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Unlocking open banking in Africa

Strategy& Payments and Open
Banking Survey – Africa Focus

November 2022



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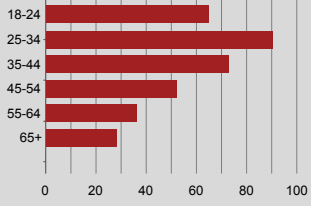
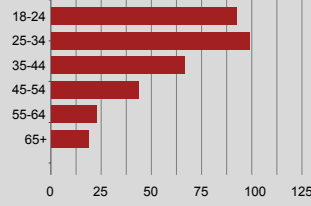
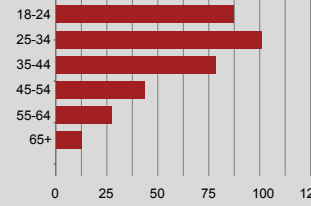



About this survey

The Strategy& Open Banking and Payments Survey is a biannual study of consumers' payment and open banking preferences. Since its first issue in October/November 2018, multiple countries across Europe have participated in the study. For the first time in 2022, PwC Africa is participating in the study with South Africa, representing the South Market, Kenya representing the East Market and Nigeria representing the West Market. These countries were chosen as they represent the largest economies across each market area.

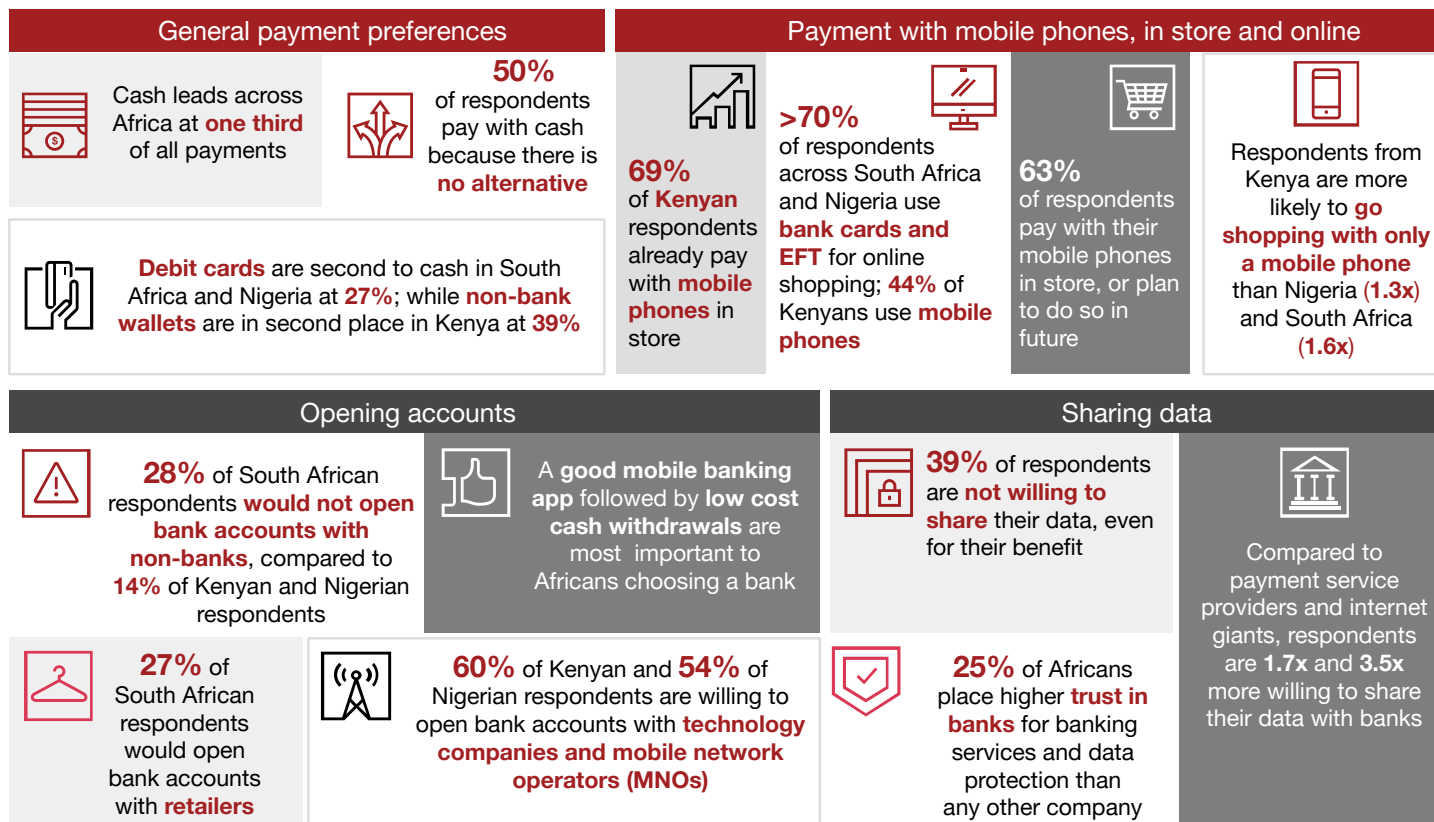
Survey details:

- 1357 respondents
- South Africa, Nigeria and Kenya
- Online questionnaire via Google Survey
- September to October 2022
- 10 questions

Survey sample and country profiles:

					
			South Africa	Nigeria	Kenya
Survey data		Total Respondents	453	453	451
		Male	51.20%	51.80%	49.60%
		Female	48.80%	48.20%	50.40%
		Age Profile			
General data		Population in 2021 (mn)	60	211	55
		GDP per Capita (USD)	6994	2085	2007
		Account ownership with a Financial Institution or Mobile-money Provider (% in 2021)	85.38	45.32	79.20

