



# The State of Financial Freedom in Africa

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## Abstract

Sound financial markets are critical to building prosperity, yet as many as 2.5 billion adults in the world lack access to financial services such as payments, credit and savings. In Africa, it is estimated that close half a billion people will need access to financial services over the next decade. Interestingly, Africa doesn't lack banks, to the contrary, Africa has over 600 banks that are one of the best performing banks in the world in terms of ROE or ROA. While African bank performances may be the envy of their global peers, Africans financial performance are well below their global peers. Why are Africans not getting the boost they need from their financial institutions? We argue that the future of banking in Africa is tied to the success of the African consumer, and it is time bank executives' especially African-owned banks step up their game if they want to remain relevant and thrive over the next decade. The field is still wide open, and help is on the way - in one of the first studies of its series on the future of banking, the Kasi Insight team surveyed over 100,000 urban dwellers in Kenya, Ghana, Ivory Coast, Cameroon, Tanzania, South Africa and Nigeria over 2.5 years period to understand what "financial freedom" means for them and come up with recommendations on how African banks can continue to outperform their global peers but also become more relevant to African consumers.

The report provides five recommendations to help African banks strengthen their relevance to their clients. They are simply stated here, but the report provides better understanding of what they mean and why they are suggested.

1. Understand what "financial freedom" truly means
2. Focus on value, not features
3. Don't just connect – show that you care.
4. Don't digitize for the sake of it. Use technology with clear purpose.
5. Strive to be a lifelong partner.

### Background

Africa is a fast-growing and profitable banking markets, in fact Africa is the global banking second most profitable region with an average ROE hovering around 15 percent just behind Latin America<sup>1</sup>. Banks in Kenya, one of the strongest banking sector in Africa, have provided an average ROE of 27 percent since 2012<sup>2</sup>. Given the role banks play in boosting economic activities and enabling wealth creation, one would expect that the strong performance of Africa banks will translate into a strong performance with the African consumers. Unfortunately, Africans are not feeling they get the help from their banks, worst they have negative perceptions about their banks and banks in general. With rising competition from Fintech and Telcos, it is just a matter of time until banks are faced with a massive migration of people to more effective and meaningful banking services. In a banking sector that is already saturated with banks with very little differentiation, it is time to get off the digital transformation bandwagon, the imported banking model and products, the reliance of high interest rate to redefine the authentic African banking experience and purpose. We called it iBanking (inclusive Banking).

The research focused on gaining an understanding of the banking ecosystem from a consumer perspective, especially vis-à-vis the concept of financial freedom, and come up with recommendations for bank executives. This simple approach to probe the complex consumer's mind and gather insights on them

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<sup>1</sup>McKinsey report

<sup>2</sup>Kasi banking report (Kenya)

perception of banks was purposely aimed at getting clear answers to important questions:

- What is the general perception that consumers have of their banks?
- Are African consumers looking to achieve financial freedom?
- What does financial freedom mean to the African consumer?
- What are the steps needed to achieve it and are banks helping along?
- Finally, what is really the competition banks should worry about?

The study generated a range of insights, including these findings:

**African banks are performing well but their customers are not.** The strong financial performance of the banks in Africa doesn't translate into strong brand engagement and customer appreciation. Our internal NPS score that measures the likelihood of a customer recommendation to a friend or family is -43 with only 11 percent of net promoters across the 7 countries we surveyed. It's almost as if customers are using banks because they have no other choices. Sooner or later banks will pay the price.

**African consumers have a dream: financial freedom.** It is no longer enough to be a bank offering the same boring and irrelevant services to Africans who desperately need help to meet the challenges of their daily lives. At the core, financial freedom drives Africans, in fact 75 percent of people we survey wants to achieve financial freedom. Being on track to meet financial goals such as buy a house, start a business represent financial freedom for a third of the people we surveyed. To achieve financial freedom, the first step is to be financially fit (know your network and have control over your money), then financial security (have tools to manage risks and investments in assets) finally financial freedom (build sustainable

retirement income and well thought succession plan).

**Focus on value, not features.** Customers are not finding the banks to be helpful. In fact, 54 percent of the people we surveyed stated that their banks are not helping meeting their financial and live challenges. Even in Kenya where mobile money empowered people with access to financial services, 60 percent of the people said banks are not helping. It is not about getting on the latest technology or trend; customers are looking for value. To succeed in an increasingly competitive and consumer driven landscape, bank executives should constantly re-assess the bank performance with a focus on value, not features or functions.

