Scale2Save

Savings and Retail Banking in Africa

A case study on Covid-19: from a customer, retail banking and regulatory perspective

November 2020

WSBI

mastercard foundation

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Glossary

- AFI Alliance for Financial Inclusion
- AML Anti-Money Laundering
- CFT Combating the Financing of Terrorism
- CGAP Consultative Group to Assist the Poor
- FMT FinMark Trust
- FSP Financial service provider
- MFI Microfinance institution
- MFW4A Making Finance Work for Africa
- NPL Nonperforming Loan
- OBG Oxford Business Group
- WBG World Bank Group
- SARB South African Reserve Bank
- WSBI World Savings and Retail Banking Institute

1. Introduction

The Covid-19 pandemic is the most profound interruption to social and economic activity experienced in much of the world for more than a century. The scale, timing and exact nature of disruption varies from country to country, but the pandemic has caused a global recession, millions of job losses, and sharply increased poverty.

The crisis is far from over. The effects may last for years. Covid-19 is having a severe impact on economies worldwide. The International Monetary Fund (IMF) forecasts[1] that the world economy will contract by 4.4% during 2020.The economy of sub-Saharan Africa is forecast to shrink by 3.0%, and the two largest economies in the region by even more (Nigeria by 4.0% and South Africa by 8.0%). These severe economic contractions will sharply increase risk in banking and financial services and have triggered exceptional mitigation measures by regulatory authorities.

The financial sector plays a critical role in softening this macroeconomic shock. As liquidity challenges give way to solvency problems, defaults on debt will rise and the pressure on the banking system will grow[2]. National authorities have responded with wide-ranging policy measures to support economies and maintain adequate liquidity in the financial system. Debt moratoriums and large-scale fiscal support have provided much-needed relief to affected sectors and to borrowers - households and SMEs in particular. Policy makers have provided liquidity and monetary stimulus, supporting financial sector resilience and lending.

Banks have to balance competing demands in a challenging business environment. They must provide the services that clients need, ensure the safety of their staff, and cope with additional costs. Simultaneously, they must manage declining business activity and increasing non-performing loans, whilst maintaining organisational and systemic stability. They must also help individual and business clients weather the storm and assist troubled business sectors. But the crisis is also an opportunity for banks to reinvent the ways in which they interact with society.

Customers, banks and regulators are all adjusting their behaviour to the pandemic and its consequences. In a study, *Beyond coronavirus: The path to the next normal*[3], consultants McKinsey suggest Financial Service Providers are likely to go through a five-phase response to the pandemic:

- Resolve - dealing with the crisis
- Resilience – dealing with the immediate financial fall out of the pandemic
- Return – returning businesses to operational health
- Reimagination – responding to the shifts in consumer behaviour and preferences
- Reform – anticipating global and state interventions aimed at limiting the recurrence and impact of such a pandemic.

This study aims to give a preliminary view of how customers, banks and regulators in Africa are responding to the pandemic. We also highlight areas of particular significance and identify vital issues for those seeking to reimagine the future of banking in Africa.

1 IMF (2020), *World Economic Outlook Update, June 2020*;
2 IMF & WBG (2020), *Covid-19: The Regulatory and Supervisory Implications for the Banking Sector;*
3 McKinsey (2020), *Beyond coronavirus: The path to the next normal*

2. Executive summary

How has the Covid-19 pandemic changed banking customer behaviour during the first months?

Customers have increased their borrowing from friends and family – helping to ensure they have additional resources available. However savings turned out to be the most important source of emergency funding and play an important role to cover living expenses.

Missed loan repayments have fallen in some countries, but that may be because repayments have been rescheduled.

Where repayments have been missed, that probably arises from falling incomes.

The volume of digital transactions has increased, especially where regulators have encouraged banks to curtail fees. Almost 70% of banks report more digital transactions by customers.

How has the Covid-19 pandemic affected banks during the first months?

More than three-quarters of banks have had to pay close attention to the wellbeing of staff and customers.

Almost half have seen increased withdrawals of deposits and a rise in non-performing loans.

Banks have responded by:

- Communicating more frequently with customers
- Cutting fees, including for digital services
- Providing payment relief to customers

Banks see digitisation as the key to thriving amid the ongoing pandemic. They expect to introduce more digital products and services, whilst increasing investment in digital infrastructure and in the digitisation of their operations. But resources for investment may be constrained by the wider economic contraction and by pressure on balance sheets arising from the pandemic.

How have African regulators responded to the pandemic during the first months?

Like their peers elsewhere, banking regulators in Africa have loosened monetary policies and relaxed regulatory constraints on banks in an effort to support both banks and the economy.

Banks say their regulators have provided additional liquidity and cut the cost of funds. They have encouraged banks to stand by their clients, enabling the extension of loan repayments, and in some cases have told them to cut or end charges for digital payments. And they have helped banks weather the storm, by providing more flexibility on capital adequacy rules and taking a more flexible approach to the quality of their loan portfolios.

3. Changes in the financial behaviour of customers

The Covid-19 pandemic has had a profound impact on the way consumers view and interact with financial service providers.

To gauge how Covid-19 and related lockdowns are affecting financial service providers and their customers, FinMark Trust (FMT) has launched a consumer study[4] in four countries in southern, eastern and western Africa to track the impact of the pandemic over time in April 2020. The study has since been extended to seven countries. It monitors vital signs of the changing health of customer finances. Some initial changes in the use of financial services, observed over the first two months, are summarised below.

Country	Borrowing money	Missed loan repayment	Ability to raise emergency funding
Nigeria	Decrease	Decrease	Increase
Kenya	Increase	Decrease	Increase
Rwanda	Decrease	Decrease	Increase
South Africa	Increase	Increase	Increase

(Source FinMark Trust – Covid-19 Tracker, showing the initial four countries which were tracked from April)

It is important to note that the main **source of borrowing** mentioned by recipients is the friends-and-family category, although groups (e.g. savings groups) play a role as well. Borrowing from friends and family may be higher than in 'normal' times. In South Africa both banks and informal money lenders play a significant role in providing access to funding.

In South Africa, a large economy that has been especially hard-hit, borrowing has increased and more repayments are being missed. Elsewhere the picture is more varied. Reduced borrowing elsewhere may reflect heightened concerns about the ability to repay loans.

Why are loan repayments being missed? The most frequent explanation offered is the need to buy essentials; loss of income also a contributing factor, and in Rwanda it is the dominant factor.

We found an **increase in the ability to raise emergency funds** among respondents in all countries. This may appear surprising. The survey does not delve into the origin of these funds, but it seems likely these funds would be loaned by friends or family and personal savings. This may reflect a greater sense of community and a need to support each other in times of crisis. Evidence for this thesis comes from a multi-country study completed by the Scale2Save program in collaboration with Mastercard Foundation[5], which focused on financial flows within families in crisis. The research found that these flows are crucial in responding to crisis events.

