

GUIDANCE NOTE GN801

on

CODE SERIES FS800, STATEMENT 801

THE MEASUREMENT OF THE ACCESS TO FINANCIAL SERVICES ELEMENT OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT AS IT RELATES TO BANKS

1. Introduction

The purpose of this Guidance Note is to provide details on the measurement of banking access products and the associated standards.

While not all target market customers will choose to be banked or are bankable, it is the intention of the industry to make appropriate transactional and savings products easily accessible to the defined target market in order to foster the national goal of deepening financial inclusion for all.

While the product offering must be affordable for the target market the principle of contributing to financial inclusion within the boundaries of “sound economic principles” should be adhered to and any product offerings should therefore be economically viable in the medium to long term so as to ensure their sustainability.

The industry commits to support, monitor and report on the use of access qualifying products (AQPs) to the Charter Council on an annual basis. There is **no restriction on the number of different products** that may qualify as AQPs.

2. Objectives of this Guidance Note

The objectives of this Guidance Note are to:

- 2.1 Specify the key measurement principles for product access
- 2.2 Specify the process for determining product access score
- 2.3 Specify the minimum standards required for Access Qualifying Products (AQPs)
- 2.4 Specify how to determine product affordability

- 3. Definitions**
- 3.1 Active Savings Product** product that has either had at least one customer initiated transaction in the preceding 180 days from the measurement date, or has a credit balance of greater than R50.
- 3.2 Active Transactional Product** product that has had at least one customer initiated transaction in the preceding 180 days from the measurement date.
- 3.3 Average Net Cost** total net cost to customers (for each of transactional and savings products) / total number of accounts (for each of transactional and savings products)
- 3.4 Derived Income** Derived income is the primary criteria used to determine whether the account activity may count towards the Access Qualifying Project (AQP).As the income received in the target market (less than R5, 000 per month) can fluctuate on a monthly basis, “derived income” in this context will mean any income (credit) received on a monthly basis, averaged over the period as defined for “active accounts”.
- 3.5 Income** Income is defined in terms of the National Credit Act, 34 of 2005 as follows:“income means the combined gross income of the Applicant/s, which may include the income of any major person who shares their financial means/obligations with the Applicant/s.
- 3.6 Gross Income** Gross income includes income or any right to receive income, but excludes monies received that the person receives, has a right to receive or holds in trust for another person.”
- 3.7 Measurement Date** the last day of the calendar month at the end of the measurement period.
- 3.8 Sales Points** points at which customers can replace a card, deposit cash into theiraccounts, or acquire a transaction account, a funeral policy, a savings account or a loanand be able get at least one other service as listed under Service Point and another from Transaction Point.
- 3.9 Service Points** points where a customer can reset a PIN, do money transfers, get a statement, or initiate account queries and at least access one of the services listed under Transaction Point .
- 3.10 Transaction Points** points at which customers can take cash or make a purchase from their accounts.
- 3.11 Total net cost** sum of all fees and charges (including penalty charges and channel charges), less the sum of credit interest received.

4. Target Market

Individuals who fall with the LSM 1 – 5 category (individuals who earn less than R5 000 per month). The derived income will be adjusted annually by the Charter Council.

5. Product Access

5.1 Exemption from Product Access Requirements

Any bank whose current customer base includes individuals who fall in the LSM 1 -5 category is not eligible for exemption from this section of the FS Code. Exemption from the product access requirements must be provided by the verification agency in accordance with the FS Code.

5.2 Principles relating to Product Access

The key principles relating to Product access are as follows:

5.2.1 Mzansi Accounts

It is agreed that the existing Mzansi products meets all of the requirements of a charter qualifying product

Banks that currently offer the Mzansi account will be able to continue making this offering available in addition to any other Access Qualifying Products (AQPs) that they offer, so that the market will be able to choose between a number of products rather than just have one product available to them;

5.2.2 Other Access Qualifying Products

Mzansi is acknowledged as a product that paved the way for the penetration of the LSM 1-5 market. However, the industry contends that the needs of this market would not be fully served by a one-size-fits-all product. There is merit in developing innovative products that would allow for the use of current technology whilst meeting the needs of the target market and enabling banks to do so competitively. This led to the debate and introduction of Access Qualifying Products.

5.3 Qualifying Products - Intent and Principles

5.3.1 Savings vs. Transactional Products

Each Bank will have a single target for Access Qualifying Products (AQP), which may include any combination of:

- Transactional Products
- Savings Products
- Hybrid Products (which are both Transactional and Savings Products),

In other words, each bank can decide whether to focus on one or two or all three types of AQP to meet their Product Access Targets, based on their individual strategy and product design.

