# Show me the Money

## Financial services opportunities for telcos

18/11/2021

STL PARTNERS

# Agenda

| | | |
|---|---|---|
| 1 | **Introduction to STL** | Amy |
| 2 | **Financial services in flux** | David |
| 3 | **M-Pesa – revenues and relevance** | David |
| 4 | **The Vodacom super app** | Liam |
| 5 | **Orange Bank – diving into developed markets** | David |
| 6 | **AI and data analytics** | David |

# Financial services in flux

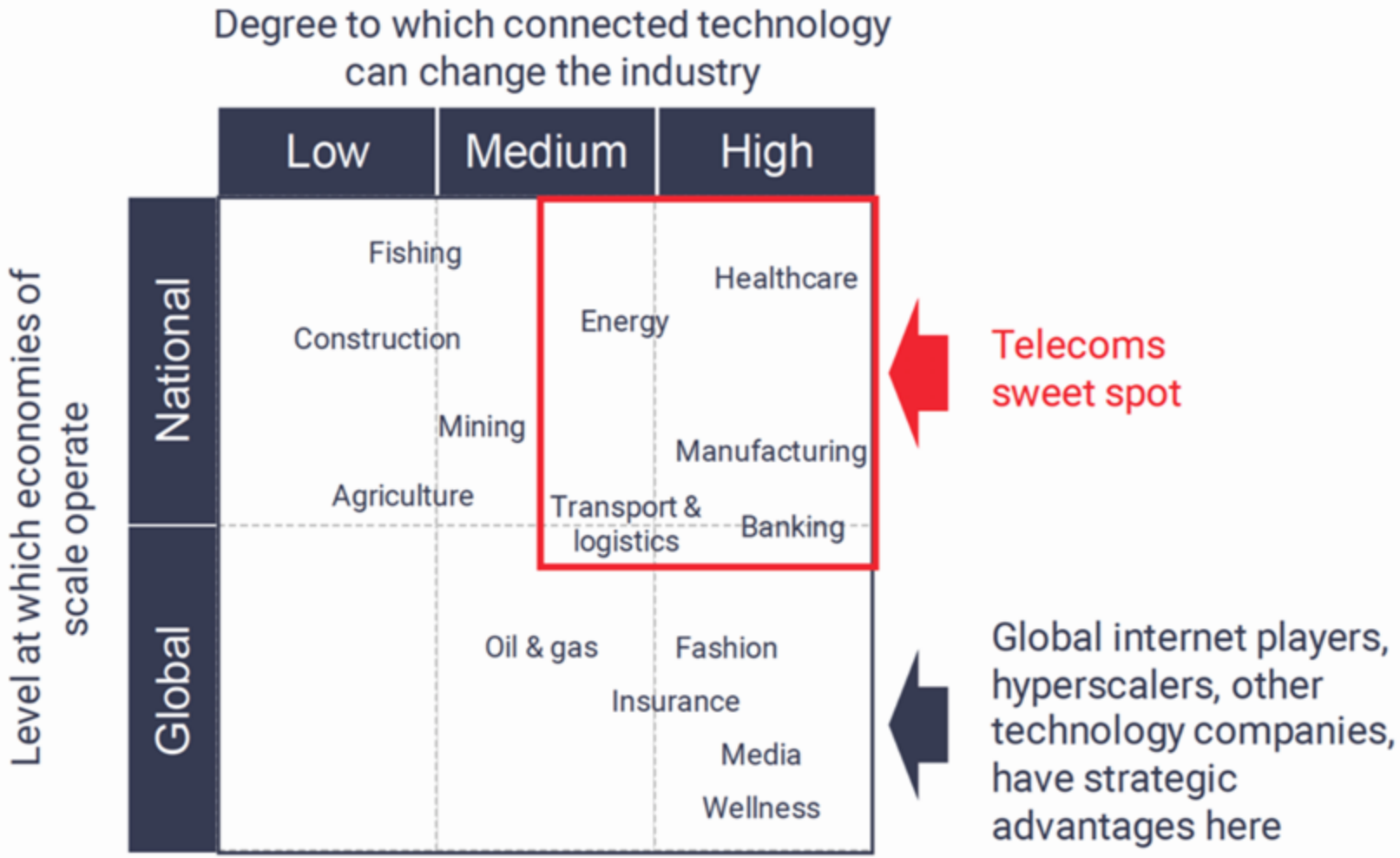
Digitisation & liberalisation making it easier for new players to enter banking market.

More disruption to come with advent of digital currencies

“There's no question that digital currencies and the underlying technology have the potential to drive the next wave in financial services…those technologies can help solve some of the fundamental problems of the system. The fact that there's this huge prevalence and cost of cash, that there's lack of access for so many parts of the population into the system, that there's limited liquidity, there's high friction in commerce and payments.”

