ANNUAL REPORT 2010

FINMARK TRUST

Making financial markets work for the poor

FinMark Trust Purpose

FinMark Trust, an independent trust based in Johannesburg, South Africa, was established in 2002 with funding provided by the South African office of the UK's Department for International Development (DFID). FinMark Trust's purpose is 'Making financial markets work for the poor, by promoting financial inclusion and regional financial integration'.

FinMark Trust achieves its purpose by:

- Promoting growth and integration in the financial services sector in Southern Africa, focusing on SADC member states and contributing to the process of regional policy harmonization, together with translating and setting best practice through evidence-based advocacy;
- Playing a catalytic role to make financial markets accessible, sustainable and inclusive by promoting and supporting policy and institutional change across Africa;
- Providing information that encourages financial service providers to understand the potential and characteristics of new market segments;
- Promoting financial education and consumer financial empowerment.

CONTENTS

TRUSTEES

Nkululeko Sowazi

is executive chairman of Tiso Group, a South African investment holding company, and has been extensively involved in the financial and development finance sectors of South Africa.

Maya Makanjee

is the chief executive officer of FinMark Trust. Maya has held senior executive positions in the financial services, consulting, telecommunications and fast-moving consumer goods industries prior to joining FinMark Trust in June 2009.

Cas Coovadia

is the managing director of the Banking Association South Africa and is actively involved at a strategic and policy level in low-income housing, microfinance and SMME finance.

Ethel Matenge-Sebesho

is general manager of Home Loan Guarantee Company. Formerly from Botswana, Ethel has considerable experience in the banking and financial services sector at a strategic and policy level, and in several microfinance initiatives in Southern Africa.

Ishmael Mkhabela

is a freelance community development practitioner and organiser. He is the founder, and was chief executive officer, of Interfaith Community Development Association, which has pioneered community organisation and conflict resolution in South Africa since 1991.

CHAIRMAN'S REVIEW

The past financial year has seen the global economic recovery gaining momentum, with risks to global financial stability easing and systemic risks subsiding. High levels of uncertainty have been moderated by the recovery. However, financial stability in many economies still remains fragile, including in emerging market economies. Many advanced economies are also still faced with the challenge of repairing their damaged financial systems while introducing regulatory reform.

African countries, through their conservative monetary and fiscal policies as well as structural reforms before the financial crisis, were able to withstand the negative effects of the crisis. However, recessions abroad have weighed on Africa resulting in reduced demand for its exports, increased portfolio outflows and decreased employment-related remittances. The crisis has therefore had secondary effects on our continent as a result of the significant slowdown in demand for African exports which has in turn weakened the prices of commodities. Investor risk aversion and tighter global credit have led to a reversal of portfolio inflows thus discouraging foreign investment.

Economic performance in South Africa started improving in late 2009 as the country gradually emerged from the recession. Confidence in the financial services sector has increased due to the support and buy-in among investment managers and life insurers.

Wide-range debate has stemmed from the global crisis on the need to enhance the international regulatory framework in order to strengthen the global financial system and improve resilience to shocks, as evidenced by the engagement among G20 countries.

Foreign direct investment plays an important role in Africa and a reversal in flows would not only affect external financing needs, but could also have a severe impact on investment and growth together with adverse effects on the poor who are not effectively cushioned. The crisis has therefore taken its toll in achieving the Millennium Development Goals.

These are therefore very challenging times for Africa. It is imperative that as we look ahead, we need to assess the types of policies required to cushion the impact of the crisis on Africa and priorities may also need to be adjusted to these circumstances. Given that the poorest are likely to be the most affected, the situation may be further compounded through social and political pressures if progress is not made to mitigate the impact of the economic crisis.

Our primary mandate is to ensure that we support initiatives which extend access to appropriate, accessible and affordable financial services to individuals and households that lack them. Therefore, the role that FinMark Trust will play at a time like this is to continue to provide extensive and relevant policy advice, professional technical assistance and credible research through partnerships with strategic stakeholders in Africa.

In this regard, I am very pleased that our core funder, the Southern African office of the UK's Department for International Development (DFID), has agreed to extend FinMark Trust's program until March 2015. This will allow FinMark Trust to continue to fulfil its mandate in view of the much needed evidence-based information and independent analysis that the Trust can provide amidst the changing financial market needs across Africa as a whole. The new program also has a wider remit, and will include the setting up of a regional financial integration unit within FinMark Trust, which will promote growth and integration in the financial services sector in Southern Africa.

I would like to thank my fellow trustees for their sound advice on the activities of FinMark Trust, including their oversight responsibility in ensuring that the Trust operates within the prescripts of governance to successfully achieve its purpose. I would also like to express my appreciation to the CEO, staff and theme coordinators for their unwavering commitment to FinMark Trust as it continues to fulfil its mandate and build its reputation so positively both in Africa as well as globally.

Nkululeko Sowazi
Johannesburg
July 2010

Economic performance in South Africa started improving in late 2009 as the country gradually emerged from the recession.

CHIEF EXECUTIVE OFFICER'S REVIEW

Research has demonstrated that in most developing countries, women and children are more vulnerable to poverty.

It is widely accepted across Africa that one of the key impediments to the development of an economy is access to affordable and appropriate financial services for poor, unserved and underserved communities. Furthermore, research has demonstrated that in most developing countries, women and children are more vulnerable to poverty. Through a reduction in poverty and inequality, countries are able to achieve higher levels of economic growth.

FinMark Trust believes that its work continues to remain relevant to the current challenges facing developing markets, and that it can contribute to creating the understanding and awareness required for financial sector development and growth. In fulfilling its mandate, the Trust has ensured that through its research and catalytic role with the public sector, it has continued to have an impact on the regulatory environment. Similarly, its research has also been used by the private sector to support product development and innovation to fulfil the needs of the poor.

Some highlights of the year ending 31 March 2010 include our work in the policy formulation area, specifically in promoting financial inclusion policies. In South Africa the Trust has been working with the National Treasury on the development of a financial access policy. A supply side study into financial inclusion in Malawi was commissioned by FinMark Trust in 2009. This study will support the National Forum on Microfinance in developing a national strategy and action plan for financial inclusion in Malawi.

FinScope, a research tool developed by FinMark Trust and key to much of the work we do, has been implemented in 13 African countries, as well as in Pakistan. Using FinScope data, FinMark Trust has been able to better contribute to policy making processes across a number of countries. FinMark Trust aims to implement FinScope consumer surveys in all countries in the Southern Africa region by 2015. FinScope Small Business surveys are planned for Malawi, Mozambique and Zimbabwe in the coming year. The South Africa Small Business survey will be launched in September, and implementation is underway in Tanzania. Since FinScope surveys have been widely acknowledged as key to understanding consumer behaviour, the demand for extending their implementation beyond Africa has increased substantially.

Consumer financial vulnerability is an issue that confronts us on a daily basis. Although it is such a contemporary topic, there was no measure in South Africa to understand the extent and distribution of consumer vulnerability in South Africa. FinMark Trust commissioned the Bureau of Market Research to construct a Consumer Financial Vulnerability Index, which is used widely by both the public and private sectors.

Given that consumer financial empowerment seeks to create an environment in which consumers can make better informed decisions, the focus during the financial year was to develop tools to measure financial capability and unpack FinScope data to support this understanding. In this regard, a core set of financial capability questions have been incorporated in FinScope surveys and a number of questions and approaches to test financial capability were developed. The questions were included in the 2009 FinScope survey in South Africa and a financial literacy index was constructed from the survey results. FinMark Trust will be piloting a core set of questions in three countries to ensure that these are applicable in different environments.

With regards to financial literacy programs, a Money Advice Association was established in partnership with the department of Trade and Industry, African Bank and the Credit Information Ombud. A pilot project to offer money advice services to low income earners is being implemented in Gauteng, Western Cape and Kwazulu Natal.

Research has demonstrated that housing finance is integral to economic health and growth. The Centre for Affordable Housing Finance in Africa, a division of FinMark Trust, aims to be recognized as a primary source of information relating to access to affordable housing finance in Africa. Its work focuses on three areas, namely: understanding the housing asset, exploring housing finance innovation and understanding housing finance in Africa. In order to influence policy and promote ways to make housing finance and property markets work for the poor, the centre will continue to commission research and actively engage in debate and dialogue with key stakeholders throughout the world.

The role of insurance in covering risks particularly for the poor can never be underestimated. FinMark Trust has continued to focus its work in the South African market, across the rest of Africa, and participating in the international network and dialogue on microinsurance. FinMark

Trust completed a study on the cost drivers of medical schemes in South Africa and how to make insurance more affordable to include more South Africans. FinMark Trust supported the development of a microinsurance market in Zambia and in collaboration with the International Labour Organisation, a Technical Advisory Group was established.

In actively supporting the Access to Insurance Initiative (A2ii), FinMark Trust contributed to the design of its institutional and governance structure, a crucial component in securing funding commitments, with FinMark Trust represented on the board. Funding agreements have already been negotiated with international development agencies and studies on the Chinese and Mongolian markets are planned for the latter part of 2010.

FinMark Trust will continue with its research on understanding consumer's decisions on the purchase of insurance products, support the National Treasury in refining its design of a new regulatory framework for microinsurance and help the South African Development Community (SADC) and its insurance regulators identify opportunities in microinsurance.

FinMark Trust has worked in the area of retail payment systems in addressing the barriers to small-value remittances from South Africa. Research has identified four main barriers to the flow of remittances: the cost of transfers, anti-money laundering/ combating the finance of terrorism legislation, foreign exchange controls and immigration controls.

The Trust has added rural and agricultural finance as a new area of work in the coming year. The work will initially focus on conducting scoping studies in a number of countries in Southern Africa, which will be used to drive engagement with policy makers and regulators in this area. The establishment of the regional financial integration unit will also be a key focus area in the coming year, in line with the broader remit of the Trust.

