtime through SMS text messages. Both also have an international remittances service. Cash is paid in through a range of agents/partners (airtime vendors, retail chains, petrol stations, some banks) and cash can be taken out at these locations as well. The basic transactions process is similar for both schemes. Value is credited usually with cash at an appointed agent. An SMS text command with the recipient code or cellphone number plus the remitter's PIN are sent and confirmed with a return message to the sender. The transfer of credit is then made to the recipient and an SMS confirming this is sent to the recipient's cellphone number and the transaction is then complete.

There are, however, differences between the two schemes – SmartPay is a partnership led by the cellphone service provider (Smart Telecoms) but supported by a bank (Banca d'Oro) which manages the customer float and accounting for SmartPay. This allows it to offer a debit card option and even an option to credit funds from salary deductions. G-cash is an example of a pure non-bank led initiative. Many of the registered users of these two services are otherwise unbanked and not served in any formal sense, although this may be more true of G-cash than SmartPay because of the latter's more explicit tie up with Banca d'Oro. Interestingly the signing up of local rural banks as partners by G-cash seems to be pushing the model towards a qualitative rather than purely quantitative expansion of access.

Safaricom of Kenya and its **M-Pesa** money transfer service is not dissimilar to G-Cash. Cash-in and cash-out are possible at appointed (mostly airtime vendor) agents and the service is mainly aimed at person-to-person (P2P) cash transfers and airtime top-ups. It went live in early March 2007 after a pilot of some months linked to Faulu, a local MFI with a rural finance focus. About 70% of pilot transactions were related to making mandatory payments for microcredits via the system. Of the remaining 30% voluntary transactions, about half were related to airtime top-up, and a third to P2P cash transfers. Only a small balance (less than 5%) gave any indication of being linked to more sophisticated payments and quasi banking activity. The advertising for the rolled-out service concentrates on P2P transfers – young urbanised adults sending cash home to grateful parents working on the family smallholding.

Early reports suggest that close to a third of a million users registered in the first 10 weeks of rollout with most of the transactions being P2P transfers followed by airtime top-ups. This compares to a population of 17.5-million adults of whom barely 3-3.5 million have any formal banking or insurance products. Of 4.5-5 million Kenyan adults owning a cellphone, about 50% are banked, 30% use only semi-formal or informal financial services and 20% are completely unserved. The service almost certainly opens up an accessible substitute to other formal and informal money transmission schemes under both dimensions of remote access. Vodacom's M-pesa model seems to have about the same potential transformational power as Smartpay and G-cash in the Philippines – it might bring an additional five percentage points of the adult population within the scope of very basic transactional banking. This would be a worthwhile increase in a country where not even 20% of the adult population has a bank account. To put it in context this is roughly the number of new branch-based bank accounts opened by pro-access commercial banks in Kenya over the last three years.

Celpay operating in the Democratic Republic of Congo (and also Zambia) is a cellphone-based model with the most explicit links to a banking platform. Both schemes (DRC and Zambia) show that there is no guarantee of a breakthrough even in countries with very low levels of access and expensive bank-based payments. Although the basic SMS-based transaction method is similar to Filipino and Kenyan models, the underlying platform is different. Celpay accounts are actually bank accounts accessed via mobile phones, and cash-in goes through partner banks as well. The Celpay DRC system has capacity for one million customers (adult population 28 million) and there are only 20 000 subscribers. Zambian subscribers are one tenth of this and the customer base is dominated by small business with the service mostly used by larger distribution companies to manage their supplier/customer chain. Poverty is a limiting factor. DRC is one of the poorest countries in the world and two thirds of rural Zambian households do not have sufficient income to ensure enough to eat. Cellphone penetration is also low – 3% of unbanked rural Zambians own a phone and another 3% have access only to phones owned by others.

Cellphones are not the only way of making transfers outside the banking system. **Postal Corporation of Kenya (Posta)** uses the processing and reconciliation platform of its international remittances partner to support domestic electronic money orders. This is a faster alternative to its traditional postal money order, which is still the main formal method for domestic transfers. The move to an electronic platform cuts transmission times from days to potentially instantaneous. The product only works, however, for the computerised main offices and has yet to rollout to the manual sub-offices. A weakness is that it only allows cash-in and cash-out and has no payments capacity.

