mastercard foundation

Partnership for **FINANCE** *in a* **DIGITAL AFRICA**

Institution

What makes a successful commercial partnership?

Caribou Digital

Learning Themes 10

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NOTES

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ABOUT THE PARTNERSHIP

The Mastercard Foundation Partnership for Finance in a Digital Africa (the "Partnership"), an initiative of the Foundation's Financial Inclusion Program, catalyzes knowledge and insights to promote meaningful financial inclusion in an increasingly digital world. Led and hosted by Caribou Digital, the Partnership works closely with leading organizations and companies across the digital finance space. By aggregating and synthesizing knowledge, conducting research to address key gaps, and identifying implications for the diverse actors working in the space, the Partnership strives to inform decisions with facts, and to accelerate meaningful financial inclusion for people across sub-Saharan Africa.

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What we know

Delivering digital finance typically requires a complex web of partnerships and coordination. A digital finance provider—whether a bank, a mobile network operator (MNO), or another third party—has to coordinate with a payment service provider that brands and sells the service to the public, a bank to hold the float account and safely store funds, a technology service provider, an agent network manager that provides the distribution, and a communication channel. Of course, a single digital finance provider can simultaneously play many of these roles. For example, if an MNO is the provider of digital financial services (DFS), they can serve as both the payment services provider and agent network manager. Digital finance partnerships, in theory, should come together harmoniously to offer customers a service they need and want. They may also be formed due to regulatory requirements or economic drivers. Such partnerships play an increasingly large and fundamental role in digital finance.

Successful partnerships have the potential to provide millions of unbanked communities with access to affordable and convenient financial services. Indeed, collaboration in the digital finance industry can reduce friction in mobile payments and accelerate network effects that will help mobile money achieve its social and commercial potential.[1] In practice however, a decade of mobile money experience demonstrates that partnerships initially tend to struggle. Nevertheless, successful partnerships are possible. **This snapshot will explore what partnerships can look like, the potential business case for commercial partnerships in digital finance, and the business mechanics of such relationships.** Each subsequent Snapshot Refresh within Learning Theme 10 will focus on a particular component of the theme such as the key distribution channels necessary to generate awareness about new services or the kinds of client relationships providers need to build to generate awareness about their services.

To compete and to collaborate?

There are a number of factors that determine whether a digital finance provider will collaborate or compete in a given financial services market. In this section, we explore ecosystem-level collaborations: collaborations between different MNOs and between banks and MNOs, as well as the effect quasi-/monopolies and competitive markets may have on the potential of partnerships.

— *Power dynamics in a market will influence how digital finance players engage with each other*

Setting up and maintaining a digital finance deployment can be expensive, as highlighted in FiDA's Snapshot 8, "**What is the commercial landscape of digital finance?**" As a result, in some financial services markets, such as Bangladesh where bKash accounts for about half of the market presence in digital finance,[2] the market is dominated by a small number of digital finance providers. These providers have not only built the infrastructure they have also built brand recognition and trust among their customers. This dominance offers other players little incentive to jump in and compete. In turn, this affects the landscape of commercial offerings and cost structures and may ultimately hamper innovation. Large players in dominant positions have the ability to maintain the status quo and do not have many incentives to lower their prices. As a result, customers may use mobile money less frequently or in limited ways.[3]

1 Gilman, "The Impact of Mobile Money Interoperability in Tanzania."
2 Tiwari and Jain, "Agent Network Accelerator Survey: Bangladesh Report 2016."
3 Sitbon, "Addressing Competition Bottlenecks in Digital Financial Ecosystems."

Moreover, in markets where players have dominant positions, particularly MNOs, digital finance providers may be reluctant to share scale advantage with smaller competitors and prefer to forego interoperability[4] in order to lock in their market position.[5] For example, in 2013 MTN Uganda denied Ezee Money access to its USSD gateway, withdrew about 300 pre-paid data SIMs that were being used in Ezee Money's GSM enabled point of sale (POS) machines, and Ezee Money signed exclusivity agreements with its agents—preventing the agents from working with other providers.[6] This adversely impacted Ezee Money's ability to develop its network in Uganda, and ultimately, Ezee Money filed a successful lawsuit against MTN Uganda.

