

# Why Retailers?

2 June 2014

*#WhyRetailers*  
*@Cenfri\_org*  
*@Finmarktrust*

# Agenda

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Introduction

Credit and savings

Insurance

Money transfer

Wrap up

# Agenda

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*Introduction*

Credit and savings

Insurance

Money transfer


Wrap up

# Why the interest in retailers?



←→

**Extend reach** to rural or more remote areas where existing financial services distribution points are absent



# Why the interest in retailers?



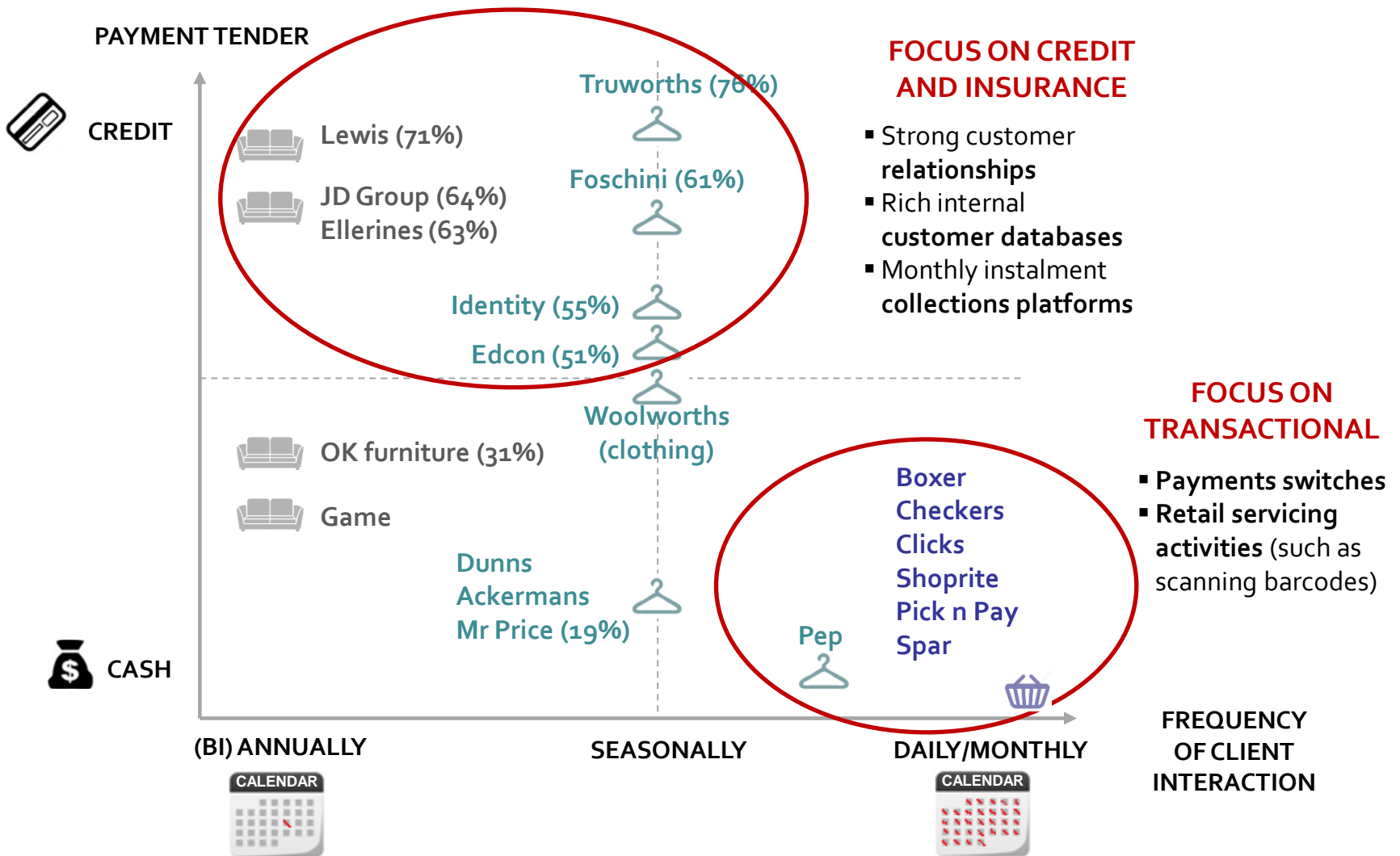
**Reduce cost** of distributing in urban areas through leveraging existing infrastructure and larger client aggregators



## Regulation and real world



# There is a clear clustering around dominant payment mechanism (cash versus credit) and purchase frequency





**Nutrition**



**Health**

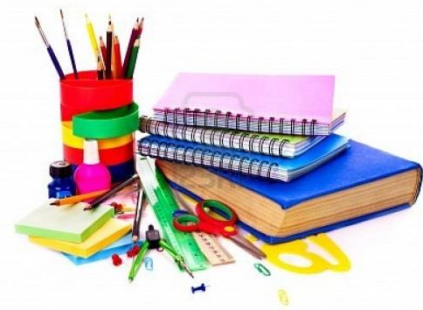


**Family/Individuals**

**Home**



**Education**







**More than proximity:  
Retailers are positioned at the intersect of  
financial and real world decision making**



# Understanding how we want to achieve goals, the process is not always linear



# Learning from *decision theory* and *behaviour economics*



## Daniel Kahneman, Stanford University

- 2002 Nobel Prize in Economics
- Author of *Thinking, Fast and Slow*

## Ester Duflo, MIT

- John Bates Clark Medal – most significant contribution to economics under the age of 40
- Author of *Poor Economics*

## Sendhil Mullainathan, Harvard University

- MacArthur Genius award
- Author of *Scarcity: Why Having Too Little Means So Much*

## Richard Thaler, University of Chicago &

## Cass Sunstein, Harvard University

- Authors of *Nudge: Improving Decisions About Health, Wealth, and Happiness*

# Understanding non-linear decision making



- **Information** is expensive and hard to obtain
- Product **comparisons are difficult** to make
- We suffer from **decision fatigue**
- Having less time or money than you need (**scarcity**) makes you less effective **decision maker**
- Lower-income individuals tend to **discount the future more** (hyperbolic discounting)

# Implication for decision making



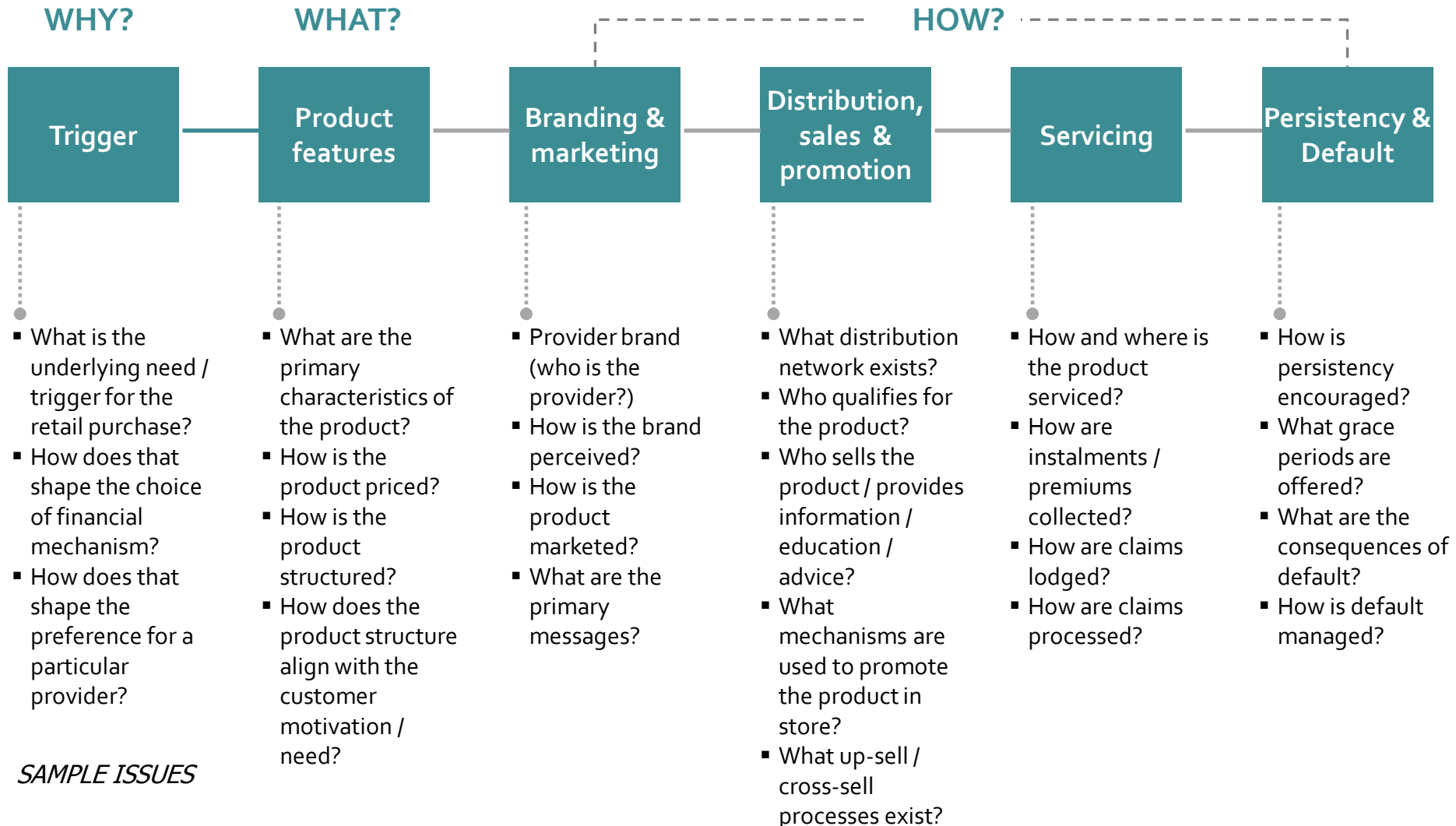
- The **source of information** is important
- **Relative decision making** trumps absolute cost
- **Earmarked** expenditure
- Primary versus **secondary decision** making

Reduce complexity **through rule of thumb** decision making



Understanding how individuals exhibit **self-control** is the key to understanding how individuals make financial decision making

# A guiding framework is based on the supplier's proposition.



A guiding framework is based on the supplier's proposition.



WHY?

WHAT?

HOW?

Trig

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How is this perceived and experienced by the customer? How does the customer assess the relative advantages of the offering compared to alternatives?

- What under trigger retail |
- How c shape of fina mech
- How c shape prefer particular provider?

align with the customer motivation / need?

- used to promote the product in store?
- What up-sell / cross-sell processes exist?

*SAMPLE ISSUES*

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# Agenda

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Introduction

*Credit (and savings)*

Insurance

Money transfer

Wrap up



**We conducted four focus groups on credit, two on clothing and two on furniture. In addition we visited a number of building supply retailers in more rural areas of KZN**



### CLOTHING STORES

Two focus groups were conducted with people who have a clothing store account in JHB

- Age: 25 – 49
- Black
- Personal income R2 000 – R6 000
- Urban

One group included people with funeral insurance linked to their store account

The focus group discussions explored experiences of opening and using a store account. The discussions also explored why customers use store accounts instead of credit cards, other credit products or savings product



### FURNITURE STORES

Two focus groups were conducted with people who have purchased furniture / appliances in the past 2 years

One group was held in Cape Town (personal income R2 000 – R6 000) and another in Empangeni which included people from more rural areas

The discussions explored how people purchased furniture and why they financed the purchase the way they did

General perceptions of purchasing through a furniture store were also investigated



### BUILDING SUPPLY STORES

A number of visits to building supply stores in KZN including:

Mtubabtuba  
Hlabisa  
Eshowe  
Mandini  
Nqutu

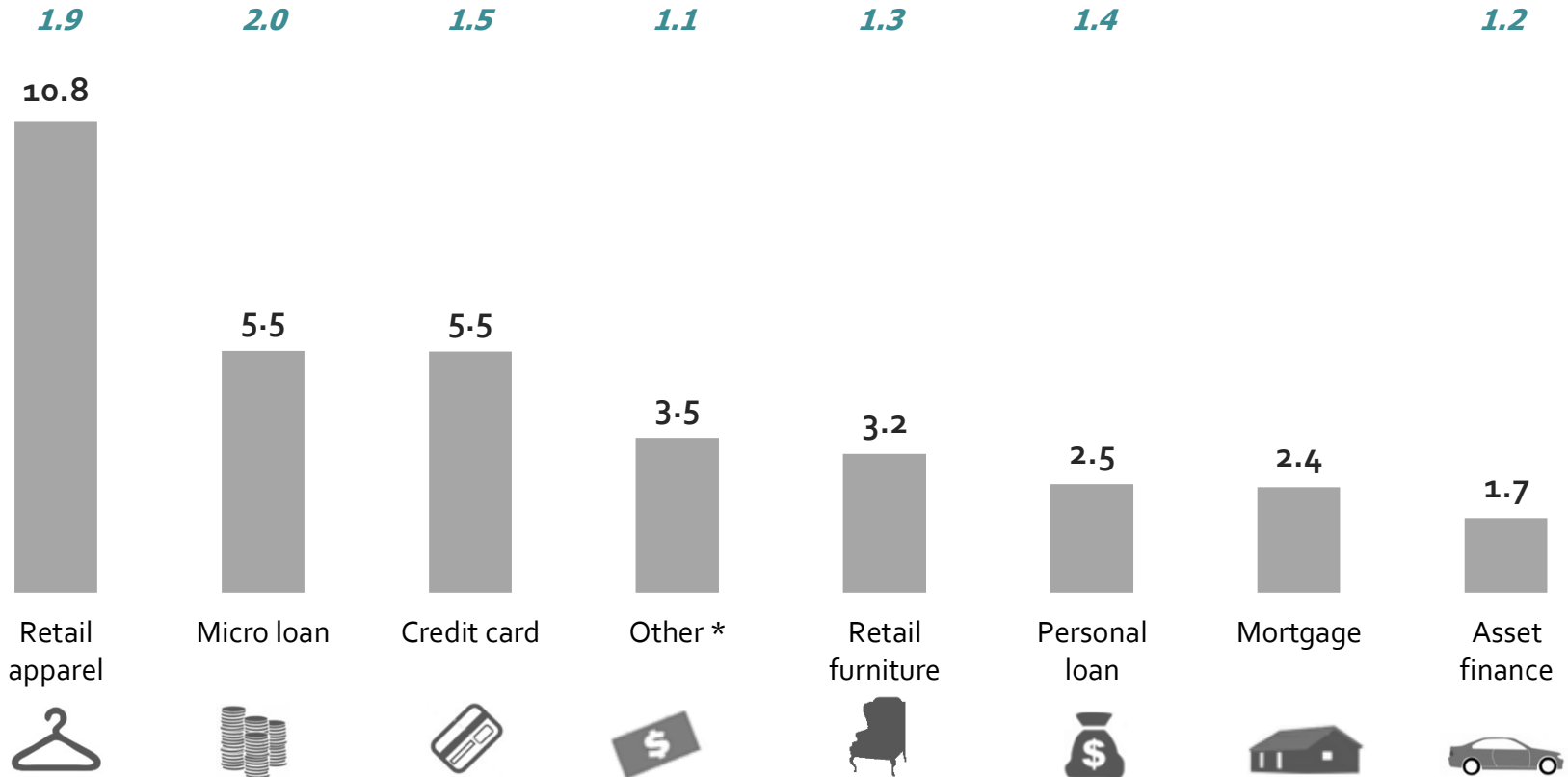
According to XDS there are around 16.8 million consumers who have open credit accounts. Clothing accounts are by far the most commonly held consumer credit product



CREDIT CONSUMERS: NUMBER OF BORROWERS WITH OPEN ACCOUNTS

(July 2013, Millions)

Ave number of accounts per borrower:



Source: XDS data

\* Other includes "Retail General", "Student loans" or "Financial Other"

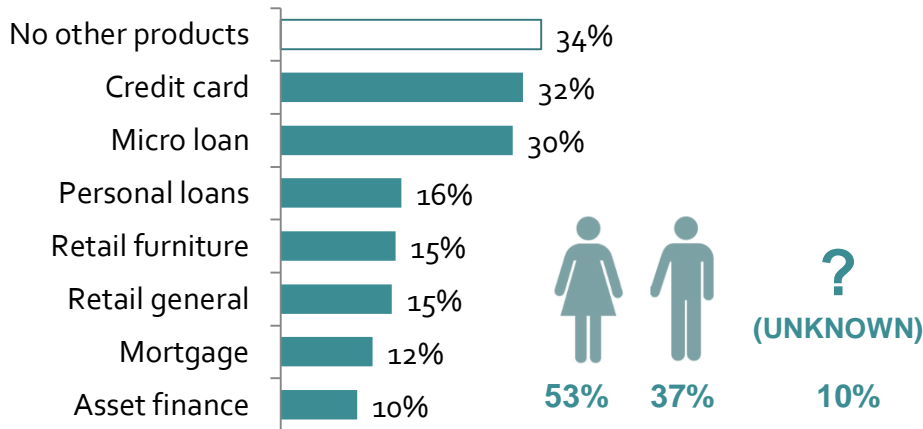
Note: An open account is one that has not been closed or has been written off, handed over, lapsed, revoked, repossessed, surrendered, disputed in the last two years. A total of 6.9 million consumers have a microloan or a personal loan

# Consumers can choose across a range of alternative products, offered by various providers. Why do they choose the products they use?

