AFRICAN BANKER

The African Digital Banking Transformation Report 2022

Building a digital-first bank

BACKBASE

The African Digital Banking Transformation Report is an initiative by *African Banker* magazine and Backbase, the leading Engagement Banking Platform, that aims to provide a clear roadmap for digital transformation across the banking sector in Africa. Now in its second edition, the report explores the key digital transformation trends shaping the banking industry today. It deep dives into the new reality faced by banks across the continent and explores the transformative benefits of the platform-led banking model.

It also includes a specific focus on digital banking provision for small and medium sized enterprises (SMEs), as well as an understanding of the skills, technical aspects and regulatory determinants of the digital transformation. To underpin the report, *African Banker* developed an industry-wide survey to better understand how banks perceive and promote digital transformation.

More than 100 banks participated in the survey and we present the collated results on pages 4-9. The questions posed ranged over many topics, including how banks rank digitisation among their main priorities, their expenditure on digital development, the impact of Covid, their digital offerings for SME customers and their priorities within the digital space.

We also asked for their views on the entry of telecoms and fintech companies into the banking sector. They are not regarded as among the biggest threats by the banks themselves and many respondents said that they wanted to work with rather than solely outcompete the new players, although it remains to be seen how much that is a view born out of necessity. Perhaps most interestingly, we were able to compare the results of this year's survey with those garnered in our previous report in order to assess changes in attitude over time.

It seems obvious that the digitisation process is completely transforming the African banking sector but big questions remain over the speed of that transformation and the nature of the changes being implemented. This report seeks to fill that gap by surveying current de-

Executive summary

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velopments and assessing the views of many of those working in the industry.

We conducted extended interviews with senior executives at leading African banks from across the continent to gather as much in-depth analysis as possible. Chief executives, chief innovation officers and heads of commerce were all consulted in order to gain as wide a view as possible of the challenges, benefits and nuances of the digital transition (see pages 10-11 for interviews with leaders from three of Africa's most prominent banks).

There is no longer any question that digital platforms will come to dominate African banking services. The benefits, both in terms of reduced costs for banks and faster, more convenient access to services for customers, have become abundantly clear. Mobile operators and fintech companies have entered the sector, providing competition for established banks, most of whom had already embarked upon the digital transformation prior to the outbreak of the Covid pandemic.

The number of physical branches operated by a bank used to be a good indicator of the size of that bank and of the level of penetration of banking services within any particular society but that link has been eroded by new technology. Some new entrants into the market have adopted a purely digital strategy, eschewing the traditional branch model. This has allowed them to build their digital architecture from scratch, avoiding legacy challenges and minimising costs. They pose huge competition to established banks but the latter can make maximum use of their established brands while building new digital platforms. On pages 18-19 we present case studies on the way two banks are developing their digital services.

Even before the pandemic, digital technology had helped turn Sub-Saharan Africa into the second fastest growing regional banking market in the world, as well as the second most profitable. Yet our suspicion before embarking on this research project was that the pandemic had speeded up the pace the change and indeed that was borne out in the results of the survey that we carried out to assess the current state of the transition.

Globally, the banking sector saw revenues fall by 25% in 2020, yet almost every bank we spoke to accelerated its digitisation plans at the height of the crisis. Many customers were unable to access branches, while the pandemic saw rapid growth in the use of electronic transfers, debit cards and mobile money.

The SME angle

In addition to broadly assessing the nature of the digital banking revolution, in this year's report we decided to focus on the provision of services to African small and medium sized enterprises (SMEs). According to the results of our survey, the proportion of African SME customers who make use of digital platforms is even lower than for retail customers. This is partly because many SMEs use only retail bank accounts with a single named account holder, rather than a specific SME account, in order to avoid bank charges.

However, the findings also suggest that many African small businesses make no use of any bank account, so there is clearly a gap in the market that banks can help fill.

Most surprisingly, of the banks surveyed, 79% reported that less than half of the SMEs who did bank with them made no use of any digital banking services, whether because of a perception that bank charges were prohibitively high or because they consider such offerings to be irrelevant. This compares to 59% of banks reporting the same thing of their retail customers.

There is clearly much more that can be done to attract African small businesses into the banking sector. On pages 13-15 we look at how to digitise SME banking in Africa and on pages 16-17 we present in-depth interviews with two banks about their strategies.

It is clear from our respondents that those who are putting most effort into providing and promoting SME digital banking services, as well as seeking to support African small businesses in a variety of complementary ways, are seeing big increases in the number of business customers that they serve.

Supporting environment

Digitisation can do more than merely improve service provision for both banks and existing customers. It has the power to bring banking services to those who have never previously had a bank account. Barriers remain, in terms of the cost of internet-connected mobile phones, internet access, restricted literacy and digital literacy, plus cultural obstacles in the form of an established attachment to hard cash. We assess the skills and capabilities needed to support the digital transformation, as well as regulatory obstacles, on pages 20-21.

Central banks and other regulators may fail to create a conducive environment for digital banking because they are not persuaded of the need for change, or perhaps because of fear that rapid change will allow unstable banking practices to emerge. They certainly have a challenge in encouraging innovation while ensuring market integrity.

To get a better idea of the challenges of overseeing and regulating the sector, we spoke to the Governor of the Bank of Namibia and include highlights of our conversation on page 22.

The current state of play: how did banks adapt to the new reality?

To fully understand current developments and investment plans in the digital banking sector, we talked to 119 banks of varying sizes spread across all parts of the African continent. All respondents answered every question put to them and we present the collated results in this section. Almost three times as many banks took part in the survey as in our last report on the subject in 2020, helping to provide more comprehensive data on which to base our analysis. We retained most of the questions that we put to African bankers last time around in order to enable some comparison over time. We also put additional questions to them to broaden our evaluation, including to cover one of the specific themes of our 2022 report – an assessment of the provision of digital banking to SMEs.

To ensure that we surveyed the views of as wide a cross-section of the industry as possible, we made sure to secure the participation of banks from across the continent in the survey. Eastern Africa provided 37% of participants, followed by North Africa with 28% and West Africa 24%. Just 9% came from Southern Africa, although this is partly a function of the fact that the region's banking sector is dominated by a small number of very large banks. The remaining 3% are based in Europe and their views helped give an external view of the situation on the African continent. Three countries provided more respondents that any others: Egypt with 27, Nigeria with 15 and another 12 from Ethiopia. Those surveyed hold a variety of executive positions, including chief executives, chief operating officers, chief information officers and senior management.

One of the headline findings of our research is the overwhelming consensus over how crucial digital transformation is to the future of African banking. Just 5% of respondents said that although the transformation was an important consideration for their bank, they also have other priority areas. About 60% described it as the single most important factor and another 34% stated that it was among their top three priorities. These figures are very similar to the results of our previous survey but taken together they confirm that a majority of African banks regard digital development as their number one priority and almost all the remainder value it very highly. There is no doubt that the digital transformation therefore lies at the heart of African bank strategies but the big questions are exactly how they intend to achieve it and how much investment are they willing to commit to the process.

There has been a big change in the size of budgets allocated by banks to digital development since our last survey. A total of 39% of respondent banks now ringfence at least $3m/year for digital transformation and innovation, and another 21% $1-3m, in comparison with 20% and 24% respectively in our previous study. The proportion of banks allocating less than $300,000/year has remained fairly static, with 16% this year and 20% in 2020. The level of investment varies according to a number of factors, including bank size, focus and the importance they attach to technological change. The first two metrics are unlikely to have changed much since our first study, so it must be concluded that investment levels have increased because the importance attached to technological change has solidified since 2020, perhaps in part because of the Covid-19 pandemic.

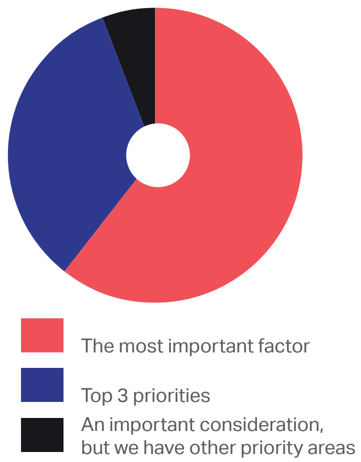
Impact of Covid

There is no doubt that the pace of digital change has been greatly affected by the pandemic and associated restrictions. A massive 49% of African banks told us that they had greatly increased the speed of implementation as a result of Covid-19 measures, while another 20% have slightly speeded it up. A further 18% said that the crisis had forced them to implement plans that they had not previously expected to introduce at all. The fact that unplanned measures can be sanctioned, designed, developed and implemented in such a short space of time highlights how crises often accelerate the pace of technological and behavioural change.