At the same time, a dominant provider in a quasi-/monopoly market needs to invest in building the required infrastructure—such as a network of mobile money agents as well as education campaigns that build awareness around the benefits of mobile money usage and how to use the service. Other players can leverage these developments for their own use.[7] For example, players can ride on the existing mobile money agent network rather than building their own. This suggests that natural monopolies in financial services markets give rise to a business case for ecosystem-level collaboration.[8]

On the other hand, in fragmented markets, where competition is richer, there are advantages for digital finance providers to work together to pool their customers into one interoperable network enabling interconnection, payments aggregation, and infrastructure sharing. For example, mobile money providers in Cote D'Ivoire collaborated to provide a universal and accessible digital school registration and fees payment solution along with a streamlined user experience.[9] The program worked because its services were attractive to all the stakeholders involved: the MNOs benefited from increased revenue flows, and the government benefited from the cost savings and reduction in lost payments.

There is growing evidence that digital finance players have a growing appetite for collaboration with traditional or new competitors.[10] According to the GSMA Global Adoption Survey of Mobile Financial Services (2015), about one-quarter of respondents reported collaborating with another mobile money service and a third of respondents reported that they would be collaborating with other services within the next 12 months. [11]

— *Partnerships between Banks and MNOs tend to be more clearly delineated*

In theory, collaboration between banks and MNOs makes sense; however, in practice competition arising from convergence in the space limits this potential, and players that might ordinarily cooperate find themselves competing. While competitive market forces have enabled partnerships between traditional foes, there may be cases in which partnerships between perceived competitors—particularly between banks and MNOs—are difficult.

Competitive players can be wary of each other's long-term aspirations and are likely to be unmotivated to support one another. These players may even undermine any strategies that associate customer value with the other partner's brand.[12] A good example is the unsuccessful partnership between Equity Bank and Safaricom. In 2010, Equity Bank and Safaricom were slated to launch M-Kesho, an Equity bank account linked to a Safaricom M-Pesa e-wallet. Both partners had difficulty defining the partnership such that it mutually profited their business interests. In part this is because they perceived each other as competitors more than as partners.[13] Rather than focus on the symbiotic aspects of the partnership, Equity and Safaricom each focused on their own respective channels and did not effectively promote M-Kesho.[14]

Nevertheless, even when they do compete in other areas, banks and MNOs may still prefer to partner to extend their reach to customers such as when offering a mobile savings service. In 2015 the majority of partnerships (61%) were between mobile operators and financial institutions or banks (61%). For example, quasi-monopoly player Safaricom M-Pesa, Kenya's mobile money giant, and Commercial Bank of Africa (CBA) in Kenya partnered to deliver the savings and microloan product M-Shwari. Leveraging Safaricom's dominant position in the marketplace allowed the product to successfully scale. As of 2016, M-Shwari

4 Interoperability, in its complete sense, refers to interconnection across an array of use cases, including transfers between mobile money accounts or mobile money and bank accounts, both domestically and internationally. Interoperability is a form of ecosystem-level collaboration, and can help services reach large scale. (Gilman, "The Impact of Mobile Money Interoperability in Tanzania.")

5 Andrade and Mas, "A Digital Money Grid for Modern Citizenship."

6 "Ugandan Court Penalises MTN for Malicious Business Conduct."

7 Sitbon, "Addressing Competition Bottlenecks in Digital Financial Ecosystems."

8 Guadamillas, "Balancing Cooperation and Competition in Retail Payment Systems."

9 Frydych, Scharwatt, and Vonthron, "Paying School Fees with Mobile Money in Côte d'Ivoire: A Public-Private Partnership to Achieve Greater Efficiency."

10 GSMA, "State of the Industry 2015: Mobile Financial Services for the Unbanked."

11 Ibid.

12 Flaming et al., "Partnerships in Mobile Financial Services."

13 Ibid.

14 Ibid.

accounted for approximately 15% of CBA's total revenue.[15] The partnership has succeeded because each partner has a clear understanding of their respective roles and how the product benefits the interests of each. CBA, a corporate bank that specifically targets higher net worth individuals, benefits from the large pool of mobilizing savings without diving into the operational challenges. Further, CBA does not necessarily have a desire to brand within M-Shwari's target market, and thus Safaricom solely brands the product. In turn, Safaricom is able to leverage the banking infrastructure of CBA without which it would not be able to provide savings or loan services.