Friends and family are clearly the primary source of support during the Covid-19 crisis. This suggests that regulated institutions such as **banks and MFIs struggle to position themselves as full partners in the economic lives of consumers.**

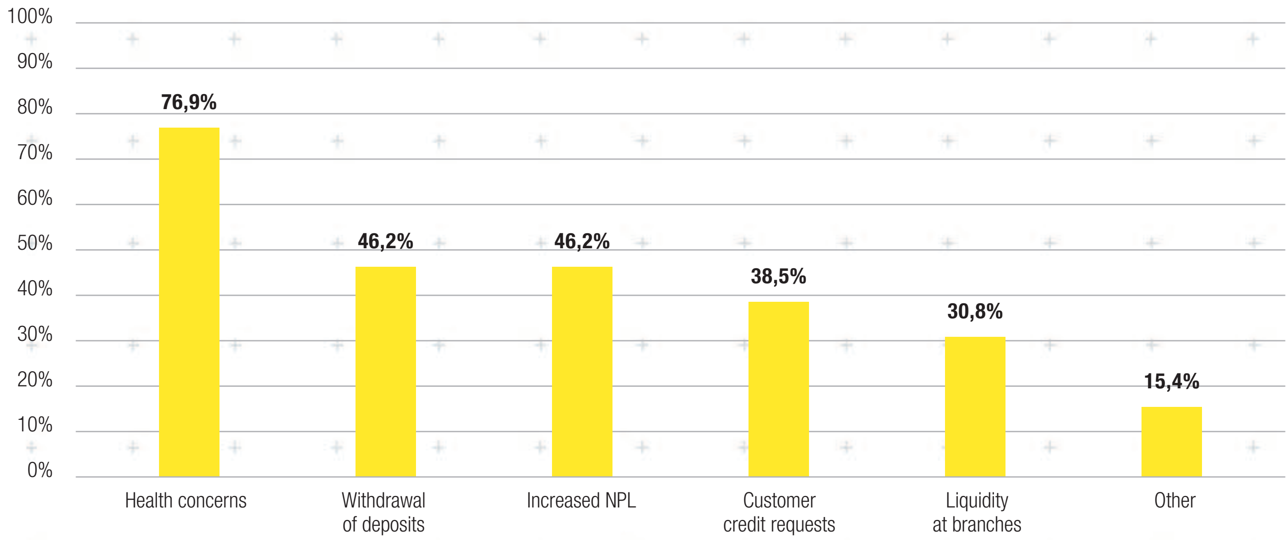
An increase in the resilience indicator of the FMT Covid-tracker study suggests that consumers are able to adapt to changing economic circumstances, yet there is no indication that this derives from relationships with FSPs. This should be of concern to these institutions.

Is the pandemic-related economic contraction having a marked impact on the low-value savings market? As of October 2020 there are insufficient data to determine the extent of its effects. However, the increased ability to raise emergency funds observed in all countries covered by the Covid-tracker study suggests consumers are aware - perhaps increasingly aware - of the need to have a savings buffer or other funds available in times of crisis. But just because people know they need to save does not mean they are able to.

4 *Covid-19 Tracking Survey* – FinMark Trust, 2020
5 Guy Stuart (2020), *Giving and receiving: Understanding financial flows between Young People and their Parents.* https://nextbillion.net/africa-regional-digital-financial-identity/

What is the impact of changing customer behavior on WSBI member banks?[6] FMT conducted a separate survey of WSBI member banks about how they were affected by the response of their customers to the pandemic. Findings from this survey are shown below in Graph 1. Health and safety issues, including staff wellbeing, were their biggest concern. That is understandable. However, we also found that changes in customer circumstances arising from the pandemic were having a big economic impact on banks. Withdrawal of deposits, increased non-performing loans and more requests for credit were all common worries. These factors could impair profitability and the ability of the banks to invest in new services. This suggests that African postal and retail banks may be suffering significant financial stress. Going forward, banks' financial reporting will shed more light on this issue.

Graph 1 - Impact of changing customer behavior on WSBI member banks



What have been the effects of Covid-19 on your organisation until now? The figures show the percentage of banks surveyed mentioning a particular issue. Multiple responses are possible. Source: FMT survey of WSBI members in Africa.

Mobile phones are widely used as a means of payment for goods and services in Africa. East Africa was the 'cradle' of mobile money. Digital and especially contact-less payments, including mobile payments, are ideally suited to an environment of social distancing and touch-free payment. In response to the pandemic, some regulatory authorities encouraged the use of mobile payments by mandating (or advocating) lower fees and pursuing greater interoperability. The impact of such measures on the use of mobile money in Rwanda is shown in Box 1 on the following page.

The sharp increase in mobile transactions bodes well for the use of digital payments, but additional interventions will be required to sustain the level of use evident during lockdown.

For evidence of changes in the behaviour of bank customers in Africa in response to Covid-19 we also examined data from the ongoing Scale2Save study conducted by WSBI[7]. Two main trends were apparent during the first half of 2020.

First, contacts with roving agents largely halted in April as visits were curtailed. These were largely compensated by customers making more visits to agents, but by June, the pattern had largely returned to pre-Covid levels. However, there was also a slight uptick in mobile transactions during April, and this was sustained throughout the second quarter.

The increased use of digital payments during the first months of the pandemic appears widespread. Citizens in the developed economies of Europe and North America were among the first to experience severe restrictions arising from the pandemic. A study by EY[8] identified four ways in which consumers changed their banking behaviour. Customers switched from physical to digital banking; they used cash less, and cards and online payments more; they increased their focus on banks' responsible behaviour; and they sought greater flexibility and security from their financial service providers (FSPs). This suggests that providers which focus on customers and take responsible banking seriously will be best placed to weather the turbulent times ahead.

6 WSBI member savings and retail banks vary in size and in the complexity of the products they offer, but they share a commitment to socially responsible banking and catering for the financial needs of the poor. The data collected covers 13 African countries, representing approximately 27% of Africa's total population. Commercial banks, post banks, microfinance institutions and credit savings groups are represented in this sample.
7 Scale2Save partners – *quarterly data report*, *June 2020*
8 Bellens, J (2020), *Four ways Covid-19 is reshaping consumer banking behaviour*, EY

Box 1: Use of Mobile Money in Rwanda soared during its Covid-19 lockdown

Insights2Impact* tracked the use of mobile money payments in Rwanda over the onset of its early 2020 lockdown, in collaboration with the Rwandan Utilities Regulation Authority (which regulates telecoms in Rwanda) and the central bank (Banque Nationale du Rwanda or BNR).

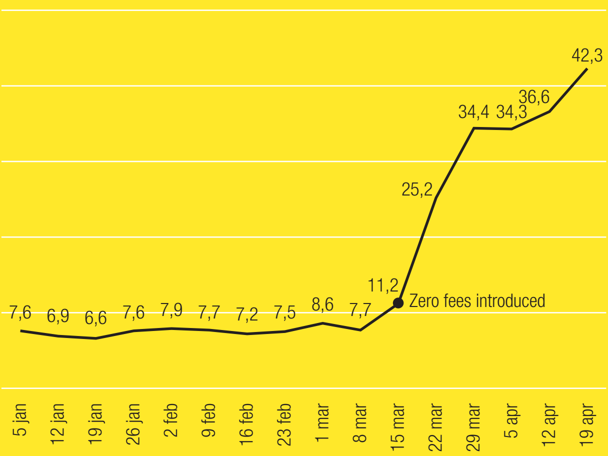
BNR introduced policy changes to support both businesses and individuals and to further the national digitisation agenda. These measures were intended to be in place for 3 months and included:

- Free transfers between bank accounts and mobile wallets
- Free mobile money transfers
- Zero merchant fees on payments for contactless point-of-sale transactions via mobile
- An increase in the limit for individual transfers using mobile money wallets.

