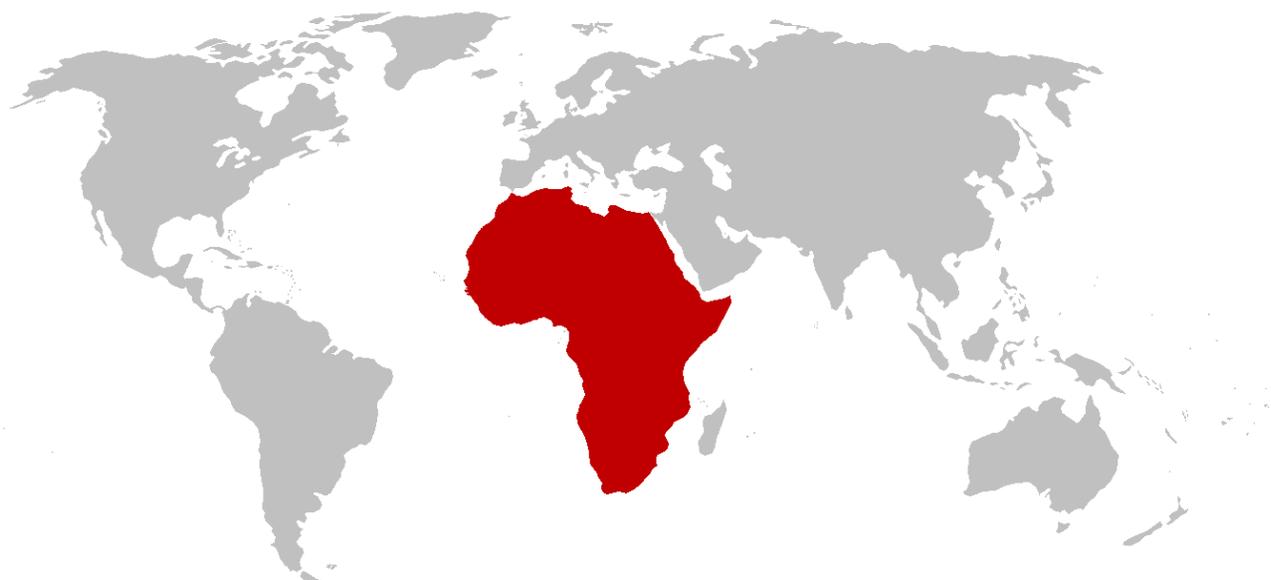


An African Match: Fintech and Telecommunication Services



The growing influence of telcos in offering banking services has been well established - the World Bank states in a report that, "While just 2% of adults worldwide have a mobile money account, 12% in Sub-Saharan Africa have one."

Telecom and fintech companies have been instrumental in highlighting the right of every African to basic financial services through their mobile phones. Even though large parts of the continent remain underdeveloped in terms of having a functioning financial services sector, telecom companies have been producing solutions to millions of Africa's unbanked mobile users to enable them to buy goods, transfer money, pay bills and access other banking services.

According to a 2016 BCG report, only 25% of Africans have regular bank accounts as financial service providers haven't made the continent a priority due to the high cost to serve and low margins of traditional bank accounts in Africa.

The huge success story in this regard is undoubtedly M-Pesa, developed by Vodafone's subsidiary Safaricom. 18 million Kenyans access basic banking facilities like bill payment and money transfer. Similarly, M-Birr in Ethiopia is enabling electronic payment services via mobile phones. For most Africans the first experience of a financial service is via their mobile phone.

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Mobile transactions are flourishing across Africa and telecom operators are looking to leverage a growing network of users by providing more services. While most telecom companies, MIC Tanzania Ltd via TigoPesa, Vodacom Company via M-Pesa, Bharti Ltd via Airtel Money, Zantel via Ezy-Pesa and others enable transfer of cash, bill payments and purchase of goods, they have gone a step further to introduce Money Transfer Technology (MTT) interoperable systems. With interoperability, mobile users will be able to transfer money from one mobile account to a mobile account with another telecom operator; until now the sender and beneficiary had to transact over the same telecom network and through the same operator.

“While just 2% of adults worldwide have a mobile money account, 12% in Sub-Saharan Africa have one.”
- The World Bank

Operators feel with interoperability, the mobile financial system will widen the scope of financial inclusion, bringing in more customers and also allowing them to introduce more varied services. Carriers like Telefonica SA are luring more customers to its suite of mobile financial services with free data for smartphones, skipping the traditional draws of loyalty points and cashback.

