AFRICAN BANKER

The African Digital Banking Transformation Report 2023

Becoming an industry leader in the platform era

Backbase

Executive summary

The *African Digital Banking Report* is produced on an annual basis by *African Banker* magazine and banking technology developer Backbase. It analyses the latest developments in the African digital banking transformation, tracking the pace of change, bank priorities and the means by which banks are creating mobile app and internet banking capabilities.

We begin our report by looking at the current state of the market. The landscape of the African financial services sector is becoming increasingly complicated, with established banks joined by digital-first banks and fintech, with mobile money and agency banking providing other alternatives. This more competitive market gives customers growing options but the landscape is further complicated by cooperation between fintech and banks.

Legacy banks have an advantage in terms of their established reputations but can face higher costs in trying to digitise existing systems, while maintaining branch networks. We assess the pros and cons of the various players in the sector, while considering rising financial services' penetration rates and the growing range of digital services on offer.

There is scope for massive growth in the number of digital bank users, partly because about half of the population of Africa does not have a bank account, with this figure much higher in some markets. However, even most of those retail and SME customers that do have bank accounts still do not use mobile apps or bank internet platforms. Mobile phones account for about 75% of all online traffic in Africa, so it is unsurprising that more banks offer mobile banking apps than internet banking.

Much is made of growing competition from digital-first banks, although there are relatively few of them in Africa at present and these are concentrated in Nigeria and South Africa. However, more are likely to emerge over the next few years, while the adoption of the same fintech used by neobanks can comprehensively remodel those traditional banks prepared to think long term. It is therefore up to all banks to prepare themselves by providing the digital convenience and services that a growing proportion of customers are beginning to expect, and also to make inroads into the continent's huge pool of unbanked potential customers.

153

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COMPREHENSIVE SURVEY

The core of this report is a comprehensive survey that this year attracted the participation of a record 153 banks from all parts of the continent. As this is the third year that we have completed our survey, we have been able to track changing attitudes over time. This is vital as almost everyone in the industry agrees on the direction of travel; it is only the speed of the digital transformation that is in question. We present and analyse the results of our survey on pages 10-19.

The development of digital platforms by African banks is ongoing but progress is steady rather than revolutionary.

We have divided our survey results into three categories: the digital transformation, client-centric digital solutions and future growth strategies.

The overall conclusions are that the development of digital platforms by African banks is ongoing but progress is steady rather than revolutionary. Many are limiting their expenditure but an increasing proportion are seeking external expertise to plan and implement their digital strategies. Providing basic banking services remains the focus but a growing number are widening the range of their services, particularly with regard to digital lending.

ENGAGEMENT BANKING

One particular trend that we examine on page 20-21 of this year's report is engagement banking. Rather than fuelling isolation by replacing direct human interaction with anonymous digital services, engagement banking seeks to use digital technology to help build long term relationships between financial institutions and their customers by putting customer satisfaction at the heart of the process. Developing unified platforms with seamless user experiences helps to retain customers and create long term product loyalty.

In order to delve deeper into the motivation behind the digital transformation and the challenges that it poses, we have included two specific case studies in our report. On pages 22-23 we look at Mauritius Commercial Bank's decision to develop an SME app, both to benefit the underserved SME community but also to provide a platform that could subsequently be rolled out across all customer segments.

Standard Bank (see pages 24-25) recognised the disparate nature of its existing digital offerings and so decided to create a single platform that could be adapted for all segments and markets within which it operates. The executives behind the project explain how preparation is key.

Both examples highlight the benefits of recruiting external experience to help with digital development at the outset.

75%

Mobile phones account for about 75% of all online traffic in Africa, so it is unsurprising that more banks offer mobile banking apps than internet banking.

Digital technology and platforms are making the African banking sector increasingly dynamic and responsive to customer requirements. Even just a few years ago, the African banking sector was evolving relatively slowly, with the same banks dominating the same markets year after year, as evidenced by the African Business Top Banks survey among others. However, the rise of fintech, digital first banks, mobile money and agency banking is totally revolutionising the industry. Not only has it created a vast array of new players in the sector but the technology on offer has forced traditional banks to change the ways that they do business and engage with their customers.

Even just a few years ago, while many established banks were integrating digital technology into their operations, some others saw no reason to fundamentally change their approach and were content to continue to rely on their physical bank networks to maintain their market standing. That attitude is dying out if it is not dead already. Most banks on the continent now offer mobile and internet banking services to their customers, at the very least to enable balances to be checked, transfers made and bills paid.

State of the market

Yet this is only the start of the journey, as legacy banks face unprecedented competitive pressure from fintech, mobile money providers and digital only banks, often known as neobanks. Most of the new players benefit from building digital technology into their foundations from the very start. They do not therefore have the expense of converting existing systems, nor of maintaining expensive branch networks. On the other hand, they must build the banking reputations that traditional banks already possess.

Mobile money involves paying bills or people via any type of mobile phone. According to the Global System for Mobile Communications Association (GSMA), 157 of the world's 310 mobile money services in 2021 were in Sub-Saharan Africa. Moreover, Africa had a US$495bn share of the US$767bn handled by mobile money worldwide in 2020. **Exhibit 1 demonstrates how the continent leads the rest of the world in the sector.** Given that mobile money providers habituate people to using remote financial services, it seems likely that many users could be attracted to using mobile banking apps but it will be interesting to see how the two models compete over the next few years.

Fintech is the financial technology used to speed up, automate and otherwise improve the delivery and consumption of financial services, principally through new software and algorithms. Fintech is disrupting established financial services' markets and is used by traditional banks and other financial institutions but has become a sector in its own right, with start-ups offering new products across the world, either directly to customers or via other providers. Centres of African fintech innovation have emerged in South Africa, Kenya, Nigeria and Ghana, in particular, with fintech now the fastest growing start-up activity on the continent.

The hundreds of African fintech start-ups include an increasing number of unicorns –start-ups with a valuation of more than US$1bn, such as Flutterwave, Interswitch, Jumia and Fawry. Flutterwave, for instance, was set up in 2016 to provide payment infrastructure across the continent through its API software. According to management consultants McKinsey, just under half of the 5,200 tech start-ups in Africa in 2021 were fintechs.

Digital banking benefits

The benefits of digital banking are clear. Accessing financial services via apps or websites allows customers to make transactions at a time and place most convenient for them. Even those banks with thousands of branches such as Access Bank in Nigeria or South Africa's Standard Bank, fail to cover their entire home markets, leaving many people in rural areas without a local bank. With digital banking, however, services can be provided across far wider areas, saving on branch and staff costs. As **Exhibit 2 demonstrates this can free up investment for business improvements.**

Developing, maintaining and improving digital platforms is not cheap but there are undoubted financial savings and improvements in operational efficiency from digitising back office operations by automating onboarding and credit applications, for example. This is applicable both for digital-only banks that have no physical branches and for established banks that can tighten the scale of their physical branch networks. McKinsey found that African banks currently have an average cost-to-asset ratio of 4-5%, about twice the global average, but greater adoption of digital banking could help drive that figure down.

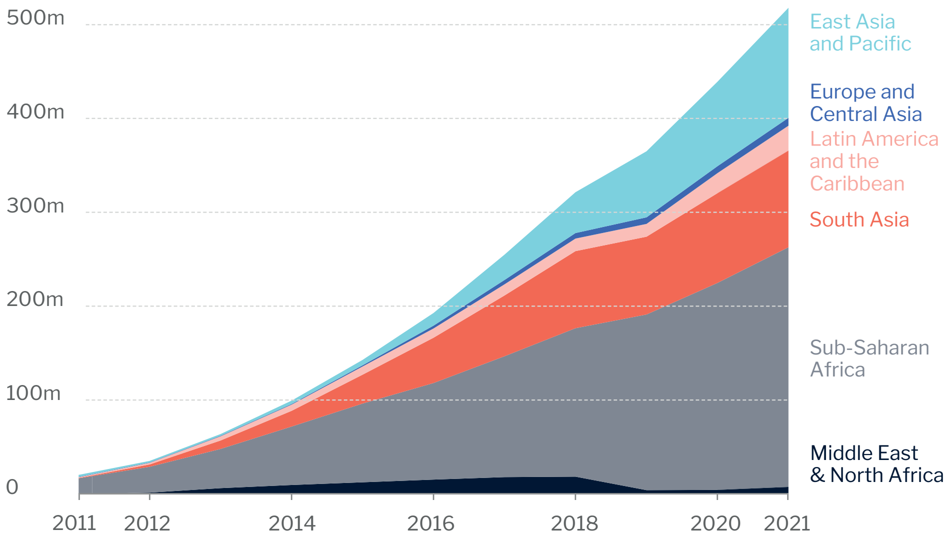
Digital-only banks are often perceived to operate more like tech start-ups than mainstream banks. They can use the huge volume of data produced by digital banking to identify exactly what users want and prioritise investment accordingly. There are also benefits for public finances, as in the long term digital banking should enable governments to increase their tax take by promoting traceability.

Established banks have certain advantages, including large customer bases, existing brand awareness and a high level of customer trust. However, many continue to work with legacy systems, making it difficult to integrate different functions and

Exhibit 1

Active mobile money accounts

The number of customer accounts that have been used to perform at least one mobile money payment during the last 90 days of each year.

