

>> WHOSE CUSTOMER ARE YOU? THE REALITY OF DIGITAL BANKING IN THE MIDDLE EAST AND AFRICA//

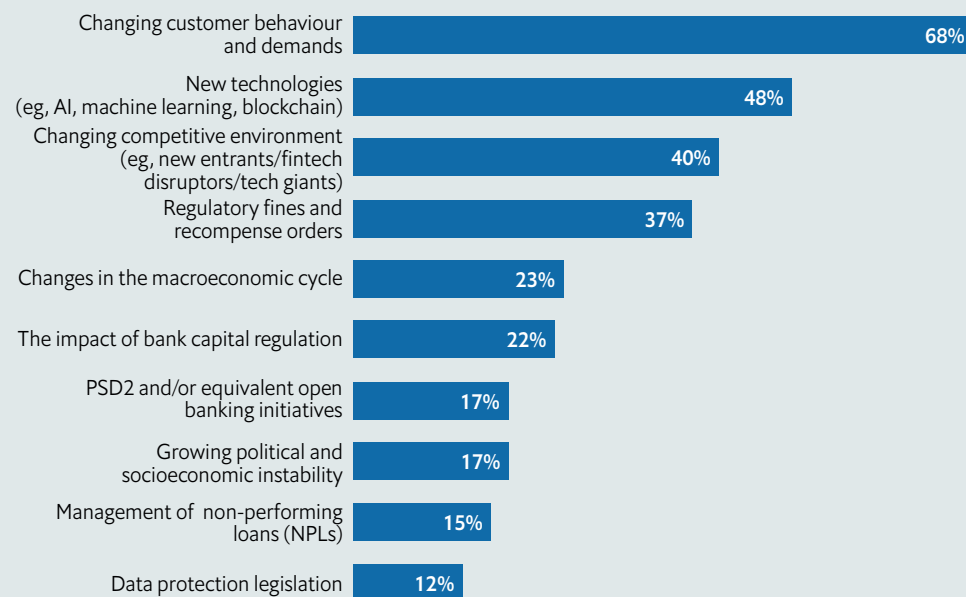
Middle East markets have the digital edge over Africa's mobile-focused offerings

Africa and the Middle East share many common features: young populations, high smartphone penetration rates, and problems with unequal access to banks and banking services, particularly in rural areas. These demographically young and fast-growing regions include hundreds of millions of consumers who are growing up with a deep attachment to their phones and the benefits that the internet has to offer. Historically, banks across the Middle East and Africa may have been slow to react to the demographic and technological changes around them, but this is no longer the case. Over two-thirds of African and Middle

Chart 1

Which trends will have the biggest impact on retail banks in your country in the years to 2020?

(% of respondents)



Source: The Economist Intelligence Unit.

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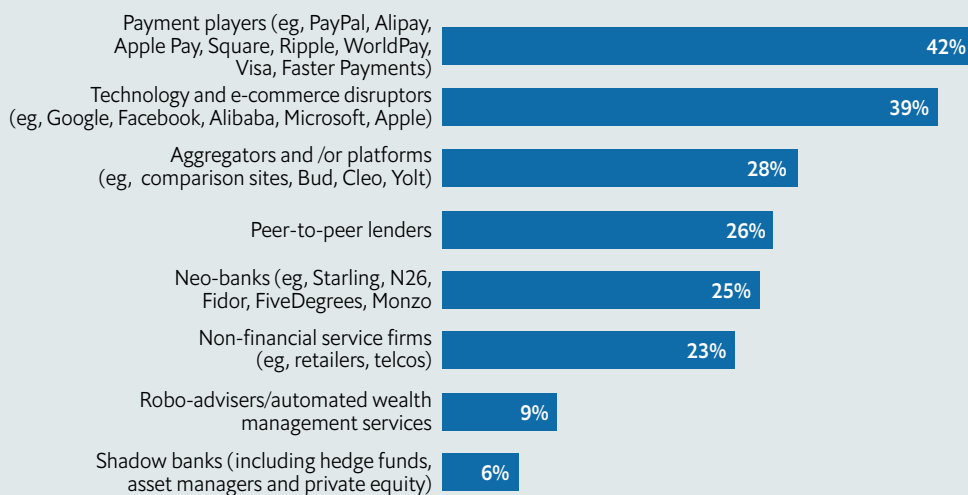
Eastern bankers (68% v 58% globally) now say adapting to new demands will have the biggest impact on their businesses.

