



Savings and Retail Banking in Africa

A case study on innovative business models:
partnerships as a key to unlocking
the mass market

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Glossary

- ABB Al-Barid Bank
- APFSI African Postal Financial Services Initiative
- API Application programming interface
- CBA Commercial Bank of Africa
- FinTech Financial technology company
- FNB First National Bank
- FSP Financial service provider
- IFAD International Fund for Agricultural Development
- KYC Know Your Customer (regulations)
- MFI Microfinance institution
- MMO Mobile money operator
- RSP Remittance service provider
- RYEEP Rural Youth Economic Empowerment Programme
- SatF Savings at the Frontier
- TAG Tawfir al Ghad (savings for tomorrow)
- TPB Tanzanian Postal Bank
- UBA United Bank of Africa
- VICOBA Village community banking group
- VSLA Village savings and loan association
- WSBI World Savings and Retail Banking Institute

1. Executive summary

Savings-led financial service providers (FSPs) face multiple challenges, in an increasingly complex environment. The African market is no exception. Many market participants have embarked on the challenging but necessary path of digitization. This endeavour has coincided with market disruption arising from the COVID-19 pandemic, and a profound shift in customer expectations about how financial services should be provided. Addressing all these issues simultaneously is daunting, and savings-led FSPs are under particular pressure. One response is to engage the market via alternative business models.

Each of the challenges faced by savings-led FSPs needs resources to resolve. Digitization, especially, gobbles up time and money: FSPs have to overhaul internal systems and processes, digitize their value proposition to customers, and incorporate multiple sources of data. Rather than attempting to do everything with their limited internal resources, savings-led FSPs may prefer to consider alternative business models that draw upon the capabilities of other organizations to strengthen their market position.

Both established and emerging business models offer solutions that can help savings-led FSPs find the best way forward. This study sets out six models:

- **Cooperate with other FSPs** - FSPs can compensate for their lack of physical infrastructure by partnering with service providers who have a more extensive network to offer their products. Similarly, FSPs with a limited range of products – often prescribed by regulatory or legal considerations – can enhance their value proposition to customers by incorporating products from other FSPs. These models are beneficial to both parties, because the overall business volume will exceed their individual efforts.
- **Cooperate to build and extend financial infrastructure** - Despite progress in the past decade, the financial infrastructure in many African countries is still inadequate for the needs of savings-led FSPs. FSPs can work together to tackle these shortcomings, especially in retail payments and credit information systems. Cooperation can be either directly with other FSPs to improve infrastructure or through engagement with financial regulators to establish what the FSPs need to serve customers better.
- **Cooperate with mobile money operators** - Mobile money operators (MMOs) are the dominant retail financial service providers in some African countries. This strong market position, combined with the reach of mobile money agents, makes these FSPs attractive partners for banks, enabling them to offer banking services to mobile phone customers. These partnerships are also attractive to MMOs, enabling them to generate additional revenue and enhance their appeal to customers by offering banking services without the challenges of seeking a banking licence.
- **Use FinTech** - Innovation in retail financial services is often achieved by independent technology-based companies or FinTech. These companies develop ways of providing financial services digitally, but typically lack direct access to customers. By working together, savings-led FSPs can incorporate the services into their value proposition without having to acquire or develop the internal capacity necessary. FinTech services span a wide range of financial services capabilities, from client-onboarding, payments and savings and investments to credit and credit-assessment services.
- **Establish a purely digital FSP** - FSPs with strong digital capabilities or commitment can establish a purely digital bank, with no branch network and all client services and interactions done digitally. This may be simpler than trying to digitize an existing operation but is resource-intensive.
- **Cooperate with non-financial service providers** - Increasingly, FSPs need to link directly into the economic ecosystem in which they operate. They must enable customers to obtain goods and services where required, and provide the financial service embedded in that interaction. This can take various forms, from the digitization of value chains across all actors (for example in agriculture), to incorporating the FSP's products in the services of a non-financial service provider (such as remittances sent or received at grocery stores).

In each case we identify the key points that FSPs should take into account when considering a particular model, and give an example of the model, identifying the success factors and hurdles to be overcome.

The study concludes by summarising the strategic questions that FSPs should answer when looking at alternative business models. We provide a decision tree that FSPs can use to guide them in selecting an alternative business model best suited to their situation and environment.

2. Introduction

Financial services in Africa still have great potential for further expansion. Today, only 41% of adults aged 15 and older have an account at a regulated financial service provider – including mobile money. This falls to 38% in rural areas – and to just 28% in rural areas if only accounts with microfinance institutions (MFIs) or banks are recorded. Of adults aged 15 and older who do not have an account, 20% said that they want an account but lack the necessary documentation. Another 20% perceive the services offered by banks, microfinance institutions and mobile money operators (MMOs) as too expensive for their needs¹.

A large market for low-cost financial services clearly exists. Yet in a continent of 1.3 billion people, with rapid demographic growth, there are only 763² financial services providers. Many of these do not wish to serve the low-income segment, leaving a large unserved and underserved market. The vast size of this market has started to attract interest, particularly in understanding how to access and serve these clients despite the challenges of low incomes and population dispersal. This interest is triggering growing competition among long-standing players and new entrants, ranging from mobile money operators to FinTechs.

