

Bankable Frontier
Associates



**THE *MZANSI*
BANK ACCOUNT INITIATIVE
IN SOUTH AFRICA**

FINAL REPORT

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MAKING FINANCIAL MARKETS WORK FOR THE POOR

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Executive Summary

1. The Mzansi account is an entry-level bank account, based on a magnetic stripe debit card platform, developed by the South African banking industry and launched collaboratively by the four largest commercial banks together with the state-owned Postbank in October 2004. By December 2008, more than six million Mzansi accounts had been opened, a significant number in a country with an adult population of approximately 32 million. Today, at least one in ten South African adults currently has an Mzansi account; and one in six banked people are active Mzansi customers.
2. While not all Mzansi account holders are new to the banking system and not all newly banked are Mzansi account holders, the percentage of adults (age 16+) banked in South Africa has increased from 46% in 2004 to 63% in 2008 (see Table 1 below). This increase in a short period, coinciding with a period of mostly strong economic growth, indicates the pent-up demand for entry-level formal financial products among lower income people in the country and has attracted widespread local and international interest.

Table 1: Banked profiles (as % of all adults) compared at Mzansi launch and year-end 2008

Category	2004	2008
Currently banked	13.2m (46%)	20.0m (63%)
Unbanked	15.8m (54%)	11.9m (37%)

Source: FinScope™ 2004 & 2008

3. Although the Mzansi Initiative has attracted much commentary since its launch, there has to date been no in-depth independent review of the experience; and no evaluation undertaken as to whether the Mzansi account has at least fulfilled the expectations of the banks which launched it, and of the market at which it was targeted. This report seeks to answer three key questions about the Mzansi Initiative:
 - (i) What has happened to date, at a detailed level, with the Mzansi account rollout?
 - (ii) Has the Mzansi account been a success in promoting wider access to financial services and banking in particular?
 - (iii) What can be learned from this experience in South Africa and for other countries?
4. This report draws on a number of sources of data, most of which were collected specifically for this report.
 - Supply side: all five Mzansi banks provided data under confidentiality arrangements which protect individual bank data from disclosure but allow for aggregation and analysis. The information was gathered through detailed questionnaires, in-person interviews with representatives of each participating bank, and certain follow-up requests.
 - Demand-side: three methods were used:
 - i. focus groups and in-depth interviews conducted by the research team in September 2008;
 - ii. a quota sampled survey of 1,300 Mzansi clients country-wide with detailed questions;
 - iii. FinScope™, a nationally representative survey run annually in South Africa, which in 2008 included an expanded special section on Mzansi.



5. The development and roll-out of the Mzansi account sought primarily to help fulfil the commitments of the four large privately-owned banks, set out in the Financial Sector Charter, to significantly improve access to banking – particularly transactional banking – for all South Africans. The Charter is a voluntary agreement amongst all financial institutions in South Africa and other stakeholders, including government, labour and community, which has the objective of making the sector more racially inclusive and representative. This objective is consistent with the government’s general objective of black economic empowerment in each sector and the economy as a whole. The Mzansi Initiative is the single Charter initiative which has directly touched the lives of the most people in South Africa. However, at the time of writing, it is uncertain whether financial institutions will continue to report under the Charter in 2009; in which case, one of the main original incentives for offering the Mzansi account will no longer apply.
6. The experience with the Mzansi account to date can be summarized in the following brief statements, which are supported by extensive data analysis in the report:
 - A total of 6 million new accounts were opened, the overwhelming majority (around 90%) by people who had not been previously banked *at the same bank* at which the account was opened; and two-thirds of whom had never before had a bank account *anywhere*.
 - According to FinScope 2008, 3.5 million individuals were current users of Mzansi accounts at the time of the survey (around August 2008), constituting 18% of the total number of banked people in South Africa and 11% of the total adult population (see Table 1 above).
 - Forty-two percent of accounts opened at the private banks have become “inactive”; this category includes primarily “dormant” accounts (defined as having no client-initiated financial transaction within the prior twelve-month period) and also closed accounts. This inactivity explains the difference between the 6m opened accounts and 3.5m current users.
 - Apart from a common “Mzansi” umbrella branding, Mzansi accounts started with a set of common minimum product standards across all the issuing banks. These included the issuance of a debit card, the absence of monthly administration fees, ceilings on balances, KYC-driven ceilings on transaction value, restrictions on certain electronic payment services, and no difference in pricing between withdrawals on a bank’s own ATM (‘on us’) and withdrawals using another bank’s ATM (‘not-on-us’). Some of these features differentiated the Mzansi accounts from nearest equivalent transaction accounts which each bank offered independently either prior to and/or concurrently with Mzansi. Although most of these common standards remained in 2008 as they were at launch, the electronic functionality restriction was lifted over time so that certain forms of electronic payments from Mzansi accounts (namely, debit orders) are now offered by all the banks; and other electronic channels such as internet or mobile phone can be used to access the accounts at some banks.
 - Nevertheless, Mzansi accounts are very different in profile from that of the banks’ respective nearest equivalent accounts (NEAs) in terms of Mzansi having much lower average balances (\$28 vs. \$191 per active account), much lower average transaction activity (3.3 vs. 7.3 transactions per month per account) and much lower monthly flows in/out of the account (\$68 vs. \$300); and while the vast majority of debits by value flow through both Mzansi and NEAs as cash withdrawals (with relatively few third party payments), this pattern is much more pronounced with the Mzansi accounts than with the NEAs (93% vs. 77%). Monthly fee revenue per Mzansi account is also markedly lower, reflecting this lower activity as well as lower Mzansi pricing: the average across the four private banks for Mzansi accounts is close to \$1.50 compared with an estimated \$5 for NEAs (NEA data is based on limited information provided by two of the private banks).



- Among the private banks, while there have been differences in approach and attitude towards the Mzansi account over time, in general, the profile of balances and usage patterns among their clients are quite similar across them. However, the usage profile of the clients of the Postbank is somewhat different, as they tend to use branch tellers more often (and electronic channels less often) for both credit and debit transactions.
 - There is evidence that Mzansi has been a gateway for a substantial number of the previously unbanked to open *non-Mzansi bank accounts*. However, the banks report that there is little evidence that Mzansi has been a gateway through which new clients are accessing or paying for *other types* of financial services from the same bank at least, such as funding specialized savings accounts or insurance premiums. Survey data suggest that 11% of people who did not use these and other additional financial services before Mzansi now do, although causation from Mzansi cannot necessarily be inferred.
7. The Mzansi Initiative can be evaluated against several possible criteria.
- ❖ *First*, the Mzansi Initiative reached the aggregate Charter target of 2,173,930 active accounts by December 2008. A majority of these accounts were opened by the targeted LSM 3-5 range and two-thirds were opened by first-time banked people. Of the four private banks to which individual targets applied, two hit their target, two did not. In broader terms, Mzansi was widely recognized by politicians and other commentators as a key delivery initiative under the Charter.
 - ❖ *Second*, the expectations of participating banks were exceeded with respect to take-up, but not met in terms of revenue (where the expectation was breakeven). The revenue per Mzansi account and the balances on the account are substantially lower than the banks' nearest equivalent accounts, such that the private banks generally report losing money on each account, even when considering only the direct costs. However, fears of cannibalizing revenue from existing clients with NEAs were generally not realized.
 - ❖ *Third*, Mzansi appears to have met the needs (if not all the wants) of its clients. Levels of inactivity are high, but not much more than on NEAs; and on the whole were driven by economic reasons (positive and negative) rather than disapproval of the product, *per se*.
 - ❖ *Fourth*, Mzansi has decisively shifted the frontier of access to financial services in South Africa. As a result, close to 80% of the population is now within reach of transactional banking services.
8. Policy makers and regulators in developing countries are increasingly encouraging or requiring that banks offer entry-level bank accounts. The Mzansi Initiative represents a special approach to this issue. On the one hand, South African banks are not required by legislation (or regulation) to issue entry-level bank accounts, as is now the case in Mexico; and on the other, the entry-level account rollout was not led by a large public sector bank, as has often been the case in countries with large state retail banks like Brazil or India. Furthermore, Mzansi was neither the product of a single microfinance bank extending its reach nor a single commercial bank reaching down into lower income customer segments. In South Africa, though the Postbank substantially benefited from and contributed to the Initiative, the impetus came from four large, private retail banks – which together control more than 85% of the retail banking market – as they led the collaborative design and initial rollout. To be sure, the circumstances in South Africa which led to Mzansi were very particular, including: large, well-capacitated commercial banks in a concentrated retail banking market; an already high proportion banked (almost half) relative to middle income country peers; and a latent threat of political intervention which galvanized collaborative action. While these characteristics



apply to some middle income countries, they are less likely to apply to low income countries, reducing the likelihood of precise replication of an Mzansi-type approach there.

9. On a more general level, the Mzansi Initiative demonstrates both the potential and the limitations of an approach which attempts to share risk, cost and infrastructure in an attempt to extend the reach of transactions and savings services beyond the level where it was thought to be viable. On the one hand, the large take-up of the Mzansi account reflects pent-up demand for accessible, affordable, safe places to transact and store value. On the other, because Mzansi was conceived as a collaborative response to the threat of government intervention rather than as a means of pursuing a commercial opportunity, the mixed experiences and perceptions of the participating banks indicate some of the limits to approaches to reach lower in the market by large, multi-product, multi-segment banks—at least, on a collaborative basis. Certainly, there is evidence that through launching Mzansi, some of the participating banks have gained market knowledge and experience which they did not have before and may not have otherwise obtained, at least not so quickly. At the same time that Mzansi was being rolled out, there were smaller private banks that were already primarily focused on relatively lower-income segments, like Capitec Bank and Teba Bank, and which were less visible on the political radar screen. They had the option to become Mzansi issuers and turned this down, electing not to collaborate at an industry level and instead to independently pursue market opportunity by rolling out or extending their own low end transactional and deposit products designed for the marginally banked, which may have been undermined if they joined the broader Mzansi Initiative. Their experience of take-up also seems to reflect the pent-up demand for accessible transactional banking.
10. Looking to the future, even if the Financial Sector Charter becomes inactive in 2009, it is unlikely that any one participating bank will cease to offer Mzansi accounts. The banks sense that the Mzansi account has been a broad success and shutting it down could undermine all they have achieved so far, at least on the socio-political front. There is a fear of possible negative public and government perceptions that may be generated by shutting it down simply because the Charter is no longer operative. It is more likely that individual banks will continue the process already begun at some, using the Mzansi account as an entry-level solution (possibly amongst other entry-level products and services), from which clients can be ultimately migrated to NEA or other more conventional products. For some banks at least, this means less and less attention being given to the common Mzansi brand or product standards. As a result, the Mzansi brand may gradually fade away as a common product category or brand. While the Mzansi product class is still very much alive and regularly used by over 3 million people, the Mzansi Initiative of collaboration among five issuing banks is effectively over already.



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The opinions in this final report are those of Bankable Frontier Associates, LLC.

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Exchange Rate

Note that all conversions were done at the market exchange rate of ZAR10.0 = US\$1.00 prevailing in early March 2009.



List of Abbreviations Used

ABSIP	Association of Black Securities & Investment Professionals
APR	Annual percentage rate
ATM	Automated Teller Machine
Avg	Average
BASA	Banking Association of South Africa
BEE	Black Economic Empowerment
Big Four	ABSA, FNB, Nedbank and Standard Bank
BFA	Bankable Frontier Associates
Charter	Financial Sector Charter
CPIX	Consumer Price Index (excluding mortgage interest)
FNB	First National Bank
Four Private Banks	ABSA, FNB, Nedbank and Standard Bank
FSC	Financial Sector Charter
FSCC	Financial Sector Charter Council
JSE	Johannesburg Stock Exchange
LSM	Living Standard Measures
NBA	National Bank Account
NEA	Nearest equivalent account
NEDLAC	National Economic Development and Labour Council
NGO	Non-governmental organization
POS	Point of Sale
R	South African Rand
SA	South Africa
TNS	TNS Research Surveys
USD	United States Dollars
ZAR	South African Rand



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SECTION 1: Introduction

Basic or entry-level bank accounts have been launched as a means of promoting financial inclusion in a range of developing countries, including India (2005), Pakistan (2005), Mexico (2007) and the BCEAO countries of West Africa (2003). In some of these places, private banks are required or pressured to offer basic accounts; in other countries such as Brazil, large state owned retail banks have long been issuers of entry-level account instruments.

In South Africa, the four largest commercial banks, all privately owned, collaboratively launched the Mzansi account (sometimes referred to herein simply as “Mzansi”)¹ in October 2004. The Mzansi account is a particularly interesting example of an entry-level bank account offering since South African banks were not then and are not now required by law to do so. However, the Financial Sector Charter – a social compact voluntarily entered into by the country’s financial sector as a whole in 2003 – provided a framework with incentives for them to do so. Even without being part of the Charter, the state owned Postbank enthusiastically joined the big banks in the Mzansi Initiative; but several smaller privately owned banks, already focused on serving lower income markets, chose not to participate and continued to promote their own competitive offering. Among the basic bank account offerings worldwide, the Mzansi Initiative is so far unique in that competing commercial banks collaborated with each other and a state retail bank to create and market a new product with certain common standards at the same time as other contending offerings were available in the market place. In the process, they explored the limits of what they considered collaborative space; and they discovered the costs and benefits of such collaboration in advancing access to basic financial services.

Four years later, the Mzansi Initiative has decisively moved the needle on the dial of financial access in South Africa. During this period, the proportion of adults banked has risen from 46% to 63%. Mzansi has accounted for just under half of the increase. Six million Mzansi accounts have been opened; at least one in ten adult South Africans now holds an active Mzansi account and Mzansi account holders make up at least one in six of South Africans with bank accounts. During its early years, the rapid initial take-up of the Mzansi account attracted considerable media attention and favourable mentions from policy makers within South Africa. Outside of the country, others have remarked on its apparent success as a means of advancing access to financial services. Because December 2008 marked the date when the private banks aimed to reach agreed targets for the number of active Mzansi accounts, now is an especially appropriate time to assess the outcome of this Initiative.

To date, there has been no comprehensive independent study of the experience of the Mzansi Initiative. This report is intended to fill that void, in order to inform discussions of the way ahead for Mzansi in South Africa as well as discussions in other countries about how to advance access to basic financial services. Specifically, the report seeks to draw on a wide range of evidence collected during a six month process of engagement with participating banks, other stakeholders and customers, to answer the following main questions:

- What has been the experience with the Mzansi account rollout?
- Has the Mzansi Initiative been a success in promoting wider access to financial services and banking in particular?
- What can be learned from this experience in South Africa and for other countries: For instance, how low can an entry-level bank account rollout of this type go?

¹ In South Africa, the term “Mzansi” is a Nguni word meaning “south”; and refers to various things besides the entry-level bank account initiative discussed here. For purposes of this report, all references to “Mzansi” refer to the Mzansi bank account and related initiatives to market and implement it.



1.1 Evidence bases

This report draws on a number of rich new sources of primary data created for this project.

Supply side: The five Mzansi issuing banks supplied quantitative and qualitative responses under confidentiality arrangements which preclude disclosing individual confidential information. The quantitative evidence was supplied by each bank completing a detailed standardized survey questionnaire with certain follow-up requests. This quantitative data was clarified and amplified with qualitative discussions through one or more meetings with each bank at various levels during a visit to South Africa in September 2008.

Demand side: This report draws on information about Mzansi clients, former clients and non-clients collected through three different methodologies:

- Focus groups and in-depth interviews: five focus groups were convened (a total of 42 Mzansi client participants) and 17 in-depth interviews held with individual Mzansi clients.
- Mzansi survey: as part of this project, a specific survey was designed and administered in October and November 2008 to 997 current Mzansi account holders plus 303 former holders who no longer use their accounts. This survey was quota sampled to attract respondents across all banks and across certain demographic characteristics. As a result, it cannot be considered statistically representative of Mzansi holders as a whole, but is highly indicative and is used to bring out in-depth perspective on key aspects.²
- FinScope™ South Africa³: an expanded special Mzansi section was added to the 2008 FinScope questionnaire administered to over 4,000 adults on a basis statistically sampled so as to be nationally representative. FinScope SA has been run annually since 2003 and offers the best available national baseline on financial service usage in South Africa.

1.2 Structure of this report

The report is structured to address the three main questions listed above.

First, Section 2 provides context on South African retail banking in the low end of the market for those who are not familiar with it and then describes the developments leading up to the launch of the Mzansi account in 2004. Then, Section 3 presents a range of detailed evidence in answer to a large number of questions which unpack the detailed experience of the Initiative to 2008, such as: Who opened the accounts and why? How have they used the accounts? Who has stopped using their accounts and why? What is the revenue profile for banks? An additional evidence base is compiled and presented in a substantial Annex, included at the end of this report, with a few selected quotations or illustrations from it imported into Section 3.

This provides the evidence with which to evaluate the experience in Section 4, which asks whether the Mzansi Initiative can be considered a success according to various measures. Section 5 seeks to consolidate lessons both in a local context – for the future evolution of the Mzansi Initiative or low-end access initiatives in general in South Africa; and from an international perspective.

² A detailed description of the methodology used for this Mzansi-specific survey is contained in Appendix 6.

³ FinScope is a nationally representative detailed survey of consumer usage of and attitudes towards financial services. It is conducted annually in South Africa and in a number of other mainly African countries by FinMark Trust. All references in this report to “FinScope” are to FinScope™ South Africa.



SECTION 2: Background

This section is broken down into four sub-sections, as follows. The first describes the South African context in which Mzansi emerged. Next, the original intent and expectations for Mzansi of key stakeholders is outlined. Then, some of the important considerations and elements in the process of designing Mzansi's particular product features are presented; and, finally, the ultimate product framework is outlined.

2.1 The South African context

2.1.1 South African retail banking sector

The South African retail banking sector has long been dominated by four large, privately-owned commercial banks which serve multiple market segments with a wide range of retail and commercial banking products. As shown in the Table below, the so-called "Big Four" control 84% of total banking sector assets. However, the Table also lists several smaller retail banks which serve the middle to lower end of the market. Of these, the largest by customer base is the state-owned Postbank, a division of the Post Office, which offers savings and transactional products but not credit. The three smaller private banks offer credit, although only two of these (Capitec Bank and Teba Bank) offer deposit accounts.

Table 2: Selected South African retail banks

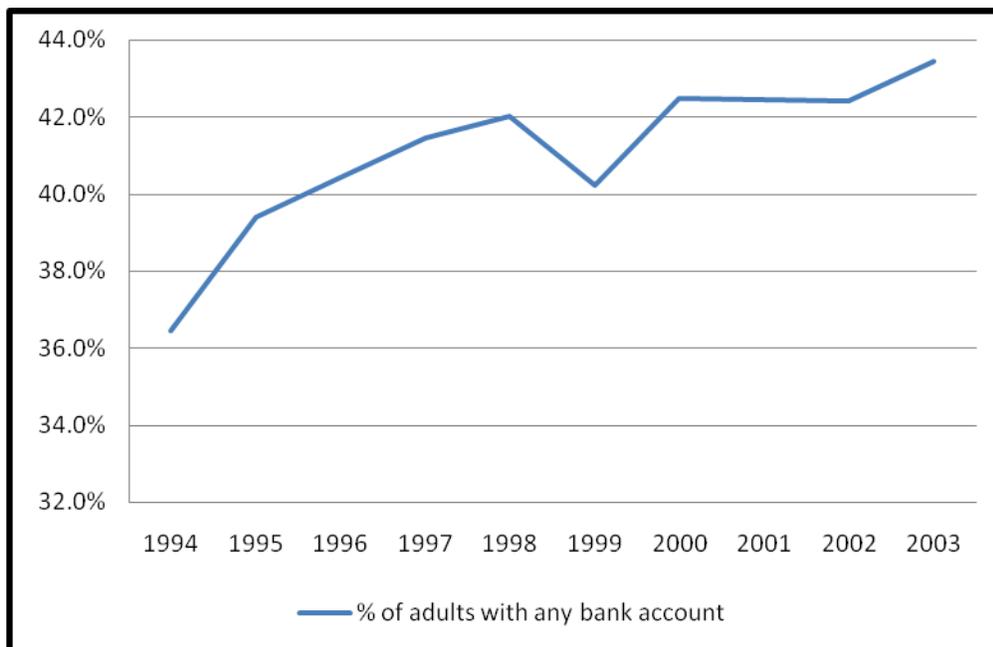
Bank	Ownership	Total assets	Total clients	Nature of business
ABSA	Majority owned by Barclays, listed on JSE	\$70 billion	10.0 million	Each of the 'Big Four' is a full-service, multi-segment commercial bank.
FNB	First Rand Group, listed on JSE	\$61 billion	7.5 million	
Nedbank	Old Mutual Group, listed on JSE	\$50 billion	4.0 million	
Standard Bank	Standard Bank Group, listed on JSE	\$86 billion	8.6 million	
Big Four Total		84% of total banking sector	30.1 million	
Postbank	State-owned	N/A	6.0 million	Division of state-owned Post Office, offering some savings and transactional services.
Capitec Bank	Widely held, listed on JSE	\$455 million	1.7 million	Narrowed market focus; driven by unsecured credit; offers bank accounts.
Teba Bank	Private trust controlled by mining industry	\$312 million	0.5 million	Narrowed market focus; salary payment processor; limited credit; offers bank accounts.
African Bank	Widely held, listed on JSE	\$1.7 billion	0.4 million loans (not necessarily client numbers)	Narrowed market focus; unsecured credit to formal sector; no bank accounts.

Sources: Assets are from South African Reserve Bank website, for the period ending December 2008; total client figures for the Big Four are from Munshi, R. "Banking in numbers", *Financial Mail*, 30 January 2009; total client figures for Postbank, Capitec Bank and Teba Bank are all self-reported from interviews and not deemed confidential; African Bank number is for the number of loans not clients, and is based on end of 2008 data publicly available on its website.



Since the end of the apartheid era and as of the late 1990s, all four large banks had developed and implemented different strategies to reach out to the black working class with basic banking products. These strategies often involved the development of new brands to appeal to and differentiate the offering from the rest of their mid- to upper-income market offerings. Hence, Standard Bank developed E-Bank initially as a distinct division offering electronic banking services via Auto E-centers. E-Bank was soon reabsorbed as a product line, E-Plan, which remains one of South Africa's largest transactional product offerings to this day. Nedbank rebranded a subsidiary as 'People's Bank' with a distinct market focus and separate management and brand, although this approach proved unsuccessful and was soon reincorporated within the broader bank. ABSA established a separate division called Flexibanking to focus on a range of products for the entry-level market. With these focused product offerings targeting formally employed workers, the usage of transaction bank accounts grew strongly during the 1990's, as shown in the Figure below. Much of this growth was fuelled by group offerings to employers to replace cash payment of salaries and wages.

Figure 1: Percentage of South African adults with a bank account pre-Mzansi, 1994-2003



Source: All Media & Products Surveys (AMPS), as presented in Fig. 2.1 in Porteous, D., *Banking on Change* (2004).

By 2002, the growth had slowed: most people who were formally employed by an employer of any size had already been banked. According to FinScope 2003, 85% of the "fully employed" were "currently banked" at that time. In addition, the rapid growth of microlending linked to debit orders, entitling the lender to deduct repayments automatically from the borrower's account by submitting an electronic instruction, had led to a high degree of 'churn' in bank accounts: borrowers diverted their salaries to new bank accounts in order to avoid automatic collections; although this dynamic led to new accounts being opened, it did not increase the number of people with a bank account. The issue of 'churn' is an important one to which we shall return since *inter alia* it is costly for banks to open accounts which subsequently become inactive.

Early in the new Millennium, large banks especially were starting to feel renewed political pressure from the government. Government ministers, like the Minister of Housing, expressed rising frustration that



despite their best efforts to facilitate a supportive environment for private lending in critical socio-economic sectors like housing and small and micro businesses, banks were not lending at the scale expected or of which they were capable. In October 2000, the South African Communist Party and others mobilised a popular campaign against claimed discrimination in lending by financial institutions (the “Red October campaign”). By 2001, the Minister of Housing was again speaking of introducing a US-style Community Reinvestment Act, which would compel certain types of bank lending—an idea which had been mooted and investigated in the mid-1990’s but shelved in favour of cooperation with the banks.

In this climate, the leaders of the large South African banks came to accept the need to demonstrate bold and proactive commitments to change. The Nedlac⁴ Financial Sector Summit of 2002 was the first place at which the Chairman of Standard Bank, Derek Cooper, speaking on behalf of the entire financial sector voiced such sentiments:

“We are fully aware of the need for the economic empowerment of all the people of this wonderful country. It would be futile to believe that there can be prosperity for some, without there being a reasonable level of prosperity for most. In that context...[o]n this auspicious occasion, we, the financial services sector, therefore commit ourselves to working in partnership with Government, labor and the community to bring about...change[]... Today is, for us, a watershed... [T]he framework agreement...signifies a new beginning. The next step is to use this framework agreement as the first input for developing the financial sector charter. We are convinced that the establishment of such a charter will be of great benefit to the sector and all of us in South Africa. Correctly done, it could provide an impetus for economic growth and development.”

2.1.2 The Financial Sector Charter frames the specific objectives for the Mzansi Initiative

The idea that the financial sector would develop a voluntary Financial Sector Charter (“Charter”) soon followed. The Charter would establish industry-wide targets and commitments in key areas of economic empowerment as a way to head off pressures for government to set prescribed investment and other targets. In other words, although the Charter was prompted by certain fears of more stringent government intervention, the Charter itself is not government-imposed legislation or regulation, but a form of social contract among private stakeholders in the financial sector.

After a process of negotiation lasting a year, the elements of a comprehensive Financial Sector Charter emerged. All financial institutions, not only banks, would commit to meeting measurable goals with respect to improvements in the representation in their ownership and management by formerly disadvantaged (black) South Africans, more general human resource development, as well as making targeted investments in economic priority sectors such as infrastructure and housing. Importantly, the Charter also contained detailed “access” provisions in which financial institutions, led by the retail banks, committed to serve the need for accessible, affordable financial services for the wider population. Each institution was required to submit an annual Charter scorecard to the Charter Council in order to receive points, which points would serve to give preference (or not) on government procurement of financial services and, indirectly, impacted procurement of financial services by large companies in other economic sectors, which had their own scoring systems. The access component of the Charter was weighted at 18% of total points for banks (including 4% each for transactional and

⁴ Nedlac stands for National Economic Development and Labour Council.



savings products); and in line with this, detailed targets and definitions were agreed as the following excerpts from the Charter show:

“The financial sector acknowledges that access to first-order retail financial services is fundamental to [Black Economic Empowerment] and to the development of the economy as a whole. [S]trategies w[ill] be put in place to ensure that the financial sector is more efficient in the delivery of financial services, which enhance[, among other things,] the accumulation of savings.... [T]he financial sector commits itself to substantially increase **effective access**...[and]...specifically undertakes...by 2008 to make available appropriate...financial services, affordably priced and through appropriate and accessible physical and electronic infrastructure such that: 80% of LSM 1-5⁵ have **effective access to transaction products and services**...; [and] 80% of LSM 1-5 have **effective access to bank savings products and services**...”⁶

To clearly define these two aspects, the Charter states:

“First order retail products and services means

- (i) **transaction** products and services, being a first order basic and secure means of accessing and transferring cash for day-to-day purposes;
- (ii) **savings** products and services, being a first order basic and secure means of accumulating funds over time (e.g. savings accounts, contractual savings products such as endowment policies, collective investments and community-based savings schemes);...”⁷

In addition, the Charter specifically defines the intended meaning of the term “effective access”, as follows:

1. “being within a distance of 20 Kms⁸ to the nearest service point at which first-order retail financial services can be undertaken, and includes ATM and other origination points...;
2. being within a distance of 20 Kms to the nearest accessible device at which an electronic (other than ATM) service can be undertaken;
3. a sufficiently wide range of first-order retail financial products and services to meet first order market needs...;
4. non-discriminatory practices;
5. appropriate and affordably priced products and services for effective take up by LSM 1-5; and
6. structuring and describing financial products and services in a simple and easy to understand manner.”⁹

⁵ LSM 1-5 refers to the bottom five segments within the “Living Standard Measures”, a consumer marketing tool commonly used in South Africa as a wealth proxy and by marketing agencies to describe the nature of the market and its various sub-sectors. It mostly measures what material things and services one’s household has, and ranges from 1 (very low use of these defined goods and services) to 10 (high use). In general, though technically not an income measure, LSMs 1-5 are correlated with the broader international poverty line of \$2 per head per day.

⁶ Section 8 of the Charter, which is the “Access” section. The bold type emphasis is added here and is not in the original.

⁷ Section 2.27 of the FSC. The bold type emphasis is added here and is not in the original.

⁸ Over time, this was modified to 15km for service points and 10km for access points.

⁹ Section 2.22 of the Financial Sector Charter.



These definitions were without precedent in South Africa. This was the first time that the entire financial sector had thought hard about what financial access was in practice, let alone committed to improving it. The precision of the definitions remains striking by international standards today.

The Charter access commitments and definitions gave both impetus and a framework to what became the Mzansi account. Mzansi became an initiative of the banking industry to develop and roll out a standardized basic bank account which would satisfy the access definitions for transaction and savings products and services in the Charter.

2.2 Original intent and expectations of Mzansi

2.2.1 A fundamental intent of Mzansi was to achieve specific Charter targets

The Charter commitments in respect of access were then translated into more specific targets after the launch of Mzansi. The overall target was set by the Charter Council in early 2005, based on the banked ratio being raised to a designated level, looking to comparable ratios in other developing countries such as Brazil and Mexico.

The target number was 2,173,930 *active* Mzansi accounts as of 31 December 2008. “Active” was further defined to mean that an account had at least one customer-initiated financial transaction within the prior 12 months. The target applied only to the private banks, since as a government entity Postbank was not a signatory to the Charter. They additionally negotiated individual bank targets based on the market share of each in retail clients. The rationale for individual targeting was that in order for the roll out of Mzansi to be effective, each bank had to have its own targets, although the target was negotiated in order to not “punish” the two banks with substantially larger market retail shares (see Table below). Charter points were granted on the annual progress made towards the overall goal – for instance, if half the final target number was achieved after 2 years (half-way between launch and December 2008), this would yield full points on this measure for that year.

Table 3: Big Four retail market share and allocation of Mzansi account targets

	Standard	ABSA	FNB	Nedbank
Retail market share at 2004	35%	35%	17%	13%
Mzansi target allocation	30%	30%	22%	18%
	(652,179 accounts)	(652,179 accounts)	(478,265 accounts)	(391,307 accounts)

Source: Meeting with one of participating private banks

Under the Charter, there was also a requirement to improve access to physical infrastructure for actual and prospective Mzansi clients (entry-level client base), both for branches and ATMs or ATM-equivalents. The banks went about improving the *coverage* element, and indeed met this requirement; but – due to an impasse with the Charter Council – the *depth* of infrastructure element was never agreed or fully implemented. Coverage refers to the presence of a unit of infrastructure (branch or electronic) that serves a geographic area in which the target market (LSM 1-5) lives. For example, there may be one branch of one bank in the Dieplsoot Settlement north of Johannesburg, providing geographic coverage of 15km radius, but serving 75,000 adults. The depth element requires that there be, for example, one standard-size branch per, say, 9,500 adults and an electronic service point for every 2,300 adults. It is this latter element that was not agreed, although proposals and recommendations were submitted to the Charter Council and banks.



2.2.2 *The Mzansi Initiative was predicated on a desire to share risks*

The Mzansi Initiative was premised on the concept that the major banks would share the risk of launching a low end product. Several particular risks were foreseen, the effects of which a combined initiative could mitigate:

- *Reputational risk:* at the low end of the market, large banks in particular might face a “lose-lose” proposition. If the initiative was a financial success, they could be accused of profiteering from the poor; if a failure, they could be said to have not tried hard enough. In a politically volatile environment, collaborative action by the Big Four mitigated the reputational risk to any one bank.

Reputational risk could also manifest at the level of existing bank clients who could feel that their bank’s brand was tarnished, or perhaps its levels of service diminished, through taking on large numbers of low income customers who might clog banking halls and ATM lines.

- *Financial risk:* While in the context of the Charter commitments, the banks expected that their Mzansi operations would break-even or incur limited and manageable losses, they nonetheless wished to limit the downside initially by sharing at least some of the costs of product development and marketing launch. A further widely-perceived financial risk was the threat that a new low cost transaction account would cannibalize their lucrative revenue from existing transactional offerings in the event existing customers would switch down to the lower fee option. A joint commitment meant that the large banks could share cost and face the cannibalization risk together, although in reality, the two banks with the largest existing transactional offerings (ABSA and Standard) faced a more acute form of the risk.

It is worth noting that the Charter itself did not require such collaborative efforts, even though – in addition to the above risk-sharing dynamics – the setting of ambitious access objectives at an industry level may have encouraged it. Within a comparatively short period, faced by awareness of these risks, all four of the largest commercial banks agreed to collaborate in designing and launching the Mzansi account. This core agreement gave the Initiative initial scale. The other retail banks (e.g., Capitec, Teba, Post) were also invited to join the Initiative.

The state owned Postbank was quick to agree: although it had a large counter distribution through the nation’s post offices, Postbank had struggled to deploy its own ATM infrastructure and to develop its product range and brand image. The opportunity to join Mzansi offered a chance not only for Postbank clients to gain better access to the infrastructure of the large banks, but also to boost its profile and awareness through association with them.

However, the two smaller private banks – Capitec & Teba – decided not to participate. The reasons given are instructive. Because both banks have an exclusive focus on the middle to lower segment of the market, they saw no need for a special collaborative initiative to reach this group. Instead, they had their own offerings: Teba already offered ATM card based transactional and savings accounts; and Capitec was already in the midst of piloting its own savings and transactional offerings, which rolled out in earnest in 2005, not long after the Mzansi launch. Capitec seriously considered offering Mzansi but ultimately saw participation in Mzansi as diluting their market positioning; in short, Capitec was “averse to a two version offer” because they view a “one product solution” as a simple (i.e., not confusing for customers) and therefore effective way of connecting with their target market.



As small banks with a focus on lower end markets, they believed they were also less vulnerable to political pressure and targeting than the large banks, even though they too were Charter signatories. Hence the perceived benefits of collaborating were lower for them. They perceived the potentially higher costs of collaboration: the mixed motivations of the big banks could result in poor product design and take-up which would taint their brands in their core market. Instead, both these banks decided to continue with offerings competitive to Mzansi. At the time, the merits of this decision were not self-evident: after all, there was a risk that the power and funding behind the combined Initiative would drive out their much smaller offerings. In fact, this has not occurred as we will discuss later; and the co-existence of a large collaborative approach to basic banking alongside successful smaller private initiatives such as that of Capitec is one of the interesting angles to the Mzansi story. Indeed, Capitec itself stated that Mzansi positively impacted Capitec by helping to increase general awareness of banking as an attainable service for lower-end segments.

2.3 Mzansi design process

The Charter provisions established a specific target and set a broad framework for the desired characteristics of a basic transactional and savings product but importantly did not specify the product design further. An inter-bank task team, convened under the auspices of the Banking Association, was formed to undertake this task. In the course of this process, they had to navigate several thorny legal or regulatory issues.

2.3.1 Legal boundaries of collaborative action

The extent and form of collaboration between competing major commercial banks required careful consideration within a competition law framework. South Africa's competition law unequivocally prohibits competitors from "directly or indirectly fixing a...price or any other trading condition"; and no exception is provided for a Charter-like initiative such as Mzansi. Moreover, in 2003, the National Treasury, supported by the South African Reserve Bank, commissioned a Task Group to undertake a study of "Competition in South African Banking", which expressly concluded that any national bank account initiative defined in terms of price-fixing and collusion would pre-empt competition and should be avoided. Consumers and policymakers had voiced increasing concerns over inadequate competition among the large banks manifesting in high retail bank charges, culminating in a full Banking Enquiry established by the Competition Commission which reported in June 2008 after almost two years of reviewing evidence.

In this context, the Mzansi task team worked to design a product which had a single brand, a uniform set of product features, and a uniform pricing structure across all participating banks. The banks planned to market the Mzansi account together, *initially* with the same product features and the same pricing across all participating banks; then, after the first year, pricing would become competitive. The main reason given for the initial fixed product and pricing was to simplify the proposition to the customer, who knew they would be getting the same thing from every bank. The concern for simplicity could even be read from the Charter's definition of "effective access": financial products and services had to be structured and described in a simple and easy to understand manner. Indeed, consumers alleged that pricing for mainstream transaction accounts in South Africa was confusing even for experienced account holders; hence, the need to simplify as much as possible for people who have never been banked before.



In light of these standard product features, the following recommendation of the Competition Commission's June 2008 Banking Enquiry report is worth noting: if price competition in the retail transaction banking market is not increased over the next few years, "then the Competition Commission should revisit the idea of obliging the banks to provide one or more 'basic banking products' with similar content, capable of being simply and directly compared" by consumers on price. This recommendation gives credibility to the rationale advanced by the banks for standardization of *product features*, although the Enquiry was of course not endorsing standardized *pricing*.

Aware of the risk that the specific Mzansi proposal may fall foul of the Competition Act, the task team sought legal opinion on the matter and met with the Competition authorities. It transpired that the proposed Mzansi Initiative would require that the Minister of Finance gazette a specific exemption to the Competition Act. To eliminate any accusation of 'profiteering' from such an exemption, the banking industry was prepared to pay any profits from this product – during the period when pricing was fixed – into a fund for consumer education.

However, an exemption was not forthcoming in the climate around bank competition described above. Shortly before the launch of Mzansi, the Minister of Finance publicly denounced the fixed pricing of the proposed Mzansi account, stating that he would not support any such exemption to the Competition Act. Despite the case made for collaboration being necessary to achieve the purpose intended, there were limits as to how far government would go to facilitate this.

The task team did not want to waste time and resources on a technical legal battle, and quickly decided to drop the fixed pricing. Each bank was instead free to price however it wanted. Nevertheless, the Mzansi accounts were launched by all four private banks with a set of standard product features and operational relations across the banks; and although pricing was not exactly equal, pricing across banks it was quite similar (see Appendix 2 for 2008 pricing summary).

2.3.2 *An exemption to 'Know Your Customer' regulations helped open banking doors wider*

Although government was unwilling to help out with a competition exemption, it was willing to address another area in which the law presented an obstacle for a different reason: the regulations in terms of legislation on anti-money laundering and combating the financing of terrorism (AML CFT). Know your customer (KYC) regulations issued in terms of South Africa's Financial Intelligence Centre Act (2001) (FICA) required *inter alia* that financial institutions obtain and verify a customer's name, date of birth, national identity number and residential address. The official South African identity document would suffice for the first three items but did not help to verify the residential address. Since up to a third of South Africans did not have formal addresses (according to the 2001 census) and no doubt a higher proportion among the unbanked, the inability to verify this would prove a major impediment to opening Mzansi accounts amongst the targeted LSMs 1-5.

Exemption 17 to FICA was intended to make allowance for low value accounts. However, as first issued in 2003, the scope of this exemption was not sufficient for the Mzansi Initiative. In particular, the original exemption did not exempt (i) account products with typical debit card functionality (because such cards could be used for effectuating transactions in foreign countries), (ii) individual accounts that were "dormant" for 180 days, or (iii) certain second-order financial products.¹⁰ In response to requests to accommodate the Mzansi product profile, the Minister of Finance revised Exemption 17 in November

¹⁰ De Koker, Louis (2006).



2004, just about in time for the Mzansi launch.¹¹ Under the revision, in order for a financial institution to avoid being required to verify a customer's residential address, the following criteria must apply to the account:

- (i) Debits from the account cannot exceed \$500/day or \$2,500/month;¹²
- (ii) Funds cannot be transferred to anywhere outside South Africa, except as a POS payment or cash withdrawal within the Rand Common Monetary Area;¹³
- (iii) Account balance cannot exceed \$2,500 at any time;¹⁴
- (iv) Each person is limited to one account "of a similar nature" (e.g., one savings account) with the same institution.

These balance and transaction limits accommodated the levels proposed for Mzansi (in fact, for other reasons discussed below, all four of the private banks uniformly applied an even lower balance threshold) and made it possible for the lightened procedures to apply, saving cost and avoiding exclusion of those who could not prove their residential address. Government was therefore willing to remove this common obstacle from the path of low end banking. However, the lack of these requirements has also had another unintended consequence: the information collected and held by banks about how to contact their Mzansi clients is very limited (often a cell phone number only, sometimes an employer address, either of which may quickly become outdated). This prevents banks from initiating higher touch with their clients, something we return to later, although Mzansi was never designed to be a high touch product—if anything, the reverse, so that, after opening the account, customers transacted primarily through electronic channels like ATMs without the need for more costly human interaction with branch staff.

2.3.3 Segmentation and avoiding cannibalization

One bank representative described to the research team the context into which Mzansi was launched as follows: "Before the Charter, our bank [and at least one other] had been quite successful with our basic entry-level account, but we did not see a way to go further down into the market... We already had the strategic impetus to go further down, but it would have been difficult to position on our own." While some banks may have been more predisposed than others to extend the bankable frontier on their own, once signed on to the Charter, the question for all was how to design a product – in the case of Mzansi, an entry-level bank account – to reach further down into unbanked segments.

The large South African retail banks serve multiple market segments. These are defined by each in different ways, although Figure 2 below expresses the prevailing generic model of market segmentation. Mzansi was seen as reaching a new distinct segment below the current floor of banking (i.e., below the so called "mass market" which was served by non-Mzansi entry-level products). As the expectation of revenue per customer decreased at each tier, the cost and service model was adapted accordingly. Certainly, several large banks had found mass market transactional accounts to be lucrative in themselves. According to one stakeholder interviewed: "the banks were making an inordinate amount of money [at higher tiers] and they didn't want to give that up!" Mzansi sought to extend the floor of banking downwards, below what was perceived to be the "last frontier of profitability"¹⁵.

¹¹ The Exemption 17 details are gazetted in Government Notice No. R 1353, 19 November 2004. Mzansi accounts that were opened prior to the official gazetting were nonetheless exempted from FICA as if Exemption 17 had already been effective.

¹² A transaction exceeding these levels will not be allowed to go through.

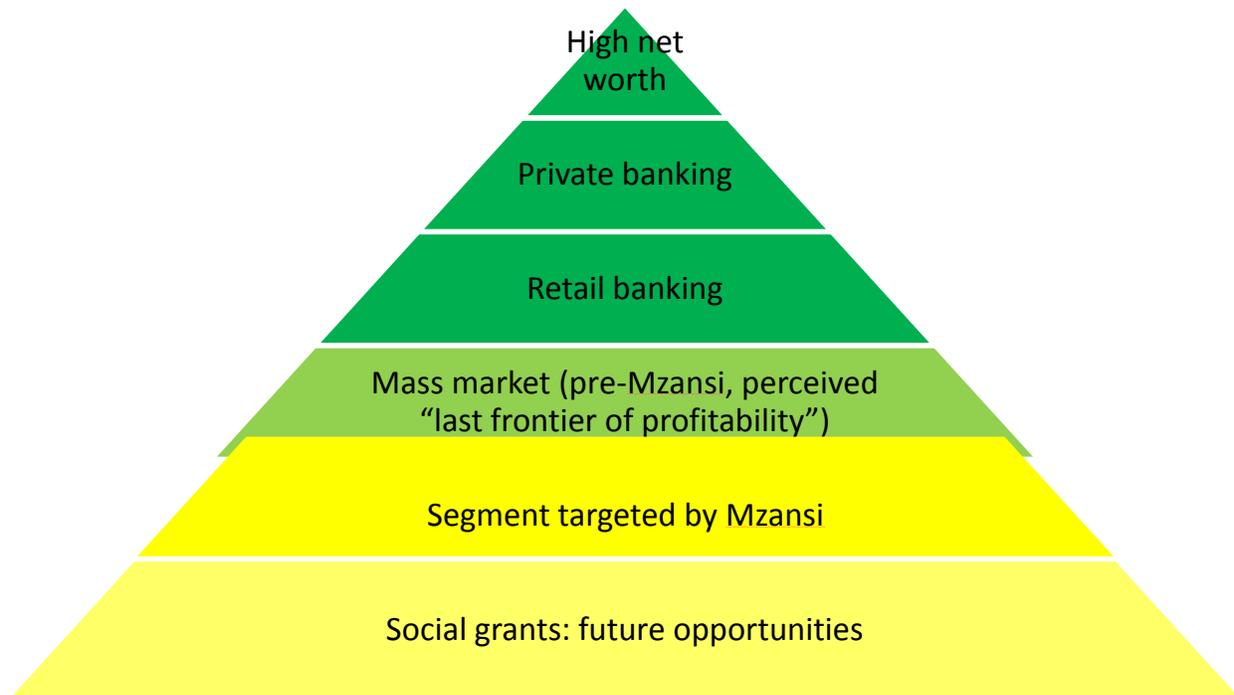
¹³ The Rand Common Monetary Area includes South Africa, Swaziland, Lesotho and Namibia.

¹⁴ If an account exceeds this threshold, no debits are allowed from the account until the customer is subjected to full KYC procedures.

¹⁵ Donian, C. 2006. *Reaching into Untapped Markets: Banking at the Bottom of the Pyramid*.