**- Dan Schulman, CEO of PayPal, February 2021**

# Financial services is in the telecoms sweet spot




Source: STL Partners

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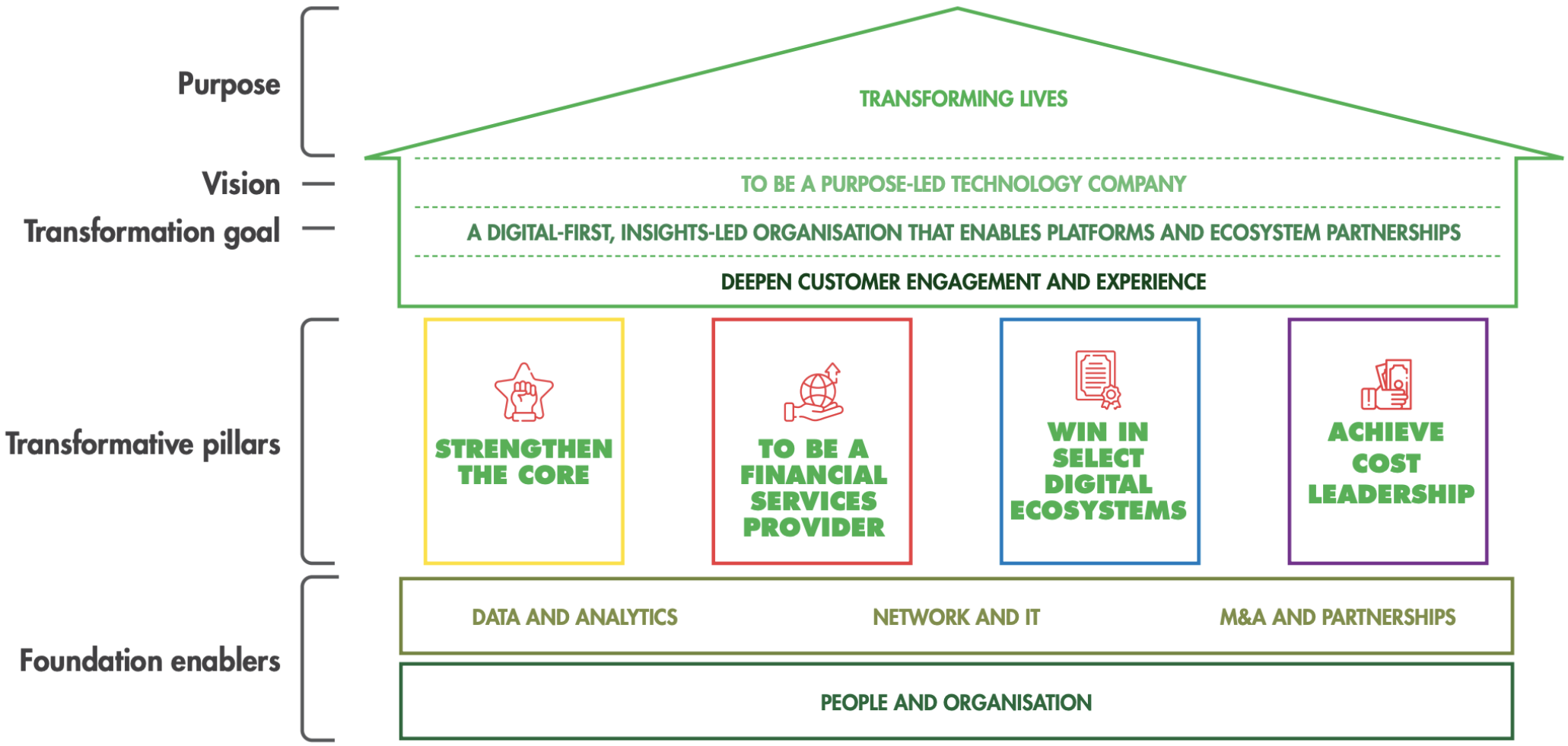
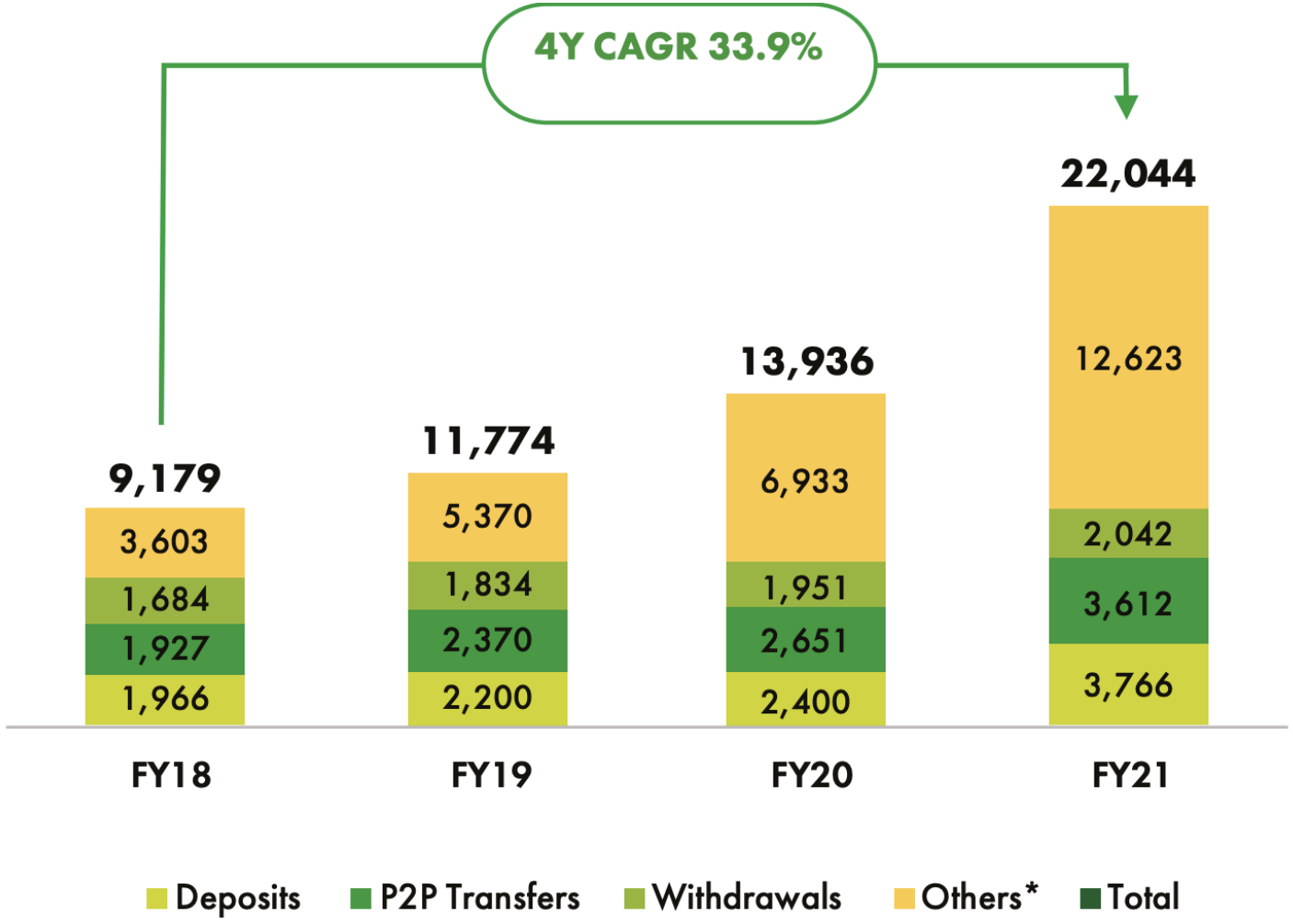
# For Safaricom, financial services has become fundamental



# M-Pesa – moving beyond mobile money transfers

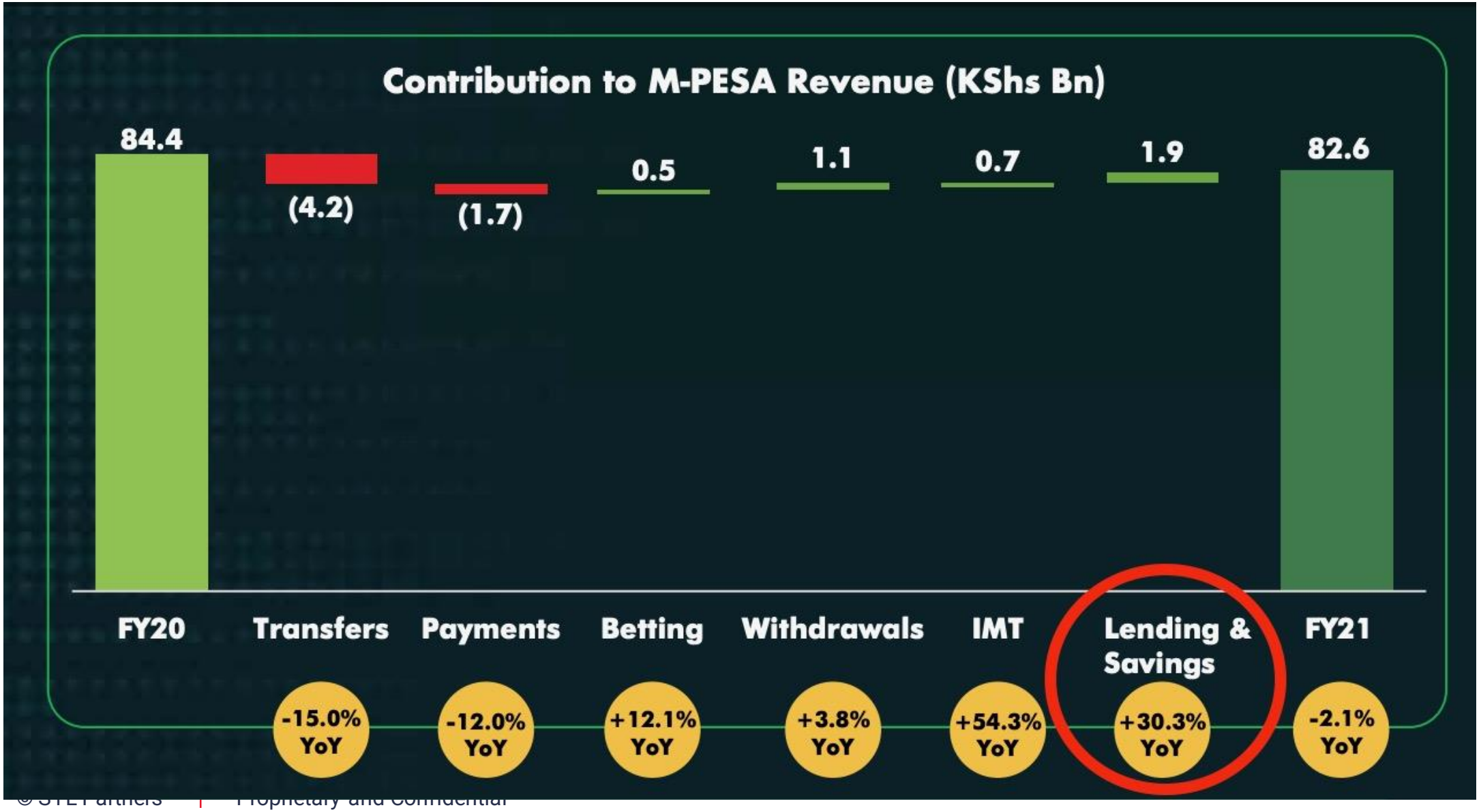



| | FY21 % YoY | CAGR 4YEARS |
|---|---|---|
| Others* | 82.1% | 51.9% |
| P2P Transfers | 4.7% | 6.6% |
| Withdrawals | 36.2% | 23.3% |
| Deposits | 56.9% | 24.2% |
| Total | 58.2% | 33.9% |

