AFRICAN BANKER

The African Digital Banking Transformation Report 2020

Building a digital-first bank

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Executive Summary

The Digital Banking Report is an initiative by *African Banker* magazine and Backbase that aims to provide a clear road-map for digital transformation across the banking sector in Africa. The speed at which banks are embracing the potential offered by technological change varies considerably but there appears to be only one direction of travel. It is inconceivable to imagine a bank in a decade's time where the lion's share of transactions are not carried out on a digital platform, with time and money savings for both the bank and customer involved.

The number of Africans with bank

$129bn
the banking sector's revenues in Africa as a whole are expected to increase from $86bn in 2017 to $129bn in 2022

accounts increased from 170m in 2012 to nearly 300m in 2017 and is forecast to reach 450m by 2022, according to consultants McKinsey. However, most Africans do not have access to traditional banks and the number of bank branches has not changed on the continent over the past five years, so access to physical branches is not improving.

Mobile and online banking are the solutions to these problems because they are cheaper for banks to provide and reach more potential customers. Digital services are helping to fill the huge gaps in inclusion by providing access where it is most needed. While 80% of African banks now have mobile apps, only 36% of them said that the majority of their customers had tried digital banking. Yet most banks are investing in the architecture for the digital transformation now and should benefit from higher customer numbers in the longer term. The boom in mobile money in East Africa in particular, where there are 102m active mobile money users, highlights the technology's potential. As we discuss on page 6, growing access to smartphones is driving uptake.

The banking sector's revenues in Africa as a whole are expected to increase from $86bn in 2017 to $129bn in 2022 but 68% of this income comes from just five markets: South Africa, Nigeria, Egypt, Angola and Morocco. As our interviews with Angolan bank executives on page 14 reveal, state regulation – or perhaps deregulation – may be needed in the phone and telecoms markets to bring both handsets and services within the economic reach of far more people in other countries. Nevertheless, the growing prevalence of cheaper smartphones and feature phones across Africa should allow more people to open bank accounts.

Africa is the second largest banking market in the world today in terms of growth and profitability, generating twice the rates of return of other regions, according to a study published in 2018 by McKinsey. This is partly because of the uptake of digital technology, while the banking sector in most other parts of the world is facing poor performance and sluggish growth.

Covid impact

The Covid-19 pandemic has speeded up the pace of the digital transformation in Africa, possibly by a couple of years, as many people have been forced to try digital services for the first time. Some banks have suspended digital transaction charges to encourage the process, but the most popular reasons given by banks for promoting digital services are to provide a better service and to increase bank revenues.

The crisis has highlighted another benefit of digitisation, in that it has allowed bank staff to work from home. There is a very real prospect that home working could become a long-term feature of the banking industry and many other sectors, particularly if the crisis is prolonged. It suits some workers better, as they save time commuting and so can devote more time to their families, although others prefer to work in an office environment. It seems likely that many will work from home part of the time, visiting their office when necessary.

Report structure

A wide variety of research methods were used to compile this report. We used all the knowledge accrued in researching and writing many issues of African Banker to produce the State of the Sector section on pages 4-6 which provides the context within which the digital banking revolution is taking place. It explains why banks have to embrace the technology on offer, putting digital platforms at the heart of their corporate strategies, rather than something ringfenced from their wider operations.

Anxious to undertake some primary research to provide hard data to inform our report, we completed a detailed survey of the current state of play and plans for development of African banks through a detailed survey, the results of which we present on pages 7-9. It highlights general trends in how African banks are developing their own client-first digital transformation strategies.

One bank was selected for particularly intensive examination in the following Case Study section on page 10. We chose to focus on Mauritius Commercial Bank because of the way that it based its entire support for small and medium sized enterprises (SMEs) on the launch of its new SME banking app, JuicePro. SMEs are widely regarded as vital to long-term economic development in Africa but have often been overlooked by African banks keen to focus on high net worth individuals and big corporations.

On pages 12-14, we present the results of our interviews with chief executives, managing directors, chief technology officers, digital directors and heads of software development at some of Africa's biggest banks. There was a surprising level of agreement among them on the importance of digital development and on which services it was most important to promote.

Finally, we draw all the conclusions from the various sections together to present our findings on page 15. Throughout the entire process, we interviewed, surveyed and consulted banks in all parts of Sub-Saharan Africa to ensure that our analysis was truly representative and Pan-African in nature.

Neil Ford

State of the Sector – the digital transformation imperative

The digital banking transformation is no longer an attractive option for African banks; it is imperative, if they are going to survive. Too many non-banking sector players have entered the market, making full use of the technology on offer, for them to keep doing business as usual. Most have recognised the revolution that is underway and are adapting the way that customers access their services, while others are automating their back office operations. Such changes should not only cut costs but will allow more people to access banking services for the benefit of all.

Despite various campaigns by governments, international organisations and the banks themselves, the customer profiles of many African banks have long been dominated by richer clients and larger companies, with the bulk of the populations, SMEs and informal workers excluded. This is partly because banks have not traditionally considered it commercially viable to provide services to those with limited financial resources, and often impose minimum balances that exclude the majority.

At the same time, it can be difficult for many people to access bank services in physical branches because branch networks are just not comprehensive enough, particularly in rural areas. The number of branches in Africa has not increased over the past five years and has actually fallen in South Africa. There are just five branches per 100,000 people on the continent, which is the lowest rate of any region in the world.

Online and particularly mobile banking is the obvious solution to this problem. Digital platforms are cheaper to provide than physical branches because the hardware and software required is cheaper at scale than building, maintaining and staffing branches. At the same time, they literally put bank services into the palms of customers. The growing sophistication of mobile phones, including lower prices for the smartphones and feature phones held by Africans, means that more and more financial services can be provided.