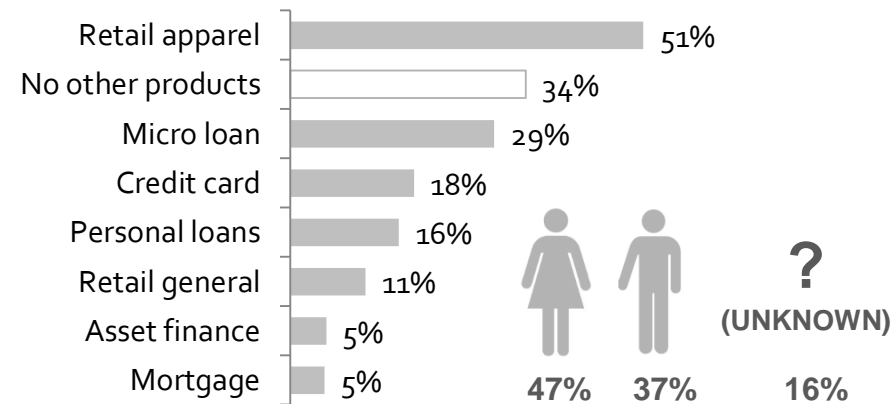


## OVERLAPS

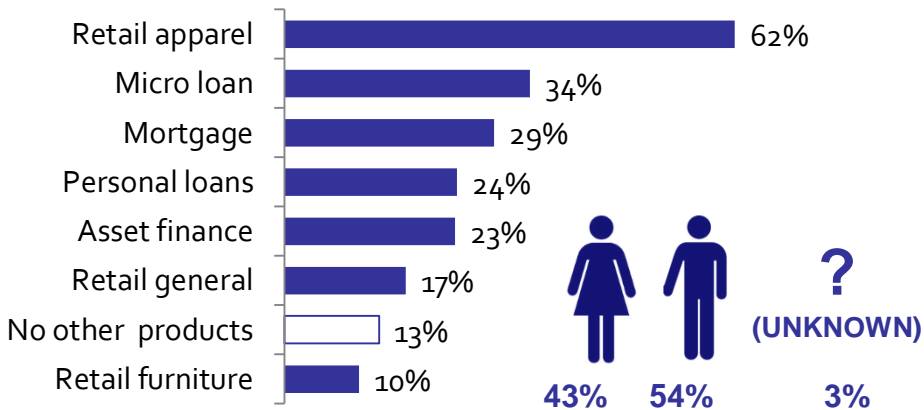
### HAVE A RETAIL APPAREL ACCOUNT (10.8m)



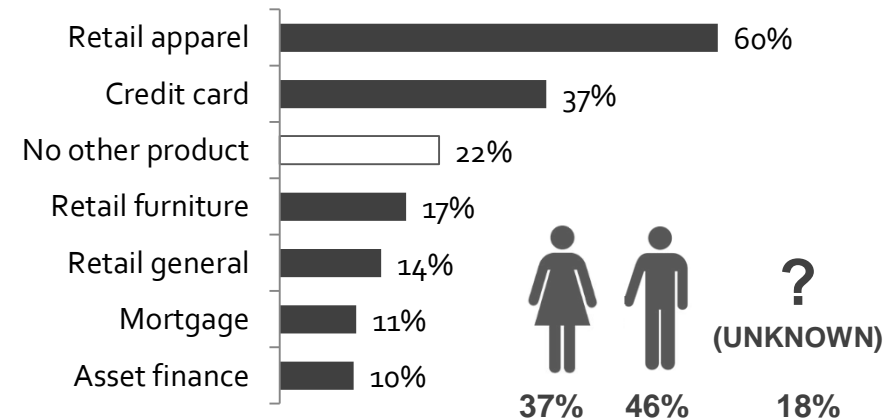
### HAVE A FURNITURE ACCOUNT (3.2m)



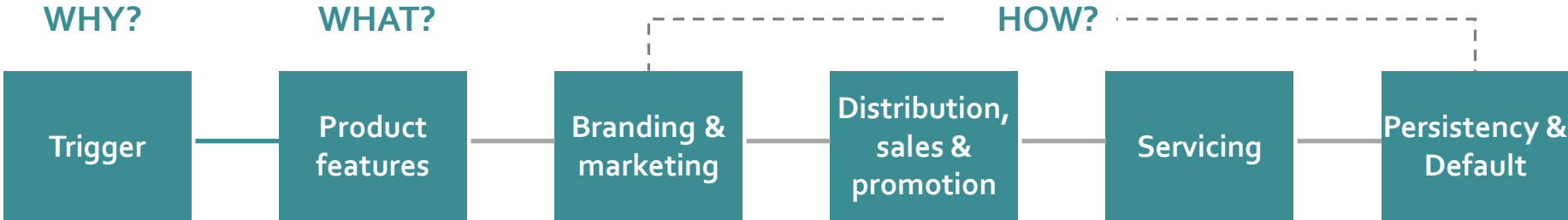
### HAVE A CREDIT CARD (5.5m)



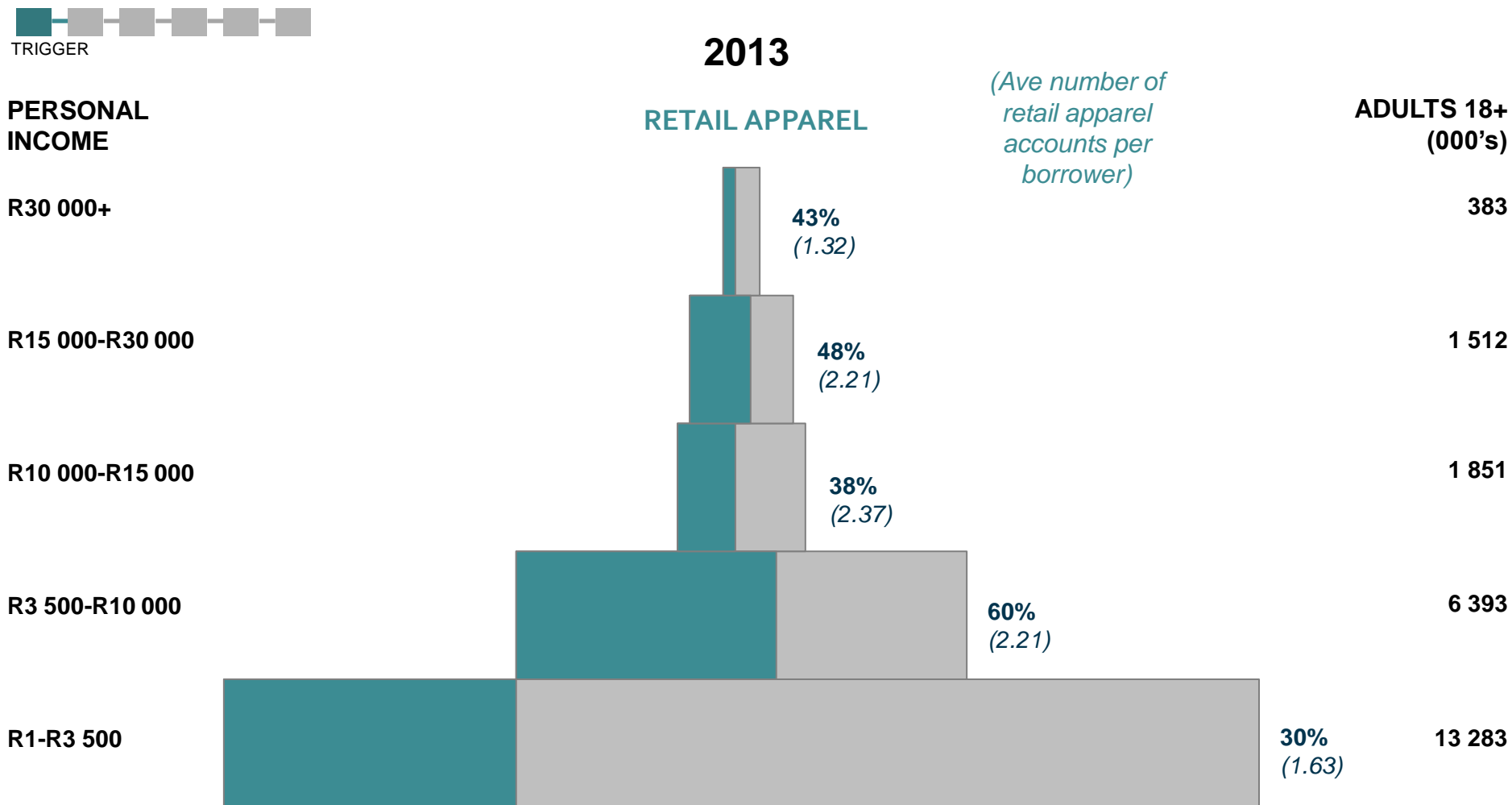
### HAVE A PERSONAL OR MICRO LOAN (6.9m)



# A quick recap of the organising framework:



# Clothing accounts are typically structured as credit facilities that enable the purchase of clothing on an ongoing basis. Penetration of clothing retail credit is particularly high in the middle market

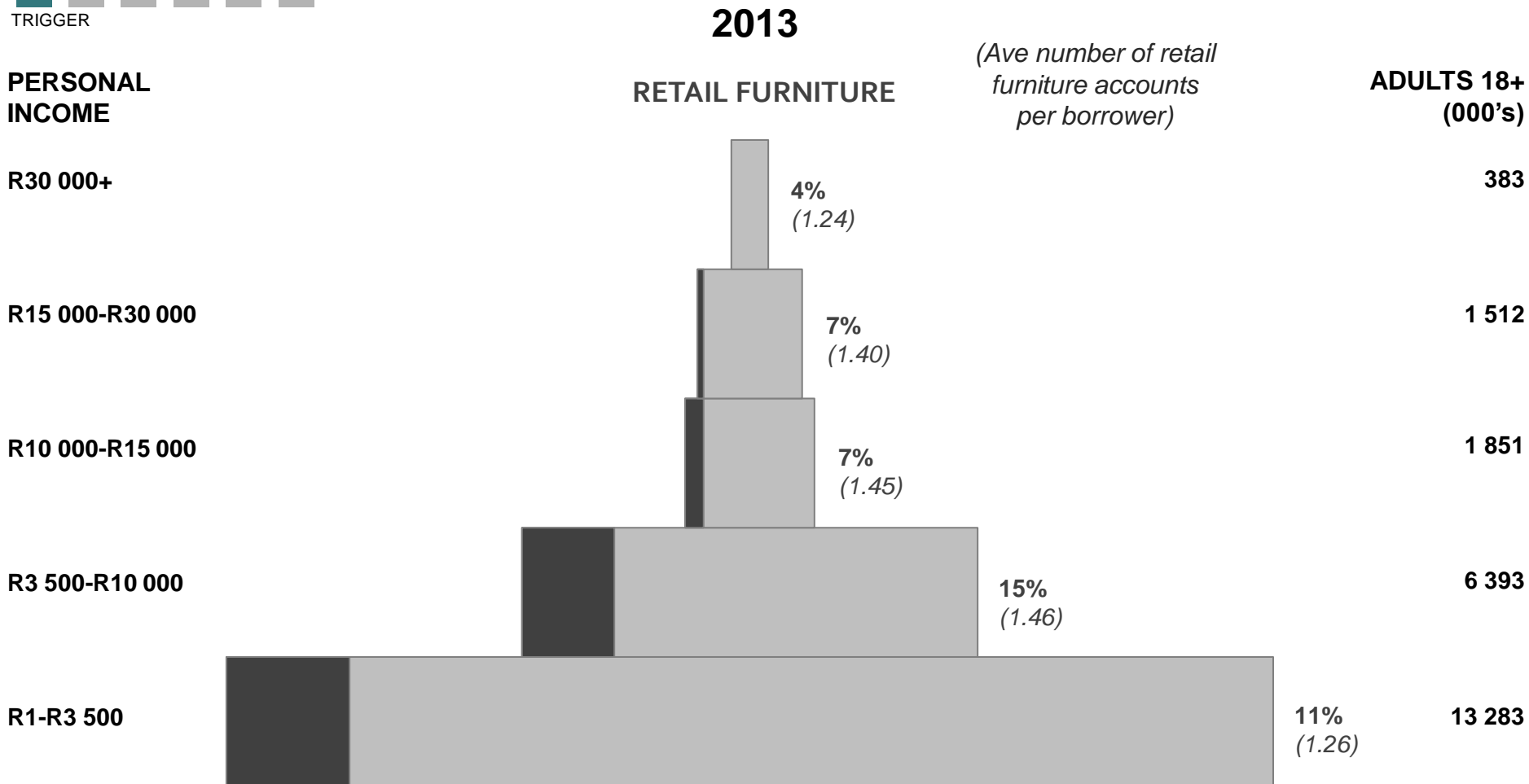


Source: Amps 2012B, Eighty20 analysis to determine imputed income where data is missing, XDS (July 2013)

Note: Adults with no personal income: 8 980 000

Note: An open account is one that has not been closed or has been written off, handed over, lapsed, revoked, repossessed, surrendered, disputed in the last two years.

# In contrast furniture accounts are typically structured as term loans of up to 36 months. Fifty five per cent of those with furniture accounts earn less than R3 500



Source: Amps 2012B, Eighty20 analysis to determine imputed income where data is missing, XDS (July 2013)

Note: Adults with no personal income: 8 980 000

Note: An open account is one that has not been closed or has been written off, handed over, lapsed, revoked, repossessed, surrendered, disputed in the last two years.

# In some cases focus group participants highlighted that they opened accounts to create a credit history – not to finance a purchase



**Facilitator: So what made you guys open these accounts? Why?**

RF: Student loan

RM: Credit so I could have a credit history

**Facilitator: Ok so this was the background credit?**

RM: Yes

**Facilitator: So when it's the background credit what exactly do you mean?**

R8: Meaning like when you want to buy a car

RF: Or get a loan

**Facilitator: Oh, ok**

RM: Those are the things that they must check like how are you paying that account.

RF: They will go to the credit bureau and check there

*Johannesburg, Clothing store account*

# A key advantage of using retail credit is that it is purpose-specific



FEATURES

**Facilitator: How come? What's with the credit card that you don't like? Let me just try to understand this I will come to you guys but you are saying the word credit scared you? But a store card is credit?**

R3: With the credit card yes I can buy clothes but now I can even stop at the shop and just buy ice cream with the credit card

*Johannesburg, Clothing store account*

R8: Yah because you know with a credit card the same as with a store card, you get people who will exhaust their store card like you know what! So imagine if you can't manage your cash flow and you have a credit card. It's not limited that you can buy only at 1 store. You can go to the garage you can go wherever so you see that's the difference. There is a limited side and there is an unlimited side with the credit card.

*Johannesburg, Clothing store account*

R5: When you have taken furniture, you see what you have bought, when you have taken a loan for money, you have it in your hand and end up wasting it on unnecessary things

*Empangeni, Furniture*



# Control of spending within the households is also important



FEATURES

R7: It is a general thing. Women, what they see they want. Sometimes like babies. You have to put that control over everything sometimes"

*Cape Town, Furniture*

# Pricing theoretically should influence the selection of financial products. Some participants perceived retailers as being less expensive than banks, although many were unsure



**Facilitator: Do you know about interest and fees?**

R2: You know I have an Edgars account and I don't know anything about interest and those things you know. I was just told to go to Edgars

R5: It depends on how much you owe, how much you owe and then they are going to calculate your interest so if you owe a lot then your interest is up

**Facilitator: But do you know like the percent that you pay?**

R3: No, you just get the statement and that is the amount that you pay

*Johannesburg, Clothing store account*

R2: Another thing for me is the interest rate are (sic) not the same, because you can get a loan of R3 000 and you pay for about 3.5 or 3.8 back, but for a credit for an account you can get a credit for about R3 000 then you pay 3.1 or something, not more than that

**Facilitator: So who has less interest?**

R4: Retail

*Johannesburg, Clothing account with linked insurance*

**Facilitator: What is better: account at the furniture store or a loan from Capitec or African bank?**

R8: I think account at the store is better

**Facilitator: Why?**

R8: Because with the account they give you, for example with the loans the interest is a bit higher than the account from the shops

*Cape Town, Furniture*

# Pricing theoretically should influence the selection of financial products. Some participants perceived retailers as being less expensive than banks, although many were unsure



FEATURES

**Facilitator:** We are going to buy a bed and TV. We are going to spend R10 000. I can do R10 000 store account or I can do R10 000 and get the cash from whatever bank.

**Where will I pay more?**

R1: In the bank

**Facilitator:** So that R10 000 is going to cost more than the R10 000 in the store account?

R1: Yes

**Facilitator:** Are we agreeing with her or disagreeing?

R4: I am not sure

R2: Not actually. When it comes to the store account -

**Facilitator:** do we know?

R2: That is the thing. We don't know

**Facilitator:** Be honest – rather say we don't have a clue. Is that it?

R2: Yes

**Facilitator:** So we don't know which one cost us more

R: Yes

*Cape Town, Furniture*

# Aside from interest rates, term also impacts on the affordability of instalments. How do consumers compare given this complexity?



