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FINANCIAL INCLUSION

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This Technical Note was prepared in the context of a joint IMF-World Bank Financial Sector Assessment Program (FSAP) mission in South Africa during September 2020 to June 2021 led by Jennifer Elliott, IMF and Eva M. Gutierrez, World Bank, and overseen by the Monetary and Capital Markets Department. IMF, and the Finance, Competitiveness, and Innovation Global Practice, World Bank Group. The note contains the technical analysis and detailed information underpinning the FSAP assessment's findings and recommendations. Further information on the FSAP program can be found at www.worldbank.org/fsap.

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ABBREVIATIONS AND ACRONYMS

ACH	Automated Clearing House
ADR	Alternative Dispute Resolution
AML	Anti Money Laundering
ATM	Automated Teller Machine
CBDA	Cooperative Banks Development Agency
CDD	Customer Due Diligence
COFI	Conduct of Financial Institutions
CFT	Combatting the Financing of Terrorism
DFI	Development Finance Institution
DSBD	Department of Small Business Development
DSD	Department of Social Development
DTICC	Department of Trade, Industry and Competition
FAS	Financial Access Survey
FIC	Financial Intelligence Center
FSCA	Financial Sector Conduct Authority
G-20	Group of Twenty
IFWG	Inter-governmental Fintech Working Group
IMF	International Monetary Fund
KCG	Khula Credit Guarantee
LSM	Living Standards Measure
MoU	Memorandum of Understanding
MSME/SMME	Micro-, Small-, and Medium-sized Enterprise/Small, Medium and Microenterprise
MTO	Money Transfer Operator
NASASA	National Stokvel Association of South Africa
NCA	National Credit Act
NCR	National Credit Regulator
NFIS	National Financial Inclusion Strategy
NPL	Non-Performing Loan
NPS	National Payment System
NPSA	National Payment Systems Act
NT	National Treasury
PA	Prudential Authority
PAD	Payment Account Directive
PASA	Payment Association of South Africa
PCG	Partial Credit Guarantee
PCH	Payment Clearing House
POPIA	Protection of Personal Information Act
PSP	Payment Service Provider
PSMB	Payment System Management Body
RTGS	Real Time Gross Settlement
RTP	Real Time Payments
SACRRA	South African Credit & Risk Reporting Association

SAPO	South Africa Post Office
SARB	South African Reserve Bank
SASSA	South Africa Social Security Agency
SEFA	Small Enterprise Finance Agency
SME	Small- and Medium-sized Enterprise
SO	System Operator
TPPP	Third Party Payment Provider
UMC	Upper-middle income country
VC	Venture Capital
WBG	World Bank Group

EXECUTIVE SUMMARY

Assessment of Issues

South Africa has made significant progress in expanding access to financial services for individuals but active usage of digital financial services remains low. Approximately four in five South African adults report owning a bank account. A broader metric that includes access to regulated, non-bank financial services indicates that 91 percent of adults are “formally included.” Both indicators have risen substantially in the past decade but progress has slowed. The more than 3.5 million South African adults that remain financially excluded are disproportionately male, young, and live in low-income households. Increased uptake of bank accounts has not translated to widespread use of digital financial services: for example, only one in three banked adults report using their account or making digital payments on a daily or weekly basis. Greater competition and innovation can improve the availability, affordability, convenience of digital financial services and facilitate their integration into the daily lives of South Africans.

While overall credit to the private sector in South Africa remains robust, the micro, small and medium-sized enterprise (MSME) segment remains underserved by the formal financial sector. Just 4.8 percent of small firms and 5.6 percent of medium sized firms reported having a bank loan or line of credit, and investments are largely financed by internal funds. Total outstanding business loans have increased in the last decade in nominal terms, but the share of bank lending to SME finance stands at 12 percent in 2020. SMEs report access to finance as a main business constraint, second only to access to electricity, made more pressing by the impacts of Covid-19. Estimates of the MSME credit gap between supply and demand are substantial, varying between US$30 to 54 billion[1][2].

South Africa’s retail financial services market is dominated by large banks. The vast majority of financially included adults in South Africa are bank customers and the ‘big five’ banks jointly account for 77 percent of banked customers. The banking sector is also the dominant player in the consumer credit market, accounting for 83 percent of the loan portfolio by volume. Bank lending is the most common source of financing for MSMEs, with development finance institutions and Fintechs playing a relatively limited role. Banks maintain the largest distribution networks of financial access points, comprising mainly branches, ATMs, and retail stores that serve as agents. As of 2019, South Africa reported a total of 75 bank branches and ATMs per 100,000 adults, lower than that of Brazil, China, Russia, and Turkey. This metric of access point availability peaked in 2015 and has since declined. The use of small retail shops (more common in townships and rural areas) as agents is not common nor are agent aggregator models.

The financial services ecosystem is constrained by the limited role of non-banks in the provision of payment services and limitations on interoperability. The banking sector is investing significant resources in digitization and disruptive innovation has seen several “digital banks” enter the market, although the reach of these new entrants remains relatively limited. However, there is lack of interoperability of mobile payment QR code based solutions that are finding some traction in the market. Unlike many of its regional peers, South Africa does not currently have a regulatory framework in place for non-bank payment service providers (or e-money issuers)**.** Proposed amendments to the National Payment Systems Act to provide a direct role for non-banks in the provision of payment services can help to address the gaps in usage of digital payments across income segments. International experience from China, India, and Kenya has demonstrated that non-banks can play a key role in addressing barriers to the greater use of digital financial services, including related to costs, physical access, and product design.

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[1] Finfind. Inaugural South African SMME Access to Finance Report. 2018.

[2] IFC. The Unseen Sector: A Report on the MSME Opportunity in South Africa. 2018.

The Government of South Africa has several institutions managing government financing programs to reduce the MSME finance gap, yet several schemes remain underutilized and without documented evidence of effectiveness. Government programs include both direct and wholesale lending and guarantees and amount to 0.36 percent of GDP or 2.8 percent of outstanding credit to SMEs.[3] Most government finance for MSMEs is provided through debt finance, and there is scope to expand the availability of instruments deployed. Public partial credit guarantees are available from the Small Enterprise Finance Agency, operating under the Department of Small Business Development (DSBD), via the Khula Credit Guarantee scheme and were also made available under the emergency support program COVID-19 loan guarantee scheme.[4] However, experience shows that the schemes have been underutilized due to many firms not meeting the eligibility criteria or the bank's risk criteria. In government financing, equity is the least used instrument and is only offered in combination with debt finance. Overall effectiveness of public support programs is generally unclear in the absence of published data on NPLs and monitoring and evaluation frameworks that include rigorous impact evaluation studies on their effect on firm productivity and employment.

Gaps in credit information systems hamper access to finance for MSMEs. Credit data sharing in South Africa is almost entirely focused on consumers, with provision of data for MSMEs and commercial credits largely voluntary and consequently limited. Although registered credit providers are required to submit data on all consumer credit agreements, the National Credit Act (NCA) has a limited scope with respect to sharing of credit data on businesses. Some initiatives have been established to improve the availability of MSME data but a more systematic approach is needed. Gaps in the current framework for secured transactions impede the use of movable assets as collateral. The World Bank 2015 Secured Transactions Collateral Registries Diagnostic for South Africa noted that the current framework provides for immovable as well as movable security to be used as collateral, yet in practice South African lenders are experiencing challenges with the perfection of interests in movable property (which often requires a court process) and absence of centralized, computerized nation-wide movable assets registry.

The opportunities to fully leverage the well-established social protection programs to enhance financial inclusion are being hampered by government policies. The South African Social Security Agency (SASSA) administers the social protection program that collectively cover around 11 million individuals. Government policies, while enabling direct transfer to recipients' accounts with Postbank (default option) and other banks chosen by the recipient, restricts the range of services that Postbank can offer to only credit or benefit transfer and withdrawal of the transfer amount in full. Further, SASSA is not allowed to engage non-bank entities to offer payment services. Thus, limiting the potential of fintech companies and other non-bank players to contribute to digitization of the social benefit transfers and greater usage of accounts.

The legal, regulatory and institutional framework for market conduct is under development. The market conduct framework for the consumer credit market has been in place since 2005, as established in the National Credit Act and administered by the National Credit Regulator. The market conduct framework for the broader financial sector has been under development over the past decade, beginning with the 2011 Treating Customers Fairly roadmap and progressing substantially with the 2017 Financial Sector Regulation Act which established a 'twin peaks' approach to financial sector supervision and regulation. The Financial Sector Conduct Authority (FSCA) was formally established in 2018 with a mandate to regulate and supervise the conduct of financial institutions in relation to providing financial products and services to consumers. The Conduct of Financial Institutions (CoFI) Bill will serve as the overarching legal

[3] A 2019 World Bank report on Financing Small Business in South Africa showed that more than 52 programs targeting MSMEs were available through these institutions, ranging in annual commitment sizes from less than R100,000 to R50 million

[4] The COVID-19 Loan Guarantee Scheme, established in 2020 by the National Treasury, the South African Reserve Bank (SARB) and the Banking Association South Africa (BASA), closed at end-June 2021.

framework for FSCA's market conduct functions. The Banking Conduct Standard was published by FSCA in July 2020 as the first of a series of sector-specific conduct standards.

Persistently high levels of credit impairment in the consumer credit market impede efforts to ensure sustainable financial inclusion. South Africa's consumer credit market is highly regulated and conforms with several "good practices" for financial consumer protection. The number of credit-active consumers has steadily increased in recent years but this trend has been accompanied by persistently high levels of credit impairment. Unsecured credit and credit facilities jointly represent 50 percent of past-due loans despite comprising only 24 percent of the total loan portfolio (by volume), however data limitations and the absence of a risk-based supervisory framework applied to the retail credit market limit an analysis of the market dynamics in the product segment. Survey data confirms that many borrowers are in financial distress, with 31 percent of borrowers reporting that "[my] credit or borrowing commitments are a heavy burden." Trends of financial distress and over-indebtedness are inextricably linked to national social and economic conditions, as well as the Covid-19 pandemic.

Recommendations

The Financial Inclusion Implementation Strategy currently under development will require a focused and well-coordinated effort to effectively address barriers to financial inclusion. The Strategy should address persistent and structural barriers to financial inclusion, including related to provider diversity and innovation, improving financial infrastructure, reducing barriers to the integration of formal financial services in the daily lives of South Africans, reaching 'last mile' consumers, and the responsible provision of productive credit and insurance. While international experience has shown that effective national financial inclusion strategies are generated from an inclusive consultation process, complex governance arrangements can also serve as an obstacle to implementation. Focused institutional leadership and a delineated action plan can help to reduce implementation roadblocks. A monitoring and evaluation framework supported by a robust data infrastructure is necessary to monitor progress and identify bottlenecks in expanding financial inclusion.

Reforms to enable the provision of payment services by non-banks and greater use of retail agents can help to foster an ecosystem for digital financial services. Authorities should enact the transformational changes to the legal and regulatory framework governing the National Payments System – including allowing for the direct participation of non-banks in the provision of payment services - as proposed by the SARB. Authorities should also consider giving a greater role to non-banks in the governance of retail payment systems. Efforts to expand the use of retail agents can also help support the development of an ecosystem for digital financial services. Authorities are encouraged to prioritize these reforms in the Financial Inclusion Implementation Strategy currently under development.

The SARB could encourage the Payment Association of South Africa (PASA) and BankServ to adopt a common QR code standard and interoperability framework for mobile payments. Given the proliferation of proprietary payment instruments and payment solutions which are not interoperable, SARB needs to take steps to convert existing closed-loop systems to become open-loop systems or to be able to become interoperable with the open loop systems. While there is a growing convergence on QR code standards used in South Africa, there is still some fragmentation and developing a common QR code standard for South Africa would be useful. Lack of standardization of QR codes could limit the impact of the upcoming Rapid Payments system.

SASSA should work with all the relevant stakeholders in the Government on expanding the range of payment service providers it can engage and improve product functionality for beneficiaries. The SASSA could work with the SARB and PASA to develop some objective criteria for selecting payment service providers. Further, the current flexibility given to recipients to choose between different commercial banks, could be extended to all licensed issuers offering transaction account services be it through bank

accounts or e-money accounts. The SASSA could work with the SARB and the banking and payments industry to develop specific initiatives to promote digital payments and facilitate access to other financial services for the benefit transfer recipients. The Postbank account features should be enhanced with new functionalities and SASSA could also evaluate lifting the restrictions on using the benefit transfer account for receiving other incoming transfers and removing the fees for balance enquiry and declined transactions.

Reform of South Africa's financial infrastructure should be prioritized in the Financial Inclusion Implementation Strategy. Comprehensive and well-functioning credit reporting systems are critical to support credit origination for individuals and SMEs. The current credit information environment can be strengthened by (i) mandating the reporting of MSMEs and commercial credit information to credit bureaus; (ii) enhancing the use of alternative data;[5] and (iii) providing an enabling legal framework for the planned central credit register. A reform of the secured transactions framework is needed to unlock receivables financing and facilitate its electronic trading.

Public MSME credit support programs should be redesigned in line with international best practices to improve their effectiveness. Authorities should consider consolidation of smaller programs and redesign program features, especially for guarantee programs and those involving direct credit, in line with international best practices. New programs, except in crisis circumstances, should be piloted, evaluated and scaled up if proved effective. Also, there is a need to improve coordination of public credit support programs and business development services to enhance firm performance. The authorities could consider allowing fintech companies to tap the existing MSME credit programs of the Government to deliver credit to specific MSME segments that might be better reached by fintechs and phase out direct lending programs.

Enactment of the Conduct of Financial Institutions Bill, enhanced institutional capacity, and clear delineation of its institutional mandates relative to the NCR are necessary to enable the effectiveness of the FSCA as a market conduct supervisor. The enactment of the CoFI Bill should be prioritized following the ongoing public consultation process. The FSCA is in the process of developing a risk-based supervisory framework, which is necessary to facilitate effective and efficient market conduct supervision. The FSCA will need to build institutional capacity through the hiring of supervisory staff who can drive implementation of the proactive, data-driven and risk-based supervisory approach, particularly for banking institutions and fintechs which were not covered under the FSB. Improved coordination and clear delineation between the institutional mandates of FSCA and NCR is necessary to enable effective market conduct regulation and supervision.

Efforts to ensure responsible lending are critical to ensure that consumers benefit from access to financial services. An in-depth analysis of the unsecured credit and credit facilities markets is needed to determine drivers of irresponsible lending and over-indebtedness. NCR is encouraged to shift towards a data-driven and risk-based supervisory approach to identify and address lending practices that contribute to over-indebtedness; this will require enhanced resources and the recruitment and retention of staff with critical skills. NCR should accelerate efforts to improve credit bureau reporting, particularly among small credit providers. Ensuring the proper conduct of debt counsellors and improving the existing financial ombudsman system in South Africa can support a healthy consumer credit market. Targeted and evidence-based financial education efforts can also help promote responsible and sustainable financial inclusion.

[5] Alternative data are data that are not traditionally housed within a credit bureau environment and could include information such as data generated using mobile phones, metadata from the Internet and app usage.

Table 1: Key Recommendations

Recommendation	Responsible Authority	Time-frame[1]
Strategy and Data		
Establish a financial inclusion implementation strategy with an action plan and monitoring and evaluation system	NT	ST
Strengthen financial inclusion data infrastructure, including through collection of data on retail agents and geospatial data on access points	NT, FSCA, NCR, PA, SARB	MT
Issue an annual report with comprehensive cross-sectoral indicators to monitor financial inclusion progress and bottlenecks	NT, FSCA, NCR, PA, SARB	ST
Provider Diversity, Innovation, and Reach		
Enact reforms to the National Payment System Act to provide a direct role for non-banks in the provision of payment services	NT, Parliament With the support of SARB	I
Finalize discussions and implement a strategy to develop the Cooperative Banking Institutions sector	CBDA	ST
Identify market and legal/regulatory barriers to the greater use of Spaza shops as retail agents for financial service providers	NT, FSCA, Industry	ST
Financial Infrastructure		
Consider giving a greater role to non-banks in the governance of retail payment systems	SARB	ST
Develop and issue regulations mandating interoperability and adoption of open standards for mobile payments linked to both bank and mobile money accounts.	SARB	ST
Improve the credit information environment by improving credit bureau reporting coverage among small lenders and incorporating alternative data sources for consumers and MSMEs into credit reports	NCR, FSCA, SACCRA	ST
Expand the coverage of credit data for businesses by mandating sharing of business credit, enforcing credit information sharing for businesses currently covered by the NCA, increasing the threshold delineating small juristic persons with the NCA and providing an enabling legal framework for the planned Central Credit Register	NCR, DTIC, with the support of SARB	I/ST
Review the secured transaction framework to ensure extrajudicial execution and create a computerized nationwide register for movable collateral	DSBD, NT, NCR, DOJ	MT
Product Design and Digitization		
Support the development of MSME products beyond credit, for example by reviewing the current legal framework for financial leasing services and factoring law	NT	ST

Recommendation	Responsible Authority	Time-frame[1]
Establish or support the establishment of a centralized website to facilitate comparison of prices and features of common retail products	FSCA	ST
Monitor the effects of pro-competition and market conduct reforms on account costs, and consider more direct affordability measures if costs remain high for low-income consumers	NT, FSCA	MT
Key Government Programs and Initiatives		
Expand the range of payment service providers used to distribute SASSA social grants and extend uniform subsidies to all licensed payment service providers offering transactional account services to SASSA beneficiaries	DSD, SASSA	ST
Develop initiatives to promote digital payments and facilitate access to other financial services for SASSA beneficiaries **and specifically for POST bank enhance account functionalities and review balance enquiry and decline fees that deter more active usage and if feasible offer alternative solutions to monitor balance in account.**	DSD, NT, SASSA, Postbank	ST
Review and redesign public credit support programs to phase out direct lending and introduce transparent M&E frameworks and consider consolidating some of the smaller, less utilized government finance support programs to MSMEs	NT, DSBD, IDC	ST
Consider adjustments to the parameters and participants in the existing partial credit guarantee schemes to increase outreach and additionality, as well as additional channels and more flexible lending criteria	NT, SARB, SEFA	I
DFIs should consider a broader range of financing instruments such as equity or blended instruments to better meet the needs of the SME lifecycle.	DSBD, SEFA, IDC	ST
Market Conduct, Responsible Lending, and Financial Education		
Enact the Conduct of Financial Institutions (CoFI) Bill	NT, FSCA, Parliament	I
Minimize overlaps in legal mandates and licensing/reporting requirements of NCR and FSCA, and strengthen coordination and data sharing mechanisms	NT, DTICC, NCR, FSCA	I
Develop and implement a risk-based supervisory framework to enable proactive, data-driven, and efficient market conduct supervision	FSCA, NCR	ST
Ensure adequate resources and build institutional capacity for market conduct supervision, including via development of supervisory technology (“Suptech”) solutions and recruitment and retention of staff with critical skills (e.g., data, analytics, information technology, fintech models)	NT, DTICC, FSCA, NCR	ST
Work with credit providers to facilitate innovative approaches to responsibly expand access to credit (e.g., product suitability, the use of alternative data to inform affordability assessments; effective disclosure for digital credit)	NCR	ST
Conduct in-depth market research and targeted supervisory activities (e.g., thematic surveillance) to identify the drivers of irresponsible lending in the consumer credit market for unsecured loans and credit facilities	NCR	I

Recommendation	Responsible Authority	Time-frame[1]
Conduct a detailed review of the personal insolvency and debt review and restructuring system	NCR	ST
Adapt data collection, supervisory, and regulatory approaches to identify and address emerging consumer risks from digital and fintech models	FSCA, NCR	ST
Establish a new, consolidated, and independent National Financial Ombud to cover all financial service providers authorized by the PA, FSCA, and NCR (excluding pension funds)	NT, Ombud Council, PA, FSCA, NCR	MT
Develop approaches to ensure high-level alignment of content of financial education initiatives to promote consistency and clarity of messaging	NT, FSCA	ST
Establish clear institutional mandates for the provision of financial education to SASSA grant recipients and improve the accessibility and relevance of financial education content for these beneficiaries	DSD, SASSA, NT	ST

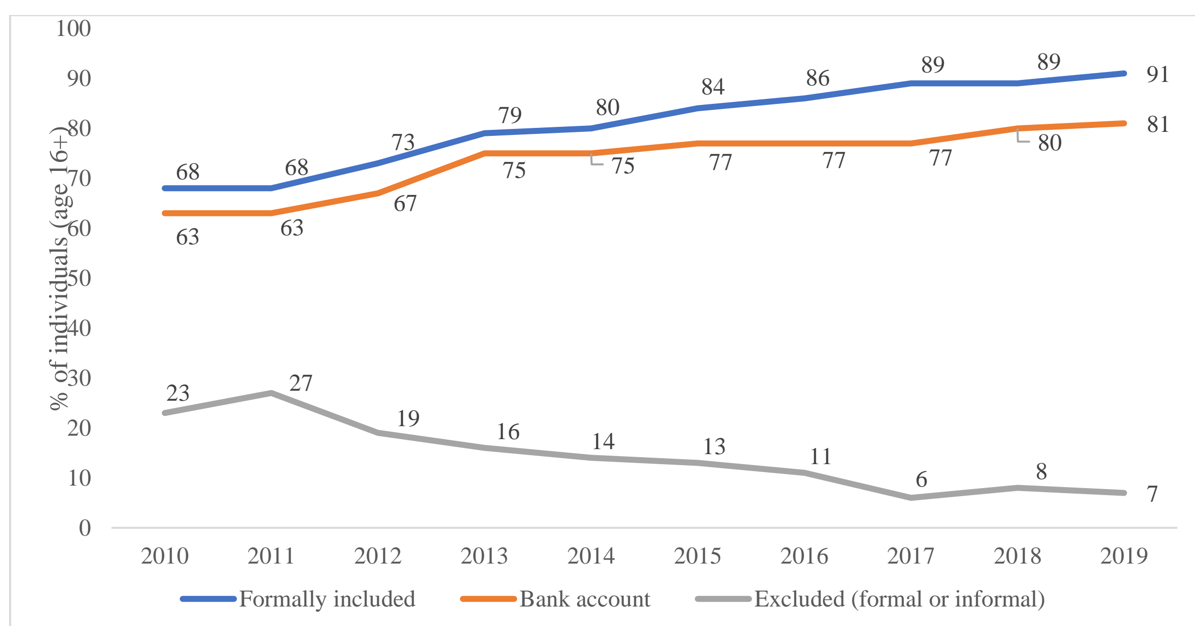
[1]I-Immediate" is within one year; "ST-short-term" is 1–3 years; "MT-medium-term" is 3–5 years.

I. CURRENT STATE OF FINANCIAL INCLUSION

A. Financial Inclusion for Individuals

1. **South Africa has achieved significant progress in expanding financial inclusion in recent years but there is a significant "last mile" of individuals without access to bank accounts or other financial services**. The vast majority of South Africans have access to basic financial products and services from regulated providers. According to 2019 data from FinScope, 81 percent of South Africans (age 16+) report owning a bank account, a basic metric of financial inclusion.[6] This represents an 18 percentage point increase from 63 percent "banked" in 2010 (Figure 1). A broader definition of financial inclusion accounting for the uptake of any product or service from a regulated provider (i.e. including non-banks) yields a 2019 "formally included" value of 91 percent, up from 68 percent in 2010. Most formally included South Africans use a mix of bank, non-bank, and informal financial services. Despite recent progress, more than 3.5 million South Africans remain completely excluded from the formal financial sector,[7] and 7.5 million adults are unbanked (i.e. lack a bank account). This represents a significant 'last mile' challenge for policymakers.

Figure 1: South Africa has achieved steady growth in financial inclusion between 2010 and 2019



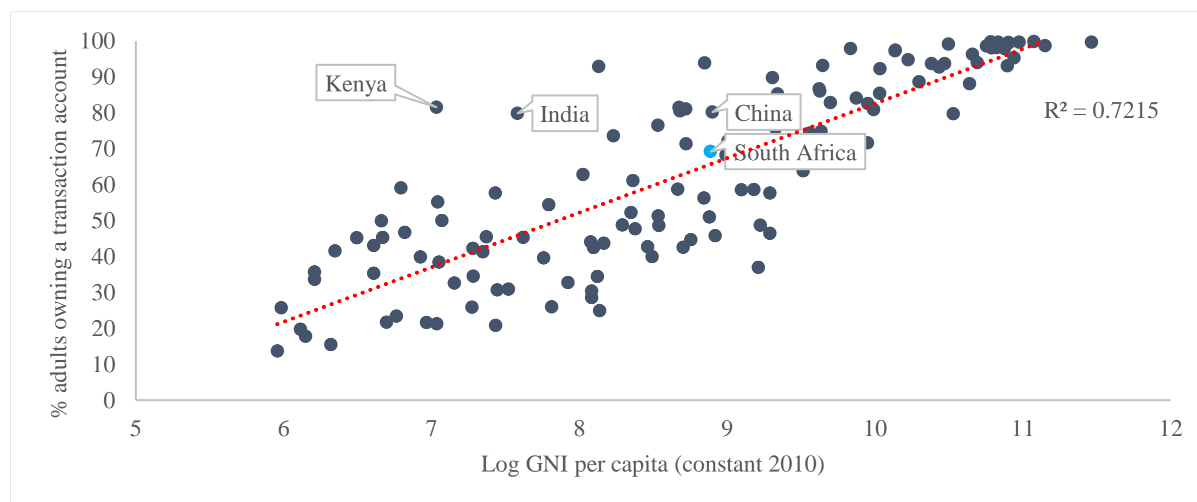
Source: FinScope Consumer Surveys (2010-2019)

2. **South Africa performs relatively well on basic metrics of financial inclusion as compared to regional and income group peers.** According to Global Findex data, the level of account ownership in South Africa is well above the average for the region and is in line with other upper-middle income economies. At a global level, there is a strong correlation between account ownership and economic development across

[6] The 2020 FinScope Consumer Survey was delayed due to Covid-19 restrictions. A key caveat in this analysis is that the trends discussed are based on 2019 data and therefore do not reflect changes in financial behaviors as a result of the Covid-19 pandemic.
[7] Corresponding to 7 percent of adults who do not use any formal or informal financial service and two percent who use only informal services, for a total of 9 percent of adults (or approximately 3.5 million adults)

economies[8], with economic development explaining approximately 72 percent of the cross-country variation in financial inclusion. As viewed through this basic correlation, South Africa's rate of financial inclusion is in line with level of economic development, that is, South Africa is slightly above the trend line in Figure 2. However, several comparator economies – including Kenya, India, and China - have been able to significantly "overperform" on financial inclusion relative to their level of economic development by enabling a digital financial services ecosystem that serves low-income consumers. (South Africa's relative performance appears better when using data from recent FinScope surveys, but this limits cross-country comparability.)

Figure 2: Financial inclusion in South Africa is in line with its overall economic development

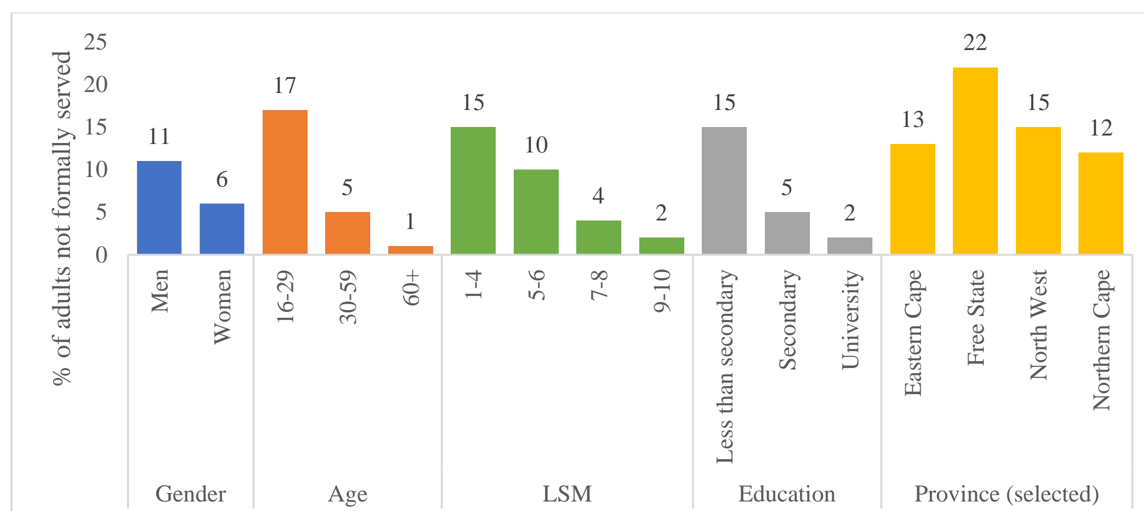


Source: World Bank Global Findex (2017); World Bank World Development Indicators (2017)

3. Financially excluded South Africans are disproportionately male, young, in lower Living Standards Measure (LSM) categories, and have lower levels of education. Patterns of financial exclusion in South Africa mirror the broader dynamics of social and economic exclusion: youth and young adults, those in **lower** LSM categories, and those with less education are less likely to be financially included, that is, report using any financial product or service from a regulated provider (Figure 3). Unlike many other economies, however, men in South Africa are more likely than women to be financially excluded (11 percent vs. 6 percent). FinScope data also reveals significant variation across provinces: while just five percent of the adult population is financially excluded in Gauteng, Limpopo and the Western Cape provinces, more than 10 percent of the adult population is financially excluded in Free State (22 percent), North West (15 percent), Eastern Cape (13 percent), and Northern Cape (12 percent) provinces. These demographic, socioeconomic, and geographic difference are found to be statistically significant in multivariate regression analysis (Annex 1).[9]

[8] As measured by GNI per capita (constant 2010)
[9] The results are similar for "unbanked" and "financially excluded".

