Capitec case study essay

ASSIGN BUSTER

Wits Business School WBS-2006-21 Capitec Bank: Low-Cost Banking for Joe Average By December 2006, Capitec Bank, South Africa’s newest listed retail bank, had come a long way from its origins as a microlending organisation in 2001. Over time it had started introducing other banking services to its entry-level clients, so that by 2006 it offered all the basic banking services, namely lending, transacting and savings. Capitec’s chief executive for marketing and corporate affairs, Carl Fischer, considered the organisation’s strategic plan for 2007: to position itself as a proper bank in a much broader target market.

Despite the perception that Capitec was more of a microlending organisation than a bank, it had in fact been performing exceptionally well as a bank for well over four years, with limited marketing effort (see Exhibit 1). Fischer realised that the key to survival for a low-cost bank in South Africa lay in high volumes, but still wrestled with the question as to how Capitec could overcome the current perception that it was a niche bank in order to attract the volumes it needed to compete successfully. Background to Entry-Level Banking in South Africa1

The South African government had endeavoured to facilitate and regulate the financial sector since 1992. Prior to the promulgation in 1992 of an Act exempting small loans from interest rate restrictions imposed according to the Usury Act of 1968, the vast majority of the South African population did not have legal access to formal credit. Banks did not offer microcredit, so borrowers had to resort to pawnbrokers, informal operators, mashonisas (township moneylenders) and other systems such as the stokvelsa, burial

societiesb and rotating savings and credit associations (ROSCAs). After 1992, however, a whole new industry arose.

Because it was legal for interest rates to exceed the cap placed on loans by the Usury Act, two separate types of operation began to expand: independent, cash-loan providers, who made one-month loans; and term lenders, who ensured repayment using payroll deductions. a A stokvel is an informal savings club in South Africa. Members of a stokvel pay a mutually agreed sum into the club every month. The cumulative savings of the group are then rotated to each member of the group on a regular basis. After everyone has had their turn in receiving the contributions, the group may disband or start another cycle. Burial societies, a hybrid of the stokvel, are informal self-insurance schemes, which absorb the costs of social activities and cultural requirements of funerals. Stokvel members contribute a fixed amount of money to a common pool weekly, fortnightly or monthly. Money is then drawn when the particular need arises. This case was prepared by Research Associate, Stephanie Townsend, with lecturer Thabo Mosala. The case is not intended to demonstrate effective or ineffective handling of an administrative situation; it is intended for classroom discussion only.

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1999 the government realised that the 1992 exemption had created an environment conducive to high interest rates and abusive practices.

The Micro Finance Regulatory Council (MFRC) was therefore established under the 1999 Usury Act Exemption Notice to protect consumers by regulating those institutions lending under the unrestricted interest rate window. The Exemption Notice made it compulsory for microlenders (all those who extended credit up to a new maximum of R10, 000. 00, at rates above the statutory cap) to register with the MFRC. In 2002 it became compulsory for all suppliers of microfinance to register with the National Loans Register (NLR), thus creating a database that recorded all loans disbursed by lenders registered with the MFRC. According to researchers Patrick Meagher and Betty Wilkinson, from the IRIS centre at the University of Marylandc, the Exemption Notice had a great impact on the microlending industry and since then, several trends had emerged, including: • an increasing formalisation of the industry (registration of previously independent operations); • the introduction of new players (such as furniture and retail merchants); • an increased interest from the commercial banking sector; • increased formal investment in microlending (funds raised on the stock market or through private placement); and • increasing levels of client indebtedness. They went on to point out that, small borrowers required finance for a wide variety of reasons. These included compensating for seasonal fluctuation in cash flow; funding a small business; consolidating or paying off other loans; housing improvements; funding emergency expenses; paying for education; purchasing consumer products; and funding bad habits, such as alcohol abuse. 4 Cash microlenders had to take into

consideration that there was a cyclical nature to their lending, ensuring that they had large amounts of cash on hand for part of each month.

