5 ways Africa's payments industry is evolving

By Vaughan Alexander

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Africa is still home to a large unbanked population. Eighty percent of adults in sub-Saharan Africa don't use any formal or informal banking facilities, and only 5% of adults have a credit card. It's not just customers who are excluded: even in the relatively advanced South African market where 75% of adults have a bank card, only 6% of sellers or merchants accept card payments.

Image source: Getty/Gallo

There is a fundamental shift taking place in the African payments sector, driven partly by public and private sector efforts to bring more people into the formal economic fold, and partly by a proliferation of mobile phones that is connecting more of Africa's citizens to vital information and app-based services.

The World Economic Forum estimates that 93% of African have access to a mobile phone. In contrast, only 65% have access to electricity at their homes, and only 30% live in areas with functioning sewerage systems.

The changes in Africa's payment landscape

This over-reliance on cash transactions has stunted efforts to foster greater financial inclusion, but it has also inspired a new generation of fintech innovators to develop and launch novel ways to introduce African customers to modern financial and value-added services. Global investment into payments alone amounts to $40bn in 2017 following more than 1800 deals. In Africa, investors provided funding of more than $92m to 57 fintech start-ups between January 2015 and May 2017.

What's fuelling innovation in Africa's thriving payments sector? Through our work with retailers and service providers across the continent, we've seen the following five factors driving innovation and change in payments:

1. The drive for financial inclusion

In 2012, a study by the International Finance Corporation found that only a quarter of adults in Africa had access to the financial tools needed to grow small-scale businesses, plan for future household expenses, make investments into schooling and health, and deal with emergencies. By 2018, this figure had grown to a hugely encouraging 43%. In countries such as Kenya, Tanzania and the Democratic Republic of Congo, the financial inclusion rate has more than doubled in the space of six years.

The South African Reserve Bank has written financial inclusion into its strategic objectives, commenting that "cooperation and collaboration among industry stakeholders should ensure that the national payments system contributes to deepening financial inclusion by providing access to the effective use of formal financial products for all South Africans."

2. Mobile and the connected consumer

Gartner predicts that there will be more than 20-billion devices connected by 2020, nearly four for every person on Earth. Each device will generate data, and as customers become more comfortable with sharing their data in exchange for value or convenience, businesses – especially retailers – will soon have access to unprecedented insight into consumer habits, needs and expectations.

Retailers will need to look for payment options that connect the online and in-store shopping environments and enhance the overall shopper experience. By using data, retailers can choose to engage with customers at every stage of the customer journey. The payments experience will need to be a primary consideration for retailers in this era of connectedness and should build seamless customer experiences into their DNA.

3. Disruptors becoming enablers

A McKinsey analysis of the global fintech industry suggests that a new spirit of cooperation between fintechs and incumbents is emerging. A number of global banks are even pursuing large-scale partnerships with their fintech challengers. JPMorgan has partnered with a range of start-ups offering everything from small business lending to mortgage technology to secure messaging. European bank ING established a EUR300m fund for fintech investing and has partnered with 115 start-ups over the past few years.

In Africa, a number of banks ranging from Citibank to Barclays to Standard Bank, have established fintech accelerators, made direct investments and engaged in exciting proofs of concept to gain affordable access to innovation capabilities. Financial institutions such as Old Mutual are partnering with start-up initiatives to gain improved visibility over emerging fintech innovation and identify opportunities for updating its business model.

4. Regulatory changes

According to the Capgemini Financial Services Analysis 2018, the snail-paced progress with electronic payments is due to pervasive use of cash by a largely unbanked population in a policy environment that is not optimised to enhance the broader electronic payments ecosystem. For rapid uptake of electronic payments, growth needs to be enabled by a combination of "supply enablement and demand stimulation, and a collaborative approach that delivers visibility to suppliers and value to buyers."

In Europe, the prospects for future payment innovation are rosy as the second Payment Services Directive (PSD2) makes its effects felt. PSD2, which was implemented in 2018, aims to improve competition and innovation in payment services through informed consent of data sharing and improved security and customer authentication. It breaks up the banks' monopoly on customer data and relationships by giving merchants and processing companies access to customer account information to improve the speed and efficiency of payment services.

5. Data & the seamless customer experience

The growth in digital financial services and rise of the connected consumer has made data the most valuable resource in the world. As *The Economist* states, “Data is the new oil”.

In the realm of digital financial services, data can guide the development of market insights, improve operational management and ease credit scoring. Mobile use and social media give financial services providers access to additional data sources that can be used for improved risk assessments, especially among those who were not part of formal financial services in the past. In this way, data can support greater financial inclusion by opening the door for unbanked people to gain access to loans or credit.

Most importantly, data enables payments providers to make decisions based on actual evidence. The growing sophistication of data analytics tools has also improved the quality of insights gained from analysing data.

ABOUT THE AUTHOR

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