FEATURES

**Facilitator: Why is that good that it is longer? [referring to loan terms]**

R1: You pay little than if you pay short term

**Facilitator: Which one is more expensive?**

R7: It is the long term. It is expensive, but you don't feel it

R1: They like their long term

R7: You don't feel it

R1: It sounds better

R8: The longer, the more money you pay

*Cape Town, Furniture*

# Credit is actively marketed by retailers

## MARKETING



**R750**  
FASHION VOUCHERS\*  
WHEN YOU OPEN AN ACCOUNT  
0% INTEREST\*

NO TICS NO FORMS  
SMS YOUR INITIALS,  
SURNAME AND  
ID NUMBER TO  
**31221**

OR APPLY AT [WWW.TRUWORTHS.CO.ZA](http://WWW.TRUWORTHS.CO.ZA)  
OR [TRUWORTHS.MOB](http://TRUWORTHS.MOB)



JET UP **+ GET MORE**  
GET **800<sup>00</sup>**  
IN FASHION VOUCHERS  
WHEN YOU OPEN A JET ACCOUNT!



OPEN AN **Edgars Account**  
& **GET 1000<sup>00</sup>**  
IN FASHION VOUCHERS

Get your card!  Enjoy your rewards!

These vouchers are only redeemable when you open a new account

<b>500<sup>00</sup> OFF</b> When You Spend <b>2 000<sup>00</sup> Or More</b> On your 1st Purchase	<b>250<sup>00</sup> OFF</b> When You Spend <b>800<sup>00</sup> Or More</b> On your 2nd Purchase	<b>150<sup>00</sup> OFF</b> When You Spend <b>500<sup>00</sup> Or More</b> On your 3rd Purchase	<b>100<sup>00</sup> OFF</b> When You Spend <b>300<sup>00</sup> Or More</b> If you join Edgars Club
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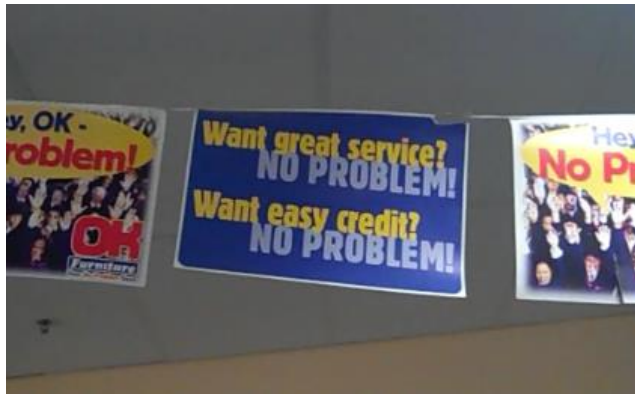
All vouchers are redeemable at:  Edgars  Edgars  Edgars  Edgars  Edgars

Visit us on [www.edgars.co.za](http://www.edgars.co.za) OR FOLLOW US ON  



**Hard Cash**  
BACK IN YOUR POCKET

**R1000 CASH BACK**



Want great service? **NO PROBLEM!**  
Want easy credit? **NO PROBLEM!**



**NEED A PERSONAL LOAN**  
OF UP TO R24 999\*

**WITHIN 2 HOURS!**

**Russell's**  
See how little style costs



**ELLERINES**

Best Prices  
FREE gifts!  
to make life easier

**FREE GIFTS** with selected base sets

Cash and Personal Loans from R500 to R20 000

**LOWEST PRICE PROMISE**

**SAVE** more than ever before!  
2 weeks only!

# Credit is actively marketed by retailers



## CREDIT RETAILERS IN THE TOP 100 ADVERTISING SPENDERS (2012)

RANK	COMPANY	SPEND
5	First Rand Bank	R526.2
9	Standard Bank	R428.6
12	Nedbank	R350
18	Absa	R293.2
<b>20</b>	<b>Edcon</b>	<b>R258.5</b>
<b>29</b>	<b>JD Group</b>	<b>R200.3</b>
<b>54</b>	<b>Woolworths</b>	<b>R105.8</b>
62	Capitec Bank	R92.7
<b>82</b>	<b>Ellerines</b>	<b>R79.9</b>

A question to Dan Ariely, behavioural economist At Duke University:

Dear Dan

.....

Would you be at all interested in seeing whether it might be possible to shift the appetite for credit and to get people to defer consumption? We think we can find a few potential clients who would want to engage your expertise in designing a programme in this area. If this is at all interesting, please let me know. I would be happy to send more information or to call you to discuss further.

All the best,  
Illana

*Answer on next slide*

## Credit is actively marketed by retailers



The issue is of course that people stand many temptations throughout the day. If you think about it every retailer is basically an exercise in temptation. All the retailers basically try to tempt people to buy now and spend now, and because of that the chances that you can do enough things to control peoples environment or get them to think about temptation, resist temptation many times in a day, is very unlikely.

There are basically two ways to think about it. One is to create some new payment tools, for example, what if we had an electronic wallet or prepaid debit card that only defrosted a small amount of money every day but people did not have access to all their money, they have limited access to it. The second one is to limit credit terms in a big way.

But I think the idea that we could somehow teach people...I think we could teach people to know it in principle but to act on it is very tough. There is a lot of things that we know are not good for us but we get tempted. If you think about money the temptation is so strong so many time a day it is very unlikely that people would be able to resist it. So I would not put much hope in that and I would think to either create new payment methods or limit lenders and banks.

*Transcribed from a voice message from Dan Ariely*

# Some respondents in the Cape Town furniture groups mentioned that furniture stores in the Eastern Cape are closer and have longer opening hours



R1: In the Eastern Cape there is a lot of Joshua Doores. It is easy to pay

**Facilitator: It is closer. Closer than a bank?**

R2: Yes

**Facilitator : I am just thinking because you could go to the bank**

R1: It doesn't close early like the bank

**Facilitator : A bank closes early**

R: Yes

**Facilitator : That is a valid point**

R7: Sometimes the bank is not open on Sunday. These guys are open on a Sunday

*Cape Town, Furniture*

R2: Then Joshua Doore was almost everywhere. So it was more less expensive. I can say that is what influenced me. On the TV and newspapers and so on. They talk about Joshua Doore. In fact also it was close to my job. It is the only shop that I can say most of the time I will pop in and just look at what is there

*Cape Town, Furniture*



# There was a perception in the groups that it is easier to get credit from a retailer than a bank



**Facilitator: Why did you apply for store cards I get the feeling that you want credit cards only?**

R6: Before you just started working and you apply for a credit card, you don't know. The credit card was something big

R2: ... Sometimes it is the fact that not everyone qualifies for a credit card but almost everyone qualifies for a store card

*Johannesburg, Clothing store account with linked insurance*

R8: I think at the bank too they are not willing to take a risk like your account stores will take, you know? Because they wouldn't give you anything, am I right?

*Johannesburg, Clothing store account*

R7: You can go to a bank – the bank tells you that you are in so many debt – so much debt – we can't give you money, because they check your data basis. You owe this one and you owe that one

**Facilitator: You talk about the credit act?**

R7: Yes. If you go to this furniture – they say no problem man.

*Cape Town, Furniture*

# For many participants opening a clothing account was their first experience of formal credit. Participants recalled feeling nervous that they would not qualify for the account and then excited when they receive the credit



**Facilitator: The rest of you guys how was that whole process?**

R6: First it was nerve wracking and then secondly when they approved it, it was exciting to say that I have an account now.

**Facilitator: What made you nervous, why was it nerve wracking?**

R7: The fact that you think that they won't approve, maybe I earn too little for them or maybe this is too much for them.

*Johannesburg, Clothing store account with linked insurance*

**Facilitator: If you go back to the first time you guys opened an account, how did it feel to actually open that account?**

R7: The minute you get the sms that you had qualified or approved for this much, a lot is running thru your mind like I'm going to get this, this and that.

R2: The first credit, you know like Edgar's they give you something like R10 000 the most, so you have things that you need to buy, cell phones, clothes and whatever for your family as well, and so you get so excited.

*Johannesburg, Clothing store account*

## Credit retailers also offer inducements and actively promote the take-up of credit facilities or products



**Facilitator: Those vouchers I mean how important were they and what role did they play when you decided that you will go here and not there?**

R5: They [the vouchers] play an important role because like if I want something for a R1000.00 and then you get these vouchers for 3 months and if you are buying for say R 3000.00 then you will get this discount on these clothes for the next upcoming 3 months

R8: For me I can say they play a big role in them benefitting for you to get that card because that is marketing strategy you know.

ALL :Yes

*Johannesburg, Clothing store account*

# A number of participants in the Empangeni furniture group also mentioned that they had been promised extras they did not receive on purchasing the goods



**Facilitator: Was there anything special that they gave you when they opened your account for you?**

R5: They said they would give you something but when it comes to them delivering your furniture they don't deliver what they promised to you

**Facilitator: What had they promised you?**

R5: A coffee table

**Facilitator: Did you ask about the coffee table?**

R5: Yes they said they did not have it

R4: They had promised me a DVD with the sofas I had bought and when the sofas were delivered they came with nothing. They told me the managers had changed so the previous manager was the one who promoted the sofas with the DVD not the new one hence I didn't receive my DVD

R1: They promised me an iron and sheets with the fridge I had bought but I got a carpet, I bought sofas and got a DVD with it

**Facilitator: Were you ever going to open an account had they said you would not get anything?**

R2: The thing that worked for me was the cash back option so I signed up for the account and got a bed. It was R1 000 back if I buy bed. But in another store was the bed at the same price including the cash back. So the cash back was just included in the price

# In furniture stores sales people also actively encourage take up



SALES / PROMOTIONS

R2: They can persuade us very easily, I think they are trained to do that

R5: Sometimes they follow you out the store and ask you a lot of questions regarding what you saw and what you liked and they give you all the options available to you

**Facilitator: Why don't you say no thanks and walk away?**

R5: That is how they get paid, so they will try their best to persuade you because they earn by commission

R6: Sometimes when you say no they take your number and convince you over the phone, next thing you are buying something you don't need

*Empangeni, Furniture*

# Retailers allow instalments to be paid in store as well as by debit order. Participants like being able to pay in store because they do not trust debit orders and it allows them some flexibility with the amount paid



R3: Before I used debit order, but now the thing is I saw accounts, that I don't know, which are taking my money. Like you see every month R100 coming off. So I just decided I will go and pay cash so I can see who is taking my money

**Facilitator: How does it benefit you to go to the mall to pay your funeral premiums monthly?**

R7: Just for going out, that's the benefit. Going out, going to the mall

R4: Sometimes they want you to pay R400 and you only have R200 so you pay the R200 and you come see them again next month. If you do a debit order, if it's R400 then it's R400

R: That is true the banks do that

*Johannesburg, Clothing store account with linked insurance*

**Facilitator: Why not? Why did you not want anything to do with a debit order?**

R2: Because I heard many stories that the shops is not two times. Then when you go to the shop they tell you many stories. It is the bank, it is not us. I am going to pay it cash and I get a receipt. I know after 6 months I will say these are the receipts

**Facilitator: So it is about control?**

R2: Yes

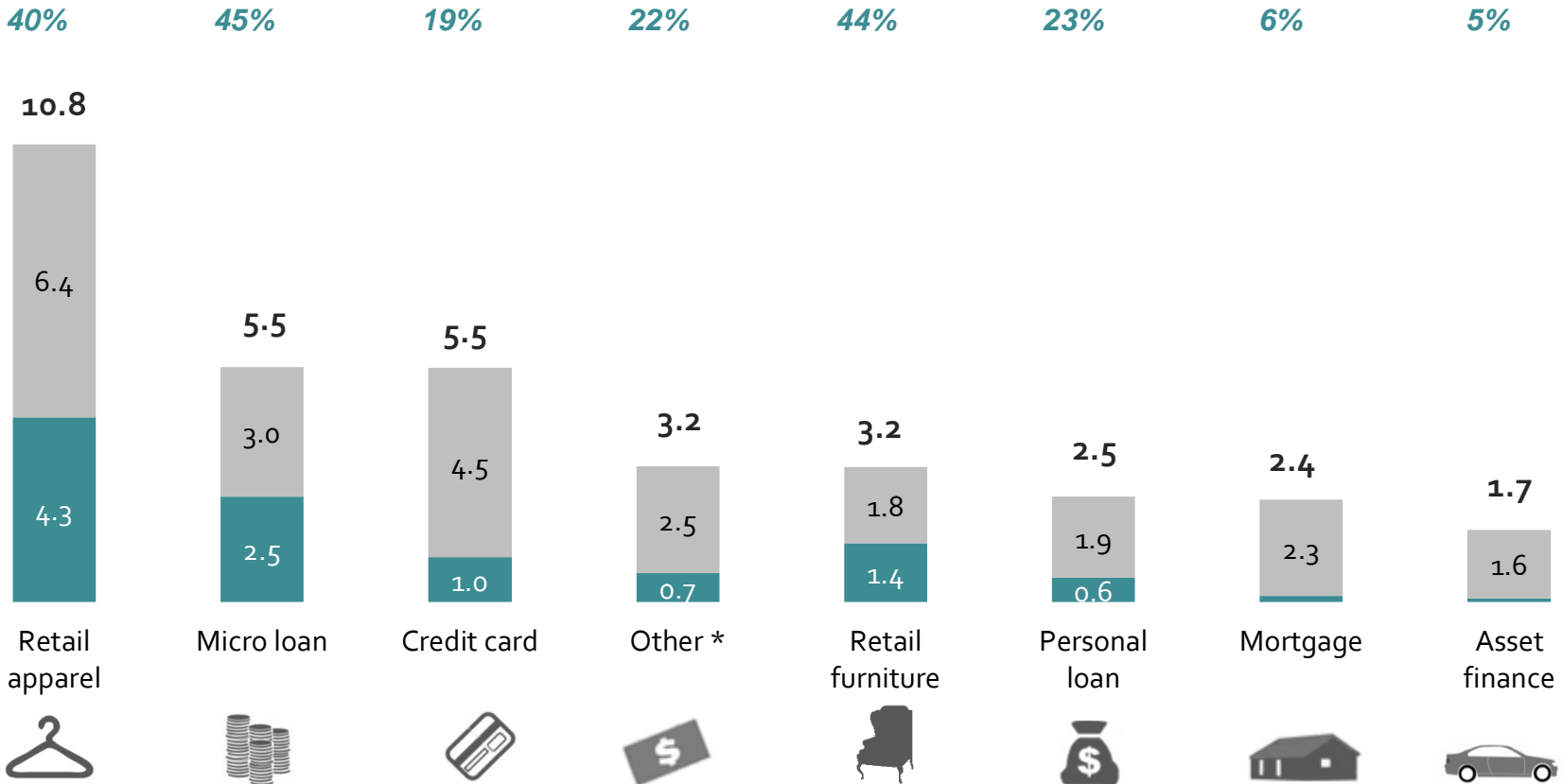
*Cape Town, Furniture*

# Credit bureau data indicates the number of borrowers who are at least 90 days in arrears on their worst performing account across various product types



% In arrears (90+ days)

## CREDIT CONSUMERS (July 2013, Millions)



■ IN ARREARS    ■ NOT IN ARREARS

Source: XDS data  
\* Other includes "Retail General" or "Financial Other"

# In the clothing account focus groups, banks are perceived as being far more aggressive with late payments. One respondent likened banks to mashonisas and clothing retailers to a family member



R4: Banks they don't play. If they want their money they want their money. If you're not paying and you're working then a garnishee. If you're not working then they repossess whatever that you have, whether you've got a fridge or whatever the sheriff will take it

**Facilitator: How is the bank different from retail stores?**

R4: The retails are easy

**Facilitator: I hear you say banks are like mashonisa, so who would retail stores be like then?**

R7: It is like my mum.

R4: My aunt, I know I have to pay my aunt, I'll pay her when I've got money

*Johannesburg, Clothing account with linked insurance*



# Some participants did not seem to understand the implications of missing a payment and so perceived the furniture stores as being unreasonable



DELINQUENCY

R4: Yes. What was irritating about that – every end of the month they call you or SMS you? They send you letters. Like now you have forgotten. You know you have a credit. You owe someone money. You don't have that money. That is why you can't pay but they keep on calling

**Facilitator: What do you say to them when they call you?**

R4: I go there and tell them I wasn't paid – every 30<sup>th</sup> I was supposed to make payment. From the 15<sup>th</sup> I know I don't have money. I call on the 25<sup>th</sup> and talk to the store manager. This month I won't be able to pay

**Facilitator: You physically went into the store at Ellerines?**


R4: Yes

**Facilitator: How did they treat you?**

R4: They say okay it is fine. When can we expect money? I say next month. Fine, but next month you find it went up. They didn't even stop it because you came and explained to them that you don't have money or you won't have money

*Cape Town, Furniture*

## With furniture credit there is the additional risk of repossession



DELINQUENCY

**Facilitator: So you have other accounts that you are more comfortable than with furniture?**

R4: The furniture account, even Edgars, Truworths account – they are the same. It is if you miss your premium – they behave the same

**Facilitator: They all behave the same when you miss payment.**

R1: But they don't come and want your – no

**Facilitator: So they don't want the shirt back?**

R1: No

**Facilitator: You are in danger with the furniture. They take my bed**

R: Yes

R6: You paid for it half already – they will take it

**Facilitator: if I am still sleeping**

R1: You are one month in arrear – they want to take it

*Cape Town, Furniture*

## Some participants were so scared of repossession that they would not use a furniture account



**Facilitator: You scared of accounts?**

R5 :Yes, I'm scared of account

**Facilitator: Where did this scared of account come from?**

R5: My brother was using account. Then he missed 2 times to pay. They come to fetch the bed. They was still to pay them. He just missed 2 times to pay them.

R4: They don't care about money already paid.

