



# Savings and Retail Banking in Africa

Results from 2019 WSBI survey





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# Foreword

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Financial Service Providers (FSPs) in Africa continue to operate in dynamic and changing environments. They are partnering and competing with new technology disruptors, seeking new segments and developing new products in uncertain regulatory environments. FSPs in Africa are striving to provide an array of solutions to help attract and maintain customers who use bank services. Many FSPs are seeking to find new customers, such as low-income segments to differentiate themselves from competitors. Despite great effort, they often find themselves missing the target. Because of this, questions emerge.



*Chris De Noose, Managing Director, WSBI*

FSPs seem to struggle with taking a customer centric approach, as we concluded in the first edition of this Scale2Save report on savings and retail banking in Africa released in early 2019. Second, business models may be out of synch with the wave of digitisation sweeping over banking both in Africa and around the globe. They may lack in-house know-how, which may require them to build partnerships with other banks, FinTechs or even BigTechs.

If FSPs in Africa are to serve 21st century, institutions can frame their role and product offer through four main lenses: Usability, Affordability, Accessibility, and Sustainability. Balancing all four will help FSPs address the need for services that people want that keeps in mind demographic factors, educational levels, geographic situation and data-driven technology. Costs and long-term outlook matter too. Service design, piloting and ramp-up phases in Africa, like anywhere, require strong in-house management.

In this report, we expand the scope of financial institutions surveyed, going beyond the WSBI membership footprint. This approach better reflects the landscape of African banking, which serves a vast and swelling African population set to reach 4 billion by century's end. The 2019 report draws from richer data, folds in case studies that highlight innovation, partnerships and listening to people's needs on the ground, thinking differently about how to serve customers all while keeping costs in check and return on effort reasonable.

We hope the findings found inside this expanded version of the annual report on Savings and Retail Banking in Africa provide needed insight into what FSPs, stakeholders and policymakers can do to broaden financial inclusion to people who depend on small-value, small-scale savings. That includes seasonally sensitive rural areas and a bulging youth demographic in cities. Bringing low-income people into the formal financial sector, will give them access to safe and secure account, and possibility to a broader range of services that could provide opportunities to play a more significant role in the real economy.

This second edition forms an integral part of the Scale2Save program, a partnership with Mastercard Foundation launched in 2016. Along with research on young people in Africa launched in late 2019, programme research factors in high poverty rates, financial exclusion, and low formal savings rates in Africa. We hope stakeholders within the international community, governments and financial institutions in Africa will benefit from the survey analysis, recommendations and conclusions contained in this report.



# Executive summary

## The way ahead

FSPs in Africa need to overhaul their business models and adapt their operations better to an increasingly cost-competitive environment. Our 2019 report reveals that they have identified the low-income market as increasingly viable, responding with new accounts, products and fee structures. But their efforts to win new customers too often fail to appeal, or accounts lapse into dormancy. Mobile is now the channel of choice for reaching the unbanked, and their cost-conscious customers shun fees.

## Our findings

The WSBI's 2019 financial service provider survey drew responses from 37 financial service providers (FSPs) in Africa – 21 WSBI member institutions and 16 non-member FSPs. Together they host about 12% of Africa's retail bank accounts, and 26% of accounts in countries covered by the survey.

**Attitudes to financial inclusion and low-value savings among FSPs in Africa are being transformed.** Branchless banking by mobile phone is driving account growth and putting pressure on fees. More than half of WSBI member respondents now say low-value savings are “highly viable”, up from a third in our 2018 report, and an additional 26% believe they are viable overall.

**FSPs have intensified their focus on customers**, targeting different groups with tailored accounts and savings products. The number of accounts<sup>1</sup> offered by WSBI members surged 24%, year on year, while the number of savings products jumped 27%. **Yet bank account activity remains disappointing.** Only 43% of transaction accounts are active. Among mobile banking accounts, a mere 17% are active.

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

**WSBI members are reshaping the way they charge customers.** Opening fees are becoming rarer, for both transaction and savings accounts, but ledger and transaction fees are more common, and more frequently rise for higher value transactions. **Customers seek value for money and flexibility. Low fees are their top priority** (35%), then interest payments (30%) and account flexibility (30%) according to WSBI members. Local access to customer matters according to only 4% of the FSPs.

**For mobile banking accounts, however, fees are falling across the board.** Fewer than one in five charge opening fees, ledger fees are becoming a rarity, and more than four out of 10 now offer free transactions. **Mobile banking has become the priority growth channel for acquiring new customers;** merchants (who help drive transaction growth) and agents also feature. The growth of branch and ATM networks has virtually stalled.

**Regulation** is a concern for 63% of the WSBI members, and **Know-Your-Customer regulations**, conceived to combat money-laundering and terrorism, are increasingly seen as a barrier to extending financial inclusion.

## Recommendations for Financial Service Providers:

**Research markets and take pains to identify opportunities.** Understand what different groups of customers need and their expectations. Products need to be designed from a customer perspective and be simple, intuitively attractive, and affordable. For example, move to pay-as-you-use approaches.

**Reduce costs, optimise processes, and participate in partnerships.** Digitisation can cut the cost of bank processes and servicing customers, making it easier to acquire additional capabilities and technologies, often through partnerships.

**Develop the market.** FSPs may need to cooperate with others to develop low-value and underserved markets. This may involve collaborating to develop customer literacy and financial capability; establish or expand digital payment ecosystems, develop infrastructure or engage with regulators and policymakers.

**Embrace mobile and digitisation.** All FSPs committed to developing the entry-level market must embrace mobile. Partner where appropriate. Develop digital payment opportunities, especially with retailers and other merchants.

## Recommendations for regulators:

**Keep regulation proportional.** Use a risk-based approach for regulations combating money laundering and terrorist financing (AML/CTF). Risk mitigation measures and costs should be proportional to the risk entailed, consulting with FSPs. These measures would lower the Know-Your-Customer requirement for the low-balance accounts and remove one of the barriers to extend financial inclusion.

**Enable innovation.** Non-banks are entering the market with new products and business models, including partnerships with FSPs, and traditional financial service providers are responding with innovation, benefiting low-value customers. Regulators should seek to create a market in which innovation can emerge and be tested.

**Support and/or direct financial infrastructure development.** To be affordable for low-value customers, financial infrastructure may need to be shared, such as interoperable payment systems. Regulators should encourage cooperation and collaboration where it benefits customers, and ensure that infrastructure exists and works well.



# 1. Introduction and methodology

The 2019 *Savings and Retail Banking in Africa* report is the second annual survey produced by the WSBI. The study series, launched in 2018, aims to help improve access to financial services for financially disadvantaged people in Africa. The second edition moves research into this market forward by including additional information and insights from fresh and extended research. It also highlights what has not changed, but where market opportunities and needs might lie.

## Methodology

The 2018 report drew upon data from 24 WSBI member institutions in 20 countries that responded to the survey. This year's study draws upon 21 responses from WSBI member savings and retail banks or bank associations in 18 countries. These FSPs vary in size and in the complexity of the products they offer, but they share a commitment to socially responsible banking and catering for the financial needs of the poor.

The 2019 survey remained focused on supply of low-balance accounts. However, this year's study was broadened by partnering with FinMark Trust (FMT) from South Africa to include 16 non-WSBI members in six countries. These respondents were drawn from financial service provider networks in which FSD Trusts and FMT operate. The 2019 survey therefore covers 21 countries in total. This enlarges the supply-side database and allows us to compare WSBI members and non-members to gather a broader market understanding.

The non-WSBI members comprise country subsidiaries of South African commercial banks and two microfinance institutions (MFIs). All are interested in serving the low-value transaction and savings market.

This report also draws upon several demand-side survey indicators and insights which reveal the state of financial service access and use in countries and help us understand markets and how customers use financial products. That is useful for both FSPs and regulators.

The demand-side surveys are nationally representative. They gather consumer data and information on access to and use of financial services. Because the structure, development state and complexity of the financial services landscape varies significantly between countries, the surveys are tailored to the needs of each country. Yet indicators from the surveys remain comparable across countries. The first of these FinScope surveys conducted by FinMark Trust in South Africa.

We also obtained the views of market facilitators (mostly FSDs) in eight countries. These facilitators provide additional context to opportunities and constraints in the financial services market and the role of regulators in developing low-value financial markets.

Triangulation and analysis of different demand-side and supply-side data sets can provide insights into particular markets and their possible constraints or opportunities. To show the benefits, we have included analyses of the IMF Financial Access Survey (FAS) – a supply-side study. These insights are typically country specific. They provide FSPs and other market participants with additional analytical tools to deepen their understanding of the market.

It is worth noting that in a survey like this, with FSPs of different sizes and complexity, any analyses dealing with the aggregated responses will tend to be influenced by the larger FSPs. In the same way, analyses dealing with average responses will give greater significance to the smaller organisations.

### **Four pillars to financial inclusion: a report framework**

The report is structured around four elements essential to financial inclusion. This approach is based upon lessons from the 'WSBI Doubling Savings Accounts' programme conducted from 2008 to 2016 and subsequent project work.

- 1. Usability:** what do low-income people need and how do they use their money? This pillar examines the difference between the services offered by an FSP and customers' use of those services.
- 2. Affordability:** how affordable are products for the low-income customer? A look at the gap between the price of the bank's services and the customer's perceptions about affordability.
- 3. Accessibility:** how can the low-income population access the FSPs' various channels? It also examines differences between how and where customers earn their money.
- 4. Sustainability:** can an FSP make enough profits to maintain a sustainable service for low-income customers? This pillar also addresses external challenges that affect sustainability.

The 2018 report showed:

- what FSPs offer;
- the challenges they face; and
- the implications of key findings for savings and retail banks.

The major finding of the 2018 report was that savings and retail n FSP in Africa struggle to be customer centric. This and other 2018 findings remain valid, so this report does not restate them. Rather, the data from this year's survey have been analysed to show:

- how the market has changed (or not) for WSBI members; and
- how the low-value savings and transactions compare from WSBI members with non-WSBI respondents.

Insights and a summary of key messages arising are provided under each of the pillars.

**2.**



## 2. Market overview

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Retail financial services markets in Africa are changing fast. To put the WSBI study in context, we looked at other studies of financial inclusion and low-value savings accounts in Africa. We set out some of the major themes that emerged below.

The **growth rate of traditional, branch-based FSPs is slowing.**

The IMF's Financial Access Survey<sup>2</sup>, shows a significant decrease in the growth rate of all physical channels used by banks and MFIs. A European Investment Bank (EIB) report<sup>3</sup> refers to this as a pause in financial deepening, especially in sub-Saharan Africa. This slower growth of branch and ATM networks may contribute to the slower growth of accounts and usage. The one additional distribution channel that traditional banks have turned to, agency banking, still shows growth with continued focus from FSPs. This may partially offset the effects of weak growth in FSP-owned physical access points. However, FSPs considering or adopting may be seeking cost reduction rather than market expansion.

The Global Findex<sup>4</sup> survey from the World Bank Group confirms that **the uptake and productive use of financial services still have a long way to go.** Low levels of income and economic activity at the bottom of the pyramid remain constraining factors. It is difficult to determine the positive impact on livelihoods of increased financial inclusion but the Consultative Group to Assist the Poor (CGAP) studies<sup>5</sup> recognise that financial services improve resilience of low-income households.

**Digitisation** remains a major driving force in the provision of financial services, as highlighted by the report on Digital Access by the International Finance Corporation<sup>6</sup> (IFC).

2 IMF Financial Access Survey (<https://data.imf.org/?sk=E5DCAB7E-A5CA-4892-A6EA-598B5463A34C>)

3 Banking on Africa: Delivering on Financial Inclusion – European Investment Bank 2018.

4 The Global Findex Database 2017 (<https://globalfindex.worldbank.org/>)

5 Emerging Evidence of Financial Inclusion – CGAP, 2019 (<https://www.cgap.org/research/publication/emerging-evidence-financial-inclusion>)

6 Digital Access: The Future of Financial inclusion in Africa – IFC, 2018.

The use of **mobile technology** is the one major growth area for financial inclusion in Africa. Mobile money has been a great success in East Africa, but other countries do not necessarily follow the same pattern. But customers clearly welcome digital services adapted to local circumstances that extend beyond simple financial transfers. Mobile money and related mobile services are the main drivers for the uptake of basic financial services where FSPs have adopted this approach. These services and their associated mobile money agency networks are continuing to grow. The Financial Access Survey also identified ongoing take-up of mobile money: this factor may help explain why banks' physical distribution networks are growing relatively slowly.

Two principal concerns arise, however. The activity rate among mobile money users remains low, and keeping the agency network engaged may prove a challenge.<sup>7</sup>

The International Finance Corporation<sup>8</sup> (IFC) concludes that digital strategies lead the way. Its study promotes the use of data analytics and insights to develop financial markets. However, the IFC emphasises that digital strategies must be carefully planned and executed, and cautions against simply adopting a strategy from a seemingly successful implementation elsewhere.

The IFC study<sup>9</sup> concludes that to enhance financial inclusion FSPs need to focus especially on key building blocks, including digitising merchants, incorporating value chains and ensuring the interoperability of transaction flows. In short, this is about a soundly enabled ecosystem where all actors, providers and consumers operate in an environment that functions cohesively, efficiently and effectiveness for the common good.

Regulatory frameworks must address digital financial inclusion, according to the CGAP<sup>8</sup>. Its report highlights the need for regulatory frameworks in emerging economies to ensure:

- risk-based consumer due diligence, with proportional oversight and know-your-customer (KYC) requirements;
- consumer protection, incorporating a treating-customers-fairly framework, covering full disclosure and transparency;
- rules for the use of agents with a comprehensive definition and guidelines on eligibility; and
- appropriate supervision of e-money issuance by non-banks.

7 IMF Financial Access Survey (<https://data.imf.org/?sk=E5DCAB7E-A5CA-4892-A6EA-598B5463A34C>)

8 Digital Access: The Future of Financial inclusion in Africa – IFC, 2018.

9 Regulation for Inclusive Digital Finance – CGAP, 2018

Digitising government payments can play a central role in extending the digital payment footprint – a point highlighted by CGAP in earlier publications<sup>10</sup>. This would help build trust in digital payments and aid their acceptance by potential users.

Despite an apparent lull in the financial services market, McKinsey<sup>11</sup> highlights that **competition and complexity are increasing** in most countries. The banking market is the second-fastest-growing and profitable market of any other region in the world. Although some global banks have withdrawn, regional banks, particularly Southern and West African banking groups, have expanded their presence, the EIB found<sup>12</sup>. The provision of financial services is becoming more complex, including new innovative business models, and the range of financial products is expanding and FSPs are becoming more diverse. It is becoming difficult for all but the larger FSPs to develop their own capabilities to offer all services across multiple channels. This makes it harder for most of Africa's FSPs to compete effectively.

One way to overcome this problem is by **entering into partnerships**. Partnerships involve using the capabilities of another organisation to compensate for any limitations in your own capabilities. Partnering can enable FSPs to extend their range of services and channels to customers. It also enables them to increase revenue by providing services to other market participants. For example, regulatory restrictions typically prevent postal FSPs offering loans. Partnering with an MFI or bank as loan provider can overcome this handicap and enhance their customer proposition, for example in Tunisia and Kenya (see the La Poste Tunisienne case study in this report).

