ACHIEVING EFFECTIVE FINANCIAL INCLUSION IN SOUTH AFRICA: A PAYMENTS PERSPECTIVE

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ACRONYMS AND ABBREVIATIONS

ACH	Automated Clearing House
ADLA	Authorized Dealer with Limited Authority
AFI	Alliance for Financial Inclusion
AML	Anti-Money Laundering
ATM	Automated Teller Machine
BIS	Bank for International Settlements
CCBG	Committee of Central Bank Governors
CDD	Customer Due Diligence
CFT	Combat the Financing of Terrorism
CMA	Common Monetary Area
CPMI	Committee on Payments and Market Infrastructures
CRSP	Credit Reporting Service Provider
DHA	Department of Home Affairs
EFT	Electronic Funds Transfer
FAIS	Financial Advisory and Intermediary Services Act
FIAP	Financial Inclusion Action Plan
FIC	Financial Intelligence Centre
FICA	Financial Intelligence Centre Act
FIU	Financial Intelligence Unit
FSB	Financial Services Board
FSC	Financial Sector Charter
FSOS	Financial Services Ombudsman Schemes
GPFI	Global Partnership for Financial Inclusion
HSRC	Human Sciences Research Council
KYC	Know Your Customer
MFI	Microfinance institution
MMT	Mzansi Money Transfer
MTO	Money Transfer Operator
NBFI	Non-Bank Financial Institution
NCC	National Consumer Commission
NFIS	National Financial Inclusion Strategy
NPR	National Population Register
NPS	National Payment System
NPSOF	National Payments System Operational Forum
NPSSB	National Payments System Strategy Body
NT	National Treasury
OBS	Ombudsman for Banking Services
PAFI	Payment Aspects of Financial Inclusion
PASA	Payments Association of South Africa
PCH	Payments Clearing House
POPIA	Protection of Personal Information Act
POS	Point of Sale
PSDG	Payment Systems Development Group (World Bank)

PSO	Payment System Operator
PSP	Payment Service Provider
RSP	Remittance Service Provider
RTC	Real Time Clearing
RTGS	Real-Time Gross Settlement
SACRRA	South Africa Credit and Risk Reporting Association
SADC	Southern African Development Community
SAMOS	South African Multiple Option Settlement
SAPO	South African Post Office
SARB	South African Reserve Bank
SASSA	South African Social Security Association
SIRESS	SADC Integrated Regional Electronic Settlement System
SMEs	Small and Medium Enterprises
SSBs	Standard Setting Bodies
STATSSA	Statistics South Africa
UFA	Universal Financial Access
USD	United States Dollar
ZAR	South African Rand

ASSESSMENT REPORT

1 INTRODUCTION

1. The objective of the South Africa Financial Sector Development and Reform Program is to assist the Government in strengthening financial stability and improving financial inclusion, through analytical and advisory services. It is expected that advancing a sound and inclusive financial sector will support the development needs of the economy as well as South Africa's poverty reduction goals. The program has two main pillars that focus on: (i) financial sector regulation, integrity and stability; and, (ii) financial inclusion. For each of the pillars, a combination of analytical and diagnostic work, policy advice, and technical assistance has been envisaged. One of the activities under the financial inclusion pillar aims to assess how effective financial inclusion in South Africa can be achieved from a payments perspective.

2. A transaction account is an essential financial service that can serve as a gateway to other financial services such as savings, credit and insurance. However, nearly 40% of the world's adult population – about 2 billion people – still have no account with a bank or authorized non-bank service provider.

3. Four payment systems specialists from the World Bank visited South Africa in August and November 2015 to conduct a review of the National Payments System and to make recommendations for possible improvements in view of how effective financial inclusion can be achieved from a payments perspective. Numerous discussions with public and private sector stakeholders were held and the team considers that it has gathered representative opinions from different participants on the current status of the market and on-going reforms.

4. This report presents the results of the analysis, which was based on the recently released CPMI-World Bank report "Payment Aspects of Financial Inclusion", and benefits from best practices of which the World Bank has experience in other countries. The PAFI report, in addition to outlining principles to help countries advance financial inclusion, suggests possible key actions, including providing basic accounts at little or no cost, stepping up efforts to increase financial literacy, and leveraging large-volume payment programs, such as government payments, by adopting electronic payment services. Financial inclusion efforts are beneficial not only for those who will become financially included, but also for the national payments infrastructure and, ultimately, the economy.

5. This report is organized as follows. Section II gives an overview of the economic and socio-demographic context, the financial sector, the state of financial inclusion in South Africa from a payments perspective (and in comparison to select peer countries), and recent international developments and guidance. Section III discusses the basic foundations for effective financial inclusion from a payments perspective, which are commitment and coordination of stakeholders, legal and regulatory framework, and the payments and other relevant infrastructures. Section IV analyses the drivers of access to and usage of transaction

accounts and associated electronic payment instruments. These drivers are the account and payment product design, readily available access points and access channels, awareness and financial literacy, and large volume recurrent payments. Section V finally, draws some high level conclusions and suggests the focus of potential follow up work.

2 CONTEXT

2.1 Economic and socio-demographic context

1. According to the 2011 Census, South Africa has a population of 51.8 million, 51.2 percent of whom are female and 38.34 million (69.8%) are 15 years old or more. Gauteng and KwaZulu-Natal are the largest provinces, accounting for 23.7% and 19.8% of the total population, respectively. As per mid-2015, Statistics South Africa estimated South Africa's population at 54.96 million. The population increased by 1.65% between 2014 and 2015, with Gauteng still remaining the most populous province followed by KwaZulu-Natal. The Northern Cape remains the least populated province, with just under 1.2 million people (STATSSA, 2015a).

2. Between 2008 and 2014, the number of employed persons increased from 14.6 million to 15.1 million; however, the number of unemployed persons increased from 4.3 million to 5.1 million, resulting in an increase in the unemployment rate from 22.5% in 2008 to 25.1% in 2014. As at 3Q2015 the working-age population was 36.1 million, of which 15.8 million were employed, 5.4 million unemployed and 14.9 million not economically active. The unemployment rate is 25.5%, the absorption rate 43.8% and labor force participation rate 58.8%. The formal sector accounted for the largest share of employment at 69.1%, while Agriculture accounted for the lowest share (5.7%). 15% of the not economically active population was accounted for by the discouraged[1], while 85% were due to other reasons (i.e. student, home-maker etc.) (STATSSA, 2015b,c; see also Annex 1).

3. 35% of South Africans receive salaries/wages, 28% money from others, 27% government grants, 8% from their own business, and 11% do not receive money at all (Finscope, 2015).

4. Annual consumer price inflation has been between approximately 3.7% and 6.6% over the past five years and stood at 4.8% in November 2015 (STATSSA, 2015d).

5. South Africa's economy grew by 0.7% in the third quarter of 2015. The largest industries, as measured by their nominal value added in the third quarter of 2015, were as follows: (i) Finance, real estate and business services (20.7%), (ii) general government services (17.6%), wholesale, retail and motor trade; catering and accommodation (14.6%); and (iii) manufacturing (13.3%) (STATSSA, 2015e).

[1] A person is considered to be a discouraged job-seeker if they wanted to work but there are no jobs in the area; they were unable to find work that required their skills; or they have lost hope of finding any kind of work (Source: AfrikaCheck.org).

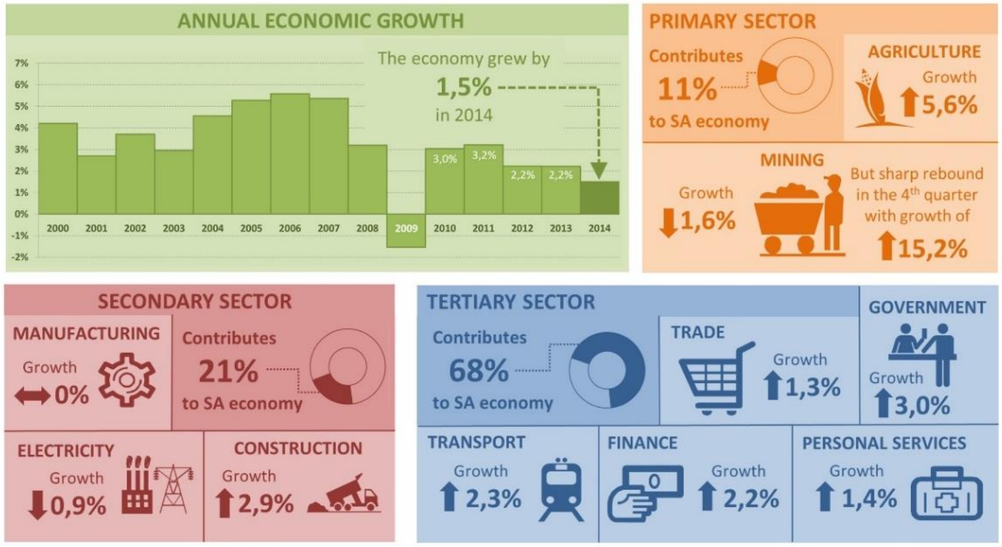


Figure 1: South Africa's economic performance 2014 – preliminary results (Source: STATSSA, 2015f)

6. 32% of overall household consumption expenditure went to housing, water, electricity, gas and other fuels. An average household would have spent approximately R30,505 on these items per year (2011). When combined with expenditure on food and non-alcoholic beverages, which is the fourth-largest expenditure group at 12.8%, these two groups account for almost 50% of household expenditure. Transport is the second largest expenditure group and is estimated at 17.1% of total household consumption expenditure. The average South African household spent R16,319 on transport in one year (STATSSA, 2013).

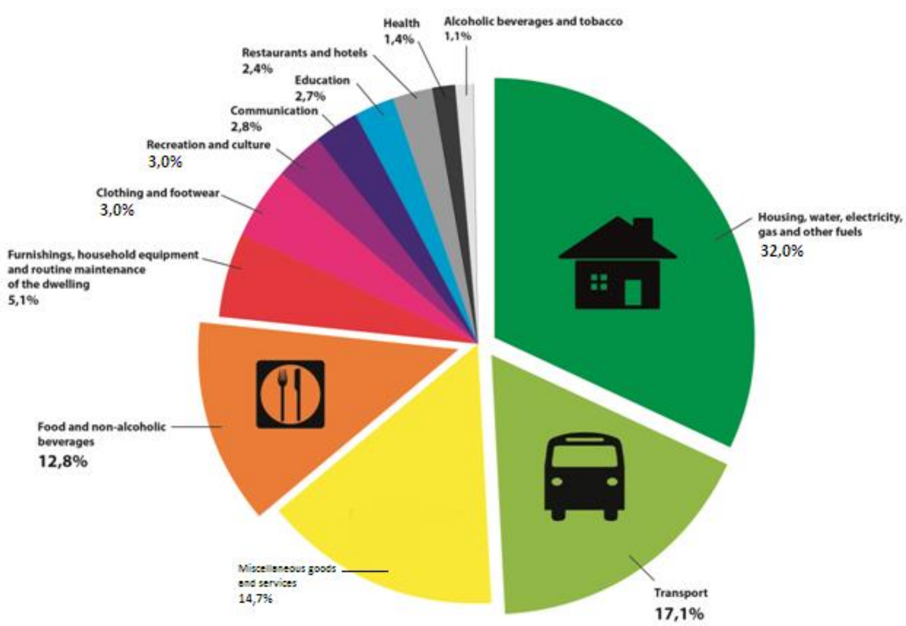


Figure 2: South Africa's consumption expenditures 2011 (Source: STATSSA, 2013)

7. When it comes to the frequency of spending, goods bought by many on a weekly basis are airtime (68%), transport (44%), food (24%) and alcohol/cigarettes (23%). Among the monthly spending, food (64%), utilities (57%), personal care (47%), insurance (34%), and TV subscriptions (29%) are the most common payment purposes.

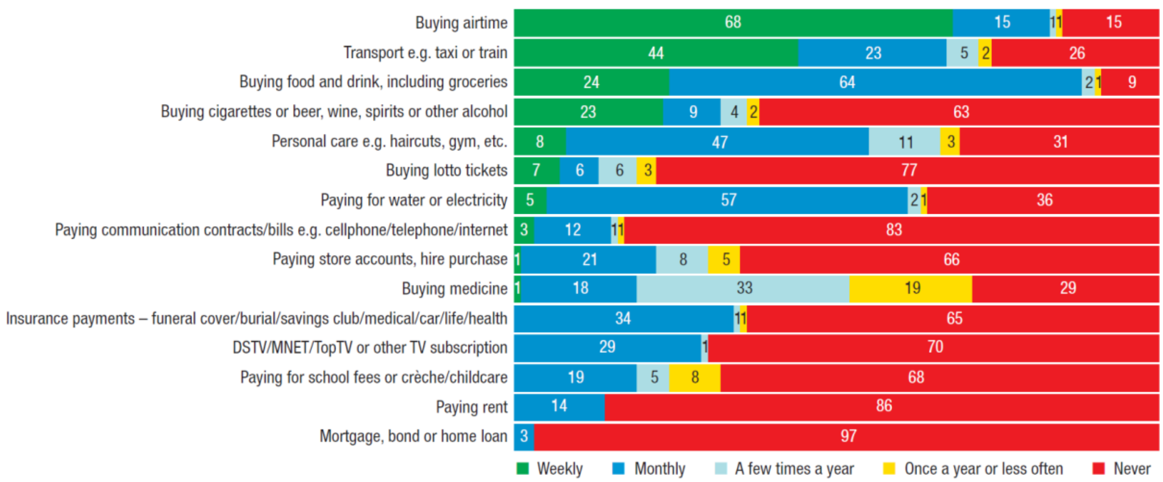


Figure 3: Payment purpose (use cases) and their frequency (Source: Finscope 2015)

8. Women remain more impoverished, with 47.1% found to be poor as compared with 43.8% of men. There are significant differences in poverty levels between the population groups in South Africa. In terms of poverty share, more than 9 out of 10 (94.2%) poor people were black South Africans in 2011, a proportion that increased slightly from 2006 (92.9%) and 2009 (93.2%). Other determining factors are rural vs urban (the level of poverty in rural areas being more than twice as high) and education (two thirds of adults with no formal education being poor) (STATSSA, 2014).

9. The level of household indebtedness has risen to 78% in December 2015 compared to 50% in 2003. The economic slowdown after the 2008 global financial crisis resulted in many households falling into arrears and/or defaulting or deleveraging. The Ministry of Finance considers reckless lending and the abuses in payday loans as factors that further aggravated this problem. According to NCR data, the number of customers in arrears for more than three months or more is 5.3 million out of 23.88 million credit-active customers (as of March 2016). Towards the end of 2013 the Ministers of Finance and Trade and Industry were instructed by Cabinet to take measures to assist over-indebted households and to take preventive measures against over-indebtedness. Among these measures were the regulation of debt-collection firms, engaging with lenders on debt relief and restructuring measures, and reviewing pricing caps under the National Credit Act. With the aim of addressing the abuse of debit orders the National Payments System Department of the SARB is working on the introduction of authenticated collections (planned for the last quarter of 2016), which should also make it more difficult for reckless lenders to misuse direct debits for their practices (DTI, 2013).

2.2 Financial sector overview

10. South Africa has a sound and sophisticated banking sector dominated by four big banks which collectively hold more than 80% market share in terms of both assets and retail deposits (SARB). These banks have branch distribution across the country, mainly in urban and peri-urban areas. National Treasury recognizes that the level of concentration in the provision of financial services by banks can be a matter of concern from a financial inclusion and market conduct perspective. The dominance of only four banks may have a negative effect on competition dynamics, innovation and costs of financial services (NT, 2015a, IMF, 2015).

Table 1: Overview of authorized financial service providers in South Africa (NT, 2015a)

Financial Service Providers	2009	2010	2011	2012	2013	2014
Banks	18	16	16	16	16	16
Mutual Banks	2	2	2	3	3	3
Credit providers	3690	4473	4971	5450	5568	5724
Short term insurance providers	108	110	108	106	106	106
Long term Insurance providers	85	88	87	87	84	84
Co-operative Banks	2	2	2	2	2	2
Registered Co-operative Financial Institutions	N/A	N/A	121	106	24[2]	25

Source: SARB Banking supervision report 2014, FSB Annual Report 2009-2014, NCR Annual reports 2009-2014 and CBDA Annual Report 2011-2014

2.3 State of financial inclusion in South Africa from a payments perspective and compared to select peer countries

11. Within this section only a high level overview on the current state of financial access and broader financial inclusion with focus on payments will be given. Further details will be discussed in the relevant sections (e.g. on account and payment product design or access points).

12. Financial inclusion requires users to have access to financial services that meet the user's needs. Beyond access to financial services, there is also the key issue of whether a financial service is actually valuable to its users, which is very often reflected in how frequently that service is used. The real needs for financial services of individuals, businesses and public administrations are, however, likely to be higher than is apparent from the actual use of a specific financial service at a given point in time. In addition, those needs tend to change over time. In this sense, a more desirable steady state for financial inclusion would entail universal access to a wide range of high quality financial services that can be used when and as needed (PAFI, 2016). The South Africa National Treasury (NT) defines financial

[2] New regulatory regime introduced, decreasing the number of CFIs that qualify for registration

inclusion as the provision and use of appropriate financial services from regulated financial service providers by those sections of society where a need exists that has not yet been adequately met (NT, 2015a).

13. The NT considers five basic financial service needs, namely remitting money, transacting (making payments and receiving money), saving money for future needs, borrowing to improve circumstances or increase productive capacity and insuring against loss, damage, illness, or death, served in a sustainable and beneficial way to positively affect economic development (NT, 2015a). Financial inclusion efforts undertaken from a payments angle can contribute to all these five basic financial service needs, be it directly or indirectly. Ideally, all individuals and businesses should be able to have access to and use at least one transaction account operated by an authorized and/or regulated payment service provider: (i) to perform most, if not all, of their payment needs (e.g. remitting money and making payments); (ii) to safely store some value (for future needs); and (iii) to serve as a gateway to other financial services (e.g. additional saving products, credit, insurance) (PAFI, 2016).

14. The NT acknowledges a need for a broad-based objective view of the state of financial inclusion in the country and has developed a Financial Inclusion Monitor, with the objective to establish a quantified and sufficiently detailed assessment of the current state of financial inclusion in South Africa, which should inform evidenced-based policies and the design of effective financial inclusion initiatives and evaluating them over time. The financial inclusion monitor aims to measure ease of access (in the sense of physical/electronic reach and affordability), usage (uptake and continued usage), and quality (market conduct issues, client awareness, financial literacy, customer treatment) (NT, 2015a).

15. The analysis of the Financial Inclusion Monitor focuses on financial services consumption by the South African adult population (defined as people who are 16 years or older and are living in South Africa), with particular emphasis on lower-income individuals, as well as small, micro and medium enterprises and is based on publicly available data (see Annex 2 for data sources used) (NT, 2015a).

16. The demand side data available suggests a constant increase of the share of adult South Africans who have access to financial services offered by authorized/regulated banks and/or non-bank service providers. The share has increased from 68% in 2010 to 83% in 2015 according to Finscope (2015), by taking all persons aged 16 or older into consideration. Findex (2015) estimates the share of people (15 years or older) with access to a transaction account at 70% in 2014 (up from 54% in 2011).

17. Account ownership among South Africans is significantly higher than in the Sub-Saharan Africa region as a whole and on par with ownership levels in the other upper middle income countries (MICs). Findex 2014 suggests that 70.3% of adults in South Africa have access to a transaction account (including mobile money accounts), compared to 34.5% for Sub-Saharan Africa and 70.5% for other upper middle income countries. When compared to its BRICS peers on bank account ownership, South Africa is ahead of India by a wide margin,

on par with Brazil and Russia and lagging behind China. When focusing only on mobile accounts, South Africa is ahead on all fronts with 14.4% of adult South Africans reporting owning a mobile account, compared to 11.5% for the Sub-Saharan Africa region, less than 3% in India, and less than 1% in other upper MICs and Brazil.

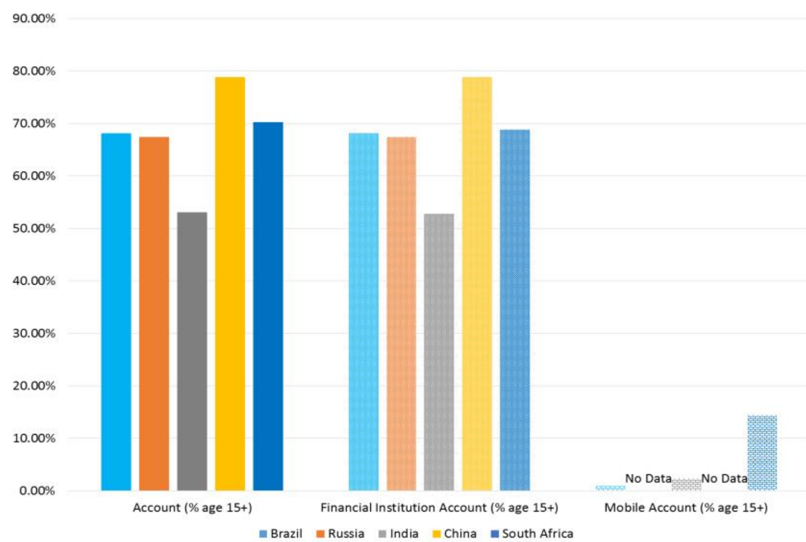


Figure 4: Account ownership in South African compared to other BRICS countries (Source: Findex 2014)

18. Account ownership in South Africa varies depending on socio-demographic factors. According to Finscope (2015), the following socio-demographic observations can be made: (i) women are more likely than men to have access to regulated financial services (86% and 81% respectively); (ii) colored (80%) and black (82%) South Africans are less likely to have access to regulated financial services than Asian (89%) or white (96%) South Africans, and (iii) those living in urban areas are with 87% more likely to have access to regulated financial services than those in rural areas (77%). Findex (2014) concludes that young adults between 15 and 25 are 16.8% less likely to own a transaction account than the average. Adults (15 and older) belonging to the poorest 40% of the population are by 12.5% less likely to own a transaction account.

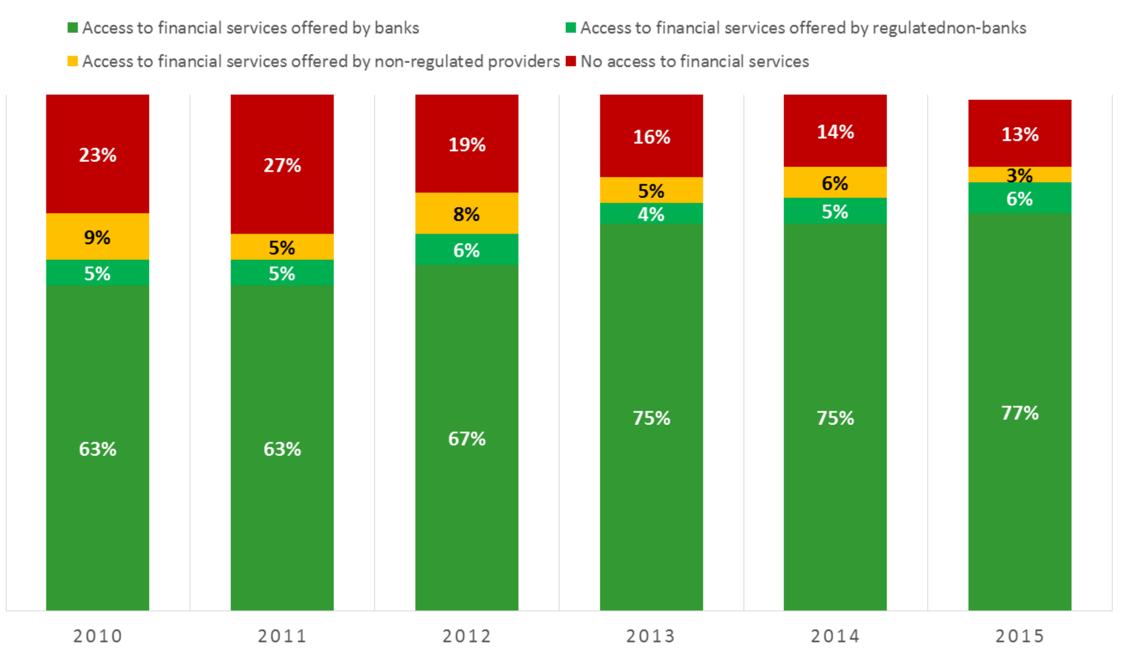
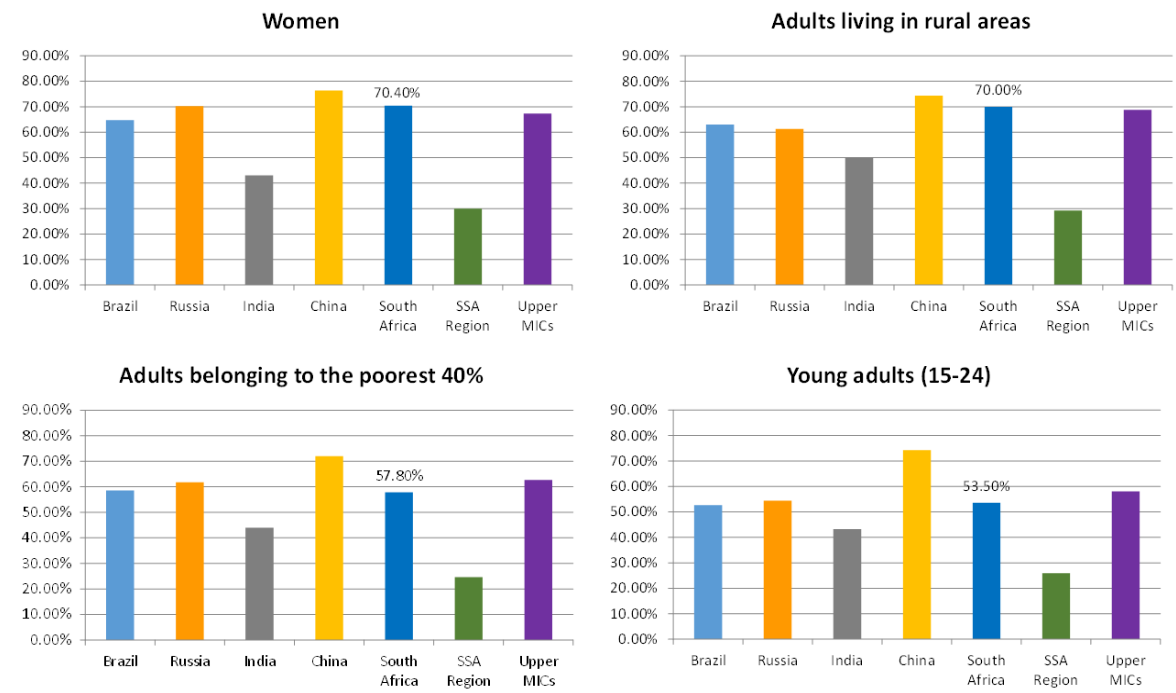


Figure 5: Access to financial services for South Africans aged 16 or older (Source: Finscope 2015)

19. Similar variations in account ownership by gender, income level, age, and rural/urban residence like the ones in South Africa have been observed in other countries in Sub-Saharan Africa, other upper MICs and the other BRICS. It is interesting to note that, in South Africa the gaps appear to be wider than in the SSA region, other BRICs and other upper MICs. Account ownership among the poorest 40% of adults, for example, is 12.5 percentage points lower than the population overall, compared to a gap of only 5-6% in other upper MICs and Russia on the low end and a gap of 9% in Brazil and the SSA region.

Box 1: Account ownership by population segment, South Africa, Upper MICs, and BRICS
(Data source for charts Findex 2014)



21. The shift in government payments from cash to electronic transfer methods such as direct deposits to bank accounts and usage of pre-paid cards made a significant contribution to reported financial inclusion gains, although –as discussed later in this document– the design of some of these products (e.g. the SASSA MasterCard) does not necessarily take into consideration and effectively meet the needs of previously unserved customers and does not offer all features expected from a fully-fledged transaction account.