These models are motivated by commercial interests related to the technology underpinning them. One of the interesting issues to be resolved is whether this commercial motivation makes any difference to the additive versus transformational nature of the remote access of these models.

All the balance sheet expanding models described, including those with a social payments dimension, plus all of the international remittance models, have an aspect of what might be called mission or activist-driven motivation. They are about getting financial services into the hands of those who are otherwise unserved by traditional distribution networks. This almost guarantees that they are transformational in terms of the target market.



Examples – Southern Africa

The examples in this section have been chosen from three representative Southern African countries. South Africa was chosen because of its financial dominance in the region and also because it is a source of much of the innovation on remote access but has still to achieve a major, transformational breakthrough. Botswana because it is a relatively we-off country with relatively high levels of bank penetration by African standards but still with significant challenges related to serving remote, sparsely populated rural areas. Mozambique is an example of a poor developing country with all the challenges faced in a country where at most one-in-six adults might have a bank account and not much more than one-in-three are served financially in any way at all.

South Africa

Two cellphone banking operations are aimed specifically at providing remotely accessible domestic money transmission. The **WIZZIT** alliance banking venture operates as a division of The South African Bank of Athens. WIZZIT is not tied to any cellphone service supplier. Overall the cost of a typical WIZZIT accounts is around R35 (US\$5) a month and equals 2.1% of user income, implying average monthly user income of around R1 500 (US\$215). In judging the affordability of the model, it should be noted that usage displayed by WIZZIT customers is not high – just under one cash-in and just over one cash-out transaction a month and a couple of non-airtime purchases or bill payments.

MTN MobileMoney is a joint venture between mobile phone operator MTN and Standard Bank which operates as a division of The Standard Bank of Southern Africa. Assuming the same usage patterns as WIZZIT, an MTN MobileMoney account would cost about R20 a month.

Nedbank has an alliance arrangement with the Pick 'n Pay supermarket chain similar to the Brazilian correspondent banking model. Its interest-bearing, card-based **GoBanking** account can be accessed for cash-in, cash-out and purchases at the stores for R2 (US\$0.3) a transaction and one-off cash payments to third parties for R4. Calculating what a GoBanking account would cost a typical WIZZIT customer gives a monthly charge of about R21, or broadly the same as MTN MobileMoney.

Capitec is one of the most aggressively growing mass-market banks to emerge out of the commercial microlending industry. It now has 280 branches nationwide. Its **GlobalOne** traditional bank account also offers card-based payments and cash-out via supermarkets. Purchases are possible at any merchant accepting Maestro (150 000 outlets) and cash-out via ATMs and all three main supermarket chains. Cash-in and bill payment have to be done at a branch.



The cost of a GlobalOne account for a user with the same activity pattern as the average WIZZIT customer described above would be around R12 (US\$ 1.8) a month. Given that around R1.60 in interest would be earned on an average monthly balance equal to half the monthly income for such people, the cost comes down even further. The account opens up savings opportunities at the highest market rate for small balances (10% on balances up to R10 000 or US\$1400) and access to a range of small-scale consumer loan products, on which the bank makes its profit. The model has proved truly transformational in closing the social gap between banks and the unbanked. The active customer base has grown nearly three-fold in four years to 1.1 million and within this there are 0.6 million active savers that have been entirely recruited to the bank over that period.

Absa's AllPay unit has a contract from government to pay out social security benefits and pensions in Gauteng province and parts of the Eastern Cape province via a card-based product. Branded as **Sekulula**, cardholders' accounts are credited on the first working day of each month. The Sekulula account was created to alleviate the bottlenecks of cash distribution. If customers choose to receive payment into their Sekulula bank account and not cash, beneficiaries have the additional convenience of accessing their grants via Absa ATMs, branches and POS merchants, as well as two free cash withdrawals a month. Funds in the Sekulula card account can be topped up with cash and electronic transfers and used at merchants that electronically process Visa transactions.