Payments and open banking in Africa at a glance

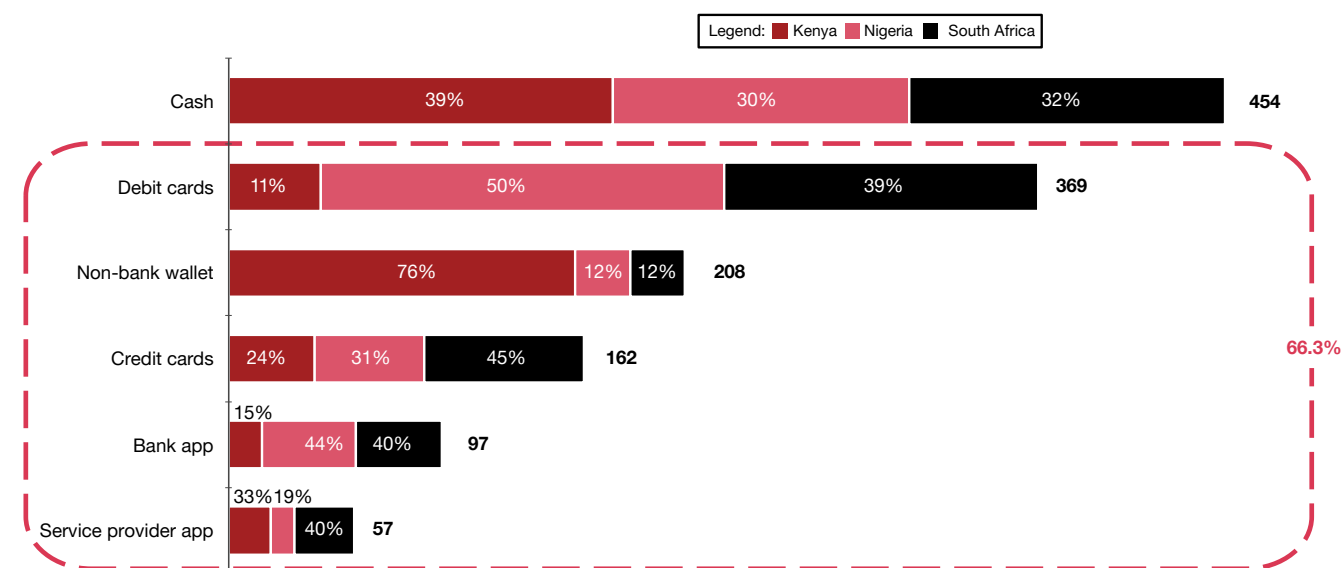


- South African and Nigerian results are most alike, with the prevalence of mobile payments in Kenya being its key differentiator
- In most cases, responses from Kenya and Nigeria are more progressive than those from South Africa, showing a greater inclination towards digital payments and open banking

General Payment Preference

Cash remains the most preferred payment method across Africa, with debit cards a close second

Figure 1: General payment preference



While cash remains the most dominant singular payment type, accounting for a third of respondents' preferences, electronic payments have well penetrated the market accounting for more than 65% of the payment preference. Debit cards are a close second to cash at 27%, with high use in South Africa (32%) and Nigeria (41%).

In South Africa, the high use of debit cards may be attributed to South Africa's large banked population of ~84%. In Nigeria, the banked population has increased to 45.3% in 2021, but the high adoption of debit cards is likely due to its large number of point of sale (POS) devices, which in addition to processing card payments, also provide agency banking services through POS agents. These POS agents are enabled by a variety of service providers, including banks, fintechs, and telcos. Between July 2020 and July 2021 alone, the Nigeria Interbank Settlement Scheme (NIBSS) reported an increase in registered POS terminals from 548,592 units to 986,252 units. This growth emanated from a policy on cash-based transactions by the Central Bank of Nigeria, introducing a cash handling charge for daily cash withdrawals.



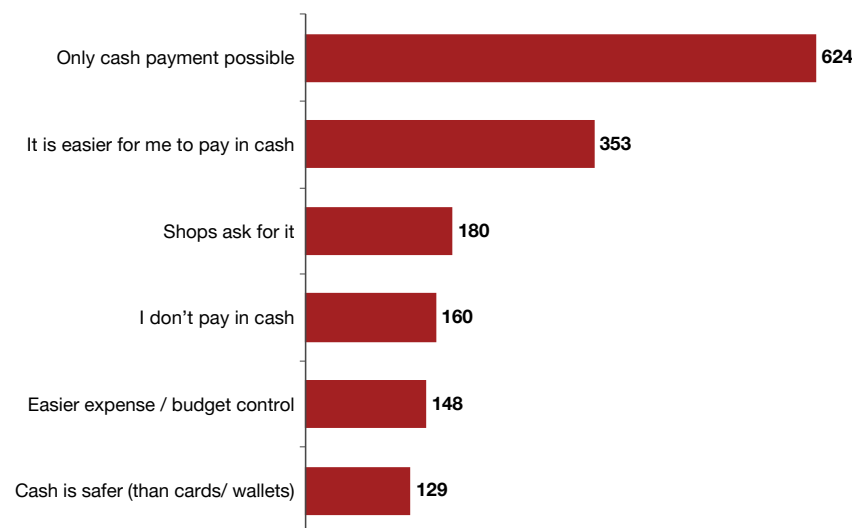
While cash remains the most dominant singular payment type, accounting to a third of respondents' preferences, **electronic payments** have well penetrated the market accounting for **> 65% of the payment preference**

Conversely, South Africa and Nigeria have a low non-bank wallet preference sitting at approximately 6% in both markets respectively, compared to 39% of Kenyan respondents who prefer to pay with a non-bank wallet. This is expected considering that in March this year, M-Pesa, the largest mobile payment service in Kenya, had already passed 30 million users in Kenya alone. With high cash and non-bank wallet preference, Kenyan consumers appear to have leapfrogged traditional banking channels (i.e., debit cards) and adopted more innovative digital channels. However, the cash collected through M-Pesa is still held in the formal banking sector in pooled bank accounts of several commercial banks regulated by the Central Bank of Kenya.

In South Africa, the heaviest cash users are youth aged 18 to 24, while debit cards lead for adults between the ages of 25 and 44.



Figure 2: Reasons for high cash reliance



50% of respondents say they pay in cash due to no alternatives and merchants specifically requesting cash payments

50% of respondents say that they pay with cash because there is no alternative payment option available or because merchants ask for it. This highlights the lack of varied digital payment acceptance mediums and infrastructure across all three African countries.








In 2017, 96% of transactions among informal enterprises in South Africa were still conducted in cash. Although rural and township residents used their cards for 60% of their transactions at formal retailers, only 4% of transactions at informal retailers were card-based. This is likely due to the high cost of Merchant Service Fees (MSF) and device fees of traditional acceptance channels for micro-merchants and highlights the prevalence of cash usage among low-income earners.

Another key driver of cash prevalence across Africa is the lack of financial education, as seen from the disparity in awareness of the hidden fees involved in using cash. Consumers with low financial literacy often overlook indirect costs of cash, such as the cost of their transportation to cash access points, security risks, and loss of interest. Instead, they only consider the explicit transaction fees found in digital payments.

Businesses further incur additional costs to accept cash, such as transportation and infrastructure costs for safes.

Low digital literacy could further result in respondents not finding digital payment alternatives intuitive, making them revert to what they know.