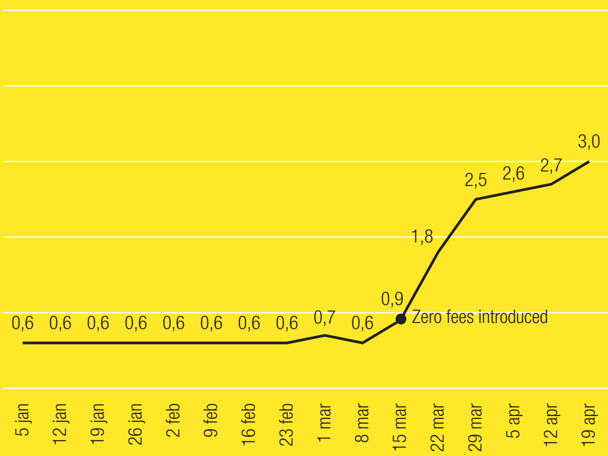
These measures resulted in:

- Person-to-person payments increasing 450%
- The number of people using mobile payments increasing 200%
- The weekly value of funds being spent digitally at merchant outlets increasing 700%
- The percentage of women using mobile payments increasing from 31% to 36%

Weekly value of transactions - US $ millions



Weekly volume of transactions - millions



* Carboni, I. & Bester, H. (2020), *When digital payment goes viral: lessons from COVID-19's impact on mobile money in Rwanda*

It is also likely that **customers will place greater emphasis** on financial products that reduce the fallout of risk events. This includes both the economic risks to livlihoods and income, as well as to the health of the individual or family unit. This provides an opportunity for banks to supply products that mitigate these risks via a partnership, such as health insurance in cooperation with an insurance provider.

A trend to boost consumer use of digital capabilities was also confirmed by a Swiss Finance Institute study. T*he Global Impact of Covid-19 on Fintech Adoption*[9] drew upon mobile application data from 74 countries to document the adoption of digital finance and fintech during the early phases of the pandemic. Daily downloads surged by between 24% and 32% as people sought to avoid contact. These effects were widespread in most global regions, except Europe.

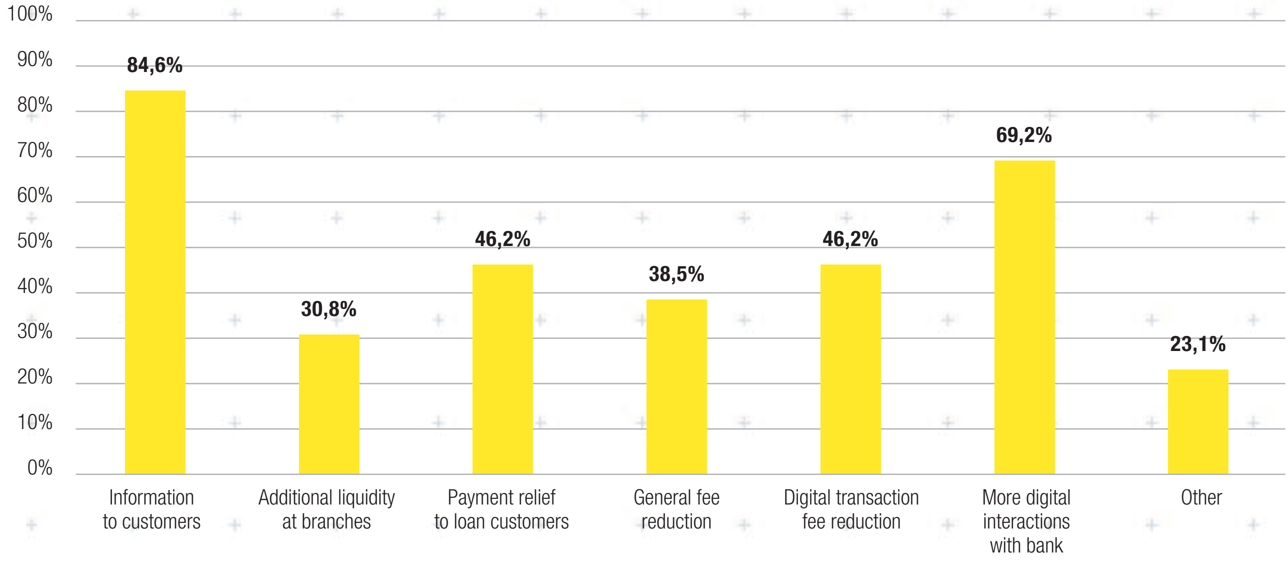
9 Fu, J. & Mishra, M. (2020), *The Global Impact of Covid-19 on Fintech Adoption*; Swiss Finance Institute Research Paper No. 20-38

4. The impact on financial service providers in Africa

The Covid-19 pandemic is expected to have a significant impact on the financial sector in Africa. Economic growth has slowed or reversed across the African continent. South Africa is likely to be hard hit, given the fragile state of the economy before the pandemic. This will no doubt put significant strain on South African banks. Initial indications from a few financial results from banks indicate that the financial services sector in other African countries is not exposed to the profit contraction seen in South Africa.

The FMT survey of WSBI members in Africa asked banks about their response to the effects of the pandemic.

Graph 2 - WSBI member banks response to Covid-19



What measures did your organisation take in response to the effects of the pandemic? Percentage of banks surveyed identifying possible responses. Multiple responses were possible. Source: FMT survey of WSBI members in Africa.

Our survey showed that postal and retail banks in Africa made big changes in their operations in response to the coronavirus, the change in customer circumstances, and regulatory initiatives. A large majority of banks responded to the initial health crisis by increasing the amount of information provided to customers through the media or digital means. Some of this communication would have been about changes in services, and about new initiatives. Almost seven out of 10 report more digital interactions with customers. Many cut fees, especially for digital transactions, facilitating a switch away from transactions involving contacts that might aid transmission of the virus. Responding to newfound regulatory leeway, almost half helped customers defer loan repayments.

We compared responses of WSBI members across Africa to the pandemic and found they are similar to those of South Africa's major banks[10].

