COOi studios

BEYOND BANKING NEXUS

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Beyond Banking

The financial services industry is rapidly transitioning all its customer segments into the digital era, therefore inclusive design thinking is becoming increasingly important. For financial services providers to thrive in this new era, they will need to invest time in truly understanding their diverse customer base, unlocking value for all individuals in the varying segments, and translating that value into economic opportunities.

Inclusive design thinking, with its user-centric approach, is essential in developing financial products and services that cater to the unique requirements of the three hundred and fifty (350) million financially excluded adults in Africa that live cash to cash without the security of a financial account, credit card, or lending facilities (AfricaNenda). This presents an opportunity for financial service providers to rise to the challenge of connecting with customers through inclusive digital platforms, fostering trust, and reimagining the banking experience for everyone. While South African financial service providers have begun to explore digital solutions, boasting a digital adoption rate of 15% to 40%(FCSA Digital financial trends study, 2022), we must ask ourselves whether simply going digital is enough to gain the trust and loyalty of customers.

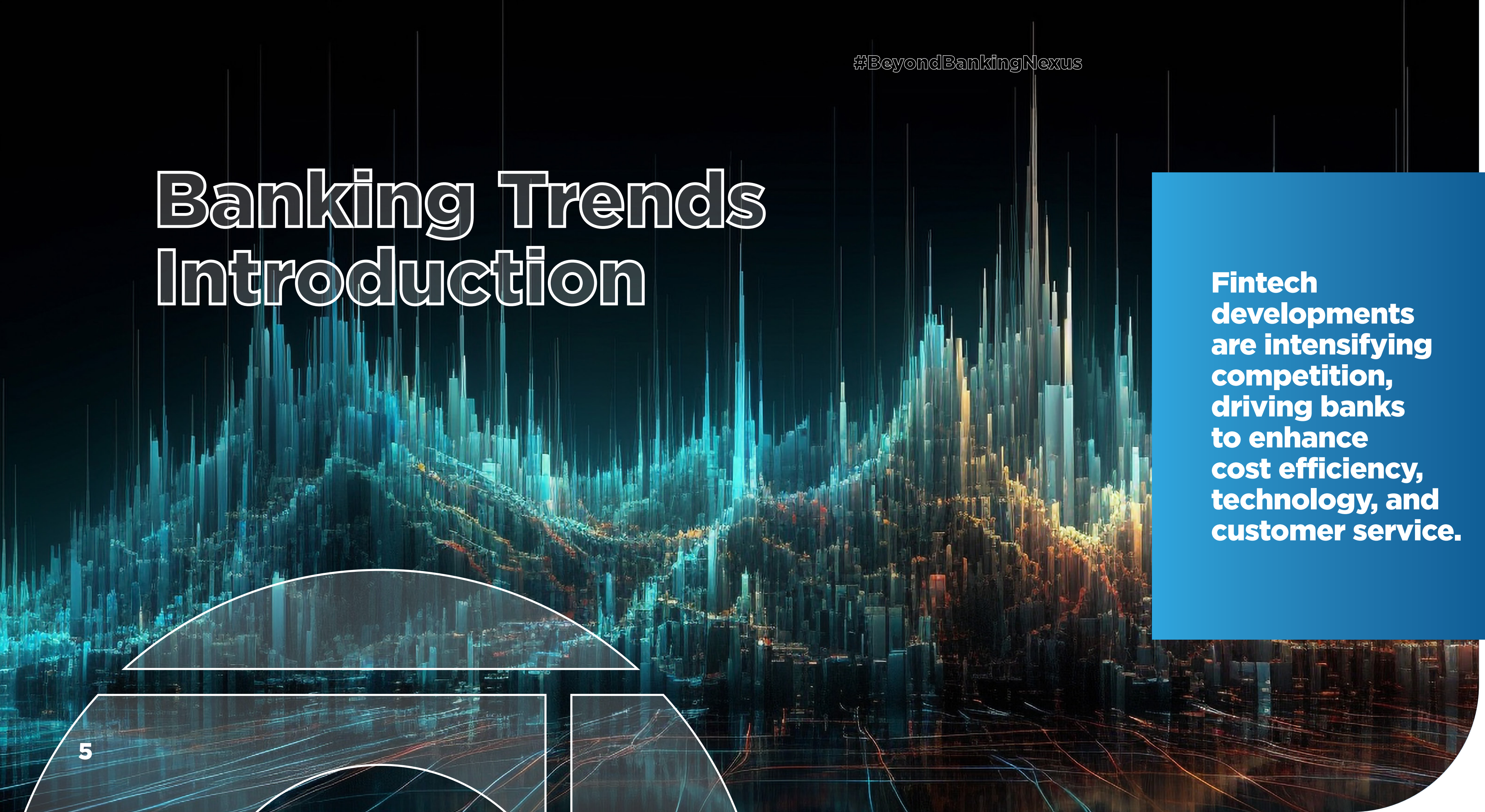
Many banks have employed design thinking in their product development life cycle, but those that practise inclusive design thinking are few and far between. Inclusive design thinking is an approach that prioritises usability and accessibility to create products and experiences that are accessible and beneficial for everyone. This approach follows an approach of meeting people where they are, meaning banking professionals need to rethink how they build products, it demands more field immersive research, and it stretches the value provided going as far as reducing extreme poverty in Africa as per the United Nations Sustainable Development Goal One: No Poverty. Financial services providers must play their part in ensuring that everyone has access to necessary financial resources. In South Africa the underserved and unbanked make up an estimated twenty-three point five percent (23.5%) of the population while only twenty-eight (28) million South African consumers having formal credit records excluding a large portion of the population from accessing necessary financial resources. By embracing inclusive design thinking, financial service providers can not only gain access to these excluded markets but also remain competitive in an industry where the lines between industries blur. Today, telecommunications and retail companies offer financial services therefore strategic partnerships will play a vital role in addressing the gap of financial inclusion and position traditional providers for thriving in an ever-evolving landscape. Retaining a competitive edge, demonstrating agility, and actively pursuing new partnerships and technological advancements is paramount for the success of traditional financial service providers.

