



Zambia

Digital Financial Services in Zambia

2014

Facts and figures*

Sector overview

Digital financial services (DFS) came early to Zambia, with the payment service provider Celpay launching in 2002 and Zoona in 2009. Only much later were DFS launched by mobile network operators (MNOs) Airtel in 2011 and MTN in late 2012.

Despite an early start, the promise of DFS have not thrived in Zambia. Celpay ceased operations in 2013, due to fraud and mismanagement that led to the loss of its operating license. However, Airtel and MTN client registrations have surged to close to three million registered clients collectively and Zoona has had steady growth of over-the-counter money transfer services.

The market potential for Zambia is considered high, with low levels of financial inclusion, relatively high levels of mobile penetration and a promising urban and rural population distribution.

The relatively small and irregular income streams in rural areas are due to a dependence on small-scale farming and will require products that are flexible. The main competition to DFS for the unbanked segment is cash, so DFS providers will need to recognize that in their services and delivery methods.

Key findings

Policy and regulation

The policy and regulatory environment is neither prohibitive nor completely enabling and remains relatively neutral on most key issues. The National Payment Systems Act (2007) provides adequate space for a range of DFS providers to enter the market, but it is not adequate to address the issues arising from services with potential to evolve beyond payments and money transfers.

The relevant regulations and guidelines for e-money are still in draft stages, and there are no efforts underway to develop proportional know-your-customer (KYC) guidelines. The most important factor is that the Bank of Zambia is viewed favourably by the industry, by banks and non-banks alike, and has taken a consultative and 'watch-and-learn' approach to DFS.

14.5 million

Total population

23% (incl. 14% through banks)
Financial inclusion rate

USD 3,181

GDP per capita (PPP)

78%

Mobile phone penetration

*Source: EIB and UNCDF, 'Digital Financial Services in Africa,' December 2014.



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Delivery infrastructure

Despite relatively extensive mobile network coverage, infrastructure has two major challenges: inadequate physical infrastructure and imperfect telecommunications infrastructure. Physical infrastructure (e.g., roads and utilities) is poor, which contributes to the lack of bank branches outside of Lusaka. It is well known that MNOs have quality-of-service issues and have been subject to lawsuits. Even as networks improve, it is likely that the poor perception of service quality will linger, impeding customer adoption of DFS. At the same time, MNOs have been investing in service improvements, making it possible to reach a sizeable percentage of the financially excluded through DFS.

Providers

Zambia is a classic case of a country that has been stuck in the sub-scale trap. MNOs have struggled with building and maintaining active users in order to keep agents interested and active, despite fairly heavy and steady investments in the service. At the same time, the market remains quite fragmented, with two MNOs operating closed-loop systems, limited integration between MNOs and banks, and few meaningful or effective partnerships for distribution.

Agents networks

MNOs have the largest number of agents at present, MNOs have the largest number of agents, which often experience poor liquidity that leads to poor customer experience at agent outlets. Only one bank, Zambia National Commercial Bank (Zanaco), has invested in agents in virtually every district. Zoono and Zampost are the most successful, providing the most reliable money-transfer and bill-payment services in the country. Both have a significant rural presence. Unfortunately, partnerships between the banks and MNOs and these two agent managers have not met with success.

High volume

The DFS platform is generally used as a generic payment tool (cash-in/cash-out, utility and bill payments), rather than a multipurpose channel for a range of financial services. There has been little focus on the specific-use cases for DFS beyond person-to-person (P2P) transfers or the underlying e-wallet itself, as a store of value. There is a largely unexploited opportunity to convert high-volume payment transfers to electronic format. Providers' current product range is fairly limited, with some innovation happening around value chain payments.

Customers

Customers lack much-needed information and knowledge on DFS, and surveys indicate that they do not trust that such services are reliable and readily accessible to them. This perception is born from their personal experience: agents are often unable to transact, mobile networks go down, and menus are in English. Surveys also show that customers think DFS are for 'rich people' and view them as an aspiration rather than a necessary tool. Providers themselves recognize the need for better customer education, as well as basic financial literacy and DFS awareness programmes.

Key stakeholders

Regulators



- Bank of Zambia
- Zambia Information and Communications Technology Authority

Main banks

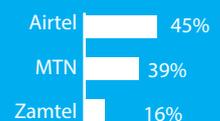
- Barclays
- Standard Chartered Bank
- Zambia National Commercial Bank (Zanaco)
- Stanbic Bank
- Finance Bank Zambia



Mobile network operators



Market share



Digital financial service providers

- Airtel
- MTN
- Zoono
- Zanaco



For more information, contact François Coupienne
 UNCDF-MM4P Technical Advisor at
francois.coupienne@uncdf.org.

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