Financial service providers (FSPs) who do serve low-income customers face a threefold challenge. Digitization³ is becoming the norm, both within the financial services industry and in the fast-emerging FinTech sector. They wrestle with the effects of the COVID-19 pandemic⁴ and its impact on their customers. And they must simultaneously adapt to changing and more demanding customer expectations. These FSPs are under pressure. How they should adapt to these new, unfolding realities?

New and varied business models are emerging from efforts to address these issues. These models range from cooperation with other FSPs to the use of digitization and FinTech, to tackling addressing infrastructure shortcomings and addressing customer expectations. This study describes these models, linking each to case studies. We identify the most important strategic aspects of each model, helping FSPs decide which models would fit their strategic needs best.

The study is part of the World Savings and Retail Banking Institute's (WSBI) research series on the state of Savings and Retail Banking in Africa⁵. Other studies in this series will address specific approaches to some of these models. The objective of this series is to inform retail banks and other financial service providers (FSPs) about developments in the industry affecting services to low-income customers.

1 See the global FinDex dataset at globalfindex.worldbank.org

2 See the IMF Financial Access Survey Dataset at data.imf.org

3 See State of Savings and Retail Banking in Africa – A case study on digital financial services

4 See State of Savings and Retail Banking in Africa – A case study on COVID-19

5 For more on WSBI's Scale2Save programme and research series

3. Why change is required

The main driver of change in financial services is the accelerating digitization of almost all segments of the industry. This is particularly the case in retail banking, where FSPs are investing heavily in technology and newer, technology-based service providers are increasingly active. This change is manifested in many ways. Operating costs are falling, services have become increasingly customer focused and convenient (becoming part of the 'linked economy'⁶) and customer/FSP interactions are increasingly digital. A complete digital transformation looms, in which service provision is digitized end-to-end, encompassing all processes, functions, and customer touch points, and shaped by the informed use of data. The **use of all available data**, including data generated outside the service provider, and the use of artificial intelligence, are key enablers in this approach.

The COVID-19 pandemic has highlighted the need and customer preference for non-direct interactions and for digital payments. This has spurred the **digital transformation efforts** of FSPs, pushing them to go beyond the immediate priority of strengthening digital delivery channels. FSPs that have been slow to digitize are coming under growing pressure. The accelerated demand for digital payments capabilities also highlights the need for interoperability, digital security and digital identity - issues which need to be addressed cooperatively, across the financial ecosystem.

The approach to the digital transformation of FSPs is well-documented. Banks must understand client needs, develop a strategy to meet those needs, plan and resource the transformation programme, and stay committed, whilst ensuring they have access to the required technical skills⁷. This might suffice for some smaller banks, but most also need to look at their wider financial services environment. They should look at how the financial and digital environment are evolving, the competition and what it is doing, and at where the opportunities are. Each FSP must assess what role it could play and to what extent it should **cooperate** with other FSPs, technology providers or FinTech companies.

Many observers expect that financial **regulators** will increase requirements and oversight in the wake of the pandemic, to ensure the continuing stability and resilience of the financial system. They will want to ensure the financial system can withstand an increase in bad loans, a run on deposits, or a surge in inflation. FSPs should therefore include regulatory authorities in their landscape assessment and consider options to deal with more onerous regulatory frameworks, should these become a reality. They must also weigh the impact on economic activity and the likely **pace of recovery** as the pandemic fades. These factors will influence the bank's own business activities, and those of its enterprise customers, shaping their willingness and ability to borrow and use other financial services.

This document outlines various **models that FSPs are implementing** or developing in response to today's fast-changing financial services climate. These embrace cooperation with other FSPs, the use of FinTech, cooperation with mobile money providers, digitization of the FSP itself, creating digital FSPs and cooperation with non-financial service providers.

6 'Linked economy' in this context refers to an ecosystem in which all entities can participate in processes within that ecosystem i.e., the entities are digitally linked and share data and process outcomes as needed.

7 See for example: Greta Bull, CGAP (2020), *After the Storm: How Microfinance Can Adapt and Thrive*

4. Cooperation FSP with other FSPs

There are three basic models of cooperation between financial service providers:

- Cooperate with an FSP to include product(s) from that FSP into your product offer
- Make your product(s) available to other FSPs for incorporation into their product offer
- Cooperation with one or more FSPs to create financial infrastructure for joint use or to put arrangements in place to compensate for the lack of or inadequate financial infrastructure, for example payments or credit information infrastructure

Cooperating with other FSPs to extend products and/or make products available to other FSPs

Some licensed FSPs (banks, insurance companies, Micro-Finance Institutions - MFIs) have entered into agency agreements or partnerships with postal operators, allowing them to deliver financial services through the physical distribution network or infrastructure of the postal operator. Many postal services are not permitted to advance loans, so this model allows them to extend the range of services they offer beyond savings and payments. Kenya Post Bank and la Poste Tunisienne are examples of postal FSPs that collaborate with MFIs which hold credit granting licenses to offer loans to Post clients. The loans form part of the MFI's loan book, but the Posts are responsible for client on-boarding and collecting repayments, for which they are compensated by the MFIs.