10 Absa, First National Bank, Nedbank and Standard Bank

Box 2 – Covid-19 responses from South African banks

- A payment break or 'payment holiday'. Interest and fees on the loan continue to accumulate and will have to be paid by the customer later.
- Loan instalment reductions for an appropriate period. Interest and fees on the loan still accumulate and will have to be paid by the customer.
- Assistance with processing claims on life insurance taken out with loans when insurance covers loss of income.
- Covid-19 relief measures also apply to Sharia compliant financial services and products.
- Banks help qualifying customers access other debt relief packages, such as the South African Future Trust fund and government small and medium enterprise relief schemes.
- Customers in debt review and small, medium and micro-enterprises in business rescue can reschedule repayments.
- Banks waived withdrawal fees for social grant payments during the pandemic lockdown.
- Free withdrawals at other banks' ATMs.
- Banks supported the CovidD-19 Loan Guarantee Scheme from the central bank and National Treasury by handling applications.
- Banks have promoted use of digital channels and have further improved security measures for online banking.
- Some of banks have digitised their business support services for SMEs

African banks' initial pandemic responses are similar to those of banks in other emerging countries. For example, actions by HSBC Bank Malaysia[11] include:

- Payment moratoriums on some existing loans and government-guaranteed borrowing facilities.
- Flexibility around repayments, and extensions for trade loans.
- Non-compounded interest and profit (for Islamic financing).
- Overdraft facilities: deferring action against borrowers who exceed approved limits.
- Promotion of online and mobile banking facilities.

When examining the impact of the pandemic on banks in Africa, it is important to distinguish between the initial crisis response during lockdowns, and the subsequent adaptations they must make to prosper during the five years or more during which, according to the World Health Organisation, the world must live with Covid-19.

Many of the initial challenges were highlighted by executives of WSBI member banks at a meeting on 23 April 2020. At that time, members said they were managing a crisis, not business as usual. Customer behaviour reflected widespread anxiety. Banks faced liquidity risks characterised by a fall in deposits, treasury issues (to meet obligations), and difficulties with agent banking because of transport and security challenges arising from lockdowns.

Box 3 – WSBI member banks initial challenges

1. An increase in operating costs arising from:
- Operations and supply chain challenges and safety issues
- Additional safety measures in offices and with client interactions
- Credit operations and implementing new central bank rules
- Increased provision levels as a result of the pandemic

2. Loss of revenues arising from:
- Central bank constraints on interest rates
- Extended grace periods on loan repayments depriving them of income
- A fall in remittances and related revenues

3. Growth in non-performing loans

4. Digital transformation – which has been slowed or stalled by lack of funds

5. Human resources & organisation challenges
- Issues around workforce compensation and the organisation of remote work
- Reorganisation of the workforce in the bank/branch. Implementation is not always compliant with regulation because of service pressures and the cost of meeting sanitary standards.

11 HSBC Malaysia (2020), *Covid-19 Relief & Guidance* (27 April 2020)

Banks' liquidity challenges may have a knock-on effect upon some Microfinance Institutions (MFIs) – particularly those whose liquidity largely comprises deposits with commercial banks. One notable exception is in Nigeria, however. There MFIs are required to have a compulsory investment of between five and 10% of their total deposit liabilities in treasury bills.

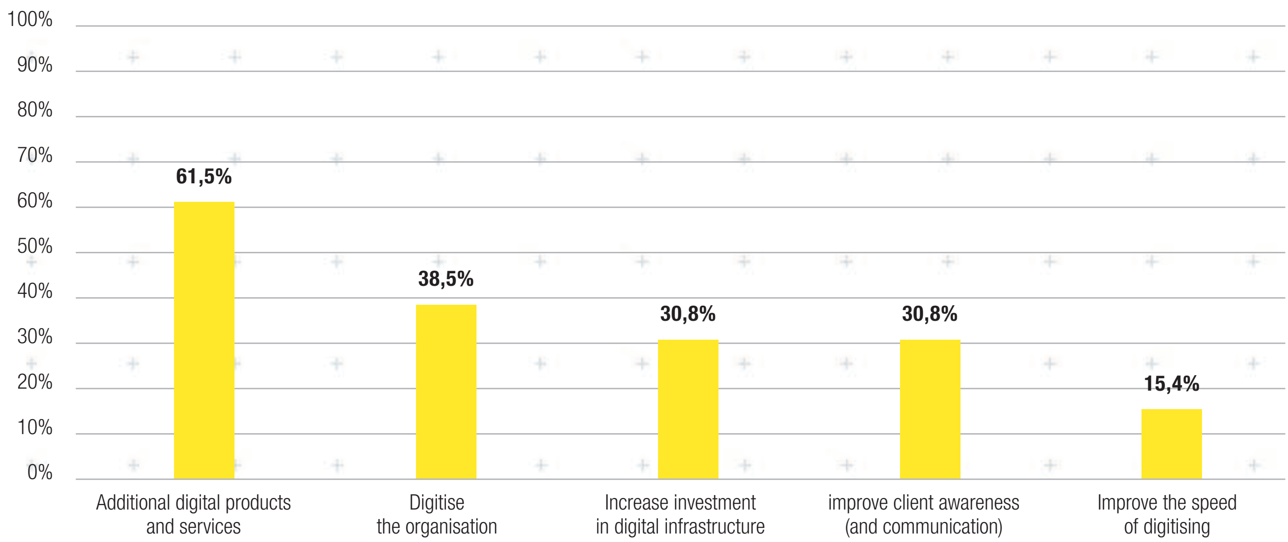
A seminar organised by Making Finance Work for Africa (MFW4A)[12] on the 15th of April 2020 highlighted six ways in which the Covid-19 pandemic is affecting banks in Africa:

- Banks will be exposed to the plight of borrowers operating in directly exposed sectors
- Trade activity and trade finance have diminished, increasing risks of SME failure
- The collapse of borrowers' repayment capacity triggers non-compliance with prudential ratios
- An increase in provisions and non-performing loans cuts sector profitability
- A fall in capital flows makes it harder to mobilise additional resources for public spending and for the private sector
- Some banking systems may require recapitalisation or restructuring

Evidence of these effects has emerged in banks' first-half financial results. For example, African Bank, based in South Africa, warned of the adverse effect of the Covid-19 lockdown on its performance. It reported an interim loss and a significant Covid-19 provision, well in excess of expectations[13].

As we have shown, there is strong evidence that further digitisation will be vital as banks and their customers learn to live with the pandemic and adapt to a banking scene that is likely to be permanently changed by the pandemic. The FMT survey asked WSBI member banks how they planned to further develop their use of digital technologies in the future.

Graph 3 - Envisaged changes to digitisation in banks



What would you improve or change in your digitisation capability for the future? Percentage of banks surveyed identifying a particular factor. Multiple responses possible. Source: FMT survey of WSBI members in Africa.

Responses show that postal and retail banks see the need to increase the digitisation of their activities across many fronts. They seek to develop their digital market-facing capabilities (products, services, client communication), whilst simultaneously digitising internal capabilities, including of their organisation and infrastructure. And they want to speed up progress on both of these fronts. Addressing all these issues will be a mammoth undertaking. Finding the optimal approach may separate leaders from laggards.

