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Fintech: Mobile Technology to Unlock Growth by Banking the Unbanked

22 May 2015 | Giada Vercelli

From Asia to Africa, access to finance is essential to unlock growth. Mobile technology is the key. With only 62% of the world's population holding a bank account, according to the World Bank, mobile money has room for exceptional development. In 2011 the percentage was just above the 50% landmark, with 700-million people having accessed banking services over the past three years. As more billion dollar businesses pop up overnight in what were once remote corners of the world, and as traditional, Western wealth fades out, disruptive technology is proving to be the new driving force behind emerging markets.

At the Euromoney China International Finance Summit held in Shenyang on 6 May, Dr Edward Tse, Founder and Chief Executive Officer of Gao Feng Advisory Company, explained that it's the country's 12 million privately owned firms (four times the number of a decade ago) that will ultimately change how the world does business. Entrepreneurs like Alibaba's Jack Ma, TenCent's Pony Ma, and Xiaomi's Lei Jun represent the first in a coming wave of internationally influential private sector companies that will drive innovation, shift the order of world politics, and lead global markets. 'People generally have a perception that China's economy is dominated by state-owned enterprises, hence the notion of State Capitalism' Dr Tse told Euromoney Conferences. These days the State Capitalism set-up is being challenged by the fast

growing private sector led by many of the leading Chinese entrepreneurs. 'I believe the leading privately owned companies in China are becoming a real force and they are often innovative and can often be game-changers. It's time for the rest of the world to understand who these entrepreneurs are, what they are doing and will do, and the implications not only for China but also the rest of the world'. Dr Tse's new book 'China's Disruptors', to be released in July, chronicles the stories of these Chinese entrepreneurs, the fast growth of the private sector in China, and how these private companies are changing China and also the rest of the world.

The technology behind mobile payments is finally granting access to finance for millions of people in emerging markets, as the increase of mobile bandwidth will improve the users' experience in mobile payment. 'The social trend is moving from fixed to mobile. Even in banking services, which used to be too data heavy to be operated through smartphones, but will benefit from the new generation 4G/5G mobile networks that allow you to run very complex applications on smartphones' according to Michael Mellinghoff, a former Commerzbank group manager who ventured into a Fintech startup five years ago and after its tradesale, now mentors and works with Fintech startups. 'This allows technological providers to enter the retail banking service space for a fraction of the cost of a traditional bank. It is the technological driver that allows much lower pricing for retail clients, as commissions are naturally more competitive. We are looking at small, nimble companies, with virtually no hierarchy and more transparency, who are taking on the Goliaths of the industry'.

China has over one billion mobile subscribers and 60% of them make purchases with smartphones. In 2014, the total transaction value of China's online shopping market exceeded RMB2.8 trillion (US\$453.61 billion), an increase of 48.7% according to the latest data from iResearch. China's National Bureau of Statistics says online shopping accounts for 10.7% of total retail value in China. 'China has the world's largest mobile subscriber base', Gina Rivera, Business Development Manager at Koehler Group, observed at the Euromoney conference in Shenyang. 'Mobile e-commerce in China is growing rapidly and as more and more consumers choose to buy goods via their mobile. To encourage consumption, and to facilitate exchange, many mobile functionalities can be developed, such as location based services, information exchange and the mobile wallet. Providing an ecommerce web experience optimized for mobile is an opportunity to maximize engagement and revenue in China.

Kirk Wilson, Director, Information and Communications Technology, China Britain Business Council, believes that eFinance has taken off partly due to fundamental characteristics of the Chinese economy including controlled bank interest rates and a lack of credit information, which create space in the market for services based on customer credit data and behaviour analysis. 'This data is easy to accumulate in an environment where customers are freely linking their bank accounts directly with the chosen platforms of just a few major players', Wilson explains. He expects to see much more integration of offline-online entities including banks offering eWealth products, platforms opening offline shops in malls, and the offline players (banks, malls, entertainment) themselves designing online elements into their new spaces.

'E-payment is one of the driving forces behind e-commerce and the recent boom of internet finance in China' explained Bin Tang, CEO of YeePay, the Chinese platform providing both online and offline third-party financial payment services, at the Shenyang conference.

'Currently there are main three e-payment models in China: a consumer focused payment model like Alibaba's Alipay and Tencent's TenPay; a vertical market focused payment model like YeePay; and a gateway model like ChinaPay. Now with mobile internet available almost everywhere, the e-payment market is quickly expanding from the offline market to the online market, which is 10 times bigger, very fragmented, and requires a different payment solution. I believe the next three to five years will be very exciting times for China's e-payment market'.

'Following the opening up of China's banking sector, foreign banks have been allowed to issue their own credit cards at the end of 2007, and this provided a great opportunity for us,' Darwin Tu, founder and CEO of 51credit explains at the Euromoney conference in Shenyang. 51 Credit started as a subsidiary of the leading Chinese credit card distributor and service company, Sino Credit, and was the first credit card portal -www.51credit.com - to provide online credit card information and services in China.

In Africa, less than a quarter of people have a bank account, according to a Financial Times article from January 2015, but more than 80% have access to mobile phones.

McKinsey & Company projects around 80% of the continent's population is not connected to formal financial services. MasterCard says only 2% of retail transactions in Africa are electronic. Kenya's mobile operator Safaricom is on the forefront of how technology is providing access to finance to remote African villages. Its mobile money transfer and payment service M-Pesa was launched in 2007. Last year the company's joint venture with KCB, the country's biggest bank, began providing unsecured loans of up to Ks5m.

In addition to local providers, Fintech solutions from Europe are taking advantage of this global opportunity. Dopay is a London-headquartered startup, based at the almost-legendary Level 39, Europe's largest technology accelerator for finance, retail, cyber-security and future cities technology companies. Dopay, which offers a payroll service for the unbanked, has just closed a US\$2 million seed. Dopay's founder and CEO, Frans van Eersel, has a clear vision of the business opportunity and the social value set by technology global reach: 'Banking the unbanked makes good business sense. Not having a bank account is expensive for everybody, employee and employer alike! With our solution we break the cash cycle at the corporate level. We reduce the payroll hassle for the employer, while empowering employees. So everyone wins'. This is a view shared by investors such as global private-equity firm ACE & Company, plus a syndicate of angels from the banking, private-equity and hedge-fund industries. Dopay went through Barclays London-based Fintech accelerator last year. Dopay's product is a cloud-based payroll service that employers can use to calculate and remit salaries electronically to staff who don't have bank accounts of their own (and also to those who do have bank

accounts). Unbanked employees receive their salaries in a Dopay account, which comes with a debit card. They can also manage access to their Dopay account via an app which lets them view a real-time balance, as well as send money to others, and top-up prepaid mobile.

Mobile money is now including millions of people in the financial services industry but much work is yet to be done. Local and international mobile technology providers have only scratched the surface in terms of financial inclusion. Governments and regulators in the underbanked areas of the world will have to create easier access for technology providers to fully benefit from inclusion in the financial services sector.

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