

Friday@Noon on Financial Services in Africa: 2018

by Johan Burger

The NTU-SBF Centre for African Studies publishes a weekly newsletter on issues relevant to Africa. This paper is based on issues addressed in the newsletter.

The financial services industry in Africa has seen a lot of development throughout the past few years, as was the case in 2018.

Mobile telephony has driven the US\$300 million monthly transactions in Africa from 7.2 million new people (up 250% from 2012) using digital financial services and 45,000 new banking agents due to a financial inclusion project. Financial inclusion in Sub-Saharan Africa has increased from 23% in 2011 to 43% in 2017. Mobile money solutions and agent banking now offer affordable, instant, and reliable transactions, savings, credit, and even insurance opportunities in rural villages and urban neighbourhoods where no bank had ever established a branch. Cultural prejudices meant that farmers felt “socially excluded” by traditional banks, but they were more trusting of digital services. In the DRC, mobile money services have risen to 16% by 2017. This has pushed the overall financial inclusion rate from 3.7% to 26% from 2011 to 2017. While East Africa has long been the star performer in terms of the evolution of digital financial services, West Africa is the new growth market.¹

This shows that the mobile phone as a platform business model is gaining traction and scale on an unprecedented scale. Directly, it has vastly increased the percentage of people now formally included in the financial systems of many African countries. It is leapfrogging the traditional development of branch networks in rural areas. Growth in the adoption of mobile money applications is slower in East Africa for the simple reason it has been around for quite a number of years, being the birthplace of the ultimate application, i.e. M-Pesa. West Africa has not yet seen the same adoption rates as in East Africa, and therefore has a far greater growth potential. Mobile also serves as an e-commerce platform, as well as the platform for many sectors, such as agriculture, health, education, and even for paying for solar energy solutions. The pathway to Africa’s consumers in many instances leads through mobile. Companies, big and small, wanting access to these consumers, must keep this in mind.

It can be safely said that Africa is considered a global leader in fintech innovation and adoption. Its low penetration rates for traditional banking services, coupled with high penetration of mobile phones, makes it a rich breeding ground for fintech innovation. More than 57% of all mobile money accounts globally can be found in sub-Saharan Africa, with the African fintech market set to grow from US\$200 million in 2018 to US\$3 billion by 2020. McKinsey recently found room for growth in meeting unmet banking needs in Africa that includes borrowing, saving, and investing across the continent. KPMG found that in Q4 2017, global investors continued to prioritise investment into fintech companies that focus on the B2B market, including payments platforms, SME lending platforms, and SaaS solutions aimed at making back-office operations more efficient. Fintech companies that help solve issues around fraud and customer service will also feature prominently, especially in South Africa, which has Africa’s most advanced financial system, but ranks 23rd on the global cybercrime list.

¹ <https://www.forbes.com/sites/tobyshapshak/2018/05/16/mobile-drives-financial-inclusion-in-africa-growing-20-in-past-six-years/#33ad81833129>

For a while now, Africa has experienced a significant growth in not only mobile money applications, but also the application of mobile technology to most sectors in industry. In the fields of mobile money, the now world-famous M-Pesa stands as a beacon of innovation. It has also been used as the basis for various other applications, such as M-Akiba (government bonds), M-Shwari (savings), and M-Kopa (solar energy payments). Various other mobile money applications exist, such as Paga in Nigeria. Based on mobile technology, we also find various applications in agriculture, tourism, marketing, health, and education, to name but a few. This is not only the case for business to consumer (B2C), but also business to business (B2B).

