



Making Access Possible (MAP) Zambia: Key Findings Presentation

Lusaka, 19 April 2017

Presentation notes

This presentation sets out some of the key findings from the MAP diagnostic analysis. The presentation was done to solicit feedback from stakeholders to refine the diagnostic findings. The research behind the presentation is set out in detail in the diagnostic report to be released later in the year.

Agenda

1. Introduction to MAP
2. Contextual drivers
3. Understanding consumers and their needs
4. Provider and product overview
5. Priority focus areas

1. INTRODUCTION TO MAP



North America

United States of America

Atlantic Ocean

Gulf of Mexico

Florida

Islands of the Bahamas and West Indies

Tropic of Cancer

Caribbean Sea

Mexico

Central America

Cuba

Greater Antilles

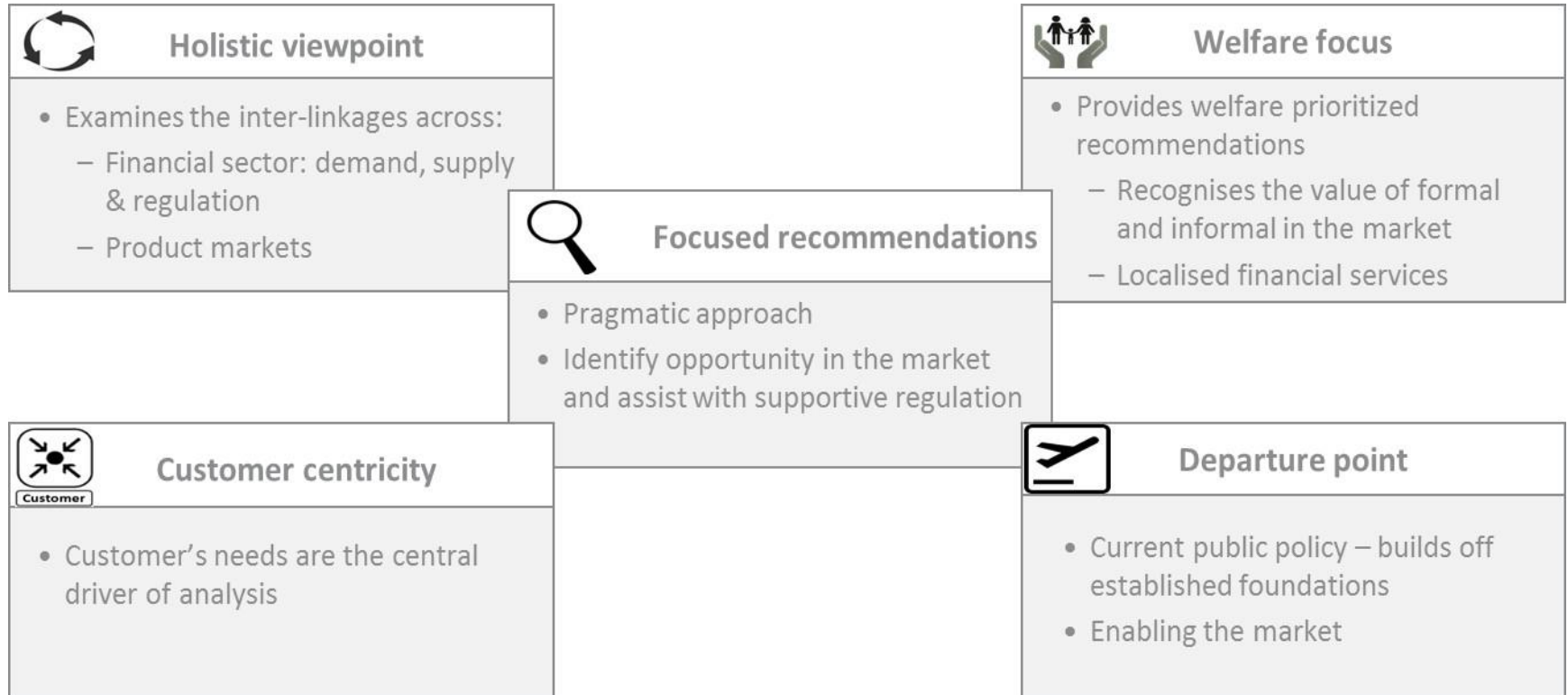
Colombia

Venezuela

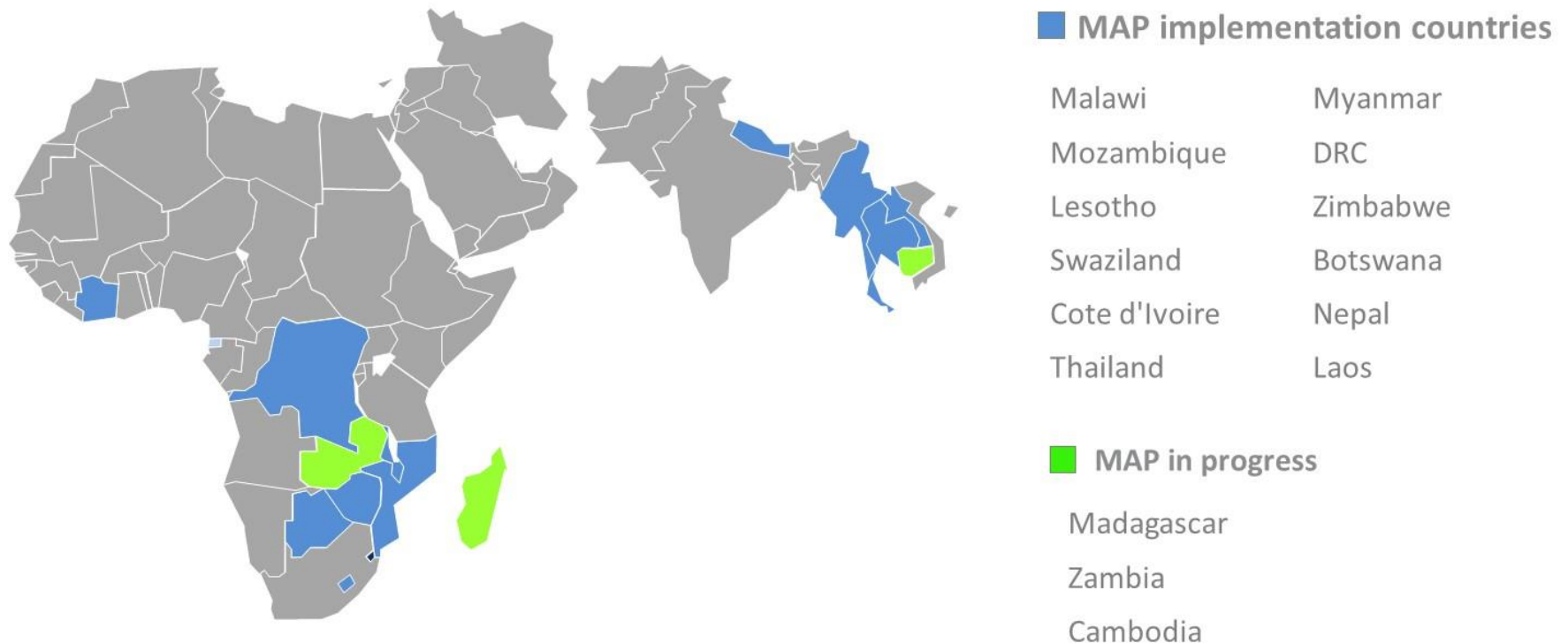
St. Vincent

Trinidad

Why MAP? The value that MAP process provides



Where is MAP happening? MAP implementation and pipeline countries



MAP exists within existing policy processes: The National Financial Inclusion Strategy (NFIS)

NFIS definition of Financial Inclusion:

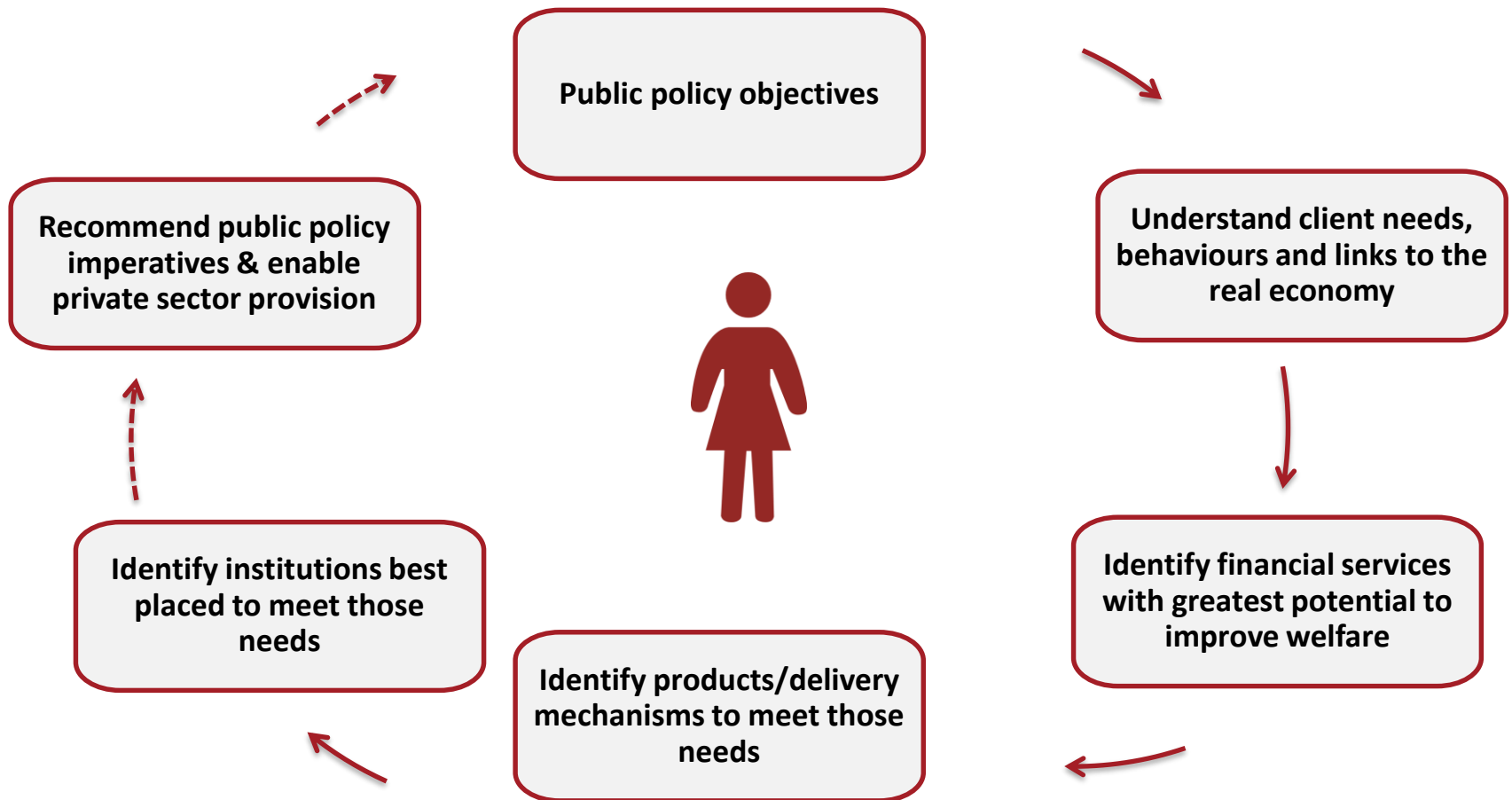
“Access and informed usage of a broad range of quality and affordable savings, credit, payment, insurance, and investment products and services that meet the needs of individuals and businesses.”

NFIS Vision:

“Universal access and usage of a broad range of quality and affordable financial products and services.”

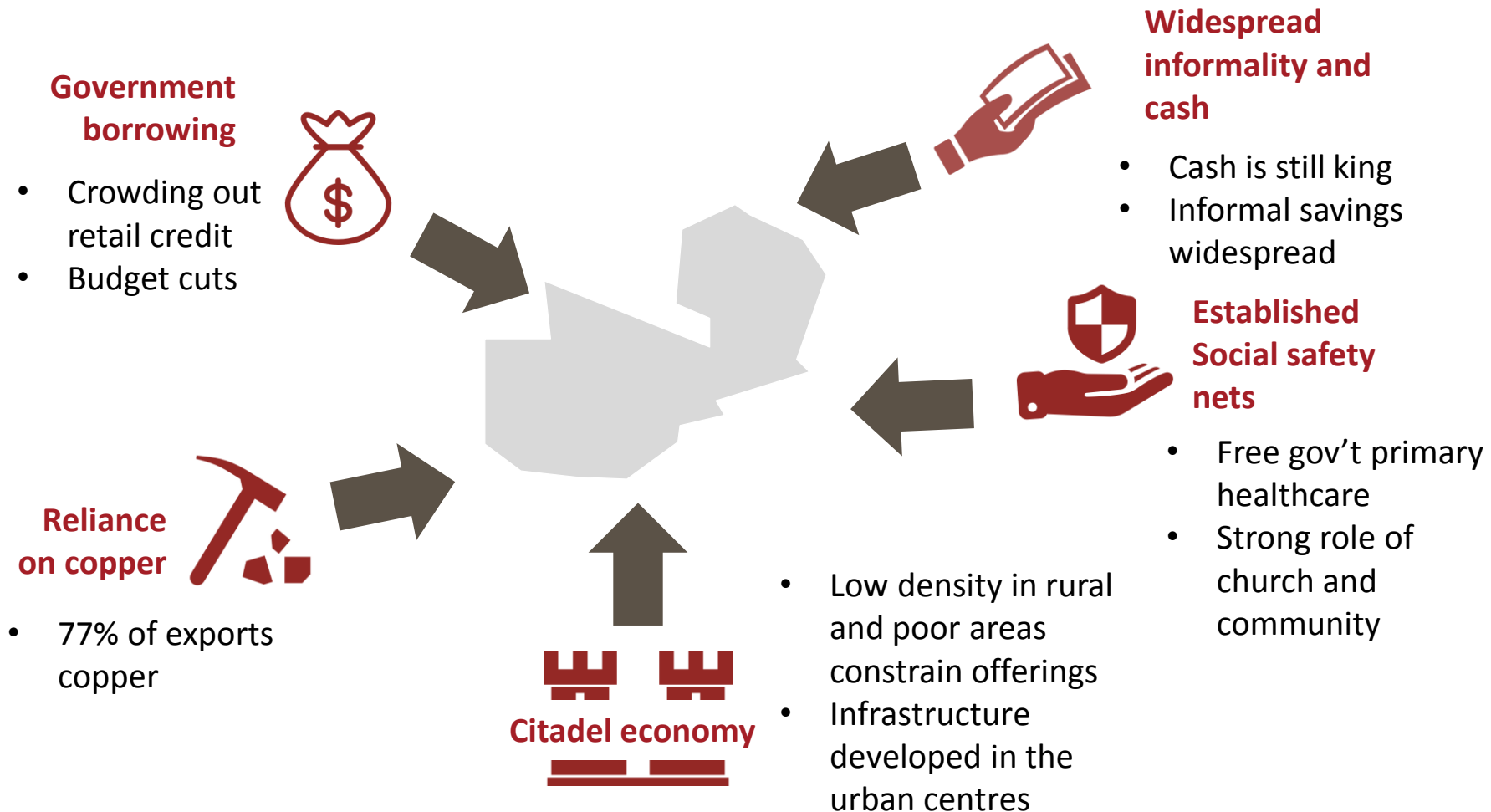
*MAP provides an evidence base to support both
the development and implementation of the NFIS*

