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Unpacking credit card usage in Africa

BY [Eran Feinstein](#) | 11 November 2014 at 15:38

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Credit card usage in Africa trails other continents significantly, mostly because of the extremely rural nature of most residences. Studies (McKinsey, February 2014) indicate that almost nine out of 10 financial transactions in Kenya, for example, are still made in cash. In most parts of sub-Saharan Africa, the number is closer to eight in 10.



Eran Feinstein, founder of 3G Direct Pay

Cash is certainly still king in Africa. One reason may be that the population in this part of the world lacks trust in credit card technology, partly because of the high fraud rates in the region.

Forces driving penetration

Unfortunately, the reign of cash comes with some disadvantages for consumers and for merchants/banks. Banks and merchants raise prices because they have to contend with manual acceptance, record keeping, counting, storage, security and transportation of currency (McKinsey, February 2014). These are some of many forces driving credit card adoption. Others include the convenience of non-cash payments, the ability for merchants to

easily track revenue and the rise of sophisticated and reliable non-cash payment technology/infrastructure.

According to Cap Gemini (World Payment Report 2013), governments in [Kenya](#), [Egypt](#), [Nigeria](#), [Namibia](#) and [South Africa](#) are strongly supporting these programmes and investments.

EMV adoption in Africa

The EMV (Europay, MasterCard and Visa) penetration rate in Africa is upwards of 77% and climbing, according to *CreditCards.com*. EMV credit cards feature an embedded security chip that provides enhanced security in an attempt to stop fraud. Much of Africa, however, still uses magnetic strip cards like in the US.

South Africa is one area where EMV cards are taking off. In Kenya, MasterCard and Visa are making a big push to migrate the country from magnetic strip cards to EMV cards.

Consolidating technology and process

As much as individual companies are expanding their credit card payment programmes, the inhibitor to full pan-African adoption is consolidation of technology and process. Without the migration to common industry standards, such as GIM-UEMOA, as well as XML and SWIFT networks, widespread adoption will lag (Source: Cap Gemini).

New efforts to expand

The Nilson Report's September 2014 issue notes that US-based Visa and MasterCard have the biggest presence in Africa, with Visa accounting for 57% of all credit card purchases and MasterCard accounting for 39%. Other companies are trying to make their mark in the region as well, including American Express, which today has just 3% of credit card purchase volume. Just this year in Nairobi, American Express partnered with Equity Bank to start offering cards to the bank's customers.

Discover Financial Services is another example of a big American-based credit card company making inroads in Africa, with its Diners Club International card being widely accepted by merchants in [Morocco](#) and South Africa. Other countries are getting in on the action as well. JCB (the Japanese card), for instance, now works in South Africa and China UnionPay is now accepted in Nigeria and [Tanzania](#).

The future looking good

All of this credit card activity across Africa appears to be just the beginning, and it is a very good thing as Africa is enjoying a significant upsurge in outside investment and overall consumer spending. According to the McKinsey Global Institute, consumer spending in Africa is set to rise from US\$860bn in 2008 to \$1.4tr in 2020. As a result, Africa also now boasts the world's fastest growing middle class, standing at 24%, a 100% rise in less than 20 years (Source: African Development Bank). These exciting developments will drive further demand in credit card payment systems.

Another option: mobile payments

Where credit card penetration lags behind the rest of the world, Africa's acceptance of mobile payment platforms outperforms other areas. Because standard banking and credit cards are not readily available to many residents, Africans have taken to using their mobile phones. In Kenya, for example, a country with a population of approximately 43.1m people, there are 31.8m mobile phone subscriptions. Of those, 26.2m use mobile payments.

Success more likely than failure

Looking only at the numbers, it may seem like credit cards have failed to penetrate the African continent; but exploring the full eco-system and the newest developments, and understanding the technological progress being made in the region, unveils the beginning of the credit card's penetration into Africa.

[Eran Feinstein](#) is the founder of [3G Direct Pay Limited](#), a global e-commerce and online payments solutions company catering for the travel and related industries. With over 14 years of leading technology, sales, marketing and operation teams he is an authority in the East African e-commerce and payments arena. He's also an avid marathon runner.



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