Domestic Remittances in South Africa

LEVERAGING THE DYNAMIC MARKETPLACE TO BOOST FINANCIAL INCLUSION

A report by TechnoServe with research funded by Visa
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Contents

Executive Summary

Domestic remittances, money sent to family members or friends within South Africa, are an important component of the economy and are one of the most widely used financial services by South Africans. Over 24 million people, two-thirds of the adult population, send, receive, or both send and receive domestic remittances. This is driven by large numbers of internal migrants transferring money with family and friends. The total volume of domestic remittances is estimated to be between $11 billion and $13 billion, equivalent to 4 percent of GDP.

An examination of the industry reveals tremendous innovation in offerings from financial services companies and retailers, as well as remaining challenges to be addressed. Over the last decade, since Shoprite's introduction of money transfer at its Money Market counter in 2006, there has been an explosion of offerings by retailers, banks and mobile operators targeted to remittance users. Today, most major banks offer remittance-focused services allowing account holders to send money to any South African mobile phone, which the recipient can retrieve from an ATM with an access code and PIN. The most successful players aggressively push remittance-focused money transfer offerings to provide value to consumers in order to drive additional demand to their core businesses. They recognize that domestic remittance products are unlikely to drive substantial profits as standalone endeavors and design products that can break even while increasing customer loyalty and activity.[1] These offerings have made national electronic remittance transfers low cost and routine, with transactions typically costing $0.74 or less. Growing comfort with electronic transfer methods has even led to a major share of transfers occurring through traditional mechanisms, such as account-to-account transfers at banks.

While these developments have successfully enabled secure and low-cost channels for South Africans to send and receive money nationally, opportunities remain to improve user experience and leverage the potential of remittance interactions to strengthen overall financial inclusion. Current domestic remittance products do not sufficiently strengthen ties to a broader range of financial products. Most recipients cash out remittance receipts immediately. This pattern is disconnected from the overall growth in electronic payments and growing connectivity across the financial system. For instance, more than three quarters of South Africans have bank accounts and 55 percent have debit cards, a number that continues to grow. In many cases, the same people converting remittance receipts to cash actually express a preference for making electronic payments, but lack a convenient means to seamlessly transfer the money due to limited interoperability across transfer mechanisms.

Our findings are based on 60 interviews with remittance senders and recipients, 19 expert and stakeholder interviews, and visits to 26 retail locations offering money transfer services. In addition, we reviewed existing data and literature and conducted analyses to estimate total remittance values and volumes within the country.

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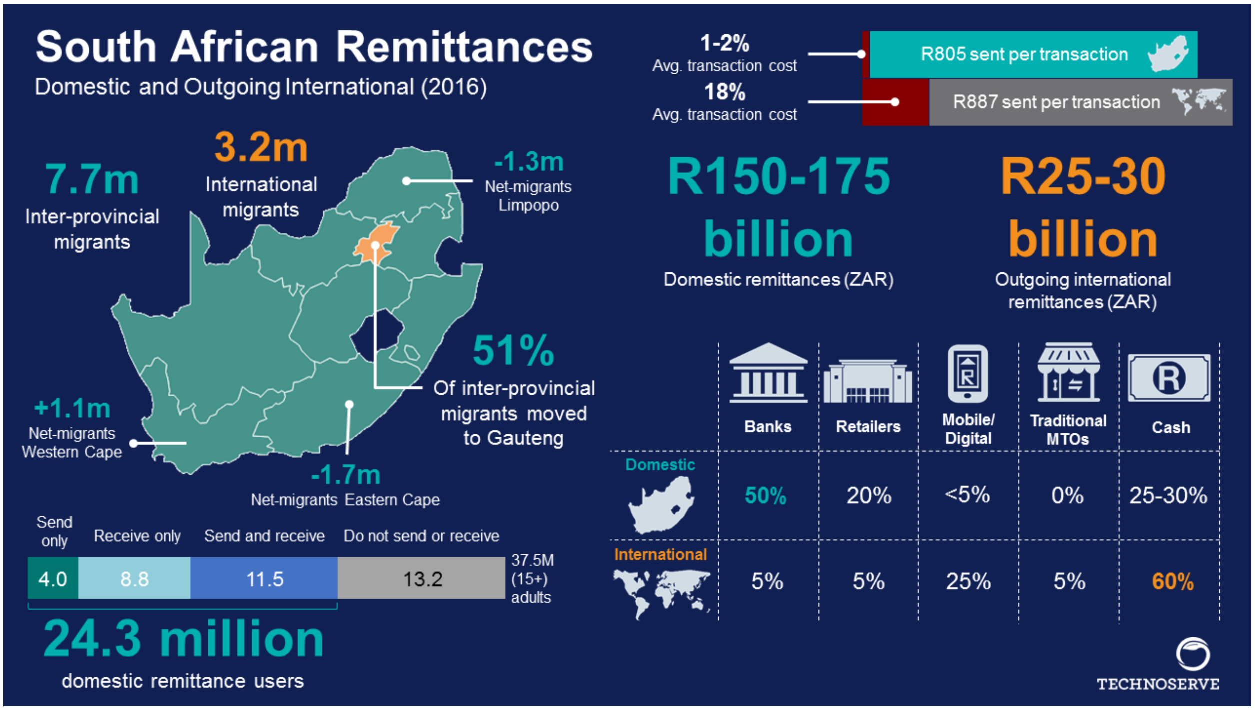
[1] A number of offerings generate positive cash flow, covering their costs, according to interviews with market participants.

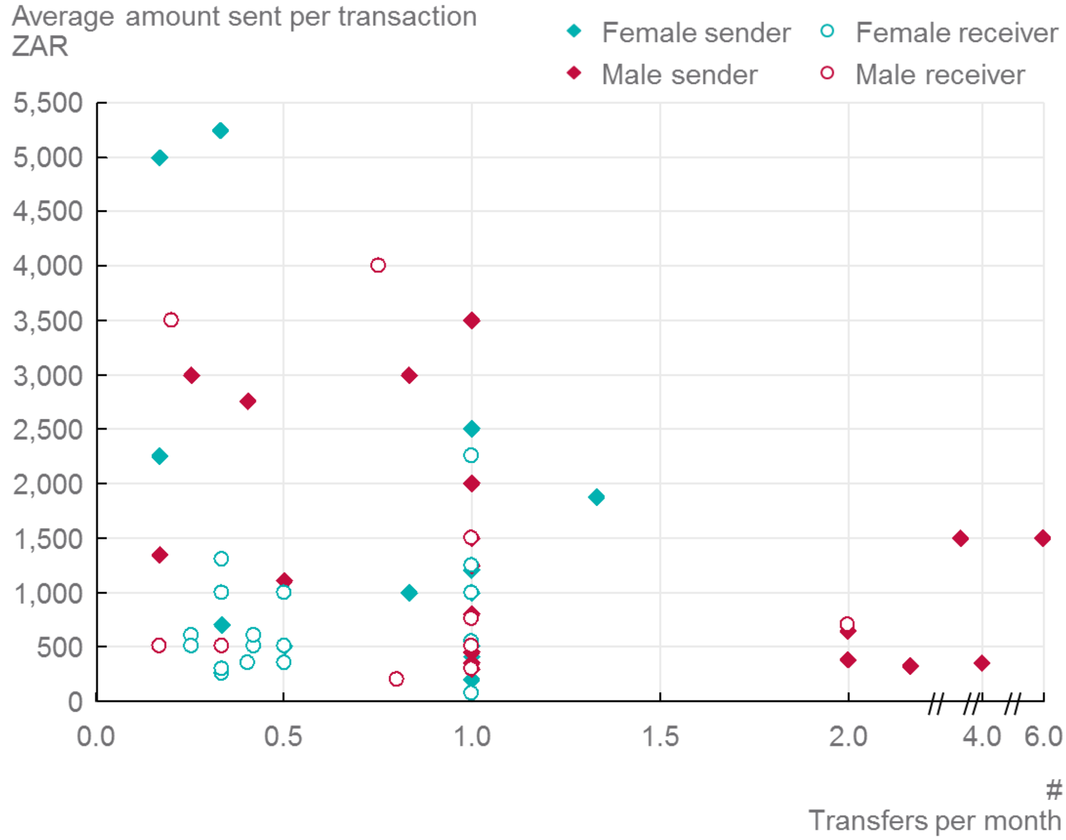
Exhibit 1: Overview of South African remittance market



