

STATE OF THE DFS INDUSTRY LAUNCH - ZAMBIA 2018

Intercontinental Hotel
Lusaka – 11th April 2019

About UNCDF and Bank of Zambia



The UN Capital Development Fund (UNCDF) launched MM4P in 2012 to ensure that the opportunities and benefits of digital finance would reach low-income people in difficult markets.

The Bank of Zambia 2016-2019:
Strategic Objective No. 3: ***“To increase formal financial inclusion by 16% percentage points in order to contribute to enhanced living standards.”***

The impact we want to see

DFS STAKEHOLDERS



Proving there is a business case to service last mile customers with digital financial services



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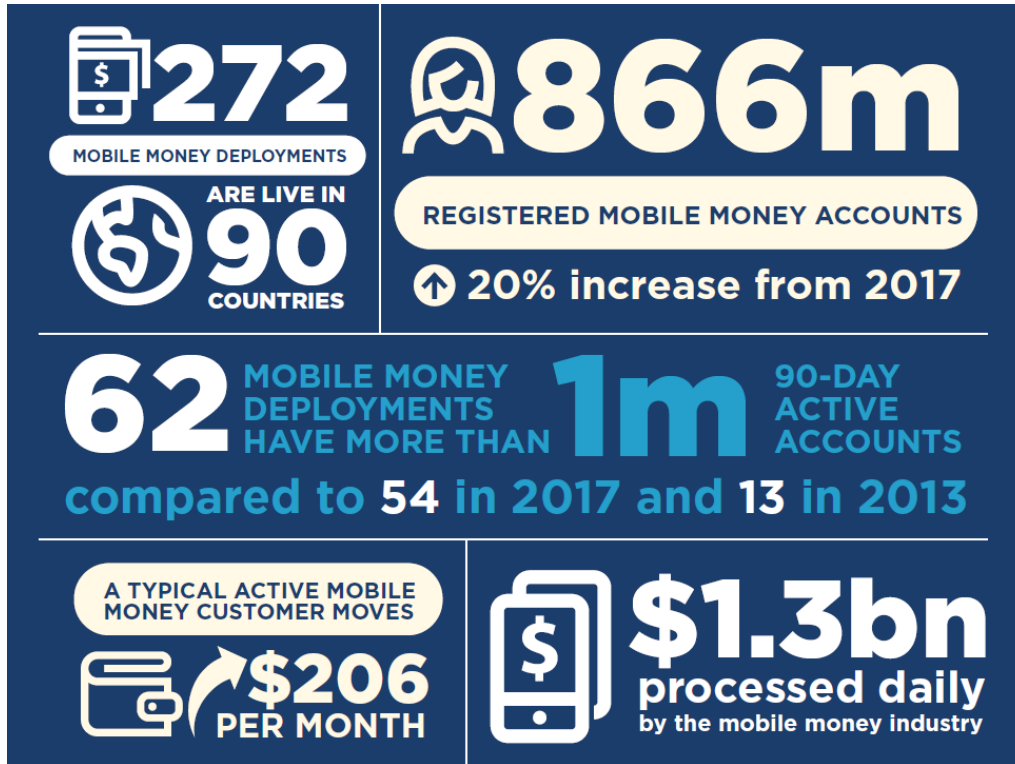
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3. Baseline - Key statistics on Zambia
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6. Challenges facing DFS
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Key findings



INDUSTRY

Global state of mobile money - 2018



- 272 Mobile money deployments are available in more than **90** countries around the world.
- Total registered mobile money accounts grew by **143M** customers in **2018**
- Digital transaction value grew at more than **twice** the rate of Cash-in/cash-out transactions
- Increased adoption of smartphones & rise in number of FinTechs focused on digitization of various sectors of the economy.

Source Figure based on GSMA *State of the Industry Report on Mobile Money 2018*

2 PROVIDERS IN ZAMBIA ARE PART OF DEPLOYMENTS IN THE WORLD WITH MORE THAN 1M 90-DAY ACTIVE ACCOUNTS

Background & methodology

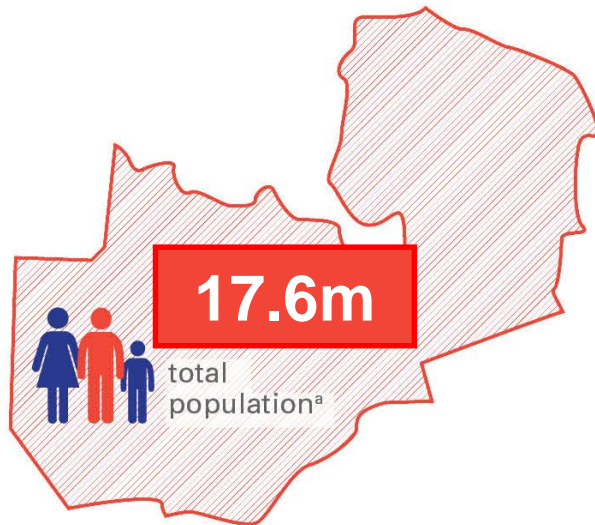


PARTICIPATING PROVIDERS:



Baseline – Key statistics in Zambia

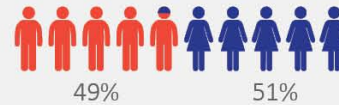
POPULATION AND MOBILE PHONE PENETRATION



Adult population:^a  **9.8m**

Financial inclusion rate:^b **59.3%**

Male/Female split:^a



Rural/Urban split:^a



Mobile penetration rate:^c



86.9%



National Network
Geographical Coverage

^a UN World Population Prospects, 2018

^b FinScope, 2015 (This includes both formal and informal financial inclusion)

^c ZICTA, <https://www.zicta.zm/Downloads/publications/ZICTA%202018%20NATIONAL%20ICT%20SURVEY.pdf>

