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Fintech's - A Gateway to Achieving Financial Inclusion in Zambia: Case Study of Trader at Bauleni Market

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Abstract

Financial inclusion for all sectors and genders continues to be a challenge in most emerging markets across Africa including Zambia due to limitations inherent in both the operating models and governance requirements for Traditional Commercial banks. This has particularly resulted in a large number of individuals and small businesses requiring access to financial services being excluded. Most of the prohibitive requirements against individuals and startup businesses engaged in the informal sector includes lack of valid documentation to support registration, source of income and inability to meet the minimum account opening balance threshold. As a result, individuals and entities operating in this sector are unable to enjoy the benefits of belonging to the financial system which includes access to working capital from short term loans such as overdrafts and earning interest from investments in time deposits as well as securities on the capital market such as treasury bills and bonds.

In 2017, the government of Zambia embarked on a deliberate strategy aimed at promoting financial inclusion. However, the was skewed toward encouraging traditional commercial banks to ease some of their account opening requirements through creation of a new type of accounts that promoted lite Know Your Customer (KYC) requirements. However, due to international Standards governing most commercial banks and associated Sanctions and Money Laundering risk requirements, the progress has been slow due to incremental compliance cost financial institutions would need to introduce to ensure that controls and monitoring is adequate for this mass category of clients.

Notwithstanding the above constraints experienced by traditional banks, Fintech's providing transactional and savings accounts to their clients do not face similar restrictions like commercial banks from a regulatory and governance perspective. The KYC requirements are lite and in most instances only require an account holder to have a registered mobile phone number and a national issued Identification Document such as passport or national registration card. This makes almost all individuals and businesses, including those in the informal sector eligible for account opening. There is no requirement for minimum account opening balance and other requirements needed for opening an account unlike commercial banks.

Therefore, there is need to reshape the Financial Inclusion strategy adopted for most markets in Africa such as Zambia to boost financial inclusion by promoting use of both traditional commercial banks as well as Fintech's. This will help the nation drive financial inclusions because the two entity types will complement each other. Fintech's will be able to cover entities and individuals that cannot directly open accounts with commercial banks and provide a gateway into the financial system. Thus, a deliberate ploy is required to successfully develop this by educating individuals and small businesses accordingly.

Introduction

Access to financial services has got a significant impact on the ability of abilities of small businesses to expand and grow both in size and product suite. Financial inclusion entails being a part of a modern mainstream financial system that is suitable for anyone, regardless of money. That is, for trades, savings, credit, and insurance that are not only beneficial but also inexpensive and long-term.

In 2017, the government of the Republic of Zambia through the Ministry of Finance launched the first ever National Financial Inclusion Strategy 2017 to 2022. Ministry of Finance (2017), the strategy sets out an ambitious target for the Country to increase the current formal financial services inclusion level from 30 to 70 percent by 2022 and the overall (formal and informal) to increase from 59 to 80 percent during the same period. This will help the national unlock potential in most remote areas where people have continued to be financially excluded due to limited presence of commercial banks in most locations. However, with the presence of Fintech services in these locations through mobile money, access to financial services in those areas has now been made a reality. People and small business owners are no longer required to travel long distances to nearest commercial banks or microfinance institutions to access financial services. This development has potential to equip the unbanked sectors with an easier option to access financial services.

The Fintech industry has significantly expanded over the last 10 years in Africa which has seen them commerce offering financial services that were traditionally only supported by Commercial Banks and Microfinance institutions. Leveraging on digitization, Fintech's have transformed the break and mortar into cloud based platforms that are able to store client data and open accounts without the need for them to physically go to office building. In Africa, this has seen rapid expansion with the introduction of mobile money services by mobile telecommunication companies. Each phone number can be used as an account number operates in the same way as a conventional bank account. Once, registered with mobile service providers, the account holder can use the account to make some of the following payments.