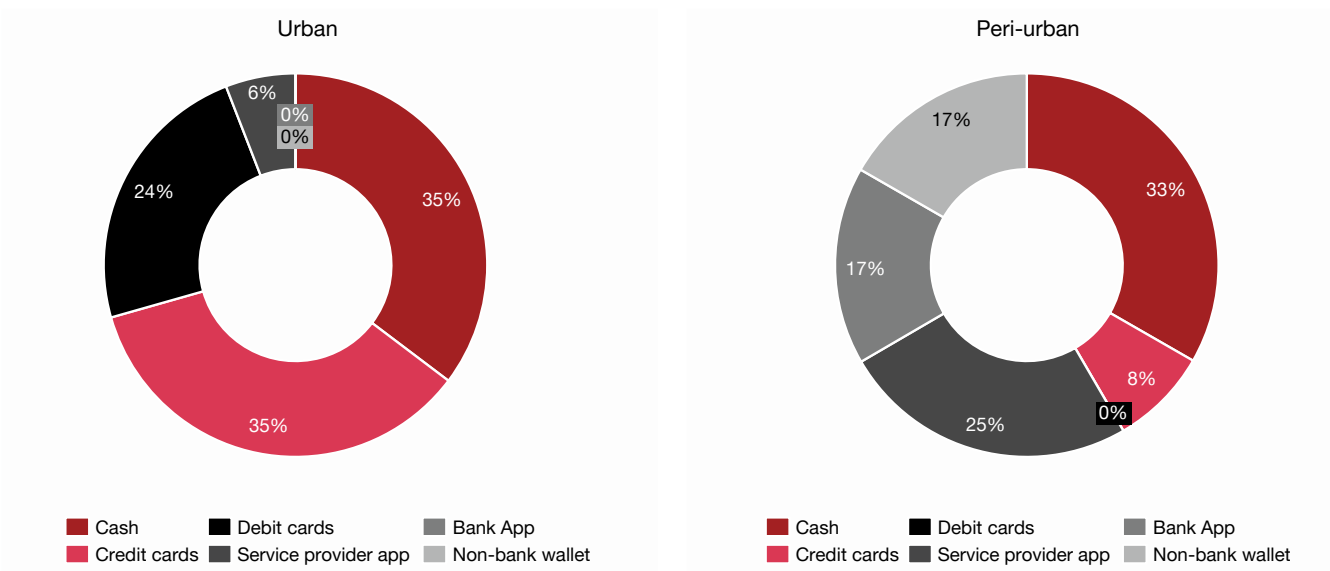
Drivers of cash usage

 Poor network coverage	 Immediacy of funds transfer
 High data costs	 Anonymity
 Financial education, awareness and trust (perceived cost, etc.)	 Lack of required information for know your customer (KYC) processes required for digital transactions
 High cost of digital cash acceptance	 High receipt of cash salaries

In contrast to the strong cash preference, 10% of respondents say they don't pay in cash at all. These contradictory responses are likely from respondents in different market segments, where tech-savvy consumers or consumers who shop in locations with good network access and card acceptance infrastructure are the norm, compared to consumers who do not have access to the same infrastructure and/or means. Here we see how one's socio-economic circumstances are key to the choice of payment method.

For South Africa specifically, non-bank wallets are more prevalent in peri-urban areas than urban areas. In urban areas, credit cards are tied with cash as a preference, whereas credit cards contribute the least to peri-urban preferences.

Figure 3: South African Payment Preference – Location-based nuances



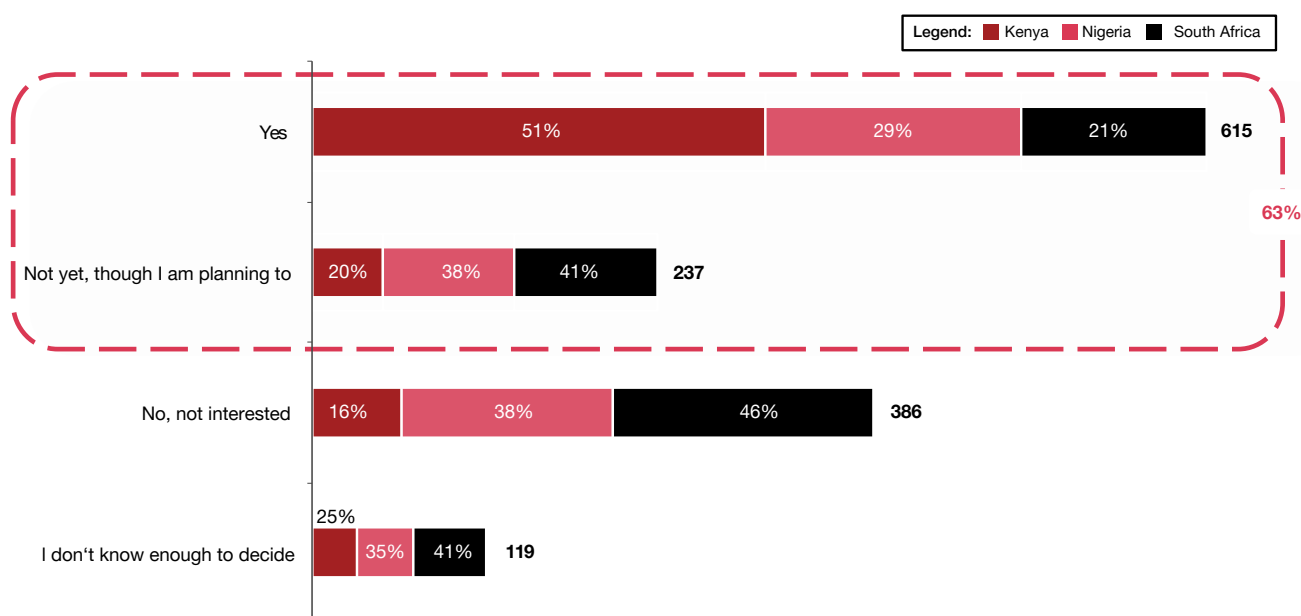
Notes: Using Sandton and Soweto as a proxies for urban and peri-urban areas



Use of mobile phones for payment

63% of respondents are already using their mobile phone to pay or plan to do so in future

Figure 4: Use of smartphones when paying in-store

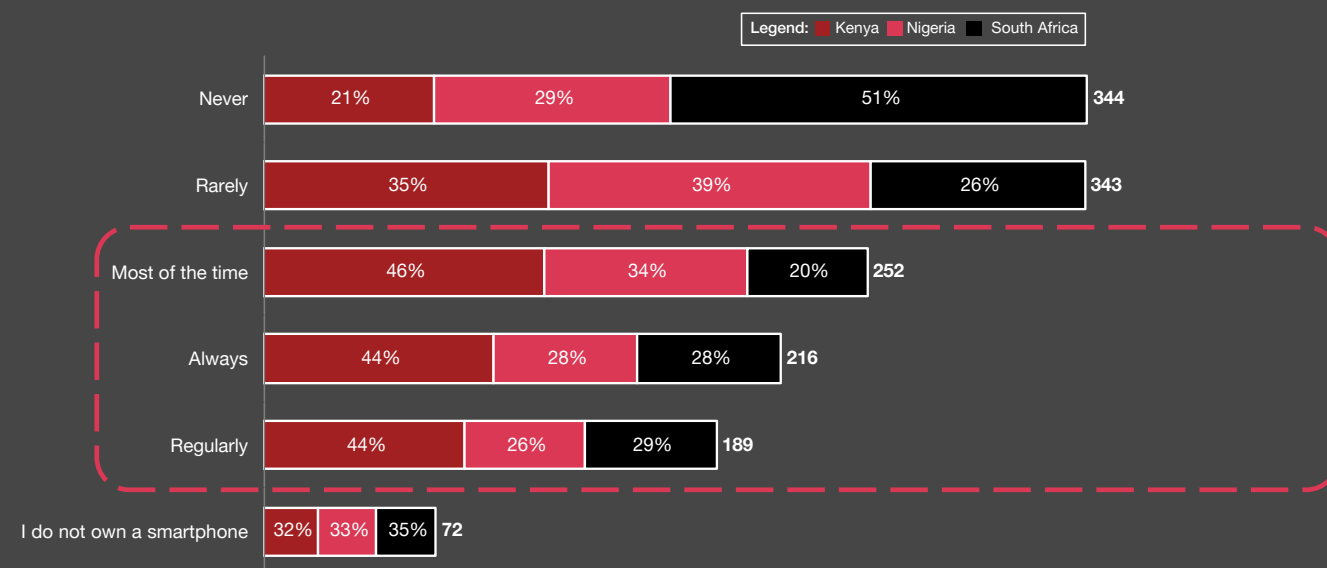


With a growing smartphone penetration and new payment options available, almost 63% of respondents are either already using their mobile phone at POS or plan to do so in the future. In both South Africa and Kenya, the number of mobile phone subscriptions exceeds the population at 1.7 and 1.08 times the population respectively. In Nigeria, mobile phone subscriptions are almost 90% of the total population.

