Technology and the Future of the Financial Sector in Africa:

Centering Ethical Innovation

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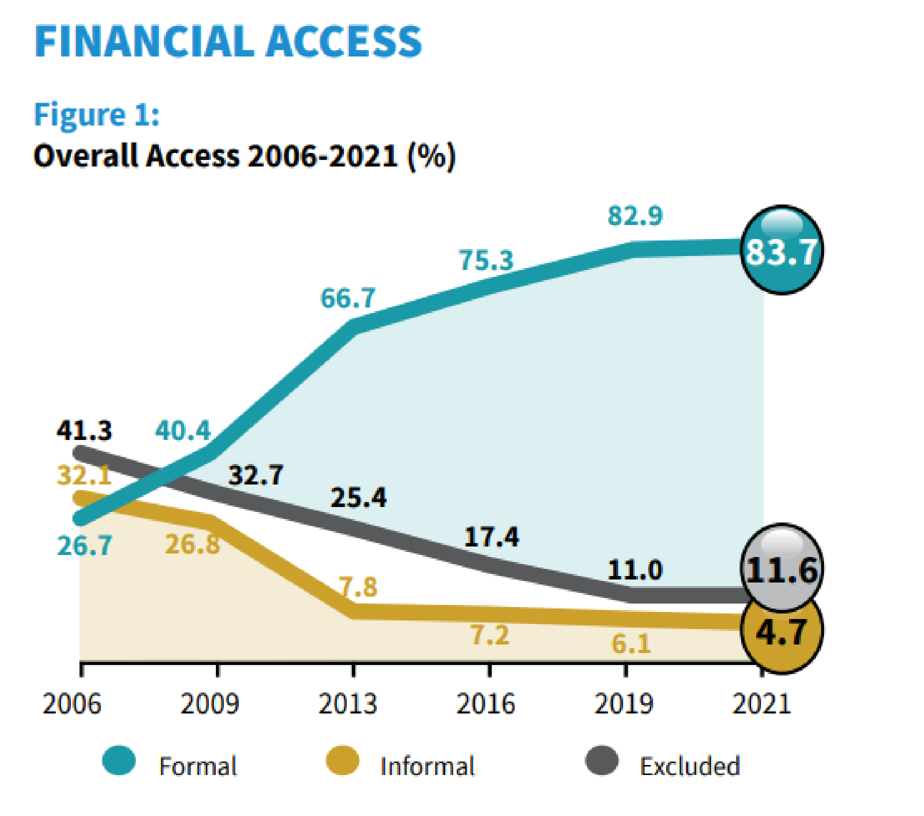
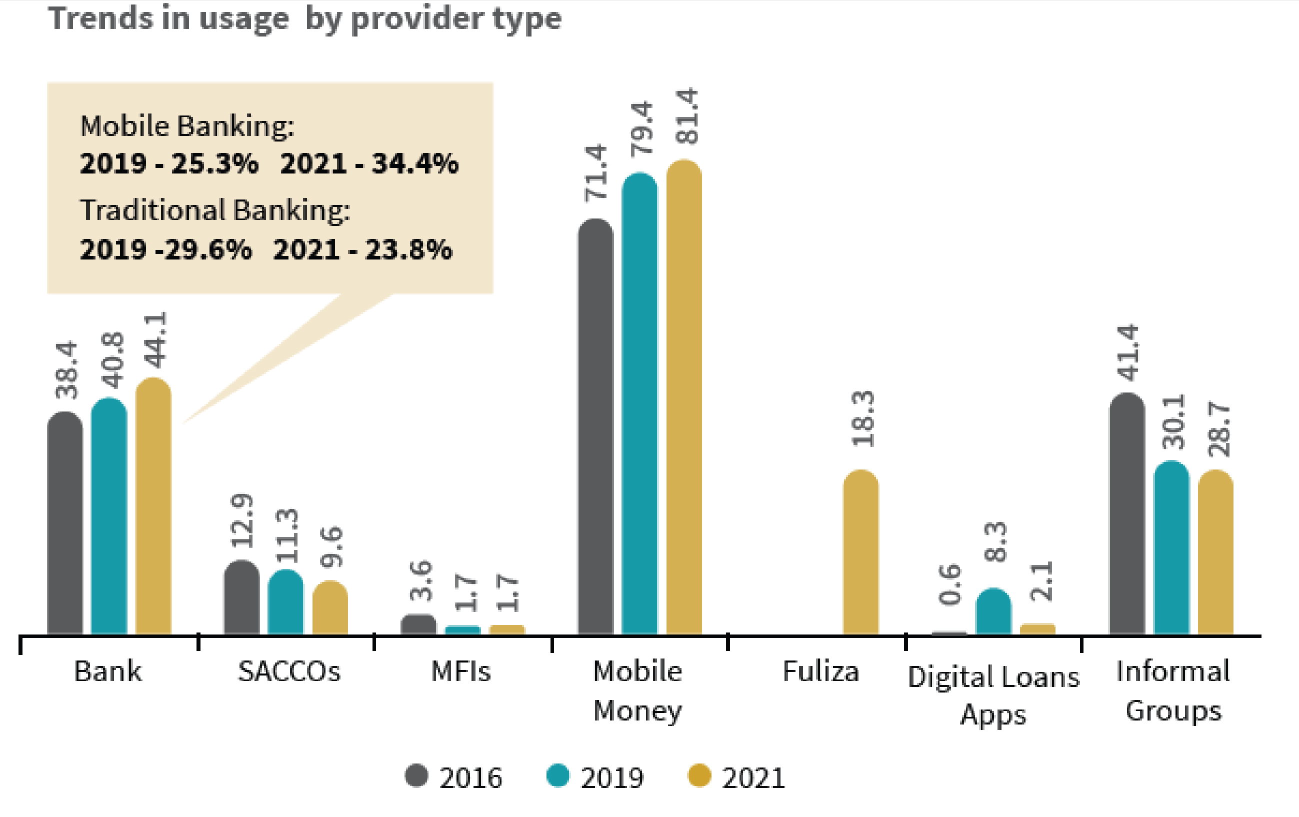
The role of technology in financial inclusion in Kenya