MAP approach: Focused recommendations



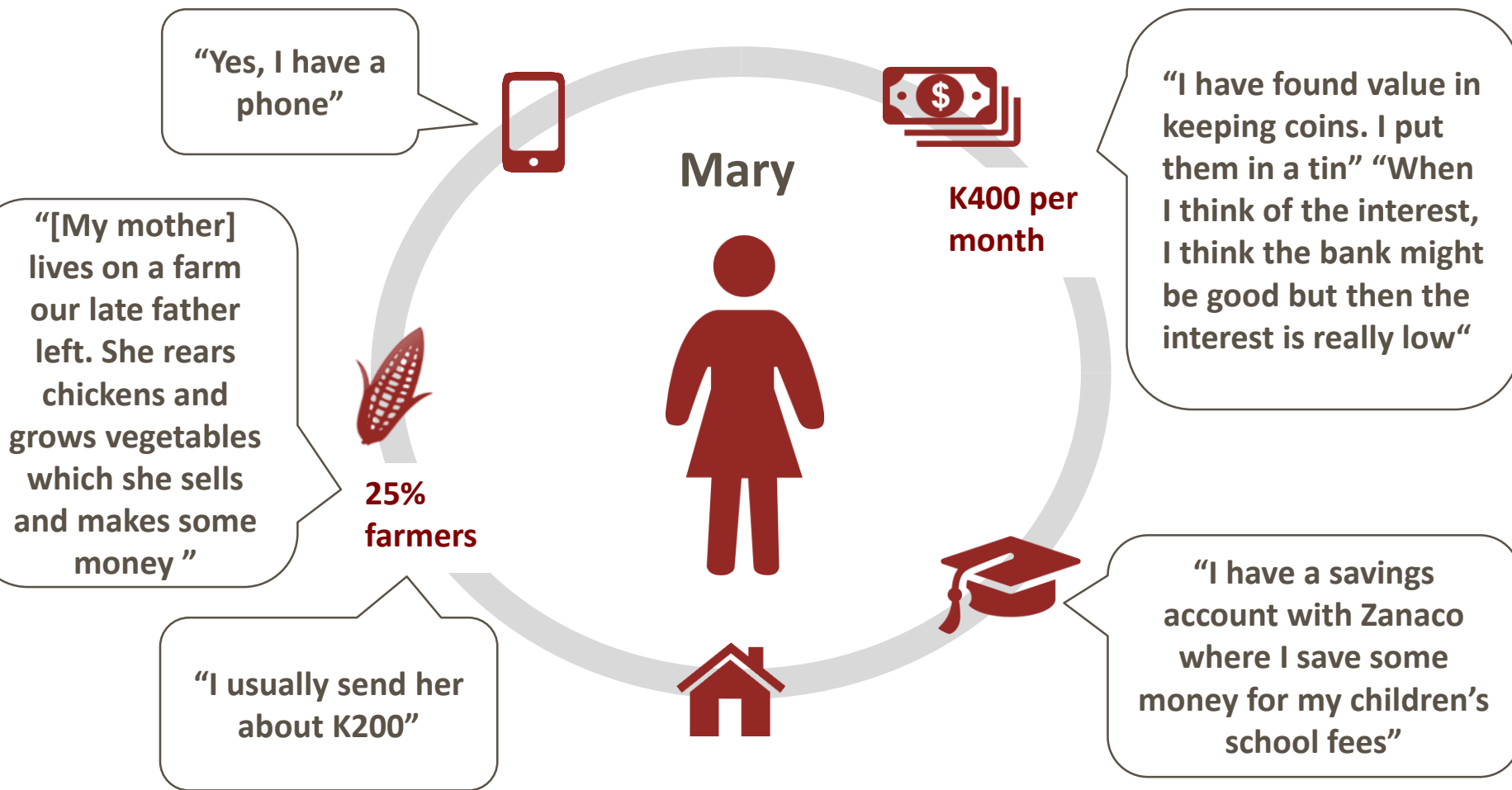
2. CONTEXTUAL DRIVERS

Context drives Financial Inclusion realities



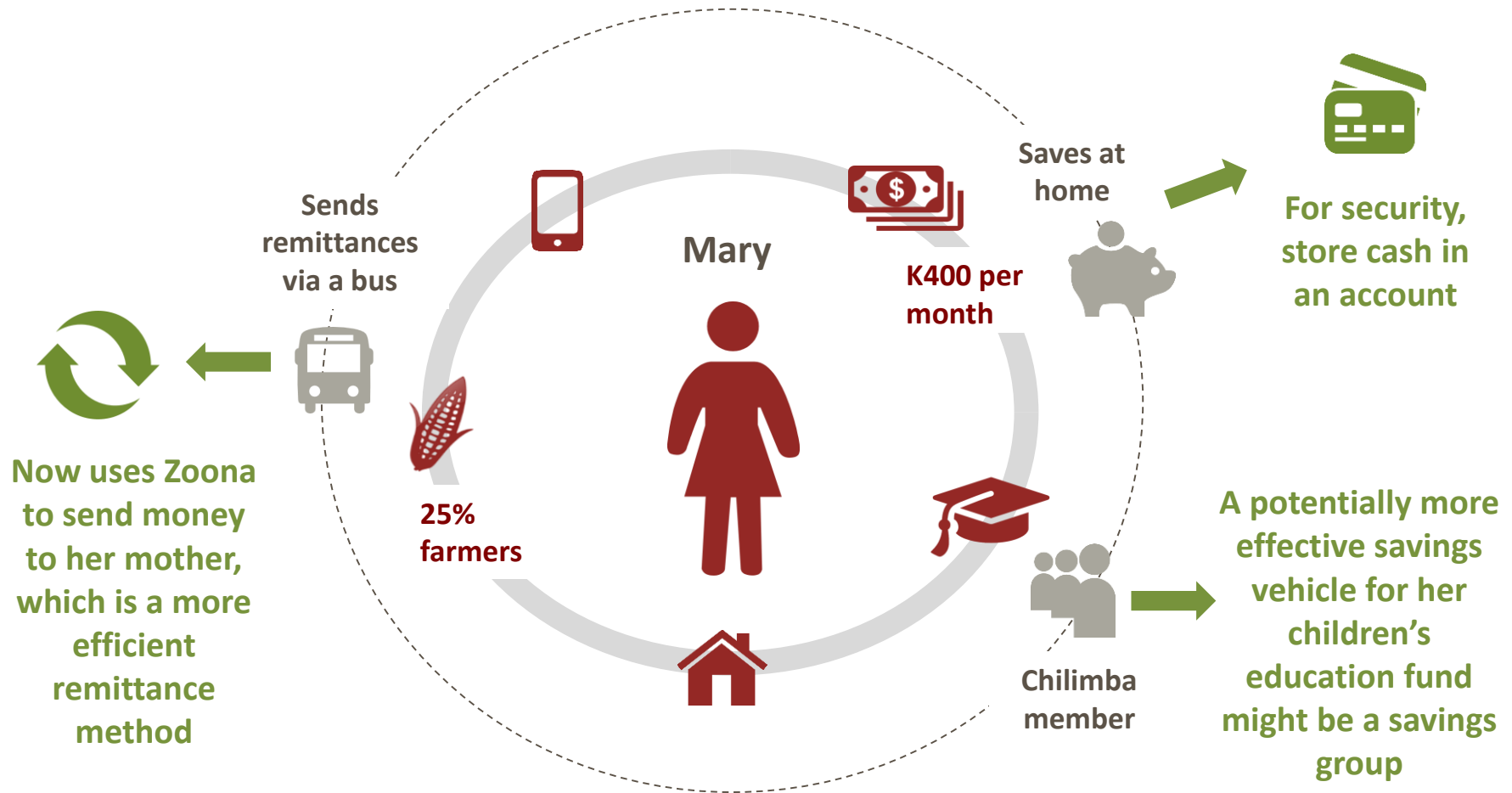
3. UNDERSTANDING CONSUMERS AND THEIR NEEDS

Meet the consumer: Highly urbanized population, but strong farming community



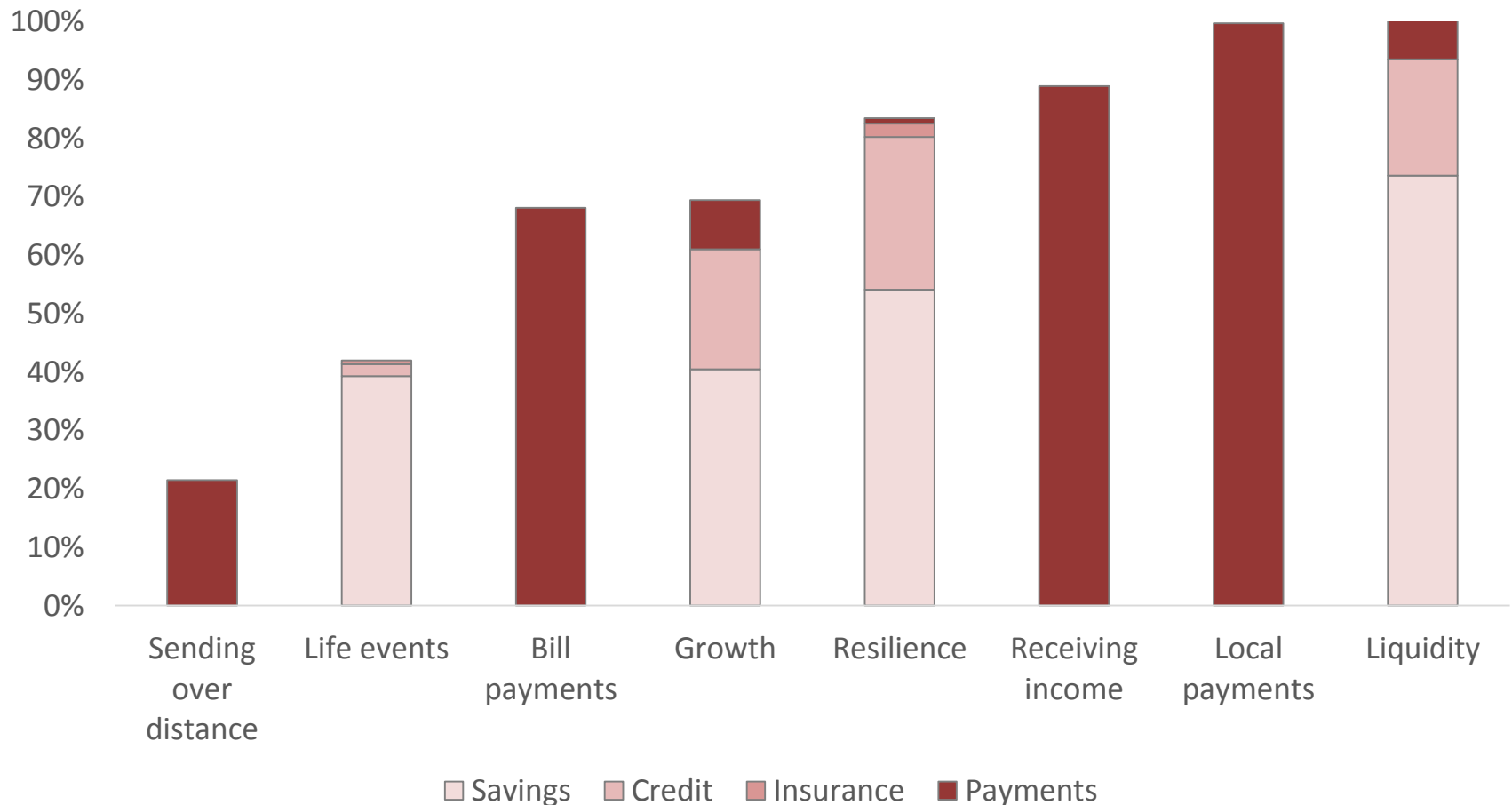
Source: FinScope (2015)

Meet the consumer: Broad range of financial service needs



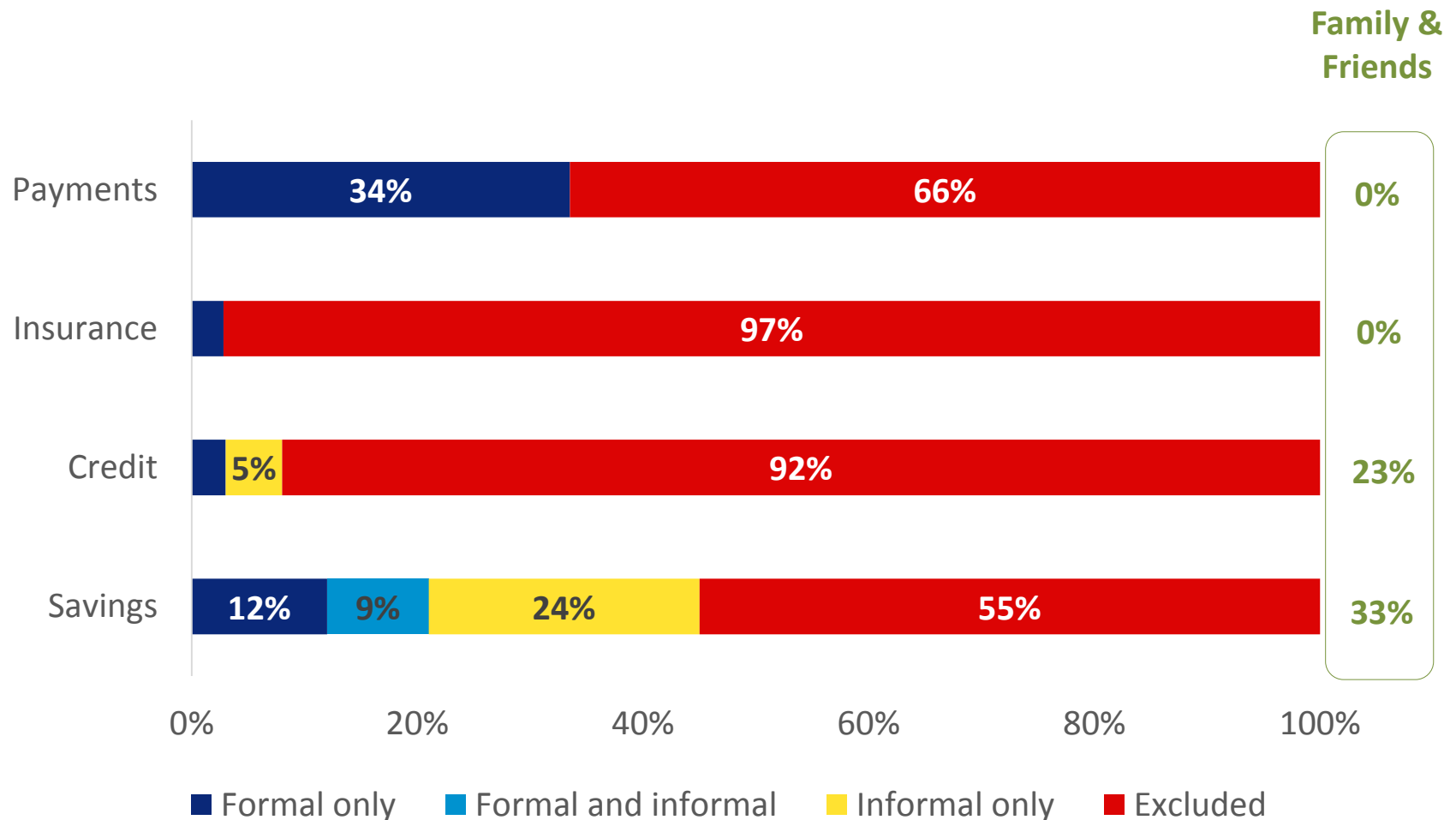
Source: FinScope (2015)

Meet the consumer: Broad range of providers



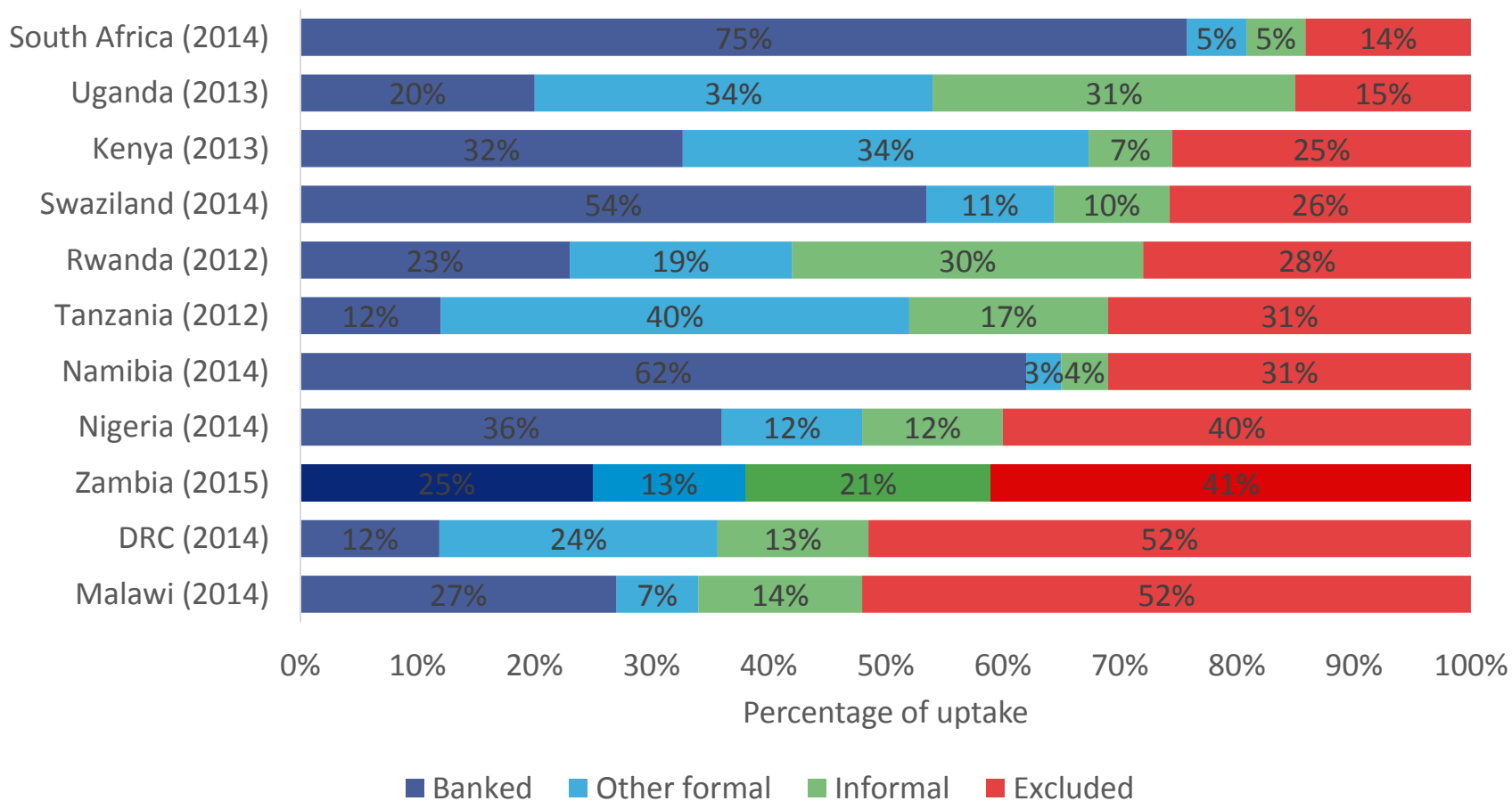
Source: FinScope (2015)