There were several different segments in the industry: • formal registered firms – the so-called microfinance providers – which included commercial banks, financial institutions, section 21 (not for profit) enterprise lenders, developmental lenders, and larger short-term moneylenders; • semi-formal moneylenders, such as small, unregistered moneylenders whose main livelihood was microlending and pawnbrokers, who were not yet formally included in the moneylending statistics; and • purely informal moneylenders such as the mashonisas, stokvels, burial societies and ROSCAs. In 2000, the year before Capitec was founded, the demand for banking services from lowerincome individuals was growing rapidly, as a combination of increasing income levels in this segment of the population, urbanisation, rising consumer aspirations and the rapid growth of the informal business sector started to make an impact. Yet at this stage, the poor made little use of formal banking services and the formal banking sector seemed to be inappropriately structured to satisfy this rapid growth in demand.

In reaction there was considerable growth in the microfinance sector, with the biggest source of growth coming from the microlending sector. 6 IRIS is a research and advisory centre located in the Department of Economics at the University of Maryland which works to understand and facilitate economic growth and democratic development in poor and transition countries. c 2

Capitec: Low-Cost Banking for Joe Average Founding of Capitec The origins of Capitec dated to 2000, when the chairman of the PSG Financial Group, Jannie

Mouton, persuaded Michiel le Roux, the former head of NBS Boland Bank to join PSG to help establish Keynes Rational, a PSG microlending division. In the process of canvassing his former colleagues, Le Roux met with Riaan Stassen (chief executive officer of Capitec in 2006), two other colleagues and Fischer, all of Boland PKS.

They convinced Mouton and Le Roux that microlending alone was not sustainable in the long run, because of the unacceptably high interest rates and the challenges of recouping the loans. 7 (At the time, noted Fischer, the market was characterised by some shady characters who used unconventional methods to ensure that they would receive the repayments.) Thus, the idea of a bank with microlending capabilities, that served the lower end of the market, was born.

The fundamental principles around which the bank was structured were that it would recoup loans through a proper bank account, ensure that it understood its clients' financial activities, and that it had insight into the creditworthiness of its clients. 8 The profitable microlending side of the business was to act as an income generator to finance the migration process to a formal bank. In the end the entire management team of Boland PKS joined Keynes Rational, soon to become Capitec Bank.

Fischer noted that the process of establishing a bank was neither simple nor inexpensive. 9 It could literally take years to obtain approval for a banking licence from the South African Reserve Bank, build the technological infrastructure of the bank, and set up the inter-bank relationships with, for example, credit clearing bureaus and the Payment Association (which was

part of Saswitchd). Capitec was the first new bank to enter the South African banking arena in 20 years.

In March 2001 PSG obtained a retail banking licence and one year later Capitec listed on the Johannesburg Securities Exchange (JSE). During its first year Capitec traded as two separate entities, namely the bank (Capitec), and the microlending business (called FinAid). Both had separate branches, with separate branding. This situation was short-lived, however, as the management team soon realised that it made far more sense strategically to be one entity and one brand. 0 In the process of merging the two entities, the microlending side of the business had to be dramatically upgraded, Fischer said, as the branches were located in somewhat sleazy locations and run by less desirable personnel. 11 Thus, 75% of the branches were closed down or relocated to better surroundings and transformed to a more formalised structure. They were redesigned, with an open, modern feel for easy access. During this period Capitec focused predominantly on microlending which accounted for the perception in 2006 that it was still only providing microloans.

By 2006, Capitec had grown significantly and the business, which was originally capitalised with R350 million, was worth R2. 2 billion. The half-year results released in September 2006, showed that the bank had grown by almost 50% in the past year and had increased its profitability by 71%, with a 23% return on equity. 12 It had close to one million clients, of whom 468 000 had savings accounts. Furthermore, savings customers were growing at a rate of 25 000 new clients per month. 13 (See Exhibit 1.) By the end of 2006, Capitec had a staff count of over 2 000.

Saswitch stands for South African Switch. Saswitch is the brand name for the electronic switch operated by Bankserv, an inter-bank system operator owned and controlled by member banks to facilitate exchange transactions among the various banks. d 3 Capitec: Low-Cost Banking for Joe Average Business Model From the inception of the bank, the Capitec management team decided to focus on providing lowcost basic banking services to the lower- to middle-income market, and not to create a bank that offered everything to everybody.

