**Mobile Money Ecosystem**

The 2015 State Of The Industry Report (SOTIR) for Mobile Money published by GSMA, reveals a picture of a service that continues to change the landscape of financial inclusion in developing and poor countries across the globe. In December of 2015, the industry processed transactions in excess of a billion, most of which were in Sub Sahara Africa.

It seems however, that the continued success of Mobile Money eludes South Africa. What with the untimely death of Vodacom Mpesa after millions of Rands of reinvestment. Only 4 months after which MTN South Africa also announced that they are ceasing new registrations, marking the end of (Mobile Network Operator) MNO-lead Mobile Money deployments here.

Despite the large bang that MTN Mobile Money launched with, managing to sign over 2 million subscribers; at the end, Vodacom Mpesa only had just over 75 000 users, and MTN Mobile Money only about 140 000 or so users. A performance that neither of these well-established, successful, multinational MNO’s can be proud of.

We lament the apparent failure of Mobile Money in South Africa. It is well established that it has made a significant contribution to financial inclusion for underserved populations, and still presents significant opportunity to serve unbanked and underbanked communities.

### South Africans are still financially excluded

A challenge that Mobile Money operators in South Africa have been unable to surmount is packaging Mobile Money beyond peer-to-peer microtransfers and airtime top-ups. Moreover, the lack of interoperability has made the task near impossible to achieve for the operators themselves, but more tragically, for aspirant entrepreneurs in FinTech.

Significant Mobile Money opportunities have not yet been realised as a result. Including, Micro-Investments, Group Savings, Micro-Lending, Merchant Payments, Mobile Insurance, Bulk Disbursement, Mobile Donation, International Remittances and Bill Payment.

Opportunities that would not only see millions of South Africans who currently have poor access to these financial services included, but also put them in an excellent position to access further and more sophisticated financial services in the future.

### Where did it all go wrong?

Analysts have multiple views on this question. It certainly is not for lack of cutting edge technology. Some of the Mobile Money platforms used in South Africa are award winning. There is also no shortage of highly accomplished, well respected professionals and entrepreneurs on their teams.

An interesting observation is that overall, agent networks account for more than 90% of cash-in and cash-out transactions, thus remain the backbone and face of Mobile Money. It remains a mystery why MNO’s in South Africa, who in-fact stand to benefit the most next to banks, and are best placed to access potential agents, were unable to mobilise this all important stakeholder.

It is certainly not for lack of trying. Some of the most successful roll-outs of Mobile Money in other Sub-Sahara Africa countries are in fact run by these MNO giants. Case in point, Safaricom M-Pesa and MTN Uganda and Ivory Coast.

I suspect that the regulatory environment may have something to do with it. South Africa has the added difficulty of a regulatory framework that is extremely hostile towards new entrants in FinTech. For Mobile Money, the requirement to have access to a Banking License makes entry for new player excessively pricey, and the statutory requirements attached to that license prohibitively cumbersome.

Financial Inclusion, particularly the kind that can be achieved with Mobile Financial Services is a strategic priority for developing governments in their quest for the economic development of poor people in rural and underdeveloped areas, with a special focus on women.

If this is the case for South Africa, the regulatory framework for Mobile Money needs a complete overhaul, urgently.

### So what about Bank-Lead “Mobile Money” Services in South Africa?

Broadly, the definition of Mobile Money is a service in which the Mobile Phone is used to access Financial Services. If we are however to use the GSMA Mobile Money model, these services would need to fit the following criteria. (SOTIR – 2013)

• The service must offer at least one of the following services: P2P transfer, bill payment, bulk payment, merchant payment, and international remittance.

• The service must rely heavily on a network of transactional points outside bank branches that make the service accessible to unbanked and underbanked people. Customers must be able to use the service without having been previously banked. Services that offer the mobile phone as just another channel to access a traditional banking product are not included.

• The service must offer an interface for initiating transactions for agents and/or customers that is available on basic mobile devices

The closest Bank-Lead offering to this definition is FNB’s ewallet. Which in fact is widely credited with introducing Mobile Money to the South African market to begin with. Currently, a customer is able to deposit, receive, withdraw funds from the account as well as transact (buy airtime, pay bills, etc) with the account. A customer can also open and transact with an FNB ewallet account without having to be an FNB banking customer.

However, that customer can only do that at FNB designated ATM’s and at FNB branches. Thus, FNB ewallet misses the criteria of having network transaction points outside of the bank to improve access for previously unbanked and underbanked customers.

Mobile Money Services offered by other banks (Standard Bank Instant Money, ABSA Cash Send, or Nedbank Send Imali) are more akin to a voucher system than a wallet solution. Thus, the basket of products that is on offers does not go beyond P2P transfers. Of course, that is not to say that there cannot be more.

Even with agents being the cornerstone of Mobile Money, banks remain a key enabler for this service. More than half of Mobile Money Operators reported leveraging banks and their infrastructure as part of their network.

Besides, the banking system in South Africa is well developed on par with developed countries and enjoys the trust of millions of people, including unbanked and underbanked people.

Anyone will be forgiven though for wondering if South African banks have any interest in actually having customers use their platforms. Not with the exorbitant, even downright extortionary fees that are charged for the service. With fees anything between R5 and R20 for sending and/or withdrawing money, there cannot possibly be an expectation that anyone would want to transact with any regularity on these platforms. Much less poor, uneducated women in rural areas who suffer the biggest burden of financial exclusion.

### Collaboration is critical

The growth, utility and sustainability of Mobile Money is directly dependent on interoperability, which is essentially non-existent among the Mobile Money Operators in South Africa. What is encouraging is that it seems collaboration is the most prominent trend among Mobile Money Operators in the market overall, with 1 in 4 operators reporting to be collaborating is some form or other.

