FINMARK TRUST

Making financial markets work for the poor

Why Retailers?

A FinMark Trust report prepared by Eighty20

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Contents

1. INTRODUCTION

FinMark Trust, in collaboration with Cenfri, has recently commissioned a number of studies exploring how financial services are distributed to the lower-income market. This includes research on low-cost bank branches[1], mapping the potential distribution channels in SADC countries[2], and a review of the business case for retailers to provide financial services. In particular, the latter study explored the increasing role that retailers play in the distribution of financial services in South Africa[3]. It identified the main factors underpinning the business case for retailers to extend their offerings into the financial services domain.

A key question emanating from that study is: what motivates the consumer market to access financial services through a retailer? Put another way, what is the user case for adopting financial services offered by retailers in South Africa? This research seeks to answer the question by understanding the nature of demand for financial services offered by retailers and exploring why and how people use retailers to access financial services. As with the supply-side study, the focal target market is lower income individuals defined as those in Living Standard Measures ("LSM") one through seven[4]. By identifying the key factors that influence the target market's decision to take up financial services at retailers the study aims to position the current and potential role of retailers in servicing the financial needs of lower income individuals.

The question was explored through extensive qualitative and quantitative research across a range of retailer and product types, with a focus on credit, insurance and money transfer products. The research process included five focus groups to probe consumer decision-making processes and purchase criteria around these products. In addition, the project team conducted a survey of just under 1,000 shoppers to explore decision-making around money transfer services.

In addition to primary research, the project team attempted to gather data on the geographic location of points of presence of traditional financial service providers including bank branches and ATMs to assess the degree to which retailers augment the traditional providers' physical footprint. Comprehensive data for banks and ATMs was not accessible. However, causal observation indicates high levels of co-location between traditional financial service providers and retailers. The research explored this concept further through testing perceptions regarding differences in functional access, including opening hours, queuing times and general perceptions of the retail environment and approachability of staff.

Box 1: A recap of the supply side research

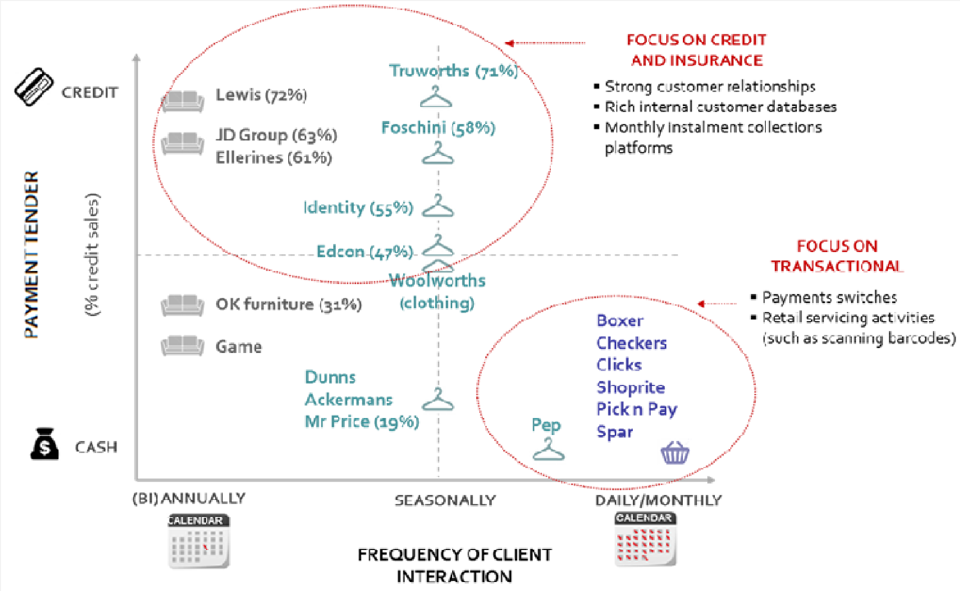
The supply–side research mapped financial services offered by retailers in South Africa and identified key components of the business case for retailers to provide these services.

The research focused on four retailer types: FMCG retailers, cash-based clothing retailers, credit-based clothing retailers, and furniture and appliance retailers. Two dimensions frame this categorisation: an industry dimension and a tender or payment type dimension (namely cash versus credit[5]).

[1] Available at: http://cenfri.org/mobile-and-branchless-banking/the-study-of-the-emergence-of-entry-level-bank-branches-in-south-africa
[2] Available at: http://cenfri.org/mobile-and-branchless-banking/mapping-of-potential-financial-services-distribution-channels-in-sadc
[3] Available at: http://cenfri.org/mobile-and-branchless-banking/understanding-retailers-motivation-for-providing-financial-products-and-services-in-south-africa?highlight=YToxOntpOjA7czoxMDoibW9oaXZhdGlvbiI7fQ
[4] The SAARF LSM (Living Standards Measure) divides the population into 10 LSM groups (10 being the highest to 1 the lowest), based on living standards using criteria such as degree of urbanisation and ownership of cars and major appliances.
[5] Credit retailers were defined as those where credit sales account for 40% or more of total merchandise sales.

The schema in Figure 1 below categorises retailers in terms of their dominant payment mechanism and the purchase frequency associated with their merchandise.

Figure 1: Market map retailers by payment method and frequency of purchase



Source: Authors' own

There are clear clusters of retailers along these two parameters. Credit-based retailers typically offer products that are underpinned by their retail credit products. These retailers have diversified into insurance and additional non-retail credit products by leveraging their strong customer relationships, rich internal customer databases and monthly instalment collections platforms that developed as a result of their retail credit offering. In contrast, cash-based retailers, including FMCG retailers such as Pick n Pay and Shoprite, tend to offer simple, convenience based and high frequency transactional services such as cash withdrawals at point of sale ("POS") and money transfer services. These services leverage the payments switches developed to process payments between banks and customers. In many cases the activities and processes required at point of sale to fulfil the transaction align closely with retail servicing activities (such as scanning barcodes). An exception to this is PEP, a cash-based clothing retailer that offers high frequency transaction services that are more typically offered by FMCG retailers[6].

Based on an analysis of these retailers aside from facilitating the retail transaction there are three primary reasons that retailers offer financial services:

1. Increased footfall

Retailers offer financial services that are in demand within their target markets in order to draw more customers into the retail environment more frequently. This includes both attracting new customers into the store and increasing the number of interactions with existing customers.

2. Driving more profitable customer behaviour

Financial services can be used to drive more profitable behaviour from customers once they are in-store either by encouraging them to increase basket size or to incorporate higher margin products into the basket. This is best

[6] PEP initially offered money transfer services at till point to all shoppers. It subsequently restricted access to the service to members of its in-house loyalty programme in order to curtail very high demand and limit the impact on the retail environment.

illustrated through restricting access to well-priced financial services conditional on customers meeting certain criteria, for example spending above a set threshold, becoming a credit customer or belonging to a club or loyalty programme.

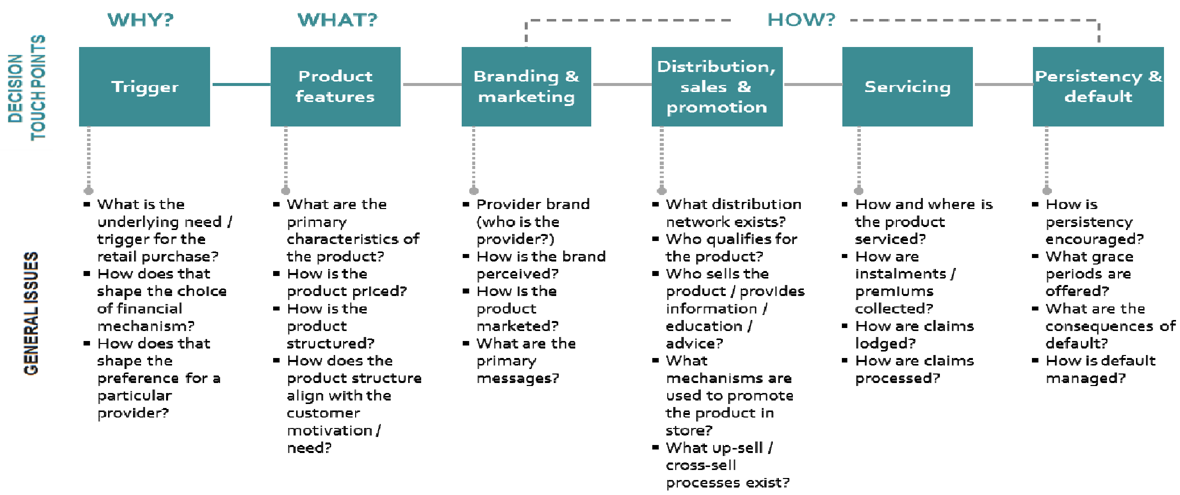
3. Leveraging existing assets and infrastructure to grow margin

Retailers have invested in physical store networks and payments infrastructure in order to operate their core retail businesses. In addition, they often have strong and trusted brands and some have existing mechanisms to communicate with their customers through club newsletters and magazines. Credit retailers in particular have rich client data that can be mined to inform merchandising decisions, financial product design and to generate sales leads. All these assets can be leveraged to provide financial services that offer good value to customers and generate high profits for the retailer.

2. UNDERSTANDING CONSUMER BEHAVIOUR

A range of factors and considerations influence the selection process for financial services. These include the underlying merchandise purchase trigger and merchandise purchase processes, the financial product features (including pricing and product structure), branding and marketing messages, distribution and sales channels, servicing models and delinquency management as summarised in the framework presented in Figure 2 below.

Figure 2: Consumer decision framework



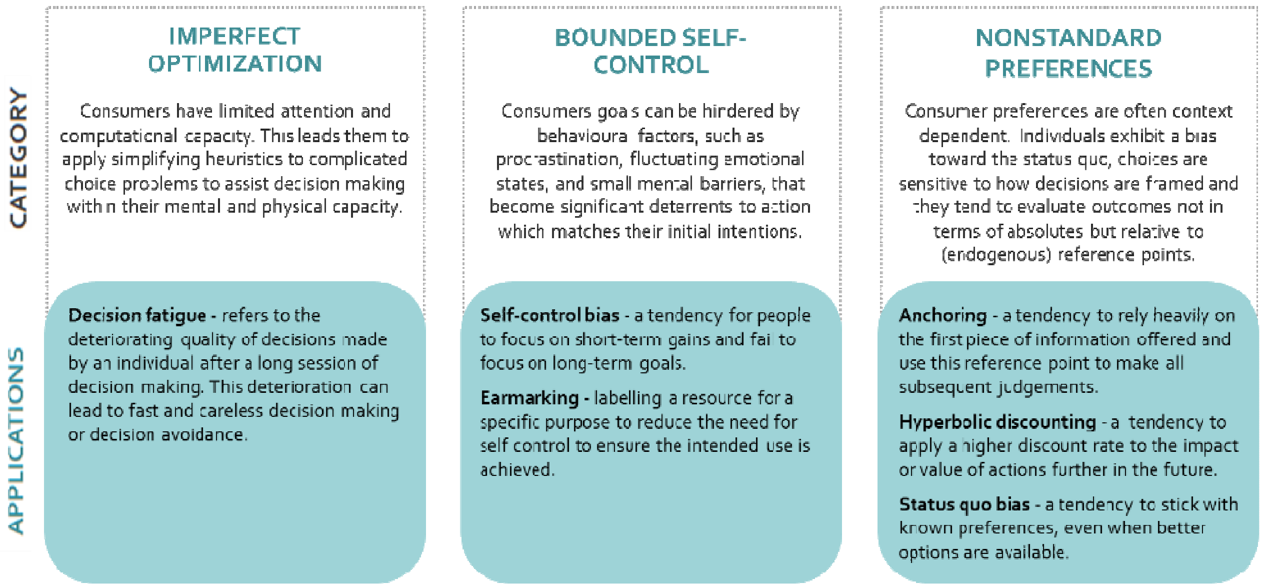
Source: Authors' own

While this framework reflects a supply side perspective, it is a useful lens through which to examine how the customer perceives the various touch points as he or she engages with the retailer and how these influence the selection process.

Underpinning this framework is the assumption that the consumer is rational, in other words that he or she has a well-defined objective and purposefully selects an optimal solution from a range of available alternatives, subject to financial and other constraints, in order to maximise utility. Such a consumer would actively seek information and engage with it to inform the selection of products. In addition he or she would select the lowest cost option, holding all else constant. Yet, the emerging field of behavioural economics highlights that decision-making is often fraught with irrationality. There are psychological, social, cognitive and emotional factors that influence choices. For example, consumers may be disproportionately afraid of feeling regret, overly influenced by outside opinion, suffer from status quo bias or compartmentalise expenditure (Datta and Mullainathan, 2012). These are important to understand in order to appropriately explore the consumers' motivation during the decision making process.

There is no mutually exclusive and comprehensively exhaustive framework that organises applicable behavioural biases neatly into distinct categories. However, they can be loosely grouped together into three categories as illustrated below.

Figure 3: Three broad categories of behavioural biases



Source: Congdon and Mullainathan, 2011

Box 2: Some applications of behavourial biases explained

Decision fatigue

Scarcity of cognitive capacity can lead to fast and careless decision making or decision avoidance, and may bias consumers towards products that are easier to select or more familiar (see Status Quo Bias below). This is likely to be pronounced when the products under review are complex and when information takes time or effort to obtain, as is often the case with financial products. Decision fatigue may be more pronounced for secondary decisions. In the case of a retail purchase, the primary decision – namely the selection of the merchandise to be purchased, may absorb available cognitive capacity in and of itself (Datta and Mullainathan, 2012). Secondary decisions relating to associated financing mechanisms may well be neglected due to the limited remaining decision-making "bandwidth". Consumers could therefore not think through the implications of their choices with sufficient care.

Self-control bias

Self-control bias reflects the incongruence between intention and action. Despite a stated aversion to credit and an intention to save an individual may be tempted to "buy now and pay later" or forgo longer term objectives in favour of short-term gains. Behavioural economists highlight that self-control is a limited resource and that exercising self-control in one task in a sense depletes the amount available for other tasks. Those who are aware of their lack of self-control may prefer products that facilitate self-control or impose a pre-commitment constraint to enable them to avoid the temptation to spend (Datta and Mullainathan, 2012).