Source: FinAccess 2021

This growth is due to financial technology and innovations especially in **mobile money** and **mobile banking.**

Issues in the quality of financial inclusion

- **Inadequate financial literacy**: Low awareness, knowledge, skill, and attitude necessary to make sound financial decisions.
- **Unexpected charges and transparency**: Insufficient information on charges levied on products and services.
- **Money loss and incidences of fraud** Cybercrime, identity theft, internal fraud, card fraud, phone fraud, hoax phone calls/sms/malware
- **Poor service, system down time and outages**: Inability to transact, inability to access account, ATM/ machine not working, delays in getting loan/slower approval process due to system down.
- **Mobile gambling**: 18- 25 year olds constitute 19.1% of those who bet; 15% of youths between age 18-25 years perceive betting as a source of income.

Source: FinAccess 2021

fsd Kenya

Financial health versus financial inclusion

- Financial health provides information on the **outcome of financial inclusion** in terms of the resilience of the population and its potential for growth.
- Financial health **goes beyond the financial sector** as people's resilience and growth also depends on wider economic conditions as well as access to services such as social protection, health and education.

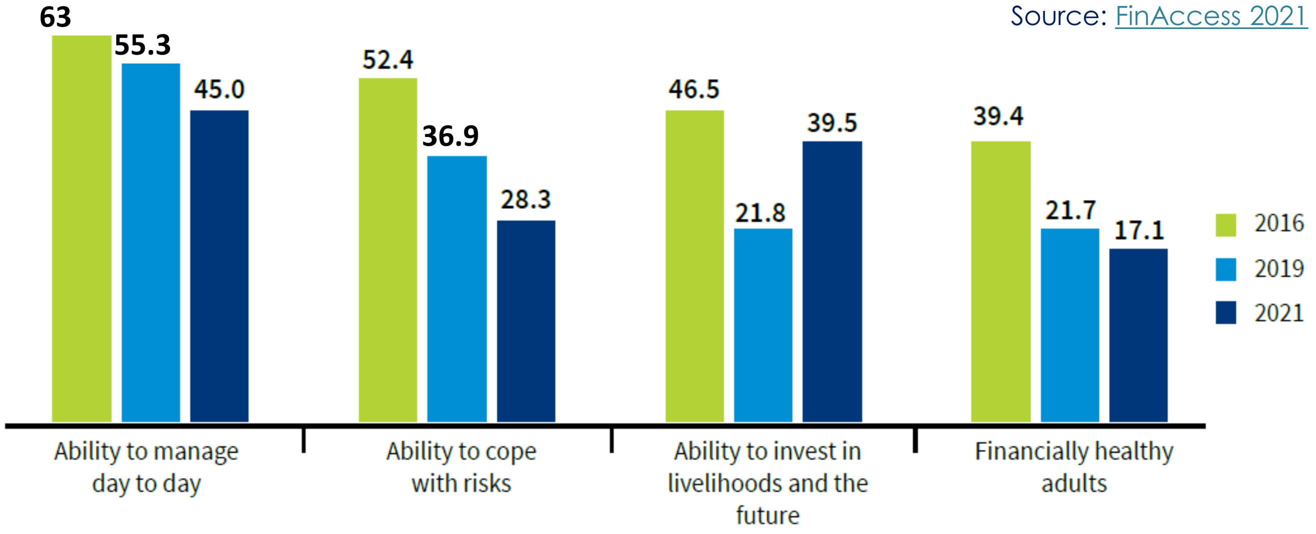
Ability to manage day to day:
- Never went without food during the last year
- Doesn't not have trouble making ends meet between income cycles
- Has a plan/budget for allocating income and expenses

Ability to cope with risk:
- Never went without medicine in the last year
- Regularly kept money aside for emergencies
- Can get hold of a lump sum within 3 days

Ability to invest in the future:
- Using savings or credit to invest in productive assets
- Education or old age; is using /plans to use savings
- Pension or investment income to make ends meet in old age; has been regularly putting aside money for the future

The **financial health of Kenyans has been deteriorating** since 2016 even as financial inclusion rises.