The number of respondents already using mobile phones to make POS payments in Kenya (69%) is almost double the numbers in South Africa (28%) and Nigeria (39%), which are expected to grow over the next few years as mobile phone penetration and mobile money increase further.

Although the majority of African respondents are not using their mobile phones to pay at POS, **almost 63% of respondents are either already using it or planning to in future**

Figure 5: Frequency of leaving the house with only a smartphone



Overall, 46% of respondents regularly leave the house without their purse when they go shopping, indicating a relatively strong preference for mobile payments across Africa. However, Kenyan respondents are more likely to go shopping with only their mobile phones than their African counterparts (1.3x Nigeria; 1.6x South Africa), largely indicative of the high adoption of mobile wallet payments in this market.

This indicates that the South African market has the largest potential for growth, having the largest segment of respondents saying that they rarely or never rely on mobile payments alone (58%), with 22% planning on using mobile phones to pay at POS in the future.

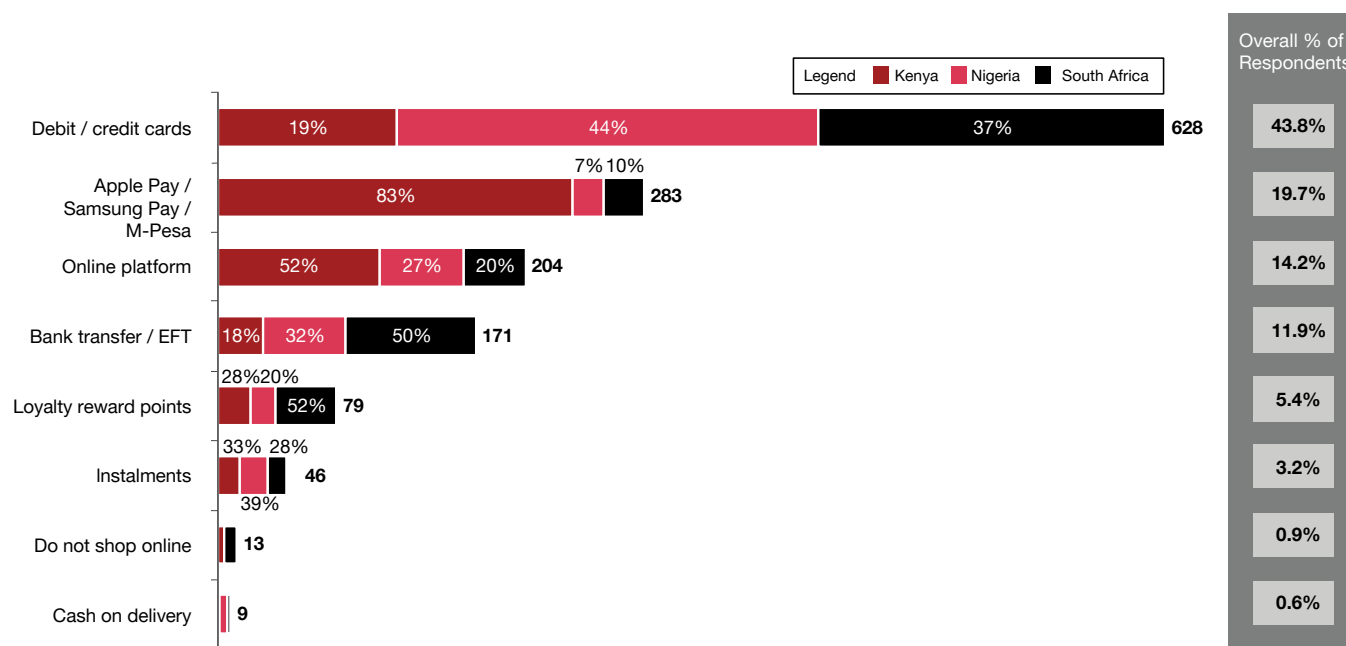
Overall, 46% of respondents said that they regularly left the house without their purse when they went shopping, indicating a relatively strong preference for mobile payments across the African regions



Online shopping payment preference

South African and Nigerian respondents use traditional electronic payment methods (bank cards and EFT) for online shopping

Figure 6: Preferences for online shopping



Ecommerce saw unprecedented growth during the COVID-19 pandemic as a result of consumers' reliance on online platforms and payment methods. This growth was confirmed in the survey, with less than 1% of respondents saying that they don't shop online.

Despite the increased use of digital channels, traditional card and EFT payments still make up more than 70% of all South African and Nigerian respondents' online payments. This is likely due to a lack of knowledge and mistrust surrounding the use of online payment methods. Kenyan respondents show more trust in non-traditional payments when shopping online, with 44% of respondents using mobile wallets and 20% using online platforms.

Loyalty rewards points garnered 9% of the responses on preferred online payment in South Africa owing largely to a customer segment that is mainly active (e.g., Vitality/Multiply) and informed of financial product offerings and benefits available in the formal banking sector. Although online platforms accounted for only 9% of survey responses, the revenue forecast for payment gateways in South Africa alone is expected to be US\$ 432.85m by 2028, with a CAGR of 15%. This indicates further growth expectations for online platforms in South Africa in the future.