As Capitec’s business strategy unfolded, it reversed what the bank believed to be the flaws in traditional banking, and offered its target market something completely different. As a result, the bank turned several conventional banking practices on their heads. Heather Formby, a journalist at the Financial Mail, referred to this as “ a quiet banking revolution in some ways”. 14 The conviction to do this, Fischer said, flowed from deep insight into the needs of the bank’s target market, and a willingness to improve consumer financial literacy. 5 Target Market In 2001 the bank set out to service the typical microborrower, who originated from the lowerincome end of the market. While there were different levels of financial sophistication in this group, the typical clients were relatively unsophisticated. Only a few, for example, would know what an interest rate was. Fischer explained that the traditional microlending business was built on people having shortterm cash-flow crises, brought about by the behaviour of certain of the worst-case scenario clients. They would, on receipt of their salaries, withdraw every cent they had.

This meant that they operated strictly with cash-in-hand – at a high security risk. By the middle of the month cash-flow problems usually presented themselves to such individuals, forcing them to turn to short-term loans. 16 However, Capitec's market stretched much further than the typical salaried microborrower. The bank actually concentrated on the LSM 3-7e market (or those people with an income of between R1 179 and R6 659 a month). This gave it a total target market of 19 million people (see Exhibit 2). By 2006, the bank had the LSM 8 market within its sights as well. 7 Moreover, the management team had noticed a tremendous change in the average South African consumer over the past 10 years. As a result of better housing and electricity, the demand for white goods, such as fridges and washing machines, had accelerated beyond expectations, opening up yet another market for Capitec. However, Fischer observed that although Capitec's loan repayments' offer was better, white goods' retailers were in a better position to offer immediate finance, such as hire purchase contracts, thereby satisfying their clients' need for instant gratification (see section on Competitors below).

Thus, he said, it remained an ongoing challenge to try and change the consumer mindset from desiring instant gratification to thinking " coldly and ruthlessly" about finance, and about where to find the best loan option. 18 Having pinpointed the trends that characterised the target market, Capitec set out to offer practical solutions to the everyday challenges of its clients (see Exhibit 3). The company identified key needs such as price, real-time delivery, simplicity through paperless card driven processing and personal contact, and from this a business model emerged.

The model rested on the four pillars of affordability, accessibility, simplicity and personal service, and Fischer maintained that “ everything the bank did was measured against those four pillars”. 19 By applying this strategy, Capitec believed that it had managed to change consumer perceptions that banks e The South African Advertising Foundation (SAARF) Living Standards Measure (LSM) had become the most widely used marketing research tool in Southern Africa. It divides the population into ten LSM groups, 10 (highest) to 1 (lowest).

The SAARF LSM segments the South African market according to its living standards, using criteria such as degree of urbanisation and ownership of cars and major appliances. 4 Capitec: Low-Cost Banking for Joe Average were expensive and slow, that they offered complicated products and services requiring loads of paperwork, and were not the right place to grow one’s money. Affordability Fischer maintained that the main objective of Capitec was to “ slash by half the banking fees of its competitors”. 0 From day one the bank had managed to do this by using technology to help keep costs down and enable the bank to operate without back offices in all the branches. By cutting out paperwork and the administrative activity associated with it, the bank saved significantly on expenses. The branches themselves operated on a cashless basis to save on security devices such as bullet-proof glass and were kept simple, and there was only one ATM at each branch to facilitate withdrawals.

By using the existing debit card infrastructure at retailers, the bank not only saved costs, but also encouraged a change in client behaviour by limiting the handling of cash. As cash transactions were very expensive, both the client

and the retailer benefited from this approach. Capitec's alliance with Shoprite Checkers and Pick ' n Pay also allowed cash withdrawals from these retailers' terminals. The fee structure was simple and affordable. Bank transactions such as ATM withdrawals and debit orders cost R2, cash withdrawals at point-of-sale terminals cost R0. 5 and, to encourage the use of debit cards, purchase transactions were free of any fees. Capitec realised that the first thing its clients did at an ATM was to enquire about their balances, and therefore ensured that the client's balance appeared on the screen automatically at no cost when they inserted their cards. 21 By encouraging debit card use, the bank minimised the security risk associated with carrying large amounts of cash. To change a client's borrowing mindset to one of saving, was yet another challenge.