About the Research

For our point of view, we followed an approach of desktop research, accompanied by a selection of industry case studies, and conducted interviews with financial service provider practitioners. Our findings pointed to the following being the main challenges to financial inclusion in the South African context:

- Financial service providers are struggling to develop affordable and accessible products that cater to the specific needs and income levels of underserved populations.
- High levels of informality and lack of trust, South Africa has a significant informal sector, where informal employment makes up the second largest type of employment in the country (STATSA). This informal sector often operates outside the traditional financial system, making it challenging for financial service providers to offer inclusive financial services to this segment. Many individuals within this segment have never had access to formal financial services.
- Slow speed of innovation in large organisations as well as the lack of resources in smaller organisations leading to the need for collaboration between the two..

The structure of the point of view starts off with leading technology trends in the African financial services sector. Thereafter, it covers how a strategic intersection where established financial services providers and emerging technology-driven players in the sector can come together to collaborate, share resources, and leverage each other's strengths. Lastly it provides a comprehensive account of how financial services providers are promoting inclusivity in various fields such as education and agriculture.



Banking Trends Introduction

Fintech developments are intensifying competition, driving banks to enhance cost efficiency, technology, and customer service.

Banking Trends

The financial services market is undergoing a major transformation, and banks that fail to adapt may lose market share. Customers now demand multipurpose applications that streamline their financial management tasks.

However, established banks face challenges due to their legacy systems, which hinder innovation. This is where collaboration between traditional banks and startups becomes crucial. Startups can bypass bureaucratic hurdles and accelerate the innovation process. Banks can leverage the freedom provided by startups and their advanced technology to strengthen customer relationships and retention by focusing on helping customers manage their finances rather than just facilitating transactions. However, startups often face challenges navigating complex regulatory frameworks across multiple markets. As a result, strategic partnerships between startups, financial service providers, and fintechs are essential to deliver services such as e-commerce, loans, insurance, and investment platforms to varying customer segments. Some banks have already embraced this ecosystem by offering unbranded "banking services" to seamlessly integrate with apps, enabling a smoother user experience.

This paper will delve into trends such as open banking, super apps, central bank digital currency, and financial service providers' roles in inclusion beyond banking. These trends are shaping the future of finance, fostering innovation, convenience, and promoting financial inclusion. The implications and opportunities for banks in adapting to these trends will be explored.