It is difficult to find comprehensive figures on the number of active digital banking users in Africa but figures from mobile trade body GSMA reveal that 469m people had used mobile money services on the continent by the end of 2019, including 181m active users. That represented a 12% increase in users during the course of 2019, while the value of transactions increased even more, by 28%, to $456bn spread over 23.8bn transactions.

Mobile money involves paying bills or people via mobile phone. It can be assumed that many of these users would be prepared to graduate to more advanced digital banking services. There were 102m active mobile money users in East Africa, in comparison with just 3m in Southern Africa, which has a more comprehensive banking sector, suggesting that mobile money fills the gaps left by the banks. As digital banking takes off, it will be interesting to see how it fairs in comparison with mobile money.

International consultants McKinsey forecast that the number of Africans with bank accounts will increase from nearly 300m in 2017 to 450m by 2022, with revenues rising from $86m to $129m over the same period. This is likely to be driven by the rapid adoption of digital services. Most African banks now offer internet banking services and mobile banking apps to their customers to allow balances to be checked, money transferred and bills paid. Digital lending and mobile wallets are also becoming more popular.

Bank structures

All sectors of the economy are interconnected but none more so than banking. Access to banking services underpins

the success of every other industry, so it is vital that the bulk of the African population is included as soon as possible. As our Survey Analysis on p7-9 demonstrates, African banks are increasingly buying into the transformative nature of digital platforms and are putting them at the heart of their corporate development, rather than just adopting them as one element among many.

Although it seems clear that most bank customers have still not used digital services, banks are investing in the architecture needed to host more services in order to reduce their own operating costs but also to ensure that they do not miss out on a new generation of generally urban, middle class customers who expect to carry out more of their interactions online. Failure to do so could mean losing customers to non-mainstream fintech companies and new digital-first banks, as well as their traditional competitors. However, embracing the technology could see more cooperation with fintech and challenger banks rather than merely seeing them as the enemy.

Digitisation can also help banks in terms of back office functions by automating credit processes for individual and business customers. Research by McKinsey published in June found that just 9% of personal loan applications were processed digitally in Africa. It recommended the use of high performing credit engines and know-your-customer (KYC) processes. It also suggested partnering with fintech companies "to accelerate their own innovation in risk models and address talent gaps while enabling fintech players to achieve scale".

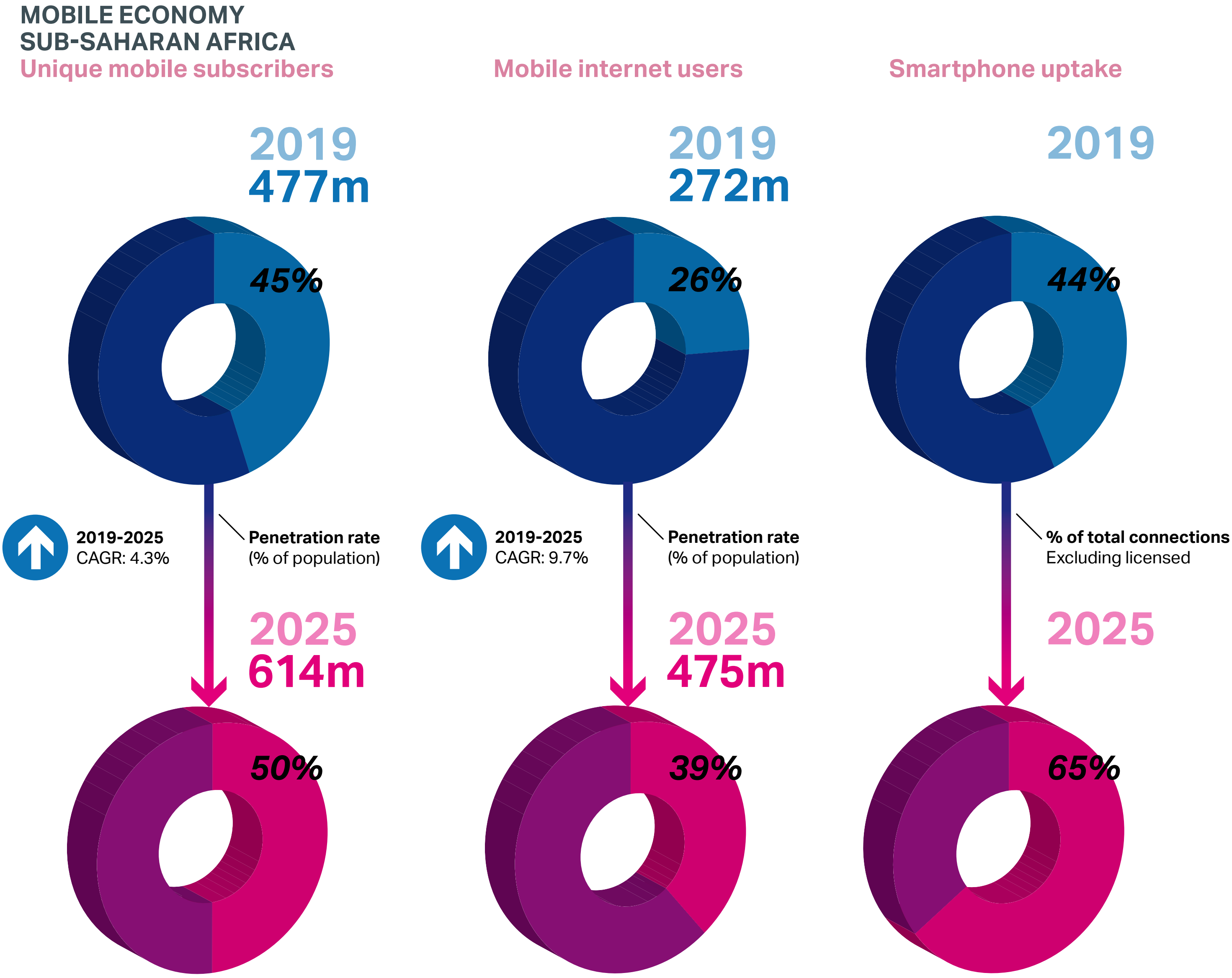
Shrinking branch network

The number of physical bank branches used to be an indication of the penetration of banking services within any particular society but that link has been eroded and will be broken in the longer term. The process is being speeded up by the Covid-19 pandemic, which has encouraged more people to bank online or via mobile phone because of branch lockdown closures. Banks have also supported this trend in order to continue providing much needed banking services. Some, such as Uganda's biggest commercial lender, Stanbic Bank, encouraged customers to switch to its digital banking platforms by suspending digital transaction charges.

