

AFRICA  
PAYMENTS  
INNOVATION  
JURY\_\_\_\_2017



AN INSIDER'S  
VIEW TO  
AFRICAN  
PAYMENTS &  
FINTECH

## Foreword by Interswitch

At Interswitch we are committed to finding better ways of doing business every day and facilitating the technology that gets Africa doing business faster, seamlessly and intuitively. Taking a practical approach to payments innovation allows us to provide more choice to our customers and embrace the growth opportunities that this brings. Not only this, we believe that a wider understanding of innovation is of benefit to the whole industry.

I have been an admirer of the Global Payments Innovation Jury since its first report was released in 2008. Payments is a complex industry so being able to read the views of many senior global leaders on how payments innovation happens is incredibly useful.

When John Chaplin decided to form an African Jury this year to delve further into how payments innovation is happening in Africa, I was delighted that Interswitch could be involved as the sponsor. It is our hope that this report will propel understanding of our payments industry and how it is being changed by innovation.

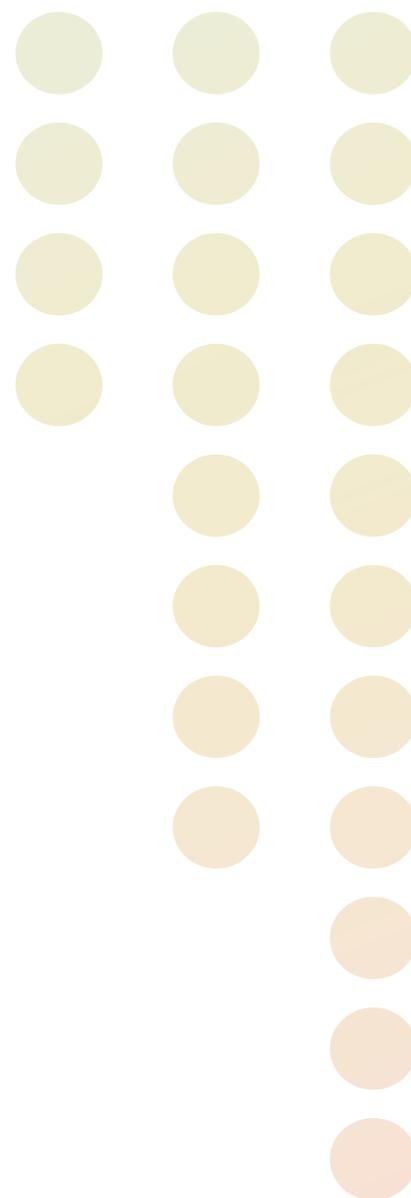
*- Mitchell Elegbe*

**Mitchell Elegbe,**  
*Interswitch CEO*



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## About the Africa Payments Innovation Jury

The Global Payments Innovation Jury has been running since 2008, reporting the views of some of the most successful payments CEOs worldwide every 2 years and there are currently 8 African industry leaders on the Global Jury. Several players in the African payments industry asked that we bring the innovation jury concept to Africa, to involve more payments industry leaders from more countries and to look in greater detail at issues that particularly impact the continent.

We formed a Jury of 25 industry leaders drawn from 14 markets from East to West, and from North to South. The Jury represented the entire spectrum of African retail payments coming from banks, payment switches, card processors, closed loop payment networks, schemes, mobile money operators and agency networks. Almost all of the Jury, either currently or very recently, has held the title of CEO or Managing Director. The Jury report exists because these 25 industry leaders were prepared to give their time to thinking through and setting out their views on many complex issues determining how payments innovation happens in Africa.

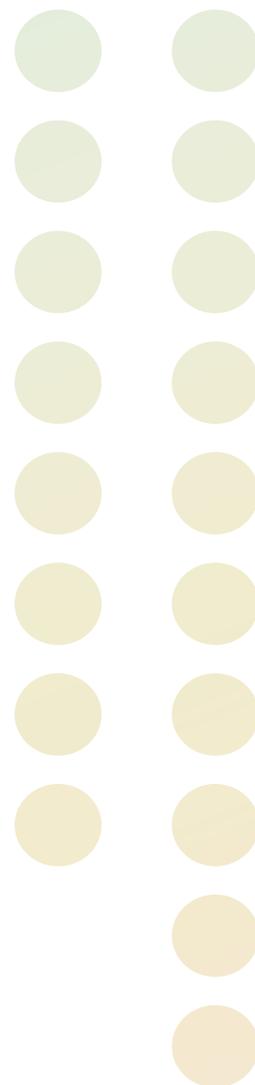
### Acknowledgements

The African Payments Innovation Jury takes place because of the generous sponsorship of Interswitch, one of the most successful payments organisations on the continent and a portfolio company of Helios Investment Partners. It is not only involved in continuous innovation itself but also believes that the wider understanding of the innovation process created by the Jury is of benefit to the industry and helps to create a bigger market in which all can participate.

Tongai Maramba and Jonah Adams were very helpful in defining the issues on which the Africa Jury should focus.

The Missive team in London have also contributed their extensive knowledge of the payments and fintech environment and with Lizzy Chenery have been responsible for the organisation of the Jury initiative from the start of planning in late-2016 through to the creation of this report.





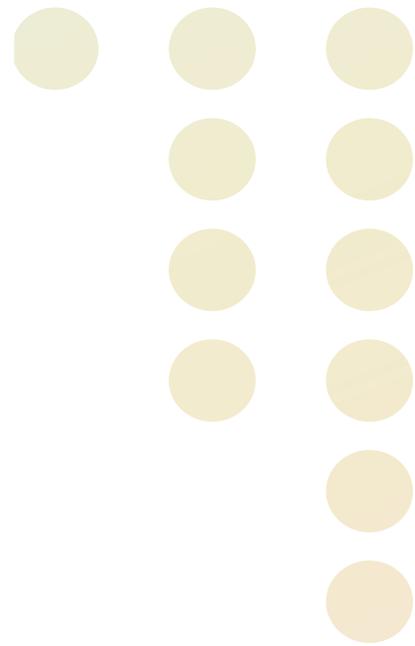
## Introduction

The electronic payments industry experiences continuous innovation on a worldwide basis, with new market entrants aiming to grab a share of the market and established players trying to defend and grow their existing business. Africa is no exception to that trend and there is an additional impetus in the region to innovate because of the opportunity to bring large sections of the population that do not currently have access to electronic payment services into the electronic/digital payment world.

There are challenges for the industry because operating margins are always under pressure, but the payments sector remains attractive because the market continues to expand and there is opportunity for players to participate in the transaction value. In a market where the essential currency for payments now seems to be innovation, there are competing views on the current status of the industry and how it should evolve to meet the payments needs of consumers and businesses and provide an adequate return to the companies that invest. The purpose of the Africa Payments Innovation Jury is to provide a unique insight into how innovation is occurring and driving the industry forward.

### The top findings of the Jury:

- Asia is seen as the top region for payments innovation with Europe in 2nd place. Africa was ranked by the Global Jury as 3rd, only slightly behind Europe and ahead of USA which is a great result.
- Although globally there is preference for investing in a B2B business rather than a B2C proposition, the Africa Jury prefers B2C largely because of the growth potential from bringing the currently unbanked population into the electronic payment world.
- The key to payments ventures aimed at the currently unbanked - the bottom of the pyramid - is to find a compelling use case for the first service that will tempt the consumer into the electronic payments world. The Jury identifies P2P as the most likely such service.
- African payments and fintech entrepreneurs are faced by a shortage of venture capital - more acute than in other regions of the world - which is restricting their ambitions. The shortage of investment is most marked at the angel and Series A stages with many investors opting to wait until the business model is proven and the company profitable.
- The main reason for the failure of startups is that the business models are not scalable and the Jury attributes this to a shortage of strategic and product development skills.