First National Bank (FNB), the banking division of First Rand Banking Group, has a limited version of the Banco Estado approach to using clients as agents. FNB has its own card portfolio and manages a range of private-label programmes. This gives it a large merchant network many of which use other FNB services. FNB has put "mini ATMs" into a number of these which allow any holder of a Visa or Mastercard branded card to print a cash-out authorisation slip and receive cash from the merchant retailer. This model is limited as it does not allow depositing or bill payments.

Teba Bank is the offshoot of a long-established cash savings and transfers business run for migrant miners in the South African gold and platinum mines. Its traditional product is a linked passbook savings account that run simultaneously on the mine and back at the miners' home locations, including in neighbouring countries. The bank processes the salaries of miners straight into the accounts and transfers any nominated portion into the home account. This delivers domestic and regional money transfers for the cost of a basic withdrawal fee and no exchange control or AMF-CFT complications – the customers by definition being known to the bank through the employment relationship. In 2002 the bank expanded to other potential mass-market customers in the mining areas but not employed on the mines with a series of Mining Town Offices and its GrowWithUs product available through these offices and its Eastern Cape branch network.

As with Capitec, the focus is on closing the social gap between unbanked customers and a traditional branch-based banking operation with service advisers available to help and also to cross-sell credit products. The bank is experimenting with a debit card alternative to the passbook account – its **Acard** product, now at pilot stage.

There are a number of innovations in remote access to insurance. There are two strands to this: alliance arrangements to get individuals or groups to take small package non-life cover, and collecting premiums on renewable accidental death cover via cellphone airtime agents.

Mutual & General is piloting accessible cover for housing, including tribal land (mud wall) constructions and homes without formal title. Premium collection remains a problem as only 7% to 8% of households have been financed by the sort of bonded (i.e. secured) instrument that creates a payments stream to which a regular premium can be attached. Mutual & General is also looking at group livestock insurance.

Cre8, a division of Alexander Forbes Management Services, had the same problem with its low-cost catastrophe cover for the two million people who live in Reconstruction and Development Programme (RDP) houses and has opted for an annual premium to make the product sustainable. This has been developed in alliance with Kwasa Development and Housing Resource and is priced at a monthly premium of R15 (US\$1.9). Marketing costs and the cost of monthly premium collection are not covered and a once-off, upfront payment of R230 (US\$32) is required at policy inception (R50 for the marketing and R180 for the first year's premiums). Cre8 also offers low-cost motor and accident or sickness insurance.

Discovery Life in association with **Smartcall** has a funeral policy available by purchasing a starter pack from any Vodacom shop for R40 (US\$6). The policy is activated entering the pack number into a cellphone using a USSD string command, which gives initial cover for 30 day. This can be maintained each month by going to a Vodacom shop, paying a further R40 premium and entering the PIN number issued by the shop via the insured's cellphone. Proof of payment is delivered to the insured by text message.

Another innovative funeral product is sold by **Hollard Insurance** in association with **Sharedphone**. Sharedphone has more than 4 000 agents throughout South Africa who sell prepaid airtime. They sell the Funeral Plan which is delivered in a starter pack containing information about the policy and premiums. Activation is done on the insured's cellphone and the payment receipt is delivered via a text message. The starter pack and monthly premiums are bought for cash from the agents who are required to hold a stock of airtime against which policy premium payments are set off.

Metropolitan Life offers short-term accidental death cover for users of mini bus taxis via a premium-rated text message service. The policy is bought by texting the insured's name and identity number to the SMS number, with each message costing R10 (US\$1.4) for R60 000 (\$8,400) cover. The system replies with a confirmation and policy number, requesting the name of a beneficiary and reminding the policyholder to make sure they have informed someone about the cover. The policy expires after one week.

