



The state of financial services in Africa: uncertainty and opportunity



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The banking industry in the Middle East and Africa is emerging into an uncertain environment in which Covid-19 remains a substantial influence on customer behaviour and corporate decision-making.

In the Middle East and North Africa, revenue growth remains a challenge. Many consumers remain cautious. Central bank interest rate cuts have suppressed returns. Like their counterparts elsewhere in the world, MENA banks will be judged by their ability to match 2019 financial performance in 2021 and 2022. By some estimates, this will require cost reductions of 15%-20%. Accordingly, attention is shifting beyond the traditional one-off reductions in staff and budgets, and into the realm of digital transformation.¹

In sub-Saharan Africa, the impact of Covid-19 has been uneven, but often severe. Amid the region's first recession in 25 years, GDP fell by an aggregate -2.4% in 2020, with a number of more vulnerable nations experiencing much bigger declines. According to the IMF, employment levels fell by 8.5% in 2020.²

Some forecasts suggest that it will take until 2025 for Africa as a whole to return to pre-Covid GDP levels. One inevitable consequence will be a rise in non-performing loans, which have the potential to destabilise the banking sector.

Many traditional African banks already have cost-to-asset ratios more than twice the global average. Historically, these high costs have often been offset by high interest rates charged on loans. According to the World Bank, the median margins between interest rates applied to deposits and loans by African banks stood at 6.8% in 2017.³ This business model will undoubtedly be tested by a prolonged recession.

¹ *EY, MENA quarterly banking report (April 2021)*

² *IMF, Country Focus: Sub-Saharan Africa (April 2021)*

³ *Economist, Why interest rates are so high in Africa (May 2020)*



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Yet in every crisis, opportunity exists. Agile infrastructure, data-driven risk management and online interaction increasingly offer banks the opportunity to sell savings products, loans, investments, and insurance to Africa's rising middle class. These customers tend to differentiate suppliers of financial services on the basis of price, convenience and service (in that order). Furthermore, they are typically part of the 40% of the population that prefers to do their banking via digital channels.⁴

Before Covid-19, Africa was in the midst of an accelerating wave of digital transformation. The continent was adding more new broadband connections than anywhere else in the world. Mobile data traffic was expected to increase sevenfold between 2017 and 2022. Despite Covid-19, there are signs that this demand-side impetus remains in place: according to one survey of consumers in key African economies during the pandemic, over 30% said they were making increasing use of online and mobile tools for banking.

Financial services organisations and the start-up ecosystem continue to meet demand. The McKinsey Global Institute predicts that the velocity of financial services digitisation on the continent after Covid-19 will remain significant, matching that of the world's developed economies (although clearly, starting from a lower base).⁵

The evidence of this is most visible in some of the largest sub-Saharan economies. Nigeria, for example, is home to seven out of 10 of the continent's best-funded neobanks and fintechs. In South Africa, consumers can now bank with an entirely branchless, fully-regulated consumer bank that runs its core banking software in the public cloud.

In MENA, neobanks like E20 and Liv (both owned by Emirates NBD) are successfully appealing to SMEs and young digital natives respectively. Central banks are increasingly operating as digital regulators, setting up fintech regulatory sandboxes and setting standards for modernised payments, FinTech, RegTech and open banking. By one estimate, FinTech will account for 8% of financial services revenues in MENA in 2022.⁶

For many traditional banks in Africa, living life alongside Covid-19 will involve a mixture of uncertainty, disruption and opportunity. As we're about to see, many long-established banks are already responding to change by exploiting new opportunities.

⁴ *McKinsey, Roaring to life: Growth and innovation in African retail banking (February 2018)*

⁵ *McKinsey, Reopening and reimagining Africa (May 2020)*

⁶ *The Fintech Times, Fintech: Middle East and Africa 2021 (April 2021)*

Four models for digital transformation

Organisations with a strong digital foundation are better prepared to cope with disruption and grasp new opportunities. From front office to back office, Microsoft and its partners offer a comprehensive portfolio of industry solutions for financial services organisations, including Microsoft Azure, Dynamics 365 and the Microsoft Power Platform. Here are the stories of four banks that have recently modernised different aspects of their operations in partnership with Microsoft.

JS Bank: a single source of truth for world-class customer experience

JS Bank operates 3,000 retail branches in 172 towns and cities in Pakistan, offering retail and business customers a full spectrum of services, from mortgages and mutual funds to investment banking and agricultural finance.

