

**DIGITAL FINANCIAL INCLUSION TRENDS
PRESENTATION AND PANEL DISCUSSION**
21 JULY 2022





Agenda

Digital Financial Inclusion Introduction & Trends

Digital Financial Inclusion Case Studies

Domestic Landscape

Key Observations

Implications

Panel Discussion





Digital Financial Services (DFSs) is a growing sector with the potential to enable sustainable economic and social development around the world

The Potential Economic Impact of DFSs

1

1.6 BILLION

Newly Included individual by 2025

2

\$ 3.7 TRILLION

(6%) global GDP boost by 2025

3

\$ 110 BILLION

Annual reduction in government leakage

4

\$ 4.2 TRILLION

In New Deposits

5

95 MILLION

New Jobs

6

\$ 2.1 TRILLION

In new credit



DFSs are catalyst for digital financial inclusion

DFSs Ecosystem

DFS Providers

Providing Digital Financial Services

- Banks
- Non-Banks

Digital Financial Services

Products and Services Provided to users

- Transaction Accounts
- Payment Services
- Savings Accounts
- Loans
- Insurance
- Investments

Users

Entities Using DFS Products and Services

- Consumers
- Merchants
- Governments

DFS Provider Support Service

Enterprises and networks that extend coverage of DFS Providers and Interfaces to users

- Agents
- Processors

Use Cases

Situations in which DFS is used

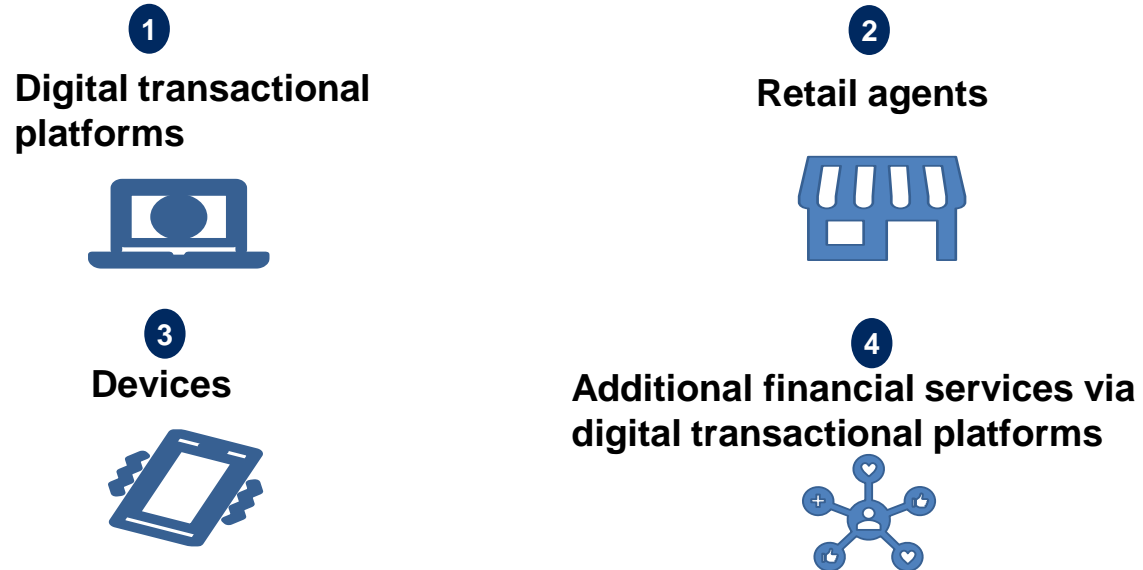
- Storing Funds
- Buying
- Paying Bills
- Sending & Receiving Funds
- Borrowing
- Saving and Insurance

What is Digital Financial Inclusion?