Figure 2: Segmenting South Africa’s market for retail transactional/savings banking¹⁶



In doing so, all banks were fearful of encouraging cannibalization—the risk that customers of their more expensive nearest equivalent accounts (NEAs) would take the opportunity to switch down to a cheaper basic or no frills account, reducing their overall revenue without necessarily improving access to financial services. Therefore, an important part of the design sought to mitigate this risk by imposing limits on the product so that the “no frills” Mzansi account would not be a pure substitute, and hence discourage this switching.

Three product limitations sought to address this.

- *No debit orders on Mzansi:* A debit order (sometimes referred to elsewhere as a “direct debit” or “ACH transfer”) is an electronic payment instruction presented by an authorized third party to debit the account of the payer. Debit orders are widely used instruments for collecting installments or premia or amounts billed where the amount may vary. They can be convenient for the client (who has no role beyond the initial authorization) and can be much cheaper than alternatives for the recipient. The Competition Commission’s Banking Enquiry states: “Payment by debit order is routinely required nowadays for all manner of regular services which have become an essential part of everyday life. Reliance on debit orders is widespread throughout the retail market served by banks, and it is especially notable in the lower income markets.”¹⁷

There was heated debate over whether Mzansi should offer this feature, as NEAs do. The insurance industry, for example, was very keen that it be included since this would allow them to collect insurance premia on low end customers. However, Mzansi banks determined that this was a “frill”

¹⁶ This Figure is partly based on Donian 2006.

¹⁷ Banking Enquiry, June 2008.



which should distinguish Mzansi from NEAs, so Mzansi was launched without debit order capability as a uniform feature.

The issue did not end there, however. Pressures mounted on the banks from consumers and other affected industries such that at different times during the second year after launch, all of the banks started to include this capability. Over time, debit order capability was eventually added as a minimum standard for Mzansi.

- *Maximum balances:* Since launch, all four private banks have imposed a maximum balance of \$1,500 on Mzansi accounts, which is substantially below the \$2,500 limit set by Exemption 17 as described above. The Postbank sets its Mzansi limit at the higher \$2,500 level. This, together with the debit transaction caps set by Exemption 17 (though not unique to the Mzansi account), limits the ability of higher income customers to use the accounts to accumulate larger balances or for greater value.
- *Penalty transaction pricing:* At launch, the Mzansi pricing scheme for each of the four private banks provided that, once a specified threshold of monthly transactions was reached, a higher price per transaction would apply than would be the case for typical Mzansi transactions and even for NEA transactions. Table 4 below shows that three of the four private banks (Nedbank is the exception) still apply this penalty pricing model, although the Postbank does not and never has.

Table 4: Comparison of charges for a \$30 ATM (on us) withdrawal (circa September 2008)

	FNB	ABSA	Nedbank	Standard
Mzansi charge (without penalty)	\$0.40	\$0.40	\$0.42	\$0.43
Mzansi charge (with penalty)	\$1.20 (= \$.40 + \$.80)	\$1.65 (= \$.40 + \$1.25)	\$0.42 (no penalty)	\$0.86 (\$0.43 x 2)
NEA price	\$0.53 (up to \$1.59 if over \$100)	\$0.65 (\$0.35 + \$0.10 per \$10)	\$0.48	\$0.54

Source: Calculations based on published rates (bank websites).

Understandably, banks varied in their concerns over cannibalization. Standard Bank, for example, had a substantial existing presence in the mass market with its E-plan account, and, with ABSA, arguably had the most to lose if Mzansi sparked a mass migration downwards. By contrast, Nedbank had relatively little presence in the mass market as of late 2004 and one of their representatives stated that Nedbank viewed the future in this segment as a bit of a “blank slate” at that time. Indeed, for Nedbank, which in 2004 had only recently committed to pursuing the mass market as part of its broader overall retail strategy, the timing of the Mzansi Initiative was described by another representative as “perfect”. For the Postbank, although they did offer an NEA style product range, there was little concern expressed on the issue of cannibalization.

2.4 The outcome: Mzansi product framework

The outcome of a hard driven process during 2003/2004 was the product specification shown in the first column of the Table below. This Table also shows how these features have changed (or not) to the present, and contrasts them with the features of a typical NEA (as of 2008).¹⁸

¹⁸ A full product pricing outline for Mzansi (2008) is presented for each of the five banks in Appendix 2.



Table 5: Mzansi account product features

	Mzansi (at launch)	Mzansi (2008)	Typical NEA (2008)
Account opening	National bar-coded ID only; but proof of residence required if transaction or balance levels exceed set limits (see below).		
Demand account	Yes		
Monthly fee	None		Yes (varies by bank, private banks range from \$0.65 to \$1.00)
Balance limit	Yes, \$1,500 for private banks (cannot be overcome by full KYC compliance); \$2,500 for Postbank		No (but Exemption 17 sets \$2,500 limit for those opening account without full KYC procedures).
Debit Transaction limit	Yes, \$500 daily limit and \$2,500 monthly limit, driven by AML/CFT (Exemption 17) but for all accounts these limits can be overcome with full KYC compliance.		
Debit card (Visa or Maestro branded)	Yes, card allows ATM and POS transactions; all but one of the banks provide free card (FNB charges \$2.50)		Yes, card allows ATM and POS transactions; card provided free.
Checks	None		
Paper statements sent automatically	No		
Cash deposits	Unlimited deposits allowed, at any frequency; one free per month at teller or ATM ; fees for subsequent deposits vary by bank		Unlimited deposits allowed, any frequency; fees vary by bank
Electronic deposits	Allowed (unlimited); free		
Cash withdrawals	Unlimited withdrawals allowed, at any frequency; fees vary by bank; same price for ATM-not-on-us as ATM-on-us and flat fee regardless of amount withdrawn		Unlimited withdrawal, any frequency; fees vary by bank; fees higher for ATM-not-on-us; and higher fees for higher amounts.
Debit orders (outgoing)	Not allowed	Allowed (unlimited); fees vary by bank	Allowed (unlimited); fees vary by bank
Minimum opening balance	Varies by bank: ranges from none to \$2.00		Varies by bank: ranges from none to \$5.00
Minimum ongoing balance	Varies by bank: ranges from none to \$2.00		Varies by bank: ranges from none to \$5.00
Interest paid	Varies by bank; all banks pay on all balances , but all offer tiered rates; all rates are well below inflation.		Varies by bank; some don't pay below certain balance threshold; all offer tiered rates; all rates are well below inflation.
Penalty for high transaction volume	All private banks increased fees for transactions beyond a certain monthly threshold (details varied by bank)	3 of the 4 private banks increase transaction fees for transactions beyond a certain monthly threshold (details vary by bank)	No
Other payments	Very limited.	Varies by bank: purchase mobile phone airtime; electronic billpay; Internet/ mobile transfers. Some banks allow all via NEAs and Mzansi; others allow more via NEAs than Mzansi.	
Mzansi money transfer	Not available	Domestic remittance service, separate from Mzansi bank account; bank account not required.	

Source: Bank responses to questionnaires; bank websites.



The Table shows that the Mzansi account at launch was in many respects similar to an NEA in that it was a debit card account (association/ VISA branded) accessible via all bank ATMs and points of sale, but with the following differences:

- Mzansi accounts would carry no monthly administration fee and allow one free monthly cash deposit;
- In addition to ATMs, because of the participation of Postbank, deposits and withdrawals could be made via South African Post Office counters (the cost to the customer was the same as an ATM transaction);
- ATM fees were standardized such that the fee was the same for “on us” and “not on us” transactions (typically, not-on-us withdrawals cost an additional 50c to \$1).
- Maximum balance limits (previously discussed).

In addition to these minimum product standards, there was eventually an agreement among issuing banks that, to qualify for Charter points, a defined basic basket of services (1 cash deposit, 2 ATM withdrawals, 1 debit order and 1 balance inquiry) should cost no more than \$1.50, although this was not implemented until 2007.

Over time, the main changes in the Mzansi product standards since launch have been:

- The introduction of debit orders during the second year, as discussed above;
- Additional channel functionality, such as Internet or mobile phone enablement.

Once debit orders were included in the Mzansi product offering, the core features and functionality of the Mzansi account became essentially a “clone” of each bank’s respective NEA, a fact pointed out by several stakeholders in our meetings. By that time, some (but not all) of the concerns about cannibalization had perhaps eased, as the next Section will show.

In addition, each bank continues to have additional product marketing features for its NEAs to distinguish them from Mzansi, and from each other, such as automatically offering up to a few hundred dollars of funeral cover, and options for life insurance or other financial services.

The Table above describes the Mzansi product as a distinct new *product category* which has evolved over time. This should be distinguished from the Mzansi *Initiative*, comprising the syndicate of five banks which collaboratively designed and rolled out this product class. The Initiative essentially added two core elements to the product design:

- The use of a brand name and logo as an endorser brand on Mzansi card products as shown below, the trade mark of which is legally owned by the Banking Association of South Africa; and
- An agreement to contribute an equal share of the total budget required for collaborative marketing around the launch (see Figure 22 in section 3.7.1).





As Figure 22 in section 3.7.1 will show, the collaborative marketing spend had essentially ended within a year of launch, leaving only the brand, representing a set of minimum product standards increasingly converging on NEA accounts, as the basis for the Initiative.

SECTION 3: The Mzansi experience

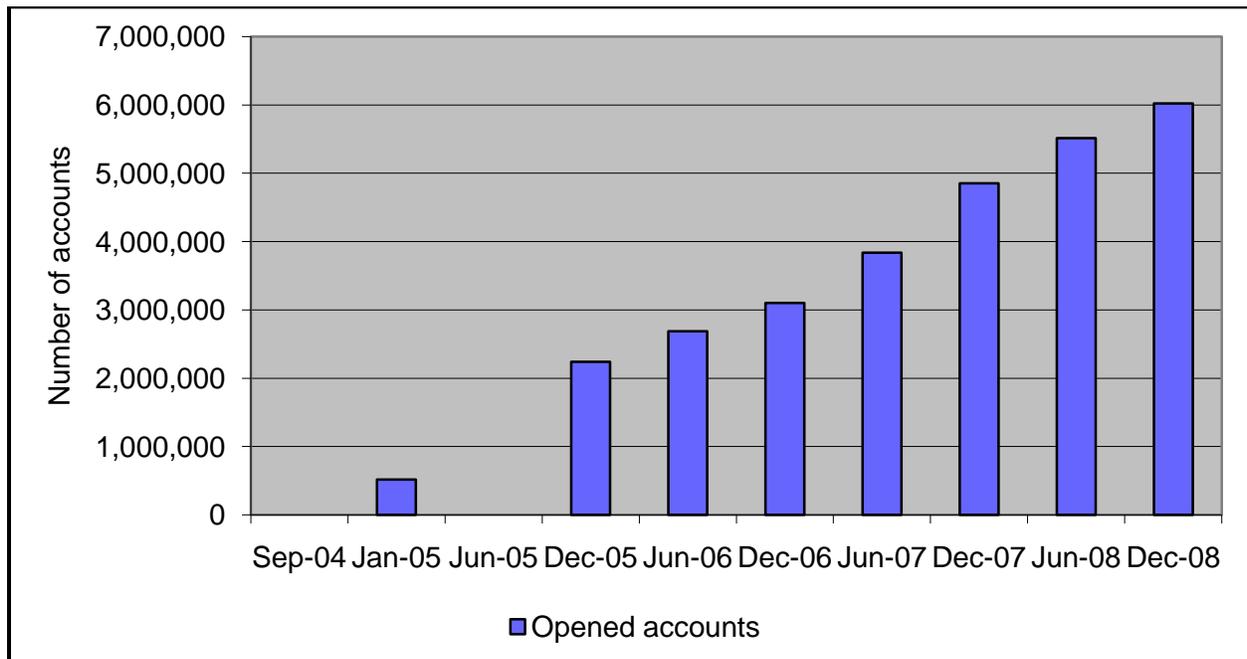
In this section, we explore detailed questions about different aspects of the Mzansi experience, such as:

- ✓ How many accounts were opened and how many remain active?
- ✓ Who opened accounts?
- ✓ Why did they open them?
- ✓ How do clients use Mzansi?
- ✓ Who lapsed and why?
- ✓ Do those opening Mzansi use other financial products?
- ✓ How was it marketed and how is it perceived?
- ✓ How much revenue do banks make from Mzansi?

3.1 How many accounts were opened and how many remain active?

3.1.1 Six million accounts opened in just over four years

Figure 3: Cumulative number of Mzansi accounts opened¹⁹



Source: Bankserv through June 2008 and self-reported by each bank for December 2008.

The above Figure charts the 6.0 million Mzansi accounts opened since inception (October 2004) through December 2008, and includes all five Mzansi banks. This is purely a measure of accounts *opened*, and does not reflect the current status of the accounts (i.e., it includes active, dormant, closed and even

¹⁹ The June 2005 Bankserv data is blank (not zero) in this Figure because data was not available for this period. Bankserv is an Automated Clearing House that provides interbank electronic transaction switching and settlement services to banking sector.

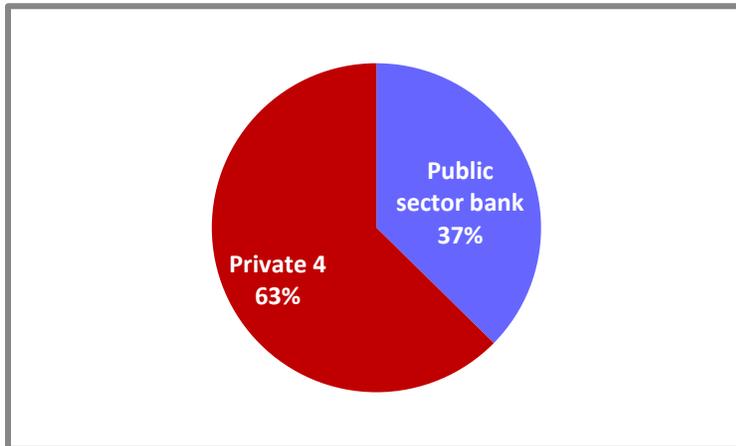


opened-but-never-funded/activated). These take-up numbers are impressive in a country with 32 million adults, 20 million of whom have bank accounts.

Which among the five banks have been responsible for the most issuance of Mzansi accounts?

As a first cut, the Figure below presents the reported market share breakdown between the four private sector banks (in aggregate) on the one hand and the state-owned Postbank on the other hand. At 37% of total issuance, Postbank is by far the largest individual issuer, with around double the number of accounts for each of the two closest private banks in this measure.

Figure 4: Market share for opened Mzansi accounts



Source: Bank responses to questionnaire

3.1.2 How many remain active?

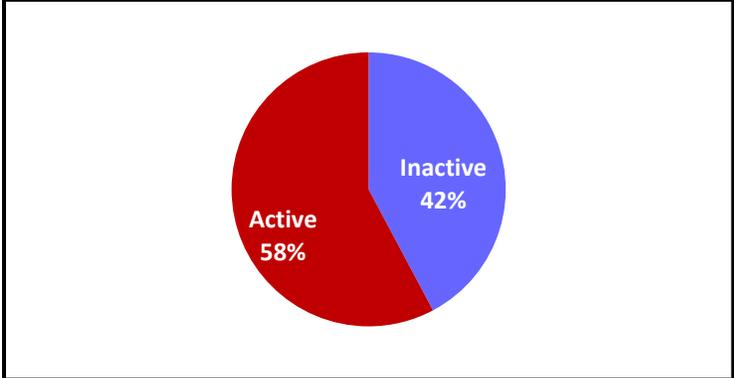
Excitement over the large numbers of accounts opened can be tempered by the inactive figures among Mzansi accounts. Almost half (42% or approximately 1.6 million) of the approximately 3.8 million total opened accounts at the four *private* banks are “inactive” according to the Charter definition. The term “inactive” includes mostly dormant accounts, but also those accounts that have been affirmatively “closed” or “never funded and therefore never activated”. For purposes of obtaining Charter ‘points’, the definition of a ‘dormant’ account is one without a client-initiated financial transaction during the past 12 months. A balance inquiry or statement request does not count. If there is a client-initiated financial transaction on an account within the past 12 months, then it is deemed “active”; if not, it is deemed “dormant”. Since the four private banks keep track of this data for Charter-reporting purposes, we use this definition of “dormant” herein, which makes up most of the “inactive” accounts.²⁰ No comparable data was provided by Postbank.²¹

²⁰ Many of the banks had their own respective internal definitions for “active” and “dormant” (as well as some other interim stages and labels, such as “semi-dormant”), which are not used here because it would cause data inconsistency. Also, related to this, each bank had its own policy regarding the functional impact of dormancy, which was sometimes driven by their internal definition and not the Charter definition. For instance, a bank might “freeze” an account after only 60 days of inactivity; thereby forcing the account holder to come to a branch to unfreeze it by making a financial transaction. To our knowledge, besides the hassle of going to a branch (which can be significant, especially if the freeze comes unexpectedly and no branch is nearby) and possible out-of-pocket cost too (which can be quite high for some), there was no “penalty fee” *per se* charged for this re-activation process. Moreover, as of at least September 2008 (with no change since then to our knowledge), although banks may freeze dormant accounts, they have not yet fully closed them; and so they remain on their “system”, even if an account has been dormant for 3+ years. Although, for accounts that were opened but never funded (never “activated”), some banks have removed these from their system and deem them closed or otherwise classified. Worth noting is that substantially all of the current Mzansi users would probably be deemed active even under the individual banks’ internal



The substantial prevalence of inactivity is common across all four private banks, although with some variation: the highest “inactive” ratio is 48% and the lowest is 38%. We put this inactive rate in some perspective, relative to other entry-level bank accounts and prepaid cell phones, later in this section.

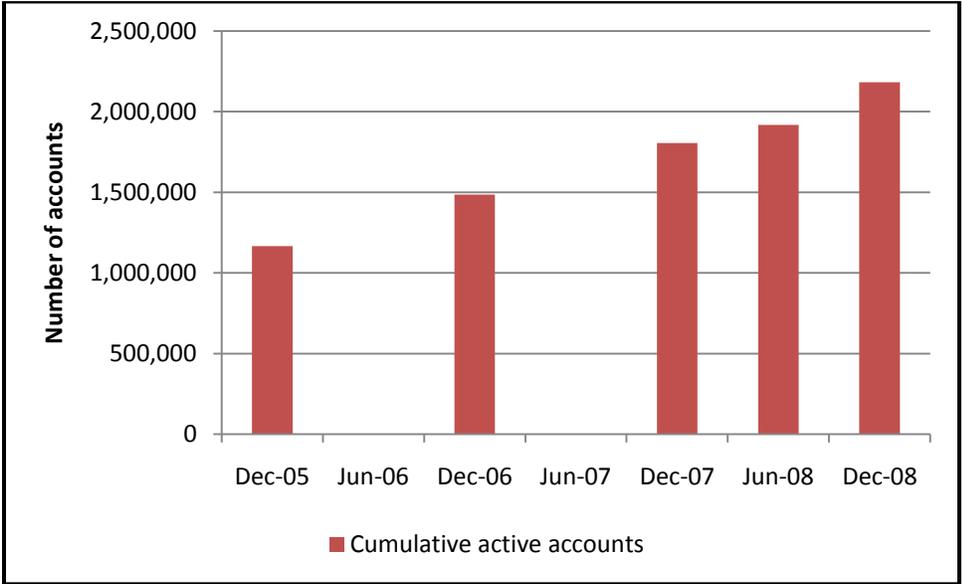
Figure 5: Distribution of opened Mzansi accounts by active vs. inactive (private banks only)



Source: Bank responses to questionnaire

Nonetheless, despite high churn,²² the number of active accounts among the private banks is still substantial. The following Figure charts the growth in the number of active Mzansi accounts (four private banks only).

Figure 6: Four private banks: Number of active accounts



Source: Bank responses to questionnaire

definitions, regardless of the Charter-driven 12 month definition, because, according to the demand-side data, 93% say they have used the account within the past three months.

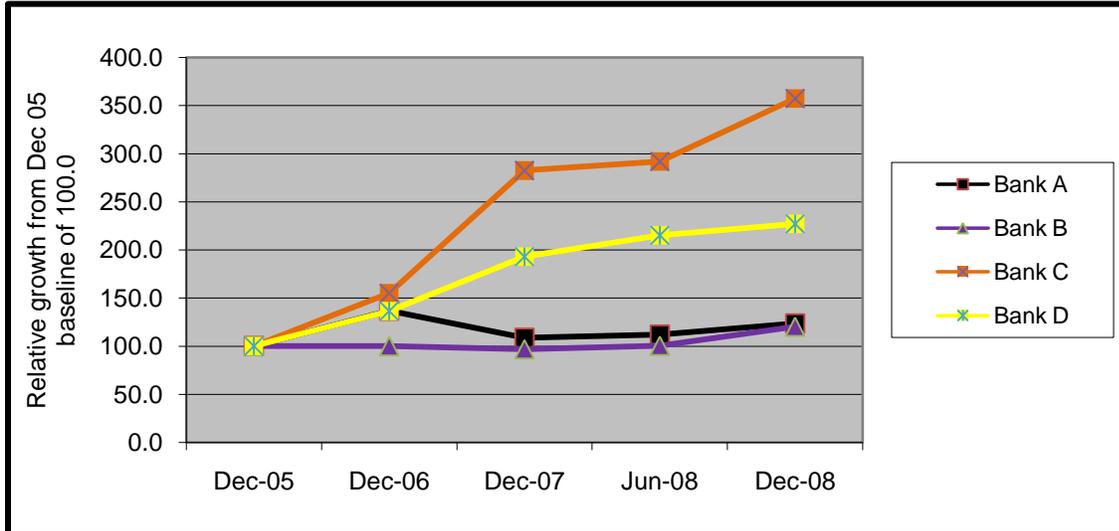
²¹ Unfortunately, the Postbank does not yet track dormant accounts in such a way, but rather only defines dormant as an account that has been inactive for 24 months, and so a like-for-like comparison of the private banks on the one hand and Postbank on the other is not available for this measure. Moreover, the Postbank did not provide even these dormancy figures, but rather only the number of opened accounts and the number of closed accounts; so all of its 2.03 million “non-closed” accounts are lumped together. Only 1% of its opened accounts have been closed.

²² “Churn” refers to the dynamic of accounts going inactive.



As the next Figure shows, among the four private banks, the continuing upward trend in active accounts shown in the above Figure has been driven mainly by two, since the other two have not substantially increased their total number of active accounts since the first year (although both experienced a bit of a spike over the last six months to December 2008). There are differences in strategic approach and enthusiasm among the banks which drives these trends.

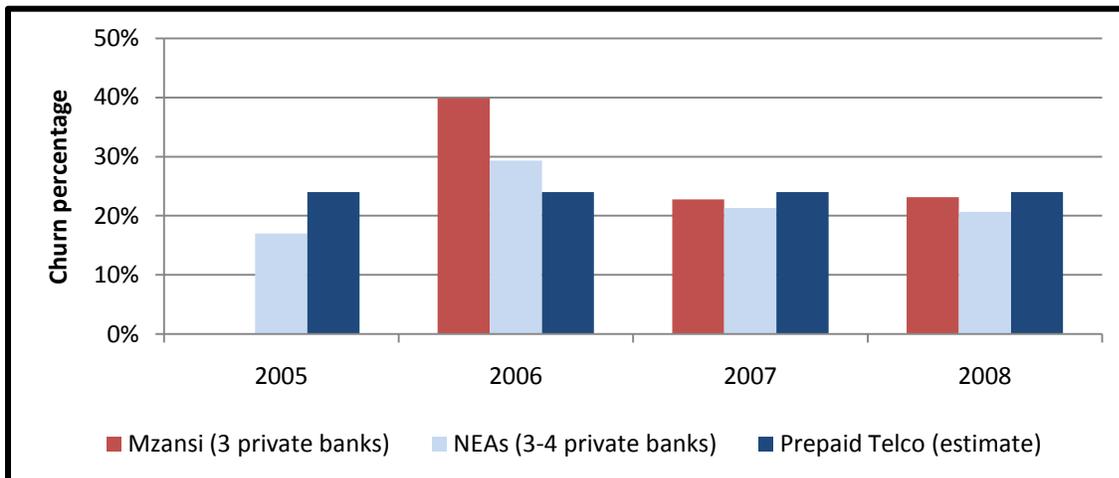
Figure 7: Relative growth of individual banks' active accounts since December 2005²³



Source: Bank responses to questionnaire

The next Figure puts the high inactivity (also known as “churn”) rate into some perspective, by comparing it to churn rates for the banks' NEAs and for prepaid cell phone accounts.

Figure 8: Comparison of account churn rates



Source: For Mzansi and NEAs, data is from participating banks; prepaid telco is an estimate based on *Wireless Intelligence*. 2005 Mzansi data is omitted since it was launched only in late 2004, which would render churn rates not too meaningful in 2005.

²³ Note that these are not absolute numbers, but rather merely relative growth since December 2005. Thus, each respective bank's account base as of December 2005 is set at the “100.0” baseline, against which that bank's subsequent growth is measured. (The colour-coding is random, and nothing should be read into them.)



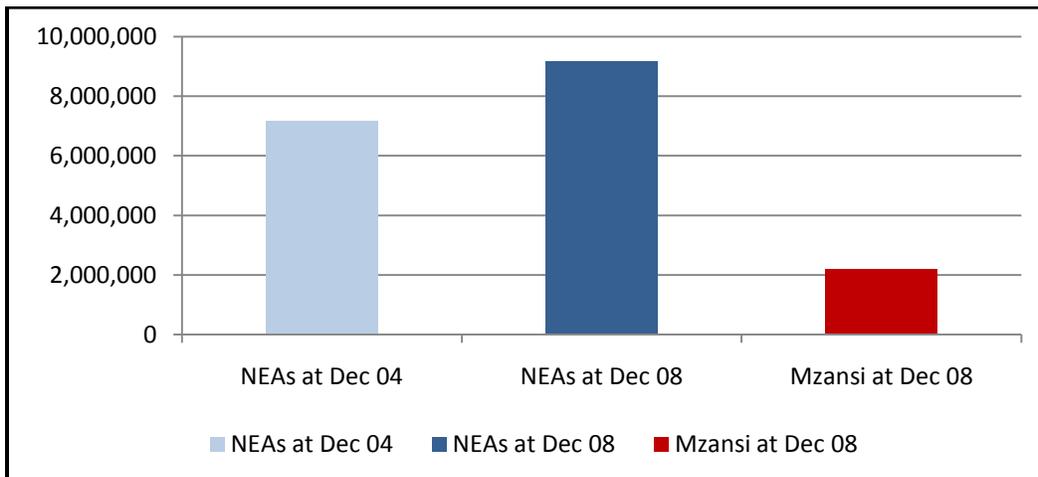
As shown above, Mzansi churn rates are certainly high in absolute terms and in 2006 it was significantly higher in relative terms compared to NEAs and prepaid cell phone services; however, the absolute rate is not extraordinary when put in relative terms, as Mzansi is right in line with NEAs and prepaid cell phone accounts over the past two years.²⁴

In a later section (see section 3.5 below), we will use demand-side data to better understand what lies behind the Mzansi inactivity.

Notwithstanding the substantial churn, the number of active Mzansi accounts is impressive when viewed in terms of a four-year initiative. We next try to place these Mzansi account numbers (at least the active accounts) into some perspective. Using data provided by the four private banks, the Figure below presents the number of active accounts for the NEAs around the time of Mzansi's launch (7.2 million in December 2004) compared to the NEA number in December 2008 (around 9.2 million) and also compared to the Mzansi number in December 2008 (2.2 million) – again, all these numbers are only for the four private banks.

- The NEAs substantially exceed the Mzansi number (almost four times as many), although it must be noted that the NEAs had up to a ten year head start, having been launched as early as the mid-1990s for some banks.
- If we look only at the four-year span when both types of accounts were offered, on an industry-wide basis, the number of net active accounts created under Mzansi (2.2 million) slightly exceeds that for the NEAs (2.0 million).
- There are differences in the proportion of Mzansi accounts relative to NEAs within each individual bank: For two of the four private banks, the number of Mzansi accounts was equal to around 20% of the number of NEAs; for another the proportion was only around 15%; while it was around 90% for one bank.

Figure 9: Four private banks: Number of active NEAs over time compared to active Mzansi²⁵



Source: Bank responses to questionnaire and other queries

²⁴ It must be noted that we do not have NEA churn data for the period preceding Mzansi's launch and we therefore do not know from the supply-side whether Mzansi had a significant impact on the NEA churn rate. We use certain demand-side data to return to this and related cannibalization issues in section 3.3.2 below.

²⁵ For one bank, the oldest NEA data provided was for December 2006 instead of December 2004; thus, we applied the same implied growth rate (going backwards) to estimate what the figure would have been in December 2004. For another bank, they provided December 2004 and June 2008 data, so we again applied its growth rate to obtain an estimate for December 2008.



3.1.3 The Postbank conundrum

Unfortunately, the Postbank numbers are not completely comparable to the data received from the four private banks. This is partly due to the fact that the four private banks all collected and reported uniformly-defined data on active accounts for purposes of reporting under the Charter (to qualify for Charter points, discussed in Section 2 above), while the Postbank had no obligation to do so. If it were not for the Charter, it would likely have been difficult to get perfectly comparable data across even the four private banks. However, the Postbank definition of “active” is so different from the private definition that it makes deep analysis of its numbers (or ratios) of active versus inactive impractical.²⁶

For instance, the Mzansi survey revealed that customers tend to define themselves as a “current user” or former user in a way that aligns, respectively, almost exactly with the Charter definition of “active” and “inactive” (and thus aligns with the four private banks’ definition for this report): essentially based on whether they used the account within the past 12 months or not. A full 100% of those who labelled themselves as “current” separately stated that they had in fact used the account within the past 12 months (indeed, 93% said they had transacted within the past three months); whereas 92% of those who labelled themselves as former users had in fact not used the account within the past 12 months (and of the few who had, several had affirmatively closed their accounts). This demand-side data indicates that the perception of “active” or “inactive” in account holders’ minds is almost perfectly aligned with the Charter definitions.

In turn, this suggests that the Postbank’s definition of “active” in terms of anyone that conducted a transaction within the past 24 months (never mind simply anyone who has not affirmatively closed the account)²⁷ is out of line with customer perceptions. In other words, while the Postbank may deem substantially all of its opened accounts as active, a substantial percentage of their customers may assume the accounts are not active; and this dynamic may feed on itself absent the ability to communicate with customers (i.e., those customers who perceive themselves to be inactive may assume they cannot use the account, so they don’t bother to try). This dynamic may be a reason for the dramatic discrepancy between Postbank’s claimed number of active accounts versus data from the past two FinScope surveys, which are designed to be nationally representative samplings. The Table below presents this discrepancy.

Table 6: Comparing reported number of Postbank accounts

	Active Mzansi Accounts		
	Supply-side, self-reported active (Dec 2008)	FinScope 2008	FinScope 2007
Postbank	50%	17%	20%
All four private banks	50%*	83%	78%

* Not broken down by bank for confidentiality reasons.

²⁶ See footnote # 21 above.

²⁷ As noted earlier, Postbank only provided us with information on the number of opened accounts and the number of closed accounts; and thus no breakdown of even its own definition of active (transacted within the past 24 months) and dormant (not closed but transacted within the past 24 months).



Underneath the FinScope numbers shown in the above Table is demand-side data indicating that Postbank only has around 600,000 current Mzansi customers. This creates a substantial disconnect (around 1.4 million accounts) between Postbank's reported number of *non-closed* accounts and this FinScope data. On the other hand, the FinScope 2008 number for total current Mzansi users is 3.5 million, which would suggest – based on the private banks' claims to 2.2 million of these accounts – 1.3 million could belong to Postbank, suggesting that as many as 700,000 have mis-attributed their account to a private bank instead of Postbank, which is hard to explain.

Another possible explanation for the Postbank Mzansi shortfall in the FinScope numbers that has been suggested, but not confirmed by Postbank, is that many Postbank account holders may not know they have an "Mzansi" account, but instead may think they have another Postbank account. Specifically, it has been suggested that Postbank itself converted hundreds of thousands of existing (non-Mzansi) accounts to "Mzansi" accounts for their own internal categorization purposes (perhaps related to rationalization of other product offerings), and this may contribute to why customers are unaware of having an Mzansi account. However, this theory is tempered by the fact that the FinScope numbers for all Postbank accounts are also much below the 6.0 million clients claimed by Postbank.

In short, the number of Postbank's active Mzansi customers is uncertain, but we can roughly estimate it to be around 1.3 million, which is derived (i) by applying the private inactive rate to the Postbank number of opened accounts (i.e., 58% of 2.2 million) and separately (ii) from the number of active accounts suggested by FinScope 2008 and that are not accounted for by the private banks' self-reported active accounts (i.e., 3.5 million minus 2.2 million).

3.2 Who opened accounts?²⁸

3.2.1 *Mzansi reached a distinct new segment that broadly reflects the new South Africa*

The following Table and Figure present a demographic overview – in terms of geography, race, age, employment status, income level and LSM – in an effort to put a face on the Mzansi population (including all those who opened Mzansi, as well as all who still actively use Mzansi) and compare it to the faces of (i) all of South Africa; (ii) those who currently have bank accounts but excluding those who have an Mzansi account; and (iii) those who have never been banked.

The percentages shaded in the first Table below are intended to indicate a similarity across the given row (for the given demographic measure) between the Mzansi population(s) and one of the other three columns.

For instance, the first row indicates that **rural people** are over-represented in the Mzansi populations (both Mzansi Openers (48% rural) and Mzansi Active (51%)) relative to the overall South African population (39%); which makes Mzansi users **similar to the 'Never Banked' population** (which is heavily represented by rural people, at 56%); and which puts Mzansi in sharp contrast to the 'Banked-Not-Mzansi' population, where rural people are significantly under-represented (at only 27%). Also, though not broken out here specifically, rural people are more likely to continue to actively use Mzansi than urban people, other things being equal.

²⁸ Throughout Section 3, all references to demand-side data that is not otherwise identified refers to results from the project's Mzansi quantitative survey (FinMark/TNS).



The percentage of **black people** opening Mzansi (86% black) and still using Mzansi (87%) makes the Mzansi population look **much more like the Never Banked population** (90%) than the Banked-Not-Mzansi population (66%) and even than the overall South African population (76%).

However, when it comes to proportion of **young adults** (Age 16-24) and **employment status** (both the fully-and-formally employed and the unemployed), the Mzansi populations very much **mirror the broader South African population** as a whole, which puts it somewhere in the vast gulf between the Banked-Not-Mzansi and Never Banked populations.

With respect to **income levels**, Mzansi is **not that similar to any** of these three other populations. On the one hand, with respect to the percentage that have no income, Mzansi (at 11-12%) is closer to the Banked-Not-Mzansi population (at 6%) placing it quite far away from the Never banked (at 43%) and lower than all of South Africa (20%); while on the other hand, with respect to the percentage that have some-but-not-much monthly income (\$1-\$199), Mzansi (at 63%) is closer to the Never banked population (at 50%), placing it further away from all of South Africa (44%) and quite far away from Banked-Not-Mzansi (35%).

Table 7: Basic demographic comparisons of Mzansi account holders to others

	All South African Adults	Currently Banked (Not Mzansi)	All Mzansi openers	Mzansi Active account holders	Never Banked
Rural	39%	27%	48%	51%	56%
Black	76%	66%	86%	87%	90%
Age 16-24	28%	17%	31%	32%	48%
Work full time in formal sector	24%	40%	25%	21%	2%
Unemployed	27%	14%	31%	29%	45%
Monthly income between \$0-\$199	64%	41%	71%	74%	93%
No monthly income	20%	6%	12%	11%	43%
Monthly income between \$1-\$199	44%	35%	60%	63%	50%

Source: FinScope 2008

In summary, the data suggests that the Mzansi customer base is skewed as intended towards more marginalised parts of the population than had been banked before.

In addition to the simple raw target number of active accounts, the Charter’s access provisions specifically targeted the LSM 1-5 segment of the population. One of the banks claimed, “Mzansi is hitting LSM 3.5-5”.²⁹ FinScope 2008 tests this statement, and more importantly whether Mzansi in fact reached the targeted LSM 1-5. Sixty-one percent of Mzansi Active are indeed within LSM 1-5 (with 53% in LSM 3-5), although a substantial proportion (39%) are in the higher LSM 6-10.³⁰ As shown in the

²⁹ Note, there are actually no fractional LSMs; so the reference to “LSM 3.5” was partly facetious but nonetheless indicative.

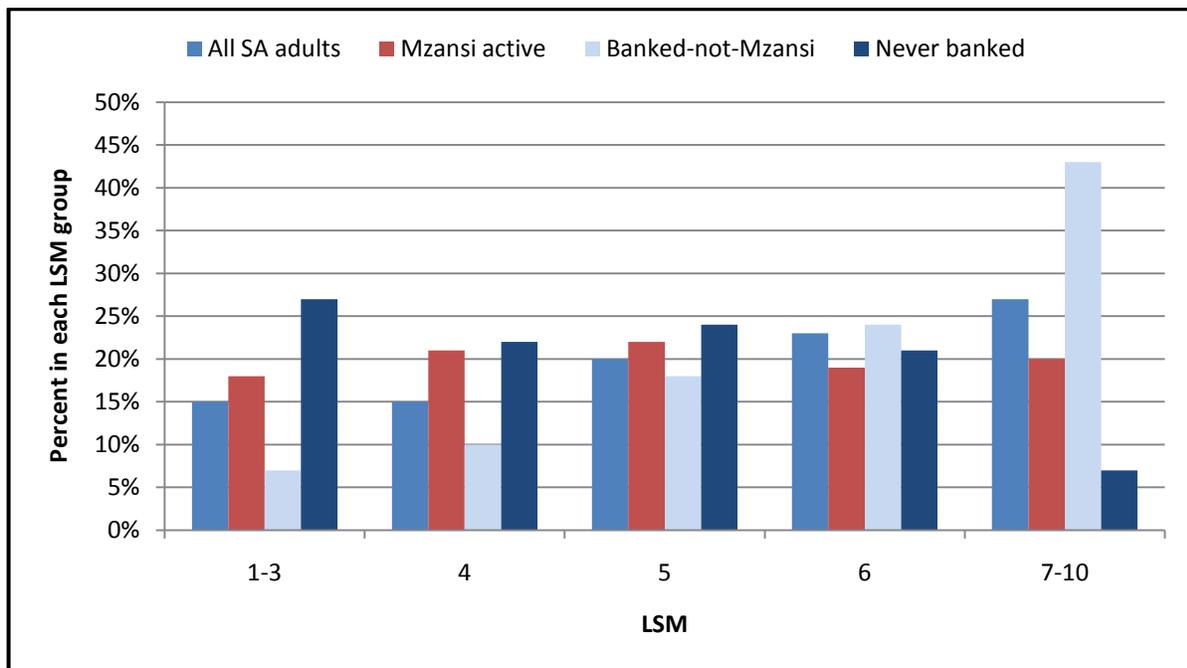
³⁰ It must be noted that LSMs are not broken into deciles of total population; although it does so happen, coincidentally, that in 2008 50% of the population is in LSM 1-5 and the other 50% in LSM 6-10.



Figure below, Mzansi is over-represented in the LSM 1-5 groups; while under-represented in the LSM 6-10 groups; although it is not a dramatic skew one way or the other.

Also presented in the Figure below is the fact that active Mzansi account holders are much more representative of the overall South African population than the “Banked-not-Mzansi” segment and the “Never Banked” segment. Not surprisingly, the Banked-not-Mzansi segment has a relatively heavy proportion in the LSM 7-10 group (where the Never Banked are quite under-represented) and the Never Banked segment has a relatively heavy proportion in the LSM 1-3 group (where the Banked-not-Mzansi are quite under-represented).

Figure 10: LSM analysis



Source: FinScope 2008 (using 2006 definition of LSMs)

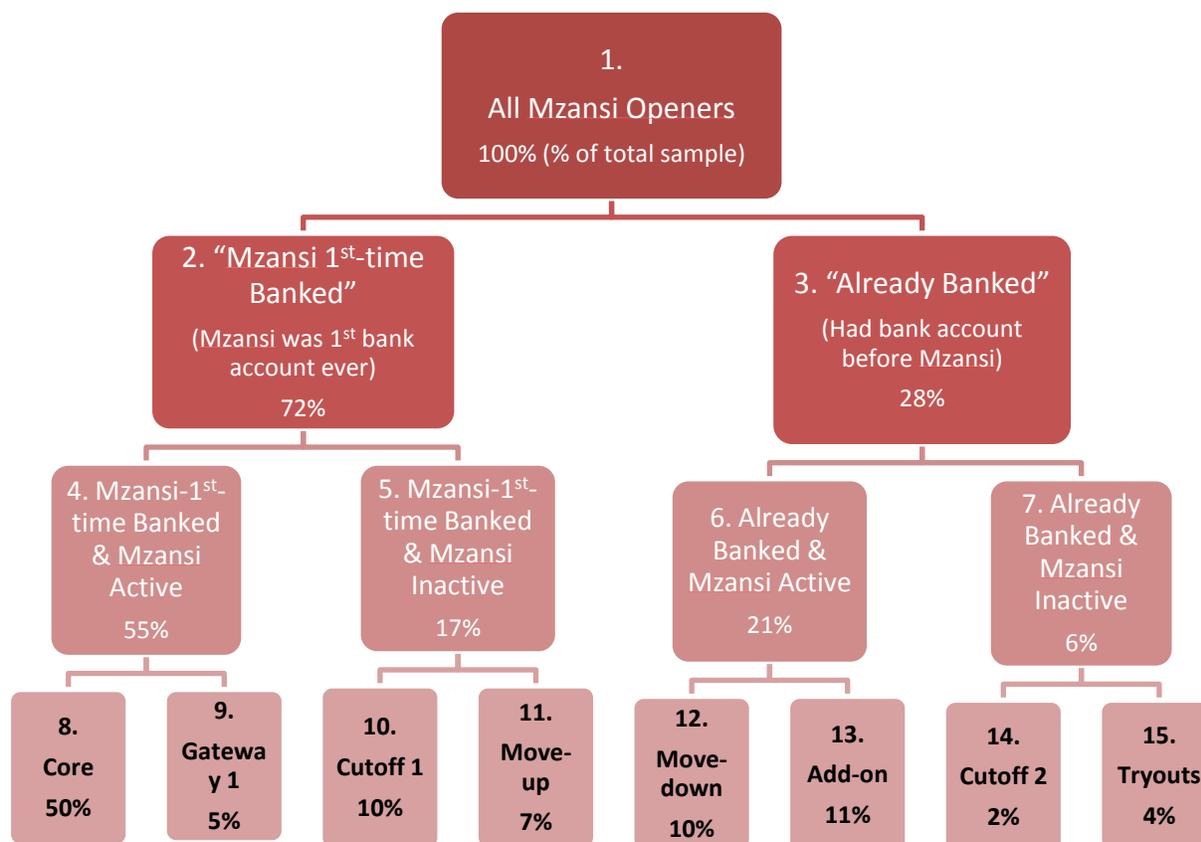
3.2.2 Those who opened Mzansi can be split into eight distinct sub-segments

The following Figure and Table break down all those who opened an Mzansi account (“Mzansi Openers”) into sub-segments, according to three distinguishing characteristics:

- (i) *The first layer:* whether Mzansi was their first bank account ever (“First-time Banked”, Box 2) or they had a bank account before Mzansi (“Already Banked”, Box 3);
- (ii) *The second layer:* whether they describe themselves as currently having an Mzansi account (which almost exactly corresponds with whether they say they have used Mzansi within the past 12 months) (“Active”, Boxes 4 & 6) or whether they describe themselves as “used to have Mzansi but no longer do” (i.e., almost exactly corresponding with those who say they have not used it within the past 12 months) (“Inactive”, Boxes 5 & 7); and
- (iii) *The third layer:* whether they currently have a *non*-Mzansi bank account or not.



Figure 11: Eight sub-segments of those who opened Mzansi³¹



These three variables lead to eight possible combinations or permutations, as follows:

Table 8: Definition of eight sub-segments

Sub-segment number	Sub-segment name	Percentage in this sub-segment	Was Mzansi your first bank account ever ('First') or not ('Already')	Active or Inactive	Do you currently have another bank account (Yes") or not ("No")
8	Core	50%	First	Active	No
9	Gateway 1	5%	First	Active	Yes
10	Cutoff 1	10%	First	Inactive	No
11	Move-up	7%	First	Inactive	Yes
12	Move-down	10%	Already	Active	No
13	Add-on	11%	Already	Active	Yes
14	Cutoff 2	2%	Already	Inactive	No
15	Tryout	4%	Already	Inactive	Yes

Source: Mzansi quantitative survey (FinMark/TNS)

Of these eight sub-segments, the largest single group (containing 50% of all Mzansi openings) is what we label "Core", who are those who opened Mzansi as their first bank account ever (First-time Banked), are

³¹ Note that the quota sampling methodology result in only a slight difference from FinScope 2008 on this first layer, where first-time banked are 67% under FinScope 2008 versus 72% indicated here. So, these measures are quite consistent. Also, the slight discrepancy in the percentages under the 'Already Banked' side of the Figure is due to rounding.



still actively using Mzansi, and have no other bank account besides Mzansi. None of the other seven sub-segments represents more than 11% of Mzansi openings.

Section II of the Annex provides several real life examples of six of these eight sub-segments, based on in-depth interviews conducted by the research team. We will return to many of these sub-segments throughout the remainder of this report.