*Cape Town, Furniture*

## Some retailers offer goods on lay by. A number of participants in the clothing and furniture groups had used lay byes for planned purchases



R7: And do you know what is nice about lay bye is like say for December you know in 4 months' time it's December, I need to lay bye for my kids. I go to Ackermans take this and that. I know I can pay it in 3 months, I don't have cash to go to the store and say let's do all my Christmas shopping

*Johannesburg, Clothing account with linked insurance*



## Participants liked lay byes because there are no fees. However they understood this is the trade off for deferred ownership of the good



R9: It is better to go for that lay bye sometimes because it is not like an account you are not going to pay interest you know. So say you pick clothes for R1,000 and then on the lay bye you can afford maybe R400 and then you have a balance of R600 so interest free

*Johannesburg, Clothing account*

**Facilitator: Why did you not use lay bye then and opened accounts?**

R5: I wanted my TV now

*Empangeni, Furniture*

R7: The difference is this – I used to lay-buy when I was still single. The difference between an account and a lay-buy is that the accounts – the reason why they clap you with the more interest, is because you are using the thing. The lay-buy – it stands there by the shop

*Cape Town, Furniture*

## A quick look at building supplies:

Why do people use credit for some purchases and savings for others? Perhaps the target nature of the purchase is better suited to savings



**Facilitator: What do you think about buying building material on credit?**

R2: I think it is wrong to do that

R7: I think a person should rather save, other than seeing a house and you still owe someone, it is better to save up and see your house knowing you are not paying anything more

*Empangeni, Furniture*

**Facilitator: So do you guys know of any shops that are like for example building suppliers that offer credit at the moment?**

RM: Yes

**Facilitator: Which ones?**

RM: Builders Warehouse

**Facilitator: Would you go and open an account with these stores? Not credit cards but an account with these stores?**

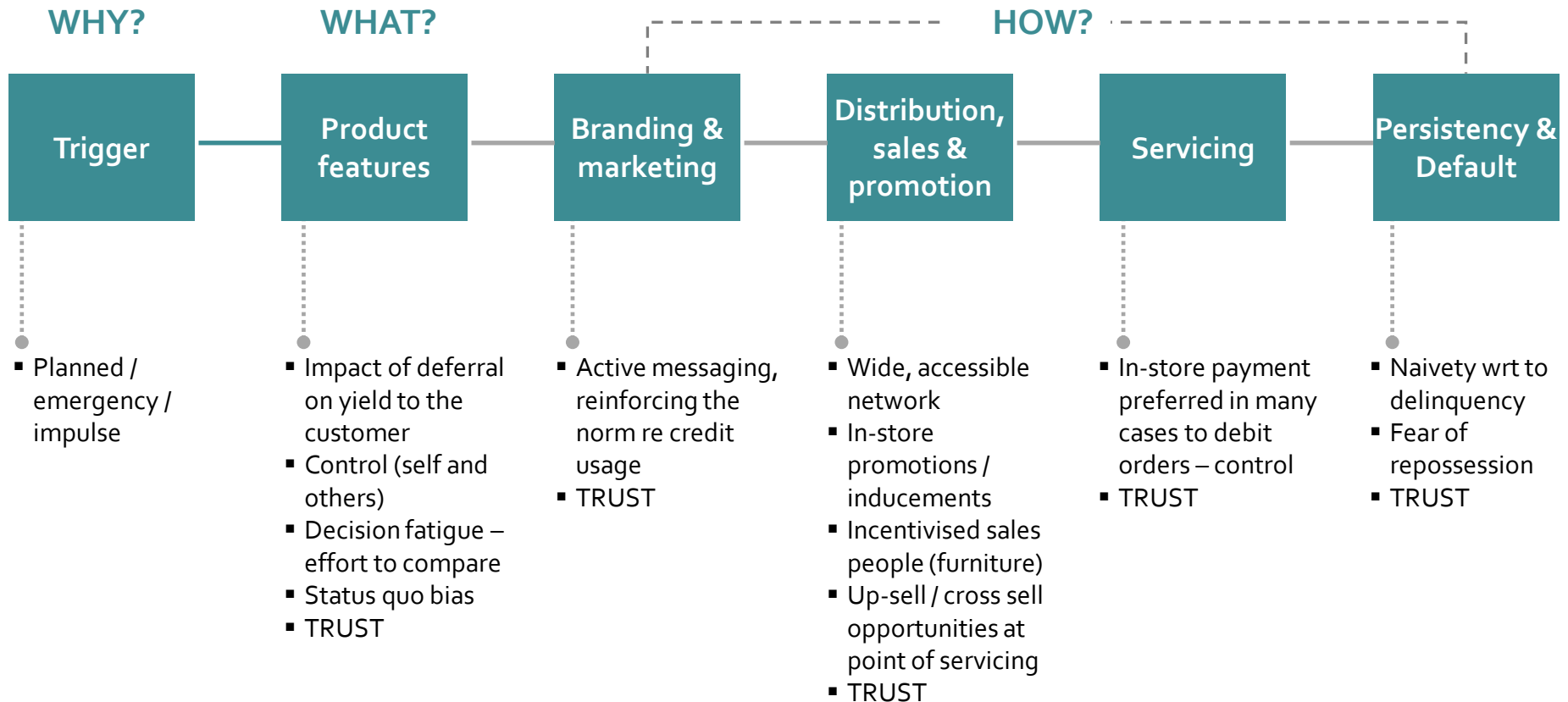
RM: Yes

RF: Yes I will

*Johannesburg, Clothing account*



# In summary: Why do customers behave the way they do?



*What are the implications for retailers / financial services companies?  
What are the implications for regulators?*

# Agenda

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Introduction

Credit and savings

*Insurance*

Money transfer

Wrap up



## INSURANCE FOCUS GROUPS

### LINKED INSURANCE

- Questions on insurance were asked in all credit retailer focus groups
- One group on individuals with funeral insurance linked to their clothing account:
  - Age: 25 – 49
  - Black
  - Personal income: R2 000 – R6 000
  - Urban

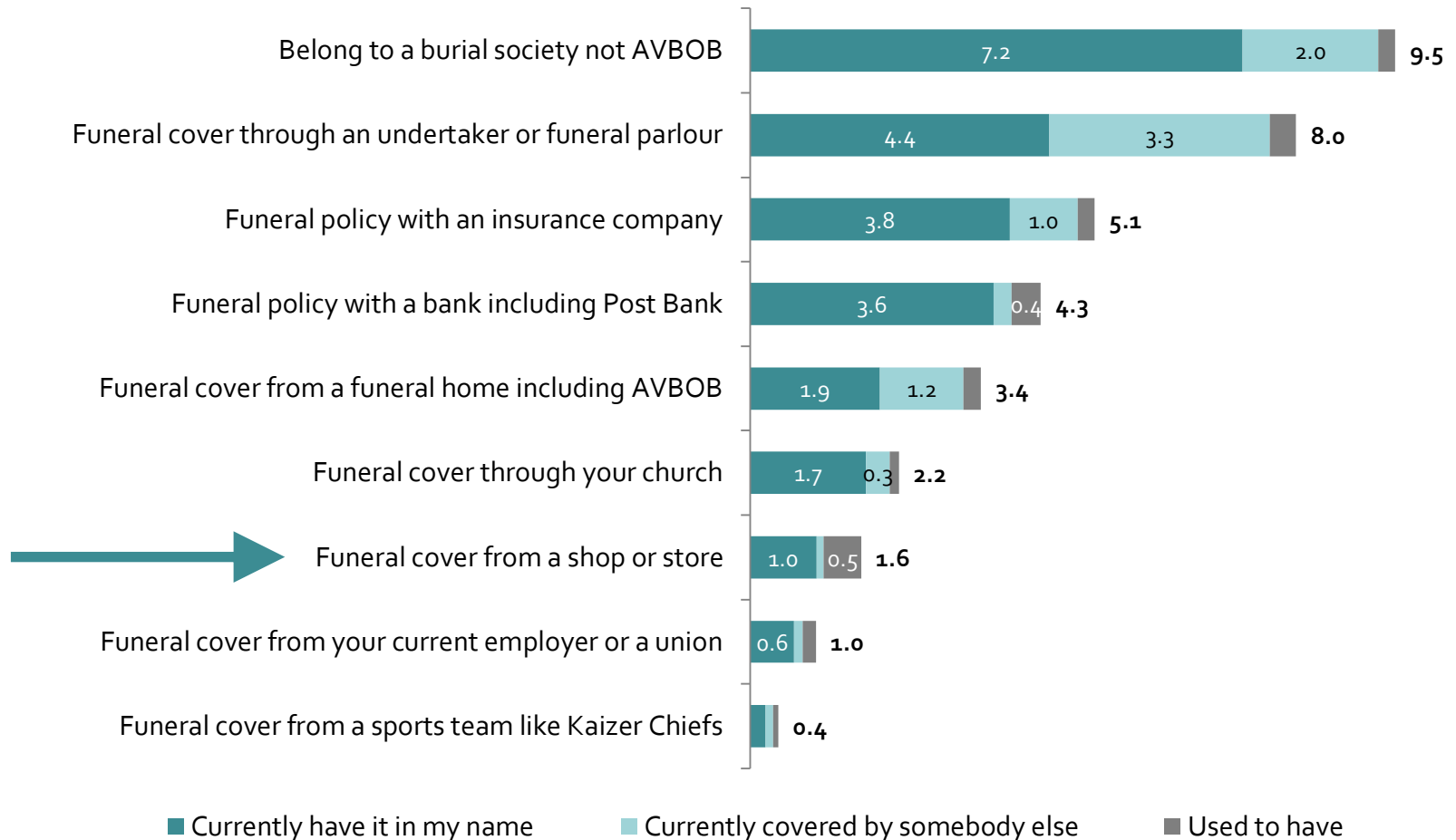
### NON-LINKED INSURANCE

- A focus group with people who have purchased funeral cover from Pep was held in Empangeni, KZN

**There is limited data available on those with insurance from a retailer. According to FinScope 16.9\* million people currently have funeral cover excluding burial society membership, 6.4% of these have funeral cover from a shop or store**



**EVER HAD FUNERAL COVER/ BELONG TO A BURIAL SOCIETY**  
*(Adults 16+, Millions)*

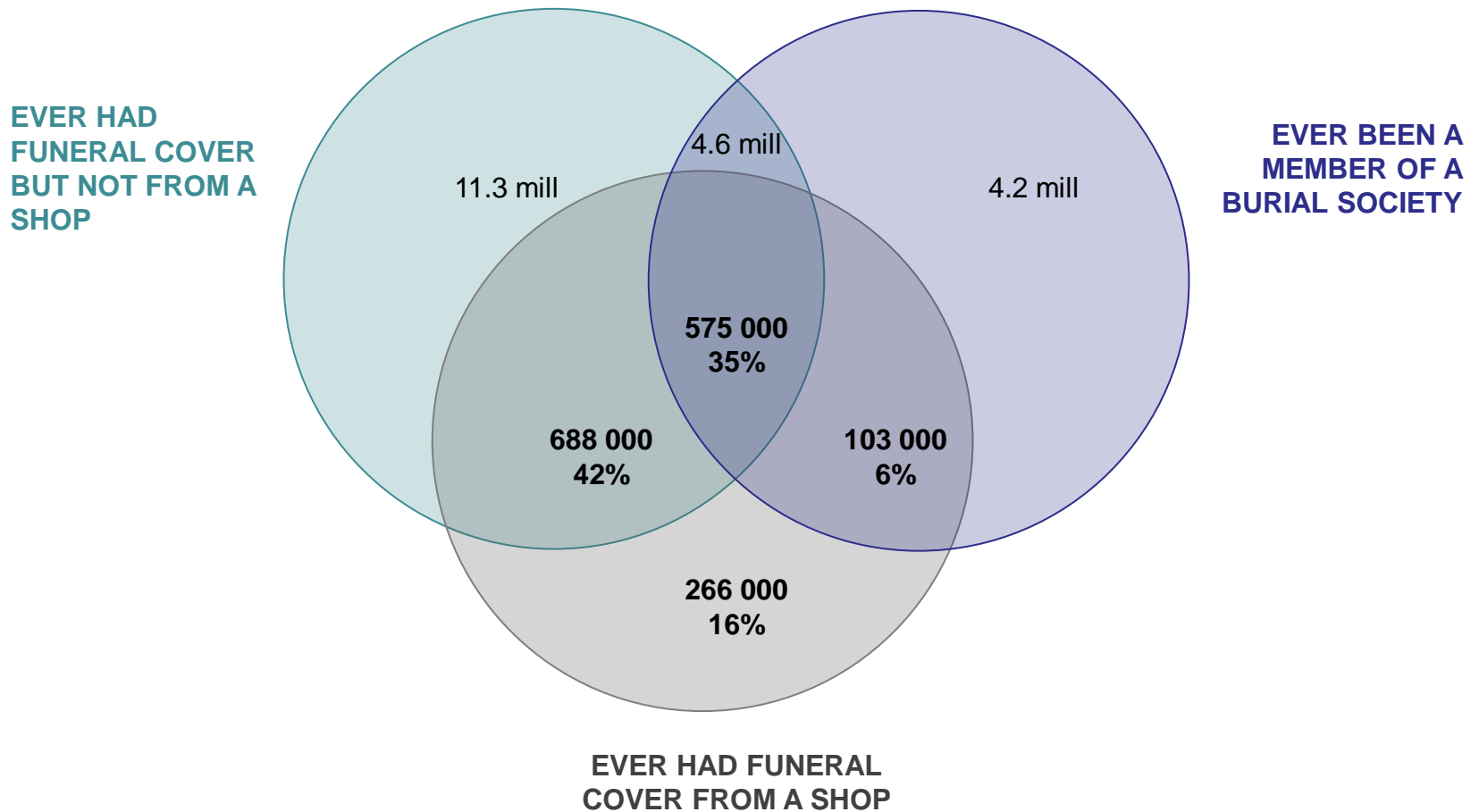


Source: FinScope 2013

Note: Have it in my name/ covered by somebody else

The data does show that funeral cover from a shop is very rarely used as standalone cover

### FUNERAL COVER OVERLAPS



## Qualitative research showed that linked funeral insurance is rarely bought as standalone cover. Additional linked policies were considered attractive in order to provide protection from inflation

---



**Facilitator: Are you guys open to taking more covers in future?**

R7: Yes Things are changing and everything is becoming more expensive so from what I am getting from Clientele and the other funeral cover from the store it's not going to cover the whole funeral I think I might consider taking the third policy.

*Johannesburg, Clothing account with linked insurance*

## In addition, multiple policies allowed respondents to earmark funds for specific funeral expenses



**Facilitator: What about the way you will use the money, will it differ? That the one from Edgar's must just buy the potatoes or, how is it going to differ the way you will use the money?**

R7: In a way it will differ that okay the store one gives R 5000, you can do this and this and this

**Facilitator: What's this, and this and this?**

R7: Let's say with the store one it's for vegetables, the other money is for the coffin, for those that don't have a funeral cover that gives you a coffin, other people will say that Clientele is for the coffin, tent and other arrangements

*Johannesburg, Clothing account with linked insurance*

# Agenda: Insurance



## LINKED INSURANCE

Insurance sold when opening an account

Insurance sold subsequent to  
opening an account

## NON-LINKED INSURANCE

Insurance sold off the shelf

# Some example insurance products offered to account holders



## EDGARS HOME PROTECT



COVER: UP TO  
**100 000<sup>00</sup>**

Maximum cover of R100 000 at  
R49 per month

## DENTAL HEALTH PLAN



INDIVIDUAL FOR:  
**55<sup>00</sup>**  
a month

FAMILY FOR:  
**110<sup>00</sup>**  
a month

Maximum cover of R100 000 at  
R49 per month

## CELLPHONE INSURANCE



COVER: UP TO  
**5 000<sup>00</sup>**

Cover of R5 000 at  
R79 per month

## PERSONAL FUNERAL PLAN



COVER: UP TO  
**20 000<sup>00</sup>**

Cover of R20 000 at  
R39 per month

# The motivation for taking up insurance differs depending on when it is offered



## LINKED INSURANCE



.....  
**ACCOUNT  
APPLICATION**

↑  
**INSURANCE**

.....  
**DELIVERY OF  
PRODUCT**

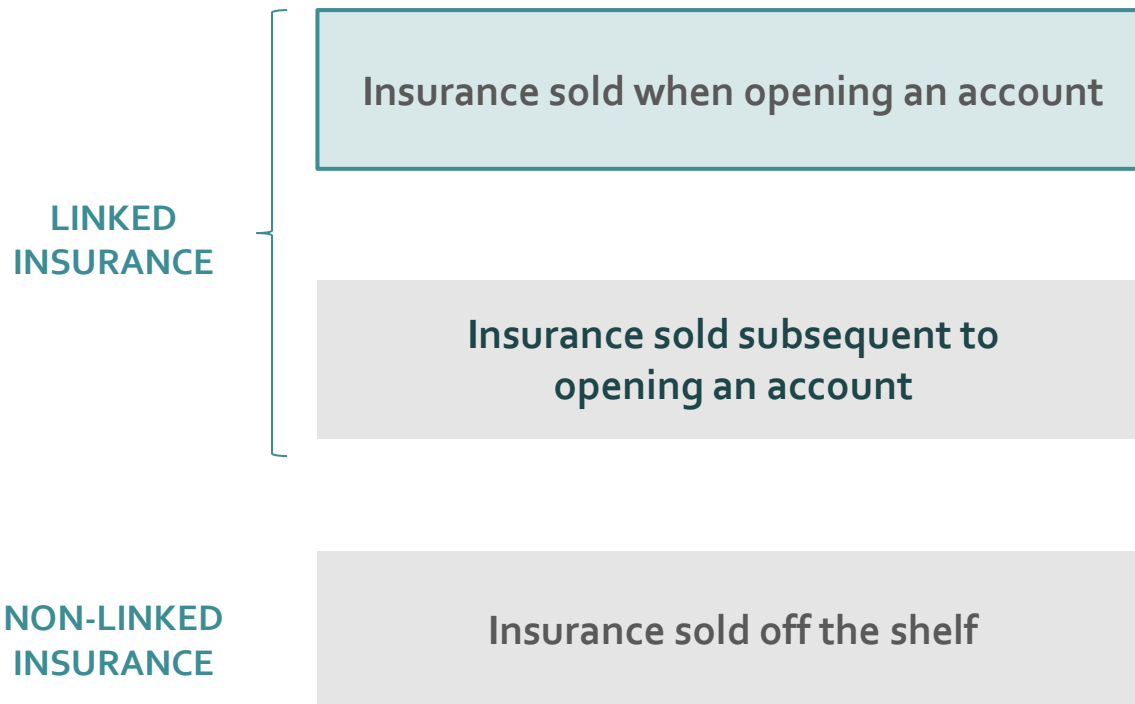


.....  
**ONGOING  
SERVICING**

↑  
**INSURANCE**



# Exploring linked insurance sold when opening an account



## The customer's primary focus is to qualify for a store account. The perception was that signing up for linked insurance would improve the probability of qualification

---



R7: Sometimes there is a feeling – when you go to these people – I think in your mind comes something – these people want to decline you first of all. That is what goes into your mind. I might just go there. People are going to decline me. Now you come and you sit in front of this friendly guy. He tells you – he cracks jokes with you and everything ... bla-bla-bla... you are still thinking oh man – I just want to get this thing. All of a sudden they come to you and say – it is fine. We are going to give you the bed. Huh? Okay. Now whatever this guy is saying to you is okay. This guy is doing me a big favour.

