Retail banking

Spotlight on customer digital behavior in CEMEA

October 2022

If there is one thing that the diverse countries of the CEMEA region have in common, it is that the vast majority of customers have already embedded digital technologies into their everyday lives. And banks are eager to follow the trend and to take advantage of it.

For customers everything stems from the user experience. Behaviors evolve as technology and society evolve. And for the banks its critically important to foresee and understand this customer behavior change. Now is the time to re-think the retail value proposition, portfolio of channels, and overall experience offered to match the expectations of retail customers going more digital than ever in many aspects of their lives.

Relying on the old ways of doing business is not enough. Banks that ignore these changes run the risk of losing retail customers, dwindling margins, or even being disrupted by a digitally native challenger.

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Summary

The majority of bank customers in CEMEA already use digital technologies in their everyday life and expect a high-level digital experience from their key partners, including banks.

Digital adoption during Covid restrictions shifted even technology averse customers into digital banking and cashless payments.

A large share of bank customers would like to stop using offline channels on a regular basis, and mobile channels have become an undisputable leader of banking channel preferences.

Banked individuals prefer cashless ways of payment in all major contexts of their lives, both offline and online, and demand their banks and merchants provide digital payment capabilities and acceptance options.

Debit and credit cards still remain the key cashless payment rails for the banked population in many parts of CEMEA, and customers are hungry for further innovation in this space, like electronic payment wallets (e.g., Apple Pay, Google Pay) and easy tools to pay online (e.g., PayPal).

The customer shift to digital payments and digital banking is a win-win game for banks as it gives them more opportunities to expand their business and increase customer loyalty (and reduce customer churn).

Despite significant customer appetite for digital banking, the proposition is below the expectations – particularly for selling complex products, including savings, financing, and cross-border transfers.

Competition for customers is getting more intense – a majority of customers already have several banking relationships and mobile banking apps, and purely digital banks are doing well in capturing the customers seeking a better digital service.

Incumbents still have a major opportunity to join the game and play on par, through digital transformation and innovation of their offering, combined with high level of established trust and unmatched breadth of services offered

Visa conducted research across CEMEA region to better understand how customer digital behavior is changing.

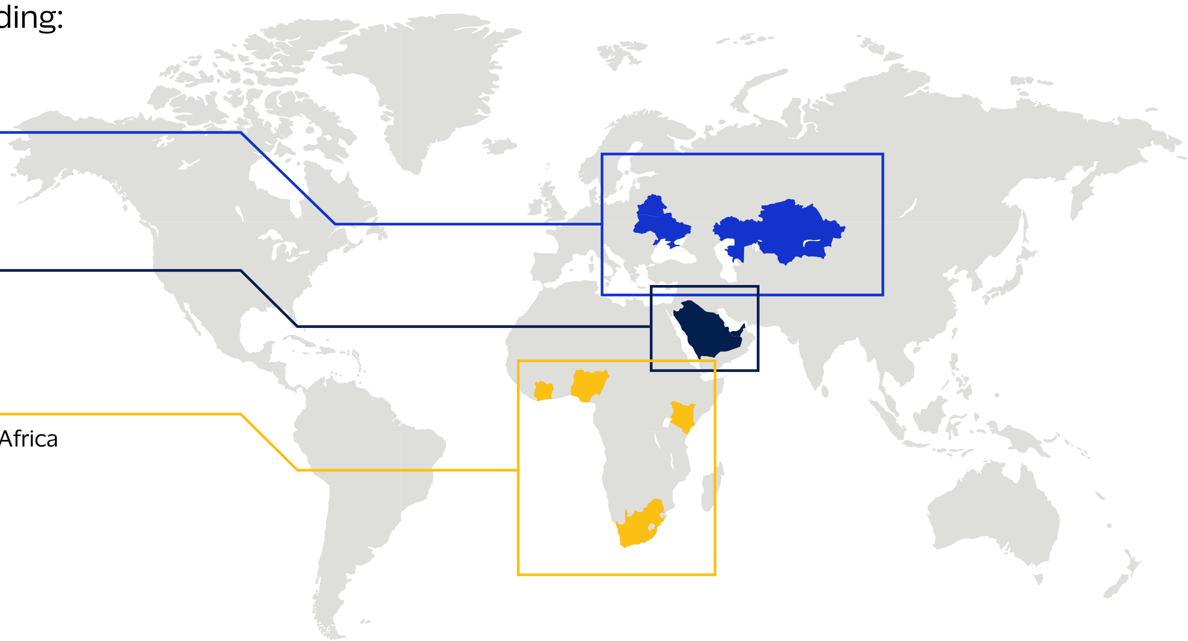
Introduction

To better understand how customer digital behavior is changing, Visa conducted research across 10 markets across Central and Eastern Europe, Middle East, and Africa region (CEMEA), including:

Eastern Europe
- Ukraine
- Belarus
- Kazakhstan

Middle East
- UAE
- KSA
- Qatar

Africa
- Republic of South Africa
- Nigeria
- Kenya
- Ivory Coast



Customers interviewed included those with a relationship with formal banks[2] and customers of mobile money and digital wallet services (e.g., mPesa, MTN, etc.)[3] Interviews included 3 key topic areas

Overall digital behavior

Usage of digital banking channels for sales and service activities with focus on mobile and online banking

Usage of purely digital banks

Please note, that for the purpose of this presentation all regional numbers presented in this white paper (Middle East (ME), Africa, Eastern Europe (EE)) are derived as simple averages between markets mentioned above.

Unless otherwise stated, all quantitative data presented below is sourced from the mentioned customer research. The primary research method was via an online survey, where over 10,000 customer interviews were conducted[1] between Sept 2021 and Feb 2022.

[1] 500-1000 per each market, target segment – retail (individual) banking

[2] A formal financial institution providing transactional accounts, demand deposits, savings accounts, credit cards, etc.