- 75% of all phones will be smartphones within 5 years but it is not yet clear who will be the main beneficiary of this trend. There is a clear opportunity for fintechs to exploit the move, and it seems unlikely that banks will be major beneficiaries of this market shift in technology.
- Many mobile money initiatives, whilst usually growing, are failing to meet business plan targets because it has been underestimated how long it can take to change consumer behaviour.
- The biggest opportunity in mobile lies with the integration of payments with other mobile-centric activities such as social messaging, gaming and online commerce.
- Although regulators are expressing support for payments innovation as a way to drive to financial inclusion, the overall impact of the central authorities in many markets is deterring rather than encouraging innovation.
- In addition to a compelling consumer use case, the most important prerequisite for financial inclusion is the existence of a shared agency network, capable of serving the clients of banks and mobile money operators.
- The most promising route to establishing effective national payments infrastructures is for the providers in the larger markets to play a regional role and support the surrounding countries.
- There is a widely held view that the current international payments capabilities between African markets are poor and will hold back the development of the intra-Africa commerce which is important for the development of the continent, but there isn't yet any consensus on how the issue should be tackled.

It has been a privilege and pleasure to bring the Payments Innovation Jury to Africa and to work with 25 such knowledgeable and insightful professionals. I am also grateful to my colleagues at Helios Investment Partners for sharing their experience of the investment process and of working with portfolio companies to achieve their full potential. I hope that the collation and analysis of the Jury's views will increase the understanding of all the players in the market and spur them on to find the best innovation formula to exploit the unique opportunities in African payments.

**John Chaplin**

*Chairman, Africa Payments Innovation Jury*

*Adviser, Helios Investment Partners*

## SECTION 1: The African payments innovation landscape

### How does Africa compare?

The Global Jury (which includes 8 African members) rated Asia as the home to most payments innovation over the next two years, a position that it has held since the inaugural 2008 Jury. The top rating for Asia comes from China now being widely seen as the global fintech leader and other countries such as Malaysia, Singapore and Thailand rapidly modernising their payments infrastructures. Africa is rated just behind Europe and ahead of North America and Latin America.

CHART 1

#### Home of most payments innovation in next two years



Global Jury view on the top region for innovation.

To be rated ahead of North America is a striking result given the funding issues for fintech and payments companies in Africa. Jury members pointed out that innovation is a necessity in Africa (and also in many markets in Asia) because there are real problems that have to be solved, whereas in developed markets there is less of an imperative and many of the payments innovations are just “nice to haves”. It was also pointed out that Africa may not attract large global payments companies and therefore this further strengthens the need for innovation within Africa.

It is interesting that fintech and payment hot spots in the USA and Europe also have interest in developing solutions for the African market, often in preference to solutions for their own geographies. TagPay is an example of a mobile payments company based in France but selling in Africa and other developing markets but never in its home region of Europe. This is one of many companies with a similar business model.

### JURY COMMENTS

*“The Asian and African markets present problems which payments innovation must address while other markets are quite comfortable with current payments evolution.”*

*“Africa and Asia don’t have legacy systems to slow them down so innovation is more a need than a nice to have.”*

*“Africa will leapfrog common use cases already prevalent in Europe and North America.”*

*“The potential in Africa is enormous but I worry about whether the investment funds are available.”*

## Which payments sector presents the most opportunities?

The Africa Jury considered the question of where the greatest profit potential lies in payments. The result is that there is a clear preference for investment in B2C businesses, despite the cost and difficulty involved in building large customer bases; B2C/P2P is seen as the major opportunity by 58% of the Jury. B2B will become more important over time but many African SMEs are still in the informal sector thus limiting their potential for now.



This is in marked contrast to the global position where there is a 55% rating in favour of B2B, which in regions such as Europe rises to 75%.

### JURY COMMENTS

*“The payment market in Morocco is oriented more towards B2C and P2P than B2B. The Moroccan economy is 95% of SMEs which are often family owned and poorly structured.”*

*“Whilst I would argue both have tremendous potential the sheer population size lends me to select B2C/P2P.”*

*“Unless pricing is over-regulated, B2C/P2P has the best profit potential as competitive pressures are lower than in B2B.”*

*“We were originally positioned as a B2B/B2C business, but have found that P2P is what has scaled the fastest.”*

*“In most African markets consumers are also small businesses so the distinction is not always clear.”*

*“African innovation is focussed on solving the problems of a large unbanked population.”*

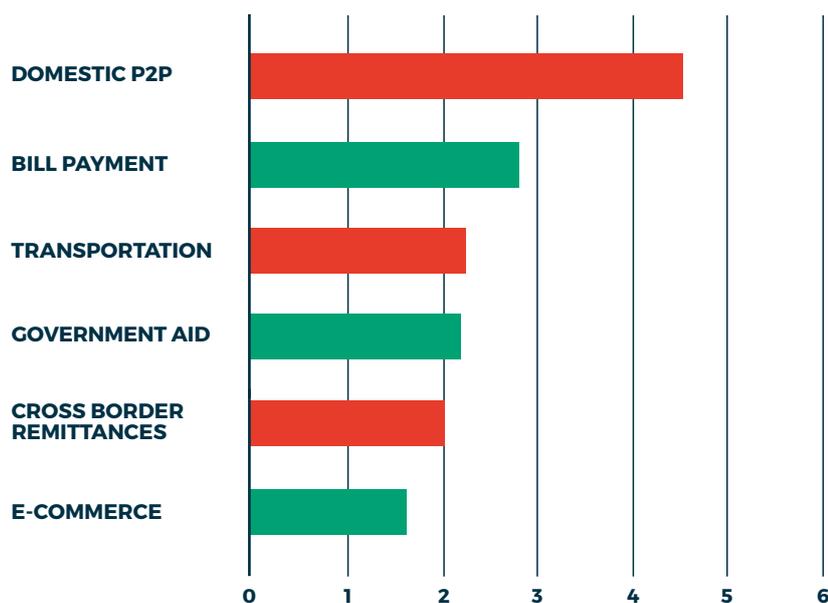
## Introducing consumers to electronic payments

When introducing electronic payments into substantially underbanked markets, although breadth of service offering is critical to long-term profitability, it is important to identify the first use cases that encourage consumers to use digital payment services. Arguably when a consumer uses one electronic payment service regularly, it is easier to encourage them to use further services - but the first service is key.

The Jury considered the importance of the various common use cases to decide which one is most likely to attract consumers into the electronic payments world.

CHART 3

### Which electronic payment use cases establish consumer behaviour?



Africa Jury view of payment use cases in establishing consumer behaviour.

The result was striking, in that domestic P2P services ranked substantially ahead of all the other propositions which have broadly similar scores. M-Pesa clearly found P2P to be the compelling use case in Kenya. Likewise, Zoono in Malawi and Zambia see P2P and complete immersion in the local community with agents as its brand champions as the best drivers.

The second most compelling service at a continent level was considered to be bill payment. Fawry in Egypt have found this use case at its 50,000 agency locations to be the 'behaviour changer' for the market.