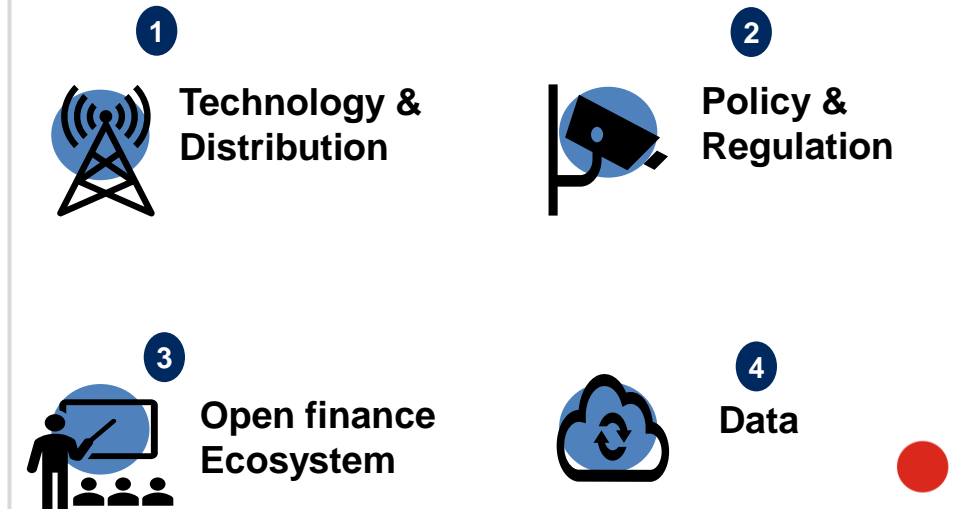
Definition

“**Digital Financial Inclusion**” can be defined as digital access to and use of formal financial services by excluded and underserved populations. Such services should be suited to the customers’ needs and delivered responsibly, at a cost both affordable to customers and sustainable for providers. Digital financial inclusion is the extension phase of financial inclusion where the notion of advanced technology is entertained.

Digital Financial Inclusion Essential Components

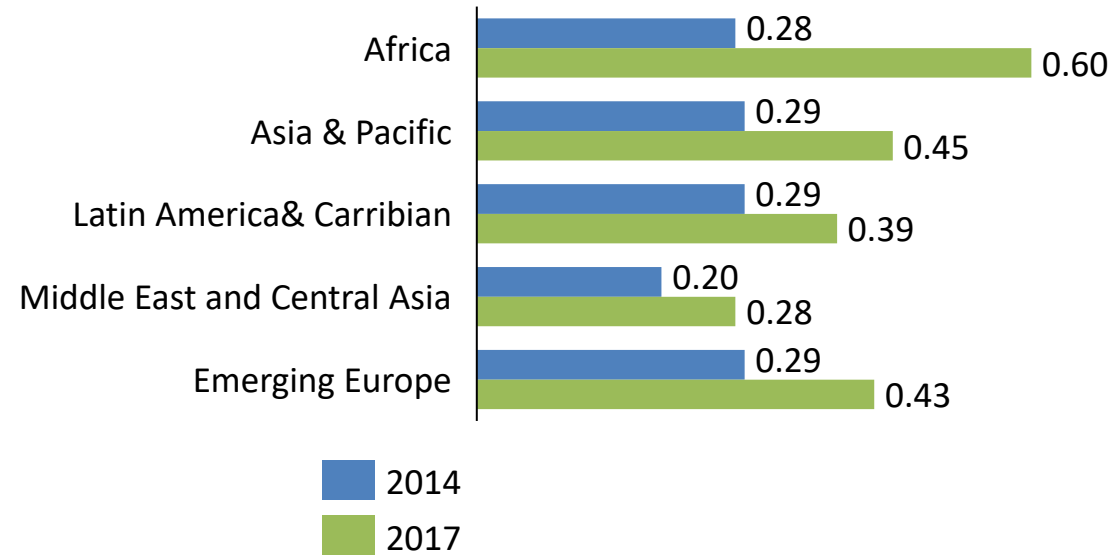


Digital Financial Inclusion drivers



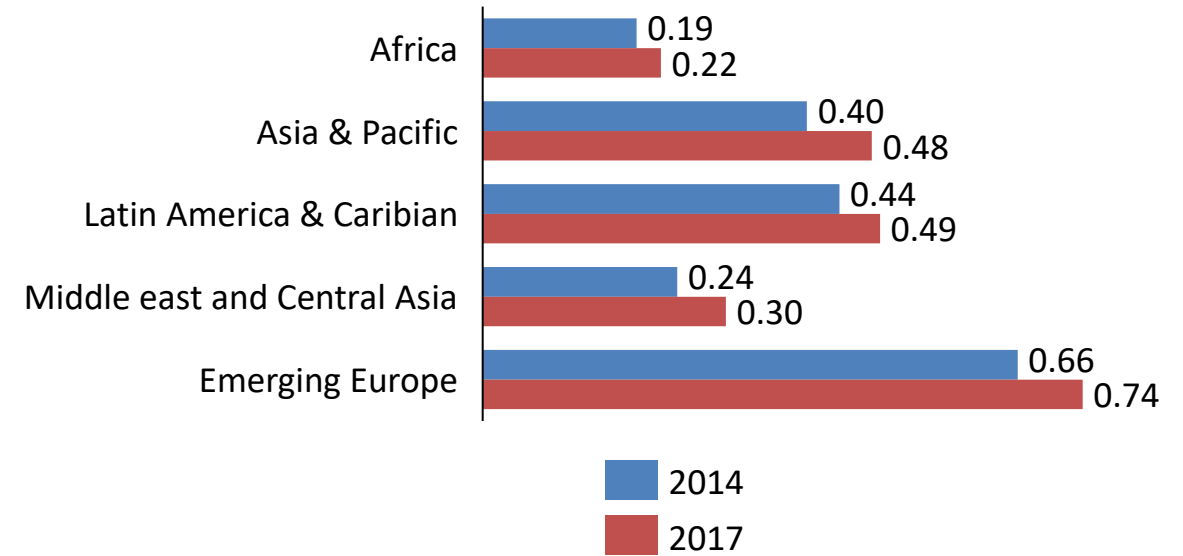
Digital Financial Inclusion is driving the provision of Financial Services in developing countries resulting in financial inclusion of previously excluded groups

