

Bank on change in Africa

 By [Cobus van Zyl](#)

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I have been part of the 'banked' segment of civilization since I was five years old. I have tried it all, from savings to home-loans, vehicle finance to credit cards and eBucks in between. I have also tried many different banks over the years. After all this, by and large, I would have to say I've had mostly pleasant experiences.

These days I prefer online banking, like most people, because it's easy, cheap, convenient and has all the other benefits the banking adverts have drilled into my head over the last 30 years.



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So you can imagine my apprehension at using mobile money when I moved to Tanzania a few years ago. When asked why I didn't use it I would say things like: "It sounds great, but it's surely so basic, I need online banking". Or "I feel more comfortable leaving my money with guys who do banking not communications."

Then one day I decided to give it a go, mostly out of desperation, because I needed to send someone money. I am on Vodacom so I used their mobile banking product called M-PESA, but the other mobile providers all have a mobile money product. Airtel have Airtel MONEY, Zantel have Ezy-PESA and Tigo have Tigo PESA.

1-month experiment

The once-off transaction became a 1-month experiment to go out and try it all. So I paid my water, electricity, DSTV and internet bills. Each transaction took less than three minutes. I bought a bottle of wine at the supermarket and paid for dinner, later that night, at the restaurant, with my phone. Remember, I am talking about a country that doesn't really have credit cards. I sent money, received money and withdrew money at some of the thousands of Wakalas (outlets) countrywide. This is simply an agent with a mobile phone and a float. All of this was done at speeds no bank can match and for a price that's really next to nothing. I also tried sending money to people on other networks. Although it costs a bit more it was possible!

So what did I learn? I learned that banks in this country should be very, very worried. After one month I was left wondering what I can do with my banking tools that I cannot do with my phone. I had to summarise it (on a personal level) as: earn interest when I save, loan money and do international transfers. Of course there are things like online share trading and vehicle finance, but this is not yet easily available in Tanzania.

Solutions from non-traditional banking sources

A month later M-PAWA launched. M-PAWA is Vodacom Tanzania's savings and loans product and falls under the M-PESA umbrella. It means that you can now also save money while earning interest and, based on your cellphone history and usage, you will be eligible for a loan. Depending on your profile you can secure a loan of up to TSH2, 000,000 (±R14, 000) without stepping into a bank.

Commercial Bank of Africa, an East African banking group, backs this. So, for me, that just leaves international money transfers. With Vodafone's reach worldwide, any bets how long it will be before that's possible?

In a country where ±10% of the population has bank accounts*, despite the presence of over 50 banks, you cannot help but wonder where this leaves banks. With a need so great, the solutions are coming from non-traditional banking sources, like the cellular providers and unless they (the banks) move a lot faster than they have in recent years, they will watch their

potential slice of the pie disappear altogether.

I think the future of banking in Tanzania, and indeed across the whole of East Africa, will be determined by how fast banks can smarten up to the changing game around them. So where do the opportunities lie?

A more creative approach

Creative thinking is the greatest tool we, as a human race, have at our disposal to solve the challenges of the future.

I believe first world banking paradigms will be challenged, more and more, in third world markets. Why? Because it is too difficult to implement on the one hand, while the need for products that work, now, is so pressing on the other. As they did in Kenya with Safaricom, I think CBA have spotted a fantastic gap and exploited it quite brilliantly with the market leading cellular provider.

Vodacom has over 7 million M-PESA users and over a third of Tanzania's GDP passes through its system every month. Which bank wouldn't want to fish in that stream?

Another example is Equity Bank in Kenya, which recently acquired a cellular license. Exactly what it plans to do with it is not 100% clear, but all initial signs are full integration between telecoms and banking services.

"The future of financial services the world over is in the mobile phone. This is why we are keen to have this merger between telecoms and financial services using the license," said John Staley, Equity Bank's Chief Officer in charge of finance, innovation and technology, during a recent investor briefing". **

Education

This is one of the things cellular providers have been doing right for years. You could argue that they have the budget for it, but I don't agree that that's the only factor. For instance, when ATMs launched in Tanzania for the first time people waited next to the ATM, under a tree, till 9am before they started to use them.

They thought the machine worked banking hours too, defeating the whole purpose of the invention!

This illustrates the level at which education has to start. Engaging with the consumer at this point of purchase is not expensive; it just requires insight and a consistent educational strategy.

So if $\pm 90\%$ of the population don't have bank accounts, it means that $\pm 90\%$ of the people don't understand banks and how they work. They even find them intimidating. So communicating to the people in a language they understand is more important now than ever. As I said, they thoroughly understand cellular products, so introducing banking on a well understood platform makes uptake of the product so much easier.

Commercial banking

Honestly, I think banks will struggle to compete in future when it comes to retail banking. It's too expensive, too limited in terms of infrastructure and has way too much red tape to even get started. When I opened my bank account I had to visit the bank three times, make copies of my ID, fill in two forms etc. However all is not lost. I believe there is still a great need for innovative solutions when it comes to commercial banking. Payroll products, for instance, is a wide gap in the market, yet all the banks I have asked to take our company on board, as a client, has offered the same tired old solutions. Things like overdraft facilities, credit cards, larger loans and vehicle finance are all so wrapped up in red tape; it's as good as unavailable. They fail to see that commercial banking is the one area they can still compete.

Having said that, even in this area, the window is closing. As the economy is growing at 6-7% per annum, as it has done almost every year, for the last decade, the need will only grow bigger.

Word to the wise; if you don't look after your customer someone else will. So it might not be the cellular providers, but it will be someone who thinks out the box and creates banking solutions that are accessible, easy to understand and available as soon as possible!

**Finscope Tanzania financial sector survey 2013 report*

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