FSDT
FINANCIAL SECTOR DEEPENING TRUST

STATE OF THE FINANCIAL SECTOR

Are financial services meeting the needs of the market?

SUPPLY-SIDE REPORT 2017

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Quantitative research conducted by
African Stats

Contents

1 Introduction

At the core of any market is demand and supply of services and products. To enhance the quality of transactions between the two sides, most markets are complimented by core support functions and infrastructure and governed by rules and regulations. One of the key contributing factors to failing markets is information asymmetries on both the demand and supply sides. Liberalization of quality information on both sides paves way for both better service provision and informed consumer choice.

For the last 10 years, market development in Tanzania has been measured using demand-side data. Nonetheless supply-side data has been available, as all regulated financial service providers receive approval from their regulators before rolling out products into the market and are required to submit reports of the progress of their businesses to them. At the moment, this information is held by different regulators. However, a review of this information shows that it does not serve to paint a comprehensive picture of the market.

The Financial Sector Deepening Trust (FSDT), in partnership with Bank of Tanzania (BOT) and the Tanzania Insurance Regulatory Authority (TIRA), commissioned a comprehensive supply-side survey in Tanzania. The survey was designed to take stock and profile financial products and solutions available in Tanzania using a representative sample of various financial service provider types, banks, Mobile Network Operators (MNOs), aggregators, insurance companies, Microfinance Institutions (MFIs) and Savings and Credit Cooperatives (SACCOs).

The survey was designed to address the following research objectives;

- **To provide an understanding of financial products and services available in the market.**
- **To profile existing financial solutions.**
- **To mirror the results of the supply-side survey against those of the sector's demand -side survey and identify unmet consumer needs.**
- **To provide insights which will feed into product and access point innovation in the financial sector, among other areas of innovation.**
- **To develop a registry of all financial products and services, which can enhance consumer choice if the information is packaged and fed back to them.**

This survey complements demand-side surveys, such as FinScope Tanzania surveys, in addressing information asymmetries, by offering a clearer picture of both the demand and supply of financial services in Tanzania. As a result, the financial sector in Tanzania will be better placed to address the service gaps in the financial market in Tanzania.

The State of Financial Sector Supply-Side report marks the first in a series of reports which will track the progress and impact of the market from the supply-side. It is envisioned that this survey can be aligned to regulators' reporting tools to enable a near real-time or, at least, a quarterly update of the progress of the supply-side within the financial services sector.

The survey was conducted between the months of May and August 2017 by African Stats.

The financial sector in Tanzania comprises service providers from a diverse spectrum, regulated and overseen by various regulatory bodies in the country. Their overarching policy and legislation anchor sits with the Ministry of Finance and Planning Tanzania.

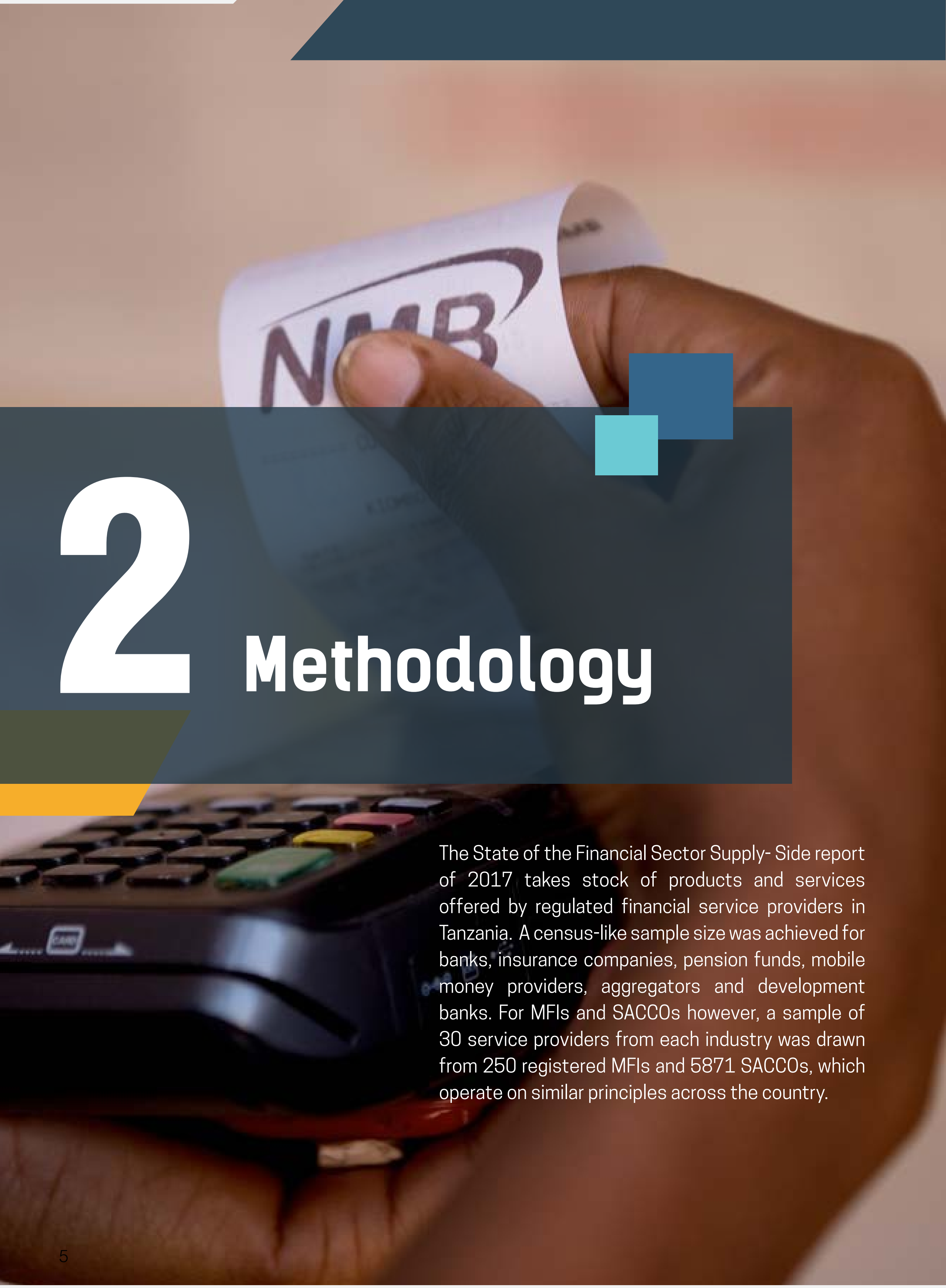
The report at hand has focused its efforts on assessing the financial services provided under the regulatory oversight of Bank of Tanzania (BoT), Social Security Regulatory Authority (SSRA), Capital Markets and Securities Authority (CMSA), Tanzania Insurance Regulatory Authority (TIRA), Tanzania Cooperative Development Commission (TCDC) as well as microfinance institutions.

