



Why Payment Systems matter to Financial Inclusion

Payments Southern Africa Conference, 14 September 2012

FinMark Trust

Kim Dancey

Making financial markets work for the poor



About FinMark Trust

- Independent trust formed in April 2002
- Initial and core funding from the UK's Department for International Development
- Mission: *"Making Financial Markets Work for the Poor"*
- Aim: Using evidence based interventions to facilitate and catalyse development around access to financial services
- Other areas: regional financial integration, affordable housing, rural/agricultural finance, micro insurance and retail payments

Agenda



- What is financial inclusion and why it matters
- Levels of financial inclusion in Southern Africa
- Impact of payment systems on G2P payments
- Innovative case studies on payment systems for delivery of financial services



What is financial inclusion and why it matters



Making financial markets work for the poor

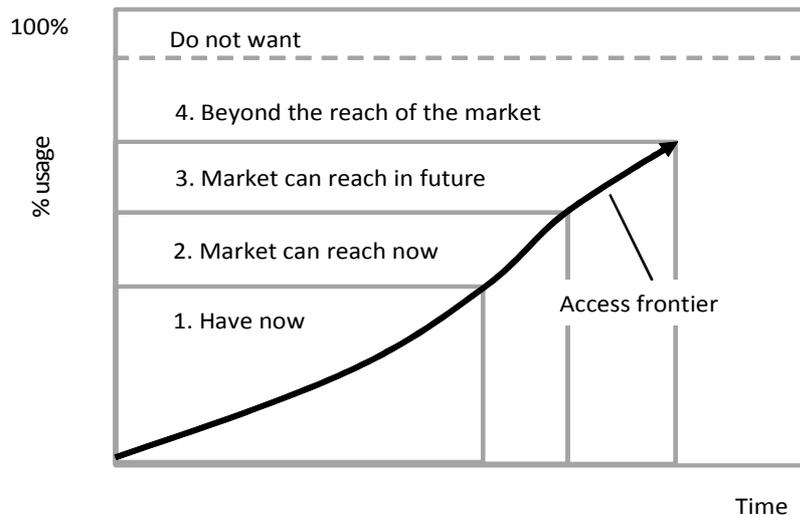
Financial Inclusion

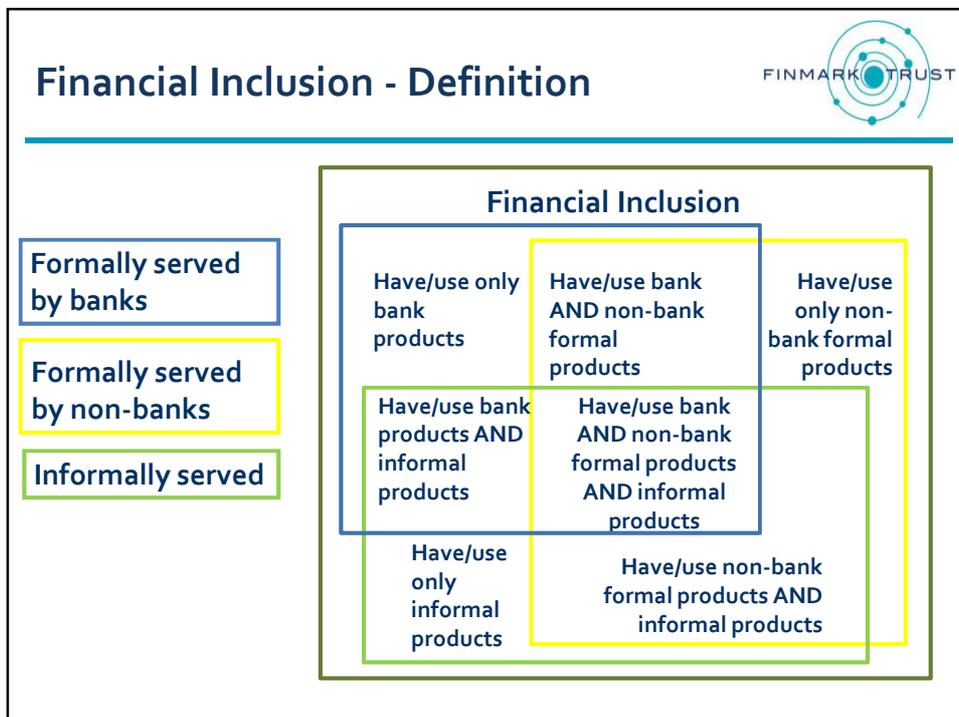
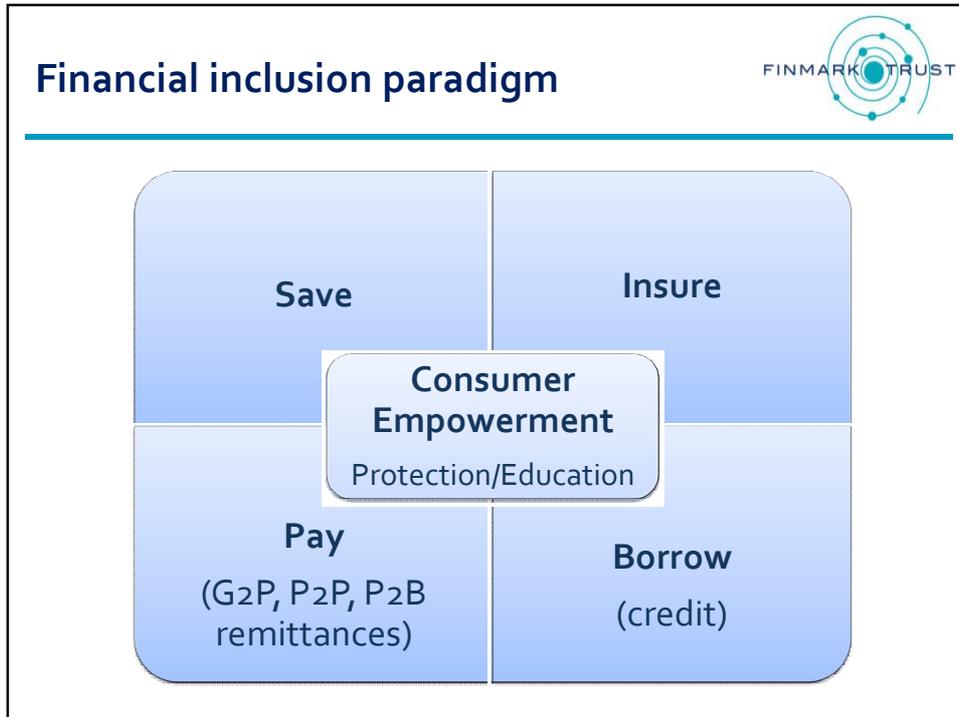


- Payments, savings, borrowing, and insurance are the basis of most of our daily activities, whether rich or poor
- Financial services, particularly access to credit are critical for small and medium size enterprises (SMEs) to start and grow their businesses

Financial inclusion is when consumers, across the income spectrum, can access and sustainably use financial services that are affordable and appropriate to their needs

Financial Inclusion Access Frontier

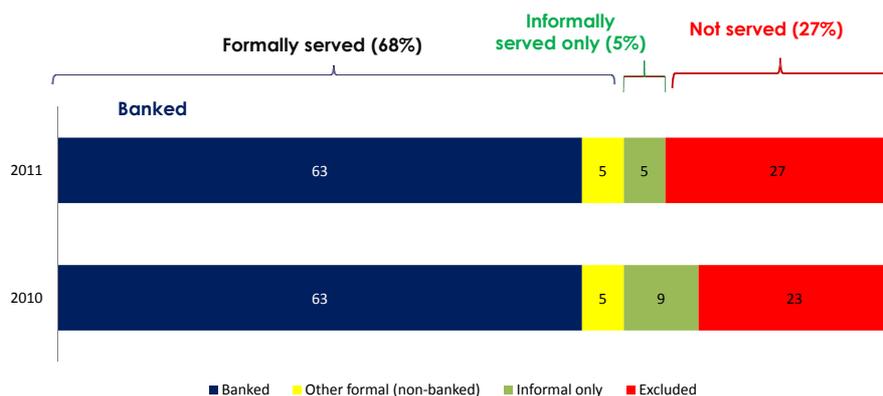




Financial Inclusion - Access Strand



In constructing the Access Strand, the overlaps in financial product /service usage are removed, resulting in the following segments:



Financial Inclusion



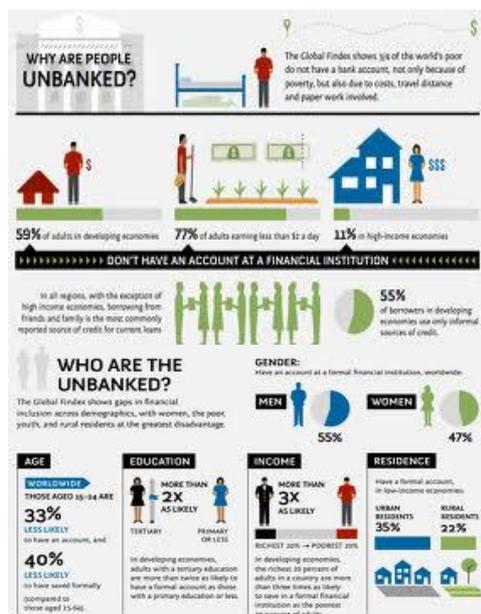
- Financial inclusion matters because money is a means to an end; not being able to use even simple tools to manage it marginalises people from society and acts as a barrier in their lives
- These people are often the poorest and most vulnerable in many other ways, so financial exclusion is both a product and a symptom of poverty and disadvantage

Financial Inclusion



- Financial inclusion is increasingly a policy priority for governments and financial regulators, many of whom see it as a complement to their financial stability goals
- To date, over 60 developing countries have committed to financial inclusion reforms

Access to finance is crucial to build assets, to protect against risks, and to finance enterprise development. Access to finance provides stability and progress to families, businesses, and the economy as a whole



Levels of financial inclusion in Southern Africa

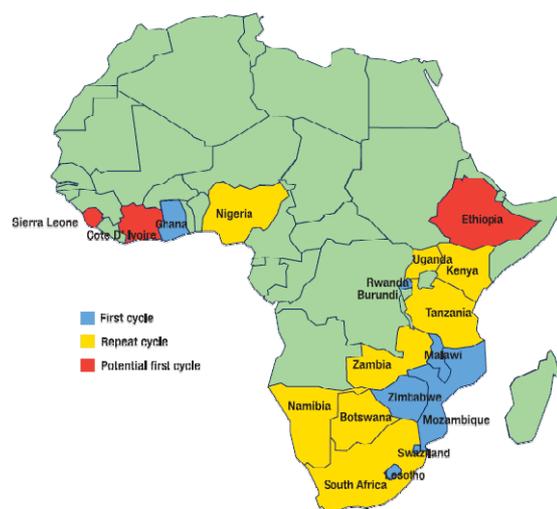
Making financial markets work for the poor

FinScope surveys



- FinMark Trust has played a key role in the last 10 years in assisting the advance of the financial inclusion agenda through its FinScope surveys.
- The FinScope survey is a research tool, integrating demand-side and supply-side information.
- The FinScope is a nationally representative survey of how individuals source their incomes and how they manage their financial lives.
- It also provides insight into attitudes and perceptions regarding financial products and services.

