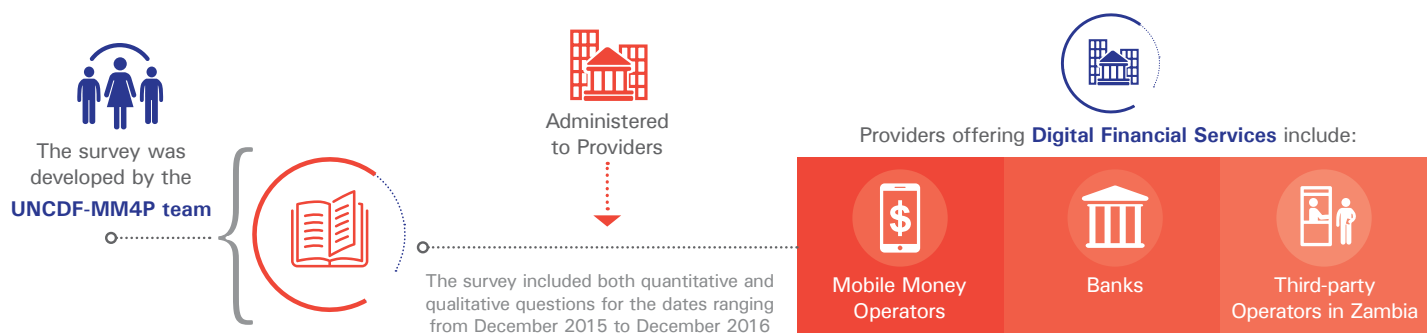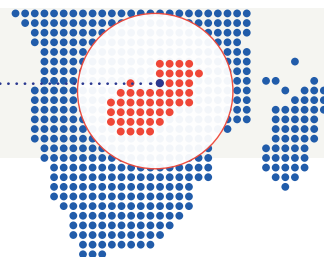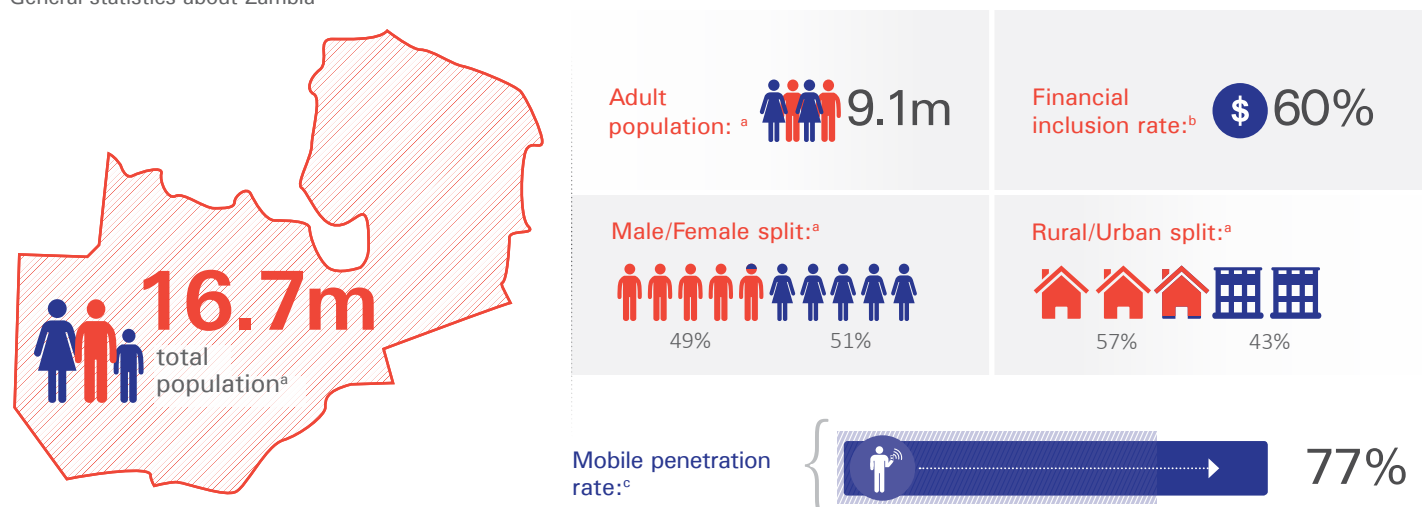# The Zambian DFS State of the Industry 2016