When it comes to who African and Middle Eastern bankers see as their biggest commercial rivals to 2020, it is payment players (cited by 42% of respondents v 53% globally).

Chart 2

Which non-traditional entrants to the retail banking industry will be your company's biggest competition in the years to 2020?

(% of respondents)



Source: The Economist Intelligence Unit.

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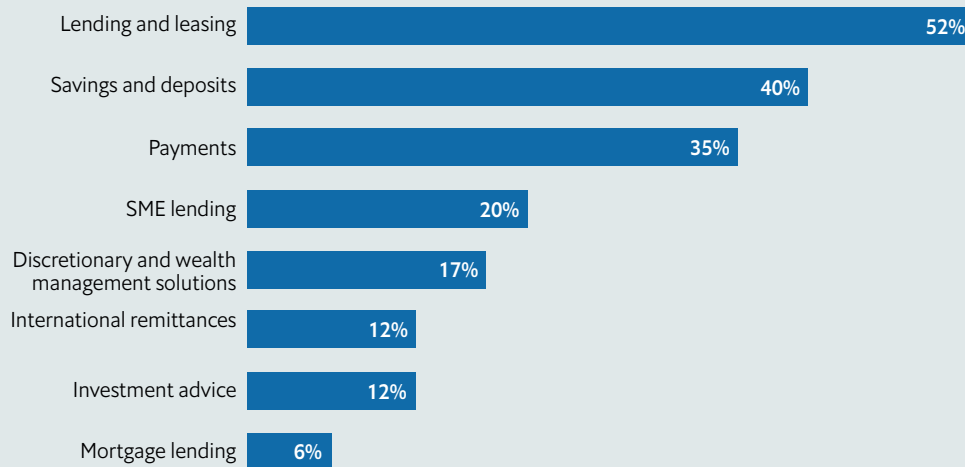
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However, across the Africa and Middle East region, bankers now worry that new entrants will be better at attracting retail borrowers, with 52% citing lending and leasing as being the main area where they expected new entrants to gain the most market share. Another area for concern is savings and deposits, cited by 40%, as well as payments, selected by 35% of bankers, along with SME financing (selected by 20% of respondents).

Chart 3

What is the main area where you expect new entrants to gain the most market share?

(% of respondents)



Source: The Economist Intelligence Unit.

Across both regions, banks are very keen to develop their own niche propositions, with 65% of respondents citing this as how they see their business model evolving. However, 57% of regional bankers are looking to develop banking as a digital ecosystem and 51% say they are opening services to third-party developers. It is clear, given the growing dependency of the younger generation on mobile and digital sources, that banks, non-financial providers and popular platforms will need to work together to not only retain their own customers, but to also reach new ones.

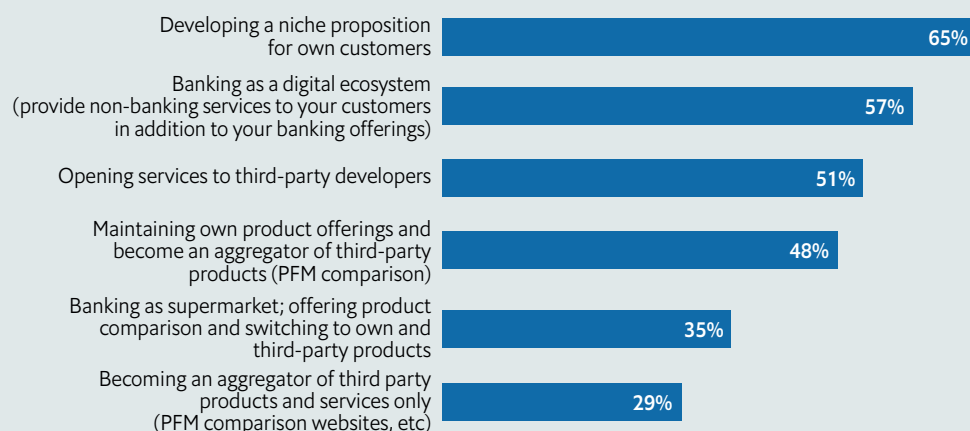
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Chart 4

Strategy How do you see your current business model evolving?