Insurance companies, whose distribution networks and market presence are less well developed than banks', often use banks' infrastructure to market their insurance and investment products. In some cases, they cooperate even more closely: so that insurance products are bundled with bank products and marketed as a package, for example credit life insurance as part of the lending products of banks. In effect, the bank act as a 'super agent' for the insurance company and earn fees for doing so. The insurance company benefits because it can rely on the bank to market its products, and does not have to invest in extending its own network.

Some postal services have provided remittances services, especially receiving cross-border remittances, for decades. These are substantial flows – diaspora flows into Africa and migrant worker remittances within Africa were estimated at US\$65 billion in 2020⁸, although the COVID-19 pandemic may trim this total. Transfers are often made by global remittance service providers (RSPs) Western Union and MoneyGram, as well as the Universal Postal Union's Worldwide Electronic Payment Network.

Collaborative efforts have been made to reduce the high cost of remittance transactions. The African Postal Financial Services Initiative (APFSI) was a joint regional programme implemented by the UN's International Fund for Agricultural Development (IFAD) in partnership with the World Bank, the Universal Postal Union, the World Savings and Retail Banking Institute, and the United Nations Capital Development Fund, and co-financed by the European Union. The goal of this programme was to enhance competition in the African remittance market by enabling and helping African post offices to offer financial services⁹.

Remittance recipients (and senders) need other financial services besides money transfer. Yet few FSPs are leveraging their comparative advantage to provide complementary services such as savings and loan products, to better serve remittance users, or enabling remittance recipients to link into agricultural value chains (see section 8 below). Providing services to remittance recipients offers a commercial opportunity for FSPs that act as agents for major international RSPs and could lead to better use of the money being remitted 'back home'. FSPs also have an opportunity to provide additional transactional services to regional migrant workers in Africa - as Ecobank and United Bank of Africa do.

Cooperation with one or more FSPs to provide financial infrastructure

Financial infrastructure, especially national payment networks and credit information sharing, have seen significant development in many African countries in recent years, but significant constraints remain. FSPs can cooperate to develop workarounds that will benefit their clients. An example of this is the agreement between MTN Eswatini and First National Bank (FNB) Eswatini to enable interoperability between MTN's MoMo mobile money accounts and FNB's eWallet accounts.

⁸ IFAD (2016), *Remittances at the post office in Africa*

⁹ IFAD (2016), *Remittances at the post office in Africa*

Smaller FSPs including MFIs may improve their access to the national payment system by jointly establishing the capability to provide and manage payment services. One example of non-bank FSPs using this model is where these providers jointly create a 'limited purpose bank' whose only function is to provide payment services to its members and their customers. The ARB Apex Bank in Ghana uses this approach. It is the bank of the rural and community banks, providing banking and non-banking support to member FSPs, including payments and related operations on behalf of these member.

FSPs can also work with the regulator(s) to establish a national credit registry and a credit reference system, as banks in Zimbabwe and Egypt have done.

FSPs can also cooperate, (including with regulators, if need be) to establish and promote non-exclusive banking agents who act as agents for several banks. This can benefit market development. As use of agents matures, it has become evident that sometimes there is too little business to support dedicated banking agents. This can lead to churn among these agents. One solution is to use non-exclusive arrangements that enable agents to increase business volumes by serving customers from several banks. This adds to customer convenience, because customers do not have to travel to specific agents of their bank. Such arrangements can be found in Uganda, Nigeria, and Senegal.

Cooperation can be achieved relatively easily by using open or public application programming interfaces (APIs). These APIs enable digital service providers to link into the environment hosting the APIs and exchange data and link processes, adding digital financial services for their customers.

When considering cooperation with other FSPs it is important to keep in mind that:

- The business model for the cooperation must benefit all parties
- The objective of the cooperation must be clearly articulated and agreed
- All FSPs involved need to have the operational and management capability to shape the cooperation and make adjustments based on market reaction and demands
- Agreement on how to dissolve the cooperation, should that become necessary, should be part of the initial agreement
- Where necessary, FSPs should involve the regulator to ensure they understand what is being planned and why.

Box 1: Partnership MFI with savings led FSP

An example of cooperation between an MFI and FSP is that of FINCA Uganda's partnerships with Centenary Bank and United Bank of Africa (UBA). FINCA has partnered with these FSPs to augment its service delivery to customers, via digital platforms. To this end, FINCA launched a digital campaign – dubbed #DigitallsHere – in March 2021.

FINCA has partnered with Centenary Bank to offer the Center Agency banking platform and UBA to offer VISA cards. The partnership with Centenary Bank will see FINCA customers transact on the bank's Agency Banking network with over 4,000 Centre Agents across Uganda. The partnership with UBA will supply 10,000 Visa debit cards to deploy and manage 4 ATMs.

Potential Success: FINCA's partnership with Centenary Bank mitigates against the high costs of setting up an agent network. Centenary has a large footprint of agents throughout Uganda, with over 300,000 users and approximately 500,000 transactions per month. This experience and success in agency banking will boost FINCA's objective in using digital platforms to reach more customers across greater distances. FINCA's partnership with UBA will allow customers access their accounts at all Visa-powered ATMs in Uganda and pay for goods on POS machines and online.

