



DIGITAL BANKING
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EXECUTIVE SUMMARY

Digital banking entails the digitisation of traditional banking services in order to deliver financial services to customers. This entails digitisation of marketing, customer onboarding, service channels, processes, products and features such as savings and deposits, loan management, bill payments, and also facilitating digital lifestyle services such as ride hailing, ehealth, edtech, telecoms, media, etc, through ecosystem orchestration and partnerships. There are various technologies that are powering digital banks, such as (1) Big Data and artificial intelligence (AI), (2) cloud computing, (3) intelligent automation/robotics process automation, (4) application programming interfaces (APIs), (5) digital identity and biometrics, and (6) chatbots/robo advisory.

There are five distinct types of digital banks. These include (1) challenger/new banks, (2) neo banks, (3) beta banks, (4) non-banks and (5) digitised incumbents. Digital banking is growing across the world and is expected to maintain an upward growth path in the coming years. The number of people using digital channels is also growing, with the number forecasted to reach over 2 billion in 2024.

The advent of digital banking has led to an emergence of some best practices in the banking sector. For example, leading digital banks are achieving customer excellence by digitising the customer journey across eight key touchpoints, leading to improved customer experience; they are going beyond financial services by offering an ecosystem of services to address digital lifestyle needs that deepen engagement with customers; they are achieving operational and technological excellence by ensuring their top processes are automated and they have an agile digital stack and they are also organising in a way that allows them to innovate rapidly.

To understand the state of digital banking activities in South Africa (SA), a survey was conducted focusing on banks. From the survey, there were several benefits identified, including financial inclusion, convenience and personalisation, as well as several drawbacks around consumer education, cybersecurity and data privacy/misuse from digital banking activities. Stemming from these benefits and risks, the paper identifies several considerations for the financial sector focused on consumer education, data management, and cybersecurity in order to amplify the potential benefits of digital banking, while mitigating risks.



INTRODUCTION

What is digital banking

Digital banking entails the digitisation of traditional banking services in order to deliver financial services to customers. This entails the digitisation of marketing, customer onboarding, service channels, processes, products and features such as savings and deposits, loan management, bill payments, and also facilitating digital lifestyle services such ride hailing, ehealth, edtech, telecoms, media, etc, through ecosystem orchestration and partnerships, and open APIs.

Types of digital banks

There are five different types of digital banks, such as (1) challenger banks/new banks, (2) neobanks, (3) beta banks, (4) non-banks and (5) digitised incumbents banks.

- (1) **Challenger/new banks** have full banking licences and are direct competitors of the traditional banks offering the same services as traditional banks. Essentially, they are fintechs with banking licences.
- (2) **Neobanks** do not have a banking licence, but partner with financial institutions to offer bank-licensed services. Typically, neobanks still require customers to have an account at an existing licensed bank. They are completely digital banks that have no physical presence and reach out to customers via mobile apps and web platforms.
- (3) **Beta banks** are joint ventures or subsidiaries of existing banks that offer financial services through the parent company's licence. Beta banks are often set up as a way to enter new markets, offering limited services to a targeted consumer base. They are targeted at the tech-savvy, millennial customer segment, as well as to provide best-in-class innovative banking services.
- (4) **Non-banks** have no connections to traditional banking licences. Instead, they provide financial services by other means. This unique model allows the company to operate independently of existing banks.
- (5) **Digitised incumbents** are incumbent banks that are pursuing total digital transformation. They compete with digital challengers by acquiring their capabilities. They segment digital and traditional customers.





Box 1 below provides an example of some digital banks around the world.

BOX 1: Digital Bank Examples

(1) Challenger/new banks are offering traditional banking services in a more flexible way and they are also operating as marketplaces.



TymeBank does not have any physical bank branches and relies on an Android banking app, an internet banking site and a partnership with two retail chains, Pick n Pay and Boxer, to host a national network of self-service kiosks that facilitate the account-opening process.



Monzo Bank Ltd is an online bank based in the United Kingdom. The bank was one of the earliest of a number of new app-based challenger banks in the UK. Monzo offers a full suite of mobile banking features that make it easy to see where you are spending and saving money. You can create budgets, keep a close eye on your saving goals, and take advantage of Monzo's cheaper international transfers and cash withdrawals.



Nubank is the largest fintech bank in Latin America. Among the company's products are NuConta (a digital account), an international credit card, both without fees, personal loans, life insurance and investments. The company's differentiating factor is to offer a credit card that is controlled completely by means of a mobile app. The app allows its users to track transactions in real time, block their respective credit cards, apply for a limit raise and contact customer support.



Revolut is a digital bank that offers accounts featuring currency exchange, debit cards, virtual cards, Apple Pay, interest-bearing "vaults", commission-free stock trading, crypto, commodities, and other services via a digital-only mobile banking app.

