



# The impact of finance on emerging sectors: Leveraging Digital by the Banking Industry

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# OUTLINE

**01**

**INTRODUCTION**

**02**

**LEVERAGING DIGITALIZATION TO DRIVE FINANCIAL INCLUSION**

**03**

**POSITIONING THE BANKING INDUSTRY AS A CATALYST FOR A SUSTAINABLE INCLUSIVE GROWTH THROUGH LEVERAGING DISRUPTIVE INNOVATIONS**

**04**

**FINTECH SOLUTIONS FOR THRIVING AND EMERGING SECTORS**

**05**

**IMPACT OF FINANCE ON EMERGING SECTORS**

**06**

**CHALLENGES AND THE WAY FORWARD**



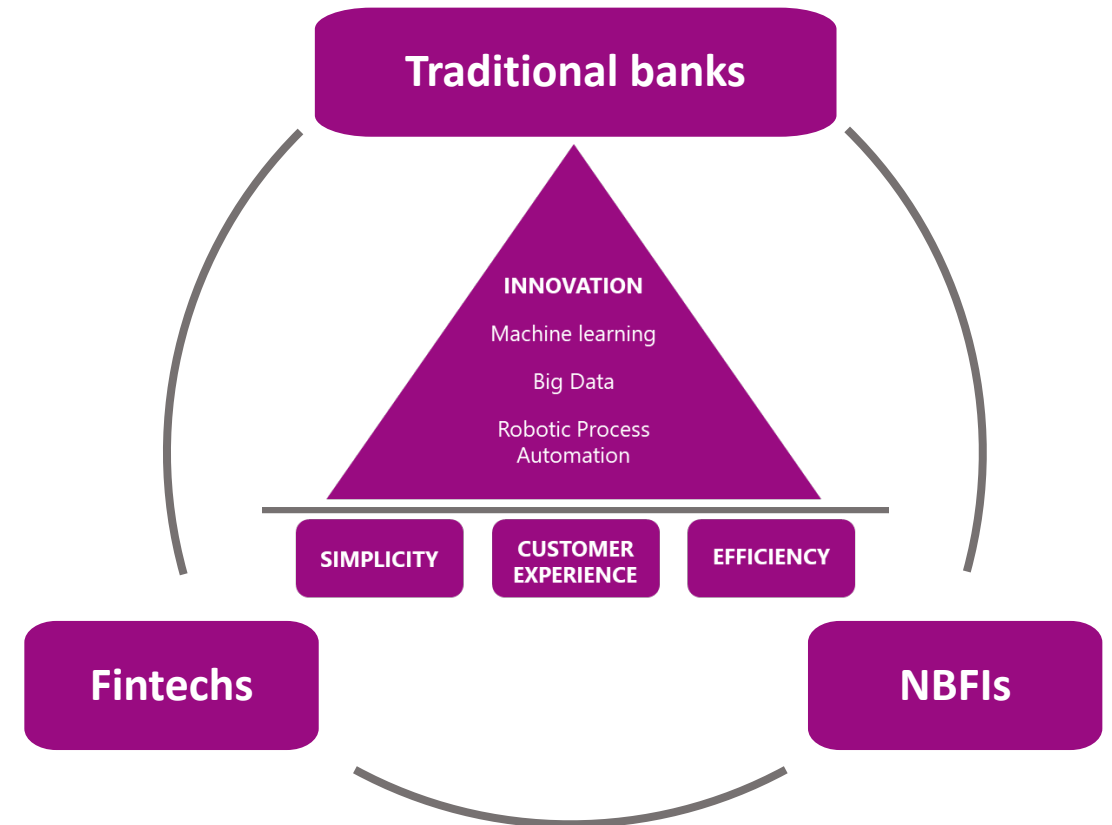
- The unprecedented disruption caused by COVID-19 has highlighted the need for agility, adaptability and transformation. Industry structures and business models are being disrupted – and the digitalization of the global economy is rapidly accelerating.
- While the fintech industry is still evolving, the evidence so far indicates that it has a key role to play in financial inclusion, as postulated by Ana Fiorella Carvajal, lead financial sector expert at World Bank. Traditional financial institutions can also step up in the provision of these services, by leveraging on the digital tools and initiatives applied by these “disruptors”.
- Digitalization is about reimagining finance using technology, and this requires a complete revaluation and remodeling of the business model and organizational structure of banking. By employing digital channels or novel business models, incumbent banks can enter new geographies or market segments that would be prohibitively expensive targets using traditional approaches. Technology has the power to drive real, impactful and inclusive change, particularly in the provision of financial tools that allow greater numbers of people to be economically active and part of the financial mainstream.
- This paper highlights the role of financial technology in driving financial inclusion and positioning our industry for a sustainable growth through innovation. It also examines select players in the emerging sectors and elaborates on the role of finance in sectorial development, the risks ahead and possible mitigants.