Figure 1: Financial Sector Landscape in Tanzania

Tanzania Ministry of Finance and Planning

(Formulation and management of policies and legislation for financial sector)

Regulator	BoT	SSRA	CMSA	TIRA	TCDC	Regulatoray body to be formed
Mandate	Formulate, define and implement monetary policy, directed to the economic objective of maintaining domestic price stability, conductive to a balanced and sustainable growth of the national economy of Tanzania	To licence, register, regulate and supervise the Social Security sector to ensure quality social security services for all Tanzanians	Design and implement measures to enable the creation and development of efficient, transparent and sustainable financial markets hence fueling economic growth	To develop, promote and maintain an unclusive, efficient, fair, safe and stable insurance market for the benefit and protection of policy holders	The Tanzania Cooperative Development Commission is mandated to regulate and promote development of cooperative sector	To licence, register, regulate and supervise all other MFI's apart from cooperative societies and MFI banks
Financial Service Providers	▪ Banks ▪ MNOs (Mobile Money) ▪ Forexbureaux ▪ Aggregators ▪ Switch payment institutions	▪ CHF ▪ NHIF ▪ Supplementary schemes ▪ Compulsory schemes	▪ Brokers ▪ Dealers ▪ Custodians NOMADS ▪ Investment advisors	▪ Insurance companies ▪ Insurance brokers ▪ Insurance agents ▪ Loss adjustors/ assessors	▪ Savings and credit Cooperative Organization Societies	▪ Credit-only MFIs ▪ Informal financial service providers/ Community financial groups



2 Methodology

The State of the Financial Sector Supply- Side report of 2017 takes stock of products and services offered by regulated financial service providers in Tanzania. A census-like sample size was achieved for banks, insurance companies, pension funds, mobile money providers, aggregators and development banks. For MFIs and SACCOs however, a sample of 30 service providers from each industry was drawn from 250 registered MFIs and 5871 SACCOs, which operate on similar principles across the country.

The survey targeted respondents who were conversant with the products in the respective financial institutions. These respondents included mid- and senior- management staff from product development, customer service, as well as marketing. In order to enhance the quality of the survey, the research assistants spoke to more than one representative from each financial service provider. The survey was conducted using a structured questionnaire in face-to-face interviews.

Sampling

As described above, the survey targeted different categories of financial service providers. For selected categories, a census of financial service providers was carried out, while a sample was used for others. This decision was made mainly because of their geographical spread and universe. However, it must be noted that MFIs and SACCOs may not have been captured comprehensively due to the restriction in the selected sample. Nonetheless, the survey is able to provide an indicator of what product types they offer and needs they fulfill, as most MFIs and SACCOs do not have branches across the country, but are rather registered as individual financial service providers operating under similar principles.

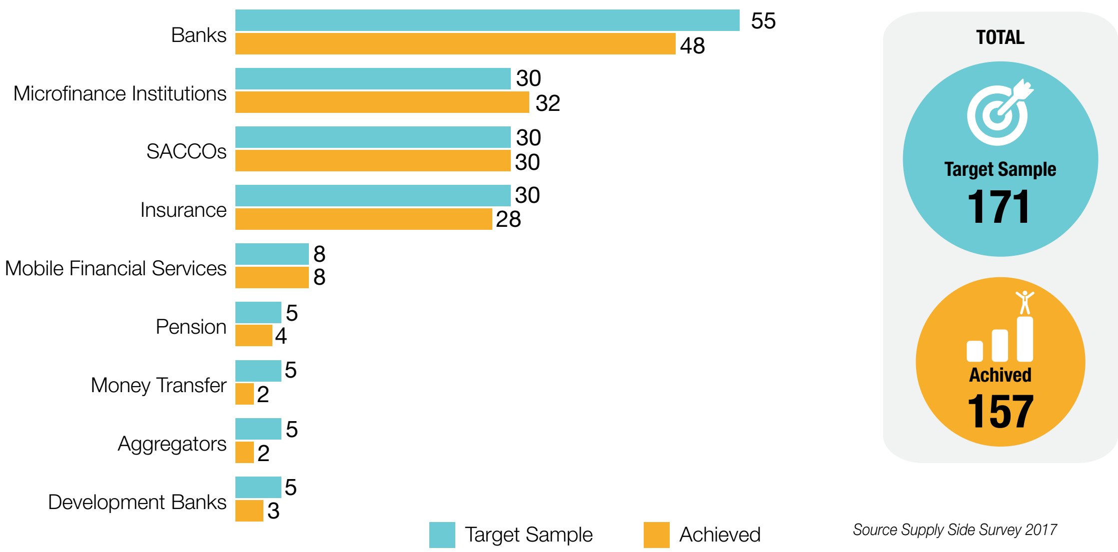
Based on the uptake of this report, the need for a holistic census will be revisited.

A sample of 157 financial institutions was achieved, which was 92% of the target sample.

Table 1 below shows a list of target categories and achieved samples.

Few financial institutions refused to participate in the survey.

Financial Service Providers Sample



Source Supply Side Survey 2017

The reported findings derive from the 157 surveyed FSPs only and may not, therefore, consider issues outside those of sampled financial service providers.

3 Findings/ Results

A. General Trends

What is the current state of the market?

To understand the overall market situation in Tanzania it is important to understand some of the market dynamics that can be observed on both demand and supply side. This section not only takes stock of what has been offered by suppliers, but also seeks to understand actual uptake in the market.