Digital Financial Inclusion Index by Region



- Digital financial inclusion is found to be relatively high in countries in Africa and Asia and the Pacific regions.
- Most countries saw an increase in digital financial inclusion index between 2014 and 2017, driven both by access and usage dimensions.
- The improvement was particularly large in African countries (e.g., Ghana, Benin, and Senegal), while relatively muted in some of the countries in Latin America and the Caribbean, and Middle East and Central Asia.

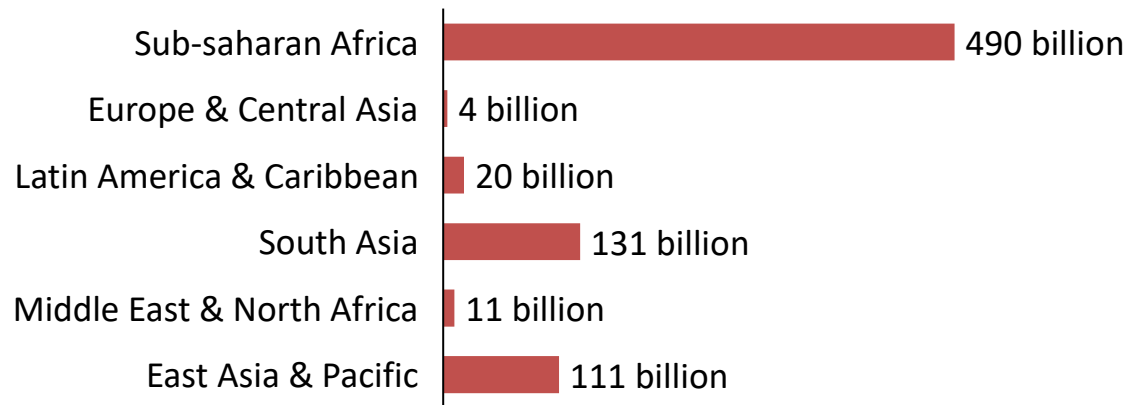
Traditional Financial Inclusion Index by region



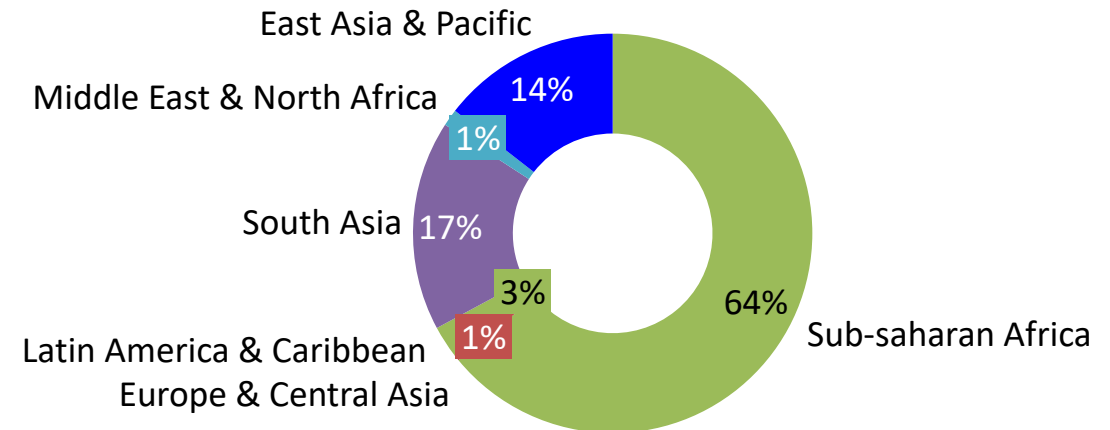
- Traditional financial inclusion is found to be relatively high in countries in Asia and the Pacific, Latin America and the Caribbean, and Emerging Europe .
- Traditional financial inclusion index remained broadly unchanged between 2014 and 2017, and eight countries experienced a decline.³

Fintech innovations such as mobile money are driving digital financial inclusion with Sub-Saharan Africa region leading the pack

Mobile money transaction values by region in billions \$



Mobile money transaction values share by region



- One Fintech innovation which is making impact on those who are financially excluded is mobile money.
- Usage of mobile money services is driving digital financial inclusion around the world with Sub-Saharan Africa region leading the pack.
- The region processes mobile transactions to the value of about 490 billion US dollars during 2020 which is equivalent to over 60% of the global market share.
- The region was followed by South Asia region 17%, East Asia and Pacific 14%, Latin America and Caribbean 3%, Middle East and North Africa as well as Europe and Central Asia both at 1%.