(2) Neobanks are offering customers more user-friendly interfaces and fee-free services



WeBank is a private Chinese neobank, founded by Tencent, Baiyeyuan, Liye Group, and other companies. Tencent is the single largest shareholder, with an estimated 30 percent ownership share. WeBank bank has no physical branches or outlets and does not rely on property guarantees. Instead, it grants loans through face recognition technology and big data credit ratings.



Chime is an American financial technology company which provides fee-free mobile banking services provided and owned by The Bancorp Bank or Central National Bank. Account holders are issued Visa debit cards and have access to an online banking system accessible through the Chime website or via the mobile app for Android or iOS.

(3) Beta banks are enabling traditional banks to expand their service offerings and capture new customer segments



YONO is an integrated digital banking platform offered by the State Bank of India (SBI) to enable users to access a variety of financial and other services such as flight, train, bus and taxi bookings, online shopping, and medical bill payments. YONO offers services from over 100 ecommerce companies, including online shopping, travel planning, taxi booking, train booking, film ticket booking, online education and offline retail with special discounts.



Hello bank! is a digital direct bank owned by BNP Paribas that started operations in 2013. The bank operates in France, Belgium, Germany, Italy, the Czech Republic and Austria. Hello bank! offers, banking, brokerage, insurance, loans and savings. The bank is supported through different BNP Paribas retail banking subsidiaries where they exist.

(4) Non-banks are increasing competition in the banking sector and defining the future of banking



Monese is a non-bank digital financial services provider in the United Kingdom that provides instant current accounts in the UK and the Eurozone. Monese provides its current account and other services through a fully featured mobile app that lets people open a bank account in pound sterling, euros, and even in Romanian lei, if you live in Romania.



Curve is a payment card that aggregates multiple payment cards through its accompanying mobile app, allowing a user to make payments and withdrawals from a single card. Curve card connect all of a user's accounts to one card and one smart app. It enables customers to use all their current cards through one simple, secure Curve MasterCard.

(5) Digitised incumbents are shifting to branchless banking and meeting customers' demands for simple, secure and friction-free banking



FNB

Standard Bank and FNB have made the strategic shift towards a platform-based/digital banking approach to serve their customers. This entails undergoing a digital transformation in order to digitise channels, products, and processes

Technologies powering digital banks

Technology underpins the value propositions digital banks use to serve their consumers. Through technology, it is becoming possible for consumers to receive financial services and products that are customer-centric, easy to use, secured, frictionless, paperless, low-cost and always available. Because financial services provided digitally can be accessed from anywhere, customers are no longer bound by their physical location but can more freely to choose the financial institution of their choice to obtain a service.

Box 2 below describes Digital Banking powering technologies.

BOX 2: Top technologies powering digital banking

Big Data and AI: Data have emerged as the key to creating rich customer experiences, with AI being used to process the data to enhance customer value propositions and the customer experience through personalisation.

Intelligent Automation/Robotics Process Automation: Digital banks are combining robotic process automation (RPA) and artificial intelligence (AI) technologies to drive rapid end-to-end business process automation and accelerate digital transformation.

Cloud Computing: Cloud computing is a catalyst for digital transformation and a game-changer for how banks operate, rapidly deploy products, and serve their customers.

Open APIs: APIs have made innovation in digital banking simple, convenient and cost-effective and have encouraged partnerships between banks and Fintechs.

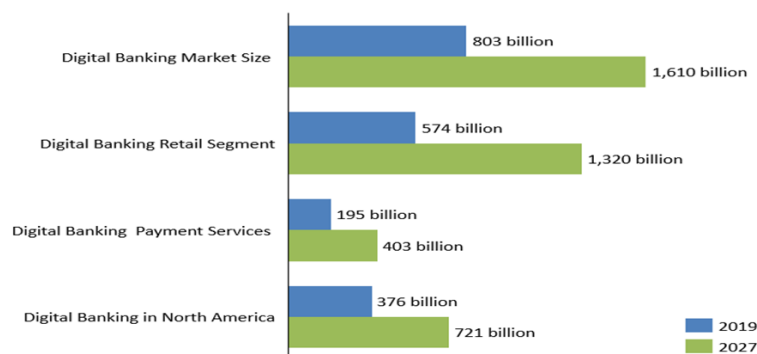
Digital Identity and Biometrics: Biometrics are helping digital banks to provide simple, one-touch banking securely and with reduced risk of fraud.

Chatbots/Robo Advisory: Digital banks are leveraging bots to drive sales and speedily resolve customer queries.

Digital banking trends

Consumer use of digital banking has entered a stage of acceleration globally, fuelled largely by fintech innovations and a growth in digital usage. According to a 2021 McKinsey report on digital banking, nearly nine in ten consumers across the emerging and developed markets are using digital banking actively and most of them are open to purchasing more banking services through digital channels.