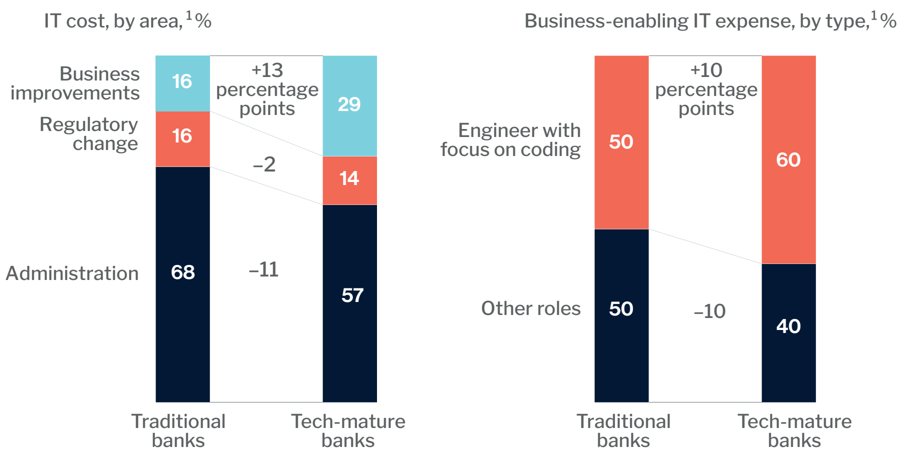


Source: GSMA (2022), OurWorldInData.org/technological-change • CC BY
Note: North America is not shown because mobile money accounts are not used across this region.

Legacy banks face unprecedented competitive pressure from fintech, mobile money providers and digital only banks.

Exhibit 2

Tech-mature African banks are investing more in business improvements and coding skills than traditional banks are



[1] Based on the Digital 2020 benchmarking of financial-sector players.
Source: McKinsey & Company

leaving them focusing on technological investment for its own sake rather than on customer experiences. Legacy operating models can slow down decision making and make accountability more difficult, while traditional banks often fail to take advantage of the valuable data they could be collecting.

The importance of physical branches is steadily falling and will continue to decrease over the next few years, so the size of branch networks is no longer an accurate reflection of bank sizes. Transactions should increasingly be left to digital platforms but physical bank hubs can be retained that focus on providing advice and hosting sales.

Nevertheless, physical networks remain important for the foreseeable future given the current extent of digital exclusion in much of Africa. Even in the longer term, legacy banks need to be careful to bring customers with them on the digital transformation, by providing support and retaining some face-to-face contact where it is most needed.

One of the downsides of digital banking is that it can appear rather impersonal. Ease of use may bring customers to digital banking but relationships help retain their business and allow further financial services to be marketed to them. Engagement banking is an emerging approach that involves placing customers at the heart of their strategies by providing single, unified digital platforms rather than separate siloed channels. We discuss engagement banking implementation on pages 20-21 and client-centric digital solutions in the second part of our survey analysis on pages 14-15.

Rising penetration rates

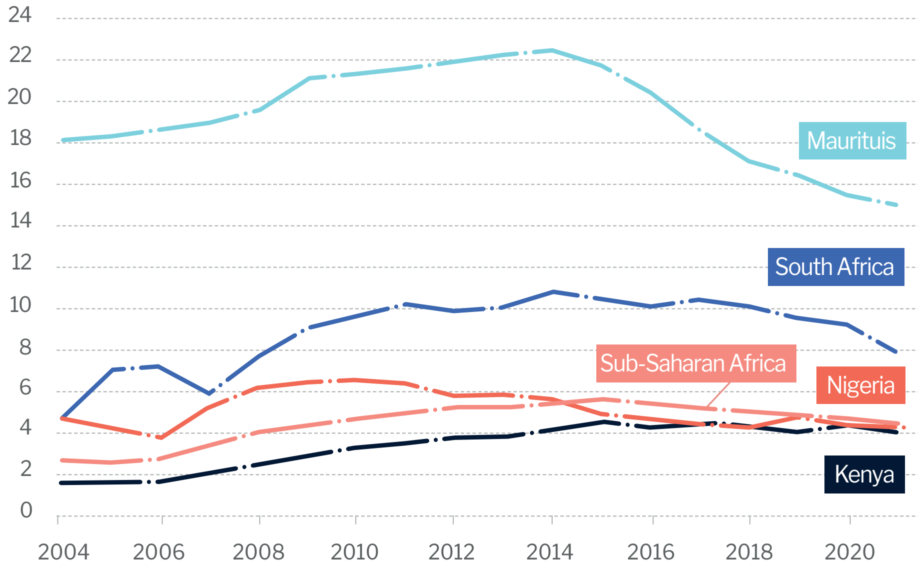
The cost savings of digital platforms make it more commercially viable for banks to target an ever-growing proportion of the population. In the bad old days, many African banks focused on large companies and high net worth individuals, with some requiring US$1,000 opening balances. This meant that they were less effective in supporting economic development and excluded lower paid employees, informal workers and SMEs from financial services. As the current technological revolution has attracted more customers into the sector, even traditional banks have woken up to the long term benefits of having a far larger customer base. Scaling their technology to reach more people is cheap in comparison with the costs of building platforms in the first place.

The Covid-19 pandemic and associated lockdown restrictions helped drive more customers on to online and mobile platforms, many for the first time. In many cases customers had no choice because of branch closures but some banks supported the trend by suspending digital transaction charges, thereby encouraging customers to see how easy digital products were to use. In 2022, 69% of African banks told us that they had increased the pace of digital

Exhibit 3

Commercial bank branches (per 100,000 adults) Sub-Saharan Africa, South Africa, Nigeria, Kenya, Mauritius

International Monetary Fund, Financial Access Survey.

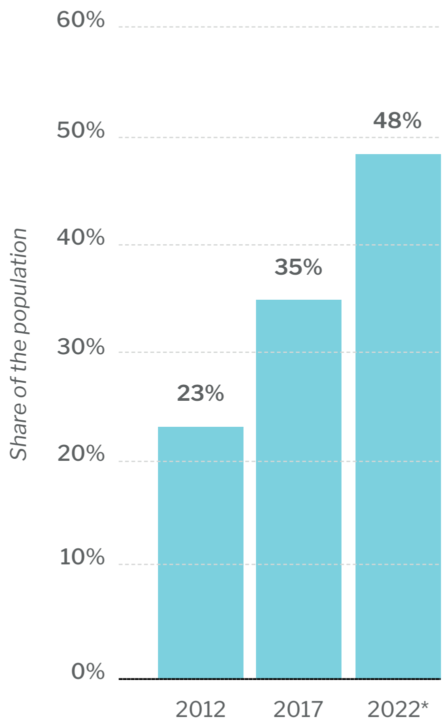


90%

Cash is still used in about 90% of financial transactions in Africa, with electronic or digital channels accounting for just 5-7%.

Exhibit 4

Share of the population with access to banking in Africa from 2012 to 2022



Source: Statista 2022

banking development as a result of the pandemic, while another 18% said that the crisis had forced them to implement plans that they had not previously expected to introduce at all.

The crisis demonstrated just how quickly such measures can be designed, developed and implemented in a short space of time. However, there is no doubt that the pandemic also gave African banks an opportunity to reconsider the long term spread and balance of their digital and physical assets. The sector has recovered over the past two years and African bank revenues are now higher than before the pandemic, although return on equity in most markets is slightly lower than before the crisis.

As Exhibit 4 reveals, banking penetration rates have increased, in large part because of mobile money and digital banking, but roughly 50% of the continent's population is still unbanked and there is certainty plenty of scope for growth in the sector. McKinsey predicted in 2022 that the African financial services market could grow by 10% a year over the subsequent few years, generating revenues of US$230bn a year by 2025.

Cash is still used in about 90% of financial transactions in Africa, with electronic or digital channels accounting for just 5-7% [McKinsey: 30.8.22], while McKinsey found that 20-30% of African bank customers use digital banking, in comparison with about 50% in Asia and Latin America.

However, a new generation of mainly urban, middle class customers is emerging who expect to carry out more of their interactions online. As might be expected, younger people are adopting digital technology more readily than their parents' and grandparents' generations, so the uptake of digital banking services looks set to grow for decades to come. Moreover, limited card payment infrastructure and low use of point-of-sale networks encourage the use of digital banking.

Digital banking penetration is not just a product of the availability of digital platforms but of the ability of potential customers to access them, particularly via mobile phones given that mobiles dominate online access in Africa. Figures vary but mobile phones account for about 75% of all online traffic in Africa. As a result, bank digital platforms are generally designed with mobile apps in mind, although it is important that customers can seamlessly switch between devices.

The obstacles to accessing digital services are now mainly technological in the form of mobile handset purchase prices and data charges. According to the World Wide Web Foundation, average mobile internet costs were 5.8% of average income in Africa in 2021, making it the most expensive region. However, the average cost of 1 GB on the continent fell by a third between 2018 and 2021, with similar falls in the price of smartphones, so the proportion of people with the potential to access mobile banking should continue to increase.

The cost savings of digital platforms make it more commercially viable for banks to target an ever-growing proportion of the population.

Varied markets

According to Boston Consulting Group (BCG), Kenya and Ghana have been particularly quick to adopt digital payments. It is perhaps not surprising that Kenya has the highest uptake of digital finance on the continent, as the country is well established as a centre of financial services and technological innovation.

It was here that the M-Pesa mobile money system was launched by Safaricom and Vodafone in 2007, with mobile wallet transactions equivalent to 87% of Kenyan GDP in 2021. The country now has one of the highest levels of fintech penetration in the world, driving access to banking services from 26% of the population in 2006 to 83% by 2021 [*Harvard Business Review*: 18.2.21].

The South African market poses a rather different challenge, as 84% of the population had access to traditional banking services in 2021, leaving digital banking with a rather different challenge. Rather than entirely focusing on banking the unbanked, digital banks such as Bank Zero, Discovery Bank and Tyme Bank, must also demonstrate the advantages of their services over physical bank branches and ATMs.

