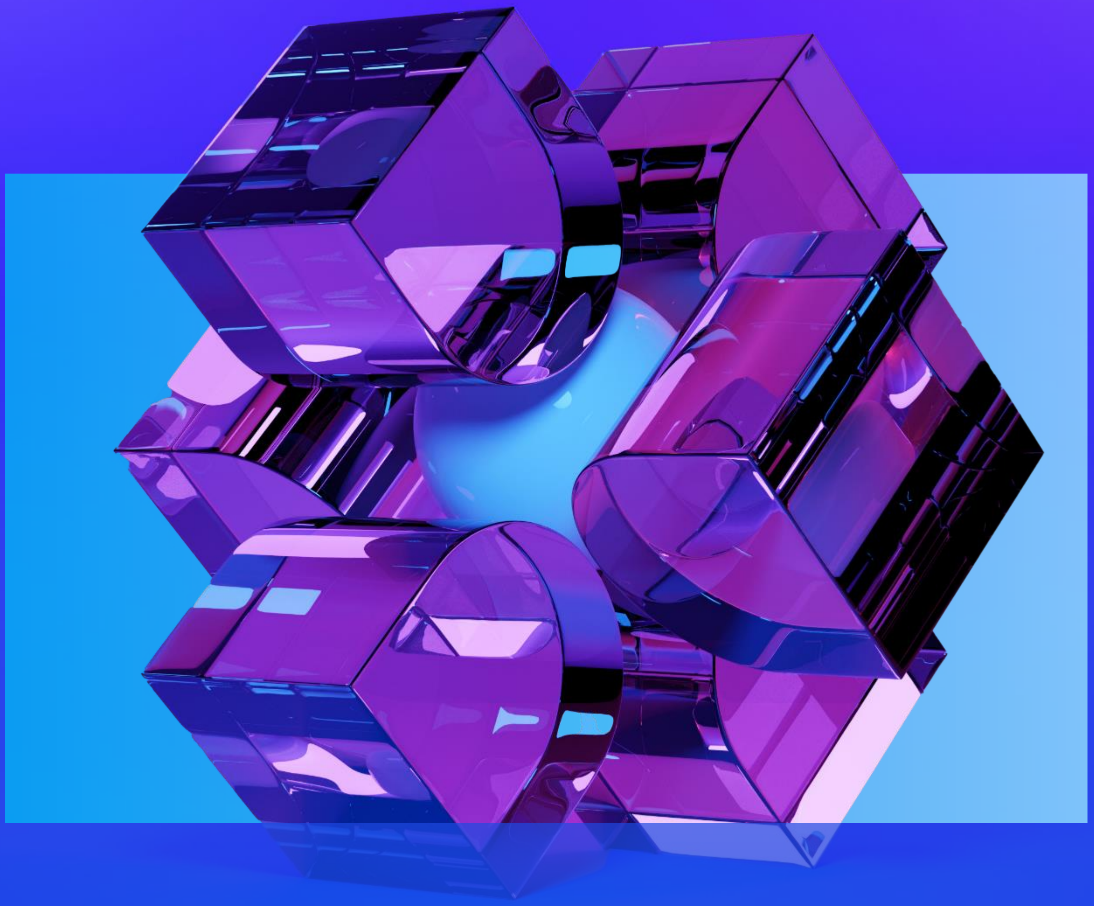
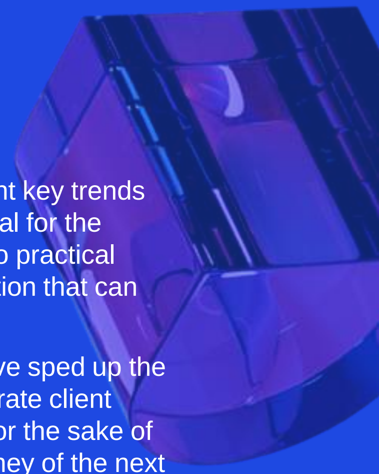
Southern Africa Banking Survey: Vision 2030

A KPMG perspective



2024 | KPMG South Africa

Foreword



It is my pleasure and privilege to invite you on this journey towards the future of banking across Africa. As we look ahead, it is with a cool head and hard data that we must plan for the disruption, and the opportunities that lie ahead for our industry.

Across Africa, the continent brims with young innovators, a rapidly expanding middle class, and a thirst for financial inclusion. That thirst has propelled innovation already, with mobile banking having banked millions of unbanked customers. It is within this continent too, that blockchain technologies have unlocked opportunities for the unbanked, and further enabled socioeconomic development through alternative finance. Africa is not simply poised to become the next frontier of banking innovation; Africa already is.

During 2024, Africa will have 11 of the world's fastest growing economies, as outlined by the African Development Bank. The continent is growing, and destined for even more growth, with abundant, exponential opportunities to be found.

As the most promising opportunities are not always visible to the naked eye, we want this report to provide you with the lens through which to pierce the wall separating the innovators from the rest, using local data and global insights to help pave the way to that future.

As we take you through this report, we invite you to become an active participant, seizing the opportunities and navigating the challenges that lie ahead. Within each obstacle there stands opportunity, and it is through this report that we hope to guide you towards finding the opportunities.

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

Using insights gleaned from our in-depth survey, combined with our global insight, we hope to give you the confidence to move with precision into the future of banking in Africa. Moving beyond simple speculation, we offer you realistic insights and highlight key trends that our team has selected as fundamental for the future of banking. You can look forward to practical insights, real stories, and factual information that can direct your decision making.

Of course, technology and innovation have sped up the race to compete for consumer and corporate client attention, but we must not innovate just for the sake of innovation. As we move through the journey of the next decade, we will look at how your institution's growth into Africa will be led by the continent's unique demographics, shifting regulatory landscapes, and cultural nuances.

Unburdened by much of the global legacy infrastructure, Africa has leapfrogged tradition, when compared with global superpowers. An unafraid continent, Africa's uptake of mobile banking, AI-powered solutions, and innovative payment solutions, stand as firm examples of how technology takes the leap past tradition.

Striving for unification or standardisation through cross-border payments and logistics, more and more industries and sectors seek to partner for progress.

As collaboration takes centre stage across Africa's dynamic ecosystem, we'll consider how partnerships with fintech players, regulators, and other stakeholders, can fuel innovation and extend your reach.

The future is destined to be borderless. 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.

Moreover, while building for the future, we must protect it too. Investing in responsible sustainability practices goes hand-in-hand with building towards positive outcomes for every citizen of the continent, and every banking sector stakeholder. From customer to CEO, sustainability must be a driving force for all decision making.

This report isn't a roadmap. It's a call to action. As we seek to empower you, our leaders in banking, to become proactive shapers of Africa's financial future, we're here to empower and guide you too. Join us in exploring thought-provoking insights, practical strategies, and real-world case studies that will equip you to thrive in this dynamic landscape.

For this vision of the future to become reality, banking leaders also needs to heed those words by Rene Char:

"Act like a primitive and plan like a strategist."

As another way of ensuring that current opportunities are seized with boldness, while ensuring careful understanding of the landscape and the dynamics shaping the banking sector on the continent.

Don't be a bystander, as Africa's banking revolution unfolds. This report is your invitation to join the movement, discover opportunities, and write the next chapter in the continent's financial story.

I invite you to join us as a pioneer of Africa's financial future.

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The Southern Africa banking sector

Albert Einstein stated that "If you want to know the future, look at the past." It would be remiss of our team to ignore the recent results released by Southern African financial institutions. With this in mind, we seek to better understand the growing trends within the sector, and highlight that we are moving into a critical growth period for the banking sector across Southern Africa.

While the major banks in South Africa have recorded excellent profitability, it cannot be ignored that this may come at the expense of the consumer. Rising interest rates and escalating consumer over indebtedness signify growth in revenue in banks' retail offerings, but with medium to long-term risk potential. A high level of customer uptake in lending transactions, remains a concern, especially as banks race towards innovation that enables ease of use for customer onboarding and retention.

The digital first revolution

The rise of the digital-first banks cannot be ignored. Quickly accumulating customers and capturing consumer attention by providing easy access to payment solutions, lending, and with simplicity as a guiding force, digital-first banks have begun to chew away at the consumer transactional level. The power of consumer-first, innovative banking platforms that are unfettered by traditional and legacy architecture will continue to grow. With that, traditional institutions should look towards encouraging and enabling innovation through collaboration. As the fintech landscape grows, so too does competition for attention and innovation. Traditional financial institutions may be hindered by legacy architecture, but it is through collaboration - not acquisition - that they can tap into and fast-track innovation to better serve their customers.

Africa – a journey of growth and opportunity

Across Africa, local players in the banking sector dominate across jurisdictions, often having been first to market in providing payment solutions for unbanked populations. Growing their market share by providing easy-to-use solutions served as a catalyst for their growth. Where global financial players have pulled back, local banking providers continue to grow.

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.

Despite global financial market volatility, economic crises within Africa itself, and an escalation in global geopolitical tensions, the African banking sector continues to grow. Collaboration will be key, to ensure emerging institutions can keep up with compliance measures related to capital requirements. Key mergers and acquisitions will similarly buffer non-traditional financial service providers and traditional institutions alike, but local players are likely to win consumer attention even more so, as we move towards 2030.

Investor priorities, while often shaped by regulatory fundamentals, are also shifting, with the rise of ESG priorities. Investors remain keen to understand how institutions handle crises, with the after-effects of the global COVID-19 pandemic not yet forgotten. A focus on building long-term value, and ensuring ESG objectives are met or exceeded will take a front seat, alongside technological innovation.

Resilience, agility and innovation

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. Luckily, shrugging off the globally traditional hindrances comes easily to the African banking sector, as evidenced by the spectacular growth of non-traditional payments solutions across the region. Diversifying product offerings and geographic focus will lend itself towards further opportunities towards collaboration both across jurisdictions and product offerings.

Across the continent, the African horizon is clear. Just as the sun rises over a growing sector, the light leads us towards the spirit of the continent, where community and collaboration will usher in a renewed banking sector. The year 2030 will present a very different view, in stark contrast to 2020. Africa has always known how to reinvent herself, and the banking sector is no different.

AI and Digital Innovation

The African banking landscape is undergoing a paradigm shift. Driven by the rapid, global adoption of digital technologies, the African continent responds differently to other regions. While the global surge in digital adoption transcends geographical and socio-economic boundaries, the particularly African adoption has enabled transformation in a different way. Where other regions may select digital transformation as an innovation strategy, Africa has used it in the past to leapfrog bureaucracy and enable financial inclusion.

Reimagining the bank of the future

One need only look at the remarkably quick uptake of mobile payments across Africa, and then compare it to the more legacy systems still prevalent in the developed world. Moving ahead, however, Artificial Intelligence (AI) and digital innovation open further opportunities for financial inclusion, personalisation, and customer service. AI, blockchain technologies, and big data analytics transforms the way financial institutions operate and interact with their customers. AI, in particular, reimagines customer service, risk management, and fraud detection, while enabling enhanced financial inclusion across the continent.

Opportunities

Throughout our analysis of AI and digital innovation, one thing has rung true: the technologies we come to understand today, are harbingers of opportunity and mere symbols of what is yet to come.

Blockchain technologies: While the first publicly known iteration of Blockchain centred on cryptocurrencies, such as Bitcoin, the inherent opportunities for innovation have quickly come to the fore. Between private sector investment, public projects, and non-profit initiatives, the use cases for blockchain technologies grow every day. At the forefront of these use cases and their potential, lies the inherent opportunity of utility. The utility potential within blockchain technologies extend to identity management, fraud management, risk management, supply chain management, quality assurance, Know Your Customer (KYC) processes, and standards-based contract management.

The arrival of blockchain technologies into more mainstream activities has ushered in a new era of regulatory frameworks, with a keen focus on ensuring compliance, inclusion, and anti-money laundering (AML) processes. The tokenization of assets through blockchain technologies brings further opportunities for financial development, identity management, and a move from institutional friction to institutional adoption.

> "Blockchain is the future, but as a system not as an asset."
>
> **Chief Risk Officer**
> **Leading SA Bank**

Blockchain Technologies

100%

survey participants had begun, or are well advanced into, an exploration of blockchain technologies

Majority find that blockchain technologies are most likely to be used for implementing customer loyalty programmes

Secondary priority: adoption of CBDCs and cryptocurrency custodial services

Three other priority areas: Asset tokenization, Post-trade settlement services, and Tokenized deposits or the issuance of CBDCs / stablecoins

13%

listed cryptocurrency brokerage services as a priority area, while none of the participants highlighted cryptocurrency investment vehicles as a priority area

Our survey results indicated the following:

57% full intention towards implementing blockchain technologies within their operations, while 43% do not currently have plans to do so

50% strategy of adopting blockchain technologies, such as tokenization of financial instruments, not yet deployed

33% have begun implementing their blockchain strategies

17% no set strategy towards blockchain technology

Enhanced digital evolution: Globally, banks and financial institutions are well on their way towards digital evolution, as the reduction of manual processes and a shrinking footprint of physical branches is evident. Matched with evolving customer features and facilities, the digital evolution marries with customer demand. Banking customers are more focused on being able to transact using their mobile phones, in a location-independent fashion.

As banks have responded to the customer demand for decentralisation, so too will the demand for further adoption of digital technologies eliminate the need for physical attendance to maintain bank records, or conduct transactions.

