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Digitising Financial Services – A tool for financial inclusion in South Africa?

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WHAT IS FINANCIAL INCLUSION?

- FI is about delivering appropriate, responsible and beneficial formal financial products and services to all segments of the population (i.e. unserved/banked and underserved/banked)
- FI reflects a growing realisation of its potentially transformative power to accelerate development gains
- including people in the informal economy has become imperative in fighting poverty, tackling inequality and fostering inclusive growth
- FI in conjunction with other developmental initiatives, can reduce poverty, promote pro-poor growth and address the SDGs

UNDERSTANDING THE IMPORTANCE OF FIN. INCLUSION

- 70% of the lowest income population own a mobile phone – more people own a mobile phone than have access to electricity or clean water
- In the last decade, number of Internet users has more than tripled in developing countries, from 1bn in 2005 to an estimated 3.2bn in 2015
- In tandem with this development is the increase in access to financial services
  - ✓ FI is on the rise, with an additional 515mil adults around the world having opened an account btwn 2014 and 2017
  - ✓ One of the key enablers in reducing poverty and achieving inclusive eco. growth is FI yet 2bn adults remained unbanked in 2014, with the majority of the unbanked in emerging and developing countries
  - ✓ Evidence also shows that increased levels of FI through the extension of savings, credit, insurance and payment services contribute to sustainable economic growth

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Rapid proliferation of digital financial services over the past decade

- ✓ Mobile money is one of the major drivers of increased FI in most regions, with Africa emerging as a world leader in mobile money.
- ✓ Mobile phones became the primary device to access financial services
- ✓ One study concluded that digital finance can spur inclusive growth that adds $3.7tril to the GDP of emerging economies within a decade.
- ✓ Another study estimates that greater use of digital payments added $983bn to global eco growth (equivalent of creating 1.9mil jobs)
- ✓ The key to achieving FI therefore is digital access to funds through cards and mobile phones
- ✓ Digital payments are not just convenient but also play a crucial role in stimulating economic growth

THE "HOLY GRAIL" OF DIGITAL FINANCIAL SERVICES

- **Micro big data**: digitisation of money brought vast amounts of accessible data - digital transactions leave behind a digital footprint of users
- **Governmental efficiency**: Digitising G2P services has the potential to expand the reach of govt through more efficient and targeted social benefit payments while also helping govts battle corruption, leakage and crime
- **Transaction costs**: cash is expensive compared to digital money - Govts can save up to 75% on admin costs by going digital - handling, securing and distributing cash and administering cash programmes are expensive.

CASE STUDY – SOUTH AFRICA

- SA financial sector presents an ideal case study in financial sector development: before 1994 financial sector policies resulted in gross financial sector inefficiencies (e.g. financial exclusion of over 60% of the adult population in 1994)
- The rapid adoption of digital services has become a driver for change, as increased accessibility to connected devices creates a more empowered and digitally savvy society.
- this explosive proliferation of smart devices is fuelling the adoption of mobile banking and other digital financial services.

✓ By 2015, 51% (or 18.9 million) of the adult population had smartphones & Internet banking penetration increased from 11% in 2013 to 13%, while cell phone banking increased from 28% to 31%

- Mobile money has not gained traction locally, with most domestic start-ups and international brands closing operations.
- The use of crypto-currency remains niche even though the country has access to international cryptocurrency platforms as well as domestically developed cryptocurrencies and exchanges
- Overall this digital migration results in reduced operational costs and improved efficiency
- However, it is also creating a digital divide – improved digital services are not available everywhere and the low-income segment of the population cannot afford these services, leaving them digitally and financially excluded

LAYING THE FOUNDATION FOR FINANCIAL INCLUSION

- NDP sets SA's financial inclusion target at 90% by 2030
- banking sector implemented the successful Mzansi Initiative (a low-fee bank account) in 2004 & by 2008, 6mil new accounts had been opened, two-thirds of the people had never before had a bank account

✓ However, 42% of accounts opened became 'inactive or dormant' or were closed - inactivity explains the difference btwn the 6mil opened accounts and the 3.5mil users recorded in 2009