Earmarking

Earmarking is the process of categorising different pools of money for specific applications (Yoong, 2013). This practice can help with money management, but is often inefficient in maximising returns and/or minimising costs. For example many people choose to own multiple clothing and furniture accounts, as well as a credit card. Having multiple accounts can lead to higher relative fees since all purchases could be made using the credit card. However, the store accounts help people budget and control expenditure on specific purchases that would be more difficult to do if they only used their credit card.

Present bias (Hyperbolic discounting)

Hyperbolic discounting is a decision-making bias that reflects an inconsistency over time of the assignment of value to decision outcomes. Customers make decisions today that are not aligned with the preferences of their future selves (Yoong, 2013). They may apply differential discount rates over time with costs incurred in the distant future discounted at higher rates than costs incurred in the near future. This has the clearest applications with regard to the simultaneous use of high cost credit products to finance an immediate purchase versus accessing low yielding savings products earmarked for a longer term project.

Anchoring (Relativity trap)

This occurs when individuals use an initial piece of information (the anchor) as a reference point to make subsequent judgments (Yoong, 2013). For example when comparing prices, an initial expensive option may make other options appear more reasonable in comparison. Retailers will often display a marked down price together with the original higher price, which serves as the anchor price, to make the new price appear more attractive.

Status quo bias

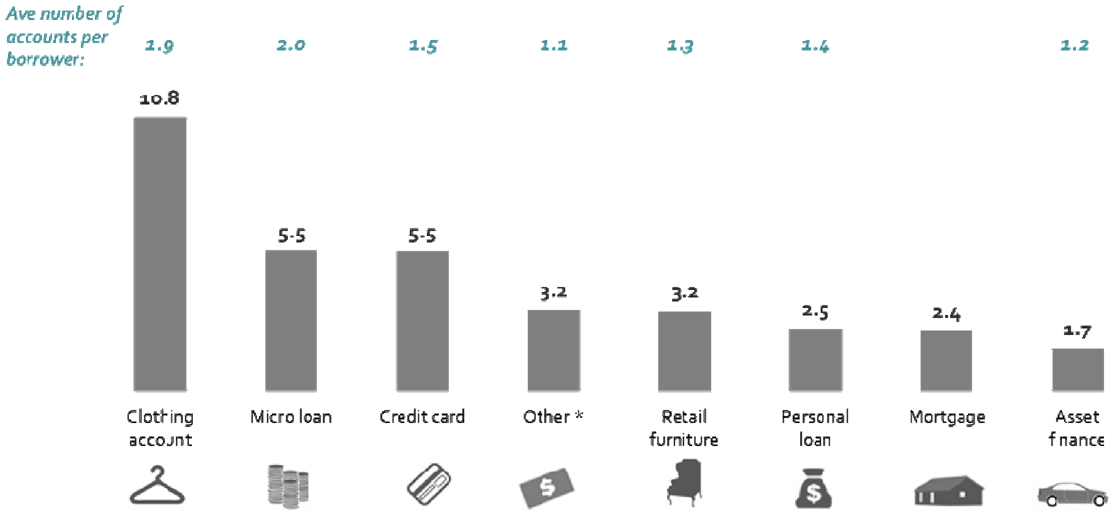
Status quo bias is the tendency for people to stick with what they know even when better options may be available (Datta and Mullainathan, 2012). In the case of retail credit such as clothing accounts, customers could have been using this mechanism for years, as might their friends and family members. Many established customers may not even consider exploring alternative options because a store account is their entrenched habit. This is reinforced by in-store promotion and broader marketing of credit which confirms account purchases as the normal approach.

As noted above, the research methodology regarding credit and insurance products drew predominantly on focus group discussions. This methodology, reliant as it is on rational recollection and projection, is unlikely to uncover unconscious biases that influenced decisions taken in the past and will influence behaviour in the future. Participants were asked to recall the factors that influenced their decision to select credit and insurance products offered by retailers. The discussions also explored what participants would do in the future. Behavioural economists emphasise that consumers' considered responses to hypothetical scenarios are not in fact a reliable indicator; what consumers say they will do, and what they actually do are often very different. In addition, there is likely to be some bias in what participants disclose particularly if they seek to justify poor decisions retrospectively. There are thus implications of cognitive biases not only for the underlying research question, but also for the robustness and completeness of findings themselves. Nevertheless, the findings are a useful initial step that frames key issues for further research and experimentation going forward.

3. CREDIT AND SAVINGS

South Africa has a very well developed consumer credit environment in which retailers play a significant role. According to credit bureau data sourced from Xpert Decision Systems ("XDS") as of July 2013 there were around 16.8 million consumers with an open credit account in South Africa[7]. Of these, 10.8 million had at least one clothing store card, while 3.2 million customers had at least one furniture account[8].

Figure 4: Number of unique borrowers with open accounts (millions)



Source: XDS data, July 2013
** 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, and disputed in the last two years. A total of 6.9 million consumers have a microloan or a personal loan
Note: A microloan is an unsecured loan issued by a member of Micro Finance South Africa, a personal loan is an unsecured loan issued by a member of the Credit Providers Association

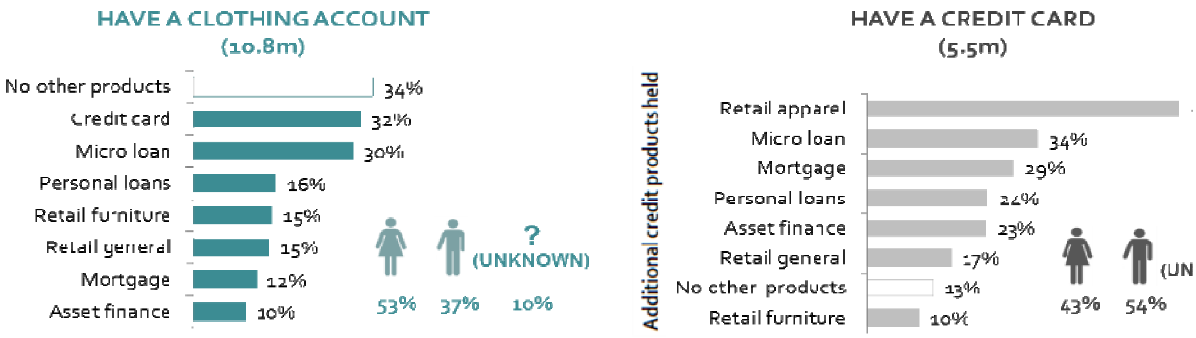
Store cards offered by clothing retailers are typically structured as revolving credit facilities that allow customers to draw down on available credit. This aligns well with an underlying seasonal purchase cycle for clothing.

Credit cards are also structured as revolving credit facilities and could easily substitute for clothing accounts. In some cases borrowers have both products. According to credit bureau data just under one third of those with a clothing account also have a credit card. However, overall there is a noticeable difference in the profile of the user base for these two products. There is a skew towards females within the clothing account client base and a skew towards males within the credit card base. In addition, clothing account holders tend to have lower credit scores; 43% have a presage score[9] of under 700, compared to 25% for credit card holders[10]. Clothing account holders are also far more likely to have no other credit products than credit card holders. As shown by, over a third of clothing account holders have no other formal credit products compared to 13% for credit card holders. This reflects the product's positioning as an entry point into the formal credit market for many borrowers. Indeed, some focus group participants had

[7] According to the 2011 Census there are 33.7 million adults who are 18 or older
[8] On average there are 1.9 accounts per unique clothing account holder. In the case of furniture credit, there are 1.3 accounts per active client.
[9] The Presage Score is XDS's proprietary credit scoring system. The higher the score the better the credit risk. Not all borrowers have been scored. No scores are available for 14% of clothing account holders and 8% of credit card holders
[10] If we restrict the comparison to mutually exclusive groups of borrowers – those with credit cards but no store cards and vice versa – the difference is starker. Twenty two per cent of those with credit cards but no clothing accounts have a Presage score of under 700 compared to 51% for borrowers who have clothing accounts and no credit cards.

selected the product with the primary purpose of creating a credit history required to access higher order credit products, including credit cards and secured credit products.

Figure 5: Credit product overlap for borrowers with a retail apparel account and credit card



Source: XDS data, July 2013

Furniture and appliances are generally big ticket items which require a significant investment on the part of lower income households. Purchase frequency is relatively low. Furniture accounts are therefore structured as term loans, typically with a maximum term of 36 months. While some retailers provide unsecured loans to finance purchases, historically furniture loans were secured by the underlying furniture or appliance purchase. Technically consumers who default risk repossession of the item although retailers indicate this occurs relatively infrequently.

A stand-alone personal loan or microloan sourced from a third party could be used to finance the furniture or appliances purchase instead of a furniture loan. As with clothing accounts and credit cards there is some overlap between these substitute products.

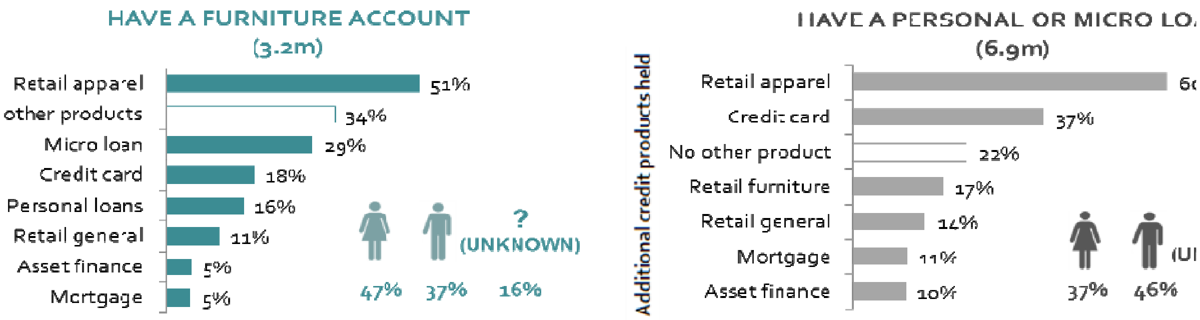
Figure 6 below shows that 38% of those with a furniture loan have an unsecured loan (29% of those with a furniture account have a micro loan and 16% have a personal loan[11]). Credit scores for retail account holders are noticeably lower than scores of those who hold alternative products: 61% of furniture account holders have a Presage score[12] of 600 or less, compared to 49% for micro loan and 43% of personal loan borrowers[13].

[11] The distinction between micro loans and personal loans arises from the nature of the lender and historic patterns of reporting data to credit bureaus. Personal loans are unsecured loans provided by lenders who are members of the Credit Providers Association while micro loans are unsecured loans provided by lenders who historically reported data to the National Loans Register.

[12] Presage scores are calculated by XDS. The score predicts payment delinquency and ranges from 400 to 1000. A lower score indicates a greater likelihood of delinquency

[13] There is no data for 19% of furniture account holders compared to 25% of micro loan borrowers and 10% of personal loan borrowers,

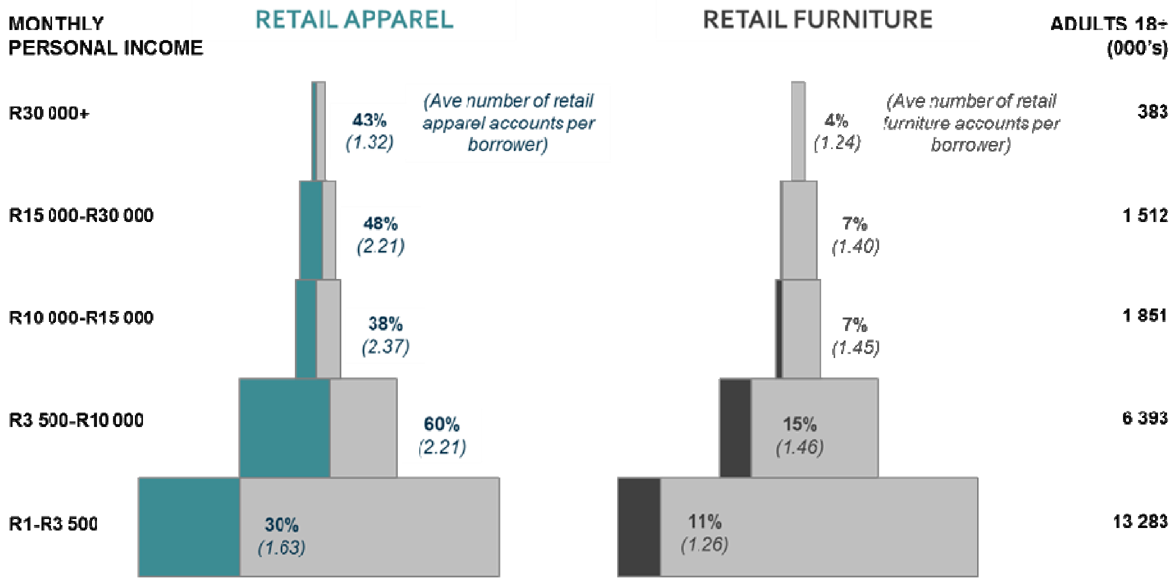
Figure 6: Credit product overlaps for people with a furniture account and a personal or micro loan



Source: XDS data, July 2013

Income profiles also differ noticeably with 55% of furniture account holders earning less than R3500 per month. Penetration of clothing accounts is particularly high in middle income segments of the market. Approximately 60% of people with a personal monthly income of between R3 500 and R10 000 have a clothing account and that segment accounts for roughly 36% of all borrowers who have clothing accounts.