Open banking

Open banking refers to a system where banks and financial institutions allow secure access to customer financial data through the use of application programming interfaces (APIs).

Open banking

This approach enables third-party developers and fintech companies to build innovative applications and services that can leverage this data. For small businesses, open banking offers significant benefits in terms of financial inclusion. It provides them with enhanced access to financial services, such as specialised banking products and services tailored to their needs. Small businesses can also leverage open banking to streamline their financial management, gain insights into their financial health, and make informed decisions.

The current informal economy in Africa is a prime space for fintech innovation, offering fintech a significant pool of unbanked and underbanked consumers hungry for safe, secure, and innovative financial services. This new approach to banking offers immense potential for the continent as according to the African Continental Free Trade Area (AfCFTA), thirty (30) million people could be lifted out of extreme poverty, while raising the incomes of sixty eight (68) million more people, this is only possible if the continent's estimated four hundred (400) million people who do not have access to digital financial services have access to financial services through open banking. Open banking allows for financial services to provide the unbanked and underbanked access to private mortgages, savings systems, insurance, pension funds, credit and investments for the first time. This could encourage more responsible and informed banking behaviours and provide micro-enterprises and informal workers and traders access to affordable and relevant financial services and offerings.

Application of Open banking in South Africa

In South Africa the trajectory of open banking in the country is still unclear. The South African Reserve Bank SARB released a paper detailing its concerns surrounding open banking in South Africa as the SARB does not have a policy or regulatory framework for open-banking.

More specifically, the (National Payment System) NPS Act does not have provisions that deal with open-banking, screen scraping or APIs. In their paper titled "Consultation paper on open-banking activities in the national payment system" they discuss their increasing concerns regarding screen scraping and its impact on the safety and integrity of the NPS, consumer data protection, and other risks it may pose to customers. Although some NPS participants embrace the use of APIs and open-banking, the absence of a firm policy and a regulatory framework is negatively impacting the progression of open-banking initiatives.

Legislation and regulation are critical to the future of open banking. In Sub-Saharan Africa, the regulatory frameworks that are essential for the future operation of open banking, most notably data protection laws, are largely yet to materialise. Since data sharing forms the bedrock of open banking, a strong data protection regime is critical to its success. In order for open banking to move forward in the continent, collaboration between financial institutions, regulators, and fintech innovators is crucial to establish the necessary infrastructure, security standards, and regulatory frameworks. Additionally, addressing concerns related to data privacy and security will be essential to build trust among consumers and businesses.

While open banking in Africa holds immense potential for financial inclusion, it is crucial to acknowledge its current exclusivity and the considerations required to address the underserved and unbanked market. As we embark on this transformative journey, let us ensure that the benefits of open banking extend beyond the privileged few, reaching the marginalised and disadvantaged communities. By fostering innovation, collaboration, and targeted efforts, we can build a more inclusive financial ecosystem that empowers individuals and drives sustainable economic growth across the continent. Together, let us strive for an open banking landscape that leaves no one behind.

Local Case Study: MTN MoMo Open API

To encourage financial technology innovation in Africa and accelerate the growth of mobile financial services, MTN made its Mobile Money (MoMo) platform available to third parties by launching the Mobile Money Open API and developer platform. This platform provides developers with complimentary access to the MTN Mobile Money Proprietary software platform and enables them to create innovative digital financial services meeting the growing financial needs of Africans. MTN's MoMo APIs has fostered innovation in Africa by encouraging all third parties including banks, financial institutions, remittance companies, big enterprise, large merchants, utility companies as well as African start-ups, tech companies, small and medium-sized merchants, mobile wallet providers and fintechs to experiment freely and launch innovative payments use-cases and applications, fostering innovation in Africa.

Super Apps

Super apps have the potential to serve the unbanked and underbanked through their wallet integration services which allow for digital spending that is not directly linked to a bank account or bank.

Super Apps

Super apps are another trend disrupting the financial services industry, exploring the furthering of financial inclusion. Super apps are digital ecosystems of products and services housed under a single application and unified user experience. Consumers are gravitating towards these apps that streamline their financial management tasks and by-passing traditional banking apps.