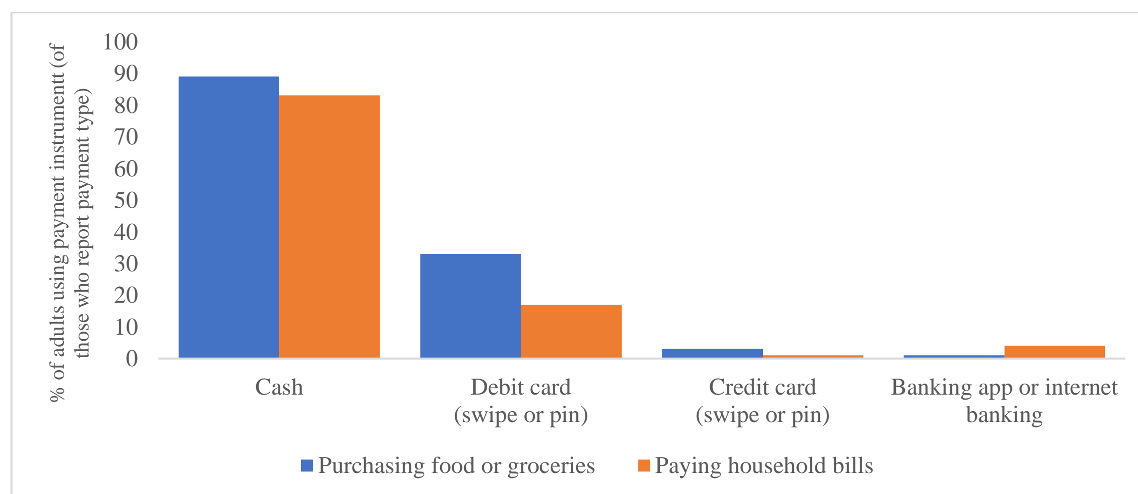
Figure 3: The financially excluded are disproportionately male, young, in lower LSM categories, and with lower education



Source: FinScope Consumer Survey (2019)
Note: The figure includes only Provinces in which more than 10 percent of the adult population is financially excluded.

4. Just one in three banked South Africans report using their account on a daily or weekly basis. Despite the fact that 83 percent of banked South Africans have a debit card, just two percent of banked South Africans report using their account on a daily basis (Figure 4). Thirty-one percent report using their account on a weekly basis but the vast majority of banked South Africans report using their account only on a monthly basis (60 **percent**). Low-income adults and SASSA grant recipients are particularly likely to report "mailbox" account behavior, i.e. using their account only once per month. The continued reliance on cash for day-to-day transactions is also confirmed by use case oriented data: cash is by far the most common method for paying for food or groceries, reported by 89 percent of adults, followed by debit cards, reported by 33 percent of adults. Similarly, 83 percent of adults report using cash to pay household bills, as compared to 17 percent who report using a debit card and three percent who report using EFT transfers via internet banking or banking apps.

Figure 4: South Africans rely on cash for common transactions

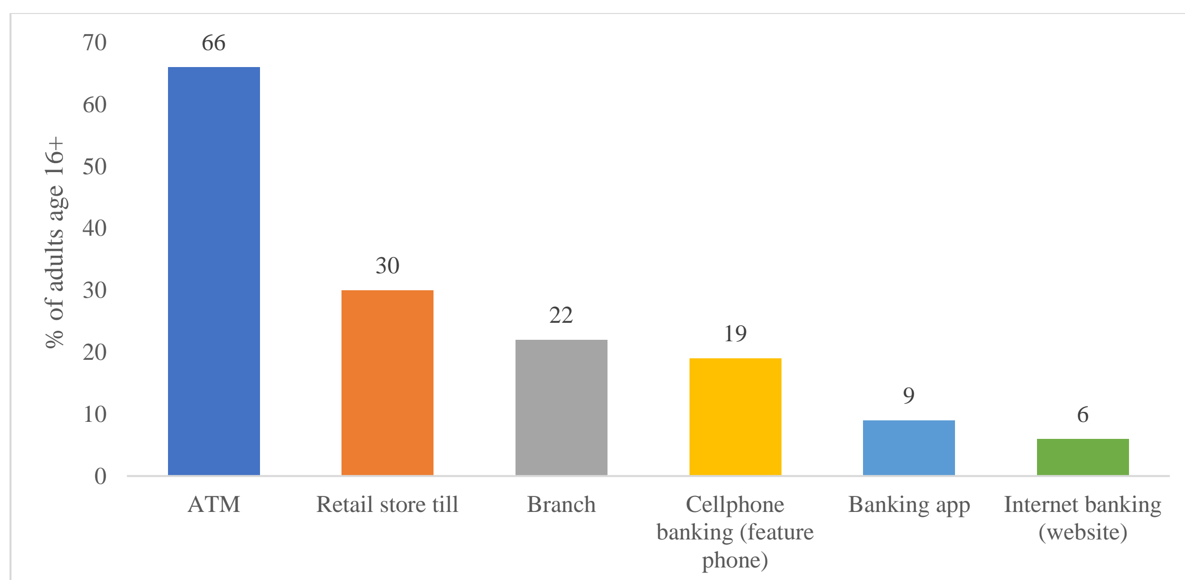


Source: FinScope Consumer Survey (2019)

5. **High fees, a general preference for cash, and lack of funds are cited as key barriers to more frequent account use. Banked** South Africans who report using their account less often than monthly cite high fees (11 percent), a general preference for cash (36 percent), and lack of sufficient funds (54 percent) as the main reasons for not using their account more frequently.

6. **When making banking transactions, South African consumers rely heavily on ATMs and retail agents, with limited uptake of banking apps and internet banking (prior to Covid-19).** Banks offer a wide range of electronic payment instruments (payment cards, electronic fund transfers etc) and the volume of electronic transactions is on the rise over the past years. When asked which channels they use to make common transactions (e.g., transfers, balance enquiries, withdrawals, deposits, etc.), most South African consumers report relying on in-person transactions at ATMs (66 percent), retail store tills (30 percent), and bank branches (22 percent). Usage of remote and/or digital channels is relatively less common with 19 percent of consumers reporting using cellphone banking via a feature phone, nine percent reporting using banking apps, and six percent reporting using internet banking via websites (Figure 5). Multivariate regression analysis indicates that consumers in lower LSM categories and those with less education are less likely to report using banking apps or internet banking for common transactions (Annex 1). It is important to note that the availability and innovation of transaction channels are constrained by the absence of non-bank payment service providers in the market (e.g. mobile money account). Costs – both direct and those resulting from data and internet charges – are also a relevant constraining factor, as further discussed in Section VII.A.

Figure 5: Consumers rely on ATMs and retail agents for common transactions, with limited uptake of banking apps and internet banking



Source: FinScope Consumer Survey, 2019

7. **Wages and social grant transfers have been almost fully digitized, while remittances are largely sent via over-the-counter transfers at retail outlets.** Over 90 percent of those receiving wages (from public or private sector) report receiving their wage payments directly into a bank account. A key caveat is that most South Africans are not formally employed. Among those receiving social grants, 83 percent report receiving their **payment** via a card and 15 percent report receiving their payment directly into a bank account. The most

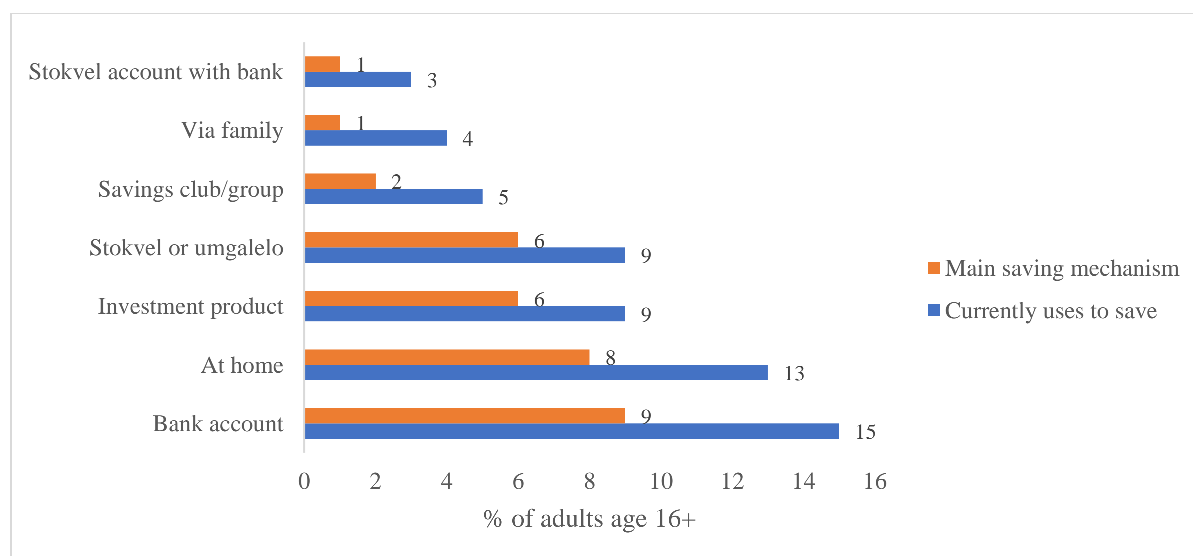
commonly reported means of sending money to family or friends outside of a respondent's household is via money transfers at supermarkets or retailers (55 percent), followed by sending cash directly with a relative or friend (18 percent) and ATM transfers (18 percent).

8. Bank customers place a high value on low fees and convenient access to reliable banking infrastructure. When asked to identify the features of their bank account that are most important to them, banked adults cite "conveniently located ATMs" (51 percent), "ATMs are always working and always open" (45 percent), "total fees / monthly charges" (45 percent) and "conveniently located bank branches" (32 percent). Despite the ongoing digital transformation of the banking sector and the entrance of new "digital-only" banks, most consumers do not yet place a high value on digital banking services; just eight percent of consumer selected "a fully digital banking service" as an important feature for them.

9. Approximately one-third of South African adults report some type of saving behavior. Overall, 36 percent of South African adults report saving. Multivariate regression analysis indicates that women, those in higher LSM groups, adults above age 30, and those with more education are more likely to report using at least one type of savings instrument.

10. Bank accounts are the most commonly used savings mechanism, and most savers do not mix formal and informal savings **mechanisms.** Bank accounts are the most commonly reported saving instruments among South African adults (reported by 15 percent of adults), followed by saving cash at home (13 percent) and investment products (nine percent), and stokvels or umgalelos[10] (nine percent). Overall, a roughly equivalent share of South Africans report using informal savings mechanisms only (14 percent) versus formal savings mechanisms only (13 percent). Just eight percent report using a mix of formal and informal savings mechanisms (Figures 6 and 7).

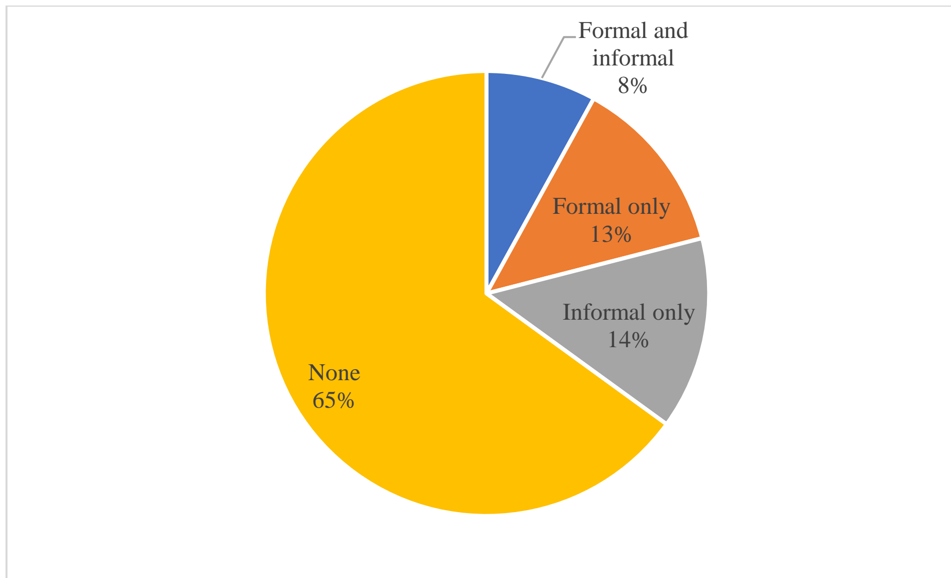
Figure 6: Bank accounts are most commonly used savings mechanism



Source: FinScope Consumer Survey, 2019

[10] Stokvels are informal saving clubs.

Figure 7: Most savers do not mix formal and informal savings mechanisms



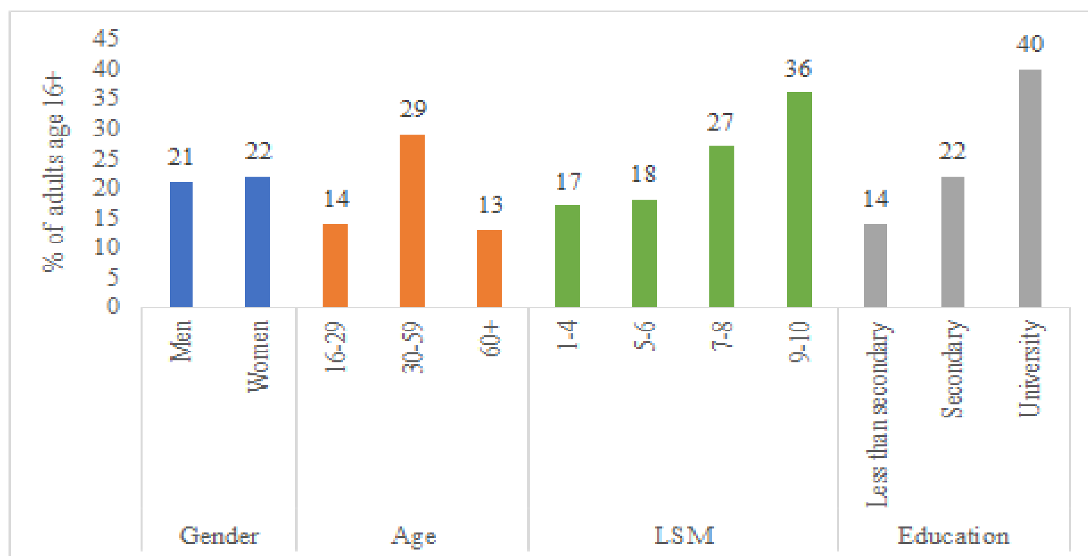
Source: FinScope Consumer Survey, 2019

11. Food and funeral expenses are the most commonly reported reasons for saving. South Africans report saving for a diverse set of purposes, but the most commonly reported reasons for saving are for food (15 percent), saving for funeral costs (11 percent),[11] saving for school fees and education (eight percent), and saving to provide for their family in case of death (eight percent). Relatively few South Africans report saving for retirement / old age (five percent).

12. One in five South Africans reports that he or she has borrowed in the past year or is currently paying off debt. Twenty-two percent of adults report having borrowed money in the past year (including goods on credit) or that they are currently paying off debt, from any source (Figure 8). Overall borrowing behavior is more prevalent among adults age 30-59, those who are employed, adults in higher LSM categories, and adults with more education. These differences are statistically significant in multivariate regression analysis (Annex 1).

[11] Not necessarily equivalent to uptake of funeral cover.

Figure 8: Borrowing is most prevalent among middle-aged consumers, those in higher LSM categories, and those with more education



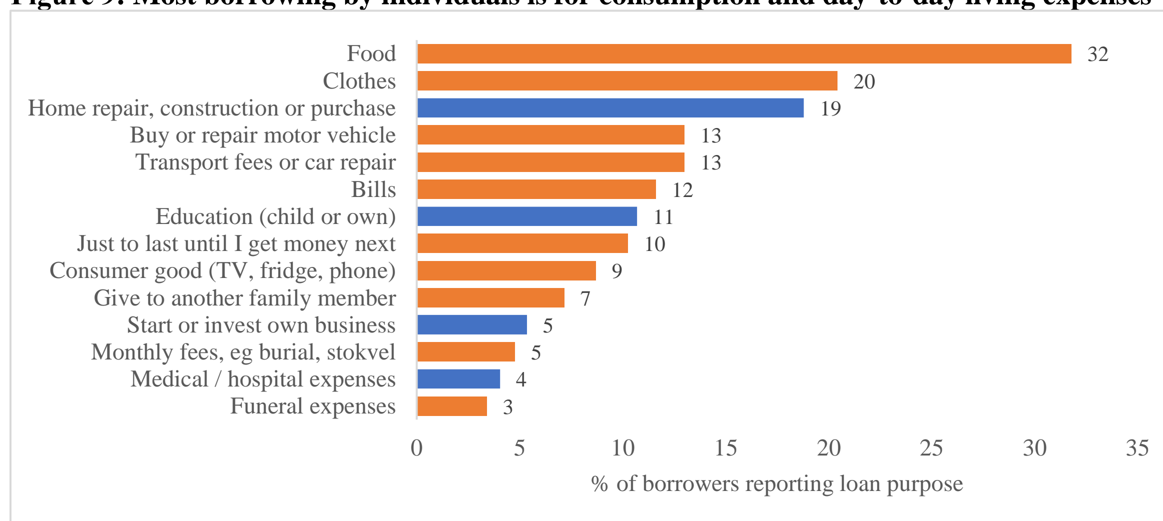
Source: FinScope Consumer Survey, 2019

13. Family and friends are the most commonly reported source of borrowing, followed by banks. Six percent of adults report having borrowed money from family or friends and five percent report having borrowed money from a bank in the past year. Three percent report having borrowed from a retail store, and two percent from a mashonisa[12] (self-reported borrowing from the latter can be difficult to measure).

14. Most borrowing by individuals is oriented towards consumption and day-to-day living expenses. The most commonly reported reasons for taking out a loan among South African borrowers are food (32 percent), clothes (20 percent), and home repair, construction, or purchase (19 percent). [13] Overall, borrowing for consumption and day-to-day needs (marked in orange in Figure 9) is significantly more prevalent than borrowing for investment or productive purposes (marked in blue in Figure 9). The need to borrow for day-to-day living expenses undoubtedly reflects the financial stresses and economic exclusion challenges faced by most South African households. The 2019 FinScope found that about 2 in 5 adults experience challenges with income not covering their living expenses, although the primary means of addressing such shortfalls was to reduce spending or draw on savings. A more detailed discussion on trends in consumer credit and over-indebtedness is included in Section IX.

[12] The mashonisa are informal money lenders that are not registered with NCR.
[13] Corresponding to the source from which the borrower has the largest loan.

Figure 9: Most borrowing by individuals is for consumption and day-to-day living expenses



Source: FinScope Consumer Survey, 2019

15. Almost three in five South Africans report having some type of insurance, with funeral cover provided by non-banks representing the most commonly held insurance product. According to the 2019 FinScope survey, 21 percent of South African adults report having insurance from a bank, 37 percent report having insurance from a regulated non-bank provider, and 33 percent report having insurance from an unregulated provider (e.g., funeral parlour or burial society). Funeral cover is the most commonly held insurance product, reported by 53 percent of adults. When excluding funeral cover, the share of South Africans with an insurance product drops to 21 percent, largely comprising life insurance (12 percent of adults), physical asset insurance (11 percent of adults), and health insurance (nine percent). The prevalence of funeral cover has increased significantly in recent years. South Africans without non-funeral insurance cite affordability as the key barrier to taking up an insurance product.

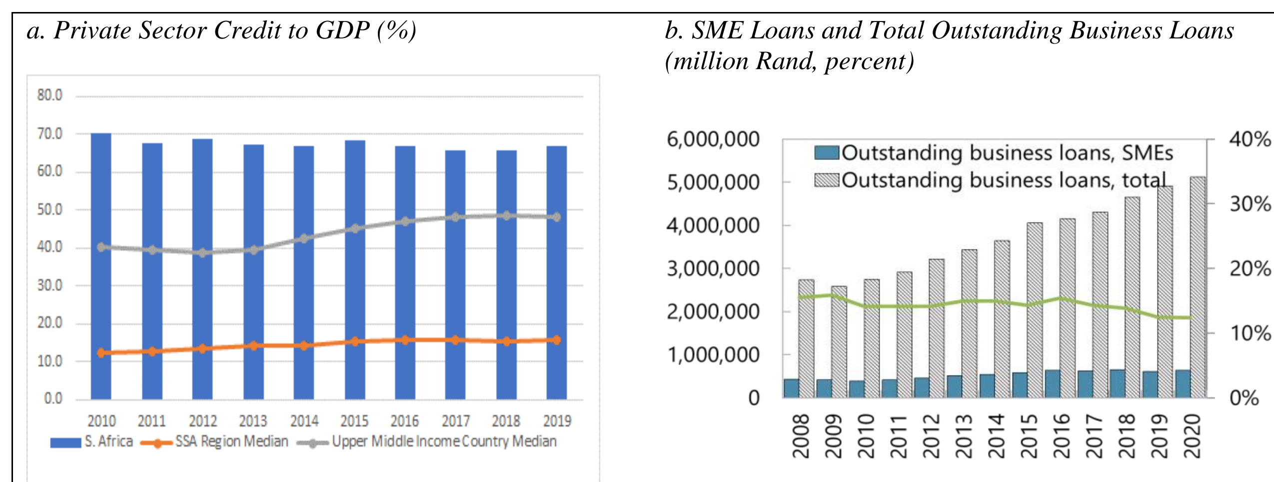
B. Access to Finance for MSMEs

16. While overall credit to the private sector in South Africa remains robust, the micro, small and medium-sized enterprise (MSME) segment remains underserved by the formal financial sector. South Africa's share of private sector credit to GDP was 66.7 percent in 2019, well above the median value for Sub-Saharan African countries of 15.9 percent and other upper-middle income countries of 48.2 percent (Figure 10a), but slightly lower than its level in 2010.[14] Total outstanding business loans have increased in the last decade in nominal terms, but the share of bank lending to SME finance has declined from 28 percent in 2010 to 12 percent in 2020 (Figure 10b). MSMEs are vitally important to the economy, employing between 50-60 percent of South Africa's work force and contributing around 34 percent of GDP.[15] Yet estimates of the MSME credit gap between supply and demand are substantial, ranging from US$5.2 to US$20.7 billion in a 2018 Finfind study[16]

[14] IMF. International Financial Statistics (IFS). 2019.
[15] IFC. The Unseen Sector: A Report on the MSME Opportunity in South Africa. 2018.
[16] Finfind. Inaugural South African SMME Access to Finance Report. 2018.

to US$30 billion (US$24 billion for the informal sector and US$6 billion for the formal sector) in a 2018 IFC report, which amounts to 9 percent of GDP.[17]

Figure 10: Evolution of Private Sector Credit in South Africa



Source: IMF International Financial Statistics; FSAP Analysis of SARB data

17. There are multiple definitions of what constitutes an MSME in South Africa that make reporting and comparison of data challenging.

- South Africa's Small Business Act of 1995, as amended in 2003, classifies firms based on number of employees, level of turnover and level of assets, with different thresholds for different sectors.[18]
- The South African Reserve Bank (SARB) requires banks to report exposure to MSME borrowers, defined as corporate SMEs that have reported sales of less than ZAR400 million and retail SMEs with a credit exposure equal to or less than ZAR12.5 million.
- The COVID-19 loan guarantee scheme to support small and medium enterprises in South Africa, initiated by the National Treasury, the South African Reserve Bank (SARB) and the Banking Association South Africa (BASA) targeted businesses with a turnover of under ZAR300 million

In addition, global firm surveys also apply different definitions, such as 2020 World Bank Enterprise Survey data which covered registered establishments applying a standard definition used globally based upon number of employees: small (5 to 19 employees), medium (20 to 99 employees), and large (100 or more employees).[19]

18. What constitutes formality in South Africa also varies. Some adopt the payment of income tax in a binary definition with others looking at multiple factors such as business registration, compliance with VAT and other taxes, ownership structure and customer base. Estimates of the share of formal firms in South Africa vary from 14 percent[20] to 32 percent.[21] Although this note covers the challenges of MSMEs, data are presented for SMEs if broader data are not available.

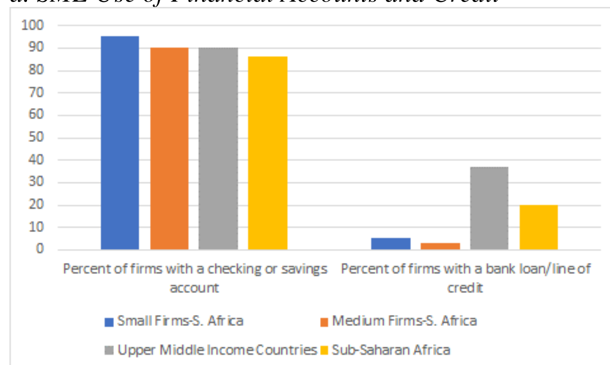
[17] IFC. The Unseen Sector: A Report on the MSME Opportunity in South Africa. 2018.
[18] The Act (available at https://www.gov.za/documents/national-small-business-act) distinguishes between categories by number of employees include micro enterprises (less than five employees), very small enterprises (five to less than 20 employees), small enterprises (20 to less than 50 employees) and medium enterprises (50 to less than 200 employees) and includes annual revenue and asset thresholds vary depending on industry, for example community, social and personal services and the wholesale sector.
[19] The World Bank. 2021. "The South Africa 2020 Enterprise Surveys Data Set."
[20] IFC. The Unseen Sector: A Report on the MSME Opportunity in South Africa. 2018.
[21] Small, Medium and Micro Enterprise Sector of South Africa, Research Note No. 1. 2016 No 1, commissioned by SEDA

19. The share of SMEs with credit is much lower in South Africa than in income and regional peers. World Bank Enterprise Survey data from 2020 (Figure 11a) show that most formal SMEs have transactional accounts, but less than 4 percent of formal SMEs in South Africa report having a credit line, well below regional and income peer levels for SMEs (20 and almost 40 percent respectively). Just 4.8 percent of small firms and 5.6 percent of medium sized firms reported having a bank loan or line of credit in the 2020 World Bank Enterprise Surveys, similar to the 4 percent of business owners who reporting a personal loan in the Finscope 2019 consumer survey and the 3 percent of MSMEs reporting credit in the Finscope SMME 2010 study.

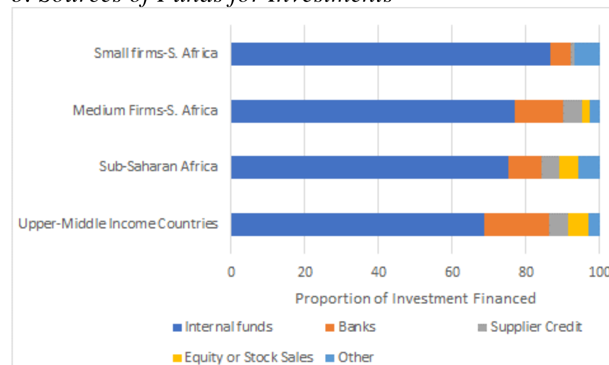
20. Use of transaction accounts is far higher than use of formal credit. World Bank Enterprise Survey data also show that SME access to checking or savings accounts exceeds 90 percent for both small and medium sized firms. The Finscope SMME[22] 2010 study which included informal firms across a range of sectors indicated that only 49 percent of small businesses have a business bank account, but part of this discrepancy may be explained by smaller or informal firms preferring to use their personal accounts to make business transactions. A Finscope 2019 study of use of finance by consumers showed that 70 percent of those who owned a business had a transaction or savings account, which increased to 82 percent for those with registered businesses.

Figure 11: International Comparison of MSME Use of Finance

a. SME Use of Financial Accounts and Credit



b. Sources of Funds for Investments



Source: World Bank Enterprise Surveys 2020

21. SME investments are largely financed by internal funds. Figure 11b shows the sources of investment finance for South African small and medium sized South African firms in comparison to their regional and income group comparators. Small South African firms that invest are highly dependent on internal sources, using them to finance 87 percent of their investments, in contrast to the average firm in upper middle income countries which finances 68 percent. External sources such as credit from banks (6 and 13 percent for small and medium sized firms respectively) or suppliers (1 and 5 percent for small and medium firms) may be limited by the capacity of the firm to guarantee its obligations (i.e. provide collateral). WB Enterprise Survey data indicate that 35.6 percent of loans to firms require collateral, with an average collateral value of 115.4 percent of the loan amount, both of which are lower levels on average than in the region. External equity is largely dependent on the legal form of the firm and its ownership structure, on the degree of involvement of the owners into the management of the firm and their willingness to take on new partners and the effectiveness of the stock market.

[22] The term SMME (Small, Micro and Medium-sized enterprise) is often used in South Africa interchangeably with MSME.

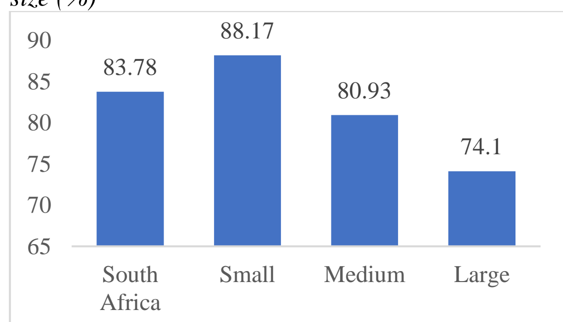
It does not register as a funding source for small firms and is used to finance 2 percent of the investments by medium firms.