Across Africa, in particular, recent history tells us that the quick adoption of digital technologies, such as mobile payments, has enabled large-scale financial inclusion. This, in turn, leads to higher revenue potential for banks, and elevated revenue collection opportunities for governments.

Through financial inclusion, more and more customers are able to access additional products, including credit facilities, subscriptions, and more.

> Enhanced digital evolution in banking will entail even deeper integration of technology into every aspect of banking operations and customer interactions.

Artificial Intelligence and Data Analytics: Beyond offering customers more opportunity for financial inclusion, digital innovation and Artificial Intelligence (AI) also unlocks abundant opportunities for financial institutions. Generative Artificial Intelligence, for example, brings about new opportunities to explore recommendation engines, customer segmentation strategies, and further investigation into personalising customer experience. Additionally, AI can enhance supply chain management and actively remove data silos from within your operations. Adopting data analysis techniques and technologies that pull data from across your organisation can highlight key trends, and offer invaluable insights for improving efficiencies.

Our survey participants indicated the following inhibiting factors preventing the adoption of AI and digital innovation

54%

highlighted that the **primary** factor preventing the adoption of AI and digital innovation lies within **budgetary constraints**

Half

indicated **limited technologies**, and the limitations associated with a **conservative risk appetite** as the **tertiary** inhibiting factor

52%

noted that the **secondary** factor that prevents the adoption of AI and digital innovation is the **limited business enhancing use cases**

39%

listed **regulatory limitations** as an inhibiting factor that prevents the adoption of AI and digital innovation

38%

highlighted that **limited skills** prevent the adoption of AI and digital innovation

By leveraging AI and digital innovation tools and technologies, we can unlock the following market opportunities

1 Customer insights

50% endorsed by participants as a priority area

50% participants considered this an opportunity to improve customer understanding

2 Commercial insights

3 Workforce insights

4 Operational insights

5 Enterprise insights

An expanding market for cryptocurrencies: As customer demand for cryptocurrency integration into the mainstream marketplace grows, so too must product offerings. Additionally, as a global movement towards the adoption of stablecoins, also known as a Central Bank Digital Currency (CBDC) roars ahead, this will affect the realm of cross-border payments.

Regulatory evolution: While compliance is key, regulatory evolution is a certainty. As digital technologies evolve, regulatory frameworks develop at a rapid pace, to maintain and manage risk in new environments. The demand for operational frameworks that centre on “privacy by design” will grow, in line with regulation and best practice guidelines.

Tokenisation: According to our analysts, by 2030, 30 trillion dollars of assets will be tokenized. Operational changes must take place to cater for the digital asset and tokenization space, to respond to regulatory evolution. An increasing number of pilot projects are being carried out across the globe, within banks and by governments and private sector projects.

Cryptocurrency investments: While the cryptocurrency market is renowned for its volatility, cryptocurrency investments can generate high levels of returns. Moreover, as the demand for cryptocurrency custodial services grows, it’s crucial to build customer services and products that respond to this demand.

Challenges

Risk mitigation: The adoption of digital technologies does bring about an additional level of threat and risk, particularly within the realms of cyber security, access controls, and escalated breach opportunities. Threats evolve exponentially, matched closely with the types of technologies used. To counter this, the regulatory landscape must respond swiftly, and thereby increase the burden on financial institutions. As compliance becomes more onerous, so too will risk mitigation.

Artificial Intelligence (AI) provides good opportunities to get ahead of the curve when it comes to risk management. Well organised and effectively governed data, enables insightful analytics. Improvements of the data inputs we create for our organisational processes will lead to enhanced AI adoption and improved results. AI can support mitigating the risk of money laundering, and fraud, with the right big data and algorithms behind it, enabling automated monitoring for transgressions.

AI bias: As we previously defined, AI refers to the ability of machines to mimic human intelligence and perform tasks typically requiring human cognitive skills. AI, however, is trained by humans, and humans have inherent bias. Similarly, datasets used to train AI tools may have inherent bias owing to lack of diverse data. With that in mind, caution is advised, as AI bias can lead to irregular outcomes, disparity in service offering, and unintended discrimination.

Change management: Customer understanding, when it comes to digital transformation, is a key imperative for banks. A robust change management approach must be adopted throughout internal communications, and external communications systems, to ensure a high level of adoption and customer education. Combined with a focus on enhancing financial and digital literacy, these change management and communication strategies can further enhance product uptake, customer service, and the entrenchment of key differentiators for banks. Bear in mind, however, that Africa’s comparatively younger population also makes it easier for banks to drive innovative products towards customer adoption. The demand for decentralised technology driven banking solutions for customers is expected to grow due to the growing young population.

Legacy infrastructure: Digital technology adoption is far easier when starting from a blank slate. The arrival of digital-first banks in Africa, and their easily understood customer offerings has proven this. Challenged by legacy infrastructure and technologies, skills shortages, and regulatory requirements, traditional financial institutions have a longer adoption curve. This puts them on the back foot when it comes to digital adoption, as digital-first banks can provide highly competitive customer offerings, without the operational overheads and associated costs. As we outlined before, however, digital adoption across Africa is vastly different when compared with the developing world. Blockchain technologies’ potential for disruption is higher in emerging markets, like Africa, in comparison to more mature and developed markets.

In summary

The African banking landscape is undergoing a significant transformation driven by the adoption of Artificial Intelligence (AI) and digital technologies. This presents a unique opportunity to leapfrog traditional models and promote financial inclusion across the continent.

AI and digital innovation offer immense potential to enhance customer experience, gain valuable insights, and improve operational efficiency. Blockchain technologies hold promise for transforming cross-border payments, improving trade finance, and enhancing data security.

The responsible adoption of AI and digital innovation, combined with continuous innovation are crucial to ensure inclusive and sustainable growth in African banking. While challenges such as budgetary constraints, limited use cases, and regulatory hurdles persist, the potential benefits offered by AI and digital innovation are undeniable.

By embracing these technologies responsibly and fostering a culture of continuous innovation, African financial institutions can unlock a new era of financial inclusion and prosperity for all.

How much of our participants IT budget is dedicated towards AI and digital innovation?

- >10%: **25%** apportion less than 10%
- 10-20%: **25%** dedicate between 10% and 20%
- **37%** devote between 21% and 30%
- **13%** spend more than 30%

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. This combination approach is a key element that drives the adoption of AI and digital innovation within the financial services sector.

Strategies for developing Artificial Intelligence (AI) and digital skills

- **34%** partner with leading software companies to enable skills transfer. There is a keen focus on leveraging collaboration and partnerships to develop AI and digital skills
- **29%** leverage global expertise, to enable the adoption of Artificial Intelligence (AI) and digital innovation
- **28%** recognise the opportunity to enhance skills development in Artificial Intelligence (AI) and digital innovation by partnering with learning institutions
- **21%** implement internal coding academies
- **17%** pursue a Research and Development (R&D) approach, with the creation of AI labs or factories.
- **50%** combine an approach of build and buy, to enable the adoption of AI and digital innovation within their organisations
- **25%** intend using Software as a Service (SaaS), to enable the adoption of AI and digital innovation within their organisations
- **13%** buy technologies, to enable the adoption of AI and digital innovation within their organisations
- **13%** do not currently have a strategy in place to enable the adoption of AI and digital innovation, and the associated skills development required

KYC, Compliance and Conduct

Across Africa, digital transformation drives financial inclusion. The introduction of digital-first banks, and the radical uptake of mobile payments has created significant opportunities for economic growth and development.

Alongside this, however, remains a critical challenge: ensuring robust Know Your Customer (KYC) and compliance frameworks that mitigate risks and maintain financial stability. Adhering KYC obligations has become increasingly intricate and challenging. This is often compounded by the layering of additional controls and processes, leading to growing complexity in operational programmes. Banks must navigate a dynamic regulatory landscape, ensuring continuous compliance with evolving KYC regulations specific to the African continent. Furthermore, heightened expectations for customer due diligence arise from the complex criminal threats that emerge within Africa's evolving social, environmental, and economic climate. As we examine the effects of digital transformation and resulting financial inclusion, we also look towards a rapidly evolving regulatory landscape. As the continent is uniquely placed to take advantage of technological advancements that move beyond the traditional banking sphere, we pay attention to the further evolution that lies ahead.

A push towards harmonisation and collaboration across the SADC region, and Africa at large has been duly noted, along with key considerations for ensuring that KYC and compliance functions remain agile and adaptable in a dynamic financial landscape.

Implementation of Artificial Intelligence (AI) technologies for KYC and compliance processes

50%

survey participants outlined that they had, or intended to, deploy AI technologies to reduce the costs associated with compliance

50%

survey participants indicated an existing or expected commitment towards deploying AI technologies to automate the end-to-end compliance function

> "In the future, the compliance function will be more integrated in the business decisions rather than an afterthought. Through AI and automation, a number of compliance issues will be embedded in systems enabling businesses to improve their overall compliance levels."

- Senior Internal Auditor, Leading Zambian Bank

Opportunities

Growing financial literacy: Effective customer education around KYC and compliance procedures can help consumers

understand the importance of these measures and navigate the onboarding process more efficiently.

Regional collaboration and harmonisation: As various trends suggest, there exists a desire to further enhance collaboration and harmonisation across institutions and jurisdictions within and beyond the continent. A concerted effort to harmonise regulatory standards and currency evaluations has begun.

Shared KYC utilities: Regional collaboration can lead to the development of shared KYC utilities whereby financial institutions can access verified customer data, reducing duplication of effort and streamlining KYC processes across borders.

Regulatory standardisation: Harmonised KYC standards across African nations could create a more efficient and cost-effective compliance environment for banks operating in multiple jurisdictions.

Collaboration to combat financial crimes: Collaboration between banks and regulators can strengthen regional efforts to combat money laundering and other illicit activities. Similarly, outsourcing KYC processes through collaborative managed services can reduce operational costs for banks.

Leveraging technologies for efficiency and accuracy: Abundant opportunities for streamlining KYC and compliance processes, especially in terms of customer onboarding processes, have evolved through rapid digital transformation. Digital identity verification tools and platforms can streamline KYC processes and mitigate fraud risks.

Artificial Intelligence (AI) and big data analytics: These can be used to analyse customer data and identify suspicious patterns or potential money laundering activities. Technologies like AI, machine learning, and Robotics Process Automation (RPA) can enhance efficiency and accuracy in KYC tasks. This allows for a more risk-based approach to KYC, focusing resources on higher-risk customers.

Blockchain technologies: Blockchain technologies can enhance and transform KYC and compliance processes by creating a secure and tamper-proof record of customer information. This can improve data accuracy and facilitate collaboration between banks for efficient KYC processes.

Proactive detection of illicit activities: As they are pattern-based learning models, AI and Big Data analytics can identify suspicious transactions and activities in real-time, enabling banks to prevent financial crime and money laundering more effectively.

Enhanced regulatory oversight: By staying ahead of evolving regulations and implementing robust compliance frameworks, banks can avoid hefty fines and reputational damage associated with non-compliance.

Improved risk management: Appropriate, responsible adoption of available and evolving technologies can improve risk management approaches and optimise risk management processes.

Building customer trust: Robust KYC and compliance practices foster enhanced customer trust and confidence in the banking system, encouraging greater participation in financial services.

Streamlined customer onboarding: Digital technologies are already automating document verification and customer due diligence processes, as illustrated by the proliferation of digital-first, or digital-only, banks. KYC processes are managed without the customer needing to physically interact with the bank, leading to faster, more convenient customer onboarding.

Frictionless banking: AI-powered chatbots and virtual assistants can guide customers through KYC procedures, providing a smoother and more personalised onboarding experience.

Risk-based KYC processes: By tailoring KYC processes based on customer risk profiles, banks can avoid overly cumbersome procedures for low-risk individuals, improving customer satisfaction. In particular, technology-enabled KYC solutions can facilitate simplified onboarding for low-risk individuals, particularly those in previously unbanked populations.

Mobile KYC solutions: Leveraging mobile technology can enable remote KYC verification, expanding access to financial services for geographically dispersed populations.

Challenges

Finding the balance between efficiency and robust procedures: While the opportunity for enhancing customer onboarding, interaction, and transactional procedures exists, it must be balanced with ensuring full compliance. Striking a balance between streamlining onboarding processes and conducting thorough KYC checks remains a challenge. This is particularly critical for low-risk customers where overly stringent procedures can hinder financial inclusion.

Evolving technologies: As technology advances, so do the potential loopholes exploited by criminals. Banks need to continuously adapt their KYC processes and invest in staying ahead of these evolving threats to maintain security.

Shifting regulatory changes: The regulatory landscape in Africa is constantly evolving, requiring banks to invest significant resources in understanding and implementing new KYC and AML compliance guidelines. With an increasing regulatory burden, African banks face growing compliance complexities. Similarly, new regulations, particularly around ESG factors, require ongoing adaptation of KYC processes.

Obstacles to harmonisation: The lack of standardised KYC requirements across different African countries creates complexities for banks operating in multiple jurisdictions, leading to duplication of effort and inefficiencies.

Resource constraints: Smaller banks may struggle to invest in the necessary technologies, human resources, and expertise to develop and maintain robust KYC and compliance frameworks.

AI bias and explainability: AI algorithms used for KYC can inherit biases from the data they are trained on. This can lead to unfair outcomes and discriminatory practices. Banks need to ensure transparency and explainability in their AI-powered KYC systems.

