Fact Sheet

University of Stellenbosch
The BOP Learning Lab

AUGUST '11

Standard Bank's Mobile Money Accounts: Access to Banking through the informal sector

Until a year or two ago, South Africa's four traditional retail banks proceeded very cautiously when it came to increasing their presence at the low-income end of the retail market. For several years, the main answer was the "Mzansi" account: A basic, low cost version of a transactional account, with restrictive rules and for which only low-earners were eligible. Mzansi essentially came about as a collective response from the mainstream banking sector to government pressure to bring affordable banking solutions to the 15 million unbanked or under-banked South Africans adults.

However, the product failed to live up to its expectations. While about four million Mzansi accounts have been opened, many remain dormant, as account holders do not transact much after opening their accounts or use their accounts to "sweep" their money – they withdraw the full amount the moment it is paid into their accounts[2]. The only possible conclusion is that however well intentioned, Mzansi accounts aren't really well suited to the needs of the market it intends to serve. And the banking sector is not benefiting either, as dormant Mzansi accounts don't generate any revenue, and accounts are expensive to maintain.

The relative failure of Mzansi accounts, coupled with rising competition and the success of non-traditional banking products in other parts of the continent, has at last spurred the traditional South African banking sector into action, and pushed it to innovate rather than offer no-frills versions of their high-end products. Standard Bank's mobile banking account, launched in 2007, is a good

[1]Thoraya PANDY, Standard Bank Inclusive Banking
[2]MAYA FISCHER-FRENCH, "Banking on Spaza Shops", Mail & Guardian, 1st of July 2011. http://mg.co.za/article/2011-07-01-banking-on-spaza-shops

Some Key Figures:

Number of existing mobile money account holders: 400,000
Number of bank shops: 1,200 full service, 6,000 partial service (airtime and money transfer)
Estimated number of underbanked or unbanked adults in South Africa: 15m

example of such new products coming to the market. It builds on mobile phone technology and a partnership between the bank and informal retailers (commonly known to South Africans as spaza shops) to offer a practical, affordable banking product. The mobile banking account was first piloted in 2007 in four areas and was rolled out countrywide last year. Since then, the number of accounts has increased exponentially to 400,000, with 45,000 new customers being signed up every month[3].

2. The model

In seeking to develop a suitable banking product for the low income markets, and a channel through which it can be delivered, Standard Bank was confronted with at least three main basic challenges:

- Traditional branch networks are expensive to run and expand, as they require costly infrastructure and skilled staff that is in short supply;

- Lower income customers cannot afford the type of bank fees needed to sustain a profitable branch network;

- Documentation required by the regulatory authorities, such as proof of domicile or valid identification documents, are not always easy to provide, especially for people living in informal settlements.

In terms of *needs*, Standard Bank found that the market at the base of the pyramid essentially lacked simple solutions to do three basic operations: deposit cash, withdraw cash, and make transfers, either to family or friends, or to pay for goods and services (including prepaid airtime and electricity, etc).

The mobile money account was designed to address these challenges and the market's basic needs, by:

- Doing away with the branch concept altogether, and partnering with spaza shops around the country to provide points of access called "bank shops";

- Storing account data on cell phones, and using them as mobile bank accounts to do basic banking that is affordable at these bank shops;

- Reducing time-consuming procedures to a minimum, by using regulatory exemptions so that account holders do not have to provide documents that are difficult or impossible to obtain: The only document needed is a South African ID book. Proof of address, often a headache for people living in informal settlements, is not required, in accordance with exemption 17 of the Financial Intelligence Centre Act (FICA Act). Accounts are opened on the phone, in a paperless procedure that takes less than ten minutes to complete. Account holders receive a debit card that is interoperable with the banking system. Using the normal banking channels are costly, and account holders are dissuaded from doing so. The only restriction is that mobile money transactions are capped at R 5000 on any given day, and R 25,000 within any given month.

The combination of minimal infrastructure, use of technology and partnership with spazas allow Standard Bank to offer very competitive pricing basic transactional services: no monthly fee for the account, no fee for deposits, and a 1% fee for withdrawals. Standard Bank's revenue stream comes from small charges on transfers.