The EIB report also highlights the potential of partnerships, including those between banks and telecoms operators. The EIB says that 78 per cent of banks (78%) canvassed in their 2018 study do not see telecoms operators as competitors. In most countries telecoms operators cannot offer savings and loans. This creates an opportunity for telecoms operators to partner with FSPs to offer banks' savings and loan products. The success of such an approach is highlighted in an FSD Kenya article on digital credit in Kenya<sup>13</sup>, where it has become a leading source of credit. The two market leaders, M-Shwari and KCB M-Pesa, are both examples of partnerships.

10 Digitizing Person-to-Government Payments: Global Landscape in 2016 – CGAP, 2016

11 Roaring to Life: Growth and innovation in African Retail Banking – McKinsey, 2018

12 Banking in Africa: Delivering on Financial Inclusion, Supporting Financial Stability – EIB, 2018

13 Kenya's digital credit revolution 5 years on – FSD Kenya, 2018

Mastercard Southern Africa<sup>14</sup> also recognises the importance of partnerships in extending financial inclusion. It calls for telecoms operators and retailers to be involved in efforts to extend and digitise financial services.

As retail financial services markets become more diverse and complex, new risks arise. Most regulators seek to address them by **developing their regulatory frameworks**<sup>15</sup>, often extending the concepts of proportionality and risk-based oversight. But the capacity of regulatory organisations to adequately deal with the complexity and with new types of financial service providers remains a concern.

Consumer protection is also of growing concern to regulators, particularly as digitisation creates new challenges and increases the possibility of large-scale abuse.

Nearly six out of 10 adults in Africa do not have an account at a regulated institution (including mobile money providers). **Financial markets still have to develop significantly to adequately serve people's needs.** The rise of mobile money ownership is encouraging. But in many countries, it does not yet bridge the gap towards using broader-based financial services. Global Findex found that 50 per cent of adults save, so the potential to mobilize more savings exists. But to attract a larger portion of these savings, FSPs will have to be more responsive to market needs. Otherwise, potential customers will continue to make extensive use of informal financial services.

In some countries the extension of financial services is driven by the authorities' desire to widen the tax base. This approach may fail to consider the actual needs of the financially underserved and excluded, and may leave some areas of financial service provision under-developed. In some countries banks' ability to lend is still constrained because they must fund government debt<sup>15</sup>. This may limit their ability to offer a more complete set of financial products to meet customer needs.

**Coordination and cooperation** may be the best way to achieve some improvements in access to financial services. Improved financial capability is in everyone's interest. A cooperative approach, coordinated by a regulator, will yield the best results.

14 Technology and partnerships to drive next wave of financial inclusion in Africa – Business Live, 2019

15 Banking in Africa: Delivering on Financial Inclusion, Supporting Financial Stability – EIB, 2018

Similarly, extending the financial infrastructure in a country works best if all market participants are involved. This ensures that all players are aware of the responsibilities and opportunities in improving factors such as credit information, payments interoperability and dispute resolution mechanisms. To maximise market impact, constraints to advancing financial inclusion nationally should ideally be addressed in a joint national forum.

**3.**

# 3. The 2019 financial service provider survey

## 3.1 Overview

This year's study reveals a market where:

- bank account growth is slow;
- the extension of physical infrastructure has stalled;
- uptake of mobile banking accounts continues; and
- there was a greater focus on agents.

Transaction accounts grew only marginally (less than 2%), and savings accounts by less than 5%. However, the number of mobile accounts surged by 18%. The number of branches declined marginally overall, as did the number of ATMs deployed.

The number of agents, contracted by the FSPs or by a third party, is still growing. This growth reflects a need to reduce the cost of servicing growing base of mobile accounts, whilst ensuring they are adequately supported.

Activity rates for transaction accounts remain low and were unchanged from the previous year. Although the number of mobile accounts grew, the level of inactive accounts rose (only 19% of accounts were active<sup>16</sup>, down from 33% registered accounts). The accounts that are active, however, showed more transactions per account. Overall monthly transactions per account rose marginally from 0.55 to 0.57. Female customers remained 42% of the customer base. The proportion of rural customers declined from 25% to 18%. However, this probably reflects the different profile of the FSP respondents compared to the previous year – and not a reduced focus on rural customers.

<sup>16</sup> The number of accounts that have 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 last 6 months. Balance inquiries, PIN resets, and other transactions that do not involve the movement of value SHOULD NOT qualify an account as active.

FSPs responded to low activity and slow account acquisition by increasing segmentation and offering more products. However, this did not seem to have any significant effect on the market.

## **3.2 Usability**

### **3.2.1 Key insights from the survey results**

FSPs have responded to low uptake and usage of entry-level products by offering a broader range of account types, further segmenting the market. Yet uptake remains subdued and activity low. In some cases, segmentation appears excessive, since some products are not deemed viable or profitable. Simplifying the customer offering may help, provided that the product set is still designed in response to customer needs.

Growth of mobile accounts remained healthy, however. Mobile accounts, particularly mobile money, typically have significantly lower usage than more traditional accounts. This suggests that customers may find them harder to use.

There are indications that some consumers prefer FSPs, which better meet their needs through a wider range of product types. This opens up possibilities for broadening the types of services being offered via an extended product range. This can be achieved either directly by the FSP or through partnerships with other FSPs.

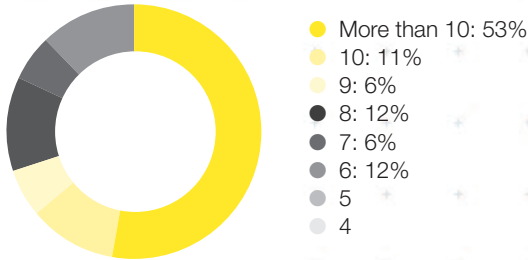
### **3.2.2 Number of accounts being offered**

The number of accounts offered by WSBI members surged by approximately 24% from 2017 to 2018, suggesting a move towards greater segmentation and product differentiation.

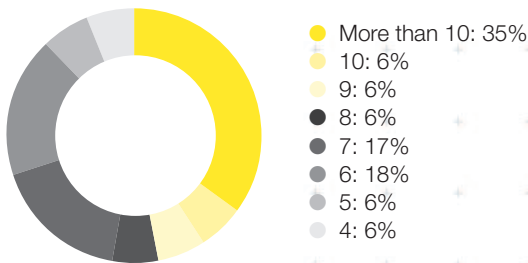
The number of types of savings products offered by WSBI members jumped 27%, year on year. Basic savings products remain the most popular product; term deposits are the second most used product.



**Figure 1: WSBI members: Number of accounts 2018**



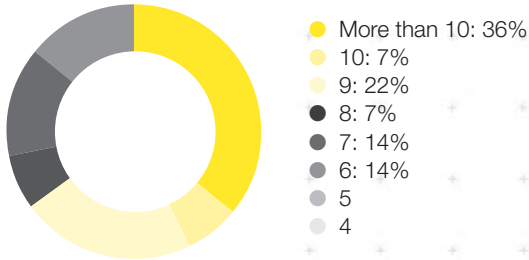
**Figure 2: WSBI members: Number of savings products 2018**



The surge in account and product types could reflect a growing customer focus. However, it also raises costs and makes customer offerings more complex. Some members interviewed suggested they would reduce their product range by removing unsuccessful products. Segments must be chosen carefully and products designed to meet their needs.

Non-WSBI members offer about 12% fewer account types and savings products. They take a more measured approach to segmentation and may be more cost conscious than their WSBI counterparts.

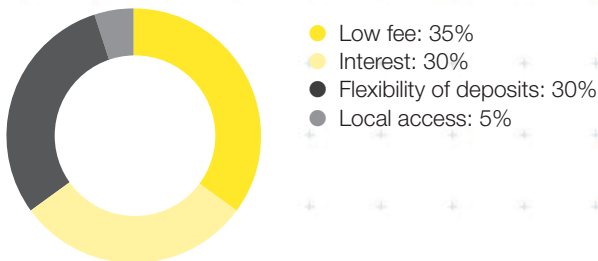
Figure 3: Non-WSBI members: Number of accounts



### 3.2.3 What do FSPs think customers like most?

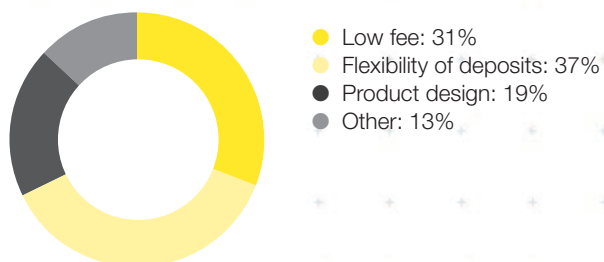
FSPs believe that low costs are the most appealing aspect of their savings products for customers. This contrasts with the 2017 survey where convenience factors (flexibility of deposits and local access) were rated more highly. This suggests that FSPs think that cost is as important as convenience or is becoming so.

Figure 4: WSBI members: What do customers like? 2018



Non-WSBI FSPs also rated low fees important for their customers. But perceptions about convenience and customer-centricity differ. Non-members highlight product design, a sign they think it important to meet customer needs. They also emphasise flexibility of deposits (convenience) more, showing a more balanced appreciation of market needs.

Figure 5: Non-WSBI members: What do customers like? 2018



### 3.2.4 Insights from demand-side surveys on usability

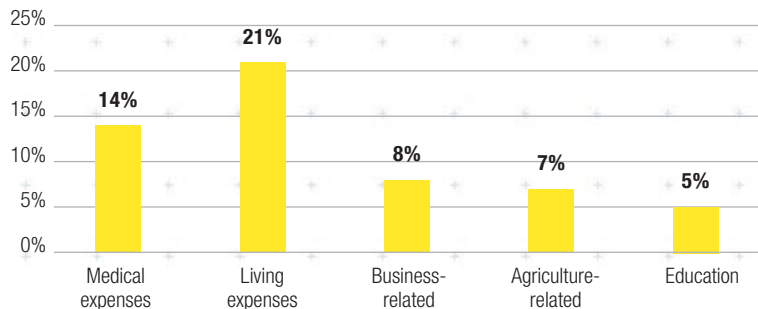
The 2018 WSBI report referred to Global Findex 2017 for the reasons for not saving in banks: forty-one per cent of the active population reported having no account because they have insufficient funds to deposit, fifteen per cent perceived financial services as too expensive, and 14% responded that financial institutions are situated too far away. National demand-side surveys also show why some people do not save in banks. For example, the FinScope survey for Benin<sup>17</sup> conducted in 2018, clearly shows that lack of funds is a significant reason for not saving in banks. There are many other reasons for not saving. Social and gender norms are often also important determinants of savings behaviour, as highlighted in a 2019 study of financial services and young people by the Scale2Save programme<sup>18</sup>.

Understanding why people save is important. It helps regulators and policy-makers understand the savings market. FSPs could use these insights to inform the design and market positioning of bank savings products. Figure 6 shows the motives for saving mentioned in the FinScope survey.

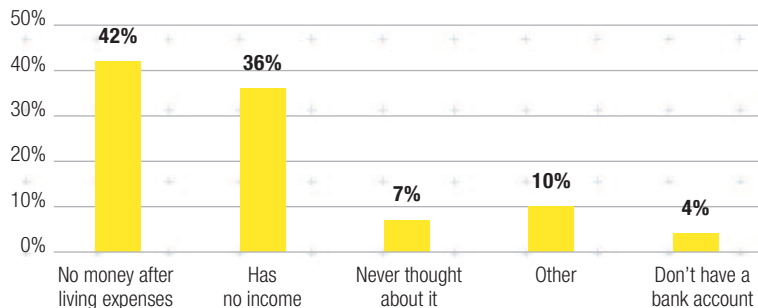
The main reasons people save are to meet living and medical expenses. They also save to fund production and fulfil aspirations.

17 The FinScope demand-side survey results for Benin, Togo, Tanzania and South Africa are discussed in this report in a few sections. These countries were selected to provide examples from three African regions and because each one highlights different aspects that can be gleaned from such surveys.

18 Young people in Africa: Research showing opportunities for financial service providers in Morocco, Nigeria and Senegal – WSBI, October 2019

**Figure 6: Benin: Savings drivers 2018**

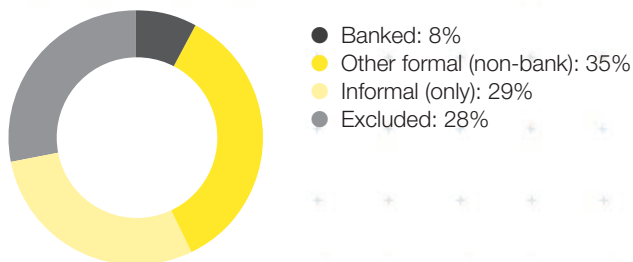
Lack of money is the most cited reason why people in Benin do not save as Figure 7 below shows. Financial education could address some barriers, for example that people have never thought about saving or do not have a bank account.

**Figure 7: Benin: Barriers to savings 2018**

It is worth noting that informal financial services plays a major role in some countries, as can be seen from the Access strand<sup>19</sup>.

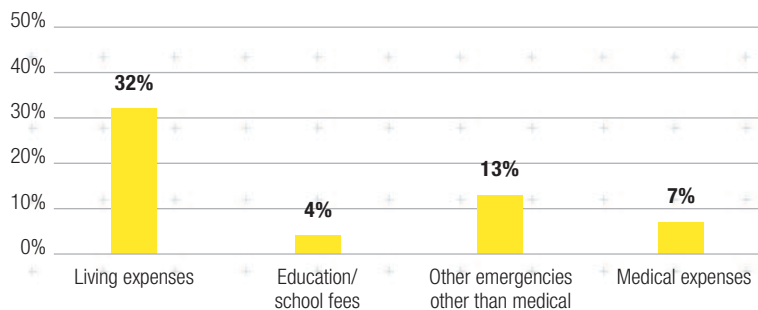
19 The access strand gives the percentage of people using a particular type of service provider and builds this in a cumulative way on an exclusion basis. For example, the access strand above shows that 80% of South African adults use a bank service, another 10% do not use bank services but use only non-bank formal services, another 3% use no formal services and only use informal services, and 7% use no financial services (excluded).

Figure 8: Benin: Savings strand 2018

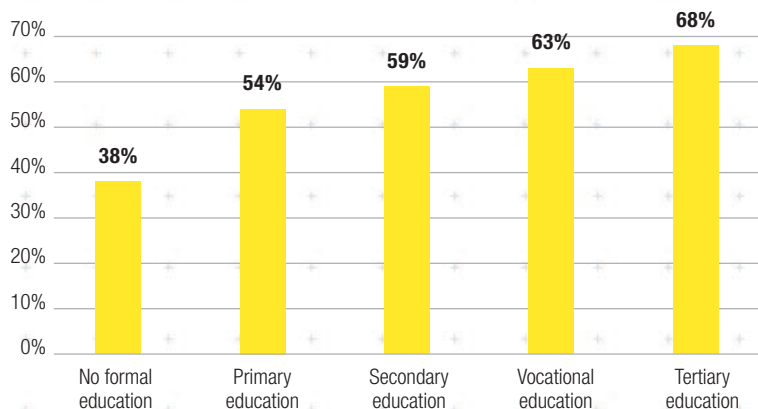


Reasons for saving in banks, and informally, vary from country to country. For example, savers in Tanzania also emphasise essential living expenses. Tanzanians also save to fund education. However, the production-related reasons found in Benin are absent. So other financial products, such as loans, may be thought important for establishing and developing businesses and agricultural production.