22. Firms perceive access to finance as a major constraint indicating challenges in the supply of financial services. The registered (formal) SMEs in the 2020 World Bank Enterprise Survey[23] in South Africa perceived the lack of access to finance as a major obstacle, second only to access to electricity in a ranking of obstacles in the business environment. Predictably, small firms report access to finance as a problem more frequently than medium and large firms. National data mask regional socio-economic disparities, as banking infrastructure are primarily concentrated in Gauteng province, location of 56 percent of SMEs (as well as economic and political capitals Johannesburg and Pretoria.)

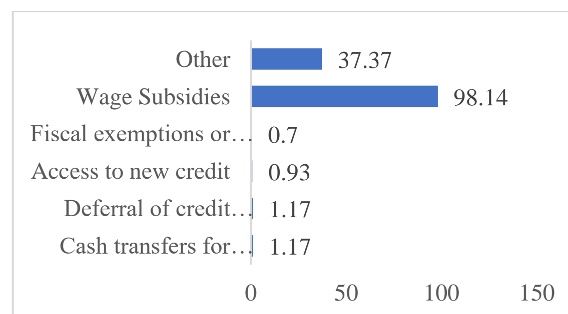
23. Access to finance has remained a core challenge for MSMEs during the COVID-19 period. As shown in Figure 12a, most firms, including 88 percent of small firms and 81 percent of medium sized firms, reported decreased liquidity or cash flow due to the Covid-19 outbreak. When firms were then asked how they dealt with this decreased cashflow, 4.8 percent of firms indicated that they made use of loans from commercial banks; 2 percent made use of equity finance; 1.67 percent delayed payments to workers or suppliers; 2.46 percent used government grants; while 88.7 percent of firms indicated that they had used none of the above. More than 40 percent of small and medium sized firms reported receiving government assistance, of which wage subsidies were the most common support (Figure 12b). Similarly, the Finfind Covid-19 SMME Impact Report found that existing debt, lack of cash reserves, outdated financials, no access to relief funding and an inability to operate during the lockdown has forced the closure of 42.7 percent of small businesses. For the 57.3 percent of businesses that survived lockdown, the number one business challenge identified is inability to get access to funding.[24]

Figure 12: Effects of Covid-19 on South African Firms

a. Firms with decreased liquidity or cash flow by firm size (%)



b. Forms of Government Assistance Utilized



Source: World Bank. The Effects of COVID-19 on South African Firms: Evidence from the World Bank Group's Enterprise Survey. 2021 (unpublished), Note multiple options permitted in Figure 12b.

24. Vehicle finance and short-term credit are the dominant products for South African MSMEs. Nearly half (49%) of bank credit volume goes to vehicle finance while 26% of credit volume goes to short-term

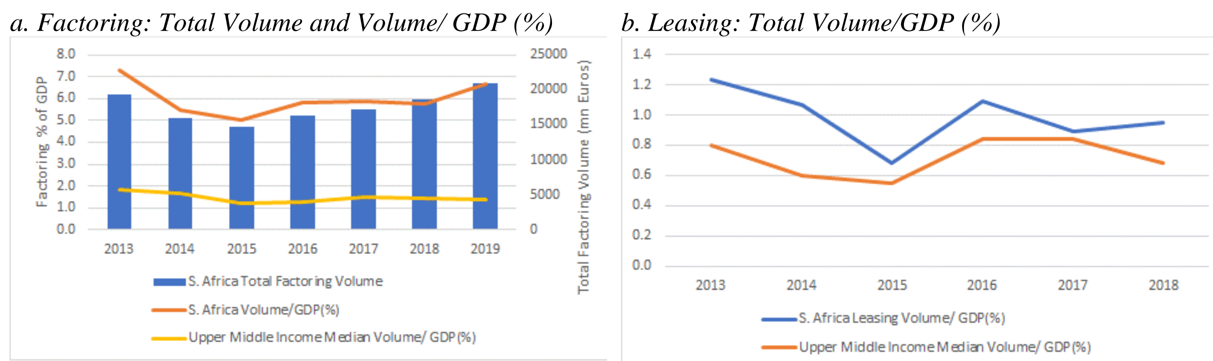
[23] Business owners and top managers of 1097 firms were interviewed between December 2019 and February 2021 as part of the standard ES, with an additional component added to the survey instrument to focus on the effects of Covid-19.
[24] Finfind. The SA SMME COVID-19 Impact Report. November 2020.

credit products such as overdraft facilities and credit cards.[25] Commercial property finance (15%) and other term loans (10%) are also common credit products. Banks typically price MSME finance as high-risk in the absence of more complete credit information, relative to larger firms.

25. Invoice based financing has been gradually increasing, with both traditional factoring by banks and invoice finance by Fintech firms. According to Factors Chain International, total factoring turnover in 2019 was US$24.2 bn, up from US$22.4bn in 2013, and factoring volume as a share of GDP was 6.7 percent in 2019, far higher than the share of GDP for the median upper middle-income country. (Figure 13a). Most (83 percent) factoring volume in South Africa is domestic.[26] Factoring firms in South Africa have traditionally purchased companies accounts receivable at a discount, with the leading local factors being specialist divisions of the major domestic or foreign banks. Three factoring fintechs are providing funding to SMEs through invoice financing.

Figure 13: Evolution of Non-Credit Financing

a. Factoring: Total Volume and Volume/ GDP (%) *b. Leasing: Total Volume/GDP (%)*



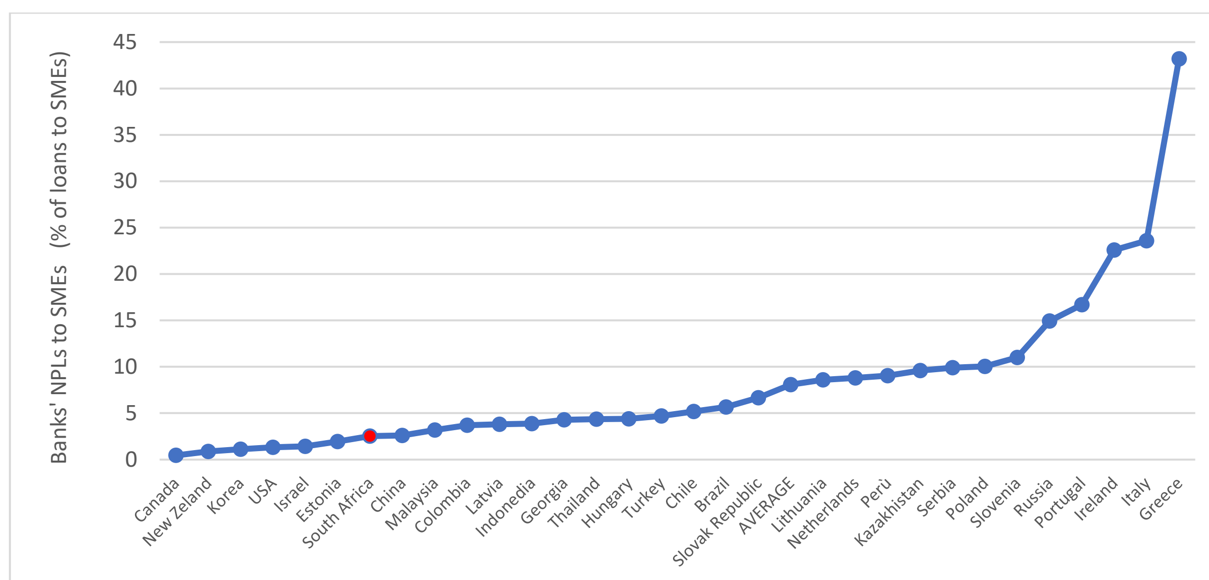
Source: Factoring Chains International 2020 Annual Review and World Bank Finstats (2021)

26. Financing leasing is available at most major banks. Leasing volume was 1 percent of GDP in 2018 (Figure 13b). Leasing is used primarily to finance vehicles and equipment. A comprehensive review of the current legal framework for financial leasing services and factoring law would be helpful to identifying impediments to growth of these products.

27. NPLs for SMEs are relatively low compared to other countries and had been declining before Covid-19. SME NPLs had been declining from 5.2 percent in 2010 to 2.53 percent in 2017, albeit the impact of Covid-19 has led to increase in level of NPLs systemwide from end-2019 to end-2020. South Africa has a low share of NPLs to SMEs compared to other countries (Figure 14), which may signal that its financial institutions are relatively more risk-averse, which may limit the potential to finance viable firms, particularly risker firms that are innovative and have higher growth potential.

[25]IFC. The Unseen Sector: A Report on the MSME Opportunity in South Africa. 2018.
[26] Factoring Chains International. Annual Review: 2020.

Figure 14: Banks non-performing loans to SMEs (as % of total loans to SMEs, 2019)



Source: WBG on OECD Financing SMEs and Entrepreneurs (2019)[27]

II. PUBLIC AND PRIVATE SECTOR COMMITMENT AND STRATEGY

A. Financial Inclusion for Individuals

28. Financial inclusion has been a policy priority in South Africa since at least 2004. The Financial Sector Charter was established in 2004 as a voluntary effort through which financial sector stakeholders from the public sector, private sector, and civil society set collaborative financial inclusion targets.[28] The Charter was replaced by the Financial Sector Code in 2012 and later aligned with Broad-Based Black Economic Empowerment (B-BBEE). The Financial Sector Code is legally binding and governed via the Financial Sector Transformation Council. The 2012 National Development Plan (NDP) acknowledged financial inclusion as enabler of the national goals of eliminating poverty, reducing inequality, and achieving full employment, decent work, and sustainable livelihoods for all. The 2012 NDP included a target of 90 percent "banked" by 2030 (according to FinScope, this value was 81 percent as of 2019).

29. The 2017 Financial Sector Regulation Act (FSR Act) further establishes financial inclusion as a key policy **and institutional objective.** FSR Act identifies financial inclusion as one of the eight objectives of the revamped financial sector regulatory and supervisory framework. The FSR Act defines financial inclusion as a key objective of both the Prudential Authority and Financial Sector Conduct Authority. The FSR Act also

[27] OECD, Financing SMEs and Entrepreneurs, 2019 (Figure 1.24: SME non-performing loans).
[28] A key initiative of the Financial Sector Charter was the introduction of Mzansi accounts in 2004, a joint initiative by large banks to improve access to basic bank accounts.

requires the formation of a financial inclusion working group within the Financial System Council of Regulators.[29]

30. A 2020 draft Policy Paper by National Treasury outlines a policy framework for financial inclusion. The Policy Paper, "*An Inclusive Financial Sector For All*," establishes eight principles, covering, inter alia, universal access and responsible usage; competition and diversity in service providers; technological innovation; proportionality in regulation and supervision; effective stakeholder coordination; and data infrastructure. The Policy Paper also establishes three key pillars to structure the national financial inclusion reform agenda: (1) Deepen financial inclusion for individuals; (2) Extend access to financial services for SMMEs; and (3) Leverage a more diversified provider and distribution base. The Policy Paper identifies a range of potential reforms to pursue under each pillar. As of May 2021, the consultation process for the Policy Paper is ongoing.

31. A Financial Inclusion Implementation Strategy is under development. The National Treasury is leading the development of a Financial Inclusion Implementation Strategy (referred to as a "National Financial Inclusion Strategy" in many countries) following the three-pillar framework established in the Policy Paper. The Financial Inclusion Implementation Strategy is expected to contain a detailed action plan, as well as monitoring and evaluation system to track progress and identify implementation bottlenecks. The National Treasury is in the process of establishing the National Financial Inclusion Sub-Working Group – comprised of relevant public sector authorities - to guide the development of the Strategy. A complementary Financial Inclusion Forum (FIF) is expected to be established as a platform where industry and other non-governmental stakeholders can engage with policymakers and regulators.

32. The effective design and implementation of a Financial Inclusion Implementation Strategy will require **a focused and well-coordinated effort.** More than 50 countries have launched a National Financial Inclusion Strategy (NFIS) and many more are in the process of developing such an approach. South Africa's Financial Inclusion Implementation Strategy should address obstacles and opportunities in a complex institutional environment where financial inclusion has long been a policy priority. International experience has shown that effective NFISs are generated from an inclusive consultation process. Yet complex governance arrangements can also serve as an obstacle to implementation; focused institutional leadership and a delineated action plan with clear responsibilities for relevant stakeholders can help to reduce roadblocks during implementation. The Financial Inclusion Implementation Strategy should address persistent and structural barriers to financial inclusion, including related to provider diversity and innovation, reaching 'last mile' consumers, reducing barriers to the integration of formal financial services in the daily lives of South Africans, and the responsible le provision of productive credit. These topics are discussed in more detail in this note.

33. A robust data infrastructure is necessary to monitor progress and identify bottlenecks in expanding financial inclusion. The annual FinScope Consumer and MSME Surveys provide rich, demand-side data on the uptake and usage of informal and financial services by individuals and firms. The FinScope Surveys also generates useful data on the views and preferences of financial consumers. However, there are significant limitations in the supply-side financial inclusion data infrastructure, including related to retail agents, geospatial-

[29] Members of this Financial System Council of Regulators includes the National Treasury, the FSCA, the PA, the Department of Trade and Industry, the National Credit Regulator, the National Consumer Commission, the Department of Health, and the Council for Medical Schemes.

linked data on financial access points, the unsecured credit and credit facilities market, and over-indebtedness. Similarly, collecting and sharing aggregate data on the number of those applying for consumer and MSME loans, rejection rates and reasons for rejections, financing terms (including use of collateral) for those who received credit as well as credit quality information (ex: NPLs) disaggregated by firm size would be useful to better assess financing constraints. These gaps constrain the ability of financial sector authorities to identify constraints to achieving key financial inclusion objectives (e.g., physical access) and design responsive policy, regulatory, and supervisory approaches. Financial sector authorities should prioritize improvements in financial inclusion data infrastructure at the institutional level, as well as coordinate to generate comprehensive datasets and reports that can provide regular, national, and cross-sectoral overviews of key supply-side and demand-side financial inclusion indicators.

Box 1: Key Success Factors for NFIS Development and Operationalization

The World Bank's Toolkit for Developing and Operationalizing a National Financial Inclusion Strategy identifies ten success factors based on the NFIS experiences of dozens of countries:

1. Early and sustained engagement of relevant stakeholders—including the private sector—to create broad buy-in and align efforts across financial and nonfinancial policy areas
2. Investment in data and diagnostics work to ensure that the NFIS is grounded in a robust evidence base and accurately identifies constraints and opportunities relevant to the achievement of greater financial inclusion
3. Identification of high-level champions within key institutions who can integrate relevant NFIS actions into institutional work plans and advance their implementation
4. Clear articulation of NFIS objectives and targets to ensure a shared understanding of expected outcomes
5. Prioritization of forward-looking NFIS actions that emphasize digital approaches, proportionality, and the needs of financial consumers
6. Establishment of inclusive but efficient governance arrangements to facilitate collaboration and consultation throughout the NFIS implementation period
7. Mobilization of resources prior to NFIS launch—including those needed for "quick win" actions and Secretariat staff—to build momentum and demonstrate credibility
8. Effective communication and branding of the NFIS, including the signaling of early implementation successes
9. Flexibility to adapt NFIS elements during implementation to reflect market developments and emerging policy priorities
10. A well-resourced and robust M&E system to track implementation progress, identify bottlenecks, and inform course corrections

Source: World Bank, 2018. Toolkit for the Developing and Operationalizing a National Financial Inclusion Strategy.

B. Access to Finance for MSMEs

34. Expanding access to and quality of financial services for MSMEs is a goal encompassed in South African development strategies. To support economic growth and job creation, South Africa's National Development Plan 2030[30] emphasizes the importance of strengthened financial services to bring down their cost and improve access for small and medium sized businesses. Similarly, extending access to financial services for MSMEs is one of the three pillars of the draft Financial Inclusion policy framework: An Inclusive Financial

[30] National Development Plan 2030: Our future - make it work, August 15 2012

Sector for All. In addition, National Treasury, in partnership with the Department of Small Business Development, has conducted a series of consultations with stakeholders around priority areas to enhance financing to the MSME sector which gave rise to the SMME Access to Finance Action Plan.

35. The Government of South Africa has several institutions which manage government financing programs to reduce the MSME finance gap. National government financing for MSMEs in South Africa is managed by the Industrial Development Corporation (IDC), the Department of Trade, Industry and Competition (DTIC), the Department of Science and Technology, and the Department of Small Business Development (DSBD), which includes the Small Enterprise Finance Agency (SEFA). A 2019 World Bank report on Financing Small Business in South Africa showed that more than 52 programs targeting MSMEs were available through these institutions, ranging in annual commitment sizes from less than ZAR100,000 to 50 million. In FY2018, these government programs had an estimated annual budget of about ZAR18 billion (0.36 percent of GDP, or 2.8 percent of outstanding business lending to SMEs), supporting more than 46,000 small businesses.[31]

36. The government plays a role in promoting credit to MSMEs through direct and wholesale lending and guarantees. IDC debt financing programs provide direct MSME financing only. Indirect financing options, where the government provides financial resources to commercial financial providers, include SEFA's wholesale lending and guarantee programs. The total SEFA loan portfolio in the 2019/20 financial year including funds was ZAR1.9 billion, 63 percent of which was wholesale lending.[32] A relatively small guarantee program (ZAR248 million in 2019/20 guarantees issued) is administered by SEFA's Khula Credit Guarantee Fund to reduce the risk of lending in that segment, while a ZAR200 bn COVID-19 loan guarantee scheme was initiated in 2020 as an emergency support to SMEs and was closed in June 2021 (discussed in greater detail in the section on Key Government Initiatives).

C. Fintech

37. South Africa has a relatively small but growing Fintech market and ecosystem, and the South African regulators have taken several initiatives in response to the Fintech developments. The substantial gaps in uptake and usage of traditional financial services is creating a demand for innovations. The Fintech market is benefiting from several accelerators – both independent and ones managed by incumbents - and venture capital firms. The financial sector regulators have adopted a balanced position of harnessing the potential of Fintech whilst mitigating risks. A dedicated unit has been established in the SARB and FSCA to monitor and shape the respective regulators policy response, this has been followed by launch of a "Fintech Program", which is focused on analyzing and tracking market developments and assisting regulators in developing suitable policy responses. The SARB launched "Project Khokha" - their exploration on usage of Distributed Ledger Technology (DLT) for the core functions of SARB in the payments and settlements arena. The regulators and public agencies have also established an Inter-governmental Fintech Working Group (IFWG) to collectively study, deliberate and initiate coordinated actions. The activities of the fintechs and incumbents using fintech approaches has been focused more on the underbanked rather than un-banked; there are however some early signs of efforts to develop tailored products and services targeting the un-banked.

[31] World Bank. Financing Small Business in South Africa: A Snapshot of Government Programs. 2019.
[32] Small Enterprise Finance Ageboxncy (SEFA). Annual Report. 2020

38. The IFWG was created in 2016 as a mechanism for regulators and public authorities to collaborate in promoting responsible innovation in the financial sector. The founding members of IFWG included the SARB, FSCA, National Treasury (NT) and Financial Intelligence Center (FIC). The membership was expanded subsequently to include National Credit Regulator (NCR), South African Revenue Service (SARS), and Competition Commission (CC). The IFWG published a Fintech vision document in August 2020. The IFWG established an Innovation Hub in April 2020 offering three sets of services: Regulatory Guidance Unit (RGU), Regulatory Sandbox and Accelerator. The IFWG also organizes – Hub Talks – which provides a forum for the IFWG members, fintech industry and public at large to hear perspectives of domestic and international experts on various topical issues. The IFWG developed a Fintech vision document and conducted a fintech landscaping exercise.

Summary of Main Recommendations:

- Establish a financial inclusion implementation strategy with an action plan and monitoring and evaluation system
- Strengthen financial inclusion data infrastructure, including through collection of data on retail agents and geospatial data on access points
- Issue an annual report with comprehensive demand-side, supply-side and cross-sectoral indicators to monitor financial inclusion progress and bottlenecks

III. PROVIDER DIVERSITY AND INNOVATION

A. Overview of Provider Ecosystem

39. The South African financial sector is bank-centric. The vast majority of financially included adults in South Africa are bank customers. Cooperative Banks and Cooperative Financial Institutions have a very limited reach, jointly accounting for just 30,000 members. Unlike many of its regional peers, South Africa does not currently have a regulatory framework in place for non-bank payment service providers (or e-money issuers)**.** The following subsections provide a brief overview of the financial service providers relevant to financial inclusion in South Africa. A more detailed discussion of Fintech providers can be found in the FSAP Background Note on Fintech.

Type of financial service provider	Number of institutions	Total assets (R millions)	Number of customers
Registered banks and mutual banks*	23	6,121,334	33,100,000**
Co-operative banks	4	210	4,280
Registered co-operative financial institutions	23	213	25,911
Credit providers	7,837	n/a	25,200,000***
Non-life insurers	83	199,929	
Life insurers	76	3,136,346	

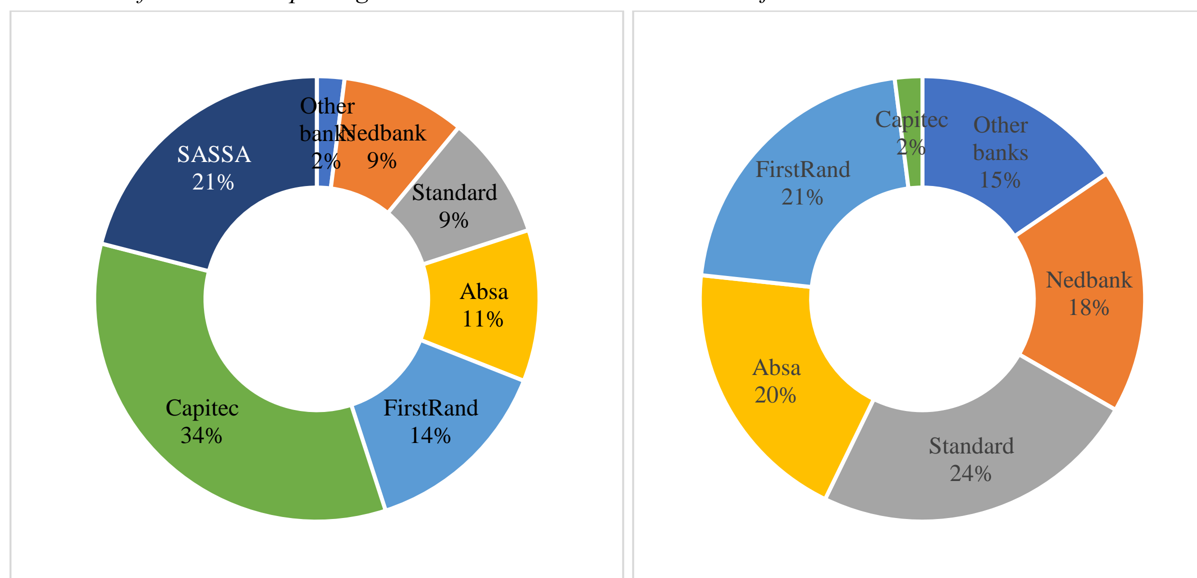
Source: NCR (2019); Prudential Authority Annual Report (2019/2020);
Notes: *There are also 17 local branches of foreign banks; **Author estimate based on 2019 FinScope data; ***Refers to credit-active consumers;

B. Banking Sector

40. The banking sector is highly concentrated among the 'big five' banks. As of March 2020, the five largest banks (i.e. the 'big five') hold 89 percent of total assets. (See the FSAP Technical/Background Note on Competition for a more extensive discussion on banking sector concentration.) 2019 FinScope data confirms that the 'big five' also dominate the financial inclusion landscape, jointly accounting for 77 percent of banked customers' "main bank" (self-reported).

Figure 15. 'Big Five' banks represent 77 percent of banked consumers

XA: Share of customers reporting as their "main bank" *XB: Share of total assets*



Source: NCR (2019); Prudential Authority Annual Report (2019/2020)

41. The banking sector is investing significant resources in digitization. Many banks have digital strategies to modernize their products and delivery channels and to enable the use of digital data for decision making purposes.[33] Banks offer a wide range of electronic payment instruments (payment cards, electronic fund transfers etc) and the volume of electronic transactions is on the rise over the past years.

42. Disruptive innovation in the banking sector has seen more digital banks enter the market. Three new "digital banks" - Tyme Bank, Discovery Bank, and Bank Zero – have entered the retail banking market in the past several years. TymeBank began as a fintech focused on mobile payments but following a shift in strategy and ownership changes, began operating as a bank in November 2018. TymeBank offers transactional and savings accounts that can be opened via kiosks Pick n' Pay locations. Discovery Bank began operations in June 2019 focused on consumer lending via credit cards, and has since expanded to transaction and savings accounts that can be opened remotely via mobile phone. Bank Zero received a mutual bank license in August 2018 but has not yet fully launched. The business models of the new "digital bank" entrants have benefitted from the shift towards a risk-based approach to KYC in the 2017 FIC Amendment Act that has enabled greater automation the

[33] As per estimates in 2016, major banks in South Africa spend between 10 percent and 18 percent of operating costs on IT expenditure according to the COEFS "Impact on Fourth Industrial Revolution on South Africa Financial Services" report.

customer onboarding process (including via remote processes), as well as partnerships with large retailers to facilitate account opening and basic transactions. The current reach of these new entrants is not reflected in the 2019 FinScope data used in Figure 13.

43. Among large, incumbent banks, Capitec stands out for its retail banking strategy and strong customer growth in recent years. Capitec is the youngest bank among the 'big five' and accounts for just two percent of banking sector assets. However, 34 percent of banking customers in South Africa report that Capitec is their 'main bank' – the next largest bank by this metric is FirstRand, with 14 percent of banking customers.[34] Among those that report having opened their first bank account in the past two years, 47 percent report being a Capitec customer.

44. The banking sector is also the dominant player in the retail credit market, although retailers play a significant role. Despite the large number of registered credit providers, banks are the dominant provider of consumer credit in South Africa, accounting for 83 percent of the loan portfolio by volume and 44 percent of the number of loan accounts. The other categories of lenders used by NCR are retailers, non-bank vehicle financiers and other credit providers. The respective market shares of each category of lender have been relatively stable over time.

45. Bank lending is the most common source of financing for MSMEs. Banks represent about 70 percent of the current loan volume to formal MSMEs. Commercial banks cite common challenges to serving MSMEs such as: i) business risk being too high/not sustainable, ii) inadequate business plan depicting the business model, iii) requests for funding that do not match evidence of work commitments, and iv) business owner's personal track record. New business models and the use of alternative data may offer the solution to some of these challenges. Alternative lenders serving SMEs that are unregulated in terms of the NCR/NCA such as Merchant Capital, Retail Capital, Lulalend, and Prizm, focus on unsecured lending products, and are discussed in greater detail in the Fintech background note.

C. Payment Service Providers

46. The existing legal framework in South Africa allows only banks, Mutual Banks or Cooperative Banking Institutions to handle customer funds in a bank account or as an e-money account. As a result, only these institutions can offer payment services to payers. The South Africa Banks Act limits the activities of taking deposits and of provision of payment services to banks. The Banks Act (No. 94/1990), as amended, provides for the regulation and supervision of the business of taking deposits from the public. Article 1 of the Act sets out definitions for a deposit and the business of a bank. In the context of payment services, a deposit is a 'particular type of payment' and can only be intermediated by an entity that is defined as a bank. In other words, a 'non-bank' cannot accept deposits, unless sponsored by a bank. Mutual Banks and co-operative financial institutions are also expressly allowed to manage customer funds and offer payment services to payers.

47. Amendments to the National Payment System Act (NPSA) and subsequent directives issued by SARB in 2007 allowed non-banks to offer services incidental to making payments to the payers and payees and this has allowed non-banks to play a role in e-commerce, bill payments and merchant payments. The

[34] The vast majority of banked customers report having only one banking relationship, with just 12 percent reporting having an account with more than one bank.

Section 7 of the NPSA, allows a person, as a regular feature of that person's business, to accept money or payment instructions from any other person for purposes of making a payment on behalf of the first person, to a third person, to whom the payment is due. This provision was further elaborated in the Directive No. 1 of 2007, for the conduct within the National Payment System in respect of payments to Third Persons, explicitly allowing non-banks to offer such services and the entity providing such services were called Third Party Payment Providers (TPPPs). There are now several TPPPs in South Africa operating as payment gateways for e-commerce, bill payment aggregators and also as merchant aggregators – signing up and servicing merchants on behalf of acquiring banks for accepting card payments and other digital payments. A subsequent Directive No 2 of 2007, created an additional category called "System Operator" (SO) that can provide services to the payers and payees in processing payment instructions. Non-banks were explicitly allowed to offer SO services and this is being used by Fintechs that want to provide services to merchants without handling funds.

48. The SARB has proposed to expand the role of non-banks in the national payments system. The SARB has issued a policy paper reviewing **the** current legal and regulatory framework governing the NPS and has proposed several transformational changes. This is currently being discussed with the Government and other financial sector regulators. The changes include opening the NPS to non-banks allowing them to issue e-money, process domestic remittances, offer payment services independently, be eligible for membership of PASA and be eligible for becoming a clearing participant and to maintain settlement account at SARB.