Source: FinAccess 2021

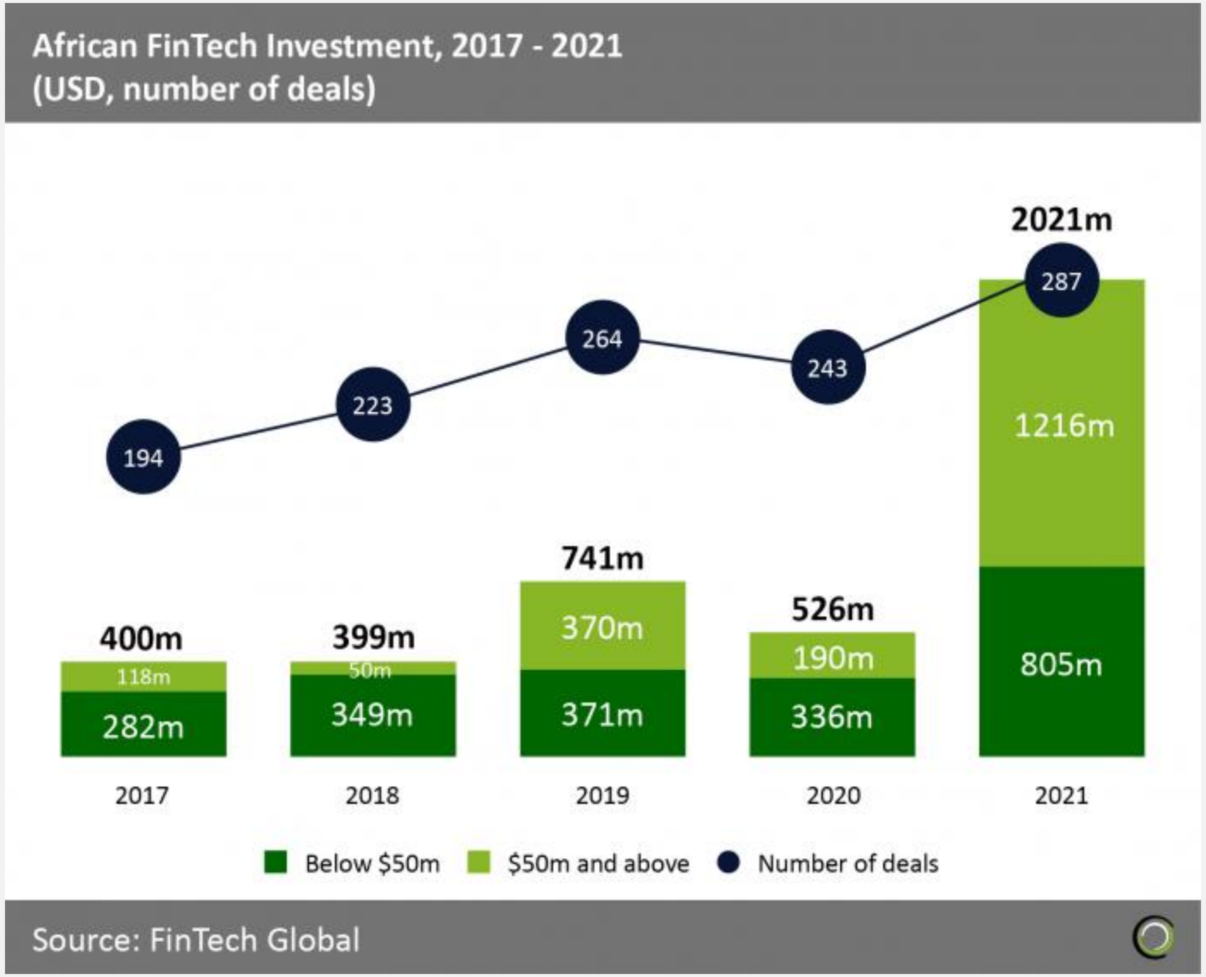


Scale of fintech investment in Africa

- **Investment landscape in Africa**: FDI focus is shifting from extractives to technology, manufacturing and services.

- **FDI in 2020**: After business services, the telecoms and technology sectors received the most FDI projects in 2020.

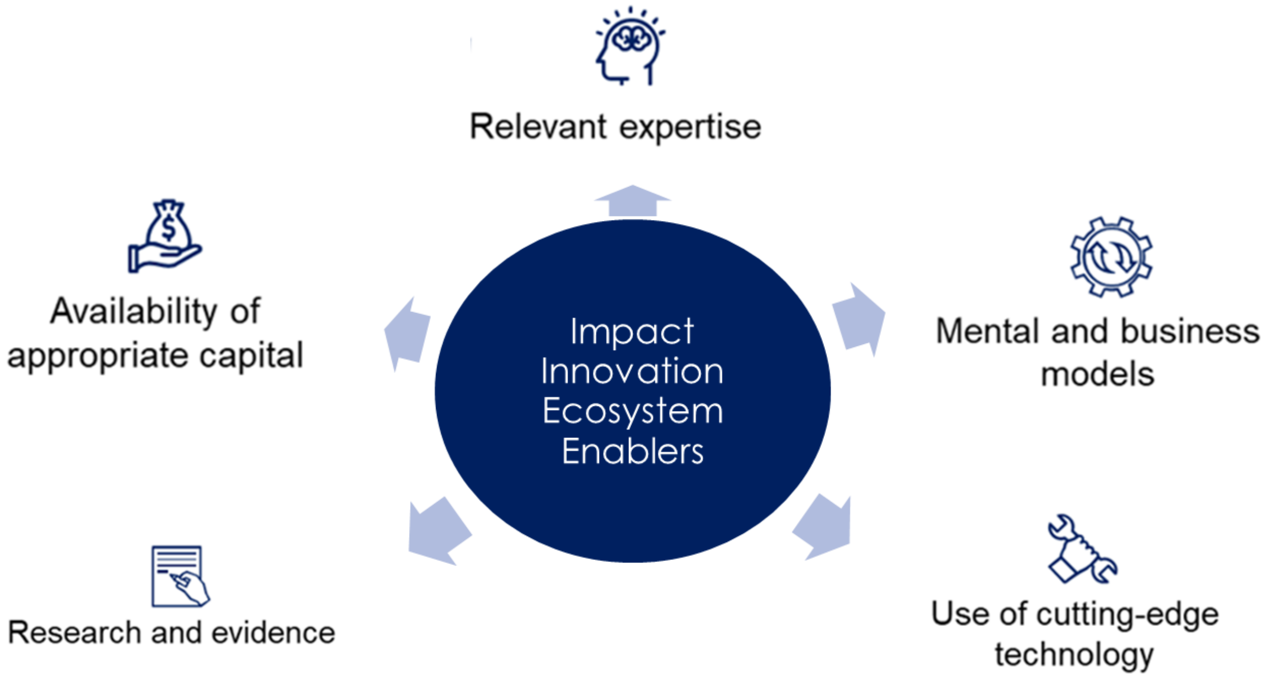
- **Fintech investment**:
    - FinTech remains the largest beneficiary of investments across financial services, attracting 33% of total tech start-up investments in 2020.
    - 50% of African tech's $2bn funding went to fintech startups in 2021.
    - The 'Big Four' countries, Nigeria, South Africa, Egypt, and Kenya, received 81% of the investments in 2021.



