FinTechs in Sub-Saharan Africa
An overview of market developments and investment opportunities
A landscape of opportunities

FinTechs in Europe, North America and Asia have caught the attention of many financial institutions and investors in recent years: the trends and effects of FinTechs in these markets have consequently been thoroughly analyzed. This report aims to shed light on a market that exhibits tremendous potential for FinTech investments, but which has not yet attracted the same level of attention from international investors.

Sub-Saharan Africa (SSA) is a region of opportunity for FinTech investments due to its unique economic and demographic environment. The region is characterized by less-developed financial infrastructure, and an unbanked population of about 60%. By ensuring access to financial services to this population, FinTechs have the potential to profoundly change the financial services landscape and play a pivotal role in improving financial inclusion.

The continent has already proven its readiness for FinTechs: it has one of the highest mobile phone penetration levels in the world, and is currently experiencing a boom in mobile financial services and payment technologies.

Currently, the FinTech revolution in Africa is primarily fueled by the continent’s three main hubs of South Africa, Kenya and Nigeria. These areas boast relatively more advanced FinTech ecosystems compared to the rest of the continent.

With local and global players, the FinTech landscape has grown at an annual rate of approximately 24% over the last 10 years. As observed in the FinTech sectors of developed countries, the landscape is currently ripe for consolidation. There are specialized players in the market and their complimentary business models make them attractive targets for mergers and acquisitions.

Both private and public investors worldwide have started to pay more attention to these developments, evidenced by a steady increase in investments in the SSA FinTech market.

Overall, the sector exhibits promising signs of accelerating growth, ample investment and business opportunities.
An attractive market for FinTehcs

The FinTech revolution in Sub-Saharan Africa is accelerating steadily. In a region with a large number of unbanked citizens and an underdeveloped financial sector, FinTechs are offering a revolutionary boost to SSA’s financial infrastructure. The conditions for growth are promising, and the market is exhibiting favorable signs for continuous development.

FinTechs have had a considerable impact on the financial industry across the world and have proven to be a force to be reckoned with by established financial institutions. FinTechs have innovative and customer friendly solutions and a level of flexibility that the traditional institutions struggle to provide.

Their specialized focus and unique value propositions have put pressure on financial institutions to retain customers and have forced an entire industry to innovate. But what potential could FinTechs have in a market that is devoid of these established financial institutions?

This potential has started to be explored in SSA, a region with an under-developed financial sector rendering around 60% of the entire adult population without access to traditional means of financial services. The proportion of unbanked and underbanked citizens combined with a substantial mobile penetration rate of 44% have laid a fertile foundation for expansion of FinTechs. FinTechs are already one of the main drivers for financial inclusion in SSA. An example of the significant impact FinTechs can have is observed in Kenya where a large mobile payment provider has revolutionized the way the nation is making payments to such an extent that 45% of the entire nation’s GDP was processed through its infrastructure. The growth potential of the expanding payments sector is emphasized by the expectation that the total number of mobile phone connections will exceed 1 billion by 2025 within a population of approximately 1.3 billion.

Aside from providing financial services to the end consumer, many FinTechs’ business models are geared towards improving the financial infrastructure in the SSA region. Their customers are typically other FinTechs, SMEs, and other corporates, enabling them to offer financial services to end consumers.

FinTechs, with their agile approach and latest technologies such as data analytics, have already made a profound impact in SSA’s financial services landscape. This, combined with favorable demographics, an under-represented banking sector and a lack of financial infrastructure shows that the conditions for growth are promising.

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1 World Bank database, 2017
2 GSMA, The Mobile Economy SSA, 2018
3 OECD, African Economic Outlook, 2015
4 GSMA, The Mobile Economy SSA, 2018

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What are FinTechs?

In general, FinTechs are considered as organizations combining innovative business models and technology to enable, enhance and disrupt financial services. They can be classified into two categories; those FinTechs that provide financial services (Core FinTechs), and those that enable such services (Enabling FinTechs).

