

The South African Transformation Monitor

Transformation in the Banking Sector: Ownership of bank accounts, Credit cards, ATM cards, Debit cards and Mzansi accounts in South Africa (1994-2009)

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TRANSFORMATION MONITOR

1 Introduction

The aim of this project is to measure in an accurate, comprehensive and objective manner and to continue to monitor Black Advancement in South Africa as a result of changes brought about by democracy.

What is black advancement? There is no consensus on this topic, but in the context of this study it will mean true progress in all aspects (economic, social, political etc) made by Blacks compared to other racial groups since 1994.

1.1 The Transformation Monitor

The transformation monitor will provide statistical evidence of the progress made by black South Africans alongside other racial groups since 1994. Research will be broken down into several phases, each phase concentrating on a certain sector of the economy. In this study, PHASE 2, the sector covered is the Financial Sector: use of financial services (bank accounts, ATM Cards, Mzansi accounts, savings/transaction accounts, debit/cheque cards, credit cards and Post bank accounts) by all racial groups in South Africa

The Transformation Index

Using the above cornerstones as a compass, an index of black advancement will be constructed.

In order for a sector to achieve a high transformation rating, its data must show that, since the transition to democracy, there has been a real increase in the number of Blacks (Africans, Asians and Indians) using various financial services

compared to Whites. Tables and graphs will be used to demonstrate the level and/or progress made in black advancement in a financial service sector.

1.2 **The use of terminology**

This study uses data covering the years 1994 to 2008. Over this period there has been a change in the meaning of given terminology with reference to the use of 'Indian/Asian' and 'African/Black'. This clarification is very significant for the understanding of this report.

Before the introduction in 1998 of the Employment Equity Act and new reporting structures enforced by the government, most government departments generally used the word 'Black' to refer to black (skin colour) South Africans and 'Asian' when referring to South Africans of Asian descent.

After 1998, the reporting structure changed with the specification of 'African' to refer to black (skin colour) South Africans and included two additional categories, 'Indian' and 'Coloured'. These three classifications make up what is now called 'the broad definition of Black' in South Africa today. White refers to South Africans with white skin colour.

In this study, the following classification of the various racial groups will be used, Black, Coloured, Indian (includes all Asians), and White.

1.3 **Background to study**

Racial segregation has been one of the defining characteristics of South Africa. Apartheid structures seriously limited the economic and social opportunities of Non-Whites, leaving few from this vast group able to

participate in the formal¹ economy. Since the transition to democracy, new administrations have taken on various initiatives to adjust this skewed racial profile. From policy changes in personnel recruitment to how suppliers of goods and services are selected or what type of enterprise development and social engagement is to be conducted, these administrations have taken a keen interest in reorganising South Africa's social, political, and economic structures.

However, what have been the benefits of these actions? Have the people who were previously disadvantaged by the policies of the apartheid regime gained from new-found freedom and new policies? There appears to be no consensus regarding the extent to which or the mechanisms through which previously disadvantaged South Africans have benefited from the transition to democracy. Some authors argue that freedom from apartheid has not had a substantial impact on the social and economic development of black South Africans. Others hold the view that for these people to succeed, they need further government assistance through programmes such as Reconstruction and Development Programmes (RDP) and Black Economic Empowerment (BEE).² Yet there are others who think that the core ingredients for the true realisation of human potential is economic freedom and the development of a strong legal framework, a robust infrastructure, and human security.

In this study, Phase 2, the actual progress made by the different racial groups in the financial sector (ownership of bank accounts, Mzansi accounts, credit cards) since the transition to democracy is analysed. First, it examines historical data on racial disaggregation of the ownership of various bank accounts to assess what changes have occurred in the racial profile of these

¹ Formal economy refers to all economic activities that are officially registered to operate and counted/recorded in government statistics, while informal businesses are often not registered, do not pay tax, and yet contribute to the economy.

² Broad definition of Black includes Indian and Coloured.

account holders. Second, it considers the impact of these changes on the broader political economy.

