Banking on innovation

To secure their future, financial institutions should look beyond money, and bank on identity provision too

By Dewald Nolte

Trust reduces friction
Nolte says the trust relationship that banks have with customers should be leveraged to a much greater extent to enable interactions across the digital world.

It's a curious thing to watch how trends in technology spread across diverse geographic territories, often following familiar patterns. Despite receiving relatively low investment, it's frequently in an emerging market that an existing technology is retooled for a new purpose, or an entirely new solution is developed. Here, too, in the developing world, prototypes are tested and improved, after which other markets start taking notice.

That emerging markets serve well as test beds for new technologies owes a lot to something that's seemingly counter-intuitive: the infrastructural and economic constraints that companies and consumers there face in going about their daily business. To bridge yawning gaps in capacity, citizens of the world's poorer countries grasp new opportunities quickly and experiment with untested new approaches with an open mind. They adopt bleeding-edge technology because of a dearth of tried-and-tested alternatives.

In the so-called First World, people enjoy a wide range of banking options, combining visits to their local branch or ATM with use of voice, Internet and mobile channels. By contrast, in most African countries access to ATMs is severely limited, bank branches are too distant to visit, and online banking is available only to the minority with computers at home or the office. Mobile is the only practical option for remote banking and payments, and that's why several countries on the continent lead the world in the development and adoption of mobile money and other financial services.

Institutions in emerging markets have enthusiastically embraced the 'future bank' road map. Banks in developed markets, meanwhile, express interest—but the future is something they seem prepared to wait for.

> Why not allow the one entity you trust with your money, to serve as a custodian of your core digital identity? Your bank will have your back.

A common theme in all the media coverage of startups and fintech is that they have their cross hairs set on the large established businesses: enterprises in financial services, insurance, telecommunications and health, which have lots of cash but are forced to respond slowly to change by legacy technology and regulatory pressures. Bitcoin, blockchain, peer-to-peer payments, peer-to-peer lending, crowdfunding, crowdsourcing . . . the list goes on. Every second company wants you to know that it has invented a world-changing new technology that will disrupt, disintermediate or dismantle entire industries.

"Retail banks know that they face the risk of disintermediation by non-traditional providers. If banks become mere 'transaction pipes', they will be forced into a commodity market where cost is the only differentiator," says Niel Bester, head of operations at Entersekt. "To head off threats like this, banks must become a greater part of their customers' daily lives. Finding ways to engage their customers in this way is where the real innovation will lie."

We see banks becoming disrupting forces themselves, expanding services beyond their traditional remit and engaging their customers several times daily, in all sorts of new ways. Clients should be positioned to not just weather the coming storm but to ride the wave of change to a whole new ocean of possibilities. How? Bester puts his finger on it again: "The convenience and richness of functionality provided by the mobile device will increasingly change the face of banking. Factor in banks' efforts to broaden their relevance to their customers, and you have a very potent combination." The world's going mobile, and no more so than in Africa. All kinds of new mobile services are transforming people's daily lives.

On the other hand, mobile-focused cybercrime is rising faster than mobile transacting. According to RSA, a leading security provider, 61% of all digital fraud attempts now originate on mobile, with instances rising 173% between 2013 and 2015. (By comparison, fraud attempts on the online channel rose only 1%.) These troubling figures present an opportunity for banks to significantly expand their role in identity provision. How many apps do you have installed on your phone? Do you know how many accounts you maintain online? With many of these businesses not having appropriate security controls in place, it's inevitable that your data will end up in the wrong hands—opening you up to identity theft and fraud. Why not allow the one entity you trust with your money, to serve as a custodian of your core digital identity? Interfacing with third-party systems across the digital world, acting as an enabler of frictionless transacting and communication, your bank will have your back.

As I implied earlier, some banks view this vision as overly futuristic, but others don't. Banks already have sophisticated digital security in place, including on mobile. Their customer onboarding procedures are unsurpassed in the private sector, dictated by governments' ever more stringent know-your-customer regulations (FICA, anyone?). They possess a wealth of data on their customers, which can also be used to personalise third-party services and better target product offerings across the Internet.

Assets like these are priceless, especially as consumer concerns over data privacy and security grow. By providing a consolidated entry point into the digital economy through something like a money-backed digital passport, banks can help eliminate the risk and inconvenience consumers bear by sharing their personal and financial details with scores of individual service providers.

The trust relationship that banks share with their customers can and should be leveraged to a much greater extent to enable interactions across the digital world. Let's retire for good this idea that the large financial services providers will inevitably drift into obsolescence as sprightly new contenders out-innovate them. The bank's future looks bright.

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