Botswana

Potentially the largest of the models being developed in Botswana is a partnership between Penrich Employee Benefits, Bank Gaborone, Bathomatla Funeral Group and a major retail chain to provide access to basic chip-card transaction accounts through 160 retail outlets across Botswana and through which other services such as small-scale credits and funeral cover can be accessed. This would almost treble the access points at which full transaction banking can take place (the total number of bank branches is only 87). It would even exceed Botswana Savings Bank's network of 112 post office access points. In some ways the scheme, which will be known as Smartswitch Botswana, will be like the Caixa Acqui scheme in Brazil, in that it will make use of the POS infrastructure of a networked retail entity. A special account with no minimum deposit and minimal bank charges is being designed for this channel.

Other initiatives are a Barclays replication of an Absa portable branch model, Botswana Savings Bank's rollout of satellite-enabled POS terminals to selected post offices and the replication of FNB's mini-ATM model. In the Barclays case only one extra branch has been opened so far (on the Orapa mine) and this is more of a variation of the branched model than a remote, branchless model. The Botswana Savings Bank initiative will only offer anything at all transformational if it allows new transaction-oriented products to be run through the postal network and the FNB model is limited and more additive than transformational.

Mozambique

Penetration of banking services is low and cellphone coverage appears to reach three times as many adults as the banking system. Additional outreach to rural households is limited by network coverage, sparseness of population and extremely low cash incomes. The prospects for agency-based remote access to financial services look limited, not least because of a lack of networked non-financial entities. The other major constraint on the expansion of both agency and cellular-based remote access is the same security constraint that holds back the expansion of branch-based financial services. There are, however, two initiatives in the area of remote access that appear close to going live.

The postal operator **Correios** is piloting postbanking in Niassa Province with support from the World Bank, MCell and microdevelopment organisations Gapi and Fundaçã. Correios has a network of 159 outlets, of which just over half are in good or reasonable condition. The pilot is part of a wider World Bank programme to revitalise the whole of Correios.

A second project with the International Finance Corporation, supported by KFW and Gapi, involves working with a cellular operator. It aims to develop a front-end and settlements system for cellphone banking. Customers would register their financial details with the cellular operator, and the settlement system would reconcile and allocate transactions to the service providers.



Regulatory challenges

The regulatory challenges of remote access banking involve a complex interaction of monetary and institutional concerns. They are also multilevel, working on supranational and regional-national levels.

At the heart of the regulatory challenge lies the issue of money: what is it, how is it used and who facilitates that use. There are three elements to this challenge:

Monetary and exchange control: The nature of money might change if e-money became a significant alternative to bank-based money. Will new forms of money change the framework within which monetary policy is conducted? Linked to this are exchange control issues where money operates across borders.

Safeguarding the monetary value: Banks are regulated not only because of their importance to the flow of money around the economy, but also because deposit money is a major element of an economy's savings base and bank credit is a major element of its financing. Safeguarding the monetary value of a currency becomes an issue if new forms of money accumulate on the balance sheets of unregulated organisations.

Safeguarding operational integrity: Essentially this element relates to safeguarding the operational integrity of the processes that keep money moving around an economy. Regulation has traditionally been predicated on distinct units servicing the monetary needs of an economy. In this relatively simple world it was relatively easy to contain monetary activity within a regulated environment. The regulatory challenge becomes more difficult as the individual processes underpinning that service begin to unbundle. No regulator wants financial intermediation to be unduly expensive and will not therefore be concerned about whether clearing is done in-house or outsourced. Equally, it is understood that banking IT systems generally have to be procured not self-developed. Nevertheless, there have been times when financial problems have led to regulatory concerns about banks being dependent on those suppliers. These concerns are even more acute when whole business processes are exported out of the regulated entity and into specialist suppliers outside the regulatory domain.

There are few monetary policy risks or risks relating to safeguarding customer money in any of the remote access models that involve a financial services provider, even if only in a supporting role. There are operational risks to all the models and an exchange control risk to cross-border, card-based models.



Regulatory responses to e-money

South Africa has broadly followed the European Union (EU) approach to defining e-money but has not created space for non-bank e-money issuers. The EU Directive on e-money (2000/46/EC) was designed to enable innovation while bringing the activity within the regulated sphere.

