

Financial Inclusion: Global Experiences

1. South Africa : MZANSI account

South Africa after it gained its independence in the Nineties embarked on rebuilding its society and providing equal opportunity for all its citizens. Among many things which were lopsided in its society, it had a population of 13 million individuals who were not having access to basic financial services. The number may appear small, but in a country of less than 45 million people, the number represented a majority of adult black people. The Government had a clear commitment to the social and economic development of all South Africans, specifically the poor and marginalized of society.

The Banking Council established an Inter-bank Program in third quarter 2002 to research possible solutions. Thus was born the MZANSI account, a National Bank Account (NBA) product that caters for the needs of the “**un-banked**” population of South Africa. Public private partnership was established to use existing distribution networks of banks, government and other bodies. It was envisaged that NBA will attract 4 million potential customers over period of 5 years. In its first year of operation itself, it has garnered nearly two million accounts.

Some of the features of the MZANSI Account:

- The product is:
 - Card based
 - Limited to the services it will provide to the potential customer
 - Launched at a very affordable price

- MZANSI Bank Account is the first of two “first order savings / transmission products” aimed at extending the Bank’s penetration into first order markets.

- Access to the NBA product is provided through a combination of existing service point outlets & physical branch outlets as follows:
 - Merchant Point-of-Sale devices
 - Own institution ATMs
 - SASWITCH (BANKSERV) ATMs
 - Selected Self Service Devices
 - SA Post Office outlets

There is a money transfer service associated with the MZANSI account which makes it possible for the Un-banked customers to transfer money to Un-banked or Banked customers or banked customers to transfer money to Un-banked or Banked customers from any participating bank or South Africa Post Office. All the banks are participants in this unique venture. As it is a very technology intensive product, the transaction costs are very low and thus 'too costly to serve areas and people' became attractive propositions.

2. Edmonton, Canada: A pilot project of issuing debit cards to some **clients without bank accounts** has proved to be such a success that the province will make this option permanent. It will be the first program of its type in Canada.

The debit cards work like a regular bank card - the monthly income support payment is credited to the card and can be withdrawn as needed. The card can also be used at stores for direct payment. About 6,000 people receiving social assistance, or about 20 per cent of the 26,000 caseload, receive their welfare payments by cheque.

3. Mexico has given the local unit of the world's biggest retailer the go-ahead to provide consumer banking services. Wal-Mart de Mexico is planning to win customers at branches it will set up at its 576 stores. Wal-Mart, Mexico's largest retailer by sales, will compete against some of the biggest multinational banks,

including Citigroup and HSBC Holdings, which regulators say lend too little and charge too much in interest and fees. Mexican authorities, including central bank Governor Guillermo Ortiz, say Wal-Mart and three smaller retailers that were granted bank charters can begin to change that.

Mexican authorities say they hope Wal-Mart, in addition to bringing down borrowing costs, will also extend services to the nation's so-called **unbanked** -- the low-income individuals and small businesses that have been scorned by the banks since the government abandoned support for the peso in 1994.

4. Ireland: The influx of migrant workers into the country has been good news for money transfer company Western Union. Ireland with a large emigrant population was a natural hunting ground for a company that is used by immigrant workers to send money back to their families, by travelers who need cash in emergency situations and by students studying abroad who get financial support from home.

Bank account is not needed on the send or the receive side.

Western Union feels it is complementing and supplementing banks. While banks typically have large transfers, mostly commercial transfers, WU sees its service as a convenient service for people who want to send money, easily, frequently and flexibly.

5. Nairobi: Among the technologies banks should have are automated teller machines (ATM) and mobile banking services. He said other providers were ahead of banks in opening new payment gateways, and gave the example of MTranzact, which has rolled out mobile phone payment services. "The retail prices of the computers were high, but the Government removed duties and VAT on imported computers and parts and has given incentives to software vendors."

Dr Ndemo said the costs of transactions would be reduced further once the laying of the terrestrial fibre cable and undersea fibre optic cable are completed.

6. BT is introducing charges for 5.5million customers who pay their bills by cash or cheque. The penalty, which will work out at Pounds 4.50 a quarter or Pounds 18 a year, will raise almost Pounds 100million annually. The firm wants more of its 13million customers to pay by direct debit. Pensioners, who traditionally prefer to pay bills by cash or cheque at Post Offices, will fall foul of the charge. **Customers who do not have a bank account**, perhaps because they have a poor credit history, will also suffer. These two groups are among those least able to pay extra on their bills, particularly given sharp increases in other outgoings such as gas and electricity charges and council tax.