(% of respondents)



Source: The Economist Intelligence Unit.

Responding to digital expectations

Alawwal (see box) says the share of digital transactions has risen from 50% to 90% in three years, with branch queue times plummeting from 25 minutes to just seven. Given the rise in digital and mobile payments (see Graphic 1) Middle Eastern banks need to remain focused if they are to establish universal industry platforms. The region's governments are being pro-active in helping the process along. The financial centres of Abu Dhabi and Dubai in the UAE have established technology hubs to bring together existing banking, fintech innovation and financing. Bahrain, Saudi Arabia and other Gulf states are following suit.

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Graphic 1 No clear digital winners yet

	2014	2017
Made digital payments in the past year (% age 15+)		
Bahrain	63.7	68.7
Oman	n/a	n/a
Kuwait	57.8	62.7
Saudi Arabia	45.5	57.5
UAE	68.3	76.1
Qatar	n/a	n/a
Received digital payments in the past year (% age 15+)		
Bahrain	45.7	59.4
Oman	n/a	n/a
Kuwait	40.2	58.5
Saudi Arabia	24.3	34.0
UAE	55.8	67.4
Qatar	n/a	n/a
Received government payments through a mobile phone (% age 15+)		
Bahrain	3.1	4.0
Oman	n/a	n/a
Kuwait	0.5	8.3
Saudi Arabia	1.4	6.2
UAE	1.3	3.2
Qatar	n/a	n/a
Used a mobile phone or the internet to access a financial institution account in the past year (% age 15+)		
Bahrain	n/a	29.0
Oman	n/a	..
Kuwait	n/a	23.8
Saudi Arabia	n/a	25.7
UAE	n/a	44.6
Qatar	n/a	n/a
Used a mobile phone or the internet to check account balance in the past year (% age 15+)		
Bahrain	n/a	44.8
Oman	n/a	n/a
Kuwait	n/a	41.9
Saudi Arabia	n/a	27.3
UAE	n/a	52.6
Qatar	n/a	n/a

Source: Global Financial Inclusion, Global Findex 2017

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Despite the support of governments to help open these markets even further, it seems African and Middle Eastern bankers haven't yet warmed to open banking. Only 31% see open bank hub initiatives, which give customers the option to connect their bank data with third-party providers, as part of their bank's innovation strategy. This is far less than the 44% global average. Middle Eastern and African bankers (57%) are also, second only to Asia-Pacific bankers (61%), the most likely to opt for closed digital development strategies than to share their innovations with the wider industry.

This may be a mistake. Experience in Europe and Asia shows that banks can successfully compete with the fintechs if they collaborate on the underlying open banking technology infrastructure, security and uniform branding.

The Middle East has yet to find which platform (or platforms) will dominate. It may be wise to encourage more banking industry collaboration, such as the Emirates Digital Wallet, a joint initiative by 16 local banks,

CAFFEINE-FUELLED BANKING: A UNIQUE SAUDI EXPERIMENT BRINGS DOWN THE WALLS.

The Costa Coffee outlet at the Al Nakheel Mall in Riyadh looks like any other around the world. But look closer: touchscreen tablets abound and a discreet ATM lurks in the corner.

For Alawwal Bank, Saudi Arabia's oldest bank, banking and coffee are a perfect match. Customers can now open an account or get a new card before their latte has gone cold. There are no walls, no glass screens, desks or even a ceiling. Staff mingle with customers and the call centre is just a click away.

"Seventy percent of the population is under the age of 30. They live their lives on social media. Digitalisation is not optional for us," says Soren Nikolajsen, the bank's managing director.

For the new branch, named "IBDA", every process had to be rebuilt and simplified.

Collaboration with the Saudi Arabian Monetary Authority was key to the bank's digitalisation. It helped the bank gain access to reliable databases

within government to speed up ID verification and credit scoring.

"We worked with our solutions providers and vendors on the new infrastructure. It had to be scalable and easy to integrate, with new middleware for the handshakes between systems," says Sami Al-Rowarthy, head of marketing, e-business and digital channels.

