African Banks Should Accelerate Next-Generation Mobile Banking

An assessment of the mobile banking market dynamics in Africa

In partnership with

Contents

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Charles Juniper is a principal analyst in Ovum's global Financial Services Technology team. Much of his research is focused on examining the impact of emerging technologies such as IoT, AI, and distributed ledger on the global financial services industry.

Charles has 10 years' research experience as an analyst examining the insurance and banking sectors in Europe, North America, and emerging markets. During this time, he has produced numerous reports and worked closely with a number of financial institutions and vendors to support their specific research needs.

Charles also has eight years of experience of corporate strategy development within BT plc, with a particular focus on acquisitions, IT services development, and outsourcing.

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Summary

Catalyst

The economies of sub-Saharan Africa (SSA) saw aggregate growth of 3% in 2018 and are expected to continue expanding and to stabilize at 4% annual growth over the next five years (IMF Sub-Saharan Africa Regional Outlook, April 2019). Although this growth varies across the region and remains vulnerable to risks such as debt, commodity prices, and political instability, it is driving wider economic development in the region.

This economic growth is fueling demand among an emerging, mainly young middle class for banks that can meet its growing financial needs. At the same time, this group views the mobile phone as an increasingly essential part of daily life, driving growing adoption of smartphones across a number of African markets.

The very significant growth potential resulting from these market shifts has driven increasing levels of competition between the banks as players position themselves to exploit the emerging opportunities.

In addition, over the last decade new players from outside the banking sector such as Safaricom/M-Pesa and Econet have established strong market positions in some areas of financial services, notably mobile money. These players are now threatening to expand their service offerings.

Ovum view

In Ovum's view, mobile banking services are a critical requirement if banks are to successfully capture these emerging market opportunities.

App-based mobile banking provides the means for banks to quickly launch the increasing range of products and services demanded by these new customers segments; allows banks to remain relevant to customers in terms of service, convenience, flexibility, and control; and allows banks to drive significant process efficiencies while deriving greater customer insight.

While the majority of banks in the region have already launched mobile banking offerings, these now need to evolve to meet growing customer needs and shifts in the competitive dynamics.

There are several things that banks should ensure in order to remain relevant to customers and counter the competitive threat posed by competitor banks, mobile money providers, and other potential new entrants:

- The provision of mobile banking services is an urgent strategic priority and needs the necessary resources and investment to move beyond the current "first-generation" offerings.
- Customers should experience these mobile banking services in a convenient, simple, and reliable way.
- These services must be implemented rapidly before other banks and new entrants have an opportunity to enhance and expand their current offerings.
- The next iteration of mobile banking offerings must provide a comprehensive range of financial services beyond the point solutions currently offered by new entrants.

Recommendations for banks

Mobile banking needs to be seen as a critical strategic imperative

Banks need to ensure that their development and implementation plans for mobile banking services are clearly seen as a critical strategic priority. If they fail to do so, they risk falling behind in an increasingly contested market as other banks and mobile money providers move to capture the emerging opportunities.

Mobile banking initiatives need the full commitment and buy-in of senior executives and need to be supported with sufficient resources and investment. With the possible exception of mandatory compliance projects, enhancing current mobile banking offerings should be viewed as the top priority.

Offering "me too" mobile banking services is not enough

Ovum's research shows that customer acquisition, new product introduction, and remaining relevant to customers were the key goals driving investment in mobile banking. This highlights that mobile banking is becoming the primary tool for capturing emerging opportunities arising from major shifts across the African banking sector. As a result, banks need to ensure that their mobile banking development plans are ambitious enough to provide differentiation.

Therefore, immediate development plans should include

- simplified and straightforward account onboarding to ensure a positive start to new customer relationships and minimize the risk of early defection
- targeted campaign management capability that serves to strengthen the customer relationship and as a means of introducing new products
- advanced self-service features – such as card on/off – giving customers greater control and convenience as well as reducing the bank's operating costs
- an integrated and comprehensive range of payment and remittance services, both domestic and international
- seamless integration across other channels such as ATM and the branch, although mobile banking will become the primary mode of customer interaction
- continued focus on enhancing the overall customer experience and convenience with features such as facial recognition, voice interface, chatbots, and so on.

Accelerate implementation of next-generation mobile banking

The increasing competitive intensity means that banks need to ensure mobile banking initiatives are delivered as rapidly as possible. While we do not underestimate the scale of the task, in Ovum's view many banks in the region should accelerate the rate at which they are currently evolving their mobile banking services. As an example, Ovum's research found that only 14% of banks surveyed had fully implemented international fund transfer compared with over 80% of mobile money providers.