Another example of successful digital finance partnerships is Vodacom Tanzania which partners with microfinance institutions (MFIs) and cooperatives to leverage local knowledge, existing trust networks, and liquidity channels. This allows Vodacom to extend its rural mobile money distribution network.[16] This is another case that illustrates that partnerships can be successful when the competitive advantage of the partners is clearly delineated and the best placed partner drives the initiative.[17]

Finally, we find a third example of a successful partnership in Telenor (an MNO) partnering with one of Pakistan's largest MFIs, Tameer Bank, to offer mobile money services in the country—Easypaisa. While Telenor initially bought 51% of Tameer Bank, the partnership worked because each party had clearly delineated roles and responsibilities. Additionally, the bank-led regulation in Pakistan forced Tameer to be the liable party in the eyes of the government. Telenor brought with it the advantage of a large customer base, an existing GSM agent distribution network, a communication network, and relevant marketing experience. For its part, Tameer brought its microfinance service license, banking, and risk management and compliance expertise to the partnership.[18] As of 2017, Easypaisa had the largest share of market presence (32%) in a fiercely competitive market.[19]

Table 1 illustrates the different degrees of dependency or cooperation between a mobile payment service provider and the key players. The "light model" involves the lowest degree of cooperation with other players, and the researchers that developed this table found that the "light model" consists mainly of digital finance providers targeting niche markets and building on the existing infrastructure for the payment process.[20]

Approaches to Bank-MNO Collaboration in Developing Payment Services 1

Light model	Bank minimally cooperates with other players and suppliers (e.g., service providers that use and access M-PESA's platforms). Lowest degree of cooperation. Low barrier to entry but limited scope.
Mobile-centric model	Bank strongly cooperates with MNO.
Bank-centric model	Bank develops mass market DFS solution without MNO (e.g. MOVO in France, a payment service via SMS).
Partial integration	Bank has a strong link with MNO, but no cooperation with agent networks—bank builds its own agent network.
Full integration	Vertical integration—a single company providing mobile devices, payments services, and having their own agent network.

Source: Cooperation for Innovation in Payment Systems: The Case of Mobile Payments, 2010.

15 FSD Kenya, "The Growth of M-Shwari in Kenya – A Market Development Story: Going Digital and Getting to Scale with Banking Services."
16 Frydrych and Aschim, "Extending Reach: Mobile Money in Rural Areas."
17 Flaming et al., "Partnerships in Mobile Financial Services."
18 Ibid.
19 Khan et al., "Agent Network Accelerator Research: September 2017."
20 Bourreau and Verdier, "Cooperation for Innovation in Payment Systems."

The approaches outlined above may help MNOs and banks think through what kind of partnerships work for their business interests and goals. For example, full dependency takes place when partners form a joint venture or integrate vertically or when one of the key players initiates the service. The partnership between Telenor and Tameer Pakistan is an example of full dependency.

Finally, there is more and more evidence that banks and MNOs have a growing appetite for collaboration. For example, the majority of mobile credit services (85%)—which have been dominated by MNO-led offerings—are partnerships between an MNO and a financial institution. Banks or financial institutions using the mobile channel to extend their reach account for the remainder.[21]

Moving beyond distribution relationships: the case of mobile insurance and other sophisticated products

The increasing success of mobile insurance services and the tangible benefit it brings to all stakeholders justifies the collaboration between specialist providers and digital finance providers. It is estimated that it would take forty years to insure one million lives through traditional insurance channels. With mobile technology, the time is reduced to just one year.[22] In 2014, 64% of mobile insurance services were launched by MNOs in partnership with specialist solution providers.[23] For an MNO, a partnership with an insurer can be strategic because it allows the MNO to offer an insurance product under its brand. Conversely, the partnership can be purely transactional whereby the MNO only provides the platform. For new launches in 2015, 57% of services collected premiums through airtime deduction and the remaining 43% relied on mobile money as the primary payment option.[24] When it comes to disbursing insurance claims, 48% of services—according to the GSMA Global Adoption Survey respondents—use mobile money as the payout method (2015).[25]

However, some of these partnerships go beyond simply using mobile money as a payout mechanism. For example, in Senegal, Tigo and Bima share operational data: Tigo provides Bima with calling lists for their outbound call campaign which Bima uses to target existing Tigo subscribers who have already shown loyalty to the GSM network. This sales channel accounts for 55% to 60% of total registrations for their life insurance product.[26] In fact GSMA has found an increasing number of business cases, 30 between 2012 and 2013, in which specialist intermediaries like Bima helped to create "*commercial and partnership models that appear to be accelerating product launches.*"[27]

Other providers are adopting innovative distribution strategies. For instance, Acre Africa provides a microinsurance weather product that works with a seed company to distribute their insurance product via a physical card in hundreds of thousands of seed packets.[28] Acre Africa uses customer location data provided by the MNO, as well as satellite weather data (past and present) to assess precipitation per area according to planting data provided by a US research institute. "*The IP is the actuarial model leveraging the two datasets and used to calculate the pure premium (based on the location and planting date) before insurer's validation.*"[29] The seed company pays the premium on the farmer's behalf, which comes out of the margin they take on a packet of seeds. This has the added benefit of differentiating the seed company's product on the market. The seed company hopes to see a return according to their business objectives—e.g., increased sales, loyalty, etc. In turn, Acre Africa's revenue is based on the volume of registrations and on the average premium.