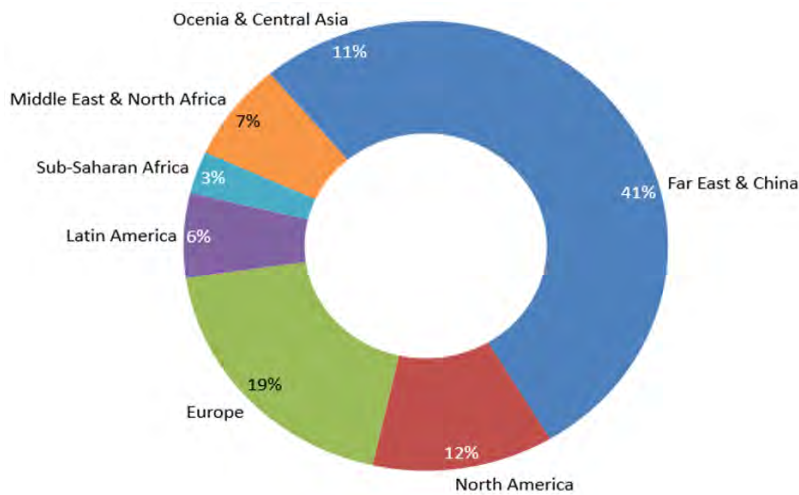
Figure 1: Global digital banking market size, leading segment, services and region in US dollars



Source: Digital Banking Market Report 2021

The global digital banking market size was valued at \$803.8 billion in 2019 and is projected to reach \$1610 billion by 2027. Retail banking segment commands the largest share in the digital banking market with a market size valued at \$574.4 billion in 2019 and is projected to reach \$1320 billion in 2027. The digital payment segment is the largest service segment in the digital banking market segment, valued at \$194.5 billion in 2019 and is projected to reach \$402.5 billion by 2027. Among the regions of the world, the North American region currently has the largest digital banking market value, at \$376.2 billion in 2019, and is projected to reach \$721.3 billion by 2027.

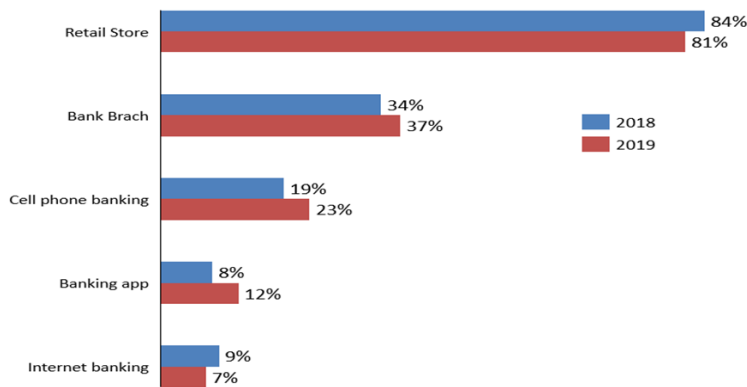
Figure 2: Digital-channel users percentage share by region



Source: © Statista 2021

Across the world, consumers are also adopting digital banking channels in big numbers. As of 2021, as many as 2 billion individuals worldwide actively used online banking services, with the number forecast to reach 2.5 billion by 2024. By 2021, the Far East and China already accounted for over 800 million active online banking users, which is about 41% of the global market and the figure is expected to reach nearly 1 billion by 2024. This was followed by Europe 19%, North America 12%, Oceania and Central Asia 11%, Middle East and North Africa 7%, Latin America 6% and Sub-Saharan Africa 3%.

Figure 3: The proportion of the banked population that used a banking channel to make transactions



Source: FinScope survey, 2019

In SA, there has been an increase in the adoption of digital channels by consumers. The proportion of individuals that used a banking app and cellphone banking increased by 4% points between 2018 and 2019. Retail stores have become increasingly popular as a distribution channel for simple transactions, with Tyme Bank partnering with Pick n Pay and the Checkers Money Markey product as examples. Individuals who used the retail stores to perform transactions between 2018 and 2019 increased by 4%.