## JURY COMMENTS

*"P2P was the first service for M-Pesa and remains their bread and butter business."*

*"Domestic P2P is the most important use case as it facilitates daily transactions for individuals or business."*

*"P2P is critical because African consumers are connected to large families and rural areas."*

*"Establishing consumer behaviour would be based on increased value or convenience to them; that is why I picked P2P."*

*"A vast percentage of people use transport services so that should be the easiest way to change customer behaviour but maybe the infrastructure is not yet there."*

*"P2P services are likely the most significant and would easily replace cash."*

*"Foreign remittances and remittances from governments would not change the behaviour of a lot of people."*

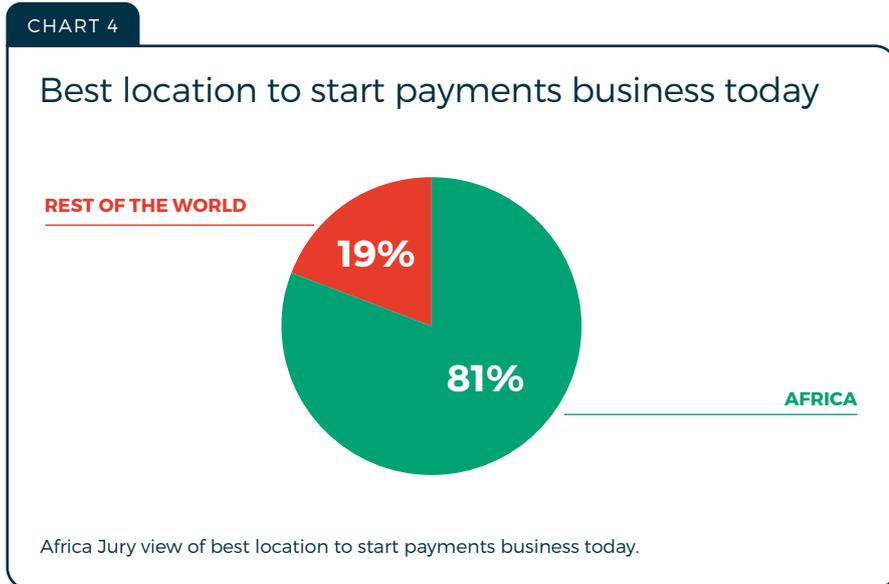
*"Bill payments are the 'high value' transactions, eCommerce is for the elite, payments for transport is at this stage NOT economically viable."*

*"P2P transfers remain the dominant 'first use' case (sent from the family in the large towns to their family in the villages, informal payments). After that will come payment of water and electricity bills to avoid visiting the company office."*

## Preferred location for a new business

The Jury was asked where they would choose to locate a new payments business, if they could start again.

The clear view was that despite the very real challenges in creating and running a payments business on the continent, the potential is so high that Africa remains the preferred location for 81% of the Jury.



## JURY COMMENTS

*“Africa. It is at the beginning of its growth curve with significant opportunity for leapfrogging international trends.”*

*“In Africa the potential is very promising and the market is still virgin.”*

*“East and West Africa would be my preferred markets.”*

*“Ethiopia or DRC - huge market potential with large populations and tight regulation.”*

*“I would start in Zambia – it is a great market (other than the currency crash in 2015). There is a lot of opportunity in southern and central Africa.”*



## SECTION 2: Lifecycle of a payments/fintech company

### Funding the company

Investment funding is essential for a vibrant payments and fintech industry to develop in Africa. The Jury was asked to consider the availability of funding for new ventures at different stages of the company growth cycle.

In overall terms, the Africa Jury reported a significantly lower level of funding availability than the Global Jury reported for the rest of the world. The Africa Jury viewed that initial investment in a business can sometimes be obtained from angel investors (frequently high net worth individuals), but this source of capital is less developed than in most other regions. The relative scarcity of funding continues for Series A rounds when the lack of a well-structured and funded venture capital sector in many markets presents a major challenge for entrepreneurs. This lack of funding can choke off many potentially promising business ventures. There is some improvement in growth stage finance availability reflecting that companies at this stage are starting to show market traction -although the African industry has the same problem as the rest of world in that it generally takes longer than planned to get a payments or fintech business to profitability. This means that investors considering participating in early funding rounds must be prepared to reserve significant amounts for follow-on funding and this may be a deterrent. Investors must also plan for currency volatility and the impact of inexperienced regulators on potential returns.

However, the Jury commented that for those companies that can establish sustained growth and profitability, there is considerable competition between private equity firms to provide investment. The overall funding picture is fairly consistent across the continent although the Jury members from East Africa reported a higher level of funding availability for both initial rounds and the growth stage.

### JURY COMMENTS

*“Even though there is a great potential for e-payment business in Ethiopia due to the large population (nearly 100 million), growing telecom, electric, and other infrastructure including growing mobile subscribers (about 45 million), we don’t see investment and/or funding for e-payment business, except very few starting recently.”*

*“There is now a lot of interest in fintech and payments startups in Nigeria. Typically, seed funding is local but often the entrepreneur is asked to forfeit a very large equity slice compared to Europe or USA.”*

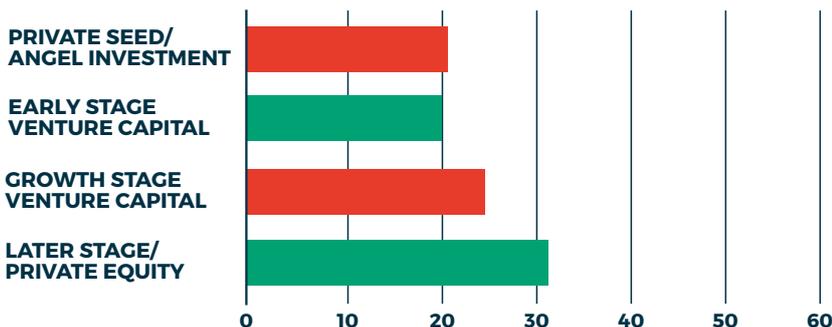
*“Investments from local investors is relatively small. Foreign investment is also not readily available to early stage or growth stage businesses although I think IFC do a good job.”*

*“There is a general lack of funding for start-ups at all levels in sub-Saharan Africa, with most available funding at a premium of price/terms and the investors are very slow to move.”*

*“PE funding is average to good in large markets like Egypt, Kenya and Nigeria, as by then the business model is proven and can attract funds from outside.”*

CHART 5

### Funding availability at stages of business growth



Africa Jury view on funding availability at different stages of business.

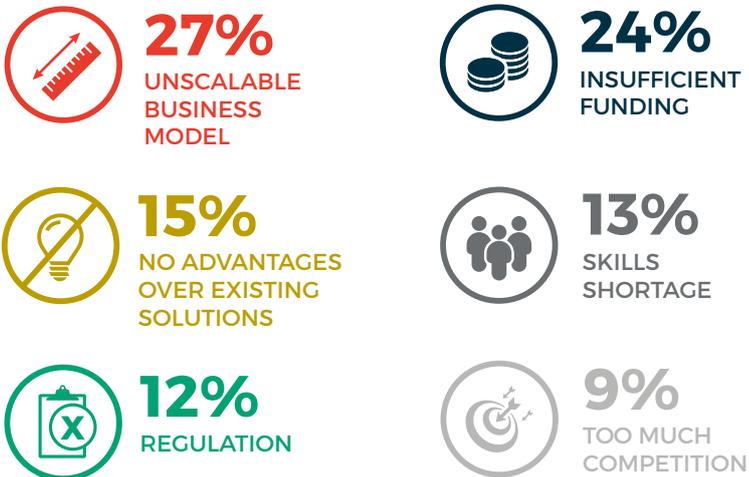
## Why do startups fail?

The Africa Jury saw two key reasons for the failure of a startup payments company.

The top reason was that the business model does not scale. This means that the business works OK with a limited set of customers, but when volumes are increased, major flaws in the business model are exposed. This reason is the same as identified at a worldwide level by the 2017 Global Jury. The second reason was a shortage of funding which is not so much of a major factor at a global level and therefore is specific to Africa.

CHART 6

### Key reasons that payments startups fail



Africa Jury view of why payment startups fail.