Alawwal also had to convince the Saudi Arabian Monetary Authority that digital is robust, particularly when linking to the Ministry of the Interior's database for ID verification.

IBDA has beaten every expectation. It opens twice as many accounts as the best performer in the traditional network. As Saudis like to shop late, midnight to 2am is usually IBDA's busiest period.

The best bits are now being rolled out to the rest of the network, starting with instant account opening and card issuance processes.

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Mr Nikolajsen and Mr Al-Rowarthy would like to go further. Open banking is on the cards but regulators need to smooth the path for contactless and P2P payments before every coffee purchase in the Kingdom is cashless.

before a new fintech player or even a traditional non-financial player (eg, Jumia or Facebook) steals the market from under their feet.

What banks can learn from mobile in Africa

The situation for banks is very different in the Middle East in comparison to Africa. In Africa, millions of consumers use mobile transactions that are not reliant on bank platforms. In sub-Saharan Africa in particular, banking services have spread through the advance of mobile money operators (MMOs) run by telecoms companies. In December 2017 GSMA Intelligence counted 135 services operating across 39 countries.¹

The MMOs have thrived because Africa, overall, has very limited banking infrastructure. Kenya has fewer than six bank branches per 100,000 people; even wealthy South Africa has only ten.² In rural areas, withdrawing or depositing cash often necessitates a long round trip.

The MMOs have used this lack of easy-to-access banking to their advantage, initially by allowing users to exchange mobile credits, then by deploying tens of thousands of local agents to act as *de facto* branch outlets that process cash in and out of the mobile ecosystem. For many banks, in a bid to retain their customer base, they are turning into producers and simply adopting the MMO mobile platforms as a primary distribution channel.

Graphic 2 On the ground limitations

African and Middle Eastern customers have fewer commercial branches available relative to Europe

Commercial bank branches (per 100,000 adults)	2006	2011	2016
Middle East & North Africa	12.1	12.5	14.7
Sub-Saharan Africa	1.6	3.5	5.3
Europe & Central Asia	26.4	24.1	23.6

Source: World Development Indicators, World Bank

¹ GSMA Intelligence, July 2018 <https://www.gsmainelligence.com/research/?file=809c442550e5487f3b1d025fdc70e23b&download>

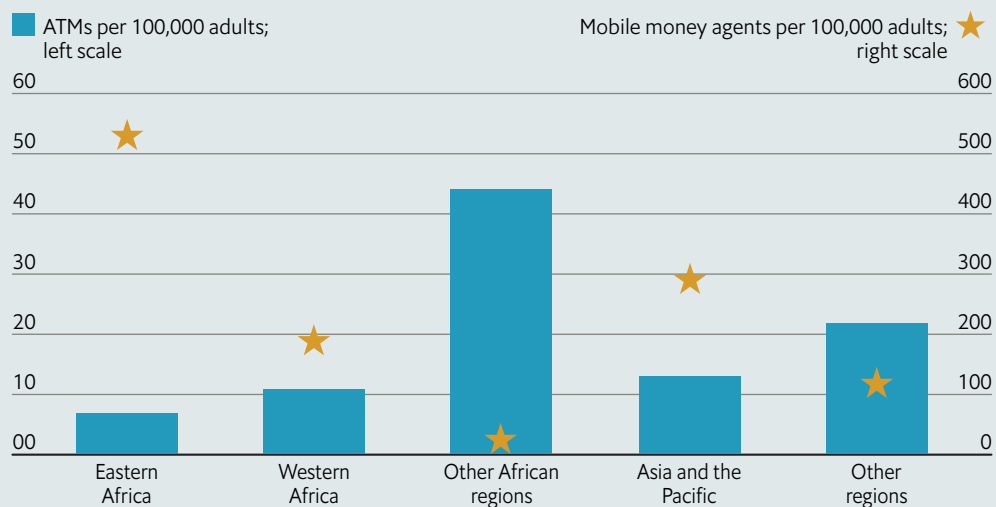
² World Development Indicators, World Bank