FinTechs have become an important topic for financial institutions globally, and have grown their footprint considerably in the past few years. But what constitutes a FinTech and most importantly what does it do? EY defines FinTechs as organizations which combine innovative business models and technology to enable, enhance and disrupt financial services. The understanding of FinTechs, however, can be complemented by looking at the different FinTech segments. These parameters classify firms according to their business model and positioning in the value chain, rather than by the FinTech’s underlying technology.

Overall, the FinTech landscape can be divided into two groups: those that directly provide financial services (Core FinTechs) and those that enable the provision of such financial services (Enabling FinTechs).

The Core FinTechs are arranged in seven distinct segments and focus on the delivery of financial solutions and services to both individuals and businesses.

The Enabling FinTechs on the other hand are separated into three segments and enable other businesses to provide financial services through an array of different channels.

Figure 1: The FinTech Segmentation

Source: EY Analysis
The FinTech sector in SSA comprises of over 260 active companies split into local (80%) and international (20%) players. The number of FinTechs has grown at a Compound Annual Growth Rate (CAGR) of 24% over the past 10 years.\(^5\) Like the FinTech sectors in more developed markets, the payments segment is most dominant in SSA, mainly due to the large unbanked population and correlating high demand for financial inclusion. The high concentration of mobile phones in SSA also aided the segment’s expansion.

The majority of Enabling FinTechs are also closely tied to payments: they establish the payments infrastructure in the region, and thus further amplify the segment’s leading position.

The persistent need for financial inclusion will continue to drive the growth of these payments segment. Segments such as banking and lending have also been growing rapidly and new ones such as InsurTech have emerged.

With the right amount of resources and support, the SSA FinTech sector can not only yield substantial returns, but also provide significant benefits to the population.

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\(^5\) Source: EY Analysis
Figure 3: Distribution of FinTech’s segments

- Enabling Processes & Technology
- Payments
- Banking & Lending
- Fundraising & Financing
- Financial Data Analytics
- Financial eMarketplaces & Aggregators
- InvesTech
- RegTech & Security
- InsurTech
- PropTech

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The three main FinTech hubs in SSA have been formed in the economic centers of South, East and West Africa: South Africa, Kenya and Nigeria respectively.

South African FinTechs are predominantly located in both Cape Town and Johannesburg. Arguably the epicenter of SSA FinTechs, South Africa harbors about a third of the firms. As the most diversified hub, it exhibits great similarities to more developed markets. Its focus is strategically placed on the Enabling FinTech segments, making the country one of the main contributors to the growth of FinTech across the continent.

Kenya, the second largest FinTech hub, hosts around 20% of the entire FinTech landscape, and has a stronger focus on the payments segment. The Kenyan hub is located in Nairobi, which is home to more than 50 FinTechs.

Nigeria’s FinTech sector is the third largest hub, with most of its FinTechs based in Lagos. Like Kenya, the Nigerian FinTech sector is dominated by the payments segment. Trends have shown that the focus of FinTechs here is on the needs of the retail sector.

The three main hubs distinguish themselves from the rest of SSA through their relatively more advanced FinTech ecosystems and are consequently relevant harbors of investment opportunities.

In addition to the three main hubs, recent developments have shown encouraging signs of FinTech growth in Ghana, Uganda, Cameroon and Rwanda.\(^6\) Given the increasing interest in the FinTech segment, it is expected that the FinTech ecosystem will further improve across more countries in SSA in the near future.

