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Factors influencing the performance of a banking solution for the unbanked in South Africa

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Factors influencing the performance of a banking solution for the unbanked in South Africa

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ABSTRACT

Two decades since South Africa became a democratic state, a significant number of South Africans still have limited or no access to banking services, with poor communities continuing to suffer financially in order to access banking services (Competition Commission South Africa, 2008). FinMarkTrust (2014) estimates that of the 36.8 million South Africans above 16 years of age who are eligible to open a bank account, approximately 9.3 million of them do not hold any banking product. Of the 9.3 million people who do not have a bank product, just over 7.3 million of them have never opened a bank account. Both government and financial institutions have implemented several initiatives aimed at increasing financial inclusion and improve access to banking. The objective of this report is therefore to determine factors influencing the performance of banking solutions aimed at banking the unbanked in South Africa. A case study of FNB's banking solutions for the unbanked was done to determine factors that influence performance of FNB's banking solutions for the unbanked. A questionnaire was sent to 8 middle and senior managers responsible for the design, distribution, marketing and sales of FNB's banking solutions aimed at banking the unbanked. It was determined that price, location of banking channels or services and below the line marketing have an impact on the ability of a banking solution to attract or retain poor consumers. It was also determined that banks have to focus on addressing specific challenges that prevent the unbanked to be banked when designing banking solutions for the unbanked, this is a key factor that enables acceptability of the banking products by the poor. Thus, if the banking solution meets the needs of the poor, it will be accepted and used by the poor, thereby help reduce people with no access to banking services.

DECLARATION

I, Emmanuel Tumelo Ramugondo, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Emmanuel Tumelo Ramugondo

Signed at ……

On the …….. day of …… 20…..

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1 INTRODUCTION

1.1 Purpose of the study

The purpose of this research is to investigate and determine factors influencing the performance of banking solutions aimed at banking the unbanked in South Africa.

1.2 Context of the study

Soon after South Africa achieved its freedom, electing the first democratic government, it became apparent that there was a lack of provisioning for financial services to the majority of South Africans (Hawkins, 2004). Kirsten (2006) estimates that over 60 percent of black South Africans were excluded from accessing any form of financial services prior to 1994. This was due to the major retail banks not investing in developing savings, transactional, insurance and credit products (bank products), or distribution channels which would suit the needs of the black majority. This was due to the apartheid government which supported policies that resulted in an oligopolistic financial industry with few dominant players, and little or no competition (Kirsten, 2006).

Two decades since South Africa became a democratic state, a significant number of South Africans still have limited or no access to banking services, with poor communities continuing to suffer financially as a result of access to banking services, e.g. high transportation costs as they stay far from financial institutions (Competition Commission South Africa, 2008). FinMarkTrust (2014) estimates that of the 36.8 million South Africans above 16 years of age who are eligible for banking, approximately 9.3 million of them do not hold any banking product; these individuals are referred to as the unbanked. Of the 9.3 million people who do not have a bank product, just over 7.3 million of them have never opened a bank account. FinMarkTrust (2014) estimates that 53 percent of

the people who currently do not hold an active bank account reside in rural areas and a further 13 percent live in townships.

The high number of unbanked South Africans is not because of the lack of trying from either government or financial institutions. Both government and financial institutions have implemented several initiatives aimed at increasing financial inclusion and improve access to banking. The biggest, most successful collaborative project to improve financial inclusion in South Africa is the Mzansi account initiative which the four big South African retail banks (ABSA, First National Bank, Nedbank, and Standard Bank) and the Post Bank committed to as part of the Financial Sector Charter (FSC). This initiative sought to, amongst other things, improve access to savings, transactional, insurance and credit products for people living within the LSM (Living Standard Measure) 1-5 segments (Bankable Frontier Associates, 2009; Coetzee, 2005; Financial Sector Charter, 2003). Over 6 million people opened Mzansi accounts between October 2004 and December 2008, and approximately 60 percent of these accounts opened were by previously unbanked individuals (Bankable Frontier Associates, 2009).

After the FSC commitment lapsed in December 2008, the big four banks started pursuing individual initiatives to reach the unbanked. All major banks embarked on different approaches to establish a presence in previously un-serviced and/or underserviced areas in order to reach the unbanked. The big four retail banks pursued the following initiatives to reach the unbanked:

- First National Bank (FNB) introduced mini-ATMs - a cashless ATM machine that prints a slip and allows the customers to exchange it for cash at a store where it is placed (First Rand Bank, 2010). In addition to this, the bank also introduced FNB EasyPlan – the bank's low cost paperless banking model (Jacks, 2011).

- Standard Bank reported that they had opened 50 loan centres and partnered with 7500 bankshops (e.g. Spaza shops, butcheries, etc.) to provide easy access to banking services for the unbanked population. (Standard Bank, 2010). In 2013, Standard Bank advised that they have down scaled this operation as a result of low activity and now only has 100 agents in the field (StandardBank, 2013)
- Nedbank focused on creating an in-retailer channel where kiosks were establish in areas that lack proper infrastructure through a partnership with Pick n Pay, Boxer supermarket and the Passenger Rail Agency of South Africa (Nedbank, 2013).
- In 2010, ABSA invested in creating a low-cost '1234' branch outlets. The outlets have no tellers in the branch and are divided into two zones. The first zone houses ATM machines that do not only allow for withdrawals, but accept deposits which reflect in the customer's accounts immediately. The second zone is focused on client education – primarily on educating customers about direct channels (Roberts, 2011). In 2012, ABSA announced that it is implementing the "One ABSA" strategy which required that the different ABSA brands to be consolidated, as such the '1234' outlets were discontinued (ABSA, 2012).

Capitec also entered the market, and it quickly gained momentum. The bank started making inroads in reaching the mass market (Competition Commission South Africa, 2008), primarily on the back of a simple, low fee marketing strategy and lower cost to service using technology as an enabler and less staff. The staff focused only on sales and providing information to customers (transactions like cash withdrawals are not done inside the branch) (Capitec, 2011; Jacks, 2011).

December 2004 saw the launch of WIZZIT, a start-up bank operating as a division of the South African Bank of Athens, offering a transactional banking account targeted at the unbanked, and accessible via mobile phone and debit card. In addition to mobile and debit card transactions capability, customers could also deposit cash at any ABSA and PostBank branch (Ivatury & Pickens,

2006) – a feature that remains unique in the South African banking industry to date. This feature also holds great potential in improving accessibility by leveraging industry infrastructure as opposed to all banks investing in their own infrastructure.

The big four retail banks have also introduced innovative remittance solutions delivered using mobile phones in an attempt to bring formal banking services to those individuals who do not necessarily want a bank account. Mobile phone solutions have been seen as the answer to providing low cost banking, and as such, became a preferred delivery method of low cost banking products (De Sousa, 2010). FNB developed the eWallet product (First Rand Bank, 2010). Nedbank, in partnership with Vodacom, launched a similar product known as M-PESA, this partnership fell apart in 2012 and Nedbank launched a similar type solution called sendiMali (Nedbank, 2010, 2013). Standard Bank, in partnership with Spar, launched “Instant Money”, ABSA launched CashSend (Standard Bank, 2010).

In 2010, FNB announced that its Smart Solutions division was embarking on a project to improve accessibility of banking services by creating a new branch network called EasyPlan, with the sole purpose of providing banking services to those individuals who earn less than twenty four thousand rand per annum (FirstRand, 2011). The income level of people served through this channel was increased to hundred thousand in 2012 (FirstRand, 2012). These branches were strategically located in easily accessible areas such as transport hubs and retail stores, as well as areas where lower-end customers would find it easy to access (FirstRand, 2011, 2012). Through EasyPlan, lower-end customers are able to open FNB’s low cost Easy Account for R4.95 a month or a Smart Account for R49 a month (FNB, 2014). Lower-end customers can also apply for credit for as little as R250 at EasyPlan branches (FirstRand, 2011).

Given all the initiatives mentioned above implemented by the banks in an attempt to increase financial inclusion, it is important to establish what factors would influence the performance of these initiatives. The objective of this research therefore is to determine what factors influence the performance of banking solution for unbanked South Africans, by assessing how FNB's banking solutions for the unbanked South African address and close the barriers that prevent them from accessing banking services.

1.3 Problem statement

1.3.1 *Main problem*

Given that there are many banking solutions that South African banks have implemented in order to improve financial inclusion of the unbanked since South Africa became a democratic state in 1994, it is important to determine what factors influence performance of such banking solutions. The Research Problem therefore, is to determine factors that influence the performance of a banking solution for the unbanked in South Africa.

1.3.2 *Sub-problems*

The first sub-problem is to determine if price has an influence on the acquisition of new customers, as well as retention of existing customers.

The second sub-problem is to determine if channel location has an influence on cost of sales and service of a banking solution for the unbanked.

The third sub-problem is to determine if FNB products aimed at the poor are tailored to their needs.

The fourth sub-problem is to determine if marketing to the poor has an impact on the attraction of new customers and attrition of existing customers.

1.4 Significance of the study

Access to and use of banking services have become a major concern for most governments including South Africa's (Beck & De La Torre, 2007). The exclusion of the majority of black South Africans from financial systems during apartheid was the initial driver in South Africa. However, further interest has been developed due to the number of studies that show that income inequality and poverty can be reduced if access to and use of banking services is improved (Beck, Demirgüç-Kunt, & Peria, 2008).

Given that the unbanked are largely poor, banks can only generate minimal revenue when banking the unbanked (Council on Financial Competition, 2011). With traditional banking models, banks face high operating costs relative to revenue generated from servicing the poor (Coetzee, 2005, 2009; Schoombee, 2000). Prahalad and Hart (2002) argue that the poor can be a very profitable market if companies are willing to develop suitable business models, and that management must invest banking solutions tailored to the needs and challenges of the poor (C. K. Prahalad & S. L. Hart, 2002).

Banks in South Africa have implemented several banking solutions using traditional and non-traditional banking models and methods with the aim of improving profitability or reducing costs associated with banking the unbanked. The "big 4" banks in South Africa and Capitec have all invested in banking solutions aimed at improving financial inclusion by banking the unbanked South Africans (Competition Commission South Africa, 2008). Recently, mobile banking and remittance solutions have been launched by these four banks with the intention of improving financial inclusion. It is therefore important to evaluate if these banking solutions have been successful in banking the unbanked, at the same time, it is important for the banks to understand what factors influence the performance of these banking solutions. This is because banks have spent a considerable amount of money and time developing, distributing and marketing

products to this population group, and as such need to be conscious of the factors that can affect the attraction of new customers and retention of existing customers.

1.5 Delimitations of the study

- This study is a single case study of FNB's banking solutions for the unbanked in South Africa, as such; other business solutions offered by other banks, insurance companies, retailers, etc. will not form part of this study.
- Remittance solutions offered by banks and retailers will not be included in the definition of banking access.
- Only middle and senior management staff working at FNB will be interviewed. These individuals will either be involved in the design, distribution, sales or marketing of FNB's banking solutions for the unbanked or poor.
- Access to banking products will be limited to transactional products as these are seen are a bare minimum for the unbanked to be banked. As such, only factors influencing the performance of transactional products will be assessed.
- Other FNB products not aimed at banking the unbanked will also be excluded from this study.

