The rise of digital banking

By John Lombela

4 Aug 2020

As AI and IoT become a part of our lives e-banking is gaining traction and with that comes an influx of different offerings some good and some bad.

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A positive move is the growth of digital banks. And contrary to traditional online banking that seemingly use the internet to offer its services to consumers, digital banking provides numerous benefits such as fast-tracking the onboarding process of customers and removing the barrier to entry. In essence, it will help the unbanked be banked.

And with our constant need to always be connected, e-banks are available 24/7, are not restricted to one location and offer more services. And with the significantly lower running costs, this reduces the costs associated with making use of digital banking services. Furthermore, they provide enhanced security while reducing the risk of manipulation of transactions, theft, reliability of cash flows and speeds up the movement of cash in remote areas.

This could be the future of banking even though it could result in reduced staff due to smaller or no branch footprint, but it can help reduce the number of the "unbanked" even though there is a risk that it could widen the gap between the "haves" and "have nots?"

An ongoing shift

Even with the gradual shift from traditional to digital banking, the move to e-banking is still ongoing and is constituted by differing degrees of banking service digitisation. Despite all this digital banking can benefit the African continent because it will allow African nations to easily do cross-border business transactions more efficiently and faster than ever before, and access to facilities and or investment opportunities that previously could not be easily accessed.

And with the advent of blockchain technology being implemented on finTech solutions, citizens from different nations can do business transparently and faster, peer-to-peer and without worrying about borders.

However, there are a few teething issues that need to be resolved, such as technical issues mainly caused by the inability to access affordable data, outdated infrastructure, inability to access the internet and security risks related to potentially exposing personal information on the internet should a malicious savvy internet user choose to intentionally manipulate data as well as not having to build personal relationships with individuals within the bank.

Other challenges are the fees associated with making use of these banks, limited products and a tedious onboarding process. However, lowering barriers of entry is key to the successful deployment of digital banks and providing a large variety of attractive products as well as reduced fees will entice more users to explore and perhaps convert.

Fortunately, such opportunities are being witnessed in the world of DeFi (Decentralized Finance) powered by blockchain technology and digital assets or cryptocurrencies.

The upside is that businesses have the potential to increase their revenues as they now can remotely do business with anyone and from any location. Merchants can integrate their services through APIs and collect funds from consumers from anywhere around the world, including rural areas with users have feature phones and USSD capabilities and Mobile Money services enabled, or smartphone devices through the use of dedicated digital banking apps or merchant-enabled mobile services.

There are a few types of digital banks such as neo banks, beta banks, new banks and nonbanks. But there are not many digital banking platforms yet at this point, and most FinTech related solutions focus solely on remittances than anything else. In South Africa, the likes of Discovery Bank, Tyme Bank and Bank Zero are exploring the opportunities and ROI of digital banking.

This is a great sign for things to come.

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