Figure 9: Tanzania: Savings drivers 2017



Understanding the demographic profile of savers is helpful in designing products and the market engagement model. The value proposition can be tailored to meet the needs and expectations of the target groups. Education level and income are determinants in saving behaviour, so quantifying in a demand-side survey could inform the product design process. The Tanzanian FinScope survey of 2017 shows the type of demographic categories that may be useful in understanding the market.

**Figure 10: Tanzania: Education - Propensity to save 2017**

The study defines “Propensity to save” as the probability that an individual from the designated group will be a saver. For example, a Tanzanian adult with a tertiary education has a 68% probability of being a saver. Though all groups save, it is helpful to realise that the savings needs of people with higher levels of education also need to be satisfied.

The source of income is another major determinant in savings behaviour, as Figure 11 shows. The formally employed are most likely to be savers: FSPs can develop products and campaigns that take this into consideration.

Education level and income source shape the likelihood of using formal payments (i.e. payments using an account at a regulated institution), even more strongly, as shown in Figures 12 and 13. So market models for transaction products, like those for savings products, should take this into account. Demographic profiles also have direct implications for other market interventions such as the design and execution of financial capability programmes.

Figure 11: Tanzania: Source of income - Propensity to save 2017

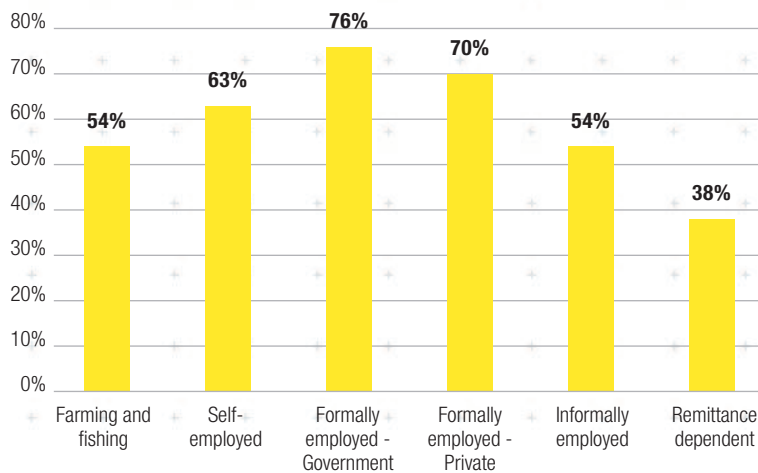
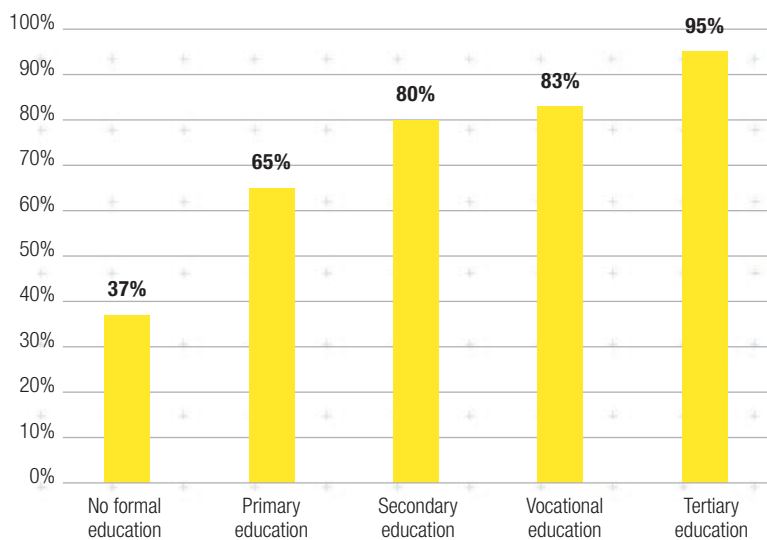
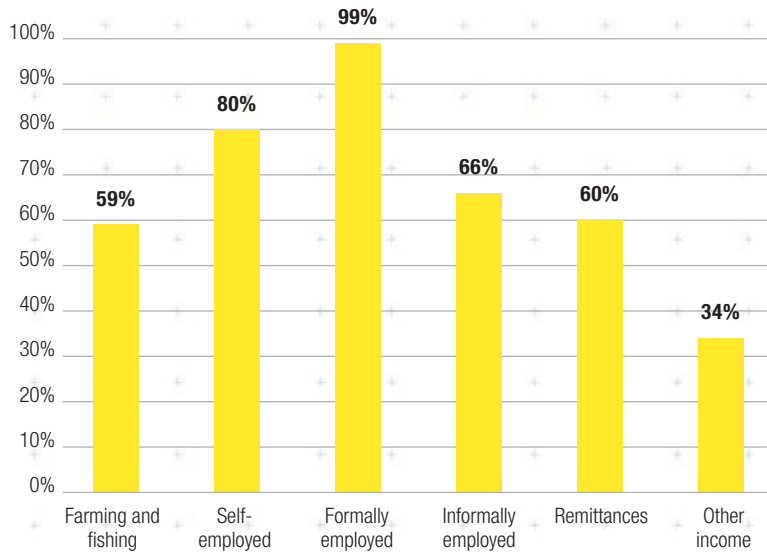


Figure 12: Tanzania: Education - Propensity to make formal payments 2017



**Figure 13: Tanzania: Source of income - Propensity to make formal payments 2017**





### 3.2.5 Account activity

Overall account activity among WSBI members is still low. Holders average less than one transaction per month. Activity rates for mobile accounts<sup>20</sup> with WSBI members are even lower, and this is a cause for concern, although these rates are in line with market trends.

Figure 14: WSBI members' account activity summary 2018

	% active	Deposits per annum	Withdrawals per annum
<b>Transaction accounts</b>	43%	2.1	2.4
<b>Savings accounts</b>	34%	5.1	8.3
<b>Mobile accounts</b>	17%	0.6	2.4

Previous research<sup>21</sup> by FinMark Trust in South Africa shows there is no simple explanation for the non-activity of transaction accounts. By definition, savings accounts incur less activity than transactional accounts. Factors identified include:

- trust in the system is often diminished by unclear pricing;
- poor access in some areas;
- lack of financial literacy/education (Account holders realise that FSPs could provide education); and
- poorly developed inclusive digital payment infrastructures. For example, small merchants will benefit from digital payments if they can use digital payments themselves. Enabling these merchants to pay for goods and services digitally will help gain their support for receiving digital payments.

20 Mobile account in this study refers to any account that allows for transactions to or from other accounts through a mobile phone.

21 Understanding the Barriers to Greater Use of Formal Banking Channels in South Africa, FMT 2018 (unpublished).

## MTN Mobile Money

MTN's Mobile Money (MoMo) offering has been successful in Eswatini (formerly Swaziland). MoMo played an important part in growing financial inclusion from 64% to 83% between 2014 and 2018. Uptake of the product is still growing, although over the same period uptake of basic banking products stalled. More than 70% of Eswatini adults have MoMo and about 64% of those are active users. Penetration and the number of active users are well above regional averages. How was this achieved?

The basic drive has been to **establish and expand a mobile payment ecosystem**. MoMo Market did this by not only involving MTN mobile agents, but also large and small retailers and post offices. This generated over 4,000 active MoMo Market agents, with about 100 users per agent. An agreement with two FSPs allows MoMo Market customers to draw cash from their ATMs. MoMoPay was introduced to enable payment for goods and services from merchants. MTN's Mobile Money plans for a digital marketplace, for e-commerce and other financial services.

Agreements (and payment integration) with major bill issuers like the electricity company have enabled bill payments. More than 75% of prepaid electricity users buy electricity through MTN MoMo.

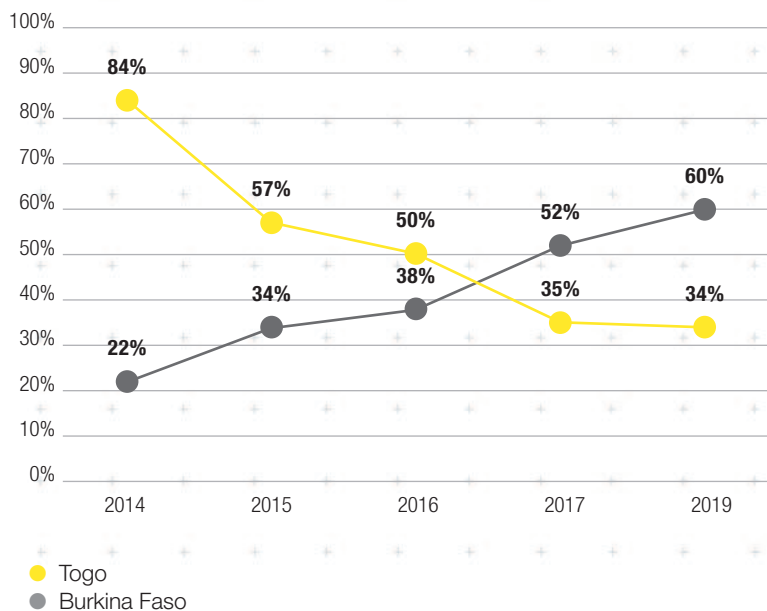
MTN MoMo encourages employers to make fee-free **bulk payments and disbursements** (salaries and wages) into MoMo accounts. This helps draw funds to the accounts and will increase usage.

**Government** and MTN are now aiming to enable digital government revenue payments and disbursements.

MoMo pursues **active cooperation with other FSPs** to better meet customers' financial needs. Current goals include digital lending and digital investment markets and creating a nano-insurance market. Payment integration to the Eswatini Stock Exchange is already in place. These initiatives will further enhance the base product and extend the appeal of the service offering.

Although the low level of mobile account activity<sup>22</sup> generally is a cause of concern, there is evidence that actions within countries can significantly influence activity levels. FAS data shows contrasting pictures of mobile account activity in Burkina Faso and Togo.

Figure 15: Togo & Burkina Faso: Activity rates - Mobile money accounts



22 An active mobile money account refers to a registered mobile money account that has been used to conduct a mobile money or cash-in cash-out transaction over the past 90 days.

## Mobile account usage in Zambia: Driving account activity

As in many countries, usage of mobile money accounts in Zambia has been quite low. In 2016 only 15% of accounts were active (measured on account usage on a 90-day basis). Moreover, little more than a third of agents were active. The low agent activity prompted FSPs to shift their focus from acquiring new agents to making existing agents active. This caused a significant uptick in account activity, as can be seen in the following tables<sup>23</sup>:

### Mobile agent activity – Zambia

Year	2017	2018
Registered agents	62,857	67,261
Active agents	22,965	46,747
% active agents	37	70

### Mobile account activity – Zambia

Year	2016	2017	2018
Registered accounts	7,537,263	13,540,301	16,533,614
Active accounts (90 days)	1,143,792	2,279,626	4,345,858
% active accounts	15	17	26

The rise in active agents resulted in an immediate and significant surge in account usage, although transactions per active agent declined slightly. This may diminish sustainability. To counter this and to extend the use of agents, the Zambian authorities are including mobile transactions in the interoperable payments space. By making mobile payments more convenient, they hope to drive up transaction volumes.

<sup>23</sup> State of The DFS Industry Launch – Zambia 2018 (<https://www.uncdf.org/article/4473/state-of-the-dfs-industry-launch---zambia-2018>)

## 3.3. Affordability

### 3.3.1 Key insights from the survey results

Affordability remains a major issue, both in the adoption and in the usage of low-balance account. FSPs need to drive down costs by optimising the complete delivery chain, typically through digitisation. Simultaneously, they must ensure enough customer support for the revised process. Some FSPs are moving in this direction, but lack of finance and inadequate allocation of internal resources hamper these efforts.

The survey found that the structure of fees directly influences the adoption and use of accounts. FSPs adjusted the “fixed fee” portion of customer fees<sup>24</sup> by reducing the use of opening fees but increasing ledger fees, so there was no net benefit to customers. A trend amongst FSPs to base the “pay as you use” portion of customer fees<sup>25</sup> on the value of the transaction does not encourage more use of accounts. This trend makes it harder to determine the cost of using an account up-front, and discourages larger-value transactions.

Market surveys consistently find that low or insufficient incomes are a major reason why people do not use formal financial services. So low-value account services must be as efficient and cheap as possible.

### 3.3.2 Account characteristics

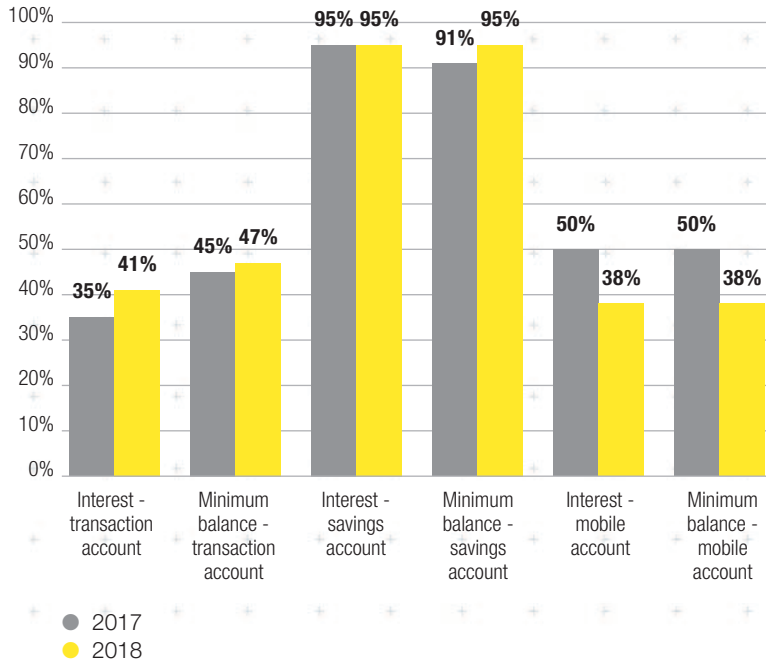
The characteristics of an account are critical because they determine its affordability and usability. Figure 16 compares characteristics (interest offered, and minimum balance required) of accounts offered by WSBI members over two years of the surveys. The characteristics of transaction and savings accounts have changed little from 2017 to 2018. But in 2018 fewer mobile accounts offer interest or require a minimum balance.

The minimum balance requirement, particularly for transaction and mobile accounts, is restrictive and makes them less affordable. Fewer FSPs now offer interest on mobile accounts. That is cause for concern.

<sup>24</sup> The “fixed fee” portion refers to those fees that a customer will pay irrespective of the use of the account. It will be due even if no transaction is done on the account.

<sup>25</sup> The “pay as you use” portion relates to those fees that a customer pay when transactions are performed.