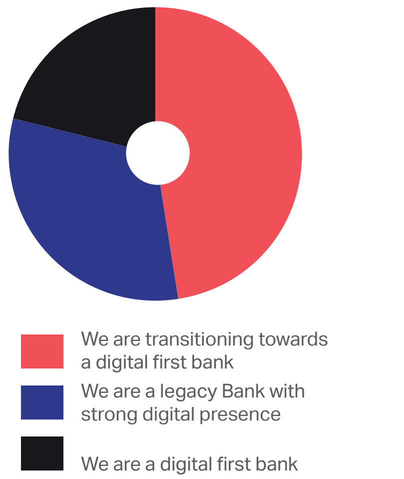
Demand for digital services increased because of lockdown measures that saw large numbers of bank branches closed for extended periods, while many customers preferred to avoid any physical transactions, including that involved in the use of cash, because of fear of infection. Where bank branches were closed for many weeks at a time, customers often had little choice but to embrace new technologies

Even in Kenya, a country that is well known for its highly developed digital banking and mobile money sector, the pandemic increased the pace of the digital transition. According to the Central Bank of Kenya, there was a 44% increase in the volume of digital payments over the period March-November 2020. The industry supported the trend, with Kenyan banks and telecoms operators suspending digital transaction charges for the course of the pandemic, arguing that it was not fair to retain such charges when customers sometimes had no other option. The policy was also probably motivated by a desire to encourage reluctant users to make the digital leap. Uganda's big-

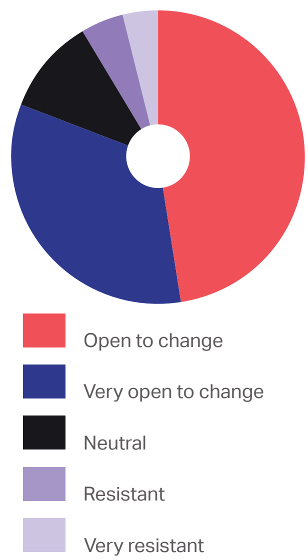
How important is digital transformation for your Bank's growth strategy?



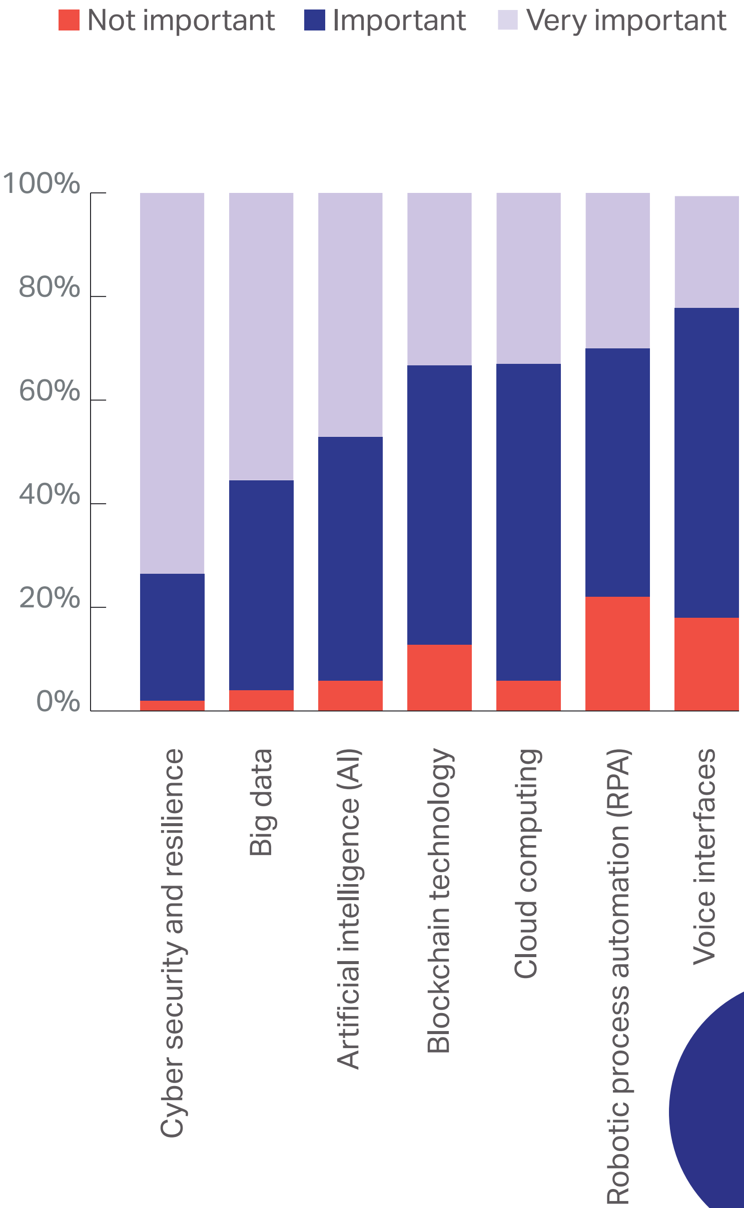
How would you define your Bank's digital culture?



How open is your institution to change (digital transformation)?



What do you identify as the most important technology trend(s) for 2022/2023?



The proportion of banks describing themselves as digital first banks has risen from 12% to 21% since our first survey.

gest commercial lender, Stanbic Bank, followed suit.

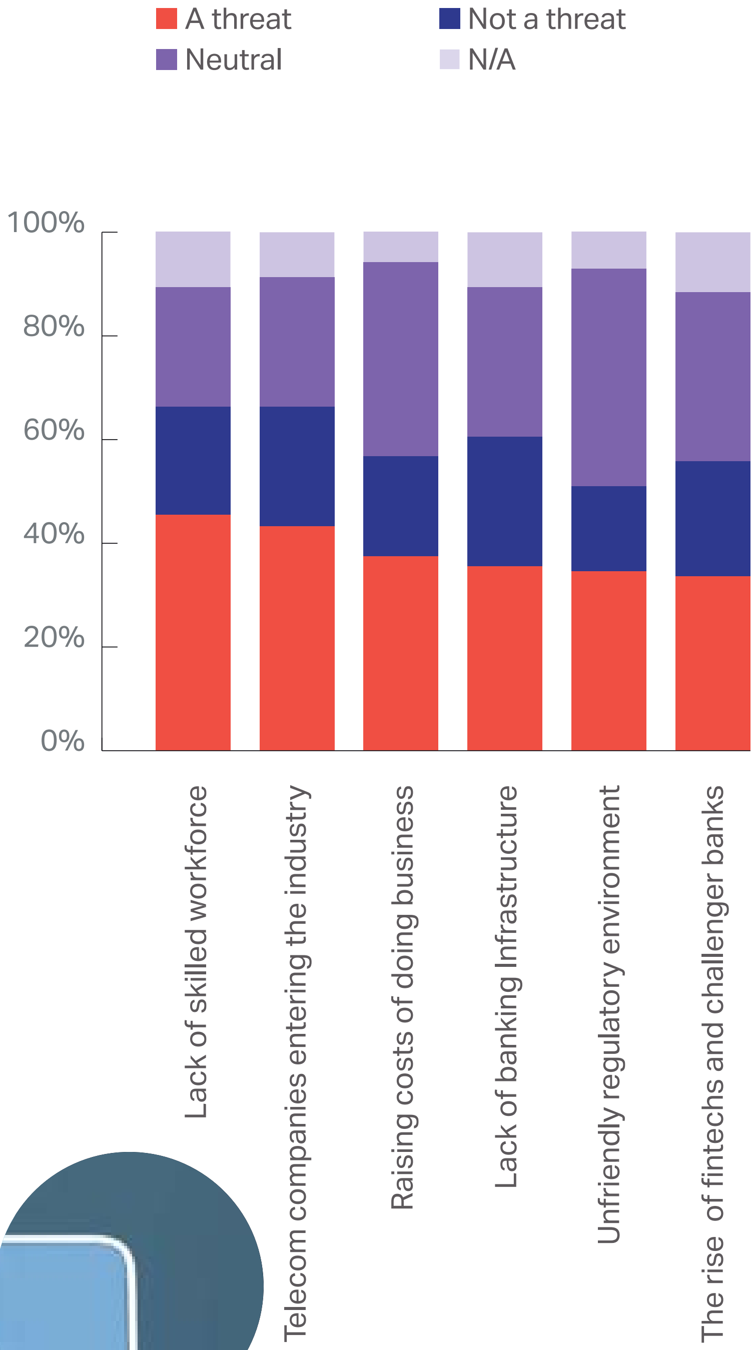
Digital cultural change

The need to transform banking practices seems widely accepted and our survey suggests that there is relatively little resistance to the transition. Just under 81% of respondents described themselves as being open to change, including 33% identifying as very open to change.

Just 8% indicated that they were in any way resistant. The fact that this figure is up from zero last year could be the result of our far larger pool of participants but may also be attributed to the fact that a small minority are finding it difficult to cope with change. Either way, the number involved is very small.

Enthusiasm for change is also reflected in a rise in the proportion of banks describing themselves as digital first banks, up from 12% to 21% over the course of our two surveys. The percentage that consider themselves to be transitioning towards becoming a digital first bank is largely unchanged at around 48% over the same period. At the same time, there has been a substantial fall in the numbers who view their institutions as legacy banks with a strong digital

What are the biggest threats to your business?



presence, down from 40% in 2020 to 31% this year.

Such descriptions are of course based on perceptions rather than actual strategies but it is revealing that two-thirds of banks in Africa now expect to position themselves as digital first banks in the foreseeable future. They are no longer niche specialists but rather set firmly in the mainstream. All this raises the question of what will happen to those financial institutions who insist on retaining their identity as legacy banks.

For the first time, we asked respondents what drove their digital transformation. Some analysts have put it down to the fear of banks being left behind by their rivals but this does not seem to be a significant factor, as it was cited by only 3% of participants. The primary drive appears to come from the bottom up, with customer demand and satisfaction noted by 39% of respondents, followed by increased profits or growing market share, with 24%. A further 35% said that they were motivated by a combination of all three factors. Indeed, it is the wide range of benefits are appears to be encouraging the transformation, resulting in such widespread support for technological and structural change.