Meet the consumer: Breadth of uptake per product category



Source: FinScope (2015)

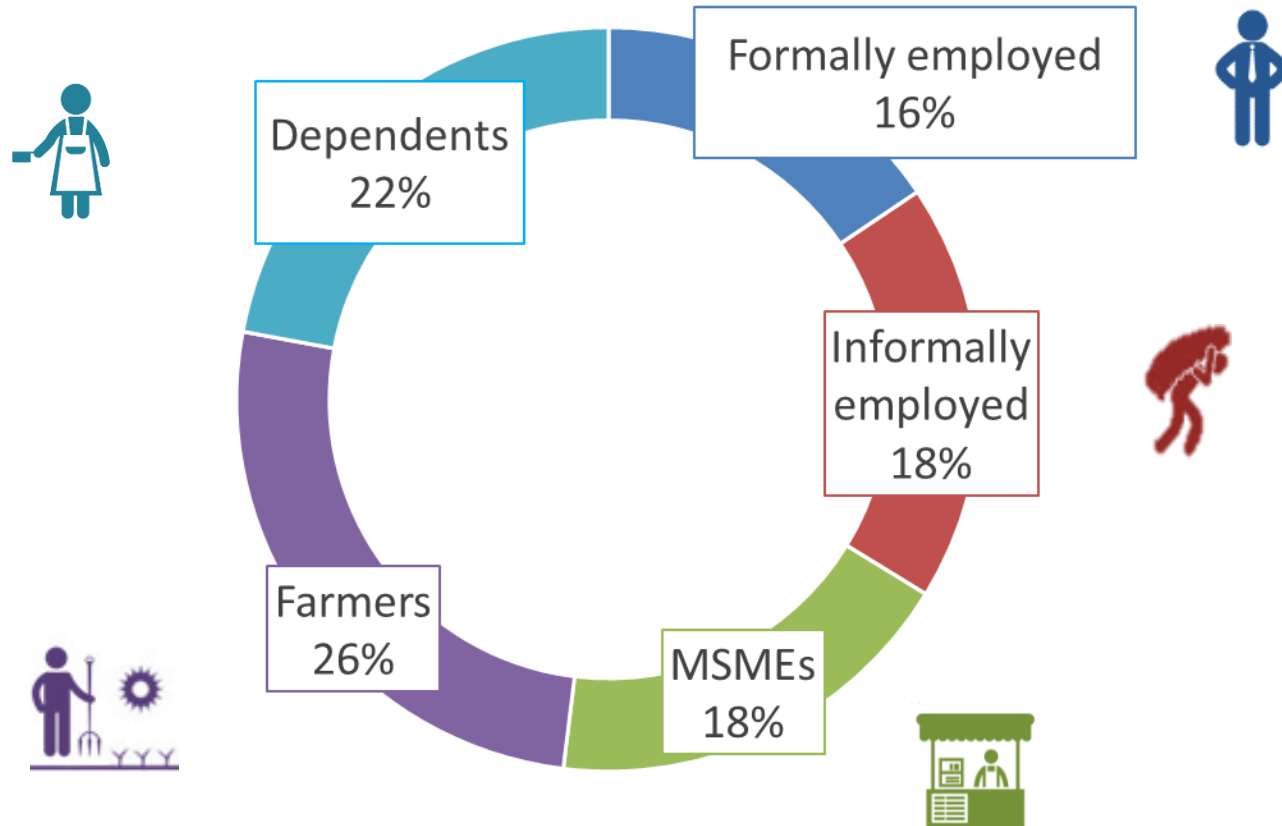
Zambia compared to the region



Source: FinScope Consumer Surveys

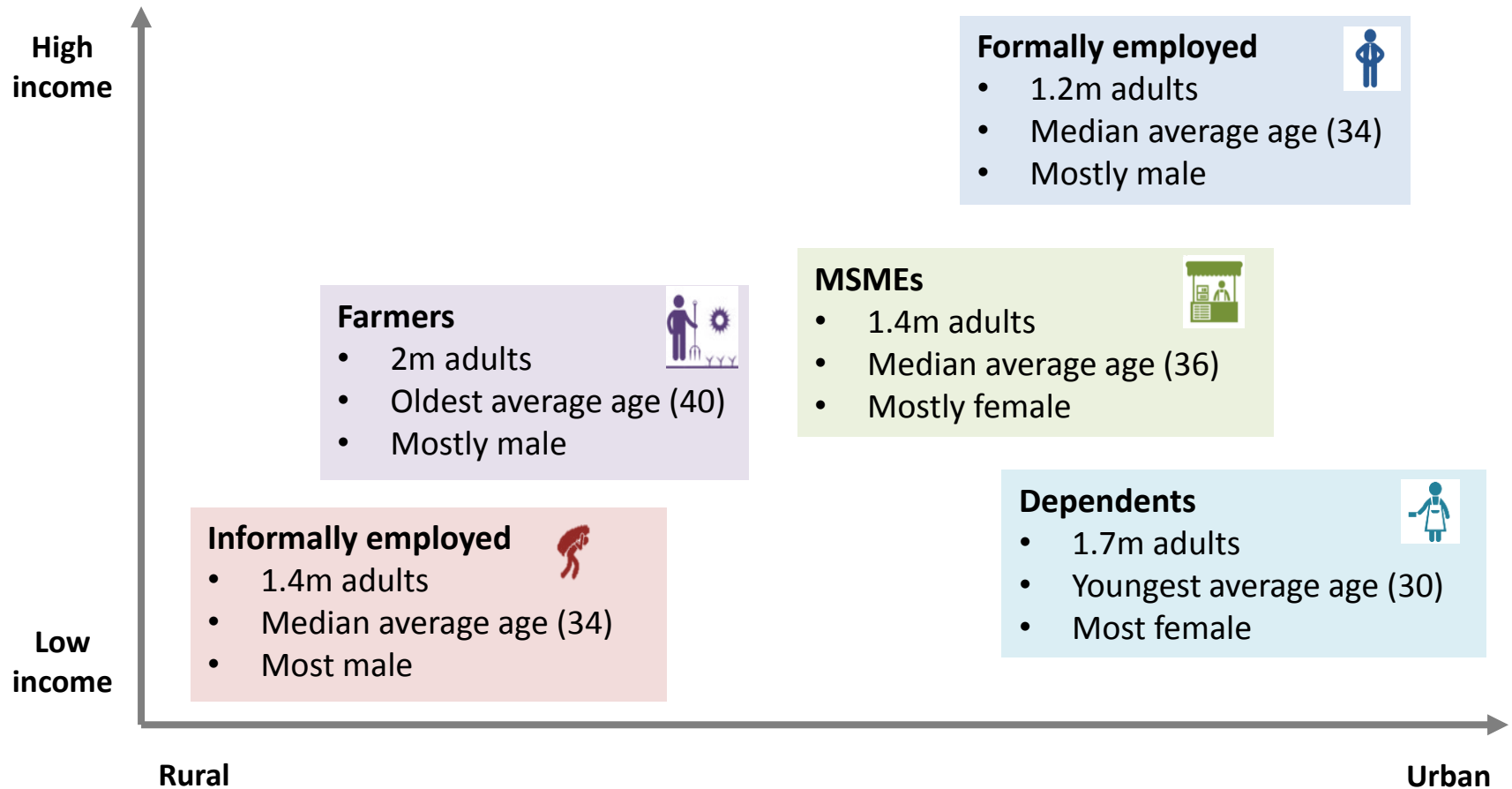


Introducing the target markets



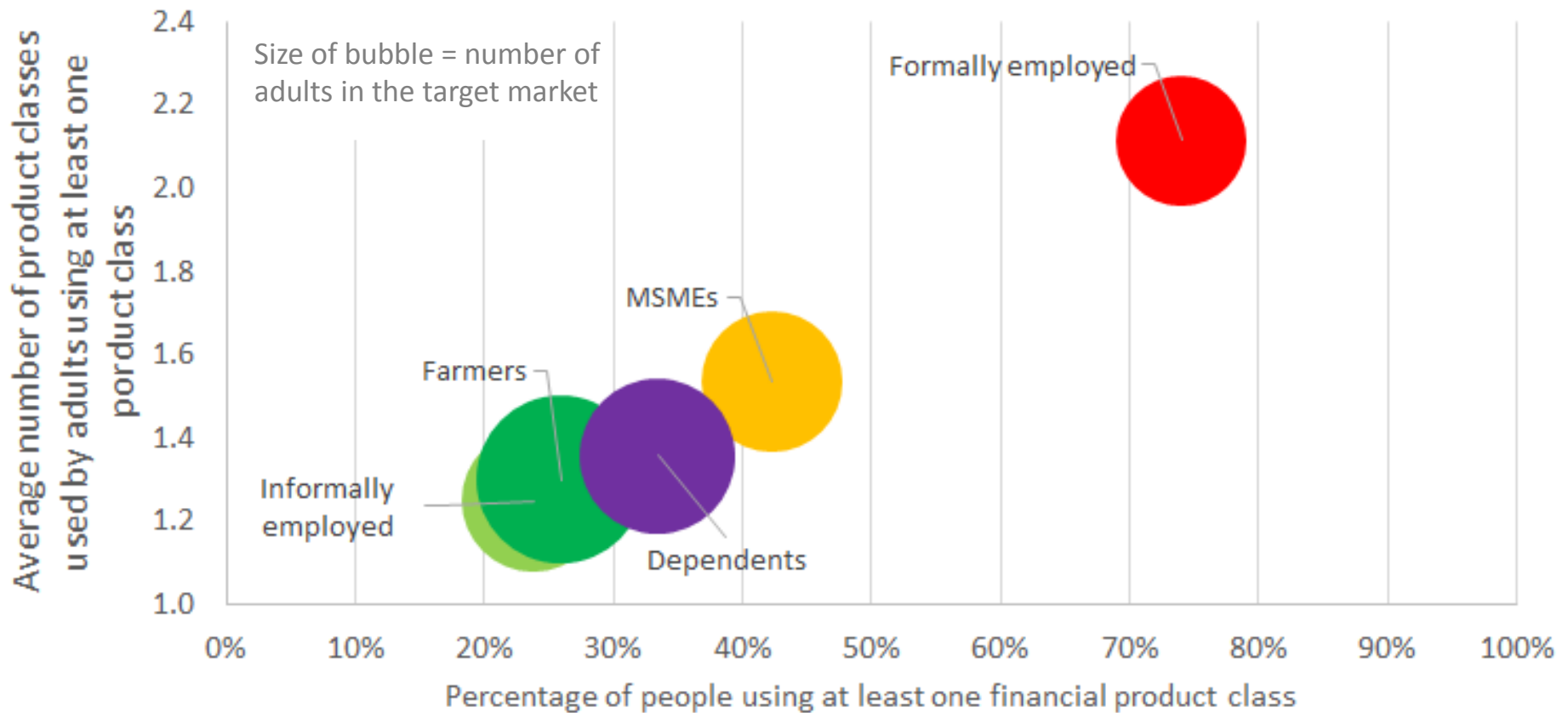
Source: FinScope (2015)

Introducing the target markets



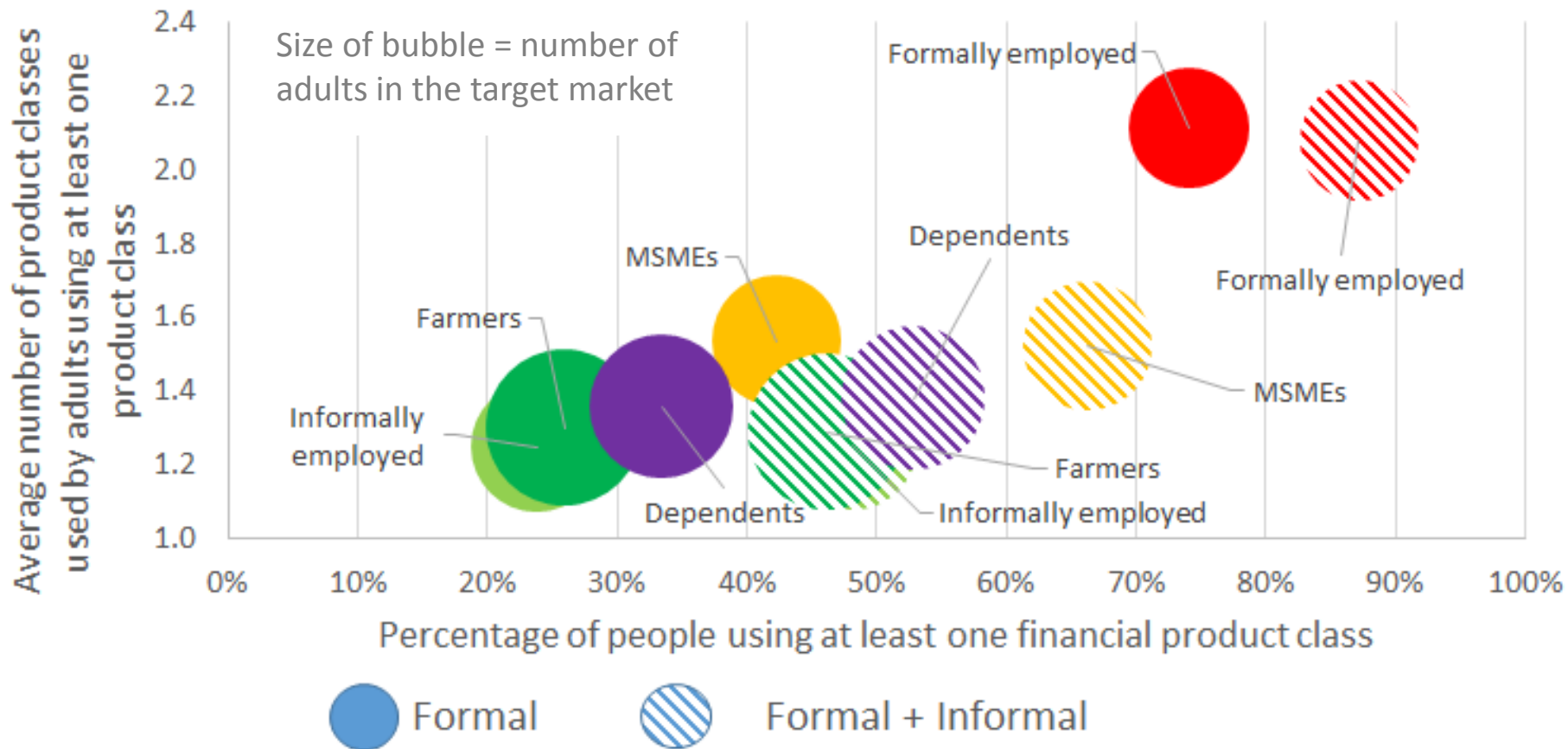
Source: FinScope (2015)

Comparing overall uptake of financial products: Depth vs Breadth



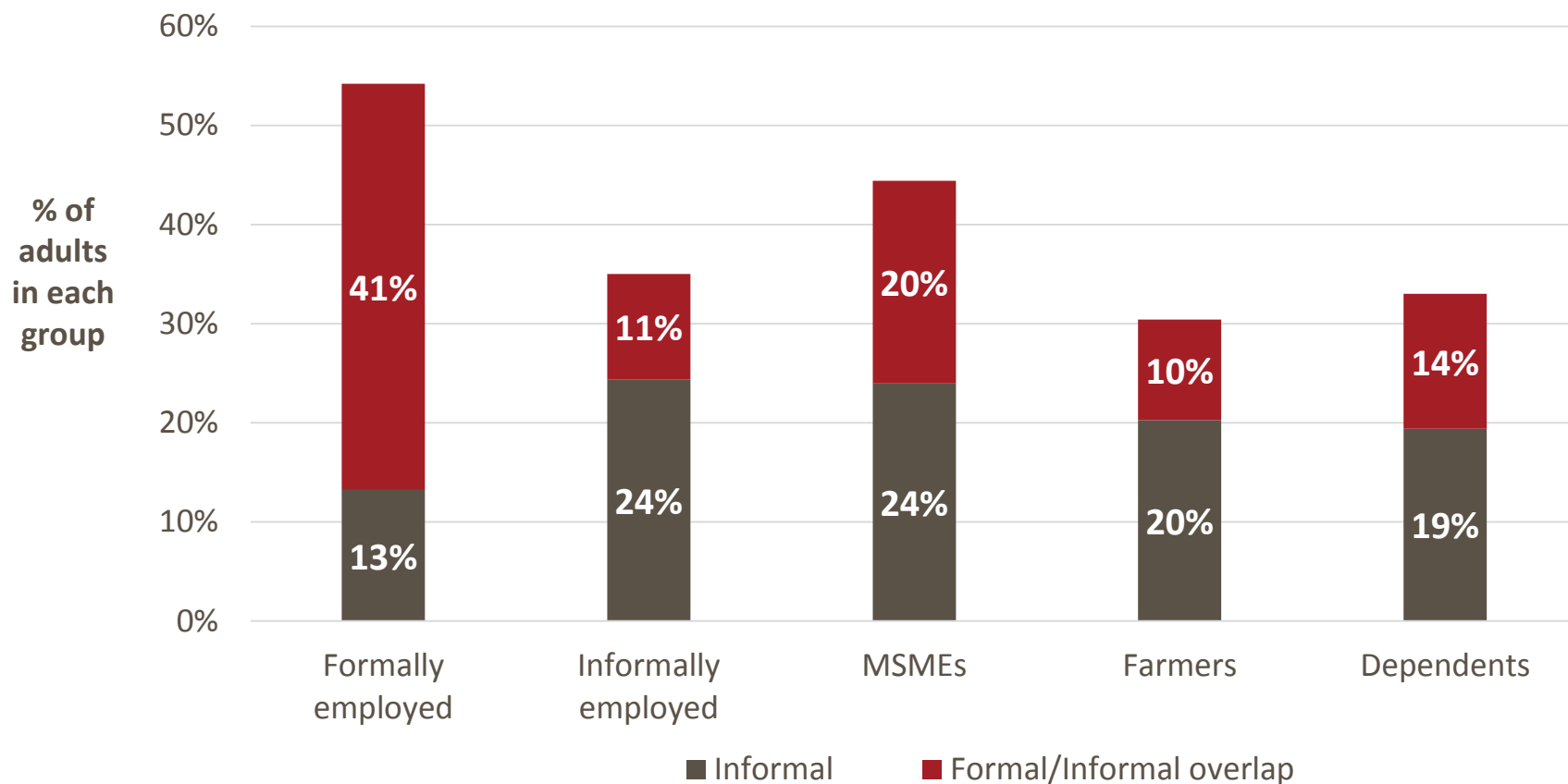
Source: FinScope (2015)