Super apps are intensifying the already tough competition for consumer mindshare and share of wallet. Super apps will transform the digital customer experience, Insider intelligence in their report titled "Opportunities and Risks for Banks in the Age of Rebundling" predicts that the bulk of financial transactions will take place through a single super app within the next decade. Super apps will provide a way for consumers to streamline day-to-day financial functions, these apps won't only provide convenience for consumers but also have the potential to service banks should they adapt fast enough. Super apps also have the advantage of leveraging technology to provide a seamless user experience. They often feature user-friendly interfaces, simplified onboarding processes, and intuitive functionalities. This user-centric approach enhances financial literacy and inclusion, particularly for individuals who may have limited familiarity with traditional financial institutions.

Approximately only 40% of Africans own smartphones, and future projections estimate increased ownership to 87% by 2030 but this is dependent on factors such as affordability and infrastructure development.

While acknowledging the popularity of super apps, it's crucial to address the limited smartphone accessibility among many Africans. The challenge lies in maximising inclusivity. Examples like mPesa and Konse Konse have succeeded by offering super USSD marketplaces for transactions. However, the inclusivity of this trend in the short and long term remains uncertain. Approximately only forty per cent (40%) of Africans own smartphones, and future projections estimate increased ownership to eighty seven per cent (87%) by 2030 but this is dependent on factors such as affordability and infrastructure development. Additionally, broadband availability poses a significant concern for widespread super app adoption. Strategies focusing on optimising USSD platforms, improving broadband access, and promoting affordability are necessary for fostering inclusivity.

Case Study: Avo by Nedbank

Avo, created by Nedbank, is a multifunctional digital platform that aims to provide a wide range of financial services and features in a single app. Avo combines various banking functionalities, payment solutions, and additional services to offer users a comprehensive and convenient banking experience. Nedbank Africa's Avo super app provides customers with a one-stop shop for financial functions like loan and insurance applications but also a wide range of retail offers ranging from groceries and appliances to automotive parts and cars. Avo Business has also onboarded over 20,000 merchants onto the platform and has accumulated over 1 million users. Avo has the potential to address barriers and promote access to financial services for underserved populations. It does so through digital payments and inclusion. Avo's payment capabilities, including mobile payments and QR code scanning, promote the adoption of digital payment methods. This can facilitate financial inclusion by reducing the reliance on cash and enabling individuals without traditional bank accounts to participate in digital transactions and the formal economy.

Digital currency and payments

Digital currency is the future of not just payments but the financial industry as a whole as the push towards a cashless society continues.

Digital currency and payments

The banking trend underpinning all of the trends mentioned above is a digital currency. Digital currency has the potential to change how society thinks of money completely. Electronic versions of currency already predominate most countries' financial systems.

What differentiates electronic currency from digital currencies is that digital currency never takes physical form while electronic currency can be accessed and turned into physical money through an automated teller machine (ATM). Digital currency never leaves a digital network and is exchanged exclusively digitally. The three main forms of digital currency are Cryptocurrency, Stable coins and Central bank digital currency (CBDCs). Blockchain technology, which provides the foundation for cryptocurrency, is the most common form of distributed ledger used by digital currencies. Central bank digital currency is a form of digital currency that is issued and overseen by a country's central bank. CBDCs would revolutionise payments as digital currency can be transferred directly from one digital wallet to another across the globe fast. Sub-saharan Africa is the most expensive region to send and receive money with an average cost of just under eight percent (8%) of the transfer amount. CBDCs could make sending remittances easier, faster, and cheaper by shortening payment chains and creating more competition among service providers. Faster clearance of cross-border payments would help boost trade within the region and with the rest of the world.

CBDC is changing the finance industry by offering a reach that was never possible before. CBDC's could bring financial services to the unbanked and underbanked populations. This could bring financial services to people who previously didn't have bank accounts especially if CBDC's are designed for offline use reaching people in remote areas without internet access if digital transactions can be made at little to no cost using simple feature phones. CBDC's could also be used by the government to send payments like targeted welfare or grant payments without the need for prepaid debit cards or physical cash collections or tax refunds. Digital currency is the future of not just payments but the financial industry as a whole as the drive towards a cashless society continues.