Banks and until now MNO’s, have so far been the key drivers of Mobile Money services in South Africa. Unfortunately, they have also acted as sort of gatekeepers that together with draconian regulation serve to keep new players out of the game.

Another critical spoke in the wheel are the technology companies that enable the banks and MNO’s to deliver their Mobile Money services. Their level of innovation is highly respectable, however, their influence and impact seem to also be stifled by the banking, MNO and regulatory stakeholders. They are also an important voice when it comes to the big question of interoperability among Mobile Money Providers.

Lastly, most importantly and a largely overlooked part of the equation are the small Start-ups that need to use the Mobile Money platform to deliver their product. Their ability to solve customer problems at a granular level makes them critical in gaining trust among users, and gaining deep traction and usage for Mobile Money that the banks and MNO’s are struggling to get.

Their access to multiple unique ecosystems of customers gives them an edge that enables them to reach corners that are clearly difficult for the traditional operators to reach.

### There is still hope

The spiderweb that is Mobile Money, and the behemoth that is the financial system in South Africa, have the markings of an industry ready for disruption.

Going forward, we can expect that financial inclusion will continue to make a significant contribution towards economic development in poor and developing countries across Sub-Sahara Africa. We can also expect that the drivers of this financial inclusion will be start-ups that have a keen sense of what their customers’ real challenges are, and what they truly need in whatever solutions are on offer.

What we cannot overlook is the importance of the mobile phone in delivering these all important solutions to millions of South Africans and Africans, owing to how well penetrated the market is with mobile phones.

What we can only hope for, is that this seemingly fierce resistance to collaboration will come to an end and that banks, MNO’s, and regulators alike will see themselves as enablers in the ecosystem allowing and supporting the real entrepreneurs to crack the nut that is financial exclusion.

A report published by FinMark Trust (a charity funded by the UK, the UN and private organisations) seeks to explain the reasons behind the " termination of mobile money services" in South Africa and the likely effects. More positively, the report also " identify barriers to launching effective mobile financial services (MFS) in South Africa with a specific focus on the regulatory environment required to enable such opportunities. " But, as extracts show, there might be an element of a solution looking for a problem. It all seems a little too much as if someone has decided that mobile financial services are essential. What do you think? Subscribers can comment.

The full report is at [http://www.finmark.org.za/wp-c...](http://www.finmark.org.za/wp-content/uploads/2017/12/Final-Report-on-Mobile-Money-in-South-Africa-v11.1_clean_digital_CB.pdf)

The following extracts are comments of particular importance. For context and full detail, see the report.

The services able to be offered through mobile money, including remittance and mobile payments (bill payments and merchant payments) are constrained in South Africa through regulation primarily due to the stipulation that e-money can only be issued by a bank and the definition of deposit limits the ability to offer mobile payments without a partnership with a bank.

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The structure of the national payments system creates barriers for non-bank participants to participate in clearing services and adds cost to participation in payment services. The effect of these barriers is that the ability to launch payment mechanisms that are able to compete with the established mechanisms in cost, acceptance and interoperability is limited.

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In markets where mobile money has been successful, one of the cornerstone services that has driven adoption and profitability is domestic remittance. The competitors in the formal sector for this service in South Africa are well established with significant market share combined with convenience, trust of the provider and accessible agent networks. The retailers dominate the formal domestic transfer market with limited price differentiation.

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The South African end user environment has marked differences to those countries where Mobile Money has been successful, including high financial inclusion, easy access to ATM and retail branch networks and access to banking services through mobile channels. There is a propensity for individuals to withdraw the majority of their deposits into cash that challenges the substance of the banked statistics, further research is required to fully understand the reasons. The behaviour highlights that the benefits of financial inclusion are not being realised by these individuals.

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Additional factors that influenced the lack of sustainability include:  
• Agent network challenges, including cash float, aggregation, trust and value  
proposition;  
• Poor technology choices for the implementation of the services

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it is clear to see that while both M-PESA and MTN Mobile Money were technically feasible (they had their challenges, but none were insurmountable), and the customer desirability was high, the primary causes for failure lie within the business viability lens; that is, the business models were constrained by the institutional environment that limited the product offering, a highly competitive domestic remittance market and an end user market with high financial inclusion.

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It is evident from the withdrawal behaviour of consumers that a large portion of the South African banked population are not experiencing the benefits of financial inclusion. Cash is still the primary transacting mechanism, with the associated risk of safe storage and transport, and access to affordable credit is constrained through limited behavioural information. Incorporating the unbanked into formal financial services in a sustainable way will not only benefit the individual and help propel socio-economic development, it will provide a new market opportunities and overall commercial efficiency for the private sector and greater regulatory and tax efficiency ultimately contributing to the GDP.

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The introduction of new mobile money financial products will be critical in allowing the poor to access saving, credit, and insurance products. Most adults use mobile money to buy airtime and make remittances which constitute a fraction of financial products needed by people. Therefore, the introduction of new mobile financial services such as savings, credit, insurance, and investment products should be introduced to allow people to access various alternative financial products.

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MFS offerings have the potential to provide a viable alternative to traditional banking and established remittance offerings, thereby increasing real financial inclusion with all the associated benefits. Fundamental to achieving this potential is a regulatory environment that enables innovation, encourages competition, ensures interoperability and provides fiscal stability and consumer protection. Changes to regulation can increase the range quality and suitability of financial products and services to low income consumers – thereby increasing financial inclusion.

