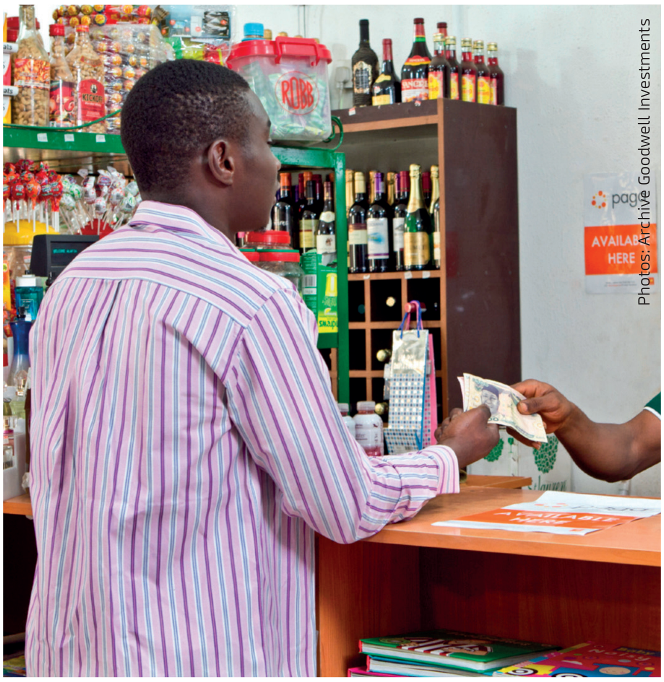
Tackling financial inclusion in Africa

BY KIM HUMBY

2.7 billion people around the world live on less than $ 2.5 a day, while 2 billion people do not have a bank account. Financial services play a key role in creating an inclusive economy, giving people access to the economic system, creating opportunity and allowing them to access payments, savings and credit facilities. What are the key developments in Africa to tackle financial inclusion according to CEOs from African fintech-focused firms?

What is often misunderstood, is that many financial services technologies originate from companies on the African continent and that Sub-Saharan Africa in particular is the birthplace of many innovative solutions that could benefit hundreds of millions of underserved people around the world.

'In many ways, Africa has been at the cutting edge of financial services for years. For example, in Europe there is currently no way to send money across borders in real-time without the sender and recipient both having a bank account, but it's possible in Africa', says Dare Okoudjou, CEO of MFS Africa, Africa's most interconnected payments platform. With this statement he addresses just one key development that has shaped Africa's financial inclusion ecosystem.



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The African continent has rapidly developed its IT and telecom infrastructure over the last decades and the continent now has more than 800 million registered mobile phone connections. These rapid developments are predominantly aimed at allowing hundreds of millions of unbanked people to become included in the system.

How can financial technology contribute to a better and more inclusive society?

According to Vahid Monadjem, CEO of Nomanini, a fintech platform for the informal retail ecosystem, financial inclusion means 'making the tools of modern finance widely available to the broadest set of individuals and businesses so that they can become more prosperous and secure.'

Siya Ntutela, CEO of Zande, a South-African company that provides last-mile distribution to informal retailers, agrees: 'Access is the first step towards becoming financially included.'

Cameron Goldie-Scot of Musoni, which provides banking software for microfinance organisations, defines financial inclusion as having access to credit to invest in your business, a safe place to store your savings, insurance to safeguard against emergencies, and straightforward ways to transfer funds to friends and family.

What are some of the differences between providing financial services in Africa and in Europe?

'In much of Africa, the median income is a fraction of the median income on a continent like Europe. Operating in these markets means working on a thinner income base, which is often more widely distributed across geographies and languages. Compounding this further is a significant deficit in infrastructure which, while being addressed, cannot be taken for granted,' explains Monadjem. Additionally, insurance and insurance technology

(insurtech) is less well understood in Africa than in developed markets such as Europe. 'Voluntary insurance take-up is still very low. Fewer than 10% of adults have insurance in most African countries, yet the need for insurtech is arguably even bigger here than in the developed world,' says Jeremy Leach of Inclusivity Solutions, a digital insurance provider.

What are some of the current trends in financial services in Africa?

CEOs have witnessed a rapid increase in the number of digital loans - in particular in Kenya & Nigeria - over the last years. Goldie-Scot explains: 'In Kenya, 77% of borrowers have taken out only digital loans, and a large number of these are taken from organisations that have no human contact with their clients.'

In part, as a result, digital loans have higher default rates. However, the sector has realised that for low-income or underbanked individuals, it's more effective to combine a high-touch model with the latest technology. As a result, more financial organisations are looking for technology solutions, such as state-of-the-art cloud-based banking systems for microfinance institutions, to complement their existing branches and field staff, rather than replace them.

This strategy of high-touch and direct personal contact, combined with the application of cloud-based tech, is being applied across the financial sector and beyond. Well-connected fintech solutions and local agent networks deliver the best social and financial results, as Paga, a leading payment and mobile money platform, has demonstrated by serving over 12 million customers through its network of over 22,000 local agents.

Where informal meets formal

'Informal retail is the cornerstone of retail in Africa. More than 80% of retail transactions take place in informal markets, in small kiosks on street corners and on tabletops in open-air markets,' says Monadjem. 'While modern retailers have financial tools to do things like finance stock, retailers in the informal spaces lack these means.'

Africa's supply chain is fragmented and inefficient, which is why new solutions, such as those offered by Nomanini, are thriving at the point where supply chain management, logistics and financial services meet. Sendy, a Kenyan company that offers a platform for e-commerce door-to-door deliveries, and Zande are further examples.

Zande is building an e-commerce platform to enable informal businesses to participate meaningfully in the supply chain. It illustrates the next phase of transformation, which will be dominated by business solutions and services where formal markets meet informal markets, and where digital interaction meets the personal interface.

High standards

'In Africa, mobile money revolutionized the financial services industry by expanding access and leveraging the ubiquity of mobile agents. It also introduced two important elements of the mobile experience into financial services: a mobile-first approach on the part of the provider, and the expectation of real-time service on the part of the customer,' says Okoudjou.

In Africa, building financial services off of the systems that send calls and messages in real time has led customers to expect these services to work similarly; there is no tolerance for the three-to-five-day waiting period that a money transfer might take via bank. Thus, financial services have been developed to meet high technology standards and even higher consumer standards.

This gives many African fintech companies a very strong foundation for future growth, according to the CEOs, including outside the continent. Lidya, which provides financing to small to medium businesses, has already taken the first step with its entry into the Eastern European market, while Paga is expanding into Mexico. The CEOs all mention that fresh capital is needed to address all challenges, especially now. «

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