Source: GSMA industry report on mobile money 2021



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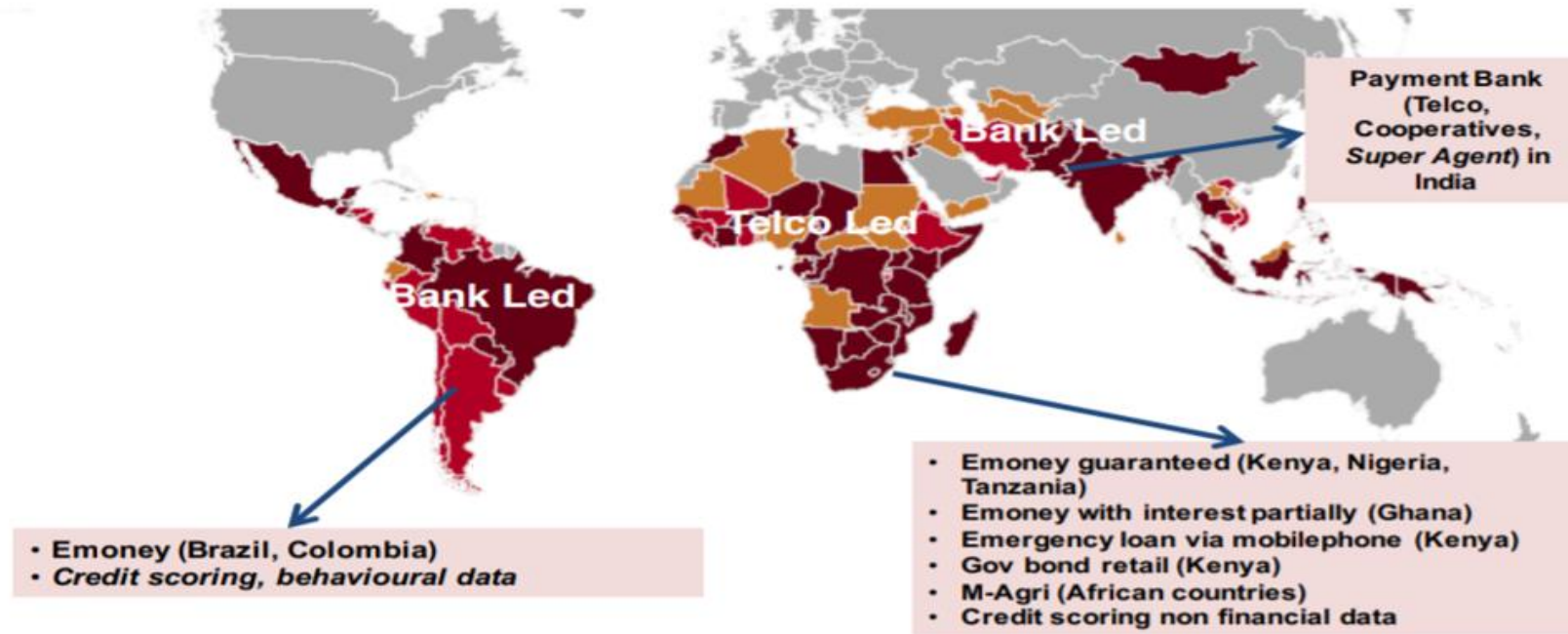
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Across the world Digital Financial Inclusion is being led by various players



Some of Digital Financial Inclusion case studies explored



- **M-Pesa** was first introduced in 2007 by MNO, Safaricom which had a dominant telecom market share of 79 % and It has become a ubiquitous way to transfer money.



- **Fino Payment Bank Limited**, founded on 2017, under the name Fino Payments Bank Limited.
- With Fino Payment Bank previously underserved groups are able to open savings and transactional account at ease.



- **MTN MoMo** was introduced in 2008, originally in West Africa, to drive Financial inclusion, and has since spread across the continent to become the largest Mobile Payments Platform in Africa alongside M-Pesa at 57m subs.



- **EasyEquities** is an innovative investment platform that allows customers to own parts of a company (shares) from as little as R5.
- Platform make it easy and more affordable to buy shares in local and international stock markets.