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The following is recommended:  
• Review the current position on e-money and consider the role of non-banks issuing e-money.  
• Increasing access to the national payment system at a payments and clearing level, including non-banks.  
• Review the definition of deposit and consider the option of introducing granularity into the usage of  
deposit (eg. Deposits for the purpose of transacting) and using that to guide appropriate oversight.  
• Introducing regulation to enforce banks to provide access to their services to third parties through secure APIs.  
• Introduction of inter-operable real-time-push mobile transactions.  
• The use of regulatory sandboxes to enable innovation while leveraging technology to better manage risks.  
• Improve co-ordination between different departments and explore the opportunities for South African Social Security Agency (SASSA) to better leverage existing payment and transacting infrastructure.  
• Shift the focus from the regulation of institution to the regulation of activity, service or product.

LINKS-

<http://www.finmark.org.za/wp-content/uploads/2017/12/Final-Report-on-Mobile-Money-in-South-Africa-v11.1_clean_digital_CB.pdf>

<https://www.researchgate.net/publication/318714486_Mobile_banking_in_South_Africa_A_review_and_directions_for_future_research>

<https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2017/03/GSMA_State-of-the-Industry-Report-on-Mobile-Money_2016.pdf>

<https://www.marketsandmarkets.com/PressReleases/africa-mobile-money.asp>

### Electronic Money

**1. Introduction**

The financial environment has changed significantly over the past few years. In the wake of financial liberalisation and innovation, financial markets have become more integrated globally. Greater financial market integration has fostered an acceleration of cross-border financial flows which are supported by technological advances. Some of the developments were financial innovations, like the spread of automated teller machines, electronic funds transfers, home banking, etc. Advances in information computer technology (ICT), financial innovation, and liberalisation, the globalisation of trade, improved functioning of markets contributed to the so-called e- economy.

E-money is transforming the financial landscape in fundamental ways and it will continue to do so for sometime to come. It has therefore become essential to take note of developments in this regard.

The possibility of e-money taking over from physical cash for most small-value payments continues to invoke interest among both the public and central banks.

**2. A future for e-money?**

E-money is defined as an electronically stored monetary value on a technical device (either card-based or network-based) that functions as a prepaid bearer instrument. It can be widely used for making payments to undertakings other than the issuer, with or without involving bank accounts in the transaction. The development of e-money will depend on the decisions made by customers and merchants as to whether or not to use it as a payment instrument. It will also depend on large investments in infrastructure and a general acceptance of this payment instrument by the public. Customers are now able to choose among a wide variety of payment schemes.

Card-based e-money schemes have been launched and are operating relatively successfully in many countries. E-money products that are comparatively more successful are those supported by public transport and public telephone companies and parking meter or vending machine operators. The viability of these products is currently being investigated in South Africa.

Compared to card-based schemes, developments in network-based or software-based e-money schemes have been less rapid. Network-based schemes are operational in a few countries (Austria, Columbia, Greece, Hong Kong, Italy, Korea, Norway, Russia, Spain and Taiwan), but they remain limited in their usage, scope and application.   
E-money is ultimately only a dematerialised form of money that developed from barter economy to other forms of money. In South Africa there are some initiatives that should contribute towards more people using electronic payment systems in future. The development of e-money will be determined by market forces and reflect competition between the various issuers of electronic money.

**3. The potential impact of E-money**

The role of e-money in the economy derives from its function as a retail payment instrument. In this regard, e-money is analogous to banknotes and coin, cheques, bank transfers or credit and debit cards. Each of the existing retail payment instruments offers certain specific services which make that payment instrument particularly attractive to certain customers or for certain types of transactions.

Policymakers have to tackle several challenges in formulating their attitude to the development of e-money. For example, they need to ask themselves whether there is a real need for issuers of e-money to be governed by regulations similar to those imposed on other financial institutions; whether licenses to issue e-money should be restricted only to those institutions that already fall within such regulatory controls; if there should be restrictions on the types of e-money product that can be offered and when it would be best to legislate.

Risk management is a primary concern of central bankers. Innovation does not stop and new forms of payment systems are evolving which, in some circumstances, can enable participants to manage their own liquidity more efficiently. Innovation brings new challenges for central banks in assessing the risks and any trade-offs with efficiency in the circumstances of the time and in the particular applications.

**4. Electronic products in South Africa**

Developments of electronic products in South Afica have been very exciting. In terms of e-money, the card-based products are the closest to the strict definition of e-money. These would include the Telkom cards and other mobile payment products where value is loaded on the card. Telkom and the mobile network operators are expected to issue 20 million cards in 2005, through the issue of new pre-paid and Sim cards.

Although the Mzansi Account Initiative is not e-money per se, but rather a savings scheme, it serves as an example of potential growth in the industry since it was launched on 25 October 2004. The Mzansi initiative is a major part of the Financial Sector Charter commitment to increase access to financial services for as many South Africans as possible. In terms of the Charter, the banking sector was committed to providing banking services within 20 kilometres of 80 per cent of people in the Living Standard Measure (LSM) 1-5 category to make access easier. The Mzansi Account allows people who previously had no access to banking, to open a low-cost account at selected banking institutions and the Post Office. By the middle of May 2005, over 1 million Mzansi accounts had been opened, bringing an additional 4 per cent of the population into the formal banking system since October 2004.

The South African Government initiated a few programmes that will enhance the use of electronic money. The Department of Home Affairs (HANIS project) plans to issue a multi-application smartcard, known as the Smart ID card, to each South African citizen, which will replace the present identity documents. It is envisaged that the Smart ID card will become South Africa’s national identity card with a payment application for state pensioners and grant beneficiaries to receive their monthly allowance, and a generic bank payment application. The card’s chip will store an electronic purse and a digitised version of the cardholder’s fingerprints. The electronic purse will facilitate pension and welfare payments to the country's unbanked 10 to 15 million people.

In addition, the South African Post Office will issue a combi card, i.e. a smartcard with a magnetic stripe that will remove some of the cost, risk, inconvenience and danger that social grant beneficiaries face in receiving their allowances. The social grant beneficiary’s fingerprints and identity number will be saved to the chip on the card. The magnetic stripe part will contain the details of the beneficiary’s PostBank account. With this card, the beneficiary will have access to his/her social grant through any banking system in South Africa.