22. The strong growth in population having access to transaction accounts between 2004 and 2014 was largely driven by increase in debit card ownerhsip among more vulnerable populations; the percentage of individuals with a transaction account in the Living Standards Measure (LSM) category 1-5 more than doubled between 2004 and 2014, increasing from 32% to 66%, compared to an increase from 74% to 80% for individuals classified as LSM 6-10. For example, 34% of the banked population owns a SASSA Mastercard. This improvement has made South Africa stand out in the region, with 57.8% of people in the lowest 40% having an account, compared to only 24.6% in Sub-Saharan Africa (Findex 2014).

23. Significant gains in account ownership, supported by government payment programs mentioned earlier, have reduced the number of South African adults without access to accounts to around 5.3 million South African adults, or nearly 15% of the total population,

which compares relatively well to developed countries. 48% of the financially excluded live in rural areas, including traditional areas (42%) and farm (6%), making it difficult to service them with traditional banking products and business models that rely on physcial access points. Over half (52.8%) rely on money from others and only 6% (306,000) are salaried. Cell phone penetration levels are high (81%) in rural areas, but lower than the population as a whole (90%).

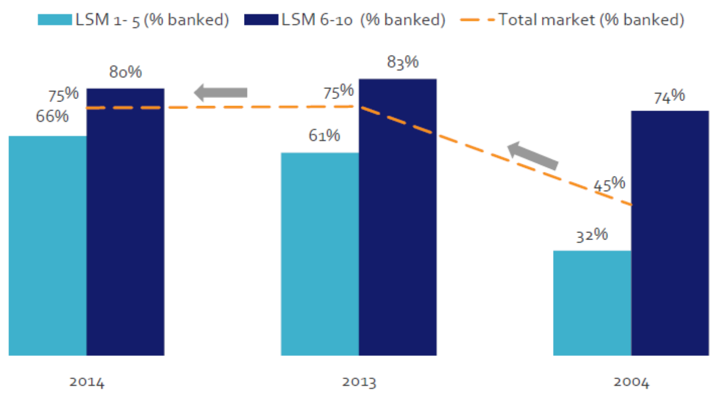


Figure 6: Financial Inclusion Gains in South Africa by LSM (Source: Finscope 2014)

24. Usage of non-cash payment instruments in South Africa for transactions other than cash withdrawals is comparable to other larger middle income countries, but still far from developed economies. For example, in 2013 the number of cashless payment transactions per inhabitant in South Africa was 58,[3] slightly below Russia (68) or Saudi Arabia (62), and above Turkey (42) and Mexico (28). However, a number of developed countries record 200-300 cashless transactions per inhabitant.[4]

25. In general, debit card ownership is more prevalent in South Africa than in other BRICS countries. While Findex and Finscope both indicate an increase in the prevalence of debit cards in South Africa, the figures vary[5]; Finscope 2014 reports that prevalence of debit cards among South Africans increased from 41% in 2004 to 72% in 2014, while Findex 2014 reports an increase from 45% to 55% between 2011 and 2014. On the other hand, according to Finscope 2014, only 10% of South Africans have a credit card. For over 80% of adults in South Africa, the ATM is the main method of withdrawal. As shown in Figure 7, according to Findex 2014 Brazil has the highest prevalence of debit cards, followed by South Africa -

[3] Most noteworthy instruments in terms of the number of transactions per inhabitant in that year were electronic funds transfers (12.6), direct debits (14.5) and card payments (30.6).
[4] Source: Committee on Payments and Market Infrastructures (2014), "Statistics on payment, clearing and settlement systems in the CPMI countries - Figures for 2013", Basel.
[5] While both, Findex and FinScope, are nationally representative surveys, the former defines adult as 15 years and older, whereas the latter defines adults as 16 years and older. Findex is based on 1,000 interviews in Afrikaans, English, Sotho, Zulu, Xhosa in 2014; Finscope on 3,900 interviews (2015: 5,000) in Afrikaans, Sesotho, Setswana, Sepedi, Zulu, Xhosa.

with a higher proportion of adults in South Africa report having debit cards than in China, Russia and India. South Africa has the highest proportion of adults reporting that the ATM is the main mode of withdrawal from an account, followed by Brazil, Russia, China and India.

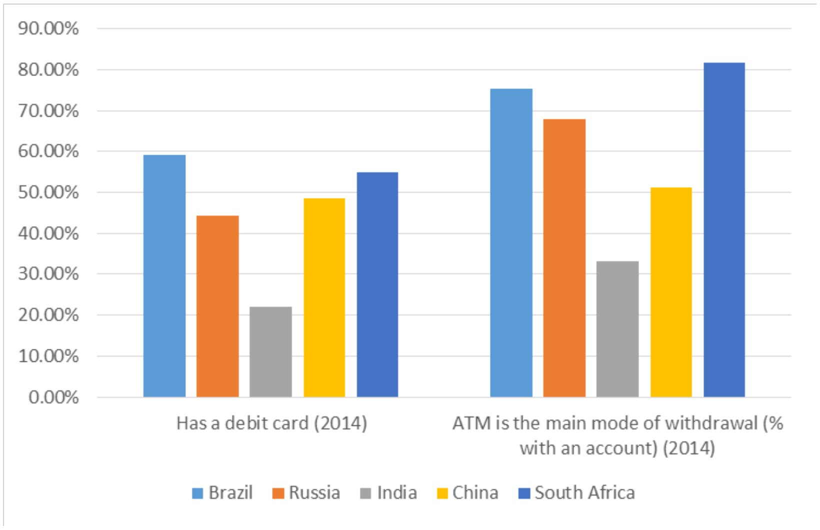


Figure 7: Relevance of debit cards and ATMs in BRICS (Source: Findex 2014)

26. Apart from cash withdrawals the usage of debit cards and other electronic payment instruments remains low. Even among individuals holding a transaction account with a bank, 33% still withdraw all their money as soon as it is deposited and 53% do not use their bank card, debit order or EFT[6] to make payments. Among the BRICS, either South Africa or Brazil – depending on the source - lead in terms of debit card payments, but South Africa trails the group both in terms of purchases made using credit cards and online payment mechanisms. According to Findex, 40.8% of adults reported having used a debit card to make a payment in 2014, compared to only 10.8% and 7.6% for credit cards and online payment mechanisms, respectively, in the same year. Finscope reports much higher debit card usage in South Africa – 72% in 2014, which is likely to be explained by their use for ATM-withdrawls, – and 10% for credit cards. Moreover, as of mid-2015 it was estimated that less than half (i.e. 13.7 million) of the adults that have a bank account make electronic payments at least on a monthly basis.

[6] Finscope 2014.

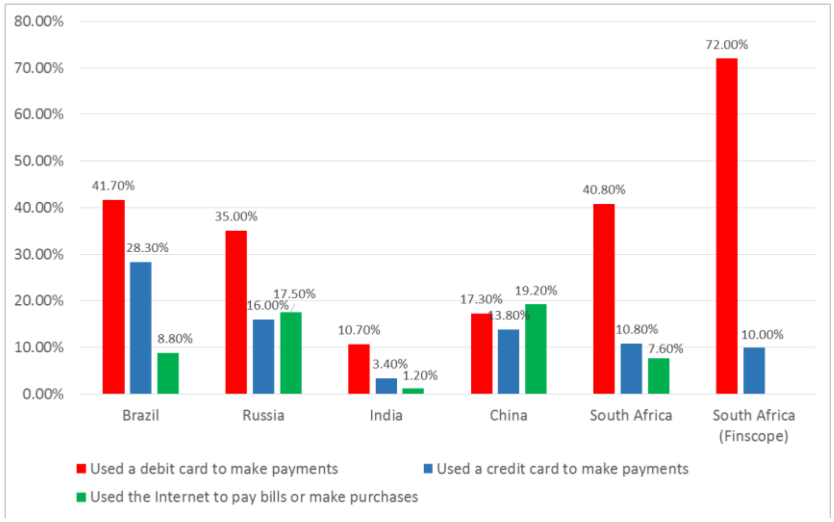


Figure 8: Usage of Digital Payments in BRICS (Sources: Finscope 2014 and Findex 2014)

2.4 RECENT INTERNATIONAL DEVELOPMENTS AND GUIDANCE

2.4.1 Developments at global level

27. In 2010, the G20 endorsed a Financial Inclusion Action Plan (FIAP) and established the Global Partnership for Financial Inclusion (GPFI) to coordinate and implement FIAP. The GPFI is the main implementing mechanism of the FIAP and G20 commitments through various subgroups: Regulation and Standard-Setting Bodies (SSBs), SME Finance, and the Financial Literacy and Consumer Protection (established in 2013). In September 2013, the G20 released the St. Petersburg Development Outlook which announced that G20 countries – in coordination with the GPFI – *"will explore in 2014 options to strengthen financial inclusion work in developing countries and targeted actions to harness emerging mechanisms such as electronic payments and mobile technology that can significantly improve access; and increase uptake by increasing incentives, financial literacy, education and consumer protection for the poor, in particular vulnerable groups such as women, youth and migrants."*

28. In 2014, the GPFI launched the Markets and Payment Systems subgroup, which is tasked to advance this commitment made in 2013 by the G20 Leaders. The subgroup is co-chaired by Australia, Mexico and South Africa. The overall goal of the sub-group for the next five years is *to advance utilization of payment systems including remittances in the pursuit of increased and sustainable financial inclusion, which is also relevant for this report.* In doing so, the sub-group is focused on emerging technologies and business models, with an emphasis on market-based approaches, particularly through engagement with financial services providers. The updated 2014 FIAP, agreed to by the G20 Leaders at the 2014 Brisbane Summit, included as one of its ten action areas the expansion of opportunities for innovative technologies to increase responsible financial inclusion. The Markets and Payment Systems sub-group believes that making a payment is one of the most basic and most important financial transactions in any economy. It is crucial that access to payments systems is provided in a way that makes these systems beneficial to all stakeholders and leads to sustainable financial inclusion. As a result, the sub-group works to support inclusive payment ecosystems, and to leverage innovative technologies and business models that support payment systems and instruments, which have the capacity to increase financial inclusion.

29. During the annual meetings in autumn 2013, the President of the World Bank Group, Dr Jim Y. Kim, set a goal of achieving universal financial access (UFA) by 2020. The UFA2020 goal envisions that adults worldwide will be able to have access to an account or an electronic instrument to store money, send payments and receive deposits. In April 2015, a broad coalition of partners gathered at the World Bank to galvanize private sector investment and innovation to accelerate UFA. More concrete UFA efforts include the identification of 25

target countries (South Africa being one of them)[7], heightened engagement on financial inclusion with these countries, the launch of efforts to foster alliances with large retailers and distributors, and the development of a set of tracking and measurement tools to gauge progress and adjust course when needed.

2.4.2 Financial inclusion commitments, strategies and the need for coordination bodies

30. As of the end of 2014 more than 50 countries had made headline financial inclusion commitments. Many of them are developing National Financial Inclusion Strategies (NFIS) to ensure that resources and actions are put in place to achieve those commitments. NFIS can be defined as roadmaps of actions, agreed and defined at the national or subnational level. Successful NFIS coordinate efforts with all relevant main stakeholders, define responsibilities among them, and state a clear planning of resources by, for example, prioritizing targets. Internal coordination efforts are needed both during the formulation and implementation of the NFIS. These efforts can be crystallized through the establishment of a governance structure, with a clear and legitimate mandate and dedicated resources. This is where a coordination structure, sometimes referred to as a financial inclusion council, comes into play.

31. In this context, a coordination structure is the main body responsible for promoting the discussion and debate regarding financial inclusion and coordinating the underlying reforms. Generally, the coordination structure could either be: a) a new team or unit within an existing authority (e.g. the central bank or the Ministry of Finance); or, b) a newly created structure. In either case, to ensure proper buy-in from stakeholders the coordination structure must make the case for why it is best placed to take the lead. This may come from:

- *Historical legitimacy: If one agency has historically been involved with promoting financial inclusion, then it may be best positioned to lead efforts in coordinating other government agencies and outside actors. This was for example the case for Brazil's Central Bank, which had assumed the promotion of the financial inclusion of the population as a strategic objective since 2004.*
- *Representational legitimacy: In some cases, the coordination structure may achieve representational legitimacy by including relevant organizations and stakeholders as part of its member base. This was the case with the National Council for Financial Inclusion in Mexico, which includes representatives of all relevant government agencies as core members, as well as representation from the private sector.*
- *Political endorsement: The coordination structure may gain legitimacy through high level political endorsement, such as the case of Indonesia, where the government*

[7] The remaining priority countries are Bangladesh, Brazil, China, Colombia, Côte d'Ivoire, DRC, Egypt, Ethiopia, India, Indonesia, Kenya, Mexico, Morocco, Mozambique, Myanmar, Nigeria, Pakistan, Peru, Philippines, Rwanda, Vietnam, Tanzania, Turkey, and Zambia.

invested the Vice President's office with promoting and achieving financial inclusion.

32. The creation of a new and separate structure poses the challenge of determining the appropriate legal status for its establishment and functioning. The following elements are also crucial for the operationalization of the coordination structure: i) resources, both in terms of funding and human resources, including dedicated staff; ii) appropriate mechanisms for monitoring and evaluation in order to create a credible work plan and reasonable deliverables.[8] *A brief overview of financial inclusion coordination structures from select countries is provided in Annex 3.*[9]

2.4.3 Recent reports on innovations in retail payments

33. In recognition of the innovation that is taking place in the retail payments arena and the interest expressed by local authorities and international bodies such as the G8 and the G20, in 2011 the World Bank's Payment Systems Development Group (PSDG) launched a survey among central banks to capture information on these developments.[10] The questionnaire was designed to capture innovations resulting in new products as well as innovations in processing. A total of 101 central banks reported 173 innovative retail payment products/product groups. Some of the main trends identified in this exercise that are especially relevant for this report are:

- *In terms of usage, innovative payment products are still much lower in comparison to traditional retail payment products. However they are important for financial inclusion in several jurisdictions. For example, 14 central banks reported that a majority of the users in their countries had access only to innovative retail payment products instead of traditional payment products.*
- *Merchant payments, utility bill payments and person-to-person transfers were the most common use cases supported by the innovative payment mechanisms*
- *The majority of the innovative products/mechanisms have very limited interoperability. Less than 20% of the products were reported to be fully or even partially interoperable. Only around 25% of the products/mechanisms enable the exchange of funds with traditional payment products. Likewise, innovative products do not use the traditional clearing and settlement infrastructure. More than 50% of*

[8] Data should be gathered in order to form appropriate targets. Data can be collected either by the coordination structure directly or through the implementing agencies.
[9] For additional details on coordination structures see Fathallah S., and D. Pearce (2013), "Coordination Structures for Financial Inclusion Strategies and Reforms", The World Bank, Washington DC.
[10] This dedicated questionnaire on innovations was included as an annex to the bi-annual Global Payment Systems Survey. The questionnaire on innovations was part of the 2010 iteration.

the innovative products reported settle in the books of the issuer.

34. In June 2010 the Committee on Payments and Market Infrastructures (CPMI)[11] of the Bank for International Settlements (BIS) set up a working group to investigate developments in retail payments, focusing especially on innovations. The working group launched a fact-finding exercise identifying five types of innovations: (i) innovation in the use of card payments; (ii) internet payments; (iii) mobile payments; (iv) electronic bill presentment and payments; and, (v) improvements in infrastructure and security. Among the trends identified in the associated CPMI report published in 2012,[12] two appear especially relevant for this report for South Africa:

- *Financial inclusion has served as an important driving force for innovations in many countries, either under a government mandate or because of the new business opportunities opened up by an untapped market.*
- *The role of non-banks in retail payments has increased significantly, owing in part to the growing use of innovative technology that allows non-banks to compete in areas not yet dominated by banks.*

35. This same CPMI report also identified a number of exogenous and endogenous factors that could serve as drivers for retail payment innovations, or as barriers to them. The key *exogenous* factors are: i) technological developments; ii) user behavior; and, iii) regulation. User demand is probably the most important driver for innovation, since it is the basis for a valid business case. An example of the relevance of the regulatory framework can be observed in that many regulators are seeking to foster competition in the payments market, which tend to be oligopolistic, by easing the requirements for non-traditional payment service providers. On the other hand the main *endogenous* factors are: i) cooperation; and, ii) standardization. Common standards may, due to network effects inherent in retail payment markets, help to achieve a necessary critical mass and can create a stable ground for new players coming into the market. Cooperation can help to reduce costs through shared investment or economies of scale and scope. Security aspects also deserve attention, since inadequate security, whether real or perceived, can undermine public confidence in new payment solutions.

36. Following up on some of the conclusions of its report on innovations in retail payments, in September 2014 the CPMI published a new report on the role of non-banks in retail payments.[13] In this report non-banks are defined as entities "involved in the provision of retail payment services whose main business is not related to taking deposits from the public and using these deposits to make loans". The report categorized non-banks into four types based mainly on the stages of the payment chain in which they engage, the type of

[11] Formerly known as the Committee on Payment and Settlement Systems (CPSS).
[12] CPSS (2012), "Innovations in Retail Payments", Basel.
[13] CPSS (2014), "Non-banks in Retail Payments", Basel.

payment service provided and also their relationship with banks: (i) front-end providers that provide services directly to end users such as consumers and businesses/corporates; (ii) back-end providers that typically provide services to banks; (iii) operators of retail payment infrastructures; and (iv) end-to-end providers that combine front-end services to end users with clearing and settlement services.

37. This 2014 CPMI report identifies a number of market-driven factors that attract non-banks to the retail payments market, and confirms that the regulatory environment can also influence non-banks' involvement in this field. Furthermore, the report stresses that non-banks can have a positive effect on improving efficiency of retail payment systems, and help achieve financial inclusion objectives. For example, non-bank providers of front-end services may compete with banks in certain segments, and this competition may: i) potentially lower fees; ii) broaden the set of alternatives open to end users; and, iii) lead to improvements in traditional payment systems, such as faster or round-the-clock retail payment services. Further, in some jurisdictions non-banks are helping meet financial inclusion objectives through, for example, the involvement of agents or through mobile payments. Nevertheless, this report also recognizes that the involvement of non-banks in the payments value chain may have implications for some types of risks arising from retail payment systems.

38. The GPFI sub-group on Markets and Payment Systems is currently finalizing a report that presents an overview of those areas in the payments value chain where recent innovations in digital payments open up new opportunities, particularly in developing economies. A number of specific examples to illustrate both technological and business model innovation are provided. Some of the key findings include:

- *The capacity of digital payments to boost financial inclusion can be enhanced by key innovations to the infrastructure that digital payments rely on. Digital payment mechanisms can be more efficiently offered, if basic financial infrastructures are in place and can be leveraged for that purpose. Access to financial services is severely hampered by a lack of adequate identification infrastructures.*
- *Innovations in the design of products and services are putting digital payments within reach of more people, and are driving financial inclusion in underserved communities. Improving consumers' financial capabilities is a key strategy for financially including under-served and un-served people.*
- *Improving access to digital payments through innovations in delivery channels has the capacity to underpin greater usage. Digital technologies are providing innovative ways to increase proximity without the need to massively expand branch networks, among others, by allowing remote access to transaction accounts.*

2.4.4 CPMI-World Bank Group guiding principles on financial inclusion from a payments perspective

39. In April 2014, the CPMI and the World Bank Group launched a task force to examine demand and supply side factors affecting financial inclusion in the context of payment systems and services, and to suggest measures that could be taken to address these issues. The final report was released in April 2016[14]. This report, referred to as the "Payments aspects of financial inclusion report" or "PAFI report", states as it key premises that: (i) efficient, accessible, and safe retail payment systems and services are critical for greater financial inclusion; and (ii) a transaction account[15] is an essential financial service in its own right and can also serve as a gateway to other financial services.

40. The PAFI report identifies a number of barriers to transaction accounts access and usage, and proposes a framework to address these barriers based on evidence from many financial inclusion efforts around the world. **This framework, illustrated in Figure 9, is being used as the basis for organizing the analysis, discussion and recommendations contained in this report for South African authorities.**

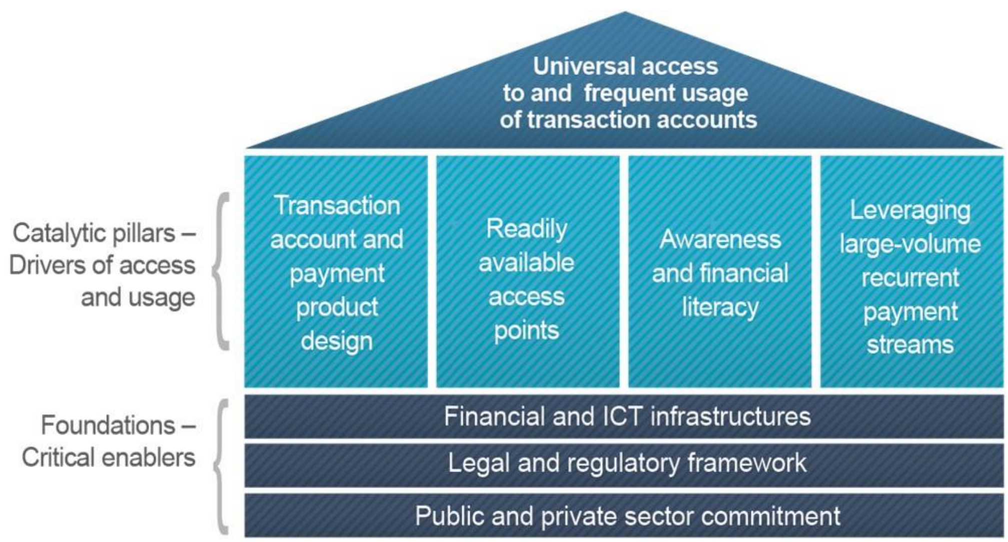


Figure 9: Framework to address barriers to transaction account access and usage (Source: PAFI 2016)

41. As shown in **Figure 9**, the framework consists initially of a number of "foundations", which are the critical enablers for payment systems and the provision of payment services in general, but specifically also for the access to and usage of transaction accounts. Based on these foundations, there are "catalytic pillars" as the drivers for access and usage. The end objective is achieving universal access to and frequent usage of transaction accounts. The

[14] See http://pubdocs.worldbank.org/pubdocs/publicdoc/2016/4/963011459859364335/payment-systems-PAFI-Report2016.pdf.
[15] Transaction accounts are defined as accounts (including e-money accounts) held with banks or other authorized and/or regulated PSPs, which can be used to make and receive payments and to store value.

PAFI report then states guiding principles for each of the foundations and catalytic pillars, and proposes a number of key actions for consideration for each of these.

2.4.5 Payments and accounts as a gateway to broader financial services

42. One additional relevant aspect of the PAFI report is that it points out that having and making usage of an account, while of utmost importance, *"is just an initial step in becoming fully financially included, which involves having access to the whole range of financial products and services that meet the user's needs. For individuals, for example, credit, insurance, savings and investments are, together with transaction accounts, key elements of the overall package of financial services."* In this regard, the report also stresses the role of accounts as a gateway to other financial services.[16] In the case of credit, for example, there is growing recognition that an individual or a microenterprise can start building a payments history through the usage of its account, for example in connection with the payment of utilities, mobile telephone bills, etc. Some lenders also regard regular or quasi-regular payment inflows in an account (e.g. from government transfers, remittances, etc.) as a proxy of income and sound repayment source for loans.

43. Notwithstanding the latter, the PAFI and other reports also recognize that some individuals/microenterprises will *not want* to have an account, even if they can afford it. These "self-excluded" individuals/microenterprises appear to have no incentives or need to operate through accounts. In practice, many of the self-excluded operate under conditions of informality. Labor informality – and economic informality more broadly – not only reduces the demand for accounts but also reduces their overall attractiveness to current and potential users, while at the same time raising the relative attractiveness of cash.[17] A general conclusion of this discussion is therefore that individuals and microenterprises need to have the right incentives so that they will *want to be* financially included.

[16] The PAFI report states as objectives that all individuals and micro- and small-sized enterprises should be able to have and use at least one transaction account operated by a regulated payment service provider: (i) to perform most, if not all, of their payment needs; (ii) to safely store some value; and, (iii) to serve as a gateway to other financial services

[17] Individuals and microenterprises operating under conditions of informality rely exclusively or almost exclusively on cash for receiving and making payments. This limits the overall extent to which non-cash payment instruments can be used as a means of payment, which in turn reduces the value proposition of transaction accounts for all economic agents, including those that already have a transaction account.

3 BASIC FOUNDATIONS FOR EFFECTIVE FINANCIAL INCLUSION FROM A PAYMENTS PERSPECTIVE

3.1 Commitment and coordination of stakeholders for financial inclusion

44. Financial inclusion requires a well-functioning retail payments ecosystem, which is characterized by a complex balance between cooperation and competition, safety and efficiency issues, as well as specific regulations for innovative and inclusive payment schemes. Fostering change in such an environment requires the ability to bring together diverse interests, launch policy research and development, change laws, mobilize funding to modernize financial infrastructures, and other similar requirements. Explicit, strong and sustained commitment from public and private sector organizations to broadening financial inclusion is indispensable if this agenda is to be effectively advanced.

45. Public sector authorities play a key role in creating an adequate enabling environment for financial inclusion in their respective jurisdictions. For example, many central banks area already working to better leverage the various roles they play in the retail payments space for this purpose.

46. Strong commitment from the private sector has also proved valuable in efforts to further the reach of transaction accounts that meet the needs of the unserved or underserved. In several cases the industry has led the effort to provide basic accounts in their respective jurisdictions.

3.1.1 The Financial Sector Charter and Code

47. In August 2002, at the National Economic Development and Labor Council (NEDLAC) Financial Sector Summit, the financial sector committed itself to the development of a Black Economic Empowerment (BEE) charter, noting that: (i) inequalities also manifest themselves in the country's financial sector; a positive and proactive response from the sector through the implementation of BEE will further unlock the sector's potential, promote its global competitiveness, and enhance its world class status; and, (ii) the financial stability and soundness of the financial sector and its capacity to facilitate domestic and international commerce is central to the successful implementation of BEE. The financial sector committed to "*actively promoting a transformed, vibrant, and globally competitive financial sector that reflects the demographics of South Africa, and contributing to the establishment of an equitable society by effectively providing accessible financial services to black people and by directing investment into targeted sectors of the economy*".

48. In 2003, the Broad-Based Black Economic Empowerment Act (BBBEE Act, 53/2003) established a legislative framework for the promotion of black economic empowerment. It empowered the Government to issue codes of good practices and publish transformation charters, and it established the Black Economic Empowerment (BEE)

Advisory Council. The promotion of access to finance is among the objectives of the BEE policies adopted by the South African Government to implement the BBBEE Act.

49. The Financial Sector Charter, which stemmed from the voluntary financial sector commitment mentioned above, was the main pillar guiding the sector's financial inclusion objectives. Signed in 2003 and implemented in 2004, the Charter was a voluntary transformational charter for the financial sector. The objectives were pursued by creating a framework and establishing principles for BBBEE implementation in the financial sector, providing a platform for stakeholder engagement with the sector, establishing principles, targets and unquantified responsibilities, and outlining a process for implementation of the Charter as well as mechanisms to monitor, measure and report on progress. The Charter expired in 2008 and was replaced in 2012 with the Financial Sector Code (FSC), issued in enactment of the BBBEE Amendment Act, 2013 (Act No. 46 of 2013).