Zambian DFS market at a glance

16.5M

REGISTERED
DFS ACCOUNTS



89%

growth in active
DFS accounts

46M

TRANSACTIONS
PROCESSED BY
AGENTS



478 agents per
100,000 adults

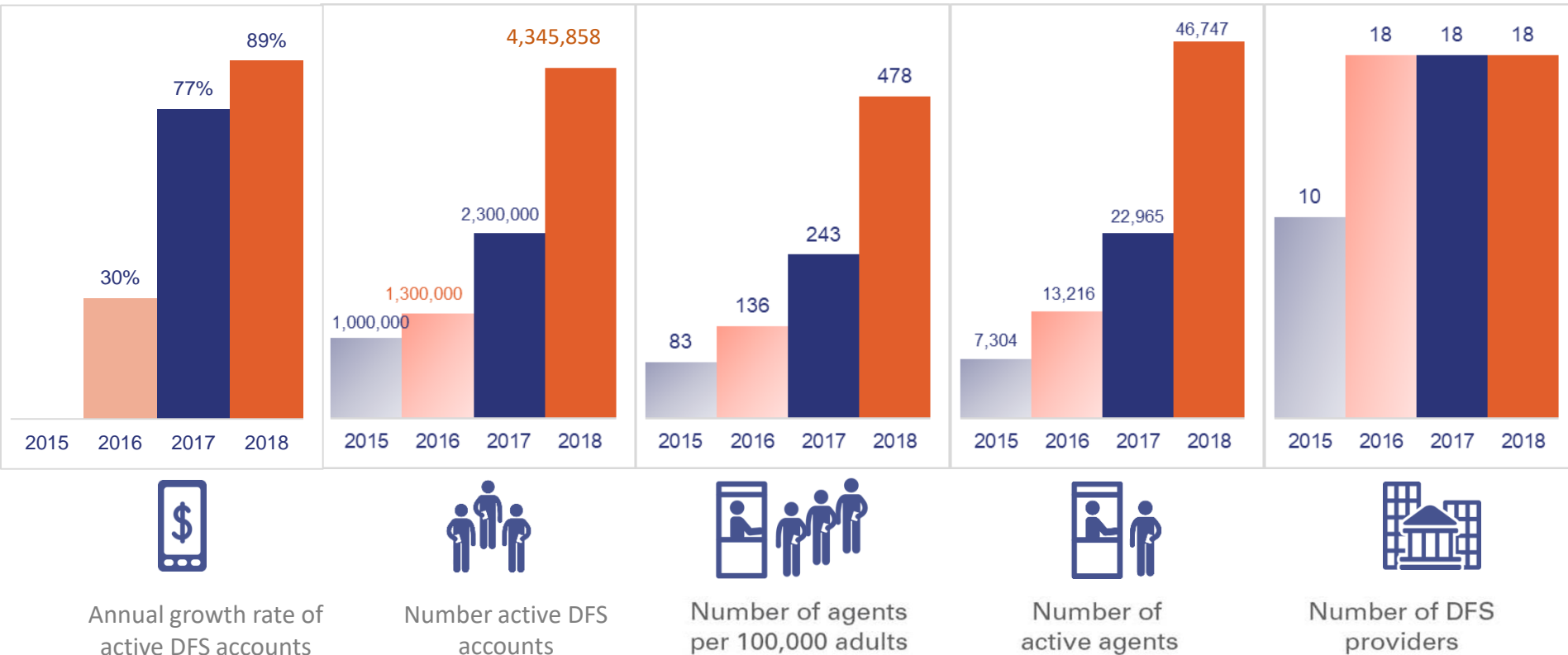
46,747

ACTIVE AGENTS

\$ 589.9M

Value of transactions processed
by agents

Growth of the Zambian DFS market






The Zambian DFS market continues to show positive growth across various indicators.

- Number of active DFS accounts grew by 89% Year-on-Year largely driven by significant growth by MNOs.
- Active agent networks grew to meet the increasing demands of a growing active customer base.

Key findings- Providers



Product offering by providers

Provider Type	First generation Products & Second Generation Products	
 <p>Mobile network operators</p>	<ul style="list-style-type: none"> • Person-to-person transfers • Cash-in • Cash-out • Airtime purchases • Bill (utility) payments • International remittances • Loan disbursements 	<ul style="list-style-type: none"> • Loan repayments • Digital loans (Microcredit) • Bulk payments • Merchant payments
 <p>Mobile banking</p>	<ul style="list-style-type: none"> • Person-to-person transfers • Airtime purchases • Bulk payments • Bill (utility) payments • Push (to) and Pull (from) account 	<ul style="list-style-type: none"> • Merchant payments • Internet banking
 <p>Third-party providers</p>	<ul style="list-style-type: none"> • Formal OTC Money transfers • Cash-out from bank account • Airtime purchases 	<ul style="list-style-type: none"> • Bill (utility) payments • Merchant payments)

- **Continued growth and uptake of 2nd Generation products.** Number of active users of 2nd generation products grew from 1.3M in Dec 2017 to 2.3M in Dec 2018.
- Digital loans showed the highest growth rate in second generation products from 2017 to 2018 with more than \$5.1M disbursed in Dec 2018 alone.
- **Average number of employees working in DFS sections doubled.** 72% of staff are involved in agent network management.



What has changed? What has stayed the same?

CHANGED IN THE DFS

- **Partnerships:** Growth of partnerships between FSPs and Non-FSPs.
- **Growth of 2nd Generation products:** Adoption and usage of 2nd generation products especially digital loans and Bank2Wallet
- **Customer education efforts – BTL:** Improved direct-marketing initiatives resulting in high active customer base growth.
- **Growth of Fintech / Innovation:** Emerging Fintech/Innovation industry.
- **Expansion of agent networks** to increase access to DFS.

REMAINED THE SAME

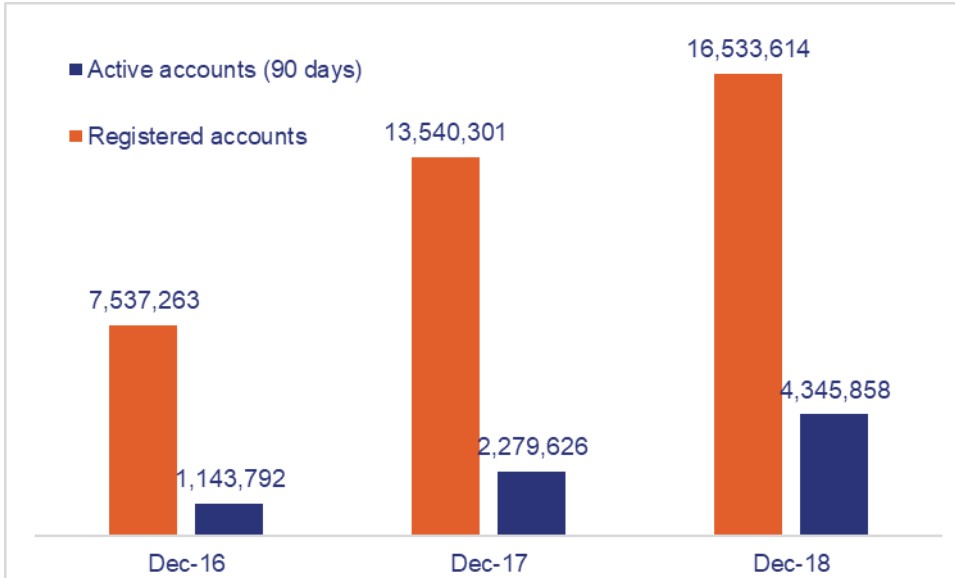
- **Product development process.** There is still a need for providers to include customers more in the product development process.
- **Slow adoption of Bank DFS products.** A less aggressive distribution model by banks has led to slower adoption of DFS products provided by banks.
- **Liquidity Management:** Even though agent networks has expanded, liquidity still remains a barrier particularly in rural areas.
- **Inadequate use of data for decision making:** There is still an inadequate use of data to make decisions and inform go-to-market strategies..