Potential Hurdles: A general hurdle to businesses offering digital solutions and platforms is the potential for low digital utilisation rate, as well as high costs of MNOs and intermittency of connectivity.

In some African countries mobile money operators (MMOs) are the dominant financial service providers, with mobile money accounts outnumbering bank accounts. Customer familiarity with mobile money and the reach of mobile money agents make these FSPs attractive partners for banks. Such partnerships are also attractive to most MMOs, because they offer the prospect of additional revenues for the MMO, allow them to extend the range of products offered and provide an opportunity to increase activity of MMO accounts. There are many examples of such cooperation in Africa and this trend seems likely to grow.

Kenya's Commercial Bank of Africa (CBA) partnered with Safaricom in 2012 to deliver M-Shwari, a set of financial services offered on the mobile channel. M-Shwari combines interest-bearing savings, payments, and microloans. The account is issued by CBA but must be linked to Safaricom's M-Pesa account. This arrangement enabled:

- M-Shwari customers to withdraw and deposit cash through M-Pesa via Safaricom's network of 130,000 agents. CBA compensates Safaricom for the transactions performed.
- Seamless customer on-boarding and Know Your Customer (KYC) procedures. Opening an M-Shwari account is a simple process for existing M-Pesa customers: they simply activate the M-Shwari application of their M-Pesa service and apply. CBA checks existing KYC records held by Safaricom and M-Pesa with the national ID system.
- Comprehensive credit scoring can be carried out, using a combination of transaction history and telco usage data. The loan application is via phone. If approved, the loan can be disbursed in seconds.

The model has been very successful, with take-up and use exceeding expectations. M-Shwari's non-performing loan ratio of 1.9 percent is well below the industry average¹⁰.

In a similar vein, Nigeria's Diamond Bank formed a partnership with MTN Nigeria to launch the Diamond Y'ello account in 2014. This service enables Diamond Bank to reach unbanked and underbanked customers in Nigeria at reasonable cost. This integrated offering includes financial, telecom, loyalty, and lifestyle benefits. Financial products offered include an interest-bearing savings account, microloans, transfers, deposits and withdrawals, and bill payment. The offering was very successful: Diamond Bank's customer base more than trebled, and most of the new customers use the Y'ello mobile banking account. The use of MTN's network of 50,000 agents was important to Diamond Bank's expansion. MTN customers using Y'ello also benefited from reduced call rates and an opportunity to earn loyalty points by transacting on Y'ello.

A slightly different model is deployed by Ecobank and MTN in Ghana. Customers of MTN MoMo, MTN's mobile money service, can apply for microloans on their MoMo account. The loans are provided by Ecobank and the credit assessment is performed by a Jumo, a FinTech company, using data from the applicant's telco and MoMo activities, as well as any additional customer information that Ecobank may hold. The process is seamless and has proved quite successful.

Vodacom in South Africa partnered with digital credit provider Lulalend to set up the VodaLend¹¹ service. This offers short-term business loans of up to US\$100,000 to Vodacom's SME customers. The application process takes minutes. Vodacom offers free legal insurance with the loans as a further attraction. This arrangement benefits Lulalend by substantially extending its reach. It pays Vodacom a fee for loans originated. Vodacom benefits from additional revenue and reduced churn among its SME customers and increased appeal because of its extended service offering.

MMOs are also cooperating with other MMOs to make their products more attractive. The agreement between MTN and Orange to establish Mowali¹² in 2018, enabling network-to-network interoperability throughout Africa, is an example of this cooperation, benefiting participating MMOs and all their customers.

Cooperating with MMOs enables banks to extend their reach at relatively low cost. It also allows MMOs to enrich their product offering and increase customer engagement. To make this work partners need to ensure that:

- Differences in corporate culture are overcome so that the entities can work together to develop the market
- Service integration is robust and results in a seamless experience for customers.

Box 2: Partnership MNO with savings led FSP

Zimbabwe's Post Office Savings Bank (POSB) partnered with the three major MNOs in the country, Econet, Telecel and Netone to offer mobile banking services in 2011, becoming one of the first banks to offer a mobile banking platform in Zimbabwe.

Success: Its success stemmed from its strategic partnership with Zimbabwe's leading MNO, Econet, which increasing its reach. POSB was the country's leading bank by customers at the time. This helped ensure high take-up and usage, particularly among existing POSB customers, who enjoyed more convenient services.

Hurdles: The platform competes with Econet Wireless's product, Ecocash, a mobile money transfer service, which currently dominates the Zimbabwean market. It also competes with Telecel's mobile banking platform Telecash.

10 McKinsey (2018), *Roaring to life: Growth and innovation in African retail banking*

11 <https://www.businessinsider.co.za/lulalend-jv-with-vodalend-business-advance-loans-for-small-business-2019-11>

12 <https://www.orange.com/en/newsroom/press-releases/orange-and-mtn-launch-pan-african-mobile-money-interoperability-scale>

5. The use of FinTech

The financial technology or FinTech¹³ sector dates back many decades, but in this study it refers primarily to services originating from technology companies aimed at replacing or competing with banking services. FinTech operates in two broad categories, consumer-facing and institutional¹⁴. Consumer-facing FinTech gained traction after the global financial crisis and continues to grow rapidly, with an ever-expanding range of applications. Initially focused on digital payments, FinTech has since developed lending and savings products and extended into investments and wealth management. FSPs should note that use of Fintech as defined here is only one element of the digitization possibilities for FSPs – digitization spans the entire operational domain of FSPs.