Digital currency applied in South Africa

Project Khokha 2's main objective is to highlight the regulatory implications of the application of digital ledger technology (DLT). Project Khokha 2 was launched just over a year ago 2022 with the participation of Absa, FirstRand, Nedbank, Standard Bank and the JSE.

Project Khokha 2 created two forms of tokenised money to allow for settlement. The first was a tokenised form of central bank money which the South African Reserve Bank (SARB) issued onto a specific DLT owned and operated by the SARB which was used to purchase SARB debentures in the primary market. The second form of tokenised money was issued by commercial banks as a stablecoin and used to purchase SARB debentures in the secondary market. Stablecoin is a cryptocurrency pegged to a reserve asset such as a fiat currency (like the rand), commodity, or other cryptocurrencies. SARB previously tested a digital currency as a part of Project Khokha with the intention of improving the efficiency of the local payment system decreasing the costs and time it takes to clear and settle in the payment system. It is predicted that central bank digital currency would mainly be used for cross-border transactions or goods and services, but its implantation would take several years before becoming a reality.

The Governor of the SARB Lesetja Kganyago, recognises that while CBDCs can solve some real problems that developing countries face, including financial inclusion and the exorbitant cost of cross-border remittances, the SARB will have to be good students and learn from other countries' implementation of CBDC's instead of being leaders in the trend.

Considerations for Digital currency

Decentralised forms of cryptocurrencies have been associated with Ponzi schemes and money laundering due to their pseudo-anonymous transactions, and the ease of transferring funds across borders. Some regulation is necessary to prevent fraudulent activities and mitigate the risk of financial crimes.

Striking a balance is crucial to avoid stifling innovation and the potential benefits of cryptocurrencies. Different countries have varying degrees of regulation, with measures like Know Your Customer (KYC) and Anti-Money Laundering (AML) requirements. Finding the right level of regulation remains an ongoing debate to protect investors and consumers while allowing the industry to flourish and harness the advantages of decentralised digital currencies.

As Africa embarks on the path towards central banking digital currency (CBDC), it is crucial to recognize both its exclusivity, while CBDC holds immense potential for financial inclusion, bridging the digital divide requires a multifaceted approach. By prioritising accessibility, affordability, and education, policymakers can lay the foundation for a more inclusive financial ecosystem.

Financial service provider as Educators

Financial service provider as Educators

Education is a powerful driver of development and one of the strongest instruments for reducing poverty and improving health, gender equality, peace, and stability. Banks have recognised this and are investing in education.

Through open innovation, banks are looking for these solutions beyond their walls to work with start-ups that can leverage creativity and expertise to drive innovation. Fintech is one avenue that banks can employ to connect educational institutes and students with financial institutions. For the funding of education, financial institutions fulfil the need for cash flow management and working capital. The ongoing alteration in the education system has given rise to more outcome-oriented financing that empowers students to receive education to attain their far-fetched career goals.

Financial service provider as Educators

Case Study: Telkom LightBulb Education

Telkom's Lightbulb Education is a zero-rated inclusive e-learning platform for Grade 7 to 12 learners. By embracing inclusive design, it ensures equal access and opportunities for all students. Lightbulb Education breaks down geographical and physical barriers, allowing learners to access quality education from anywhere. The platform offers flexible learning environments, accommodating diverse needs and circumstances. With multimedia elements and personalised learning paths, Lightbulb Education caters to different learning styles and paces, including those with disabilities or unique requirements. By prioritising inclusivity, Telkom's Lightbulb Education empowers all students to engage fully and excel in their academic journey.

Banking for Agriculture

Banking for Agriculture

The accelerating pace of climate change, population growth and changing dietary preferences, global pandemic, and conflicts have threatened food security and the development of the agri-food sector. This has placed tremendous pressure to shift the policy focus to the development of a more sustainable and resilient agri-food industry around the world. The finance sector has a key role to play in allowing agriculture to contribute to economic growth and poverty reduction.