In Rwanda we have seen the roll out of new tech-based banking facilities by BPR. This has increased the level of financial inclusivity significantly. More Rwandans will now be able to access digital financial services, including micro-loans and bulk money transfers. BPR will introduce agency banking and roll out a mobile micro-lending facility, and various debit and credit cards. The bank has also launched an improved internet banking platform. BPR has already formed a partnership with telecom firms Tigo Rwanda and MTN to launch services. This enables its customers to deposit or withdraw money from their accounts to their Tigo and MTN e-wallets and vice versa. Customers can also pay for different government services electronically. Rwanda seeks to become a financial and digital hub by 2020 where all citizens will be financially included. Formal inclusion was at 68%, of which mobile money added 23%. With more digital financial service products, economies like Rwanda will be able to provide services at low cost, deepen inclusion and make profits. This could attract an additional US\$4.2 trillion in new deposits into the financial system as more people access formal financial services to save and transact.²

Inclusion into the formal financial system in Africa has been a severe challenge for many years. Digital financial services have been a significant contributor to the financial sector in Africa, with no clear indication as to the end of its contribution. It will be interesting to see the contribution cryptocurrencies, if any, will be able to make in Africa.

In Uganda, Centenary Bank has added itself to the growing number of financial service providers targeting mobile phone users. The bank recently launched Cente Mobile Loan, a mobile phone enabled service through which customers will be able to access loans from as low as Shs5,000 up to Shs2 million. The advent of mobile money has afforded more people an opportunity to access financial services, increasing the level of financial inclusion. Banks have over time been challenged to make access to financial services a priority in an era when telecom companies are eating into their market share by offering similar services such as loans and money transfers. The drift towards the use of the mobile phone for financial intermediation is undisputed and the 21 million mobile-based money accounts with a nearly Shs5 trillion worth of transactions annually, is testimony of how this trend cannot be ignored.³

Banks probably rue their initial decisions to ignore the actions of telecom companies when they entered the field of providing financial services to the bottom end of the market. This is where the masses were who did not have formal access to banking services. It is interesting to note that in 2015, a judge in Uganda found that mobile phone operators MTN, Warid, Uganda Telecom, Airtel and Africell were illegally operating their mobile money activities. His reasoning was that they had telecom licences and were not licensed to trade as financial institutions. However, the judge dismissed the case, as the complaint against these institutions should have been brought before a tribunal of the Uganda Communications Commission. A County MP, Abdu Katuntu, initiated the case in order to have mobile money regulated under the Financial Institutions Act. Today we find banks are desperately playing catch-up.

² <https://www.newtimes.co.rw/section/read/228619/>

³ <https://www.monitor.co.ug/Business/Markets/Banks-target-mobile-micro-loans/688606-4372366-kmxkew/index.html>

Funds for start-ups are also a challenge in Africa. A new angel investing network was set to launch in Tanzania in May 2018, to support the emergence and growth of a local angel investor community in the country. The Tanzania Angel Investors Network (TAIN) will be the first community for angel investors in Tanzania. TAIN's mandate is to support and unlock the potential of game-changing start-ups that can disrupt and change the way we live. The network also seeks to provide an organised platform for successful Tanzanian entrepreneurs, executives and those in the diaspora to support these start-ups as angel investors. With many African countries expected to see faster economic growth above 6%, angel investors have a lot of potential. Tanzania's remittance sector provides a rich potential for support to start-ups, given that it receives ~US\$440 million in remittances a year; the same goes for Nigeria, Kenya, Egypt or Somalia!⁴

Formal bank financing is not generally available, and collateral remains a problem for many. Some of them refer to the 3F's of funding for entrepreneurs, i.e. friends, family and fools. Venture capital and private equity numbers are growing in Africa, but are still not that abundant. Angel investors in Africa are not that common at all. Creating a platform to not only support entrepreneurs, but to mobilise other successful entrepreneurs and executives as angel investors, is therefore a great strategy. These people know what it is like and what it takes to be successful. It is a great time to be supporting entrepreneurs, given that 6 of the top 10 fastest growing economies globally for 2018 will be from Africa. Unsurprisingly, Africa's challenges create great opportunities for entrepreneurs, which in turn create great opportunities for angel investors!