- Local payments from one mobile number to another mobile number on the same or different network.
- Transfer funds from mobile number to an account held with a commercial bank locally.
- Make international payments through VISA, MasterCard and Western Union amongst other international payment platforms.
- Cash withdrawals can be done through ATMs for Commercial Banks. Additionally, cash can be withdrawn from Mobile Money Agents where deposits are also accepted.
- Receive payments from VISA, MasterCard and Western Union and commercial banks domiciled locally.
- Make deposits through Customer service centers for the mobile service providers.
- Provide short and long term credit facilities to their members.
- Provides personal and commercial insurance and assurance products and services to their clientele.

This paper attempts to highlight why Fintech's are the solution to achieving Financial Inclusion for the unbanked population. This is buoyed by the drive of contactless payments amidst the covid-19 pandemic. This paper will help shape future strategy by providing a view point on how those that are financially excluded by commercial banks can be offered financial services through Fitech firms like mobile money service providers and thereby closing the gap.

The objective of this paper is to;

- To determine if Fintech's through Mobile Money are filling void left by Commercial Banks
- To determine if Individuals and Business owners view Fintech payment platforms as an alternative to Commercial Banking conventional accounts and why.
- Why there has been accelerated growth on use of Fintech payments services by the informal sector.

Zambia's population was approximately 16 million is 2016 and mobile service providers had reached nearly 11.3 million subscribers, International Finance Corporation (2018). This represents approximately 70 per cent of the population. The economically active population stood at 7 million. By inference, since all mobile services companies provide mobile money solutions, they can reach 70 percent of the population. This includes the majority of the population that remains largely unbanked due to low incomes, stringent know your customer requirements from Banks, and high service and transactional charges from most Banks.

The Bank of Zambia (2021), highlighted that Financial Inclusion in Zambia stood at 37.9 per cent in 2009. This grew to 59.3 per cent in 2015; coincidently this is the period in which the mobile money service was being introduced on the Zambian market. A mere coincidence? Far from it as this paper will highlight some of the merits of having a mobile money account. The central bank highlighted that there was a 10 percent growth as at end of 2020. This was largely attributed to growth in cashless payments which are now being widely accepted as a mode of payment across various sectors including informal sectors such as vegetable traders and street vendors whose business were purely cash based previously.

CUTS International (2020), suggested that Mobile money has shown to be a catalyst for financial inclusion, which has a positive impact on socioeconomic development. It is a source of revenue. The number of active mobile money agents in Zambia is said to have quadrupled from 3,225 to 6,590 between 2015 and 2017. This revealed that the use of mobile money has increased job opportunities for Zambians. Poverty reduction can also be aided by mobile money. People will save more, invest more, and overall improve their financial behavior if they have access to mobile money services, which will increase consumption and raise people out of poverty.

This study is important because it will help both the Central Bank and the government through ministry of Finance to understand the changes that are happening in the environment and ensure that they align their strategic priorities accordingly.

The interviews conducted on the market reviewed the following findings on subject matter that are key in shaping how financial inclusion should be viewed going forward in order to meet the strategic objectives that have been set up by the Ministry of Finance. The findings are highlighted below.

Methodology

The sampling population was carefully selected to incorporate both the informal and formal sectors. This was done to create an opportunity to guage the views of those that are fortunate enough to be eligible to utilize either services. Thus, generating valuable entail on the unique opportunities that Fintech provides. This ensured that data was not skewed towards those that are currently not being serviced by the traditional commercial banks. This is important because the interaction between the informal and formal sector in everyday business commerce remains a reality. It is therefore important that transaction medium other than cash is established between the two classes, more so, that handling of physical cash is discouraged given the coronavirus pandemic.