Key findings - Customers

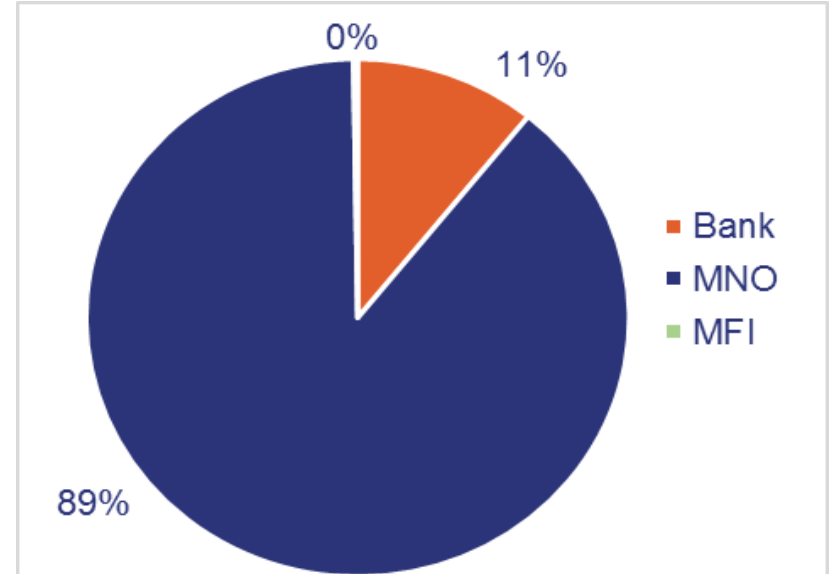


CUSTOMERS

Registered and active accounts



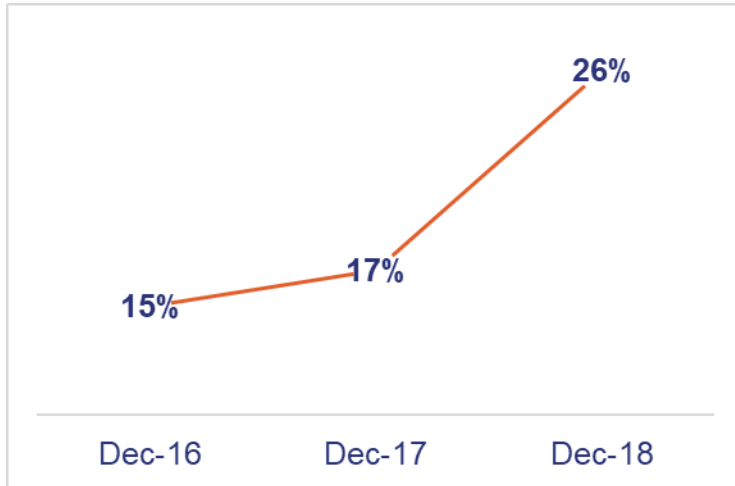
Number of registered and active DFS accounts



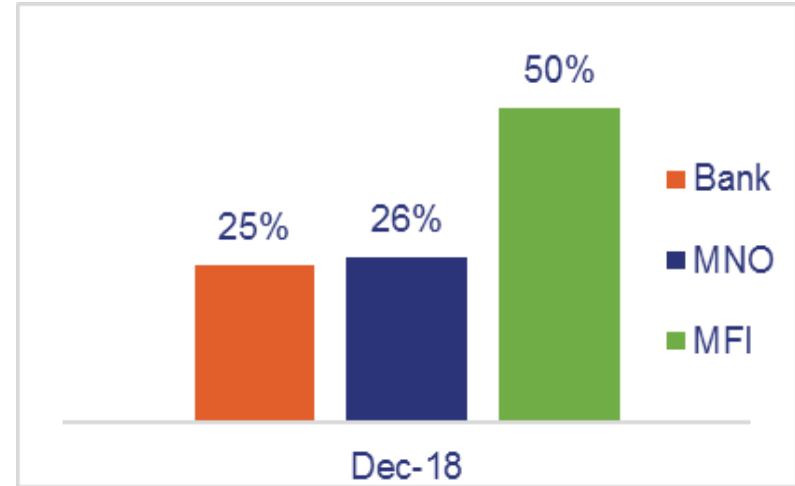
Market Share – active DFS accounts by provider type (Dec 2018)

- Between Dec 2017 and Dec 2018, number of active DFS accounts **grew by 89%**.
- The growth of active DFS accounts in the market has been largely driven by MNO growth. **MNOs market share of active accounts grew to 89% in Dec 2018 from 62% in Dec 2017, while banks share of active accounts declined from 34% in Dec 2017 to 11% in Dec 2018.**