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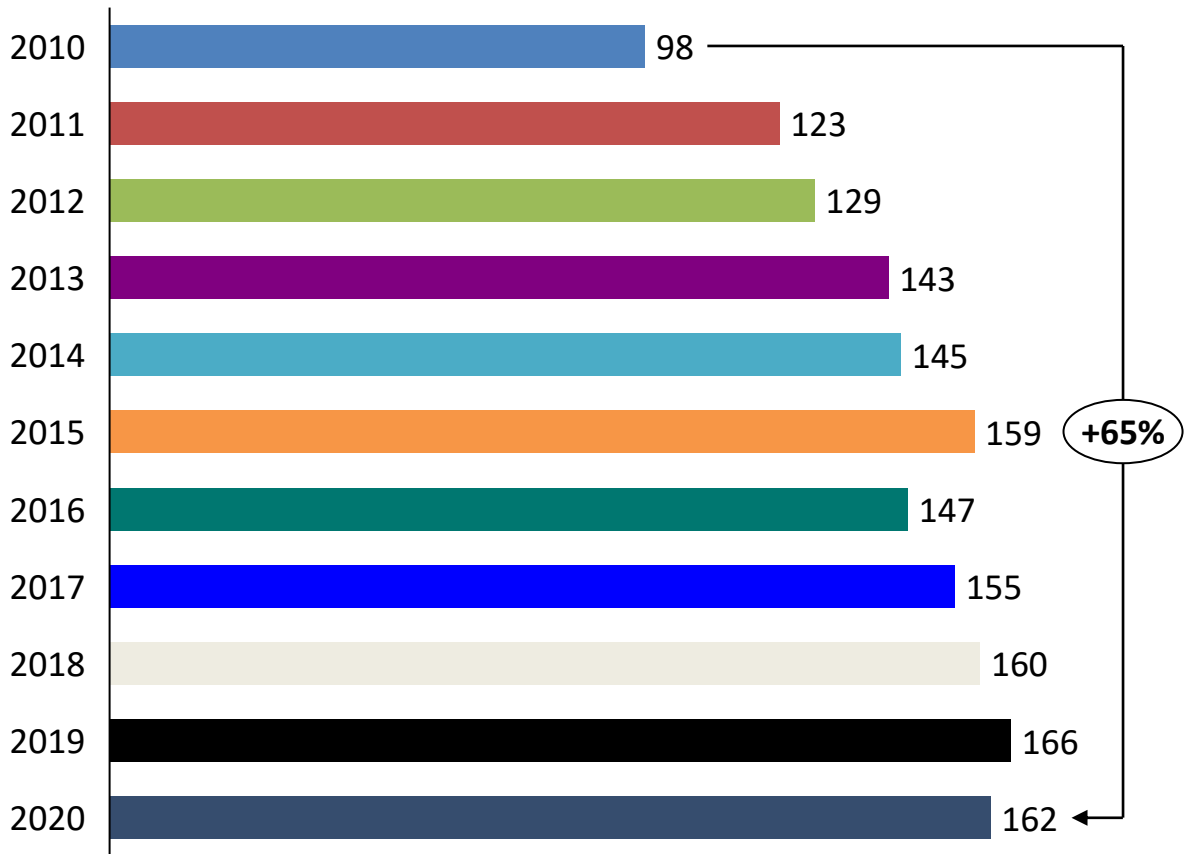
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Access to mobile-phones has increased significantly over the past 10 years