Domestic Remittance Market

South Africa's domestic remittance market is estimated to include between $11 billion and $13 billion in annual transactions at an average value of $60 per transfer. This is equivalent to 4 percent of South Africa's GDP. Furthermore, it is more than six times as large as the flows of international remittance out of South Africa, driven by the far higher number of domestic over international migrants within the country. Frequency of remittances varies across senders but monthly transfers are most common. The cluster of monthly transfers is visible in *Exhibit 2*, which plots the frequency and amounts of transfers among TechnoServe interview subjects. Based on our interviews, ranges in remittance values vary quite significantly across users, often depending on the purpose of the transfer (e.g., regular monthly expenditures versus less frequent, one time or seasonal expenses, such as school fees, home improvement investments, weddings, etc.). For example, one interviewee explained that in the past year he had sent as little as $37 to his mother for her regular monthly expenses, and as much as $743 for upgrades to her home. Another interviewee quoted sending more frequent (monthly) values of $149, but also sending as much as $1,116 to his brother each term for school fees.

Exhibit 2: Domestic transfers among 60 interview subjects



South Africa has large numbers of internal migrants, although an exact figure is difficult to arrive at as the government census and community survey do not track lifetime migrants within the same province. Looking at period migration data, however, suggests intra-provincial migrants are at least as numerous as inter-provincial migrants. Of the people who reported moving across municipalities in the 2011 census, 73 percent were intra-provincial migrants compared to 27 percent inter-provincial migrants.[2] This implies the true number of lifetime internal migrants in South Africa is likely at least twice the published 7.7 million inter-provincial figure and possibly higher.[3] In our interviews, it was common for people to move to larger towns or cities within the

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[2] South Africa has 234 municipalities, 52 districts, and 9 provinces. Period migration data is a measure of people who reported moving from one municipality to another since the previous data collection. Calculation encompasses internal inter-municipality migrants who were able to report a previous municipality of residence. Twenty percent of total respondents did not report a previous municipality, a group which could include international migrants as well as others who did not know, chose not to respond, or whose responses were not recorded. Municipal level migration data provided by 2011 Census, Stats SA.

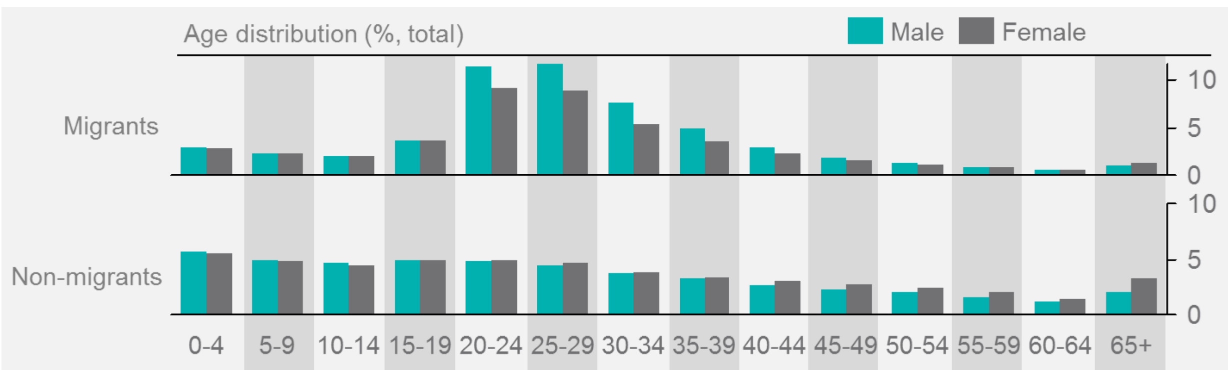
[3] A simple extrapolation of the 73 percent to 27 percent split among period migrants would suggest intra-provincial lifetime migrants may be 2.7 times as numerous, totaling more than 20 million people. There is reason for caution, however, as intra-provincial migrants moving shorter distances than inter-provincial

same province, in many cases for short-term work or with an expressed desire to one day return home for some of the longer-term migrants.

Among inter-provincial migrants, 51 percent moved to Gauteng for access to Johannesburg's dynamic economy, still seen as the "city of gold" by many. Gauteng stands out for drawing substantial shares of migrants from all the other provinces. In contrast, migration to the Western Cape is largely comprised of migrants from neighboring Eastern Cape.

South Africa's internal migrants differ in notable ways from non-migrants. The migrant population is higher income and better educated than non-migrants.[4] Average ages are similar, but young, working-age adults, especially those in their 20s and 30s, are overrepresented among migrants.[5]

Exhibit 3: Age distribution of period migrants compared to non-migrants[6]



Internal migrants are typically working-age, young adults moving for economic opportunity. Migrants will often move to areas with concentrations of people from their home regions and leverage connections to find housing and employment while maintaining strong linkages back home. This takes the form of return trips, remittances and a two-way flow of people. Migration corridors are dynamic with as many as half ultimately returning home.[7]

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migrants may be more likely to return home or move for shorter durations, and thus less likely to generate the same number of lifetime migrants over time. In addition, at least some share of inter-municipal migrants is moving distances so small, such as within the same broader metro area, they would not meet traditional definitions of internal migrants.

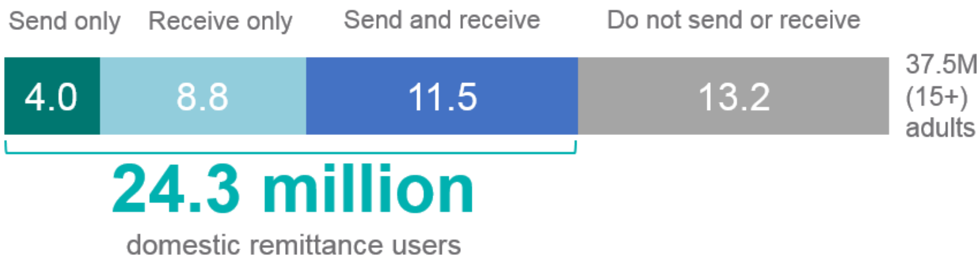
[4] "'Migrants' are persons who migrated between different local municipalities during the period 1 October 2006 to 10 October 2011. 'Non-migrants', on the other hand, are persons who did not migrate between different local municipalities during the said period." Stats SA, 2011 Census data, *Migration Dynamics in South Africa* (Report 03-01-79), 51.

