VALLIS GROUP LIMITED

FINTECH IN AFRICA

1. INTRODUCTION

Digital payments are becoming abundant across the developing world; inaccessibility to traditional banking has created the opportunity for leapfrogging to 'fintech'. Affordable mobile phones have conceived this opportunity as the financial and technology sectors have simultaneously merged.

This trend has prominence with the Vallis geographical footprint as 'sub-Saharan Africa is the only region in the world where close to 10 percent of GDP in transactions occur through mobile money. This compares with just 7 percent of GDP in Asia and less than 2 percent of GDP in other regions' (IMF, Feb 19).

The global financial sector is experiencing a shift in paradigm following new regulations after the global crisis in 2008, combined with technological innovation and changes in customer behaviour. The trend of dematerialization will only increase as fewer people rely on traditional banks, but instead control their finances using mobile devices.

This leapfrogging could form a catalyst for intra-African trade as trade, not aid, has long been put forward as the answer to Africa's woes. Trade without assurance means a lack of accountability and the Vallis mantra of integrity, trust and transparency will complement this potential.

2. TRADITIONAL BANKING IN AFRICA

2.1 Apart from South Africa, the prevalence of traditional banks in Africa remains low, especially in rural areas.

2.2 This is compounded by inadequate infrastructure that forms the basis for developing traditional banks. Inaccessibility of potential customers to towns and cities further exacerbates this lack of demand.

2.3 Geopolitical uncertainty across much of Africa means currency fluctuations reducing the supply of banking products such as:

2.3.1 Savings accounts.

2.3.2 Insurance services.

2.3.3 Supply of credit.

2.3.4 Payment transactions.

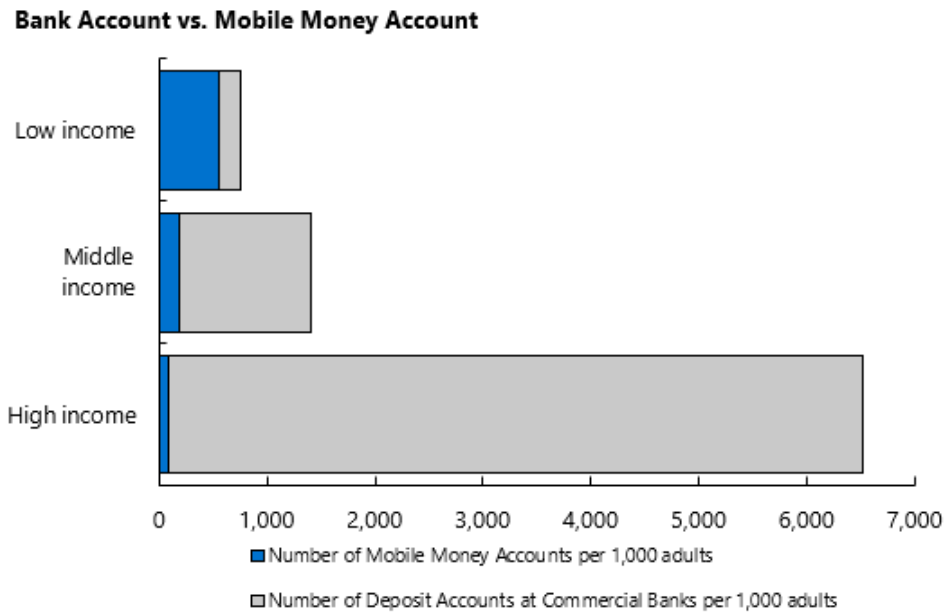
2.4 Conversely, the supply of these services is beginning to fall short of demand as the rise of an educated middle-class fosters small to medium enterprises.

2.4.1 As human capital will undoubtedly continue to increase across Africa, digital financial services will create markets for future clients while altering bank-customer relations.

Vallis Group Limited, Vallis House, 57 Vallis Road, Frome, Somerset, BA11 3EG, England ☎ +44-(0)-1373-453-970

Incorporated in England: Company Registration No. 04524501 | www.vallis-group.com | info@vallis-group.com

Mobile money accounts are more prevalent than bank accounts in low income economies



Source: Financial Access Survey and IMF staff calculations
Note: Data covers 2017 or the most recent year 5-year period for reporting countries. Bank accounts reflect deposit accounts with commercial banks while mobile money accounts reflect registered accounts.

Figure 1: Financial Access Survey, IMF 2017

2.5 Figure 1 shows this drift as developing, low income countries rely on mobile money (fintech) in contrast with the developed world's preference for traditional banking.

3. FINTECH IN AFRICA

3.1 Investors are waking up to the failure of traditional banks and the possibilities of fintech across Africa.

3.1.1 Mobile network operators are the implementors of this shift as they invest in the ability to access a demographic previously out of reach.

3.2 M-Pesa, founded in 2007 by Safaricom is a well-known success story, allowing subscribers to conduct traditional banking services using their mobile phone.

3.2.1 However, the popularity of this application has been highly localised. The service has taken off in Kenya and Tanzania with 19 and 6 million users respectively. In contrast there are only 76,000 active users in South Africa from a million subscribers.

3.3 Orange Money and MTN Money have subsequently joined the African fintech sector as innovation drives financial inclusion.

3.4 M-Shwari launched in late 2012 and offers a combined savings-and-loan service through a partnership between CBA and Safaricom.

3.4.1 The service operates through M-Pesa, leveraging CBA's banking license to issue savings accounts and loans.

3.4.2 Building on the popularity of M-Pesa to offer additional services breaks the mould by integrating services.

3.5 This pattern implies a potential stumbling block to Africa's fintech revolution, as localized services may restrict the delivery of a solution that spans the entire continent.

3.6 Equally, the fintech revolution is succeeding due to an implicit understand of customer requirements across Africa from the bottom-up.

3.6.1 The industry's potential is feeding interest from venture capitalists as they begin to appreciate the opportunity to increase the return on their investment.

3.7 Except for established banking services in South Africa, fintech services across Africa are working in direct competition with banks.

3.8 Fintech services such as those from Safaricom must seek licensing which is often time consuming.

3.9 Africans are increasingly relying on this new founded technology to manage their day-to-day finances. Paying bills, receiving wages and paying for goods from any location creates opportunity, while the ability to send and receive money internationally adds long term potential to this technology.

Image 1: Mobile technology is rife across Africa

4. BLOCKCHAIN

4.1 Blockchain to most people conjures memories of the Bitcoin bubble in 2017. The potential of this technology relies on a decentralized framework of computers where incorruptible transactions occur through chains of code.

4.2 Most importantly, transfers bypass opportunistic human nature to the non-corruptible, digital form of encrypted code.

4.3 This Distributed Ledge Technology (DLT) has triggered a mixed response as some feel Africa is poised to leapfrog straight to blockchain, while others are apprehensive about the infancy of this technology.

4.4 The Information Communication Technology (ICT) revolution has given Africa access to cheap, powerful computational capacity.

4.4.1 Despite some reservations, it appears obvious that some form of leapfrogging will occur across Africa.

5. LONG TERM VIEW

5.1 As with other sectors of society, Africa's lack of development provides a comparative advantage to exploit technological developments without evolving bureaucratic institutions.

5.2 This capacity of this growth will rely on the services of multinational corporations such as Vallis to ensure fluidity along supply chains for both inter- and intra-African trade.

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