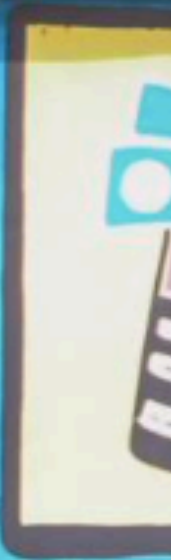


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Fintech, digital technologies and financial inclusion

Jean-Stéphane Gourévitch & Dr. Edward George

*Fintech Connect,
4 December 2019*



A SUMMARY OF OUR JOURNEY

- Financial exclusion although a major issue in developing countries is also a reality in developed countries
- Digital tech, mobile & fintech has proved their transformational powers on emerging markets, particularly in Africa
- We will discuss definitions, issues, describe business cases and examples in both developed and emerging countries and discuss the future

But first, let us introduce ourselves.....

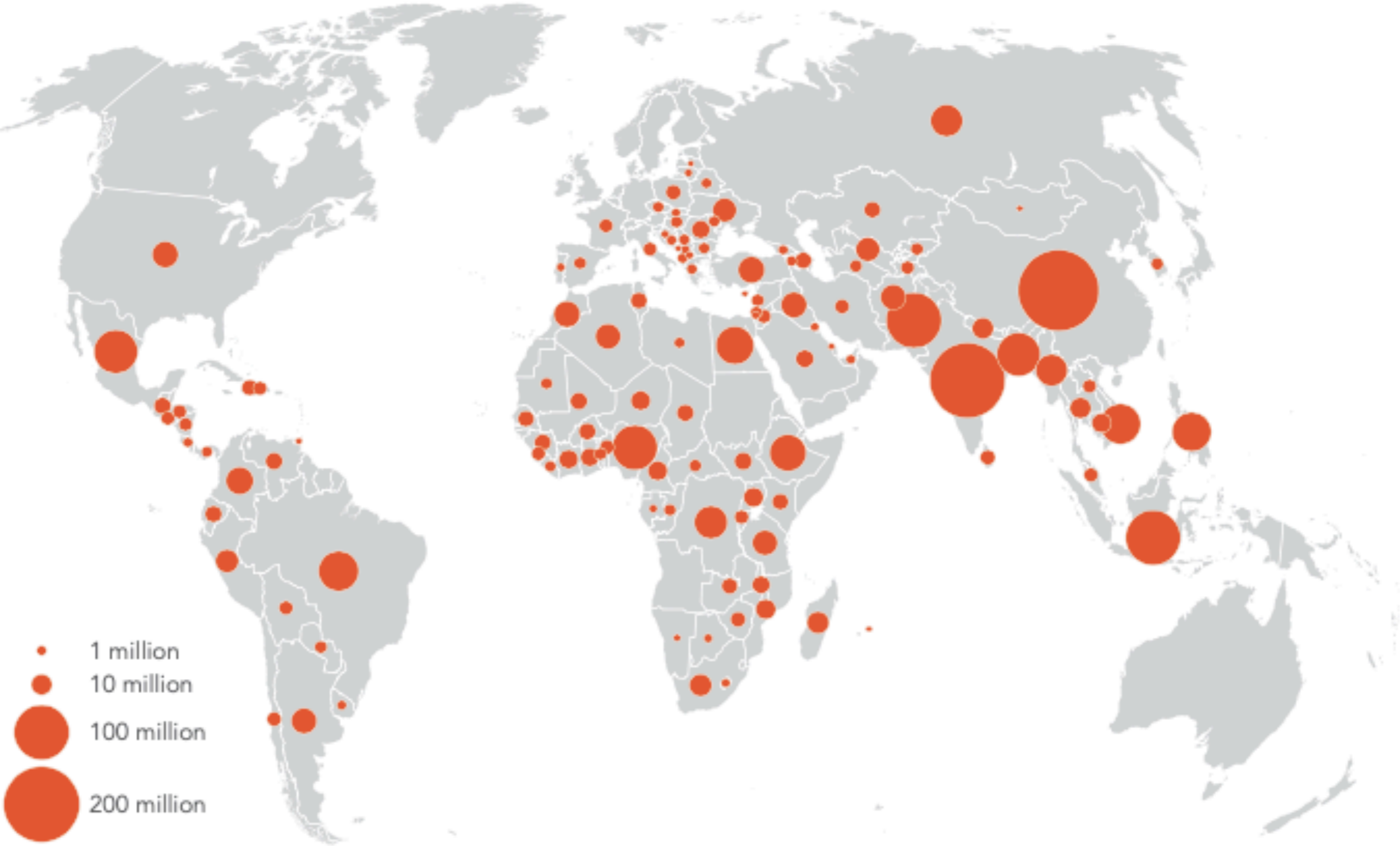


WHAT IS FINANCIAL INCLUSION?

- Multiple definitions from *World Bank, UK Financial Inclusion Commission, Parliament, etc.*
- Financial inclusion means access to and usage of appropriate, affordable and accessible financial services *such as payments, saving, remittances, credit, insurance and investments.*
- Payments are a key entry point to supporting financial inclusion.
- Digital Government-to-People (G2P) payments and remittance flows have, for example, *created the initial momentum for electronic payments.*
- Financially excluded are usually *the poorest people, migrants, senior people, young people, unemployed people, homeless people, women in particular in emerging countries but also small entrepreneurs and small SMEs*