In the health care profession, some developments are also worth noting. MediSmart cards will be used by patients at CareCross medical and dental network providers. The Medismart e-purse will offer up to 16 or more potential separate and secure e-purses per card as well as support for debit, credit and other stored value forms of payments. This is an important innovation since there is an emerging market of 13 million managed-care patients in the private sector in South Africa.

Capitec Bank and MasterCard Southern Africa piloted the world’s first pre-authorised debit card based on the EMV standard in the Qwa-Qwa town of Phuthadjitjaba in the Free State Province. Customers are issued a Maestro card, which in addition to having a magnetic stripe, come with a pin-protected microchip. Cardholders load this chip with a pre-authorised amount of funds from their bank account. The chip will also calculate the total amount being spent, and when the pre-authorised amount has been reached, the cardholder will simply need to reload at any Capitec Bank point of sale machine or branch.

With the introduction of e-money, cardholders benefit by not having to carry large amounts of cash to buy goods and services. Participating retailers also benefit as they are guaranteed payment for all transactions with the Maestro card without having to constantly go online for authorisation.

The above examples bring the advantages of banking services to more locations in South Africa than ever before and facilitate the introduction of previously unbanked South Africans into the banking system.

LINKS-

<https://www.bis.org/review/r991013b.pdf>

<https://cenfri.org/documents/Pakistan%20Microfinance%20Study%20Tour/SARB%20Presentation.pdf>

<https://assets.kpmg.com/content/dam/kpmg/za/pdf/2016/09/Payment-Developments-in-Africa-2015.pdf>

### Mobile Wallets & Payment Systems

Africans to use digital wallets as a payment method.

The company, which is targeting SA's unbanked population, supports online money transfers and serves as an electronic alternative to traditional paper methods like cheques and money orders.https://ad.itweb.co.za/adlog.php?bannerid=43589&clientid=14672&zoneid=0&source=&block=0&capping=0&cb=57806f7e93a717192f5ad8a9ffae949b

A digital wallet refers to an electronic device that allows an individual to make electronic transactions. This can include purchasing items online with a computer or using a smartphone to purchase something at a store. An individual's bank account can also be linked to the digital wallet.

As of 2016, PayPal has 600 000 users in sub-Saharan Africa.

PayPal recently released data about mobile phone usage and mobile e-commerce in SA. According to the company, online shopping is on the rise in SA.

The survey was run by Johannesburg-based research company Answered Insight. The research followed a quantitative approach where data was collected via a smart device (smartphone, tablet), PC or laptop form of an online survey.

"Our survey has shown that South Africans want to shop online via their mobile devices," says Efi Dahan, GM of PayPal for Russia, Middle East and Africa. "We found that many are already using their phone as a digital wallet, going so far as to leaving their wallets behind to do all their transactions with their phone."

It emerged that 85% of the respondents have used their mobile phones to make a purchase in the past year, and 46% said being able to shop on their mobile phones has made them buy more.

According to PayPal, 52% have said in the past month, they have left the house without their wallet at least once, preferring to do their payments with their mobile device.

The majority of South Africans would rather leave home without their wallets than leave home without their mobile devices (47% vs 53%).

Three of the top seven most used mobile apps were related to e-commerce.

"E-commerce has the potential to connect consumers to the digital global economy," says Dahan. "The data showcases a huge opportunity for South African businesses to reap rewards and grow their businesses if they embrace mobile e-commerce and provide the convenience consumers all over the world crave."

PayPal also asked respondents to rank a variety of stressful scenarios that would cause them the most anxiety. The survey results found 60% ranked losing their phone or having it stolen as a scenario that would cause them the most anxiety and worry.

This scenario tied with a home invasion for the highest response, and more South Africans are worried about having their phone stolen than getting fired from their job.

South Africans are beginning to see the benefits of online shopping, which gives them access to a large variety of goods, Dahan says.

He attributes this to an increase in mobile device penetration in SA. Mobile devices are allowing almost anyone to access the Internet.

There is also popularity with using PayPal's technologies like "One Touch", which allows users to complete purchases faster, he notes. When a user logs into PayPal, with their mobile phone or from a desktop, tablet or laptop, they can choose to stay logged in for easier, faster check-out across all eligible merchants.

He adds local retailers have upped the game regarding deploying technologies that enable online shopping.

Although many South Africans are still using feature phones, Dahan says more and more cheaper smartphones are being shipped into the country.

According to Dahan, the South African market is growing much faster than PayPal expected, thanks to mobile devices.

The company is targeting the unbanked population in SA

The [2015 State of the Industry Report](http://www.gsma.com/mobilefordevelopment/programmes/mobile-money/industry-data-and-insights/sotir) on Mobile Financial Services tabled at the World Mobile Congress in Barcelona brings some interesting but not unexpected figures on the state of mobile money today. I say “unexpected” because any innovation that delivers simple, affordable and accessible product is bound to make its presence felt and disrupting the traditional systems.

The report said mobile money is reaching more than 411-million people globally and available in 85% of countries where the vast majority of the population lacks access to a formal financial institution. It also states that more than one billion transactions were processed in December 2015 which is more than double what PayPal processed globally.

It’s no secret that even in countries where mobile money is slow in adoption like South Africa, banks are watching with keen interest driven by fear of being left behind especially in a world where some speculate that virtual currency might replace cash in the near future. To say these things are impossible with technological innovation that we are witnessing today would be delusional.