Functionality and development roadmap are key vendor assessment criteria

More than 90% of the banks surveyed are working with digital banking technology vendors to implement their mobile banking services. In Ovum's view this is the correct approach given the strategic importance and need for rapid deployment. However, back-office and cross-channel integration, as well as vendor offerings not meeting banks' functional needs, emerged as challenges for banks.

Therefore, as part of a wider assessment process, banks should ensure that vendors can demonstrate strong and comprehensive integration capabilities and have customers that can attest to this.

Vendor partners must also offer commercial flexibility

Ovum's research also showed that some vendor inflexibility in terms of commercial models, particularly around subscription-based charging, was a significant issue for mid-size and smaller banks.

In assessing potential vendors, banks need to look beyond just the technology and ensure vendors fully meet their commercial needs and take a flexible and pragmatic partnership approach to working with banks, supported by referenceable customer examples.

Mobile banking services are a key strategic priority for all banks

To obtain a detailed understanding of the current situation around mobile banking and payment services in Africa, Ovum undertook independent primary research in April 2019 on behalf of banking software provider CR2. Ovum interviewed 200 senior decision-makers responsible for mobile banking and payments services within their banks across 15 African national markets. The analysis and findings in this report are based on that research.

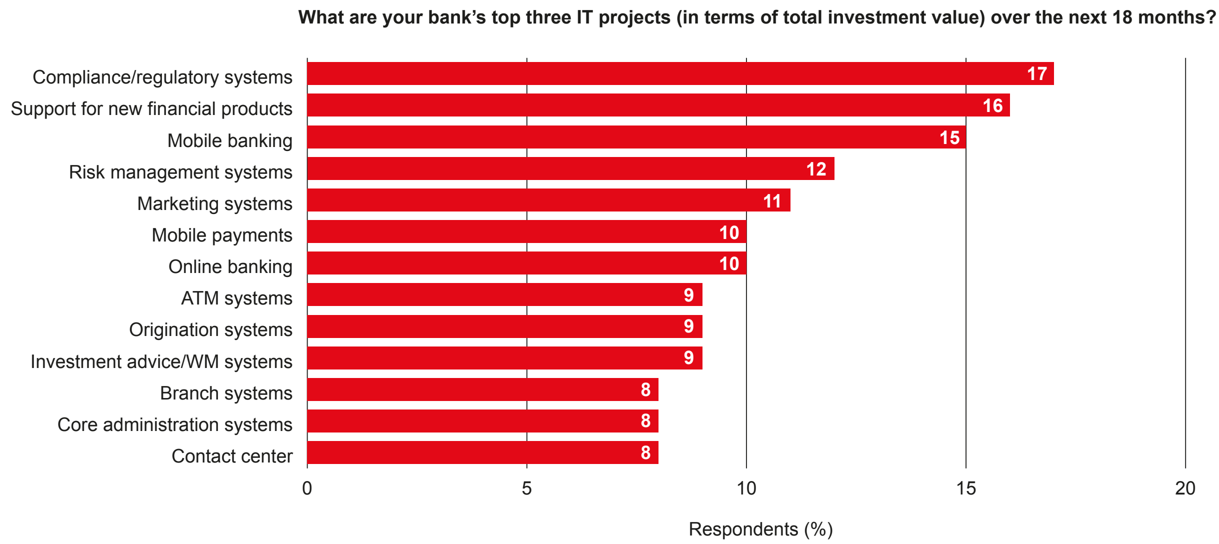
The need to respond to changing market needs and capture new customer opportunities arising from the economic growth occurring across regional markets means that developing comprehensive mobile banking services is a key priority for all banks in Africa.

Mobile banking is a key investment priority for all banks in SSA

The research found that implementing mobile banking is a top-three investment priority for all banks, although this varied by size of organization. For smaller banks with fewer than 100,000 customers, implementing mobile banking is the most important investment priority.

As banking systems across Africa continue to develop, regulatory compliance has become an increasingly important management priority with requirements around anti-money laundering, sanctions checking, and "know your customer", for example. These mandatory projects are a significant and ongoing cost for all banks and as such will always feature as a major IT investment priority.

