Why African banks must work with fintech startups

The need for African banks to innovate at a quicker pace and access new customer segments is behind the increasing number of financial institutions partnering with or investing in fintech startups.

By Tom Jackson 13 Apr 2018

Barclays Accelerator.

Disrupt Africa reported last month on how we are unlikely to see vast numbers of banks acquiring fintech startups, but the is evidently a trend towards African banks signing deals with startups in order to access their expertise.

Part of the reason for this is that startups are capable of doing things banks cannot, like innovating at a fast pace.

“Banks can gain agility and speed in bringing innovations to market,” said Peach Payments co-founder Rahul Jain, whose company took part in a Barclays accelerator in Cape Town and signed a proof of concept deal with the bank.

This was a view shared by Stuart van der Veen, disruption lead in the corporate and investment banking team at Nedbank, which has invested in Entersekt and works with startups like Aerobotics.

“Fintechs are developing and applying technology at speed and in a manner that conservative and risk-averse banks traditionally aren’t good at,” Van Der Veen said. “They are rapidly creating new client value propositions, with less friction, and are able to deliver this at scale. Furthermore, successful fintechs are hyper-focused.”

The benefits of partnering with startups to bank go beyond just the ability to innovate at speed, however. Keith Jones, co-founder of the Sw7 incubator, says fintechs are challenging the way business is being done.

“They are informed, small and build interesting business models. They offer insights to the banks where the markets are heading and how the new technologies are going to be leveraged. If they partner they offer banks access to products and services that can differentiate the banks and improve efficiencies and customer service,” he said.

Digital experiences

George Wakaria, vice president of cash management at Citibank in Kenya, agrees, saying consumers have begun to plac more importance on seamless digital experiences, forcing financial institutions to rethink their traditional delivery methods.

“Partnerships allow banks to leverage their new digital platforms and expertise in the areas of KYC and onboarding, online service delivery, and state of the art platforms,” he said.

However, the ability to access new market segments is also key, according to Wakaria.

"Through partnerships, fintechs offer financial institutions ways to reach and acquire unbanked and underbanked segmen of the population through the creation of profitable and useful services for lower market segment clients," Wakaria said.

Working with startups can also serve to change the way a corporate business thinks, which will bring further benefits dow the line.

"They will start to understand how startups operate – how quickly, the agility, the ability to work round obstacles, and most importantly the undiluted customer focus," said Paul Mitchell, fintech and blockchain lead at PwC South Africa.

"After a while, this starts to rub off, and the corporate realises that it needs to be more flexible, get closer to the customer, push decision making down the business, and so on."