The banking sector is responding to this need by partnering with farmers to open up new possibilities to target and price credit, share risk, and harness information technology to expand agricultural productivity. Fintech is driving new products (such as open banking) in credit and risk markets. Fintech also has the ability to allow banks to provide smaller members of the agriculture sectors with linkages to mobile money, financial literacy, national identification systems, and blockchain technology. Banks like Standard Bank and Absa agribusiness have committed themselves to offering financial assistance to empower everyone in the value chain. Standard Bank's One Farm share platform HelloChoice connects emerging farmers with smaller buyers such as informal produce traders to the greater agricultural food chain creating a more inclusive market. Absa has acquired a minority stake in Hellochoice's competitor trading app Khula! that connects farmers to buyers and sells farm inputs. The agritech start-up, includes three platforms and has about 13,000 users of which 7,000 are active users. Agribusiness initiatives like these provide a sustainable way to address hunger and food security but also help smaller members across the agri-food value chain reduce the financial burden.

Case study: HelloChoice in partnership with Standard Bank

Standard Bank has joined forces with HelloChoice, a cutting-edge digital marketplace revolutionising the way fresh fruit and vegetables are bought and sold. HelloChoice's dynamic platform seamlessly connects farmers directly with buyers, eliminating unnecessary intermediaries and ensuring that fresh produce reaches consumers straight from the farm. Leveraging the convenience of smart personal devices, HelloChoice empowers users by displaying real-time market prices for a wide range of high-quality fruits and vegetables. By collaborating with Standard Bank, HelloChoice not only offers a convenient and efficient platform for purchasing fresh produce but also addresses broader societal issues such as food security and socio-economic development. Together, Standard Bank and HelloChoice are fostering a thriving trading community, promoting sustainability, and enhancing the overall accessibility and affordability of fresh, nutritious food.

Inclusive design for going Beyond Banking

In conclusion, inclusive design thinking emerges as a powerful methodology to address the social ills prevalent whilst also improving financial product design. It emphasises the importance of considering diverse perspectives, needs, and circumstances to create solutions that promote inclusivity and equity. However, for inclusive thinking to have a lasting impact, regulation and policy must rise to the occasion, adapting swiftly to administer the rapid changes ahead. By establishing supportive frameworks, governments can foster an environment conducive to financial inclusion and ensure that the benefits of open banking and digital currency are accessible to all.

In order for FSP's to effectively embrace inclusive design thinking in banking the following aspects can be taken into consideration:

MEET PEOPLE WHERE THEY ARE

Understanding customers better, considering social, economic and technological (SET) factors, cultural context, and behaviour, is crucial in building products that support the current circumstances of populations like the unbanked and informal sector. By conducting comprehensive research and analysis, financial institutions can gain insights into the specific social, economic, and technological factors that influence the lives of these customers. This understanding enables the design of tailored solutions that align with their unique cultural contexts and behavioural patterns, ensuring that the products and services offered are relevant and inclusive.

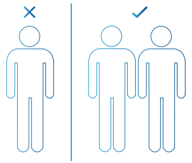
LET PEOPLE TELL YOU WHAT THEY NEED

User-centric design is crucial in the inclusive design process, especially when developing solutions for the customer. By involving the end-users in design and development, financial institutions can co-create tailored products and services that meet their specific needs. This collaborative approach allows for the identification and resolution of barriers faced by the unbanked, resulting in more user-friendly solutions. Involving the customer in the design process provides insights into their challenges and requirements. This knowledge helps designers address pain points and develop innovative solutions. Prototyping and testing based on user feedback ensure the final products are intuitive and meet expectations.

User-centric design empowers the customer, recognizing their expertise and validating their perspectives. This inclusive approach fosters dignity and respect, emphasising that their voices are valued. By actively involving the customer, financial institutions bridge the gap and develop inclusive, accessible, and relevant solutions. Co-creation ensures products and services are aligned with their needs and aspirations.

EMBRACE THE DIFFERENCES IN PEOPLE

Recognizing that a one-size-fits-all approach is inadequate, financial institutions need to consider the differing education levels and bandwidth constraints of the unbanked population. Offering a range of options, such as USSD interfaces, super apps, or light versions of applications with limited functionality, caters to the diverse requirements and capabilities of the unbanked individuals. This flexibility ensures that users can access financial services using the most suitable channels based on their circumstances, fostering greater inclusion and adoption.



