



PRESS RELEASE

KPMG releases its inaugural Southern Africa Banking Survey – signifying key opportunities and challenges for the sector in Africa.

Key findings:

- *Respondents indicate that Artificial Intelligence (AI) and digital innovation are expected to play a larger role in the future of banking.*
- *92% of participants highlighted retail banking products and services as the primary revenue opportunity within the realm of ESG.*
- *Respondents across Southern Africa also agree that innovation in banking will be key to growth across the larger African region.*

18 April 2024 - KPMG Southern Africa Banking Survey: Vision 2030

While the African banking market has seen withdrawal of global banks over the last 5 years, the opportunity for localised banking has seen the opposite, driven by the expansion of African banking groups into the continent, led mostly by South African, West African, and Northern African banks. In fact, 100% of survey respondents indicated that the size of the market is a key driver for seeking out and implementing effective strategies for growth into Africa.

This growth will be driven primarily by opportunity in the corporate banking, Investment Banking, and transaction banking sectors followed by retail and wealth management – underpinned by innovation which has enabled more customers to access banking services through mobile banking. According to the survey, there are significant opportunities for the unbanked that can further enable socio-economic development through alternative finance, which includes the rapid growth that is expected from innovations such as blockchain technologies.

However, this doesn't come without its challenges, where the survey highlighted that key challenges for expansion across the continent are the existence of a reliable regulatory framework, supported by solid governance and transparency across the industry, as well as considerations around AML and Compliance, with currency and political risk closing the list.

While the major banks in South Africa have recorded excellent profitability, this can be largely attributed to rising interest rates and escalating consumer over-indebtedness - signifying growth in revenue within banks' retail offerings but with medium to long-term risk potential. A high level of customer uptake in lending, and transactions, remains a concern, especially as banks race towards innovation that enables ease of use for customer onboarding and retention. This is highlighted in the KPMG 2024 Southern Africa Banking Survey – Vision 2030 which includes the perspective of how banks are moving forwards in Africa.

“This survey isn’t a roadmap, but a call to action. We seek to empower and guide our leaders in banking, to become proactive shapers of Africa’s financial future. These thought-provoking insights, practical strategies, and real-world case studies will equip the banking industry to thrive in this dynamic landscape,” says **Auguste Claude-Nguetsop, Partner and Head of Banking Advisory at KPMG in Southern Africa.**

The survey, conducted mostly amongst a large and diverse number of respondents in Southern Africa and across the continent, also draws on the perspectives from the various parts of KPMG’s Advisory business units across Africa, which includes payments, AI and Digital, Investment, and Commercial banking as well as tax and ESG.

Continues Claude-Nguetsop: “The African banking landscape is undergoing a metamorphosis, driven by technology, a vibrant fintech scene, and an insatiable demand for convenient, and personalised financial services. This report shines a spotlight on the seven key areas that will define this transformation over the next ten years.”

“The future is destined to be borderless, and the present already is. A global community demands a cornerstone of trust, moving further towards an environment where trust is seamless and transactions even more so. Building a reputation for security and transparency in a digital world must be a priority for all of us,” says Claude-Nguetsop.

From a global perspective, 2024 is challenging but promising for the global banking industry. “These cumulative trends create uncertainty, for sure, but, at the same time, bring new business models and

opportunities and globally we see an optimistic approach from our clients trying to convert these new opportunities for sustainable growth,” says **Francisco Uria, Global Head of Banking and Capital Markets sector at KPMG.**

Growth across Africa

It is encouraging that growth on the African continent has been evident over the last 5 years and even more encouraging that all participants see the size of the market as a key driver for seeking out and implementing effective strategies for even further growth into the continent. This shows the resilience of African banking groups, led mostly by South African, West African, and Northern African banks, who are determined to maximise the available opportunities.

As Africa is currently poised to be the second fastest growing regional economy, with more than ten African countries experiencing substantial Gross Domestic Product (GDP) growth, the local environment and available expertise coupled with global knowledge play an important role in the growth across Africa. “This growth on the continent is where the banking sector is looking more for insights to succeed,’ continues Claude-Nguetsop.

The survey showed that the expansion across the continent over the coming years will be driven primarily by opportunities in Corporate Banking, Investment Banking, and Transaction Banking followed by retail and wealth management, with Southern, Eastern, and West Africa presenting the biggest opportunity. Expansion strategies are a key priority area for financial institutions located within Africa - driven by digital and collaboration-based approaches.

Artificial Intelligence (AI) and Digital Innovation

Artificial Intelligence models have the potential to transform businesses and everyday life profoundly. In line with our analysts’ assessments, financial institutions are looking towards combining a ‘build and buy’ strategy to enhance their AI and digital innovation skills and portfolios. The information technology spend on AI and digital innovation is a testament to the 38% of participants who confirmed that between 21 and 30% of their IT budget is devoted toward these priorities. Similarly, however, 54% of survey participants highlighted that the primary factor preventing the adoption of AI and digital innovation lies within budgetary constraints.