DIGITAL BANKING

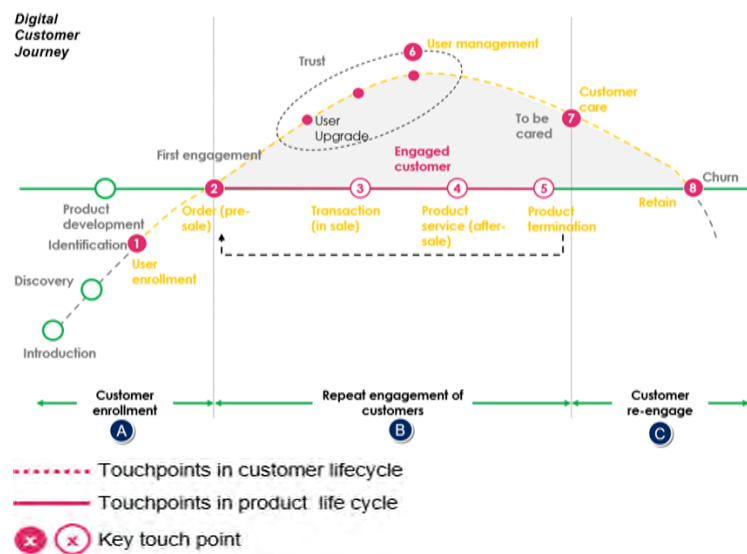
EMERGING BEST PRACTICES

Digital transformation marks a rethinking of how an organisation uses technology, people, and processes in pursuit of new business models and new revenue streams, driven by changes in customer expectations around products and services. Leading incumbents are digitising rapidly across four components: (1) **digitise the customer experience**, (2) **digital products and services**, (3) **digitise operations and technology**, (4) **digitise the organisation**.

Digitise customer experience

Digitise customer experience refers to digitising the end-to-end customer journey in order to radically transform/enhance the customer experience. From creating awareness through digital marketing tools, to providing a digitally intensive/omni-channel experience to onboard customers, to delivering a personalised app experience that adapts to customers' unique needs based on analytics/AI.

Figure 4: Leading digital banks customer journey



As shown in the graphic above (figure 4), digital banks are achieving customer excellence by digitising the customer journey across several key touchpoints. Digital banks successfully hone in on and digitise their customer experience, by focusing on critical touch points, on average experience a ~30% increase in customer satisfaction (CSAT), a ~50% increase in engagement and a ~40%-60% reduction in churn.

Digitising products and services

Digital products and services refers to innovating and leveraging data and technology to develop products and services to address customer needs. Leading digital banks are going beyond financial services by offering an ecosystem of services to address digital lifestyle needs that deepen engagement with customers. In order to deliver varied ecosystems of digital services to consumers, leading digital banks are partnering with and offering financial solutions to merchants/enterprises while also acting as an intermediary between them and consumers. Below (Figure 5) is an illustration of digital lifestyle needs being facilitated by platform-based digital banks.

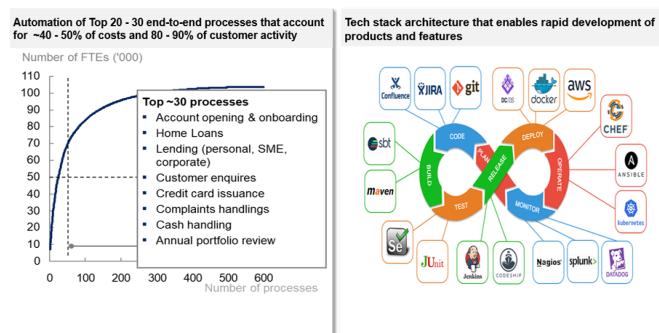
Figure 5: Leading digital banks' ecosystem of services



Digitising operations and technology

Digital banks are digitising their operations and technology and achieving operational excellence through intelligent automation (IA) and robotics process automation (RPA) to streamline manual/cumbersome processes in order to improve speed, quality and volumes. Additionally, digital banks are moving to agile-based technology stacks to ensure they are responsive and flexible in serving their customers.