Data security and privacy concerns: A growing reliance upon technology for KYC necessitates robust data security measures to protect sensitive customer information from breaches and cyberattacks.

Skills and talent gaps within compliance divisions: The evolving nature of KYC and compliance demands a growth in the talent pool, and effective skills development that includes data analysis and technological expertise. Banks need to invest in training existing staff and attracting new talent who possess the necessary skill sets.

Digital currencies and anonymity: The growing adoption of digital currencies with inherent anonymity features poses challenges for traditional KYC practices. Banks need to develop strategies to mitigate potential risks associated with these new payment methods.

Effective anti-money laundering (AML) strategies: Combating money laundering and terrorist financing requires robust AML strategies that adapt to new technologies and evolving criminal tactics. Shifting market dynamics like identity theft and fraud necessitate the continuous improvement of KYC processes.

Greylisting and capital limitations: As we have already seen, being placed on the Financial Action Task Force (FATF) grey list can damage a country's reputation and restrict access to international finance. This has had, and will continue to, negatively affect the African banking sector and regional economic growth.

Increased regulatory burden: Being greylisted by FATF leads to more intensive regulatory scrutiny and stricter compliance requirements for banks. A concerted effort to ensure countries affected by greylisting move quickly and adeptly to remove their greylisting status is underway, however, speed does not always equate to compliance.

> **Zambia is a close trading partner for South Africa. The continued greylisting of South Africa is increasing pressure on (Zambian) compliance resources thereby driving up compliance costs.**
>
> **- Senior Internal Auditor, Leading Zambian Bank**

In summary

Digital transformation presents a double-edged sword for the African banking sector.

While abundant opportunities exist to streamline KYC and compliance processes, and adopt appropriate technologies for KYC and compliance, significant challenges also lie ahead.

By embracing a collaborative approach, leveraging technology thoughtfully, and continuously adapting to challenges, African banks can build a robust and future-proof KYC and compliance framework. Through the effective implementation of technology-backed KYC and compliance processes, a thriving digital banking future can be explored.

Through this growth and development, financial inclusion, security, and growth can be secured across the continent. By embracing these advancements, African banking can seize the opportunities presented by the digital revolution and effectively navigate these challenges to achieve a secure future, focused on economic growth.

Effects of the Conduct of Financial Institutions (COFI) Bill

50% survey participants highlighted that they are investing in skills development for their Conduct teams and divisions, to ensure compliance with the COFI Bill

50% survey participants have an established Conduct team, indicating that they feel confident their institution will manage the effects of the introduction of the COFI Bill

A robust banking compliance framework is essential for safeguarding the interests of customers, protecting the reputation of the bank, and maintaining regulatory compliance in an increasingly complex and demanding regulatory environment

ESG

"

When measuring the full effect of our social spend and initiatives, we align with the United Nations Sustainable Development Goals and other industry best practice guidelines, including the Global Compact and Principles for Responsible Investment."

- Group Head: Sustainability, Leading SA Bank

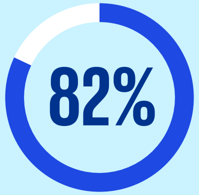
Environmental, Social, and Governance (ESG) considerations are now embedded into the global banking environment, as priority. While ESG considerations continue to evolve, however, this trend is particularly significant for African banks, which face unique opportunities and challenges in integrating ESG principles over the next decade. With increasing pressure from investors, regulators, and society at large, ESG considerations are no longer an afterthought, and the practice of greenwashing fades in comparison to amplifying the true effects of putting ESG considerations onto the priority board.

Looking ahead, as Southern African banks work to integrate ESG principles into every aspect of their operations, the strategic imperative is underscored by the global requirement. Southern African banks have a unique opportunity to position themselves as leaders in sustainable finance and responsible banking practices over the next decade.

Revenue opportunities

92%

survey participants highlighted **retail banking products and services** as the **primary** revenue opportunity within the realm of ESG



survey participants 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

67%

showcased that **transaction banking** could offer a key revenue opportunity, although to a lesser extent than other product offerings

33%

indicated that **investment banking** opportunities may provide an opportunity to generate revenue within the realm of ESG, although to a lesser extent than other product offerings

17%

believed that **asset management** presents a burgeoning revenue opportunity within the ESG realm, while only **8%** believed that wealth management services might present such an opportunity. These two product offerings received the lowest scores in terms of projected revenue opportunities within the ESG landscape, among our survey participants

Opportunities

Green finance opportunities: As global and local demands grow for renewable energy infrastructure projects to be implemented, there exists an evolving opportunity to support energy transition towards solar, wind, and hydro-powered initiatives. Reducing global reliance on fossil fuels has become a global and local imperative.

Loans and investment products in green finance: The need for loans and investment products focused on green finance continues to grow, with increasing demand predicted.

Collaborative opportunities: Partnering with businesses at the forefront of pursuing ESG objectives as operational priorities presents Southern African banks with opportunities to expand their portfolios in measurable, efficient ways. These can include clean transportation initiatives, sustainable housing development, and more.

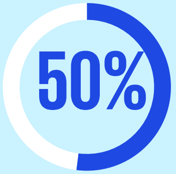
Green bonds issuance: Financial institutions must increasingly consider issuing and underwriting green bonds to enable capital provision specifically for environmentally friendly projects.

Adaptation of financial products and services to assist with climate change adaptation and risk mitigation: The opportunity to adapt and evolve financial products and services to support businesses and communities affected by the fast-moving effects of climate change is crucial. Similarly, supporting and enabling the implementation of early warning systems and disaster risk reduction initiatives must become a key imperative for all financial institutions.

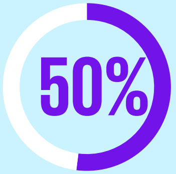
Effective resource management: While the ESG considerations have moved from a nice-to-have towards a global requirement, it is key for financial institutions to seek out opportunities that enhance effective resource management across industries in sectors. These can include sustainable forestry practices, biodiversity conservation initiatives, responsible mining practices, and environmentally sound waste management solutions.

Growing financial inclusion: While the trend towards growing financial inclusion across the continent continues, the opportunity to extend this exists within the framework of ESG principles too. The opportunity exists within developing innovative financial products and services that reach unbanked and underbanked populations, while promoting financial literacy and economic empowerment. Matched with the growing influence of fintech companies, and across-continent uptake of mobile payments, non-traditional, and digital-first banking solutions for customers, there remains a need to provide accessible financial services in remote areas. Where effective collaboration is required to extend product offerings into remote areas or regions where financial institutions may not have an active footprint, there exists abundant opportunity to partner with microfinance institutions, fintech companies and NGOs to expand financial inclusion initiatives.

Is your bank ready for ESG reporting?



survey participants believe they are somewhat prepared to fulfil the current and expected requirements of effective ESG reporting and ensuring regulatory compliance



survey participants indicate that they are minimally prepared to fulfil the current and expected requirements of effective ESG reporting and ensuring regulatory compliance

The provision of affordable housing: Tailoring mortgages and home loan products towards improving accessibility for low and middle-income earners presents an opportunity to grow financial products and services. In South Africa, for example, this is backed by government initiatives, such as the First Home Finance and Subsidy Assistance programme, formerly known as the FLISP grant. By re-engineering home loan products to service this target market, key objectives associated with financial inclusion, wealth generation, and growing customer bases can be achieved.

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Skills development: While the demand for sustainable infrastructure projects grows at a global scale, so too does the need for relevant skills to serve the green economy. The provision of finance for educational institutions and programmes that support this, along with a key focus on addressing youth unemployment, while promoting financial literacy, remains a high-level priority.

Healthcare and infrastructure: The need for traditional healthcare service provision, combined with a growing industry of digital-first healthcare services, has led to some unique solutions being delivered across the continent. Across the continent, innovative healthcare initiatives have enabled primary healthcare service provision to remote areas, and demand for this continues to grow. It is pertinent and effective to sustain and grow investment into healthcare infrastructure and service providers, particularly in underserved areas. Further, to address the need for digital-first or technology-enabled healthcare service provision, it is an opportune time to set up and secure partnerships with healthcare service providers and insurance companies to offer innovative and affordable health financing solutions.

Governance and accountability: Southern African banks have a unique opportunity to solidify themselves as leaders in responsible banking through strong governance. By implementing transparent ESG reporting, strengthening anti-corruption measures, and integrating ESG into decision-making at all levels, banks can build trust with stakeholders, attract ESG-focused investors, and ultimately achieve long-term financial stability alongside a positive social and environmental effect. In a region often marred by corruption, effective solutions that enhance accountability and transparency are sorely needed.

Diversity and inclusion: It's no longer enough to simply promote diversity and inclusion, as regulatory obligations and growing focus on ensuring equity and equality take hold. From within institutional operations and into the solutions, investments, and acquisitions, strongly addressing gender inequality and human rights concerns, while ensuring ethical labour practices are upheld, must play a role in all decision-making.

Innovation and technology: To improve ESG data collection and analysis, a high level of consideration should be given towards adopting appropriate technologies. For example, blockchain technologies have applications for governance purposes, leveraging these technologies' nuances of transparency and accountability to ensure exemplary governance.

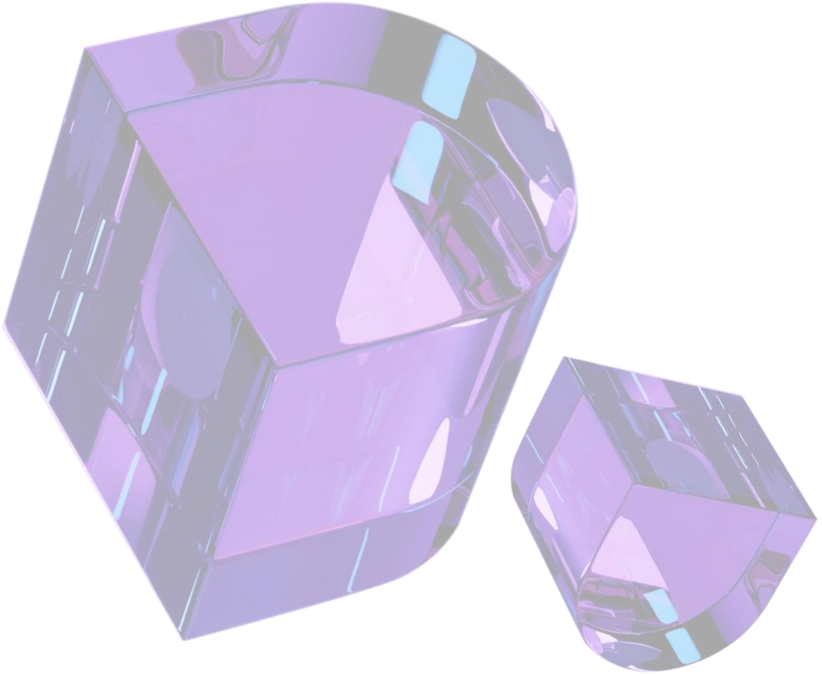
Proactive engagement with regulators: Ensuring and supporting proactive engagement with regulators will help to build more effective regulatory frameworks enabling and securing improved compliance with evolving ESG regulations.

Market leadership: Establishing a strong reputation for ESG commitment can attract new customers and investors, differentiating banks from their competitors. This aligns with global consumer trends whereby ESG has become a known contender that affects consumer decision-making.

> **"Leadership buy-in and competing priorities make it difficult to ensure effective ESG reporting."**
>
> **- Group Head: Sustainability, Leading SA Bank**

Challenges

Limited renewable energy infrastructure: While the demand for renewable energy solutions grows at an exponential rate, there remains a gap in ensuring effective, timeous delivery, exacerbated by the escalating impacts of climate change, particularly in Africa. Inadequacies or limitations within infrastructure for renewable energy projects can hinder financing opportunities in this sector.



Climate dependency: Many Southern African countries still rely heavily on climate-sensitive industries, such as mining and agriculture. The level of climate dependency, combined with the acceleration of climate change across the continent poses a significant risk for people and industry, including the financial services sector.

Data scarcity: Although the regulatory environment has promoted the implementation of effective data collection in some regions, comprehensive ESG data is not always accessible or easily accounted for. Data scarcity, inconsistent reporting, and information gaps make it difficult to assess ESG risks and opportunities accurately.

Survey participants highlighted the following challenges with regards to ESG reporting:

100%

the **primary** challenge in ensuring effective ESG reporting lies at **the data collection level**

70%

a full **understanding of ESG reporting requirements and best practice guidelines** presents **a secondary** challenge within ensuring effective ESG reporting

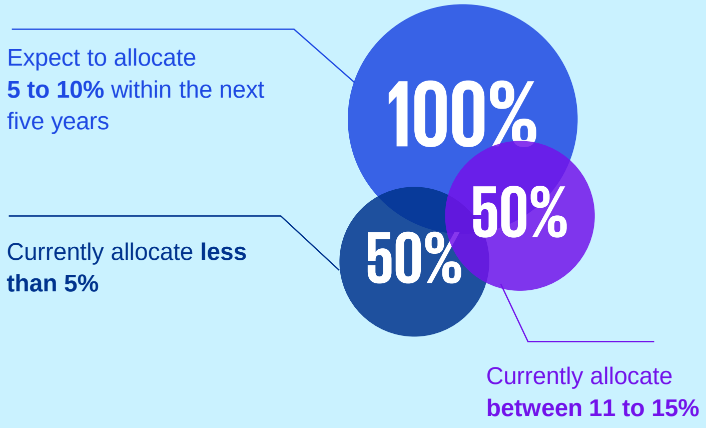
50%

achieving the **assurance requirements** to ensure effective ESG reporting is a **tertiary** challenge for their institution

40%

resource constraints exist as a concerning challenge associated with ensuring effective ESG reporting

Survey participants indicated the following with regard to their IT spend towards ESG



"

Technology is used to extract data metrics from core data platforms to support our ESG reporting and measurement."

