Savings and Retail Banking in Africa

Results from 2018 WSBI member bank survey

Micro Savings
Maximum Impact
Savings and Retail Banking in Africa
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Foreword

Banks in Africa face unprecedented challenges. A demographic “youth bulge”, poor educational opportunity, and limited access to finance make the continent prone to economic malaise and societal struggle. Compounding these are digitalisation and globalisation, powerful forces that affect Africa's 1.2 billion inhabitants in new ways. Like other regions of the world, Africa looks to financial institutions like savings and retail banks to help address most, if not all, of these obstacles at local level, in swelling cities and remote rural areas alike.

Especially daunting for banks is Africa’s population, set to quadruple by century’s end. Among the many challenges that population growth will present is the need to serve peoples’ financial needs better at the macro level while connecting better with people at the micro level. The question is how? The answer is offering products and services based on customer need that are usable, affordable, accessible and sustainable. While doing so, banks have to remain viable businesses that receive a fair return. A prime example is how best to offer much-needed low-balance savings accounts.

Finding ways to make viable low-balance savings accounts work requires a customer-oriented approach that entails approaches that are often misunderstood by formal financial service providers worldwide. African banks are no different. They rightly see great potential to build out a “savings market” based on people from various low-income segments. This report’s findings reveal that customer and potential customer needs – and how much they can afford to pay to meet those needs – are inadequately reflected in their business models and in their interactions with customers. The result: the customer experience falls short, giving rise to extremely high incidences of dormancy and inactivity in bank accounts, which represents a significant drain on costs. That result disqualifies potential sustainable business cases that senior executives within banks crave. Bringing to market accessible financial services to people becomes more elusive.

Given the population-driven future of Africa, the question arises whether banks in the region can meet the growing needs of people there. Banks can. According to the McKinsey Global Banking 2017 report, the African banking sector is among the most dynamic in the world, the second-best performing global banking market in terms of growth and profitability as well as a home to significant innovation. Other research shows that retail banking in Africa has huge potential. Those banks already deploy a vast set of tools and new business models to offer banking services that address the need to widen financial inclusion, which remains stubbornly low throughout the continent. For example, nearly three fifths of Sub-Saharan Africans are unbanked, and nearly half of those living in North Africa lack a basic bank account. Africans use cash excessively too, which can hinder economic growth and societal stability.

Despite low banking penetration rates, 2017 Global Findex\(^1\) draws some hope. Data from it show financial inclusion in Africa has improved greatly, driven by digital payments, government policies, and a new generation of financial services accessed through mobile phones and the internet. A bulging youth demographic in Africa will benefit greatly from those breakthroughs. WSBI member banks, industry experts and policymakers wonder whether savings and retail banks are ideally placed to help the next generation of adults build a growing, prosperous Africa. This report provides insight to help answer that question.

The findings of this annual report on savings and retail banking in Africa provide a unique and useful analysis of what a sample of WSBI member banks face when it comes to small-balance savings accounts provision. To be published annually starting this year, the report is an integral part of the Scale2Save\(^2\) programme, a partnership with Mastercard Foundation\(^3\) launched in 2016. The programme addresses the issue of high poverty rates, financial exclusion, and low formal savings rates in Africa. Part of the programme annual research effort, survey results and conclusions are shared with the international community and financial institutions in Africa – and beyond – to drive change in the banking sector to close the financial inclusion gap.

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\(^2\) Note: More information about Scale2Save is available at: www.wsbi-esbg.org/KnowledgeSharing/Scale2Save

\(^3\) Note: More information about Mastercard Foundation is available at https://mastercardfdn.org/
The scope of this first annual report 2018 encompasses primary data research gathered from WSBI African membership, providing a snapshot of savings and retail banking efforts to widen financial access for people in Africa.

The 2018 report is a starting point to track the progress of savings and retail banking in Africa. Intended to give banks in Africa a reference tool to improve financial access to financially disadvantaged people, reports scheduled to be published annually from 2019 to 2021 could potentially expand to banks in African countries operating beyond the WSBI membership country footprint.

Survey sample: 24 financial institutions from WSBI membership
This first annual report collected data in 2018 from 24 financial institutions out of the 34 WSBI African members. The data covered 20 African countries representing one-third of the total population in Africa. Amongst these regulated financial institutions, 78% are wholly state owned. In terms of banking charter, 42% are commercial banks and 25% savings banks. The other financial institutions types include a credit institution, a savings and credit bank, a postal service provider, a postal bank, a postal financial institution, a postal financial division and a microfinance institution. Postal financial services dominate the sample, with 58% of the financial institutions still using post offices as a remote distribution channel.

Four pillars to financial inclusion: a report framework
Following its programme “WSBI Doubling Savings Accounts” conducted from 2008 to 2016, and based on extensive learning since then in other project work, WSBI has structured this report around four base pillars of financial inclusion:

1. Usability: Low-income population needs and how they use their money. This pillar examines the difference between the service offer of a bank and customers’ use of those services.

2. Affordability: How affordable a product is for the low-income customer. This pillar examines the gap between the price of the bank’s services and the customer’s perceptions regarding affordability.

3. Accessibility: How the low-income population can access the banks’ different channels. It also examines the differences between how and where customers earn their money.

4. Sustainability: A bank’s ability to generate enough profits to maintain a sustainable service for low-income customers. This pillar also addresses external challenges that affect sustainability.

For each pillar, the report identifies the challenges that impact the financial inclusion ecosystem.

Types of accounts researched: transaction, savings
The report focuses on transaction and savings accounts. Other financial instruments such as loans or insurance will be developed in subsequent reports in conjunction with savings.

*Note: More information about WSBI Doubling Savings Accounts is available at: https://www.wsbi-esbg.org/KnowledgeSharing/consultancy/bmgf/
About WSBI

Founded in 1924, WSBI is an international banking association committed to help savings and retail banks thrive. To do this, it represents the interests of approximately 6,000 banks on all continents. These members are either individual financial institutions or associations of retail banks. All members share three characteristics: they are active in the retail banking segment, have a strong regional presence and show a responsible attitude towards business and society.