**Don't just connect, show that you care.** African banks are spending a lot on advertisement but a study in South Africa shows that these ads may be boring and not relevant. In fact, banks are nowhere to be found on the annual ranking of top 100 most admired brands in Africa. Our research shows that while Africans are looking to achieve financial freedom, very few are actually financially fit (They know their network and have control over their money). Globally, 40 percent of people we surveyed would be considered financially fit, 31 percent would be considered financially secure and 30 percent close to financially independent. As expected, the picture varies a lot by country and region.

**Don't digitize for the sake of it. Do it with purpose.** The talk within the banking space in the world is very much around digitization. The talk within the banking world is very much around digital transformation. In a global context without local insights, it is easy for bank executives to get on the digital bandwagon, so they don't feel left out. Our research shows that while digitization provides ways to deliver financial services in an effective and affordable way in Africa, digital banking has its limits. In Kenya,

gaming addiction is now linked to the rise of digital credit where customers are given micro-loans at very high interest without proper knowledge and information of the danger and the implications of not meeting debt obligations.

**Be an inclusive bank.** Banks in Africa are highly exposed to concentration risk – their revenue is mostly tied to interest income and capital, in fact we estimate that 80 percent of their revenue is derived from interest income, in addition to the lack of revenue diversification, banks also lack industry or segment diversification. The bulk of interest income is coming from lending to government and large corporations. Interestingly, customers that provides the bulk of bank deposits are not represented on the asset side of the banks’ balance sheet. Personal lending and business lending don’t represent a big share of the bank’s assets. That’s a \$55B retail banking opportunity banks are not capturing at the moment. To be inclusive, banks should start with deepening

their customer insights capability to refine their unique value proposition, then innovation in risk, digitalization but also around governance and compliance will follow easily.

Our research has implications for bank executives, brand managers and marketers who are looking to tap into the massive consumer market of Africa.

The structure of the paper is as follows:

In Section 1, we go over the banking landscape from a user perspective (financial inclusion, banking industry, and competition, digital), then, in section 2, we look at the future of banking and why financial freedom is part of it. In section 3, we cover the main findings of the study and the implications for bank executives when it comes to turning banks into the prosperity drivers they must be in Africa.

Nairobi, Kenya



# The banking landscape from a user perspective

## Financial inclusion continues to rise

According to the World Bank Index, Sub Sahara Africa is the only region where the share of adults with a mobile money account exceeds 10 percent. In Kenya, the leader in mobile money, 82 percent of adults have a bank account compared to only 14 percent of the adults in the Central Republic of Africa. Financial inclusion measured by access to a bank account is a good start, being able to capture the full benefit of financial services will come from deeper access to other services such as saving, risk management, wealth management and investments. Our research report is focusing on the full spectrum of financial services needed for customers in urban areas in Africa. Urban Africa is a compelling opportunity. By 2050, Africa will account for 50 percent of the world population and half of these people will live in urban centers<sup>3</sup>. While the mega cities of Cairo, Johannesburg, and Lagos are front of mind for business opportunities, there are also underdog and upcoming cities such as Douala, Abidjan, and Accra. Our research is based on one of the largest and longest consumer survey targeting urban dwellers in the seven of the biggest urban centers in Africa.

Some three quarter of urban dwellers we surveyed in Kenya, Nigeria, Cameroon, Ghana, Tanzania, South Africa and Ivory Coast have a bank account from one of the 70 banks selected for this study. Nairobi in Kenya is leading the way with 93 percent of

respondents with a bank account followed by 70 percent of respondents in Douala, Cameroon.

Our research finds that the majority of urban dwellers who have bank accounts mostly use basics banking services such deposit, transactions and mobile money. In fact, only 30 percent of the people we survey have insurance (life and non-life), 35 percent have budgeting tools, and 30 percent say they have investments within a wealth management plan. There are big variations between countries, but the finding is clear. **Despite the rising number of urban Africans with access to a bank account, far too many Africans are still excluded from the full spectrum of financial services (personal/business lending, mortgages, investments and insurance)**

## Customer's perception of banks is not positive

While banks in Africa are focusing on digital transformation, it is important to keep in mind the needs and challenges of the customers if they want to be seen as trusted partners. Bank executives should also pay close attention to their customer transformation strategy because the majority of people we've surveyed are not feeling the love. Some 50 percent of bank customers we surveyed are not satisfied with the level of service of their banks. 60 percent of customers don't believe their banks are helping them address financial challenges and concerns

<sup>3</sup> United Nations, Department of Economic and Social Affairs, Population Division (2014).