E-money was defined as "monetary value as represented by a claim on the issuer which is:

- Stored on an electronic device (in this case, computer system of the telco);
- Issued on receipt of funds of an amount not less in value than the monetary value offered (when the airtime was bought); and
- Accepted as a means of payment by undertakings other than the issuer."

E-money issuers had to register and were excluded from money creation by not being allowed to extend credit. There are restrictions on where they can invest customer money, which ring fences the customer float and restricts these institutions to being transactions-only alternatives to traditional deposit taking banks. The definition of e-money was more clearly defined by subsequent guidance. Any stored value that can be used only to purchase services where the cellular provider is involved in both the delivery of and collection of payment for the services is now excluded from the definition of e-money.

These regulatory responses are relevant to technology-focused money transmission models of remote access because only they are definitely deemed to create e-money. Card-based, payments-driven models should probably be treated in the same way but as they are all notionally issued by existing regulated entities, these are not treated as e-money.

Responding to outsourcing risk

The general principles used by regulators on outsourcing risk are governed by a set of Bank for International Settlements (BIS) guidelines issued in 2005. Risks relevant to remote access include:

Strategic risk such as the third party conducting activities on its own behalf which are inconsistent with the overall strategic goals of the regulated entity;

Reputation risk such as poor service from a third party;

Compliance risk such as consumer laws not adequately complied with or the outsource provider not having adequate compliance systems and controls;

Operational risk such as technology failure, fraud or error;

Exit strategy risk – not having appropriate exit strategies in place;

Counterparty risk such as inappropriate underwriting or credit assessments;

Contractual risk such as the inability to enforce contracts; and

Access to information risk – for example, outsourcing arrangements may hinder the ability of the regulated entity to provide timely data and other information to regulators.

The first risk group (strategic risk) relates to the readiness of the financial service provider to enter into an agency relationship. The second (reputation), third (compliance), sixth (counterparty) and seventh (contractual) relate to the ability of the provider to choose the right agents and get the remote access network established. Risk groups four (operational) and five (exit) relate to operating an agency network after it has been established and being able to withdraw from an unsatisfactory network. Risk groups three (compliance again) and eight (access to information) relate to a regulated institution's inability to pass off its compliance responsibilities to a third party just because it legally contracts out elements of the services it provides or legally contracts to service quasi-deposit accounts for an unregulated entity.

BIS guidelines lodge compliance responsibility firmly with the regulated financial service provider and require the special risks related to outsourcing to be managed explicitly and by a centralised unit.

Although these risks and the guidelines mainly apply to balance sheet and some social payments models that rely on agency or joint venture arrangements, they also apply to technology driven models where a regulated financial service provider is a clear and visible joint-venture partner:

Regulatory responses to remote access

The approaches taken broadly break down into three groups:

Hard line – as adopted by Brazil, India and South Africa, which considers that as soon as money is held in a non-cash form it must be the liability of a regulated banking services provider and leaves no room for remote access models where financial services are provided directly by a non-financial entity except in a full joint-venture with a bank.

Acommodative – as adopted by Philippines and Kenya, which allows the creation of e-money by non-financial entities without them having to be licensed as deposit-takers and treats them instead as payments system providers. Under the BIS guidelines on payments systems, this leaves the authorities with a reserved right to regulate if the number of transactions processed grows to a level of system-wide significance. The new Kenya Payments System Bill seeks to give local legal effect to just that.

Undefined – as in Botswana and Mozambique where present law probably precludes remote access models led by non-financial entities but no guidance has been issued or the law tested.

Potential for remote access initiatives in Southern Africa

South Africa

The number of remote access initiatives in South Africa suggests that the enabling environment is broadly favourable. South Africa has a substantial financial sector infrastructure. There are a number of world-class retail banks, there are six bank branches for every 100 000 people, and an ATM network about three times as large as the bank branch network. Other networked non-financial entities are also potential partners. The postal operator SAPO has almost as many outlets as the banking system combined (2 500) and the three major supermarket brands between them offer another 1 000 outlets (two per 100 000 people). These alternative networks are in addition to very full cellphone coverage.