Figure 6: Leading digital banks automation and tech stack architecture

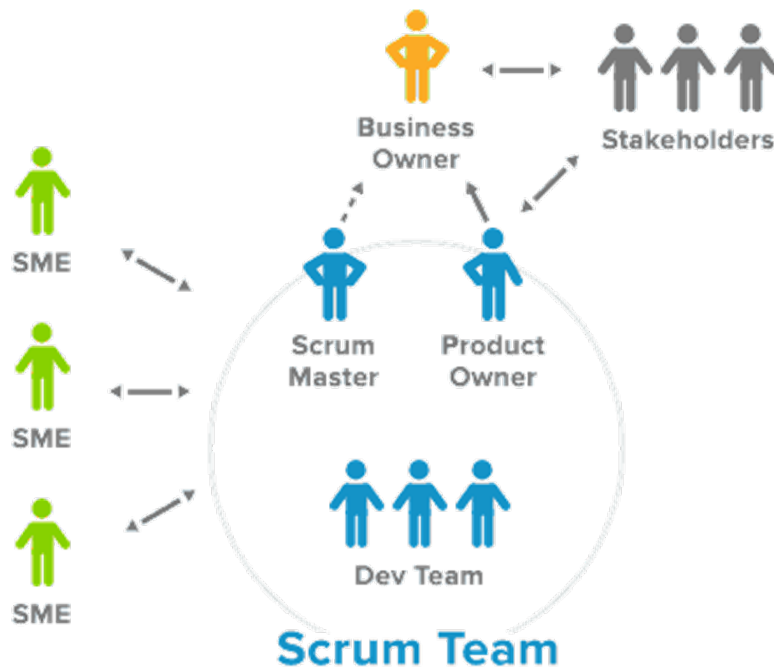


As shown in Figure 6, digital banks that successfully identify and automate their top 20-30 processes are able to reduce cost-to-serve by 20%, increase engagement, and improve turnaround times serving their customers. Additionally, moving to an agile tech stack enables rapid product and feature development, with a low turnaround time between new updates.

Digitise the organisation

Digital banks are not only focusing on customer journeys, processes, and products but also revolutionising their organisational culture/internal environment and attracting critical digital skills and capabilities in order to drive rapid digital innovation, within the context of a hyper-competitive and fast-changing fintech environment.

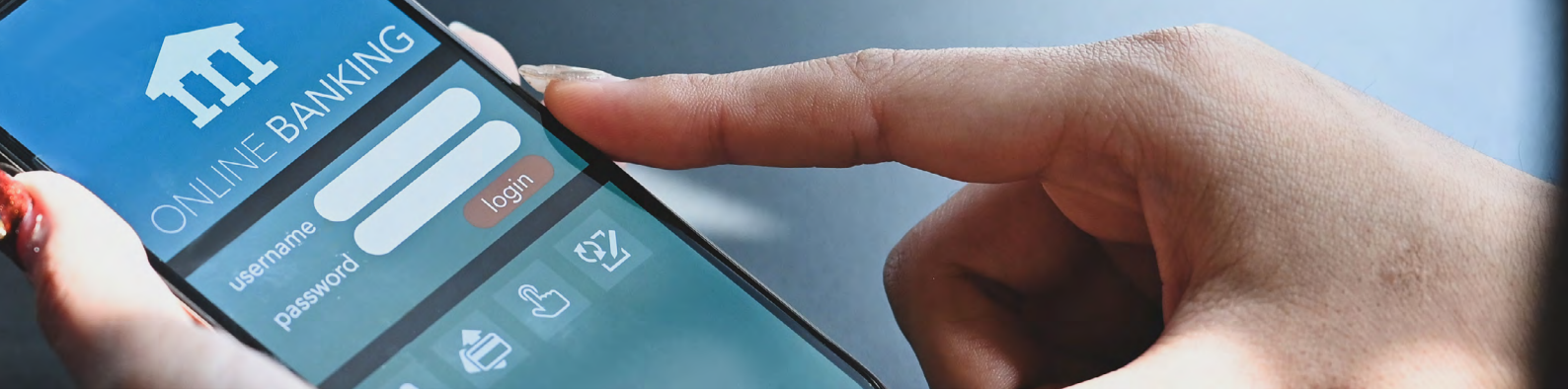
Figure 7: Leading digital-bank teams' organisation



Leaders of leading digital banks are embracing rapid innovation and experimentation as a means to successfully delivering digital banking propositions. Leaders are not only embracing innovation but also cascading the message across the organisation.

Additionally, leading digital banks are reorganising their delivery teams based on agile and DevOps principles. This enables teams to work more collaboratively, creatively, and to deliver solutions rapidly.