*World Urbanization Prospects: The 2014 Revision, Highlights (ST/ESA/SER.A/352)*

## The banking industry is crowded

Africa has too many banks given its level of productivity. As part of this research, we've counted 230 banks in the countries for a combined GDP (PPP, 2017) of \$2,500 billion. Canada where banking penetration is at 100 percent has 26 banks for a GDP (PPP, 2017) of \$1,700 billion. Kenya alone has 43 banks for a GDP of \$163 billion and a banking penetration of 82 percent. Canada is creating 100 times more wealth with half the number of banks. Given the banking penetration in Africa, the competition landscape is crowded because banks are not focusing on growing market share or are offering very similar products. Globally, Africa has an estimated GDP (PPP) of \$3,300 billion with over 600 banks and an average banking penetration of 35 percent.

In Canada, 90 percent of the banking market is controlled by 10 large banks, and they are providing a full range of financial services. To reach the full banking penetration, Africa will need fewer banks but stronger, more inclusive banks and more financial empowered customers. It is important for banks executives to understand what to make of the current competitive landscape to identify the traits of the future winners. By 2025, we forecast that Africa to have a GDP of \$10,000 billion and less than 300 banks. It is a massive opportunity for the banks with the right strategy.

The competition today is mostly driven by an industry concentration (geographic, offering and client base) and lack of differentiation of the bank offerings. African banks generate on average 80 percent of their revenue from interest income coming from corporate and institutional banking. Interest rates in Africa are significantly higher compared to global levels and governments have been increasing their reliance on the bond market. For the majority of the banks in Africa, revenue is generated mainly from corporate, government and trade finance to some extent

– but there is a limited numbers of these corporates in Africa. **The margins are great today so there isn't much incentive to do better or challenge the status quo. The margins in banking are attracting more entrants that are crowding the industry and not providing the value-added need by customers.**

## The competition is outside but not who you think it is

Understanding and tracking the competition is very important for bank executives in Africa. In our conversations with bank CEOs and executives, competition is high on their priority list. In an already crowded market, executives are looking outside of banking for what seems to be the biggest threats for banks in Africa: Fintech and Telcos. But are Fintech and telcos what bank CEOs should worry the most about?

Media reports have been forecasting the death of banking and the rise of Fintech since the 2008 financial crisis. This global trend has been largely driven by lack of trust in banking post crisis, technology innovation around mobile connectivity and demographics trend (especially with millennials). How is this global trend manifesting itself in the African market? Let's look at a brief history of Fintech. Fintech which originated in Europe post 2008 filled a customer trust gap as a result of the financial crisis and the government bailout granted to several banks. In mature and developed markets (Europe, Asia and North America) close to 50 percent of banks revenue is driven by fee income (transaction banking, wealth and trade finance). In the UK for example, revenue from commercial and transaction banking was \$160 billion in 2017. By providing similar commercial or transaction banking services at a much cheaper price and with scale thanks to technology, Fintech can capture more market share within the incumbent banks fee income

such as managing cash, saving and investing for their retirement. As expected, there are big variations by country, banks in Nigeria seem to perform better than everywhere else with 77 percent approval rating from customers, closely followed by banks in Kenya with 58 percent approval. Globally, banks in English speaking countries perform better than banks in French speaking countries.

It is not surprising that only 11 percent of their customers we've surveyed say they are very likely to recommend their banks to friends or family. Almost half of the customers have a negative opinion of their banks. Again, banks in Nigeria and Kenya seem to perform better than their peers in Cameroon, Ivory Coast, South Africa and Tanzania. We compiled an NPS measure of over 70 banks in seven countries as part of this report and we found that the global NPS to be -43 that compared to NPS levels between -5 and 20 in Canada.

Africa does offer tremendous opportunity for banks. For one, our research reveals that Africans are looking to achieve financial freedom which in their own terms means being on track to meet their financial goals especially home ownership and self-employment. Sadly, very few of them are actually getting what's needed to help. In fact, Africans are neither financially free nor secure, they are merely financially fit. These results are interesting given the strong performance of banks in Africa. Why doesn't the financial health of African banks translate into the financial wellbeing of their customers? The strong financial performance of the banks in Africa doesn't translate into strong brand engagement and customer appreciation. **It's almost as if customers are using banks because they have no other choices. As open banking and alternative providers offer more choices, banks are in danger of becoming irrelevant to their clients.**

## **The banking industry has seen a strong growth and still has room to grow**

The banking industry in Africa is one of the most exciting in the world – from a performance standpoint, the African banks are performing better than their global peers with revenue pools growing at 11 percent between 2012 and 2017, return on equity (ROE) standing at 15 percent in 2017 almost 3 times the ROE of banks in the developed world. What's more exciting for the future is the role African banks can potentially play in shaping the future of Africa by helping people reach their financial goals and live better life.