Figure 16: WSBI members: Account characteristics



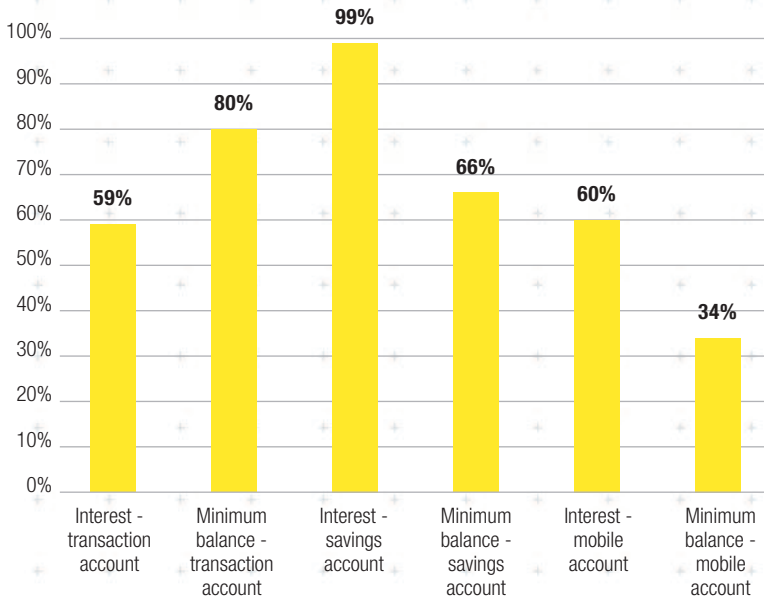
Mobile accounts are fast becoming the default entry account for consumers in many countries. Not offering interest makes these accounts less attractive and affordable.

The characteristics of accounts offered by non-WSBI FSPs are broadly similar, however none offers interest on mobile accounts. In some countries, mobile accounts are not allowed to pay interest.<sup>26</sup>

There are some FSPs among both WSBI and non-WSBI FSPs that do not offer interest on savings accounts. Yet historically, saving has been rewarded by interest payments.

<sup>26</sup> In some jurisdictions, paying interest on mobile money accounts is prohibited by regulators, as this is seen as the prerogative of deposit-taking institutions. MMOs are not deemed to be deposit-taking institutions.

Figure 17: Non-WSBI member: Account characteristics



### 3.3.3 Fee structures

The structure of fees determines the costs typically experienced most directly when using an account. They include the opening fee, ledger fee (a recurring “management” fee), and any transaction (that may vary according to the amount of the transaction). The fee structure often determines the level of ongoing account activity. If the account is not deemed to provide value for money, its use will be terminated – most often through account dormancy.

The fee structures for WSBI members and non-WSBI FSPs are shown in Figures 18 to 23. WSBI members are clearly changing the structure of their fees. The use of opening fees for transaction, savings and mobile accounts has decreased. But there is more use of transaction fees for both transaction and savings accounts, based to a greater extent on transaction value. A reduction in up-front costs and combined with a pay-as-you-use approach should enhance the appeal of accounts. However, the increased use of ledger fees for transaction accounts all but destroys the positive aspects.

Ledger fees are typically not well received in the market. Customers resent the FSP deducting them from the amount saved or kept in the account, akin to theft. The shifts in the fee structure for mobile accounts are more customer friendly. However, the trend to base transaction fees on the size of the transaction may dampen activity levels of mobile accounts, which are already quite low.

Figure 18: WSBI members: Transaction account fee structure

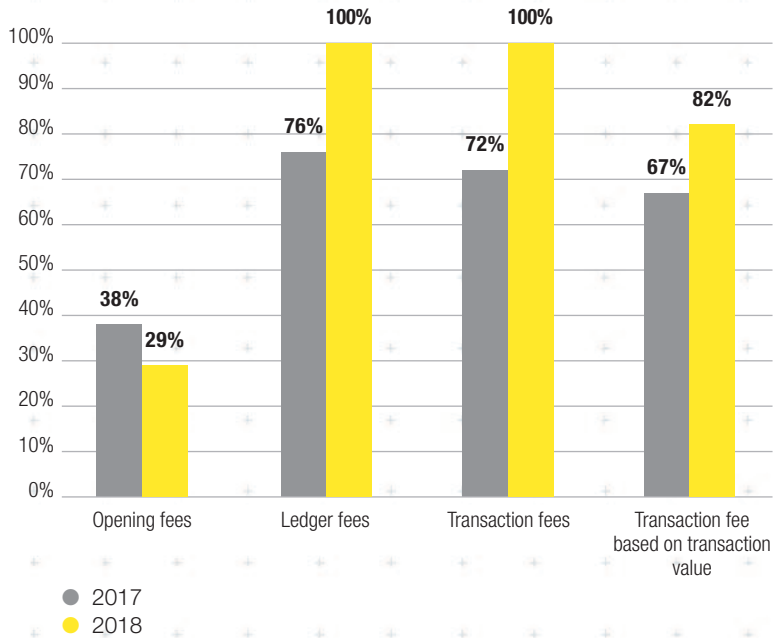




Figure 19: WSBI members: Savings account fee structure

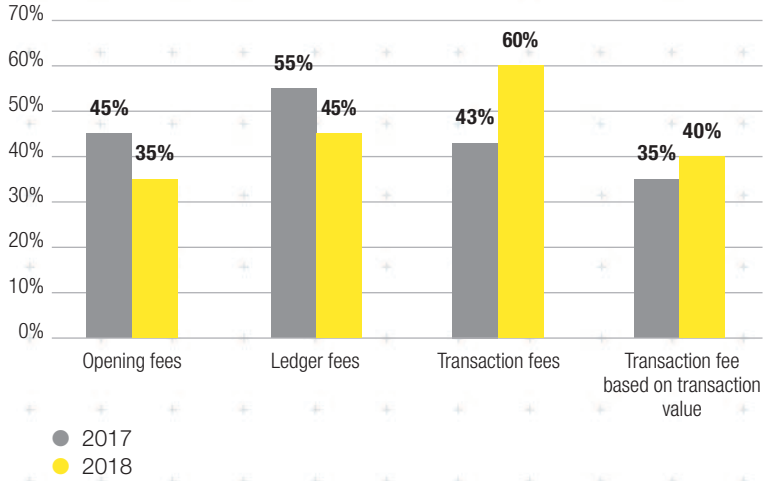
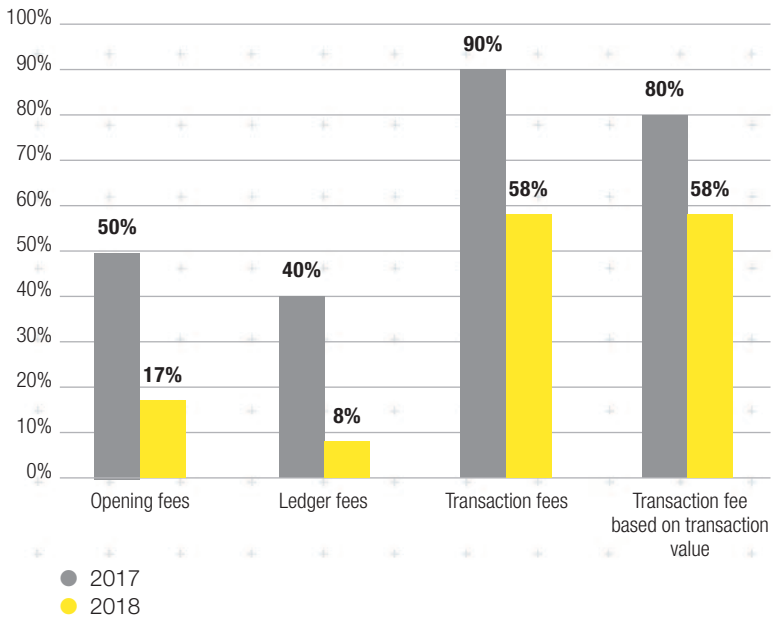


Figure 20: WSBI members: Mobile banking account fee structure



The fee structures for non-WSBI FSPs reflect a similar picture as for WSBI members. However, non-WSBI FSPs make even less use of account opening fees and have no opening fees for mobile banking accounts. The use of ledger fees will diminish account appeal, especially for transaction accounts. However, ledger fees are less common than for WSBI members.

**Figure 21: Non-WSBI members: Transaction account fee structure**

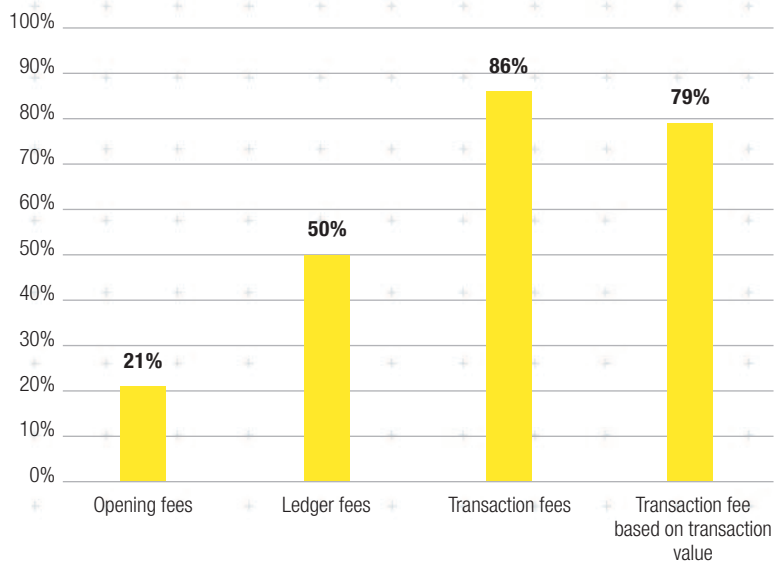


Figure 22: Non-WSBI members: Savings account fee structure

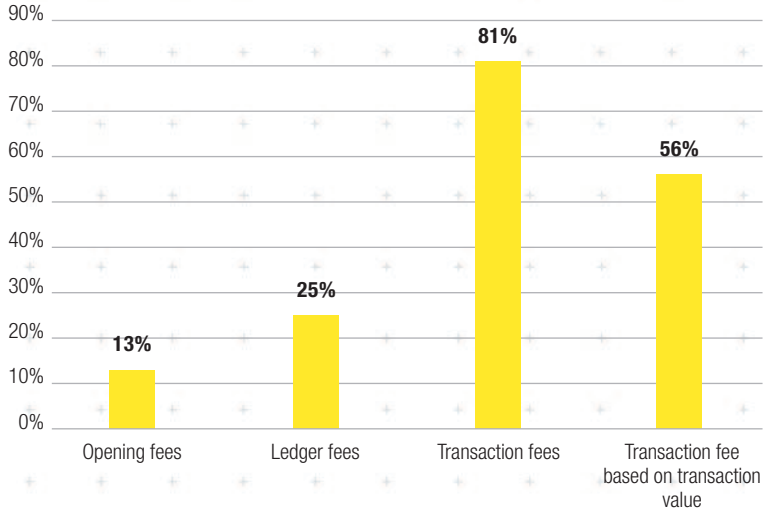
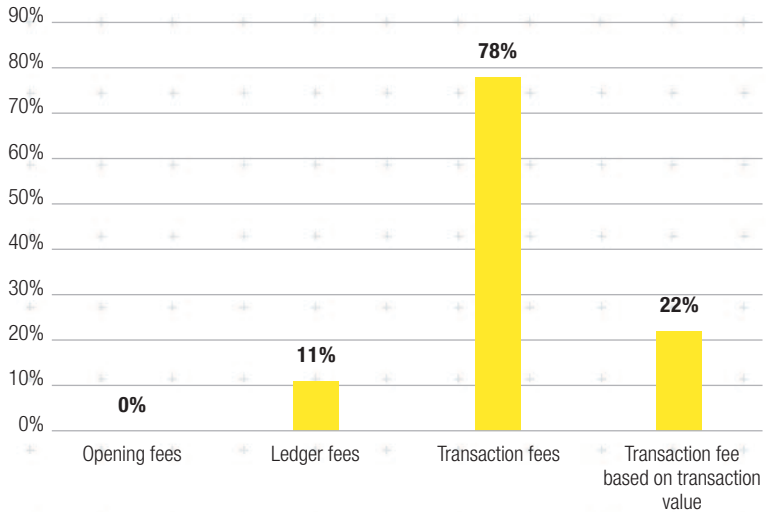
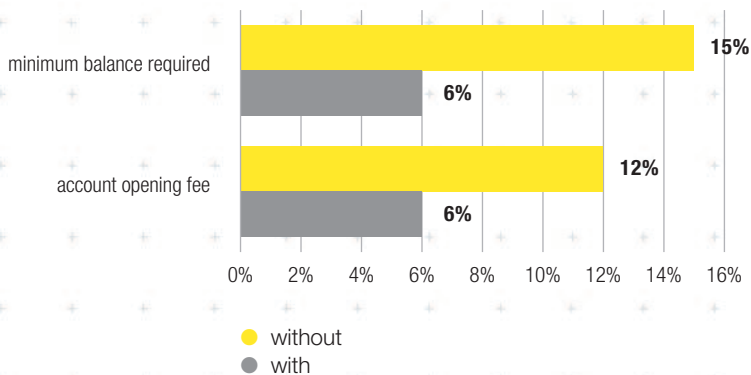


Figure 23: Non-WSBI members: Mobile banking account fee structure



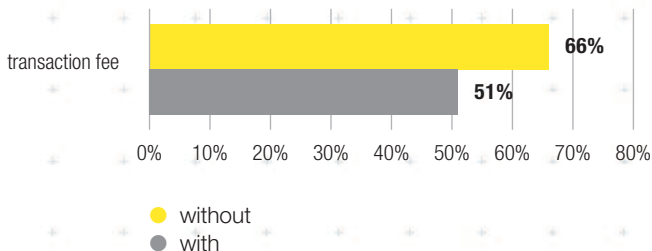
There is evidence that fee structure is among factors influencing levels of account acquisition and account activity<sup>27</sup>:

**Figure 24: Growth in transaction accounts from 2017 to 2018**



The effect on savings account take-up is similar to the effect on transaction accounts.

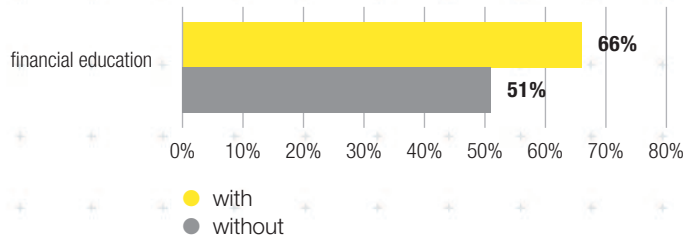
**Figure 25: Active transaction accounts**



<sup>27</sup> These numbers were calculated from both WSBI and non-WSBI FSPs, with data from both 2017 and 2018. WSBI FSPs' figures were only included for the first year of participation in the survey.