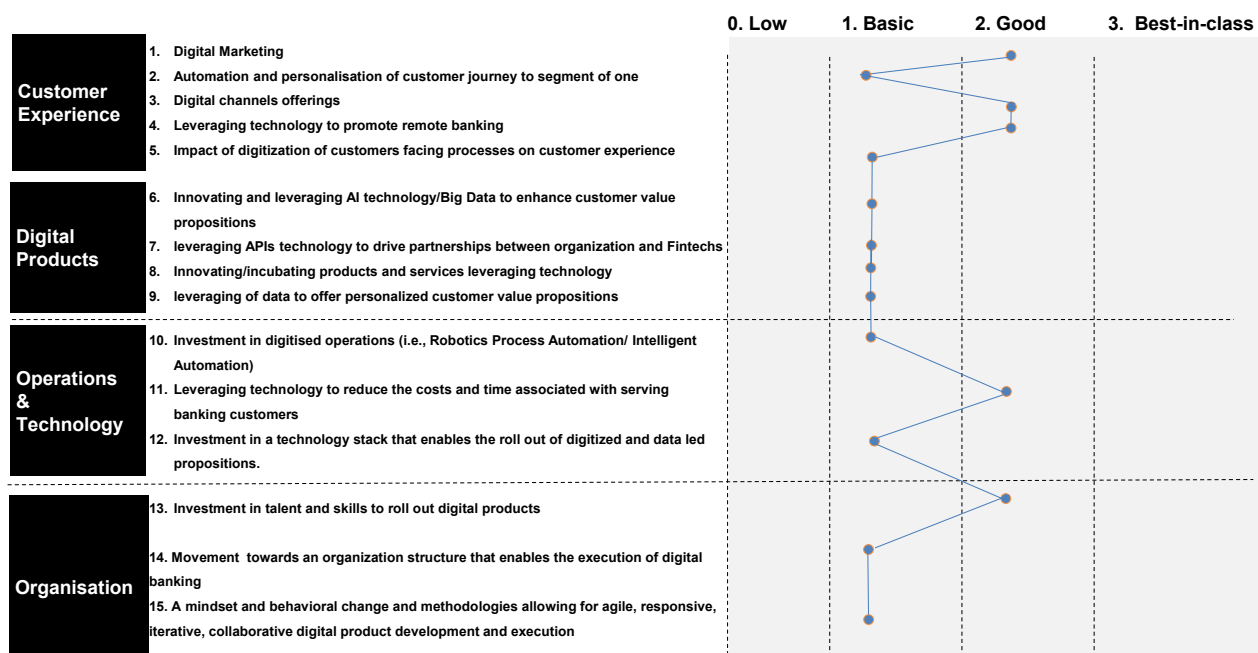
Leading digital banks have also recognised that delivering rapid digital innovation requires critical skills, such as critical thinking, creative problem-solving, mental flexibility, agility, and data and digital literacy, among other skills, and are seeking these skills from individuals who have non-traditional backgrounds.



SURVEY RESULTS

During 2021, the FSCA conducted a digital banking survey targeting banks. The survey consists of 15 questions covering four themes ranging across (1) digitising of the customer experience; (2) digital products and services; (3) digitising of operations and technology; and (4) digitising of organisations. The survey's 15 questions were structured in a manner allowing the participants to provide comprehensive, precise and cohesive self-reported information. Figure 8 provides a schematic presentation of our findings followed by detailed analysis:

Figure 8: SA Digital Banking Diagnostic findings





Digitising of the customer experience

It emerged from our findings that a large number of banks have digitised the customer journey in order to radically transform/enhance the customer experience. Although this is happening at a wider scale, there is still more room for improvement to fully transform/enhance customers' experiences to best in class.

Digital Marketing: All the banks that were surveyed indicated that they are extensively using digital marketing channels to reach out to their customers. This includes both corporate and retail customers. Banks are extensively leveraging digital marketing channels, such as social media, internet, emails and SMS, to reach out to wider populations. Other channels that are also proving to be popular to banks include using third-party channels, ATMs and search-engine optimisation.

Automation and personalisation of the customer journey into a segment of one: A small proportion of banks are leveraging technology to a greater extent, promoting remote banking and making the banking experience seamless and hassle-free.

Digital channels offerings: A majority of banks are offering their customers transacting channels such as internet banking, mobile apps, USSD, digital self-help channels, and Watsup solutions, as well as self-service terminals. Within the retail banking space, USSD, mobile apps and self-service terminals are very popular, while within the corporate banking space internet banking and mobile apps are most popular.

Automation and personalisation: Most banks indicated that they have partially automated the customer journey and personalised to a segment of one. Reasons for an inability to fully automate customer journey include some customers' preference for a brick-and-mortar banking-service experience and other customers, due to the remoteness of their areas, struggling to access banking service via digital channels. However, to those customers who are tech-savvy, banks do offer a fully automated and personalised customer journey.

Impact of digitization of customers facing processes on customer experience: A small number of banks indicated that they have digitise customer facing processes and it has resulted in realisation of benefits such as, reduction in human errors, increase in speed of servicing customers, increase in customers satisfaction, trust and increases in customers loyalty.



Digitising of products and services

Overall, a small number of banks are innovating and leveraging technology to develop products and services to address customer needs, while majority of banks are still figuring it out.

Leveraging AI/Big Data: Survey results are split between banks that are heavily invested in AI and Big Data to enhance customer value propositions and banks that have made plans to greatly invest in AI/Big Data technology. To the former, AI and Big Data tech are mostly assisting them in business operations, e.g., in lending to improve credit for clients and as regtech tools, for example, fraud detection and risk management. Big Data technology is also enabling banks to collect volumes of data, store it and use it more effectively. AI is also assisting banks to analyse Big Data and generate insights.

Leveraging API technology: A small proportion of banks indicated that they are extensively leveraging API technology to drive partnerships with fintechs to enhance value propositions for their products and services to customers. Leveraging APIs to partner with fintechs is also helping banks to adopt new technologies, new skills and ways of doing things. There is a growing awareness among some banks that they cannot own all the technology and partnership is the future.