Figure 7: Penetration of retail apparel and furniture accounts by income group

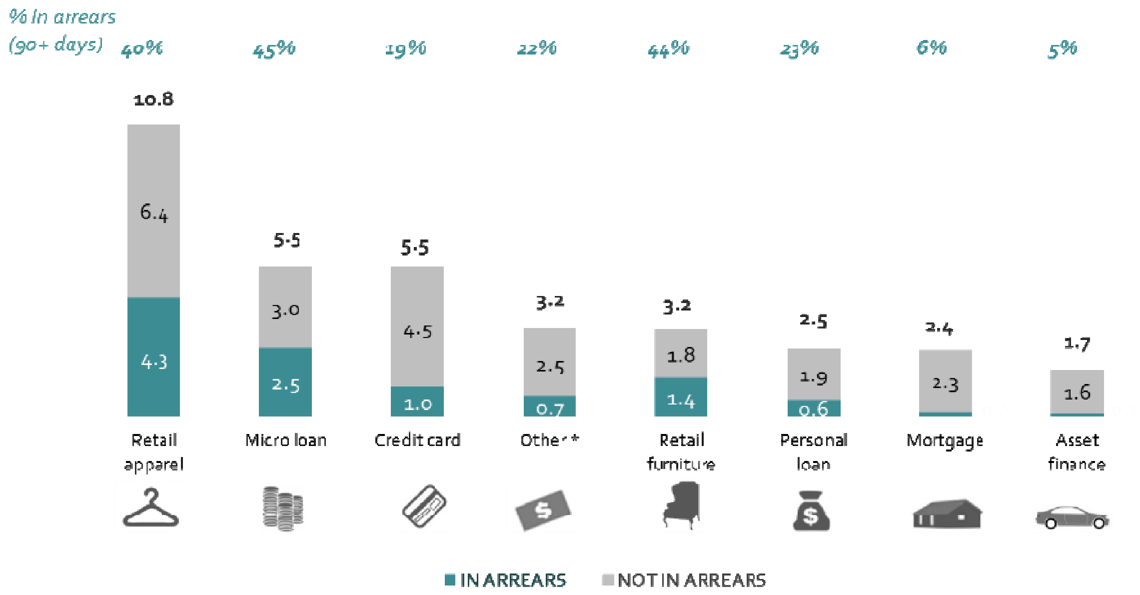


Source: Amps 2012B, Eighty20 analysis to determine imputed income where data is missing, XDS (July 2013)
Note: Adults with no personal income: 8 980 000

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

Credit bureau data indicates a relatively high proportion of borrowers with retail credit are at least 90 days in arrears on their worst performing account in each category as shown in figure 8 below. After micro loans, retail credit is the worst preforming credit category. Forty per cent of those with a clothing account are 90 days or more in arrears on at least one of their clothing accounts, while of the 3.2 million people with credit from a furniture store 1.4 million (or 44%) are in arrears on their furniture accounts. While default rates have increased more recently, they have always been high. High default rates have traditionally been sustained by high merchandise margins enhanced by high margins on credit life insurance and other insurance products.

Figure 8: Arrears status of credit consumers by credit type



Source:

Source: XDS data, July 2013

* Other includes "Retail General" or "Financial Other"

Although savings products might provide an alternative to the use of credit, they tend to not be a priority product offering. Some retailers, most notably PEP, Ackermans and Spitz, offer lay-byes[14], while others provide products such as savings stamps or bonds. In many cases the lay-bye product is not standardised and offered at the discretion of store management. For this reason while the product area is discussed, it is less of a focus.

Research methodology

Four focus groups were conducted to investigate why consumers choose to access credit and savings from retailers: Two of the groups[15] comprised participants who have a clothing store account, one of which focused on respondents that could recall purchasing insurance products offered by the retailer. In these groups participants had a monthly personal income of between R2 000 and R6 000, and were between 25 and 49 years old. A further two focus groups were conducted with participants who had purchased new furniture or appliances in the past two years. Participants in the first group held in Cape Town had a monthly personal income of between R2 000 and R6 000. The second

[14] A lay-bye agreement is a way of paying for goods over an agreed period of time, with the retailer holding the goods until the customer has paid the full price. To lay-bye goods, the customer pays a small deposit, and subsequently makes regular repayments until the total price is paid

[15] The first discussion group was held on the 26th of February 2014 and the second on the 19th of March 2014

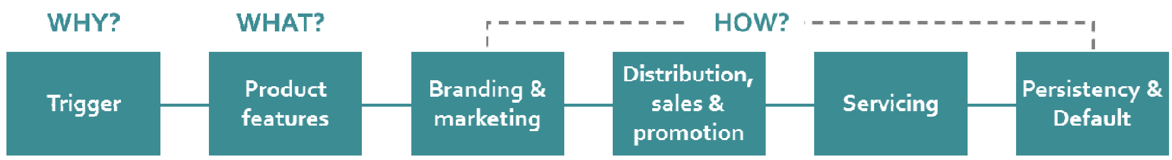
discussion took place in Empangeni in KwaZulu-Natal with lower income respondents who live in the surrounding rural areas. In all four focus groups, participants were tested on their awareness and usage of savings products offered by retailers.

In addition to the focus groups, the project team visited a number of building materials stores, including Build It and Boxer Build stores in rural KwaZulu-Natal. These visits provided some insights on how credit is marketed in-store.

3.1. Credit products

This section explores the use of credit through retailers on the basis of the focus group research. As noted above, the consumer decision making process is explored through the various touch-points that might influence a consumer in the process of taking up financial services. Figure 9 below outlines this framework for credit.

Figure 9: Consumer decision framework for credit



Source: Authors' own

Trigger

The nature of the underlying merchandise and the trigger for the retail purchase shapes the choice of financial mechanism and provider selected to a large degree. Key dimensions include the cost of the merchandise, the extent of planning involved in the selection of the merchandise and the merchandise purchasing cycle.

For both clothing and furniture appliances the major reason for opening a retail account is to facilitate affordability. However in the case of clothing accounts the trigger for opening the account is in many cases linked to entry into the jobs market - a life stage event - rather than the need to finance the purchase of a specific item of clothing.

R7: The minute I started working, I was like okay, now I'm working I can start opening [clothing] accounts because I will be able to pay

- *Johannesburg, Clothing account with linked insurance*

R4: I also had them [clothing accounts] straight after matric because after that that's when you work. I never had a chance to go to varsity and stuff, so once you start working and money starts rolling you thinking okay fine I need to buy clothes, I need to buy this, I need to maintain. So yes, it was immediately after matric

- *Johannesburg, Clothing account with linked insurance*[16]

With regard to furniture or appliance purchases, the application for credit is more directly linked to the purchase of a selected item. Given the relatively large lump sum required for the purchase, financing is essential. The degree to which a purchase can be planned impacts on the financing mechanism chosen, with earmarked savings as a possible alternative to credit for foreseen expenditure. Planning is not always possible as in some cases the underlying need for the purchase may have arisen unexpectedly (because an item had been damaged or stolen) and savings might not be

[16] Quotes are provided as an indicative example of the research supporting the topic they attach to.

available.

R7: One day you wake up and your TV is not switching on. What is going on here now? You can't stay without one.

- *Cape Town, Furniture*

For planned furniture purchases many participants said they had used savings to either partly or fully fund the purchase:

Facilitator: So the bed – is that a planned purchase? Do I plan to buy the bed or I wake up one morning and it is now uncomfortable?
R1: You do plan sometimes.
R1: With the old one you have the time to plan, to buy the bed.
Facilitator: What goes into the planning? Tell me your journey. What does one do?
R8: It took me about 8 months to buy a new bed.
Facilitator: What did you do in that 8 months?
R8: I was putting money aside.
Facilitator: So you were saving.
R8: For a deposit.

- *Cape Town, Furniture*

Aside from facilitating the purchase of merchandise, some participants in the clothing account focus groups opened accounts primarily to create a credit history. As noted clothing account holders tend to have lower incomes and lower credit scores on average than credit card holders, reflecting the product's primacy as an entry point into the formal credit market.

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*

Product features

In many cases the pricing, term and structure of credit products offered by retailers is not significantly different from similar products offered by traditional financial services providers. Credit cards, for instance, like clothing accounts are revolving facilities. Likewise personal loans could finance furniture purchases. However, a key difference from the customer's perspective is that retailer-provided credit products are purpose-specific. With regard to credit cards, a number of participants said they did not like the product. Unlike store cards that are generally restricted to a single retailer or to a closed network of retailers, credit cards can be used in almost all formal retail environments. Credit cards thus require a greater degree of self-control on the part of the customer to limit spending.

Facilitator: How come? What's with the credit card that you don't like? Let me just try to understand this… 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*

Similarly with a furniture account funds are provided for a specific item of furniture, unlike a personal loan that can be used for anything. The loan amount typically matches the cost of the merchandise which removes the temptation to borrow more than is required.

Aside from facilitating self-control, purpose specific credit from retailers can enable greater control of spending within the household unit; financial decision-makers can better manage and monitor the spending patterns of those who are responsible for conducting purchases.

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*

Theoretically pricing should strongly influence the selection of financial products. Some participants perceived retailers as being less expensive than banks, although many were unsure, and a number of participants admitted that they had not compared the total cost of credit across potential credit offerings. This is unsurprising given the complexity of comparing credit agreements with different terms, insurance, fees and interest rates. In addition, gathering data on the costs of various credit products is itself a time-consuming and emotionally taxing exercise. In general to obtain a quotation, consumers need to complete the credit application process. Where consumers have limited access to direct channels a credit application necessitates a branch visit and can be very time consuming. In addition, credit applications appear on a consumer's credit history and can be interpreted adversely by credit providers.

Branding and marketing

Credit is actively marketed by clothing and furniture retailers. Adverts are prominently displayed on storefronts and in-store, and appear frequently in the media. In the case of furniture, most merchandise adverts display the cash cost of merchandise together with a monthly instalment as shown in figure 10 below.

Figure 10: Retailer credit advertisement

Source: Russells, 2013

Box 3: Shifting the appetite for credit in the face of an ad campaign

The advertising of credit products by retailers and other credit providers is regulated to some degree. Under general advertising regulation credit adverts must not be misleading, fraudulent or deceptive. In addition, providers must disclose key information on the cost of credit on all adverts. There are also some restrictions in place with regard to credit marketing practises. For instance, credit providers may not increase limits automatically unless the customer has opted in.

Given exceptionally high levels of indebtedness in South Africa there may well be scope to explore further restrictions on credit advertising. To quote well-known behavioural economist Dan Ariely:

"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"

Distribution, sales and promotions

As noted the project team was unable to obtain permission to access data on the location of bank branches to assess the extent to which retailers materially enhance physical access to financial services in South Africa. It appears from casual observation, however, that retailers and banks tend to co-locate. Banks typically situate branches close to retail outlets and vice versa. Nevertheless, some respondents did regard retailers as being better located than banks. Retailers were also viewed as being more functionally accessible - stores are open for longer and staff are regarded as being more approachable.

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

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 also a general perception across the focus groups that it is easier to qualify for 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 focus group participants, clothing accounts are the first formal credit product they used. Participants described how they felt applying for, and obtaining, a credit account:

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*

Box 4: Funding source for building supplies

It appears that unlike clothing and furniture or appliances many customers prefer to purchase building materials using cash rather than credit offered in-store. Notably, it is unknown what degree of cash purchases are funded by unsecured credit granted elsewhere. While this research did not explore this preference in detail, questions on building material purchases were included in focus group discussions. Focus group participants held a range of views on this with some indicating a preference for savings and others willing to use credit.

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*

Further research is necessary to understand consumer preferences for credit versus savings across various areas of expenditure. Consumers may prefer to use costly credit products to find purchases that deliver immediate benefit (such as clothes or furniture or appliances) and to use lower yielding savings products for longer term projects, consistent with hyperbolic discounting. There may well be elements of habit – clothing and furniture retailers have historically sold on goods on credit. Other supply-side factors could be significant. Building supply stores are typically less inviting than clothing or furniture stores and store layout may be less conducive to credit promotion. Unlike credit-based furniture retailers who typically display cash as well as credit prices reflecting the retailer's expectation that most purchases will require credit, building materials retailers do not display credit prices. In addition the sales people in building supplies stores do not actively market credit to the same extent as sales people in credit-based furniture retailers. In most cases if a customer wants credit to purchase building supplies they must seek out the credit agent who us usually located in a small kiosk in-store.

Figure 11: A credit kiosk located in a building supplies store

Source: Authors' own

Credit retailers also offer inducements and actively promote take-up of credit in-store. Although the inducements such as vouchers are valued, most participants indicated that these were not critical. They would still have opened an account even if they were not offered inducements to do so. A number of participants in the Empangeni furniture group also mentioned that they had been promised gifts on opening an account. However, these often did not materialise.

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

- *Empangeni, Furniture*

Sales people are generally incentivised to meet sales targets. In some cases, sales people were perceived to be aggressive in their sales approach.

R2: They said the next day but they pressurized me and they told me my account was easy to open so they went ahead and opened an account for me and I bought sofas because I needed sofas
Facilitator: But why did you not go home and think about what you wanted properly?
R2: It was easy for them to persuade you into buying things

- *Empangeni, Furniture store account*

R2: They [the staff] 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

- *Empangeni, Furniture store account*

Not only are accounts actively sold in store, furniture retailers actively market the re-activation of subsequent accounts to existing clients in order to facilitate additional purchases.

R8: You know what they also like – when they see you are about to finish your account – maybe there is only 2 months left for you to finish – they call you again

- *Cape Town, Furniture store account*

R2: I went to the store and the guy explained to me how much I would be repaying every month, I finished paying that whole amount for the bed and they started calling me to try and coax me to buy more furniture because your record is good
Facilitator: Did you go and check if other stores have the same bed at a cheaper price?
R2: I never went to other stores; I was stopped by the process of opening another account at another store

- *Empangeni, Furniture store account*

Servicing

Retailers collect instalments in cash in-store as well as by debit order[17]. Although the retailer has less control over cash collections, in-store payments bring the customer back into the retail environment providing an opportunity for on-selling if there is open to buy on the account. In general focus group participants prefer being able to pay in-store because it provides greater control over the payment process. They can determine both the amount they wish to pay, as well as the timing of the payment. This is particularly important for more financially vulnerable segments of the market where incomes can be unpredictable month-to-month and at times insufficient to cover expenses. Servicing models that enable consumers to actively control repayments are therefore preferred.

Aside from this, a number of participants expressed deep mistrust of debit orders.

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 [trustworthy]. 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*

Delinquency

In the clothing account focus groups, banks were perceived as being far more aggressive with late payments than clothing retailers. One respondent likened banks to mashonisas[18] while clothing retailers were compared to a family member. Unlike clothing retailers, furniture retailers were viewed by many participants as being relatively unforgiving of missed payments.

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*

[17] A debit order, also known as an Automated Clearing House (ACH) transfer, is an agreement between two parties where one party authorises the other to take an agreed amount of money from their bank account, usually on a monthly basis to repay a loan or for services rendered
[18] Unregulated money lenders

In some cases participants did not seem to understand the implications of missing a payment and so perceived the furniture stores as being unreasonable.

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 30th I was supposed to make payment. From the 15th I know I don't have money. I call on the 25th 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*

While furniture retailers indicated that repossession is relatively rare, the risk of repossession is perceived to be sufficiently high to dissuade some consumers from using this form of credit.

