

Financial services

Promoting financial inclusion and empowering the lives of our customers through innovative financial services offerings.

- ✓ Achieved
- ✗ Not achieved
- ↔ Unchanged



We believe that there are significant growth opportunities in digital financial services, leveraging off our existing strong customer relationships, our digital propositions driven by deep customer intelligence, and our proven leadership with M-Pesa. We now deliver financial services to 53.2 million customers, generating R18 billion in services. In South Africa, we are driving growth in our financial service offerings in three main areas: short- and long-term insurance, payments, and lending. In our International markets, we will be building on our strong success with M-Pesa by expanding into new financial services opportunities.

Growing financial services across our footprint

Vodacom Financial Services made significant progress this year in delivering on our Vision 2020 strategy: we successfully grew and digitised our current insurance offerings, introducing innovative new services; we disrupted the payments sector by providing convenient and diverse digital payment options for our customers; and in our lending business, we developed digital lending alternatives that complement our core business.

Insurance

- ✓ Our segmented insurance portfolio – covering life, funeral and various short-term insurance offerings – has grown steadily over the year, with revenue up 16.1% to R812 million, and profit up 23.5% to R263 million, off the back of this year's launches of the Vodacom Group Scheme and Legal Cover. At year end we had 1.9 million active policies.
- ✓ We also improved the device insurance claims ratio, saving R5 million a year. Our new automated claims process, launched this year, has reduced the process from five days to approximately five minutes, delivering significant efficiencies and an improved customer experience.
- ✓ Vodacom Insurance is now a significant player in the sector, with an EBITDA margin of 25.2%, up from 24.3% in 2019.

Payments

- ✓ The Online Payment Gateway processed R785 million in both Vodacom Express Recharges (VER) and VodaPay application transactions during the year.
- ✓ In November 2019 we launched our own point-of-sale devices. At year end, 290 POS devices were processing R10 million a month for 107 merchants. Vodacom Payment Services' QR code functionality is currently in its piloting phase.

- ✓ Our VodaPay App has had 102 000 unique downloads. We also launched prepaid electricity on the app and intend to expand services throughout the year.

Lending

- ✓ Since 2017, our Airtime Advance offering has achieved a compound annual growth rate of 79%, with the number of users increasing from 4.1 million to 9.9 million in three years, generating an annual revenue of R1.1 billion by 2020.
- ✓ The total value of airtime and data advanced through Airtime Advance increased 22.3% year-on-year to R9.9 billion, with our 9.9 million unique active customers taking an average of 3.6 million advances per day.
- ✓ We expanded the Airtime Advance project to include channels such as tailored bundles through Just 4 You, Facebook upsell and real-time notifications when the customer has a low airtime balance.

M-Pesa

- ✓ This year, we successfully concluded incorporation of our M-Pesa joint venture with Safaricom, giving us the rights to use and on-sell the M-Pesa brand and platform assets across Africa. This positions us to accelerate investment in M-Pesa, enabling a range of mobile financial services and payments use-cases for consumers, agents and merchants. This will include the rollout of our nano-lending platform, which is already being used by more than 17 million customers in Kenya and Tanzania and has processed more than US\$2.5 billion in loans.
- ✓ Since launching in 2007, M-Pesa has grown to have the largest reach of any financial services provider in Africa, with 39.6 million active customers, including Safaricom, up 9.7% year-on-year. Customers in our International markets, including Safaricom, now process more than US\$14.7 billion a month in transactions through the platform, making it Africa's biggest payment platform.

✔ M-Pesa revenue from Vodacom International markets grew 29.8% to R4.0 billion, representing 18.3% of total service revenue. This performance was underpinned by robust revenue growth in Mozambique (59.4%), strong growth in the DRC (48.3%) and Lesotho (27.0%), and a solid performance in Tanzania (7.4%), despite intensifying competitive pressure and a more challenging regulatory environment. In Safaricom, M-Pesa revenue was up 12.6% to R12.2 billion, representing 33.6% of service revenue.

✔ In Vodacom International markets, this growth is increasingly driven by extending M-Pesa beyond person-to-person money transfers to include enterprise, financial services and mobile commerce. Currently, more than 900 enterprise organisations use M-Pesa to collect and disburse payments, over 20 million customers use M-Pesa to access formal saving and loan products with partner banks and more than 20 000 retail and online merchants now accept M-Pesa.