Comparing overall uptake of financial products: Depth vs Breadth



Source: FinScope (2015)

Widespread use of and reliance on informal financial services across target markets



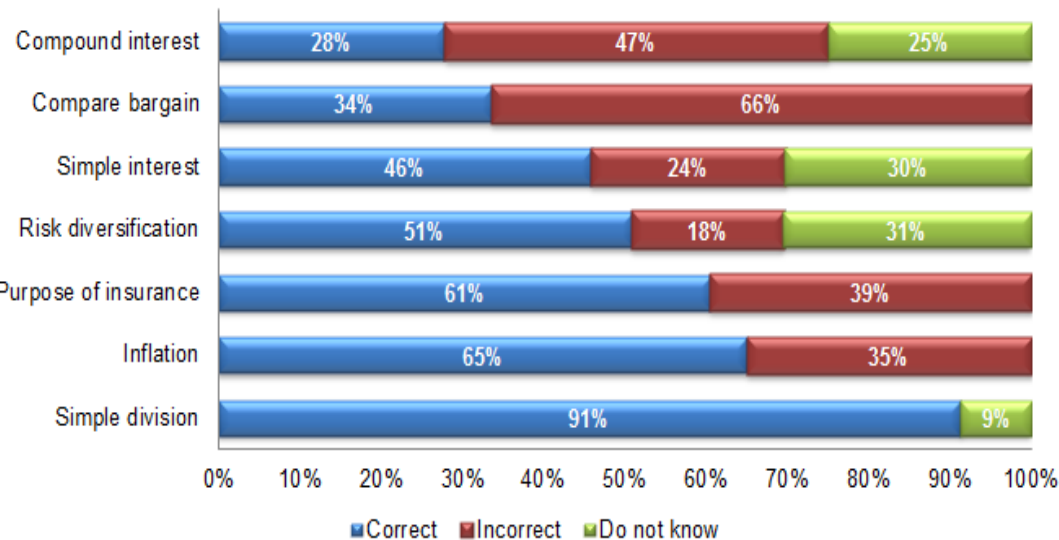
Source: FinScope (2015)

Key Target Market Needs

Key Need	Formally Employed	Informally Employed	MSMEs	Farmers	Dependents
Transfer of Value	✓	✓	✓	✓	✓
Liquidity	—	✓	✓	✓	—
Resilience	Primary target market for insurance	—	✓	✓	—
Meeting Goals	Education	Education	Education + Productive assets	Education + Productive assets	Education

The role of consumer education

Understanding of complex financial terms lacking



“The other ways [than Zoona] are okay but because my mother is an elderly woman I don’t think she can manage to keep up with the processes that are required for her to receive the money”

But, wide range of financial tools used to meet different needs

- 250, 000 savings group members
- 790,000 members of Chilimbas
- 140,000 save with a church
- 850,000 save by buying farming or business inputs in advance
- 2.2.m save at home

“It [the Chilimba] encourages investing/saving which is my first priority”

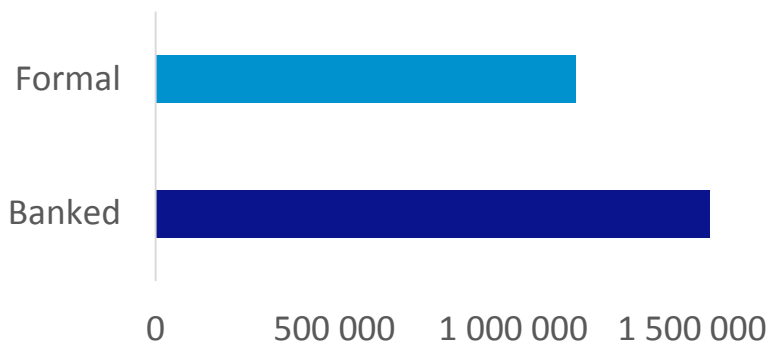


4. PROVIDER AND PRODUCT OVERVIEW

2.7m use payments

Uptake of non-cash payments products

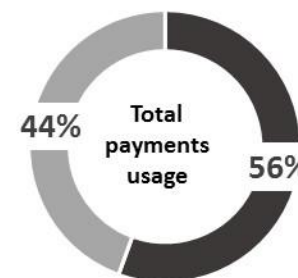
Total payments usage: 2015



Total payments usage: Male vs. female

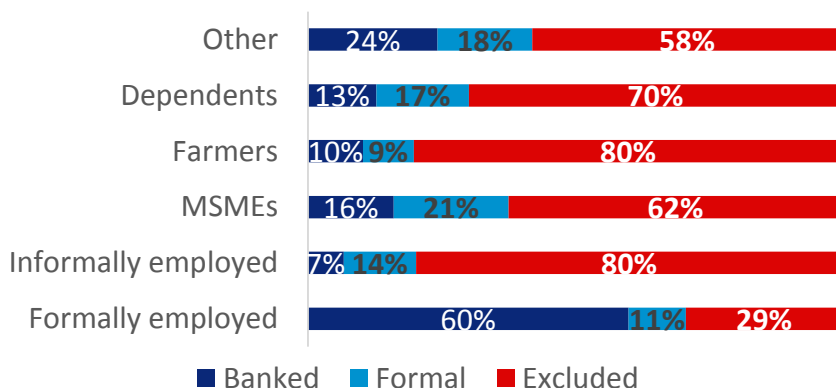


51% of total population is female



■ Male
■ Female

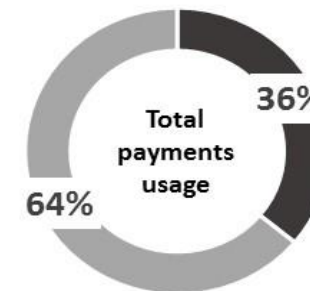
Total payments usage: Target markets



Total payments usage: Urban vs. Rural



45% of total population is Urban



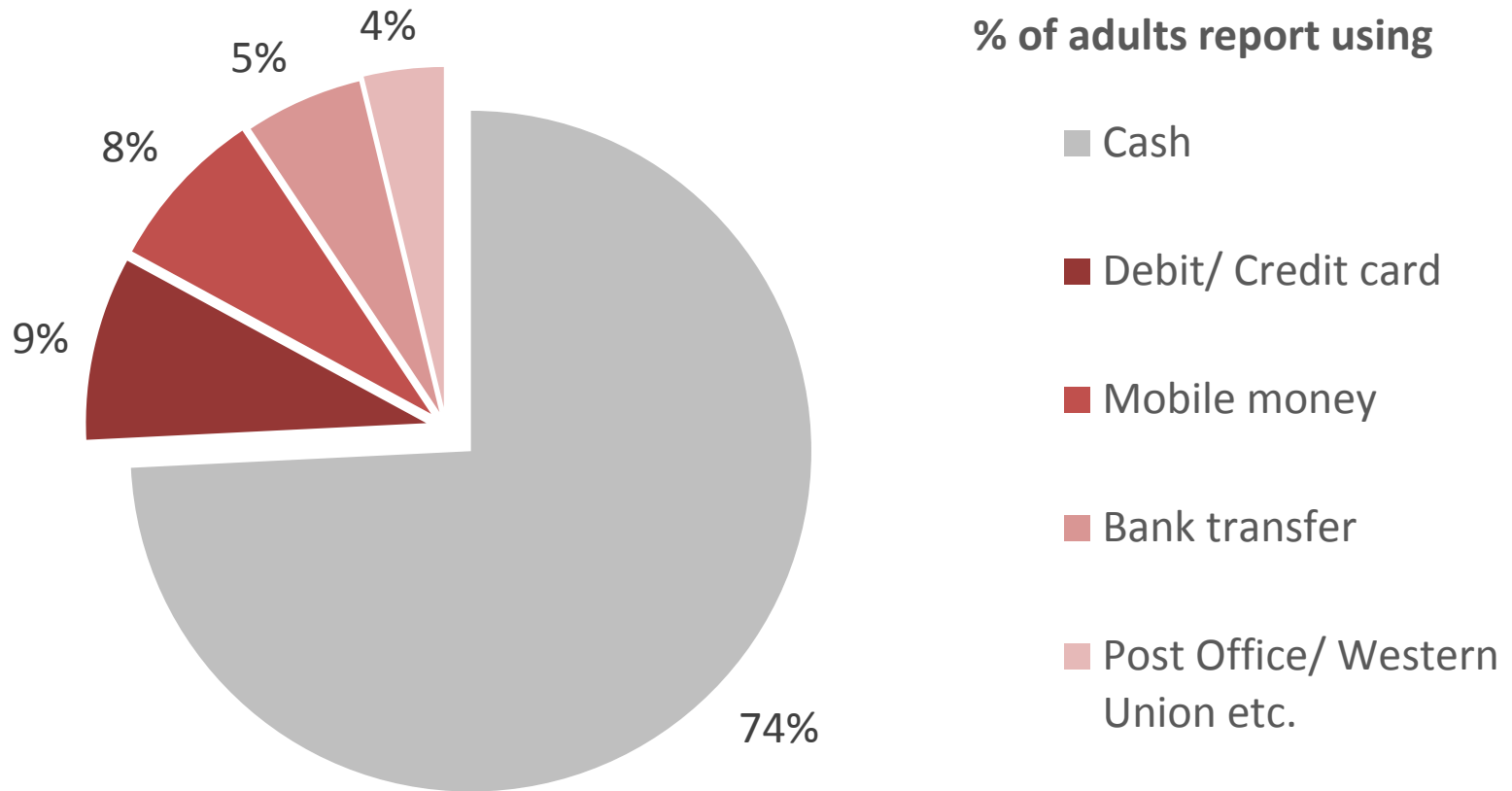
■ Rural
■ Urban

Source: FinScope (2015)



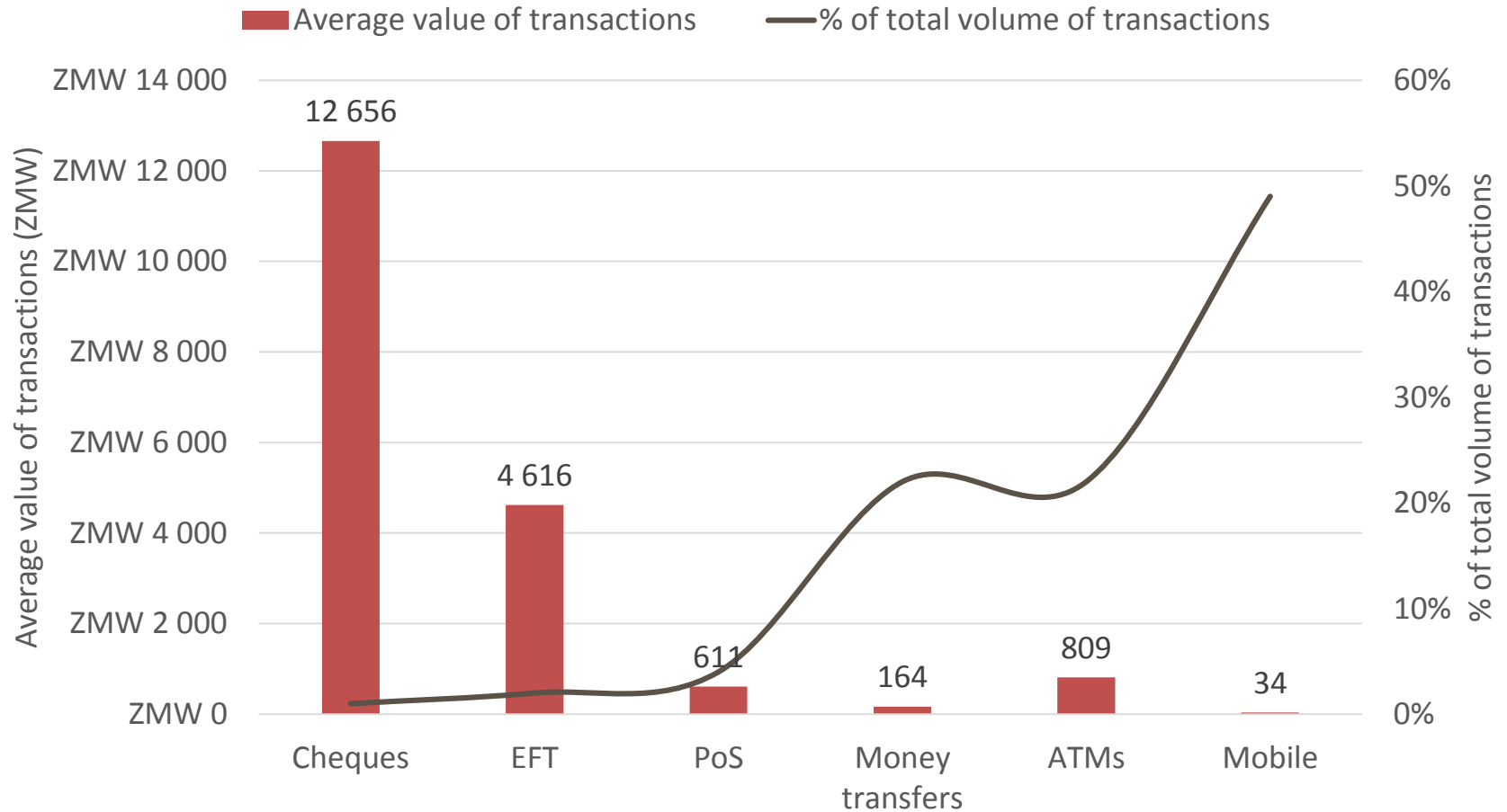
Source: FinScope, 2015

Relative use of payments instruments: Cash is still king



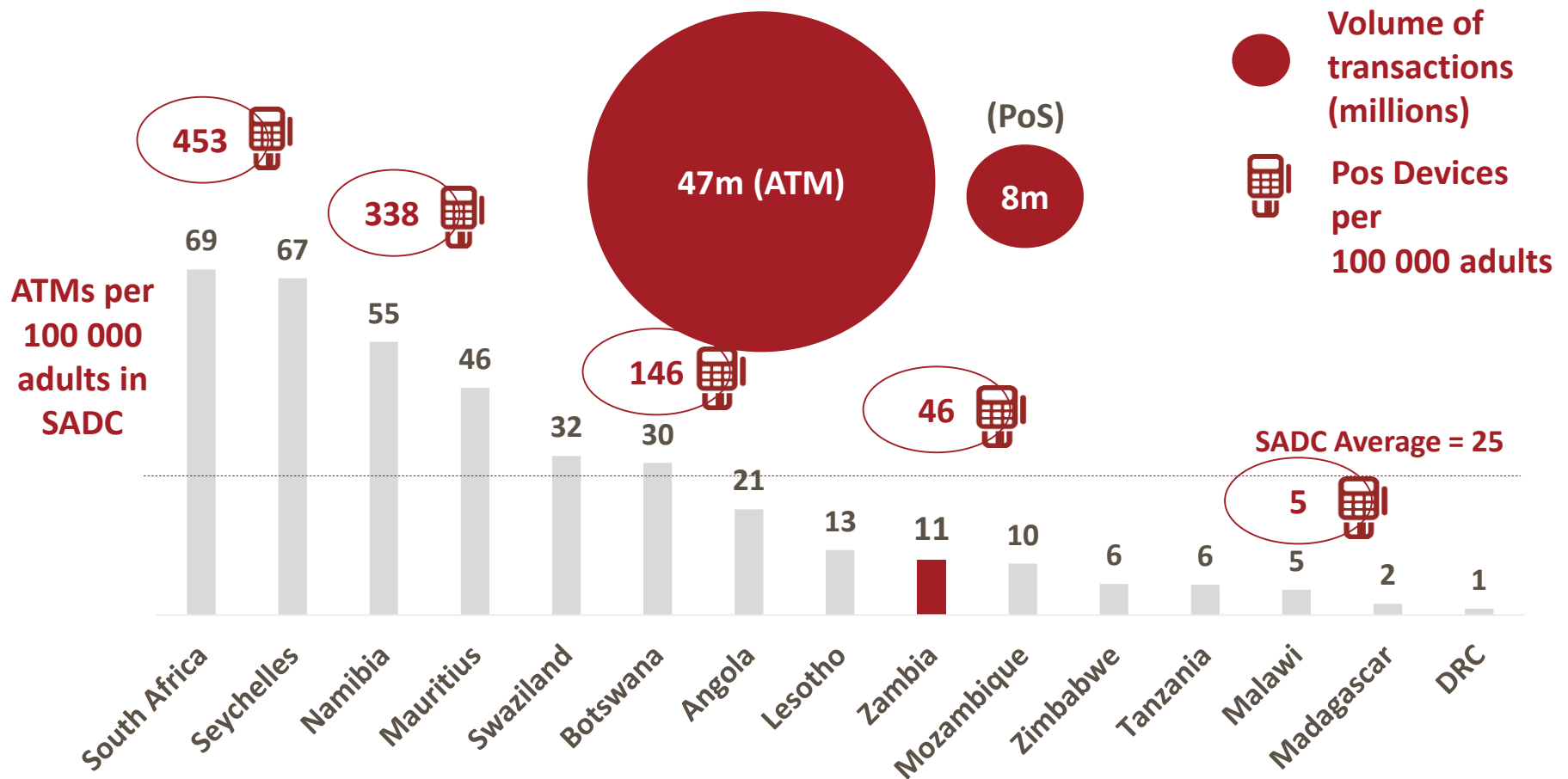
Source: FinScope (2015)