1.4 **Data collection methodology**

The financial sector

According to the FinMark Trust, since the end of the apartheid era in 1994, the South African retail-banking sector has been dominated by four privately owned banks (FNB, ABSA, Standard Bank and Nedbank) that serve various market segments with a variety of banking products. These four banks constitute 84% of the total banking sector assets and will be the focus of our analysis. Other banks include the state-owned Post bank, Capitec bank and Teba bank.

According to the Financial Service Charter, all financial institutions must commit to measurable goals with respect to access provision, whereby these banks commit to provide accessible, affordable financial services for the wider population (Blacks, Coloureds, Indians and Whites). The financial sector has acknowledged that access to first-order retail financial services is fundamental for black advancement and for the development of the economy as a whole. The sector has also committed itself to increasing access to transaction and bank savings products for all racial groups. This report will aggregate and analyse data on financial services access by different racial groups in South Africa since 1993 to 2009.

The Charter's access commitments and definition brought about the creation of Mzansi accounts in October 2004. This product was rolled out to satisfy the access commitment for lower income groups of all races in South Africa. This was a sole initiative of the private banks; the government-owned post bank was not a signatory to this. An analysis of access to Mzansi accounts by all racial groups since its inception to 2009 therefore will also be analysed in this study.

Data for the study

The data for this study has been obtained from various sources since no single organisation/institution has comprehensive documented information on access to financial services in South Africa. Data used for this study has been obtained from the Financial Services seta, FinScope, FinMark Trust, Bankable Frontier Associates, AMPS. The graphs used were drawn by the author to illustrate the racial transformation in access to various banking products.

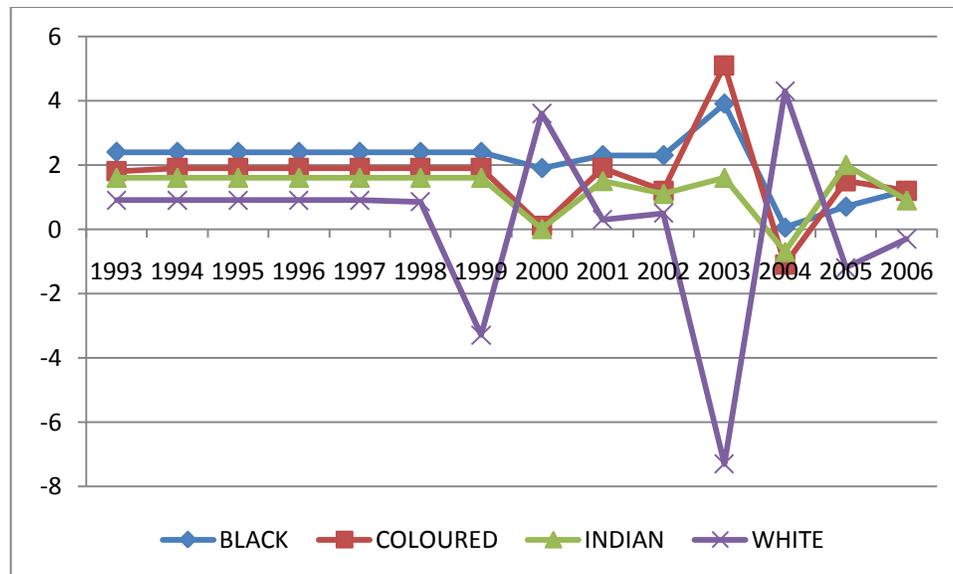
Two levels of analysis are presented. The first is of Black representation as a percentage of the total population that has access to savings and transaction accounts compared to Whites. The second examines access to Mzansi accounts by race.

1.5 South Africa's population racial analysis

Figure 1 shows that since 1993 there has been growth in the SA population in all racial groups. The Black population increased by 2.3%, the Coloured population by 1.68%, the Indian population by 1.19%, and the White population by .01%.