In Ghana we find that, according to the World Bank, mobile money has been its backbone in financial inclusion and has spurred increases in account ownership to other financial services. While the current African leaders of mobile money account ownership are Kenya at 73%, Uganda at 51%, and Zimbabwe at 49%, mobile money activity in Ghana has led to an increase in financial inclusion. Ghana is now one of the fastest growing mobile money markets in SSA. In 2009, Ghana had just 350,000 active mobile money accounts, yet now 39% of adults have accounts. Ghana has had an increase of 11 million active mobile money accounts, 30 times more than 2012. There are 151,000 active mobile money agents (25 times more than 2012). The number of transactions stand at 82 million average per month and 7.2 average on a monthly basis per user. The rise in mobile money accounts has greatly changed how people make and receive payments.⁵

We can therefore safely say that mobile telephony has played a significant role in Africa to advance financial inclusion. In Kenya, it drove the figure up from 40% in 2010 to 75% in 2014. Ghana seems to be the new playing field with a massive potential for those interested in getting involved in mobile money. The growth that has taken place, plus the potential still available, makes Ghana an exciting case study. To get to the same level of penetration as Kenya, who has 73% of its people with mobile money accounts, Ghana has to double its current level of people with mobile money accounts. This makes it a very attractive market.

Another country that has become prominent (against expectations) in the mobile money sector, is Somalia. A World Bank report suggests that Somalia has the potential to emerge as the biggest mobile money market in Africa, with the number of mobile money transactions in Somalia surpassing that of Kenya. Kenya recorded 137.4 million mobile money transactions worth US\$3.17 million in June 2018. Somalia recorded 155 million transactions worth US\$2.7 million in the months of 2017. Private sector actors have given Somalia the opportunity to leapfrog towards widespread financial inclusion. Mobile money has superseded the use of cash with over 70% of adult Somalis using mobile money services regularly. In addition to retail payments, mobile money is used for salary transfers, bill payments, remittances and cash transfers, and savings in mobile

⁴ <http://disrupt-africa.com/2018/04/qa-tanzanian-angel-investors-network-to-launch-in-may/>

⁵ <http://businessdayghana.com/mobile-money-on-the-rise-in-ghana/>

wallets. However, there are vulnerabilities in the mobile money market, most notably a lack of oversight by the Central Bank of Somalia, of consumer protection and know-your-customer requirements.⁶

A foreign institution, namely the public-private sector initiative, the LHoFT Foundation, believes that financial technology is crucial to advancing financial inclusion. As such, the foundation launched the CATAPULT: Inclusion Africa – that took place between 5 and 9 November 2018 at the LHoFT, Luxembourg. It was a one week programme of Fintech start-up development, targeting Fintech companies from South Africa, Uganda, Nigeria, Senegal, Tanzania and others that are focused on financial inclusion and keen to build. CATAPULT: Inclusion Africa is leveraging Luxembourg's Inclusive Finance and Fintech ecosystems, as well as LHoFT partners, to support the 14 selected firms in developing their businesses and achieving their inclusion goals, creating synergies between them, partners, sponsors, investors, Microfinance institutions and Public Financial Institutions.⁷

The LHoFT Foundation's belief that financial technology is crucial to advancing financial inclusion, is no longer just a belief, or it should not be. By now, it should be referred to as a fact. The reality is that of banks do not wake up and either create their own fintech applications or partner with the likes of a Safaricom (parent of M-Pesa), they run the real danger of being disintermediated. Supporting new fintech start-ups is admirable. The fact is that there are already quite a number of bigger players (M-Pesa, Paga, Ecocash, Airtel Money, and Pesalink, to name but a few), with either banks or mobile telephony players as parents, that serve the growing market. A number of them are active in a number of countries. One is concerned that small start-ups could fail and create negative conditions for the industry as a whole. Central banks in Africa will definitely be keeping a sharp lookout to ensure that the public is not ripped off.