However, a recent report by BCG found that 60% of South African customers would be comfortable using a completely digital bank and 80% would prefer to carry out their day-to-day banking digitally. BCG managing director Frederic Boutet said: “There is a space for both incumbents and challengers. Incumbents are able to leverage data from a vast, stable customer base to better understand and meet customer needs. Challengers are agile and able to develop tailored digital propositions for specific customer journeys.”

As Exhibit 5 demonstrates, for day-to-day banking, BCG also found that a massive 86% of South Africans prefer to use mobile banking apps and internet banking, in comparison with just 7% who favour visiting their branch.

Digitalisation of banking services has huge potential across the full range of African economies. According to the World Bank, 70% of adult Somalis regularly use mobile money services, partly because the vast majority of bank notes in circulation in the country are counterfeit. Overall, however, countries with more stable economies and governments have made more progress on developing mobile money and digital banking services than more fragile nations, such as the francophone states of the Sahel.

Services on offer

The development of the digital banking sector is closely following that of mobile telecoms, so it is perhaps no surprise that so many telecoms companies have now expanded into financial services. During the first part of the African telecoms boom, service providers focused on attracting as many users as possible, creating the pay-as-you-go payment model in Africa to overcome billing and payment challenges. However, they are now seeking to increase their average revenue per user (ARPU) rates, by generating more income from each customer through the provision of additional services.

Digital banking appears to be embarking on a similar strategy, although with a lot of overlap between the two approaches. Many new African banks are seeking to attract as many customers as possible by offering online onboarding, balance checking, money transfers and payment options. Yet we are already seeing a large proportion focus heavily on expanding the range of services by offering loans, insurance and even investment products.

There are several reasons why digital banks have embarked on phase two more quickly than their telecoms counterparts, not least because the technology allows them to do so. Mobile internet access was in its infancy in Africa 20 years ago, so could have been a focus of mobile marketing strategies.

However, secondly and perhaps most importantly, digital platforms provide banks with huge amounts of data on their customers that allows them to tailor credit offerings to the individual and to make lending decisions in minutes in some cases. This twin track approach is therefore likely to continue for the foreseeable future, with lower mobile device and data costs driving up digital banking penetration rates, while banks also refine the provision of additional services.

McKinsey advises African banks wanting to develop their digital channels to focus on four areas: developing superior technical capabilities and functionalities for their digital channels; developing frictionless registration and recovery processes; driving awareness of digital channel benefits through effective campaigns tailored to specific microsegments of customers; and adopting a pervasive approach to customer education and support across digital channels, such as through real time webchat support. It found that many banks in emerging markets focus excessively on the first of these areas – on their capabilities at the early stage of their digital development journey, while underestimating their competitive position.

Cross-border integration

National barriers to digital banking can still prevent a platform developed for use in one market from being rolled out in others without needing to start from the beginning in terms of clearing national regulatory hurdles. Cross-border banking harmonisation will obviously be a long process but some progress in the sector has already been made on the gradual implementation of the African Continental Free Trade Agreement, particularly through the creation of the Pan-African Payment and Settlement System (PAPSS).

However, while Europe’s Single Euro Payments Area (SEPA) requires payments system providers to participate, PAPSS is currently based on voluntary participation.

Some bank regulators seem more culturally restrained than others and there appears to be a particular problem with financial conservatism in francophone Africa. **For instance, the map in Exhibit 6 shows how Anglophone countries are leading the way in considering the introduction of central bank digital currencies.**

However, an increasing number of digital banks are breaking out of their host regions to launch operations in other parts of the continent. For instance, Nigerian bank Umba launched in Kenya at the start of 2023 after taking a majority stake in Kenya’s Daraja Microfinance Bank. Individual and SME users benefit from a no fee current account, payments services and savings accounts, while Umba – which is backed by fintech investors such as Costanoa Ventures – uses the data collected to offer credit products. However, the fact that digital banks so often opt to enter a new market by buying equity in an existing licensed bank, rather than by seeking their own licences, highlights the barriers to expansion that exist.

It would therefore be easy to portray the regulators as the villains of the piece – solely as obstacles that have to be overcome. Yet in all the excitement over digital banking, it is easy to overlook the damage that can be inflicted if confidence in the banking sector is shaken. The Central Bank of Nigeria had to work for many years to improve public perception of that market’s financial services companies, increasing minimum capital adequacy ratios and cajoling banks into a period of mergers and acquisitions. Such progress is hard won and easily lost. A loss of customer confidence in digital platforms would have a huge impact, so some caution is required.

However, that caution should be targeted at supporting the creation of strong, well capitalised, soundly governed banks and avoiding the emergence of a frontier, anything-goes culture. Yet it should not prevent the uptake of new methods that have been trialled and tested in other markets. Regulation is important to maintain confidence but it is vital that it does not stymie innovation.

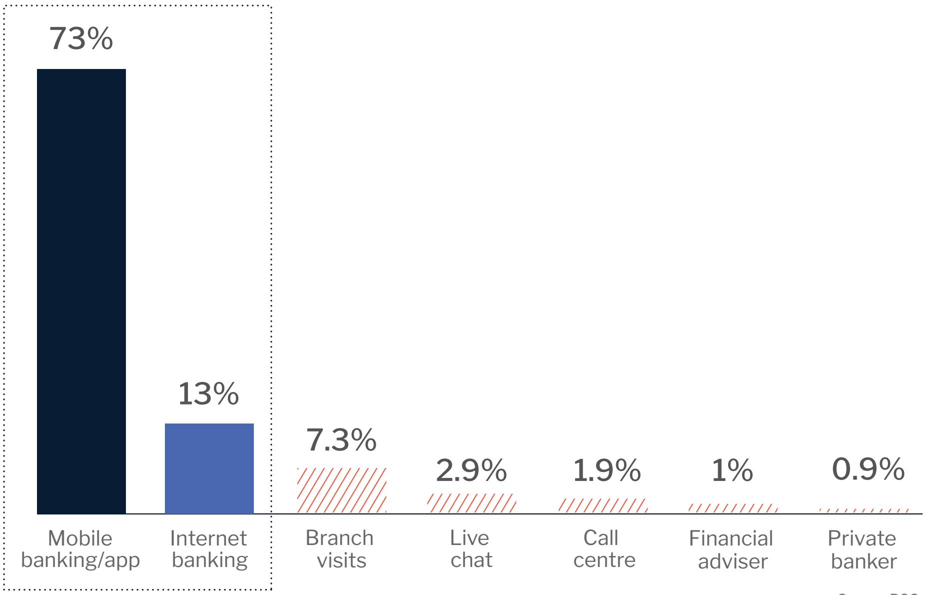
These issues will come to the fore in the rest of our report, the centrepiece of which is our annual survey starting on page 10, which is now into its third year. Analysing the direct digitalisation experience of African banks, we look first at the place of the digital transformation in bank strategies before focusing on customer uptake.

Finally, we discuss the results of our survey questions on future growth strategy to gain a perspective on longer term bank ambitions.

In addition to this quantitative analysis, on pages 22-25 we examine two Backbase projects in Africa to see how the continent’s banks can benefit from working with international partners that have experience of working in a wide range of African markets.

Exhibit 5

What is your preferred channel to perform day-to-day banking? (South Africa)



