Digitalizing G2P Transfers in South Africa

A third of South Africa's population, 17M beneficiaries, is reliant on government grants to supplement their income. The South Africa government recently appointed the South African Postbank as their primary distributor of social grants. The Postbank partnered with FSS for its Integrated Grant Payments System to deliver funds directly to beneficiary card accounts, at a lower cost and to improve the program efficiencies.

Banker to the Poor

South Africa has a sophisticated formal banking system with a well-developed financial infrastructure. In 2017, an approximate 75% of the country's population was banked.

South African Post Office (SAPO), the national postal service of South Africa extends financial services under its umbrella brand, the Postbank. The South African Postbank has played a crucial role in bridging the informal and formal economies by advancing the development of the country's financial infrastructure to promote equitable and inclusive growth. In recent times, the Postbank has evolved from a deposit-taking institution into a full-fledged bank, breaking new ground in provisioning formal financial services for the economically marginalized by deploying innovative business models. Notably, (SAPO) serves a tenth of South Africa's population, via its extensive distribution network comprising 4,000 outlets, reaching remote hamlets with little existing financial services infrastructure. To date, the Postbank is the largest individual issuer of Mzansi accounts a simplified savings account with basic transaction capability that a client can access at all branches of participating banks.

The Postbank's track record as a trusted services provider, helped it strike a landmark deal with the South Africa's Social Security Agency (SASSA), an independent government agency that drives and ensures efficient management of the social assistance program, the largest in the African continent, on behalf of the government. As part of the contract, the Postbank would function as the primary issuer for SASSA's grants program, enabling it to further deepen penetration among low-income groups.

The Context for Welfare Payments

In South Africa poverty remains high for an upper middle-income country, with 55% of the population being poor at the national upper bound poverty line of ZAR 992 (USD 77.4) per person per month. Reducing poverty and inequality form an overriding objective of South Africa's development policies and programs. South Africa's social grants system is one of a series of interventions by the Government to bolster living standards.

According to the World Bank, South Africa allocates more funds to social assistance as a proportion of GDP, in relation to other emerging economies and African countries. The spending on social assistance in South Africa equals 3% of the country's GDP. In comparison, within Sub-Saharan Africa, the median proportion is 0.8% of GDP and among upper middle-income countries the proportion is 1.4%. Thus, relative to GDP, South Africa spends almost four times the Sub-Saharan Africa median and 2.2 times that of upper middle-income countries. An approximate one-third of the population relies on the government's social grant scheme for its daily subsistence. For the poorest quintiles, grant income accounts for 71% of total income. Over the last decade social assistance transfers are estimated to have reduced the poverty headcount rate in South Africa by 8%.

Challenges

Given substantive investments in the welfare program, ensuring transparent, cost-efficient, and smooth program functioning is essential. As part of the social grant disbursement system introduced in March 2012, EMV/UEPS Debit Mastercard cards with biometric functionality were being issued to recipients. Beneficiaries could use the card to save, purchase, and transfer monies. The card infrastructure powering the program was proprietary in nature, inflexible to meet new demands and expensive to maintain. The primary challenges included:

Offline System: Due to limited connectivity in remote areas at the time of deployment, the incumbent system supported a biometric-based offline transaction authorization process. Whilst it was beneficial to allow offline authorization to overcome connectivity constraints, it introduced additional challenges related to ensuring host systems and information held on the card remain in sync.

Expensive Architecture: SASSA card accounts were maintained on the Core Banking System (CBS) of the sponsor bank. With the growth in the number of beneficiary card accounts, maintaining basic transaction accounts on the CBS escalated overall costs.

SASSA replaced the incumbent service provider with the South African Postbank, to improve quality of service and contain costs. The Post Office brand is synonymous with affordable reliable services. Its proven track record of being a bankable and trusted service provider and its nation-wide reach influenced the decision in its favor. The Post Bank needed to roll out the new service within 12 weeks, an ambitious and challenging target.

Way Forward

Post appointment, within a few weeks, the South Africa Postbank had to design the program as well as source and implement a new Integrated Grant Management System. The Postbank required a scalable, open-loop Grant Management Systems to reduce costs, improve efficiencies, and enhance the transparency of the welfare payments program. The underlying system to support social protection payment (SPP) transfers needed to support:

EMV 2.0 Specifications
Support EMV card issuance, authorization, and authentication in line with the Payments Association of South Africa (PASA) and South African Reserve Bank (SARB) compliance guidelines.

Customer Origination
Customer origination is initiated with SASSA to validate and award the grant to the beneficiary, thereafter the card account is opened with biometric verification, and a SASSA branded EMV VISA card is issued.