As a worldwide organisation, WSBI focuses on international regulatory issues that affect the savings and retail banking industry. It supports the objectives of the G20 for achieving sustainable, inclusive, and balanced growth, job creation, whether in industrialised or developing countries. Supporting a diversified range of financial services to meet customer need, WSBI favours an inclusive form of globalisation that is just and fair. It supports international efforts to advance financial access and commercial usage for everyone.

About Scale2Save

Scale2Save is a partnership between WSBI and Mastercard Foundation to establish the viability of small-scale savings in six African countries. The six-year programme aims for 1 million more people banked in those countries through projects using innovation models. Learn more at www.wsbi-esbg.org/knowledgesharing/scale2save.

About Mastercard Foundation

Mastercard Foundation seeks a world where everyone has the opportunity to learn and prosper. The Foundation’s work is guided by its mission to advance learning and promote financial inclusion for people living in poverty. One of the largest foundations in the world, it works almost exclusively in Africa. It was created in 2006 by Mastercard International and operates independently under the governance of its own Board of Directors. The Foundation is based in Toronto, Canada. For more information and to sign up for the Foundation’s newsletter, please visit www.mastercardfdn.org. Follow the Foundation at @MastercardFdn on Twitter.
Customer conundrum: Savings and retail banks in Africa struggle with customer centricity

Across the four financial inclusion pillars, survey findings reveal that banks face difficulty in serving the financially disadvantaged. Tapping into customer needs, through improving usability, affordability, accessibility and sustainability will be important to bridge the gap.

The business case is not optimised.
- **REVENUE**
  High account fees charged to customers but high savings interest rate paid reveals that business model is not optimised.
- **UNAFFORDABLE ACCOUNT TRANSACTIONS**
- **LOW CONSIDERATION FOR INTEREST RATES**

Financial institutions offer a variety of accounts, but low customer adoption exists.

1/3 offer more than 10 accounts
1/3 offer at least 4 savings products
2/3 offer at least 4 accounts
Less than 30% have a bank account

Alternative delivery channels are commonly used by the banks, but some barriers exist against further development.

45% selected mobile banking as priority focus
43% selected financial resources as main barrier to expand channels

Though challenges exist, the low-income segment remains attractive for savings and retail banks in Africa.

42% of the balance sheet is low-balance savings accounts

In 2018, most banks planned to focus on increasing the number of low-balance savings accounts
Savings and Retail Banking in Africa

3.1. Usability

Key findings

a. Despite a variety of accounts offered by financial institutions, low customer adoption persists.

b. Once a customer has adopted a financial service such as a transaction or savings account, the activity remains low, which is closely aligned with the results from World Bank’s 2017 Global Findex.

The report introduces the first fundamental pillar of financial inclusion – Usability – as what constitutes the real use of the financial services on offer for low-income customers: how do people make use of these services to address their daily needs. One of the biggest challenges faced by financial institutions who want to mobilise savings is to open accounts that can and will be used. The survey highlights that financial institutions believe they have a good understanding of customers’ preferences and offer a variety of customised accounts to meet customer needs. However, customer understanding and product availability alone does not solve the usability gap. According to the World Bank’s 2017 Global Findex, there is quite low customer adoption of these financial services. In addition, once a customer has adopted a financial service, account activity remains low.
3.1.1. What do financial institutions offer?

A majority of banks surveyed have a substantial account offer. One-third of the 24 banks surveyed offer more than 10 types of accounts, and two-thirds of the banks provide at least four types of accounts within their portfolio. In addition to standard transaction and current accounts, banks surveyed are also offering to the customer term deposits, savings and mobile accounts (which allow for deposits, withdrawals, and fund transfers).

Survey responses reveal that the offer of savings products, excluding transaction or current accounts, is quite comprehensive. Indeed, more than one-third of the banks offer at least four savings products to their customers, and a majority of them provide six or more savings products.

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6 See glossary on page 55.

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6 Source n°1: Linkage banking for villages in East Africa, WSBI 2014: https://www.wsbi-esbg.org/SiteCollectionDocuments/Linkage%20banking%20for%20villages%20in%20East%20Africa%20EN.PDF

Several years ago, the Pension Retirement Institute of Senegal (IPRES), the government agency in charge of pension management, decided to bank its retirees. Due to low income and individual handling of this target segment, some financial institutions did not want to serve this niche or would only serve it for a minimum pension amount. PosteFinances, the subsidiary of La Poste, accepted that challenge and played an important role as postal financial service provider by opening accounts on flexible terms for the retired customers.

The experience revealed some interesting characteristics of the retired population in Senegal. Retirees tend to come to bank branches in large groups which significantly increase the traffic at certain hours. In addition, the bank found that patience, human contact and social assistance are key to manage this customer base.

PosteFinances found the appropriate way to solve this issue and a new system of pension payment was successfully developed: all pensions are disbursed on two fixed days per month at any PosteFinances branch in the country. In addition, the network was expanded to 300 service points. The experience from PosteFinances in mass payments was a great asset to target a population of more than 90,000 retirees.
3.1.2. What are the challenges?

3.1.2.1. Low customer adoption

Despite the significant push by financial institutions, data show that informal financial services are still the route of choice for the majority of the population.

According to the World Bank’s 2017 Global Findex, less than 30% of the active population have an account at a financial institution in the 20 African countries where survey responses have been collected. Among those who claimed having saved any money in the past year, twice as many saved money using a savings club/person outside the family compared with those who saved at a financial institution.

The usage of formal financial services tends to increase with education level, income and employment status.

The major gap in account penetration correlates with the education level, as only 22% of the active population with a primary education have an account. Just 44% of those with a secondary education have an account. The second major disparity emerges at the income level of the active population.

Only 17% of the poorest segment have an account at a financial institution compared to 39% of the wealthiest segment. Finally, the employment status results are a third major gap in account penetration. Only 20% of the active population which is out of the labour force have an account at a financial institution. Up to 36% in the labour force have an account at a financial institution.