Figure 1: SA percentage population increases from 1993-2006

1.6



1.7

Source: South African survey 2008 Stats SA

2 TRANSFORMATION IN THE BANKING SECTOR IN SOUTH AFRICA

2.1 The South African retail banking sector as at 2008

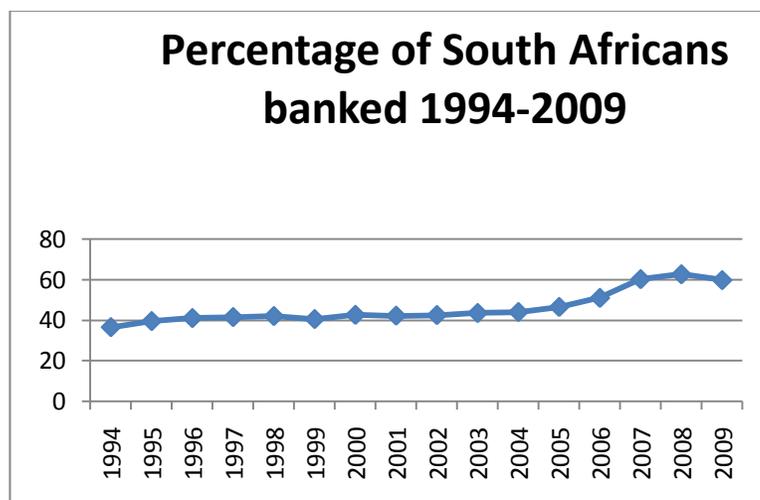
According to FinScope™ South Africa 2007, the percentage of South Africans over the age of 16 who use banks has increased to 60% from approximately 36.2% in 1994. It is estimated that the increase in access to bank accounts has been greater than the growth in population over the same period. The South African retail banking sector has long been dominated by four large, privately owned, commercial banks. These banks, ABSA, FNB, Standard Bank and Nedbank, own 84% of banking products in South Africa. This is illustrated below.

Table 1: The Banking Sector in South Africa

Bank	Ownership	Total Assets	Total Clients
ABSA	Majority owned by Barclays, listed on the JSE	\$70 billion	10.0 million
Nedbank	Old Mutual Group, listed on the JSE	\$50 billion	4.0 million
Standard Bank	Standard Bank group listed on the JSE	\$85 billion	8.6 million
FNB	First Rand Group, listed on the JSE	\$61 billion	7.5 million
Big Four Total		84% of total banking sector	30.1 million
Post bank	State-owned	N/A	6.0 million
Capitec Bank	Widely held, listed on the JSE	\$455million	1.6 million
Teba Bank	Private Trust Controlled by mining industry	\$312 million	0.5 million
African Bank	Widely held, listed on the JSE	\$1.7 billion	0.4 million loans (not necessarily client based)

Sources: Bankable Frontier Associates' Report on the Mzansi account in South Africa, 2009,

2.2 Figure 2: Percentage of South African population banked, 1994-2009

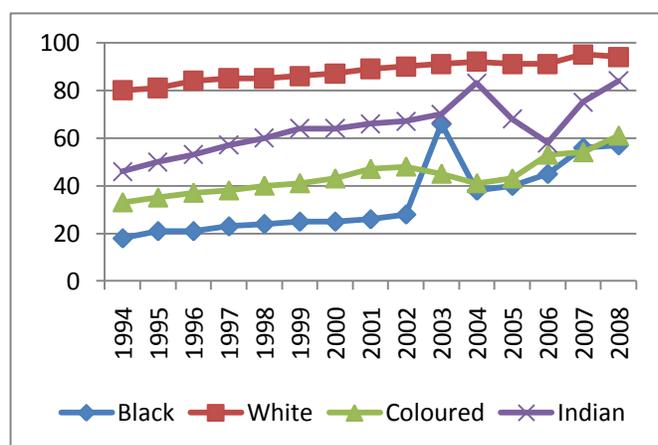


Source: All Media and Product Surveys (AMPS), as presented in fig 2.1 in Porteous, D., Banking on change and TNS Research/FinMark Trust press release March 2008 , FinMark Trust 2009.

Figure 2 shows that the number of people banked in South Africa increased from about 36.5% in 1994 to over 60% in 2009. But, these aggregate figures may be misleading as

they do not indicate the racial composition of bank account owners. In the following section, bank account ownership will be decomposed by race to highlight the changes that have taken place.