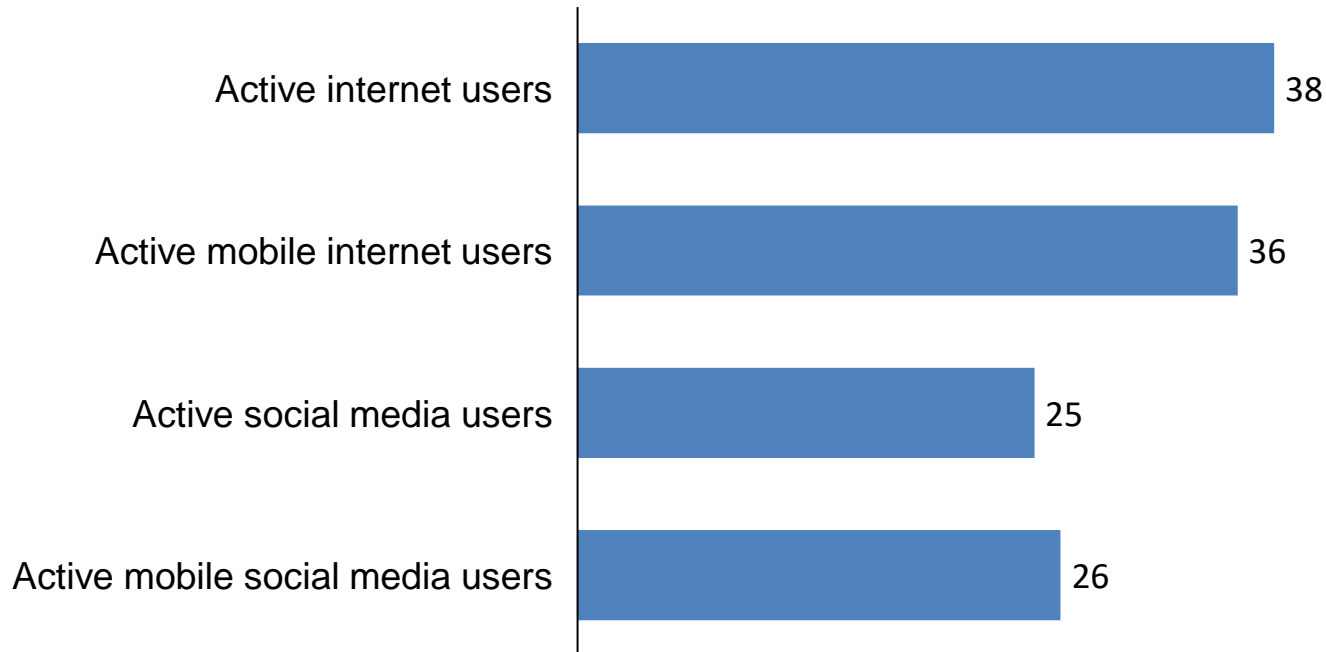
Access to mobile phones Subscribers per 100 inhabitants



- This statistics depicts the number of mobile cellular subscriptions per 100 inhabitants in South Africa between 2000 and 2020.
- Overall, there has been a sharp increase in access to cell phones subscribers per 100 inhabitants in South Africa during the past 10 years.
- By 2019 the number was at its highest recording 166 mobile subscriptions registered per 100 inhabitants, before slowing down to 161.8 mobile subscriptions registered for every 100 people in 2020.

Majority of South African consumers are using digital services

Digital population in South Africa as of January 2021 in millions

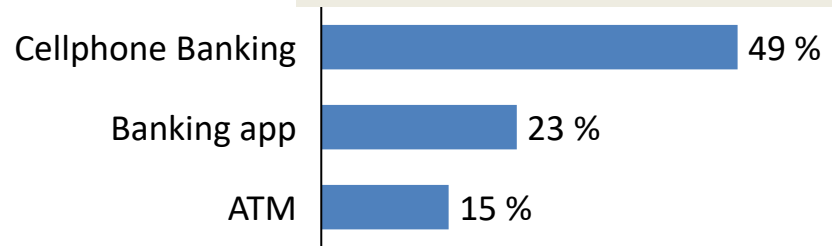


Source: Statista 2022

- This statistics provides information on the internet usage penetration in South Africa as of January 2021.
- As of January 2021, there were 38.13 million active internet users in South Africa. This is equivalent to 66 percent of the population.
- Among them, an overwhelming majority (over 36 million) also used mobile internet.
- During the same period, it was also found that nearly 99 percent of those using social media accessed their accounts through mobile phones.

Large number of South Africans are using digital channels to transact

Cellphone banking is the preferred channel when Buying airtime and data.



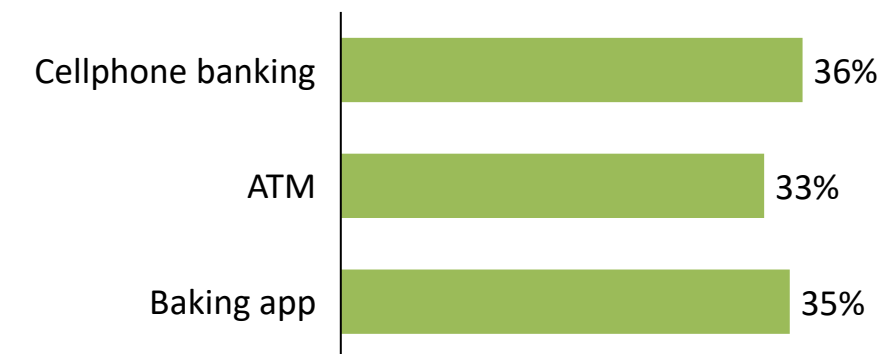
Banking apps is a preferred channel when making third party payments