Globally, 1.7 billion adults lack an account

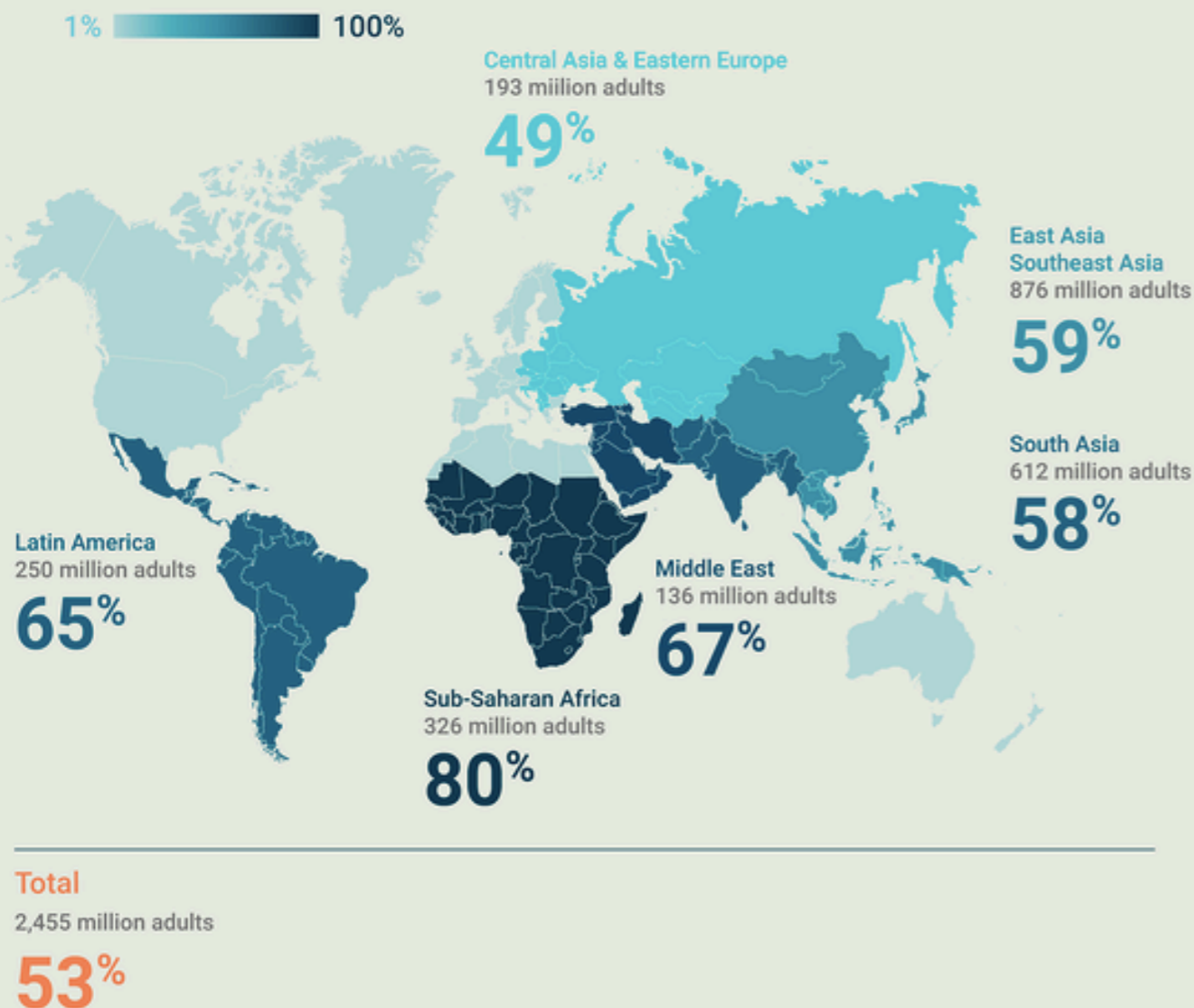