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Graphic 3

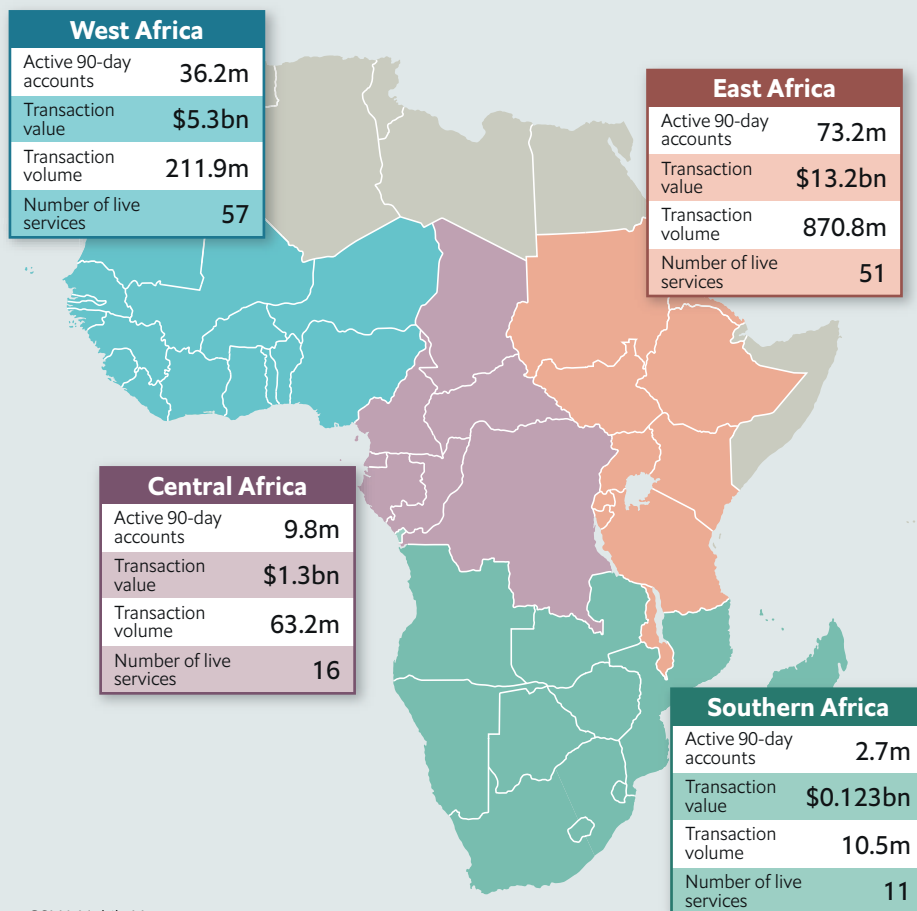
African Mobile Money Operators overcome sparse banking infrastructure



Source: Financial Access Survey 2017, IMF calculations, Other Africa Regions include non-sub-Saharan countries.

Graphic 4

Africa's mobile money operators storm ahead MMOs have spread from East to West across sub-Saharan Africa



Source: GSMA Mobile Money programme.

As mobile money payment services grow, governments from Côte d'Ivoire to Uganda are digitising other parts of the economy, enabling tax, school fees and health services to be paid for via phones.

This digitising knock-on effect benefits consumers across Africa in multiple ways. One Ugandan study showed that 5m mobile users saved nearly 60m hours in three months³ by using their phones to transact and transfer instead of having to physically visit their banks. Other studies show improving gender equality

as fintech providers give women greater financial control and access to micro business finance options. Digitisation and mobile are even helping access to finance in terms of the rural-urban services divide: M-Pesa's owner, Safaricom, offers loans to farmers and is using its data cloud to branch into health payment packages. Another Safaricom project, M-Shwari, originating in Kenya, is a mobile-based virtual banking platform. It is a joint venture between Safaricom and the Commercial Bank of Africa. It is integrated into the MySafaricom app. It offers

³ Digital Impact Awards Africa, August 2017 <http://www.digital-impact-awards.com/blog/2017/08/mobile-money-users-save-19329887-million-hours-a-month-digital-impact-awards-africa-study/>