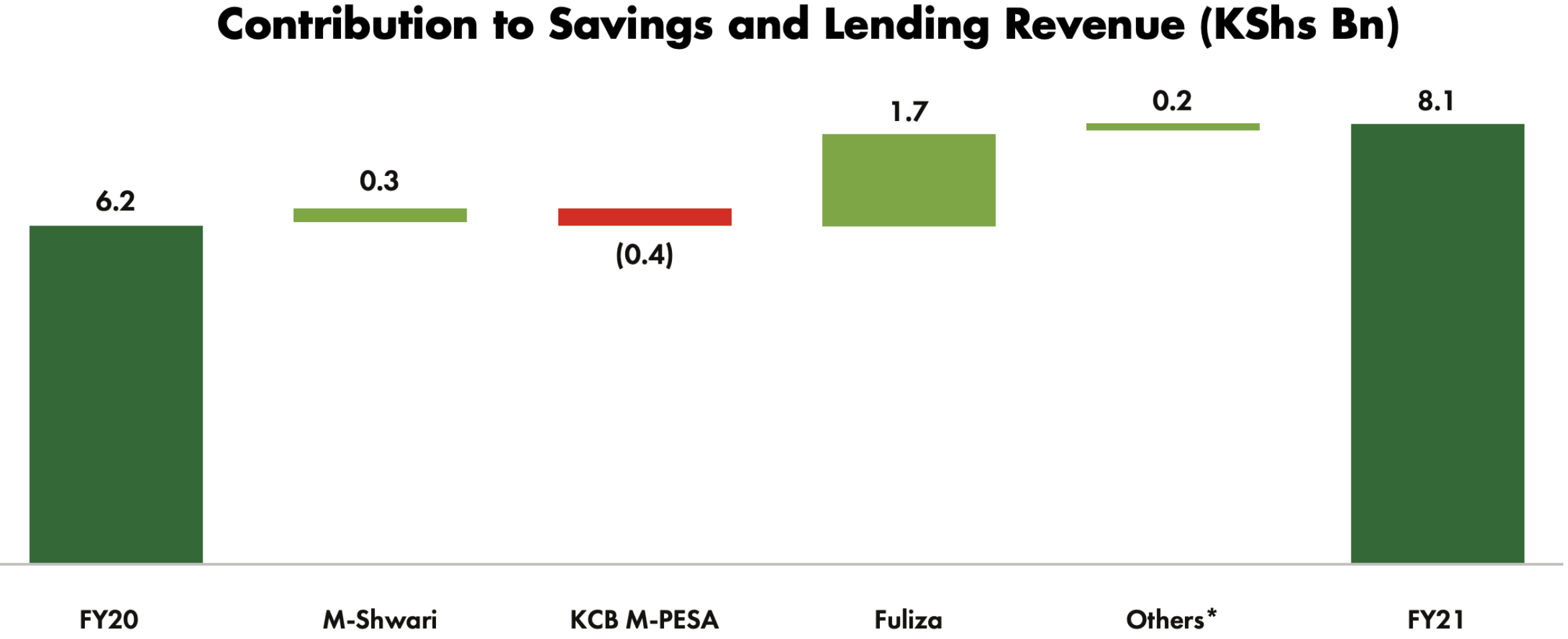
*B2C, C2B, Lipa Na M-PESA, M-Kesho, IMT, Betting, Airtime

Value of transactions – billions of Kenyan shillings

# Lending and savings – a key growth engine



# Fuliza is the stand out lending product




*M-Kesho, M-Kopa and Savings*

# Fuliza – convenient micro-credit

Launched in January 2019, Fuliza M-PESA is a micro-loans service that allows M-PESA customers to complete transactions when they have insufficient funds in their M-PESA account

| Fuliza | FY21 | FY20 | % YoY |
|---|---|---|---|
| Value of Disbursements (KShs Bn) | 351.2 | 244.6 | 43.6% |
| Value of Repayment (KShs Bn) | 345.7 | 241.7 | 43.0% |
| % Repayment vs Disbursal | 98.4% | 98.8% | (0.4ppt) |
| Average Ticket Size (KShs) | 446.2 | 622.7 | (28.3%) |
| Revenue (KShs Bn) | 4.5 | 2.8 | 61.3% |
| Daily active Fuliza customers (Mn) | 1.4 | 0.7 | >100.0% |

# M-Pesa delivers revenues and relevance

Kenya's five most valuable brands, source: BrandFinance 2021
Source: https://brandfinance.com/press-releases/7-kenyan-brands-feature-in-ranking-of-africas-most-valuable

