

# TRUST



## DIGITALISED BANKING IN RURAL AREAS

According to the 2018 PwC report, A marketplace without boundaries 2.0 & Digital disruption in the South African banking sector, the sector is increasingly moving towards a 'marketplace without boundaries'. The report stated that in response, the four universal banks (Absa, FirstRand, Nedbank, and Standard Bank) have continued to pursue large-scale transformation programmes, digital transformation, new ways-of-working and enterprise-wide cost reduction. The four major banks have dominated and profited from their market shares with the increased use of digital banking in urban and industrial areas, but what about the rural areas?

Mobile banking newcomers, Discovery Bank, TymeBank and Bank Zero, all expect to have substantially lower cost-to-income ratios, giving them scope to disrupt the pricing of retail banking products. However, all the banks have not given detailed focus on the unbanked in rural areas.

In a study, Mujinga M., Eloff M. M., Kroeze J.H. (2017) evaluated the use of online banking in SA and found that:

- 14 million banking adults have Internet access, but only 9% of bank account holders use online banking.
- Most South African banks currently provide free-of-charge online banking service in bundled banking packages to encourage clients' uptake of the service, as opposed to paying high fees for conducting the same transactions inside the branch.
- The use of online banking in South Africa is still low compared to other countries.
- Internet access is not a barrier to online banking as a significant proportion of bank account holders already have internet access.

Research conducted by Ramavhona & Mokwena (2016) on internet banking in rural areas in SA revealed there was a perceived security risk and lack of Internet infrastructure as the main inhibitors of adoption. Additionally, complexity of using the service was also a contributing factor. The Senior Director, Finance and Markets Global Practice of the World Bank Group Grandolini (2015) advocates that five main challenges to expanding access to finance in in developing countries are:

- **Financial literacy and capability** - Countries must develop financial literacy programmes to ensure people can make sound financial decisions and know how to use related channels, such as ATMs or mobile banking.
- **Valid identification documents** - Providing people with a valid ID is essential to access financial services.
- **Consumer protection and regulation** - While payment services like mobile money and e-money products can further expand financial access, it's critical to establish

secured and reliable platforms to protect data privacy and funds.

- **Women and the rural poor** - Women in developing countries are 20% less likely than men to have an account and 17% less likely to have borrowed from a formal financial institution in the past year. Financial institutions must adapt financial products to suit women's needs.
- **Usefulness** – Transaction accounts must be useful and serve as a gateway to other financial products such as savings, credit and insurance.

Rural areas have experienced similar challenges with regards to formal banking. Furthermore, crucial challenges such as ID documents and illiteracy are being addressed through information technology by banks, NGOs and the government.

### How can South Africa promote simple digital banking in rural areas?

While many giant businesses like MTN and Vodacom were rebutting mobile money, by 2016 FNB had a rate of about 350 000 new e-Wallets per month. E-banking, e-transactions and e-payments can conveniently be done with internet access from a mobile, tablet or computer anywhere in the world, meaning there is no need for the rural population to travel to city centres for banking transactions.

According to DU.L. (2019), Mushfiq Mobarak, professor of economics at Yale SOM and co-chair of the Urban Services Initiative at the Abdul Latif Jameel Poverty Action Lab, there are opportunities for mobile money to create an impact in emerging markets within the context of four specific market failures:

- **Transfers:** Mobile money can improve the efficiency, speed, and security of person-to-person transfers.
- **Insurance:** Mobile money could reduce the response time for people to respond to emergencies in their networks.
- **Savings:** Security of savings is increased, as mobile money provides secure and accessible means.
- **Credit:** Mobile money can provide the technology platform for additional financial services, including microcredit.

To level the playing field of digital banking in the rural areas, all banks will have to specifically develop an action plan to expand the use their products and services via technology. Suggested initiatives include:

- Role players must motivate the development of the infrastructure for internet use.
- Partnerships with communities, community organisations and rural businesses to educate and promote potential clients about digital banking.
- Offer package deals such as free internet service, mobile phone or tablet for the client to conduct online banking and other financial transactions.
- Train the potential clients to use digital banking.
- Target rural businesses and farmers by offering training and special customised deals and that are profitable.
- Guarantee security and transparency.
- Promote information technology social responsibility programmes.

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