*Cape Town, Furniture*

# Customers are so focused on applying and qualifying for a store account that at the time of application decision fatigue may play a role in the user case for linked insurance



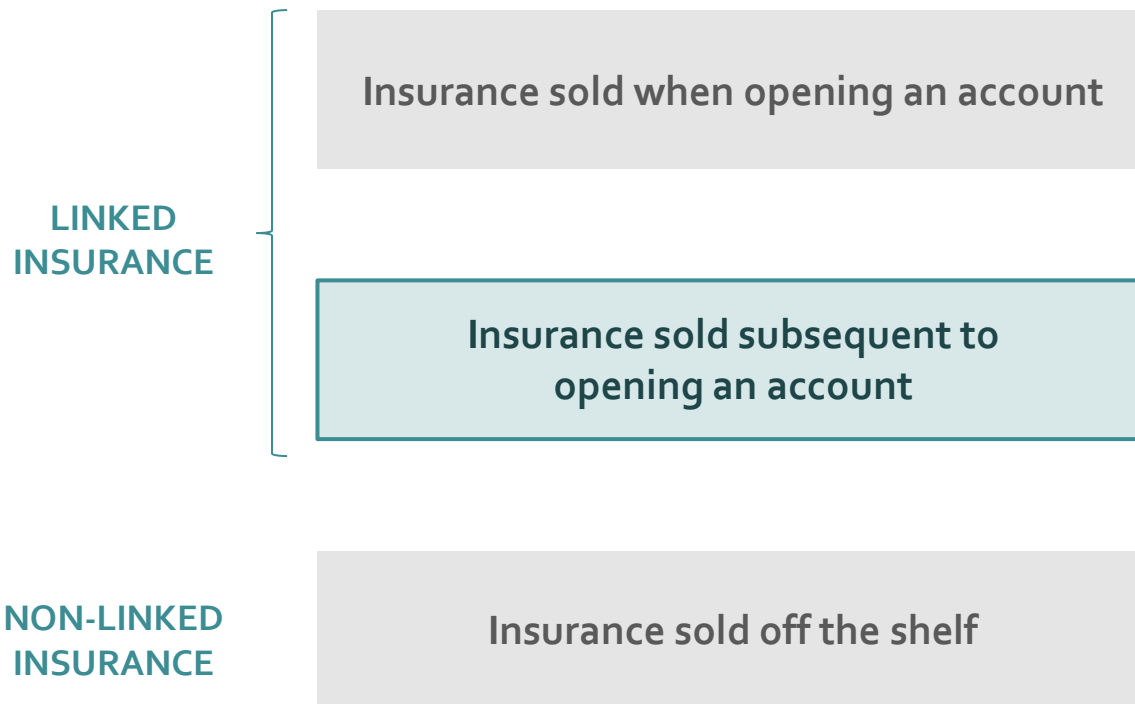
R2: Because a lot of times you just want the account to be approved, you just put everything and sign

...

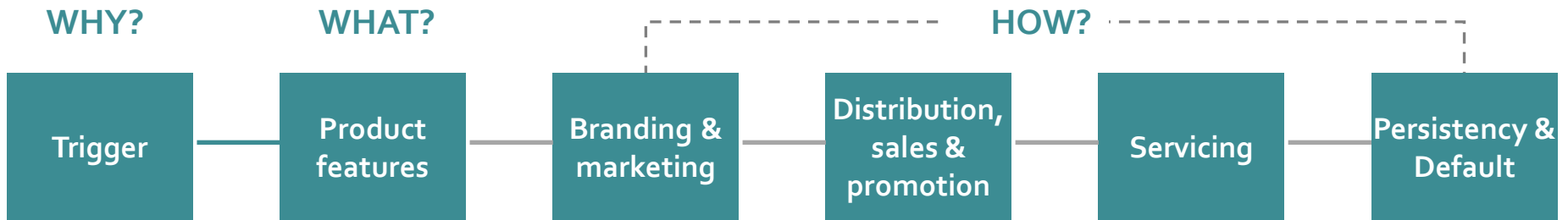
R4: Same with me because I just wanted the account, so they say funeral I said yes, they said they say, yes, if you die that account will be paid out by the insurance, it wasn't necessarily something that I sat and thought about, it was just a then there decision, please approve me and give me what I want

*Johannesburg, Clothing account with linked insurance*

# Exploring linked insurance sold subsequent to opening an account



# Purchase of insurance is no longer a secondary decision when it is purchased once the customer already has a store account



# Linked insurance only really makes sense from the customer's perspective if the lifecycle of the product is aligned with the lifecycle of the merchandise in the case of a term loan



**Facilitator: Where is the best place for insurance – if I want to insure the furniture?**

R1: Insurance company.

R7: The furniture store itself because what happens – when you buy furniture from them on credit – while you are still paying it, it is insured.

R1: When you finish it is not. That is why I say I go with insurance company.

*Cape Town, Furniture*

Retailers are able to use their existing payments infrastructure and so are able to keep costs low. In addition to this the cover is generally lower than that offered by formal insurance companies so the premiums are much lower



FEATURES

**Facilitator: How different do you think these covers are, the store card versus the Hollard and Old mutual from your views, that you signed all of them, how different are they?**

R4: The store ones are cheaper, you pay around R30 or R60, that's what I saw

*Johannesburg, Clothing account with linked insurance*

# Purchasing insurance from the retailer is easy. The retailer calls the customer and if the customer agrees the policy can be activated immediately



**Facilitator:** Okay, which one was the easiest to open in funeral covers looking at what you've got, which one was the easier one to open [the funeral cover from an insurance company or a retailer]?

R (multiple): Store one

(Most agree)

**Facilitator:** How come it was the easiest, you guys say Clientele pays the most but not the easiest to open, what makes it easier?

R5: You are there in their database, if you are a loyal customer they call...

R4: Unlike the other ones you go to them

*Johannesburg, Clothing account with linked insurance*



# Focus group participants were unsure of how claims would work...



R7: What I can say is that we have never had someone claim from a store so we not yet that sure if this is really working and if this thing is going to pay out so we don't take it that seriously. We waiting for the moment when something happens when I will go to a store and see what happens

*Johannesburg, Clothing account with linked insurance*

## However, focus group participants trusted that they would be paid out by the retailer based on the brand and size of the retailer



R7: Like the thing is, no sometimes these things we don't really take them seriously like honestly though, sometimes like even, because you like I do have a funeral cover so this one is just for an account they tell you there is a funeral cover and what, no its fine let them, I will just see whenever something happens.

**Facilitator: Sure, ... what about you, why don't you know?**

R6: ... I didn't think that I needed to ask [who is the underwriter] because it's with Woolworth's and Woolworth is a big company

**Facilitator: Okay**

R6: And I thought okay nothing will happen to Woolworths and it's only through an account

**Facilitator: Sure?**

R6: Yes

*Johannesburg, Clothing account with linked insurance*

# Participants were aware that the insurance policies sold by retailers are underwritten by insurance companies



**Facilitator: So who do you trust between the stores and the insurance companies?**

R3: Insurance companies

R6: I trust them both because they both from insurance companies, they have insurance companies behind them

*Johannesburg, Clothing store account with linked insurance*

R5: Can I ask if like the store has the funeral cover does the you pay the funeral cover through the name of Hollard not from the name of Jet?

R2: I think it is under Jet underwritten by Hollard

R6: Jet is the middle men.

*Johannesburg, Clothing store account with linked insurance*

# Customers perceived retailers to be more flexible than insurance companies and felt that retailers gave them significant leeway before the policy would lapse



R1: I heard that from people, information that you get sometimes, from the store that even if you miss an instalment they will give you space

M: Is it the same for all of you guys?

R4: The Clientele or the private ones, if you miss more than one instalment they don't pay, the Jet, if you don't pay your account for 3 months it stays there until you come and pay, they will deduct your instalments money, but it doesn't lapse, the other does, as long as you still have your account

*Johannesburg with linked insurance*

# Exploring non-linked insurance



LINKED  
INSURANCE

Insurance sold when opening an account

Insurance sold subsequent to  
opening an account

NON-LINKED  
INSURANCE

Insurance sold off the shelf

Pep's funeral cover provides over of up to R18 000. Premiums can be paid up to twelve months in advance



# Affordable Funeral Cover

PEP R18 000 FUNERAL COVER  
Covers you, your partner and up to 3 children\*

PREMIUM 9999

• Daily age 18 - 64  
• No medical assessment  
• Pay your premiums in advance  
• No hidden costs

• Includes cover for:  
• Funeral costs  
• Burial or cremation  
• Transport to funeral home

United Life

PEP R12 500 SENIOR COVER  
Senior cover for yourself\*\*

PREMIUM 8499

• Daily age 65 - 77  
• No medical assessment  
• Pay your premiums in advance  
• No hidden costs

• Includes cover for:  
• Funeral costs  
• Burial or cremation  
• Transport to funeral home

United Life

PEP R13 000 FUNERAL COVER  
Covers you, your partner and up to 3 children\*

PREMIUM 6999

• Daily age 18 - 64  
• No medical assessment  
• Pay your premiums in advance  
• No hidden costs

• Includes cover for:  
• Funeral costs  
• Burial or cremation  
• Transport to funeral home

United Life

PEP R9 000 FUNERAL COVER  
Covers you, your partner and up to 3 children\*

PREMIUM 4999

• Daily age 18 - 64  
• No medical assessment  
• Pay your premiums in advance  
• No hidden costs

• Includes cover for:  
• Funeral costs  
• Burial or cremation  
• Transport to funeral home

United Life

# Respondents found the most appealing feature of the product to be its affordability



**Facilitator: You said Mary you take another one in the future, the fact that you are self-employed how will you decide and what role will that funeral cover play in your life?**

R7: It will depend on my business, it's not guaranteed that you have a certain amount every month. So like that Pep one, my sister took that one. I see that one as a confident one because it's not that much, it's R49 per month. I will be able to pay the R 49 every month even if I do not make money from my own business

*Johannesburg, Clothing account with linked insurance*

# Buying an insurance starter pack off the shelf is a simple process



SALES / PROMOTIONS

**Facilitator: Would you say the process to sign up for this PEP policy was easy or difficult? How did you find it?**

R6: It is convenient

R: Easy

*Empangeni, Pep funeral cover*

R5: I took it because I always buy clothes there...

*Empangeni, Pep funeral cover*



# Being able to pay in cash in store and being able to pay premiums in advance are key advantages



R5: ... I like that I can go to the store and pay the policy in cash

R: Yes I also like that I pay in cash

*Empangeni, Pep funeral cover*

R8: I signed up with the PEP policy because I was at home, not working anymore, so I knew that I could afford the PEP policy because it was only R60 so I have no problem with paying that. If I have surplus money then I pay 3 or 4 months in advance for the policy

*Empangeni, Pep funeral cover*

# Respondents were unsure how to make a claim on their Pep funeral policy despite the fact that they receive policy documents in the funeral policy starter pack



R4: For me, I just got the policy, I remember paying for a starter pack and ended up having this policy, for them they sell it to us but they did not think about expanding things to us properly, when someone dies and you go ask the girls at the tills, they tell us to get our money from the bigger company and they do not send the policy documents as well

*Empangeni, Pep funeral cover*

**Facilitator: which would you say is better to claim from, Pep or the other companies?**

R: The other companies

**Facilitator: Why the other companies?**

R7,5: They have offices

R6: There is no need for you to be calling and faxing, you go straight to the office and hand everything in