UN CDF | MM4P

The UNCDF-MM4P Zambian DFS State of the Industry report is based on supply-side data from an annual provider survey given to industry participants. The report gives the industry and observers a more comprehensive picture of the state of the digital financial services (DFS) market, regarding customer adoption, usage and trends of DFS in Zambia. On an individual basis, the report also gives DFS providers insights into the performance of their products and services relative to the market.
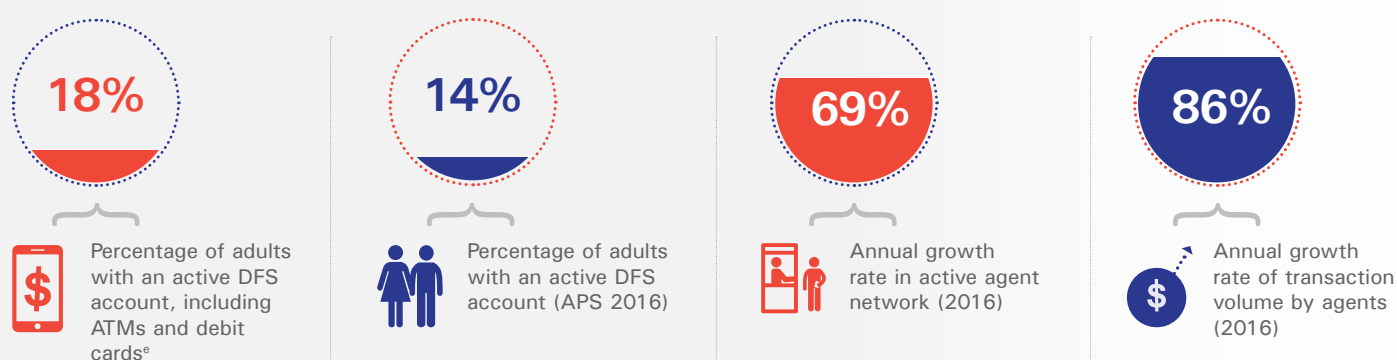
The survey was developed by the **UNCDF-MM4P team**

Administered to Providers

The survey included both quantitative and qualitative questions for the dates ranging from December 2015 to December 2016

Providers offering **Digital Financial Services** include:

| Mobile Money Operators | Banks | Third-party Operators in Zambia |

Figure I

General statistics about Zambia

16.7m total population[a]

Adult population:[a] 9.1m

Financial inclusion rate:[b] $ 60%

Male/Female split:[a] 49% 51%

Rural/Urban split:[a] 57% 43%

Mobile penetration rate:[c] 77%

Figure II

State of the Zambian digital financial service market:[d]

18% Percentage of adults with an active DFS account, including ATMs and debit cards[e]

14% Percentage of adults with an active DFS account (APS 2016)

69% Annual growth rate in active agent network (2016)

86% Annual growth rate of transaction volume by agents (2016)
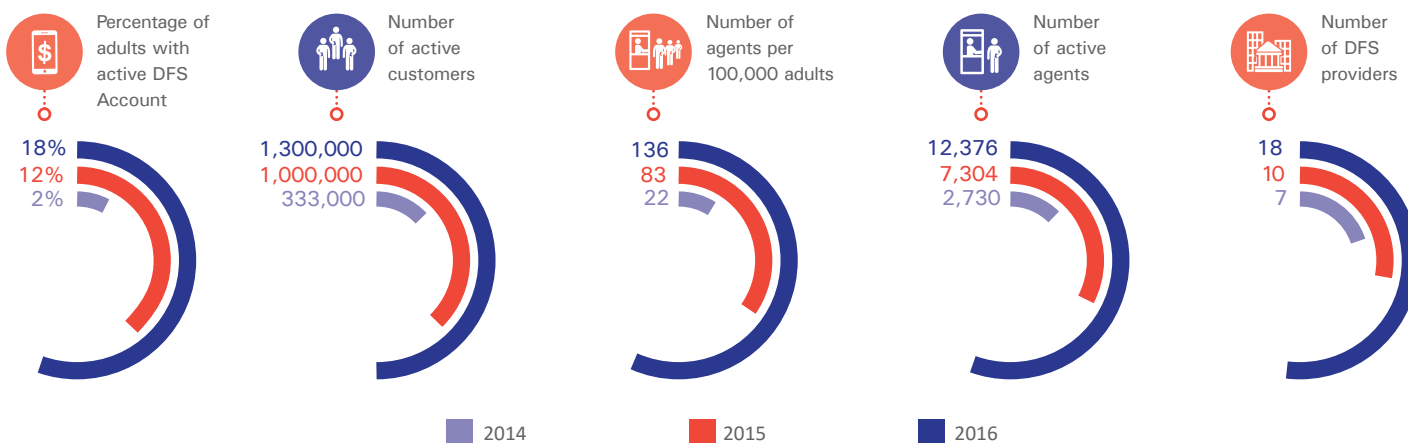
[a] UN World Population Prospects, 2016
[b] FinScope, 2015 (This includes both formal and informal financial inclusion)
[c] ZICTA, 2015
[d] UNCDF, 2017 (unless otherwise noted)
[e] While the analysis of the APS 2016 does not include accounts accessed through ATMs and debit cards, the percentage of the adult population with a DFS account is adjusted using the assumption that 10.2% of adults use ATMs and debit cards (FinScope, 2015).

