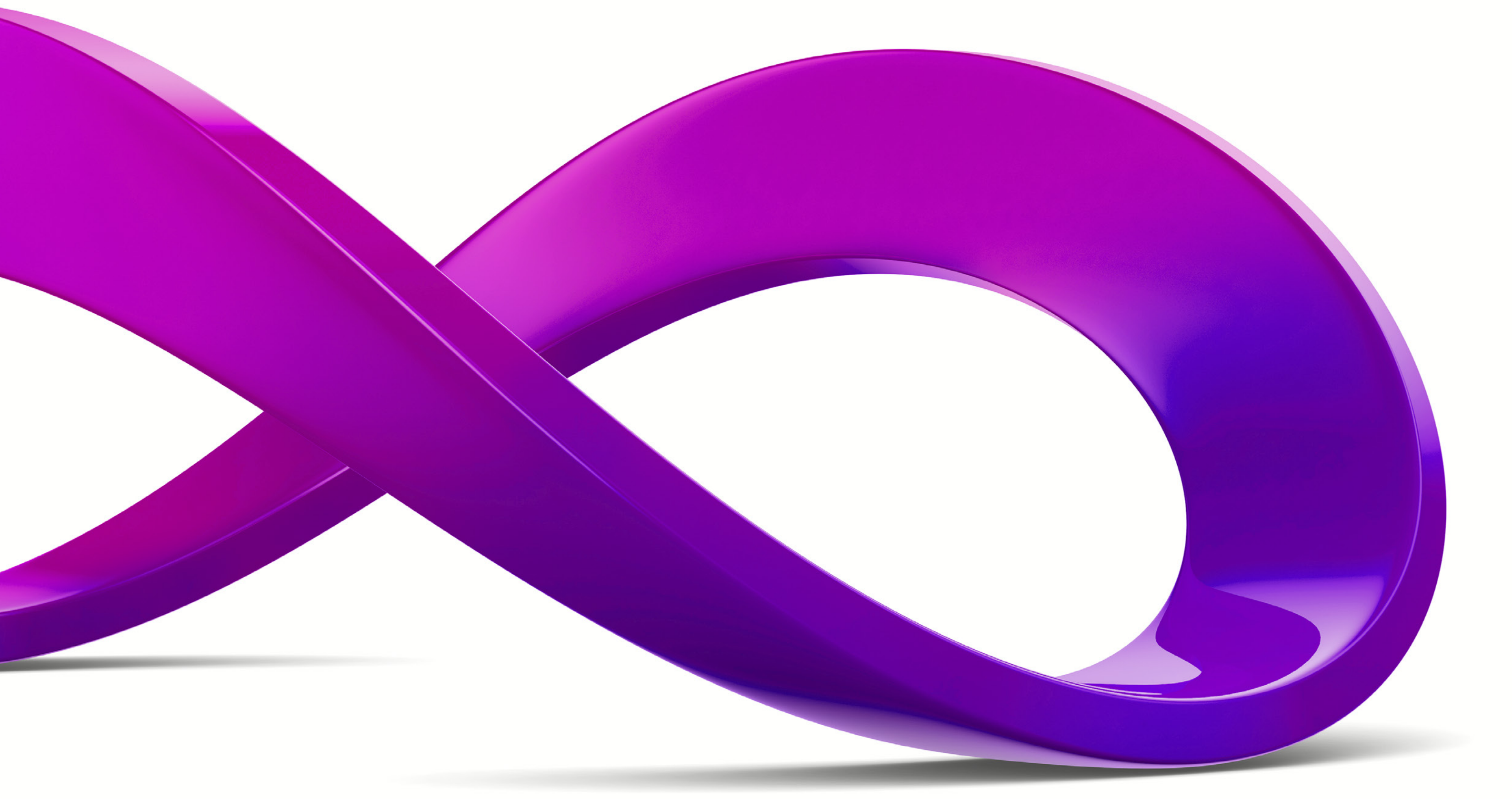
PERPETUAL REINVENTION

Building future value in South Africa's banking and insurance sectors



Summary

South Africa's financial services (FS) sector is not immune to the disruption impacting this sector globally.