Still other services are further innovating by offering "freemium insurance" to customers. In these cases the MNO or partner company pays a customer's insurance premiums—for life insurance and weather insurance—on their behalf. In return, the insurance providers assure that the MNO/seed company will gain customer loyalty. For example, Tigo Ghana, in collaboration with Bima and MicroEnsure, launched a "freemium" insurance product in 2011 which built upon a free, embedded life insurance coverage (on an opt-in basis) offered to Tigo subscribers in proportion to the amount of airtime they used as a loyalty benefit (in 2010). The premium service offered to double the coverage for a monthly fee ($0.52) giving customers up to $1,040 of insurance coverage.[30] This service was offered in hopes that customers would upgrade voluntarily to a paid service in addition to the free

21 GSMA, "Mobile Insurance, Savings & Credit Report – 2015."
22 Ibid.
23 GSMA, "State of the Industry 2014: Mobile Financial Services for the Unbanked."
24 GSMA, "Mobile Insurance, Savings & Credit Report – 2015."
25 Ibid.
26 Levin, "Promising Starts in Mobile Microinsurance: Tigo Senegal & Telenor Pakistan."
27 Pénicaud and Katakam, "State of the Industry 2013: Mobile Financial Services for the Unbanked."
28 Wills et al., "Micro-Insurance in Mobile Agriculture – Case Study & Takeaways for the Mobile Industry.
29 Ibid.
30 Téllez, "Emerging Practices in Mobile Microinsurance."

service they were offered. As a result of the insurance, more than one million new individuals were covered in Ghana and Tanzania (where a similar service was launched), 80% of whom had never previously had insurance coverage. Moreover, tens of thousands of Tigo customers have upgraded from the "freemium insurance" to the paid product.[31]

In other instances, individuals can pay their premiums from airtime balances or they can get insurance for free as a customer loyalty benefit.[32] In the aforementioned cases, MNO and mobile insurance partnerships are among the most successful and innovative partnerships seen to date. In the previous example of Tigo Ghana, although a customer does not necessarily need a mobile money account in order to register, fees are deducted from their airtime balance, and all claims are paid out through Tigo Cash.

— *Digital finance and pay-as-you-go (PAYG) energy services have created successful collaborations, delivering access to finance and energy to low-income customers.*

The success of PAYG demonstrates that value added service providers can influence the uptake and usage of mobile money. In return, by using mobile money, PAYG solar providers can track customer behavior, make payments more convenient, and lower credit risk in the long-term.[33] For example, CGAP and FIBR research in Ghana, carried out in partnership with solar provider PEG Africa and Tigo Cash, demonstrated that PAYG customers are more active mobile money customers.[34] Moreover, PEG customers generated 122% more revenue per active user for Tigo Cash than non-PEG customers in their sample.[35]

CGAP describes three ways by which energy providers and local financial institutions (that can legally offer a wide range of services) can collaborate:[36]

1. **Financial institutions develop a clean energy affiliate,** whose products are financed through loans from the financial institution. For example, CBA set up a $10 million debt facility for M-KOPA in Kenya, a PAYG solar energy provider. This debt facility has helped M-KOPA scale up.
2. **A solar provider expands the financial services** they offer their customers by acquiring a banking license;
3. **Two existing companies partner** and combine their respective competencies.

Safaricom and M-KOPA offer another approach to collaboration. M-KOPA products are actually sold in Safaricom shops, and both organizations recently signed an agreement to facilitate advanced knowledge exchange.

What are the ingredients of a successful partnership?

This Snapshot has explored what conditions catalyze partnerships—from competitive markets to leveraging value added services. However, what business mechanics really make a partnership successful? CGAP[37] and IFC[38] have both conducted case studies across Asia and Africa to determine the factors that contribute to a successful partnership. The key findings are highlighted below.

1. **Partnerships prosper when the competitive advantage of the partners is clearly delineated, roles and responsibilities are clearly defined, and the best placed partner leads the initiative.** This was highlighted previously in the example of Vodacom Tanzania's partnerships with MFIs, as well as Telenor and Tameer Pakistan's partnership. It must be noted however, that partnerships may not be possible where companies have competing interests to control some part of the supply chain or a service component.
2. **Regulatory restrictions can prevent even the best positioned player from thriving in a partnership and may create an unlevel playing field.**
3. **The main driver/player in the partnership may need to adapt as the business model evolves.** Many digital finance deployments evolve over time, especially in the rise of internet platform players. Consequently, the core business model may have to change along with it. This will depend on regulations, but may require interests to be renegotiated, purchased, or sold.
4. **The allocation of revenue and cost from digital finance must be clearly thought out before implementation.** Most providers want to leverage the digital finance channel to generate revenues in either their core business or create new business opportunities. According to CGAP, many deployments have mistakenly taken a short-term view that focuses on the value generated by the implementation itself rather than a long-term view that takes in the benefits generated for the partners' core businesses.