Like any other business, banks should be interested and eager to be part of any financial revolution that makes sense to their bottom line. In South Africa where [close to 30% of the population](http://www.banking.org.za/what-we-do/overview/towards-a-financial-inclusion-strategy) is unbanked financial institutions should be asking themselves hard questions on how to reach this market with affordable, accessible and simple products to use. Mobile money is the answer; the ability to pay in store or online using a phone or access insurance policies and other financial products by the click of phone buttons without touching cash.

South Africans , after all,  are said to be very fond or attached to their mobile phones and very embracing to products that are easy to use and can be accessed via a cell phone like FNB eWallet or airtime top up or transfer.  E-commerece companies like Takealot should by now be offering a mobile payment option to free those who love the convenience of online shopping but fear credit card fraud. This also applies to those who don’t own credit cards. Mobile money apps can provide solutions to make payment online accessible to all and less scary.

**What’s in it for banks?**

In countries where the banking system is said to be poor, mobile money agents do step in and play the role of being a banker to the community. But in countries where the systems are strong like South Africa, banks can still play a bigger role through options like creating a standalone application or to make it part of their brand or product extension.

By creating a standalone app or through buying in existing product banks are able to provide merchants with a more affordable way to accept payment and provide their customers with a more convenient way to pay. By making it part of the banks’ product extension, it still provides both merchants and customers with the same capabilities but the level of trust awarded to it by the users are much higher. People are more willing to trust something provided to them by their bank than any other product.

In South Africa mobile money will not only attract the so called neglected population but we will also see emergence of very innovative mobile money apps that will be very attractive to the millennial generation. Uber should also serve as a warning to any industry including finance that tradition can be replaced any time in an unprecedented speed.

For banks to generate revenue they will need to embrace mobile money and stop seeing it as a solution for the unbanked or underbanked but a solution for all. MarketsandMarkets forecasts that Mobile Money Market will be [worth US$78.02-billion by 2019](http://www.marketwatch.com/story/mobile-money-market-worth-7802-billion-by-2019-2015-03-23). The questions Banks would legitimately ask are – is the mobile money profitable and is security a concern?

**Profitability**

Banks are spending millions daily on VISA and Mastercard licences and Interchange fees. According to the South African Reserve bank the average Interchange fee for a debit card transaction is 0.44% and credit card transaction is 1.48%. Working with local fintech companies, banks can develop ways for their customers to make and receive payments not using the card rails at all, meaning banks can save huge amounts of money on [interchange fees](https://www.resbank.co.za/Publications/Detail-Item-View/Pages/Publications.aspx?sarbweb=3b6aa07d-92ab-441f-b7bf-bb7dfb1bedb4&sarblist=21b5222e-7125-4e55-bb65-56fd3333371e&sarbitem=6155) and merchants can save money on card processing fees.

[Recent statistics](http://www.the-star.co.ke/news/2016/04/09/mobile-payments-for-goods-in-kenya-hit-sh10246-billion_c1328533) shows that Safaricom’s M-Pesa accounted for 91.88% of the mobile commerce transactions valued at over US$932-million. Airtel came a distant second with just over US$42-million, 4.19% of the total mobile commerce cash, followed closely by Equity Group’s Equitel with US$39-million – about 3.87 per cent share. Looking at these figures it’s clear that mobile money implemented correctly can be very profitable for banks.

Seeing that over 30% of the South African population is unbanked local banks can increase their profits by providing these people with basic banking needs via Mobile Money. Services like funeral policies, basic savings and easy access to loans means banks can generate more revenue in this market. South Africa’s informal economy is [estimated be around R160-billion](http://led.co.za/topic/informal-economy) and most of these transactions are cash based. Providing these merchants with a more reliable more secure way to transact should not be an option to the banks. It is a must!

**Security**

According to the [South Africa Banking Risk Information Centre](http://www.businessmedialive.co.za/2014-credit-card-fraud-statistics/) (SABRIC), revealed that the banking industry’s gross fraud losses due to South African-issued credit card fraud increased by 23% in 2014, from R366.8-million in 2013 to R453.9-million.

Debit card gross fraud losses rose 5% from R117.7-million in 2013 to R123.5-million in 2014. The majority of debit card fraud losses relate to counterfeit fraud (65%), followed by lost or stolen fraud losses (33%). It says that South African banks are continuously investing in new technologies to assist with the detection, prevention and reduction of bank card fraud, and that crime trends are followed closely and adjustments to monitoring systems are made to mitigate associated risks.

Banks shouldn’t only focus on ways to prevent card fraud but rather on ways to enable their customers to transact without cards. Systems like Snapscan and Zapper has proven that the South African population are keen and ready to use their mobile device to make payments.

Most mobile money applications require multiple levels of security. For example Apple Pay requires the user to touch their finger to the screen in order to send the payment. This means that you must have the correct fingerprint code in order to access the payment system at all. An incorrect fingerprint code will cause the system to reject payment.

With Google Wallet you are required to input a preset 4 digit security code (PIN) each time you want to use the application. Without the PIN you are unable to access any of the features. Snapscan requires a pin before completing a transaction. For these reasons mobile payments are a lot safer than paying with cash or swiping your card.

Although these systems as very popular they still require the user to have access to a debit or credit card, making the system unusable to a huge part of the population. Working with these companies and local fintech companies like Wallettec, banks can enable these types of products to process transactions straight out of a customer’s bank account bypassing the card rails. It makes transacting more secure, cheaper and giving millions of people access to more convenient payment mechanisms.

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Masterpass, MasterCard's mobile wallet, recently partnered with bank-based wallet SnapScan to expand its acceptance network in South Africa.

The move gives Masterpass access to SnapScan's 30,000 South African in-store and online merchant partners, making it the most widely accepted digital wallet in South Africa, according to [Tech Central](http://e.businessinsider.com/click/8235974.4918/aHR0cHM6Ly93d3cudGVjaGNlbnRyYWwuY28uemEvbWFzdGVycGFzcy1ub3ctYWNjZXB0ZWQtYXQtc25hcHNjYW4tbWVyY2hhbnRzLzcwMzEwLw/56c34aced7aaa8f87d8b56a7Bf3f996a4).

