Predicting the Future of Fintech in Africa

David Cracknell

This blog considers the future of financial technology in Africa. Predictions are my own[1].

Where Are We Now?

Over the last 15 years mobile money and agent banking has transformed the delivery of financial services across Africa. Combined with national/digital identity and eKYC, mobile money has helped to drive levels of financial inclusion which were previously thought impossible.

Considering Kenya - over the last five years, digitisation is transforming financial institutions, and the way that transactions are performed, for example, Equity Bank in Kenya, now conducts 97% of all of its transactions digitally, outside its branch network - with most transactions occurring on its Eazzy24/7 mobile banking application. Digital transactions have been facilitated by the growth of payment ecosystems, such as the M-Pesa platform. Increasingly central banks are requiring interoperability by routing transactions through national platforms.

More recently, and especially after the introduction of General Data Protection Regulations (GDPR) in Europe, African countries are introducing data protection regulations and infrastructures. In Kenya, this is through the Data Protection Act (2019) and the establishment of a Data Protection Commission.

Laws and structures for protecting data almost paradoxically facilitate the sharing of data, through setting rules on consent and anonymisation. Reflecting this there are statements of intent towards

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[1] No responsibility is taken for the accuracy of these predictions or any actions taken resulting from these predictions. Predictions are my own and are based on personal observations, reading, writing and reflections.

data sharing and the introduction of open APIs in Kenya's National Payments Strategy and Vision 2021-25.

Financial sector regulation is changing too. Sandboxes that enable regulators to work with, and understand financial technology are increasingly common. Regulators in parts of Africa are working on regulating digital credit, and alternative finance (crowdfunding); though regulatory approaches vary.

At the same time, there is a growth in payment associations, and financial technology associations. For example, the Payments Association of Zambia (created in 2019), the Fintech Association of Uganda (created in 2019), the Digital Lenders Association of Kenya, and just recently the Fintech Association of Kenya. To support the rapid growth in financial technology more than 600 incubators, accelerators, hubs and labs have been established.

What Are the Challenges?

The most notable challenge is that the financial technology picture outlined above, is very uneven across Africa, mobile money and the digital finance ecosystem is well developed in East Africa, developing well in parts of Southern Africa, but is less developed in much of Central and West Africa. Technical capacity is centred in a few fintech hubs, South Africa, Kenya, Nigeria, and Egypt. The leading francophone fintech hub is Dakar, Senegal, ranked 209th by Findexable Limited. Combined with uneven development, there is a rise in financial conduct issues. These issues include fraud and cybersecurity, the operating practices of unethical lenders, and insufficient financial education contributing to widespread information asymmetry. The problem is especially acute for those without access to digital finance whether due to poverty, network availability, electricity, innumeracy, or illiteracy.

So, this is a very rapid summary of where we are in 2021. But what next?

What next?

I have fourteen predictions for the future of financial technology in Africa. Africa's fintech development will have different drivers than in the UK, Asia, or the USA. Africa has many of the world's fastest growing, most youthful countries. Many financial sectors are less well developed, more retail and corporate finance focused. So, what will we see:

Prediction 1: An extension of real-world use cases – facilitated by financial technology.

Real world use cases are use cases that have a direct impact on the lives of individuals and their businesses. So, moving from person-to-person payments to nano-credit, to e-commerce, to foreign exchange, to financing solar power. There will be new products in investments, a growth in alternative finance and in savings marketplaces.

Prediction 2: An extension in app-based platforms based around user groups or value chains.

There are already examples of app-based platforms for agriculture, for example KCB's MobiGrow or Safaricom's Digifarm. Whilst platform approaches have experienced adoption challenges these will be offset by careful research on user experience and user interfaces, and consideration of adoption pathways. The extension of app-based platforms for value chain finance will be extended through the integration of agricultural technology.

Prediction 3: Growth of shared platforms for financial institutions.

Financial institutions have for decades crafted their own technical solutions around a core banking system for ledger management and modules for functionality, treasury management, lending, channels etc. However, this approach has contributed to information silos which make it difficult to adapt and adopt the power of digital financial services. This is leading to the growth of Banking-as-a --Service. Initially in Africa, such platforms may be taken up by groups of smaller institutions seeking to be able to compete in a rapidly changing environment, for example, microfinance programmes, or credit unions. SASRA in Kenya is implementing a BaaS based platform for Kenyan regulated SACCOs. But as the use of shared platforms extends, so will the range and nature of institutions that are using them. Competition will move further towards competing on the services provided through the shared platform.

Prediction 4: Growth of data aggregation.

However, to maximise the potential of financial technology there must be access to data, both quality data at an individual level, and larger sets of semi structured data for data analytics. However, this means that Africa must invest in its ability to analyse data. The growing availability of data will lead to a growth in a data aggregation industry. This will be facilitated through open data, and the need for data enhanced products and services. Datasets will become commercialised subject to data protection and privacy laws.

Prediction 5: Financial institution adoption of fintech.