Relative use of payments instruments: But Mobile is growing



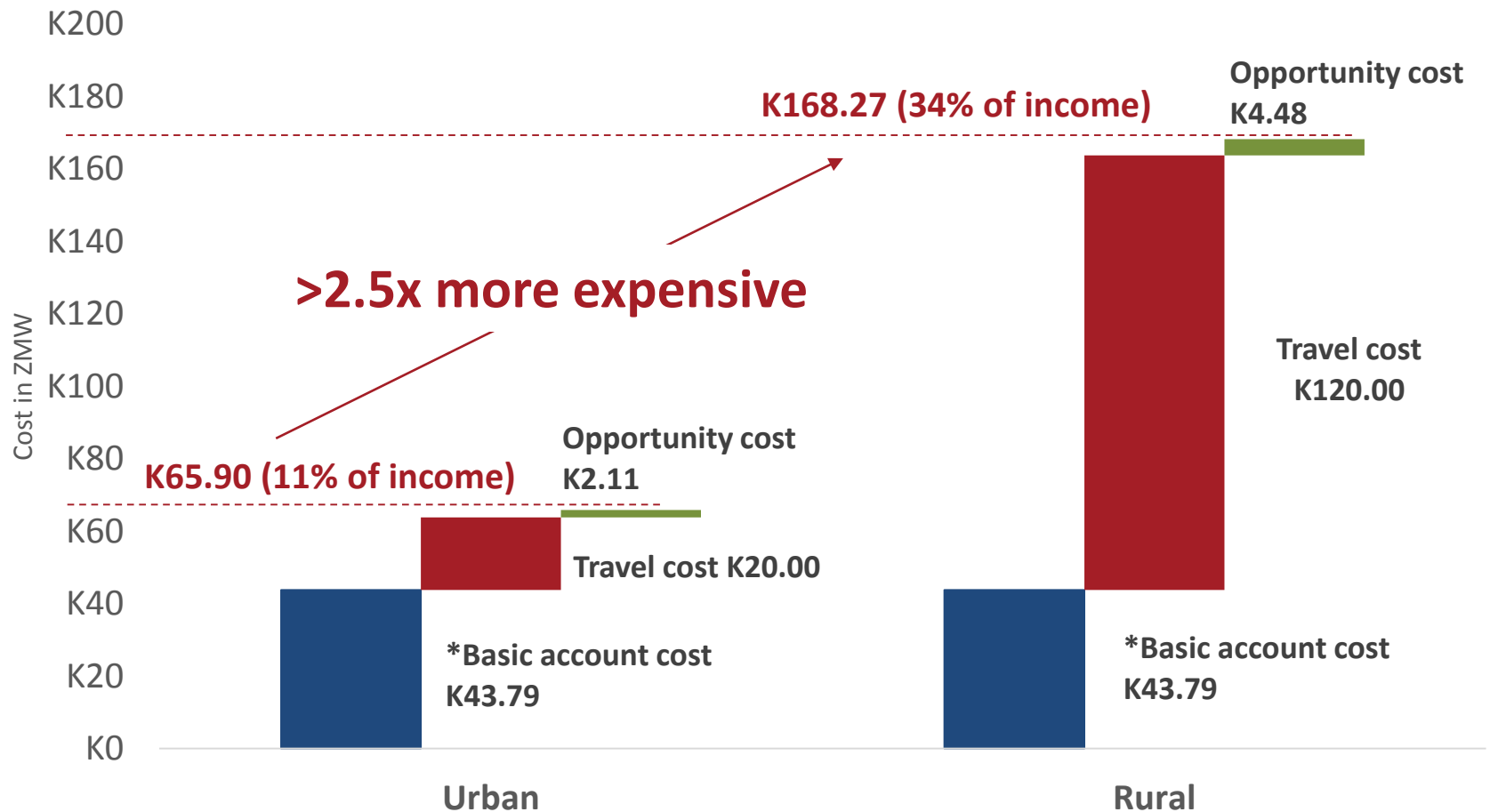
Source: BoZ (2017)

Payments infrastructure: ATMs and PoS Devices lag behind other SADC countries



Source: IMF, 2016; FSDZ GIS data, 2016

Total cost using banking infrastructure: Rural vs. Urban divide



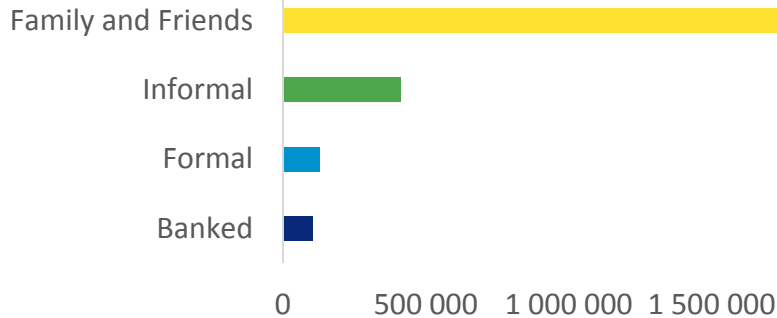
Source: FinScope, 2015; Qualitative interviews, 2016, BOZ, 2016

*Based on basic consumer usage profile – 2 ATM withdrawals & 1 deposit on a basic transactional account

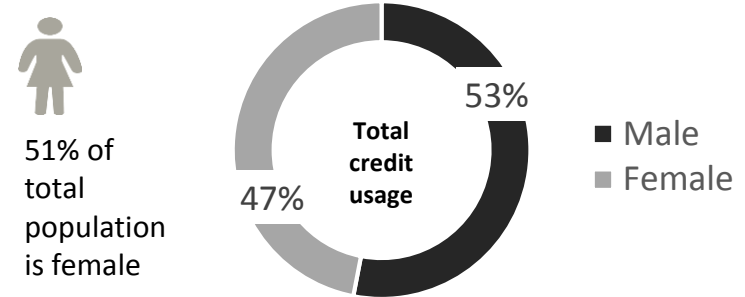
Credit overview

230 706 use formal credit
2.3m use any credit

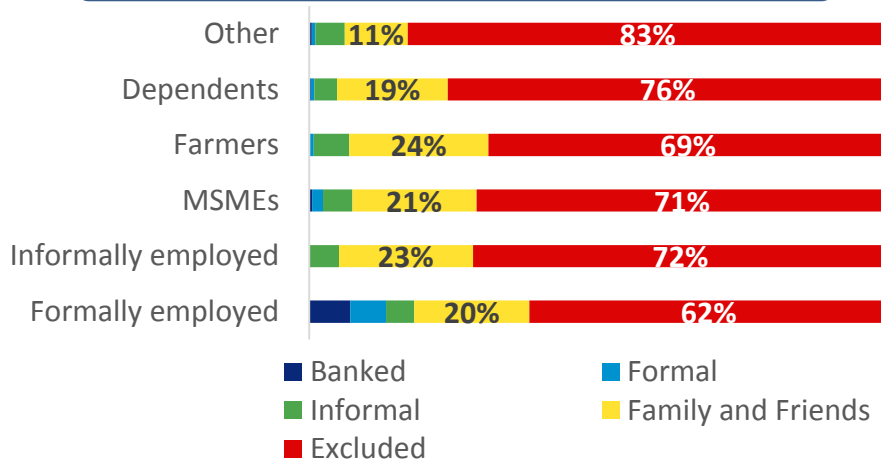
Total credit usage: 2015



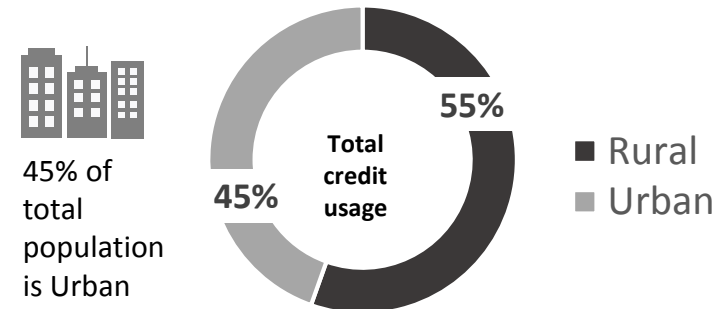
Total credit usage: Male vs. female



Total credit usage: Target markets



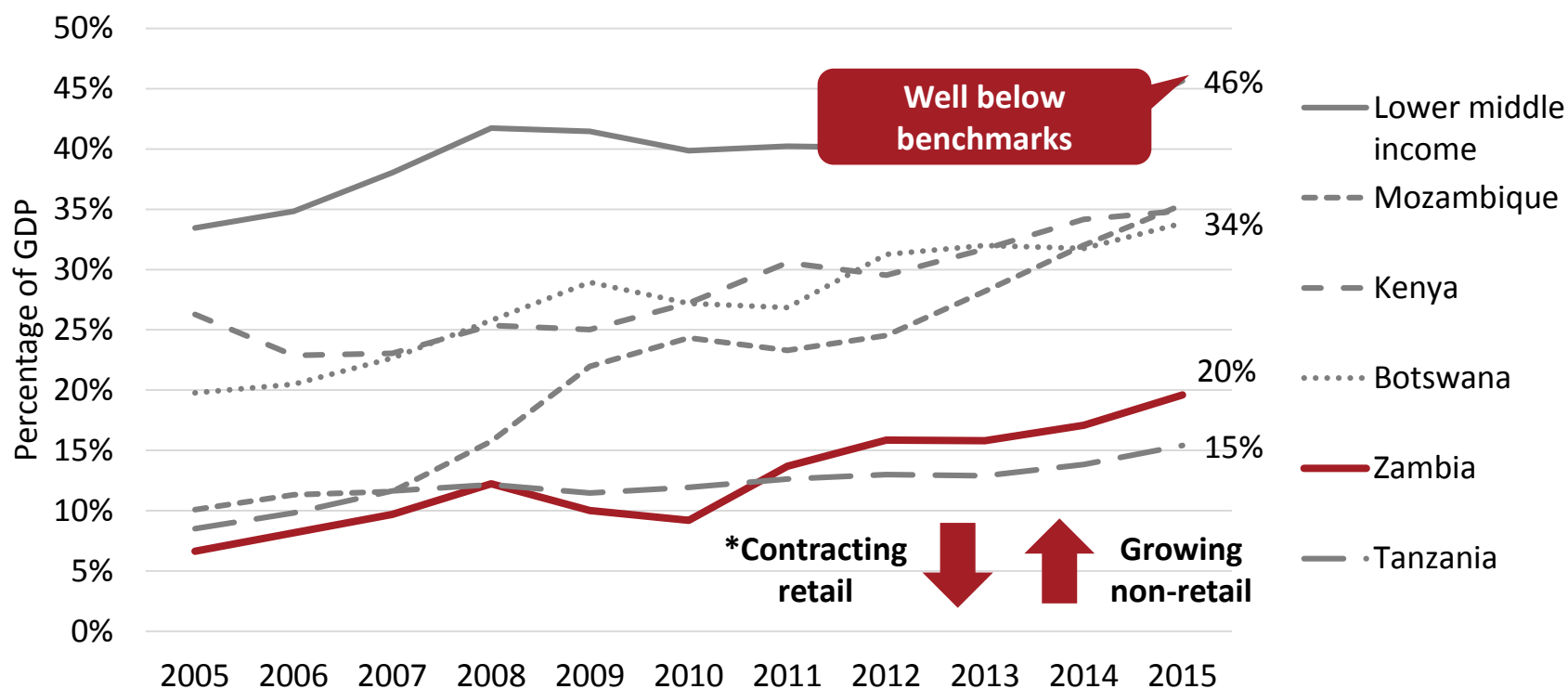
Total credit usage: Urban vs. Rural



Source: FinScope (2015)

Credit market provision: Growing, but still behind global benchmarks

Domestic credit as percentage of GDP



Source: World Bank Development indicators; FinScope (2015)

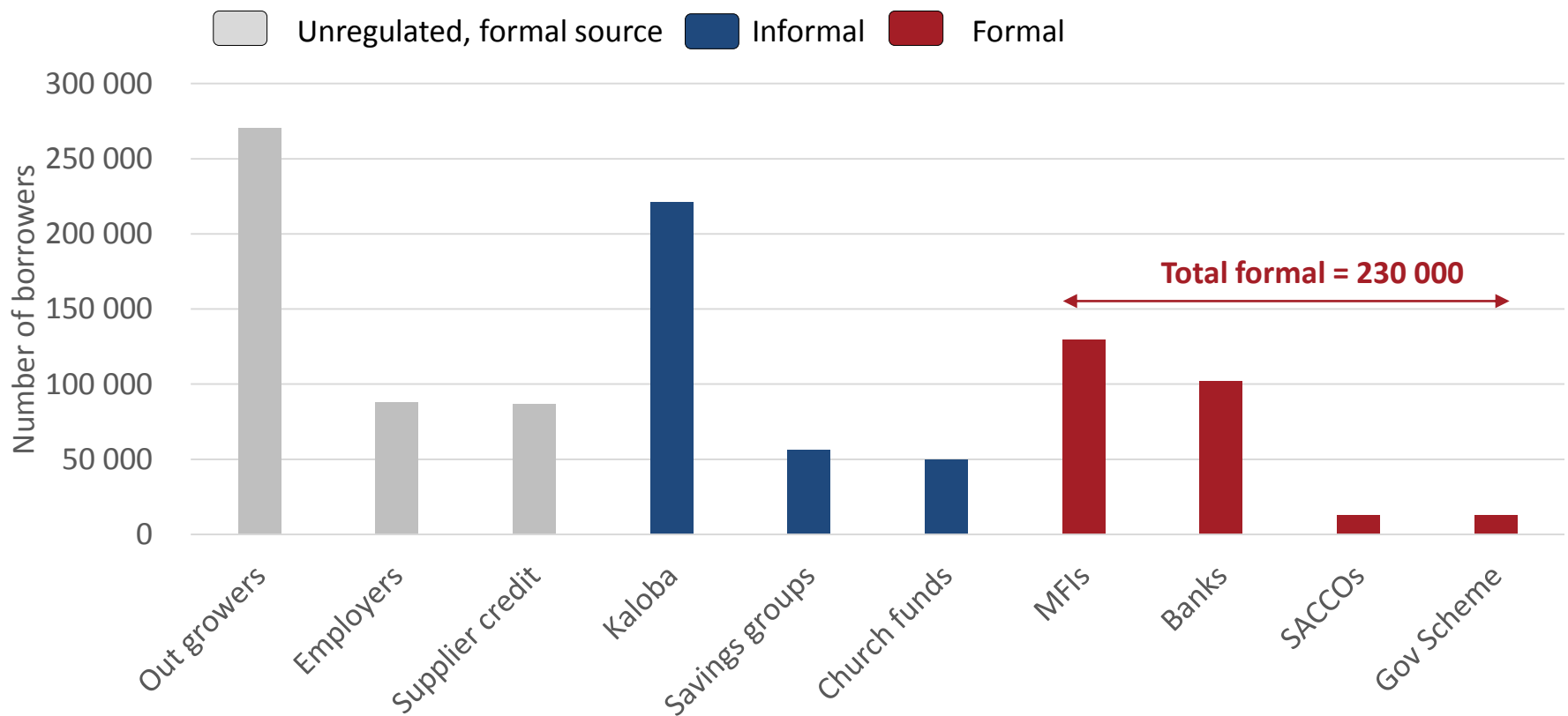
* Only 1.3% of adults have retail bank lows; down 27% from 2009 to 2015

Credit market environment: Some positive steps but challenges remain



Credit providers: Formal provision limited to corporates and formally employed

*# of credit borrowers



Source: FinScope 2015, Stakeholder interviews

* 1.7m adults (21%) borrow from family and friends

Credit products: Retail credit mostly payroll; limited SME and mortgage

Mortgages

- Extremely small mortgage market
- Recent high defaults

SME

- Small SME loans market
- Expensive
- Mostly medium to large business

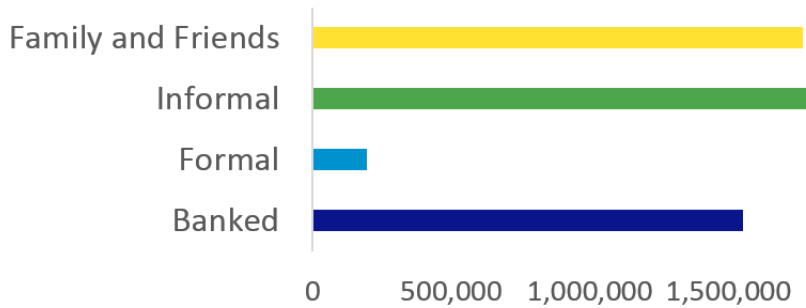
Salary

- Scheme/salary backed loans competitive
- Gov & formal employees
- Used as housing finance