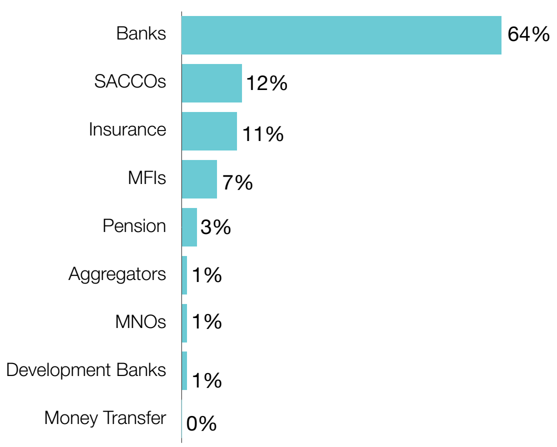
1

Fact One: Although mobile financial services were taken up by the majority of people, banks have the highest number of products in the market

In total, the 157 financial service providers surveyed had 1,534 products or services in the market. Chart 1 shows that 6 out to 10 of the financial products and services in the market are provided by the banking industry. If that data is mirrored against the recently released FinScope Tanzania 2017 data, it reveals a discrepancy between financial service providers market share in terms of products in the market and uptake of financial services.

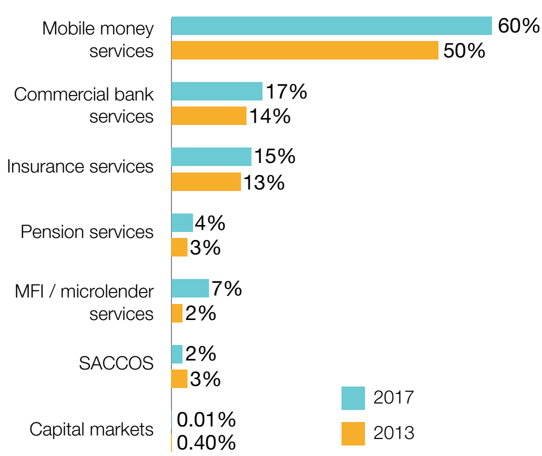
The discrepancy between market share in terms of products for MNOs and mobile money users, that is whereby 60% of Tanzanians utilize mobile money but MNOs contribute only 1% products to the market, indicates how disruptive the introduction of a product from a non-traditional financial service provider was to the market.

Chart 1: Financial products in the market by provider type
Base: All products; n=1,534



Source; Supply Side Survey 2017

Chart 2: Uptake of formal financial services
Base=Tanzanian adult population

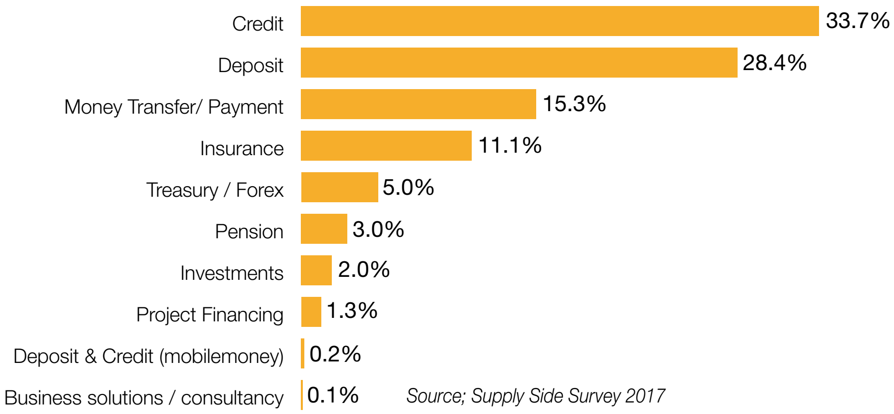


Source; FinScope Tanzania 2013 and 2017

2

Fact Two: A third (34%) of the financial solutions are credit solutions, followed by deposit solutions with 28%

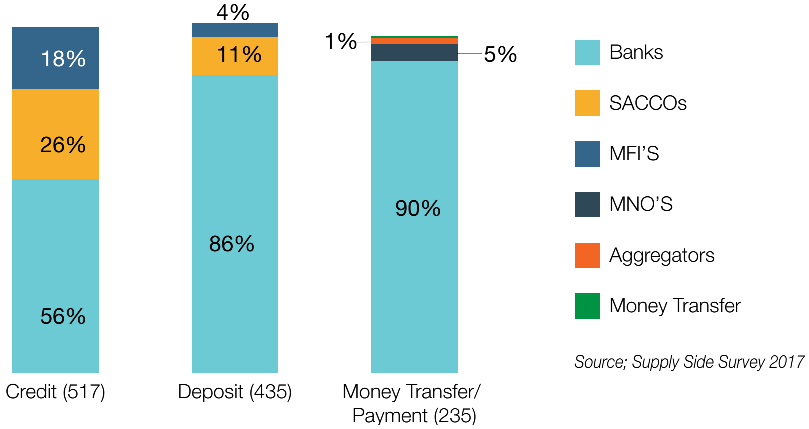
Chart 3:Financial solutions
Base: All listed products; n=1,534



Despite a huge number of products in the market, all the 1,534 products from surveyed financial service providers can be classified into 10 solution categories that the financial service providers use to meet consumer financial needs. The majority of the products fall under the credit category. The other two major types of solutions being offered by financial service providers are deposit and payments solutions.

The majority of these solutions are held by banks. It is only in the credit market that banks cater for less than 8 in 10 of the solutions. Here SACCOs and MFIs offer various alternative solutions to their consumers.

Chart 4: Financial service providers share in financial services products



The state of the financial sector supply-side report shows that credit, deposit and payments are offered by more than one category of financial service provider. Compared to other solutions offered in the market, slightly more variety in financial service providers offering credit products can be observed, while only 1 in 10 deposit and money transfer products is offered by a financial service provider other than a bank. 4 in 10 credit products are offered by non-bank service providers.

The product stock further indicates that the majority of the deposit products offered in the market are offered by banks, as per the BoT regulation. Those that fall under MFIs and SACCOs are purely savings products (such as Caritas, Hakika, Mkuti economic, Muhunga kikundi, Tweyambe, Worth and Yetu microfinance). In addition, assuming that the number of products offered by banks is driven by the number of banks in the market (67 banking institutions vs. 7 electronic money issuers), the data shows that banks have more payment solutions than mobile financial service providers (mobile money providers and aggregators), but that mobile financial service providers serve the majority of consumers in the market.