7. Dubai eGovernment and National Bank of Abu Dhabi launch Prepaid Card to maximise usage of government's online services. Dubai eGovernment in association with the National Bank of Abu Dhabi (NBAD) is to introduce an innovative Prepaid Card which offers a convenient, flexible and secure alternative to carrying cash without the necessity of opening a bank account. Developed to enable e-payment transactions and expedite the government's online services, the card can also be used for all type of Card transactions on the Internet and at more than 24 million outlets and over one million ATMs worldwide. Backed by Visa International, the co-branded card has the standard features of regular payment cards plus unique government-related features. The pre-funded Prepaid Card, with recharge facility is instantly available at any National Bank of Abu Dhabi branch and **can be obtained without a bank account**, income requirements, monthly repayments or security deposit.

In addition to the Prepaid Card, Dubai eGovernment has also launched Credit Cards in Classic and Gold and the Corporate Card, with benefits that include no annual fees for Life, discounts at over 1,700 outlets in UAE, Visa Application services from Mandoob - Epost, free roadside assistance, free purchase

protection and free SMS alert service. The Prepaid Card represents hassle-free banking, as customers can top-up the value on their cards at any of the 62 NBAD branches across the emirates. The scheme reflects Dubai eGovernment's commitment to delivering a broad range of services through maximising the functionality of the government portal. The portal was envisioned to assist busy people conduct business, get financial quotes, obtain visa information, book flight tickets and make payments. Citizens, residents, visitors and enterprises can access more than 2,000 electronic services on the portal www.dubai.ae, including payment of traffic fines, payment of municipality fees, communication with government departments, application for visas, renewal of health cards and other services.

Dubai eGovernment is a pioneering initiative in the region to provide online services across the spectrum of corporate and community life in the emirate. It also has a vision to integrate individually automated government departments under the single umbrella of the eGovernment initiative, thus empowering employees across lines of businesses and levels of government, besides facilitating the lives of citizens and customers of the government. Dubai has taken a lead in the region in deploying eGovernment applications and is among the first few governments in the world to provide such integrated services to its citizens. The eGovernment portal is a single contact point masking the complexity of the bureaucratic procedures, and guiding access to all services in the easiest possible way. In addition, the eGovernment initiative seeks to improve and enhance procedures by maximizing the benefit from technology, so that users from all walks of life will be able to utilize the portal for their specific needs with considerable ease.

8. California: CashStream start-up banks on immigrants without bank service

The PayCard is a new product launched in December by CashStream to provide financial services to **people without bank accounts**. It's especially designed for immigrants who regularly send money transfers to relatives in other

countries. By eliminating payments for check cashing and money transfers, it is expected card holders can save an average of \$540 per year.

MetaBank in South Dakota has provided CashStream with the institutional sponsorship it needed to become a licensee of MasterCard International. MasterCard, in turn, has accepted CashStream as an independent sales organization, thereby opening MasterCard's international ATM and debit network to CashStream customers.

9. Phoenix, Arizona -- Desert Schools Federal Credit Union will allow immigrants who have an unexpired Matricula Consular Identification Card issued after June 2002 **to open an account.** The Matricula Consular is an official identification card issued by the Mexican government through its consulate offices in the U.S.

10. UK: A Government campaign to help people living on low incomes find out about how they can get bank accounts and low cost loans, and advice on how to manage their money better, is launched today. People without access to affordable credit often have to borrow from very high cost lenders, including loan sharks, and can face a lifetime of debt and poverty. Without a bank account they can find it hard to get a job, and are vulnerable to loss or theft. Those who rely on cash are unable to make savings using direct debits on utility bills. The launch of the Government's 'now let's talk money' multi-media campaign, part of the Government's on-going work to tackle financial exclusion, will help people in this situation to find a way out.

The 'now let's talk money' campaign is a great way of getting more people engaged with banking, affordable credit and advice services. With this important initiative, funded from the Financial Inclusion Fund, the Government is taking the lead in addressing the barriers that limit demand for appropriate financial

services. By working closely with our partners in the voluntary and private sectors, we can make a real difference to those most affected by financial exclusion.

Phase 1 of the campaign will help build awareness of financial exclusion among organisations that have regular contact with people on low incomes, such as local authorities, housing associations and charitable and voluntary organisations. It will provide them with the information and support to help, by working more closely together, to encourage closer co-operation on financial exclusion at local level. A network of stakeholder managers, seconded from these organisations, has been set up across the country to work on this. Phase 2, will encourage financially excluded individuals to find out about and take advantage of the financial advice, products and services available. The campaign will be funded from the Government's Financial Inclusion Fund.

