Disrupting legacy African payments - going digital

By Murray Gardiner

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A country's payments system is probably not the first thing we think of when we think about the challenge of economic development. But payments are key to the bottom-up economic growth urgently needed across Africa.

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Diverse economic activity at the bottom percolates up creating jobs, opportunity and perhaps the only pathway out of poverty for the majority. But because that majority lives in the cash economy, the opportunity to invest a little money in something to get ahead is limited.

Providing a seamless way to pay a SME that provides insight into the business is perhaps the only real way for banks to see SMEs as a market worth investing in. Understand a business’s cashflow and you understand the business.

Cash and mobile P2P virtual wallets are opaque and do not afford a financial institution transparency. Digital payments transparency goes to the heart of the endemic economic challenges of emerging markets, touching everything from government grants and poverty alleviation to catalysing the growth of microenterprises and small business.

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Cards have limitations

Local and foreign card schemes and their virtual cousins all suffer from some constraints; cost of payment infrastructure, the cost effort to build out acceptance, POS terminals and the ultimate challenge of getting a piece of plastic, a POS terminal and an ATM all in the same place at the same time. And all of that readily available customer data makes the bank vulnerable to disintermediation.

The answer lies, as you might expect, in the mobile phone. A digital mobile (non-card linked) tokenised payment made directly from a user's funding source (using a feature phone or smartphone) direct to the merchant to initiate purchase and instant settlement. No data is exchanged, all customer/merchant data stays with the respective banks and everyone walks away happy.

Importantly, the banks hold and own their own merchant and customer data, not an intermediary. That transactional data can now be analysed and collateralised which creates an opportunity for the acquiring bank to extend credit and other financial products, based on data analytics. This is the trigger for growth, unlocking the SME and microbusiness sector.

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Benefits for Africa

A domestic mobile payment system needs to be based on pre-authenticated anonymous tokens and people need the ability to pay from any source – such as a virtual account, airtime, a bank account or loyalty points. Social payments and grants become safe, cost-effective and simple to distribute this way. Tokens can even be purpose-specific for remittance or sponsored allowances or credit.

With a modern mobile digital payment scheme, there should be no exchange of customer information so that bank-customer relationships, so carefully built up over years, are not threatened. There must be no silos and the platform must be fully interoperable, enabling seamless inter-bank settlement, for domestic and cross-border payments.

Every acceptance point becomes a virtual ATM at the cashier's till – card friction eliminated; issuing plastic; POS devices; ATMs; PCI compliance, and so on. And, the bank need not risk disintermediation by 3rd party card providers, or fintech providing cheap services in exchange for customer data.

In the modern mobile card-free digital space everybody wins. Financial institutions and markets strengthen relationships with their clients and the engine of growth at the bottom of the pyramid is unlocked for a future of shared prosperity, where every citizen and every small business is able to participate meaningfully in a growing economy.

Such a system is already available and ready to be deployed in any country. When we get financial inclusion right, all can benefit.

ABOUT MURRAY GARDINER

Murray Gardiner is director of Bluecode Africa. He has been at the forefront of financial inclusion in Africa for more than 30 years.
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