![Source of savings, World Bank Global Findex, 2017](source-of-savings.png)

<table>
<thead>
<tr>
<th>Source of savings</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saved any money in the past year</td>
<td>49%</td>
</tr>
<tr>
<td>Saved using a savings club/person outside the family</td>
<td>22%</td>
</tr>
<tr>
<td>Saved at a financial institution</td>
<td>11%</td>
</tr>
</tbody>
</table>

*2X as many customers saved money using a savings club/person outside the family compared to saving at a financial institution.*

Promotion and financial education: Another area of potential difficulty

The main tools used by banks surveyed to promote savings to low-income customers are personal selling (face-to-face communication) and advertising through the radio. While personal selling and financial education initiatives might address the issue of the customer’s perception directly, broadcast radio seems less appropriate to increase adoption and activity given the customer’s reluctance to open and use the financial services, with lack of funds being a significant reason. Broadcast radio may be more effective early on during the awareness stage.

In addition to the usual promotional tools, the majority of the banks (74%) provide specific financial education to the customers.

Information gathered from interviews with partner banks in four countries indicate that financial education is provided in different ways (within the branch by an employee, outside the bank in the field, online). Most of the partner banks do it, however through conferences and the use of leaflets within the bank. These tools cover a large set of topics (savings and loan products, business management, financial management, risk and insurance, technology) and financial education is usually tailored according to the customer segments.

For example, business customers receive specific education on account bookkeeping, taxes or business management, while individual customers receive information about savings, financial management, insurance, etc. Other financial education tools might also target women, youth or savings groups.

As another example regarding the tools used, a partner bank would organise conferences for larger enterprises and MSMEs outside of the bank inviting speakers and successful businesses, while it would use online or phone applications for its individual customers who can then navigate and interact with an operator. However, this channel is limited toiterate customers only.

Other partner banks address financial education only for loan instruments through monthly training focusing on business and account bookkeeping, loan repayment and savings.

Some partner banks also supplement the government financial education programmes by local initiatives or partnerships with other organisations.

According to past studies, the impact of financial education programmes on consumer behaviour has been difficult to measure as such initiatives are often run together with other promotional tools and on different time scales. However, despite the very few pieces of evidence in the literature, banks should continue to invest in these tools as a driver for financial inclusion.

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*Most of the World Bank’s 2017 Global Findex data are available for the selected countries except Angola and Sudan from which the 2014 data is used as default, and Comoros from which the 2011 data is used as default.* No data on Cabo Verde is available at all in the World Bank Global Findex database.

*For the purpose of the report, each country has been weighted according to the active population size.*
3.1.2.2. Low account activity

Once a customer has adopted a financial service such as a transaction or savings account, activity remains low for most of the banks.

By the end of 2017, the 24 banks that answered the survey had 17 million transaction accounts\(^6\) opened, 21 million savings accounts\(^6\), and 1.4 million mobile accounts\(^6\).

The survey responses showed, however, that only a small number of accounts were considered active\(^6\) (used to perform at least one transaction during the last six months). The inactivity rate remains significant, despite falling on both transaction and savings accounts for the last 12 month period.

The activity of accounts is low: the average number of cash-in / cash-out transaction ranges between one and three per year. Moreover, account-to-account transfers are fewer than once per year on both types of accounts.

\(^6\) See glossary on page 55.
The low activity rates reported from the banks are not a surprise. They are closely aligned with the results from the World Bank’s 2017 Global Findex, as only 40% of the active population having an account at a financial institution made a deposit and 43% made a withdrawal in the past year in the 20 African countries where survey responses have been collected. Up to 18% of the active population reported ‘no deposit’ and ‘no withdrawal at all’ during the past year. Finally, only 25% of the active population made or received a digital payment in the past year using mobile money, a debit or credit card, or a mobile phone to make a payment from an account or using the internet to pay bills or to buy something online.

Despite the variety of accounts offered to various segments by the financial institutions surveyed, the product value proposition does not seem adapted to the customer’s needs, as evidenced by the low account penetration and activity rate. It appears that financial institutions struggle with customer centricity. The question is why? Could it be the price? Perhaps access? Is there a communication gap? What other variables could be the cause?

The next sections of the report will address the following questions:
1. What drives the business case for providers to serve the financially disadvantaged?
2. How can an enabling environment be created?
3.2. Affordability

Key findings

Business models – including high account fees and interest rates offered to customers – are not optimised. It appears that financial institutions need to be more customer centric.

This section analyses the second fundamental pillar of financial inclusion – Affordability – as to how much low-income customers can afford to pay for financial services. Survey findings highlight no real acknowledgment that customers are turned off by high pricing.

Survey results also show that the customer pays a high number of account fees, which include account opening fees, ledger fees and transaction fees. On the other hand, most banks offer interest rates to their customers on savings accounts. This usual business case for the financial institutions is not optimized, as indicated by the World Bank's 2017 Global Findex, which highlights that customers show indifference to interest rates on savings accounts but a strong sensitivity to ledger fees.

3.2.1. What do financial institutions offer?

Banks drive their revenue from ledger and transaction fees.

Most banks surveyed drive revenue on transaction accounts from the ledger and transaction fees tied to the transaction size. A minority charge account-opening fees to their customers. Less than 10% of the banks offer free transaction accounts where no fee is charged at all.

The savings accounts mainly generate revenue through ledger fees. Less than 20% of the banks offer free savings accounts. Also, the few banks that provide free transaction accounts require payments on the savings account to generate some revenue.

Mobile accounts generate revenue through transaction fees tied to the size of the transaction and only 10% of the banks surveyed offer free mobile accounts.
3.2.2. What are the challenges?

Context of the study:
In 2018, Al Barid Bank launched a new pack composed of a mobile account and a remunerated savings account, accessible from a mobile phone with the possibility of transferring money free of charge from one account to another. To develop an ecosystem around the digital payments, Al Barid Bank is equipping the merchants with a payment application, called Barid Bank Mobile, so that customers can make payments directly to the merchant’s account through their mobile phone.

The purpose of the study conducted in April 2018 was to understand and analyse the motivations, appetites and behaviours of the various target audience vis-à-vis the project of digitalisation of payment with a focus on the savings activity.

Results of the study:
Amongst the results of the study, the digital financial services offered by merchants (payment, cash in and cash out) were, in general, well accepted by customers. The merchant felt positively the proposed cash-out. The majority of customers thought, however, that cash-out fees linked to the size of the transaction were too high. Al Barid Bank, therefore, reviewed the charges accordingly.

The results of the study show also that all customers are willing to use digital savings as they are free of charge, but a majority of the customers do not consider savings interest rates as the priority.