Despite MTN Nigeria withdrawing its first mobile money service offer in Nigeria years ago after it failed to gain traction, it is now confident of success. MTN announced it would launch mobile money services in its two biggest markets, SA and Nigeria, in the first half of 2019 as part of its efforts to be "the biggest provider of mobile financial services in Africa." MTN was confident of success as large segments of the population in Nigeria were still reliant on cash transactions. Mobile money services would be relaunched in SA in the first quarter of 2019. In Nigeria the Central Bank has agreed to allow mobile operators to act as payment-service banks. MTN, which has 55 million subscribers in Nigeria, will apply for a licence to launch mobile money services in Nigeria in the second quarter of 2019. MTN offers mobile money services in 14 of its 22 markets. It has about 27 million mobile money customers and is targeting 60 million customers in the next few years.⁸

The news of MTN entering the mobile money market in Nigeria is a clear indication that MTN intends not only staying in the Nigerian market (its largest market in Africa), but that it actually intends growing its exposure and footprint in the country. This is a sign of the confidence MTN has in the prospects of the Nigerian market. Given the nature of the market in Nigeria, and the support of the Central Bank, it is likely that MTN will succeed, if the success of M-Pesa in Kenya is anything to go by. However, it will be interesting to see whether they will be successful in SA. Vodacom South Africa, MTN's largest competitor in South Africa, has twice launched M-Pesa in

⁶<http://www.itwebafrica.com/e-commerce/699-kenya/244845-somalia-could-upset-kenyas-mobile-money-dominance>

⁷https://www.esi-africa.com/financial-technology-to-advance-financial-inclusion/?utm_source=Spintelligent+Publishing+mailer&utm_medium=email&utm_campaign=ESI+Daily+Enews+05+November+2018&utm_term=https://www.esi-africa.com/financial-technology-to-advance-financial-inclusion/

⁸ <https://www.businesslive.co.za/bd/companies/telecoms-and-technology/2018-11-13-mtn-to-have-another-go-at-a-mobile-money-service-in-sa-and-nigeria/>

SA, without success. One must say, however, that the nature of the banking industry and the market in general is quite different in SA than it is in Nigeria.

What is also interesting to see is the expansion and diversification of MTN's service offering, indicating that voice and data on their own are not as lucrative as they used to be. Adding value added services is the route to go, and adding insurance and music streaming, in addition to mobile money services and entertainment, will boost their value proposition. MTN already has 55 million subscribers in Nigeria. Cross-selling to this group should be a no-brainer. Banks in Nigeria should be watching this development with trepidation. They were asleep in Kenya when Safaricom opened M-Pesa way back, and have only wakened recently. As Sunil Kaushal, CEO of Africa & Middle East at Standard Chartered Bank in Singapore recently stated, Africa's banks should embrace fintech. This is a greater imperative when Africa's central banks actively support mobile telephony companies' attempts at providing mobile money services. If banks do not do so, they will be disintermediated in the retail banking markets.

Mobile money has been playing a significant role in increasing the numbers of those formerly excluded from the formal financial systems in many African countries. In addition to a lack of access, trust in the formal financial system is also a challenge. Hence the significant growth in the uptake of mobile money. The regulatory environment has become very important, given the scale of the transactions. Any destabilising occurrences in the sub-sector therefore has the potential to destabilise the country's economy.

The formal banking industry in African countries have also experienced a number of developments. Amongst others, Kenya is looking for strong banks that would be capable of withstanding shocks to finance large infrastructure projects, a move that has left the future of about 20 small banks hanging in the balance. In 2018, the Kenyan Central Bank quietly engaged with these small banks in merger and acquisition talks to help them voluntarily close shop. These banks suffered a run on deposits after the collapse of Dubai, Imperial and Chase banks in quick succession in 2015 and 2016 as depositors shifted savings to big banks. Kenya has 42 banks; the 20 small banks control only 8.7% of the banking business, while 8 big banks control 65% and 11 medium-sized banks 25% of the market share. The struggling state-owned banks (National Bank, Development Bank of Kenya and Consolidated Bank) are also looking for strategic investors. The Kenyan Central Bank is striving towards a more transparent, well-governed and efficient banking sector with fewer players, who are larger and more stable.⁹

