

BUILDING A BASE

By Glenn Stafford, Global Head Product Management and Professional Services, TCS Financial Solutions

Capitec Bank in South Africa rewrites the rules in retail banking

Occasionally in the business world, an innovator disrupts prevalent business models and gains traction in an established marketplace with a strategy that can't be ignored.

In financial services, ING Direct started up in several new markets with a savings-only online bank before expanding into home loans and investment services.

Or consider Commerce Bancorp, which pioneered the commonsense concepts of seven-day banking, extended hours and free coin-counting machines. In fact, TD Bank Financial Group recently acquired Commerce to build on its reputation for client service and its well-earned asset base in the New York metropolitan area.

It's now safe to add Capitec Bank to the industry's "innovators" list.

In South Africa, an estimated 15.3 million people – almost half of the adult population – remain unbanked. Because the four long-time banks in the country have traditionally focused on high-net-worth individuals and large corporate clients, their service offerings have not been geared to scale up for mass numbers or to scale down for lower balances.

With that target demographic precisely in mind, Capitec Bank has accumulated over 1.3 million clients and has been growing at the rate of 50,000 new clients per month, making a serious dent in the unbanked statistic.

"As South Africa has grown economically, we've found quite a glaring need for affordable banking services in the lower-to-middle-income segments of the market," says Carl Fischer, head of Marketing and Corporate Affairs and one of the founding executives of Capitec Bank in 2001. "We realized there was quite an opportunity."

As a leading issuer of finance, or unsecured credit, Capitec Bank has extended over 3 million loans into 2007 with an average loan amount of 1180 rand (\$145, €94). But the business model around finance works best when there's a corresponding savings product that allows clients to earn interest, save towards financial goals and build a more substantive credit history. The last point has become particularly important following South Africa's enactment of the

National Credit Act of 2007, which involves a complicated formula for credit pricing, with origination and administration fees and VAT in addition to interest.

By becoming a real bank instead of a finance monoline, Capitec Bank ably anticipated the current regulatory environment. "The only way to address this situation was in fact to create a full bank platform," explains Fischer. "The entire bank platform needed to be able to handle high throughput and high transaction volumes with lower account balances – and our entire service model had to handle high numbers of people at peak, month-end periods."

At the same time, there was no need for Capitec Bank to go beyond products and services with clear appeal to its target market. By carefully examining the essence of what its target clients sought in a bank, Capitec Bank figured out how to perform those tasks quicker, better and where appropriate, differently. "For instance, a checking account is, in our opinion, a rather antiquated, expensive and high-risk facility," says Fischer. "To that end, we looked to other solutions to provide that core payments service, but not via a checking account."

Another area for improvement was in savings accounts. "Up until 10 years ago, the middle-to-low-income market really did not save because the returns were just not attractive enough," says Fischer. "The fees exceeded the interest earned."

SMART OPERATIONS

Spurring savings with market-leading interest rates and minimal fees for its deposit accounts, Capitec Bank approaches potential clients where they work.

For many working South Africans, the choice of a bank has been a passive one. Typically, an employer seeking to institute direct salary payments for its workforce would tend to use the same bank it used for corporate loans and treasury – that is, one of South Africa's four traditional banks. "Clients were drawn in to banking at Bank 'X', and they never really understood the differences and the various alternatives that were available," notes Fischer.

Capitec Bank overcomes the service bundle provided by employers' incumbent banks by focusing on the direct value proposition to the employer and the employee alike. "We provide a very attractive, Internet-based salary transfer and payment system that's about one-fifth of the cost of our opposition," relates Fischer. "Also, we present to them the overall service and cost profile of our offer to the retail client – which is anywhere between 35 to 50 percent of the traditional banks' pricing at this stage."

In addition, Capitec Bank's strength as a credit provider offers another service to employers. "Eight or 10 years ago, there wasn't much funding available to the average employee, and so many employers were drawn into providing it via the company," explains Fischer. "We've been able to say to them, 'Let us manage that, that's what we do. Don't become involved with the financial affairs of your staff.'"

BRANCH BASICS

Outside of the workplace, Capitec Bank builds its client base through innovative branch banking.

By keeping the offer simple and focused, the Bank was able to shed many costs associated with full-service banking. "If you're



Carl Fischer, Head of Marketing and Corporate Affairs, Capitec Bank



approaching the entire market, the skill levels required in your branch need to be pretty diverse,” says Fischer. “One client could walk in and want to know about foreign investment, the next might want to know about foreign exchange, the third might ask about estate planning and the fourth person simply wants to withdraw cash.”

“You can imagine trying to skill a bank branch today to cover all of those services,” he adds. “It makes for a very expensive infrastructure.”