Case study from Al Barid Bank in Morocco: Market research on digital payment and savings

Most banks offer interest rates to their customers on a savings account, but still require a minimum balance to open it.

Case study from Nigeria: Market research on the Nigerian rural farmer

Context of the study:
As part of the pre-project research under the Scale-2Save programme, a study was conducted in July 2018 in order to understand the lifestyle, money-related behaviour and values of the Nigerian rural farmer.

Results of the study:
Amongst the results of the study, farmers in the south of Nigeria do not consider interest rates as a high priority, while farmers in the north of the country do not want interest at all due to religious beliefs. They want access to capital for expansion.

Learn more at www.wsbi-esbg.org/knowledge-sharing/scale2save/nigeriacasestudy
3.2.3. What does it mean for savings and retail banks?

Financial institutions need more customer centricity. This is apparent when one considers the perceptions as indicated in the previous section. More specifically, that banks see that customers appreciate most a low fee rate for savings products and, coincidentally, that customers think financial services are too expensive. The price of financial services does not seem adapted to customer affordability when looking at customers’ high sensitivity to transaction fees and low consideration for interest rates on savings accounts.

According to interviews with partner banks in four countries, customer sensitivity to fees is widely recognised by the banks. Some partner banks, however, specify that this sensitivity is higher towards monthly fees such as the ledger fees charged to customers, even when there is no transaction.

Nevertheless, some partner banks specified that customers might value interest rates depending on the type of account. For example, there might be no consideration for interest rates on a basic savings account because the money on the account is rather used for transactions rather than for savings purposes. This means that the money does not stay on the account very long as the money on the account is used for transaction, rather than for savings purposes. However, fixed deposits accounts with interest rates might attract customers as this type of account is more dedicated to savings and therefore stable.

The affordability envelope for basic payments and savings services in rural markets

<table>
<thead>
<tr>
<th>Countries covered by WSBI programme</th>
<th>group 1: Tanzania, Uganda</th>
<th>group 2: Burkina Faso, Kenya, Lesotho</th>
<th>group 4: Morocco, South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Typical household total monthly cash flow</td>
<td>$40-50</td>
<td>$65-70</td>
<td>± $150</td>
</tr>
<tr>
<td>Likely amount of cash financially manipulated</td>
<td>$10-15</td>
<td>± $25</td>
<td>± $100</td>
</tr>
<tr>
<td>Likely limit on what is being paid for this</td>
<td>US$60-75</td>
<td>$1.25-1.50</td>
<td>not clear but ± $2-3</td>
</tr>
<tr>
<td>Amount banks charge for a five-transaction package</td>
<td>TZ = ₣60</td>
<td>KE/LS = up to $1.50</td>
<td>SA = $1.8</td>
</tr>
</tbody>
</table>

3.3. Accessibility

Key findings

Alternative delivery channels are commonly offered by banks, but some barriers exist against their further development.

This section of the report analyses the third fundamental pillar of financial inclusion – Accessibility – as far as addressing the difficulties of getting close enough to low-income customers so that an account can be used. In addition to direct cost, a significant barrier is additional costs borne by the customer, including transportation costs (time and money) for the customer to make a transaction. The proximity gap is the biggest challenge to serving the low-income population, according to most financial institutions surveyed.

The survey indicates that alternative delivery channels⁶ – any channel that is not a full-service brick-and-mortar branch – are commonly used by banks, but some barriers exist against further development. Alternative delivery channels, including agents⁶, ATMs⁶, merchants⁶, mobile banking⁶, and roving staff⁶, are not that cheap for the provider and require an upfront investment, as well as continuous training and monitoring.

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⁶ See glossary on page 55.
Amongst the alternative delivery channels, the majority of the banks surveyed deploy ATMs, and around half of the banks use agents – individuals or businesses entitled to act on behalf of a financial institution to perform certain financial or administrative transactions. Half of the banks offer as well mobile banking – mobile services based on USSD or SMS communications that clients can access through their device. Merchants – those using a physical payment processing device to accept payment for sales of its goods or services from customers – and roving staffs – units that serve customers outside the branch – are not a delivery channel commonly used by the banks.

Regarding the channel strategy for 2018, 45% of the banks selected mobile banking as a priority focus channel for the next 12 months, and 18% of the banks mentioned the branches and the agents as a priority.

Focus on mobile money: Slow uptake from savings and retail banks despite boom in Africa

According to the GSMA State of Industry Report 2017, the Sub-Saharan African region, which has long been the epicentre of mobile money, keeps on growing as the mobile money accounts registration is increasing by 18.4% on a year-on-year basis. The Middle East and North Africa (MENA) region shows strong growth as well with a transaction value rising by 21.5% on a year-on-year basis. Moreover, the 2017 GSMA report highlights the recent development of mobile money to serve not only as a traditional payment platform, but a tool for savings money and earning interest. This new mobile money-enabled savings offer from the providers are to be designed in partnership with third parties, particularly banks. Despite this significant mobile money trend, less than half of the banks that answered the survey offer a mobile account to their customers. Ninety per cent of the banks providing a mobile account are in English-speaking countries. The term ‘mobile account’ refers in the survey to any account which allows for transactions to or from other accounts through a mobile phone. According to past studies, the different stages of mobile ecosystems development among countries might be explained by the legal and regulatory framework (non-existent or weak regulations that could clearly define the role of electronic payment service providers) or by market barriers. Moreover, the results from the WSBI survey show that the majority of the mobile accounts were opened in 2017. By the end of that year, banks who answered the survey had 17 million transaction accounts and 21 million savings accounts, but only 1.4 million mobile accounts. Fifty-two per cent of these mobile accounts were opened in 2017, compared to 14% being transaction accounts and 13% savings accounts.
Insight on Centenary Bank in Uganda: New agent channel

Centenary Bank launched agent banking in 2017. By the end of that year, the bank reached 176 agents around the country, followed by 746 agents by March 2018, and 2,000 more forecasted by year-end 2018. Each agent applied for a license at the Bank of Uganda to be able to work for different banks using a shared platform.

The development of the agent channel resulted in a significant increase in savings accounts, and therefore more fund-stability for future investment. Moreover, this channel reduced the customer flow into branches. Deposits through agents represent 5% of total transactions.