2.4: Figure 3: Ownership of bank accounts by race (1994-2008)



Source: Various (TNS Research Survey press release March 2007, FinScope 2009)

Figure 3 shows that between 1994 and 2008, there has been an increase in ownership of bank accounts for all racial groups in South Africa. White ownership of bank accounts increased from 80% in 1994 to 94% in 2008, Coloured ownership from 33% in 1994 to 61% in 2008, Indian ownership from 46% to 84%, and Black ownership increased from 20% in 1994 to 57% in 2008.

Blacks, Indians and Coloureds have been the clear winners in terms of gaining greater access to bank accounts since the transition to democracy. The average percentage increase in ownership of bank accounts for Blacks is 37% while for Whites it is 14%. Therefore, there has been significant transformation in ownership of bank accounts since the transition to democracy in 1994 to the present day.

Nonetheless, a significant portion of the black population is still unbanked. This problem was the reason why the commercial banking sector launched Mzansi accounts in 2004. The Mzansi initiative is analysed below.

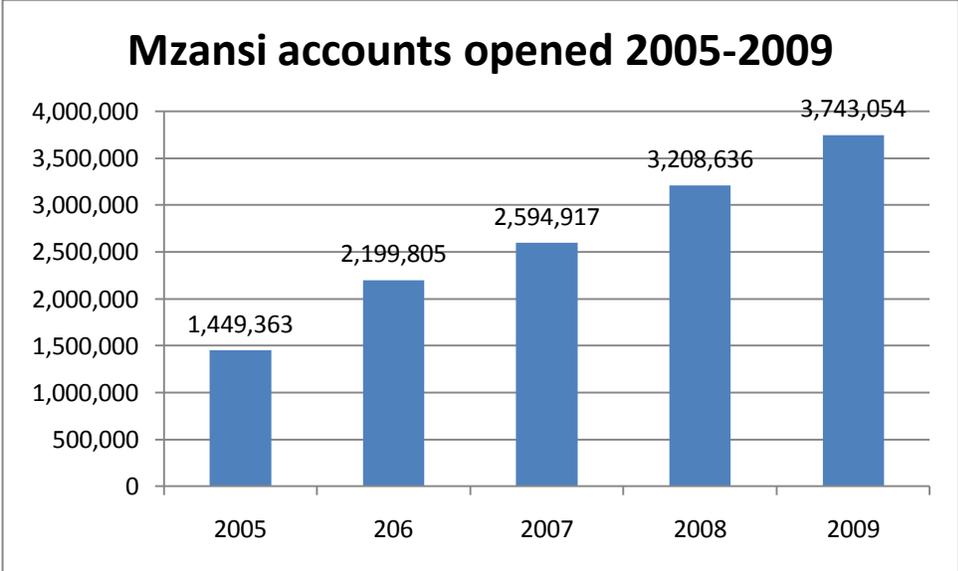
2.5 Mzansi Accounts

The Mzansi initiative was launched by the commercial banking sector in 2004 to provide affordable banking to the bankable but unbanked portion of the population as part of the Financial Sector Charter commitment. Prior to the introduction of the Mzansi initiative, it was estimated that about 17.8 million individuals of banking age had no access to basic financial services and were mostly from previously disadvantaged population groups.

Mzansi is a savings account. Although its pricing structure differs from bank to bank, it includes such free services as electronic deposits, two ATM withdrawals, two cash deposits, one balance enquiry, one debit order, one rejected debit order, and has no minimum monthly fee. The pricing of this bundle of services should be less than or equal to 1.7% of the average presumable monthly income of R1000 (CPIX adjusted annually).

The aim of Mzansi was to ensure that those individuals falling into the lower income group could have first-order retail banking products that would provide them with entry-level banking services. According to the Financial Sector Charter, access meant that banking services should be available to all South Africans within 20 kilometres from their place of residence.