JS Bank is a fast-growing institution with ambitions to leverage world-class customer service to become one of the nation's top 10 banks. On its digital transformation journey, one of the key necessities was a single source of truth about each customer, available to everyone from call centre operators to relationship managers. The aim, according to Imran Soomro, CIO of JS Bank, was for customers to walk away from every interaction, regardless of the channel involved, and say: "You know, JS Bank really knows me and knows exactly what my requirements are and what my pain points are."

JS Bank selected a solution customised for retail banks by a local Microsoft partner on top of Dynamics 365. The system provides everything JS Bank wanted from a CRM system, including data-driven insights and propensity models for next best action. In addition, JS Bank is now poised to start using Microsoft Power BI to distribute customer insights to staff on role-based dashboards developed for different units within the bank.

"It was important for us to use a bank-specific CRM," explains Soomro. "You can buy many CRMs off-the-shelf, but I would advise everyone to consider the ultimate value for money. In the end, the ROI of finding the right solution will more than justify the initial investment."

[Read more](#) about how JS Bank's digital transformation efforts put customers in the driving seat.

Standard Bank: empowering frontline employees with smart customer insights

In South Africa, Standard Bank is relying on Microsoft Power BI and Azure to generate customer insights for thousands of users in the organisation.

This has involved a major break with the past. Historically, 150-year old Standard Bank had often relied upon a number of on-premise legacy siloed data sources. Generating insights from these data silos often felt like a challenge without a solution: the costs of pooling data from siloed systems always seemed prohibitive.

Today, the combination of Power BI, Microsoft Azure and Common Data Model from Microsoft has transformed the economics of data management at Standard, and freed up IT professionals to take on more high value tasks. At Standard, more and more datasets are being combined into a data lake based on Azure Data Lake Storage. For operational and near real-time data, the bank has deployed Azure SQL Database.

But this project, which began in 2017 and continues today, is about more than the economics of data. Across Standard Bank, some 2,500 users have now been empowered to use Power BI to query the bank's data themselves. By democratising access in this way, the power of the bank's vast datasets has been liberated to enable better decision-making everywhere.

[Learn more](#) about how 150-year-old Standard Bank is empowering staff in 20 territories to make smarter, better, decisions on a daily basis.

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Mashreq Bank: accelerating sales with mobility, insights and integration

The story of Mashreq Bank, the oldest bank in the United Arab Emirates, involves a total transformation of the bank's customer-facing systems, thanks to Microsoft 365, Dynamics 365, Azure and a range of additional Microsoft solutions.

Mashreq wanted to transform the productivity of sales staff who were held back by two major constraints. The first challenge was mobility, in the form of the amount of time it was taking to visit customers in person, return to the office and complete paperwork. The second challenge involved giving employees streamlined access to a range of siloed applications, including core banking, CRM, a customer inquiry system and a sales system.

Microsoft's solutions fostered customer-facing productivity in two dimensions. It allowed the bank's sales team to become a fully-fledged mobile workforce, exploiting Teams, Exchange Online and Sharepoint Online. But it also allowed the bank's representatives to effectively become universal bankers, working in reorganised high-efficiency teams at branch level.

The latter part of the project relied on the deployment of Microsoft Dynamics 365 to generate customer insights. These have allowed representatives to cross-sell and upsell more effectively, personalising customer interactions in the process.

Opening a new account at Mashreq Bank now takes 10 minutes, compared to 30 to 40 minutes previously. Today, 94% of transactions originate digitally, compared to 30% to 40% five years ago.

Mashreq remains the oldest bank in the UAE. But, today, in addition, it can point to an additional achievement: winning Euromoney's award for Best Digital Bank in the Middle East for two years in succession.

[Read more about how the UAE's oldest bank became a digital innovator.](#)

Reinventing trade finance: Anglo-Gulf Trade Bank

Trade finance is the oldest speciality in international finance, but it often relies upon outdated systems, manual processes and siloed data. In the words of Daniel Gould, deputy CEO of Anglo-Gulf Trade Bank, the sector suffers from a "broken business model". Among other things, this means that smaller exporters have traditionally been unable to make use of trade finance, inhibiting export growth across the continent.

As a greenfield start-up, Anglo-Gulf Trade Bank aims to revolutionise the sector by delivering an industry-leading client experience. Using advanced analytics and substantial automation, AGTB intended from the start to make smarter decisions, and make them faster.

AGTB's technology stack was constructed around Microsoft Azure. Integration of customer-facing systems with ERP and core banking systems was a major area of focus: 10 major commercial applications were integrated via 288 connection points. Dynamics 365 and Microsoft 365 became AGTB's preferred customer-facing platforms, offering the potential for dynamic collaboration, mobile working and deep customer insights.