Figure 1: IT investment priorities over the next 18 months



Source: Ovum

The larger banks (more than 500,000 customers), which are generally further advanced in implementing mobile banking, are now moving to exploit the capabilities offered by their initial efforts by introducing a greater range of financial products to their customers. As a result, investment in new product development, much of which is aimed at and will be deployed through mobile channels, is the key investment priority. This is not to the exclusion of further investment in mobile channels, with ongoing enhancement to existing mobile banking services being the third investment priority.

Smaller banks, especially those with fewer than 100,000 customers, are generally at the stage of implementing initial mobile banking offerings providing basic services. However, these banks understand the urgency with which they now need to act if they are to catch up with their larger competitors. Evidence of this is that mobile banking is the clear top investment priority for this group, above even compliance and regulatory projects.

Customer acquisition, product introduction, and maintaining relevance are key drivers for mobile banking

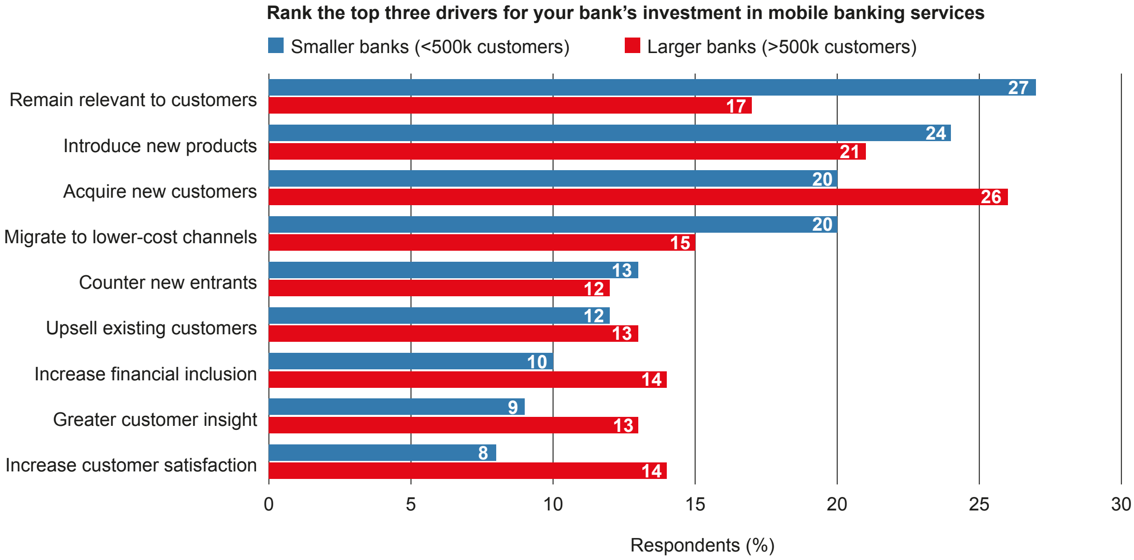
When the overall drivers behind banks investment in mobile banking are examined, three clear primary objectives emerge:

- acquiring new customers (23%)
- being able to introduce new products (22%)
- remaining relevant to customers (21%).

These objectives demonstrate that the majority of banks are proactively responding to changing market needs and emerging customer expectations, and they underline the critical role that mobile banking will play in banks' future growth strategies.

However, the relative importance of these drivers varies depending on what stage of development a bank is at with regard to mobile banking services.

Figure 2: Top drivers of mobile banking investment



Source: Ovum

Generally, for larger banks with more than 500,000 customers, the acquisition of new customers is the overriding objective for investment in mobile banking. Within this group, 26% on a weighted average basis cite this as the most important driver, more than 5% and 9% ahead of the second and third most important goals of supporting new product introduction and becoming more relevant to customers respectively.

For this group that has already started to use mobile channels to offer more products and drive greater customer interaction, these secondary objectives are already beginning to be addressed, and mobile banking is now increasingly being used as the primary means to drive and accelerate growth among new customer segments.

However, for smaller banks, particularly those with fewer than 100,000 customers, which are generally less advanced in the deployment of mobile banking, the primary objective is to remain relevant to customers. Of this cohort, 27% cite this as the most important driver, which demonstrates the urgency with which they need to act if they are to prevent larger competitors building an unassailable lead in capturing new market growth.

