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The Banking Enquiry
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WIZZIT Payments (Pty) Ltd – Banking Enquiry Submission

Difficulties and challenges facing new entrants to the payments industry.

Quote from Maverick Magazine, 3 November 2005, by Journalist, Maya Fisher-French;

“It is not easy to start a new retail bank in South Africa. The Big Four maintain a cosy oligopoly without much trouble. Second-tier banks have appeared, roared a challenge, called it quits. It really shouldn’t be a surprise when high bank charges cause ongoing furore.

Despite the Big Four stranglehold and the lessons of history, MTN Banking and WIZZIT are giving it another shot. One is backed by two of the largest companies in the country; the other is an upstart with big ambitions. Both are relying on technology and the lumbering nature of the big banks to help them succeed. Along the way, they may also help the government reach it’s goal of bringing more people into the banking net –though that will be in spite of, rather than thanks to, regulation.”

Background

- Wizzit was born in late 2001 through a conversation between ex-politician and businessman, Cyril Ramaphosa and Charles Rowlinson, ex-Chairman and CEO of the Johannesburg Stock Exchange listed group, The Education Investment Corporation Limited ‘EDUCOR’, where Mr. Ramaphosa described how hard it was for the average South African to open a bank account and generally how ‘unwelcome’ the poor were to the banks. This led to Charles Rowlinson joining forces with Pakie Mphahlele, Brian Richardson and Godfrey Letlape in early 2002 to look at the unbanked market in South Africa and to find a way of providing a fully functional and affordable bank account for them.
- Pakie Mphahlele, Godfrey Letlape and Brian Richardson have all had experience in the financial services industry.
- Pakie Mphahlele had also previously worked very closely with David Porteous at National Housing Finance Corporation. In early 2002, David Porteous was

WIZZIT PAYMENTS (PROPRIETARY) LIMITED (2000/008596/07)

Directors: CE Rowlinson (Chairman), KW Boyers, G. Frew, R Frew, PJH Kruger , O Letlape, MT Mphahlele, J Maqhekeni, BA Richardson, K Smith

appointed as the founder CEO of FinMark Trust, which has its mission “Making financial markets work for the poor”. FinMark Trust is funded by a grant from the UK’s Department for International Development (DFID).

- David Porteous and Cyril Ramaphosa were extremely helpful to the WIZZIT team in encouraging them to not give up in their drive to operationally open a bank focussed on banking South Africa’s unbanked. FinMark Trust assisted through 2002 and 2003 with market research and highlighting just how big the problems were in addressing this neglected market.
- In David Porteous’ book “Banking on Change”, published in 2004, Minister Trevor Manuel, in the foreword of the book stated, “...it would be hard to ignore the fact that millions of South Africans have little or no access to financial services. This goes to the heart of what President Thabo Mbeki has described as the divide between First and the Second Economy in South Africa: the structural manifestation of poverty, underdevelopment and marginalisation of large sections of our people. Lack of access to appropriate savings or transactional products, coupled with poor financial literacy and consumer education, compounds the divide between the haves and the have-nots. A financial system that does not serve the needs of all South Africans is a dysfunctional system. It is an anomaly that requires urgent address.”
- WIZZIT was born with a Vision; “to create the opportunity for the unbanked to have access to a secure and efficient payment mechanism”.
- WIZZIT’s objective being to introduce an affordable transactional bank account to make the lives of the 13 to 16 million people that do not have bank accounts easier and make them economic citizens.

The mission;

- Remove the risk associated with cash
- Reduce time and cost of travel
- Reduce time spent standing in queues
- Ensure that fees are affordable
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- Employ the unemployed, favouring previously disadvantaged.
- WIZZIT spent nearly three years researching global models, debated the issues, carried out research and held numerous meetings and discussions with inter alia:
 - Octopus Cards – Hong Kong
 - NETS Singapore
 - MEPS Malaysia
 - One Card Nigeria
 - Standard Bank SA
 - ABSA SA
 - FNB SA
 - Nedbank
 - TEBA
 - The South African Bank of Athens

- Mercantile Bank
 - VISA
 - MasterCard
 - SARB
 - The Banking Council
- Initial thoughts were around the introduction of a smart card/epurse solution. However, reviewing the many failed initiatives in this area lead to the drive to make a cell phone channel work.
 - Conclusions reached from various inputs were:
 - I. Revenue model does not work in trying to bank the poor.
 - II. A consortium of leading players was required.
 - III. A proposal was developed suggesting:
 1. The formation of an entity funded by all the banks to address the plight of South Africa's unbanked.
 2. It would be funded by all the parties equally, and WIZZIT would likewise fund it's equity portion.
 3. The objective was to within a year:
 - a. Research best practice around the world
 - b. Develop the business case
 - c. Develop a comprehensive business plan
 - d. Make a decision, based on the above, as to whether to proceed to a commercial launch or abandon the project.
 - Although the proposal had the support of the CEO of the Banking Council we were unable to get the collective support of the banks. (We believe we played a role in creating the awareness that lead to the ultimate launch of the Msanzi initiative in which we, unfortunately, were never included).