Some customers who were previously unwilling to access digital banking services were left with no option because of lockdown branch closures and have now tried mobile and online banking for the first time. Platforms are generally very easy to use for anyone with experience of any type of online or mobile service and so it will be interesting to see how much of a long term increase in digital banking users is generated. Once customers have discovered how easy they are to use, they may not want to revert to visiting their local branch.

Some fear that the temporary closure of branches could encourage banks to close them permanently. There is obviously a balance to be struck between ensuring that customers are still

Source: GSMA/GSMA Intelligence



able to access services and driving a wholesale switch to digital banking that will leave some customers behind. Yet there seems little doubt that the crisis will accelerate the transformation, not least in the minds of those bank executives who had previously been more firmly wedded to traditional bank strategies. It will be interesting to see how banks are able to integrate physical and digital banking provision, including by retaining some face-to-face contact when it is really needed.

Increased mobile ownership

The digital banking revolution is being underpinned by the mobile telecoms boom. Most Africans access the internet via mobile phone, so improved access to smartphones will only speed this process up. Mobile phone penetration rates have rocketed in Africa over the past few years. According to industry body GSMA, the number of SIM connections on the continent is set to increase from 747m at the end of 2017 to 1bn by 2025, although of course some people have more than one SIM, perhaps to separate work from personal life, so penetration rates are not quite as high as some claim.

Smartphone penetration rates are lower but still climbing: from 15% of the continent's population in 2014 to about 35-40% at present, although this figure varies widely from country to country and functional phones still occupy a high market share. Total online penetration rates are increasing too but differ massively across the continent, from 4.7% in Western Sahara to 87.2% in Kenya.

747m
the number of SIM connections on the continent is set to increase from 747m at the end of 2017 to 1bn by 2025

The level of technology and services available on budget smartphones, including on many produced by Chinese companies, has increased sharply even over the past two years. A number of models now retail at less than $100. Innovations such as longer lasting batteries, AI power management and power saving modes are making them increasingly attractive in areas where access to electricity is still limited. There seems little doubt that prices will continue to fall in the near future, partly through the manufacture of models in Africa itself, including in Ethiopia, driving smartphone penetration rates still higher.

Neil Ford

Digital Banking Survey

To underpin this report with current experiences in the sector, we have talked to 50 banks across all parts of the African continent and have collated their feedback in our Digital Banking Survey. Sixteen of the banks surveyed are retail banks, 13 operate in the corporate or SME sector, and nine identify as investment banks. Some of the results are to have been expected and others surprising, but overall it is clear that the digital transformation is well on course to totally transforming the state of the African banking sector.

It is easy to see why digital banking has attracted so much attention in recent years. An incredible 96% of those who responded to our survey said that they regarded digital transformation as one of the three most important factors in their bank's growth strategy, while 56% rated it as *the* most important factor. None of them said that it was not important.

Unsurprisingly, mobile apps and internet banking platforms are the most popular digital services, with 80% and 84% of the banks consulted respectively already offering them to their clients. Just 48% offer mobile wallets and digital account opening – known as digital onboarding – at present. When asked to list the three most important digital services to be built over the next few years, there was a wide range of responses.

Digital lending was the most popular answer by a small margin, with 64% of respondents citing it, while self-service customer support was named by 56% of all banks. A mobile wallet came next with 48%, suggesting that 96% of banks either already offer mobile wallets at present or plan to do so in the future. Digital onboarding and the provision of a digital payment mobile app came next with 44% each, followed by card management with 32%.

Resistance to change

There is still some reluctance to embrace change, although less than might be expected. While only 44% of the banks questioned regard themselves as being totally open to change, another 36% said that they were open to change. It will be interesting to see the progress of those few banks, 8%, where that reluctance is more firmly embedded.

The reason for the slow development of digital services by some banks can perhaps be attributed to the fact that 64% of banks said that almost half of their customers had not yet used digital services. Only 36% said that most of their customers had, including just 8% who put the figure at more than three-quarters. There is clearly still some way to go to entice the lion's share of bank customers on to digital platforms.

It is all too easy to jump on a technological bandwagon without considering exactly why adoption is the correct course of action. When asked what their single most important priority for the digital transformation was, providing better services to clients was by far the most popular answer, cited by 52% of banks. Another 28% of respondents said it was increasing bank revenues, although of course the former should feed through into the latter. Improving internal processes was given by 8%, the ability to develop new products by another 8% and reducing costs by a further 4%.