Adults without an account, 2017



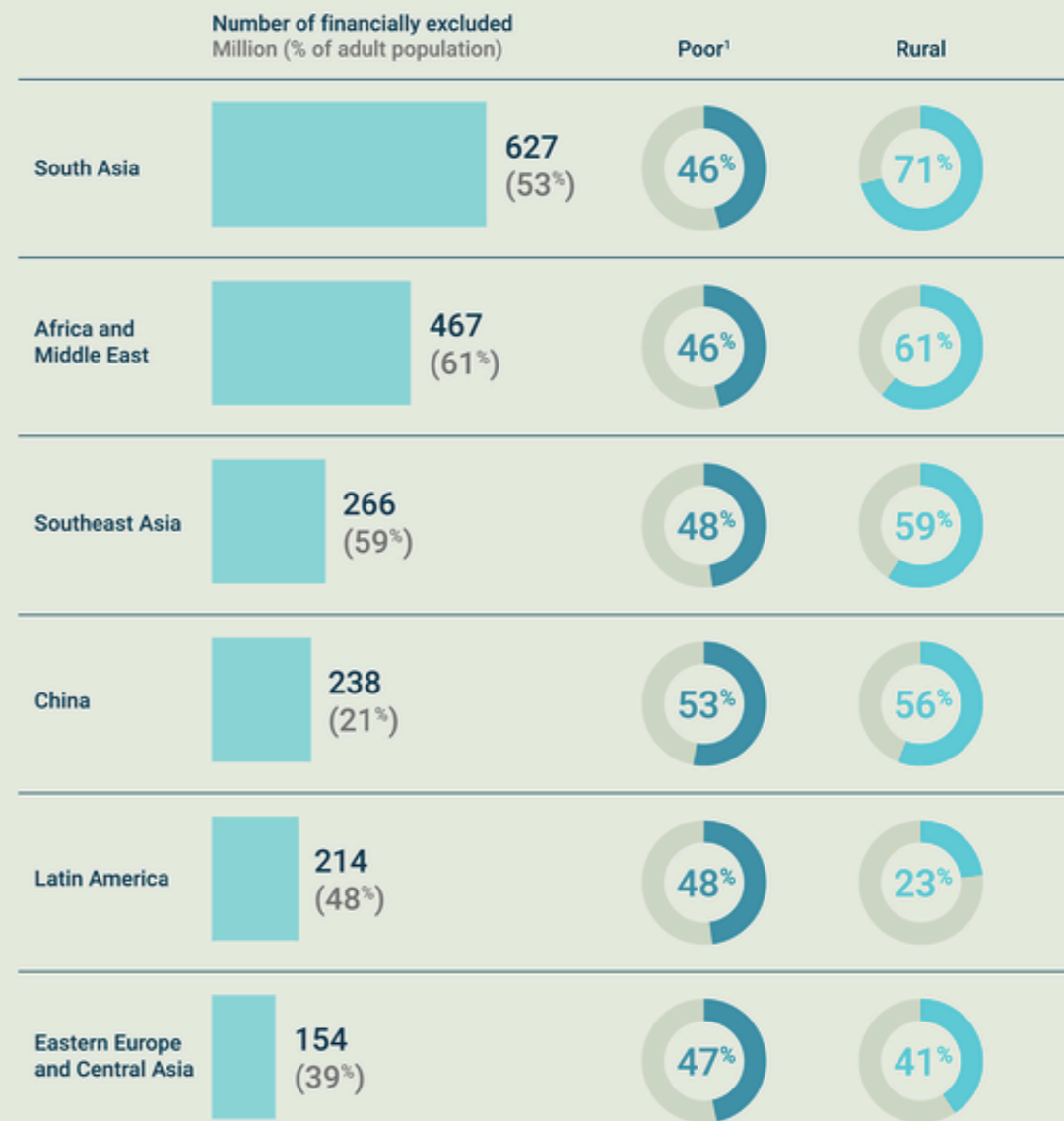
Source: Global Findex database.

