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SA takes banks to the townships: Banks are responding to laws aimed at correcting South Africa's racially skewed financial sector, writes John Reed

By JOHN REED

In the township of Vosloorus, south-east of Johannesburg, Standard Bank last month opened a "Bank in a Box". Snapped together from metal panels like a child's toy, at less than R600,000 (Dollars 90,000) it cost about half the price of a bricks-and-mortar branch.

The no-frills modular structure rests on a concrete slab and is easily portable should the location prove disappointing. The bank will have opened 21 similar units in urban townships and remote rural areas by year-end.

The push comes as Standard and its rivals hasten to meet the requirements of their industry's Black Economic Empowerment charter, approved last year.

Aimed at rebalancing South Africa's racially skewed financial sector, the guidelines require banks to offer at least 80 per cent of poor South Africans access to an ATM (cash-dispensing machine) within 10km of their homes, and basic banking services within 15km.

The new rules, which banks must obey if they hope to secure future government business, are testing the limits of their ingenuity.

"The Financial Services Charter has forced people to think differently - maybe put up a container on a slab and if it works put up a branch later," says Charles Chemel, a banker who helped co-ordinate the project.

This month banks will meet a central charter requirement when they unveil a national bank account aimed at the more than half of South African adults who are currently **unbanked.**

The card-based product, launched under the umbrella brand Mzansi (local slang for "South Africa"), will be followed next year by a money-transfer product targeting poor blacks.

BEE charters in other industries, including mining, have caused some company executives to complain of over-regulation and foreign investors to discount South African stocks. But the country's banking sector received a strong vote of confidence last month when Barclays confirmed it was in early talks to acquire control of Absa, the biggest retail bank.

And while banks expect to only break even on the new product, most are looking to low-income customers as a future source of growth. Standard already has 3m "mass-market" customers. The segment has grown in a decade to contribute 12-15 per cent of its retail bank's profit.

"The issue is to find gold within the **unbanked,**" says Lincoln Mali, director of Standard's convenience segment. "If we can get this right, we can use it elsewhere in Africa," he adds, refering to Standard's large foreign network.

In the BEE charter's early days, banks collaborated to agree on common standards for the new accounts. To avoid alienating very poor customers, for example, they agreed to waive monthly service fees. To keep down infrastructure costs, they will offer competing banks free use of their ATMs and branch networks for Mzansi clients.

The industry pooled resources for a marketing blitz, in media including TV, radio and billboards, for Mzansi's October 25 launch. "There are many things we can do as an industry that we can't do individually," says Colin Donian, head of investment and transactional products at Nedcor, the financial services group majority-owned by London-listed

Old Mutual.

But Trevor Manuel, finance minister, vetoed banks' request to exempt them from competition law in launching Mzansi.

So banks will be competing directly on fees and some other account features - a daunting prospect in a low-margin market.

Analysts also say the new accounts may tempt some existing, more lucrative clients to migrate downmarket in search of lower fees. "Cannibalisation is a huge challenge for banks," says David Porteous, co-author of Banking on Change, a survey of post-apartheid South African finance.

To diminish that danger, banks plan to limit the services they offer Mzansi clients.

Nedcor, for example, will impose a penalty fee for clients who exceed a given number of monthly transactions, says Mr Donian.

The bank will also set a maximum balance of R15,000 for the accounts, above which customers will earn no interest and be urged to migrate to other accounts.

Mass-market banking will mark a major departure for Nedcor, the "Big Four" South African bank that most deliberately targets affluent clients. However, Mr Donian says: "We think we have the biggest opportunity - we haven't sunk costs into existing infrastructure that may be of the wrong kind."

By allowing banks to piggyback off each others' networks, the new account is expected to benefit smaller banks and Postbank, the South African Post Office's savings division.