To develop its agent channel, Centenary Bank employed a strategy that included building confidence with the public, incentivising people to contract as an agent and providing training to these new agents. The bank also set out to educate customers on how to transact through an agent. Additionally, Centenary Bank created a process to monitor agents via regular supervision and appointed financial inclusion managers within branches.

3.3.2. What are the challenges?

While alternative delivery channels were the main priority in 2018 for the banks, some barriers prevent them from developing new channels. Survey results highlight the barrier of financial resources as the main impediment for banks (43%), but technology was mentioned as a critical barrier as well for 29% of them. According to interviews with partner banks in four countries, “technology” was mainly interpreted as a financial resource issue. As customer needs grow constantly, related costs are high to meet these needs through appropriate technology. Costs rise still further when banks target low-income customers. One partner bank highlighted as well the issue of e-security, which ratchets up digital technology costs.

Figure 19: Barriers of the banks to develop new channels of distribution, 31 December 2017

What is the major barrier to develop new channels of distribution?

- financial resources: 43%
- technology: 29%
- regulation: 14%
- other: 10%
- human resources: 5%
According to the interviews with partner banks in four countries, some alternative delivery channels are not used due to regulation. For example, in Morocco the “New Banking Law”, law 103-12, introduced the concept of “Payment Institution”, “Payment Agent” and recognised electronic money back in December 2014. However, this new regulation did not define the terms and conditions of operation of the former channels; nor the services they can offer until June 2016 through two circulars published by the Bank Al-Maghrib – the central bank of Morocco. This need for clarification on mobile and agency banking delayed significantly the introduction of the new alternative delivery channels at the financial institutions.

Another example comes in the eight countries within the West African Economic and Monetary Union (UEMOA, “Union Economique et Monétaire Ouest Africaine” in French). Regulated by one central bank, banks under UEMOA jurisdiction can only deploy agency banking through the “Intermédiaire en Opérations de banque” concept, which requires financial institutions to create a subsidiary or enter into a partnership. Microfinance institutions have more flexibility to carry out agency banking solutions since the regulation applied to them in UEMOA countries allows them to launch agency banking solutions through agents/merchants.

### Insight on other specific challenges for some alternative delivery channels

ATMs potentially offer a low-cost approach to the full-service branch. However, this channel still requires a vital upfront investment to be integrated into the banks’ systems. Compounding this are real estate costs for ATM space, which might be expensive in some areas. ATMs often face reliability issues as well, and require constant availability of electricity and network connectivity. Finally, this channel involves business process changes, including shifting to 24-hour/7-days-per-week operations. Some customers face a steep learning curve using ATMs. Training them is often required.

Agents and mobile banking usually come together. Branchless does not mean faceless, as agents play a vital role in mobile banking. Low-income customers’ mobile know-how is often limited to understanding how to dial and hang up. The need exists for financial institutions to provide additional mobile phone literacy programmes. Education, training, and marketing are essential tools to address such issues. As a trusted intermediary, the agent will likely play an even more engaged role, facilitating transactions and helping clients become more comfortable using the technology in their hands and in new ways.

As an alternative to mobile, other point-of-sales devices might be used, but they are typically expensive solutions to purchase and repair. This cost is difficult to justify when compared with the potential of the mobile phone alone, especially when factoring in added complexity such as safety concerns, battery life and other factors, as well as asking the agents to carry a second device in addition to the mobile phone in their pocket.

### 3.3.3. What does it mean for savings and retail banks?

Alternative delivery channels contribute to the welfare of the customers as they deliver more convenient financial services. Despite the lower cost of these channels compared to the full-service brick-and-mortar branches, financial resources remain the main barrier to develop new delivery channels for the banks.

The question arises as to whether partnerships, such as a shared agency banking infrastructure, could be a feasible outcome to bring down costs and boost outreach.

In addition, the impact of alternative channels on usability in rural areas may be mitigated by a lack of security and cash flow management issues for agents. According to the 2018 Savings Count report published by Itad, other significant barriers prevent uptake and use by customers. These barriers include “the lack of channel reliability to perform transactions, lack of integrity such as fraud by agents or misuse of client data, and limitations due to undertrained personnel and regulatory restrictions.”

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The WSBI Doubling Savings Accounts programme published a proximity mapping tool to give an assessment of how many clients need to be captured by different types of outlets to become financially sustainable at reasonably affordable pricing. WSBI found that branches and vans need catchments of 50,000 to 100,000+ people depending on the level of competition. Single-teller kiosks work in smaller towns (“trading centres”) with populations of about 10,000+. Agent models work in rural centres with populations of as low as 5,000.

Separately, the charts below describe how many locations are there with this sort of population within walking distance in Kenya and Tanzania. The assumption is that people are willing to walk a maximum distance of 2 km for making a small deposit but up to 5 km to pick-up/send a transfer that typically equals a week’s wages. The charts summarise the chances for a financial institution to get a rural reach with a branch and/or mobile agents.

Kenya: 40.5 million people in 2010; probably just over a thousand locations at scale needed

Tanzania: 45 million people in 2010 but only a few hundred locations at scale needed

- 90-100 clearly urban centres: 13 million
- and ± 625 other distinct rural centres: 5 million
- borderline ± 1,100 lesser rural clusters at scale: 4 million
- ± 17,750 very dispersed rural clusters / rural hinterland: 12 million
- one in seven not obviously reachable by formal cash-in/out: 6 million

± 220 distinct centres (split about 50-50 urban / rural): 11 million
- borderline ± 325 lesser rural clusters at scale: 1 million
- 2,500 very dispersed rural clusters / rural hinterland: 14 million
- more than two in every five not obviously reachable by formal cash-in/out: 6 million

Kenya Post Office Savings Bank offers small savings groups a mobile banking service called ‘M-Chama’. The product aims at allowing members to use their mobile devices to transact group business.