Interestingly, 50% outlined that they had, or intended to, deploy AI technologies to reduce the costs associated with compliance. Digital transformation presents a double-edged sword for the African banking sector, with half of respondents highlighting that they are investing in skills development for their conduct teams and divisions to ensure compliance.

ESG:

Throughout the continent, the banking sector recognises the imperative role that Environmental, Social, and Governance (ESG) plays in revenue opportunities. In fact, 92% of participants highlighted retail banking products and services as the primary revenue opportunity within the realm of ESG, whilst 82% indicated that they expect corporate banking products and services to provide revenue opportunities within the realm of ESG, trailing retail banking by 10% in terms of importance. At least half of the participants believe they are somewhat prepared while the same amount is minimally prepared to fulfil the current and expected requirements of effective ESG reporting and ensuring regulatory compliance. It is encouraging to see however, that 92% indicated that their retail banking products and services are at the forefront of advancing their ESG portfolios, compared to investment banking products which is at 82%.

According to Claude-Nguetsop: “The growing sectoral focus on ESG is linked to higher returns and benefits now coming to the fore, as banks and financial service providers begin to see tangible results from their efforts. As regulatory obligations grow and evolve, and consumer sentiment leans towards supporting ESG principles more and more, this operational pillar will secure a stronger foothold in all banking operations across Africa.”

Tax

The expected trends in tax and the management and support within Southern Africa highlighted the necessity of the Tax environment for businesses, particularly in the Banking sector. Interestingly, all participants believe that in tax advisory services of the future, AI is expected to play a bigger role.

In addition, 75% expect that the adoption and evolution of technologies to manage and administer tax functions will evolve and grow in the future. Specifically, in South Africa, 58% indicated that they expected an increase in Value-Added Tax (VAT) to meet national Treasury budget deficits in the future.

50% indicated that they were satisfied with the tax management and support provided by internal and external advisors within the Southern African region.

All the participants prioritise enabling career growth opportunities as a strategy for recruiting and retaining highly skilled tax talent with specialist skills, with 80% confirming that creating incentivisation opportunities for highly skilled tax professionals can help to recruit and retain essential tax talent.

Investment Banking

While foreign investment into Africa moves slowly, the continent is currently regarded as the most profitable region in the world. The corporate and investment banking market, on the continent, has shifted a key focus towards sustainability, flexible risk management policies, and the quick adoption of appropriate technologies.

Our research shows that Investment banking in Africa offers significant growth potential driven by economic development, capital market expansion, and investment opportunities across various sectors. Particular focus is given to the opportunity for infrastructure development programmes, particularly in energy, renewables, water, and transportation. In addition, public-private partnerships will be key as they enable the sharing of skills but also risks. We are going to see three key areas of growth here including innovative financing solutions, new sectors for growth, and rising domestic capital. Technology will play a key role here though with 90% of respondents indicating that AI will play a role in client identification processes, and/or deal origination within investment banking over the next five years.

Payments

Africa is comparatively ahead of the developed world when it comes to payment technology adoption and is uniquely positioned to capitalise on these advancements. For example, as payment transactions make up the majority of financial transactions, the time is ripe for institutions to begin using those large datasets to gain valuable insights into their customers, on an individual level. With full consideration given to data privacy regulations, of course, the adoption of data analytics tools and technologies can enable institutions to obtain a clear picture of their customers, their preferences, and their needs. By using payment data to outline customer segments, more

targeted customer offerings, customer service, and product optimisation can be added to banks' services. 67% of respondents see the payment landscape as a business opportunity. However, this is largely threatened by Fintech companies which are seen as a threat by 100% of respondents.

"As we delve more into the KPMG Banking Survey: a 2030 Vision, we can see how the views on not only challenges and opportunities in the banking industry, but the impact from a growth perspective, are far-reaching, with masses of opportunity arising from the African banking sector."

"From a South African perspective, South African banks may have ensured resilient growth through turbulent times but maintaining it will hinge on the appropriate adoption of technologies, a continuing commitment towards innovation, and an agile focus on adaptability," concludes Claude-Nguetsop.

Ends -

About KPMG South Africa

KPMG South Africa operates through two entities, KPMG Incorporated for audit services and KPMG Services Proprietary Limited for advisory and tax services. KPMG South Africa has served the South African market for over 125 years and is headquartered in Parktown, Gauteng. KPMG South Africa collectively has 142 partners and 2168 employees servicing several industries across our country's nine provinces. We operate from four offices across Johannesburg, Cape Town, Durban, and Gqeberha.

KPMG Incorporated and KPMG Services Proprietary Limited are member firms of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.

For more information, please email KPMG South Africa's Head of Communications at dudu.ndlovu@kpmg.co.za