The majority of current mobile banking services are "first-generation" offerings

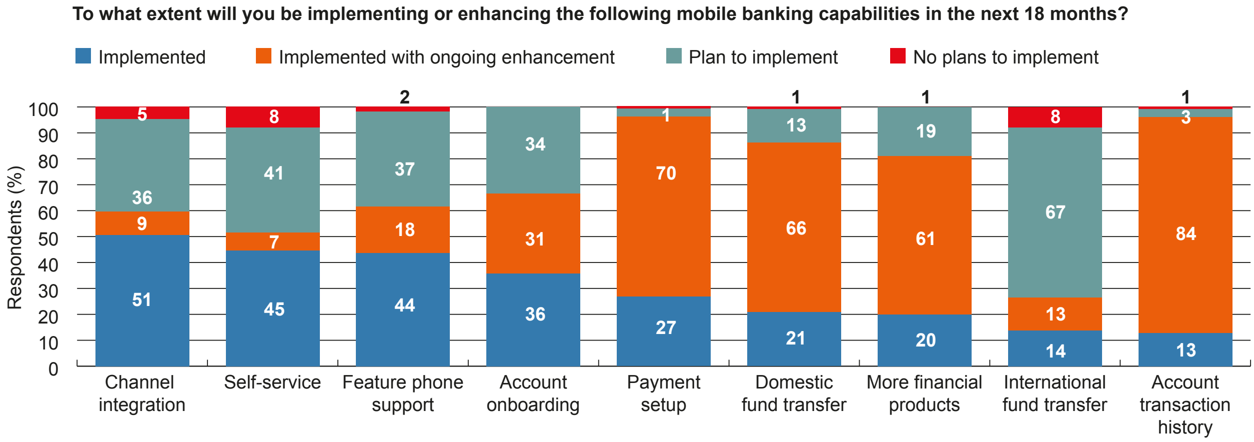
Although delivery of financial services, particularly payments, using mobile devices has been a feature in many African markets for over a decade, comprehensive mobile banking services are less well developed, with many currently being relatively basic "first-generation" offerings.

Most banks are only starting their mobile banking journey

The study found that the majority of banks are already responding to emerging market needs and growing competitive threats, with 95% of the banks interviewed currently providing at least some level of mobile banking services. The small minority that are not currently offering mobile banking plan to launch app-based services within the next 18 months.

One of the primary benefits of a mobile banking channel is the flexibility it affords banks to add products and services over time and make these easily available to a large number of customers. This characteristic means that implementing mobile banking services is usually not a project with a clearly defined endpoint but rather an ongoing process. Figure 3 demonstrates that the majority of banks are at the start of this process, with some offering initial services such as feature phone support and self-service, while the majority are implementing ongoing enhancement around other essential services such as account balance/history, domestic bill setup, and payment.

Figure 3: Mobile banking service development plans over the next 18 months



Source: Ovum

While ongoing enhancement around domestic payment services is currently a key focus for the majority of banks, leading players are now beginning to implement international fund transfer services. International fund and bill payment services emerges as the primary service focus for the majority of banks, with 67% planning to implement these capabilities in the next 18 months.

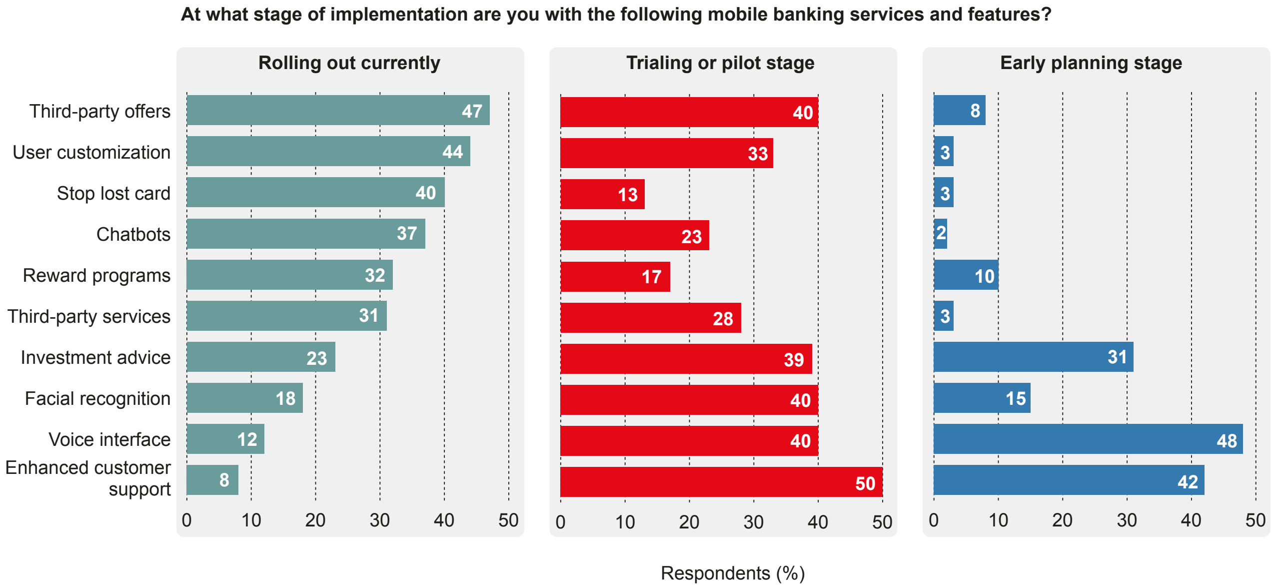
While smartphone adoption is generally increasing across the countries surveyed, lower handset costs and avoidance of high data charges mean that the use of feature phones remains significant and likely to be a feature of the market for the foreseeable future. Although many banks have already implemented feature phone support, the importance of catering for this customer segment can be seen in Figure 3, with 41% of banks planning to add this functionality.