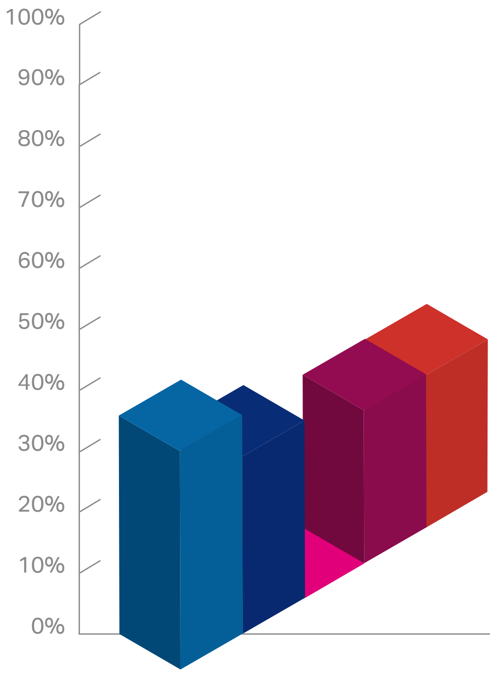
Perhaps one of the most unexpected findings from our survey is the way in which banks have developed their new digital infrastructure capabilities. Only 12% have relied exclusively on third party developers and platforms, while another 24% have developed all their core digital infrastructure in-house. Almost two-thirds, 64%, have opted for a hybrid approach, with elements provided by external specialists, and other aspects derived in-house. This allows for some technological and expertise transfer to up-skill internal teams and enables third party developers to more fully utilise the experience and tap into the needs of the bank by more closely working with the bank in question.

Financing the transformation

However, there is a clear mismatch between the importance with which the transformation is viewed and the resources allocated to it. Fifty-six percent of the banks who expressed an opinion said that they spent less than $1m a year on digital transformation and innovation, a low figure considering the cost of building and maintaining digital infrastructure, including 16% who spent less than $300,000 a year. Only 20% of respondents allocated more than $3m a year, with another 24% committing between $1-3m a year.

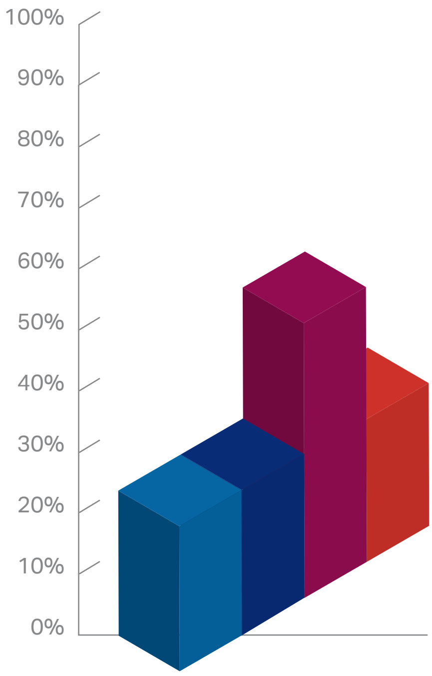
The Covid-19 pandemic has obviously had a huge impact on most sectors. It has constrained banking sector revenues and posed challenges in terms of the financial strain on customers but the prolonged closure of bank branches has also encouraged banks to persuade customers who were previously reluctant to use digital services to give them a try. Some of those customers have had little choice but to embrace the technology themselves and it seems likely that the crisis will result in a long-term change in banking habits, speeding up the digital revolution by a considerable distance.

In which primary segment does your bank operate?



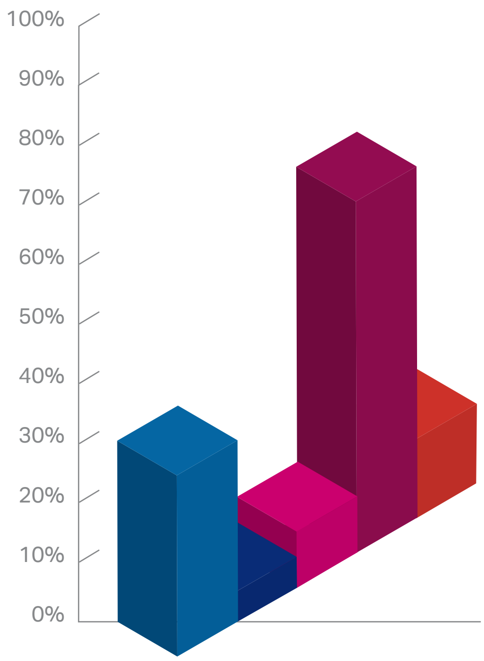
Retail banking
Business (SME/Corporate)
Wealth Management
Investment banking
Other

What's your bank's annual budget for digital transformation and innovation?



More than $3m
Between $1m - 3m
Between $300k - 1m
Less than $300k

What's your bank's priority when investing in new digital infrastructure?



Increase the bank's revenues
Reduce costs
Improve internal processes
Better service clients
Develop new products

Only 8% of banks said that their digital budgets were set by their heads of digital, with 24% determined by their CEO and 56% at board level more generally. The chief information officer, chief data officer or chief technology officer sets the budget at another 8% of banks. It would be interesting to gauge the extent of influence held by the various heads of digital with their boards. However, there seems little doubt that digital services are generally regarded as one of the core interests of most banks. The big question is whether they are yet seen as being *the* core interest by the majority of banks.

The investment trend certainly seems to be upwards, with 68% of banks saying that they plan to increase their digital transformation expenditure in retail banking over the next year; and 56% budgeting for higher spending on business banking. Just 12% and 8% respectively listed investment banking and wealth management but that is largely because most banks are not active in these fields.

Seventy-six percent of respondents to our survey thought that their budgets for the digital transformation would be increased as a result of the crisis, while just 16% thought that they would decrease. They may have more limited financial resources in the short-term to commit to the process but its importance certainly appears to be growing.

Digital-first banks

Many of the banks clearly believe that the digital revolution is going to become their main focus in the near future. While only 12% regard themselves as digital-first banks at present, another 48% describe themselves as transiting towards becoming a digital-first bank, so the landscape of the African banking industry may look very different in the near future. However, another 40% consider themselves to be legacy banks with a strong digital presence.