The banking industry in Africa is poised to grow at a CAGR between 8% and 14% over the next 5 years to reach \$130B-\$200B in FY2022. Strong demographic growth, a rising income and middle class as well as an improved regulatory oversight and credible monetary policy by central banks will contribute to strengthen the banking sector in Africa. In Kenya, one of the largest and most matured markets, we forecast that the revenue pools of banks are expected to reach \$9B by FY2022. When it comes to their revenue mix, the banks that will grow their non-interest income while staying lean and relevant to their customers will win big. The upcoming banking landscape with innovative business models such as agency banking or mobile money, accompanied by innovative services such as bancassurance and robo-advisors will provide an opportunity to grow revenue while maintaining healthy capital levels. **A lot has been said about digital, technology and scale as key elements of bank growth strategy. We project that an even bigger opportunity lies in the ability to meet the ever-changing needs of the entire spectrum of consumers all over Africa.**

revenue pool and hence put overall bank industry at risk.

In Africa, the context, the challenges and opportunities of Fintech are quite different. Banking penetration remains relatively low, revenue mix for banks is highly dependent on corporate and government business and less on personal and retail, even the technology landscape is not as mature. **While we agree that Fintech will have a big impact on boosting financial inclusion, it is important for bank executives to really understand the context of Fintech within and outside of Africa to make sense of its impact on their business and the market.**

When Safaricom launched MPesa in 2007, there were just under 300 million mobile subscribers in Africa with a mobile penetration of 50 percent. Initially, the service allowed users to deposit money into an account stored on their cell phones, to send balances using SMS to other users and to redeem deposits for regular money. Why was a telco and not a bank best positioned to capture this opportunity? By the nature of their businesses, telcos have built the technology infrastructure to store money via the prepaid model. It started with the prepaid card that users will buy to access bandwidth to make calls then it moved to the cloud when users could recharge credit from phone to phone using SMS codes. Today, Mpesa, the world largest mobile money platform, is one of the main driver of the improved financial inclusion in Kenya. In 2017, Safaricom counted 27 million Mpesa users transacting over \$70 billion with 130,000 agents. M-pesa is now a branchless banking services with additional services such saving and micro-lending.

While mobile money provides massive reach very quickly, the spectrum of banking services that can be offered on a phone is limited. For example, Mpesa transactions are limited to amount less than \$700 and agency banking transactions are limited to amounts less than

\$1,000. In addition, banking is a people business at its core and there will always be a need for the human touch. **While we agree that Telco had a big impact on boosting financial inclusion, it is important for bank executives to really understand the context and the business model of Telcos in Africa to make sense of its impact on their business and the market.**

Fintech and Telcos have shown that technology and innovative business models can drive financial inclusion and bring basic banking services to the masses in Africa. What Fintech and Telcos have yet to show is whether the phone or the internet can deliver the ultimate banking experience and value. The jury is still out, and bank executives should keep an eye on Telcos and Fintech, not as threat to banking but for their ability to bring value to consumers at scale.

A confusing and fragmented banking experience will do more harm to banks than the Fintech and Telcos will. Adopting a strategy by proxy that focuses on emulating the competition works well in mature markets where banking penetration is high, it doesn't work in Africa where banking penetration is still low, and customers have the choice to do nothing. **The real competition is definitely outside but it is the customer seating out waiting for banks to offer meaningful and relevant value.**

### **Banks are too focused on functions and not so much on customer experience**

Today most banks in Africa offers very similar products and services:

- Personal banking that target individuals and include basics banking, savings, cards, loans, investment, retail FX
- Business or Corporate banking that targets businesses and includes



Yaoundé, Cameroon



# What is the future of banking in Africa?

## Imported banking models have failed in Africa

Before the advent of agency banking in Kenya, bancarisation was stagnant and low despite the availability of banks, branches and ATM. Everything changed with the mobile money and agency banking. In fact, one of the main contributing factor to financial inclusion in Africa and in Kenya is the agency banking model, a model born in and made for Africa. Agency banking is widely popular in Kenya and regulated by the central bank of Kenya and allows banks to contract third party retail networks as banking agent. Upon successful application, vetting and approval, these agents are authorized to offer selected products and services on behalf of the bank. Agency banking did in Africa what the ATM did in North America or Europe. Agency banking works well in Africa because it leverages the local ecosystem and break down barriers to financial inclusion such as cost and accessibility.

Following the example of agency banking, bank executives should think outside of the box and investigate local models that fit well with their market and can provide value (cost and access) to the largest amount of customers. For us, it is obvious that imported banking models and products can explain why Africans have yet to capture the full benefits of being financially included.