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. He 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*

3.2. Lay-byes

As mentioned above, savings products are an alternative financing mechanism for merchandise purchases. Lay-byes are a common savings mechanism offered by retailers. The retailer sets aside the specific item selected by the consumer and accepts a deposit and periodic payment until the full cash price has been paid after which the consumer takes possession of the merchandise. There are no fees associated with the mechanism and no penalties if the customer is unable to complete the lay-bye purchase; where this happens, the customer is refunded in full. No interest accrues to the consumer on the account. Many clothing and furniture retailers offer goods on lay-bye although these are typically not actively marketed by credit retailers.

A number of participants in the focus 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 its 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*

Lay-byes are clearly a far more cost effective option than credit.

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*

However possession is deferred until the item is fully paid off, a feature which was not attractive to some focus group participants. Indeed some participants regarded the higher cost of credit as justified given the yield generated by immediate physical possession of the item. A further disadvantage of lay-byes is that the payment profile is often less affordable; the need for a deposit together with a three month term implies the need for initial saving and higher instalments than would be the case with a loan, albeit over a far shorter term.

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 klap you with the more interest, is because you are using the thing. The lay-buy – it stands there by the shop

- *Cape Town, Furniture*

Facilitator: Why did you not use lay bye then and opened accounts?
R5: I wanted my TV now

- *Empangeni, Furniture*

3.3. Conclusion

It is, in many respects, puzzling that so many consumers are willing to pay the high costs associated with credit to fund purchases that for the most part appear to be discretionary. Focus group research indicates that there is a degree of impatience, with consumers placing high value on the immediate benefits of owning the merchandise now. This is not only derived from the functional utility of the product and its impact on living standards, but also from its signalling value and ability to confer status on the owner. In addition there is widespread social acceptance of credit as a means of financing clothing and household durable purchases, although in some cases consumers match or replacing this with the use of savings for planned purchases. Credit bureau data indicates that of the 17 million or so consumers with open credit accounts 76% have an account with a retailer. Indeed an account at a retailer is often the first formal credit product used by credit active South Africans. Many focus group participants opened their first clothing account as soon as they got their first job.

Credit retailers actively market using mass media channels and have visible in-store promotions to incentivise take up. In addition retailers typically offer attractive inducements; including merchandise and cash back vouchers, as well as discounts for opening an account. While focus group participants indicate that these are not the primary reason consumers open accounts they certainly enhance immediate felicity and reduce dissonance in the mind of the consumer. Further, retailers closely monitor account balances in order to actively encourage additional purchases when there is open-to-buy on the account. Rural participants described being offered free merchandise which often failed to materialise. Across all furniture-focused discussion groups was a marked degree of scepticism regarding promotions and actual benefits of special offers.

Focus group participants commonly prefer to pay accounts in store. Many enjoy the experience of being in the retail environment and exploring available merchandise. They also value the additional control over the amount and timing of payments, along with the immediate provision of a physical receipt afforded by cash payment in store. In addition, many do not trust debit orders.

The majority of consumers who participated in focus groups were not sure whether alternative credit products offered by banks and other financial providers were less costly than retailer offerings. Most had simply not explored alternatives. But overwhelmingly they did believe that it was far easier to qualify for retailer credit. Lay-byes had been considered by some participants, but relatively high payment instalments and delayed access to the good appeared to be significant barriers.

A summary of the primary considerations the drive the user case for credit compared to savings as well as the selection of provider for credit is presented below:

Figure 12: Summary of findings – credit and savings

	CHOICE OF MECHANISM (SAVINGS VS. CREDIT)	CHOICE OF PROVIDER (RETAILER VS. OTHER FSP)	
Trigger	Emergency/impulse purchases often require credit to facilitate affordability. ▪ Savings products such as lay-byes more useful for planned purchases.	▪ *Product and service related aspects outlined below* ▪ Some consumers use retail credit (specifically clothing accounts) to establish a credit history.	
Product features	Cost of credit is high. However this is offset in part by the benefit of immediate ownership. Retailer credit and savings impose a 'commitment constraint' to the exact value of the good or service that many consumers view as helpful removal of the temptation of surplus funds. Although cost of credit is high over the life of the product, often the instalments are lower than required contributions to a shorter term lay-bye.	Retailer credit is purpose specific. This facilitates self-control and control of expenditure more generally. To compare costs of credit across providers, consumers must apply for credit to get a quote. This is time consuming and can impact on credit scores. In addition terms, fees, interest rates and insurance components differ. Comparing products is complex and leads to decision fatigue.	*"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
Branding & marketing	Retailers actively market credit reinforcing the status quo of using retail credit to make purchases. Credit is marketed with the comparison pricing (cash or sale purchase price) to provide an anchor that enhances the appearance of value. ▪ In contrast lay-byes are generally not actively marketed.	▪ Retailers actively market credit at the trigger point (when the customer is looking to make a purchase) Obtaining credit from a retailer is often seen as the norm or status quo.	Credit bureau data indicates there are around 17 million consumers with an open credit account in SA. The most widely held credit product is a clothing account. Almost 11 million consumers have at least one clothing store card, while 3.2 million customers had at least one furniture account
Distribution, sales & promotion	▪ Retailers use in store promotions and inducements to encourage take up of credit. ▪ Lay-byes are not as actively marketed.	Consumers believe it is easier to qualify for credit from retailers than from banks and don't show evidence of exploration to test the assumption. ▪ Often banks and retailers co-locate. However in some areas retailers are more accessible. In addition, retailers are more functionally accessible- opening hours are longer, the staff is approachable, the environment is welcoming and the option of credit and savings are available at the time of decision-making. ▪ Retailers incentivise sales people (specifically furniture retailers) to actively encourage consumers to purchase and to finance the purchase with retailer credit.	*"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
Servicing		▪ While most non-retailer lenders rely on debit order to collect instalments, retailers allow in-store payment in cash. This is valued as it provides greater control over the amount and timing of the payment (as opposed to debit orders). Some participants also enjoy the trip to the mall to do other shopping while making the payments. In addition, some focus group participants did not trust debit orders.	*"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 its R400 then its R400"* Johannesburg, Clothing store account
Persistency & Default		▪ Clothing retailers are perceived as being more lenient than banks with late payment. ▪ Furniture retailers were viewed by many participants as being more unforgiving of missed payments than banks. In addition focus group participants highlighted that furniture retailers could repossess merchandise.	*Facilitator: Where did this scared of [furniture] account come from?* *"My brother was using account. Then he missed two times to pay. They come to fetch the bed. He was still to pay them. He just missed two times to pay them"* Cape Town, Furniture

Hyperbolic discounting   Earmarking   Anchoring   Decision fatigue   Self control bias   Status quo bias

Source: Authors own

4. INSURANCE

Retailers offer a wide range of insurance products; including funeral insurance, hospital plans, life insurance, car and home insurance, and legal insurance among others. Funeral cover is the most prolific insurance offered through retailers due to its popularity in the South African market. In addition to the insurance products mentioned above, credit retailers sell credit life insurance to cover the customer in the event that they are no longer able to pay their monthly instalments. Credit life insurance was not considered in this study because the compulsory nature[19] in South Africa precludes a considered user case for the product.

This study investigated the user case for two types of insurance products sold by retailers: insurance linked to a retail store account (referred to from this point as 'linked insurance') and standalone insurance sold off-the-shelf.

There is limited available survey data relating to the usage of insurance products purchased through retailers. The only consolidated source currently is FinScope 2013, which provides data specifically relating to funeral cover bought from a retailer. According to FinScope (2013), 16.9 million individuals currently have funeral cover, excluding burial society membership, of which 1.1 million individuals (6.4%) have cover bought from a retailer. It is not clear whether this is linked insurance cover or cover bought off the shelf. Conversely, given that Edcon had 5.6 million active insurance policies in 2012, it appears that this number is potentially higher.

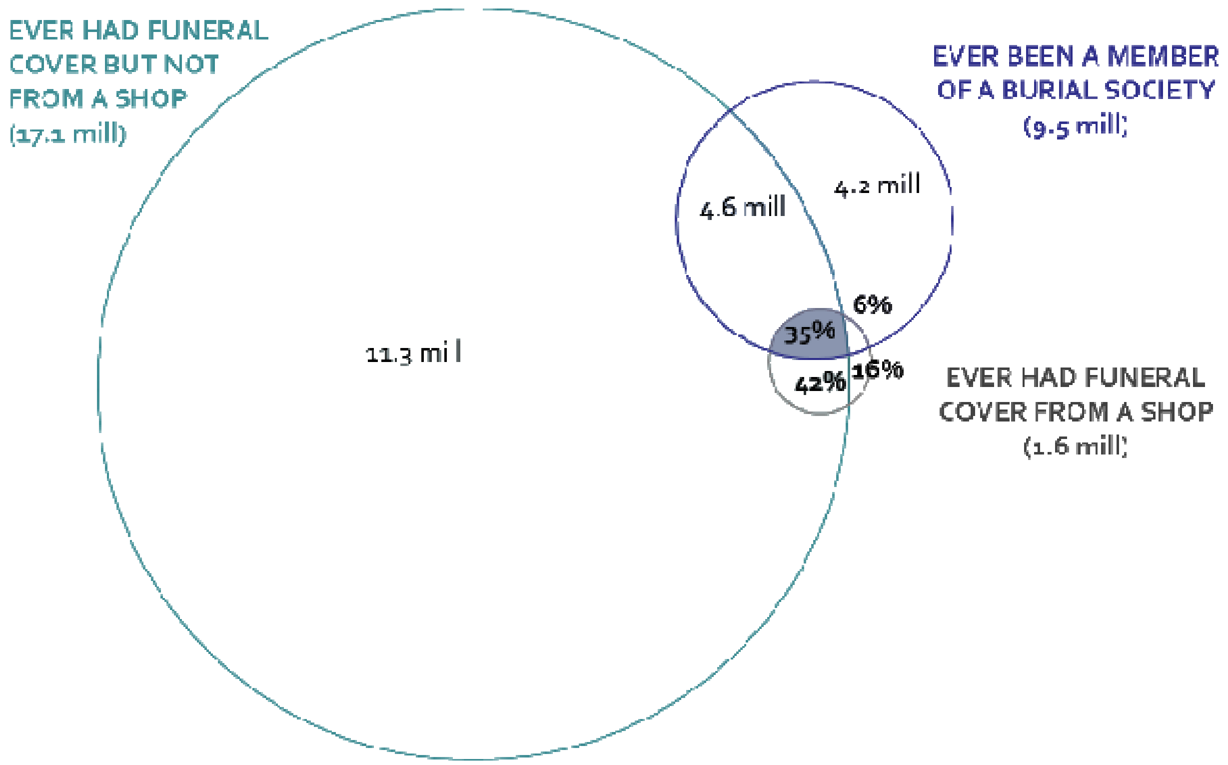
Figure 13: Ever had funeral cover/ belong to a burial society; Adults 16+

Source: FinScope 2013

[19] The FinMark Trust recently commissioned a study into credit life insurance called Credit life insurance in South Africa: a customer's perspective (December 2013), Nina Shand with Janice Angove [online] Available at: http://www.finmark.org.za/wp-content/uploads/pubs/FinMark-Trust_credit-life-mystery-shopping_final.pdf

Based on this data it would appear that funeral cover bought from retailers is very rarely purchased as standalone cover. The Venn diagram below indicates that 35% of those that have ever had funeral cover from a shop also had funeral cover from another insurance provider (other than a retailer) and had been a member of a burial society. Just 16% of adults that have ever had funeral cover from a retailer had not purchased cover elsewhere.

Figure 14: Funeral cover overlaps[20]



Source: FinScope 2013

This pattern of product usage was confirmed in the focus group research. In general participants made use of funeral cover from retailers as a secondary funeral cover policy in order to top up the sum insured by their primary policy.

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, certain respondents felt that having multiple funeral policies would allow them 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 R5 000, you can do this and this and this
Facilitator: What's this, and this and this?

[20] Note: Percentages do not sum to 100% due to rounding

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*

4.2. Linked insurance

To explore the user case for linked insurance, individuals with funeral insurance linked to a clothing store account were recruited to participate in a focus group. These individuals were between the ages of 25 and 49, living in urban areas around Johannesburg and had a personal monthly income of between R2 000 and R6 000[21].

Insurance sold by credit retailers is either offered to clients at the time they open their account or it is subsequently marketed to account holders via direct marketing channels. In the case of the former, decisions relating to insurance appear to be of a secondary nature; the primary decision relates is to opening the credit account. Many individuals appeared to be so focused on the account application that they do not give due consideration to decisions regarding the purchase of insurance products.

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 say… 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*

In some cases, the research indicated that individuals believed they were more likely to qualify for the credit account if they agreed to sign up for linked insurance products. This also extended to signing up for clubs and loyalty programmes at the time of application.

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*

The decision-making dynamics appear to be somewhat different when linked insurance is purchased subsequent to opening a credit account. Respondents in the focus groups were confident that they would be contacted and actively sold insurance products. This is in addition to the marketing of products via advertising in-store and through club magazines. Furthermore, the purchasing process is very simple; customers do not need to fill in any forms and can simply agree to take up the product over the phone.

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?

[21] In addition, participants in all other focus groups conducted for this study, although not specifically recruited for having insurance linked to a retail store account, were asked questions relating to linked insurance product usage.

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*

A key product feature in the user case for linked insurance is that it is affordable. Premiums and cover levels offered by these policies[22] are generally lower than that offered by formal insurance companies. One reason for this is the ability to leverage the retailer's existing distribution and collections infrastructure that results in cost efficiencies allowing insurance premiums to be reduced.

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*

None of focus group participants had made a claim on their policies and were uncertain as to how the claims process would actually work. Either customers are not provided with information on how to claim, or they do not understand or take the time to review information that is provided. Nevertheless respondents did not appear to be too concerned. One respondent mentioned that because the sum assured is so small and the premiums are affordable she did not really 'take the policy seriously'. Another respondent with a linked insurance policy through Woolworths (a clothing retailer) felt he did not need to investigate who underwrites the policy and how the claims process works because 'Woolworths is a big company'.

In general participants were aware that an insurance company was involved although there was some confusion as to the roles played by retailers versus insurance companies.

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*

Nevertheless, the fact that the product was supported by both a retailer and an insurance company provided an additional sense of security and enhanced levels of trust in the policy despite limited awareness of the claims process.

