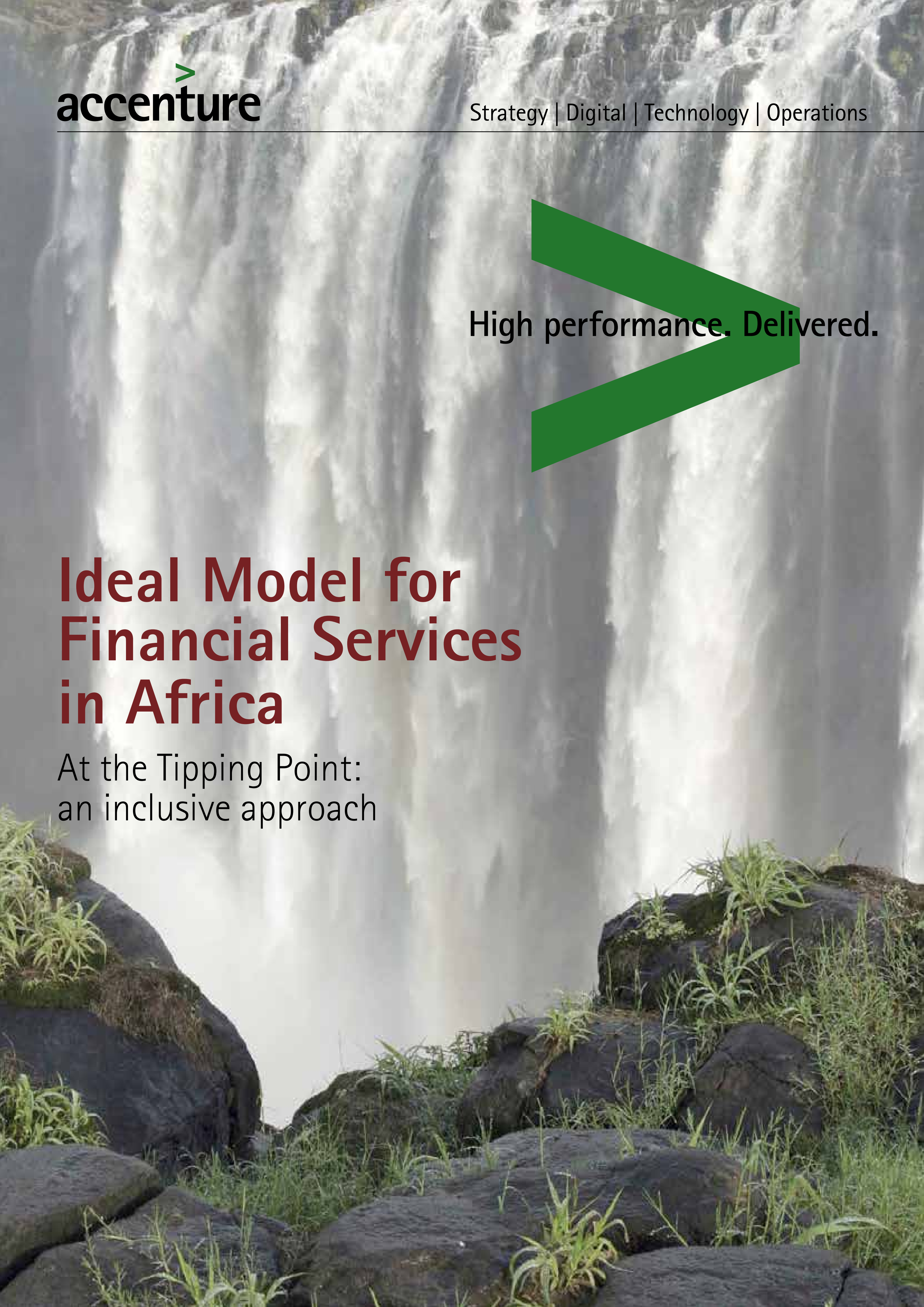

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Ideal Model for Financial Services in Africa

At the Tipping Point: an inclusive approach

Given the current pace of change and positive future growth projections, Accenture believes that there is huge potential for financial services in Africa. Current trends suggest that new financial services models will continue to emerge over the next few years. However, Accenture believes that the Hybrid Service Model, which combines the best elements of bank's branch networks, agent networks and mobile platforms, is the most promising model for future financial services and products in Africa. Financial services institutions that act now can position themselves well to participate in this exciting African financial services landscape.

The Tipping Point update looks at Africa's financial markets by identifying financial market readiness and examining the critical factors for success. As development needs to be inclusive, this update focuses on the low-income banking segment, a segment that has until recently, been excluded from mainstream financial services. For financial services companies to succeed in Africa, they need to find a way to meet the needs of this segment. A Hybrid Service Model that leverages the best elements of banks, agents and mobile technology may be the key to realising this growth potential.

The African Potential

Accenture believes that the factors fuelling growth of financial services in Africa have not yet been fully leveraged.

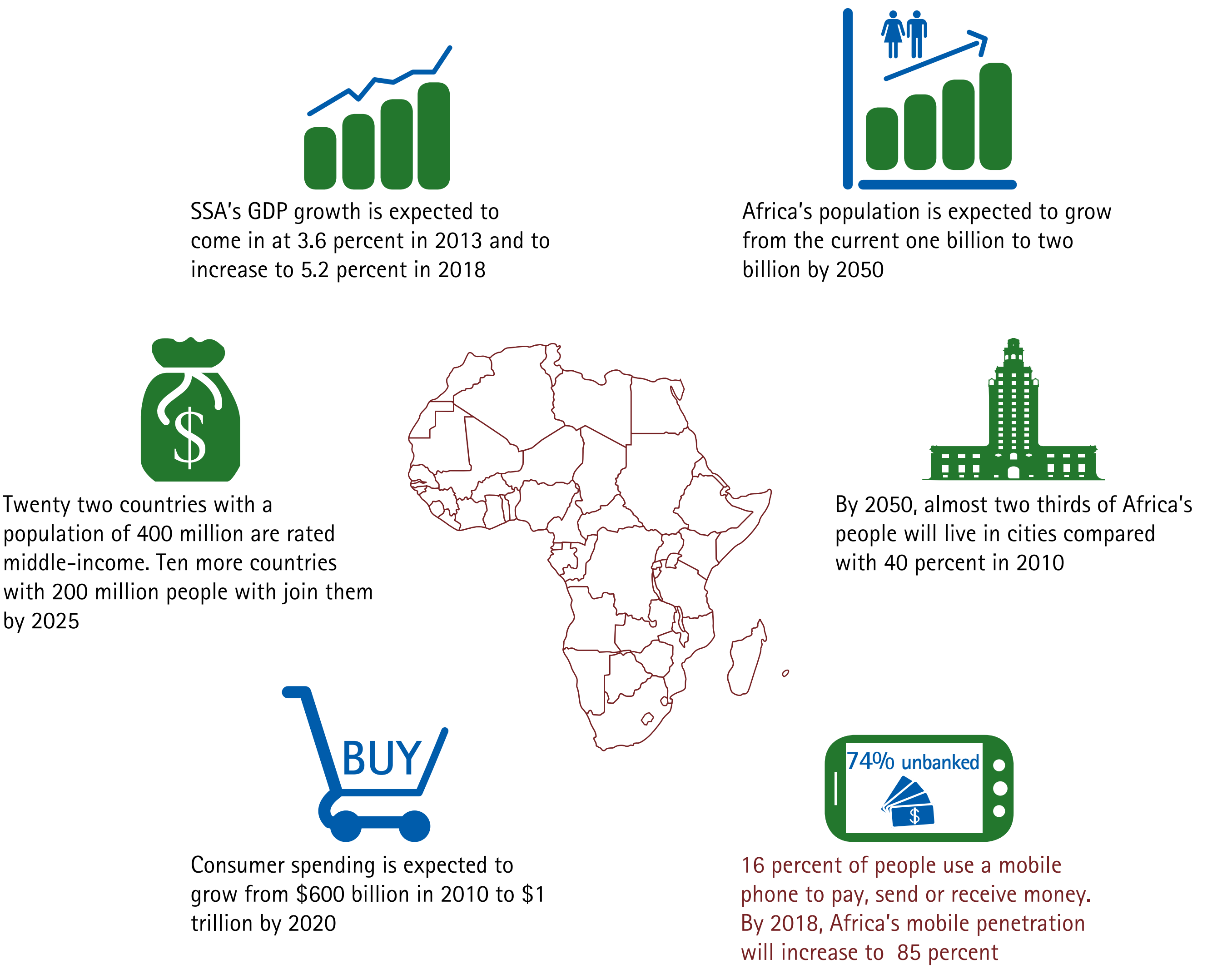
Home to about one billion people, the African continent represents an untapped growth opportunity. The continent's population is expected to reach two billion by 2050,[1] and it is estimated that Africa's economically active population will represent 66 percent of the total population. This population is expected to become increasingly urbanised and wealthy, with almost two thirds of the population living in cities, compared with 40 percent in 2010.[2] About 74 percent of the continent's population is currently unbanked, with no access to formal financial services.[3] The growing population and the large number of unbanked will drive the need for financial services in Africa.