## JURY COMMENTS

*"I believe that the key to success is in the business model for both B2C and B2B. We have too many closed loop systems in Africa that cannot scale."*

*"When payment startups fail it can most probably be related to a business model that cannot scale, insufficient funding and a lack of payment business skills."*

*"Startups tend to not have a model that can scale and then run out of cash. The lack of skills does not allow the startup to 'create time' to tackle the scalability and funding issue."*

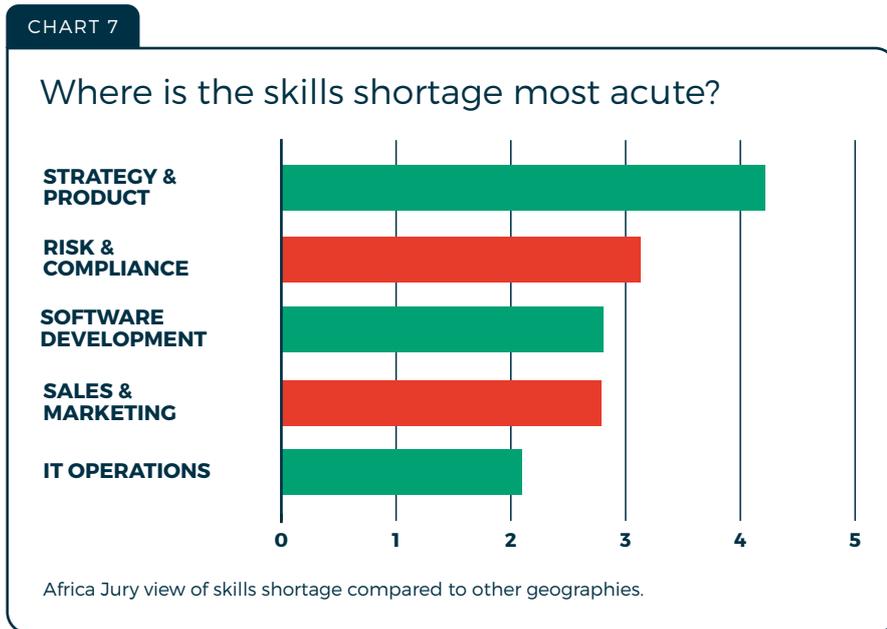
*"A product may have a lot of advantages on the surface, but for people used to transacting in cash and businesses that have their systems set up to deal with it, change is much harder than it seems."*



## Skill shortages impacting innovation

Although skill shortages weren't identified by the Jury as one of the top reasons for failure, it clearly is a factor. The failure to build a scalable business model is down to the entrepreneurs not having done their job properly.

The Jury was asked where shortage of skills has the most impact on African payments innovation.



By a significant margin the Jury picked strategy and product/service development as the area of greatest skills shortage. This connects closely to the issue of poorly designed business models that cannot scale. Executive recruitment firms confirm that the average level of breadth and depth of experience of payment executives tends to be lower in Africa than in most other regions. While there are very talented and capable executives (as evidenced by the high quality of the Jury), there aren't enough of them. And this can lead to problems in making start-ups successful.

As such there is a demonstrable need and opportunity for the provision of payments industry education within Africa to help improve strategy and product skills.

## JURY COMMENTS

*"Payments skills in Africa are always a challenge, but more than this it is building a culture and getting the right people, at the right times, in the right roles and with the right behaviours."*

*"Business models are hard to scale and require entrepreneurial talent and commitment which is often not easily available in Africa."*

## Exiting a startup

The Global Jury reported that the most likely exit for a startup is to be acquired by an established payments company.

CHART 8

### Most likely future of a successful payment startup

ACQUIRED BY ESTABLISHED PAYMENT PLAYER	42%
ACQUIRED BY TECHNOLOGY GIANT	24%
CONTINUE TO OPERATE AS PRIVATE COMPANY	18%
IPO/PUBLIC MARKET OFFERING	9%
ACQUIRED BY BANK	7%

Global Jury view on most likely end game for most payments startups.

However, the African members of the Global Jury had a somewhat different view to their counterparts. They would prefer to operate as a private company for longer or to make an IPO which still allows stock to be sold over many years. This is because:

- The longterm potential of the market is seen as enormous and founders and initial investors don't want to sell out too early.
- Most established global players show little interest in making strategic acquisitions in Africa, an environment that they don't understand well.



## SECTION 3: The rise of mobile money in Africa

### The increase in smartphones

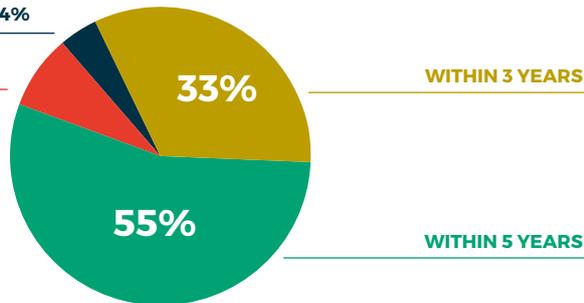
The potential of smartphones to change the mobile money market is widely recognised and the Jury was asked to predict the rate at which the market will move to being dominated by smartphones.

CHART 9

When will smart phones account for 75% of mobiles?

**MORE THAN 10 YEARS - 4%**

**WITHIN 10 YEARS - 8%**



Africa Jury view of when smartphones will account for 75% of mobiles in Africa.

A large majority of the Jury (88 percent) believes that 75% of all phones will be smartphones within 5 years or less. The Jury point out that the cost of smartphones has dropped dramatically and will continue to show reductions. However, the Jury also points out that the full power of the smartphones cannot be unleashed until African consumers have access to affordable data plans.

#### JURY COMMENTS:

*“Many handset vendors have stopped manufacturing feature phones today.”*

*“There has been growing awareness of smartphones among the bottom of the pyramid. The only issue is the smartphone cost but the market has been very innovative hence achieving 75% in 5 years is a great possibility.”*

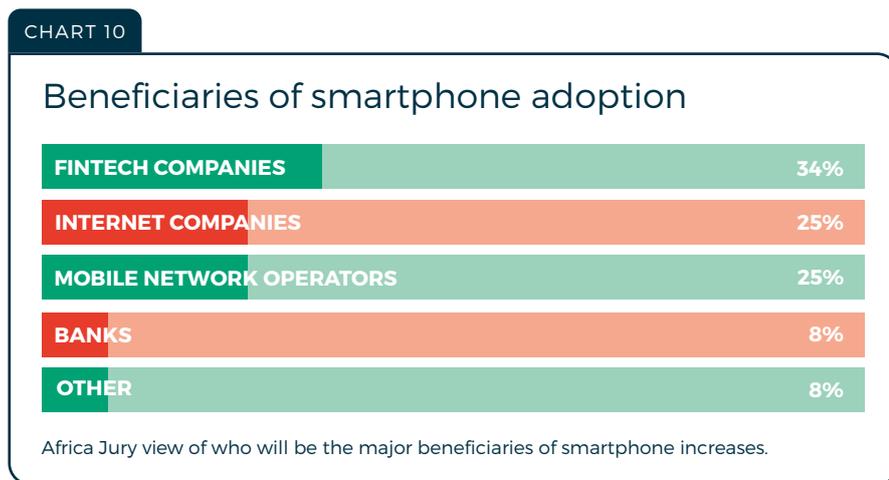
*“Already in Kenya smartphones account for 70% of all the phones in the market. Mobile penetration accounts for 90% of the population and because there are a lot of cheap smartphones in the market, I expect the 75% figure will be achieved by the end of 2017.”*

*“Inhibitors continue to be a data budget to maintain a smartphone and the power budget for off-grid customers.”*



## Smartphone winners and losers

The increasing smartphone share of the market has the potential to change the structure of the mobile money sector. The move to apps lowers the control that mobile operators have compared with feature phones. However, when the Jury looked at which players would benefit most from this change there was not a clear consensus.



The clearest messages from the Jury are:

- Fintechs have an opportunity because of their ability to innovate services to reach the consumer.
- Banks have the toughest challenge unless they partner with or acquire fintechs.
- It is premature to decide that MNOs will be losers because they have deep sector knowledge and experience.