Innovating/Incubating: Survey results are split between banks leveraging technology to innovate/incubate products and services, banks having plans in place to innovate/incubate and banks which by nature are very innovative and pride themselves as innovative organisations. Innovative organisations are built up with an innovation mindset and see no need to build innovation/incubation capability within, since they do not have legacy systems.

Leveraging of data: A few surveyed banks indicated that they are greatly leveraging customers data to deliver personalisation/segment of one value proposition, while the majority of banks are still figuring out how to leverage customers data to deliver personalisation/segment of one value proposition.



Digitising of operations and technology

It emerged from our findings that very few digital banks are leveraging technology to streamline manual/cumbersome processes in order to improve speed, quality, volumes. Majority of banks are having plans in place to digitise operations and others have just begun the journey with no material impact to point out at the moment.

Investment in digitised operations: A small number of banks indicated that they have begun the process of automating manual repetitive processes by deploying RPA and IA to assist in some areas of work, but the process is still at early phase.

Leveraging technology: All the banks surveyed have indicated that they are leveraging technology to reduce the costs associated with servicing banking customers.

Investment in tech stack: Survey results are split amongst the banks that have already invested significantly in a technology stack that enables them to roll out digitised and data-led propositions, those who are just beginning to invest in a technology stack and those who are planning to invest in a technology stack. For those banks that have already invested, some of the investments took the form of partnerships with big players in the technology sector, which enables them to leverage the best technology in the world.



Digitising of organisation

From our study we observed that a small number of banks have built internal environment and capabilities that will result in an organisation that is innovative and responsive in a fast-changing environment. Majority of banks are having plans in place to digitise their organisations, whilst others have just started implementing their plans.

Investment in talent: All the participants indicated that they have extensively invested in talent needed to roll out digital products. Participants indicated that they have put in place various training programmes aimed at empowering all their employees. The organisations are also running recruitment drives targeting people with modern tech skills.

Investment in talent and skills: Almost all the banks interviewed indicated that they have aggressively invested in skills and capabilities required to execute digital banking. This has mostly taken the form of hiring new highly skilled staff and upskilling existing staff. Data science skills, AI skills and project managers with both waterfall and agile-method experience are some of the skills in high demand. Some banks are leveraging joint ventures and partnerships with third parties to gain new skills and product knowledge.

Organisation structure: Very few banks have put in place an organisation structure that enables the execution of digital banking. For majority of organisations this is still work in progress.

Mindset and behavioural change: A small proportion of banks indicated having embarked on deliberate efforts to mindset and behavioural change and methodologies that allow for agile, responsive, iterative, collaborative digital product development. However, due to the size and complexity of some of the organisations, this is still a work in progress in most organisations. A very small proportion of banks have managed to reach maturity level.

KEY FINDINGS

Our findings show that the digital-banking market in SA is growing. This is because of the benefits these digital banks are offering to customers. Digital banking introduced by incumbents provides easy access to services, while digital banking offered by challengers has more innovative features that traditional institutions do not normally offer.

Despite many South African banks making significant strides in providing a great digital experience, the digital banking landscape still has major room for improvement. For example, “studies indicate that digital-only customers continue to report the lowest levels of satisfaction in the banking sector in SA” . There is a concern among South Africans over the security of their online banking activities and a lack of digital literacy and absence of infrastructure in some communities to support digital banking. For more information on the benefits and drawbacks of digital banking refer to Table 1 below.

Table 1: Key Findings

| Benefits | Drawbacks |
|--|--|
| Convenience and constant access: The digitisation of banking means that customers can now access their accounts 24/7 and carry out all manner of transactions with a few touches of a button. | Downtime/ Operational Stability: if you rely solely on an online bank, you could be challenged to access your accounts should your bank experience an online or mobile app outage and you have no branch to visit. |
| Simplified customers journey: Digital banks can onboard new customers so much more easily than traditional banks. It is usually a paperless process with documents like proof of ID, employment and address uploaded via smartphones and verified quickly and efficiently. | Security issues: Although security is of higher importance to digital banks, there is always the chance that personal information e.g., user username and password could be hacked. |
| Personalisation: Digital banks are able to use alternative data to design products and services that meet individual specific requirements/needs | Technology illiteracy: For those who are not tech-savvy, online banking and mobile banking apps might be very difficult to use. |
| Lower fees: Automated services, the lack of physical branches and less employees means that digital banks have considerably fewer costs than traditional banks. These savings can be passed down to customers as reduced charges and services. | Lack of a personal relationship: Digital banks de-emphasise face to face contact which may lead to some customers not being serviced adequately. |
| Rapid product and feature development: Digital banks are quickly able to deploy new features and services in response to customer behavior/ data | Digital Penetration: Smartphone ownership and data penetration is still low in South Africa, both critical enablers for digital banking adoption. |
| Process agility and responsiveness: Digital banks use less cumbersome and more flexible processes than traditional banks in serving their customers and thus deliver a seamless/faster/simpler customer experience. | Third Party risk management: many banks are outsourcing all or part of their digital strategy to Fintechs and other third-party vendors. |



IMPLICATIONS FOR THE FINANCIAL SECTOR

To fully realise the benefits and mitigate the drawbacks emanating from digital banking activities, a set of considerations was proposed for the financial sector players to reflect upon.