Some banks are beginning to leverage the wider benefits offered by mobile banking services

Many banks surveyed are attempting to move to a position in which mobile channels are the primary means of serving customers for the majority of their financial needs and interactions. This strategy aligns well with customer expectation and growing financial requirements as well as offering differentiation from mobile money providers. Ultimately, it will also allow banks to migrate a greater proportion of customer processes to a more flexible and lower-cost channel.

This strategy is broadly reflected in the key foci shaping the development of mobile banking services over the next 24 months as shown in Figure 4.

Figure 4: The development of new features to be introduced in mobile banking services



Source: Ovum

Into the first half of 2020, larger banks in particular are focused on broadening their offering, even to the extent that some are positioning their role at the center of a financial ecosystem with third-party financial products and wealth management being important current development initiatives within mobile banking services.

Beyond this, increasing convenience and enhancing the overall customer experience emerge as important foci in the evolution of mobile banking offerings. As a result, initiatives including facial recognition and voice interfaces as well as enhanced customer support through webchat and video calling will increasingly begin to appear through 2020 and 2021.

Building customer relationships through mobile channels remains a challenge for banks

Although the range of services offered through mobile money providers is limited, in many cases the overall customer experience is superior to that provided by banks' current mobile banking offerings. This is limiting many banks' ability to build strong customer relationships and slowing the migration away from branch networks.

Many banks feel they are falling behind mobile money providers

Over the last decade, mobile money providers have played a key role in extending basic financial services to millions of Africans with limited access to traditional banking facilities, particularly those in remote rural areas. As a result, Africa has the largest number of mobile payment service providers globally, with 135 examples across the continent.

Consequently, in addition to the growing level of competition among banks, they are also needing to contend with the growing threat from mobile money providers. Banks are acutely aware of this threat, with many feeling that they are already falling behind these players.