However, in an attempt to encourage the client to save, Capitec offered 10% interest on deposits up to R10 000 while other banks paid minimal interest on savings accounts. Fischer believed that this strategy had worked, judging by the rate at which Capitec was acquiring new savings account customers Breaking with convention, the bank reduced the interest rate on deposits exceeding R10 000. Underlying this move was the desire to manage the bank's liquidity – to reduce risk by attracting large numbers of smaller accounts rather than being dependant on a few really big accounts, Fischer explained. 2 Accessibility Capitec's almost 290 branches were located in places where people commuted, worked and shopped – at train stations, taxi ranks or shopping malls, for example. The bank's minimum operating hours were from 08h00 to 17h00 and often from 07h00 to 19h00 on weekdays (to accommodate those clients on their way to or from work), and 08h00 to

13h00 on Saturdays. Simplicity Capitec ensured a simplified and focused product range, which allowed for an almost completely paperless environment.

For example, the bank took photographs of its clients, while bank employees used fingerprint identification to identify themselves and verify transactions on clients' accounts. The simple banking procedure entailed capturing the client's details, taking the photograph and running a credit check. Within 10 minutes the client would have a Global One Banking Facility which gave access to savings accounts, transaction and loan accounts, as well as a debit card called the Global One Gold Card. All that was required to complete the process, was one signature and even this was soon to be replaced by client fingerprint identification. 3 5 Capitec: Low-Cost Banking for Joe Average Personal Service It soon became clear to the management team that the less informed a client was about banking, the more he or she needed support from people within the bank, so it set out to provide exactly that. In an effort to connect well with the target market, and in the belief that it was much simpler and more effective to do so in the client's home language, Capitec recruited staff from the areas surrounding its branches and trained them in the required skills. 4 Capitec had also launched mobile banking in 2006 (see Exhibit 4), in terms of which a sales force would open accounts for customers at their workplace, at a time which suited the employer. Within minutes, using 3G-technology, a client would have access to an account and a debit card. Employers welcomed this move, as it meant that employees spent less time away from work. 25 Challenges Capitec's two major challenges came

from the demands imposed by the Financial Sector Charter and the National Credit Act.

Financial Sector Charter 26 In terms of the Financial Sector Charter, which was signed in 2003, the major players in the financial sector – banks, insurance companies, brokers and exchanges – agreed to a set of service provision and empowerment targets. These included improving banking services to low-income earners, increasing the number of black employees at all levels of the organisation as well as ensuring that blacks shared in the ownership of the bank. It also required that they support black entrepreneurs.

All financial services companies were expected to pursue these targets, to report periodically on their progress to a monitoring body and to be graded on their performance in the form of a public scorecard. The Charter aimed to ensure access to transaction and savings products for 80% of people in LSMs 1-5f by 2008. With 16. 4 million people (or 53. 5% of all adults) still lacking access to banking in 2006, another 8 million people would have to move from the unbanked category to the banked category over the next 18 months if this target were to be achieved.

The government found that the interest rate caps contained in the Usury and Credit Agreement Acts had not been effective in protecting consumers. It found that credit allocation had been distorted to the detriment of low-income clients and that misleading disclosure, anti-competitive practices and the very high costs of credit had undermined the potential benefit of access to credit. The problems in the microlending industry were also found, to a

large extent, to be a symptom of the failure of the banking sector to meet the needs of low-income earners. 7 In this context, the government passed the National Credit Act in June 2006. It was set to come into effect by early 2007 and would replace the Usury Act (1968), its Exemption Notices and the Credit Agreements Act (1980). The Act aimed to regulate the granting of consumer credit by all credit providers, including microlenders, banks and retailers. It would create formal bodies referred to as the National Credit Regulator and the National Consumer Tribunal, to ensure enforcement of the Act and promotion of access to redress, and to adjudicate contraventions of the Act.

