10 trends to watch in South African banking

Amidst South Africa's high interest rates, slow economic growth, and domestic constraints, 2024 will be another year filled with both opportunities and challenges for its banking industry.

Source: Supplied. Paul Calvey, partner and market leader, Oliver Wyman South Africa; Sandra Villars, partner, financial services, Oliver Wyman South Africa; and Pierre Romagny, partner, financial services, Oliver Wyman South Africa.

Considering this, experts at Oliver Wyman have put together a view of the top 10 trends that are shaping the country's banking industry this year.

1. Macro trends that matter: This year is pivotal in terms of elections in South Africa and around the world.

In fact, more than half of the world's population will go to the polls in 2024. The uncertainty of elections always leads to short-term volatility and investor uncertainty will drive cautiousness, impacting revenues in the banking sector.

Another macro trend to keep an eye on is a possible decrease in interest rates in the second half of the year, bringing much-needed relief for South African consumers who are under pressure.

2. Interest rates – tailwinds and headwinds: The increase in interest rates over recent years has resulted in higher net-interest margins, but it has also led to elevated impairment rates in the banking sector, thereby reducing the return on interest revenue.

Into 2024, non-performing loans (NPLs) may persist and continue to rise, putting pressure on returns. We anticipate accelerated internal transformations aimed at cost reduction, as well as an increasing number of banks focusing on alternative revenue streams to enhance their return on equity.

3. The rise of AI in banking: AI will be a big focus in 2024, with better algorithms and easier access to large data impacting everything from risk assessment to relationship management. We anticipate seeing the acceleration of AI use cases for banks in 2024 as AI adoption increases across the industry.

4. Diversification: As banks work on how to increase their revenue during a period of monetary tightening, we anticipate a focus on three primary avenues:

- *Beyond interest revenue:* Banks have always strived to enhance profitability by diversifying revenue sources beyond net-interest income. It's important to note that established banks enjoy an advantage over smaller banks when it comes to generating income from fees due to their scale.

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- *Beyond South Africa:* In recent years, the African banking market has been rife with activity – there have been exits and new entrants, as well as a continued rise in non-banking players in many markets.

  This trend will continue, and South African banks will look for ways to diversify their revenue streams, particularly to African markets experiencing both robust GDP growth and the emergence of a burgeoning middle class with increased disposable income, for example those in East Africa.

- *Beyond financial services:* As banks explore alternate forms of revenue and enhanced client offerings, progressive players are looking to disrupt the traditional banking value chain.

  The growing adoption of API-driven technology enables the development of ecosystem propositions and partnerships, allowing banks to create wider, one-stop-shop offerings in key areas such as insurance, energy, financial planning, and consumer goods and services.

5. The user experience battle: We expect a noticeable shift towards redefining user experience to create enhanced, digitally enabled banking solutions aimed at providing better customer experience. Such expectations have largely been shaped by tech giants such as Google, Meta, Amazon, Netflix, and Uber, and South African players such as Checkers Sixty60 and Takealot.

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> *For more information, read @TheOWForum's report on unlocking the potential of Gen Z talent > https://t.co/85KthUcU1a pic.twitter.com/SyJu0wtTfp*— Oliver Wyman (@OliverWyman) March 5, 2024

6. Distribution: Getting closer to a balance between physical and digital? The Covid-19 pandemic highlighted that many banks find sustaining loyal connections with customers and selling more complex products such as home loans, without in-person interactions, challenging.

While digitalisation has empowered customers to be more independent, it simultaneously diminished banks' distinctiveness and made banking a less personalised experience overall.

We have seen a back-and-forth debate for over a decade on whether the branch is dead. It is not, but its role needs to change faster to keep up with customer expectations of seamless omnichannel banking.

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7. Digital banking: In recent years, South African banks have invested heavily in advancing their digital capabilities, and it has paid off. In 2022, South Africa ranked first in the average digital maturity score in the *Oliver Wyman Digital Banking Index* when compared to eight nations, including Spain and the UK.

While we have seen consistent improvement in South Africa's digital maturity, there are still opportunities to differentiate. Progress in digital capabilities – particularly in platforms, financial coaching, robo-advisory, and integrated digital onboarding processes – will all provide an opportunity to develop a competitive edge in the South Africa market, attracting new customers through added value.

8. The data revolution: Will it land in 2024? Banks are data-rich organisations, but often lag when it comes to utilising the data to generate value. Banks lack the tools to access their data effectively and convert it into actionable insights that can help generate value for their customers and shareholders, especially when compared to big-tech companies.

In recent times, banks have been more effortlessly able to extract, enhance, and integrate their own data as well as that of other providers thanks to a bolder adoption of new technology. We expect a game-changing push on monetising data through segment-of-one targeted sales, alternate revenue streams, and risk- and cost-reduction optimisation use-cases.

9. Green financing and a rise in ESG reporting: Anticipated developments include certain South African banks increasing their focus on the proportion of sustainable financing products in both corporate and retail portfolios.

Prominent use cases include financing renewable energy projects, such as solar, and the battery-related commodity value chain. Onto reporting, sustainability has become a regular topic of discussion in bank board meetings and is now a standard feature in annual reports.

However, this is just the beginning, and we expect to see more extensive and granular sustainability reports, as well as public communication on transition pathways (both outcomes require a higher level of rigor in data and metrics), along with more clarity and less variability in how banks define "sustainable".

10. Has Gen-Z been taken for a ride instead of driving the banking agenda? While Gen Z is often discussed as a significant focus area for banks across the African continent, there has been more talk than action from banks in providing relevant and appealing digital offerings to this demographic.

Banks must adapt quickly to appeal to this generation’s diversity and digital upbringing if they are to generate value from this segment before someone else does. According to Oliver Wyman Forum research, Gen-Z will represent >30% of the population by 2030 versus 15% today.

Questions remain: Will banks truly invest in developing offerings and engagement strategies to cater to this generation? And, importantly, how will they capture their loyalty?