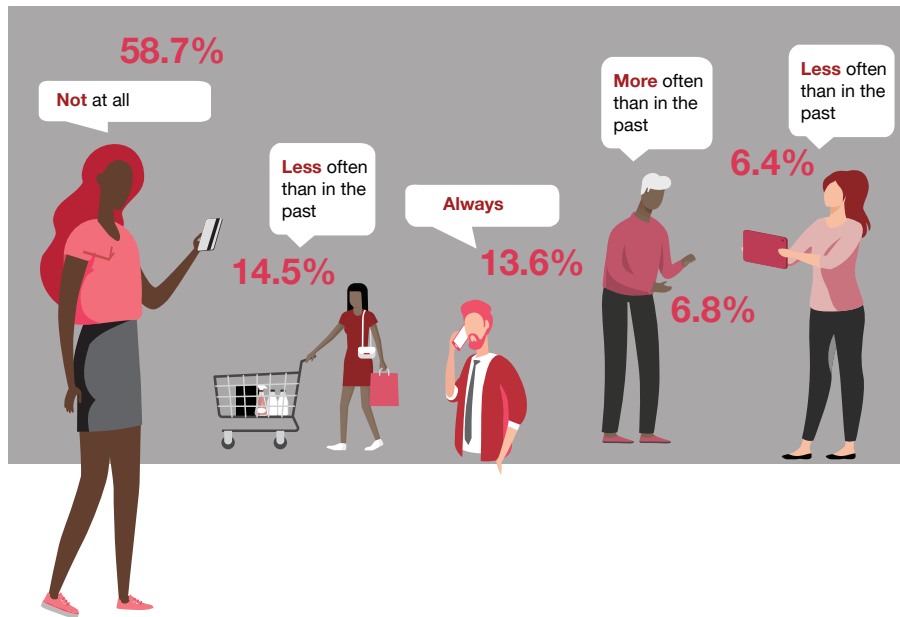
While we see the adoption of Buy-Now-Pay-Later (BNPL) growing globally, less than 5% of the respondents say they use this form of credit for online payments.



Buy-Now-Pay-Later

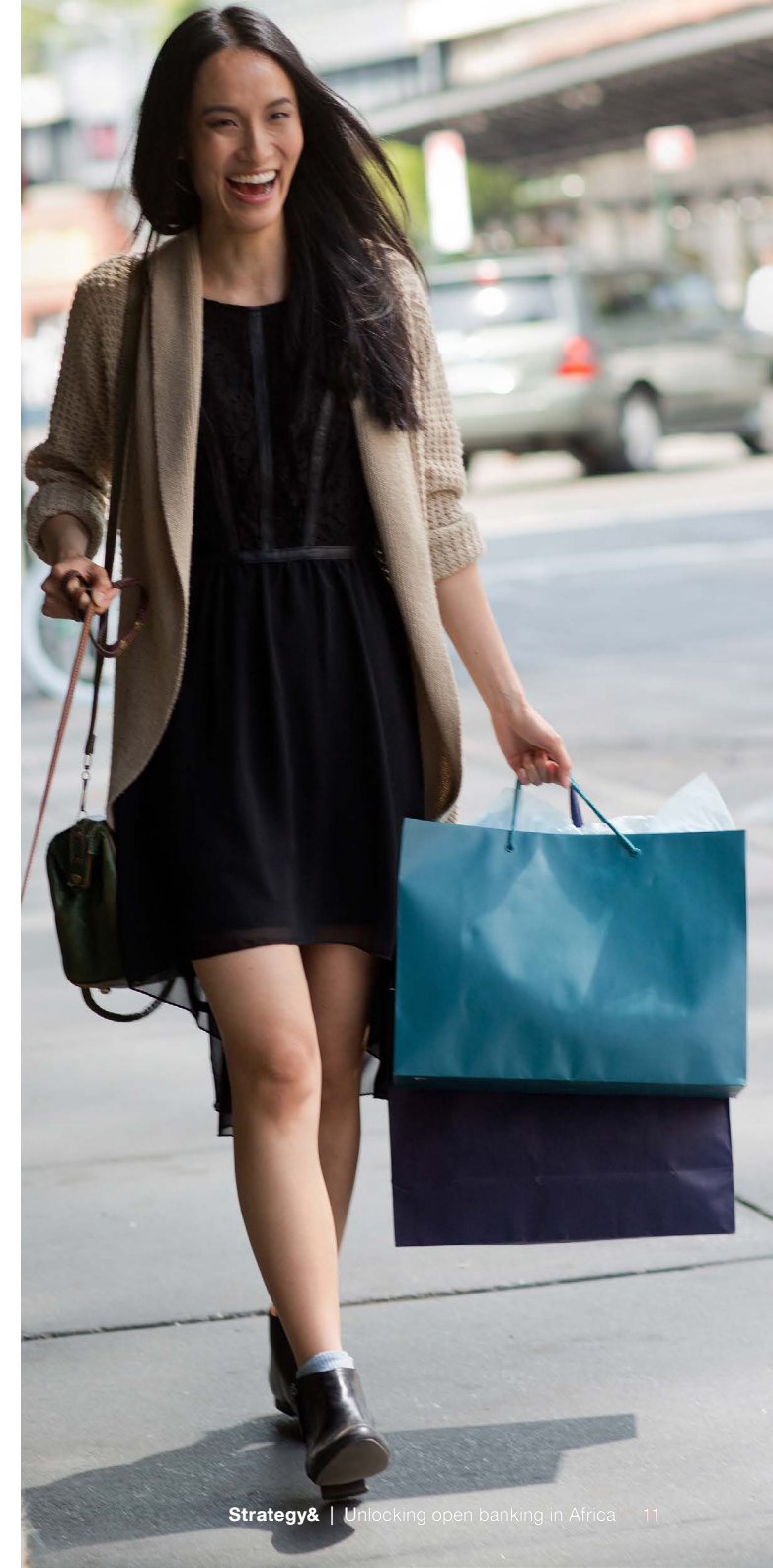
Although we have seen some growth in BNPL, most respondents don't use instalments to pay for their online shopping yet

Use of BNPL



Although we have seen some growth in BNPL, almost 60% of respondents do not yet use instalments to pay for their online shopping. The current low usage of respondents is likely due to BNPL still being at the beginning of its growth curve in Africa, as it is one of the fastest growing online payment methods globally and expected to reach a market size of US\$ 39.41b by 2030 with a CAGR of 26% from 2022 to 2030.