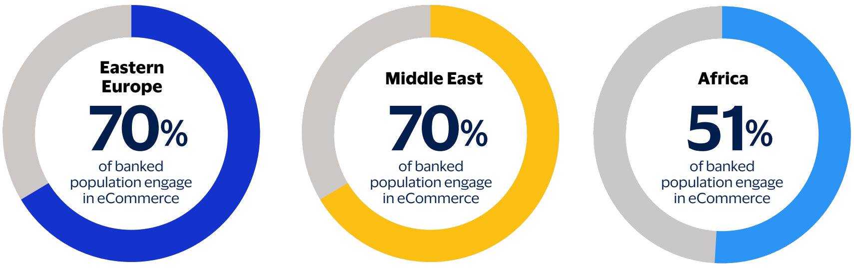
[3] Only for emerging markets in Africa

CEMEA customers are more digital and expect the same from their banks

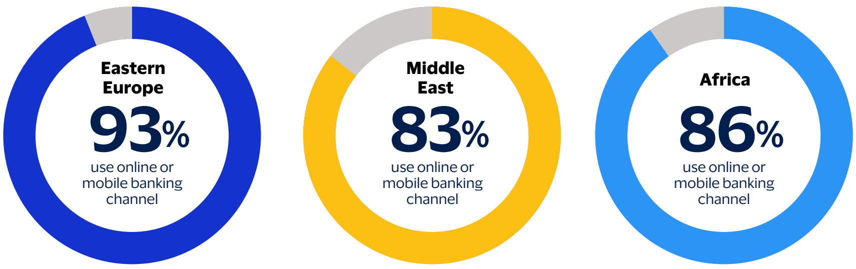
Retail customers are more digital than ever

It's not surprising that customers of all stripes are becoming more digital, especially after the waves of COVID lockdowns and remote work arrangements that took place in all parts of CEMEA. But if you have any doubts, the numbers back it up. A significant share of banks' customers are already very active online and prefer digital ways to interact with banks in their daily life.

Based on our customer research, in **Eastern Europe (EE) 70%** of the banked population engage in online shopping and or eCommerce. In the **Middle East (ME)**,it's **70%**. The percentage is lower in the rest of **Africa** but is still a slim majority at **51%**.



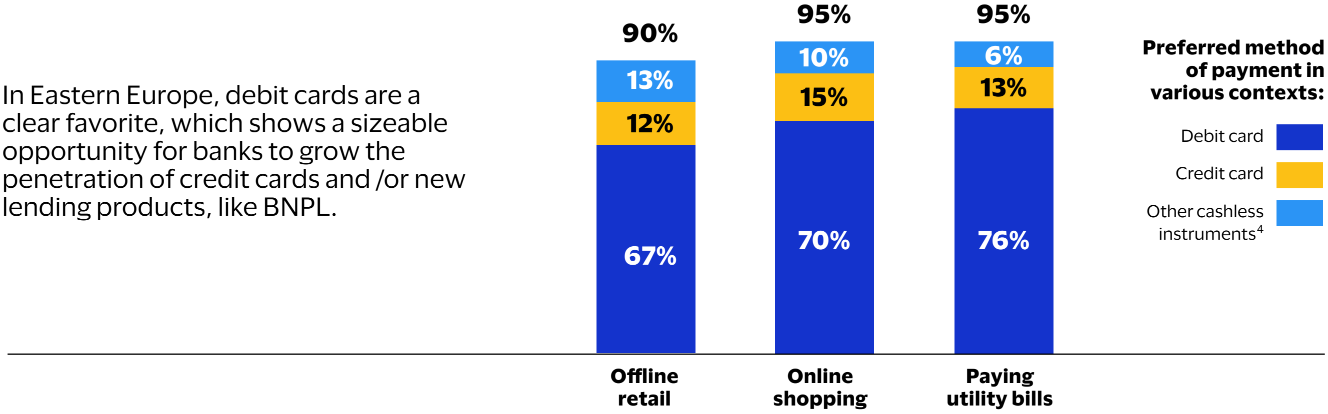
And for the usage of digital banking channels the numbers are even higher. In **Eastern Europe** it's **93%** - nearly every bank customer – have used online and or mobile banking in the last 6-12 months. Other parts of CEMEA are not far behind: **83%** in **ME** and an impressive **86%** in **Africa**.



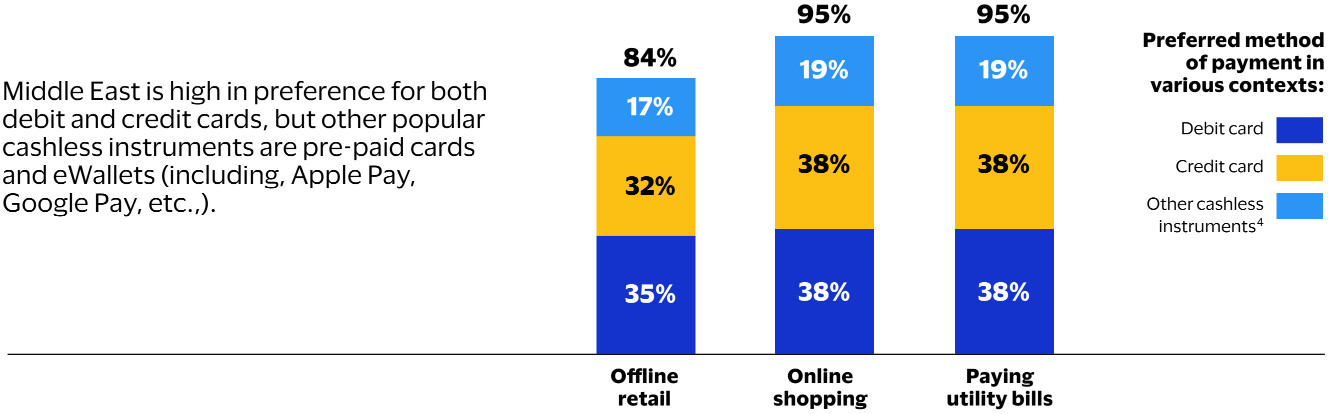
Online or offline, customers prefer cashless – with some regional differences

This clearly translates into customers' high willingness to use cashless payment methods both in online and offline contexts across all sub-regions in CEMEA.