[5] Ibid.

[6] Stats SA, 2011 Census data, *Migration Dynamics in South Africa* (Report 03-01-79), 111.

[7] TechnoServe interviews with Stats SA officials.

Exhibit 4: Number of South Africans sending and/or receiving domestic remittances (millions)[8]



Perhaps the most striking fact about domestic remittances in South Africa is how pervasive the practice is countrywide. Out of 37.5 million adults, 24.3 million report being on at least one side of a remittance transaction (see *Exhibit 4*). There are also strong cultural norms around giving back and supporting direct and extended family members. This often extends to friends who provide reciprocal support over time.

Remittances senders fall into two primary groups: (1) people providing primary support for family members, typically with dependent children, and (2) those providing supplemental support to family and friends either on a consistent basis or upon request to meet immediate needs. While migrants are the primary drivers of remittance transfers, the behavior of senders and recipients is more multidimensional than typical in the case of international remittances. For instance, many senders are not migrants themselves but providing support to relatives or friends who have moved elsewhere.

Domestic remittance behaviors differ in important ways from typical behaviors in international remittances:

Two-way sending is common. Almost half – 47 percent – of remittance users are both senders and receivers. This includes both two-way transactions between the same pair or sending to one person and receiving from another. Typical reasons for two-way transfers include people passing on money to other dependents or two people mutually supporting each other with short-term assistance when needed.

Short distance transfers comprise a major share. A large share of transfers is to recipients within the same province, over relatively short distances, driven by substantial amounts of intra-province migration and the increased convenience of sending money electronically in lieu of traveling.

No cash couriers. Cash is a common remittances vehicle – between 25 and 30 percent – but it is uncommon for remitters to pay others to transport cash to family members; cash is generally brought home in person on return trips.

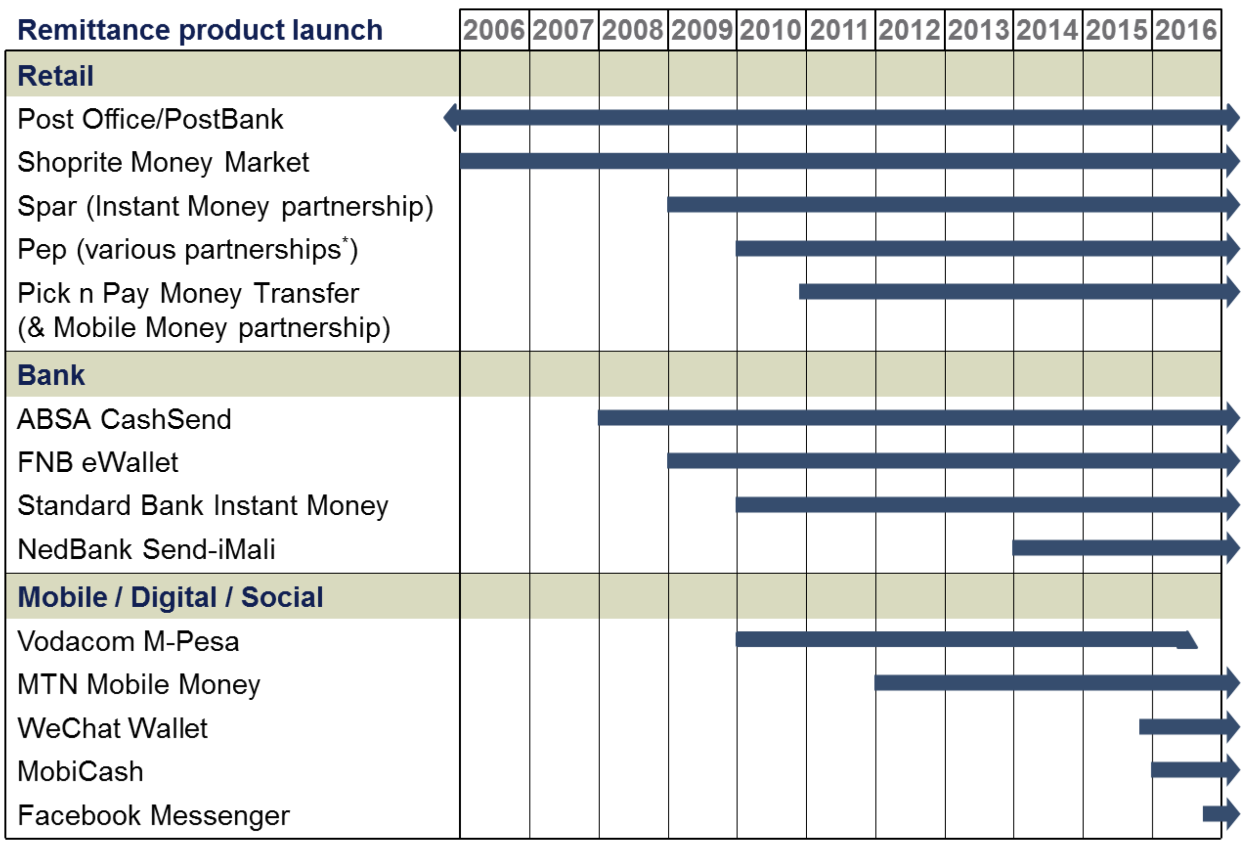
See *Appendix E* for case profiles illustrating examples of some of these patterns.

[8] Cross-tabulation of Findex microdata measuring respondents who sent and/or received domestic remittances over the prior 12 months. World Bank, *Financial Inclusion Index*, 2014.

Remittance Channels

While the total volume of remittances is noteworthy on its own, the evolution of the methods in which users are sending and receiving money is just as important. In April 2006, Shoprite launched a money transfer service at its Money Market counters, transforming the domestic remittance market and setting the stage for a wave of innovation in the sector (see *Exhibit 5* for a timeline of remittance-focused product launches in South Africa).

Exhibit 5: Remittance product timeline



*Pep partnerships included Vodacom's M-Pesa (2010), FNB's eWallet (2012), and Absa's CashSend (2012-present).

With more than 950 Shoprite and Checkers locations, the service has a broad nationwide footprint, even reaching into rural areas.[9] Prior to this, users could send money through bank or postal transfers, but there was a perception that costs were high and transactions were complex. The launch of a simple, counter-based, cash-in, cash-out service at a low flat rate – $0.74 – was welcomed by large numbers of South Africans, especially those who were not

[9] See *Appendix B* for figures on the retail footprints of the major retailers and banks involved in remittance transfers. In South Africa, more so than in neighboring countries, rural residents shop at many of the same major national retail chains as urban residents, especially for groceries.

regular users of the formal banking sector. Notably, other retailers have followed suit with similar products, and the leading banks have launched their own remittance-focused products. FNB's eWallet, Absa's CashSend, Standard Bank's Instant Money and Nedbank's Send-iMali services all allow users to send money to any recipient with a mobile phone number, who can then retrieve that money at an ATM with a one-time PIN sent to their phone.