The second positive strand in the enabling environment is the substantial flow of regular payments to which financial services can be attached. Various government grants account for a quarter of the reported sources of income in the FinScope™ 2006 survey – and there is a spreading network of public utilities creating a significant flow of bill payments from a wide spectrum of the population. There are a number of easily accessible pay-points outside of banks – EasyPay operating through the major supermarket chains and the postal Pay-a-Bill service – through which these payments can be made.

The third positive strand is government policy – black empowerment initiatives and the Financial Sector Charter make it impossible for even mainstream financial service providers to ignore the access agenda.

Despite all this, lack of access remains a significant problem. Around 15 million adults remain unbanked and two thirds of these are completely financially unserved in that they do not even use informal alternatives to banking such as stokvel savings clubs or unlicensed lenders. The reason for such high levels of residual exclusion is almost certainly the affordability intersection of acute poverty and the high cost of supply. Personal monthly incomes for individuals falling into FinScope's FSM (Financial Services Measure) groups 1 and 2 average R420 and equate to only slightly more than R12 (not quite US\$2) a day. At these levels most of the remote access banking accounts described would cost 5% to 10% of monthly income to run for even modest levels of activity. This applies even to the Mzansi account specifically designed for the lower-income market.

This suggests that a rethink is needed on why the costs of savings and transactions accounts have to be so high. It is instructive that the cellphone-based model open to users of any cellular network (WIZZIT) is more expensive than the tied model (MTN Money), which in turn operates at costs no different from the Nedbank-Pick 'n Pay agency model, but at twice the cost of a supposedly more expensive branch-based product, the Capitec GlobalOne Account. This suggests that any price stickiness is coming from the competitive dynamic of the banking market, not the remote access channels, whichever industry they are in. This is not surprising, given that regulation precludes pure non-bank remote access models.

One of the more thought-provoking findings of the research is that the balance sheet expanding models are more transformational than the pure money transmission models. Bigger gains in access seem to come from these models. That does not mean that initiatives driven by technology companies are not useful in expanding access. They are probably most useful however in the way that microfinance is – as a competitive stimulus to existing players to look again at the way in which they reach customers and to become more committed to mass access. This suggests that the South African insistence that remote access is embedded within a banking corporate environment does not, of itself, have to be a limiting factor for a breakthrough on remote access.

Botswana

This is a country of not quite two halves. About 60% of the population are in well-off towns and cities plus relatively well-off peri-urban villages that make up only 10% to 20% of the landmass. The remaining 40% is spread across the rest of the landmass and is very, very poor. The urban and peri-urban population is covered by cellphone networks. The 43% of Botswana adults with bank accounts are drawn from this population. It is virtually impossible for the rural poor outside the urban villages to run a bank account – suggesting penetration that approaches 70% of the urban/peri-urban village adult population. This is not far off advanced economy levels of penetration (EU average 90%) and clearly classes as approaching full access. For this group, some additional remote access would fill pockets of exclusion, and within urban areas there should be the infrastructure to support this, such as post offices, retail chains, good cellphone coverage and established transaction flows.

The issues related to rural coverage are much more problematic, not least because the 40% of the population living this way do so at densities of less than four individuals per square kilometre. In such areas money may cost just as much to transport electronically as it costs to move physically. Botswana's low cash-to-deposit ratio (4%) suggests that the rural population are non-monetised – they may not even use cash, and if they do receive it they almost certainly get rid of it as quickly as possible.

With such high penetration among the urban and peri-urban population, it is perhaps not surprising that the banks seem to be doing little to move outside their traditional areas of operation. The source of future innovation is therefore likely to be non-bank financial institutions. However, most of these are lending not deposit-taking institutions and do not yet have a licence to do anything that might create a customer float. At present pre-paid credits on cellphones can be used only to buy airtime, and only airtime not credit can be transferred. The regulatory framework should not, however, be seen as irredeemably biased against non-bank innovation, in that it does allow for tiered licensing. The Bank of Botswana can issue tiered licences so that a limited-focus financial entity does not have to seek a full banking licence. However, it is not at all clear that non-bank financial institutions have many more options than banks for offering geographically remote access.