## JURY COMMENTS

*"I believe that smartphones will bring more people into the formal banking sector and that fintech companies will be working harder to provide solutions to this group who have the ability to pay for convenience and security."*

*"Smartphones will take competitive advantage away from telcos who over-price USSD."*

*"Smartphones will allow more innovative services to reach consumers without requiring MNOs for USSD, etc."*

*"No doubt the biggest beneficiaries will be mobile network operators as their cost of technology will be optimised and they can deliver a better customer experience."*

*"I think fintechs because they are likely to understand local markets enough to contextualize new services for the market. They will do better than local banks which are too slow and global brands which will be too slow to contextualize."*

*"I cannot see that it naturally advantages anyone - it's a new channel for all, and who gets to use depends on other factors."*

## The greatest potential for mobile technology in payments

The Jury considered where and how mobile technology would most impact payments. The Jury made the point that a great deal depends on the level of evolution of the relevant market and that there is no universal formula for success.

However, it is integration with other mobile-centred activities such as social media and online shopping that are felt to offer the most potential. The Jury also commented that M-Pesa has shown the ability to create a payments ecosystem outside of the banking environment although, as will be discussed later, the Jury sees inefficiency in separate and unconnected ecosystems.

The importance of the integration of payments with other mobile-centred activities is consistent with the Jury finding that banks are not likely to be the beneficiaries of the move to smartphones.

### JURY COMMENTS:

*“Social media is so pervasive, that an incorporation of payments should lead to transformation.”*

*“Africa has a young population and is also an informal trading continent. I believe chat/messaging and online shopping offer tremendous potential.”*

*“The future potential will be from the integration with social media.”*

*“I think as an acceptance infrastructure and as a payments ecosystem have equal potential to drive payments. When both are combined then the most impact is likely to be derived.”*

*“Mobile phones allow access to consumers and the ability of someone to become a ‘human powered ATM machine’ for a fraction of the cost of a physical device.”*

CHART 11

### Mobile technology offering the greatest potential



Africa Jury view on mobile technology with most payments potential.

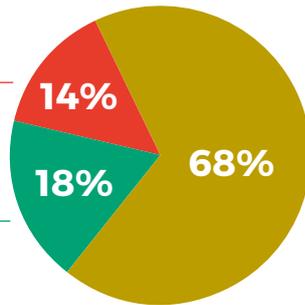
## Mobile money interoperability

As mobile money systems develop across Africa, the question of interoperability is a key issue and is frequently discussed by central banks and industry forums. Interoperability is a highly complex subject which faces the payments industry globally. Research suggests that leaving the development of interoperability solely to market forces is not optimal for the industry in that arrangements can develop substantially later than when it would benefit every market participant.

CHART 12

### Highest interoperability priority for mobile money

**NOT A MAJOR ISSUE  
- WILL DEVELOP IF  
MARKET DEMAND**



**BETWEEN MOBILE MONEY  
AND BANKING SYSTEM**

**BETWEEN MOBILE  
MONEY OPERATORS**

Africa Jury view of critical interoperability challenges facing mobile money sector in developing markets.

A substantial majority of the Jury (86 percent) felt that interoperability should not be left solely to market forces as the inevitable reluctance of the market leader will lead to slow progress. The top priority identified by the Jury was the establishment of interoperability between mobile money operators and banking systems in order to avoid the creation of two isolated ecosystems - one centred on mobile money operators and one centred on bank rails - which is not an efficient situation for the overall economy. Some central banks, such as Bank Al-Maghrib in Morocco, are trying to design this out from day one rather than allowing the market to develop organically and then face the interoperability issues.



## Mobile money growth

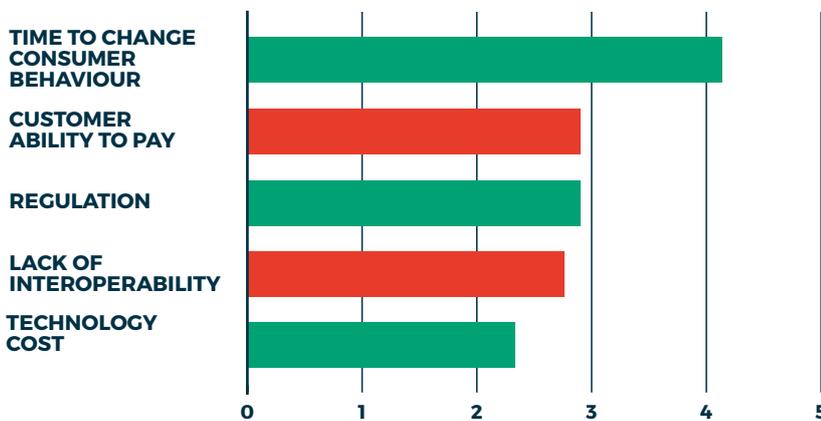
Despite the widespread view that mobile technology will be at the heart of African retail payments and the proliferation of mobile money players, it is an inconvenient truth that mobile money is growing more slowly than projected and that many business plan targets are being missed.

The Jury used its market experience to identify the main reasons for slower than hoped for growth. Jury members believed that there are many contributing factors but, by a large margin, they identified the time to change consumer behaviour as the major inhibitor. African society is still largely cash based and unless there is a compelling reason for consumers to begin using electronic payment services, the growth just doesn't happen. As discussed earlier, it is vital to identify the initial use case that will cause consumers to change their long-established addiction to cash.

All of the other factors are nonetheless still important. For example, some Jury members commented that the regulatory environment in Nigeria has led to an industry structure in which it is very hard to be successful.

CHART 13

### Factors that slow the growth of mobile money



Africa Jury view of factors that cause slower than predicted mobile money growth.



## SECTION 4: Impact of governments, regulators and international agencies on payments innovation

### Government payments policies

The Jury was asked to consider in which countries there have been government policies that have been effective in encouraging electronic payments. Generally, the feedback was that most governments have not formulated formal national plans to encourage electronic payments, which is in contrast with the developing markets of Asia where governments have been more active in setting policies.

Nigeria was mentioned most often as a country with a formulated national approach (Cashless Nigeria), although some Jury members commented that the intent of the programme has been frustrated because innovation and investment have been discouraged.

Rwanda is cited as a market with a formal payments digitisation strategy and South Africa is also quoted as a market where the government has a positive view on the role that payments can play in wider economic development.

Paradoxically, Kenya is seen by many jurors as a market where a lack of a government plan (and regulation) contributed to the success of M-Pesa<sup>1</sup>.

### JURY COMMENTS:

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*“In East Africa the Governments have increasingly adopted payment solutions as part of cash digitisation.”*

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*“Ghana is trying to evolve its payment 2020 vision and has seen rapid mobile money penetration. Its missing link is a true, national switch but I believe this will come sooner rather than later.”*

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*“The only country that seems to have a national strategy is Nigeria but their approach doesn’t foster investment or innovation.”*

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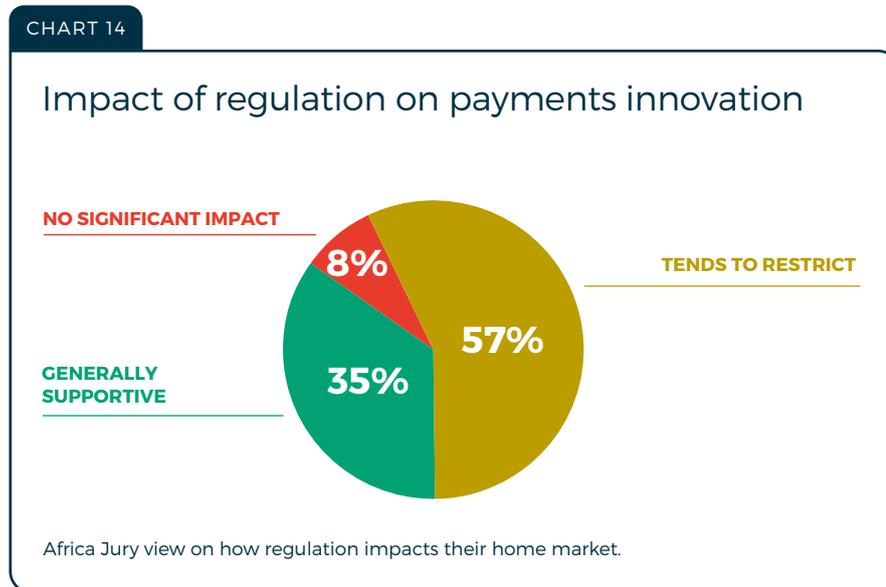
*“The Moroccan Government is very supportive of mobile payment and as a result there is a coordinated national initiative by the central bank and the telecom regulator.”*

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## The impact of regulators

The Jury considered the extent to which regulators (usually Central Banks) impact on the payments innovation process.