How does the mobile money account work in practice? For

[3]Thoraya Pandy, Standard Bank Inclusive Banking
[4]Quoted by The Economist, May 19th, 2011. http://www.economist.com/node/18713556
[5]http://mobilemoneyafrica.com/?p=3598)
[6]FARIDA KULABAKO, "Standard bank in move to counter mobile money" The Monitor, Kampala, June 23rd 2011. http://allafrica.com/stories/201106270051.html

a deposit, an account holder would go to the nearest spaza registered as a bank shop, and hand over the amount of cash he or she wants to deposit to the shop owner. The amount is cashed by the spaza, and deposited from the spaza's account to the customer's account per text message secured by a PIN code known only to the account holder. The transfer and new respective balances are immediately confirmed to both parties with another text message. To withdraw cash, the same operation is made in reverse: the account holder would transfer the requested amount to the spaza's account (again secured by a PIN number), which can then disburse the amount in cash to the customer. In addition to these withdrawal and deposit facilities, mobile money account holders can transfer amounts through their cell phones to any other South African account, and receive payments on their mobile money accounts from any other South African account.

3. Impact and results

While the concept of mobile banking is not new, especially on the African continent, Standard Bank's version is designed in such a way that it really is suited to people living at the base of the pyramid: bringing the bank *to* the people. Not only are costs minimised through the absence of bank charges and competitively low withdrawal fees, but travel costs of getting to a branch – which can sometimes be in the region of R30 - are also eliminated. Performance figures seem to confirm the appeal of the model with the target market: Over 400,000 mobile money accounts have been opened over the past 9 months, and the monthly pace of account openings have reached 45,000. In addition, the model has so far integrated a total of 1,200 small, township-based retailers for mobile money account holders, and an additional 6,000 retailers that offer money transfer and airtime[4].

Initiatives such as the mobile money account, coupled with a variety of new low-cost products launched over the past 18 months on the retail market by Standard Bank's competitors Nedbank, FNB, and ABSA, indicate that South Africa's big four banks have finally woken up to the potential of the BOP market.

Standard Bank is successfully factoring in the daily structural constraints of the underbanked into its strategy. The future challenge will be ensuring that these accounts remain active and used for everyday transactions. In a section of the economy that is still largely cash-based, this will require a sea change in consumer behaviour. Evidence from other African countries, most notably Kenya, suggests that this is possible: M-PESA, the first mass-market mobile banking venture, has grown from nothing to 16m users in the space of 6 years. The World Bank estimates that in 2010, Kenyans transferred about US$ 7 billion (close to R 49 billion), or the equivalent of 20% of Kenya's GDP[5].

4. Prospects

Mobile telephony has changed the way business is conducted around the world. In BOP environments, it has had a strong empowering impact, as millions of people living in poverty can save on transport costs, get easier access to information, run millions of small enterprises and, of late, access basic financial services. Global growth in this sector is expected to soar: According to Berg Insight, a consultancy, the number of mobile money subscribers in emerging markets across the globe is projected to grow from 133 million users in 2010 to 709 million users in 2015[6]. In South Africa alone, an estimated 38 million people own cell phones, yet more than half either don't have a bank account or don't use it.

South Africa is in the beginning stages of changes to its banking system that could have a significant impact on the people living at the base of the pyramid and their local economies. By 2012, Standard Bank plans to have a network of 20,000 bank shops[7]. The service also opens up new possibilities for employers who still pay their staff in cash, and could now eliminate the risk associated with drawing and carrying large amounts of cash.

5. Conclusion and analysis

After many years of relative slumber, the retail banking sector in South Africa is moving fast to catch up on the BOP wave. There are, however, still a number of regulatory and infrastructural obstacles to overcome. Perhaps one of the biggest issues is the burden of FICA regulations that banks need to observe. As a result of cumbersome documentary procedures, millions of South Africans, as well as non-South African residents, decide not to bother using banks. The economic cost in terms of lost business opportunities, higher risk and higher operational costs cannot be underestimated, especially when considering that probably hundreds of thousands of informal businesses remain unbanked because their owners are turned away from banks. In addition to this hurdle, it is crucial that people are encouraged actually to use their accounts. Nevertheless, tapping into existing infrastructure and technology, and keeping money circulating within local communities is an immensely promising step in the right direction of financial inclusion.

Pierre Coetzer

Your Contacts at the BOP Learning Lab Southern Africa:

University of Stellenbosch Business School
Prof. Wolfgang Thomas
T: +27 82 770 9694
E: wthomas@usb.ac.za
Norma Sayman (Secretary)
E: ns5@usb.ac.za
W: www.usb.sun.ac.za

Reciprocity
Nicolas Pascarel / Pierre Coetzer
T: +27 21 424 4488
M: +27 82 319 8404
E: info@reciprocity.co.za
W: www.reciprocity.co.za

Our Contact at Standard Bank

Standard Bank Inclusive Banking
Project Manager
Nicola Bashall
T: +27 (0) 11 981 4258
E: nicola.bashall@standardbank.co.za