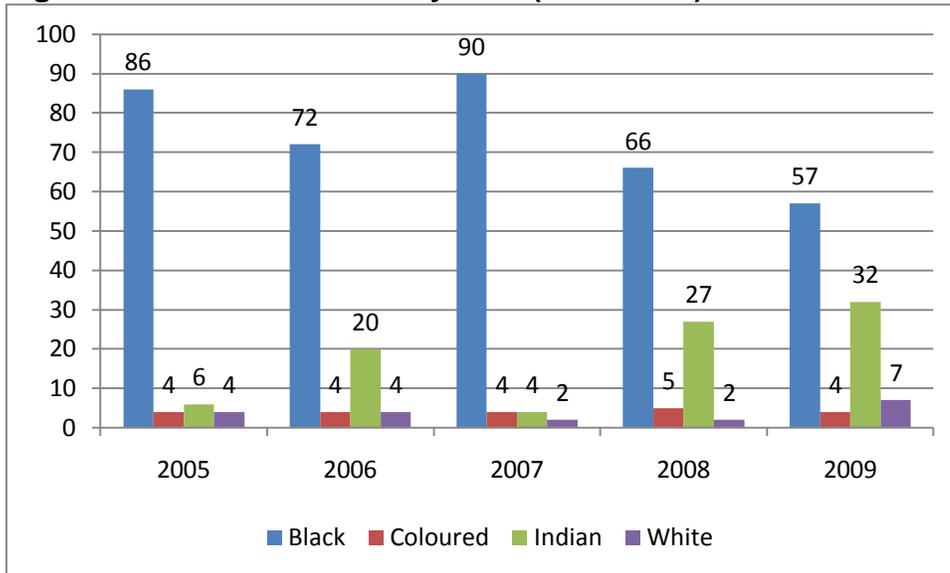
Figure 4: Mzansi Accounts Opened (2005-2009)



Source: FinScope South Africa 2009.

Figure 4 shows that the number of Mzansi accounts opened more than doubled (a 158% increase) between 2005 and 2009. This shows that the banks are committed to ensuring access to banking services to the greater population of South Africa. In figure 5, the number of Mzansi accounts are decomposed to highlight the racial distribution of their ownership.

Figure 5: Mzansi accounts by race (2005-2009)