This shouldn't be surprising given the fact that **the African consumer is the least researched in the world**. The global market research turnover was \$44 billion in 2015 and only \$360 million (1 percent) was spent in Africa. In Europe, \$16 billion was spent on market research compared to \$20 billion in the US. Companies are clearly not doing

enough to understand customers and markets in Africa. It is generally assumed that the African consumer don't have money to spend. If data such as GDP shows that Africans are indeed not able to spend a lot, the data doesn't capture the underlying realities of Africa economies where the informal sector is dominant. A management consulting firm recently estimated that over 400 companies in Africa make more than \$1B in revenue per year.

To deliver the full spectrum of banking services requires a holistic understanding of the consumer and banks have historically struggled with data that will provide valuable consumer insights. In a recent study by the World Federation of Advertisers, 60 percent of marketers said that the lack of local market data is hindering their attempts to generate insights on the African consumer. The same marketers will spend billions on campaign and advertisement that are not relevant and effective. **Unfortunately, banks are not investing the money and the brain power in consumer research and as a result, are unable to offer more than copy/paste versions of products and offerings imported from outside the continent. That's why Kasi has built one of the largest database of consumer insights in Africa.**

## Africans are looking to achieve financial freedom

The concept of financial freedom may be considered new or even inappropriate in Africa, it is very relevant when it comes to providing a framework to understanding what drive consumers in Africa and ultimately provide value added financial services.

The road to financial freedom in Africa is less linear than in other places in the world, it's a complex labyrinth where straight lines collide with see saw lines and empty spots. But our research reveals that 75 percent of Africans are looking to achieve financial freedom including 90 percent of respondents in English speaking countries (Nigeria, Ghana, Kenya, South Africa and Tanzania) compared to 55 percent of respondents from French speaking countries (Ivory Coast and Cameroon). Men (75 percent) and women (78 percent) are equally chasing it too with a slight edge for women. Lastly, 74 percent of millennials or people aged between 18 and 34 are also looking to achieve financial freedom.

Our findings reveals that financial freedom is an aspiration shared by Africans from every corner. In trying to understand key attributes of financial freedom in the African context, we asked people to tell us what financial freedom means to them using four attributes:

- Feeling in control of my day-to-day expenses – so the ability to pay for rent, bills and food for example
- Having the capacity to absorb financial shocks (job loss, accident, health issues)
- Being on track to meet financial goals (buy a house, a car, start a business)
- Being flexible to make choices (take vacation, work less)

What attributes will stand out, or will we see differences between countries? The results and findings will have major implications when it comes to building the financial products and services that are relevant to the African consumers.

Ownership (house or/and starting a business) represents best what financial freedom is for Africans. In fact, 33 percent of the people we surveyed said that being on track to meet financial goals such as buying a house or starting a business best represent financial freedom. The findings are consistent across

countries, gender and age. While there is a consensus around ownership as a sign of financial freedom, only 16 percent of respondents said that being flexible to make choices such as taking vacation or work less represent financial freedom. Interestingly, 20 percent of respondents in Kenya said that flexibility is a big part of being financially free. This finding is in line with our analysis of the characteristics of the consumer across Africa where we have found that Kenyans display an above average level of maturity. Kenya has one of the most developed banking sector and a leading economy of East Africa.

Africans seem to have very realistic expectations when it comes to financial freedom and these findings can help banks understand what it is really driving them and in turn provide products and services that are relevant. Financial freedom in Africa means feeling in control of day-to-day expenses, having the capacity to absorb financial shocks and being on track to meet financial goals. It is less about being flexible to make choices.

Financial freedom is an aspiration at its core, achieving it requires more than a wish. To be able to feel in control of day-to-day expenses requires people to have a source of income, tools to manage money well and an idea of their net worth. People within this categories are financially fit. People who are financially fit will have to ensure they have the capacity to absorb financial shocks and on track to meet financial goals. That will require people to have tools to manage risk as well as invest to grow their assets or income. People within this category are financially secure or stable. Lastly, people who are financially secure who have a sustainable retirement income strategy and a well thought succession plan are financially free. We then looked at how Africans are faring against these categories by asking what steps they are taking to achieve financial freedom. **Interestingly, our research found that**

**despite respondents' willingness to achieve financial freedom, very few people take steps to turn it into a reality.**

### **But Africans are merely financially fit**

The focus of development agencies and regional organization when it comes to financial inclusion has been around getting people to use financial services rather than getting to understand their financial characteristics in order to create tailored products. It is a functional based approach that has shortcomings. For this research, we measure financially fit by looking at how well people can estimate their net worth and control their cash flow.