We are also very pleased to launch the new FinMark Trust brand identity which extends to all aspects of our projects and activities. It is critical that FinMark Trust remains relevant and vital as we evolve and progress. We believe that our new brand identity demonstrates our catalytic role and will help in giving us a forward-looking persona in support of our mandate.

It is evident that while financial sector polices are at the centre of debate, the financial crisis has had an impact on the pace in which change to support inclusion and reduce the stark poverty levels is taking place. Africa's financial systems are still characterised by limited outreach and given the importance of financial services for economic development and poverty eradication, FinMark Trust recognises that there is still much work that needs to be done in the coming years.

I would like to thank our chairman and the board of trustees for their guidance and support in my first year as CEO. Their wealth of experience and shared passion for our mandate has clearly contributed to the success of FinMark Trust over the years, and I feel privileged to have been given the opportunity to lead FinMark Trust in addressing the challenges that we face in the financial services sector across Africa. I would also like to thank DFID for supporting the work of FinMark Trust and agreeing to a new five year program for the Trust.

Finally, I would like to extend my personal gratitude to the FinMark Trust team and theme coordinators, as well as to our business partners and service providers for their hard work, dedication and support. It is due to their tenacity that we have been able to deliver amidst the complexities of constant change and difficult economic conditions over the past year. I am excited by the prospect of further progress in fulfilling our mandate in a sustainable way, in support of making financial markets work for the poor.

Maya Makanjee
Johannesburg
July 2010

FINSCOPE

Research head: Irma Grundling

FinMark Trust developed FinScope, an evidence-based research tool aimed at filling the information gap in financial markets within most developing countries. Typically a FinScope survey has been demand-side focused, giving an overview of levels of financial inclusion, describing the landscape of access in terms of products being used, identifying the need for financial services as well as the barriers to financial inclusion.

However, a demand-side perspective alone is not adequate and the Information and Research Support team focused on enhancing the FinScope offering. The year under review therefore saw the adoption of a supply-side component into FinScope surveys. The supply-side component comprises an assessment of financial products (formal and informal) available in the market. For formal financial products, the survey provides insight into the geographical distribution, target markets as well service costs and requirements.

Focus was also placed on moving towards enhanced comparability of FinScope surveys across countries and tracking change and impact of interventions over time. In order to achieve this, a comprehensive framework for the survey instrument was developed and implemented. This framework is aimed at providing a better understanding of the livelihoods of individuals, their capacities and vulnerabilities, and the need for and utilisation of financial services and products against this understanding. It further provides the opportunity to gain insight into the type and extent of interventions needed that would lead to improved livelihoods in different market segments.

Based on previous experience regarding the uptake of FinScope data and findings, a more enhanced framework for analysis was adopted with the aim of understanding the formally unserved (i.e. those not using financial products provided by formal financial institutions). A series of workshops were conducted in different countries using this framework of analysis to identify the need for the development of interventions for governments and donors, as well as product innovation in different market segments.

Following the launch of the FinScope Mozambique survey results in 2009, workshops were conducted with the Mozambican banking sector to assist in indentifying opportunities for product innovation and increased inclusion. A combined workshop was also held with the government, donor and development sector to identify needs for development and policy interventions. In Malawi, a workshop was held with the banking sector to facilitate the development of a financial sector charter. In order to assist in the assessment of the Financial Sector Development Plan interventions since 2005, workshops were also conducted in Zambia. These workshops focused on an assessment of the extent of change in financial inclusion since the first survey. The analysis assessed which interventions were successful in terms of increasing financial inclusion, as well as why certain interventions did not have the intended outcomes.

FinScope surveys have been implemented in 13 African countries, namely, Lesotho (pilot survey in 2003), Swaziland (pilot survey in 2003), South Africa (2003-2009), Namibia (2004, 2007) Botswana (2004, 2009), Zambia (2005, 2009), Tanzania (2006, 2009), Kenya (2006, 2009), Uganda (2006, 2009), Rwanda (2008), Malawi (2008), Nigeria (2008, 2010) and Mozambique (2009). It has also been implemented in Pakistan in 2006, and is currently being implemented in Ghana.

The year under review saw the launch of the FinScope South Africa 2009 survey results in November. This year FinScope South Africa will include the livelihoods framework when the results are launched in November 2010. The FinScope Small Business Survey for South Africa will be launched in September 2010. The FinScope Uganda results will be launched in August 2010, which will be followed by the launch of the Ghana results in September 2010. The results for Mozambique were launched in May 2010, while FinScope Zambia was launched in July 2010. The FinScope Zambia Business survey results were also launched in July 2010, with the launch of the Access to Finance survey in Nigeria being planned for November 2010. The FinScope Tanzania 2010 Small Business survey is currently underway.

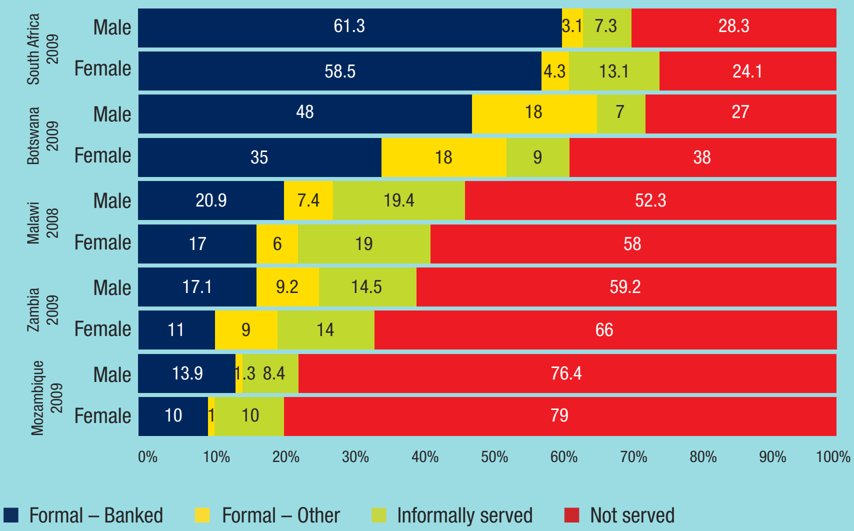
As cross-country comparisons of survey data on financial inclusion within a region could play a significant role in contributing towards greater harmonisation, cross-fertilisation and regional integration around financial policy, FinMark Trust aims to implement FinScope surveys in all countries in the Southern Africa region by 2015.

Although the focus of FinMark Trust remains making financial markets work for the poor in Africa, the value of a FinScope survey has been widely recognised and the demand for its implementation has increased significantly globally. There is interest in implementing FinScope surveys in Asia (Afghanistan, Bangladesh, India, Nepal and Sri Lanka) to build on the successful implementation of FinScope Pakistan. Discussions are underway for conducting FinScope surveys in Lesotho, Zimbabwe and Mauritius and FinScope Small Business surveys in Malawi, Mozambique and Zimbabwe.

GENDER ANALYSIS

FinScope data has increasingly been used to focus on gender inequalities in terms of financial inclusion in Africa. Although it is recognised that men and women must have equal opportunity to participate in economic development, FinScope data has illustrated significant gender differences in terms of both levels of financial inclusion, and the drivers of, and the barriers to, financial inclusion. FinMark Trust will therefore continue to use FinScope data to ensure that both policy makers and financial service providers understand these differences in order to facilitate increased gender equality in terms of financial inclusion.

ACCESS STRAND PER GENDER



SMALL, MICRO AND MEDIUM ENTERPRISES

Theme coordinator: Rashid Ahmed

Small businesses play a vital role in any economy. This is especially so in developing countries where there are high levels of unemployment. Small businesses often absorb labour where, due to a lack of education and skills, there are limited opportunities of formal employment. Small businesses are typically challenged by the lack of access to finance and markets and are often constrained by the regulatory environment.

Governments often try to foster and develop small businesses through a range of interventions – from funding, to skills programmes and tax incentives. The reality is that these interventions are often ineffectual and do not accelerate the desired development and growth within the small business sector. To be more effective it is essential to implement evidence-based strategies for the sector. However, while research into small businesses is undertaken, this often does not focus sufficiently on access to finance or provide segmentation models which allow providers to effectively target and distribute financial services to particular market segments.

FinMark Trust has therefore developed the FinScope Small Business survey. The FinScope Small Business survey is a comprehensive survey to establish small businesses' financial services requirements, financial services usage, related risks and the basic challenges that these small businesses are facing. The survey aims to benchmark and highlight opportunities for innovation in financial service product delivery, and to inform policy and regulations along with government interventions designed to facilitate small business development and growth.

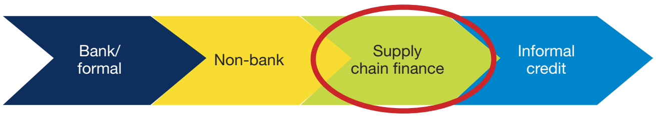
Financial diaries

To design the most effective interventions for small business by both the private and public sector, more detailed information at an enterprise level is needed to complement the broad information provided by the FinScope Small Business surveys. With this in mind, FinMark Trust commissioned a pilot study into 'small business financial diaries'.

As this was a pilot of a small number of businesses, which only ran for one month, the study could not expect to come to robust conclusions. However, even the relatively limited data created in this pilot yielded interesting insights. Businesses do not only need capital loans – in fact, very few in this sample would be candidates for a capital loan. However, they do need a short-term line of credit to weather short periods of cash flow bridging. Because small businesses usually work on a cash basis, money is on hand all the time, making it more difficult to create disciplined savings behaviour than those who receive a regular income from a job or a grant. Also, because business income is so irregular and partners are so unreliable, the need for a savings buffer is even more acute for business owners than regular income earners. Many businesses favour stokvels, particularly ones that require daily or weekly contributions as a means to save, but the partners they save with are not always stable or reliable. A safer, but equally effective savings mechanism would improve the ability of small business owners to accumulate usefully large lump sums of cash.