Sub-Saharan Africa still lags most of the developing world in the use of banking services and the depth of development of these services. However, mobile money and related mobile financial services have radically changed the delivery of financial services in sub-Saharan Africa. As a result, the region has become the global leader in mobile money innovation, adoption, and use and FinTech in some form or another is used in close to 40 of the 45 sub-Saharan African countries¹⁵.

The use of Fintech, or cooperation with the FinTech sector, follows several models. For example:

- The bank can take an equity stake in a FinTech company or acquire a FinTech company. This gives access to the technology, but valuations can be high, and bank involvement in managing the investment or company can prove onerous
- The bank may also institute or participate in a FinTech programme, by setting up support or 'accelerators' for FinTech development. This model may assist the FinTech companies more than the supporting entities
- The bank may establish, as a separate entity, a standalone start-up which works alongside core business channels. This entity can focus on specific opportunities. The drawback to this arrangement is that a bank culture may inhibit the risk-taking required in a what is essentially a technology start-up
- Using FinTech products. This model follows the more traditional vendor service-provider approach where the institution uses or consumes services developed by the FinTech. This is the model that banks are used to and can manage, but it does not generally result in any exclusivity¹⁶.

Africa is home to a growing number of FinTech companies, with FinTech hubs in Nigeria, Kenya, and South Africa. Two successful FinTechs active in the African market, are Jumo and Paga.

Jumo¹⁷ is a FinTech company creating adaptive financial services infrastructure for FSPs. It does this by using advanced data science and machine learning to create the infrastructure, consisting of a data engine, a flexible operating platform, and the required banking processes. Its infrastructure is used by FSPs and mobile network operators to deploy savings, lending, and insurance products to previously unserved market segments. The cost per transaction is a fraction of the cost of using traditional banking back-end systems. Jumo can hire teams of data scientists to work on large numbers of transactions, spreading the costs more widely to reduce the unit cost for its FSP clients. FSPs in Ghana, Kenya, Tanzania, Uganda, and Zambia are using Jumo to provide loan products to consumers and small enterprises, while it is used to deploy savings products in Tanzania and Zambia.

Paga¹⁸ is a Nigerian FinTech payments company, extending its services to provide a platform for related financial and other services. Paga started out providing a mobile payments infrastructure that enabled its customers to send and receive money digitally. Customers can combine all their cards and bank accounts in the Paga wallet. The company now has more than 13 million customers, served by more than 20,000 agents. Paga now also offers a suite of services including payroll management and provides open applications programming interfaces (APIs) to building product companies. This allows partnerships with other technology companies in similar and adjacent sectors and opens Paga's wallet to third-party developers who can develop it further.

13 The Financial Stability Board mentions FinTech as "technologically enabled financial innovation that could result in new business models, applications, processes, or products with an associated material effect on financial markets and institutions and the provision of financial services"

14 <https://www.forbes.com/sites/falgunidesai/2015/12/13/the-evolution-of-fintech/?sh=2724aa097175>

15 IMF (2019), *FinTech in Sub-Saharan African Countries*

16 Adapted from: RMB (2019), *The SA Fintech in Motion Report*

17 Jumo (2019), *Jumo - Opportunity Everywhere*

18 NetGuru (2020), *Top 10 Fintech Companies in Africa to Watch in 2020 and beyond*

Another model for the use of FinTech is the work that Tanzanian Postal Bank (TPB) is doing in Tanzania to extend the reach of the bank's mobile banking product *TPB Popote*. The objective is to provide digital finance capability to rural and peri-urban savings groups via a group mobile platform. This allows groups to save, access loans and make contributions to their social fund via their mobile phone and *TPB Popote*. The programme is also working towards improving the link to mobile network operators and aims to use a mobile banking gateway to give TPB greater control. The work is supported by Savings at the Frontier (SatF)¹⁹. In a similar project in Zambia, also supported by SatF, rural MFI VisionFund acts as the FSP linking informal savings mechanisms to a group platform through a mobile application²⁰.

Cooperation with FinTech can enable FSPs to reach out to customers and streamline services without having to acquire all the technological capabilities in house. FinTech companies typically need an established service platform on which to launch their services and FSPs can provide that, so cooperation can be mutually beneficial. FSPs should keep in mind that:

- The FinTech should address actual customer needs
- FinTech companies often lack the regulatory robustness required in financial services. This risk must be managed
- The business model and financial arrangement should work for all parties – the FSP, the FinTech company and especially the consumer.