The demand for financial services in Africa will also be driven by the strong macroeconomic environment. Sub-Sahara Africa's (SSA's) GDP growth is expected to come in at 3.6 percent in 2013 and increase to 5.2 percent in 2018.[4] In addition to strong GDP, an increasing number of countries are moving towards achieving middle-income status, i.e., income of more than $1,000 per capita. Some 22 states with a combined population of 400 million people have officially achieved middle-income status. Ten countries representing 200 million people will reach middle-income status by 2025 if current growth trends continue or with modest growth and stabilisation.[5]

Added to this, consumer spending is expected to grow from $600 billion in 2010 to $1 trillion by 2020.[6]

These demographic and economic factors are further supported by improvements in technology, which is able to reach large populations spread across vast and often remote geographic areas. Advancements, particularly in mobile technology, and the introduction of disruptive innovation, are enabling financial services providers to offer more financial solutions across multiple channels and platforms. Around 16 percent of adults in SSA use a mobile phone to pay bills, send or receive money.[7] With Africa's mobile penetration expected to increase to 85 percent by 2018,[8] the usage of mobile phones for financial transactions is also expected to grow.

Figure 1: The African Potential
Source - Accenture



The Tipping Point Index

In 2010, Accenture developed the Tipping Point Index (TPI) which explores Africa's growth potential. The TPI identifies and classifies four distinct groups in Africa's financial markets. These groups remain relevant although the relative positioning of some countries has changed. The groups are:-

Established Markets: Economies that have relatively deep and mature financial markets, with a diverse and thriving financial sector e.g. South Africa and Mauritius.

Forging Ahead: Economies that have mid-level-incomes. These economies are institutionally developed and are undertaking reforms aimed at creating more attractive markets. Their business environment tends to be more difficult than those in established markets e.g. Nigeria and Morocco.

Next Movers: These economies have high potential and are in the process of overcoming entrenched barriers such as low income, limited financial access, and institutional or governance deficiencies e.g. Angola and Ghana.

Transitional Economies: These economies are constrained by poverty, have little or no access to financial services, operate in difficult business and civil environments, and lack financial infrastructure e.g. Tanzania and Ethiopia.

Performance on the Tipping Point

While most countries maintained their ranking in TPI 2013, there were a few exceptions which either improved or dropped in their ranking.

The best movers were Gabon and Algeria

Gabon was the best performing country in TPI 2013, rising by six points and moving from the category Next Movers to Forging Ahead. Gabon's performance was largely driven by robust economic growth and massive investments that resulted from hosting the Africa Cup of Nations in 2012. The country continued to enjoy macroeconomic stability, good financial management, rising oil prices, healthy revenue from forestry and mining sectors, as well good public and private investment.

Although **Algeria** remained in the Next Movers category, it was the second best performing country, improving by five points on the TPI. Algeria saw an improvement in both the FS Business Environment and FS Market Attractiveness as the country benefited from regional political stability after North Africa recovered from political unrest, the Arab uprisings, regional tensions and loss of investor confidence.

The least performers were Uganda, Botswana and Mauritius

A five-point drop on the TPI for **Uganda** saw it move from Next Movers to Transitional Economies category. Despite promoting a healthy macroeconomic environment characterised by good fiscal and monetary policies as well as debt and exchange rate stability, Uganda was hampered by a relatively unfavourable investment climate in the private sector and capacity constraints in the public sector.

Botswana was another country that changed its category, moving from Forging Ahead in 2012 to Next Movers in 2013. Botswana transformed itself from being one of the poorest countries in the world to middle-income status through fiscal discipline and sound economic management. Despite its middle-income status, Botswana's heavy reliance on diamond mining puts the country at a disadvantage, especially when global demand for the luxury product is low. Botswana also faces social challenges such as unequal distribution of wealth, high levels of poverty, unemployment and HIV/AIDS prevalence.

Although **Mauritius** maintained its rank and category, the country experienced the largest drop in TPI 2013, losing six points as a result of a slowdown in GDP. GDP growth slowed due to weak sugar and textile exports, as well as a fall in the construction and tourism sectors. Projections show a rebound in GDP as economic growth is underpinned by the expansion in the financial services, information communication and technology, seafood sectors and a modest recovery in tourism.