# Leveraging digitalization to drive Financial Inclusion



*The digital economy is developing rapidly worldwide as the largest driver of innovation, competition, and growth. This presents tremendous opportunities, as digitalization can support the inclusion of previously excluded individuals in the digital economy and ensure sustainable economic development.*

- In leveraging digitalization to drive financial inclusion, we can:
  1. Adopt innovative means of identity collection
  2. Boost the adoption of “digital” by fostering trust in technological solutions.
  3. Promote innovation via internet finance platforms, products, and services. This will encourage existing financial institutions to adopt new and emerging technology.
  4. Encourage increased cooperation between financial institutions and technology companies. Interoperability is usually a key driver of scale for any technology solution
  5. Reduce administrative approvals and other barriers to development and providing an enabling regulatory environment.



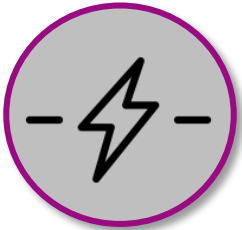
*Fig 1: The digitalization “ecosystem”*

# Positioning the banking industry as a catalyst for a sustainable inclusive growth through leveraging disruptive innovations



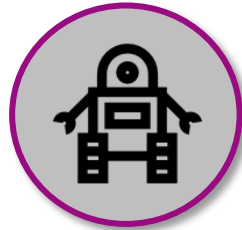
*Historically, banks have primarily focused on the provision of products and services, while digital companies have moved the business model forward in a more holistic approach that aims to solve clients' problems while setting up new standards of service and customer experience. It is this latter approach that must be adopted in the pursuit of sustainable and inclusive growth.*

## DIGITAL DISRUPTION



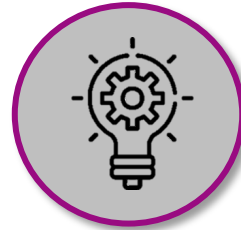
Digital disruption offers the potential to improve efficiency and push financial inclusion. Digital provides a whole new factor of production that significantly lowers the barrier of entry.

## TECHNOLOGICAL LEAPFROGGING



Technological leapfrogging has and will extend banking services to the unbanked segments of the population by creating new operating models that allow banks to serve previously unreachable segments profitably.<sup>1</sup>

## INNOVATION



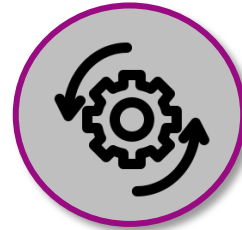
Banking is undergoing a transformation, which is the use of innovative information and automation technology in financial services. The rise of new tech like AI, Machine Learning, Blockchain signal major changes to the sector

## PLATFORM-BASED MODEL



Banking needs to move toward a customer-centric, platform-based model, and incumbents will have to restructure potentially obsolete legacy technologies and business models to serve the new customer demand or risk being crowded out.

## OPERATIONAL EFFICIENCY



Incumbents and new entrants should gain/increase market share through efficiency gains as the greatest benefits of technology come from the potential to ramp up services at significantly lower costs.<sup>2</sup>

1. OECD – Digital Disruption in banking <http://www.oecd.org/daf/competition/digital-disruption-in-banking-and-its-impact-on-competition-2020.pdf>  
2. World Bank - Digital Financial Services <http://pubdocs.worldbank.org/en/230281588169110691/Digital-Financial-Services.pdf>