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\(^6\) Source: EY Analysis
Figure 4: FinTech segments in the main regional hubs

Kenya
- Enabling Processes & Technology: 27%
- Payments: 33%
- Banking & Lending: 20%
- Fundraising & Financing: 9%
- Financial Data Analytics: 2%
- RegTech & Security: 5%
- Financial eMarketplaces & Aggregators: 4%
- InvesTech: 5%
- InsurTech: 2%
- PropTech: 3%

Nigeria
- Enabling Processes & Technology: 18%
- Payments: 38%
- Banking & Lending: 18%
- Fundraising & Financing: 15%
- Financial Data Analytics: 3%
- Financial eMarketplaces & Aggregators: 6%
- InvesTech: 3%
- RegTech & Security: 6%
- InsurTech: 6%
- PropTech: 5%

South Africa
- Enabling Processes & Technology: 20%
- Payments: 35%
- Banking & Lending: 19%
- Fundraising & Financing: 10%
- Financial Data Analytics: 6%
- Financial eMarketplaces & Aggregators: 11%
- InvesTech: 6%
- RegTech & Security: 5%
- InsurTech: 2%
- PropTech: 2%

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Sub-Saharan Africa has emerged as one of the fastest growing FinTech regions across the globe. The evolution of the local ecosystem is the base for future FinTech development.

The basic foundation for the evolution of a FinTech landscape is the local ecosystem. All three leading FinTech Hubs in Sub-Saharan Africa have developed a vibrant and healthy start-up environment as the base for FinTech growth.

The FinTech ecosystem comprises a number of attributes and stakeholders that influence the strength of the overall sector’s development. The following framework visualizes the relationships between the four pillars of an effective and healthy ecosystem and how stakeholders affect each other.

### Talent

SSA has the fastest growing workforce globally, which is predicted to represent over 25% of the global workforce by 2050. However, limited employment opportunities for traditional jobs creates a more creative entrepreneurial environment where young graduates look to innovate and develop new solutions.

### Demand

The potential demand for FinTechs in SSA is tremendous due to the fast growing and underbanked population. The under-developed financial sector also leaves SMEs and entrepreneurs with a lack of access to financial services resulting in a high demand for financial inclusion.

### Policy

Governments in SSA are starting to show interest in supporting FinTechs and innovation in the financial services sector. However, the region is highly heterogeneous and little to no subsidies and tax incentives have been implemented.

### Capital

In contrast to capital flows in established financial services, investments in FinTechs have grown substantially in recent years. Volumes are still lacking significantly behind more developed markets, driven by the market maturity and overall valuations.

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7 UN Data
The Ecosystem of the main hubs

Applying the FinTech ecosystem framework to the three main hubs further emphasizes positive developments taking place in SSA.

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Current</th>
<th>Trend</th>
<th>South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Talent</td>
<td>Low</td>
<td></td>
<td>South Africa is the most developed hub in SSA thanks to a relatively mature financial sector and an extensive network of roughly 80 VCs and angel investors.</td>
</tr>
<tr>
<td>Demand</td>
<td>High</td>
<td></td>
<td>The creation of many accelerators and incubators (approx. 20) has attracted many international technology giants.</td>
</tr>
<tr>
<td>Policy</td>
<td>Low</td>
<td></td>
<td>Although still limited, the local regulators are starting to set favourable frameworks for FinTechs: one of these is the incubation Support Program, which aims to encourage development of the local ecosystem.</td>
</tr>
<tr>
<td>Capital</td>
<td>Medium-Low</td>
<td></td>
<td>Local talent benefits from the international exposure. Accelerator programs led by local universities aim to fuel the region's entrepreneurial spirit.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Current</th>
<th>Trend</th>
<th>Nigeria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Talent</td>
<td>Medium</td>
<td></td>
<td>The ecosystem in Nigeria has developed rapidly. The network of VCs and investors stands at approx. 40, and the incubator system is also in development.</td>
</tr>
<tr>
<td>Demand</td>
<td>High</td>
<td></td>
<td>Local governments’ involvement through tax incentives for VCs has attracted international attention and will boost the ecosystem’s attractiveness.</td>
</tr>
<tr>
<td>Policy</td>
<td>Low</td>
<td></td>
<td>There is vast potential for growth: Nigeria has the largest population in SSA (and 60% unbanked), and the population of Lagos is expected to double in the next 15 years.</td>
</tr>
<tr>
<td>Capital</td>
<td>Medium</td>
<td></td>
<td>The talent to support this growth is developing through local universities’ accelerator initiatives.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Current</th>
<th>Trend</th>
<th>Kenya</th>
</tr>
</thead>
<tbody>
<tr>
<td>Talent</td>
<td>Medium-High</td>
<td></td>
<td>Kenya has the most prominent FinTech success stories.</td>
</tr>
<tr>
<td>Demand</td>
<td>High</td>
<td></td>
<td>Local investors and VCs (approx. 30) is complemented by the steady rise of international investors. In addition, there is a growing interest amongst international technology players keen to invest in accelerator programs led by VISA, Microsoft and Barclays.</td>
</tr>
<tr>
<td>Policy</td>
<td>Low</td>
<td></td>
<td>Policy framework in Nairobi is showing signs of improvement. The government’s recently released draft regulation for FinTech companies is expected to be turned into law soon.</td>
</tr>
<tr>
<td>Capital</td>
<td>Medium-High</td>
<td></td>
<td>Retreating international banks are freeing up talent, fuelled by university initiatives.</td>
</tr>
</tbody>
</table>
International FinTech players in SSA are typically those who have actively invested and are operating in SSA, but have their headquarters outside of Africa. More than 50% of these international FinTechs originate from the UK and the US. The remainder are based predominately in Europe, Canada, India and China.