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*

A further benefit of linked insurance policies, according to focus group participants, is the perceived leniency of the retailer concerning missed premium payments. Respondents perceived retailers to be more lenient when it comes to missed payments compared to insurance companies.

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

[22] Edgars family funeral insurance ranges from R10 000 cover to R50 000 cover for a monthly premium of between R42.50 and R199.50 (Jet offers the same covers for a monthly premium of between R37.50 and R177.50) Edgars and Jet personal funeral insurance ranges from R10 000 cover to R20 000 cover for a monthly premium of between R22.50 and R43.00

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*

While retailers may in practice be more lenient than insurance companies, this is not, in fact reflected in product terms and conditions. For instance, in the case of Edcon, policy documentation for the linked funeral policy clearly states that the grace period during the first 12 months of the policy is 30 days, extended by another 30 days for every year of premium payments to a maximum grace period of six months, in line with Zimele product standards which apply to entry level insurance policies in general. Arguably, this divergence between customer expectations based on experience (in favour of the customer) and the legal obligations of the insurer place the customer at risk.

Box 5: Edcon grace period (Edgars, 2013)

Section 79. Premium payment days of grace

7.9.1 A period of 30 (thirty) days is allowed for the payment of each premium for the first 12 (twelve) premiums. For every 12 (twelve) premiums that is paid in a row the period within which to pay the premium is extended by another 30 (thirty) days, subject to a maximum grace period of 6 (six) months. Once a grace period has been used it cannot be used again until all the premiums that in arrears have been paid.

7.9.2 During the grace period all benefits will remain in force. If any event occurs during the grace period that results in a valid claim, the unpaid premiums will be deducted from any amount paid out.

7.9.3 If any premium is not paid and received by Hollard during the grace period, the policy will automatically be cancelled and no Funeral Benefit will be paid."

4.2. Standalone insurance

For standalone insurance, this study specifically focused on PEP off the shelf funeral cover. A focus group was conducted with individuals who had purchased the product in Empangeni, KwaZulu-Natal. The participants in this group were black and live in Empangeni and the surrounding rural areas.

According to respondents in the Johannesburg linked insurance focus group, as well as the PEP off the shelf funeral cover focus group, the most appealing feature of off the shelf funeral cover is its affordability[23]:

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 R49 every month even if I do not make money from my own business

[23] PEP offers R9 000 family funeral cover for a monthly premium of R49.99, R13 000 cover for R69.99, and R18 000 cover for R99.99. There is also a senior only funeral cover of R12 500 for a monthly premium of R84.99 for people aged between 65 and 74 years old.
PEP used to offer R2 500 family funeral cover for a monthly premium of R19.99 and R7 500 family funeral cover for a monthly premium of R39.99. These products have since been taken off shelf.

- *Johannesburg, Clothing account with linked insurance*

Purchasing a policy is a simple process. A policy starter pack is selected off the shelf and purchased at till point. The only documentation required from the customer at this point is their South African ID document. The customer's cell phone number is requested at point of sale and policyholder details are captured subsequently via a call centre.

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*

Premiums are collected in cash in-store and can be paid up to 12 months in advance. Policyholders regard flexible cash payment as a key advantage of the product. It enables the policyholder to control the payment process and assists with managing prospective uneven income flows. Prepayment of premiums also facilitates self-control by allowing the policyholder to commit funds before they can be spent in alternative ways.

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*

As with linked insurance, policyholders were not aware of claims processes, and some indicated that they did not receive policy documents, although these are included in the product starter pack. This problem could potentially be averted by training staff to notify the customer that their policy documentation is contained within the 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*

The process to claim on PEP off the shelf funeral cover involves collecting a claim form at PEP or phoning a specified number. Once the claim form is completed, this as well as the necessary documentation must be faxed to The Best Funeral Society (a partner of Hollard). Some respondents felt that it is easier to claim on policies from insurance companies that have an office that they could physically visit in order to make a claim, thereby avoiding the two-step process of collecting a form and faxing it.

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*

4.3. Conclusion

There is limited available quantitative data on the number of individuals who have purchased insurance from a retailer. From the available data sources, it appears that individuals rarely buy insurance policies from retailers as standalone cover, particularly in the case of funeral insurance.

With regard to insurance linked to credit accounts, the user case depends to some degree on whether the product is purchased at the time the customer applies for credit or whether it is bought subsequent to opening the account. When the purchase takes place at credit application the insurance purchase decision appears to be secondary. Clients seem to either purchase insurance at this stage because they believe it will help them to qualify for the account or because they are experiencing decision fatigue and agree to purchase the product without applying full consideration to the purchase.

In the case of linked insurance bought subsequent to opening the retail store account as well as insurance purchased off the shelf the decision to purchase the insurance product is more deliberate. Key features that impacted the user case for linked insurance and off-the-shelf insurance are premium affordability, the ease of purchase and the ability to pay premiums in cash and in advance. In addition, specifically in the case of linked insurance, respondents perceived retailers to be more flexible when it comes to missed policy payments.

A drawback of insurance products sold by retailers relates to the claims process. Many policyholders were uncertain of how to initiate a claim, where to claim and who to claim from. For those that were aware of the process, the preference was to deal with an insurer directly.

A summary of key components of the user case for insurance is presented below.

Figure 15: Summary of findings – insurance[24]

	LINKED INSURANCE	OFF-THE-SHELF INSURANCE	Quotes
Trigger	▪ The trigger is the offer made by the retailer. ▪ This offer may made by a sales person during the credit application process, or subsequently, either by mail or telephone	▪ The decision to purchase is a passive sales process. It is triggered independently by the consumer on the basis of the product features and touch points, such as the product's visible display at or near till points.	
Product features	▪ Affordable premiums are an incentive to take up insurance. Retailers can leverage existing infrastructure, such as branches and collections platforms, to offer low cost products profitably. These low cost policies are principally used as top up cover to match rising costs or earmark for particular expenditures.		
Branding & marketing	▪ Active marketing of insurance products through club magazines, in-store and call centre marketing enhancing the push to take-up of the product.	▪ Some in-store advertising	
Distribution, sales & promotion	Typically sold bundled with opening a credit account (often as a secondary decision) or via outbound telephone campaigns. ▪ Sign up is immediate and no additional data is required because product linked to an existing credit application or account.	▪ It is easy to purchase. The consumer conveniently selects a starter pack and pays the first premium at till point. Frontline staff capture contact information and the consumer receives a follow up call to gather additional data for onboarding.	*R1: "You are there in their database, if you are a loyal customer they call…"* *R2: "Unlike the other ones [insurance companies] you go to them"* Johannesburg, Clothing account with linked insurance
Servicing	▪ Convenient as premiums added to outstanding credit balance. ▪ In-store payment are preferred in many cases to debit orders, the standard collections mechanism for insurers, as it allows for more control over payment amount and timing. ▪ Low levels of concern regarding understanding the claims process due to the low value of the premium and a level of trust that the "big company" of the retailer will pay the claim.	▪ Many consumers prefer in-store cash payment to debit orders, which are not possible with the off-the-shelf offering. PEP's insurance product is flexible. It allows consumers to pay up to 12 months of premiums in advance. ▪ Similar to linked insurance, there is a similar low level of concern to understand the claims process. The two step claims process of contact with both the retailer and insurance company is seen as burdensome. Direct contact with the insurer from the start is preferred.	*"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
Persistency & Default	▪ Retailers are perceived to be more forgiving than insurance companies. While the product T's&C's indicate that cover is in place only if the account is up to date, in reality the retailer will honour a claim if the account is in early stage arrears		*"The Clientele or the private ones, if you miss more than one instalment they don't pay. The Jet store, 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."* Johannesburg with linked insurance

Hyperbolic discounting · Earmarking · Anchoring · Decision fatigue · Self control bias · Status quo bias

Source: Authors' own

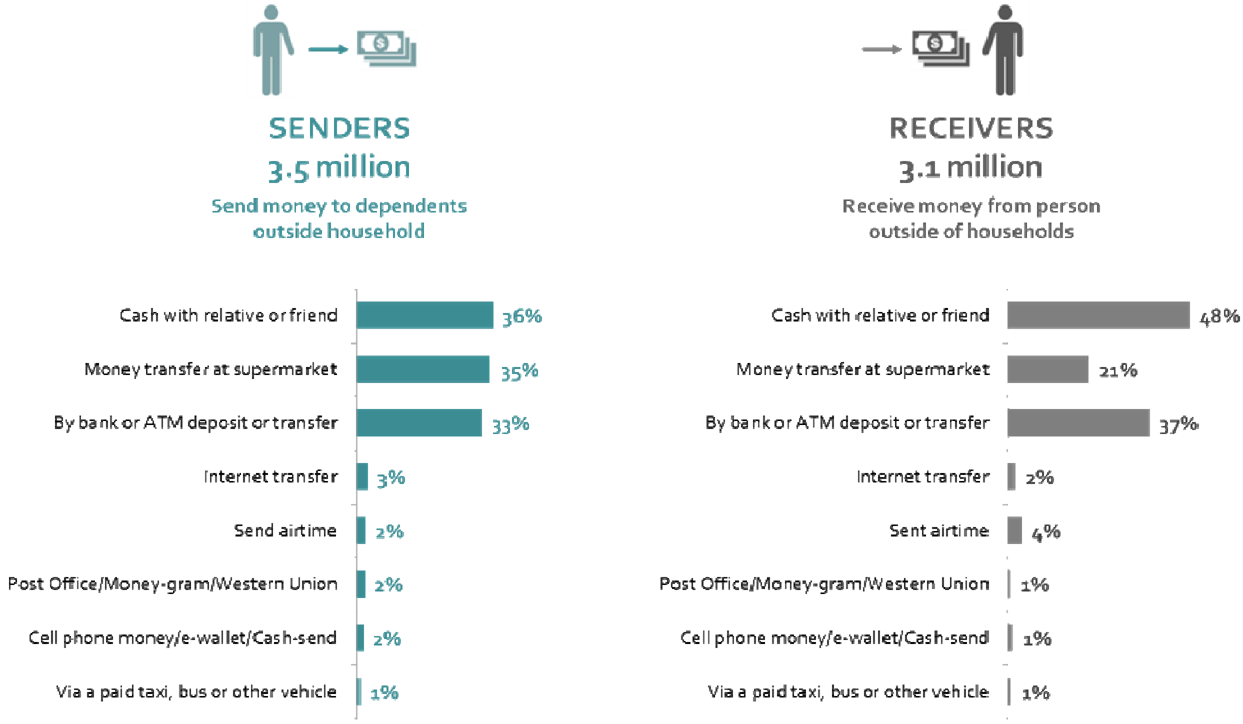
5. MONEY TRANSFERS

According to FinScope 2013 a total of 3.5 million adults in South Africa send money to dependents outside of their households and 3.1 million adults receive money from someone outside of their household. Three channels dominate

[24] Off-the –shelf analysis is based upon the PEP funeral product insurance offering.

for both senders and receivers: informal methods using relatives or friends, supermarkets, and bank or ATM deposits or transfers. Interestingly the data indicates a greater number of senders than receivers, as well as a significantly lower reliance on supermarkets for receivers than senders[25].

Figure 16: How do you usually give/ get money from people outside of your household?



Source: FinScope 2013

A number of FMCG retailers offer money transfer services including Shoprite, Checkers and uSave (part of the Shoprite group), SPAR, Pick n Pay and Boxer (part of the Pick n Pay group). In addition PEP, a cash-based clothing retailer, also offers a money transfer service to its PEP Club members. Retailer money transfer services do not require either the sender or receiver to have a bank account. The details of the services are summarised in table 1 below.

[25] The FinScope 2013 survey is based on a nationally representative survey with 3900 respondents. It is not unusual for such discrepancies to arise in data of this nature. It should therefore be treated with caution.

Table 1: Money transfer services offered through retailers

RETAILER	TRANSFER SERVICE	BANK	COST
SHOPRITE USAVE & CHECKERS	MONEY TRANSFER	CAPITEC BANK	Sender: R9.99
Pick n Pay & BOXER	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
SPAR	INSTANT MONEY	STANDARD BANK	Sender: R9.95
PEP	MONEY TRANSFER	CAPITEC BANK	Sender: R9.99 Sender must be a member of the Pep Club

Source: Retailer websites; interview with Andrew Lovegrove, Technical advisor on retail payment systems, remittances and regional payment systems integration
Note: Assumes that the sender needs to deposit money in at the till at a cost of R4.00 to the sender*

Shoprite was the first retailer to offer money transfers. It launched the service in 2006 with Capitec Bank and eCentric Switch. When the service was launched it was priced at R9.99; considerably less expensive than transferring money through the Post Office, which was the main non-bank competitor at the time. In 2006 the cost of a counter-to-counter transfer through the Post Office was R16.50 plus 3.5% of the amount sent[26]. No doubt the significant cost differential was a strong reason for Shoprite's immediate success. Since its introduction more than 12 million people have been registered as senders or receivers on the system and in 2010 around R10 billion was sent using the service. While there is no published data on volumes of transactions supported by individual retailers, industry participants indicate that the Shoprite money transfer service has the highest market share.

5.1. Money transfer products

The project team conducted a survey of users of Shoprite's money transfer service to better understand why customers choose to use a retailer to send and receive money. The research focused on Shoprite because it is the dominant player in the retail money transfer market.

Box 6: Money Market Counters

Shoprite introduced the Money Market Counter in 1998 to reinforce its positioning as a one-stop shop in the minds of consumers. The initiative initially offered cell phone airtime and pre-paid electricity at a designated counter in the store. This was expanded to include money transfers and insurance, third party bill payments (such as municipal and

[26] This equates to a cost of R20.00 to send R100 and R49.50 to send R1 000.

telephone accounts), lottery tickets, theatre and other event bookings, bus and airplane tickets[27]. The Money Market Counter is staffed by dedicated and specially trained employees[28].