In Europe and the US, the arrival of digital banking entrants, such as Germany-based N26 and UK-based Monzo and Revolut, is being warmly welcomed by consumers: N26 has 3.5 million customers,[1] Monzo about 2.2 million,[2] and Revolut more than 3.5 million.[3] On the insurance front, US-based Lemonade was recently valued at $2 billion ahead of its expansion into Germany.[4]

In South Africa, two digital banks—TymeBank and Discovery Bank—entered the market in 2019. The launch of a third, Bank Zero, is imminent.[5]

The fast growth of these digital entrants points to a global shift in consumer behaviour and heightened expectations. Customers want more from their financial services providers—more convenience, more personalised services and more value.

How can incumbents compete? Banks and insurers must go further and do more than just digitise their existing offerings. One-off transformation, edge-only innovation and fast-followership are insufficient—to remain relevant they must be able to respond to rapid and continuous change.

Our research shows that South African consumers are ready for digital financial services. Understanding and meeting their needs will help FS organisations position for digital-era success.

Four elements will contribute to incumbents' success: adoption of digital technologies, access to customer data, maintaining a trusted provider position, and positioning themselves strategically within digital ecosystems.

Right now, South African financial services incumbents hold a number of aces: in addition to established relationships they enjoy a significant trust advantage over new entrants. But these advantages may be short-lived. FS organisations must act now to reposition themselves before their hard-earned advantages erode.

In search of greater value

Accenture's research shows that South African financial services consumers are willing to share significant personal information, including location data and lifestyle information, with service providers. But they are aware of the value of their data and want reciprocity.

In exchange for access to their data, nine in 10 South African consumers want lower pricing from their banks and insurers. Fifty-eight percent expect their banks to use their data to anticipate their needs and to recommend products and services at the point of need.

Our survey of financial services consumers in 28 countries shows that these changes are global and will reshape the industry. The pressure is on for banks and insurers to provide highly personalised services, but how can they accommodate a million markets of one?

Our report identifies a number of steps that providers in South Africa can take to adapt to a more disruptive future.

About the research

In its 2019 Accenture Global FS Consumer Survey, Accenture surveyed **47,000** respondents across **28 markets**, including Australia, Brazil, Canada, Chile, China / Hong Kong, France, Germany, Indonesia, Italy, Japan, Netherlands, Singapore, South Africa, Spain, Sweden, Thailand, the United Kingdom and the United States.

The survey covered multiple generations and income levels. The respondents were all consumers of financial services; they were required to have at least one bank account and one insurance policy.

The South African sample comprised **2,000** people.

Understanding every customer

To engage customers with personalised services, forget dated demographic segmentation—identify customers' fears, needs, desires and aspirations.

To provide each individual customer with personalised service, it's critical to understand their behaviour—it provides important cues. Our global research revealed several patterns among consumers in terms of their perception of, and engagement with banks and insurers. Using these patterns, we created four broad personas to help financial services organisations gain a better understanding of consumers in their geographies.

The differences between these personas are striking and highlight how traditional demographic segmentation, such as by age or wealth, can miss important nuances in terms of what consumers expect of their financial service providers.

Pioneer, pragmatist, traditionalist or sceptic?

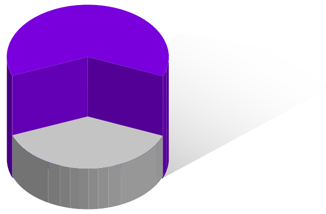
Our research classified South African consumers into one of four personas:

- **Pioneers** are tech savvy, open to risk and hungry for innovation. Of South African respondents, 26 percent fell into this category compared 23 percent of global respondents.
- **Pragmatists** are channel-agnostic, generally trusting of banks and satisfied overall. Thirty-six percent of local respondents are pragmatists, versus 23 percent globally.
- **Sceptics** are generally risk- and technology averse, and are dissatisfied with financial services providers. In South Africa, 32 percent of respondents fall into this segment, versus 33 percent globally.
- **Traditionalists** are generally older, tech-avoidant and more focused on personal contact. Only 6 percent of South African respondents are traditionalists, a far lower figure than the 21 percent recorded globally.