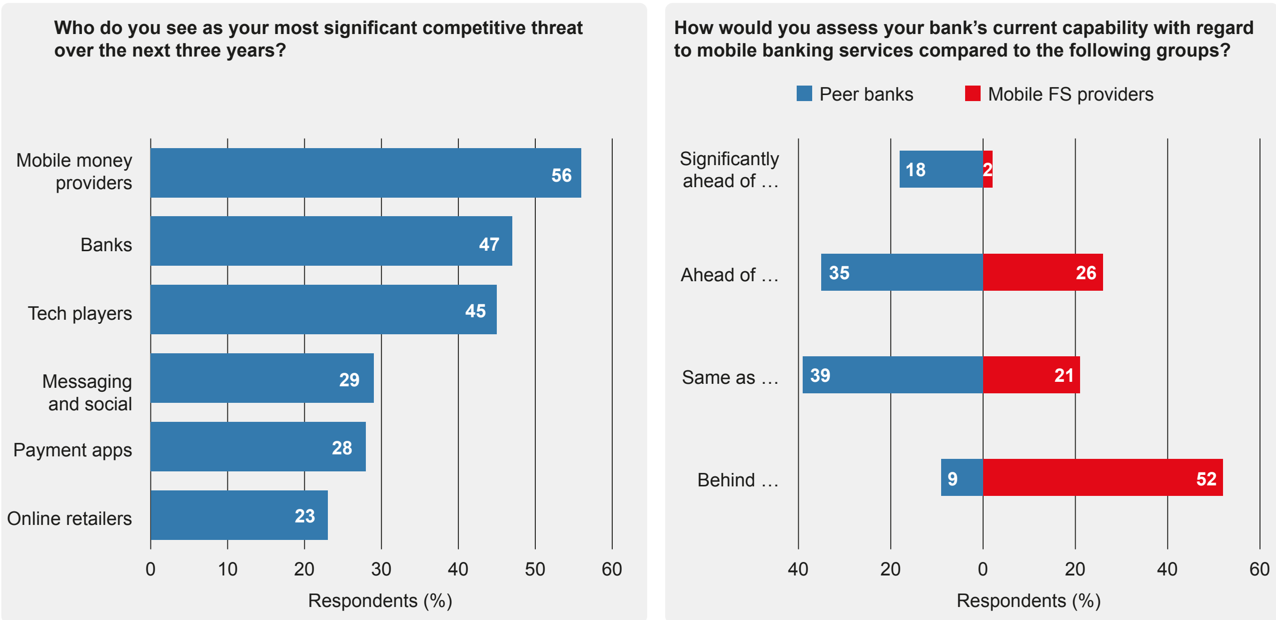
While there are exceptions, such as FirstRand Bank offering mobile payments services in a number of countries across SSA, most banks have been slow to directly pursue this opportunity, allowing some mobile network operators (MNOs) to establish strong market positions.

In part this is due to the prevailing business model not aligning with the mobile payment opportunity, with banks primarily earning fees through intermediation services rather than through small commissions on high volumes of typically low-value payment transactions.

However, with the success and widespread use of mobile payment services and the continued development of these offerings, such as the addition of international bill payment and merchant payment facilities, banks are now at risk of being disintermediated by MNOs as they both pursue new customers.

As a result, while MNOs were not seen as a danger only a few years ago (and were often seen as partners), they are now emerging as a serious competitive threat.

Figure 5: Competitive threats and relative market positioning



Source: Ovum

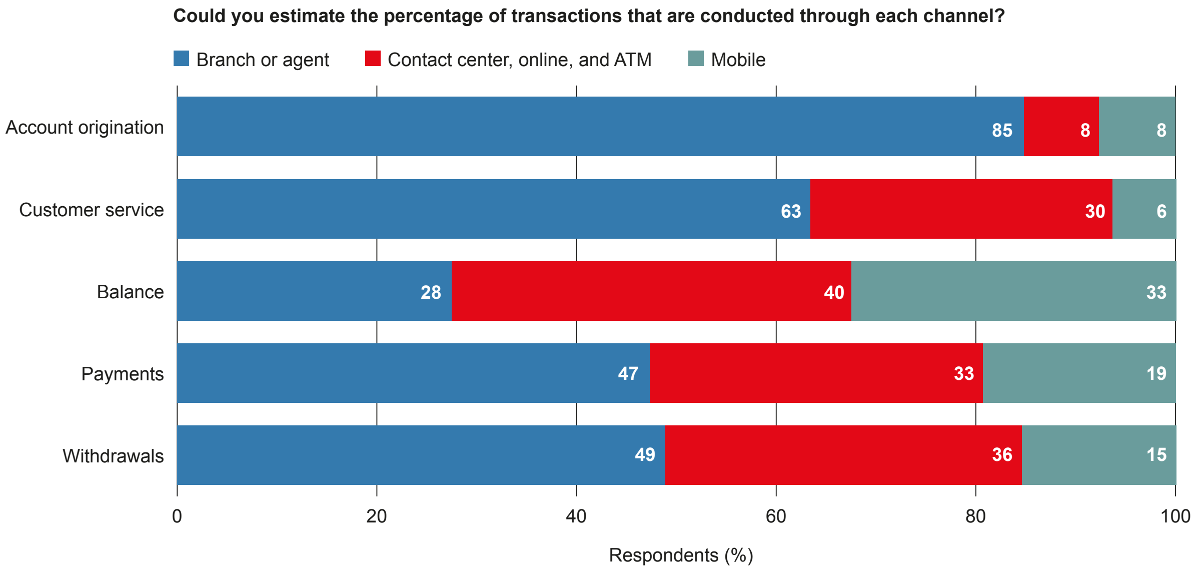
Across all 200 respondents, mobile money providers emerged as the most significant competitive threat at 56%, ahead of other peer banks at 47%. This growing source of competition was most sharply felt among the larger banks with more than 500,000 customers. Among this group, mobile money providers are seen as the most significant threat by 61%; tech players such as Baidu, Apple, and Google are seen as the second most significant threat at 53%; and peer banks are seen as the most significant threat by only 44% of respondents.