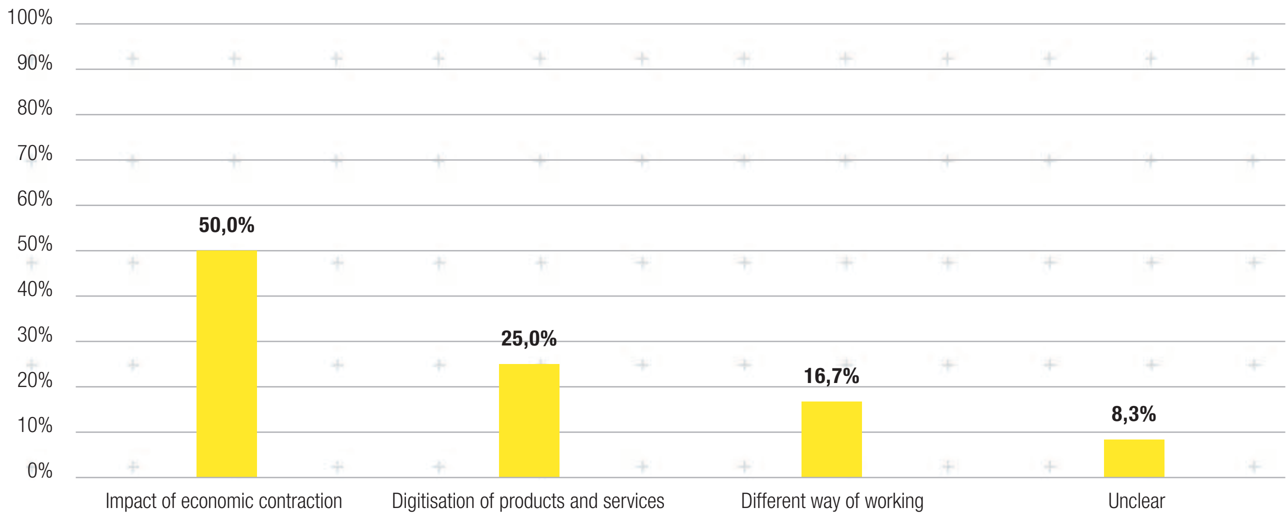
African banks responded to the effects of the pandemic in similar ways to banks in the rest of the world, with an added emphasis on supporting and promoting payments, particularly digital payments. If they sustain this effort, it will underpin further digitisation in the recovery and renewal phases.

12 MFW4A webinar (2020), *Impact of the Covid-19 Crisis on the African Banking Sector*
13 https://businesstech.co.za/news/banking/410309/african-bank-warns-over-increase-in-defaults-on-loans-amid-covid-19-pandemic/

How will the pandemic affect African banks in the years ahead? What factors must banks consider as they plan their route from crisis to stability in a changed economic environment?

The WSBI survey asked member banks about the likely long-term effect of the pandemic on their organisation.

Graph 4 - Envisaged changes to digitisation in banks



What do you think will be the major long-term effect of the pandemic on your organisation? Percentage of banks surveyed identifying a particular factor. Multiple responses possible. Source: FMT survey of WSBI members in Africa.

The economic downturn triggered by lockdowns is clearly identified as the most damaging effect on postal and retail banks' long-term outlook. WSBI member bank executives see the pandemic as an accelerator of digitisation. This suggests that the increased use of digital channels and payments during lockdown is seen as a pointer to both living with the virus, and to developing new ways of working in an increasingly digitised world. Bank executives foresee a period of marked change in the way their organisations and employees operate.

Recommendations for financial service providers

As they chart a way to recovery and renewal, what issues should bank executives consider? Though the pandemic and its consequences are still unfolding, we sought clues about what the future may hold for the retail banking sector in Africa.

In an article titled *African banking after the crisis*[14] consultants McKinsey identify three areas banks in Africa should focus upon, in the short and long term, as they strive to emerge viable and vibrant in the recovery. The consultants recommend particular responses in each area.

1. **Managing risk and capital**
   - Establish a risk nerve centre (short-term)
   - Adapt credit-risk framework (short-term)
   - Digitise and automate credit processes
   - Drive partnerships / M&A with FinTech to support innovation

2. **Streamlining resources and digitisation**
   - Redeploy workforce and reskill (short-term)
   - Resize (and reconfigure) distribution and minimise central functions
   - Invest in technology to reduce costs
   - Optimise shared utilities across the banking industry

3. **Engaging customers**
   - Develop flexible crisis-related products (short-term)
   - Scale-up digital transformation (talent, operating model)
   - Build SMEs' service ecosystem
   - Blend mobile finance fully into the banking offer

The McKinsey study includes results from their *Covid Africa Consumer Pulse Survey April 2020*, showing the likelihood of increased (+) or decreased (-) use of particular banking channels.

	South Africa	Kenya	Nigeria	Morocco
Online banking	+30%	+37%	+37%	+18%
Mobile banking	+35%	+43%	+44%	+17%
Meeting financial advisor in branch	-32%	-28%	-18%	-9%

Consumers across Africa expected to increase their use of online and mobile banking and have less contact with financial advisors in branches. These findings confirm the importance of **increasing digitisation and reducing operational cost** and align with results from our survey of WSBI member banks. To build the use of online and mobile banking, banks should:

- Offer digital options for all simple sales and servicing, making as many services as possible available via mobile phones
- Develop digital sales channels to at least match assisted sales channels
- Simplify the consumer and SME product range making them easy to navigate, while still meeting needs
- Launch adoption programmes to consolidate digital use at or above lockdown levels
- Focus on cyber security and service availability

In the pursuit of these objectives, banks should ensure that customers are enabled and supported along the entire digital journey. This includes several aspects, such as:

- including addressing usability and affordability issues,
- building awareness with customers,
- making sure digital services are delivered in a manner that is as frictionless as possible,
- establishing and fostering a digital service relationship with customers,
- analyzing usage data to understand usage patterns including inactivity and low-usage and;
- divising strategies to reduce the inactivity.

14 McKinsey (2020), *African banking after the crisis*

If erosion of capital results in levels below minimum regulatory requirements, some form of recapitalisation will be needed. Coupled with some of the operational challenges banks face and are likely to continue facing, this could trigger **mergers or acquisitions**[15]. Some consolidation moves have been announced in the Gulf region. Similar initiatives could occur in Africa.

Deloitte, in their publication, *Covid-19's Impact on Banking and Capital Market Institutions*[16], provide a comprehensive overview of the impact on banks to date and how they are likely to develop. They list the major issues they believe banking executives are grappling with.

Box 4 – A view of the longer-term impact on banks from Deloitte

Potential long-term impact on banks:

- Revisions to the operating model, e.g. accelerated digital transformation, organisational agility, additional focus on cyber security.
- Structural changes to the sector, including organisational restructuring, mergers and acquisitions, the winding down of smaller / riskier institutions (and FinTechs), but also opportunities for banks to get involved in restructuring a wide range of industries.
- Effects of continuing low or lower interest rates, reduced business activity and large-scale NPLs, depending on the length of the recession.
- Possibility of new regulations and more intrusive supervision.

Key executive issues:

- How must management adapt to a new, more dispersed environment? How can corporate culture be enhanced in this environment? How can business agility be enhanced while improving risk management?
- How best can the bank serve customers directly affected by the pandemic – from individuals to corporates? What is the bank's role?
- How can revenue be protected in the face of reduced activity and the need to invest in transformational digitisation and the changed work environment?
- How can the organisation work more closely with regulators and governments to stabilise the industry while supporting the return to market and economic stability?
- What does social responsibility and being an admired corporate citizen mean in a world in turmoil?