1.6 Definition of terms

For the purpose of this study, individuals who do not hold a transactional, savings, or credit account with a registered banking institution in South Africa and are over the age of 16 will be referred to as "the unbanked" and those with one on more active bank product will be referred to as "the banked". The unbanked will sometimes be referred to as the poor in this study, this is because once the unbanked becomes banked, they can no longer be referred to as the unbanked even though their profile might still be similar to that of the unbanked. As such, the term "the poor" will be used interchangeable with "the unbanked".

Access to banking services will be defined as observable limitations that lead to a contrast between the active use of a given banking service by a certain group, and the lack of use of that service by another group, (Beck & De La Torre, 2007).

Financial inclusion can be defined as access to formal banking services at an affordable cost for all members of the economy, favouring mainly low income groups (Diniz, Birochi, & Pozzebon, 2012).

1.7 Assumptions

- Respondents will reflect normal perspectives and experiences.
- Respondents will respond to the questionnaire truthfully and will not try to alter their responses to suit perceived needs of the study.
- Factors that affect the performance of the FNB's banking solutions for banking the unbanked in South Africans will be similar to factors that affect other similar projects aimed at addressing the same need.

2 LITERATURE REVIEW

2.1 Introduction

In this chapter, we review literature that relates to access to banking, barriers preventing the unbanked from being banked, and the impact of management's perception on performance. The main objective of wanting to cover these topics is to highlight some of the key findings that other researchers have identified as important factors, which can impact the performance of banking solutions for the unbanked in South Africa. This literature survey will give some background knowledge such as:

- The profile of the unbanked in South Africa
- South African banking initiatives to banking the unbanked
- Factors (barriers) preventing access and use of banking services
- How performance of a banking solution should be measured
- Factors affecting performance of banking solution

The South African banking industry consists of 16 registered banks (local and foreign controlled), 3 mutual banks, 14 local branches of foreign banks, and 40 foreign banks with approved local representative offices (SARB, 2015). In 2012, the World Economic Forum Competitive Survey ranked the South African banking industry 2nd for soundness, while the country was rated 3rd for financial sector development. The financial sector contributes approximately 10.5 percent to GDP, with the banking sector having assets valued at just over 3 trillion rand (BASA, 2012).

Despite South Africa having so many banks, FinMarkTrust (2014) estimates that of the 36.8 million South Africans above 16 years of age who are eligible for banking, only 75 percent (27.4 million) are banked, an increase from 46 percent in 2004. The unbanked are those individuals who are above 16 years of age and do not have or use banking products such as transactional, savings,

insurance, credit, or remittenace products provided by one of the commercial banks regulated by the South African Reveneue Services (FinMarkTrust, 2014). Of the 9.3 million unbanked South Africans, 7.3 million have never been banked. The main driver behind improved financial inclusion is the increased use of transactional banking products. Insurance, credit, savings and remittences have also contributed to the increase in banking the unbanked (FinMarkTrust, 2014).

It follows that the significant reduction of the unbanked population in South Africa is due to the implementation of several banking solutions by financial institutions and government, to extend access to banking services to the large number of the unbanked population. This is the reason why this research seeks to establish the factors that influence the performance of these banking solutions aimed at banking the unbaked in South Africa

2.2 Background discussion

Many studies show that there are many people in developing countries, including South Africa, who do not have access to or use banking services (Beck & Demirgüç-Kunt, 2008). But there is evidence that access to banking services is improving (Claessens, 2006; FinMarkTrust, 2013). Both price and non-price barriers are said to be contributing to this lack of access to banking services (Beck et al., 2008). This is seen as a challenge by many governments as there is empirical evidence to support the notion that improved access to banking services has a positive impact in reducing poverty and income inequality (Beck & De La Torre, 2007; Beck & Demirgüç-Kunt, 2008; Beck et al., 2008; Claessens, 2006; Diniz et al., 2012). Beck and De La Torre (2007) view access to banking services as a public good that is essential to enable participation in the benefits of modern market oriented economy. As such, it is important to find innovative ways to bring banking services to the unbanked as this will help society reach its goals of social development (Diniz et al., 2012).

In 2003, the four major retail banks in South Africa (ABSA, First National Bank, Nedbank, and Standard Bank) together with PostBank committed to a Financial Sector Charter (FSC) which sought to, amongst other things, improve access to affordable savings, transactional, insurance and credit products within the LSM 1-5 segments (Bankable Frontier Associates, 2009; Coetzee, 2005; Financial Sector Charter, 2003). In order to fulfil the financial access commitments set in the FSC, the four major banks and PostBank collaborated to launch and promote the Mzansi Account, an entry-level bank account with basic transactional functions (receipts and payments) and lower pricing compared to similar banking products (Bankable Frontier Associates, 2009). The account came with some functionality limitations intended to minimise the cannibalisation of profitable customer base on other transactional products (e.g. no debit orders, and amount limit on balances) (Bankable Frontier Associates, 2009).

Mzansi Account was launched in October 2004, and by the end of December 2008, more than 6 million accounts had been opened (versus a target of just over 2 million accounts), with more than 60 percent of these accounts opened by poor people who had never had a bank account, making this initiative a remarkable achievement in improving financial inclusion when compared to all prior initiatives as this initiative shifted the banking frontier by 20 percent (Bankable Frontier Associates, 2009).

After the commitments of the FSC in 2008 lapsed, banks went back to pursuing individual initiatives to reach the unbanked. In addition to bank-on-wheels used by some of the banks like FNB, all major banks started taking different approaches to establish presence in previously unserviced and/or underserviced areas in order to reach the unbanked. Standard Bank reported that they have opened loan centres and partnered with bankshops (e.g. Spaza shops, butcheries, etc.) to provide easy access to banking services for the unbanked population. Standard Bank advised that they have down scaled this

operation as a result of low activity and now only has 100 agents as opposed to over 7500 bankshops in the field (StandardBank, 2013). Nedbank focused on creating an in-retailer channel where kiosks were establish in areas that lack proper infrastructure through a partnership with Pick n Pay, Boxer supermarket and the Passenger Rail Agency of South Africa (Nedbank, 2013). Capitec on the other hand has focused on increasing the number of their low cost branches (Capitec, 2011). First National Bank (FNB) introduced mini-ATMs - a cashless ATM machine that prints a slip and allows the customers to exchange it for cash at a store where it is placed (First Rand Bank, 2010). In addition, the bank introduced FNB EasyPlan – the bank's low cost paperless banking model offering Easy and Smart accounts as well as credit from as little as R250 (FirstRand, 2011; Jacks, 2011). ABSA on the other hand implemented it's low-cost '1234' branch outlets. The outlets have no tellers in the branch and are divided into two zones; the first zone houses ATM machines that not only take notes, but place this money directly into clients' accounts; and the second zone is focused on client education – primarily focused on educating customers about direct channels (Roberts, 2011). In 2012, ABSA announced that it is implementing the "One ABSA" strategy which required that the different ABSA brands to be consolidated, as such the '1234' outlets were discontinued (ABSA, 2012)

In addition to investment in physical distribution channels, some banks have also introduced innovative remittance services to the unbanked via a mobile phone. FNB has developed the eWallet product which allows FNB account holders to send money to a cellphone number (First Rand Bank, 2010). Through a partnership with Vodacom, Nedbank has launched a similar product known as M-PESA (Nedbank, 2010). Through a partnership with Spar (one of the major retail stores in South Africa), Standard Bank launched "Instant Money", also a person to person money transfer service (Standard Bank, 2010).

The significant shift in the number of those who were banked in 2014 (75 percent of the population) compared to 46 percent in 2004 is mainly as a result of these initiatives that the different banks have implemented (FinMarkTrust, 2014). It would also be wrong not to acknowledge the contribution made by the SASSA government program, where grants are now paid into a bank account in partnership with Net1 and GrinrodBank. FinMarkTrust (2014) estimates that of the 36.8 million South Africans above 16 years of age who are eligible to open a bank account, 30 percent of them receive grants from SASSA and 98 percent of these individuals receiving grants are formally banked.

2.3 Access and use of banking services

It is important to make a distinction between access to banking services and use of banking services as these two terms do not have the same meaning (Beck & De La Torre, 2007; Beck, Demirguc-Kunt, & Martinez Peria, 2007; Claessens, 2006). There are individuals who have access to banking services but voluntarily exclude themselves from using the service for various reasons (Beck & Demirgüç-Kunt, 2008; Claessens, 2006). It would be incorrect to classify these individuals as having an "access problem" just because they do not use any banking services (Beck & De La Torre, 2007). Other individuals are involuntarily excluded from accessing and using banking services as they do not have the means to access banking services (Beck & Demirgüç-Kunt, 2008). Therefore, as much as it is important to have banking services available, that does not necessarily translate to use (Beck et al., 2007; Claessens, 2006).

In essence, access refers to the supply of banking services by banks to the public, whilst use refers to the instance where the supply of banking services by banking institutions and the demand for these services by society intersect (Beck & De La Torre, 2007; Claessens, 2006). Beck et al. (2007) defines access as the possibility of using banking services. Claessens (2006) defines access as the availability of suitable and quality banking services when needed, and the ease and convenience of accessing such services. For the purpose of

this study, access to banking services will be defined as an observable limitations that leads to a contrast between the active use of a given banking service by a certain group, on the one hand, and the lack of use of that service by another group, on the other hand (Beck & De La Torre, 2007).

Access to banking services improves financial inclusion. In this study, we define financial inclusion as access to formal banking services at an affordable cost for all members of the economy, favouring mainly low income groups (Diniz et al., 2012). Focus with financial inclusion is often directed at the lower end of the market as that is mainly the section of society that is either voluntarily or involuntarily excluded from accessing banking services (Beck & Demirgüç-Kunt, 2008).

For those individuals who are involuntarily excluded from accessing and using banking services and products, it is important to understand what factors are preventing them from accessing or using banking services. This section will therefore review barriers that can prevent one from accessing or using banking products and services. The review of these factors will focus on both price and non-price barriers as both these do contribute to the lack of banking access and use (Beck et al., 2008).

2.4 Performance of banking solutions

It is important to understand that there is no universally accepted definition of performance. Avkiran (1997) defines performance of a banking solution as the contribution of the branch to achieving the bank's financial and marketing objectives. However, given that this paper seeks to determine factors that influence performance of banking solutions for unbanked South Africans, performance will be defined as the contribution of the banking solution in closing the gaps that prevent the use and access to banking services.

The literature review shows that shareholder maximisation, financial and risk/return ratios are often used to measure the performance of bank solutions. However, these variables are difficult to calculate at a solution level, like a branch network (Avkiran, 1997). A bank is a multi input and output organization, and therefore, performance of a banking solution is multi-dimensional, this is why profit alone cannot be used as a sole determinant of performance (Boufounou, 1995). Boufounou (1995) also argues that external factors such as location, trade area, competitive situation and internal characteristics have an impact on performance. Boufounou (1995) identified deposit taking as one of the key measurement of branch performance. However, other authors like Avkiran (1997) argue that the use of deposit taking as a performance variable is flawed as there are many other external factors that could impact deposit taking.