FINANCIAL EXCLUSION IS REAL IN EMERGING COUNTRIES

Percentage of Unbanked and Underbanked by Region



Who are the Unbanked?



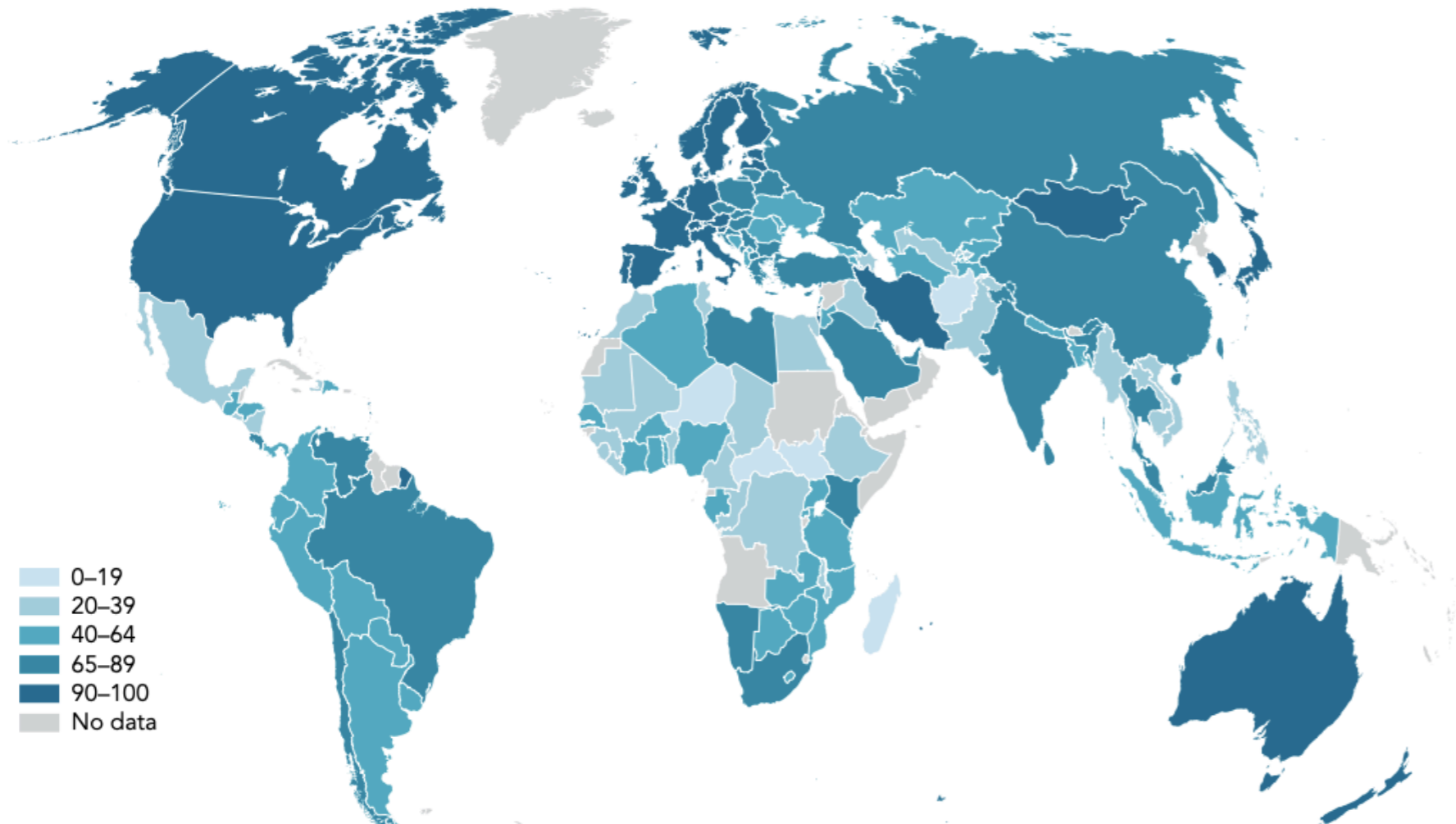
Source: Digital finance for all: Powering inclusive growth in emerging economies, McKinsey, 2016