49. Legislative reforms to provide a direct role to non-banks in the provision of payments services should be fast tracked. The reform agenda outlined in the payment systems vision 2025 and the position paper on the changes required in the NPS Act are comprehensive. However, while the system enhancements are well-underway the legislative changes are still pending and will need to be fast tracked. The legislative reforms seeking to provide a direct role to non-banks in the provision of payment services are directly related to addressing the gaps in usage of digital payments across income segments. The related reforms of streamlining access to payment systems for non-banks goes hand-in-hand with allowing non-banks to play a direct role. Globally there are two routes that have been followed for enabling a direct role for non-banks in payment services: (i) create a distinct category of e-money as a prepaid payment product which is distinct from bank accounts and not considered a "banking activity"; and (ii) develop a new tier of banks that are only allowed to offer payment services – also called narrow banks or payment banks. Countries that have adopted option (i) include Kenya, Uganda, Tanzania, Indonesia and Hong Kong. Nigeria, India and Brazil are some of the recent examples of countries following option (ii). Some countries have taken both options – for example, India allows both non-bank issuance of e-money and payment banks. These changes will need to be accompanied by enabling the non-bank entities to engage agents and apply tiered customer due diligence requirements for both customers, agents and merchants.

50. Remittance services are provided by Money Transfer Operators (MTOs) which can be further categorized into cross-border MTOs and Domestic MTOs. While cross-border MTOs can operate as independent entities (without partnering with banks), domestic MTOs are required to partner with registered banks to be able to provide such services. There are several such domestic MTOs in operation engaged in person-to-person remittances operating in a closed loop environment.

D. Venture Capital/Private Equity

51. Venture capital is growing quickly from a low base, but there remains a gap for early-stage financing. For venture capital, which tends to be invested in early-stage investments, 162 deals totalling 1.23 billion were reported in 2019, [35] with the average round for all active deals stands at R8.43 million. Funding for start-ups remains limited. Venture capital – also considered early-stage investment – is different from private equity in that funds are provided to start-ups or small businesses that are expected to show exponential growth. This form of investment can be considered higher risk than private equity since those businesses often still have to fully prove their model. Although South Africa has a developed PE/VC market, the vast majority of funds are channelled into late-stage investments – less than 4 percent of PE funds under management go towards early-stage investments, and VC funds earmarked for start-ups equate to less than 2 percent of funds committed to later stage investments.[36] Private equity investments are also considered to include venture capital funds and angel investors, as well as crowdfunding, which is at a nascent stage in South Africa, with just one active firm.

52. Section 12J of the Income Tax Act, was introduced in 2008 to encourage investments in start-ups and SMEs that could help to create jobs and stimulate economic growth, was abolished in 2021. Rather than investing in small businesses and riskier ventures, the majority of the S12J investments were "low risk" in sectors such as property that offered more guaranteed returns. Some government programs offer equity finance to MSME, typically blended with debt financing, as discussed in the section on Government initiatives. Challenges to the expansion of equity finance sources include competition for a limited pool of funding and few specialized fund managers that focus on early-stage SMEs.

E. Cooperative Banking Institutions

53. Cooperative Banking Institutions do not currently play a meaningful role in financial inclusion in South Africa. Cooperative Banking Institutions in South Africa comprise 31 registered Cooperative Financial Institutions (CFIs) and six licensed Cooperative Banks (CBs).[37] While cooperative financial institutions play an important financial inclusion role in many countries in Sub-Saharan Africa (e.g., Rwanda, Lesotho) and worldwide (e.g., Ecuador, Ireland), Cooperative Banking Institutions in South Africa reach only an estimated 30,000 members, representing less than 0.1% of the customer base of banks. One Cooperative Bank accounts for approximately one-third of all Cooperative Banking Institution members. The membership base of Cooperative Banking Institutions has remained relatively stagnant over the past decade (0.7 percent annual growth), although asset growth has been more significant (18 percent annual growth). Cooperative Banking Institutions typically serve small, well-defined communities including labor unions or affiliated groups of public sector workers (e.g. teachers or police). Most Cooperative Banking Institutions offer basic deposit and loan products.

54. Cooperative Banking Institutions have a well-developed legal and supervisory framework. Cooperative Banking Institutions are governed under the 2008 Co-operative Banking Act, which also established the Cooperative Bank's Development Agency (CBDA) within National Treasury. For several years the CBDA

[35] South African Venture Capital and Private Equity Association (SAVCA). SAVCA 2020 Venture Capital Industry Survey. 2020.
[36] IFC. The Unseen Sector: A Report on the MSME Opportunity in South Africa. 2018.
[37] A CFI must have at least 200 members and R100,000 in shares to be registered. A CB must have R5 million in deposits and meet more stringent prudential requirements. Many of the registered CFIs have applied for a CB license but have not been able to meet the requirements, e.g. related to capital adequacy.

played a dual role as a development agency and supervisor for Cooperative Banking Institutions, however following the "twin peaks" reform in 2018 the supervisory function was shifted entirely to the Prudential Authority. The CBDA currently focuses on the training and development for Cooperative Banking Institutions. (A CBDA initiative to establish a shared core banking platform for the industry was recently abandoned.) The existence of a dedicated development agency and legal and supervisory framework for Cooperative Banking Institutions in South Africa represents a significant indication of government support for the sector and is a notable advantage relative to similar institutions in other countries.[38]

55. Several factors constrain the development and growth of the Cooperative Banking Institution sector in South Africa. Recent diagnostic work by the World Bank identified several challenges that constrain the development and growth of the Cooperative Banking Institution sector in South Africa. These challenges include: (i) lack of public awareness; (ii) lack of desire for growth among some existing members and institutions; (iii) competition from banks and stokvels; (iv) lack of product diversity (e.g. payment services) and digitization; (v) limited investment in core financial management and IT systems; (vi) difficulties in the hiring and retention of mangers and staff with critical skills in retail financial services; (vii) lack of access to the national payment system; and (viii) difficulties securing a credit provider license from NCR.

56. A shared and strategic vision with effective industry leadership is needed to realize the potential of Cooperative Banking Institutions to contribute to financial inclusion. A recent survey of CB/CFI membership revealed several value propositions for Cooperative Banking Institutions relative to other financial service providers in South Africa, including shared ownership and control, economic empowerment and solidarity, and good service. Further, Cooperative Banking Institutions have the potential to reach "last mile" consumers who are currently excluded from the formal financial sector, as well as to provide banked customers with additional options for borrowing and saving. A recent World Bank report, based on consultations with Cooperative Banking Institution members and stakeholders, outlined three potential visions for the sector:

(1) Improve broad-based black economic empowerment in the financial sector and expand financial inclusion to vulnerable communities; or
(2) Provide a competitive, cooperatively-owned alternative to the commercial banking sector to lower the cost, and improve the quality of banking services; or
(3) Improve financial literacy and community engagement through local or national government-led initiatives and cooperative institutions/stokvels.

Sector stakeholders have begun discussing these options, including at a recent Indaba in March 2021. Each vision represents a viable path forward for the sector but will require effective and focused industry leadership.

F. Stokvels

57. Stokvels are a key pillar of the informal financial sector. According to the 2019 FinScope Consumer Survey, 14 percent of South Africa adults belong to a stokvel or savings group. Stokvel membership is higher among women than men (16 percent vs. 11 percent). Those in LSM categories 7-8 are most likely to be stokvel members (17 percent), although membership is still above 10 percent of adults in categories 1-4, 5-6, and 9-10.

[38] Only 29 percent of jurisdictions report that financial cooperatives are supervised by a financial sector authority according to the 2020 International Credit Union Regulators Network Members Survey.

The National Stokvel Association of South Africa (NASASA) estimates that there are 800,00 stokvels in the country, although NASASA counts just 125,000 stokvels among its members.

58. Stokvel are primarily used for savings. Twelve percent of adults reporting that they are currently using a stokvel to save money, while just two percent report having borrowed money from a stokvel in the past year.[39] NASASA estimates that roughly 10 percent of stokvels are general savings club (in which each member receives his/her accumulated savings at the end of the cycle); 20 percent of stokvels are specifically oriented towards saving for bulk grocery purchases; 25 percent of stokvels are specifically oriented towards saving for funeral and burial costs; and 45 percent of stokvels are structured as rotational savings clubs (in which members rotate receiving the accumulated savings from each meeting).

59. Most members use stokvels as a complement to products from banks and other financial service providers**.** 2019 FinScope data indicates that 95 percent of stokvel members have an account with a bank in their own name, a higher share than the general adult population. The use of multiple providers may reflect a tendency to rely on banks for transactional services and stokvels for savings.

60. Innovative product design and business models oriented towards the specific needs of stokvels can help stokvel members to save in a community-based but secure manner. NASASA estimates that approximately one quarter of stokvels hold an account with a bank, with each of the 'big five' banks holding a roughly equivalent share of this market. However there has been limited innovation in product design for stokvels, and stokvel accounts are frequently flagged for ML/FT risks because of transaction patterns. A further limitation is that ordinary members are not listed as owners on the account and therefore have limited redress rights in the case of fraud. Stokvel members also cannot leverage the stokvel's active banking relationship to access a broader array of products and services. Innovative product design by banks to accommodate stokvel accounts and sustained engagement with stokvels could help to address some of these challenges and improve the security of stokvel savings. Financial institutions specifically oriented towards serving stokvels can also play an important role: NASASA has registered a Cooperative Financial Institution and is in the process of applying for a Cooperative Bank license.

Summary of Main Recommendations:

- Fast track reforms to the National Payment System act to provide a direct role to non-banks in the provision of payment services
- Finalize discussions and implement a strategy to develop the Cooperative Banking Institutions sector
- Assess feasibility of integrating cooperative banking institutions into the national payment system and forthcoming deposit protection scheme, with a short/medium-term focus on cooperative banks.

[39] In the 2019 FinScope survey, this category also includes borrowing from burial societies.

IV. PHYSICAL REACH AND ACCESS POINTS

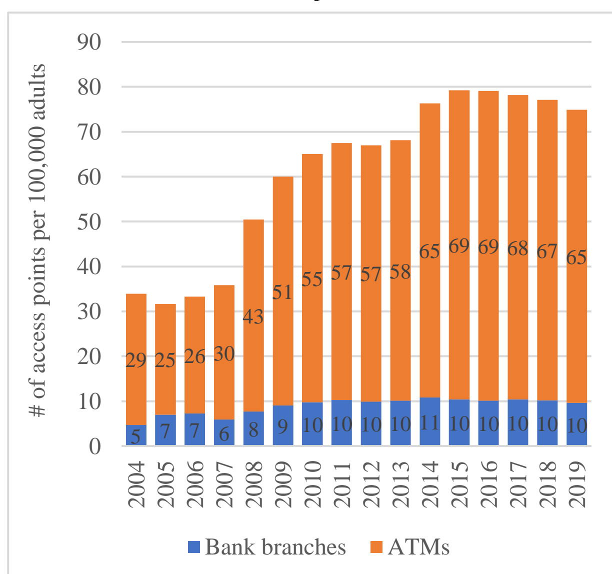
61. Convenient access to low-cost access points and distribution channels is necessary to enable greater usage of digital financial services. The integration of digital financial services into the daily lives of South Africans requires an ecosystem that includes a wide range of convenient and low-cost access points and distribution channels, including bank branches, ATMs, point-of-sale devices, retail agents, and mobile- and internet-enabled platforms.

62. South Africa has a lower penetration of bank branches and ATMs than many comparator economies**.** Banks maintain the largest distribution networks of physical financial access points in South Africa, comprising mainly branches, ATMs, and retail stores that serve as bank agents (e.g., Pick n Pay, Shoprite, etc.). Time-series and comparable cross-country data are available only for branches and ATMs. As of 2019, South Africa reported a total of 75 bank branches and ATMs per 100,000 adults, lower than that of Brazil (120), China (104), Russia (191) and Turkey (100), but above that of India (36) (Figure 16).

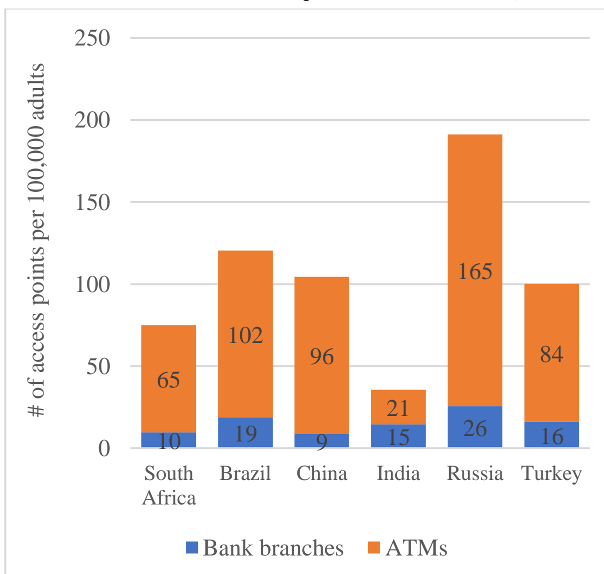
63. The penetration of bank branches and ATMs peaked in 2015 and has since declined. The penetration of bank distribution networks as measured by bank branches and ATMs (relative to population) more than doubled between 2004 and 2015, reaching an all-time high of 75 access points per 100,000 adults. Between 2015 and 2019 the penetration of bank branches and ATMs contracted by five percent, reflecting an industry shift towards digital distribution models (e.g., mobile and internet banking) and low-cost access points (e.g., retail stores). There are approximately 6.5 ATMs for every bank branch in South Africa.

Figure 16. Physical access points have decreased in recent years and lag behind comparator economies

A: Bank branches and ATMs per 100,000 adults



B: Bank branches and ATMs per 100,000 adults (2019)

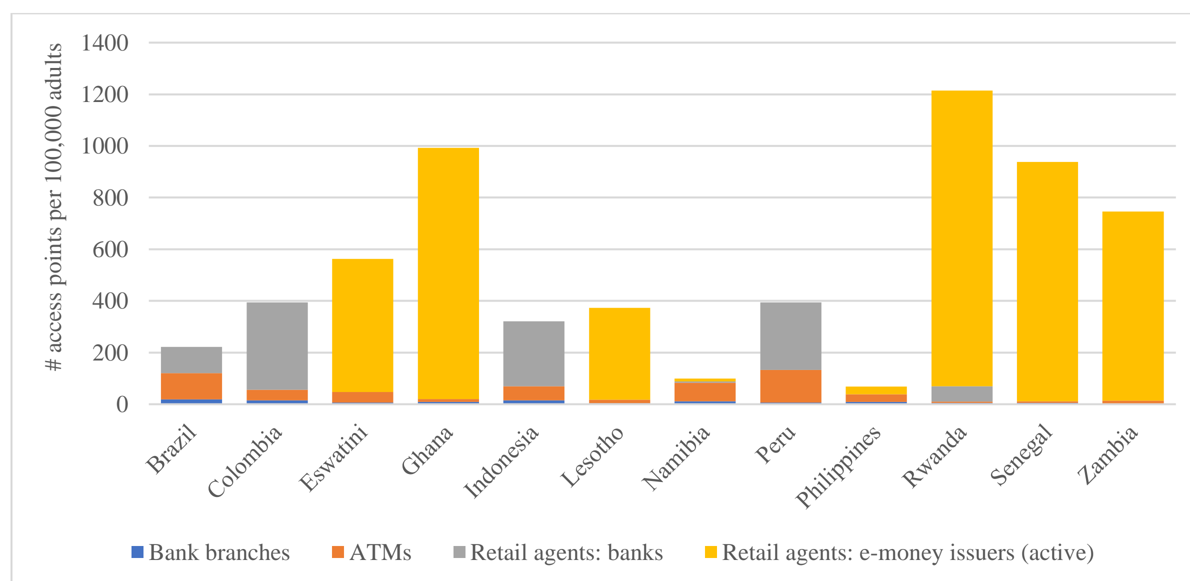


Source: IMF Financial Access Survey (2020)

64. Several banks use third-party agents to facilitate customer acquisition and product usage while several banks use retail stores (e.g. Shoprite, Pep, Pick'n Pay) to facilitate transactions. Services provided by these retailers consist essentially of domestic money transfers, cash back from bank accounts (including social grant payouts), third-party bill payments, and the sale of co-branded access-type accounts. For example, ABSA bank has a relationship with Pep whereby co-branded PEP plus debit cards can be purchased at Pep as an off-the-shelf product. The Pep staff at the till undertake the necessary customer due diligence requirements; while Tyme Bank has teamed up with South Africa's second largest supermarket chain Pick n Pay to roll out a money transfer service for the retailer's loyalty programme customers. The reach of these retail stores is however limited and are largely present in only urban and sub-urban locations.

65. A lack of national and comparable cross-country data on retail agents prevents a comprehensive analysis of the penetration of financial access points. Financial sector authorities in South Africa do not currently collect data on retail agents used by banks, thus limiting a comprehensive analysis of the density and distribution of financial access points. However, retail agents account for a significant share of financial access points in many countries (Figure 17). Both Brazil and China have a roughly equivalent share of ATMs and banking retail agents. In Colombia and Indonesia, there are approximately five times as many banking retail agents as bank branches and ATMs combined. In countries with a mature ecosystem of non-bank payment providers (e.g., e-money issuers), agents of these providers are often the most prevalent financial access point. In Ghana and Zambia, for example, there are roughly fifty times as many non-bank e-money issuer agents as bank branches and ATMs combined. Improved data collection (including geospatial-tagged data) can assist financial sector authorities to identify geographic areas underserved by financial institutions, and enable comprehensive time-series and cross-country analysis of trends in physical access.

Figure 17. Agents comprise a significant share of access points in countries with available data



Source: IMF Financial Access Survey (2020)

66. The use of small shops as agents and other agent models are not prevalent in South Africa due to a combination of business dynamics and expected higher compliance costs. This segment is however now attracting some **attention from Banks in partnership with Fintechs.** The use of small shops – also referred to as "Spaza" shops - that are more common in townships, peri-urban and rural areas, as agents is not common, and neither are agent aggregator models that are common in other Sub-Saharan African markets. As per estimates[40] only 1% of such shops accept digital payments and these are largely informal with only about 50% having a bank account. This appears to be related to the challenge of reaching a "long tail" of such establishments that are not organized and hence need to be reached one by one and the underwriting costs higher relative to the likely business. Though this situation might change in the near future, as some Fintechs and banks are beginning to explore options to enable digital payments for these shops and could eventually also become agents along the lines of the more established retail store chains. In 2018, FNB bank partnered with a fintech - SelPal – which digitizes the inventory ordering of the Spaza shops[41]. The data on inventory ordering is expected to give better insights on the business potential of the shop and also in conducting the required due diligence before opening bank accounts and offering financial services to them. In March 2021[42] FNB acquired SelPal and committed itself to growing its penetration in this segment. JP Morgan is exploring solutions for Spaza merchants as well in partnership with BFA Global[43]. There is no dedicated legal or regulatory framework for retail agents in South Africa. A review of relevant regulatory provisions and consideration of a dedicated framework could provide clarity on existing legal or regulatory barriers that are constraining development of retail agent networks.

Summary of Main Recommendations:

- Identify market and legal/regulatory barriers to the greater use of Spaza shops as retail agents and agent aggregator models
- Improve data collection on retail agents and geolocation data of all financial access points

V. FINANCIAL INFRASTRUCTURE

A. National Payments System

Institutional Arrangements

67. The regulatory, supervisory and oversight powers over the National Payments System (NPS) in South Africa are allocated across four different bodies - South African Reserve Bank (SARB), Financial Sector Conduct Authority **(FSCA), the Financial Intelligence Center (FIC) and the Payments Association of South Africa (PASA).**

- **SARB – the overseer of the NPS and regulator of payment systems**: The South African Reserve Bank Act, 1989 (SARB Act) defines the role and responsibilities of the SARB in the domestic payment and settlement systems. Specifically, the Act empowers SARB to "perform such functions, implement

[40] https://www.ifc.org/wps/wcm/connect/region__ext_content/ifc_external_corporate_site/sub-saharan+africa/resources/202002-south-africa-msme-voice
[41] https://www.reuters.com/places/africa/article/us-safrica-unbanked/in-south-african-townships-unseen-businesses-catch-a-big-banks-eye-idUSKCN1UQ0E3
[42] https://businesstech.co.za/news/banking/477656/fnb-acquires-fintech-company-selpal-in-township-push/
[43] https://techmoran.com/2021/03/04/bfa-global-j-p-morgan-partner-to-digitize-spaza-shops-in-south-africas-townships/

such rules and procedures and, in general, take such steps as may be necessary to establish, conduct, monitor, regulate and supervise payment, clearing and settlement systems". These powers are further supplemented by the National Payment Systems Act, 1998 (NPS Act). Oversight of the NPS in South Africa to ensure its safe and efficient operations are carried out by SARB under these two framework legal statutes.

- **FSCA – the regulator and supervisor of payment services**: The FSR Act provides for among other things the regulation and supervision of a 'payment service' by the FSCA to address evident conduct issues that impact customers in the payment environment. However, FSCA is required to seek the concurrence of the SARB in respect to issuance of conduct standards relating to PSPs. The SARB is working closely with National Treasury and FSCA to define the scope of FSCA in NPS that would then be included in relevant legislation.[44]

- **FIC – oversight of the financial integrity aspects**: Payment service providers are considered a "responsible entity" for the purposes of AML/CFT reporting.

- **PASA – self-regulatory organization for payment systems:** In line with the powers in the NPS Act, the SARB has recognized the PASA as a Payment System Management Body (PSMB). PASA, as a PSMB is structured as a Self-Regulatory Organization (SRO) and its governance structure is managed by PASA Council. PASA's mandate is to develop rules, criteria and governance structures for its members' specific payment activities through legal agreements such as payment clearing house (PCH) agreements, PCH clearing rules and service level agreements. Currently PASA has 28 members, all of which are banks with two exceptions: Diners Club and Postbank which are "designated clearing system participants". In addition, PASA has authorized 4 PCH system operators (Visa, MasterCard, BankservAfrica and Strate) and 80 payment system operators. The SARB in its policy paper on legal and regulatory aspects of NPS[45], has proposed to do away with the SRO powers of PASA.

68. BankServ – structured as a banking consortium - is licensed as a Payment System Operator (PSO) and operates all the inter-bank retail payment systems processing credit transfers, direct debits and payment card transactions. The four largest South African Banks – First Rand, Standard Bank, ABSA and NedBank **collectively** own 92.5% (split equally) and the remaining share is held by a consortium of the other banks.

69. South Africa's RTC system is operated by BankServAfrica and is offered on a 24/7/365 basis and transactions are cleared within 60 seconds. Settlement is deferred and is run 7 times a day on weekdays; twice on Saturdays; and once on Sundays and public holidays. This service is priced high by the banks and is positioned as a premium service with not all the banks offering this service. However, with the aggressive pricing adopted by some new entrants over the last few years the usage of RTC has expanded and industry wide the pricing has come down from the range of ZAR 50 per transaction to around ZAR10 and some banks even offering it free.

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[44] Review of the National Payment System Act 78 of 1998, Policy Paper, September 2018, SARB.

[45] ibid

70. The NPSA gives the SARB the authority to allow non-banks to join the retail payment systems as a "clearing participant". The NPSA and associated directives allows only banks and mutual funds to hold settlement accounts and be settlement participants in the payment systems in South Africa and additionally co-operative banks as clearing participants. The SARB however is given the discretion to allow and designate non-banks to become clearing participants of payment systems. The SARB can exercise this discretion on a case-by-case basis and is required to be guided by such designation being important for maintaining the stability, integrity, effectiveness or safety of the payment system. Thus far only three non-bank institutions have been allowed to become a clearing participant – Postbank (it is an off shoot of the South African Post Office and not yet been licensed as a bank), Diners Club and Retail Assist.

71. A TPPP getting designation as a clearing participant can effectively function as an acquirer and operate independently, though it will need to appoint a settlement bank to settle on its behalf. A TPSP without a clearing participant designation, will need to partner with a bank or mutual bank to participate in a retail payment system and accept payment instruments of other institutions that participate in the payment system. Without that designation a TPPP will be required to partner with a bank or a mutual bank or offer only acceptance of proprietary and closed-loop payment instruments.

72. The payment systems in South Africa have a few gaps hampering their ability to support financial inclusion products. These gaps are intended to be addressed as part of the ongoing Rapid Payments Program (RPP). The gaps include lack of a QR code standard; standardized process for "request to pay" – wherein the payment initiation is shifted from the payee to payer; interoperability framework for mobile payments; and features like alias-based payments and third party initiated payments associated with fast payment systems. The ongoing RPP aims to address all these gaps from an infrastructure perspective and this will need to be coupled with the legal and regulatory aspects discussed below and the role of non-banks discussed above.

Legal and Regulatory Framework

The extant legal and regulatory framework is encapsulated in the table 2 below:

Table 1: Relevant Acts and Regulations

1. South African Reserve Bank Act, No. 90 of 1989
➢ Mandates the Central Bank to create enabling legal framework & policy in respect of payments.
2. National Payments System Act, No. 78 of 1998
➢ The NPS Act provide for the management, administration, operation, regulation and supervision of payment, clearing and settlement systems in the Republic of South Africa; and to provide for connected matters.
➢ The NPS Act recognizes the Payments Association of South Africa (PASA) as a Payment System Management Body (PSMB).
3. Other key policies, laws and regulations for payments:
➢ Banks Act, No. 94 of 1990 that governs the issuing of banking licenses to banking institutions and monitoring their activities.
➢ Competition Act, No. 89 of 1998 to control and evaluate fair competition in South Africa Protection of Personal Information (POPI) Act which regulate the processing and protection of personal Information.
➢ The Financial Intelligence Centre Act (FICA), No. 38 of 2001 introduced to fight financial crime, such as money laundering, tax evasion, and terrorist financing activities.
➢ Electronic Communications and Transactions (ECT) Act of 2002 that regulates electronic communications and transactions.

73. The SARB's roles and responsibilities in the domestic payment and settlement systems are defined in the South African Reserve Bank Act, 1989 (SARB Act) and further delineated in the National Payment Systems Act, 1998 (NPS Act) and secondary legal measures issued by the SARB. The NPS act provides for the management, administration, operation, regulation and oversight of the payment, clearing and settlement system in South Africa. The key public policy objective of SARB in carrying out the Oversight of the NPS in South Africa is to ensure the safety and efficiency of the NPS under these two statutes and provision contained in other relevant pieces of legislation.

74. The FSR Act provides for among other things the regulation and supervision of a 'payment service' by the FSCA. However, FSCA is required to seek the concurrence of the SARB in respect to issuance of conduct standards relating to PSPs. The SARB is working closely with National Treasury and FSCA to define the scope of FSCA in NPS that would then be included in relevant legislation.[46]

75. The Payments Association of South Africa (PASA) was designated as a payment system management body by SARB under the NPS Act and SARB has oversight powers over PASA. PASA's mandate under delegated authority from the SARB is to authorize retail payments system operators to operate in the South African NPS. PASA is governed by a constitution that defines its functions, structures and activities as a self-regulatory body. Currently PASA has 28 members, all of which are banks with two exceptions: Diners Club and Postbank which are "designated clearing system participants". In addition, PASA has authorized 4 payment clearing house (PCH) system operators (Visa, MasterCard, BankservAfrica and Strate) and 80 payment system operators.

76. The PCH rules issued by the PASA govern the operation of the relevant PCH's including on the allocation of responsibilities and liabilities. PCH Agreements govern the specific transaction types and applicable clearing rules relevant to each PCH which are agreed amongst members forming part of a participant group. The PCH Participant Group (PCH PG) is also responsible for the appointment of one or more PCH Systems Operators (PSO) for each PCH, which would be authorized by PASA to clear interbank payment instructions. These are further supplemented by Service Level Agreements (SLA) which govern the participation of members and the PSO.

77. The SARB has issued a policy paper reviewing the current legal and regulatory framework governing the NPS and has proposed several transformational changes. This is currently being discussed with the Government and other financial sector regulators. The review identifies twenty recommendations covering several themes notably –

- **SARB Powers**: Clarifying and providing direct regulatory, supervisory and oversight powers over the NPS to the SARB to be exercised in consultation with FSCA on aspects related to financial conduct. The SARB is recommended to also have the powers to issue penalties and other punitive measures on entities in the NPS.
- **Non-banks**: opening the NPS to non-banks allowing them to issue e-money, process domestic remittances, offer payment services independently, be eligible for membership of PASA and be eligible for becoming a clearing participant and to maintain settlement account at SARB.

[46] Review of the National Payment System Act 78 of 1998, Policy Paper, September 2018, SARB

- **Remove the PSMB structure**: Dissolve the PSMB structure and convert the PASA into a purely consultative body.
- **Digital currencies**: Empower SARB to regulate and provide settlement services for digital currency ecosystems including those involving Central Bank Digital Currency.
- **International Standards**: Provisions related to recovery and resolution of financial market infrastructures in line with the CPMI-IOSCO Principles of Financial Market Infrastructures.

78. As part of implementing the legislative reforms, the SARB needs to consider giving more role to non-banks in the Governance of retail payment systems. Currently, the PASA as an SRO for the payments market and BankServ as an operator of key payment systems are fully controlled by banks. As non-banks take on more active roles in direct provision of payment services, they will need to have adequate say in the governance of these bodies. In the case of BankServ – this need not necessarily be in the form of non-banks becoming shareholders. Changes in the composition of the board of directors and board committees; and market consultation processes could be adequate. In the case of board of directors – the SARB could consider requiring a minimum number of independent directors on the board of BankServ– who can represent the wider interest of the payment system community. Similarly, critical board committees like the rules and membership committees could be required to be chaired by an independent director and have adequate representation of independent directors.