DON'T DO IT ALONE

Partnerships play a vital role in achieving speed to market and open innovation. Collaborating with various stakeholders, including fintech companies, technology providers, and community organisations, allows financial institutions to tap into their expertise, resources, and networks. The challenge of delayed speeds of innovation in big organisations and the lack of resources in smaller organisations has birthed the ultimate banking nexus. The ecosystem of fintech and start-ups is instrumental in raising the bar for financial inclusion. These agile and innovative players bring fresh perspectives, disruptive technologies, and customer-centric approaches to the industry. Their ability to navigate complex regulatory landscapes and offer tailored solutions makes them invaluable partners in expanding access to financial services. Collaboration between traditional FSP's and fintech/start-ups can unlock synergies, enabling the development of inclusive and impactful financial solutions that address the needs of underserved communities.

PROTECT PEOPLE

In the pursuit of inclusive banking, it is essential to prioritise customer protection and cybersecurity. As the digital landscape expands, the risk of cybercrime also increases. Financial institutions must proactively develop robust cybersecurity measures to safeguard the personal and financial information of their customers. By establishing trust and instilling confidence in the security of their services, financial institutions can foster a safe and reliable environment for the unbanked population to access and engage with financial solutions.

To conclude, the combination of inclusive design thinking, adaptable regulation, and responsive policy holds immense promise in reshaping the financial sector to tackle social disparities and foster financial inclusion. Financial services providers (FSP) assume a pivotal responsibility in educating and delivering accessible services to their customers. Additionally, the dynamic ecosystem of fintechs and startups plays a vital role in advancing inclusive finance through their groundbreaking solutions. Together, these forces have the potential to drive transformative change and create a more equitable and accessible financial landscape. By embracing these principles and collaborations, we can collectively work towards a more inclusive financial future that leaves no one behind.

Summary

This paper explores the potential of inclusive design thinking and emerging technology trends to facilitate financial inclusion for underbanked and unbanked populations. This point of view highlights the role of fintech start-ups in partnering with banks and financial service providers to address the financial needs of marginalised communities. The paper delves into the concept of inclusive design thinking, emphasising its user-centric approach in developing financial products and services that cater to the unique requirements of underserved populations. It emphasises the importance of considering accessibility, affordability, and simplicity in product design.

Furthermore key technology trends that can facilitate financial inclusion are examined in this paper, including open banking, APIs, digital currency, and super apps. Open banking and APIs enable secure data sharing and collaboration between financial institutions and third-party providers, allowing for the development of innovative solutions tailored to the needs of the underbanked. Digital currency presents opportunities for cost-effective and convenient transactions, particularly for populations with limited access to traditional banking services. Super apps, with their comprehensive suite of financial services, offer a one-stop solution to simplify financial access and enhance user experience. Additionally the role of financial service providers in development, poverty reduction, and societal improvement through education and agriculture are discussed in this paper as well as their respective initiatives, programs and partnerships.

COOi studios role in enabling financial inclusion is through analysing diverse user needs and perspectives to create products and experiences that are accessible and beneficial for everyone. By employing inclusive design thinking principles, COOi Studios can ensure that these solutions are accessible, user-friendly, and address the unique needs and challenges faced by marginalised communities. Through its inclusive design thinking approach and value proposition expertise COOi studios is able to help organisations by conducting user research, facilitating ideation sessions, and prototype creation through service and product design. Additionally COOi studios has assisted large financial services providers, healthcare and consumer companies with user research, problem exploration and the development of a compelling customer value for excluded markets which required concept development. COOi studios' work is helping bridge the gap between traditional institutions and marginalised communities and help financial service providers develop financial products that resonate with the needs of the underbanked and unbanked populations.

The research concludes that inclusive design thinking, combined with the adoption of emerging tech trends, holds immense potential for transforming financial services and promoting financial inclusion. By collaborating with fintech start-ups, financial service providers can leverage their expertise and innovative solutions to overcome barriers faced by the underbanked and unbanked. This collaborative approach has the power to unlock economic opportunities, empower marginalised communities, and drive sustainable growth in South Africa's financial landscape.

About COOi Studios

COOi Studios is an innovation accelerator partner to corporates, start-ups and government organisations. We help enterprises accelerate innovation to deliver exponential growth using our highly-tuned innovation methodologies. We work with business leaders to drive innovation culture and rapidly deliver emerging technology innovations (AI, VR, AR, IoT, Robotics and 3D printing).

We look forward to hearing from you and partnering with you in an exciting, innovative journey.

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