The way that banks define their own digital transformation strategies is indicative of how fully they embrace the change. Twenty-four percent described their strategy as that of a digital native bank that uses a fully digital customer interface and back end, while at the other end of the scale, 16% said their approaches were front-end only – focusing on the primary ways their customers interacted with the bank via websites or mobile apps. The lion's share of banks, 60%, said that their strategies were best described as 'wrap and digitise', where they gradually replaced legacy infrastructure with digital technology, integrating the middle and back offices.

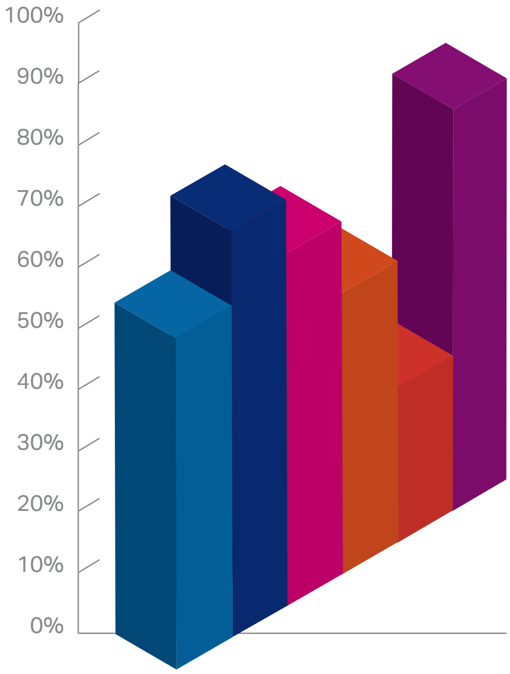
One of the biggest trends over the past few years has been growing cooperation between banks and fintech firms, and this is borne out by the results of our survey. A total of 80% of banks either see fintech and challenger banks as partners for growth or directly invest in them, with just 8% deciding not to work with them because they regard them as competitors.

Banks expect the increased use of mobile payments instead of cash (44%) to be the biggest change in customer behaviour in 2021-22. This is closely followed by the use of multiple channels – combining fintech and banks – instead of being loyal to one bank, with 36%. Just 16% cited an increase in savings and investments to prepare for an uncertain future.

Neil Ford

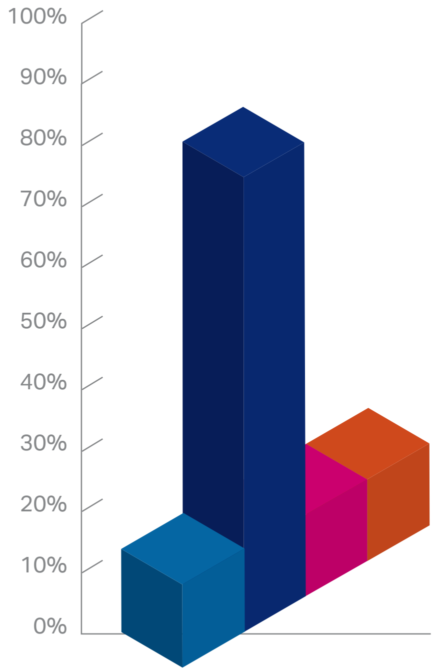
56%
banks who expressed an opinion said that they spent less than $1m a year on digital transformation and innovation

Which digital services are on top of your priorities to build in the coming years?



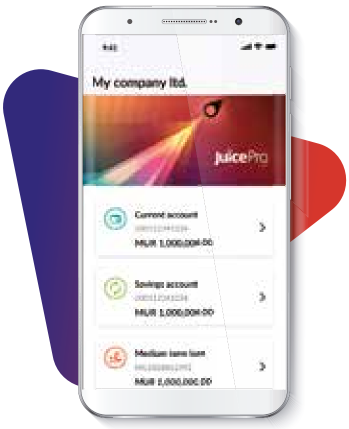
Digital onboarding (opening a bank account)
Digital lending/loan
Digital payment mobile app/mobile wallet app
Internet Banking platform
Card Management
Self-service customer support

How does your bank interact with fintechs and challenger banks?



We see them as competition and do not work with them
We see them as partners for growth
We directly invest in them
N/A

The digital transformation journey - digital strategy case study by Backbase



CASE STUDY

Mauritius Commercial Bank (MCB) – supporting SMEs

MCB approached Backbase after deciding to improve digital services for its small and medium sized enterprise (SME) customers, who had previously been mainly dependent on using physical bank branches, including for depositing cash. At the same time, the bank had to process all transactions manually in branch. With more than 1m customers and $10bn in assets under management, MCB opted to set up a single digital platform that would host all new product and feature releases across all its business units in order to simplify internal infrastructure for the benefit of both customers and the bank itself.

Digital services are now provided to customers via MCB's new SME banking app, JuicePro, which provides transaction history, account overviews, payments and transfers, OTP authentication and account management. It aimed to accelerate new product and feature releases through one digital platform that combined instant accelerators with minimum configuration. Security is ensured through the latest technology, including biometric security, such as face and fingerprint identification, powered by Backbase Identity.

About 80% of the development process was powered by Backbase's out-of-the-box widgets. Dominic Provençal, MCB's head of Business Banking, said: "We wanted to provide our SME customers with convenient mobile banking solutions to satisfy their banking needs." MCB consistently ranks among the biggest banks in Eastern Africa in the *African Business* Top Banks survey, and has been named 'Best Bank in Mauritius' by *Euromoney* magazine seven years in a row.

MCB worked closely with Backbase to build and release a minimum viable product (MVP) version of the app in just six months. MVPs are more basic versions of the eventual product and can be used to gather user feedback that can be fed back into the development of the eventual full release. The final product was released just five months later, using Backbase architecture to improve internal operations and boost overall commercial effectiveness. It now takes just one month to develop and release new features on the app.