As with local players, many of the international FinTechs (approx. 40%) focus on the payments segment. In addition, some of these FinTechs are targeting the African diaspora and providing low cost remittance solutions. This is of particular interest as the cost of sending remittances to SSA is amongst the highest in the world.

Approximately 30% of the international players are Enabling FinTechs providing infrastructure services. These international FinTechs typically gain experience in the developed markets before expanding to SSA in order to capitalize on the opportunities available in the region. Their experience, success and most importantly accessibility to international investors render international players an attractive investment alternative to local players in the SSA FinTech sector.

As observed in the overall trend, the number of international FinTechs has stabilized over the past three to four years. The focus of these FinTechs is to consolidate and grow their business further in the SSA region.

Although the international players play a secondary role in terms of number of FinTechs, investors see them as an attractive alternative due to their considerable impact on the SSA FinTech landscape.
Investors have been carefully monitoring developments in the FinTech landscape in SSA: in recent years, they have started to act upon the favorable conditions for FinTechs in SSA. These conditions include the fundamental gaps in offering traditional financial services which the FinTechs are able to bridge, and the willingness of the population to adapt to these innovative solutions and services. The rise of mobile penetration and smartphone ownership provides the necessary building blocks to support such solutions.

As a result, investments in FinTechs have reached more than US$100m over the last two years. Traditionally, investors have concentrated in the three main FinTech hubs: now, however, new destinations for foreign investments such as Ghana, Uganda, Cameroon and Rwanda are emerging.

There are five types of investors that are active in SSA:

1. **Angel Investors** initially dominated the investor landscape: their focus is investing in startups at the seeding stage. They were later joined by **Private Equity funds (PE)**.

2. Currently, the largest players in the investor landscape are **Venture Capital funds (VCs)**.

3. **Development Financial Institutions (DFIs)** and **Strategic Investors**.

   Dominating a near equal investment market share, VCs, DFIs and Strategic Investors have driven the wave of investment flows into SSA and considerably contributed to the rapid growth of the sector.8

   While general M&A activity in SSA has decreased in recent years due to economic and currency related uncertainties, international investors have continued to invest in the FinTech segment in SSA. In particular, PE and VC funds with specific regional or segment focus and DFIs see FinTechs in SSA as an attractive segment which supports their growth and sustainability investment cases. To gain market access, investors either expand their current offering to African markets e.g., via subsidiaries or branches, or acquire local FinTech companies in order to gain early footprint. Furthermore, cross industry collaborations such as between financial services and other industries (e.g., telecommunications) are also explored: however, international investors still see some limitations in investing in SSA, notably a lack of transparency and access to potential targets, and the small deal sizes.