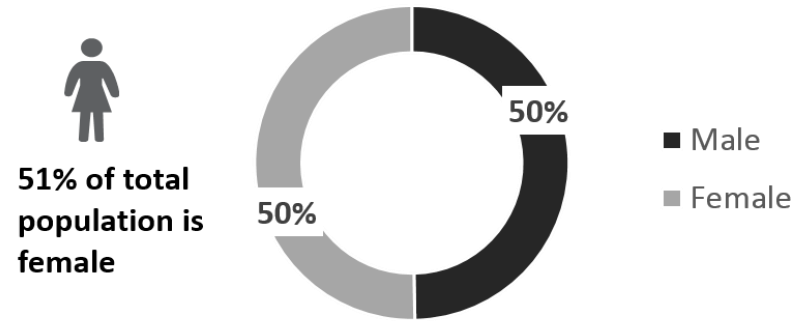
1.7m use formal savings
5.4m use any savings

Savings overview

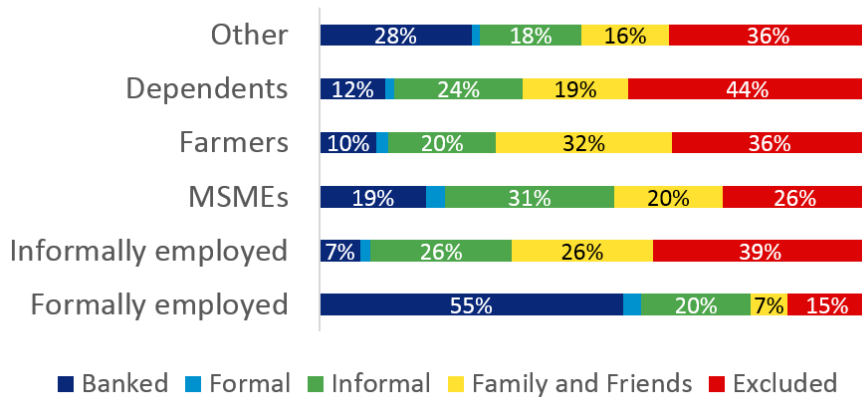
Total savings usage: 2015



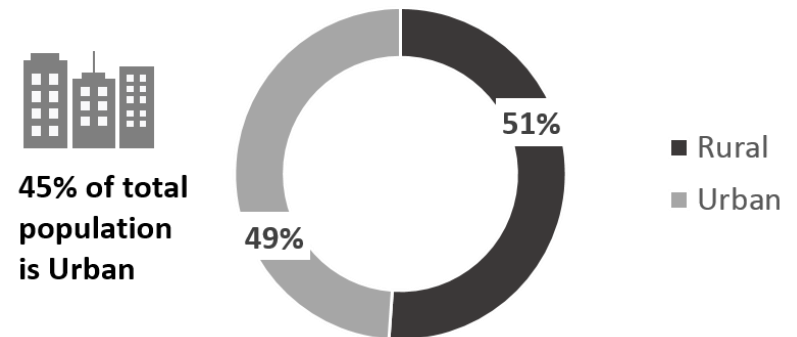
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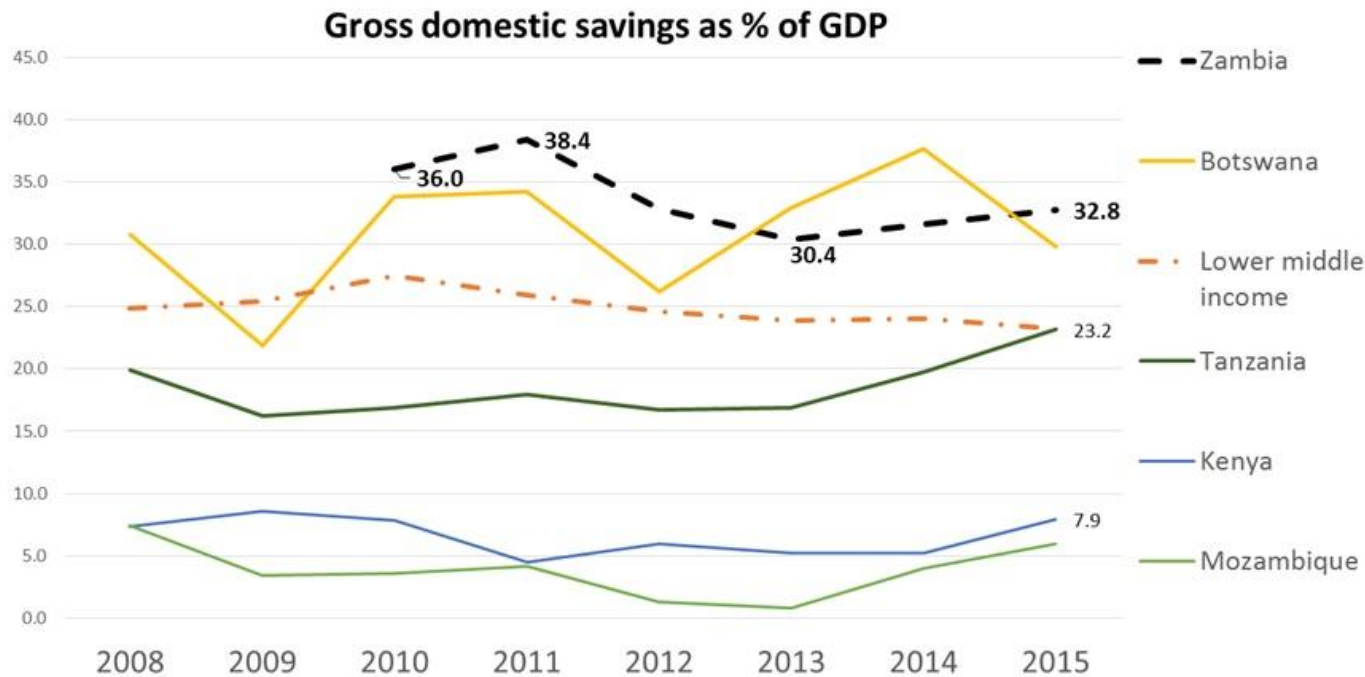


Total savings usage: Urban vs. Rural



Source: FinScope (2015)

Zambia's savings culture

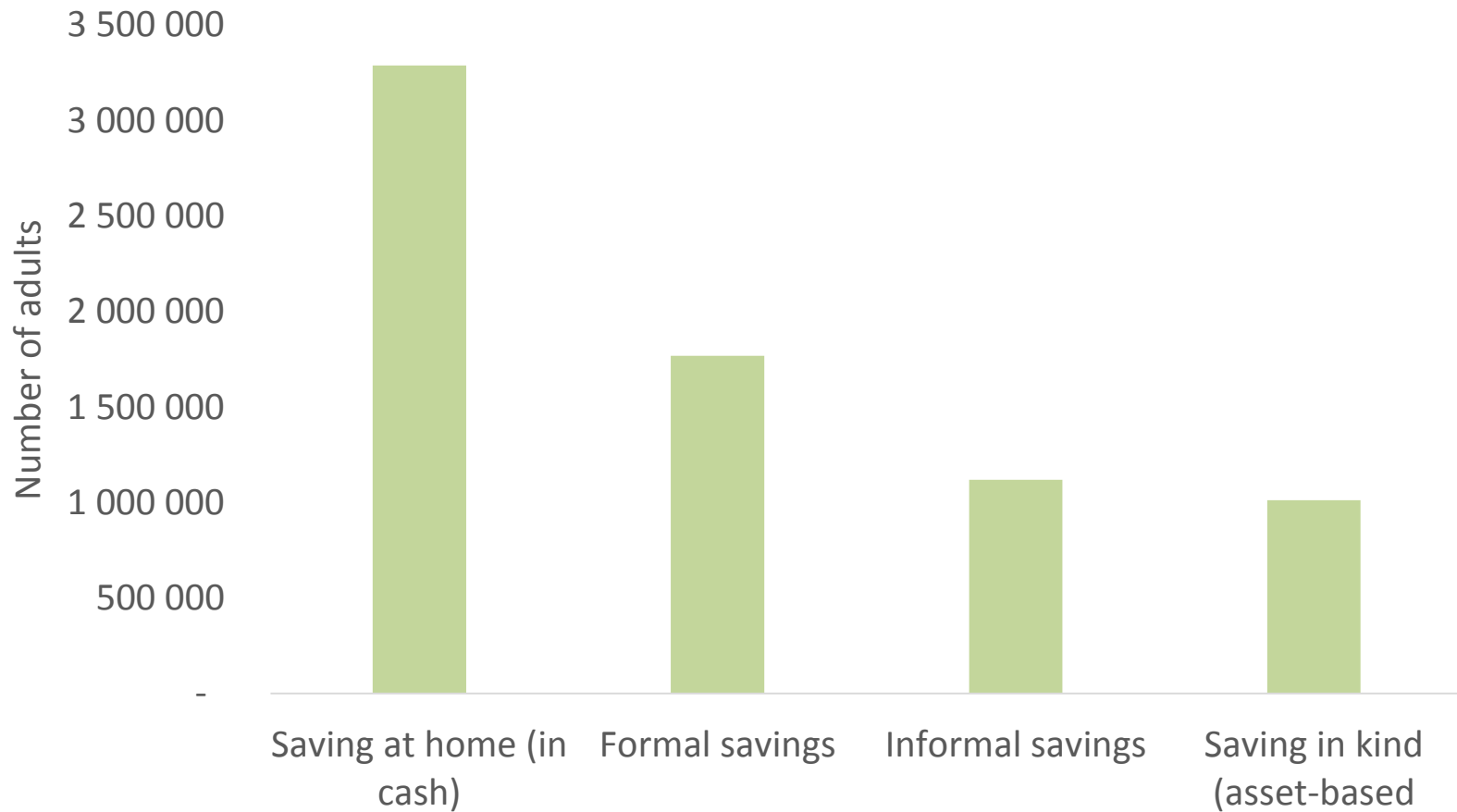


Comparatively high national savings, despite decline in recent years

Retail savings increased dramatically, but bank deposits declined since 2014

Source: World Bank Development indicators; FinScope (2015)

Non-formal savings far more widely used than formal accounts



Source: FinScope (2015)

Bulk of deposit value with banks, but most popular saving mechanism is at home

Formal Savings Products

Dominated by Banks
Largest collective book (K24.7b)

- Banks not expanding branches for deposits
 - Rising and smaller players are
- Bank products offer value only at higher amounts
 - Require larger deposits

Informal Savings Products

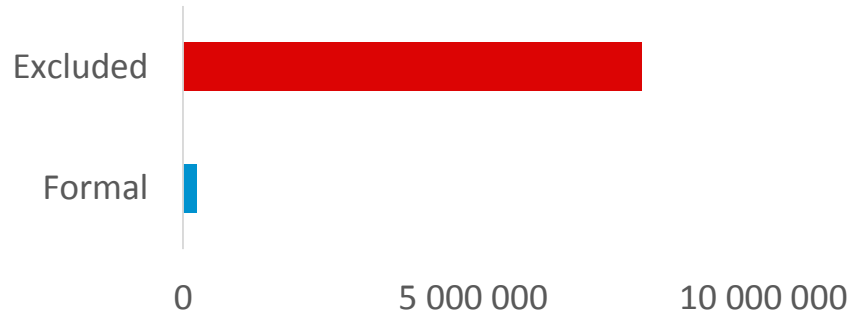
Dominated by Savings at Home
Most clients (3.3m); Book = K3.3b)

- Savings groups realize positive returns at low values
- Low aggregated values intermediated informally
 - Efforts to mobilise informal savings may be misplaced
 - Higher aggregated funds retained in non-intermediated sector (family and friends)

229 578 use insurance

Insurance overview

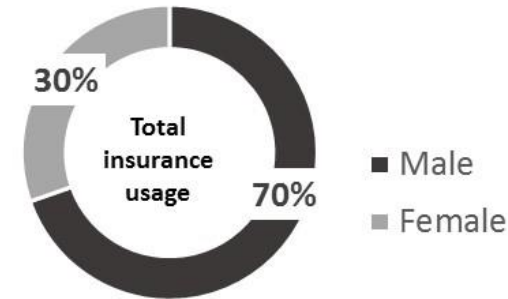
Total insurance usage: 2015



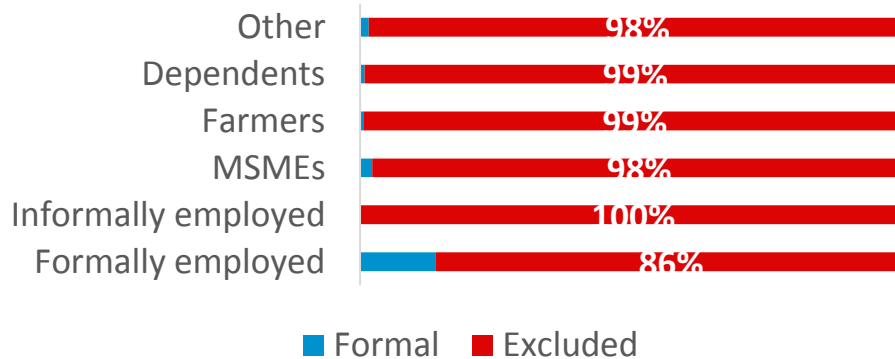
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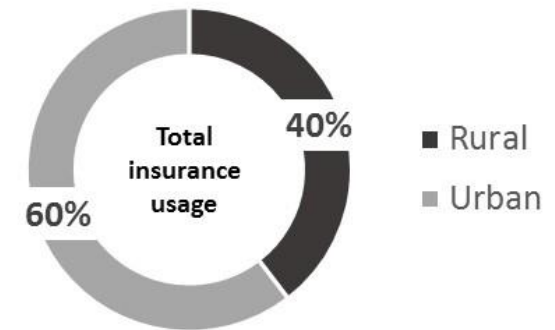
Total insurance usage: Target markets