Anderson and Billou (2008) argue that for a banking solution to be successful in banking the unbanked, it has to satisfy the 4As, i.e. availability, affordabilty, acceptability and awareness. This approach is also supported by authors like Ver Loren van Themaat, Schutte, Lutters, and Kennon (2013) who used this appproach to asses factors that influenced Capitec Bank perfomance as a solution for the unbanked. The 4As can be used to determine the factors that would influence perfomance of a banking solution for the unbanked as it measures the likelihood that the poor will find the solution acceptable, attractive and suitable for their needs (Ver Loren van Themaat et al., 2013). The 4As framework is therefore a useful approach in assessing what factors will influence performance of a banking solution for the unbanked. Below is a discussion of how the 4As impact performance of banking solutions for the poor.

2.4.1 *Affordability factors*

In this case, affordability refers to the degree at which poor consumers are able to bear the cost of a product or service (Ver Loren van Themaat et al., 2013). This is an important consideration since many poor consumers have low or

irregular income (FinMarkTrust, 2014). To serve the poor profitably, companies need to be able to deliver offerings at a price point that enables consumption by even the poorest consumers (Anderson & Billou, 2008). Improving affordability of services to the poor often requires companies to reinvent cost structures by rethinking the entire business process (Ver Loren van Themaat et al., 2013). It is therefore important for companies to not only create products which satisfies the need of the unbanked, but to also price the product at a level that the targeted consumers will be able to afford to pay for it (Ver Loren van Themaat et al., 2013).

Price, however, should not only be viewed as a means of attracting poor consumers to take-up a new product (Kim & Mauborgne, 1999). Companies should also use price as a retention tool for consumers that have already taken up the product (Kim & Mauborgne, 1999). Therefore, customer affordability should be considered for both new and existing customers when pricing products and services (Kim & Mauborgne, 1999; Ver Loren van Themaat et al., 2013).

Price can take the form of annual or monthly service fees, transactional fees or interest rates for credit products (Beck et al., 2008; Diniz et al., 2012). If set at a level that prevents the targeted consumers to afford paying for products or services, price is then a barrier to banking access and use (Beck & Demirgüç-Kunt, 2008; Claessens, 2006). Beck and Demirgüç-Kunt (2008) claim that manual, monthly and transactional fees alone unintentionally exclude more than 90 percent of the population from accessing or using banking services in most African countries.

It is important for costs of servicing the unbanked to be kept as low as possible (Ver Loren van Themaat et al., 2013). Infrastructure costs that banks have to incur in order to service areas that currently do not have banking services do

influence the price charged for a product or service delivered to the unbanked (Claessens, 2006; Diniz et al., 2012; Ver Loren van Themaat et al., 2013). However, the unit cost of servicing the lower end of the market decreases with the increase in transactional volume, therefore most transactional cost are independent of the value of the transaction(Beck & De La Torre, 2007; Diniz et al., 2012). It is therefore important for banks to either attract large volumes of transactions or find non-traditional ways of servicing the unbanked in order to reduce the unit cost of servicing the this market (Ver Loren van Themaat et al., 2013). This approach ensures that solutions for the unbanked can stay profitable despite the low margins (C. Prahalad & S. L. Hart, 2002; Ver Loren van Themaat et al., 2013).

2.4.1.1 *Proposition 1*

Proposition 1 – Price has an influence on the acquisition of new customers as well as retention of existing customers

To demonstrate that above relationship does exist, the following questions will have to be answered:

- Does FNB's pricing strategy help attract new customers?
- Does product pricing have an impact on retaining existing customers?

2.4.2 *Availability factors*

One of the biggest challenges of serving poor markets is to ensure availability of products and services despite challenges of often fragmented or non-existent infrastructure (Anderson & Billou, 2008). Availability refers to the degree at which a banking product or service can be accessed or obtained by the poor (Ver Loren van Themaat et al., 2013). As many low-income consumers live in remote villages or urban communities that lack access to conventional retail markets, reaching these consumers requires creative thinking and finding alternative cheaper channels of getting services to the customers (Oodith &

Parumasur, 2013; C. Prahalad & S. L. Hart, 2002; Ver Loren van Themaat et al., 2013).

Availability also talks to the accessibility of the bank to its customers through the various distribution channels (Ver Loren van Themaat et al., 2013). Banks do find it a challenge to distribute their products and services at a low cost to poor consumers (Oodith & Parumasur, 2013). Therefore, the location of bank branches and ATMs are seen as some of the challenges the poor have when having to access banking services as those living in remote areas might find it difficult to access or use banking services because of the distance between where they live and where banking services are offered (Beck & Demirgüç-Kunt, 2008; Beck et al., 2008; Holmlund & Kock, 1996). As a result the poor tend to incur additional high transportation costs just to get access to a bank service (Competition Commission South Africa, 2008). Technology can be used to reduce the physical distance by offering banking solutions through the internet and mobile phones (Claessens, 2006), which can significantly improve poor people access to banking services as services will be delivered cheaper with no geographic constraints (Diniz et al., 2012; C. Prahalad & S. L. Hart, 2002).

For those who find the branch location convenient, they often struggle with the branch operating hours (Holmlund & Kock, 1996). Those who have jobs do not have the flexibility enjoyed by most middle class people where they can easily take time off from work to visit the bank (Ver Loren van Themaat et al., 2013). C. Prahalad and S. L. Hart (2002) argue that banks need to tailor their business model in order to provide banking services at the time that is convenient to poor consumers. In some instances, partnering with local business and entrepreneurs can create an opportunity for the banks to distribute its product and services at a low cost (Oodith & Parumasur, 2013).

Unfortunately, most factors that influence the bank's ability to deploy infrastructure to serve the poor requires the bank to spend large amounts of money (Holmlund & Kock, 1996; Oodith & Parumasur, 2013; C. Prahalad & S. L. Hart, 2002; Ver Loren van Themaat et al., 2013). But to service the poor profitably, operational models that allow the poor consumers to be served at a lower costs needs to be developed (C. Prahalad & S. L. Hart, 2002; Ver Loren van Themaat et al., 2013).

2.4.2.1 *Proposition 2*

Proposition 2 – Channel location has an influence on cost of sales and service of a banking solution for the unbanked

To demonstrate the relationship above the following questions will have to be answered:

- What distribution channels does FNB use to serve poor customers?
- What has FNB done in the last year to improve access to the poor consumers?
- What initiatives is FNB pursuing that will reduce the cost of banking for the poor, thus, enable low cost banking?

2.4.3 *Acceptability factors*

Acceptability refers to the extent at which both customers and distributors are willing to consume, distribute, or sell a product or service (Anderson & Billou, 2008; Oodith & Parumasur, 2013). Serving the poor requires companies to offer products and services that have value and are adapted to the unique needs of both customers and distributors (Anderson & Billou, 2008; Ver Loren van Themaat et al., 2013). In line with this, Oodith and Parumasur (2013) argue that such willingness will only exist if the products or services meet the needs of the poor consumers, i.e. poor consumers are able to see the value of the product or service (Oodith & Parumasur, 2013).

Lack of education makes it difficult for the less educated to take up banking services because of the complexities accompanying these products (Beck & Demirgüç-Kunt, 2008; Claessens, 2006). Institutions that are successful in banking the unbanked are those that have managed to create simple products that are easy to use (Oodith & Parumasur, 2013). A process that enables poor consumers to interact with bank personnel face to face, with minimal usage of paper, makes it easily for the poor to accept, adopt and use (Ver Loren van Themaat et al., 2013). This is because poor consumers who are illiterate will feel less intimidated by a paperless process, and where they lack understanding of banking products, they have someone they are able to ask questions which negates the need to know how to read and write (Ver Loren van Themaat et al., 2013). Therefore, the use of technology in improving processes is significant.

Regulation can prevent or promote the creation of products and services that would be more suitable to low income consumers (Claessens, 2006). Regulations such as Know Your Customer (KYC), which requires that an identity document and proof of physical address be produced by the customer during the account opening process has been as a barrier to attracting the unbanked to be banked (Beck et al., 2008). This is seen as a significant barrier to banking the unbanked, especially those living in rural areas where there are generally no street addresses (Beck et al., 2008). Banks, therefore, have to find ways of creating products that will ensure that those living in areas where there are no street addresses are able to open bank accounts and are not involuntarily excluded from banking. This will lead to improved sales by the bank, given that more people will be eligible for banking.

In some instances, individuals decide not to use formal banking services or products due to cultural barriers (Beck & Demirgüç-Kunt, 2008), this is mostly evident with the Muslim community where the growth of Islamic banks shows that traditional banks are unable to cater for the need of this population.

Understanding of the poor is critical for banks if they are to create and deliver products that meet the needs and expectations of poor consumers (Oodith & Parumasur, 2013). Matters such as lack of existing credit records or collateral (goods or real estate) when trying to secure a loan could act as barriers to access to credit (Diniz et al., 2012). The bank's tendencies to charge for services that are seen as basic by the poor could also serve as a detractor for attracting poor consumers (Ver Loren van Themaat et al., 2013). Ver Loren van Themaat et al. (2013) argue that simple things like charging for balance enquiry transactions can be a deal breaker when making a decision on who to bank with given the cost sensitivity of this market. This is because poor consumers do not want to be embarrassed in front of people by having their cards declined; they would rather first check their balance before transacting (Ver Loren van Themaat et al., 2013). If changed, this then increases the cost of banking for the poor.

2.4.3.1 *Proposition 3*

Proposition 3 – FNB products aimed at banking the poor are tailored to their needs

To make the above determination, the following questions will have to be answered:

- What is FNB doing to eliminate lack of education and/or financial literacy as barrier to banking access and use?
- Which FNB products features are designed to specifically meet the needs of the unbanked?

2.4.4 *Awareness factors*

Awareness refers to the extent to which customers are aware of products or services offered; something which often requires companies to explore alternative communication channels suitable to poor customers (Anderson & Billou, 2008). Communication challenges to keep in mind when promoting products and services to the poor consumers are low literacy levels, language

barriers, cultural barriers and inaccessibility of traditional advertising media (Oodith & Parumasur, 2013).

Organisations that have significantly improved awareness of their products and services to the poor consumers mainly relied on word of mouth, brochures, SMS and MMS marketing strategies often referred to as below the line marketing (Ver Loren van Themaat et al., 2013). In this market segment, word of mouth is a powerful marketing vehicle (Ver Loren van Themaat et al., 2013). Here, some organisations tend to use community leaders and/or community-based sales agents to promote their product and services, a strategy has proved successful for most organisation targeting this segment (Oodith & Parumasur, 2013; Ver Loren van Themaat et al., 2013). Given that of the 51.8 million people in South Africa there are approximately 40.7 million unique cellphone users and 66.1 million active SIM cards, SMS marketing or promotions is another preferable method of creating awareness for products and services to this market (Deloitte, 2013).

2.4.4.1 *Proposition 4*

Proposition 4 – Marketing to the poor has in impact on attraction of new customers and attrition of existing customers

To make the above determination, the following questions have to be asked:

- What is FNB's preferred communication medium when creating awareness of services and products to poor consumers and why this approach?
- Any evidence that the preferred communication medium is effective, what is the impact of marketing on attraction of new or retention of existing customers?