Digitisation across all business processes and interactions is essential to thriving in a world where Covid-19 remains a threat. This could be costly, but some initiatives to facilitate increased digitisation can be pursued on a regional basis. For example, a common digital financial identity[17] could be developed by member states of the Southern African Development Community (SADC), ensuring that a citizen of any SADC country has an ID recognised across the region. Such an initiative would:

- Speed the digitisation of financial services and the growth of e-commerce
- Enable pan-regional digital payments
- Support public policymakers by improving access to information about individuals and businesses for tax management and Anti-Money Laundering / Combating the Financing of Terrorism (AML / CFT) purposes

Banks will remain central to the economies in which they operate despite the banking challenges arising from the pandemic. Banks must support and help drive the recovery of African economies. African banks that take bold action to manage risk and capital, streamline and digitise operations, reduce costs, and adapt to changing consumer behaviour and expectations will bolster their role in Africa's resilience and recovery.

15 OBG (2020), *Will Covid-19 spur M&As in the GCC banking sector?*
16 Deloitte (2020), *Covid-19's Impact on Banking and Capital Market Institutions*
17 Nkosinathi Ncube (2020), *Why It's Time for Africa to Adopt a Regional Digital Financial Identity*

Box 5 – Issues to consider in the low-value savings segment

The Covid-19 pandemic is likely to remind customers of the need to save – though it may also reduce their ability to save. Combined with an increased preference for digital transactions and interactions with their financial institution, this will put operational and financial pressure on institutions active in the low-value savings market. The reduction in economic activity arising from the pandemic will further suppress revenue. But there are ways in which financial service providers can try to develop their activity without making substantial investments:

- Smaller institutions and institutions focussing on low-value savings are well-placed to build on the trust that is central to their customer relationship and use this to attract new customers.
- Institutions that are able to digitise should do so, at least for basic customer interactions and payments. Institution unable to do this should consider partnerships to achieve this goal. A partnership between a customer-owning financial institution and a technology-smart mobile network operator and / or FinTech company will often be mutually beneficial, improving revenues of all participants.
- Financial institutions should look at extending the range of services they offer to better meet customer needs. If that is beyond their capabilities, they should explore partnering with providers of suitable services.
- Focus on improving / streamlining internal processes to make them serve the customer better. Digitising processes is usually the best way to cut costs and improve customer service. But often simply redesigning processes and taking out unnecessary elements yields significant improvements.
- Explore moving from in-house or proprietary information technology platforms to cloud-based, software-as-a-service providers. This can cut operating cost and open up new technical possibilities. Take up any regulatory constraints with the regulator first.

5. Regulatory responses to Covid-19

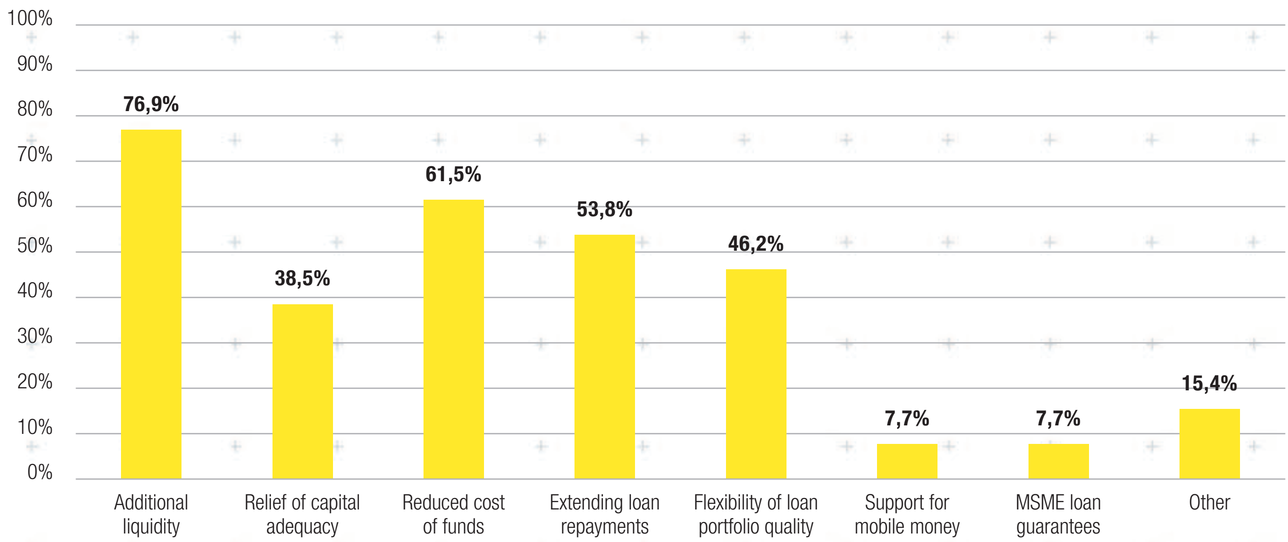
African central banks have taken their cue from international standard-setting bodies and have announced a range of steps to deal with the impact of the pandemic on the financial system and the private sector[18]. These include:

- Provision of additional liquidity to banks and extension of maturities for liquidity facilities
- Setting up frameworks for the banking system to support firms with repayment difficulties
- A special programme for refinancing bank credit granted to small and medium-size enterprises (SMEs)
- Payment due-date extensions for government loans and securities held by credit institutions
- Exemption on adoption of new minimum capital requirements, and flexibility in restructuring non-performing loans and provisioning for such loans
- Exemption of mandatory reserve requirements for on-demand deposits in local currency and lowering the capital conservation buffer
- Encouraging banks to offer extension of repayment terms or payment deferral to clients
- Encouraging banks to support digital payments through reduced fees

Our survey of WSBI members asked postal and retail banks in Africa to gauge how they were affected by and have responded to the pandemic, and how they expect Covid-19 to affect their future strategy.

The graph below shows WSBI member banks' experiences of regulatory responses to the virus across the continent. Our survey shows that authorities provided considerable relief to protect the economy and consumers, while striving to maintain financial stability.

Graph 5 - Responses from regulatory authorities



What were the main responses to the pandemic from the central bank / regulatory authorities, from the perspective of your organisation? Percentage of banks surveyed identifying a particular factor. Multiple responses possible. Source: FMT survey of WSBI members in Africa.

Regulatory responses to the pandemic around the world are tracked by the IMF[19] and Alliance for Financial Inclusion (AFI)[20], and made public. Box 5 below summarises the response in four African countries from these two databases. We have complemented the data on South Africa with information from the South African Reserve Bank (SARB)[21] and Norton Rose Fulbright[22], a law firm. Overall, our survey findings are clearly in line with regulatory responses deployed in key African economies and other developing countries.

18 MFW4A webinar (2020), *Impact of the Covid-19 Crisis on the African Banking Sector*
19 IMF (2020), *Policy Responses to Covid-19*
20 AFI (2020), *AFI Covid-19 Policy Response*
21 SARB (2020), *Our response to Covid-19*
22 Norton Rose Fulbright (2020); *SARB's responses to Covid-19 and its recommendation to South African banks on the payment of dividends and executive bonuses in 2020*

Box 6 – Regulatory Responses in Morocco, Ghana, Kenya and South Africa

Morocco: Bank al-Maghrib:

- Reduced the policy rate by 75 bps to 1.5 percent.
- Suspended loan payments for SMEs and self-employed people until June 30.
- Provided additional liquidity to the banking sector.
- Adjusted prudential and regulatory measures to support the banking sector, including suspending provisioning requirements for loans benefiting from the temporary payment moratorium.
- Established a funding-for-lending facility (Damane Oxygene) which provides loans to SMEs at subsidized interest rates with 95 percent of the loan guaranteed by the Central Guarantee Fund.