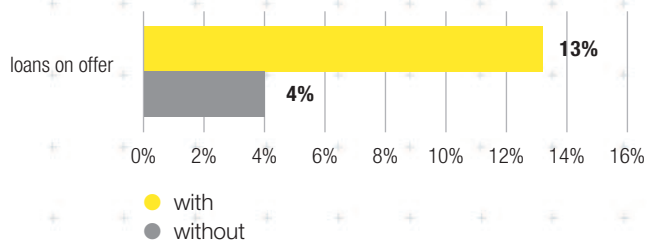
Offering financial education does have some effect on savings activity

**Figure 26: Active savings accounts**



Being positioned to address other needs is beneficial to savings account take-up

**Figure 27: Savings account take-up**



## South Africa: Achieving affordability through competition and disruption

Financial inclusion in South Africa has steadily broadened from 60% in 2004 to 90% in 2018. Financial inclusion grew from below 60% in 2004 to 90% in 2018. Growth was at first driven by the Mzansi account<sup>28</sup> and then by the increasing digitisation of the social grant distribution. However, several factors have inhibited the beneficial use of financial products:

- Transaction service costs have been high and perceived as too high by customers, acted as a deterrent to use of acquired products;
- Relatively low levels of financial literacy led to the non-productive use of some financial services;
- The market dominance of the four well-established banks stifled innovative business models that could extend the take-up and use of financial services; and
- The four major banks used market segmentation extensively to bundle product offerings, impeding market penetration by other players.

Capitec Bank started less than 20 years ago and mounted a challenge by:

- Offering simplified products. It entered the transaction/savings market with a single product, which is still being offered;
- Relying on retailers, particularly national retail chains, to handle cash-out transactions;
- Building its value proposition around the customer; and
- Focused on keeping fees as low as possible and paying interest on all positive balances.

Capitec Bank is now the second-largest retail bank in the country by customer numbers. The other four banks have responded by adjusting their pricing structures and business models.

Three new banks are currently being set up or putting their value propositions into operation. Two banks are positioning themselves as digital-only (without branches), offering customer-centric value propositions and low fees. The market success of these banks is still to be determined. However, some existing banks have already responded by cutting fees substantially for entry-level products, making some value propositions practically free. Whether this will last is unclear, but intensifying competition benefits consumers.

## 3.4 Accessibility

### 3.4.1 Key insights from the survey results

There appears to be little, if any, growth in physical infrastructure (branches and ATMs). In some countries these networks are shrinking, in line with a global trend. This is of concern because accessibility remains a problem in rural areas.

Most FSPs offer alternative access channels: banking agents and mobile access are the most prevalent. The focus on further development has shifted markedly to mobile, although existing agent networks are still growing. Mobile still offers significant scope for service delivery. However, FSPs should pay attention to customer education and appropriate market conduct, since these are of increasing concern to regulators.

### 3.4.2 Distribution channels

The channels offered by WSBI members are shown in Figure 28. These channels are similar to those offered last year. The number of agents<sup>29</sup> and merchants<sup>30</sup> is lower, but in the case of agents, this reflects the different profile of respondents - no FSP responding to the survey actually discontinued the agent channel. There appears to be a slight decline in the merchant channel. This is surprising because the digitisation of merchants is essential to extending digital payments and increasing account-based payments.

28 The Mzansi account was a basic bank account introduced by the four major banks and the Postbank in South Africa in 2004. It was aimed at the unserved and underserved market, with agreed transactional capabilities and a simple fee structure. It was promoted jointly, with joint financial literacy campaigns. It achieved significant success in the market, before it was overtaken by market developments and individual entry-level products by the major banks.

29 Agents are individuals or businesses entitled to act on behalf of an 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.

30 Merchants are those using a physical payment processing device located at the merchant's place of business (e.g., POS) to accept payment for sales (of its goods or services) from the FI's customers using the customer's FI identification means (card or other). The merchant could be acquired by the FI, or simply part of a network enabling the merchant to process payments.

Figure 28: WSBI members: Distribution channels 2018

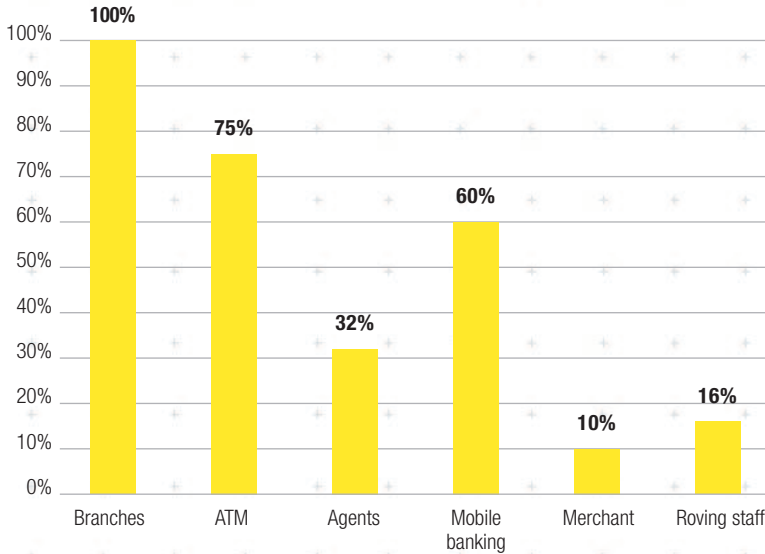


Figure 29 shows the channel with priority focus for the next 12 months. Major barriers to developing new channels are shown in Figure 30. Developing the banking mobile channel is a much more common priority than in the previous survey. The other channels have less, but proportionally equal focus from last year. The constraints are little changed from the previous year. Financial constraints and access to technology (sometimes a proxy for financial constraints) dominate.

Figure 29: WSBI members: Priority channels for next 12 months 2018

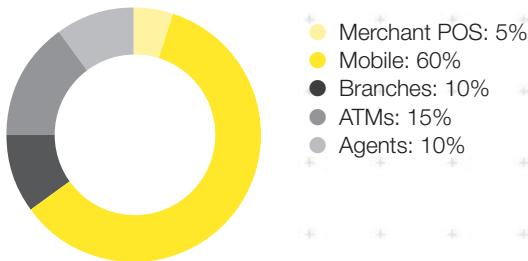
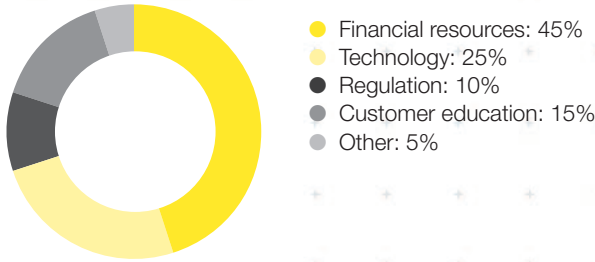




Figure 30: WSBI members: Major barriers in channel development 2018



The channels currently offered, priority channels for the next 12 months and the constraints for non-WSBI FSPs are shown in Figures 31 to 33. These FSPs make more use of merchants as a channel than WSBI members and greater use of roving staff to acquire accounts. These differences are significant. Merchants are key to driving transaction use and roving staff are typically better placed than branch staff to acquire accounts and engage with the ecosystem (e.g. employers and employees).

Figure 31: Non-WSBI members: Distribution channels

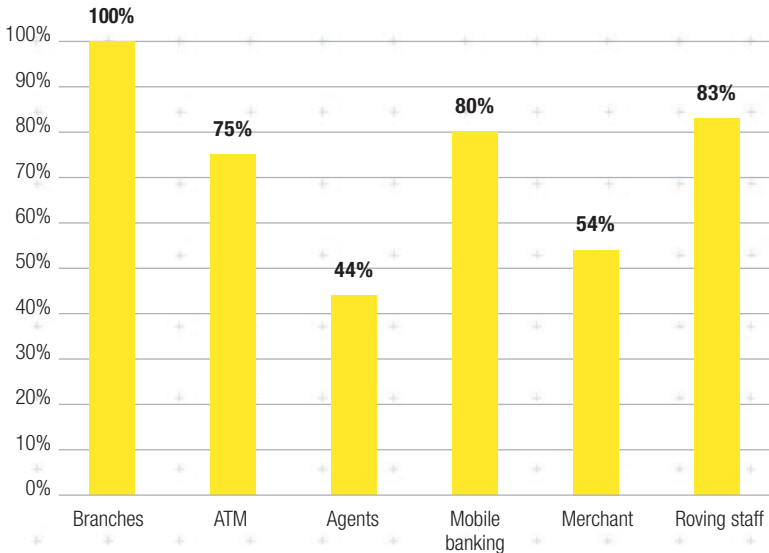


Figure 32: Non-WSBI members: Priority channels for next 12 months

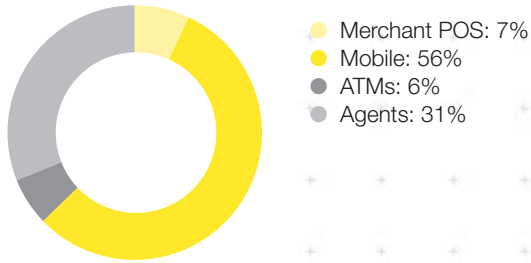
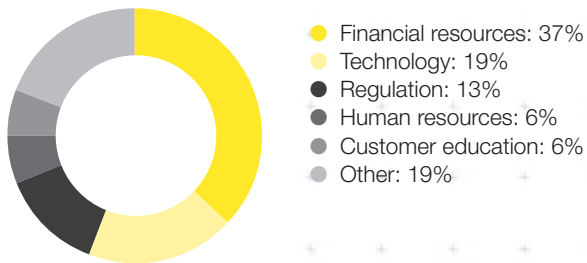
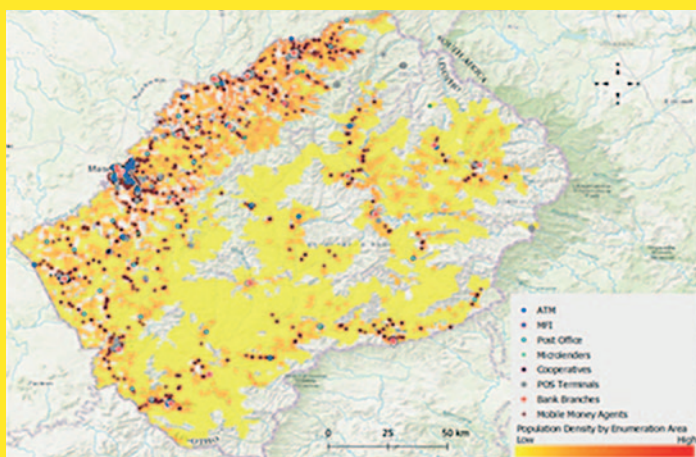


Figure 33: Non-WSBI members: Major barriers in channel development



## Lesotho – Understanding accessibility with GIS mapping<sup>31</sup>

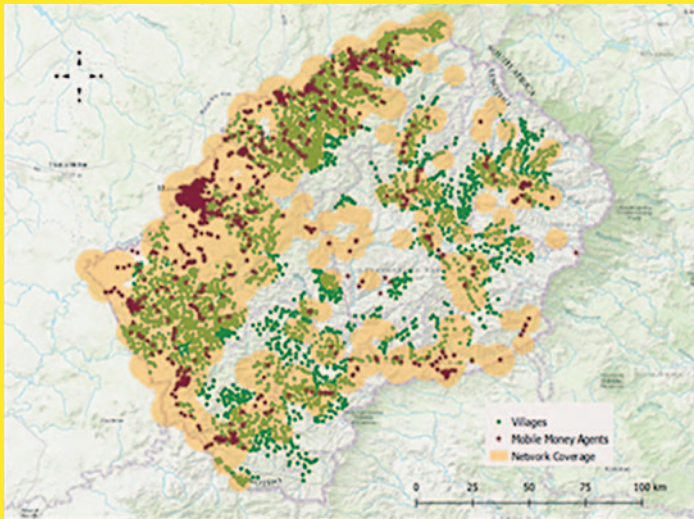
The proximity gap remains a major challenge to serve low-income customers but different tools, such as the map below, already exist in the market to identify areas where the population density may warrant additional access points.



The map shows an overlay of financial access points (by type) on population density in Lesotho. This geospatial tool supports the centring of financial infrastructure around consumers and could benefit to different stakeholders:

- Regulatory authorities are able to understand the distribution infrastructure within their jurisdiction and – importantly – to identify populations that are either inadequately served or over-served.
- FSPs are able to identify locations for the distribution of their services. Once identified, providers also leverage this approach to conduct a viability analysis of these locations to ensure that the supporting infrastructure is in place. Finally, providers in the insurance and credit space draw on geographic risk information for both product development and pricing.

The second map overlays mobile money agents and villages in Lesotho, against the background of mobile coverage. It shows the areas where there are villages but no network coverage. This could be used to influence mobile network operators to extend coverage. Today, it is not possible to reach those villages through mobile money.



## 3.5 Sustainability

### 3.5.1 Key insights from the survey results

FSPs now appreciate the role of and possibilities in low-value banking better. However, we believe business models have not changed enough to make a significant impact in the market. This will require concerted efforts to optimise delivery and service processes to lower servicing costs. FSPs need to find ways to simultaneously design customer-centric products backed by adequate customer support.

The increased ability to take up and use financial services to drive viable business models must be supported by macroeconomic environment and market conditions. But FSPs could mitigate these conditions by exploring opportunities to cooperate in the non-competitive space. Areas where cooperation could be helpful are:

- financial education;
- the development and support of digital payment ecosystems; and
- encouraging and enabling governments to use the financial system in its dealings with citizens.

There are significant unexplored opportunities in the marketplace that FSPs could pursue to be more sustainable in low-value banking, such as offering young people appropriate and tailored products<sup>32</sup>. Careful analysis of the demand-side landscape in countries will help identify these opportunities. They could be pursued, if need be, in cooperation with another FSP or FSPs. In many markets there are groups of consumers with unmet needs that can support a reasonable revenue flow for services. In this context, using big data could help both FSPs and customers, although this was not mentioned in FSP responses in the survey.

Independent regulatory oversight is a cornerstone of a well-functioning and sustainable financial system. In some areas, regulators, FSPs and other market participants are working effectively together to resolve issues of common concern. We encourage FSPs to engage with the regulator to urge the establishment of appropriate structures where they are lacking.

<sup>32</sup> Young people in Africa: Research showing opportunities for financial service providers in Morocco, Nigeria and Senegal – WSBI, October 2019

### 3.5.2 Viability

WSBI FSPs increasingly regard low-value savings as viable. Several FSPs in the study highlighted the relative stability of the low-value savings pool. Though transaction amounts are relatively small, the bulk of the savings remain with the bank and are less volatile than some other deposit categories. FSPs have also realised that revenue streams can be reasonable if customers perceive value. These factors appear to explain why low-value savings are perceived to be much more viable in the latest surveys.