Source: BCG

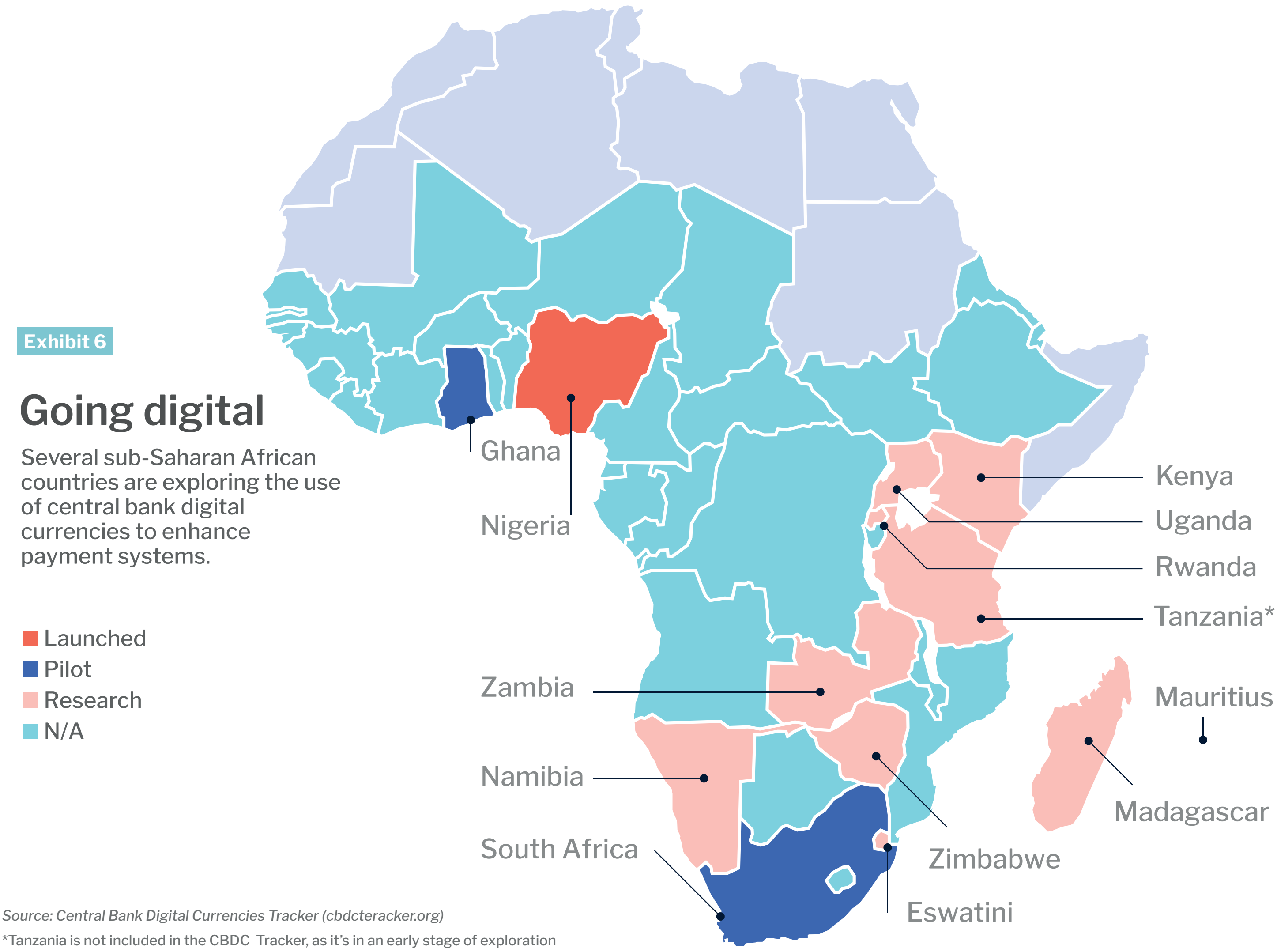
86%

86% of South Africans prefer to use mobile banking apps and internet banking, in comparison with just 7% who favour visiting their branch.

Exhibit 6

Going digital

Several sub-Saharan African countries are exploring the use of central bank digital currencies to enhance payment systems.



Source: Central Bank Digital Currencies Tracker (cbdcteracker.org)

*Tanzania is not included in the CBDC Tracker, as it's in an early stage of exploration

Survey analysis: Digital transformation

To gain a full picture of the digital banking revolution across the African continent, we conducted a survey of African banks of all sizes. The collated results are presented on the pages that follow. As this is the third year that we have completed our survey, we have also been able to track changing attitudes, priorities and developments over time. This would be useful at any stage given how fast the industry is moving but is particularly interesting given the impact of the Covid-19 pandemic on digital banking development.

A total of 153 banks took part in this year's survey, more than ever before. We asked for senior executives to complete the survey on behalf of their respective banks and our participants duly obliged. Indeed, chief executives, managing directors and chairs accounted for 18.3% of respondents, with directors and vice presidents making up another 17%. 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.

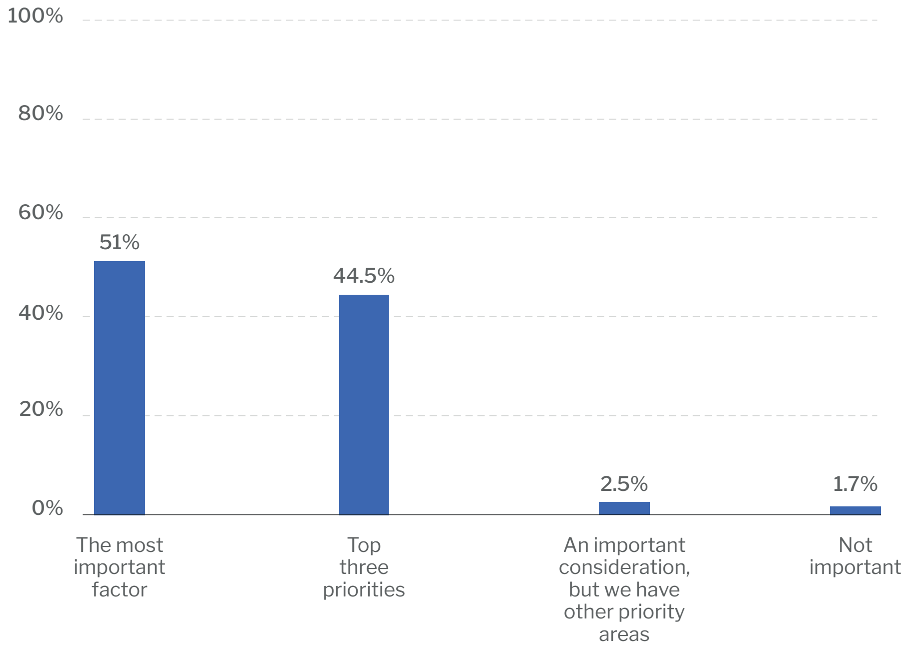
Unsurprisingly, given that it is by far the most populous African state, Nigeria led the way with 22% of respondents, followed by Egypt with 10% and Kenya 9%. Ethiopia provided 7%, which was particularly useful given that that country's banking industry is in the process of being opened up to greater competition and foreign investment. In total, 33 countries were represented, which again is a record. Just 2.6% came from South Africa, although this is largely because that country's banking sector is dominated by a small number of very large banks.

An obvious place to start our survey is to consider how important African banks believe digital transformation to be for their growth strategies, **see Exhibit 7**. The proportion ranking it as the most important factor or at least one of their top three priorities has remained fairly static over our three surveys, with a combined 96% this year, in comparison with 97% in 2021.

Exhibit 7

How important is digital transformation for your bank's growth strategy? (2023)

% of respondents



It is clear that most African banks understand the importance of the technology.

It might be supposed that traditional African banks are embracing digital technology because of a fear of being left behind... but this is far from the truth.

4%

It is clear that most African banks understand the importance of the technology, with just 4% considering it just one element among many or not at all important.

It is clear that most African banks understand the importance of the technology, with just 4% considering it just one element among many or not at all important. Yet with just 51% regarding it as the most important factor, it is also apparent that many banks are not building their overall strategies around digital technology, so it will be interesting to see how this figure evolves over the next few years.

Considering digital transformation important in theory and actually putting the resources in place to actually achieve it are two very different things. Just 28% of our survey respondents said that their bank spent more than US$3m a year on digital transformation and innovation. Even taking into account the varied size of the continent's banks, this does not seem a very high figure, particularly given that 37% spent a similar amount last year. Moreover, the proportion ringfencing less than US$300,000 a year has increased from 21% in 2021 to 27% in this year's survey, **see Exhibit 8**.

However, another key indicator does suggest that African banks are attributing greater importance to digital banking. In 2022, digital spending and strategy was decided by the CEO, chair, managing director, a vice president or other director in just 15% of African banks. Yet this year that figure has jumped to 35%. The fact

Exhibit 8

What is your bank's annual budget for digital transformation and innovation? (budget in USD)

% of respondents

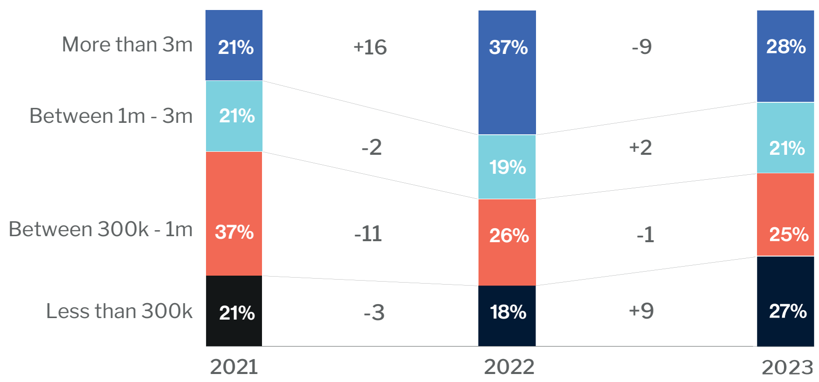
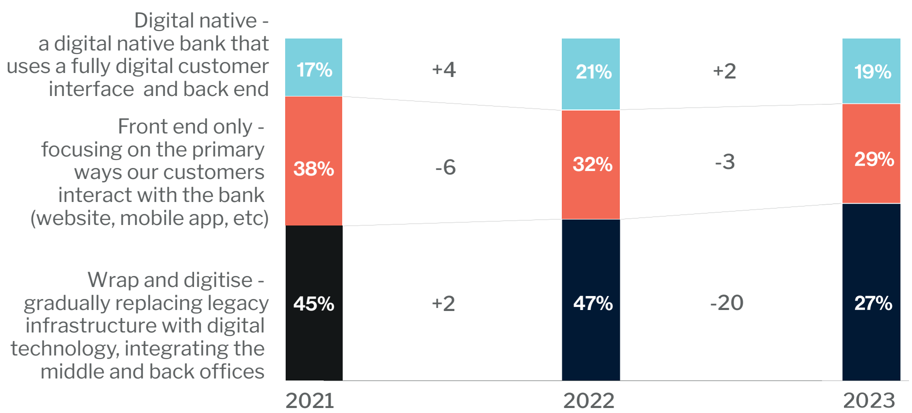


Exhibit 9

How would you define your bank's digital culture?

% of respondents



19%

The percentage identifying as digital natives stood at 19%, falling part way between the 24% and 11% we recorded in 2021 and 2022 respectively,

that responsibility is moving up the chain of command from management to executive level suggests that digital banking is in fact becoming a core strategic concern of more of the continent's financial institutions.

Identity can provide further insight into the importance of digital banking. We gave our participating 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.

As **Exhibit 9** reveals, the percentage identifying as digital natives stood at 19%, falling part way between the 24% and 11% we recorded in 2021 and 2022 respectively, while wrap and digitise stood at 52% this year, just 1% up on last year. Given that most of our survey participants do not represent digital-first banks, wrap and digitise seems to more aptly sum up the approach that most of them are taking in practice. This can still require comprehensive restructuring of their operations to base them around digital priorities. The big change was that those who described themselves as front end only fell from 38% to 29%, as the benefits of more profound change seem to have become apparent.

