Powering Financial Access

How fintech drives financial access & inclusion in Africa

finch technologies

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Building a Fintech Pipeline

Given the pace of mobile phone penetration and the abundant entry of new, innovative Africa-focused financial products and services, it could be surprising when reminded of the enduring level of financial exclusion on the continent.

Despite 80% of men and 69% of women in Sub-Saharan Africa owning a mobile phone, financial exclusion – which refers to a lack of access to formal, affordable financial products and services – remains profound.

Recent data reports that at least 66% of Africans are without bank accounts, with the associated expense, a lack of knowledge and geographical isolation having been flagged as key inhibitors to financial inclusivity. In Sub-Saharan Africa, around 62% of unbanked adults in the region are rural dwellers, while 31% consider distance a barrier to entering the formal banking system.

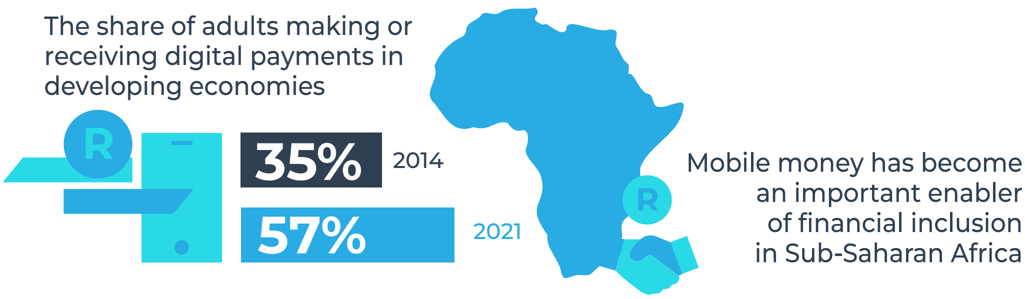
Meanwhile, the African population is expected to double to 2.5 billion (bn) by 2050, with much of this growth in urban centers.

Neither a lack of financial product innovation by business, nor a limited target market is prolonging high levels of financial exclusion, but rather an inefficient pipeline between enterprises that have developed a solid financial product and the consumers that stand to benefit from it.

Mitigating recessionary risks

It is here that financial technology (fintech) is proving its mettle in African markets and serving as a lever to financial inclusion, decreasing the costs borne by financial service businesses and allowing them to pass this cost-saving on to the end consumer.

While financial inclusion rates on the continent are low, there is steady improvement. The World Bank outlined in its Global Findex Database report



It remains critical to build on these gains, given recessionary risks such as increasingly high inflation, slow economic growth and food scarcity.

> *"Expanding...access to finance, reducing the cost of digital transactions, and channeling wage payments and social transfers through accounts will be critically important to mitigate the reversals in development from the ongoing turbulence,"* - the bank states.

Public-private partnerships between government institutions and fintech businesses have made significant progress in enhancing financial inclusion and assisting with payments and transactions involving parastatals.

In March 2012, a collaboration between established payment innovator MasterCard and the South African Social Security Agency (SASSA) saw the introduction of a new biometric grant payment disbursement system to minimise fraudulent grant applications and collections and reduce grant administration costs by distributing all grant payments electronically. Since this has been initiated, the program has been opened up to the broader market where a large number of these beneficiaries now have their own accounts at the big 5 banks.

A crucial feature of the SASSA card's biometric functionality is that it positively identifies social grant recipients using unique identifiers such as fingerprints, voice and other personal information, which means that the SASSA cards cannot be used by any person other than the approved beneficiary.

As part of the SASSA re-registration process, each recipient has a linked bank account into which recipients can deposit funds into their bank account via electronic funds transfer (EFT) or third-party bank transfer.

For many grant beneficiaries, this was the first time they have held a bank account in their own name.

