Milpark Education's School of Investment and Banking reviews the retail banking sector in Africa

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Academics from Milpark's School of Investment and Banking attended the recent 7th Annual Retail Banking Africa conference in Johannesburg where the banking landscape of Africa was critically reviewed. Dean of Milpark's School of Investment and Banking, Antje Hargarter, summarises and shares the key insights.

"Banking is necessary - banks are not." This quote from Bill Gates sums up the challenges banks are faced with in the 21st century, not only in Africa, but on a global scale.

Who needs a bank anyway?

- Non-traditional banking competitors are eyeing the future African retail banking client and are coming through thick and fast.
- Financial sectors are set up differently across the African continent. Customer needs vary, making market segmentation integral to customer service delivery.
- Since Generation Y consumers do not view banking in the traditional sense, their needs differ vastly to those of their predecessors.
- Generation Y consumers expect 24/7 service delivery and prefer social media platforms to communicate.
- Social media platforms have now become extremely important and powerful tools, presenting the potential to become banks in their own right.
- Digital disruption, therefore, demands new ways of thinking and a reinvention of current business models and processes.
- Banks should decide whether they want to be digital followers or digital transformers.
- In the quest for new business and transformation, the hard-to-reach are now becoming sought-after customers.
- Modern technology has instigated new ways to transact. Digital wallets or 'electronic wallets' store personal financial information, enabling smartphone users to pay bills at checkout counters using their mobile phones.
- Agent banking has seen success in countries like Kenya, where banks are able to service remote areas in a cost-effective manner.
- Agent Banking assists small tourist businesses as well as governments, making social grants and revenue collections more accessible. As with traditional bank branches, success is dependent on relationship building.

Non-traditional banking providers pave the way

- Growth opportunities for SMEs in Africa are hampered by limited access to financial services, with traditional banks reluctant to get involved.
- Although South East Asia seems to be ahead of the pack in this arena (when compared to certain African countries), it's the more non-traditional banks and financial services companies who are making daily moves into the African markets.
- An example of this non-traditional market player was discussed. A new provider has created a partnership between an insurance company and a cell phone provider to cover basic daily risks such as theft and retrenchment.
- As a result of this partnership, this new provider has become more agile, enabling them to make a payout faster than most large insurance companies are able to. They are also investigating how to use mobile banking to 'sell' deposits together with insurance, an approach similar to those taken by bancassurance companies.
- Marketplace lending is another trend to watch. The advantages are affordability, improved delivery, and increased transparency. The disadvantage is that these small enterprises are easy to start but difficult to scale.

The way forward

- Financial inclusion creates economic opportunities; it is often driven by governments and central banks.
- Surprisingly, the percentage of the global population with access to a transactional account still seems devastating:
  - South Africa: 0.5%
  - Nigeria: 2.7%
  - China and India: 32%
- Strategies for improvement are being implemented worldwide, a few of which include:
  - licensing of mobile money operators
  - inclusion of financial education in school curriculums
  - implementation of functioning complaints resolution processes
- Some countries are setting up specialised banks, funded by NGOs and government, to serve the poor. Market segmentation remains a crucial step. For instance, a Rwandan bank has differentiated various groups of farmers (like industrious farmers and burdened breadwinners), and now targets them with specialised products.
- Another bank has created a savings product built around an interest rate which increases commensurately as more people save. This particular bank also offers a bonus rate for customers who save and do not withdraw any money within a predefined time period.
- Another innovative product capitalises on the demand for smaller loans which the larger banks do not offer. This new provider grants small loans and does not utilise a traditional credit scoring approach. This means that the business is mainly volume-driven.

Conclusion

Retail banking in Africa will see many non-traditional providers move into the market, and it seems that traditional banks do not necessarily see this as a threat. However, traditional and non-traditional banks have the potential to work together to offer improved service to retail banking clients in Africa. Going forward, players in the retail banking sector will adopt a more customer-centric approach. We'll also see the implementation of more creative and innovative strategies. It's an exciting time for this industry and there is no doubt that we will see the retail banking environment irrevocably changed.

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