Exhibit 6: Overview of domestic money transfer market channel landscape

	Bank	Retail	Mobile/Digital	Money transfer org.	Cash / goods
Leading providers	Bidvest	Pick n Pay, Shoprite Checkers, SPAR, PEP	MTN Mobile Money, M-PESA, mcash	Western Union, MoneyGram	
Model	• Send money by SMS to any cell phone using ATM, online, or mobile banking; or • Account transfers	• Send money from a retail store to a recipient who retrieves funds at another location	• Send money by phone; utilize agent networks to cash in/cash out	• Traditional brick and mortar money transfer operators	• People bring cash and/or goods to family and friends on visits
Market share	• 50%	• 20%	• <5%	• 0%	• 25-30%
Typical cost	• R8-10 per transfer • Account fees vary	• R10	• Free to R10	• ..	• Free (not common to hire couriers)
Pros	• Low cost • Integration with other banking services/ mobile apps • Recipients not need accounts	• Low cost • Accessible footprint • No bank account needed and additional financial services offered	• Low cost • Convenience due to high penetration of mobile phones	• Accessible storefront network • No account needed	• Universally accepted
Cons	• Not interoperable across banks	• Requires cash out in stores, often with queues	• Limited agent networks for cash in/cash out and payment options	• High cost • Geared to international senders	• Risk of loss or theft • Transfers are limited by visit frequency

Based on initial expectations, perhaps our most surprising finding is that approximately 50 percent of all remittance transfers are initiated through bank services, either remittance-focused products or more traditional transfer options (see *Exhibit 6*). While remittance-focused products have driven substantial growth in this channel, traditional methods, such as account-to-account transfers and cash deposits (into another person's account)[10], account for twice the volume of bank remittance-focused products (between 33 and 17 percent). Our interviews revealed that, over time, some users graduated to more traditional banking services to send money after initially using remittance-focused options such as retail-based money transfer. After growing accustomed to the convenience and speed of electronic transfer methods, people are more open to trying other products if they offer benefits such as avoiding queues and further reducing

[10] In the cash deposit transfer method, a sender deposits cash directly into another person's account, using their account number at an ATM or teller.

costs.[11] Notably, Capitec Bank does not yet offer its own remittance-focused transfer product, but Capitec account-to-account transfers have become popular among remittance users because the bank is perceived as low cost and easy to use.

Retailer services, such as Shoprite Money Market, PepMoney and Pick-n-Pay Money Transfer, account for 20 percent of transfers. Despite increasing transaction volumes in nominal terms, the retail share of the total market has declined in recent years as bank volumes have grown at a faster rate. Retailers continue to see a future for themselves in this space, finding financial services are an important driver of customer visits. This is apparent through partnerships with bank and mobile products, and investments in expanded or upgraded in-store financial services desks at many Pep and Pick-n-Pay locations.

In contrast to some other markets in sub-Saharan Africa, such as Kenya and Tanzania, mobile and digital channels do not account for a significant share of the market. MTN Mobile Money and Vodacom M-Pesa were early entrants, yet despite generating buzz and name recognition, they had trouble generating a regular user base. M-Pesa made the decision to shut down its service, exiting the South African market in June 2016. In addition to robust competition from banks and retailers, the offerings experienced problems leveraging their networks of sales agents to serve as cash-in and cash-out points, due to the high costs of keeping cash on hand and legacy commission structures not tailored to the needs of mobile money products.

At least 25 percent of transfers are still cash-based. This is more due to most people using cash for at least some transfers, rather than large numbers of people using cash exclusively. Of all remittance users, between 70 and 75 percent send or receive at least some remittances in cash, even if they primarily use an electronic method.[12] Usually this cash is brought home during visits rather than transported by someone else. In fact, most remittance users make use of more than one method, toggling between bank, retail and cash options depending on who is on the other end of the transfer, or based on immediate considerations such as expected length of queues or availability of mobile airtime.

In our 60 interviews with remittance users, a number of key decision factors emerged driving customers towards certain products:

EXISTING FINANCE AND SHOPPING RELATIONS. Most people do not switch their traditional usage patterns for shopping, banking or phones based on money transfer options, but rather choose an option that fits into their existing patterns. For example, most users of bank remittance products are drawn from existing account holders.

TIME AND EFFICIENCY. The amount of user time required is important to many senders; interviewees frequently complained about queues at retail stores and some banks. Transfer

[11] In most cases, account-to-account transfers within the same bank are free. Exact costs vary, however, depending on the bank and account type.

[12] World Bank, *Financial Inclusion Index*, 2014.

speed also matters. Respondents strongly prefer the instant transfers of newer offerings compared to one- to two-day Electronic Fund Transfers between banks.

LOCATION. Despite substantial retail and ATM networks by major players, location remains a limiting factor for many, especially in rural areas. Recipient location is especially important as cashing out is the most common practice

MOBILE AND INTERNET USAGE. A growing number of users are comfortable with internet and mobile banking. Thirty-seven percent of South African adults now have smartphones, including 46 percent of 18- to 34-year-olds,[13] but many still prefer to transact in person, especially older South Africans.

TRUST AND SAFETY. Many people harbor distrust of certain institutions, especially banks and mobile operators. In contrast, many others expressed a preference for using bank cards for payments due to perceived insecurity of carrying cash.

Regulatory Issues Impacting Internal Remittances

In contrast to international remittances, regulatory issues have not emerged as a major barrier to the introduction of low cost offerings. Two important requirements do shape the market, however. First, users are required to establish proof of identify using a South African ID book. Second, non-banks are required to partner with a financial institution to offer money transfer products. For example, Shoprite's money transfer service operates in partnership with Standard Bank (and formerly with Capitec). These two requirements are a hurdle for new market entrants to overcome, especially for purely digital offerings without a physical footprint (to verify IDs in person) or without existing bank relationships.[14]

Social Cost of Current State

Although significant progress has been made reducing costs and making remittance transactions more convenient and secure for South Africans, there is additional room for improvement in terms of security, convenience and advancing broader financial inclusion. A number of limitations in current offerings stand out:

CURRENT TRANSFER METHODS ARE OFTEN TIME- AND TRAVEL-INTENSIVE FOR USERS.
The continued reliance on physical locations at each end of the process creates burdens on users in terms of travel and wait times. At the most popular stores, including Shoprite, lengthy

[13] Ninety percent of South African adults have mobile phones overall. See Pew Research Center, Global Technology Report, 2015.

[14] Interviews with market participants.

queues are commonplace. ATM queues are also a factor in some locations. In addition to delays at the point of service, many recipients make trips of 15-30 minutes, including taxi fares in some cases, to reach cash out points.

IT IS INCONVENIENT TO USE RECEIVED FUNDS FOR OTHER ELECTRONIC PAYMENT OPTIONS. A majority of transfer recipients cash out funds immediately. For example, it is not uncommon for users to withdraw money from an ATM, cash in at a retail store counter to send money, and the recipient then retrieves cash at another location. Also, many interviewees reported a preference for using other electronic means of payment, such as debit cards, but due to limited interoperability across money transfer providers, are not able to easily transfer received funds into bank-card-connected accounts.[15]

SECURITY FEARS AND RISK OF LOSS ACCOMPANY THE NEED FOR MOST USERS TO CASH OUT PAYMENTS UPON RECEIPT. Many users express concern about carrying significant amounts of cash from cash out points. In many cases, it is money they must rely on for an entire month.

TRANSFERS DO NOT HELP BUILD CREDIT RATING. Remittance transactions are not being used to inform credit scoring. This lack of recognized transaction history makes it difficult for many users to establish credit even if remittance patterns demonstrate significant income over time.