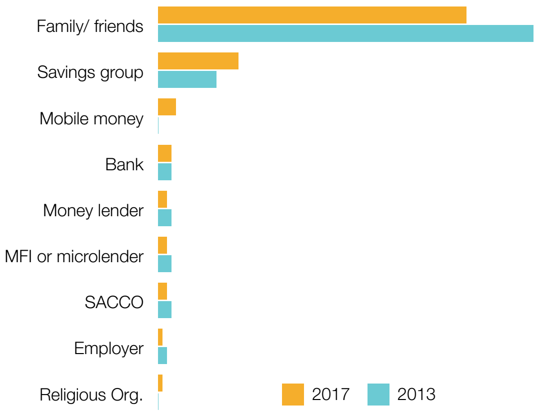
3

Fact Three: Even though deposit and credit products are available in the market, people continue to rely on informal mechanisms

As can be seen in Chart 5, FinScope Tanzania data shows that the majority of consumers still rely on family and friends for credit. On the same note, when asked in FinScope Tanzania where they saved or deposited their money, the majority of them stated that they do so at home (Chart 6). The main driver of choice for savings and borrowing options was quick access and proximity, supported by the 35% of savers who mentioned mobile phone, despite there being no default savings or deposit solutions offered by MNOs.

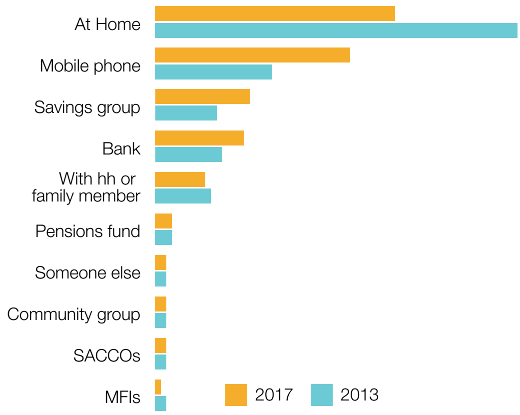
It is, however, important to note that uptake numbers do not provide a qualitative statement about the eventual volume of deposited or borrowed cash.

Chart 5: Where do they borrow from?
Base=those who borrow



Source; FinScope Tanzania 2013 and 2017

Chart 6: Where are people saving?
Base= those that save



Source; FinScope Tanzania 2013 and 2017

B. Innovation

What were market trends since 2015?

Innovation can be defined as the process of implementing new ideas to create value for an organization[1]. This may mean creating a new service, system, or process, or enhancing existing ones. As per the definition provided above, the study sought to find out if financial service providers had launched new products or services or modified their existing ones. This section seeks to take stock of the status of innovation among financial service providers in Tanzania.

4

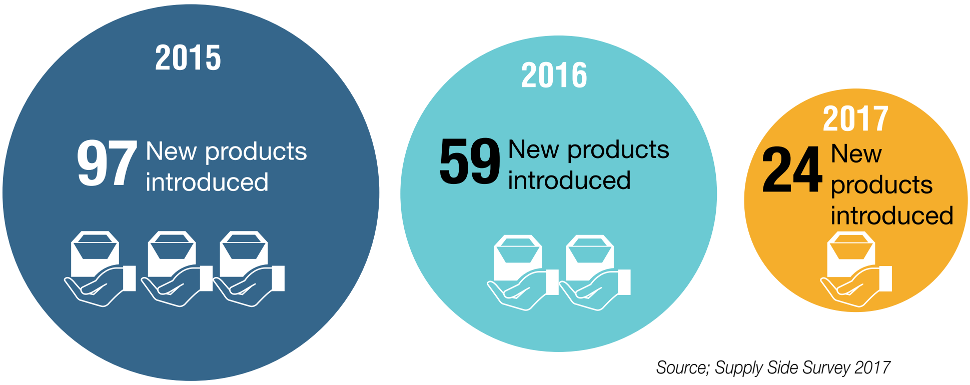
Fact Four: Number of new financial products being launched in the market is dropping

New products or services were defined as having been introduced into the market within the past 2 years before the commencement of the survey (2015 and 2016). The interviewed financial service providers introduced 180 financial products and services into the market during this period.

1 https://its.yale.edu/about/innovation-its/what-innovation

Out of the 180 products, 97 were introduced in 2015, 59 in 2016 and 24 in the first 8 months of 2017 (this study was closed in August 2017). Interestingly, more than half of the products or services were introduced in 2015, less in 2016 and only 24 in the first 3 quarters of 2017.

Chart 7: New products by year of introduction
Base: Products introduced in 2015 - Aug 2017; n=180



Source; Supply Side Survey 2017

The sampled banks have the highest overall number of products in the market and also introduced the highest number of new products[2], 126 out of 180 (70%). MFIs introduced 33 products or solutions and insurance companies only 9 products or solutions.

The study went further to present the list of newly introduced products to a nationally representative sample of consumers and asked them if they had taken up any. The results of the survey showed that only 10% of the products had been taken up by consumers in 2015 and 2016. This raises the question why 90% of the products introduced into the market have not been taken up.

5

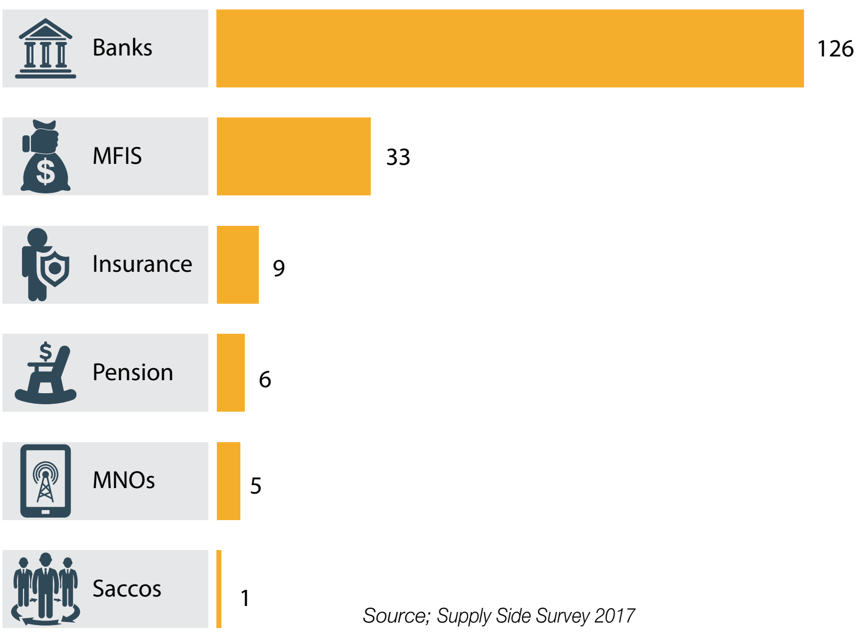
Fact Five: Banks rolled out the highest number of new products into the market

126 out of the 180 newly introduced products by surveyed financial service providers were introduced to the market by banks. This is contrary to the notion that banks are not innovative and are not launching new products into the market.