A sizeable majority (57%) see regulatory action as being negative for payments innovation. This is substantially more pessimistic than the Global Jury which had a 39% negative score. This suggests that payments regulators in Africa need to up their game and give more attention to the needs of innovators and investors.

However, 35% of the Jury thought that regulators were assisting innovation.

### JURY COMMENTS:

*“Regulation is often designed to protect the incumbent - because the risk profile is known. One must remember that regulation’s purpose is not to speed up innovation, but rather to manage risk.”*

*“The support that regulators give to incumbents and monopolies in our market is borderline criminal.”*

*“Generally, government policies towards payments are unclear and because there is inadequate knowledge and skills in payments there are usually many regulatory changes which are quite unfavourable to new innovations in the payment space.”*

*“Regulators look at payment innovation from a risk mitigation perspective whereas entrepreneurs look more to growth. Therefore, there will always be a difference of view.”*

*“I can only comment for Zambia and Malawi where we have found the regulators to be supportive and engaged.”*

Jury members considered which individual aspects of payments regulation cause the most problems in their businesses. By a substantial majority (46%) it was licensing/permission to operate that causes most issues. In markets such as Europe and India, non-bank financial institutions are permitted but in most African countries, it is still a requirement to have traditional banks involved in all payments.

**JURY COMMENTS:**

*“The slow speed of regulators to react prevents many companies from growing. Tanzania’s payments regulation is still in draft form after many years.”*

*“There is no regulation to license non-banks to operate in the payment business in any of the markets we operate in.”*

*“Our market roll-out is dependent on getting a license to operate, which in some countries takes a very long time. We therefore have to partner with established banks that may see us as a threat and are also cumbersome to work with.”*

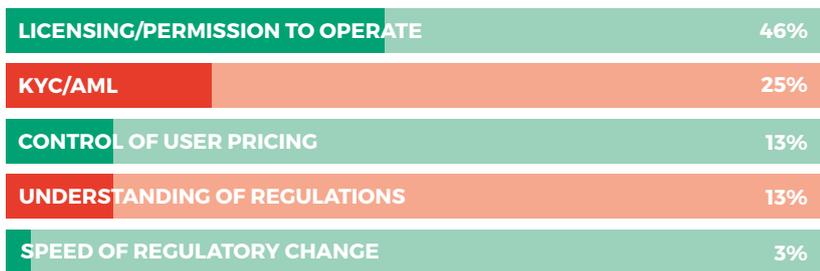
*“There are many detailed regulations that protect the incumbents.”*

*“Increasingly KYC/AML regulations are becoming biggest challenge for the payments business.”*

*“Simple...it’s KYC/AML.”*

CHART 15

Regulation causing the biggest challenge for new payment businesses



Africa Jury view of regulatory impact on new payments businesses.

The second most significant problem identified by 25% of the Jury is that of KYC/AML, where it is felt very strongly that the regulations are often inappropriate and ineffective.



## SECTION 5: Innovation and financial inclusion

### The best overall approach

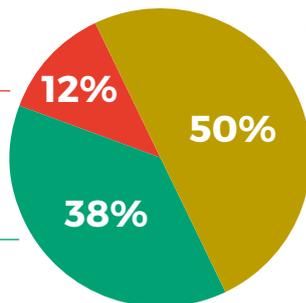
The Global Jury supported a market-driven approach to financial inclusion but members of the the Africa Jury, who are all at the sharp end of trying to make these initiatives successful, have a desire for Central Authorities to create an appropriate system of financial incentives. Although, like their Global Jury counterparts, they are strongly opposed to the Central Bank becoming an operator.

CHART 16

How innovation should be encouraged to promote financial inclusion

**CENTRAL AGENCIES SHOULD PLAY AN ACTIVE ROLE**

**MARKET SHOULD BE LEFT TO DEVELOP SOLUTIONS**



**CENTRAL AGENCIES SHOULD ENSURE INNOVATION IS INCENTIVISED**

Africa Jury view on how regulation can promote financial inclusion.

### JURY COMMENTS:

*“An environment conducive to innovation is required and it is the responsibility of the central agency to provide such a ‘platform’. Incentivisation and recognition are sufficient for industry players to promote financial inclusion.”*

*“The job of the regulator is to create the right economic climate to incentivise socially beneficial market behaviour, usually through a mix of prohibiting adverse behaviour and redistributing to encourage good behaviour.”*

*“Paying non-market driven incentives spawns solutions that are not sustainable.”*

*“The development of financial inclusion should be encouraged by incentives during the start-up period.”*

*“Given the high start-up costs, regulators have to compensate payment operators with fiscal incentives and/or subsidies.”*

*“In Kenya, agriculture employs about 70% of the adult population. However only about 2% in this sector have access to formal credit because banks do not have the understanding of the seasonal or fluid nature of agriculture and therefore cannot bring the farmers into the formal bank space and ultimately payments. This is where the central agencies can come in.”*

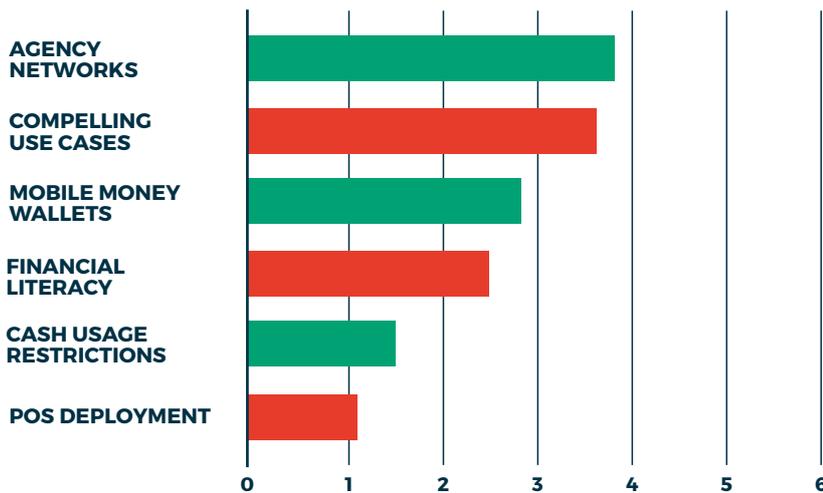
## Drivers of financial inclusion

The Africa Jury sees the most important driver of financial inclusion as the availability of agency networks to provide the necessary interface between unbanked consumers and electronic payment systems.

Agency networks such as Fawry in Egypt, IFIS in Nigeria, Maxcom in Tanzania and PesaPoint in Kenya are truly independent of both MNOs and banks and are therefore ideally placed to provide services to all players in the industry. The second priority is to have a compelling use case which was discussed earlier. Widespread placement of card terminals, which was tried in Nigeria, is the least favoured option which illustrates that Africa is really moving past the cards opportunity and straight to mobile.