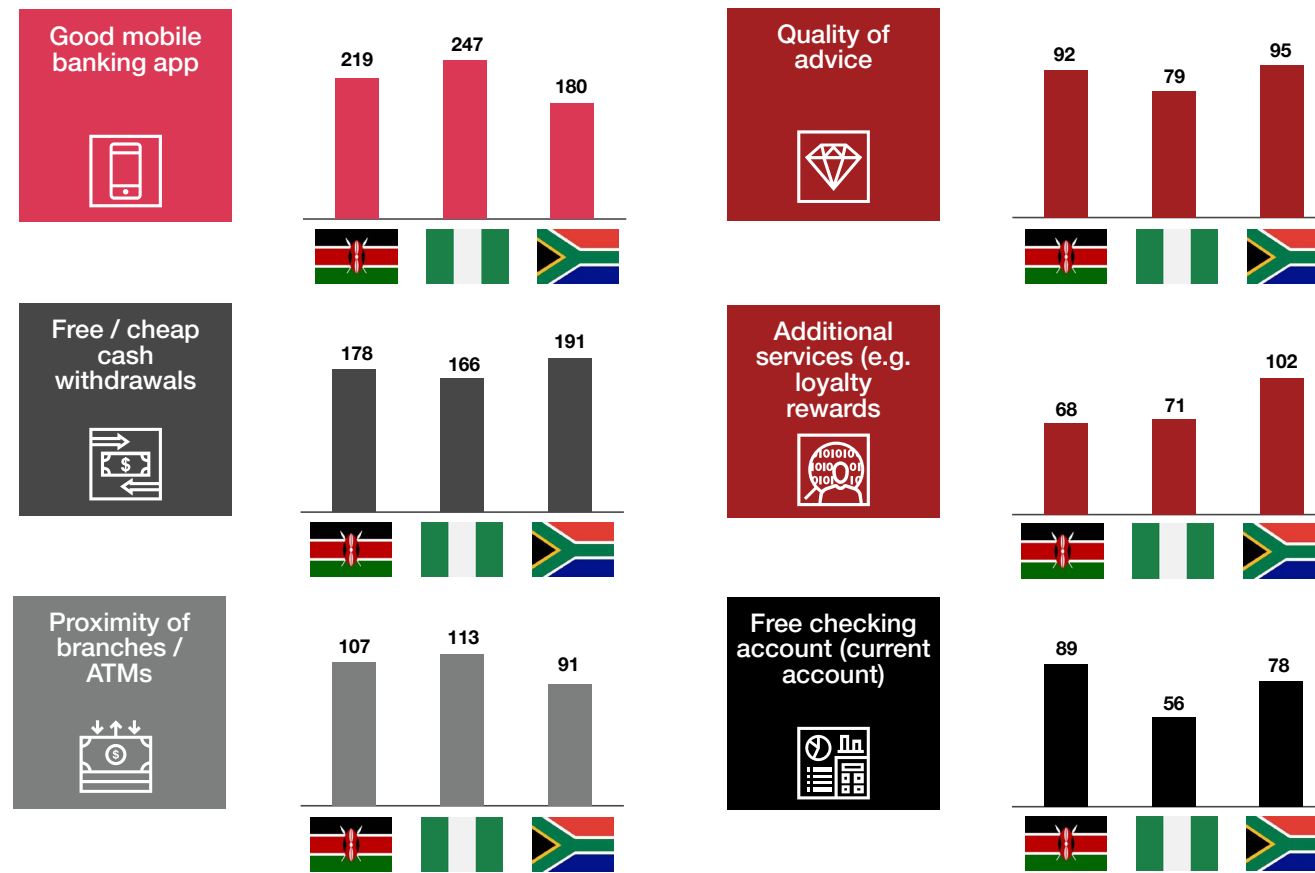
More specifically in South Africa, a CAGR of 35.5% is expected across 2022-2028 for BNPL adoption, reaching a gross merchandise value of US\$ 5 13.8m by 2028.



What do you look for in a bank?

A good mobile banking app and low cost cash withdrawals are most important to respondents when choosing a bank

Figure 7: Attractive benefits when opening a bank account



As smartphone penetration increases and digital literacy improves, consumers' focus moves away from physical interactions and the cost thereof to convenience and value-added services. As a result of this, the majority, 29%, of all respondents cited the importance of a good mobile banking app. This confirms 2019 FinScope data which shows that about a third (or 12.1m) of adults use their mobile phones to manage their financial needs. Of those who use fintech, 64% use cellphone banking, 32% use banking or insurance apps, and 20% use internet banking.

However, in contrast with the importance of digital channels, the second and third most important criteria are low-cost cash withdrawals (24%) and proximity of branches or ATMs (14%). This speaks to Africa's underbanked individuals who own bank accounts but still choose to transact only in cash. In South Africa alone, ~84% of the population has bank accounts, although 25% or 8.3m individuals prefer to withdraw all of their money and transact in cash. This phenomenon is confirmed in the survey, where only South African respondents believed low cost withdrawals to be more important than a good mobile banking app.

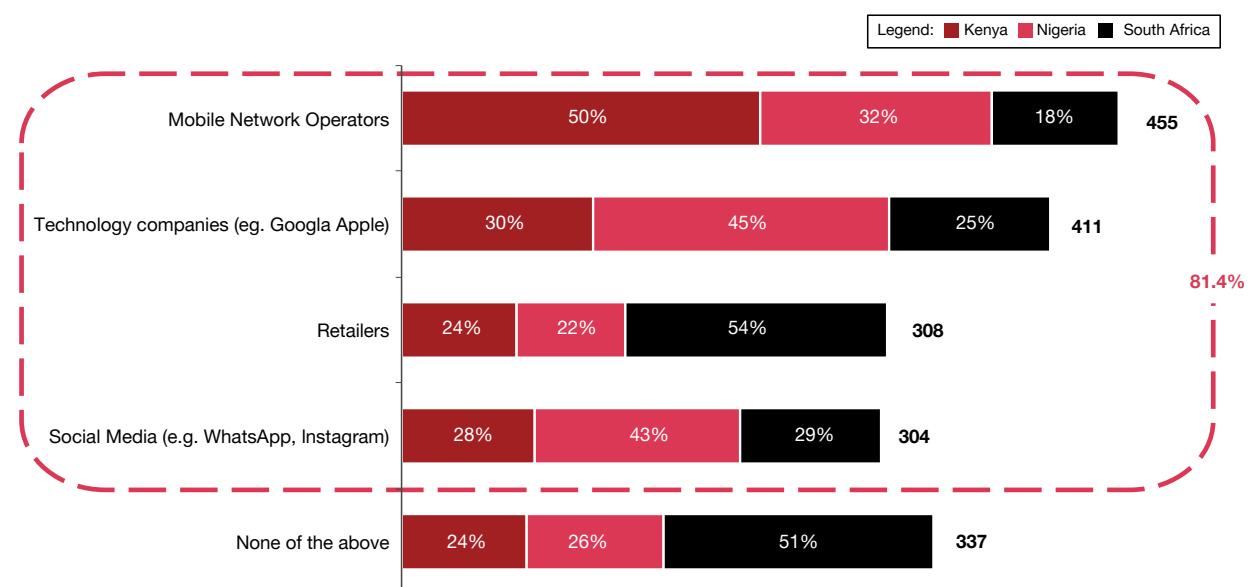
The survey also confirmed that a good mobile banking app is the most important to young adults, with it being the majority answer for respondents aged 25 to 44.



Open banking

While the concept of open banking remains new, respondents are willing to share their data with reputable companies, provided that it benefits them

Figure 8: Willingness to open bank accounts with non-banks



More than 80% of respondents would be willing to open a bank account with a non-bank