- Despite progresses and positive evolutions, financial exclusion remains a major issues in the emerging countries and continues **to hit the poor, the rural world and also women.**
- While in some economies account ownership has surged, progress has been slower elsewhere, often held back by large disparities between men and women and between the rich and poor. **The gap between men and women in developing economies remains unchanged since 2011, at 9 percentage points.**

Today, 69 percent of adults around the world have an account

Adults with an account (%), 2017

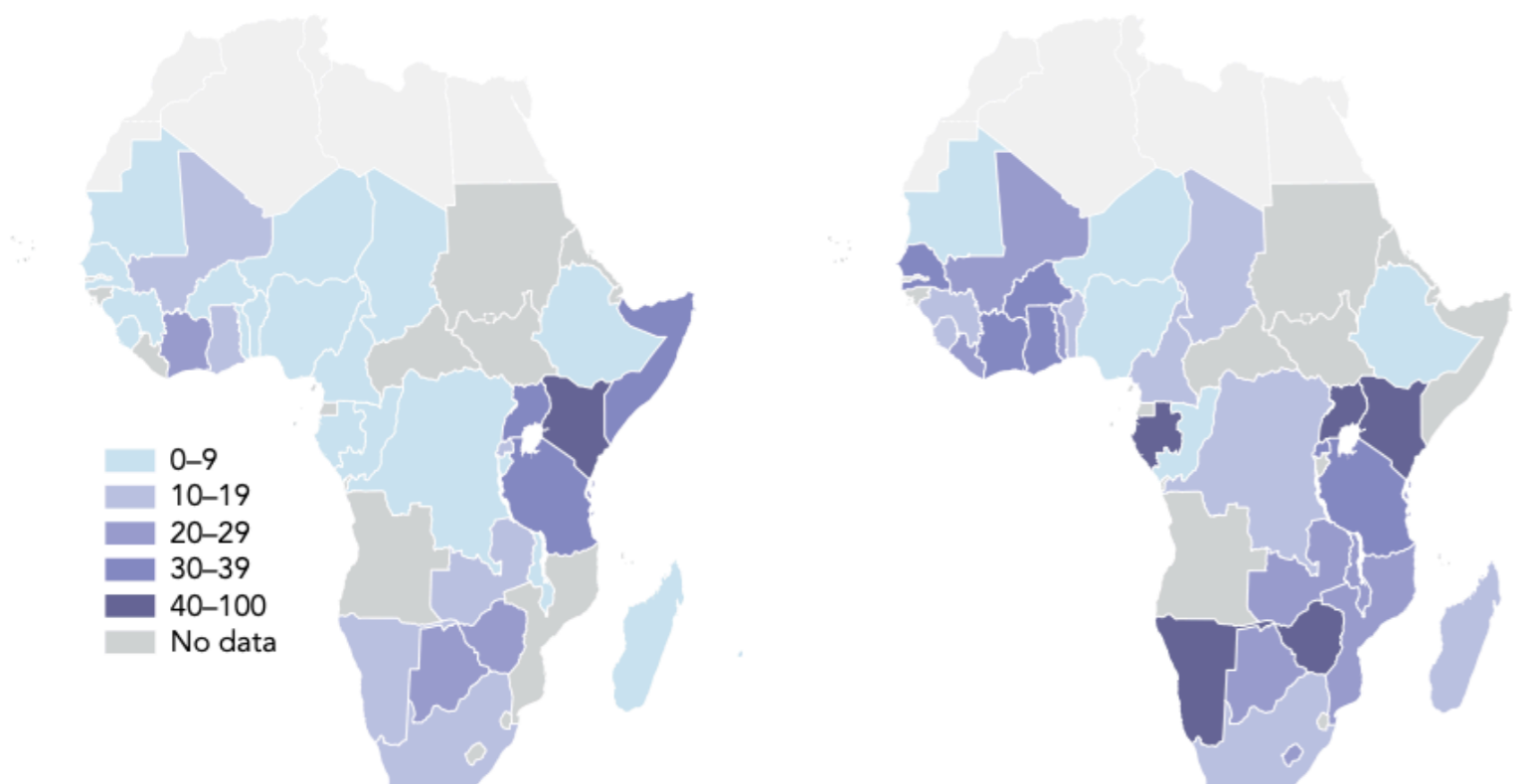


Mobile money accounts have spread more widely in Sub-Saharan Africa since 2014

Adults with a mobile money account (%)

2014

2017



- Globally, in 2017, 69% of adults – 3.8 billion people – had an account at a bank or mobile money provider. Significant increase in the use of mobile phones and the internet to conduct financial transactions.
- Between 2014 and 2017, this has contributed to a rise in the share of account owners sending or receiving payments digitally from 67% to 70% globally, and in the developing world from 57% to 70%
- Global financial inclusion objectives have evolved., from having access to financial account - a great start but it's not enough- to using it which are two different things. Globally, one-fifth of accounts are inactive—with neither a deposit nor a withdrawal for over a year

FINANCIAL EXCLUSION IS ALSO A REALITY IN DEVELOPED COUNTRIES

FINANCIAL EXCLUSION IN NUMBERS



Nearly two million adults in the UK do not have a bank account



Financially excluded people pay a 'poverty premium' of £1,300 each year



An estimated two million people took out a high-cost loan in 2012 as they were unable to access any other form of credit



Up to 8.8 million people are over-indebted



13 million people do not have enough savings to support them for a month if they experienced a 25% cut in income



50% of households in the bottom half of the income distribution do not have home contents insurance



15 million people (31% of the population) report one or more signs of financial distress

- Situation has improved since 2015 in the UK with regard to number of people owning a bank account.
- Emergence of new digital mobile banks competitors to traditional banks has helped considerably
- Still around 1.3 million people still totally excluded in 2018
- When combining excluded people with no access to any form of bank accounts, indebted people, people underserved by banks, people showing sign of financial distress etc. then around 30m people are financially fragile in the UK
- In the US, 88m people (around 25% of the population) is financially excluded or underserved, this is without counting indebted people.