This focus on customer demand and satisfaction is confirmed by the fact that 42% of those polled regard providing a better service to clients as their bank's priority when investing in new digital infrastructure, although this is down 10% from the figure in our 2020 survey.

The proportion who regard improving their internal processes as their main priority has increased from 8% to 17% since 2020, while those citing increased bank revenues and reduced costs are little changed, at 24% and 11% respectively in this year's survey.

The desire to meet the expectations of more digitally-savvy customers must be playing a role in the focus on customer satisfaction, because of the fear that they could lose them to competition from non-mainstream fintech companies and new digital-first banks.

Digital priorities

Even if it is generally accepted that almost all banks recognise the need for a comprehensive restructuring of their operations to base them around digital priorities, this can mean different things to different banks. In both our 2020 and 2022 surveys, we gave African banks three options to best describe how they would define their digital transformation strategies:

- Front-end only: focusing on the primary ways that customers interact with them, including via their website and mobile apps;
- Wrap and digitise: where they gradually replace legacy infrastructure

with digital technology, integrating the middle and back offices in the process; or
- Digital natives: banks that use a fully digital customer interface and back-end.

The results are perhaps the most surprising in the whole report. The percentage that identified as front-end only jumped from 16% in 2020 to 38% in our latest survey, while the proportion opting for digital native slumped from 24% to 11%, and for wrap and digitise from 60% to 51%, over the same period. All the rest of our research indicates that African banks are taking the digital transformation increasingly seriously, ramping up the level of their investment in the process.

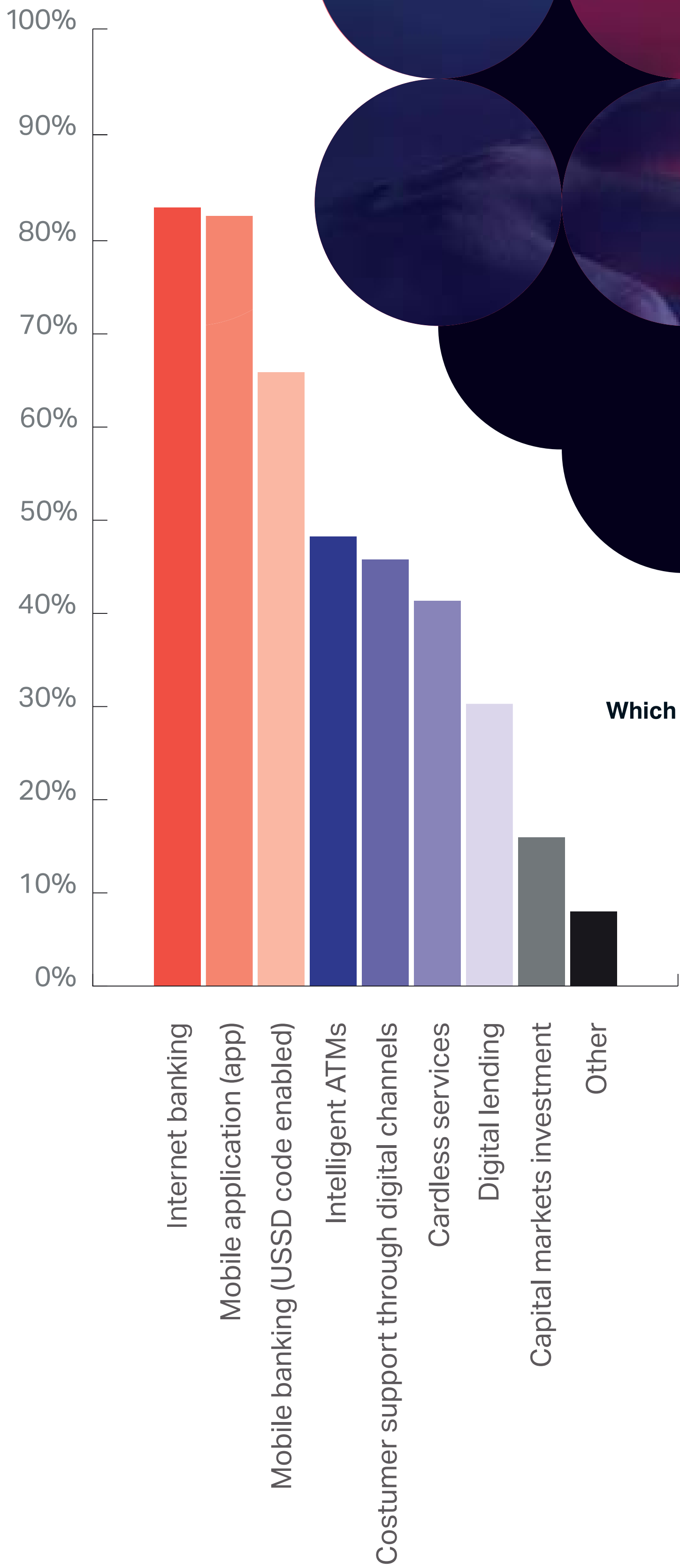
It therefore seems unlikely that a substantial proportion have opted for less comprehensive change since 2020. It is possible that increased pressure for digitisation has resulted in greater knowledge of the costs and challenges involved in it, thereby creating a more realistic assessment of exactly what can be achieved in the short term, but a big question mark sits over this finding.

In recognition of the value of those with wide experience in the sector and possibly also because of the need for rapid change as a result of the pandemic, African banks are making much greater use of external expertise. A total of 38%% of respondents now rely on third party developers and platforms, up from just 12% in our last survey, while another 41% utilise a hybrid model consisting of a combination of internal and external development, down from 64% in 2020.

This hybrid model allows banks to complement the expertise that they possess internally with the use of external developers, including to help build their in-house capacities. The proportion of those relying solely on in-house expertise has declined from 24% to 21%. Some external developers use application programming interfaces (APIs), software applications that can access a bank's common tools, services and other assets, in what can be a low cost method of connecting the bank's and the third-party's technologies. Others develop bespoke platforms from the ground up.

Retail priority

Retail customers continue to be the main priority in terms of digital investment, with 57% of respondents revealing that they will target their investment in digital transformation at retail banking over the coming year. A total of 17% will focus on wealth management or investment banking, on a par with our 2020 survey results while 19% will focus on small and medium-sized enterprise (SME) banking. We look at how best to digitise SME banking in Africa on pages 13-15.



Which digital services do you offer to your clients?

The concentration on retail banking is perhaps understandable given that it appears that most bank customers still do not use any type of digital platform. Our survey revealed that 59% of banks report that less than half of their customers use digital platforms, including 25% who calculate the proportion as being less than a quarter.

By contrast, just 11% of banks say that more than three-quarters of their customers use digital services. Even many of those customers who do make use of such services will only utilise one platform and/or do so occasionally, so there is still a long way to go before the image of the digitally-connected bank customer becomes the norm in Africa.

As we discuss on pages 13-15, an even smaller proportion of African SME customers make use of digital platforms.

We also sought to gauge exactly which digital services banks already offered to their customers. Perhaps unsurprisingly, the three most popular were internet banking (offered by 84% of respondents), mobile apps (83%) and USSD code enabled mobile banking (67%). Only 31% of respondents offer digital lending.

Regular usage for basic services should allow banks to widen the range of products customers feel comfortable accessing via digital platforms. Once customers begin to use such platforms to complete payments, transfers and savings, they are more likely to take advantage of credit, insurance and other new services, including products that may not have been on offer in their local branches, or which they may have been dissuaded from tapping into on cultural or social grounds.

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Threats to established banks

We decided to obtain particularly detailed information on perceived threats to African banks.

As can be seen in the findings presented in the chart on page 7, the lack of a skilled workforce is viewed as the biggest threat and is cited by 46% of participants in the survey. Perhaps surprisingly, telecoms companies entering the industry to provide financial services are considered a significantly bigger threat to banks' market share than the rise of fintechs and challenger banks.

Telecoms companies have sought to take advantage of their huge customer bases to move into financial services in order to compensate for a falling share of the voice phone service market in the face of competition from messaging apps. Sub-Saharan Africa already had 469m mobile money customers by the end of 2019, more than any other region. Prior to the pandemic, Vodacom had already planned to roll out its payment, lending and insurance products, which were already available in South Africa, across the rest of the continent but subsequently decided to speed up its expansion.

French telecoms firm Orange launched a purely digital bank right at the start of the pandemic, attracting more than 5m customers in April and May 2020 alone. In addition to the Kenyan banks that were mentioned earlier, the continent's biggest telecoms companies, including Vodacom, MTN and Telkom, lowered their mobile money fees, with MTN recording a 28% increase in mobile money transactions in the first half of 2020.

Almost 35% of the banks consulted listed an unfriendly regulatory environment as a major threat. One of the biggest problems is that each national regulator has to assess and approve digitisation plans to ensure sound data management. National standards on what is permitted varies considerably, so banks are generally unable to roll out the same platform with exactly the same features in every market. As a result, expansion across the continent is not simply a matter of acquiring a banking licence and launching existing products in new countries.

As the chart on page 6 shows, focus on cyber security and resilience undoubtedly stands out as the most important perceived technology trend for 2022-23. A massive 74% of the banks surveyed said that it was very important, with just two respondents arguing that it was not important.

Big data was viewed as the next most important trend but this is an area where telecoms companies have an advantage. With more active customers than digital banks, they are able to tap into mobile phone records and mobile money behaviour to identify customers that are creditworthy and also match products to customers. Digital banks will increasingly be able to exploit such data as their penetration rates increase and the longevity of their relationships with customers increase.

