


Chapter 5

Finternet in Africa: Preparing Africa for the Financial System of the Future

Peterson K. Ozili

 <https://orcid.org/0000-0001-6292-1161>

Central Bank of Nigeria, Nigeria

ABSTRACT

The finternet is an emerging concept in global finance. The finternet is a term used to describe financial systems that are interconnected to one another like the internet. The finternet is a vision of the financial system of the future and Africa cannot be left behind in the race to transition to the finternet. But for this to happen, there is a need to understand what the finternet really is, what it means for Africa, the benefit for African countries, the mechanisms that exist today that will bring Africa closer to the finternet and the changes that need to be made today to prepare African countries for the finternet. This article explores the concept of the finternet, its definitions, benefits, and the strategies to help African countries transition to the financial system of the future which is the finternet.

1. INTRODUCTION

This study explores the prospects of the finternet in Africa. Many African countries are already witnessing the digital transformation of the financial system. Practically, we see the digital transformation of the financial system in our daily lives especially in our ability to obtain a quick loan from online lenders, make payment for groceries using a payment card, pay a taxi fare using a mobile app, obtain

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a mortgage through online channels, and make payment for merchandise through a payment card which is inserted into point-of-sale (POS) devices.

The digital transformation occurring in the financial systems of the region is faster in some African countries such as Kenya, Egypt, South Africa, Nigeria, and Mauritius and slower in other African countries such as Lesotho, Chad, Sao Tome and Principe, and Libya. These positive developments do not downplay the fact that many people in African countries still use cash and prefer cash payment because cash is still the dominant means of payment in some African countries. Rather, the positive developments emphasize the fact that most African countries are slowly migrating to digital payments and a digitized financial system at their own pace due to their unique country characteristics (Kumaga, 2011; Kizza, 2013; Mader, 2018; Ozili, 2020).

The gradual digital transformation of the financial system which we are witnessing today in African countries is being enabled by the proliferation of mobile phones, digital payment systems, deployment of RTGS systems, ultra-fast internet connectivity and emerging digital ID systems which are making financial transactions faster, easier, and more efficient for a lot of people in African countries (Raji, 2020; Ferguson, Soutter and Neubert, 2019). However, despite the ongoing digital transformation in the financial system of many African countries, many financial transactions are still slow, they take a long time to complete and settle, many payment systems are not interoperable with other payment systems, and some payment processing are still done using paper, which makes the entire payment system architecture less than efficient and makes the financial system underdeveloped. In poor African countries, internet connectivity is too costly, basic financial services are unavailable for many people, cross-border transactions are very expensive, and the process of payment for international trade is onerous and frustrating. This calls for the need to find a wholistic solution that address these issues and prepare African financial systems for a transition to the financial system of the future.

A possible solution to address these problems in African countries is the finternet. The Finternet is essentially the internet of interconnected financial systems. The term 'finternet' was first used in Carstens and Nilekani (2024)'s article. They used the term 'finternet' to convey the possibility of connecting global financial systems into one in the form of a web to mimic the internet (Carstens and Nilekani, 2024). Understanding how the finternet would work in Africa is important because African countries cannot operate in isolation from the world. African financial systems need to be connected to each other and connected to the financial systems in other continents so that people in African countries can access the financial services they want which are available in other countries but are not available in their own countries. It would enable Africans to access and enjoy the financial services available

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