Supply-side studies

In the continuum of supply, (see below) financial support can come from a number of sources. The FinScope Small Business Gauteng survey conducted in 2006 reflects friends and family as the most pertinent source of income. There may yet be another source, namely, the supplier of credit. This is broadly defined as a type of finance where a large business directly or indirectly facilitates finance to a small business that operates within the supply or value chain of the big business.



Research into the South African SMME supply chain finance found that this kind of finance is widespread and has been used for more than 20 years in the mining sector. It is an effective way of granting finance and gives the SMME an important stepping stone to qualify for formal credit.

Microfinance

A review of the South African microfinance sector was carried out to systematically document the context, market size, characteristics and suppliers of the sector in South Africa. This joint initiative with the Centre for Microfinance at the University of Pretoria encompassed multiple objectives. For researchers, government, and policymakers, it provides a useful snapshot of the microfinance landscape and highlights areas of strength and areas where further support is required. For suppliers of services to the microfinance sector, it provides information on their market and their competitors which could support future strategy formulation. For the microfinance institutions themselves, it provides a rich profile of the strategic context within which they operate.

CREDIT MARKETS

Theme coordinator: Rashid Ahmed

Consumer financial vulnerability is a topic that confronts us on a daily basis through the media, research, commercial and central bank reports, credit bureaux records and daily communication between customers, colleagues, friends and family. Although it is such a contemporary topic, there was no measure in South Africa to understand the extent and distribution of consumer vulnerability in South Africa. For this reason, FinMark Trust initiated a project to establish a Consumer Financial Vulnerability Index (CFVI) for South Africa, which was launched in July 2009, with the Minister of Finance Mr Pravin Gordhan providing the keynote address. The index was developed by the Income and Expenditure Research Division of the Bureau of Market Research (BMR) at Unisa.

The relevance of this study was evident not only from media, investment company and government interest, but also keen international interest from central banks and academic institutions. The involvement and interest in the subject matter has created excitement and will contribute to intellectual discourse and policy formulation and planning within the broader financial industry.

The CFVI is constructed quarterly from a survey that collates financial vulnerability information from a group of key respondents. These respondents hold positions in banks, retailers, municipalities, credit bureaux and other organisations that track account payment behaviour of consumers.

A CFVI must reflect the overall vulnerability of a consumer, but also capture the different dynamics influencing a consumer's profile for income, savings, expenditure and debt. The overall CFVI and sub-indices are based on a 10-point scale where 0 indicates total financial security and 10 indicates total financial vulnerability.

0 – 1.99	2.0 – 3.99	4.0 – 5.99	6.0 – 7.99	8.0 – 10
Financially very secure	Financially secure	Somewhat financially vulnerable	Financially vulnerable	Financially very vulnerable

The overall CFVI index decreased from 5.17 in the fourth quarter of 2009 to 4.66 in the first quarter of 2010 (see below). From this it is evident that South Africans remain vulnerable although they are becoming less so as the economy starts to recover, incomes start to increase and consumers become better able to service their debts. Overall, the results indicate that the recession gave rise to increasing levels of vulnerability from the second to third quarter of 2009, with consumer financial vulnerability declining in both the fourth quarter of 2009 and the first quarter of 2010.

Consumer financial vulnerability results 2009/2010	Second quarter 2009	Third quarter 2009	Fourth quarter 2009	First quarter 2010
Savings vulnerability	5.74	5.90	5.40	4.60
Expenditure vulnerability	5.54	5.45	5.26	5.33
Debt servicing vulnerability	4.37	4.76	4.51	4.32
Income vulnerability	5.64	6.03	5.81	4.88
Overall CFVI	**5.17**	**5.49**	**5.17**	**4.66**

The highest levels of vulnerability were seen during the third quarter of 2009. This quarter was characterised by nearly half a million jobs being lost, growth in bank deposits declining by a record 9.1%, inflation in housing and utilities reaching 17.8%, unsecured credit transactions growing by 16.8%, household gross earnings declining by 2.6% and 44.9% of credit active consumers having impaired credit records. During the fourth quarter of 2009, things started improving with fewer job losses, some decline in the price growth rate of foodstuffs, housing and utilities, and positive real growth in both gross earnings and gross national income for the first time since early 2009. The positive news continued during the first quarter of 2010 with a growing percentage of key informants reporting that the employment, income and saving situations of consumers had improved as well as consumers' ability to service debts, make ends meet and cover emergency expenses.

From macro-economic forecasts, there is consensus that 2010, in financial terms, will be a far better year for consumers than 2009. At least two of the four sub-indices of the CFVI should show marked improvements during 2010, namely the income and expenditure vulnerability sub-indices. The debt and savings sub-indices will not only be determined by macro-economic dynamics in South Africa, but largely also by consumer behaviour. Other studies show that consumers will probably not adapt their credit and savings behaviour significantly during 2010, giving rise to still relatively high levels of savings and credit vulnerability.

PAYMENT SYSTEMS

Theme coordinator: Doubell Chamberlain

One of the ways in which African countries are tied into the global economy is through the wages earned by their citizens while working abroad. These earnings, when sent home, make up a significant portion of many countries' foreign exchange earnings. African households depend on remittances to provide a critical source of income as well as a social support mechanism. Cross-border and domestic money transfer and payment systems can have a major impact on the livelihoods of low-income households by allowing funds to move to where they are needed. According to the World Bank, Africa received over $17.8 billion in workers' remittances in 2005. Financial transfers across borders are still, to a large extent, carried out by money being physically carried to its destination. Increasingly, however, transactions are occurring electronically and via innovative mobile technologies.

Part of the focus of this theme area is to facilitate regulation that manages payment systems risks, but also makes it possible to introduce new models and technologies that expand financial inclusion.

Over the past year, FinMark Trust's work in the area of retail payment systems in South Africa has concentrated on addressing barriers to small-value remittances into the region. Research by FinMark Trust has identified four main barriers to the flow of remittances: the cost of transfers, anti-money laundering/combating the financing of terrorism (AML/CFT) legislation, foreign exchange controls, and immigration control.

Cost of transfers: The findings from a database of remittance prices worldwide, built up by the World Bank since 2008, shows that formal remittance channels from South Africa are amongst the most expensive in the world, taking four positions on the bottom five ranking of most costly corridors.

AML/CFT: Exemption 17 to the Financial Intelligence Centre Act (FICA) simplified customer due diligence requirements on smaller value accounts and transactions and thereby facilitated the Mzansi account rollout. This exemption did not, however, extend to cross-border transfers and only allowed account-based transfers within the Common Monetary Area.

Foreign exchange controls: Exchange control does not prohibit remittances as South African residents are allowed to send gifts of R30 000 a year outside the Common Monetary Area, enough to accommodate low-income remittances. However, the way in which exchange controls are applied creates barriers. In particular, strict requirements to identify the sender of funds exclude those who do not have a physical address. Also, the restriction of institutions without authorised dealer licenses, usually only granted to banks, limits the entry of more service providers. Finally, strict reporting system requirements place an undue burden on providers, raising their compliance costs, resulting in a higher cost of transfer.

Immigration control: The Immigration Act 2002 also places obligations on financial institutions. Section 45 of the Act, together with its regulations, places a legal duty on financial institutions, to 'endeavour to ascertain the status or citizenship of the persons with whom they enter into commercial transactions (including money transfers)… and shall report to the Department any illegal foreigner or any person whose status or citizenship could not be ascertained'. This excludes documented migrants without valid work permits from the formal financial system.

The South African Reserve Bank (SARB) has publicly recognised the high cost of transfers as a major problem and is committed to addressing this. National Treasury also acknowledges the importance of the remittance sector and is engaging with both SARB and FIC on potential solutions. FinMark Trust is using this policy window to engage with SARB and National Treasury in exploring potential solutions. Two inputs were developed to support the regulators' dialogue. The first document summarises the existing evidence on the regulatory barriers to remittances. The second document reviewed the international precedents around AML/CFT exemption frameworks for cross-border transfers and made suggestions on a potential framework for South Africa. An AML/CFT exemption for cross-border transfers is expected to be developed in the coming year. FinMark Trust will continue to engage with role players to support this process and to address the remaining barriers.

FinMark Trust's regional work focused on understanding the remittance corridor between South Africa and Zimbabwe. Economic circumstances changed remittances flowing between South Africa and Zimbabwe to an almost 100% commodity-based system during the last few years of Zimbabwe's economic crisis. For example, instead of sending money, many migrants resorted to buying groceries and other basic goods to carry across the border. FinMark Trust's work highlighted the difficulties and costs of this shift from financial flows to commodity transport. The trend has started to reverse and remittances were slowly changing back to financial flows by early 2009. This work will form the basis for potential pilot projects in other countries in the region, building on the policy work done in South Africa.

NEW PAYMENT SYSTEMS IN SOUTH AFRICA

Three new payment systems were announced in late 2009 and early 2010 which are likely to invigorate the South African retail payment space – PayPal South Africa, First National Bank's (FNB) eWallet, and M-PESA. PayPal is focused on international e-commerce and online purchases and transfers. FNB's eWallet and M-PESA both hold promise for expanding the potential for financial transactions by South Africa's unbanked population.

With PayPal it is possible to make and receive payments for goods and services sold online without sharing credit or debit card numbers or bank account information. First National Bank accounts are, at present, the only bank accounts linked to the PayPal transaction system. PayPal is a standard payment system for e-commerce around the world. The service is already offered in more than 190 countries and territories around the world, and South Africans now have access to this extensive network. This is a boost for both small businesses and individuals. Small businesses can benefit from access to the international online market for their goods and services, and individuals can benefit by having greater access to goods sold on sites such as the online auction site, Ebay. The South African Rand is not yet a supported currency, and therefore, all FNB accounts must be US dollar accounts. Also, due to SARB exchange control regulations, all incoming funds are required to be withdrawn within 30 days and users will be required to disclose the purpose of their transactions.