Artificial intelligence and blockchain technology certainly have the potential to cause profound disruption in the industry and countless articles have been written on them. Yet as the chart on page 6 reveals, while some of our respondents expect them to be very important over the coming year, they are generally not expected to have as much short term impact as big data and cyber security.

Leaders from three of Africa's most prominent banks share their views on the state of the sector's digital transformation.

What does the future hold for African Banks?

To learn more about digital transformation, we talked to leaders from three of Africa's most prominent banks: the CEO of Mauritius Commercial Bank (MCB), Alain Law Min; Aronildo Neto, Chief Innovation Officer at Standard Bank Angola; and the CEO of Banco de Fomento Angola (BFA), Dr. Luís Gonçalves.

Neto said that digitally transforming your core business "is no small feat and requires a comprehensive business strategy, out-of-this-world focus and dedicated resources".

It may therefore not be cost effective for the incumbents to start from scratch and launch as a dedicated digital native, as they are greatly influenced by their existing business models and regulatory requirements. At the same time, banks cannot afford to be less ambitious in the face of changes in customer behaviour and the new market entrants who are rapidly disrupting the sector, he noted.

Pandemic was a 'wakeup call'

Standard Bank Angola had already begun the process of accelerating its digital transformation before the pandemic, including including investments associated with the digitisation of internal processes as well as investments geared towards the digitalisation of customer experiences.

Additionally, the early implementation of remote technology resulted in much faster adoption of remote working at zero cost to stability and customer service", said Neto.

It was able to complete the upgrade of its core banking application in the middle of the pandemic, with teams working on different sites.

"On the whole, I think the pandemic was a wakeup call for banks that had plans to digitise their processes but were sitting on the fence", he said. They had to address the increasing adoption of digital services by customers, or risk losing market share.

"Digital transformation is not about having the nice customer-facing applications, but rather the introduction of efficiency and better service offerings through digital technologies", said Neto. This means that financial institutions have more options when it comes to extending their reach to less digitally-versed customers.

"Financial institutions also have an obligation to ensure that their customer interfaces are as easy to use as possible."

Standard Bank Angola is working with Backbase to develop its new platform and improve its digital offering. In the process of digital transformation, partners are not only required to bring the technology but also acumen with respect to process efficiency and customer experience. "It is important to have the right partnerships", said Neto.

"The pandemic was a wakeup call for banks that had plans to digitise their processes but were sitting on the fence."

Making processes more fluid

MCB began its digital transformation journey in 2018, setting up what it describes as "a digital factory" that aimed to make end-to-end processes more fluid, making processes easier and faster for customers and more efficient for the bank. As with Standard Bank Angola, this start made it easier for the bank when Covid-19 struck. The pandemic speeded up the pace of the transformation, including the rollout of MCB's mobile app, Juice.

"We are still on the journey but we believe over the next couple of years we will complete the whole spectrum", said Law Min.

The other side of the digital equation is data. Practically every Mauritian has an account with MCB, even if they also have accounts with other banks, he said. MCB has huge amounts of data but intends to make better use of it both commercially and for risk identification.

While 90% of Mauritians already have bank accounts, there is not just one model for banking in the rest of Africa. Telcos have had the most success because of their high customer numbers. They have tried to enter the Mauritian market by introducing payment apps and wallets but find it difficult to compete, argued Law Min.

"We like competition because it makes us better but they are not making a big dent in our market share." MCB is already working with a few fintechs rather than trying to reinvent itself because "they've got great technology, they are very agile, they are very fast but they don't have customers", he said.

Mobile apps for SMEs

Out of the country's 125,000 SMEs, just 25,000 have dedicated business accounts; the executives of most of the rest open bank accounts under their individual names. "There's a big chunk of it, I think, that goes into retail that can somehow be invisible to us", he said.

Internet banking is often not appropriate for SMEs, so MCB has also launched a mobile app specifically for the SME market. "We wanted to use Backbase because we think there are opportunities to get those people online, which I suppose is the case for many banks", noted Law Min.

The bank now plans to expand the scope of the app and hopes that SMEs will be able to reduce the use of cash by their customers by encouraging them to use the app for payments.

Front-end only strategies

The CEO of Banco de Fomento Angola (BFA), Dr. Luís Gonçalves, highlighted the fact that the pace of digital transformation tends to speed up when the general situation is more difficult, as during the Covid-19 crisis. As a result, it is not surprising that banks focus on developing front-end-only strategies for digital development rather than acquiring a 100% digital DNA.

"It makes no sense to leave out of this equation the legacy that these institutions have and that also makes it difficult to change their back-end", he said.

BFA's digital transformation strategy is not exclusively based on the context of the pandemic, but Covid-19 certainly made the bank accelerate the provision of remote working systems in order to allow its employees to continue working wherever they found themselves.

Gonçalves said that ensuring that less digitally-knowledgeable customers are not left behind is "a very important dimension of the digital transformation of a bank that operates in a developing economy where digital literacy can't be taken as a given".

BFA has therefore given its design specialists the mission of making services as simple as possible, while still being secure and accurate.

"We focus on having a clear vision of the future and selecting the best set of technologies to help us on the way."

"We are aware that customer feedback is key and our teams, working on an agile methodology, are ready to introduce stories or requirements that come from this feedback and can make our solutions easier to use, especially to those with more fragile digital knowledge", he said.

It ultimately boils down to having an omni channel strategy, so that customers get more out of the technology banks put at their disposal, he said.

BFA sees the solutions offered by fintech and telecoms operators as an inspiration and a challenge for established banks to reinvent themselves.

They provide high competition because they enter the market without a legacy that can make innovation more difficult, implement aggressive business plans with targeted approaches to high-value segments, and control critical resources, such as telecoms networks or huge databases.

However, it is important not to overlook the strengths of universal banks, argued Gonçalves. These include customer proximity and confidence.

Four coming trends

Four big technology trends will shape the digital transformation over next two years: data management, cyber security, greater digital adoption; and the development of omni channel strategies, said Gonçalves.

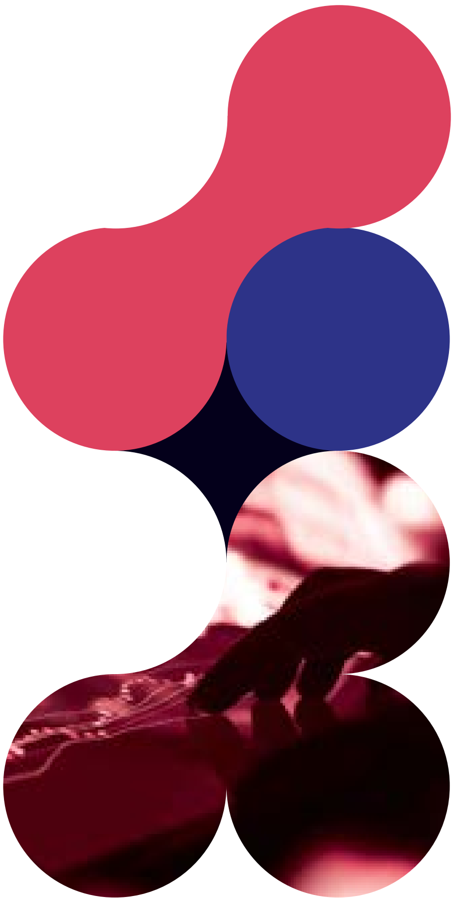
"However, trends and technologies don't exist in isolation: they build on and reinforce one another, so we consider a better approach is to focus on the strategy, on having a clear vision of the future and selecting the best set of technologies to help us on the way, instead of trying to surf the last tech trend", he added.

How to digitise SME Banking in Africa?

African small and medium sized enterprises (SMEs) have traditionally been overlooked by the banking sector, despite the fact that they account for 40% of the continent's GDP. Established banks have focused on serving large corporations and high net worth individuals, while more effort has been put into promoting wider retail banking over the past few years. The SME sector has attracted far less attention, with potential customers deterred by minimum account balances, high fees and a view by many within the banking industry that it was not commercially viable to provide services to those with relatively low turnover.

Definitions vary but any business with fewer than 250 employees can be considered to be an SME. It is generally considered that at least 90% of businesses worldwide are SMEs, which collectively account for about 50% of total global employment. The global annual revenue of banks generated by SMEs stands at $850bn a year, according to McKinsey. They are perhaps even more important in Africa than in most other regions. McKinsey calculates that 98% of South African businesses are SMEs that provide 60% of the nation's employment.

The profits of SME-focused banks have traditionally been lower than those of retail or wealth management operations, discouraging banks from focusing on the sector. Moreover, it has proven challenging for SME banks in some markets to find the right balance between providing good customer experience, generating profits and managing increased regulations. As a result, the financing gap for SMEs in Africa is estimated at $327bn a year. The G20 and OECD both called for improved access to digital financial solutions for SMEs in their joint High Level Principles on SME Financing as long ago as 2015.



The proportion of African SME customers who make use of digital platforms is even lower than for retail customers.

Even those SMEs who access bank products do not appear to have had the best service. Research by Accenture revealed that more than four out of ten SMEs believed that alternative providers could deliver a better banking experience than they currently receive. The pandemic hit smaller businesses particularly hard, making it even more vital that they felt supported by their banks but SMEs reported feeling neglected as they struggled to cope with lockdown measures.

