



# PAYMENT ACCEPTANCE IN AFRICA

THE EMERGING UNSEEN OPPORTUNITY

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## SETTING THE VISION

At Network, we believe that Africa stands at the verge of true transformation driven by the adoption of digital payments. The low level of digital payments penetration today is frustrating, but we see a multitude of powerful trends which are combining to create an inflection point for payments in Africa.

Many of the obstacles to digital payment acceptance are gradually being unpicked, revealing the true potential of a developed Payment Acceptance business. Banks that build their Payment Acceptance business not only contribute to the foundation on which this transformation can take place, but position themselves to reap the rewards of this fundamental shift.

We see great potential for banks to multiply their returns from Payment Acceptance, developing it from being a necessary function into a significant contributor to bank results.

Transforming payment acceptance into a strategic high value generating asset for banks

Importantly, we believe building Payment Acceptance can create far more powerful changes beyond the Payment Acceptance business – for example, creating a ‘halo effect’ for issuing and feeding the flow of liabilities and hard currency to a bank. Building Payment Acceptance can transform how personal customers transact with their bank; support the growth of efficient lending to both companies and individuals; and create a new delivery channel through which to provide banking services. At a societal level, it can be one of the core pillars under which Financial Inclusion is accelerated.

At Network, we acknowledge realizing these benefits needs to take place in line with the realities of today. We stand ready to work with our clients to help them be at the forefront of realizing these opportunities.



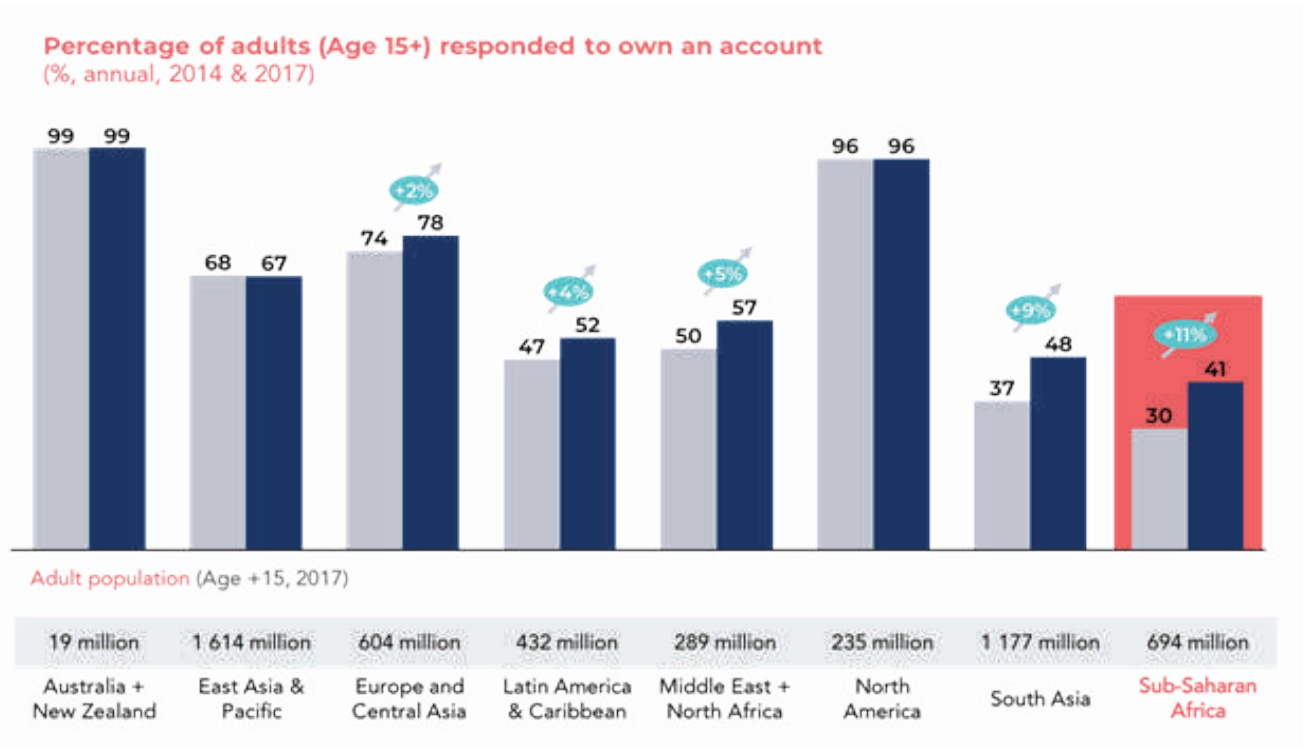
**“WE BELIEVE THE  
POTENTIAL EXISTS FOR  
BANKS TO MULTIPLY  
RETURNS FROM  
PAYMENT ACCEPTANCE”**