It might be supposed that traditional African banks are embracing digital technology because of a fear of being left behind by both their established competitors and neobanks but this is far from the truth. Our 2022 survey found that just 4% of banks cite such fears as the primary factor driving their digital transformation and this figure falls to 3% this year. In any case, neobanks only operate in a relatively small number of markets. According to figures from BPC Banking Technologies and Fincog, there were ten digital-first banks in Nigeria, seven in South Africa and only four in the rest of the continent at the end of 2021. By contrast, 35% cite customer demand and satisfaction as their main motivation this year, while another 24% cite a desire to increase profits and grow market share.

The desire to offer the convenience and ease of use demanded by more digitally-savvy customers must play a role in the focus on customer satisfaction, with fintech companies and new digital-first banks waiting in the wings if they fail. The strategies of another 38% of banks are being driven by a roughly equal combination of all three factors: customer demand, market factors and a fear of being left behind. The fact that digital transformation can boost profits while attracting new customers surely makes a revolution in the way banks operate inevitable.

Our chart below showing which digital services banks offer to their clients is fairly self explanatory. As might be expected, most offer mobile and internet access to bank services but it is worth highlighting the fact that 11% more banks offer mobile banking apps than internet banking, reflecting the dominance of mobile technology, not just in digital banking but in digital access in Africa as a whole. Most of the other specific services on offer have increased slightly in popularity over the past 12 years but there has been a big jump in the proportion of banks offering digital lending, up from 29% in our 2022 survey to 48% this year, **see Exhibit 10**.

Once banks have boosted their number of digital service users by offering account information, transfer capability and payment services, lending is the obvious next port of call. Credit applications can be completed and approved within minutes on digital platforms, greatly speeding up the process for customers and avoiding a great deal of labour for the bank. For customers without a convenient local branch, this could also be the only means of accessing finance, while – if vetting processes are more accurate – it also has the potential to feed through into lower interest charges for customers. Insurance and investment products can also be provided in the same way.

Perhaps surprisingly, our survey produced rather mixed results on the proportion of retail customers that use digital products. With every passing year, we should see a long term trend of increased penetration rates. Yet while the percentage of banks stating that more than three quarters of their customers use digital services has steadily increased from 10% to 17% since our 2021 survey, at the other end of the scale the proportion with less than a quarter of customers using digital platforms has also increased, from 17% to 26% over the same period.

The same pattern is apparent in the SME sector, with the proportion of banks where at least three quarters of customers use digital services increasing from 10% to 14% this year. This contrasts with a rise in the number of banks where fewer than a quarter of clients use them from 29% to 35%. Taken together, these figures could be the result of a rise in the number of banks taking part in our survey – and particularly of more established banks, but whatever the cause it seems clear that growth in the number of customers adopting digital platforms is steady rather than spectacular. This highlights the importance of banks making platforms as easy as possible to use and supporting customers to access new services as much as possible.

It is perhaps not surprising that digital uptake in the SME sector lags retail use slightly, given the very small size of most businesses. According to McKinsey, more than 95% of African SMEs are micro enterprises with fewer than ten employees, and more than 80% of these are informal or unregistered businesses. Many informal business owners could be reluctant to open bank accounts – and particularly digital bank accounts where transactions are ease to trace, **see Exhibit 11**.

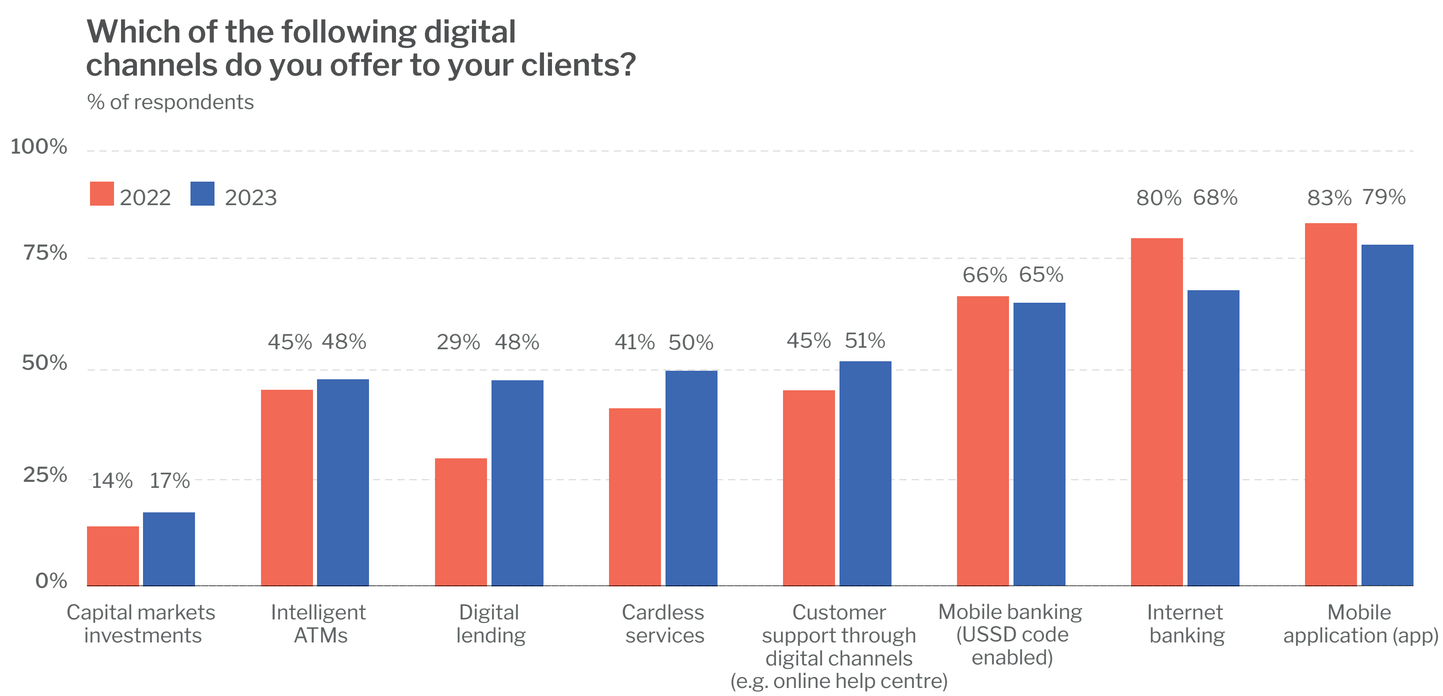
Moreover, it seems likely that while a significant proportion of them will not have bank accounts, some will operate their businesses through retail accounts. Most African governments are attempting to pull more unregistered commercial enterprises into the official economy, even where their income would be below the tax threshold, so there is likely to be significant scope for growth in the sector.

BALANCE BETWEEN IN-HOUSE AND EXTERNAL EXPERTISE

Creating digital services to attract customers of all kinds requires a wide range of expertise and this year's survey reveals a substantial fall from 20% to 13% in the

Survey analysis: Client-centric digital solutions

Exhibit 10



proportion of banks developing all their core digital infrastructure in-house. The remaining 87% either rely entirely on third party developers and service providers or adopt a hybrid approach that combines in-house and external expertise. The number relying entirely on third party companies has been fairly steady over the past 12 months but there has been a big increase since 2021, perhaps as banks observe how such external expertise has benefitted their competitors, **see Exhibit 12**.

Within these broad figures, there is a great deal of variation in terms of which services banks develop themselves. About 61% of respondent banks chose external partners to build their internet banking platforms or card management systems. By contrast, 62% developed their own self service customer support and digital onboarding structures themselves. Onboarding, or opening a bank account, is obviously a key part of the process: the digital route offers the expected benefits in terms of speed and convenience but this step is the first interaction that a customer has with the bank in question, so it is vital that banks get it right. For instance, they can attract customers by offering apps in a range of different languages.

Confirming a new customer's identity by traditional means can often take several weeks but can be completed digitally in just minutes. After basic information is entered, apps analyse biometric data from photographs uploaded by users to check their identity and prevent fraud, a vital step given the requirement under national and international regulations for banks to prevent money laundering and tax evasion among other illegal activities.

Exhibit 11

What proportion of your SME customers already use your digital channels?

% of respondents

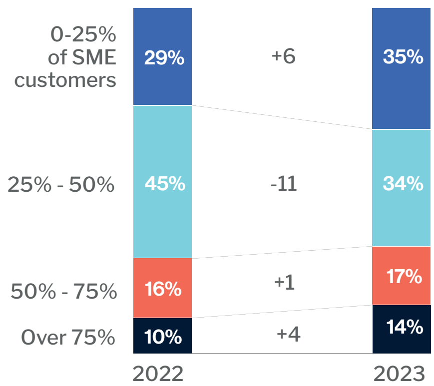
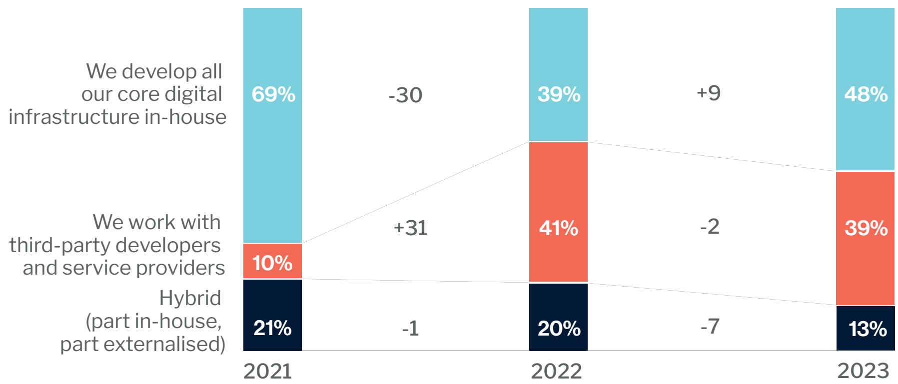


Exhibit 12

How do you develop new digital infrastructure capabilities?