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8 CB Insights
Considering that the African FinTech landscape is still a growing territory for many international investors, there are key challenges that investors face during the whole investment process:

### Key challenges occurring in the investment process

<table>
<thead>
<tr>
<th>Origination</th>
<th>Due Diligence</th>
<th>Inception</th>
<th>Value Creation</th>
<th>Exit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of transparency and access to formal information and networks</td>
<td>Need for local business experts and contacts</td>
<td>Legal and regulatory set up</td>
<td>Reaching customer base requires evolution of distribution approaches</td>
<td>Variations in terms of holding periods due to less homogenous value creation</td>
</tr>
<tr>
<td>Variety of unknown and unstable factors (e.g., business infrastructure and regulations)</td>
<td>Limited access to information and lack of accurate data</td>
<td>Strongly attached and inexperienced management teams</td>
<td>Local and regional footprint and infrastructure required to execute growth models</td>
<td>Investment risks due to external and market factors</td>
</tr>
<tr>
<td>Small deal sizes do not fit existing investment structures</td>
<td>Identification of market, operational and financial risks</td>
<td>Difference in legal and compliance standards</td>
<td>Low margins require efficiency, quality and leverage of digital solutions</td>
<td>Risks in cost effective exit process in relation to value</td>
</tr>
</tbody>
</table>
Understanding investor rationales

Apart from seeking high returns on investments, many investors are driven to the FinTech segment by the opportunity to make a positive social impact, and also as a means of diversifying their portfolios. Creating digital ecosystems and making investments that are sustainable are also rationale for international investors’ interest in SSA.

High returns on standalone investments

This rationale is the primary motivation for most investment activity, and FinTech investments in SSA are no exception. The significant underbanked population combined with a lack of financial infrastructure presents a fertile ground for significant growth potential and high returns. In addition, the population in SSA is growing fast and therefore so is the demand for financial services. The rising number of deals supports the notion that investors have started to gain confidence in FinTechs operating in SSA and have seen their high potential.

Synergies and scalability

Synergies play a key role for strategic and financial investors that acquire several companies with complimentary business models (more of the same). Deep market knowledge and synergies make businesses more efficient and can therefore give them a competitive advantage. In particular, cost and revenue synergies can be realized by acquiring, merging or enabling companies.

Scalable business models with an existing regional spread, or technology which can be easily replicated without suffering from legacy infrastructure are investors’ focus. Being able to use innovative and disruptive solutions or business models to enable or leverage an existing operations or portfolio of incumbent companies is also another rationale.
<table>
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<tr>
<th>Creating digital ecosystems</th>
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<tbody>
<tr>
<td>With industry convergence and open banking becoming a norm, many investors are looking to invest in companies with a business model focused on digital ecosystems. FinTechs, with their modern technology and open IT architecture therefore become an attractive investment option. In SSA, this is even more promising, as the market is not plagued by legacy financial infrastructures, and there is a high penetration of mobile phones. The more digital ecosystems gain entry in Financial Services, the more investors will focus on this investment segment. This promises them the freedom to invest in a variety of companies in order to build a sustainable ecosystem, cutting across services and industries by bundling the customer relationship.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial inclusion and sustainable investments</th>
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</thead>
<tbody>
<tr>
<td>FinTechs presents an opportunity to bring the SSA population within the realms of formal financial systems. FinTechs enable access to underbanked customers, resulting in a growing customer base. This growth opportunity for additional services and new business models will drive investments in FinTechs. Furthermore, there is a growing investor demand for other sustainable and green financial investments, driven by customer behavior and public and political interest. Investment focus is created by purposeful and conscious investment behavior, branding focus and increasing funding in this asset class.</td>
</tr>
</tbody>
</table>
A developing regulatory environment

The regulatory environment in SSA is certainly adapting to the growing demand for FinTechs and governments are starting to set incentives. However, it is difficult to make a clear assessment about specific regulations in SSA, as they may vary considerably among the different countries.