31 Téllez, "Emerging Practices in Mobile Microinsurance."
32 Pénicaud and Katakam, "State of the Industry 2013: Mobile Financial Services for the Unbanked."
33 Waldron, "Financial Inclusion and Off-Grid Solar: Three Takeaways."
34 Waldron and Wolvers, "Daily Energy Payments Powering Digital Finance in Ghana."
35 Ibid.
36 Waldron, "Could Energy Service Be the Key to Banking the Rural Poor?"
37 Flaming and Mitha, "Why Do Partnerships in Mobile Financial Services Struggle?"
38 Flaming et al., "Partnerships in Mobile Financial Services."

These findings are not meant to be a checklist of what will make or break a partnership. Nevertheless, the overarching theme is that each partner needs to enter into a partnership with a clear understanding of their role, motivation, and competitive advantage, as well as a long-term vision.

Notable new learning

New players in the digital finance ecosystem will bring new partnership models

FiDA's Snapshot 8, "**What is the commercial landscape of digital offerings?**", discusses how business models are slowly transforming due to the imminent threat of large internet players and the decreasing revenue of MNOs and other traditional digital finance players. Partnerships between M-Kopa and Safaricom in Kenya and Airtel and MTN in Uganda clearly illustrate how traditional players are diversifying their mobile money strategy in ways that leverage their deployments to drive mobile money uptake and thus revenues. Moreover, FiDA's Focus Note, "**Can Big Data Shape Financial Services in East Africa?**" highlights how MNOs and banks are creating partnerships with FinTechs and organizations with big data analytics capabilities as they explore the potential of big data for product design and in preserving customer trust. It is likely that partnerships will evolve to encompass the potential entrance of the large internet players, such as Facebook, the Chinese e-commerce platform Alibaba, and Google.

The partnership between Fenix International and MTN Uganda demonstrates how some MNOs are seeking different revenue models and types of partnerships with the advent of large internet players. Fenix designs, manufactures, and distributes ReadyPay Solar, a mobile payment-enabled solar panel and smart battery system that partnered with MTN Uganda in 2013 to offer ReadyPay. The partnership created a use case for mobile money and, by default, trained customers to use the service. In 2014 alone, Fenix's 13,000 customers made over 100,000 mobile money transactions.[39] According to a survey of Fenix's customers, 13% were new to MTN Mobile Money and signed up for accounts when they purchased the ReadyPay Solar system.[40] Fenix projected selling 5,000 systems and exceeded estimates by 8,000 in 2014.[41]

The partnership between Fenix and MTN Mobile Money works because of the clear competitive advantage and expertise of both the parties involved. This is a case of two existing companies combining their respective competencies (i.e., the PAYGO solar operator supports field sales, credit assessments, and underwrites loans; MNO purchases customer and collects monthly payments). A representative of Fenix International **commented**:

> *"...In a market that has been abused by cheap, low quality products, the MTN brand provides Fenix with more acceptance than if we were selling on our own. Whenever we show up in an MTN van, a crowd assembles and we have an audience to talk to about Fenix. MTN also benefits from its association with Fenix. We have had many people say that MTN cares for them because it goes beyond the normal practice of pushing airtime and connections. It solves a critical need by bringing them safe and affordable energy."*

MNOs are not the only organizations that may be considering alternative strategies. Banks looking to extend their reach to the mass market can leverage the services of alternative lenders. Alternative lenders have the advantage of being able to perform the credit underwriting process and approve (or decline) a loan application based on the borrower's risk score in near real time; and increasingly they use non-financial sources of underwriting data, such as mobile phone usage (SMS, voice, mobile apps). According to Lendable estimates, a platform helps alternative lenders access structured financing to scale their

39 "Fenix International."
40 Ibid.
41 Ibid.

operations. The alternative lender market in East Africa is poised to reach $15 billion by 2020. [42]

The emergence of alternative lenders does not have to pose a threat to banks: a partnership between the two can be mutually beneficial because:

- Alternative lenders need banks to access capital.
- Banks can leverage the lenders' experience with low-income clients.