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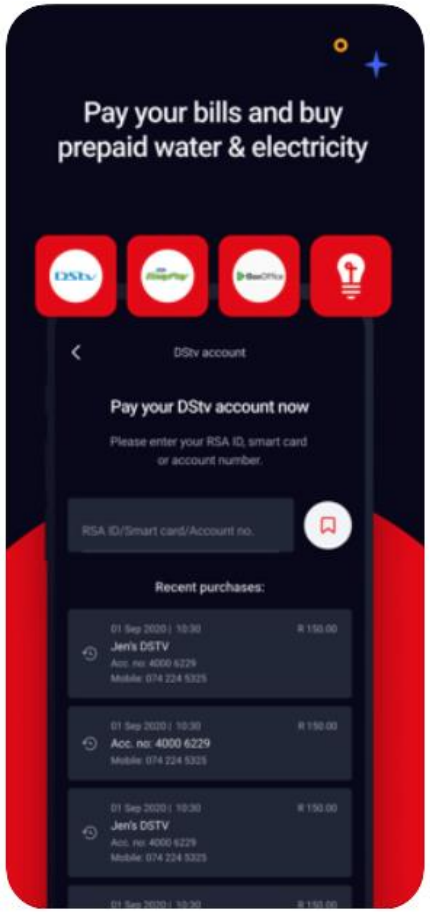
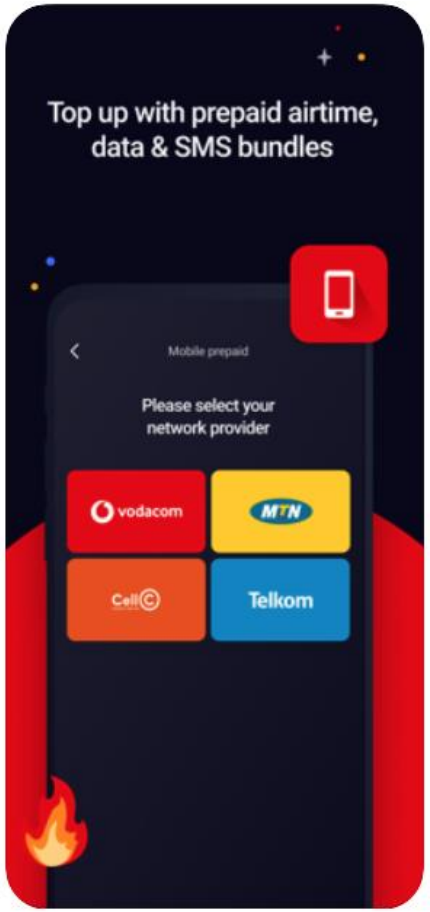
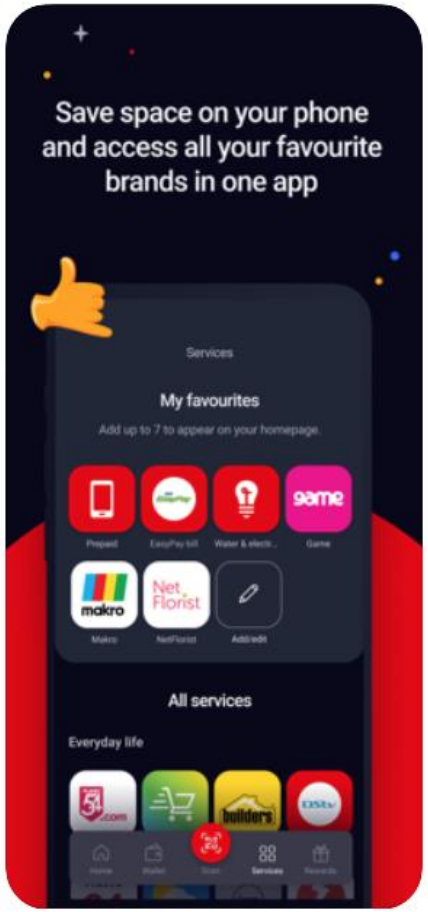
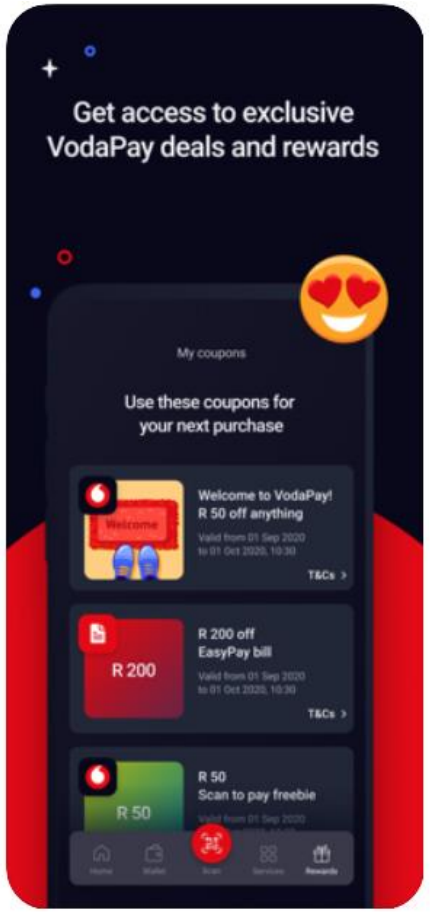
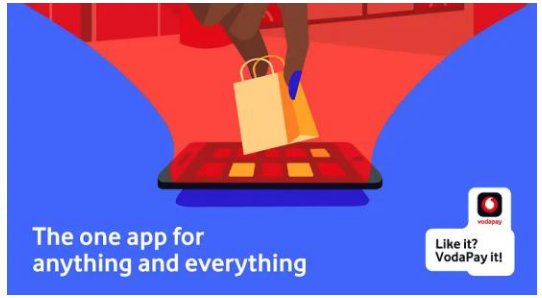
# VodaPay SuperApp launched 11th October