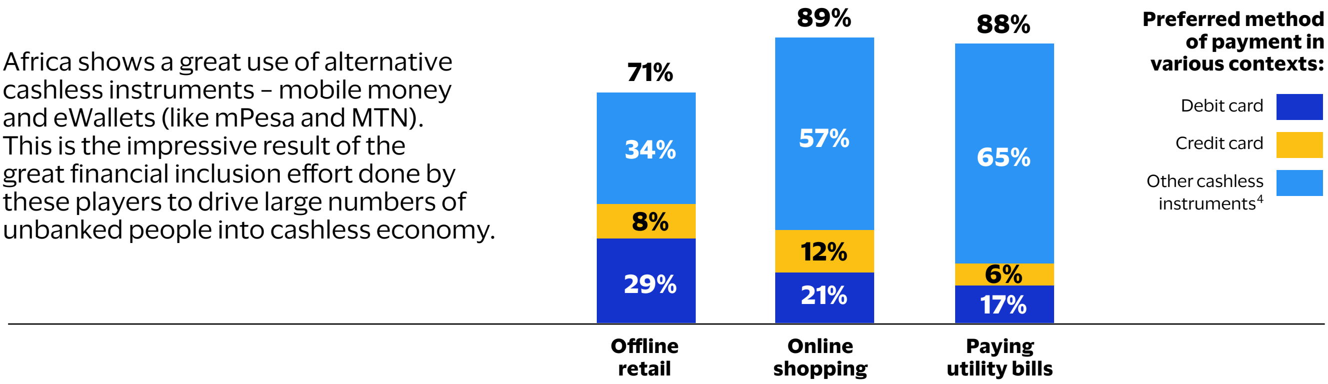
In Eastern Europe, debit cards are a clear favorite, which shows a sizeable opportunity for banks to grow the penetration of credit cards and /or new lending products, like BNPL.



Middle East is high in preference for both debit and credit cards, but other popular cashless instruments are pre-paid cards and eWallets (including, Apple Pay, Google Pay, etc.,).



Africa shows a great use of alternative cashless instruments – mobile money and eWallets (like mPesa and MTN). This is the impressive result of the great financial inclusion effort done by these players to drive large numbers of unbanked people into cashless economy.



[4] Mobile wallets (incl. Apple Pay, Google Pay, Samsung Pay, etc), RTP, prepaid cards, etc.

Cashless and digitally active clients are more attractive for banks

Digitally active customers tend to be more profitable for their banks through multiple factors impacting both sides of the profitability equation. This amounts to a win-win situation, as incentives for both parties are perfectly aligned — customers prefer to be digital, and digital customers are more attractive to the banks.

First, digitally active customers bring more income through higher transaction activity and wider product penetration. Look at a few examples of large card issuers from different parts of CEMEA. For a bank from UAE, customers, who use digital payment channels[5], eCommerce, in-app payments, etc.], on average spend on their cards **6.3x** more than the rest of customer base. For a bank from Ukraine it's **4.9x**, and for a bank from South Africa is **4.8x** .[6]

Average spending on cards by customers who use digital payment, compared to the rest of customer base

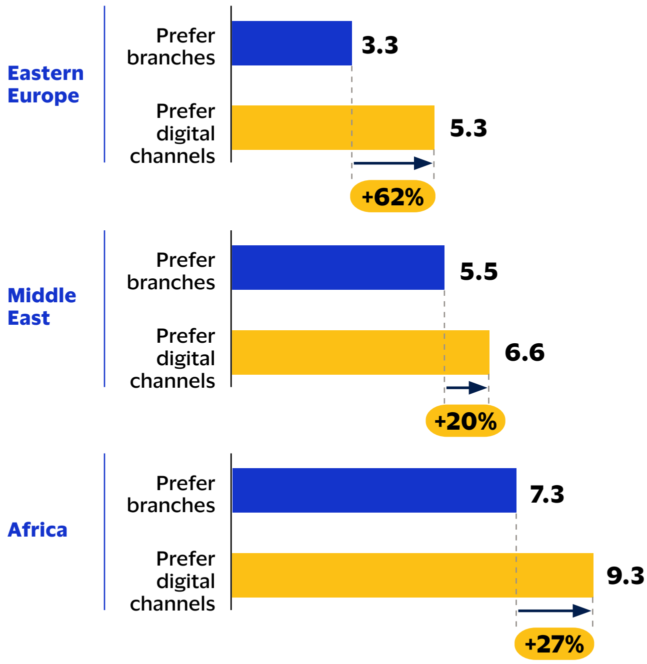
Opportunities for banks

Moreover, our customer survey data clearly shows that digitally active customers have a higher frequency of touchpoints with their bank. These additional touchpoints provide more opportunities for the bank:

to cross sell other products and value-adding services

to strengthen the relationship with the customer and boost loyalty. This can reduce churn and lead to greater customer lifetime value.

Average number of weekly customer touchpoints with the bank



Finally, digital channels tend to have much lower transaction costs across the whole bank channels portfolio. For example, it's not unusual to see that marginal cost of a transaction through an online or mobile banking is ~20-50x lower than when it's done in-person through a branch. Therefore, an average cost of transaction for digitally active customers would be significantly lower than for off-line customers, and banks would be better off shifting their offline customers into digital channels.