3.2.3 Distinctions between private bank Mzansi customers and Postbank Mzansi customers

Using the demand-side data, the following Table looks at to what extent there is a difference in the demographics of Mzansi customers of any of the four private banks, on the hand, and those of the Postbank, on the other.³² In certain respects, such as LSMs, there was no dramatic difference; while in others – gender, geography, age and especially employment status – there were more significant differences. From an employment status standpoint (highlighted towards bottom of the Table), the employed are disproportionately inclined to choose private banks; while the reverse is true for those not in the workforce (e.g., retired/pensioner, student or housewife), who choose Postbank disproportionately.

Table 9: Comparison of Mzansi customers across private banks versus Postbank

	Mzansi Active	
	Private banks	Postbank
LSM		
LSM 1-3	19%	18%
LSM 4-5	43%	40%
LSM 6-7	25%	35%
LSM 8-10	12%	6%
Miscellaneous demographics		
Female	56%	64%
Black	86%	94%
Rural	51%	61%
Age 16-24	28%	54%
Age 25-49	62%	31%
Monthly income \$200+	17%	9%
Employment status		
Formally employed	30%	12%
Employed (formal & informal)	58%	33%
Unemployed	28%	34%
Not in workforce	15%	33%

Source: FinScope 2008

3.2.4 Distance to Mzansi banking services

Of those who opened Mzansi accounts, the median time it takes to get to the nearest ATM or bank branch where they can access their Mzansi account is just under 20 minutes; with around 28% saying it takes around 10 minutes or less; 51% saying it takes 15-30 minutes; and 21% saying it takes longer than 30 minutes.

³² The quantitative Mzansi survey provided somewhat inconsistent results with FinScope 2008; but, given that the Mzansi-specific survey was a quota sample and not designed to be nationally representative for demographic allocation purposes, it is less reliable than FinScope for these broad demographic allocations and so is not presented here.



3.3 Why did they open them?

3.3.1 Mzansi was opened to help manage money and as a channel to receive money

The following Table presents reasons why people opened an Mzansi account (note: since each respondent was able to give multiple reasons, the sum exceeds 100%). The shaded rows attempt to aggregate into broad headings more specific underlying responses. The percentages are based on all those opening Mzansi accounts (active and inactive).

Table 10: Reasons for opening an Mzansi account

For what reason did you open your Mzansi account?	All Mzansi openers
Personal cash management (this is the sum of five items below, eliminating overlap: either to save, to keep money in safe place, to withdraw money whenever I need it, to stop me from spending money, or to deposit cash from my business)	61%
Personal cash management (this is the same as prior row, except it excludes "to save")	39%
To save	44%
To keep money in a safe place	24%
To withdraw money when I need it	16%
To stop me spending cash	10%
To deposit cash from my own business	4%
To receive/deposit money from a third party (this is the sum of the next three items below, eliminating overlap: either from employer, family/friend, or grant)	55%
To receive or deposit money from my employer	23%
So that a family member or friend could send me money	21%
To receive a government grant or pension or benefit (e.g. UIF)	16%
To transfer (this is the sum of the following four items: to make transfers to others, to transfer more cheaply, to transfer more safely, or use debit orders)	11%
It was cheaper than my existing bank account or cards	9%

Source: Mzansi quantitative survey (FinMark/TNS)

Personal cash management, including savings aspirations

The largest category in the above Table is rather broad, labelled “personal cash management”, which includes 61% of all opened accounts. Again, this was not the label picked by the respondent, but rather is a bit of a catch-all for all reasons related to an individual managing his or her own cash, and is thus distinguished from the reasons presented below related to transacting with third-parties or simply lower bank fees. This category consists of the largest single response: “to save” (44%), as well the following four responses: “to keep money in a safe place” (24%), “to withdraw money when I need it” (16%), “to stop me spending cash” (10%), and “to deposit cash from my own business” (4%). If we exclude the “to save” choice, 39% still picked at least one of these other four personal cash management responses, some of which are reflected in the following customer statement:



“I think [my money] is safe in the bank, because if it is with you there is too much temptation. Whenever you need money you can go to the bank and get it.”
 (Annex § I(1.2)(iii): Focus Group Transcript (FGT) 2)

The biggest *individual* response in the above Table was “to save” (44%). Moreover, 68% of Mzansi openers claim that they “try to save regularly” and 42% say they are “saving for something specific” (not necessarily in Mzansi account). But, as will be presented in more detail below, certain supply-side data (e.g., Figure 17 in section 3.4.2, showing *inter alia* that 74% of accounts have a balance under \$10) suggests that the 44% who opened Mzansi “to save” indicates more of an aspiration for the account upon opening than a barometer of actual usage (i.e., actual accumulation of savings) once opened; and to the extent the 68% who “try to save regularly” are in fact doing so, it is not reflected in meaningful accumulation in their Mzansi accounts.

On a related point, but a separate question from that reflected in Table 10 above, 30% of Mzansi openers say that Mzansi is an account for saving only, not day-to-day usage. And while the significance of the answers to the following question is a bit ambiguous since there can be overlap for the various uses, the following Table nonetheless shows that only 14% say that their Mzansi account was used “*mainly* for saving”.

Table 11: Account holder descriptions of their own primary use of Mzansi accounts

Which of the following statements about your usage of your Mzansi account best applies to you? (Choose only one.)	Mzansi Active
Save: “My Mzansi account is or was mainly for saving money for a specific item or for a long time and not for day to day usage i.e. more deposits, few withdrawals.”	14%
Transact: “My Mzansi account is or was mainly for day to day usage e.g. depositing money, withdrawing money, paying bills.”	20%
Both save & transact: “My Mzansi account is or was for both saving money and for day to day usage.”	38%
‘Dump & Pull’: “My Mzansi account is or was used to receive money (e.g. salary, grant or pension) and then immediately withdrawing it. ”	28%

Source: Mzansi quantitative survey (FinMark/TNS)

Of course, the term “saving” can have many different meanings. The second most common reason given for opening Mzansi was “to keep money in a safe place” (24%), and 10% said “to stop me spending cash”. Thus, even if there is not long-term accumulation (indicated by supply-side data), simply having an account to store money used up during the month is still beneficial to the customer (especially one with no monthly fees to eat into deposits); and having the account otherwise available preserves the longer-term *aspiration* to save.

A channel to receive money from third parties

A majority of Mzansi openers indicated that a reason for opening Mzansi was as a channel to receive money from a third-party, such as from an employer (23%), from a family member or friend (21%), or from the government in the form of a grant or pension (16%).



For the 23% of Mzansi openers who said that a reason for opening was “to receive or deposit money from my employer”, a follow-up question was asked, related to the employer “push” dynamic thought to be a significant factor in the opening of entry-level accounts among the previously unbanked working class, as was mentioned as a significant factor in the post-apartheid decade before Mzansi that saw a large increase in the percentage banked (see Section 2.1.1 above). Of these 23% who opened Mzansi to receive or deposit money from an employer, 48% said that their employer “encouraged [them] to open the account”.³³ Calculated another way, 11% of all those who opened Mzansi did so not only to receive or deposit money from their employer but also because their employer encouraged them to open the account. Thus, we could say that 11% were, at least to some extent, “pushed” to open the account by their employment situation. Though 11% is a significant percentage, the implied flip side is that the other 89% proactively “pulled” the account for their own independent reasons, suggesting Mzansi openings are not predominantly an employer-driven dynamic.

The lightly-shaded second column in the Table below shows that Mzansi openers receive money from a variety of sources: 31% receive money from the government via grants or pension; 31% from family; 28% from formal employment; and 29% from other employment. Of course, some receive it from more than one of these sources, hence the total exceeds 100%.³⁴

Table 12: Channel for receiving sources of income

	Of all Mzansi openers, how many receive money from this source:	Of those receiving money from the given source, how do they receive this money?		
		Paid directly to Mzansi	Paid directly to a non-Mzansi account	In cash
From Gov’t grant, pension or unemployment insurance	31%	72%	6%	26%
From family member	31%	63%	4%	42%
From formal company employer	28%	52%	42%	8%
From other employment	29%	35%	8%	66%

Source: Mzansi quantitative survey (FinMark/TNS)

The right side of the Table indicates *how this money is received*, only for those actually receiving money from the given source. We see that, among Mzansi openers who receive either grants, pensions or money from family, the Mzansi account tends to be the only bank account used for this purpose (by a factor of at least 12-to-1 compared to other bank accounts); while for Mzansi openers who are formally employed they use other bank accounts almost as much as the Mzansi account to receive salary (42% vs. 52%).

The orange-highlighted box in the Table above is surprising. The intent of the question was to capture electronic transfers into the Mzansi account, and so this orange box would indicate that 63% of those

³³ In hindsight, ideally, this question could have been a bit sharper, as the way it is phrased is a bit unclear as to whether the employer encouraged them to open “an” account, which the employee then independently elected to open Mzansi over other account offerings; compared to the employer encouraging them to specifically open “the” Mzansi account. Accordingly, the data may under-report this “push” dynamic.

³⁴ Not reflected here are those who receive no money: who are only 1% of Mzansi Active, 1% of Mzansi Inactive who have another bank account (“Lapsed Up”) but 35% of Mzansi Inactive who do not have another bank account (“Lapsed Down”). We focus on some of these distinctions within the Mzansi Inactive population in Section 3.5 below.



receiving money from family members receive this money as an electronic transfer into Mzansi, exceeding the 42% who receive it as cash, and dwarfing the 4% going directly into non-Mzansi accounts. Of course, this 63% could include not only transfers from the family member's own account to the recipient's Mzansi account but also cash deposits made by the family member directly into the recipient's Mzansi account, which is an activity for which we have no detailed data but we know does occur: One customer we interviewed who looked favourably upon this activity stated: “[when] you deposit money for a family member who is somewhere else, they are able to get it immediately” (Annex § I(1.1)(v): FGT 1)). Nevertheless, this proportion still seems quite high.

Two other categories of reasons for opening Mzansi are worth noting:

- **Eleven percent** (the sum of four different responses) indicated that a reason for opening Mzansi was **to make transfers to third parties**, or at least to do so more cheaply or more safely. As further discussed below in later sections, the actual usage of Mzansi accounts is generally in line with this relatively low percentage; in other words, it appears that no more than 10% (+/-) use Mzansi to transfer money out to third parties (whether making payments or sending remittances).
- Finally, **9%** said they opened Mzansi because it was **cheaper than their existing account**. Of course, this response was not really available for the 72% for whom Mzansi was their first bank account ever; and so the 9% really translates into around **33% of all those who had another account**.

3.3.2 *Damaging cannibalization has not occurred*

As described in section 2.3.3 above, the banks had a real fear of cannibalizing revenue as a result of clients with nearest equivalent accounts (NEAs) migrating down to Mzansi (the “move-down” group, and to some extent the “add-on” group from Figure 11). But, the banks all report that cannibalization has not occurred, at least not on any significant level. One bank representative stated: “we were amazed at the low levels of cannibalization”. They base these statements in part on the low proportion of their Mzansi customers that were pre-existing account holders of their own bank. In total, for all Mzansi accounts opened at any one of the four private banks, the proportion that were opened at a given bank by someone that was already a customer of that same bank is 9%; although there is significant variation to this proportion among the four banks. One bank reports only 1% of Mzansi accounts opened at its bank were by its own existing customers; another bank indicated only about 5% of NEA clients migrated to Mzansi; while another bank reports this same measure closer to 21%. But even this last bank expressed the opinion that cannibalization was not a problem.

However, certain demand-side data suggests that there has been some cannibalization, at least on an industry-wide level; that is it may involve one bank's NEA customer ‘moving down’ to or ‘adding-on’ another bank's Mzansi account, which an individual bank cannot itself measure. First, as shown in the “eight sub-segments” Figure in section 3.2.2 above, 21% of all Mzansi openers (translating to more than 1 million people) have either ‘moved-down’ (10%) or ‘added-on’ (11%). More specifically, of those who opened Mzansi in addition to having another bank account (‘add-ons’, at least initially), 37% said they did so because “it was cheaper”. This is consistent with the last bullet point of section 3.3.1 above.

Next, the shaded row in the Table below indicates that 36% of the ‘Already Banked’ (i.e., all those who opened Mzansi after already having another non-Mzansi account) state that they “opened an Mzansi account **to replace another bank account**” (i.e., they closed or stopped using the other bank account). This roughly equates with the move-downs: 36% of the 28% ‘Already Banked’ is around 10% of all openers, which is the percentage of ‘move-downs’ above. Although this is a large number, in the



context of the high NEA churn rates (see section 3.1.2), it appears to have not been too worrying for the banks. Two of the private banks expressed the feeling that, based on balance and transaction activity levels, substantially all of their Mzansi account clients “belong in Mzansi” (the other banks did not comment on this particular issue).

Table 13: Demand-side indication of cannibalization dynamic

Of the "Already Banked": Which of the following statements applies to you?	n = 359		
	All Already Banked	Mzansi Inactive (& Already Banked)	Mzansi Active (& Already Banked)
My bank changed my account to a Mzansi account or Mzansi card	14%	10%	15%
I opened a Mzansi account or Mzansi card in addition to having another bank account or card (kept other account open)	50%	60%	47%
I opened a Mzansi account or Mzansi card to replace another bank account or card (closed or stopped using the bank account)	36%	29%	38%
Other	1%	1%	1%

Source: Mzansi quantitative survey (FinMark/TNS)

Moreover, with respect to the supply-side concerns that allowing debit orders would encourage cannibalization, the actual account usage data reflects that debit orders are not a significant factor for *most* (though not all) Mzansi account holders: most simply do not use them. While further details on this are presented in section 3.4 and certain Tables within Appendix 7, worth noting here is that, *on average* (across the four private banks), each Mzansi account conducts only 0.11 debit orders per month and sends out only 3% of the value of all debit transactions via debit orders. Consistent with this, one bank reports that only around 8% of Mzansi accounts have *ever* used debit orders (only one bank provided such data). This is consistent with the demand-side data, which indicates that only around 7% of current users have *ever* made any form of electronic payments (including debit orders), with 5% saying they do so on a monthly basis and the other 2% less often. For the Postbank, debit order usage is even lower, with an average of only 0.01 debit orders per month per Mzansi account, corresponding to only around 1.0% of the value of all debit transactions (based on its supply-side data).

It is interesting to note that the transaction activity patterns for debit orders for the banks’ respective NEAs are substantially different from such transaction activity patterns for Mzansi accounts. As further outlined in section 3.4 and certain Tables within Appendix 7, compared to the infrequent debit order activity in Mzansi, there is significantly more debit order usage in the NEAs. NEA clients use debit orders seven times more often than Mzansi accounts do: specifically, among the four private banks, NEAs average 0.74 debit orders per month (representing 17% of all debit transactions and 12% of all debit value) compared to 0.11 per month for Mzansi accounts (representing 6% of all debit transactions and 3% of all debit value).

These results beg the question why cannibalization did not occur at a level that the banks were initially so concerned about. An answer may lie in client perceptions relating to the Mzansi account.



- First, as alluded to in Section 2.3.2, the balance and debit transaction limits imposed on Mzansi accounts (e.g., balances cannot exceed \$1,500; monthly debit transactions cannot exceed \$2,500), may be perceived by NEA clients as a significant constraint on Mzansi accounts and a sufficient deterrent to migrate downwards. The quantitative databases indicate that 64% of those who had opened Mzansi were aware that there was a balance limit (which is simply a true statement, and not necessarily an indication of deterrence); and 9% of inactive indicate that they stopped using Mzansi because the limits were too low. Anecdotally, the researchers found that Mzansi account holders were very aware of this issue as a perceived detriment of Mzansi, as reflected in the following comments extracted from the Annex:

“I feel we are left out. If I get a loan of about R15,000, I should be able to deposit it into my Mzansi account.”

(FGT 3)

“[The limits] stop you from doing what you want with your money.”

(FGT 2, MSR notes)

Moderator: *“How does the Mzansi deposit limit make you feel?”*

Participant: *“Honestly, it makes me feel small.”*

(FGT 3 (Annex § I(2)))

In reality, based on average NEA data supplied by the banks (NEA average balance of \$191 and average monthly debits of under \$300), even the Mzansi limits would not constrain most NEA clients.

- Second, and perhaps related, the Mzansi brand is widely perceived – rightly or wrongly; and for better or for worse – as a “poor person’s account”. Sixty-one percent of current Mzansi users “agree” that “Mzansi is seen as a poor person’s bank account” and 69% believe it is a “second rate” account;³⁵ and several of the banks expressed they find this. This brand image may deter brand conscious and aspirant NEA clients from migrating down, as even some entry-level consumers are price inelastic to brand and are therefore willing to pay a premium for brand appeal.
- Third, for those that may be especially price sensitive because they are heavy users of a given bank account, Mzansi’s penalty pricing for high activity (discussed earlier in Section 2) may prevent migration to Mzansi.
- Finally, as presented further in section 3.7 below, there is substantial (mis)perception of perceived weaknesses of the Mzansi product offering, although we do not have comparable data for NEA comprehension to comment whether Mzansi’s misunderstanding is unique to Mzansi or just a symptom of a wider and more general problem. Besides misperceptions, there are some lingering product functionality differences (between Mzansi and NEA), at least with some of the banks: for instance, for at least one bank, while third-party payments are allowed via mobile phone with the NEA, they are not with Mzansi.

³⁵ Mzansi survey. According to FinScope 2008, among those who have heard of Mzansi, 51% of the ‘Currently Banked (excluding Mzansi)’ population “agree” that Mzansi is a “poor person’s account”.



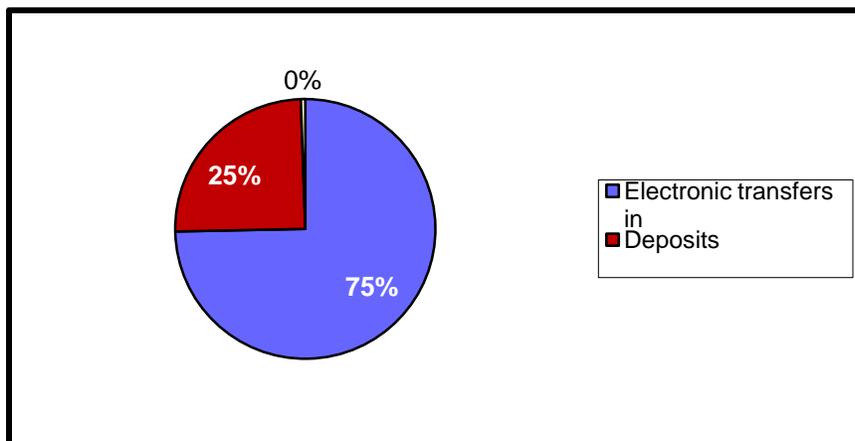
3.4 How have clients used Mzansi?

3.4.1 Dump & pull: Mzansi is used mostly to receive money electronically and withdraw cash

The first Table in section 3.3.1 above indicates that 28% of current Mzansi users say “my Mzansi account is used to receive money (e.g. salary, grant or pension) and then immediately withdraw it”, what has been described as a so-called “dump and pull” usage pattern. The supply-side data, particularly in terms of the heavy usage of cash withdrawals and the low balances, indicates that this 28% figure may be low, although the meaning of “immediately” is of course a bit vague here.³⁶

The first Figure below presents a summary view of the nature of the *monetary value of credits* flowing into the average Mzansi account, across the four private banks. As demonstrated by the 75% blue-shaded section of the pie, the vast majority of credit value – across all four private banks – takes the form of electronic transfers into the account, such as salary direct deposits or government social grants/transfers or perhaps remittances.³⁷ Appendix 7 presents data on the average number of credit transactions, which is 0.96 per month, split roughly equally between electronic transfers in (0.51) and cash deposits at a branch (0.42). This supply-side data roughly coincides with Table 10’s demand-side data indicating that 55% opened Mzansi to receive money from third parties. The supply-side data suggests that approximately half of Mzansi account holders receive monthly electronic transfers (salary, grants or remittances) into the account, and that these account holders are responsible for at least 75% of the Mzansi monetary value flowing through the banks.

Figure 12: Mzansi account profile: Distribution of value of credits³⁸



Source: Bank responses to questionnaire

The next Figure presents a summary view of the nature of the *monetary value of debits* flowing out of the average Mzansi account, across the four private banks. As demonstrated by the 79% blue-shaded section of the pie, the vast majority (79%) of debit value takes the form of ATM withdrawals; and if the maroon piece of the pie is added (reflecting the 12% as branch withdrawals), the total value of withdrawals exceeds 90% of total debit value.³⁹ Appendix 7 presents data on the average number of

³⁶ The question eliciting the 28% allowed only one of four possible answers (see Table 11 above); in a question that asked to “Agree” or “Disagree” with “as soon as money is deposited or received into [my] account, [I] withdraw it”, a much higher 60% said “Agree”.

³⁷ More detailed data on these credit value flows is presented in Appendix 7.

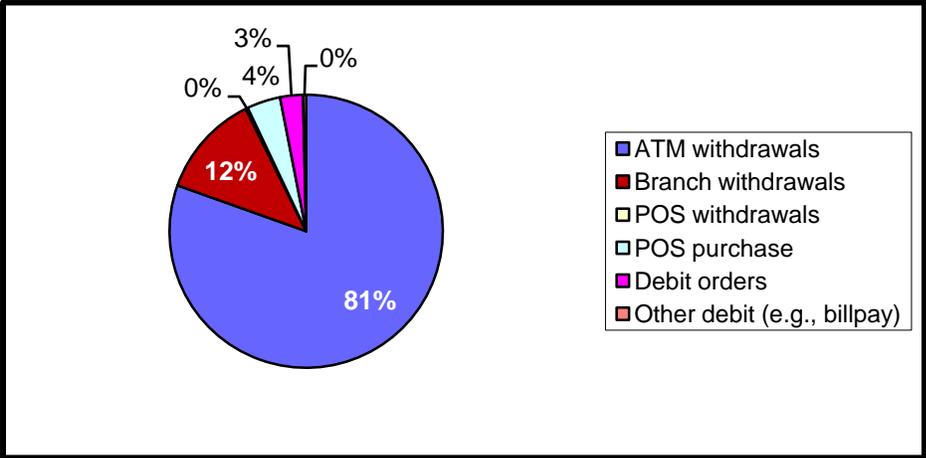
³⁸ This data is the aggregate (unweighted average) for the four private banks.

³⁹ More detailed data on these credit value flows are presented in Appendix 7.



debit transactions, which is 2.0 per month, where the breakdown is consistent with this value distribution (i.e., 1.71 withdrawals, mostly via ATMs).

Figure 13: Mzansi account profile: Distribution of value of debits⁴⁰



Source: Bank responses to questionnaire

The flip side of the heavy withdrawal activity is the fact that there is relatively little debit activity that takes the form as third-party payments (less than 10% of value). Thus, in contrast to the heavy non-cash, electronic transfers flowing into Mzansi accounts (credit patterns described above), substantially all monetary value is flowing out of Mzansi accounts as cash. This indicates that for most Mzansi account holders, at least when it comes to making purchases or paying bills, **cash is still king**; and they are not tapping into the potential efficiencies offered by cashless payment channels (e.g., POS, debit order, ATM billpay, mobile phone airtime top-up, mobile phone payments, etc.).

An interesting activity pattern that is consistent across all the private banks is the relatively heavy usage by clients of their particular bank’s own ATMs (“ATM-on-us”), as opposed to the ATMs of the other three (private) banks (“ATM-not-on-us”). This is despite the special feature of Mzansi which equalizes ATM withdrawal fees across ‘on us’ and ‘not on us’. As shown in the left half of next Table, the average ratio among the four private banks is 6:1 (i.e., around 1.36 ATM-on-us withdrawals per month and only 0.28 ATM-not-on-us withdrawals per month), with a low of around 2:1 at one bank and a high of more than 7:1 at another. Of course, with Postbank, which has no ATMs of its own, all ATM transactions are ‘not on us’.

Table 14: ATM withdrawal usage: ‘On-us’ vs. ‘Not-on-us’ across Mzansi and NEAs⁴¹

Mzansi ATM Withdrawals			NEA ATM Withdrawals		
ATM-on-us	ATM-not-on-us	Ratio	ATM-on-us	ATM-not-on-us	Ratio
1.36	0.28	6.0	2.42	0.35	7.0

Source: Bank responses to questionnaire

⁴⁰ This data is the aggregate (unweighted average) for the four private banks.

⁴¹ The NEA data is the aggregate (unweighted average) for three of the four private banks; the data from the fourth bank was incomplete and therefore was not used.

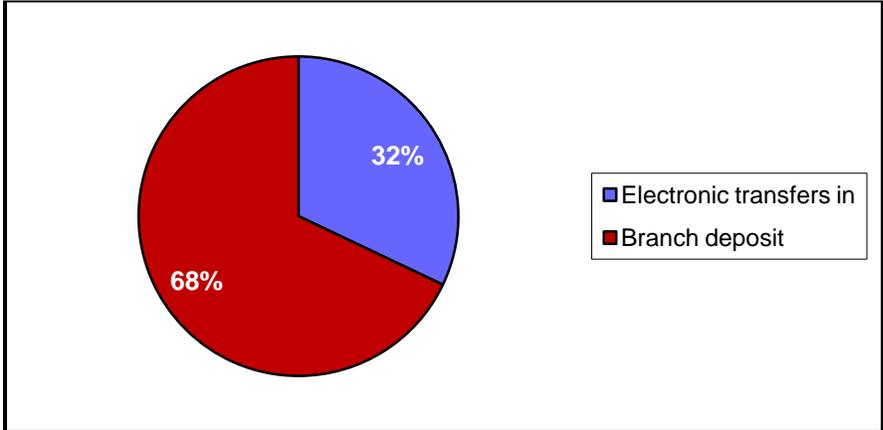


As revealed by the right half of the above Table, this usage pattern – in terms of *ratios* of ATM-on-us to ATM-not-on-us – is similar to the NEAs, despite the difference in fee structure between the two types of accounts. This may be the result of a number of factors including banks not promoting the Mzansi standard ATM fee and customers using ATMs at or near the convenient branch at which they opened their account. In addition, since each bank’s ATMs are slightly different in configuration of screen and functions, Mzansi customers may prefer to keep to using the type with which they are familiar.

The demand-side data also indicates some possible explanation for this client behaviour. Perhaps most significant is that only 1% of current Mzansi users say that a reason for not using the account more often is the inconvenience of ATMs. Of course, since the choice at which bank to open an account in the first place is often tied to convenient ATM access, these patterns may simply reflect this. Also, as presented in Table 24 in section 3.7.2 below, only 41% of Mzansi users correctly stated that “it costs the same to withdraw money at another bank’s ATM as it does at your Mzansi bank’s ATM”, meaning nearly 60% do not know this. Moreover, 31% of Mzansi users do not even know they can use another bank’s ATM at all, never mind for the same fee. This suggests that this usage pattern is at least partly an information/education (or lack thereof) story.

The next two Figures present the distribution of credits and debits for Postbank’s Mzansi accounts, which are noticeably different from the distribution for the four private banks presented in the Figures earlier in section 3.4.1 above, and are worth breaking out separately.

Figure 14: Public sector bank Mzansi account profile: Distribution of value of credits



Source: Bank responses to questionnaire

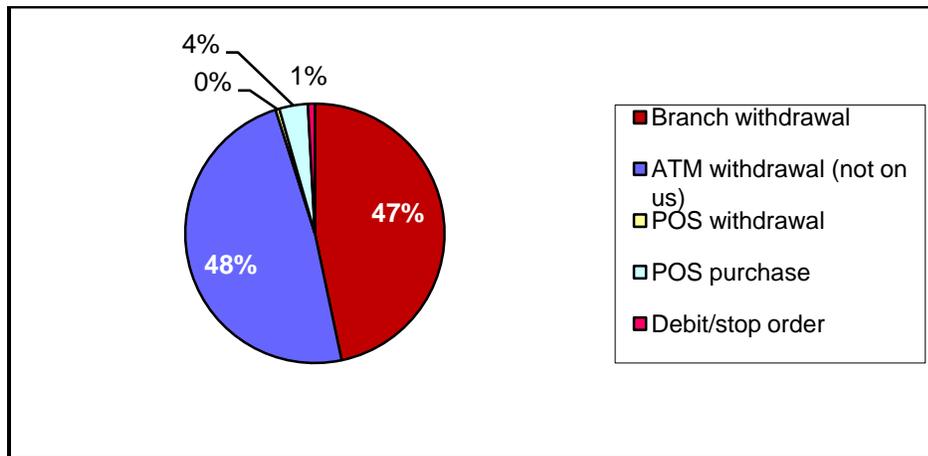
Two patterns stand out, both relating to the relatively heavier use of “branches” by Postbank’s clients than private bank clients.

- First, on the credit side, the **Postbank’s Mzansi accounts receive a significantly lower percentage of credit value via “electronic transfers in”** than the Mzansi accounts at the private banks (32% vs. 75%). Since many of these electronic credits are salary payments from formal corporate employers, the dramatic difference in transaction patterns here may derive from the broad relationships that the four private banks each have with corporate employers, which Postbank does not have. This is confirmed by the last few rows of the Table at the end of section 3.2.3 above, which show that Mzansi openers who are formally employed are much more likely to open at a private bank than Postbank; and by other demand-side data indicating that 36% of private bank Mzansi customers receive salary via



direct deposit versus only 21% of Postbank Mzansi customers (there is no such distinction for grant recipients).

Figure 15: Public sector bank Mzansi account profile: Distribution of value of debits



Source: Bank responses to questionnaire

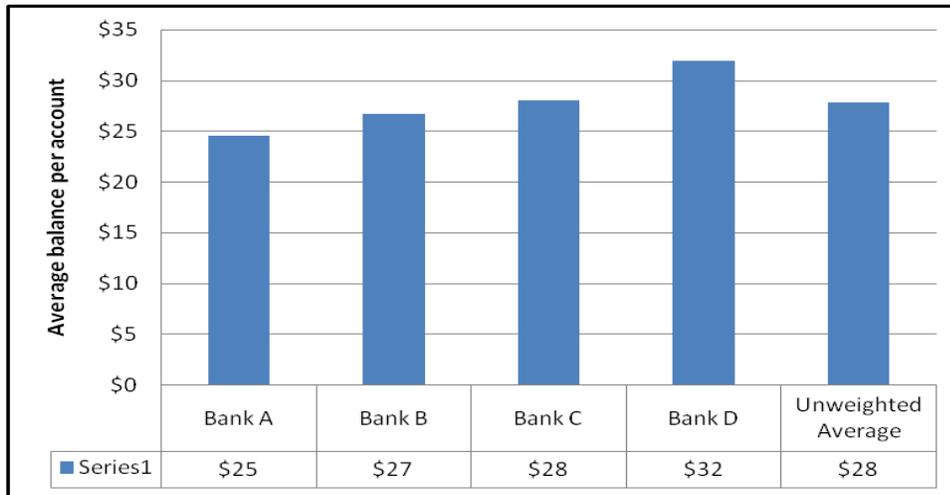
- Second, on the debit side, **withdrawal transactions clearly dominate across all banks**, with 95% of Postbank's debit value and 91% of the private banks' debit value. However, there is a substantial difference in the *channel* used to make withdrawals: where 50% of all of Postbank withdrawal value (47% of all debit value) occurs at the branch, with the rest at ATMs, only 13% of private bank withdrawal value (12% of all debit value) occurs at the branch, with the vast majority flowing through ATMs. This may be due to the fact that Postbank does not have any of its own ATMs, although its clients can use the private bank ATMs for \$0.45, which is essentially the same price that the private bank clients pay (tight range of \$.40-\$.43), and substantially less than the \$0.83 branch withdrawal at Postbank. Perhaps this is another instance of ineffective communication of product feature or channel functionality, or perhaps some other dynamic deterring one bank's customers from using other banks' infrastructure, as we see with the private clients' interesting pattern of ATM-on-us versus ATM-not-on-us withdrawals, discussed earlier. Of course, the lack of awareness around using other banks' ATMs is no doubt a factor here (although Postbank Mzansi customers were only slightly less likely to know that they could withdraw from other banks' ATMs: 64% of Postbank customers knew this compared to 69% across all the banks); as well as the geographical reality of many rural customers of the Postbank, who may have access to Post Office branches but not ATMs.
- The only other noticeable distinction between Postbank and the private banks, from a transaction activity standpoint, is a slight difference in the value of non-withdrawal debits: while both have 4% POS purchases, Postbank has virtually no debit orders while the private banks have 3% debit orders.

3.4.2 Is Mzansi used for savings?

The Figure below presents the *tight range* of average month-end balances (per active account) across the four private banks: A range of \$25 on the low-end and \$32 on the high-end, with an unweighted average of \$28. Postbank reported its 2 million accounts also have an average of \$28.



Figure 16: Average month-end balances (per active account) of the four private banks

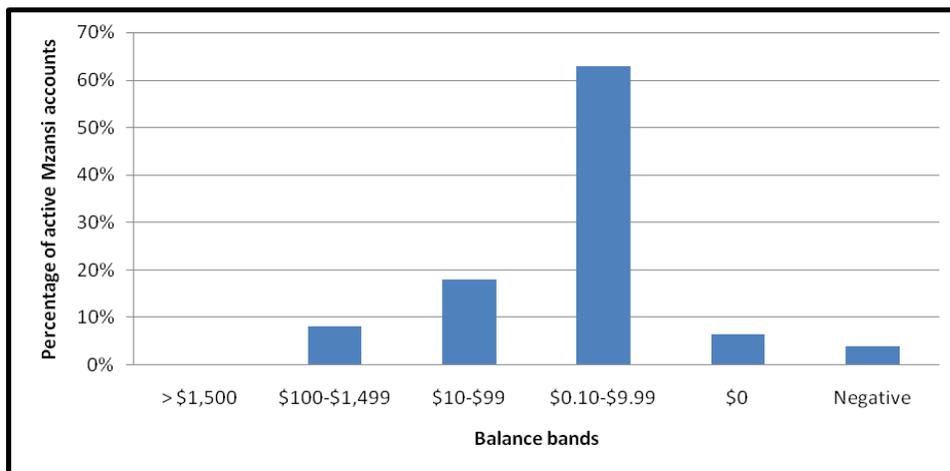


Source: Bank responses to questionnaire

Such *average* balances tell only part of the story. According to balance band data from one of the private banks (the only bank that provided such data), the *median* account balance for active accounts is only around \$6.00. The data from this one bank also indicates that:⁴²

- More than 60% of active Mzansi accounts have a balance between \$0.10 - \$10.00;
- 26% of active Mzansi accounts have a balance over \$10;
- 8% of active Mzansi accounts have a balance over \$100;
- The bulk (70%) of the monetary value of Mzansi balances lies in the \$100-\$1,500 balance band, even though only 8% of active accounts are in this band.

Figure 17: A private bank's distribution of *number of active accounts* across certain balance bands



Source: Provided by one participating private bank

The median data indicates that, in contrast to the aspirations presented in section 3.3 above, there is not much *accumulation* of savings taking place in the vast majority of Mzansi accounts.

⁴² See Appendix 7 for more detailed figures presenting this balance band data.



Arguably, the average balances support this conclusion as well, as the following crude back-of-the-napkin calculation indicates: the industry-wide average Mzansi balance of \$28 is just under half of the average credits flowing into the account on a monthly basis (\$68). Hypothetically, for an account profile where money (e.g., \$68 salary or grant) was deposited on the first day of the month and then completely spent (debited) over the ensuing 30 days (+/-), then we would expect an average daily balance of \$34 if exactly 1/30th (or just over \$2) was debited each day of the month.⁴³ (Of course, this exact pattern is impractical due to the fees that would be incurred for such small debits, but it illustrates the point, even ignoring the fees.) It would be hard to characterize such an account profile as constituting an *accumulation of savings*, even if the account serves as a safe and perhaps convenient *store of value during the month*. Given that the actual average balance for Mzansi of \$28 is even less than this hypothetical \$34, this could suggest that the actual Mzansi account profile may indeed follow the above pattern, except the money is withdrawn even more quickly than 1/30th per day spread out equally over the month: for instance, withdrawing two weeks' worth of money within a few days after the income was first received, and the balance two weeks later (mid-month). The average number of withdrawals from an Mzansi account is 1.7 per month.

3.4.3 Mzansi accounts are used much less intensively than NEAs

We asked each bank to provide certain data from the account which they determined to be their "Nearest Equivalent Account" to Mzansi. These were:

- Standard Bank: E-plan Account
- ABSA Bank: Flexi Account
- Nedbank: Transactor Account
- FNB: Smart Account

Given the similarity of the Mzansi transaction and balance profile across all banks, it is striking that the transaction profile of Mzansi accounts is so distinct from the level and pattern of usage for the banks' NEAs⁴⁴: as the Table below shows, NEAs are more heavily used (more than double the average number of transactions per account per month). It is not surprising, however, that substantially larger monetary values flowing into and through the average NEA account (4.3 times Mzansi), and with substantially larger average balances per account (6.0x).⁴⁵

The average number of monthly transactions for Mzansi accounts is 3.31 (with a rather tight range of 2.63 to 3.79) and is 7.28 for the NEAs (with a wider range of 5.23 to 8.87).⁴⁶ With respect to the average amount of monetary value flowing in and out of the respective accounts each month, where just under \$70/month flow both in and out of each Mzansi account (with a rather tight range of between \$64-\$75),

⁴³ For those banks that also provided average daily balances, this amount was not materially different from the month-end balances; and so would not affect this analysis.

⁴⁴ Since the Postbank did not provide any account profile data for its NEA (either its Flexi Pension or Flexi Debit accounts), the NEA data used for comparison here is only for the private sector banks (aggregate unweighted average). Also, for transaction activity comparisons (both number of transactions and monetary value), the NEA average is based on only three of the private banks since one of the private banks' data could not be distilled into a like-for-like comparison.

⁴⁵ Note that the demand-side data presented elsewhere indicates that a number of Mzansi account holders have multiple accounts, often at different banks. Therefore, usage *per account* is not necessarily the same as usage *per client*.

⁴⁶ See Appendix 7 for the supporting data, including a more detailed comparison. Also, refer to Appendix 7 for the tight range of transactions across the four banks' Mzansi accounts; comparable data for the NEAs is not provided for confidentiality reasons.



around \$300/month worth of both credits and debits (each) (with a wide range of between \$200-\$500) flow to and from NEAs.⁴⁷

Table 15: Summary comparison of Mzansi transaction profiles to that of NEAs

	Mzansi	NEA
Average # of monthly transactions:	3.3	7.3
Information queries	0.3	0.6
Credit transactions	1.0	2.2
Debit transactions	2.0	4.5
ATM withdrawals	1.6	2.8
Average monthly value of credit inflows	\$68	\$300
% of credit value flows via electronic transfer	75%	66%
% of credit value flows via manual deposit	25%	34%
Average fee revenue per active account	~ \$1.40 (4 private banks)	~ \$5.00 (2 private banks)

Source: Bank responses to questionnaire

There are further interesting similarities and distinctions between the Mzansi average account profile and the average NEA account profile.

- With respect to debit transactions (excluding fees):
 - As with Mzansi (91%), the vast majority of NEA debit value (76%) flows out of the accounts as withdrawals; though worth noting is that Mzansi account holders use electronic channels (ATMs or POS) for these withdrawals a bit more often (around 87% of withdrawals are via ATM) than the NEA account holders (around 77% of withdrawals are via ATM or POS).
 - NEA account holders use the account to pay third-parties substantially more than Mzansi (21% vs. 7% of all debits).
- On the credit side, both Mzansi and NEAs are funded primarily via electronic transfers in, with Mzansi again slightly outpacing NEAs (75% vs. 66%) in use of the electronic channel.

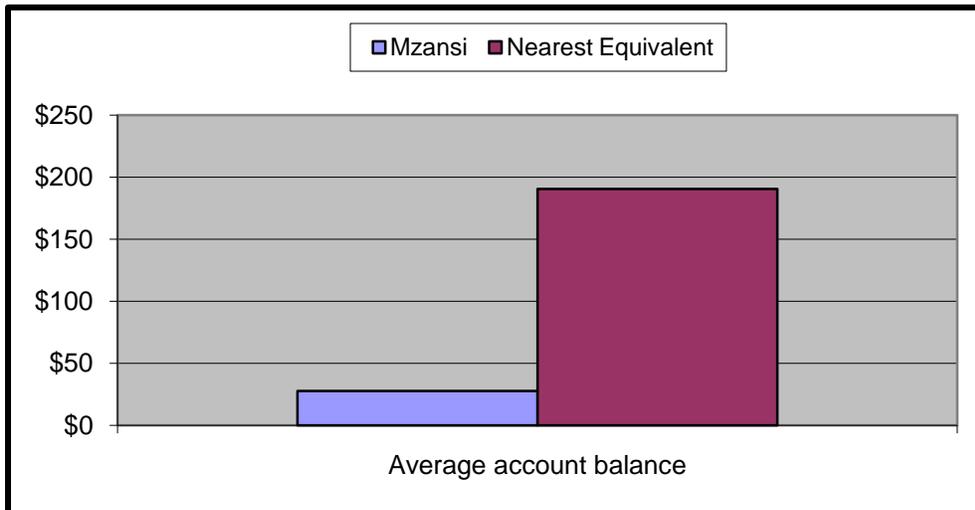
With respect to average account balances, as partly depicted in the next Figure, the NEA average balances (aggregate average of \$191, with a range of \$135-\$240) are substantially higher than those for Mzansi (aggregate average of \$28, with a tight range of \$25-\$32). We have no data on median balances for any of the NEAs. The higher average balance in the NEAs (6.0 times higher) appears to be mostly a mere reflection of the higher monetary values flowing into the NEAs on a monthly basis (4.3 times higher), with perhaps some attributable to a greater ability of NEA users to accumulate savings than Mzansi users.⁴⁸

⁴⁷ See Appendix 7 for the supporting data, including a more detailed comparison. Please note that the monetary value data appears imprecise, and could not be clarified with more precision despite efforts. The Mzansi data seems pretty solid (though not perfect), especially given the reasonable uniformity across the four banks. However, the NEA data is less solid, because certain data was internally inconsistent (within the single bank) and could not be cross-checked against other bank activity, since the product features and marketing are, unlike Mzansi, not uniform across banks. Nevertheless, the general distinction seems to come through: namely, that the value flowing through NEAs is several times (around 5x) that flowing through Mzansi; and the number of transactions is a bit more than double.

⁴⁸ This conclusion follows from the rationale underlying the analysis done at the end of sub-section 3.4.2 above, with respect to the connection between the average account balance and average monetary inflows, and how quickly money is spent versus stored or accumulated over time.



Figure 18: Average account balances: Comparison of Mzansi to NEAs⁴⁹

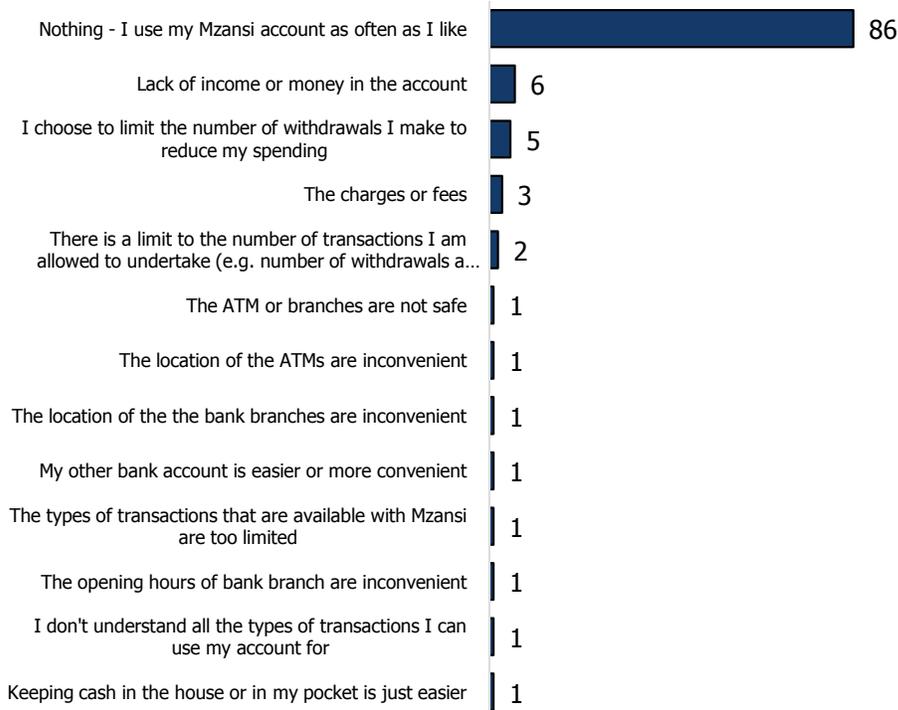


Source: Bank responses to questionnaire

3.4.4 Do Mzansi users want other formal financial products or services?

Mzansi account holders express mixed views on desires for additional financial services. As shown in the Figure below, 86% say they already “use it as often as [they] like”, indicating that they are at least content with the level of activity on their Mzansi account.

Figure 19: Reasons for not using Mzansi more (percentage of Active users)



Source: Mzansi quantitative survey (FinMark/TNS)

⁴⁹ This data is the aggregate (unweighted average) for the four private banks.