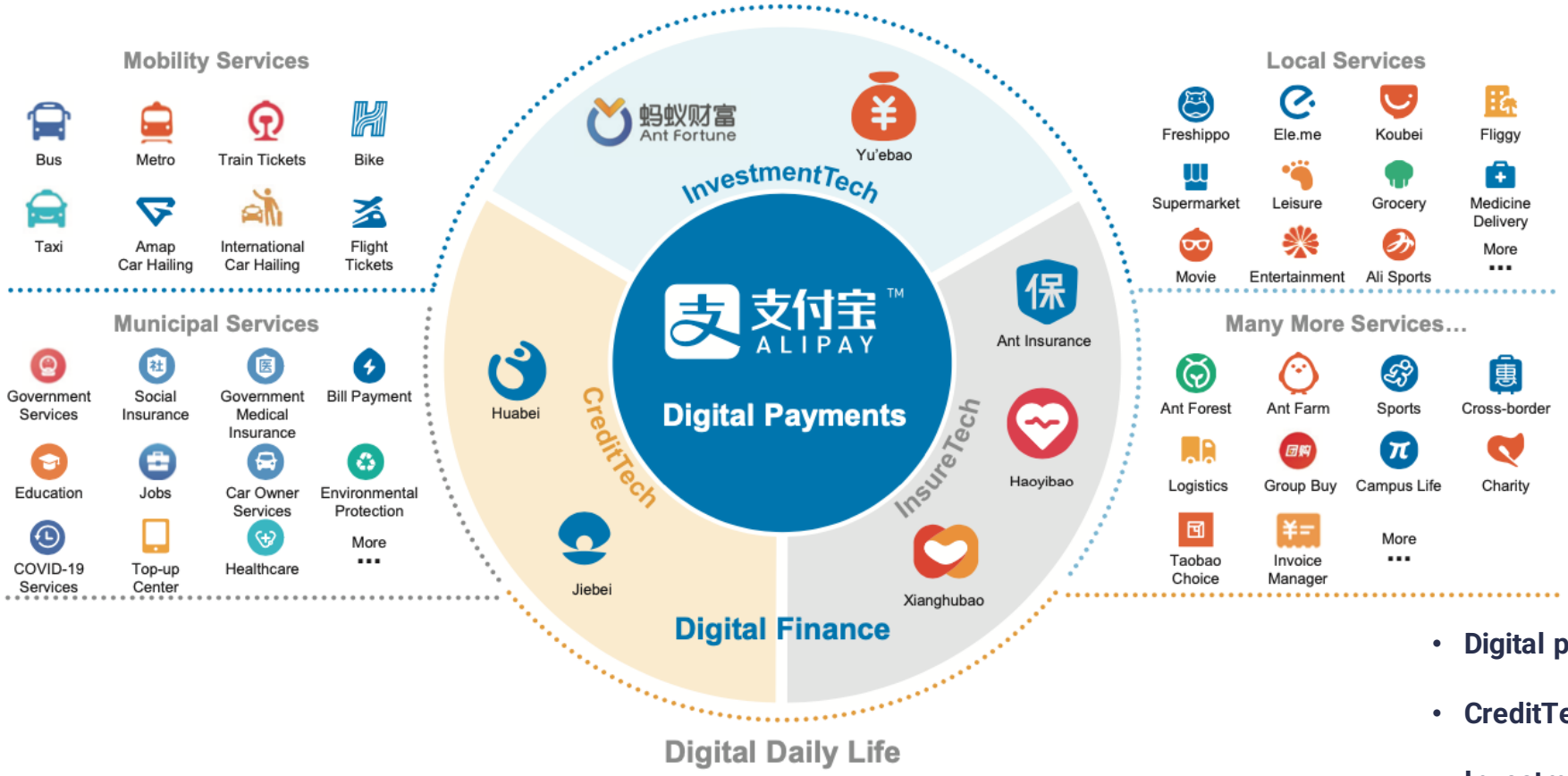



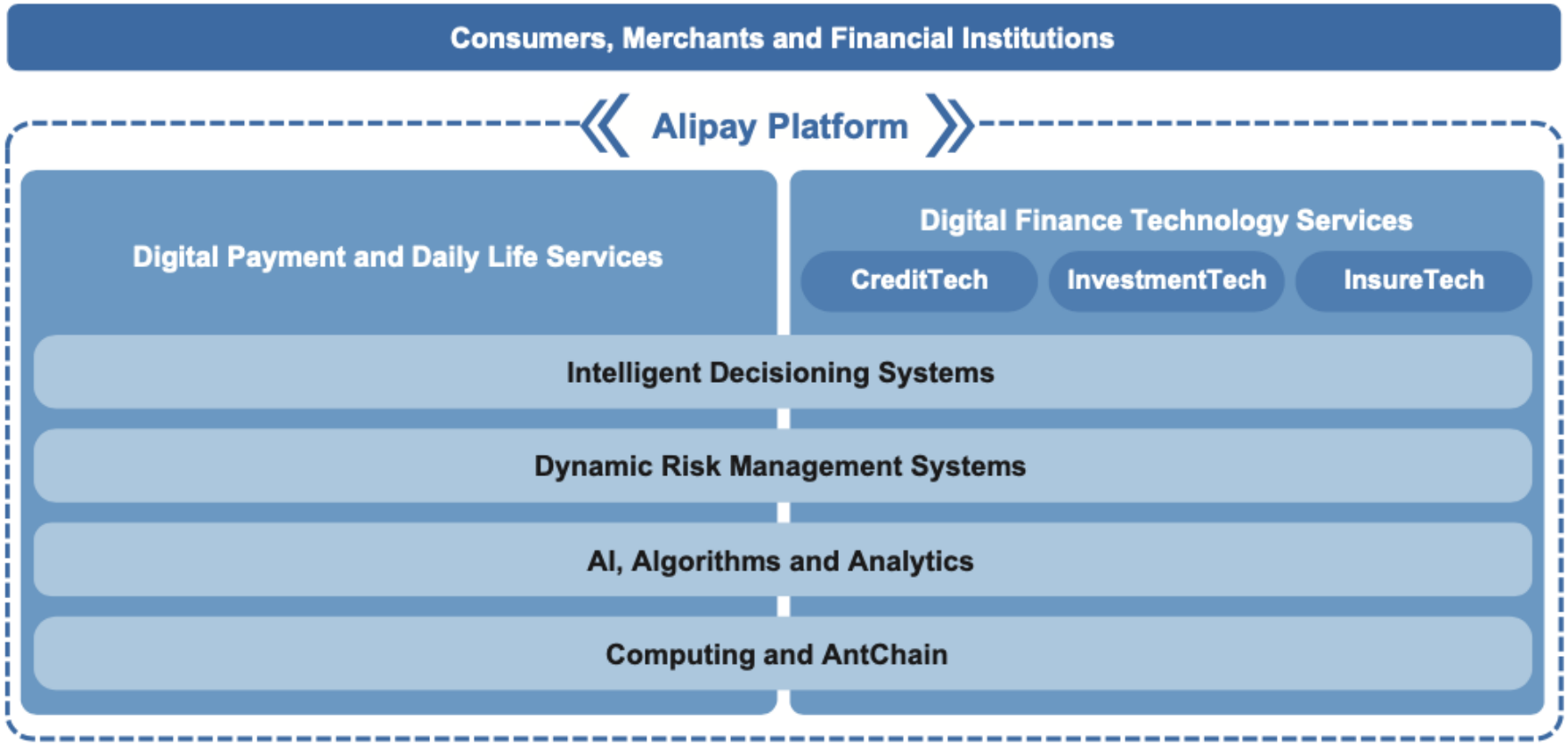
# Alipay SuperApp




- **Digital payment and merchant services - 43%**
- **CreditTech - 34.7%**
- **InvestmentTech - 14.1%**
- **InsureTech - 7.4%**

Note: For illustrative purpose only. English translation is for reference only. Chinese version shall prevail in case of inconsistency

# Alipay Platform



# From telco to techco with VodaPay

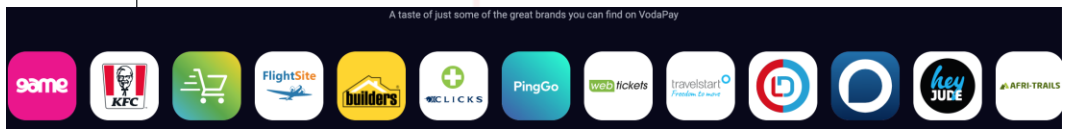
## B : We have a strong opportunity to extend our leading position

Case study video
investors.vodafone.com/digital-services

**Lifestyle super-app**
*powered by* 支付宝 ALIPAY

**Consumer proposition**
Trusted platform & brand, personalised offers, access to affordable financial services

**Merchant proposition**
Large footprint, low set up costs, personal targeting, low customer acquisition costs



vodapay | max
from R310.50 pm incl VAT

vodapay | kwika
R499 once-off incl VAT

# From telco to techco with VodaPay

## C : Our economic model is highly attractive

### High-growth & scalable model with attractive returns

**Expanding our product set to capture growth opportunities** + **Scalable platform** = **Multiple revenue drivers** + **Attractive margins & returns**

#### Payments & e-Commerce

- Services & bill payments
- P2P transfers
- Scan to pay
- International money transfer
- Consumer to business
- eCommerce payments

#### Lending

- Prepaid handset finance
- Airtime Advance
- Voucher Advance
- Micro loans
- Overdraft facility
- Instant/virtual credit card
- Installments

#### Savings & investments

- Savings
- Fractional ownership of shares & commodities
- Unit trusts
- Money market

#### Insurance

*Short-term*
- Device
- Home & road assist

*Long-term*
- Life & funeral
- Group Schemes
- Contract cover

*Third-party*
- Car
- Home

#### Merchant services

- Online (e-Com) & offline point of sale payments
- Business to business
- Business to consumer (eg. Salaries)
- Enterprise resource planning
- Invoice financing
- SME lending

**SUPER APP**

- **Fintech marketplace**
- **Entertain & content**
- **Personalised offers**
- **Digital mall**
- **Behavioural loyalty**

#### Multiple revenue drivers

**Fee per transaction**
*(P2P, cash-out, C2B, B2B, B2C & e-Commerce)*

**Service fee**
*(Airtime advance, content, loans)*

**Commissions**
*(investment products, 3rd party services)*

**Platform hosting fees**

**Advertising fees**

#### Attractive margins & returns

**c.40% PBT margin** with **further opportunities** including digitalising inflows & outflows, and increased use of Shared Services

**Maintain low capex intensity**
As we leverage global tech partnerships (i.e. AliPay) and centres of excellence (i.e M-Pesa Africa), **to deliver highly attractive ROCE**

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# Orange Bank – can it crack developed markets?

