Inclusive Banking
Banking the Unbanked

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Leon Barnard
30 Aug 2012
Questions to be answered...

- Is there a market at the bottom of the pyramid?
- What is our value proposition?
- Can elephants dance?
- What will create sustainability in this market?
- What was our approach – what did we achieve?
- What are the challenges we face?
- What is our long term plan?

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Is there a market at the bottom of the pyramid?

- 2.3 billion people lacking access to banking and other financial services, the need to expand financial inclusion is at the forefront of policy-making worldwide
- Access to financial services provides poor people with the opportunity to invest in income-generating activities, to build assets, and to protect themselves from shock and exploitation
- Banking products connects markets
- 22 million South Africans earn less than R3 000 a month – 66% of these are unbanked!
- The median age of South Africans is 25
- There is R12bn “under mattresses” – high risk savings model
- Over 90% of all transactions at the bottom of the pyramid still in cash
- The average informal market customer lives 50km from a bank branch
- 83% of South Africans are active Cellphone users – 62.3m subscribers (multiple SIMs) with an average ARPU of R157 per month
- Informal lending plays a vital role

Standard Bank believes there is a market to be served at the bottom of the pyramid
What is our vision?

The Inclusive Banking Vision

Providing access to banking to all customers on a sustainable basis, with banking defined as the:

- **Store of value** (Transactional, Wallet and Savings)
- **Transfer of value** (Transactions and Payments)
- **Protection of value** (Insurance and Assurance)
- **Access to value** (Lending)

through:

- Simplicity
- Transparency
- Convenient access and service
- Dignified customer experience, and
- Affordable to customers and at a low cost to the bank

What is our value proposition?

The Inclusive Banking value proposition is to provide convenient banking access in an affordable and dignified manner, to the communities being served to ensure financial inclusion

- Integrated product offering
- Based on customer needs
- Simple and transparent pricing
- Affordable pricing options

This value proposition is enabled by a pervasive low cost distribution strategy with Mobile as enabler
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Can elephants dance?

- Large banks have big legacy costs and expensive distribution models
- Lean, alternative, cost effective channels are key
- Providing convenient access close to customers is vital
- Introduced alternative low cost channel ecosystem:
  - Loan Centres
  - AccessPoints
  - Mobile sales and service agents
  - Cellphone banking
- Critical to shift customer behaviour to use of low cost channels and self service channels

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What will create sustainability in this market?

- Super profits will destroy credibility
- Acquiring the right customer
- Providing access to affordable credit
- Enabling rural businesses to develop and growing local economies
- Keeping costs down – acquisition and servicing
- De-cashing the society
- Continuous consumer education
- Mutually beneficial partnerships with players wanting to be successful in this market
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What have we achieved so far?

- Developed and launched a new integrated product offering
- Introduced a simple, transparent and affordable pricing structure
- Able to acquire at scale and at a low cost
- Evolving a low cost servicing capability
- Largest Affordable Housing lender
- Strong growth in unsecured lending
- Rolled out 7 000 AccessPoints
- Introduction of cash services
- Rolled out over 150 low cost points of presence
- Strong take up on Cellphone Banking

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Standard Bank's lending approach

- Offering includes both secured and unsecured lending
- Offer personalised credit based on customer affordability through prudent risk management practices
- Focus is on bringing own customers back who borrow at competitors using our broader product offerings
- Through low cost distribution points, i.e. Loan Centres
- Challenge for us is to find historical informal markets
- Currently exploring alternative lending products for this market
Standard Bank’s view on a possible lending bubble

- **Lending bubble: “To be…..or not to be?”**
- **Signs of a balance sheet shift from secured to unsecured lending**
- **We recognise that there are signs of a bubble forming in the market, i.e. High levels of debt consolidation with increased terms**
- **Our view is that it’s segment specific – lower end of the pyramid is less indebted than the middle**
- **Acknowledge the hardships if a bubble should form:**
  - Ongoing risk containment
  - Price your risk appropriately
  - Build sufficient provision

What are some of the challenges we face?

- **Weakened economic environment**
- **Increased competition (traditional and non-traditional)**
- **Regulatory complexity**
- **Shifting customer behaviour**
- **Accessing the informal lending markets**
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What is our long term view?

- Continuous innovation of offerings, process and distribution
- Strong focus on acquisition and usage
- Cost reduction
- Channel adoption
- Consumer education
- Leading financial activity back to this market
- Ensuring a sustainable business

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Concluding remarks

- We understand that this market has a lot of complexity
- There is revenue to be made at the bottom of the pyramid
- Integrated product offering as value proposition is vital
- Cost management key through alternative low cost points of distribution
- Mobile is the critical enabler of our business value proposition
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Enkosi
Ni khensile
Siyabonga
Ke a leboha
Ngiyathokoza
Ndolivhuwa
Dankie
Ngiyabonga
Ke a leboga
Ro livhuwa

Thank you

Questions?