- Group Head: Sustainability, Leading SA Bank

Poverty and inequality: While global poverty continues to decline since the 1990s, widespread poverty and income inequality continues to shape much of Africa's financial landscape. This makes it difficult to effectively achieve financial inclusion goals and create a socially responsible banking system. In South Africa, the FSCA has issued a statement on Consumer Vulnerability to address this. The statement and strategy outlines a multi-pronged approach to protecting vulnerable customers in South Africa's financial sector. Key recommendations include collaborating with stakeholders, developing a consumer vulnerability index, integrating vulnerability assessments into supervision, reviewing the effectiveness of interventions, and providing financial education programs. Additionally, the FSCA plans to provide guidance to financial institutions and implement a phased approach with ongoing research to ensure evidence-based decision-making.

Skills gap: Skilled labour and specialist skills required to serve the green economy remain a concern within Africa. This critical skills gap can hinder the development of sustainable businesses and projects.

Governance and regulatory concerns: Within a continent often plagued by corruption and its consequences, there also exists a landscape of inconsistent or underdeveloped regulations related to ESG. This can create uncertainty for banks and limit progress in sustainable finance. Within countries, and across the region, the lack of standardised ESG measurement methodologies can make it difficult to compare performance and attract global investors.

Balancing long-term goals with short-term financial objectives: Short-term profit generation can be hindered while the focus shifts towards balancing the achievement of longer-term ESG goals. For example, while the World Bank guidelines specify minimum standards that banks should meet for the sound management of ESG risks within the current prudential framework, it is not always possible to achieve these on the ground. Similarly, within information technology development, designing ESG technical solutions involves a constant balancing act between immediate demands and long-term goals. The allure of a one-size-fits-all solution or achieving perfection can lead to extended development times, pressure for quick fixes, and ultimately, a burden of technical debt that hinders future progress.

Upfront capital requirements: Developing and implementing robust ESG frameworks and reporting systems can involve significant initial capital investment.

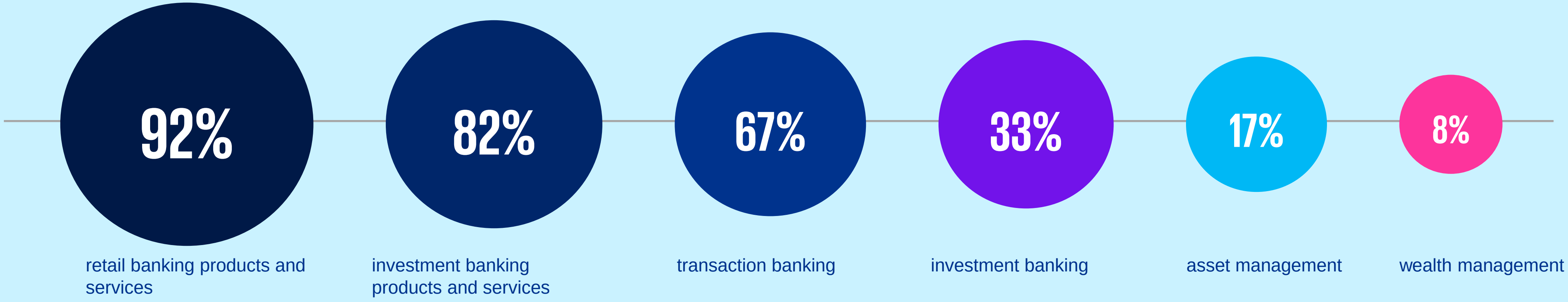
The risk of greenwashing: When financial institutions make ESG-related commitments, there is growing pressure to ensure these claims are well-substantiated. Without verifiable, reliable, and accurate reporting, financial institutions run a reputational risk whereby they may be accused of greenwashing.

In summary

Achieving the key Environmental, Social, and Governance (ESG) imperative for financial institutions is a balancing act where the balance between people, planet, and profit must be achieved The financial services sector in Southern Africa is on the cusp of a significant transformation. ESG considerations are transitioning from a niche concern to a core strategic imperative.

While challenges exist, the opportunities presented by ESG integration far outweigh them. Southern African banks have the opportunity to become leaders in responsible banking, but a collaborative approach must underpin all activities. Key partnerships with public sector and private sector bodies, along with regional and continental initiatives can help to ensure the achievement of ESG objectives for all.

Survey participants indicated that the following business unit focuses are at the forefront of advancing their ESG portfolios



Payments

The global surge in innovation around payment technologies and facilities is remarkable. Within Africa, a continent that's comparatively ahead of the developed world when it comes to payment technology adoption, the continent is uniquely positioned to capitalise on these advancements.

While traditional financial institutions have somewhat dominated the payment space, the emergence of fintech companies, mobile money solutions, and alternative payment methods are rapidly reshaping the landscape. Africa's unique adoption of mobile payments has enabled further financial inclusion, moving many people from a traditionally unbanked position, into somewhat banked, as they transact using mobile payment platforms, provided through their mobile network operators.

By examining the intersection of global trends and Africa's unique circumstances, we aim to identify actionable insights that can help financial institutions remain competitive, relevant, and responsive to customer expectations and market demands.

Opportunities

Utilisation of payment data to improve customer offerings: 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' service portfolios. With that in mind, the insights gleaned can further enable a fully personalised customer experience, bringing with it a competitive differentiator that enables enhanced product uptake.

Digital identity creation and optimising Know Your Customer (KYC) processes: Customer demand for a single identifier is growing across the globe. Moreover, as the ability to create individual identifiers that work across platforms comes to the fore through the adoption of digital tokenization technologies, the opportunity exists to create comprehensive digital identities for customers. Building on this, digital identity platforms can streamline operations, enhance transaction security, curb fraud, and optimise KYC processes.

> "Payment is a utility in most instances, but also a unique way to gather information on client habits, and use those insights to develop a customised offering"
>
> **– Auguste Claude-Nguetsop | Head of Banking Advisory**

Market opportunities and competition

67%

of survey participants see the **payments landscape as a business opportunity**, while 33% view it simply as a utility

100%

of survey participants view **fintech companies** as a **business threat**

Our analysts and survey participants indicated that there is a fundamental need to **innovate and transform processes within clearinghouses**. Sticking to their current role offers stability, but limits growth potential. To thrive, they'll need to evolve, offering higher value-added services. This move up the value chain presents challenges, but participants in the African banking sector see a clear benefit in the **ongoing merger trend between clearing and settlement houses.** This consolidation creates a more efficient ecosystem, streamlining transactions and potentially lowering costs

There is a key need to innovate and evolve payment services and platforms within traditional banking firms, especially in light of ever-growing and evolving competition within the payments landscape.

Shrinking footprint of physical offices: Customers have quickly moved towards mobile payments, online banking, and digital service offerings. Where payments, deposits, and withdrawals once needed to be made in-branch, most transactions now take place online, or in the palm of a customer's hand. This has led to a sharp reduction in the need for physical branches and offices, resulting in key savings in terms of operational costs.

In Africa particularly, the surge in popularity of mobile payments has meant that the customer holds the power to decide how they make payments, and are unrestricted by any regulatory requirements, and can do so, from wherever they are, at whatever time they like. A reduction in operational costs opens opportunities for budget reallocations, where financial institutions can devote more resources towards skills development, innovation, and the implementation of enhanced customer services, with a view towards full personalisation. Moreover, as the payments ecosystem trends towards mobile payments and instant payments, customer demand for fee-free payment transactions grows. Where operational costs can be saved, the need to charge customers transaction fees can begin to fall away.

Africa's unique positioning: In comparison to the developed world, Africa has easily leapfrogged the payments ecosystem. While many developed regions still rely on paper-based systems, Africa has embraced eWallet payments and electronic transfers. The African continent is set to stay ahead of the global curve when it comes to the use of mobile payments, instant payments, and similar technologies.

Cross-border payments: As the continent moves towards enabling easier cross-border payments, particularly to support the population of migratory workers and towards furthering other political objectives, it is imperative for innovation and harmonisation to take precedence across the region. A standardised payments ecosystem that enables easier, quicker, and safer cross-border payments, will lead to a growth in product offerings and increased customer interest.

Revenue Generation

With the rise of non-banks offering payment facilities, survey participants noted:

50%

It had affected their revenue generation or business model by **10% or less**

50%

It had affected their revenue generation by **5% or less**.

In terms of revenue generated by payment transactions,

50%

a **decline in revenue**, and predict this to continue

50%

that they had **seen no significant effect** on their revenue generated through payment transactions, and did not expect there to be an impact in the short to medium-term future.

Growth in fintech companies: While fintech companies grow in number and utility exponentially, in response to shifting global demands - from customer to institutional - there exists great opportunity for collaboration. Through collaboration, the adoption of innovative payment solutions for traditional financial institutions can be made easier, leading to higher customer satisfaction and increased transaction volume.

Challenges

Legacy infrastructure and technologies: Traditional financial institutions are often held back in their payment innovation approaches as they are burdened by legacy infrastructure and technologies. The fragility of these systems hinders growth, scalability, and agility. Moving towards more decentralised technological systems can also be challenging, as regulatory compliance is a priority. Simply moving payment operations "to the cloud" is no quick feat.

Fraud: The alarmingly high prevalence of fraud, scams, and money laundering across the continent remains a deep concern for all stakeholders within the financial services sector, including customers themselves. For example, in South Africa alone, a 600% increase in fraud cases were noted between 2018 and 2022, as highlighted by the Southern African Fraud Prevention Service (SAFPS). The growing cybersecurity threat landscape, matched with a marked evolution in sophisticated fraudulent activities, presents an alarming challenge for all. Transforming and optimising payment systems to prevent fraud and money laundering must be a key priority for all. Where payment systems cannot be fully secured and closely monitored, the key lies in adopting technologies, including Artificial Intelligence (AI) to monitor for, and respond to illicit activities.

Rapid evolution of regulation: Of course, in response to the evolving threat landscape and high prevalence of fraudulent activities, regulatory frameworks across the planet continue to move as quickly as possible to counteract the blooming industry of illicit activities. This, however, places additional operational burden onto financial institutions, to ensure compliance, and to keep up with the rapid changes that require attention in terms of ensuring compliance for each and every transaction.

Greylisting: In 2023, the FATF greylisted South Africa due to certain deficiencies in its anti-money laundering (AML) and combating the financing of terrorism (CFT) and proliferation financing (CPF) framework.

Greylisting means that a country is under increased monitoring by the FATF. This has a direct effect on the continent as a whole, leading to a retraction in foreign direct investment as investors gravitate towards economies with less uncertainty. Decreasing foreign investment into Africa hinders organisational capacity to innovate and further affects economic growth across the continent.

Skills gap: The Payments Association of South Africa (PASA) has highlighted a critical skills gap within the payment sector, affecting every country across the continent. Linked to the challenges around legacy infrastructure and technologies, the demand for the skills of the "old guard" are still required, but the need to innovate using newer technologies persists.

> The African payments landscape is dynamic and rapidly evolving, driven by a combination of technological innovation, regulatory reforms, and shifting consumer behaviours. As digital payments continue to gain traction, they have the potential to transform economies, improve financial inclusion, and drive socio-economic development across the continent

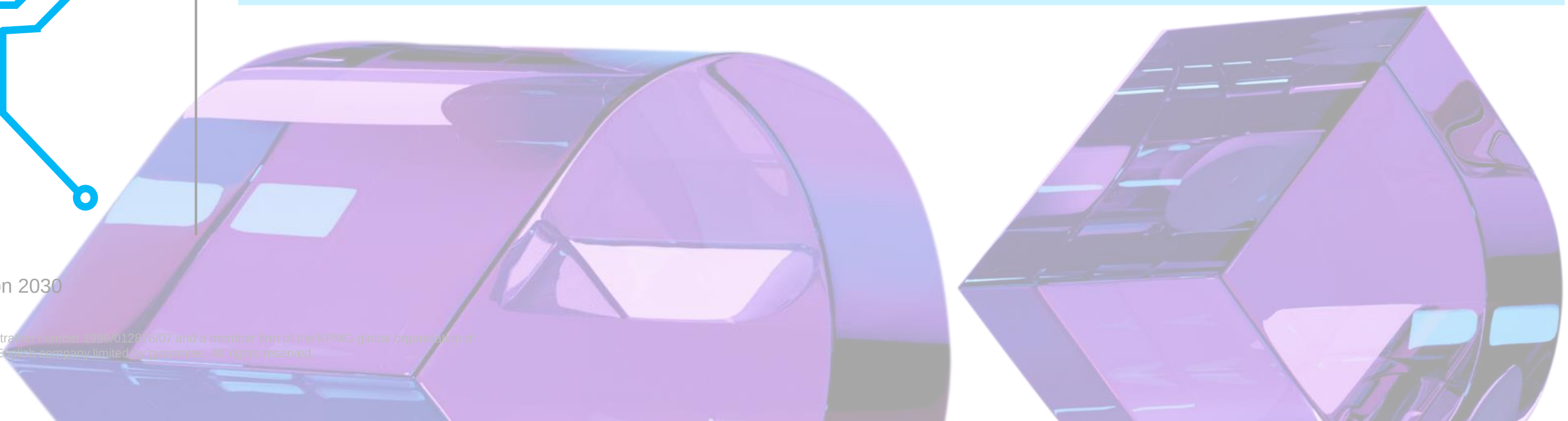
In summary

The African payments landscape continues to evolve rapidly. Driven by the confluence of global trends and the continent's unique circumstances, Africa remains at the forefront of innovation and customer adoption of advanced payment solutions. While challenges such as legacy infrastructure and fraud remain, the opportunities presented by mobile payments, digital identity, and cross-border innovation are undeniable.