On 30 March 2010, Vodacom and Nedbank announced a new joint initiative to bring the Kenyan mobile money transfer system, M-PESA, to South Africa. M-PESA is already being used by more than 15 million people in Kenya, Tanzania and Afghanistan to transfer money from one person to another using a cellphone. In its current markets in Tanzania and Afghanistan, M-PESA uses a network of agents around the country to open accounts, accept deposits and handle cash withdrawals.

In November 2009, FNB launched a service called eWallet which allows FNB account holders to send money to anyone with a South African cell phone. The recipient of the funds can withdraw cash from an FNB ATM without being a customer of that bank. The service is similar to Absa's CashSend product, launched in 2008. However, with eWallet, the recipient can also choose to use the money to buy airtime or send the money on to someone else. The service is being offered free of charge till July 2010, and FNB reports that over R1 million is being sent daily via eWallet. The bank says that typically the funds are sent from urban areas to customers' families in rural areas.

Sources: First National Bank, 2010; Fin24.com, 2010; and Mybroadband.co.za, 2010

INSURANCE

Theme coordinator: Doubell Chamberlain

Insurance companies and regulators around the world are realising the benefits of providing insurance for people who are traditionally unserved or underserved. By protecting people and families from shocks and risks, such as damage to property, illness and death, insurance can help prevent households from falling into poverty. Expanding these markets beyond the small traditionally served market also benefits the industry by boosting premiums and ultimately profits.

Over the past eight years, FinMark Trust has undertaken groundbreaking work on making insurance markets work for the poor. In the year under review, FinMark Trust continued to focus its work in three main areas: the South African market, engagement across the rest of Africa, and participating in the international network and dialogue on microinsurance.

People's decisions to buy and renew insurance products are influenced by various factors. In developing and extending insurance products to the low-income market, it is important to understand how factors such as client interaction and distribution channels affect these decisions. FinMark Trust, through a partnership with a South African insurance company and Poverty Action Lab, has developed an experimental design to understand the determinants of purchase decisions by comparing how different ways of communicating with clients (e.g. frequency of client SMSs) affect clients' willingness to continue paying for insurance. The results of these experiments are expected to be available by the end of 2010.

Other work in South Africa included understanding the role of cell captives and the cost drivers of medical schemes. In the insurance context, a cell captive, also called the 'promoter-cell', is a long or short-term insurer that is registered to sell a separate class of shares to groups or organisations that do not need to obtain a licence of their own. A cell owner in effect buys or 'rents' a part of the cell captive's insurance licence. There are examples where self-insuring entities, such as funeral parlours, have moved from managing their risks through a cell captive arrangement to formalise their risk carrying, and then applying for their own full insurance licence once they have gained experience in managing insurance risks. The cell captive mechanism therefore presents a useful graduation route, which is crucial in a country with high levels of informal insurance. FinMark Trust commissioned a study to review the use, performance and risks of cell captives in the South African insurance (and specifically microinsurance) sector. The Trust's interest is two-fold: firstly, to ensure that new regulation does not unnecessarily undermine the good use of these captives in market development; and secondly, to develop a case study on the use of cell captives as input into the international debate.

A study on the cost drivers of medical schemes in South Africa was undertaken to understand how these drivers can be contained to make health insurance more affordable and include more South Africans. The cost analysis of medical schemes from 1997 to 2007 showed that medical scheme costs grew at a rate of 5% in excess of CPIX, the official measure of inflation excluding mortgage bond costs, during this period, and 4% in excess of general medical price inflation. The main drivers of medical scheme costs are hospital fees, medication and specialist fees. The study also highlighted the growing awareness of Prescribed Minimum Benefits (PMB) and how increasing PMB claims as a result are making medical schemes unaffordable. The study also focused on a number of lower cost schemes that have managed to contain costs through different strategies. The study findings were released at a time when the issue of the increasing costs of medical schemes was particularly prominent.

Engagement in the rest of Africa included supporting the development of a microinsurance market in Zambia. In August 2009, following the completion of our study on microinsurance, FinMark Trust and the ILO facilitated the establishment of a locally-based Technical Advisory Group (TAG), which comprises representatives from the insurance, brokerage, microfinance and banking industries, together with the Pensions and Insurance Authority, the Bank of Zambia and the Ministry of Finance. The TAG meets bi-monthly and is tasked with promoting the development of microinsurance in Zambia. This is being achieved through the implementation of a collectively agreed strategy that aims to improve the regulatory environment for microinsurance, to build awareness among low-income groups on the benefits of risk management, and to strengthen the capacity of providers to better serve the needs of these low-income groups. This regional engagement serves as a valuable case study for effective stakeholder engagement in the achievement of a common goal. The Zambia microinsurance strategy is expected to be officially launched in late 2010, at a time when new microinsurance products have already been designed and tested in the market.

FinMark Trust has been actively involved in the Access to Insurance Initiative (A2ii), which was officially launched in Rio de Janeiro during the annual International Association of Insurance Supervisors' (IAIS) conference in October 2009. This global programme is aimed at enhancing broad-based, demand-oriented and sustainable access to insurance for low-income clients; thereby growing financial inclusion in the insurance sphere. As part of FinMark Trust's support for the initiative, we helped design its institutional and governance structure, which was crucial in securing funding commitments. FinMark Trust is represented by its CEO on the board as a founding organisation. The initiative has already negotiated funding agreements with a number of international development agencies, and studies on the Chinese and Mongolian microinsurance markets are planned for the latter half of 2010.

FinMark Trust also participated in the Munich Re Microinsurance Conference in Dakar, Senegal in November 2009, where the Trust presented the experiences of a number of alternative microinsurance distribution models. In addition, FinMark Trust co-hosted a workshop for insurance regulators of developing countries on the regulation of microinsurance.

In the coming year, FinMark Trust will continue to focus on better understanding consumers' decisions on the purchase of insurance products, support the South African National Treasury in refining its design of a new regulatory framework for microinsurance, and help the South African Development Community (SADC) and its insurance regulators identify the opportunities in microinsurance. The Trust will also continue to engage in international dialogue on microinsurance and its development impacts, as well as continue to contribute to the A2ii.

HURDLES TO MOVING OUT OF THE INFORMAL SECTOR INTO THE FORMAL SECTOR

In March 2010, Cenfri met Patricia Khumalo* from Naledi* Burial Society at a meeting for burial societies regarding the National Treasury's proposed regulatory framework for microinsurance. Patricia's story illustrates the difficulties that informal burial societies have in engaging with the formal insurance sector.

Naledi Burial Society started in 2003 with 15 members, all of whom are women who live in the Soweto area. The society currently has just over 40 members, ranging in age from 40 to 75 years. Most of them are employed and work in the Johannesburg central business district.

Naledi managed its burial expense risks on an informal basis through monthly contributions by members with a pay-out on the death of a member or any of his or her registered family members. In February 2009 the society decided to sign up for a burial scheme with Orion*. Orion is a company underwritten and guaranteed by ABC* Insurance Company, whose core business is funeral aid (funeral insurance). According to the ABC Insurance Company website, the payout by Orion on the death of an insured life is R3 000. Furthermore, this burial scheme allows each member to include five children (under 21) and five adults on the policy. One of the reasons Naledi considered it be a good insurance offering is that the policy covers a generous number of lives.

Initially, members paid an affordable premium of approximately R50. However, in March 2009, without warning or explanation, the premium was increased to R80. Orion further increased its premium in March 2010 to R120.

Naledi approached Orion about the increased premiums and the fact that their pay-out had remained the same. Orion responded by saying they had numerous claims from other burial societies and Naledi would have to bear this burden, even though its members had not claimed as frequently as other burial societies. The society has claimed only once since they had joined the scheme.

The burial society feels that this is unfair and would like to see either an increase in their level of cover under the policy, or reduced premiums. Naledi is continuing to engage with Orion on this matter to seek recourse.

Pseudonyms have been used to protect the identities of people and organisations.

HOUSING FINANCE

Theme coordinator: Kecia Rust

The past year has demonstrated how integral housing and housing finance markets are to economic health and growth. Although the sub-prime mortgage crisis was limited primarily to the mortgage markets of the US and the UK, the resulting crisis reverberated around the globe. This has called attention to the critical role that housing and housing finance plays in the economy of countries, as well as household opportunities for growth and the risks of negative equity.

Housing is the most important component of personal wealth in many countries. When housing markets work, housing is a key driver of household investment decisions, wealth, and consumption patterns. As property values rise, access to housing finance can drive household consumption, which can contribute towards macroeconomic growth while also supporting improved livelihoods. Even when housing markets don't work, housing continues to be the most substantial investment that most households will ever make in their lifetime, and many of the financial decisions that a household makes continue to be influenced in some way by their housing circumstances.

Maximising the performance of the housing asset and the market it operates in, as well as enhancing the efficiency of its financing, are therefore critical to a growth and inclusion agenda, and making markets work for the poor.

While the wide field of housing finance and property economics is highly developed in other parts of the world where national governments measure their performance on the basis of key housing indicators, it has received little attention in Africa. There is little data and research on the demand and supply sides of housing finance, the performance of housing markets, and the role of these in economic growth and development. Other than research reports prepared for the World Bank or International Finance Corporation missions, very little independent analysis has considered the state of challenges with, and opportunities for growing housing finance in Africa. While data appears to be less of a problem in South Africa, the performance of housing finance and property markets at the bottom 85% of the population receives little attention. Without this data, governments and private sector bodies cannot effectively target their interventions and enhance the performance and opportunities of their housing markets.