Dynamic ecosystem for fintech: How do you support impactful innovation?

INNOVATION FOR IMPACT

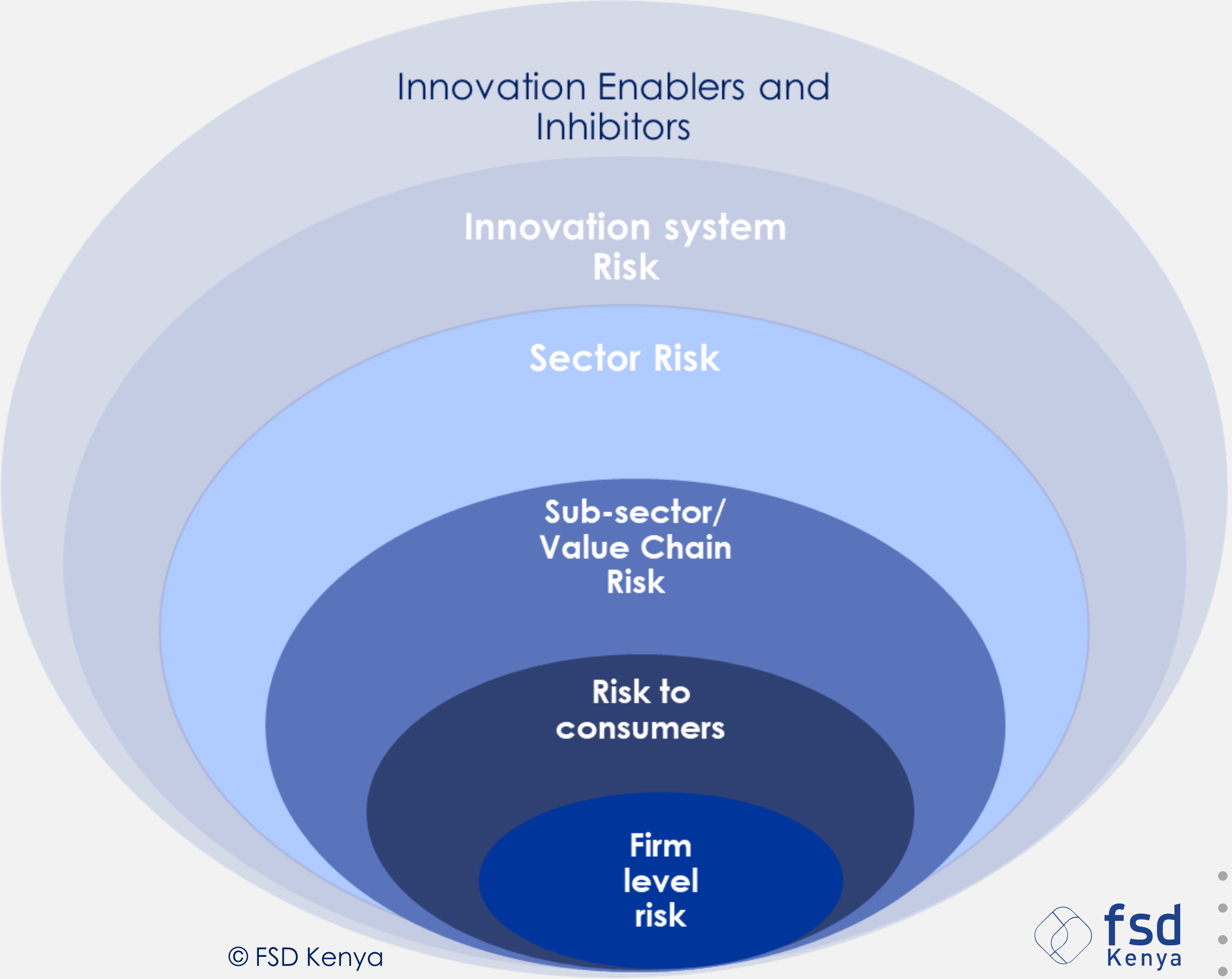
- Innovation that is focused on **low-income households and MSMEs.**
- Innovation that strengthens the ability of low income households and MSMEs to **participate effectively in the economy** as consumers or producers.
- Innovation that creates products and/or services that are **useful, trustworthy** and **affordable**.
- Innovation that alleviates poverty, builds wealth, improves financial health, reduces inequality, and fosters resilience and economic freedom.