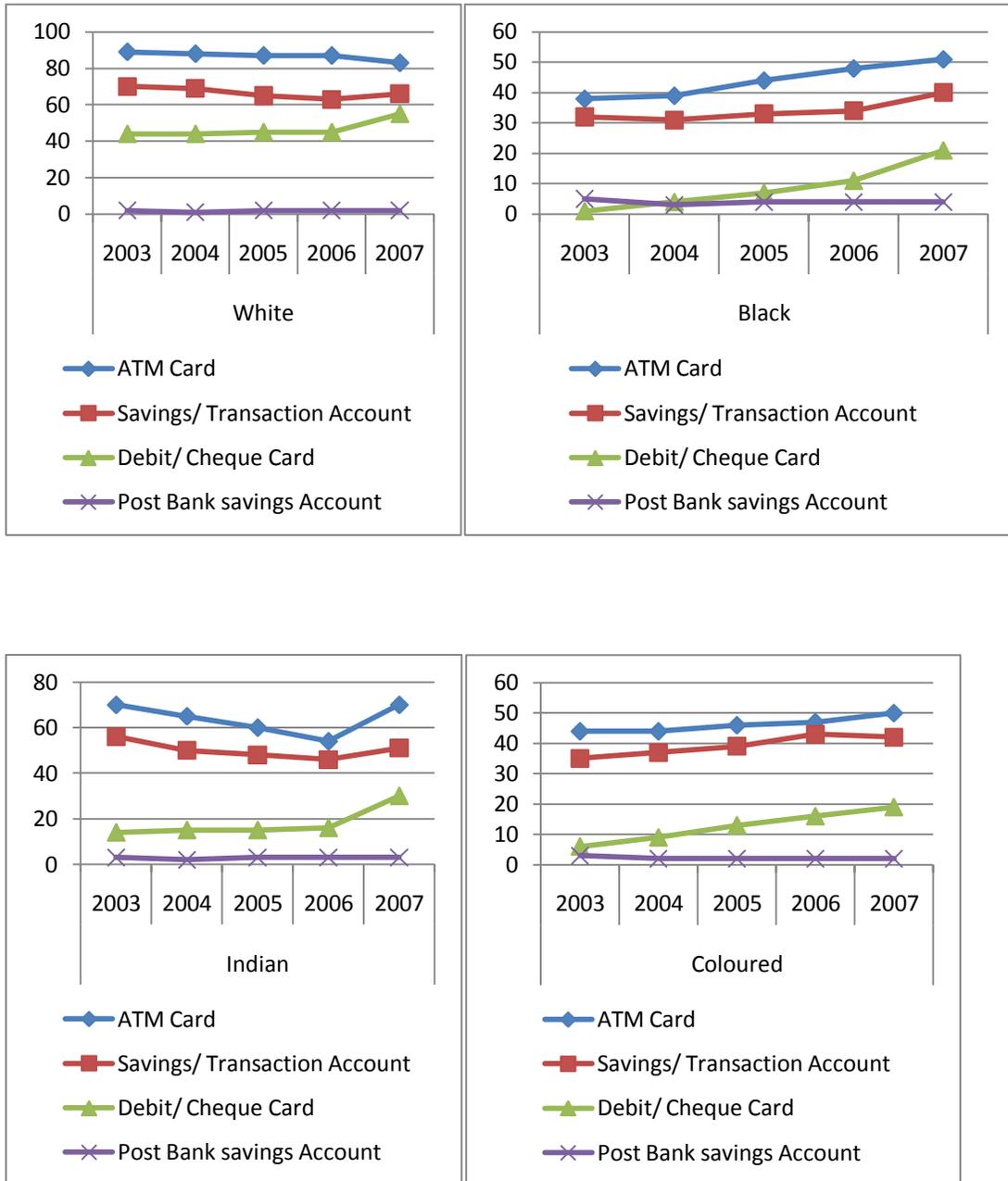


Source: FinScope South Africa 2009

From figure 5, it can be seen that all racial groups have benefited from the Mzansi account initiative. Although the figure above shows a decrease in the ratio of Black account holders between 2008 and 2009 (from 90% to 57%), it must be noted that Blacks still represent the majority of account holders in each year. White account holders increased from 2% in 2007 to 7% in 2009.

2.4

Figure 6: Ownership of Debit cards, ATM cards, savings/ transaction accounts, Post bank accounts by race



Source: FinScope South Africa 2003, 2006, 2007

Figure 6, illustrates that there is a significant increase in the penetration of banking products such as ATM cards, savings/transaction accounts,

debit/cheque cards, and Post bank savings accounts by all racial groups in South Africa.

Between 2003 and 2007, ownership of ATM cards increased from 42% to 51% for Blacks; from 47% to 50% for Coloureds, and from 54% to 70% for Indians, while for Whites there was a decrease from 87% to 83%.

Between 2006 and 2007, ownership of savings/transaction accounts increased from 34% to 40% for Blacks, from 63% to 66 % for Whites, from 46% to 51% for Indians, but decreased for Coloureds from 43% to 42%. Debit and cheque card ownership increased from 11% to 21% for Blacks, from 45% to 55% for Whites, from 16% to 19% for Coloureds, and from 16% to 30% for Indians.

Ownership of credit cards showed an overall increase from 7% in 2006 to 9% in 2007. For Blacks the increase was from 2% to 4%, 27% to 42% for Whites, 11% to 20% for Indians, but a decrease from 8% to 5% for Coloureds.

The ownership ratio of Post Bank accounts remained almost static for all racial groups within this period.

2.6 Conclusion

Between 1993 and 2009 the number of banked South Africans increased remarkably, especially in the Black population. This has largely been due to easier access to banking services being provided to people living in informal urban areas and those earning less than R2000 a month. Undoubtedly, the products and services offered, such as Mzansi accounts, ATM cards, debit/cheque cards, credit cards, savings and transaction accounts, as well as cell phone banking have been the driving force behind the substantial increase in bank account owners.

It can only be concluded, therefore, that a remarkable transformation took place in the banking sector in South Africa between 1994 and 2008. Since the transition to democracy, and the access commitment signed by commercial banks in the Financial Sector Charter, all South Africans now enjoy equal access to banking services. Generally, out of a total adult population of 31,589,440, the number of bank account owners in South Africa has increased from 9 million in 1994 to about 20 million in 2008.

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