

The rise of fintech in Africa: Bridging the gap to financial inclusion and economic growth

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Fanele Mngoma
Investment Analyst Graduate

For much of African history, institutional financial services have remained inaccessible to large portions of the population. Stringent requirements and a lack of infrastructure in remote areas have often kept individuals from integrating into traditional financial systems. However, the emergence of Fintech provides a pivotal opportunity to address these barriers to financial inclusion. This is particularly important in a continent like Africa, where a significant number of transactions, especially in South Africa, are still conducted in cash. This illustrates the enormous revenue growth potential that Fintech holds, both within South Africa and across the broader African continent.

Fintech, defined as the integration of technology to provide innovative financial solutions, is reshaping the financial landscape by addressing key issues such as high transaction costs and limited access to banking services. By promoting financial inclusion, Fintech is advancing economic growth and contributing to reducing inequality. This financial technology revolution is being driven by the promise of inclusive finance, economic growth, and the reduction of disparities in wealth and opportunity. The COVID-19 pandemic further catalysed this growth, with digital payments becoming a vital tool for enhancing financial inclusion. As physical interaction became increasingly rare, Fintech enabled users to access financial services quickly, efficiently, and securely. The rapid acceleration of digitisation during the pandemic highlighted the power of Fintech to provide critical services in times of crisis.

The primary drivers of the fintech sector have been technological advancements, changing consumer behaviour, and regulatory conditions. However, the impact of these drivers varies across different geographical regions and institutional settings, leading to varying levels of maturity within the industry.

African Landscape

Africa, with its predominantly cash-based economy, offers Fintech a unique opportunity to bridge the gap for millions who are underserved by traditional banks or excluded from formal financial systems. However, the region's regulatory landscape remains fragmented, making cross-border expansion a challenge. With 54 diverse countries, each with its unique set of formal and informal financial practices, conducting business in Africa requires a tailored approach for each context. Consequently, Fintech hubs have emerged predominantly in the continent's largest economies, with countries like South Africa, Nigeria, Egypt, Kenya, and Ghana leading in fintech investment.

At the heart of this transformation are mobile money services like M-Pesa, Yoko, Airtel Money, and Orange Money. These platforms are allowing people to interact with the financial system for the first time, often through their smartphones. These services facilitate easy money transfers, bill payments, and even access to credit, making financial inclusion not just possible but convenient. Mobile money platforms and third-party payment systems have emerged as the primary solutions, closing the gaps left by traditional banking infrastructures.

"Start-ups must navigate complex regulatory landscape across different countries. This challenge is compounded by the lack of harmonised regulations making it difficult for startups to scale regionally"

- Ameya Upadhyay, a partner at African start-up investor, Flourish

According to Figure 1, Africa is poised to be the fastest-growing Fintech market between 2023 and 2030, with revenues expected to increase 13 times the global average of 6 times. Despite the promise, the region faces challenges such as complex regulations, inadequate infrastructure, and rapidly changing technology. Still, projections suggest that by 2030, the FinTech market in Africa will rival that of Asia Pacific, with the highest growth rates seen in Latin America and Africa.

One of the primary challenges in investing in Africa remains ensuring that investments yield returns amidst the region's inherent risks. To this end, it is crucial to identify an economically viable model that:

1. Addresses the unique challenges faced by Africa while remaining affordable,
2. Has the potential for expansion beyond its home market, given the relatively small market sizes, and
3. Minimises the risks associated with operating in developing regions.