79. The SARB could adopt suitable policy and legal measures to encourage the interoperability of the various closed-loop proprietary solutions. This would need to be supplemented by QR code standardization **and framework for indirect access to payment systems.** The proliferation of proprietary payment instruments and payment solutions which are not interoperable is leading to fragmentation of the payments market reducing the utility of the payment instruments as only a subset of their payment needs can be met. Further, it is increasing the cost for the payment service providers and merchants to maintain multiple proprietary payment interfaces. All of this has a negative impact on the growth in acceptance of digital payments. To address this the SARB needs to develop and issue regulation mandating interoperability and adoption of open standards to enable existing closed-loop systems to become open-loop systems or to be able to become interoperable with the open loop systems. While there is a growing convergence on QR code standards used in South Africa, there is still some fragmentation and developing a common QR code standard for South Africa would be useful. Lack of standardization of QR codes could limit the impact of the upcoming Rapid Payments system and PASA and BankServ can play a coordinating role in adoption of QR code standards. There are reforms underway on allowing non-bank entities to offer payment services independently and have direct access to payment systems, this will have a positive impact on interoperability. In addition, the PASA and BankServ should facilitate the closed-loop services to become interoperable by providing them options to have indirect access and encouraging development of a code of conduct that safeguards the safety and integrity of NPS and at the same time also safeguarding the interests of indirect participants.

80. The SARB should encourage BankServ and PASA to incorporate features in the upcoming Rapid Payments product to make it an effective alternative to "Instant EFT". The RPP program seeks to introduce alias-based and low-cost fast payment services. This might not be enough to limit the attractiveness of "Instant EFT" product. There would be a need to consider allowing third-party initiated payments either through a common API hub or standardized APIs that each participant is required to expose. Further, payment gateways and aggregators will need to be able to integrate their systems with the rapid payments system.

B. Credit Information and Secured Transactions

Credit Reporting Systems

81. Comprehensive and well-functioning credit reporting systems are critical to support credit origination for individuals and SMEs. Credit reporting systems should collect in-depth positive and negative data to support the evaluation of creditworthiness of individuals and firms from all relevant credit providers, including non-financial credit providers.[47] Increasingly, alternative sources of data, from sources such as companies registries, utility companies, rent, trade credit, and tuition are increasingly relevant to both Fintech and traditional credit providers to enhance decision-making and to support elements of open banking.

82. South Africa's credit reporting system has a variety of providers offering services. There were 43 credit bureaus registered with NCR in May 2021, of which 6 are primary credit bureaus and the remainder **niche** operators.[48] As of December 2020, credit bureaus held records for 27.41 million credit-active consumers[49] as well as providing credit scoring and other services. According to the World Bank 2020 Doing Business Report for South Africa, this represents approximately 67 percent of the South African adult population, which is similar to the average for OECD countries.[50] A proposal for a public central credit register which would integrate more data is under consideration.

83. Credit information sharing in South Africa is primarily governed by the National Credit Act (2005) (NCA). NCR regulates and monitors registered credit bureaus and the quality of their data based on the NCA and Regulation 19 (13) published in March 2015 which requires registered credit providers to submit data on all consumer credit agreements to a central data transmission hub, including positive and negative data, in a manner and form prescribed by NCR as submission for juristic persons for facilities of up to ZAR1 million. To assist with the implementation of the regulations, the NCR entered into a Memorandum of Agreement (MOA) with the South African Credit & Risk Reporting Association (SACRRA) and the Credit Bureau Association (CBA), as co-owner of the Data Transmission Hub (DTH), to adopt and prescribe the current SACRRA data sharing environment as the industry standard.[51] Credit bureaus create consumer credit profiles based on credit information received from credit providers, courts, utility service providers and other sources. As the credit bureaus and SACRRA do not fall under the Financial Sector Regulation Act they do not provide SARB with ability to instruct SACRRA and credit bureaus to share information.

84. Credit data sharing is almost entirely focused on consumers, with provision of data for MSMEs and commercial credits largely voluntary and consequently limited. Although registered credit providers are required to submit data on all consumer credit agreements, the NCA has a limited scope with respect to sharing of credit data on businesses. The NCA requires lenders who grant loans to small juristic persons that are considered consumers to share that data. It applies to companies, close corporations, and partnerships whose asset value or annual turnover is below R1 million (US$70,000) and where the credit amount is less than R250

[47] Key references for an access to finance analysis of credit reporting systems are the World Bank General Principles for Credit Reporting (in particular GP1, GP4 and GP5) 2011 and the ICCR Facilitating SME Finance Through Improved Credit Reporting Systems, 2014 and Credit Reporting Systems as an Enabler to Responsible Access to Finance (2016).
[48] Accessed at http://www.ncr.org.za/register_of_registrants/registered_cb1.php May 2021.
[49] NCR. *Credit Bureau Monitor*. Fourth quarter. December 2020.
[50] World Bank Group. South Africa Economy Profile Doing Business 2020.
[51] SACCRA. Reporting of Credit Information in Terms of Regulation 19. June 2017.

000 (US$18,000). These thresholds have not been adjusted since 2006,[52] and as a result, MSMEs with facilities over the threshold are not reported in the credit reporting environment thus impacting on their ability to create credit history. Legislative amendments to the scope of the NCA could expand the coverage of the NCA for businesses, while the Department of Trade and Industry could increase the threshold associated with small juristic persons through a procedural change.

85. Some initiatives have been established to improve the availability of MSME data. The South African SME Finance Association (SASFA), which supports finance companies who lend to SMEs, and are thus not subject to regulatory requirements, has created a closed user group with Experian to create a database of negative data among SME lenders, although not more broadly with other non-member entities. They are also in the first stages of seeing how positive data could be incorporated. In addition, in 2011 the Business Credit and Risk Information Sharing Initiative (BUSCRI) program was established with NT support to encourage the sharing of more business data. SACRRA and CBA are allowing transmission of data through the hub, and are currently working with cooperatives in the agricultural sector to get their data, but progress has been slow relative to initial targets.

86. Overall, many credit providers are not reporting credit data. Although the NCA requires lenders who grant loans to share their consumer data, in many cases, this is neither adhered to nor enforced. The share of credit providers registered at NCR that were reporting to credit bureaus has increased from 18 percent in June 2020 to roughly one-third (2300 of the approximately 7000 plus registered) in February 2021, with additional efforts ongoing with the NCR to raise this percentage further.

87. Encouraging the development of alternative data could provide further insight into both consumer and business activity. An IFC diagnostic on alternative data in South Africa suggests sources for alternative data for consumers, including bank accounts (e.g., related to account activity, failed transactions, returned debit orders), rent payments, and municipal accounts (e.g., related to payment plans).[53] On the MSME side, these data could include information on business bank accounts, supply chain data and key indicators from merchant payments solutions. Ongoing pilot initiatives on alternative data, such as the one involving Finfind, NCR, IFC and others, will provide insights on how these data could be utilized. Such reforms should also enable consumers and MSMEs to consent to access and sharing of their own data with authenticated third parties, in the support of an eventual framework to support elements of open banking.[54]

88. Recent inter-agency efforts to establish a central credit register have the potential to substantially expand the scope of data provided. SARB, DTIC, NT, NCR, Financial Intelligence Center (FIC) and FSCA have been in discussion on a five-year initiative to establish a Central Credit Register that is envisioned to include all categories of consumer and business data, plus alternative data sources such as municipality data, government loans etc. In terms of project implementation, it is envisioned that SARB will lead the development of IT and data requirements, with DTIC collaborating with the industry on stakeholder management aspects. The NCA provides for a National Credit Register, but additional legal amendments may be needed to provide the mandate for data sharing, which would initially be limited to consumer credit only, but are eventually envisioned to include business data, municipality data and DFI data. The Central Credit Register would help fill the gap for

[52] World Bank Group. Credit Reporting: A Closer Look at Small and Medium-sized Enterprises. February 2019
[53] World Bank. Diagnostic: Alternative Data Landscape in South Africa. April 2021
[54] World Bank. Diagnostic: Alternative Data Landscape in South Africa. April 2021

additional credit data were needed to support the analysis of financial inclusion and stability objectives, and which are in some cases being sourced from separate surveys of the banking system.

Secured Transactions Systems

89. The use of movable assets as collateral has the potential to improve the availability and cost of credit in South Africa, particularly for MSMEs that do not have long standing businesses and credit histories. In many cases, a firm's wealth is largely concentrated in movable assets, including receivables, but lending is more commonly focused on real property as collateral, because there is a legal and registry framework seen as less risky. Weakness and uncertainty of the movable property legal framework means that these types of goods are taken as security to a much lesser extent. Just one-third of firms with credit reported utilizing collateral, with a median value of R200,000 (US$14,225). Personal assets and accounts were most frequently cited as forms of collateral utilized, with land and buildings and equipment mentioned less frequently.

90. Secured transactions laws and registries help local businesses get the capital they need. They are intended to provide greater flexibility in the loan transaction; greater flexibility in the property that can be used as collateral; uniformity in the registry system and in the notice provided to third parties; certainty and transparency in the priority of creditors (including insolvency proceedings); certainty in the rights of third parties; and greater flexibility and agility in the enforcement of a security interest in case of default.

91. The World Bank 2015 Secured Transactions Collateral Registries Diagnostic for South Africa noted that gaps in the current framework for secured transactions impede the use of movable assets as collateral. While immovable assets, such as land and property, are often not available to micro and small businesses, movable assets are widely used in SME lending internationally. The reluctance of South African lenders related to difficulties in the perfection of interests in movable property (which relies on a court process or on taking possession by agreement between parties), and the lack of a centralized and computerized nation-wide movable assets registry. In addition, the enforcement of movable security was associated with considerable delays due to a lack of special courts for such cases. [55]

92. The diagnostic identified **challenges in the legal framework that would need to be addressed.** The diagnostic noted that the existing legal framework was not integrated or uniform. For example, concepts and terminology were not uniform, different dates of enactment of legislation were utilized, Common law devices not integrated with Statutory Devices, and similar devices treated differently for individuals and companies. In addition, there was the difficulty of discovering unregistered but effective security interests (e.g. finance leases; ownership retention, field warehouse pledges). Furthermore, the fragmented approach overlooked underserviced business sectors (e.g. cultural property; intellectual property; agricultural products), and integration of secured transaction law and insolvency law was incomplete.[56]

93. The 2015 diagnostic also noted the challenges with respect to the registry framework. For example, the lack of uniform legal devices translated to a lack of registry uniformity and priorities. The lack of a centralized registry for secured transactions over movable assets creates considerable difficulties. Another issue was the required registration of functional equivalents, with no registration of leases, ownership retention, field

[55]World Bank. Secured Transactions Systems: Draft Diagnostic, Republic of South Africa, June 2015
[56]World Bank. Secured Transactions Systems: Draft Diagnostic, Republic of South Africa, June 2015

warehouse pledges, other "secret liens". Given that there is no public searchable index or database of registration, amendments and cancelations, no electronic payment, filing or searching equals antiquated paper-based system and process.[57]

94. Previous efforts to support a secured transaction framework did not achieve momentum, but the engagement has been revived. Previous consultations with the banking sector following the 2015 diagnostic did not result in this reform being pursued. One of the working groups to support access to finance plans to engage in a stakeholder consultation in 2021 and to consider developing a draft law for secured transactions and movable collateral registration taking into account international best practices[58] and standards developed by the United Nations Commission on International Trade Law (UNCITRAL).

Summary of Main Recommendations:

Payments

- Consider giving more role to non-banks in the governance of retail payment systems
- Develop and issue regulations mandating interoperability and adoption of open standards
- Incorporate features in the upcoming Rapid Payments product to make it an effective alternative to "Instant EFT" (BankServ, PASA)

Credit Information and Secured Transactions

- Expand the coverage of credit data for businesses by:
  i) mandating sharing to the bureaus of business credit for businesses of all sizes
  ii) enforcing credit information sharing for businesses currently covered by the NCA and
  iii) increasing the threshold delineating small juristic persons with the NCA
  iv) Improve the credit information environment by incorporating alternative data sources for consumers and MSMEs into credit reports
  v) providing an enabling legal framework for the planned Central Credit Register
- Support the establishment of a modern centralized collateral registry system, including an enabling legal framework for secured transactions that ensures extrajudicial execution and creates a computerized nationwide register for movable guarantees

VI. PRODUCT DESIGN AND DIGITIZATION

A. Transaction and Savings Accounts

95. Affordability, convenience, and product design are key considerations in promoting greater usage of bank accounts and digital financial services. As noted in Section II, just one in three banked South Africans

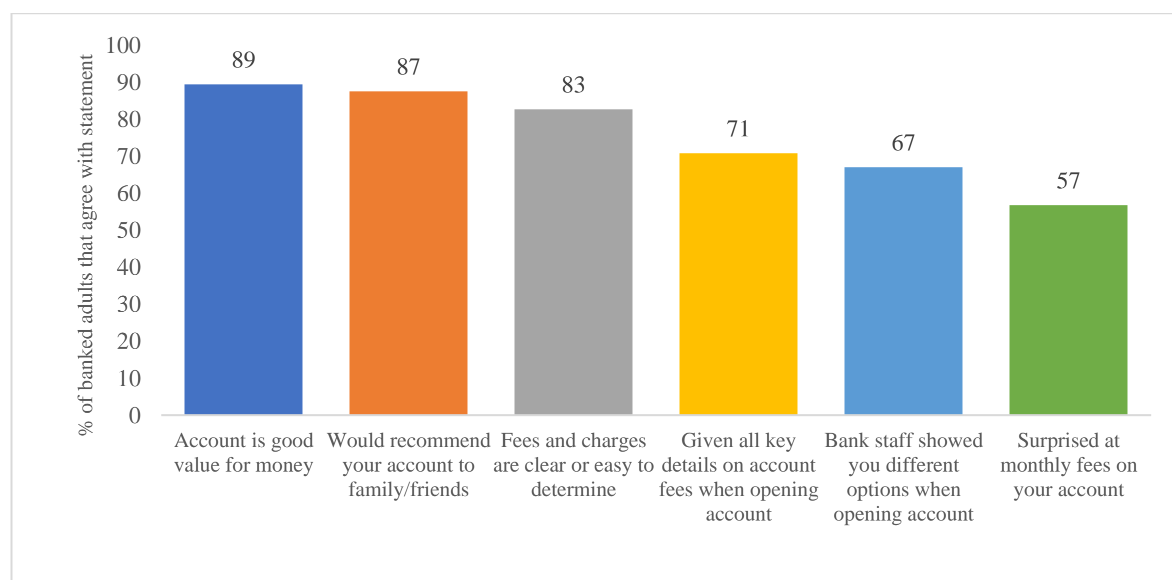
[57]World Bank. Secured Transactions Systems: Draft Diagnostic, Republic of South Africa, June 2015

[58]A modern secured transactions law generally has four major substantive features: a simple, flexible and enforceable security interest created by agreement between the secured creditor and the debtor; a clear and comprehensive scheme for determining the priorities of competing interests in movable property; a simple and effective means of publicizing interests in movables to facilitate assurance of a creditor's priority; and a quick and effective enforcement process upon default of the debtor. The World Bank Group's Doing Business Report captures these within its "getting credit" indicator, specifically with respect to the strength of the legal rights index, which covers aspects of laws on security interests and bankruptcy laws.

report using their account on a daily or weekly basis. High fees, lack of funds, and a general preference for cash are cited as key barriers to more frequent account use.

96. While survey data reveals broad satisfaction with bank accounts among bank customers, there is notable **scope for improvement on disclosure of product features and pricing.** Among banked consumers, 89 percent agree that their main bank account is "good value for money," and 87 report that they would recommend their account to family or friends (Figure 18). While most consumers also agree with various statements regarding satisfaction with the transparency of product features and fees, there are several notable areas for improvement. For example, just 71 percent of bank customers agree that they were given all the details on account fees when opening their account, and 67 percent report that bank staff showed them different options when they were opening their account. More concerningly, more than half of banked customers report that they are surprised at the monthly fees on their account. These trends are broadly in line with the findings from the 2018 World Bank Retail Banking Diagnostic, which identified several regulatory and supervisory approaches to improve product disclosure including short-form disclosure documents, overall cost indicators, and a product comparison website (discussed further below).

Figure 18: Account costs relative to monthly income



Source: FinScope Consumer Survey (2019)

97. The annual Bank Charges Report by Solidarity indicates that bank charges can comprise a high share of monthly income for South Africans with low incomes. The 2020 report covers transaction accounts offered by the 'big five' banks and summarizes account costs according to several standardized transaction profiles. The average monthly account cost of a low-transaction customer profiles (12 transactions of varying types) is approximately R35, which represents 4.7 percent of income for an adult receiving R750 per month and 2.3 percent of income for an adult receiving R1,500 per month (Table 3). The average monthly account cost rises to approximately R137 for higher-transaction customer profiles (25 transactions of varying types), equivalent to 6.1 percent of income for an adult receiving R2,250 per month and 2.1 percent of income for an adult receiving R6,500 per month. Given the large share of South African adults receiving R1,500 or less per month, the relative

costs of bank transactions may explain why many South Africans continue to rely on cash to manage their day-to-day financial lives.

Table 2: Account costs relative to monthly income

Segment	Monthly income range	Share of adults	Account cost as % of monthly income	
			Low-transaction profile (12)	Standard profile (25)
1: Low Income	<R1,500	24%	4.7%	18.3%
2: SASSA grant recipient	R1,500	29%	2.3%	9.1%
3: Informal job	R1,501-2,999	7%	1.6%	6.1%
4: Entry level job	R3,000-9,999	24%	0.5%	2.1%
5: Core middle class	R10,000-19,999	10%	0.2%	0.9%
6: Upper-middle class	R20,000+	7%	0.2%	0.7%

Source: Solidarity Bank Charges Report (2020); FinScope Consumer Survey (2019)
Note: The table reflects average monthly charges across banks and midpoint values for monthly income ranges. The income segments reflect those reflected in the 2019 FinScope Survey.

98. Increased competition appears to have generated some price convergence but not a decrease in transaction **costs for consumers.** The 2020 Solidarity Bank Charges report notes that increasing competition by banks (including new entrants) has resulted in some degree of price convergence on common transaction costs, resulting in more focus on rewards programs to differentiate products across providers. However, a basic comparison of account costs between the 2015 and 2020 reports suggests that the same trend has not lowered costs for consumers; in fact, costs appear to have risen. The average monthly cost for four banks with comparable accounts under the low-transaction profile rose from R25 to R35 between 2015 and 2020, an increase of over 40 percent.[59] Significant variation in the cost of some key transactions is also still present in the market. For example, Capitec customers pay R9 for a R1,000 cash withdrawal from another banks' ATM, while an Absa or Nedbank customer pays R32.50 for the same transaction, more than triple the Capitec charge.

99. User-friendly price comparison tools can improve transparency and competition. A centralized and user-friendly product comparison website could make it easier for consumers to search for and compare product offerings in the market. Such tools can also generate competitive pressures among providers to lower prices and improve product features, as noted in the 2018 World Bank Retail Banking Diagnostic. A methodology of the kind used in Solidarity's report—which establishes several use cases for a product and then evaluates costs across these use cases— would be a useful starting point for such a resource. The website can then be developed incrementally over time to include a wider scope of information and higher degree of user interaction. Such a database can also provide financial sector authorities with a valuable tool to monitor trends in affordability and competition in line with national financial inclusion objectives. A number of financial sector regulators have established product comparison websites, including in Canada, Hungary, Ireland, Malaysia, Mexico, Peru, Norway, and the UK. FSCA has indicated that such a database is under development.

100. Authorities should closely monitor the effects of market conduct and pro-competition reforms on account costs. Expected reforms to allow a direct role for non-banks in the provision of payment services, and improvements to disclosure and transparency (i.e. via the Conduct Standard for Banks) may exert downward

[59] Standard Bank PAYT, Absa Transact, FNB Easy, and Capitec R2000 balance.

pressure on account costs. Authorities should closely monitor the impacts of these reforms on account costs, particularly for low-income consumers, via the price comparison tools discussed above. If account costs remain elevated then authorities could consider more direct affordability interventions, drawing from the lessons of the Mzansi account experience and the recommendations in the 2018 Retail Banking Diagnostic.

B. Payment Services and Instruments

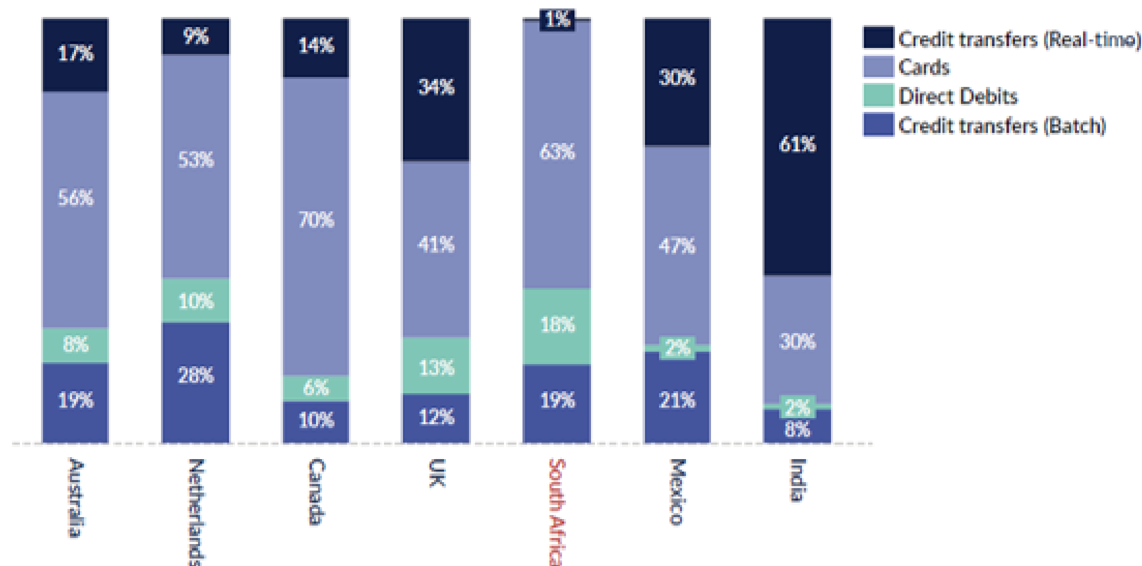
101. The non-cash retail payment products in South Africa include Electronic Funds Transfers (EFT) – direct debit and direct credit; debit and credit cards; cheques; Real Time Clearing (RTC - fast/instant payments based on credit **transfers)**. EFT transactions settle on a T+2 basis. The transaction channels for EFT include ATM, Point of Sale (PoS) terminals, and online banking (internet and mobile-based). RTC transactions are largely initiated using online and mobile banking apps. Payment cards are widely used for recurring payments – called debit orders. EFT credit transfers in South Africa are widely used by employers to pay salaries and have largely replaced cheque usage, especially by consumers. As at end 2019, credit transfers accounted for over 70 percent of the total value of cashless payment transactions. Several banks are also providing mobile wallets – that enable users to access their payment cards from a mobile app for making P2P transfers, bill payments and merchant payments using QR code. A few standalone mobile wallets have also emerged.

102. Payment cards and credit transfers are the most commonly used non-cash payment instruments. Cash is estimated to be used for 89% of transactions representing around 11% of payments value.[60] In terms of overall share by value, Electronic Funds Transfers (EFT) account for the largest share (74 percent) followed by payment cards (12 percent) and EFT debit (six percent). Payment cards and Real Time Clearing (RTC - fast/instant payments based on credit transfers) have both increased as a share of transactions by value since 2014. Cheque usage has been declining due to adoption of direct debit and credit transfers and has been discontinued as a payment instruments from March 2021[61].

[60] PASA, "Project Future: Case of modernized real-time retail payments in South Africa – a case for change", October 2019
[61] http://www.pasa.org.za/media/2021/04/22/news

Figure 19: Comparison of payment instrument usage patterns with select countries

Volume share of transactions (%, 2017)



Source: Modernizing Payments Systems: International Comparison, PASA and BankservAfrica (2019); Genesis Analytics team analysis (2019)

103. Existing e-money offerings are closed-loop and have had limited market uptake, though the re-entry of telecom companies into this space has injected some dynamism in this segment. As noted, before in South Africa, only locally registered banks can issue e-money, since issuing e-money is considered as deposit-taking. Under the Banks Act, deposits of e-money must be held in a separately identifiable e-money account for each holder of e-money. In the last several years, the telecom companies MTN (in partnership with UBank) and Vodacom (in partnership with Ned Bank) - relaunched their mobile money programs after years of lackluster performance. Vodacom has announced a partnership with AliPay and proposes to become a "Super app"[62] – using mobile money as a platform to enable their customers to access other financial services.

104. Several banks have launched "mobile wallets" to enable their customers to use credit and debit cards from their mobile phones for a variety of payments including NFC and QR code-based payments at merchants. Many of the mobile wallets use the Master Pass product/service of Mastercard. There are also a few other non-bank entities offering mobile wallets – one of them is Snap'N'Pay, which was bought by Standard Bank.

105. There are multiple QR code standards in South Africa, though there is some convergence towards Master Pass QR code standards for merchant payments and person-to-person transfers. Many of the mobile wallet and mobile money services offer QR code-based payments but use proprietary QR code standards.

[62] The PBOC in April 2021 directed Ant Financial to remove linkages of AliPay with other financial services effectively asking it to discontinue the Super-app model. It is not clear what effect, if any, it will have on AliPay's partnership with PSPs in other countries.

With the use of Master Pass mobile wallets by many banks, some of the proprietary QR code standards have evolved to become compatible with Master Pass QR code standard.

106. BankServ has launched – "Project Future"[63] – to modernize the RTC service to include alias-based payments and introduce request to pay functionality. The stated objective of this project is to develop a payment service that can substitute for cash and the service is proposed to be called Rapid Payments. This project is referenced in SARB's vision 2025 and commenced in 2017 with a cross-country study led by BankServ, PASA and the Banking Association of South Africa. The study concluded the need for modernizing RTC to introduce a true low cost real-time digital payment service that would allow real-time credit funds to the recipient, enable a new mode of payment process – Request to Pay (RTP) and introduce alias based payments. The RTP process, shifts the initiation of a payment to the payer allowing for authentication of each payment thereby reducing the repudiation related frauds and lends itself well to both merchant payments and P2P transfers. Like the RTC, the rapid payments service would ride on the EFT rails and as such would create a true alternative to card based payments for merchant payments. Further, the introduction of alias based payments – users set up aliases like say mobile number, email id or other easy to remember identifier which becomes their payment address – will improve the user experience and enable integrating the service into the social and economic lives of individuals. The RPP is expected to be launched towards end of 2021 and expected to contribute to a drop in usage of cash for about 89% of payment transactions in 2018 to about 81% of all payments in 2025.

107. The analysis informing the "Project Future" estimated the savings arising from the adoption of Rapid Payments to lead to savings of 0.25% of GDP over the first 5 years, enable 688,000 MSMEs to accept digital payments and shift over R 450 Billion of cash transactions to digital. The estimate for savings is based on increased tax revenue from formalization and social welfare gains in terms of reduced cash handling costs. The percentage of cash transactions are estimated to be high particularly for transactions below ZAR 3000.

108. A screen-scraping based third party payment service – "Instant EFT" - has developed in South Africa as an alternative to payment cards for e-commerce transactions, this has raised several consumer protections issues and places customers in breach of the terms of service they have agreed with their bank. The Instant EFT product essentially is an RTC transfer carried out by the provider, transferring funds from the shopper's account to the online merchants account by logging into the payers internet banking service using the internet banking user-id and password shared by the customer. In some cases, the one-time password sent to customers registered mobile by his/her bank is also required to be shared. The Instant EFT is estimated to cost[64] about 2.5% of the transaction value for merchants in comparison to about 2.8% for payment cards. Many of the "Instant EFT" providers also use what is called "Sort at source" – essentially sorting the payment transactions by the payer's bank and directly sending it to them instead of using the ACH system. The SARB, FSCA and PASA jointly issued a cautionary statement[65] on prevalent use of screen-scrapping based "Instant EFT" for ecommerce purchases. The cautionary statement notes the risks to customers privacy, potential abuse of the internet banking credentials and likely violation of customers agreement with his/her bank. Instant EFT product is offered by several payment gateways and the main attraction for merchants seems to be the lower cost of

[63] PASA, "Project Future: Case of modernized real-time retail payments in South Africa – a case for change", October 2019
[64] PASA, "Project Future: Case of modernized real-time retail payments in South Africa – a case for change", October 2019
[65] https://www.gov.za/speeches/south-african-reserve-bank-instant-eft-online-payments-26-nov-2020-0000#

instant EFT in comparison to card based payments and real-time credit instead of the 2-3 days for card based payments; and for customers this allows customers without credit card to be able to make payments directly from their bank accounts.

109. The industry is in the final stages of full transitioning out of the Non-Authenticated Early Debit Orders (NAEDO) - which have been subjected to wide-spread fraud referred to as "R99 scams" - to a registered and verified debit mandate based collection called "DebiCheck"[66]. Under the rules of the clearing house debits could be initiated by payees on a payer's payment card without proving a prior explicit authorization of the payer (referred to as debit mandate). The payer retains the right to dispute, however will be "out of funds" till the dispute is resolved. The payee is allowed to "track" the account in the sense that if the debit is not processed due to lack of adequate balance it can retried twice a day for several days (often 30 days) or till it is successful. This system has led to wide-spread abuse and an estimated ZAR 1.6 Billion is stolen annually from customers account – often through repeated debits of small amounts in the range of ZAR 99 to avoid detection and maximize fraudulent debits. There is an Authenticated Early Debit Order (AEDO) service that requires an authentication from the payee – often in the form of the card PIN. The new "DebiCheck" system will replace both the AEDO and NAEDO. Under this service the payee is required to route the debit mandate – which captures the name of the payee, minimum and maximum amount per debit, the frequency and date of month when the debit order will be issued – to the payers bank who in turn is required to authenticate the debit mandate with the customer by contacting the customer on his/her registered phone. Once the mandate is registered, the payee can initiate the debit order in conformance with the registered mandate. The payer can revoke the mandate at any time. The DebiCheck service has been launched, but the NAEDO has not yet been sunset. NAEDO was to be sunset in 2018 and was then pushed to 2019 and then extended to November 2020 and due to COVID-19 a further extension was granted until October 2021.