## A FRUSTRATING PRESENT

The challenges with developing the digital payment sector in Africa are well catalogued. Low income levels, challenging infrastructure, and the well-established virtues of cash - immediacy, ubiquity and trust-have all held back the development of digital payments in Africa.

Yet, despite these factors, our region has some considerable advantages. Whereas, the rest of the world is ageing, the median age of the population in Africa is just 19 (compared, for example, to Europe at 42). The young people of Africa are increasingly engaging with financial products in different ways, ready to trail blaze the use of modern payment services. This trend has been widely commented on, but these changes are now translating into hard numbers with a 36% (relative) increase in bank account holders over a 3-year period.

**FIGURE 1: ACCOUNT OWNERSHIP**



Source: World Bank Findex, World Bank, 2017

The picture of Africa is of a growing and youthful population; a group that are increasingly digitally engaged, mobile phone and financial account owning, and seeking to make payments electronically for a wider range of goods and services. These young people are ready, eager and equipped to pay in ways that are omnipresent in most parts of the world, but are quickly frustrated by the lack of opportunity to use their new-found capability. Very low levels of card acceptance at merchants, and few opportunities for online purchases, are hugely restricting the benefit to both consumers, merchants and financial service providers of having a formal financial account. No wonder the market reality is that card usage remains dominated by withdrawing cash at ATMs. In fact, with the exception of South Africa, 80% of African card transactions are made at an ATM.

At the same time, frustration is also felt by banks and their Payment Acceptance businesses, with scale still too focused on the traditional Travel & Entertainment (T&E) sector and the investment requirements of Point of Sale (POS) hardware seen as a constraint on growth.

**EXCLUDING SOUTH AFRICA, CARD PAYMENTS ACCOUNT FOR LESS THAN 2% OF GDP. MATURE MARKETS ARE OVER 30%**



## STATISTICS TELL HALF THE STORY

Reliable statistics are notoriously hard to quantify for Africa. Our best estimate at Network is that spend processed through Africa's Card POS environment totals approximately \$100 billion. That accounts to around 5% of the continent's GDP compared to over 30% for more developed markets. Even then it still seems to paint a rosier story than is often the reality in each market.

South Africa is often atypical to conditions found more generally in Africa. Card Acceptance is more developed there than in other major African economies which skews statistics for the whole continent. In fact, if we remove the South Africa statistics from the data above, the ratio of card spending to GDP falls to less than 2%.

That said, the South African market itself is also limited in development. Surprisingly few banks offer a smooth and well-advertised process for a business to get a POS device or to sell online.

In a recent survey of small businesses in South Africa many businesses stated that they had customers who wanted to make card payments, but were unsure where or how to get a POS, or whether their bank would provide them with one.

Similarly, if we consider where the actual POS infrastructure is located within countries, we find that major cities and the T&E Sector dominate. As an example, data published by the Nigerian Inter Bank Settlement System shows us that the state of Lagos accounted for 53% of transactions from just 7% of the population. Put another way, if card usage in the whole of the country was at the same level as Lagos, we would see card spend at 8x current levels - and this is the scale of opportunity present in a country with the 2<sup>nd</sup> highest card spend on the continent.

Duplication is a further complicating factor to consider with POS Terminal statistics. Market conditions have often encouraged retailers to hold POS devices from multiple providers - for example - terminals are provided at low or no fixed costs and transaction pricing does not sufficiently reward scale. By taking a POS terminal from a 2<sup>nd</sup>, 3<sup>rd</sup> or 4<sup>th</sup> provider, the retailer secures contingency in the event of service failure without incurring additional cost, but the bank's investment in hardware (typically made much deeper by import duties), often fails to secure the expected transaction volumes, discouraging further deployment in other retailers.

From a low statistical starting point, market realities show that there are vast deserts lacking any meaningful POS coverage. The young African equipped with bank account, mobile phone and plastic-carrying wallet, will most likely be frustrated at the lack of opportunity to use the capability, but resigned to pulling the familiar cash from an ATM.