It addressed, among other things, over-indebtedness and the reckless granting of credit and unlawful provisions in agreements; it promoted disclosure in terms of the form and effect of credit agreements and disapproved any debt settlements other than debt enforcementg. The f g National Credit Act The poorest 60% of the population. The recoupment of payments through legal means, for example debit orders. 6 Capitec: Low-Cost Banking for Joe Average potential impact of the Act would be to limit the granting of pre-approved credith; to change the debt counselling process, i and; to result in a prolonged collection process. 8 The Act, in its attempts to make the credit facility process as transparent and comparable (to other credit facility offers) as possible, thus presented some challenges to banks and other financial institutions. For example, it complicated the quoting process and affected Capitec’s use of technology, as the new requirements demanded a complete rewrite of the bank’s systems. In turn,

these changes prevented the organisation from advancing its own technology to stay ahead of the pack.

Fischer explained that only by continued technological advancement could they stay at least three steps ahead. 29 Other Challenges Adding to the controversy surrounding banking charges in general, a report commissioned by the Competition Commission in 2006 had questioned the make-up of bank charges levied on transactions. As a result, the government again turned its attention to banking: this time to the transparency and costs of certain banking transactions. The first public hearing at which financial institutions could respond to the report was scheduled for the end of 2006.

In addition, for Capitec, being one of the smallest players in the South African banking industry by far, presented a number of additional challenges, the most pressing of which was how to keep control of the bank. The management team was acutely aware of the danger of a hostile take-over attempt by a bank such as African Bank, for example (see Competitors below). 30 Future Plans Internet and cell phone banking were high on the agenda and the bank already had plans to launch these services in 2007.

Capitec intended to use technology to its fullest extent to support its aim of growing its savings accounts in the mass market to three million by the end of February 2009. 31 In addition, Capitec had introduced six- and 12-month loans in 2005, in addition to the one- and three-month loans it already offered. Now, in 2006, it planned to introduce 18- to 24month facilities in the near future. Granting small, unsecured loans was expensive and inevitably

resulted in high fees, yet, in Capitec's latest annual report, Mouton pledged to continue making microcredit more accessible.

He said that the bank wanted to reduce the cost of lending, at the same time offering more products to meet the exact needs of the market. 32 On the other hand, home loans would not form part of Capitec's product offerings. Fischer explained that as far as Capitec was concerned, this was best left to the specialists who had perfected securitised lending. Another approach was necessary for unsecured home loans which they were evaluating. 33 According to Stassen, about 64% of salaried people in South Africa still did not have banking accounts, therefore huge growth opportunities still existed. 4 The reckless granting of credit is prohibited under the Act. Reckless credit is when a credit provider gives you a loan or other credit without assessing whether you can repay the loan and even if you do not understand or appreciate the risks, costs or obligations under the credit agreement or if the granting of the credit leads to you becoming overindebted. [Source: www. persfin. co. za (accessed 28 February 2007).] i The process whereby a client is informed about the implications of the loan. h 7 Capitec: Low-Cost Banking for Joe Average Competitors

Capitec faced competition from a number of sectors, both traditional and emerging. African Bank Investment Limited (ABIL) The focus of the bank was to underwrite largely unsecured credit risk through the provision of personal loans to the " formally-employed, emerging market" j. Prior to 1998, ABIL (then called African Bank) had operated for 24 years as a small commercial bank. It was bought by the JSElisted Theta Group in 1998, and subsequently merged with three loan finance companies owned by the Theta Group. In

August 2002, it acquired the R2. 8 billion Saambouk personal loan book. By the end of 2006, ABIL had 1. million clients from various sectors of the South African economy. 35 The bank focused solely on term loans, requiring repayment over between 12 and 35 months, for example, in contrast to the typical microlending sector offering of loans to be repayed over one, three or six months. However, according to Fischer, the organisation was migrating to the lower end of the market, while Capitec was migrating up to the middle section of the market. 36 ABIL introduced credit cards as part of its offerings in late 2006. Capitec perceived African Bank as a major competitor because of its well-established reputation in the market.