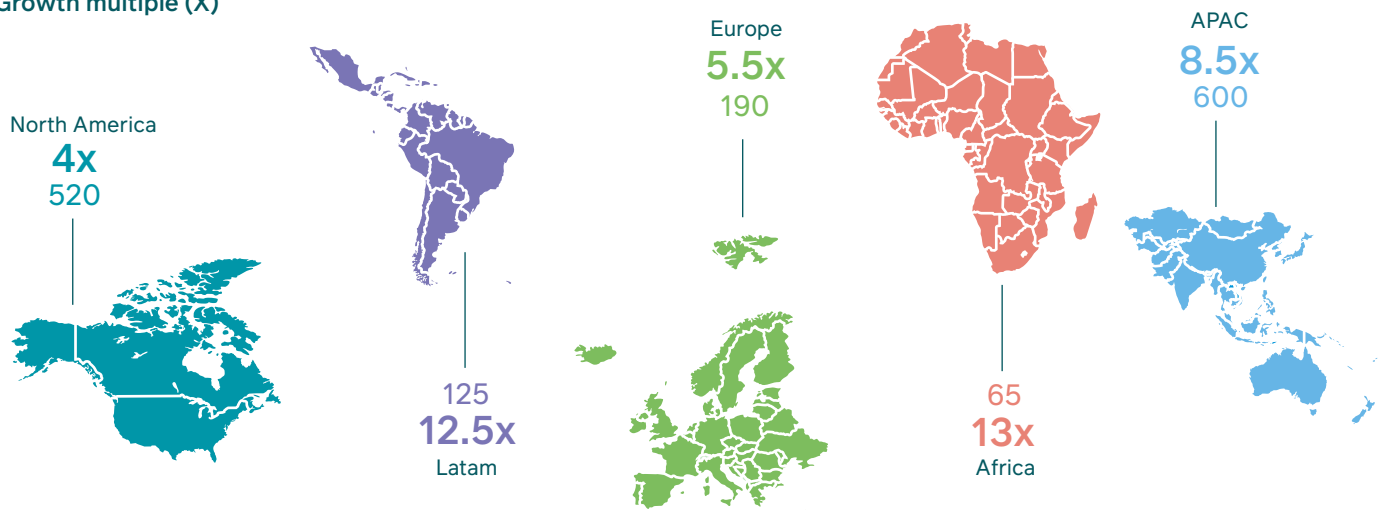
In the past, FinTech has struggled to prioritise profitability, as growth has often taken precedence over financial sustainability.

Figure 1

Global Fintech Revenue Growth by Region, 2021 to 2030

2030 revenues (\$B)

Growth multiple (X)



Sources: Capital IQ, Pitchbook, Company's investor presentations, desktop research, BCG analysis. (Goyal et al., 2024)

South African Landscape

South Africa, recognised for its sophisticated financial sector, stands out as a key player in the Southern African Fintech market. South African start-ups account for 20% of all new Fintech businesses in Southern Africa and 40% of the continent's total Fintech income. Despite having a developed financial services sector, South Africa continues to face high levels of financial exclusion, with only a quarter of low-income households actively using their bank accounts. In April 2024, National Treasury published the Digital Payments Roadmap: Towards Inclusive, Accessible, Effective and Sustainable Digital Payments in South Africa, which signals the country's commitment to a cashless society and a more inclusive, accessible financial ecosystem.

The South African financial landscape is rapidly shifting, especially as mobile devices increasingly serve as the gateway to financial services, particularly in areas with limited access to traditional banking. Fintech companies are poised to address gaps by offering innovative solutions that improve customer experience, reduce service delivery costs, and boost efficiency. While Fintech cannot entirely replace traditional banks, it is clear that the sector's agility and digital-first

approaches challenge traditional financial services models. Partnerships between Fintech firms and banks are critical to ensuring compliance with regulations and to foster innovation within the financial services industry.

Conclusion

Fintech holds immense potential to drive economic growth in Africa and improve the livelihoods of millions by revolutionising the financial sector. By lowering transaction costs, enhancing financial inclusion, and facilitating the formalisation of economies, Fintechs are creating tangible benefits for individuals and businesses. These innovations also extend beyond financial services, with solutions like data analytics and risk management offering essential tools for new business creation.

To stay competitive in the rapidly evolving financial ecosystem, brands must embrace innovations such as mobile payments, embedded insurance, electronic wallets, and buy-now-pay-later services. Those who fail to adapt risk being left behind as consumers increasingly gravitate toward brands that provide seamless, innovative, and efficient services. Fintech is not just a tool for financial inclusion; it is a catalyst for broader economic transformation, and those who capitalise on its potential will be poised for success in the future.

“Every brand needs to realise that they can and must become fintech's. Customers will be migrating to the brands that give them easy, smooth, frictionless, delightful experiences. This is a make-or-break year, and those brands that don't want to be left behind must join the fintech innovation”.

-Christo Davel, serial entrepreneur

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