However, there are general identifiable trends in the regulatory environment, which may allow stipulations regarding the current and future state in the SSA FinTech landscape. The regulations are aimed to balance the growth of the sector whilst providing appropriate protection for consumers. In few other SSA countries like Uganda or Tanzania, regulators are receptive to FinTech developments and they see FinTechs as an important driver for financial inclusion.

As FinTechs rely heavily on the collection and processing of data, regulations regarding data protection are an important part of the overall regulatory landscape. Currently, a few countries such as South Africa, Kenya, Ghana and Uganda have a more advanced data regulation framework.
The SSA FinTech landscape has experienced an impressive Compound Annual Growth Rate of 24% over the past decade. According to the latest EY FinTech adoption index, the key drivers of fast adoption of FinTech are the favorable demographics and high use of internet and mobile technology. As this study shows, South Africa already has a high FinTech adoption rate and is expected to increase even further. It can be expected that a similar trend will follow in other SSA countries.

The SSA FinTech sector will continue to be dominated by payments solutions until the need for financial inclusion is sufficiently addressed. It can be expected that the smaller segments will expand their footprints in the sector as consumers shift their attention to solutions that satisfy other previously underserved financial needs. Investors can thus create their investment strategies based on their desired investment drivers.

The three main FinTech hubs are likely to continue playing a leading role in providing innovative financial solutions. It is also expected that a number of FinTechs will expand regionally within SSA to provide services to a larger set of customers. Other countries in SSA have also shown tremendous growth and investment potential in recent years. Rwanda, for example, has recently launched a FinTech hub in order to boost its FinTech sector.

Although there are currently more local players in the market, the role of international players in SSA is expected to expand as the FinTech landscape continues to mature. This is due to the enhanced transferability of innovative solutions that have yet to gain footing in the SSA market. Another area that may also attract further involvement from international FinTechs is that of reverse innovation, which is also expected to grow due to different challenges in the SSA FinTech market.

Investors have overcome their reservations about the SSA sector and have started to invest at an increasing rate. This increase in confidence paired with the success of multiple FinTechs across the industry will continue to drive investments in the sector and positively influence its growth trajectory. The increasing development and huge growth potential of digital ecosystems and sustainable investments is expected to be a similar investment driver in SSA as in more developed markets.

The combination of these trends cements the view that the SSA FinTech sector has high growth potential and provides opportunities for investments.
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Methodology

This report is based on primary and secondary research, using publicly available information and insights from market experts. The FinTechs covered have been identified on the basis of The EY definition of FinTech. EY defines FinTechs as organizations combining innovative business models and technology to enable, enhance and disrupt financial services. Correspondingly, the FinTech universe comprises only those companies, to which our definition of FinTech applies.

In particular, FinTechs can be defined as:

► Companies whose primary business focus lies on financial services
► Stand-alone companies, not products/solutions of established companies
► Start-ups to maturing companies (maximum 10 years after foundation)
► Business models based on new and innovative technology

FinTechs are not considered as:

► Services related to finance functions of corporates (accounting, finance, invoice, working capital management software etc., for non-financial institutions)
► “FinTech”-like solutions/products (digital wallet etc.) of established market players
► Mature FinTechs (over 10 years)
► Companies not using innovative technology

Furthermore, the FinTech universe in this report refers only to what we define as “active” companies, i.e., those:

► Still operating in the market
► Acting in the market as a stand-alone entity (not just a solution of another FinTech)

With exclusion of companies that:

► Are no longer active in the market (i.e., due to insolvency)
► Companies that do not operate as a stand-alone entity (i.e., acquired by another company)

All the FinTechs identified were analyzed through the above definition of FinTechs. Owing to its dynamic nature, FinTech landscape in SSA is subject to continuous and frequent changes, and is characterized by limited information. Therefore, EY does not secure completeness of data and the numbers are subject to change.
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