*Empangeni, Pep funeral cover*

# Agenda

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Introduction

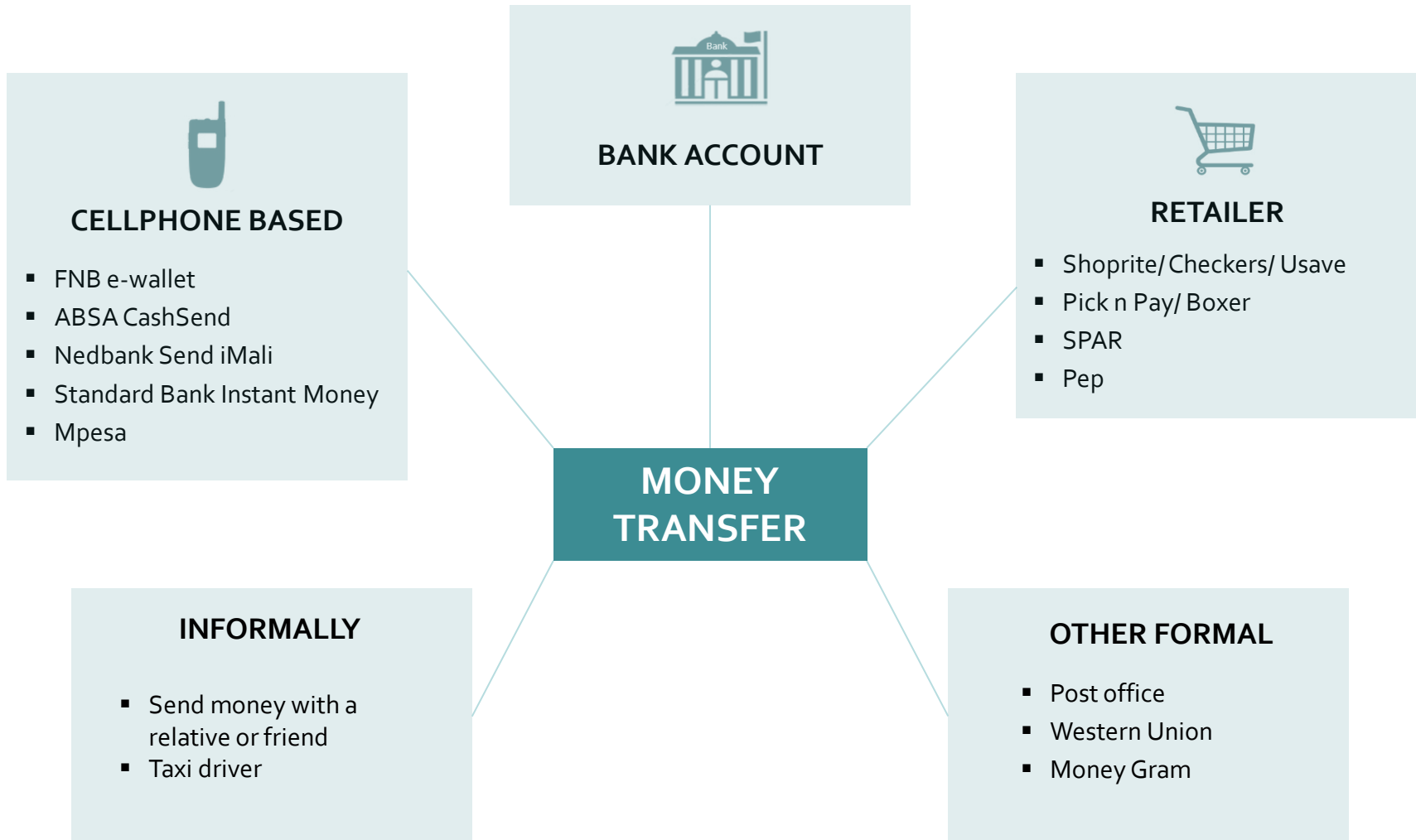
Credit and savings

Insurance

*Money transfer*

Wrap up

# The money transfer landscape

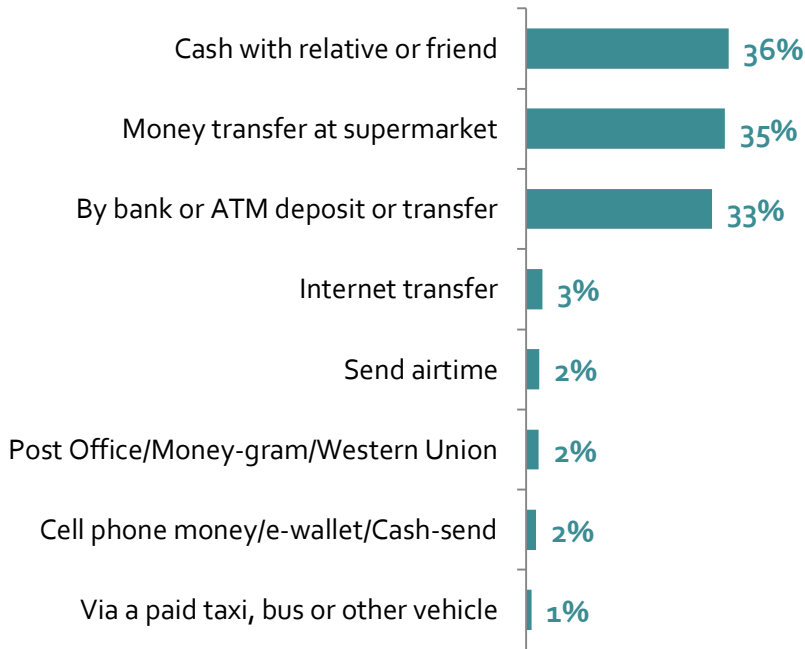


# According to FinScope informal methods of transferring money still dominate



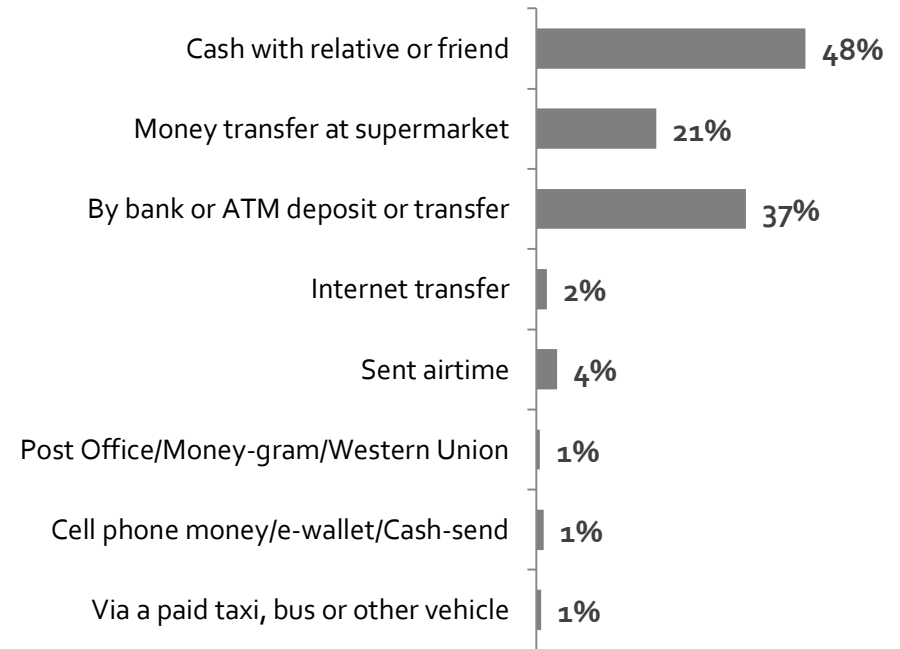
**SENDERS**  
3.5 million

Send money to dependents  
outside household







**RECEIVERS**  
3.1 million

Receive money from person  
outside of households



**A number of retailers offer a money transfer service. Shoprite was the first retailer to offer money transfers in 2006 and they are estimated to hold the majority of the market share within the retail transfer market**



RETAILER	TRANSFER SERVICE	BANK	COST
 USAVE & CHECKERS	MONEY TRANSFER	CAPITEC BANK	Sender: R9.99
	MOBILE MONEY	TYME (Bank of Athens)	Sender*: MTN customer: R4 non MTN customer: R5 Receiver: R4.00 Both sender and receiver must have a mobile money account
	INSTANT MONEY	STANDARD BANK	Sender: R9.95
	MONEY TRANSFER	CAPITEC BANK	Sender: R9.99 Sender must be a member of the Pep Club

Note\*: Assumes that the sender needs to deposit money in at the till at a cost of R4.00 to the sender

# Shoprite money transfers



## SHOPRITE

Launched in 2006 in association with eCentric and Capitec Bank

More than **12 million people** have been registered on the Shoprite money transfer system since its origination



In 2010 around **R10 billion** was sent



Average amount sent:

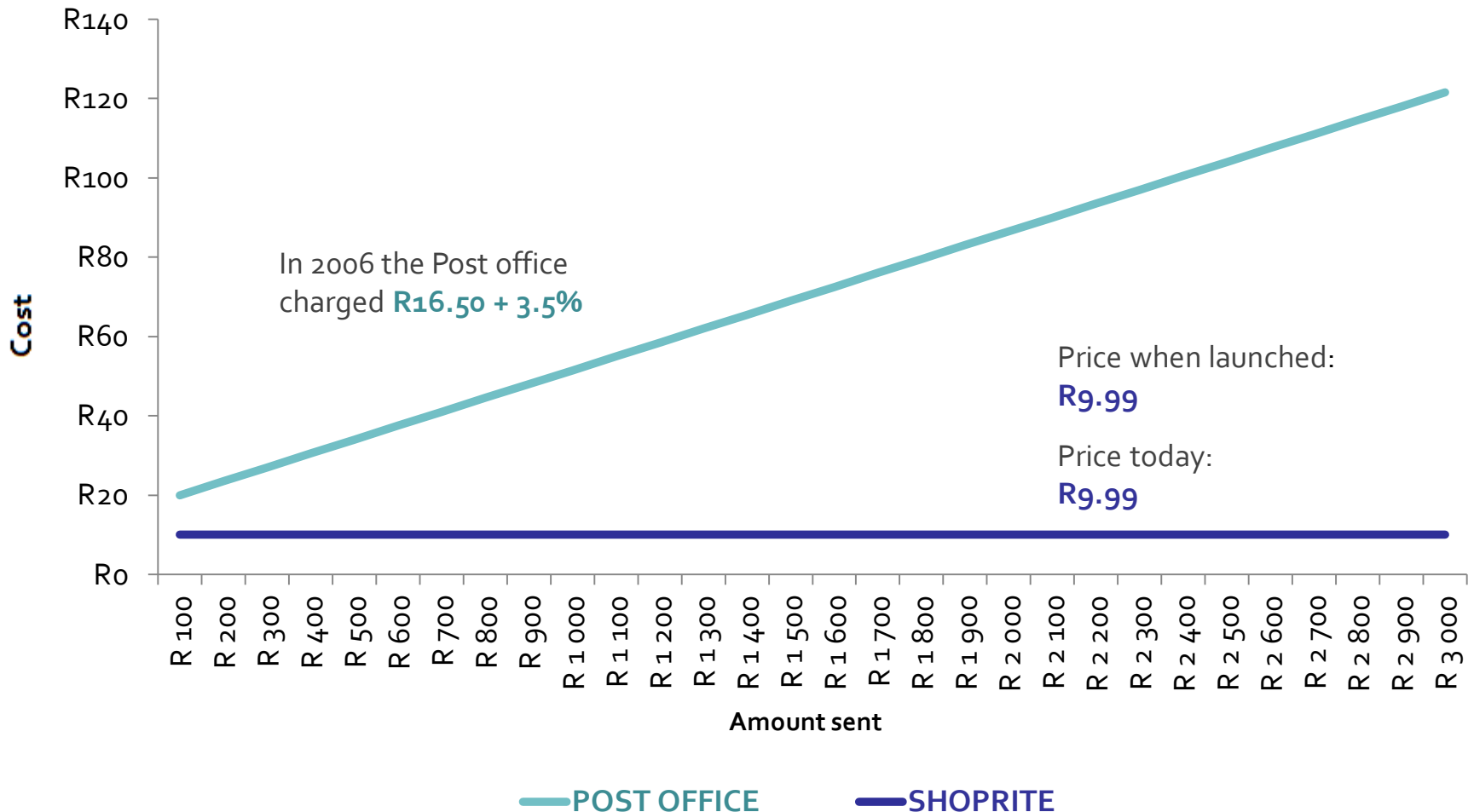


**R500**

When Shoprite launched in 2006 it was priced at R9.99, considerably lower than the main non-bank competitor at the time



### Cost to send money: 2006





# Description of Shoprite money transfer process



Take your SA ID book and a photocopy of your ID to any Shoprite Money Market counter in South Africa.



Show the cashier your ID, give her the money you want to transfer and pay R9.99.



You choose a secret PIN number, and the cashier gives you a receipt with a money transfer reference number. That's it! The money gets transferred.



Phone the person you are sending the money to and tell them the money transfer reference number and secret PIN.



The person collecting the money takes their SA ID book and a photocopy of their ID to any Shoprite Money Market counter, gives the reference number and types in the PIN. They collect the money.

# Eighty2o conducted a survey with people standing in the Shoprite Money Market queue waiting to conduct a money transfer



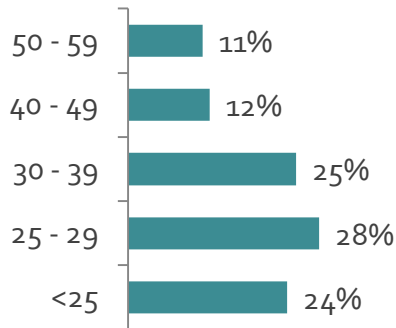
985

TOTAL SURVEYS COMPLETED

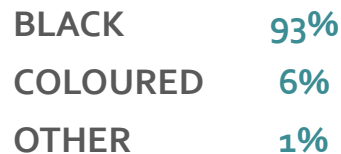
GENDER



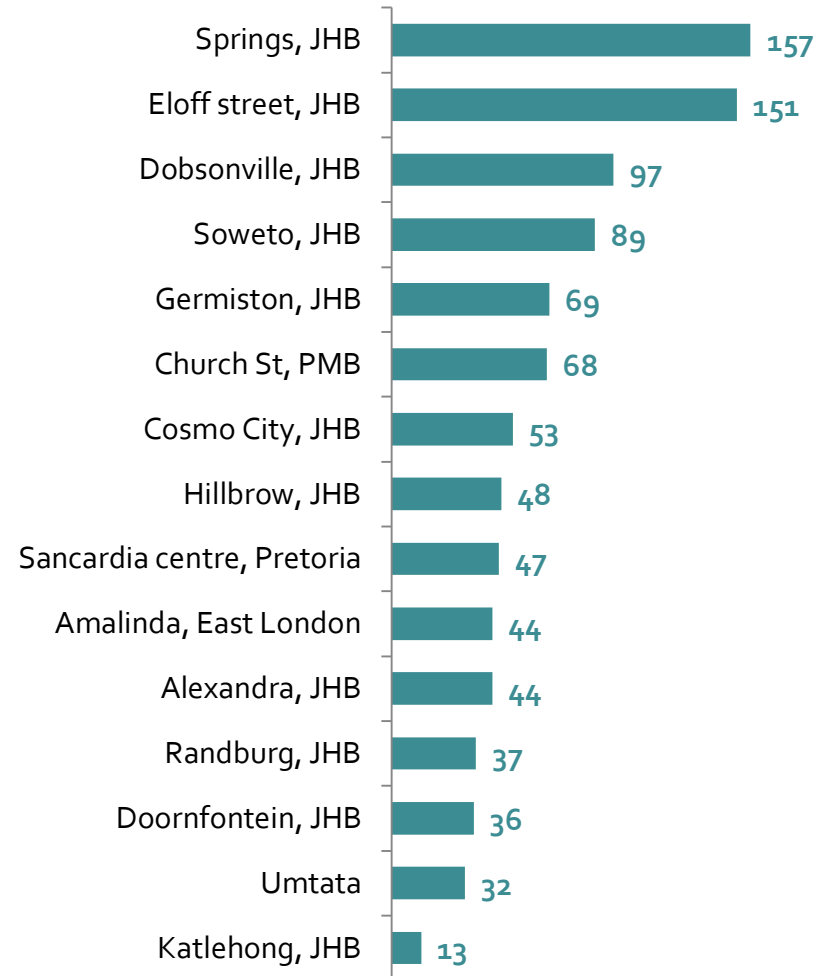
AGEGROUP



RACE



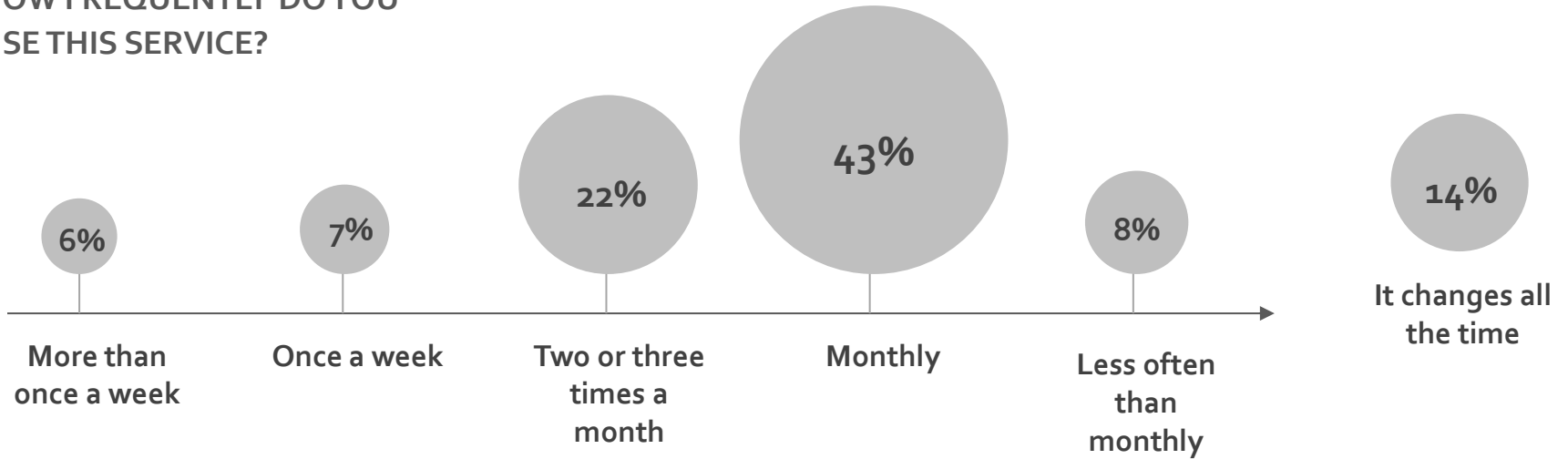
SURVEY LOCATIONS



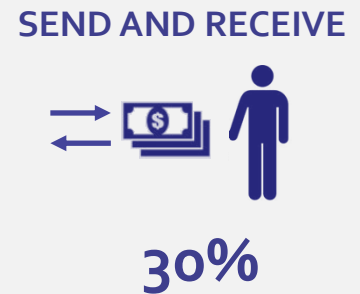
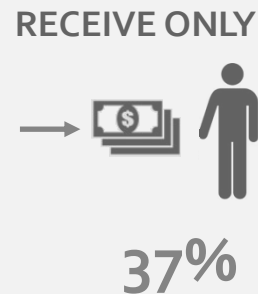
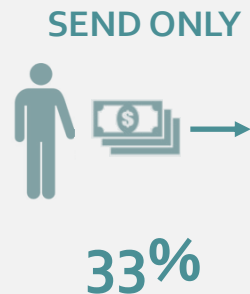
# Thirty five per cent of respondents use the Shoprite money transfer service more than once a month



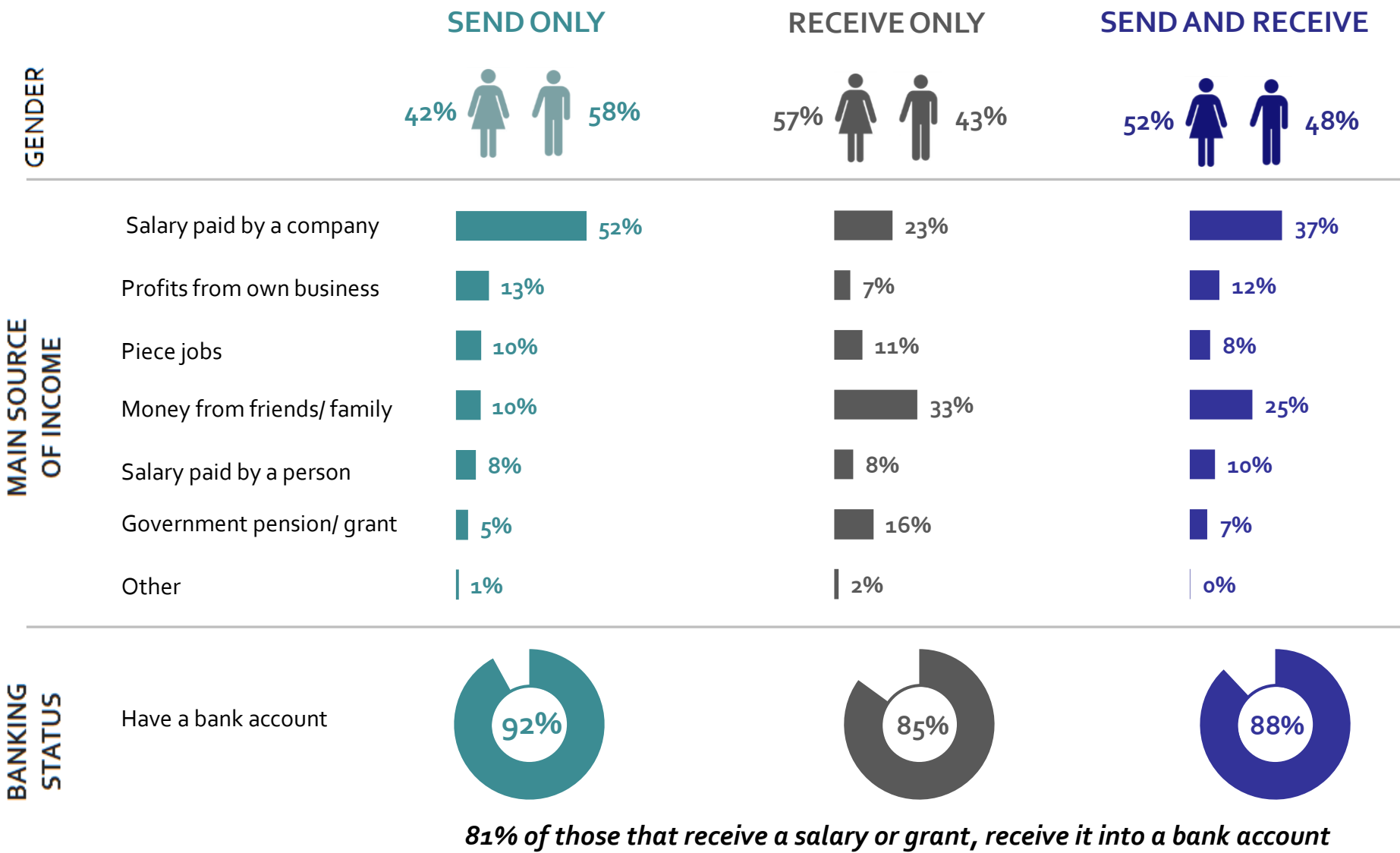
HOW FREQUENTLY DO YOU USE THIS SERVICE?