When respondents were asked how they would rate themselves in terms of delivering mobile banking services compared with other banks and new mobile players, a slight majority of respondents (53%) felt that they had a stronger mobile banking offering than their peer banks. However, the level of confidence fell sharply when comparing with new mobile financial services players, with only 28% believing they had a better mobile offering currently and with 52% actually placing themselves behind these players.

Banks need to accelerate the enhancement of mobile banking services to avoid a fragmented customer experience

Despite the investment in mobile banking services by banks so far, the study found that for most banks, the branch remains the predominant channel for important transactions such as customer service and product or account origination. Conversely, fewer than 10% of such transactions are currently carried out via mobile channels.

Figure 6: Breakdown of key transactions by delivery channel



Source: Ovum

Current mobile banking offerings are limiting banks' ability to migrate many transactions and key milestones in the customer relationship (such as customer onboarding) to a channel that is both cheaper and often the one preferred by the customer.

While banks are attempting to address this issue, with most currently undertaking service enhancement in areas such as transaction history, domestic fund transfer, payment setup, and broadening the range of financial products offered (see Figure 3), most of this enhancement cycle will not be completed until mid-2020. There are also important service areas, such as international fund transfer and payment, in which 67% of banks surveyed are still at the planning stage but mobile payment players are already significantly ahead.

The implication is that if banks do not accelerate the implementation of more functionally rich mobile banking, customers are likely to use a mix of both banks and mobile money providers to access the full range of digital financial services they want. This in turn makes it far more difficult for banks to develop a comprehensive and deep customer relationship.

Although banks need to balance a complex range of priorities such as regulatory compliance and integration with core, branch, and ATM platforms, in Ovum's view many banks need to accelerate the enhancement of mobile banking services if this situation is to be avoided.

Some digital banking vendors are failing to meet the needs of mid-size and smaller banks

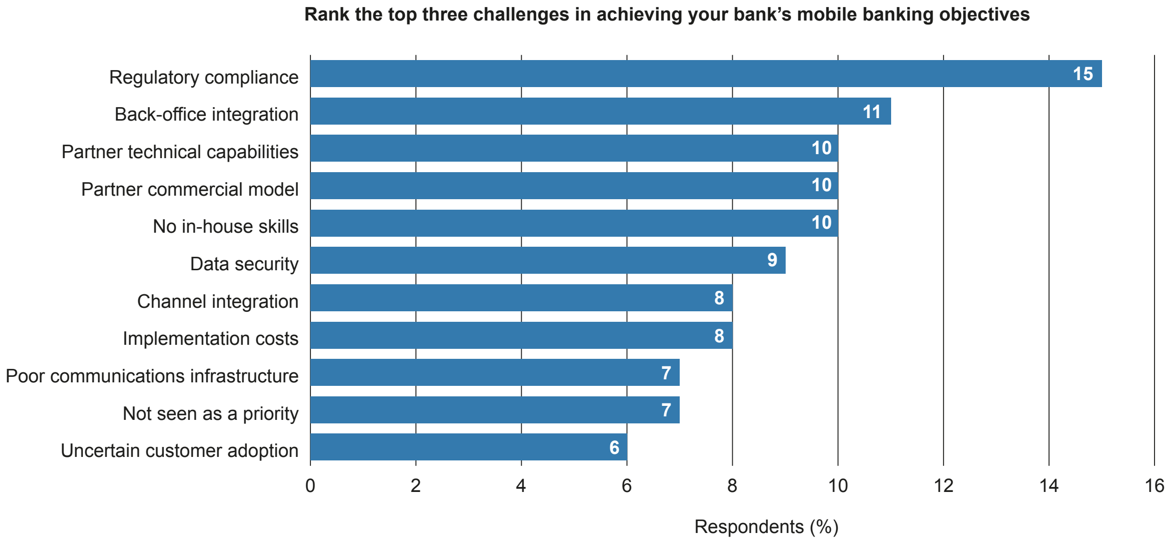
The research also revealed that some of the challenges banks face when implementing mobile banking services show a marked polarization depending on the size of the organization.

For the larger banks, ensuring compliance and integration across a complex systems landscape is the key challenge.