Limited SME inclusion

According to our survey, the proportion of African SME customers who make use of digital platforms is even lower than for retail customers. While 57% of banks report that less than half of their retail clients use such services, this figure rises to 79% for SME clients. This is a little shocking given that the benefits for small businesses are surely even greater than for individual retail customers. Just 7% of the banks surveyed report that more than three-quarters of their SME clients use digital platforms, while another 14% put the figure at 50-75%. An incredible 33% of respondents told us that less than a quarter of their SME customers utilised any form of digital service, so there is huge scope for growth in the sector.

The lack of uptake does not refer to those who do not use banks at all. An estimated 57% of Africans do not use any form of bank service and some very small business owners are likely to fall into that category. However, our survey only covers those who have already entered the formal banking sector but who have not yet made any use of digital banking.

In order to delve further into this lack of participation, we asked our respondents why they thought SMEs were deterred from using digital banking. There does not appear to be a single explanation, with a variety of educational, infrastructural and systemic causes cited by the banks we consulted. The lack of institutional training on digital banking services and opportunities was cited by 24%, while 21% attributed it to the lack of information on how to open a business bank account online.

A further 16% put it down to a lack of formal documentation, such as company registration and ID documentation; 12% to a lack of internet access; and 10% to the lack of access to formal business accounts or financial services of any kind. Just 17% said that there were no barriers to uptake. It is interesting that some of these obstacles could be tackled by the banks themselves: the lack of information on opening business bank accounts online and limited access to formal business accounts.

Potential for change

Yet the tide is starting to change, not least because technology allows banks to minimise the cost of service provision. At the same time, often time-poor entrepreneurs are able to utilise banking platforms at a time that suits them without having to travel to their local branches.

Our survey found that 19% of African banks are planning to focus their digital transformation investment in SME banking over the coming year, in comparison with 57% on retail banking. There is clearly still an imbalance but almost a fifth of African banks are seriously targeting the segment. Where this approach pays dividends, their competitors are likely to follow suit.

A combination of improved technological solutions, the rise of third party platform providers and increased customer expectations has opened the door to new business models increasing the profitability of the SME banking sector. It is therefore becoming increasingly commercially viable for banks to offer services even to very small businesses, creating huge opportunities to boost customer numbers and increase banking service penetration.

Third party providers now offer omnichannel digital banking platforms to allow banks to create, manage and optimise the experience of SME customers. For instance, Backbase has prepared a playbook which takes banks through the process of targeting the market step-by-step, including understanding the current state of the SME banking market; identifying the needs of their SME customers; providing them with tailored solutions; and explaining how they can compete using the Backbase Engagement Banking Platform.

SME customers can be attracted by ensuring all interactions are as straightforward as possible, including digital onboarding and actually using services. Requirements for customers to prove their identity can be particularly tricky where one or more business partner does not have an established relationship with the bank providing the SME service. Regulators require banks to accurately identify customers in order to prevent criminals from using a company as a front for tax evasion, money laundering, financing terrorism or other nefarious activities.

However, digital onboarding can greatly simplify the process, with applicant customers able to submit photographs of their ID and also selfies via bank apps. The app then analyses the biometric data and confirms the authenticity of his ID. This greatly simplifies the process, cutting costs for the bank and avoiding visits to a bank branch.

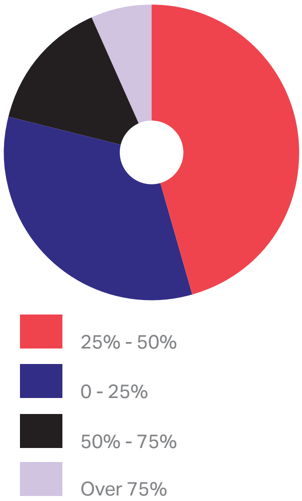
The entire process takes a few minutes rather than several weeks. Apps can identify anyone with concerns hanging over their suitability but a customer service representative can quickly check whether the app has made a false match. As they are trained specifically for this task, there is no need for them to refer the problem up the chain to the compliance team for further investigation.

Digital platforms allow banks to automatically assess SME customer performance, allowing them to market loans and other products to them, either as adverts, banners or via direct communication. Loan applications can be made via simple forms on the app, perhaps with a slider to allow customers to adjust the amount to see how it affects the interest rate and regular repayments. Better tools for screening and assessment of creditworthiness improve access to finance and reduce risk and default incidence for financial institutions.

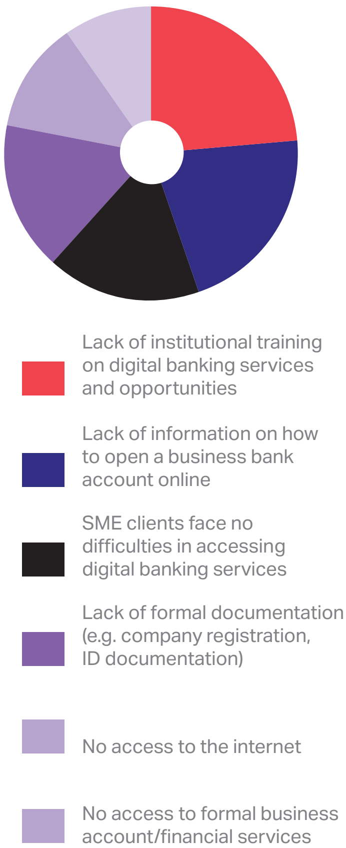
The bank can then assess the applications of existing customers within seconds because they already have so much data, in comparison with the weeks or even months that decisions can take using non-digital channels. Digital screening can also help to promote financial inclusion among the previously disadvantaged, such as women and young people, who may have been subject to discrimination during face-to-face assessment for loan eligibility. Finally, it can greatly reduce the need for loan securitisation, as digital finance providers generally do not require collateral.

A Backbase spokesperson said: "The first goal of any SME offering should be supporting your customers by reducing the time they need to spend on banking activities. Make it simple and efficient for them to apply for loans and receive funding without having to visit a branch or resubmit documents. Basically, help your SME customers focus on growing their business instead of wasting time on administration."

What proportion of your SME customers use digital platforms?



What do you think deters SMEs from using digital banking?



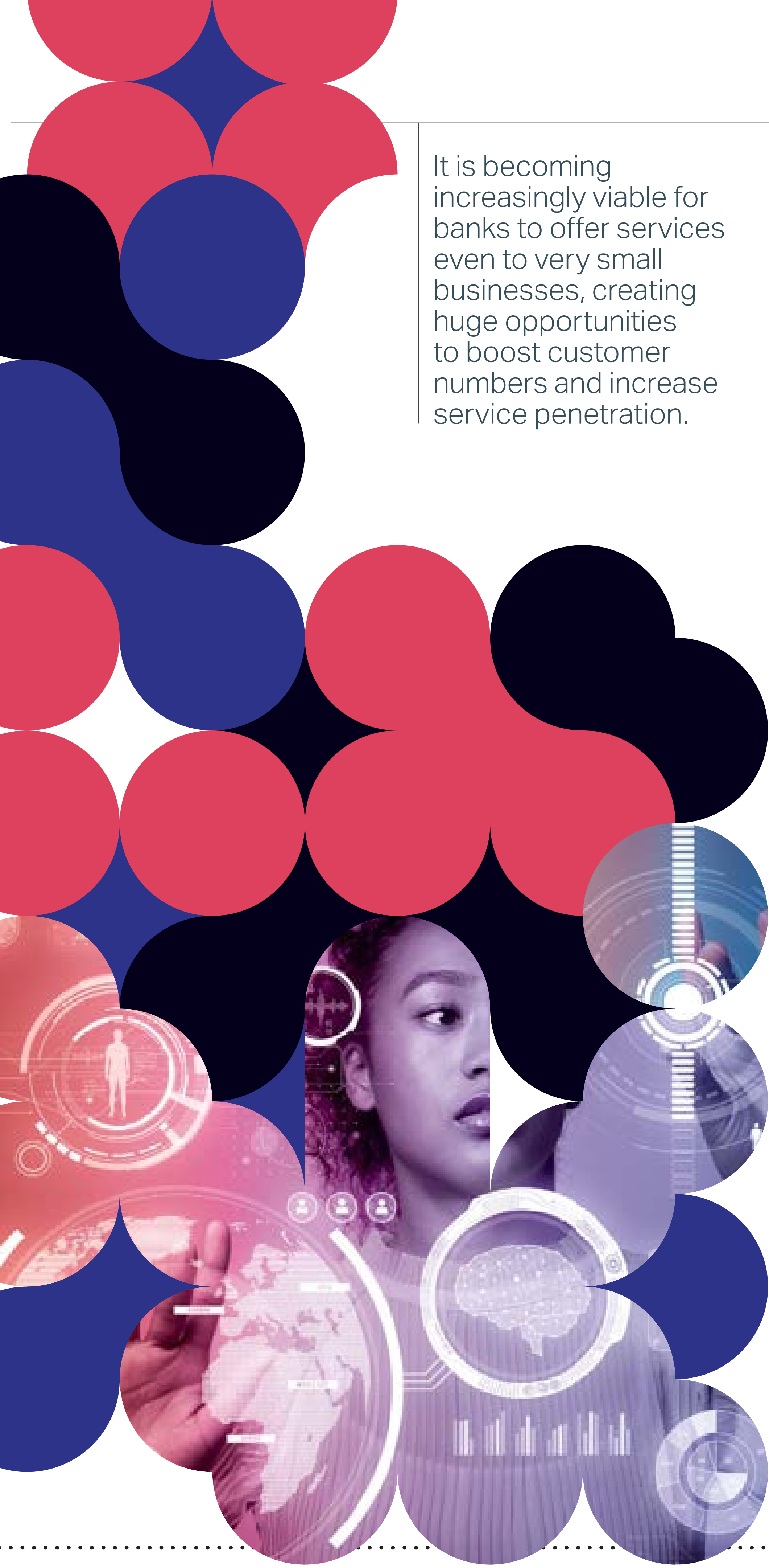
Case studies

SME apps can be built far more quickly than many realise and omni-channel platforms allow customers to switch between devices, such as between a mobile and a laptop, for both onboarding and service use.