Figure 2: Tipping Point, 2013
Source - Accenture

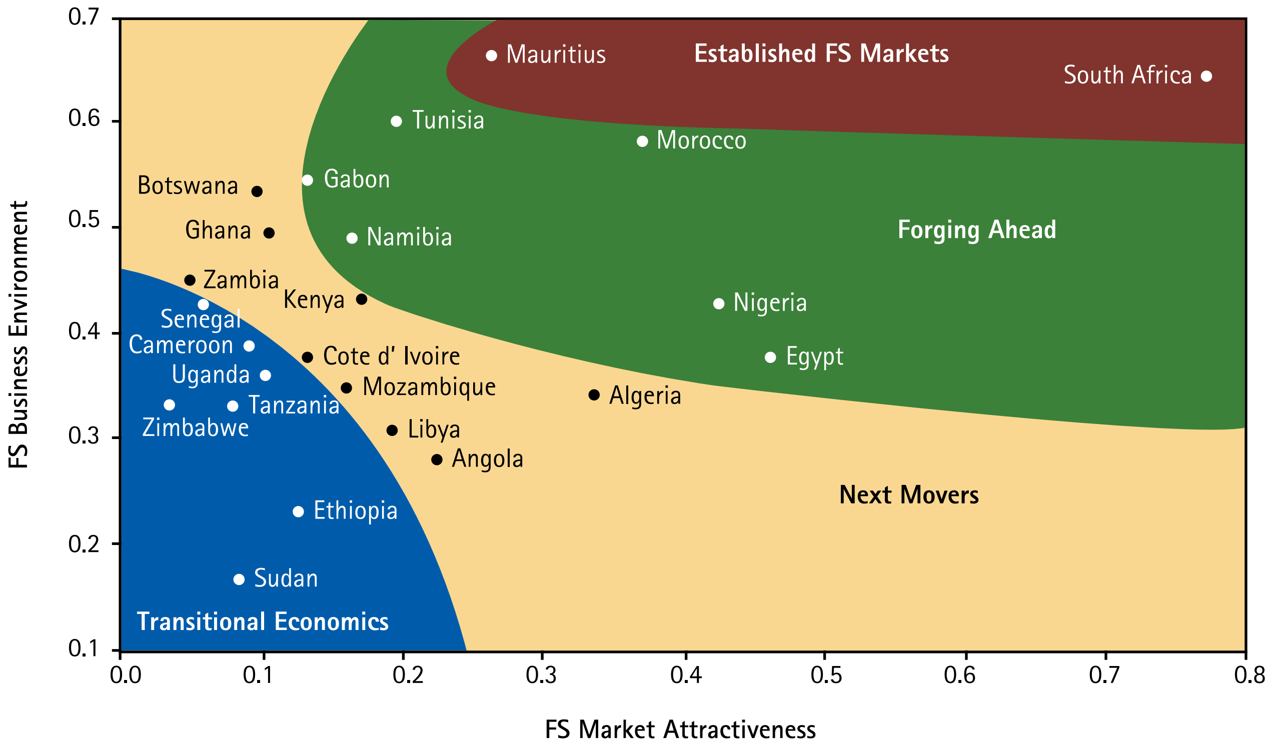


Table 1: Tipping Point Rankings
Source - Accenture

Rank	Country	TPI 2012	TPI 2013	Move	Group
1	South Africa	0.71	0.69	↓	Established FS Markets
2	Mauritius	0.56	0.50	↓	
3	Morocco	0.45	0.47	↑	Forging Ahead
4=	Nigeria	0.43	0.40	↓	
5=	Tunisia	0.42	0.40	↑	
6	Egypt	0.38	0.39	↑	
7	Gabon	0.32	0.38	↑	
8	Namibia	0.40	0.37	↓	
					Tipping Point
9	Botswana	0.39	0.34	↓	Next Movers
10=	Algeria	0.27	0.32	↑	
11=	Kenya	0.35	0.32	↓	
12	Ghana	0.30	0.31	↑	
13	Libya	0.27	0.28	↑	
14=	Mozambique	0.25	0.26	↑	
15=	Angola	0.25	0.25		
16=	Zambia	0.29	0.25	↓	
17=	Cote d' Ivoire	0.23	0.25	↓	
18=	Senegal	0.27	0.23	↓	Transitional Economies
19=	Uganda	0.28	0.23	↓	
20=	Cameroon	0.24	0.23	↓	
21	Tanzania	0.24	0.22	↓	
22	Zimbabwe	0.24	0.21	↓	
23	Ethiopia	0.16	0.18	↑	
24	Suden	0.16	0.12	↓	

Tipping Point Index Methodology

Accenture developed the Tipping Point Index to assess the financial market readiness of 23 (24 in 2013) leading economies across Africa. To do this, a set of 29 variables were assessed across three main categories: financial infrastructure, consumer financial services and economic development factors. The underlying variables included indicators looking at existing financial market assets, economic growth rates and incomes levels, business environment and infrastructure. These were sourced from leading public institutions including the International Monetary Fund (IMF), World Bank, Consultative Group to Assist the Poor (CGAP) and World Economic Forum, and from leading research and commercial institutions such as Credit Suisse, Swiss RE, International Telecoms Union and Pyramid Research.

Compiling data across African countries can be challenging, so in some cases the latest available data or cross-references to additional sources have been used, or indeed excluded where no reliable data was available.

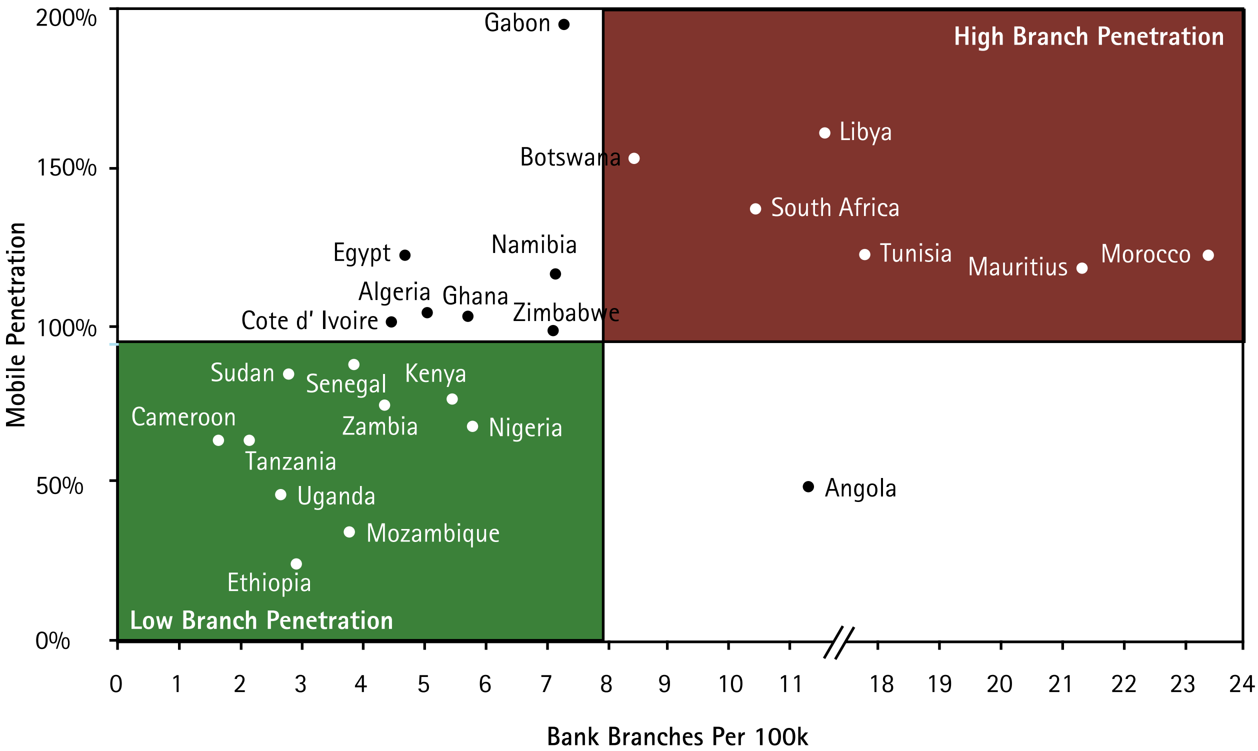
Once compiled, the data for each variable was compared across the country peer set, where a score of 1.0 was given to the highest performing country, and 0.0 for the lowest performer, with countries performing between the two scored according to their relative performance. The total score for each country was then determined by a simple average across all the variables.