✔ A significant achievement this year was the launch of Group Savings across three markets, allowing customers to create saving groups to save their money collectively on M-Pesa, further improving financial inclusion and access to finance across our markets. The service allows members visibility in the group fund, and to contribute and withdraw money across the M-Pesa agent network. Consumers can select signatories, request and pay loans, contribute to the group, view the balance of group members and check the group balance, allowing for easier and more transparent access.

✔ We have also partnered with multiple service providers for our international money transfer service, further increasing the services available to customers across the four countries.

✔ In Tanzania, we launched the Songesha overdraft facility, in partnership with the Tanzania Postal Bank, allowing consumers to complete transactions when they have insufficient balances. The new Halal Pesa service, launched in partnership with Amana Bank, allows customers to deposit savings and contribute to religious and social activities, while earning Halal benefits within Sharia. We also launched M-Koba (group savings) in partnership with the Tanzania Postal Bank, and a new international money transfer (IMT) partnership with TerraPay and World Remit, contributing to a further growth of 200% in incoming IMT year-on-year.

✔ In Mozambique, we launched the M-Pesa Xitique, a standalone pseudo group savings product to meet a market need for a mobile savings product. We also launched an IMT service in partnership with Mama Money, delivering excellent growth since launch, sending and receiving US\$3.4 million in the year.

✔ In the DRC we launched Lona o defat, a micro-loan and savings product developed in partnership with FINCA, a micro-credit organisation. The service offers its customers the opportunity to save and earn interest via M-Pesa and to get micro credit repayable weekly or monthly, based on a credit score using customers' mobile money and GSM transactions.

✔ In Lesotho we also launched a savings group initiative, Mokhatlo.

Vodacom Vision 2025

Scaling financial services to deliver long-term value

South Africa

In South Africa our financial services strategy has the following focus areas:

- **Insurance:** With the local insurance market significantly underpenetrated, we believe that there remains substantial further upside in growing and digitising our insurance offerings. We have established and will grow our existing insurance customer base by expanding our suite of offerings, making them increasingly more accessible and personalised, thereby driving financial inclusion. Our telco assets continue to drive differentiation in the market by building on our strong relationships with customers and the digital propositions informed by deep customer intelligence and available on numerous channels. These assets will allow us to create a seamless and engaging interaction for our customers, changing the way insurance products are consumed.
- **Payments:** Building on our existing payment propositions for consumers and enterprises, we see extensive opportunities to extend our reach in digital payments. While the opportunities include expanding our existing propositions within our focus segments, we believe there are exciting new opportunities to extend our services deeper into the payments value chain. We will be making an extensive investment to establish a world-class ecosystem upon which additional propositions and services can be offered.
- **Lending:** Creating alternative access to credit to address the needs of many South African consumers and small businesses will remain a high priority for us. Our digital lending offerings will continue to focus on addressing the challenges related to accessing credit, going beyond the propositions that are complementary to our core businesses. Our data assets and digital platforms put us in a unique position to offer compelling and contextualised lending solutions to our customers.
- **Investments:** We believe there are meaningful opportunities to expand into the savings and investments market where many of the existing propositions remain inaccessible to a significant proportion of the population. We will focus on enhancing inclusion within the financial services market.
- **Trading services:** Building on the business services of Vodacom Business targeted at SMEs and enterprises, we will be adding B2B trading services. We will leverage our digital and financial services capabilities and offerings as we strengthen digital transformation across retail and fast-moving consumer goods (FMCG) supply chains, with a strong focus on driving enhanced inclusion for SMEs.

International markets

We see substantial opportunities for M-Pesa revenue growth in our International markets, with significant room for expansion of our savings and investment programme, our micro-lending and micro-insurance platforms, and the development of open platforms. These opportunities will be accelerated by the rapid increase of smartphone penetration in our markets, which will allow us to significantly change the way our subscribers access digital financial services. Our first step in achieving this leadership is through the Vodacom and Safaricom joint venture acquisition of the M-Pesa brand, product development and support services from Vodafone. This acquisition will allow us to accelerate our financial services aspirations in our existing markets, and to expand M-Pesa into new African markets. The joint venture will further strengthen our activities in bridging the digital and financial divide in the communities in which we operate, through the consolidated development of the next generation M-Pesa platform – a single, fully converged cloud-based platform for the smartphone age.