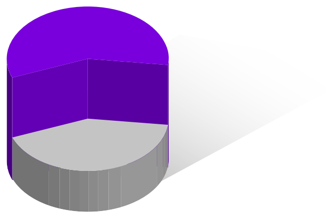
Pioneers and pragmatists—the tech savvy, innovation seeking, trusting and satisfied types—make up 62 percent of South African respondents versus just 46 percent globally.

The predominance of these personas among South African consumers indicates an increased desire for the advances that technology can offer and relatively high levels of trust. However, value will be a key determinant of product uptake.

Our global research indicates that products offered by financial institutions (FIs) are generally seen as a grudge purchase, and a large number of consumers are unhappy with the service they get, and expect more from their providers. Our local research reveals three crucial characteristics of South African financial services customers that banks and insurers must understand in order to create value.



62 percent of South African respondents are pioneers and pragmatists.



58 percent of South African consumers expect their banks to use their data to anticipate their needs and recommend services.

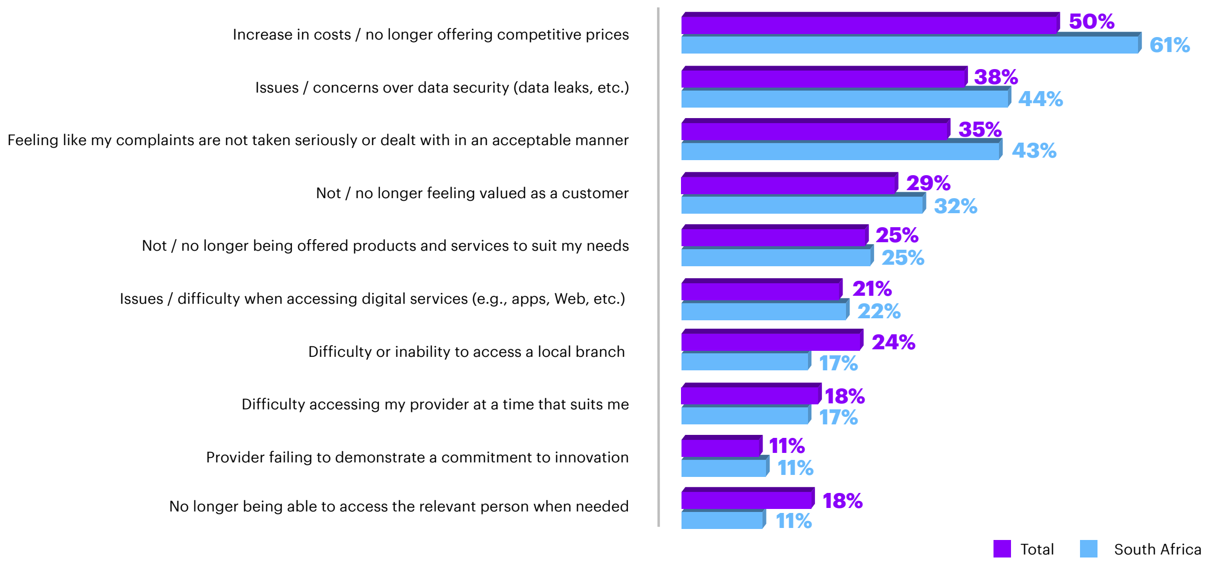
What South African consumers want from next-generation financial services

South African financial services customers want value for money, tailored offerings, richer digital experiences and consistency across channels.

They demand value for money

South African consumers are very cost-conscious. When asked what would make them leave their bank or insurer, more cited cost than any other factor.

Which of the following, if any, would cause you to leave your service provider?