By embracing these opportunities and addressing the challenges head-on, African financial institutions can thrive in the evolving payments landscape, ensuring financial inclusion and contributing to the continent's continued growth and prosperity.

Managing knowledge gaps on legacy banking systems

Moving to new platforms	We don't have a strategy to build these skills
50%	50%



Tax

Across Africa, dynamic economic growth is coupled with a complex, evolving tax landscape. While challenges and opportunities arise, side by side, it’s critical to explore the ramifications of the burgeoning digital economy and the need to increase cross-border transactions. The traditional focus on compliance is no longer enough. The desire, determination, and essential requirement to evolve and adapt must take priority for financial institutions across every jurisdiction. Technological advancements hold immense potential, however, responsible adoption must be the focus.

Building a more efficient, equitable tax system requires a collaborative approach, from all stakeholders, including but not limited to, financial institutions, regional jurisdictions, public sector, and private sector. Effective tax policies can drive responsible economic growth and enable further financial inclusion. African banks are uniquely positioned to play a leading role in shaping a more efficient and equitable tax landscape. Through the responsible adoption of innovative technologies, enabling a collective collaborative approach, and advocating for sound policy design, African banks can ensure a future characterised by sustainable tax practices, financial inclusion, and robust economic growth.

Survey participants highlighted that they expect the following trends in tax

100% — **Artificial Intelligence (AI)** will play a bigger role in tax advisory services in the future.

75% — the **adoption and evolution of technologies** to manage and administer tax functions will evolve and grow in the future

58% — **transfer pricing** is a key trend to monitor and adapt towards in the future

50% — an **increase in VAT** to meet national treasury budget deficits in the future

42% — tax space play a role in shaping their expectations around tax changes in the future

33% — the implementation **of Base Erosion and Profit Shifting (BEPS) Pillar 2** will play a significant role in the tax space in the short to medium-term future

Opportunities

The right moment to reimagine tax: Taking into consideration the global shift towards optimising for enhanced tax compliance, African financial institutions are at the perfect intersection of timing and opportunity to reimagine tax, strategically, operationally, and procedurally.

Shifting from compliance to optimisation: The evolving tax landscape presents an opportunity for banks to move beyond a purely compliance-focused approach. Banks can leverage technology and expert advice to optimise tax strategies, identifying opportunities for tax savings and improved efficiency.

Big gains to be found within structural shifts: By focusing on strategic tax planning, such as analysing the potential benefits of restructuring operations across jurisdictions, banks can enable significant cost savings.

Streamlining processes with technologies: Technologies such as big data, AI, and blockchain technologies can automate manual tax processes, freeing up resources for more strategic tasks. Automation can improve data accuracy and reduce the risk of human error in tax calculations and reporting.

Enhanced decision making: Utilising data analytics tools can empower financial institutions to proactively identify tax risks and opportunities more effectively. By analysing historical data and industry trends, banks can make informed decisions for better tax planning and compliance.

Partnerships to enable progress: Collaboration between tax authorities, banks, and other stakeholders, including fintech companies, NGOs, and NPOs, lead to a more efficient and equitable tax system. Sharing information and best practices can improve tax collection and reduce administrative burdens for all parties.

Building public-private partnerships: Partnerships between governments and the private sector can accelerate the development and implementation of innovative tax solutions. These solutions can address challenges such as BEPS and facilitate cross-border tax cooperation.

Tax policy as a catalyst for enabling further financial inclusion: Governments can design tax policies that incentivise banks to serve previously unbanked populations. Tax breaks for financial products and services targeted towards these individuals can promote financial inclusion and economic growth.

Developing sustainable growth strategies: Tax incentives for banks that invest in green technologies and promote environmentally responsible practices can contribute to a more sustainable future.

Championing efficiency with the responsible adoption of appropriate technologies: African banks have the potential to become leaders in adopting and leveraging technology for tax management. Responsible adoption that enables demonstrably positive results can inspire and encourage other stakeholders within the continent to embrace innovation.

Leading the way in enhancing financial literacy: Financial institutions play a crucial role in promoting financial literacy and tax education, particularly among individuals and businesses new to the formal financial sector. By prioritising financial literacy, African banks can empower citizens to comply with tax regulations and contribute to a fairer tax system.

Tax management and support within Southern Africa

survey participants indicated that they were satisfied with the tax management and support provided by internal or external advisors within the Southern African region

survey participants indicated that they were not satisfied with the tax management and support provided by internal or external advisors within the Southern African region

"Financial institutions consider three key options for addressing the skills gap within their internal tax divisions. These include raising salaries to attract and retain talented individuals, using appropriate technologies to automate tax services where possible, and ensuring that, internally, tax specialists can transition into other functions within the organisation, outside of tax."

– Auguste Claude-Nguetsop | Partner and Head of Banking Advisory

Building trust: Implementing robust internal controls and compliance procedures demonstrates a commitment to responsible tax practices. As a priority measure, this approach can enhance a bank's reputation and build trust with stakeholders.

Advocating for equity: Banks can advocate for sound tax policies that promote a stable and transparent business environment. Strong advocacy initiatives benefit the banking sector and fosters long-term economic growth for the continent.

Global growth in a shift towards e-invoicing: There is a growing shift towards the implementation of e-invoicing, whereby revenue authorities are considering collecting taxes at a transaction level, rather than directly from companies and individuals. Egypt, Jordan, and Uganda are some examples of countries that have implemented automated tax revenue collection at the transactional level.

The adoption of technology for tax functions has become increasingly prevalent as organisations seek to streamline compliance, enhance accuracy, and optimise tax planning strategies.

Survey participants indicated the following relevance of technology adoption for tax functions

- **100%** adopting automation technologies to **administer calculations** is of **primary** importance
- **100%** using appropriate technologies to **elevate awareness and pinpoint risk factors** is of **secondary** importance
- **100%** adopting Artificial Intelligence (AI) to **provide tax advisory services** is of **tertiary** importance
- **56%** utilising automation to **administer tax functions** is an additional priority.
- **45%** utilising technology to manage the **submission of returns** is an additional priority.
- **22%** utilising technology to streamline the tax function through **adopting data analytics** as an information was of **lowest** priority to their organisations

"We must address the supply and demand for skills, viewing it as a pipeline. Without offering attractive opportunities, individuals may lack motivation to pursue a career or may qualify but choose to pursue other paths. We need a comprehensive national approach, focusing on improving the efficiency of the banking and tax system and scaling appropriately. By pragmatically leveraging technology alongside human skills, we can significantly enhance the operating model."

\- Anonymous

Challenges

Complexities of the African tax landscape: African banks operating across different countries face a maze of regulations. Each nation has its own tax codes and compliance requirements, creating a significant administrative burden. This complexity can lead to errors and inefficiencies, increasing the risk of penalties and audits.

Hurdles ahead for harmonisation: While there is a key trend towards enabling harmonisation, the current lack of standardised tax regulations across Africa creates friction in cross-border transactions. This is an inconsistency that makes it difficult for banks to plan effectively and optimise their tax strategies for regional operations.

Taxing the digital economy: The rise of the digital economy presents unique challenges for tax collection. Cross-border digital transactions and e-commerce activities can be difficult to track and tax effectively. In turn, this leads to a gap in revenue generation and collection for African governments, and creates an uneven playing field for traditional brick-and-mortar businesses.

Overcoming BEPS challenges: Base erosion and profit shifting (BEPS) strategies employed by multinational corporations pose a significant challenge. These strategies often involve shifting profits to low-tax jurisdictions, reducing taxable income in African countries where banks operate.

Limited data visibility: Currently, many African banks lack access to accurate and real-time tax data. Limited data visibility hinders their ability to identify potential tax risks and opportunities, leading to inefficiencies in tax planning and reporting.

Gaps in skills and expertise: Turning raw data into actionable insights is a fundamental requirement. Even with adequate access to abundant data, the lack of expertise in utilising data analytics tools for tax purposes can be a major hurdle. Financial institutions must look towards developing in-house capabilities or explore partnerships with specialists to leverage data for better tax management.

Talent scarcity: Finding and retaining qualified tax professionals with specialised knowledge of the evolving African tax landscape is a challenge. The skill set scarcity limits banks' ability to effectively manage their tax affairs and adapt to new regulations.

Skills development to keep pace: The rapid pace of change in the tax environment necessitates continuous learning and upskilling for existing tax staff. Banks need to invest in training programmes and professional development opportunities to ensure their workforce can navigate the complexities of the future tax landscape.

Addressing the tax skills gap

100% survey participants indicated that they **outsource selective jurisdictional tax teams** to address the tax skills gap within their operations, as they lack appropriate tax resources with the relevant level of expertise in some jurisdictions

Tax talent recruitment and retention

80%

believe **creating incentivisation opportunities** for highly skilled tax professionals can help to recruit and retain essential tax talent

100%

prioritise **enabling career growth opportunities** as a strategy for recruiting and retaining highly skilled tax talent with specialist skills

40%

travel opportunities for tax specialist roles enable them to attract and retain appropriately skilled tax talent

70%

offer appropriate rewards to recruit and retain tax specialists for their organisation

60%

prioritise **providing learning opportunities** as a strategy for recruiting and retaining tax talent within their organisation

Our survey participants indicated the following drivers of tax team success:

100% **reduced findings on audit reports**

80% **reduced tax charges** or **lowered tax liability**

60% **collection of tax refunds**

40% **reduced or targeted effective tax rate**

Challenges continued

Significant costs associated with technology adoption: Implementing and integrating new tax technologies like big data analytics, AI, and blockchain can be expensive. The significant costs required create a barrier for smaller banks with limited resources, hindering their ability to leverage these tools for increased efficiency and compliance.

Data security concerns: The use of new technologies raises concerns about data security and potential breaches. With cybersecurity concerns continually evolving, financial institutions need to invest in robust cybersecurity measures to protect sensitive tax data from unauthorised access.

Tax harmonisation and modernisation: Each jurisdiction within Africa is at a different point in their journey towards modernisation and harmonisation. Tax authorities across Africa exhibit varying levels of efficiency and automation. Inconsistent approaches, policies, and procedures makes collaboration difficult, and compliance cumbersome, especially for financial institutions that operate in multiple jurisdictions.

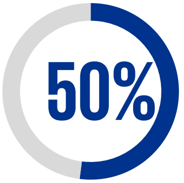
Lacking streamlined communication channels: Effective collaboration with tax authorities requires streamlined communication channels and standardised processes. Financial institutions must more actively support modernisation initiatives within tax authorities to create a more efficient and transparent tax environment.

Integration of ESG considerations: The emergence of ESG taxes adds a layer of uncertainty to the tax landscape. Staying ahead of the curve in terms of requirements and evolving risk management is key, as financial institutions will have to adapt their tax strategies accordingly.

ESG and tax planning: Integrating ESG considerations into tax planning can unlock opportunities. Individual consumer and private sector tax incentives offered for green technologies and sustainable practices are expected, contributing towards a more environmentally conscious future. Adapting tax strategies and product offerings towards this must be a priority for African financial institutions.

Predicted allocation of technology spend towards tax services over the next 5 years

an additional **R1 million to R5 million** of their technology spend towards tax services over the next 5 years

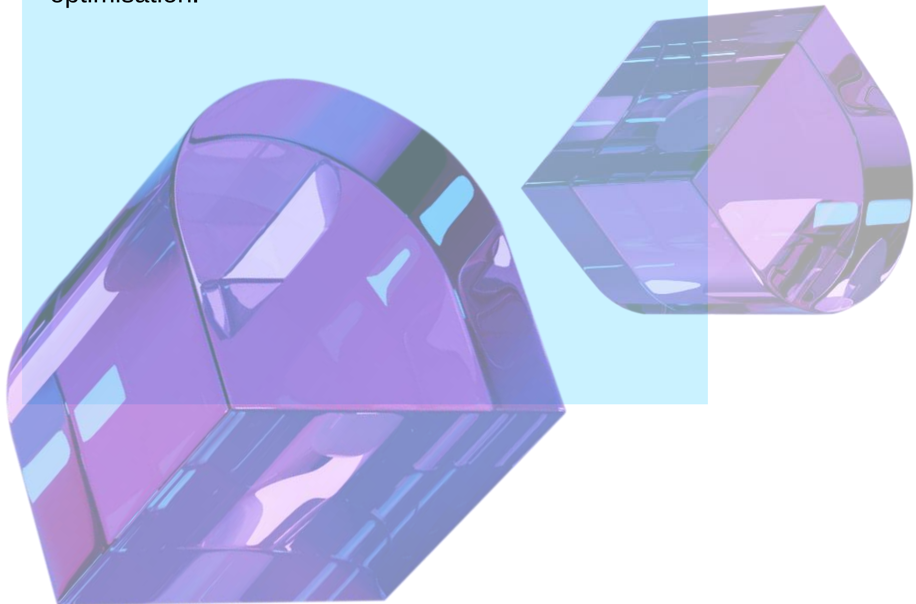


more than an additional R5 million of their technology spend towards tax services over the next 5 years

In summary

Across the continent, it's evident that the traditional approach to tax, focused solely on compliance, is no longer sufficient. While complexities abound, from navigating a complex regulatory landscape to integrating ESG considerations, a wave of innovation is certain to reshape tax management for African banks.