## SIZING THE MARKET POTENTIAL

Despite the current state of affairs, the adoption of all types of electronic payments is now growing faster across Africa than in any other continent. Although the headlines have been dominated by the growth in mobile money, card issuance and acceptance has also been expanding rapidly.

As we highlighted earlier, between 2014 and 2017, sub-Saharan Africa had the fastest growing number of adult (Age 15+) financial account ownership in the world.

This aggregate trend in Africa conceals great variety - from South Africa, a more mature market (although still with huge growth potential), to Kenya where mobile money has grown much more rapidly than bank accounts or cards.

Research of 9 key markets in Africa shows:

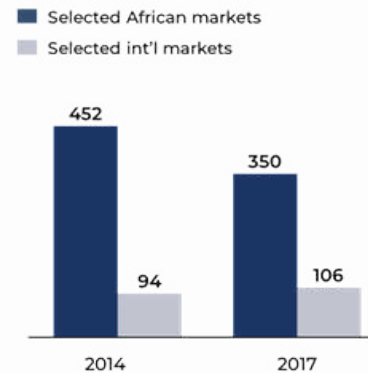
- > On average 41% of the adult population now has a financial account
- > Between 2014 and 2017, average growth in POS devices was 26% per annum
- > The number of transactions per card is growing even faster, averaging 61% growth per annum, over the same period
- > Even South Africa (a more mature market) had transaction growth of 13% per annum
- > The ratio of POS/card has improved by 8% per annum

Overall, the growing transactions per card and the improving POS/card ratio is positive for issuers and acquirers. However, Africa still lags far behind global figures in terms of both transactions per card and the POS/card ratio, which presents a significant opportunity to deepen POS penetration and change customer behaviour.

Figure 2 compares the average number of transactions per card and the POS/card ratio of selected markets with a global average.

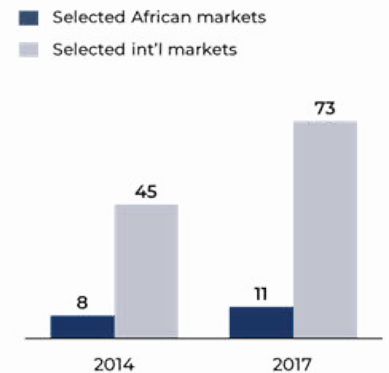
**FIGURE 2: AFRICA'S CARD USAGE AND POS PENETRATION / INTERNATIONAL COMPARISONS**

**Average number of cards per POS**  
(Cards per POS, annual, 2014 & 2017)



**Ratio of global to Africa's cards issued per POS**  
4.8      3.3

**Average POS transactions per card**  
(Transactions per card, annual, 2014 & 2017)



**Ratio of global to Africa's POS transactions per card**  
5.6      6.6

<sup>2</sup> Includes financial institution accounts and mobile money accounts

<sup>3</sup> Angola, Ethiopia, Kenya, Mozambique, Nigeria, Rwanda, South Africa, Tanzania and Zambia

