Deep financial inclusion requires collaboration between traditional banks and fintech's
Andrew Weinberg

According to a study by McKinsey & Company, digital financial services will potentially provide access to financial services for 1.6 billion people in emerging economies by 2025. The study found that these developments are projected to boost the collective annual gross domestic product (GDP) of emerging economies by US$3.7 trillion – or 6 percent – by 2025, while creating up to 95 million jobs across all sectors. In its 2012 National Development Plan, the South African government challenged the financial sector to achieve 90% financial inclusion by 2030. Great progress has been made since and 84% of the population is banked – a substantial increase from 46% in 2004 – which brings us more in line with these global statistics.

However, financial inclusion and its ability to fuel growth in South Africa remains limited as many people in the informal sector continue to transact in cash. In South Africa, financial inclusion for consumers seems to have shifted from an access issue to an adoption and usage issue: there are more than 80 million bank cards in circulation and a mobile penetration rate of 157%. Yet there is a decline in the use of these accounts and an increased utilisation of cash in the informal market.

Digitising the informal economy

For informal merchants, the challenge is acceptance of electronic payments: a Mastercard study entitled *Insights into the Informal Economy Report* noted that while more than 50% of South Africa's informal enterprises had encountered strong customer interest in card payments, around 90% of them remain cash-only businesses. This loyalty to cash is often due to the lack of acquiring infrastructure in the informal sector and, while cards are widely accepted in the formal market, this is not the case in the informal market. Traditional acceptance channels, such as physical point-of-sale (POS) devices, are perceived as expensive, especially by micro enterprises. In fact, although rural and township residents were found to use cards for 60% of their transactions at formal retailers, only 4% of transactions were card-based at informal retailers.

Playing a key role in bringing financial services to the underserved are fintech companies. With their agility and responsiveness to market needs, fintech's have been able to offer some of the most innovative and customer-first payment offerings. Learnings from other markets show that solutions that place the customer front-and-centre of product and service design have been particularly successful. A South African example of solving for the customer is Deposit @ Till, an innovation developed by AKELO subsidiary, Efficacy Payments. Deposit @ Till enables consumers to make cash deposits directly into their card-linked bank accounts at selected retailers, eliminating the need to enter a bank branch, which is particularly valuable to workers and informal traders who need to deposit cash securely outside of banking hours.

A delicate balance between innovation and trust

The trust relationship between customer and service provider is also crucial to ensure customer adoption. And while fintech's are superior in customer experience, the traditional banks still tend to hold the trust relationship – but they are recognising that fintech's can and should play a vital role in driving the adoption of digital payments and financial inclusion.

An important area of innovation, and core to the payments modernisation journey, is the move towards instant payments. Instant payments systems are being implemented across many geographies as part of their payment modernisation processes, replacing daily batch processing with real-time systems. Instant payments can contribute meaningfully to deepening financial inclusion as the implementation of these systems has been shown to coincide with a decrease in cash in the economies where they have been rolled out. For South African consumers, our P2P and disbursement instant payments products enable disbursements to card-linked accounts on a one-to-one or one-to-many basis, providing a facility that's more streamlined and cheaper than EFT, in near real-time and offering immediate access to funds.

Data is the new oil

Savvy service providers also recognise the importance of using data, which has been described as the 'new oil' of the digital economy. Financial institutions and fintech's are increasingly capturing consumer data to gather insights into consumer behaviour in order to build products and services that better serve these customer needs. By building profiles of previously excluded groups, financial service providers can deliver the potential to innovate and provide customer-first solutions more than ever before.

AKELO subsidiary, RetailEngage, runs bonsella®, South Africa's largest digital rewards and loyalty programme in the independent retail sector, which targets over 10 million LSM 3-7 consumers and represents some 60% of the economically active consumer base in South Africa. The bonsella programme has grown to 2,1 million members and offers comprehensive basket analytics and unmatched customer behaviour insight. bonsella's POPI compliant data mining is proving increasingly attractive to brands as it provides access to detailed demographic consumer profiles and post-campaign research and engagement.

Financial service providers need to understand what drives consumer behaviour, and design solutions and products to meet these needs and contexts. The convergence across industry sectors requires new partnerships that put the customer first, and an infrastructure that's flexible, inclusive, low cost and scalable. Payments ecosystem players need to reconsider how they both compete and collaborate to create partnerships that create solutions that recognise the needs and solve for the pain points of the consumer, rather than the players themselves.

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