Capitec Bank branches are almost entirely cashless – all withdrawals must be done through ATMs, and deposits are immediately put into a drop safe, reducing associated security concerns and required branch hardware. All back-office processing is managed from a central facility, further reducing branch-level responsibilities. As a result, at each of its 330 branches, Capitec Bank employs six to eight branch consultants focusing entirely on efficient client service. “When a brand new client walks into a branch, within roughly eight minutes we’ve fully brought the client on board, issued a card, and the client has immediate access there and then to a range of transactions, savings and finance facilities,” says Fischer.

Capitec Bank also uses a strategy that Commerce Bank’s former CEO Vernon Hill would quickly recognize. “Most banks are open from nine o’clock to half-past three, which forces the average middle-income and lower-income person to visit banks over the weekends, which really hinders the service levels,” says Fischer. “On peak days and at month-end, we’re open at seven in the morning, and we can close at seven o’clock in the evening if necessary.”

Because of the light physical footprint of

its branches, Capitec Bank has been able to pursue innovative branch placement opportunities such as in train stations, nearby to major employers and even on the road. In 2007, Capitec Bank launched 53 mobile banking terminals that can open accounts in the townships. “Real-time delivery of products and services is fundamental,” says Fischer. “Our entire bank approach has focused on easy, affordable, real-time and system-driven access.”

BOUNDLESS OPPORTUNITY

Along with providing value to employers and clients, Capitec Bank seeks to close the loop with a compelling offer for merchants at the point of sale. Instead of charging merchants the discount rate for accepting its clients’ cards, Capitec Bank anticipates merchants earning an income from transactions, thus again disrupting the traditional business model. “We see point-of-sale as an extension of our distribution arm,” explains Fischer. “To that end, what we’re trying to do is develop a point-of-sale platform that’s widespread, low-cost, and in fact, a source of earned income for our vendors.”

By creating an incentive for retail store owners to put point-of-sale devices on top of the counter instead of beneath, Capi-

tec Bank hopes to drive awareness of its services as well as promote the use of non-cash transactions through a safe transaction mechanism. “Cash is just too expensive to handle in South Africa given the risks,” adds Fischer.

Nevertheless, cash still remains quite popular in South Africa. Approximately 43 percent of all salary payments to Capitec Bank clients are cashed out the very next day. In response, Capitec Bank has undertaken several initiatives to encourage cash withdrawals only when necessary, including balance readers in supermarkets, zero fees for card transactions at point-of-sale, and the aforementioned point-of-sale merchant incentive plan.

Despite the challenges, the overall opportunity remains incredibly vibrant. Whether it’s bringing the unbanked into the system, funding home improvements to go along with the electrification of South African townships or attracting higher-income South Africans with a simplified, paperless banking experience, Capitec Bank offers a unique and compelling range of services.

A valued customer of TCS Financial Solutions, Capitec Bank has relied on the flexible, easily-configurable **TCS BOUNCS** for its innovative strategy from the very start. “Our system approach has enabled us to drive a service focus toward the client,” says Fischer. “We are constantly designing and redesigning our screens and our client flow processes on the system. It enables our consultants to focus on client needs.”

“In comparison to South African banks, our primary benchmark for now, there’s no doubt that our open platform provides us with a far easier ability to adapt and to change,” adds Fischer.

The Path to Paperless

A key aspect of the Capitec Bank service delivery model is that it’s paperless for the client. Within eight minutes, a branch consultant can establish an account for a new client and issue a debit card, without completing a single piece of paper in the process.

Using Capitec Bank’s services is also a paperless experience. Transacting, savings and finance facilities can all be accessed using a Capitec Bank debit card endorsed by Maestro or Visa. With **TCS BOUNCS**, Capitec Bank has launched numerous innovative initiatives across multiple client channels, including:

- **An Internet-based platform** for simplified and easy account access, including funds transfer between accounts and to other financial institutions.
- **A debit card** that allows for easy payments at the most popular shops.
- **A mobile banking terminal** offering transaction facilities without a cash withdrawal function.
- **A Capitec Bank card reader** installed at retailers, for clients to have convenient access to balances on their bank accounts, which will stimulate overall card usage at merchants.

Capitec Bank enlisted the help of TCS Financial Solutions to develop its paperless, cost-effective core banking solution, which is based on **TCS BOUNCS** Core Banking and **TCS BOUNCS** Payments. With **TCS BOUNCS**, Capitec Bank has high-performance, continuous operations that scale to meet the needs of a growing client base, with the ability to innovate ahead of the competition, at a lower total cost of ownership.