✓ There are currently 11 million Mzansi accountholders

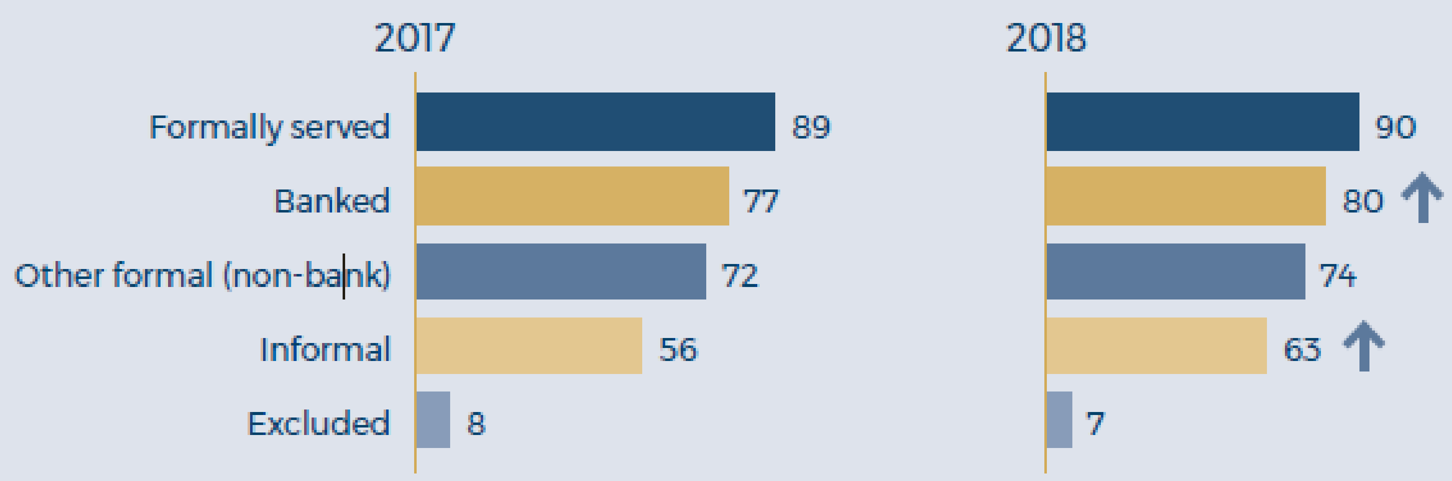
✓ SA achieved its current position where every financially active adult has (or has access to) an account and many economically inactive people have accounts.

✓ FSTC has set various industry standards for compliance under the scorecard for access to financial services in order to achieve the financial inclusion targets

  ❖ requires banks to offer basic affordable accounts such as non-discrimination (ie, based on income accessibility, affordability & simplicity

STATE OF FINANCIAL INCLUSION

Figure 1 Overview of financial services/products uptake



Source: FinMark Trust, interview conducted on 30 April 2019

QUALITY FINANCIAL INCLUSION

- Growth in FI shows that it may be reaching its saturation point so focus should turn to quality FI to address pressing issues such as the productive use of financial services, small enterprise financial service provisioning, the relatively low level of digital payments and risk cover, the low level of savings and over-indebtedness

✓ Quality FI is about productive usage, including product/service optimisation.

✓ Through awareness and financial literacy efforts, consumers could learn about the benefits of transaction accounts, how to use those accounts effectively for payment and store-of-value purposes, and how to access other financial services

✓ Focus should turn to productive usage, where banks promote the full use of transactional accounts because they serve as a gateway to other financial services such as savings, credit and insurance

✓ mass-market population targeted for FI is largely found in the cash driven informal sector housing nearly 60% of the country's unemployed

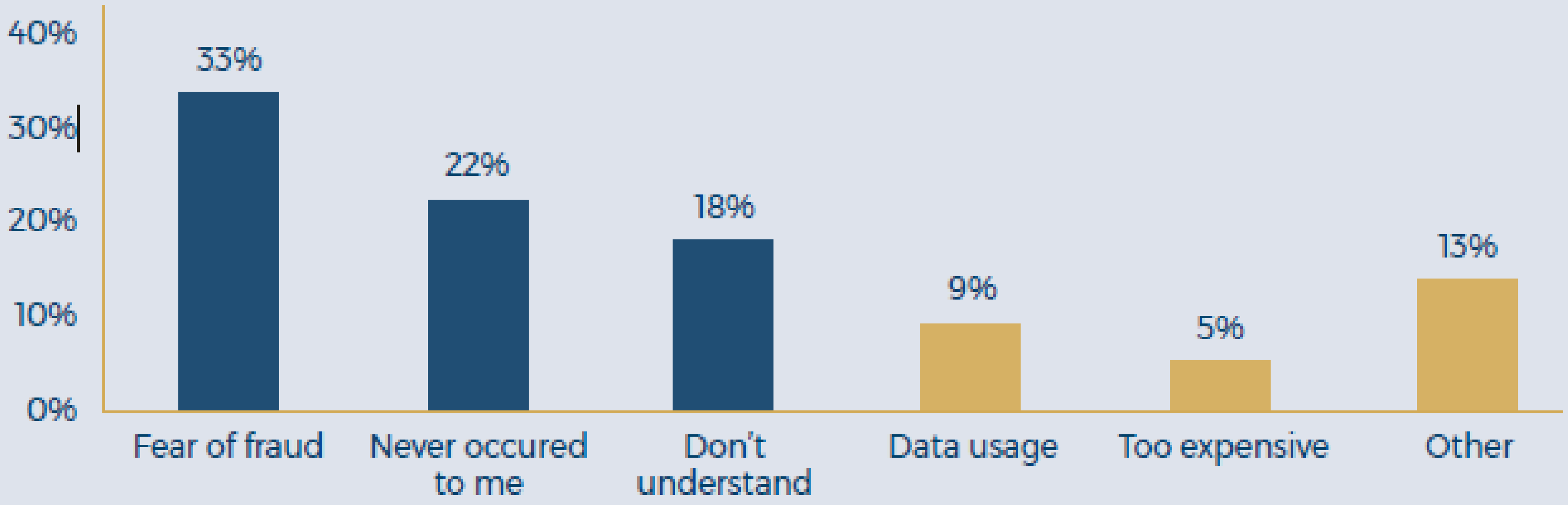
✓ adults relying on the informal sector has increased from 56% to 63% (FinScope 208)