Telecoms have recognised their potential for offering banking services due mainly to their extensive client base and the availability of mobile banking applications. Tie ups between banks and telcos have been well known, e.g. MTN and Standard Bank, Vodacom and Nedbank, although these have been mainly focused on mobile money type offerings.

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- Cloud based software and brokers to manage sales and administer all insurance policies
- Mobile banking for any phone on any network without the need for data
- Low cost crop insurance service for small scale farmers, accessible via mobile phone
- Provides easy and affordable mobile data abroad while roaming
- Mobile payments billed through a clients mobile operator account
- Low cost remittances to African countries through a mobile network

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African examples of fintechs currently partnering with telcos include:

BitPesa (B2C)

Founded in 2013, BitPesa is a currency exchange which enables businesses and individuals to convert and send Kenyan Shillings to mobile wallets. It has partnered with the likes of M-Pesa, Orange, Airtel, and Yu. It expanded into Tanzania in 2015.

iKhokha (B2C / B2B)

This startup is trying to bring mobile payments hardware into the market. Its device attaches to a merchant's cellphone and is able to handle credit card swiping. The device gives merchants an overview of sales, settlements, tax invoices, the ability to track merchant referrals, and set up sub-merchants.

Jumo (B2B)

Jumo facilitates financial access through mobile wallets, with no need for a bank account, collateral, or physical infrastructure. It facilitates between 50 000 and 60 000 transactions per day. It is backed by a massive total of US\$22-million in investments from the likes of Leapfrog, GEMCORP and Vostok Emerging Finance. The company has partnered with the like of MTN, Tigo, and Airtel.

In some cases, the partnerships have extended to equity participation, e.g. Steward Bank is a fully owned subsidiary of Econet. Mobile operators have not been strongly focused on offering their own banking services due to the extensive regulatory requirements. So far, many of their financial products have been offered without a banking licence. Vodacom in 2011 indicated that they would seek a banking licence depending on the success of their Mpesa initiative – which sadly failed and was withdrawn in 2016.

However, there is an international trend in more mature technology based markets towards the granting of licences to non-traditional banks. According to the Bank of England, there has been an influx of licence issuing since the UK's financial regulators relaxed rules for new entrants in 2013.

Companies such as Monzo, which has positioned itself as a "mobile first" bank offers a current account with a contactless debit card and a mobile banking app. The mobile app's standout features are intelligent notifications, instant balance updates and financial management. It has partnered with Thames Card Technology for debit card production and personalisation. Monzo was granted a restricted banking licence by the Prudential Regulation Authority and the Financial Conduct Authority late last year.

The next obvious step would have been a partnership between telcos and fintechs although this has not taken off for a multitude of reasons, one of which is that fintechs are geared to the inherent advantages that banks have (distribution, licence to trade, regulatory compliance, capital, client base etc) or are focused on reducing friction in existing pain points of the banking process – most of which are absent in a telco. Hence the limited range of fintechs that can partner with a telco.

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Mark Walker, associate vice president for Sub-Saharan Africa at global market research group International Data Corporation (IDC), points out that South Africans will see a number of areas in the financial services sector impacted by technology in 2017 and telecommunications players entering the banking arena is definitely one of the highlights. "These companies will make forays into the banking environment on a partnership or shared-risk type model. They will partner with the smaller, already licensed financial institutions, and will then introduce fintech using technology."

In some cases, the association between telco and fintech is through equity participation like the investment made by Orange Ventures into a blockchain fintech called Chain. According to CBInsights, since 2014, the most-active large telecoms have made 35 investments in IoT companies (15 of which to industrial IoT startups), and 32 investments into fintech. These were the top two categories for large telecom investments into private companies

In other cases, there are partnership agreements like the one between blockchain payment fintech DigitalX and Telefónica Internacional S.A.U. The mobile phone giant signed a marketing, distribution and sales agreement with DigitalX that will give Telefónica's Latin American customers access to DigitalX's unique value transfer and remittance application, AirPocket.

Yours in Fintech,
Terence Singh



This report was compiled by Terence Singh, a Key Account Manager at Matchi, is a two career person having been a scientist for 10 years and a banker for a further twelve. In between, he was a strategy consultant for Monitor (now part of Deloitte). He worked in M&A and deal origination as well as heading the strategy team in an investment bank. He created several roles using rigorous research as a basis for deal origination and client qualification. He is a passionate supporter of charitable causes in social welfare.

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