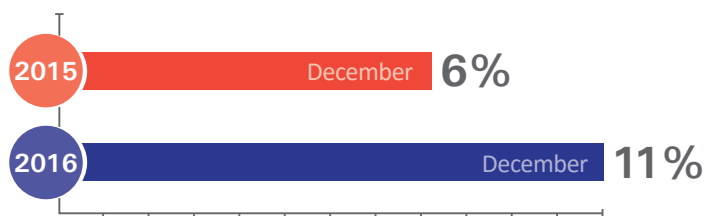## State of the Zambian digital financial service market continued:[f]

Percentage of adults with active DFS Account
18%
12%
2%

Number of active customers
1,300,000
1,000,000
333,000

Number of agents per 100,000 adults
136
83
22

Number of active agents
12,376
7,304
2,730

Number of DFS providers
18
10
7

2014   2015   2016

Key Findings

Between 2015 and 2016, there was an increase in the number of products being offered by DFS providers from 5 to 13 products.

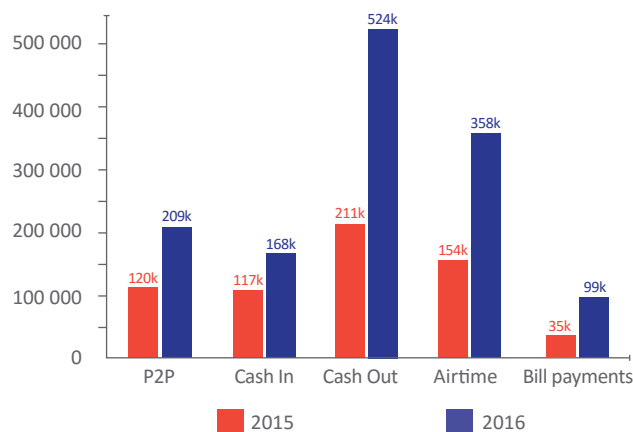2015   5 products
2016   13 products
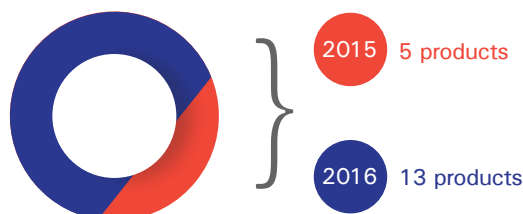
The activity rate of customer accounts gradually increased from 6% in December 2015 to 11% in December 2016.

2015   December   **6%**
2016   December   **11%**

How customers are using DFS

Number of unique active customers using products:

|	P2P	Cash In	Cash Out	Airtime	Bill payments
2015	120k	117k	211k	154k	35k
2016	209k	168k	524k	358k	99k

2015   2016

Bill payments:

The number of customers actively conducting bill payments, including paying for utilities and television services, increased by

185%

While bill payments had the **highest growth rate** among all the **DFS products** in terms of **number of active customers**, the total number of users **remains low** (the current number of active customers using bill payments is still under 100,000). The growth rate underscores the importance of developing more relevant use cases for customers.

Airtime purchases:

The number of active customers purchasing airtime increased by **132%**
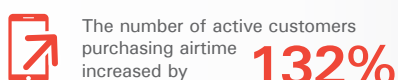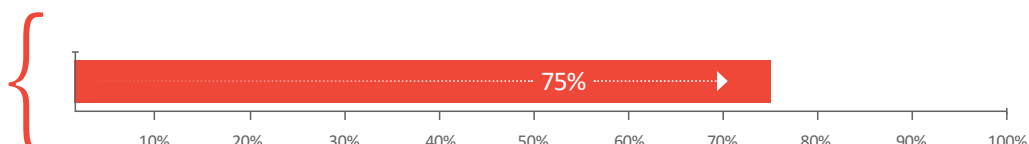
Cash-in and cash-out transactions:
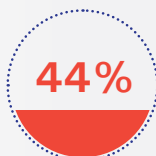
44%
Cash-in
Customers conducting cash-in transactions increased by **44%**