[5] Including eWallets (e.g., PayPal, Apple Pay, Google Pay, Samsung Pay, etc.)
[6] VisaNet data, Q2 2021-Q1 2022

Customer preference out of synch with Banks' channels

Our customer research shows that channel transformation in banking is still ongoing, and there is untapped potential for CEMEA players to offer customers a set of effective banking channels fully matching their expectations. In short:

Mobile already is an undisputable winner – it's a preferred channel for 50-70% of customers across CEMEA, and 70-90% of bank customers are already using it.

Online is not the biggest, but still relevant channel for retail banking. While many neobanks avoid it, online still generates value for traditional banks that have a significant market share and enjoy popularity among millennials and baby boomers.

Branches are in desperate need of a re-think. About 35-50% of customers are still directed to branches by their banks, despite only around quarter of them prefer to be served there. Banks should reexamine the role, footprint, and formats of their branch networks to stay relevant for their customers and keep the channel profitable. (see also the Sidebar "Branch networks in the digital banking age")

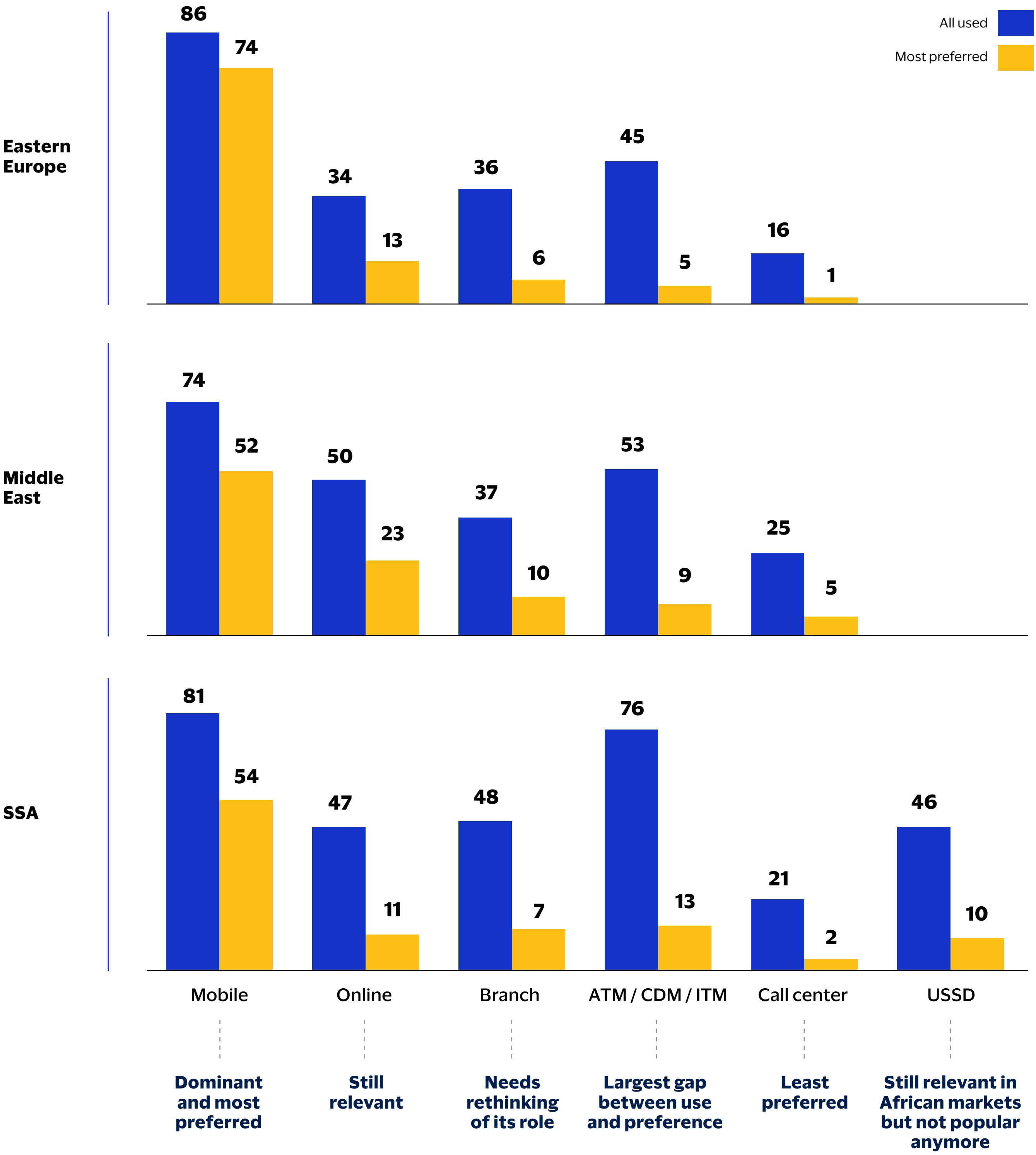
Call Centers are the least preferred major channel, despite the fact that 15-25% of customers are pushed by the banks to use them. Banks need to address the pain points causing poor customer experience in the channel and /or rethink its role in their channel strategies.

USSD is still actively offered by financial services players (including mobile money operators) in Africa. Despite its wide popularity in 2010s, now only ~10% of bank customers prefer to use it, meaning that growing smartphone and mobile data penetration will move USSD era to an end soon.

Putting all this together: The mobile channel deserves the biggest share of attention and resources from the banks. Online channel still needs to be kept up to date with market practice. Branch networks require significant transformation of their role both for banks, their customers and of their formats. USSD will become a very niche channel even for African markets and is going to be mostly superseded by mobile channel.

If there was ever a time to double down on mobile as a channel the time is now.