Insight from the MicroLead’s DFS Toolkits: How to Succeed in Your Digital Journey

A series of practical guides and case studies from UNCDF MicroLead, Mastercard Foundation, and PHB Academy provide useful tools to guide financial institutions in their digital journey:

- Toolkit 1: Use mobile as a tool
- Toolkit 2: Be an agent
- Toolkit 3: Leverage an existing agent network
- Toolkit 4: Develop your own agent network
- Toolkit 5: Create your own mobile banking channel
- Toolkit 6: Be a provider

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12 Source: https://www.wsbi-esbg.org/SiteCollectionDocuments/Affordability%20sustainability%20and%20the%20limits%20of%20proximity.pdf

13 Source: http://www.uncdf.org/microlead/download-the-dfs-toolkits-from-microlead
3.4.  Sustainability

The final section examines the fourth fundamental pillar of financial inclusion – Sustainability – covering the remaining constraints from customer adoption of financial services while ensuring these services are profitable for the bank. Those constraints include lack of trust and regulatory barriers, information and knowledge gaps, social limitations and behavioural biases.

The survey indicates that savings and retail banks in Africa are investing in the low-income customer segment as they perceive it to be viable. They will continue to invest in ways to increase the number of accounts. Besides affordability and accessibility challenges, one critical area relates to the macro-economic environment – namely regulatory and socio-economic factors – in which financial institutions operate. They will need this environment to be favourable to reach sustainability.

Key findings

a. Though challenges exist, the low-income segment remains attractive for savings and retail banks in Africa.
b. Volume is the major factor driving sustainability of low-balance savings accounts.
c. To reach sustainability, the macro-economic environment – namely regulation and socio-economic factors – ought to be favourable to financial inclusion as well.

3.4.1. What do the financial institutions offer?

Low-balance savings accounts are perceived as being viable for the banks

One-third of the banks surveyed view low-balance savings accounts as highly viable and 42% slightly viable for their business. On average, low-balance savings accounts represent 42% of the balance sheets of the banks surveyed.

Figure 20: Perceptions of the banks on the low balance savings accounts, 31 December 2017

To what extent do you perceive low-balance savings accounts to be viable for your bank?

| 3 (slightly viable): | 42% |
| 4 (highly viable): | 33% |
| 2 (poorly viable): | 25% |

A majority of the banks perceive low-balance savings accounts as viable for their business.

Volume perceived a key factor for low-balance savings accounts being sustainable

The most significant investment from the banks in financial inclusion in 2017 was to increase the number of low-balance savings accounts. This remained the focus for 2018. According to the banks’ perception, volume – more precisely, the number of savings accounts – is the primary criterion for low-balance savings accounts to be sustainable. The greater the number of low-balance savings accounts, the more sustainable they are. Cost is the next criterion, including low account-opening costs, required low investment for marketing, and low interest paid customers. The final criterion involves easy-to-access savings products. However, account activity – including a high number of deposits, a low number of withdrawals, and a high number of transactions – remains essential as well.

Figure 21: Criteria for low balance savings account to be sustainable, 31 December 2017

What are the top three criteria for low balance savings account to be sustainable for your bank?

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume</td>
<td>30%</td>
</tr>
<tr>
<td>Cost</td>
<td>20%</td>
</tr>
<tr>
<td>Easy access to savings product</td>
<td>10%</td>
</tr>
</tbody>
</table>
3.4.2. What are the challenges?

In addition to the 52% of banks who identified a regulatory barrier to develop financial inclusion, significant obstacles mentioned in survey feedback are Know Your Customer (KYC) requirements and regulation on services used.

Figure 22: Major barriers and challenges to sustainability, 31 December 2017

What is the major regulatory barrier, if any, to develop financial inclusion in your country?

None: 48%
KYC requirements: 19%
Regulation of service use: 19%
Lack of regulation: 10%

According to interviews with partner banks in four countries, regulation on services used include rules covering the price of the service, the minimum fees set up by a government to complete deposit and/or withdrawal transactions, or a law that allows a (too) high ceiling of the transaction amount. For example, in the eight UEMOA countries regulated by one central bank, the yearly interest rate cap on loans is set at 15% for banks and 24% for micro-finance institutions. This maximum interest rate is a barrier for banks to reach a low-income segment while remaining profitable. This can be explained due to the total cost for banks to offer micro-loans quickly reaching the level of the interest rate cap, which makes the business case unviable. Banks’ lending strategies targeted at low-income customers are often linked to a strategy of mobilising savings from this segment.

3.4.3. What does it mean for savings and retail banks?

According to the 2018 Savings Count report published by Itad\(^4\), factors that influence the business case for financial inclusion are government regulation and the financial inclusion policy – such as financial institutions that are or are not able to obtain deposit-taking licenses as well as financial institutions that can or cannot use tiered KYC requirements.

For example, many recent financial inclusion initiatives from financial sector authorities in Sub-Saharan Africa were done to improve the regulatory environment, such as:

- Clear regulations that distinguish between e-money and deposits;
- Regulation that allows the use of agents to facilitate transactions and account opening;
- National financial inclusion strategies;
- Recipients of government transfers that are encouraged/mandated to open an account to receive their funds,
- Deposit-taking institutions that are required to offer basic financial products such as a basic account;
- Simplifications or exemptions to customer due diligence requirements;
- Providing exceptions to customer due diligence, tax incentives, or subsidies; and
- Payment of interest on mobile money accounts.

The local socio-economic context matters as well. Difficult socio-economic conditions and currency devaluations in many African markets are negatively affecting the financial inclusion progress. As the Scale2Save programme moves forward, market research data from the projects in six countries in Africa will be available for the next report, which will evaluate the impact of this context on customer well-being.

\(^4\) Source: http://www.itad.com/reports/briefing-paper-savings-count/
Savings and retail banks in Africa have a substantial account offer to improve financial access to the financially disadvantaged. Despite so many types of accounts offered to meet people’s needs, they fall short on customer-centricity. It requires reform of their business model to improve the customer journey from opening an account towards actually using it while ensuring profits for the bank.

Accounts not adapted to customer need; usability suffers
Despite a variety of transaction and savings accounts offered that seem to be targeted carefully by the surveyed financial institutions, product value propositions do not seem adapted to customer needs. If this persists, banks will continue to face low account take up by future customers and sluggish to non-existent activity rates will fester. The account dormancy conundrum will be explored further in the subsequent reports covering 2019, 2020 and 2021 through more insight gathered on customer demand for financial services. In addition, the report raised the question if having more accounts offered to customers is bringing real value to customers? Or does this just add to costs without providing much value? Does providing a large variety of products lead to improved customer usability?