Accenture also examined the performance of countries across the two dimensions of business environment and market attractiveness for financial services entrants. We identified each variable as being primarily associated with either business environment or market attractiveness, and calculated the performance for each country for these two indicators. For market attractiveness, however, we weighted the ranking on the basis of measures that identified the absolute size of the financial services market on the basis that larger economies offer more potential scale return for financial services companies.

While the Tipping Point Index identifies four major categories of development for financial markets in Africa, Accenture acknowledges that this cannot be looked at in isolation of other factors that affect financial markets. Among others, these factors include the demographics of the African population and the vast geographical terrain that affect the penetration of financial services. Accenture then went on to look at bank branch penetration and the mobile penetration as these are critical to providing financial services.

Figure 3: Africa's Penetration, 2012

Source – Accenture analysis based on data from the World Bank and Central Intelligence Agency[9]



There is a positive correlation between the positioning of a country on the TPI and the operating model used to roll out financial services and products.

There are a number of operating models that financial institutions and non-financial institutions can use to provide financial services and products in Africa. Our analysis shows that there is generally a correlation between the country's financial market development as depicted by the TPI and the type of operating model that is dominant in the country. In the current operating environment, Accenture identifies four models that are used for offering financial services and products.

Current Operating Models

Branch-Led Service Model

The Branch-Led Service Model is prevalent in Established FS Markets such as South Africa and Mauritius. It can, however, also prevail in the Forging Ahead category in countries where there is a high branch penetration as in Tunisia and Morocco. This model is most successful in countries where there is financial development and a well-established financial regulatory framework.

This model focuses on the bank's brand and physical presence to drive sales and services. For this model to be successful, banks maintain both low cost and high cost branches. Branches include those that are fully equipped as well as those that enable self-service and are supported by other distribution channels such as agents and direct channels. The range of financial services and products on offer vary from sophisticated products catering for the high value market segment to simple or low value products that address the needs of the low-income banking segment. Most large financial institutions such as Standard Bank and Barclays Africa Group have successfully run this model, although in recent years, there has been a move towards the Hybrid Service Model – as can be seen in the case studies.

Mobile-Led Service Model

The Mobile-Led Service Model is most prevalent in countries that fall in Transitional Economies as well as Next Movers such as Kenya, Uganda and Ghana. These countries have regulatory frameworks that enable other non-financial services providers to offer financial services and products.

The main objective of this model is to make additional services accessible to customers and to take advantage of economies of scale achieved on the distribution network. This model gives the Mobile Network Operator (MNO) an additional revenue stream, reduces churn, increases customer loyalty and brings innovation to the MNO. The model can be operated by the MNO or through a joint venture with an agent distribution network. The products are simple and primarily transactional. While Kenya's M-PESA is the most widely known service in Africa, other providers are becoming equally successful. Examples include MTN's Mobile Money, Econet's EcoCash and Orange Money.

There are a number of advantages offered by this model:

- MNOs have established trusted relationships with large numbers of customers already transacting on their networks.
- Customers have the means to access financial services and products on personal devices that they are familiar with.
- MNOs have large distribution networks that can reach the population living in rural and peri-urban areas.

Agent-Led Service Model

The Agent-Led Service Model is also most prevalent in countries that fall in Transitional Economies and Next Movers, but it can also be seen in Established FS Markets and Forging categories. In this model, a limited branch network is supported by a network of agents. Agents can be retailers, postal outlets or any other entity authorised to perform basic financial transactions such as balance enquires, cash deposits, cash withdrawals, bills and salary payments, fund transfers and mini statements. This model is still in development but is already present in countries such as Kenya.

In 2010, the Central Bank of Kenya (CBK) adopted guidelines on Agent Banking following amendments to its Banking Act that permitted third parties to provide services on behalf of banks. The Agent Banking Model was adopted as a way to bring mainstream banking closer to the unbanked and/or under-banked segments of the Kenyan population. Banks engage agents to offer specified banking services on their behalf in areas where they cannot physically be present.

Hybrid Service Model

This model involves a combination of branch, agent and mobile service delivery channels. The main objective of this model is to extend service offerings to new and existing customers. The model combines the bank's branch fulfilment capabilities with the technology and reach of mobile and agent networks. Many traditional brick and mortar branches are evolving towards the Hybrid Service Model as they complement their physical presence with additional channels such as agents and mobile.

Ideal Future State

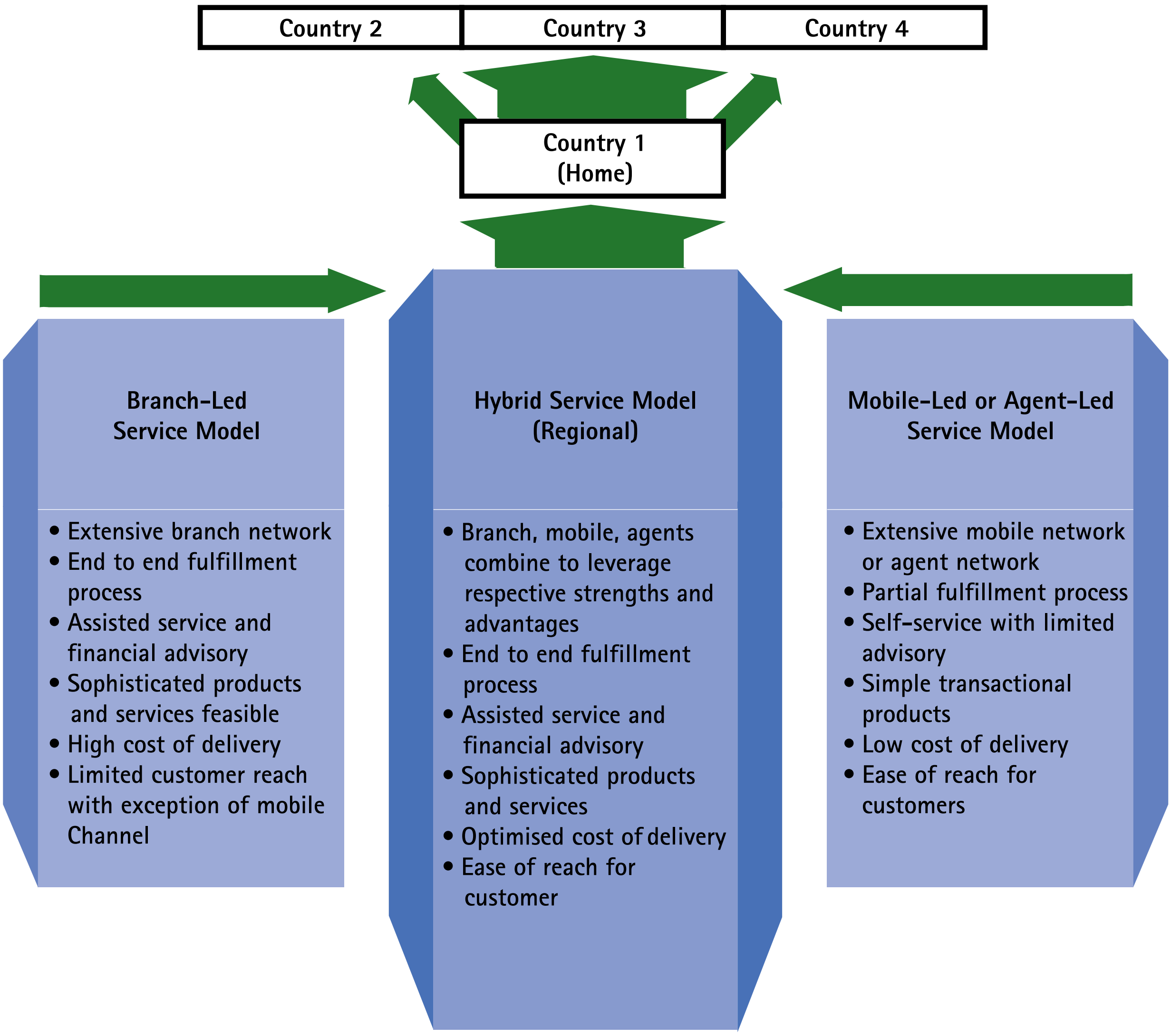
Due to the demographics of the continent, the vast land masses and for cost reasons, Accenture believes that an ideal future state for financial services in Africa will be the Hybrid Service Model. A step further to this would be the Regional Hybrid Model. For this model to be successful, financial institutions should have three essential elements in place:

- the ideal operating model,
- the ideal customer segment, and
- the ideal customer proposition.

The Ideal Operating Model

The Hybrid Service Model is ideal for both financial institutions and non-financial institutions that want to move up the value curve in providing financial services and products. For some banks in Established FS Markets and Forging Ahead, the Branch-Led Service Model has been implemented and is fully operational. However, this model has disadvantages in that it is expensive to roll out over vast land areas and it takes time to roll out to the large population in rural and peri-urban areas. Thus it is difficult for banks to successfully roll out this model to target the under-served segment of the African population. The Hybrid Service Model enables banks to take advantage of their branch fulfilment capabilities while at the same time utilising other channels such as mobile networks, retailers and agents to deliver financial services and products to a large section of the population that has been excluded from the formal financial sector.
This model may also adopt a Hub and Spoke approach, where for example, a hub branch in a rural area coordinates the field activities of mobile and other agents within a radius of 15-kms from that branch. According to CGAP, a three-way partnership between bank, MNO and agent, using the bank's financial cost efficiency, the MNO's transaction efficiency and the retailer agent's ease of acquiring customers, can yield a total cost position up to 60 percent below that of a traditional bank branch approach.[10]

Figure 4: Hybrid Service Model
Source – Accenture Analysis



A step further in our future state would be a Regional Hybrid Service Model. The Regional Hybrid Model will enable the same services and products across all the bank branches and channels in different countries of operation, as well as in different currencies. On the front end, this will allow customers to access services in a different country to which they reside, without the need for additional fees or different products and services. Customer will be able to enter into a bank branch and transact as they would in their own country of residence. They will be able to perform the same services as they would in their own country of residence. On the back end, the Regional Hybrid Service Model will centralise product design and development, and optimise managed services for processing transactions across countries of similar profile in regional centres.

The Hybrid Service Model is already being implemented but Accenture believes that it has not yet been fully utilised. Banks are slowly moving away from the Branch-Led Service Model only to the Hybrid Service Model. This is clearly illustrated in the two highlighted cases studies of South Africa's Barclays Africa Group Limited (BAGL) and Kenya's Equity Bank. BAGL is providing financial services through branches, ATMs and digital channels such as internet banking, cellphone and telephone banking. It is also adopting the Regional Hybrid Model with a presence in 12 African countries and its strategy *"to be the 'Go-To' bank in Africa"*.[11]

Equity Bank uses differentiated branches to offer services across various customer segments as well as makes use of partners such as MNOs and agents. Equity Bank is currently in the process of going further down the value chain by owning a mobile platform as a delivery channel for financial services to its customers. Recently, in May 2014, Equity Bank announced plans to roll out a Mobile Virtual Network Operator (MVNO), through its subsidiary Finserve. This is part of its Equity 3.0 strategy that focuses on strategic positioning of broadening financial access and deepening financial inclusion. Equity says they are *"not competing with telecom companies as we believe there is a lot for us to share with everyone"*.[12] Equity Bank has operations in Kenya, Uganda, South Sudan, Rwanda and Tanzania.

Case Study 1[13] – Redefining Customer Centricity with Mobility

Barclays Africa Group Limited (BAGL) formerly known as the Absa Group Limited, of which Absa Bank Limited is a wholly owned subsidiary, offers financial services through branches, ATMs and digital channels such as internet banking, cellphone and telephone banking. The UK Barclays PLC acquired a shareholding during 2006 in Absa Group Limited , and in 2013 Absa Group Limited acquired the operations of its parent in Africa to create Barclays Africa Group Limited. BAGL is the second largest banking group by assets in Africa. With 1,314 branches, the bank ranks among those with the largest branch presence in Africa. It is now redefining its customer value proposition by incorporating mobile channels into its operating model.

In South Africa, Absa Bank Limited (Absa) has over four million cellphone banking customers of which half are entry level banking customers. To service the disconnected rural areas, Absa pioneered Cellphone Banking Lite, a service which allows Absa and Vodacom customers to perform a host of transactions from their cellphones - even if they have no airtime. In 2008, Absa launched its money transfer service, CashSend, and in 2012, it had processed over R1 billion (US$118 million) transactions, mainly to rural areas in South Africa. More recently, Absa embarked on its first operational trial of a Branch-on-the-Move in the Eastern Cape, while the bank's In-Store Banking service was able to provide a cash-in service for basic transactions to the customer's doorstep.

Leveraging mobile technology and prepaid connectivity, Absa customers can open accounts remotely through an innovative application for data enabled smartphones and tablet devices. This means new customers can open an account and get a debit card in less than 10 minutes, from anywhere, anytime. The mobile Point of Sale system, called the Payment Pebble, allows merchants (small enterprises, sole proprietors and large enterprises) to accept MasterCard and Visa debit or credit card payments on the go using a phone or tablet.

Case Study 2[14] – Equity Bank Incorporates Other Channels to Supplement its Branch Channel

Access to formal financial services remains a big challenge in Kenya due to the long distances customers must travel to access financial services, and the time and money spent to do so. To reach potential customers outside mainstream banking, Equity Bank supplemented its brick and mortar branches with other service delivery channels such as agency banking and entered into partnerships with mobile networks.

Equity Bank has differentiated branches that offer services across various customer segments. Mobile branches service rural customers living in areas where a permanent location is not yet economically viable. A mobile branch manager and staff drive in a banking van to one of five sites each week, returning to the same "home" branch each evening. Regular branches serve Equity's core individual and small business clients and lastly, Prestige branches are for Equity's emerging affluent segment who have grown with the bank over time. Customers have to maintain a minimum balance of Sh 50,000 (US$5,800) to be eligible. The banking halls have a very different feel - they are quiet and spacious, well-appointed with comfortable seating where customer watch TV and refreshments are provided.