% of respondents



Banks' own expectations are a good guide to how customer behaviour is likely to evolve in the short term. Our survey participants regarded all five of the trends that we put to them as being important over the course of this year but a huge 67% consider using mobile apps to make payments in place of cash the most important digital banking function. With debit and credit card use limited in most parts of the continent, the vast majority of Africans continue to rely on cash to complete transactions.

Mauritius leads the way on debit card use, with 90% of adults owning at least one of them but this is something of an outlier. Just 2% of Senegalese, for instance, have debit cards [Both figures from BPC Banking Technologies and Fincog: 2022]. Some state and national governments, notably in Nigeria, have suggested moving towards a cashless society, to prevent the circulation of counterfeit bank notes among other factors, but none are anywhere close to being able to implement such a policy. Mobile apps could therefore fill a big hole in the market.

As expected, a general rise in the adoption of internet banking is also forecast for this year while increased product offering personalisation is considered very important by 59% of our respondents, **see Exhibit 13**. This is a particularly interesting area, given that app use generates a huge volume of data that can be used by banks to offer additional products and services to their customers. Increased use of digital platforms to access savings and investment products was the least highly ranked of the five trends by our participants, but seem likely to feature more prominently in the longer term.

As well as positive trends, we asked banks about the wide range of specific threats that they face. Referring to their competitors, 40-43% of those surveyed regarded fintechs, challenger bank and telecoms companies entering the market as high threats, **see Exhibit 14**. Indeed, it is the sheer number and range of different entrants into the sector that makes it so dynamic.

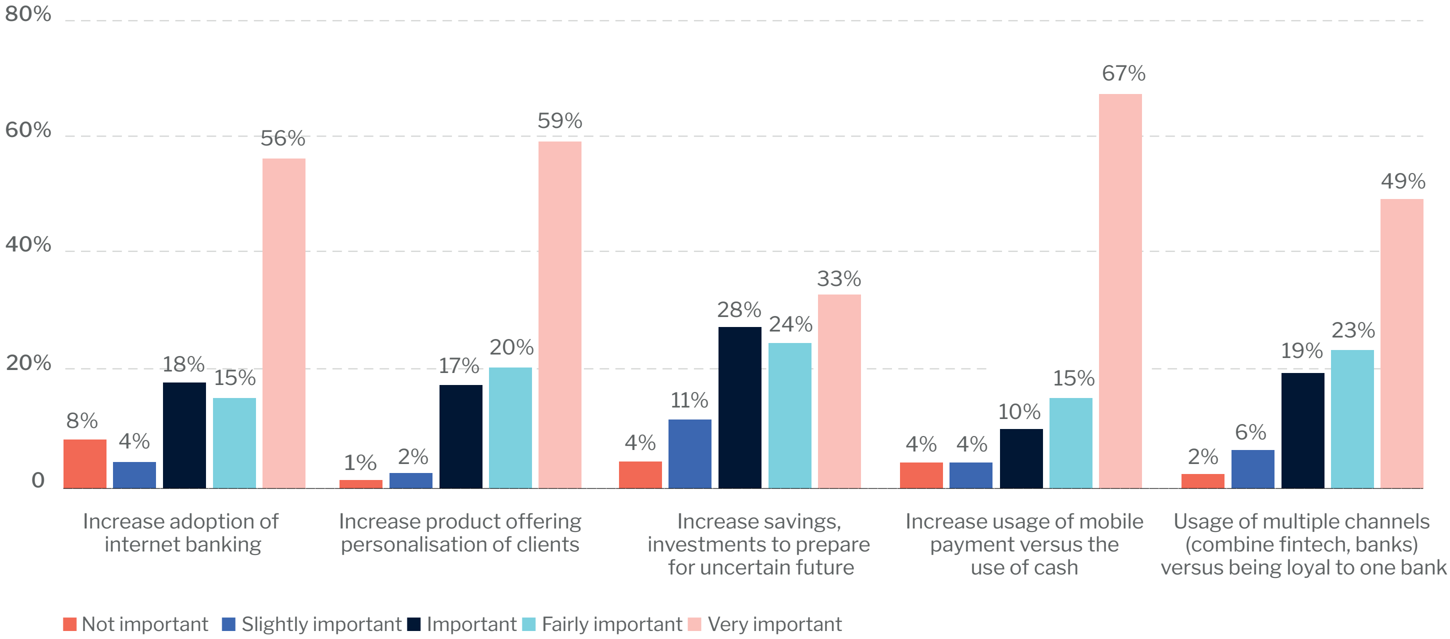
Telecoms firms have been keen for many years to boost their revenues by moving into financial services because messaging apps have depressed their income from voice calls. They have been able to exploit their large customer bases to expand their existing mobile money services and move further into the financial services sector. Orange, for instance, launched a digital bank at the start of the pandemic that attracted 5m customers worldwide in the first two months of the crisis. Most, however, continue to focus on mobile money, suggesting that experience

Survey analysis: Future growth strategy

Exhibit 13

How important are the following consumer trends for your growth strategy

% of respondents



69%

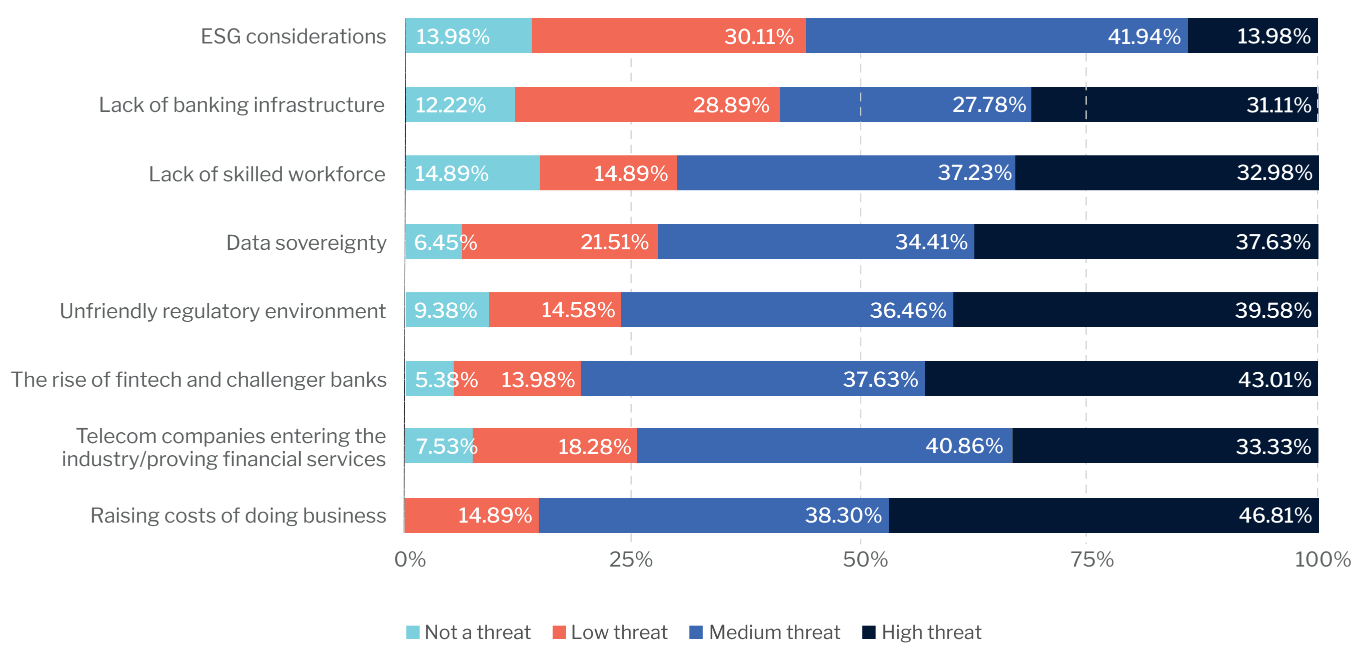
While the long term potential of AI is much discussed, 69% of our participants believe that it will be the most important technology trend this year.

Telecoms firms have been keen for many years to boost their revenues by moving into financial services.

Exhibit 14

What are the biggest threats to your business?

% of respondents



Last year, 74% of the banks surveyed named cyber security as one of the most important trends but that falls to 61% in our 2023 survey to be overtaken by artificial intelligence (AI).

with one method does not automatically translate into the other.

However, it would be wrong to merely paint a picture of a highly competitive market populated by isolated companies, whatever their origins. There is also a great deal of cooperation between rivals, with fintech providing the technology and traditional banks the market reputation when they work together. Indeed, Pan-African banking group Ecobank has launched its Ecobank Fintech Challenge to identify financial technology that it could roll out across its operations in 33 African markets.

Every bank surveyed believes that the rising cost of doing business is a threat to some extent, with 47% regarding it as a high threat, more than for any other factor. Environmental, social and governance (ESG) issues, including increased ESG compliance, are considered to be the least important threat, although it is not clear if this is because of the limited impact of ESG concerns at present, or because they do not consider them a big threat in the longer term. As ever, the lack of regulatory support remains a factor, but this is likely to vary a great deal from country to country. It has had a particular impact in holding back digital banking growth in Central African countries like Democratic Republic of Congo, the Central African Republic and Cameroon.