2.5 Conclusion of Literature Review

In developing countries, the unbanked typically reside in hard-to-reach, remote rural areas with poor infrastructure, thus making traditional models of financial access impractical and costly (Council on Financial Competition, 2011). The unbanked are either voluntarily or involuntarily excluded from accessing or using banking services (Beck & Demirgüç-Kunt, 2008). From a consumer's perspective, factors that prevent access and use of banking services can be summarized as physical access, affordability, and accessibility (Beck et al., 2008).

Anderson and Billou (2008) argue that for a banking solution to be successful in banking the unbanked, it has to satisfy the 4As, i.e. availability, affordabilty, acceptability and awareness. In this report, perfomance is defined as the ability of the banking solution to attract and retain poor consumers as measured by the 4As. The 4As will thus be used to to determine the factors that would influence perfomance of a banking solution for the unbanked (Ver Loren van Themaat et al., 2013).

2.5.1 *Proposition 1*

Price has an influence on the acquisition of new customers as well as retention of existing customers

2.5.2 *Proposition 2*

Channel location has an influence on cost of sales and service of a banking solution for the unbanked

2.5.3 *Proposition 3*

FNB products aimed at banking the poor are tailored to their needs

2.5.4 *Proposition 4*

Marketing to the poor has in impact on attraction of new customers and attrition of existing customers

3 CHAPTER 3: Research methodology

In this section, the research methodology and design that will be used to conduct the research will be discussed. The population and samples will also be discussed followed by the data collection strategy, tools and analysis methods. The section ends off by discussing reliability, as well as the potential limitations of this study.

3.1 Research methodology / paradigm

The purpose of this research is to investigate and determine factors that influence performance of banking solutions aimed at banking the unbanked in South Africa. For the purpose of this study, performance of a banking solution for the unbanked South Africans relates to the ability of the banking solution to attract and retain poor consumers. Thus, performance will be based on the banking solution's ability to either generate more sales for the bank or minimise attrition of existing customers. This research will therefore discuss factors affecting performance from the banks view, while trying to assess how existing banking solutions for the unbanked address the barriers preventing poor consumers from being banked. These barriers are seen as factors affecting performance as they prevent the unbanked from taking up banking products. The more the banking solution addresses the barriers to banking the poor, the more attractive and acceptable should the solution be to the unbanked (Oodith & Parumasur, 2013).

A qualitative study will be undertaken, as this will best highlight the bank's view on how banking solutions for the unbanked are performing. In addition, the bank view on how different factors affect performance of the banking solution can also be evaluated using a qualitative study. Ver Loren van Themaat et al. (2013) used a qualitative study in his study of Capitec bank's banking solution for poor consumers. Moloi (2009) also used a qualitative study to determine what measures are being taken by South African banks to optimise financial inclusion.

3.2 Research Design

A single case study of FNB banking solutions for the unbanked will be conducted. A case study can be used to test theory or get used to confirm findings of other studies (Bryman, 1989). The literature review has highlighted a number of barriers that prevents the poor from being banked, these factors impacts that banks ability to attract the unbanked or retain poor consumers, thus have an impact on the performance of a banking solution for the unbanked. C. Prahalad and S. L. Hart (2002), and Anderson and Billou (2008) argue that for a banking solution to be successful in banking the unbanked, it must first satisfy the 4As. As such, studies trying to assess performance of banking solutions for the unbanked sometimes use the 4As approach to evaluate performance. This can be seen in the study conducted by Ver Loren van Themaat et al. (2013) where a single case study of Capitec bank was undertaken to understand how Capitec bank, as a solution for the unbanked, is performing.

A survey will be conducted to extract information from FNB middle and senior managers involved in the design, distribution, marketing and sales of banking solutions for the unbanked, as well as those involved in the retention of poor consumers. The respondents will be asked to assess how the FNB banking solutions for the unbanked are helping to reduce the barriers that prevent access to banking, thereby increasing acceptability and use of banking products by poor consumers.

3.3 Population and sample

3.3.1 *Population*

The research population is all FNB middle and senior managers in South Africa responsible for design, distribution, sales and marketing of banking solutions for the unbanked. Those middle and senior managers involved in the retention of poor consumers also form part of the population. There are a total of 6 senior

managers and 13 middle managers responsible for the creation, distribution, marketing and sales of banking solution for the unbanked, or the poor.

3.3.2 *Sample and sampling method*

A total of eight FNB middle and senior managers will be requested to participate in this study. A convenient sampling methodology will be used to select the relevant managers, as such, only those middle and senior managers based in Johannesburg will be selected. Table 1 below contains a list of potential respondents.

Table 1: Profile of respondents

Description of respondent type,	**Number to be sampled**
Senior Sales Manager - Head of Department (HOD)	1
Sales Managers	1
Senior Customer Value Management manager - HOD	1
Customer Value Management manager	1
Senior Product manager – HOD	1
Product manager	1
Senior Marketing manager – HOD	1
Senior strategic project office manager – HOD	1

3.4 The research instrument

Due to time pressure, an email questionnaire will be used to extract information that will then be used to determine if indeed FNB's banking solutions for the unbanked satisfy the 4As. Thus, a determination of what factors makes FNB's banking solutions for the unbanked a success or failure.

The advantage of this approach is that a questionnaire is a structured tool, and as such, will ensure that all respondents face exactly the same questions using the same metric. The disadvantage though will be that there isn't an opportunity to ask follow-up questions should a need to clarify certain points exist.

The disadvantages of this approach are that it is difficult to get people to complete questionnaires without them having an incentive to do so; it is therefore expected that there will be potential challenges in getting the questionnaires back from the potential respondents.

3.5 Procedure for data collection

Questionnaires will be sent via email to all executives and managers selected to participate in the study to complete.

3.6 Data analysis and interpretation

Analysis of the answers to the questions asked in the questionnaire will be analysed, similarities will be extracted and reported. Significant differences in the responses will also be highlighted.

3.7 Limitations of the study

Limitations of this study include but are not limited to:

- This is a single case study of FNB's banking solutions for the unbanked, as such factors impacting performance of this solution cannot be generalized without understanding the impact of the external environment. This is because case studies are idiosyncratic, a single case study need not be representative of a wider population (Bryman, 1989).

- Only management's perspective is discussed in this report, the view of the bank's customers is not considered, as such, certain important aspects of why the customers are not banking may be overlooked.
- Given the time pressure to complete this report, a limited number of respondents had to be considered, thus, a limited view of the organisation's position will be presented in this report.

3.8 Validity and reliability

Validity of a research can be defined as the extent to which an instrument measures what it is supposed to measure (Leedy & Ormrod, 2005). It is therefore important to choose the right instrument and also use it correctly to collect the information one requires.

3.8.1 *External validity*

External validity defines the extent to which results of a specific study can be generalised (Leedy & Ormrod, 2005). This research will potentially have a problem with external validity as it cannot be easily generalized given that it is a single case study of the FNB banking solutions for the unbanked. Bryman (1989) argues that case studies do generally have external validity issues. They are, however, a good instrument to test or validate existing theory, which is in line with how the case study will be used in this report (Bryman, 1989). However, given that the external factors impacting banks are similar, the study is likely to provide insights that can help with designing a new banking solution.

3.8.2 *Internal validity*

Internal validity can be defined as "the extent, to which a researcher is able to draw accurate conclusions about cause and effect and other relationships within the data" (Leedy & Ormrod, 2005). This case study will provide an opportunity to compare factors affecting performance of

FNB banking solution for the unbanked to the literature and determine if they do support the literature or not.

3.8.3 *Reliability*

Reliability is the consistency with which a measuring instrument yields a certain result when the entity being measured hasn't changed (Leedy & Ormrod, 2005). If environmental variables stay the same, this study will be able to yield consistent result over time.

4 PRESENTATION OF RESULTS

This chapter presents the results obtained from the responses of the questions contained in the questionnaire emailed to middle and senior managers at FNB.

4.1 Introduction

Results obtained from the questionnaire will be presented in this section in a narrative form. Only seven of the eight managers who received the questionnaire provided a response. Answers to each question will be presented in one section for all seven respondents, thus, results will be aggregated.

4.2 Results pertaining to Proposition 1

Proposition 1 – Price has an influence on the acquisition of new customers as well as retention of existing customers

In order to determine the relations implied by proposition 1, the following 2 questions had to be answered.

- Does FNB's pricing strategy help attract new customers?
- Does product pricing have an impact on retaining existing customers?

Below are the responses received for the two questions asked under proposition 1.

4.2.1 *Answers to question – Does FNB's pricing strategy help attract new customers?*

All seven respondents agreed that the price of FNB products does have an impact on the bank's ability to attract new poor customers, i.e. generate sales. However, almost all respondents highlighted that FNB's pricing strategy is not purely a price-based strategy, and that there are also components of value-based pricing. The value that the customer gets out of the banking product or service impacts the price that FNB charges for its products and services. One

respondent claims that the overall product value proposition is what attracts new customers to FNB, as opposed to just the product pricing. Other respondents also shared the sentiment that product pricing should not be viewed independent of the product value proposition offered to clients.

Respondents indicated that FNB has two different pricing options for poor consumers. One for the price sensitive customers, and the other for value based customers. The price sensitive customers get sold the Easy Account, which has a monthly fee of R4.95, whilst value-based consumer's gets a Smart Account which costs R49 a month. A Smart Account customer also receives R5 back as airtime rewards for each R100 spent on point of sale devices. The various pricing options offered by FNB to poor consumers are modelled according to different ways in which customers transact; the bigger challenge is communicating these pricing options in an effective way that attract customers to a bank.

One respondent highlighted that even though poor consumers are price sensitive and will look at the product price when choosing a banking product, it is difficult for poor customers to make a direct comparison of bank product pricing for different bank products and services. This is said to be as a result of the different pricing options and structures of bank products and services. Therefore, a good pricing strategy cannot work alone; it needs to work in tandem with a compelling education and marketing drive to ensure that customers understand product pricing.

4.2.2 *Answers to question – Does product pricing have an impact on retaining existing customers?*

All six respondents agree that the price of bank products and services does have an influence on retaining poor consumers. The monthly account fee is seen as the fee that most customers would actually look at to determine the

cost of the account. However, there seems to be different reasons as to why customers might leave a bank for pricing reasons.

Another respondent mentioned that entry level customers are very price sensitive; competitive prices are thus important in order to retain them. The respondent argued that poor consumers are generally unable to connect how their banking or transacting behaviours related to the banking fees charged. As such, she claims that it is important to have effective financial educational campaigns to be deployed in tandem with a competitive pricing strategy.

Two respondents indicated that customer affordability is a key consideration when setting a price for a product. They argue that this is important because if customers cannot afford a product, they will go out and look for similar, cheaper products or leave banking completely. Another respondent claims the customer's income and behaviour has to also be taken into consideration as this has an impact on how much bank fees will be charged. Loss of employment is also said to change the customers affordability, making it possible for the customer to accumulate costs, while not using the account which could eventually lead him to attrite.

Competition in the banking industry was also mentioned by one respondent as another factor to be considered before settling on a price of a product or services. The responded argue that when setting a price for a product or service, it is important to ensure that your price stays competitive as you do not want to price yourself out of the market.

Another factor raised by two respondents was that penalty fees charged to customers also impact the customer's decision to leave the bank. The respondent argues that customers who are charged penalty fees are more likely

to attrite than those with no penalty fees. A similar claim was made for customers who are generally charged high fees. These customers are also said to be more likely to attrite than those paying average transactional fees.