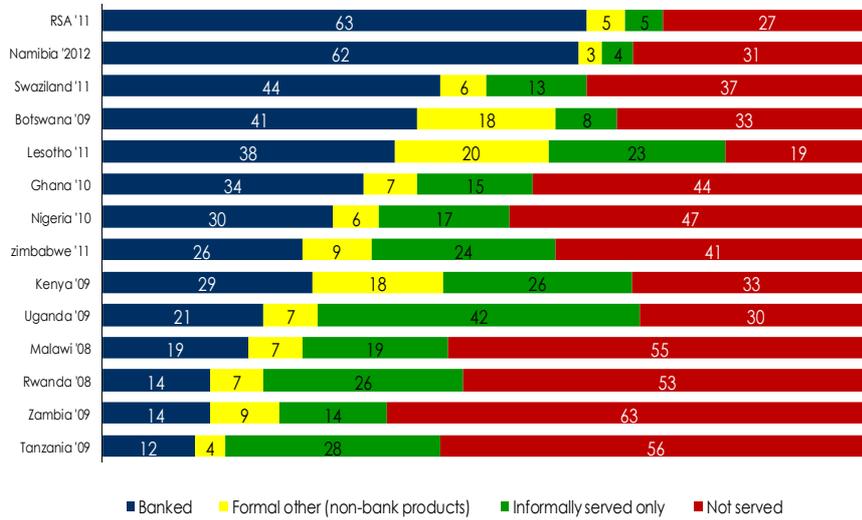
FinScope surveys



15 African countries, and Pakistan

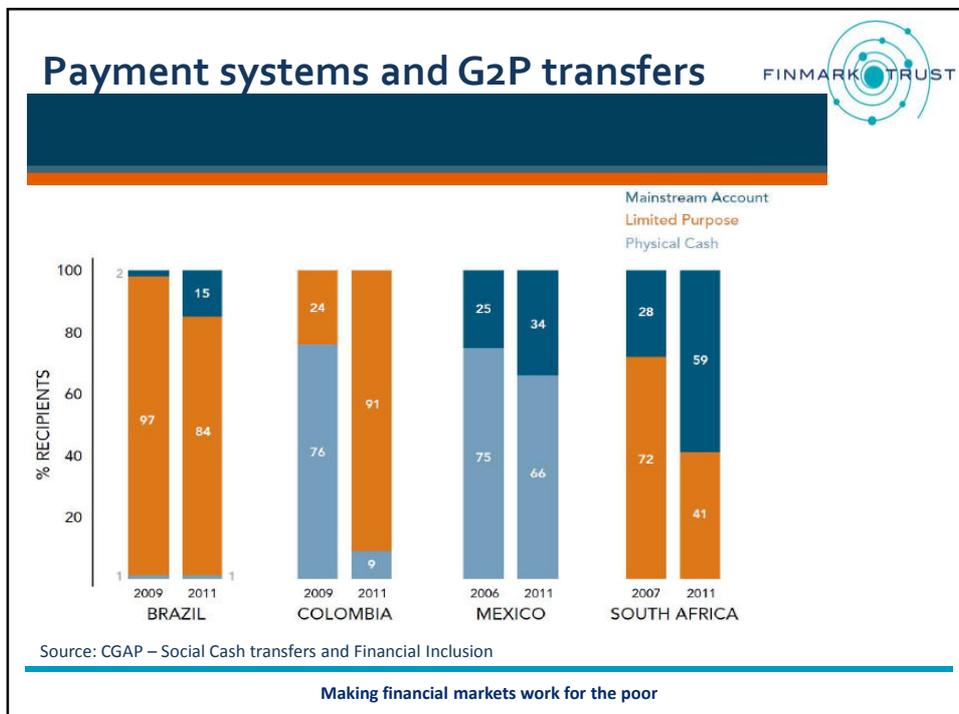
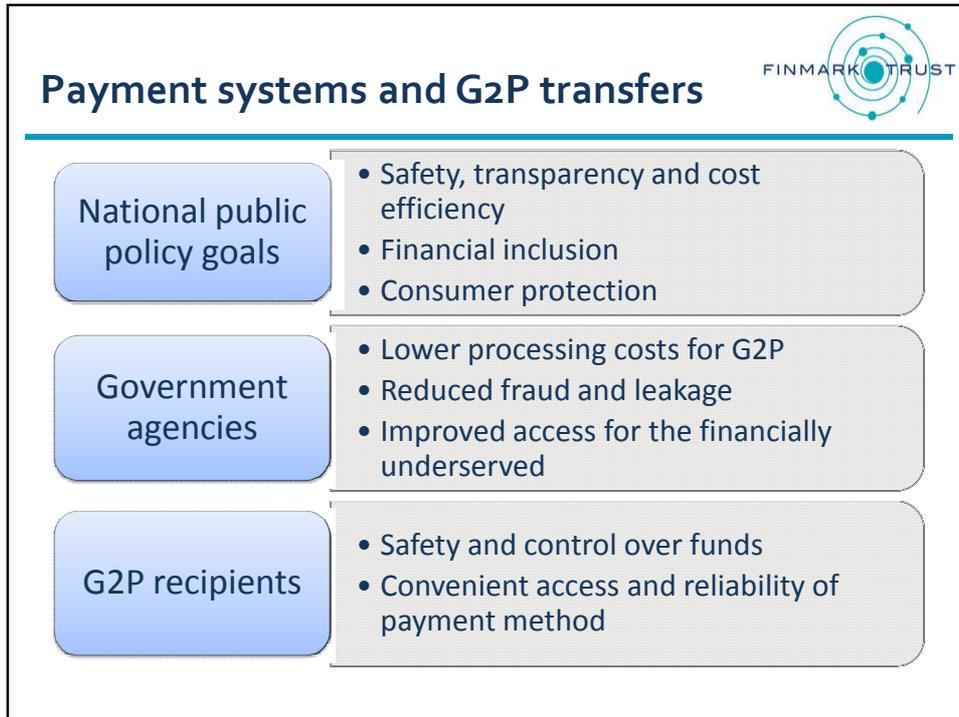
Plus: Angola, DRC, India, Myanmar