Figure 34: WSBI members: Viability of low-value savings 2017

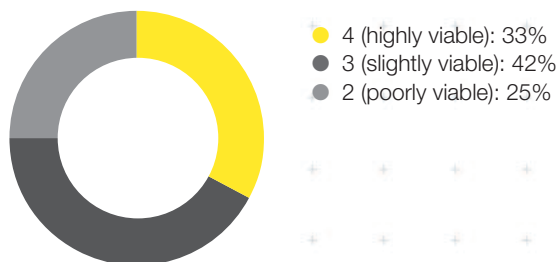
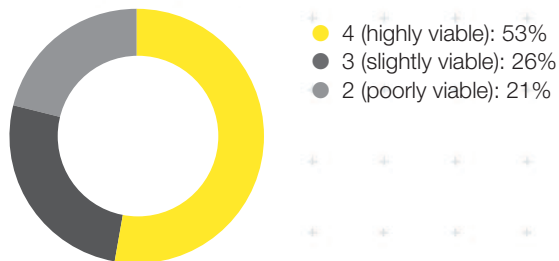
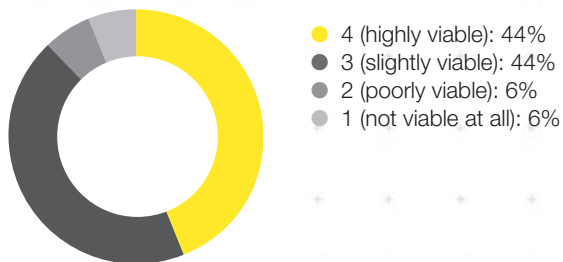


Figure 35: WSBI members: Viability of low-value savings 2018



Most non-WSBI respondents also believe low-value savings are viable. Only about 10% of respondents disagree. These perceptions and the real benefits to FSPs of low-value savings should lead to more resources being allocated to serving the market more efficiently and comprehensively.

Figure 36: Non-WSBI members: Viability of low-value savings 2017



## La Poste Tunisienne: Sustainability through segmentation and product range extension?

Financial services are an inherent part of the services offered by La Poste Tunisienne. The financial services activity is not a standalone operation and is not profit driven. It aims to be close to customers throughout the country, with a focus on services for low-income customers. It helps develop the market as a whole through financial education. La Poste Tunisienne has been quite successful in growing account numbers and the number of transactions per account within its transaction account base. The organisation's approach to achieving this has relied in particular upon four elements:

- **Building solutions around well-researched segmentation**  
La Poste Tunisienne's approach was to first conduct a thorough market review, including qualitative and quantitative demand-side studies. The insights from these studies were then used to build solutions addressing the needs of identified groups, such as students and social security recipients.
- **Using technology to drive scale**  
La Poste Tunisienne chose digital solutions to drive financial inclusion and to enable customers to perform all basic interactions without needing branches or human assistance. The aim is to keep digital interactions simple and intuitive. This is a key principle of the solutions being implemented. In addition, the customers can manage multiple accounts with the same digital solution, which reduces significantly the cash transactions in the country.
- **Simplified prepaid products and financial education**  
La Poste Tunisienne developed and promoted simplified prepaid products to act as a store-of-value and as a transaction mechanism. This was done in response to market requirements for transparency and to further develop trust in the system. For these products, the postal service has an E-Dinars smart card that links seamlessly to its technology platform. Together with a strong financial education programme, this has enabled significant account and transaction growth.



- **Expanding the value proposition**

The postal service realises that it is important to meet customers' financial needs but is not empowered to offer credit products directly. La Poste Tunisienne therefore teamed up with an MFI to enable loans to be disbursed and repaid through its own digital system. Loan offerings will be developed further once the process to obtain a credit licence from the central bank is concluded.

## **Nigeria: Sustainability through coordination**

The need for cooperation between policymakers, regulators, market facilitators, FSPs and infrastructure providers in the drive to increase financial inclusion is a common theme in financial inclusion-related research and publications. However, success stories from national coordination efforts are few. Nigeria shows how to structure and renew such a coordinating effort, and how to keep on renewing the effort. Key steps are:

- The Central Bank of Nigeria (CBN) set up a Financial Inclusion Secretariat within the bank
- The Financial Inclusion Secretariat is governed by a steering committee with a Deputy Governor of the CBN as chair
- The Secretariat has a clear mandate to coordinate implementation of the Nigerian national financial-inclusion strategy
- To achieve this the Secretariat established:
  - Multi-agency financial inclusion governing committees
  - Four working groups to address implementation challenges (Products Working Group, Channels Working Group, Special Interventions Working Group and the Financial Literacy Group)
- Relevance is maintained by:
  - Establishing a Digital Financial Inclusion steering committee
  - Embarking on several mass sensitisation campaigns to improve financial inclusion awareness in rural areas
  - Revision of the Nigerian financial inclusion strategy in 2018.

4.

## 4. Regulatory barriers to financial inclusion

The percentage of WSBI members who perceive regulatory barriers to greater financial inclusion has increased from 52% in the previous survey to 63%. There is a noticeable increase in respondents perceiving KYC (AML/CFT<sup>33</sup>) rules to be a constraining factor, despite the widespread use of a tiered approach to the regulatory requirements. Among non-WSBI FSPs, concerns about KYC rules are even higher. It may be that worries about regulatory barriers are exacerbated by insufficient communication between regulators and FSPs – a factor mentioned by some of the market facilitators and FSPs. There could also be other restrictions inhibiting market development.

Simply having a tiered regulatory approach is not enough to make customer onboarding:

- easy to navigate from a customer perspective; and
- cost efficient from an FSP perspective.

Active engagement between regulators and FSPs is required to jointly resolve issues of common concern.

Figure 37: WSBI members: Regulatory barriers to financial inclusion 2018

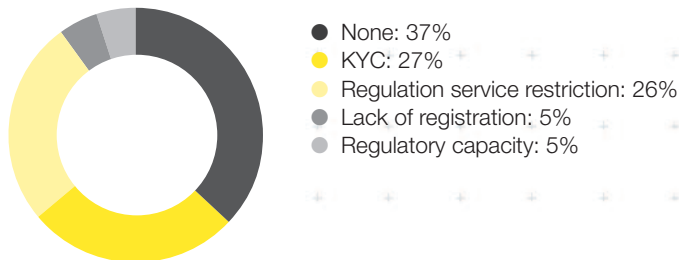
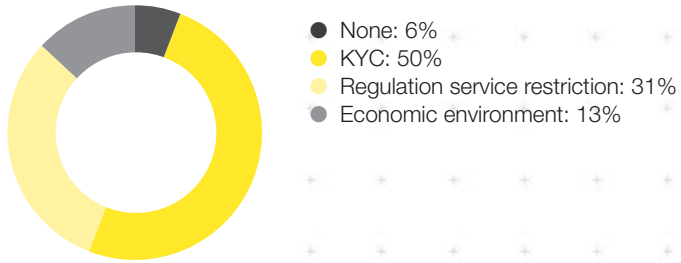


Figure 38: Non-WSBI members: Regulatory barriers to financial inclusion





**5.**

# 5. Overview of demand-side surveys

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Demand-side surveys play an important role in informing financial inclusion policies, regulatory approaches and provision of services. These surveys provide a comprehensive view of access, and the use and quality of financial services in a country. They are essential tools for policymakers, regulators and FSPs. For policymakers these surveys are the primary tool to measure and evaluate policies and policy interventions. Regulators use the surveys, in conjunction with regulatory returns from FSPs, to assess the adequacy and impact of regulatory frameworks. FSPs use these surveys to determine their market position in the financial services landscape, identify areas of opportunity and to gauge market trends. These surveys help the FSPs to understand the customers in order to build customer centric products and services. This report focuses mainly on use by FSPs. However, we also offer insights for regulators, where these flow from the focus on FSPs.

The demand-side surveys often reveal the extent to which country contexts differ. Some trends are general or global. But generally, the financial inclusion landscape in a country is shaped by:

- the specific structure and depth of a country's financial services;
- a country's state of development;
- the financial capability of consumers; and
- the availability and use of infrastructure.

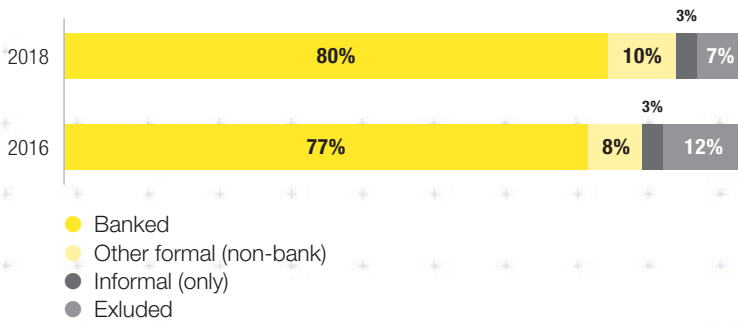
Variations in these components make each country's landscape unique. Opportunities that exist in one country for FSPs may be absent in another that appears superficially similar. That is why in financial inclusion, country context matters.

We review key demand side survey findings linked to different geographies and income levels: a well-developed financial sector (South Africa), a low-income country with significant growth rates in recent years (Tanzania) and low-income country with steady growth rates over the past half-decade (Togo)<sup>34</sup>. In South Africa the survey is conducted annually, elsewhere as required by stakeholders. The findings are presented to show how they can help FSPs understand the market in which they function.

## 5.1 South Africa

South Africa has a well-developed financial services sector and has reached near-saturation in terms of basic banking services. However, significant issues remain to be addressed. Low-income consumers have yet to see substantial benefits from increased inclusion.

Figure 39: South Africa: Financial access strand



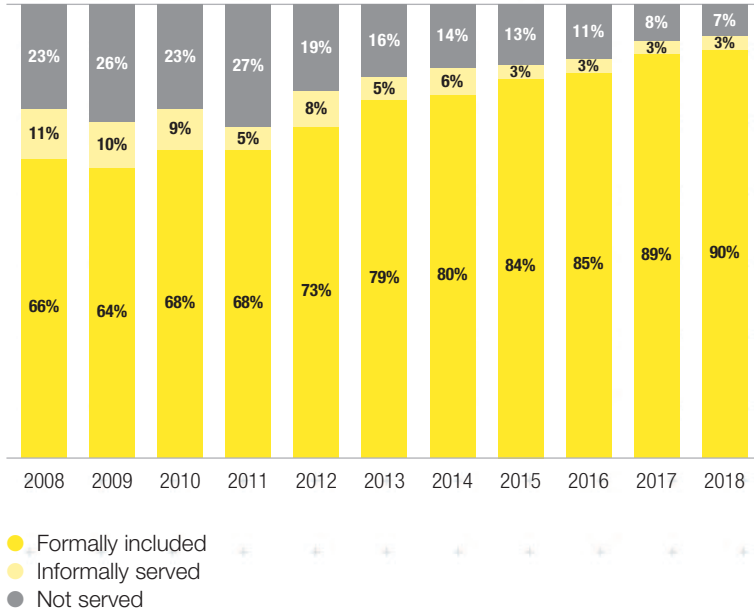
South Africa's headline inclusion rate<sup>35</sup> has been steadily increasing, due to its early focus on inclusion (Mzansi accounts) and increasing digital social grant distribution.

<sup>34</sup> The analysis in this report was done on the FinScope datasets, which are nationally representative datasets completed jointly with the national statistics authority of the country under consideration. These are freely available at [www.i2ifacility.org](http://www.i2ifacility.org).

<sup>35</sup> The percentage of adults with at least one product from a formal (regulated) FSP.



Figure 40: South Africa: Overall uptake of financial services & products

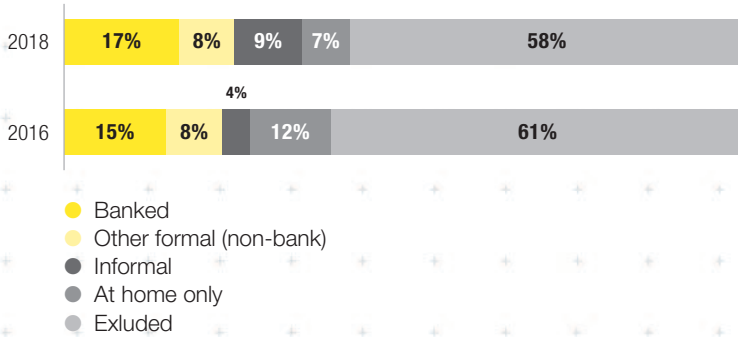


As can be seen from the access strand<sup>36</sup>, FSPs are the main supplier of financial services: 80% of adults are banked, 7% excluded. Informal financial services continue to play a role. The strand shows the percentage that only use informal services; the total use of informal services is not declining. Overall, financial inclusion is close to saturation point.

36 The access strand gives the percentage of people using a particular type of service provider and builds this in a cumulative way on an exclusion basis. For example, the access strand above shows that 80% of South African adults use a bank service, another 10% do not use bank services but use only non-bank formal services, another 3% use no formal services and only use informal services, and 7% use no financial services (excluded).

One area of concern is the low savings rate:

Figure 41: South Africa: Savings strand



Examination of the reasons why people are not saving reveal three areas of interest:

- The financial situation of most people makes saving difficult.
- Financial literacy is relatively low: many people do not consider saving.
- Savings accounts are perceived (rightly) to be 'expensive'.

Figure 42: South Africa: Barriers to saving 2018

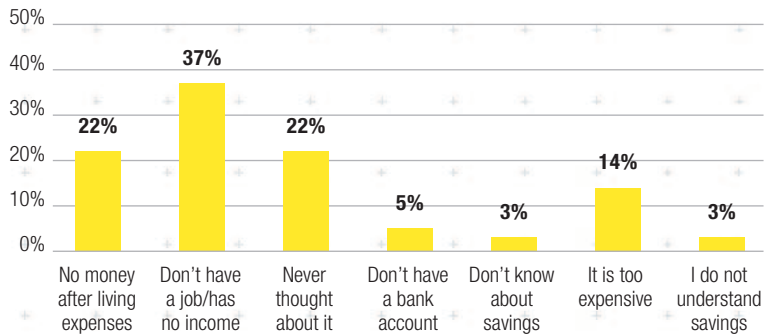
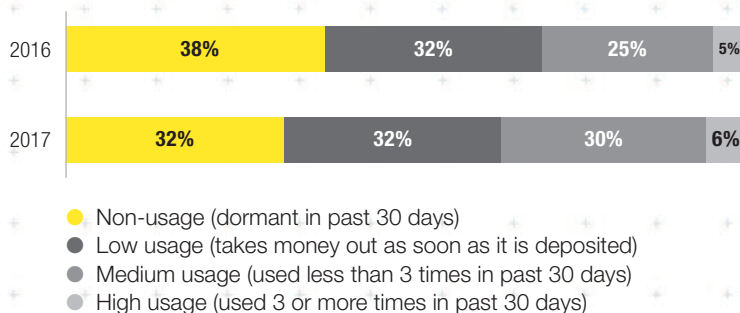


Figure 43 shows that use of transaction accounts sub-optimal. Almost a third of customers either do not use the account or simply use it as a cash-distribution tool.

**Figure 43: South Africa: Usage levels of transaction accounts**



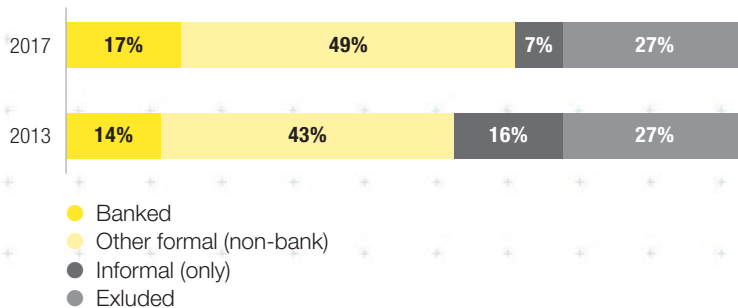
For FSPs, the current state of financial inclusion implies the need for:

- Continuing efforts to improve financial education, as per Table 6. These should probably be coordinated.
- Efforts to improve the use of transaction accounts. The most effective way to do this is by establishing and promoting inclusive digital payment ecosystems, at the micro level.
- Driving their costs down and pass on the benefit to customers, matching the business model for low-value accounts to the market. This is preferable to hoping that one model will work for all segments.