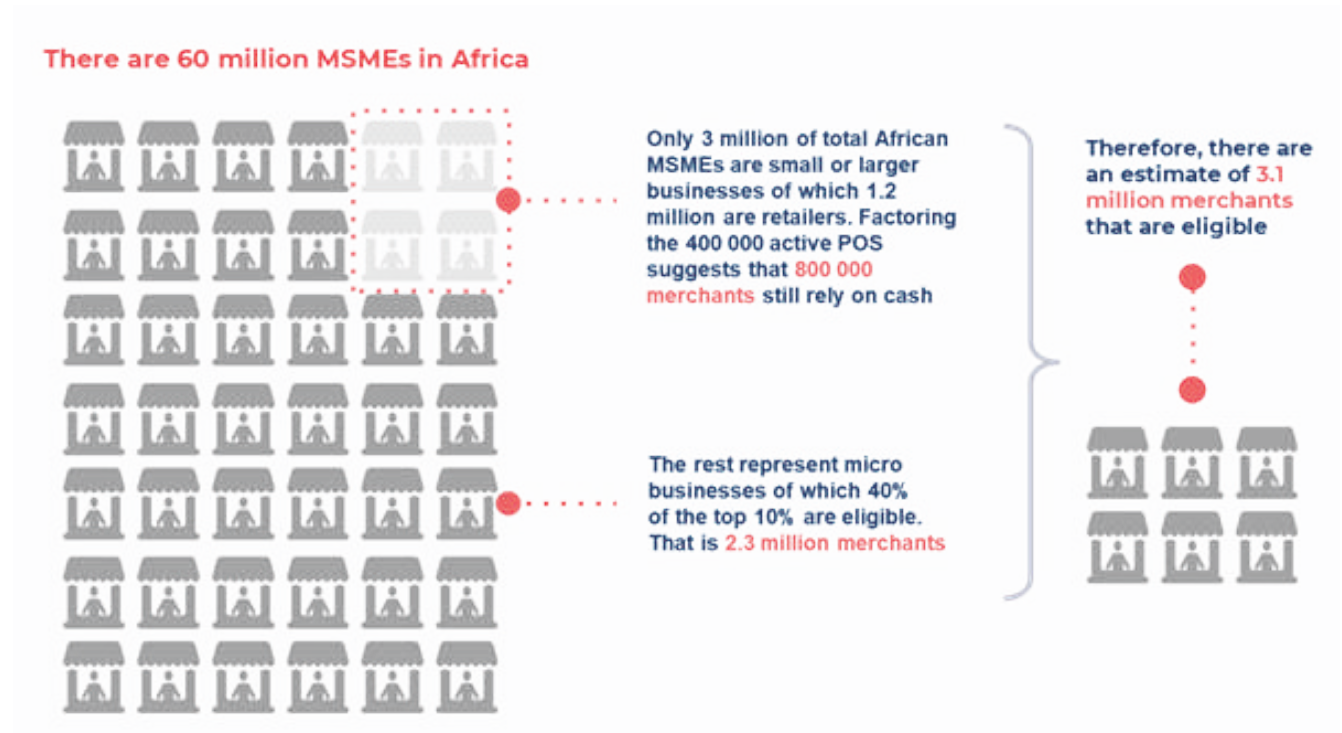
<sup>4</sup> Australia, Belgium, France, Germany, Italy, Mexico, Netherlands, Russia, Turkey and Saudi Arabia

One reason POS penetration and usage has remained relatively low is the structure of African retailing – typically dominated by micro-businesses. 60 million micro, small and medium enterprises (MSMEs) are spread across sub-Saharan Africa. However, only a fraction (3 million) are formally registered and are large enough to at least be considered “small”. Of these firms around 40% are retailers - suggesting an overall POS market amongst formally registered retailers of circa 1.2 million merchants. Of these, our data points suggest at most 400,000 have an active POS terminal, leaving an unserved market of at least 800,000 retailers.

However, this is to ignore the needs of micro merchants, many of which serve the same card-carrying customers. If we assume that 40% of the top 10% of micro merchants are retailers, there are a further 2.3 million businesses that could become points of acceptance. The reality though is that any form of dedicated hardware is likely to be considered expensive by this sector. The route for micro merchants is likely to be much more focused on QR solutions.

The future can then rapidly transform to an end-to-end digital solution, removing the current embedded cost of plastic and hardware. At the same time, we lay the ground for ‘last mile’ embracement of the Financial Inclusion challenge.

**FIGURE 3: ELIGIBLE MERCHANTS THAT COULD BECOME POINTS OF ACCEPTANCE**



<sup>5</sup>MSME Finance Gap, IFC, 2017



## THE KEYS TO UNLOCK AFRICA'S PAYMENT POTENTIAL

As we have established, participants in the Payment Acceptance business have barely scratched the surface of what's possible in the African market. There have been barriers but these are quickly being eroded by 5 key changes:

### HARDWARE COSTS

The cost of hardware is falling from historically high levels, driven in part by the general trends of falling technology costs. But costs are also being moderated by changes to the supply chain with operators like Network sourcing specific devices tailored to the African market. Low cost, resilience, power back up, contingency network provision and payment scheme flexibility are all critical factors for Africa. Moreover, the blurring of the boundary between dedicated POS and mobile tech already in place is bringing costs down further. Much of the required hardware for payment acceptance is already partly in place though the growing prevalence of Smart Phones, with QR codes and 'pin on glass' capability set to leverage this existing capability.

### SOPHISTICATED PRICING

We see significant potential for acquirers to adopt more sophisticated pricing models – for example, pricing specific to the conditions of each trade segment. Pricing to encourage efficient operations will be a key enabler for successfully penetrating new segments, whether that's driven, for example, by new settlement processes, offering dynamic currency conversion or offering valuable new data insights.