Equity also utilises a network of agents. An Equity Agent is a commercial entity that has been contracted by the bank and approved by the Central Bank of Kenya (CBK) to provide specific services on behalf of the bank. Equity was one of the first banks in Kenya to embark on Agency Banking and by the end of 2012, the number of Equity Agents stood at 6,344. Between 2011 and 2012 agency transactions grew by 96 percent and they accounted for 30 percent of total bank transactions. According to the bank, "the convenience of Agency Banking has led to this channel taking the lead as the most preferred delivery channel overtaking conventional channels like ATMs and branch over-the-counter transactions". The bank has expanded this model to other countries such as Rwanda and Tanzania.

Equity Bank also offers financial services through MNOs. M-KESHO, offered in partnership with Safaricom, is a bank account that allows customers to perform transfers between the bank account and the M-PESA system. Orange Money's Iko Pesa is a money transfer service that allows customers access to financial services using their Orange mobile phones. Other examples of services offered by Equity Bank include yuCash, Airtel Money and Eazzy 247.

Recently, in May 2014, as part of its Equity 3.0 strategy, the bank announced that it would launch its own MVNO, Finserv.[15] Equity says it would like to transform Kenya into the "cashlite" society if not "cashless" so that most transactions are carried out electronically. The group has stressed that it is not competing with telecom companies.

The Hybrid Service Model is also characterised by a branch network supported by a network of agents. The agents can be retail or postal outlets that perform basic financial transactions. This case study shows how Equity Bank is using third parties to reach customers that are outside its formal banking channels.

On the other hand, MNOs who want to move up the value curve and offer sophisticated financial services and products will be able to do so with the Hybrid Service Model. The Mobile-Led Service Model offers simple products and services that are mainly transactional in nature. As customers become more educated and informed, they want more value adding products than simple transactional products. Their needs become more sophisticated and they want their financial services providers to meet every aspect of their needs. Kenya is a great example of how the MNOs brought financial services and products to the under-served segment of the country.

Figure 5 shows how Kenya's M-PESA pioneered the country's digital journey towards financial inclusion. The concept moved from a simple transactional service of facilitating money transfers to offering more advanced products such as loans and savings products through products like M-KESHO and M-shwari which is discussed in Case Study 3. What has been most remarkable about the M-PESA operating model is that it successfully spearheaded Kenya's digital journey to financial inclusion.

Accenture strongly believes that the ideal future state of African banking will be achieved through application of a Hybrid Service Model.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Highlights of Kenya's Journey Towards Financial Inclusion

Kenya has used a combination of models to bring financial solutions to its low-income banking segment. Its success has been phenomenal, and to date, about 74 percent of the country's adult population makes use of mobile money services.

Figure 5: Kenya's digital journey began with the launch of M-PESA in 2007[16]

2007

- M-PESA, Kenya's first mobile money platform is launched by Safaricom
- Safaricom briefs Central Bank of Kenya regarding international Money Transfer

2008

- M-PESA facilitates bulk payments of salaries
- M-PESA customers can access cardless ATM withdrawal at PesaPoint ATMs
- M-PESA customers can access services at PostBank
- M-PESA's customers can receive money from the U.K through Western Union

2009

- Kenya Power customers can pay for electricity using M-PESA
- Micro-financier, SMEP, allows loan repayments and savings through M-PESA
- Kilimo Salama enables insurance through M-PESA
- Grundfos LIFELINK, allows rural residents to pay for safe water through M-PESA
- Yu Mobile (Essar Telecom) launches yuCash

2010

- M-PESA's M-KESHO is launched with Equity Bank
- Orange launches new mobile money deployment Iko Pesa
- yuCash enables international remittances through Equity Bank and allows customers to link their yuCash accounts to their Equity Bank accounts

2011

- Mobile Pay launches Tangaza Pesa that allows cash sending across networks
- Orange partners with Visa and Equity Bank to launch Iko Pesa Card
- yuCash launches a cardless ATM withdrawal with Equity Bank
- Airtel Money launched by Bharti Airtel
- M-Pesa partners wth I&M Bank on transfers, Kiva Zip on money transfers and starts Lipa Karo

2012

- CARE, Equity and Orange launch group savings and borrowings through Iko Pesa
- Kenya Airport Parking Services allows Airtel subscribers to pay for parking via Airtel Money
- Airtel Money users can receive short term loans from Faulu Microfinance, they can also send money free of charge to any network in Kenya
- Airtel partners with Postal Corporation of Kenya to offer Airtel Money Agency to 473 Posta outlets.
- M-KOPA begins to offer solar-powered lighting and mobile charging to rural Kenyans via M-PESA
- Safaricom partners with Kopo Kopo on 1st M-PESA Buy Goods (C2B payments) aggregator
- M-Shwari accounts launched by Commercial Bank of Africa
- yuCash customers can use PostBank, yuCash partners with Cooperative Bank

Industry Convergence

A key success factor in Kenya's journey to financial inclusion has been the cooperation between MNOs and players in the financial services sector. The initial partnership started with M-PESA in 2008 when it partnered with PostBank. M-PESA then went on to partner with other providers such as Equity Bank and Small and Micro Enterprise Programme (SMEP), a Kenyan micro-financier.

Regulatory Changes

A number of regulatory changes were introduced in Kenya as more players started to offer financial services. Initial scrutiny started in 2008 when an audit on M-PESA was called for by the Minister of Finance. This was followed by an introduction of Guidelines on Agent Banking in 2009. These guidelines allowed third parties to provide services on behalf of banks. In 2011, the National Payment System Bill granted the Central Bank of Kenya (CBK) power of oversight over the payments systems. And in 2013, the government introduced a 10 percent tax on money transfer services. The CBK also held public consultation on Electronic Money Regulations, Regulation for the Provision of Electronic Retail Transfers and Anti- Money Laundering Guidelines for the provision of Mobile Payment Services.

The Success Continues

Despite increasing regulatory scrutiny and increasing competition, Kenya's mobile financial services market continues to grow. According to the CBK,[17] in the nine months to September 2013:

- Mobile money transfers rose by 22.4 percent to hit Sh1.37 trillion (US$15.9 billion).
- The value of transfers was about 88 percent higher than that of 2012.
- Mobile money transfers increased access to formal financial services to 67 percent.

The growth of mobile financial services continues on the back of increased usage of mobile phones for financial transactions and the adoption of new products. According to the CBK Financial Sector Deepening survey, 76 percent of the rural population indicated that their nearest financial service provider was a mobile money agent. According to the Communications Commission of Kenya (CCK), the expansion in mobile money usage occurred in areas with limited banking services.

Case Study 3[18] – M-PESA's Phenomenal Growth Story

Launched in 2007, Safaricom's M-PESA is a mobile peer to peer service designed to meet the needs of the unbanked segment and people outside the formal financial system. M-PESA gives customers the capability of performing financial transactions using a mobile phone without the need of having a bank account. At the core of the process is an M-PESA bank account in which the float is managed by agents who play a critical role in facilitating financial transactions.