What ethical risk looks like in fintech innovation

- The dominant features of risk, how it is defined and managed often depend on the entity interacting with the fintech product/service.

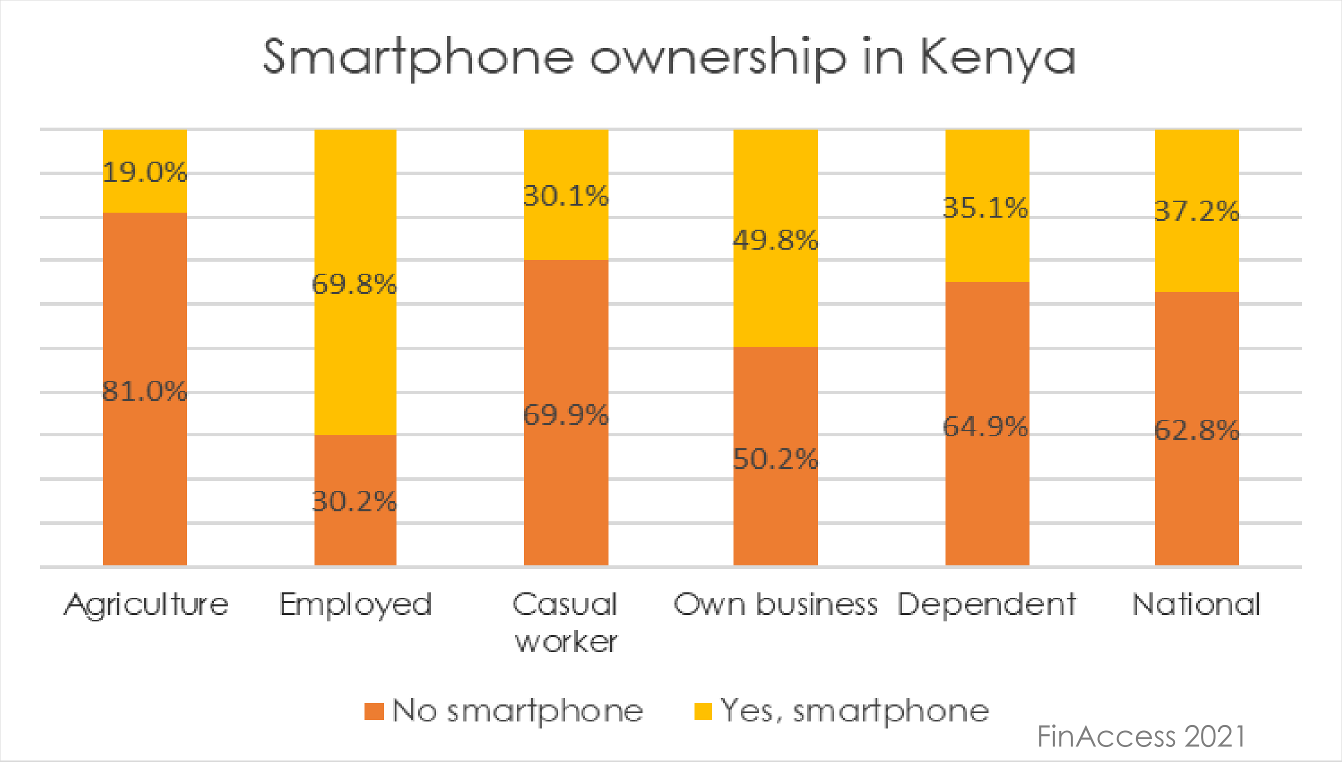
- For example, key points of risk for a regulator, differ from those of fintech innovators, which also differ to those of consumers.