CONSIDERATION 1: DIGITAL LITERACY AND CONSUMER EDUCATION

A transition towards digital banking propositions will require commensurate digital literacy and consumer education to bring customers along.

Digital Literacy and Digital Divide: A collaborative effort among financial-sector stakeholders is needed to provide adequate digital infrastructure and services to rural areas and enable necessary conditions to empower consumers to compete in the digital economy.

Fit-for-Purpose Consumer Education: Digital banks need to build in fit-for-purpose consumer education throughout customer journey processes, to ensure that consumers are informed of risks and benefits emanating from digital banking activities, as well as how these products and services work.

Informed consent: Digital banks need to provide clear and accessible information upfront about how customer data will be used (for example, terms and conditions), and keep the customer in the loop around usage of their data on an ongoing basis.

CONSIDERATION 2: DATA PROTECTION AND PRIVACY

A digital bank's dependency on data to serve customers consequently requires enhanced data-privacy and data-protection practices.

Transparency: Digital banks should be transparent to the customers regarding the data that are collected about them, how they are used and whether they are shared with a third party.

Data protection: A clear liability framework should be in place that ensures the responsible party is held accountable for data security and for harm caused by breaches of its data security duties of care and digital banks need to be able to identify where data were improperly used or accessed in the event of a security breach.

Data Misuse: Safeguards should be in place to ensure that there is no inappropriate use of consumer data beyond the scope of their consent.

To fully realise the benefits and mitigate the drawbacks emanating from digital banking activities, a set of considerations was proposed for the financial sector players to reflect upon.

CONSIDERATION 3: CYBER SECURITY AND DIGITAL IDENTITY

Digital Banking increases the risk around AML/ CFT, eKYC, and cybersecurity and will require practices to mitigate these.

Cybersecurity: To mitigate cybersecurity risk, a multi-pronged strategy including multifactor authentication, cyber risk assessment, cyber insurance and employee training should be put in place.

Digital identity theft: A multi-layered approach involving advanced identity verification, intelligent data use and continuous behavioural monitoring could give the financial sector the power to fight back against digital identity theft.

AML/CFT: Digital banks should deploy regtech tools, i.e., Artificial Intelligence (AI) to help monitor customer behaviour and quickly flag risks.

CONSIDERATION 4: DATA ETHICS

Digital Banks' intensified use of Big Data to serve their customers' needs to be underpinned by a data ethical framework that ensures customers are treated fairly.

Data Governance and Data Mindfulness: There must be a framework in place to guide how digital banks manage, utilise, and protect customer data.

Algorithmic Bias and Discrimination: Digital Banks must have a data ethics framework in place and must also fully demonstrate their comprehension of data algorithms to ensure they are in a position to protect consumers from any form of discrimination that may emanate from the use of algorithms.

Responsible Data-Led Innovation: There is a need to have an ethical framework in place to ensure that innovation is not to the detriment of customers; otherwise we risk losing confidence among the public and gains from financial sector innovation.

CONSIDERATION 5: PARTNERSHIPS AND THIRD-PARTY RISK

Digital banks' dependency on third-party service providers and fintech/digital ecosystem partners requires a third-party management framework that mitigates inherent risks.

Business continuity management: A holistic management process must be put in place that identifies potential impacts that threaten digital banks and provides a framework for building resilience and capability for an effective response that safeguards the interests of its key stakeholders, reputation, brand and value-creating activities.

Levelling the playing field: Level the playing field between digital banks and third parties by ensuring that, through agreements entered, third parties are compelled to uphold banks' regulatory compliance standards.

Interoperability and API management: The financial sector must work in collaboration with other industry standards bodies domestically and globally to promote interoperability and API standardisation.



CONSIDERATION 6: DIGITAL OPERATIONAL RISK

Digital banks' emphasis on digital channels increases digital operational and technological risks that may negatively affect customers in adverse/stress scenarios.

Backup channels to serve customers in the event of stress/systems failure: Financial institutions should look into backup solutions. These systems not only can help companies bounce back from attacks; they can also minimise the effect of disasters and support business continuity.

Regtech and compliance: Digital banks must consider deploying regtech tools, i.e., artificial intelligence (AI), to help monitor operational and technological risks and quickly flag risks.



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