For example, First Access, a company that offers a data platform for financial institutions in emerging markets, built a customizable credit scoring platform that allows lenders to incorporate external data sources with internal and financial data for credit decisioning. Traditional lenders like banks can leverage their own data for new insights while also building trust among loan officers in the use of algorithms that include a wide variety of data sources.[43] This makes traditional lenders more competitive in the digital world[44] and gives them an opportunity to work with alternative lenders.

The American example demonstrates that alternative lenders in fact need banks. Moreover, some US banks have reached agreements to fund loans through certain platforms because they see this as an opportunity to deploy their liquidity at a lower operational cost.[45]

42 FIBR, "Briefing Note on Lendable: Case Study of a Marketplace Lending Platform in East Africa."

43 FIBR, "Alternative Lending: Landscaping the Funding Models for Lending Fintech Companies."

44 Ibid.

45 Ibid.

Implications

Since 2014, smartphone connections have doubled to nearly 200 million in sub-Saharan Africa, accounting for a quarter of mobile connections in 2016.[46] Basic and feature phones make up 50% of the market, but will drop to 30% by 2020, potentially representing an opportunity for large, internet players to play a significant role in the market. As the digital landscape changes it would be prudent for MNOs, banks, and other third parties to keep a keen eye on the rising popularity of social networking and messaging players such as Facebook, WhatsApp, and WeChat that offer Over the Top (OTT) services.

For example, in 2014, WeChat, the popular online messaging platform in China, digitized an age-old traditional practice of gifting people cash in red envelopes during holidays or on special occasions (like weddings or on the birth of a new child). Over **60 million** WeChat users in 2016 sent Red Packets (Red Envelopes) every day—not just on holidays. This is a perfect example of how non-traditional players can capitalize on the intersection of online social behavior and untapped opportunities in the payment space. Rather than see these players as competitors, traditional digital finance players should think about where they fit into the value chain and consider collaborating with them to offer the infrastructure, payment services, or expertise that the platform players will require to further develop what they offer their customers. The OTT players can also leverage digital finance providers' knowledge and experience in reaching and marketing to low-income customers, as well as adapting to local contexts like the African market, new territory for many platforms.

A 2017 white paper by FIBR, "Inclusive Digital Ecosystems of the Future,"[47] notes that when the large internet players (termed *superplatforms*) enter African markets they will likely see finance as a means to a bigger end and therefore will be willing to absorb losses if financial services offerings add value to the ecosystem as a whole. Banks that offer digital financial services will want to consider how to partner with these giants rather than be demoted to, as David Porteous and Olga Morawcynski put it, *"becoming dumb reservoirs of funds, much as some telcos have turned into dumb pipes for data in the face of superplatforms."*[48]

At the same time, while the digital finance community has not yet seen partnerships between traditional digital finance players and *superplatforms* in sub-Saharan Africa, Standard Bank of South Africa joined forces with China's WeChat in 2015. And Alipay—part of the Chinese e-commerce company, Alibaba—is accepted in some areas of South Africa and Kenya frequented by Chinese tourists.[49] Moreover, Jack Ma, the founder of Alibaba, visited Kenya and Rwanda in July 2017 and announced that Alibaba was actively seeking *"investment opportunities, partners interested in building logistics centers and those interested in supporting entrepreneurs."* According to FIBR, local banks may unlock new international revenue sources (such as the transactions made by Chinese tourists in South Africa), and they may also capture new data about their clients and benefit from the analytic capabilities of the *superplatform*.[50] In turn, banks can leverage their knowledge of customers into forms of identity that could be used beyond banking. Banks could even go a step further by sharing access to their data through credit bureaus or rating agencies. Further, if and when *superplatforms* enter the market, they could be required to join these institutions and share their data.[51]