Comparing access across countries



Impact of payment systems on G2P payments

Making financial markets work for the poor



Payment systems and G2P transfers



Table 5: Cost of Payment to Government Agencies across Countries

	Brazil	Colombia	Mexico	South Africa
Average grant per recipient	\$71.0	\$55.1	\$118.2	\$144.7
Weighted average fee per payment	\$0.84	\$6.24	\$2.52	\$3.50
As % of average grant	1.2	11.3	2.1	2.4
Cost by type of instrument:				
Cash payment	N/A	\$5.20 ^a	\$2.35	N/A
Limited-purpose instrument	\$0.88	\$6.24	N/A	\$4.46
Mainstream financial account	\$0.60	N/A	\$2.84	\$2.03 or 0.10 ^b
Rate used in conversion:				
1 USD = (15 August 2011)	1.62 BRL	1784.5 COP	12.4 MXN	7.2 ZAR

Source: CGAP research.

a. Under previous contract, included for comparison only since current contract has no cash payment as defined.

b. \$0.10 is the fee paid by SASSA to make a bulk electronic transfer into client bank accounts via the Automated Clearing Bureau; the recipient then pays any costs associated with using the account directly.

Source: CGAP – Social Cash transfers and Financial Inclusion

Making financial markets work for the poor

Payment systems and G2P transfers

Cost to governments – is building inclusive financial services into grant programmes affordable?

Usage by recipients – will recipients use financial services if these are offered to them?

Business case for providers – can financial institutions offer financially inclusive services to G2P payment recipients on a profitable basis?

Payment systems and G2P transfers

Evidence from research

- Recipients welcome convenience of electronic payments over cash
- Few recipients automatically use new bank account to save or otherwise beyond withdrawing benefit

What this means

- Entrenched behaviour patterns take time to change, requiring clear, consistent communication
- Early expectations about rapid and automatic take up of financial services, especially savings, needs to be reconsidered
- Main benefit to recipients from G2P accounts may come from serving as a gateway to formal financial sector

Payment systems and G2P transfers

- Payments made by and to the government must be done safely, transparently and efficiently
- An appropriate legal and regulatory environment to underpin government payment programs is important to provide clarity and certainty to all parties
- It is also essential that laws and regulations support:
 - sound payment instruments and systems
 - competition in the marketplace
 - consumer protection issues



Innovative case studies on payment systems for delivery of financial services

Making financial markets work for the poor



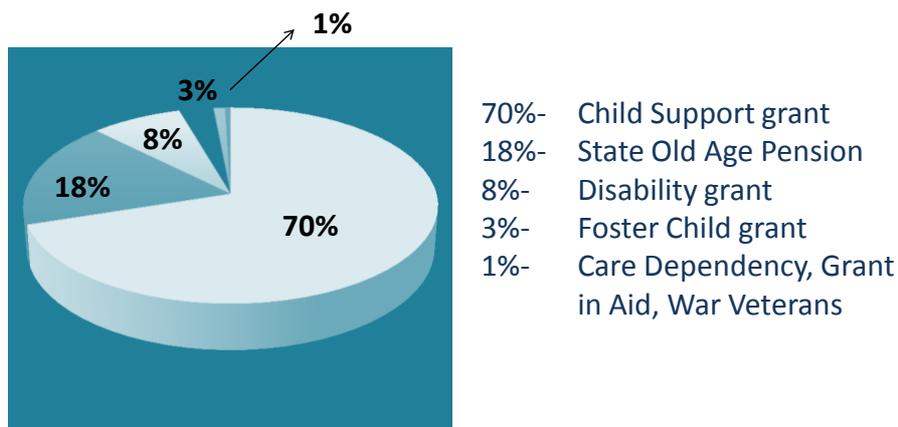
Case study 1- G2P Payments SASSA Government Grants