In a matter of months, AGTB constructed the world's first digital trade bank from the ground up. In doing so, it has used technology to accelerate business processes and broaden the scope of financial inclusion. One of the benefits of accelerated business processes has been a better understanding of risk, which will allow the bank to offer services to sectors of the economy that have been traditionally shut out from access to trade finance.

To learn more about Microsoft's work with Anglo-Gulf Trade Bank, [go here](#).

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Microsoft Dynamics 365: building great experiences, one customer at a time

Dynamics 365 allows organisations to look at their customers through new eyes, unlocking the potential for high-quality, relevant and personalised interactions.

The customer experience component is one of seven modules within Dynamics 365. In a typical deployment scenario, Dynamics 365 begins by automating a 360-degree view of every customer. Using pre-built connectors, the application seeks out relevant data across multiple silos, including databases for support services, previous campaigns, point of sale, social media, loyalty programs and much more.

Dynamics 365 then sets to work with AI capabilities provided by Microsoft Azure. AI pulls together customer attributes into a profile for each customer. Next, AI routines suggest customer segmentations based on brand affinity and other attributes. Dynamics has several pre-built frameworks for this kind of modelling: for example, to predict customer churn and lifetime value.

Once Dynamics 365 has marshalled your data and generated new insights, it's time to create interactions and launch campaigns. Dynamics 365 allows you to send parts of your customer base on classic segmented journeys. You can also create individual customer journeys, or a wide-ranging library of them. The journeys are individual in the sense that you can configure them to be triggered by a user with specific attributes taking a specific digital action (e.g. opening an email, or clicking on a specific web page).

Dynamics 365 brings two additional game-changing characteristics to the table. Like the rest of Microsoft's business applications, it's been built for democratised deployment. What we mean by that is that Dynamics 365 is user-friendly: you don't need an army of data scientists and developers to generate insights and interact with customers. The second game-changer is persistent AI. While customers are engaged on journeys you have devised for them, Dynamics uses AI to learn from customer actions and generate recommendations for you.



Microsoft Power Platform: a wide-ranging toolkit for digital transformation

Dynamics 365 is closely aligned with the Microsoft Power Platform, an intelligent business cloud that connects relationships, workflows, and insights across every line of business. Underpinning both is Microsoft Azure, which holds customer data and runs the predictive AI capacity that is woven into all of Microsoft's business applications.

The Microsoft Power Platform is a flexible toolkit for digital transformation. It allows your organization to drive repeatable outcomes at scale, powered by AI-fueled insights derived from unified, enriched data.

Power Platform comes with low-code functionality that individual users or departments can use to automate their own workflows, build their own applications and analyze their own data. (No more waiting for an analyst to run the numbers you need to analyze changes in customer behavior.)

The Power Platform includes:

- **Power BI:** analytics that scale from a single user to enterprise-wide, democratizing business intelligence with smart tools and tight Excel integration
- **Power Apps:** allows users to build applications using templates, drag-and-drop functionality and pre-built AI components
- **Power Automate:** low-code/no-code platform for automating workflows using robotic process automation
- **Power Virtual Agents:** for building chatbots that interact with products, services and customers

The Microsoft Power Platform helps organisations to understand their customers and transform the business processes that drive customer experience. The result is a digital foundation that's automated, intelligent and gives frontline managers the power not only to react rapidly to changing circumstances, but to predict those changes, too.

Preparing for the new normal in uncertain times

Long-established banks have a range of significant advantages, including powerful brands, a legacy of trust and deep personal relationships with loyal customers.

Today, however, some sense vulnerability in the high profit/high cost models that have sustained their business historically. At the intersection of youth demographics and the rising middle class, different preferences are taking shape, which will inevitably become more visible over time. New rivals continue to exploit these shifts in segments where risks are low and scale can drive significant levels of profitability.

The response to Covid-19 shut down large sections of the analogue economy, forcing many customers to shop, bank, and to a large extent, live online for the first time. The result, across many sectors of the economy, has been a rapid acceleration of digital adoption.

Financial institutions need to respond.

They need to circumvent the silos between applications and datasets. They need to harness their data to generate the insights and levels of personalisation that convince customers that they are valued. They need to equip streamlined teams with accelerated workflows and the technology required for mobile working.

From core banking to personalised marketing campaigns, Microsoft offers a comprehensive portfolio of financial services solutions that stretches from cloud to device. Our offerings have enabled some of Africa's best-known banks to deal with the uncertainties of the new normal by deploying agile infrastructure solutions, exploiting customer insights, accelerating decision-making and transforming employee productivity.

If digital modernisation or transformation is on your organisation's agenda, reach out to Microsoft, or a Microsoft partner. Alternatively, attend one of our free workshops. [Sign up here.](#)