Since its launch, M-PESA has experienced phenomenal growth across all metrics. In the first three years from launch, M-PESA grew its customer base to more than nine million, representing 23 percent of the entire population and 40 percent of Kenya's adult population. By the end of 2013, that number had grown to 17.1 million, representing about 50 percent of the adult population in Kenya. In the year to FY13, the number of agents grew by 26,000 to 65,547. Total revenue grew by 29.5 percent year-on year to Sh21.8 billion (US$253 million) and now represents 18.5 percent of Safaricom's total revenue. M-PESA has become the major non-voice revenue driver for the group.

M-PESA's phenomenal growth has been the result of continued growth in active customers and the broadening of it services and products. The company has partnered with third parties and expanded service offerings from a simple value proposition to various transactions such as savings, loans, payments and international transfers. Examples of products include M-KESHO, an Equity Bank account that is managed through a cellphone, and M-Shwari, which was launched with Commercial Bank of Africa (CBA), allowing customers to save money, earn interest and get emergency loans via a cellphone. New products have not only stimulated demand but have increased the volume of transactions, and thus enabled M-PESA to grow its revenue and bottom-line.

For financial services providers in Africa, M-PESA has demonstrated the value of leveraging mobile technology to extend financial services to the low-income banking segment. It has also demonstrated "*the need for a low-cost transactional platform that enables low-income customers to meet a range of payment needs*".

The Ideal Customer Segment

In addition to the ideal operating model, Accenture believes that financial institutions will realise their full potential if they target the ideal customer segment. Africa has a large population that has been excluded from participating in the formal financial sector due to a number of reasons. This segment constitutes 74 percent of the African population and is mostly unbanked or under-banked (the low-income banking segment). The key to success in Africa is financial inclusion, i.e., bringing banking services to those that fall outside mainstream banking.

Banking Africa's Low-Income Segment

There are about 400 million people who fall into the low-income banking segment in Africa.[19] These people earn below median incomes and have little or no financial assets but represent a potentially bankable segment of the population. This segment typically includes small-scale farmers, students, traders, craftsmen and women, who fall outside mainstream banking and, largely reside in the rural or peri-urban areas. As it is costly to build adequate infrastructure to service these people, they often travel long distances to access financial services at a significant personal cost in terms of time and money. In addition, the complexity of traditional banking products do not make them attractive to this segment.

According to the World Bank,[20] 81 percent of adults without a formal account in SSA cite a lack of sufficient money as the main reason for not having a formal account. Almost a third (30 percent) of respondents cite cost, distance and documentation requirements as reasons for not having a formal account.

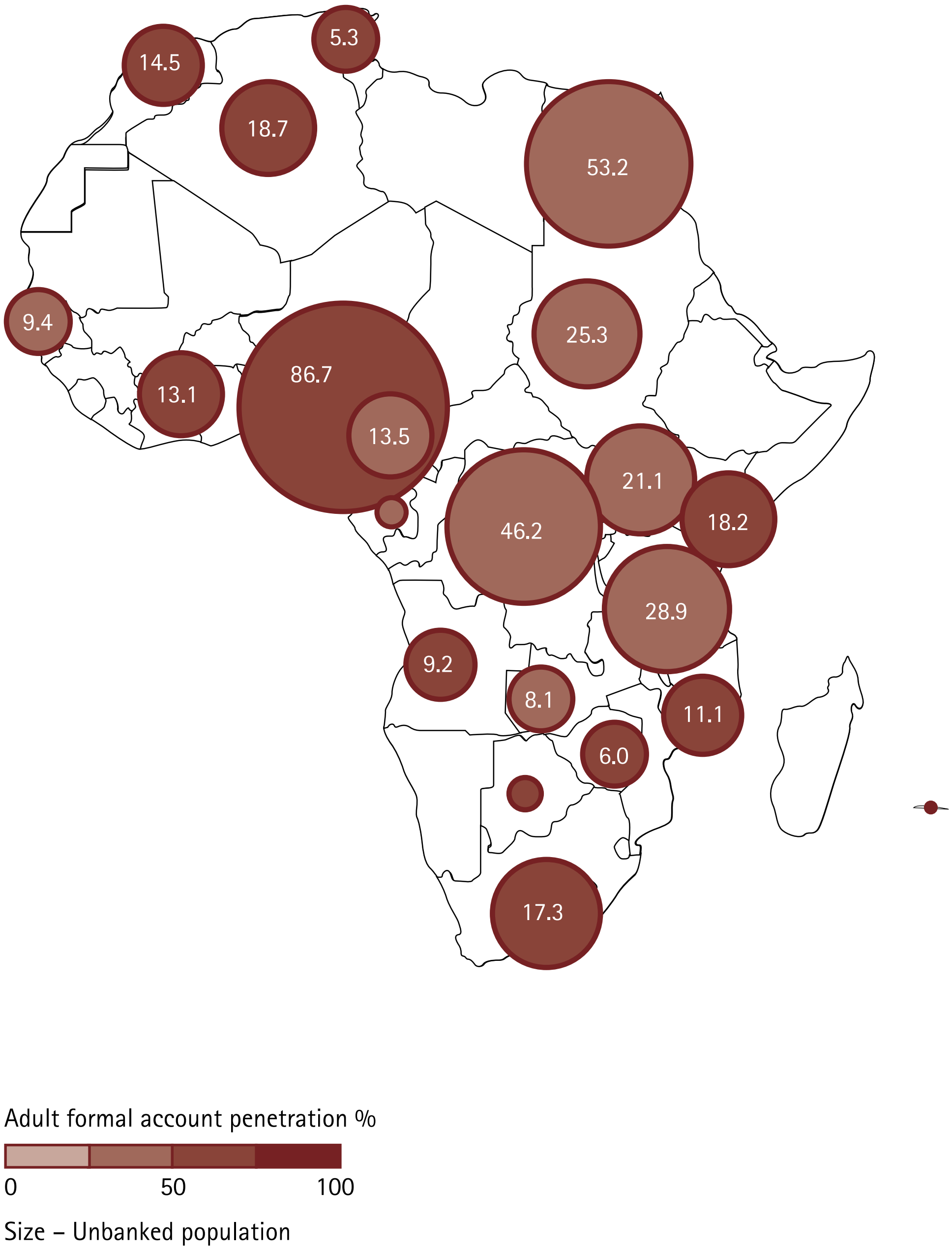
Bringing this segment into mainstream banking is challenging as:

- Most of these customers are out of reach of existing distribution channels.
- They reside across vast remote areas where it is expensive to build physical scale.
- They frequently have low balances and make limited use of services, impacting service provider revenues.

Financial services companies that exclude this segment will miss out on huge growth opportunities. If they do not cater for this segment, non-financial services providers such as telecoms and retailers, will continue to gain dominance. Financial services companies need to act now in order to realise the growth opportunities identified in our Tipping Point analysis.

Figure 6: Size of the Unbanked Segment in Africa

Source – Accenture analysis based on data from the World Bank



No data available for Cote d'Ivoire, Ethiopia, Libya and Namibia

The Ideal Customer Proposition

It is critical to have the ideal proposition that is easily accessible and speaks to the customer's wallet size and needs. Banks often bundle products, making them difficult to compare or for customers to understand what is being offered. Accenture believes there are four key features that characterise a suitable customer proposition for the low-income banking segment. These are accessibility, affordability, relevance and simplicity.

