African Banking Infrastructure in Transition

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An African bank CEO asked me "I'm still opening branches to reach more customers, but what is the future of branch-based banking in Africa given the ongoing digital finance revolution?" In 2008 I wrote a paper entitled "Serving Depositors – Optimising Branch Based Banking"[1]– its once again time to rethink how we facilitate retail banking in Africa.

In 2005, I was concerned to answer how branches could be leveraged and optimised to maximise the volume and value of transactions they could handle. This would be achieved through optimising systems, processes, alternative channels, communications, service delivery and queue management. Today, with digital finance, transactions are moving to mobile phones, agents, and the internet. Banking halls once congested, are now easily accessible.

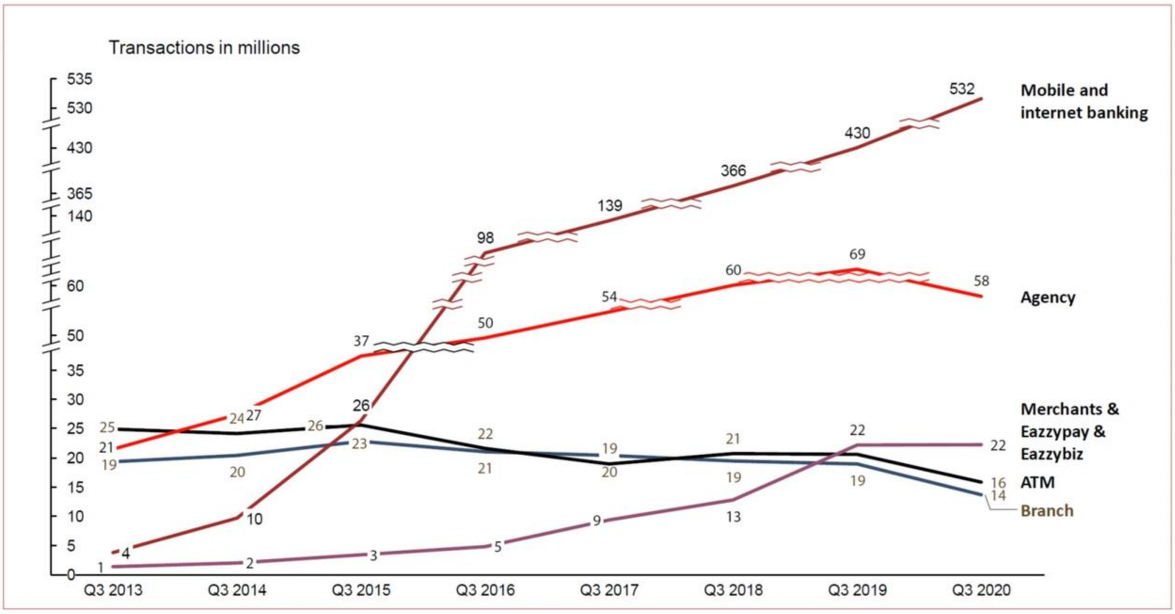
Across the USA, Europe and the UK, branches are closing as people increasingly move their transactions online. A House of Commons Briefing Paper (Bennett, 2020)[2] notes that between 1986 and 2014 half of the UKs bank branches have closed and now 10% of the population lives more than 10 miles from the nearest branch. Usage of both cash and cheques has reduced. Banks in the UK are exploring how the remaining branches can be used – these include: Service branches – for handling transactions, community branches, mobile branches, shared facilities and reduced opening times. Extensive branch closures have raised concerns have been expressed for the viability of the cash

[1] Cracknell, David (2005), "Serving Depositors – Optimising Branch Based Banking", *MicroSave* https://bit.ly/3biTIOn

[2] Bennett Oliver (2020), "Bank branches: why are they closing and what is the impact?", House of Commons Library Briefing Paper CBP8740 https://bit.ly/2JGFo0C

system and the UK Government took steps to use post offices to fill the void left by branch closures in rural communities – with all the anticipated challenges that brings.

Retail banking in Africa is in a different position. Many countries are 'overbanked and under-branched' – meaning that there are many licensed banks, but few branches relative to the population. Nevertheless, the transformational impact of digital finance can be even greater than in countries with a highly developed banking system. The potential for 'leapfrogging' can best be seen in the transaction figures for Equity Bank in Kenya, which has sustained significant growth since 2013, on the same physical infrastructure.



Source: Equity Bank Investor Presentation (2020)[3]

Despite digitisation branches are often poorly distributed to service rural populations in Africa. In part based on the perceived high cost of serving rural populations. In some countries such as Uganda, this has led to clustering of branches from multiple banks in rural towns with swathes of the country without any bank branch.

So, given digitisation and branch distribution - solutions to be adopted must recognise the need to rationalise and leverage existing branch infrastructure whilst allowing new infrastructure to be cost effective and more highly distributed. Policy makers and central banks must become effective change agents in promoting innovations around banking infrastructure.

Solutions could include:

a) Shared branches: Experiments on shared branches have taken place in the UK and in South Africa.

b) Service centres: sales offices which do not deal with cash, or only in small amounts – such centres would have customer service staff, loan officers and agent banking officers.

c) Sub-branches with safes: sub-branches which can handle moderate amounts of cash – do not have strong rooms – and so are much less expensive; but manage risk in part through insurance. Insurance based approaches are used in South Africa.

[3] https://equitygroupholdings.com/investor-relations/

d) Super-agents: Super agents handle larger amounts of cash; but could be re-trained and supported to perform a range of traditionally branch-based services, beyond cash in and cash out. Agents in Bangladesh can perform a wide range of transactions.

Clearly determination of appropriate infrastructure will depend on a wide range of different factors, these include:

1. A policy and regulatory environment which supports innovative approaches in banking infrastructure – where regulators and the banking sector learn together about the advantages and risks of different approaches to physical presence and regulate and manage risk accordingly.

2. The business case for innovative approaches for individual financial institutions and how these innovative solutions for branches can support the development and rollout of alternative channels such as agent banking.

3. The extent to which the banking sector is willing and able to collaborate around common initiatives, for example, shared branches, or industry level initiatives around cash and liquidity management.

4. Innovations in how agent banking is used to provide a wider range of services to rural populations, through a sub-set of carefully selected 'super' agents.

This blog is one of a series of blogs, should you wish to sign up to receive additional blogs, please write to David Cracknell at david@firstprinciples.consulting David Cracknell is the Director of First Principles Consulting Limited, based in Nairobi, Kenya. He advises financial institutions, governments, policy makers and donors on financial services, including digital finance, policy and regulation, and inclusive finance.