Founded four years ago

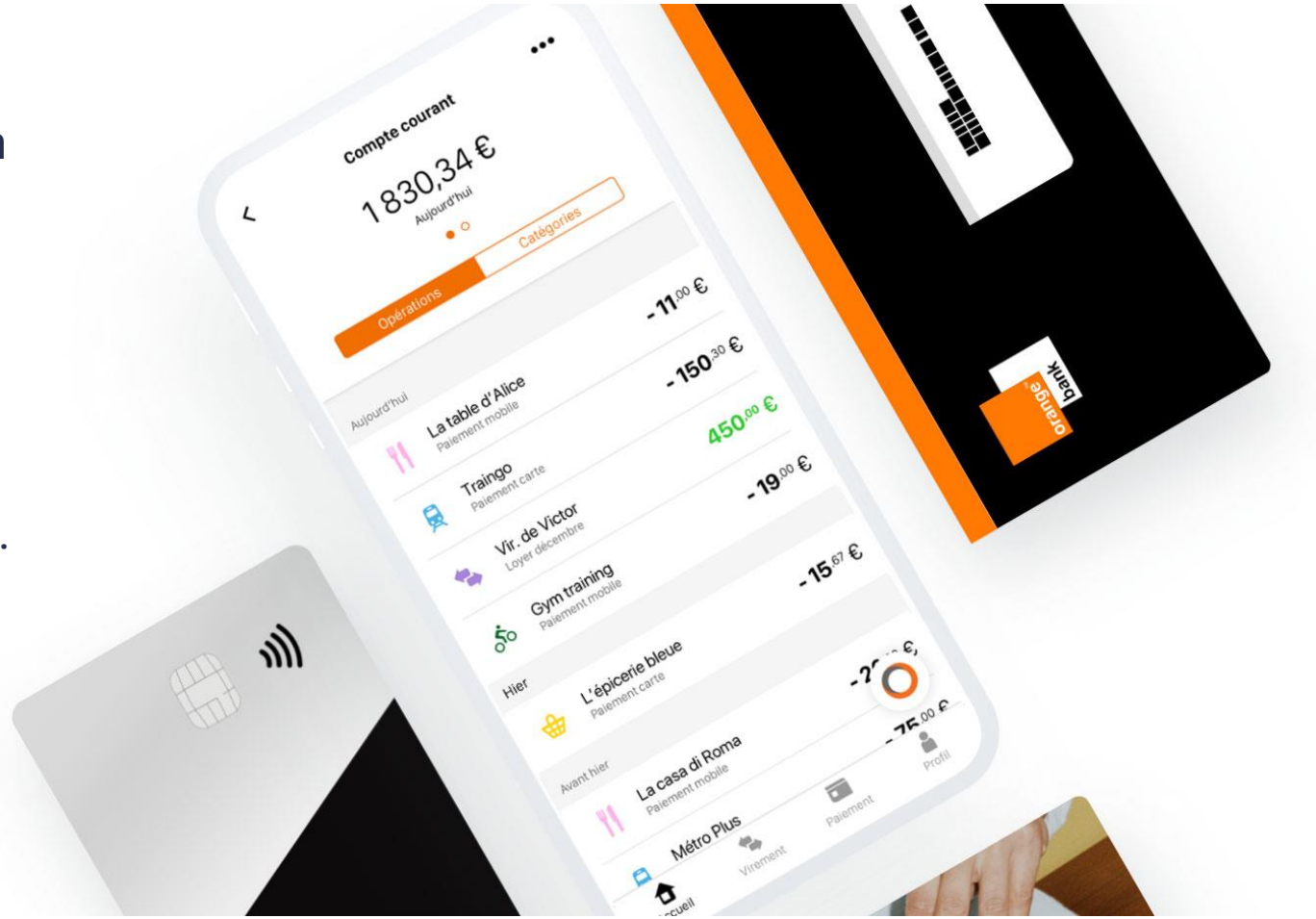
1.6 million customers in France & Spain

One of the top five neobanks in France

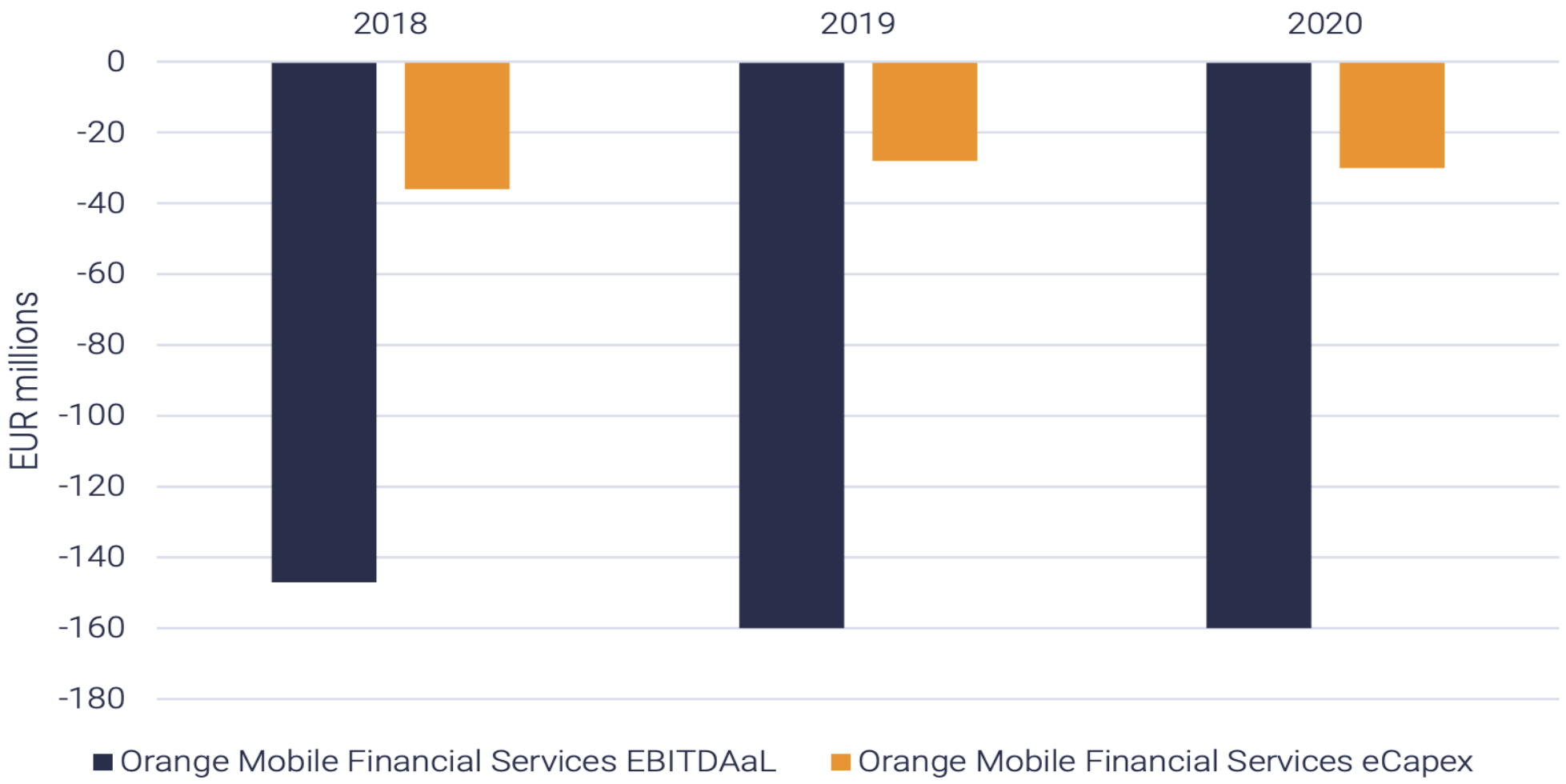
40,000 new customers every month

Over 90% of new Orange Bank customers subscribe to a billed service.