DO YOU USE THIS SERVICE TO SEND MONEY, RECEIVE MONEY OR BOTH?



# The dominant source of income for those who send is salaries paid by a company. Those who send are more likely to be male

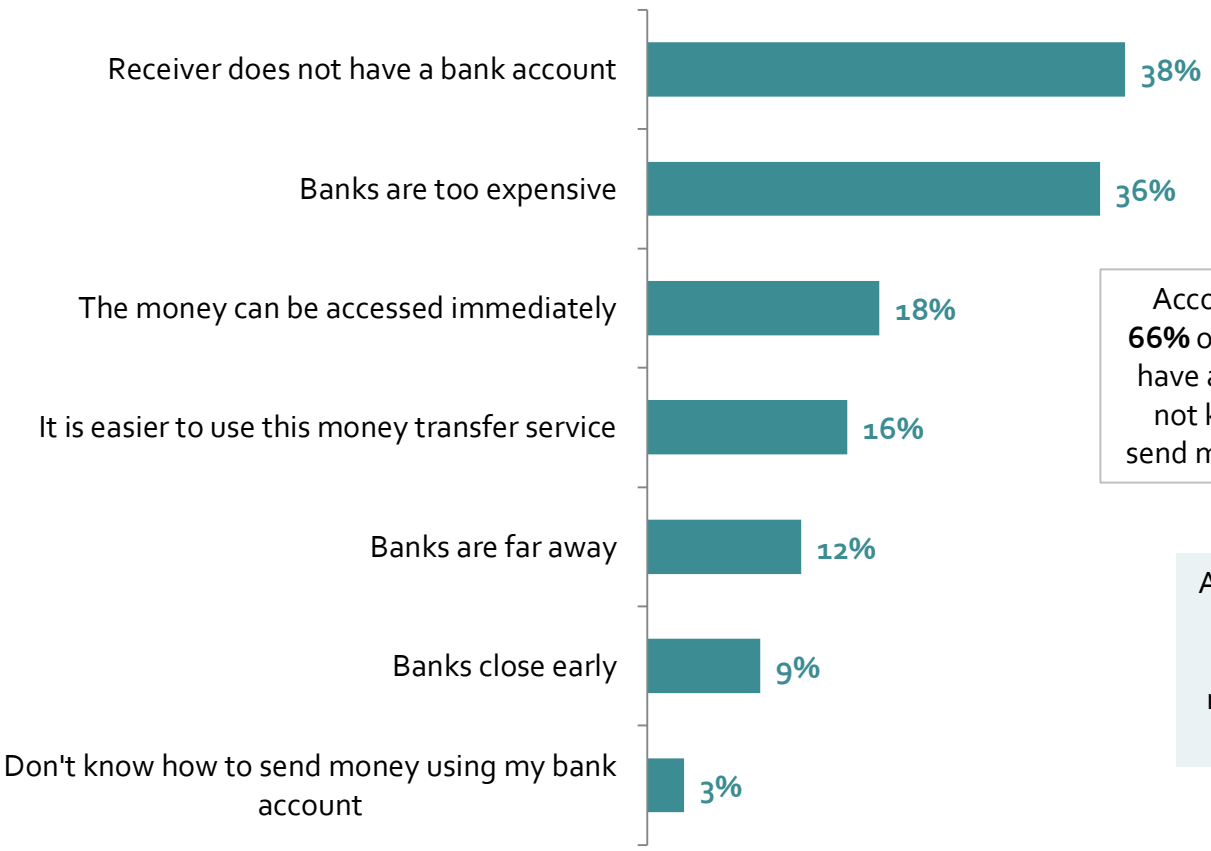


**81% of those that receive a salary or grant, receive it into a bank account**

# Senders with a bank account choose to use the Shoprite money transfer service primarily because the receiver does not have a bank account. In addition, they perceive bank transfers as being more expensive



## WHY DON'T YOU SEND THE MONEY BY YOUR BANK ACCOUNT? *(Use service to send money, have a bank account)*



According to FinScope **48%** of those that receive money from a supermarket do not have a bank account

According to Eighty20's survey **66%** of respondents that send and have a bank account said they do not know how much it costs to send money via their bank account

According to FinScope, **42%** of those that send money to dependents say it takes 30 minutes or more to get to the nearest bank branch

Depending on the account and the method used, the cost of sending and receiving a transfer through a bank account varies widely



		CAPITEC ACCOUNT	ABSA MZANSI ACCOUNT
SENDER	Deposit money	Branch	R1.15 / R100
		Cash accepting ATM	55c / R100
	Transfer	Branch	R3.20
		Telephone	-
RECEIVER	Access cash	Branch	-
		ATM	R4.60
		POS	R1.05

Depending on the account and the method used, the cost of sending and receiving a transfer through a bank account varies widely

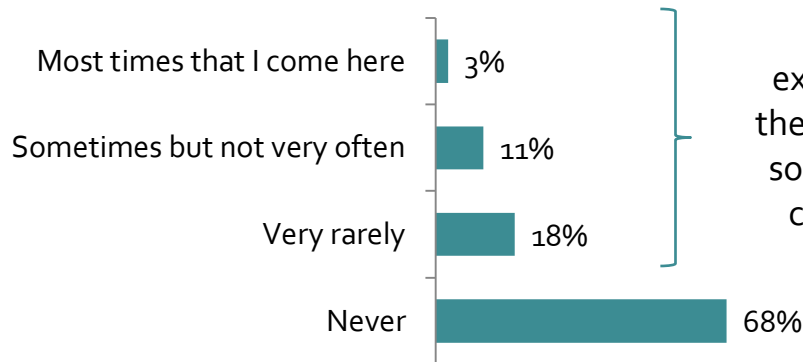


		CAPITEC ACCOUNT	ABSA MZANSI ACCOUNT
SENDER	Deposit money	Branch R1.15 / R100	R13.00
	Transfer	Capitec Sender: R3.20 – R8.95 Receiver: R1.05 – R3.20	R5.20  R33.00 R7.00
RECEIVER	Access cash	ABSA Mzansi Account: Sender: R7 – R59 Receiver: R3.95 – R13	R13.00 R5.20
		POS R1.05	R3.95

**To transfer R500**

# Some respondents had experienced problems with the service. In addition, queuing times for money transfer services can be long

## HOW OFTEN DO YOU EXPERIENCE A PROBLEM SENDING OR RECEIVING MONEY USING THIS SERVICE?

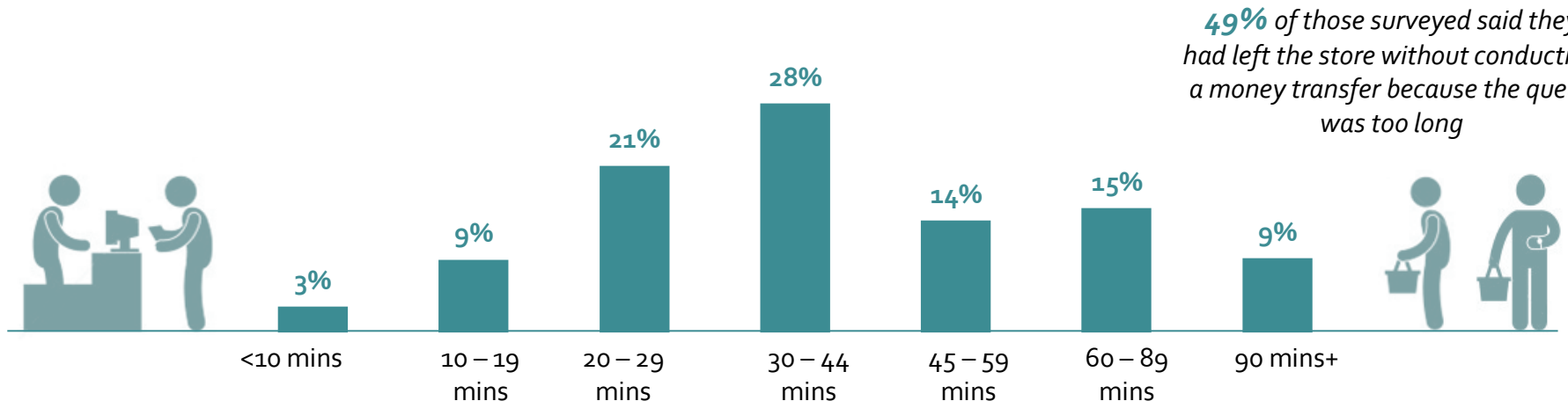


49% of those that had experienced a problem said the problem was not resolved so they had to go home and come back at a later time



29% of receivers had experienced the store running out of cash. Though the majority of them said this happens very rarely

## HOW LONG DO YOU WAIT IN THE QUEUE ON AVERAGE?



49% of those surveyed said they had left the store without conducting a money transfer because the queue was too long



These photos were taken on the 19<sup>th</sup> and 21<sup>st</sup> of March at the Shoprite in Germiston Mall, Johannesburg



WEDNESDAY MARCH 19  
11:12



WEDNESDAY MARCH 19  
14:24

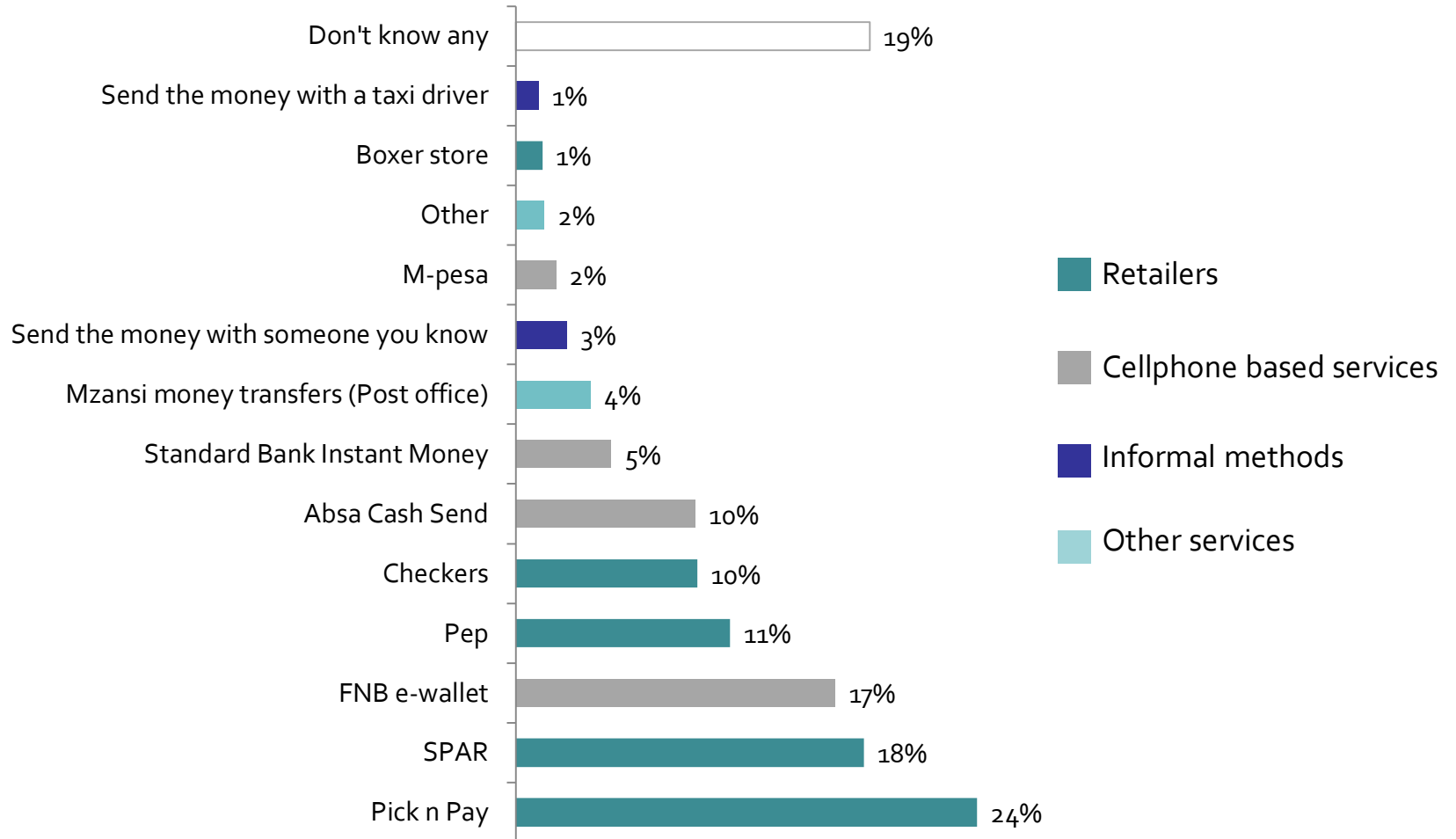


FRIDAY MARCH 21  
(HUMAN RIGHTS DAY)  
10:46

# Almost one in five respondents did not know of any alternative options for transferring money



## DO YOU KNOW OF ANY OTHER WAYS YOU COULD SEND OR RECEIVE MONEY?



# Description of FNB e-wallet

Launched in  
**October 2009**



Since its launch **3 million**  
people have received money  
via the e-wallet



**R5.3 billion** was sent  
between May 2013 and  
April 2014



## SENDERS

### Transfer money via:

- FNB cellphone banking
- FNB online banking
- FNB banking app
- FNB ATMs

### At a cost of :

- <R1000: R8.50
- R1k - R2k: R12.50
- R2k - R3k: R16.50

## RECEIVERS

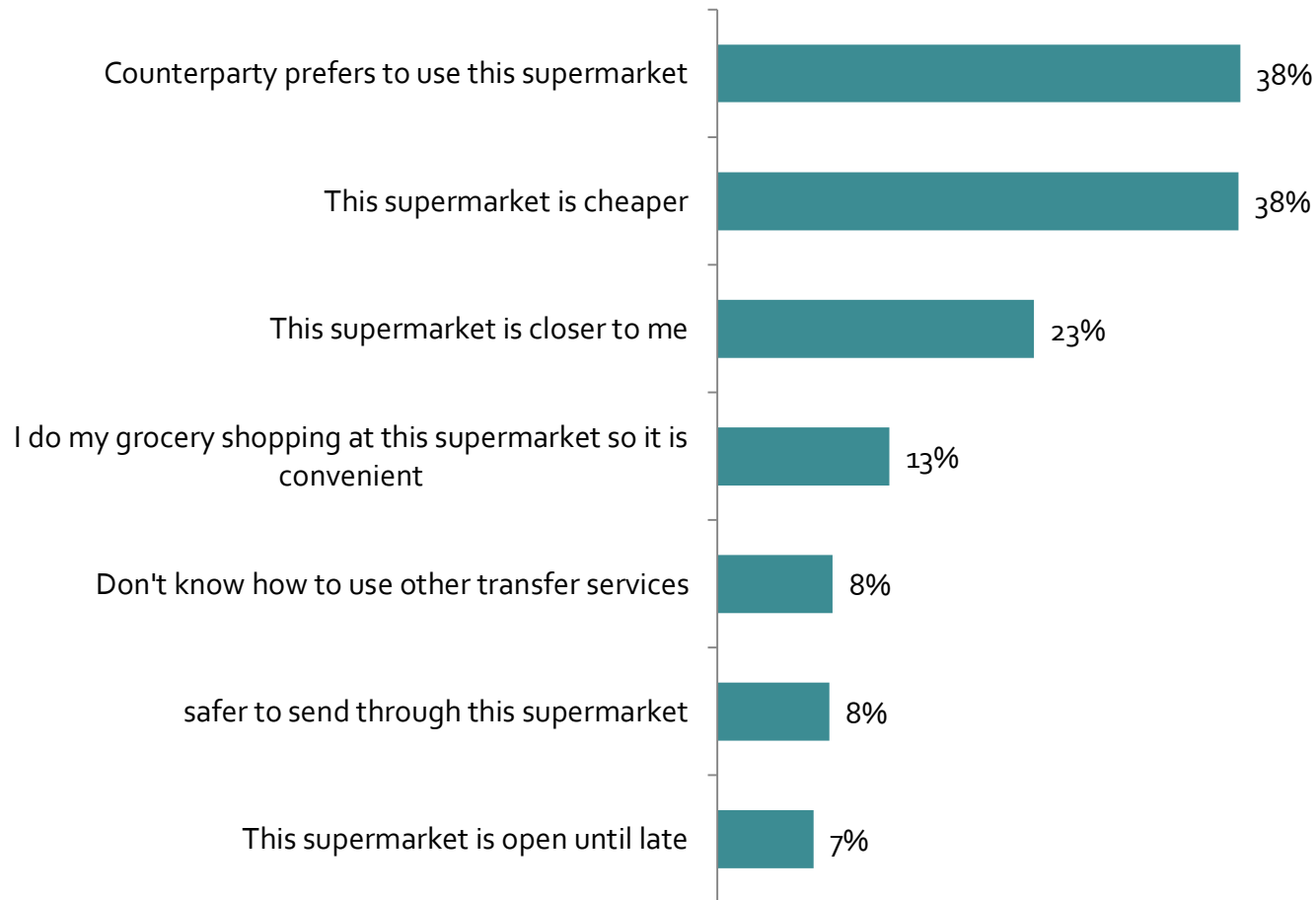
Can withdraw at any FNB ATM

First withdrawal is free, then R6 per  
R500 withdrawn

# The counterparty's preference for a particular transfer method appears important. Shoprite is also perceived as being a cheaper option