50. The Charter set initial goals that at least 80% of its target market should be within 20 km of a service point (branch or ATM) and at least 80% of the target market should also be within 20 km of a transaction point (other than branch or ATM, but where an electronic transaction can be performed); when this goal was met, the target was raised to 15 km for service points and 10 km for transaction points. In the FSC, the targets were set to 5 km for 85% of the target market for transaction points, 10 km for 70% of the target market for service points, and 15 km for 60% of the market for sales points. In addition, the FSC seeks to dispense appropriate and affordably priced products and services in a non-discriminatory way by structuring and describing financial products and services in a simple and easy to understand manner.

51. The latest report monitoring the progress of the targets set in the FSC was issued in 2015 and included data on the achievements made as of 2013. As shown in the table below, geographic access was achieved well beyond the original target for service and sales points, while the coverage of transaction points and product-related access are still to be improved.

Table 2: FSC targets and progress as of 2013

Indicator	Unit	Target/Weighting	Achieved 2013
Geographic Access – Transaction point	Ave %	85%	73.79%
Geographic Access – Service point	Ave %	70%	82.06%
Geographic Access – Sales point	Ave %	60%	86.27%
Densification	Sector performance	N/A	94%
Product related access	Ave score	2.00	1.59

3.1.2 Financial inclusion initiatives in South Africa

52. The South African Government National Development Plan – Vision 2030, published in November 2011, is aimed to eliminate poverty, reduce inequality, and achieve full employment, decent work and sustainable livelihood. The NDP acknowledges financial

inclusion as one of the important tools that will contribute toward the realization of its goals and envisages the proportion of the population that is banked or has access to transactional financial services and saving facilities is expected to increase from about 63% to about 90% by 2030. The same document identifies as a priority to *"continuously broaden access to banking services to poorer people and lowering costs through a combination of competitive pressures and reducing other infrastructure costs"*.

53. In October 2015, the National Treasury sought from other relevant authorities comments on a draft "South African Financial Inclusion Policy and Policy Implementation" document. The draft Policy includes, among its objectives, the promotion of improved and sustainable access to and usage of appropriate and affordable financial services. The type of services the draft Policy refers to are transactional bank accounts, credit, insurance, saving products, and remittances. In particular, as regards access to transactional bank accounts, the draft Policy advocates for the provision by the banking sector of needs-oriented and affordable accounts with full service capabilities to all economically active South Africans. Along with the draft Policy, the National Treasury consulted relevant authorities for a Financial Inclusion Monitor report, aimed at improving the availability of financial inclusion data to enable monitoring, evidence-based policies and adjustment of initiatives if necessary.

54. The draft Policy proposes the establishment of a multiple stakeholder National Financial Inclusion Forum (for the proposed composition see Annex 4), which will develop a financial inclusion strategy and oversee its implementation. This will include the setting of priorities and the allocation of resources to implement and monitor initiatives. It is suggested in the Policy that the strategy should be reviewed on an annual basis to ensure that it keeps abreast of development in the financial inclusion space and address South African realities.

Observations and Recommendations

55. The South African Government and in specific the National Treasury plays an active role at both a national and international level in the promotion of financial inclusion as a policy objective. This is a longstanding work stream for the Government and the commitment to increase access of the people to financial services has been publicly made and renewed multiple times. While the direct objective of the Financial Sector Code is Black Economic Empowerment and not financial inclusion per se, the commitments made under the Code are contained in enforceable regulations. These commitments address some aspects of both basic access to financial services for a large proportion of the South African population and improved access to funding for small businesses, but this is done from a transformational perspective, not a developmental perspective.

56. The team commends the effort of the National Treasury and other South African authorities to develop a Financial Inclusion Policy and the level of financial access achieved so far. The Policy will represent an essential and useful step towards a coordinated *implementation of actions to achieve the objective of increased access to financial services for South Africans. The establishment of a National Financial Inclusion Forum is also a laudable initiative that South African authorities should continue to pursue and it will bring to the elaboration of a financial inclusion strategy, an essential tool to ensure the effectiveness and harmonization of stakeholders' interventions in this area. The National Financial Inclusion Forum should serve as a coordination platform for all authorities being involved in financial inclusion and related efforts and the composition of the National Financial Inclusion Forum should include all relevant authorities. For example, it is recommended to include SARB not only in its role as Prudential Authority as permanent member, but in view of the relevance of payment services for financial inclusion, to include also the SARB Payment Systems Department.*

3.2 Legal and Regulatory Framework

57. As recognized in the PAFI report, the legal and regulatory framework of a country plays a critical role in creating an enabling environment for inclusive payment services. Retail payment services involve a complex mix of infrastructures, networks and services with both public and private sector investment, and benefit from varying degrees of competition and collaboration, as well as standardization and innovation. In addition, adequate risk management, mitigation of fraud and abuse and protection of consumer interests are key supervisory and oversight considerations. The following five key aspects of the legal and regulatory framework are analyzed in detail as key elements for the assessment of financial inclusion: (i) regulatory neutrality and proportionality; (ii) risk management; (iii) protection of deposits and e-money customer funds; (iv) financial customer protection; and (v) financial integrity.

3.1.1 Regulatory neutrality and proportionality

58. A key challenge for regulatory authorities is to encourage innovation without compromising the safety and soundness of the national payments system (NPS). Non-bank payment service providers and innovative business and technological approaches have contributed to expanding access to payment services. However, management of the risks associated with the new players, innovative approaches, and, for that matter, new customers, is challenging. Adopting a highly cautious stance toward innovative approaches tends to stifle competition and innovation. At the other extreme, a very light approach to innovation, which some refer to as the "test and learn" approach, can fail to address market failures and weaken the predictability of the overall legal and regulatory framework. The challenge is therefore to design a legal and regulatory framework that is fair and balanced for all stakeholders, and which promotes innovation. In essence, this requires that the framework be risk-based, provider- and instrument-neutral, and forward-looking. In other words, the framework must be proportional to the risks that non-bank payment service providers and new products and business models might create.[18]

59. **As a principle, the South Africa Banks Act limits the activities of taking deposits and of provision of payment services to banks.** The Banks Act (No. 94/1990), as amended, provides for the regulation and supervision of the business of taking deposits from the public. In particular, Article 1 of the Act sets out definitions for a deposit and the business of a bank. In the context of payment services, a deposit is a '*particular type of payment'* and can only be intermediated by an entity that is defined as a bank.[19] In other words, a 'non-bank' cannot

[18] PAFI report.

[19] "*"deposit", when used as a noun, means an amount of money paid by one person to another person subject to an agreement in terms of which - (a) an equal amount or any part thereof will be conditionally or unconditionally repaid, either by the person to whom the money has been so paid or by any other person,*

accept deposits, unless sponsored by a bank. As for the definition of "the business of a bank", Government Notice No 498/1997 on Designation of activities that are the business of a bank adds to the activities listed in the Act, "*the acceptance or obtaining of money, directly or indirectly, from members of the public, as a regular feature of the business practice, with the prospect of such members … receiving payments or other money-related benefits, directly or indirectly*".

60. **A distinction has yet been inserted by the National Payment System Act whereby "payments due" to third parties can also be intermediated by non-banks.** Section 7 of the National Payment System Act (NPSA, No 78/1998), as amended, allows a person, as a regular feature of that person's business, to accept money or payment instructions from any other person for purposes of making a payment on behalf of the first person, to a third person, to whom the payment is due. As for express statement of the SARB,[20] this implies that there is an underlying obligation that must be settled, for example the payment of rates and taxes to a municipality. This service may be provided by non-banks in accordance with Directive No. 1 of 2007, for the conduct within the National Payment System in respect of payments to Third Persons. This permits non-banks to execute payments due to third persons when undertaken in the following ways: (a) money or the proceeds of payment instructions are accepted by a person, as a regular feature of that person's business, from multiple payers on behalf of a beneficiary (so-called, "beneficiary service provider"); or (b) money or the proceeds of payment instructions are accepted by a person, as a regular feature of that person's business, from a payer to make payment on behalf of that payer to multiple beneficiaries (so-called, "payer service provider").[21]

61. **Directive 1/2007 establishes the specific requirements for non-bank Third Party Payment Providers.** According to Section 3 of the Directive, a non-bank Third Party

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with or without a premium, on demand or at specified or unspecified dates or in circumstances agreed to by or on behalf of the person making the payment and the person receiving it […]"

[20] See SARB Position Paper on Electronic Money, Section 6.1: "*The "business of a bank" is defined in the Banks Act and can be described as "the soliciting or advertising for or the acceptance of 'deposits' from the general public as a regular feature of the business in question". (There are a number of exclusions and exemptions to the above-mentioned prohibition.) A "deposit" is comprehensively defined in the Banks Act, but can simply be described as an amount of money paid by one person to another person subject to an agreement in terms of which an equal amount or any part thereof will be repaid on demand, on a specified or unspecified date or in circumstances agreed upon. (There are also a number of specified exceptions to the above-mentioned general definition.). The legal nature of money is, however, such that when one person hands over an amount of money to another person in trust, the money (physical notes and coin) generally becomes the property of the person receiving it and hence part of his/her estate. In the case where such a person loses the money, steals the money or becomes insolvent, the person that handed over the money merely has an (unsecured) claim against the other person or his/her estate. This of course places the person that handed over the money in a very precarious position and it is one of the reasons that deposit-taking on a large scale and hence the business of a bank is such a risky business and why banks are regulated and supervised to such a high degree. If the taking of deposits from the general public is a risky business for banks despite its regulation and ongoing supervision, it is even more risky when deposits are taken from the general public by unregulated and unsupervised persons and entities*."

[21] SARB Directive 1/2007, Section 1.3.4.

Payment Providers (TPPP) is required to abide by rules similar to those applying to banks: (i) ensure that it is appointed as an agent of each beneficiary when acting as beneficiary service provider or as an agent of each payer when acting as payer service provider; (ii) as a beneficiary service provider, keep records of payments to third persons which must include, *inter alia*, the date, amount and beneficiary of the transaction. Such records must be retained for a period of five years; (iii) as a payer service provider, keep records of payments to third persons which must include, *inter alia*, the date, amount and payer of the transaction. Such records must be retained for a period of five years; (iv) keep separate and distinct the business divisions of that person who provides payments to third persons from the other business divisions of that person who provides system operator services (see below); (v) ensure that the services it provides, including the systems that it uses, are safe and efficient so as not to introduce risk, including reputational risk, into the NPS; and (vi) inform its banker of its involvement in payments to third persons who, in turn, must inform the payment system management body in a format acceptable to that body. A TPPP is typically enabled by a System Operator (see below), who provides the technology but does not accept the funds into their own account for on payment to another party. All TPPP need to be registered by a sponsoring clearing participant with PASA.

62. **Non-banks can also act as a "System Operator".** Directive No 2 of 2007 for the conduct within the national Payment System in respect of System Operators (hereinafter "Directive 2/2007"), governs those non-bank payment service providers that act as system operators in respect of the services they provide to any two or more persons in respect of payment instructions, including the delivery to and/or receipt of payment instructions from a bank and/or a payment clearing house (PCH) system operator. A system operator is thus a non-bank that provides services in relation to payment instructions, i.e. it provides electronic means (including the delivery to and/or receipt of payment instructions) to two or more persons to allow such persons to make payments and/or to receive the proceeds of payment instructions. Directive 2/2007 requires him to: (i) meet the criteria as recommended by the relevant payment system management body, which criteria have been approved by the SARB; (ii) have a written agreement with each person to whom the services are rendered in terms of which it is appointed as a system operator; (iii) keep the information in respect of the services rendered to any person confidential and separate; (iv) in respect of the bank accounts from which funds are to be paid from or to which funds are to be transferred to, only act in accordance with instructions issued by the person to whom the service is rendered, and not pay such funds from or transfer such funds to its own account; (v) keep separate and distinct the business divisions of that person who provides system operator services from the other business divisions of that person who provides payments to third persons; (vi) refrain from providing services which allow the offsetting of mutual obligations by trading partners or persons for whom they are processing payment instructions; and (vii) keep records of each and every payment instruction processed by it for a period of five years.

63. **Whereas non-banks cannot be settlement participants, they can be designated as clearing participants to systems; it is up to the SARB to decide whether to designate a non-bank under a case-by-case evaluation.** As will be better illustrated at Section 3.2., only South African registered banks can hold settlement accounts and be settlement participants. Although also clearing participants are banks, the NPSA gives to the SARB the power to designate non-banks to this effect, should it believe that such designation be in the interest of the integrity, effectiveness or security of the payment system. Criteria for designation are individually determined and applied by the SARB on a case-by-case basis.

64. **Issuance of e-money is only permitted to banks.** SARB 2007 Position Paper on Electronic Money establishes that only banks can issue e-money products. As stated in the Position Paper, whereas payments due to third persons can be intermediated by non-banks, in the case of e-money *"[m]any of the applications made to the Bank revolve around the ability to provide person-to-person payments. This involves a payer sending electronic value to a beneficiary who is then able to encash that value. This money is not normally due to the beneficiary in terms of an obligation and would contravene section 7 of the NPS Act and be classified as "deposit-taking" in terms of the Banks Act*." In this context, non-banks can only provide a number of linked services: "*Section 52 of the Banks Act allows for non-banks to enter into arrangements with banks that may allow them to offer payment-related services in conjunction with the bank. Application for such arrangements would be required to be made by the bank concerned to the Registrar of Banks. Non-banks may also provide services as system operators or third-person payment service providers in terms of Directives 1 and 2 of 2007. As the issuance of e-money involves clearing and settlement, the normal arrangements pertaining to clearing and settlement will remain.*" (Position Paper, Section 7)

65. **Membership to PASA is open to non-banks only when these are designated clearing participants.** As better illustrated in Section 3.2, the Payments Association of South Africa (PASA) is designated as the only "payments system management body" under the NPSA and is responsible for a number of aspects, including a regulatory role, although under the oversight of the SARB. It has also the power to admit members and authorise them to act as system operators or PCH system operators. The lack of involvement of non-banks payment service providers in PASA generally prevents them from affecting policy decisions in the field.

Observations and recommendations

66. The current country legal and regulatory framework permits non-banks to provide payment services only as an exception to the general rule that payment services are of exclusive competence of banks. Irrespective of the scope of such exemptions, the fact that payment activities have been open to non-banks by way of individual measures addressing ad hoc specific services (SARB directives 1/2007 and 2/2007) favours fragmentation of discipline and rises the risk of inconsistencies in treatment. It seems that the main reason for this way of *regulating comes from the original choice of distinguishing between execution of "payments" in general (only allowed to banks) and execution of "payments due to a third party" (also permitted to non-banks), since this differentiation results to many extents artificial and difficult to understand and consequently regulate for its inherent features. In addition, the definition of a "deposit" as a specific kind of payment makes the conceptual categorization of different activities even more unclear. This generates uncertainty in the market and can easily produce discriminatory arbitrage, since it is objectively very difficult to regulate consistently a sector, in this case the NPS, under the above premises.*

67. The above conceptualization produces also the effect that non-banks are excluded from the governance of many aspects of the NPS since they are typically not members of PASA.

68. SARB intends to both, amend the NPSA and review the PASA model, also in line with the debate taking place within SADC.[22] *In this context, it is recommended that foundations of regulation of payment activities in the Bank Act and the NPSA be reconsidered in order for a consistent framework for payment services to be adopted to simultaneously regulate banks and non-banks.*[23] *This would indeed imply reconsideration of the composition and role of PASA.*

69. Finally, and within such new legal and regulatory framework, it is recommended that the policy choice to limit the issuance of e-money products to only banks be reconsidered within the general policy stances related to the national payment system. Indeed, ways to leverage South Africa's highly developed payment system infrastructure should be explored and the use of innovative channels and instruments fostered also by way of upgrading of the legal and regulatory framework.[24]

3.1.2 Risk management

70. Transaction accounts and retail payment services, more generally, are subject to a variety of risks, including, for example, operational, liquidity, reputational, business and fraud. Innovation may introduce new dimensions to these risks and new challenges in terms of detecting, managing and mitigating them. A failure to address/manage risks effectively could result in a loss of confidence in electronic payments, and thus slow or reverse their adoption, which would directly impact the achievement of financial inclusion goals. Regulators need to address these challenges by requiring payment service providers and

[22] As known, a SADC National Payment System Model Law is under the process of being drafted, to be further implemented by relevant guidelines.

[23] See below in this Report for specific considerations on remitters, which should be regulated as payment service providers under the same policy lines as, and consistently with other payment service providers.

[24] The above recommendations would also be fully in line with measures agreed upon and put in place by public authorities and the market in a joint exercise to take on board the Banking Enquiry Recommendations made by the Competition Commission in its 2008 Report on the Banking Industry.

payment system operators to develop and implement a risk management framework that is adequate for their role in the industry. Once again, the challenge resides in right-sizing the regulatory requirements for this framework.

71. **SARB has the necessary regulatory powers to control risks in payment systems.** In terms of section 10 (1) (c) of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989 – the SARB Act), the SARB is required to perform such functions, implement such rules and procedures and, in general, take such steps as may be necessary to establish, conduct, monitor, regulate and supervise payment, clearing or settlement systems. Furthermore, the NPSA provides for the management, administration, operation, regulation and supervision of payment, clearing and settlement systems in South Africa, and to provide for connected matters. The NPSA, therefore, provides the regulatory and supervisory power to the SARB to manage and control payment system risk.

72. **In line with an extended interpretation of its powers under the SARB Act and the NPSA to go beyond pure oversight of systems, SARB exercises micro- and macro-oversight, both on banks and non-bank payment service providers, although oversight on non-banks is not performed with the same level of articulation as for banks.** SARB monitors on a regular basis banks and non-banks providing payment services and operating systems. In its Report on "Oversight of the South African National Payment System"[25], it illustrates risks it would monitor and requirements for actors in the market. As for non-banks, it states that "*oversight visits to SOs and PSPs commenced in 2008. The main purpose of these oversight visits was to – gather information and understand their role in the processing of payments; and – understand their business strategies and models*" p. 14). Albeit Directives 1 and 2 of 2007 contain some basic requirements as for management of risk, they are not very clearly articulated and oversight activities are described more as of an explorative nature than representing concrete monitoring.

73. **This Report on Oversight of the South African National Payment System was paralleled by other policy papers, such as the "National Payment System Framework and Strategy Vision 2010"and the current "Vision 2015", which are implemented by the NPSD Oversight Division in collaboration with relevant industry stakeholders.** The first Annual Oversight Report summarizing major results in oversight was published for 2013-2014 and so favouring transparency. The identification of risks is supported by a description of the different activities that clearing and non-clearing banks would perform as stated in the SARB 2007 Position Paper on Bank Models in the National Payment System. No parallel exercise exists for the role of non-banks, although SARB is in the process of issuing an oversight framework and a national payment system strategy that are expected to cover also

[25]https://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem(NPS)/Documents/Oversight/Oversight.pdf

these entities.

74. **SARB has also established and monitors risk reduction measures for clearing and settlement in cooperation with PASA**. SARB 2000 Position Paper on Risk Reduction Measures for Payment Clearing Houses in the NPS identified a number of mitigation measures that the NPS had to implement in the short run. As the recognised Payment System Management Body in terms of the NPSA, PASA has a responsibility to assist the SARB in the implementation of suitable risk reduction measures.

75. **SARB exercises its powers also in relation to e-money products.** Under the Position Paper on Electronic Money, any bank wishing to provide e-money services needs to advise the SARB, at least six weeks before the roll out of any pilot, of its intention, and furnish the latter with full details of its intended proposals. Furthermore, the Position Paper reconfirms that in terms of section 10 of the NPS Act, the SARB reserves the right to request any information pertaining to a payment system, and any person must, on request, provide such information to it in such form and at such time as this may require: these powers permit the SARB to monitor management of risk also specifically for these products. The Position Paper specifically focuses on information security requirements: "*Information security is critical to the success of e-money services and their operational services. No information or funds transfer in the payment system should be vulnerable to interception by unauthorised users. Therefore, the technology used in e-money must be secure and ensure confidentiality, integrity, authenticity and non-repudiation. Furthermore, the e-money security and operational services should meet the requirements of international standard bodies*."

76. **The "Twin Peaks reform" will reorganise the financial sector regulation. This will also affect the SARB's oversight functions.** The Financial Sector Regulation (FSR) Bill, tabled in October 2015, shall establish two regulatory authorities, the Prudential Authority within the SARB and the transformation of the Financial Services Board (FSB) into the new Financial Sector Conduct Authority (FSCA. The Prudential Authority will supervise the safety and soundness of financial institutions, while the FSCA will supervise how financial services firms conduct their business and treat customers. The SARB will oversee financial stability within a policy framework agreed with the Minister of Finance. The Twin Peaks model will focus on a more harmonized system of licensing, supervision and enforcement of customer complaints across the financial sector, which will support current SARB oversight powers over the national payments system by strengthening its functions on financial stability. The regulation and supervision of the national payment system under twin peaks has not yet been finalized. SARB (NPSD) will remain the regulatory authority of the national payment system. The roles of the Prudential Authority and the Financial Sector Conduct Authority must still be determined.

77. **The Twin Peaks reform process is to be implemented in a two phased approach. The second phase will affect material rules in particular as for market**

conduct of financial institutions. In the first phase, the two new regulatory authorities will be established. Whereas the FSR Bill leaves the existing sector specific financial legislation unchanged, it provides additional supervisory and enforcement powers to the regulators, in addition to those already available in existing legislation. Phase two of the implementation process will then be focused on revising, consolidating and harmonizing the legal framework for prudential and market conduct in the financial sector. As for market conduct, phase two contemplates structural change through the repeal of current sector specific laws and the introduction of a new streamlined and overarching financial sector legislation, the Conduct of Financial Institutions Act (COFI).[26]

Observations and recommendations

78. Current oversight powers of the SARB are in principle articulated, and adequately address the relevant risks; SARB implements them accordingly. Payment systems and instruments in South Africa thus seem to adequately manage risk. However, as it emerges from the analysis under Section 3.1.1., a general consideration of roles of stakeholders in the market and scope of activities of each in relation to the provision of payment services, would need some reconsideration. Such kind of reconsideration would be further justified by the harmonization exercise underlying the FSR Bill to consistently regulate financial markets and clearly define objectives of regulation.

79. As non-bank stakeholders are playing a larger role in the payment system, it is recommended that effective payment system risk management policies be considered in this specific context. Moreover, it is recommended that risk management be also consequently reconsidered and that risk management measures be sized against actual risk of each individual activity and context.

3.1.3 Protection of deposits and e-money customer funds

80. **While in the past the South African Government had compensated certain retail depositors in the event of bank failures, there is currently no explicit deposit insurance in South Africa.** National Treasury circulated a draft Deposit Insurance Bill in 2008 for comments, but the Bill has so far not been passed into law. The 2015 FSAP reiterated the recommendation of the 2008 FSAP to establish a deposit insurance scheme. Due to the high concentration of the South African banking sector, the absence of a deposit insurance scheme might adversely affect market entrance and/or the possibility of smaller banks to compete, since customers might prefer to do business with the bigger banks which they might consider as being too big to fail (NT, 2011, IMF, 2015). These issues are addressed in the 2015 National Treasury Paper "Strengthening South Africa's Resolution Framework for Financial

[26] See the 2014 Market Conduct Policy Framework in South Africa.

Institutions"[27] but not yet by legal measures.

81. **Customer funds will normally be reflected in the total balance of a transaction account.** However, for electronic payments that are not settled in real time, the funds that were withdrawn from the account of the payer are not reflected immediately in the account of the payee, originating what is referred to as "float". In the e-money context, float is typically referred to as the total value of outstanding customer funds. With the growth of e-money products and of the aggregate value of funds stored in the underlying e-money accounts, financial authorities are paying increasing attention to the risk of misuse or loss of these customer funds. E-money funds are subject to some of the same types of risk as traditional sight deposits, including the risk that the payment service provider (PSP), or an employee of the PSP, misuses or absconds with the funds, that the PSP faces bankruptcy, or that the financial institution that holds the underlying funds (but is not the actual PSP operating the e-money accounts) faces bankruptcy. Furthermore, e-money transaction accounts differ fundamentally from deposit transaction accounts in that e-money accounts are not designed to facilitate financial intermediation. In this context, clarity regarding the potential use of funds held in e-money accounts becomes important. Thus, unlike traditional deposit transaction accounts whose providers are subject to strict banking supervision, on-lending e-money funds (or investing those funds) by the PSP would normally constitute funds misuse. In this context, regulators adopt sets of risk mitigation measures that reinforce protection of funds, since only trust in the innovative instruments can lead to their widespread use, which in turn supports financial inclusion.

82. **The SARB 2007 Position Paper on Electronic Money establishes protection criteria for e-money customers' funds.** The SARB Position Paper, in conformity with the requirements of the Bank Act, imposes to banks managing e-money products that deposits of e-money be held in a separately identifiable e-money account for each holder of e-money and comply with the relevant sections of the Banks Act and its Regulations. Moreover, a bank, as the holder of an e-money deposit, must, on demand, redeem the electronic value held on the instrument for central bank currency, at par. Any person wishing to issue e-money must ensure that the public using the e-money is made aware of the conditions of use the liability of the issuer and what recourse the holder of the e-money would have in relation to the issuer.

Observations and recommendations

83. E-money customer funds, which are managed by banks, appear to be adequately protected under South African legislation. However, in the light of the recommendation that the regulation of payment services provision be reconsidered as a whole in the country, it is equally recommended that also criteria for protection are reconsidered in the light of the potential new scenario (especially in the event that offering of e-money products is permitted

[27] Source: www.treasury.gov.za (see in particular Annexure A: Design Features of a Deposit Guarantee Scheme).

also to non-banks).While the decision to establish a deposit insurance cannot only be informed by financial inclusion consideration, the lack of an explicit deposit insurance – be it guaranteed by law or on voluntary basis among deposit taking institutions - might adversely affect the ability of new and/or smaller deposit taking institutions to compete with large banks.

3.1.4 Financial customer protection

84. **Transparency and customer protection are particularly relevant in the context of efforts to advance financial inclusion, as such efforts naturally target first-time customers, who by definition lack experience and often have limited financial literacy.** These efforts often also involve the introduction of new products and services, new PSPs and/or new service delivery models.

85. **While a consumer protection framework exists in South Africa, to date there are no specific provisions for non-bank financial services, including payment services.** The Consumer Protection Act No. 68 of 2008 "*seeks to promote a fair, accessible and sustainable marketplace for consumer products and services and for that purpose to establish national norms and standards relating to consumer protection throughout the Republic of South Africa*." The Consumer Protection Act, however, does not specifically address financial services. Additionally, the National Consumer Commission (NCC) - established in terms of Section 85 of the Consumer Protection Act - is charged with the responsibility of enforcing and carrying out the functions assigned to it in terms of the Act, including promoting public awareness on consumer protection issues. While the NCC has the power to investigate complaints, it does not have the power to arbitrate, adjudicate or conciliate disputes between consumers and suppliers/service providers. Instead, the NCC recommends that consumers first attempt to resolve the dispute directly with the supplier/service provider and, in the event that this proves unsuccessful, approach the Provincial Consumer Protection Authority in their respective province or contact the relevant industry Ombudsman.

86. **An Ombudsman for Banking Services has been established to address complaints.** Customers who experience problems with payment services provided by a bank may seek recourse from the Ombudsman for Banking Services (OBS), who has a *mandate* to provide an independent, impartial and confidential mechanism to resolve disputes between banks and their customers. Significant efforts are made to ensure that banking customers are aware of the existence of the OBS and the services it provides. The OBS's office periodically does road shows to raise awareness among consumers; banks are obliged to display OBS details in branches and provide details of the OBS. In the event of an impasse in a dispute, complainants may file their written, signed complaints online, via fax, email, or hand deliver them to the Johannesburg office of the Ombudsman (the only physical location in the country) and can expect to have their dispute either resolved within four months or escalated to court if resolution cannot be reached in that time.