## 5.2 Tanzania

Tanzania is a low-income country that has seen significant growth in recent years, although this has slowed. The 2017 FinScope survey found a financial inclusion rate of 66%. Banking penetration is low. Most financially included adults are served by other formal service providers, mainly mobile money service providers.

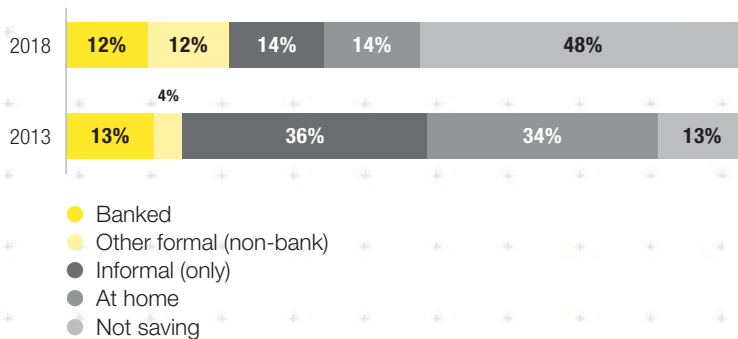
Figure 44: Tanzania: Financial access strand



The savings strand reveals that:

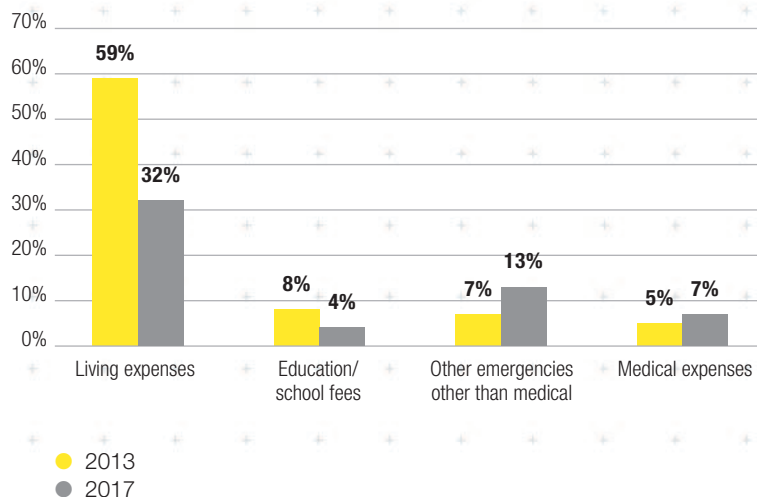
1. The proportion of people who do not save has risen sharply.
2. Informal and at-home savings have declined, indicating financially challenging times.
3. “Other formal savings” have grown – suggesting that mobile money accounts are increasingly being used as savings accounts.

Figure 45: Tanzania: Savings strand



Tanzanians save mainly to enhance their liquidity when meeting day-to-day living expenses. Figure 46 shows how motives for saving have evolved from 2013 to 2017.

**Figure 46: Tanzania: Savings drivers 2013 & 2017**

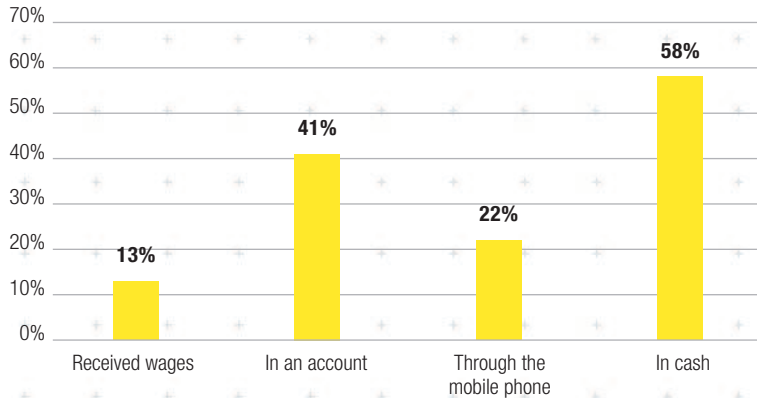


### Are there opportunities?

The Global Findex survey shows that most Tanzanians who receive wages have some type of account. However, most are still paid in cash. This offers a two-fold opportunity for FSPs to:

- engage with employers to emphasise the convenience and efficiency of digital payments into employee accounts; and
- engage with employees to use their existing accounts more effectively, or to open an account if they do not have one.

Figure 47: Tanzania: Receiving wages 2017 (Global Findex Survey)



## 5.3 Togo

Togo is a low-income country that enjoyed steady growth over the past half-decade. The financial inclusion rate is relatively low (45% of adults are formally included). Mobile money accounts are more popular than bank accounts, but the use of these accounts is low. Informal financial services play a major role.

Figure 48: Togo: Financial access strand

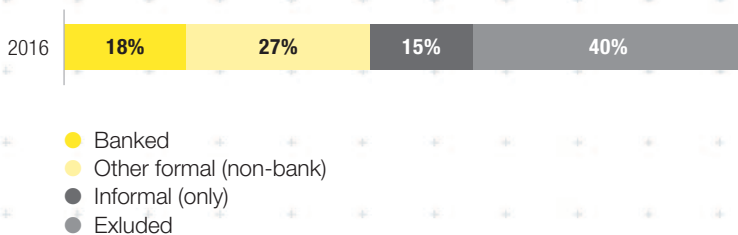
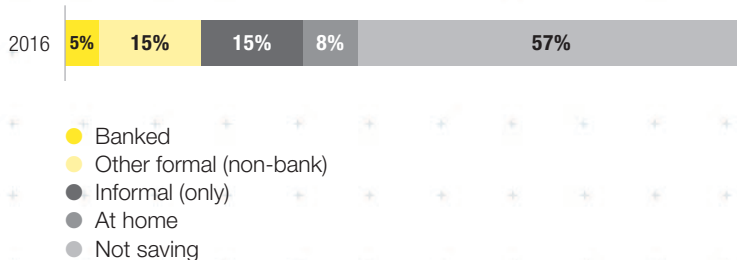
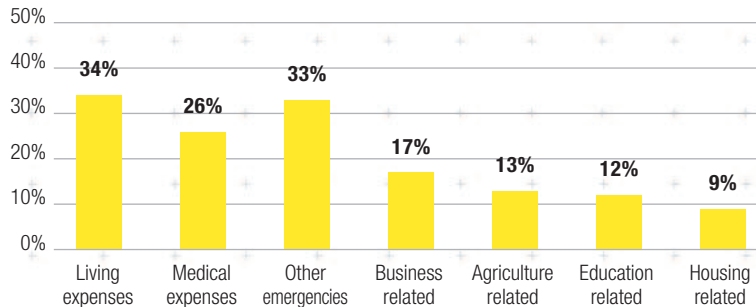


Figure 49: Togo: Savings strand



In Togo, people mainly save for day-to-day needs. However, many adults are saving towards a goal or objective, such as business, agriculture, education and housing. This motive was not recorded in South Africa or Tanzania, so it is a very different savings market.

Figure 50: Togo: Savings drivers 2016



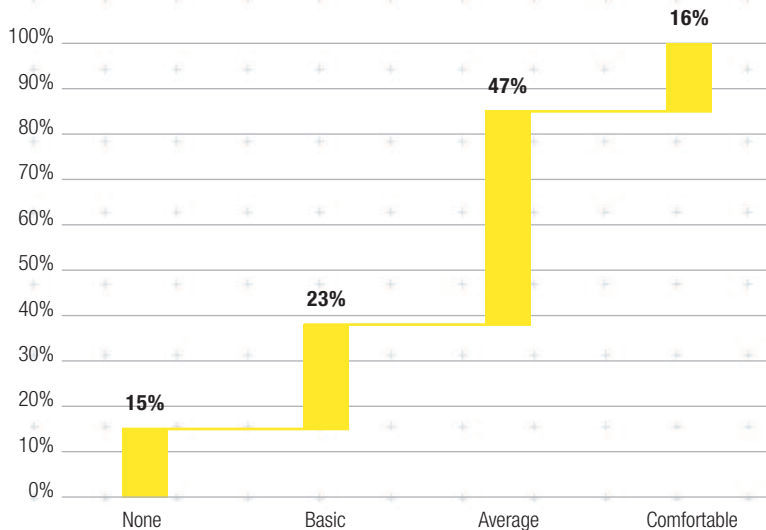
FSPs need to segment their markets. Initial segmentation is often based upon reported income levels. However, these are notoriously unreliable in demand-side surveys. A derived indicator of household wealth, called the asset ladder, can be used instead. If the survey is designed for this, the asset ladder can be determined from the responses.

This indicator is based on 10 household assets that indicate the level of wealth of a household. Using the indicator, households are categorised into four groups:

1. None (no wealth)
2. Basic – the household has enough to survive
3. Average – the household has enough to get by
4. Comfortable – the household is doing well, with the possibility of some discretionary spending.

The asset ladder can then be used to segment the market based on household type. For Togo, the asset ladder distribution is:

**Figure 51: Togo: Asset ladder 2016**

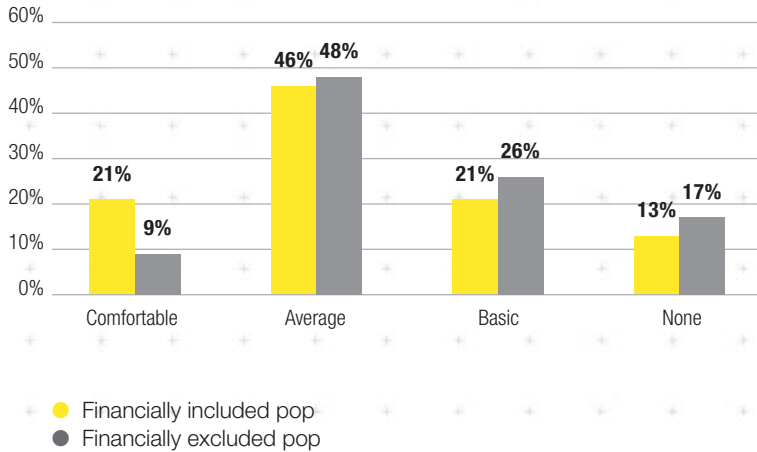


The horizontal axis shows the (rising) wealth categories. The percentage per category is the percentage of people in that category. All households with a comfortable level of wealth also cover average wealth, all households with average wealth also cover basic wealth, etc.

The asset ladder can be categorised in different ways to show particular characteristics and identify opportunities.



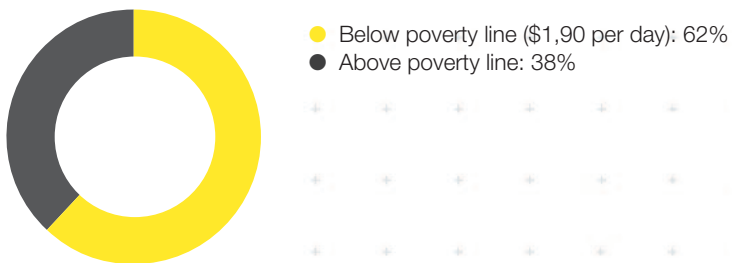
Figure 52: Togo: Asset ladder - Financially included 2016



In Togo the “comfortable” and “average” categories offer opportunities for FSPs. A significant percentage of the “comfortables” are not financially included, neither are more than half of the “average wealth” households. These categories can then be further studied to identify the features of these households.

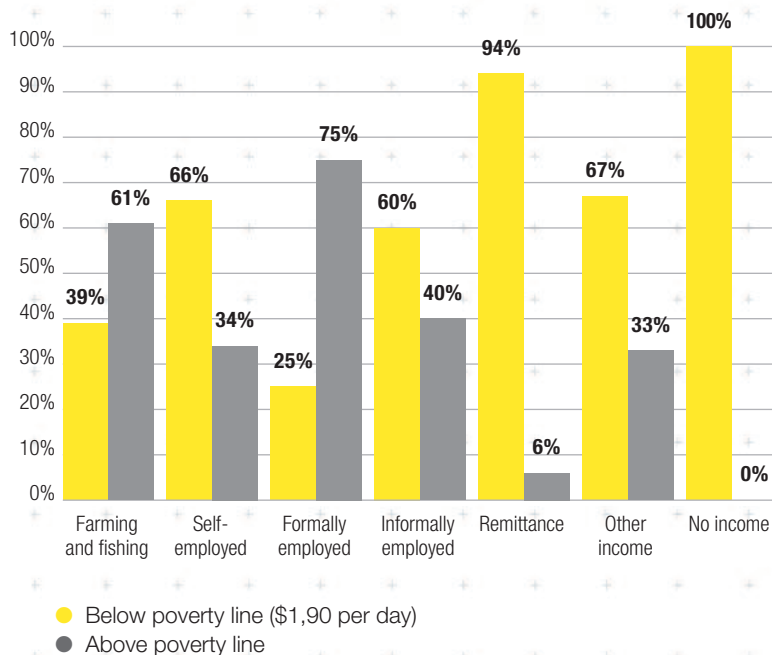
The “poverty line” can also be used in segmenting the market. It is a proxy for income level, sorting people into two groups according to estimated earning potential. The poverty line distribution for Togo is shown in Figure 53.

Figure 53: Togo: Poverty line 2016



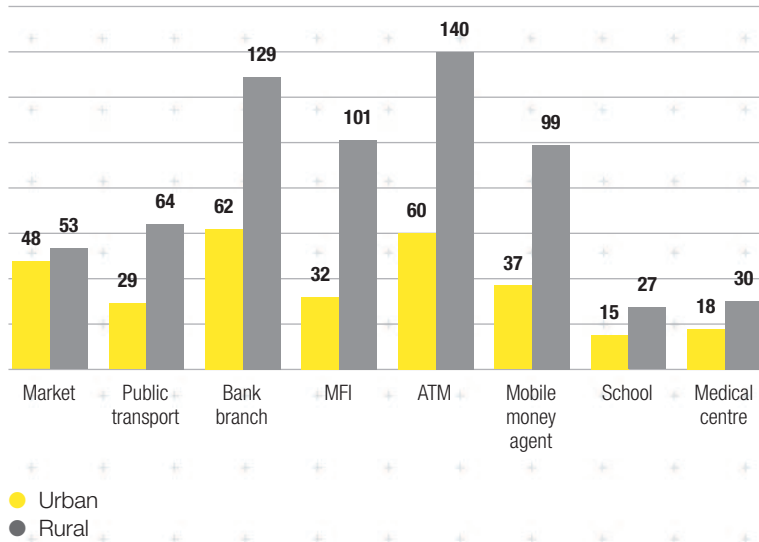
The poverty line distribution can be categorised for further insight, such as source of income (shown below) and other personal characteristics (gender, age, level of education, etc.), which are available for analysis.

**Figure 54: Togo: Poverty line profile 2016**



The Togo survey also reveals how long it takes people in urban and rural areas to reach different types of establishment. The Togo example in Figure 55 shows starkly the difficulties rural people face in using some services. This information can aid decisions about appropriate agencies for rural areas and to track improvements over time.