Interviews were conducted across 100 self-employed (informal sector) traders in Balueni market involved in vegetable trading, selling second hand clothes, selling chickens and carpenters. The Survey also interviewed 100 individuals employed in the formal financial services sector. Survey Monkey was used to perform the computations for the sample size. The formula used to arrive at the sample size is given by the below equation;

Sample Size=(Z^2 (P)(1-P))/C^2

Where;

Z = Z value of z-score for confidence level of 95 percent or 0.95

C = Margin of error, in this case 0.10

P = percentage picking a choice, in this case 50 percent or 0.5

Observations

a. Regulatory Environment and Onboarding Requirements

Following the global financial recession in 2008, most central banks and financial regulatory bodies tightened regulatory policies and requirements which commercial banks need to adhere to avoid a recurrence. This position was exacerbated by findings that some prominent international banks were being used as tools by the East to finance terrorist activities such as the 2015 Paris attacks. To mitigate this, banks across the world have enhanced know your customer requirements. This includes having clear visibility on the source of funds and wealth for their clients. To open a bank account in Zambia, the following is required at a minimum;

- Bank issued application forms
- Copy of government issued
- Proof of Income
- Source of wealth
- Recommendation letter from the employer. For students, an introductory letter from the learning institution
- Minimum account balance (varies depending on account class)
- Monthly account maintenance charge
- Credit Reference Bureau Report (for check accounts, overdrafts, loans)

Given that the majority of the people in the informal cannot meet this criteria, all respondents working in the informal sector advised that they had resorted to keeping their business proceeds in their homes because they did not meet the standards set out for account opening by commercial banks. Hundred percent of the respondents in the formal sector indicated that they operated both a mobile money account and a commercial bank account because they were able to meet all the requirements set out by the banks.

Ninety three percent of the respondents in the informal sector advised that they were now utilizing mobile money accounts for transactions and savings. This absorbed them of the risk of keeping their business proceeds in their home which was susceptible to fund misapplication and theft. The respondents advise that it was easier to open a mobile account because one only needed to have a registered cellphone number for any of the three mobile communication companies in the Country. Cellphone line registration only requires a copy of a national registration. By default, since cellphone number registration is mandatory by law, everyone that owns a line then qualifies to have a mobile money account unlike a bank account which has several requirements to satisfy. On this basis, respondent in the informal sector preferred this platform whereas those in the formal sector advised that mobile money accounts were preferred because they did not have a minimum balance. This increased their overall disposable income.

b. Accessibility

Commercial Banks are located in the town centre's and the shopping malls. This has adversely impacted small business owners that operate in the local communities where commercial banks do not have presence. Sixty percent of the small business owners advised that they found it challenging to have to travel into the town centre's to make cash deposits. This is because it consumed valuable time spent travelling to the distant banks and also posed a security risk because they needed to travel long distance with unsecured cash on them. The respondents advised that with the onset of introduction of mobile money by Fintech's, making cash deposits has become easier. This is because the Fintech''s have engaged agencies within the communities that facilitate both cash deposits and withdrawals. Therefore, small business owners in the informal sector no longer need to travel long distance with unsecured cash to Commercial banks to make large cash deposits or cash withdrawals. This can now be done within the community from the markets themselves or in agents booths located within the suburbs. This has greatly improved accessibility to financial services. The bonus, is that small business are serving on transportation costs and time that would been spent in having to travel physically to the town centre's or shopping malls.

c. Ease of Transacting

Given that mobile money agent's booth are available both in the town Centre's and the communities. It is more convenient for clients to make deposits and withdrawals unlike commercial banks were this is restricted to the bank branches and ATMs. This makes it easier for the clients to transact. In addition, mobile money service provides have applications and USSD codes that clients can use to make transfers to user's belonging to the same network or different one. The applications can also be used to make transfers to any local commercial bank. Send money abroad via Euro Money or DHL is an added bonus. The execution of transactions for both domestic and international payments is easier. Eight percent of the respondents cited this as one of the main reasons for using mobile money. Those in the formal sector added that unlike commercial banks. Service charge for international payments was significantly lower for mobile money service providers when compared to traditional commercial banks.

d. Lower Service Charges

Unlike commercial banks which charge a monthly service fee in addition to the transaction processing fees, mobile money service providers do not charge monthly account maintenance fees thus increasing amount of disposable income for account holders. Further there is no minimal balance requirement unlike traditional commercial banks which charge a penalty if account falls below the minimum account balance. All the respondents revealed that this was one of the major reasons why they opted to open mobile money accounts because they get good value and disposable income is noted impacted by overhead service charges.