Customer preferences over banking channels (% of respondents)



Branch networks in the digital banking age

Banks may reduce the traffic at branches (their most costly channel) by ~30-50%

The opportunities for reduction can be achieved through:

- Digitization of customer journeys – while many banks have already reached the low hanging fruits in service transactions, there are still plenty of opportunities to digitize product sales journeys to a greater extent, including complex lending, saving, and investment products.
- Further educating clients and raising their awareness of the capabilities and benefits of remote channels that they may not be aware of.
- Be more aggressive in implementing new technologies as regulation becomes more positive about them, for example remote onboarding and digital ID verification.

This will not only allow banks to save costs, but also reallocate the time and effort of their branch staff to complex sales and other high value generating activities to improve branch network performance

...And maximize the use of the branch traffic they do have

Banks should consider branches as their core competitive advantage over digital challengers

There are smart approaches that can be applied to rethink the formats across the branch network:

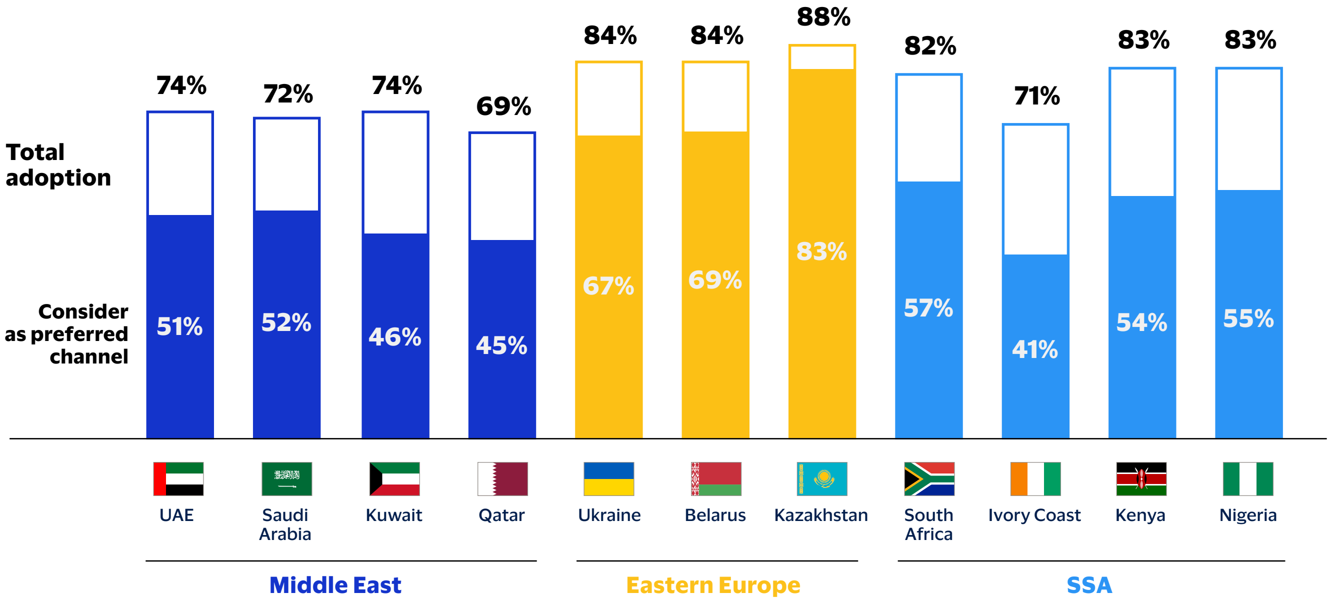
- Maximize the value of high-traffic locations by converting every customer visit into upsell / cross-sell opportunity.
- Move low value transactions (both service and sales) into self-service / remote channels.
- Deliver face to face service to customers, who value this option, in a cost-effective way through a segmented approach, e.g., based on their value to the bank (such as in-person advisors for high-value customers and remote / video chat technology for others).
- Continue customer awareness programs, including in-branch face to face education activities.
- Invest into UX/UI improvement of digital channels tailored to customer digital behaviors.
- Integrate self-service options into branch networks to reduce the load on staff, while still capturing a cross-sell opportunity of walk-in customers

Mobile is king: A high-quality mobile channel is a must for any successful retail banking business

Mobile channel use has already reached critical mass in retail banking across all the parts of CEMEA

It's not surprising that customers of all stripes are becoming more digital, especially after the waves of COVID lockdowns and remote work arrangements that took place in all parts of CEMEA. But if you have any doubts, the numbers back it up. A significant share of banks' customers are already very active online and prefer digital ways to interact with banks in their daily life.

Adoption of mobile channels by bank customers (% respondents)



Using a mobile device seems nearly universal these days. It's not surprising that the adoption of mobile banking channels is already well established in CEMEA, from **71%** in Ivory Coast to a whopping **88%** in Kazakhstan. You can see that many of the countries, especially in Eastern Europe, are already "mobile dominant", when you look at the percentages of those that consider mobile their "preferred" banking channel.

While customers may prefer mobile, they will engage more with higher quality apps