Total insurance usage: Urban vs. Rural

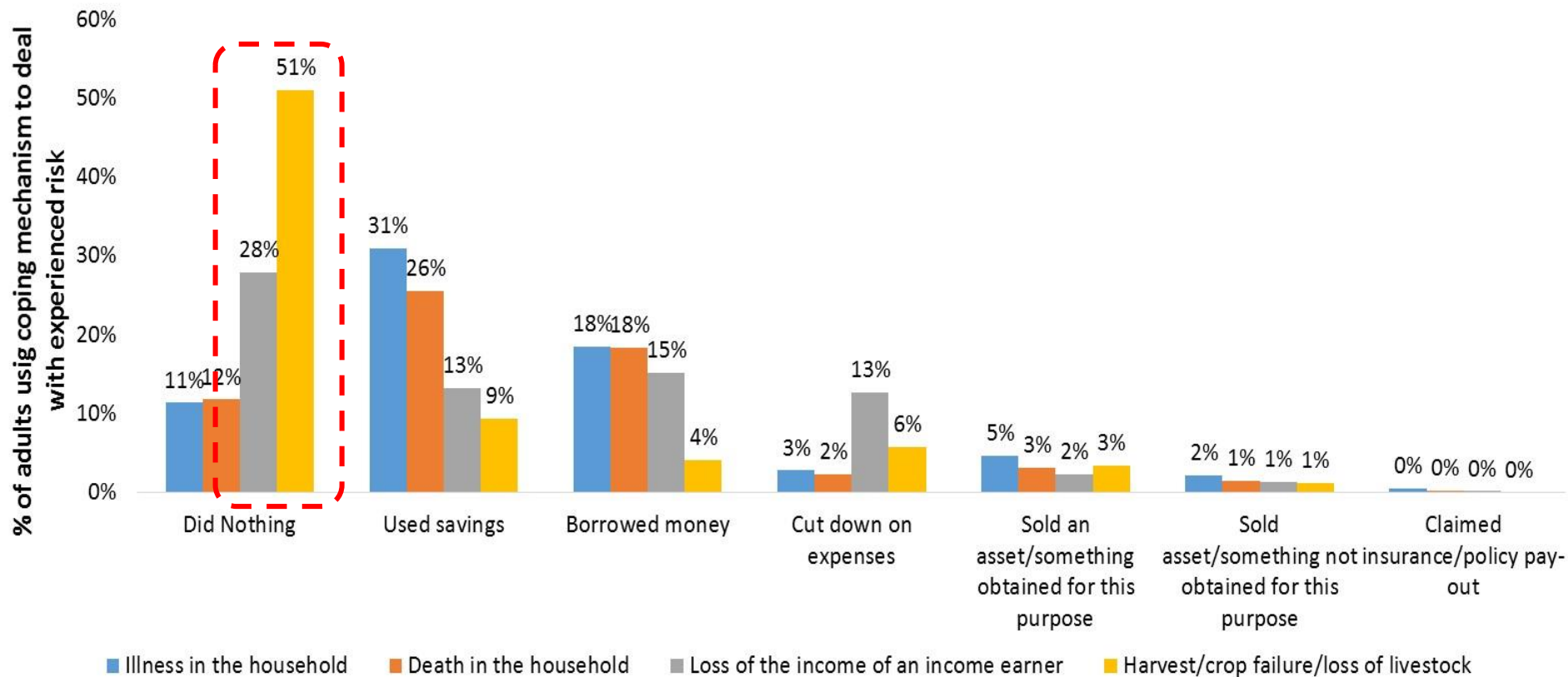


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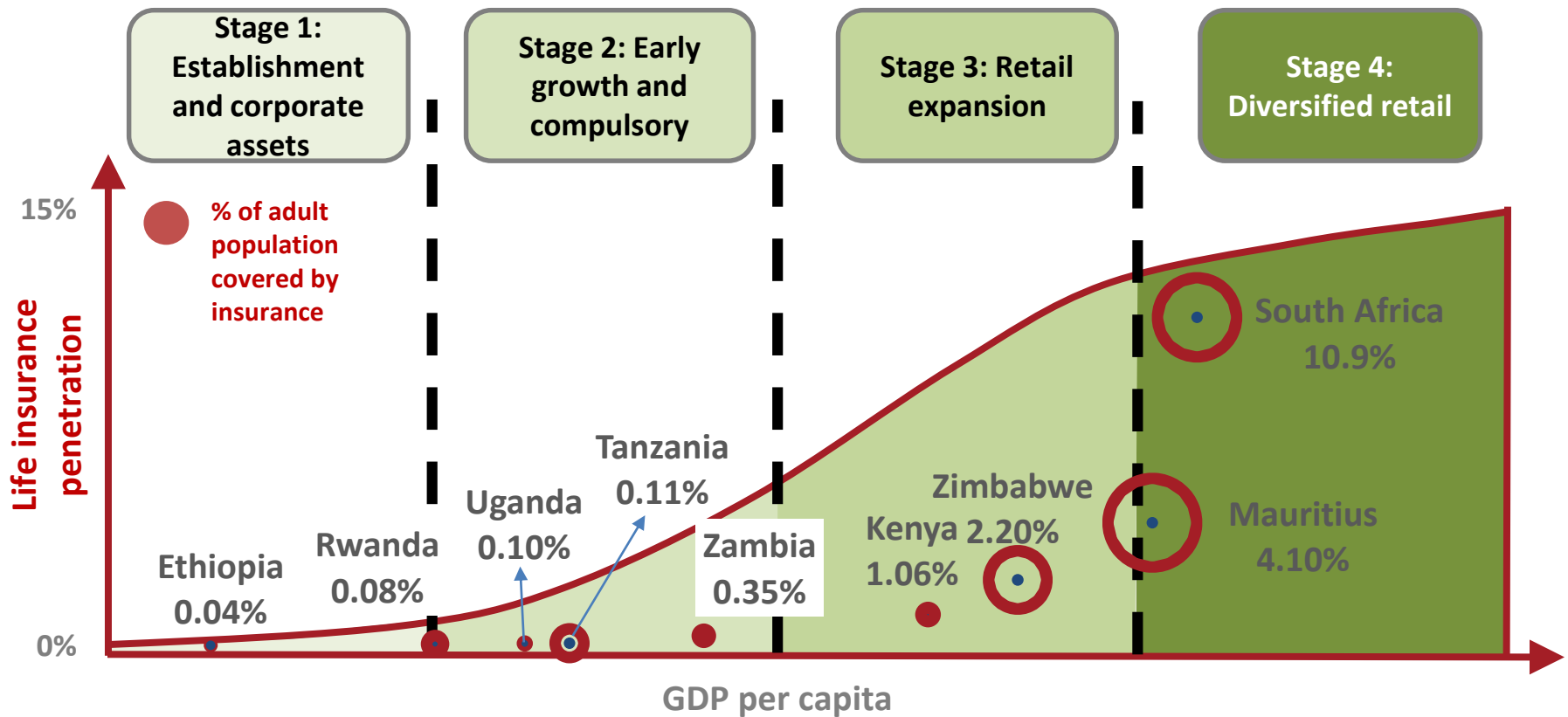
Source: FinScope (2015)

Insurance hardly used whilst many coping mechanisms are welfare reducing



Source: FinScope (2015)

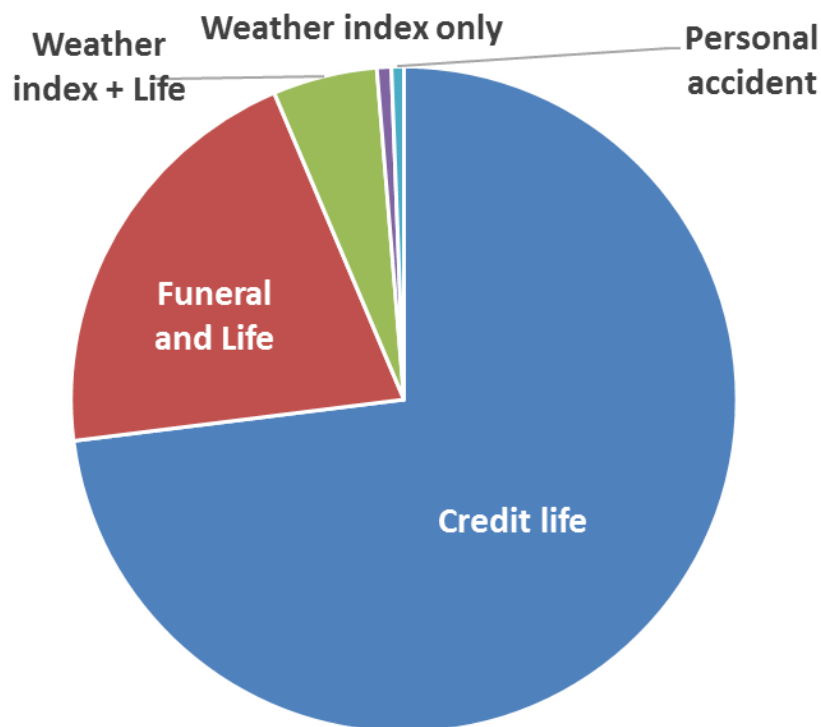
Zambia's insurance market dominated by compulsion and embedded products



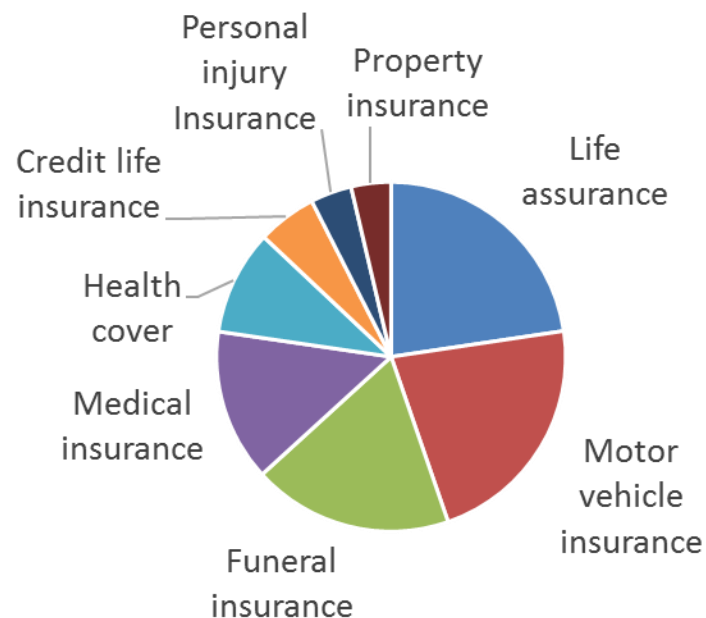
Source: Chamberlain et al., 2017

Mismatch between provider and consumer reported for insurance policies

Provider reported*: > 1 million policies



Consumer reported: < 500 000



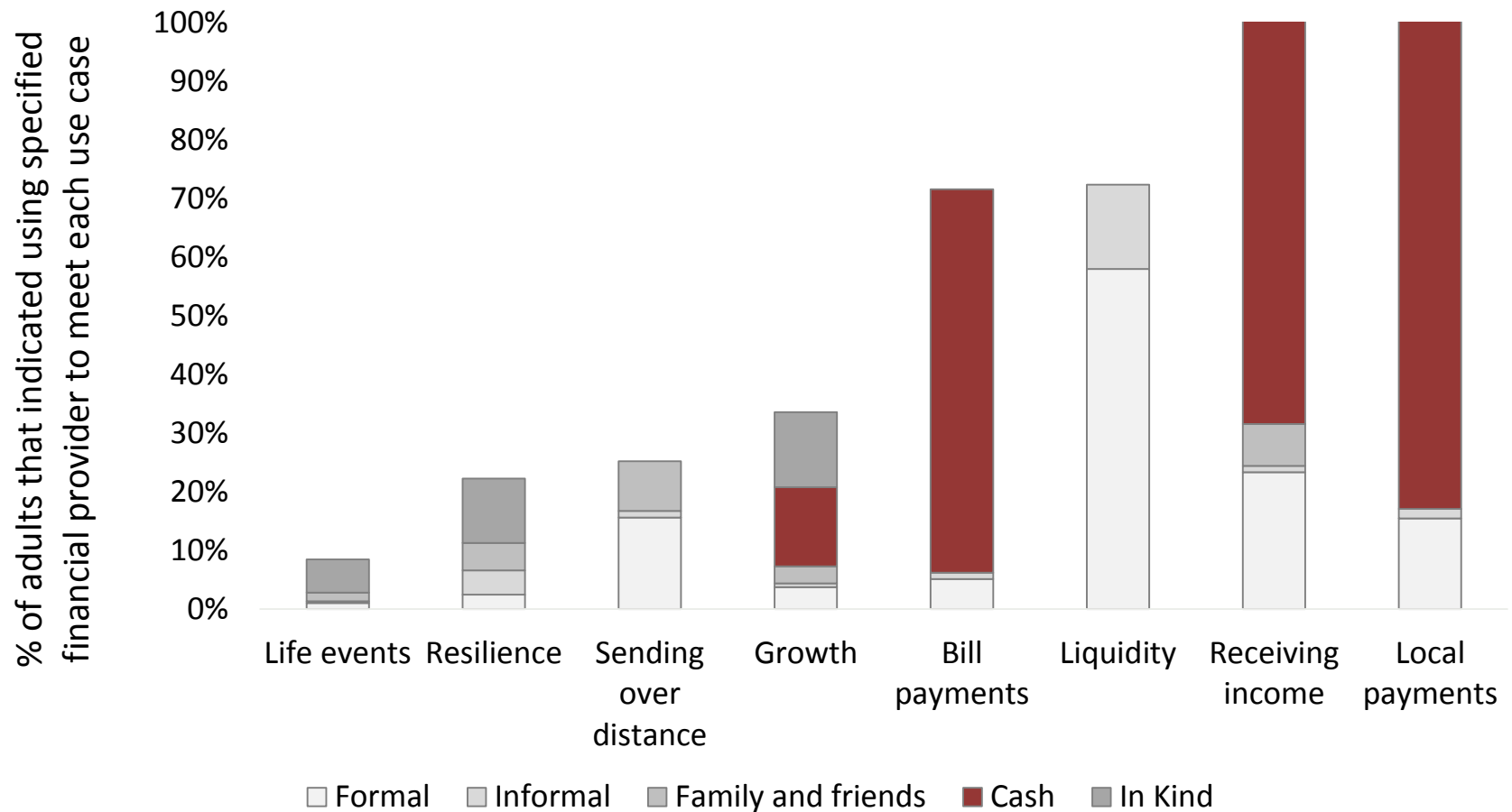
Source: FinScope 2015, Africa Microinsurance Landscape Survey, 2014

* The provider survey only covered products defined by the survey as microinsurance

5. PRIORITY FOCUS AREAS

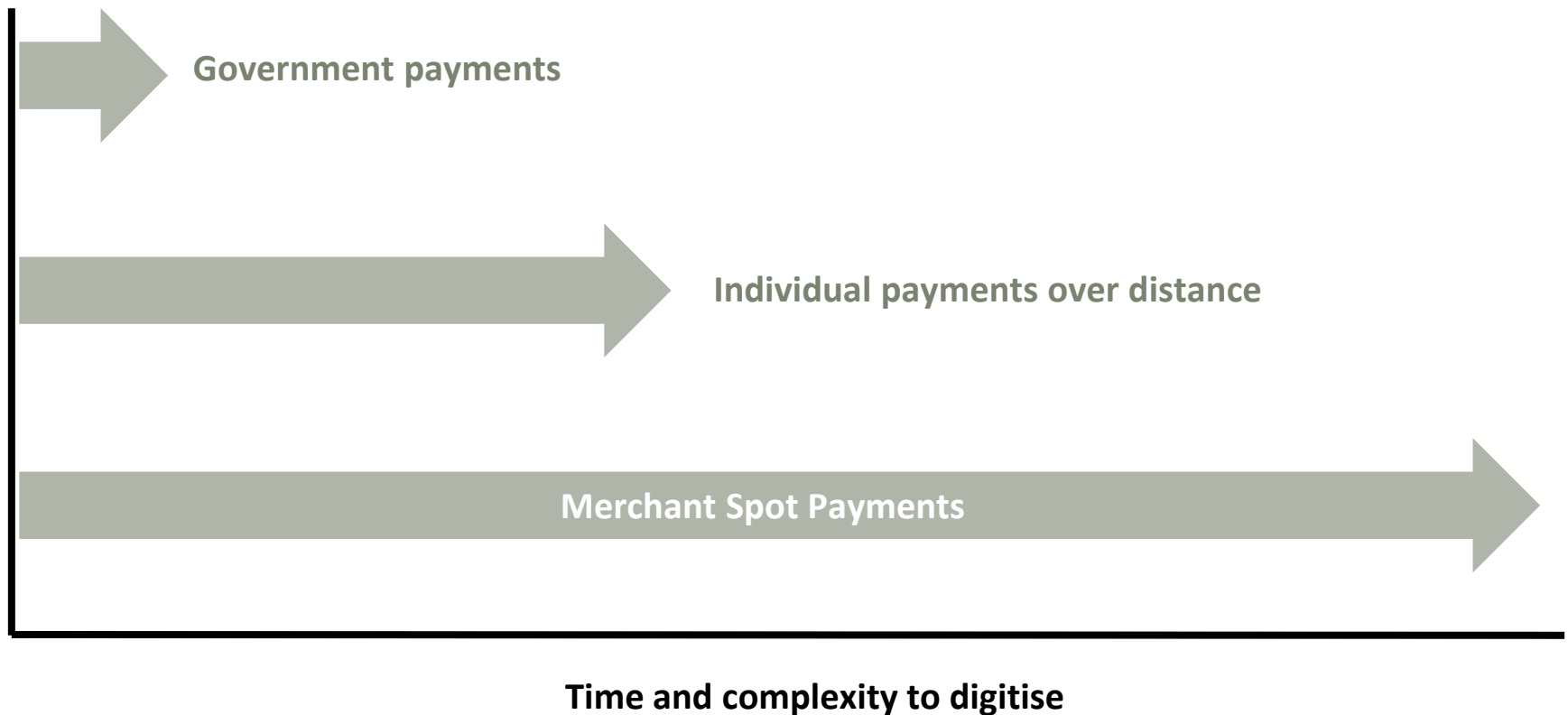
**PRIORITY 1: IMPROVE THE EASE WITH WHICH TO
MAKE AND RECEIVE PAYMENTS**

Biggest identified financial need is to transfer value



Source: FinScope (2015)

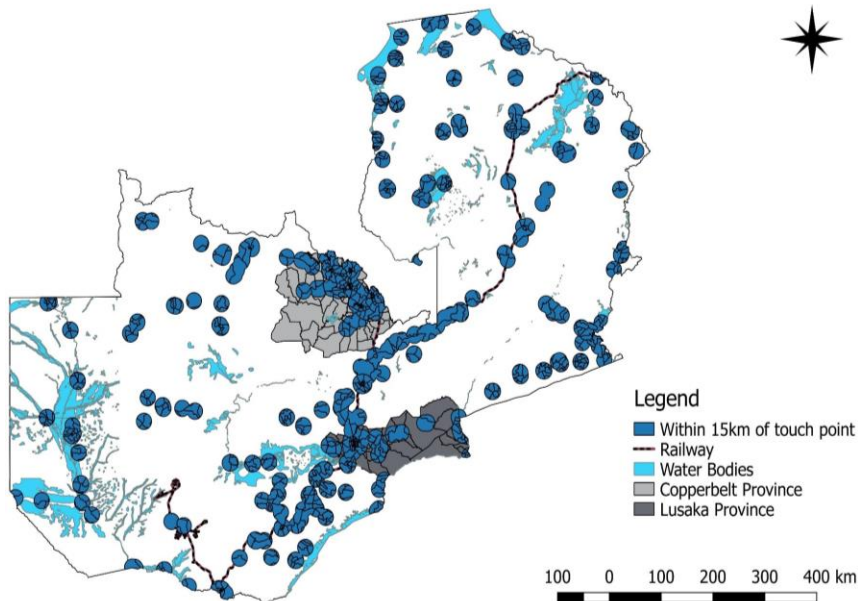
Digitising different types of payments have different time horizons and complexity



National payments: Digitise national payments where cash-out infrastructure exists, but not beyond

Cash out points included: Bank branches, ATMs, MFIs, Post offices Bank agents and mobile money agents,