CHART 17

### Drivers of financial inclusion

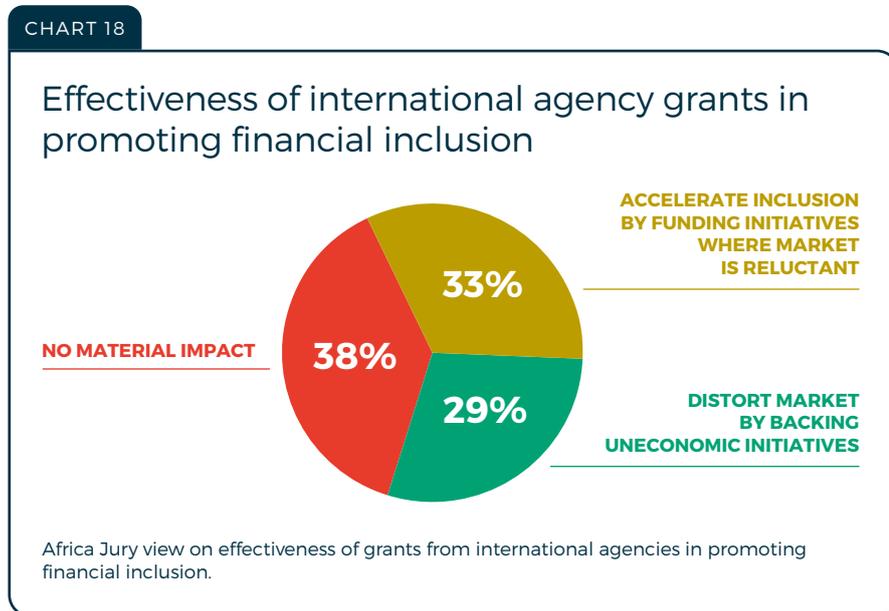


Africa Jury view of most important drivers of financial inclusion.



## The role of international agencies

The Africa Jury has a mixed view of whether the financial inclusion efforts of international agencies are effective. There are almost as many jurors saying that they are counter-productive as they are effective and there was a sizeable score for 'no impact'. In turn, there were some positive opinions about the impact that the agencies have on financial inclusion. But there were also views that in some situations the wrong initiatives are supported and this is detrimental as it distorts the market.



### JURY COMMENTS:

*“Surely they have an impact. Their funding is always a requirement for financial inclusion but the expertise that comes with Bill & Melinda Gates Foundation is also very important.”*

*“These agencies can play an important role in microfinance in general and microcredit in particular.”*

*“In Ethiopia these grants are not aligned with national initiatives in the financial sector. For these reasons the resources are spent in pilots having no material contribution for financial inclusion.”*

*“Grants by international agencies create a problem by providing capital that typically lacks ambition and in many initiatives I have seen a lack of accountability.”*

*“They can pressure regulators and incumbents to acknowledge, rather than ignore, new solutions.”*

*“They should work more closely with regulators and be used for educating the end user. Too often, the grants are not used effectively.”*

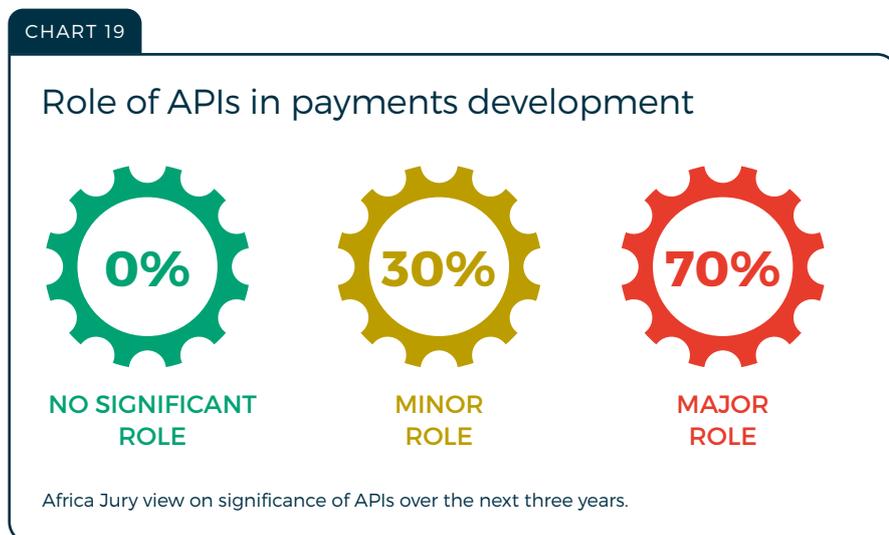
*“The potential is there, even if mistakes have been made. I think Gates in particular have got better at ‘nudge’ economics, where you don’t back a horse, you lay out a racetrack.”*

## SECTION 6: The role of APIs in payments innovation

In the broader technology industry, APIs have been widely used for much of the last decade with technology giants like Facebook and Google strategically providing open APIs to create new markets. As such, financial services and payments are quite late to the API party. However, there is now extensive discussions on how APIs can enable innovation in the payments industry.

The discussion has since intensified following the European Union (EU) decision to force all payment service providers to provide API access to their core account systems and enable external organisations to provide payment services in competition with the account holding institution. No regulators outside of Europe have yet taken the same steps but many are studying the EU situation with interest.

The Jury was asked how it considered the significance of APIs in the context of the African market.



Despite the absence of regulatory pressure in Africa, members of the the Africa Jury expressed the same level of confidence about the future importance of APIs as their global counterparts. This confidence was based on African financial institutions finding it difficult to innovate internally and needing to access the creativity of external developers and organisations. However, the Jury was concerned that regulators would be very slow to react to the opportunity and thus benefits could take significantly longer to be reached.

### JURY COMMENTS

*“This will become a major trend as the traditional players realise that they can get a lot of cost benefit, early go to market, and embedding innovations.”*

*“Open access platforms will drive innovation and access in the future. APIs will be the base on which such platforms will be built.”*

*“APIs will greatly change the landscape provided the banks/ payment companies release them. If the regulator steps in and forces this, the change will be a lot quicker.”*

*“I think they will be crucial, and not only from established store-of-value players (i.e. banks). Also from established networks and schemes that have a market-wide dataset.”*

*“APIs will have a minor role in the development of the payment ecosystem in the next three years due to the slowness of regulators.”*

*“Payments is all about scale, and it is difficult to reach scale using existing models. I believe the vertically integrated approach is finished.”*

One of the key drivers of APIs is the move towards integrated or in-app payments. APIs are the technology through which payments can be integrated seamlessly into applications (delivered mainly through smartphones) such as Uber and online gaming and made to effectively 'disappear'.

The Jury considered the future growth of integrated payments and gave a very clear answer. A large majority of the Jury (87 percent) is expecting integrated payments to increase over the next 3 years. Market pressure makes it difficult for individual institutions to decide not to enable the major integrated payments apps, thus further increasing the pressure to make API access available.

CHART 20

### Integrated payments over the next three years



Africa Jury view of integrated or embedded payments over next three years.

### JURY COMMENTS

*“With the increasing smart phone penetration I expect in-app payments would considerably increase over the next 3 years.”*

*“This is, quite simply, the future. Ironically, the big trend in payments is that they will disappear into the underlying economic transaction, Uber-style.”*

*“This is relatively new in Africa and will grow as more apps become payment enabled.”*

*“The penetration of app usage for commerce is still low. We have hardly made a dent in cash payment yet!”*

*“Integrated payments will evolve slowly over the next three years. The integration of the payment into the purchase transaction is conditioned by agreements between the payment institutions and the merchants and these are strategic decisions that take time.”*

*“As payment APIs are released into the wild, the pent-up demand for app monetisation will become apparent.”*

Among established firms, especially banks, there are some substantial fears and inhibitors that will have to be overcome if APIs are to be widely available. The Jury considered which of the inhibitors are the greatest and determined that fear of revenue loss and security concerns were the major concerns.

**JURY COMMENTS**

*“This is a long/short problem. All the risks are short term, but the benefits are longer term. It’s a balancing act for product line owners, which is why it needs a strategic perspective.”*

*“Security and compliance ‘concerns’ are bogus claims as it is easy to build in security and compliance features to an API. The No 1 inhibitor to publishing APIs in Africa is fear of losing a monopoly or dominant position by helping new entrants grow.”*

*“Security and fear of loss of revenue are the biggest inhibitors to established firms publishing APIs.”*

*“The established firms are always reluctant to lose income and a lack of standards will be an issue for everybody.”*

CHART 21

**Inhibitors to established payment firms publishing APIs**



Africa Jury view of inhibitors to publishing APIs.