Case study 1: SASSA grant payments



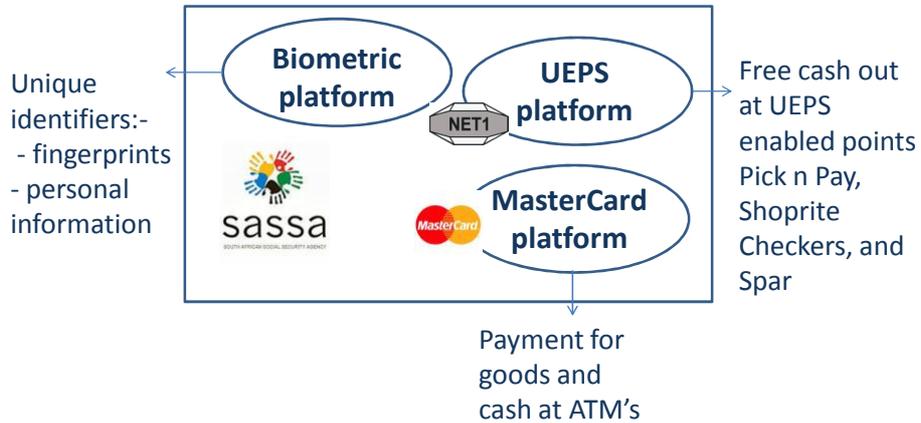
- The South African Social Security Agency (SASSA) controls and manages the disbursement of the G2P grant benefits
- Beneficiaries receive one or more of seven different grants on a monthly basis
- Since March 2012 a new biometric payment card for the grant disbursements is being rolled out with an aim to provide greater security and convenience
- Reducing SASSA's operating costs from between R26-R35 per grant to a capped R16.50 per grant payment

Case study 1: SASSA grant payments



Source: FinMark Trust: The Payment Experience of Social Grant Beneficiaries, June 2012

Case study 1: SASSA grant payments



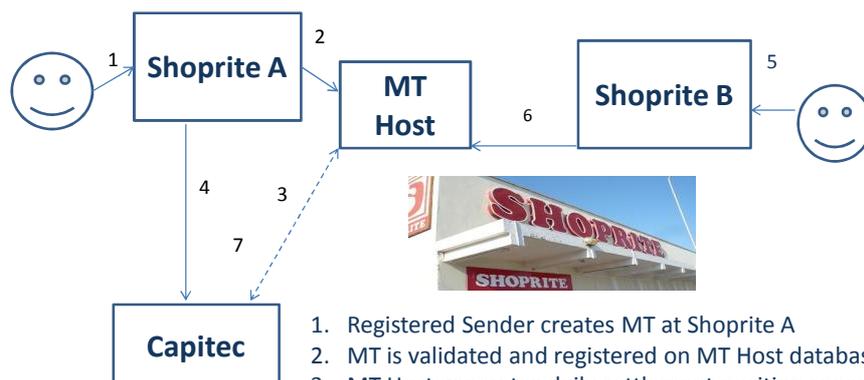
Case study 2 - P2P Payments Shoprite Money Transfer Service

Case Study 2: Shoprite Money Transfer



- The Shoprite group's Money Transfer service is available to anyone, without the need for a bank account
- The service is available at the Money Market counters of the Shoprite, Checkers and Checkers Hyper supermarkets in the group
- The cost of a send is R9.95 and the recipient is not charged
- The Money Transfer service is provided in association with Capitec Bank, which is the sponsoring bank
- The recipient collects the money at a Shoprite Checkers group store of their choice using a secret PIN, which is provided to them by the sender

Case Study 2: Shoprite Money Transfer



1. Registered Sender creates MT at Shoprite A
2. MT is validated and registered on MT Host database
3. MT Host generates daily settlement position reports
4. Daily MT settlement from Shoprite to Capitec Bank
5. Receiver requests funds from Shoprite B
6. MT is validated against MT database and authorised
7. MT Host generates daily settlement position reports

Case Study 2: Shoprite Money Transfer



Leveraging off FICA's exemption 17