Mozambique

Mozambique is representative of a group of countries where the development of basic communications and secure transport networks is so limited that the necessary bank-based cash-handling services, are not in place to support a cash-in/cash-out alternative to banks.

The number of bank accounts in Mozambique – probably a million for an adult population of around 11 to 12 million – is enough for only about 8% adults to have their own account. The total number of bank branches per 100 000 people is two; equivalent figures for ATMs and POS terminals are 3.3 and 29 respectively. Cellphone coverage reaches three times as many adults as the banking system, but extra outreach to rural households is likely to be limited by network coverage, and by extremely low cash incomes in rural areas. The prospects for agency-based remote access to financial services look limited, not least because of a lack of networked non-financial entities. The cellular network reaches about half of the districts where banks have no presence (although this does not mean that the whole population of those districts is covered). Overall, the cellular coverage was reported as reaching 55% of the population as early as 2004, when the number of subscribers was still less than one million. Mcel claims, at the time of writing, to have 1.75-million subscribers and if Vodacom has maintained its market share since 2004, it must have roughly 1.25-million subscribers. Thus, a service that covers around half of the inhabited area of Mozambique, and may now be geographically accessible by up to two-thirds of the population, is at present subscribed to by about a quarter of all adults. By contrast a banking system that operates across a quarter of the land area, probably containing about a third to a half of the population, only has account relationships with around 8% of all adults.

There is therefore scope for cellular models of remote access to financial services. There is, however, less scope for agency or banking correspondent relationships because of the absence of national retail chains. The largest national retailer has outlets only in the already-banked provincial capitals. The electricity utility is similarly restricted and uses agents to sell pre-paid electricity because its own network of offices has proved insufficient to service demand. Even the cellular service providers have problems with geographical reach. To avoid problems with the security of ground transport, Mcel flies its airtime vouchers to a network of six super-agents who are responsible for secure distribution to lower-level agents. Vodacom has a network of 20 branded shops from which sub-agents must physically obtain their airtime vouchers. These arrangements for passing off responsibility for security beyond the top level of the agent network for a price need to be reviewed if either cellular operator is to offer remote access financial services.

These logistical constraints come into play before the crucial one of affordability. Problems with affordability are, however, almost certainly acute. In 2002-03, when the last household living conditions survey took place, median cash disposable incomes of Mozambican rural households stood at the equivalent of just US\$36 a month. Perversely, the growing inequality between rural and urban areas means that a growing market is gradually opening up that can afford the high cost banking typical of Southern Africa. This is important only when there is a core market that can pay for the core operational infrastructure of banks will there ever be a chance of developing low-cost remote access models at prices that might bring about a broadening and deepening of banking system outreach.

Conclusion

Two sets of conclusions emerge from the study – one for the developed SACU countries and another for much less developed countries such as Mozambique and Zambia. This reflects the different levels of access, infrastructure and poverty in these countries.

South Africa, for example, is in many ways a leader in the field of mobile phone-based banking and there may, therefore, be scope to spread local solutions across SACU, albeit refined by lessons taken from outside the region.

For the poorer Southern African countries, where banking systems are significantly less accessible, cellular coverage less comprehensive and the poverty profile much less encouraging, remote access models will probably have to be built around monetising the budgets of households that may at present place little reliance even on cash.

Expectations of what remote access can deliver in the near term need to be kept within reasonable bounds.

Even the biggest advances usually involve adding a few million unbanked to banking systems that already serve tens of millions. There is no evidence to date of hidden tens of millions already using technology-enabled alternatives to banks.

Nevertheless, the need for remote access is apparent in all Southern African countries: a breakthrough on mass access may well come from this region.



