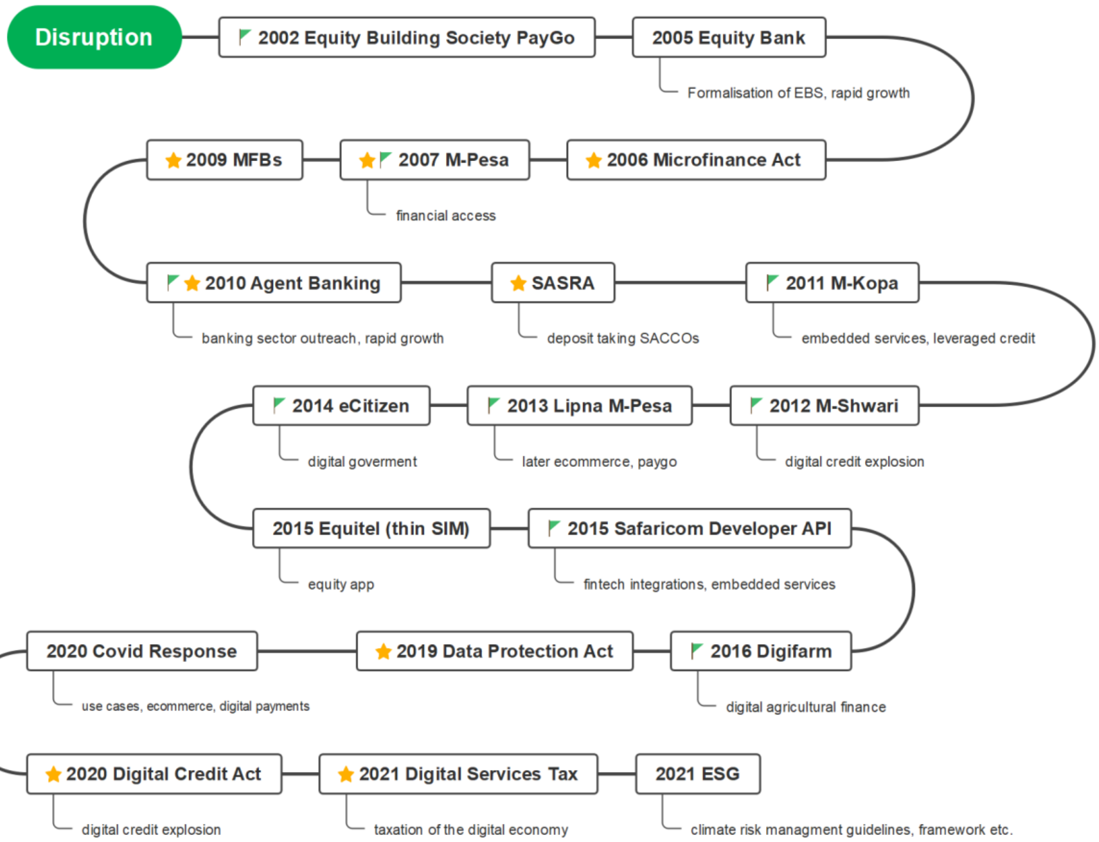
Reflection 29. Disrupt

A slightly longer message this time. I have been privileged to live and work in Kenya's financial sector since 2001. It is easily one of the most interesting, dynamic, disruptive, financial sectors that I've worked in. So, let's examine the topic of disruption and why it's been so important. The easiest way to start is through a timeline.

This timeline is not exhaustive, and others would focus on different or fewer items. Some items show key dates within the development of the financial sector, though they may not be disruptive.



Stars: show key regulation, flags identify major disruptions.

What we can see is that the sources of disruption I've identified have come from a few institutions supported by regulators. Regulation of microfinance institutions and deposit taking SACCOs development was an important phase prior to the rollout and development of mobile money. It would be easy not to call this disruptive, but at the time M-Pesa was unproven and most financial institutions were not focused on majority of Kenyans.

Equity Building Society led the disruption from 2002, when it moved away from monthly fees to a pay as you go model. Ultimately, as Equity grew and became a bank other financial institutions responded. Equity was continuously disruptive, working to extend delivery channels through banking on wheels, extending cash flow-based lending etc. It is easy for this to be overshadowed by the launch of M-Pesa in 2007.