Customers will be able to download the Masterpass app, add their card, scan a QR code at the physical or digital point-of-sale (POS), and finalize the transaction by entering the amount and a verification code. The partnership could help make Mastercard a leader as digital payments become more popular in South Africa.

Masterpass just gained access to a massive network at almost no start-up cost. SnapScan is popular among smaller merchants that didn't have a POS system and mostly accepted cash, but wanted to move into card payments. Masterpass, which shares a primary financial institution partnership with SnapScan, just gained access to that entire network without having to do any outreach or invest in any POS infrastructure.

Finding fast ways to scale could help Masterpass capitalize on rising demand for mobile payments.

* **Demand for mobile payment products is likely poised to increase.** The Middle East and Africa posted the fastest annual growth in card numbers this year, according to new data from[RBR](http://e.businessinsider.com/click/8235974.4918/aHR0cHM6Ly93d3cucmJybG9uZG9uLmNvbS9uZXdzbGV0dGVycy9iMzUxX0dDMjEucGRm/56c34aced7aaa8f87d8b56a7Bf15b7fbe). That likely points to increasing penetration across markets, which means demand for card payment acceptance at merchants is likely on the rise as well. Masterpass and its peers provide an easy way for merchants to begin accepting cards without investing in infrastructure, which means that they'll likely become more popular in the coming years.
* **And Masterpass' wide network could help keep it at the forefront of the industry.**Wide acceptance networks are critical to mobile wallets' success, because they help enable habit formation and encourage adoption and engagement. If Masterpass sees strong adoption as it scales, it could become more popular than competitors, because merchants will look towards a product with a wide user base that they can capitalize on.

Mobile payments are becoming more popular thanks to services such as Masterpass, but they still face some high barriers, such as consumers' continued loyalty to traditional payment methods and fragmented acceptance among merchants. But as loyalty programs are integrated and more consumers rely on their mobile wallets for other features like in-app payments, adoption and usage will surge over the next few years.

[BI Intelligence](https://www.businessinsider.com/intelligence/bi-intelligence-payments-research-bundle?IR=T&utm_source=businessinsider&utm_medium=content_marketing&utm_term=content_marketing_subscription_text_link_mastercard-mobile-wallet-masterpass-expands-in-south-africa-2016-11&utm_content=subscription_content_marketing_text_link&utm_campaign=content_marketing_subscription_link&vertical=payments), Business Insider's premium research service, has compiled [a detailed report on mobile payments](https://www.businessinsider.com/intelligence/research-store?IR=T&utm_source=businessinsider&utm_medium=content_marketing&utm_term=content_marketing_store_text_link_mastercard-mobile-wallet-masterpass-expands-in-south-africa-2016-11&utm_content=report_store_content_marketing_text_link&utm_campaign=content_marketing_store_link&vertical=payments#!/The-Mobile-Payments-Report/p/50836835) that forecasts the growth of in-store mobile payments in the U.S., analyzes the performance of major mobile wallets like Apple Pay, Android Pay, and Samsung Pay, and addresses the barriers holding mobile payments back as well as the benefits that will propel adoption.

**Here are some key takeaways from the report:**

* In our latest US in-store mobile payments forecast, we find that volume will reach $75 billion this year. We expect volume to pick up significantly by 2020, reaching $503 billion. This reflects a compound annual growth rate (CAGR) of 80% between 2015 and 2020.
* Consumer interest is the primary barrier to mobile payments adoption. Surveys indicate that the issue is less the mobile wallet itself and more that people remain loyal to traditional payment methods and show little enthusiasm for picking up new habits.
* Integrated loyalty programs and other add-on features will be key to mobile wallets taking off. Consumers are showing interest in wallets with integrated loyalty programs. Other potential add-ons, like in-app, in-browser, and P2P payments, will also start fueling adoption. This strategy has been proved successful in China with platforms like WeChat and Alipay.

In full, the report:

* Forecasts the growth of US in-store mobile payments volume and users through 2020.
* Measures mobile wallet user engagement by forecasting mobile payments' share of their annual retail spending.
* Reviews the performance of major mobile wallets like Apple Pay and Samsung Pay.
* Addresses the key barriers that are preventing mobile in-store payments from taking off.
* Identifies the growth drivers that will ultimately carve a path for mainstream adoption.

LINKS-

<https://www.businesswire.com/news/home/20180508006667/en/South-Africa-Mobile-Wallet-Payment-Market-Report>

### <https://www.bis.org/cpmi/paysys/southafrica.pdf>

### <http://www.technoserve.org/files/downloads/South-Africa-international-remittances-report.pdf>

### <https://www.gpfi.org/sites/default/files/documents/12-Stocktaking%20of%20Innovative%20Digital%20Payment%20Mechanisms%20Supporting....pdf>

### FinTech

Africa has long been considered a global leader in fintech innovation and adoption, according to Anton Gaylard, co-founder of CrossFin Technology Holdings.

"The continent's low penetration rates for traditional banking services, coupled with high penetration of mobile phones, makes it a rich breeding ground for fintech innovation, and in many respects the continent has been miles ahead of other developing – and most developed - markets," he says.

According to EcoBank, more than 57% of all mobile money accounts globally can be found in sub-Saharan Africa, with the African fintech market set to grow from $200m currently to $3bn by 2020.

A recent study by McKinsey found room for growth in meeting unmet banking needs in Africa. These include borrowing, saving, and investing across the continent. South Africa alone is set to see an increase in banking revenues of $4bn over the next five years.

