# Fintech's greatest promise may be in the developing world

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For Mary Tonkei and Stephen Wainaina Waweru, and a lot of other people in the developing world, the fintech revolution is much more than a matter of convenience. It's changing their way of life. Tonkei, a Maasai dairy farmer in Kenya, is able to run her entire business through her phone. Using a popular payment app, she pays her employees, sells her milk, and even borrows money to buy more cows. Waweru, who raises pigs on a farm outside Nairobi, needed to buy a solar-powered light to replace a kerosene lamp that gave off toxic fumes and was a fire hazard. He used a payment app to make the purchase.

The changes wrought by technology-intensive financial startups have altered the way people across the globe borrow funds, pay for purchases, manage wealth and move money around. Fintech represents a frontal challenge to the traditional banking industry, one that the big dogs of the business are taking seriously and trying to co-opt, writes freelance correspondent Victoria Finkle in her report for SAGE Business Researcher.

But while it's an international phenomenon, fintech may realize its real promise among the world's underbanked in places that still await connection to the global financial system. "In the U.S., [financial technology] will just change the way we do things," Marc Hamud, a Wells Fargo executive and instructor at the University of Southern California's business school, told Finkle. "But outside of the U.S., it will revolutionize how people are living."

While the World Bank estimates that 2 billion adults are still without a bank account, that number is steadily dropping as mobile-based accounts and payment systems take hold. Some 700 million people across the globe obtained access to a traditional account with a financial institution or a mobile money service between 2011 and 2014, according to the Bank, and the gains have been especially robust in China, India and sub-Saharan Africa.

In Kenya, Safaricom, a large telecom provider, introduced the world's first mobile payment program, called M-Pesa, in 2007. More than 85 percent of Kenyan adults now use some kind of mobile payment app to pay bills and conduct other transactions, according to an analysis by McKinsey.

Customers can use M-Pesa to load cash on their phones with one of Safaricom's 40,000 agents, located at corner stores and other shops. Subscribers also can use their phones to transfer funds to each other, wirelessly and automatically. The technology doesn't just work with smartphones; some of the most basic mobile phones can use it, too.

The mobile movement has spread across Africa; mobile-based services exceed traditional banks in 16 markets on the continent. As adoption rates have risen, telecom companies have scrambled to add telephone networks, even as roads and other infrastructure remain in need of repair, Finkle writes.

In China, fintech companies now serve about as many clients as do major banks, partly due to the widespread use of mobile phones. India is also experiencing a fintech boom and is now the world's third-largest market for smartphones, with more than 300 million people expected to access the internet through their phones by 2017.

Perversely, the very lack of infrastructure in developing countries has allowed mobile payments and related applications to spread much faster than in countries with a strong banking culture, experts tell SAGE Business Researcher. The developing countries are able to "leapfrog" countries with a dedicated banking infrastructure, and face fewer transition costs as more people turn to mobile payments and other fintech solutions.

James Song experienced the power of this revolution firsthand in 2007, when he was trying to build Uganda's first plastic recycling plant – an important public health measure because it could get rid of the plastic bags that blocked Ugandan sewers and created breeding grounds for the mosquitos that spread malaria.

Song, a Harvard grad and Fulbright scholar, needed $25,000 to finish the project, and he needed it fast because the machinery he'd ordered was en route. A bank loan was a long shot. But while surfing the internet at a café, he came across a then-new company called Lending Club that offered fast loans, up to a max of, fortuitously for him, $25,000.

Lending Club has since come to symbolize both the promise and the peril of fintech. Its founder and CEO, Renaud Laplanche, stepped down in May after an internal investigation into the handling of some loans, and the company announced significant layoffs this summer.

But whatever its recent travails, Lending Club was a lifeline for Song. In a matter of days after applying, he had his loan, at an annual rate of a little over 11 percent. He paid it off in three years without missing a monthly payment. "It saved the business, and I ended up creating the recycling infrastructure in Uganda over the next few years," says Song, who now runs Faircap Partners, an investment management firm focused on development in Myanmar.

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*Notes:*

- *This post is based on the SAGE Business Researcher Fintech report, by Victoria Finkle.*
- *The post gives the views of its authors, not the position of LSE Business Review or the London School of Economics.*
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