5.3.2 Access Qualifying Product Principles

The intention is that all qualifying products must comply with the standards listed in the guidance notes. The details of how to determine each bank's Product Access Score is defined below.

6. Scoring Methodology

Process for Determining Product Access Scores

Product scores will be determined as at the measurement date.

Banks will determine their individual product access score as follows:

6.1 Identify Access Qualifying Products (AQPs)

6.1.1 There will be separate totals for Transactional Products and Savings Products.

6.1.2 Hybrid Transaction and Savings products are to be included in the total for Transactional Products.

6.2 Having determined all AQPs, calculate the number of active AQP accounts.

6.3 Determine number of active AQP accounts held by target market customers for transactional products and for savings products

6.3.1 In order to do this a bank will have to measure the derived income for each account and the total number of accounts held by customers with a derived income of R5,000 per month and below will be counted.

6.4 Determine the total net costs to customers (for the transactional and for the savings products separately) for the calendar month ending on the measurement date.

6.5 Determine the average net costs to customers (for the transactional and for the savings products separately, identified as target market AQP's in 3.3.1.3 above)

6.6 Submit data to Banking association

6.6.1 Average total net cost to customers for each of transactional and savings AQPs.

6.6.2 Total number of Transactional AQPs and Total number of Savings AQPs.

6.7 Banking association collates all submissions and calculates the weighted industry net average cost to customers for Transactional Products and for Savings Products and circulates these two figures to all banks.

6.8 Each bank then uses the Affordability Factor Formula (see below) utilising the weighted industry average costs circulated by the Banking Association to determine its affordability factors for transactional products and for savings products.

6.9 An overall Product Access Score is then calculated by each bank using the Product Access Scoring Formula (see below) which applies the affordability factors to the total, and compares these to the agreed Product Access Target for each Bank.

7. Affordability Factor Formula

The Banking Association of South Africa will annually calculate and communicate to all banks two weighted Industry net average costs per account for the calendar month (for use in the affordability factor below) ending on the specific measurement date: One for transactional products and one for savings products.

This net average industry costs for transactional products and for savings products are to be collated and calculated by the Banking Association as set out in 6.7 above, and submissions by each bank to the Banking Association must be independently verified as per the bank's annual FSC audit.

7.1 The Affordability Factor:

The Affordability Factor is a measure of how affordable an individual bank's qualifying products are in relation to the weighted average cost of all such qualifying products available to the target market across the industry. Banks will accrue Product Access points according to both their number of Active AQPs as well as how affordable they are in relation to the industry average, for transactional products and for savings products.

The principle is that banks with the most affordable AQPs will earn more Product Access Points in relation to their targets than banks with less affordable AQPs in relation to their targets.

Effectively this weights a Bank's number of Active AQPs vs. Target against how affordable the banks' product(s) is(are).

This will encourage innovation and competition between the banks in order to deliver the most appealing and cost effective qualifying products as possible and in so doing bring down the net average cost to customers over a period of time.

7.2 The Affordability Factors for each of Transactional and Savings Products will be determined as follows:

Measured Bank's Cost in Relation to Average Industry Cost:	Affordability Factor
Where measured bank's net cost is R0	200%
Where measured bank's net cost is greater than R0 and less than double the Average Industry Net Cost	Affordability Factor is calculated as: $100\% - \left\{ \frac{\text{Bank Cost} - \text{Average cost}}{\text{Average Cost}} \right\}$
Where measured bank's net cost is double the Average Industry Net Cost or more	0%

7.3 Illustrative Example:

Given a weighted industry average cost of R20, the table below shows the calculated affordability factor for a range of bank cost examples:

Example of Measured Bank's Cost	Affordability Factor	Explanation / Formula
R0.00	200%	Cost is zero
R2.50	187.5%	$[1 - (2.5-20)/20] \times 100\%$
R5.00	175%	$[1 - (5-20)/20] \times 100\%$
R10.00	150%	$[1 - (10-20)/20] \times 100\%$
R12.50	137.5%	$[1 - (12.5-20)/20] \times 100\%$
R15.00	125%	$[1 - (15-20)/20] \times 100\%$
R17.50	112.5%	$[1 - (17.5-20)/20] \times 100\%$
R20.00	100%	$[1 - (20-20)/20] \times 100\%$
R22.50	87.5%	$[1 - (22.5-20)/20] \times 100\%$
R25.00	75%	$[1 - (25-20)/20] \times 100\%$
R27.50	62.5%	$[1 - (27.5-20)/20] \times 100\%$
R30.00	50%	$[1 - (30-20)/20] \times 100\%$
R35.00	25%	$[1 - (35-20)/20] \times 100\%$
R40.00	0%	Double the Industry Average or More