During the year under review, the housing finance theme area reframed itself as the Centre for Affordable Housing Finance in Africa, a division of FinMark Trust, to address this gap in data and analysis. The vision of the Centre is that housing finance practitioners, government policymakers and consumers throughout Africa have the necessary information and analysis to enable sound and productive choices for the benefit of the poor and financially excluded. The Centre aims to be recognised as a primary source of information and debate relating to access to affordable housing finance in Africa. Its work focuses on the following three areas: understanding the housing asset, exploring housing finance innovation, and understanding housing finance in Africa.

Understanding the housing asset: This involves research on the dynamics of the property market at the lower end of the income pyramid, as well as alternative ways in which the housing asset can perform for its owners as a social asset, a financial asset, or as an economic asset providing income-earning opportunities.

The Affordable Land and Housing Data Centre (al+hdc) initiative has been developed in partnership with Urban LandMark, Lightstone (a property strategy consulting firm) and Eighty20 (a management consulting firm). It will focus on property market transaction data in areas where the average value is less than R500 000 (about $66 000). This will enable researchers to determine the average property transaction price in an area, the extent of loan financing, the rate of churn and other factors, while also offering insights into the socio-economic dynamics underlying the property data. The al+hdc will be launched in the second half of 2010.

Exploring housing finance innovation: The Centre has considered the housing finance access frontier* for mortgage, pension-backed and unsecured lending in South Africa. The access frontier research also considered loan performance in the Financial Sector Charter target market**. Using this information, the centre worked closely with the Department of Human Settlements in South Africa to consider housing finance policy options that might better support the country's housing challenges.

Across Africa, affordability of mortgage finance is restricted to a small minority of people. For this market, housing microfinance is more relevant. The Centre commissioned research into the potential demand for housing microfinance in Africa, and into the role of housing support services in supporting the development of sustainable housing microfinance in five Southern and Eastern African countries. On the supply side, the centre also commissioned research into the role of pension assets in housing delivery. Our work in this broad area of innovation has been presented to the UN Habitat's 22nd Governing Council Meeting in Nairobi, Kenya; and to the World Urban Forum in Rio de Janeiro, Brazil.

Understanding housing finance in Africa: The Centre has been exploring different housing finance systems in Africa, establishing a library to support innovation and market development with a focus on those traditionally excluded. Work so far includes housing finance sector studies in 10 countries (Zambia, Botswana, Kenya, Uganda, Namibia, Rwanda, Mozambique, Ethiopia, Angola and Malawi); and research into finance mechanisms for informal settlement upgrading in Zambia. The findings of this survey were debated with industry stakeholders at a forum in Lusaka in March 2010, alongside regional research on challenges and opportunities for housing microfinance in Africa.

Housing finance is multi-sectoral and its performance is largely dependent on the wider macroeconomic, and sometimes also political, environment. The Centre is working to ensure this complexity is fully appreciated and considered in policy development and product innovation. An important aspect of this work has been our focus on professional development, which we have done in collaboration with the Wharton School of Businesses' International Housing Finance Programme and the Wits Business School, by offering a one-week course on housing finance for practitioners in Africa.

As an evidence-based advocacy body, the Centre will continue to commission research, disseminate this, and actively engage in debate and dialogue with key stakeholders all over the world, to identify and promote ways to make housing finance and residential property markets work for the poor throughout Africa.

**The access frontier approach segments the market for products into four groups: those who now use it, those who could have it but don't want it, those who do not have access today but could do so in the absence of certain constraints, and finally, those outside of the reach of the market because they are simply too poor.*

***The Financial Sector Charter was a voluntary agreement among all financial institutions in South Africa and other stakeholders, including government, labour and community groups, which had financial inclusion as one of its objectives.*

KEY INSIGHTS

Tanzania (James Mutero, 2010)

"…nearly 70% of Tanzanians have monthly incomes below TZS 200,000 (US$ 150) and cannot therefore afford conventional, mortgage housing loans; and it is unlikely that the 47% with monthly incomes below TZS 50,000 (US$ 38) can afford housing loans of whatever kind if only current income is taken into account. A full 28% of the adult population do not or cannot make reliable statements about their personal income."

Malawi (Lauren Thompson and Jason Agar, 2009)

"There are three clear segments with different housing demands and housing finance needs: the middle to high income earners who buy plots of land and self-build or who buy finished houses within planned, regularised urban locations. They typically qualify for mortgages or save and build incrementally over time until they have a structure which is mortgageable; the lower middle and low income earners living in urban/peri-urban areas who rent in high density settlements or who secure a plot of land (often not regularised) and build incrementally. They need unsecured housing loans or access to smaller-sized home improvement loans; and the low income earners/ subsistence farmers living in rural areas on customary land who build incrementally. They need material loans to build their houses incrementally or maintain them in line with their seasonal income flows."

Housing Microfinance in Africa (Michael Kihato, 2009)

"HMF loan arrangements often need to involve housing support services, especially if scaling up is to be achieved. These are for a wide range of issues including land acquisition, securing tenure and services, housing design, construction, materials and consumer education. This approach is increasingly emerging as an important part of realising a sustainable housing outcome. Sometimes, housing support services are offered on the basis of a partnership between the microlender and a local shelter NGO."

Statement to UNHabitat's 22nd Governing Council Meeting (Kecia Rust, April 2009)

The demand for housing microfinance in Africa is estimated "somewhere in the region of between \$3,6bn to \$7,6bn and this is just for the first loan, and just for urban households in Africa. This off the back of loans that are generally less than \$1 000 and repayable over about three years is not like the \$30 000 to \$50 000 commitment over twenty years that a mortgage loan implies. Housing micro loans have a tendency to repeat as the household realises over and over again what more they need to do with their home… the potential demand stream is endless. Not a bad business if you're an investor, and a great way to get the private sector participating in low-income housing."

CONSUMER FINANCIAL EMPOWERMENT

Theme coordinator: Astrid Ludin

The main value of the exercise was obtaining a better understanding of what data is required to construct a suitable index and to replicate this in other countries.

Consumer financial empowerment is important for sustainable market development, as it seeks to create an environment in which informed consumers can make appropriate product choices. Consumer financial empowerment is made up of three distinct but interrelated components, namely, consumer rights, consumer recourse and consumer financial capability.

The strategic focus for the theme area during the financial year was to develop tools to measure financial capability and to unpack FinScope data to support that understanding. FinMark Trust has adopted the five main indicators for financial capability applied in the United Kingdom and elsewhere, as shown in the table below.

Financial capability indicators

Dimension	Description
Keeping track of money	Manage money competently
Making ends meet	Live within means (resist pressure to spend) Budget Use credit if you can afford it
Planning ahead	Provide for unexpected events Provide for expected events Long term (e.g. retirement) Short to medium term
Choosing and using financial products	Aware of products that are available Shop around for best products Select best option
Accessing and using information and advice	Make sure you are well informed Find advice if you need it Know where to turn for protection

A number of countries have conducted large baseline studies to establish levels of financial capability. As these surveys are quite costly, a limited number of countries can carry them out. Although FinScope surveys do have questions about financial capability, the questions do not test actual knowledge. They also need to be asked consistently across all the surveys and need to be reviewed to ensure that all the dimensions that make up the financial capability indicators are adequately measured. To this end, FinMark Trust has suggested constructing a core set of financial capability questions to include in FinScope surveys, but which could also be used in other mini-surveys.

A number of questions and approaches to test financial capability were developed. Some of these questions were included in the latest FinScope survey in South Africa and the results of the survey were used to construct a financial literacy index. In developing the index, some constraints were revealed, specifically in the Making Ends Meet dimension, arguably the greatest challenge facing South Africans. Not only was the data incomplete with a large number of 'not applicable' answers, but also, as we have known for some years, credit use was under-reported. Although the questions around credit have changed over time, and the data now gives a better picture of credit use, under-reporting by consumers continues to take place.

The main value of the exercise was obtaining a better understanding of what data is required to construct a suitable index and to replicate this in other countries. The next step will be to pilot a core set of questions in three countries to ensure that the questions are applicable in different environments.

Financial literacy strategies

An increasing number of countries have adopted financial literacy strategies, including Australia, Brazil, Canada, Hungary, Ireland, Kenya, Malaysia, New Zealand, Singapore, South Africa, Tanzania, Trinidad, Tobago, Uganda, the UK and the US. However, these are not always successful. Much depends on stakeholder buy-in and support. For example, although the Financial Services Board in South Africa has developed a national strategy, it has not been implemented as yet.

Although FinMark Trust was engaged in promoting a financial literacy strategy in South Africa in the previous financial year, in the past year we have focused on Namibia and Zambia. In Namibia, our role was to conduct a detailed analysis of FinScope data to provide insight into financial literacy. The data was presented to a task team, which subsequently drafted an action plan for financial literacy.

FinMark Trust was also involved in supporting the Bank of Zambia in developing and submitting an application for funding to the Financial Education Fund for the development of a financial literacy strategy. The application was successful and FinMark Trust will remain involved in the process over the next year.

Financial literacy programmes

A 2008 study on the feasibility of providing money advice for low-income people commissioned by FinMark Trust, recommended that these services be piloted in South Africa. With the assistance of the Trust, a Money Advice Association was established, in partnership with the Department of Trade and Industry, African Bank and the Credit Information Ombud. The association designed a project to pilot money advice services to low-income people at three sites. The objective was to establish one office in partnership with a non-governmental organisation, one in partnership with provincial government and one independent office, run like a private sector organisation, but with a non-profit orientation. The pilot sites are in Gauteng, the Western Cape and Kwazulu Natal. African Bank and the Financial Education Fund provided the funding. During 2009 all the necessary systems were developed and one office was established in the Western Cape. The remaining two offices will be established in 2010.