For instance, Backbase helped Mauritius Commercial Bank develop its Juice-Pro app in just six months. It is available for mobile, internet, in-branch and self-service kiosk use, providing transaction history, account overviews, payments and transfers, OTP authentication and account management. Customers sign in on average every two days.

East Africa's Commercial Bank of Africa has rolled out its omni-channel services for SMEs in order to promote financial inclusion. It employed big data and machine learning specialist Strands to develop its solutions.

Clifford Odhiambo, CBA's Executive



It is becoming increasingly viable for banks to offer services even to very small businesses, creating huge opportunities to boost customer numbers and increase service penetration.

Business Support Manager, said: "One of the things we realised initially was, as a bank, in our 54 year history, we were more inclined towards being a corporate bank, with a bias to serving high net worth individual's than the mass retail or small businesses market. Over time, we realised that there was an opportunity around having inclusion across a wide spectrum of the market, if we could basically leverage our technology, people and partner capabilities."

CBA operates in Kenya, Tanzania and Uganda but plans to expand into another 13 markets over the next decade.

Recent SME banking start-ups include Nigeria's Prospa, which raised $3.8m in an oversubscribed pre-seed round in September 2021 after reporting 35% month-on-month growth in users. In addition to banking services, its SME solution provides tools for invoicing, e-commerce, inventory management, payroll, and employee and vendor management. It describes its product as 10% banking and 90% software. The entry of a wide range of different players into the sector should help to drive down costs and drive up innovation.

Companies are also investing in African services from outside the continent. Last year, the UK's dopay secured a bank licence to offer its payment and banking platform to SMEs and larger companies in Egypt. The service is designed to allow SMEs to encourage their employees and freelance workers to use digital banking by enabling employers to open dopay accounts for workers using only their name, mobile number and a copy of their ID.

Some banks have decided to offer wider support to SMEs, which will both benefit the small businesses and also profit the bank by encouraging greater use of their services. For instance, Pan-African Ecobank has launched its Ellevate Programme to support female-led businesses, mainly SMEs.

Although a third of African SMEs are owned by women, structural and cultural barriers prevent women from expanding their businesses. Ellevate provides mentoring, financial support, general advice and networking opportunities. The cash management solutions on offer include digital solutions to allow cashless transactions, such as Ecobank's Omni Lite online banking and EcobankPay digital payments. Cashless solutions have proved invaluable during the Covid-19 pandemic.

In a recent report, McKinsey analysts said: "Digital and new technologies create an opportunity for SMEs to enhance their reach and efficiency at lower costs, overcoming the scale disadvantage they have relative to larger players. SMEs can focus on key areas of competitiveness in their value chain, product, and/or operations and identify the best technology levers to enhance competitiveness."

To find out more about digital transformation in the SME sector we spoke to **Abdoulaye Diallo**, Head of SME and Corporate Banking at Vista Bank Guinea, and **Owureku Asare**, Ecobank Group Head for Digital Solutions.

Vista Bank Guinea: speeding up the transformation

When Vista Bank took over FI Bank in Guinea, it quickly set out to digitalise most products but this process was accelerated by Covid-19. The pandemic prompted the redesign of its digital strategy for all customers but particularly for SME clients. "Basically, with the Covid-19 crisis, we had to think up innovative ways to better serve our customers without them having to come into our branches." said Abdoulaye Diallo, Head of SME and Corporate Banking at Vista Bank Guinea. Vista Group helped SMEs through the development of e-commerce services, online payments and mobile banking.

Vista Bank Guinea is part of Vista Bank Group, which also has subsidiaries in Sierra Leone, Gambia and Burkina Faso, and which aims to create a Pan-African financial group that promotes financial inclusion, so supporting SMEs is naturally part of this strategy. About 25% of the bank's SME customers currently engage online but Diallo is confident that this figure will come close to 60% within the next two years, including as a result of training programmes reducing the cost of banking services and speeding up financing procedures for SMEs.

The training programmes are designed to help small businesses digitalise and automate their internal processes. "Most SMEs are still informal here in Guinea and I'm sure that is the same thing in Africa in general. What we are doing in order for us to change that, we are putting in place training in our next programmes", he said.

Many of the SMEs that use Vista Bank do not appear among the ranks of its SME customers. "They hide as retail customers in order avoid paying SMEs charges or SME fees at the bank. It's cheaper for them to stay as retail customers than become SME ones", noted Diallo. The high cost of internet access and setting up technological systems also deters SMEs from utilising digital products, as does cultural attachment to using cash. "There are a lot of money handling businesses. They have to change that culture in order for them to start using more and more digital services", said Diallo.

About 25% of the bank's SME customers currently engage online but Diallo is confident that this figure will come close to 60% within the next two years.

Vista Bank is committed to using digital platforms to reduce loan application costs and speed up the process. Analytics and databases can help improve its analysis of loan scoring according to the risk criteria already used by the bank. "We also noted that the decision to decentralise credit decision making sped up the process as well as providing pertinent information about SME clients to relationship managers", commented Diallo. SME customers are now able to apply for loans digitally without visiting a branch. "Once the loan is granted, customers just need to go to the nearest branch for all the physical signatures required and also to have access to the approved loan", he said.

Working with the telecoms sector

Prior to the pandemic, digital innovation was entirely the responsibility of Vista Bank's IT department. In response to the Covid-19 crisis, the bank created a dedicated digital department to focus on digital products innovation and it now works in partnership with mobile providers, such as the biggest network provider in Guinea, Orange.

"Orange Guinea have already developed a solution allowing its users to deposit money into an account associated with their mobile number to then access a range of services including domestic and international money transfer, bill payments and payment of air time", said Diallo.

About 80% of the Guinean population has access to mobile phones, while Vista does not have branches in all parts of the country, particularly some rural areas, so working with Orange allowed it to increase its coverage. Vista Bank is now able to create a link between a customer's bank account and the account associated with a customer's mobile number.

Clients are now able to transfer money between their bank account and mobile account, and can withdraw money at any Orange shop. As a result, the bank now views the entry of mobile providers into the banking sector as an opportunity. Diallo wants to work with new players in the sector in order to see what innovations they can come up with between them in order to provide better services to customers.

Ecobank: helping to build SME businesses

Ecobank's considerable investments in digital channels since 2015 meant that its digital platforms were already in place prior to the Covid-19 pandemic, so it was able to maintain service provision digitally and through its call centres. At the same time, the bank upgraded its SME offerings during the crisis in order to help customers cope and speed up their adoption of digital services.

"SMEs have borne the brunt of the financial pressures caused by the Covid-19 pandemic, as they have had to contend with supply chain challenges, decline in turnover, revenue loss and operational challenges in 'getting back to normal'", noted Owureku Asare, Ecobank Group Head for Digital Solutions.

During the pandemic, the bank upgraded its Omni Lite internet banking platform to allow customers to perform all transactions online and launched the Omni Lite App for mobile use, as well as allowing digital onboarding.

In addition, it launched the Business Prepaid card to enable customers to fund or load value onto their business prepaid card using Omni Lite. "The Business Prepaid card brings about payment convenience to SMEs for instant business payments online as well as paying for goods and services with the card", said Asare.

The bank's onboarding costs have been significantly reduced by digital adoption, while payment processing times have also fallen through the use of digital channels. "One of the key benefits has also been the significant reduction in errors. Manual transaction instructions were susceptible to errors in processing whilst digitally submitted transactions have minimal opportunities for making errors", he said.

The results

The impact of these innovations has been reflected in the numbers using the bank's digital services. The number of merchants using Ecobank's point-of-sale terminals increased from 11,000 at the end of 2020 to 60,309 one year later. Over the same period, the number onboarding via its touchless platform, EcobankPay, grew from 240,000 to 373,000, while the total value of BankCollect transactions increased by 97% to $3.38 bn.

The value of Omni Lite transactions grew to $3.3bn for the nine months to the end of September 2021, up 74% on the same period in 2020. This outperformed the rise in digital transaction values across the entire group, which increased by 52% year-on-year to the end of September 2021 to $42bn. SMEs account for 60% of Ecobank's Commercial Banking operations, which are one of its three banking divisions.

Africa has historically had a much lower number of bank branches per capita, as well as lower levels of financial inclusion, than the global average. Rural areas on the continent are also behind the curve in digital adoption.

Yet Asare noted: "Our belief and expectation is that the shift to digital by our customers represents a permanent behavioural change… Digitalisation is a journey for Africa, and it's happening at a rapidly accelerating rate."

New initiatives

Ecobank Marketplace eCommerce was launched to enable sole traders and MSMEs to identify new customers through online marketplaces, while receiving instant and secure online payments on marketplaces such as Flutterwave, DPO and iPay. It also offers its customers a free online presence through the Google My Business Platform, which includes a free website that provides verifiable business information and EcobankPay QR capability to enable customers to make instant payments to merchants.