C. Remittances

110. About 37 percent of South Africa adults report sending or receiving remittances, most via retail outlets. According to 2019 FinScope data, 18 percent of adults report having sent money to someone in another household and 28 percent report having received money from someone in another household. Among remittance senders, 95 percent report sending money to someone within South Africa and seven percent report sending money to someone in a foreign country. The most commonly reported channel for sending remittances is via retail outlets like Shoprite's Money Market or Pick n' Pay Money Transfer – the use of these services is reported by 55 percent of remittance senders. The next most commonly reported channels for sending remittances is via cash with a relative or friend and via ATMs, each reported by 18 percent of remittance senders. Sending remittances via EFT transfers or online banking, and via airtime transfers are each reported by 10 percent of remittance senders. Just six percent of remittance senders report using bank branches

111. The cross-border remittances market holds significant potential but remains largely processed through unregulated channels. The international remittance flows of approximately ZAR 25-30 billion are primarily destined to Zimbabwe and Lesotho.[67] Charges are substantial with the average remittance cost along formal channels estimated at 17 percent of the value sent – nearly 10 percent above the global average.[68]The

[66] https://www.businessinsider.co.za/authenticated-collection-debit-order-deadline-for-may-pushed-out-by-a-year-2020-4
[67] Technoserve (2017), Domestic Remittances in South Africa
[68] World Bank (2017), Remittance Prices Worldwide

ongoing development of the retail payments leg of the SADC cross border payment system is expected to bring significant changes in the cost of cross border remittances.

112. A key aspect limiting further expansion in the use of accounts to channel remittances is the prevalence of close-looped systems**.** The Mzansi money transfer service between big four banks and Postbank, which was established as interoperable domestic remittance service, failed to succeed in getting significant market share. Cross-border remittance services are generally also closed-loop as remittance service providers in the originating country (South Africa) partner with limited number of disbursing agents in the receiving country.

Summary of Main Recommendations

- Establish or support the establishment of a centralized website to facilitate comparison of prices and features of common retail products
- Monitor the effects of pro-competition and market conduct reforms on account costs, and consider more direct affordability measures if costs remain high for low-income consumers

VII. KEY GOVERNMENT INITIATIVES AND PROGRAMS

A. Government-to-person payments

113. South African Social Security Agency (SASSA) administers eight social assistance programs. These include care dependency grant, child support grant, disability grant, foster child grant, grant-in-aid, older persons grant, social relief of distress and war veterans grant. Most of the programs are means-tested. One person may simultaneously receive more than one grant, subject to the individual rules of the program in question. In the 2018/2019 fiscal year, approximately 11 million beneficiaries received about 18 million grants, which are paid out monthly. The annual grant expenditure amounted to ZAR 173bn.

114. Any grant may be deposited into a bank account with any commercial bank or made available through a SASSA card. SASSA card is a Visa debit card issued by Postbank - fully owned by the South African Post Office (SAPO). Postbank is in the process of applying for a banking license and has been allowed to continue offering payment services that SAPO was eligible to offer under the governing its operations. SASSA fully covers the costs of issuance of the Postbank card, but not of banking fees for recipients who use another commercial bank. Likely because of that, only a minority of beneficiaries (about 25 percent) receive payments into accounts with other commercial banks.

115. Postbank has been charged with disbursing the benefits since 2018. Prior to that, SASSA contracted delivery of grant payments to Cash Paymaster Services (CPS), which processed them through prepaid Mastercard cards issued by Grindrod Bank. The end of the CPS contract and the move to Postbank generated a fair amount of uncertainty—some media coverage questioned whether the switch could be successfully completed at short notice, the tendering procedure took a long time, while the previous contractor demanded additional payments and took legal action against the agency. SASSA's choice of Postbank seems to be guided by it being a Government institution obviating the need for following a tendering process. Further, prevalent Government regulations do not allow SASSA to engage non-bank entities and fintechs to offer payment services.

116. While the Postbank has an important role in boosting financial inclusion, its range of services has so far been limited. SAPO has offered saving accounts since 1910; the Postbank was formally separated in 2019 and has applied for its own banking license. Before that, it had already gained experience with disbursing social benefits; it also provided 'Mzansi accounts' (basic banking accounts) in the early 2000s. However, the bank only accepts deposits—it does not offer loans. While it issues Visa-branded debit cards, it does not offer online or mobile banking (an e-banking trial has been conducted with Postbank own employees). Postbank has contracted with retail establishments to serve as cash-out points – these are however the more urban focused retail chains like Shoprite. In addition to these locations, recipients can use ATMs of any bank in South Africa and Post office locations.

117. Once Postbank took over the disbursement of SASSA payments, it developed a separate system for handling them and managing the beneficiaries, different from their core banking infrastructure and restricted some payment services based on design requirements set by SASSA. Most of the financial services delivered by SAPO is supported by the Oracle FLEXCUBE UBS core banking system, which maintains the accounts ledger and connects to external systems (including the Standard bank, which acts as the settlement bank for Postbank in SAMOS). Card issuance and transaction processing is handled by the Postilion switch by ACI, which also connects Postbank's ATMs and POS terminals, as well as the Visa and BankServ networks. However, with respect to SASSA cards:

- Accounts of individual beneficiaries are not maintained in the core banking system (FLEXCUBE UBS). Instead of that, the core banking system merely host an "SASSA holding account", similar to "trust accounts" used elsewhere by prepaid instrument issuers. Ahead of the disbursement day, SASSA transfers the bulk amount from its account with SARB to the holding account at the Postbank.
- Account balances of individual beneficiaries are held outside the core banking system, in the "Integrated Grant Payment System" (IGPS), which was procured for the purpose of SASSA disbursements from FSS Technologies. The IGPS can be accessed by the employees of both SAPO and SASSA; because of that, SASSA can fully handle the onboarding process, as well as basic customer support, such as PIN change.
- The IGPS is connected through an API with the Postilion switch. The switch communicates with the IGPS during authorization of transactions. The core banking system has no role in that process. It is connected with the IGPS through another API, however, in order to adjust the balance in the SASSA holding account.
- SASSA account holders can access only limited payment services. They have access to ATMs and POS terminals, but they cannot receive credit transfers, other than from SASSA. They can make credit transfers to other accounts inside or outside Postbank, but because of the lack of online/mobile banking options, it is only possible manually, after filling out a form. They are also unable to use real-time clearing (RTC), the instant payments system. They cannot approve direct debit mandates.

118. As the card is Visa-branded, the holders can use it to withdraw money and make purchases at ATMs and POS terminals across the country at a cost, which has been temporarily suspended during COVID pandemic. Until recently, only one withdrawal a month at a SAPO branch and up to three withdrawals a month at designated merchants like Shoprite were free of charge. Withdrawals at ATMs and additional withdrawals at SAPO branches and selected merchants would cost the sum of ZAR 3.65 and 0.68% of the withdrawn amount. However, as an emergency measure to combat the Covid-19 pandemic, the members of the

Banking Association of South Africa have decided to stop imposing withdrawal charges on SASSA card holders. Consequently, beneficiaries can currently withdraw cash for free from all ATMs in South Africa.

119. Considerable charges are, however, imposed on other types of transactions, such as balance enquiries. The first balance enquiry per month is free, but subsequent ones are charged the fee of ZAR 1.60. The same amount is charged for every unsuccessful withdrawal or purchase transaction (e.g. because of insufficient balance).

120. The lack of any feasible option of using the SASSA card account for person-to-person (P2P) payments limits the positive impact it can have on financial inclusion. The lack of account-to-account transfer options means that cash still remains the most efficient payment instrument for the following use cases:

- **Purchases of goods and services from the informal sector:** According to the 2017 Survey of Employers and the Self-Employed from Statistics South Africa, 1.8m South Africans ran informal businesses, and over 80 percent of them did not have a bank account. It is likely that many of them either employ SASSA grant recipients or sell goods and services to them. In neither case is the SASSA card a relevant payment instrument.
- **Distribution of cash within the household:** While grants are distributed to individuals, they financially support entire households. Once the beneficiary has withdrawn the full amount, it gives them the flexibility to move funds between household members—even in simple cases when parents or grandparents ask their children to do shopping for them. This is even more important in the context of Covid-induced social distancing, when the elderly and disabled recipients of Sassa grants may not be in a position to shop themselves.
- **Domestic remittances:** The financial strain caused by Covid-19 is also likely to boost the needs for sending and receiving remittances across extended families, friends or other contacts living in different parts of South Africa—unfortunately, sending money across different Sassa card accounts is not possible.
- **E-commerce:** This also may have long-term repercussions for the feasibility of long-term pandemic containment measures, as the beneficiaries will not be able to pay for contactless delivery of food, groceries or other essential products.

121. While the card is Visa-branded, the functionality of Visa-branded cards on the South African market is more limited than elsewhere in Africa and worldwide. The following features/products are not available in South Africa:

- mVisa, the QR-code-based scheme for merchant payments, following the EMV standard for QR-code payments. In other markets in Africa and South Asia, it enabled payments at merchant locations where a full-fledged POS or mPOS terminal would not be economically justifiable.
- Visa Direct, the service leveraging the Visa network to process card-to-card or account-to-card payments, for instance in domestic and international remittances.
- Visa Token Service (VTS), Visa's implementation of the EMV card tokenization standard, enabling services such as Apple Pay or Google Pay, as well as independent

122. SASSA should work with the Government on expanding the range of payment service providers it can engage. As noted before SASSA is not allowed to engage non-bank entities to offer payment services, this is locking out the potential of **fintech** companies and other non-bank players to contribute to digitization of the social benefit transfers. The SASSA could work with the SARB and PASA to develop some objective criteria

for selecting payment service providers. Further, the current flexibility given to recipients to choose between different commercial banks, could be extended to all licensed issuers offering transaction account services be it through bank accounts or e-money accounts.

123. SASSA should develop a process for extending the same subsidies it offers Postbank to all licensed payment service providers offering transactional account services to SASSA beneficiaries. Basic accounts, not requiring a proof of employment or a minimal balance are widely available with commercial banks in South Africa. However, they are costly. The typical monthly maintenance fee ranges around ZAR 4.95 and does not include free transfers or ATM withdrawals. While SASSA may negotiate—with support of the Government and SARB—special arrangements for its grant recipients, it is not clear whether it will be possible to obtain rates that are as beneficial as those offered by Postbank. All stakeholders, including SASSA, SARB, PASA and the Banking Association could work together on developing a subsidy model. This could include a process of automatic **calculation** of compensation by the EFT system that can be used to process the crediting of transfers to recipients' accounts. Naturally, the actual subsidy amounts and their sharing between issuers, acquirers and infrastructure providers should be driven by the local cost structure in South Africa. Further, all could banks adopt remote CDD and onboarding for new SASSA benefit recipients. SASSA would also then need to work together with SARB, PASA and the Banking Association on financial literacy programs and customer protection measures.

124. The SASSA could work with the SARB and the banking and payments industry to develop specific initiatives to promote digital payments and facilitate access to other financial services for the benefit transfer recipients. These initiatives could include discounts when using the SASSA card for purchases of essential items and providing specific information on different locations where their account can be used for payments and withdrawing cash.

125. The Postbank account features should be enhanced with new functionalities and SASSA could also evaluate lifting the restrictions on using the benefit transfer account for receiving other incoming transfers and removing the fees for balance enquiry and declined transactions. The most pertinent are: (1) introduction of online, mobile and phone banking; (2) introduction of easy-to-use options for P2P transfers; (3) availability of regular credit transfer, including real-time clearing. The lifting of restriction on debit orders however might need careful evaluation given the potential for this resulting in the beneficiaries being left without funds for their basic needs thus negatively impacting the very purpose of the benefit transfers. SASSA/Postbank should consider offering a free or a heavily subsidized account not only to the benefit recipients, but also to other adult household members. Of course, that will only be useful if P2P transfers between cards are made available. SASSA/Postbank should evaluate removing balance inquiry and rejected transaction fees. An exception for SASSA beneficiaries, if necessary, may have to be negotiated with BankServ.

Summary of Main Recommendations:

- Expand the range of payment service providers used to distribute SASSA social grants
- Extend uniform subsidies to all licensed payment service providers offering transactional account services to SASSA beneficiaries
- Develop initiatives to promote digital payments and facilitate access to other financial services for SASSA beneficiaries

- Enhance the functionalities of Postbank accounts offered to SASSA beneficiaries and consider removing the fees for balance enquiry and declined transactions

B. Financing for MSMEs through DFIs and government programs

Debt Finance

126. Most of the ZAR18 billion budgeted for MSME finance is provided through debt finance. More than 52 programs targeting MSMEs were available through development finance institutions, ranging in annual commitment sizes from less than ZAR100,000 to 50 million, with a total annual budget of ZAR18 billion, which amounts to 0.36 percent of GDP or 2.8 percent of outstanding business lending to SMEs. Of this amount, 48 percent was in debt finance, 35 percent in grants, and 17 percent in blended products that combine either debt or grant financing with equity.[69] While a diversity of public programs to support MSME finance exist, many are small, and streamlining these programs could improve their efficiency and effectiveness.

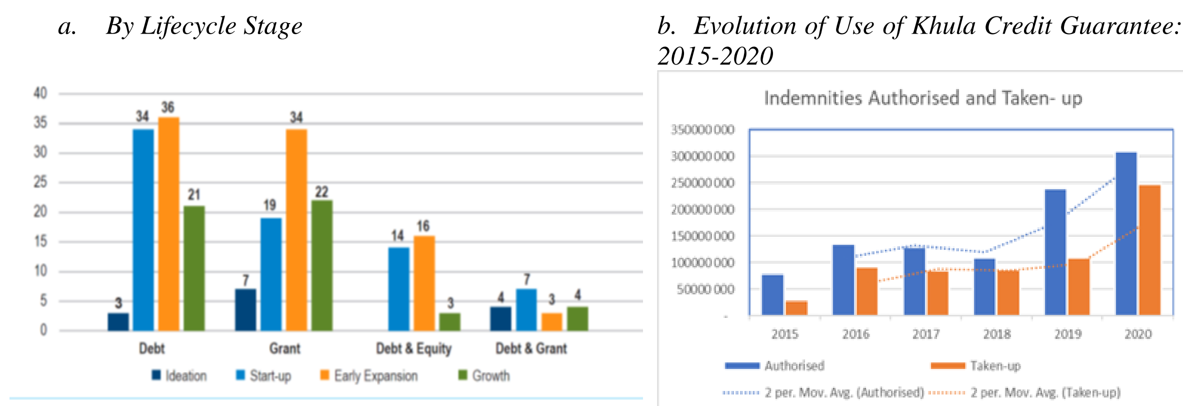
127. Debt financing is primarily offered by SEFA and the IDC. IDC debt financing programs provide direct MSME financing only, while SEFA also provides indirect financing through bank and nonbank financial intermediaries. SEFA offers direct financing ranging from ZAR 50,000 to 5 million and the IDC offers between ZAR1 and 150 million. SEFA's indirect lending support ranges from ZAR 500 to 5 million, utilizing intermediaries to disburse small amounts. Information showing the additionality of this direct financing relative to commercial financing options were not available, and the authorities could consider transitioning more of this direct lending to second-tier lending over time. Both asset finance and working capital are available through SEFA and the IDC. Debt financing is commonly provided to businesses at the start-up (34 percent) and early-expansion (36 percent) stages as shown in Figure 20a.[70]

128. DSBD also created a debt relief fund to support MSMEs negatively impacted by Covid-19. The debt relief finance provides preferential financing (interest rates of prime less 5 per cent) to keep MSMEs operating, with support for salaries, rent and municipal accounts. 1,501 MSMEs benefitted from the scheme, and the fund has since been closed. DFSD also had a business growth resilience facility which offered working capital, stock, bridging finance, order finance and equipment finance to MSMEs who locally manufacture or supply hygiene, medical products, and food items which are in demand to curb and manage the spread of the COVID-19 virus. For both schemes, eligible companies must be 100 percent owned by South Africans, with a priority given to businesses owned by women, youth and people with disabilities. While companies must provide financial statements, there is no specific requirement regarding companies' financial health.

[69] World Bank. Financing Small Business in South Africa: A Snapshot of Government Programs. 2019.
[70] World Bank. Financing Small Business in South Africa: A Snapshot of Government Programs. 2019.

Figure 20: Government Financing for MSMEs

a. By Lifecycle Stage *b. Evolution of Use of Khula Credit Guarantee: 2015-2020*



Source: Financing Small Business in South Africa: A Snapshot of Government Programs (World Bank 2019); An Inclusive Financial Sector for All (National Treasury 2020 draft)

Public Credit Guarantees

129. SEFA's Khula Credit Guarantee (KCG) scheme has been growing in the last five years, but its outreach remains relatively limited. The objective of the KCG scheme is to issue partial credit guarantees to lenders for SME borrowers, whose access to finance is impeded by the lack of collateral required by lenders. KCG offers an SME facility up to ZAR5 million, for 5 years. Indemnity fees are between 1 to 3.5 percent. KCG offers coverage of between 50 to 90 percent coverage for higher risk segments, and a new risk-based fee structure has been put in place. Default rates are prohibitively high at close to 43 percent, well above international benchmarks of around 15 percent.[71] Security may be requested by the participating financial institution. It offers supplier credit guarantees, along with individual and portfolio guarantees. KCG has adopted the more efficient portfolio-based approach for most of its guarantees but its volume of guarantees remains low. In 2020, the guarantee scheme supported loans totaling ZAR248 million to 87 MSMEs or cooperatives, as shown in Figure 19b. 2019/2020 Khula guarantees issued were .005 percent of GDP, compared to 0.03 percent of GDP in Mexico and 4 percent of GDP for the SME fund in Korea. Box 2 shows the example of the Malaysian Credit Guarantee Corporation, a scheme considered to be an international good practice, with a much broader outreach.

130. In 2020, a ZAR200 billion Covid-19 Loan Guarantee Scheme was established to support SMEs. The National Treasury guaranteed up to ZAR200 bn in loans to be administered by the South African Reserve Bank and channeled through participating banks for salaries and other operating costs for SMEs. Eligible SMEs were those under financial stress due to the economic impact of COVID-19 who were in good standing with a participating banking institution as of December 2019 and registered with the South African Revenue Service. The Reserve Bank lends money to participating commercial banks at the repo rate plus a 0.5 percent credit premium. Banks lend this money to SMEs at the prime rate. The 3.5 percent margin was used to provide funding for losses, before the banks incur losses and before the Treasury incurs losses. Repayment may be deferred for a maximum of one year after taking out the loan and businesses are required to repay the loan over five years.

[71] Credit Guarantee Roundtable: A Dialogue to Explore the Application of Credit Guarantees: Khula Credit Guarantee. June 18, 2020.

131. **Despite demand from SMEs for access to finance, this Covid-19 loan guarantee scheme was largely underutilized and was** closed **in June 2021.** As of end-March 2021, the loan guarantee scheme had approved 14,827 loans totaling ZAR18.2 billion, following the receipt by participating banks of 47,159 loan applications, of which 44 percent have been approved by banks. Fifty-six percent of applications received so far were rejected because they did not meet the eligibility criteria for the scheme, as set out by Treasury and the Reserve Bank, or because they did not meet banks' risk criteria. The main reasons for rejection were that the requested value of the loan was too high for the business to be reasonably expected to be able repay it; or the enterprise was not in good financial standing before the pandemic. The scheme was closed in June 2021.

Box 2: Malaysia's Credit Guarantee Corporation

One of the better known examples of a public credit guarantee scheme with extensive outreach is that of the Credit Guarantee Corporation Malaysia Berhad (CGC) which was set up by the Malaysian central bank in 1972 with the objective of assisting marginal but potentially viable SMEs in obtaining financing[72]. Since it began operations, it has provided guarantees and financing totaling RM75 billion to 340,000 MSMEs - which is approximately one-third of the country's 907,065 SMEs[73]. As of 31 Dec 2019 has a paid-up capital of RM1.79 billion, with Bank Negara Malaysia holding 78.7% and Malaysian financial institutions holding the remaining 21.3%.

The Corporation develops and designs credit guarantee schemes for MSMEs, and has evolved to provide a wide range of products and services to suit the new demands of MSMEs and the sophisticated need of the economy. CGC offers direct financing, loan guarantees and loan portfolio (wholesale guarantees) guarantee schemes. In 2019, CGC managed three government backed guarantee schemes – the Flexi Guarantee Scheme, the Franchise Financing Scheme and guarantees provided under the Green Technology Financing Scheme. Additional guarantee schemes by CGC are available under conventional and Islamic terms.

The key features to CGC's schemes are as follows:

(i) CGC's coverage ratios differ by product type and coverage and typically ranges from 30% to 90% of the loan and shared-risk schemes between CGC and the banks. The maximum guarantee amount and guarantee cover also depends on the risk assessment and collateral requirement.

(ii) With CGC's guarantee coverage, the SMEs are able to secure financing from RM50,000 to RM10 million from financial institutions. CGC guarantees are for loans approved for working capital and asset acquisitions, which includes buying of machinery for business purpose only.

(iii) Under the three government funded schemes, the maximum loan amount is up to RM100mil per SME to finance investments in producing green products or up to RM10mil for investments in green technology (Green Technology Financing schemes).

(iv) There is also a rebate mechanism for some of its guarantee schemes for customers with good repayment track record. Eligible customers will receive a reduction of certain percentage on guarantee fee upon the annual renewal of the letter of guarantee. Customers with no adverse records on existing loans with CGC are eligible for rebates provided the loan guarantee has been active for at least one and a half years.

Financial Performance: Individual financial institutions can also enter into portfolio and wholesale guarantee schemes Pre-tax profits have been on a steady increasing trend over the past 5 years, with over 10,800 guarantees and financing approvals for MSMEs in 2019. As at end 2019, the gross NPL ratio stood at 8.2%, higher than the DFIs' industry average of 6.4%, in line with its mandate to support SME development.

[72] Source: CGC website
[73] CGC Annual Report 2019

Equity

132. In government financing, equity is the least used instrument and is only offered in combination with debt finance. The IDC and the National Endowment Fund (NEF) offer debt in combination with equity. Equity investments are generally available in ticket sizes from R250,000 to R50 million, which could offer a sufficient bridge to the larger deals preferred by commercial investors. [74]Although South Africa has a well-developed private equity/ venture capital market, the vast majority of funds are channelled into later-stage investments.[75] There may thus be a gap in terms of the equity/quasi-equity financing offer to early-stage businesses. Equity finance is rarely used and is offered only at the start-up and early-expansion stages in combination with debt. This combination can indeed offer needed investment for firms at those stages of development with reduced pressure to use cash for debt repayment. South Africa's experience with the use of these blended instruments by DFIs could offer valuable insights to the MSME finance field.

Recommendations:

- Review and redesign public credit support programs and introduce M&E frameworks, substituting direct lending for second-tier lending over time
- Consider consolidating some of the smaller, less utilized government finance support programs to MSMEs
- Adjust the parameters and participants in the existing partial credit guarantee schemes to increase outreach and additionality, considering additional channels and more flexible lending criteria as well as measures to improve default rates
- DFIs should consider a broader range of financing instruments such as equity or blended instruments to better meet the needs of the SME lifecycle.

VIII. MARKET CONDUCT, RESPONSIBLE LENDING, AND FINANCIAL EDUCATION

A. Legal Framework and Institutional Arrangements

133. The National Credit Act (NCA) is the foundational legal framework for market conduct in the consumer credit market. The National Credit Act was established in 2005 and applies to all credit agreements between a credit provider and a consumer.[76] The NCA contains a range of provisions to promote responsible lending, including related to sales practices, disclosure, product design and pricing, credit bureaus, dispute resolution, and debt counselling. The NCA establishes the National Credit Regulator (NCR) as the primary regulator under the Act and requires all credit providers to register with the NCR. The NCA empowers the National Consumer Tribunal to adjudicate complaints under the NCA. The NCA was amended in 2015 to include more prescriptive provisions (e.g. affordability assessment requirements) and remove exemptions for smaller lenders to address ongoing concerns about reckless lending.

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[74] World Bank. Financing Small Business in South Africa: A Snapshot of Government Programs. 2019.
[75] IFC. The Unseen Sector: A Report on the MSME Opportunity in South Africa. 2018.
[76] The NCA replaced the Credit Agreements Act and the Usury Act.

134. The National Credit Regulator is the primary regulator of the consumer credit market. The mission of the NCR is to "support the social and economic advancement of South Africa by regulating for a fair and non-discriminatory marketplace for access to consumer credit; and promoting responsible credit granting and credit use, and effective redress." The NCR is empowered by the NCA to regulate the consumer credit industry by registering credit providers, credit bureaus and debt counsellors, payment distribution agents, and alternative dispute resolution agencies; monitoring, supervising, and enforcing the provisions of the National Credit Act; and receiving complaints regarding violations of the NCA. The NCR also collects and publishes statistics and conducts research on the consumer credit market (e.g., the quarterly Consumer Credit Market Report and Credit Bureau Monitor). The NCR is an agency of the Department of Trade, Industry, and Competition and operates outside the ambit of the National Treasury which oversees other financial sector regulators.

135. The 2010 Treating Customers Fairly (TCF) framework and 2011 TCF Roadmap provided the initial foundation for the regulatory and supervisory framework for market conduct in the financial sector, beyond consumer credit. The Treating Customers Fairly (TCF) framework was introduced in 2010 by the Financial Services Board (FSB – now the Financial Sector Conduct Authority) with the objective of ensuring that financial institutions "demonstrably deliver specific, clearly articulated fairness outcomes" for financial consumers. The framework represents an outcomes-based approach, requiring financial institutions to prioritize the fair treatment of consumers through a product's lifecycle. The TCF framework includes six outcomes across the product life cycle, covering corporate culture, customer-centric product design, transparency, fair treatment, and product maintenance.

136. The 2017 Financial Sector Regulation (FSR) Act established a 'twin peaks' approach to financial sector supervision and regulation. The objective of the 'twin peaks' model is a stable and efficient financial services sector that **treats** its customers fairly. The FSR Act separates institutional authority for prudential supervision and market conduct supervision of financial institutions. The FSR Act gives the Financial Sector Conduct Authority the authority to regulate and supervise the conduct of financial institutions in relation to providing financial products and services to consumers (including banking, which was excluded from the FSB's jurisdiction). The Prudential Authority is charged with prudential oversight of financial institutions and housed within the SARB. Both the FSCA and PA are empowered to establish regulatory standards.

137. The FSCA was formally established in 2018, replacing the Financial Services Board. The FSCA's mandate is to enhance the efficiency and integrity of financial markets; promote fair customer treatment by financial **institutions**; provide financial education and promote financial literacy; and assist in maintaining financial stability. FSCA's 2018-2021 institutional strategy identifies six priority areas: (i) building a new organization; (ii) an inclusive a transformed financial sector; (iii) a robust regulatory framework that promotes fair customer treatment; (iv) informed financial consumers; (v) strengthening the efficiency and integrity of our financial markets; and (vi) understanding new ways of doing business and disruptive technologies. The FSCA overseen by an Executive Committee comprising the FSCA Commissioner and Deputy Commissioners appointed by the Minister of Finance. As of May 1, 2021, a permanent Commissioner has not yet been appointed.

138. If enacted, the Conduct of Financial Institutions (COFI) legislation will serve as the overarching legal framework for FSCA's market conduct functions. The COFI Bill is drafted and structured broadly in line with the TCF Outcomes and is largely principles-based. The COFI Bill establishes an activity-based

licensing framework and empowers the FSCA to issue conduct standards which will serve as secondary provisions under the COFI framework. During the drafting process, FSCA has made efforts to streamline the text and ensure alignment with the FSR Act. The FSCA is also undertaking a harmonization project to determine what provisions in existing financial sector legal requirement require adjustment, revision, or repeal to align with the CoFI legislative approach. The World Bank has provided review and inputs into the COFI Bill, including via a 2018 Retail Banking Diagnostic. The COFI bill has undergone two rounds of public consultation, most recently in September 2020. National Treasury intends to submit the COFI Bill to Parliament in 2021.

139. The 2020 Banking Conduct Standard establishes high-level principles to ensure the fair treatment of banking customers. The Banking Conduct Standard was published by FSCA in July 2020 as the first of a series of sector-specific conduct standards (subsequent Conduct Standards will cover, inter alia, pensions, insurance, and **collective** investment schemes). The Banking Conduct Standard provides an enforceable market conduct regulatory framework for the banking sector, building on the "Treating Customers Fairly" (TCF) Outcomes established in 2010. The Banking Conduct Standard represents a mix between principles-based and rules-based regulation and covers culture and governance, product design and suitability, advertising, disclosure, complaints, and customer mobility. The Banking Conduct Standard applies to all licensed registered banks, mutual banks, co-operative banks, local branches of foreign banks. The Banking Conduct Standard was in part informed by a 2018 Retail Banking Diagnostic conducted by the World Bank which identified several market practices and gaps in the legal/regulatory framework that disadvantaged financial consumers with respect to, inter alia, product design, transparency, and dispute resolution.

Box 3: Good Practices for Financial Consumer Protection – Institutional Arrangements and Mandates (selected)

The 2017 World Bank Good Practices for Financial Consumer Protection contain several "good practices" should motivate and guide high-level discussions to improve the definition of roles and coordination between NCR and FSCA:

- Any overlap between the legal mandates of different authorities implementing the financial consumer protection legal framework …. should be minimized.
- There should be effective coordination between different authorities implementing the financial consumer protection legal framework.
- [The authority or authorities tasked in charge of implementing the financial consumer protection legal framework] should have an adequate allocation of resources and be operationally independent from external interference from political, commercial, and other sectoral interests.