In addition to addressing specific pain points for users, money-transfer products could be better leveraged to improve overall financial inclusion, particularly given person-to-person money transfer is a key entry point and recurring touchpoint with financial services for many South Africans, especially those not in the full-time workforce. As currently constituted, the sector is missing an opportunity to create more seamless digital connections and engage users in other beneficial financial products.

Opportunities

THE MARKET FOR DOMESTIC REMITTANCE PRODUCTS IS LARGE AND GROWING FOR PLAYERS THAT CAN LEVERAGE MONEY-TRANSFER OFFERINGS TO DRIVE ADDITIONAL DEMAND TO THEIR CORE BUSINESS.

The domestic remittance market represents between $11.1 billion and $12.9 billion per year in total transfer value over approximately 200 million transactions. It is growing fast – leading products have seen double-digit year-over-year increases – with indications of future growth,

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[15] An important exception is account transfers within the same bank and cash deposits (into another person's account). A more limited exception to this general challenge is the ability to buy mobile airtime and/or use received funds to pay utility bills via some bank and mobile-based services, but it is difficult to transfer money to general-purpose accounts linked to bank cards for more general purchases.

driven by remittance users and the growth of smaller supplemental transfers between friends and family. There is an increasing tendency for people to use e-payment products for short-term, two-way transfers to family and friends (i.e., similar function to short-term loans), not just long distance remittances. As a result, domestic remittance volumes are more sensitive to cost and convenience factors than international transfers, with total volume increasing as options become cheaper and more convenient. Current and prospective operators have the potential to enhance or launch new products to take advantage of this growth and provide significant benefits to consumers.

While overall growth is strong, many existing products have been less successful than market leaders such as Shoprite or FNB's eWallet. Vodacom's M-Pesa exited the market in 2016 and MTN Mobile Money is struggling to attract and retain users. A number of bank and retail offerings have lost momentum after promising launches in recent years.

The most successful players aggressively push remittance-focused money transfer offerings to provide value to consumers in order to drive additional demand to their core businesses. They recognize that remittance products are unlikely to drive substantial profits as standalone endeavors, and design products that can break even while increasing customer loyalty and activity.[16] Specifically, cost structures of domestic remittance products are likely to be sustainable, meaning they can at least cover their costs, but are not drivers of large margins or total profits. For example, Shoprite brings customers to its stores to use Money Market services, creating additional visits, and recipients often spend a share of the money they receive in stores. FNB has found eWallet increases customer activity and loyalty, even if it does not drive substantial numbers of new signups. Less successful players offer remittance products as standalone offerings and disinvest after the products fail to generate significant returns when viewed in isolation.

AN OPPORTUNITY TO IMPROVE FINANCIAL INCLUSION EXISTS, ADDRESSING EXISTING SHORTCOMINGS AND LEVERAGING REMITTANCE TRANSACTIONS TO BROADEN USER ACCESS TO FINANCIAL SERVICES.

In order to more fully capture the opportunity to use remittances as a channel for full financial inclusion, market participants must build more seamless connections between remittance-transfer products and other financial services. This includes: evolving offerings for interoperability across providers, maximizing flexible send options (e.g., mobile, retail, ATM/bank branch) to enable choice of most convenient and comfortable channel, and flexible receipt options with active promotion and enhancement of opportunities to make digital payments using remittances received. For example, providers of remittance products could partner with providers of merchant-payment solutions to develop a merchant network that increases opportunities for remittance receivers to make electronic payments directly with money transfers, rather than simply cashing out.

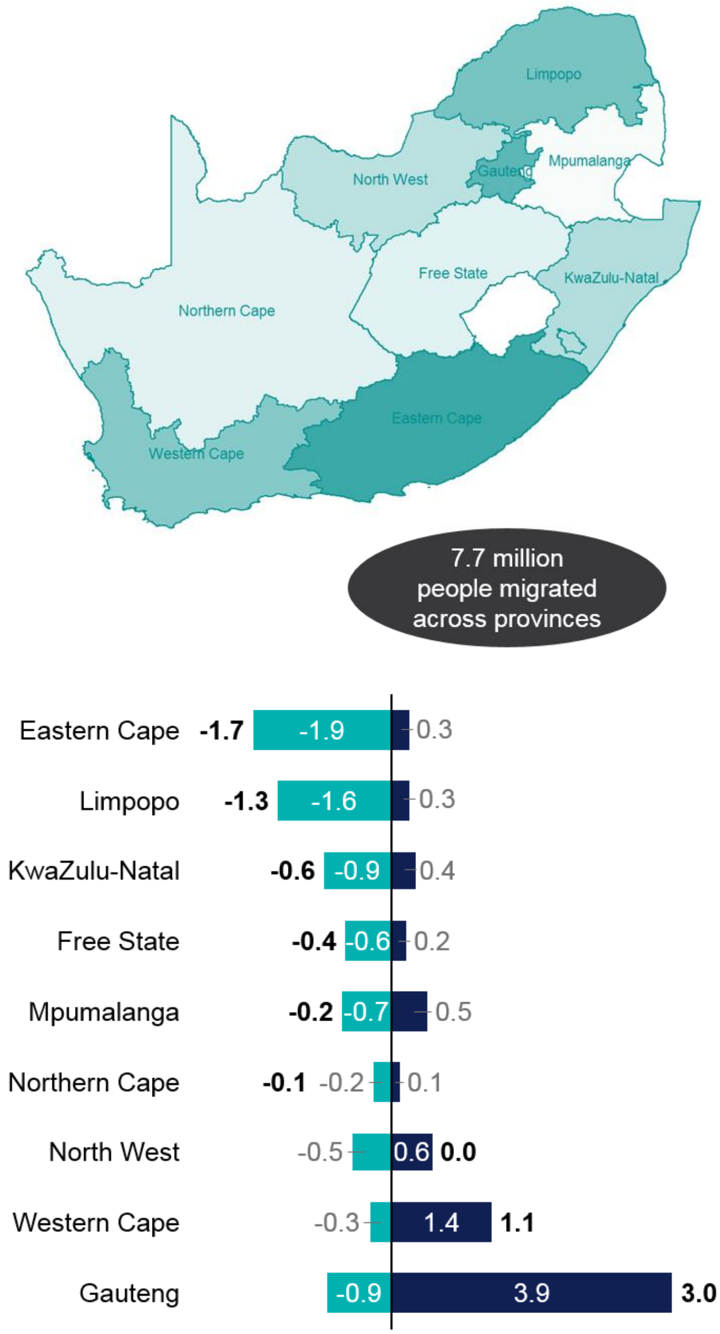
[16] A number of offerings generate positive cash flow, covering their costs, according to interviews with market participants.

Improving financial inclusion also means actively enabling connections between remittance products and other financial services, such as formal savings, credit, insurance and electronic payments. For example, banks could incorporate money transfer records into their credit scoring systems to improve access to credit for regular remittance senders and receivers. Banks could also partner with retail based providers of money-transfer services to serve as branch outlets, enabling money-transfer users to also open formal bank accounts and access other bank financial services.

Conclusion

More attention should be paid to domestic remittances in South Africa and elsewhere, both for their fundamental significance and for the opportunity to leverage remittance transactions to improve overall financial inclusion for senders and recipients. In many ways, South Africa provides an example for providers in other markets to follow in order to help drive innovation and reduce costs. It also offers an important testing ground for future improvements that could leverage the potential of remittance products to improve lives through broader access to financial services.