KPMG's latest quarterly Pulse of Fintech Report found that in the fourth quarter of 2017, global investors continued to prioritise investment into fintech companies that focus on the B2B market, including payments platforms, SME lending platforms, and software as a service (SaaS) solutions aimed at making back-office operations more efficient.

The report further highlights growing pressure on financial institutions thanks to increased regulatory reporting and compliance pressures, which may point to investors shifting focus slightly toward RegTech solutions.

**What to expect**

"Despite global hype around bitcoin and other cryptocurrencies reaching a fever pitch in 2017, don't expect too much excitement from investors. While the underlying technology - blockchain - has enormous potential to add value to traditional and new financial services, cryptocurrencies are too high-risk for most institutional investors," says Gaylard.

"However, this reluctance does not extend to other forms of payment innovation, as the Virgin Group's recent investment into South African mobile transacting technology provider wiGroup has shown."

In his view, fintech companies that help solve issues around fraud and KYC (know your customer) will also feature prominently, especially in South Africa which has the continent’s most advanced financial system but ranks 23rd on the global cyber crime list.

The 2017 Finnovating for Africa report found that SA was home to 94 of the continent’s 301 fintech start-ups, of which 22 focused on some form of lending support.

"With the SME sector projected to become the main driver of employment and economic growth in SA and the rest of the continent, expect local investors to follow the lead of their international peers and put serious focus on fintech solutions servicing this sector," says Gaylard.

**Disrupt or partner?**

"While 'disruption' was arguably the word of 2014 following Uber's rapid global expansion and massive market impact, investors today look more for partnership opportunities between would-be disruptors and market incumbents."

KPMG's Forging the Future report in 2017 found that more than 80% of companies surveyed considered partnership to be the preferred avenue through which to engage the market.

In Gaylard's view, this may partly be because corporate venture capital investment in fintech now accounts for 19% of all global fintech deals.

Crossfin recently concluded a deal with Investec to identify three to four early-stage fintech startups in which to invest through Crossfin’s angel funding arm, Blue Garnet Investments.

Banking has been around for thousands of years. The fundamental concepts of banking and payments have remained largely intact during this time.

Today, we’re seeing huge disruption to the status quo. This shake-up will give businesses and consumers fantastic opportunities to better manage their finances. It encourages innovation, discourages complacency, and gives consumers and businesses more (and better) options.

Fintech innovation is bringing this disruption to South Africa. Broadly defined as technological innovation related to personal and commercial finance. It’s anticipated that the market for it will amount to $10,499m by the end of 2018, with digital payments accounting for much of its proliferation and prominence.

If you’re running a small business, you might be thinking about how you can use these burgeoning Fintech technologies to your advantage. The South African small business community has a huge appetite for technological invention and financial reform.

**Why Fintech is flourishing**

In many respects, Fintech has arrived at precisely the right moment. A large underbanked rural population and a growing middle class have increased the desire for new solutions to old financial problems. Underserved communities have long desired better services, and even well-served communities are keen to explore more sophisticated options when it comes to issues such as payment processing.

Crucially, the tech community is in a position where it can provide these solutions and options. In South Africa, incubators and accelerators are popping up with clockwork regularity: Cape Town, for example, recently hosted its very first ‘Startupbootcamp’ – which focused on creating scalable technology solutions for financial services and related industries. Aurik Business Incubator, run by Pavlo Phitidis, is actively working with new entrepreneurs to turn their businesses into valuable assets. South Africa is also attracting and showcasing the very best talent in the startup community at events such as the African Angel Investor Summit and BCX Disrupt.

An enthusiastic, vibrant development ecosystem, a clear gap in the market, and a willing target audience has led to Fintech’s rapid rise.

**How Fintechs can help small businesses flourish**

If you’re running a non-technology business such as an estate agency, a florist’s, or a hair salon, you might well wonder why this matters to you. In 2018, businesses can only progress if they embrace new technologies. It opens up huge possibilities for you to reach a global community; enhance your relationship with the digital-first, millennial audience etc.

For example, apps like Shopify and TradeGecko can support your e-commerce efforts – allowing you to sell products online through a digital sales channel. For many customers who prefer to make their purchases with a minimum of travel or interaction, this is the ideal option.

If you want to go into more detail, tools such as VendHQ can offer a real-time breakdown of stock supplies. By having a clear window into what is and isn’t selling, you can tailor offers when you need to move something quickly, or capitalise on a high-performing product. Elsewhere, apps such as GoCardless can ease the management and processing of payments – all the while ensuring that your bank balance and your time remain blissfully uncompromised.

Beyond the individual merits of any Fintech app, going digital is simply easier for your business. When you use cloud tools, the management of bills, expenses, and invoices becomes significantly simpler; spreadsheets become unnecessary, if not highly discouraged.

Businesses that embrace Fintech are more agile, more efficient, and better able to acquire and serve customers. It’s time to welcome innovation into the very heart of your business – to do more with digital, so it can do more for you.

Market demand for innovative products and services has been pushing fintech innovation in South Africa.

In respond to the rapid development of fintech, the South African Reserve Bank (SARB) [established](https://www.finextra.com/newsarticle/31592/south-african-central-bank-sets-up-full-time-fintech-unit) a three-man fintech unit in January to monitor the impact of new technology developments on the traditional banking sector. The dedicated full-time team is reporting directly to deputy governor Francois Groepe.

“Its primarily responsibilities are expected to include the facilitation of the development of appropriate policy frameworks for the SARB across the fintech domain,” Groepe explained.