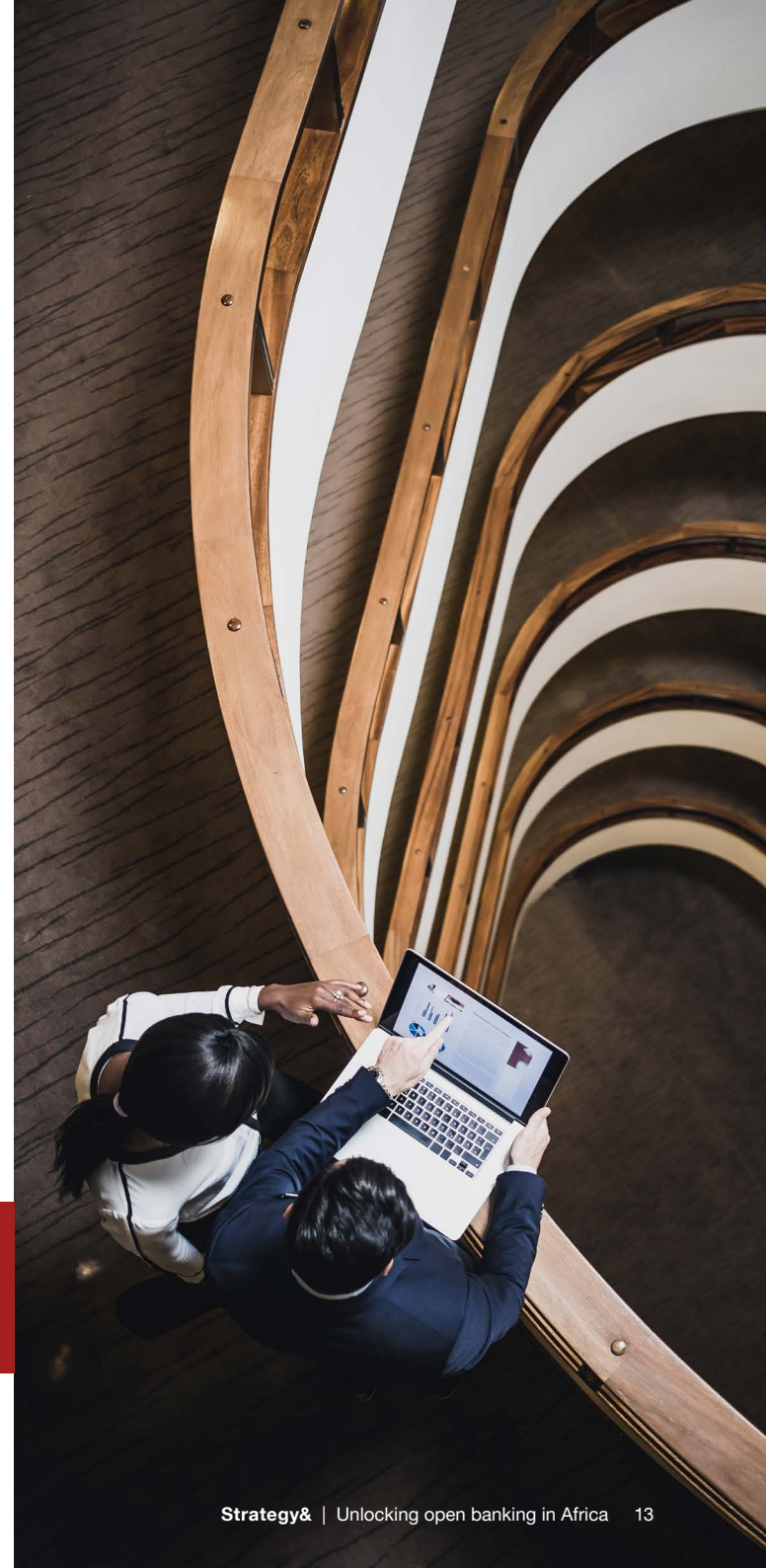
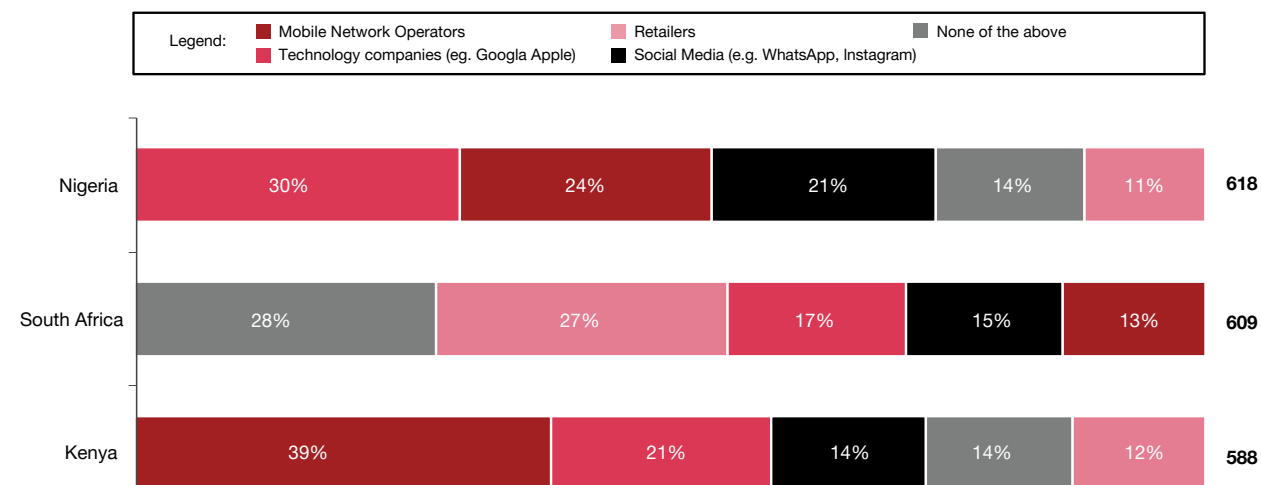


Figure 9: Willingness to open bank accounts with non-banks

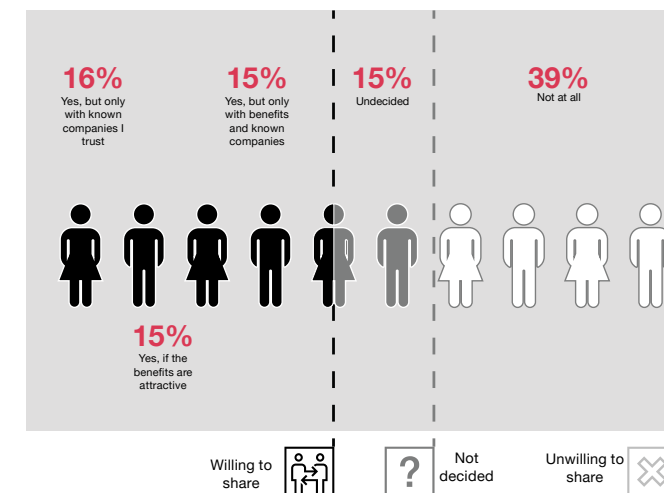


While the majority of South African respondents are hesitant to open bank accounts with companies other than banks, Kenyan and Nigerian respondents are two times more willing to open bank accounts with non-banks. Kenyan and Nigerian respondents are especially more willing to open accounts with technology companies and mobile network operators (MNOs) at 54% and 60% respectively.

The majority of the Nigerian market has started shifting to a more digitally-led payment ecosystem with a large focus on mobile technologies. Apart from opening an account with MNOs, respondents are more willing to open a bank account through social media platforms and technology companies than the other markets.