87. **However, the Ombudsman for Banking Services does not cover non-bank payment service providers.** The OBS is funded by the Banking Association and, as such, only has jurisdiction over disputes between banks and their customers. Users of payment services provided by non-bank entities, for example, are not served by the OBS. Consumers who approach the OBS wishing to lodge a complaint against Authorized Dealers with Limited Authority (ADLAs) are redirected to the Ombudsman for Financial Services Providers – this is the "catch-all" Ombudsman established by the Financial Advisory and Intermediary Services Act, No 37 of 2002 (FAIS Act) *and* granted the authority since 1 April 2005 to act as Statutory Ombudsman under the Financial Services Ombudsman Schemes Act, 37 of 2004 ('FSOS Act') to deal with complaints against financial institutions which do not fall within the jurisdiction of any other Ombudsman scheme or where there is uncertainty over jurisdiction. Until 10th September 2012, according to Rule 9(a) of the Rules of Proceedings of the Office of the Ombudsman for Financial Services Providers, the FAIS Ombudsman had the discretion to charge a case fee of up to R1,000 upon accepting a matter for investigation.

Observations and recommendations

88. A fully-fledged consumer protection regulation for payment services provided by non-banks is currently missing in the country.

89. It is recommended that authorities further articulate the framework for consumer protection, also in line with the 2014 Market Conduct Policy Framework in South Africa. Specific conflict resolution schemes should be adopted and a set of clear, publicly available and easily applicable procedures in cases of fraud and disputes should be put in place. A special focus should be given to remittances: fraud and dispute resolution procedures should recognize that many remittance senders and receivers may face particular difficulties in enforcing their rights through the general legal system and the peculiarities of remitters should be carefully taken into account. These protections should apply to all consumers, regardless of the type of PSP offering the service. These recommendations could be addressed in phase two of the Twin Peaks reform, possibly in the context of Conduct of Financial Institutions Act.

3.1.5 Financial integrity

90. **Financial integrity concerns continue to pose challenges to enhancing financial inclusion.** National authorities struggle to achieve an appropriate balance in the regulatory regime to protect the financial system from money laundering and *terrorist* financing risks, on one hand; and, on the other hand, to build in sufficient flexibility to address customer identification issues in a less cumbersome way, enable the entry of non-banks, and allow the use of innovative payment instruments and services.

91. **In South Africa, exemptions to the general integrity principles for low-value**

transactions are established under the Financial Intelligence Centre Act (No38/2001, FICA). This Act requires users of payment services to provide personal information before certain services can be used. Such data are collected and safe-kept by the service provider. FICA includes banks as 'accountable institutions' under its scope; equally, a non-bank sponsored by a bank to make money transfers is regarded as an accountable institution. Part 1 of the Act sets out the duty for all accountable institutions to identify clients. An accountable institution must establish and verify the identity of a prospective client before it may engage in a business relationship with this, i.e.: (i) to identify all customers against some official identification document at the commencement of a business relationship; (ii) to seek to ascertain the permanent residential address of the customer, via some formal document that validates such address; (iii) to verify all information gathered in the identification process; (iv) to keep records of the information and supporting documentation; and (v) to design and implement formal internal business processes to ensure the Act's requirements are implemented within the business.[28]

92. **The FICA is in the process of being amended to strengthen FIC powers of monitoring and enhancing a risk-based approach.** The 2015 FICA Amendment Bill is meant to enhance customer due diligence requirements, reinforce a risk-based approach to clients, and extend FIC powers in relation to suspicious transactions. This will also improve regulation of assets freezing in case of international measures against financing of terrorism. These amendments, which have been proposed to comply with international FATF standards, might potentially affect financial inclusion by raising due diligence requirements.

93. **"Exemption 17" applies to low-value transactions in general and creates a second tier of compliance that aligns compliance requirements with lower risk.** In 2004 an exemption was adopted, having the purpose of adjusting the intensity of compliance for both service provider and consumer in instances where financial integrity risks are deemed to be lower (associated with lower transaction sizes and volumes), which facilitated the emergence of Mzansi accounts. Exemption 17 exempts accountable institutions from the requirement of verifying the identity of customers against proof of address. A person's identity still needs to be established via a green bar coded South African identity book and recordkeeping is still required, but no proof of residence is required as verification of identity. This concession is subject to certain transaction parameters being met on a qualifying service or product (defined as a single or ongoing arrangement between service provider and customer): (i) a withdrawal, transfer or payment may not exceed R5,000 per day or R25,000 per monthly cycle; (ii) no cross-border payments or transfers may be made from South Africa, unless it is a point of sale purchase or withdrawal in the Rand Common Monetary Area (CMA); (iii) if the service includes an account structure (e.g., a deposit account), the balance may not exceed R25, 000 at any time; and (iv) only one such service (account) may be held at any one institution at a

[28] See Finmark Trust, *AML/CFT and Financial Inclusion in SADC – South African Country Report*, March 2015 for a detailed and articulated analysis of the current legal framework.

time.

94. **SARB Guidance Note 6 established an exemption also for mobile banking.** In 2008 Guidance Note G6/08 was issued under section 6(5) of the Banks Act, dealing with mobile banking and substantially lowering the compliance bar for new forms of remote banking. The guidance note establishes the following matters: (i) mobile banking services are covered by Exemption 17 of the FICA, 2001; (ii) mobile banking services may be offered via non face-to-face processes, as long as offering banks take adequate steps to verify customer identification and provide for enhanced transactional scrutiny of such accounts' activity; (iii) low-value transactions and debits from such an account may not exceed R1,000 per day; (iv) full Exemption 17 verification is required if a customer wishes to exceed the above limit; (v) full compliance is required if the client wishes to exceed Exemption 17 parameters; and (vi) only one such account may be opened per customer.

95. **Government Regulation 454/2010 established a further exemption to cover pre-paid instruments.** In 2010, a further exemption to FICA was established by Government Regulation No. R. 454 dealing with 'prepaid instruments', i.e., instruments "*that function as an electronic surrogate for coins and banknotes, representing a claim on the issuer, which is stored on an electronic device such as a chip card or computer memory and which is accepted as a means of payment by persons other than the issuer*." Under this exemption 'accountable institutions' are exempt from obtaining personal information, verification of that information, and the keeping of records. However, limitations apply: (i) individual transactions may not exceed a value of R200; (ii) the available balance of the instrument may not exceed R1,500 at any time; (iii) the turnover or throughput of the instrument may not exceed R3,000 in a monthly cycle; (iv) it may not perform cross-border transactions; (v) only so-called on-line systems that require PIN authentication may be used for reloading or topping up the instrument; and (vi) remittances, cash withdrawal or cash-back (as part of a purchase) are not permitted. Obligations are also placed on providers (issuers) of such instruments, which include: (i) the implementation of enhanced tracking measures that will effectively identify transactions that may possibly contravene the Act; (ii) the establishment and verification of the identity of any third party that issues the instrument on its behalf; and (iii) the implementation of similarly enhanced tracking measures for the third party issuer, which will effectively identify transactions that may possibly contravene the Act.

96. **Very recently, a new exemption was adopted as for cross-border remittances.** In July 2015 the Minister of Finance introduced an exemption for cross border remittances that reduces client identification, verification and record keeping requirements as generally imposed to "accountable institutions" (including banks, non- banks, and money remitters). These accountable institutions may rely on the remittance exemption when conducting single cross-border remittance transactions of funds not exceeding R3000 per day and R10 000 in a calendar month. The aim of this exemption is to reduce the costs involved in remitting funds and thereby encouraging remitters to use formal channels for funds transfers. In addition, the

exemption is intended for remittance payments, and is therefore limited to person-to-person remittance payments. In other words, it does not include transfer of moneys by legal persons such as companies, trusts and partnerships. As the exemption is only applicable to outward bound remittance payments, it does not affect remittance payments received into South Africa. Any remittance payments received into South Africa must be conducted in the normal manner.

Observations and recommendations

97. The establishment of a tiered compliance structure permits a suitable balance between risk and compliance relative to the transaction size and volume needs of the typical entry-level customer. Expected amendments to the FICA should strengthen such component by reinforcing a risk-based approach.

98. Nevertheless, the existing fragmentation of exemptions, each of which differ according to the kind of instrument (pre-paid instrument, mobile, international remittance), produces regulatory arbitrage and as a consequence hampers a level playing field. Moreover, not all payment instruments are covered by the more articulated exemptions (since only exemption 17 applies regardless of the type of instrument), generating uncertainty in the market. Indeed, based on the discussions held, market participants seem to be of the opinion that compliance is still an inhibitor to product development and meeting customer needs. This seems to relate also to the legal interpretation of certain compliance requirements, which are not interpreted in a standard manner amongst participants (that has for instance emerged as for the recent exemption for international remittances).

99. It is recommended that not only greater clarity is provided, but also a consistent tiered compliance structure is established and applied to all type of transaction accounts and their associated payment instruments, e.g. in form of a comprehensive payment services directive. It would be advisable to make this exercise following the most recent FATF risk-based approach to AML/CFT regimes and financial inclusion.[29] *In so doing, effects on financial inclusion shall also be taken into consideration.*

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[29] In 2012, FATF revised the FATF 40 Recommendations to combat money laundering and the financing of terrorism. In the revision, FATF stated that countries should identify, assess, and understand the money laundering and terrorist financing risks for the country, and should take action to mitigate those risks effectively. Based on that assessment, FATF also requires countries to apply a risk-based approach commensurate with the risks identified. This requirement for risk assessment applies at the national level, as well as at the level of obligated financial institutions and designated non-financial businesses and persons (such as lawyers, notaries and real estate agents). This shift toward the risk-based approach allows for a new level of flexibility in the application of certain elements of a country's AML/CFT regime, which should complement, rather than inhibit, national financial inclusion efforts. FATF further states in Recommendation 1 that "where countries identify lower risks, they may decide to allow simplified measures for some of the FATF Recommendations under certain conditions."

3.3 Infrastructures supporting payment services and broader financial inclusion in South Africa

100. Reliable financial, communications, and other types of infrastructure are widely recognized as critical to the provision of efficient and cost-effective payment services, and in this sense are a fundamental foundation for financial access and inclusion. This section focuses on the core payments and other basic infrastructures that provide this foundation. Service point and access channel networks (e.g. branches, third-party agents and ATMs) are discussed separately in section 4.2.

3.3.1 National Payments System and its core payment infrastructures[30]

101. The SARB is at the apex of the banking industry and the payment system. The SARB is the key player in the settlement layer of the NPS through the operation of the real time gross settlement (RTGS) system.[31] Other relevant participants in the NPS include banks, some non-bank financial institutions (NBFIs), payment system operators (PSOs), third-party PSPs and Postbank.[32] Additional entities include remittance service providers (RSPs) and micro finance institutions (MFIs), although these entities have no direct interface with the core payment infrastructures or with the NPS governing bodies and structures.

102. The legal foundation for the NPS is derived from the South African Reserve Bank Act and the NPS Act. As explained in the previous section, the SARB is formally empowered by these provisions as the overseer of the NPS. In this context, it issues directives, designations, position papers, operational rules and procedures governing the payments system it operates, as well the activities of various NPS participants.

103. The Payments Association of South Africa (PASA) is a private sector organization, designated as a "payments system management body" under the NPS Act. PASA is responsible for the organization, management and regulation of all payment systems under PASA's constitution, and through this means it assists the SARB in the monitoring, regulation and supervision of payment, clearing and settlement systems. From a practical perspective, PASA assists the SARB by representing, organizing and managing the conduct of its members in the clearing layer or clearing domain of the NPS.

[30] This sub-section analyzes the organization of the national payments system (NPS) and its core payments infrastructures. Section 4.1 discusses the current offering of payment services in South Africa from a product design perspective. As mentioned earlier, Section 4.2 discusses service point and access channel networks.

[31] The South African RTGS system, SAMOS, is described in further detail below.

[32] The Postbank, a division of the South African Post Office, is currently offering financial services through the Post Office branch network. The main products are savings accounts, term deposits and transaction accounts with debit cards. Post Bank does not have direct access to SAMOS.

104. Among PASA's main powers and functions are those of admitting members, authorizing entities to act as system operators or as payments clearinghouse (PCH) system operators,[33] and authorizing SARB settlement system participants to settle and/or to clear on behalf of a sponsored clearing member or a sponsored settlement member, as the case may be. PASA also performs a regulatory function through the issuance and enforcement - through fines and other means - of PASA policies.

105. The NPS Act states that only banks[34] and "designated clearing system participants" can become members of PASA. Currently PASA has 28 members, all of which are banks with two exceptions: Diners Club and Postbank which are "designated clearing system participants". In addition, PASA has authorized 4 PCH system operators (Visa, MasterCard, BankservAfrica and Strate) and 80 payment system operators.

106. Regarding PASA's governance, the Council is the governing body of PASA and is responsible for its management. In practice, the Council is the body that takes decisions, including member admissions, authorizations and the issuance of PASA policies. While each Councilor, including the Chief Executive Officer of PASA,[35] is entitled to one vote - with the exception of the Chairperson of the Council which is not entitled to vote - the formula for determining the number of Councilors is skewed in favor of large NPS participants. In practice, the four largest banks are always represented with one Councilor each, while the remaining 24 members have altogether a total of three Councilors to represent them.[36] The SARB also sits on the Council, although as a non-voting member. The SARB may also appoint Ex Officio Councilors, but they are not entitled to vote. Special Councilors may be appointed by the Council, but they are not entitled to vote either.

107. Above SARB and PASA there is an overarching, strategic structure known as the National Payment System Strategy Body (NPSSB), which is representative of all the regulated stakeholders within the NPS and other interested parties, for example the National Treasury. The NPSSB allows banks, non-banks and other participants to establish associations to represent the interest of their members. Further, the NPS Operational Forum (NPSOF)

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[33] A system operator is a legal person authorized to provide services to any two or more legal persons in respect of payment instructions. A PCH system operator on the other hand is a legal person that clears on behalf of two or more SAMOS direct participants. The PCH system operator is appointed by two or more clearing participants to clear and settle payments on their behalf.

[34] A commercial bank, a mutual bank, a cooperative bank or a branch of a foreign institution.

[35] The Chief Executive Officer is regarded as an Ex Officio Councilor, but has the right to vote.

[36] According to PASA Constitution, members that have maintained a "participation percentage" (i.e. the percentage, relative to all members, of a member's throughput in terms of volumes, multiplied by its throughput in terms of value, multiplied by the number of PCHs in which the member is a participant) of more than 10% for the preceding 3 "periods of calculation" may appoint 1 principal and 1 alternate Councilor each for a term of 2 years. However, if such members are less than 4, then those 4 members with the highest participation percentage for the preceding 3 periods of calculation appoint 1 principal and 1 alternate Councilor each for a term of 2 years. In turn, all other members, excluding the Reserve Bank, appoint 3 members *from amongst them*, which members shall be entitled to appoint 1 principal and 1 alternate Councilor each for a term of 2 years.

enables all stakeholders to discuss operational matters with all participants. The NPSOF provides strategic input to the NPSSB and consults and engages with other stakeholders like PASA and the SARB. In contrast to PASA, however, neither the NPSSB nor the NPSOF have juristic personality or decision-making powers.

108. From an infrastructure perspective, the core of the South African settlement system is the South African Multiple Option Settlement (SAMOS) system, owned and operated by the SARB. SAMOS is an RTGS system, and constitutes the main system for settling large value interbank payments, as well as the final settlement of obligations stemming from the various PCHs (i.e. retail payment systems and securities settlement systems).

109. Currently there are 26 direct participants in SAMOS, all of which are banks. The NPS Act states that no person may participate in SAMOS unless: a) is a PASA member bank; b) is a designated settlement system operator,[37] or, c) such person meets the criteria for participation in SAMOS as established by the SARB in consultation with PASA. However, in a position paper of 2011, the SARB has expressed that owing to the systemic nature of SAMOS and the prevailing international economic situation, access to this system shall remain limited to the SARB, banks, "designated settlement system operators" and "designated clearing system participants".

110. Regarding "designated clearing system participants", the NPS Act empowers the SARB to designate a non-bank as a clearing system participant, if it believes that such designation is in the interest of the integrity, effectiveness or security of the payment system. Criteria for designation are individually determined and applied by the SARB on a case-by-case basis. Designated clearing system participants have the same rights and obligations as other clearing system participants and have to be members of PASA and of all the PCHs in which they participate. Moreover, designated clearing system participants have direct access to BankservAfrica (see below).

111. So far, only two entities have been included as "designated clearing system participants" in PASA: Postbank and Diners Club, the latter being a wholly-owned subsidiary of Standard Bank under a franchise agreement with Diners Club International. Some stakeholders interviewed by the WBG team opine that problems for further take-up of this possibility include the onerous and confusing administrative processes for becoming a designated clearing system participant. In this last regard, Table 3 shows the steps that an entity applying for designation as a clearing system participant must follow. As part of applying for PASA membership as a non-bank, the applicant must obtain sponsorship from a PASA member for the settlement layer (i.e. from a bank), and the sponsoring bank must apply for authorization to allow such designated clearing system participant to clear.

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[37] The SARB may "designate" a settlement system if such designation is in the interest of the integrity, effectiveness, efficiency or security of the payment system.

Table 3: Steps to be followed by an entity applying for designation as a clearing system participant

1. Apply to the SARB for designation as a clearing system participant.
2. Apply for PASA membership as a non-bank
3. Sign service level agreements (SLAs) with all the relevant PCH system operators
4. Sign PCH (bilateral) agreements with all the participants in the applicable PCHs
5. Sign a sponsoring and mentoring agreement with the sponsoring bank

Source: SARB, "Starter pack for participation within the national payments system", pp 18.

112. BankservAfrica is the largest automated clearinghouse (ACH) in Africa. In South Africa, it is involved in the processing and clearing of numerous payment streams, and it has been appointed as the exclusive payment system operator in a number of PASA PCHs, such as EFT credits and EFT debits, real time clearing,[38] early debit orders, cheque clearing, and Mzansi money transfers. It also participates in the processing/switching of ATM transactions and payments with credit cards, debit card and several other cards at the point of sale (POS).

113. BankservAfrica's largest shareholders are the four largest South African banks, while a minority share is owned by a group of smaller banks: Absa Bank, FirstRand, Nedbank and Standard Bank each owns 23.125%. The remaining 7.5% is owned by a consortia (the "Dandyshelf Group") of 7 smaller banks.

114. The SADC Integrated Regional Electronic Settlement System (SIRESS), implemented in July 2013, is an electronic settlement system for the settlement of regional transactions among banks within Southern African Development Community (SADC) countries. SIRESS is hosted and operated by the SARB and is meant to replace correspondent banking arrangements for the settlement of cross-border transactions within the region, in line with the objectives set by the SADC Committee of Central Bank Governors (CCBG). The SIRESS is now live in 9 of the SADC member countries. It is expected that with full participation of all 15 member countries, the SIRESS will significantly reduce inefficiencies and transaction costs through economies of scale and the seamless processing of cross-border payments across member countries.

115. BankservAfrica will also host a regional ACH for SADC countries. For this purpose, it has already been licensed as a regional PCH operator. Local ACHs will not disappear, but will be interconnected via BankservAfrica (or other regional ACHs), aiming at achieving full interoperability throughout SADC countries. In a first stage only cross-border payments denominated in South African Rand (ZAR) will clear and settle using the common scheme and technical-operational facilities that will integrate the national ACHs. The regionally

[38] Real time clearing (RTC) was introduced in 2006, allowing for immediate transfer and crediting of a payee's account at any bank within 60 seconds. This service is offered across select channels such as the Internet, mobile banking and call centers, and transaction values are subject to a limit.

integrated national ACHs will further integrate vertically with SIRESS.

Observations and recommendations on the NPS and its core payment infrastructures

116. South Africa's NPS is characterized by reliability and stability, sophistication, high-levels of interoperability for traditional payment instruments (e.g. card payments, EFT credits and EFT debits) across the participants of existing infrastructures, and a relatively high coverage in terms of the percentage of adult individuals that have bank accounts. Hence, overall the South African NPS provides a good foundation to the generalized adoption and usage of accounts.

117. Nevertheless, some important challenges remain, the major one being probably that despite the advanced features of the NPS, cash remains the dominant means of payment for a very significant share of the country's population – even for those that already have bank accounts. Recommendations below deal specifically with the role that the current organization of the NPS and of the core payments infrastructure may be playing in this regard.[39]

118. In many countries it has been observed that some non-bank payment service providers are able to cater to the specific needs of population segments that are not frequent users of electronic payment services (e.g. low-income individuals and/or of people living in isolated communities), and at the same time exert competitive pressures on traditional players for the latter to improve their service offering. In this regard, a general consideration in the case of South Africa is that, apart from a number of back-end functions, the current organization of the NPS leaves little room for the involvement of non-bank players in the payments value chain. In practice, non-banks have no access to the settlement layer of the NPS. Moreover, the possibility to access the clearing layer through designation has only attracted two new participants since 2011, and in any case entities that obtain such a designation require sponsorship from a bank for settlement. As a result, the provision of a range of payment services to the general public by non-banks is practically non-existent in South Africa.

119. The need for a more inclusive NPS was already recognized by the SARB in its NPS Vision 2015, stating that "formalized and regularized participation of all categories of bank and non-bank payment service providers in the NPS structures exist". The NPS Vision 2015 also states in this regard: "[…] development paths exist for non-banks to become designated clearing system participants, clearing and/or settlement banks in the payment system, without bringing risk into the NPS." To date, however, the situation is not much different from what it was when the NPS Vision 2015 was issued. The SARB is nevertheless currently undertaking a consultation on potential modifications to the NPS Act. This could be taken as an

[39] *Account and payment product design aspects will be discussed in section 4.2.*

opportunity to introduce legal changes to ensure a more inclusive NPS (see also section 3.1).

120. In this context, the mission team believes that PASA should become more inclusive and bring together traditional players with new entrant payment service providers (including non-banks), along with the user community (e.g. consumers, merchants, small enterprises, etc.). Therefore it is recommended that the NPS Act be amended to this end, requiring PASA to ensure that its constitution, composition, and governance framework reflect this more inclusive approach. This is even more important considering that PASA performs regulatory functions. Among other specific issues, it must be ensured that smaller and larger players, be them banks or non-banks, have fair and meaningful representation in PASA's Council.

121. Regarding the criteria for designation of clearing system participants, at present such criteria are individually determined and applied by the SARB on a case-by-case basis. The mission team believes that, following best international practice, this criteria should be objective and risk-based, and be transparent (i.e. be reduced to writing and be made publicly available). Furthermore, the remaining steps of the designation process should be transparent, avoid unnecessary burden and provide legal certainty to applicants, in particular as regards becoming a PASA member. The SARB (and PASA, if applicable) should also ensure that sponsorship into settlement by banks is also based on a list of objective, risk-based and transparent criteria, so as to avoid unfair denials of this service.

122. As regard access to SAMOS, the SARB should adhere strictly to Principle 18 of the CPSS-IOSCO PFMIs (i.e. An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access). The NPS Act apparently provides an opening to the direct participation of any entity that "… meets the criteria for participation in SAMOS as established by the SARB in consultation with PASA". However, according to the SARB 2011 position paper on access to the NPS, only designated clearing system participants – apart from banks and designated settlement system operators – may become direct participants (Section 5).[40] In practice, however, any non-bank entity that obtains access to the clearing layer is required to be sponsored by a PASA member into settlement, and currently only banks can grant such sponsorship.

123. At the SADC level, the new infrastructures/schemes that will support cross-border payments could have an important positive impact on individuals that migrated from other SADC countries to South Africa, and in general for all intra-regional migrants. For example, the regional ACH or ACHs are very well-positioned to enable and facilitate retail cross-border transactions such as salary, trade and person-to-person payments. Attention should

[40] The SARB may also wish to revise the statement in Section 4.2.1 "Designation as a clearing system participant allows a participant access to the clearing domain and membership of the payment system management body, but excludes the designated clearing system participant from direct access to the settlement system". This appears to contradict the position stated in Section 5 with regard to access of designated clearing system participants to the settlement system.

be paid to ensuring that the new regional infrastructures are highly efficient, safe and that they operate under robust governance and oversight arrangements, so as to ensure that the underlying cross-border payment services end up being truly convenient and affordable for end-customers. For example, SARB and other central banks members of the SADC CCBG should make sure that the efficiency gains of the new systems/schemes that could be passed on to end-customers are not eroded by large exchange rate margins or other fees applied to the processing of cross-border payments by participating banks or other PSPs.

3.3.2 Other relevant infrastructures that support financial inclusion

124. There are other infrastructures that, while not being part of the NPS, are also of major relevance for financial inclusion as they provide critical information to payment service providers (PSPs) and other financial service providers. These include national ID systems and credit reporting and other data-sharing platforms.[41]

125. In South Africa, the Department of Home Affairs (DHA) is the custodian, protector and verifier of the identity and status of citizens and other residents. To achieve its mandate, the DHA is in charge of the National Population Register (NPR). This civil registry records the vital events of its population, including the management of births, marriages, divorces and deaths certificates. Based on this registry, the government issues South African identity documents for its citizens and permanent residents. Identity documents are issued to South African citizens or permanent residence permit holders who are 16 years or older. Since July 2013, the DHA started replacing the traditional bar-coded identity books, which are much easier to forge, with smart ID cards that incorporate the use of biometrics and digital technology. This is seen as a crucial step in developing a modern and integrated National Identification System. In parallel, DHA is also focusing on cleaning up the NPR (e.g. by encouraging citizens with duplicate identities to seek assistance in resolving this matter as well as to call upon citizens to ensure they are accurately recorded in the NPR through fingerprint verification).

126. Normally, at the time of application for an account, be it a traditional account with a bank or a more basic account linked to money transfer services, the most commonly used identification key is the national identification number. Original identity documents[42] - often together with additional documentation providing proof of address, among others – must be presented at that time and copies must be kept on file. PSPs and other financial service providers normally attempt to verify the national identification number and other data like date of birth, address, marital status, etc. with information stored in DHA's databases.

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[41] For details on how these infrastructures support access to financial services, see CPMI and World Bank (2015), "Payment Aspects of Financial Inclusion", pp 31-34.
[42] In certain cases a certified copy is accepted.

127. The identity verification process is increasingly done through electronic means: DHA makes available an electronic link/service to banks and other service providers wishing to connect to its databases for this purpose. At present, the service is not provided on an open basis, and banks and other service providers need to negotiate the terms of the service individually with DHA. However, a project known as "FICA Solution" is currently being developed to provide a centralized utility for ID verification (and other purposes).[43] This project is being developed by BankServAfrica, guided by the National Treasury and supported by FIC. It is expected that all so-called "accountable institutions" in South Africa will have access to this utility.

128. In general, credit reporting systems are only rarely used as a means of facilitating access to accounts for payments. However, they can be especially useful to open up the path to broader financial services, very often once an individual has an account and uses it, hence developing a payment history pattern. Such broader financial services may include granting overdraft facilities for the account, offering a payment instruments with a built-in credit facility such as a credit card, or granting personal loans, among other possibilities.

129. In South Africa, the credit reporting system presents a dual environment. There are currently 14 companies registered as credit bureaus under South African law. In practice, however, only the larger credit bureaus which are Trans Union, Experian, XDS and Compuscan collect both positive and negative credit data systematically from credit providers. These four bureaus are associate members of the South Africa Credit and Risk Reporting Association (SACRRA), which has established certain rules to improve data quality (e.g. type of data, frequency of updates, definitions, etc.). In 2014 it was estimated that the four larger credit bureaus were handling approximately 52 million records.

130. The remaining 10 credit bureaus are not members of SACRRA, and this limits the data that they can access from credit providers and from the four larger credit bureaus, and the extent to which they can provide certain data to their respective users. Hence, these other 10 credit bureaus essentially serve as negative credit data re-sellers that collect information from a variety of sources, some of which do not relate necessarily to credit data but rather are records related to education, employment, geo-location, court judgments, housing rental and others. In this regard, it should be noted that while the legal framework allowed for a broad collection and further use of data, this environment is now being impacted by the recently issued Protection of Personal Information Act (POPIA).