## SECTION 7: National and international payments infrastructures

### Establishing national payments infrastructures

The Jury thinks that a number of countries are struggling to build national payments infrastructures and then operate them effectively and efficiently. Larger countries such as Egypt, Kenya, Morocco, Nigeria and South Africa can manage with their own resources and countries such as Ethiopia, Ghana and Tanzania could join this group. For other markets, it is generally more difficult due to shortages of either capital or people skills.

There are some cases, both in Africa and more widely in developing markets, where there is an initial project to establish the beginnings of a national payments infrastructure, but a lack of deep payments and operational expertise restricts the potential.

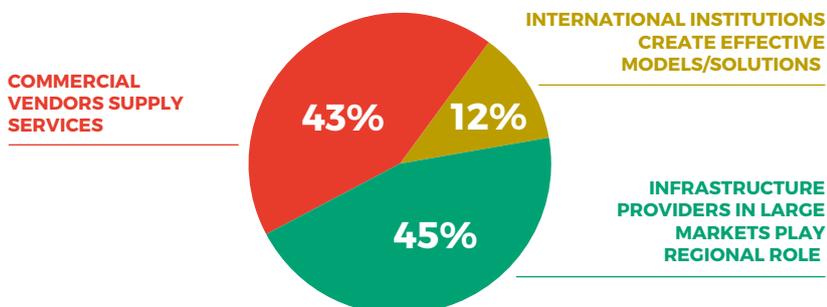
The Jury looked at the best way to overcome this issue and came out in favour of the development of regional players - which would see national players spreading out to assist neighbouring markets. GIM-UEMOA in Francophone West Africa already operate this model and BankServ Africa seem to have ambitions to play such role in the SADC markets. Additionally, Interswitch is active in a number of West and East Africa markets.

The Jury also sees a role for commercial systems vendors provided that the ongoing operational expertise issue can be addressed.



CHART 22

### Best approach for national payment infrastructures



Africa Jury view on best approach for building national payments infrastructures.

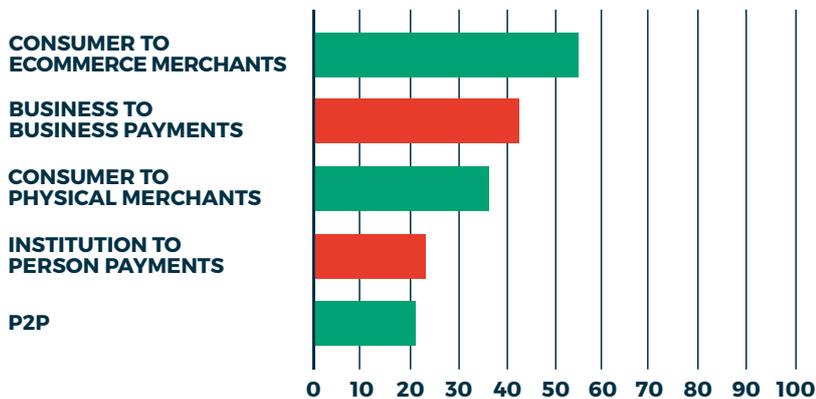
## Intra-Africa payments

Most international payments involving Africa are either inbound or outbound from an African market to an out-of-region country. However, the volume of intra-Africa payments (i.e. between African markets) is increasing and must grow substantially if the continent is to achieve its economic potential.

The Jury considered different use cases for payments between African markets to identify where the biggest problems are. The clear consensus of the Jury was that there are major issues with most types of international payments with only one use case – consumer payments to e-commerce merchants - recording a score of over 50% (effectively defined as meeting 50% of the market needs). With the best of the services only receiving a relatively poor rating from the Jury and others such as cross-border person to person and institution to person payments having scores below 30%, there is clearly a significant need and business opportunity for intra-Africa payments.

CHART 23

How well do current mechanisms meet market needs for international payments between African countries?



Africa Jury view of international payment mechanisms meeting market needs for payments between African countries (max score of 100).

## JURY COMMENTS

*“International payments and country to country payments in Africa are painful.”*

*“The card schemes, while costly, provide an outstanding international service. Of much greater concern is effective cross-border commerce facilitation, particularly for SMEs.”*

*“It is still incredibly difficult to make payments across African countries, even within the same bank networks and MTOs.”*

*“The international card schemes (ICS) remain in their traditional model despite their efforts to diversify and there are major gaps in their coverage. For the new business models based around mobile there are not many cross-border capabilities so they are effectively domestic only.”*

*“There are the traditional cross-border transfer operators such as Western Union and a few banks such as Ecobank that have built an African network but overall the payments facilities between markets are very poor.”*

*“Pricing and clearing & settlement are the main issues.”*

## SECTION 8: Failure and hype in payments innovation

### Lessons from failure

Learning from failure is a key way that markets develop and payments is no exception. The Jury was asked to identify any significant 'market mistakes' from which it felt that general lessons could be drawn. The most mentioned failures were:

- The attempts to successfully export the M-Pesa model from Kenya to South Africa, Tanzania and other markets.
- The mobile money model in markets where bank leadership was mandated. The Jury sees the result as fragmentation, poor economics and a real lack of progress.
- A reluctance of central banks in many markets to let a new breed of dynamic non-bank players enter the market to correct the situation where traditional bank players are not expanding the reach of electronic payments fast enough to achieve financial inclusion.

### The hype factor

Payments is an area that is characterised by hype – every few years there is a new development that is going to fundamentally change the payments market and then later, having failed to live up to expectations, it is quietly relegated to the back row and replaced by the next game changer.

The fact that an innovation is over-hyped doesn't mean that it doesn't deliver benefits for the industry, rather that the claims made are exaggerated. And hype tends to lead to misallocation of investment resources as the money invested in the over-hyped solution takes funding away from other deserving initiatives.

When the Global Jury was asked which solution or technology was most over-hyped at present, they unequivocally nominated distributed ledger technology for retail payments. The Africa Jury has shown more variation than the Global Jury and it selected:



### JURY COMMENTS

*"Bitcoin is highly successful as a speculative asset class and great for dark web transactions, but is unlikely to make the leap into mainstream commerce."*

*"Blockchain – it is so hot that you risk being ostracized if you dare say that the Kaiser does not have any clothes on."*

*"Bitcoin because it is still unregulated."*

*"Crypto-currency but not block-chain."*

*"MNO led mobile money is overhyped. Only 1/3 of mobile money accounts and 50% of agents are active on a 90-day basis."*

*"Mobile payment in general and IoT in particular."*



## About Interswitch

Interswitch is an Africa-focused integrated digital payments and commerce company that facilitates the electronic circulation of money as well as the exchange of value between individuals and organizations on a timely and consistent basis.

The company provides convenience and value for consumers while reducing costs, improving operational efficiency and driving sustainable revenue growth for institutions. Interswitch currently operates in Nigeria, Gambia, Kenya and Uganda with ambitious expansion plans into more markets on as well as areas in the Eastern part of the African continent.

**For more information, please visit: [www.interswitchgroup.com](http://www.interswitchgroup.com).**



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Helios is an Africa-focused private investment firm led and managed by a predominantly African team, managing funds totalling approximately \$3 billion. Helios bridges international capital and know-how to African talent and enterprise, and is proud of its investments in businesses from start-ups to large corporate carve-outs, building African market leaders like Interswitch in core economic sectors.

Helios' portfolio companies operate in more than 30 countries in all regions of the continent. The firm's unique combination of deep knowledge of the African operating environment, a singular commitment to the continent and a proven capability to manage complexity, is reflected in its position as a partner of choice.

For more information, please **visit [www.heliosinvestment.com](http://www.heliosinvestment.com)**

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AN INSIDER'S VIEW TO  
AFRICAN PAYMENTS & FINTECH