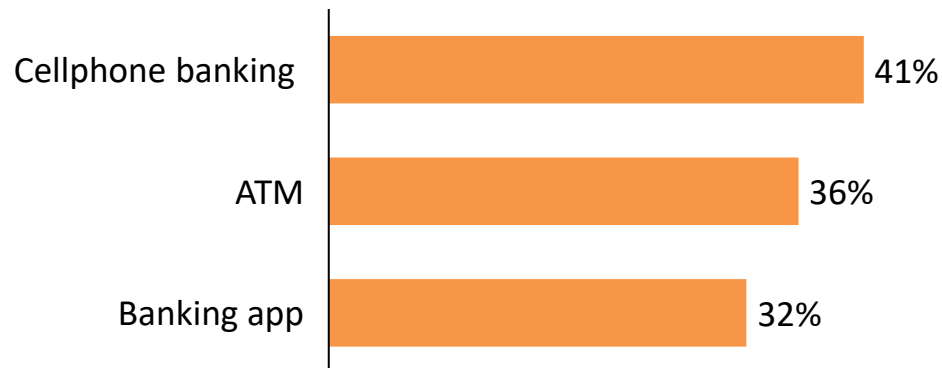
9% of adult population has access to platforms that offer access to credit



Cellphone banking is a preferred method when Transferring money from one bank account to the other



Cellphone banking is a preferred method when transferring money from your account to someone without a bank account.



55% of adult population has access to platforms that offer access to insurance

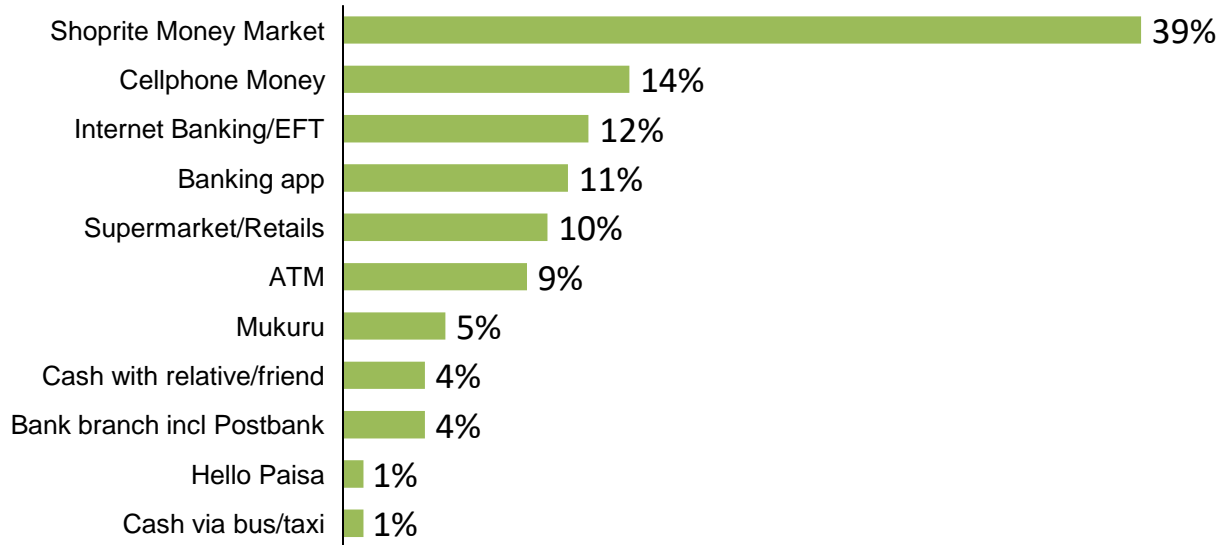


22% of adult population has access to platforms that offer access to savings



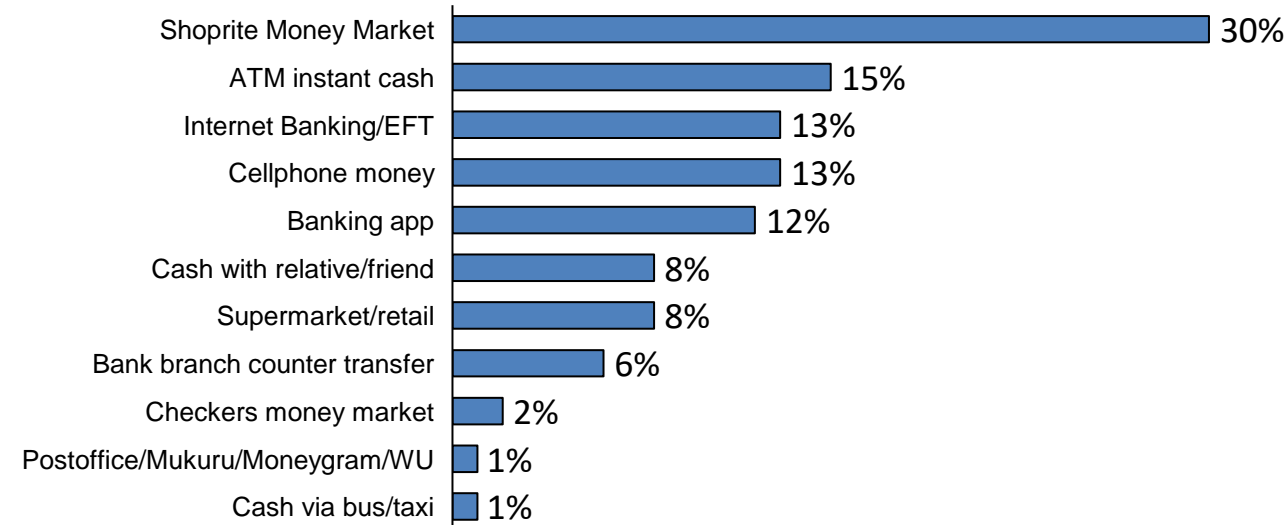
Digital channels featured prominently amongst the top 5 preferred channels for sending and receiving money in South Africa