Affordability gap persists, pushing out low-income segment
Any business case that includes high account fees and saving interest rates is bound to fail for this segment. To optimise the business model, financial institutions need to be more customer centric. Further data on the customer affordability envelope for financial services will be analysed in the coming reports from 2019 to 2021.

High-tech accessibility hampered by start-up costs; customer reach suffers
Survey results show appetite by respondents to scale-up alternative delivery channels. Feedback indicates these channels are commonly used by the financial institutions surveyed, but these pathways to connect with customers have a price tag that weighs down their already limited operating budget. The upfront investment costs are an especially heavy burden, while outlays for continuous training and monitoring are oftentimes neglected. If mobile banking continues to explode in Africa, then spending on digital platforms will need to take hold or expand.

Partnering with mobile network operators, or new players such as FinTechs, could lower costs, but more analysis on this is needed. Another cost concern raised related to use of mobile vans or postal offices. Those alternative channels also require thorough analysis to see if and how they still serve their role in a cost-effective, customer-centric way.

Threadbare margins remain a challenge to bank sustainability
To operate sustainably, banks take into consideration macro-economic environments as well as regulatory and socio-economic factors. Policy at government or business level must keep in mind that banks operate within razor-thin profit margins when offering financially inclusive products like small-balance savings accounts. Other factors affecting the sustainability pillar for banks will be identified and considered for inclusion in subsequent reports. As this report is the benchmark for reports that follow during the next three years, more in-depth analysis and recommendations will be provided in later editions with the intent to trigger interest in two main banking industry-specific areas: universal financial access and public policy approaches to get there.
Annexes

5.1. Background

WSBI created in 2016 a new programme supported by Mastercard Foundation “to establish the viability of low balance savings accounts and use of customer-centric approaches to address barriers faced in access, usage and affordability of savings services”.

Called Scale2Save, the programme is set against a backdrop of problems such as high poverty rates and financial exclusion in sub-Saharan Africa as well as low formal savings rates. Financial service providers have a poor understanding of the market savings potential of various low-income segments – notably, but not exclusively, young adults living in someone else’s home. Customer and potential customer needs – and how much they can afford to pay to meet those needs – are inadequately reflected in their business models, customer interfaces and interactions. The resulting poor customer experience gives rise to extremely high incidences of bank account dormancy and inactivity, which represents a significant drain on costs and thus undermines potentially sustainable business cases to deliver accessible financial services to these segments.

The Scale2Save programme’s core activities are to:

- Provide banks with technical assistance to banks to develop savings services valued by low-income clients
  WSBI works with seven banks to develop and deliver savings products that not only increase access to financial services but also drive ongoing usage of those services. The banks are located in Cote d’Ivoire, Kenya, Morocco, Nigeria, Senegal, and Uganda. A bank in Tanzania acts as a knowledge partner.

- Conduct research and share lessons between partner banks
  WSBI publishes the annual report “Savings and Retail Banking in Africa” to facilitate peer learning and knowledge dissemination. The institute also researches new pricing models to help establish a business case for low-balance savings, and conducts household research to contribute to the knowledge base on intra-household cash-flows.

- Communicate learnings to the wider sector
  WSBI has developed and implemented a targeted communications strategy to disseminate the knowledge created by the project to key stakeholders.

- Monitor and evaluate the programme
  WSBI monitors project progress at partner banks and oversees mid-term and final project evaluations.

The programme started in September 2016 and will continue until February 2022.
About WSBI

Founded in 1924, WSBI is an international banking association committed to help savings and retail banks thrive. To do this it represents the interests of approximately 6,000 banks on all continents.

As a worldwide organisation, WSBI focuses on international regulatory issues that affect the savings and retail banking industry. It supports the aims of the G20 in achieving sustainable, inclusive, and balanced growth, job creation, whether in industrialised or less developed countries. Supporting a diversified range of financial services to meet customer need, WSBI favours an inclusive form of globalisation that is just and fair. It supports international efforts to advance financial access and financial usage for everyone.

WSBI has members in 80 countries in the Americas, Africa, Asia and Europe. These members are either individual financial institutions or associations of retail banks. All members share three characteristics: they are active in the retail banking segment, have a strong regional presence and show a responsible attitude towards business and society. The total assets of all member banks amount to more than $15,000 billion, non-bank deposits to more than $5,300 billion. WSBI members are committed to further unleash the promise of sustainable, responsible 21st-century banking.

WSBI and financial inclusion: A brief history

WSBI’s financial inclusion journey dates back to 1924 with the inauguration of the first World Savings Day and has continued over the decades. In 2003, WSBI published research that revealed an estimated 1.4 billion low-cost/low-balance savings accounts worldwide, of which 1.1 billion accounts were managed by WSBI’s member banks. Following further research, the institute launched its programme ‘WSBI Doubling Savings Accounts’ in 2008 and concluded it successfully in 2016. Building on extensive learning, WSBI now sets out on its next stage in the journey through the Scale2Save programme.

About Mastercard Foundation

The Mastercard Foundation seeks a world where everyone has the opportunity to learn and prosper. The Foundation’s work is guided by its mission to advance learning and promote financial inclusion for people living in poverty. One of the largest foundations in the world, it works almost exclusively in Africa. It was created in 2006 by Mastercard International and operates independently under the governance of its own Board of Directors. The Foundation is based in Toronto, Canada. For more information and to sign up for the Foundation’s newsletter, please visit www.mastercardfdn.org. Follow the Foundation at @MastercardFdn on Twitter.
5.2. Methodology

The report provides a quantitative and qualitative assessment of financial access provision by a sample of savings and retail banks in Africa.

The study started in February 2018 with a primary-data research phase. A survey was sent to WSBI’s 34 African members to gather data about their financial products and activity, customer profile, distribution channels and investment and revenues (Annex I: complete survey). Each metric in the survey had to be defined to enable the comparability of the data between WSBI members. Definitions of each metric are provided in the survey form.

To incentivise participation, respondents who submitted the survey responses received a confidential, customised benchmarking report that would allow them to gauge their performance relative to other savings and retail banks in Africa. Participants were guaranteed that their submissions would remain confidential according to the WSBI’s standard policy on handling proprietary information supplied by its members. For this reason, the report only presents aggregated and anonymised results, except where an explicit permission is given by a member to reveal their identity and submitted data.