Bank digital construction priorities provide a good indication of the current state of the market. The fact that payment and mobile wallet apps are top of the list of priorities for the next two years suggests that many banks are still building their digital and online banking presences. A combined 83% of our respondents regard them as of either high or critical priority. Self-service customer support comes next with 80%, followed by digital lending with 74%. The latter suggests that a sizeable proportion of African banks are now moving on to marketing other products to their established client bases.

There is, however, expected to be a significant evolution in the focus of our respondents. Retail banking remains the most important segment, with 47% of participants naming it as their priority for investment over the next year. This concentration is entirely understandable given that, as our other results have highlighted, it appears that most bank customers still do not use any type of digital platform.

However, this figure for retail banking is a 7% fall on the figure for last year, while the proportion naming SME banking as their investment priority has risen 8% to 27%, so while SME concerns continue to be less important, it is possible to identify something that could turn into a long term trend. The scope for growth in SME digital banking is enormous but will require sustained growth in GDP and living standards, as well as technological innovation, if it is to become fully realised. As might be expected, investment services and wealth management are still minority concerns.

The longer term future of the industry is perhaps best highlighted by looking at which technology trends our participating banks identify as the most important. Last year, 74% of the banks surveyed named cyber security as one of the most important trends but that falls to 61% in our 2023 survey to be overtaken by artificial intelligence (AI). While the long term potential of AI is much discussed, 69% of our participants believe that it will be the most important technology trend this year. Research by McKinsey last year found one unnamed European bank had boosted its productivity by 25% through digitisation and adopting AI, including a cognitive agent, digital assistant, advanced analytics driven coaching and robotic process automation.

Exhibit 15

In which business segment will your bank increase investments next year in terms of digital transformation?

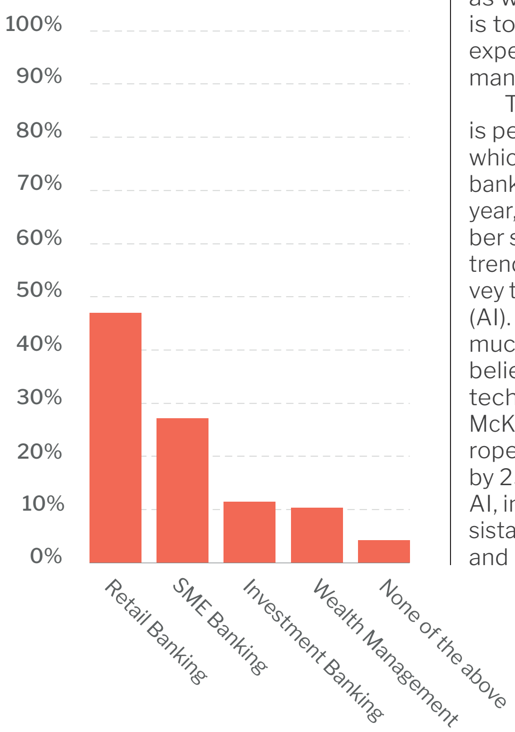
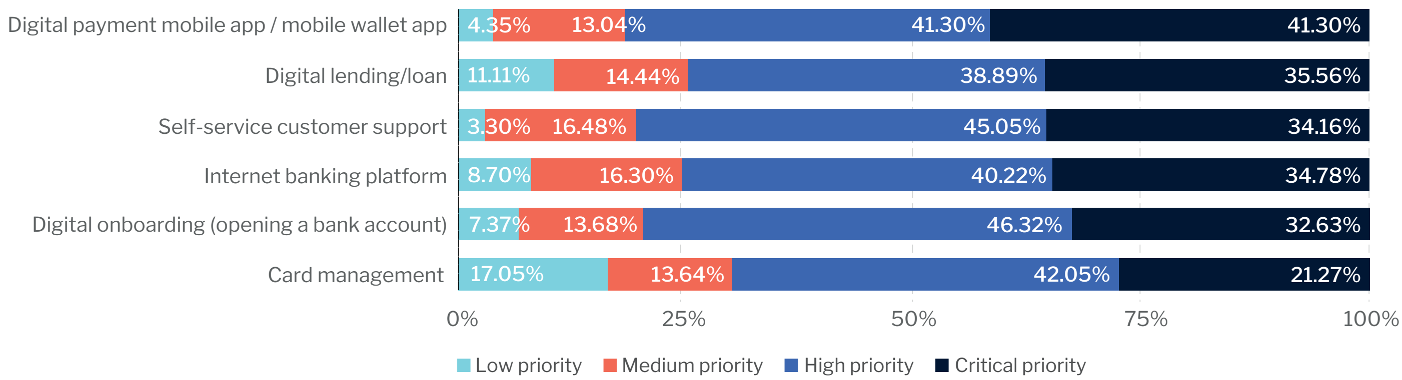


Exhibit 16

Which digital services are top of your priorities to build in 2023 and 2024?



Engagement banking

The digital banking revolution that is sweeping Africa and much of the rest of the world is helping to break down geographical, cultural and linguistic barriers by connecting people via digital platforms. It has long been feared that increased reliance on digital technology will fuel isolation by replacing direct human interaction with cold algorithms. However, by developing bespoke services targeted at the individual, engagement banking can redefine relationships between financial institutions and their customers by building them for the long term.

Banks that adopt engagement banking will both attract new tech savvy users to their platform and also retain more existing customers.

Engagement banking is an approach that places user satisfaction at the heart of digital banking strategies in order to retain customers and create long term product loyalty. The key element in this process is the creation of a unified platform which enables seamless customer experiences that allow users to complete interactions quickly and easily, reducing bank IT costs in the process.

Banks that adopt engagement banking will both attract new tech savvy users to their platform and also retain more existing customers by adopting a customer-centric approach instead of a technology-first approach. It uses the technology on offer to deliver personalised experiences that are consistent across all digital and physical platforms to strengthen the relationship between bank and customer by focusing as much on emotional connection as on financial transactions.

Building an easy, streamlined experience for customers may be more straightforward for digital-first banks that can build their platforms with a people-first approach from the very beginning. However, traditional African banks must also ensure that they place the client at the centre of their new digital services when adapting existing systems to incorporate digital advances.

It is vital that older banks replicate the fintech strategy of creating a unified digital presence that is built around the user. The big problem is that many banking IT landscapes are completely fragmented, increasing costs for banks and reducing customer satisfaction. In *The Engagement Banking Revolution*, which was published in June 2022, Backbase and leading banking experts set out best practice on re-architecting banking around customers, including in making the right tech investments, creating new revenue streams and fostering a culture that embraces innovation.

Too many banks have a patchwork of tech solutions commissioned at different times to serve different needs. Working with legacy systems can make digital products unresponsive to customer needs and expectations. This pattern of expensive, siloed tech often does not work well together, is difficult to change and its disjointed nature is all too apparent in the customer experience. Too often, customers undertake a single interaction on a digital platform before having to switch to another platform or visit a physical branch, breaking the customer experience and creating frustration.

A SINGLE, INTEGRATED PLATFORM

Employing a single modular engagement banking platform reduces reliance on fragmented legacy systems and makes it easier to add new services in future. The Backbase Engagement Banking Platform, for instance, provides every service on a single platform, from onboarding to customer servicing and loan origination. Aggregating products and data on a single platform in this manner provides customers with a seamless experience. The data can not only be used to target products at customers but can also help customers gain more insight into their own expenditure, savings and investments. Digital services have to be seamless to meet customer expectations on convenience and ease of use. In practice this can mean using rapid facial recognition technologies, app-based credit card applications and immediate new account approvals.

However, for legacy banks, an engagement banking strategy can only be achieved by changing corporate culture and so is best implemented in one area at a time. Once the benefits of a single initiative become apparent, the bank as a whole is more likely to buy into the idea. The process is also eased by placing customers and employees on the same platform, to ensure that bank staff understand how employees interact with their digital services.

COMMON FAILINGS

It is easy for even the world's biggest banks to fail to build customer relationships. In Europe and North America, for instance, many bank branch functions have been transferred to call centres, leaving a high proportion of customers feeling isolated. Yet this is not solely down to the technology, it is also the result of how it is used. Services are usually accessed through interactive voice response systems that guide callers through a selection of options which they can navigate either by using their voices or via their telephone keypad. This can take several minutes, leaving customers feeling frustrated and powerless. Digital banking can avoid this by providing services much more quickly and easily.

Yet it is more difficult for digital banks to counter another central call centre problem – the lack of a personal service because customers do not speak to the same bank representative twice. It is therefore vital that digital platforms provide the same interactive, intuitive, user friendly experience they receive from other digital services, such as shopping or entertainment platforms. It is here that traditional African banks are particularly prone to fail in comparison with their digital first competitors.

Engagement banking is particularly important in Africa given that the continent still overwhelming relies on personal connections and interactions. Most transactions on the continent are still carried out face-to-face, often with established connections, so it is perhaps more important here than anywhere else in the world to build a feeling of connection between digital bank platforms and users.

Digital technology can help build those relationships. Research by McKinsey found that banks that are leading on tech development "are developing frequent customer engagement outside of traditional channels, providing customers with ease and convenience and taking advantage of AI for ultra-personalization—which is necessary to compete in cluttered markets".

"Collaborating with Backbase has been an enriching journey which has improved the daily operations of our staff through simplified processes."

Emmanuel Courtaud,
Product Owner, MCB

Case Study

Mauritius Commercial Bank: Backing SMEs

The biggest commercial bank on the Indian Ocean island, Mauritius Commercial Bank (MCB) sought the help of Backbase to develop a single digital platform for its small and medium sized enterprise (SME) customers. The bank had a strong presence within the SME market but its digital offering was largely in its infancy and there was no app. Most customers remained dependent on branch services for depositing cash, checking payments and collecting loan statements, yet branches were largely focused on the retail and corporate segments.