Some observations

With one exception – binational cards/accounts – there are no models from outside Southern Africa that have not been tried within the region. Such models have worked less well in Southern Africa, however, than the best results elsewhere. Part of the explanation for this is the large poverty gap that has to be bridged by any truly transformational remote access model in Southern Africa.

The key determinant of whether remote access is transformational or not is almost certainly affordability. This is important where regulators limit the ability of non-financial entities to run the underlying accounts behind any agency or cellphone banking model. Simply changing the way high-cost bank accounts are delivered does not solve the underlying cost problem.

More research is needed on why African banks find it so hard to deliver low-cost banking services. The issue may be one of marginal as opposed to fully-absorbed cost accounting. Equally, it may reflect concerns among established financial service providers about the risk leakage from their high-fee existing customer base into more accessible products that deliver enough to meet the needs of customers at much lower costs.

Critical to any transformational remote access model is the need to scale the service offered to fit the market potential, and to base charges only on the true marginal cost of delivering that scaled service. Adding a profit element to this marginal cost is perfectly legitimate, but seeking to make such services contribute to fixed costs established for an entirely different business model will not work.

If affordability can be addressed, then balance sheet expanding models appear to be more transformational than pure money transmission models – that is, they deliver greater potential gains in both the level and the quality of access. It may be too early to judge the potential impact of mobile phone banking, but the biggest and most quoted success story so far (Smart Money and G-cash of the Philippines) has penetrated only about 5% of the adult population and only 10% of the relevant cellular subscriber base in five years.

Over the same sort of period, the banking correspondent initiative in Brazil delivered an increase in total accounts equivalent to 10% of the adult population. Furthermore, half of the new accounts were simplified low-cost accounts capable of receiving social payments, making bill payments, holding savings balances and supporting microborrowing.

As a separate and distinct feature of the region, **there appears to be a level of underdevelopment of traditional branch-based banking. This indicates a poor enabling environment for any financial services, irrespective of whether they are accessible remotely or only through traditional distribution networks.** The critical constraint seems to be the problem of transport links. Transport links need to be secure enough to allow adequate management of surpluses and shortfalls in the cash float of whichever institution is servicing the transactions needs of the remote market, through whatever model.

If banks find this hard to organise for themselves then, in Southern African countries, the risk involved is going to be no easier to manage through a third party. This is probably why the biggest advances in remote access have been made in relatively developed countries (Brazil, Mexico and Philippines).

In the environment in poorer Southern African countries, reducing the cash element of transactions is crucial and adding non-cash spending power to the household budgets of the unbanked poor even more so.

One other interesting result arising from collating these models is that all of the models with a significant impact on access address both dimensions of remoteness – social and geographical. If a remote access service is designed to close the social gap in already covered geographical areas, it will probably also work in remote, unserved geographical areas; but a service that is designed only with a view of reaching remote geographical areas and that fails to close the social gap will probably not work anywhere.



FinMark Trust was established in March 2002 with initial funding from the UK's Department for International Development. Its mission is summarised in its slogan, "Making financial markets work for the poor". In practice this means promoting and supporting institutional and organisational development to increase access to financial services by the unbanked and underbanked of Africa.

See www.finmarktrust.org.za



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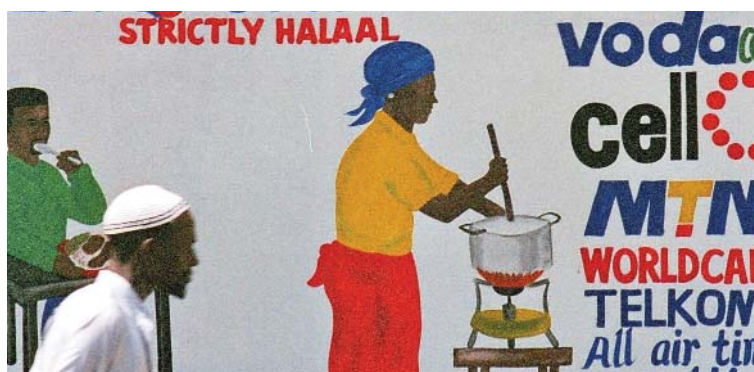
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