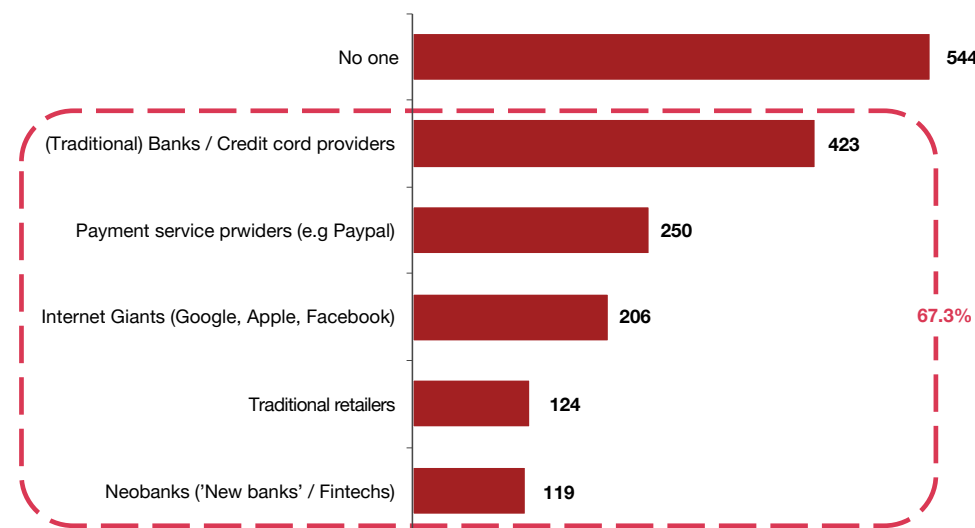
South Africans are more likely to open an account with a retailer (27%), compared to the other markets, which brings light to the many South Africans who already hold clothing and loyalty accounts with some of the long-standing retailers.

Willingness to share data when considering benefits



46% of respondents are willing to share their data with trusted companies in exchange for attractive benefits, with 15% still considering the risks and benefits of open banking.

Figure 10: Willingness to share data with specific service providers

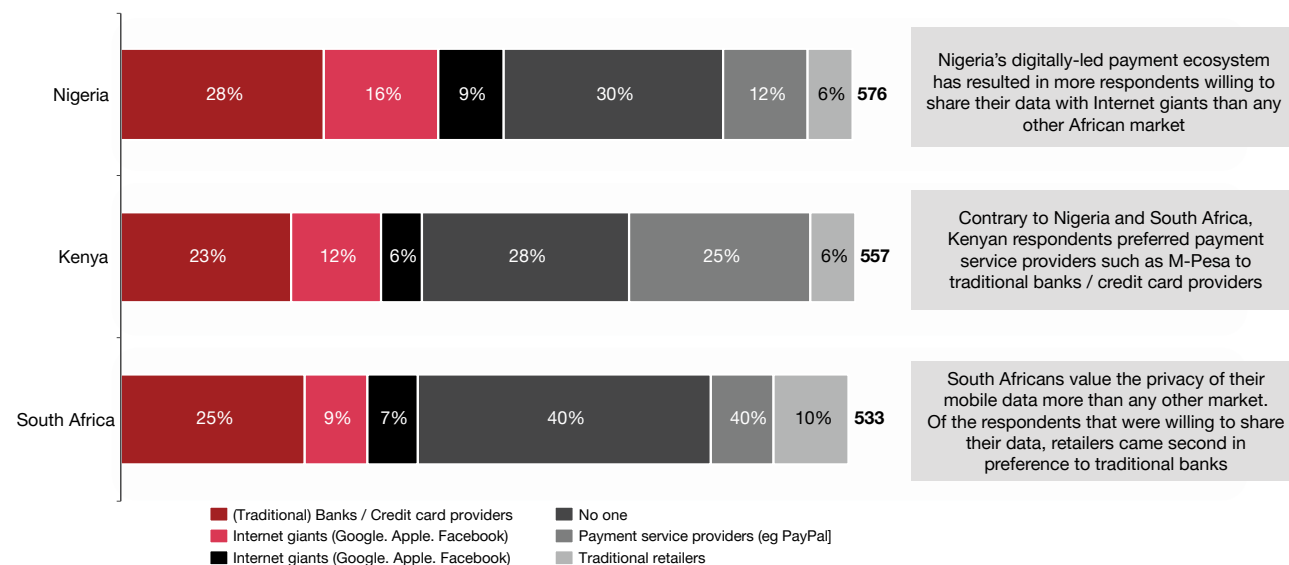


67% of respondents were willing to share their data with players across the payments ecosystem

Considering both data sharing and opening a bank account, 25% of Africans place higher trust in banks than any other company. 67% of respondents are willing to share their data with players across the payments ecosystem. Compared to payment service providers and neobanks, respondents are 1.7x and 3.5x more willing to share their data with banks.

South Africans are the most conservative in sharing their data, with 40% of South African respondents choosing not to share their data with any organisation, including their banks. Of the South African respondents that are willing to share their data, retailers are the second preference to traditional banks. This shows significant retailer trust sentiment stemming from the long-standing credit facilities, loyalty programmes, and money market services offered by most leading retailers in the country.

The majority of Africans place **higher trust** in their banks to offer banking services and protect their data



Nigeria's digitally-led payment ecosystem has resulted in more respondents willing to share their data with Internet giants than any other African market

Contrary to Nigeria and South Africa, Kenyan respondents preferred payment service providers such as M-Pesa to traditional banks / credit card providers

South Africans value the privacy of their mobile data more than any other market. Of the respondents that were willing to share their data, retailers came second in preference to traditional banks

In Kenya, payment service providers such as M-Pesa are the most preferred entity to share data with, followed by traditional banks/credit card providers as a strong contender. We see the converse of this in Nigeria and South Africa where traditional banks/credit card providers are the most preferred entity to share data with, following the same trend seen with the willingness to open bank accounts. This amplifies the trust that consumers place in their banks as opposed to other service providers in the Nigerian and South African markets, and the impact of a disruptor like M-Pesa on consumer sentiments in the Kenyan market.

Conclusion

In comparison to South Africa and Nigeria, Kenya demonstrates how the pervasive use of mobile wallets grows the formal economy and increases trust in non-bank payment service providers. The survey findings confirm consumers' longstanding trust in traditional banks, proving that non-incumbents will need to invest in building consumer confidence to unlock the opportunity for open banking.

Varying preferences with regard to sharing data and opening bank accounts with non-incumbents illustrate the nuances in the relationships between consumers and different industries across different markets. These incumbents and non-incumbents should leverage consumers' trust to reaffirm their role in the future payments value chain and the new payments ecosystem.

Although the prevalence of digital payments has significantly increased across Africa, a third of respondents still rely heavily on cash as their go-to for payments. Consumer education and the development of low-cost, ubiquitous mobile payment systems, especially in South Africa and Nigeria, will be key to the rapid growth of cashless payments in these countries.



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Jana Taute has more than 4 years consulting experience with an educational background in Industrial and Systems Engineering. After completing PwC's Foundation for the Future graduate programme, she was placed in Strategy& where she has been supporting clients in the financial services industry with Payments Transformation.



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Ever is an industry agnostic consultant with expertise in financial services, specifically payments. Ever has spent the past 5 years co-creating and delivering solutions with players across the payments landscape, with the most recent experience being in interchange models and instant payments.



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