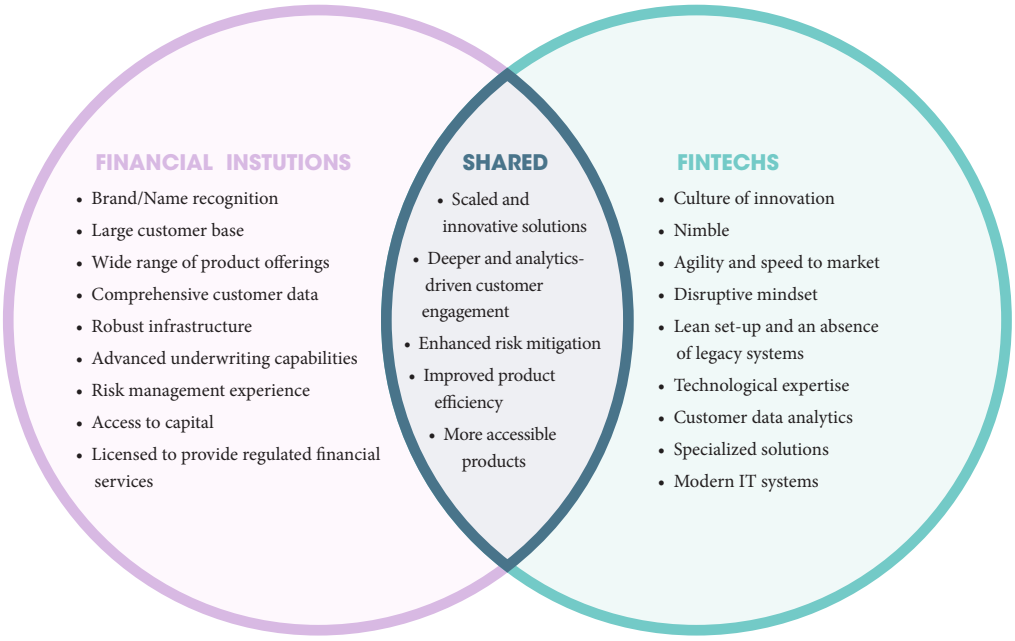
46 GSMA, "The Mobile Economy Sub-Saharan Africa 2017."
47 Porteous and Morawcynski, "Inclusive Digital Ecosystems of the Future."
48 Ibid.
49 Ibid.
50 Ibid.
51 Ibid.

As discussed in the previous section (and in greater detail in FiDA's **Snapshot 8**), some MNOs and banks are already future-proofing themselves by re-evaluating their strategies in order to build an ecosystem around the mobile wallet. Many of these strategies center on unique and innovative partnerships with traditionally unlikely playerssuch as FinTechs. Partnerships with the aforementioned internet players may soon be inevitable. In fact, the report, "How Financial Institutions and Fintechs Are Partnering for Inclusion: Lessons from the Frontlines"[52] notes that some mainstream financial institutions are organizing themselves internally for innovation in order to facilitate partnerships with FinTechs by strategically integrating systems and staff and developing contractual agreements. The report found that "*Fintech partnerships enable financial institutions to engage with and learn from new technology in low-risk, low-cost ways*" and are key to potentially allowing these institutions to compete in a world with *superplatforms*.[53]

Moreover, the report uncovered that the partnerships between financial institutions and fintechs represent a slow financial industry shift toward customer-centricity. Better data management and use, new digital banking products, and greater customer engagement all enable better service for underserved customer segments.[54] Figure 1 below illustrates the synergies between financial institutions and FinTechs, and the mutual benefits of a partnership between the two organizations.

Strengths of financial institutions and fintechs 1

Partnerships between financial institutions and fintechs are mutually beneficial. Through partnerships, both parties can scale up business to reach a larger customer base, bolster their competitive position, and improve product efficiency.



Source: "How Financial Institutions and Fintechs Are Partnering for Inclusion: Lessons from the Frontlines." Washington, DC: Institute of International Finance and Center for Financial Inclusion at Accion. July 2017

The current strategies of institutions future proofing themselves are headed in the right direction as development at the ecosystem level should positively impact financial inclusion. If providers build more use cases that use digital finance to address real customer pain points, customers will be more likely to use their digital products — as long as providers build the appropriate awareness and education campaigns around them.

While customers may have access to more use cases that utilize digital finance in the near future, customers will also be sharing a lot of their personal data to gain access to apps and services. In FiDA's Snapshot 9, "**Best practices in big data analytics,**" we discuss the importance of consumer protection and the role that digital finance providers can and should play in ensuring that their customers understand how their data is being used and protected.

52 McGrath, Kelly, and Ferenzy, "How Financial Institutions and Fintechs Are Partnering for Inclusion: Lessons from the Frontlines."

53 Ibid.

54 Ibid.

Conclusion

Partnerships in digital finance seem to be a more regular feature in digital finance whether because of economic necessity, regulatory requirements, or future-proofing against the rise of internet players. Whatever is driving these partnerships, this Snapshot has demonstrated that each player in a given partnership must have a long-term vision for the partnership, as well as clearly defined roles, and an explicit motivation for engaging in the partnership. Additionally, each partner must work from the position of their strength and competitive advantage. Successful partnerships have demonstrated—such as in the case of the Kenyan savings and loan product, M-Shwari—that they have the potential to reach a large number of unbanked but mobile enabled customers and thus extend financial inclusion.

1 FIBR.
"Alternative Lending: Landscaping the Funding Models for Lending Fintech Companies," n.d.

2 Flaming, Mark, and Aiaze Mitha.
"Why Do Partnerships in Mobile Financial Services Struggle?"
CGAP, October 31, 2013.

3 Flaming, Mark, Aiaze Mitha, Michel Hanouch, Peter Zetterli, and Greta Bull.
"Partnerships in Mobile Financial Services."
Washington, DC : International Finance Corporation, 2015.