The SASSA Debit MasterCard card can be used anywhere MasterCard cards are accepted, and grant recipients can make purchases, check their account balances and withdraw cash at till points without incurring transaction charges at selected South African retailers. Recipients can also withdraw cash at any ATM.

Within a year of launching, 22-million social grant beneficiaries had re-registered onto the new system and were utilising the additional features. This project is a prime example of innovation that has catapulted financial inclusion and brought a host of people into the financial market who have now moved into the main market.

Mobile money: Leapfrogging the tech market

Among the most in-demand fintech products in Africa, mobile money systems have become an important driver of financial inclusion in Sub-Saharan Africa (particularly for women) as an enabler driver of account ownership and payments, saving, and borrowing.

The World Bank reports that

33% of adults in Sub-Saharan Africa had a mobile money account in **2021**

three times larger than the **10%** global average

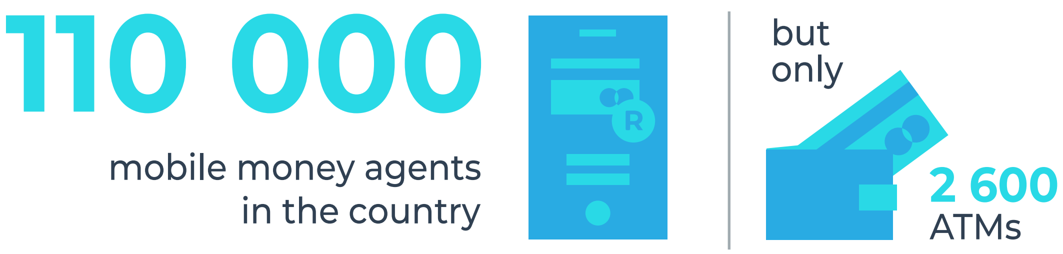
Interestingly, the bank notes that, while mobile money services were first launched to allow the payment of remittances to friends and family living elsewhere in the country, adoption and usage have spread beyond those origins.

“About three in four mobile account owners in Sub-Saharan Africa used their mobile money account to make or receive at least one payment that was not person-to-person. Mobile money accounts have also become an important method to save in Sub-Saharan Africa, where 39% of mobile money account holders used one to save,” states the report.

In Kenya, mobile money offering M-Pesa has seen spectacular success. The service, which was launched in 2017, first allowed users to send and receive money via SMS and has since been expanded to offer other financial services such as access to savings and credit.

M-Pesa is used by at least one person in 96% of Kenyan households, allowing them to deposit and withdraw money from their accounts through a network of local agents.

This Kenyan market example demonstrates how mobile money has succeeded in leapfrogging other fintech services in emerging markets in 2014 there were:



The impressive uptake of mobile money systems in Africa continues to put pressure on traditional legacy banking systems, forcing the formal banking market to innovate as users demand cheaper, more flexible and more widely accessible financial services. A survey by central bank and FSD Kenya, concluded that over 41% of the population held bank accounts, a massive increase from the 2006 stat of 14% when they first did the survey. Comparatively, active mobile money users were sitting at over 60% of the population, of which each at least 50% were M-Pesa users.

While mobile money systems have undoubtedly increased financial inclusion, recent research by the United Nations Capital Development Fund suggests that further fintech intervention will be required to create meaningful, long-term personal wealth sovereignty on the continent.

Over the last ten years, between 73% and 81% of customers that were registered for mobile money did not make a single monthly transaction.