4.2.3 *Proposition 1 conclusion*

This section objective was to determine if price has an influence on the acquisition of new customers, as well as retention of existing customers at FNB. The responses received from the respondents show that product pricing has an impact on both new sales and attrition of existing customers. Though FNB products for the unbanked are priced for cost-sensitive and value-sensitive customers, there is acknowledgement amongst all respondents that product pricing does have an influence in attracting new customers as well as attrition of existing customers. It was also highlighted that product and service pricing should be done in consideration of the competitors pricing, to avoid pricing outside the competitive market.

Affordability of banking products by consumers and pricing of competitive products were highlighted as some of the reasons why price is a factor that impacts performance. Penalty fees, loss of employment or income were also highlighted as some of the factors that cause attrition of existing customers.

Given the above, the conclusion is that price does have an impact on the acquisition of new customers and the retention of existing customers.

4.3 Results pertaining to Proposition 2

Proposition 2 – Channel location has an influence on cost of sales and service of a banking solution for the unbanked

To demonstrate the relationship above the following questions had to be answered:

- What distribution channels does FNB use to serve poor customers?
- What has FNB done in the last year to improve access to the poor consumers?
- What initiatives is FNB pursuing that will reduce the cost of banking for the poor, thus, enable low cost banking?

4.3.1 *An answer to question – What distribution channels does FNB use to serve poor customers?*

The following where listed as channels that FNB uses to serve poor consumers:

- Automated Teller Machines (ATMs) – Always accessible and cheaper to service the customer compared to the branch network
- ATM Advance Machines (ADT) – similar to ATMs
- FNB Branch network – Allows for face to face interaction
- FNB Direct – Outbound and inbound call centre
- Community based sales – External sales team that goes into townships and villages to sell FNB banking products for the unbanked, this is sometimes referred to as “foot soldiers”. This is an FNB initiative to take the bank to the people.
- Cellphone banking via USSD – This is a cheaper, easy and convenient channel to use. It was identified by one respondent as the preferred channel to use for poor consumers
- Retailer cash tills – used for cash withdrawals
- Point of Sale (POS) devices – used for card purchases

- Worksite sales – Sales agents visits individuals at their worksite to sell banking products and services or educate them about banking [products and services, thereby, take the bank to the people.

It was noted by two respondents that most poor consumers are still being served through the FNB branch network. The reason given for this is that most poor consumers prefer FNB channels that allow for face to face contact. It was also noted by another respondent that there is an increasing number of FNB poor customers who are being served through self-service channels such as ATMs and cellphones.

4.3.2 *Answers to question – What has FNB done in the last year to improve access to the poor consumers?*

FNB has invested in growing non-conventional sales and services channels such as community and worksite selling. Community selling refers to the creation of a team of sales people (referred to as foot soldiers) who go out to hard to reach areas in townships and rural areas to sell FNB products. Worksite selling is similar to community selling with the difference being that sales agents go to employer's premises to sell to and service the employees. This makes it easy for FNB to reach those who were previously excluded from banking due to lack of banking infrastructure and distance from banks.

Several initiatives that involved infrastructure investment were also highlighted by respondents. The building of more FNB branches as well the partnerships that FNB has made with retailers. FNB has also rolled our more mini-ATMs into places where they don't have traditional banking services. Mini-ATMS are devices that are deployed to shops in townships and rural areas, these devices allow an individual to get a cash withdrawal slip from the device and provide it to the cashier in exchange of cash.

One respondent felt that FNB hasn't invested enough in infrastructure projects that can increase access to banking products and services.

Another initiative highlighted entailed raising awareness of FNB channels across the customer base with specific focus on educating and changing behaviour of poor consumers so that they can migrate from using traditional channels, like branch, to more optimal cost effective, electronic channels. Educational material is not only directed at changing customer's channel preference, it is also directed at educating customers how to actually operate self service channels. The reason behind educating poor customers on how to use self-service channels is because FNB sees these channels as cheaper means of servicing poor consumers. Examples of educational material being pushed to poor consumers is educating consumers to rather swipe their cards as opposed to withdrawing cash, and getting them to withdraw cash at ATMs and retail tills as opposed to withdrawals inside FNB branches.

4.3.3 *Answers to question – What initiatives is FNB pursuing that will reduce the cost of banking for the poor, thus, enable low cost banking?*

Enabling poor customers to bank and handle cash "outside" the branch is one of the focus areas for FNB. Four respondents highlighted that FNB has partnerships with retailers that allows it to service poor consumers through low-cost high-scale retail stores. The reason for the partnership is explained as the fact that retailers have a large footprint and can split costs across many products, thus they are able to provide banking services at a lower cost than a bank is capable of doing at its branches. An example provided was where FNB is servicing poor consumers through retailers was the service where FNB allows its customers to withdraw cash for free at Checkers, Pick n Pay, PEP and Spar compared to the R4 that would have been charged if withdrawal was done at the branch and R3 for ATMs. Withdrawing cash from tills is one example that has seen successful migration away from ATM cash, thereby saving customers

ATM fees on an ongoing basis. This strategy is said to reduce the cost of service poor consumers.

FNB has invested in the creation of a community sales team that goes into different communities to sell, educate and service community members. This reduces the cost of service for the customer, as they don't need to visit a branch for assistance and consultation. In addition to reducing the cost of service, this strategy also reduces that cost of sales during the acquisition of new clients as the cost of sales using FNB branches is very high.

The Easy account, has been specifically designed for customer who need a low cost account and perform minimal transactions. The fees are structured in a manner which supports low volume transactions and force customers to use ATMs for cash withdrawals instead of a branch.

eWallet is a product which enables customers to send money from a bank account to a customer who may not have a bank account, as the money is linked to a cellphone number and stored in an electronic wallet (eWallet). Once the customer has the funds in an eWallet, then the customer is able to:

- Send a portion of the funds to another Cellphone
- Withdraw all or some of the cash from the eWallet at an FNB ATM, without needing a bank card. The rest of the money can be withdrawn at a later stage
- Buy prepaid airtime, data and prepaid electricity from the eWallet
- Check the eWallet balance or get a mini statement
- Pay for goods and services online from the eWallet using Cell Pay Point
- Pay to a bank account
- Make purchases and withdraw cash at Selected Retailers

FNB has also invested in educating Easy and Smart account holders to use easy, cheaper and convenient channels like cellphone banking. This channel is promoted as it is cheaper for the bank to deliver services to the unbanked. FNB doesn't charge subscription or transaction fees for the use of their cellphone banking channel, yet the uptake and usage of the channel by poor consumers is said to be low compared to channels such as branch and ATM. This is attributed to low literacy levels and technological intimidation. Another initiative relating to the use of cheaper, more convenient channels is cash withdrawal and deposit migration from FNB branches to ATMs and ATM Advance machines. Customers are being educated on how they can best leverage these machines to reduce their bank cost. FNB intends to continue educating poor customers on how they can reduce their banking fees by changing their transactional behaviour.

4.3.4 *Proposition 2 conclusion*

The main objective of this section is to use answers from the different respondents to determine if channel usage has an impact on cost of sales or service of a banking solution for the unbanked. In this section, respondents have highlighted several initiatives which FNB has implemented in an attempt to making banking accessible to everyone, thereby bringing banking services to the workplaces and communities.

FNB has created worksite and community sales teams to go into consumer's workplaces and community with little or no bank branches to sell, service and educate consumers. This allows for the poor to be banked cost effectively without the bank having to invest in the traditional bank branches which are costly. Also, consumers are being educated to use self service devices like ATM's which are available in most areas as well as cellphone banking which can be accessed anytime, anywhere from the consumer's mobile phone. These initiatives also allow poor consumers to have access to their funds in a cost effective manner without having to worry much about the location of the bank

infrastructure as ATMs can easily be accessed and cellphone banking is forever available.

Given the above discussion, it can be concluded that channel usage has an impact on cost of sales and services of banking solutions for the unbanked.

4.4 Results pertaining to Proposition 3

Proposition 3 – FNB products aimed at banking the poor are tailored to their needs

To make the above determination, the following questions had to be answered:

- What is FNB doing to eliminate lack of education and/or financial literacy as barrier to banking access and use?
- Which FNB products features are designed to specifically meet the needs of the unbanked?

4.4.1 *An answer to question – What is FNB doing to eliminate lack of education and/or financial literacy as barrier to banking access and use?*

FNB claims that they are rolling out financial literacy training. For example, FNB has an arrangement with employers where they visit companies and offer free financial literacy training to the employees of the company. Community sales agents (foot soldiers) are also deployed to different communities to offer training in addition to selling the banks products and services.

Through the bank's distributions channels, brochures containing banking products and services are distributed to existing and prospective poor consumers. The branch network is mainly utilised during the account opening process, where consultants provides the customer with detailed customer information including tips on how to use the account optimally. This is done by advising the customer what channels to use to bank at a lower cost. Branch

consultants also ensure that customers are registered for electronic channels before they leave the branch.

Weekly and monthly targeted SMSs and MMSs are also sent to existing customers informing them on how to save on bank fees and bank more optimally. FNB does this as it believes that it benefits the customer and the bank as the customer is less likely to attrite if he believes the bank is looking after his or her best interest.

FNB also claims that it is constantly working hard to change, develop and configure the marketing or communication of poor products and services so that they can better resonate with the mass market. FNB also highlighted that simplicity is key in this market segment, so it is important to ensure that the design of product and services as well as the marketing messages are simple to understand.

4.4.2 *An answer to question – Which FNB products features are designed to specifically meet the needs of the unbanked?*

The focus is on enabling free transactions and alternatives to using traditional banking channels. An example would be enabling poor consumers to deposit cash at ATM Advance machines that are cheaper than depositing at branch and has the benefit that deposits reflect immediately. The use of electronic channels enables easy and cheaper transactions, including balance alerts, electronic statements and airtime purchase, etc.

eWallet is a solution for the unbanked, where poor consumers can send and receive money without having a bank account. Customers using this product are not charged monthly fees and receive one free ATM withdrawal per transfer received. Cash can be withdrawn at any FNB ATM. This product also allows for

banked and unbanked individual to interact within the formal banking environment. This is because those individuals with FNB account can send money to non banked individuals using a cellphone number. FNB also sees eWallet as a vehicle to introduce the unbanked to the formal banking environment. eWallet was identified as a product suitable for poor consumers because it addresses the following challenges that prevent the mass market from being banked:

- One of the biggest barriers to banking, aside from the cost, is the FICA documentation required by law to open an account. Many of SA's low-income customers do not have access to the documentation required because they simply do not have a formal residential address. eWallet does not require proof of address for one to use it.
- The unbanked, by nature that they are unbanked, are typically not profitable customers – it isn't in their best interest to become banked in the traditional sense because it costs them too much (as a relative percentage of what they earn). eWallet does not have monthly fees, and the first withdrawal after receiving a deposit is free to consumers.
- The product is simple to understand and use.

The FNB Easy account was also identified as another product created specifically for the poor customers, given the simplicity of and the lower cost of the product.

4.4.3 *Proposition 3 conclusion*

The objective of this section is to present the answers to the question that will help determine if FNB products aimed at the poor are tailored to their needs. Financial literacy seems to be an area that FNB is concerned with and there are several initiatives highlighted by respondents where FNB educates poor consumers about its product and services. Poor consumers are being educated during account opening in the branch, at the community and companies, some through information brochures distributed to customers.