Mzansi A government initiative, the Mzansi account was launched as a low-cost product in October 2004 by the four major retail banks – Absa Bank, First National Bank (FNB), Nedbank and Standard Bank – as well as Postbank. The aim was to attract the 16. 4 million unbanked South Africans into the economic mainstream. This initiative was a direct outcome of the Financial Sector Charter, in terms of which the banks undertook to provide access points for first-order, retail financial services within 20 kilometers of 80% of South Africans in LSMs 1 to 5. 7 By mid-2006 more than two million people were users of the product. Facilities on Mzansi accounts were limited to deposits, withdrawals, debit card transactions and balance enquiries. In early 2006 all the banks agreed to include debit orders on the account in the course of the year. Interest was paid on credit balances (which could not exceed R15 000) and there was no monthly service fee. 38 Mzansi users were allowed to make four withdrawals and deposits free of charge. Thereafter, normal banking charges applied.

In an article comparing Mzansi's fees with those of a normal Capitec banking account, journalist Richard StovinBradford found that Mzansi's were higher than those of Capitec. 39 According to Colin Donian, the initiatives director of the Mzansi account, the profile of the Mzansi account holder was mostly female and the average account balance was R300. Most account holders (62%) were between 25 and 54 years, and the largest uptake had come from black communities, where most of the unbanked population resided. 0 The Four Major Retail Banks Apart from the Mzansi account, all four major banks had other accounts serving the lower end of the market, such as Nedbank Transactor (designed to meet the needs of clients who did not Emerging markets in this context, refers to the upcoming black middle class market. On 9 February 2002, Saambou Bank, one of South Africa's larger banks at the time, collapsed and was placed under curatorship. k j 8 Capitec: Low-Cost Banking for Joe Average require a cheque book), Absa Flexisure and FNB Smart Account.

Standard Bank's E Plan offered basic banking products to people earning less than R5 000 per month. Standard Bank launched its E bank in 1994 as a separate subsidiary which offered an electronic banking and savings product. It was a high-volume, low-margin product that proved to be extremely popular with the lowincome market, particularly because it offered a R1 000 death benefit to the account holder's next-of-kin. By 1996 E Bank was doing so well that it had become a threat to its parent brand, with the result that Standard Bank incorporated the subsidiary into its main stable. 1 E Bank only entered the microlending market in 1999, and then did so via a joint venture with African Investment Bank Ltd. 42 Following on the success of E bank,

Nedbank entered the low income market with its People's Bank division in 1995, which later became its empowerment subsidiary with a separate banking licence. By 2003 People's Bank had about 2 million clients. Unlike the other banks' offerings, the Nedbank Transactor account was available to all customers – and not just to the entry-level segment of the market.

Absa established its NuBank division in 1996, and immediately started granting credit to clients. In 2000, it acquired 51% of UniFer, which was then the market leader in microlending, and incorporated NuBank into this organisation. The rapid growth in the volume of loans granted, however, meant that UniFer's administrative systems could not cope, and by March 2002 its provisions for bad debts were hopelessly inadequate. UniFer was accordingly delisted and made a wholly-owned subsidiary of Absa. 3 Recognising the opportunities in the market also to provide shorter–term, unsecured lending, all the major banks had indicated that they would be moving in that direction. Undoubtedly the four banks presented a major threat to Capitec, but Fischer argued that it was quite possible that the entry-level segment of the market yielded such insignificant income potential compared with other sources, that Capitec could quietly capture market share. 44 The fact that the four major banks were not that strong in differentiating their markets, also counted in their favour, Fischer said. 5 Postbank Postbank was a noted rival of Capitec, mainly because of its widespread distribution system. It was a savings institution which operated as a division of the South African Post Office (SAPO). Postbank offered its products and services through more than 2 000 post office outlets countrywide. The highest interest rate was 8. 5% on its Term Save Plus

account, fixed for 24 months. Interest was calculated and credited at maturity of the investment only. Strong on savings accounts, Postbank offered a wide selection of other savings products, including a funeral savings plan and a pension fund account. 6 While Postbank reported the highest uptake of the Mzansi account earlier in 2006, the other banks argued that these figures were distorted because of the mass conversion of existing accounts to the Mzansi platform. 47 Retailer Partnerships with Banks Worldwide, the concept of partnerships between retailers and formal banks for the purpose of offering financial services was gaining ground, and no less so in South Africa. Examples of local partnerships between banks and retailers were those between Standard Bank and cell phone group, MTN (with ts MobileMoney account), Nedbank and supermarket retailer Pick ‘ n Pay (with Go 9 Capitec: Low-Cost Banking for Joe Average Banking), and the fashion retail group Edcon and FNB for the provision of personal loans. Fischer noted that some of these alliances were powerful and presented a potentially serious threat to Capitec. 48 The Standard Bank/MTN and Edcon/FNB alliances were relatively new in the market and difficult to assess, but Pick ‘ n Pay Go Banking had been in operation since 2000, which meant it had had time to prove itself.

