



INSIGHTS FROM:

COVID-19 & MONEY

Building FSP resilience
in the midst
of the pandemic



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INTRODUCTION

On Thursday, May 28, 2020, experts and industry leaders from across Sub Saharan Africa convened to explore strategies and opportunities for financial services providers (FSPs) to remain resilient in the midst of the COVID-19 pandemic.

Below are major insights from the webinar, along with action points and recommendations for FSPs and regulators.



IMPACT OF COVID-19 CRISIS ON FINANCIAL SERVICE ECOSYSTEM AND ACCESS FOR THE UNDERSERVED



- ❑ In Uganda, across the shared agent banking network, there was a 75% drop in volume of agent transactions over the four weeks of the lockdown. This was due to agents' inability to travel to banks to rebalance among other limitations.
- ❑ In rural areas, the impact on mobile money was minimal as the lockdown was less strict and customers could visit agents.
- ❑ The pandemic also revealed the need to bolster digital financial infrastructure as social distancing protocols forced more customers onto digital channels.

REGIONAL VARIATIONS IN IMPACT AND RESPONSE TO THE PANDEMIC



- ❑ Digital financial services (DFS) proved to be a game changer in many regions. FSPs in countries with higher penetration/adoption of DFS were able to adapt rapidly to conditions forced by the pandemic and ensured seamless operations.
- ❑ Countries which introduced incentives, such as waiving transaction fees, expanding transaction limits/thresholds etc. were able to migrate more customer transactions to digital platforms.
- ❑ More ecommerce payments were made via DFS.
- ❑ Agent liquidity was affected, especially in rural areas, due to inability to rebalance at bank branches (because of reduced banking hours).

PRODUCT-MARKET FIT: SUITABILITY OF FSP OFFERINGS TO CONSUMER NEEDS



FINANCIAL NEEDS:

Financial needs during the pandemic can be grouped under four different categories:

Payments or Transfers: Seamless transfer of funds from owned accounts to recipient/third party.

Expenses or Liquidity: Access to stored funds for sustenance.

Resilience: Access to emergency funds.

Long Term Goals: Pensions, long term investments.

FRANCOPHONE COUNTRIES

- In francophone countries, the pandemic revealed the emergent nature of DFS products and FSP capabilities. While savings and credit products are yet to gain popularity, basic transactions formed the lion share of customer activity, where CICO accounts for about 90% of the revenue.

REMITTANCES

- There's a huge opportunity for remittances as many operators are now offering their consumers the ability to receive international remittances into their accounts/wallets.
- Retail payments. In Benin, the pandemic catalysed merchants' acceptance of digital payment solutions.
- Several companies migrated salary payments to mobile money.

KENYA

- Kenya's edge in adoption and integration of mobile money, particularly M-Pesa, into citizen's daily activity was advantageous. Mobile money services facilitated P2P transactions, ecommerce payments, etc without having to visit an agent.
- The volume of international remittances has been impacted negatively. But operators are lowering their remittance fees to encourage and retain customers.

LAST MILE CASH DISBURSEMENT DURING THE LOCKDOWN



- ❑ Limited customer activity at agent locations impacted agent profits/commissions.
- ❑ The lockdown negatively impacted G2P which is mostly still done in person and via cash due to social distancing protocols and restrictions on physical gatherings.

IMPACT ON DFS FEES & CHARGES



- ❑ Some francophone countries introduced fee waivers particularly for P2P, e-payment and merchant payments.
- ❑ The waiver of transaction fees as one of the initial responses to the adverse effects of the pandemic encouraged consumer adoption. However, its inability to be sustainable soon saw it fizzle away!
- ❑ As the ecosystem transitions into the recovery phase, transaction fees are being reintroduced.
- ❑ Mobile operators may lower their transaction fees in order not to lose their new consumers who have never been charged for transacting.
- ❑ Waiving P2P transaction fees comes at a risk. Limiting the fee waiver to transactions between US\$2 - US\$5 mitigates that risk.

SURVIVAL RESPONSES TO THE PANDEMIC



- We are witnessing significant increase in e-commerce activity. There's also been collaboration.
- The pandemic sped up merchants' transition to digital platforms. Organizations, especially those tagged as non-essential services, began partnering with local e-commerce sites to sell their goods and services.
- Local e-commerce sites integrated e-payment options, and partnered with transportation companies to handle their logistics and fulfillment.

CONSUMER BEHAVIOUR



While many consumers needed cash during the lockdown, many of them left some funds in their accounts. This was contrary to the expectation that after 60 days of being 'locked down', they'd empty out their accounts. There are two hypotheses to explain this:

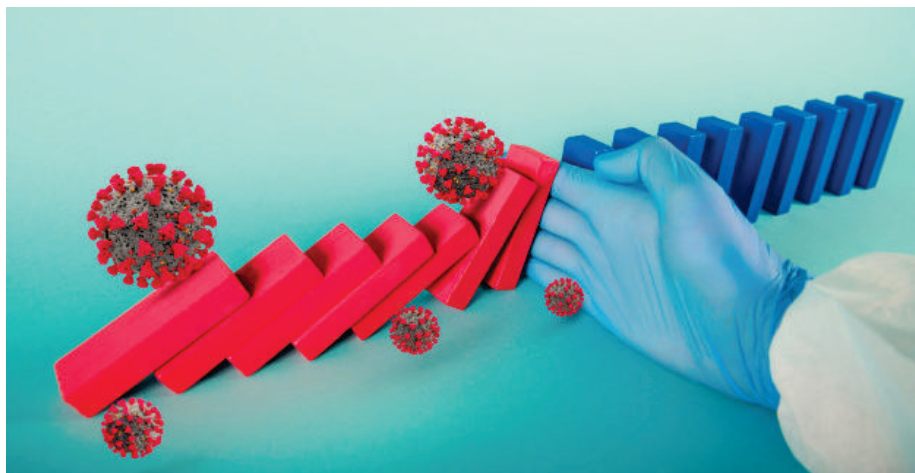
Hypotheses A

Consumers had difficulty getting to mobile money agents.

Hypotheses B

Consumers are anticipating a long road to recovery and thus are keeping some funds in their accounts for the long term.

STRATEGIES TO ENHANCE RESILIENCE AMIDST THE COVID-19 PANDEMIC



For FSPs

- ☐ Introduce proper/relevant incentives to alter consumer behavior and migrate more customers to digital platforms.
- ☐ Invest in digital financial infrastructure and expand range of services available to customers.
- ☐ Help merchants transition to digital platforms. Equip them to receive digital payments.
- ☐ Enhance cybersecurity capacity to curb fraud.
- ☐ Encourage and support customer businesses and organisations to digitize their payments.

FOR REGULATORS

- ☐ Short-term application of transaction fee waivers based on consultation with service providers.
- ☐ Streamline and also lower regulatory entry barriers and customer onboarding requirements for FSPs, particularly fintechs and telcos. This will enhance competition and lead to lower transaction fees.
- ☐ Streamline e-payment regulations.
- ☐ Introduce regulatory sandboxes to encourage innovation and experimentation.
- ☐ Grant full license to Payment Service Banks (PSBs) who currently have Approvals in Principle (AIP). Grant Approvals in Principle to more stakeholders who are interested in owning PSBs licenses.
- ☐ Review account opening and KYC requirements.



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