The principle is always that when you have a situation where there are a large number of unprofitable players, you should look towards a consolidation of the industry by the bigger players, or a large foreign player. The Kenyan Central Bank is clearly a proponent of this principle. A year or two ago, the government of Kenya adopted legislation where banks were restricted to a maximum lending interest rate of 4% above the Central Bank rate, and where they could not pay less interest than 2% below the Central Bank rate. This was in response to the huge returns the banks in Kenya were making, considerably higher than their regional counterparts. The feeling was that the banks were benefitting by exorbitant rates. These restrictions consequently placed pressure on the returns the banks were making, forcing many to tighten their lending practices and risk policies. This whole situation seems to have been bad news for the smaller banks. Given the uncertain situation in the banking sector, it will be interesting to see who would be courageous enough to become the envisaged strategic investors in the state-owned banks mentioned. The stated expectation of a more transparent, well-governed and efficient banking sector with fewer

⁹[https://www.theeastafrican.co.ke/business/Future-of-Kenya-small-banks-murky/2560-4666322-o0hdehz/index.html?utm_source=newzmate&utm_medium=email&utm_campaign=2318&tqid=jOOgcXcnBkABhfrLxrFUmL7ncF1FTDVQV_VbrzhXIQ\\$\\$](https://www.theeastafrican.co.ke/business/Future-of-Kenya-small-banks-murky/2560-4666322-o0hdehz/index.html?utm_source=newzmate&utm_medium=email&utm_campaign=2318&tqid=jOOgcXcnBkABhfrLxrFUmL7ncF1FTDVQV_VbrzhXIQ$$)

players cannot be faulted. The collapse of smaller banks would undermine the general public's confidence in the banking sector, which cannot be allowed.

Remittances have started to play a prominent role in supporting economic growth in African countries. Despite an economic slowdown, most African countries are reported to have a positive economic outlook. Remittance income is deemed to be a panacea to the economic quagmire of Africa. Nigeria was the biggest receiver of remittances, receiving 29% (US\$22 billion) of total remittances flowing to Africa in 2017. Egypt was the second biggest receiver of remittances with US\$20 billion. Remittance flows also continues to play an important role in Ghana, amounting to US\$2.5 billion in 2014 (18.6% of exports); in 2017 they declined to US\$2.2 billion (15.8% of exports). As remittances play an important role in African economies, policies should focus on reducing the cost of remitting funds.¹⁰

According to the World Bank, remittances sent by 31 million international African migrants reached nearly US\$40 billion in 2010, equivalent to 2.6% of Africa's GDP. However, the true size of remittance flows to Africa, including unrecorded flows through formal and informal channels, is believed to be significantly larger than the official data. After FDI, recorded remittances are Africa's largest source of foreign inflows. As such, remittances generate large benefits for Africa and tend to be stable, and often counter-cyclical, compared to other private flows and help to sustain consumption and investment during economic downturns. Remittances are also associated with reductions in poverty, increased household resources devoted to investment, and improved health and education outcomes. Based on the information above, total remittances to Africa in 2017 amounted to ~US\$76 billion, a 90% increase since 2010. Africa's diaspora therefore seems to be contributing significantly to its growth. It would be interesting to see why Nigeria and Egypt's remittances constitute such a large portion of the total sum (55%). The other 52 African countries therefore only contribute 45%!

The author, Johan Burger, is the director of the NTU-SBF Centre for African Studies, a trilateral platform for government, business and academia to promote knowledge and expertise on Africa, established by Nanyang Technological University and the Singapore Business Federation. Johan can be reached at johan.burger@ntu.edu.sg.

¹⁰[https://www.independent.ng/remittance-income-will-drive-economic-growth-for-africa-report/?utm_source=INL+Newsletter&utm_campaign=18140fd929-EMAIL_CAMPAIGN_11_27_2017_COPY_63&utm_medium=email&utm_term=0_f3778aa635-18140fd929-128145037&ct=t\(EMAIL_CAMPAIGN_11_27_2017_COPY_63\)&mc_cid=18140fd929&mc_eid=74a42fa4b2](https://www.independent.ng/remittance-income-will-drive-economic-growth-for-africa-report/?utm_source=INL+Newsletter&utm_campaign=18140fd929-EMAIL_CAMPAIGN_11_27_2017_COPY_63&utm_medium=email&utm_term=0_f3778aa635-18140fd929-128145037&ct=t(EMAIL_CAMPAIGN_11_27_2017_COPY_63)&mc_cid=18140fd929&mc_eid=74a42fa4b2)