Box 3: Example of a FinTech approach within a savings led FSP

An example of a FinTech approach within a bank is TPB Bank PLC's digital product suite – TPB Popote. Popote is a personal mobile banking service. It also has a group equivalent for village savings and loan Associations (VSLAs) and village community banking (VICOBA) groups, called TPB GMP and a digital group wallet solution called CMS. All enable clients to access information, allow them to save, take out loans and make contributions to a group social fund via their mobile phone. The CMS platform also supports a partnership with lead mobile money operator Voda M-pesa that allows groups of mobile money users to save together in an account called M-KOBA which incurs no charges (bank or mobile) when moving money in and out of a shared group bank account.

Success: TPB's integration with all the main MNOs in Tanzania ensures its own clients can access their bank account from any agent and that agents across the nation have both cash and electronic floats. This has spurred uptake and use of the CMS and Popote platforms. It achieved 140,000 clients in just 18 months, because the strategic partnership that created M-KOBA gave savings groups options they might not otherwise have had. The success of TPB's digital products rests on the multiple partnerships the bank has developed, which ensures services are complementarity and fit users' needs. The platform uses both mobile banking and agency banking, and can be accessed in various ways, including mobile phones and retail sales point, so that it fits the needs of differing client groups.

Hurdles: all transfer costs have been eliminated, but it remains costly to provide agencies in the deeply rural areas where many savings groups operate.

¹⁹ SatF, Project Briefing: *TPB Bank – Digitising Informal Savings Mechanisms*; <https://www.opml.co.uk/files/Publications/a0600-savings-at-the-frontier/satf-project-briefing-tpb-bank.pdf?noredirect=1>

²⁰ Sat (2020), Project Briefing: *Vision Fund Zambia – Accelerated Linkages for Informal Savings Mechanisms (ALISM)*; <https://www.opml.co.uk/files/Publications/a0600-savings-at-the-frontier/20-06-24-project-sheet-vfz-sv2.pdf?noredirect=1>

6. Working with non-financial service providers

Increasingly, FSPs are recognising that they don't operate in a vacuum. More and more are linking into the economic ecosystem to help ensure that their actions, for example loans, are of maximum benefit to the borrower, thereby reducing risk and enhancing the probability of repayment. This positions FSPs closer to a borrower's primary objective (for example a farmer's aim to grow crops). In the past, lenders have focused on the secondary need (for example credit to buy seeds and fertilizer). One example is lenders' closer involvement in agricultural value chains. Some FSPs now do more to ensure farmers have access to expert advice to enhance their production, as well as lending them money. But FSPs are also linking and supporting producers, logistics providers, processors and final buyers in ways that make the entire value chain more efficient, and enable the FSPs involved to serve a range of actors, often starting with smallholder farmers.

The secondary need for financial services is increasingly being commoditised. In lending, for example, loans and mortgages are being made by third parties, including digital lenders with efficient business models and relatively low costs. Banks that reposition themselves to focus on and satisfy the primary demands of the user – around buying and owning a home or a car, for example – will be best placed to differentiate themselves and retain and grow customers²¹.

First National Bank (FNB), a regional bank based in South Africa, is one African bank that is repositioning to fulfil primary demand. FNB's navHome platform enables customers to search for houses, estimate valuations, get pre-approvals for mortgages and access selected service providers. The platform also operates a private house-buying market, allowing the bank's customers to place listings that are only shared with qualified buyers. Buyer-seller communication is managed through FNB's banking app. The bank also provides a curated market of house service professionals. These platforms are created partly by using FNB's business-banking customer data. FNB's navCar platform works in a similar way, offering customers a variety of services needed throughout the lifecycle of car ownership.

One example of agricultural value chain financing, involving small holder farmers, is to be found in Cameroon. SOCAPALM is a palm oil producer privatised by the Government of Cameroon. On one plantation in central Cameroon, it decided to turn over 2,600 hectares of mature oil palms to smallholders. An agricultural value chain model was created to establish, support, and develop the scheme²².

This involved:

- Partitioning part of the company plantation into small, individual productive plots sized from one to 30 hectares
- Offering guaranteed purchase and guaranteed minimum price, determined by industry organisations, for buying their output
- Appropriate funding and bank guarantees
- A close-at-hand mentoring and monitoring system
- Supervising and advising growers and supplying inputs, including selected quality plants for replanting

FSPs can also cooperate with non-financial organisations, especially to offer specific services. Lesotho, in Southern Africa, relies heavily on cross-border remittances from South Africa, which surrounds it. Standard Bank, which operates in both countries, tied up with Shoprite, Africa's largest food retailer, to launch instant digital cross-border transfers in 2015. Users can send money to a cross-border Shoprite store, for a relative or other person to withdraw. Standard Bank is the sponsoring bank, but the KYC requirements are managed by Shoprite process, with the approval of the central banks of South African and Lesotho. The result is an affordable, convenient, safe and instantaneous inbound remittance service, which is continuing to grow.

There are many opportunities for FSPs to work with other actors in economic ecosystems. When pursuing such a strategy FSPs should ensure that:

- They know enough about the other sector to engage effectively with their partners
- They have the right financial products to meet the primary needs (overarching goals) of the other ecosystem participants
- They understand the risks involved in the ecosystem, from a financial and operational perspective, and can work with other actors to manage these risks
- They have the capability within the FSP to manage and grow the relationships with other actors, including with relationships with other FSPs.

