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Fintech – Disrupting Africa's Financial Services

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With a growing young, middle class population, and rising levels of social networking and mobile phone penetration (67% in 2015, projected to rise to 80% in sub Saharan Africa in the next five years)[i], it is unsurprising that fintech in Africa has disrupted the continent's financial services industry, setting an example for the rest of the world. Fintech has been phenomenally successful (particularly in Kenya, Nigeria and South Africa) in overcoming the challenges faced by traditional banks (e.g. high infrastructure costs and credit scoring difficulties), and transforming financial inclusion across Africa. 12% of all Sub-Saharan African adults now have a mobile money account, and fintech has also spurred job and wealth creation (with the number of fintech start-up jobs in South Africa increasing 1,400% since the start of 2016), and access to an innovative range of products. However, the African fintech success story does not necessarily resonate in all of Africa's 54 markets, particularly those poorest countries, where mobile/internet and bank account penetration remain at their lowest. This article explores limits to the success story, and the future of fintech across the continent.

With a growing young, middle class population, and rising levels of social networking and mobile phone penetration (67% in 2015, projected to rise to 80% in sub Saharan Africa in the next five years)[ii], it is unsurprising that fintech in Africa has disrupted the continent's financial services industry, setting an example for the rest of the world.

Africa has traditionally experienced low financial services penetration, with only 24% of Saharan Africa adults having access to a bank account at a formal institution[iii]. This under penetration is due to many reasons, including limited access to bank branches, high infrastructure costs, lack of diverse/innovative products, and credit scoring difficulties.

However, fintech has been phenomenally successful in overcoming the challenges faced by traditional banks, and transforming financial inclusion across Africa. These challenges have been overcome, in part, by avoiding infrastructure limitations and using other data sources (e.g. mobile phone usage) to measure credit worthiness. As a result, some claim fintech players want to "eat the lunch" of banks in the core credit functions of payments, storing value and credit[iv]. Consequently, fintech has made significant strides[v] in servicing the continent's "unbankable", and providing access to a diverse demographic and income base of customers (including, notably, SMEs). Against this background, the IMF reports that 12% of all Sub-Saharan African adults have a mobile money account[vi]. Fintech has also spurred job and wealth creation, with the number of fintech start-up jobs in South Africa increasing 1,400% since the start of 2016[vii].

This success is particularly marked in key African jurisdictions, such as Kenya (M-PESA still remains among the continent's leading mobile based money transfer providers), Nigeria[viii] and South Africa, where fintech prominence is at its highest. A broader consumer base now has access to an innovative range of financial services. These range from BitPesa's pan-African digital payments platform (which uses Bitcoin for international payments/transfers), Nigeria's Social Lender (which provides loans guaranteed by a consumer's social media profile and network[ix]), and South Africa's Jumo (which allows consumers to apply for loans based on their smartphone usage (e.g. how much airtime the consumer buys))[x].

However, the proliferation of African fintech has some limits. As a continent comprising 54 separate markets, each with its own particular challenges, the African fintech success story does not resonate in all of them. While the fintech boom is projected to take off even further in Angola, Ghana and Tanzania, in particular, this is not the case in other countries. For instance, fintech has had little impact on servicing the unbankable in the continent's poorest countries (e.g. Chad, Eritrea, Sierra Leone and Niger), where mobile/internet and bank account penetration remain at their lowest. Additionally, some say that fintech is still not doing enough to facilitate access to financial products fast enough to meet rising consumer needs and sophistication. This includes mortgage, insurance and saving products (farmers, in particular, often critically need these products to continue investment to drive productivity)[xi], and targeting women, who have traditionally faced discrimination in some property rights, hindering their access to credit, due to their low credit ratings[xii]. Further, it is said that de-regulation across the continent is not happening fast enough, ultimately hindering a rate of growth that keeps up with consumer demand[xiii].

That being said, it is hard to argue that fintech has not, by any definition, successfully disrupted Africa's financial services industry. Its success has only consolidated the downward capital investment into "traditional" African financial services, which face their own challenges, owing to falling commodity prices and volatile world markets[xiv]. With this in mind, fintech received the second highest amounts of funding in 2015 in Africa, after the solar sector, having attracted 29.6% over the course of the year[xv]. Given that significant parts of the continent still remain untapped, this figure looks set to rise further, connecting a sophisticated and innovative range of financial products to millions of Africans, who would otherwise be left behind.

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i "Africa's mobile phone penetration now 67%", The Guardian NG, 17 June 2015.

ii "Africa's mobile phone penetration now 67%", The Guardian NG, 17 June 2015.

iii "Measuring Financial Inclusion, The Global Findex Base", World Bank, April 2012.

iv "Africa's Banker of Tomorrow: Armed with Fintech and Fuelled by Data", The Africa Report, 20 September 2016.

v KPMG has reported that only 4% of customers interact with their traditional banks using social media on a weekly basis, and face pressure to reinvigorate and refresh their web assets, and add robust capabilities that respond to their customers' technological sophistication ("Africa Banking Industry, Retail Customer Satisfaction Survey", KPMG, September 2016).

vi "Evolving Banking Trends in Sub-Saharan Africa, Key Features and Challenges", International Monetary Fund (African Department), September 2015.

vii "Fintech jobs increase by 1,400% in SA", Disrupt Africa, 27 September 2016.

viii In particular, smartphone penetration has hit 30% in Nigeria ("Nigeria: Smartphone Penetration Hits 30 Percent in Nigeria", the Guardian NG, 8 July 2016).

ix Social Lender uses an algorithm to create a "social reputation score" for each of its customers, with "social guarantors" acting like their referees ("How your social media reputation could secure you a loan", BBC, 2 September 2016).

x Ibid.

xi "It's time for a financial and banking revolution in Africa", World Economic Forum, 6 May 2016.

xii "Banking in Africa: 'We need to be innovative: mass adoption, then profit', The Guardian, 30 June 2016.

xiii Tanzania, Kenya and Rwanda were ranked in 2016 as leading East Africa/Sub-Saharan countries for having an "enabling environment" for financial inclusion by the Economist Intelligence Unit's Global Microscope 2016. This is owing to a number of factors, including Tanzanian regulators facilitating an inclusive environment to support the growth of the financial services industry more generally. This includes enacting the Tanzanian National Payment Systems Act and Electronic Money Regulations in 2015, which expand consumer protection for consumers of financial services ("Tanzania tops Africa in financial inclusion drive", the National Newspaper Daily News (Tanzania), 7 November 2016.

xiv Capital investment into the traditional financial services industry fell from $2.19bn in 2011, to $1.40bn in 2015 (fDi Intelligence, 2016).

xv "The Growth of Fintech Startups in Africa and Why the Growth is set to Continue", Tech Bullion, 28 September 2016.