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# Unlocking the future: Why SA's banking sector needs to deeply consider platform business or risk being left behind

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28 Dec 2023

The banking sector in South Africa makes a significant contribution to our economy and overall development through its institutions.

Source: 123RF.

A robust banking sector is crucial for South Africa, as it plays a pivotal role in steering both macro- and micro development in our society. At the micro level, banks consistently lend to customers and manage their deposits, thus supporting small businesses financially. In essence, the South African banking industry collectively boasts a combined total of $334.1bn in assets.

The relationship between South Africa's banks and customers is mutually exclusive, particularly as household credit stands out as the primary driver of bank credit growth, with a recorded compound annual growth rate of 11.7% over a certain period.

In South Africa, there are only five banks that dominate the economy, namely FNB, Absa, Standard Bank, Nedbank, and Capitec. These banks collectively held 91% of the total banking-sector assets as reported in 2017, while local branches of foreign banks held 6% of banking assets. However, banks, like any other industry, face the challenge of establishing public trust, especially since they safeguard the majority of citizens' money through deposits.

Consequently, this situation offers a significant opportunity for South Africa’s banking sector to thoroughly explore platform businesses as a means to foster trust and bolster cybersecurity.

According to Camparitech, South Africa experienced approximately $5.3bn in cybercrime losses relative to its GDP.

Indeed, platform businesses aren't prevalent in South Africa, but we do have companies engaging in platform-based services, including Microsoft, AWS, and Google. These companies' network effects have enabled them to expand widely and dominate markets in other countries, much like how Microsoft and Google have established their presence in South Africa.

This predates most of the companies we've seen mentioned. These companies, along with their predecessor traditional platform businesses like Yellow Pages, Blackberry, Motorola, and Nokia (smartphones), were overshadowed by the lack of competitiveness in transactional platform development, notably negated by the advent of the iPhone in 2007.

Yellow Pages became obsolete due to the rapid advancement of digital platform technologies such as Google Maps and Waze, the Israeli company acquired by Google.

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## The impact of the risk-averse approach

I am certain that by now, the imminent question is: How does this relate to banking in South Africa? Platform businesses have been introduced to South Africa, with very few local platform businesses except for e-commerce industries such as Takealot and Checkers Sixty60, which have revolutionised the food industry locally. Digital platforms hold the potential to disrupt South Africa’s banking sector due to its sluggish innovation pace.

South Africa is a country with high growth potential and abundant opportunities, yet our banking sector needs a strong understanding of its role within digital platforms and technology. One of the challenges facing our banks, which may result in them being overlooked, is the traditional operating model, slow pace of innovation, and a highly structured business approach.

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Innovation doesn't necessarily require highly organised institutions, as they tend to invest less in risks. However, companies operating like startups appear to be exempt from the issue of lacking innovation and investing heavily in creating barriers to entry for other firms which increases competition. For instance, recently, FNB officially terminated its banking services to virtual currency exchanges and intermediaries involved in virtual currency trading.

The cited justification for this termination is the risk associated with virtual currency. However, this signifies that within organised hierarchical organisations, risks are avoided, as banks are not inclined to invest in their brands and risk losing their reputation, which is understandable.

## Avoiding the pitfalls of BlackBerry

However, I am inclined to agree with Irving Wladawsky-Berger from MIT's Sloan School of Management, who emphasises that navigating the balance between hype and promise is a critical responsibility for a company's senior management team. In this context, C-suite executives cannot afford to disregard the issue of technological development for their businesses.

This involves the contemplation that banking executives need to undertake whether their banks should embrace blockchain technologies now and initiate experimentation or wait until the technology matures, risking falling behind more aggressive competitors, similar to what occurred with the demise of BlackBerry, which once held a 20% share of the global market.


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The downfall of BlackBerry can be attributed to its failure to innovate, invest in touchscreen technology, and adapt by lacking support for Wi-Fi and a limited range of downloadable apps. Similarly, Blockbuster's demise stemmed from its failure to comprehend its customers, lacking innovation, and a reluctance to explore the digital world, which allowed Netflix to capture its market share.

Indeed, platform technologies such as bitcoin and cryptocurrency have not reached full maturity. However, these technologies are crucial for revolutionising the banking sector and will significantly influence its success in the near future. To ensure that banks do not fall behind, they must make substantial investments in blockchain developers and skill development.

## Redefining customer relationships

Banks can derive significant benefits from blockchain through the utilisation of digital currencies to stay relevant in the rapidly expanding digital economy. Adopting cryptocurrency can aid banks in easily clearing and settling financial trades faster and more securely.

Blockchain has been beneficial to banks by facilitating easier reconciliation of transactions, quicker tracing of transactions, and identifying errors in a more timely manner.

It addresses issues wherein banks can detect errors before a transaction is completed, providing them with the means to rectify errors before they potentially disrupt business operations and affect their customers.

Most importantly, banks need to redefine their relationship with their customers, as the management of a customer will undergo a drastic transformation when the value of their service offering is redefined.

Additionally, it is a business's responsibility to manage its stakeholders by introducing them to blockchain technology, which encompasses platform applications beyond the financial world. Essentially, it is a distributed ledger technology. Hence, blockchain technology has begun to be applied in various industry sectors, including real estate, agriculture, and supply chain, due to its key attributes such as transparency and immutability.

### ABOUT THE AUTHOR

Ashley Nyiko Mabasa is a senior management consultant at PwC writing in his capacity.