*“Given the rapid developments in financial technology it is evident that we are potentially facing one of the most severe innovation and technology-driven disruptions to products and services, particularly in the financial sector space.”*

South African regulators have adopted a pro-innovation stance. In 2009, the SABR [issued](https://www.resbank.co.za/RegulationAndSupervision/NationalPaymentSystem(NPS)/Legal/Documents/Position%20Paper/PP2009_01.pdf) a position paper on electronic money, stating that it welcomed innovative digital solutions. A media statement [was released](https://www.resbank.co.za/Lists/News%20and%20Publications/Attachments/8259/SARB%20FinTech%20release%2013%20February.pdf) in February 2018 in which the SARB shared its stance towards fintech innovations. This was followed shortly by the launch of the [Fintech Program](https://www.financialinstitutionslegalsnapshot.com/2018/02/sarb-announces-establishment-of-fintech-programme/), an initiative focused on tracking and analyzing fintech developments and assisting policymakers in formulating legal frameworks.

The program has three primary objectives: review SARB’s position on cryptocurrencies to formulate a policy framework and regulatory regime, investigate and decide on the applicability of innovation facilitators for SARB, and launch Project Khokha, which will experiment with distributed ledger technologies (DLT).

### Fintech in South Africa

South Africa has a relatively small but growing fintech industry with players mainly focused on five key banking functions: payments, deposits and lending, capital raising, investment management and market provisioning.

In the peer-to-peer lending space, South Africa is already one of the leading African markets for both consumer and business loans. Notable players include [RainFin](https://www.rainfin.com/), an online lending marketplace for corporate institutions and, [PeerFin](https://www.peerfin.co.za/), a peer-to-peer lending platform.

South African online alternative finance platforms [raised](http://www.whitelabelcrowd.fund/p2p-lending-potential-africa/) US$15 million in 2015, with the most of the amount (US$13.8 million) coming from peer-to-peer consumer and business lending. The remaining US$1.2 million was spread across microfinance, donation-based and reward-based crowdfunding.

South Africa has also seen the establishment of digital and challenger banks in recent years that are looking to serve the digitally-savvy populations. These include [Discovery Bank](https://businesstech.co.za/news/banking/226535/discovery-is-live-testing-new-bank-capabilities-as-opening-day-nears/), [Bank Zero](http://www.bankzero.co.za/) and [TymeDigital](https://tymedigital.co.za/), by Commonwealth Bank South Africa which has yet to launch.

In the field of investing, asset and wealth management, activity has been minimal. Nevertheless, South African financial services providers are seriously looking into robo-advisor and artificial intelligence (AI) to provide affordable and more efficient financial planning services.

Several financial services providers have invested in developing investment advice platforms driven by AI. Itransact, an authorized financial services provider, [launched](https://www.itransact.co.za/itransact-launches-robo/) its automated investment platform [ItransactGO](https://itransactgo.itransact.co.za/Main/Main/Home)in May 2017, robo-advisor platform [Advicement](https://advicement.co.za/) [went live](http://disrupt-africa.com/2017/06/investment-robo-advisor-launches-in-sa/) in June 2017, and Absa, one of South Africa’s largest banks, [unveiled](https://www.iafrikan.com/2017/08/03/south-africas-absa-launches-new-online-self-service-investment-platform/) its robo-advisory service [Virtual Investor](https://www.absa.co.za/personal/save-invest/products/virtual-investor/) in August 2017.

Another area that’s been growing rapidly is blockchain with significant industry-led activity around DLT, cryptocurrencies and related technologies.

Various startups have been established in recent years, including [Luno](https://www.luno.com/en/za), a cryptocurrency exchange platform and digital wallet, and [Ice3x](https://ice3x.com/), another exchange platform.

Meanwhile, startups such as [Custos Media Technologies](https://custostech.com/), [Bankymoon](http://bankymoon.co.za/), and [GeoPay](http://geopay.co.za/) are using blockchain and cryptocurrencies to address specific issues. Custos Media Technologies was founded in 2014 with the aim to fight online media piracy using blockchain, Bankymoon is a blockchain consultancy firm and blockchain-based solutions provider, and GeoPay offers blockchain-based international money transfer services.

Cryptocurrencies are currently not regulated but South African regulators have had a positive attitude towards these technologies.

SARB began to work with Bankymoon in July 2017 to test out a number of new cryptocurrecy regulations in the country, and earlier this month, the South African Revenue Service (SARS) [released](http://www.sars.gov.za/Media/MediaReleases/Pages/6-April-2018---SARS-stance-on-the-tax-treatment-of-cryptocurrencies-.aspx) a statement on tax treatment of cryptocurrency gains.

### Startup programs and events

The rise of fintech in South Africa can also be seen in the number of accelerators and incubators available across the country. [Startupbootcamp Cape Town](https://www.startupbootcamp.org/accelerator/cape-town/), for instance, focuses on accelerating high-growth startups in blockchain, connected-devices, payments solutions, capital markets, asset management, and many other areas. Startupbootcamp [launched](https://www.startupbootcamp.org/blog/2017/04/startupbootcamp-launches-first-africa-based-program-cape-town/) its Cape Town program last year.

Additionally, an increasing number of tech and fintech events are being held in South Africa, including the [African Angel Investor Summit](https://vc4a.com/aais2017/), [BCX Disrupt](https://bcxdisrupt.com/), and more recently the [Blockchain Africa 2018](http://blockchainafrica.co/) conference, to name but a few.

In June 2018, Johannesburg will be welcoming the [Finnovation Africa: South Africa 2018](http://www.finnovationworld.com/southafrica) event which will bring together industry leaders from key markets across Africa and internationally to tackle the most pressing questions for the progress of fintech in Africa.

In November 2018, [Finovate Africa](https://finance.knect365.com/finovateafrica/) will take place in Cape Town and bring together the financial institutions, telecos, and fintech companies that are building the future of banking and financial services.

LINKS-

<https://www.fic.gov.za/Documents/Press%20release%20IFWG%20report%20release%20final.pdf>

<http://www.itnewsafrica.com/2018/06/what-investors-are-looking-for-in-africas-fintech-sector/>