131. In total, it is estimated that the credit reporting industry in South Africa hold about 70 million records, where 35 million relate to credit providers and the remaining is provided by

[43] FICA Solution will obtain data not just from DHA but also from other sources of "golden data". In addition to identity validation services, the proposed service offering of FICA Solution includes notifications of changes in data, adverse media screening, law enforcement screening, etc.

other sources such as insurance companies, employers, etc.

3.3.3 ICT infrastructure

132. According to Finscope South Africa 2014, by that year 94% of South Africans had access to electricity. From a geographical perspective, coverage of electricity is good throughout the country, though is limited in so-called "rural areas". Most of these areas are covered by the mobile telephony network.

133. According to GSMA, there are 4 MNOs operating in South Africa, whose networks collectively reach more than 90% of the country. As of July 2015, GSMA estimates that there are 38 million unique mobile subscribers in South Africa. The overwhelming majority (84%) of accounts are prepaid, which is also the case in other BRICS (see Table 4).

Table 4: Selected data on mobile industry in BRICS (Source: GSMA Intelligence)

SOURCE: GSMA Q4 2014	Brazil	Russia	India	China	South Africa
Connections (millions)	273.4	237.8	941	1,300	79
% prepaid	78%	82%	95%	79%	84%
% mobile broadband	55%	34%	11%	47%	35%
SIM penetration	135%	167%	74%	92%	148%
Number of MNOs	7	9	12	3	4

134. Regarding access to the Internet, 2014 statistics show that almost half of South African households (48.7%) had at least one member who used the Internet.[44] South Africa has issued a National Broadband Policy, which aims to address the availability, accessibility and affordability of broadband. The government, via the Department of Communications, aims to implement a national broadband network to ensure universal access by 2020.

Observations and recommendations on other relevant infrastructures

135. Reliable identity verification is a cornerstone for expanding the provision of financial services. A modern and robust electronic ID system ensures that identity (and potentially other citizenship data) can be securely and unambiguously asserted and verified through electronic means for delivery of services. DHA is already taking important steps in this direction through the modernization of its NPR and the National Identification System.

136. The mission team supports the FICA Solution project as a way to further reduce costs, in particular customer due diligence costs. As part of this project, among other relevant aspects it must be ensured that: i) all financial service providers and other external parties with a legitimate purpose are able to use the utility in a fair and equitable basis; and ii) that the NPR data (and other relevant data for customer identity verification and validation)

[44] Statistics South Africa, General household survey (GHS) 2014.

available through the utility is updated frequently, at least on a daily basis.

137. The mission team considers that smart ID cards can also help reduce some of the costs involved in account opening and other financial service offerings. Moreover, the mission team supports the view of the DHA that smart ID cards can also be instrumental in improving the accuracy of the NPR.[45] *However, it is estimated that less than 2 million smart ID cards will have been issued by mid-2015 (i.e. about 2 million cards issued in 2 years), which still leaves the vast majority of the population with the traditional ID booklet. Therefore, the DHA should strive to speed up the rollout of smart ID cards to the extent possible, leveraging all available tools like its e-channel for smart ID cards applications.*

138. Regarding credit reporting, credit reporting in South Africa for retail clients and for medium and large-sized enterprises is well-established. For the most part, these economic agents do not face any relevant restrictions on accessing credit or insurance products and services due to limitations on data to evaluate their creditworthiness. This is not to say that the credit reporting system in South Africa is exempt of problems, however. In mid-2014 the World Bank performed a detailed assessment of South Africa's credit reporting system on the basis of the recognized international standards.[46] *Two of the critical issues identified in that report are highlighted below, but it is recommended that the whole detailed assessment reflected in that report be used as the basis for determining necessary improvements to credit reporting industry in the country*

- *Information to evaluate creditworthiness in South Africa in order to grant access to loans and other financial services is broadly available. However, due to current industry organization issues (e.g. SACRRA membership requirement) , only the four larger credit bureaus collect, process and distribute positive and negative data. The remaining 10 credit bureaus collect and provide only (or basically only) negative data. This has an important impact on the industry as the users of the reports produced by these other 10 credit bureaus do not have access to a complete picture of the creditworthiness of data subjects.*

- *Credit information in South Africa suffers from a number of data quality problems For example, some information used by creditors and other users of credit reports is not sufficiently or systemically updated, and/or is incomplete (e.g. court judgments). Problems like this have a severe negative impact on the accuracy of data, which is the cornerstone for the effective functioning of any credit reporting industry.*

139. One additional aspect that was not covered specifically by the aforementioned 2014 World Bank assessment of credit reporting in South Africa is the difficulty that lenders

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[45] Statement of the government of South Africa, available at http://www.gov.za/about-government/government-programmes/smart-identity-document-id-card-roll-out.

[46] World Bank (2011), "General Principles for Credit Reporting", Washington DC.

experience in evaluating credit risks of micro and many small enterprises, mainly due to the lack of sufficient and/or of high quality data on those enterprises which to base credit decisions. This situation is rather common throughout the world, which led the International Committee on Credit Reporting (ICCR) chaired by the World Bank to produce the report "Facilitating SME financing through improved Credit Reporting".[47] *This report presents a number of possible actions that stakeholders from the public and private sector may take in this area. For the type of problem identified in South Africa, it is recommended that authorities continue their efforts to effect ICCR recommendations through the collaborative development of two credit reporting initiatives – a credit information sharing project and a rating agency project – which collectively have the potential of addressing the possible actions set out below*[48]*:*

- *Possible Action 1: "Need to increase reporting of SME credit data". Many SMEs are not included in the credit reporting system, especially if they have not had a loan or other credit facility with a regulated financial institution. Others are included only if they have had late payments or have defaulted their financial obligations. Authorities could seek for ways for all relevant data providers, including non-bank creditors, to increase reporting of SME positive and negative data.*

  In this regard, in lieu of traditional data, other data items that can be used for assessing the creditworthiness of micro and small medium enterprises include bill payments (i.e. payments to telcos and utilities), tax payments, data on payments related to crowdfunding transactions, factoring, and credit insurance, among others.

- *Possible Action 3: "Co-responsibility of SMEs". SMEs need to be fully aware that in order to obtain external financing from creditors, the latter must have adequate information to facilitate their decision-making. This includes qualitative and quantitative information such as financial statements or financial projections as part of the business plan of a start-up or expansion. SMEs could therefore seek to ensure that the information they generate about the business to apply for external financing (and other purposes) is sufficient and reliable. When needed, SMEs could seek training from authorities and any other parties to develop the necessary skills for this. Creditors, in their role as users, could also provide valuable feedback to SMEs by making their credit policies and decisions more transparent.*

- *Possible Action 7: "Better cooperation between commercial credit information companies and consumer credit bureaus, to improve credit reports on SMEs". Many*

[47] International Committee on Credit Reporting (2014), "Facilitating SME financing through improved Credit Reporting", The World Bank, Washington DC.
[48] Except for the underlined paragraph, the text for each of the Possible Actions presented below has been reproduced verbatim from the ICCR report.

CRSPs[49] *still focus exclusively or almost exclusively on either consumer or commercial lending. Nevertheless, some data items that are collected by consumer credit bureaus can be useful to commercial credit information companies, and vice versa, to build a more comprehensive picture of debtors or potential debtors. This might be especially relevant in the case of SMEs due to many of the latter being closely held companies. Commercial credit information companies and consumer credit bureaus could therefore seek to collaborate and, to the extent permitted by the law, share data among themselves that might be useful to each other and to their respective users, and eventually develop certain credit reporting products jointly.*

[49] Refers to credit reporting service providers.

4 CATALYTIC PILLARS: DRIVERS OF ACCESS TO AND USAGE OF ACCOUNTS AND ASSOCIATED ELECTRONIC PAYMENT INSTRUMENTS

4.1 Account and payment product design

140. PAFI (2016) defines a transaction account as an account held with banks or other authorized and/or regulated service providers (including non-banks), which can be used to make and receive payments. Transaction accounts can be further differentiated into deposit transaction accounts and e-money accounts. All individuals and businesses should ideally have access to and use at least one transaction account offered by an authorized and/or regulated service providers regulated payment service provider, (i) to perform most, if not all, of their payment needs; (ii) to safely store some value; and (iii) to serve as a gateway to other financial services.

141. Transaction accounts typically are offered with a set of non-cash, increasingly electronic, payment instruments. Electronic payment instruments can be classified in three broad categories (PAFI, 2016):

a. Electronic Funds Transfer (EFT)-based instruments: These are direct (ie account-to-account) credit transfers and direct debit transfers.

b. Payment card-based instruments: These include credit card payments, charge card payments, and debit card payments, and typically still involve a physical plastic card.

c. Electronic money (e-money)-based instruments: In general terms, these instruments involve the payer maintaining a pre-funded transaction account with a PSP, often a non-bank. Specific products include online money when the payment instruction is initiated via the internet, mobile money when initiated via mobile phones, and prepaid cards.

142. Only if the transaction account and payment product offerings effectively meet a broad range of transaction needs of the target population, end customers will be willing to open a transaction account and adopt payment instruments at first hand and consequently make use of the transaction account and associated payment instruments on an ongoing basis. In order to effectively design transaction account and payment products, the supply side needs to identify end customer needs and provide a mix of product features that offer the potential to meet those needs at a reasonable cost for end customers. These product-specific features, in combination with broader market practices (e.g. consumer protection), affect the attractiveness of the respective product for customers. Product-specific features also impact the cost for PSPs of providing the payment service (PAFI, 2016).

4.1.1 Relevance of transaction accounts and payment instruments in South Africa

143. The Banking Association of South Africa has developed a working definition of financial inclusion, according to which "Access and usage of a broad range of affordable, quality financial services and products, in a manner convenient to the financially excluded, unbanked and under-banked; in an appropriate but simple and dignified manner with the requisite consideration to client protection. Accessibility should be accompanied by usage which should be supported through the financial education of clients" (BASA). BASA also recognizes that affordability is key for that purpose.

144. South Africa acknowledged the relevance of the demand side needs very early in their Financial Sector Charter (FSC) in 2004. The FSC successfully sensitized suppliers to the particular needs and capabilities of entry-level customers and induced the roll-out of new entry level types of transaction accounts (first Mzansi accounts, later individual offerings of major banks) and payment services building on these transaction accounts (e.g. Mzansi Money Transfer) (FinmarkTrust, 2011).

145. Beyond entry level bank accounts and payment services, South African banks in general indicate that they are adopting a holistic approach to customer relationships. They are using big data to identify customer needs, assess end users' risk profile, and inform more granular pricing decisions. The majority of South African banks consider service quality and client retention as important issues to succeed. Social media platforms are used to monitor and respond to customer complaints (PwC, 2013).

146. The well-developed banking sector in South Africa offers a broad range of electronic payment instruments. The number of payment cards issued and the number of electronic payment transactions (payment card and electronic fund transfers) has been constantly increasing over the past years, as shown in Figure 10 and Figure 11. It is worth noting that the number of cheque transactions has decreased by more than two thirds since 2010 and the number of ATM cash withdrawals peaked in 2011 and has slightly declined since then, despite an increase in the number of payment cards by almost one third over the same period of time. However, the total value of ATM cash withdrawals still increased by more than 16% between 2011 and 2014, as shown in **Figure 12** and **Figure 13**, which suggests that cardholders have been withdrawing less frequently but higher amounts (CPMI, 2015).

147. The average amount of a POS transaction in 2014 was R461, for a card-not-present transaction R1,750, for credit transfers R15,800, and direct debits R1,750 (PASA, 2015).

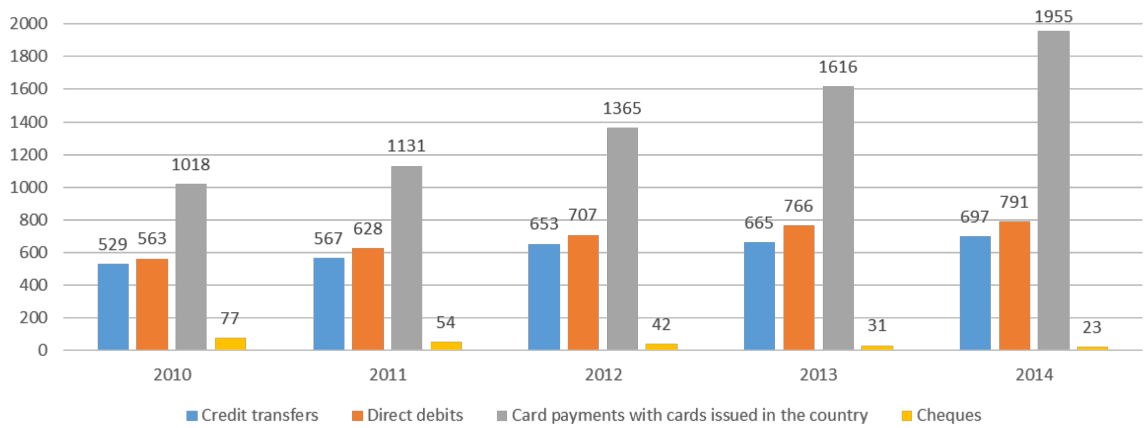

Figure 10: Annual number of payment transactions per payment instrument in million in South Africa (Source: CPMI, 2015)

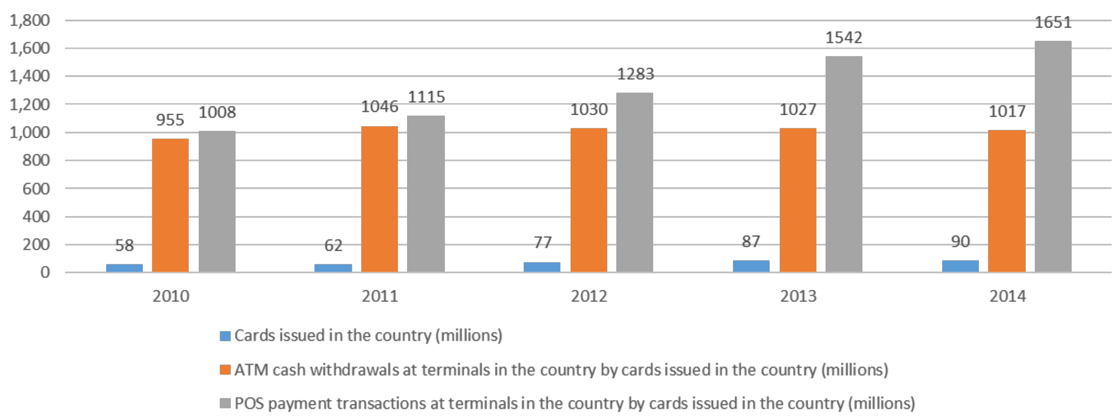

Figure 11: Number of cards issued and annual number of transactions effected with these cards in South Africa (Source: CPMI, 2015)

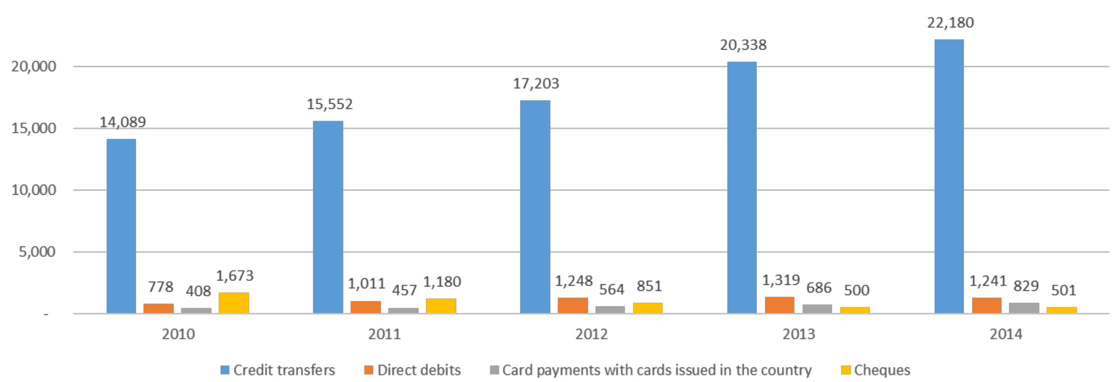

Figure 12: Annual value of payment transactions per payment instrument in South Africa (ZAR billions, total for the year) (Source: CPMI, 2015)

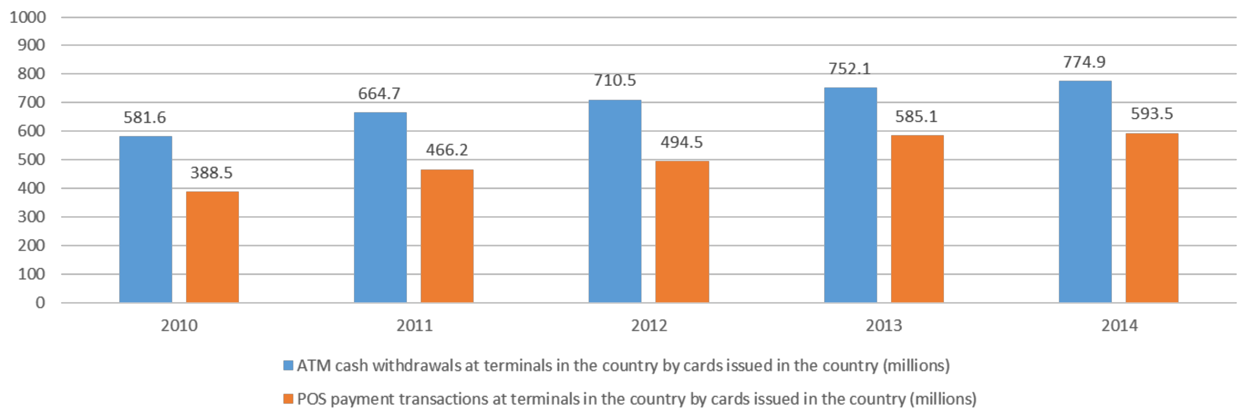

Figure 13: Annual value of transactions with cards issued in South Africa and effected with these cards in South Africa (ZAR billions, total for the year) (Source: CPMI, 2015)

4.1.2 Transaction accounts

148. Providing basic transaction accounts at little or no cost to all individuals and businesses that do not hold such an account and that wish to open such an account are considered an important key action to increase financial access (PAFI, 2016). South African banks consider that the efficiency of their onboarding processes could be improved and so could their ability to understand and address customer needs. In order to improve the onboarding process, banks consider a simplification of processes and the use of electronic channels as being the most relevant factors (PwC, 2013) – the "FICA Solution" discussed earlier might contribute to that. As regards the regulatory requirements Exemption 17 introduced in the context of the Mzansi account, has proven to contribute to facilitate the onboarding process.

149. The offering of transaction accounts with functionalities that, at a minimum, make it possible to electronically send and receive payments at little or no cost, and to store value safely was realized by the Big Four banks and Postbank with the introduction of the Mzansi accounts, targeted to the most vulnerable (LSM 1-5). Mzansi accounts issued totaled 6 million. In 2013 they represented 6% of the market and 4% in 2014. More than 50% of the Mzansi accounts opened with Postbank, and 72% of Mzansi account holders being previously unserved end customers (NT, 2013, 2014).

Table 5: Agreed principles of the Mzansi account (Source: NT, 2014)

Brand	Prominent use of the Mzansi brand, through the use of the associated logo and value-for-money proposition
Card-based	The account had to have an associated debit card, with normal debit card functionality and operational in the fully interoperable South African payment environment.
No "penalty" for using other banks' infrastructure	In South Africa the use of another bank's (other than the issuing bank) infrastructure, particularly ATMs, results in a premium service fee having to be paid by the user. The agreement for Mzansi accounts was that this premium will be waived and the interbank fees were adjusted to reflect this agreement.
Affordable	There was an agreement that a defined basket of transactions will not exceed an agreed a fee threshold that was deemed affordable by the target market. This upper limit was significantly lower than the cost for typical bank products.
No monthly or management fee	Most transactional accounts attract some set monthly fee in South Africa. It was agreed that the Mzansi account will not attract this type of fee.
One free cash deposit	Cash deposits (as opposed to electronic or cheque deposits) typically attract a fee in South Africa. It was agreed that Mzansi account holders will have one free cash deposit transaction per month.
Use of Post Office branches	Mzansi account holders could withdraw funds and do basic enquiries at Post Office branches, irrespective of the bank involved in the issuing of the account.
Use of AML/CFT exceptions	It was agreed that Exemption 17 will be incorporated in the opening procedure of all Mzansi accounts.

150. As it turned out, the feared cannibalization of other low cost products offered by banks did not materialize, for which reason both restrictions on maximum balances and limited range of transactions were removed over time. While the number of people getting access to financial services with the Mzansi account was relevant, effective usage of the Mzansi account was much less so, especially at the beginning, as proven by a high share of dormant accounts. However, after targeted awareness campaigns and sales efforts, the share of active accounts was raised to 82%.

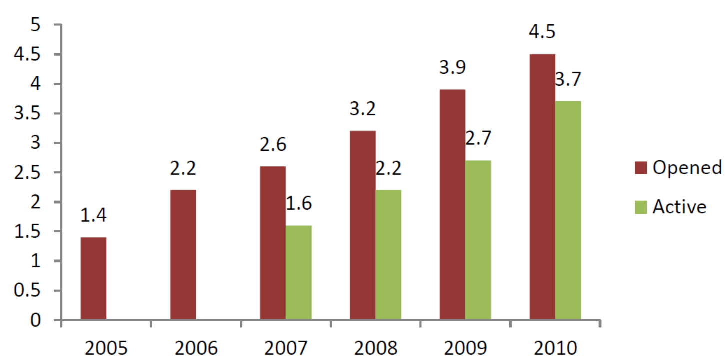

Figure 14: Comparison of opened and active Mzansi accounts, no data on active accounts for 2005-06 (Source: NT, 2014 based on BASA, 2011)

151. The accounts issued for SASSA beneficiaries ("SASSA accounts") and the associated MasterCard debit card introduced in March 2012 has partially substituted Mzansi accounts. At present, one third of the banked population now owns a SASSA account and a MasterCard debit card. However, the current product design of SASSA accounts does not encourage their use as transaction accounts with which end users could use to perform most, if not all, of their payment needs and safely store value, due to the practice of SASSA to re-assess the beneficiaries' eligibility if they keep a balance on the beneficiaries' SASSA accounts and do not withdraw/use their funds (see also section 4.4.2) and the fact that the account issuing bank has a very limited footprint in the country. While the aim seems to be stopping undue direct debits, the overall usefulness of the SASSA account for end-user is further limited by the amended Regulation 26 (A) of the Social Assistance Act, 2004 that allows only one direct debit from the account for funeral insurance, limited to 10% of the grant and provided that permission has been sought by the beneficiary from SASSA and it is no child grant. SASSA seems to aim for a strict enforcement of this rule, as indicated by the case opened against its service provider, i.e. Cash Paymaster Services (CPS) (a Net1 business unit) and Grindrod Bank on 15 June 2016.

152. The potential of SASSA accounts and the associated MasterCard debit cards for broader financial inclusion therefore remains to a large extent untapped: Evidence from 300,000 Mexican recipient accounts for social transfers suggests that issuing debit cards positively influence recipients' savings behavior after an average period of six months (during these six months people use their debit cards frequently to check their account balance, a behavior which is interpreted as building trust into the account servicing institution). Based on household survey data the increase in savings on these account is interpreted as an overall increase of savings rather than shifting savings. Respondents also indicated that the possibility to safely store money at a financial institution increased their self-control and reduced the consumption of goods like alcohol or tobacco (Bachas et al., 2016).

153. While the Mzansi account is considered a historical success when it comes to providing a transaction account to previously unserved end customers, the model has faced challenges as regards sustainability, due to a lack of incentives for the supply side to innovate and expand the service offering and the end customers' perception of Mzansi as being an account for the poor.

154. The Big Four banks have de facto discontinued promoting and/or offering Mzansi accounts and Mzansi Money Transfer. Instead they - as well as smaller banks - have further prioritized their own basic bank account offerings and some new products and services (e.g. mobile services, remittances in cooperation with retailers). However, unlike the Mzansi account offering, these other products and services are largely proprietary and/or do not offer all features listed in Table 5 (NT, 2015).

155. In conclusion, South African banks, induced by the FSC, introduced with the Mzansi account a basic transaction account at little or no cost very early and as a result millions of formerly unserved end-customer got for the first time access to a transaction account. The key features of the Mzansi account (e.g. no off-net fees) and the fact that the Big Four and Postbank offered it provided Mzansi account holders with a very large acceptance network and benefits compared to "regular" transaction accounts. Initial high dormancy rates were substantially reduced through appropriate communication and education measures. While there seem to be anecdotal evidence that Mzansi was associated with an account for poor people, the overall figures suggest that Mzansi has been successful from a financial inclusion perspective.

4.1.3 Electronic Funds Transfer (EFT)-based instruments

156. EFT credit transfers in South Africa are widely used by employers to pay salaries and have largely replaced cheque usage, especially by consumers. Credit transfers are usually considered as payment instruments suitable for newly included end customers, due to the credit push nature. This is because end-customers are in full control of the amount transferred and the time their account is debited, for which reason they might prefer credit transfers to direct debits. While a large number of banks support credit transfers as payee's banks, the number of banks offering interbank credit transfers to their customers as payers is considerably lower (Volker, 2013).

157. A few South African banks offer instant payments for credit transfers initiated via internet banking. This service is known locally as Real-time Clearing (RTC) payments. Participating banks ensure that the payment is immediately processed and the payee credited within 60 seconds (CPMI, 2012).

158. In South Africa, EFT direct debits are mainly used to collect insurance premiums, mortgage and hire purchase re-payments, medical aid subscriptions, etc. The direct debit service has suffered from high abuse rates in the country mainly due to so called early debit order (EDO) arrangements, introduced in 2006. The aim of EDOs was to facilitate the processing of special debit orders immediately after the daily crediting of end customers' accounts, and increase the likelihood of direct debits to be honored. EDOs can be "authorized" (the mandate is authorized by payment card and PIN) or "non-authorized" (PASA, 2015).

159. Micro-lenders have been one of the main adopters of EDO, which helped to reduce the illegal practice of retaining the end customers' debit cards and PINs to withdraw funds on behalf of the end-customers on payday for loan repayment. However, EDO themselves introduced a set of new challenges, including undue preference given to these deductions, misaligned item limits, weak mandates given by the account holder, and inappropriate tracking of funds credited to the client account.

160. According to PASA (2016), currently 33 million “normal” EFT direct debits to the value of R61 billion are processed each month in South Africa. Additionally, 14 million Non-Authenticated Early Debit Orders (NAEDO) and 1 million Authenticated Early Debit Order (AEDO) transactions. Current disputes for EFT direct debits are reported at 0.5% while that of NAEDO is at 7-8%. In addition, 18% of NAEDO transactions are unpaid due to a lack of funds.

161. As a result, SARB reviewed the overall EDO payment stream and related collections arrangements during 2012 (SARB, 2014). EDO misuse has been observed both on the side of debtors (e.g. disputing rightful direct debits) as well as on the side of creditors (e.g. fraudulent collectors initiating direct debits without proper mandate). SARB requested PASA to implement a set of measures address the concerns with EDO, e.g. strengthened authentication (SARB, 2014).

162. PASA has embarked on the “Authenticated Collections Project”, which aims to introduce a process whereby consumers will electronically confirm to their bank that they are in the process of doing business with a company/user and that they agree to the details of the specific EFT direct debit. Once the user has given this mandate, the bank will check the EFT direct debit instruction from the creditor against the authenticated mandate to ensure that the debit is within the parameters agreed to, prior to processing. At this stage, this process will only be implemented for EDOs, and not for normal EFT direct debits. This means that from a certain date, only Authenticated Debit Orders will be processed in the Early Processing Window and all other debit orders later in the day. The Authenticated Collections project introduces new criteria for collecting money in the Early Processing Window (PASA, 2016).