Next Steps

- The initiators were then faced with a decision as to whether to abandon over two year's worth of effort or to continue on their own. As we became aware of the shortcomings of the proposed Msanzi account, a decision was made to continue and to pursue the use of technology as a payments instrument for the unbanked segment of the market.
- The cell phone became a natural instrument to focus on as a payment channel with massive uptake, even within the unbanked segment of the market.

Challenges faced.

- Utilising a payments instrument of whatever nature implied that you first had to take a deposit. This in turn defined you as a deposit taking institution and therefore subject to the rules and regulations of The Banks Act.
- We spent many months researching our concept and idea with support from Finmark Trust and the DFID which yielded very positive results that prompted us to pursue our vision. We were also encouraged by businessman Cyril Ramaphosa who encouraged us to not give up on the dream to bank the unbanked. (Mr. Ramaphosa had spent many hours meeting with us and with the big banks, to try and mobilise interest to bank the unbanked population).

- Two of the four major banks spent weeks in our offices while we hoped for their assistance with our dream and whereby we could utilise their bank licence, and they could mentor us. A major barrier was the high cost of a Bank Licence in South Africa, where this cost simply destroyed the revenue model and made it impossible to provide affordable access and transactional capability to the unbanked segment of the market. Therefore we had no option but to pursue discussions with the big banks in the hope that one of them would see the potential of what we were trying to achieve.
- We also looked at the opportunity of a Mutual Bank licence, a Village Bank Licence, SACCOL Licence and even tried to see if it was possible to take over the Saambou licence which FNB were in the process of handing back.
- We met with Christo Wiese, the then Registrar of Banks who was very excited about our initiative and the proposed and imminent Dedicated Banks Bill and indicated that he felt we were ideally positioned to avail ourselves of one of these licences for our transactional banking initiative to the poor.
- The Dedicated Banks Bill, would allow for a new tier of restricted commercial banks in South Africa. These new banks would be allowed to take deposits and facilitate payments, but would be limited in their ability to do high-end banking business, such as foreign-exchange or capital market trading. These banks would have substantially lower capital requirements than first tier banks (currently requiring R250m). It would make basic bank accounts more affordable. More importantly, it would allow the entry of new-generation players to specific niches in the payment transaction arena, for example WIZZIT's drive to help the unbanked, where the traditional banks had up till 2003 /2004 really shown very little interest in this market.
- After some time we realised that the original passion and drive for The Dedicated Banks Bill seemed to have been "put on hold" and if we wanted to make our dream a reality we would have to pursue alternative channels. As we are aware, as of today's date, some three years later, The Dedicated Banks Bill has still not been passed.
- We again went back to senior executives in some of the big banks for their help. We pressurised for a decision as to whether they would support our dream or not. For whatever reasons they unfortunately declined to help us stating:
 - The revenue model would not work
 - The market would not use cell phones for banking.
- After more disappointments we became even more determined. We were also adamant that we did not want to launch a "closed loop" payments product and that to succeed we required interoperability with the existing Financial Services infrastructure. At the time there were only seven full members of PASA and we were strongly advised that the only access to PASA was through an alliance with one of these seven Banks.
- After the disappointment of being turned down by the big four we were advised to approach the "2nd" tier Banks namely Mercantile, Teba and The South African Bank of Athens. All three were members of PASA and very positive about entering into an agreement with us and many months were spent with each of them in discussions on our model and how best to deploy this. Finally it took an overseas owned bank -The South African Bank of Athens to offer us the helping hand and

mentoring we needed to try and make our dream a reality, and an alliance banking relationship was entered into, with the approval of SARB, whereby WIZZIT – a division of The South African Bank of Athens was created in March 2004.

- Our company which signed the agreement with The South African Bank of Athens is WIZZIT Payments (Pty) Ltd which has its own board of director's independent to The South African Bank of Athens. It is important to note that this submission is submitted by the legal entity WIZZIT Payments (Pty) Ltd and not "WIZZIT, a division of The South African Bank of Athens".
- Technology issues were a priority and although we were in uncharted territory, we were adamant that the technology chosen had to be appropriate for the unbanked segment of the market and therefore had to work on all cell phones, all SIM cards and across all the networks. Some of the Big Four Banks had tried versions of Cellphone Banking that had to a large extent been commercial failures, but all efforts were directed at the upper end of the already "Banked" market and required sophisticated phones and technology.
- At the time (early 2004) we had planned to launch with a "white labelled" unbranded debit card in an attempt to keep costs as low as possible. Although our focus was on the cell phone as a channel to effect transactions particularly in the area of remittances and prepaid purchases we recognised the need for a card to make purchases within the formal sector and as a means to access cash via ATM's. For reasons unknown to us, in mid 2004 the "rules" were suddenly changed and PASA (Payment Association of South Africa) decreed that only branded cards would be accepted at Point of Sale and ATM's. We had no option but to delay our proposed launch and obtain a Maestro branded card. This delayed us for many months as the process of approval takes some time. On the 5th November 2004, Mastercard gave approval, and we then went back to the card manufacturers to produce cards for us.