148%
Cash-out
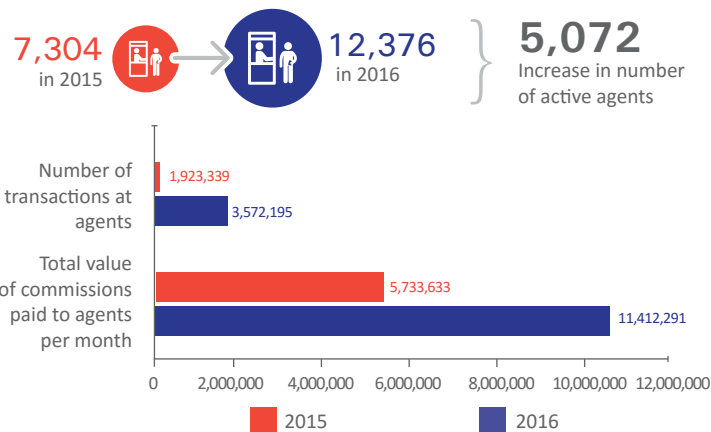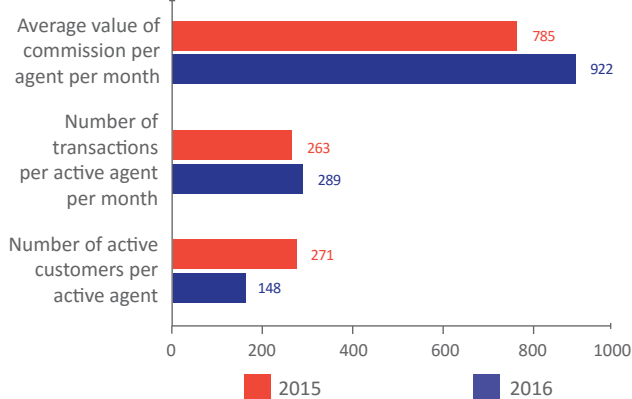while customers conducting cash-out transactions increased by **148%**

P2P transactions:

The total number of customers conducting P2P transactions has increased

75%

10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

Agents

Average value of commission per agent per month
- 2015: 785
- 2016: 922

Number of transactions per active agent per month
- 2015: 263
- 2016: 289

Number of active customers per active agent
- 2015: 271
- 2016: 148

Legend: 2015 | 2016

7,304 in 2015 → **12,376** in 2016 — **5,072** Increase in number of active agents

Number of transactions at agents
- 2015: 1,923,339
- 2016: 3,572,195

Total value of commissions paid to agents per month
- 2015: 5,733,633
- 2016: 11,412,291

Legend: 2015 | 2016

From **December 2015** to **December 2016**, the number of active agents per 100,000 adults increased by 69% compared to a 24% increase in the number of active customer accounts.

83 in 2015   **136** in 2016

The **active agent base** grew much faster than the active customer base

Suggesting that the increase in transactions conducted by agents was the result of existing customers conducting more transactions.

These findings suggest that there is a demand for.
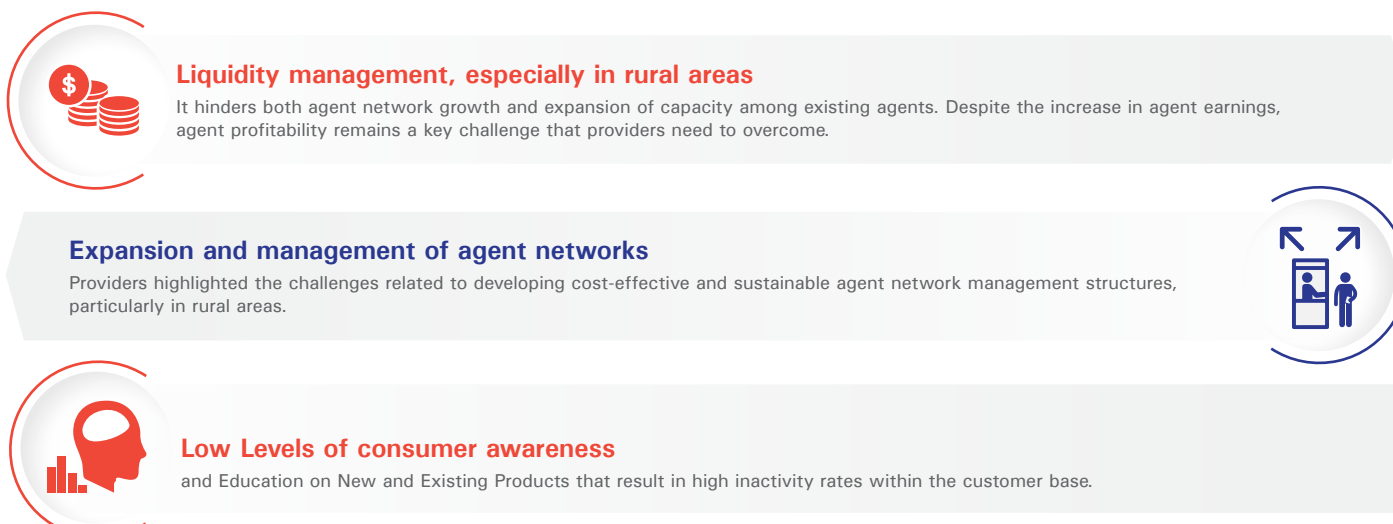
more **active agents**