DFS customer activity rates



Account activity rates

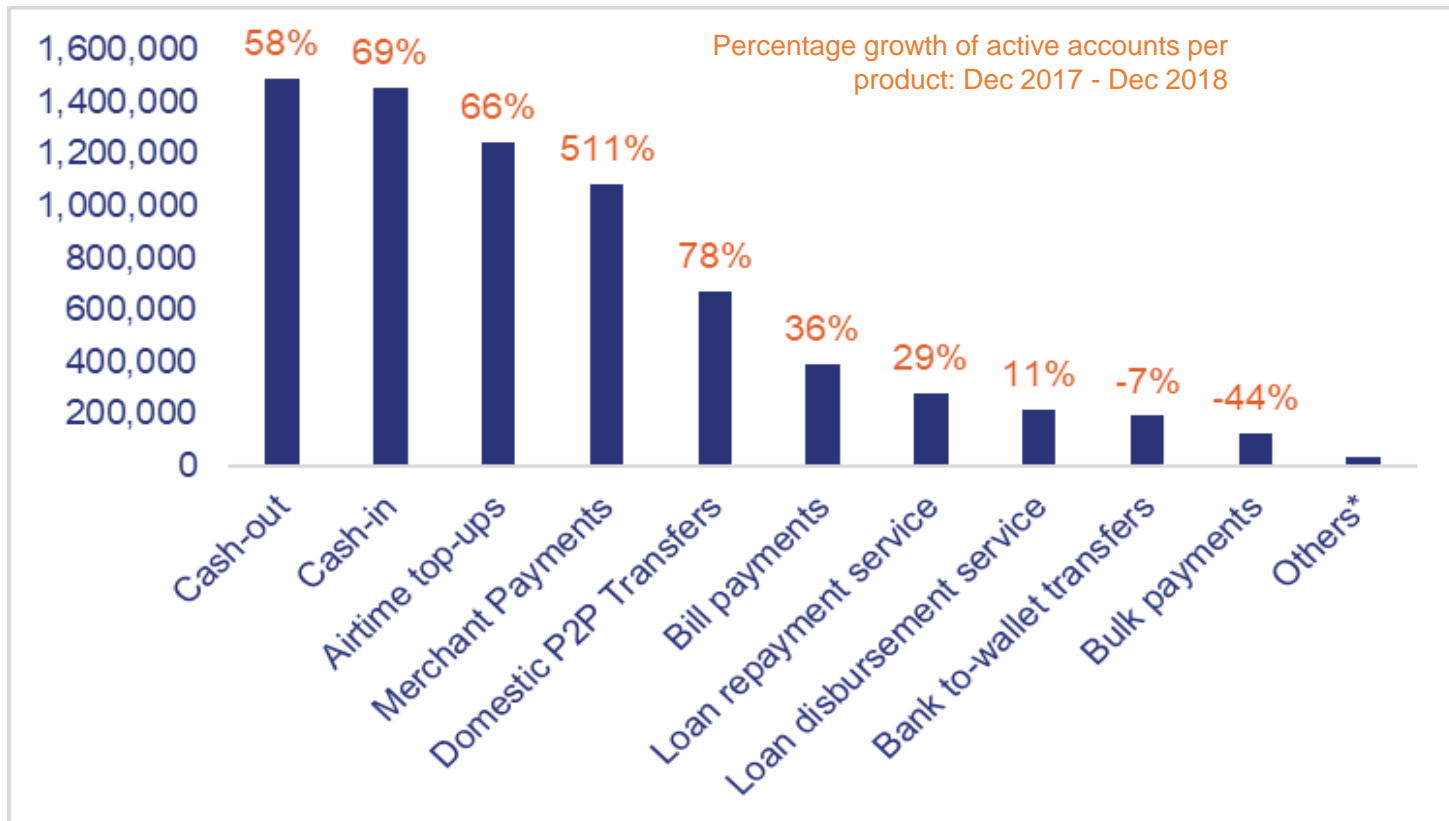


Account activity rates by provider type (Dec 2018)

While there is growth in number of active DFS accounts Year-on-Year, overall account inactivity still remains an issue for providers with over 70% of registered accounts inactive. This suggests that there is a need for providers to:

- Leverage data analytics for insights on customer behavior and segments.
- Increase consumer education efforts – *BTL activities, Direct marketing*
- Customer incentives focused on driving usage

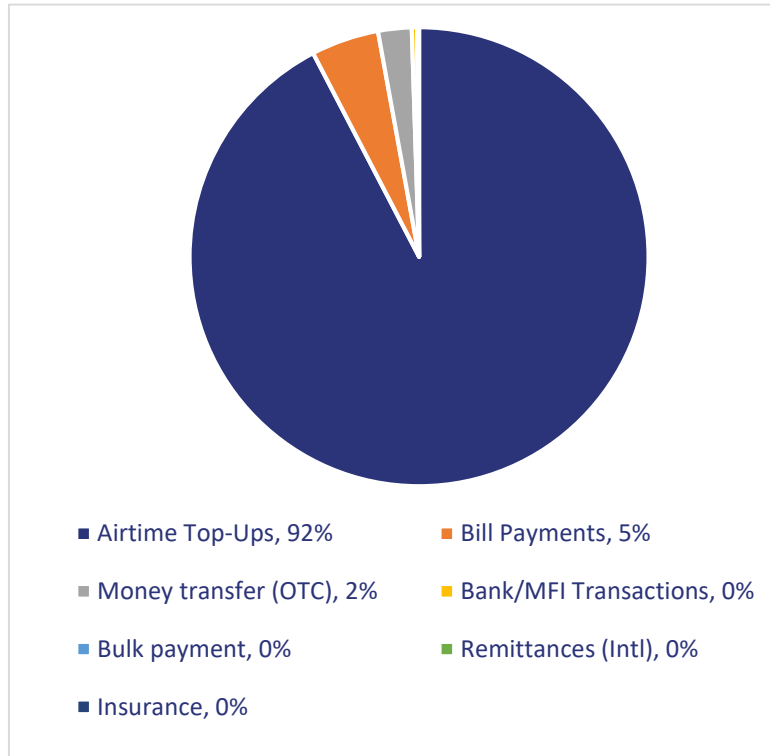
Active accounts by product type



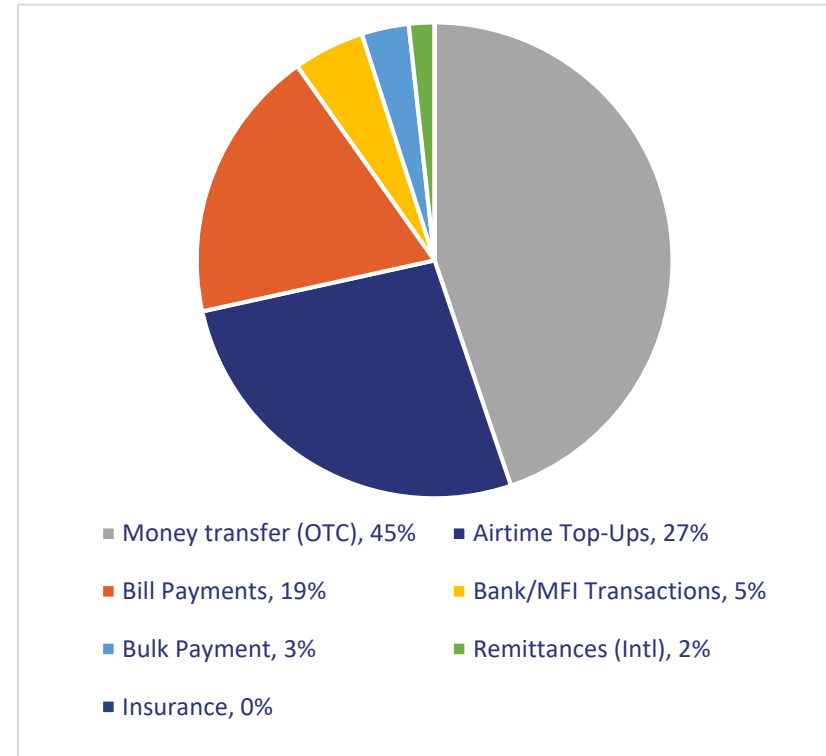
- Overall growth on active accounts by product type.
- **Increased Cash-in and less Cash outs highlights increased trust in DFS and possible use of wallets for store of value**
- Growth of 2nd Generation products particularly digital loans, merchant payments