It is noteworthy that neither the fees nor geographic access are barriers to greater usage of Mzansi. This data is consistent with the focus group feedback, where none of the participants mentioned either cost or distance to branch locations as an obstacle (see Annex for more on this).

Table 16: Mzansi users’ desire for more financial services

Desired Mzansi products and services not currently being used	Mzansi Active
Services already available (at least to some extent by some banks)	
Cellphone banking	34%
Withdraw cash at retail store	27%
Purchase items at retail store using card	27%
Electronic payments	23%
Direct debits and stop orders	21%
Internet banking	11%
Receive grant/pension directly into account	8%
→ At least one of the above 7 items	84%
Services that could be made available relatively easily	
Mzansi funeral policy	38%
Mzansi education savings plan	26%
Mzansi insurance	18%
→ At least one of the above 3 items	60%
Services not easily provided	
Mzansi loan	28%

Source: Mzansi quantitative survey (FinMark/TNS)

Although only 1% of Mzansi users say “the types of transactions that are available with Mzansi are too limited”, the Table above suggests that there is in fact a substantial desire to use financial services not currently being used.⁵⁰ 100% of Mzansi Active indicated a desire for at least one of the additional services listed in the Table below; and a third indicated a willingness to “move banks and pay a little more” in order to access the service (ranging from 20%-36% for each particular service).

Note that many of the desired services above are in fact currently available with the Mzansi account, at least to some extent and/or by some of the banks: of the currently available services, 84% of Mzansi Active expressed a desire and 28% of whom indicated a willingness to move banks and pay for it.

“It is better for me to swipe with my Mzansi debit card instead of withdrawing because I have found that it is cheaper to swipe than to withdraw from an ATM.”
(FG2, p. 47)

“With cell phone banking, you do everything at home, like you pay your electricity, and [other] accounts. You have saved money, time, energy, and even standing in the queue at the bank.”
(FGT 4, p. 2)

“I like the notification to my cell phone which is given when I make transactions by phone. It is very helpful.”
(FGT 2, MSR notes)

⁵⁰ Worth noting is that the question underlying the above Figure was asked prior to that underlying the subsequent Table, and perhaps – not yet knowing or thinking that such additional services existed or were available – customers/respondents were content until the idea of these additional services were presented to them.



Though anecdotal, for those that are aware of these options and actually try it, the benefits are appreciated, illustrated by the above excerpts from participants in the focus groups (Annex § I(1.4)).

Moreover, some other services (such as funeral policies, education savings plans and other insurance) could probably be added relatively easily to the Mzansi offering: after all, many of the private banks already offer these to NEA clients.

3.5 Who lapsed and why?

As we first presented in section 3.1 above, at least among the four private banks, there is a substantial difference between the number of accounts opened and the number of accounts still classified as active. By definition, the so-called inactive accounts constitute this difference. Given the very large numbers of inactive accounts, a trend we knew before commencing this research project, a primary focus of the demand-side research was to try to better understand what lies beneath this dynamic.

The following Table provides an abridged summary of the reasons why people closed or stopped using their Mzansi accounts. The first two rows of the Table reveal two different reasons why people stop using their Mzansi account: one is a generally negative story (“not enough money”); the other is more positive (“moved up”). A deeper analysis of other characteristics of those going inactive reveals two very different profiles of people, consistent with these diverging stories.

Table 17: General reasons for stopping use of Mzansi account

Of all Inactive: For what reason did you close or stop using your Mzansi account? <i>These are summarized groupings of more specific responses.</i>	Mzansi Inactive	Already Banked	First-time Banked
Not enough money ⁵¹	51%	49%	52%
Moved "up" (encouraged or needed to) ⁵²	28%	23%	30%
Dissatisfied with the offering ⁵³	26%	36%	22%

Source: Mzansi quantitative survey (FinMark/TNS)

“I stopped using my Mzansi account because I lost my job.”
(Annex § I(3): FGT 1, p. 22)

“I changed because Mzansi was not good enough for me.”
(Annex § I(3): FGT 2, p.36)

As shown in the Table below and highlighted further in the pie-chart Figures following it, on the one hand, approximately half of the Mzansi Inactive population (maroon-shaded parts of the Table and Figures below) has a non-Mzansi bank account (49%), is fully and formally employed (44%), are in LSM 6-

⁵¹ This aggregates three answers (eliminating overlap between them): “I became unemployed or no longer had an income and had no money to put in”; “I earn too little to make it worthwhile”; or “I no longer had money to save”.

⁵² This aggregates four answers (eliminating overlap between them): “employer told me to get a non-Mzansi account”; “the bank offered me a better account or persuaded me to take a different account”; “got regular employment or better paying job and needed more features or higher limit”; or “money in the account was higher than the limit”.

⁵³ This aggregates nine answers (eliminating overlap between them): “didn’t like Mzansi brand”; “interest too low”; “branches/ATMs too far away”; “did not like branch”; “bank had poor service”; “bank was unhelpful when I had a problem”; “charges too high”; “delay on debit orders”; or “delay in accessing salary”.



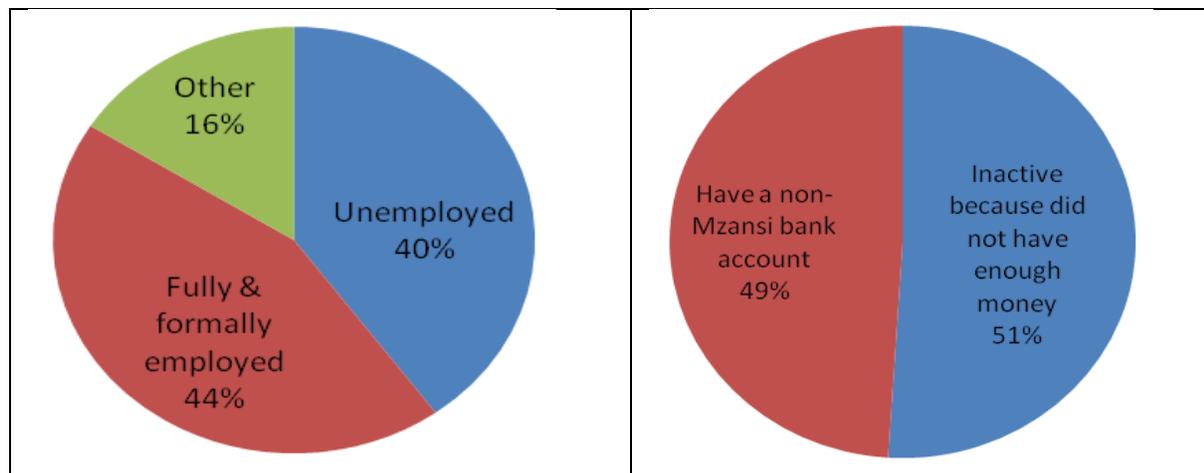
10 (the upper half of South Africa’s wealth pyramid) (56%) and/or have a monthly income above \$200 (32%); while, on the other hand, approximately half (blue-shaded parts of the Table and Figures below) don’t have any bank account (51%), are unemployed (40%), are in LSM 1-5 (44%) and/or say that the reason they stopped using Mzansi is because they don’t have enough money (51%). The subsequent Figures then simply provide alternative views for some of the information contained in the following Table.

Table 18: Contrasting profiles of Mzansi Inactive population

	Profile A	Profile B
Have a non-Mzansi bank account	49%	
Formally employed full-time**	44%	
Unemployed**		40%
Stopped using Mzansi because moved up ⁵⁴	28%	
Stopped using Mzansi because dissatisfied with the offering ⁵⁵	26%	
Stopped using Mzansi because did not have enough money ⁵⁶		51%
Monthly income above \$200**	32%	
Monthly income between \$0-\$199**		62%
LSM 1-5**		44%
LSM 6-10**	56%	

Source: ** Indicates FinScope 2008; otherwise Mzansi quantitative survey (FinMark/TNS)

Figure 20: Contrasting profiles of Mzansi Inactive population



Source: Mzansi quantitative survey (FinMark/TNS)

The above-described broad dichotomy is illustrative from a financial inclusion perspective. It appears that approximately half of the substantial Mzansi Inactive population remain a part of the formal banking system, notwithstanding their having dropped Mzansi; while the other half are no longer part of that formal system at all.

⁵⁴ This aggregates four answers, as described in prior Table.

⁵⁵ This aggregates nine answers, as described in prior Table.

⁵⁶ This aggregates three answers, as described in prior Table.



3.6 Do Mzansi openers use other financial products?

3.6.1 Does Mzansi lead to opening other bank accounts? (Gateway 1 and Move-ups)

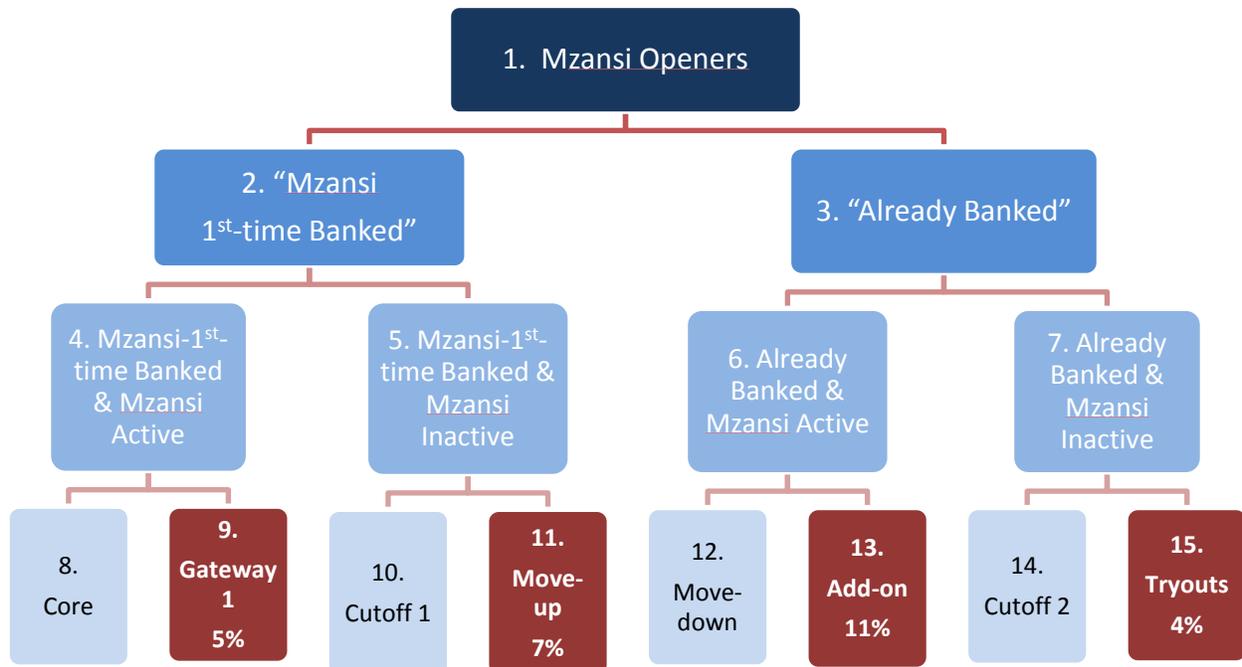
The Mzansi-specific survey indicates that approximately 28% of all those who opened an Mzansi account currently have a non-Mzansi account. This includes four of the eight sub-segments introduced earlier in section 3.2.2 above: the ‘Gateway 1’ group; the ‘move-ups’; the ‘add-ons’; and the ‘tryouts’ (see maroon-shaded boxes in bottom row of the first Figure below). In other words, this includes some of those who still have Mzansi and some who do not; and it includes some of those who had a non-Mzansi account before Mzansi and some who did not.

Of particular note is Group # 11 (the ‘Move-ups’) from the Figure below. While this group is only 7% of all Mzansi openers, it represents almost half of Group # 5 above (i.e., those who both (a) had never been banked before Mzansi (‘First Banked’) and (b) no longer use Mzansi (‘Inactive’)) who currently have a (non-Mzansi) bank account. This is noteworthy because it implies the following progression:

- (i) these people never touched the banking system before Mzansi;
- (ii) then Mzansi introduced them to banking;
- (iii) they then dropped Mzansi; and
- (iv) they moved ‘up’ to other more mainstream bank accounts: presumably (but not necessarily) to a ‘NEA’ at one of the five Mzansi banks or another bank such as Capitec.

This particular dynamic may represent Mzansi at its best for the banking system: it has functioned as an entry-level from which these people have gone on to open and operate an account offered by a bank for purely commercial motivations.

Figure 21: Breakout of sub-segments of those who currently have a no-Mzansi bank account



Source: Mzansi quantitative survey (FinMark/TNS)



This 'Move-up' story is bolstered by the dynamic reflected by Group # 9 ('Gateway 1') in the above Figure. Among Group # 4 (i.e., those who both (a) opened Mzansi as their first bank account ever (First-time Banked) and (b) are still using Mzansi (Active)), Mzansi remains the only account for the overwhelming majority (90%) of this group. However, for the other 10% of this Group # 4 (the 'Gateway 1', representing 5% of all opened accounts), they have opened and currently use a (non-Mzansi) bank account in addition to their active Mzansi account.

If we add these two groups together (# 9 & # 11), they represent 12.6% of all opened Mzansi accounts, which translates into approximately 750,000 account holders (when applied to the aggregate account openings of 6.0 million).

While these dynamics may be helpful for the banking sector, they are only helpful to individual banks if the upward migration happens *in the same bank*: otherwise, they have incurred the cost of the Mzansi start without the benefit of the more lucrative product later. In fact, among the "First-time Banked" who go on to open a non-Mzansi account (whether they keep Mzansi active or not), it appears most tend to do so at the same bank at which they opened Mzansi. So, the gateway dynamic appears to be primarily intra-bank: Mzansi introduces a substantial group of customers to their bank. Among all five banks, 12% of the First-time Banked have gone on to open a non-Mzansi account *at the same bank* they opened Mzansi. The proportion is higher for the four private banks (14% in aggregate) than for the Postbank (7%); with the individual private bank percentages ranging from a low of 10% to a high of 22%. Since 68% of Mzansi openers are First-time banked, this 12% of First-time Banked percentage equates to 8% of all Mzansi openers, which in turn translates into approximately 500,000 accounts (when applied to the 6 million total opened accounts).

3.6.2 Does Mzansi lead to using other formal financial services? (The 'Gateway 2')

The demand side data indicates that Mzansi has not been a powerful force for leading people to take-up formal financial products other than bank accounts which were considered above; that is, we now consider only credit, insurance, investment or other savings products and services (see definition for *formal* products at bottom of the first Table below).

The following Table actually suggests a high incidence (46%) of take-up of at least one formal financial product *at some point* in a person's life amongst all those who have opened Mzansi accounts; however, most of those who have taken up other formal financial products had done so *before* opening Mzansi. In this regard, there is a significant difference between the First-time Banked (36% have taken-up another formal financial product *at some point* in their lives) and the Already Banked (73% have done so); and also between the Lapsed Up (79%) and all others (Mzansi Active at 42% and Lapsed Out at 38%).⁵⁷ Amongst all sub-groups (each column in the Table above), the amount who had opened such a product for the first time before Mzansi significantly exceeds the amount who opened one only after Mzansi, although the difference is much more substantial for the Already Banked (63% before Mzansi compared to merely 8% after) than for the First-time banked (21% before Mzansi compared to 13% after).

Even the relatively low percentages of those taking up formal financial products only after opening Mzansi are still large when translated into number of individuals (e.g., 11% of the total opened accounts yields around 650,000 people). However, given the relatively high incidence of Mzansi clients already using formal products before Mzansi, we cannot attribute causation among these 11% to opening

⁵⁷ "Lapsed up" and "Lapsed out" are defined in the right two columns of the next Table.



Mzansi alone. It is possible that this may be more a matter of chronological coincidence than the impetus created by Mzansi.

Table 19: General take-up of other formal financial products relative to Mzansi status

Adoption of any formal financial product relative to opening Mzansi	All those who opened Mzansi	First-time Banked	Already Banked	Mzansi Active	Lapsed Up (Mzansi Inactive who currently have a non-Mzansi bank account)	Lapsed Out (Mzansi Inactive who currently do not have any bank account)
Had or have now at least one formal product*	46%	36%	73%	42%	79%	38%
Opened formal product* BEFORE opened Mzansi	32%	21%	63%	30%	51%	28%
Opened formal product* AFTER opened Mzansi AND did not have one BEFORE Mzansi	11%	13%	8%	10%	26%	7%

* **“Formal product”** includes any of the following: **CREDIT** (credit card; store card or account; petrol card; personal loan from bank or retailer; paying for goods via instalments; auto loan from bank or dealer; home loan); **INSURANCE** (auto; household contents; house; cell phone; life; disability; medical; funeral policy from bank, insurance company or funeral home); or **SAVINGS/INVESTMENT** (education policy; savings or investment policy; unit trust/mutual fund; shares on stock exchange; retirement annuity; pension or provident fund; money market transfer account).

Source: Mzansi quantitative survey (FinMark/TNS)

The following Table analyses the details of this incidence of other formal financial products and presents the most popular formal products. The Table lists all formal products that have a take-up rate of at least 5% amongst all Mzansi openers.

There is a significant difference between the First-time Banked and Already Banked, with every product taken up 2-4 times more often by the Already Banked than by the First-time Banked. This not too surprising, as one would expect those who had already opened a bank account prior to opening Mzansi to also have more experience with other formal financial products, other things being equal.

There is an even more dramatic difference between the Lapsed Up and Lapsed Out, with the incidence much higher amongst the Lapsed Up, which is again not surprising. The difference here is less dramatic with the top three products above (store card, instalment purchase, funeral policy with funeral home) as many from the Lapsed Out segment actually have a fair amount of experience with these top three products; but the difference is quite dramatic for each of the other six products, with five of the six showing an incidence amongst the Lapsed Up greater than 10-to-1 that of the Lapsed Out.



Table 20: Take-up of most common formal financial products by Mzansi openers

Adoption of most popular formal products (either have now or had in the past); not relative to Mzansi adoption	All those who opened Mzansi	First-time Banked	Already Banked	Mzansi Active	Lapsed Up (Mzansi Inactive who currently have a non-Mzansi bank account)	Lapsed Out (Mzansi Inactive who currently do not have any bank account)
Store card	29%	22%	50%	25%	60%	25%
Instalment purchase	19%	13%	34%	16%	38%	18%
Funeral policy with funeral home	16%	12%	27%	16%	25%	12%
Funeral policy with bank or insur co.	15%	9%	29%	14%	32%	1%
Life insurance	7%	5%	15%	7%	18%	1%
Medical insurance	6%	4%	10%	5%	15%	0%
Retirement fund	6%	3%	13%	5%	15%	1%
Education policy	6%	4%	9%	5%	14%	1%
Other savings/ investment policy	5%	3%	11%	4%	13%	2%

Source: Mzansi quantitative survey (FinMark/TNS)

3.6.3 What is the incidence of informal financial product usage by Mzansi openers?

Of course, people in all of the various segments discussed in this report use not only formal financial products to manage their money but also informal financial products. Although this research was primarily focused on a particular form of formal product, we sought to get some perspective of the overall financial portfolio of individual Mzansi users. Obtaining detailed insights into where exactly Mzansi fits in the asset portfolio of Mzansi users (or their households) is not possible through the one off survey methodology employed in this project but may be obtained through the *Financial Diaries* methodology, which tracks household finances on an ongoing basis over time though typically with a smaller sample size.⁵⁸ Financial Diaries were undertaken in South Africa pre-Mzansi in 2004, and refreshing the Diaries panel now may yield interesting results.

However, using the available demand side data, the following Table presents the most popular forms of *informal* financial products, and lists all informal products that have a take-up rate of at least 5% amongst all those who have opened Mzansi. Two aspects stand out: First, there is again a higher incidence of all these informal products with the Already Banked compared to the First-time Banked and with the Lapsed Up compared to Lapsed Out (except for keeping cash at home, which is roughly equivalent for both Lapsed sub-segments). Second, however, the differences are much less dramatic than they were for the formal products, with the differences here being no higher than a factor of 2.5-to-1, and several less than 2-to-1.

⁵⁸ See Bankable Frontier Associates, 2008, “Segmenting the markets for savings among the poor across countries”, report prepared for The Bill & Melinda Gates Foundation.



Table 21: Take-up of informal financial products by Mzansi openers

Adoption of most popular informal products (either have now or had in the past); not relative to Mzansi adoption	All those who opened Mzansi	All First Banked	All Already Banked	Mzansi Active	Lapsed Up (Mzansi Inactive who currently have a non-Mzansi bank account)	Lapsed Out (Mzansi Inactive who currently do not have any bank account)
Borrow from friend or family member	42%	36%	59%	39%	67%	38%
Burial society	29%	26%	38%	29%	40%	19%
Stokvel or other saving club	16%	12%	26%	14%	27%	17%
Keep cash at home	14%	10%	25%	13%	18%	16%

Source: Mzansi quantitative survey (FinMark/TNS)

3.7 How was Mzansi marketed and how is it perceived?

The term “marketing” here includes not only out-of-pocket advertising expenditures to *promote* the product, but also the design of the *product* itself and its *price* structure; as well as, ultimately, the net effect of the related communications to the customers (or potential customers), which can take the form as perceptions about the product. The product design and pricing have already been discussed in other sections of this report. This section focuses on the promotion and resulting perceptions of the product.

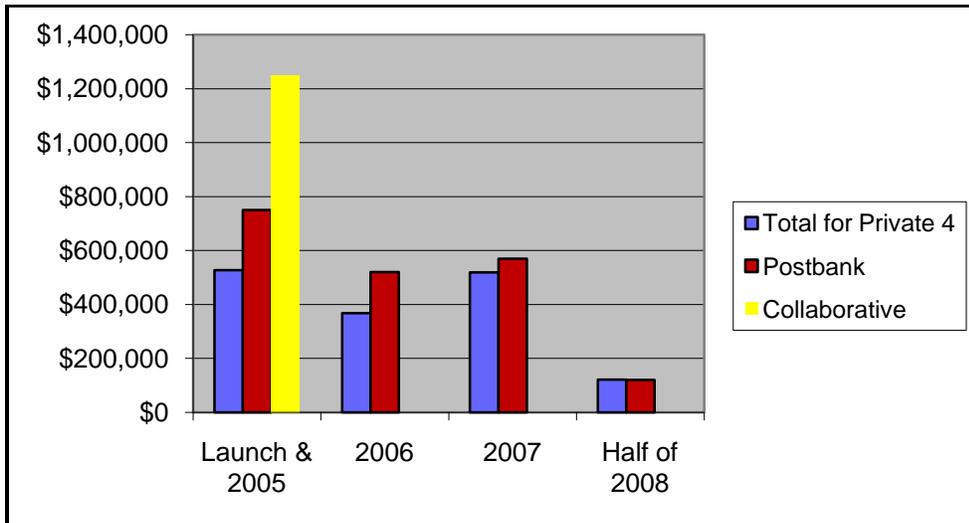
3.7.1 How was Mzansi promoted?

The Mzansi Initiative included a collaborative effort at the outset to promote the new offering under one umbrella brand by banks which already had a combined 85% retail banking market share, together with the Postbank.

The Mzansi Initiative meant that promotional efforts for Mzansi were not ‘wasted’ on competitive differentiation, but rather common marketing at least at first, and thereafter every Mzansi-related message from each bank would serve to reinforce the Mzansi brand. There was in fact fairly extensive marketing collaboration by the private banks at and soon after launch, costing around \$2.5 million as shown in the Figure below. Around half of this amount was collaborative spend, where all participating banks made equal contributions to the cost of national branding efforts (represented by the yellow bar in the Figure below). However, after the first year, the majority of Mzansi-specific promotional activity has been carried by Postbank, and there has been no further joint expenditure on marketing.



Figure 22: Annual marketing expenditures on the Mzansi Initiative⁵⁹



Source: Bank responses to questionnaire

Figure 23: Selected pictures from Mzansi launch



Source and copyright: Colin Donian

⁵⁹ The collaborative expenditures in the first column (launch & 2005) reflect an estimate based on multiplying data provided by one bank multiplied by five, as it is our understanding each bank contributed 20% of the collaborative spend.



However, the Mzansi Initiative benefitted from a tremendous amount of “free” advertising. The collaborative launch was a high profile event (see above photos) and the subsequent rapid take-up became a significant news story in and of itself, because it was one of the first tangible outcomes of the much publicized Charter. It was also the embodiment of the “national bank account” concept that had been previously publicized, and thus received substantial media coverage that purely private product offerings rarely receive.

Table 22: How did Mzansi openers first learn of Mzansi?

What initially made you think of opening a Mzansi account? (Multiple responses possible.)	All Mzansi Openers
Word-of-mouth (“My friends or family told me about Mzansi”)	49%
Bank channels (in branch ad or staff; promotional tent; on-the-street promotions)	43%
Media (ad on TV or radio; read about it in newspaper;	26%
Employer (“My employer told me about Mzansi”)	9%

Source: Mzansi quantitative survey (FinMark/TNS)

In fact, the media promotion—whether paid or free—may not have been the most significant factor in the take-up. As the Table above shows, half of Openers heard about Mzansi by word of mouth (friends and family, although they may have in turn heard from the media); with nearly as many being exposed to it via direct bank channels (in a branch or first-hand promotions). Only one in four report that media (TV, radio or newspaper advertising or story) made them think of opening the account. This certainly raises questions about how best to promote low end products like Mzansi going forward.

3.7.2 How effective was the marketing?

Although Mzansi attracted substantial publicity in various forms in the early years, it is surprising that a large number of people have still never heard of the Mzansi bank account: 34% of all South African adults (11 million individuals). Among them are almost half of the ‘Never Banked’ and a third of the ‘Currently Banked’ (obviously excluding those with Mzansi accounts). This failure to get the message out has limited the reach of the product even to ‘easy to serve’ groups: among those who have never heard of Mzansi, 830,000 are unbanked but either formally employed or else have a monthly income of at least \$200. Sub-segments like these are logical targets for promotion.

Of the two thirds of South Africans who have heard of Mzansi (including more than half of the Never Banked segment), Mzansi is overwhelmingly perceived as “a product for all South Africans”, although around half also perceive it a “poor person’s bank account” or “for low income earners only”. The proportion who say this is higher among those who have actually opened Mzansi accounts than those who have not. Although 69% of openers view Mzansi also as a ‘second rate’ account (which is linked to but goes beyond the ‘poor person’s account’ image), almost all agree that it “gives low income people the opportunity to have a bank account”. This suggests that while Mzansi does not confer status on its holders (probably the reverse), it is still recognized as an opportunity and even appropriate starting point for poor people.

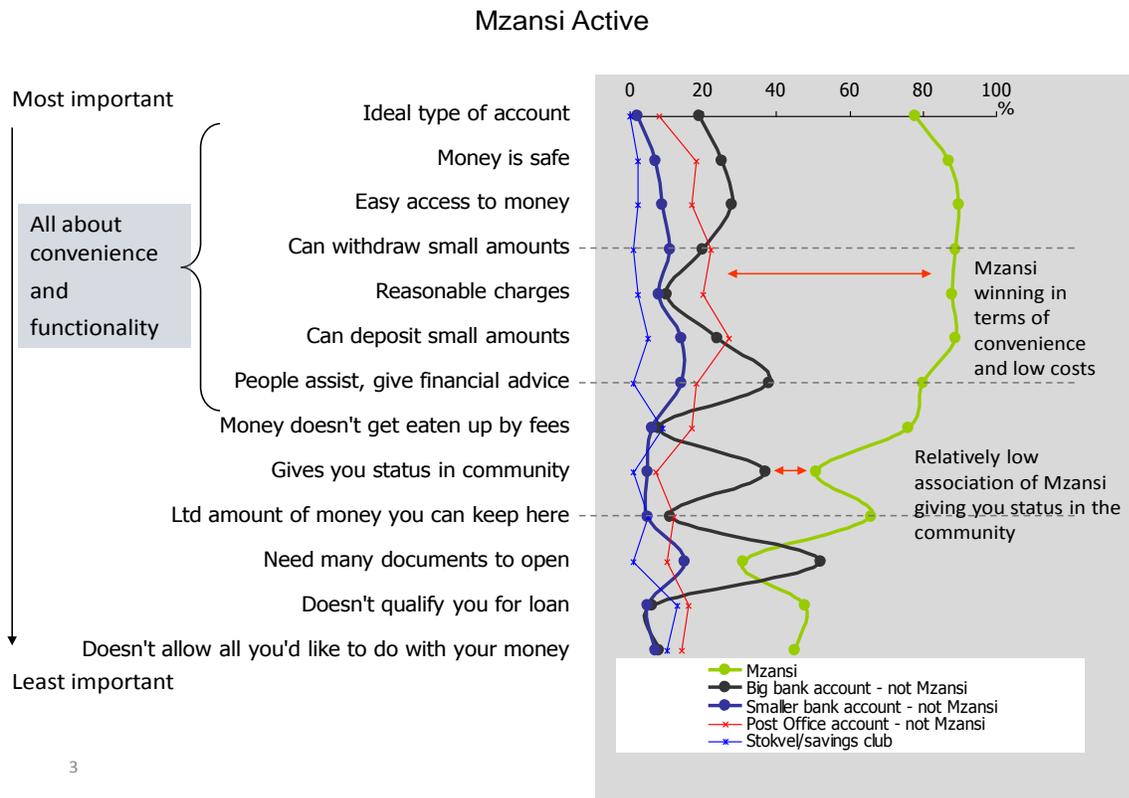


Table 23: Mzansi perceptions

Of those who have heard of Mzansi, % agreeing with the following statements	All South African Adults	Currently Banked (Not Mzansi)	All Mzansi openers ⁶⁰	Never Banked
Mzansi is a product for all South Africans	89%	87%	96%	90%
Mzansi is seen as a poor person's bank account	51%	51%	61%	46%
Mzansi is a second rate account	Not asked	Not asked	69%	Not asked
Mzansi is an account for low income earners only			81%	
Mzansi gives low income people the opportunity to have a bank account			92%	

Source: FinScope 2008 for first two rows; otherwise Mzansi quantitative survey (FinMark/TNS)

Figure 24: Mzansi attributes as perceived by active holders



Source: TNS, based on Mzansi quantitative survey (FinMark/TNS)

That Mzansi is nevertheless an opportunity for poor clients is brought out in the above Figure which compares the ranking of desired attributes by Mzansi active clients. These clients appear happy with

⁶⁰ There were no significant differences in this figure among the Mzansi sub-segments, either in FinScope or the Mzansi survey.



the convenience and lower cost, which they rank higher than status, where they recognize Mzansi to be lower than bank products. The same charts for Mzansi clients who have lapsed (usually in favour of NEAs) indicate that the low status of Mzansi is relatively more important in their decisions.

Do Mzansi openers understand the product features? We have already seen some indication that Mzansi users did not fully understand the offering, demonstrated in their desire for specific additional services even though many of these are already available.

The following information and subsequent Table tests how well those who opened Mzansi accounts understand certain basic aspects or features of the account against the product rules.⁶¹ The Table highlights in blue those questions where a majority of respondents answered incorrectly i.e. did not understand. There were no significant differences in responses across different sub-segments of Mzansi users (e.g., the Active were just as accurate/inaccurate as Inactive) hence we show the proportion of all openers.

Table 24: Mzansi openers' degree of understanding Mzansi product features

Statements about various aspects of the Mzansi account. (Highlighted rows are those where more than half of respondents answered incorrectly.)	Is the statement actually true or false?	All those who opened Mzansi** (% answering True)
You need an ID book to open an Mzansi account	True	95%
You need to show proof of residence to open Mzansi	False	81%
You must show a payslip in order to open Mzansi	False	14%
You can open Mzansi at any of the big banks	True	94%
You can only open Mzansi at the Post Office	False	13%
You can withdraw from another bank's ATM	True	69%
It costs the same to withdraw money at another bank's ATM as it does at your Mzansi bank's ATM	True	41%
You can use Mzansi card at till instead of cash	True	66%
It is easy for employer to send money to Mzansi	True	65%
There is a limit to the amount of money you can have in an Mzansi account	True	64%
You get one free monthly deposit with Mzansi	True	39%
You get some free monthly withdrawals with Mzansi	False	60%
You are allowed only a limited number of withdrawals per month	Ambiguous	52%
If you don't have money in the account, it eventually closes	Ambiguous	53%
If you don't use the account for several months it eventually closes	Ambiguous	51%

** There were no significant differences in answers across different sub-groups of those who opened Mzansi.

Source: Mzansi quantitative survey (FinMark/TNS)

In fact, most of the questions were answered correctly by the majority of respondents, with some noteworthy exceptions.

⁶¹ Note that we do not have comparable data on the understanding levels of NEA clients to benchmark these levels.



- **Opening the account:** the overwhelming majority (85%+) knew that it can be opened at any of the big banks, an ID book is required, and a payslip is not required; however, 81% incorrectly believed that a proof of residence is also required, which is not true.
- **Features of the account:** this was less accurate. While 84% of all those who opened Mzansi say that Mzansi fees are clear and easy to understand, 55% are not sure how much it costs to withdraw cash. More than half of the respondents failed to provide correct answers regarding the nature of fees associated with the most basic and most popular transaction types (see highlighted rows in the Table above): Around 60% of respondents *incorrectly* believe that:
 - there are some free monthly withdrawals (*in fact, there are no free withdrawals at any of the banks*);
 - there is not one free monthly deposit (*in fact, all banks offer 1 free per month*);
 - there is a different cost to withdraw from another bank's ATM than from your own bank's ATM (*in fact, it costs the same for ATM-not-on-us as ATM-on-us*).Nevertheless, around two-thirds of respondents (correctly) know that you can withdraw from another bank's ATM (even for a different price), you can use the card to make purchases at a till instead of cash, it is easy for an employer to send money to the account and there is a balance limit.

A theme that repeatedly emerged from qualitative interaction with Mzansi clients, in both focus groups and in-depth interviews, is that they desire more information from the banks about their accounts so that they can better understand the account and how it works:

"I think banks are not interested in Mzansi, while I think Mzansi is a good product for the people. Banks need to simplify products and services. Many people using banks don't know what a bank is, or what a financial transaction is. Some don't even know what account they have. They go to an ATM machine, but don't understand how to use it. The problems are not with the products, but with the information, and in some cases the banks' attitudes. But the people are scared to say, 'What is this about?' It's like operating a car if you don't know how to drive."
(Annex § II (Comments of Client 'AR'))

The banks all acknowledge this as a problem, but the question becomes how to communicate with clients in a cost-effective way. The clients offer some suggestions:

"If I haven't used my account for three months, why don't they just call to find out what the problem is? They shouldn't just write letters because we tear them up and throw them in the bin. But if they phone, it would help to get advice on the telephone."
(Annex § I(2.3): FGT 5, p. 25)

On this point, it is important to note that at least one private bank mentioned that the biggest problem with respect to the inactivity dynamic was the inability to contact the clients, largely because the banks do not have full contact information for their Mzansi customers, partly resulting from the KYC exemption from proof of residence or the like. The following is one alternative offered by one client:

"People don't understand the bank procedures. Maybe if [bank staff] can go to churches and [bus] stations and explain how things work, that would help."
(Annex § I(2.3): FGT 1, p. 25)



3.8 How much does it cost to use Mzansi and how does this translate to revenue for banks?

A key driving force behind the Mzansi Initiative in the first place was to make basic accounts affordable. This section compares costs of Mzansi versus NEAs and other bank accounts available in the marketplace; describes how this is perceived in the market, and then what this means for bank revenue per account.

3.8.1 Mzansi accounts are priced substantially lower than the Mzansi banks' NEAs

Rather than simply present the price list (which is available in Appendix 2), the method we use to draw a comparison is to price the cost of two different sets of bundles of monthly transactions across different banks and different products. First, we compare the price of the so-called “Charter Bundle”, which most recently was agreed to include monthly maintenance, unlimited electronic deposits, one branch cash deposit, two ATM withdrawals, one debit order and one balance inquiry; and cost no more than \$1.50.⁶² One bank mentioned that market research indicated that prospective clients in the targeted segment were willing to pay \$1.50/month.

The first Table below compares Mzansi to the NEAs, and also to Capitec Bank, which simply offers one bank account product and has apparently been able to compete independently and profitably for basic bank account business among low-income clients, albeit with a somewhat different business model than the Big Four. As shown below, there is a substantial reduction in cost for this particular bundle of transactions when using Mzansi instead of the NEAs; although Capitec’s pricing for this bundle works out to be essentially identical to Mzansi pricing.

Table 25: Summary comparison of “Charter Bundle” pricing across various accounts

	Charter Bundle: Number of transactions	Using Mzansi pricing: Average of 4 Private	Using Mzansi pricing: Postbank	Using NEA pricing: Average of 4 Private	Capitec
Monthly fee	1.0	\$0.00	\$0.00	\$0.83	\$0.38
Cash withdrawal:					
ATM on us	1.5	\$0.62	N/A	\$0.86	\$0.34
ATM not on us	0.5	\$0.21	\$0.90 ⁶³	\$0.61	\$0.33
Branch deposit	1.0	\$0.00	\$0.00	\$0.31	\$0.00
ATM balance inquiry	1.0	\$0.03	\$0.11	\$0.03	\$0.00
Debit order (external)	1.0	\$0.39	\$0.30	\$0.56	\$0.23
Total (all transactions)	5.0	\$1.24	\$1.31	\$3.19	\$1.26

Source: Bank responses to questionnaire; bank websites.

Given that the Charter required the pricing for this particular bundle (and no more) to fall below a specific low threshold, it is not terribly surprising that each bank’s pricing structure meets this target.

⁶² This bundle of services tied to this price point, which is based on 1.5% of \$100 with the January 2007 CPIX as the baseline, is per an agreement reached at a meeting at the Banking Association and attended by all four private banks in February 2007. Note that all four banks are below the \$1.50 (plus CPIX) threshold (see Figure 36 within Appendix 7).

⁶³ Since the Postbank does not have any of their own ATMs, this amount (as well as that in the next Figure) for the Postbank assumes that there are 2.0 withdrawals from ATM-not-on-us (instead of 1.5 ‘on-us’ and 0.5 ‘not-on-us’, like for other banks).



However, three of the four private banks increase pricing at a higher transaction volume. So, next, we compare the price of an “NEA Average Bundle”: the average number of monthly transactions actually experienced in the NEAs (unweighted aggregate average across the private banks).

The next Table compares prices at this NEA average transaction level, and shows that Mzansi still offers substantially lower pricing (\$2.32 for the Big Four average) for this transaction bundle compared to NEA pricing (\$5.62 for the Big Four average). Note that Postbank’s Mzansi pricing is cheaper here (\$1.74) than the average of the Big Four’s Mzansi pricing; and Capitec (regular pricing of its one account) is even less expensive (\$1.36) than Postbank.

Table 26: Summary comparison of “NEA Average Bundle” pricing across various accounts

	NEA Average Bundle: Number of transactions	Using Mzansi pricing: Average of 4 Private	Using Mzansi pricing: Postbank	Using NEA pricing: Average of 4 Private	Capitec
Monthly fee	1.00	\$0.00	\$0.00	\$0.83	\$0.38
Electronic transfers in	0.88	\$0.00	\$0.00	\$0.00	\$0.00
Cash withdrawal:					
ATM on us	2.42	\$0.94	N/A	\$1.67	\$0.54
ATM not on us	0.35	\$0.14	\$1.25	\$0.48	\$0.23
Branch	0.11	\$0.10	\$0.09	\$0.39	\$0.02
POS	0.02	\$0.01	\$0.00	\$0.01	\$0.00
POS Purchase	0.73	\$0.15	\$0.12	\$0.16	\$0.00
Branch deposit	1.30	\$0.68	\$0.00	\$1.56	\$0.00
ATM balance inquiry	0.59	\$0.01	\$0.06	\$0.02	\$0.00
Debit order (external)	0.74	\$0.29	\$0.22	\$0.40	\$0.17
Other debits	0.09				
Returned debit order	0.05	\$0.00	\$0.00	\$0.12	\$0.02
Total (all transactions)	7.28	\$2.32	\$1.74	\$5.62	\$1.36

Source: Bank responses to questionnaire; bank websites.

3.8.2 Affordability perceptions

Among those who actually opened an Mzansi account, Mzansi is overwhelmingly perceived as the cheapest account in the market (around 90% say this, across all Mzansi sub-segments). However, among all those who opened Mzansi accounts, 23% claim “even with Mzansi, I still cannot afford the charges”.

Yet, of the Mzansi Inactive, only 6% say that a reason for closing or stopping use of Mzansi was “the bank charges were too high” (and even this response may not have been the *primary* reason, as each respondent could give multiple reasons). Also, of Mzansi Active, only 3% say that the fees are a reason for not using the account more often.

The qualitative demand-side data supports the perception of affordability: One theme that was repeatedly expressed in the focus groups and in-depth interviews was the appreciation of the absence of monthly maintenance fees for Mzansi compared to other bank accounts (see Annex § I(1.1)(ii)):



"I am employed and I had a [non-Mzansi] account with Bank B, but every time that I would leave money in my account I never find it because of the bank charges. I always find it less than the amount I had left in the account."

(FGT 4)

"If someone has sent you R500, you will get it as it is, but with [non-Mzansi accounts] you get less than R500."

(FGT 1)

Another theme was that it was an account for those that may not otherwise be able to access bank accounts (all from Annex § I(1.1)(iii)-(iv)):

"It is affordable for people who are unemployed and who earn less."

(FGT 2)

"It helps people who cannot afford to open the ordinary accounts."

(FGT 2)

"With Mzansi you can have a balance of R2.45, but with the other banks you cannot."

(FGT 2)

Thus, it appears Mzansi is indeed perceived as cheap, affordable and accessible, and the cost of using Mzansi is not a roadblock to its further use by Mzansi Active or its use at all by Mzansi Inactive.

3.8.3 Supply-side implications of Mzansi revenues⁶⁴

The average gross revenues per active⁶⁵ Mzansi account across the four private banks are approximately \$1.40 (with a range of approximately \$1.30 – \$1.65). These figures only include fee income (i.e., non-interest revenue), and therefore exclude any implied revenues from "net interest" generated from the outstanding Mzansi account balances held by the banks (see below). Across the four private banks, in aggregate, the monthly fee revenues total approximately \$3 million, or \$36 million per year.⁶⁶

Banks also earn interest on the float in deposit accounts. As of December 2008, the four private banks reported approximately \$68 million in total in Mzansi accounts.⁶⁷ Based on interest paid (see Appendix 3) and limited balance band data available, we estimate that the banks pay, on average, 1.3% interest (APR) on Mzansi balances. If Mzansi balances are invested by the banks in securities the equivalent of the Johannesburg Interbank Acceptance Rate (JIBAR), which was approximately 12.0% (APR, early December 2008), then the approximate net interest margin earned by the banks on Mzansi balances is 10.7% (APR). Applying this margin to the \$68 million aggregate balance yields approximately \$7 million in float income per year.

⁶⁴ All revenue analysis in this section is based on data collected for the period ending June 2008 (+/- 2 months), and was not updated at December 2008.

⁶⁵ Here, "active" refers to the Charter definition; but, precise like-for-like data was not obtained, so the researchers have made their best efforts to adjust the received data so that it is like-for-like, per the Charter-definition of "active". This data is for the period ending in the second quarter of 2008 (either for the trailing quarter or year).

⁶⁶ This is not necessarily what the banks earned for the trailing twelve months, but is an annualized figure using the revenue data for the second quarter of 2008 and number of accounts at the end of 2008.

⁶⁷ Underlying data from the Banking Association of South Africa; with further calculations by researchers. This includes both active and dormant Mzansi accounts. .



Consequently, adding these two sources of income (\$36 million in fee revenues to this \$7 million in net interest income), Mzansi accounts yield \$43 million in total annual revenues to the four private banks. On average, across active accounts only, this is \$1.65 per account per month.

Postbank reports average gross revenues across its 2 million self-defined “active” accounts of \$0.45 per account, which implies just over \$900,000 per month (\$11m per year) in fee revenues. To determine an *implied*⁶⁸ net interest income for Postbank, we apply the above-identified net interest margin of 10.7% (APR) to the estimated aggregate balance of \$55 million (2.03 million accounts at \$27.70/account), yielding approximately \$6 million per year. Thus, combining fee revenues with implied net interest income indicates that Postbank’s Mzansi activities yield the equivalent of approximately \$17 million per year. Dividing this number by the approximately 2.0 million active accounts, Postbank Mzansi accounts yield on average \$0.85/month.

Combining public and private revenues from Mzansi, yields an estimated \$60 million of annual aggregate revenues across all five Mzansi banks. The composition is summarized in the Table below.

Table 27: Summary of estimated annual revenues and aggregate balances for Mzansi accounts

All amounts in millions (USD)	Big Four Banks	Postbank	Total (All 5 Banks)
Annual fee revenues	\$36	\$11	\$47
Implied annual net interest income	\$7	\$6	\$13
Total annual revenues	\$43	\$17	\$60
Aggregate account balances	\$68	\$55	\$123

Source: Bank responses to questionnaire; also, Banking Association of South Africa (December 2008).

⁶⁸ Postbank is not in the lending business and so the exercise here is not so much an estimate but a hypothetical.



Section 4: Assessment of the Mzansi Initiative

Drawing on the evidence from Section 3, this section evaluates the Mzansi Initiative from four viewpoints of what constitutes success:

- Did it meet the agreed Charter targets?
- Did it meet the wider expectations of the issuing banks?
- Did it meet the needs of its clients?
- Did it move forward the frontier of access to banking services in South Africa?