163. All new early debit orders must be authenticated electronically as from 1 October 2016. However, the SARB has approved a migration plan that allows companies to accommodate existing or current mandates that are processed in the Early Processing Window for a limited period. The agreed deadlines for these current mandates are 30 June 2017 for NAEDO, with some exceptions; and 30 June 2019 for AEDO (PASA, 2016).

164. As regards the fees charged for direct debits, the Competition Commission criticized in their assessment the fees of around R30 charged for rejected direct debit transactions and suggested to introduce a cap of R5 per dishonored item. While NT agreed that the fees were too high, NT considered market forces combined with more transparency on pricing as the best approach to address the issue. The banks agreed to lower the penalty fees especially for low income accounts and pre-advice customers if there are insufficient funds on the account. As a result, penalty fees on dishonored items for low income accounts were reduced and range from zero to R9.50.

165. Furthermore the Competition Commission suggested to allow end customers cancelling direct debit mandates at any time, which was opposed by banks arguing that this

would not be feasible due to high implementation costs anticipated. Instead of cancelling the entire mandate, banks indicated to be willing to implement so called "stop payments" preventing the execution of a direct debit without cancelling the underlying mandate. Furthermore banks increased efforts via PASA to identify and ultimately exclude dubious creditors. It is not clear if and how stop payments have been introduced and to which extent the black-listing efforts of dubious creditors has had a positive effect by increasing the integrity of EDO and reducing fraud. One of the unintended consequences of stop payments is their misuse as cash management technique by the debtor.

4.1.4 Payment card-based instruments

166. South African banks offer Visa, MasterCard and/or American Express branded debit and credit cards, which can be used in ATMs and are widely accepted in retail establishments. With the issuing of SASSA accounts with debit cards, MasterCard has substantially strengthened its market position in South Africa.

167. The Competition Commission criticized in their assessment a lack of clarity with regard to interchange rates determination. As a result, SARB took the lead in determining a cost-based interchange rate. The revised ATM interchange rates were announced in December 2013 and became applicable on 1 April 2014. The new interchange rates for card purchases were announced in March 2014 and were put into effect end of first quarter of 2015 (SARB, 2014). The new fees are about 60% lower than the former ones, with large retail chains estimating annual cost reductions of more than R100 million each, due to resulting lower merchant service charges (Tarrant, 2015). The newly set interchange rates for card payments seem on average to be higher than those set recently in Australia[50], the European Union[51], or the United States[52].

	Interchange rate
ATM withdrawals	R3,48 + 0,53 per cent of the amount withdrawn
Balance enquiries	R1,33 per transaction
Declined transactions	R0,94 per transaction

[50] Debit card payments: 0.12AUD per transaction; Credit card payments: 0.5% of the value of the transaction.
[51] Debit card payments: 0.2% of the value of the transaction; Credit card payments: 0.3% of the value of the transaction.
[52] 0.21USD per transaction plus 0.05% of the value of the transaction (plus a 0.01 USD fraud-prevention adjustment, if eligible).

	Debit card	Credit card
Card-present purchase		
Issuer and acquirer EMV* compliant	0,44 per cent	1,48 per cent
Only issuer EMV compliant	0,52 per cent	1,55 per cent
Only acquirer EMV compliant	0,36 per cent	1,41 per cent
Card-not-present purchase		
Issuer and acquirer 3D Secure** compliant	0,48 per cent	1,73 per cent
Only issuer 3D Secure compliant	0,53 per cent	1,89 per cent
Only acquirer 3D Secure compliant	0,43 per cent	1,57 per cent
Cash-back at point of sale	R1,11 per transaction	

Figure 15: ATM and POS interchange fees in South Africa (Source: SARB, 2014)

168. The Competition Commission made some further recommendations as regards pricing and transparency for cash withdrawals and/or card payments, e.g. direct charging of the end-customer, instead of and interchange model. In this regard, NT was of the opinion that there is not enough evidence supporting a complete shift to a direct charging model, and requested instead more transparency for fees levied for off-net transactions. Banks argued that displaying the exact amount of the surcharge at the ATM display would not be feasible and instead introduced a generic disclaimer that additional charges may apply[53]. The issuing bank provides a detailed breakdown of the charges with the account statement.

4.1.5 Electronic money (e-money)-based instruments

169. E-Money can be further differentiated into prepaid cards, online money and mobile money. In South Africa, only locally registered banks may issue e-money, since issuing e-money is considered as deposit-taking. Under the Banks Act, deposits of e-money must be held in a separately identifiable e-money account for each holder of e-money (CPMI, 2012). Existing e-money offerings are closed-loop and have had limited market uptake.

170. At the end of December 2010, South African banks had issued approximately 4 million prepaid cards. Many consumers prefer prepaid cards simply because they have more control over their spending. Many industries in South Africa, such as the mining industry, load salaries, loans and commissions onto a prepaid card (CPMI, 2012).

171. The mobile money market in South Africa, despite a high mobile phone penetration, is still in its infancy. According to Findex 2014, 14.4% of South Africans 15 years or older have a mobile money account. Especially non-banks argue that this is mainly due to the fact that they are required by the legal framework to offer their services jointly with a bank, which

[53] It is worth noting that displaying the maximum amount of ATM charges has been realized in countries like Australia, Germany, and the USA and should be technically feasible in South Africa too.

reduces profitability and flexibility in their product and service offering. Existing mobile money solutions are not interoperable, resulting in a limited network size and/or customer acceptance. Another argument for the lack of mobile money uptake in South Africa is a relatively high share of population that already have transaction accounts, which might reduce their incentive to open mobile money accounts. However, the high propensity of over-the-counter domestic remittances indicates that there are payment service needs currently unmet by deposit transaction account offerings by banks.

4.1.6 End customer behavior and views

172. Most of the banks offer internet banking and mobile banking solutions for their customers, however, the uptake so far has been limited. According to FinScope (2014) only 24% use mobile banking and 11% internet banking. Even among those using mobile banking, 44% of users consider it to be too complicated. 53% of account owners, however, do not use any electronic payment instrument (be it payment card or EFT) linked to their transaction account.

173. Being asked how they feel about banks, 71% feel banking fees are too expensive and 39% do not understand the differences between banks. Only 51% actively investigate what they are paying in bank fees, and 24% of those currently banked withdraw all money as soon as it is deposited into their account (FinScope, 2014). FinScope (2015) identified the price as being the dominating criteria for choosing a bank (35%), followed by the quality of customer service (29%), the possibility to easily access it/find it everywhere, perceived value for money, and the ability of customers to relate to it (all 22%). 77% of the respondents consider bank fees as being too high

174. According to Findex (2014) 26.8% use an account to receive wages and 28.2% to receive government transfers. However, most South Africans do not make use of the electronic payment services made available to them, i.e. they have a high propensity to fully cash-out immediately or shortly after they receive a payment. The share of banked South Africans who immediately withdraw their funds once these become available is estimated at about 33%. Among the social grant recipients, this figure rises to 45%. As a result, only 35% of South Africans make non-cash transactions on a monthly basis and only 23% with a transaction account pay their bills via that account (FinScope, 2015).

Observations and recommendations

175. In view of the success of the Mzansi account in issuing transaction accounts to previously unserved customers, with an overall acceptable low rate of dormancy, it is regretful that the Big Four banks are de facto not supporting Mzansi anymore, which seems to have mainly commercial reasons (e.g., to be able to promote their own basic account *offerings, being able to differentiate their service offering, and probably to be more flexible as regards terms and conditions).*

176. Banks likely cannot be convinced to further promote Mzansi as a brand or co-brand, which according to the banks' opinion has been perceived by many as a "brand for those who cannot afford a regular product". The Big Four banks have introduced their own individual basic account offering, which is commendable and seems to indicate that these type of basic accounts can be offered in a commercially sustainable way. However, further market research and/or other similar efforts are recommended to verify whether these basic accounts offerings meet the payment habits and needs of currently unserved and underserved individuals and micro enterprises. In specific, it should be explored whether the target population perceives these products as offering the minimum essential functionalities (e.g. enable to electronically send and receive payments and obtain cash at little or no cost, and to store value safely) and as easy to use.

177. The SASSA accounts and associated MasterCard debit cards have been an important contribution for the increased efficiency of social grant payments. However, it needs to be recognized that the payment habits and needs of beneficiaries are not entirely known and SASSA does not seem to put a strong focus on financially including recipients by means of SASSA accounts – it is an externality rather than an objective SASSA is actively pursuing. Additional market research and/or other similar efforts to identify and address payment habits and needs are required and a precondition to improve the SASSA account and make it a fully-fledged transaction account.

178. Among others the fact that SASSA accounts are only issued by one small bank prevents SASSA accounts from becoming a gateway to broader financial inclusion – giving additional payment service providers the chance to issue SASSA accounts could result in increased service offering to SASSA account holders and give SASSA account holders the chance to choose their preferred SASSA account issuer. Recipients should be free to select any bank or other regulated service providers (e.g. authorized CFIs) of their choice and/or make use of an account they might already have. This could be achieved if SASSA fully leverages the existing National Payments System. By doing so, recipients would also benefit from existing dispute resolution mechanisms. Weaknesses in the National Payment System, e.g. direct debit misuse, need to be addressed on National Payment System level rather than by SASSA on its own in limiting the functionality of SASSA accounts.

179. From a financial inclusion perspective, it would be especially important to reconsider the approach to assess eligibility of beneficiaries based on their account balance and by doing so incentivizing beneficiaries to cash-out in full. Furthermore, it could be considered to agree with the issuing bank the possibility that those graduating from the social transfer program can keep their SASSA card and account, by converting it into a basic transaction accounts at little or low cost (see also related recommendation in section 4.4).

180. For newly included end customers, credit transfers might be considered as a more appropriate payment instrument to build the necessary trust into electronic payments, since they are in full control if and when their account will be debited. Efforts should be undertaken to ensure that all banks actively offer credit transfers to their customers, through the various means available (via branches, ATMs, online).

181. Payment products for underserved and unserved market segments should be easy to use and understand. Direct debits do not necessarily meet this criteria and ongoing media coverage of SASSA recipients claiming that their SASSA accounts have been unduly debited seems to support this view. Furthermore, a high level of fraud and/or misuse is likely to have adverse effects not only on direct debits, but on the use of electronic payments in general. A migration to authorized direct debits and strengthening of end-user rights should be considered to that extent and the "authenticated collections project" for early debit orders is a step into the right direction. If the offering of non-authorized direct debits will be continued, e.g. for regular debit orders, the end user should be able to cancel direct debit deductions at any time (in case of recurring ones) and claim their money back on a no-questions asked basis for non-authorized direct debits. A unique creditor identification number for every creditor, allows for effective black list management if rigorously implemented. Finally, the creditor bank should have the main responsibility in avoiding fraudulent behavior of its creditors. Precise criteria should be defined which creditors who want to use non-authorized direct debits should fulfill and the right incentives should be set in place to ensure that creditor banks carefully screen any creditor.

182. The proliferation of proprietary payment instruments (e.g. mobile money, prepaid cards) and proprietary payment solutions (e.g. domestic remittances, transit payments) needs to be addressed with the aim to establish interoperability on technical/operational level and to ensure that this is supported by a commercial model which attracts under- and unserved end customers. PASA could steer this development, but would need to open the discussion to non-PASA members active in this field.

4.2 Readily available access points and access channels

183. As stated in the CPMI-WBG PAFI report, the success of retail payment services depends critically on the availability (including physical proximity), quality and reliability of customer service and access points. Customer payment behavior is especially sensitive to the density of access points in close proximity to their home or work place. Limited access to physical access points may reduce the probability that a transaction account or a payment instrument are adopted. In South Africa, according to FinScope South Africa 2015, among the reasons for choosing a specific bank, the "easily accessible/found everywhere" category ranked as the third most important reason after "cheaper" and "great customer service".[54]

184. From a customer perspective, it is important to differentiate between those access points to be visited for the initial opening of a transaction account and/or the acquiring of specific payment instruments, and those access points utilized for the regular use of the transaction account and/or a specific payment instrument.

185. In many countries, the set of requirements to open a transaction account usually oblige the applicant to go in person to a physical branch of a bank or other payment service providers. In South Africa, the opening of transaction accounts is predominately provided through traditional bank branches. For SASSA accounts and MasterCard debit cards, eligible individuals need to first register at any SASSA regional office. For basic accounts, like GN6 accounts, new customers may be registered via mobile phones. Customers in need of less basic products (e.g. with higher limits for transactions and balances) need to provide their FICA-required documents in bank branches or with selected bank agents (e.g. stores).

186. According to Finscope 2014, technology penetration in South Africa has increased dramatically in the past 10 years. 90% of South Africans used the mobile phone as a communication device in 2014 compared to 42% in 2004. The number of people using the internet as communication channel increased from 5% to 25% over the same period of time. All major banks offer online banking services and increasingly mobile banking services too

187. Given the fact that a relatively high share of South African adults already have a transaction account (especially if SASSA accounts are considered too, even if they do not meet all requirements for a general purpose transaction account) with a bank or a regulated non-bank financial institution (i.e. more than 83% according to FinScope 2015 data) and in view of the fact that end users might be willing to accept a higher one-time effort to open an account, the discussion below focuses on access points for the regular use of those accounts.

[54] The categories "can relate to them", "provide value for money" and "have been with them forever" had the same or very similar percentages than "easily accessible/found everywhere".

4.2.1 Bank branches, ATMs and POS devices/terminals

188. The focus placed in the Financial Sector Charter on access has led to both an increase in the absolute number of access points as well as their geographic distribution. As of 2014 there were 4,169 bank branches or offices and 27,659 ATMs in the country (CPMI, 2015). The number of commercial bank branches and ATMs has increased significantly in recent years, both in absolute as well as in per capita terms. For example, the number of ATMs per 100,000 adults increased from 24.87 in 2005 to 66.2 in 2014 (10.28% increase y-o-y), while the number of bank branches per 100,000 adults evolved from 7.08 in 2005 to 10.94 in 2014 (4.4% increase y-o-y).

189. In terms of geographical coverage in 2005 there were 1.91 bank branches and 6.71 ATMs per 1,000 km^2, increasing to 3.44 and 20.81, respectively, in 2014. Branches and ATMs are mainly concentrated in urban and peri-urban areas. Furthermore, especially in urban areas, ATMs are heavily concentrated in branches and/or shopping centers. While technically interoperable, high off-net prices result in a strong customer preference to use ATMs of the own issuing bank, resulting ATMs of different banks being deployed in close proximity to each other in areas with high end-user frequency (NT, 2015a).

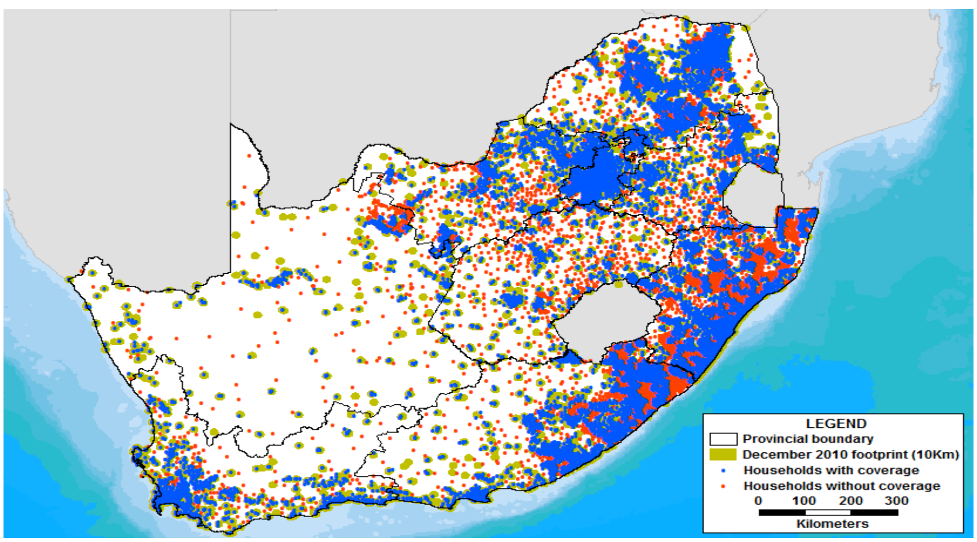

Figure 16: Geographic distribution of access points across South Africa (Source: NT, 2015a based on data from the Banking Association of South Africa)

190. Compared to other BRICS countries (see Figure 17), however, South Africa has the lowest availability of commercial bank branches per 1,000 km^2 and per 100,000 adults. On the other hand, South Africa lands in the middle of this group in the availability of ATMs, i.e. lower than Brazil and Russia in terms of ATMs per 100,000 adults and above India and China, but lower than Brazil and India and above China and Russia in terms of ATMs per 1,000 km^2.

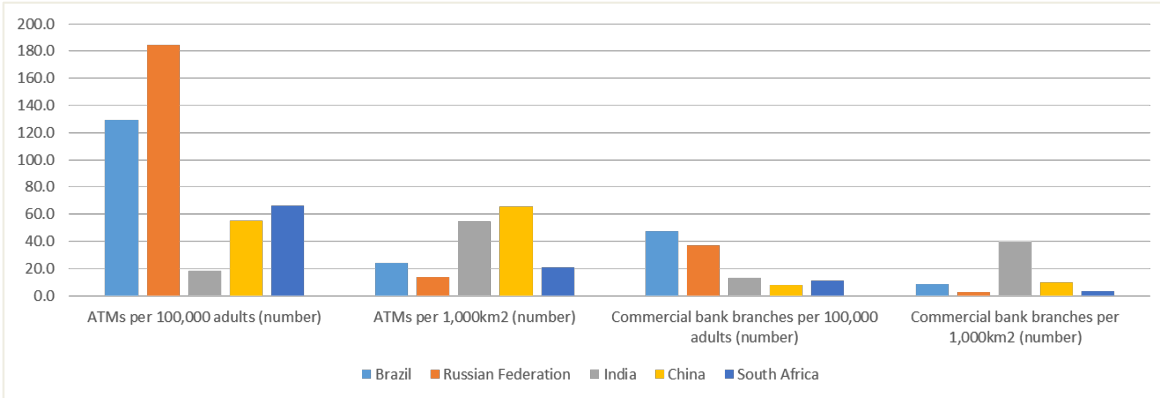

Figure 17: Commercial Bank Branches and ATMs per 1,000 km2 and per 100,000 adults in BRICS
(Source: IMF FAS Data, 2014)

191. One of the reasons behind the higher increase of ATMs than of bank branches is the incursion of independent ATM operators (i.e. unrelated to commercial banks). For example, as of mid-2015 PayCorp Group had deployed 4950 independent ATMs, mainly in gas stations, corner stores, and other similar locations. These ATMs are interoperable with every bank except with FNB and Capitec. Another player, Net1, has already deployed approximately 700 ATMs and intends to reach a total of 2000 in the short-term. Net1 ATMs are interoperable with all other banking products (i.e. have biometric authentication but are also equipped with PIN to be interoperable). Together, these two independent ATM operators have increased the offer of ATMs by more than 20%.

192. As regards other access points, as of early 2014 there were 367,448 point-of-sale (POS) devices/terminals in the country, which corresponds to 685 terminals per 100,000 inhabitants. While the number of POS terminals has increased at a rate of 6% per year over the last five years, it is still below that of Russia (889), China (1,165) or Brazil (2,459), and significantly below the corresponding figure for most developed countries.[55]

193. Especially relevant for lower-income segments of the population in South Africa is the increase in the transactional capabilities of POS devices in stores, enabled by both banks and retailers. These devices not only enable consumers to make payments for goods and services with their payment cards, including some third-party services, but also to withdraw cash and make third-party services (e.g. utilities and other recurrent bills). Particularly noteworthy is the fact that cash withdrawals at POS devices in stores are less expensive than withdrawals at ATMs.

[55] For additional information see CPMI, 2015.

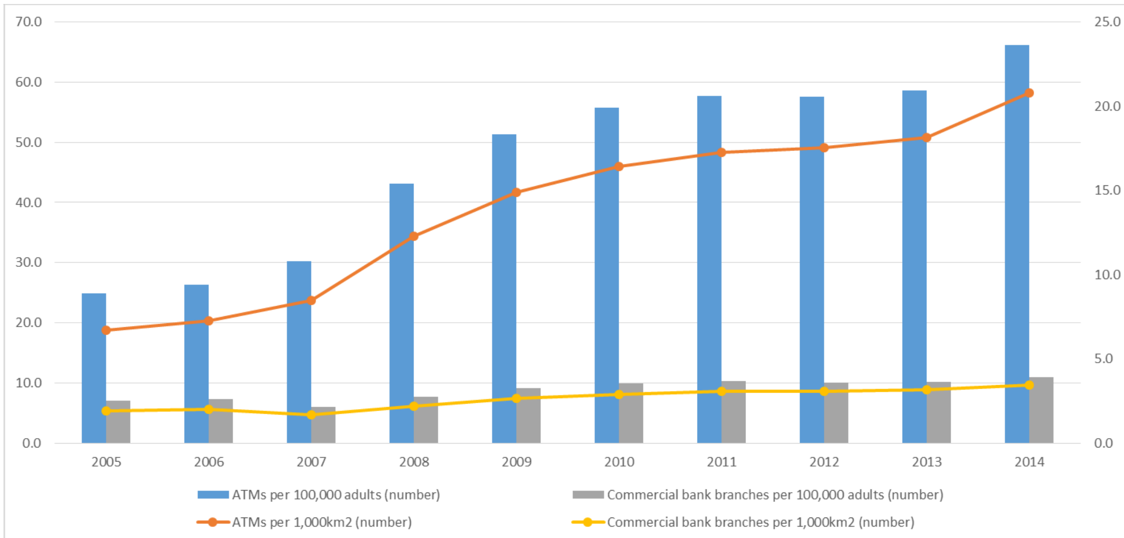

Figure 18: Access points per 100,000 adults (left axis) / 1,000 km2 in South Africa (right axis) (Source: IMF FAS Data, 2005-2014)

4.2.2 Postbank, Cooperative Financial Institutions (CFI's), Non-Bank Financial Institutions (NBFIs) and mobile money agents

194. The Postbank, a division of the South African Post Office (SAPO), is currently offering financial services through the SAPO branch network. Postbank mainly services a segment of the population that previously had no access to financial services, essentially LSM 1 to 5. Postbank main products are savings accounts, term deposits and transaction accounts with debit cards that can be used throughout most of the country's ATM and POS network, and in any online Post Office branch (own or third-party owned).

195. As of end-2014 the SAPO branch network consisted of 2,486 access points.[56] Access points may be own access points (currently nearly 1,600) or operated by third parties acting as agents for the SAPO (approximately 900 "retail postal agencies" or RPAs). While all own access points are interconnected online, this is not the case for all agent locations. In addition, as regards transactional services, agent locations only offer limited functionalities (e.g. they cannot be used for account opening or deposit-taking).

196. The SAPO branch network has the largest footprint in South Africa. For example, Postbank estimates that over 75% of social grant recipients live within 10 kilometers of a SAPO access point. SAPO is also required to have a branch in all population centers that exceed a certain threshold. Hence, in many small towns Postbank is the only provider of

[56] South African Post Office, Annual Report 2014, available at https://www.postoffice.co.za/group/aboutus/annualreport/SAPOAR2014.pdf

financial services. Moreover, as part of the operating license condition, the South African Post Office is required to establish 50 new access points annually. At present, however, only Postbank can use the SAPO branch network for the provision of financial services.[57]

197. CFIs comprise Credit Unions, Savings and Credit Co-operatives (SACCOs), Financial Services Co-operatives (FSCs) and Financial and Co-operatives (FCs). A deposit-taking CFI must meet all the requirement for registration of a co-operative in terms of the Co-operatives Act 2005 as well as the Banks Act exemption notice, currently number 620 of 2014, and its associated rules. As of August 2015 a total of 19 CFIs were registered in South Africa comprising 23,123 members. The CFIs are considered to be well placed to reach under-served markets. Currently, however, they are lacking basic automation and access to the National Payment System. An ongoing project of the Co-operative Banks Development Agency (CBDA) tries to address these issues and position CFIs better to meet this potential.

198. Access points NBFIs in South Africa during the last ten years have actually decreased (in per capita terms). Additionally, while the number of *registered* agents has increased between 2013 and 2014, the opposite trend is observed when considering *active* agents (see **Figure 19**).

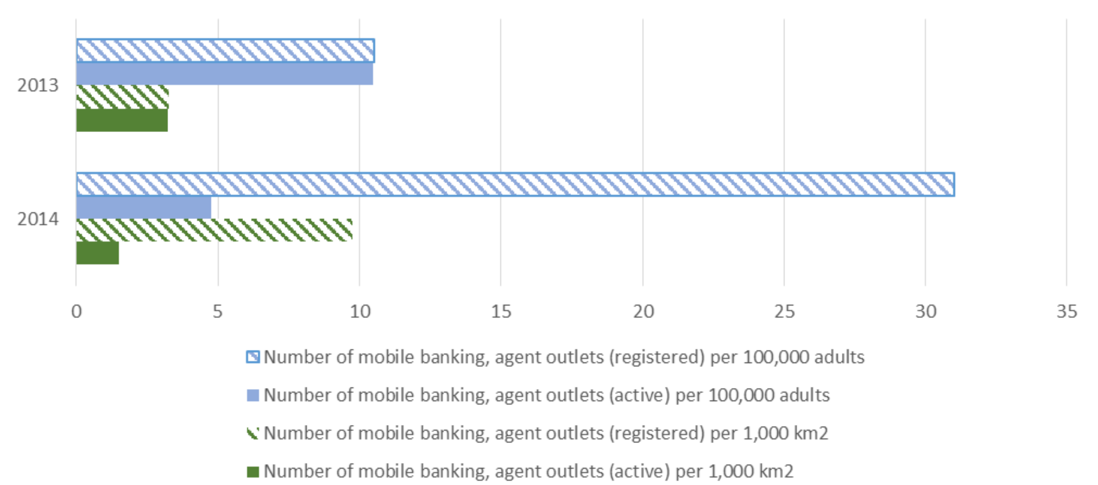

Figure 19: Number of agent outlets in South Africa registered vs. active
(Source: IMF FAS Data, 2013-2014)

4.2.3 Real sector retailer chains that offer payment services

199. According to FinMark Trust (2014), with one exception only the large retailers involved in fast moving consumer goods were providing payment/transactional financial services in South Africa. These are: Shoprite, Checkers, Pick'n Pay, Boxer and Spar. Pep, which is a seller of clothes (no credit offered on purchases), is the only retailer of a different

57 At the same time, Postbank is excluded from the SASSA social grants mechanism.

type that offers payment services.

200. Payment services provided by these retailers consist essentially of domestic money transfers, cash back from bank accounts (including social grant payouts), and third-party bill payments.[58] These services are offered on the basis of a partnership with a bank or other PSO.[59]

201. The transactional services offered by retailers for bank customers have, in practice, a similar effect to banking agency relationships, although to a limited extent. In essence, the existing model only leverages the payments switches and interoperability schemes that were developed for card payment transactions in order to offer cash withdrawals and third-party bill payments (see below the case for money transfers). In contrast, in other countries relationships with retailers and other agents are exploited further and consumers also use those outlets to acquire transaction accounts as well as other financial products (e.g. loans),[60] make deposits, perform FX transactions, and even carry out international remittances, etc. Also, the variety of retailers that provide transactional services is limited in South Africa (e.g. lotto and SAPO outlets are not used as agents by banks or other financial institutions - with the exception of Postbank for the case of SAPO).