Channels for sending money



- For sending money, Shoprite Money Market is the most preferred channel, followed by Cellphone money, Internet banking/EFT, Banking app etc.
- Digital Channels such as Cellphone Money, Internet Banking and Baking app are proving to be very popular amongst the consumers for sending money.
- As a result, we have seen lesser and lesser people using informal channels such as cash via bus/taxi to send money.

Channels for receiving money



- For receiving money, Shoprite Money Market is the most preferred channel, followed by ATM instant cash, Internet banking/EFT, Cellphone money and etc..
- Digital Channels such as ATM instant cash Cellphone Money, Internet Banking and Baking app are proving to be very popular amongst the consumers for receiving money.
- In this regard we have seen lesser and lesser people using informal channels such as cash via bus/taxi to send money.



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Our study uncovered some key risks and benefits to Digital Financial Inclusion in South Africa

Key risks

- **Unfamiliarity risks** for customers due to their lack of knowledge with the products, services, and providers as well as their resulting vulnerability to exploitation and abuse.
- **Retail agents-related risks** due to the new providers offering services that are not subject to the consumer protection provisions that apply to banks and other traditional financial institutions.
- **Digital technology-related risks** can cause disrupted service and loss of data, such as payment instructions, as well as the risk of a privacy or security breach resulting from digital transmittal and storage of data.
- **Inadequate technological infrastructure and high levels of informality mostly rural communities** which reduce the demand for digital – and more transparent – financial transactions.

Key benefits

- **Access to formal financial services:** payments, transfers, savings, credit, insurance, securities, etc.
 - **Government-to-person payments**, such as grants transfers enable digital stored-value accounts which provide a path for the financially excluded into the financial system.
 - Typically, **lower costs** of digital transactional platforms, both to the provider and thereby the customer, allow customers to **transact locally in irregular, tiny amounts**, helping them to manage their characteristically uneven income and expenses.
 - **Reduced risks** of loss, theft, and other financial crimes posed by cash-based transactions, as well as the **reduced costs** associated with transacting in cash and using informal providers.
 - It can also promote **economic empowerment by enabling asset accumulation** and, for **women in particular**, increasing their economic participation.
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Survey Results

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Four key Implications for Financial Sector (1/2)

1

Inadequate technological infrastructure

Prioritize infrastructure and connectivity by developing strategies specifically for rural and remote communities to account for infrastructure gaps, e.g., products that work on feature phones and creating an ecosystem which accounts for gaps in connectivity.

- Growth of digital payments and digital finance is linked to infrastructure, including reliable electricity, mobile phone penetration and internet connectivity.
- Although this is beyond the scope of the financial sector, infrastructure problems can make digital payments less effective and this needs to be taken into account when solutions are deployed.

2

Familiarity risks


Improving financial literacy by leveraging digital platforms to provide information and training and incorporating insights from behavioral economics such as nudges and reminders or the use of entertainment.

- Improving financial literacy and capability can increase uptake and usage of digital financial services, and this is especially true for underserved consumer groups such as women.
- This will increase their knowledge for the products, services, and providers resulting in them escaping any form of exploitation and abuse.

3

Digital technology related risk

There is a need for an approach to establish an effective risk management in digital environment

- Support Risk Management by conducting digital technology related risk awareness workshops and trainings.
 - Take up digital technology related risk as a as a proactive exercise embedding it into the organization's strategy instead of merely keeping it a reactive one.
 - Periodically monitor, review and update the digital risk framework.
- 



Four Key Considerations for SA Financial Ecosystem (2/2)

4

Retail agents related risk

Improve third-party governance by implementing an integrated risk management strategy designed to catalog, assess, evaluate, treat and monitor third-party risk, prioritizing areas where there is external access to internal systems and customer channels.

- An integrated approach improves third-party risk management by bringing together capabilities to track and monitor third-party activity, detect cyber threats in systems that third parties' access, and authenticate third-party users and govern their access.