²¹ Standard Bank (2020), *Can Africa Take the Platform Economy Forward?*

²² FAO (2020), *Agricultural value chain finance innovations and lessons*

Box 4: Partnership non-financial service provider with savings led FSP

Al-Barid Bank (ABB) partnered with the International Fund for Agricultural Development (IFAD), Silatech and Making Cents International under the IFAD Rural Youth Economic Empowerment Program (RYEEP) to extend the rural reach of its youth savings product, Tawfir al Ghad (TAG) or “Savings for Tomorrow”. The IFAD programme aims to increase employment and self-employment among young people aged 15-35 in Egypt, Morocco, Tunisia, and Yemen. Partnerships with non-financial service providers such as the entrepreneurial support organizations, Sigma Tools and Civil Space Network Association, enable ABB to back its savings products with financial literacy training.

Success: The financial education training and awareness sessions were largely successful in educating the target group and changing their behaviour. Nine out of 10 participants surveyed said the training equipped them to manage their budget better. Key success drivers were ABB’s low minimum balance requirements and the no-fees clause. By linking with the Post Office ABB was able to ensure its branches were centrally located within rural areas. It also used mobile branches to reach the more remote communities. ABB’s reputation as a “trusted institution” also played an important role in inducing take-up by youths.

Hurdles: There is a shortage of funding to expand TAG further into rural areas. Awareness and take-up have been relatively low. Loans and products are based on those offered by the MFIs collaborating with ABB. Strategic and well-regulated partnerships are essential to avoid service disruption.

7. Key issues when developing strategies for building partnerships

Today, FSPs are facing an increasingly complex and demanding environment. Staying with the business model that has served them well over the last few decades is no longer an option. Pandemic disruption has highlighted underlying market shifts and accelerated demand for digital services and innovation to better serve customers. FSPs must now carefully consider their strategic options. As they launch this process executive managers should ensure they:

- Retain and build the trust of their customers. The confidence of existing customers is a unique strength of FSPs, and they must nurture and develop it
- Understand their competitive landscape, know how existing participants are changing, and evaluate the threat from new entrants
- Determine where to focus, taking into account market opportunities and their internal capabilities and ensuring that they understand market needs
- Decide whether they need to partner with other entities (and what those entities should be able to contribute to any cooperation), or whether they want and are able to develop those capabilities within the organisation
- Determine where the organisation (and its partners, if relevant) should be in the switch to digitization to ensure organization capabilities match market expectations
- Are able to identify when they need to change the ways they interact with customers, and have the organizational will to make the necessary changes.

8. Unlocking routes to market

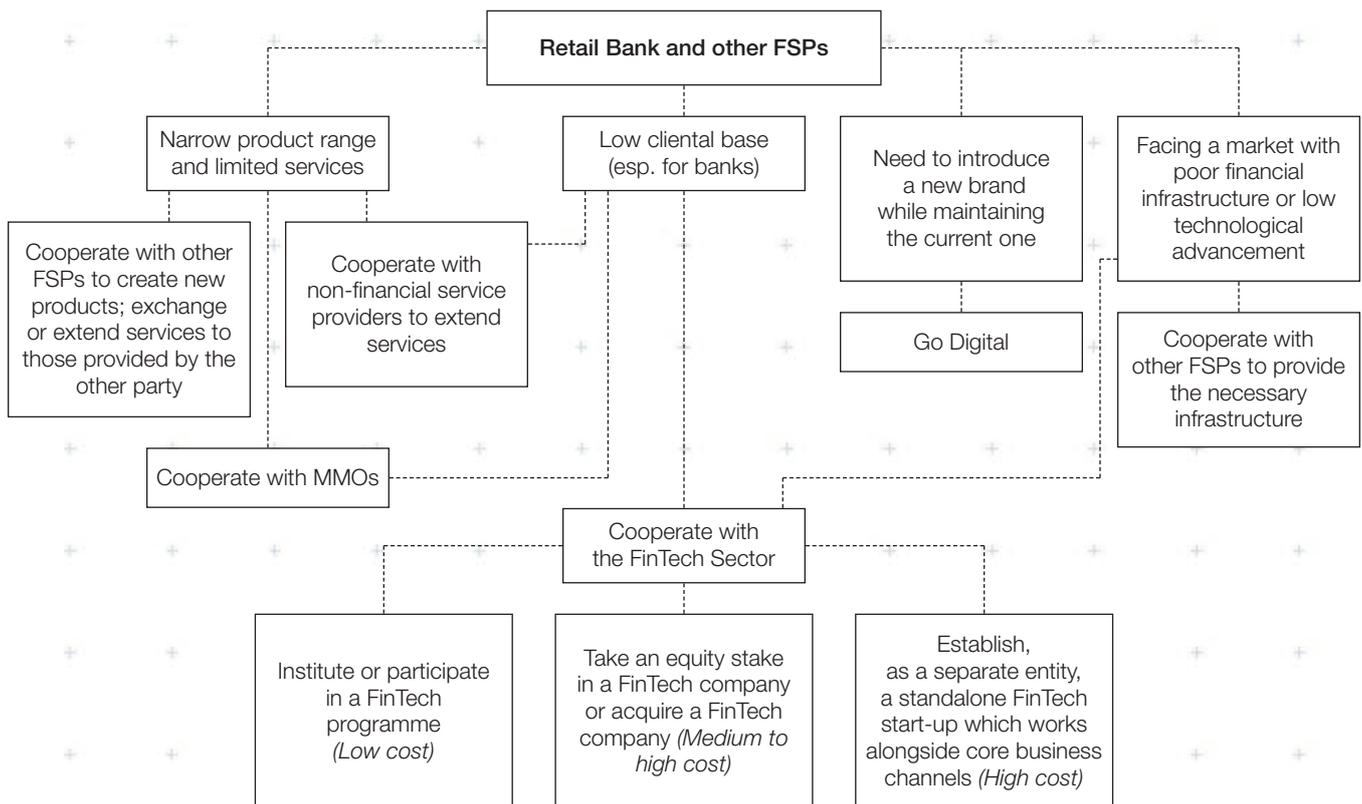
Today FSPs face many challenges. Often they have too few customers, offer only a limited range of products and services, lack market reach and are constrained by exogenous market forces such as poor infrastructure or limited use of communication technologies by potential customers.