# Fintech solutions for thriving and emerging sectors



## SAVINGS & INVESTMENTS



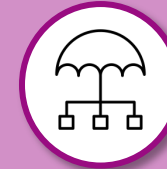
## AGRICTECH / CROWDFUNDING



## DIGITAL LENDING



## DIGITAL INSURANCE



cellulant



**MOBILE MONEY & AGENCY BANKING**

**Interswitch**



**eTranzact**

**PAYMENT PROCESSING**



Lidya

**thankucash**

**accounteer**  
smart cloud accounting

**MERCHANT SOLUTIONS**



Bankly



**FINANCIAL INCLUSION**

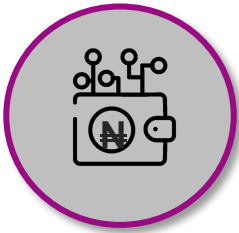


# The impact of finance on emerging sectors .../1



*While the Covid-19 pandemic hurt most sectors of the economy, slashing consumer demand, closing businesses, and vaporizing millions of jobs, it's been good to the nascent sliver of the digital economy that helps people channel their existing skills into sellable services and products.*

## DIGITAL ECONOMY



During a protracted economic crisis, the digital economy offers a safety net — a second income independent of a corporate employer, or even the physical environment.

## EDTECH



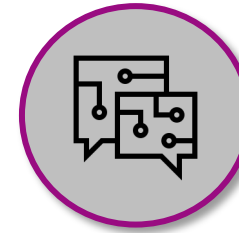
Before COVID-19, there was already high growth and adoption in education technology. Whether it is language apps, virtual tutoring, video conferencing tools, or online learning software, there has been a significant surge in usage since COVID-19.<sup>1</sup>

## AGRITECH



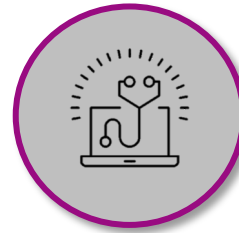
Startups have made farming more attractive and profitable by eliminating risk exposure and delivering value to investors avoiding “skin in the game”.

## COMMUNICATION



Telecoms across the world have seen a significant increase in demand since the advent of the pandemic. People have also relied on the services to sustain remote working protocols and communicate with friends & family.<sup>2</sup>

## HEALTHTECH



The healthcare sector's challenges and opportunities are well documented. It is quite imperative that during these uncertain times, the role healthtech can play in tackling these challenges cannot be understated.<sup>3</sup>

1. What's the future of online higher education in Africa? <https://www.cdcgroup.com/en/news-insight/insight/articles/whats-the-future-of-online-higher-education-in-africa/>

2. KPMG: COVID- 19 and the Nigerian Telecommunication, Media and Technology (TMT) Sector

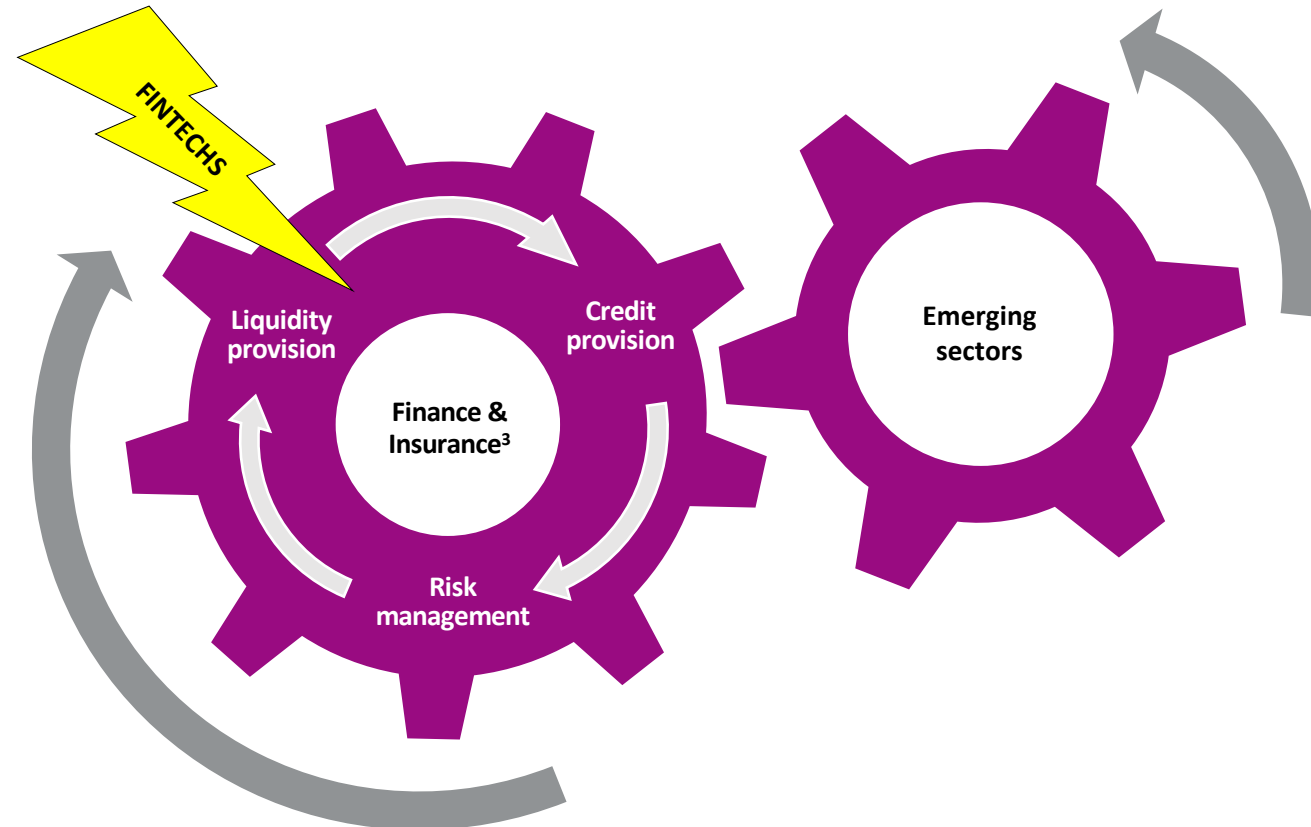
3. Nairametrics <https://nairametrics.com/2020/05/10/nigerias-leading-health-tech-innovators-and-their-founders/>

