

# Balancing risk and innovation

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Insights from East Africa



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# Key messages

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1. **Digital enables re-design of financial services**
  - M-PESA....evolved from experimentation, watching customer data
2. **Digital finance will blur 'real economy' sector boundaries**
  - M-KOPA....clean energy + finance
3. **Some basic risks that still get forgotten**
  - Lack of focus on customer needs, unit economics, and boots on the ground
  - Unique digital risks

Business models ahead....digital identity, connected appliances, micro-payments and smartphones

# M-PESA today



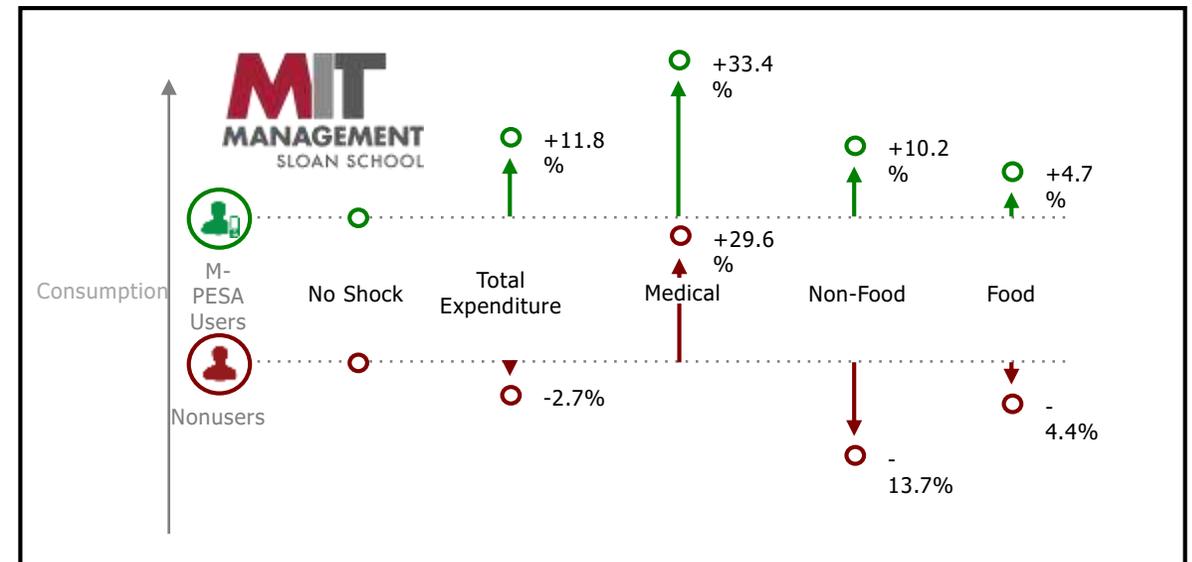
## Economics are strong:

- Last year \$740m revenue
  - Over 30% of Safaricom's revenue in FY 18-19
- 29 million accounts