Funding and BEE

- Strategically we always had the vision to create South Africa's first Black owned Bank. With this in mind, Blue Dot Housing, NACTU (National Council of Trade Unions), through their investment in Blue Dot, Pakie Mphahlele and Godfrey Letlape, the founders of Blue Dot, were founder members of WIZZIT Payments (Pty) Ltd. At the same time Salukzi Dakile Hlongwane the CEO of Nozala was appointed as the Chairperson of WIZZIT.
- The first task of the recently constituted Board was the formation of the Tirasano Consortium, comprising the following BEE players; Blue Dot Housing, NACTU, Nozala, Africa Vukani and Fukama. Modise Motloba (who was very involved with ASIP and the formation of the Financial Services Financial Charter and headed Africa Vukani) was appointed Chairman of Tirasano Consortium. The initial task of Modise was to raise funding for majority ownership in WIZZIT and thereby become the first Black owned Bank.
- It is acknowledged that despite enormous amounts of time and money, even this powerfully constituted consortium failed. Time and time again, despite receiving very favourable initial responses from all parties approached, when it reached the respective credit / investment committees, invariably including a member of the banking community, the same response was returned – "this is what the big banks should be doing and is in their domain". Entities approached included the IDC, Umsobomvu Fund, the Development Bank of SA, PIC and NEF just to mention

some. It was felt after this fund raising exercise failed that the consortium should have approached international funders to assist in an organisation trying to bank South Africa's unbanked and, possibly, this would have been successful.

In summary the issues and challenges faced have included:

- Acquiring a Bank licence. We are not sure what happened to the much publicised Dedicated Banks Bill and why when we were told it was ready in 2003, some three years later it is still on the back burner. It has been stated in the press recently that the regulators wish to increase the cost of a bank licence making it even more difficult for meaningful competition. We are now fortunate to have a relationship with The South African Bank of Athens.
- Access to PASA. The costs associated with this are very onerous and time consuming.
- Card Association fees. One has to understand the rationale for the now obligatory membership for a payment card to be branded e.g. VISA or Mastercard. These US Dollar based fees add to the cost to the lower end of market which generally don't need the international benefits of a payment card.
- Saswich costs and ATM costs for smaller users are extremely high.
- The hindrance of making "cash back" at retailers till more widespread and known. This is a well accepted practice in markets like the UK and Australia.
- The rationale behind delays in deposits and why cash deposits in particular are not reflected real time.
- Funding for BEE to make WIZZIT the first Black Owned Bank and the obstacles that are continually put in the way of this strategic initiative.

WIZZIT has proved that despite major obstacles and barriers, in addition to the very large costs in surmounting these, there is still a way of making economic citizens of the bulk of the unbanked segment of the community. We are focussed on this and are making progress, albeit slowly. The task of banking a portion of the 13 to 16 million people with little help – is no easy task and not for the fainthearted.

We thank the Banking Enquiry commission for the opportunity to submit our story and highlight the realities that any and all new potential entrants could face. The harsh reality is that for most interested parties the hurdles are just too big and therefore no initiatives are likely to be launched. Not many entities, if any, will be prepared to go through what we have had to endure and therefore the South African Banking Industry could, if changes following this investigation are not forthcoming, continue to be dominated by a handful of very powerful players who set the rules, determine access, determine channels, set standards and control pricing.

In USA where the regulators have strict legislation on any anti-competitive behaviour and as a rule encourage competition as a means to effect better operating efficiencies and consumer benefits which naturally reduce "super profits", it is interesting to note from our research that as of 30 June 2006, there were 8793 FDIC-insured commercial banks and savings institutions, excluding US branches of foreign banks. For example in the state of Iowa there are 385 banks with 244 having assets over \$100m and 141 with assets under

\$100m. From our understanding banks are well regulated and an entrepreneur has ample opportunity to enter the banking industry.

In South Africa as we have found, it has been extremely difficult and inordinately expensive to get to where WIZZIT is today. We hope the Commission finds ways to make this process easier and more cost effective. Our country, especially with the high crime rate needs to find innovative ways, invariably through passionate people to take the high risk of carrying cash, to make banking safer, more affordable and accessible, and the lives of all our people a great deal easier.