Appendix A: Net Domestic Migration by Province[17]



[17] Stats SA, 2016 Community Survey

Appendix B: Remittance Product Offering Comparison

Organization	Product	Launch year	Cost per transfer (ZAR)	Daily Limits (ZAR)	Number of retail locations
Bank					
FNB	e-Wallet	2009	ZAR 9.50	ZAR 3,000	716 branches, 6500 ATMs
ABSA	Cash Send	2008	ZAR 7.99	ZAR 3,000	784 branches, 9216 ATMs
Nedbank	Send iMali	2014		ZAR 2,500	708 branches, 3695 ATMs
Standard	InstantMoney	2010	ZAR 9.95	ZAR 5,000	630 branches, 7197 ATMs
Capitec	Forthcoming	To be announced			720 branches, 3705 ATMs
All banks	Electronic Funds Transfer (EFT)		Varies		N/A
All banks	Account-to-account transfer (same bank)		Free – R10		N/A
All banks	ATM cash deposit		<R10		N/A
All banks	In-bank cash deposit		Varies		N/A
PostBank	Electronic Money Order		ZAR 10.00	ZAR 2,000	1,539
Retail					
Shoprite / Checkers / Usave	Money Market	2006	ZAR 9.99	ZAR 5,000	952
PicknPay / Boxer	Money Transfer	2012	ZAR 8.50	ZAR 1,000	1,126

Pep	PEPmoney	2012	ZAR 9.99		1,451
Spar	Instant Money	2010	ZAR 9.95	ZAR 5,000	497
Mobile/Digital/Social					
MTN	Mobile Money	2012	Free[18]	ZAR 1,000	
Vodacom	M-Pesa	2010	Discontinued in June 2016		
WeChat	WeChat Wallet	2015	Free[19]	ZAR 5,000	
MobiCash	MobiCash	2016	Free		
Facebook	Facebook Messenger	2016	Free[20]		

[18] Service is free for users with an MTN SIM card.

[19] WeChat and Facebook Messenger Payments users pay Standard Bank Instant Money's $0.73 per transaction fee to add or remove money from service wallet.

[20] Transfers within service to others users are free but users pay Standard Bank Instant Money's $0.73 per transaction fee to add or remove money from service wallet.

Appendix C: Product Profiles

Shoprite Money Market pioneered personal financial services in the retail space

Description

- Launched in April 2006, allows South Africans to send money from one Shoprite or Checkers location to a recipient who retrieves the money at any other location

Key success factors

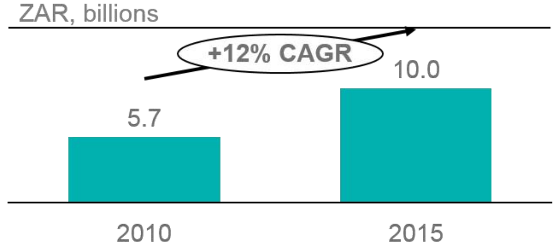
- First mover into the space, ahead of other retailers and banks
- Low cost, R9.99 flat transactions fee for transfers up to R5,000 per day and R25,000 per month
- Full participation across extensive network of 952 Shoprite and Checkers locations around the country, including penetration into rural areas; by contrast, only certain SPAR locations participate in its Instant Money partnership

Challenges

- Sending and receiving money often requires waiting in queues, which can take 30-45 minutes
- The vast majority of recipients cash out immediately rather than keeping their money in safer, electronic mediums

Shoprite's Money Market average annual domestic transfer value, estimated

ZAR, billions



Note: R10bn figure in 2015 is reported; 2010 is estimated based on reported weekly transaction volume in 2010 annual report. Assumes R500 average transaction value, consistent with average value reported in 2015.

FNB eWallet has grown rapidly in the past decade to become the leading bank transfer product

Description

- Allows an FNB account holder to send money to any South African mobile phone by SMS with a code the recipient can use to cash out at one of 6,500 FNB ATMs or pay bills or buy airtime
- Introduced eWallet Pro, which allows businesses to pay wages to workers, aimed at accommodating the needs of businesses with short-term employees

Key success factors

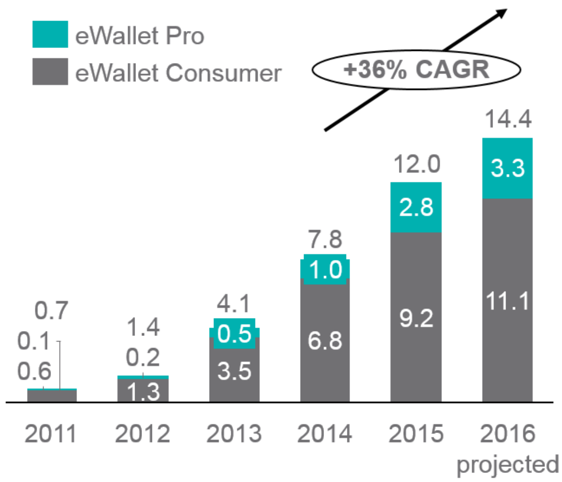
- Low cost, R9.50 flat transactions fee for transfers up to R3,000
- Aggressive marketing featuring billboards, in-branch brochures, and signup events

Challenges

- Lacks interoperability across banks as senders must be FNB account holders
- The vast majority of recipients cash out immediately rather than keeping money in the eWallet ecosystem or using it for electronic purchases
- Penetration is lower in rural areas with most users residing in major urban centers, such as greater Johannesburg

FNB's eWallet average annual domestic transaction value, estimated

ZAR, billions



Note: Estimates based on FNB annual reports, press releases, and press reports; 2014-2016 monthly data are for June or July; 2011-2013 are extrapolated estimates from quotes by FNB officials regarding daily send volumes and year-over-year growth rates; eWallet Pro accounts for 23% of transactions in 2015 and 2016;; Assumes eWallet Pro is 13% of transactions 2011-2014 based on statement that it accounted for R1.3B of first R10B transferred.

M-Pesa exited the South African market in 2016 after failing to build a large user base

Description

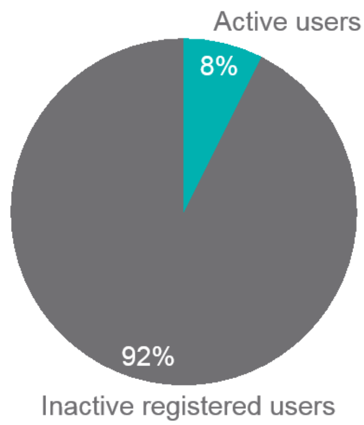
- Launched by Vodacom in 2010, three years after its successful 2007 debut in Kenya, M-Pesa allowed users to transfer money to friends and family and use their mobile wallets at participating retailers (R2.45 per transfer)
- Following slow initial uptake, Vodacom relaunched M-Pesa in 2014 with a new bank partner, Bidvest, replacing Nedbank, an M-Pesa Visa card, and 8,000 retail partners/agents signed up
- M-Pesa had only 76,000 active users in 2015 and exited the the South African market in June 2016