Source: 2019 Accenture Global FS Consumer Survey

This is probably due, in part, to the fact that South Africans pay more for bank accounts and insurance products than their peers. A recent World Bank report on retail banking found that account charges could cost low-income households in South Africa up to 10 percent of their income.[6]

Raising prices, then, is not an option. To grow revenue, banks and insurers must create additional value for their customers. The good news is that South Africans are willing to trade personal data for it. In fact, globally they are among the most willing to share their personal data—including income, lifestyle and location data—in exchange for lower pricing on products and services (92 percent versus 83 percent globally).

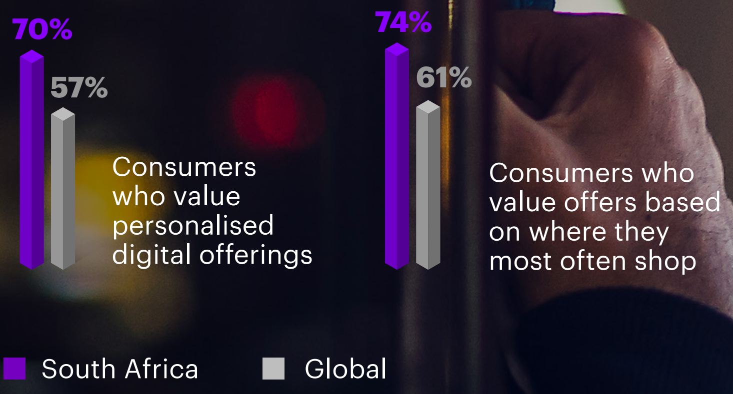
At the same time, however, consumers believe privacy is paramount, with more than four in five (82 percent) saying they are very cautious about the privacy of their personal data. In fact, data security breaches were the second-biggest concern for consumers behind cost.

Consumers have a high interest in tailored offerings

South African consumers are also keen to see offerings based on their unique behaviour and attributes.

They showed strong support for personalised insurance premiums, with 72 percent interested in receiving adjusted car insurance premiums based on safe driving and 68 percent interested in pay-as-you-drive car insurance. Ninety percent said they would provide personal data to their insurer if they believed it would help reduce the possibility of injury or loss.

Our survey also found that 70 percent of South Africans (versus 57 percent globally) value personalised digital offerings such as savings tips based on their spending patterns. Even more are interested in offers based on where they shop most often (74 percent versus 61 percent globally).



Consumers are dissatisfied with their digital experiences

South African consumers want more. They want richer digital experiences that help them carry out day-to-day tasks, but they also want someone available in-branch to deal with their more complex needs.

While three-quarters (versus 59 percent globally) want a combined physical and digital engagement, most also want to be able to speak directly to someone if the need arises (61 percent versus 50 percent globally).

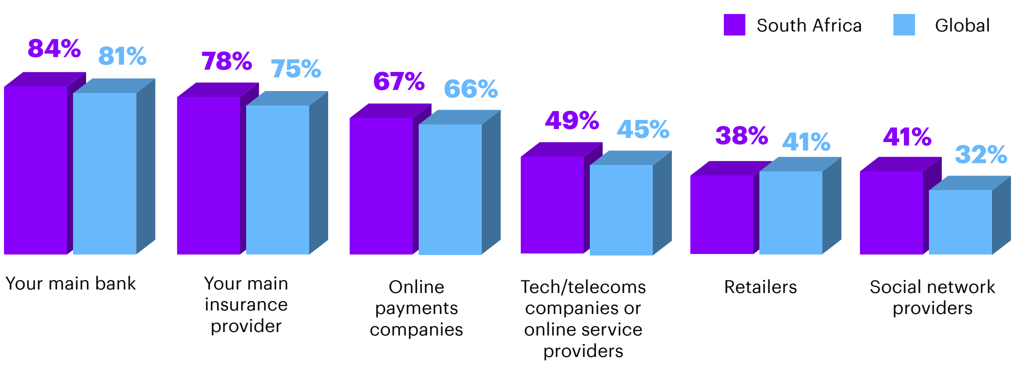
What is lacking in the interplay between these physical and digital modes is consistency. The online experience follows a one-size-fits-all approach but the experience customers have in-branch will differ significantly depending on whether they walk in as an individual or as a business owner. Banks must decide how future engagement will look for all of their customers and start designing them to deliver the value customers expect.