By increasing the active agent base, customers are likely to conduct more transactions because of increased access to agents. If agent liquidity is improved as well, with customers conducting more transactions, then agents are likely to become more profitable.

$94 Dec-16[1]

The average commission earned per agent per month increased[2] **compared to** →

Helix Agent Network Accelerator Survey conducted in Q1 2015, reported that, on average, Zambian agents earned **$72.3**

Insights from the qualitative questions

DFS is Sustainable
Four out of six providers reported that the DFS products they offer are commercially sustainable. Commercial sustainability was also reported to have increased from December 2015 to December 2016.

DFS is a priority for providers
All DFS providers reported that the improvement and/or expansion of DFS is a top priority and that this commitment to growing DFS increased over the course of 2016.

Providers are investing more in DFS
Four of the six providers reported that they invested more in DFS in 2016, both financially and in terms of more staff.

Challenges

Liquidity management, especially in rural areas
It hinders both agent network growth and expansion of capacity among existing agents. Despite the increase in agent earnings, agent profitability remains a key challenge that providers need to overcome.

Expansion and management of agent networks
Providers highlighted the challenges related to developing cost-effective and sustainable agent network management structures, particularly in rural areas.

Low Levels of consumer awareness
and Education on New and Existing Products that result in high inactivity rates within the customer base.

[1] Source of conversion rates: UN Treasury – Operational Rates of Exchange.
[2] Helix Institute of Digital Finance, 'Agent Network Accelerator Survey: Zambia Country Report 2015.'

Challenges continued

Belief or understanding of profitable partnership business models to support partnerships
that drive increased collaboration between financial and non-financial service providers in a bid to expand the reach of DFS among rural communities.

Inadequate access to and use of data for decision-making
Limited resources challenge growth and unlocking more investment in areas like bulk payments, expansion into rural areas and the development and launch of new products. Inadequate data analysis is also a barrier to the identification and development of relevant use cases for existing and potential customers.

Inadequate infrastructure in rural areas
In particular, inadequate network coverage, low mobile phone penetration and lack of electricity to charge phones remain a barrier to adoption of DFS.

Limited manpower or skills
Even though providers highlighted an increase in the number of resources dedicated to DFS, there is still a need for additional resources and skills within providers' organizations. This need is critical as the Zambian market begins to adopt second-generation products.

Opportunities

'Build the rails' on which the next generation of DFS will ride
The 'rails' include strengthening agent networks both in terms of reach and liquidity management, increasing meaningful awareness and improving access to DFS. These rails will provide the foundation on which second-generation products, merchant payments and e-commerce solutions will be built.

Agent profitability goes hand in hand with success
The findings from the APS show a positive correlation between active agent growth and number of transactions at agent locations. Possible interventions include a greater number of agent support staff to improve training, regional agent workshops to share best practices, liquidity management solutions, agent start-up and float loans, etc.

Leverage data to support effective decision-making and develop viable business cases
As Zambia moves to introduce second-generation products, usage of data for decision-making will become critical. Data analysis allows for key insights into customer profiles and segmentation, usage trends as well as behaviours of customers and agents that can lead to targeted agent deployment and product development.

Sustainable and commercially viable partnerships
Considering the population density in rural Zambia, the profitability of agents in such locations is a key barrier to expansion of DFS to reach excluded populations. Exploration of mutually beneficial partnerships to provide products that address the needs of rural populations, such as microcredit, savings and pay-as-you-go solar payments, among others, could unlock the opportunities that exist.

UNCDF-MM4P gathered these insights with the participation of 6 DFS providers Airtel Money, MTN Mobile Money, Spargris Zambia (Kazang), Zambia National Commercial Bank (Zanaco), Zambia Postal Services Corporation (Zampost) and Zoona.