



# OPENING DOORS

### Strengthening local financial intermediation

According to the World Bank, around two billion people do not use formal financial services and more than 50% of adults in the poorest households are unbanked. Others are exploited by opportunistic micro lenders at usurious rates. The world's most vulnerable communities need access to affordable, trusted financial services. Financial inclusion is a key enabler to reducing poverty and boosting prosperity. At the same time, digital is creating world-changing innovations, but also disrupting industry and how people work.

Credit unions, savings banks, microfinance, community banks and other non-bank financial institutions are the foundation to sustainable financial inclusion and the development of healthy sustainable local financial markets. At Temenos, we understand the need to strengthen and support community based banking. Our approach to support the development of healthy and productive local economies is to provide community banks, cooperative financial institutions and various non-bank financial institutions with modern digital technology and services to strengthen their business to serve their communities and expand their outreach to the unbanked.

### Financial inclusion strategy

Temenos financial inclusion strategy is to provide the same technology infrastructure used by modern digital banks in established financial markets to empower small financial institutions in emerging markets to compete and exponentially grow their client base providing quality, affordable, digital financial services to the poor. Temenos provides the technology and expertise to build digital services to compete with mobile network operators, Fintech and commercial banks that are after the very valuable membership base community banks and credit unions have developed over decades. It is essential that the community banks keep their client spend within their own community-banking network, generate new revenue and build on their greatest asset – the trusted client relationship.

We do this as part of our mainstream business. We bundle our latest release Temenos core banking technology in a mature model bank for community and cooperative banking and provide access to the integration and digital channels in a cloud-based Software as a Service (or local) basis. This helps smaller financial institutions gain access to the same technology used by some of the largest and most modern banks in the world but made accessible by subscription service and packaged for rapid implementation.

In the year 2000, Temenos took a decision to commit to microfinance, the forerunner to what we know today as financial inclusion. Temenos configured its then Globus Banking SW to create a microfinance model bank with the thought to create a "bank-in-a-box" that would be easy and affordable to deploy. It aimed to meet the varied and idiosyncratic ways of banking the unbanked at the time, serving the many variants of non-bank financial institutions that were experimenting with financial products and services for the poor. Banks were not able to address this market for reasons of cost, culture and focus. Eventually with the ever-expanding terrestrial 2G and 3G mobile networks across much of the developing world the ability to centralize and aggregate transaction processing costs began to fall.

The mobile phone for voice and data became a viable last mile technology and transformed the way banking was organized. A market opened for transactions and payments for the mass market.

Over the past 10 years mainstream banking, led by great successes in mobile payments like Mpesa in Kenya and the large commercial microfinance networks, retail banks have begun to discover the potential of transactional banking for the poor. Temenos has been leading the fintech discovery throughout this journey. Today Temenos can be proud to have been the first to bring mainstream core banking technology to the cloud with Microsoft, in Mexico with 5 microfinance banks in 2011. Temenos has supported every major microfinance network and most of the large mainstream microfinance banks who have been developing leading solutions to financial inclusion with Temenos technology. We can proudly claim to now have 230 banks as clients that associate with financial inclusion in 49 countries running the Temenos Transact Inclusive Banking model bank.

The inclusive banking sector has shifted emphasis from a definition of inclusion or being 'banked' as having a transaction account. However, a transaction account alone or a virtual wallet is not sufficient to achieve financial inclusiveness. The World Bank defines financial inclusion as "individuals and businesses having access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way." The World Bank further notes that financial inclusion "is a key enabler to reducing poverty and boosting prosperity".

Notably Temenos is the only fintech in the group, not specifically associated to the card and payments industry alone, and the only one in the group that brings together core banking and payments in a suite of solutions to the sector. Temenos Inclusive Banking has evolved from the traditional microfinance end-to-end "bank-in-a-box" solution strategy to a wider digital transformation on the digitization of payments. The digitization of payments relieves enormous friction in the market economy, especially where cost effects productivity and investment in emerging markets. The cost and risk of cash in high-density poor urban and peri-urban areas retard business development and excludes millions. The International Finance Corporation of the World Bank Group estimates that there are 120 SMEs for every 1,000 inhabitants in Sub-Saharan Africa (SSA) and four out of five jobs are created in this sector. Empowering and growing the SME and SMME sector is essential to a successful and stable economy in SSA. Access to finance and quality financial services is cited by the World Bank as the most critical constraint to growth and development of the sector. However, most SMEs are for the most part trapped in the informal cash economy - excluded from formal finance.

Bankserv Africa did a recent study of payments in South Africa. Including cash, South Africans make on average 1,500 payments per year, mostly in cash. With the population economically active population between the age of 15 and 65 representing 63.7% of South Africa's 57.7M people, that is 55,132,350,000 payments per year, or 151M payments each day. This is just South Africa. Africa-wide this could be three trillion payments per day, mostly in cash. The Temenos approach to inclusive finance is more comprehensive. The integration of core banking, modern digital channel interaction, digital payments and data analytics are all elements of a sophisticated mass-market retail and inclusive banking strategy. This has moved the Temenos inclusive banking effort from a niche vertical into a wider company-wide offering to all commercial banks and non-bank financial institutions embracing the challenge of digital transformation in emerging markets.

Today it is hard to find a tier 1 retail bank in Africa that does not have a declared financial inclusion strategy. Social and economic development policy depends on the majority participating in the formal economy. People need a safe place to save and a source of financial services to finance their various stages of their life and to have access to investment for provident and productive purposes. It is said the best police officer is a homeowner. The same applies to the market economy. If the majority of people are excluded from the market economy, there is no foundation to the economy. People who have no stake in the economy, have no reason to care about the success of the economy. Financial inclusion is fundamental to the social and economic stability of our global economy. Unlocking the potential of the individual to have meaningful participation and giving people a stake in the market economy provided a foundation for development. Fintech is central to this process. To bank, the poor have to be a market. Banking the poor has to be profitable, and to achieve this conversion from demand into effective demand for financial services requires very sophisticated use of data and ICT to drop the costs of high volume low value transactions to create a competitive market for the business of the poor.

The Temenos experience has been a journey of discovery with our clients and Partners as fellow travelers in a common mission to make a meaningful contribution to our community, our global economy and the lives of the tens of millions of women and men our technology has helped to server. We are now on the cusp of a new frontier. Africa will provide the world with the next billion people, all of whom need to be freed from the limitations of the cash economy and informal finance. The internet and the mobile phone are the tools, and Temenos will continue to lead with financial technology to continue the mission.