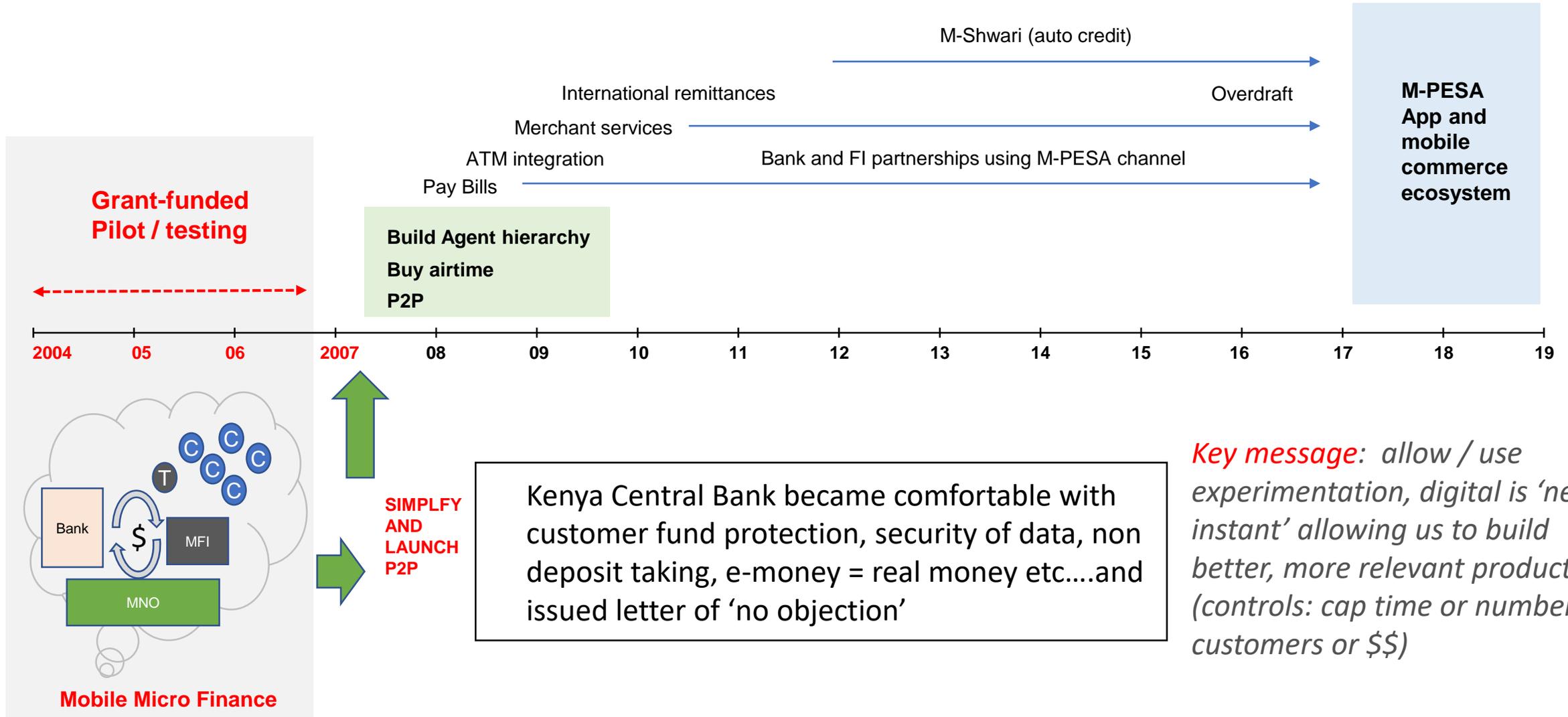


## Quantifying the impact:

- Improved resilience / dealing with shocks
- 2% reduction in extreme poverty because of M-PESA
- +185,000 women switched occupation from farming to retail



# M-PESA's evolution



Kenya Central Bank became comfortable with customer fund protection, security of data, non deposit taking, e-money = real money etc....and issued letter of 'no objection'

*Key message: allow / use experimentation, digital is 'near instant' allowing us to build better, more relevant products. (controls: cap time or number of customers or \$\$)*

# Customer proposition

M-KOPA customers step onto a financial pathway to upgrade to more products and services

1



Customer buys an M-KOPA solar system for a USD \$30 deposit

2



Saves \$0.50 per day on kerosene, instead spends it for solar on a "pay as you go" basis