The Government's Financial Inclusion Fund has already created more than 350 new advisers to provide free face-to face money advice; enabled more than 100 credit unions and community development finance institutions to provide personal loans at affordable rates for people on low incomes; and will also be funding the roll out, to every region of the country, of projects tackling illegal loan sharks.

11. Only a **Million Kenyans** Operate Bank Accounts

Only a million people out of 17million adult Kenyans operate a bank account, a new survey looking onto accessibility of financial services in Kenya says. The larger population of adult Kenyans, 38 percent, are financially excluded or 'unbanked' and do not use any financial products whether formal or informal.

The study delved into usage of savings product, credit products, money transfer, insurance products as well as impact of technology, such as mobile phones in growing financial services access.

Most of the unbanked population are female, are likely to have little education and have no access to mobile phones. Bank penetration compared with other African countries such as Namibia, South Africa amongst other middle-income countries shows Kenya has a branch per 72,000 people. We also have 105 people per ATM, which is clear proof Kenya has low bank penetration compared to 8,000 people per ATM in Namibia and 6,000 people per ATM in South Africa.

12. China Bank also launched the China Bank On-time Remittance, to help the millions of OFWs bring home the fruits of their labor the "fast, secure and affordable way." And **for those who did not have bank accounts, it has also launched the China Bank On-time Remittance Card, a PIN-based reloadable cash card that works like an ATM card.**

13. Nigeria: Oceanic Bank International Plc says it has removed bottlenecks associated with opening savings accounts in Nigeria with its new product: "Oceanic Easy Save Account". According to the bank with this product a customer could just walk into any branch of Oceanic Bank without any identification, passport photograph or initial deposit and open an account. With this, the bank has seemingly succeeded in removing bottlenecks associated with savings as its officials will take the customer's passport photographs on the spot and ensure they get free ATM card. The maximum process period has been put at ten minutes. **The product basically is meant to make savings easier for Nigerians and ultimately to encourage savings culture among Nigerians.** The Easy Save account not only saves time, it also offers convenience and security of knowing that the customer has an account with the bank without any deposit and that all that is required is for the account to be funded within 60 days of opening. The new account is designed as a product that is accessible to all people within the economy to act basically as a stress-free account with minimal account opening documentation requirements.

14. Bharti and GSMA Launch Global Money Transfer Pilot Project in India

Bharti Airtel, India's leading mobile operator, has joined with the GSM Association to launch a pilot programme that will eventually enable more than 25 million Indians abroad to remit money to India through their mobile phones. In this initiative, Bharti and State Bank of India have created a partnership to serve Indians at home and abroad. "We believe that this coming together of the mobile and banking industry is a giant leap in mobile commerce," said Sunil Mittal, Bharti's chairman. "It will revolutionise the money transfer industry with its advantages, such as reach, ease of use, and lower transaction costs, and provide immense benefits to 25 million Indians across the world and their families in India." This programme will enable global Indians to send money easily and securely to their dependents, **many of whom do not have bank accounts.**

15. Brazil

Brazil's Lemon Bank has signed distribution partnerships with seven local banks, under which agreement, the seven banks will be able to use Lemon's network of non-bank distribution partners such as drugstores and supermarkets to distribute loans to their clients. Signatories to the agreement are banks BIB, RS Crédito Financiamento e Investimento, Pine, Máxima, BVA, Bomsucesso and Morada. Lemon Bank is the only bank in Brazil to operate exclusively through distribution partners. The bank operates a similar distribution agreement with local banks BMG, BGN, BMC and the Brazilian unit of GE Money. The partnership model represents an alternative to credit access for Brazil's 45 million people above 18 who do not have a bank account.

16. Brazil: Banking correspondents

Banking correspondents (BCs) are a full-service retail channel that Brazil's banks have developed using technology (POS devices and communications networks) and business arrangements with grocery stores, drugstores, gas stations, other retailers, the postal company, and the lottery outlet chain. The BCs offer many services, including deposits, withdrawals, bill payments, new account openings, money transfers, insurance, airtime top-up and government benefit and pension

receipts. Forty-one percent of Brazil's adult population does not have a bank account.

The largest operators of BCs are:

- • Caixa Economica (state-owned, ~14,000 BCs)
- • Banco Postal, run by Banco Bradesco (private, mostly postal outlets, ~7,900 BCs).
- • Banco Popular, owned by Banco do Brasil (state-owned, ~6,200 BCs)
- • Lemon Bank (private, ~3,500 BCs)

These BCs now serve every municipality in Brazil, including remote places reachable only by many hours of travel in a boat or plane. Since 2000, when the model first emerged, these banks have together opened about 8 million new current accounts, largely for people that did not have bank accounts earlier.