Consumer recourse

FinMark Trust published a study on the landscape for consumer recourse in 2007. The findings were disseminated in 2007 and 2008. The study highlighted gaps in the consumer recourse landscape, in particular around non-bank credit. It also highlighted the lack of coordination and jurisdictional overlaps between the various ombuds and concluded that the ombuds were largely inaccessible to low-income people. The Financial Services Board and the credit industry accepted a number of the recommendations. A process was initiated with the different ombud schemes to establish a single entry point in the form of a helpline for consumers, a process which is still under way. A second major recommendation was that the non-bank credit industry should establish an ombud scheme. After deliberations within the credit industry, it was agreed that the role and mandate of the Credit Information Ombud would be extended to include non-bank credit matters and the Financial Services Ombud Schemes Council approved the revised mandate of the Credit Information Ombud in October 2009. The Credit Ombud has been fully operational since January 2010.

Consumer rights

Consumer rights can be captured either in legislation or in self-regulatory measures adopted and enforced by industry through mutual agreement. In the financial services area, consumer protection measures are contained in prudential regulation, market conduct regulation and product regulation. Consumer protection is most commonly associated with market conduct regulation, which has traditionally focused on disclosure, marketing and advertising and unconscionable conduct provisions. Regulators around the world are increasingly considering product regulation.

A key challenge in ensuring consumer protection is to ensure that any legislative measures do not create insurmountable barriers to entry, and do not increase costs to the extent that consumer access to financial services becomes restricted. A further challenge relates to providing protection to consumers who are served through informal markets. While tiered regulation may seem appealing, it implies a lower standard of protection for the poor, which may be undesirable and often difficult to defend politically.

Many of these points were captured in a presentation prepared for World Consumer Rights Day in Nigeria in March, and will be explored further.

ANTI-MONEY LAUNDERING

Theme coordinator: Doubell Chamberlain

As more developing countries adopt financial legislation and procedures based on accepted international models and standards, concern has arisen about the difficulties of implementing some recommendations, and the effect that this may have on financial inclusion. Inappropriate implementation of anti-money laundering (AML) and Combating the Financing of Terrorism (CFT) standards may exclude the financially vulnerable and marginalised citizens of such countries from the formal financial system.

Earlier work by FinMark Trust identified and raised awareness about possible unintended negative consequences of AML/CFT regulations. These results have since been successfully integrated into the best practices of the World Bank and International Monetary Fund (IMF), the multi-lateral organisations responsible for supporting implementation and monitoring compliance globally. They have also been referenced and included in subsequent World Bank position papers, such as those considering the AML/CFT risk of mobile banking.

The World Bank and IMF also brought the results to the attention of the Financial Action Task Force (FATF), the international standard-setting body for AML/CFT. Although FATF did not formally adopt the guidelines proposed, some of our findings have been included in subsequent guidance notes that were issued for developing countries.

FinMark Trust's involvement in the area of AML has focused on two projects in the last year, namely, risk management in regulatory frameworks and the implementation of the Regulation of the Interception of Communications Act (RICA) in South Africa.

The compliance officer's dilemma

Risk-based and more flexible regulatory frameworks allow companies to tailor compliance in proportion to the risks managed. This approach is important in creating inclusion-friendly regulatory frameworks. However, FinMark Trust's AML/CFT research shows that companies often do not, or probably cannot, use the flexibility allowed by regulation that is less strict for activities that carry less risk. Instead, companies tend to implement the standards fairly conservatively. The same problem has been observed in the insurance sector, with companies implementing, for example, the Financial Intelligence Centre Act (FICA) in a more conservative manner than intended by the regulator. The problem is driven by the relationship between the supervisor and compliance officer, and in particular, how compliance officers are incentivised to avoid risk – which is known as the 'compliance officer's dilemma'. To explore potential solutions to this problem, FinMark Trust commissioned a think-piece by John Symington, who is well-known among the South African compliance fraternity, with support from Louis de Koker, a financial sector regulation expert.

Implementing RICA

The RICA legislation came into force from July 2009. The Act requires all those with an active cellphone number, or who buy a pre-paid registration pack, to register their SIM cards with their mobile service provider. SIM card owners must furnish their cellular service provider with their identity document, as well as a document linking their identity, i.e. their names, to their provided postal address (e.g. through a utility bill or television licence).

The Financial Intelligence Centre Act (FICA), South Africa's main piece of anti-money laundering legislation, had the same requirements for proving identity to open a bank account. However, because many South Africans (up to 60%) do not have formal addresses as they reside in informal settlements, rural areas, or are otherwise without official documentation of their residence, they were unable to provide proof of address and may have been excluded from the banking system. This potential negative impact was softened by regulatory guidance being issued on the requirement for proof of address for certain types of bank accounts. RICA may, if not implemented in an access-friendly way, exclude many South Africans from owning cellphones and cellphone-based services such as banking. To investigate the possible fallout of this legislation, FinMark Trust has commissioned a think-piece on the impact of RICA on access to cellphones and cellphone-based financial services. The report will be released in the latter half of 2010. The document focuses on the potential and current impacts of RICA on financial access and will be used to direct FinMark Trust's interaction with policy makers.

THE EXCLUSIONARY IMPACT OF RICA

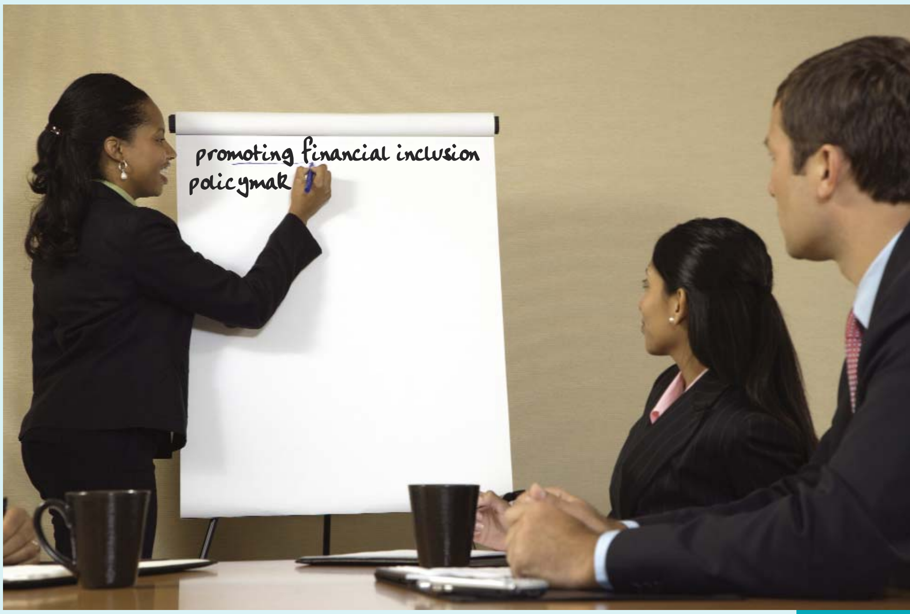
In 2005, there were 72 cellular subscriptions for every 100 people in South Africa. That number has grown to approximately 94 subscribers for every 100 people by 2010. However, in the six months following the implementation of RICA, the South African cellular phone industry has shown negative growth. It has been estimated that the industry lost nearly 3.8 million subscribers in the second half of 2009. Vodacom, the largest cellular network in South Africa, estimated that it lost more than one million customers in the final quarter of 2009 due to the SIM-card registration law. Between June and September alone, MTN lost 750 000 subscribers. The loss of subscribers during the second half of 2009 is even more dramatic when compared to the rapid growth of cellular subscriptions in South Africa in recent years, reversing the trend towards greater access to services provided through mobile telecommunications technology.

Sources: Engineering News, 2010; Business Report, 2010

FINANCIAL POLICY AND REGULATION

Theme coordinator: Astrid Ludin/Anne-Marie Chidzero

The policy and regulation theme area cuts across all of FinMark Trust's work, supporting policymakers and regulators and encouraging an explicit focus on financial inclusion, as well as identifying ways to unlock the supply of financial services. Two main areas were identified for advocacy: promoting financial inclusion policies by governments, and conducting supply-side studies to identify constraints on the supply of financial services, which in turn could assist governments with policy formulation and policy responses.



Countries in Africa are increasingly adopting financial sector development plans. These plans are broad strategies that seek to address weaknesses in the financial sector to increase its depth and resilience. Countries with financial sector development plans in place include Ghana, Kenya, Tanzania, Rwanda and Zambia. Namibia is developing a financial sector development plan, following on an earlier initiative that resulted in a financial sector charter, which touches on broader ownership issues, but also on matters such as financial education.

Few countries have chosen to develop specific financial access or financial inclusion strategies exclusively. Instead, many countries have integrated financial inclusion in the broader plan. This is desirable from a number of perspectives. Firstly, it implies that financial inclusion becomes an explicit objective of financial sector development. Secondly, it allows for an integrated approach to addressing possibly competing objectives.

FinMark Trust's engagement has been focused on Namibia, Zambia and South Africa. In Namibia, the Trust supported the Bank of Namibia in the initial stages of its plan. FinMark Trust Zambia has had ongoing interaction with the Bank of Zambia and financial inclusion has been explicitly integrated into the second phase of its Financial Sector Development Plan.

In South Africa, the Trust has been working with the National Treasury on the development of a financial access policy. To date, financial access policy has been mainly encapsulated in the Financial Sector Charter, a voluntary initiative by the financial services industry in close collaboration with community and government. However, the charter has had a difficult transition from a voluntary initiative into a code sanctioned by the Minister of Trade and Industry, and after two years, the matter has still not been resolved regarding the continuation of the charter.