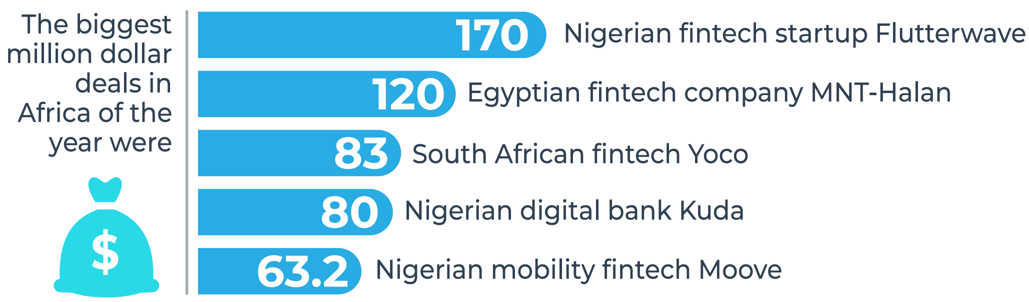
> *"This seems to counterpoint assumptions that mobile money, on its own, alleviates poverty, transforms lives, or is a solution to a commonly held problem for most people. It is likely only a component of solutions that strive to improve market efficiency and resilience in informal cash-based economies,"* - states the UNCDF.

Fintech: The African Sunrise Sector

Financial service providers on the hunt for capital to fund the integration of fintech into their processes don't have far to look.

Fintech enterprises focused on Africa remain in the crosshairs of investors in 2021, with the continent seeing $3.3bn injected into fintech startups by the end of the year.

Venture capital funds based in Europe, the US and the UK continue to scout for viable investment targets and are most interested in financial service providers that have incorporated fintech in their offerings. Disrupt Africa reports that:



The average deal size more than doubled on 2020 figures, increasing from over $1,7 million to $3,8 million in 2021, Disrupt Africa outlines in its African Tech Funding Report 2021.

Several development funding facilities have also emerged in response to fintech growth, with the likes of the African Development Bank's Africa Digital Financial Inclusion Facility working to address systemic barriers to the growth and uptake of digital financial services 'by making strategic and catalytic investments in the ecosystem throughout Africa".

Most recently, in April 2022, the ADFI announced a fourth round of financing of $54.8 million, which will benefit almost 69,000 women entrepreneurs in developing economies with access to digital technology and finance.

Funding for African fintech's is likely to accelerate further in 2022, with Nigeria, South Africa, Kenya, and Egypt likely to attract the lion's share of funding in 2022.

Much of this is likely to be disbursed to SMEs, with the World Bank iterating that closing the credit gap for SMEs will enable agile, innovative finance solutions and have a profound social and economic impact with a multiplier effect.

In terms of the most in-demand financial services, the digital payments space has posted remarkable growth in Africa in recent years and has attracted novel and innovative fintech payments solutions.

Adults making or receiving digital payments now outpaces account ownership, with the number of adults making or receiving digital payments in developing economies growing from 35% in 2014 to 57% in 2021, bolstered largely by the impact of Covid-19.

> *"Hundreds of millions of unbanked adults receive payments in cash—such as wages, government transfers, or proceeds from the sale of agricultural goods. Shifting these payments to financial institution or mobile money accounts could create an entry point for increasing account ownership among the unbanked,"* - states the World Bank.

Digital payments include the use of a mobile money account, a debit or credit card, a mobile phone, or the internet to make a payment, receive money, or send money from an account.

From Bricks to Clicks

African financial service providers enabled with an enterprise-level financial tech stack are able to reduce their cost of operational capital, disbursing more funding or providing enhanced financial services to clients. Theoretically, this should be able to lead better financial access and wider financial inclusion due to innovations in financial offerings.

Financial services businesses operating call centers and managing brick-and-mortar premises are liable for costly associated expenses that can be mitigated through the introduction of supportive fintech that digitizes manual infrastructure.

Additionally, manual processes can result in prospective client drop off (up to 40%), human error and lengthy processing times. Unlike digital processes, which allow for instant decision-making, client applications and approvals may take several weeks.

While plug-and-play and bespoke options are available, not every business requires a reinvention of the technology stack, and a variety of existing white-label fintech options serve those looking for standardised solutions.