Accessibility

About 60 percent of Africa's population lives in rural areas with little or no access to transport. These customers often travel long distances at a great cost to them. Accessibility is thus key to selling to this segment and this is one of the main reasons that mobile financial solutions have been successful in countries such as Kenya, Uganda and Tanzania. Financial services companies can extend their reach by complementing their physical branches with channels that are able to reach critical mass at a much lower cost.

Affordability

According to the World Bank Poverty database,[21] about 70 percent of Africa's population lives on less than $2 per day. Price is an integral part of customers' decision when selecting financial services and products. Customers want services and products that are not only available, but are within their price range. Financial services institutions are able to offer affordable services and product when they lower their cost to serve.

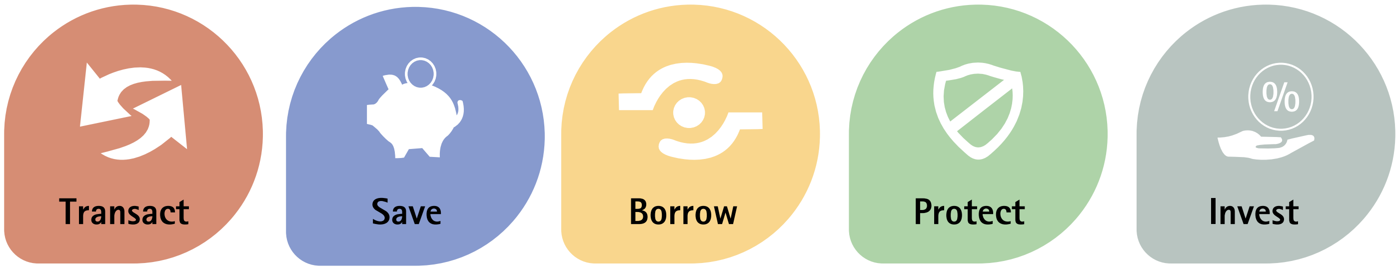
Relevance

Customers want products that are relevant to them and that meet their needs and wants. Often financial service providers bundle products, of which, not all address the customers' needs. In this segment, customers have simple needs such as to transact, save, borrow, protect and invest. The services and products on offer should address these needs.

Simplicity

Simplicity is one of the major drivers of product selection in this segment. Customers want products that are easy to understand and which they can relate to. Word of mouth is still one of the best marketing tools in Africa. When customers understand the product, they can speak out to family, friends and the community at large.

Accenture also believes that the right customer proposition will have products and services that meet customer specific needs. Accenture has identified five basic service offerings that will assist banks to better respond to customer needs in this segment.



Transact

Low-income customers require products that will enable them to perform simple financial transactions that meet their needs such as cash withdrawals, cash deposits, purchases of prepaid airtime or water, and bill payments for municipal or retail accounts. Key features for transactional products in this segment are low account opening costs, low transacting costs and low minimum balance requirements.

Remittances are also popular transactions for this segment. Money transfers have been successfully captured by MNOs such as Zain and money transfer providers such as MoneyGram and Western Union. Kenya's Zain launched a banking service called Zap-M in 2009. With operations in 16 African countries serving over 42 million customers, Zain is famous for its "one network" borderless mobile network in Africa. Zain's Zap mobile money services allow customers to make cash transfers, deposits and withdrawals. Customers can pay for goods and services, send and receive money from any bank in the world using their mobile phone. Zap's partner banks are Citibank and Standard Chartered Bank.

Save

There is need for greater financial literacy in this segment when it comes to savings. The majority of people still prefer to save through traditional structures such as family, community groups or keeping money in their homes. An opportunity exists for banks to offer small value savings products or micro savings products. A number of banks and MNOs are already offering such solutions. Some of the key features of these saving products are minimal costs, low minimum balance requirements, ease of access and limited lock-in periods. In October 2013, Zimbabwe's Econet Wireless announced the launch of EcoCashSave, which allows EcoCash customers to transfer money from their eWallets to an interest bearing account.

Borrow

Customers in this segment often visit a bank or a financial institution when they have an actual need for money. In most cases, customers borrow using existing traditional structures such as informal micro lenders (also known as loan sharks) who take advantage of their needs and charge exorbitant fees and rates. Although banks have already begun to offer small value loans or micro loans, Accenture believes that there is an opportunity to offer competitive products in this area. Some of the features of such products are cheaper interest rates than those prevailing in the market or those offered by the informal sector, quick approvals and easily accessible funds. These products should address specific needs such as consumption needs, working capital, etc.

In 2012, Faulu Kenya and Airtel launched a partnership called Kopa Chapaa. Kopa Chapaa allows Airtel Money customers to access short term and cheap loans from Faulu Kenya. The loan is immediately available on the customer's phone and repayments are automatically deducted from the customer's Airtel Money account.

Protect

Protection is done through banassurance offerings. Although consumers in this segment do not go to banks expecting to buy insurance, bancassurance has opened up possibilities for banks to offer insurance products through their own channels or in partnership with other providers such as MNOs or retailers. Consumers in this segment want simple insurance that addresses their day to day needs, such as motor vehicle insurance or insurance that assists in emergencies such as funeral or personal accident cover. The insured value and premiums should be low.

Invest

Investment products for this segment should be simple investment products, with a low risk option and flexible instalment. Customers usually invest to meet long term objectives or to build safety nets for unforeseen events. A good example of a long term objective is investing for tertiary education. Customers start investing a minimal amount when their children are still young to ensure that they can pay for their tertiary education.

Like other products for this segment, the cost of running the account and monthly investment requirements should be low. Customers may not have predictable income streams and flexibility in investment products is critical. Customers should be able to easily access their investments when they need to.

Technology is evolving and is enabling customers to access financial services and products through the channel of their choice at any time. In the last decade, banks in Africa have increasingly complemented their physical infrastructure with more accessible digital channels such as ATMs and mobile phones. Technology has enabled financial services and products to become more accessible and much cheaper as service costs have declined. For Africa, the digital revolution has taken a much more interesting turn as service providers use it to reach the unbanked and under-banked segments of the population. The cross pollination between financial services institutions and other service providers has given rise to the Hybrid Service Model. Accenture believes that the future of Africa's financial services will be well served if financial services providers utilise the Hybrid Service Model.
For the financial readiness and growth potential of financial services in Africa highlighted by the TPI to be fully realised, financial services institutions need to take into consideration the demand side. A huge opportunity exists in the low-income banking segment with 74 percent of Africa's adult population currently unbanked and falling outside mainstream financial services. For countries that are in the Established FS Markets and Forging Ahead categories on the TPI there is potential to lower costs and reach critical mass by operating a Hybrid Service Model. For countries in Next Movers and/or Transitional Economies categories, there is also opportunity to offer more and more sophisticated products by operating a Hybrid Service Model. Thus Accenture sees the Hybrid Services Model as a win-win operating model for both financial services institutions and non-financial services providers.

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Accenture is a global management consulting, technology services and outsourcing company, with more than 293,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$28.6 billion for the fiscal year ended Aug. 31, 2013. Its home page is www.accenture.com.

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