Insurers, too, should be aware that branches are less important than many might assume. Our survey shows South Africans are more likely to prefer to speak to someone by phone or to use a website or email than their global peers—and much less likely to prefer face-to-face contact. They are also far more willing to use a remote advisor rather than an in-branch employee for a range of activities, such as making an insurance claim, getting advice on new products and services, and updating personal details.

The trust advantage

When it comes to trust, financial institutions score high globally. In South Africa, they are even better regarded: about eight in 10 consumers trust their bank or insurer with their personal data. A similar number trust these service providers with their longterm financial wellbeing.

Q: "To what extent do you trust the following providers?"



Source: 2019 Accenture Global FS Consumer Survey

The chart also shows South African financial institutions (FIs) are much more trusted than their potential competitors in the social media, payments and retail spaces—at least for now. This advantage could erode quickly as non-FIs begin to gain credibility and win consumer trust. South African banks and insurers would be wise to capitalise on this advantage quickly.

It is also true that being held in high regard cuts both ways. Take data protection: while 72 percent of South African consumers are willing to share more data in exchange for improved benefits and better service—one of the world's highest rates—83 percent say they are very cautious about the privacy of their personal data... another of the highest rates. South Africans expect FIs to protect their personal data and are unforgiving of those who do not: 44 percent said they would leave their FI over data security issues, significantly higher than the 35 percent seen globally.

All of this suggests that banks and insurers should tread carefully in terms of protecting and using customer data: exploiting it simply to boost revenues undermines trust, while being careless with it will cost them customers. The way forward is to use data to improve the customer experience; revenue will follow.

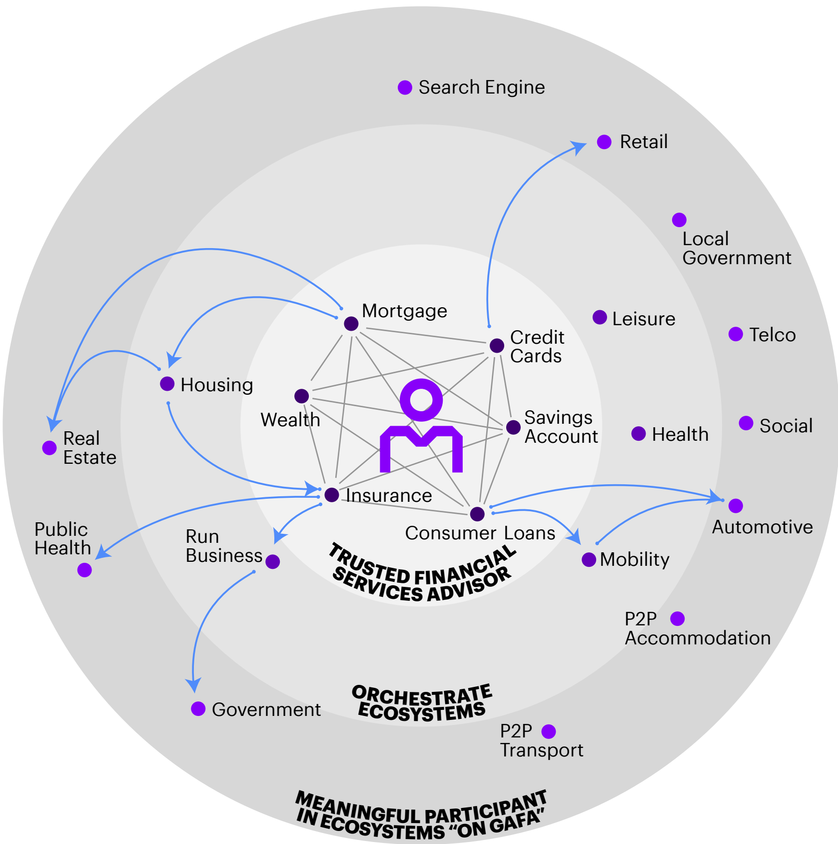
Personalised data – 21st century gold

Perhaps the overriding global shift in business is the awareness of the value of data and consumers' willingness to trade their data for better deals—even in the world of financial services, where products often have a fixed price. Innovators are not sitting still.