140. FSCA is developing its overall supervisory framework and as well as a reporting framework and supervisory tools to monitor compliance with the Banking Conduct Standard. The Banking Conduct Standard has followed a phased implementation, with all provisions to be in effect beginning July 1, 2021. FSCA is in the process of developing a risk-based supervisory framework to determine minimum standards and key indicators for the supervision of the Banking Conduct Standard. The framework is expected to be finalized by end-2021. FSCA has highlighted the need to build institutional capacity through the hiring of supervisory staff who can drive implementation of the data-driven and risk-based supervisory approach, particularly for banking institutions which were not covered FSB. FSCA has undertaken joint onsite supervision with the Prudential

Authority, with a focus on banks' internal complaints handling processes and the degree to which banks are embedding conduct risk within governance structures.

141. The respective institutional mandates of NCR and FSCA in the consumer credit market have not been clearly defined and coordination between the two regulators is suboptimal. Discussions with FSCA, NCR and industry participants yielded a wide range of understandings and interpretations of the respective roles of FSCA and NCR in the regulation and supervision of the consumer credit market, including with respect to role of each regulator regarding debt counsellors, services related to credit, governance of credit providers, advertising, and licensing. Industry participants expressed frustration at the lack of clarity with respect to institutional mandates (including as currently approached in public consultation drafts of the COFI Bill) and concern about possible duplication of licensing and reporting requirements. NCR and FSCA have adopted a bilateral Memorandum of Understanding but in practice the mechanics of coordination appear to be strained. Effective coordination between the two market conduct regulators is further constrained by differential reporting lines: the NCR is under the Department of Trade, Industry, and Competitiveness while the FSCA is under National Treasury. The World Bank Good Practices for Financial Consumer Protection include several "good practices" that should motivate and guide high-level discussions to improve regulatory coordination between NCR and FSCA (Box 3).

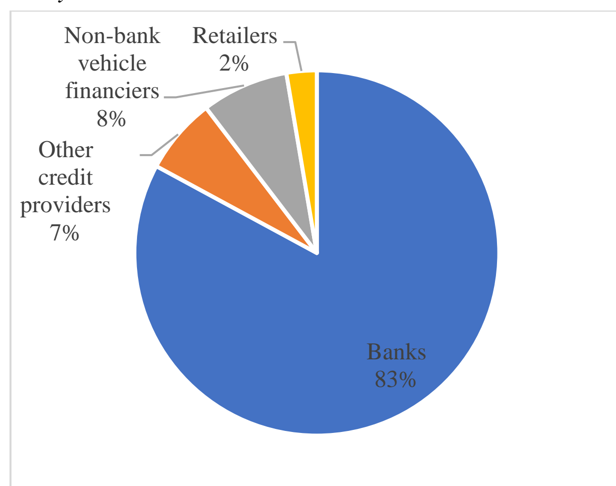
B. Trends in Consumer Credit and Over indebtedness[77]

142. Banks provide the largest share of consumer credit by volume and number of loans. Despite the large number of registered credit providers (7,837), banks are the dominant provider of consumer credit in South Africa, accounting for 83 percent of the loan portfolio by volume and 44 percent of the number of loan accounts. The other categories of lenders used by NCR are retailers, non-bank vehicle financiers and other credit providers. Non-bank vehicle financiers and "other credit providers" each account for 7-8 percent of consumer credit by volume, with retailers representing just two percent. Retailers account for the second-largest share of lending by number of accounts: 38 percent. The respective market shares of each category of lender have been relatively stable over time.

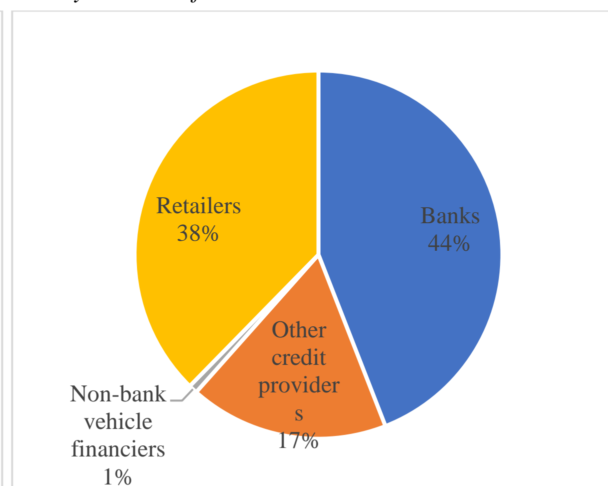
[77] The focus on consumer credit and overindebtedness was requested by financial sector authorities during the FSAP scoping mission. Other market conduct issues are covered at a high level.

Figure 21: Providers of consumer credit by volume and number of accounts

A: By volume



B: By number of loan accounts



Source: Consumer Credit Market Report (December 2020)

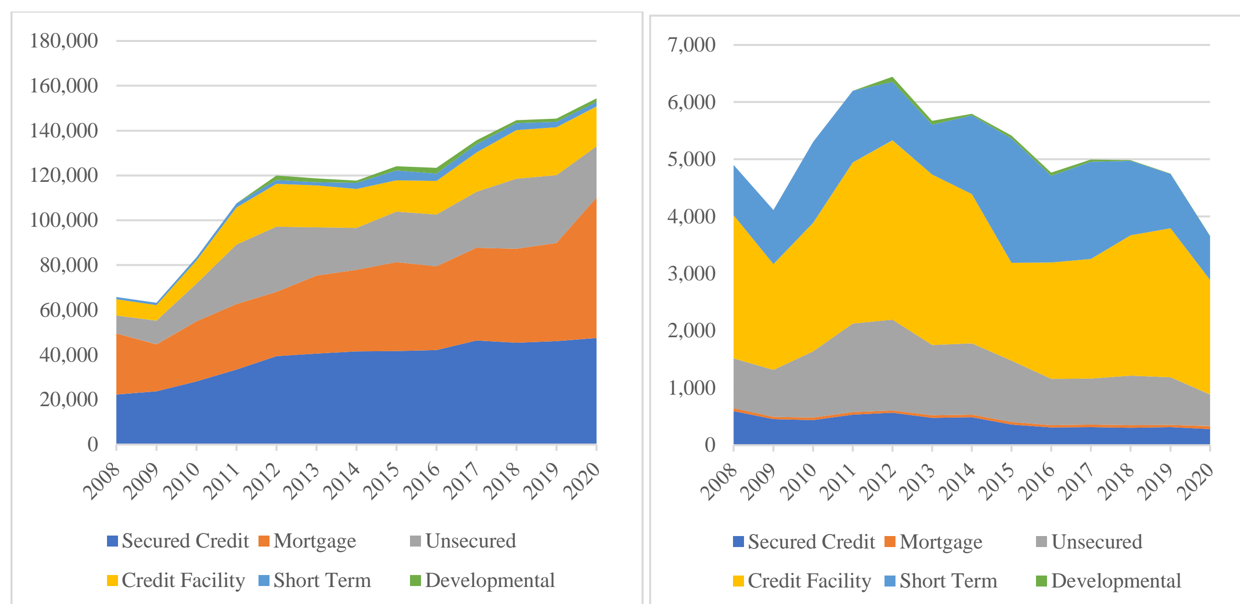
143. The volume of consumer credit has increased steadily since 2009 with mortgages and secured credit representing the largest share of the consumer credit portfolio by volume. Consumer credit volumes accelerated between 2009 and 2012 with an average annual growth rate of 24 percent; however, since 2012, the average annual growth rate has been three percent. As of 2020, mortgages and secured credit comprise 41 and 31 percent respective of loan volumes, respectively. Unsecured credit represents 15 percent of loan volumes and credit facilities represent 11 percent of loan volumes.

144. The number of loan accounts has decreased in recent years with credit facilities and short-term loans representing the largest shares of loan accounts. The number of loan accounts peaked in 2012 after rapid increases in 2010 and 2011, but has since declined to pre-2008 levels. When measured by accounts, credit facilities and short-term loans are the most prevalent type of credit, representing 55 and 21 percent respectively. Unsecured credit accounts for 15 percent of credit accounts.

145. Unsecured credit has declined as a share of loan volumes and credit accounts since peaking in 2011 and 2012. During 2011-2012, unsecured credit accounted for 24 percent of loan volumes; as of 2020 the share is 15 percent. Similarly, during 2011-2012, unsecured credit account for 25 percent of credit accounts; as of 2020 the share is 15 percent. Meanwhile, credit facilities have increased as a share of credit accounts to an all-time high of 55 percent in 2019-2020, up from an average of 45 percent 2011-2018. However the credit facilities as a share of loan volumes have remained relatively steady, fluctuating between 11 and 16 percent since 2008 (the 2020 value is 11 percent).

Figure 22: Credit granted per credit type by volume and account

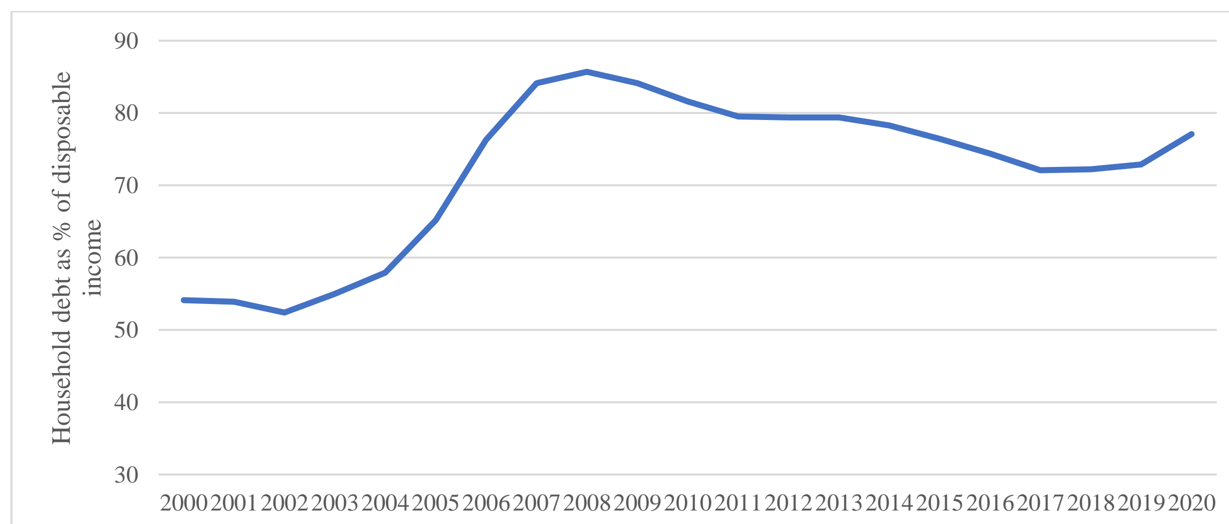
A: By volume (rand value 000,000) *B: By number of credit accounts (,000)*



Source: Consumer Credit Market Report (December 2020)
Note: Values reflect Q4 for each year

146. Household debt to disposable income decreased between 2008 and 2017 but has risen in the past three years. Household debt to disposable income steadily decreased from an all-time high of 86% in 2008 to 72% in 2017. The value increased marginally year-on-year in 2018 and 2019 and rose more significantly in 2020 as a result of the Covid-19 pandemic.

Figure 23: Household debt to disposable income had been decreasing prior to Covid-19



Source: South Africa Reserve Bank

147. The number of credit-active consumers has steadily increased since 2007, accounting for 67 percent of the adult population in 2020. Although the number of loan accounts has decreased in recent years, the total number of total credit-active consumers has risen from 17.12 million in 2007 to 27.41 million in 2020, equivalent to 67 percent of the adult population. The increase likely reflects both an expansion in access to formal credit as well as improvements in data sharing between lenders and credit bureaus. As of 2020, credit bureaus held records for an additional 27.8 million consumers; these consumers' records contain identification information but no reported credit activity. The expansion in access to consumer credit is a meaningful accomplishment for improving the wellbeing of low-income South Africans: a 2006 randomized-controlled trial in South Africa found that expanded access to consumer credit was found to have positive impacts on job retention, income, and quality and quantity of food consumption, and control over household decision-making.[78]

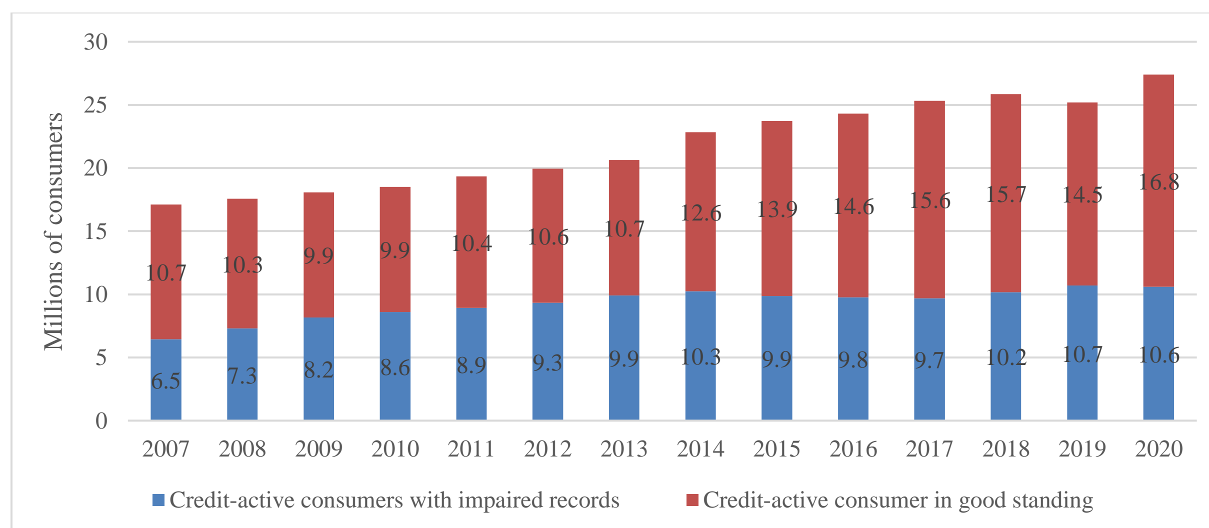
148. Credit-active consumers have an average of 3.3 credit accounts. As of December 2020, NCR reports 90.47 consumer credit accounts and 27.41 credit-active consumers, an average of 3.3 credit accounts per credit-active consumer. This value has remained relatively steady over time, fluctuating between a high of 3.6 (2014) and a low of 3.1 (2017 and 2018).

149. Thirteen percent of borrowers report having four or more credit commitments, according to 2019 FinScope data. Adults in higher LSM groups are significantly more likely to report having four or more credit commitments: while five percent of those in LSM 1-4 report four or more credit commitments, this value rises to 10 percent among those in LSM 5-6, to 17 percent among those in LSM 7-8 and to 21 percent among those in LSM 9 or above.

150. The expansion in access to consumer credit has been accompanied by a high and sustained level of credit record impairment. Between 2007 and 2020, the share of credit-active consumers with impaired records has fluctuated between 38 and 48 percent. Since 2015, this value has fluctuated between 38 and 42 percent. Impaired records comprise three categories: (1) 3+ months in arrears; (2) adverse listings; and (3) judgements and administration orders. The incidence of judgements and administration orders as a share of total impaired records has declined steadily from a high of 31 percent in 2011 to eight percent in 2020, which indicates some measure of success with debt relief measures like debt counselling.

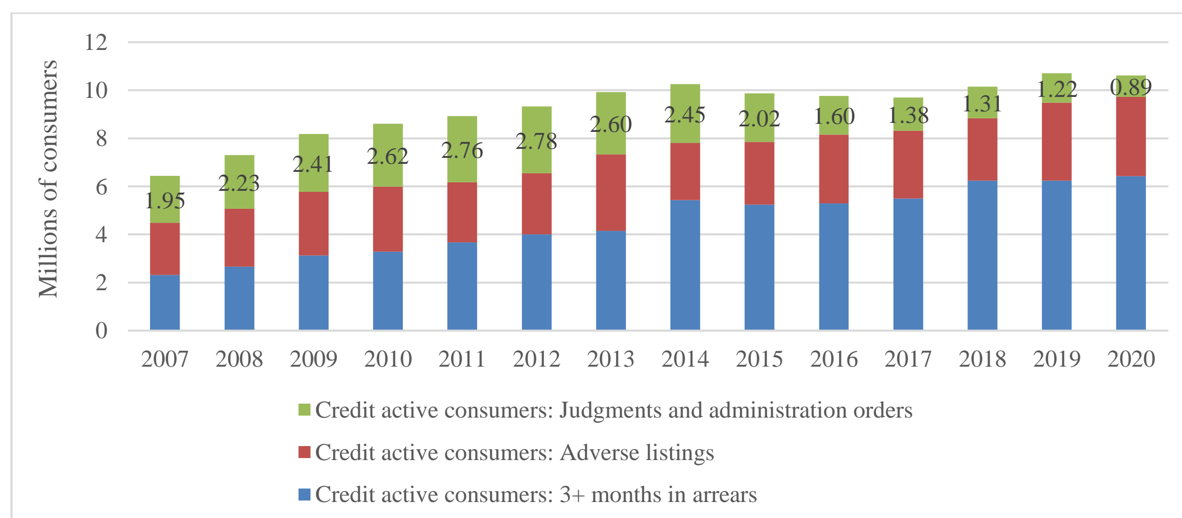
[78] https://www.poverty-action.org/study/small-consumer-loans-working-poor-south-africa

Figure 24: Increase in access to consumer credit accompanied by high and sustained level of credit record impairment



Source: NCR Credit Bureau Monitor (December 2020)
Note: Values reflect Q4 for each year

Figure 25:Judgements and administration orders have declined as a share of credit-active consumers with impaired records



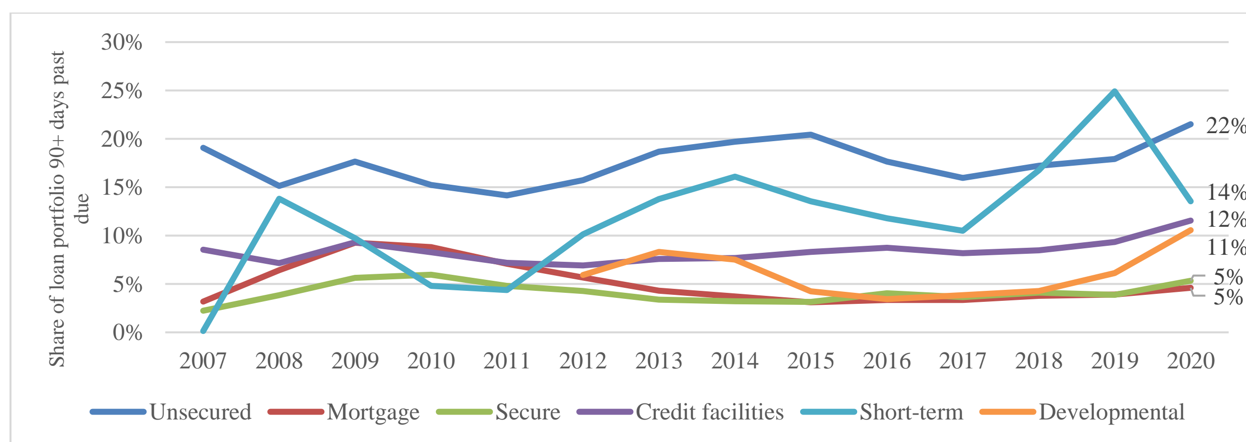
Source: NCR Credit Bureau Monitor (December 2020)
Note: Values reflect Q4 for each year

151. Seventeen percent of borrowers report having missed more than two months of credit or debt payments in the past 12 months, according to 2019 FinScope data. Missed payment behavior is particularly prevalent among those who have not completed secondary education (24 percent); a trend that is found to be statistically significant in multivariate regression analysis. Borrowers in LSM 5-6 are also more likely to report missing more than two months of credit or debt payments (22 percent); followed by those in LSM 7-8 (16 percent), although these differences are not statistically significant when controlling for other demographic and socioeconomic characteristics.

152. Survey data confirms that many borrowers are in financial distress. Thirty-one percent of borrowers report that "[my] credit or borrowing commitments are a heavy burden." This value is relatively constant across demographic and socioeconomic characteristics but is highly correlated with high levels of borrowing: among borrowers that report four or more credit commitments, 54 percent report that their borrowing commitments are a heavy burden. Financial distress is also associated with missed credit repayments: among borrowers who have missed more than two months of credit or debt repayments in the past 12 months, 63 percent report that their borrowing commitments are a heavy burden.

153. Unsecured and short-term loan portfolios have had consistently elevated levels of 90+ days past due loans, with recent NPL increases among credit facilities and development loan portfolios as well. The share of the unsecured loan portfolio 90+ days past due has been above 15 percent since 2012, and reached a high of 22 percent in 2020. The 90+ days past due share the short-term loan portfolio has been above 10 percent since 2012 and peaked at 25 percent in 2019. Non-performing loans in the credit facilities and development portfolios have historically been under 10 percent but have increased in recent years and are now at 12 and 11 percent, respectively. Non-performing loans in the secure and mortgage portfolios have been at 5 percent or less since 2013.

Figure 26 : Unsecured and short-term credit portfolios have elevated non-performing loans



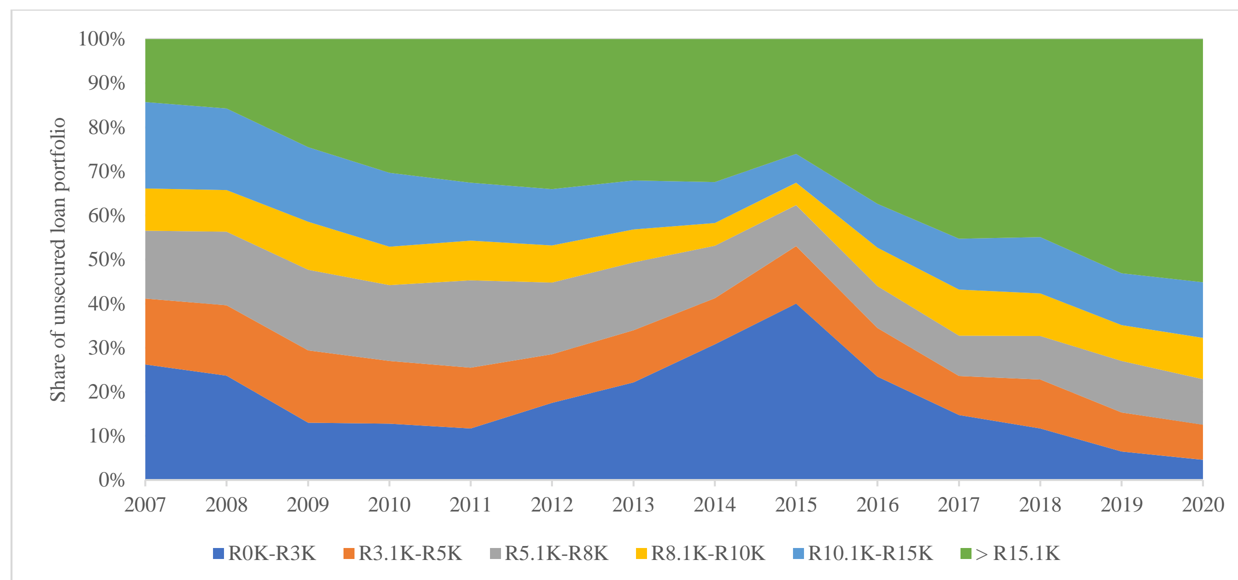
Source: Consumer Credit Market Report (December 2020)
Note: Values reflect Q4 for each year

154. Unsecured credit and credit facilities jointly represent 50 percent of past-due loans (by volume) despite comprising only 24 percent of the total loan portfolio (by volume). Unsecured credit accounts for 30 percent of past-due loans (by volume) while comprising just 11 percent of the total loan portfolio. Unsecured loans represent a disproportionately large share of past-due loans. A similar pattern is observed when viewed by loan accounts instead of loan volume: unsecured credit represents 19 percent of past-due loan accounts despite comprising just 13 percent of total loan accounts, as of end-2020. Credit facilities similarly represent a disproportionate share of past-due loans: while comprising 13 percent of the loan portfolio, credit facilities represent 20 percent of past-due loans by volume. While the short-term loan portfolio also has an elevated rate of NPLs, short-term loans represent less than one percent of past-due loans by account.

155. The average size of unsecured loans has increased significantly over time. Although the share of the consumer credit loan portfolio (by volume and number of accounts) has decreased in recent years, the share

of unsecured loans that are above R15,000 has more than tripled: from approximately 15 percent during 2007-2008, to approximately 30 percent during 2009-2015, to 47 percent during 2016-2020. As of 2020, 55 percent of all unsecured loans were above R15,000, representing an all-time high.

Figure 27 : The average size of unsecured loans has increased since 2015



Source: Consumer Credit Market Report (December 2020)
Note: Values reflect Q4 for each year

156. NCR does not publish disaggregated statistics on unsecured credit or credit facilities by lender category. NCR does not publish data on the distribution of the unsecured credit portfolio across types of lenders, which limits the identification of the types of lenders that may be driving high levels of financial distress among borrowers of unsecured credit. Anecdotal data suggests that banks have shifted away from unsecured lending in recent years but given the overall dominant position of banks in the consumer credit market, it remains unclear which lenders account for the largest share of non-performing loans in the unsecured credit and credit facilities product areas.

157. An in-depth analysis of the unsecured credit and credit facilities markets is needed to determine drivers of irresponsible lending and over indebtedness. As part of its supervisory and market research functions, NCR should prioritize conducting an in-depth analysis of the unsecured credit and credit facilities markets. The analysis should include dialogue with industry as well as consumer research (e.g., focus groups, targeted surveys). Mystery shopping could also be leveraged to determine to what degree the high rates of credit impairment are due to contraventions of NCA requirements related to disclosure, pricing, affordability assessments, etc.

158. Informal sector lending also poses a significant challenge to generating a sustainable and responsible credit culture in South Africa. Loan sharks or mashonisas are unregistered and illegal lenders that typically offer small, short-term and quick-disbursing cash loans. Loans from mashonisas are typically used to manage monthly cash flows and finance immediate needs such as food, transport, airtime, and pre-paid

electricity. Many borrowers view mashonisas as a complement to formal sector borrowing. Although just two percent of South African adults report having borrowed money from a mashonisa in the past year, this may underestimate the actual prevalence of informal sector borrowing. A 2018 report on informal sector lending estimates that there may be 40,000 mashonisas operating in South Africa, more than five times the number of registered credit providers.[79] The research noted that borrowers are attracted by the convenience and accessibility of mashonisas, in addition to many borrowers who have impaired credit records are therefore limited access to formal lenders. The research also confirmed that mashonisa loans are expensive, with interest rates up to 50 percent regardless of the term of the loan (which translates into an annual interest rate of 600 percent for a month-long loan). Mashonisas are known to apply aggressive and sometimes violent debt collection practices. The 2018 study did not conclude that affordability requirements or other responsible lending requirements have resulted in an increased reliance on informal sector borrowing.

159. Trends of financial distress and over indebtedness are inextricably linked to national social and economic conditions, as well as the Covid-19 pandemic. There are several opportunities to improve responsible lending conditions in the consumer credit market in South Africa, as detailed in the following section. However, it should also be acknowledged that national social and economic conditions play an important role in the current credit environment. Economic growth has been stagnant in recent years and the unemployment rate in South Africa reached an all-time of 30.1 percent in the first quarter of 2020. South Africans have also experienced price increases for petrol, food, and other basic cost of living goods and services. These trends have a significant impact on the credit needs of South African and their ability to meet their financial obligations. The Covid-19 pandemic has added further stresses to financial health of many South Africans and in many cases has exacerbated financial distress of borrowers and reliance on informal borrowing.

C. Approaches to Promote Responsible Lending

160. South Africa's consumer credit market is highly regulated and conforms with several "good practices" for financial consumer protection. South Africa's consumer credit market has several features associated with an effective regulatory and supervisory approach to responsible lending, including a dedicated market conduct supervisor (NCR) and a legal and regulatory framework that addresses sales practices (e.g. prohibitions on credit sales at a person's home), disclosure (e.g. plain language requirements and required use of key information documents), product design and suitability (e.g. affordability assessments, prohibitions on automatic credit limit increases), fair treatment (e.g. prohibitions against discrimination), credit information infrastructure (e.g. regulation of credit bureaus), debt collection (e.g. prohibitions on abusive practices), and dispute resolution. Yet there remain opportunities to improve responsible lending via greater registration of credit providers, improved credit bureau reporting, the facilitation of innovations including alternative data, data-driven and risk-based supervision, aggressive enforcement, improved coordination among financial sector regulators, and financial education.

161. NCR should continue to prioritize registration of small credit providers. NCR regularly conducts registration campaigns to foster formal registration among small credit providers. For example, in 2019/2020, NCR conducted registration campaigns the Gauteng, the Eastern Cape, and Mpumulanga Provinces. In 2019/2020, NCR registered 1,416 new credit providers (in addition to renewing 6,421 existing registrations). No

[79] "Informal Lending Report: Understanding the role of mashonisas in the South Africa credit market". Wonga. 2018.

reliable estimates exist on the number of unregistered credit providers but most stakeholders agree that these informal credit providers account for a significant share of lending (by loan accounts if not by volume), particularly among low-income South Africans

162. Despite recent progress, new approaches are needed to address low levels credit bureau reporting among registered credit providers. The NCA requires registered credit providers to submit both positive and negative information to credit bureaus via a standard format prescribed by NCR.[80] Yet as of February 2021, only 30 percent of registered credit providers report to credit bureaus. This value is up from 18 percent in June 2020 which represents meaningful progress but low levels of credit bureau reporting continue to be a constraint on the promotion of responsible lending. NCR and credit bureaus should prioritize the development of an automated and user-friendly data submission platform that reduces frictions and indirect costs for small providers to comply with credit reporting requirements. See Section VI.B for a broader discussion of Credit Information.