202. Money transfer services offered by the various retailers are currently closed-loop (with the exception of the Mzansi Money Transfer or MMT, which, however, has not seen a big uptake). Examples of these closed-loop money transfer services include “Instant Money”, “Pick ‘n Pay Money Transfers” and “Shoprite-Checkers Money Transfer”, which for pay-ins and pay-outs are accessible solely via Spar, Pick ‘n Pay and Shoprite-Checkers outlets, respectively. At present, supermarket money transfers are the second most used channel for remitting money (42%), only slightly less than through a bank branch or ATM (43%). See Table 9 in sub-section 4.4.5. [61]

203. Table 6 shows data on the number of physical access points for transaction accounts that have become available through the usage of these real sector retailers’ physical infrastructure. In summary, it is estimated that retailers add some 3,200 physical access points to the overall network of access points supporting the usage of transaction accounts. In some cases, (e.g. the case of Pep) a large number of those access points are in rural areas serving

[58] The above-mentioned retailers generally do not provide other financial services, although some do offer funeral insurance and some offer niche, on demand products like credit cards. Clicks, which is also on the fast moving consumer goods segment focuses on distributing other financial services, in particular the whole range of insurance products. Other retailers like durable goods and sellers of clothes based on credit typically offer financial services related to credit (e.g. store card, personal loan) and often also insurance.
[59] In some cases this is mandatory. For example, as mentioned earlier the SARB regards money transfers as a form of deposit-taking. Hence, these services must be provided in partnership with a bank.
[60] In most cases the role of agents in this regard consists in receiving the underlying documentation and forwarding it to the bank for processing.
[61] Source: FinScope South Africa 2015. These figures reflect both domestic and cross-border remittances.

customers in LSM 1 to 5.

Table 6: Overview of retail outlets offering financial services

Retailer	Locations in South Africa[62]	Service format (for financial services)
Pep	1200	Pep stores do not have a separate counter for financial services; all services are offered through each till point
Shoprite	339	These retailers have a separate counter for financial services, called the "Money Market".
Checkers (part of the Shoprite Group)	190	
Pick 'n Pay	485	The retailer offers most financial services at till points. However Nedbank, its banking partner, had an in-store presence in over 160 stores throughout South Africa.
Boxer (part of the Pick 'n Pay Group)	200	
Spar	821	Financial services are offered through each till point (Standard Bank terminals installed at retail locations)

Sources: FinMark Trust, "Retailers' motivation for offering financial services", a FinMark Trust report prepared by Eighty20, 2014; Boxer website: http://www.boxer.co.za/company-history/; Spar website: (http://www.spar-international.com/sparworldwide/keyfigures.html).

4.2.4 Other retailers and other payment networks led by distributors

204. In South Africa, like in many other developing countries, small shops – many of which are informal businesses – continue to play a significant role in the economy, particularly outside large urban areas. Some of these small shops are being "networked" by large distributors like Blue Label Telecoms (BLT) and are now able to also provide certain payment/transactional services.

205. BLT's distribution capabilities reach independent stores, wholesalers, petroleum forecourts, spaza shops (i.e. informal convenience stores) and other so-called "Mom & Pop" stores, together with large chain retailers. Likewise, its footprint reaches all LSM groups. The physical distribution network is operated through approximately 150,000 devices with payment capabilities – though at present only in some cases these devices have similar capabilities to POS devices deployed by banks and chain retailers. BLT's platform allows retailers of any size to accept payment for a set of services that BLT aggregates (see below).

206. BLT's product range includes prepaid airtime, electricity and water, starter packs and data, event and transport ticketing and certain financial services that include bill payments and

[62] Includes own stores and franchise stores, and all store formats.

merchant acquiring. Some bill payments that can be made through BLT's network include TV licenses, satellite TV subscriptions, telephone landlines, traffic fines, municipal rates and taxes, electricity accounts, funeral policies, education and school fees and furniture accounts. In 2015 BLT completed EMV certification and user acceptance testing in support of credit and debit card acquiring arrangements with MasterCard and ABSA. In 2016 BLT expects to launch a money transfer solution.

Observations and recommendations

207. Overall, the South African banking services and payments infrastructure has a reasonably well-developed network of access points, making extensive use of technology in both enabling and extending the service reach. According to the Banking Association of South Africa, since 2010 more than 90% of households in the country have access to a physical access point within a 10-kilometer radius. There are at least transactional access points from a regulated service provider in each of the 278 municipalities in the country.

208. There is nevertheless room for improvement, particularly in rural areas. For example, Table 7 shows the mean time taken to get to a (actual or potential) financial services access point depending on whether an individual lives in an urban, traditional or farm area. With the exception of supermarkets, people living in non-urban areas take twice as much time (or even more) to reach these access points than do people living in urban areas. In this regard, it is highly desirable that at least one or two access points that are totally interoperable with mainstream transactional services and that offer the full range of services that users in non-urban areas tend to demand become available to them in similar terms (i.e. reachability) than for users in urban areas. Currently no representative data on the incentives/disincentives of retailers (e.g. business case viability, liquidity management, security concerns, agent training) to act as agents on behalf of banks and non-bank financial institutions seems to be available. It is therefore recommended to complement the FinMark Trust study by a representative survey among (existing and potential) agents and end-customers, map them and their services offered and conclude based on this study how retailers can be leveraged for increased financial inclusion in South Africa.

Table 7: Accessibility of access points – mean time taken to get to an access point
(Figures in minutes and seconds)

Access point type	Total	Urban areas	Traditional areas	Farm areas
ATM	28:10	20:00	47:40	48:20
Petrol station	28:30	20:20	49:20	48:00
Supermarket	28:40	26:50	34:40	29:10
Post Office	31:50	24:30	48:30	51:50
Bank branch	34:10	26:20	53:20	54:10

Source: Adapted from FinScope South Africa 2015.

209. Recommendations below focus on the following issues: shared usage of widespread branch networks like that of SAPO, the potential role of CFIs in reaching under-served markets, deepening of partnerships between banks and real sector retailers (which is likely to require regulatory actions e.g. providing specific guidance, and if necessary removing legal obstacles), and achieving interoperability of basic payment services that remain closed-loop, like most domestic money transfer services.

210. With its extensive footprint of more than 2,500 access points, the Post Office network it is well placed to reach under-served markets as many of these points of presence are in remote and/or commercially underserved areas. So far this infrastructure has been leveraged solely by Postbank, but SAPO could play as a general banking agent i.e. its branch network could be used by any bank or other payment service provider under an agency arrangement. In order not to overstress SAPO's physical and human infrastructure, in a first stage SAPO's role as a general banking agent could be limited to customer transactional support (e.g. cash-ins and cash-outs). Later on other services could be added, like a standard account opening facility – once a tool like FICA solution becomes available.

211. Operating large volumes as a banking agent can bring a relevant new income stream for SAPO, without the need to invest heavily in additional physical infrastructure. It should be noted, however, that reaching such large volumes will only be possible if, among other conditions, SAPO is perceived as a reliable, operationally sustainable agent option for both banks and bank customers.

212. In this same vein, apart from (immovable) physical locations SAPO is already looking at other cost effective means of providing access to its services and is considering the utilization of mobile post office units. The WBG team believes that this option is worth exploring in detail as it could enable SAPO to reach out to very isolated communities in the remote rural areas, including for the provision of basic financial services (by Postbank or by other banks/other payment service providers).

213. CFIs, the number of which has decreased significantly after the introduction of formal regulation in the sector in 2013, might still play a role in reaching under-served markets, due to their focus being on rural areas. The WBG team believes that the potential role of 23,123 CFI members as agents is worth exploring, in parallel to the potential role SAPO might play to that extent.

214. Current use of agent banking in South Africa is still limited, and its contribution to financial inclusion through increased access to financial services is therefore not as meaningful as it could be. Indeed, in a study undertaken by FinMark Trust on behalf of the National Treasury, the main reasons why the use of agent banking model has been limited in South Africa are concerns about the regulatory implications.

215. Even if legal changes are deemed not necessary to propel agent banking, it is *important that the pertinent authorities provide specific and detailed regulatory guidance for banks with regard to the use of agents (for example, in terms of how banks should interpret laws like FICA and the Financial Advisory and Intermediary Services (FAIS) Act).*

216. Domestic money transfers/remittances are very important in South Africa. If interoperability across the various options offered were achieved, users of these services would have far more options for both sending and receiving cash – and the system as a whole would be more cost effective, which could eventually translate into lowers costs for users. Therefore, banks, retailers, PASA and other relevant stakeholders should continue current work to agree on and implement a scheme to make the existing domestic remittance services interoperable in a defined timeframe. It should be noted that, while PASA can provide useful assistance at the technical/operational level, strong leadership on the business side will still be needed to help achieve the agreements that will make interoperability possible. Due to the sensitivity of business aspects of interoperability, including that the owners of existing money transfer schemes may feel that their business would be threatened if interoperability were to be achieved, the involvement of authorities in this process is recommended.

217. In order to make online banking and/or mobile banking a viable alternative to in-person banking, the fears of end-customers have to be adequately addressed, by i) ensuring that the services offered follow generally accepted security standards, ii) end-customers are adequately protected in case of online fraud, and iii) end-customers are adequately informed about the risks in online and mobile banking. While the latter two points form part of the consumer protection framework and financial literacy efforts, respectively, PASA seems to be the appropriate entity in the current South African setting to address the first point.

4.3 Financial literacy

218. Obtaining access to a transaction account is a necessary but not sufficient condition for the effective use of the electronic payment instruments associated with such accounts. Educational and outreach efforts are often needed to enable new and even existing accountholders to effectively make use of retail payment services.

219. The process of transferring knowledge on the management of financial resources and on the usage of financial products and services is referred to as financial literacy, financial education or other similar terms. In the payments context, some of the key efforts in this regard include demonstration of the advantages of using the electronic payment services – ie the safety, protections, recourse mechanisms, speed and convenience –, learning how to use specific payment instruments, such as a debit card or an electronic funds transfer, as well as building the trust and comfort of the clients with a transaction account and its use. Factual information on the reliability of the available services, including information on the operational performance of ATMs and POS devices, can also help address potential customer concerns regarding the accessibility of their funds. For the purposes of this report, this kind of efforts are referred to generally as "financial literacy" efforts.

220. Another relevant aspect in this context is the level to which end-users are aware, or could become aware, of the financial product and service options available to them. End-users, even some of the most knowledgeable ones, may not have easy access to, or be familiar with, certain tools that can assist them in accessing useful, trustable and updated information on such options. Sub-optimal choices are frequent under such circumstances.

4.3.1 Awareness and financial literacy efforts in South Africa

221. In 2012, the National Treasury established the National Consumer Financial Education Committee (NCFEC) mandated to implement the consumer financial education policy objectives, by: (a) providing a framework for collaboration and co-ordination of financial sector stakeholders in consumer financial education; (b) providing data and measurement of financial education programs and determining whether policy, strategy and program objectives are being achieved; (c) in this way improve consumers' financial well-being by improving their financial literacy in the dimensions of financial control, financial planning, product choice and financial knowledge.

222. The NCFEC's mandate includes developing the national consumer financial education strategy, overseeing the implementation of the strategy by monitoring performance and reviewing the national consumer financial education strategy on an annual basis to ensure its relevance.

223. In July 2013, the NCFEC approved the "National Consumer Financial Education Strategy", aiming to increase the financial capability and thereby the financial well-being of all South Africans. The mission stated in the strategy is to ensure that "all South Africans, particularly those that are vulnerable and marginalized, are empowered to participate knowledgeably and confidently in the financial marketplace and to manage their financial affairs, deal with their day-to-day financial decisions and make good choices about allocating their incomes from school-going age, during working age and through to retirement." The objectives of the strategy are organized around the following categories: financial control, financial planning, product choice, and financial knowledge.

224. The impact of financial education policies are being monitored through surveys. In 2013, the Human Sciences Research Council (HSRC) issued the second report on financial literacy in South Africa (the first one had been issued in 2012). The objective of the report was to provide information about financial knowledge, attitudes, skills and behaviors of consumers at a national level.

225. According to HSRC (2013) research, the most common banking product that South Africans were aware of is a saving account, mentioned by 86% of the population in 2012, followed by ATM card (78%) and Mzansi account (69%). Other products which were familiar to more than half of the adult population were credit cards (61%), current or cheque accounts (55%), post office savings accounts (53%) and debit cards (52%). Awareness of different banking products did not shift noticeably between 2011 and 2012, with the exception of post office savings accounts, whose awareness declined by 9 percentile points between 2011 and 2012.

226. Socio-economic factors and race are correlated to the level of awareness of financial products: the less educated population was aware of 4 or 5 products, while those with the higher education reported to be aware of 9; also Whites were aware of 9 products on average, while Blacks reported being aware of only 6 products. Finally, those in lower income bands were aware of half the products (4) than those in higher income bands (8).

227. To assist in measurement efforts, a financial literacy score has been developed for the South African population. This score is made up of components measuring financial control, financial planning, financial knowledge, and product choice. HSRC research shows that South Africa's overall financial literacy score declined marginally to 52%, as compared to the previously reported 54%.

228. The Banking Association of South Africa is also (BASA) active in the financial literacy space. The Banking Association aims to improve financial literacy to promote the skills, knowledge attitudes and behaviors required to be financially independent. Among the initiatives, StarSaver (formerly Teach Children to Save South Africa) is BASA's flagship generic financial literacy program through which the banking industry and the

broader financial sector collaboratively teach children to save while encouraging volunteerism. Volunteer bankers and financial sector professionals deliver a 67 minutes savings lesson (aligned to 67 minutes of Mandela Day) to inspire learners to be lifelong savers. The aim of the program is to inculcate a culture of saving in children.

229. The Association for Savings and Investment (ASISA) and the South African Insurance Association (SAIA) are also actively promoting financial literacy. ASISA and its members committed to actively participate in helping consumers become financially capable, aiming to inform, educate, and empower consumers to manage their financial affairs appropriately. The objective is to induce a change in behavior, which would lead to consumers managing their finances soundly, so reducing their vulnerability and helping them to build assets. SAIA has various ongoing initiative in their space, including the publication of consumer education materials[63] and the "Next of Next Week" edutainment series.

Observations and recommendations

230. Both the government and financial sector entities in South Africa are active in the promotion of financial literacy. Financial education initiatives are undertaken in the country and a structured intervention, led by the National Treasury, aims at increasing the level of financial literacy among the South Africa population. These are commendable efforts and should be continued and strengthened.

231. Initiatives to increase financial literacy still seem to a certain extent scattered and coordination of the efforts could still be improved.

232. Available data so far does not show significant progress in the awareness of financial products by the surveyed population: in fact, the level of awareness in 2011 was quite similar to 2012. This is very understandable and expected, given the short timeframe and the fact that the financial education effort was just at its beginning at the time, while the objectives set by the Strategy have a 5 and 10 year timeframe. On the other hand, the decline of the overall financial literacy score is a somewhat concerning trend and should be given the due consideration.

233. It is hoped that the next survey, to be undertaken in 2016, will show more progress and that data will highlight clearly the impact achieved through the implementation of the financial education initiative. Should the results not be satisfactory, it will be critical for the NCFEC to properly assess the reasons and adapt the program accordingly, as it is already foreseen in the Financial Inclusion Policy. On the other hand, a strategic approach to financial education should also recognize that a deep and long-lasting change can only be

[63] See http://www.saia.co.za/info-center/saia-documents/publications/consumer-information/

achieved if a "generational approach" is adopted, in addition to focusing and measuring the achievement of short and medium-term goals.

234. Awareness and financial literacy efforts should specifically address how payment and store-of-value needs can be met through the usage of transaction accounts, and target especially those individuals that do not have a transaction account and those that obtained one only recently. Remittances – as a basic service that is often the first to be accessed by the un(der)served population – should also be well covered and the users of remittance services should be targeted by dedicated initiatives.

235. PSPs should play a major role, providing hands-on training where needed as part of a product roll-out. PSPs should also make an effort to educate their customers when offering them their services. Through these efforts, individuals should be able to, for example, easily obtain clear and accurate information on the various types of account that are available in the market, on the general account opening requirements, and on the types of account and service fee that may be encountered - and how such fees can be minimized. Likewise, they should easily obtain clear and accurate information on the risks embedded in the usage of these accounts, the basic security measures associated with them, and the overall obligations and rights of PSPs and users.

236. It is key for this information to be provided in a comparable format. South African authorities or the industry could consider developing standards and templates for information disclosure (an example of this practice is offered by the US Consumer Financial Protection Bureau), as well as an online database to inform the public about cost and conditions of the various products available in the market. The team understands that a similar effort is already in place in the framework of the "Treating Customers Fairly" program.

4.4 Leveraging large volume recurrent payments

237. Large-volume recurrent payment streams can be leveraged to advance financial inclusion objectives through various channels. The most obvious one is by directly providing transaction accounts to unserved and underserved end-users, mainly individuals. In addition, these payment streams can be leveraged to drive investment in core retail payments infrastructure as well as in distribution channels and in the development of new payment products and services.[64]

4.4.1 Government disbursements and collections

238. Public sector mass disbursements typically include recurrent payments of social benefits, wages, pensions and other social security payments and contributions. Due to their relevance in South Africa, social grants are discussed separately in sub-section 4.4.2.

239. At the level of South Africa's national and provincial governments, with few exceptions wages and other compensation are paid through bank accounts. These two levels of government account for approximately 1.3 million employees. There is no data available on how municipal governments pay their employees. There is also no information on how government employees that are paid through bank accounts use those accounts.[65]

240. The South African government tries to promote sustainable livelihood by means of job creation programs, e.g. the Expanded Public Works Programme (EPWP) and other government job creation programs. The EPWP projects employ workers on a temporary or on-going basis either by government, by contractors, or by other non-governmental organizations, aiming at creating work opportunities for poor and unemployed people. EPWP employers make payments at least monthly in cash (typically at the workplace) or by EFT (Department of Public Works, 2015).

241. On the collections side, at the level of the national government the South African Revenue Service (SARS) is responsible for the collection of tax revenue from personal income tax, corporate income taxes, value added tax, excise tax and customs duties. It also administers and collects selected other revenue.[66] Out of nearly 8 million tax payment transactions in a year, 99.8% are made via bank channels (i.e. SARS's e-filing system

[64] However, as mentioned in the PAFI report, leveraging these payment streams for financial inclusion purposes is unlikely to be pursued if technical and business considerations are not supportive of the primary objectives of the driving party (e.g. to cut costs, improve targeting of beneficiaries, reduce leakage, etc.).
[65] The FinScope South Africa 2014 Consumer Survey shows that 33% of those individuals that receive recurrent payments in their bank account withdraw all their money as soon as it is deposited. Almost half of these are recipients of social grants.
[66] For example, Road Accident Fund levies, unemployment insurance fund contributions, and certain royalties and leases for which the government is the beneficiary (e.g. from petroleum and mining).

including payment via portal, other EFTs or cash payments at bank branches) and the rest are made at SARS's branches in cash or cheques.[67] Not all the banking network is used, but only the "big four" banks and some selected smaller banks. There are no specific incentives for taxpayers to pay through their bank accounts.[68]

242. As regards e-government (i.e. to be interpreted here as the offer of public services via the Internet, and which can be utilised and paid for online also via the Internet, in a mechanism similar to e-commerce), only a few services have been implemented whereby individuals and firms can pay online for government services or make other payments to government entities. Perhaps the most notable exception at the moment is the possibility to pay traffic fines online (e.g. via Internet banking), although only some of the municipalities in the country currently offer this facility.

243. Other than the Government Employees Pension Fund (GPF), there is no centralized mandatory pension-for-retirement system in South Africa.[69] As at mid-2014 the GEPF had approximately 1.3 million active members and more than 300,000 pensioners.[70] The GEPF coves all government employees whose conditions of service fall under the Public Service Act. This includes employees of all national and provincial government departments. There is no available data on the share of monthly pensions that are paid through bank accounts and those that are paid in cash, for example at SAPO branches.

4.4.2 Social grants

244. At present the South African grant distribution scheme distributes more than R10 billion per month via more than 16 million grants to more than 12 million individuals. About 30% of adults in South Africa receive a social grant (as compared to the global average of 5%). Proportionally, this makes the South African grant distribution scheme probably the largest in the world. Grants are disbursed via a payment card (i.e. so-called SASSA card) linked to a savings bank account. Nearly 10 million SASSA cards have been issued and are in operation.[71] Hence, in addition to its fundamental role of providing socio-economic support for many South Africans, in practice the social grant distribution scheme

[67]. Since the tax year 2012/13, the use of e-filing has been declining. According to SARS, this is due mainly to the discontinuation of a "debit pull" mechanism that was used on the e-filing channel.

[68] Customs duties and excise tax must be paid via the payment portal of SARS's e-filing system.

[69] Many private sector firms do provide their staff with a pension scheme (e.g. provident funds). However, these schemes are essentially individual (firm-by-firm) arrangements and are therefore highly dispersed. Hence, they are not considered under the large-volume recurrent payments section of this report.

[70] There are also other pensioners who receive special pensions, medical pensions, disability pensions or military pensions.

[71] As there are various types of grants, some individuals may receive more than one grant. Likewise, parents with two or more children who are entitled to a child support grant have a single card.

has become a key element for making a bank account available to the most vulnerable portion of the country's population.

245. SASSA cards are MasterCard branded debit cards, issued by Grindrod Bank. This ensures that these cards can be accepted as a non-cash means of payment at merchants. However, as with many other similar programs throughout the world, a large share of recipients withdraw the full amount of the grant on the same day that the funds are available. In the case of South Africa this figure is estimated between 55% and 70% of the total number of beneficiaries.[72] In practice, for these individuals the functionality of the card is merely a cash distribution mechanism rather than a bank account. In fact, many social grant recipients are not aware that they have a bank account.

246. One of the potential reasons underlying this behaviour is that saving in SASSA accounts may be "penalized". This is because keeping all the grant in the account may be interpreted as an indication that the beneficiary is no longer alive. Likewise, if a high percentage of the grant is kept in the account in the form of savings, this may be seen as an indication that the beneficiary not needing the money urgently, which in turn may be interpreted as that beneficiary not being "poor" and may therefore loose his/her eligibility. Another reason might be the fact that the SASSA account does not offer all features of a fully-fledged transaction account (as discussed earlier). For example, direct debits from SASSA accounts have been limited to one for funeral insurance only.

247. Individuals graduating from the social grant program cannot continue to use the SASSA card and the associated savings account, but will need to open a new account.

4.4.3 Utility and other bill payments

248. According to STATSSA (2013), 32% of overall household consumption expenditure went to housing, water, electricity, gas and other fuels, which makes this the largest household expenditure group and offers big potential for increased use of transaction accounts and electronic payment services. However, as discussed in section 4.2 , most utility payments are made via bank branches, retail chain outlets or at small shops (the latter case includes prepaid electricity and prepaid water). Utility companies in South Africa do not provide any specific incentives for customers to pay directly to them via their bank accounts vis-à-vis paying through intermediaries in cash. The FinScope South Africa 2014 Consumer Survey shows that only 23% of those individuals that have a bank account pay bills electronically through their bank account, and more than three quarters of these are salaried workers.

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[72] The 70% figure is an estimate of SASSA's Top Management, while the World Bank Findex Database 2014 estimates this figure at 55%.

4.4.4 Transit payments

249. Public transit systems serve an important share of a country's population, very often including economically disadvantaged individuals who tend to be financially excluded. In South Africa, with a 17.1% share, transport forms the second largest household expenditure group (STATSSA, 2013). Taxis are the commonly used mode of transport in the country, with just more than half (51%) of the households that use public transport (76.7%) relying on them, followed by buses (18.1%) and trains (7.6%). The average per capita monthly household travel cost is higher for households from the highest income quintile (R404) when compared to households from the lowest income quintile (R136). More than two-thirds of households who fall in the lowest income quintile spent more than 20% of their monthly household income per capita on public transport (66.6%). Less than 3% of households from the highest income quintile spent more than 20 per cent of their monthly household income per capita (2.9%) on transport. About 4 in 10 workers used public transport to reach their workplace (39.1%); taxis contributed the highest percentage (26.5%), followed by buses (7.6%) and trains (5%) (STATSSA, 2015h)

250. South Africa's government has been promoting the introduction of cashless payment methods for the mass-transit sector. For some transit systems (e.g. urban commuter trains, the metrobus system in Gauteng, etc.), the payment industry has introduced stored-value cards with which customers "tap and go", making the customer experience similar to cash.

251. At present, one major problem of these non-cash payment mechanisms for transit payments is that they tend to be operating in a series of closed-loop systems. The fact that for the most part they are non-interoperable may be hampering broader adoption as the households have to pre-allocate sufficient funds *for each* of the services that they intend using (e.g. bus services, minibus or metered taxis, railway, etc.). This is both cumbersome and has a negative effect on cash-flow of particularly low-income families.[73]

252. On the other hand, the stored-value cards for transit payment – which for some individuals may be the first and/or sole non-cash means of payment - do not offer a means of conducting transactions outside the transit system, or a gateway to gain access to other electronic payment services. Finally, in view of the prevalence of taxis for public transport, a large share of transit payments are still conducted in cash.

[73] In addition, from a national perspective just like any other non-interoperable payment mechanism there is a loss of efficiency due to the duplication of infrastructure.

4.4.5 Remittances

253. Remittances, both cross-border and domestic, are another type of large-volume and recurrent payment stream that can be leveraged to advance financial inclusion[74]. For example, receivers of remittances very seldom have a transaction account, despite having a reasonably constant inflow of cash to help them manage their daily financial affairs.

254. According to FinScope South Africa 2015, 31% of South African adults (11.6 million individuals) either sent or received money to or from family members, parents, and children in the past 12 months. In 2015, 21% remitted money on a monthly basis.

Table 8: Remittance market in South Africa)

Percentage of adult population remitting money	2010	2011	2012	2013	2014
Remitting money	6%	8%	9%	10%	16%
Remitting domestically	5%	7%	8%	9%	15%
Remitting cross-border	1%	1%	1%	1%	1%

Source: NT, 2015a, based on Finscope surveys.

255. Table 9 shows a recent shift from informal channels like sending cash with friends or relatives to other channels like banks/ATMs or through money transfer services offered by supermarkets. This could be the result of the expansion of the network of regulated services.

Table 9: Channels used for remitting money

Channel	Share of remitters that use this channel (2015)	Share of remitters that use this channel (2014)	Share of remitters that use this channel (2013)	Increase in the number of transactions 2014 to 2015
Bank or ATM	43%	30%	33%	36%
Supermarket	42%	27%	26%	50%
Sending cash with friends or relatives	28%	32%	37%	n.a.
Cellphone money	23%	18%	19%	27%
Post office	2%	2%	1%	n.a.

Source: Adapted from FinScope South Africa 2015.

256. One of the aspects that may be preventing remittances from being channelled through transaction accounts is that, as discussed in sub-section 4.2.3, domestic money transfer services are closed-loop. The Mzansi Money Transfer service, which was established as interoperable domestic remittance service between the big four banks and

[74] The challenges associated with international remittances are not in specific discussed in this report, since they were already subject of a "Review of the market for remittances in South Africa on the basis of the CPSS-World Bank General Principles for International Remittances" (World Bank, 2015).

Postbank, has failed to succeed in getting significant market traction. Cross-border remittance services are generally also closed-loop as remittance service operators in the originating country (i.e. South Africa) partner with a limited number of disbursing agents in the receiving country. Hence, independently of cost considerations, if a remittance sender intends to use a transaction account to send remittances, he/she would lose some flexibility as the options on the receiving side are limited. Likewise, receiving remittances in a transaction account may also prove cumbersome as that account may only be reached when using a specific remittance service provider.

257. On the other hand, for both domestic and cross-border remittances is that remittance senders are typically treated as having a once-off interaction with the service provider, so that the remitter has to undergo full AML/CFT processes every time the service is requested. Using a regulated transaction account to disburse remittances may be a useful way to avoid this.

Observations and recommendations

258. Government disbursements and collections are already contributing to financial access and inclusion in South Africa by making use of bank accounts and of the financial sector network. This positive development could be further strengthened by developing a dedicated government payments strategy, which has – among others – financial inclusion as one declared objective.