### FLEXIBLE TECHNOLOGY

Just as phones are no longer used solely to call people, we see a similar paradigm for POS technology moving from just being used to accept international scheme cards. The adoption of more sophisticated and flexible technology enables new payment schemes to be easily added, new payment forms to be quickly adopted, and new transaction types to be rapidly enabled. At Network, we're leading the way here, rolling out Android-based technologies which has significantly accelerated our speed of enabling new payment schemes.

### MACRO LEVEL INTERVENTIONS

The macro economic advantages of digitizing payments are abundantly clear. As such, it's unsurprising that Governments across Africa are encouraging digital payments and setting the regulatory agenda in support of that aim. In fact, we're already seeing in some areas the start of enforcement of no longer accepting cash. For example, Egypt's E-Payments Act, passed earlier in 2019, restricted the use of cash in Government payments above 500 Egyptian Pounds.

### CONSUMER & BUSINESS -LED DEMAND

As well as the supply side of the equation changing, we also see powerful propositions leading to rapid adoption. Looking beyond Africa, PromptPay in Thailand gave a good example of the potential speed with 30 million Thais holding the digital payment product within the first few months of launch.

## NEW BENEFITS – THE SEVEN WONDERS OF THE NEW ACCEPTANCE WORLD

Payment Acceptance is under developed. We have demonstrated there is a much bigger market available, with barriers eroding. But so what? Does this just mean more Payment Acceptance? We see the benefits as being much broader than that. We see 7 key benefits of the new Payment Acceptance world:



**BENEFITS FOR BANKS  
EXTEND FAR BEYOND  
THE PAYMENTS  
ACCEPTANCE BUSINESS**

### **TRANSFORMED ACCEPTANCE ECONOMICS**

We see the potential for lower costs, higher revenues and greater scale, simultaneously. Lower costs will be driven by reduced hardware costs, increasing service efficiency through digitization, and the eradication of significant diseconomies of scale. New revenue streams can be enabled by new types of transactions and new services. And greater scale comes through the collection of changes we've outlined. All this combines to deliver a bigger, better Payment Acceptance business.

### **A “HALO EFFECT” FOR ISSUING**

Transforming your Payment Acceptance business also creates a “halo effect” for the Issuing side of the business. More merchants equals more opportunities for customers to use issuing products equals more transaction-driven revenue. Moreover, for banks with both Issuing and Payment Acceptance businesses, the potential for ‘on us’ transactions increases and the opportunity to drive loyalty by a ‘top of wallet’ strategy increases.

## NEW TRANSACTION TYPES

The changes described will enable a new range of transaction types, putting in the hands of customers the choice of payment method. POS terminals will no longer be limited to a niche of relatively high value transactions. Broader retail spend, bill payments, agency banking, top ups and 'e-kyc' are likely to be typical. And new transaction types will be enabled by much more than traditional terminals. New transactions, from customers carrying new payment form factors, received at new Payment Acceptance technologies.

## DEEPER CUSTOMER ENGAGEMENT

The plastic in a wallet or purse, or the app on a mobile phone are an embodiment and reminder of a bank's brand. Today's typical customer has limited engagement with the bank, perhaps just through using at an ATM. The emerging Payment Acceptance environment will allow banks to serve day-to-day payments, creating a much deeper engagement with the customer.

## A NEW BANKING DELIVERY CHANNEL

POS technology will be freed from purely enabling card payments. We see the open platforms making POS terminals and mobile solutions a powerful delivery channel for basic banking services. These open platforms will help meet the demands of tomorrow's more engaged customers expecting more accessible banking.

## FEED THE BALANCE SHEET

Payment Acceptance may cheer a bank's CFO as much as those responsible for Marketing and Delivery. A bigger, more effective Payment Acceptance business drives settlement into corporate accounts, creating further revenue potential and enabling growth in the liabilities book.

## FACILITATE BUSINESS LENDING

Moving beyond liabilities, a developed acquiring business also provides invaluable insights into the dynamics of a given retailer. In itself, this has potential as a new Value Added Service, but it can also provide critical data to support and enhance prudent lending decisions. What's more, the settlement flow on payments can be used as a source of funds to ensure loan facilities are reduced when needed.