The journey towards a future-proof tax strategy requires a multi-pronged approach. Through the responsible adoption of appropriate technologies, supporting collaboration, and advocating for sound tax policies, the Southern African banking sector is turning the tax landscape into a strategic advantage that fuels economic growth and organisational optimisation.



Growth across Africa

Over the last 5 years, as the continent has been experiencing continual withdrawals of international banks, from Barclays selling its activities to Absa in 2018, to the reduced presence of Standard Chartered, or the total closure of banks such as BNP Paribas, a parallel movement has been going on, driven by the expansion of African banking groups into the continent, led mostly by South African, West African, and Northern African banks.

With the increased growth of the banking sector as a percentage of Gross Domestic Product (GDP), the healthy profitability of well-run players and the unique niche opportunities uncovered by innovative actors, the current expansion strategy followed by the most ambitious banking group on the continent can be considered as at the end of the beginning stage.

The banking sector's growth is influenced by various factors, including economic conditions, technological advancements, regulatory changes, and shifts in consumer behaviour.

A strategy for growth

Charting an expansion strategy for growth into Africa can take on many roles. As a region characterised by diversity, traditional financial institutions - from global to local players - have often battled to secure success through expansion strategies across the continent. Much of this can be linked to the often vastly different socio-economic circumstances, combined with regional challenges, varying infrastructure implementation levels, and other key characteristics.

Throughout our survey process, a fundamental truth came to light. When planning a strategy for expansion into Africa, it must be conducted with a clear objective in mind. Expansion into Africa is not a feel-good exercise, or a simple plug and play process. Growth into Africa must be led by a combination of localised expertise and global knowledge. It is prudent to remember too, that as at 2024, Africa is projected to be the second fastest-growing regional economy, with more than ten African countries experiencing substantial GDP growth.

Opportunities

Our survey showed that the expansion into the continent over the coming years will be driven primarily by opportunity in the corporate banking, investment banking, transaction banking followed by retail and wealth management, with Southern, East and West Africa as the regions with the most opportunities. Although our survey was restricted to banks in the Southern Africa region, the trends observed are in line with observations across the continent.

The key drivers in choosing a target country or region are primarily the size of the market, then the regulatory alignment, followed by poitical stability and currency risk. Those considerations indicate that leading African banks already factored into their strategy a potential currency risk, and country risk, supported by their above average understanding of the cultural and political dynamics on the continent.

Our survey also highlighted that the key challenges for expansion across the continent are the existence of a reliable regulatory framework, supported by a solid governance and transparency across the industry, then considerations around AML and compliance, with currency and political risk closing the list.

Our survey and interviews also reiterated that retail banking was the most challenging sector to develop for a bank expanding across the continent, because of local regulation protecting national customers, lack of consumer credit data in some markets and cultural differences across countries. Survey findings align with the revenue trends observed and projected by major African banks across the continent, where the bulk of their profits are in corporate, investment and transaction banking. The retail sector remains dominated by local banks in their own countries, with a few exceptions such as Ecobank in West African countries or South African banks such as Standard Bank and Absa.

Regional considerations: When considering the opportunities associated with expanding into other African regions, financial institutions must consider the unique market dynamics associated with each region. While much of Africa's population remains traditionally unbanked or underbanked, innovation has driven financial inclusion for many people. A simple example of this was the introduction of MPesa, which made mobile payments the primary option for people in Kenya and other regions.

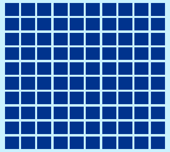
Mobile payments: Combined with the success of local players in responding to uniquely regional customer needs, the implementation of mobile technologies has led to an oddly unique financial services landscape. Africa's success in financial services can, in part, be attributed to the quick adoption and unique leveraging of mobile banking and fintech-backed service offerings, which have gained momentum across rural regions of the continent, despite incomplete broadband penetration. Smartphone penetration is set to reach 87% across Africa by 2030, making investments into further mobile banking and mobile application products essential.

Micro-finance and mobile wallets: Micro-finance product offerings and mobile wallets have seen great uptake over the past decade. Africa's consumer segments respond well to these offerings, with expansion set to continue for these financial services providers.

Key drivers for growth into Africa

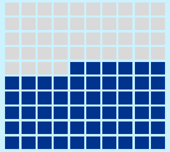
100%

Of survey participants indicated that the **size of the potential market** is a key driver **for seeking out and implementing effective strategies** for growth into Africa.



56%

Of survey participants look forward to **leveraging the appetite for regulatory alignment** across the continent, which will provide a key driver to innovate towards growth into Africa.



Corporate banking: While success rates across Africa in terms of financial services have centred primarily on consumer-facing products, there are many opportunities for corporate banking and investment banking services.

Regional growth potential: East Africa is denoted as a key priority area with a high level of growth potential. Across the Democratic Republic of Congo (DRC), banks headquartered in Kenya have seen great success in expanding across the region. As Ethiopia's financial services sector opens up to privatisation and economic liberation, capital markets are being set up, bringing in opportunities for investment banking and traditional financial institutions. Within Rwanda, key acquisitions of local financial services providers by financial institutions headquartered outside of the country have taken place, pinpointing further opportunities for expansion through acquisition. Niger, Senegal, Libya, Rwanda, and the Ivory Coast all report elevated Gross Domestic Product (GDP) growth, indicating a positive outlook for future.

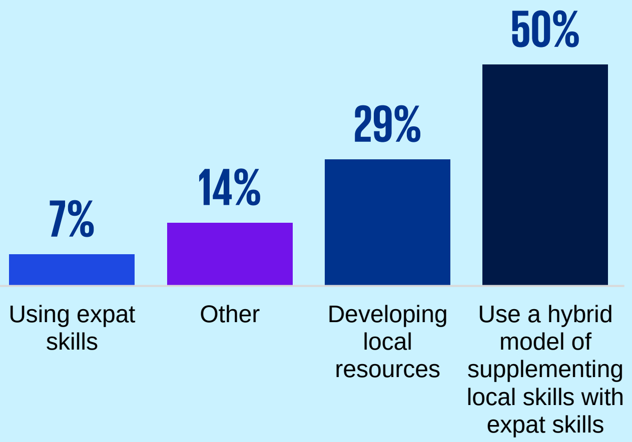
Until the COVID-19 pandemic, Kenya was one of the fastest growing economies in Africa, averaging annual 5.9% annual growth between 2010 and 2018. With a GDP of $95 billion, Kenya recently reached lower-middle income status, and has successfully established a diverse, dynamic economy. A high level of investment into energy sector projects has been noted over the past decade.

Combined with abundant natural resources, many regions across Africa offer key investment opportunities, further enhancing regional economic growth.

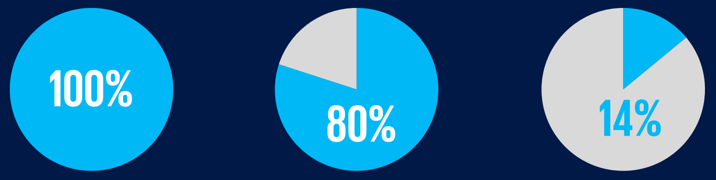
Growing middle class: Africa's comparably younger population, and its growing middle class, present a key opportunity for the adoption of financial services.

Unbanked and underbanked populations: While the proliferation of mobile payments has serviced many unbanked and underbanked populations across the region, it has not been a complete solution. There still exists a large population of individuals who are considered to be unbanked or underbanked.

Survey participants use the following strategies for talent pool growth



Ways in which survey participants are growing Africa's talent pool



combine the **supplementation of local skills with expat skills**

recognise that **localising these skills has proven difficult**, so **seek to further develop local resources**

rely on expat or remote-based skills to develop and enable their growth in talent

As Southern African banks expand across the continent, fostering a strong talent pool is crucial for success. In line with our survey findings and analyst assessment, a key finding is the **prioritisation of a blended approach** that **leverages local and expatriate resources**. This is evident where a significant portion of banks aim for a fully **localised talent model in the long run**.

This strategy acknowledges the importance of cultural fluency and deep market understanding. Navigating **cultural integration**, however, presents a significant hurdle. As our survey reveals, most banks prioritise a **dominant local culture** in their new markets. This is achieved by deploying primarily **local talent**, ensuring a strong understanding of the local business environment and client needs. Some institutions do, however, acknowledge the value of a balanced approach, that uses a mix of local and expatriate staff. This strategy fosters knowledge transfer and ensures the bank's **core culture** isn't entirely diluted. Finding the right balance is critical for financial institutions to achieve sustainable growth across Africa.

Challenges

Global financial institution success-rates: Large-scale global financial services providers have not seen much success in Africa in recent years, as the increased regulatory capital requirements in their core markets after the 2008 credit crisis has made operating on the continent more expensive, coupled with a more challenging competition with local players. Instead, local players who have decisively responded to consumer needs have reaped the benefits of building consumer-centric and regionally responsive product offerings. Notably, however, foreign investment into the continent's infrastructure projects have been a key objective for many institutions over the past few decades.

Clear objective required: Expanding into other regions of Africa requires a clear objective. Where traditional financial services have not been able to fill the gap and serve the unbanked or underbanked, regional players have seen great success through innovation and building consumer-centric, regionally responsive product offerings.

Political instability: Across the continent, political instability continues to play a detrimental role in socio-economic development, business continuity, safety, and security.

Economic instability: While the continent has seen growth in enabling financial inclusion and poverty levels have declined on a global scale, the number of people affected by, or living under poverty, within the African continent remains high.

Infrastructure gaps: With most of Africa still considered underdeveloped, large gaps in infrastructure remain. This limitation stands in the way of ensuring large-scale uptake of traditional banking products that often require a physical expansion of a financial institution's geographical footprint.

Broadband vs mobile penetration: While smartphone penetration is set to reach 87% across Africa by 2030, the adoption of broadband internet remains a limitation. Although more developed countries, such as Morocco, with a 91% penetration of broadband internet, have overcome this limitation, underdeveloped regions still face challenges. A use case for building towards the lowest common denominator, in terms of technologies and internet access remains.

Platforms for product development

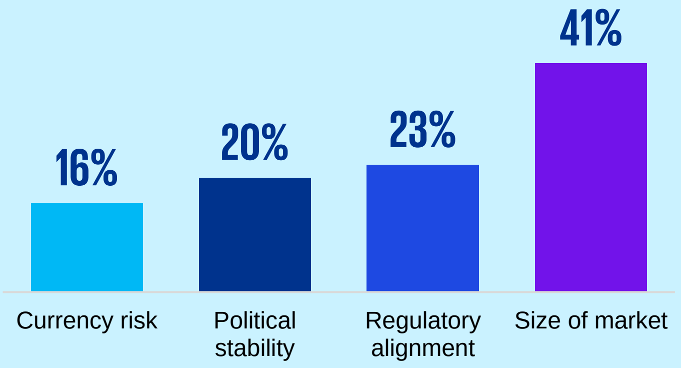
40%

survey participants noted that they are considering using **centralised platforms to service their expansion strategy into Africa**

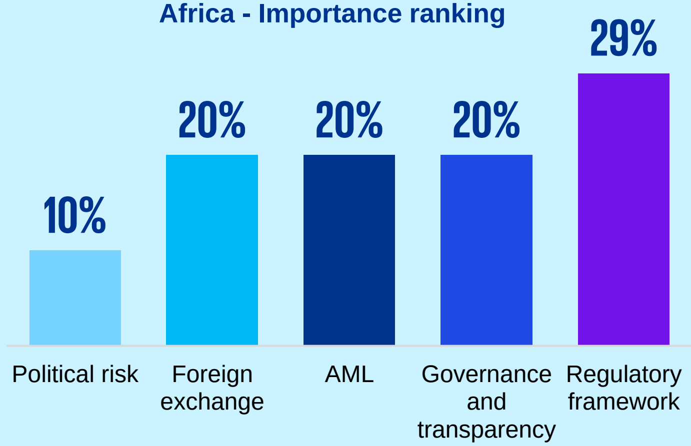
40%

survey participants noted that they are considering using **one platform for their core market**, and augmenting their service delivery across Africa through the use of **decentralised platforms to service their expansion strategy into Africa**

Key drivers and conditions for entry into African regions - Importance ranking



Challenges in expanding presence into Africa - Importance ranking



Challenges continued

Lack of financial literacy: While much has been done to elevate basic education across Africa, less than a third of the population in sub Saharan Africa is considered to be financially literate. This presents a challenge in terms of consumer product adoption.