# The impact of finance on emerging sectors .../2



*Formal SMEs constitute about 45% of employment and 33% of GDP making them crucial to the global economy. They are however hard hit by the pandemic, It is therefore important to retain and maintain levels of finance for SMEs during and after the pandemic, as they will be a key engine of growth and employment in countries.*

- Finance and financial services are essential drivers of the emerging sectors listed previously. Their continued survival and growth is dependent on their ability to access critical funding to drive support their operations.
- This support can come in any (or all) three forms:
  - Liquidity provision (investments, venture capital funding);
  - credit provision (loans, intervention funds from regulators like CBN, credit lines), and
  - risk management.
- The digital disruption of fintechs also serves as a source of added value and a push in the right direction – towards increased efficiency and returns.
- While Venture Capital deals dropped in Q2 2020, the quantum funding has remained untouched thus far, raising questions about the likelihood of future funding rounds.<sup>2</sup>



**Fig 2: The financial sector as a driver of emerging sectors**

1. Finextra - Discerning the impact of Covid-19 on fintech firms and their role in financial inclusion by Ana Fiorella Carvajal (<https://www.finextra.com/newsarticle/36371/discerning-the-impact-of-covid-19-on-fintech-firms-and-their-role-in-financial-inclusion>)  
2. CB Insights - How Covid-19 Is Impacting Fintech Financing (<https://www.cbinsights.com/research/coronavirus-fintech-financing-impact/>)  
3. The Role of Finance in the Economy: Implications for Structural Reform of the Financial Sector by Martin Neil Baily & Douglas J. Elliott (July 2013)



# Challenges and the way forward



*While innovation in financial services is essential for expanding financial inclusion, it also introduces new risks – both individual and systemic— that need to be identified and effectively addressed. But financial institutions will have to focus on balancing both in order to thrive.<sup>1</sup>*



*We need to recognize that **risk** will be an inevitable element of innovation in the industry, and that both old and new risks will need to be addressed and mitigated.*

*This is the primary challenge of digitalization.*



- Policymakers need to encourage and nurture innovation even while they recognize that not all risks can be eliminated.
- Regulators need to work with industry players to design new tools and processes and revisit the means by which they regulate some financial services, in response to current market realities, especially to keep pace with the rising risk of cyber-security.<sup>2</sup>
- The rapid pace of growth in digital financial services requires regulators and policymakers to be proactive in engaging with the industry.<sup>3</sup>
- There are multiple and varied approaches that regulators and policymakers can take to balancing the risks and benefits of innovation for digital financial inclusion.



**THANK YOU**

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