Operating as a division of Nedbank, Go Banking used the retailer’s stores (6 000 till points countrywide) for transactions, as well as Nedbank and Old Mutual Bank ATMs and branches. A customer could draw cash for only R2, get a balance enquiry free of charge, make deposits, and pay accounts. Both debit and credit cards were available. Although specific numbers of clients were hard to come by, Stovin-Bradford mentioned that Go Banking had

never generated the sort of response expected by Pick ‘ n Pay. 49 Accordingly, Fischer did not perceive Go Banking as a major competitor, as he believed the one thing that it lacked, was personal service. Banking is about people and service, and everything boils down to that. A retail cashier or a brochure can hardly offer personal banking advice,” he said. 50 Credit and Loans Provided by Retail Organisations The furniture retail industry in South Africa was worth R15 billion per year, of which about R10 billion was sold on credit. Historically, credit furniture sales had been conducted according to the Credit Agreements Act, which restricted interest rates to the ceiling of the Usury Act, while allowing the seller to retain ownership of the goods sold as collateral.

However with the advent of the MFRC and a clearer more transparent regulatory environment for microlending, many of the furniture retailers, as well as other retail chains such as Woolworths, had started actively promoting microloans to their regular, well known clients. These organisations had a solid credit history on their clients, relied on a credit scoring methodology to assess risk, and did not require debit orders or other deductions. Most of their clients were salaried employees. 51 This was still a very new segment of the icrolending market and had yet to develop. Analysts speculated that it would replace much of the traditional furniture credit market, and also provide additional small loans to the retailers’ customers. 52 The MFRC had placed many objections to furniture organisations entering the microlending market, as it saw this as a means of bypassing the Credit Agreement Act. The argument was that since the

retailers also controlled the price of the items they were selling, they could adjust the price of the goods to cover the cost of the lending.

However, the retail organisations said that the ceiling on the Credit Agreement Act did not allow them to recover their costs. 53 Capitec perceived the retail market as a serious emerging competitor. 54 Conclusion To achieve its aim of growing its share of savings accounts in the mass market to three million by the end of February 2009, Capitec had little choice but to focus heavily on marketing. From this perspective, the company's major challenge lay in changing the perception that Capitec was only a microlender. To do this, it had to build trust and stature in the eyes of the public.

The question facing the Capitec management team was how it should set about doing this over the next year. Considering the fierce competition that existed in the market (the four major banks' marketing spend, for example, was in the order of R200 million each per year) and the pressure from the South African government on financial institutions to support the lower end of the market, Capitec had some serious choices to make, and it would be these choices that would determine its destination. 10 Capitec: Low-Cost Banking for Joe Average Exhibit 1 Capitec Bank: The Present Profile Capitec Bank – The Present Profile 3 Operations Clients ' 000 Savings Clients ' 000 Turnover R'm Number of Loans ' 000 Capitec Bank Branches % Impairment Profitability Headline Earnings R'm Headline Earnings per Share (c) ROE % Equity NAV per Share (c) Share Price (c) Market Capitalisation R'm 611 260 164 623 580 399 676 1 490 1 072 784 3 105 2 233 824 3 050 2 194 30 46 8 49 70 12 70 101 16 116 165 23 74 104 26 300 0 1 477 2 454 266 2. 58 380

18 1 904 2 617 265 1. 43 440 143 2 259 2 486 251 1. 45 706 375 2 863 2 650 253 2. 85 852 468 1 586 1 486 267 4. 07 04 05 06 Aug 06 Source: Courtesy of Capitec, August 2006. 11 Capitec: Low-Cost Banking for Joe Average