Ghana: The Monetary Policy Committee:

- Reduced the policy rate by 150 bps to 14.5 percent.
- Lowered the primary reserve requirement from 10 to 8 percent.
- Cut the capital conservation buffer from 3 to 1.5 percent.
- Revised provisioning and classification rules for specific loan categories.
- Facilitated cheaper mobile payments.

Kenya: The Central Bank of Kenya:

- Cut its policy rate by 125 bps to 7.0 percent.
- Lowered banks' cash reserve ratio by 100 bps to 4.25 percent.
- Gave banks more flexibility on loan classification and provisioning for loans that were in good standing before the pandemic.
- Suspended listing of negative credit information for borrowers whose loans became non-performing, with effect from April 1, for six months.
- Announced measures to encourage mobile money transactions, including free low-value mobile money transactions and free transfers between mobile money wallets and bank accounts.

South Africa: The South African Reserve Bank:

- Reduced the bank rate from 6.5% to 3.75%.
- Made additional liquidity available to the banking sector.
- Introduced a loan guarantee scheme for SMEs in conjunction with the banks.
- The bank supervisor is helping banks respond to the needs of their customers, enabling capital relief on restructured loans that were in good standing before the pandemic.
- The bank supervisor also said that it does not expect banks to pay dividends on ordinary shares or pay cash bonuses to senior executives in 2020.

Guidelines for the refinement of regulatory responses

Banking regulators around the world have modified regulatory regimes to help financial institutions and their customers adapt to the challenges caused by the pandemic and resulting lockdowns. Many of the changes are based upon a document[23] published jointly by the IMF and the World Bank Group (WBG) entitled *Covid-19: The Regulatory and Supervisory Implications for the Banking Sector*. It recommends bank regulators and supervisors should:

1. "Use the flexibility in the regulatory and supervisory framework while upholding minimum prudential standards and preserving consistency with international standards". The capital adequacy frameworks under Basel III provide a buffer to be used in times of crises. Banks should be reminded that they can access this buffer to maintain servicing the economy. In so doing, the alignment of regulatory and prudential frameworks with international standards and best practice should be maintained.

2. "Facilitate, through timely prudential guidance, well-designed public and private interventions that target affected borrowers and sectors". Supervisors need to clearly specify how these support measures should be treated in the prudential framework.

3. "Ensure that policy responses minimise opportunities for moral hazard and adhere to sound credit risk management practices while facilitating the allocation of new credit".

4. "Provide guidance on asset classification and provisioning, building on the guidance from standard-setting bodies, and do not relax the regulatory definition of nonperforming exposures". Where necessary, additional guidance should be provided on banks' assessment of credit exposures and the level of provisioning.

5. "Maintain transparency and provide, where necessary, additional guidance on risk disclosure". Transparency is a key component of maintaining trust in the system and this should not be compromised.

6. "Suspend the automatic corrective supervisory action triggers to deal with the extraordinary circumstances of the current pandemic". Some countries' frameworks make provision for automatically triggering corrective action when capital adequacy ratios decrease too much. Authorities should suspend such action where possible.

7. "Review supervisory priorities and maintain close dialogue with the industry". Supervisory action should focus on the impact of the pandemic, specifically banks' liquidity profile, credit exposures to vulnerable sectors, and operational resilience.

8. "Coordinate actively with other supervisors, domestically and internationally, and other relevant authorities". At the domestic level, financial sector policy responses should be coordinated and communicated using existing structures established for coordinated efforts to maintain financial stability. If these are not sufficient, then coordinating structures should be established.

9. "Ensure the smooth functioning of critical market infrastructure, including securities clearing, settlement and payment systems". Central banks and other supervisory authorities should closely monitor the resilience of the financial system to ensure stability in the functioning of the financial system. This should include monitoring the functioning of the retail payment system, given the wide impact of this system.

The Consultative Group to Assist the Poor (CGAP) report *Microfinance in the Covid-19 Crisis: A Framework for Regulatory Responses*[24] suggests a largely similar approach enabling MFIs to support the economy while maintaining stability standards.

It is still too early to be definitive about the depth and duration of the economic downturn, and this may of course vary from country to country, but authorities may have to adjust their approach. In countries where the downturn risks turning into long-term economic decline, which in itself would be destabilising, the balance between stability and supporting banks may have to shift to the latter. This will have implications for capital adequacy levels and may require that credit guarantee funds are sufficiently capitalised that they can become a permanent part of the access to finance system. This should not detract from the responsibility of regulators and the sector to progressively restore pre-pandemic stability reserves and liquidity levels.

23 IMF & WBG (2020), *Covid-19: The Regulatory and Supervisory Implications for the Banking Sector*
24 CGAP (2020), *Microfinance in the Covid-19 Crisis: A Framework for Regulatory Responses*

Box 7 – CGAP main recommendations

Enable MFIs to operate safely

Provide relief to microfinance clients

- Allow borrowers to recover
- Support businesses and value chains

Make additional liquidity available to MFIs

- Ensure MFIs stay solvent
- Incentivise MFIs to lend

Defer non-critical supervision

Restructure or liquidate troubled MFIs

Think ahead to the challenges of the recovery and rebuilding, balancing urgent rescue against longer-term values such as legal certainty, risk-based regulation, and sustainability.

Outlook

Following two annual publications in 2018 and 2019 of the State of the Savings and Retail Banking in Africa research[25], this is the first in a series of case studies that focus on innovations and partnerships to deliver on financial inclusion in Africa. This first case study sets the scene by outlining what the impact of COVID-19 has been on institutions. The next case studies will focus on lessons that may be extracted from other FSPs across the continent as they moved down market to serve the bottom of the pyramid in a more meaningful way.

25 2018: https://www.wsbi-esbg.org/SiteCollectionDocuments/Scale2Save_2019_report_final.pdf
2019: https://www.wsbi-esbg.org/SiteCollectionDocuments/0913_ESBG_BRO_2019SURVEY_FINAL%20(1).pdf

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Annexe 1: About the report partners

WSBI created in 2016 a new programme in partnership with the Mastercard Foundation "to establish the viability of low-balance savings accounts and use of customer-centric approaches to address barriers faced in access, usage and affordability of savings services".

Called Scale2Save, the programme is set against a backdrop of problems such as high poverty rates and financial exclusion in sub-Saharan Africa, as well as low formal savings rates. FSPs have a poor understanding of the market savings potential of people in various low-income segments. The needs of customers and potential customers – and how much customers can afford to pay to meet those needs – are not well reflected in FSPs' business models, customer interfaces and interactions. The resulting poor customer experience gives rise to extremely high rates of bank account dormancy and inactivity. This is a significant cost for FSPs and undermines potentially sustainable business cases to deliver accessible financial services to people in these segments.