DIGITAL AND MOBILE TECHNOLOGIES TO THE RESCUE

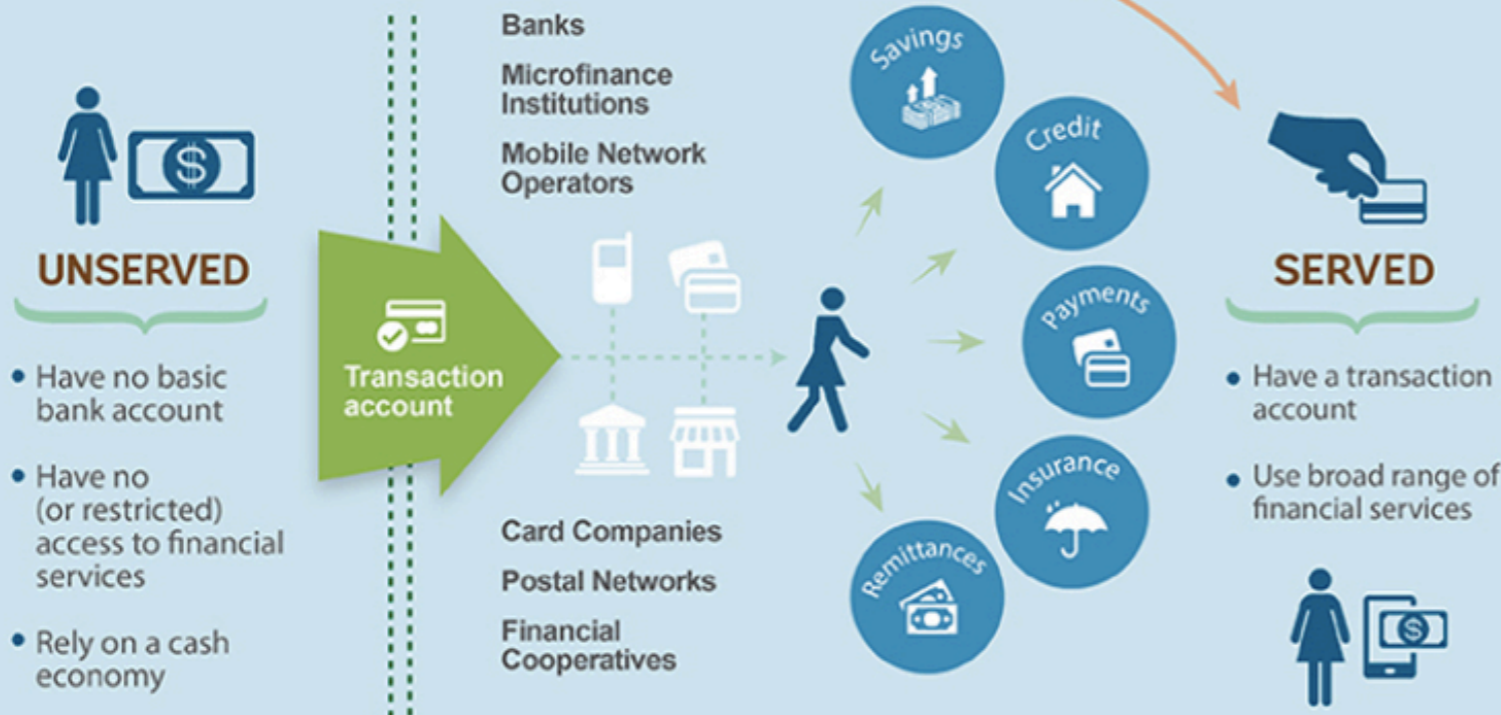


DIGITAL & MOBILE TECHNOLOGIES BROUGHT NEW SOLUTIONS TO FINANCIAL EXCLUSION

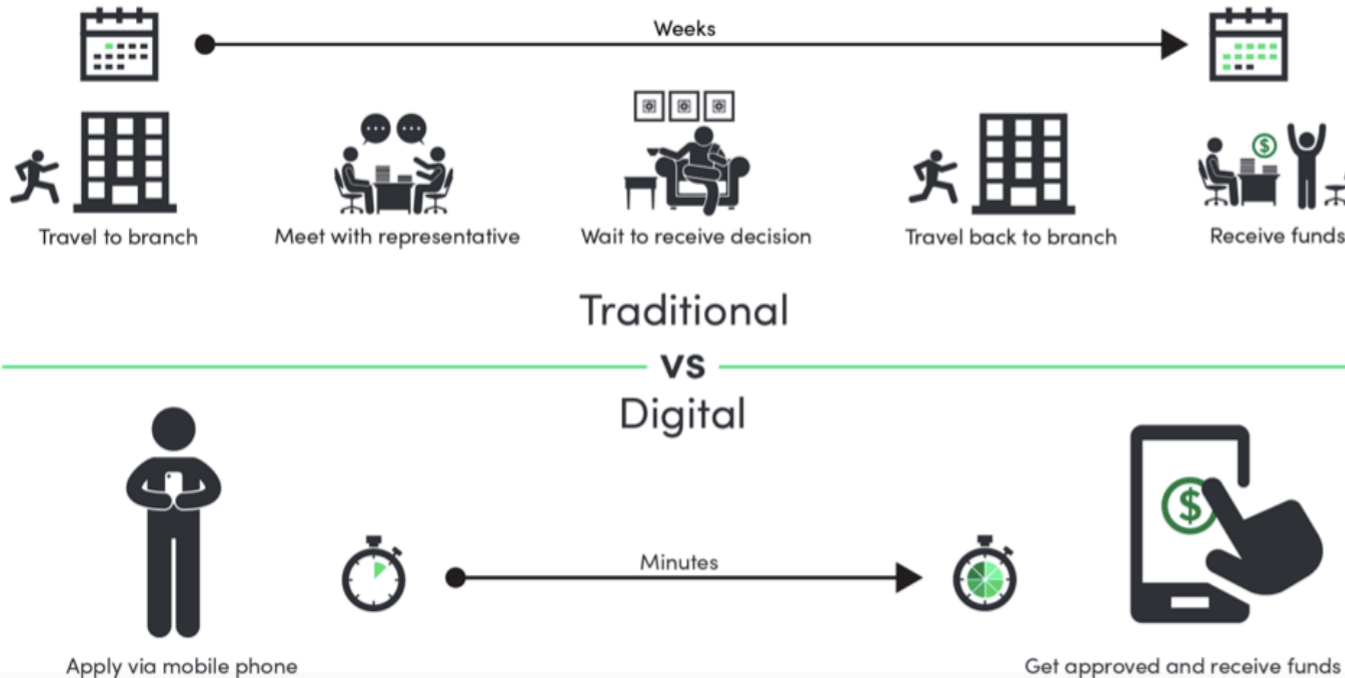
Gateway to Financial Inclusion



How to get there?



The Customer Journey



- Digital players and particularly mobile operators have played a fundamental role to create new products such as mobile money, mobile payments and transfers to remedy to the lack of access to financial services.
- Starting with remittances and P2P money transfers, mobile money has developed into a very wide ecosystem often converging with other sectors such as energy, transportation, farming and covering payments, remittances, bill payments, fundraising, credit and loans, asset management, etc.
- Started with success in Eastern Africa and some countries in Asia, then Latin America and finally growing very fast in Western Africa after years of sluggish developments.
- Initially quite hostile, banks in emerging countries have finally move toward entering the mobile money ecosystems either directly by developing such services or partnering with mobile operators.
- An open regulatory framework authorising non-banks to provide mobile banking/ money is crucial.

IN DEVELOPED COUNTRIES, DIGITAL TECH AND INNOVATION ARE PLAYING NOW AN IMPORTANT ROLE IMPROVING FINANCIAL INCLUSION

- In developed countries, and despite regulatory pressures (e.g. Universal bank account), incumbent banks have generally been long to see the commercial potential of the financially excluded market whilst focusing on the risks. They then adopted initiatives based on CSR instead of a strategic commercial approach.
- Development of digital and mobile payments associated with the rise of new /startups digital players such as digital/mobile banks some focusing on financially excluded customers as increased political pressures have pushed banks to become much more active.
- Innovation is playing a key role in creating new opportunities for excluded people on developed markets.
- Open Banking, the implementation of PSD2 and the move toward a cashless society has also increased the speed of change. Technologies such as AI and blockchain are also creating new opportunities
- However, very important issues are still existing such as the link between financial inclusion and reforms of social policies and benefits, the impacts of a sluggish economic growth and the risks of banks restructuring (closure of branches), developing proper digital identity solutions that will increasingly be the keys to accessing many services including financial ones and the increased move toward the cashless society