4.1 Did the Initiative reach the Charter targets?

The most direct measure of success for Mzansi is whether the issuing banks collectively and individually reached their agreed Charter targets for 31 December 2008 (2,173,930 *active* accounts for the industry). The targets did not apply to Postbank.

Here the answer is simple and clear: the industry target has been met; and two of the four banks also reached their individual targets, while the other two did not. By this narrowest measure therefore, the Mzansi Initiative as a whole has succeeded in reaching its agreed goal.

However, as section 2 described, the Charter-specific target for Mzansi was set in the broader context of increasing access to first order bank transactional and savings products targeted at the low end of the market, defined as LSM 1-5. This objective cannot be evaluated using bank data, since banks do not collect the necessary data about their clients. However, FinScope SA shows that 61% of Mzansi active users in 2008 were in the targeted LSM 1-5 range. Of these, the great majority (53% of the total) were in the narrower LSM 3-5 range which was in fact the main focus of the Mzansi Initiative. In addition, as shown earlier, the majority of Mzansi users were in fact also “First-time Banked”. Therefore, notwithstanding the fact that many Mzansi openers were Already Banked and/or were in LSMs 6-10, there can be little doubt that both the specific and the general measures developed in terms of the Charter have been met.

In fact, of all the access-related initiatives emanating from the Financial Sector Charter, Mzansi has touched by far the most ordinary people. In 2009, it seems likely that the Charter and its further obligations which extend to 2014 may well fall away, to be replaced by the generic obligations of all corporate entities under the Codes of Good Practice published by government under the Broad Based Black Economic Empowerment Act. If so, the Mzansi Initiative may be regarded as one of the most enduring popular legacies of the Charter— a clear victory for broad-based black economic empowerment.

4.2 Did it meet the wider expectations of the issuing banks?

Of course, meeting the Charter targets for Mzansi was not an end in itself for the participating banks—it was rather one means to the larger end of persuading government that the banking sector was serious about economic transformation and black economic empowerment in particular, and therefore coercive legislation was unnecessary. But the socio-political dynamic was about more than just a defensive tactic of preserving bank independence: it was also part of the recognition by the banks – partly reflected in its statement at the 2002 Nedlac summit cited earlier in section 2.1.1 – that if they are to succeed in the long-term they must evolve with South Africa itself and become institutions serving all South Africans,



not just the wealthier half. Accordingly, Mzansi served the banking industry's desire to prominently signal their willingness to serve the whole of South Africa.

Since the signature of the Charter, although government has sanctioned strategies that allow its housing and small business-oriented parastatals (National Housing Finance Corporation and Khula) to engage in direct retail activity for the first time, it has so far taken no further steps towards requiring direct intervention in lending or investment by private banks. In terms of that expectation, the Charter as a whole may therefore be said to have been successful, so far. Our question is narrower, however: how much did the Mzansi Initiative contribute towards changing the image and reality of the banking sector so as to achieve this?

The evidence here is more anecdotal. Senior government members have repeatedly referred to the Mzansi Initiative in a positive light. For example, Trevor Manuel, the Minister of Finance who just before launch in 2004 publicly denounced the banking industry's original plan to institute common pricing for Mzansi accounts, has highlighted Mzansi in a series of speeches in 2005 and 2006 as a positive example of engagement flowing from the Charter:

“In practical terms, a direct consequence of Charter commitments can be seen in successful initiatives such as the Mzansi bank account, which has removed the blinkers from the eyes of sceptics who believed that initiatives aimed at the low income sector were not worthwhile. The numbers do not lie: 1.75 million new Mzansi bank accounts in the space of [the first 12 months]... Other industries in the financial sector have now come forward with their own proposals on Mzansi-style products.”⁶⁹

“It is pleasing to record the progress of various [Charter] initiatives. I am advised that the latest total number of Mzansi accounts stands at 3.3 million[, up from 1.75 million last year]. We need to do more to understand the dynamics of this growth – who holds these accounts, what contribution does access to financial services make to household security, what are the next priorities for reform. But this does not diminish the sense that the initiative is and continues to be a remarkable success.”⁷⁰

Furthermore, the independent commissioners on the Banking Enquiry of the Competition Commission favourably cited Mzansi in their June 2008 report on claimed anti-competitive practices in the banking sector: “The Mzansi initiative...is making considerable progress in extending banking services to the previously unbanked, [but] needs constant scrutiny to ensure that the structure of its bundling and pricing is truly pro-poor.”⁷¹

Banks themselves believe this to be true: almost all strongly or somewhat agreed with the statement in the supply side questionnaire: “Mzansi was and is an efficient means to help the banking sector realize [Charter] objectives.”

⁶⁹ Manuel, T. (Minister of Finance). Speech in October 2005.

⁷⁰ Manuel, T. (Minister of Finance). Speech on 6 September, 2006.

⁷¹ Banking Enquiry, June 2008 (Recommendation 21).



However, even if Mzansi would not have happened without the Charter and if its main purpose was to deliver in terms of the Charter, participating banks also had a set of wider expectations criteria than Charter points alone when they embarked on the Initiative. While the five banks differed in their weighting and specific objectives, these expectations generally included:

- Mzansi would allow them to reach out to a new market segment (without cannibalizing the old) and help them to understand that segment better;
- Without incurring substantial losses (and preferably breaking even).

On the first expectation, Mzansi clearly did on the whole reach a new market segment for the large banks at least, beyond the existing segments touched by their NEA products. Furthermore, according to the banks themselves, fears of large scale cannibalization of the NEAs have in general proved unfounded. In fact, there is some evidence of the reverse, namely that Mzansi has been a gateway, or stepping stone, for first-time banked people en route to graduating to NEA offerings: one in six of the first banked in the Mzansi survey fell into these categories (“gateway 1” and “move up”).

Moreover, with respect to signalling an openness to serving the broader South Africa, one bank commented that an unexpected benefit of the Mzansi Initiative’s increasing general awareness of banking amongst lower-income segments was the added growth in its NEAs by people that would otherwise not likely have considered conventional banking services.

On the second expectation that their financial downside would be limited, the evidence is mixed. On the one hand, the volume of accounts opened clearly exceeded the expectations of almost all banks; on the other, the average fee revenue realized per account at around \$1.40 per month (\$1.65 if we include implied interest income on balances) was both well below NEA levels of around \$5, and also below the expectations of most private banks. At a perceptual level, when asked to respond to the statement: “leaving political considerations aside, Mzansi is (has been) a worthwhile economic initiative for the bank”, two private banks disagreed and two neither agreed nor disagreed.

The general view that Mzansi accounts are not economic in their own right (whereas NEAs are) appears firmly entrenched in the minds of most of the private banks. One bank reported to us that “at best, Mzansi is break-even on a direct cost basis”. Another bank stated “on a marginal basis (not fully absorbed), every now and then, it breaks even”. Another bank actually reported that it lost an average of \$0.47 per active Mzansi account per month, though the basis of the accounting measure is unclear here. This figure is not inconsequential when annualized and applied to 2 million private sector active accounts, although still small for any one of the private banks, each with net profits of several hundred million dollars or more and hence able to absorb this through cross-subsidization. The profitability consideration is of course very different for the Postbank, which has an even lower average revenue per account. Postbank can more justifiably offset financial considerations against achieving its broader mission, which includes “becoming the bank of choice for the whole community”.⁷²

It would be helpful, however, to move beyond perceptions to the point where the actual net direct return per account is known, i.e., deducting direct costs at least from the revenue stream. Here, we run into large problems of comparability: banks use very different ways of allocating fixed costs. Nonetheless, a 2003 exercise conducted by Deloitte & Touche for FinMark Trust⁷³ collected information

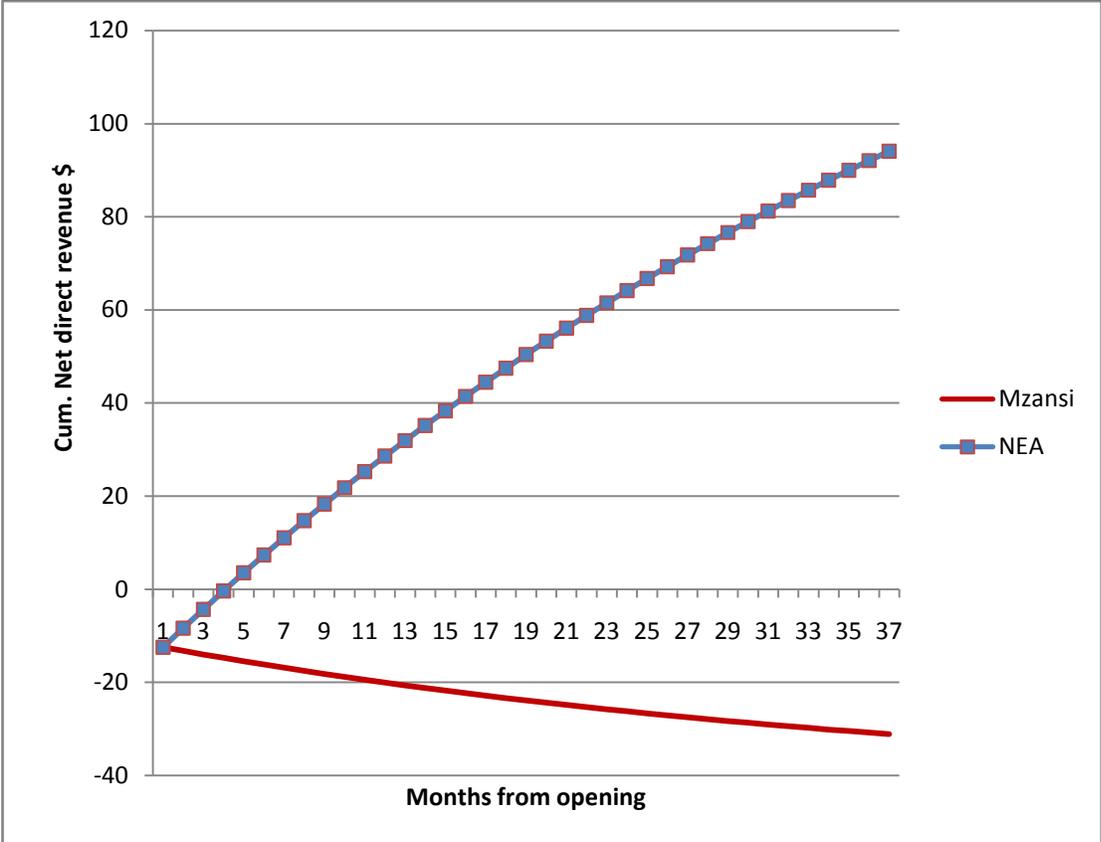
⁷² South Africa Post Office, 2008 Annual Report.

⁷³ The report was subject to confidentiality and was never published. However, here we make use of it in the underlying assumptions to generate the picture shown without disclosing the confidential details.



on direct transaction costs across basic bank accounts and was able to establish basic cost norms per each major type of transaction. These norms can be applied to the typical transaction profile of both Mzansi and NEAs to calculate a monthly net revenue, after direct costs are deducted but before fixed costs, which an account in each category contributes to the bottom line. The revenue includes the float (or net interest) income based on average balance in each type. The direct costs include the cost to open a new account, which are assumed to be the same for Mzansi and NEA. The cumulative results of this exercise are shown in the next Figure below. Typical churn numbers are built in for each, through eroding the expected revenue each month after opening based on the reduced probability that the account would still be open.

Figure 25: Cumulative net direct revenue from Mzansi and NEA (US\$)



Source: BFA calculations using Goodspeed 2003 report and Mzansi profile data; details omitted for confidentiality purposes.

The Figure above shows the cumulative difference between gross fee revenue of \$5 per month per NEA and around \$1.50 on Mzansi: the cumulative net revenue from the Mzansi account can never reach breakeven after incurring account opening costs since there is a monthly loss; whereas the NEA net revenue stream turns positive within 6 months. Even if the requirement for breakeven were relaxed so that it could be achieved within 12 months of origination, this would still require that the net revenue stream from Mzansi exceed \$4. The only way to achieve that number would be to increase the transactions per customer and/or the fees per transaction. Given the low average incomes of Mzansi clients (almost all less than \$200 per month), this would constitute a high percentage expenditure on transaction banking—certainly well above norms such as a maximum of 2% of income which FinMark has proposed in the past.



This simple exercise sheds some light on the question of how low large banks are sustainably able to go in terms of revenue per customer on transactional clients. Clearly, some costs can be reduced (or differently allocated, although these numbers do not include allocations of general fixed costs anyway); but in general, the only way to go lower, without requiring cross subsidy from other clients, is by increasing total revenue per client through cross selling additional products, such as loans. The cross subsidy from credit margin to transactional relationship is the time honoured model for retail banking; and is indeed the model applied by competitors such as Capitec. Capitec's deposit account offering is priced somewhat like Mzansi on the same bundle of transactions (and substantially lower on higher transaction activity profiles) (see section 3.8.1) but with much higher interest rates for credit balances. Capitec's deposit business is not profitable in itself but is cross subsidized by the lending business in order to create a prime banking relationship with the client; and to attract liquidity for on-lending.

Clearly, the premium placed on these additional revenue streams will affect the willingness to take loss on the basic bank account product itself. Hence, it is curious that there have not been more concerted attempts to date to cross sell other products, such as credit or insurance: especially since Mzansi clients indicate that they are looking for such services (see bottom row of the last Table in Section 3.6.4). Unsecured lending to these clients may be risky (in perception if not always reality) but possible, as many examples from the microcredit industry have shown.

In addition to generating additional revenues from cross selling, large banks may henceforth more actively seek retail deposits in order to diversify their liquidity sources away from the wholesale markets which have been affected by the global financial crisis. While Mzansi balances are on average small, the combined effect of this liquidity float (currently around \$123 million across all five, which is still only 0.36% of aggregate *household* deposits and less than 0.10% of all deposits) may be somewhat more attractive now than before, although not enough to change the overall picture of Mzansi economics described above.

Indeed, it was from the recognition that Mzansi revenue would be low (although not as low as it turned out) that a core aspect of the Mzansi Initiative was the creation of a collective brand with collective advertising so as to economize on costs of design and launch. However, in practice, as the first Figure in section 3.7.1 showed, the total spend on collaborative advertising only slightly exceeded \$1.2m, and all of this happened within a year of launch. Meanwhile, the levels of spend on individual advertising for Mzansi have stayed around \$0.5m per year in aggregate for all private banks, a figure which the Postbank's individual spend alone has matched. So, the coordinated sharing of cost has been less of a feature in the Initiative than originally intended.

The declining level of private spend may well be a response to the lack of profitability: after all, why spend more money to promote a loss making product if there is no need? Postbank's ongoing high level of marketing spend highlights again the different incentive structures between public and private banks. While Postbank was not a driving force behind the conceptual design or initial launch, over time, it has become more of a driving force for maintaining the Mzansi brand.



4.3 Has Mzansi met the needs of its users?

Over three million clients continue to use their Mzansi accounts four years after launch. And the survey data indicates that 77% of self-proclaimed current Mzansi users in fact used it within the past month; and 93% within the past 3 months. Consequently, even to ask whether Mzansi has met the needs of its users may seem at first instance to raise too high a bar: after all, modern microfinance has been built on the assumption that if clients continue to use a product, like a microloan, then it can be inferred that they derive value from doing so.

However, since this report is interested in assessing whether and how Mzansi has permanently affected access to financial services, it is important to consider the question from several angles.

First, the analysis in Section 3.5 showed that the relatively high levels of inactivity did not primarily reflect dissatisfaction with the product itself: negative economic reasons such as unemployment led to half the fallout, while the other half related to choice including ‘graduating’ to other NEA products for first time banked, perhaps driven by more positive economic developments for these people. For this latter group, Mzansi was a stepping stone into the banking system en route to other products which they believed better met their needs as they came to understand them or as they changed. But this was a clearly envisaged, and even hoped for, role for Mzansi.

Second, among current users, the survey and the in depth interviews did not show high levels of dissatisfaction regarding product or service, although in any initiative of this scale, there are obvious exceptions, such as the story of Client NS in the Annex. If anything, those who had had bank accounts before Mzansi were more likely to be critical about Mzansi than the First-time Banked, but appears to reflect a more jaundiced opinion of banks from previous experience.

While Mzansi was widely perceived by its users as a “poor man’s bank account” or even “a second rate account”, on the whole, active clients accepted the trade-off to get banking services: this labelling did not undermine the value of having an account which was universally perceived to be the cheapest offering available. Looked at another way, 92% of Mzansi openers stated that “Mzansi gives low income people the opportunity to have a bank account”. The stigma may however have driven a portion of the lapsing observed.

This broad degree of user satisfaction does not mean that all needs were met. Mzansi clients clearly would welcome being offered other services by their bank, whether under the Mzansi brand or not. For example, the researchers encountered Mzansi account holders who were using the Mzansi account for long-term savings (not for transactions) and complained that interest was too low; linking their Mzansi account to a higher-paying savings account may make sense, but they seemed unaware of the opportunity. Given the apparent incentives to increase revenue per account, it remains surprising that banks have not done more in this regard.

To be sure, some banks do offer easy linkages to other products: for example, Standard Bank allows two free internal debit orders per month out of Mzansi accounts into other Standard Bank accounts; and it offers non-Mzansi savings products (such as “PureSave”) – which pay substantially-higher interest rates than Mzansi⁷⁴, have no monthly fees, low opening balance (\$5) and no proof-of-income requirements,

⁷⁴ Starting at 7.0%, vs. the highest Mzansi rate of 3.5%.



to which funds can be transferred from Mzansi accounts using the free debit orders. The other banks offer similar linkages via debit orders for under \$0.50/transfer.

In addition, although customers accepted the brand promise that Mzansi was cheap, focus group clients showed universally limited understanding of the fees they actually paid and how they were calculated.

However, this response is not limited to Mzansi clients: as the Banking Enquiry found, levels of confusion over bank account pricing are common with bank clients at all levels.

Clients were willing to explore additional functionality of the account, and expected greater levels of communication from or contact with their bank than the Mzansi model generally allowed. An executive from one of the Mzansi banks firmly stated that whichever bank solves this effective communication challenge will “control the market”.

Finally, while it is fair to consider whether Mzansi met the needs of those who at least tried it, what about those who never did? Despite all the paid advertising and free publicity which Mzansi attracted in its early days, FinScope 2008 shows a surprisingly high degree of unawareness: just over a third of South Africans still have never heard of it. These people tend to be more rural and less educated people; but this widespread lack of awareness (and the limits of product knowledge among clients shown in Section 3.7.2) highlights the challenge of effective communication into new market segments, if a product is to have wide reach.

In short, it is hard to escape the conclusion that the Mzansi Initiative could have been much more effective at communicating both the existence of Mzansi, and how it can be used more effectively to address people’s needs. The low ongoing advertising spend and focus given to Mzansi by private banks reflects their mixed incentives: the Mzansi Initiative for some of them at least was about getting just enough clients to satisfy Charter requirements but no more. For the future, the issue of how to communicate effectively to potential clients and existing clients needs much more attention: effective communication should be a “win win”, leading to increased transaction volumes (and greater value-add for banks and customers) and in turn customer retention, whilst improving customer satisfaction at the same time.

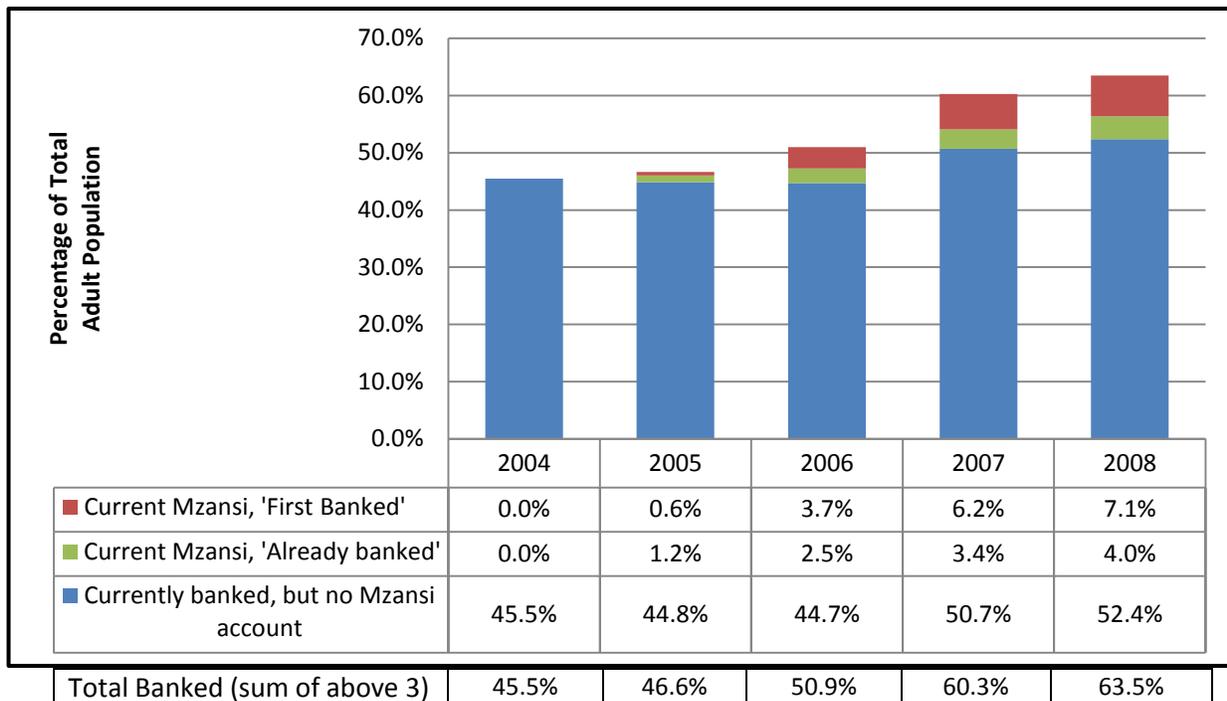
4.4 Has Mzansi advanced access to financial services in South Africa?

The Mzansi Initiative has decisively moved the needle of *usage* of formal financial services in South Africa. The Figure below shows how the percentage of adults banked grew over the period, with the contribution of Mzansi to this growth shown separately.

In 2008, almost two thirds of South African adults were banked, a sizable increase from just under half just four years earlier. Of the increase, Mzansi ‘First-time Banked’ contributed close to half (8.2% of the 18% increase). The Mzansi first-time banked contribution breaks down further into the 7.1% Mzansi Active (shown as red in the Figure below) plus a further estimated 1.1% who no longer use Mzansi but have gone on to use other bank accounts, not shown in the Figure. Stated another way, more than one in ten South African adults is a current Mzansi account holder; and Mzansi account holders make up one in every six banked people.



Figure 26: Mzansi contribution to percentage 'Banked'



Source: FinScope™ 2004-2008

These usage numbers are impressive. However, they alone do not tell the story of Mzansi's impact on access. Having access to a product is not the same as using it, even though usage is the ultimate test of whether access is in fact needed or valued. But who has access and does not (yet) use? And who is still beyond reach of formal banking?

The access frontier methodology provides one structured means of segmenting the potential market for a product or service into groups with and without access. This approach has been comprehensively described elsewhere (see Porteous 2008) and will not be repeated here. However, the basis is distinguishing three segments of the total eligible population who are not presently using a targeted product or service:

- Those with effective access based on current product requirements, including the ability to qualify for and afford the product at some level, even though they may not know about it;
- Those currently beyond the reach of market based solutions (dubbed the supra-market zone) in which non-market solutions (subsidy, direction provision) may be needed if they are to be served;
- Those who have access but choose not to use, i.e., they rule themselves out of the market, rather than being excluded.

FinScope survey data enables these groups to be sized and compared over time, since sufficiently detailed questions are asked about non-usage and about eligibility issues. The first application of the access frontier was done using FinScope 2004 data, collected just before Mzansi was launched. As the next Figure shows, at that time, 48% of SA adults were banked. However, the eligibility requirements for basic bank accounts commonly included requiring proof of employment. The accounts levied a fixed monthly fee which raised the cost and affected perceptions of affordability, excluding segments of the population. In fact, the access frontier for transactional bank accounts in 2004 was calculated to include



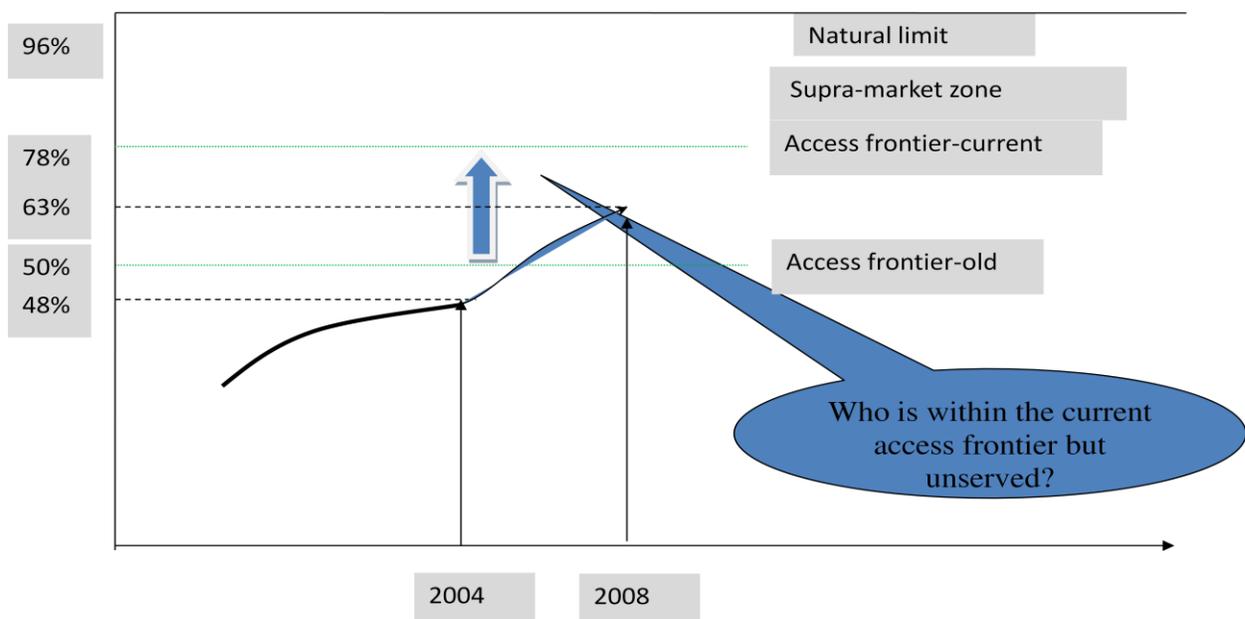
only 50% of the population, i.e., based on the prevailing approach, only a further 2% of adults were within reach of the set of banking solutions.

However, the introduction of Mzansi caused a structural shift in the access frontier for transactional banking, substantially removing the eligibility barrier (anyone with an SA ID book could now open the account) and substantially reducing the affordability barrier since there was now no monthly fee and the basic bundled offering was much cheaper than previously available with NEAs. Using 2004 data, Mzansi shifted the access frontier outwards to 70% - bringing another 20% of the adult population into reach.⁷⁵

Since then, as one would expect if a product is in fact useful, usage has risen rapidly up to the level of 63% reported in FinScope 2008; or in other words, since Mzansi's launch, usage has again progressively converged towards the newly-extended access frontier. While there have been no further structural changes in the transactional banking market to shift the access frontier since the launch of Mzansi, the population demographics have changed. Therefore, re-running the numbers using FinScope 2008 data results in the position shown in the Figure below.

This Figure shows that the proportion of population within reach of access of basic transactional banking is now 78%. This means that there are another 15% (78%-63%), or close to 4.6 million people, who are within reach of transactional banking but are not using it. This leaves a further 18% of SA adults (96%-78% on the vertical axis in the Figure below) considered today beyond the reach of market based solutions in the so called 'supra market zone'. Only a very small minority of unbanked people, just over 4% of adults continue to indicate an active preference not to use banks, and are therefore regarded as out by choice, constituting the upper boundary of the market until and unless their attitudes change. The small proportion here is in line with findings in other middle income developing countries such as Mexico, and smaller than the "out by choice" proportion found in high income countries like the US.

Figure 27: Access frontier mapping of transaction bank account market in South Africa



Source: Based on Porteous (2005) Figure 4, updated with FinScope 2008 data

⁷⁵ See Porteous (2005)



However, this latter group who opt out is not the prime concern of access initiatives. Rather, the focus should be on those who are not yet banked today, four years after the launch of Mzansi, but who could be. To understand this better, the Table below compares characteristics of current Mzansi users with unbanked people within the access frontier (shaded in blue) and with those outside it in the supra market zone (SMZ). Those in the access frontier group still receive cash income from at least one source on at least a monthly basis if not more frequently: this is the main differentiator from those in the supra-market zone who receive no regular income at all.

Table 28: Comparing reached and unreached groups

	Current Mzansi	Access frontier	SMZ
Total number	3,504,251	4,686,190	6,042,940
% of adult population	11%	14.7%	18.9%
Of the column:			
% rural	48.8%	51.2%	53.4%
% female	56.3%	69.3%	41.1%
% pensioners	3.8%	19.2%	1.6%
% unemployed	28.9%	45.3%	50.8%
Informally employed (F/T & PT)	27.3%	11.6%	7.5%
Previously banked	0.0%	24.8%	16.6%
Age: 18-24	30.0%	22.6%	41.0%
Age: old	10.4%	23.0%	7.6%
Use a pre-paid cell phone	77.2%	56.2%	45.8%

Source: Calculated by researchers using FinScope 2008 data

The Table shows that, compared with Mzansi users, those within access are more likely to be female and older—pensioners make up almost a fifth of the group, who would today be receiving their government benefit monthly in cash. Almost a quarter has in fact been previously banked but have abandoned or closed their accounts. This applies for informal as well as formal employment: a higher proportion of Mzansi users (27%) is likely to be informally employed than those in this group (11.6%). This group is therefore bumping against the limits of the utility (and affordability) of a bank account in the absence of sizable money flows. Indeed, lack of money and/or a job is given as the reason for not having an account by 83% of people in the access zone, while the next set of reasons, relating to not understanding the offering, together comprised less than 4% of responses. However, an important factor is that 44% of the never banked have never heard of Mzansi, indicating how hard it may be to reach them and make them aware that there is a bank account which does not require them to keep a balance and which will not “eat their money” through regular fees even when they do not use it.

Notwithstanding a claimed lack of income, almost half of people in the supramarket group claim to use mobile phones; and the proportion within the access frontier is higher still at 56%. Given the pervasiveness of this device, the mobile phone therefore may open the way towards a lower cost platform for basic banking in future. For this reason, Porteous (2006) considered those in the SMZ but with a mobile phone (some 8.6% of the total adult population) as being potentially accessible in future as mobile offerings become more accepted and accessible.

This analysis suggests first, that Mzansi did shift the frontier of access to transactional banking; and that, secondly, perhaps a further 15% of the population at least may be within reach today as a result. However, whether the proportion of banked people in South Africa rises from its current level of 63% to 78% in the next five years will depend in part on whether the proposition of transactional banking is



known enough and attractive enough for these people to want to and to be able to take up; and for the issuing banks to want to and to be able to serve them.



Section 5: Lessons from Mzansi

5.1 For South Africa

5.1.1 *The demand for basic bank accounts is strong*

In a period of four years, clients opened six million Mzansi accounts. Two-thirds of these were first-time banked. The strong take-up of Mzansi has continued over the four years, although at different rates among different banks; and more than three million accounts remain active today. This groundswell demonstrates the strong demand for a basic bank account with features such as low minimum balance and no fixed fees among poorer segments of the population. Among the large number of those who have not yet heard of Mzansi, the underlying demand for a safe, convenient and cheap place to store funds may be equally strong.

5.1.2 *'Dump and pull' is not the whole story*

The average balance in Mzansi accounts is small, with little evidence of growing accumulation over time. Account holders transact on average three times per month (debits and credits), of which 1.6 are ATM withdrawals. One observer dubbed this pattern 'dump and pull', implying that Mzansi has simply relocated cash payment of wages or pensions from the employer or pensions office to the ATM. However, while this transactional pattern is indeed common, it is not the full story.

For a start, the analysis of reasons why people opened these accounts in section 3.3 has shown that employer push (stated by less than a quarter) was not the predominant reason: most said that they wanted to save, and in a place which was safe, convenient and affordable. Second, the interest rate structure and balance limits on Mzansi accounts do not in themselves incentivize accumulation in the accounts themselves, as clients indicated repeatedly in the in depth interviews. Those clients not on monthly salary or pension payments cycles showed some evidence of intra-month storage of funds. Third, for a relatively significant number (one in six of the first-time banked in the Mzansi survey), Mzansi served as a stepping stone into using other bank accounts where their transactional patterns are unknown and may involve savings behaviour. What looks like 'dump and pull' in the aggregate may therefore conceal a range of richer transactional patterns and behaviour as clients seek to balance and optimize their own portfolio. Lastly, only a quarter of clients themselves (see Table 11) identified the use of the account being to receive money and immediately withdraw it: the majority selected savings and/or transacting as being their main usage patterns. The quantitative evidence in the Annex also supports this richer view of client behaviour.

Despite this, while Mzansi has functioned as a stepping stone to other types of bank account, a major surprise is Mzansi's apparent failure so far to act as more of a gateway to other categories of financial services like special savings or credit or insurance: as Table 19 showed, while almost half of Mzansi openers are using other formal products, only a tenth started doing so after opening Mzansi. The proportion is markedly higher (26%) however among those who "lapsed up" to NEAs, confirming the impression of Mzansi as a stepping stone on the path to fuller inclusion. These services appear in demand but are not strongly marketed to the Mzansi client base. Greater usage of these products through debit orders may ameliorate the pattern of withdrawing most of the cash; and help Mzansi clients to achieve the purpose for which most say they opened the account: to save; as well as to bring more value to the banks from these relationships.



5.1.3 *Big banks can downscale but have their limits*

The Big Four banks have demonstrated that it was possible for them to develop and rollout a major downscaling initiative which has added large numbers of poorer clients. However, the economics of Mzansi have been disappointing for the private banks. As long as transactional accounts are expected to pay for themselves, if not make a profit, the levels of revenue per account need to be more than double current levels on Mzansi. Furthermore, unlike higher end accounts, Mzansi accounts show even higher rates of churn than NEAs, and these rates are already in the same league as pre-paid cell phone accounts. This churn adds considerable cost in opening new accounts, one third of which are likely to go dormant in any year.

An increase in fees of the required magnitude is unlikely to be affordable to most Mzansi clients, at least on the existing low activity levels. If so, this leaves only three options:

- Private banks continue to operate basic accounts at a loss but seek to graduate more active clients as soon as possible to more lucrative transacting or savings platforms—however, not all clients will afford or want this;
- Private banks more actively seek to cross sell additional products and services which Mzansi clients wish and would pay for (such as credit and insurance), raising the revenue per client to acceptable levels, even if the revenue per Mzansi account stays low, and potentially increasing the stickiness per account, thereby combating churn—however, this appears to work best when there is a core product which is already profitable;
- Private banks withdraw from offering basic accounts (at least collectively), leaving this task to the Postbank and private competitors such as Capitec which are more enthusiastic about doing it, and which may not have the same financial hurdles—however, private banks would likely actively seek to ‘cherry pick’ more active and wealthier clients from at least the Postbank, reducing its ability to cross subsidize and potentially rendering its business model in need of continual public subsidy.

The possible unfolding of these future options will be taken up in the Section 6; however they frame the dilemma underlying the Mzansi initiative.

Since it appears Mzansi accounts cannot be profitable on their own, if they are to achieve their social purpose of absorbing a new market segment, the issue at the heart of the Mzansi Initiative is therefore how best to cross subsidize to make this happen sustainably and efficiently. If opportunities for cross-selling at the client level (cross subsidy within one client) are limited, at least in the short to medium term that drives commercial banking, then the remaining options for cross subsidy are:

- Within the same bank but across other client segments or products: much of this happens in banking anyway, as captured by the popular belief that 20% of bank clients generate 80% of the revenues—but banks don’t necessarily know which 20%! However, finer segmentation and better MIS systems have enabled more precision in calculating revenues per account and per customer. This is still often art, or at least preference, as much as science in how large fixed costs are allocated. Hence, part of the willingness of a bank to do this is a function of the extent and manner in which it measures profits and costs.
- Across banks: Mzansi represented an attempt to spread costs and risks. In some sense, banks with greater existing presence at the low end of the market, and therefore ability to do more on their own, cross-subsidized those with less presence. There is clear evidence of a catalytic effect among at least one private Mzansi bank which did not have strong low end presence before. Arguably, the fixed lower ATM-not-on-us charge was a cross subsidy from private banks to Postbank which did not have its own ATM network.



- From the outside: this could be from government, through subsidizing unprofitable operations of a state bank; or by providing subsidy to private players to undertake otherwise unprofitable business. This latter approach was tried for a short time in the US in the late 1990's where the Treasury recognized that the high costs of account origination disincentivized private banks from issuing accounts to which social benefits were paid and therefore offered a small but significant (\$15 at the time) subsidy per qualifying account opened. Equally, a non-government donor may subsidize an institution.

The Mzansi Initiative combined all three types of cross subsidy: private banks cross subsidized across their client bases, as did the Postbank (underpinned by government support) and they collaborated in ways which amounted to a cross subsidy across banks. Mzansi Initiative may be described as a 'market-led' approach to cross subsidy in that private banks conceived and led the development and rollout. Even with all three types, Mzansi nonetheless shows the limitations which may exist on large banks downscaling voluntarily without external pressure or greater strategic objectives.

5.1.4 *Collaboration helped at first but is not necessary and de facto over*

The Mzansi Initiative was built on the notion that collaboration among banks would spread cost and share risk, making it more viable (or less *unviable*) for each bank individually. As this report has shown, the collaboration was active and extensive at first, including joint product design teams and collaborative marketing expenditure in the first year. The collective marketing undoubtedly helped to create brand awareness at the start. At the same time, collaboration also proved tricky as banks tested early on the limits of what competition law would allow in agreeing on common features and pricing. Since the first year, activity in the collaborative space has declined to the level where it might be said that it has *de facto* ended, other than retaining a common endorser brand and a pricing structure for "not on us" ATM transactions.

While collaboration may have helped in the launch of Mzansi, was it necessary to launch a basic bank account? The evidence has shown why collaborative action by the big four banks was necessary to persuade them all to take the step together. This may not be necessary for other types of banks, especially those with narrower market focus. There are at least two examples of private initiatives in South Africa launched more or less at the same time as Mzansi and with similar product features.

The first, and largest competitor to Mzansi (though it does not see itself in these terms), is Capitec Bank. As a small, private credit-focused bank, Capitec launched its bank account with similar features to Mzansi at around the same time (2005). Capitec chose consciously not to collaborate with Mzansi but rather compete with it. During almost the same period that the large banks together accrued around two million new active Mzansi customers, Capitec reports having added close to one million deposit clients on its own. This is noteworthy in light of Capitec's relatively limited branch and ATM infrastructure: by staying out of Mzansi, Capitec clients pay standard interbank fees on ATM transactions, which are higher than for Mzansi accounts.

In Capitec's business model, the deposit business essentially serves as an anchor to the relationship with the client, even if it is a loss-leader, demonstrating customer trust in the bank and frequent contact, which can be leveraged for additional lucrative services (and information) over the life of the relationship.

Similarly, Wizzit Bank was launched in 2005 as a specialized division of Bank of Athens, promoting a virtual model of banking primarily via cell phone. As of late 2008, it had an estimated 300,000



customers. Wizzit customers can also use their debit cards at ATMs and POS. Wizzit offers transactional banking with functionality similar to Mzansi accounts at some of the banks which have activated the mobile and even internet channel for Mzansi (though these are currently infrequently used). Wizzit too seeks to cross sell other products, although today this is mainly airtime. While the business model of Wizzit has yet to be proven (and as a private company, its figures are not released to the public), Wizzit demonstrates yet another approach to competitive transactional banking.

Perhaps one of the positive aspects of the Mzansi story is that, despite its large scale and high profile, it did not crowd out these smaller, more entrepreneurial approaches. In fact, according to Capitec, Mzansi probably helped Capitec by increasing the general awareness of banking amongst low-income segments. It remains to be seen which approaches endure. However, it seems clear that having a diversity of approaches, rather than one uniform collaborative effort, has made for greater creativity and energy to be released into this area than had there been one approach alone. After all, as shown below, Mzansi only accounts for half of the increase in the percentage banked over the four year period.

5.2 What are the lessons to extract from the Mzansi initiative for other countries?

Policy makers in developing countries are increasingly considering ways to promote financial inclusion. While promoting credit to small businesses, farmers or individuals has been the traditional approach, in a number of countries, policy makers now also or as an alternative favour the provision of basic bank accounts. This is because they are seen as a safer and more incremental means of financial inclusion than pushing access to credit first or alone. Consequently, considerable international interest has been expressed in Mzansi as an example of a large scale basic account rollout. For instance, the World Bank's *Banking the Poor* report (2008: 48,49), states: "The evidence from South Africa (with respect to basic bank accounts) is...positive. The voluntary code led to the opening of a million accounts in the first year alone, amounting to an additional 8.5% of total accounts, representing 4% of total population."

What then are the lessons for other countries from the Mzansi Initiative? Is it replicable outside of South Africa? To answer these questions, we need to understand which features of the South African context during the period affected the outcome of the Mzansi Initiative. The following stand out in particular:

- *South Africa has a concentrated and mainly privately owned retail banking system:* Mzansi was possible in part because it required only four private competitors to collaborate. However, banking markets in other countries such as Mexico share these features, even if others like Brazil and India have more state bank participation.
- *The level of 'bankedness' at the outset (45%) was already quite high for a middle income country* relative to say, Mexico or Colombia, but comparable with Brazil; in other words, the NEA offerings to the mass market launched in the 1990's were already established and profitable, complicating the dynamics of launching a basic product which could undermine them.
- *The level and credibility of the political threat perceived by banks was high*, even though no actions had been taken; indeed, the Charter was designed as a sector-led response to avoid the need for intervention.

Of this list, it is on the last point on which South Africa at first seems most different: Mzansi is first and foremost a child of the Financial Sector Charter and no other country has yet created such a sweeping yet voluntary social compact for the financial sector which includes access dimensions. It was then, and



remains now, unusual internationally for any such national compact to include such explicit commitments to offer savings and transaction accounts. However, in the absence of such a framework, a collaborative exercise of the scale of Mzansi is perhaps unlikely. Since the access components were only one part of the broader Charter, it is beyond the scope of this report to discuss whether such Charters are likely, or even desirable, in other places. Perhaps the most which can be said is that, if there is to be a Charter in a country, the explicit inclusion of savings and transactional dimensions, as in the South African case, is a good thing for the broader cause of financial inclusion, rather than a narrow focus on credit or investment alone.

However, the South African Charter can also be seen in a more general light as a specific case of a sectoral response to increasing threat of government intervention. In these terms, South Africa lies in the middle ground of a country spectrum of possible policies towards intervention in the financial system for equity-related reasons: neither in the activist group of countries where specific legislation or regulation compels affirmative access or lending; nor among the passive group in which the authorities do not address this issue at all (which may be the majority of low income countries). The middle ground can be distinguished further by the degree of political pressure exercised—from pure moral suasion to the threat of coercive action. As an example of the former, the Governor of the Central Bank of Kenya has encouraged banks there to offer them, but has taken no further action.⁷⁶ The South African Charter was born in an environment in which the threat of action was elevated well above this level.

A further dimension influencing government policy is whether or not the state can rely on its own agents—state owned banks—to implement an access agenda. In a number of countries like India and Brazil, state owned retail banks play a more prominent role in the financial system than the Postbank does in South Africa.

