Fintechs could be the lifeline to SA's SMMEs

By Dalene Deale

15 Jul 2020

South Africa's rapidly-growing fintech sector could play a key role in helping the country's SMMEs recover from the impact of Covid-19, while bringing millions of 'credit invisible' consumers into the formal economy at the same time.


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The spread of the pandemic has already seen a surge in digital payments as businesses and consumers seek contactless ways to send and receive money. Now, the ability of fintechs to use a wide range of alternative data sources to quickly assess risk and issue loans could be just what micro-businesses and consumers need to survive the current crisis and unlock their potential.

Becoming creditworthy

Right now, the biggest challenge facing people on the fringes of the formal economy is becoming creditworthy in the first place. You need credit to get credit, but without a credit score and a credit history, you can't get a loan. Without the ability to service a loan, you can't build a credit profile. It's a vicious cycle.

That's all changing – and not a moment too soon. By using alternative data, FinTechs – and other mainstream lenders, for that matter - can make significant inroads in helping small businesses get through the crisis, and thrive. By gathering transactional data from multiple data sources, and using algorithms to gauge people's creditworthiness and risk more accurately, millions of micro-businesses and consumers can get the chance to get the finance they need to overcome the devastation of Covid-19, or enter the economic mainstream for the first time.

Alternative data goes beyond traditional financial services accounts to provide a broader view of a consumer's or small business' credit behaviour. It includes payment histories from utility and telephone providers, regular rent payments, and airtime purchases – which all demonstrate the ability to make regular payments for months at a time.

Fact is, the startup and micro-business sectors have traditionally struggled to get funding from the formal sector, because in the past, formal banks and lenders based their lending decisions on readily available financial information and credit scores. This left millions of 'credit-invisible' South African businesses and consumers — who don't have credit records - frozen out of access to formal financial services, or paying exceptionally high interest rates to micro-lenders.

Fintechs aren't the only lenders using alternative data in their scoring. However, they're proving far more agile in being able to tap into payment histories that have largely been ignored by lenders until now. Case in point: the time-honoured process of lay-by, where a retailer holds an item for you while you pay it off monthly. Until now, lay-by has never been considered as part of a payment history. It's not only credit: it's the type of alternative data that we're increasingly looking at to give a better picture of a small business or consumer's creditworthiness.

The changing face of credit

We're even seeing a trend where a growing number of lenders in Africa and around the world are extending credit to small farmers based on verifiable assets, including livestock and crops, which can be used as collateral.

The transformative effect of this ability to become 'credit-visible' cannot be underestimated. For small businesses, getting even a relatively small loan at this time could mean the difference between staying afloat or going under. Merchant advance fintechs use a variety of alternative data sources to provide working capital to SMMEs and the model of their solution automatically provided relief for their existing base at the onset of the lockdown effects.

This is due to the benefit of repayments being linked to the seasonality of their customers' business. This is an example of how FinTech solutions are different to the traditional financial services of the past.

For many consumers, having a credit score allows them to buy their first car, or pay for their children's education. They are even taking out insurance policies for the first time. FinTechs have quickly pivoted from not only being lenders, but also being an active part of financial literacy to ensure that consumers understand the impact of their decisions and the importance of how this affects your credit score.

At TransUnion Africa, we've been able to highlight around 2.5 million previously credit-invisible people in the past couple of years alone, and allowed them to start building a credit score, by using tools like CreditVision and alternative data to allow lenders to evaluate previously unscorable consumers.

While mainstream lenders are increasingly using alternative data sources as well to be a better picture of consumers, there's no doubt that FinTechs represent the new era of financial services. They're not only bringing new products, services, and channels to the table: they're also creating value with differentiated consumer experiences, and empowering the consumer by providing frictionless, multi-channel financial access. The industry is set for exponential growth in South Africa in the coming years – and that's great news for consumers who've been excluded, or are battling to survive the Covid-19 pandemic.

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