Though a 16% increase of products in general and 18% increase of banking products has been realized in the market over the past two years, demand-side data from the past four years only indicate an 8%-point increase in uptake of formal financial services. This raises the question of product uptake in the market and whether an increased product diversity only widens the product range used by existing users or whether it could actually increase the user base.

Providers with an already high existing user base showed a higher uptake in newly introduced financial products, as can be observed in the case of digital credit products.

Chart 8: New products/services by financial service provider
Base: Products introduced in 2015 - Aug 2017; n=180



Source; Supply Side Survey 2017

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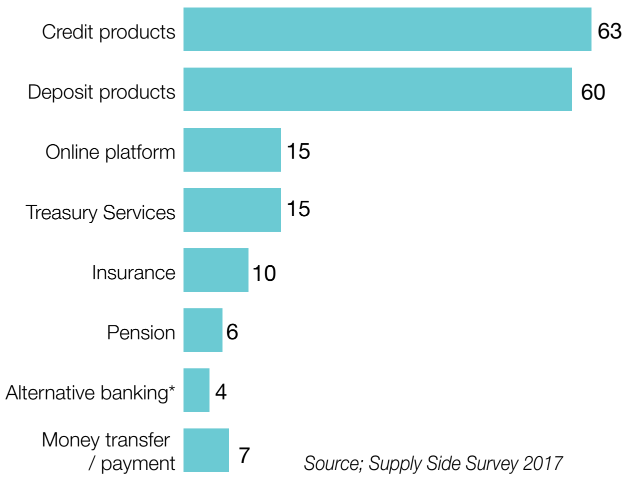
Fact 6: Credit and deposit solutions had the highest number of new products

Chart 9: New products/services by Solution
Base: Products introduced in 2015 - Aug 2017; n=180



Source; Supply Side Survey 2017

*Alternative banking refers to agency banking and Point of Sale (POS)

In our analysis, we looked at newly introduced products into the market and mapped them against the financial solutions. The survey results showed that deposit and credit products accounted for 68% (123) of the new products. This is an indication that innovation is skewed towards these solutions and leaves us asking if these are the main priority needs or challenges facing Tanzanians today. For example, can we comfortably say that majority of Tanzanians have money to save? FinScope Tanzania 2017 shows that the majority of Tanzanians save and borrow to smooth their cashflow and manage risks. Are people looking for individual financial solutions or are they looking for money management tools?

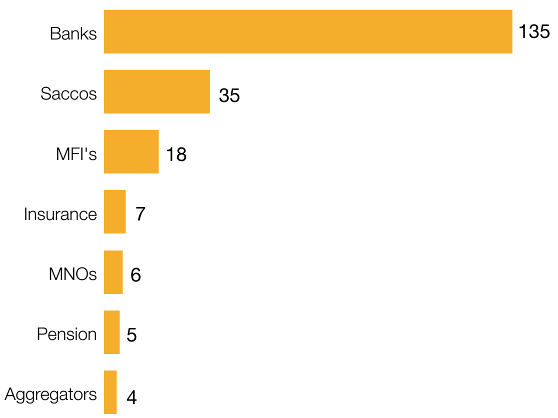
7

Fact Seven: Credit solutions had the highest number of modifications

To understand what drives market change and development, the study sought to understand if existing solutions had been modified in the previous 2 years preceding the survey (2015-2017). Modification entails any changes made to the product and includes new products.

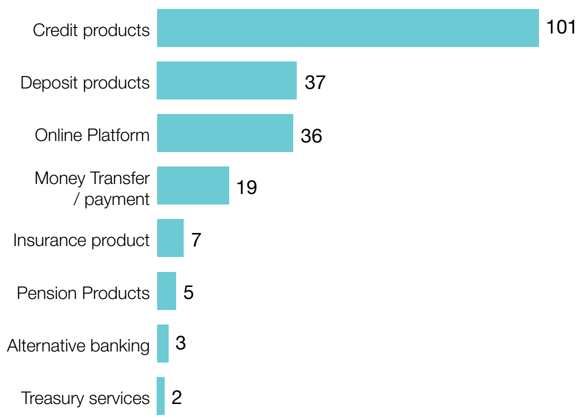
A total of 210 products and services were reported to have been modified by the financial service providers surveyed. Similar to new products, banks had the highest number of modifications at 64% (135 out of 210 modified products or services), with SACCOs at 35 and MFIs at 18. Credit solutions had the highest number of modifications at 48% (101 products or services) followed by deposit products at 18% (37) and online platforms at 17% (36).

Chart 10: Modified products/services by financial service provider
Base: Products modified in 2015 - Aug 2017; n=210



Source; Supply Side Survey 2017

Chart 11: Modified products/services by solution
Base: Products modified in 2015 - Aug 2017; n=210



Source; Supply Side Survey 2017

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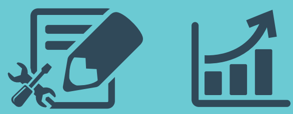
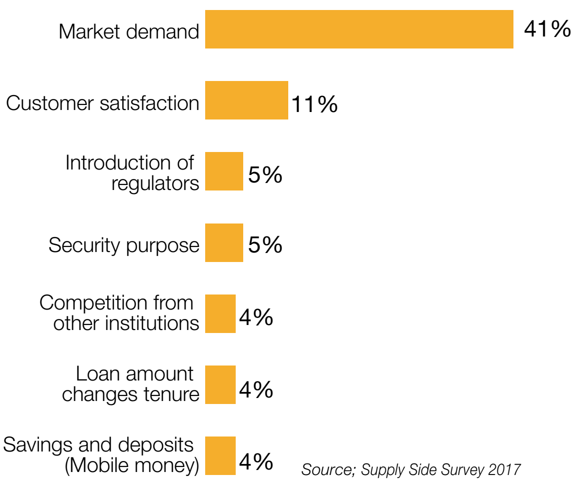
Fact Eight: Most of the modifications were driven by market demand



When the survey probed the main drivers of product modifications, responses pointed to market demand (41%) and customer satisfaction (11%). The results of the survey showed that there was not a large difference between the reasons for modification of credit and deposit products. This shows that adjustments of products were driven by the uptake of products and the customer experience when using the product.