259. The distribution of social grants via general purpose debit cards has been a positive decision, as this does not preclude the possibility of beneficiaries to use the card as a non-cash means of payment at any merchant (as long as it has a POS terminal). Now the challenge is to ensure that SASSA accounts and in general the accounts in which any other types of government payments are made (e.g. salaries, pensions, payments to micro and small enterprises acting as suppliers to the government) are used as transaction accounts without necessarily cashing out funds (immediately), i.e. to make and receive payments electronically and to store some value if so desired.

260. Salary and pension disbursements from both public and private sector entities are generally made through bank accounts. In this regard, it is highly desirable that such an account be at the bank of the employees'/pensioners' choice. This may facilitate these payees soliciting other financial services from their selected provider, and may therefore prompt them to use their bank account more. In the majority of cases, government and also private sector employees and pensioners already receive their entitlements at the account of their choice (except in remote areas where only one or few service providers exist). The notable exception would be that of social grant recipients, all of which must use the SASSA account and debit card provided by Grindrod Bank.

261. While the share of EPWP and other public work program workers receiving their salary in cash is not known, the program could be used to further increase financial inclusion by facilitating the opening of transaction accounts and initiating salary payments via EFT instead.

262. Broadening the acceptance of electronic payment instruments for a wide range of payments <u>to</u> government entities (i.e. taxes, fines, drivers' licenses, passports, issuance of official documents/certificates, etc.) through modern and convenient channels (e.g. e-commerce platforms for government services, internet banking) can be a natural and meaningful means of making all types of transaction accounts more useful to accountholders.

263. Increased usage of the electronic payment features of SASSA accounts by recipients may be achieved if these individuals are enabled to use the grant money and the account itself as freely as possible to their own and their families' benefit. This includes the possibility to save money in those accounts if so desired. In addition, authorities and the private sector should continue to enhance the network of points of access in recipient communities, in particular broadening the acceptance of the payment instruments associated with SASSA accounts amongst <u>merchants that are relevant for the recipients.</u>

264. Further, it must be ensured that effective customer service support in connection with account/debit card usage is available for social grant recipients. At present, the fact that only one bank (and a relatively small one) issues and services all SASSA accounts/debit cards seems to be detrimental to achieving satisfactory customer service levels, especially as individuals that only recently became accountholders often need personalized attention to understand the various features and functionalities of their account, as well for filing enquiries and complaints on transactions already recorded in their accounts. Moreover, as mentioned earlier, recipients may be more willing to solicit additional financial services from a provider that they know better, that is more reachable or whose service offer is more aligned to their needs/preferences.

265. Ad hoc incentives may be considered by large billers and transit system operators to induce greater usage of electronic payment instruments, which in turn could reduce their own costs associated with collections. For example, large billers, probably in partnership with banks, could offer some benefits if bills are paid via direct debit (even if at the intrabank level), like rebates, a lower minimum monthly balance to avoid account maintenance fees and/or other commercial incentives. Transit system operators may also consider offering rebates when paying with electronic payment instruments on a regular basis. In some countries, governments have also supported this shift to electronic payments *through reimbursing to payers a share of the VAT associated to the underlying transaction.*[75]

266. As already mentioned in other sections of this report, greater integration and interoperability of the South African payments system can lead to improved customer experience and greater usage of transaction accounts (e.g. due to increased convenience), and at the same time can lead to further extension of the payment system due to economies of scale and scope and drive down per-transaction costs. In connection with large-volume payment streams, the following should be considered:

- *Transit payments: It is highly desirable that electronic payment mechanisms developed for the various public transportation alternatives become interoperable, and also that the underlying payment instrument can be used across a number of other services making full use of the existing payment infrastructure in as far as it is feasible. This is especially important for low-income individuals, who cannot afford holding idle balances in two or more prepaid payment devices. The mission team was informed that a national standard for interoperable payments, particularly suitable for the mass-transit environment has been developed and can be utilized. This national standard should be implemented, and if necessary be enforced through appropriate regulation.*

- *Social grants: To the extent possible, the existing banking infrastructure should be used for the disbursement of social grants, including more banks and other authorized service providers being able to receive social grant payments and manage the underlying accounts for social grant recipients if allowed by the legal and regulatory framework. In other words, parallel payment systems should be avoided.*

- *Remittances: As already discussed in section 4.2 of this report, banks, retailers, PASA and other relevant stakeholders should continue current work to agree on and implement a scheme to make the existing domestic remittance services interoperable.*

267. Also in the remittances arena, banks and other remittance service providers should seek ways to make transaction accounts a competitive and convenient option for usage in connection with remittances, not at least in view of the fact that 21% of South Africans are remitting monthly. For example, offering cost advantages if remittances are funded regularly through a regulated transaction account, probably coupled with an offer of other financial services especially designed for remitters (e.g. the possibility to save money in an interest bearing sub-account for very short and flexible periods of time). In view of the relevance of remittances in SA and the possibilities offered by innovative payment mechanisms, a detailed study on how to leverage mobile payments for (domestic and

[75] National governments often also see a benefit in terms of increased tax revenue when moving from cash to electronic payments, as this improves the ability of tax authorities to trace transactions.

international) remittances with the ultimate access of increased financial access and inclusion could be considered.

5 CONCLUSIONS

268. This report focuses on one specific aspect of financial inclusion in South Africa, which is the adoption and usage of transaction accounts. South Africa is exceptionally well-placed to make significant progress in this area due to a number of facts, among which a major highlight is the already high transaction account ownership levels. Indeed, this level is significantly higher than in the Sub-Saharan Africa region as a whole and on par with those in other upper middle income countries (MICs). Likewise, the South African NPS provides a good foundation thanks to the reliability, sophistication and high-levels of interoperability already achieved for traditional payment instruments.

269. Nevertheless, some important challenges remain, the major one being probably that despite the advanced features mentioned earlier, cash remains the dominant means of payment for a very significant share of the country's population, even for those that already have transaction accounts. In other words, while access to transaction accounts has already been achieved for a large share of the South African population, lack of regular use of those accounts – which would make it possible for users to benefit to a greater extent from those products and services in his or her daily life – remains a relevant shortfall. This can partly be explained by limitations in the transaction account and payment product design (e.g. limitations of the SASSA account/debit card) as well as in other areas (e.g. readily available access points or awareness and financial literacy)

270. This report therefore proposes a number of actions to further promote and/or induce usage of existing transaction accounts, and also to make transaction accounts available to those that still do not have one.

271. It should be noted that in a number of the areas covered by the recommendations in this report, South African authorities are already taking relevant actions. For example, as a clear example of commitment to financial inclusion, the National Treasury and other South African authorities are developing a Financial Inclusion Policy and working on the establishment of a National Financial Inclusion Forum. Likewise, both the government and financial sector entities in South Africa are already active in the implementation of financial literacy efforts. The SARB is also working in a number of fronts to ensure the continued development of the NPS.

272. While all areas and recommendations covered in the report are important, the following ones deserve special attention by South African authorities: i) enhancing the opportunities for non-banks to participate and compete fairly in the NPS; ii) achieving interoperability of domestic money transfers and of payment instruments that are currently used for specific purposes (e.g. for transit fares); iii) ensuring extensive usage of the existing NPS infrastructure and avoiding duplications, including for social grant distribution; iv) ensuring that the design of transaction account products fits the needs of

potential new user as well as current users, including SASSA accountholders; and, v) further leveraging existing networks of access points, in particular SAPO, to bring financial services closer to where consumers live and work. It should be noted that some of these will require legal and regulatory changes. In other cases, specific regulatory guidance is needed to clarify existing discrepancies or uncertainties.

273. The World Bank Group stands ready to support South African authorities in the implementation of recommended actions and other initiatives those authorities may deem relevant to further advance financial inclusion in the country. Based on the discussion with NT, immediate follow up work will address: (i) the possible role of SAPO as agent for other banks, (ii) how transaction accounts used for social grant payments can be better leveraged for financial inclusion, and (iii) how interoperability for domestic remittance services can be achieved.

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Annex 1. Labor market dynamics in South Africa

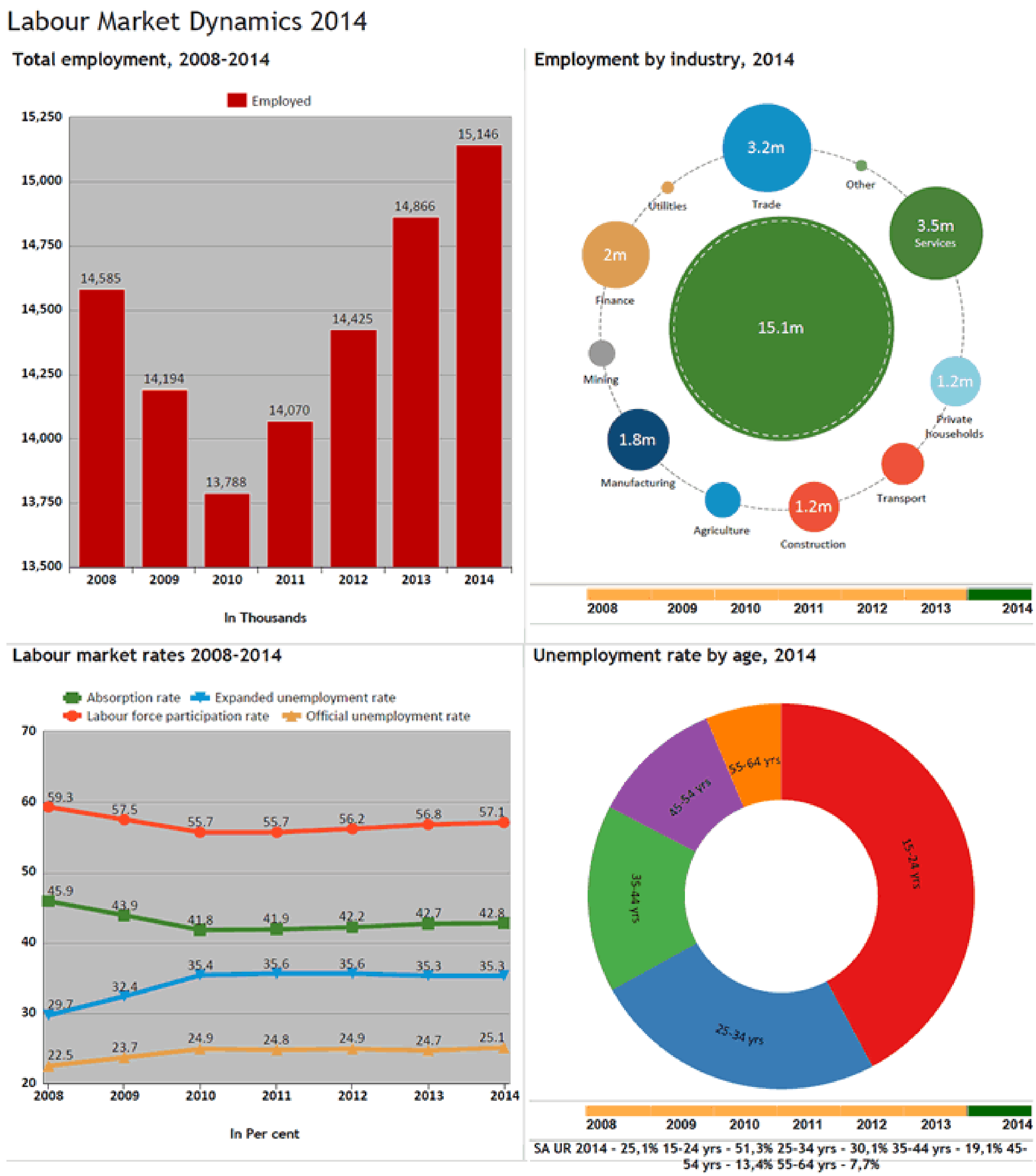

Figure 20: Labor market dynamics in South Africa (Source: STATSSA, 2015b)

Annex 2. South Africa Financial Inclusion Monitor Data Sources (NT, 2015a)

- **FinScope survey from FinMark Trust**. This is the internationally recognized demand side survey conducted by FinMark Trust through syndication with financial services providers and other organisations, including National Treasury. The survey is nationally representative of consumers' financial behaviour and perceptions of financial services. It explores consumers' usage of informal as well as formal financial products and provides a picture of the role that both sectors play in the financial service market in South Africa. This survey is conducted through interviews with 3900 South African residents 16+ years older.
- **National Credit Regulator (NCR) publications**. The NCR publishes quarterly reports, detailing the credit market in South Africa. This includes the number of active credit consumers and the number of credit agreements per credit type and consumer income. The data used in these reports are obtained from the major registered credit providers and credit bureaus.
- **South African Reserve Banks (SARB) publications**. The SARB releases on a periodic basis data on the banking sector as well as the payment system in South Africa.
- **Specific national South African surveys**, notably on pricing and related matters.
- **South African Ombuds annual reports.** These reports provide detail on the number of consumer complaints received, dealt with and closed.
- **Bank of International Settlement (BIS) publications -** The BIS international financial statistics are a unique source of information on various elements of the global financial system. They include amongst others, data on payments and settlement systems in major financial centres, including South Africa.
- **International Monetary Fund Financial Access Survey (FAS) –** The FAS is a global supply-side source of comparable geographic and demographic data on access to and usage of basic consumer financial services by households and enterprises across the world. The FAS database currently contains annual data and metadata for a total of 187 jurisdictions. The FAS is produced in collaboration with Consultative Group to Assist the Poor (CGAP) and the World Bank Group.
- **The financial literacy study undertaken by the Financial Services Board (FSB)**

Annex 3. National Coordination Structures in Selected Countries[76]

Belarus
The National Bank of the Republic of Belarus spearheaded the financial inclusion agenda since 2010 by drafting a state strategy on microfinance for 2011-15. In 2013, it also drafted a National Financial Inclusion Strategy and developed a national financial literacy program.

Brazil
In 2009, the Financial Inclusion Project (FIP) at the Central Bank was created with the objective of integrating various stakeholders to develop effective policies for financial inclusion. In November 2011, the National Partnership for Financial Inclusion was launched, as a network of public and private actors engaged in financial inclusion. The network is coordinated by the FIP.

Chile
The Ministry of Planning created a Financial Inclusion Unit on April 2011, which is leading the financial inclusion agenda in liaison with government agencies (Ministry of Finance, Superintendence of Banks and Financial Institutions, Central Bank) and private sector actors.

India
In October 2012, the Reserve Bank of India constituted a Financial Inclusion Advisory Committee (FIAC) to spearhead financial inclusion efforts. The FIAC membership includes a few Directors from the Central Board of RBI and experts from the NGO and civil society sector.

Kenya
In 2005, the Central Bank of Kenya partnered with the Financial Sector Deepening Kenya and other financial sector players under the Financial Access Partnership, to monitor and measure levels of access to financial services.

Korea
The Financial Supervisory Commission is Korea's lead agency for financial inclusion policy. It works closely with other agencies such as the Small and Medium Business Administration.

Mexico
To facilitate coordination among different stakeholders, the National Council on Financial Inclusion was created in 2011 to coordinate proposals for financial inclusion policies and their implementation, as well as formulate guidelines for a National Policy on Financial Inclusion.

Namibia
Bank of Namibia created a dedicated Division to coordinate financial inclusion activities, a fund to support these activities, an internal Financial Inclusion Forum, an inter-ministerial Financial Inclusion Council & Advisory Body, and other consultative workshops and meetings.

Nigeria
The Central Bank of Nigeria (CBN) is leading the promotion of financial inclusion in Nigeria, particularly through its Development Finance Department. It is under this department that CBN is deploying a team to the Financial Inclusion Secretariat to take on all coordination activities.

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[76] Source: Fathallah S., and D. Pearce (2013), "Coordination Structures for Financial Inclusion Strategies and Reforms", The World Bank, Washington DC.

Pakistan
The State Bank of Pakistan established a Financial Inclusion Programme coordination office, housed within its Microfinance Department.

Philippines
The Bangko Sentral ng Pilipinas created a Microfinance Unit 2002 which was transformed into the Inclusive Finance Advocacy Staff in 2007. It has also established an Inclusive Finance Committee chaired by the Governor.

Russia
The Ministry of Economic Development is responsible for the promotion of financial inclusion, but the strategy is developed closely with the Central Bank, the Ministry of Finance, as well as other non-governmental stakeholders (Russian Microfinance Center, banking associations, etc.).

Rwanda
The National Bank of Rwanda has established a Financial Inclusion Taskforce aimed at coordinating all initiatives regarding financial inclusion.

Solomon Islands
The Central Bank of the Solomon Islands set up national coordinating committee and secretariat to implement financial inclusion actions.

Thailand
In 2013, the Ministry of Finance finalized a National Financial Inclusion Strategy and submitted it for cabinet approval.

Turkey
The Undersecretariat of Treasury leads the overarching financial inclusion strategy in Turkey.

United Kingdom
The Financial Inclusion Taskforce was an independent and volunteer-based body that advised HM Treasury on financial inclusion. The Taskforce concluded its work in March 2011 with final recommendations to the government and the private sector.

Annex 4: Proposed Composition and Responsibilities of the South African Financial Inclusion Forum (Source: NT, 2015)

In order to optimally co-ordinate and maximise cross-departmental and cross-sectorial acceptance of financial inclusion policies and initiatives, it is proposed that:

- The South African Financial Inclusion Forum is established, preferably as part of the Financial Regulations legal regime and with the Minister of Finance as the executive head.

- The Forum should have, as permanent members
    - National Treasury (as the policymaker and secretariat)
    - The Prudential Authority, the Financial Services Conduct Authority, the National Credit Regulator and the Co-operative Banks Development Agency as regulators.
    - The Small Enterprise Development Department, the Economic Development Department, the data and the Department of Social Development.
    - Financial service industry representative (BASA, SAIA, ASISA and others)
    - Payments Association of South Africa (as there is substantial reliance on the national payments network to sustainably advance financial inclusion).
    - Agencies representing civil society and other relevant interests
    - Independent financial inclusion experts
- Consumer representative organisations, small enterprise representative organisations, state owned enterprises involved in the provision of financial services (Post Office/Postbank, SEFA and others) and payment service providers could either be part of FIP or co-opted as required. A direct link with the FSC will have to be part of the structure of the FIP.

The responsibilities of the Forum will primarily be:

- Overall co-ordination of the financial inclusion strategy in South Africa
- Ensuring implementation of the strategy and monitoring of results and the effect on economic development
- Ensuring responsible and sustainable management of the linkages between inclusion, stability, integrity and market protection
- Ensuring supportive approaches between the all regulators and other stakeholders in respect of financial inclusion
- Coordinating interactions with other state agencies, regional bodies and international bodies engaged in the promotion of financial inclusion.
- The measurement and monitoring of all aspects of financial inclusion, including the assessment of the socio-economic impact of financial inclusion.
- Since the co-ordination of development efforts in the small enterprise world is crucial to maximise impact, the Forum should ensure that adequate structures are in place to achieve such impact.

Annex 5. Payment Aspects of Financial Inclusion: Guiding principles and recommended key actions for consideration (PAFI, 2016)

Guiding principle 1: Public and private sector commitment
Commitment from public and private sector organizations to broaden financial inclusion is explicit, strong and sustained over time.

Key actions for consideration:

- All relevant public and private sector stakeholders support the objective that all eligible individuals – regardless of culture, gender or religion – and businesses should be able to have and use at least one transaction account, and develop an explicit strategy with measurable milestones to that end.
- All relevant public and private sector stakeholders allocate the appropriate human and financial resources to support financial inclusion efforts.
- Central banks, financial supervisors, regulators and policymakers effectively coordinate their efforts with regard to financial inclusion.
- Private sector stakeholders engage with relevant public sector counterparts on initiatives that promote the adoption and usage of transaction accounts, and financial inclusion more broadly.
- Private sector stakeholders cooperate constructively and meaningfully with each other to discuss and find solutions to issues that are best addressed by the industry as a whole.
- Central banks, in line with their roles, responsibilities and interests in fostering the safety and efficiency of the payments system, leverage their catalyst, oversight, supervisory and other powers as relevant and appropriate to promote financial inclusion.

Guiding principle 2: Legal and regulatory framework
The legal and regulatory framework underpins financial inclusion by effectively addressing all relevant risks and by protecting consumers, while at the same time fostering innovation and competition.

Key actions for consideration:

- A robust framework is established to foster sound risk management practices in the payments industry, including through the supervision/oversight of PSPs and PSOs by regulatory authorities.
- The framework requires PSPs and PSOs to develop and implement risk management measures that correspond to the nature of their activities and their risk profile.
- The framework aims to promote the use of transaction accounts in which customer funds are adequately protected through appropriate design and risk management measures, such as deposit insurance or functionally equivalent mechanisms as well as through preventive measures (eg supervision, placement of customer funds held by non-deposit-taking PSPs in high-quality and liquid assets, and, depending on the legal regime, specially protected accounts at banks and possibly trust accounts).
- The framework requires PSPs to clearly disclose, using comparable methodologies, all of the various fees they charge as part of their service, along with the applicable terms and conditions, including liability and use of customer data.
- The framework requires PSPs to implement a transparent, user-friendly and effective recourse and dispute resolution mechanism to address consumer claims and complaints.
- The framework preserves the integrity of the financial system, while not unnecessarily inhibiting access of eligible individuals and businesses to well regulated financial services.

- The framework promotes competition in the marketplace by providing clarity on the criteria that must be met to offer specific types of service, and by setting functional requirements that are applied consistently to all PSPs.
- The framework promotes innovation and competition by not hindering the entry of new types of PSP, new instruments and products, new business models or channels – as long as these are sufficiently safe and robust.

Guiding principle 3: Financial and ICT infrastructures
Robust, safe, efficient and widely reachable financial and ICT infrastructures are effective for the provision of transaction accounts services, and also support the provision of broader financial services.

Key actions for consideration:

- Key payments infrastructures are built, upgraded or leveraged as needed to facilitate the effective usage of transaction accounts.
- Additional infrastructures are appropriately designed and operate effectively to support financial inclusion efforts by providing critical information to financial service providers, including an effective and efficient identification infrastructure, a credit reporting system and other data-sharing platforms.
- The geographical coverage of ICT infrastructures and the overall quality of the service provided by those infrastructures are enhanced as necessary by their owners/operators so as to not constitute a barrier for the provision of transaction account services in remote locations.
- Increased interoperability of and access to infrastructures supporting the switching, processing, clearing and settlement of payment instruments of the same kind are promoted, where this could lead to material reductions in cost and to broader availability consistent with the local regulatory regime, in order to leverage the positive network externalities of transaction accounts.
- Payment infrastructures, including those operated by central banks, have objective, risk-based participation requirements that permit fair and open access to their services.
- Financial and ICT infrastructures leverage the broad usage of open/non-proprietary technical standards, harmonized procedures and business rules to enhance their efficiency and therefore their ability to support transaction accounts at low costs.
- The safety and reliability of financial and ICT infrastructures, including their resilience against fraud, are tested on an ongoing basis and are enhanced as necessary to keep up with all emerging threats for holders of transaction accounts, PSPs and PSOs.

Guiding principle 4: Transaction account and payment product design
The transaction account and payment product offerings effectively meet a broad range of transaction needs of the target population, at little or no cost.

Key actions for consideration:

- Where reasonable and appropriate, PSPs provide a basic transaction account at little or no cost to all individuals and businesses that do not hold such an account and that wish to open such an account.
- PSPs offer transaction accounts with functionalities that, at a minimum, make it possible to electronically send and receive payments at little or no cost, and to store value safely.
- PSPs leverage efficient and creative approaches and effective management practices in their efforts to offer transaction accounts and functionalities in a commercially viable and sustainable way.

- The payment services industry, operators of large-volume payment programs and other stakeholders recognize that the payment habits and needs of currently unserved and underserved customers are likely to differ, and therefore engage in market research and/or other similar efforts to identify and address those payment habits and needs.
- PSPs work to ensure that the payment needs of the private and public sector entities with whom holders of transaction accounts regularly conduct payments are met as well.
- PSPs work to ensure that the products that target unserved or underserved population segments are easy to use.
- PSP efforts to continuously improve their transaction account offering include both traditional and innovative payment products and instruments.

Guiding principle 5: Readily available access points
The usefulness of transaction accounts is augmented with a broad network of access points that also achieves wide geographical coverage, and by offering a variety of interoperable access channels.

Key actions for consideration:
- PSPs provide convenient access to transaction accounts and services by offering an effective combination of own and third-party-owned physical access points (eg branches, ATMs, POS terminal networks and PSP agent locations) and of remote/electronic access channels (mobile phones, internet banking, etc).
- PSPs work to provide service levels at various access points and channels that are reliable and of high quality (PSP agents have the necessary liquidity and are equipped with effective tools to service transaction account users reliably and in an efficient manner, ATMs are highly reliable, etc) and to ensure that opening hours are broadly aligned with customers' transacting needs.
- The payments industry works on ensuring that access points and channels are appropriately interoperable, further contributing to expanding the reach of available service access points and the overall convenience to holders of transaction accounts.
- PSPs adequately train their own front office staff and their agents to understand and appropriately address cultural, gender and religious diversity when servicing holders of transaction accounts.
- The payments industry and authorities monitor access channels and access points and their usage to obtain an accurate picture of the availability and proximity of service points to the different population segments.

Guiding principle 6: Awareness and financial literacy
Individuals gain knowledge, through awareness and financial literacy efforts, of the benefits of adopting transaction accounts, how to use those accounts effectively for payment and store-of-value purposes, and how to access other financial services.

Key actions for consideration:
- All relevant public and private sector stakeholders engage in ongoing and effective educational and outreach to support awareness and financial literacy with an appropriate degree of coordination.
- Awareness and financial literacy efforts specifically address how payment and store-of-value needs can be met through the usage of transaction accounts. In this context, individuals that do not have a transaction account and those that obtained one only recently are a primary target of these financial literacy efforts.

- Awareness and financial literacy efforts make it possible to easily obtain clear and accurate information on the various types of account that are available in the market, on the general account opening requirements, and on the types of account and service fee that may be encountered.
- Awareness, financial literacy and financial transparency programs make it possible for transaction account users to easily obtain clear and accurate information on the risks embedded in the usage of these accounts, how the costs in using the associated services can be minimized, how the potential benefits can be maximized, the basic security measures associated with these accounts, and the overall obligations and rights of PSPs and users.
- PSPs provide hands-on training where needed as part of a product rollout, particularly for users with limited first-hand exposure to electronic payment services and the associated technologies (eg PSPs show customers how transaction accounts and the associated payment products work in practice).

Guiding principle 7: Large-volume, recurrent payment streams

Large-volume and recurrent payment streams, including remittances, are leveraged to advance financial inclusion objectives, namely by increasing the number of transaction accounts and stimulating the frequent usage of these accounts.

Key actions for consideration:

- Ad hoc incentives are considered, where appropriate, to foster adoption and usage of transaction accounts for large-volume and recurrent payments, including not only government payment programs but also government collections and utility bill payments, transit fare payments, employer payrolls and, where relevant, remittances.
- PSOs and PSPs take into consideration the needs and requirements of the key counterparties involved in large-volume payment streams, such as employers, large-volume billers, the national treasury and others in the design and provision of the related payment services.
- The government considers making its G2P and G2B payments through a choice of competitively offered transaction accounts that meet the payment and store-of-value needs of the recipients so that these accounts are useful to them.
- The government enables and encourages individuals and businesses to make their P2G and B2G payments through electronic means in order to, among other objectives, increase the overall usefulness of transaction accounts.
- Medium-sized and large firms, along with government entities, consider disbursing salaries and other payments to employees via transaction accounts at the PSP of the employees' choice.
- The payments industry proactively seeks new ways to make transaction accounts a competitive and convenient option for usage in connection with all large-volume payment streams.