3



Payments made by mobile money

4



All systems monitored and controlled in real time by GSM connection

5



After one year of payments, customer owns their system

6

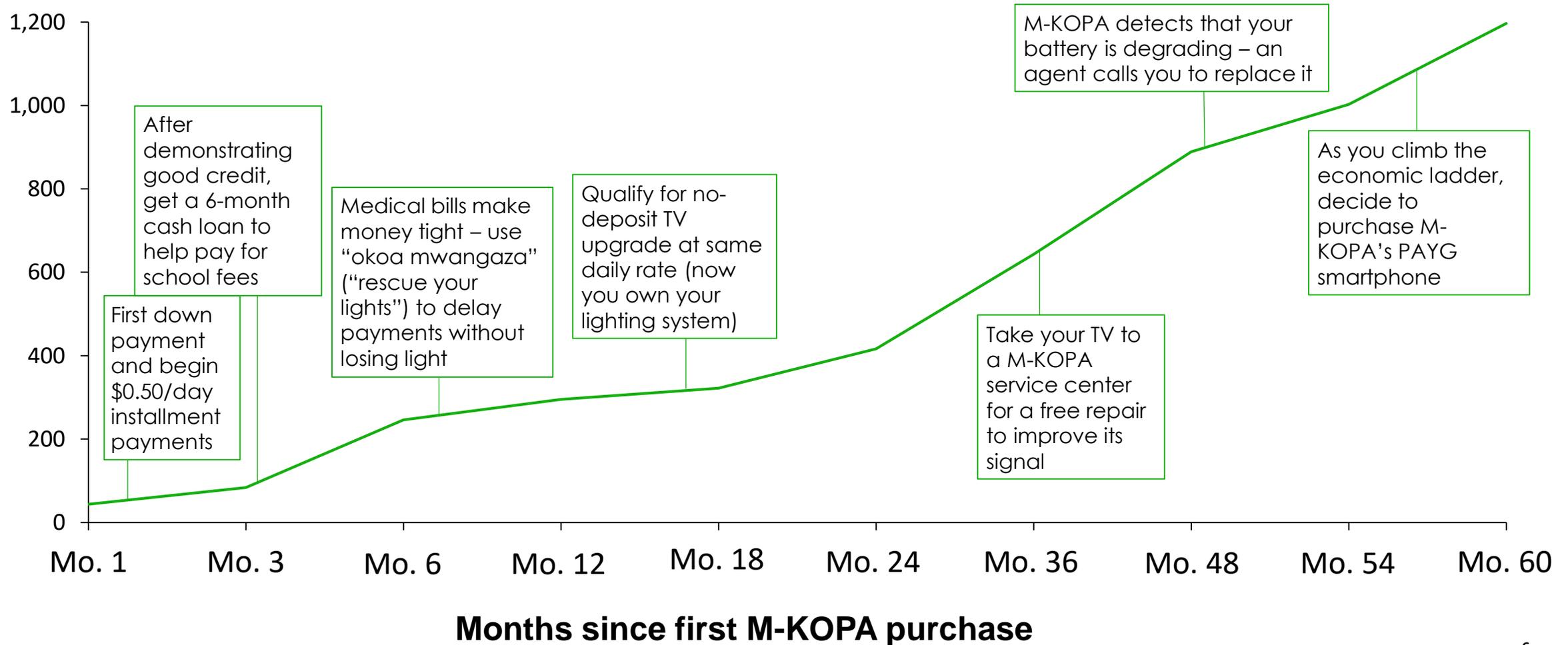


With a good credit record, they can upgrade for more power and other products / services

# M-KOPA customer lifetime

The PAYG model enables M-KOPA customers to upgrade affordably and on an ongoing basis

## Cumulative payments, USD \$



# M-KOPA's core platform capabilities



**PAYG APPLIANCE PRODUCTS**



Product innovation, sourcing & logistics

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Category-leading sales and a proven RTM



←  
→

**PAYG appliances and financial services are co-dependent**



**CONSUMER FINANCIAL SERVICES**



Platform technology & CRM

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Alternative funding & financing



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**M-KOPA's rich datasets provide potential upside**



**FINTECH/DATA**



Actionable insights based on data

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Customer segmentation & monetisation



# Basics...often under-estimated

Proposition	What problem is solved for customer	The 3 biggest challenges ?
M-PESA	Moving money A-to-B securely, instantly and at fair cost	<ul style="list-style-type: none"><li>• (regulatory...at the start)</li><li>• Distribution, distribution and distribution</li></ul>
M-KOPA	Displace a household cost for basic energy; allow customer to own an asset	<ul style="list-style-type: none"><li>• Working capital</li><li>• Operational execution (importing kit to Africa, warehousing, sales force management, post sale support)</li><li>• Clarity on unit economics</li></ul>

- There is no cashless economy (yet) in Africa
- Getting real money into e-money is not easy – it's a cost
- Use case must be relevant to household cash flows (flexible)

# Unique digital risks

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- **Digital credit is too easy to access**
  - M-KOPA model links credit to an asset (that saves money)
- **New players must include social media platforms**
  - They have scale, \$ firepower and end-user relationships
  - Fast usually beats big...but blackhole economic risk? (big swallows small)
- **Availability of skills / people resources cannot keep pace with technology changes and associated risk management (data security, privacy, partnership risks e.g. sharing data)**
  - Cloud engineering / data science
  - Organisation structures (accountability) and culture change also important

# The PAYG model only gets bigger...

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- **IoT connectivity can allow any appliance to be financed**
  - Productive assets (e.g. M-KOPA PAYG fridges used in retail outlets)
  - PAYG financing opening up a new channel + remote product monitoring is appealing to many equipment / appliance providers (e.g. M-KOPA selling Bosch water heaters)
  
- **Smartphones – quality phones provided on a PAYG basis**
  - Aspirational product made affordable – and is a gateway to content
  - Phones will be the screen of choice for many
  - Tremendous response to pilot testing in Kenya