In Europe, in the UK and the USA some of the largest adopters of financial technology are financial institutions. This is not yet the case in Africa, but there are signs that this is changing. Equity Bank launched its award winning Eazzy24-7 platform through its fintech subsidiary Equitel. Standard Chartered opened a lab in Nairobi in 2019, Stanbic Uganda has incorporated a fintech subsidiary Flyhub in 2021. This trend will accelerate as:

a) financial institutions need to rely upon the agility of fintechs that are not dependent upon or hampered by legacy systems,
b) continuing digital transformation of financial institutions supports and provides opportunities for fintech integration,
c) the ability of fintech’s to provide client level integrations which are increasingly offered in corporate banking, for example in treasury management.
d) an increased focus on using technology-based solutions for measuring risk and/or de-risking. This will include the evolution of credit reference bureaus from providing positive/negative ratings, to credit scores which can be used in the decision to offer credit, and at what price.

Prediction 6: Fintech for Alternative Finance.

An ability to collect and use data will lead to a growth in business and company level analytics, which will fuel alternative finance, however, growth will be limited until there is appropriate regulation of equity-based crowdfunding. Outside select markets such as Mauritius, growth in debt-based peer to peer lending will be constrained by the availability of other low risk investment options which provide relatively competitive returns.

Prediction 7: Facilitating Intra Africa Trade

The Africa Continental Free Trade Agreement (ACFTA) will open new opportunity for trade through lower border controls. However, whilst companies can trade more easily, an essential aspect of international trade is trust, trust between the buyer and seller. Digital identity, blockchain, smart contracts and payment mechanisms will be the basis of international e-commerce platforms. On the back of these developments there will be an evolution in trade finance and significant growth in intra African trade.

Prediction 8: The launch of digital fiat

Driven in part by the rise of new opportunities for international trade, but also to dampen the speculative fervour around cryptocurrency, we will see the rise of digital fiat. Central Bank Digital Currency (CBDC) will address issues of KYC, AML, CFT and will be pegged to national currencies or to a basket of currencies. It will be used extensively in international trade.

Prediction 9: The broadening of the fintech umbrella

Financial technology will broaden, but growth will be guided by the comparative advantages of individual countries, so for example for Mauritius, we are likely to see the growth of wealth tech and offshoring. We will see increased use of blockchain for asset registries, land registries where greater trust is required. Creating trust, and lowering the cost of securitisation, has the potential to unlock significant capital fuelling economic growth.

Prediction 10: Taxation is coming!

Taxation of services facilitated by financial technology is coming. We are seeing this in mobile money transaction taxes in Uganda and digital services tax or even expanding the VAT net to tech facilitated services such as Sendy or Netflix in Kenya. In Europe we are seeing the taxation of Bigtech. However, it is important to develop and apply taxation principles for fintech services lest we risk damaging the industry. As fintech expands, there may also be the extension of the tax net progressively into the informal sector, especially as tax authorities have a basis in information for their assessments.

Prediction 11: BigTech will extend its influence in Africa.

With growing prosperity and digital ecosystems Africa will become a viable market for BigTech – especially as we move towards an information-based economy. Google, Facebook, WhatsApp, know their customers so well already. This may be through payment-based services on their platforms such as ApplePay, but big-tech will go further towards the development and integration of information-based services, given their huge datasets. Look for marketing and AI based tools.

Prediction 12: Digital banks will grow – but not take over, yet.

Yes, there will be a growth in digital banks, but there will be a greater focus on digitising existing banks, and neo banks emerging from banking groups. There are several factors influencing this prediction including the ability and willingness of key financial institutions to fund this development, but also trust in established bank brands which is difficult for newcomers to earn.

Prediction 13: Regulation will be increasingly applied to financial technology.

Regulators by nature tend to respond rather than lead. However, there are multiple trends in regulation which suggest that regulation will be increasingly applied to financial technology.

a) There is greater knowledge of financial technology and the digital finance revolution internationally and within regulators. There is sharing of knowledge and experience through institutions such as the Alliance for Financial Inclusion, the GSMA, and the G20. Regulators are gaining experience and perspective though sandboxes and test and learn approaches.
b) There is the growth of the RegTech and SupTech industries which enable and facilitate regulators to interact in the digital finance world.
c) Emerging financial conduct issues will demand informed responses that balance the power and anonymity of financial technology with the requirement to protect consumers. This will include the evolution in regulatory form including the growth of financial conduct regulators.
d) An evolution in regulating by type of business over the form of the institution being regulated. The Monetary Authority of Singapore is a leading thinker in this regard.
e) The growth of the legal infrastructure around financial technology, including digital identity, data protection, cybersecurity, revised national payments acts, updated consumer protection acts and/or credit acts. Regulators will respond and incorporate this changing legal environment.

Prediction 14: Evolution of fintech into a national asset

My final prediction is the evolution of financial technology (and technology more generally) into a national asset. This view will be increasingly common in African countries with an established financial technology industry such as Kenya, Nigeria, South Africa or an emerging fintech industry such as Ghana, Rwanda, and Uganda. Fintech as a national asset will see changes in education to support financial technology, investment policy to encourage local and international investment, policies and approaches for skills development and coordination between national regulators.

This blog is one of a series of blogs, should you wish to sign up to receive additional blogs, please write to David Cracknell at david@firstprinciples.consulting

David Cracknell is the Director of First Principles Consulting Limited, based in Nairobi, Kenya. He advises financial institutions, governments, policy makers and donors on financial services, including digital finance, policy and regulation, and inclusive finance.