The same platform has been rolled out for mobile, internet, in-branch and self-service kiosk use. Customers register to use the app in four easy steps, entering their card details and an OTP, accept the terms and conditions, and create a password, in a process that takes less than five minutes to complete. About 85% of MCB's customers now actively use the app, signing in on average 14 times a month.

Emmanuel Courtaud, product owner, MCB, commented: "Collaborating with Backbase has been an enriching journey which has improved the daily operations of our staff through simplified processes. Backbase enabled a new way of working between the teams, helped to deliver seamless digital experiences to our customers and above all, acted as an accelerator into our digital transformation intentions."

Who are Backbase?

Backbase is on a mission to transform the broken banking system, so financial institutions don't just interact—they engage—with the people they serve. That's made possible with the Backbase Engagement Banking Platform—powering all lines of business on a single platform, including Retail, SME & Corporate and Wealth Management. The open platform is built to unify data and functionality from core banking systems and innovative fintech partners, creating an experience unique to each bank's customer base. From digital sales to everyday banking, the platform's entire design focuses on a seamless and captivating experience for both customers and employees.

More than 120 large banks and other financial services companies—including some of the biggest players in the sector—use the platform around the world, including Lloyds Banking Group, Société Générale and Citibank.

Celent named Backbase a leader in Onboarding & Origination Solutions in the 2020 Retail Banking Customer Acquisition Platforms report; and also a leader in its 2020 Modern Digital Banking Platforms report, awarding six XCelent eXemplar awards in the fields of technology, functionality and customer service. In addition, the 2019 Ovum Decision Matrix ranked Backbase as the Ultimate Digital Banking Platform Market Leader.

Operating worldwide, collaboration is key for the Backbase process—working alongside clients to develop the minimum viable product (MVP), which is then tested in the real world before the final product launches. The process involves working with bank teams to initially determine which features need to be built from scratch and which adapted; the resources needed for the project; and the project timetable.

A particular advantage of the Backbase Engagement Banking Platform is the release speed of new products and features through an agile working methodology. This process is crucial to how Backbase operates, and is taught to teams within each bank so that they can undertake the work themselves.

Backbase has concluded that the shift to a digital-first life has been driven by three factors: access to smartphones that can provide a platform for innovation; cloud computing that allows small, agile teams to access computing power and capabilities that were previously restricted to well-funded industry giants; and machine learning that has enabled the replacement of human operators with cheaper and more reliable technological solutions.

It argues that some incumbents in the banking industry, as well as new entrants, will be able to make the most of new digital-first business models. Some banks dealing with day-to-day legacy IT challenges only make incremental changes—but this could result in a failure to attract younger customers or growth startups; falling revenue from established customers; lagging behind in product innovation; and progressive relegation towards the role of a highly regulated, capital-intensive infrastructure provider, while exciting data-driven digital services are delivered by others.

Deep-dive insights

To gather as much in-depth analysis as possible, we conducted extended interviews with senior executives at leading African banks in all parts of sub-Saharan Africa, in conjunction with our partners at Backbase. The resulting conversations were illuminating and insightful, and build on the conclusions reached in the rest of our research. We present the highlights of those discussions below.

Andrew Baker,
CTO, Absa Group

Christine Wu,
Managing Executive RBB: customer value management,
Absa Group

Absa aims to integrate digital and human interaction

Even before Covid-19 struck, South African bank Absa had worked to improve its digital network, although it was still in the process of sorting out its virtual private network (VPN). The crisis prompted the bank to speed up its digitisation plans, moving a lot of its operations into the cloud, particularly as its workforce is quite geographically spread. Andrew Baker, the CTO of Absa Group, told *African Banker*: "In fact, productivity probably went up as a result of Covid. It pushed our strategy... We already knew what we were going to do." He said that there have been some efficiency gains as people no longer waste time driving between meetings. Baker says he has faith in the process as he wants his teams to be self-organising as much as possible.

Christine Wu, managing executive at Absa Group, added: "A very big part of our technology road map is digitising our onboarding process which is absolutely critical... Covid just forced us to accelerate that." The crisis highlighted the imperfections in the system and encouraged the bank to aim for a truly end to end digital experience. In analysing its operations, Absa found that there was absolutely no need for customers to go into their branches to complete most transactions. "It really just highlighted how shortsighted some of those business rules were and the important imperative was to remove them and completely digitise the process," she said.

Wu added that the bank is now trying to encourage its less digitally-savvy customers to move on to digital services for simple procedures, such as printing out statements. Wu said: "It starts with the product: your product has to be simple enough for customers to engage in, so don't try to be too clever when it comes to construction of the product."

Absa plans to integrate its online and offline operations in 2021 to make sure that they are as digital as they can be and that human empathy is available when required. Wu said that it was important that customers could still have human interaction if they wanted it. "That actually means a higher level of sophistication in terms of orchestrating that digital experience so we can make sure that human assurance is there when it's absolutely necessary," she explained.

Looking ahead, Absa wants to change how it prevents fraud and verifies identity, to allow it to be done remotely using facial recognition and distributed ledger technologies. In addition, it aims to realise more value from data, using behavioural profiling to have a more analytically driven sales process.

It has just launched its first digital insurance product plans and has also unveiled a new rewards programme.

James Mwangi,
CEO, Equity Bank

Changing customer and working practices at Equity Bank

Equity Bank's CEO James Mwangi says that his bank realised it "had to become a technology company, because, essentially, all our decisions would be made through data". Yet the Covid-19 crisis has undoubtedly speeded up the process of digitisation. The bank sought to ensure that customers could access bank services remotely to avoid them having to come into branches. By 30 June, 98% of Equity Bank's transactions happened outside the bank's premises, including 83% on its mobile platform. It decided to waive its mobile charges for the entire year, at a cost of $24m, to motivate people to use the mobile platform.