4 Gilman, Lara.
"The Impact of Mobile Money Interoperability in Tanzania."
GSMA, October 2016.

5 GSMA.
"Choosing a Technical Model for A2A Interoperability: Lessons from Tanzania and Pakistan."
GSMA, January 2016.

6 IFC.
"Alternative Data Transforming SME Finance,"
2017.

7 McGrath, Allyse; Sonja Kellyl and Dennis Ferenzy.
"How Financial Institutions and Fintechs Are Partnering for Inclusion: Lessons from the Frontlines."
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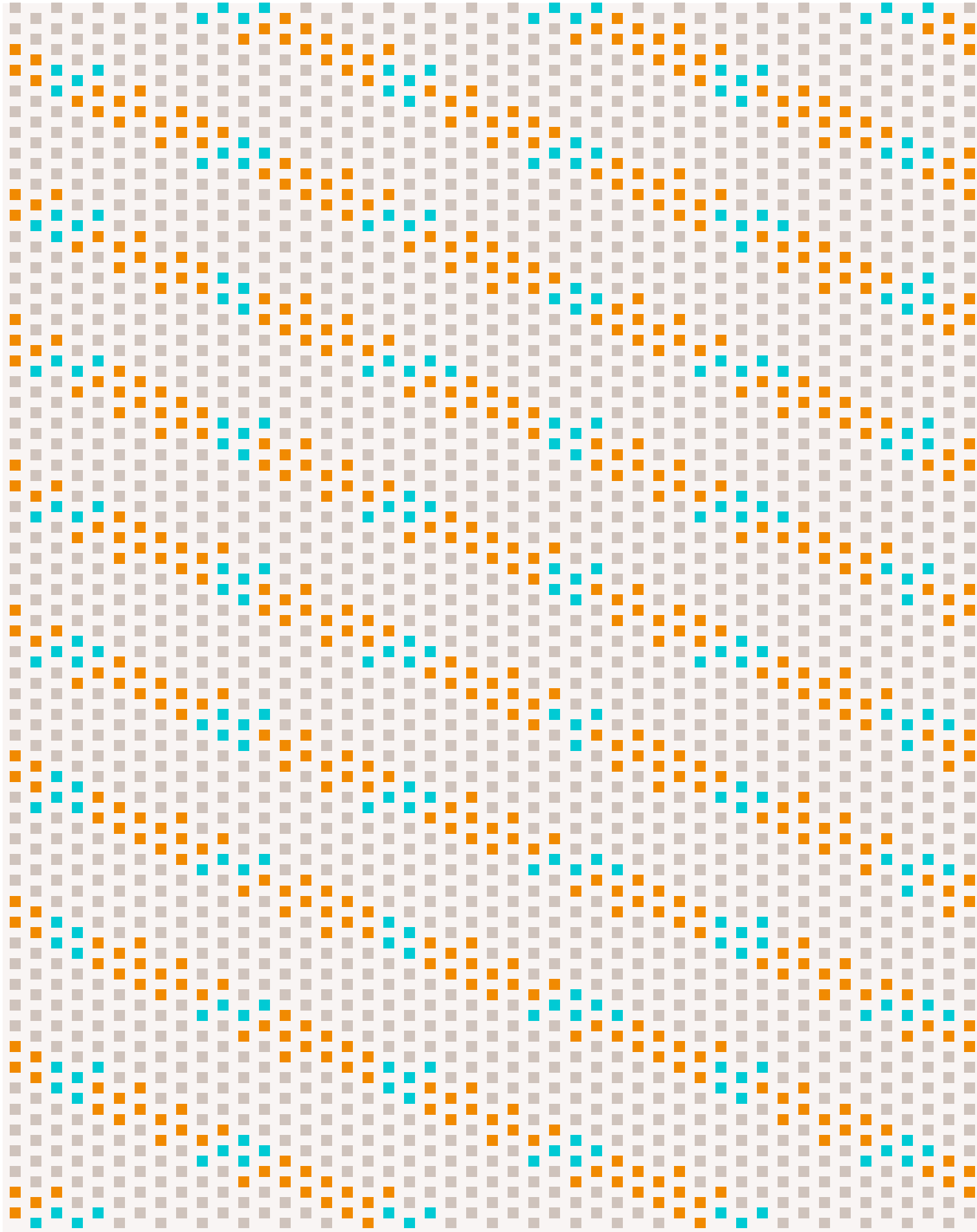

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