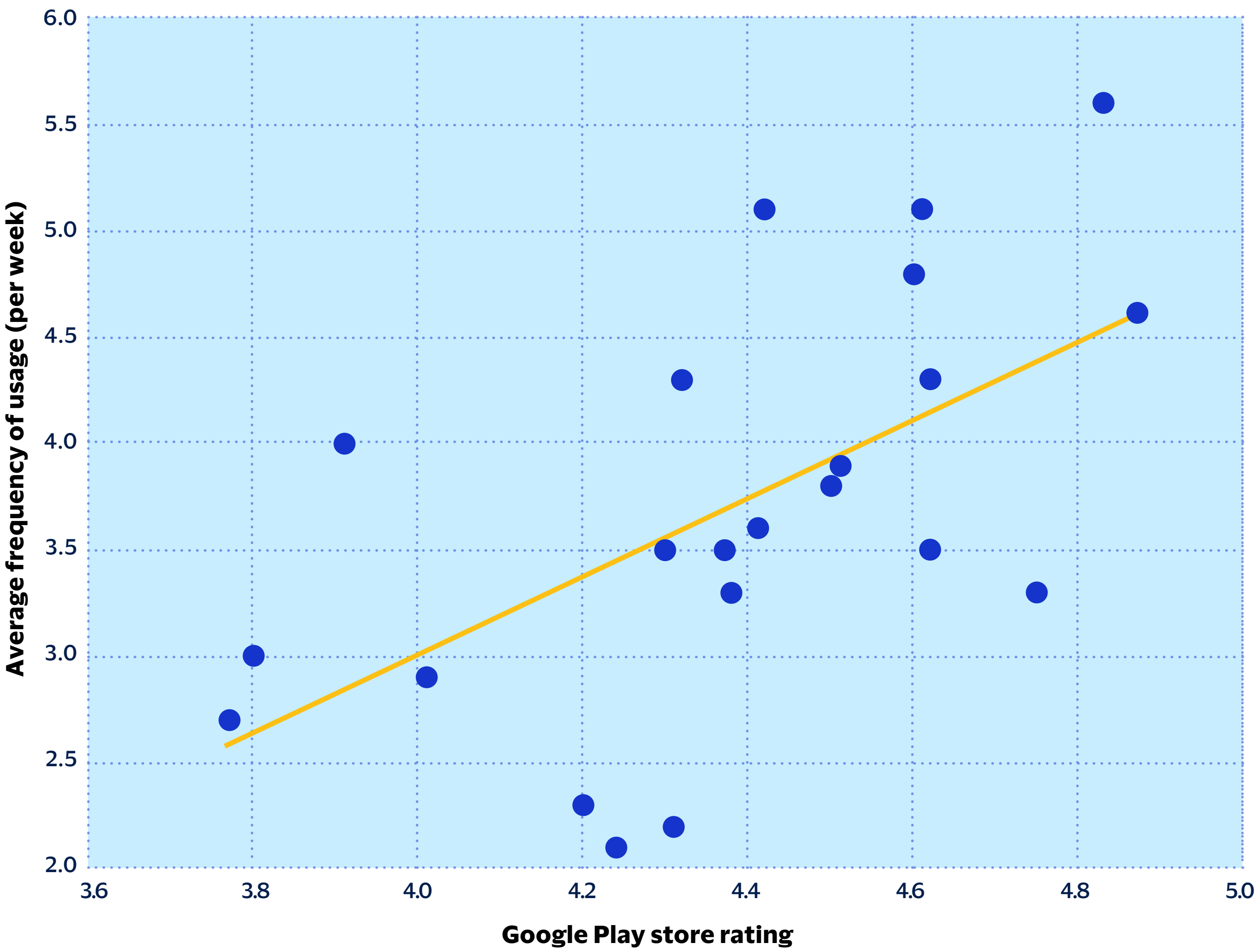
We reviewed Google Play store ratings and customer reported frequency of usage of 29 popular mobile banking apps across ME and EE regions.

The data shows a clear link between the level of banking app quality and the intensity of its usage by customers.
A bank with poor app quality (3.5 stars or less) most probably can't expect an average frequency of usage more than 1-2 times per week, meaning customers use it primarily on the most essential occasions only.

Having on average 2-4 touchpoints per week will require building a more sophisticated app – having rating of ~3.5-4.2 stars

Finally, a bank aiming on almost daily usage (meaning 4-5 touchpoints per week and related opportunities to cross-sell and boost loyalty) will need to apply a significant effort in building an advanced mobile app, meaning ~4.5 stars or higher rating.

Mobile banking app quality is a significant driver of the customer engagement



Source: Google Play store data: https://play.google.com, accessed in May 2022

Yet there is a significant gap between customer expectations and breadth of actual offering in mobile channel

When respondents were asked which mobile banking journeys they would like to use versus which ones they were actually using, many gaps appeared. Some of the bigger gaps include Eastern Europe, where customers expect more features for international money transfers / remittances, or in Sub Saharan Africa, where customers would like to have more tools to manage their financial goals and control their budgets (i.e., Personal Financial Management features).

These gaps represent opportunities

As we've established, mobile banking technologies have progressed a long way to become the dominant banking channel and is still developing at a very high pace.

Many banks have been focused on "fixing the basics," by offering most common types of service transactions (statements, KYC review, etc.) and / or simple daily banking functions like account management, payments, selling simple unsecured loans.

But customers are expecting much more from their banking apps. They want to access more complex products (including sales and service journeys): investments, complex financing products, personal financial management features (goal-based setting, budgeting, spend categorization and control, etc.).

There are 4 common mobile banking journeys across different parts of CEMEA region. All could be significant areas for growth:

Savings/Investments
Customers are willing to have access to more sophisticated savings / investments products on mobile, including investment funds.

Personal Financial Management
Customers across all geographies expect more comprehensive offerings from their banks to help effectively manage their financial goals and spending and saving habits.