Dominic Provençal, MCB's Head of Business Banking, said: "SME banking has traditionally been overlooked, but there is a significant opportunity to change how small businesses do banking by properly addressing their needs... We wanted to provide our SME customers with convenient mobile banking solutions to satisfy their banking needs."

The resulting SME banking app, JuicePro, provides a full range of services, including transaction history, payments, transfers, OTP authentication and account management.

Working closely with Backbase, MCB was able to build and release a minimum viable product (MVP) version of the app in just six months, with the final product released just five month later. Backbase's out-of-the-box widgets powered about 80% of the development process, improving internal operations and boosting overall commercial effectiveness.

MCB opted to build a single platform across all business units that could easily be scaled across different customer segments at a later stage. The retail app was quickly rolled out and now has a user base of more than half a million people – more than half the adult population of the island. The same platform combines instant accelerators with minimum configuration and is used for mobile, internet, in-branch and self-service kiosk use. It now takes just two to three months to develop and release new features on the app.

App registration takes less than five minutes in four easy steps, with customers entering their card details and an OTP, accepting terms and conditions, and creating a password. Shortly after its launch, 85% of MCB's customers actively used the app, signing in on average 14 times a month. Powered by Backbase Identity, biometric security, such as face and fingerprint identification, ensures security.

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."

Both the SME and retail Juice apps are being rolled out across the other MCB affiliates in the other Indian Ocean countries where it is active. The bank is also developing a wealth app targeted at their private clients: an MVP version has already been tested with a select group of customers. Work began on developing the corporate web based product in 2021 and it too has been tested with select customers. Feature development is continuing, including trade finance capabilities that are being co-constructed with Backbase.

Backbase CEO Jouk Pleiter commented: "It's fantastic to see such an effective partnership emerging between us. Our unique platform has allowed MCB to quickly build and launch their SME banking app in a relative short time frame... the flexible nature of the platform allows them to drive continuous product innovation to respond to emerging customer needs and pressures from competitors and regulators alike."

The JuicePro mobile app

Powered by the Backbase Engagement Banking Platform, MCB was able to create a customer-first SME Banking mobile app

11

It took just 11 months to build and release the fully fledged app

1000

1000 businesses were onboarded in less than a month

85%

85% of users who downloaded the app are actively using it, signing in 14 times a month on average

80%

Around 80% of the development process was powered by Backbase's out-of-the-box journeys

2-3

Today, it only takes 2 to 3 months to create and release new features on the app

Customer expectations of what a bank actually does have greatly increased because customers compare their experience with their bank with their interaction on all other digital platforms, not just limited to other banks. Successful digital transformation is necessary to help banks compete with challengers by providing seamless, immersive customer and employee experiences on a single unified platform. To compete, established banks must change everything from legacy systems to institutional culture from the ground up. Yet re-architecting a financial institution's digital infrastructure around the customer is a complex and labour-intensive process that can be expensive without a comprehensive plan.

Case Study

Planning time key for Standard Bank

As the biggest bank in Africa, Standard Bank's overall goal was to become a platform business by 2025. This involved creating a fully digitised banking solution; migrating in-branch services to digital; enabling a fully fledged ecommerce capability for digital sales; and ensuring end-to-end fulfilment capabilities. As Group CEO Sim Tshabalala said: "We don't want to be the shop; we want to be the mall." However, at that stage the bank had five separate digital touchpoints, leading to low digital penetration and declining market share, due to competition from existing players and new entrants. At the same time, there was a lack of engagement due to overwhelmed relationship managers.

Backbase was chosen as the platform of choice to power their vision and reduce operating costs, including by driving synergies across the different entities and countries. "They've done this a lot more often than we have. They've got the insight. They come with a bag full of tools, tested, tried. And I think we are also ready then, to leap into new technologies quicker than we would have if we did it on our own", said Moshima Shongwe, Head: Digital and eCommerce Business Clients, at Standard Bank.

Banks need to understand the scope and size of the digital transformation before embarking on the project, so it is important to spend as much time as possible to identify all the possible pitfalls. Things change and evolve over time, so banks must adapt as they go but "establishing a detailed plan early in the process can save an immense amount of time, money and stress", noted Heidi Custers, Digital Transformation Director MEA at Backbase. "Anyone who tells you digital transformation is easy is either lying or trying to sell you something", she added.

Belinda Rathogwa, Head: Digital and eCommerce Consumer & High Net Worth Clients at Standard Bank, commented: "Before you start any initiative, be clear on what it is that you seek to achieve and how you will know when you've succeeded. That makes it a lot easier to have that boardroom conversation."

Successful digital transformation is necessary to help banks compete with challengers by providing seamless, immersive customer and employee experiences on a single unified platform.

The challenge

Standard Bank had:

- **Lack of engagement** due to overwhelmed relationship managers
- **Five separate digital touchpoints** leading to low digital penetration
- **Declining market share** due to competition from existing players and new entrants

The result

With Backbase, Standard Bank built one easy to use app, providing:

- Daily banking and beyond
- Improved client experience
- Security and reliability
- Higher adoption
- Frequent releases

IMPORTANCE OF PREPARATION

Standard Bank's metrics for tracking success included three key things: the bank's net promoter score; 24/7 platform availability and readiness; and security. Transparency is also particularly important because there will be inevitable missteps. It took the bank about six months of dedicated planning time before it actually started work on development. "I wish we had spent more time getting started and preparing and sharpening the axe before we started chopping down the tree... I think we underestimated the amount of complexity that we were walking into", said Shongwe.

With Backbase, Standard Bank built a single, reliable, easy to use app that improved the client experience with more frequent releases to promote adoption. Throughout the process, it aimed to share as much as possible between teams to reduce costs and increase the speed of delivery. Backbase is also helping Standard Bank Group roll out its digital services across its operations in other African countries.

Both Rathogwa and Shongwe emphasise that it is important to seek guidance and support from industry leading partners with research and development experience throughout the process. "Being able to leverage the strengths that our partners bring, we feel, is a real advantage in being able to serve our clients", said Rathogwa.

Rathogwa recommends starting now but being patient by focusing on progress over perfection because it is a long process and "changing a way of being takes time". Getting buy-in from the boardroom can be challenging, but is an essential part of the process. "When you put forward little successes, it gives the team a boost to keep going. But it also gives us, as leadership, signs that we are moving in the right direction", she said.

Standard Bank at a glance

#1

Largest bank in Africa

160

160 years of banking services

20

20 countries on the African continnent

Conclusions

Our 2023 *African Digital Banking Report* shows that the digital transformation is continuing but despite the impetus injected by the Covid-19 pandemic, progress is steady rather than spectacular. The transformation is being driven by a combination of customer demand; a fear of being left behind by competitors; and a desire to increase profits and grow market share, with customer demand and satisfaction the most important factor, as demand for digital access increases.

However, 40% of those surveyed regarded fintechs, challenger banks and telecoms companies entering the market as high threats. Given the reliance of digital banking on mobile access, it is perhaps no surprise that telecoms companies are providing financial services, either mobile money platforms or launching their own digital banks.

The vast majority of African banks consider the digital transformation to be important for their growth strategies, yet just half regard it as the most important factor, so there is still a large proportion who are not building their operations around their digital platforms. This is reflected in the fact that just 28% are spending more than US$3m a year on digital transformation and innovation, with a quarter dedicating less than US$300,000 a year.

Moreover, most banks describe their strategies as wrap and digitise, where they gradually replace legacy infrastructure with digital technology. Only a fifth regard themselves as digital natives but the proportion describing their strategies as front-end only – basically bolting digital platforms on to existing structures – is steadily falling.

However, the proportion of banks where the CEO, chair, managing director, a vice president or other director determines the digital strategy and level of spending has leapt from 15% to 35% over the past year, so it will be interesting to see whether there is an accompanying increase in expenditure. The banks that we assessed in more depth said that it was vital to secure boardroom buy-in for the digital transformation.

EXTERNAL SUPPORT

The process of developing digital platforms that are beneficial for both banks and customers is far from easy. As a result, the proportion of African banks attempting to develop platforms on their own is steadily falling, with 87% either relying entirely on third party developers and service providers or adopting a hybrid approach that combines in-house and external expertise.

Many develop their own self service customer support and digital onboarding structures but a majority chose external partners to build their internet banking platforms or card management systems.

Digital banking appears to be following the pattern of the telecoms sector, with banks first offering basic services to attract users and then seeking to increase their average revenue per user by offering additional services.

All apps offer account information, transfer capability and payment services but there has been a big increase in the proportion of banks offering digital lending, up from 29% in our 2022 survey to 48% this year.

INCREASED RANGE OF SERVICES

Mobile apps and internet services make lending much easier for both banks and customers, with credit applications completed and approved within minutes. Three quarters of the banks we surveyed regard digital lending as a high or critical priority. However, building payment and mobile wallet apps are top of African banks' short term priorities, suggesting that many are still building their digital and online banking presences.

While half of the entire adult population of Africa remains unbanked, even most people with bank accounts still do not use digital services, despite high levels of mobile phone ownership. Just 17% of banks reported that more than three quarters of their retail customers use digital services, while 26% put the figure at less than a quarter.

Usage rates are even lower among SME customers. However, it seems likely that rates will increase relatively quickly over the next few years as low handset prices encourage greater smartphone ownership. Lower data prices would also help this process. The SME market has long been neglected but our survey suggests that an increasing proportion of African banks are planning to offer SME-specific mobile banking apps. A surprising 69% of our participants forecast that AI will be the most important technology trend this year but the impact of this on customers is expected to be a longer term trend.

The vast majority of African banks consider the digital transformation to be important for their growth strategies, yet just half regard it as the most important factor.