QUALITY FINANCIAL INCLUSION (2)

- Improving usage of transactional accounts, promoting the use of mobile/other digital channels is possible if the public and private sectors educate people about the benefits of formal financial products
- Need to establish digital payment eco-systems in informal areas/township eco
- Digitising the social grants system contributed about 30% of the adult banked population BUT only use their SASSA accounts once-off to withdraw their grants even though the card allows other uses
- There is a need to promote other financial services such as savings/investment and insurance (against dread diseases, death, disability, etc.), as well as digital channels

HINDRANCES TO GREATER FINANCIAL INCLUSION

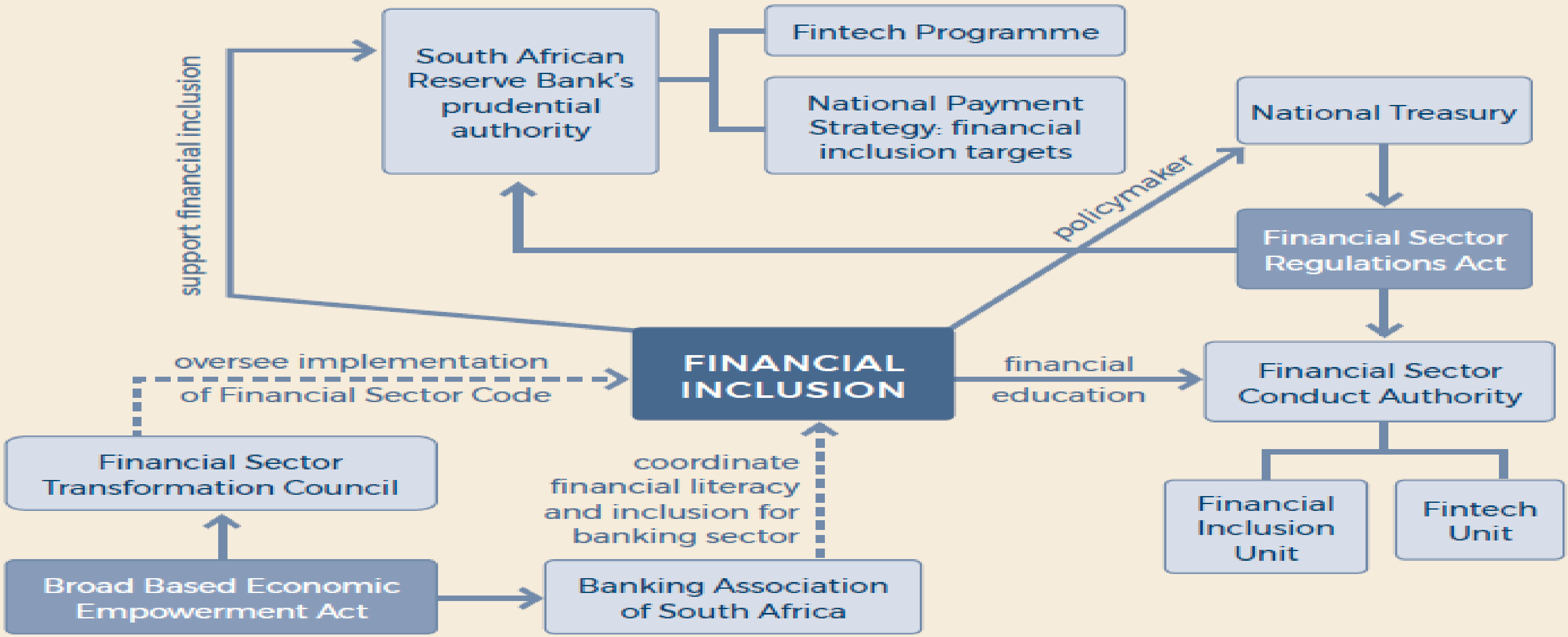
Figure 2 Key reasons why some South Africans do not use mobile banking



Source: WEF (World Economic Forum), '6 challenges to financial inclusion in South Africa', 27 April 2017, https://www.weforum.org/agenda/2017/04/financial-inclusion-south-africa/, accessed 3 April 2019

ROLE OF GOVERNMENT IN DIGITAL FINANCIAL INCLUSION

Figure 3 Institutions playing a role in financial inclusion in South Africa



Source: Author's depiction

THANK YOU