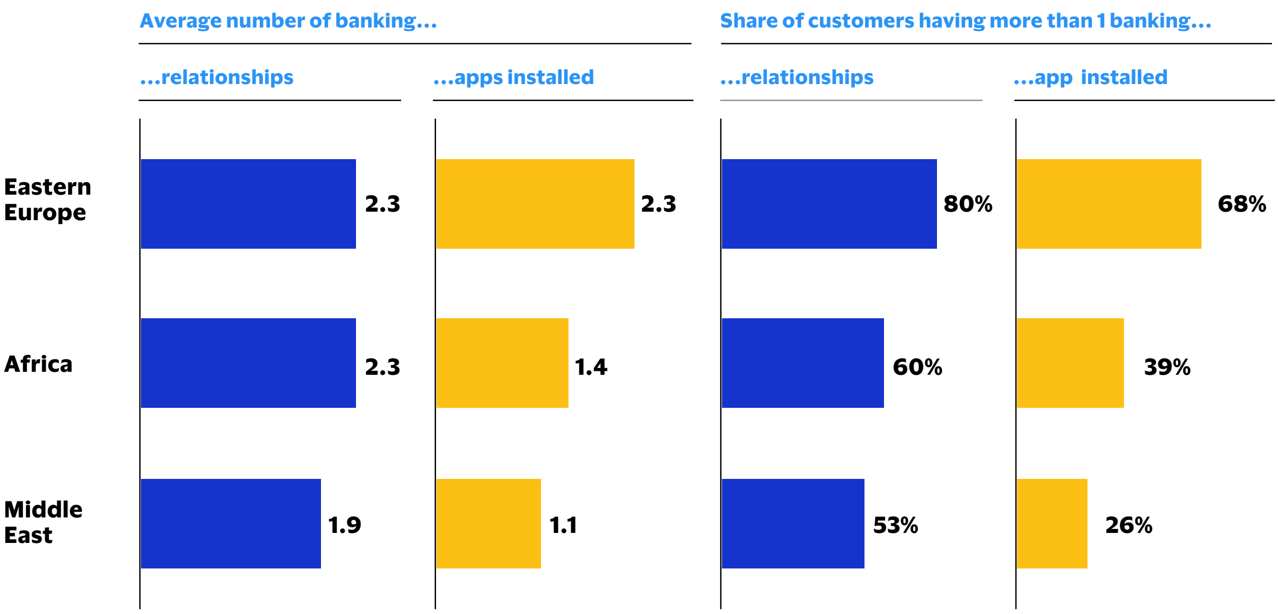
Remittances
Many CEMEA countries are major senders or recipients of remittance flows. Customers have become more and more interconnected across borders. Covid-19 moved a significant part of remittance flows into official channels.

Financing Products
Customers are willing to extend their mobile experience to sales of financing products - from simple personal finance products to car financing and even mortgages, but very small number of banks globally are able to provide these journeys fully (or at least mostly) through mobile.

Competition for customers is fierce and digital banks are in it to win it

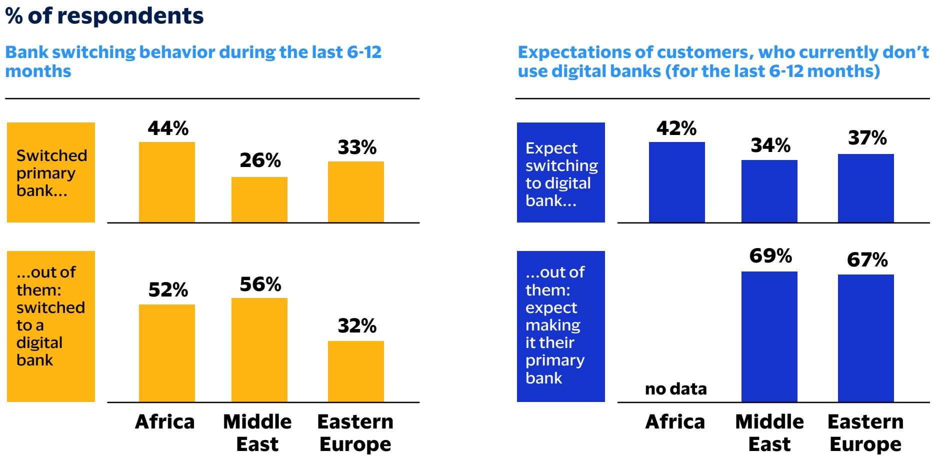
Competition for customers between banks is high across main CEMEA markets

In 2020s banks are living in a reality of fierce competition, when many of their customers have a relationship with one or even more banks. For example, based on our research, in **Middle East**, average customer has a relationship with **1.9** banks. In **Africa** and in **Eastern Europe** goes up to **2.3**.



Switching the primary bank has never been easier than now, thanks to ongoing regulatory trend and rapid development of digital technologies. So, it should not be a surprise that 25-45% of CEMEA customers report that they have switched their primary bank over the last 12 months, and the same or even bigger share of those, who have not, plan to do it soon.

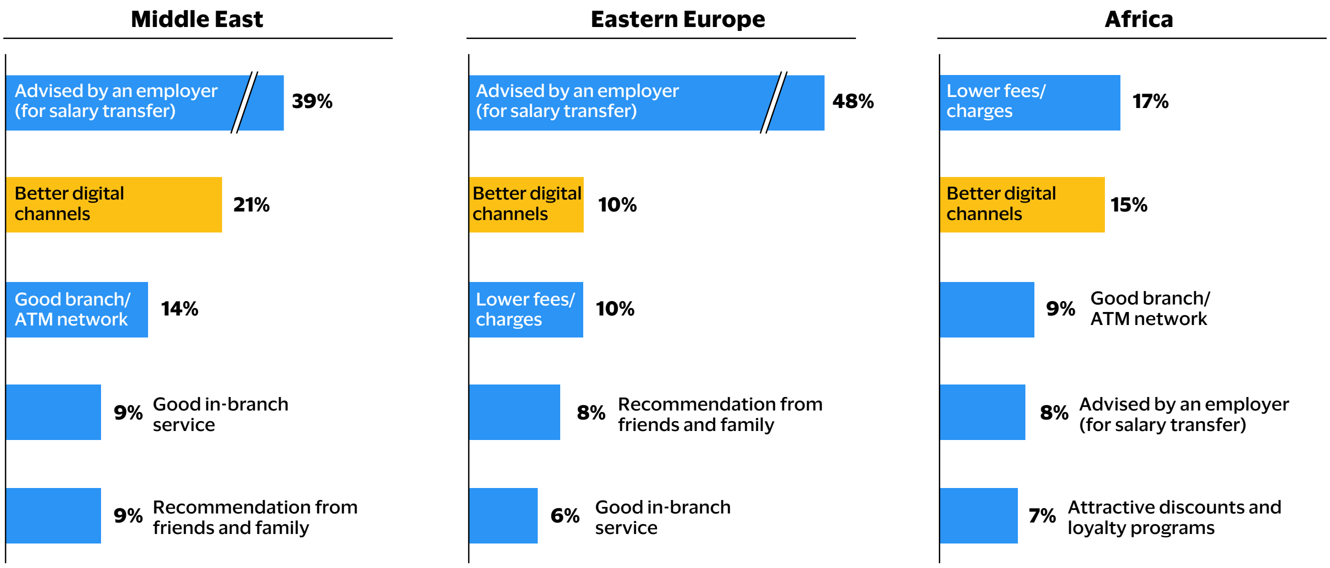
Digital banks are among the key actors in this process, as 30-55% have decided to move their primary banking relationship to them.