After the first round of data collection, surveys from 16 WSBI members were received. Responses were checked for internal consistency, but some of the fields in the survey were not optimal and needed to be filled out or clarified for the survey to be considered complete. In addition, the 16 responses were not sufficient to be representative of Africa considering the regional and income level distribution. Therefore, a second round of data collection was run in July 2018 to validate the data already received and further request additional survey responses in order to achieve a representative sample of each region and income level.

In addition, interviews at partner banks in four countries were conducted using a standard set of questions to develop a deeper understanding of the answers reported in the surveys. Trends were identified after analysis of qualitative findings from these discussions alongside quantitative findings from the survey.

In total, 24 completed surveys were collected in 2018 with the following regional representation: two from Northern Africa, seven from Western Africa, eight from Eastern Africa and seven from Southern Africa. Based on income level, 12 surveys were collected from countries classified as lower income level, eight from those considered lower-middle income and four from upper-middle income countries. These data collected covered 20 African countries representative of 32% of Africa’s the total active population 15.

Following this primary data research phase, deeper secondary data research was conducted to cover the missing information on both the demand and supply sides. This second phase included an analysis of the 2017 Global Findex database 16.

Research performed includes market research data from collected from Scale2Save projects, a review of the bi-annual "Savings Count Report" produced by Itad 17 as part of the Mastercard Foundation Savings Learning Lab and other literature research.

15 Source: World Bank database, Data Extract From World Development Indicators 2017
16 The Global Findex database was created by the World Bank with the funding from the Bill & Melinda Gates Foundation. The database offers the world’s most comprehensive data set on how adults save, borrow, make payments, and manage risk in more than 140 economies around the world. The initial survey round was launched in 2011 followed by a second one in 2014 and by a third in 2017. Source: http://databank.worldbank.org/data/reports.aspx?source=global-financial-inclusion
17 The 2018 Savings Count report provides a comprehensive account of the state of access to and use of savings in Sub-Saharan Africa, based on a detailed review of current literature and data. Source: http://www.itad.com/reports/briefing-paper-savings-count/
5.3. Complete survey

The survey questionnaire is available at http://www.wsbi-esbg.org/scale2save/survey/

5.4. Glossary

Account
All transaction and current accounts, term deposits, savings and mobile accounts held with a financial institution, which allows for deposits, withdrawals, and fund transfers by the account holder to third parties as well as sending and receiving payments into this account.

Active account
Account that has been used to perform at least one transaction, such as cash in to account, cash out from account, P2P payment, bill payment, or bulk payment from account, for the period, excluding balance inquiries, PIN resets, and other transactions that do not involve the movement of value.

Agents
Individuals or businesses entitled to act on behalf of a financial service provider (FSP) to perform certain financial or administrative transactions. They may have a direct contractual relationship with the FSP or may be contracted by a third party (super-agent, aggregator) who maintains a service agreement with the FSP.

Alternative delivery channels
Any channel that is not a full-service brick-and-mortar branch, and which offers a full range of financial services. They include agents, ATMs, merchants, mobile banking, and roving staff.

Automated Teller Machines, or ATMs
Machines with a fixed location that customers use to access services. They may be accessed through different identification means – such as a card, personal identification number (PIN), or biometrics – and used for different kinds of cash or non-cash-based operations that include deposits and withdrawals as well as, transfers, account balance consultation, among others. They may be proprietary ATMs or managed by third parties.

Branches
Staffed points of service and administrative sites / branches used to deliver or support the delivery of financial services and wide array of face-to-face and automated services to clients.

Large enterprises
All enterprises, non-subsidiary, independent firms which are not included in the MSMEs term below.

Merchants
Those using a physical payment processing device located at the merchant's place of business, such as point of sale (POS), to accept payment for sales of its goods or services from the financial institution’s (FI) customers using the customer's FI identification means, be a card or other. The merchant could be acquired by the FI or simply part of a network enabling the merchant to process payments.

Mobile banking
Mobile services based on USSD or SMS communications that clients can access through their own device.

MSMEs
Non-subsidiary, independent firms which include at least two of three characteristics: (i) Employees <300; (ii) Assets < $15 million; (iii) Annual turnover < $15 million.

Roving staff
Units that serve customers outside the branch and in their place of residence or business. They may or may not be associated to a particular branch. Only staff or mobile units that manage deposits or handle account opening, other than loan origination, should be counted in this category.

Savings product
Term deposits and demand savings accounts and excludes transaction or current accounts.

Self-help support group
Group of low-income people who come together to save and guarantee one another’s loans. The concept has several forms, including Village Banks, Self-help Groups, Village Savings and Loan Associations (VSLAs), Village Community Banks.

Transaction account
All individual transaction accounts and current accounts.

Mobile account
All accounts which allow for transactions to or from other accounts through a mobile phone.

Savings account
All term deposits and savings accounts.
The WSBI would like to express a special thanks to its African members who participated in the survey and brought invaluable insight into their financial inclusion work:

- Agribank
- Al Barid Bank - La Poste du Maroc
- Banco de Poupança e Crédito
- Banque Malienne de Solidarité
- Banque Populaire pour l’Epargne et le Crédit du Togo
- Botswana Savings Bank
- Caisse d’Epargne de Madagascar
- Caisse Nationale des Caisses d’Epargne de Côte d’Ivoire
- Caixa Económica de Cabo Verde
- Centenary Bank Uganda
- HFC Bank
- Kenya Post Office Savings Bank
- La Poste Tunisienne
- Lesotho PostBank
- People’s Own Savings Bank Zimbabwe
- Postbank South Africa
- PostBank Uganda
- Postefinances Sénégal
- Pride Microfinance
- Savings and Social Development Bank Sudan
- Société Nationale des Postes du Burkina Faso
- Société Nationale des Postes et des Services Financiers des Comores
- TPB Bank
- Uganda Finance Trust

In addition, this report would not have been possible without the contribution of our partners, Mastercard Foundation and Itad, who offered valuable input. Additional thanks to Ian Radcliffe, Weselina Angelow, Céline Stevens, Viviane Garceau and James Pieper from WSBI for their help in the creation of this report.
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