The Ecobank Academy has partnered with Microsoft and GitHub LinkedIn on the Global Skilling Initiative to offer online training to more than 50,000 SMEs in areas such as digital marketing, sales, financial analysis and IT help desks. "Just before the onset of the Covid-19 pandemic, we launched Ellevate to meet the financial needs of the underserved women-owned/led/focused business sector", noted Asare. The programme offers mentoring and networking opportunities, as well as smart cash solutions and leadership and accelerator training.

As with other banks interviewed for this report, Ecobank views both telecoms and fintech companies as potential partners, partly because telecoms is an integral component of its digital strategy.

"The marketing and distribution of our mobile banking solutions and ecosystem has been enabled by our strategic partnerships with the likes of Airtel and MTN", said Asare. By partnering with fintechs, it can provide innovative solutions, functionalities and services to its customers, he added. The bank has launched its pan-African Ecobank Banking Sandbox, which enables African fintechs to access Ecobank's APIs to develop innovative solutions and quickly integrate payments into their platforms.

The bank upgraded its SME offerings during the crisis in order to help customers cope and speed up their adoption of digital services.

Standard Bank: Huge benefits from digital transformation

Backbase is helping Standard Bank Group develop new platforms to expand the range of its business across several African countries. The bank has recorded huge benefits from its digital transition, including customer acquisition costs that are up to eight times lower than previously. Customers can now onboard by filling in a simple form, taking a selfie and uploading a photo of an ID document.

Standard Bank has also started to scale its digital lending capabilities to avoid customers going through a long process at a bank branch, with 50-60% of bank lending in South Africa now completed digitally. Ever more complex business loans are also being gradually moved on to digital platforms.

Changing operating models

Standard Bank's Head of Digital and eCommerce for Consumer and High Net Worth, Andrew van der Hoven, said that costs usually get out of control when you build from scratch but these can be mitigated by using common scalable platforms and methods that can be adapted to local needs.

In working with Backbase, Standard Bank has therefore aimed to share as much as possible between teams to reduce costs and increase the speed of delivery.

They have had to change their operating models to cope with the new speed of operating, while shifting from a supply mindset to a demand mindset, based on what customers want and need rather than focusing on what products are available.

"The real heart of it is: how can we use technology platforms and think of them not as just part of a technology set-up but actually as parts of our operating model and part of the way that we view the world?", said van der Hoven.

Belinda Rathogwa, Head of Digital and eCommerce for South Africa at Standard Bank, said that customer expectations of what a bank actually does have greatly increased because customers compare their experience with their bank with their interaction with all other digital platforms, not just other banks.

Moreover, the Covid pandemic has really triggered an increase in the number of customers interacting on digital platforms, so it is important to ensure that they still feel that they are getting a personal service.

Apart from frequency of interaction, quality is also vital to ensure that clients feel as if any interaction is relevant to them. "The more frequently we speak

with our clients, the greater the opportunity to produce solutions that serve them", said Rathogwa.

Angola

Standard Bank noted that use of its previous digital services in Angola had been falling, while low levels of internet and smartphone access in the country restricted the size of the potential market.

As a result, it began work with Backbase on building a new internet and mobile banking platform in early 2020. Work was still ongoing when the pandemic struck but the bank continued to engage with clients on the development of its new digital solutions. As a result of continued engagement, uptake of the bank's digital offerings has jumped following completion of the new platform.

Claudia Viana, Standard Bank's Head of Consumer and High Net Worth for Angola, noted that the bank's number of digital customers in Angola had increased by 16% in 2021 in comparison with the previous year, partly as a result of the pandemic but also because of the new services.

This demonstrated that making a success of the digital transition is not just a case of creating any digital platform; it needs to be the right one for the intended market.

She said that they want to be more than a bank but cannot do this by themselves, adding: "We need to change from a product mindset to a client mindset; if we don't engage, we don't have any insight".

Kenya

Backbase has worked with Stanbic Bank Kenya, part of the Standard Bank group to provide future ready digital services to their clients in the Consumer and High Net Worth segment. They have launched a new omnichannel platform and banking app leveraging the Backbase Engagement Banking Platform.

Victor Odada, Head of Digital Banking and eCommerce at Stanbic Bank Kenya, said: "The Backbase solution not only allows us to provide an omnipresent solution but allows us to be ready for the future, to be able to offer a modular roll-out approach." Kenyan fintechs and banks are looking to the potential of open banking, which has already been mandated by the government and which should be available by 2025.

Kenya is a digital first market, with a very aggressive and forward-looking fintech space, so innovation and high service levels are necessary to succeed.

Stanbic Bank is now future ready with the right technology, processes and the right ecosystem of partner that will enable to compete in the market by providing best in class customer experiences, said Odada.

BIAT: Pioneers in banking innovation

Tunisia's largest private sector bank, Banque Internationale Arabe de Tunisie (BIAT), has launched a new mobile app and web offer to increase digital uptake by improving customer engagement.

It has selected out-of-the-box banking features from the Backbase Engagement Banking Platform to offer frictionless user experience while enhancing operational efficiency.

A Tunis-based IT services company, Value Digital Services, was instrumental in setting up BIAT's digital factory to drive the implementation of the Backbase Engagement Banking platform.

"BIAT now has strong foundations to become a digital banking leader in Tunisia with the digital factory being the epicenter for innovation. The bank can now continue ongoing development leveraging the Backbase Engagement Platform with the support of Value Digital Services," said Slim Besbes, Head of Digital Factory at Value Digital Services.

Matthijs Eijpe, Regional Vice President for EMEA at Backbase, who was involved in the project from its outset, added: "BIAT has been at the forefront of banking innovation in Tunisia, and with the launch of their new retail offer, their customers will benefit from a frictionless user experience giving them more autonomy, saving time while facilitating communication with the bank and managing daily operations digitally."

What are the skills and capabilities needed to support the digital transformation?

Even where banks are convinced of the need to switch the focus of their operations to digital platforms, their strategies do not exist in a vacuum but require a wide range of supporting infrastructure and skills.

In broad terms, there are four main obstacles to potential customers accessing digital bank services: (1) banks' ability to provide such services; (2) the creation of a supporting regulatory environment; (3) the financial ability of individuals to afford mobile phones or other devices, for internet access and any banking charges; and (4) psychological and educational barriers to using such services – mainly because they are something new, customers fear they are not sufficiently secure and they do not have the necessary literacy, financial knowledge or technical understanding to make use of them.

Responsibility for providing digital services lies almost entirely in the hands of the banks themselves and is the subject of most of the rest of this report, so needs little comment here. However, it would be useful to add something on the creation of a workforce with the necessary skills. Banks need access to the required technical skills, either in-house or from third parties, in order to build, maintain, operate and upgrade digital platforms.

African banks train many of their own staff as demand increases, while external organisations also help to bring workers up to speed. For instance, US firm Andela aims to train 100,000 African software developers in their own countries, including for the banking sector, by 2024.

A 2021 World Bank investigation into demand for digital skills for the African banking sector and other industries – which covered five markets: Côte d'Ivoire, Kenya, Mozambique, Nigeria and Rwanda – found that there is already unmet demand for digital skills but that demand is set to surge over the coming decade.

Regulatory barriers

Banks are only able to provide such digital financial services if their national regulators allow them to do so. Central banks and other regulatory authorities therefore have a huge role to play in encouraging investment and service provision. They may fail to act because of inertia, because they are not persuaded of the need for change; because of the fear that unsound businesses and operating methods will disrupt otherwise stable or improving banking industries; or perhaps also in order to protect established operators.

Regulators have a challenging task

in striking a balance between ensuring the integrity and stability of the market, on the one hand, and encouraging innovation and competition, on the other. After years of steadily tightening bank regulations, Nigeria was the first African country to formulate open banking frameworks and last year introduced new regulations allowing data sharing across banking and payment ecosystems. Open banking allows the use of open application programming interfaces (APIs) that enable third party developers to build apps for a financial institution.

Digital banks could even overtake microfinance banks in the provision of banking services to the previously unbanked in Nigeria because they have no restrictions on their geographical reach, while the number of branches a microfinance bank can open are regulated. We gauge the illuminating views of central bank governors on the creation of an enabling regulatory framework in the following article.

Access to physical tech

There is less that banks can do about access to the physical technology needed to access banking services. They could offer access in bank branches, which negates many of the flexible benefits of digital banking but would at least introduce customers to services, helping to overcome psychological barriers.

More widely, mobile phone and internet access costs are falling, helping to encourage access. The number of smartphone connections has grown by an average of 28% a year in Sub-Saharan Africa since 2015 and smartphones now account for about half of all connections.

According to global telecoms industry association GSMA, mobile phone penetration in Sub-Saharan Africa is on course to increase from 74% of adults in 2018 to 85% by 2025, when two thirds of mobile phones on the continent are expected to be smartphones. Roughly 45% of all smartphones sold in Africa last year cost less than $100, as Chinese companies in particular market very low cost handsets in all African markets. However, the average smartphone still costs 45% of the average monthly wage in Sub-Saharan Africa, the highest proportion of any region.

The amount of data used by banking apps is very low, yet can still impact uptake because high data costs can deter people from buying smartphones. The average cost of a gigabyte of mobile data in Africa in 2020 was just over $5, in comparison with almost $7 in 2018, so prices are falling. This compares with an average price of $3.5/gig in the European Union.