Over-the-Counter (OTC) transactions

Volume of OTC transactions - 2018

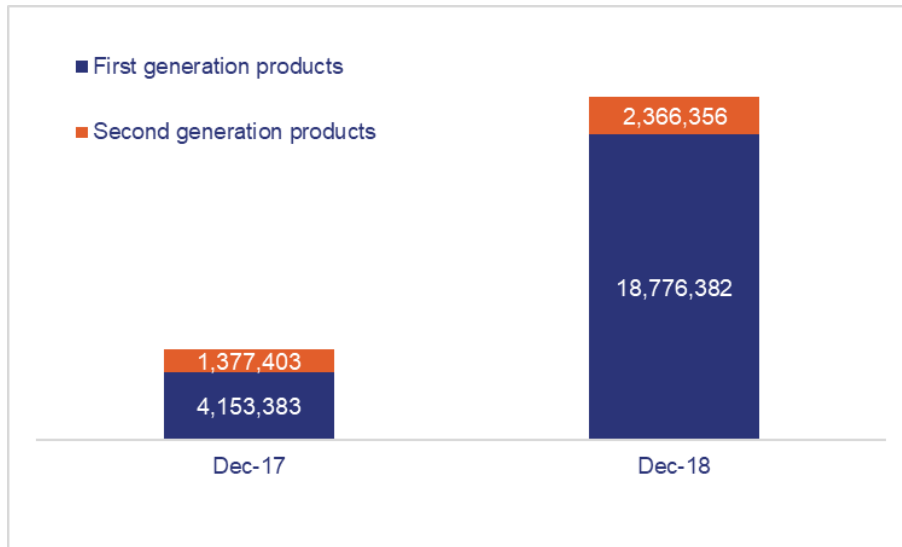


Value of OTC transactions - 2018

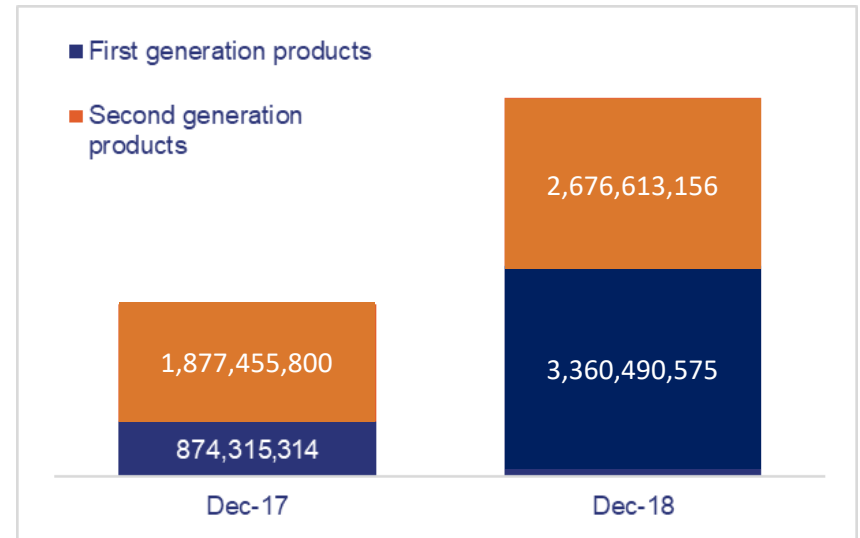


- Airtime transactions are 92% of transactions conducted by agents OTC.
 - This suggests that providers with accounts can leverage agents to convert OTC customers to DFS account holders.
- Even through OTC transactions dropped 69%, they still contribute 45% of value at agent locations.

1ST VS 2ND Generation products



Volume of 1st and 2nd generation transactions



Value (ZMW) of 1st and 2nd generation transactions

- **Both value and volume of 2nd generation products significantly in Dec 2018. Growing by 43% and 72% respectively.**
- This suggests that the DFS market could be reaching a point of maturity resulting into providers focusing on increased number of transactions per active account and also exploring more complex DFS products.

Key findings - Agents

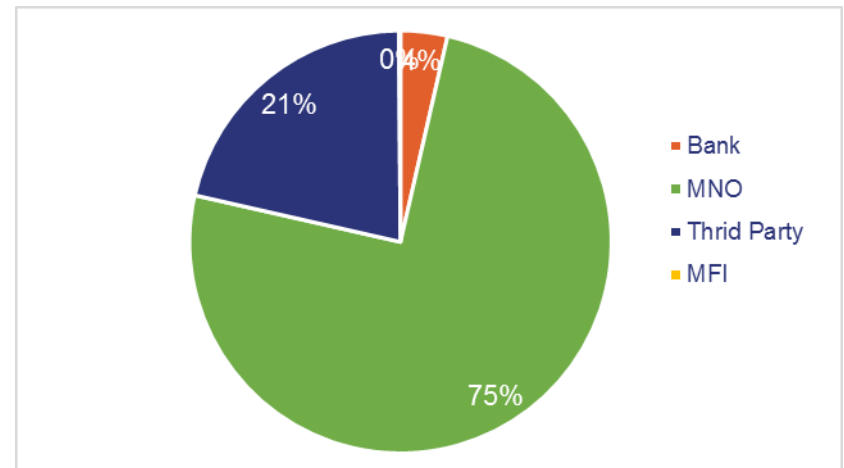


AGENTS

Active agents



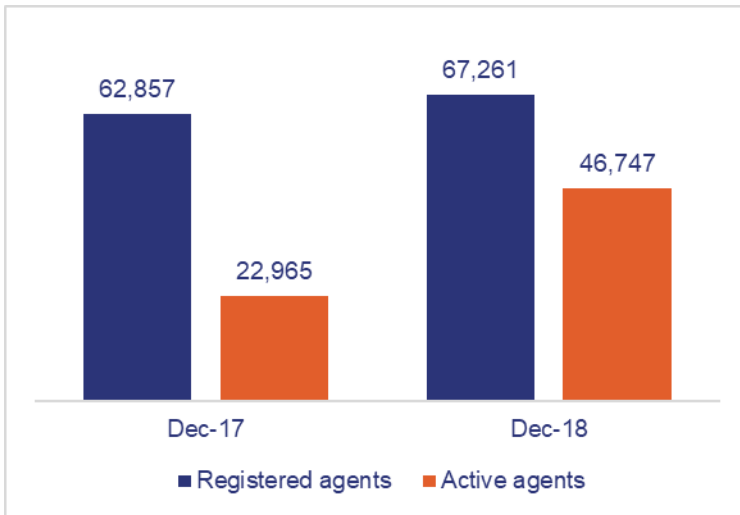
December 2018



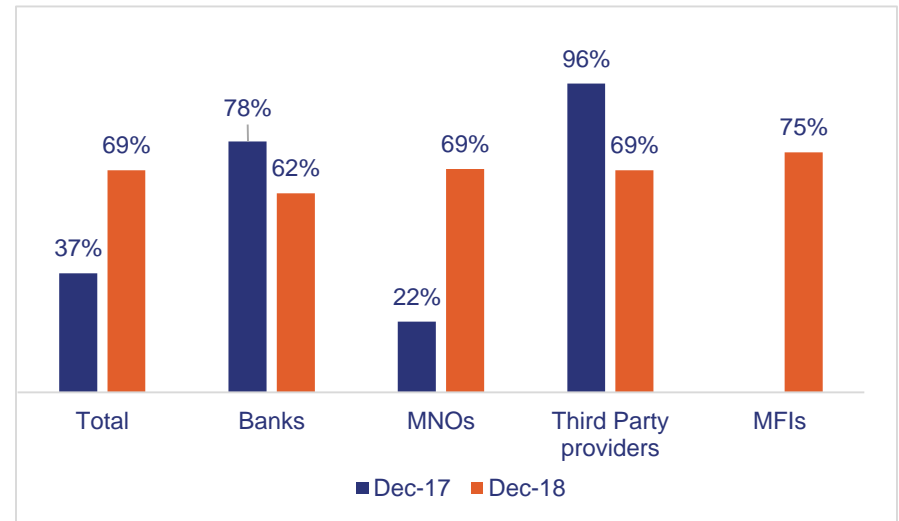
Market share – active agents by provider type

- Between Dec 2017 and Dec 2018, number of **active agents grew by 104%** to support the needs of the active customers that grew by 89% over the same period.
- Active agents per 100,000 of the population grew from **243 in 2017 to 478 in 2018**.
- MNOs' market share of active agents grew from **56% to 75%**, while 3rd parties' share declined from **42% to 21%**. Banks' share of market marginally increased from **2% to 4%** over the period Dec 2017 to Dec 2018.