163. The inclusion of alternative data sources in the credit bureau environment can promote responsible lending. A more diverse set of information on consumers can help lenders to make responsible lending decisions and generate stronger incentives for consumers to meet their financial obligations. As noted in a 2021 IFC diagnostic on alternative data in South Africa, there is potential to incorporate additional alternative data on consumers, including related to bank accounts (e.g., related to account activity, failed transactions, returned debit orders), rent payments, and municipal accounts (e.g., related to payment plans). Such reforms should also enable to consumers to access and share their own data, for example related to data retained by MNOs on pre-paid customers and lay-by payments.

164. A data-driven and risk-based supervisory framework can help to promote responsible lending and reduce financial distress among borrowers. The effective use of limited resources to cover such a large and geographically dispersed set of credit providers (7,895) requires a data-driven and risk-based approach. NCR does not report having a specific methodology in place to determine the deployment of supervisory actions; the supervisory approach appears to be largely reactive and driven by consumer complaints and media coverage. While complaints data and media sources are invaluable inputs into an effective supervisory approach, a more comprehensive risk-based supervisory framework that draws from a range of granular data sources and indicators (including “early warning indicators”) can support the systematic identification and monitoring of risk, which can in turn support a more proactive supervisory approach and the efficient use of limited resources. A risk-based framework for market conduct in the consumer credit market should also account for the observable trends that indicate unsecured loans and credit facilities account for 50 percent of past-due loans; that is, a risk-based framework would guide supervisors to closely monitor and supervise lenders who are active in these loan categories and display significant past-due portfolios.

165. The adoption of a risk-based supervisory framework requires a shift away from compliance-based approaches and **towards continual intelligence gathering and dialogue with industry.** Table 3 provides a high-level summary of the differences between compliance-based and risk-based supervision. While compliance-based supervision relies on one-size-fits-all procedures and standard examination frequency, a risk-based approach requires continual intelligence gathering and dialogue with industry to assess how providers

[80] Consumers have a right to access their reports and correct any errors, and can also access one free credit report from each bureau every 12 months.

manage risk. The objective of risk-based supervision is to monitor how risks are evolving, identify emerging risks, and preemptively address them.

Table 3: Compliance-based vs. Risk-based Supervision

Compliance-based Approach	Risk-based Approach
Audit-oriented with excessive transaction testing	Process-oriented with focus on assessing institution's risk and management framework
Point-in-time risk assessment	Continuously updating risk profiles
Standard procedures and examination frequency	Flexible procedures and supervisory interventions determined by risk profiles
One-size-fits-all	Tailored to individual institutions
Focus on risk avoidance	Focus on risk mitigation

Source: Risk-based Supervision in Low-Capacity Environments (CGAP, 2019)

166. **Investments in critical skills of staff is necessary to enhance the quality and efficiency of market conduct supervision.** Both FSCA and NCR have highlighted the hiring and retention of skilled supervisory staff as a key institutional challenge. The challenge is particularly acute as the pace of innovation in the financial sector continues to accelerate, generating new consumer risks. The successful deployment of a risk-based supervisory framework for market conduct also requires supervisors with deep knowledge of the market and providers as well as critical thinking and subjective judgement skills.

167. **Data limitations constrain the NCR's ability to identify the drivers of reckless lending.** NCR publishes a range of data via its quarterly Credit Bureau Monitor and Consumer Credit Market Report; however the available data provides a limited view into the drivers of credit impairment and constrains more proactive, risk-based supervisory and enforcement approach. For example, NCR does not collect data from credit bureaus on the number of outstanding loans per credit-active consumer nor the percentage of credit-active consumers with multiple loans. More granular data on borrowers and lenders active in the unsecured credit market would also provide NCR with a valuable tool to undertake proactive, risk-based supervision. Data on the credit extended via digital channels would also allow NCR to identify and monitor emerging risks related to digital credit.

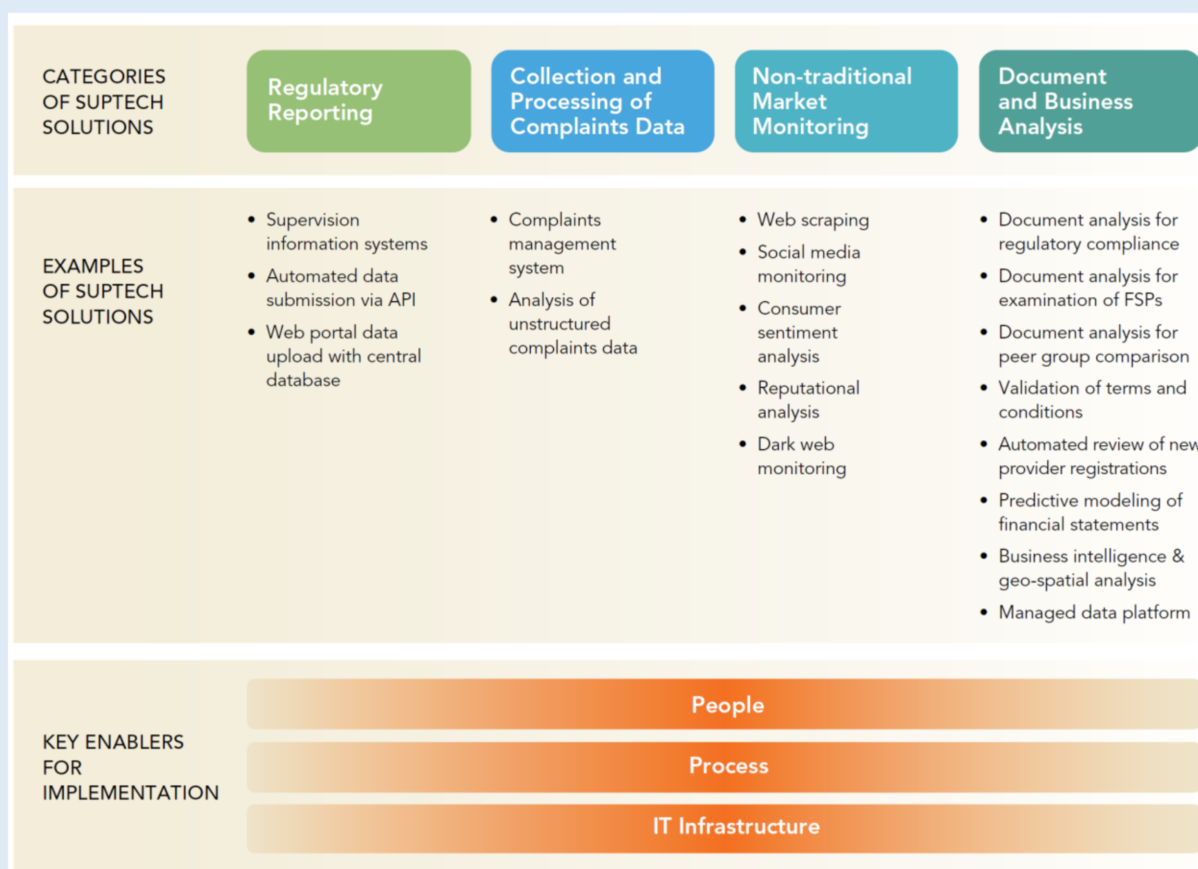
168. **Adoption of supervisory technology (i.e. "Suptech") can improve the effectiveness and efficiency of market conduct supervision.** In the case of NCR, the effective and efficient supervision of nearly 7,000 credit providers cannot be accomplished without the use of technology and automated processes. Yet several key supervisory functions of NCR rely on manual processes: for example, offsite supervision reports are submitted physically or via Excel rather than through an automated reporting system. There is also scope to better leverage supervisory technology to improve NCR's analytical processes, including related to complaints analysis. See Box 4 for Suptech solutions for market conduct supervision.

Box 4: Suptech Solutions for Market Conduct Supervision

A 2021 report by the World Bank Group, "The Next Wave of Suptech Innovation: Suptech Solutions for Market Conduct Supervision," showcases new Suptech solutions specific to market conduct supervision. The report notes that financial sector supervisors around the world are experiencing a profound shift to data-driven supervision enabled by the next wave of technology and data solutions, for example in the realm of unstructured data and text analysis. The report includes four key insights for market conduct authorities:

(1) Increasing operational efficiency and enhancing supervisory effectiveness are two of the primary motivations for adopting Suptech solutions for market conduct.
(2) Suptech solutions for market conduct can be grouped into four main categories: (i) solutions for regulatory reporting by supervised institutions; (ii) solutions for collection and processing of complaints data; (iii) solutions for non-traditional market monitoring; and (iv) solutions for document and business analysis.
(3) Suptech implementation is about more than just the technology, requiring investments in three key enablers: people, process, and IT infrastructure.
(4) Various strategies can be used to help accelerate the development and implementation of Suptech solutions, including both formal, multi-year Suptech strategies as well as case-specific experimentation and iteration.

Suptech Solutions for Market Conduct Supervision and Key Enablers for Implementation



Source: "The Next Wave of Suptech Innovation: Suptech Solutions for Market Conduct Supervision." 2021. The World Bank

169. Aggressive and consistent enforcement of contraventions against the NCA are a necessary complement to risk-based supervision. As part of its enforcement activities, the NCR conducts raids on small credit providers (often jointly with the South African Police Service and local authorities) with a priority focus on unregistered providers, credit providers engaged in reckless lending, and those that illegally retain consumers' identify documents and other personal items. In 2019/2020, these raids resulted in the recovery of 2,601 items belonging to consumers. Such raids may result in criminal charges and/or referrals to the National Consumer Tribunal. The NCR also enforces the NCA via referrals to the National Consumer Tribunal and High Court (64 such referrals were made in 2019/2020). It is critical that NCR continue to aggressively undertake enforcement activities and that these efforts be well-resourced, consistently applied, and linked to supervisory processes (e.g. onsite supervision and mystery shopping).

170. Affordability assessments are a key tool to ensure responsible lending but accommodations should be made to enable the use of alternative data and digital lending models, and the effectiveness of the affordability assessments should be re-examined for unsecured credit and credit facilities. Affordability assessment regulations were introduced in 2015 to strengthen and clarify the reckless lending provisions in the National Credit Act. The affordability assessment regulations require all credit providers to validate borrower income via bank statements and documented proof of income and assess a borrower's potential debt burden via defined minimum monthly expense norms and accounting for statutory deductions (e.g., employee taxes) and existing credit obligations (via credit bureau checks). However, several industry participants note that NCR does not clearly communicate its interpretation of some affordability assessment requirements which can limit the innovative use of alternative data and digital lending models. NCR often does not grant flexibility or guidance to allow supervised experimentation (e.g. via a sandbox) with these requirements.[81] A targeted review of the effectiveness of affordability assessments in the unsecured credit and credit facility product areas is warranted given current NPL trends.

171. Market conduct authorities should closely monitor the development of digital credit models and begin to assess how responsible lending requirements can be adapted for digital channels. Although limited data exists, the development of digital credit models in South Africa appear to be in a nascent stage. However, the experience of digital credit in East Africa has demonstrated that digital credit can rapidly reach scale and can exacerbate the drivers of over indebtedness (e.g. push marketing, impulsive borrowing, present bias, poor transparency). Disaggregated data on the prevalence of digital credit is a key first step to identify and monitor emerging over indebtedness risks. NCR should also prioritize research and engage with industry on how to adapt key responsible lending requirements (e.g. related to disclosure) for digital channels. A recent World Bank publication provides a summary of global experience to date in managing consumers risks associated with digital credit, and includes a menu of regulatory and supervisory measures to address these risks (Box 5).

[81] NCR is receiving technical assistance from the International Financial Corporation (IFC) to pilot aspects of the G20 Financial Inclusion Policy Guide on the collection, processing, and use of alternative data sources and the development of digital technologies to enable small credit providers to collect and share data.

Box 5: Options for Regulatory Approaches to Address Consumer Risks in Digital Credit

- Require disclosure of key terms and conditions in channel being used for transaction
- Require order and flow of information to enhance transparency and comprehension, providing an intuitive "digital journey" through a transaction process
- Leverage behavioral insights to encourage consumers to engage with information (e.g., require confirmation to move to next stage of transaction)
- Encourage consumer testing of user interface
- Require explicit warnings on risks of short-term, high-cost credit, and information on alternatives to such loans and helpful resources
- Ban sales practices that focus on ease of obtaining credit, trivialize credit, or target vulnerable consumers
- Slow down process of transacting digitally to allow consumers more time for reflection and deliberation or appropriate cooling-off period
- Apply product design and governance rules for digital credit, including designing processes and customer acquisition plans to ensure that potential harms and risks to consumers are considered and mitigated
- Require regular auditing of algorithmic systems by external experts to assess and manage risks related to bias and discrimination

Source: "Consumer Risks in Fintech: New Manifestations of Consumer Risks and Emerging Regulatory Approaches." 2021. The World Bank

172. Ensuring access to appropriate and fair debt relief measures is necessary for a healthy consumer credit market. Distressed borrowers have several options to seek debt relief, including debt review options under the National Credit Act (via debt counsellors), statutory discharge of debts under the Insolvency Act (via courts) and administration orders under the Magistrates Court (via courts). Debt counsellors in particular play a key role in supporting financially distressed borrowers to improve their financial management and/or restructure their debt obligations. As of 2019, 1,495 debt counsellors were registered with NCR. However there have been several recent cases in which debt counsellors have acted improperly to persuade borrowers into entering debt review or have not acted in the best interests of the borrower (e.g., related to substitution of credit life insurance). NCR has noted a concern with misleading marketing or advertising by some debt counsellors, particularly via social media.[82] A detailed review of the personal insolvency and debt review and restructuring system could shed light on challenges experienced by distressed borrowers seeking debt relief, including related to conduct issues, pathways out of debt review, and options for debt discharge under certain circumstances.

D. Alternative Dispute Resolution

173. Alternative dispute resolution mechanisms are a core pillar of financial consumer protection. Principle 9 of the G-20 High-Level Principles for Financial Consumer Protection states that jurisdictions should ensure consumers have access to adequate complaints-handling a redress mechanism that are accessible, affordable, independent, fair, accountable, timely and efficient. The 2017 Good Practices for Financial Consumer

[82] NCR Circular 10 2020 – Debt Counselling: Misleading Market Practices (November 2020)

Protection further state that if consumers are unsatisfied with the decision resulting from a financial service provider's internal complaint handling process, they should be given the right to appeal, with a reasonable timeframe, to an out-of-court alternative dispute resolution mechanism.

174. The existing financial Ombud system in South Africa provides an important alternative dispute resolution (ADR) service for many financial consumers.[83] ADR in the South African financial sector is provided through an ombuds system comprising seven Ombud schemes (two statutory schemes and five industry schemes). The system also includes a dedicated oversight regulator for financial ombuds schemes: the statutory Ombuds Council. The existing system provides free access to ADR services for many consumers, is generally considered by stakeholders as professional, with rules and processes that incorporate fair and equitable principles.

175. However, the existing system is complex and fragmented, thereby limiting accessibility and consistency for financial consumers across provider and product subsectors. The existing system is largely based on subsector-specific Ombud schemes with additional statutory schemes. The system is characterized by unclear and overlapping jurisdictional boundaries; gaps in coverage and mismatch with new products; significant variations in eligibility, processes, rules, powers, and governance structures; differential funding models; and lack of coordination and coherence in outreach and accessibility activities.

176. A new, consolidated, and independent National Financial Ombud can improve accessibility, efficiency, and responsiveness to financial sector developments and innovations. A recent World Bank diagnostic recommends the establishment of a new National Financial Ombud (NFO), independent of both industry and government, to cover all financial providers and products licensed by the PA, FSCA, and NCR – with the exception of pension funds.[84] The new NFO should absorb the functions of all the industry Ombud schemes (the Banking, Credit, LTI, STI and JSE Ombud's) plus the statutory FAIS Ombuds. The new NFO should **be** independent and non-statutory, possibly following the model of the South African Consumers Good and Services Ombud. The diagnostic recommends that the consolidation be managed by a new NFO board, which will require recognition and empowerment from the Ombud's Council. The diagnostic acknowledges that a carefully-planned and managed transition to a reformed system is crucial to achieving the benefits of reform without disrupting the ongoing work of complaints handling. It will be important to retain the expertise of existing personnel, maintain broad stakeholder support, and minimize the need for legislative reforms.

E. Financial Education

177. Improvements in the financial capabilities of consumers are necessary to ensure that access to financial products and services contributes to their financial wellbeing. Financially capable consumers possess the knowledge, skills, attitudes, and behaviors to make informed decisions that enhance their financial wellbeing. Improvements in the financial capabilities of South African consumers are necessary to achieve responsible and sustainable financial inclusion, in alignment with broader financial sector objectives of financial stability and integrity. Gaps in the financial capabilities of consumers likely play a role in several of the

[83] The FSAP's discussion of the financial ombuds system serves as a brief summary of the main findings and recommendations of the Financial Ombud System Diagnostic recently conducted by the World Bank Group.
[84] See the above referenced diagnostic for a discussion of the rationale of reforming the Pension Fund Ombud and maintaining its separation from the proposed National Financial Ombud.

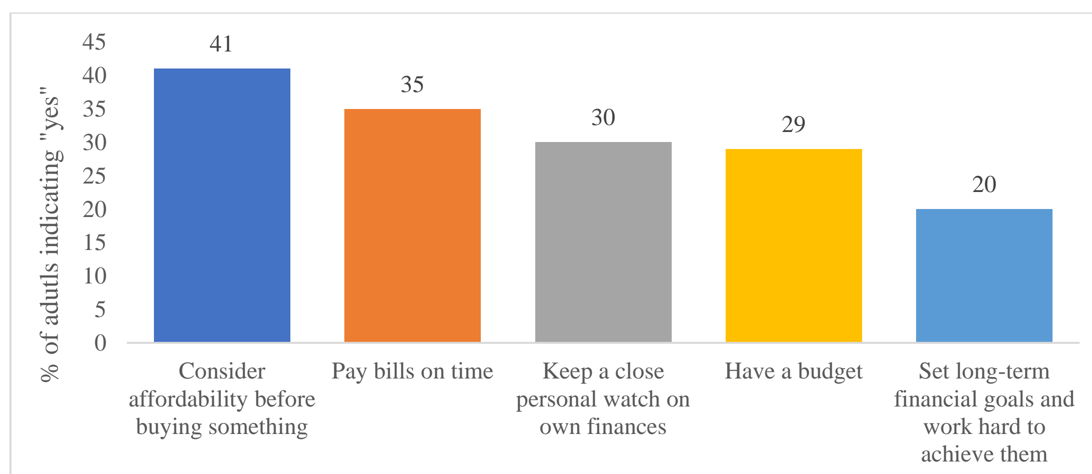
challenges that constrain financial inclusion in South Africa, including low usage of digital financial services, over indebtedness, and difficulties reaching ‘last mile’ consumers.

178. Financial sector stakeholders in South Africa recognize the importance of improving the financial capabilities of consumers. The importance of financial education has been recognized since the first financial inclusion efforts in South Africa. For example, the Financial Sector Code requires its member financial institutions to allocate 0.4% of Net Profit After Tax (NPAT) towards consumer education. In 2012, the National Consumer Financial Education Committee (NCFEC) was established, comprising entities from the public, private, and civil society sectors and chaired by National Treasury. The objective of the NCFEC is to foster coordination and consistency across financial education initiatives. A National Strategy for Consumer Financial Education was approved in 2013, although implementation and coordination of the strategy was not considered to be effective.

179. Financial sector regulators currently maintain several financial education initiatives. The NCR deploys a variety of financial education initiatives, including participation in gatherings or “imbizos” with Local Tribal Authorities and theatre roadshows at high schools and universities in collaboration with the Credit **Bureau** Association. The content of NCR’s financial education activities focuses on the rights and responsibilities of consumers under the NCA, including with respect to credit reports and role of credit bureaus, evaluating the cost of credit, and preventing over indebtedness. The provision of financial education and promotion of financial literacy is one of the four key objectives of the FSCA’s institutional mandate, as defined by the 2017 FSR Act. The FSR Act further empowers FSCA to issue conduct standards for consumer education. The FSCA’s flagship financial education initiative is its MyMoney Learning Series, which focuses on personal financial management. The MyMoney Learning Series e-learning materials were developed based on extensive consumer research and review of international evidence on effective financial education approaches. The materials are hosted on a dedicated website and are intended to be adapted by facilitators in an engaging and interactive setting.

180. Survey data indicates that there remains significant scope to improve the financial capabilities of South African financial consumers. Data from the 2019 FinScope Survey show that most South Africans do not **consistently** assess the affordability of something before they make a purchase (41 percent report doing so). Less than a third of adults reports keeping a close watch on their personal finances or having a budget. Further, just one in five adults reports setting long-term financial goals and working hard to achieve them. Low-income individuals are particularly likely to report lower levels of financial capabilities as measured by these indicators. However, there are also some bright spots: survey research undertaken to inform the MyMoney Learning Series found that the financially excluded and partially included demonstrate the greatest demand for financial education.

Figure 28: Self-reported financial behaviors indicate room to improve financial capabilities



Source: FinScope Consumer Survey, 2019

181. As a starting point, global evidence shows that financial education interventions should be actionable, personalized, timely, convenient, and entertaining. A recent review of international evidence by Innovations for Poverty Action on effective approaches to financial education finds that interventions should simple and actionable, personalized for individuals' needs and situations, timed to coincide with financial decisions, convenient to access, and entertaining to participate in. Evidence also shows that financial education interventions can have the greatest impact for those that are "primed to learn," i.e. youth and young adults. The existing evidence base is a promising starting point to inform program design, but financial education practitioners should innovate based on specific audiences and market settings and rigorously evaluate interventions to assess impact and make adjustments.

182. The evidence base for what works in improving the financial capabilities of South African consumers is relatively weak. Most financial education initiatives run by public, private, and civil society sector stakeholders in South Africa have not been evaluated using rigorous impact evaluation methodologies (e.g. randomized-controlled trials), resulting in a dearth of knowledge about what really works to improve the financial skills, attitudes, knowledge, and behaviors of consumers. Many stakeholders have strongly held priors about effective approaches for delivering financial education (e.g. face-to-face education vs. community radio vs. social media) but little evidence exists to support these hypotheses. Existing evidence from impact evaluations in South Africa indicate that 'edutainment' approaches can generate positive impacts on financial knowledge and behaviors in a relatively cost-effective manner.[85] However, investments in rigorous evaluations are needed to undertake comparative assessment of various approaches. Evaluations may be particularly useful in contexts where financial education is provided directly by financial institutions (including under the FSC requirements) in order to determine whether such interventions are distinguishing between education and branding/marketing.

183. Light-touch coordination approaches may be most effective given the complex institutional environment in South Africa. Given the disappointing outcomes of recent efforts to proactively coordinate

[85] An impact evaluation of the integration of financial education themes into the soap opera, Scandal!, showed positive impacts on financial knowledge as well as increased likelihood to borrow for productive purposes and decreased propensity to borrow for consumption and to gamble.

national financial education programs across stakeholders, a more effective approach may be to issue high-level content guidelines and establish an online platform for sharing experiences, curriculum content, and evaluation results. A conduct standard for financial education may be an effective way to achieve these objectives but such standards should not constrain innovative approaches.

184. Focused and systematized interinstitutional efforts are warranted in cases where the government directly interacts with financial inclusion target groups, including SASSA grant programs. A recent FinMark Trust report on improving the financial capability of grant recipients found significant scope for improving the scale and relevance of financial education programs for this segment. The receipt of social transfers represents a key "teachable moment", in that it is closely linked with decisions on how to manage personal finances and use financial products and services. The history of financial frauds and other predatory behavior affecting social grant recipients further strengthens the case for robust financial education interventions. A key constraint appears to be the lack of explicit mandate of Department of Social Development, SASSA or the Post Office to provide financial education to SASSA beneficiaries. Authorities should clearly establish an institutional mandate for the provision of financial education for SASSA beneficiaries and scale-up interventions that have demonstrated impact.

Summary of Main Recommendations

- Enact the Conduct of Financial Institutions (CoFI) Bill
- Minimize overlaps in legal mandates and licensing/reporting requirements of NCR and FSCA, and strengthen coordination mechanisms
- Develop and implement a risk-based framework to enable proactive, data-driven, and efficient market conduct supervision
- Ensure adequate resources and build institutional capacity for market conduct supervision, including via recruitment and retention of staff with critical skills (e.g., data, analytics, information technology, fintech models)
- Develop and implement supervisory technology ("Suptech") solutions to enhance the efficiency and effectiveness of market conduct supervision
- Work with credit providers to facilitate innovative approaches to responsibly expand access to credit (e.g., the use of alternative data to inform affordability assessments; effective disclosure for digital credit)
- Conduct in-depth market research and targeted supervisory activities (e.g., mystery shopping) to identify the drivers of irresponsible lending in the consumer credit market for unsecured loans and credit facilities
- Conduct a detailed review of the personal insolvency and debt review and restructuring system
- Adapt data collection, supervisory, and regulatory approaches to identify and address emerging consumer risks from digital and fintech models
- Establish a new, consolidated, and independent National Financial Ombud to cover all financial service providers authorized by the PA, FSCA, and NCR (excluding pension funds)
- Develop approaches to ensure high-level alignment of content of financial education initiatives to promote consistency and clarity of messaging
- Prioritize rigorous evaluations of financial education interventions to determine impact, including those offered by financial institutions under the FSC obligations
- Establish clear institutional mandates for the provision of financial education to SASSA grant recipients and improve the accessibility and relevance of financial education content for these beneficiaries

ANNEX I: REGRESSION ANALYSIS

VARIABLES	Formally included	Banked	Borrows (any source)	Saves (any instr)	Missed 2+ months of loan payments	Has 4+ credit commitments	Uses online banking or app
Woman	0.056***	0.113***	0.026*	0.040**	-0.025	0.057**	-0.007
	(0.011)	(0.015)	(0.014)	(0.017)	(0.032)	(0.026)	(0.010)
Age: 16-29	-0.079***	-0.125***	-0.090***	-0.112***	0.019	-0.014	0.010
	(0.011)	(0.016)	(0.017)	(0.020)	(0.038)	(0.028)	(0.012)
Age: 60+	0.122***	0.265***	-0.044*	0.001	-0.071	-0.091*	-0.024
	(0.021)	(0.027)	(0.027)	(0.032)	(0.064)	(0.054)	(0.017)
LSM: 1-4	-0.046**	-0.063**	-0.044	-0.079**	0.007	-0.075*	-0.041**
	(0.023)	(0.029)	(0.031)	(0.035)	(0.058)	(0.045)	(0.018)
LSM: 5-6	-0.007	0.001	-0.043*	-0.041	0.045	-0.038	-0.044***
	(0.012)	(0.018)	(0.024)	(0.027)	(0.035)	(0.037)	(0.015)
LSM: 9+	-0.001	0.009	0.060**	0.059*	-0.030	0.036	0.113***
	(0.011)	(0.015)	(0.029)	(0.032)	(0.033)	(0.043)	(0.026)
Education: Did not matriculate	-0.091***	-0.138***	-0.039**	-0.091***	0.134***	0.014	-0.022***
	(0.012)	(0.018)	(0.017)	(0.022)	(0.051)	(0.031)	(0.008)
Education: University	-0.003	0.035**	0.121***	0.114***	-0.016	0.034	0.086***
	(0.012)	(0.014)	(0.026)	(0.029)	(0.029)	(0.031)	(0.020)
Language at home: Not English or Afrikaans	0.003	0.014	0.057	0.129**	-0.011	-0.194	-0.026
	(0.036)	(0.045)	(0.059)	(0.059)	(0.101)	(0.121)	(0.033)
Employment: Self-employed	-0.074***	-0.135***	-0.042	0.078**	-0.032	-0.027	0.031
	(0.019)	(0.026)	(0.033)	(0.035)	(0.048)	(0.042)	(0.022)
Employment: Unemployed	-0.104***	-0.252***	-0.151***	-0.182***	0.086	-0.041	-0.023*
	(0.015)	(0.020)	(0.019)	(0.023)	(0.057)	(0.038)	(0.014)
Employment: Other	-0.108***	-0.250***	-0.152***	-0.114***	0.009	0.012	-0.035**
	(0.019)	(0.024)	(0.019)	(0.028)	(0.062)	(0.059)	(0.015)
Constant	0.996***	0.945***	0.336***	0.518***	0.173***	0.120**	0.140***
	(0.014)	(0.022)	(0.037)	(0.043)	(0.046)	(0.047)	(0.030)
Observations	4,969	4,967	4,969	4,969	1,024	1,020	4,187
R-squared	0.133	0.243	0.105	0.120	0.077	0.061	0.122
N	4969	4967	4969	4969	1024	1020	4187

Note: Standard errors in parentheses; ***p<0.01, **p<0.05, p<0.1; includes race and provincial fixed effects; excluded binary/categorical variables are “Male”, “Age 35-59”, “LSM: 7-8”, “Education: matriculated”, “Language at home: English or Afrikaans”, “Employment: employed”

Source: FinScope Consumer Survey (2019)