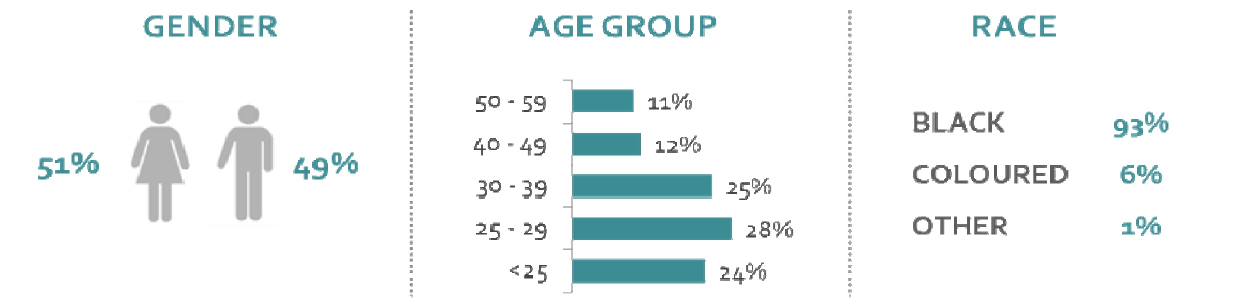
The process to send and receive money through a Shoprite store is shown in figure 17 below.

Figure 17: Shoprite money transfer process

Source: Shoprite money transfers brochure
Note: A copy of the ID book is no longer required

In total 985 surveys of money transfer users were completed. Some basic demographics of respondents are summarised in figure 18 below.

Figure 18: Respondent demographics

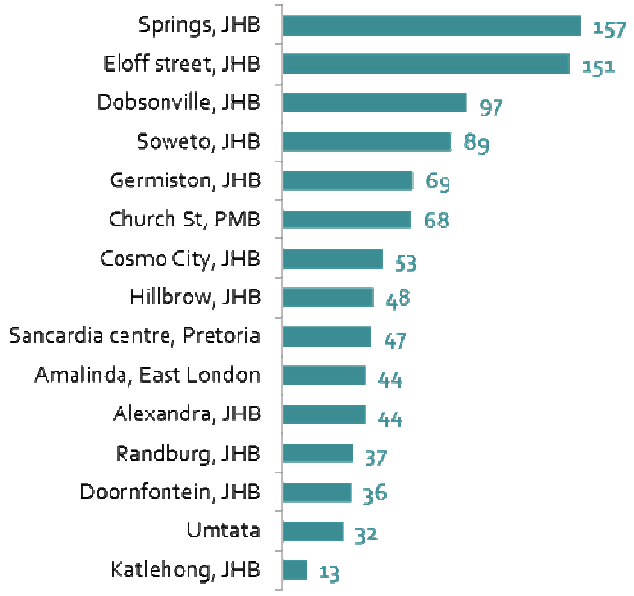


Source: Authors' own

[27] Source: Shoprite Holdings Integrated Report 2012.
[28] Although staff members at the Money Market Counter are specially trained to process transactions, they are not registered intermediaries and therefore are not allowed to offer any verbal information on financial products to customers. Shoprite's staff are only allowed to perform administrative and clerical functions.

The majority of the surveys were administered in the greater Johannesburg area (see Figure 19 below). Surveys were also conducted in Pretoria, East London, Umtata and Pietermaritzburg. Survey locations were largely based in and around urban centres.

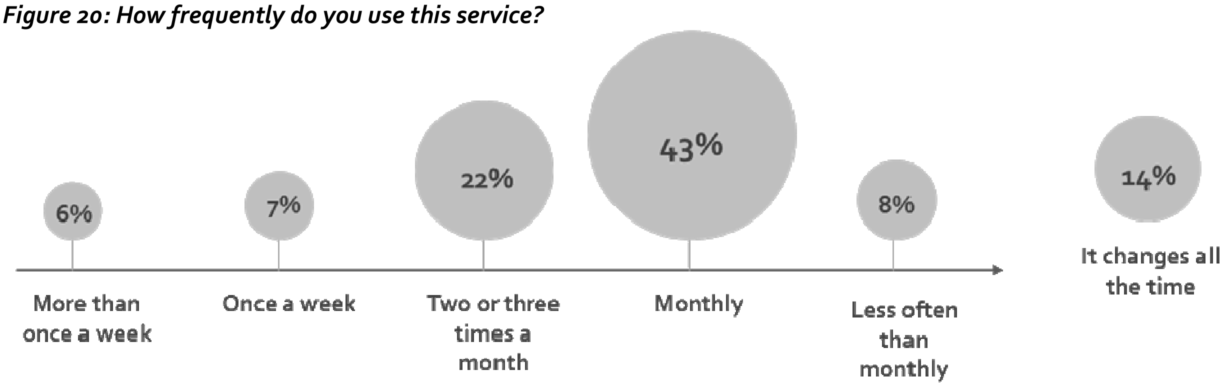
Figure 19: Survey locations



Source: Authors' own

Forty three per cent of those surveyed use the service on a monthly basis. A high portion of respondents use the service more than once a month as indicated below.

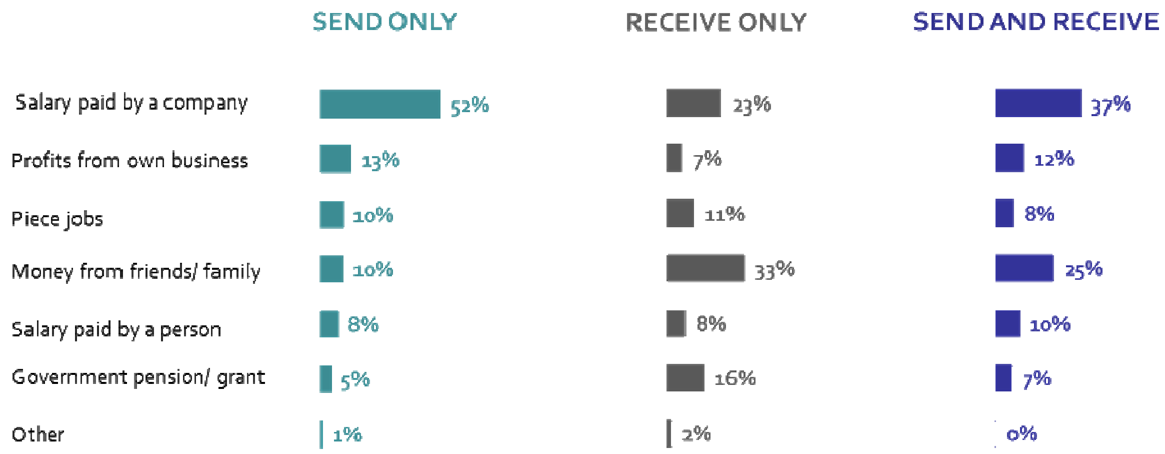
Figure 20: How frequently do you use this service?



Source: Authors' own

One third of respondents use the service to send money only, while 30% use the service to receive money only. Interestingly, 37% use the service to both send and receive money. There is a skew towards males within the base of customers who send money exclusively (as shown in figure 21 below). In that segment, over half (52%) say that their main source of income is a salary or wage paid by a company compared to just 23% of those that receive only. Money from friends and family (33%) and social grants or pensions (16%) are significant income sources for those who use the service to receive only.

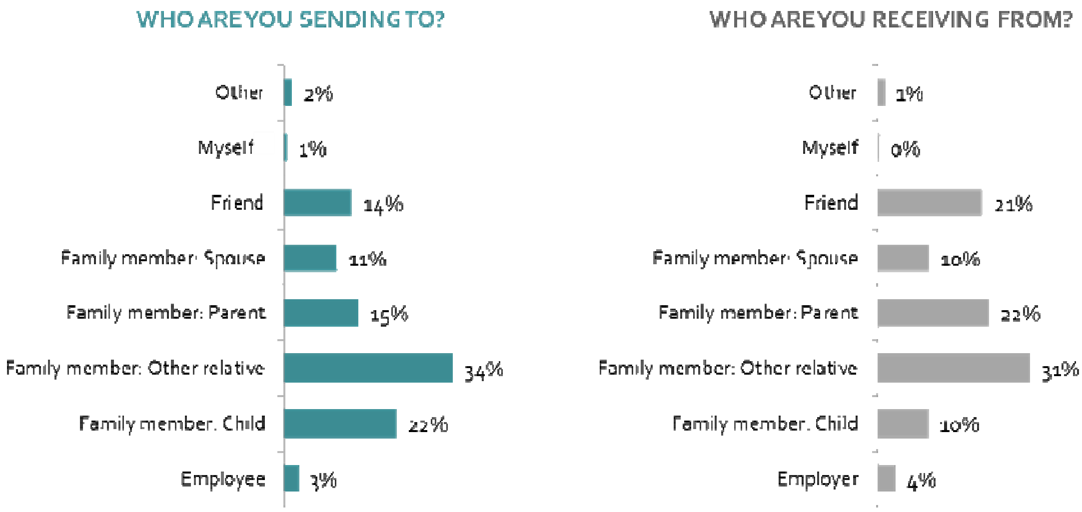
Figure 21: Main source of income by user type



Source: Authors' own

To find out more about the counterparty, respondents were asked to provide details about the specific transfer they were conducting on the day they were interviewed[29]. They were asked who they were sending money to or receiving money from. The majority of respondents were sending to- or receiving money from- a family member.

Figure 22: Person sending money to or receiving money from on the day of interview

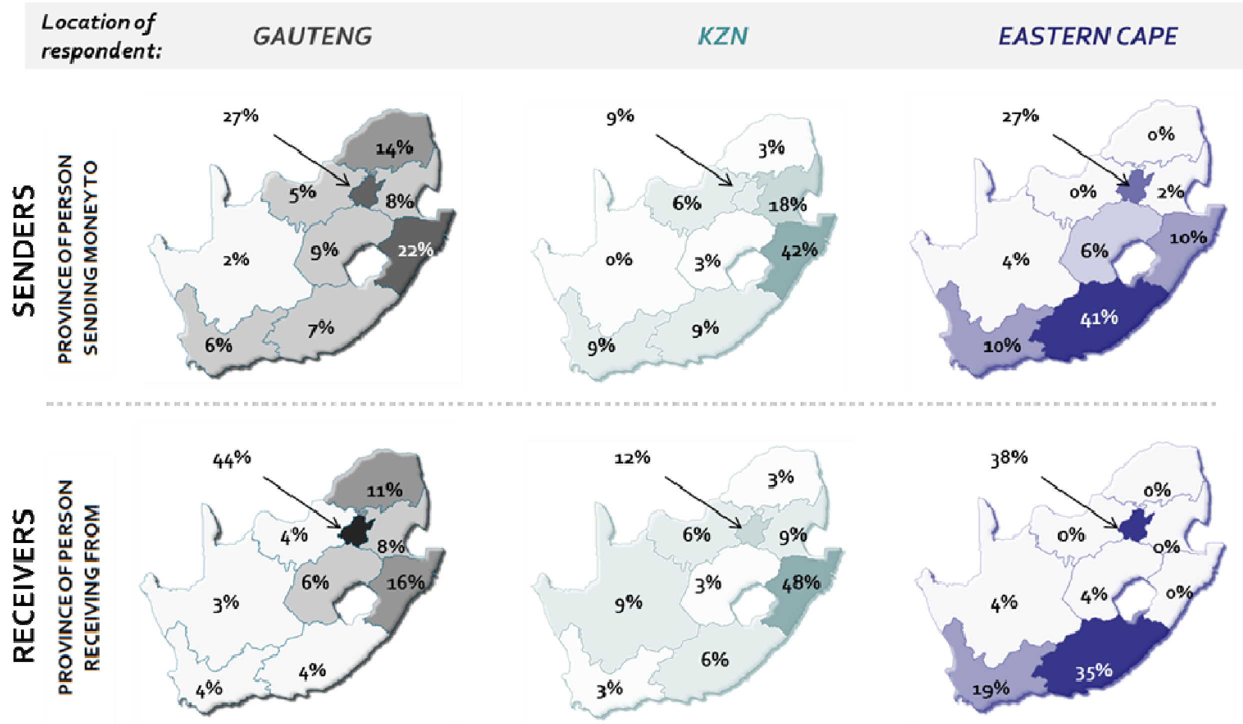


Source: Authors' own

The maps in the figure 23 below show the location of the counterparty by the location of the respondent[30] (Gauteng, KwaZulu-Natal or Eastern Cape) and whether the respondent was sending or receiving money on the day of being interviewed.

[29] On the day they were interviewed, 45% of respondents were sending money, 50% were receiving money and 4% were both sending and receiving money. In total 488 respondents were sending money and 537 respondents were receiving money.
[30] Gauteng includes surveys conducted in Johannesburg and Pretoria. KwaZulu-Natal includes surveys conducted in Pietermaritzburg and Eastern Cape includes surveys conducted in East London and Umtata

Figure 23: Location of the counterparty for senders and receivers



Source: Authors' own

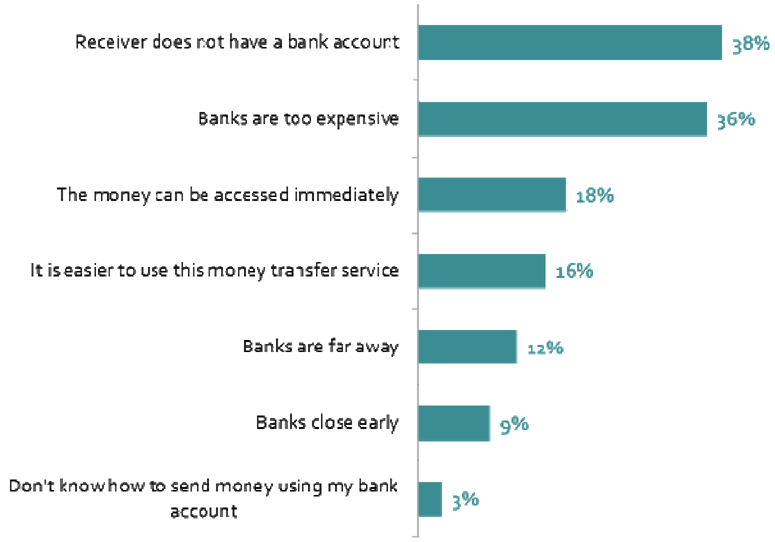
A high proportion of transfers are being sent or received within the same province. This is most pronounced in KwaZulu-Natal and the Eastern Cape where there is a high proportion of rural households[31].

The vast majority of respondents (88%) are banked. This is likely to be influenced by the urban bias of the survey locations. Banking penetration at 92% is higher for those who send, but is remarkably high for receivers too (85% of those that receive only are banked).

Respondents that send money and have a bank account were asked why they do not send money via their bank accounts. As per 24 below 38% indicate that the receiver does not have a bank account (cited by senders with a bank account). According to FinScope 2013, 48% of adults that receive money from dependents outside of their households through a supermarket do not have a bank account.