Given the uncertainty about the future of the charter and the lack of a clear alternative, it is fitting that the future of the financial inclusion agenda and appropriate interventions should be debated again. To assist such a process, FinMark Trust has commissioned an assessment of financial inclusion policies and strategies since 1994. The study will be finalised by the third quarter of 2010 and will hopefully serve as a starting point for a new debate on financial inclusion and financial access policy in South Africa.

Malawi supply-side study

FinMark Trust commissioned a supply-side study into financial inclusion in Malawi in 2009. Among the barriers to financial access that were identified were that branches and outlets of financial institutions, particularly banks, tend to be concentrated in affluent areas that have better infrastructure such as electricity and telephone lines, and that the cost of opening and maintaining a bank account can be high. It is unlikely that banks will be able to change their cost structure substantially, given the limitations of technology and infrastructure. Mobile banking therefore offers great promise in Malawi, as it allows service providers to overcome the infrastructure hurdles. However, there is a need for greater information flow among different market players and for harmonisation between public and private initiatives that seek to promote better access to financial services.

The study proposes a number of interventions. These include building greater confidence in the market, providing the incentives for financial institutions to expand into unbanked markets, encouraging innovation in product development and testing new methodologies for delivering services to different target groups, and to strengthen the capacity of users to save and manage debt. The study will support the National Forum on Microfinance in developing a national strategy and action plan for financial inclusion in Malawi.

LONG-TERM SAVINGS

Theme coordinator: Rob Rusconi

At the household level, saving improves financial security because it allows people to plan financial outflows. Having savings also protects people and families against unexpected events, providing a buffer and improving the chances of surviving these shocks without the long-term financial damage that comes with the unforeseen need for high-cost credit. At a national level, the stock of saving is an indication of a country's ability to manage unexpected events without the need for often painful adjustment. Savings are considered long-term if they extend for more than a year and are expected to meet more than predictable annual events. This distinguishes the FinMark Trust focus from the equally important but shorter-term savings activity for regular outflows such as school fees or religious festivals.

Long-term savings market players

To understand the dynamics, and help formulate appropriate policy supporting the long-term savings market, the impact of players in four areas needs to be recognised: the social security system; financial services of all types; formal pension and insurance savings vehicles; and provision to the informal sector. The key to good policy development is not only strong recognition that they exist and that practitioners in each area too frequently regard their domain as pre-eminent, but that there is a wide range of actions that may be taken to bring them closer together as shown below.

FinMark Trust's work in these areas builds on earlier efforts to understand the attitudes of low-income South Africans. Research showed the importance to the poor of investing in non-cash assets such as housing and education for their children, rather than in the intangible vehicles offered by financial institutions. It also illustrated a number of rational barriers to long-term saving, among them the old age grant and its means test.

Grants in South Africa

FinMark Trust's study on the use and effectiveness of South Africa's system of social grants confirmed prior research about how powerful these grants are. They provide support to people living in poverty, their households and their communities, particularly when viewed from the perspective of the crucial social capital that plays a prominent part in facilitating an individual's place in the community. It also demonstrated that grant recipients are more likely to be involved in financial markets, with increased involvement in savings and a stronger position in accessing credit markets. The study indicates that new grant recipients (against their peers still not receiving grants) tend to borrow less from local moneylenders or formal institutions, but more from immediate family and friends, illustrating the benefit of their improved social standing.

MAMZOLI FIKILE

Elderly Mamzoli Fikile lives in the Eastern Cape countryside in South Africa, and is the matriarch of a large and geographically dispersed family. When she retired after decades of domestic work in Durban, she acquired a gas-powered freezer, which she used to augment her state pension by selling beer and meat in her village. This retailing not only provided crucial resources for a poor household, it improved Mamzoli's standing within community networks. When Mamzoli started to receive a state old age pension, her Durban-based son Simphiwe reduced his monthly remittance to her: on the face of it a classic example of a private remittance being crowded out by a public transfer. However, careful consideration of the interaction of factors over time shows that Simphiwe's reduced remittance allowed him to complete his schooling, leading eventually to a respectable occupation and an enhanced contribution to his mother and other members of his family.

A regional look at pensions

In an exercise reflecting the interests of all four areas, but particularly the formal pension environment, FinMark Trust conducted a study of provision mechanisms across the countries of the Southern African Development Community. This research, due out later in 2010, was co-funded by the Southern Africa secretariat of the International Social Security Association (ISSA), and is also supported by the World Bank, International Organisation of Pension Supervisors and the Private Pensions unit of the Organisation for Economic Cooperation and Development (OECD).

This research is expected to contribute to understanding the differences in the vehicles used across the region, highlighting the varying tendencies to use social security or privately managed vehicles, and commenting on informal vehicles. It will also add to the knowledge base about pensions around the world, including vital information about Africa.

Long-term saving at the informal level

Economic activity by people working in the informal sector is difficult to measure because these individuals are not engaged in formal employment markets and structures that link into these labour markets.

To understand this sector better, FinMark Trust has engaged with entities that facilitate saving at the informal level, such as CARE and the Village Savings and Loans Association (VSLA), which are implementing village-based savings schemes. South Africa's Sinamandla. CARE and VSLA set up self-sustaining informal savings organisations in villages across South Africa and India. Sinamandla, which works with self-help groups in a number of provinces in South Africa, encourages long-term savings of very small regular amounts in an effort to build communities.

FinMark Trust has provided Sinamandla with a research grant to assess the effectiveness of the self-help group model at mobilising savings for pre-defined needs and uplifting communities.

Support and dissemination

FinMark Trust's long-term saving focus area has been involved in ongoing policy development. The grants study was presented at a meeting of the Interdepartmental Task Team of the South African government responsible for designing and implementing the retirement reform.

At the invitation of the government and regulator of Nigeria, FinMark Trust wrote and presented a paper encouraging the development of the mandatory pension system in Nigeria to include the informal sector. This stressed the crucial importance of understanding the needs of people who cannot be reached through the formal employment sector.

Similar work was presented at the annual gathering of pension regulators in Rio de Janeiro in 2009, co-hosted by the Organisation for Economic Co-operation and Development and International Organisation of Pension Supervisors. The paper emphasised the importance of understanding the needs of many people who are not included in formal systems by virtue of their economically marginalised positions. It called on policymakers to recognise that it is not enough to create an efficient system and expect to attract those surviving in the informal sector; understanding their need for saving must precede any effort to create a vehicle designed to increase the net of participants at national level.

PUBLICATIONS

These are available on the FinMark Trust website: www.finmarktrust.org.za

Document	Author	Date
The banking inquiry and the potential impact on access to financial services for the poor	Jenny Hoffman, FinMark Trust	April 2009
Access to housing finance in Africa – exploring the issues in Mozambique	Massala Consult	April 2009
Access to housing finance in Africa – exploring the issues in Mozambique (Portuguese version)	Massala Consult	May 2009
Access to housing finance in Africa – exploring the issues in Malawi	Kadale Consultants	May 2009
Access to housing finance in Africa – exploring the issues in Rwanda	Genesis Analytics (Pty) Ltd	May 2009
Access Housing Newsletter June 2009	Kecia Rust, FinMark Trust	May 2009
Pension-secured loans – facilitating access to housing in South Africa?	Linda Sing	June 2009
Understanding housing finance in informal settlements in Zambia – socio-economic household survey	Tradeways Investments Co. Ltd	June 2009
Demand-side analysis of medical scheme coverage and access in South Africa	Eighty20 Consulting	July 2009
Small business financial diaries – report of findings and lessons learned	Bankable Frontier Associates LLC	July 2009
Housing finance for the low income population in South Africa – a market demand assessment	Development Innovations Group	July 2009
Brochure: Consumer Financial Vulnerability Index	FinMark Trust	July 2009
Report on the Consumer Financial Vulnerability Index	Bureau of Market Research	July 2009
Scoping the demand for housing microfinance in Africa – status, opportunities and challenges	Michael Kihato, SBC Consulting	September 2009
Making health insurance work for the low-income market in South Africa – cost drivers and strategies	Elixir Healthcare Business Consulting, Fifth Quadrant Actuaries & Consultants	September 2009
Increase financial access for underserved South Africans through alternative data	PERC Results and Solutions	October 2009
Investigation into collateral options for lending to micro and small enterprises	Vulindlela Development Finance Consultants, KRB Law Firm	October 2009
Brochure: Consumer Financial Vulnerability Index third quarter 2009	FinMark Trust	October 2009
Cash and Carry – understanding the Johannesburg-Zimbabwe remittances corridor	Saul Kerzner	October 2009
Insurance in the low income market in Zambia – summary report and transcripts of focus group discussions	Ruralnet Associates Ltd	October 2009
Towards a strategy for microinsurance development in Zambia – a market and regulatory analysis	Cenfri, International Labour Organization	October 2009
Brochure: FinScope Tanzania	Financial Sector Deepening Trust	October 2009
The Race to Zero: Costs and customer experiences of low-cost bank accounts in South Africa	Illana Melzer, Eighty20 Consulting	October 2009
AL+HDC Newsletter Issue 1	Kecia Rust, FinMark Trust	October 2009
An overview of old age provision in Zambia	Michael Gondo	November 2009
Brochure: FinScope South Africa	FinMark Trust	November 2009
Brochure: Financial Access Matters: Towards a strategy for microinsurance development in Zambia	Christine Hougaard, Cenfri	December 2009
Framing the financial strategy for the Human Settlements Department (executive summary)	Kecia Rust, FinMark Trust	December 2009
FinMark Trust brief: Are pension-backed loans facilitating access to housing?	Rob Rusconi, FinMark Trust	January 2010
Mobilising pension assets for housing needs – experiences in Southern Africa	Genesis Analytics (Pty) Ltd	January 2010
Reviewing the policy framework for money transfers	Hennie Bester, Christine Hougaard and Doubell Chamberlain, Cenfri	January 2010
Brochure: Consumer Financial Vulnerability Index fourth quarter 2009	FinMark Trust	January 2010
Access to housing finance in Africa – exploring the issues in Ethiopia	Meheret Aynew, edited by Richard Martin	February 2010
Sustainable housing microfinance in Sub-Saharan Africa – turning loans into homes	Rooftops Canada, FinMark Trust, Habitat for Humanity	February 2010
Report: The use and effectiveness of South Africa's social grants	PLAAS, Economic Policy Research Institute	February 2010
The use and effectiveness of South Africa's social grants (executive summary)	PLAAS, Economic Policy Research Institute	February 2010
FinMark Trust brief: South Africa's social grants – case studies	FinMark Trust	February 2010
FinMark Trust brief: The use and effectiveness of South Africa's social grants	FinMark Trust	February 2010