Regulatory evolution: Regulatory frameworks across the continent are in a continuing state of evolution, as they seek to respond to growing demand for elevated compliance, catering for digital assets, and other evolving compliance requirements. Staying up to date with, and ensuring compliance across regions that often differ in their frameworks and approaches presents a significant challenge.

Regulatory and credit rating concerns: Across Africa, regulatory concerns and credit rating concerns remain significant. For example, the Financial Action Task Force's recent greylisting of South Africa placed additional burden on the country to improve its anti-money laundering initiatives and enhance compliance. Similarly, credit ratings agencies, like Moody's, regularly assess economies in terms of their economic capabilities. Many countries in Africa have received negative credit rating assessments, and continue to do so.

Skills shortages: Matched with Africa's level of unskilled or uneducated populations, there remains a critical skills shortage for the development of financial services products and associated offerings. Attracting global talent towards working in Africa, or for African companies through remote means, remains a challenge, owing to salary demands and unequal currency exchange rates.

> The increased growth of the banking sector is driven by a combination of economic, technological, regulatory, and consumer-driven factors.

Preferred growth model for expansion into Africa

71% survey participants seek to rely on **organic growth opportunities** over the coming decade

20% interest in expanding their geographic footprint by **establishing full-scale physical operations** as part of their expansion strategy for Africa

14% indicated a willingness or interest to **expand into Africa through acquisition**

80% intended to **adopt a hybrid approach** for their expansion strategy into Africa, using a **combination of remote management and physical service delivery**

14% **no set strategy** for expanding into Africa, preferring instead to **focus on their local operations.**

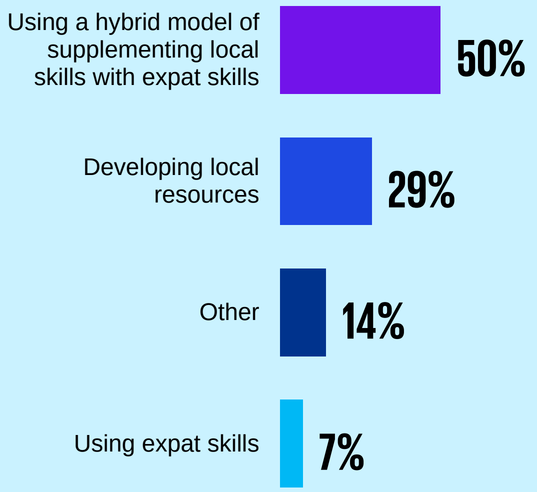
Strategies for enabling growth into Africa

Expansion strategies can be a key priority area for financial institutions located within Africa. With that in mind, however, there are some fundamental strategic considerations that must be catered for:

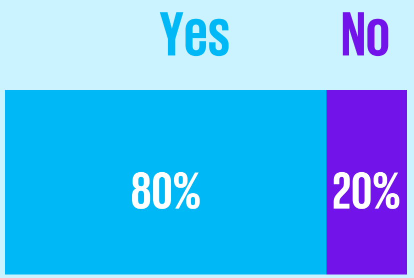
Digital first: Digital first banks overcome many of the limitations associated with expanding into Africa, by leveraging the power of mobile technologies. Mobile banking and mobile-application based banking service providers have seen great success in attracting consumer attention. Taking this a step further, digital first banks like Bank Zero have also enabled full integration of their sign-up processes, for individuals and businesses, through the use of an app-only approach. There remains, however, a need for digital first banks to provide credit solutions. This market opportunity remains. United Bank for Africa (UBA) is an excellent example of creating well-defined product offerings that respond to regional consumer needs. UBA offers a wide range of products and services tailored to African markets, contributing to their successful expansion across the continent.

Collaboration is key: Combining local expertise with global knowledge can lead to powerful collaborative opportunities. Moreover, partnering with regional local financial institutions and fintech companies offers traditional financial institutions a competitive advantage. Leveraging local expertise and specialist knowledge through collaboration, rather than acquisition, can accelerate growth.

Talent pool growth for serving niche markets - Importance ranking



Survey participants were asked whether localising resources presents a challenge



Leverage existing strengths: Financial institutions headquartered within the African continent already have nuanced understanding of the continent's cultural, economic, regulatory environments, and risk profiles. Leveraging these nuances can effectively navigate expansion initiatives towards success.

Markets of interest

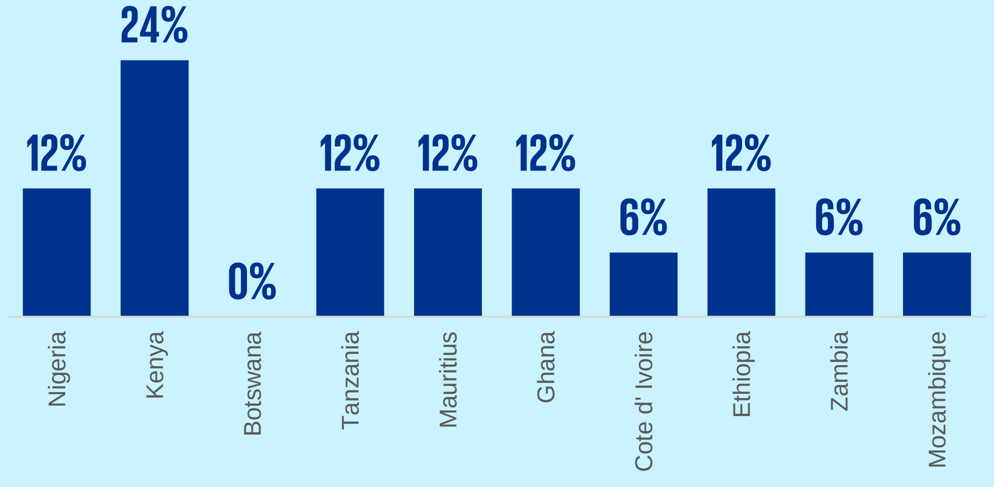
Survey participants expressed an interest in:

24% pursuing expansion opportunities in **Kenya**

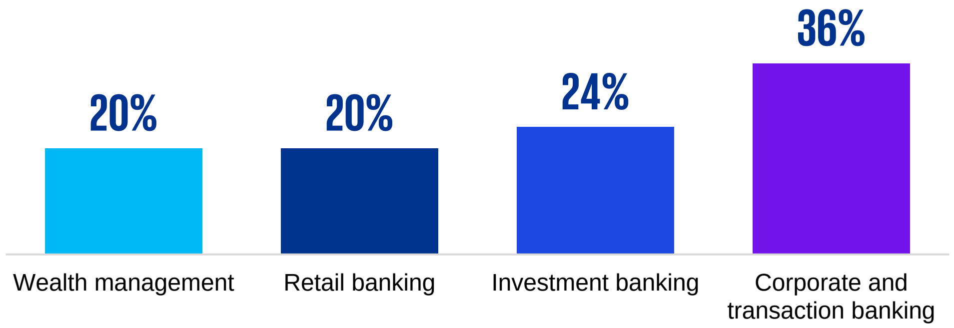
12% pursuing growth opportunities in **Nigeria, Tanzania, Mauritius, Ghana, and Ethiopia**

6% expanding their service offerings into **Zambia, Côte d'Ivoire, Mozambique, and other regions of Africa not listed above**

Markets of interest on the African continent

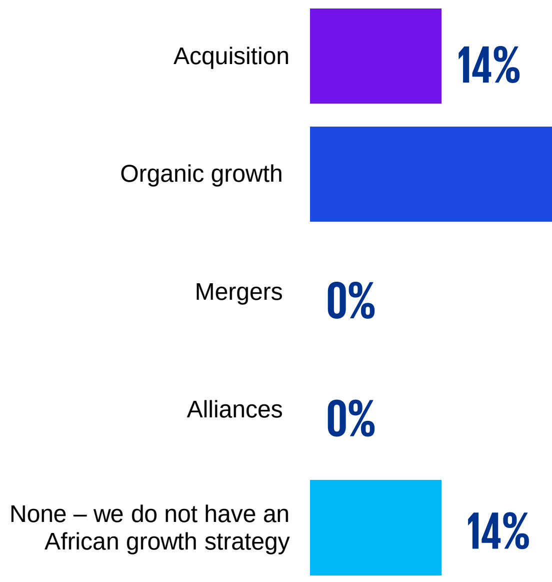


Market segment for future market value creation - Importance ranking



Mergers and acquisitions: Significant opportunity to expand operations exists through merging with a local player, or acquiring a regional financial institution. Ecobank, for example, is a pan-African bank. Ecobank has grown its footprint through strategic acquisitions and a focus on digital banking, becoming a leader in multiple African countries.

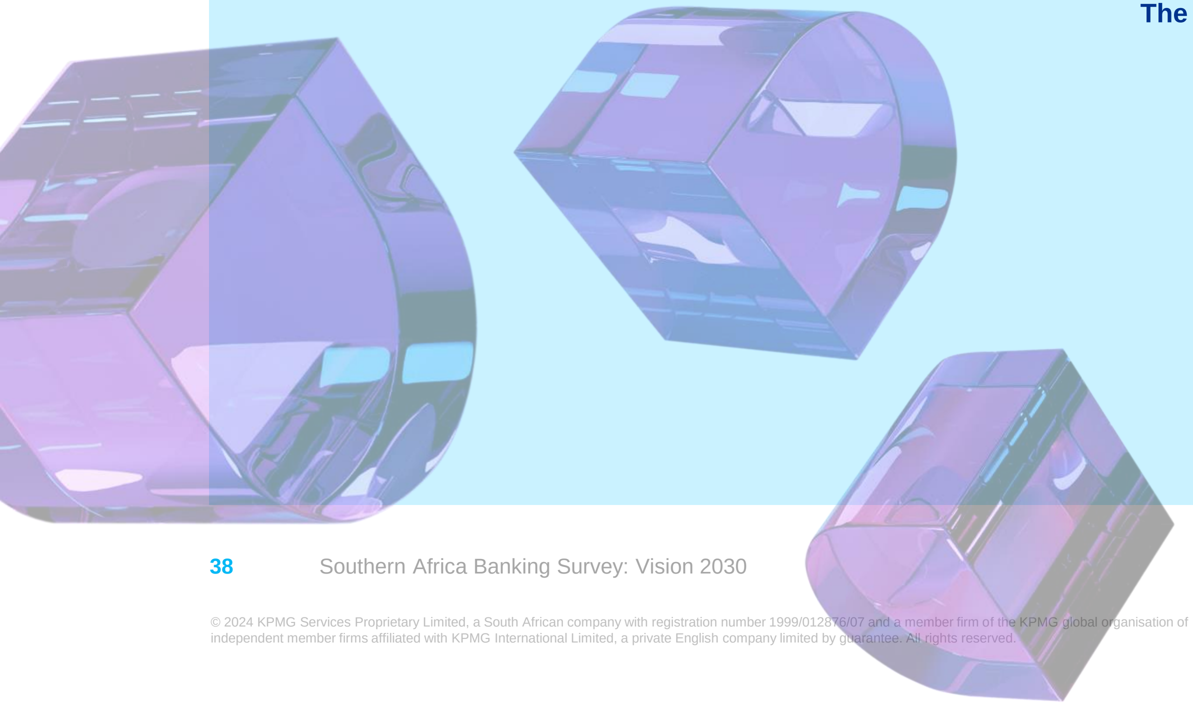
Preferred growth model for opportunities in Africa



In summary

The African continent presents a vast and exciting landscape for financial institutions seeking growth. While traditional expansion strategies often faltered, the unique socio-economic realities and demographics of Africa demand a nuanced approach.

By embracing these strategies and recognising the unique opportunities Africa presents, financial institutions can play a vital role in driving financial inclusion and fuelling the continent's economic growth. The future of African banking lies in digitalisation, localisation, and is focused on the empowerment of the continent's vast and growing population.



Successful expansion strategies into Africa have been experienced in the following areas:

100%

survey participants indicated that they had seen success so far in their expansion strategies for Africa, linked to their **investment banking** programmes

100%

survey participants indicated that they had seen success so far in their expansion strategies for Africa, linked to their **corporate banking** programmes

The highest levels of success when expanding into Africa was through:

51%

survey participants indicated they had experienced their highest level of success when expanding into Africa through the **retail banking** sector

49%

survey participants indicated they had experienced their highest level of success when expanding into Africa through the provision of **transactional banking** products

36%

survey participants highlighted that they had seen success in their expansion into Africa through providing **wealth management services**

Investment banking

Although the continent is still referred to as a conglomeration of developing economies, Africa is on the fast track towards an economic boom. While risk and profit remain inseparable twins, foreign investment into Africa moves slowly.

On the converse, however, Africa is currently regarded as the most profitable region in the world. Between 2006 and 2011, Africa had the highest rate of return on inflows of Foreign Direct Investment of 11.4%. This is compared to 9.1% in Asia, 8.9% in Latin America and the Caribbean, and a global figure of 7.1%. The corporate and investment banking market, globally have shifted their focus towards sustainability, flexible risk management policies, and the quick adoption of appropriate technologies.

Opportunity versus implementation

Matched with the demand to keep up with fast evolving regulatory frameworks, and in light of geopolitical shifts, there is a keen need to implement infrastructure projects across the continent. Beyond the need for implementation, however, there is also a key requirement to do so at pace, enabling high speed progress to foster economic growth. Where that need exists in Africa, there exists opportunity. And, with every opportunity, there comes risk. As global players and local institutions seek out appropriate investment opportunities, Africa is growing considerably more important in the global realm.