Across sectors, access to consumer data has led to an increase in bundled offerings within a broader ecosystem (see graphic below). It seems likely that, should South African banks and insurers fail to provide such solutions, others will. In the UK, for instance, in little more than a decade, nearly two-thirds of players in the banking sector are new entrants, and enjoy 14 percent of sector revenues.[7] Fifteen fintechs have banking licences; and each of the largest neobanks boasts more than 1 million customers.[8]

The trusted financial services advisor is situated at the centre of a growth-inducing banking universe.

(non-exhaustive example)



The blue arrows illustrate the network effect, where ecosystem interactions provide the opportunity to up- or cross-sell services and acquire new customers.

Source: Maximizing Revenue Growth in Retail Banking, Accenture 2018

Personalisation lies at the heart of such offerings and, in an increasingly digital world, is easy to provide.

South African consumers appreciate personalisation, as leading financial services firm Discovery well knows. It offers a range of insurance and investment products, and recently launched a digital bank that aims to differentiate itself based on its goal to improve the financial wellness of clients.[9]

Rewards are central to Discovery's approach. Take car insurance: Discovery's Vitality Drive product turned the principle of setting premiums based on driver age and history on its head. Instead, it fits a device to the car that measures how safely the person drives. In exchange, drivers get a lower premium and rewards they can cash in. Discovery has taken a similar incentive-driven approach to healthcare and life insurance, offering discounts on gym membership in exchange for lower medical aid premiums.

TymeBank is another disruptor in the South African financial services sector. This digital retail bank launched in February 2019, offering accounts with no monthly fees and free day-to-day transactions. Using just their ID cards, customers can open an account in minutes at kiosks at one of the nation's leading retailers.

The result? Since its launch, TymeBank has signed up over 100,000 customers per month,[10] far ahead of expectations. And although the customer mix remains unclear—i.e., how many of those customers were originally unbanked, how many accounts are being used, and how many clients have an account with one of the Big Five?[11]—TymeBank's low-cost, convenience-based approach is clearly resonating with consumers.

These examples show how FIs can compete in a disruptive, digital world. However, long-term success requires going beyond simply offering digitised financial services.

Three steps towards perpetual reinvention

Disruption in the South African financial services sector has just begun.

Consumer expectations are undergoing a significant shift in South Africa, as elsewhere. For financial services organisations to remain relevant, responding to changing customer needs, they need to be able to perpetually reinvent their offerings—remaining in a permanent state of change.

Three important steps will support this:

Encourage customers to provide more of their personal data in exchange for customised advice and better terms; and develop new capabilities—use technology cost-effectively to create personalised experiences for increasingly different customer segments, ultimately drilling down to a "segment of one".

Integrate physical and digital. The right blend of digital and human engagement is key to enabling customer choice and a personalised experience.

Expand business models through ecosystems, but continue to stand apart. As FS providers cooperate with vendors to provide integrated propositions around core customer needs, they should focus on amplifying their purpose and brand values for differentiation.

For banks and insurers it is critical to act now to harness that trust and loyalty advantages they have earned before they are eroded by new entrants. These advantages position them well to offer the services and products that consumers want within a broader ecosystem. However, with access to large volumes of personal data, incumbents are also well placed to position themselves at the hub of an ecosystem, capturing data flows to create personalised products and services, and to build new revenue streams.

South African financial institutions will find it useful to see how their peers across the globe are responding to disruption, but looking is not enough—success requires action.

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