The eWallet product was also identified as a product designed with poor consumers in mind as it is cheap, simple to understand and use, and it does not require proof of address to open and use - which are all barriers to entry to banking by poor consumers. The Easy account is another product that shares the same characteristics as the eWallet product, except that it is a bank account.

The above allows one to conclude that FNB in its product design, distribution, usage and communication does indeed consider the need of poor consumers and tailors its strategy to accommodate their needs and behaviour. This is evidenced by continued education of poor consumers on how to bank effectively at lower cost by using electronic channels and the design and pricing structures of products such as eWallet and the Easy account.

4.5 Results pertaining to Proposition 4

Proposition 4 – Marketing to the poor has an impact on attraction of new customers and attrition of existing customers

In this section we will present the results of the following questions:

- What is FNB's preferred communication medium when creating awareness of services and products to poor consumers and why this approach?
- Is there any evidence that the preferred communication medium is effective, what is the impact of marketing on attraction of new or retention of existing customers?

4.5.1 *An answer to the question – What is FNB's preferred communication medium when creating awareness of services and products to poor consumers and why this approach?*

Three respondents highlighted that poor consumers prefer to visit the bank's branch whenever they need assistance or advice, i.e. face to face

communication. The reason given for this behaviour is the low literacy levels amongst poor consumers. This is seen as the reason why other communication methods such as brochures and SMS are less effective to this market segment.

Three of the respondents explained that the bank prefers to use SMS as a medium of communication with poor consumers. The reason given for this preference is the cost of SMS as it doesn't cost the bank much to deliver content to the poor consumers. Customer-specific messages are generated based on very specific behaviour seen from customers and sent to poor consumers via SMS, email and MMS.

Respondents also highlighted that other marketing mediums such as billboards; radio and TV often referred to above the line marketing are also used to market banking products and services to poor consumers. Also, brochures and leaflets are used for engagement with the customers for generic content. FNB branches and ATMs also have digital educational messages that customers can view when visiting an FNB bank branch or ATM channel.

Some respondents highlighted that FNB cannot use only one method of communication, so FNB's approach is a consistent, layered one. SMS communication is the easiest and most cost effective method to use, however it is not entirely robust due to the rapid churn in customer SIM and device usage. FNB therefore uses a combination of SMS, and face-to-face interaction to communicate with poor consumers. FNB uses the expected effectiveness and complexity of getting the message across to consumers to determine which communication channel to use. This is because the more complex messages might require communication channels that either explains or show visuals to customers to make it easy to understand.

4.5.2 *Is there any evidence that the preferred communication medium is effective and what is the impact of marketing on attraction of new or retention of existing customers?*

Respondents indicated that FNB actually measures the change in customer behaviour pre-and-post campaign messaging to determine effectiveness of a campaign. However, FNB noted that the complexity of the message, literacy, both basic education as well as financial literacy, and language are a massive challenge in getting the bank' message across to poor consumers.

Two respondents highlighted that face to face communication work implied that branch or bank consultants are being incentivised to promote a service or products. The evidence of this was given as the uptake seen on sales and retention whenever initiatives that incentivise branch staff members are introduced.

About three of the respondents claim that results of above the line marketing such as billboards, TV and radio are difficult to measure, and there is therefore no hard evidence enabling the respondents to say whether or not above the line marketing does lead to sales or not. The respondents highlight that even though sales have remained consistent over a period of time, this cannot be attributed to any of the above the line campaigns undertaken by the bank. One respondent argued that though the Steve radio, TV and billboard campaign was deemed very successful by FNB in attracting new customers, word of mouth is still the most powerful and effective communication medium for the mass segment.

Customer-specific messages delivered via SMS or MMS focused on changing customer behaviour are also said to be effective. Two respondents claim that there is a clear customer behavioural shift away from using traditional banking

channels; these include shifts to cash withdrawals from tills, paying by card for goods and services at retailers instead of using cash etc.

The below-the-line, educational messages are seeing a shift in retention as customers are becoming more aware of ways of banking more optimally. One respondent claims that a definite reduction on the number of customers atrriting at 3 and 6 months has been noted, as well as an increase in the percentage of FNB's transacting base due to the SMS and MMS educational messages.

4.5.3 *Proposition 4 conclusion*

The objective of this section is to present the answers to the question that will help determine if marketing to the poor has an impact on sales of banking products. Respondents seem to suggest that poor consumers prefer face to face communication more than the other available communication methods. This is attributed to the lack of literacy in this market segment. Also, it seems that respondents are unable to determine if above the line marketing initiatives like billboards, TV and radio do lead to sales, i.e. whether these initiatives are effective.

Branch and bank consultants are said to impact sales positively if incentivised to promote bank products and services. The same is said for below the line marketing initiatives such as SMS and MMS which are used to educate poor consumers about good transactional behaviour in order to reduce bank charges. These channels are said to have a positive impact on reduction the bank's attrition levels.

Though FNB indicated that the importance and complexity of the message determines which channel will be used to communicate. It can be concluded from the above discussion that there is evidence that marketing does have an

impact on sales and attrition. However, respondents suggest that it is difficult to measure the success of above the line campaigns that FNB has engaged in.

5 DISCUSSION OF THE RESULTS

In this chapter the results presented in Chapter 4 will be discussed with respect to the literature review conducted in Chapter 2.

5.1 Introduction

In this chapter all proposition will be discussed and the discussion will be themed to sub-sections. The discussion of each proposition will be concluded separately. Once all the propositions have been discussed, this chapter will then be concluded with a summary of the discussion about the propositions.

5.2 Demographic profile of respondents

The demographics of the respondents are not relevant for the results or findings of this study.

5.3 Discussion pertaining to Proposition 1

Proposition 1 – Determine if price has an influence on the acquisition of new customers as well as retention of existing customers. Discussion of the following questions will show similarities, differences between findings of this research and previous findings:

- Does FNB's pricing strategy help attract new customers?
- Does product pricing have an impact on retaining existing customers?

Ver Loren van Themaat et al. (2013) argued that it is important to not only create products that satisfy the needs of poor consumers, but to also price the products at a level that poor consumers will be able to pay for the product. It can also be argued that in order for poor consumers to stay loyal to a bank, their pricing needs still need to be considered when pricing goods and services. This idea is shared by Kim and Mauborgne (1999) who argue that companies should not only use price to attract customers, but to retain them as well.

5.3.1 *Affordability*

Poor consumers are not always able to afford the product or the service. FNB seems to be aware for the impact of price on attracting sales. They have implemented two different pricing strategies for poor consumers, one price for price sensitive consumers and another for consumers looking for value. For price sensitive consumers, the Easy account product is offered with a monthly fee of R4.95 whilst those consumers looking for value will pay a R49 monthly fee and gets R5 back of spend in airtime. This allows for FNB to attract lower-end customers that are looking at either product price or value as a deal breaker.

Price can be in the form of annual or monthly service fees or transactional fees for transactional products (Beck et al., 2008; Diniz et al., 2012). It is therefore important to ensure that not only the monthly fee is considered when discussing pricing. As seen in Section 4.3 above, in the case of FNB there are lots of initiatives to drive the correct transactional behaviour from customers to ensure that customers can minimize their bank charges.

Affordability also has an impact on attrition, as customers who are paying more than they are able to afford are more likely to attrite. It is therefore important for the bank to ensure that once poor consumers are signed up for banking, they continue to educate them for them to behave in a manner that will not lead to excessive fees that can lead them to attrite. A good example mentioned by FNB is that penalty fees that FNB charges to customers must be minimal to avoid customers abandoning their accounts. On the same note, one has to be careful about how to charge monthly fees on customers who might have a zero balance on their account as this can also lead to customers abandoning their accounts to avoid paying for fees.

5.3.2 *Infrastructure impact on price*

Infrastructure costs that banks have to incur in order to service areas that currently do not have banking services do influence the price charged for a product or service delivered to the unbanked (Claessens, 2006; Diniz et al., 2012; Ver Loren van Themaat et al., 2013). As such, it is important for banks to minimise investment in infrastructure if they are to bank poor consumers effectively. In section 4.3 above, FNB has demonstrated that they have many initiatives aimed at reducing the cost of banking and service for the poor consumers. This allows FNB to be able to charge low bank fees as well as provide certain transactions like balance enquiries, all cellphone banking activities, and cash withdrawals at retail till points free of charge. The investment FNB has made in technology, as well as alternative distribution channels, to service poor consumers helps prevent elevated infrastructure costs that would have lead to higher pricing for products aimed at poor consumers.

5.3.3 *Consumer behaviour*

Sections 4.4 and 4.5 above describe initiatives and marketing campaigns that FNB is involved in to change customer behaviour. One important thing to note is that though the monthly account fees could be low, customers could still end up attracting high transaction fees if their transactional behaviour is not aligned with the bank's strategy. For example, a cash withdrawal at the ATM or branch will attract a fee whilst a withdrawal at a retailer till is free. It is for this reason that FNB is constantly trying to educate the customer to change his behaviour; an initiative which FNB claims has been successful using SMS and MMS communications.

Though price is said to have an impact on customer acquisition and retention, FNB highlighted that given the different product pricing structures that the different banks have, it is difficult for poor consumers to actually compare prices of different banks. Therefore, pricing decisions must be communicated in an easy to understand message that makes sense to the customer. Else

customers are more likely to attrite and join a bank that most people claim is cheaper.

5.3.4 *Proposition 1 conclusion*

Infrastructure costs that banks have to incur in order to service areas that currently do not have banking services do influence the price charged for a product or service delivered to the unbanked (Claessens, 2006; Diniz et al., 2012; Ver Loren van Themaat et al., 2013). It is therefore important that a bank implements initiatives that minimize investment in infrastructure so that it can still bank poor consumers profitably. Customer affordability is also a factor that must be considered when setting prices for products and services. This is because affordability can impact customer acquisition as well as retention of existing customers (Kim & Mauborgne, 1999; Ver Loren van Themaat et al., 2013). FNB seems to have recognised the importance of offering a low cost banking product in order to attract poor consumers. This is also evidenced by their drive to constantly educate customers to use more of self service channels that offer mostly free transactions as opposed to traditional channels such as FNB branches. To conclude, it is clear that price has an impact on customer acquisition as well as on retention of existing customers.

5.4 Discussion pertaining to Proposition 2

One of the biggest challenges of serving poor markets is to ensure availability of products and services despite challenges of often fragmented or non-existent infrastructure (Anderson & Billou, 2008). As many low-income consumers live in remote villages or urban communities that lack access to conventional retail markets, reaching these consumers requires creative thinking and finding alternative cheaper channels of getting services to the customers (Oodith & Parumasur, 2013; C. Prahalad & S. L. Hart, 2002; Ver Loren van Themaat et al., 2013).

5.4.1 *Technology*

It is difficult for banks to distribute their products and services at low cost to poor consumers (Oodith & Parumasur, 2013). However, technology can be used to reduce the physical distance by offering banking solutions through the internet and mobile phones (Claessens, 2006). This can significantly improve poor people's access to banking services, as services will be delivered cheaper with no geographic constraints (Diniz et al., 2012; C. Prahalad & S. L. Hart, 2002).