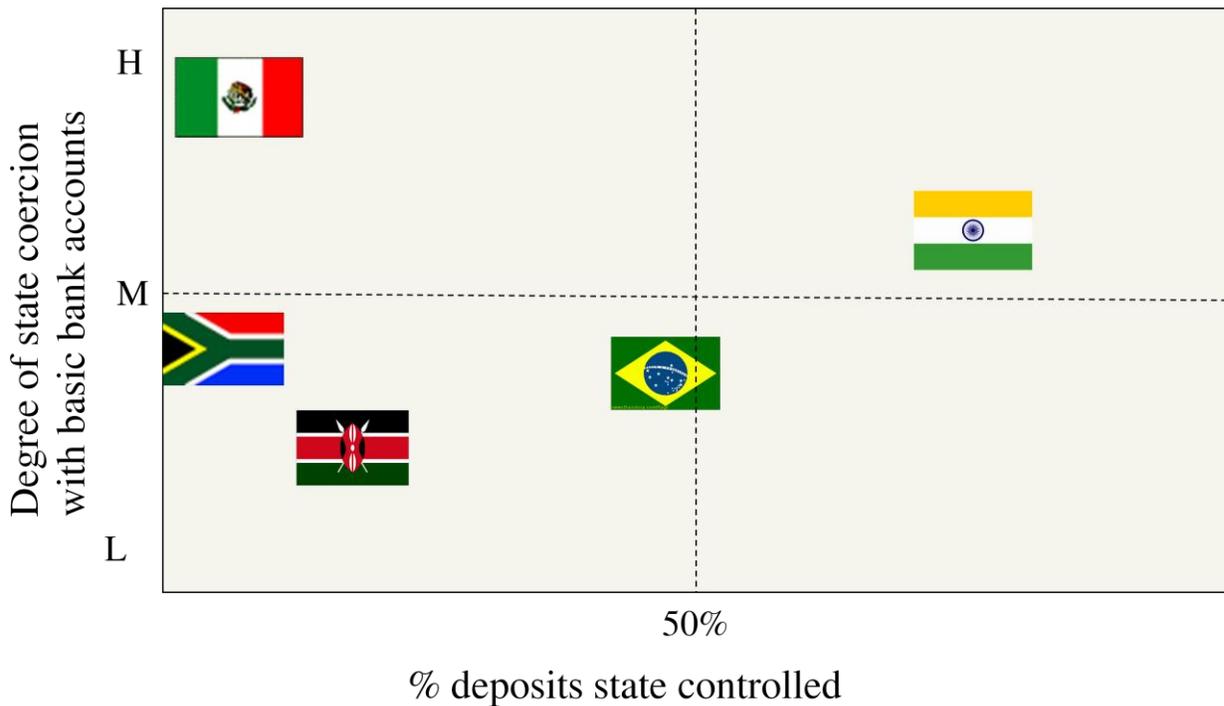
Therefore, it is possible to locate countries with respect to the position on basic bank accounts in two dimensional space shown in the Figure below: the horizontal axis captures the share of deposits held by state controlled banks using World Bank data; while the vertical axis contains a more subjective measure of the extent of coercion to issue basic bank accounts. This ranges from high in Mexico, where since 2007 all banks have been required to issue a form of basic bank account with prescribed fees; through a middle zone in which for example India requires all social benefits to be paid into bank accounts and has exercised considerable pressure on private and public banks to issue basic accounts; down to a lower (but not negligible) degree of pressure illustrated by the Governor of the Central Bank of Kenya verbally “challenging” banks to offer basic bank accounts with low/no fees.

In this picture, South Africa looks more like Mexico in that the banking system is mainly private; and more like India in that the Charter has created a framework in which there is pressure, but not compulsion, to issue basic bank accounts.

⁷⁶ “In Kenya, at the recent launch of a report on bank charges and fees, the Governor of the Central Bank, Prof Njuguna N’dungu, suggested ‘I believe there is scope in this regard through the Kenya Bankers’ Association for the development of a basic, competitive no frills account that can be offered by all banks. Such an account would have low or nil minimum balances as well as minimal charges if any... My challenge therefore is to the KBA to spearhead an initiative in this regard, to develop a uniquely Kenyan *Mzalendo* basic transactional account. The Central Bank stands ready to support this kind of innovation.’”
Cite: http://www.bankablefrontier.com/weblog/2007/09/kenya_becomes_latest_nation_to.html.



Figure 28: The context of basic bank accounts in selected developing countries only



Seen in this light, South Africa is no longer such a special case. Nevertheless, this does not necessarily make the Mzansi Initiative more replicable across countries. However, the experience of the Mzansi Initiative does shed more light on the general question of whether policy makers elsewhere should encourage or push for collaborative approaches to basic account issuance.

The review of lessons learned above suggests that there is no easy or general answer to this: it will depend on who collaborates and on what basis. To the extent that the collaboration mutes the commercial incentives of private banks to pursue the new market, it is unlikely to endure in the long term once the non-financial incentives (such as Charter points in this case) have been removed. To the extent that the collaboration makes it harder for other business models or new entrants to compete, this may limit the dynamism of the sector over time. The Mzansi Initiative does show how the boundaries of competitive versus collaborative space may change over time: after a highly collaborative start, Mzansi is *de facto* no longer collaborative. Therefore, it is important at least that the mechanisms for cooperation allow for flexibility and evolution over time.

Certainly, it may be unnecessary to go so far as to create a common product category or brand like Mzansi. However, there may still be areas relating to basic accounts in which collaboration among banks may be fruitful:

- *Consumer education:* the Mzansi experience has shown how hard it was to get the word out to everyone that it was available, and even to its users, as to what its features and rules were. Collective action may boost the impact of a campaign to educate potential clients on the benefits and uses of basic accounts; or simply signalling that banks' doors are indeed open to all. Sharing the costs of a large scale campaign to raise awareness, or where necessary, to change the image of the banking sector as distant and aloof may be useful. Because of the costs of



collective action among banks, 'awareness' advertising of this sort is often left to the likes of VISA (on behalf of member banks), but in many developing countries there is a case to go well beyond such efforts in scale and depth.

- *Shared banking infrastructure:* Bank infrastructure such as branches, ATMs and even agents incur costs to establish and maintain. A basic bank account requires pervasive and affordable access to points of presence at which it can be used. There is good economic reason to encourage higher usage of existing infrastructure, and to rationalize investment in new infrastructure, through interoperability of systems. However, since incumbent banks have carried the cost of deploying this infrastructure and often see this as part of their competitive advantage, they may be unwilling to share access with the clients of other banks hence collaboration in this area may require more pressure from authorities. Arguably, government pressure in this specific area of shared access to banking infrastructure, rather than on the issuance of basic accounts *per se*, may be more likely to yield an affordable and pervasive banking proposition.

In the final analysis, more than anything else for cross country-purposes, the Mzansi Initiative does demonstrate again the case previously shown in the large scale take-up of simple bank accounts offered by institutions like BRI in Indonesia and Equity Bank in Kenya: there is powerful demand for simple banking services. Of course, the presence of demand alone does not make the business case for offering such services sustainably, anymore than Mzansi's large take up has made the proposition economic for South African banks. However, it should add a degree of confidence and comfort to both policy makers and bankers in other countries considering basic bank accounts that they at least are working in a promising category of banking products.



Section 6: Conclusions

The evidence in this report leads us to the conclusion that the Mzansi Initiative has been a success, both in narrow terms of meeting Charter objectives and in broader terms of generally meeting the expectations of participating banks, the needs of its clients and substantially shifting the frontier of transactional banking and usage in South Africa. It has likely catalyzed greater attention to the low end market by the participating banks (and others) than would otherwise have been the case. However, it is not an unqualified success: in many ways, after the initial energy and focus of its launch, the ongoing take-up has had less to do with the marketing actions and energy of most of its member banks, and more to do with the latent need which it satisfies, driven by word-of-mouth. Indeed, the remaining collaboration is now at such a low level that it can hardly be described as an 'Initiative' anymore, even as the product category created by the Initiative continues to grow.

What, then, is the outlook for Mzansi in the future? The question is sharpened by the reality in early 2009 that the framework of the Financial Sector Charter appears to be being dismantled and hence the incentives and penalties of that framework will diminish in importance in the minds of issuing banks. The task of this report is not to speculate or project on the future of the Charter, but in the light of these findings, suggest possible future trajectories for Mzansi in the form of mini-scenarios which may assist the Mzansi issuers and others to make wise choices.

Clearly, the default scenario in the minds of most of the big banks is that of a gradual decline in active numbers using the product, at least at the private banks (see **"Fade away"** in the Figure below). This gradual decline will happen as active numbers inevitably decrease over time through churn and no new promotion. Already, it is hard to find reference to Mzansi products in private bank offerings which tend to be buried and linked to notions of corporate social responsibility. The decline may well be exacerbated by competitive private offerings from non-Mzansi banks such as Capitec or from particular Mzansi banks which broaden their low end product range with other competitive products. According to this view, the decline will be gradual: even without the benefit of earning Charter points anymore, no private bank can afford the reputational risk of suddenly withdrawing from the Mzansi Initiative, and unilaterally altering the conditions on existing accounts (for example, increasing fees or minimum balances to NEA standards) so that a majority of Mzansi accounts are *de facto* closed. Of course, even without private bank enthusiasm, Postbank remains enthusiastic about the product, but this may be linked primarily to the favourable price which its Mzansi clients receive to use other bank ATMs: this benefit would be reduced if other banks withdrew.

However, although the pressure not to withdraw unilaterally is strong, it is nonetheless possible that, in the absence of a Charter or any other prevailing force to offer basic accounts, one bank which faces more pressure than others to cut costs and raise profitability breaks ranks and ends its cooperation. This move could trigger a withdrawal by others as well, limiting the access to ATMs on favourable terms. This process would accelerate the baseline decline in Mzansi accounts outstanding (see **"Withdraw"** below).

Both of these mini-scenarios suggest that the heyday of Mzansi as it is presently configured is over. This raises the question of which instrument the banking industry should be using in order to capture the further 4-5 million unbanked people within reach of basic banking in South Africa (see the second Figure and Table in section 4.4 above). There are clearly limits to what private banks can offer to people who lack any regular income, and who retain little or no balance and hardly transact.



However, the analysis of the unserved group still within the access frontier showed that a significant number of pensioners and others dependent on government transfers remain outside of the banking system. Government policy in this area has been clear – expressing a desire to move social transfer recipients towards bank accounts – but its actions mixed, for example, placing an elaborate and potentially expensive request for proposal for ongoing cash payments in a vexed process which has been subject to delay and legal contestation. In fact, according to the South African Social Security Agency, only 20% of the approximately 12 million monthly social grants are paid directly into bank accounts. According to FinScope 2008, 44% of grant recipients in the country are unbanked; although at least one million of the grant recipients are current Mzansi account holders. Government currently pays private contractors (one linked to one of the major banks) a fee of between \$2.50 and \$4 per cash payment (depending on province), which could be substantially reduced if an electronic payment were made to a bank account.

If even a part of this amount were paid to a bank to cover the maintenance costs of a basic bank account, all parties (other than the current payments providers) may be better off—not least the client who receives a safe place to store money. This has in fact happened in a limited way in certain provinces to date *inter alia* through Allpay’s Sekulula Initiative.

The process of taking advantage of this untapped segment has begun; but, as one banking stakeholder stated, the numbers are so large that the millions of cash payments cannot be converted to banking channels too quickly or it will literally overwhelm the existing infrastructure. Nonetheless, in designing future strategies targeting the unbanked, the dynamics of social grant money flows must be considered.⁷⁷ A clear policy in this regard could ‘nudge’ or ‘push’ more government recipients to this platform, requiring that they have bank accounts as in the case of India, and result in greater volumes and revenues for Mzansi.

Are there any other feasible sets of circumstances which could result in the rebirth of the Mzansi Initiative in ways which would create incentives for customers and banks to sign up? Another positive scenario (“**reborn**”) would envisage the recreation of Mzansi around a new project of national importance: for example, following precedents in certain countries like US and UK, and using Mzansi as the centre piece of a national savings drive targeted at, say, the youth. Using the Postbank as the main issuer (because the costs are effectively subsidized), government could offer to open an Mzansi account for all children who reach a certain age, and deposit an amount into the account which could be withdrawn only once matching savings had been accumulated or a certain age reached. Thus, Mzansi would be the product at the centre of a national savings initiative targeting the young with more than just a message but also the concrete opportunity and incentive to start saving. This may be hard to achieve in practice however.

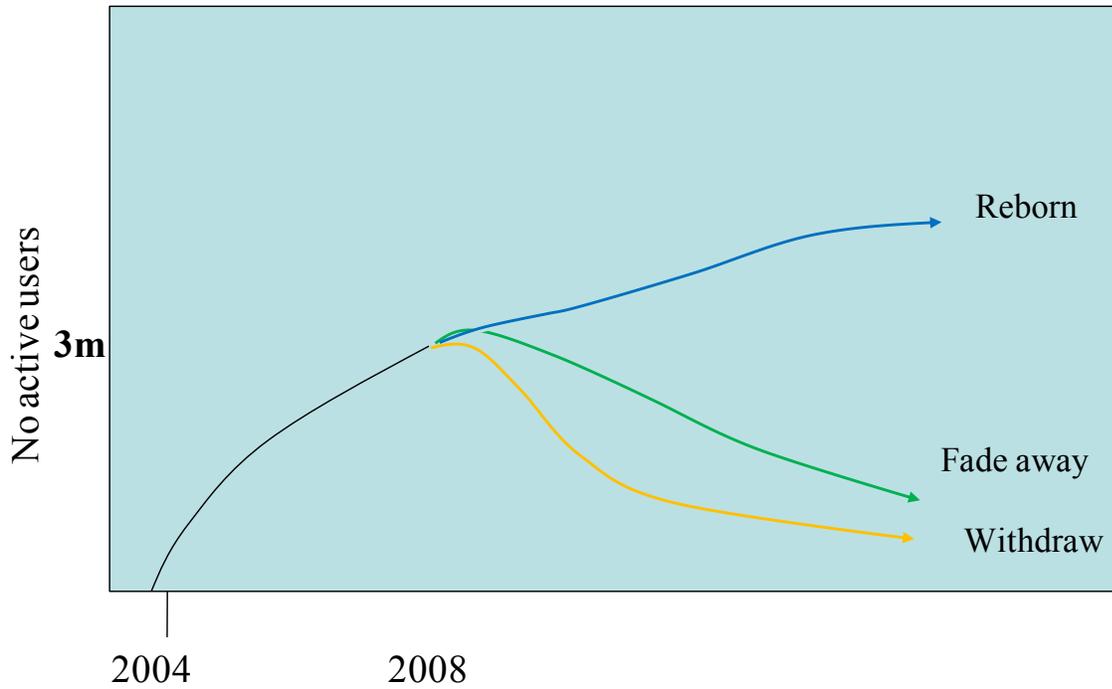
These mini-scenarios have focused on the future of Mzansi as an Initiative and a specific product category. However, this is not the same as considering the future of low end account offerings as a whole, or still less, of financial access in South Africa. The example of Capitec Bank suggests that, under certain conditions (high interest rates charged on loans), it is possible for a private sector business model to provide low end transaction accounts with substantially similar functionality to Mzansi, and even arguably better terms—higher interest rates for those who save, and no higher transaction costs.

⁷⁷ See the recent report for DFID: BFA (2008) “Social transfers and financial inclusion” for more information on this opportunity and practices across a range of countries.



Among Capitec, Wizzit, Teba Bank and most Mzansi banks, the quest continues for innovations which will enable profitable, sustainable banking products at the low end of the market.

Figure 29: Future scenarios for Mzansi



To be sure, even in the absence of the Charter, pressures on banks will continue in areas such as bank charges: the Competition Commission's (2008) Banking Enquiry report recommends "pricing initiatives aimed at reducing the fee burden on customers. Such initiatives include ad valorem pricing, banded fee options and appropriately bundled packages. They were highlighted by the banks as being beneficial to customers, but do not appear to be generally offered to lower-income customers or on entry-level accounts."⁷⁸

The enduring legacy of the Mzansi Initiative may be less about the uniform brand and the specific product category which was created in 2004, and not even mainly about the large take-up we have witnessed, since this may not endure. Instead, the legacy may be more in the way in which the Initiative has catalyzed the interest of large banks in the large segment at and even below the already-extended access frontier of banking. In this sense at least, Mzansi has opened a gateway to dealing with a new and large segment of the population that was previously deemed beyond the frontier of commercial sustainability.

⁷⁸ Banking Enquiry, June 2008 (Recommendation 21).



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⁷⁹ Confidential information obtained from the five respective participating banks is not identified in this References list; nor are the websites for the following five banks, all of which were used for this report: Absa, Capitec, FNB, Nedbank and Standard. Also, the various cited FinScope SA databases, as well as the project's Mzansi-specific survey are not cited here (Appendix 6).



Appendix 1: People interviewed

In order of meeting:

Institution	Individuals met
Not applicable	Charles Chemel
Standard Bank	Bob Tucker Sugendhree Reddy, Director of transaction products Vilma ____ Fanie Meades, Head of personal transaction product Darren Linnell, Manager of Mzansi account (since left) Theunis Duvenhage, Head of Branch banking channels
Nedbank	Sakkie O'Neil, Transformation Manager Vanesha Palani, Manager of transactional products Leon Daniels, Consumer banking strategy Poovi Pillay, Foundation segment Petrus (Oupa) Ramutla, Prior manager of Mzansi account Yudhvir Harrilal, New manager of Mzansi account
Banking Association	Cas Coovadia, Managing Director Stuart Grobler, General Manager Fikile Kuhlase, General Manager Nwabisa Matoti, Research Manager Muzi Mhlambi, Personal Assistant
FNB	Linè Wiid, CEO Smart Solutions Jeff McDonald, Head of Product & Marketing (Smart) Amanda Adendorff, Transactional Product Owner (Smart) Sylvester Nabira, Head of Strategic Marketing (Smart) Yoricke Esterhuysen, MIS Manager (Smart)
ABSA	Sonja van Vliet, Head Strategic Development Michael Alman, Contractor Ian Whitley, Manager of Mzansi account Tommy Matthews, Consultant Customer Analytics Vivienne Pratt, Customer Analytics
National Treasury	Koko Monama, Deputy Director of Financial sector policy Riaz Ahmad, Financial sector policy unit
Charter Council	Busi Dlamini, Chief Operating Officer
Teba Bank	Max Modise, Marketing manager
Postbank	Totsie Memela-Khambula, Managing Director of Postbank
Capitec Bank	Carl Fisher, Head of Marketing & Communications



Appendix 2: Fee comparison

(Websites as of August 2008 (USD; exchange rate: 1USD = Rand 10.0))

	ABSA	Standard	FNB	Nedbank	Postbank
As of:	Sept. 1, 2008	Jan. 1, 2008	July 1, 2008	July 1, 2008	April 1, 2008
<u>Balance req'ts</u>					
Opening	\$1.00	\$2.00	None	\$2.00	\$1.00
ongoing minimum	None	\$2.00	None	?	None
maximum	\$1,500	\$1,500	\$1,500	\$1,500	\$2,500
<u>Fees:</u>					
monthly service charge	Free	Free	Free	Free	Free
penalty for high activity	After 5 credits or 5 debits (/mo), penalty of \$1.25 per trans., plus the regular fee.	After the first 5 deposits and withdrawals, the transaction fee is doubled.	After 8 monthly transactions, penalty of \$0.80 per transaction, plus the regular fee.	No.	No.
<u>Cash Deposits:</u>					
1 st deposit (any)	Free	Free	Free	Free	Free up to \$200; if > \$200, fee is 1% of deposit amount
Branch-OTC	\$1.00	\$0.86	\$0.50	\$0.52	
ATM on us	\$0.40	\$0.43	Free	\$0.52	N/A
Check Deposit	?	?	Free	Free	Free
<u>Cash Withdrawals:</u>					
Branch-OTC	\$1.00	\$0.86	\$0.80	\$1.02	\$0.83
ATM on us	\$0.40	\$0.43	\$0.40	\$0.42	N/A
ATM not on us	\$0.40	\$0.43	\$0.40	\$0.42	\$0.45
POS	\$0.40	\$0.43	\$0.19	\$0.30	\$0.16
Other	\$1.00 P.O. terminal		\$0.20 FNB mini-ATM	\$1.02 P.O.	



	ABSA	Standard	FNB	Nedbank	Postbank
Balance inquiry:					
Branch-OTC	\$0.25	\$0.43 (incl. statement)	Free	Free	Free
ATM on us	1 st two free; then \$0.10	Display only is free; 1 st (w/ MS) free; then \$0.22	Free	\$0.10; free at 'selfserve term.'	N/A
ATM not on us	\$0.10	?	\$0.10	\$0.10	\$0.11
Cellphone*	?	?	Free	?	?
Statements:					
Branch-OTC	\$0.25	\$0.43 (older statements cost more)	\$0.24	1 st free; then \$0.22	Free OTC (Mailed statement is \$0.69)
ATM on us	\$0.10	1 st free; then \$0.22	\$0.10	\$0.20; 1 st free at 'selfserve term.'	N/A
Cellphone*	?	?	Free	free via web	?
Debit Orders:					
Internal	\$0.30	1 st five at \$0.43; then \$0.85; but 1 st two internal are free	\$0.25	\$0.12	\$0.30
External	\$0.50		1 st \$0.40; then \$0.55	\$0.22	\$0.30
POS Purchase	\$0.22	\$0.20	\$0.19	\$0.20	\$0.16
Linked account transfers:					
Branch-OTC	\$1.75	?	\$1.65	?	N/A
ATM on us	\$0.30	?	\$0.30	\$0.12	N/A
Cellphone*	?	?	Free	\$0.12	N/A
Account payments:					
Branch-OTC	\$1.75	?	\$1.65	?	?
ATM on us	\$0.50	?	\$0.65	\$0.22	?
Cellphone*	?	?	Free	\$0.22	?
Payment dishonor penalty	1 st free; then \$0.50	1 st two free; then \$3.15	1 st free; then \$3.00	1 st free; then \$1.00	???



Declined penalty	free (?)	\$0.22 at ATM.	ATM free; other \$0.13	\$0 at branch; \$0.10 at ATM	???
Stop Order:					
set-up/modify	Free	?		Free	?
processing	\$0.30 internal \$0.50 external	?		\$0.22	?
Card issuing fee	Free	?	\$0.50 per mo. for 1 st 5 mos.; then free	Free	?
Scheduled payment	?	?	\$0.65	?	?
Other comments			Free "inContact" (sends SMS or email for every transaction) and free Cellphone Banking	Daily limit of \$500; monthly \$2,500.	
	ABSA	Standard	FNB	Nedbank	Postbank



Appendix 3: Interest rates offered on Mzansi bank accounts

As of April 2008

	FNB	ABSA	Standard	Nedbank	Postbank
First threshold	\$0.01 - \$50 1.25%	\$0.01 - \$49 1.40%	\$0.01 - \$4.99 2.00%	\$0.01 - \$49 0.25%	\$0.01 - \$50 2.00%
Second threshold	\$51 - \$100 2.00%	\$50 - \$99 2.15%	\$5 - \$100 2.50%	\$50 - \$99 0.50%	\$51 - \$200 3.00%
Third threshold	\$101 - \$200 2.25%	\$100 - \$199 2.65%	\$101 - \$500 3.00%	\$100 - \$199 1.00%	\$201 - \$500 3.25%
Fourth threshold	\$201 - \$500 2.75%	\$200 - \$499 3.15%	N/A	\$200 - \$499 1.50%	N/A
Highest threshold	\$501+ 3.25%	\$500+ 3.65%	\$501+ 3.50%	\$500+ 2.25%	\$501+ 3.75%%



Appendix 4: Mzansi Banking Services Offered via Mobile Phone

	FNB	ABSA	Standard	Nedbank	Postbank
Balance inquiry	Free	Free	Free	Free	N/A
Statements/ transaction history	Free	R0.45	Free	???	N/A
Transaction confirmation	Free, sent automatically via SMS or email on all transactions >R100	R0.45	Working on it.	???	N/A
Transfer, third party payment, or cell top-up	Free, once recipients pre- loaded	R3.00 for transfer; payment???. free for cell top-up	Free for cell top-up; no ability to do other payments.	Free	N/A



Appendix 5: Comparison of answers to “Opinion” questions

	Strongly agree (= 1)	Somewhat agree (= 2)	Neither agree nor disagree (=3)	Somewhat disagree (= 4)	Strongly disagree (= 5)	Avg. Score
1. Mzansi has been a successful product for this bank.	1	3	1	0	0	2.0
2. Mzansi has been a successful product for the banking sector.	2	2	1	0	0	1.8
3. The case for maintaining Mzansi as a distinct brand remains strong.	1	3	0	1	0	2.2
4. The Mzansi brand has become a valuable financial service brand in SA.	0	2	0	3	0	3.2
5. An Mzansi-style product solution was only possible due to the FSC.	3	1	0	1	0	1.8
6. Banks can 'do better' than Mzansi today, on their own.	1	2	1	1	0	2.4
7. Mzansi has been a catalyst for Banks' penetration into the entry-level market.	3	1	0	1	0	1.8
8. Easily accessible banking infrastructure is as important as a suitable product.	4	0	1	0	0	1.4
9. Mzansi has been a success in terms of promoting wider access to financial services.	2	2	1	0	0	1.8
10. The net benefits to the bank have equaled or exceeded the net detriment to the bank from 'cannibalization'.	0	3	2	0	0	2.4
11. Over the long-term, Mzansi is likely to be a worthwhile means to create long-term, profitable customers that would otherwise not have been sought.	0	2	0	2	1	3.4
12. The bank will likely offer other Mzansi branded products in the future.	1	0	2	1	1	3.2
13. Mzansi was/is an efficient means to help the banking sector realize FSC objectives relating to savings and transactional account access.	2	2	1	0	0	1.8
14. Leaving 'political considerations' aside, Mzansi is (has been) a worthwhile economic initiative for the bank.	1	0	2	1	1	3.2
15. A significant number of the bank's "new" Mzansi customers (i.e., those that were not the bank's customers before Mzansi) have 'graduated' to take-up some of the bank's other (non-Mzansi) bank accounts and/or other financial services.	0	3	0	1	1	3.0
16. Compared to the bank's expectations at the time of Mzansi's launch:						
(a) the bank has opened more Mzansi accounts than expected.	2	2	0	1	0	2.0
(b) the bank's Mzansi revenues were higher than expected.	1	0	2	1	1	3.2
(c) the number of Mzansi users 'graduating' to the bank's other (non-Mzansi) bank accounts or financial services was higher than expected.	0	0	5	0	0	3.0



Appendix 6: Demand-side Mzansi survey methodology

The demand-side Mzansi survey was based on a quota sample. The quota sample design was based on the profiles of existing and lapsed Mzansi users achieved in FinScope 2007.

For existing users, a sample size of $n = 1\,000$, was chosen in order to ensure that, for each of the 5 banks issuing Mzansi accounts, a sufficient sample of at least $n = 100$ respondents would naturally be achieved (i.e. with $n = 1\,000$, quotas on individual bank usage would not be required).

For lapsed users, it was decided that a sample of $n = 300$ would provide a large enough base size to 'drill down' and analyse lapsed sub-samples.

The areas selected for fieldwork were drawn based on the Mzansi status discussed above, FSM and racial profile of EAs used in the FinScope 2006 and 2007 samples.

Since the target populations skew towards FSM 4-6 (in 2007, 74% of current and 50% of lapsed users were classified within FSM 4-6), it was decided to interview respondents who matched this criterion. As it would not be possible to screen respondents on specific FSM tiers, the decision was made to ensure that the areas selected for interviewing should match the target sample as closely as possible. Data was reviewed at EA level and qualifying EAs were identified based on the FSM status of the respondents interviewed in the EA. Where at least 4 out of the 6 respondents interviewed in an EA were classified as FMS 4 to 6, this EA was identified for inclusion into the final sample. A total of 362 of the 1300 original EAs qualified.

As the next step, the dominant race group in each EA was determined. This was done with reference to the dominant race group given in Prof Stoker's (statistical consultant responsible for the sample on all FinScope South Africa studies) sample data for each year (2006 and 2007 respectively). In order to find respondents that most closely matched the desired current and lapsed Mzansi racial profile of FinScope studies, only EAs where the dominant race group is given as Black or Coloured were selected for inclusion into the final sample. This resulted in a total of 211 qualifying EAs.

For the purpose of this study, it was decided that 5 interviews would be completed per starting point in both metro and non-metro areas. The EAs in which these starting points would fall, and where interviews would be completed for this study were selected through sampling with probability proportional to size. Here the qualifying EAs were listed in each stratum, along with their associated populations. These numbers were cumulated – effectively numbering the population. Random numbers were used to select these notionally numbered people. The probability of an EA in this list being selected was then directly proportional to its size.

Using a buffer function, maps which indicated the area in which field workers were allowed to interview *around* the selected EA were created. These areas were defined as being a zone 4km wide around a non-metro EA, and 2km around a metro EA.

The current and lapsed Mzansi sub-samples were drawn based on area breakdown derived from the FinScope 2007 sample. The final sample achieved is shown in the Table below.



	Current Mzansi holders		Lapsed Mzansi holders	
	Metro	Non-Metro	Metro	Non-metro
Western Cape	54	19	21	11
Eastern Cape	30	84	0	11
Northern Cape	0	20	0	5
Free State	0	80	5	10
KZN	75	116	34	19
North West	0	64	0	6
Gauteng	215	15	140	1
Mpumalanga	0	75	0	30
Limpopo	0	150	0	10
TOTAL	374	623	200	103

Note that although every effort was made to increase precision and minimize sampling bias through this methodology, the resultant sample is based on a quota and the usual caveats of such sampling apply. It is not a representative sample to the same degree as the FinScope South Africa. For example, when compared against FinScope, it is important to note that the lack of FSM 1-2 lapsed Mzansi users (26% of lapsed Mzansi users in FinScope 2008 sample) provides cause for caution to be exercised. However, with the exception of gender (where the FinScope finding that Mzansi users are more likely to be female has been confirmed), the samples agree satisfactorily on all general demographics.

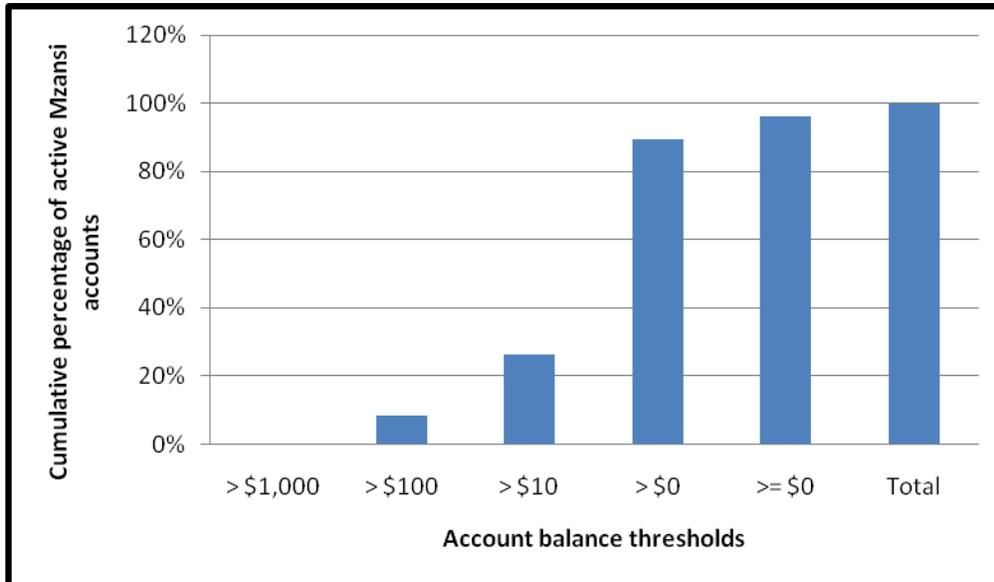
Since the final Mzansi sample completely falls into FSM 3-6, unless specifically stated otherwise, comparisons made with FinScope throughout the presentation are made against the weighted FinScope 2008 sample filtered on FSM 3-6.



Appendix 7: Additional account profile & other data

The next two Figures present additional views of the so-called balance bands, for one of the four private banks (the only one to kindly provide such insightful data), which reveals further insights into the fact that the vast majority of active accounts (Charter definition) have very small balances. The Figure below shows, *inter alia*, that only 26% of accounts have a balance above \$10 and only 8% of accounts have a balance above \$100.

Figure 30: A Private Bank: Cumulative *number of accounts* above given balance thresholds



The Figure below shows within which balance band (between \$100 and \$1,500) the bulk (70%) of the monetary value of Mzansi balances lie, even though only 8% of all accounts are in this balance band.

Figure 31: A Private Bank: Distribution of *value* of total balances across certain balance bands

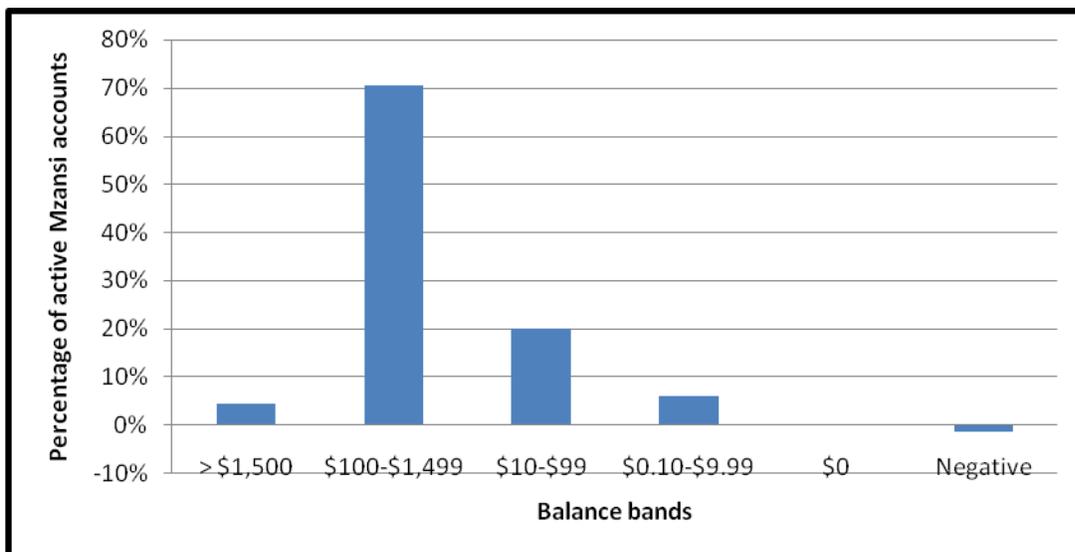




Figure 32: Mzansi accounts: Number of monthly transactions⁸⁰

		Number of monthly transactions				
		Avg.	Bank A	Bank B	Bank C	Bank D
<u>Debits</u>						
	% of debits					
ATM withdrawals	82%	1.64	1.85	1.82	1.49	1.38
Branch withdrawals	3%	0.07	0.05	0.05	0.13	0.03
POS withdrawals	0%	0.01	0.03	0.00	0.00	0.00
POS purchase	8%	0.17	0.16	0.19	0.19	0.12
Debit orders	6%	0.11	0.10	0.14	0.15	0.05
<i>Total</i>	100%	1.99	2.19	2.20	1.96	1.60
<u>Credits</u>						
	% of credits					
Electronic transfers in	53%	0.51	0.47	0.54	0.46	0.55
Deposits	44%	0.42	0.42	0.42	0.57	0.28
Returned debit order	3%	0.03	0.02	0.09	0.00	0.00
<i>Total</i>	100%	0.96	0.91	1.05	1.03	0.83
Balance/statement inquiries		0.37	0.16	0.54	0.56	0.20
Total number of transactions		3.31	3.26	3.79	3.55	2.63

Source: Bank responses to questionnaire.

Figure 33: Mzansi accounts: Value of monthly transactions⁸¹

		Dollar value of monthly transactions				
		Avg.	Bank A	Bank B	Bank C	Bank D
<u>Debits</u>						
	% of debits					
ATM withdrawals	80%	-\$52.44	-\$61.20	-\$57.90	-\$48.70	-\$41.96
Branch withdrawals	12%	-\$7.99	-\$8.20	-\$7.60	-\$10.80	-\$5.34
POS withdrawals	0%	-\$0.18	-\$0.70	\$0.00	\$0.00	\$0.00
POS purchase	4%	-\$2.58	-\$2.50	-\$2.90	-\$3.10	-\$1.83
Debit orders	3%	-\$1.76	-\$1.90	-\$2.00	-\$2.60	-\$0.54
<i>Total</i>	100%	-\$65.18	-\$74.50	-\$70.40	-\$65.20	-\$50.63
<u>Credits</u>						
	% of credits					
Electronic transfers in	75%	\$50.73	\$44.40	\$53.60	\$52.50	\$52.41
Deposits	25%	\$16.82	\$19.90	\$20.20	\$14.60	\$12.58
Returned debit order	1%	\$0.38	\$0.10	\$1.40	\$0.00	\$0.00
<i>Total</i>	100%	\$67.92	\$64.40	\$75.20	\$67.10	\$64.99
Fees		-\$1.26	-\$1.70	-\$1.30	-\$1.10	-\$0.93
Monthly surplus or deficit		\$1.48	-\$11.80	\$3.50	\$0.80	\$13.42

Source: Bank responses to questionnaire.

⁸⁰ This data is only for active Mzansi accounts at the four private banks.

⁸¹ This data is only for active Mzansi accounts at the four private banks.



Figure 34: Number of monthly transactions: Comparison of Mzansi to NEAs⁸²

	Number of monthly transactions (average of four private banks)			
	Mzansi		Nearest Equivalent	
<u>Debits</u>	% of debits		% of debits	
ATM withdrawals	82%	1.64	62%	2.78
Branch withdrawals	3%	0.07	2%	0.11
POS withdrawals	0%	0.01	0%	0.02
POS purchase	8%	0.17	16%	0.73
Debit orders	6%	0.11	17%	0.74
Other debits	0%	0.00	2%	0.09
<i>Total</i>	<i>100%</i>	<i>1.99</i>	<i>100%</i>	<i>4.46</i>
<u>Credits</u>	% of credits		% of credits	
Electronic transfers in	53%	0.51	39%	0.88
Deposits	44%	0.42	58%	1.30
Returned debit order	3%	0.03	2%	0.05
<i>Total</i>	<i>100%</i>	<i>0.96</i>	<i>100%</i>	<i>2.23</i>
Balance/statement inquiries		0.37		0.59
Total number of transactions		3.31		7.28

Source: Bank responses to questionnaire.

⁸² This NEA data is the aggregate (unweighted average) for three of the four private banks; the data from the fourth bank was incomplete and therefore was not used. The Mzansi data is for all four private banks.



Figure 35: Value of Monthly Transactions: Comparison of Mzansi to NEAs⁸³

		Dollar value of monthly transactions (average of four private banks)			
		Mzansi		Nearest Equivalent	
<u>Debits</u>					
	% of debits			% of debits	
ATM withdrawals	80%		-\$52.44	60%	-\$133.47
Branch withdrawals	12%		-\$7.99	18%	-\$40.67
POS withdrawals	0%		-\$0.18	0%	-\$0.50
POS purchase	4%		-\$2.58	8%	-\$18.20
Debit orders	3%		-\$1.76	12%	-\$26.70
Other debits	0%		\$0.00	1%	-\$2.53
<i>Total</i>	100%		-\$65.18	100%	-\$222.07
<u>Credits</u>					
	% of credits			% of credits	
Electronic transfers in	75%		\$50.73	66%	\$220.77
Deposits	25%		\$16.82	34%	\$114.23
Returned debit order	1%		\$0.38	0%	\$0.33
<i>Total</i>	100%		\$67.92	100%	\$335.33
Fees			-\$1.26		Unknown⁸⁴
Monthly surplus or deficit			\$1.48		\$113.27

Source: Bank responses to questionnaire.

⁸³ This data is the aggregate (unweighted average) for three of the four private banks; the data from the fourth bank was incomplete and therefore was not used; the Mzansi data is for all four private banks.

⁸⁴ One reported \$3.60 per account; another reported \$6.80 per account.



The following presents the Mzansi pricing for the so-called “Charter Bundle” for each of the four individual private banks, the average of which was used in a Figure in Section 3.8.

Figure 36: Comparison of “Charter Bundle” pricing, using Mzansi pricing (private banks)

	Number of transactions	US Dollars			
		Standard	ABSA	FNB	Nedbank
Monthly fee	1.0	\$0.00	\$0.00	\$0.00	\$0.00
Cash withdrawal:					
ATM on us	1.5	\$0.65	\$0.60	\$0.60	\$0.63
ATM not on us	0.5	\$0.22	\$0.20	\$0.20	\$0.21
Branch deposit	1.0	\$0.00	\$0.00	\$0.00	\$0.00
ATM balance inquiry	1.0	\$0.00	\$0.00	\$0.00	\$0.10
Debit order (external)	1.0	\$0.43	\$0.50	\$0.40	\$0.22
Total (all transactions)	5.0	\$1.29	\$1.30	\$1.20	\$1.16

Source: BFA calculations based on data provided by banks and/or published on their websites

The next Figure presents the NEA pricing for the Charter Bundle for each of the four individual private banks, the average of which was used in a Figure in Section 3.8. Based on this bundle, Mzansi offers substantially less expensive pricing than the NEAs for the respective banks: from 50% at Nedbank (which has the lowest pricing of the four in both product categories) to 59% savings at FNB to 63% savings at Standard to 67% savings at ABSA.

Figure 37: Comparison of “Charter Bundle” pricing, using NEA pricing (private banks)

	Number of transactions	US Dollars			
		Standard E-Plan	Absa Flexisave	FNB Smart	Nedbank Transactor
Monthly fee	1.0	\$0.70	\$1.00	\$0.95	\$0.65
Cash withdrawal:					
ATM on us	1.5	\$0.80	\$1.13	\$0.80	\$0.71
ATM not on us	0.5	\$0.60	\$0.68	\$0.55	\$0.59
Branch deposit	1.0	\$0.71	\$0.53	\$0.00	\$0.00
ATM balance inquiry	1.0	\$0.12	\$0.00	\$0.00	\$0.00
Debit order (external)	1.0	\$0.54	\$0.65	\$0.65	\$0.40
Total (all transactions)	5.0	\$3.47	\$3.98	\$2.95	\$2.35

Source: BFA calculations based on data provided by banks and/or published on their websites



The following Figures disaggregate certain columns of a Table in section 3.8.

Figure 38: Comparison of “NEA Average Bundle” pricing, using NEA pricing (private banks)

	Number of transactions	US Dollars				Average of 4 Private	Capitec
		Standard	ABSA	FNB	Nedbank		
Monthly fee	1.00	\$0.70	\$1.00	\$0.95	\$0.65	\$0.83	\$0.38
Electronic transfers in	0.88	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Cash withdrawal:							
ATM on us	2.42	\$1.29	\$2.30	\$1.92	\$1.15	\$1.67	\$0.54
ATM not on us	0.35	\$0.42	\$0.54	\$0.48	\$0.48	\$0.48	\$0.23
Branch	0.11	\$0.21	\$0.51	\$0.57	\$0.27	\$0.39	\$0.02
POS	0.02	\$0.01	\$0.02	\$0.00	\$0.00	\$0.01	\$0.00
POS Purchase	0.73	\$0.15	\$0.19	\$0.14	\$0.15	\$0.16	\$0.00
Branch deposit	1.30	\$2.09	\$2.23	\$1.50	\$0.41	\$1.56	\$0.00
ATM balance inquiry	0.59	\$0.07	\$0.00	\$0.00	\$0.00	\$0.02	\$0.00
Debit order (external)	0.74	\$0.40	\$0.44	\$0.48	\$0.30	\$0.40	\$0.17
Other debits	0.09						
Returned debit order	0.05	\$0.16	\$0.03	\$0.15	\$0.14	\$0.12	\$0.02
Total (all transactions)	7.28	\$5.49	\$7.26	\$6.19	\$3.54	\$5.62	\$1.36

Source: BFA calculations based on data provided by banks and/or published on their websites

Figure 39: Comparison of “NEA Average Bundle” pricing, using Mzansi pricing (private banks)

	Number of transactions	US Dollars				Average of 4 Private	Capitec
		Standard	ABSA	FNB	Nedbank		
Monthly fee	1.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.38
Electronic transfers in	0.88	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Cash withdrawal:							
ATM on us	2.42	\$1.04	\$0.97	\$0.73	\$1.02	\$0.94	\$0.54
ATM not on us	0.35	\$0.15	\$0.14	\$0.14	\$0.15	\$0.14	\$0.23
Branch	0.11	\$0.09	\$0.11	\$0.09	\$0.11	\$0.10	\$0.02
POS	0.02	\$0.01	\$0.01	\$0.00	\$0.01	\$0.01	\$0.00
POS Purchase	0.73	\$0.15	\$0.16	\$0.14	\$0.15	\$0.15	\$0.00
Branch deposit	1.30	\$1.12	\$1.30	\$0.15	\$0.16	\$0.68	\$0.00
ATM balance inquiry	0.59	\$0.07	\$0.00	\$0.00	\$0.06	\$0.02	\$0.00
Debit order (external)	0.74	\$0.32	\$0.37	\$0.30	\$0.16	\$0.29	\$0.17
Other debits	0.09						
Returned debit order	0.05	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.02
Total (all transactions)	7.28	\$2.88	\$3.06	\$1.54	\$1.81	\$2.32	\$1.36

Source: BFA calculations based on data provided by banks and/or published on their websites



Appendix 8: South African Competition Law and Competition Enquiries

Competition Act

In South Africa, under the general Competition Act (1998),⁸⁵

“Restrictive horizontal practices prohibited

- ...4. (1) An agreement between, or concerted practice by, firms, or a decision by an association of firms, is prohibited if:
- (a) it is between parties in a horizontal relationship [(i.e., competitors)] and it has the effect of substantially preventing or lessening competition in a market, unless a party to the agreement, concerted practice, or decision can prove that any technological, efficiency or other pro-competitive, gain resulting from it outweighs that effect; or
 - (b) it involves any of the following restrictive horizontal practices:
 - (i) directly or indirectly fixing a purchase or selling price or any other trading condition;
 - (ii) dividing markets by allocating customers, suppliers, territories, or specific types of goods or services; or
 - (iii) collusive tendering...

Exemption

- ...10. ... (3) The Competition Commission may grant an exemption [for an agreement or practice by firms] if [it] is required to attain [any of the following] objective[s]:
- (i) maintenance or promotion of exports;
 - (ii) promotion of the ability of small businesses, or firms controlled or owned by historically disadvantaged persons, to become competitive;
 - (iii) change in productive capacity necessary to stop decline in an industry; or
 - (iv) the economic stability of any industry designated by the Minister [of Trade and Industry] after consulting the minister for that industry.”