However, how have financial service providers established market demand challenges and needs? Have systematic, data-driven processes steered the process and informed modifications, or were they rather practical, generic, periodic adjustments?

Chart 12: Reasons for modification
Base: all modified products



Source; Supply Side Survey 2017

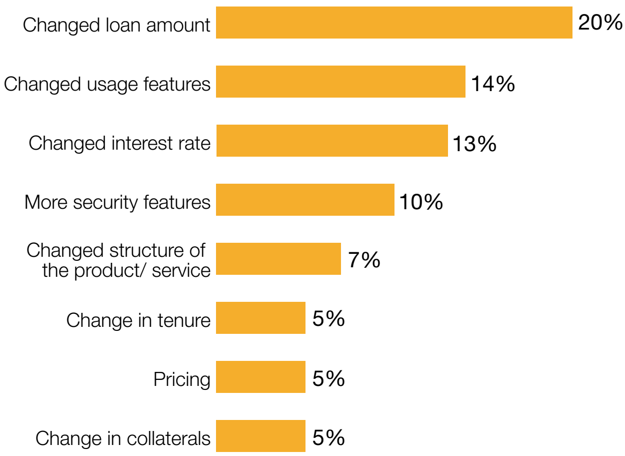
Type of modification	Credit	Deposit
Changed loan amount	25%	
Changed Interest rate	12%	13%
Change in tenure	7%	
Changed structure of the product / Service	5%	4%
Change in collaterals	7%	
Pricing	4%	4%
Changed usage features	3%	3%
Changed terms of the product	4%	

Source; Supply Side Survey 2017

Most of the changes were made to credit products, change of loanable amount, product features or interest rates. The second highest number of modifications were made to deposit products, changing interest rates and the structure of the products. Other changes were revision of collaterals and more security features, especially for cards.

Interestingly, considering the demand-side data, it can be observed that only 3% of adults who have not taken out a loan in the past 12 months considered the interest rates too high, whereas 43% were afraid of not being able to repay the loan. The fear of non-compliance is further underlined by the 35% of digital loan takers who later took bigger loans to re-pay earlier ones.

Chart 13: Type of modification
Base: all modified products



Source; Supply Side Survey 2017

Type of modification	Credit	Deposit
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Change in collaterals	7%	
Pricing	4%	4%
Changed usage features	3%	3%
Changed terms of the product	4%	
Efficiency, competency	3%	8%

Source; Supply Side Survey 2017

C. Target Segments

Who are the products/services targeting?

Market segmentation is the process of dividing the market into distinct groups of consumers with distinct needs. The defined sub-groups, referred to as segments, share similar characteristics including demographic, geographic, psychological or behavioral.

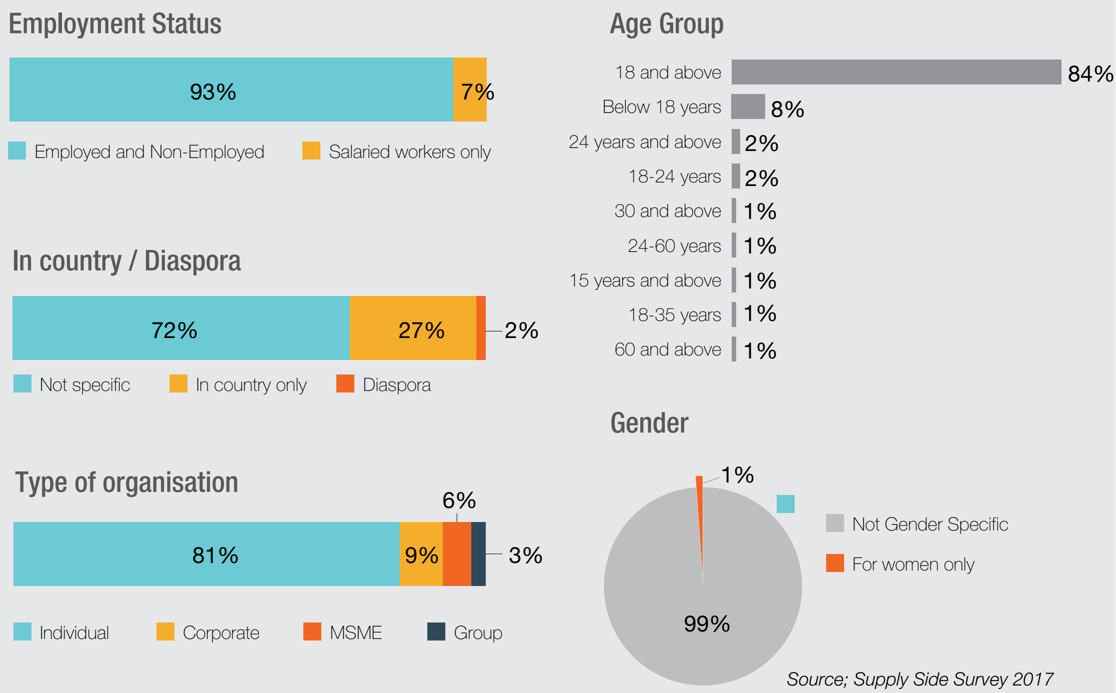
The supply-side survey sought to find out whether the market has introduced products that target specific segments of the market. Segmentation can be useful in identifying high yield segments – that is, those segments that are likely to be the most profitable or with the highest growth potential – so that these can be selected for special attention and become target markets.

9 Fact Nine: The market has few segmented products

The study, as a whole, has looked at a wide range of solutions provided in the market, however this section focuses on the segmentation of deposit, credit and insurance solutions and products.