Agent activity rates



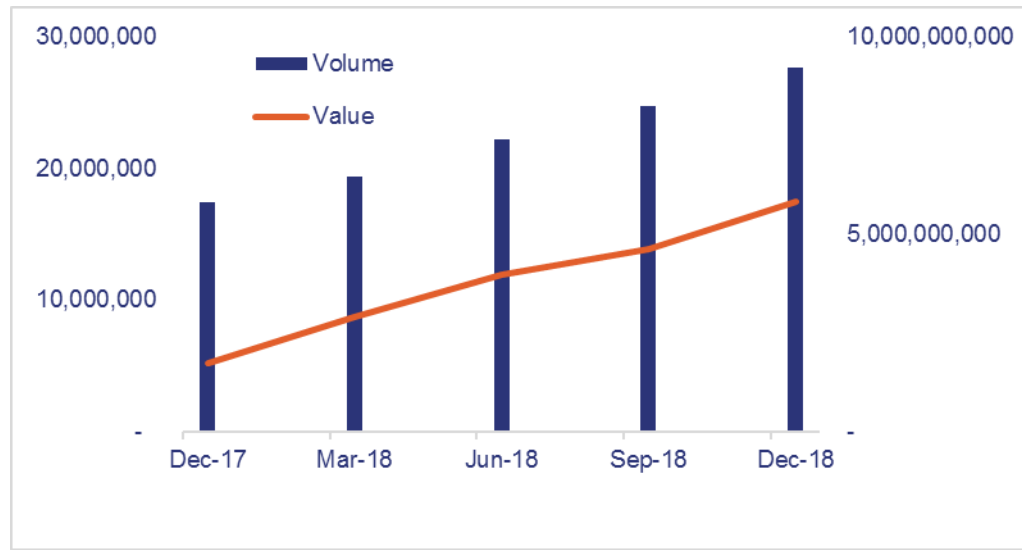
Registered and active agents



Activity rate by provider type

- Between Dec 2017 and Dec 2018, registered agents grew by 8% while active agents grew by 104%.
- This suggests that providers prioritized agent activity over agent acquisition. This also suggests that increased active agents will drive a more than proportionate growth in active customers.

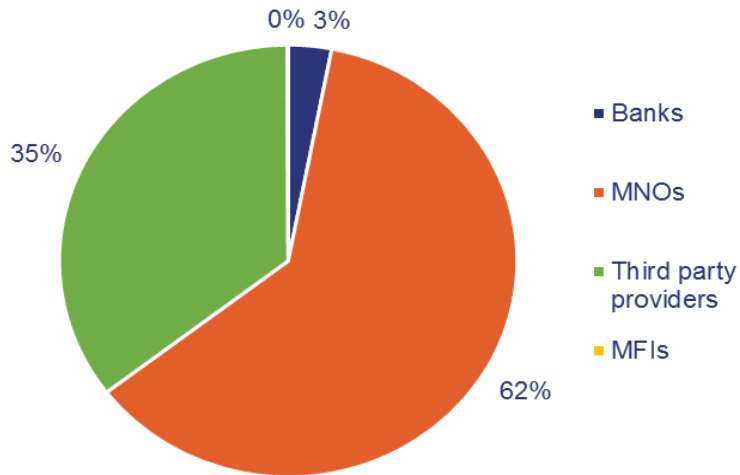
Volume & value of agent transactions



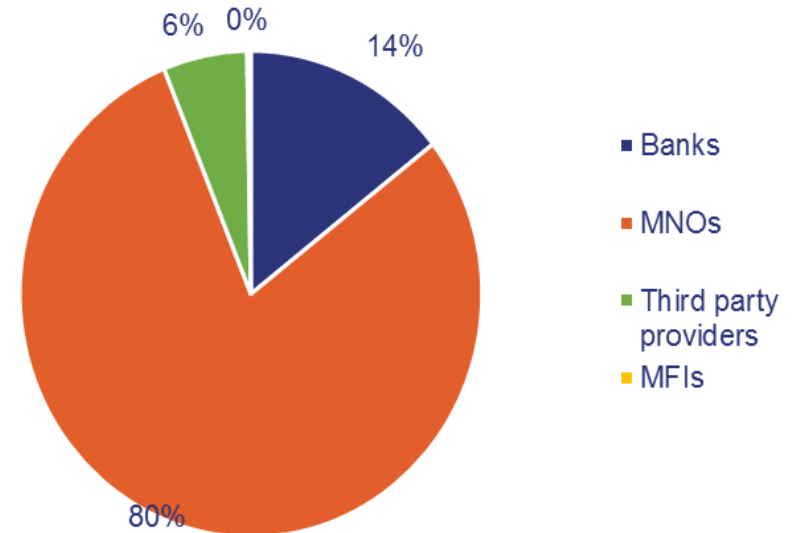
Transaction Value (ZMW) and Volume at agent location

- Both volume and value of transactions significantly increased in December 2018, growing by **59%** and **239%** respectively.
- The high growth of transaction value at agent locations reflects the increased active DFS accounts and trust in DFS.

Agent transactions by provider type



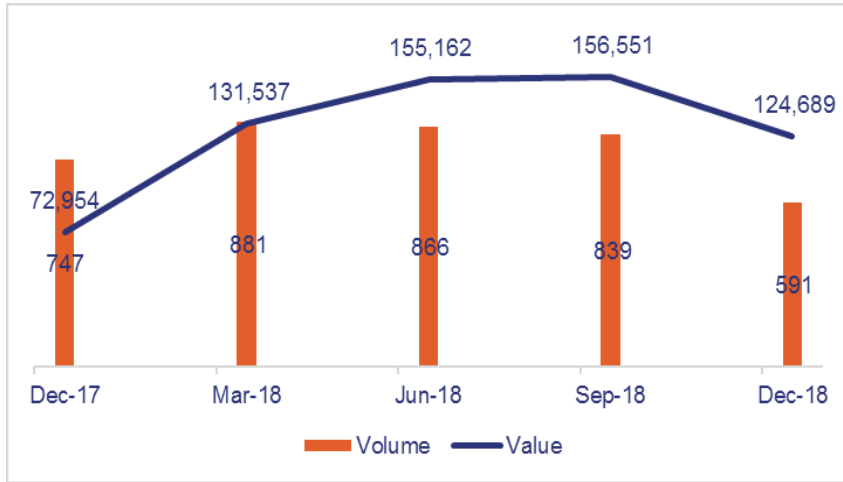
Volume of Transactions (Dec 2018)



