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Creating the digital-ready bank in Africa

By Darrel Orsmond

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According to a 2015 KPMG report, banking penetration is as low as 36% in some of the larger African economies. The solution: digital transformation can drive adoption of banking services by enabling banks to develop and deploy tailored, customer-focused products and solutions.

Darrel Orsmond

No sector or region is immune to the disruptive power of digital transformation. For the banking sector, this has meant radical changes in how services are offered and how technology is used to enable rapid deployment of new customer-centric innovations. A recent SAP-sponsored study of 250 banks in the EMEA region by IDC, offers key insights into how banks have adapted their business models and operations to reap the benefits of digital transformation, and what African banks can learn from their success - and how they can avoid some of the pitfalls.

Africa at a glance

According to the United Nations, Africa's population is expected to surge to 2.4 billion by 2050. Due to Africa's largely youthful population and the aging population in most developed countries, forecasters expect that much of the world's labour will be supplied by the African continent. This increase in economic activity is expected to drastically increase the uptake in banking services among African workers.

However, despite encouraging economic growth, most of Africa remains unbanked due to insufficient banking infrastructure, the perceived high cost of banking fees, and a disconnect between banking services and the needs of the customers they are meant to meet.
In Sub-Saharan Africa, bank branches are generally concentrated in high-population urban areas. Despite this, the European Investment Bank notes that these banks are typically high-cost operations that result in high service fees and a wide spread of interest rates.

A 2014 World Bank paper showed that the average per-capita income in Sub-Saharan Africa is a mere $762. Banking products and services need to be carefully tailored to suit a diverse set of customer needs or risk losing traction in a market currently being disrupted by innovative start-ups.

Managing disruption

These upstart fintech companies are introducing new customer-centric innovation at a pace unmatched by the formal, traditional banking sector. While this clearly represents a threat to the incumbent banks, they should be wary of focusing on maintaining their traditional advantages and rather focus on utilising technology to create new opportunities across the entire value chain. The ability to embrace disruptive fintech products and services will allow banks to ride the wave of uncertainty and emerge strong and future fit.

Despite the rapid pace of disruption and the evolution of the banking sector, most customer needs will be fundamentally the same five or even ten years from now. Saving for retirement, buying a house, paying for education, accessing medical services, tax and payroll - these needs are unlikely to change in any meaningful way. What is likely to change, however, is the role of the banking sector in providing such services, both for consumers as well as corporate clients.

Smart, forward-thinking banks will embrace digital transformation by adopting cloud technologies to reduce costs, analysing data to create more personalised services, and using customer-focused channels such as mobile and social to deploy services. Despite the threat posed by fintech start-ups, traditional banks have an enormous advantage: the vast amounts of customer data created by multiple customer touch-points.

Banks should use this data to customise products and services at an individual level to deliver a truly personalised experience. However, this should just be the start: by mining this customer data, banks can start moving beyond pure banking into more of a 'lifestyle partner' role, something the insurance industry has achieved with tremendous success.

New opportunities

For African banks, the advantages of digital transformation are immense: considering that many banks on the continent are only at early stages of evolving their core IT enterprise, there is an opportunity for them to leapfrog their peers from more developed markets. According to IDC, an enterprise approach to digital transformation presents a better option for banks as it prepares them to fundamentally change the way it uses technology and allows them to build a technology platform that can meet present-day and as-yet unknown future business challenges.

But for that to be truly effective, leadership structures driving digital transformation need to focus on three key aspects:

1. A strong commitment at an executive level, encouraging collaboration.
2. A solid digital core to the business that includes in-depth analytics and enable agile technologies.
3. Openness to partner and collaborate with other players in the financial and banking ecosystem, including fintech start-ups and other disruptors.

African banks have a golden opportunity to adopt Digital Transformation and revolutionise the way they offer banking services by using technology to build customer-centric solutions. More importantly, by partnering with a skilled Digital Transformation leader, banks can build market-leading tech platforms that enable rapid deployment of new services and products tailored to the unique needs of the African market.

Source: African Media Agency.

ABOUT THE AUTHOR

Darrel Orsmond is Industry Head: Financial Services at SAP Africa.