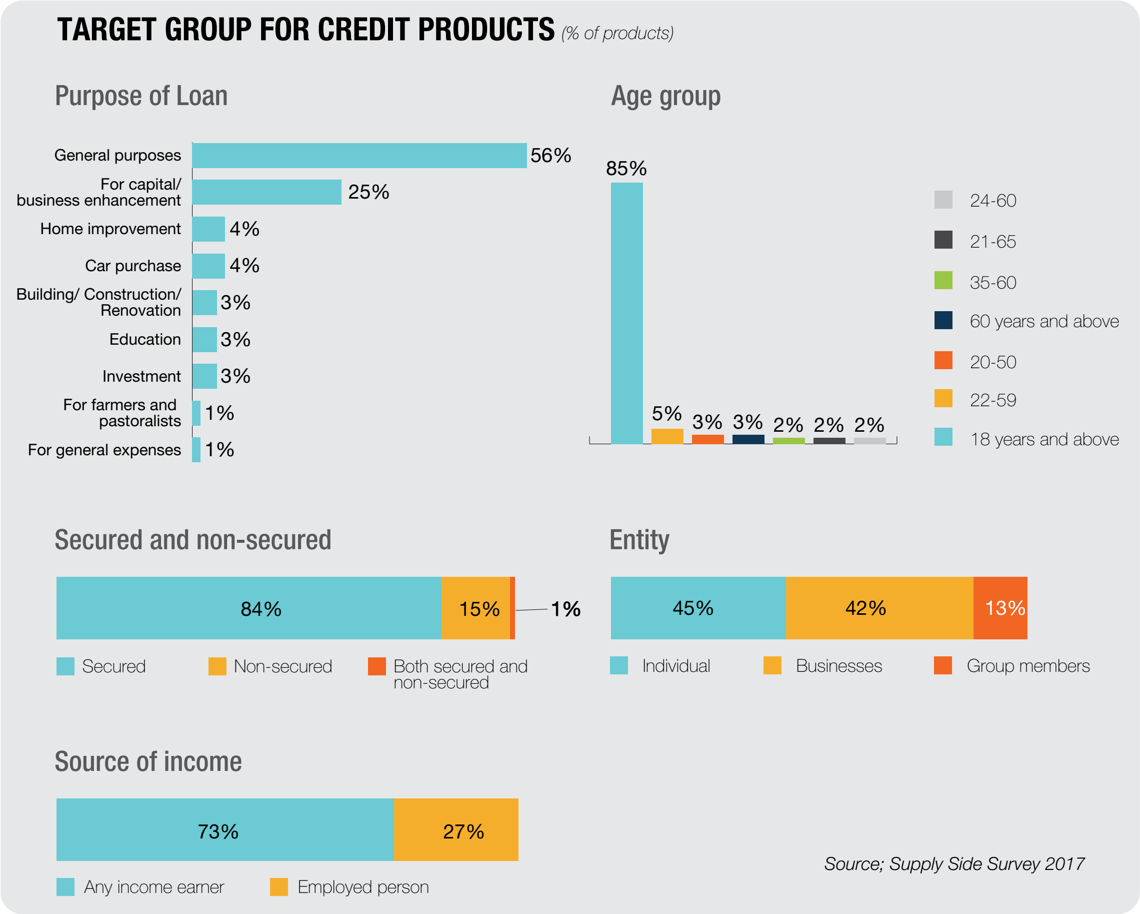
Only a few deposit products have specific target segments based on age, employment status and revenue. From this study, based on the products which had specifications, there were only 4 products targeting Tanzanians living outside the country (referred to here as "diaspora"), 8 products for groups and, overall, 82% of the products are not age specific. The tables below present the most common target characteristics in the market.

TARGET GROUP FOR DEPOSIT PRODUCTS *(% of products)*



Source; Supply Side Survey 2017

Considering the above outlined segments, no segmentation for specific saving needs can be observed. Demand-side data indicates that 45% of Tanzanians save just to manage their cash flow issues and cater for day-to-day living expenses and another 29% utilize their savings as social safety cover in case of emergency situations or medical need. Hence, about three quarters of Tanzanians need instant access to their savings to manage emergency situations or day-to-day shortfalls.



The main criterion for differentiating credit products is by the purpose of the loan, though almost half of the loans are still for general purpose (56%), 15% have a specific age group, while a similar proportion are non-secured. The other significant differentiation is on the entity which is targeted, 45% of the loans target businesses, and a further 42% target individuals. 13% of the loans surveyed target group members.

Similar to savings, borrowing is driven by the need for cash-flow smoothing. 74% of Tanzanians who borrowed in the past 12 months, did so to cover medical costs, living expenses, school fees etc. Though 56% of the loans were for general purposes, a major hurdle for Tanzanians seeking loans is the fact that 84% are secured. With only 4% of people being employed in the formal sector and only about 10% of Tanzanians having some proof of land ownership, the majority of Tanzanians is, by default, unable to access loans within the formal sector and are forced to fall back on informal mechanisms.

TARGET GROUP FOR INSURANCE *(% of products)*

Individual Customers	92%
Corporate Customers	52%
SMEs /Businesses	42%
Groups	1%

Personal and other services	93%
Building, construction, real estate and leasing	64%
Transportation and communication	63%
Tourism, hotel and restaurant Intermediaries	62%
Trade	61%
Financial sector	61%
Agriculture, Forestry, fishing and hunting	59%
Mining and manufacturing	59%

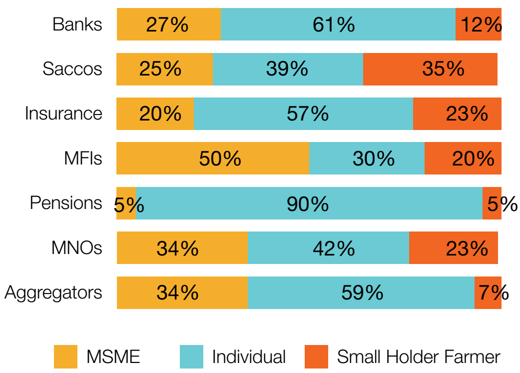
Source; Supply Side Survey 2017

The majority of insurance products are offered to a variety of customer types and cuts across various industries. This indicates a lack of specification of products in the industry and a rather "one-size fits all" approach. Only 6 in 10 insurance products target fishermen and farmers in particular. Considering that 41% of Tanzanians have their main source of income from agriculture, this sector may require more particular attention, keeping in mind that the income they receive within the agricultural industry is seasonal and not comparable with the other industries, where there are regular salaries or wages through casual labor.