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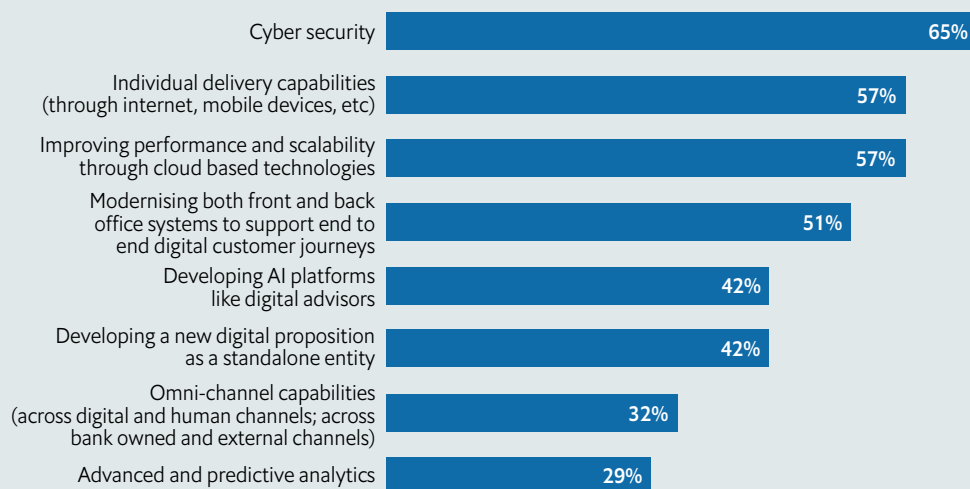
a savings account and access to digital credit. According to FSD Kenya,⁴ 35% of Kenyan phone owners have tried at least one digital lender. It is therefore no surprise that the number of accounts have grown to over 31m in five years.

What is clear is that banks are refocusing their investment. As the survey revealed, they are shifting their digital investment to improving their individual delivery capabilities (selected as a key focus for 57% by bankers).

Chart 5

Where is your company focussing its digital investment?

(% of respondents)



Source: The Economist Intelligence Unit.

“The banks initially ignored, then fought M-Pesa. Now they have to embrace it,” says Tamara Cook, head of digital innovations at FSD Kenya, a programme that encourages financial inclusion.

Improvements in access to banking services are also forcing regulators to improve consumer protection, including plans to cap lending rates to ensure lenders are treating borrowers fairly.⁵

The situation in the Middle East is less dramatic but no less important. MMO penetration is lower, but the rise in popularity of mobile-only remittance services and transaction apps shows how strong the latent demand for full mobile banking is.

⁴ https://www.microfinancegateway.org/sites/default/files/publication_files/digital_credit_survey_-_kenya_presentation_cgap_v3.pdf

⁵ Daily Nation, March 25th 2018 <https://www.nation.co.ke/business/Kenyans-have-become-prisoners-of-mobile-loan-Apps--shows-study/996-4356726-tbx052/index.html>

ECOBANK: OUTGUNNING THE MOBILE MONEY OPERATORS

“Mobile banking is an African product,” admits Edward George, head of group research at Ecobank. “It is all about cost and access to the internet.”

Ecobank has several advantages that mobile money operators do not. It already has a panAfrican network spanning 36 countries. With local banking licences in place, it also has a common banking platform that lets customers send money instantly to any other cross-border account holder for a small fee.

In 2016 the bank launched a unified pan-African digital banking and payments service.

Patrick Akinwuntan, outgoing group executive at the consumer banking division, says 1m customers adopted Ecobank’s mobile app in its first year. Today, there are 8 m users.

The XpressAccount digital-only account adds to the appeal. With no documentation required, 7m customers now have free accounts.

Ecobank aims to serve 100m customers by the end of 2021.

Ecobank has partnered with mobile operator MTN to expand financial inclusion. It has also signed up shops, kiosks and petrol stations for its own XpressPoint agent network.

The bank has partnered with Visa and Mastercard for EcobankPay, a mobile payment solution that allows customers to scan QR codes and pay merchants across Ecobank’s multi-country footprint.

“We have our own switch, so can leverage instant payments everywhere,” says Mr Akinwuntan. And although the bank has modern infrastructure, it spent heavily on ensuring the app looked and worked the same way in every country.

That 100m-customer target may be in reach.