However, Mwangi told *African Banker* that the bank had to think about how to "maintain the emotional rapport that we had with the customers". Equity Bank does not plan to close any of its 400 branches. As business customers scale up the size of their ventures, they require more relationship management and so branches become centres of excellence. As a result, the bank wants branches and agents to become the last mile for the collection of goods and services that have been bought online, turning them into distribution and logistics centres.

The focus on digitisation has helped the bank cope during the pandemic. About 80% of its employees now work from home as many used public transport to get to work and the bank could not guarantee their safety. This left just 70 people working in the Equity Bank headquarters, which usually houses 1,500, with some working alone on an entire floor. "Communication became more essential than ever before. Teams and Zoom became very, very handy and I don't know whether we will ever go back to physical meetings," noted Mwangi.

Equity Bank has also sought to reduce its costs and benefitted from economies of scale, including in expanding its operations in Democratic Republic of Congo, to strengthen its finances. The bank says that it has done far better this year than in 2019 with regards to profits before provisions, suggesting that there could be some long-term benefit from the cost cutting. It has also decided to outsource a lot of technology, particularly cloud capability and cloud computing.

The company now provides all its banking, insurance, telecoms and investment products as a single basket. "The era of big data, the era of machine learning, robots and artificial intelligence has really been fast-tracked", said Mwangi. He added that the market was ahead of the bank on technological change "simply because Covid-19 has brought in fear and a lot of versatility". The bank expects to have digitised almost all of its products by the end of this year, so the goal for 2021 is attracting more customers to take advantage of the big increase in young, digitally sophisticated people on the continent. In addition, it expects the adoption of digital payments by more retail outlets to offer great opportunities.

Dr Terence G. Sibiya,
Group Managing Executive, Nedbank Africa Regions, Nedbank Group

Nedbank looks to pan-African digitisation

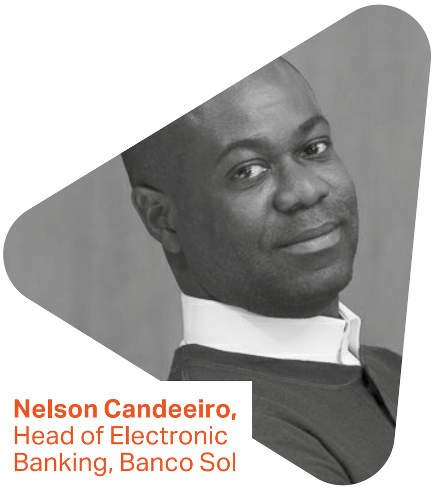
Dr Terence G. Sibiya, group managing executive of Nedbank Africa Regions, explained that his bank's digitisation drive has been led by demand from clients. Customers accessing the most basic services, including depositing and transferring money and paying bills,have almost completely migrated on to digital platforms, while digitisation also offers opportunities in terms of data management. "Data is of no use if we cannot convert it into services and therefore a realisable revenue," he said. Many of the products that the bank had in incubation for launching in the longer term will now be offered to customers much earlier.

Nedbank has developed a product called Eclipse that allows corporate clients to onboard themselves, saving the bank from having to complete the process manually. This allows the "uploading of documents that are relevant for compliance, being able to check who the signatories are for specific corporate client accounts and ultimately that enables them to also then interface with our banking system almost simultaneously and in real time knowing that they are fully compliant with all the regulatory requirements," said Sibiya. The bank achieves lower costs and greater efficiency, while corporate clients benefit in terms of working capital management, daily balance sheet management, daily liquidity and their credit interface with the bank.

Sibiya said that the technology was particularly useful because it could be deployed across the continent in a single application, although it can be nuanced for the specific requirements of customers in each country. Outside South Africa, Nedbank operates in Mozambique, Lesotho, Swaziland, Namibia and Zimbabwe; has representative offices in Kenya, Ghana, Rwanda and Angola; and owns a 21% stake in Ecobank Transnational Incorporated, giving it operations across West and Central Africa.

The national regulator of each country that Nedbank operates in has to oversee its digitisation plans to ensure sound data management. "Within those regulatory restrictions, we would evolve our product to operate within what is able or what is allowed and most of these countries are also varying in their level of development and levels of sophistication," said Sibiya. He conceded that digital banking was more advanced in Zimbabwe than in South Africa, for instance, because the former's macroeconomic problems have encouraged banks and customers on to digital platforms.

The financial flows of the bank's clients who are spread across different countries are increasingly being captured through digital platforms. "Previously, it would have been the money brands and all the Western Unions, but with the emergence of fintech and intermediaries that are interfacing better with banks, we are seeing bigger traffic now flow for remittances, in the main through banking platforms," Sibiya noted. Fintech is developing products that can easily move money back and forth but in an unregulated fashion, which is great when things go well but not when there are problems, he added.



Nelson Candeeiro, Head of Electronic Banking, Banco Sol

Angola set to join the digital revolution

Banco Sol had taken a long time to analyse the banking market but had decided to embrace digital ideas from this year on, partly because of the impact of digital processes on costs. "If you don't connect to digital you cannot offer what you'd like to offer. If you are not able to do that, you don't grow," Nelson de Jesus Pires Candeeiro, head of electronic banking at the Angolan bank, told *African Banker.* However, before you can complete the transformation, you need to change the way employees and customers think. "Angolan people have a culture that you only have money if you have physical money. We need to change this," he commented.

Candeeiro cited a number of different obstacles to encouraging customers to use digital platforms, including the lack of smartphone use by Angolans. The Central Bank of Angola wants banks to launch their own digital products because other players, including telecoms companies, are keen to enter the market but lack the required banking infrastructure.