The Scale2Save programme's core activities are to:

- Provide financial service providers with technical assistance to develop savings services valued by low-income customers. WSBI works with eleven banks to develop and deliver savings products that not only broaden access to financial services but also drive ongoing use of those services. The banks are located in Cote d'Ivoire, Kenya, Morocco, Nigeria, Senegal and Uganda. A bank in Tanzania acts as a knowledge partner.
- Conduct research and share lessons between partner banks. WSBI publishes the annual *Savings and Retail Banking in Africa* report to facilitate peer learning and the spread of knowledge. The institute also researches new pricing models to help establish a business case for low-balance savings and conducts household research to contribute to knowledge of cash flows in households.
- Communicate lessons learned to the wider sector. WSBI has developed and carried out a targeted communications strategy to share the knowledge generated by the project with key stakeholders.
- Monitor and evaluate the programme. WSBI monitors project progress at partner banks and oversees mid-term and final project evaluations. The programme started in September 2016 and will continue until August 2022.

The following WSBI member institutions participated in polls for this research:

- National Savings and Credit Bank (Zambia)
- TPB Plc (Tanzania)
- Pride Microfinance Ltd (Uganda)
- South African Postbank SOC Ltd (South Africa)
- People's Own Savings Bankn (Zimbabwe)
- Kenya Post Office Savings Bank (Postbank) (Kenya)
- Zimbabwe Women's Microfinance (Zimbabwe)
- Al Barid Bank (Morocco)
- Postfinances (Senegal)
- Caisse de D'ep`a et de Gestion (Morocco)
- Office National Des Postes (Tunisia)
- La Poste BF (Burkina Faso)
- Banque Populaire de Côte d'Ivoire (Ivory Coast)

Learn more about Scale2Save at **www.wsbi-esbg.org/KnowledgeSharing/scale2save** or on Twitter at @scale2save.

About WSBI

Founded in 1924 WSBI, or World Savings and Retail Banking Institute, is an international banking association committed to helping savings and retail banks thrive. It represents the interests of 6,760 banks on all continents. As a worldwide organisation, WSBI focuses on international regulatory issues that affect the savings and retail banking industry. It supports the aims of the G20 to achieve sustainable, inclusive and balanced growth, and job creation, in both industrialised and developing countries. Supporting a diversified range of financial services to meet customer needs, WSBI favours an inclusive form of globalisation that is just and fair. It supports international efforts to advance financial access and use for everyone. The association has members in some 80 countries in the Americas, Africa, Asia and Europe. These members are either individual financial institutions or associations of retail banks. All members share three features: they are active in retail banking, have a strong regional presence and show a responsible attitude towards business and society. The total assets of member banks amount to more than $16,000 billion, and non-bank deposits to nearly US$9,000 billion. Serving some 1.7 billion customers, WSBI members are committed to further unleash the promise of sustainable, responsible 21st century banking. Learn more at www.wsbi-esbg.org on Twitter at @wsbi_esbg.

WSBI and financial inclusion

WSBI has been campaigning for financial inclusion since its founding, with the inauguration of the first World Savings Day in 1924. In 2003 WSBI research that revealed an estimated 1.4 billion low-cost / low-balance savings accounts worldwide, of which 1.1 billion accounts were managed by WSBI member banks. Following further research, the institute launched its programme "WSBI Doubling Savings Accounts" in 2008 that was successfully concluded in 2016. Building on extensive learning, WSBI is continuing this effort through the Scale2Save programme.

About the Mastercard Foundation

The Mastercard Foundation works with visionary organizations to enable young people in Africa and in Indigenous communities in Canada to access dignified and fulfilling work. It is one of the largest private foundations in the world with a mission to advance learning and promote financial inclusion to create an inclusive and equitable world. The Foundation was created by Mastercard in 2006 as an independent organization with its own Board of Directors and management.

For more information on the Foundation, please visit: **www.mastercardfdn.org**

About FinMark Trust

FinMark Trust is an independent non-profit trust whose purpose is "Making financial markets work for the poor, by promoting financial inclusion and regional financial integration". This goal is pursued through two principle programmes. Firstly, it creates and analyses financial services consumer data to provide in-depth insights into both served and unserved consumers across the developing world. Secondly it carries out systematic financial sector inclusion and deepening programmes to overcome regulatory, supplier and other market-level barriers hampering the effective provision of services. These programmes unlock financial inclusion and sector development through symbiosis between rigorous data collection and research activities. Their work can be found in South Africa, throughout the Southern African Development Community and around the world.

Annexe 2: WSBI member survey questionnaire

The survey was conducted digitally among both WSBI and non-WSBI members. Below is a copy.

Thank you for taking the time to support this study. We hope the results will be useful for you. Before we start, would you please provide us some basic information below.

E-mail address:

Country of operation:

Name of Institution:

Impact of Covid-19

1. What have been the effects of Covid-19 on your organisation until now? (Select all applicable)

Safety concerns from staff / Closure of some branches	☐
Clients wanting immediate access to their funds	☐
Increased non-performance of loans	☐
Clients requiring additional lines of credit	☐
Pressure on organisation's liquidity	☐
Other	☐

2. What measures did your organisation take in response to the effects of the pandemic? (Select all applicable)

Provided additional information to clients (through the media and/or digitally) on the organisation's response	☐
Provided additional liquidity at branches	☐
Provided payment relief to loan credits	☐
Provided quick access to term or notice deposits	☐
Reduced bank fees (general reduction)	☐
Reduced transaction fee for digital transactions	☐
Increased supply for digital interactions with your organisation	☐
Other	☐

3. What were the main responses to the pandemic from the central bank/regulatory authorities, from the perspective of your organisation? (Select all applicable)

Relief in terms of availability of additional liquidity	☐
Relief in terms of capital adequacy	☐
Relief in terms of reducing cost of funds	☐
Support for extending loan repayments	☐
Flexibility in terms of quality of loan portfolio	☐
Other	☐

4.1 Was your organisation's digital capability sufficient to deal with the effects of the pandemic on your organisation?

Yes	☐
No	☐

4.2 What would you improve or change in your digitisation capability for the future?

5. What do you think will be the major long-term effect of the pandemic on your organisation?

Apart from the effect of Covid-19

6. What are the major issues facing your organisation now?

7. Which issues would be the most relevant for your organisation in terms of additional research content/case studies?

	Important	Neutral	Not Important
Client centricity	☐	☐	☐
Appropriate market engagement/business models, including partnering with other organisations	☐	☐	☐
Further digitisation of the organisation	☐	☐	☐
Digitisation of market engagement with particular market segments	☐	☐	☐
The use of mobile services (beyond mobile money and mobile payments)	☐	☐	☐

8. Who are the banks/financial service providers in the low-income space in Africa that your organisation view as leaders?

9. Do you expect your organisation's retail business to grow in the next 18 months?

	Yes	No	Unchanged
Total active customers	☐	☐	☐
Total deposits	☐	☐	☐
Total digital transactions	☐	☐	☐

Scale
2Save

Learn more about Scale2Save at
www.wsbi-esbg.org/KnowledgeSharing/scale2save

WSBI