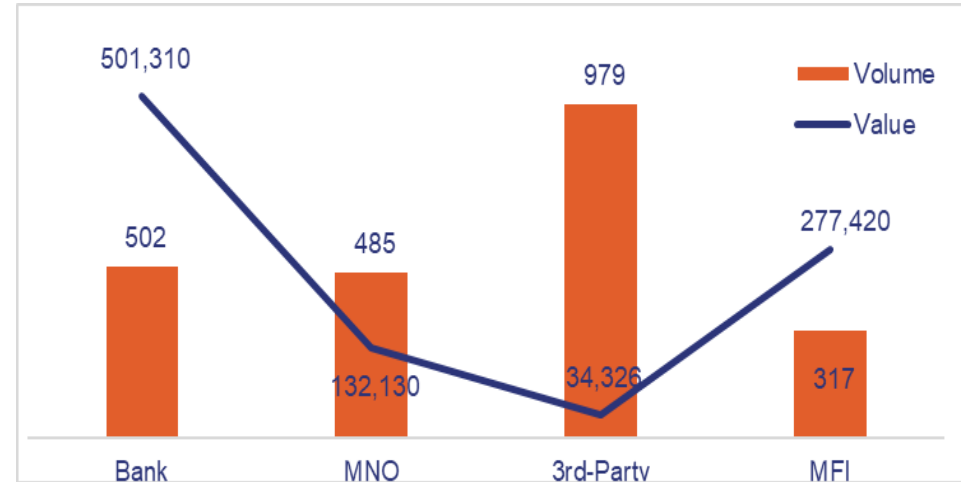
Value of Transactions (Dec 2018)

- The continued high growth rates by MNOs across active accounts and active agents is further reflected in a 62% share of transactions conducted by agents and 80% of value at agent locations.
- **Increasing partnerships for banks and MNOs to leverage third party provider agent networks is likely to drive a higher number and value of transactions at third party agent locations.**

Average transaction volume & value



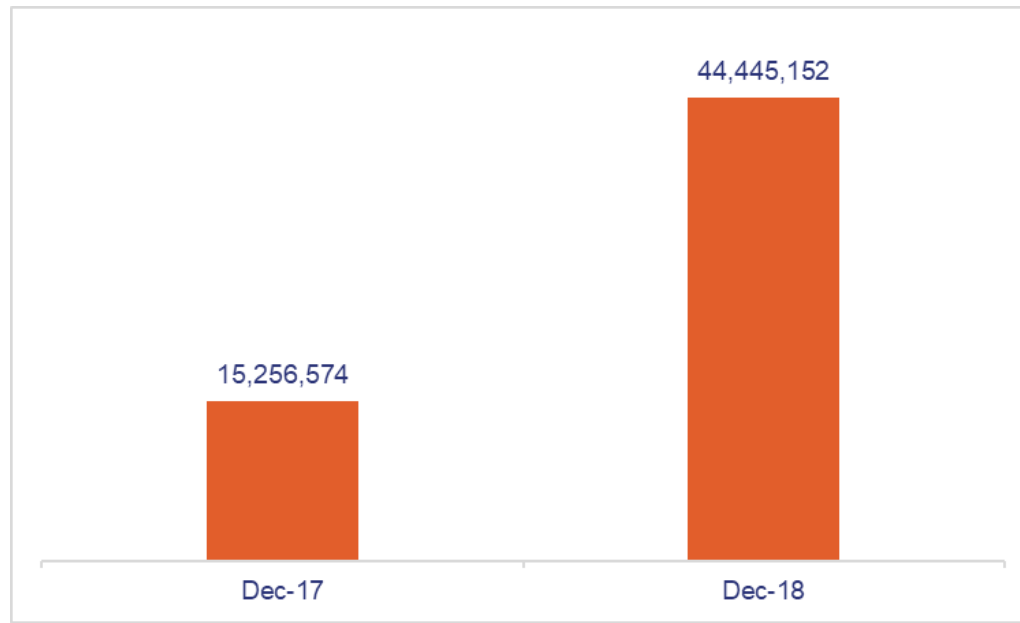
Volume & Value (ZMW) per agent per month (Dec 2018)



Avg number of transactions per agent – by provider type (Dec 2018)

- Even though the average value of transactions at agent locations increased by 71% from Dec 2017 to Dec 2018, there was a 21% decline in number of transactions per agent.
- Bank agents conducted the highest value of transactions while agents of third party providers conducted the highest number of transactions.

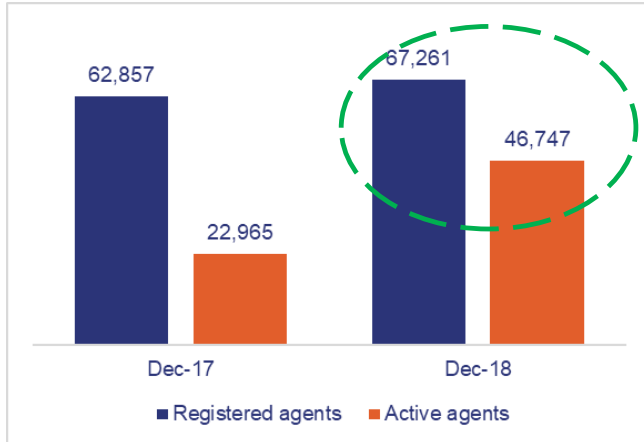
How much are agents earning?



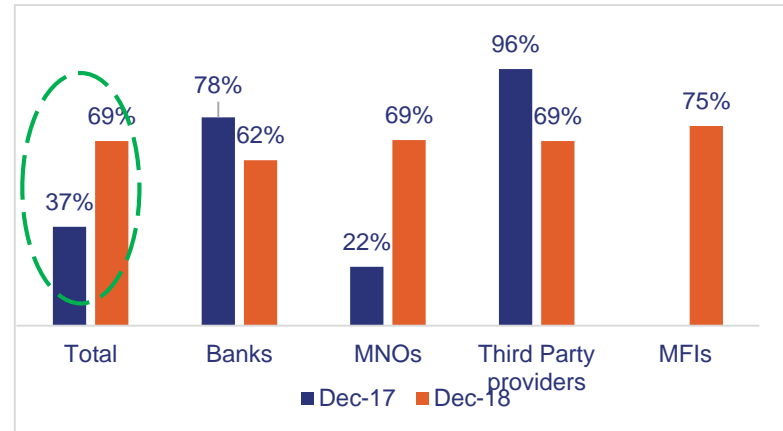
Total commission (ZMW) to agents

- **Over \$4M was paid in commissions in Dec 2018.** This is a 191% increase from Dec 2017
- Commissions paid per agent per month declined by 16% from Dec 2017 to Dec 2018. This could suggest that even though active agents and customers increased, there are still less transactions per agent per month hence less commissions.