High Scalability for Growth
Scalable architecture to support roll-out of multiple programs for 17M beneficiaries and grow in line with program objectives. Within a short period of time, 10M cards were issued nationally within a period of 6

months. At month-end the SASSA cards generate 98% of the total transactions processed by the county's ATMs for an average period of 4 hours.

Biometric Payment Authorisation
Beneficiaries located in rural areas have access to their grant funds through biometric authorised payments.

FSS and SAPO Collaboration

Choosing the right technology partner for managing grant cards was extremely strategic and a crucial determinant for success, in addition to technology-related competence, the Postbank needed to be assured of the vendor's viability in terms of financial stability, quality of support, alliances and partnerships and management performance.

FSS proposed its Integrated Grant Payment System to the Post Bank. Basis a rigorous selection process, SAPO selected FSS as it fulfilled its criterion on all fronts. FSS submitted a proposal that reflected its experience as a large-scale payment processor and a seasoned partner committed to long-term success of the project throughout the contracting process. The choice of FSS as a technology partner was determined by:

- Three decades of leadership in the payment domain, assuring long-term project sustainability.
- Demonstrable and extensive experience in implementing similar large-scale greenfield as well as replacement projects in a time-bound manner.
- Globally respected organization -- Issuance of 800M cards globally across 25+ large banks
- Local presence in South Africa with on-the-ground experienced payment personnel for support
- Rich system functionality and superior architectural design

Solution - Integrated Grant Payment System

FSS Integrated Grant Payment System (IGPS) is a complete solution that addresses all aspects of the card lifecycle from application processing, account management through renewal or account closure. The system supports customer verification and interfaces with the department of Home Affairs, a centralized biometric system, for proof of life verification of beneficiaries. The system maintains beneficiary transaction information, manages the disbursement of payments to the beneficiary and offers extensive reporting.

For the beneficiary, getting a new SASSA card is a simple five-step process.
- New beneficiaries on receiving a letter of award from SASSA are required to register their biometric along with proof of identification.
- The SAASA id is captured in the IGPS system.
- IGPS forwards the biometric to a third-party system at the department of Home Affairs for onward routing to the national biometric database (HANIS).
- This biometric image is retrieved and matched locally to validate the fingerprint.
- On successful validation, the card is issued to the beneficiary. Customers can instantly activate the card by setting a secret PIN.

Uniquely customers in remote areas can make payments by entering their biometric and national id number, eliminating the need to carry their card. At the backend the FSS IGPS system maps the biometric and the national id number to the card account for cardholder authentication. FSS IGPS is the only biometric-based payment system in South Africa.

The Big Impact

Live in Five Weeks
FSS implementation expertise helped the South African Postbank successfully rollout the service for 10M beneficiaries within five weeks.

Largest Issuer in South Africa
FSS IGPS powers issuance of 10M cards, making this the largest card program in South Africa. During the pandemic, the program enabled the government to disburse assistance to beneficiaries employed in the informal economy. An approximate USD IB was disbursed in the form of grants every month, providing a much-needed lifeline for low-income beneficiaries.

Strengthens SAPO's Position in the Ecosystem
SAPO sees a viable, long-term business case for partnering with SASSA on the grants program. In addition, with the SASSA partnership, SAPO has assumed the role of an issuer, a strategic shift as it helps the Postbank acquire more customers and transactions.

Affordable, Superior, Reliable Services
Designed with affordability as a primary criterion, the new card offers beneficiaries a bouquet of free services. These include:
- 3 cash withdrawals at merchants, retailers, Point of Sale (POS) devices
- unlimited POS purchases
- one cash withdrawal at a Post Office branch
- the first card and one card replacement are free

FSS IGPS supports instant card issuance and activation and provides a simple and convenient service experience to beneficiaries. In the next stages, SAPO would launch a mobile app for checking account balances and conducting basic account operations

Secure System
Unlike the earlier system, FSS IGPS is an online authorization and transaction system. Furthermore, compliance with EMVCo standards deployment of sophisticated encryption algorithms and use of Postbank's HSM key management protects data at rest and in-transit and prevents unauthorized access to sensitive beneficiary account data.

Maximized Development Outcomes
FSS is working with SASSA and SAPO on widening the scope of electronification of payments. Current SASSA-SAPO cards, for instance, allow the card number to be printed as a bar code. This paves the way for wider POS acquiring at an extremely low-cost. Any merchant, equipped with a basic mobile phone, and a barcode reader can function as a payout point or accept e-transactions.