2003 Task Force

In 2003, the National Treasury, supported by the South African Reserve Bank, commissioned a Task Group to undertake a study of “Competition in South African Banking”. The Task Group issued a 173-page report in April 2004, six months before the launch of Mzansi, which included the following excerpt from the ½ page “Conclusions and recommendations” section:

“Around half of South African adults have no or only marginal access to financial services. Basic banking services should allow electronic credits and payments as well as cash withdrawals and deposits. A National Bank Account [NBA] providing basic banking services has been proposed by the Banking Council. While the Task Group believes that the proposals to enable greater access to banking services should be encouraged, any initiatives for a [NBA] should neither further retrench the existing banking patterns nor pre-empt competition. In particular, the terms of the

⁸⁵ Other than reading the face of this legislation, no legal research (e.g., specific case law or administrative decisions interpreting these provisions, either generally or specific to the banking industry) was performed for the sake of this write-up.



[NBA] should not make it difficult or unprofitable for new entrants to enter the market. Hence, a [NBA] defined in terms of price-fixing and collusion and/or subsidy to one or more of the big banks [will pre-empt competition and] should be avoided...⁸⁶

2006 Banking Enquiry

In 2006, a formal Banking Enquiry was established by the Competition Commission “to examine certain aspects of competition in retail banking in South Africa.”

The “subject matter of the enquiry” was: “The level and structure of charges made by banks [and other payment service providers], including: (i) the relation between the costs of providing retail banking and/or payment services and the charges for such services; (ii) the process by which charges are set....”

“The objects of the enquiry [we]re, in connection with [this] subject matter...: (a) to increase transparency and competition in the relevant markets; (b) to ascertain whether there are grounds upon which the Competition Commission should initiate...any specific complaints of contravention of the Competition Act...”

The Enquiry had the benefit of requesting detailed submissions from banks and other stakeholders and there were five stages to the Enquiry:

- (1) general submissions by the banks;
- (2) public hearings;
- (3) specific questionnaires calling for detailed data submissions from the banks;
- (4) further hearings; and
- (5) analysis and report writing.⁸⁷

⁸⁶ Falkena, H. et al, *Competition in South African Banking*, April 2004, section 1.5.

⁸⁷ All of the above quotes are excerpts from the final report: Banking Enquiry, June 2008 (Section 1).



Appendix 9: Financial Sector Charter Scorecard

The Charter framework provides the opportunity for financial institutions to earn “points”, based on achieving specific performance benchmarks across nine substantive sections of the Charter and as detailed in an extensive “scorecard” contained as an annexure to the Charter. Section 16 of the Charter provides:

“The scorecard [is] an integral part of the financial sector charter and provides an objective and broad-based set of measurement indicators for purposes of measuring [Black Economic Empowerment] progress in and between financial institutions, in different sub sectors and in the financial sector as a whole. It will be used by:

- each financial institution as a basis for self-assessment of its BEE endeavours;
- the Charter Council as a means of evaluating BEE progress in the sector;
- Government in the adjudication of contracts awarded to financial institutions; and
- the private sector in the awarding of contracts to financial institutions.”

Achieving “effective access” to “transaction” and “savings products and services”, as detailed in Section 2.2 of this report, is one of several components of the overall “Access” section of the Charter, which itself is one of the nine substantive categories on which financial institutions are scored. Ultimately, the overall “Access” benchmarks constitute approximately 18% of the total score, with the more particular sub-components of “effective access” to “transaction” and “savings products and services” together constituting approximately 8% of the total score (4% each).

Without minimizing the importance of the first two bullets above, the last two bullets (i.e., Government and private sector contract procurements) appear to serve as a very significant incentive for the four private banks⁸⁸, inspiring them to aggressively work to actually achieve the established Charter benchmarks and not merely pay them “lip service”.

- What this means is that, first, when the Government (via its myriad of departments and agencies) determines to which financial institution it will bring its financial services needs (e.g., where it will maintain its bank accounts and who it will ask to process its payments, etc.), among other considerations, a significant factor will be the prospective financial institution’s performance (i.e., score) under the Charter. Whereas the Government is of course a big and valuable client (or prospective client) for each respective bank, the desire to score well under the Charter is a real motivating force thereunder.
- Second, and with similar ultimate effect and although a bit less direct, when companies within the private sector determine to which financial institution they will bring their financial services needs, the prospective financial institution’s Charter score will be a factor. This is especially the case with large companies that themselves compete for big Government contracts or other big private sector contracts, because other business sectors in South Africa (besides the “Financial Sector”) have their own respective charters (or the like) and a component therein is the BEE performance of the companies from whom they procure goods and services (e.g., financial services). In turn, the net result of this is that, *other things being equal*, companies in other

⁸⁸ The Charter is not applicable to Postbank.



sectors of the economy will prefer to do business with the financial institution with the highest Charter score.

And so the prospect of obtaining large “procurements” from the Government and other large private sector companies serves as a major incentive for each bank to take seriously its performance under the Charter. According to one bank executive, unlike the “negative energy” triggered by a coercive government intervention like a legislative mandate that simply carries the threat of penalties or other sanctions for non-compliance, the Charter’s procurements incentive serves as a “powerful lever” to foster a “positive energy” in a market-like competitive environment. The Charter (including but by no means limited to the “access” component involving Mzansi) became “built into the institution, and it became totally integrated with a high level of positive energy”. This executive went to explain that policies that trigger negative energy tend to lead to internal strategies (within a given bank) of how to, in effect, expend the least amount of resources to simply avoid sanctions and otherwise get relegated to the bottom of the priority pile. By contrast, frameworks that foster positive energy tend to get the institution’s creative and competitive juices flowing, leading to more constructive innovation.



ANNEX: Product Uses and Views of Current and Former Mzansi Clients⁸⁹

Based on Focus Group Discussions and In-depth Interviews with Mzansi Account Holders (active and inactive), September 2008

I. Mzansi: Towards Financial Inclusion in South Africa

“Mzansi is a stepping stone. [It] pushes you to become stable and [then you] can change to another account”

- A participant in Focus Group 2

This part of the report focuses on findings from two additional data sources which complement the surveys by providing more in-depth information about clients’ use of, and views about, their Mzansi accounts and other financial products (current and inactive).

Some of the focus groups were conducted in Johannesburg, and some in other parts of the country. However, due to time constraints, the interviews (1-3 hours with each client) were held only with Mzansi account holders living within about an hour’s drive from Johannesburg. They were conducted at the home of each person.⁹⁰ While some of the people interviewed had come recently to Johannesburg from rural areas to look for work, the interviews provide mainly views of urban and peri-urban people in and around Johannesburg.

The data used here are drawn from the discussions of 42 Mzansi account holders in five 2-3 hour TNS-conducted focus groups, and from in-depth interviews held with 17 Mzansi clients who were interviewed in depth by Bankable Frontier Associates and FinMark staff. There were two people who were in both a focus group and an interview; thus the total number of people reported on here is 57. Both the focus groups and the interviewed clients included current and inactive Mzansi account holders.⁹¹

Unlike the TNS Mzansi survey (and the more comprehensive FinScope survey), the focus groups and client interviews do not represent scientific samples, and the findings are not statistically representative. They can, however, suggest ways in which the banks — and their Mzansi account, as well as other accounts and financial products — are used and perceived by both current and inactive Mzansi clients. In some cases, the ways in which these accounts can affect the lives of people at the low end of the South African financial market are also illustrated.

The discussions among the 42 participants in the five focus groups for Mzansi account holders are considered in Part I. Many of the participants mentioned that they also have, and use, other types of bank accounts and financial products. In aggregate, they mentioned having more than 30 other bank accounts and formal sector financial products. These are primarily savings accounts,⁹² but they also

⁸⁹ This Annex was written by Marguerite S. Robinson.

⁹⁰ A few of the interviews were conducted in nearby restaurants, in cases where the person being interviewed thought the home situation did not lend itself to an in-depth interview.

⁹¹ Client statements reported here are taken directly from the discussions with the focus group participants and the in-depth interviewees; the statements have not been independently verified.

⁹² As used in this Annex, the term “savings accounts” is intended to include bank accounts other than Mzansi, other than current accounts and other than fixed deposit accounts; and therefore may include what are otherwise labelled “transactional”



include checking accounts, fixed deposit accounts, investment accounts, Wizzit accounts, loans (some from “Bank F”, a non-Mzansi- participating private bank), credit cards, and other products. In addition, various participants reported having stokvels, life covers, funeral covers, insurance plans, and others.⁹³

The 17 Mzansi account holders who were interviewed at length are the subject of Part II. Like the focus group participants, many of them use other bank accounts and financial products — about which they have had varied experience and hold a range of views.

As discussed elsewhere in the report, the Mzansi account has both strengths and weaknesses. The aim here is to view the Mzansi account and other accounts and financial products used by current and former Mzansi clients, and the banks that offer these, as they appear in lengthy and informal discussions with the people interviewed. But the discussions went further than finance. As many people indicated during the course of our fieldwork, Mzansi is perceived not only as an important financial service and a step toward financial inclusion, but also as crucial progress toward broader inclusion in South Africa’s economy and society (Box 1).

1. Advantages of the Mzansi Account as Perceived by Account Holders

“I have had [an Mzansi account] for a long time, and it has always served me well from the days I was earning too little to where I am today”
—Participant in Focus Group Transcription (FGT), No.3, p. 26

Among the 57 Mzansi account holders participating in the focus groups and the in-depth interviews, the perception was widespread that Mzansi had indeed opened up the banking system, especially to low income people. Many advantages were cited. And many answers were given to the question, “What is Mzansi?” (Box 1 below).

Mzansi accounts were widely considered to be easy and low cost to open and to maintain; the account can be opened even if the person is unemployed; Mzansi accounts remain open for a long time even if the balance is zero; and there is easy access at any participating branch or ATM. And money is considered safer in the bank than elsewhere.

Account holders can send or receive money transfers; and debit orders are generally thought to be safe, useful, and convenient. Swiping Mzansi debit cards when making purchases at shops is widely appreciated; and mobile phone banking, though not yet widely used among the people discussed here, is liked by the few who use it, while others say they plan to learn to use cell phones for money transfers. A number of people say that having a bank account decreases unnecessary spending.

Mzansi is considered especially useful for rural areas, where local people can often walk to a bank branch to use their accounts, and funds can be easily transferred between urban and rural areas. Interestingly, a number of Mzansi account holders who no longer use their accounts, recommended Mzansi for others whose banking needs are different from theirs, citing its advantages.

accounts in South African banking jargon. This was done partly to preserve bank anonymity, as the clients often would give the account brand name, which would reveal the bank.

⁹³ In order to treat individual banks anonymously, each is identified only by a letter (Bank A, Bank B, etc.).



The focus group participants did not seem to consider either cost or distance to branch locations as an obstacle. In the TNS survey of Mzansi account holders, the 997 current Mzansi users in 2008 were asked whether Mzansi charges/fees or inconvenient branch locations stopped them from using their Mzansi accounts more often. Only 3 percent said yes on charges/fees, and just 1 percent said yes for inconvenient branch location.

Box 1
What is Mzansi?

Views from Clients

- > “A product that’s there to help people who are at the bottom, people who don’t earn enough to be able to open an account at Bank B.”
- > “A product that’s looking at uplifting the community – taking them from ignorance to something that’s knowledgeable.”
- > “Whether you are unemployed or not, it’s for you.”
- > “It doesn’t look at your disability.”
- > “It’s the best, like eating caramel chocolate.”
- > “It makes a difference to the lower class; a privileged person won’t value it in the same manner as me.”
- > “A savings account for people who do not have money.”
- > “[Mzansi’s low charges] are fair because we are not all financially equal.”
- > “A nice thing about Mzansi is that if you lose your job and get into debt, they don’t check all that. They don’t care if you are blacklisted in the Credit Bureau or not. They don’t give you any hassles.”
- > “[Mzansi] says proudly South African. It does not discriminate. Anyone, black or white, can use Mzansi. Even white grannies use Mzansi.”
- > “It means freedom.”

Sources: Mzansi Focus Group Transcriptions: No. 3, page 6; No. 3, p. 7; No. 3, p.16; No. 3, p.21; No. 4, p. 4; No. 2, p. 30; No. 4, p. 8; No.5, p.5; No. 5, p. 13. The transcription numbers above refer to the five Mzansi focus groups conducted by TNS Surveys for FinMark Trust as part of this study on the Mzansi basic bank account.

Both the focus group participants and the people interviewed in depth spoke of quite different kinds of experiences with the services they receive at the banks where they have their Mzansi accounts. The range extends from extremely high praise for bank staff attention and service to reasons for account closings that included poor service, loss of deposits, delays, and unpleasant experiences with bank staff. The positives are given in the section below, and the negatives are cited in the next section on Mzansi disadvantages.



The Mzansi clients speak below in their own words about how the advantages of Mzansi affect their lives.⁹⁴ While especially important for those for whom Mzansi is their first bank account, others who were already banked before they opened an Mzansi account also mentioned many of its advantages, especially the low cost, convenience of access, and money transfer facilities.

1.1 Opening and Maintaining Mzansi Accounts

(i) Easy and fast to open

- “I filled out one form and gave them R10” (FGT 4, p. 9).⁹⁵
- “Mzansi is not complicated like other bank [accounts]” (FGT 4, p. 7).
- “When opening an account, [the bank staff] do not hassle you” (FGT 2, p. 17)
- “I saw one lady opening an [Mzansi] account with a lot of five cent coins. [Another bank] had denied her the chance of opening an account with them” (FGT 2, p.9).
- “While you are opening an Mzansi account, [the bank staff] inform you about other services like funeral covers that they can offer you together with the Mzansi account. (FGT 4, p. 10).

(ii) Low cost to open and low charges to maintain

- “Mzansi has the lowest bank charges compared to other bank [accounts]” (FGT 4, p.5).
- “[At the bank] I was advised to open an Mzansi account because I was earning very little. I was told a savings account would be too expensive for me to use” (FGT 2, p. 12).
- “You get [can withdraw] the exact amount that you deposited” (FGT 1.p. 5).
- “If someone has sent you R500, you will get it as it is, but with [non-Mzansi accounts] you get less than R500” (FGT1, p. 13).
- “I am employed and I had a [non-Mzansi] account with Bank B, but every time that I would leave money in my account I never find it because of the bank charges. I always find it less than the amount I had left in the account” (FGT 4, p.6).
- “No one has complained about missing money because of bank charges. Everybody is happy.” (FGT 1, p. 18).

(iii) An Mzansi account can be opened even if the applicant is unemployed

- “It is affordable for people who are unemployed and who earn less” (FGT 2, p. 9).
- “It helps people who cannot afford to open the ordinary accounts.” (FGT 2, p. 23).
- “I would encourage people to use the Mzansi account. It worked for me as a student” (FGT 2, p. 40).
- “Mzansi doesn’t require lots of money. I opened an Mzansi account because I am unemployed. The other accounts require employment. For me Mzansi is wonderful!” (FG 1, MSR notes).

(iv) Active Mzansi accounts remain open even with low or zero balance

- “With Mzansi you can have a balance of R2.45, but with the other banks you cannot” (FGT 2, p. 9).

⁹⁴ Some minor editing has been done on the focus group transcripts for clarity.

⁹⁵ R stands for Rand, the South African unit of currency. The exchange rate used is US\$1 = R 10.



- “[In contrast to Mzansi, non-Mzansi savings accounts] are called savings accounts. Yet they finish your money!” (FGT 5, p. 17).
- “With Mzansi, you can withdraw until your balance is zero and your account still works” (FGT 5, p. 17).

(v) Easy access to Mzansi accounts: Account holders can withdraw at any participating bank branch or ATM and can send or receive money transfers

- “You can withdraw anywhere” (FGT 1, p.13).
- “ [When] you deposit money for a family member who is somewhere else, they are able to get it immediately” (FGT 1, p.14).
- “[Mzansi] is easily accessible for everybody; my mother who is a pensioner uses it” (FGT 1, p. 23).
- “Phone notification of transactions [is provided]” (FGT 1, p.14).

1.2 Safety of Deposits in Mzansi Accounts

(i) The bank is responsible for the funds in Mzansi accounts

- “If the [money] in the bank goes missing the bank is responsible, but for the [money] that I keep in the house, it is my responsibility” (FGT 1, p. 21).
- “Money is safe in the bank unlike when [it is] in the house. Sometimes houses burn and so does your money... [But if] the bank is burnt down, the bank will pay you back your money” (FGT 2, p. 3).
- “[Mzansi] gives you peace of mind” (FGT 5, p. 13).

(ii) Debit orders are safe and convenient

- “With a debit order you are sure your matters are being handled on the right date and it is safe” (FGT 2, p. 3).
- “You can pay through debit order instead of paying over the counter...If you make withdrawals from the bank all the time, you can easily be attacked and robbed” (FGT 2, pp. 3-4).

(iii) Money is better in the bank than under the mattress

- “I think [my money] is safe in the bank, because if it is with you there is too much temptation. Whenever you need money you can go to the bank and get it.” (FGT 2, p .4).
- Maybe some of your relatives took it [your money under the mattress] two months back and you are still banking on thinking that it’s still there. Come the time you want the money you’ll find it’s gone” (FGT 3, p. 3).
- “If the money is with me I spend it casually, but I don’t fiddle with my bank savings—it’s there for when I really need it.” (FG 2, MSR notes).
- “If you keep money in the bank, you have it for emergencies” (FG 1, MSR notes).
- “You just put money [in your bank account] and it keeps on growing like a child” (FGT 1, p. 10).
- “[When you have] a bank account, it helps you to think ahead. It’s like Sanlam’s slogan: ‘Sanlam thinking ahead. Are you?’ You think of the future [when planning] your finances” (FGT 1, p. 4).



(iv) Creditors cannot access a debtor's Mzansi account

- “If you have an account with a furniture shop, they cannot debit your Mzansi account to get their money” (FGT 1, p. 5).

1.3.Mzansi is convenient for many in rural areas

- “I opened [an Mzansi account] for my wife who stays in a rural area...She walks to the [branch, which] is convenient for her” (FGT 1, p. 10).
- “It does not take time for money [transferred to family members] to be available” (FGT 1, p. 14).

1.4 Use of technology

ATMs

- “When you use an Mzansi account at the ATM it does not give you a lot of options, making [ATM use] easy” (FGT 1, p. 15).
- “Moderator to Focus Group 5: Does everyone use ATMs? All participants: Yes.” (FGT 5, p. 15).
- “[In my bank] you can choose the language you are comfortable with when using the ATM machines” (FGT 2, p. 53).
- “[With an Mzansi account] you can withdraw from any ATM [at a participating bank]” (FGT 3, p.7).

Swiping the Mzansi card at shops.

- “You can [pay at] the till at a supermarket” (FGT 2, p. 26).
- “Even at Pick n Pay, you can use [your Mzansi card] to pay at the till point” (FGT 1, p. 16).
- “It is better for me to swipe with my Mzansi debit card instead of withdrawing because I have found that it is cheaper to swipe than to withdraw from an ATM” (FG2, p. 47).

Cell phone banking.

- “With cell phone banking, you do everything at home, like you pay your electricity, and [other] accounts. You have saved money, time, energy, and even standing in the queue at the bank” (FGT 4, p. 2).
- “I use my cell phone to buy air time” (FGT 5, p. 15).
- “I like the notification to my cell phone which is given when I make transactions by phone. It is very helpful” (FGT 2, MSR notes).

1.5 Mzansi customer service

- “[Bank staff] who work in Mzansi are able to treat [Mzansi clients] with respect, unlike [other banking staff]. “With Mzansi you feel free when you are talking with them” (FGT 4, p. 4).
- “They [bank staff concerned with Mzansi] believe you” (FGT 1, MSR notes)
- “When you get to Mzansi account [staff], they ask you what you are looking for, unlike other bank [staff] who don’t care about you. [Staff who work with Mzansi] go out of their way to establish how they can assist you. They are able to see that this is an elderly person who will not understand much about the banking environment and they assist the person” (FGT 4, p. 4).
- “As you come in [the bank] there are people ready to help you” (FGT 4, p. 9).



2. Disadvantages of the Mzansi Account as Perceived by Account Holders

Moderator: “How does the Mzansi deposit limit make you feel?”

Participant: “Honestly it makes me feel small.”

Moderator: “Why would you say it makes you feel small?”

Participant: “Because they limit you, your potential and your mind as well. I think they should have made it an open account with no limits”

—FGT 3, p. 27

The major disadvantages of the Mzansi account as perceived by the people discussed here seem to be fewer in number than the account’s advantages, but these downsides to the account are widely agreed upon and strongly emphasized by Mzansi account holders.

Two main disadvantages often mentioned are: (1) The \$1,500 limit on deposits (and other account limits); and (2) An extensive, and apparently deep lack of knowledge on the part of clients about the rules and procedures of the Mzansi account, and of other bank products and services for which they might be eligible. Other problems mentioned by some include: (3) Mzansi’s low interest rate; (4) poor service; (5) clients not being told about Mzansi when they come to open an account, and clients moved by the bank out of Mzansi into a non-Mzansi account against their will; and (6) Mzansi considered as a stigma of poverty.

Mzansi limits on bank balance and transactions. “They make me feel small.” The Mzansi limits are widely disliked, and they represent part of the problem of a non-profitable basic bank account. The banks want to move clients with potential to a profitable account without such limits, but many Mzansi clients argue for abolishing, or at least raising, the limits—and adding numerous other features.

This is a particularly difficult issue now because of the increase in unemployment, and the frequent moving back and forth between being employed and being unemployed—occurring at all income levels of the people discussed here. As shown in Part II, Mzansi account holders are often unemployed for a few months, then find employment, and then after a few months the company closes or the employee is laid off. For many today this is a continuing cycle—and it can drive the use (or lack of use) of the clients’ Mzansi and other accounts.

A different view of Mzansi limits arises from some of the more financially sophisticated and upscale Mzansi clients who have, and use, other accounts—but who keep their Mzansi accounts active in order to decrease their overall cost of banking. Certain transactions are available in both the low cost Mzansi account and in the higher cost accounts (ATM use, mobile phone money transfers, debit orders, etc). Thus some clients who likely do not need a basic low cost bank account use the Mzansi account to avoid some of the higher charges of their other accounts.

Clients’ lack of knowledge of the Mzansi account and other bank products. When asked by the moderator of Focus Group 1, not one participant knew the fees for the Mzansi account. None in Focus Group 2 knew the interest rate on the Mzansi deposits. A client in Focus Group 5 put it this way: “We don’t know that we can ask to speak to the [bank’s] Financial Manager because we think that we don’t have enough money to consult them” (FGT 5, p. 25).



Client AR, discussed in Part II, put the problem this way.

“I think banks are not interested in Mzansi, while I think Mzansi is a good product for the people. Banks need to simplify products and services. Many people using banks don’t know what a bank is, or what a financial transaction is. Some don’t even know what account they have. They go to an ATM machine, but don’t understand how to use it. The problems are not with the products, but with the information, and in some cases the banks’ attitudes. But the people are scared to say, ‘What is this about?’ It’s like operating a car if you don’t know how to drive.”

Client lack of information is also a concern of some, perhaps all, of the banks providing the Mzansi account. As one high level head office bank manager told us, “The bank that gets information to the people first [about their accounts and banking options] will get the largest share of the [low end] market.”

The low interest rate paid on Mzansi accounts. Interest rates vary by bank and by deposit amount. For account balances up to \$50, the interest rate ranges from 0.25 percent to 2.0 percent; for balances between \$50 and \$100, the interest rate is from 0.50 percent to 3.0 percent. Above \$500, interest rates are from 2.25 percent to 3.75 percent.

Currently, low interest rates may be perceived as a problem primarily by multiple account holders with some financial sophistication. But as basic knowledge increases, poorer clients with only Mzansi accounts will likely join in the criticism. RS, an Mzansi client on a grant, has been saving for his child’s education in this account since 2006. He saves \$10 to \$20 a month—and has never withdrawn from the account. RS said that he has managed to save quite a bit, but that he “is concerned that the Mzansi interest is too low for growth.” He had never heard of the education plan or the fixed deposit account, both of which could be quite useful for him (see Part II).

Poor bank service. As noted, Mzansi clients are split on evaluations of service—which, among other things, probably reflects differences among the many branches of Mzansi-providing banks. Among the criticisms are poor staff attitude toward Mzansi clients at the branches; lengthy times for opening accounts; problems with ATMs; staff who don’t help or answer questions; long queues; late opening times; staff “too pushy” in promoting unwanted products; and others.

As discussed in Part II, Client GM changed her account and her bank because of poor treatment by bank staff at the first bank where she had her Mzansi account. Client NS said she would never open another Mzansi account because of a difficult experience with an international remittance. And Client CP bypasses the bank branch near her because it has poor service; she goes to a branch further away that has good service.

Bank staff who do not inform potential Mzansi clients about the Mzansi account, and clients who are moved out of Mzansi by the bank. A number of low-income people reported not being informed about the Mzansi account when they opened other, higher-cost accounts in banks that provide Mzansi accounts (Client GM in Part II is an example). Client JZ, also discussed in Part II, was moved to a savings account— very much against her will— when the bank discovered that she had become employed. She said the teller told her, “You cannot have an Mzansi account. Mzansi is for people who are not working.” JZ is no longer with that bank. Now again unemployed, she is about to open an Mzansi account in another bank.



Mzansi as a poverty stigma. The perception that Mzansi is an account for poor people is widespread.

The TNS Mzansi survey found that 81 percent of the total sample of 1,300 people who had opened Mzansi accounts agreed that Mzansi “is an account for low income earners only.” Sixty-four percent agreed that “Mzansi is a second rate account compared to other bank accounts.” And 69 percent agreed that “Mzansi is seen as a “poor person’s account.”

Widely viewed as an account for poor people, the Mzansi account seems generally to be thought to carry something of a stigma.. However, this view of Mzansi did not come through strongly in either the focus groups or the interviews. Among the exceptions was the client in Focus Group 3, cited above, who described how the Mzansi limits negatively affected not only her financial options, but also her self image.

The lack of emphasis on Mzansi as a poverty stigma among the clients with whom we talked may be due in part to the downturn in the economy. Poor bank clients —especially those for whom Mzansi is their first account—seem to be happy to have a bank account, while clients with higher-priced accounts appear to like also having an Mzansi account because of its low costs and easy availability.

Direct quotes from clients on some of the disadvantages of the Mzansi account discussed above are provided in sections 2.1 to 2,3 below.

2.1 Limits on Mzansi account deposits and withdrawals

Limits on deposits

- “If the money [in your account] is more than R15,000 then they change your account to something else because you no longer qualify for an Mzansi account” (FGT 1, p. 13).
- “I only knew of the information [that Mzansi deposits are limited to R15,000] after I had opened the account” (FGT 2, p. 44).
- “I feel we are left out. If I get a loan of about R15,000 I should be able to deposit it into my Mzansi account (FGT 3, p. 27).
- “With Mzansi your money should not exceed R15,000 because you cannot afford to have a Savings Account” (FGT 2, p.11).
- “Mzansi is for putting the money away and the Savings Account is for saving the money” (FGT 2, p. 11).
- “People should be allowed to save [in Mzansi accounts] whatever amount they have” (FGT 5, p. 22).
- “[Because of the deposit limit], you cannot invest with Mzansi” (FGT 2, p. 11).
- “I [solved the problem] by using a fixed deposit account to save in order to buy cattle. Cattle is my bank” (FGT 2, pp. 32-33).

Limits on withdrawals

- “If you have deposited R10,000 you cannot withdraw all of that amount. They don’t allow you to do so” (FGT 1, p. 13).



- “Mzansi has a daily limit for withdrawal and if you need the money you’ll have to go inside to make arrangements with [bank staff]” (FGT 3, p. 16).
- “There are limits to daily withdrawals, monthly withdrawals, everything” (FGT 5, MSR notes).
- “[The limits] stop you from doing what you want with your money” (FGT 2, MSR notes).

2.2 Risks and problems with Mzansi usage

- “[I had an Mzansi account but] when I found a permanent job, I was transferred to a savings account after a month. At the end of the month when my salary was supposed to be transferred into the savings account, they could not do it because I was saving with the Mzansi account. The Mzansi was only helpful to me when I was doing part time jobs” (FGT 2, p. 13).
- “I cannot get a loan because my Mzansi account is at the post office. I wanted that the post office work the same way as banks. They should be able to give loans” (FGT 1, p. 26).
- “The Mzansi interest is not attractive” (FG 1, MSR notes).
- “At Bank A’s ATMs you find that there is no money most times” (FGT 2, p. 49).
- “[The banks] should have people to help [clients] who cannot use the ATM. I always find people who ask me to help them” (FGT 2, p. 52).
- “[When using ATMs], “safety is 50/50 depending on what time of the day it is” (FGT 1, p. 14).
- “You can withdraw from any ATM.” “Not in Soweto because they’ve bombed them” (FGT 3, p. 7).

2.3 Lack of information from banks

The information gap

- Moderator to Focus Group 1: “How much do you pay for your Mzansi fees?” All participants: “I don’t know” (FGT 1, p. 18).
- Moderators to Focus Groups 2 and 3: “Do you know how much the interest rate is on the Mzansi account?” “All participants: “I don’t know” (FGT 2, p.30; FGT 3, p. 21).
- “[The banks’ branch managers] are not close to us to begin with. And we don’t know our rights. We only go to the bank to withdraw and deposit. We don’t know that we can ask to speak to the Financial Manager because we think that we don’t have enough money to consult them” (FGT 5, p. 25).
- “The problem [with Mzansi] was that I didn’t get the help I needed” (FGT 5, p. 14).
- “Some people do banking for the sake of banking, but they are not aware of [how] they can benefit from the bank” (FGT 1, p. 25).

Marketing and client education

- “People don’t understand the bank procedures. Maybe if [bank staff] can go to churches and to [train and bus] stations and explain how things work, that would help” (FGT 1, p. 25).
- “It is difficult for people in rural areas to come to Durban [to get bank advice]. So the banks should advertise in the different media: TV, radio, newspapers”(FG 5, p. 24).
- “If they could just explain that if you have reached a certain [deposit amount] your Mzansi account will be converted to a savings account or a cheque account, it would be very helpful for us” (FGT 2, p. 45).



- “[The banks] shouldn’t call us to offer credit cards only. If I haven’t used my account for three months, why don’t they just call to find out what the problem is? They shouldn’t just write letters because we tear them up and throw them in the bin. But if they phone, it would help to get advice on the telephone” (FGT 5, p. 25).
- “[The banks] should market themselves and give information [about Mzansi accounts] in places like shopping malls” (FGT 1, p. 17).
- “[The banks] should do research [on client demand] or visit people in their houses to talk about [what they need]” (FGT 1, p. 17).
- “[The banks] have our details and so they must send people to our houses to come and tell us about their services so that we can see that they care about us as their clients. [Then we would know] they don’t just care about your money and that is all” (FGT 1, p. 24).

3. Why I closed or don’t use my Mzansi account

“I stopped using my Mzansi account because I lost my job” (FGT 1, p. 22).

“Mzansi was not good enough for me” (FGT 2, p. 36).

“My company forced me to open an account at Bank A” (FGT 3, p. 15).

“I experienced problems each time they deposited money into my Mzansi account” (FGT 4, p. 15).

Of the total TNS survey sample of 1,300 people who opened Mzansi accounts, 77 percent were current account holders in 2008, while 23 percent had closed or inactive Mzansi accounts. (Note that this sample was designed on a quota basis to have 1,000 active Mzansi account holders and 300 people with inactive Mzansi accounts. The actual sample numbers were 997 and 303, respectively. Thus, these percentages are not statistically representative.)

Four important reasons seem to predominate for the inactive accounts: (1) unemployment and lack of income (leading to inactive accounts); (2) the opening of a new gateway—some Mzansi clients are “moving up” into commercial microfinance, often using a mix of products; (3) many employers pay employees’ salaries through specified bank accounts; some, while not specifying a particular account, do not permit use of the Mzansi account for this purpose; and (4) problems with the Mzansi account or with the bank.

The TNS 2008 Mzansi survey found that of the 303 Mzansi account holders who did not use their accounts or who had closed them (out of the total sample of 1,300 surveyed), 51 percent said they did so because of unemployment or other financial stringencies; 28 percent said they had moved up to other accounts (a combination of points 2 and 3 above); and 26 percent said they were dissatisfied with the Mzansi account.

As the clients’ comments below suggest, there are push and pull factors of various kinds involved in an Mzansi account’s becoming inactive. These can come from employers, from the banks, and from the clients themselves.

Push factors (pushing clients out of Mzansi). In many cases, the push factor is unemployment. Especially in the current economic situation there can be a yo-yo effect, whereby individuals face



recurrent phases of employment (coupled with an active account), and unemployment (when the account becomes inactive).

Some financially better off and upwardly mobile clients demand other kinds of financial services that are more useful for them. In the process, some push themselves out of Mzansi: “I changed because Mzansi was not good enough for me.” However, quite a few current Mzansi clients have a mix of products and still keep their lower-cost Mzansi account for other purposes (saving for children; used by other family members, etc.). A client with an inactive Mzansi account: “I could go back to using Mzansi but not for myself. I would use it to save for my child’s future.”

Other factors that push clients into closing or not using their Mzansi accounts come from the banks: limits, poor service and information, low interest rates, moving unwilling clients into other types of (profitable) accounts, and others.

Pull factors (pulling clients out of Mzansi to other accounts) vary widely. For the formally employed, a strong pull factor comes from employers who require employees to have a different type of account for salary payments. Some people then use their Mzansi accounts as second accounts; others let them become inactive.

Some pull factors come from bank promotions of other accounts (for example, some people want to move from Mzansi to a savings account; others will keep both accounts, but may not use the Mzansi account. And some pull factors come from the Mzansi account holders. “I grew up, I wanted an upgrade.”

3.1 Inactive Mzansi accounts: Factors pushing clients out of Mzansi

- **Not enough money.** “I stopped [using my Mzansi account] because I lost my job” (FGT 1, p. 22).
- **Moved up.** “[I changed because] Mzansi was not good enough for me. There are certain things you need to progress to in life. Mzansi’s [deposit limits of \$1,500] was a problem to me (FGT 2, MSR notes).
- “My [Mzansi account] has limits which forced me to open another account” (FGT 2, p. 23).
- **Dissatisfied.** “I experienced problems each time they deposited money into my Mzansi account, so I moved to the savings account” (FGT 4, p.15).

3.2 Inactive Mzansi accounts: The pull factors

Employer-driven: Requiring other types of bank accounts for salary payments

- “When I was employed, my employer said he will only allow me to use the Mzansi account for one month. The next month I must have it changed to a savings account. I did not change it soon [enough], and that resulted in me not getting paid. That is when I started making the changes in my account and panicking. It was changed to a savings account (FGT 2, p. 36).
- “At work they requested I change [my account] because they were having difficulties with my Mzansi account so I had to open a cheque account” (FGT 3, p. 14).
- “My company required that I [open] a cheque account at Bank A” (FGT 3, p. 15).



Bank-driven: Promoting their commercial accounts

- “Moderator: ‘Were you advised by the bank to take another account when you wanted an Mzansi account?’ Yes they did that to me. I was using the Mzansi account, but the bank advised me to change it to a cheque account. (FGT 2, p. 22).
- “Moderator: ‘Would you consider opening another Mzansi account in the future?’ “No, I would not. When you have an Mzansi account and [the bank] sees your salary, they encourage you to open a savings account. It is not necessary for me to go back and open an Mzansi account, but I would encourage someone [who needs one] to open it ” (FGT 2, p. 38).

Client-driven: Pulled to other accounts by demand for their offerings

- “What I earned [before] is not the same as I earn now as a permanent worker. I am not using it [my Mzansi account] anymore, so I told [the bank] to open a savings account. I now prefer the savings [account], which I want to change into a cheque account so I can earn points” (FGT 2, pp. 35-36).
- “I don’t use [my Mzansi account] anymore, but I gave it to my husband to use. I [now] use a Savings Account at Bank B” (FGT 1, pp. 21-22).
- Focus group participant: “I lost my Mzansi card. So I went to the bank to take out a new account. Moderator: “Why didn’t you ask for a new Mzansi card?” Participant: “I think it’s because I grew up. So I wanted to upgrade. I mean, taking out an account with R50 as compared with R10 is an upgrade” (FGT 5, p. 13).

3.3 Mzansi account holders: Pushed and pulled

- **Bank push.** “I wanted to open a money builder account with Mzansi [but] I could not do that because I am now employed and they were going to charge me like an employed person.
Employer pull. My [employer] does not use the Mzansi account. They advised me to open an account with Bank B. I [now] use a savings account from Bank B” ” (FGT 1, p. 22).
- **Employer pull.** “I had an Mzansi account but changed to a savings account after I got a new job.”
Bank push. “I was not qualifying for Mzansi anymore, as I was earning more than the Mzansi requirements” (FGT 2, p. 23).

II. The Mzansi Gateway to the Commercial Banking System

The complexity of financial product use at the low end of the South African market is explored here through the experiences and views expressed during lengthy interviews with individual Mzansi account holders, held in their homes.⁹⁶ As shown in Part I, many Mzansi account holders use other financial products as well, and some are well into the commercial banking system. Part II provides more of a sense of the range and dynamics of client decision making, and it illustrates the views of these clients about their banks and their accounts—past and present. Table 1 shows the clients interviewed by client category, bank(s), and product use.

⁹⁶ The interviews were conducted by Jabulani Khumalo, Jeff Abrams, Marguerite S. Robinson, and Rata Rampa.



The 17 in-depth interviews were conducted with Mzansi account holders (including both those with active and inactive accounts).⁹⁷ However, two of the people interviewed thought they had Mzansi accounts at Bank E, but they actually had Bank E Savings Accounts.

Annex-Table 1: Bank Accounts Used by Mzansi Clients Interviewed in Depth, Shown by Client Type Category					
Indicator	Client Type	Mzansi (active)	Mzansi (inactive)	Savings account	Other bank products & services
The Mzansi Account was the client's first bank account ever					
Client IN	Core	Bank A			
Client PL	Core	Bank C			
Client CP	Cutoff -1		Bank C		
Client JZ	Cutoff -1		Bank A	Bank A (inactive)	
Client NS	Cutoff - 1		Bank A	Bank A (inactive)	
Client HJ	Move-Up		Bank B	Bank B	Bank B: Fixed deposit account; Wizzit account
Client GM	Move-Up		Bank E	Bank A	Bank D: Credit card
Clients who had one or more bank accounts before the Mzansi Account					
Client BB	Move-Down	Bank B			
Client AR	Add-On	Bank E		Bank C	Bank C: Current account
Client ML	Add-On	Bank E		Bank B (inactive) Bank D	Student loan (repaid)
Client RS	Add-On	Bank E		Bank A	
Client DM	Add-On	Bank B		Bank F	
Client LL	Add-On	Bank C	Bank D	Bank D (closed)	Bank C: Personal loan
Client FL	Add-On	Bank E		Bank A	Repaying through debit order
Client OT	Tryout		Bank E	Bank A	Bank A: Fixed deposit; Education plan; Funeral cover
Never-Mzansi account holders:					
Clients who have an old, but active, Bank E savings account, but think it is an Mzansi account					
Client KV	Never - Mzansi			Bank E	
Client EM	Never - Mzansi			Bank D Bank E	

Source: In-depth interviews of Mzansi clients in September 2008 by FinMark Trust and Bankable Frontier Associates.

As noted, this is not a scientifically drawn sample. But interviewers spent one to three hours with each person, and some sense of the use of Mzansi accounts and multiple bank products emerges.

⁹⁷ However, two of the people interviewed thought they had Mzansi accounts at Bank E, but actually had Savings Accounts.



The clients interviewed ranged in age from 21 to 69, though younger clients predominated (58 percent of the TNS sample of current Mzansi user were age 34 or below). Of the 17 clients interviewed, eleven were women (65 percent) and six were men (35 percent). All the women except three had Mzansi as their first account. All the men were previously banked before opening their Mzansi accounts. The gender ratio of interviewed clients was very close to that of the TNS Mzansi sample, 64 percent of current clients were women and 36 percent were men.

1. Experiences using Mzansi and other accounts: Developing client categories

The categories shown in the Table above correspond to Figure 11 in the body of the report, where each individual who opened an Mzansi account is placed into one of eight categories, depending on their use of Mzansi and other accounts. Thus the in-depth interviewees fit very well with the eight client categories identified from the survey, making it possible to provide some detailed perspectives of clients for six of these client categories.

Examples are given below of clients for whom Mzansi was their first bank account ever. These clients fall into three of the categories shown in Figure 11: the Core, Cutoff-1, and Move-Up groups. Each of these three categories contains only clients whose first bank account was Mzansi.⁹⁸

At the time of their interviews, all but one of those for whom Mzansi was their first bank account (Client HJ) were unemployed and looking for work (all except Client IN had been previously employed in the formal sector). When interviewed, HJ was currently working at the higher end of the informal sector, selling medical supplies and cakes.

Table 1 also provides examples of clients who had one or more bank accounts before opening a Mzansi account. These clients are in the Move-Down, Add-On, and Tryout categories.⁹⁹ At the time of their interviews, all but one (Client BB, a 69-year old woman) were working, some in the formal sector and some in the informal sector.

2. Examples of Clients for Whom the Mzansi Account was their First Bank Account Ever

2.1 Core Clients: Examples of the 50 percent of Mzansi account holders surveyed whose first bank account was an Mzansi account that is still active, and who have no other account

The two core clients interviewed are both young women. They have quite different backgrounds, but both are unemployed and looking for work. Both have Mzansi accounts opened within the last few years (see Table 1). **Client IN**, who is from KwaZulu Natal Province, came to Johannesburg in 2008; she has no work experience. Her only income is a child support grant and support from her working siblings. **Client PL** is from an old Johannesburg family; she lives in the family's multi-generational house, and has had some tertiary education. PL was formally employed until mid-2007 with a monthly salary of R3,000, but she has been unemployed since. She receives child support from her child's father.

⁹⁸ As Figure 11 shows, category 9 (Gateway-1) is a fourth category for first-time Mzansi account holders. Representing 5 percent of the total sample, Gateway -1 refers to people holding an active Mzansi account and one or more other accounts. However, there was no example of a Gateway-1 client among the people interviewed.

⁹⁹ As shown in Figure 11, category 14 (Cutoff-2) is the fourth category for the previously banked clients. Representing 2 percent of the total sample, Cutoff-2 refers to people who had one or more bank accounts before their Mzansi account, but who now use no bank accounts. There were no Cutoff-2 examples among the people interviewed.



Both are very happy with their Mzansi accounts (in Banks A and C, respectively), which provide them a low cost, convenient, and safe place to keep their money at a time that is difficult for them. Among young people who have, and who appreciate, their Mzansi accounts, these two core clients represent a considerable range in their economic and educational backgrounds.

CLIENT IN: Unemployed, looking for work, and finding Mzansi very useful

IN is a 26 year old woman from KwaZulu Natal (KZN) Province. She completed Standard 8, but was unable to continue her studies as she had become pregnant. Her father died in 2007, and IN came to Johannesburg in 2008 to look for a job. She stays with her cousin's family in Gauteng Province, on the outskirts of Johannesburg. Her child stays with IN's mother, a pensioner in KZN. IN has no work experience; her income is from her child grant and from support from siblings.

Use of financial products

IN opened an Mzansi account at Bank A in 2007 after the death of her father. Her father, who had been employed by the municipality, had an account at Bank A where his salary was deposited. When he died, the mayor of the municipality told the family that they should receive the funds from his account. The mayor encouraged IN to open an Mzansi account at Bank A so the family could access these funds. The reason that IN was asked by the mayor and her family to open the account is that the spelling of her surname on her identification card is similar to that of her late father. But no one in the family knew IN's father's pin code, and after a year no funds had been transferred to IN's Mzansi account, or received in another form.

IN's working siblings deposit money into her account. In August 2008, the month before she was interviewed about her account, R500 had been deposited into her Mzansi account by her siblings. She receives her child support grant in cash. IN withdraws money from her account and goes to Shoprite to send money to her family in KZN, normally cashed by one of her sisters-in-law.

IN's comments

Although she has relatively little experience in using bank products, she is happy with her Mzansi account which she finds useful for receiving deposits and making withdrawals. She is actively looking for work, and she plans to expand her use of bank services when she is employed.

CLIENT PL: She likes Mzansi because it's low cost and convenient, and she likes having her account at Bank C because "it is never full."

PL is a 29 year old woman who lives with multiple generations of her family in their house in Johannesburg. She had several years of tertiary education in fashion design (paid for by her father); public administration (her mother paid); and office administration (PL paid). PL was employed until mid-2007, but then the company closed and she has been unemployed since. PL has a nine-year old daughter, and she receives maintenance support from the girl's father. PL collects this in cash each month from the court.

Use of financial products

PL's father has an account at Bank B (and also has insurance and education policies for his grandchildren), her mother has an account at Bank C, and her sister has an Mzansi and a second account



at Bank C. Before she had her own account she deposited her child support into her father's account, and he withdrew for her when she requested.

PL opened an Mzansi account at Bank C in 2005, her first bank account. She likes Bank C because "it is never full," and because her mother uses and likes this bank. When she was employed, PL used her Mzansi account for her monthly salary deposits (R3,000). For her child support payment which she receives in cash, PL deposits 40 percent immediately in her account and uses the rest for expenses. She withdraws using ATMs. Her balance built up with her job, but now it is down.