For small and mid-size banks, technology vendors are failing to offer the commercial models needed, which suggests that this significant customer group is currently not being well served because vendors are focusing on the largest potential banking customers.

Of equal interest are those factors that are not inhibiting banks from implementing mobile banking services. Universally across all the survey respondents, "senior management not seeing mobile banking as a priority" and "uncertainty about customer adoption" were the least significant challenges. These findings underline that the vast majority of banks in SSA understand the criticality of mobile banking services to their future growth and the consequent risks should they fail to deliver them.

Figure 7: Top challenges of delivering mobile banking services (weighted average basis)



Source: Ovum

Ensuring mobile banking services meet regulatory requirements is a common challenge across the survey but becomes increasingly problematic as the number of bank customers grows. This results from the greater operational and systems complexity within larger banks, often exacerbated by past acquisitions and potentially being subject to greater scrutiny from regulators. As a result, ensuring regulatory compliance emerges as the most significant issue for 18% of banks with more than 1 million customers. This compares with only 10% of banks with fewer than 500,000 customers citing this as an issue.

For small and mid-size banks (those with up to 500,000 customers) the largest proportion (14%) point to digital banking vendors' commercial models not meeting their needs as the most significant challenge; in sharp contrast only 3% of banks with more than 1 million customers highlight the same issue.

The research also examined respondents' preferred commercial models, with the results again being sharply divided by the organization's size. For the largest banks, there was an approximately equal split between one-off license and software maintenance fees and a usage-based subscription approach, with 48% and 52% preferring each model respectively.

However, the preference for a usage-based subscription approach increased significantly among small and mid-size banks, so of banks with fewer than 10,000 customers, 75% prefer a usage-based subscription model over a traditional software license fee structure.

While larger banks are more likely to have the in-house resources and access to the capital needed, this is not always the case for smaller banks, and in Ovum's view, it is this issue that is driving the preference for subscription-based implementation models among the smaller banks. This view is also supported by the research showing that the cost of implementing mobile banking services was a more significant issue for the smallest banks, with 12% stating it was a significant factor compared to only 4% of banks with more than 500,000 customers.

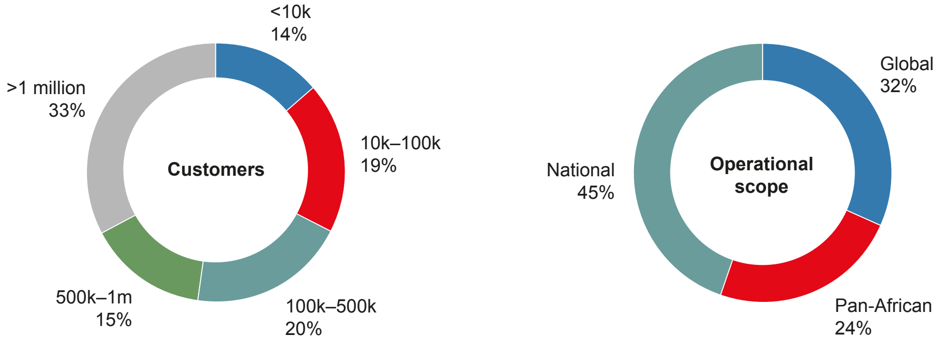
While it is understandable that technology vendors focus their efforts on the largest potential customers, this bias means they are failing to fully cater for the needs of smaller institutions. This finding highlights a significant issue that is potentially inhibiting some small and mid-size banks from implementing mobile banking rapidly enough and that brings serious risk to their future growth.

Appendix

The independent research that supports this report was carried out in April 2019 through in-depth telephone interviews with 200 respondents. The interviews were conducted in the respondent's primary language. Respondents were identified and confirmed as senior decision-makers or influencers with either direct or significant responsibility for planning, implementing, or managing their bank's mobile banking service. A detailed breakdown of the organizations interviewed is shown in Figure 8.

Country	Number	Percentage
Egypt	26	13%
Nigeria	25	13%
Kenya	25	13%
Ghana	15	8%
Tanzania	11	6%
Uganda	11	6%
Zambia	10	5%
Guinea	10	5%
Ethiopia	10	5%
Zimbabwe	10	5%
Cameroon	10	5%
Botswana	10	5%
Senegal	10	5%
Mauritius	10	5%
Gabon	7	4%
Total	**200**	**100%**
Source: Ovum		

Figure 8: Banks interviewed by size of customer base and operational scope



Source: Ovum

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