How do they work?

The banking correspondent model is technology-intensive. The banks use some combination of the following devices at the retail outlet, post office, etc: a POS, a bar scanner that scans bills for bill payment transactions, an entire PC, a PIN pad, and a sort of teller machine with a screen.

Caixa reports 2 types of setups, with dial-up connection (R\$5,000 to set up, R\$200 per month in telecoms charges (US\$ 2000/US\$ 80)), and with satellite connection (R\$7,000 to set up, R\$400 per month in telecoms charges (US\$ 2800/US\$ 40)). Banco Popular has 3 versions, depending on the transaction volume – a simple POS, a PC with high-speed connection, and a stand-alone mini-branch with several computers. Some BCs are always-online, and others dial-up every few hours to update the central server. The retail outlet provides a staff person to man the device and handle transactions for clients. Clients are given bankcards, which in some cases are debit cards (e.g. VISA Electron). To make a withdrawal, clients swipe the card, enter a PIN, and request an amount from the attendant. The entire process can take as little as 5 seconds or so, since the POS device is connected by VSAT (satellite telecoms), to the central server that stores account information. A similar procedure is followed if the client is

depositing money or making a transfer. For bill payments, the client hands over the bill and the attendant swipes it through the barcode scanner. He/she takes the cash payment from the client, and prints out a receipt. Operational approaches differ. Caixa and Banco Postal identify retail outlets themselves and handle all equipment, training, contracting, etc. Lemon Bank and Banco Popular are start-up banks that have lean operations and use intermediaries to identify, train and support BCs. Banco Popular has only 80 staff, but has 7,900 BCs and 2.8 million new clients in less than 2 years of operation. These banks use a number of "management companies" to manage the correspondents. These are private companies, some that focused earlier on technology networks and management, which today find, contract and monitor BCs on the banks' behalf. Management companies assume all liability for cash handled by the BCs. Risk and return (in the form of transaction fees) are shared among the bank and the retail outlet. If there is an intermediary that supports the retail outlet (i.e. a management company such as Netcash), this company also takes a share of fees. For retailers, the main benefit is the increased foot traffic at the store, particularly on days when pensions and government benefits are distributed and there are lines of customers at the banking counter.

It is not clear how poor are the customers of BCs. Clearly, the channel has had great success in bringing the "unbanked" into the financial system: there are now more than 27,000 BCs, and the four banks mentioned above have acquired roughly 8 million new account-holders in the past 3-4 years. Government has helped: Banco Postal was required by its tender with the postal company to first serve those municipalities without banking services. By some accounts, however, the BCs are serving poor people. According to research being done by the World Bank, nearly 50% of Caixa's BC clients earn less than R\$200 per month (US\$ 80), or double the minimum wage in Brazil. Nearly 60% of Banco Postal's clients are in the same category. But this is not by intention. Most banks admit that their BCs are targeting the fairly large layer of pensioners and informally-employed low-income people. Going further down-market to selfemployed micro-entrepreneurs isn't on the books yet. Nevertheless, the BC model seems to be a

powerful way of increasing access to financial services for all customers – regardless of poverty level. The channel is an attempt by banks to reach unbanked communities, NOT an attempt to deliver microfinance in the traditional sense. However, as banks grow increasingly comfortable in these communities by operating through BCs, they may become more knowledgeable about what financial services poor people require. Over time, this positive first step may lead to more tailored products for micro-entrepreneurs.

What's the business model?

The banks are trying to make money with transaction fees and with consumer lending. Lemon Bank, which mostly handles bill payments, is clearly focused on generating fees, which it shares with its management company intermediaries and the retail outlets. Apparently, it may also ramp up insurance and credit products. Banco Popular, Banco Postal and Caixa place greater emphasis on making lending operations profitable, since they are largely pricing the current account product to break even (i.e. Banco Popular gives clients 12 free transactions – 4 withdrawals, 4 deposits and 4 balance inquiries – per month, and charges no monthly fee). But so far the banks haven't hit upon a winning lending methodology. Clearly, the banks are using the BC channel to deliver consumer credit and small loans against pensions to accountholders according to the definition of "micro-credit" laid down by the central bank. (2% per month interest rate, maximum loan size of R\$1,000). However, since most new clients don't have a credit history, the banks are lending somewhat blindly. For at least one bank, arrears are roughly 10-12% but portfolio-at-risk according to microfinance's 30-day definition is about 33%. (SPC, the main credit bureau these banks use for this clientele, only tracks negative information). As mentioned earlier, Banco Popular is incurring losses to build its own credit history database. Banco Postal claims to be using its in-house scoring model to try to manage risk better.