PL's comments

She likes her Mzansi account because it is low cost and convenient (a five minute walk from her house). She also thinks it is important to keep money in the bank to avoid spending it for things that are not needed. Yet she bought furniture on credit which cost R3,000 for the furniture and R2,000 for the interest and fees. "It is unfair but I have no regrets because otherwise it takes too long."

2.2 Cutoff-1 Clients: Examples of the 10 percent of the Mzansi account holders surveyed whose first and only account was an Mzansi account, which is now inactive.

The three cutoff clients, CP, JZ, and NS, all young women, are currently unemployed and unbanked. All have inactive Mzansi accounts and two also have inactive savings accounts at private banks. CP, who has some tertiary education, says she loves her Mzansi account but cannot use it now because she has no work. The other two have had bad experiences of different kinds with Mzansi (both at Bank A). JZ was moved against her will from her Mzansi account to a savings account. NS said she would never open another Mzansi account because of a difficult experience with receiving an international remittance. Both were pushed out of Mzansi by the treatment they received at Bank A, but both currently have only inactive accounts because they are unemployed.

CLIENT CP: "I love the account, the uniqueness of it! But I have no work now so the account is inactive."

CP is a 21 year old woman who is currently unemployed. Born in Gauteng Province, near Johannesburg, she completed matriculation, and her uncle paid for her to take a computer literacy course. She started a taxation course but lacked funds to complete it. "I wanted to study taxation – I love economics." Her first job was at African Bank, and she has had work experience at a call center and as a cashier at a pizza restaurant. CP lives with her fiancée, a mechanic employed at a car dealer, in a six-room house in Johannesburg which they purchased in 2007.

Use of financial products

CP has an inactive Mzansi account with Bank C. Until recently CP was a "Core" Mzansi client, but when she became unemployed, her account became inactive (as had happened previously as well). She used the account when she was employed and plans to activate it again when she gets a job. She opened her Mzansi account at Bank C because she knew about the bank from her sister who is working, and who has accounts at both Bank C and Bank F (a bank that does not provide the Mzansi account), and because a Bank C branch is located nearby. "Most people think Bank C is easier than other banks for Mzansi."

Her fiancée took a home loan from Bank C to purchase the house they now live in. He has two accounts at Bank C: a checking account and a fixed deposit account, and he uses cell phone banking services.



CP's comments

Her experience in banking has been only with her Mzansi account in Bank C, where she found a large difference between the service at two branches (she went mainly to the further one because the nearer branch had very poor service). However, CP thinks Bank C overall is a “great bank” and very professional. When her account was active, she used it for depositing at the branch, withdrawing at an ATM, checking balance at the ATM, and card swiping for debit purchases.

“I love the account, the uniqueness of it. It’s easy to understand. I can swipe my card to pay at the store, and it’s cheaper to swipe than to withdraw. But my account is often dormant. I work for three months. Then I don’t work. It keeps on like that. I don’t like it when the account is dormant.”

When CP reactivates her Mzansi account, she plans to use it as a savings account. She also wants to try cell phone banking and to get a credit card.

Client JZ: She was moved against her will from an Mzansi account to a savings account: “I was so disappointed.”

JZ is a 29 year old woman who was born in Gauteng Province and lives there in a government house with her mother and her two children. Several of her aunts have separate rooms in the house. JZ was educated through Standard 9. She did not continue her studies, as she became pregnant and left school. JZ started work in 2003 as a machine operator, but the company closed and she has been looking for a job since then.

Her current income sources are the children’s grants (R210 per child) and irregular maintenance support from their father. Their father is unemployed, but he comes every two months or so to visit and brings a very small amount of money. JZ’s mother earns R2,000 a month as a cleaner, and her aunts have old age pensions. JZ is actively looking for jobs: “I am looking for anything.”

Use of financial products

JZ opened her first bank account at Bank A, an Mzansi account which she used for deposits and withdrawals. A year later she became employed, but soon after she lost her Mzansi card. When she applied for a new card, she said she “had a fight with the bank teller.” JZ said the teller told her, “You are now working. Mzansi is a card for people who are not working. No, you cannot have an Mzansi account. You will get a savings account.”

JZ opened a savings account at Bank A which she used for her salary deposits and withdrawals. However, when she stopped working in 2005 she took the money out of this account and is not using the account. Now that she is unemployed she wants an Mzansi account to use for her children’s grants. JZ tried to open an Mzansi account at Bank D but they discouraged her. She now plans to open an Mzansi account at Bank B, as that bank promised her that her children’s grants will be linked into an Mzansi account, and this would allow her to have a debit order to save regularly for her children.

JZ's comments

She was happy with her Mzansi account and was very disappointed that she was moved out of Mzansi. “Mzansi is especially good because it helps the poor. It is flexible and accommodates everyone.” She sees Mzansi as “an accommodating product that is also affordable,” and she likes the fact that Mzansi can be opened at a variety of banks. JZ’s suggestions for improvement of banking services are that “banks should train their staff to treat customers well,” and that “bank staff should be well informed



about Mzansi and should be passionate about Mzansi and really explain how it works. Then they could help their customers.”

CLIENT NS: She would never open another Mzansi account, even though its charges are low

NS is a 28 year old woman who lives with her parents, her sister, and her six year old child in the same house in Johannesburg that the family has lived in for more than 20 years. She receives a child grant of R210 monthly and her boyfriend, the child’s father, pays R450 a month for school fees. NS was employed in several formal sector jobs from 2005-2007, but she is currently unemployed and looking for work.

Use of financial products

NS opened her Mzansi account in 2005 at Bank A. It was her first bank account, opened because her job then required that she have an account. She opened it at Bank A because she had heard good things about it on TV, in the news, and from friends. While she was employed, her monthly salary (R1,350) was deposited into her account. NS withdrew most of it immediately but sometimes left about R350 in the account so that she could withdraw it later in the month. She was not saving, and used the account only for salary deposits and withdrawals. She did not know that she could swipe her card for purchases; if she had known, she would have used this feature.

NS told of a very difficult experience she had when her child’s father sent her an international remittance of more than R5,000, which then triggered a major logistical problem in accessing the money. Although she eventually received the funds, she said she would not open an Mzansi account again even though its charges are low.

She also had a savings account at Bank A, required by one of her employers. But NS had the job only for four months and afterwards did not use the account. At the time of the interview both accounts were inactive, and there was no money in either one. She said that if she gets a permanent job, she will open another bank account, but not if the job is only a temporary one.

NS joined an 11-woman stokvel with a monthly payment of R300, which her boyfriend provides. The payout is R3,000 and NS says that when it is her turn the entire amount will be spent in a month. None will be deposited in the bank.

NS’s comments

The remittance problem in the Mzansi account was so difficult she would not use Mzansi again. And when the bank sent her a letter and called her cell phone to promote a funeral cover, she thought they were too pushy. But she said that Bank A generally provides good service. “If I open another account, I would go to [other] banks, not to Bank E.”

2.3 Move-Up Clients: Examples of the 7 percent of those surveyed whose Mzansi account was their first account, but the account is now inactive; however these clients have one or more active accounts of other types.

Client HJ opened her Mzansi account at Bank B when she was a student and thought she was well treated there. She closed the account when she started working because it did not meet her needs. She opened a savings account at Bank B and deposited her money there. She then also opened a fixed deposit account, and a Wizzit account. In addition, HJ has a credit card at Bank D, and she has purchased



stock market shares at Bank E. She is no longer formally employed, but works in the informal sector, selling medical supplies and cakes.

HJ is a classic example of a Move-Up client—originally she was pulled out of Mzansi by her employer, and she then opened a number of accounts and financial products which she finds very useful. In contrast, GM was pushed out of Mzansi by what she called ill treatment by Bank E staff. Although she moved to a Bank A savings account, she is unemployed and has little money. She has now learned that Bank A offers Mzansi accounts, and she plans to switch to an Mzansi account there.

Client GM came to Johannesburg recently, as both her parents had passed away. She is unemployed and looking for a job. She “moved up” because of what she called ill treatment at the bank where she had her Mzansi account. She withdrew all her money from that account and opened a savings account at Bank A (she did not know then that Bank A offered the Mzansi account). GM is a Move-Up client in name only, not in motive. She prefers Mzansi and plans to close her savings account and open a Bank A Mzansi account.

CLIENT HJ: Closed Mzansi; added savings account, fixed deposit account, Wizzit, and a credit card -- and she bought shares on the stock market

HJ is a 31 year old woman who was born in KwaZulu Natal Province where she completed matriculation. She then came to Johannesburg to study and look for work. She took a secretarial course and received a certificate. She then took a job as a bar waitress in a restaurant, which paid R1,200 a month. HJ’s father works in a construction company, and she stays with him in Johannesburg where the family owns a two room house (nine adults live in the house, with one room for the men and the other for the women). She thinks the Mzansi account should be improved by increasing the deposit limits.

HJ worked for two years with two other people taking care of children in a private daycare center. It then closed, and HJ now works in the informal sector selling cakes and medical supplies, while looking for a permanent job. She has a 14 year old daughter who lives in KZN with her HJ’s mother.

Use of financial products

HJ’s mother has two Mzansi accounts, an inactive one at Bank B and an active one at Bank E. She lost R300 in the Bank B account. HJ said this was because her mother’s account was mixed up with someone else’s account that had the same or nearly the same number. Her mother filled out a lot of paperwork and tried to get the money returned but although the R300 was deposited, it was never credited. This account is not used. HJ’s mother then opened an Mzansi account at Bank E which she uses.

HJ opened her Mzansi account at Bank B in 2004 when she was a student in the secretarial course. She was treated well at Bank B, and she thought the account was low cost and suitable for her as a student. She used the Mzansi account mainly for deposits and withdrawals. HJ once lost her Mzansi card and it was replaced the same day. HJ was a member of a stokvel but the members decided to end it because the interest paid by Bank B was too low. HJ closed the Mzansi account in 2006 when she started working.

At that time she opened her Bank B savings account. She used that account to deposit money earned from childcare and sales of cakes and medical products, and for withdrawals. Currently she uses this account for deposits, withdrawals, and for swiping her card for purchases at stores. She also has a fixed deposit account.



HJ has a WIZZIT account which she uses to send and receive money by mobile phone. She also opened a Wizzit debit card for her daughter, which the latter uses for cash withdrawals and purchases. In addition, HJ has a credit card at Bank D. She did not ask for the card, but the bank offered it to her and she decided to take the offer. The card has a R8,000 limit. HJ uses it mainly to buy clothes.

In addition to her bank accounts, HJ has purchased stock market shares at Bank E. She holds BEE Sasol shares and Jozi Bond shares. She said that she bought the Sasol shares because of the company's good reputation, and that the reason for purchasing the Josi Bond shares is the connection with the City of Johannesburg.

HJ's comments

She likes her Bank B savings account but was displeased when the bank once permitted a clothing store to debit her money without her consent. She finds Wizzit very useful and low cost, and she likes her credit card from Bank D. She said about Mzansi, "I can't use it because of the R15,000 [deposit] limit." She thinks the Mzansi limits should be raised. HJ is currently looking into insurance.

CLIENT GM: Withdrew all her money from her Mzansi account and opened a saving account at Bank A because of what she called ill treatment by staff in the bank where she had her Mzansi account—but GM did not know then that Bank A provides the Mzansi account. She plans to switch to a Bank A Mzansi account

GM is a 24 year old woman who is unemployed and looking for a job. She was born in KwaZulu Natal Province, where she was educated through Standard 8. Her mother died when she was very young, and her father died in 2006. She then got a job as a cleaner in the local municipality for two years, from a local area council program for young people with both parents deceased. But the contract ended at the start of 2008, and GM came to Johannesburg in mid-2008 to look for a job; she stays in her brother's house. She has a five year old son and receives a child grant of R210 per month.

Use of financial products

When GM worked at her local municipality in KZN, she was paid in a cash check that was normally drawn on Bank A. She avoided the ATMs as too expensive and cashed her checks at the bank branch. GM opened a Bank E Mzansi account in 2006 on the advice of her older sister. Her aim was to save money and she used the account mainly for deposits and withdrawals. However, she said that she experienced ill treatment by Bank E staff and she withdrew all her money (about R7,000) and opened a savings account at Bank A (she did not know that Bank A offers Mzansi accounts). She did not close the Mzansi account at Bank E, but she withdrew all the money.

In 2008 GM had to withdraw R5,000 from her Bank A savings account, most of which was for ritual functions for her late father, and she also had to withdraw from the account for her daily needs. After coming to Johannesburg, she has not withdrawn from the account, as she is staying with her brother. When she get work, she plans to switch from her Bank A savings account to a Bank A Mzansi account. While technically GM was a Move-Up client at the time of the interview, she does not share the profiles of other Move-Up clients who demand different kinds of accounts. When GM gets work, she plans to change from her Bank A savings account to a Bank A Mzansi account.



GM's comments

Opening the Bank A savings account was not difficult, as the staff helped her. This was in contrast to her experience when she opened her Mzansi account at Bank E, where no one was available to assist her. And it took three weeks to open the Mzansi account because of the identity documents required. But the Bank E Mzansi account was cheap and accessible. GM said that, despite her experience with Bank E staff, she prefers the Bank E Mzansi account to the Bank A savings account because of the lower costs and shorter queues.

3. Clients Who Had One or More Bank Accounts Before Having an Mzansi Account

Examples among the interviewed clients who were banked before they opened an Mzansi account are provided below for the Move-Down, Add-On, and Tryout categories, as shown in Figure 11.

3.1 Move-Down Clients: An example of the 10 percent of the Mzansi account holders surveyed who were already banked before Mzansi, who now have only an Mzansi account

The only person interviewed who is a Move-Down client is BB, a 69 year old woman who many years ago had an account with a bank that later merged with another bank. That account is not operative. She opened her Mzansi account in Bank B in late 2004, soon after the Mzansi account was introduced. She chose the Mzansi account because it was easily accessible. BB is not working and is waiting to receive her old age grant, which she said had been delayed. She is well treated by Bank B and given good information about her account. Mzansi suits her perfectly, and she likes it very much.

CLIENT BB: Well treated and given good information on opening an Mzansi account

BB is a 69 year old woman who is supported by her children, and who also has some income from the Road Accident Fund. Born in Gauteng Province, she lives in a five-room compound house left to her by her parents; five adults and ten children from the family stay in the house. She was educated to Standard 8. She is, even now, an athlete and very active.

Use of financial products

BB banked previously with a bank that later merged with another bank. She opened her Mzansi account in 2004 at Bank B. Her daughter usually deposits and withdraws money from the account on her behalf.

BB's comments

She chose Mzansi because it was easily accessible. She was treated well when opening the account and given good information about the account. Previously she belonged to a stokvel, but she has stopped paying the premium because she is not working. She plans to join again when she receives her old age pension grant (held up because of administrative problems). She thinks that people should be trained to manage stokvels better and that banks should put more effort into social investments.

3.2. Add-On Clients: Examples of the 11 percent of the Mzansi account holders surveyed who added Mzansi to one or more already existing accounts, and both the Mzansi account and the other account(s) are active

The six Add-On clients vary considerably, but most use their non-Mzansi account(s) for their business activities. Most opened their Mzansi account mainly for non-business purposes, and in order to lower



bank charges. The Mzansi accounts are often used to save for children's education. **Client FL**, who works in the informal sector, uses mainly her Mzansi account, as she finds her Bank A savings account too expensive. **Client DM** finds that her savings account at Bank F (a private bank that does not offer Mzansi accounts) has lower charges than Mzansi accounts. She uses both accounts and transfers money from her Bank B Mzansi account to her Bank F savings account "so it will not become inactive." **Client LL** is currently not strictly an Add-On client, though it seems the closest category. He closed his savings account at Bank B when the bank refused him a loan. LL was then given a loan by Bank D, and he then withdrew his savings from Bank B and put it into an Mzansi account at Bank D. He currently has both his Mzansi account and his loan at Bank D.

CLIENT AR: "People are scared to ask banks 'What's this about?' For many bank clients, banking is like driving a car without knowing how."

AR is a 25 year old man who is self employed as a disc jockey and a fruit and vegetable vendor; he also has other business activities. Born in Gauteng Province, he completed matriculation there and also has a journalism diploma. AR lives in a government-owned house.

Use of financial products

Both his parent had bank accounts with Standard Bank.

AR has a Bank C current account and an Mzansi account at Bank E.

He opened the Bank C account when he received a study loan of R23,000 in 2002, payable over three years with a R1,000 monthly installment. The loan was paid off. AR uses the Bank C current account for business purposes: receiving payments, stop orders, debit orders, and card swiping. He typically withdraws lump sums from this account to avoid high bank charges.

AR opened the Mzansi account in 2008, although he knew about Mzansi much earlier. The reason for opening this account was to use it for non-business purposes, as he finds the Bank C current account charges expensive. He uses the Mzansi account for saving; he deposits in a branch and withdraws at an ATM or in the branch. He also uses the Mzansi account for cash transfers and other purposes. He withdraws from his Bank C current account at the bank.

AR's comments

Bank C has better customer service but limited access. Bank E has lower charges and is more accessible; but its service is poor. "ATMs are supposed to be good, but I have been finding otherwise." He would prefer to have his Mzansi account in Bank C, but he stays with Bank E because it is more accessible. He is thinking about opening an account in Bank A.

"I think banks are not interested in Mzansi, while I think Mzansi is a good product for the people. Banks need to simplify products and services. Many people using banks don't know what a bank is, or what a financial transaction is. Some don't even know what account they have. They go to an ATM machine, but don't understand how to use it. The problems are not with the products, but with the information, and in some cases the banks' attitudes. But the people are scared to say 'What is this about?' It's like operating a car if you don't know how to drive."



CLIENT ML: Experiences of a bank client in jail

ML is a 36 year old man who was born in Gauteng Province to a single mother. Because of unrest there, he was sent to stay with his grandmother in Mpumalanga Province where he went to school. He then moved to Johannesburg, where he studied through Standard 9. Then he had to leave school because he had fathered a child and had to look for work. He got a job at a large company and worked there for eight years.

ML said he had dreamed of his biological father and wanted to find him. He did eventually find his father who works in construction and they developed a good relationship. In 2004 however, ML's former girlfriend, the mother of his two children, accused him of a rape attempt. He denied the charges, saying both that there was no evidence and that it was a blackmail attempt: he said his girlfriend promised to drop charges if ML gave her full custody of the children and gave her the house he owned in Johannesburg.

ML was arrested and found guilty; he served two and a half years in jail. He lost his job when he was arrested. The two children stayed with his mother while he was in prison; she receives their grant funds.

When ML was released from jail in 2007, he moved in with his mother and stepfather and his children. But he found that with a criminal record he could not get a job. And his Bank B savings account, which he had opened when working, was empty. He thinks the bank paid his insurance and other debit orders until the money ran out. The insurance lapsed and "now there is nothing."

Soon after getting out of jail, ML went to see his biological father who taught him about construction (building, welding, painting, windows, etc.). He does some work with his father and also now works for himself in small construction projects. But he says that his prison record prevents him from getting larger tenders.

Use of financial products

When she was employed, ML's mother had a bank account in Bank D, but she claims to have lost money there and is very displeased with the bank.

When he was employed, ML used his Bank A account for savings and debit orders, but after returning from jail, he has not used it. He said he doesn't really know what happened to his money because there was no one to check on his bank account while he was in jail.

While in jail, ML heard about the Mzansi account from an advertisement on the radio. And after being released from jail, a friend encouraged him to open an Mzansi account at Bank E, which he did. He uses this account for saving for his children.

In 2007 ML opened a Bank D account, with help from his father who provided him with employment and business documents. Despite his mother's bad experience with Bank D, ML likes Bank D. He found it easy to open a savings account, which he uses for his construction business, as the R15,000 limit for the Mzansi account is too small for his business needs. ML uses his Bank D account for payments for service made directly into his account, for a debit order for a funeral cover, and for withdrawals.



ML's Comments

He likes both his accounts, which he said serve different but important purposes for him. In addition he would like to have access to bank loans, as he gets tenders that often require him to have capital upfront. While ML did not say this explicitly, he gave the impression that having these bank accounts helped him financially, reputationally, and psychologically in returning to work after his jail sentence.

CLIENT RS: He wants to save money from his grant in his Mzansi account but he said this is not possible as grant rules require any money remaining in the account to be removed monthly

RS is a 36 year old man who lives with his siblings in a family-owned house in Johannesburg. He had a formal job for about six months but lost it because he became ill. Currently he sells cutlery in the informal sector, and he receives a grant of R940 a month. RS has a 15 year old daughter who does not live with him, but he is saving for her education.

Use of financial products

RS' father and mother both used Bank D for a long time, with salary paid directly into the account.

RS opened an account at Bank B in 2005 because the company he was then working for paid his salary into Bank B. This account was closed when he lost that job. However, he opened a new Bank B account when he began receiving a grant. He receives his monthly grant into this account but withdraws it all within the month because he says that any money left over will be removed, according to grant rules.¹⁰⁰

RS shares his sister's Mzansi account opened in 2006; she has another account at Bank C. The Mzansi account is in her name, but they both use it and keep track with deposit slips. There have not been any problems. RS uses this account for saving for his child's education. He said that he deposits R100 - R200 a month and has never withdrawn from that account. His balance at the time of interview was about R6,000.

RS's comments

He likes Mzansi because it is easy to open, inexpensive, and does not require a payslip. He had never heard of the education plan or the fixed deposit account, both of which could be useful for him. He said he has managed "to save quite a bit for his child's education and is concerned that the Mzansi interest is too low for growth." But he doesn't know of any other services that might be better suited for this purpose.

CLIENT DM: "Mzansi is affordable, but expensive when compared with Bank F" (a private bank that does not offer Mzansi).

DM is a 27 year old woman from Mpumalanga Province who moved to Johannesburg two years ago to look for work. She works in the informal sector, selling handbags, and she gets occasional part time jobs. From selling handbags she earns R250 to R500 in a bad month and R800 to R1,200 in a good month. DM is actively looking for a permanent job. She has had some retailing jobs and also part time waitress work.

She completed matriculation in 1998 and is studying Social Studies part time in a University of South Africa correspondence course. DM and her boyfriend rent a room for R450 a month, where they have been living for two years. DM has a seven year old daughter who stays with her father in Mpumalanga.

¹⁰⁰ This is what RS said. Whether this is a correct interpretation of the grant rules is not known by the author.



Formerly DM received a child grant of R190 per month, but the grant stopped and she is now working to reactivate it.

Use of financial products

Neither of her parents has a bank account. DM has two accounts; a savings account at Bank F and an Mzansi account in Bank B opened in 2007. DM opened her Bank F account when she was employed at a company that required her to have a bank account where her salary could be deposited. She did her own research at Banks A, B, D, and F. Of Banks A, B, and D, all of which offer Mzansi, only Bank A informed her about the Mzansi account.

DM found that Bank F had the lowest costs for deposit accounts and she opened her account there. Her boyfriend also has an account there, as well as accounts at Banks C and D. When DM is formally employed, her salary is paid into her account at Bank F which she also uses for deposits, withdrawals and debit card purchases.

DM opened her Mzansi account when Bank B moved to her township. She uses her Mzansi account to deposit, to transfer money to her sister's account, for card swiping for debit purchases, and to transfer money to her Bank F account "so it will not be inactive." Her mother, employed in Pretoria as a domestic worker, also uses DM's Mzansi account. DM keeps between R2,000 and R4,000 in her Mzansi account. She is also a member of a stokvel, where she pays R70 per month.

DM's comments

At Bank F, DM says the pricing is the best, but the overall service is poor: The branches do not have sufficient security; there is a lack of privacy because of the way the branches are laid out; and she did not like the way they tried to sell her a loan. "Bank F is not safe, there is no confidentiality, the doors are wide open – it's like going in a store." Her Bank F card was once swallowed by an ATM machine. She reported this to the bank and was assured that it would be taken care of. But her money was withdrawn from the bank, and she lost it.

In contrast, she is happy with the overall service she receives from Bank B, but she thinks there may be much that she does not know about the Mzansi account and she would like to be better informed about the product. Also she dislikes the long queues at Bank B's branches and ATMs. And she notes that "Mzansi is affordable but expensive when compared with Bank F." However, Bank B "does attend to you" and the service is excellent.

She thinks banks should increase bank tellers during peak times and inform people about mobile phone banking.

CLIENT LL: Bank D denied him a loan but then Bank C gave him a loan, and he moved his savings account from Bank D to an Mzansi account at Bank C – but no one told him about the interest on the loan

LL is a 46 year old man born in Eastern Cape. His father was a school principal and had a large herd of cattle. LL studied toward matriculation, and herded his father's cattle after school. But he was in Standard 10 when his father died in 1979, and he had to drop out of school. According to local cultural traditions, his elder brother inherited everything. LL then worked full time as a shepherd herding the family cattle.



In 1985 LL went to Johannesburg to look for work; from 1985 to 1987 he worked at a security company but was retrenched. He then worked in piece job construction, and in 1993 he got a permanent job as a butcher, but two years later the owner returned to his home in Portugal. LL then worked on piece jobs until 2006, when he got a permanent job as a cleaner at a garage. He currently earns R1,856 per month at the garage.

LL was married and he has three children. "My wife and I had a fight and I beat her up and the police [got involved]." LL was in jail for three months and when he was released he sent his wife away. "She stayed with another man, got AIDS, and died." His wife's brother then asked to have the children. "My brother-in-law's wife is a school principal, and for the good of the children, I agreed that they with my brother-in-law's family. They are taking good care of the children who are now 11, 10 and 6. I often send money to my children and last I year went to see them." LL stays alone. "Everything fell apart in my family. We meet only at funerals."

Use of financial products

LL's first bank account was a saving account at Bank D, which he used but then closed as his working situation was unstable. In 2007 when he got his permanent job at the garage, he opened an Mzansi account, which he heard about from a Bank D agent. He opened his Mzansi account at Bank D because he was familiar with the bank.

LL then applied to Bank D for a personal loan to renovate the government house in which he lives; the house is in his name. He was refused the loan, and he next went to Bank C, which gave him a loan of R7,000 payable over three years. He has a debit order for R150 a week to repay his loan. He then took all his money out of Bank D and opened an Mzansi account at Bank C.

However, the interest on the loan was not explained to him, and LL did not understand how he could owe R8,700 when his loan was for R7,000. He complained and the bank explained the interest charges, which he thinks are reasonable, especially compared to moneylenders. LL thinks that Bank C is treating him very well, especially compared to Bank D. He used the loan to renovate the outside of his house, and when this loan is paid off he plans to take another to fix the interior of the house.

LL uses his Mzansi account to receive his salary, for the loan debit order, for withdrawals, for purchases made by swiping his card, and for sending money for his children (by telegraph from his Bank C branch). His brother-in-law's family gets the cash at Bank A, where they bank. LL said, "It works well." He has heard of cell phone banking and would like to try it, but he is not sure whether it will work on his cell phone. He wants to find out.

LL's comments

He likes Bank C and feels well treated there. "Crime is widespread. It's important to use banks for saving and for safety. Having a bank account helps getting loans with lower interest than loan sharks." But he worries about what will happen with his loan if he is laid off at the garage.

CLIENT FL: A savings account with debit orders for an educational plan and funeral cover, and a fixed deposit account.

FL is a 28 year old woman who was born and raised in North West Province. She completed matriculation in 1999 and came to Johannesburg to complete her studies; she received a diploma from



Boston Business. FL is employed by a retail association and earns R2,700 per month. She also has an informal business selling perfumes and ladies' accessories. She lives alone in a room she rents for R450 a month. FL has a daughter who stays in North West Province with FL's mother (FL receives a child grant of about R200, which goes to her mother).

Use of financial products

In about 1997, FL's father lost money in a financial institution that was liquidated, which caused serious difficulties for the family for some time. Her father, who has since passed away, had a Bank A account. FL's sister, who receives her salary through Bank D, withdraws the money for deposit into her Bank A account.

FL has a savings account and a fixed deposit account at Bank A, and an Mzansi account at Bank E. Before opening her Bank A account, FL used her sister's Bank A account. FL opened her Bank A savings account in 2006, when she was required by her employer to receive her salary through a bank account. She was thinking then about Bank D, but her mother's advice was that Bank D's charges were too high and Bank A would be better. Her mother said, "Bank D is for rich people." In addition to receiving her salary and withdrawing at Bank A, FL saves there through debit orders for an educational plan (R 75 per month) and a funeral cover (R100 per month). She puts R100 per month in her fixed deposit account.

In 2006 FL opened her Mzansi account at Bank E because she thinks the Bank A charges are too expensive. She uses her Mzansi account for deposits from the profits of her informal selling business and for withdrawals when she needs money. She also uses the account to lend to her mother who buys clothes and blankets to sell at home. Her mother borrows from FL to meet the orders and repays after the sales.

FL is thinking of buying BEE Vodacom shares. But she is afraid because of her father's experience of losing money, and she wants to get some advice on whether she should purchase the shares.

FL's comments

When she opened her Mzansi account at Bank E, FL did not know that an Mzansi account was available in any other bank. She had to fill out the forms herself as there were no bank staff to help her. FL noted that it took her two weeks to get the Mzansi account, while it had taken only one day to get her Bank A account. But the costs are much lower in the Mzansi account, and Bank E is open late and the lines are shorter than at Bank A. She says that if her salary could be paid through her Mzansi account, she might close her Bank A account. She thinks the daily limits on Mzansi deposits and the R15,000 maximum on Mzansi deposits and other Mzansi limits should be raised.

3.3 Tryout Clients: An example of the four percent of the Mzansi account holders surveyed who were already banked before Mzansi began, but who now have an inactive or closed Mzansi account and who have one or more active bank accounts of a different type.

Client OT: He closed his Mzansi account because he had to leave Johannesburg to care for a sick uncle and thought he would "never save again"—but now he is back in the city and plans to open another Mzansi account

OT is a man about 30 years old who lives with his brother and another relative in a house in Johannesburg owned by the family since his childhood. He has been employed in three companies, but in 2007 he lost his last job when he missed two months of work because of an injury in a car accident.



He has also had short term jobs and sometimes sells in the informal sector. OT hopes to be able to go back to his last company job. During part of 2008 he had a short term job planting trees. At the time of his interview, he was selling cigarettes, sweets, and soda from his home.

Use of financial products

His father had an account in Bank A for a long time. In 1998 OT opened a savings account at Bank A because his then employer required a Bank A account.

OT opened his Mzansi account at Bank E in 2004 because he was doing some informal selling then and because he dislikes the high Bank A charges. He used the Mzansi account for deposits and ATM withdrawals, using a nearby Bank D ATM. But then he had to leave Johannesburg to care for his sick uncle and thought he would not be able to save again. At that time he closed his Mzansi account and withdrew the balance of R2,150.

At the time of the interview, OT was back in Johannesburg and selling in the informal sector again. He plans to open another Mzansi account at Bank E, which he likes for saving. But he will keep open his Bank A savings account also because he hopes to be employed again by his old company – which OT said “does not like Mzansi.”

OT's comments

He likes having an Mzansi account at Bank E because it is easy to open the account, the service is good, the lines are not long, and the charges are low. And if you deposit an amount in the account, it is still there when you withdraw. OT thinks banks are important because of safety – not just in case the house burns down, but also because having your money in the bank helps to curtail unnecessary spending.

4. Never-Mzansi account holders: Clients who have a savings account, but think it is Mzansi

These two clients had Bank E savings accounts before Mzansi accounts began. They both think they have Mzansi accounts but their accounts, which are active, are Bank E savings accounts. **Both clients are in their late 50's and are working: KV in a n enterprises he started, and EM as a part-time domestic worker.**

CLIENT KV: Bank D has been our family bank for three generations

KV is a 56 year old man born in Free State Province, who came to Johannesburg in 1970 to look for work. Educated to what would be Standard 9 now, he was employed by a glass company where he worked for 19 years. KV left in 1989 to start his own taxi business. He bought six taxis but over the years, four were hijacked or stolen. He now has only two taxis. KV is married and he and his wife had five children, two of whom died. He has three daughters, all at home: two are working (one as a teacher, one in a company), and one is a student. KV manages the taxis but no longer drives one; he hires two drivers. KV's wife works as a florist. They own their house in Gauteng Province which they built in 1984 after buying the house site.

Use of financial products

KV's parents, who stay in Free State Province, have banked for many years at Bank D. Now they are pensioners, preferring to receive their pensions in cash. KV is not sure if they are using their bank accounts now.



When KV was employed at the glass company, he was paid in cash but he had savings accounts at two banks where he saved. “The treatment was not bad, but there were two lines, one for Whites and one for Blacks – and the service was not comparable.” He closed the two bank accounts, in one case because he experienced two occasions of double withdrawal (the withdrawal was reported at the same time in two branches, and the bank did not resolve the issue). He withdrew all his money and opened a savings account in Bank D, where he deposited it. Later he opened Bank D accounts for his first two daughters, and he bought BEE Sasol shares for his youngest daughter from Bank E.

Sometime before 2004, KV opened a Bank E account, where he saves. He deposited R7,500 when he opened the account. He uses this account to deposit in the branches, and to withdraw at both ATMs and branches. He calls his account Mzansi but he does not have an Mzansi card; he has only the old Bank E savings account card, which remains active.

KV’s comments

“Bank D is our family bank.” KV is happy with Bank D service and has never experienced any fraud with this account. He likes Bank D’s widespread ATMs and branches and thinks that although the bank has long queues, they are well managed.

KV has a cell phone which he uses, “but cell phone banking is not for me!” He sends money to his parents using his sister’s bank account at Bank D or through a family member travelling home.

He also likes Bank E because “it accommodates everyone and they have a good communication strategy for solving problems.” KV thinks “Bank E is the best for South Africa because the other banks insist on proof of employment.”

In general, KV emphasizes that “Banks should help customers with their problems. Don’t leave them stranded!”

CLIENT EM : “I like Bank D, but I love Bank E”

EM is a 58 year old woman who is a domestic worker earning R1,000 per month. A widow, with a daughter and two grandsons, she lives in a one-room house she owns in Gauteng Province where she was born. She also owns a five room house in a North West Province village, which is looked after by a relative. She was educated to about Standard 6. Her first job was cutting up chickens at a chicken farm that later relocated. She was then out of work for a long time until she started as a domestic worker in about 1998. She works three times a week for one employer, earning R250 per week.

Use of financial products

Long ago when ago EM was working at the chicken farm where she was paid in cash, she started saving her cash in envelopes. Then she opened an account at Bank D to save for her grandsons’ education. She knew Bank D because she belonged to a burial society which had a Bank D account; she deposited the members’ contributions at the local Bank D branch. After opening her own account, she used the account for saving, and used ATMs to withdraw. When she had saved R1,000, she withdrew the money, closed the account (the bank didn’t ask her why she was closing her account), and started her grandsons in school.



EM learned about Bank E from her daughter who is working and has an account there. She then went to Bank E and opened a savings account—which she thinks is an Mzansi account. EM normally deposits between R250 and R280 per month in her account. Her other monthly expenses are R200 for food; R100 for electricity; R25 for utilities; and R300 for support for her daughter and grandsons. But, she says, her account balance fluctuates because sometimes she withdraws for unexpected emergencies.

EM's comments

She had no complaints about Bank D. They treated her well. But she says, “I love Bank E!” They treat her well and she can walk to Bank E, so she finds it very convenient.

III. Planning For Financial Inclusion: Clients and Banks

What do clients' experiences with the Mzansi account, and more generally with other banking accounts and services, suggest for the future of banking at the low end of the South African market? This discussion, based mainly on the work with the focus group participants and the in-depth interviews, also draws from discussions at the banks that offer Mzansi accounts, and from the surveys.

1. Did Mzansi succeed in advancing the frontier of access to financial services?

The answer is yes. And Mzansi clients mentioned other frontiers being crossed as well. As one client said, “Mzansi is a product that’s uplifting the community — taking them from ignorance to something that’s knowledgeable.”

Six million Mzansi accounts were opened in a little over four years. In the TNS sample of 1,300 Mzansi accounts opened, only 12 percent of those who had opened Mzansi accounts had no active bank account of any type in 2008, at the time of the survey (Figure 11). And 76 percent of all who opened Mzansi accounts, currently maintain active Mzansi accounts.

Poor, unemployed, and previously unbanked people of both genders, over a wide age range, are Mzansi clients— as was intended. Many unemployed and low income people in this group say that they find the Mzansi account low cost, easy to open, and convenient to use. As one such client commented, “Mzansi is especially good because it helps the poor. It is a flexible... an accommodating product that is also affordable.” Another commented that the low charges of the Mzansi account “are fair because we are not all financially equal.”

2. Why did already banked clients open a Mzansi account?

As with the clients whose first bank account was Mzansi, those who were already banked when they opened their Mzansi accounts also mentioned its low cost compared with the accounts they were using, and its convenience, as main reasons for opening the account.

Of the total Mzansi accounts opened, 28 percent are held by clients who already had one or more bank accounts when the Mzansi account was begun in late 2004. In 2008, 21 percent of the total Mzansi accounts opened were active accounts held by those who were already banked at the time of the Mzansi launch.



As noted however, some of the higher income and better educated clients among the already banked clients with multiple accounts lower their overall banking costs by using the Mzansi account instead of a higher-cost account for a variety of transactions which are offered in both accounts (use of ATMs, debit orders, mobile phone funds transfers, etc.) This appears to be also the case for some people whose first account was Mzansi, and who now have other accounts as well. In general, it seems to be the more upscale clients who use Mzansi as a cost lowering mechanism for their multiple account banking. Most of the clients of this type whom we met probably did not need the low-cost Mzansi basic bank account. These uses of the Mzansi account by more upscale and financially sophisticated multiple account holders add to bank losses on the Mzansi account (and decrease revenue on the other accounts).

The clients whom we met from this group tended to be more financially sophisticated than those we met whose first bank account was Mzansi (although there are exceptions in both directions). Clients AR, DM, and FL – already banked clients in the Add-On category—provide different kinds of examples of this approach to Mzansi use. Of the ten formerly banked people with whom in-depth interviews were conducted, seven had active Mzansi accounts and two had accounts pre-dating Mzansi which they thought were Mzansi accounts. These ten people had in aggregate 23 active bank accounts, with some using other financial products as well.

These clients tend to use their non-Mzansi accounts for their main business transactions and sometimes also for salary deposits (but the latter can be risky, as the account holders then may be required by their banks to move out of the Mzansi account—as happened to Client JZ, discussed in Part II). But those who are able to keep their Mzansi accounts use them for deposits of cash payments for services rendered by client or family owned enterprises; for deposits of profits from sales of goods in the informal sector; for debit orders; for debit card swiping for purchases; for withdrawals; for storing and transferring funds; for savings, especially for children’s education; and for other purposes.

When a client’s Mzansi account balance gets close to the \$1,500 deposit limit, the account holder can transfer money from the Mzansi account to another account. The client can then continue to use the Mzansi account in the various ways that lower his or her overall costs of banking. But in general these do not seem to be the people for whom Mzansi was designed (although some may have been so at the start). This approach to lowering overall banking costs through Mzansi transactions seems likely to grow, as more people become financially knowledgeable. The participating banks may then see increasing Mzansi losses.

3. How do Mzansi clients and their families select (and de-select) banks?

Selection seems largely through family example and word of mouth information. De-selection appears to result mainly from poor service, and from what are said to be bank errors, and in a few cases, alleged fraud.

Mzansi clients, even those whose first account was a Mzansi account, may be more familiar with banks than is perhaps widely understood, especially in the kinds of urban and peri-urban areas where the in-depth interviews were carried out. Thus, the seventeen Mzansi current or former account holders interviewed mentioned, among them, 57 bank accounts held previously or currently either by the interviewees themselves or by members of their families—parents, siblings, children, or others in the household. And this was not in response to a specific question; it was simply information that came out in general conversation about Mzansi and other accounts. Opening accounts in banks where family



members were already banked was quite common among the interviewees and focus group participants.

Four of the 17 interviewees described very negative experiences with their banks, most of which led to their changing banks. Three other clients interviewed are from families where a parent was said to have lost money through bank error or alleged fraud.

While advertising and word of mouth information influenced how some people selected their banks (and all negative experiences with banks influenced the de-selection process), many people chose the bank(s) that family members were already using. And bank accounts are often used by more than one family member for a variety of reasons and purposes, often as a transition mechanism until the person sharing the account gets his or her own account.

4. Why are so many Mzansi accounts now inactive?

Four main reasons seem to predominate for inactive or closed Mzansi accounts: unemployment; requirements by employers to open a particular bank account; adding other bank accounts (“Mzansi is not good enough for me”) and then letting the Mzansi account become inactive; and negative experiences of various kinds with the banks.

Employment status and bank use: Congruent Fluidity

Both the focus groups and the interviews indicate a considerable level of on-again, off again employment, especially since the start of 2008. Unemployed Mzansi clients who find work may soon be laid off again – a process that can continue over time, sometimes with changes occurring in rapid succession. Since clients’ use of their Mzansi and other bank accounts is affected by whether or not they are employed, there has been considerable fluidity in bank use, as well as in employment – with the latter typically driving the former. This occurs in both formal and informal sector employment. And formal sector workers and others in their households sometimes work in the informal sector—either in addition to their formal employment, or in the gaps between jobs, or both.

This pattern illustrates the reasons that, over time, some clients move through several of the categories discussed—for example, from Core to Cutoff-1, from Core to Move-Up; and in the reverse direction, from Add-On to Move-Down, etc. As has been shown by client examples, this mobility is driven both by employment (or the lack thereof) and by the opportunities offered by other bank accounts (which are typically taken up when clients are employed). Thus the client categories used in this report are just that. They are categories into which people who have opened Mzansi clients since 2004 easily fit at this time. But the clients themselves can (and do) move from one category to another.

The fluidity of client movement through these categories is well illustrated in the interviews. Thus, of the seven people interviewed whose first account was Mzansi, six were unemployed and looking for work at the time of the interview, and one was working in the informal sector. But with the exception of one person who had no work experience, all the others had been employed previously in the formal sector. The formal work experience of this group ranged from employment as a cleaner in a small local municipality in KwaZulu Natal to jobs in public administration and banking in Johannesburg.

Bank usage by these seven people is closely interlinked with their employment status. Client HJ, the one working client, who was previously salaried but working in the informal sector at the time of the



interview, had closed her Mzansi account. However, she had a savings account, a fixed deposit account, and a Wizzit account at Bank B – all active. She also had a credit card at Bank D.

Of the six others, all of whom were unemployed, four had inactive Mzansi accounts, and two were new Mzansi clients, for whom this was their first bank account.

The profile is different, however, among the eight people for whom Mzansi was not their first account. Only the oldest, at 69 years, is not working. Two are employed in the formal sector and two are in family- or self-owned businesses. Three work in the informal sector (with a considerable range of income).

The two other previously banked clients are those who have Bank E savings accounts, but who think their accounts are Bank E Mzansi accounts. Both were working at the time of their interviews: one owns a business he built up over many years, and the other is a part-time salaried domestic worker.

Three other main reasons for inactive or closed Mzansi accounts

As discussed, these are: (i) “moving up” to an account that better meets the needs of the client—who then closes or leaves the Mzansi account inactive; (ii) being pulled into another account by employers to meet company requirements; and (iii) being pushed out of the bank by its poor service, lack of information, or in a few cases bank errors or alleged fraud.

Two other possible reasons, not well documented but often mentioned, are bank constraints/reluctance to lend to Mzansi clients; and competition from Bank F, a private bank which has somewhat lower costs than Mzansi for its savings accounts (treated essentially as loss leaders by Bank F).

5. Why are there extensive communication problems between Mzansi clients and banks?

The question may be answered in part by client AR’s comment: “I think banks are not interested in ‘Mzansi, while I think Mzansi is a good product for the people.” Some clients and banks seem to be operating at cross purposes. Thus, some Mzansi clients want fewer limits and more services added to their Mzansi accounts. However the banks, already at loss on the direct costs of Mzansi, generally want to move the more upscale Mzansi clients to their other accounts—while some of these same clients want to keep their Mzansi accounts as a low cost way to lower their overall banking costs.

There appears to be a considerable range in clients’ knowledge of their banks’ products and services—and in understanding their own accounts. On the one hand, the more financially sophisticated bank clients can be quite skilled in using their Mzansi accounts in combination with their other bank accounts and financial products. And many Core clients with simple banking needs understand and use their Mzansi accounts without difficulties (except as may be caused by their banks).

On the other hand, many poor Mzansi account holders without much education and bank experience are unaware of the fundamentals of how this account (or other bank accounts and products) work. Many clients in the TNS survey, in the focus groups, and in the interviews commented on the extensive need for client education about bank products and services. One example is Client LL who took a loan from Bank C, but said in his interview that no one had told him about interest. He could not understand how he could owe R8,700 when his loan was for R7,000. Client AR had it right: Client LL was driving a car without knowing how.



Most Mzansi account holders are spread along a continuum between these two extremes. But as discussed in Parts I and II, both the banks that offer Mzansi accounts and their clients seem to be agreed that considerably more information about bank products and services needs to be provided to clients, and that many branch managers and staff require training in how to serve Mzansi clients better. If well carried out, these two changes would make a significant positive difference for the clients, and also for those banks that improve their service and help their clients to understand their accounts and their banking options.