Fintech allows financial service providers to:

- Rapidly enter a new market with agile solutions
- Use data to improve the understanding of their client
- Enhance database origination and lead allocation
- Improve the ease and lower the cost of customer onboarding
- Secure enriched client data
- Allow for customer enrichment
- Improve customer onboarding rates
- Reduce the levels of client attrition

Financial service enterprises that resist digitization run the risk of retaining redundant and cumbersome products that are unsuited to an evolving market and stall innovation.

Customer-centric fintech further allows businesses to pass on their cost-and time-savings to the client by eliminating laborious multi-channel onboarding and application processes at significant operational cost and proving access to a multitude of services or solutions at a single digital location.

Putting these theories to practice
- Finch Technology Case Studies

Gathr Solution

Finch Technology's Gathr solution is a complete digital onboarding solution with powerful modules that radically changes the way companies onboard potential customers:

- Takes a detailed look into affordability, expenses and a clear understanding of an individual's financials
- Verifies that a particular applicant is the owner of the bank account they claim
- Matches and verifies a South African ID with the Department of Home Affairs
- Reads document address and verifies against application data
- Allows the signing of a document using an IP address and time stamp to verify the signature
- Provides a detailed summary of the credit history and payment records from a customer's credit accounts

Gathr Case Study 1

gathr

Company type:

Personal Finance Lender

Industry:

Financial services

Why solution was needed

The lender had experienced a 60% drop-off due to a cumbersome legacy document collection process.

Solution provided

We provided the lender with our Gathr End2End (E2E) solution, which incorporated document collection abilities into the application process.

This manages the entire borrower application and document collection process on behalf of the lender and enables it to make instant lending decisions.

This includes instant verification of the applicant's ID, bank account, credit profile, proof of address and e-signature.

Results

Circa 44% increase in conversion rates

Decrease cost of sales for the lender

Gathr Case Study 2

Company type:

Insurance Provider - Smartlife

Industry:

Alternative funeral insurance

Why solution was needed

The business had no digital channel in place for onboarding new applicants and customers.

Solution provided

Finch created an online disbursement flow using our Gathr modules.

We created an online application, quoting and fulfilment package, which included ID verification and bank statement collection.

Results

Increased reach

Greater distribution opportunities

Creation of an online channel

Increased sales

fundinghub

FundingHub Solution

Finch Technology's FundingHub platform offers South African SMEs access to finance through 30 alternative lenders and banks. It allows SMEs to compare funding solutions at no charge, for loans of between R10 000 and R100 million:

- Businesses complete a free 5-minute fully-online application to receive multiple loan offers
- Application does not affect credit score
- Applicants are easily able to compare loan amounts, rates, fees and more from a network of over 35 banks and lenders
- Businesses select the appropriate finance offer for their business, and receive funds in less than 24 hours.

FundingHub Case Study 1

fundinghub

Company name:

Petersen Industries

Industry:

Construction

Why solution was needed

The business had a shortage of cashflow due to Covid-19 and required working capital to secure contract work with one of their biggest clients, Engen Petroleum.

They had not been successful with any of the lenders that they were automatically matched with due to a lack of client variety and affordability issues.

They required an alternate solution that was not dependent on the number of clients on their books and the affordability of their business.

Solution provided

Finch provided the services of a business analyst and business finance support in the form of invoice discounting, which enabled it to be paid out in advance for work completed.

Results

Company was able to create a rare funding solution

Additional sales for lender

Successfully-funded business

FundingHub Case Study 2

fundinghub

Company type:

Marketing solutions provider

Industry:

Technology & communications

Why solution was needed

The business required a small amount of working capital to purchase inventory for their new business.

Their credit application was instantly declined by a formal lender because they generated less than R360 000 a year.

Solution provided

Through business analysis and the provision of a transparent marketplace, we discovered that the business qualified for the minimum required annual turnover to be assisted with potential business finance. They had not factored in accounts receivables.

We enabled the business to secure business finance (unsecured loan) through an alternative lender.

Results

Alternative lender was lenient and case-specific

Business was successfully funded