Digital revolution will impact on Africa's banking sector

By Frederic Guillou

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In emerging markets, mobile money services have the power not just to simplify lives, offering people the convenience of paying from anywhere and at any time, but also to transform them, playing a social noble role by addressing the unbanked or underserved population in Africa, offering them payment services they did not have access to before.

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Africa is a continent filled with digital opportunity. With the mobile phone as the primary online device and a 72% mobile phone penetration rate, by far surpassing landline internet connections, the African digital revolution will take place through the small screen. Seven out of ten of the world's fastest-growing economies will be in Africa by 2015. And the continent's financial services sector is projected to grow 40% by 2020.

However, it is also a place where a vast number of people do not have access to an account at the bank. 80% of sub-Saharan Africa is unbanked.

But there are a number of initiatives that are helping people in sub-Saharan Africa gain financial access. And these latest advances in technology are leading to the convergence of banking and telecoms.

Prepaid cards

Prepaid cards, where a set amount of money is loaded onto a card not linked to a bank account, are now obtainable from banks, mobile network operators and retailers. Easy to use and widely accepted, prepaid cards enable a safe and convenient method of storing money, and the prepaid trend will be boosted by the growing roll out of contactless card technology.

Then there is the ability to leverage mobile handsets for payment services. The past few years have seen a dramatic increase in the use of the mobile device for financial transactions. Mobile payment technology removes the barriers of time

and location, and where once an individual had to walk kilometres to join a queue at a specified time to pay a bill, he or she can now use a mobile money application, at any time, from wherever they are, to make a payment.

In a market where computer access is limited, mobile money initiatives which enable people to do cash in, cash out, pay for their bills, top up their airtime or transfer money to family and friends using their mobile phone, have recently grown in popularity. These initiatives also help the people of sub-Saharan Africa gain financial access.

The mobile money market is huge, it topped $61bn in 2012 and the GSMA cites that 52% of all mobile money services are in sub-Saharan Africa, making it the leading region worldwide. 19 million of Kenya's population of 44 million subscribe to M-Pesa mobile money services.

Long-term strategy

During recent years, mobile financial services have been identified as a key long-term strategy for mobile network operators, banks, financial institutions and merchants. They have all identified mobile as an opportunity to achieve considerable growth, while keeping up with consumer expectations.

From the banks we have seen mobile banking apps, and mobile payment solutions such as Nedbank PocketPOS, Absa Payment Pebble, and Standard Bank SnapScan. The mobile network operators are helping to address the unbanked through solutions like Vodacom's M-Pesa and MTN's Mobile Money. Merchants are offering their customers easy, convenient payment with Zapper and FlickPay, both of which use QR code technology for the payment process.

Mobile payment is taken to a new level with the introduction of near-field communication (NFC) technology, which opens the door to contactless mobile payment.

NFC mobile contactless payment requires specific infrastructures to work, such as smartphones which are NFC compliant and contactless point of sale (POS) terminals at retailers. Market readiness for NFC relies on the necessary infrastructure as well as the appropriate business models between mobile operators, banks and retailers to be agreed upon and put in place.

Role of smartphones

Another often cited requirement is that of the appropriate handsets, namely smartphones, being available. The lowering of smartphone pricing is leading to the enormous growth of smartphone users in Southern Africa - the number of users in South Africa is estimated to be above 20 million smartphone devices currently. Most smartphones are NFC compliant, and for those that aren't there are NFC stickers, which once stuck on the handset can turn any mobile phone, even if it is a low end or feature phone, into an NFC phone.

An important ingredient for bringing the market closer to NFC-readiness is that of customer adoption. Although it is tempting to think of all users migrating fairly seamlessly from their existing handsets to full NFC capable ones, the reality might be more subtle.

Contactless payments will most likely form the important bridge needed to traverse the gap to NFC. As the network of contactless enabled POS devices in Africa grows, so too will the prevalence of contactless payment cards. It is these cards that might drive the adoption of NFC. Users can become accustomed to the concept of contactless retail payments by using a format that is familiar, like their credit or debit card. Once familiarity grows, the prospect of moving to an NFC-enabled handset for the same transaction should appear less formidable.

Although for NFC to blossom, banks and mobile network operators will need to collaborate closely to ensure that their customers are able to use their NFC handsets as ubiquitously as they currently use their debit or credit cards. Ideally, any customer should be able to select a bank or mobile network operator of their choice. However, the practicalities of the business worlds these players occupy make this a difficult equation to balance. Each party would be compelled to focus on

innovation to remain relevant to their market and ensure competitive differentiation.

Credit cards

Local market players could look to a programme called ISIS in the USA for a potential solution. ISIS is a joint venture between carriers AT&T Mobility, T-Mobile and Verizon Wireless. It allows users to pay for purchases by adding participating credit cards from American Express, Chase or Wells Fargo to their mobile wallets, or by setting up an American Express Serve Account that users can add funds to with their preferred credit card, debit card or US bank account.

Participation in this joint venture has allowed each partner to maintain their individuality but still offer their own customers the convenience of using an NFC payment solution which is shared across multiple players and supported by a growing base of merchants and cities. South Africa could fair well by adopting a similar stance, forming a similar joint venture that would keep the various brands separate on one hand, but joined together under an NFC payment brand on the other.

It is expected that a third of mobile phones will have NFC, and the global mobile payment market will rise to 450 million people, by 2017. While contactless payment will bring convenience to the lives of many Africans, this use case is only the tip of the iceberg.

NFC will enable mobile phones to be used for a variety of new purposes at the heart of everyday life. It can turn the mobile phone into a mobile wallet featuring a full range of value-added services. The most common use is payment for transport. Couponing and loyalty programmes have great potential as promotions, coupons and smart tags take mobile NFC one step further. Peer-to-peer applications also have a great future and thanks to NFC technology, users will be able to exchange their business cards and contact details by tapping their NFC phones.

As NFC payment solutions mature in Africa and consumers become increasingly comfortable with its use, the development of other solutions based on NFC will gather pace. When it comes to mobile NFC use cases, creativity will have no limit, to the benefit of the end user.

ABOUT THE AUTHOR

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