So, in 2007 M-Pesa was launched following an eighteen-month pilot test. It far exceeded the expectations of anyone involved. *MicroSave* participated in the pilot test, so I can say this with fairness. M-Pesa magnified the progress that Equity was making on increasing accessibility and affordability through mobile money agents and transaction-based pricing but went further to add a range of payment solutions. Disruptions continued, through a banking sector response to M-Pesa, agent banking which brought banking services closer to the population.

M-Kopa offering mobile solar solutions sees the beginnings of embedded financial services, in as much as the core product, solar power is facilitated by digital finance. Lifestyle integration continued with Uber and others. These fintechs provided significant use case extensions.

In 2012 we saw the birth of the next disruption which was M-Shwari, digital credit. Digital credit has evolved now to over 400 providers in Kenya alone and transitioned huge volumes of credit from traditional cashflow based assessments to transactions and payment-based assessment. It proved the market for quick, accessible, credit was huge, and that accessibility was more important for many than the price of loans. Now most financial institutions are offering instant credit as a part of their offering.

In 2013, the next disruption was merchant payments, these payments worked, in my view because of the ecosystem that Safaricom was putting together. M-Pesa users could top up their M-Pesa wallet through transfers from their bank accounts. I've explored this in my study on interoperability. Over time, this brought cheaper merchant payments for merchants than card services, at the same time it connected merchants to a huge number of customers. It locked volumes of payment transactions into the M-Pesa ecosystem, and significantly deepened the data-verse surrounding M-Pesa.

In 2014, we see the extension of M-Pesa deep into the facilitation of e-Government with the launch of e-Citizen, a significant extension from traditional payments through the banking system.

In 2015, again there is a banking sector response, again from Equity, with the launch of the thin sim in association with Airtel Kenya, which facilitated the gradual growth of Equity Bank's ecosystem, and its award-winning banking app. We also see the launch of Safaricom's developer API. This facilitated access by the growing fintech community to the M-Pesa platform.

In 2017 the banking sector responded to M-Pesa with Pesalink which offered payments too and from bank accounts linked to phone numbers. This solution took five years to prepare, and from a competitive standpoint was, in my opinion, too little too late.

Disruptions deepened during Covid-19, as more payments went onto M-Pesa, and continue with the facilitation of taxation through mobile money and embedded finance.

So, what can we see from this history of disruption.

a) There are relatively few disruptive players that facilitate a growing ecosystem built around the disruption. Players you would anticipate being disruptive, such as Airtel Kenya, were not.
b) Responses to disruption are important but not always successful. Pesalink for example, has had impact, but I wouldn't call it disruptive.
c) Disruptions have changed the nature of financial services, and in fairness predated M-Pesa, through the growth of Equity Bank which began to reposition the financial sector. But disruptions massively increased after the launch, and in particular the evolution of M-Pesa.

d) Disrupters now use the M-Pesa platform to embed their services into the lifestyles of their customers. There has been and continues to be a massive growth in e-commerce, and in PayGo services, in m-health and in elements of digital agriculture.
e) Disrupters have facilitated the growth of a parallel sector, Silicon Savana, which continues to give life to more disruptors.
f) Disruption is occurring through the banking sector, this is less visible, but it is still profound, in that banks are increasingly seeking to capture elements of supply chain finance through integrating with digitising sectors. Traditional banking models are evolving. New functionality is being introduced to banking apps (NCBA), increased competition in merchant payments through improved merchant offerings (Equity).
g) Disruption may broaden going forward through platform providers such as Little and vendors such as Ecclectics.
h) Future disruptions will continue as Safaricom, fintechs, and financial institutions adapt to the new data-verse, big data, and data analytics.

What this suggests is that not everyone can be a disrupter, but – to survive you must respond quickly and appropriately to disruption.

Looking forward the next stage of disruption will be even more profound because the basic tools of disruption are changing, they are evolving from payments and transactions towards the internet of things, the cloud, blockchain, smart contracts, and big data. Whilst the quality and comprehensiveness of data still leaves much to be desired, our ability to interpret data through machine learning and AI is increasing, as data evolves, so will fintech and financial services more generally.

Disruptive times ahead. Prepare.

If this reflection speaks to you… speak to me so that we can inspire change, together.

David Cracknell

Additional reflections in this series can be downloaded from www.firstprinciplesinfinance.com