While Africans say they want to feel in control of their money, have the capacity to absorb shock and be on track to achieve their ownership goals, the reality is that they are merely financially fit. Our research reveals that 52 percent of the respondents in the 7 countries we surveyed can estimate their net worth while 48 percent have control over their money and track their spending. Amongst the seven countries, Kenyans are faring much better than the average with 64 percent of respondents saying they know their net worth and 54 percent having control over their money. The research shows that women are equally fit financially than men with 50 percent of women and 54 percent of men saying they know their net worth and have control over their money. The result for millennials is also in line with the overall average.

### **Africans are not financially secure**

The gap is even wider when we look at people who are getting things done to be financially secure. For this research, we measure financial security by looking at the proportion of people who have tools to

manage risks and to make investments that match their risk profile.

The research shows that only 43 percent of the respondents say that they have tools to manage risks and have invested in assets that match their risk profile.

Amongst the seven countries, Kenyans are again faring much better than the average with 51 percent of respondents saying they have tools to manage risks and 53 percent saying they have invested in assets that match their risk profile. The research shows not much difference between women and men when it comes to being in a position to be financially secure. Surprisingly, French speaking respondents (53 percent) fare better than English speaking respondents (40 percent) despite the fact that Kenyans (52 percent) are getting more done to be financially secure. Millennials are slightly above the average with 45 percent of them getting things done to be financially secure.

### **Achieving financial freedom is still a long way for Africans**

For this research, we measure financial freedom by looking at the proportion of people who have built a sustainable retirement income strategy and have a well thought succession plan.

As expected, very few Africans are taking actions that will give them the flexibility to make choices such coming up with a sustainable retirement income strategy and a well thought succession plan. Only 43 percent of the respondents say that they have built a sustainable retirement income strategy and a well thought succession plan. Surprisingly, 55 percent of French speaking respondents in Cameroon and Ivory Coast say they have built a sustainable retirement income strategy while 58 percent of respondents have a well thought succession plan.

The gap between men and women is only 2 percentage points. Millennials are slightly above the average with 45 percent of them getting things done to be financially free. While only 16 percent of Africans say the flexibility to make choices is not a big indicator of financial freedom, 43 percent are actually getting things done to achieve it.

### **Banking is a people business so understand your customers**

Banking is a people business and banks in Africa are clearly not doing enough to connect and build lasting relationship with their customers. While a lot of attention is given to how technology will define the future of banking, very little thought is put to really understand what it is that banks should provide to Africans. Our goal was to draw from consumer wants and needs within the African continent to set up a framework for banking in Africa.

In doing that we used an approach that is different from what the big consulting firms such as McKinsey, Deloitte or EY use. These firms' insights are mostly sourced from their home markets (outside of Africa for the most part) and are best suited for multinationals operating in Africa and locally-owned companies on the continent. By leveraging their insights, companies run the risk of using solutions that are not suitable for their local markets and customers.

At a recent conference on bancassurance in Ghana, a presenter from one of the big firms went over consumer trends and impact to banking using data on millennials collected in the US. How are these findings applicable to a bank in Ghana?

To assist executives with deep understanding of consumer trends and insights from Africa, we launched Kasi 360 View, a consumer database that includes data and insights on over 150,000 urban dwellers in 10+ African

countries and contains over 5 million data points. The database, populated via monthly surveys, provides a 360 view of the consumer by focusing on the four key areas:

**Consumer confidence data** to give our clients a focused view on consumer perceptions in key African urban centers where most spending in the continent is concentrated.

**Consumer consumption habits data** to understand the African urban consumer and millennial by tapping into our in-house data on tech, fashion, cosmetics, tourism, travel, media, mobile apps & others.

**Wellness and health data** to provide a comprehensive snapshot of the perceptions, attitudes, and behaviors urban dwellers in Africa have about their health and well-being.

**Financial habits data** to understand how the African urban consumer and millennial is tapping into technology to access financial services and how to innovate using a consumer-centric approach vs a tech-centric approach.

By leveraging consumer data to understand what's important for Africans, what challenges they are facing and trying to overcome in their quest for financial freedom, banks will uncover what can help, what is working and what is missing.

This is especially important for locally-owned banks. The majority of companies within the top 100 in each of the seven countries we studied in this report are foreign-owned or foreign-brands. Furthermore, only 17 percent of the top 100 most admired brands in Africa released every year by Brand Africa, are domiciled in Africa. We believe that local data and actionable insights from a reliable source can level the playing field for locally-owned companies in Africa.