Key factors driving market exit

- Compared to markets where M-Pesa saw its greatest success, the South African market was crowded with offerings, including innovative retail money transfer products a robust banking sector
- The product was not universal, requiring a Vodcaom SIM – this was difficult in a country where using prepaid airtime and changing SIM cards is common
- Despite achieving high product awareness, few users stuck with the service and it didn't achieve critical mass with retailers ("I once joined M-Pesa but never learned how to use it" – Limpopo resident)
- M-Pesa's agent network was viewed as unreliable with agents often not having enough cash on hand for customers to cash out; technical problems were also reported

Vodacom's M-Pesa sustained few active users in South Africa

2015; total = 1M registered users



Source: Vodacom Annual Report, 2015

New entrant profile: MobiCash

Description

- Launched in May 2016 in South Africa, MobiCash is a mobile cash platform targeting the unbanked population; already launched in Rwanda and other markets
- Users can send money to friends and family at no cost and spend MobiCash at participating merchants and retailers
- Merchants are equipped with a yellow box that verifies customers' identities using biometric data or NFC tags attached to users' phones

Business strategy

- Create price differentiation with <u>free</u> P2P payments
- MobiCash takes a share of revenue from retail transactions or other services, including bill pay
- The goal is to sign up a network of spaza shop merchants to act as sales agents, handling signup, cash in, and cash out, as well as serving as a retail site where users can spend Mcash
- As enticement, MobiCash plans to offer value-added services, such as financing and data analysis, to participating vendors; it also announced a partnership with Big Save, a wholesaler supplying many spaza shops

Challenges

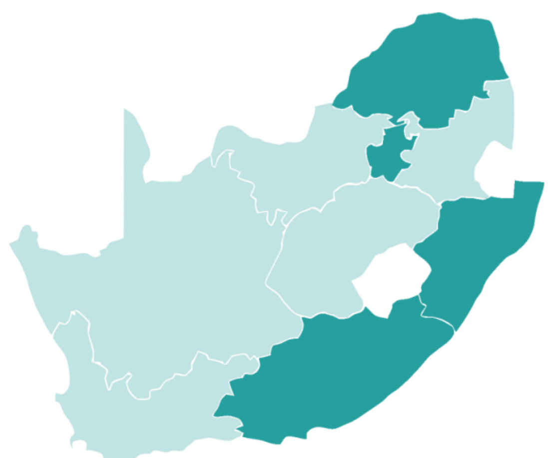
- Similar to M-Pesa, MobiCash will be challenged by the existing crowded marketplace and relatively high levels of access to formal banking services
- It faces a larger challenge in starting off without an existing retail footprint; increasing the importance of developing partnerships with retailers and rapidly building a network of agents

Appendix D: Methodology

Sources of Insight

19 expert and market participant interviews

- Nikki Kettles, Finmark Trust
- Roelef Goosen, Financial Inclusion Consultant, Former Treasury Official
- Andy Lovegrove, Consultant on retail payment systems and remittances
- Diego Iturralde, Chief Director, Demography, Stats SA
- Xolani Jozi, Stats SA
- George Sibande, Stats SA
- Maude Gomes, Head, Product Growth – eWallet, FNB South Africa
- Mind Mabhunu, Business Owner, Emerging Payments, Instant Money, Standard Bank
- Donald Mudenge, Chief Operating Officer, MobiCash SA
- Junaid Munshi, Managing Director, Payment Services, Vodacom
- Thomas Lammer, World Bank
- Marco Nicoli, World Bank
- Lebogang Mokgabudi, Former Senior Manager, MTN Group Commercial
- Martha Nkateko Nkhwashu, Former Marketing Manager, FNB South Africa
- Edward Mzwandile Ngubane, Former Head of Projects (eWallet Solutions), FNB South Africa
- Ian Kruger, Former Product Specialist, Absa
- Former New Product Development Officer, Postbank
- Technical Specialist, Major Retailer
- Retail financial services entrepreneur



60 sender and recipient interviews

- 14 in Gauteng
  - Johannesburg
  - Diepsloot
- 16 in Limpopo
  - Letsitele
  - Mariveni
  - Modimolle
- 15 in KwaZulu-Natal
  - Ndumo
- 15 in Eastern Cape
  - Lambasi

26 retail location visits

Banks	Retailers	Mobile providers
• Absa (2) • Bidvest (1) • Capitec (2) • FNB (2) • Nedbank (1) • Standard Bank (1) • PostBank/Post Office (1)	• Shoprite (2) • Spar (4) • Pick n Pay (2) • Pep (2)	• MTN (3) • Vodacom (1) • Cell C (1) • Telekom (1)

The market size estimates are based on top-downsizing, driven by large sample size national polls supplemented by TechnoServe analysis filling in data gaps, using available sources and our own pool of qualitative interviews.

We used the World Bank's Findex data (2014), which asks respondents both whether they sent or received domestic remittances in the past 12 months. For average transaction value, we averaged figures reported in TechnoServe interviews with remittance users with reported average figures for market offerings we were able to collect aggregate data on, including Shoprite Money Market, FNB eWallet and Standard Bank Instant Money / Spar. Frequency of send and receipt data is based on TechnoServe interviews with remittance users.

Variable	Value
Total population, 15+ years-old	37,481,685
Share sending domestic remittances (in past year), %	41.5%
Share receiving domestic remittances (in past year), %	54.2%
Average value per transaction (ZAR)	805.39
Average number of sender transactions per month	1.18
Average number of recipient transactions per month	0.72
Cash share of remittance volume	27.50%

Channel breakdowns were driven by bottom-up sizing of each channel, using reported figures for certain products and offerings in annual reports, press mentions and TechnoServe interviews with market participants and experts. For offerings and transfer methods where no reported figures were available, TechnoServe generated estimates based on our analysis of relative market share, drawn from interviews, publicly accessible information, and other indicators of relative popularity, including Google Trends search data.

Appendix E: Profiles of Remittance Users

Note: Real names have been changed to protect the identity of the respondents.

Lucia – Unbanked User

Female, 36-50 years old. Makhanyise, KwaZulu Natal.

Lucia is a farmer in rural KwaZulu Natal and lives with four children and two grandchildren. Lucia has a daughter who lives in a small town that is about two and a half hours away from the village where she stays. The daughter is pursuing tertiary studies in the town, and always travels back home every month, where Lucia gives her $37 for groceries and $30 for rent. Lucia has no bank account and prefers to give her daughter cash. She indicated that the reason why she does not use banks is because she has heard many people complain about bank charges; therefore, she decided not to open an account. In addition, she believes she is uneducated, so she doesn't think she will be capable of handling bank accounts. She also considers it safer for her daughter to come and collect money. Lucia fears she will be robbed if she carries the money to a bank or retail shop in order to use the channels available there. Finally, she has never transferred airtime, and she does not foresee herself ever using the service.

Martin –Technology Skeptic

Male, 50+ years. Mahlabeni, KwaZulu Natal

Martin is a farmer in rural KwaZulu Natal (KZN). He lives with his wife, five children and fifteen grandchildren. He has two other sons and a daughter. One of the sons is also a farmer, and gives Martin $37 every month in the form of cash. Despite having a savings account at FNB, he prefers to receive and hold cash. He indicated that he does not trust banks and the digital methods of managing and/or sending money. He described ATMs and cellphones, saying "these things that you press [making gestures] are snakes that one cannot trust because other people can end up having access to your money."

Miriam –Third-Party Bank Transfers

Female, 36-50 years old. Letsitele, Limpopo.