8. Product Access Scoring Formula:

The affordability factor will be utilised to determine a Bank's overall Product Access Score by applying the following formula:

$$A = 3 \times \{(B \times C) + (D \times E)\} / F$$

Where:

3 is the maximum Product Access Points available

A is the product access score achieved by the measured bank

B is the number of active qualifying transactional accounts for that bank

C is the Transactional Account affordability factor based on the affordability index

D is the number of active qualifying savings accounts for that bank

E is the Savings Account affordability factor based on the affordability index

F is the total target number of qualifying accounts (both transactional and savings) for that bank (still to be negotiated)

9. Targets

To be confirmed.

Section	Generic Standard	Transactional Products	Savings Products
a) Physical Access	<p>Transaction point -within a radius of 5 km Service point - within a radius of 10 km Sales point - within a radius of 15 km</p> <p>Qualifying Areas are municipal suburbs or sub-areas in which more than 50% of households fall within LSM 1 to 5.</p>	Generic	Generic
b) Non-discrimination	1) Be open to all individual customers irrespective of income	Generic	Generic
	<p>2) It must be open to all individuals, regardless of income.</p> <p>There must be no minimum or maximum income criteria but only accounts of Individuals who earn less than R5 000 per month may qualify as AQPs.</p>	Generic	Generic
c) Appropriateness	1) Products may qualify for Exemption 17 of the FIC Act.	Generic	Generic
	2) Promote ease of account opening and minimum documentation requirements by qualifying for Exemption 17 (E17) to the Financial Intelligence Centre Act which dispenses with the requirement to obtain and verify the residential address of clients, but maintains the requirement that the client is a South African Resident or citizen.	Generic	Generic

	<p>3) In order to qualify with E17, a product:</p> <ul style="list-style-type: none"> a. must enable the client to transfer or make payments not exceeding R5 000 per day or R25 000 in a monthly cycle; b. The balance held on the account may never exceed R25 000 at any one time; c. No transfers from the account may be made to recipients outside of South Africa; d. May only be made available to South African residents and citizens. e. Where a product which allows for E17 account openings also allows for the opening of accounts with proof of residence (“full FICA”), then both accounts opened under E17 and under full FICA will qualify as AQPs. 	Generic	Generic
	4) N / A	N / A	<p>Enable savings growth by allowing repetitive small value deposits to be accumulated, without being eroded by deposit and monthly fees, after taking into account credit interest.</p> <ul style="list-style-type: none"> a. In other words, for an institution’s product to qualify as a savings product, the total credit interest paid on savings balances, less total monthly account fee and total deposit fees charged should be greater than or equal to zero for the product as a whole.
	5) N / A	Be interoperable across institutions’ platforms	N / A
	6) N / A	Offer similar functionality to other individual transactional products	N / A
	7) N / A	Not contain any systematic transaction limitations other than those commonly found in other transactional products for individuals at that institution:	N / A

		<p>a. The Transactional AQP should not apply restrictions on the number of transactions per month systematically permitted on the product (other than restrictions commonly applied by that institution to other non-AQP transmission account products aimed at individuals) unless required under E17 of FICA.</p> <p>b. However, banks may use pricing strategies to encourage appropriate channel and product usage. (Note: All fees relating to the Transactional AQP will in any event be considered in the calculation of the affordability factor, and thus will affect banks' overall Product Access Scores)</p>	
	8) N / A	<p>Allow for interoperability of transactions across institutions,</p> <p>a. to the extent that such transactions are recognised as an interoperable payment stream under PASA, and</p> <p>b. to the extent that the transaction is already commonly interoperable in other (non-AQP) transmission account products offered by the institution and aimed at individuals.</p>	N / A
d) Affordability and fair value	1) The principle of Affordability is included in the calculation of each bank's product access scores by comparing each bank's average product costs with the overall industry product costs.	Generic	Generic
e) Simplicity and understandability	1) Be simple to understand and transparently communicated.	Generic	Generic

	<p>2) Must comply with at least the minimum transparency and disclosure standards as defined in the Code of Banking Practice, as well as conform to the requirements of the Consumer Protection Act as well as the requirements of the Treating Customers Fairly policy.</p>	<p>Generic</p>	<p>Generic</p>
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