He said that some banks now allowed customers to open current accounts online but said that Banco Sol was still working towards that option because it was still changing some internal processes. At present, Banco Sol only offered the ability to check account balances or find out international bank account numbers via SMS, although most basic services are available via online banking. The bank is currently finalising its mobile banking services, which could be ready by January 2022.

"We want to offer e-wallet solutions, not only for customers, for individuals, but even for companies. We have a wide relationship with the government companies. This should be the focus, and through them spread what we have, what we need to offer in terms of the way to access the bank," said Candeeiro. Angolan banks also have to find ways to transfer money that the government wants to give those most in need without giving physical money. It is also important for Banco Sol's IT division to focus on data analysis to provide the board with more information, he noted. There are other ways in which digitisation can help Angolan banks diversify, particularly as most banks in the country now have their own insurance providers.

Silvio Ferreira, Deputy-Director Digital Banking and Innovation, Banco Atlântico

Onboarding the key for Banco Atlântico

Banco Atlântico is the only bank in Angola that allows for online onboarding through its apps. The bank is rolling out new functions for its internet banking and app platforms, most recently the ability for customers to apply for loans.

"Initially, we didn't have the response we expected, especially in terms of online on-boarding. From our understanding, customers were not expecting this kind of service,"Silvio Ferreira, Deputy-Director Digital Banking and Innovation, told African Banker. However, the company is betting on onboarding services to grow its customer base, especially in the mass market. This has allowed it to grow at a pace that it never achieved before the coronavirus pandemic, adding about 5,000 new customers a week, "allowing it to achieve its goals in terms of customer growth earlier than predicted initially" added Claudio Cruz, the bank's head of Software Development and Integrations in the Digital Banking and Innovation Department.

The bank set a goal of attracting 2m customers by the end of 2021 and has almost achieved that figure already. Although only a minority of its customers are using its digital services at present, the number is rising.

Banco Atlântico faces a challenge in promoting digital banking because of the lack of internet access in Angola, and also the cost of access and the difficulty in recruiting and training engineers with the skills needed to build and maintain platforms, although it works with international partners.

However, Cruz said that the regulator had been supportive of the new platforms and understood the importance of the digital transformation. It had altered the regulatory framework to allow facial recognition to replace signatures made in front of banking personnel.

The bank will push ahead with its digital plans, including investing in its loan automation services, despite the impact of Covid-19 and low oil prices on the Angolan economy, because it helps the bank cope in such difficult conditions. The changes reduce internal costs and require fewer branches. "I would say that digital transformation is a key for us in every aspect," he said.

It is also building a modern internal enterprise data warehouse to try to gain new insights, "not only to increase the services and understand the behaviour of customers internally but also in order to improve internal processes that can only be analysed if we place bets on such platforms," said Cruz.

Report conclusions

Current situation

Almost all African banks recognise the importance of digital technology. An amazing 96% of those who responded to our survey said that they regarded digital transformation as one of the three most important factors in their bank's growth strategy.

Improved access to digital services can help to increase the proportion of people with access to banking services on the continent.

Almost half of all banks allow customers to open accounts digitally, in a process known as digital onboarding, with facial recognition and document uploading technology allowing banks to verify the identities of potential customers without them having to enter a branch. The most popular service to be launched in the near future is digital lending, while banks expect there to be a big increase in the use of mobile payments instead of cash by customers over the next two years.

Some banks told *African Banker* that they had been able to speed up the digitalisation process because they had become more efficient due to Covid-19. The crisis has also highlighted failings in their systems that they can now correct.

One of the most interesting conclusions from our survey was that 80% see fintech and challenger banks as partners for growth or directly invest in them, with just 8% deciding not to work with them because they regard them as competitors. This suggests that cooperation and integration are more likely than banks adopting a defensive position.

Banks that persuade more customers into the digital space are able to cut costs. Digitisation reduces the cost of back office functions through automation. Some labour intensive processes can be carried out far more quickly and cheaply digitally yet less than a tenth of African personal loan applications are processed digitally, despite the availability of high performing credit engines and know-your-customer processes.

Despite the importance with which the digital transformation is regarded, investment in the process is still fairly low. An incredible 56% of African banks spend less than $1m on digital development and innovation, while just 20% spend more than $3m a year. However, 68% of banks plan to increase their spending in the field over the next year, motivated above all by the need to cope with the ongoing pandemic.

80%

80% of banks see fintech and challenger banks as partners for growth or directly invest in them

Recommendations

Banks across Africa need to place their digital platforms at the heart of their operations. Many are already doing so.

Banks need to adopt a digital-first thinking to remain relevant, support their clients and reach underserved and unbanked remote communities in Africa. Just 12% of African banks regard themselves as a digital-first bank right now but another 48% say that they are transiting towards becoming one.

Those banks that fail to do so will lose out in the long run to competition not just from their more pro-digital competitors but from other fintech providers and digital-first banks. Failure to invest now will also see them miss out on a new generation of generally urban customers who expect to carry out more of their interactions online.

It is important that customers are still able to connect with real bank staff in some situations, so that banks do not alienate their customers. This could be achieved by finding new uses for existing branches.

Most existing and potential bank customers are still unable to access digital services because they lack access to a smartphone or other online device but growing digital access means that the numbers of those unconnected will fall sharply in the near future. More than a third of adult Africans now have smartphones and the number of total active SIM connections on the continent is set to reach 1bn by 2025.

African banks need to invest in recruiting and training their own digital engineers, even in instances where they work alongside international partners.

Sector regulation is likely to become increasingly challenging as more banks spread their operations across the continent. Digital platforms can be deployed in all markets but regulation is still delineated along national lines, so it will be interesting to see whether regulators are prepared to work together to some extent on sanctioning the provision of new digital services.

Neil Ford

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