Figure 55: Togo: Time taken to reach (in minutes)



6.

## 6. The views of market facilitators

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The role of the market facilitators<sup>37</sup> varies significantly when it comes to engagement with regulators and FSPs around financial inclusion. It depends on the maturity of the financial services market in each country and on the level of government support for and commitment to financial inclusion. Even so, some common themes emerged:

- Regulators are the main drivers of financial inclusion in most countries, even if the ministry of finance (or equivalent) is involved.
- A bridge or conduit is often needed between regulators and FSPs. Translating national financial inclusion strategies into FSP actions may be difficult. FSP views could be considered more carefully when formulating policy.
- The views and needs of consumers are often absent from policy and strategy discussions. Market facilitators play a critical role as “the voice of the consumer”. Their views are far more convincing when backed by demand-side research, both quantitative and qualitative.
- Most countries are trying to tackle the challenges of market conduct and market protection. But an independent view from a market facilitator often helps find the right focus and provide momentum to take matters forward.
- Inadequate financial education/literacy remains a major stumbling block to the productive uptake and use of financial services. A market facilitator often plays a major role as a catalyst for financial literacy campaigns or in ensuring they are ongoing. Functional financial literacy requires interventions over a time period: the focus provided by market facilitators is invaluable.
- Smaller FSPs and non-FSPs (often FinTechs) often need help to take innovations to market. This is needed both in terms of engaging the regulator and in terms of formulating and developing market propositions. Market facilitators play a key role in enabling this innovation.
- The drive to increase financial inclusion is often motivated by a desire to extend the tax base to more transactions and people. Though understandable, it fails to take account of the development benefits of financial inclusion.

By working with market facilitators, FSPs could leverage market facilitators to help address issues that would be challenging to address as an FSP, particularly regulatory and systemic issues.

<sup>37</sup> Qualitative interviews to strengthen the understanding of regulatory and FSP engagement with financial inclusion were done with a sample of eight market facilitators. The market facilitators are all part of the FSD Trust and FMT network. Countries that comprise the sample are South Africa, Eswatini, Zambia, Tanzania, Kenya, Uganda, Nigeria and Mozambique.



# 7. Conclusion and recommendations for FSPs & Regulators

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## 7.1 Recommendations for FSPs

### 7.1.1 Identify opportunities

FSPs must use all available and reliable information to assess the state of the financial services market. They should use both supply-side and demand-side information to identify markets and market sizes, product or service opportunities and likely target markets where they could make an impact. Supply-side information is available from regulatory authorities and industry organisations. Demand-side information is typically, but not necessarily, contained in representative surveys. FSPs should also mine their own data, invest in data analytics, and make the most of other data (such as big data), when available.

### 7.1.2 Focus on the customer

Once opportunities have been identified, FSPs should also analyse their own customer and transaction information. Where possible, FSPs should conduct research into the feasibility of the opportunity and to understand the customer needs, requirements and expectations. During this process, FSPs should carefully consider segmentation with a view to identifying customer groups likely to take up the product and where a single product or suite of products would be appealing. FSPs should be careful not to over-segment. Customer value propositions need to be simple and easy to communicate. Products should reflect customer needs, be designed from a customer perspective and be intuitively attractive to the market (simplicity is key).

### **7.1.3 Reduce costs and optimise processes**

The costs associated with bank processes and of servicing the customer base must be minimised. FSPs need to ensure that:

- processes are optimised;
- full internal use is made of digitisation; and
- the customer experience is consistent and appropriate across channels.

They should also build a service organisation that is purpose driven, designed around the customer and that can interact seamlessly with internal and external capabilities.

Such a process takes time, resources and sustained effort. But a well-designed approach that establishes structures and links over time will guide developments, and make it easier to acquire additional capabilities, and implement partnerships.

### **7.1.4 Develop the market**

FSPs recognise that they must develop low-value and underserved markets. This is a long-term process that ideally needs cooperation and, quite often, co-opetition. Many of the issues that arise are best addressed jointly in appropriate forums. These include:

- customer literacy and financial capability;
- establishing and expanding inclusive digital payment ecosystems<sup>38</sup>;
- engaging with regulators and policymakers about market development;
- appropriate financial infrastructure; and
- creating a responsible enabling environment.

FSPs can benefit from working with market facilitators on some of these issues.

### **7.1.5 Participate in partnerships**

Providing financial services is becoming more and more complex, especially providing digital financial services. As a result, FSPs would be wise to decide which capabilities they would like direct control over, and which capabilities would be best utilised through partnerships.

38 GPMI Guidance Note on Building Inclusive Digital Payments Ecosystems – G20, 2017.



Options include making in-house capabilities available to other market participants via partnerships. The relative advantage as a service provider lies less in the ownership of capabilities and more in the ability to acquire and manage capabilities by optimising market and customer engagement. It enables the purpose driven FSP referred to above.

### **7.1.6 Embrace mobile and digitisation**

Entry-level financial services, particularly in the low-value space, are increasingly the domain of mobile FSPs. These providers have already moved to second-generation (value-add) products in many markets. All FSPs committed to developing the entry-level market must embrace mobile. There are various ways in which this can be achieved. WSBI advises each FSP to explore opportunities and choose where to participate, based on competencies and market presence.

Many market segments exit where integration into the value chain via a digital connection will yield significant benefits to both customers and FSP. FSPs are encouraged to seek out these opportunities and connect them to existing processes.

FSPs are encouraged to develop digital payment opportunities. These can increase the use of accounts, particularly with retailers. Adding merchants requires additional capabilities and management, but can boost revenue. Enabling merchants to accept (and make) digital payments can help make low-value accounts viable.

## **7.2 Recommendations for regulators**

### **7.2.1 Keep regulation proportional**

Regulators are encouraged to use a risk-based approach for regulations combating money laundering and terrorist financing (AML/CTF), as recommended by the Financial Action Task Force (FATF)<sup>39</sup>. The aims are that the risks inherent in a service proposition and customer interaction should determine appropriate measures to mitigate risk. This enables FSPs to apply different measures, tailored to the risk assessed. Applied correctly, this can reduce the cost of complying with AML/CFT regulations.

<sup>39</sup> FATF Recommendations ([http://www.fatf-gafi.org/publications/fatfrecommendations/?hf=10&b=0&s=desc\(fatf\\_releasedate\)](http://www.fatf-gafi.org/publications/fatfrecommendations/?hf=10&b=0&s=desc(fatf_releasedate)))

The increased concern among FSPs in the WSBI study suggests significant uncertainty and possibly confusion about what measures would be considered appropriate. Regulators should talk to FSPs to find out about their concerns, and then publish clear guidelines, without reverting to a rule-based approach.

Regulators should also ensure that regulated institutions need only comply with provisions that are relevant to their operational model. This should reduce the cost of compliance without increasing systemic risk. Smaller, community based FSPs would be the biggest beneficiaries.

### **7.2.2 Enable innovation**

Financial services are becoming increasingly complex and diversified. Organisations not previously engaged in providing financial service may become FSPs, while existing FSPs may respond by product innovation. New business models, including partnerships, are emerging. These new types of financial service often aim to extend the financial system to lower-income individuals and small enterprises.

Regulators are encouraged to create an environment in which such innovations can emerge and be tested, if need be on a small scale. This will enable service providers to test the feasibility of new offerings and determine, with the regulator, the associated risks. Confining implementation to part of the market reduces risk to the financial system. It also enables new products to be tested at lower cost. "Regulatory sandboxes"<sup>40</sup> are one approach to achieve this.

### **7.2.3 Support and/or direct financial infrastructure development**

Financial infrastructure is vital in extending financial services to underserved customers and communities. In the context of this study the most important infrastructure elements are interoperable payments systems, the use of agents to extend banking services in a convenient and secure manner and the establishment of dispute resolution mechanisms. Deposit insurance, whether viewed as infrastructure or as part of the regulatory framework, is also key to establishing savers' trust in the financial system.

40 Regulatory Sandboxes and Financial Inclusion, CGAP 2019.

(<https://www.cgap.org/blog/series/regulatory-sandboxes-what-have-we-learned-so-far>)

In some countries, regulators are directly responsible for ensuring that these infrastructural elements are present and work well. In others, regulators strongly influence how infrastructure is set up and run. Regulators are encouraged to ensure that necessary infrastructure exists and works well. Measurement and evaluation systems are necessary to inform stakeholders of the use and efficiency of the infrastructure and to identify opportunities for its improvement.

#### **7.2.4 Enable and/or drive market development coordination**

Many aspects of market development require cooperation between stakeholders. That is especially true of financial capability (comprising of financial education and product knowledge) and for building trust in the financial system, particularly among first-time customers and communities.

FSPs should play a key role in the required market interactions. However, to ensure optimal market impact, regulators must ensure that the interactions, are appropriate and that what is being communicated is clear, complete and transparent. Regulators should commission regular assessments of the impact of these interactions, which should be used to inform future interactions.

#### **7.2.5 Balance the extension of the formal economy with consumers needs**

Sometimes the main reason for extending the use of financial services is to extend the reach of the formal economy and hence the national tax base. This arises from the need for sustainable formal economic growth. But to ensure greater financial inclusion is sustainable, it must also meet consumers' needs. If consumers do not find the financial services useful or value for money, the services will be abandoned, with a resurgence of the informal economy. Regulators must find a balance between growth of the formal economy and the developmental needs of consumers. Market conduct, consumer protection, and the usability and affordability of services must all be considered.



# Annexes

## Annex 1 Background

WSBI created in 2016 a new programme in partnership with the 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. FSPs have a poor understanding of the market savings potential of people in various low-income segments. A notable, but not the only, example is that of young adults living in someone else’s home. The needs of customers and potential customers – and how much customers can afford to pay to meet those needs – are not well reflected in FSPs’ business models, customer interfaces and interactions. The resulting poor customer experience gives rise to extremely high rates of bank account dormancy and inactivity. This is a significant cost for FSPs and undermines potentially sustainable business cases to deliver accessible financial services to people in these segments.

**The Scale2Save programme’s core activities are to:**

- **Provide banks with technical assistance to develop savings services valued by low-income customers.** WSBI works with nine banks to develop and deliver savings products that not only increase access to financial services but also drive ongoing use 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 the spread of knowledge. 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 cash flows in households.

- **Communicate learnings to the wider sector.** WSBI has developed and carried out a targeted communications strategy to spread 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.

Learn more about Scale2Save at

[www.wsbi-esbg.org/KnowledgeSharing/scale2save](http://www.wsbi-esbg.org/KnowledgeSharing/scale2save)

or on Twitter at @scale2save.

## About WSBI

### About the World Savings and Retail Banking Institute

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 6,760 banks on all continents. As a worldwide organization, 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, and job creation, whether in industrialized 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.

The association has members in some 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 features: 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 \$16,000 billion, non-bank deposits to nearly US\$9,000 billion. Serving some 1.7 billion customers, WSBI members are committed to further unleash the promise of sustainable, responsible 21st-century banking. Learn more at [www.wsbi-esbg.org](http://www.wsbi-esbg.org) on Twitter at @wsbi\_esbg.

### **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 has now set 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 has offices in Toronto, Canada and in Kigali, Rwanda. Visit [www.mastercardfdn.org](http://www.mastercardfdn.org) for more information and to sign up for the Foundation's newsletter. Follow the Foundation at @MastercardFdn on Twitter.

## **Annex 2 Methodology and Coverage**

### **Methodology**

WSBI conducted primary research in a similar way to last year's study, using the same survey questionnaire.

WSBI surveyed the 31 WSBI members in Africa, and 21 responded. In addition, we contacted banks within the Financial Sector Deepening/FinMark Trust network and received another 16 responses.

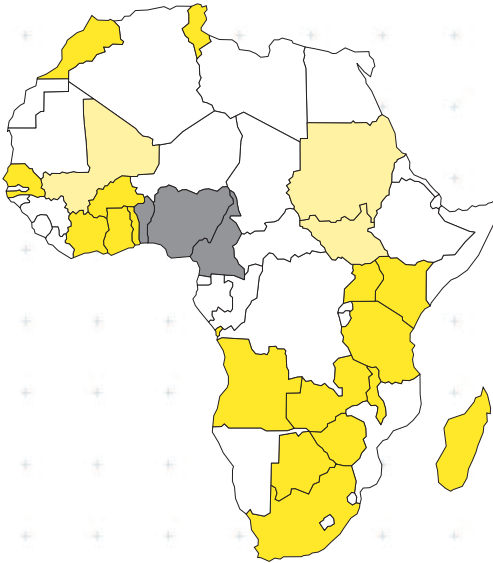
Responses were provided by FSPs of varying types and sizes, and market positions. Any analyses of aggregated responses will tend to be influenced by the larger FSPs. Similarly, analyses dealing with responses "on average" will give greater significance to the smaller organisations. The number of respondents is not large enough to provide categorisations based on type of FSP (often related to size). This is an area where additional work in later studies could be worthwhile. The results from the survey should also not necessarily be interpreted as being indicative of the market, since they represent the views of the FSPs that responded to the survey. The respondents were not chosen at random, so the results only apply to the respondents.

WSBI gathered demand-side information and insights from the Global Index surveys for 2011, 2014 and 2017 and from FinScope surveys conducted in Africa in the past five years. The FinScope surveys are nationally representative consumer surveys covering all aspects of financial inclusion and issues that are pertinent to a particular country. These surveys stem from the original FinScope survey conducted in the early 2000s in South Africa by FinMark Trust.

Apart from the WSBI surveys, we obtained additional supply-side indicators from the IMF Financial Access Survey. Market insights came from interviews with market facilitators in eight African countries. We consulted existing published research on the African low-value savings and transaction market, and relevant insights are shared in this report.



## Geographic coverage



- Countries covered by WSBI FSP survey 2019
- Countries covered by WSBI FSP survey 2018 only
- Countries covered by FinScope-like surveys only

## Representativeness

The countries represented in the survey contain nearly 37% of the African population and have about 47% of the estimated number of accounts in Africa. FSPs that responded to the survey provide just over 12% of the estimated accounts in Africa and about 26% of accounts in the countries for which survey responses were obtained.

## Annex 3 Glossary

- **Account**

All transaction and current accounts, term deposits, saving and mobile accounts held with a financial institution. They allow 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**

An account that has been used to perform at least one transaction, such as cash into the account, cash out of the account, P2P payment, bill payment, or bulk payment from the account, within the previous six months. This excludes balance enquiries, 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 bricks-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, transfers, and consulting account balances. ATMs may be proprietary or managed by third parties.

- **Branches**

Staffed points of service and administrative sites used to deliver, or support the delivery of, financial services and a wide array of face-to-face and automated services to customers.

- **Large enterprises**

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

- **Merchants**

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

- **Mobile account**

All accounts that allow transactions to or from other accounts through a mobile phone.

- **Mobile banking**

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

- **MSMEs**

Non-subsidiary, independent firms that include at least two of these three features:

- i) Employees < 300
- ii) Assets < \$15 million
- iii) Annual turnover < \$15 million.

- **Roving staff**

Individuals or 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. They exclude 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), and village community banks.

- **Transaction account**

All individual transaction accounts and current accounts.

- **Savings account**

All term deposits and savings accounts.

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