Johannesburg, South Africa



# Making banking more relevant for Africans

Over the next 10 years, 400 million African will need to access financial services, close to a billion will need insurance, close 24 million people in Nairobi will need a mortgage, close to 500 million will need insurance to cover for health care.

Banking will play a pivotal role in the continent's future and prosperity, by offering solutions to the daily financial challenges of millions of people in Africa. Africa through the Africa Continental Free Trade Agreement is bound to become a single market and banks that are looking capture market shares locally and regionally must continuously refine their strategies. It is no longer enough to be a bank offering the same boring and irrelevant services to Africans who desperately need help to achieve their dream of being financially independent. The framework for each business will depend on various factors, but there are some implications that every banks should consider.

## Understand financial freedom

The African consumer is the biggest driver of risk and reward for your bank. The overwhelming majority of Africans we surveyed want to achieve financial freedom. Financial inclusion is good start, but more is required from banks when it comes to helping Africans achieve financial freedom.

Financial freedom meaning may differ per country or region in Africa, but our research shows that three essential elements define financial freedom in the African context.

- Feeling in control of their finances (being able to manage money in and out, the ability to pay for rent, bills and food)
- Having the capacity to absorb financial shocks
- Being on track to meet financial goals
- Being flexible to make choices

Our research highlight three stages to financial freedom: being financially fit, financially secure and financially flexible. We found that the majority of people we surveyed are merely financially fit so there is room for improvement and banks have a key role to play. Sadly, customers don't have a positive perception of banks and don't view them as trusted partner in helping them achieve their goals.

Banks who understand financial freedom in the context of their specific market will win customers but also keep them throughout their lives. A good example of a bank who embarked on this path is Absa from South Africa. Our research comparing Absa and UBA websites found that 55% of respondents engaged more with Absa. The main reason they gave was its simplicity and relevance.

## Focus on value, not features

Africa has too many banks with too little differentiation. Bank executives are too busy spotting the latest buzz from internal and external competition. Despite the number of banks, banking penetration is still low especially for services beyond basic banking (wealth, capital markets, insurance, etc.). Our research shows that customers are not finding the banks to be helpful. In fact, 54 percent of

the people we surveyed stated that their banks are not helping meeting their financial and live challenges. Even in Kenya where mobile money empowered people with access to financial services, 60 percent of the people said banks are not helping. To succeed in an increasingly competitive and consumer driven landscape, bank executives should constantly re-assess the bank performance with a focus on value, not features or functions. For African executives, it is not enough to offer standard banking products from imported models that provide little relevance and traction in Africa. For example, people we surveyed are saying that they have challenges managing cash and that paying bills is actually keeping them awake at night so banks should offer budgeting tools or assistance or monthly bill insurance plan.

### **Don't just connect, show that you care**

African banks are spending a lot on advertisement but a study in South Africa shows that these ads may be boring and not relevant. The big focus for brand managers when it comes to advertisement and marketing is around reach. While reach is important, to make sure the message and content are on point are also very important. Are social media sites correlated to banks revenue or performance? Our research shows that there is not a correlation between social media audience and revenue when it comes to banks in Africa. In fact, the best performing banks are not necessarily the ones with the largest social media audience and reach.

To succeed, banks need to start engaging with people in more meaningful way and position themselves as genuine partners of consumers looking to reach financial freedom. For example, banks should engage on a constant communication with their markets through thought leadership articles in local media as part of their marketing strategies. Banks in Canada excel at providing research-based thought leadership regularly to the people

which also served as channels to position their products and services. (Add Insurance article)

Research driven thought leadership is a great way to stay in touch with your market (via research), assess your offering and find innovative ways to engage and also create new products. Our thought leadership article “3 things that are keeping Ghanaian awake at night” provided valuable insights into the African consumer mindset when it comes to managing the biggest perceived risks from their point of view and delivered invaluable insights to the head of bancassurance of a local bank in Ghana.

To succeed, banks must find innovative and meaningful ways to connect to their customers and contextualize their offerings. Unfortunately, marketing for banks in Africa is still dominated by billboard ads and TV which doesn't allow for longer and deeper connections with people.

### **Don't digitize for the sake of it. Do it with purpose**

The talk within the banking space in the world is very much around digital transformation. In a global context without local insights, it is easy for bank executives to get on the digital bandwagon, so they don't feel left out.

Our research shows that while digitization provides ways to deliver financial services in an effective and affordable way in Africa, digital banking has its limits. In Kenya, gaming addiction is now linked to the rise of digital credit where customers are given micro-loans at very high interest without proper knowledge and information of the danger and the implications of not meeting debt obligations.