This is also an approach that FNB has taken to improve its distribution channels. There are three technology initiatives that FNB has engaged in to take banking services to poor consumers at a lower cost. Firstly, FNB is rolling out mini-ATM devices to hard to reach areas where poor consumers will be able to get a slip from the device and exchange it for cash at the cashier. This allows FNB to distribute its product and services at a lower cost in areas that are previously underserviced. Secondly, FNB is actively educating poor consumers how to use cellphone banking services as it is cheaper and more convenient to use for poor consumers. Thirdly, FNB is also rolling out ATM advance devices which allow customers to deposit cash at a lower cost at anytime of the day.

5.4.2 *Taking banking to the people*

As many low-income consumers live in remote villages or urban communities that lack access to conventional retail markets, reaching these consumers requires creative thinking and finding alternative cheaper channels of getting services to the customers (Oodith & Parumasur, 2013; C. Prahalad & S. L. Hart, 2002; Ver Loren van Themaat et al., 2013).

FNB seems to be actively trying to find these creative, alternative cheaper channels that can be used to reach the unbanked. FNB has three initiatives where they are actively trying to take banking to the people that fit the criteria of creative, alternative cheaper channels of getting services to customers.

Firstly, FNB has partnerships with major retail chain stores to allow the poor consumer to withdraw cash at tills. This channel is cheaper for FNB to use and has a large distribution network. As such, FNB offers this service for free to its consumers, making banking cheaper.

Secondly, FNB has a worksite sales team that visits employees at their worksite to sell and service poor consumers. This negates the need for poor consumers to search for banking services, thus reducing the cost that the customer will bear. This channel is cheaper for FNB to use as it does not require a physical infrastructure to be built.

Thirdly, FNB also have community sales teams sometimes referred to as “foot soldiers” that go to communities to sell and service customers. Similar to the worksite sales channel, this channel is cost effective for the bank to use as there is no need for physical infrastructure. At the same time it makes banking cheaper to consumers as it minimises their travelling costs.

5.4.3 *Bank operating hours*

For those who find the branch location convenient, they often struggle with the branch operating hours (Holmlund & Kock, 1996). C. Prahalad and S. L. Hart (2002) argue that banks need to tailor their business model in order to provide banking services at the time that is convenient to the poor consumers. In some instances, partnering with local business and entrepreneurs can create an opportunity for the banks to distribute its product and services at a low cost (Oodith & Parumasur, 2013). Though some people might have access to branches, it might not always be possible to access the bank branch during its operation hours. Banks therefore need to consider this when deciding on the bank’s operating hours to ensure that they can service the mass market.

There is no evidence provided in this research that FNB is considering or has considered extending their banking hours. However, extended opening hours has been noted to be one of the reasons behind Capitec's success (Ver Loren van Themaat et al., 2013). On the other hand, FNB's alternative solution of using retailers to withdraw cash allows customers access to their money for longer hours without the bank incurring any major costs. Also, customers can use self-service devices like ATMs, mini ATMs, ATM Advance and cellphone banking which are available 24/7.

5.4.4 *Conclusion of Proposition 2*

Unfortunately, most factors that influence the bank's ability to deploy infrastructure to serve the poor requires the bank to spend large amounts of money (Holmlund & Kock, 1996; Oodith & Parumasur, 2013; C. Prahalad & S. L. Hart, 2002; Ver Loren van Themaat et al., 2013). This will then make it very expensive for poor consumers to be serviced. This is why FNB has gone searching for alternative, cheaper channels that can serve the unbanked in a cost effective way, without having to build new infrastructure. FNB focused on technology solutions as well as those alternatives that allow FNB to take the bank to the people. This makes it possible for FNB to sell and service the poor at a lower cost. Therefore, it can be concluded that channel availability has an impact on cost of sales and service of a banking solutions for the unbanked.

5.5 Discussion pertaining to Proposition 3

Acceptability refers to the extent to which both customers and distributors are willing to consume, distribute, or sell a product or service (Anderson & Billou, 2008; Oodith & Parumasur, 2013). Understanding of the poor is critical for banks if they are to create and deliver products that meets the needs and expectations of the poor consumers (Oodith & Parumasur, 2013).

5.5.1 *Education*

Lack of education makes it difficult for the less educated to take up banking services because of the complexities accompanying banking products (Beck & Demirgüç-Kunt, 2008; Claessens, 2006). Institutions that are successful in banking the unbanked are those that have managed to create simple products that are easy to use (Oodith & Parumasur, 2013). FNB's approach is in line with the literature survey with their introduction of the Easy account and eWallet products. Both products are simple and easy to understand, with a pricing structure that is also easy to understand. In addition to this, FNB uses their worksite and community sales team to further educate poor consumers on how to use FNB products to enable low cost banking. SMS and MMS campaigns are also used by FNB to get customers to change their transactional behaviour to avoid attracting unnecessary bank charges costs.

5.5.2 *Paperless processes*

Ver Loren van Themaat et al. (2013) argue that a process that enables poor consumers to interact with bank personnel face to face with minimal usage of paper if favourable and easily acceptable and adoptable for poor consumers to use. There is no evidence that suggested or presented that FNB is doing anything to try and minimise the use of paper during the account opening process. Given that those who are not literate will feel intimidated by processes that requires one to be able to read and write (Ver Loren van Themaat et al., 2013). FNB might still be failing to attract those who are unable to read and write as a result of their paper intensive account opening process.

5.5.3 *Regulation*

Regulation can prevent the creation of products and services that would be more suitable to low income consumers (Claessens, 2006). Regulations such as Know Your Customer (KYC), which requires that an identity document and proof of physical address be produced by the customer during the account opening process has been as a barrier to attracting the unbanked to be banked

(Beck et al., 2008). This is another area where FNB seems to be in the forefront of innovation. Both the Easy account and the eWallet money transfer products do not require a consumer to have proof of physical address to open an account, only the ID number is required. This then allows the previously unbanked to be banked.

5.5.4 *Basic services*

Bank's need to charge for services that are seen as basic by the poor market could also serve as a detractor for attracting poor consumers, Ver Loren van Themaat et al. (2013) argue that simple things like charging for balance enquiry transactions can be a deal breaker when making a decision on who to bank with given the cost sensitivity of this market. This is another area where FNB has demonstrated that they understand the needs of the unbanked. All transactions done via cellphone banking are free for poor consumers. Also, non-financial transactions such as balance enquiries are free at the ATM. Cash withdrawal at retail stores such as Shoprite, Checkers, Spar, Pep, Pick n Pay, etc. are free for all consumers. These do enable poor consumers to get low cost banking.

5.5.5 *Conclusion for Proposition 3*

FNB seems to take into consideration the needs of poor consumers as suggested by the literature when designing their product and services to ensure acceptability by the market. This is because:

- FNB's banking products for poor consumers seem to be simple and easy to understand and use,
- FNB continues to provides financial training to prospective and existing customers
- Addresses regulatory challenges related to providing proof of payments during account opening processes.

However, there is little evidence to suggest that they are doing enough to create processes that are less intimidating to the poor who are not literate. Ver Loren van Themaat et al. (2013) argues that Capitec has managed to attract a lot of customers because they changed their account opening process to be paperless. So one can only imagine that FNB is losing out on acquiring new customers due to its process. However, it can be concluded that FNB has in totality, tailor made its products to meet the needs of poor consumers.

5.6 Discussion pertaining to Proposition 4

Awareness refers to the extent to which customers are aware of products or services offered; something which often requires companies to explore alternative communication channels suitable to poor customers (Anderson & Billou, 2008).

5.6.1 *Marketing or communication preference*

Ver Loren van Themaat et al. (2013) argue that organisations that have significantly improved the awareness of their products and services to poor consumers mainly relied on below the line marketing strategies (Ver Loren van Themaat et al., 2013). This is in-line with the findings from FNB as the claim that they are constantly seeing significant consumer behavioural changes after every SMS and/or MMS campaign they undertake.

FNB also sees word of mouth as a powerful marketing vehicle in the poor market. This is in-line with the findings of Ver Loren van Themaat et al. (2013), and Oodith and Parumasur (2013) who claim that successful organisations tends to use community leaders and/or foot soldiers to promote their product and services, a strategy has proved successful for most organisation targeting this segment (Oodith & Parumasur, 2013; Ver Loren van Themaat et al., 2013). FNB has community sales teams that visit communities to sell and service poor consumers. Though they do not use community leaders to promote FNB products and services, the community sales team or foot soldiers have the

opportunity to engage face to face with customers which is important in this market segment. A unique approach that FNB has implemented in-line with the influence of community leaders is the role of employers in the employee's choice of bank. FNB visits employees at their worksite to sell and service customers; the employer is seen as someone who can influence the choice of banking by FNB, and thus the approach.

FNB's position on the marketing medium to use was that one needs to first understand the complexity of the message to be delivered and then chose the appropriate channels or medium to deliver the message. Each communication medium has its pros and cons; therefore, the right medium must be used to deliver the right messages.

5.6.2 *Literacy consideration*

One of the communication challenges to keep in mind when promoting products and services to the poor consumers is the low literacy levels among the poor (Oodith & Parumasur, 2013). This is important as communication mediums such as billboards, brochures and SMS might not be effective as the recipient's are not able to read and write. FNB tries to compensate for this by using MMS instead of SMS for MMS enabled phones. But there is little knowledge on how widespread this problem is.

5.6.3 *Language considerations*

Another consideration when designing communication to promote products and services to the poor consumers is language barriers (Oodith & Parumasur, 2013). Though English is a language of business in South Africa and is also the medium of instruction, it is important to note they are those that can only read, write or speak their mother tongue which could be any of the other 10 languages in South Africa. FNB creates most of its communications with the exception of SMS and MMS communication in all South African languages. This is to cater for different consumers who speak different languages. This makes it easier for FNB to get their messages across to the consumer.

5.6.4 *Conclusion of Proposition 4*

Communication challenges to keep in mind when promoting products and services to the poor consumers are low literacy levels, language barriers, cultural barriers and inaccessibility of traditional advertising media (Oodith & Parumasur, 2013). FNB does seem to consider the complexities associated with communicating to poor consumers. They tend to use more of the below the line marketing channels like word of mouth, SMS and MMS. These are mainly used to change customer transactional behaviour and this is said to be successful at this stage. Other forms of media like TV, radio and billboards are also used for promoting FNB services and products. The complexity and importance of the message determines the channel to be used. In conclusion, there is evidence presented that below the line marketing activities do lead to more sales and less attrition. However, there is no evidence presented that above the line marketing activities also leads to more sales and less attrition.

5.7 Conclusion

In conclusion, poor consumers are said to face several barriers that prevent them from accessing banking services (C. Prahalad & S. L. Hart, 2002). It is therefore important that products and services aimed at this market be tailor made to their needs if they are to be accepted (C. Prahalad & S. L. Hart, 2002). The findings of this research lead us to conclude that FNB solutions for poor consumers do address most of the challenges that are generally experienced by poor consumers when trying to participate in banking. Therefore, FNB products are said to be tailor-made to the needs of the unbanked. It is however important to note that there are also areas of improvement that have been highlighted that FNB needs to consider like the extension of FNB branches operating hours and reengineering of account opening process to minimise paper usage, this will make the process less intimidating to poor consumers.