For every 100 sales linked to mobile telephony, 35 banking sales are made



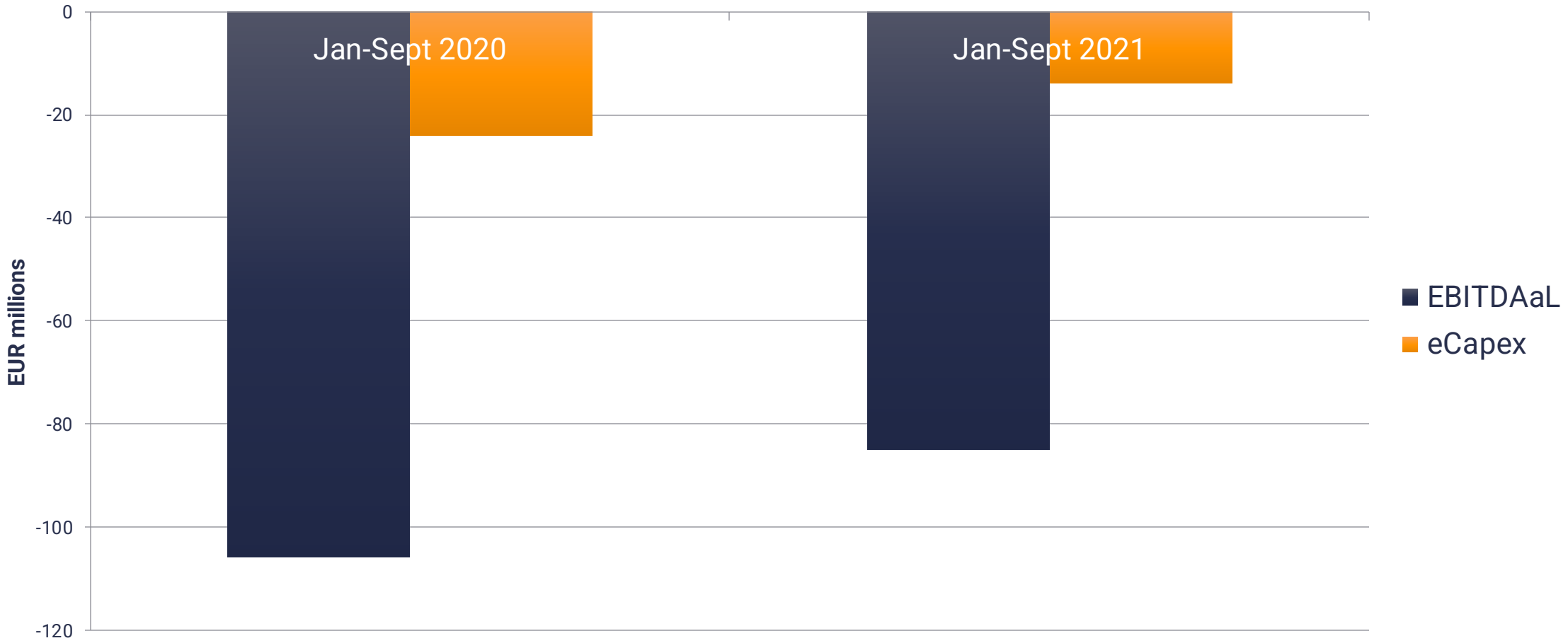
# Orange Bank – sustained investment



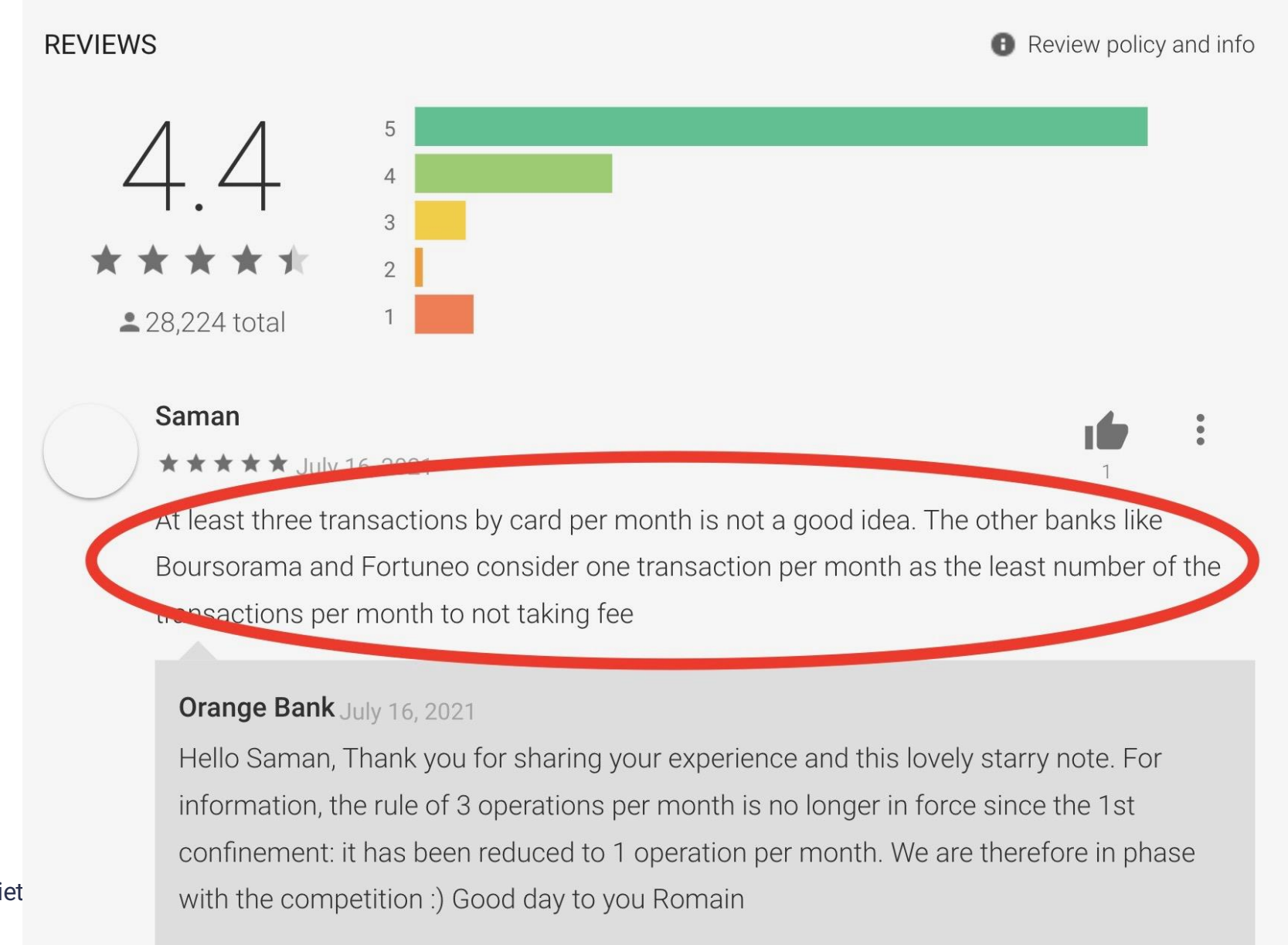

Source: Orange financial reports

©

# Orange Bank – progress in 2021



# The engagement challenge



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# Relative strengths and weaknesses

| Type of service provider | Key capabilities to provide compelling financial services | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Industry knowledge | Trusted brand | Consumer app development | Distribution channels | Behavioural data | Data analytics & machine learning | Authentication mechanisms | Regulatory relationships | Ample capital |
| Telcos | ■□□ | ■■□ | □□□ | ■■■ | ■■■ | □□□ | ■■■ | ■□□ | ■□□ |
| Internet giants (e.g. PayPal, Google, Amazon) | ■□□ | ■■□ | ■■■ | ■■■ | ■■□ | ■■■ | ■■□ | □□□ | ■■□ |
| Traditional banks | ■■■ | ■■■ | □□□ | ■□□ | ■■□ | □□□ | ■□□ | ■■■ | ■■■ |
| Fintech firms (e.g. UpStart) | ■■□ | □□□ | ■■□ | □□□ | □□□ | ■■■ | ■□□ | □□□ | □□□ |

Source: STL Partners analysis

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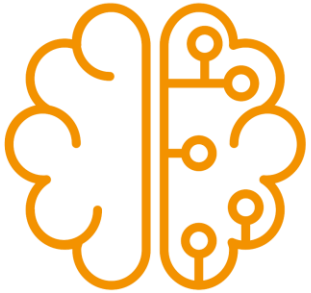
# Behavioural data plus AI – a winning combination

Accurately assessing risk requires both:

- Comprehensive and accurate data about the customer
- Advanced analytics to decide how much weight to give each data point.