However, there is huge variation in data costs in Africa, from $0.9/gig in Sudan up to $35/gig in Equatorial Guinea, which can deter smartphone purchase. However, it is even possible in some cases to access digital banking services using a basic, non-smart, phone. Kenya's Equity Bank allows customers to access digital services using only a thin Sim card overlaid on an existing mobile Sim card.

High digital penetration rates also require the creation of a retail banking culture. Digital platforms usually reduce bank costs, so banks can pass some of the savings on to users, allowing customers to transact in very small sums of local currency, helping them to manage what may be very irregular income and expenses. There is no need to cajole customers online because digital banking is simply easier for most transactions, so the technology will sell itself.

Customers can be encouraged to use digital platforms to complete as many transactions as possible but providing the option of face-to-face communication, perhaps through lower cost kiosks or even video calls when really required, could also ease the concerns of some customers. Relationship building can also help, such as via loyalty schemes, providing apps in a customer's own language and possibly even having a named contact within a bank, perhaps just for those customers who need to access a wider range of services.

Once customers discover how easy digital services are to use, the experience of other markets suggests that that vast majority will continue to use them.

Literacy challenges

Digital illiteracy is still a huge problem. Even in the UK, 11.9m people lack basic digital skills, nearly 7% of the population lacks internet access at home and 20% of adults are incapable of accessing online services. According to African Union data, the average literacy rate in Sub-Saharan Africa is 70%, in comparison with a global average of 90%.

It is difficult to secure concrete figures on digital literacy rates but the rate is generally considered to be closely tied to access to digital technology. The cheaper mobile phones and internet access becomes, the more people will be able to improve their own reading literacy and digital literacy, as well as becoming accustomed to using websites and apps. Once they are used to using digital platforms, it should be relatively straightforward for them to utilise banking apps.

In addition, some banks are now starting to specifically support those with more substantial obstacles to accessing services. For instance, South Africa's TymeBank, which is an exclusively digital bank with no branches, is directly targeting excluded groups. It charges no monthly fees, only transaction charges, and has designed its products for those less likely to use digital banking. As a result it has a high proportion of less educated users and an equal split between male and female customers.

Even with all these cultural, regulatory and financial barriers, the number of Africans with bank accounts is forecast to increase from 300m to 450m between 2018 and 2025, boosting the banked proportion of the adult African population from 35% to 50%. This is a vast new market of retail and SME customers that can be tapped by those banks prepared to put the work in.

Digital banking services are generally easy to use for anyone with experience of any type of online or mobile service, but there are still many people without such skills, either because of a distrust of such technology, or a lack of access to it, often on financial grounds.

Yet once customers discover how easy they are to use, the experience of other markets suggests that vast majority will continue to use them rather than continuing to visit their local branch, unless under exceptional circumstances.

In order to garner the views of those in charge of sector regulation, we spoke to **Johannes !Gawaxab**, Governor of Namibia's central bank, the Bank of Namibia.

Namibia's central bank advances smart regulations

In recent years, the number of electronic transactions has skyrocketed as increasing numbers of Namibians make use of both online and mobile platforms to access banking and payment services. Digital platforms are a preferred means of banking because of both convenience and the reduced cost of transactions, This has resulted in significant bank branch closures, according to Johannes !Gawaxab, Governor of Namibia's central bank, the Bank of Namibia.

In recent years, the Bank of Namibia has paid considerable attention to digital banking developments. Given the fast-changing banking and payments' landscape, and the strong drive towards technological advancements around the world, the Bank decided to include digital transformation in its strategic objectives, to help advance and modernise the financial sector and promote financial inclusion. It has set up the Innovation Hub and the Fintech Innovations Regulatory Framework to drive the digital agenda.

"We are mindful that the digital agenda in our financial system should be crafted through consultation with governments, commercial banks and the public. For this reason, our regulated entities are very much part of the journey, and we see our role as that of advancing smart regulations to enable the industry to innovate and advance digital transformation", noted !Gawaxab.

However, as policymakers, the Bank needs to ensure that the financial system remains stable and sound, while at the same time fostering innovation and promoting competition and trust, he added.

The Bank has drawn up the Namibian National Payment System Vision and Strategy 2025 to forecast how the payments industry, including commercial banks, will serve the financial services sector and broader economy and society. "Payment trends also have an impact on and contribute to the evolution of how banking is conducted. Continually modernising Namibia's payments ecosystem is crucial to ensuring that the country is aligned to international best practices and positions itself as a world-class National Payment System", he said.

The Covid-19 pandemic has highlighted the potential of open banking to provide easy access for consumers to credit. Namibia's Banking Institutions Act of 1998 currently prevents banking institutions from sharing client data with third parties without the authorisation of the Bank of Namibia. However, the Bank "is further looking into the open banking landscape to issue and provide the necessary regulatory guidance later in the year to the industry and public", said !Gawaxab.

Microfinance banks

At present, Namibia's legal framework does not make provision for microfinance banks but, if passed, proposed changes to the Banking Law will allow them to operate for the first time. The new policy has been prompted by low levels of access to finance and limited financial inclusion in the past in Namibia.

"It is therefore anticipated that microfinance banking institutions will go a long way in enhancing the financial inclusion objectives of the Bank", said !Gawaxab. As a result, the Bank would welcome innovative players to enter the market through the introduction of digital channels to provide much needed benefits to consumers, especially in the informal sector.

The Bank is currently assessing ways to improve financial inclusion through the use of its regulatory tools. However, the lack of network coverage, access to internet facilities and access to electricity in some remote areas could "be a major obstacle to providing digital banking services", said !Gawaxab.

Fintech

Non-profit thinktank the Centre for Financial Regulation and Inclusion (Cenfri), has helped the Bank of Namibia develop its inclusive Integrity Supervisory Framework, which sets out significant high-level concepts, principles and approaches that will guide the application of a risk-based supervisory for fintech innovations that are not already subject to the existing risk-based supervisory processes.

The regulatory framework provides a step-by-step analytical framework to identify whether an innovation qualifies as a fintech innovation followed by a phased approach to understand, evaluate and test the innovation before a regulatory decision is taken. "This framework is intended to underpin the Bank's work in ensuring the integrity of the financial sector as a whole without unnecessarily limiting the ability of fintechs to advance and support financial inclusion", said !Gawaxab.

Conclusions

This report has hopefully underlined the progress that is being made in promoting digital banking platforms and products in Africa, not only in terms of improving services for existing customers but in reaching out to the previously unbanked.

As a result, the continent is quickly approaching the point at which more people will have bank accounts than are left out. Investors have undoubtedly been attracted by the commercial potential on offer. Prior to the crisis, McKinsey rated the continent as the world's second most attractive market in terms of growth and profitability with banking revenues set to hit $129bn by 2023.

Digitisation has speeded up

Our report has confirmed some things that we already suspected, such as that the pandemic prompted banks to speed up their digitisation processes, with some implementing plans that they had not previously envisaged. Some discovered that banking apps can be built more quickly than they had previously realised.

As always, the Covid crisis triggered innovation and change. For their part, many existing bank customers had to access internet and mobile bank services for the first time, while some businesses were forced to offer digital payments for the first time, either in person to avoid using cash, or online. A number of banks encouraged them by suspending digital transaction charges for a period.

Of the 119 banks that took part in our survey, 94% said that the digital transformation was one of their top three priorities, with 60% describing it as the single most important factor. Just 8% reported that they were resistant to the process, with the vast majority open to change and no longer seeing their financial institutions as legacy banks. Banks are spending more on digital development than ever before, with the proportion of African banks relying on third party developers and platforms, including to help build their in-house capacities, more than tripling since our last survey.

More focus on front-end services

Some results from our survey were less expected. Almost all banks recognise the need for a comprehensive restructuring of their operations to base them around digital priorities. Yet the proportion of banks that view themselves as digital natives has fallen from 24% in our last survey to 11% this time, while the proportion identifying their digital strategies as front-end only has jumped from 16% to 38%.

This may be because the pressure for digitisation has increased knowledge of the costs involved in the process, creating more understanding of exactly what can be achieved in the short term. It will be interesting to see whether this shift in perceptions continues in our next survey.

Retail customers are main priority

Our survey revealed that retail customers continue to be the main priority in terms of digital investment, with fewer banks focusing on SME provision, yet most customers still do not use any digital services. Many businesses opt for standard retail bank accounts rather than dedicated SME services, in part at least put off by perceived high bank charges. As a result, the banks consulted for our survey report that the proportion of African SME customers who use digital platforms is even lower than for retail customers.

Yet during our more in-depth discussions with bank leaders, it became clear that some banks are putting a great deal of effort into their SME digital services and also into more general support for African small businesses. As a result, a failure to make proper provision of SME digital banking could not only see banks lose out on new customers but could also result in them losing valuable business customers to more digitally-savvy rivals.

Barriers to digital banking are falling

An increasing proportion of customers are demanding access to digital services, with customer demand and satisfaction cited by our survey participants as the main motivation for their digital transformation.

Yet many people are still prevented from accessing digital services by a wide range of obstacles, ranging from the price of mobile phones and other devices, and the high cost of internet access in most parts of Africa, to illiteracy, including digital illiteracy, and fear of the unknown.

The price of smartphones is falling quickly in Africa, which should encourage some to use mobile banking services for the first time but data costs remain stubbornly high in some markets. Overall, however, the number of barriers to digital banking is falling, so it would be no surprise to find significantly higher user numbers in our next survey.

BACKBASE