Below the line marketing was also identified as a communications method that yields results in this market segment. FNB has successfully used SMS and MMS campaigns to educate poor consumers and change their transactional behaviour, which leads to poor consumers being able to bank for less. Even though it is a successful easy and cheaper medium to communicate with poor consumers, one challenge highlighted associated with the use of SMS and MMS in this market segment is that poor consumers do constantly change their SIM cards. It can thus become difficult to deliver content to them. Word of mouth communication is seen as the preferred and most successful communication method in this market segment. FNB uses its branches, worksite and community sales teams to spread the work on FNB services and products. However, it was noted that FNB can still do a lot to increase the effectiveness of this methodology.

Below is the recap of the conclusion of all four propositions:

5.7.1 *Proposition 1*

Price has an influence on the acquisition of new customers as well as retention of existing customers

Conclusion – price has an influence on the acquisition of new customers as well as retention of existing customers

5.7.2 *Proposition 2*

Channel location has an influence on cost of sales and service of a banking solution for the unbanked

Conclusion – channel availability has an influence on cost of sales and service of a banking solution for the unbanked

5.7.3 *Proposition 3*

FNB products aimed at banking the poor are tailored to their needs

Conclusion – FNB products are tailor made for the needs of poor consumers

5.7.4 *Proposition 4*

Marketing to the poor has in impact on attraction of new customers and attrition of existing customers.

Conclusion – Marketing has an impact on the attraction of new customers and attrition of existing customers.

6 CONCLUSIONS & RECOMMENDATIONS

6.1 Introduction

This chapter outlines the conclusions of this study; the recommendations based on findings in Chapter 4; the discussion in Chapter 5; and also makes suggestions for further research.

6.2 Conclusions of the study

The objective of this study is to determine factors that influence the performance of banking solutions for the unbanked. The 4As were used to assess the performance of FNB solutions for the unbanked as was done by by authors like Ver Loren van Themaat et al. (2013) in their studies. This is because Anderson and Billou (2008) argues that for a banking solution to be successful in banking the unbanked, it has to satisfy the 4As, i.e. availability, affordabilty, acceptability and awareness.

To determine what factors impact perfomance of banking solutions for the unbanked, the following four propositions that had to be determined were formulated in line with the 4As:

1. Proposition 1 – Price has an influence on the acquisition of new customers as well as retention of existing customers

2. Proposition 2 – Channel location has an influence on cost of sales and service of a banking solution for the unbanked
3. Proposition 3 – FNB products aimed at banking the poor are tailored to their needs
4. Proposition 4 – Marketing to the poor has in impact on attraction of new customers and attrition of existing customers

The following are summarizes the findings about the four propositions highlighted above.

6.2.1 *Proposition 1*

This proposition seeks to determine whether price has an influence on the acquisition of new customers as well as the retention of existing customers. The findings of this study are consistent with the literature as it was determined that price does indeed impact the attraction of new customers, i.e. increase sales, as well as the retention of existing customers, i.e. lower attrition. Factors that influence the price that the organisation can or would like to charge include investment or infrastructure costs, consumers' preference on channel selection (consumer behaviour) and the customers' affordability.

An interesting finding that wasn't established during the literature review is that although price is a factor that impacts sales and attrition, poor consumers do not necessarily sit down and compare prices of different banks to make an informed decision about the best price. Often, the monthly fee is used to determine the affordability of a product without looking at additional bank charges that the customer will attract when using the account. As such, it is important that the bank communicates its prices well to ensure that the message is well understood and received by poor consumers.

6.2.2 *Proposition 2*

This proposition seeks to determine if channel availability has an influence on cost of sales and service of a banking solution for the unbanked. The findings of this study were also consistent with the literature review, as it was determined that indeed channel availability has an influence on the cost of sale and service of banking solutions for the unbanked.

FNB has invested in technology in order to deliver banking services to poor consumers. Initiatives such as cellphone banking and the rollout of ATM advance devices are some of the technology examples that are helping bring the cost of service of poor consumers down, as these channels replace traditional expensive banking channels like branches. Also, FNB has invested in the implementation of alternative channels for sales and service for distribution of FNB products and servicing of poor consumers. Initiatives such as cash withdrawals at retail tills, worksite sales teams visit to employers premises, and community sales team deployment in the different communities help reduce both cost of sale and service, as no additional infrastructure is required to be built in order for poor consumers to be served. These initiatives ensure that the cost of banking is kept low and affordable for poor consumers.

One factor that wasn't highlighted in the literature review, but is in line with the concept of introducing innovative alternative channels that are cost effective, is the impact of customer behaviour on the cost of banking. FNB has actively been trying to educate customers to use more of these alternative channels as opposed to traditional banking channels like bank branches to ensure that minimal bank charges are incurred. Thus, customer behaviour is just as important to ensure that poor consumers are banked successfully. The wrong behaviour could lead to excessive bank charges forcing the poor consumer to attrite.

6.2.3 *Proposition 3*

This proposition seeks to determine if FNB products aimed at the poor are tailored to their needs. The literature review highlighted that for products and services to be acceptable to poor consumers, it has to meet their needs and expectations (C. Prahalad & S. L. Hart, 2002; Ver Loren van Themaat et al., 2013). Therefore, the findings of this research are in line with the literature as it was determined that FNB's products aimed at banking poor consumers did cater for the needs, expectations and behaviour of this mass market.

In their product design, FNB took into consideration the fact that some poor consumers do not have proof of address which prevents them to open bank accounts. This resulted in FNB creating a product that is KYC exempt, thereby allowing poor consumers to be able to open bank accounts with only an identity document. FNB also ensured that basic services like balance enquiries are offered for free. Also, most transactions done at electronic channels or retail cash tills were also made free. Education remains a key focus in order to ensure that poor consumers understand their product, pricing and how their behaviour impacts on the bank charges levied on them.

One factor that FNB did not show evidence of was the reengineering of the account opening process to remove paper from the process, as this has the ability to intimidate potential customers who are not able to read or write.

6.2.4 *Proposition 4*

This proposition seeks to determine if marketing to the poor has an impact on the attraction of new customers and attrition of existing customers. This proposition leads to two findings, one for below the line marketing and the other for above the line marketing. FNB presented evidence that below the line marketing campaigns using SMS, MMS and word of mouth were effective and yielded positive results in sales and lowering attrition by educating customers on how they should change their behaviour to minimise bank charges. On the other hand, there was no evidence supporting that above the line marketing campaigns have the same effect given the difficulty in measuring these campaigns. Therefore, the conclusion is that below the line marketing does have an impact on sales and attrition, and there is no sufficient information to determine if above the line marketing such as radio, a TV or billboards advert has the same effect.

One observation that has not been covered in the literature survey is that the complexity of the message has to be considered in determining which medium to use. Cost and the effectiveness of the medium cannot be seen in isolation to the message that needs to be delivered.

6.2.5 *Conclusion*

The conclusions reached in section 6.2.1 to 6.2.4 allow for a conclusion to be reached that the following factors have an impact performance of a banking solution for the unbanked:

1. Affordability
    a. Price
    b. Customers income
    c. Investment in infrastructure
2. Availability
    a. Technology
    b. Paperless process
    c. Bank operating hours
3. Acceptability
    a. Alternative banking models that take the bank to the people
    b. Education
    c. Regulation
    d. Pricing of basic services
4. Awareness
    a. Marketing or communication medium
    b. Customer literacy levels
    c. Language

6.3 Recommendations

Through the findings of this research and the literature review, it was established that price is a significant factor in attracting new customers and retaining existing customers. So it is important for banks to set the product price

at the right level that is affordable to poor consumers. However, it is important to also note that price on its own will not deliver new customers or retain existing ones, especially given the claim that poor consumers actually only compare the monthly fee but not another transaction charges that could also be impacted by the customer's transactional behaviour and channel preference. It is therefore recommended that banks definition of affordability of their products should not be limited to the monthly fees, but be modelled around the customer behaviour. This will give the bank the opportunity to start communicating message like "our customers do not pay more than R20 a month", a message which could be more powerful that saying our monthly bank fees is R4.95.

It is also recommended that banks find means to continue educating poor consumers in face to face environments. This allows for the poor to ask questions and for agents of the bank to demonstrate 'the what' to the consumers. The use of traditional face to face banking channels is attributed to the lack of education about financial products or electronic channel usage. Education will go a long way in making poor consumers comfortable in using alternative banking channels.

Given all the literacy challenges discussed in this report, it is also recommended that communication with poor consumers be executed using the recipient's first language. This will help reduce some of the misunderstandings and lack of understanding from the consumer's side. If poor consumers are struggling to read and write, they are more likely to struggle more when they have to read and write in English.

6.4 Suggestions for further research

This study is a single case study of FNB. It would be beneficial for a study to be done in all banking institutions that have products for the unbanked, which will enable the further gaps and factors to be highlighted. Such a study will also

highlight instances where environmental factors within the organization influence the findings.

This research also failed to incorporate the views of the end consumers, as only the bank's view was presented. For completeness, it will be worthwhile to investigate what factors that consumers view as important to attract them to a bank or make them stay with a bank. Overlaying those results on top of the findings of this research will make for a good analysis and provide good insights for the bank. The bank will be able to find out if their understanding of important factors to consider when designing products and services for poor consumers is accurate.

This research found that price was also a factor that impacted sales and attrition. However, there was also an observation that was made by FNB that poor consumers actually do not compare prices of products across banks to determine which one is cheaper. Their decision for determining cheaper vs expensive products is said to be based on what is charged as a monthly fee. It will be insightful to firstly test if this observation by FNB is correct, secondly it will be useful to also determine which of the banking products in South African are actually cheaper relative to the monthly fee.

Consumer behaviour seems to be a significant factor that has an impact on the charges that the consumer actually pays which can make banking expensive and not affordable. However, it will be insightful to understand how much of the consumer behaviour contributes to the total bank charges borne by consumers. Also, which behaviours can actually be changed and which ones cannot be changed, thus understanding which charges can be avoided.

The use of paper in branches was identified as one of the factors that can intimidate poor consumers who are not able to read and write from wanting to open bank accounts. Branches in the current day are becoming more refined and adopting more technology. This may also intimidate poor consumers who might feel that the branch is only for middle and upper class individuals.

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APPENDIX A

Below is the questionnaire that was used in this research to extract answers from FNB managers.

Name:

Title:

Please motivate the answers to all of the **questions though specific examples**

Question 1: Does FNB's pricing strategy help attract new customers?

Question 2: Does product pricing have an impact on retaining existing customers?

Question 3: What distribution channels does FNB use to serve BOP customers?

Question 4: What has FNB done in the last year to improve access to the BOP consumers?

Question 5: What initiatives is FNB pursuing that will reduce the cost of banking for the BOP, thus, enable low cost banking?

Question 6: What is FNB doing to eliminate lack of education and/or financial literacy as barrier to banking access and use?

Question 7: Which FNB products features are designed to specifically meet the needs of the unbanked?

Question 8: What is FNB's preferred communication medium when creating awareness of services and products to BOP consumers and why this approach?

Question 9: Any evidence that the preferred communication medium is effective, what is the impact of marketing on attraction of new or retention of existing customers?