Miriam lives with her daughter in Letsitele, a small town in Limpopo. For employment she relies on part-time jobs – especially at peak agricultural seasons – to earn an income. However, she has two brothers living and working in Johannesburg and Rustenburg who provide her with supplemental income to use for her household's and daughter's needs. One brother sends her money ranging from $37 to $112 on a monthly basis, and leaves behind $30 each time he visits. The other brother does not send money on a regular basis, but only at times when she is in need of extra money, or when he visits, usually in December. He usually sends an average of $22 per send, and he leaves behind about $7 when he visits. Initially, Miriam received money through Shoprite. However, she and her brother switched to using Capitec bank transfers due to the queues at Shoprite, and because her brother would be able to transfer via phone. However, because Miriam has an FNB account while her brother has a Capitec account, she opted to receive the money using a friend's Capitec account. To receive the money, she would accompany her friend to a nearby ATM to withdraw. The challenge that she currently faces is that the friend has expressed frustration with the process, and Miriam now needs to open her own account at Capitec. This process has been difficult for her because she must provide a pay slip, bank statement and proof of residence in order to open the account. The address on her bank statement does not match her proof of residence, as she was living elsewhere when she opened the account. She does not see supermarkets as a viable long-term option because they are not consistently open. When business is low, many supermarkets will close.

Tina – Digital Convenience

Female, 36-50 years old. Mariveni, Limpopo.

Tina lives in Mariveni, Limpopo, and is part of a nine-person household. She lives with her mother, sister, brother, children, nieces and nephews. She also has other brothers and sisters living elsewhere in South Africa. Tina receives a range of $112 to $223 from her boyfriend, who lives in a town in KZN that is 230 kilometers northwest of Durban and over 500 kilometers from Polokwane. Part of the money that she receives from her boyfriend is then sent to her daughter, who is pursuing tertiary studies in Polokwane. She sends her daughter an average $186 every month, and gives her about $22 twice a month when she comes home to visit. While her boyfriend sends her money via ATM cash deposits to her FNB account, Miriam cannot use the same method to send money to her daughter. This is because Miriam's daughter banks with ABSA, and the ATM deposits are more expensive. As a result, Miriam prefers to send her daughter the money using FNB eWallet. The advantage she sees with eWallet is that it is convenient, especially because she can send money at any time from her mobile phone. The only challenge she sees is on the receiving end, as her daughter has to go to an ATM to access the money. Miriam also avoids doing cash deposits into bank account because the corresponding bank charges would reduce the money received by the intended beneficiary. She avoids Shoprite because of the long queues. Another added benefit that eWallet provides Miriam is that she can send herself or her family member money in the case that she forgets her card at home or asks a family member to buy her something. She also likes that eWallet has a larger limit that ABSA Cash Send.

Ntombi – Deposits with Daughters

Female, 36-50 years old. Lambasi, Eastern Cape

Ntombi lives in a village near Lambasi with six children. She works full time and has an FNB bank account that she uses for savings and a debit card. Two of her daughters are grown and have moved to Johannesburg, while the rest of her children live with her at home. Ntombi's oldest daughter works as a bank assistant and sends her mother $75 each month using FNB's eWallet. Ntombi retrieves this money from an ATM. Ntombi then sends her younger daughter –

a student in the city – $37 per month by directly depositing cash into her daughter's account at an ATM.

Zodwa – Transfers from Brother

Female, 18-35 years old. Lambasi, Eastern Cape

Zodwa lives in a village near Lambasi with her mother and four siblings. She is not yet working and is supported by her mother, with supplemental income from her brother, who does contract work in a larger city in Eastern Cape. He sends her $19 every 3 months through an account-to-account transfer to her bank account. Both have Capitec accounts, and the transfers are easy.

Moloko – Two-way Sending with Mother

Female, 18-35 years old. Modimolle, Limpopo.

Moloko works for a public agency in Modimolle, Limpopo, and returns home to her village in Limpopo to visit her mother and father every three months. She primarily sends money to her mother, but she also receives smaller amounts in return, and sends money back and forth to friends when they need help. She sends anywhere from $37 to $745 every 3 months to provide supplemental support to her mother. Although her mother relies on Moloko for support, she likes to return the favor by sending smaller amounts when she has extra cash. She sends Moloko between $15 and $37 once or twice every three months. Both have Nedbank accounts, but only Moloko likes to keep savings in her account and is comfortable with mobile banking. They primarily use Shoprite to send money to each other, with Moloko first stopping at the ATM to withdraw cash before handing it over at Shoprite's Money Market counter. Moloko will sometimes transfer money from her account to her mother's via Nedbank when she doesn't want to wait in a queue. However, Moloko's mother exclusively sends with Shoprite. She prefers Shoprite because it is on her way to work, and it is the only retailer with money transfer that near to both mother and daughter. The SPAR retail franchise in Modimolle does not participate in its money transfer offering, and Moloko's mother is confused by the technology involved in bank-based transfers. With friends, Moloko uses Nedbank transfers. In addition to the electronic transfers, she leaves $15 cash with her father on her quarterly trips home.

Tshepo – Supporting Three Children Back Home

Male, 36-50 years old. Diepsloot, Gauteng.

Tshepo moved to Diepsloot 11 years ago, finding work as a cleaner. He lives with his younger brother in an informal house in Diepsloot, but returns home to visit his three young children – ages 5 to 12 – and wife in Giyani, Limpopo six times a year. He transfers $149 each month, thus providing the primary support to his children. He usually uses same-bank transfers, sending money to the family's ABSA account from the bank by his work. However, when he makes the transfers from his phone, lack of airtime is sometimes a factor. When Tshepo is out of airtime, he goes to Shoprite to make transfers. He and his family prefer the security of making purchases with debit cards where they are accepted.

Moses – Switched to Mobile Banking

Male, 18-35 years old. Tshepisong, Soweto, Gauteng.

Moses moved to metro Johannesburg two years ago. He provides supplemental support to seven family members in Tzaneen, Limpopo, including his mother, younger siblings and daughter. He uses Capitec's mobile app to send $75 per month to his sister's account via same-bank transfer. Moses formerly used Shoprite, but grew tired of waiting in queues to send money. He switched to Capitec when he heard that they offered cheap accounts and transfers. Moses also typically sends $200 each month to support friends who need money. He tries to use Capitec if they have an account there, but he sometimes has to use Shoprite. These transfers are generally reciprocal. His friends send money back when they have it, but they are not always one-to-one amounts. Although Moses has a bank card, he doesn't use it for purchases. He prefers cash, explaining, "It's safer in my pocket."

Simon – Avoiding Retail Queues

Male, 36- 50 years old. Diepsloot, Gauteng.

Simon is originally from a village near Mokopane, Limpopo, but currently works as a taxi driver in Diepsloot. Back home he left his wife and children, one of whom lives and attends school in a township in Pretoria. He sends an average of $149 per month to his wife, who in turn sends money to the child in Pretoria, in addition to using the money for household needs. While Simon has an ABSA account, his wife has an FNB account. Therefore, when he sends her money, he either deposits cash directly for her at an FNB account, or he goes into a PEP store to make the transfer. He prefers going into PEP because there are usually no queues there as opposed to Shoprite. In addition, as a strategy to avoid being caught up in queues, he avoids sending money at the end of the month, preferring to send mid-month. In order for Simon's wife to access the money, she must take a $4 taxi trip to Mokopane, where there are shopping centers.