[31] According to Census 2011, 49% of households in the Eastern Cape, 45% of households in KwaZulu-Natal and 14% of households in Gauteng live in rural areas (defined as traditional areas or farms)

Figure 24: Why don't you send the money by your bank account? (Asked to respondents that send money and have a bank account)



Source: Authors' own

Cost is also a factor. Thirty six per cent of banked respondents that send money via Shoprite said that banks are too expensive. However, when the same respondents were asked how much it costs to send money through their bank account two thirds did not know. This is unsurprising; the cost to transfer money through a bank account can vary greatly depending on the amount sent and channel used (see box 7 on the cost of sending and receiving money through a bank account). In contrast Shoprite's pricing structure is simple and easy to communicate.

Funds transferred between accounts at different banks can take a few days due to the clearing processes between banks. In contrast when using a retailer to transfer money, the receiver can access the money immediately. Eighteen per cent of senders with a bank account gave this as their reason for transferring through Shoprite instead of their bank account.

Box 7: Bank pricing

The cost of transferring money through a bank account varies widely depending on the amount sent, the type of account and channel used. To illustrate this two bank accounts have been compared, Capitec's bank account and ABSA's Mzansi account[32]. The table below shows the pricing for various options through a number of different channels.

Table 2: Prices associated with sending and receiving money through a bank account

[32] The Mzansi Account is a low income transactional banking account that was developed in line with the commitments of South Africa's Financial Sector Charter. The Financial Sector Charter requires banks to make banking more accessible to the nation and, specifically, to increase banking reach to all communities.

	ACTION	CHANNEL	CAPITEC ACCOUNT	ABSA MZANSI ACCOUNT
SENDER	Deposit money	Branch	R1.15 / R100	R13.00
		Cash accepting ATM	55c / R100	R5.20
	Transfer money	Branch	R3.20	R33.00
		Telephone adviser-assisted	-	R7.00
		Cell phone	R1.50*	No Charge
RECEIVER	Access cash	Branch	-	R13.00
		ATM	R4.60	R5.20
		POS	R1.05	R3.95

Source: Bank pricing brochures
Note: Channels shown are not exhaustive. Channels were selected because they can be accessed by the majority of the population
Note*: Can only transfer to other Capitec bank clients with a verified cell phone number

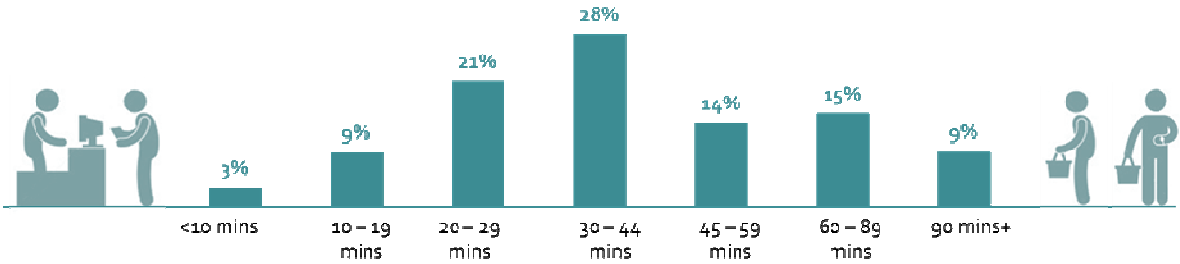
Senders may not need to deposit money into their bank accounts to conduct the transfer if they have the funds available from the start. Depending on the method used, and whether a deposit needs to be made or not, the cost to the sender to transfer R500 through a Capitec account using the channels shown in the table above would be between R1.50 and R8.95. For the receiver to access the cash would cost between R1.05 and R4.60.

Conducting a transfer for R500 through an ABSA Mzansi account costs senders between zero and R59.00, and between R3.95 and R13.00 for receivers to access the cash. In addition to this, ABSA Mzansi account holders are only allowed five credit transaction and five debit transactions per month at the transaction fees listed above. If this limit is exceeded, an additional fee of R10.00 per transaction is added to the normal transaction fee.

All respondents were asked how often they experience a problem either sending or receiving money using the Shoprite money transfer service. The majority of respondents (68%) said they had never experienced a problem. Of those that had experienced a problem just under half of them said the problem could not be resolved requiring them to return to the store at a later time to complete the transaction.

Almost 30% of respondents that use the Shoprite money transfer service to receive money said they had experienced the store running out of cash at some point in the past, although the majority indicated this happens rarely. Long queues at Money Market Counters are not uncommon. One quarter of respondents say they queue for an hour or more on average and a further 42% wait more than 30 minutes for service. These exceptionally long waiting times together with high banking penetration indicate the service is vulnerable to competition from more convenient offerings.

Figure 25: How long do you wait in the queue on average?



Source: Authors' own

Box 8: Queuing

Enumerators took hourly photographs of queues while administering the surveys. The photos below were taken outside the Shoprite in Germiston mall and show how the queues can become extremely long.

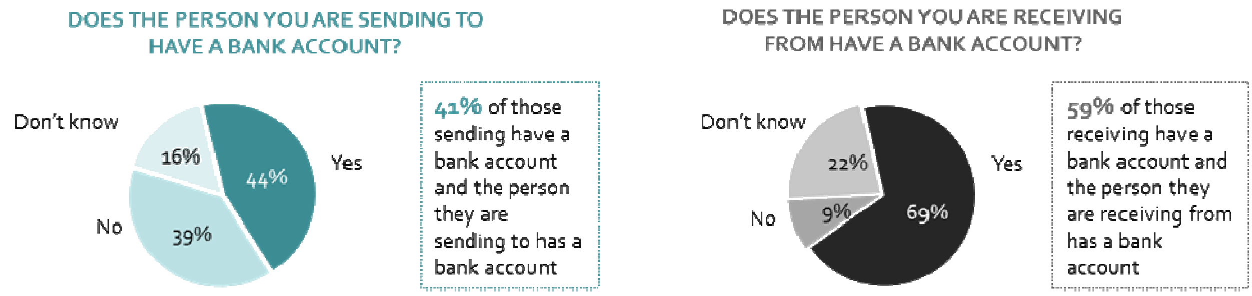
Wednesday March 19
14:24

Friday March 21 (Public holiday)
10:46

Source: Authors' own

Of those sending money on the day they were interviewed 41% had a bank account and were sending money to a banked recipient. For respondents that were receiving at the time of being interviewed, 59% have a bank account and were receiving funds from a banked counterparty. That banked senders and receivers prefer to make use of alternative money transfer services – despite the need to queue for extensive time periods and available information on alternative options –indicates there is significant entrenched status quo for these services and thereby opportunity for alternative services.

Figure 26: Banking status of counterparty

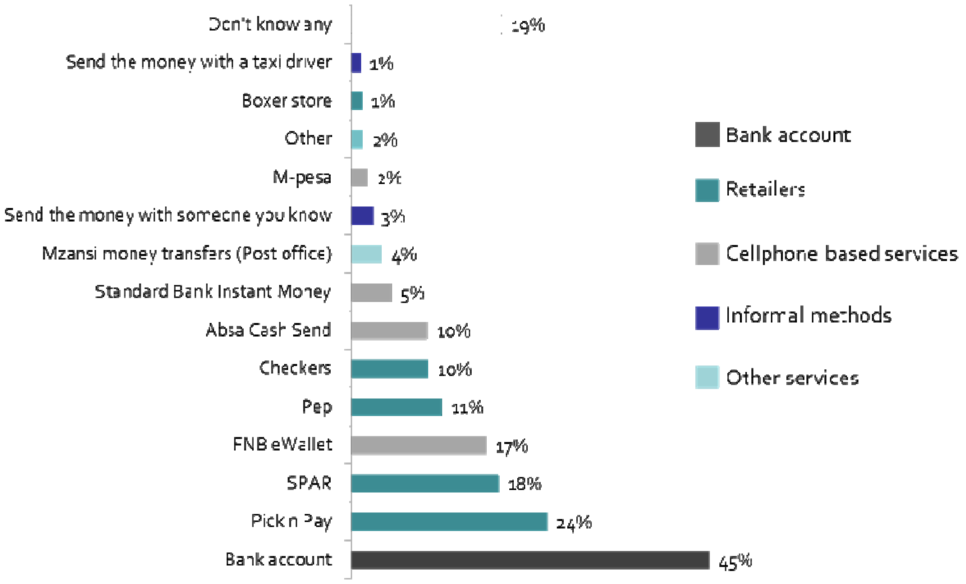


Source: Authors' own

All four of South Africa's major banks have launched services that enable money transfers to counterparties who are not banked: Absa brought the CashSend service to market in 2008; followed by FNB who introduced eWallet in 2009. This service enables FNB customers to instantly send money using their cell phone, online or through an FNB ATM. The only requirement for receivers is that they have a valid South African cell phone number. Sending money costs R8.50 when sending from an FNB bank account and R6.00 when sending from one ewallet to another. The receiver can withdraw the funds from any FNB ATM and does not have to withdraw all the funds at once[33]. Since its launch, three million people have received money via the e-wallet. A total of R5.3 billion was sent between May 2013 and April 2014. Nedbank partnered with Vodacom to launch M-pesa in August 2010; and Standard Bank launched Instant Money in 2010 with SPAR. As at the date this research was conducted Capitec did not have a comparable service.

Awareness of these alternatives appears to be relatively low among survey respondents. FNB's e-wallet was the most frequently mentioned but only 17% of respondents were aware of it. Almost one in five respondents did not know of any alternative options for transferring money.

Figure 27: Do you know of any other ways you could send or receive money? (Spontaneous mention)

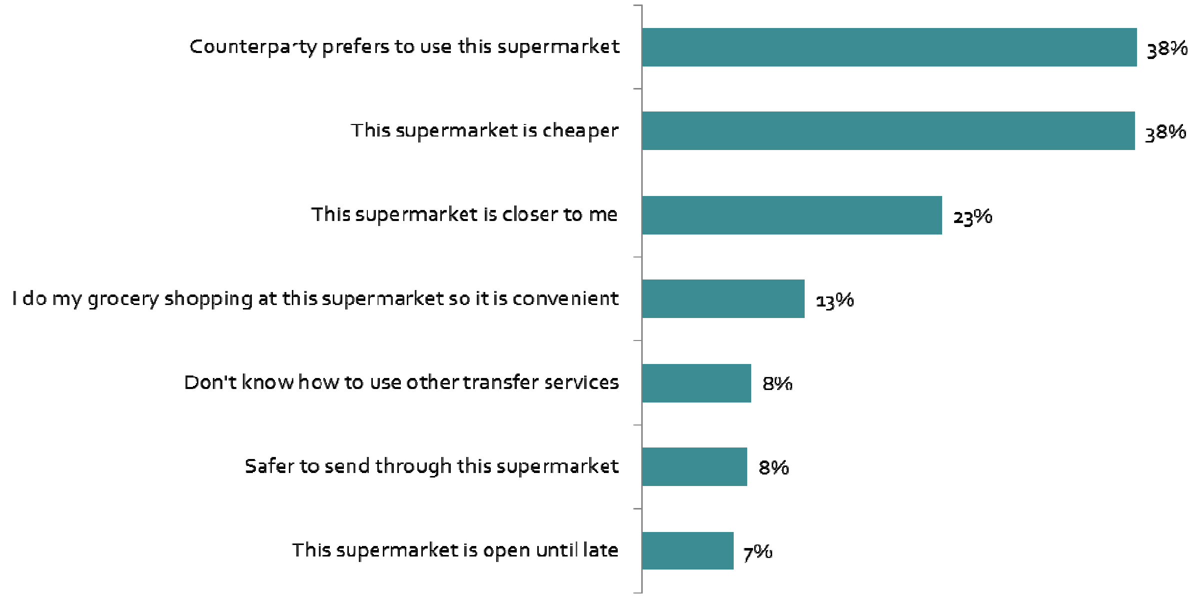


Source: Authors' own

Respondents that mentioned at least one other method of transferring money were asked why they use the Shoprite service instead of other money transfer options. The counterparty's preference is important; 38% of respondents said that they use the Shoprite transfer service because the counterparty prefers it. Following this, price and physical proximity of the supermarket were listed as important factors. This further indicates a lack of awareness of the cost of alternatives in the same price range, such as those discussed above.

[33] There is one free withdrawal per transaction, thereafter it costs R6.00 per R500.00 withdrawn.

Figure 28: Why do you use this supermarket instead of these other money transfer options?



Source: Authors' own

As noted, the supply side study found that one of the reasons retailers offer financial services is to increase footfall in store. They can do this by either by acquiring new customers or by increasing the number of interactions with existing customers. Shoprite Checkers specifically highlighted this as the primary rationale for creating its Money Market. To quote from its 2007 Annual Report; "Money Market forms part of the Group's non-core value-added strategy aimed at increasing consumer traffic in its stores. The main focus of the services offered is adding value to consumers' shopping experience by providing convenience and saving the consumer time, so turning outlets into destination stores[34]".

To test whether customers using the Money Market Counter also make use of Shoprite's core FMCG business, respondents were asked whether they make a purchase in store when conducting a money transfer. 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 than those sending money. There is therefore a functional proximity to accessing money transfers in the Shoprite retail environment. Thirteen per cent of respondents surveyed said had not visited the store before money transfer services were introduced.