Why do customers switch banks?

There are many reasons why a customer may switch a bank. Some may be completely out of a bank's control, for example if a person is advised by their employer to change banks for the purpose of salary transfer. But when you look at the reasons that are driven solely by customer preferences, "better digital channels" is in top-2 most important factor across all regions.

Top five main reasons to switch the bank (% of respondents, who switched the primary bank in the last 12 months)



In Africa the factor of better digital channels is outperformed only by pricing considerations – this high level of customer price sensitivity needs to be carefully considered by banks, when they build their customer value proposition in the region.

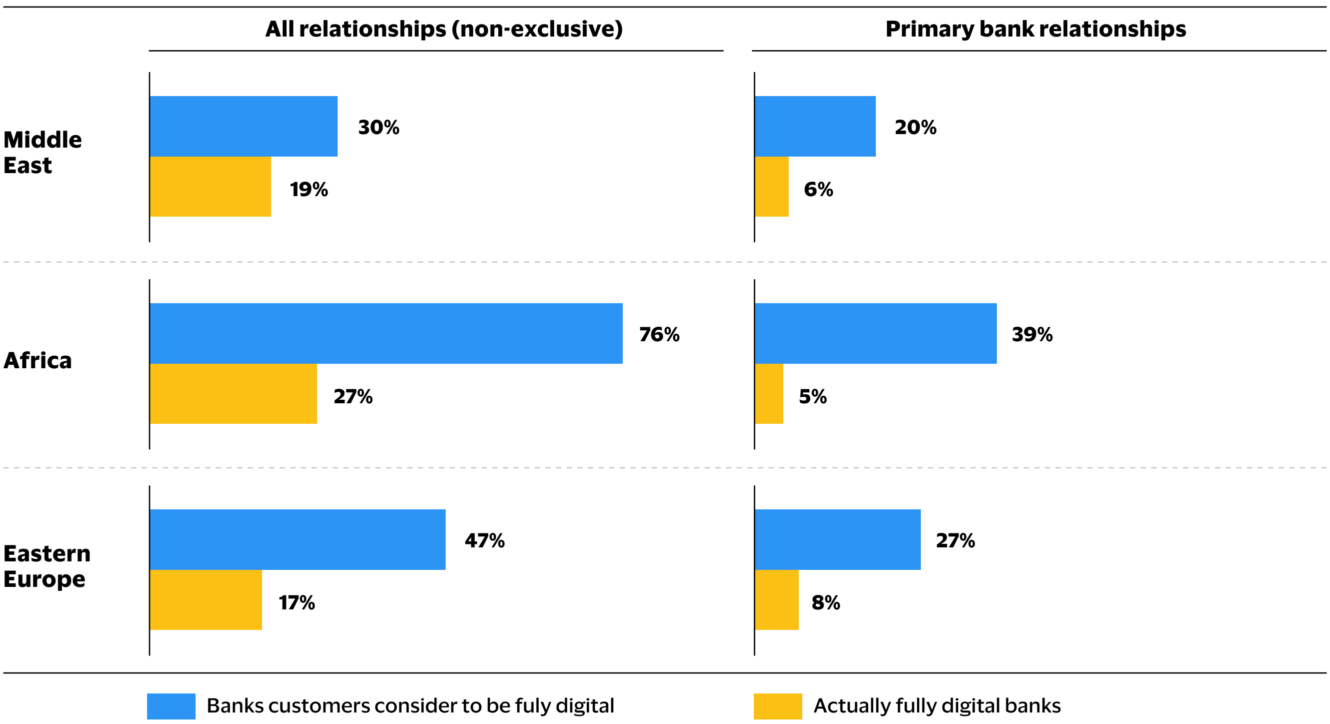
Digital-native banks are fighting to gain a critical mass of customers, but the game is not over. Incumbent players still have a shot.

CEMEA digital banks are making significant inroads. Just look at Africa where **76%** of customers report having a relationship with a fully digital bank or 47% in Eastern Europe. How do these figures make sense?

It may seem overwhelming, but part of this high figure is due to customer perception. 63% of those same Africans would describe a bank as fully digital as long as the journeys they need are available via mobile / online, even if the bank also has branches. In fact, only around 27% of Africans across surveyed countries[7] have a relationship with an actual fully digital bank.

This same "perception paradox" carries through other CEMEA parts to varying degrees. The upshot is that true digital native banks don't have a stronghold on the market yet. Incumbents have an opportunity to protect their business and join the acquisition game by further strengthening the quality of their digital offering, including its breadth (variety of products and customer journeys available) and depth (quality of UX/UI for particular journeys and overall experience with the bank).

Market shares of fully digital banks (customer reported)



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The author wish to thank Roberto De Meo and Wassim Skaff for their contributions to this publication.

[7] Republic of South Africa, Kenya, Nigeria, Ivory Coast

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