The desire to tap into natural resources, particularly those associated with enabling renewable energies initiatives, continues and grows. While challenges like limited access to capital and skilled professionals exist, opportunities abound in infrastructure development, renewable energy, and a rising domestic pool of investment capital. Through facilitating infrastructure projects and empowering SMEs through innovative financing solutions, the future of investment banking looks intriguing and invigorating.

The investment banking sector will need to support and navigate the evolving regulatory environment, content with competition from fintech disruptors, and address the need for a skilled workforce to ensure a prosperous future for Africa.

Investment banking in Africa offers significant growth potential driven by economic development, capital market expansion, and investment opportunities across various sectors.

Opportunities

Infrastructure development programmes: As the continent undergoes rapid urbanisation, and a rush to implement effective infrastructure projects, significant investment is required. This "gold rush" of opportunities for infrastructure development focuses keenly on projects that facilitate development in the sectors of energy, renewable energies, transportation, and water.

Public-private partnerships: Investment banking divisions should seek to combine private sector expertise with public sector capacity. Through facilitating public-private partnerships, there lies opportunities to not only share skills, but risk too. Across Africa, effective risk management approaches are fundamental for investors and public sector participants alike.

Innovative financing solutions: Developing investment banking products tied to infrastructure bonds and green bonds can attract capital investment to support sustainable projects.

New sector growth: Emerging sectors for development, including renewable energy and technology offer high-growth potential for investors. Building product offerings and robust advisory services to meet this investor interest is key.

Rising domestic capital: As a growing pool of domestic capital within Africa seeks out investment opportunities, it is prudent to develop and provide investment products that are specifically tailored to the needs of domestic investors.

Investment banking and Artificial Intelligence (AI)

80%

AI will have an effect **on pricing strategies and valuations** within investment banking over the next five years

90%

AI will play a role in **client identification processes, and/or deal origination** within investment banking over the next five years.

95%

AI will have an effect on **due diligence and risk management** within investment banking over the next five year

50%

AI will play a role in **deal implementation and deal execution** within the investment banking sector in Africa over the next five years.

30%

AI will play a role in **client management and investor engagement** within the African investment banking sector over the next five years

Opportunities continued

Increased demand for mergers & acquisitions and cross-border financing: African corporates are increasingly seeking mergers and acquisitions (M&A) advisory services and cross-border financing solutions. The time to build strong regional expertise in this realm is now.

Foreign Exchange: Africa's diverse landscape of 54 countries, each with its own currency, presents a significant opportunity for foreign exchange (FX) services. Banks can capitalise on this by offering competitive exchange rates, hedging solutions to manage currency fluctuations, and facilitating cross-border payments. This not only benefits businesses engaged in international trade, but also fosters regional integration within Africa.

Debt Management: African governments and companies are increasingly borrowing to finance development projects and expansion plans. This creates a demand for sophisticated debt management solutions. Banks can offer expertise in structuring debt instruments, managing maturities, and mitigating foreign currency risk. By providing these services, banks become key partners in Africa's sustainable growth story.

Trade Finance: Africa's booming trade, particularly in sectors like oil & gas, mining, and energy, presents a lucrative opportunity for trade finance. Banks can facilitate international trade by providing instruments like letters of credit and documentary collections, which mitigate risk and ensure smooth transactions. Supporting trade finance unlocks Africa's economic potential by promoting cross-border commerce and fostering regional value chains.

Infrastructure Financing: Africa's infrastructure gap presents a massive opportunity for banks. Banks can play a crucial role in financing critical infrastructure projects, such as power plants, transportation networks, and telecommunications. This requires innovative financing solutions, including public-private partnerships and long-term loans. By supporting infrastructure development, banks contribute to Africa's economic transformation and improve the lives of millions.

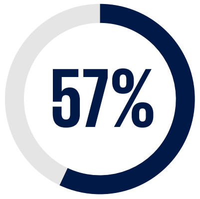
Drivers of deal flows within the African investment banking sector, during the next decade:

93%

infrastructure will be the **biggest** driver of deal flows within the African investment banking sector, during the next decade

53%

consumer-focused products and services will be a driver of deal flows within the African investment banking sector, during the next decade



the **technology, media and telecommunications industries** will be a driver of deal flows within the African investment banking sector, during the next decade

33%

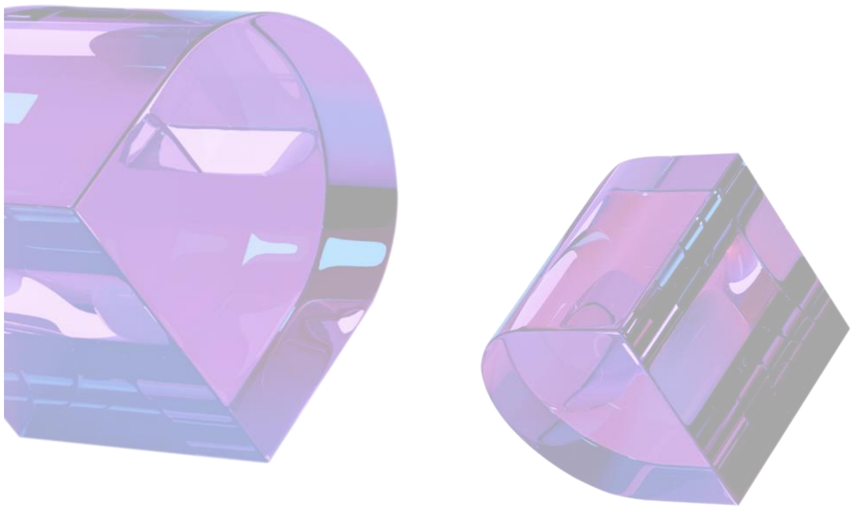
financial services will be a driver of deal flows within the African investment banking sector, during the next decade

23%

the **mining sector** will be a driver of deal flows within the African investment banking sector, during the next decade

Complex Structuring and Financial Engineering: As African economies mature, there's a growing demand for complex financial transactions, such as mergers & acquisitions and large-scale project financing. Banks with expertise in structuring these deals and applying financial engineering techniques can play a vital role. This specialised skill set allows banks to unlock new investment opportunities and support the growth of Africa's business landscape.

The African SME environment: Small and Medium Enterprises (SMEs) are the backbone of many African economies. Tailored loan products and financial services that respond to evolving requirements in the SME space may be a key outcome, while leveraging technologies to streamline SME operations and interactions is a must.



Challenges

Long-term financing limitations: Many African countries remain behind the curve in terms of well-developed capital markets. This can make it difficult for businesses to access long-term financing products to support large-scale projects.

Political and economic instability: The risk profile for many African countries is viewed as too high for many foreign investors to look towards providing investment. Without local expertise and a key understanding of cultural nuances, global players are often left with no choice but to remove Africa from their list of strategic imperatives.

Skills gaps: While leveraging global expertise is made easier through internet connectivity and the global pooling of resources, Africa still faces a shortage of skilled professionals within the investment banking sector.

Evolving regulatory landscape: This is a global and local challenge, as regulatory frameworks continually restructure to manage the shifting needs in terms of asset management, compliance requirements, and more.

Fintech competition: Fintech companies are introducing innovative financial products and services that could potentially disrupt traditional investment banking models. In Africa, fintech companies are regularly ahead of traditional financial institutions, owing to their agility and technological advancement.

Skills gap

33%

Of survey participants listed a **lack of local qualified talent** as a concern for their investment banking operations across Africa over the next three to five years

33%

Of survey participants outlined that they **manage this skills gap via remote means**, and intend to continue to do so over the next three to five years.

33%

Of survey participants seek to **develop local talent over time**, to fill this gap in specialist investment banking skills over the next three to five years.

Challenges continued

Infrastructure limitations: The greatest challenge facing investment banking in Africa rests on infrastructure limitations. While infrastructure development remains a key imperative towards enabling investment opportunities across the continent, development is still too slow, and the demand to ensure that the backbone of development and investment is set into place remains high.

Digitisation: Combined with the success of local players in responding to uniquely regional customer needs, the implementation of mobile technologies has led to a unique financial services landscape. Africa's success in financial services can, in part, be attributed to the quick adoption and unique leveraging of mobile banking and fintech-backed service offerings. These have gained momentum even across rural regions of the continent, despite incomplete broadband penetration. Smartphone penetration is set to reach 87% across Africa by 2030, making investments into further mobile banking and mobile application products essential, however adoption of broadband internet remains a limitation. Although more developed countries, such as Morocco with a 91% penetration of broadband internet have overcome this, underdeveloped regions still remain a limitation.

Regulatory evolution: Regulatory frameworks across the continent are in a continuing state of evolution, as they seek to respond to growing demand for elevated compliance, catering for digital assets, and other evolving compliance requirements. Staying up to date with and ensuring compliance across regions, which often have differing frameworks and approaches, presents a significant challenge.

Regulatory and credit rating concerns: Across Africa, regulatory concerns and credit rating concerns remain significant. For example, the Financial Action Task Force's (FATF) recent greylisting of South Africa placed additional burden on the country to improve its anti-money laundering initiatives and enhance compliance. Similarly, credit ratings agencies, like Moody's, regularly assess economies in terms of their economic capabilities. Many countries in Africa have received negative credit rating assessments, and continue to do so.

Barriers to entry and expansion

As our survey participants considered the expansion of their investment banking service offerings across Africa:

50% consider **regulatory frameworks** as their primary barrier to expansion.

50% consider **foreign exchange** as a primary inhibitor to their expansion strategies for the investment banking sector across Africa.

> **"Using our fully established presence in South Africa, we will adopt a 'fly in, fly out' approach to manage local offices and oversee operations in a remote, yet close, manner."**
>
> **– Chief Risk Officer, Leading South African bank**

In summary

Despite ongoing challenges, Africa presents a compelling investment landscape that is alive with opportunity. Significant hurdles remain. Long-term financing limitations, political and economic instability, and a skills gap within the investment banking sector pose significant challenges. Evolving regulatory landscapes and competition from agile fintech companies further complicate the picture. The most critical constraint lies in Africa's underdeveloped infrastructure, which hinders investment opportunities across the continent.

Despite these challenges, the future of investment banking in Africa is bright. Investment banks that can adapt and thrive will be those that embrace collaboration. Collaborative practices that include building partnerships, leveraging remote resources, and fostering a talent pool that blends local expertise with international experience, will be critical success factors.

The future of investment banking in Africa is inextricably linked to the continent's economic trajectory. Investment banks can play a pivotal role in propelling Africa towards a sustainable future by addressing challenges, capitalising on opportunities, and embracing innovation.

Revenue generation

50%

survey participants project that **less than 20%** of their investment banking revenue will emanate from Africa over the next decade

25%

survey participants indicate that they **expect 21% to 50%** of their investment banking revenue will come from Africa over the next decade

25%

survey participants indicate that they expect **51% to 70%** of their investment banking revenue will emanate from Africa over the next ten years

Regional growth drivers

100%

survey participants believe that **East Africa** will be a key regional driver of growth within the investment banking sector over the next decade

83%

survey participants back the **Southern African** region as a key regional driver of growth within the investment banking sector over the next decade

51%

survey participants believe that **West Africa** will be a key regional driver of growth within the investment banking sector over the next decade

20%

survey participants find that **North Africa** will be a key regional driver of growth within the investment banking sector over the next decade

Concluding remarks

2024, a challenging but promising year for the global banking industry

2024 seems to be a transition year once again: geopolitical concerns with key elections during the year and open and dramatic conflicts in different places, macroeconomic challenges, the evolution of monetary policy, the demographic trends, mainly visible in some regions and countries, climate change and the new sustainability and non-financial risks, the energetic transition, the new technological capabilities i.e. Gen AI and the effects from the pandemic in the way we would like to live and work.

These cumulative trends create uncertainty indeed, but at the same time, bring new business models and opportunities and we see globally an optimistic approach from our clients trying to convert this new opportunities into sustainable growth.

In this uncertain context, the banking industry is divided. Those that will opt for being prudent, postponing some key investment and projects, and those brave enough to embrace change and to keep investing strongly in the IT/Data quality and sustainability to tackle emerging risks and seize new business opportunities.

At the same time, it will be key to combine investment and growth with efficiency, keeping the costs under control to preserve the profitability improvement we have seen globally as a consequence of the higher interest rates.

Technology will play a key role in this, but not all the players are equally prepared to realise all the potential benefits.

Talent will be the second essential element for future growth and success. The battle for global talent is already here and all the players (including KPMG) are competing for skilled people required for the new economy to come. To attract and to retain talent is already a key differentiator to all industry and banking is not an exception.

Banks should quickly complete their own transformation to prepare themselves to navigate the complex environment. This will allow them to be prepared to help households and business to be successful for the benefit of the communities they all belong to.

More than fifteen years after the global financial crisis, the banking industry is stronger than ever in terms of capital and liquidity, and should be part of the solution, and never again the cause of the problem.

We at KPMG feel fully equipped to assist our banking clients worldwide in addressing all challenges and seizing the significant opportunities presented by this evolving landscape.

Francisco Uria
KPMG´s Global Head of Banking & Capital Markets sector

Acknowledgements

This publication would not have been possible without valuable contributions from our KPMG subject matter experts. Thank you to each of our clients who participated in the survey. We thank each participant for their generosity with their time and willingness to share their anonymous responses in an open and honest manner.

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