Issues to consider in a dynamic fintech innovation ecosystem

Issues dominant at sub-sector, sector and innovation ecosystem level

- **Who is ultimately responsible?**: Some innovations straddle the mandates of different regulators. While separate approvals can be secured from each—who is responsible for looking at how the innovation affects the entire sector or how the sub-sectors affect each other?
- **How are risks prioritized and is the process fair?** While there are unified risks to be managed, how is the framing of what is risky prioritized? Whose views are considered?
- **Fintech and digital inequality**: Bottlenecks to tech adoption (phone type, financial bandwidth, starting capabilities, digital literacy) inform who is locked out benefitting from of a fintech innovation- who manages this?



Timeframe management: Innovators want quick approval for products and services whose impacts that are not clear with the possibility of those impacts evolving/ maturing over time. How is innovation encouraged without fostering undue sector instability/causing instability in other sectors/ exposing consumers to harm?

Issues to consider in a dynamic fintech innovation ecosystem

Issues dominant at firm, consumer, sub-sector, level

- **Incentives, innovation, 'hype' and over-selling**: Some are incentivized by factors other than innovating to deliver value. Sometimes unclear what problem the innovator is solving- it seems some innovations are looking for a problem to solve with their 'innovation'.
- **Governance**: Serious emerging issues around the conduct of certain innovators and the firms they found.
- **Burdening the vulnerable**: Sometimes there is an implicit assumption that the vulnerable especially low-income groups should shoulder the risk as the firm/innovator figures out whether the fintech solution even really works.
- **Unclear policy paths to approval**: Regulators can do more to make the process, timeframe and requirements for innovators clearer.
- **Lack of creative support and financial instruments**: Large volumes of money but there are limited funders with the required level of flexibility, creativity and appetite to finance and support the different stages of innovation.

Stages of innovation

Ideation → Proof of concept → Proof of innovation → Proof of business model → Proof of profit model

How to foster an ethical and dynamic innovation ecosystem

- **Financial sector wide supervision/ coordination:** Sector-wide approval processes and assessments how the innovation affects the entire and sub-sectors—take stock periodically.
- **Clearer policy path to approval**: Including timeframe and financial expectations.
- **Fintech and digital inclusion**: More deeply leverage non-smartphones and/or access to (not necessarily ownership of) smartphones.
- **Incentives, Innovation 'hype' and over-selling**: Sobriety in innovation assessments with experienced African experts.
- **Governance**: Require ethical conduct and behavior with clear consequences for non-compliance.
- **Burdening the vulnerable:** Mitigate, prevent and/or compensate vulnerable groups from shouldering innovation risk.

- **Creative support and financial instruments**: More deliberately financial and non-financial support to innovators depending on both the stage of the innovation and lifecycle stage of the business.