<http://www.cgap.org/blog/digital-credit-kenya-time-celebration-or-concern>

Our research on building mobile apps that are relevant to the African consumer revealed that not every app is relevant just because it's on a mobile phone, not every website is visited just because it is on the internet. Understanding the African digital user journey is fundamental to realize the promise of digital transformation in Africa.

To succeed, bank executives must integrate digitization when and where it matters the most. Mpesa, the world leading mobile platform is a featured phone functionality that can work on simple SMS codes. Despite its apparent simplicity, Mpesa has been driving Safaricom growth for more than 6 years now.

While digital transformation is necessary, it is critical for bank executives to clearly articulate the purpose of the digital transformation in the context of delivering financial freedom to the customer within their local markets.

### **Be an inclusive bank**

The best bank serve customers across generations. They support wealth creation, growth and transmission in developed economies. Banks are the engine of economies as they support risk takers and compensate risk enablers who untrusted them with their hard-earned capital.

Financial freedom is a journey more than a destination and banks can be of help every step of the way.

Banks in Africa are highly exposed to concentration risk – their revenue is mostly tied to interest income and capital, in fact we estimate that 80 percent of their revenue is derived from interest income, in addition to the lack of revenue diversification, banks also lack industry or segment diversification. The bulk of interest income is coming from lending to government and large corporations. Interestingly, customers that provides the bulk of bank deposits are not represented on the asset side of the banks' balance sheet. Personal lending and business lending don't represent a big share of the bank's assets. That's a \$55B retail banking opportunity banks are not capturing at the moment.

To be inclusive, banks should start with deepening their customer insights capabilities to refine their unique value proposition, then innovate in risk, optimize service delivery with technology but also stay on top of governance and compliance requirements.

## Conclusion

Several reports have come to the same conclusion – Africa’s banking markets are some of the most exciting and promising in the world. The industry is forecasted to reach \$150B over the next five years and our own estimate put the Kenya banking sector at \$10B by 2022. Africa’s banks are one of the most profitable banks on a global level, returning double digits on equity. Banking is a people business at its core, but Africa’s bank strong financial performance doesn’t translate into strong financial performance for the African consumer. Africans have dreams and achieving financial freedom is one of them.

In an increasingly competitive and customer driven banking industry, banks executives should remain focused on their customers’ changing needs and deliver value accordingly. It’s not no longer enough to copy and paste imported business models and products, innovation should start from within and be driven by local market and consumer insights. That’s really putting the customer first.

African consumers are not pleased with their banks, they want more from them, they

deserve better than what they have today and this despite the rise of technology and digital transformation. They want tools to help them deal of their daily financial challenges but also achieve financial goals such as home or business ownership. We understand the African consumer is not well researched but that is changing – with tools such as Kasi 360 view it is now possible to connect and uncover consumer insights at a scale to fuel innovation within African banks.

If more African banks spend time and resources on consumer insights, we expect a new dawn for banking in Africa – what we call inclusive banking. The banks who excel at inclusive banking will capture the bulk of the \$129B banking market in Africa. Ultimately, customers are the biggest risk and reward for African banks, they define your value proposition, your products and how you deliver them, your technology and how you implement it, your people and how you train them, your process and how to measure them. It is time to see the emergence of an authentic African banking industry.

# Case studies

## About the survey

The survey, conducted between November 15 and December 10, 2015, by the Kasi Insight team, sampled 3,079 mobile users from Accra, Nairobi & Douala. We intend to conduct the survey regularly to provide a trending view. Our research focuses on the biggest African cities, as they make up a big share of the consumption. The cities surveyed account for six million consumers.

Results for the survey are based on online/desktop questionnaires conducted under the direction of our team in Canada and Africa. More details about our survey methodology and sample designs are available on our website.

For more information on the survey methodology for this report, contact us.

Methodological notes:

- Survey results are based on urban samples.
- Due to rounding, percentages may not total 100 percent. The topline "total" columns show 100 percent because they are based on unrounded numbers.
- Not all questions included in the November 2015 mobile app survey are presented in this topline. Omitted questions have either been previously released or will be released in future reports.

## Survey Methodology

Items	Ghana	Cameroon	Kenya
Sample Design	Area probability design.	Area probability design.	Area probability design.
Mode	Online questionnaire	Online questionnaire	Online questionnaire
Language	English	English/French	English
Sample size	943	1,056	1,080
Margin error	+3.1%	+3.1%	+3.1%
Representative	Adult (18+)urban dwellers	Adult (18+)urban dwellers	Adult (18+)urban dwellers
Weighting	None	None	None

# Appendix

## References

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# Thank You!

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