Yet financial services businesses have many options as they set out to design and implement new business models to suit changes in customer expectations, technology, and their economic environment. This applies no matter whether an FSP is intent on moving its entire business in a new direction or is seeking a new income stream by creating a subsidiary.

This section provides a decision tree to help FSPs select the right new business models, taking into account the market challenges they currently face. This decision tree is not intended to serve as a rigid and linear set of directions, but rather set out avenues that FSPs should consider when identifying current market trends and constraints, and the options open to them.

Many of the business models we have identified in this report offer potential responses to today's fast-changing financial services environment. We hope this report will help FSPs chart a way forward.

Choosing new routes to market: a decision tree



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10. About the report partners

About WSBI and Scale2Save

The World Savings and Retail Banking Institute (WSBI) created in 2016 a new programme in partnership with the Mastercard Foundation “to establish the viability of low-balance savings accounts and use of customer-centric approaches to address barriers faced in access, usage and affordability of savings services”.

Called Scale2Save, the programme is set against a backdrop of problems such as high poverty rates and financial exclusion in sub-Saharan Africa, as well as low formal savings rates. FSPs have a poor understanding of the market savings potential of people in various low-income segments. The needs of existing and potential customers – and how much customers can afford to pay to meet those needs – are not well reflected in FSPs’ business models, customer interfaces and interactions. The resulting poor customer experience gives rise to extremely high rates of bank account dormancy and inactivity. This is a significant cost for FSPs and undermines potentially sustainable business cases to deliver accessible financial services to people in these segments.

The Scale2Save programme's core activities are to:

- Provide financial service providers with technical assistance to develop savings services valued by low-income customers. WSBI works with eleven financial service providers to develop and deliver savings products that not only broaden access to financial services but also drive ongoing use of those services. The banks are located in Cote d'Ivoire, Kenya, Morocco, Nigeria, Senegal and Uganda. A bank in Tanzania acts as a knowledge partner.
- Conduct research and share lessons between partner banks. WSBI publishes the annual Savings and Retail Banking in Africa report series to facilitate peer learning and the spread of knowledge. The institute also researches new pricing models to help establish a business case for low-balance savings and conducts household research to contribute to knowledge of cash flows in households.
- Communicate lessons learned to the wider sector. WSBI has developed and carried out a targeted communications strategy to share the knowledge generated by the project with key stakeholders.
- Monitor and evaluate the programme. WSBI monitors project progress at partner banks and oversees mid-term and final project evaluations. The programme started in September 2016 and will continue until August 2022.

For more information about WSBI please visit: www.wsbi-esbg.org

For more information about Scale2Save, please visit:

www.wsbi-esbg.org/KnowledgeSharing/Scale2Save/Pages/EmptyHomepage.aspx

About the Mastercard Foundation

The Mastercard Foundation works with visionary organizations to enable young people in Africa and in Indigenous communities in Canada to access dignified and fulfilling work. It is one of the largest private foundations in the world with a mission to advance learning and promote financial inclusion to create an inclusive and equitable world. The Foundation was created by Mastercard in 2006 as an independent organization with its own Board of Directors and management.

For more information on the Foundation, please visit: www.mastercardfdn.org

About FinMark Trust

FinMark Trust is an independent non-profit trust whose purpose is “Making financial markets work for the poor, by promoting financial inclusion and regional financial integration”. This goal is pursued through two principle programmes. Firstly, it creates and analyses financial services consumer data to provide in-depth insights into both served and unserved consumers across the developing world. Secondly it carries out systematic financial sector inclusion and deepening programmes to overcome regulatory, supplier and other market-level barriers hampering the effective provision of services. These programmes unlock financial inclusion and sector development through symbiosis between rigorous data collection and research activities. Their work can be found in South Africa, throughout the Southern African Development Community and around the world.

For more information about FinMark Trust please visit: <https://finmark.org.za/>



Learn more about Scale2Save at
www.wsbi-esbg.org/KnowledgeSharing/scale2save



WSBI