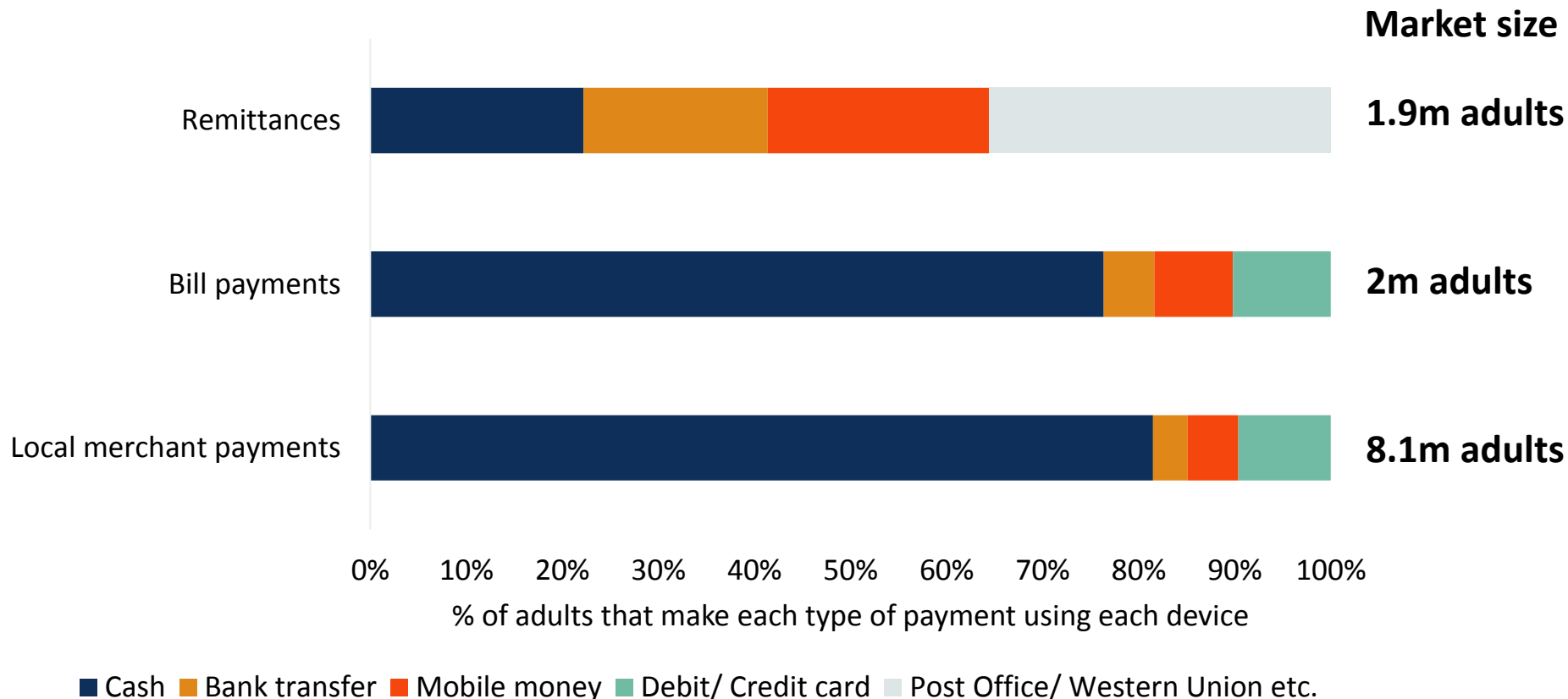
Proportion of people that live within 15km of at least one cash-out point



Region	% of adults within 15km radius of cash-out point	% of total population
National	58%	100%
Central	50%	10%
Copperbelt	84%	15%
Eastern	47%	12%
Luapula	37%	7%
Lusaka	95%	18%
Muchinga	34%	6%
Northern	37%	8%
North-Western	28%	5%
Southern	50%	12%

Source: Calculated from FSDZ GIS data

Individual payments over distance: Bill payments over distance an underdeveloped opportunity for digital payments



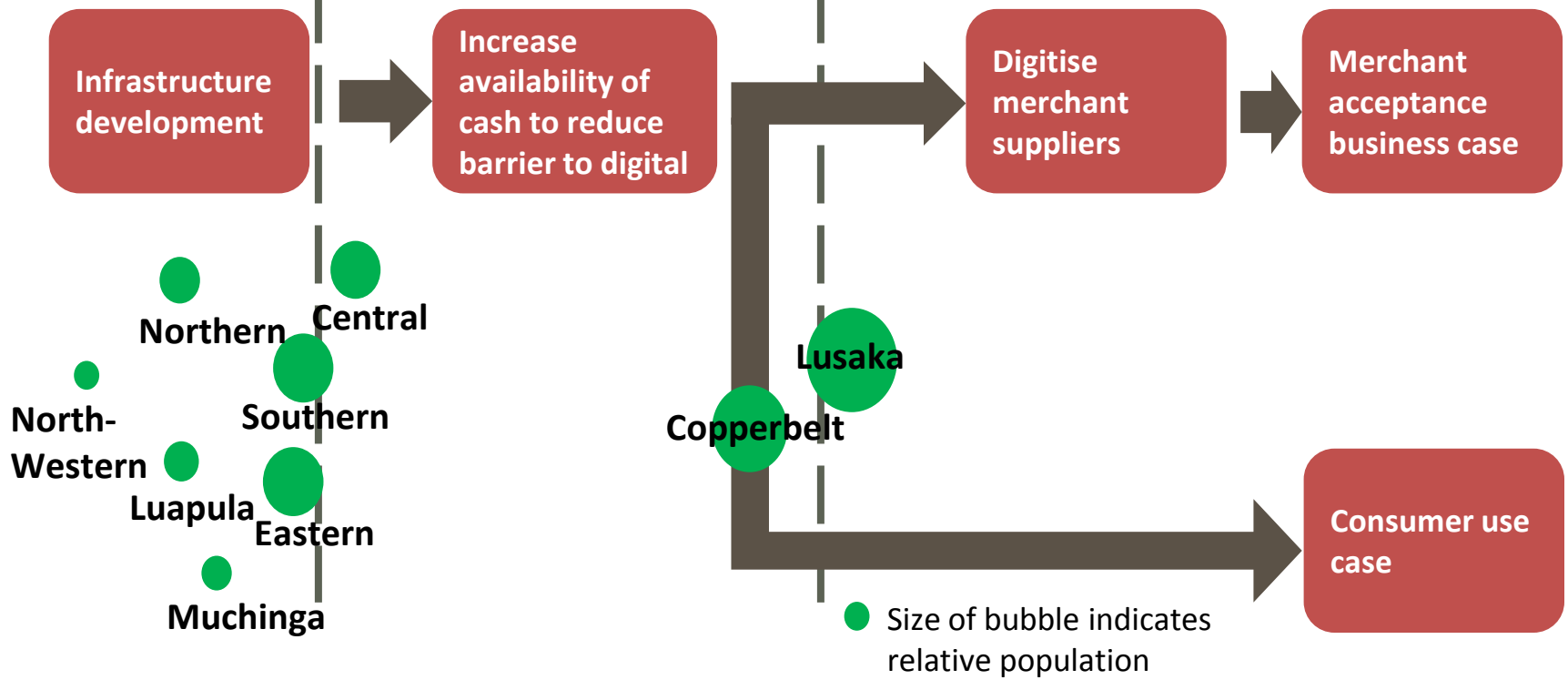
Source: FinScope (2015)

Merchant spot payments: Develop and coordinate long-term strategy to digitise merchant payments

Phase 1: Ensure consumers have access

Phase 2: Reduce barriers to digital payments

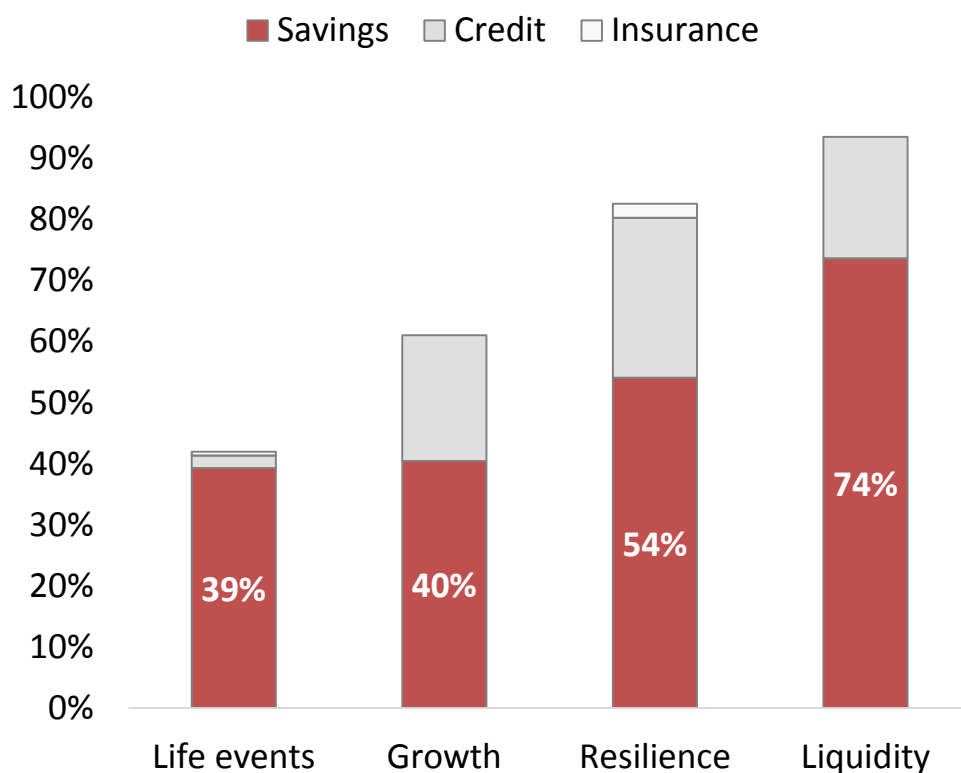
Phase 3: Incentivise merchants to accept and consumers to use digital payments



PRIORITY 2: SAVINGS PRODUCTS NOT MEETING NEEDS OF SAVERS OR PROVIDERS

Zambians save to meet many needs

% of adults using savings to meet needs vs. credit and insurance



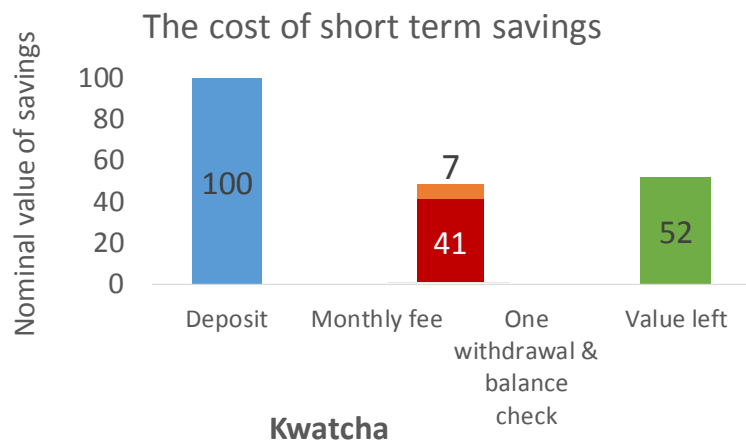
Savings used more by vulnerable income groups, who:

- Use more non-formal mechanisms
- Use these more frequently
- Rate quick access, proximity, ease of use, and simplicity higher

Source: FinScope (2015)

Formal products not designed or priced to meet savings needs

Saving to manage liquidity and resilience

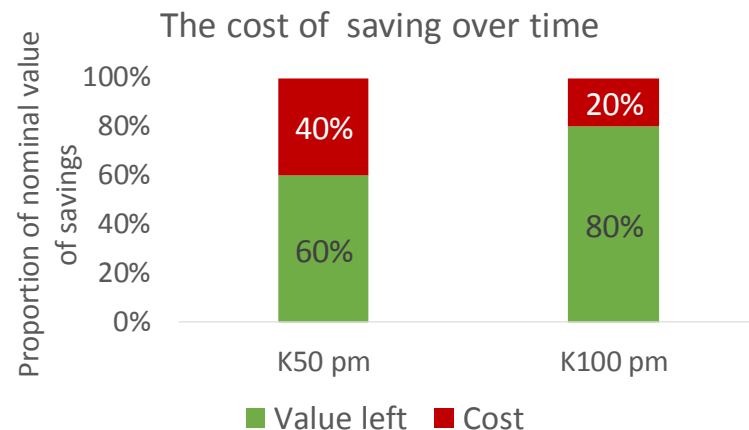


“The bank isn’t working all the time, so if there is an emergency I can’t get the money”

Informal trader

Low income clients prefer transactional based fees to fixed fees

Saving to meet goals



“I have a bank account in Kabwe, two hours away. I know that if I have to travel two hours to make a withdrawal from my bank account, I will not squander the money”

Female farmer

“You opened a baby account... for future planning and you don’t have a child?”

Interviewer to single government employee

Opportunities

Informal:

- Informal savings meeting broadest set of needs for majority of adults
- Explore further development of informal mechanisms, including replication, sustainability, aggregation and longer term mutualisation
- Explore formal recognition to encourage long term progression to larger structures

Retailers, value chain providers and non-financial providers:

- Explore options to meet liquidity management (including living expenses), short and medium term resilience, and achieving goal needs

Formal:

- Explore pricing models and product features that meet low income saver needs and behaviour
- Explore targeted, commitment devices. Products that are not easy to access except in an emergency, and are named after the purpose of saving.
- Product opportunities for targeted savings:
 - Education,
 - housing construction,
 - Productive investment for MSMEs and farmers

Increasing longer term deposits can alleviate mismatch on provider balance sheets, and support stronger credit market fundamentals over longer term

PRIORITY 3: ENSURING REGULATION AND POLICY THAT PRIORITISE FINANCIAL SERVICE MARKET DEVELOPMENT

Regulatory delays

Key pieces of legislation are either significantly out of step with contemporary financial regulatory best practice or there are material gaps.

- Insurance Bill 2012 – no Act
- Microfinance Services Bill (2014) – no Act
- The Companies (Certificates Validation) (Amendment) Bill – no Act

Pensions and Insurance Authority (PIA) severely impact by delayed insurance Act.

Financial services are not a core priority in policy overall

Need to fast-track the drafting process and prioritize the passing of key bills

- Secondment of technical drafting team to assist Ministry of Justice Drafting Unit
- Technical assistance provided throughout the drafting process to facilitate the turnaround of amendments

Increase the level of insight into financial matters in the legislature and broader executive spheres of government

- Appreciation of the sensitivity and impact of well drafted and timely financial legislation on development

Quick and unexpected changes in regulation

Tendency to impose snap, broad ranging regulatory changes on banking and other financial institutions, without consultation nor appropriate transitional periods

Regulator can become a key source of risk to the financial services industry

Unrealistic timing for financial institutions to restructure their balance sheets and long term positions. For example:

- Increased capital requirements for banks (+800%)
- Leasing companies (+5000%)
- MFIs (+2500%)
- Savings and credit facilities (+2500%)
- Some banks are in a dire situation as they could not meet the sudden high capital requirements or were not given sufficient time to adjust, and their impact in the financial services sphere has been substantially curtailed

Increased statutory reserves

- Increase in statutory reserves curtailed the ability to lend and the appetite for deposits

Quick and unexpected changes in regulation

Enduring legacy of market conduct snap changes; lessons learned

Fallout of interest rate caps and reversal

- Snap implementation of interest rate caps against Regulatory Impact Assessment (RIA) advice materially eroded the capital of a significant number of financial institutions and their ability to expand market access
- Smaller institutions most severely impacted, particularly those with a niche focus and a higher potential to enable access to medium to lower income consumers
- Institutions have been severely weakened and it will take a considerable amount of consolidation and rebuilding of capital to effect broader access

Quick and unexpected changes in regulation

Key need to follow and publish guidance of Regulatory Impact Assessments (RIA)

RIA International best practice (in line with IAL principles) to be considered

Consult banks and financial institutions and provide prudent space to adjust to regulatory changes

Legislators need to be more broadly aware of the impact of timing and degree of change in regulation upon the financial sector



Other key regulatory issues

Competition and consumer protection

Consumers have inadequate access to redress

The CPMC only handled a total of 923 consumer protection related cases between 1998 and 2010

- Currently there are far too few incidents of consumer redress for the size of the financial services sector which can cause erosion of trust as most consumer complaints are unseen and not effectively dealt with

No overarching regulation of credit

- Current framework is fragmented and doesn't cover all institutions
- This has created gaps, especially in terms of credit information sharing and credit market conduct such as:
 - Definitions, degree, and manner of determining over-indebtedness, as well as measures against reckless lending (particularly in a very high interest market)

Opportunities to extend financial inclusion

1. Improve the ease with which to make and receive payments (including digital)
2. Savings products that better meet the needs of savers or providers
3. Regulation and policy that prioritise financial service market development



Thank You!

The **Making Access Possible (MAP)** programme in Zambia is a partnership between **Cenfri** and the **Financial Sector Deepening Trust Zambia (FSDZ)** with the **Bank of Zambia** and **Ministry of Finance** to provide relevant information and appropriate recommendations on the market for financial services that can inform their strategy going forward.

Cenfri (The Centre for Financial Regulation & Inclusion) is an independent think tank based in Cape Town supporting financial inclusion and financial sector development through facilitating better regulation and market provision of financial services.

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