5.2. Conclusion

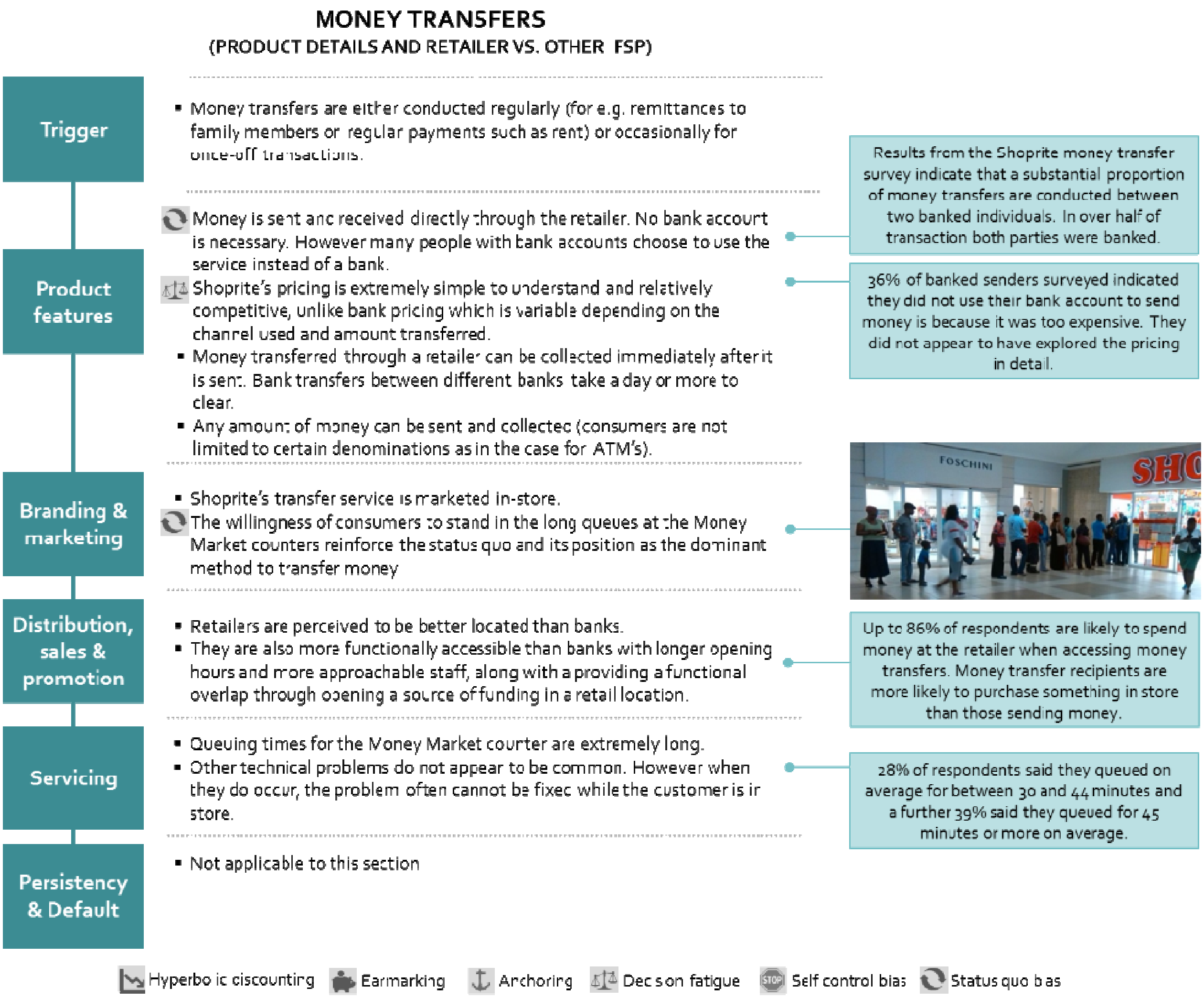
According to FinScope, retailers play a critical role in facilitating money transfer services. Shoprite's offering in particular has exceptionally high volumes and has, in fact, created this market in South Africa. It facilitates the flow of over R10 billion in transfers a year.

Based on a survey of almost 1 000 users of the service, it appears that consumers value the simplicity of the service and ease of use. In addition the low, flat cost per transfer is compelling. Users also value the rapid turnaround times in

34 Shoprite Holdings Limited (2007). ANNUAL REPORT 2007. [Online] Available at: http://www.shopriteholdings.co.za/InvestorCentre/Documents/AR2007_Value_added_services.pdf

terms of the availability of cash. Receivers can collect funds immediately, unlike the case of bank transfers which can take a few days when transferring between accounts at different banks. A disadvantage of the service is the long queuing times. Over 40% of respondents wait over 30 minutes on average for service.

Figure 29: Summary of findings – money transfers



Source: Authors' own

The survey indicates that a significant proportion of users of the service are banked. Forty one per cent of those sending money, and 59% of those receiving money at the time of the survey reported that both parties to the transaction were banked. While these percentages reflect an urban skew in the sample they highlight that lack of access to alternatives is not the primary driver influencing adoption of the service. Indeed, in the case of money transfers an interesting question for enquiry is not only 'Why retailers?', but also 'Why not banks?'.

6. CONCLUSION

The success of retailers in offering financial services reflects a strong alignment of supply and demand side factors. Retailers appear well placed to offer services profitably using models that align well with consumer needs. The close link between the financial services and the retail transaction enables retailers to design and deliver purpose specific services offered at the right time that are convenient to take up. These factors are considered below.

Accessibility: Retailers are more accessible both in physical and functional terms than pure financial services companies (FSP). Within pure FSPs distribution is one part of the value chain and often seen as a cost to be minimised. Channel strategies by and large focus on driving the customer towards digital channels and out of branches. The contrast for retailers is that distribution is at the heart of the business model and, as part of this, they actively seek opportunities to bring customers in store. Additionally, there is a functional intersection for customers between their activities within the retailer and the financial services accessed. This can extend to a convenience factor of interacting with unrelated financial services along an already established regular relationship touch point with the retailer.

Flexibility: While FSPs in general prefer to collect premiums and instalments by debit order, retailers allow customers to pay in cash in store. Many customers value the flexibility and control that in-store account payment affords them. In addition, there is a perception of greater flexibility of grace periods if payments are missed, along with additional repayment benefits such as receiving a receipt or a trip to the retailer to explore new merchandise.

Facilitates control: The close link between the financial services and the retail transaction enables retailers to design and deliver purpose-specific services that assist consumers with self-control by containing their access to finance to the arena of the retailer.

Convenience: Customers can access a portfolio of financial products with ease due to retailers bundling financial services with other offerings or leveraging existing data and collections mechanisms to sell and service products. Many of the products are of a short term nature, which adds to the appeal of a convenient access point for a short-term good.

Status quo: For certain financial services, such as clothing accounts and money transfer services, retailer offerings have exceptionally high rates of adoption. This serves to reinforce their status as the default provider.

Qualifying criteria: Credit products offered by retailers are perceived to be easier to qualify for than those offered by FSPs. In the case of insurance and money transfers, retailer's products are often perceived to be more affordable than services offered by traditional FSPs.

These and a number of other factors support the relative strength of retailers over FSPs across key touch points or decision nodes are summarised below and explain why retailers are often the provider of choice.

Figure 30: Supply and demand side factors that influence provision and take up of financial services

	SUPPLY SIDE FACTORS	DEMAND SIDE FACTORS
Trigger	▪ Insurance: Generally pushed by retailers onto credit customers.	▪ Credit: Often required for emergency/ impulse purchases, to facilitate affordability or to create a credit history. ▪ Money transfers: For regular and irregular cash payments and receipts. Insurance: Top-up insurance to cover rising costs or specific items.
Product features	▪ Retailers typically offer narrowly defined financial services that meet a specific need. In many cases the service is supportive of or complimentary to core retail activities. ▪ Pricing is competitive because retailers leverage existing assets and capabilities.	Purpose-specific credit products facilitate self-control which is valued particularly at the lower end of the market. Customers appreciate the simplicity of financial services offered by retailers. ▪ Financial services offered by retailers are often more affordable and flexible than products offered by other FSPs.
Branding & marketing	▪ Retailers leverage their trusted brands as well as in-store and other media (club magazines, newsletters etc.) to market financial services	Customers are exposed to advertising in-store and through store magazines and newsletters. For credit, retailers make use of comparative pricing to enhance the attractiveness of credit. Given the high take up of many financial services offered by retailers, status quo bias plays an important role.
Distribution, sales & promotion	▪ Retailers have wide and established networks of stores. Opening hours tend to be longer than financial services companies. ▪ Retailers want to draw customers in store. They try to ensure that staff are friendly and that the environment is inviting. ▪ Credit retailers have a higher risk tolerance. Merchandise margins, interest margins and margins on ancillary insurance products support higher levels of default. They therefore play a critical role in providing access to credit or higher risk and first time borrowers. ▪ Promotion of credit is done "just in time" when the customer is likely to be most receptive to the offer.	▪ In some areas retailers are more convenient to reach than banks and other financial services providers. ▪ Customers perceive retailers as being more functionally accessible (longer opening hours, friendly staff and environment, and ease of access to funds for us at the retailer) than other FSPs. ▪ Customers perceive credit retailers as being more likely to give them credit. ▪ Credit retailers offer attractive inducements to take up credit.
Servicing	▪ Retailers leverage off their existing service points and payments infrastructure. ▪ Retailers accept, and often promote, cash instalment / premium payment (as opposed to debit orders). This diminishes the retailers control over the payment but it brings more customers in store	▪ Many customers prefer paying instalments and premiums in cash as this gives them more control over the payments process. ▪ Customers can leverage off their visit to a retailer to pay premiums/instalments or conduct a transfer. Further, linked insurance customers can leverage their payment of credit accounts for servicing their premiums.
Persistency & Default	▪ Credit retailers can tolerate higher risk customers (see above).	▪ Customers perceive clothing stores as being more lenient than banks with late payments ▪ Furniture retailers are perceived as more unforgiving of missed payments than banks, in addition some furniture retailers can repossess goods. ▪ Insurance from credit retailers perceived as being more flexible with late premiums than other FSPs.

Hyperbolic discounting · Earmarking · Anchoring · Decision fatigue · Self control bias · Status quo bias

Source: Authors' own

The user case for financial services through retailers appears to not only link to the positive comparability of product features, but also to intrinsic touch points with the products and providers that increase their attractiveness to the customer. This is an important consideration for providers and regulators as retailers currently play a critical role in the provision of financial services to low-income consumers and appear to be here to stay. Their extensive physical footprint, trusted brands, administrative infrastructure and customer-facing staff are key assets that can be leveraged at low marginal cost to provide financial products and services. As credit providers, retailers enable borrowers to purchase merchandise that would otherwise be unaffordable. They also facilitate access to insurance, often on more competitive terms than similar products made available through traditional channels. In addition, they process a high proportion of money transfers that link geographically dispersed financial households. The objective of this research was to unpack the user case for financial services through retailers. These cases have been presented, but their systematic relevance remains unknown. A useful next step for research would be to assess the impact of retailers on access to financial services. But beyond that, it is critical to assess the degree to which retailers contribute towards meaningful financial inclusion, and how financial incentives as well as the regulatory environment shape this. Some initial comments in this regard follow as a postscript to this document. Further it is useful to explore the implications of this study for traditional financial providers. While the question posed was "Why Retailers?" FSPs should perhaps be asking themselves "Why not us?". The answer as documented in this research is quite simply that in many cases retailers are in a better position to meet the financial needs of consumers than banks or insurers. This may well signal that financial institutions should review their propositions and align them more closely with consumer needs.

6.1. A postscript: Implications arising from the research

The three products that were selected for the demand review offer very different models of interaction between retailers and FSPs. In the case of insurance and money transfers retailers offer financial services in collaboration with traditional FSPs, while in the case of credit, retailers compete directly with them. A critical factor that shapes the mode of interaction between retailers and FSPs is the regulatory regime. This is particularly the case where services are simple and could potentially be offered by retailers without assistance from FSPs. For instance, in the case of money transfers retailers partner with banks not because they benefit from the bank's technical expertise, balance sheet strength or superior ability to price and manage risk, but principally because by law unrequited money transfers must be facilitated by a bank. The banking partner operates in the background and is mostly invisible to the customer.

Credit retailers are licensed to offer credit to their customers and compete directly with other FSP's to do this. As noted, business models of retailers and FSPs differ fundamentally. Retailers can rely on high merchandise margins together with the high cost of credit to support higher levels of default. Due to this, retailers play a critical role in providing access to credit to customers that would otherwise be underserved by traditional FSP's. When credit is granted responsibly, retail accounts can be used to create a credit history that enables access to higher order credit products, delivered in the main by FSPs. FSPs therefore benefit directly from the critical role retailers play in shepherding thin file clients into the formal credit industry. However when credit consumers are unlikely to progress economically because wages are stagnant or too erratic to support higher order credit products, the credit journey may never progress. Even where the consumer is upwardly mobile, the risk is that credit is overextended and consumers become highly indebted. This not only makes the consumer vulnerable to financial shocks, but also impacts on their credit journey and ability to access secured credit.

The broad data for South African consumers would appear to indicate that for lower income earners this risk transpires too often. Data published by the National Credit Regulator indicates that 45% of active furniture retailer borrowers have impaired records. In addition, the recent collapse of African Bank which purchased furniture retailer Ellerines in 2008, as well as the recent poor performance of JD Group's financial services division (Reuters, 2014), highlights that in the domain of credit the strategic rationale for retailers to partner with or become financial service providers and their methodology for offering more general-purpose credit products requires greater scrutiny.

Retailers offer insurance in partnership with financial service providers. The South African experience is dominated by Edgars and PEP, both of whom have joint ventures with Hollard. In these relationships the retailers work closely with the insurer to design the product, distribute it across the retailer's customer base and facilitate premium collection. While account holders at Edgars valued the ease with which insurance products could be purchased and serviced, problems can arise where insurance is sold at the time the consumer applies for credit. Some focus group participants believe that their decision to take up the insurance offering has a material impact on their chances of qualifying for credit and accepted the insurance offer for this reason. Of course this may be entirely unintended as retailers offer credit at the time of account application principally to maximise the value of the interaction and to increase convenience to the consumer. Nevertheless the FGD feedback highlights potential pitfalls of this sales approach.

According to the survey research money transfer services offered by retailers, while exceptionally popular, remain particularly inconvenient as the majority of customers interviewed regularly queue for over 30 minutes to send or receive money. The research also indicates that the majority of customers who use the service are banked and many senders have to first withdraw cash from their bank accounts in order to send it on. Consumers may be willing to undergo this because they value the simplicity of the retailer's pricing model and while the queues may be long they are confident that the counterparty will be able to collect cash immediately. They may also be willing to stick to their status quo because they have no experience of how things could be and expect poor service.

Nevertheless, the long queues highlight that there is significant room for improvement in the money transfer space. Alternative mobile-based services such as FNB's eWallet and Absa's Cashsend allow for the instant transfer of funds without the long queues and similarly do not require the recipient to have a bank account. Indeed in May 2014 FNB indicated that over 3 million consumers have received money via eWallet since it launched the service in October 2009. Mobile-based services are competitively priced and undoubtedly more convenient for the customer if easy cash in and out services are available. Nonetheless the banks will have to work hard at gaining the trust required to migrate customers from retailer transfer services. This trust is critical; low-income consumers who rely on the service face severe liquidity constraints at month end. A delay or mistake has a high negative impact for this target market and so may be reluctant to move from a service they trust to something new and untested.

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