10 Fact Ten: MFIs are more likely to target MSMEs

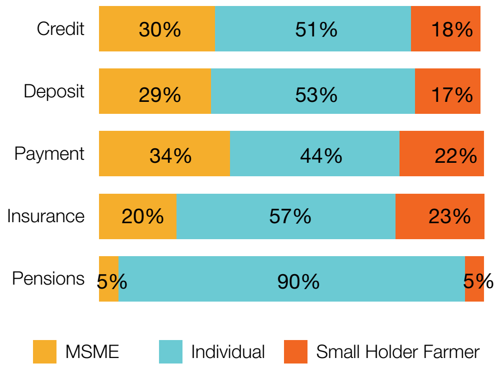
The study went further to assess market segments targeted by different financial service providers. The results of the study showed that almost all the interviewed FSPs have products which target individuals rather than businesses or groups. Only MFIs, who in their core were developed to support MSMEs, target more MSMEs (50%). Pensions appear distinctly designed for the consumer in his/her individual capacity and only target 5% of MSMEs and small farmers respectively.

Chart 14: Target for financial service providers
Base: All products



Source; Supply Side Survey 2017

Chart 15: Target for financial solutions
Base: All Products



Source; Supply Side Survey 2017

D. Distribution / Reach

How are products and services delivered to consumers?

11

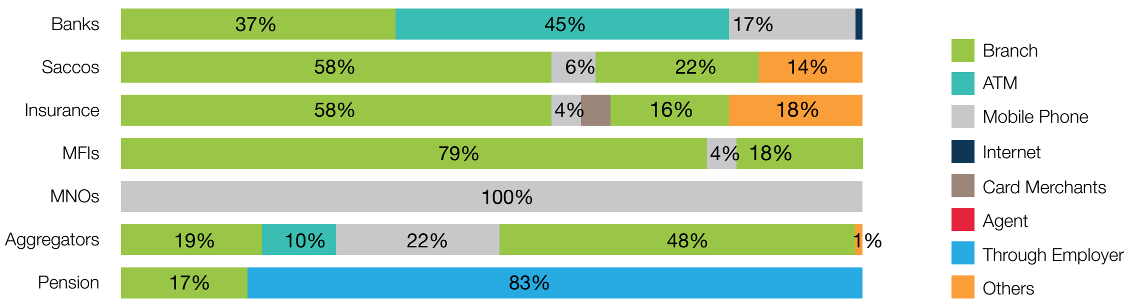
Fact Eleven: Brick-and-mortar still reigns

Traditional financial service providers, such as banks, SACCOs, MFIs and insurance services still mainly deliver their services via brick-and-mortar structures, such as branches, agents and ATMs.

Though Chart 16 indicates that MNO products are exclusively provided through mobile phones. Since even the mobile money agent uses a mobile phone to perform transactions and services the end-user however, may not necessarily consider the mobile phone as a final access point, but rather the agent, especially when using mobile money services.

With 83% of pension products being delivered through the employer, it is not surprising that 6 in 10 pension holders are employed in the formal sector. Has the service delivery channel narrowed the opportunities for uptake?

Chart 16: Target for financial service providers
Base: All products



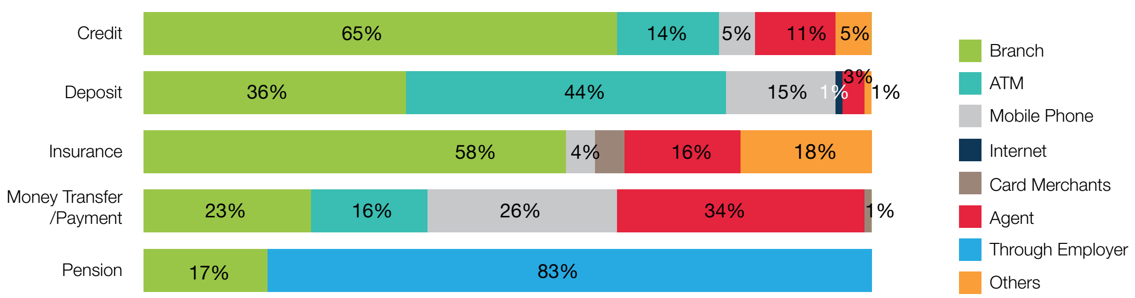
Source; Supply Side Survey 2017

12

Fact Twelve: Access channels vary from solution to solution

Credit is more likely to be offered through branches, deposit through ATMs while money transfer and payments solutions have a balanced offering through different channels. This indicates that the nature of service defines the ideal access point for that service. The question is, "Can some of these services be offered faster using alternative distribution channels?"

Chart 17: Access channels for financial solutions
Base: All products



Source; Supply Side Survey 2017

4 Conclusion

The financial sector in Tanzania offers a diversity of financial service providers, specifically banks, MFIs, insurance companies, pension providers and SACCOs. Furthermore, it encompasses non-traditional financial service providers, like Mobile Network Operators, through their provision of mobile money services. With financial service providers offering over fifteen hundred different products, they provide the Tanzanian consumer with a huge pool of products and solutions to select from. In addition, the sector appears to have embraced innovation and change, with a 16% growth in the number of products and 14% growth in the number of products modified in the market over the past 2 years.

Nonetheless, further analysis indicates that actual uptake of financial products and services has not grown relative to the growth in the number of products launched in the market. The survey has shown that there is no linear relationship between supply and demand side growth, however, but that a solid consumer base can significantly boost uptake of newly introduced products within the market. The survey also showed that product and service ranges can actually be narrowed down to more or less 10 solution categories, which in turn do not greatly diversify to actively target consumer segments.

Though brick-and-mortar delivery channels still lead product and service delivery models across the sector, MNOs have shown that cost-effective service delivery can be achieved, through a combination of mobile technology and piggybacking on the existing network of FMCG sale points. Furthermore, they have provided an environment to save money, without offering a particular savings product. The mere provision of a wallet, just like the cash wallet kept in back pockets or the coins and notes rolled up in the end of a kanga, has allowed Tanzanians not only to easily send money to their friends, family members or business partners, but also to keep their money safely, yet accessible all the time. A further benefit is that it is now possible to borrow money without collateral provision, but with usage history.

For financial service providers to see a reflection of their supply-side induced changes in the demand-side, collaborative approaches and adequate market intelligence are required to address pain points of consumers. Considering the success of the mobile wallet, close observation of financial behavior is a key kick-off point for financial service providers to start their consumer journey. Understanding how people obtain, manage and use their money is the first step to aiding and easing the processes it entails.

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