## WHY DO YOU USE THIS SUPERMARKET INSTEAD OF OTHER MONEY TRANSFER OPTIONS?



Respondents were also asked about the transfer they were conducting on the day they were surveyed. Of those that were sending money, 81% were sending to a family member, 74% of those receiving money said it was from a family member



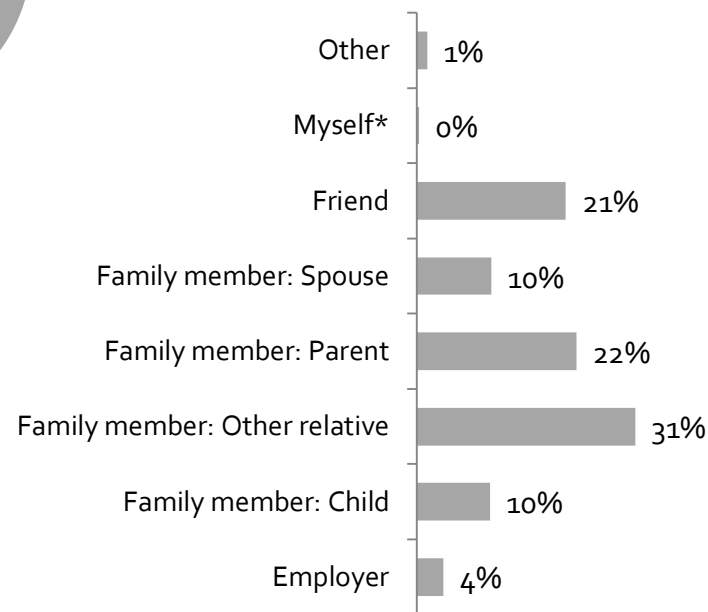
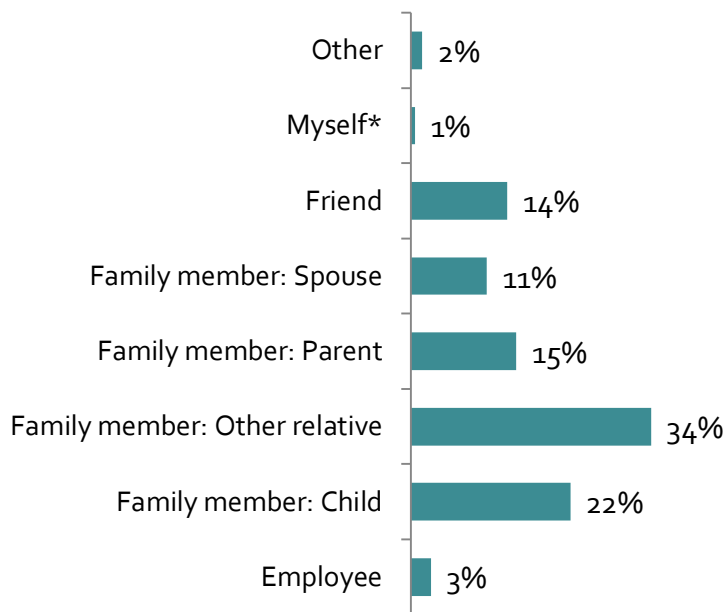
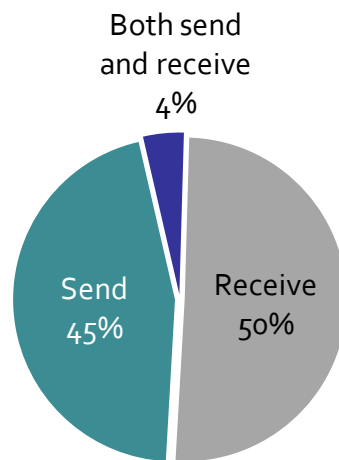
ARE YOU HERE TODAY TO SEND MONEY OR RECEIVE MONEY OR BOTH?

TOTAL SENDERS:  
488 (50%)

TOTAL RECEIVERS  
537 (55%)

WHO ARE YOU SENDING TO?

WHO ARE YOU RECEIVING FROM?



Note \*Of the 5 people either sending or receiving money from themselves, 3 said it was so that they could pick the money up in another area and 2 people said it was to save the money

# Location of the counterparty differs depending on the location of the interviewee



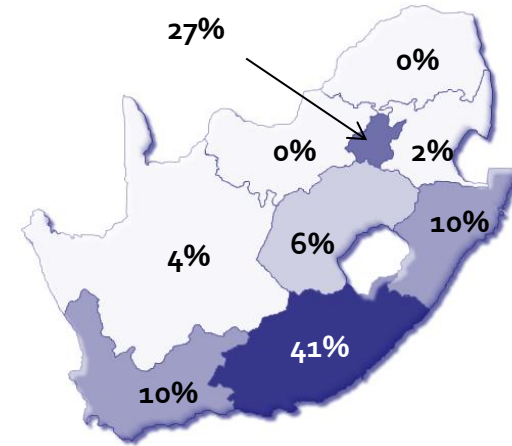
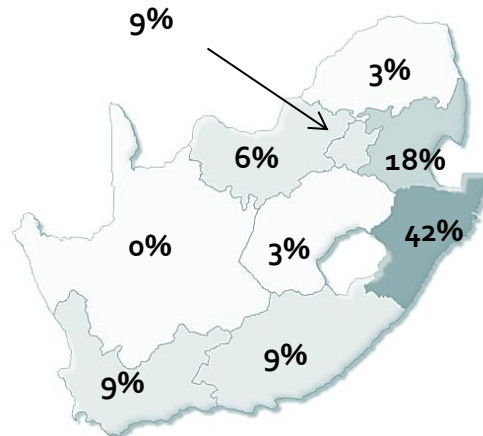
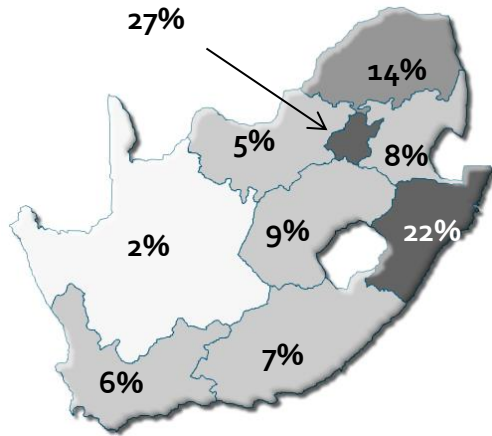
Location of respondent:

**GAUTENG**

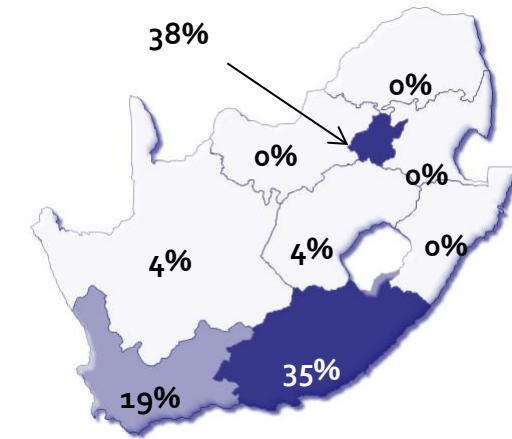
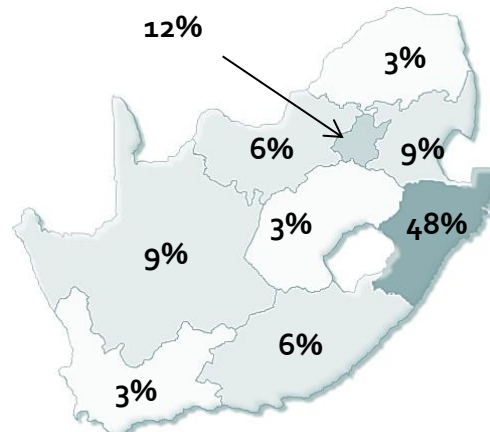
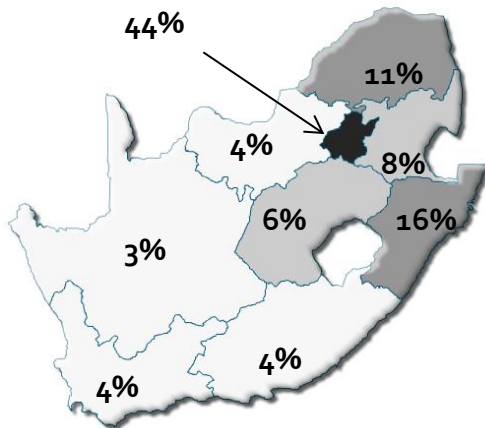
**KZN**

**EASTERN CAPE**

PROVINCE OF PERSON SENDING MONEY TO



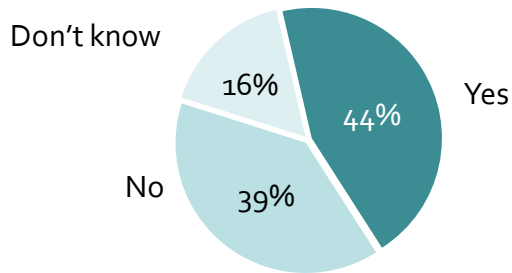
PROVINCE OF PERSON RECEIVING FROM



# Forty four per cent of people sending said the receiver has a bank account. Of those receiving money, 69% said that the person sending to them has a bank account

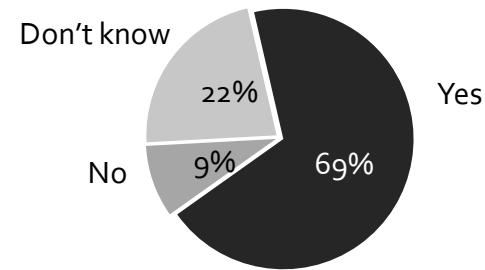


**DOES THE PERSON YOU ARE SENDING TO HAVE A BANK ACCOUNT?**



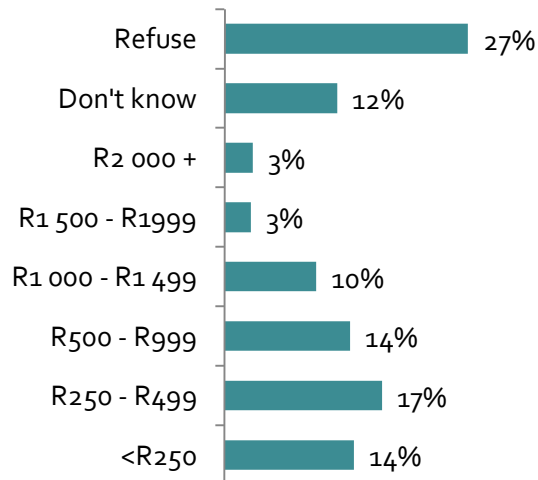
**41%** of those sending have a bank account and the person they are sending to has a bank account

**DOES THE PERSON YOU ARE RECEIVING FROM HAVE A BANK ACCOUNT?**

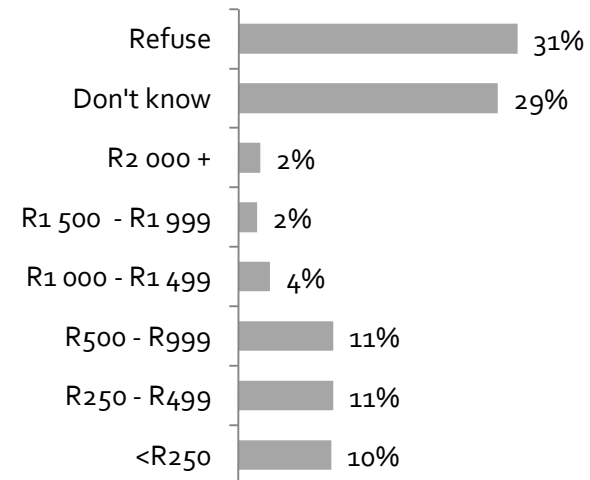


**59%** of those receiving have a bank account and the person they are receiving from has a bank account

**HOW MUCH ARE YOU SENDING TODAY?**



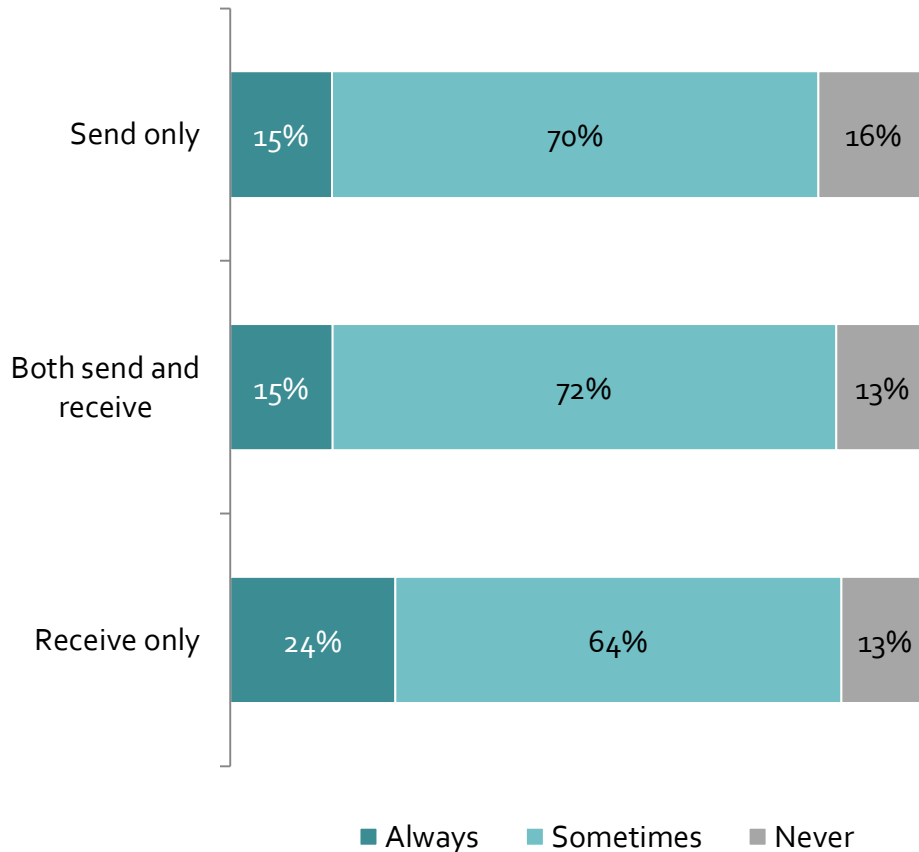
**HOW MUCH ARE YOU RECEIVING TODAY?**



**Eighteen per cent of respondents said that they always buy something in store when conducting a money transfer, 68% said they sometimes do and 14% said they never do. Money transfer recipients are more likely to purchase something in store**



**DO YOU BUY SOMETHING IN STORE WHEN YOU COME TO SEND OR RECEIVE MONEY?**



13% of those surveyed had not visited the store before they offered money transfers

Shoprite estimates that 50% of their shoppers make use of the Money Market counter



# Agenda

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Introduction

Credit and savings

Insurance

Money transfer

*Wrap up*