PRESENTATIONS

Topic	Event	Presenter	Date
Promoting affordable housing finance systems in an urbanizing world in the face of the global financial crisis and climate change: Housing Microfinance – opportunities and challenges in the current global economic environment in Africa	UNHabitat 22nd Governing Council meeting, Nairobi, Kenya	Kecia Rust, FinMark Trust	April 2009
Making insurance markets work for the poor	Wits University, Johannesburg, South Africa	Doubell Chamberlain, Cenfri	April 2009
Overview of housing finance in Malawi	UNHabitat Malawi housing sector profile stakeholders consultative workshop, Lilongwe, Malawi	Kadale Consultants	April 2009
Presentation on the Mozambique housing finance sector study (Portuguese)	Maputo, Mozambique	Massala Consult	May 2009
Towards a dedicated microinsurance regulatory framework: South African case study	Insurance Regulator's Seminar AIO Conference, Dar es Salaam, Tanzania	Christine Hougaard, Cenfri	May 2009
Competition in banking: The findings of an inquiry into the SA banking sector and lessons for Namibia	Public lecture on Competition in Banking, Bank of Namibia, Windhoek, Namibia	Penny Hawkins, FEASibility	May 2009
Opportunities and challenges in South Africa's low income insurance market	Forum for Assistant Business, Cape Town, South Africa	Doubell Chamberlain, Cenfri	June 2009
Gap markets in South Africa's housing sector	South African National Treasury pre-budget stakeholder meeting, Pretoria, South Africa	Kecia Rust, FinMark Trust	June 2009
The Consumer Financial Vulnerability Index	Launch in Johannesburg, South Africa	Carel van Aardt, Bureau for Market Research	July 2009
A view of the FinMark Trust Consumer Financial Vulnerability Index	Johannesburg, South Africa	Keith McIvor, Absa	July 2009
Making medical schemes work for the low income sector – cost drivers and strategies: stakeholder workshop	Johannesburg, South Africa	Elixir Group, Fifth Quadrant Actuaries & Consultants	July 2009
Issues on policy, regulation and innovation in making financial markets work for the poor	AFI Regional Needs Assessment workshop for Regulators, Muldersdrift, South Africa	Maya Makanjee, FinMark Trust	August 2009
Making insurance markets work for low-income households	Presentation to Mutual and Federal, Johannesburg, South Africa	Doubell Chamberlain, Cenfri	August 2009
Financial literacy in Africa – a cross-country analysis using FinScope	Promoting Financial Capability and Consumer Protection Conference, Accra, Ghana	Maya Makanjee, FinMark Trust	September 2009
Financial inclusion in Africa	AFI Global Policy Forum, Nairobi, Kenya	Maya Makanjee, FinMark Trust	September 2009
AML/CTF and its impact on financial inclusion	AFI Global Policy Forum, Nairobi, Kenya	Anja Smith, Cenfri	September 2009
Taking stock – South Africa's housing sector	Joint World Bank/Department of Human Settlement's Spatial Outcomes Workshop, Pretoria, South Africa	Kecia Rust, FinMark Trust	September 2009
Botswana consumer lending market	Gaborone, Botswana	Michael Wiegand, Standard Chartered Bank	October 2009
A brief overview of bank credit in Botswana	Gaborone, Botswana	Keith Jefferis, FinMark Trust	October 2009
Increased access versus increased indebtedness – lessons from South Africa	Gaborone, Botswana	Rashid Ahmed, FinMark Trust	October 2009
Trends in RDP and related markets	Urban LandMark Annual Workshop, Johannesburg, South Africa	Kecia Rust, FinMark Trust	October 2009
Increasing access to insurance	16th IAIS Conference, Rio de Janeiro, Brazil	Hennie Bester, Cenfri	October 2009
Enabling policies for microinsurance market development in Africa	5th International Microinsurance Conference, Dakar, Senegal	Hennie Bester, Cenfri	November 2009
Notes from the distribution frontier: Going where no insurer or regulator has gone before	5th International Microinsurance Conference, Dakar, Senegal	Doubell Chamberlain, Cenfri	November 2009
Framing a finance strategy for the Human Settlements Department: plotting a way forward	Department of Human Settlements' National Social Contract meeting, Johannesburg, South Africa	Kecia Rust, FinMark Trust	November 2009
Financial services landscape in South Africa	Amsterdam Business School Program – UCT, Cape Town, South Africa	Maya Makanjee, FinMark Trust	January 2010
Access to financial services	Workshop hosted by Financial Services Commission, Port Louis, Mauritius	Maya Makanjee, FinMark Trust	January 2010

PRESENTATIONS

Topic	Event	Presenter	Date
Access to financial services in South Africa	Presentation to Postbank, Pretoria, South Africa	Maya Makanjee, FinMark Trust	February 2010
Financial inclusion: South Africa's experience	Remittance and Financial Inclusion Conference, London, UK	Maya Makanjee, FinMark Trust and Doubell Chamberlain, Cenfri	February 2010
Access to shelter dialogue session at UNHabitat's World Urban Forum panelist	Rio de Janeiro, Brazil	Kecia Rust, FinMark Trust	March 2010
Access to financial services in Africa – Gender Analysis	African Women's Economic Summit, Nairobi, Kenya	Maya Makanjee, FinMark Trust	March 2010
Housing finance challenges: Systems and policy in Sub-Saharan Africa	Wits Business School, Johannesburg	Kecia Rust, FinMark Trust	March 2010
Expanding housing finance down-market: Microfinance for housing	Wits Business School, Johannesburg, South Africa	Kecia Rust, FinMark Trust	March 2010
Helping hands – the role and position of burial societies in South Africa	INSETA Burial Society Indaba Johannesburg, South Africa	Doubell Chamberlain, Cenfri	March 2010
International trends in microinsurance regulation	NAMFISA Namibia Microinsurance Policy Forum, Namibia, Windhoek	Doubell Chamberlain, Cenfri	March 2010

FORUMS IN BOTSWANA

Topic	Presenter	Date
The Consumer Financial Vulnerability Index	Carel van Aardt, Bureau for Market Research	October 2009
Increased access versus increased indebtedness – lessons from South Africa	Rashid Ahmed, FinMark Trust	October 2009
A brief overview of bank credit in Botswana	Keith Jefferis, FinMark Trust	October 2009
Botswana consumer lending market	Michael Wiegand, Standard Chartered Bank	October 2009

FORUMS IN SOUTH AFRICA

Topic	Presenter	Date
The future of cellphone banking – insights from Wizzit	Brian Richardson, Wizzit	August 2009
The Dinokeng Scenarios	Ishmael Mkhabela, FinMark Trust	August 2009
Challenges and success stories of expanding financial services to the underserved in Africa	Dave van Niekerk, Blue Financial Services	September 2009
The race to zero: Costs and customer experiences of low-cost bank accounts in South Africa	Illana Melzer, Eighty20 Consulting	October 2009
The Stokvel phenomena – where to from here?	Andrew Lukhele, National Stokvels Association of South Africa	November 2009
Making financial markets work: Are we achieving this objective for the lower end of the market?	Irma Grundling, FinMark Trust	February 2010
Remittances as a conduit to financial inclusion	Karen Jordaan, Western Union	March 2010

FORUMS IN ZAMBIA

Topic	Presenter	Date
Opportunities and challenges for microinsurance in Zambia	Doubell Chamberlain and Christine Hougaard, Cenfri	June 2009
Microinsurance innovation – international learning and lessons for Zambia	Doubell Chamberlain and Christine Hougaard, Cenfri	February 2010
Housing finance – strategising alternative forms of housing finance in Zambia	Sheena Carey, Tradeways and Michael Kihato, SBC Consulting	March 2010

CO-FUNDED PROJECTS

Project	Donor/Co-funding/Syndicate Member
Zambia Insurance study	International Labour Organisation
FinScope SME 2009	The State Secretariat for Economic Affairs (SECO, Switzerland) Absa bank Standard Bank Department of Trade and Industry Strategic Partners in Tourism JOBCO/Business Trust
Innovation in credit origination	Bank of Uganda, Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ)
Understanding the housing asset (Data centre)	The F B Heron Foundation Urban LandMark
Housing finance in Africa	EFInA Habitat for Humanity
AFI regional workshop	AFI/GTZ
Africa research	The World Bank
FinScope Botswana 2008/9 consumer survey	Barclays Bank of Botswana Botswana Savings Bank Botswana Life Insurance Limited Botswana Building Society First National Bank of Botswana Ltd Stanbic Bank Botswana Ltd
IAIS microinsurance regulation project	GTZ
Zambia small business survey 2008	The World Bank
Long term provision	Department of Social Development
FinAccess Survey, Kenya	Financial Sector Deepening Trust, Kenya
FinScope Tanzania Consumer Survey	Financial Sector Deepening Trust, Tanzania
FinScope SA 2009	Absa Bank FNB Smart Solutions Liberty Life Metropolitan National Treasury Nedbank Old Mutual Standard Bank Teba Bank
Financial Access Survey in Nigeria	EFInA

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