e. Saving Culture

Sixty five percent of the respondents advised that overall saving culture had improved with the onset of mobile money service. Unlike commercial banks, mobile money service providers provided investments opportunities in time deposits that do not have a minimum balance for investment. This has enabled them to save money for future use. Previously money would be kept at home without earning any interest because commercial banks have a high threshold for minimum investment balance. This makes the use of the mobile money account more appealing when compared to commercial banks.

f. Added Services

Seventy eight percent of the respondent advised that unlike commercial banks, they were able to easily make fund transfers to other mobile money providers, all local commercial banks and make international payments and at a minimal fee when compared with commercial banks and did not required additional paperwork. All this can be done either on the USSD code or the mobile money application which is available on both android and iOS.

The inclusion of international payment facilitated through Western Union and WorldRemit continue to be one of the key selling points that attracts clients as evidenced from respondents in the formal sector. All responded that it was not only easier to make international payments using the mobile money account but was also faster. Recipients are able to receive funds within 24 hours unlike most international done through commercial banks which take 48 hours or more.

Ninety percent of the respondents advised using the mobile money account had also enabled them to have easy access to a bouquet of insurance products which are offered in collaboration with insurance service providers. The products includes life assurance services, home insurance, motor vehicle insurance as well as medical insurance. Therefore, mobile money accounts have not only provided people access to financial services but also key insurance products which help staff mitigate against disaster.

Outcome

The results of the research provide a strong rationale for the case that Fintech's through their mobile money services have potential to bridge the financial inclusion gap that commercial banks are not able to service because of location, account opening requirements or the need for a minimum balance to be maintained on an account. This is because the regulatory requirements for opening a mobile money account are minimal. An applicant is only required to have a national registration card which is issued at the age of sixteen or a valid passport and a SIM card which is sold at five kwacha (approximately 27 cents).

In additional the services makes use of the telecommunication network which relies on satellite and is available in almost all locations across the Country including the remote areas where commercial banks do not have presence. This makes it the most realistic option for people domiciled in those areas to have access to financial services. The added incentive is that these accounts enable holders to make both local transfers and international transfers as well as suite of insurance products. Therefore, making the mobile money accounts a one stop shop. Users are also able to receive international payments from relatives in the diaspora.

Operating a mobile money account is cheaper than a bank account. This increases the overall disposable income for account holders because they are paying less. No minimum account balance, cheaper fees for both local and international payments to other financial institutions or Fintech's.

1. Findings

2. Recommendations

The need for the government through the Ministry of Finance to improve their National Financial Inclusion strategy by considering Fintech's cannot be overemphasized. In order for all eligible individuals and businesses, to have access to Financial Services, Commercial Banks and Fintech's need to be considered as they complement each other. Fintech's are able to provide services to customers in locations where banks cannot reach and also those that do not qualify on account of low or irregular income. On the flip side, commercial banks are able to provide services to large corporate and the affluent clients whose needs will not be fully satisfied by the Fintech's because of the limitation on the maximum (US$10, 00.00) balance and account holder can retain because of the lite account opening requirements. Therefore, in order to have a robust and well-functioning Financial system, a deliberate drive is required from government to set out a road map for setting up initiatives that support financial inclusion through the use of Fintech's similarly to what has been done for Commercial Banks in the recent past. People need to be sensitized on the benefits of using the Fintech services as well informed on additional services that they will be able to enjoy once they are hold accounts. Only then will they be able to close the gaps because Commercial Banks are generally to comfortable operating on the lower end because of the stringent account opening regulations and higher operating costs versus revenue that will be earned. Hence, most Commercial Banks are reluctant to operate in the mass market because of stringent regulations under the Basel requirements.

The strategic setup of an enabling operating environment for Fintech's through mobile should not only end at policy change but also be coupled with Financial Literacy education to the masses. This includes translating literature and awareness campaign messages into the native languages. This will make information asymmetry easier because people will be understand the benefits and rewards of belonging and having access to a financial system.

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