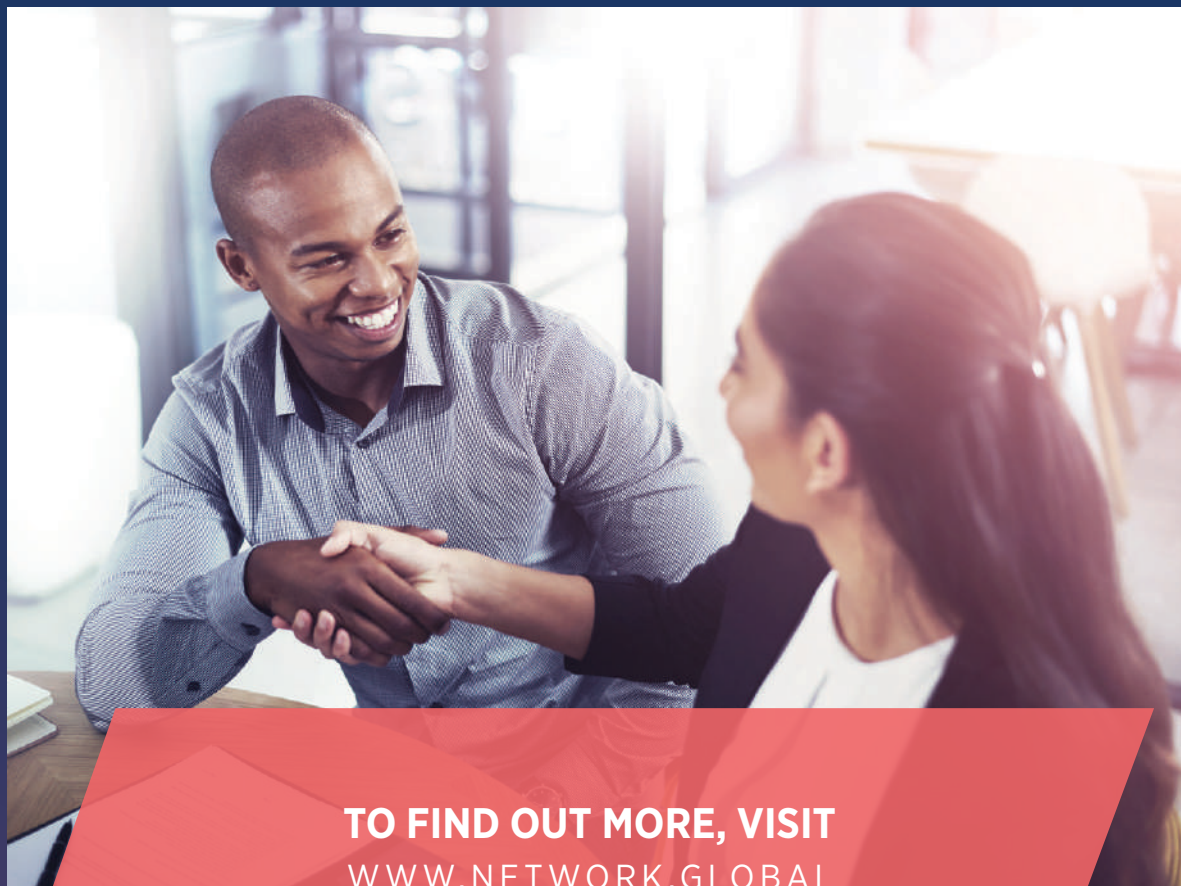
# Network >

International Payment Solutions

## WE'RE READY. AND WE'RE READY TO HELP YOU.

Network is the leading provider of payment solutions across Africa. We draw on our position of leadership across the Middle East and Africa. We have an in-depth understanding of retailers through our relationships – we serve more than 65,000 merchants directly, with 15,000 of them already using our latest N-Genius™ solutions, which we're now ready to deploy in Africa.

It's a capability that doesn't come easily. Our market leadership means we're able to support an investment programme into the hundreds of millions of dollars which is now available to you to leverage. Alongside the technology, we can also provide the best advisory services to ensure it's deployed to maximize the benefits to you. Moreover, we are unique in operating pan Africa with industry-leading capability across the payments value chain. We want to bring our knowledge and experience to our bank partners in Africa, applying it in ways that will help them serve their customers. And importantly, we're ready to help banks seize the opportunities this paper has outlined.



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