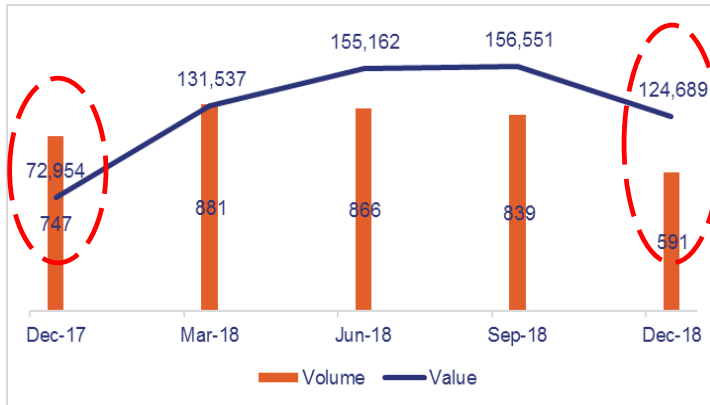
Spotlight – Agent networks



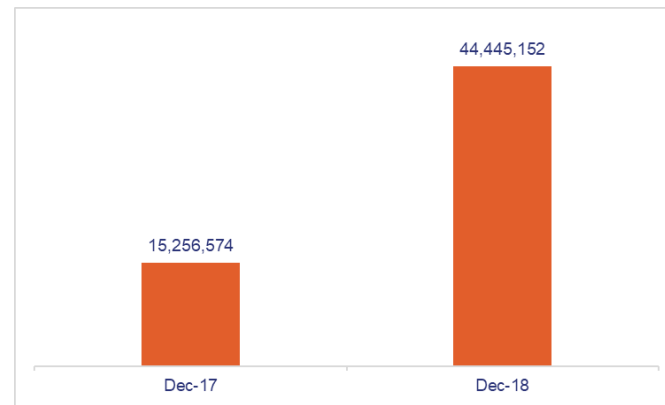
Registered and active agents



Activity rate by provider type



Volume & Value (ZMW) per agent per month



Total commission (ZMW) to agents

Growth of active agents = growth of active customers, however, need to ensure agent profitability

Summary of performance by provider type



Mobile Money
Operators



Banks/Microfinance
Institutions



Third-Party
Operators

Summary of bank performance



CUSTOMERS

- 11% market share - active customers
- 25% of registered customers active
- 11% market share –monthly transaction Volume
- 24% market Share – monthly transaction Value



AGENTS

- 4% Market share - active agents
- 62% activity rate
- 502 ZMW average monthly transaction Volume
- 501,310 average monthly transaction Value

To achieve aggressive growth, banks should adopt “digital – distribution efficient” execution structures

Challenges

- Distribution models that don't achieve “Last-mile” penetration.
- Digital strategies do not fully leverage financial strengths of banks

Recommendations

- Leverage partnerships to expand reach of products.
- Leverage financial offering to focus on second generation solutions.

Summary of MNO Performance



CUSTOMERS

88% active customers

26% of reg customers active

82% market share –transaction Volume

75% market Share –transaction Value



AGENTS

75% market share - active agents

69% of registered agents active

485 average monthly transaction Volume

132,130 ZMW average transaction Value

1,137 ZMW average Commission per agent

Aggressive growth in 2018 indicates a higher demand (readiness) of the market for more complex product offerings.

Challenges

- Reputational risk associated with digital loans.
- Agent profitability – agent networks need to grow in tandem with active customers

Recommendations

- Learn from global lessons on mobile credit/savings products
- Open APIs to provide access for Fintechs to increase use cases.
- Data analytics to increase targeted marketing opportunities.

Summary – Third party Performance



CUSTOMERS

0% active customers

33% activity rate

6% market share –transaction Volume

1% market Share –transaction Value



AGENTS

18% active agents

69% activity rate

979 average monthly transaction Volume

34,326 average transaction Value

332 average Commission per agent

Low transaction values by agents of third party providers remains a key barrier to agent profitability, need to explore partnerships that strengthen proposition to agents.

Challenges

- Low agent profitability due to high volume and low value profile of transactions.

Recommendations

- Leverage partnerships to strengthen proposition to agents.
- BTL activations in collaboration with partners to drive transaction volumes to agents

KEY FINDINGS – INSIGHTS FROM QUALITATIVE DATA



DFS remains sustainable

85% of providers reported that DFS was a commercially sustainable business. Commercially viability was reported to have increased from December 2017 to December 2018 by 69% of the respondents.



DFS investment is increasing

The average number of employees working in DFS increased by 16% in Dec 2018. Two thirds of these employees were focused on the agent distribution.



Providers are beginning to track sex- and the number of DFS among women is increasing.

38% of respondents reported tracking sex-disaggregated data, with women comprising 37% of the customer base, an increase from 33%.

KEY FINDINGS

CHALLENGES FACED BY DFS PROVIDERS



High customer dormancy. While customer dormancy decreased, it is still significantly high and a missed opportunity to capture an existing market of customers that have already registered for the product.



Management of the agent networks. Liquidity management remains the biggest barrier to expansion of agent networks into rural areas. Providers are exploring partnerships that can address the liquidity challenges and are growing agent networks at a rate similar to customer growth, ensuring sufficient service to customers while ensuring sufficient agent profitability/sustainability.



Developing viable business models to support expansion into rural areas. Providers reported challenges in developing viable business models, including strategic partnerships, to expand services into rural areas.



Data analysis, reporting and usage for decision-making. Providers reported limited internal capacity to support sufficient data analysis and reporting. This inadequate use of data could limit the ability for providers test improved pricing, innovative products, marketing of products or review commission structures to improve profitability.

Recommendations for the ecosystem

PLAY TO YOUR STRENGTHS:



It may be time for providers to look internally to better understand how to leverage their strengths to a) increase customer reach and b) profitability for the institution. That may not be launching a new agent network, it might be focusing more on innovative products.

PICK THE RIGHT DISTRIBUTION NETWORK(S)



Incentives for agent network managements and developing partnerships that improve the liquidity position in the areas you want to target, especially rural areas.

OPEN YOUR DOORS



Make it easier for other FinTechs to use your “rails”. That can be either through APIs, or a standard form they have to fill out to give you the data that is a sufficient business case to partner. Many FinTechs do not know how to approach you.

INVEST IN DATA AS A FOUNDATION TO PROFITS



Internal data analysis capacity, data for decision-making, customer trends, incentives, commissions, price testing. Spending a small amount on call center time might double your business.

PROVIDERS & REGULATORS GET READY FOR FRAUD



Increased usage of DFS will inevitably increase the rise of “fraudsters”, so well-communicated **recourse protocols** are critical for DFS providers to share with frontline workers, as well as increased collaboration between regulators.



THANK YOU