Exhibit 1 The Present Profile (cont) Source: Courtesy of Capitec, 2006. 12 Capitec: Unconventional Banking in a Risky Market Exhibit 2 The Market: Average Income Spread The Market LSM 1 2 3 4 5 6 7 8 9 10 Average Income Spread Number ‘ mil 30. 6 Income R 0–R 947 % 2. 1 3. 8 3. 8 4. 5 4. 1 4. 3 2. 3 1. 7 1. 9 1. 7 7 12 13 15 13 14 8 6 6 6 R 949 – R 1 179 R 1 179 – R 1 443 R 1 443 – R 1 977 R 1 977 – R 2 549 R 2 549 – R 4 366 R 4 366 – R 6 659 R 6 659 – R 9 388 R 9 388 – R12 077 R12 077 – R19 298 Target Market 19m * Household Income after statutory deductions Exhibit 3 The Average Client In Summary The Average Client Time constrained : 8 – 5 working hours • Limited mobility – public transport • Cash dependant – Security Risk • Pay date driven • Does not save • Needs more information on managing finances • Needs funding in times of crisis Source: Courtesy of Capitec, 2006. 13 Capitec: Unconventional Banking in a Risky Market Exhibit 4 Mobile Banking Mobile Consulting Source: Courtesy of Capitec, 2006. Unless otherwise indicated, all the information in this section comes from M Kirsten, ‘ Policy Initiatives to Expand Financial Outreach in South Africa’. Paper delivered at World Bank/Brookings Institute Conference, 30-31 May 2006, available www. dbsa. rg, documents link (accessed 16 November 2006). 2 Ibid. 3. Wilkinson & Meagher. “ Filling the gap in South Africa’s small and micro credit market: an analysis of major policy, legal and regulatory issues. ” Institute for Informal Sector Research. University of Maryland. 2001. 4 5 1 Ibid. Ibid. 6

Ibid. 7 Interview with Carl Fischer, 3 November 2006. 8 Ibid. 9 Ibid. 10 Ibid 11 Ibid. 12 S Planting, ' Assume You Can', Financial Mail, 7 April 2006, available www. financialmail. co. za (accessed 27 October 2006). 13 Interview with Carl Fischer, 3 November 2006. 14 H Formby, ' Snug in the Low-Cost Niche', Financial Mail , 27 October 2006, p 45. 5 Interview with Carl Fischer, 3 November 2006. 16 Ibid. 17 Ibid. 18 Ibid. 19 Ibid. 20 Ibid. 21 Capitec Annual Report 2006, p. 11. 14 Capitec: Unconventional Banking in a Risky Market Interview with Carl Fischer, 3 November 2006. Ibid. 24 Ibid. 25 H. Duvenhage, ' Capitec Bank vat Bank na die Werkplek', Sake Rapport, 10 September 2006, p 9. 26 Unless otherwise indicated, all the information in this section comes from M Kirsten, ' Policy Initiatives to Expand Financial Outreach in South Africa'. Paper delivered at World Bank/Brookings Institute Conference, 30-31 May 2006, available www. bsa. org, documents link, (accessed 16 November 2006). 27 Ibid. 28 Nedbank Group, ' The Turning Point', National Credit Bill, available www. nedbankgroup. co. za/pdfs (accessed 10 December 2006). 29 Interview with Carl Fischer, 3 November 2006. 30 Ibid. 31 S Gunnion, ' Capitec Lifts Client Base, Profit Fast', Business Day, 28 September 2006, p 22. 32 Capitec Annual Report, 2006, p 12. 33 Interview with Carl Fischer, 3 November 2006. 34 Riaan Stassen quoted in an article by L Peyper, ' G'n of Min Bankkoste: Bankgroep Wys Hoe', Die Burger, 20 May 2006, p 23. 35 www. africanbank. co. a, about African Bank link (accessed 14 November 2006). 36 Interview with Carl Fischer, 3 November 2006. 37 R Stovin-Bradford, ' Getting a Measure of Mass Banking', Sunday Times Business Times Money, 7 May 2006, p 21. 38 Ibid. 39 Ibid. 40 www. southafrica. info/public_services/citizens/consumer_services/mzansi. htm (accessed 5 December 2006). 41 C. Mitchel and Heil, D, ' Taking Banking to

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