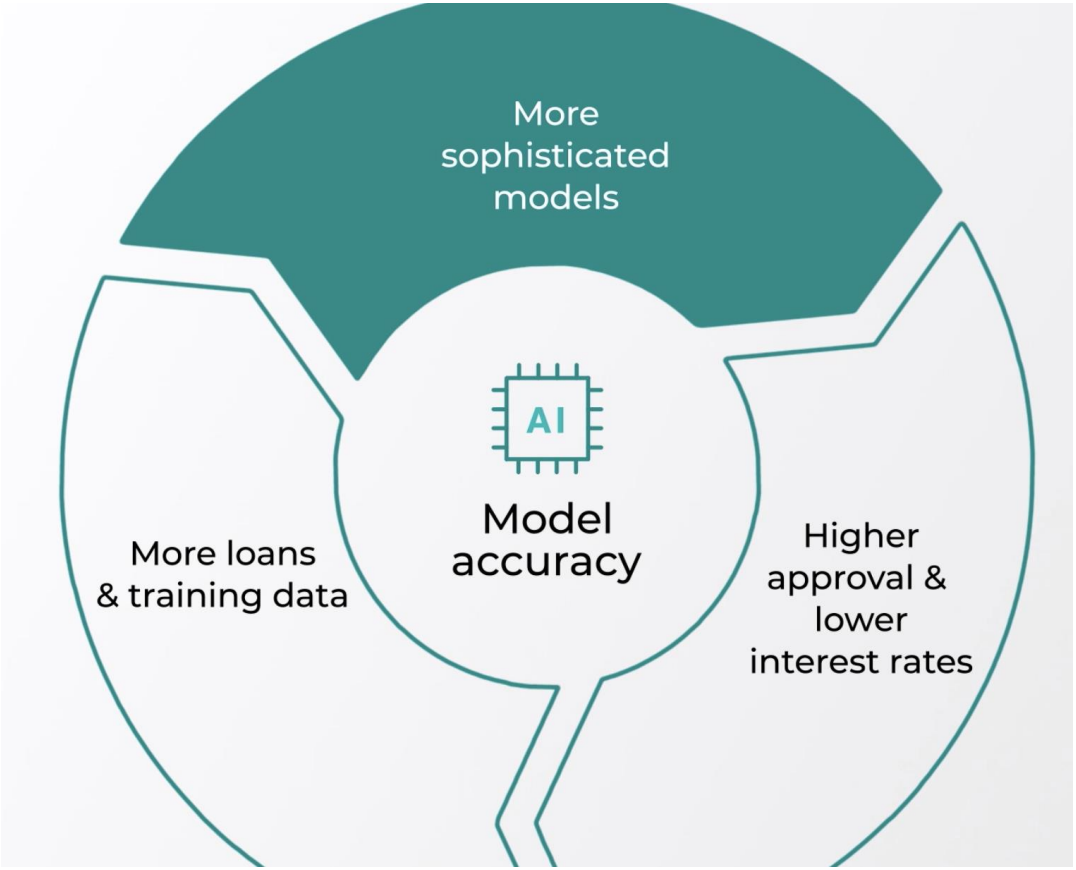
Greater usage of online services & advances in the IoT

Sophisticated machine learning systems can detect how different patterns in datasets lead to different outcomes.



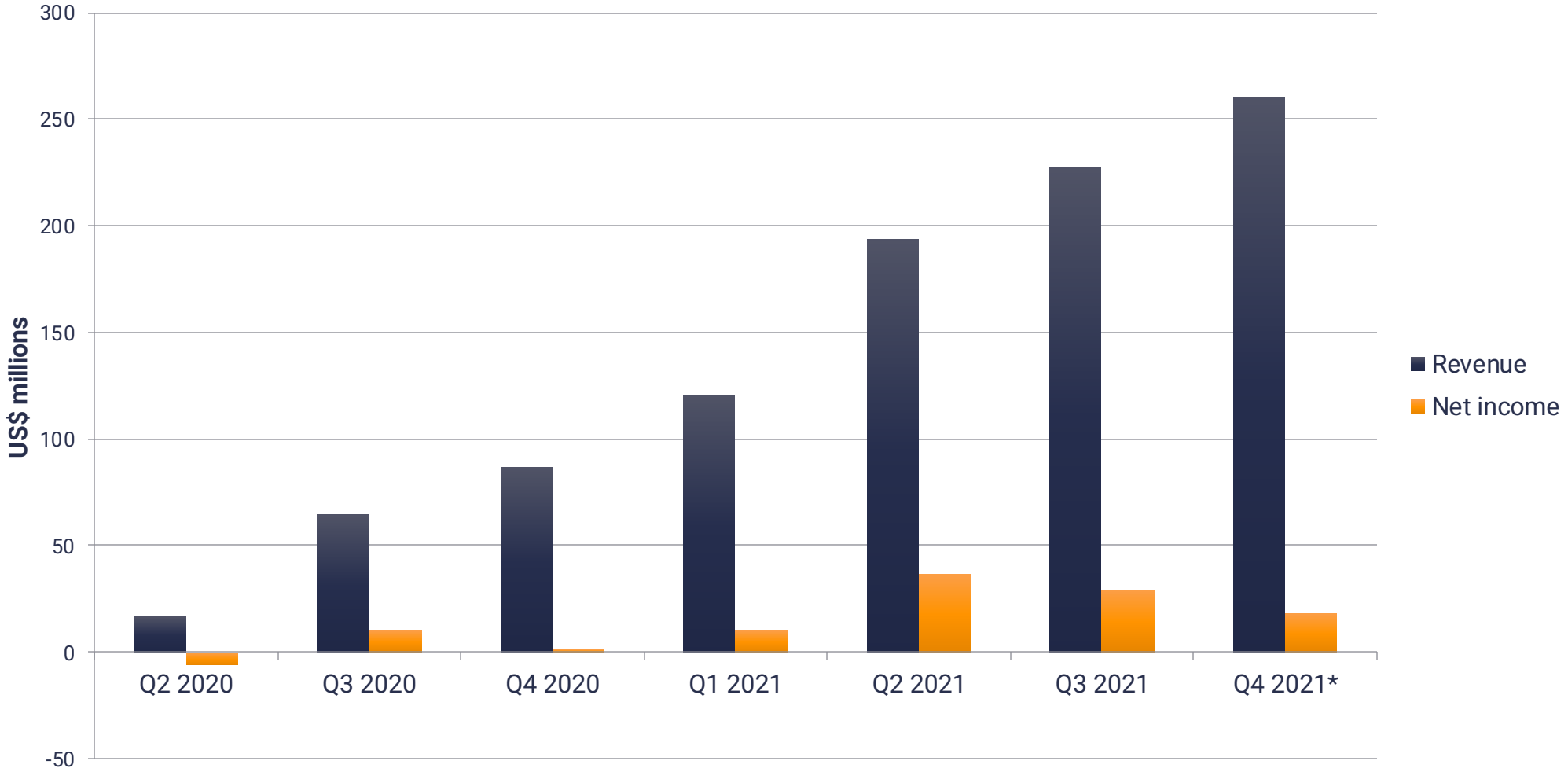
# Upstart applies AI to lending

- Upstart's AI model predicts the probability of default for each individual applicant for each month of the loan.
- It incorporates more than 1,600 variables trained on almost 15 billion cells of performance data.




Investment site Motley Fool: "Upstart loans with as low as a 580 FICO score, which is well into the poor credit ratings. They're targeting the overlooked consumers by traditional banks….They are growing pretty impressively."

# Upstart is growing rapidly via AI-based lending




*Forecast
Source: Upstart's quarterly results

# Conclusion – high-level steps into financial services

- Ensure telecoms charging/billing is fully transparent for consumers.
- Build/maintain a compelling and easy-to-use mobile app for consumers to manage their account
- Build/maintain carrier billing/mobile payments offering
- Develop a flexible and scalable cloud-based IT architecture that can surface all the behavioural and profile data relating to each individual customer. Use APIs to enable partners to analyse this data.
- Apply for a banking license, partner with a bank or acquire a bank in the target market.
- Run a pilot in partnership with an AI specialist that can analyse diverse customer data points and then recommend personalised products, such as micro-loans, insurance or savings accounts.
- Ask a small number of customers for permission to offer personalised financial services products.
- Make targeted offers to the pilot customers based on the data analytics.
- Evaluate uptake of these offers and decide whether to rollout a broader market offering

# Your questions