SA to see big uptick in new banks as brands cash in on customer loyalty

By Sergio Barbosa

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Every business major will agree that establishing the value of a company is anything but straightforward with calculations taking any number of indicators into account.

Source: Pexels

But while most still focus on the usual, debt, equity, and cash, brand value is fast becoming an important indicator, especially when that brand can be turned into a new and thriving bank.

Embedded finance - when a non-financial company offers credit and other financial services usually reserved to companies with a banking licence - is quickly gaining global traction. Revenue generated by US-embedded finance offerings in 2020 was estimated to be $22.5bn and expected to grow to $230bn by 2025.

Embedded finance, or brand banking, shows enormous potential in South Africa, although we may take a few years to catch up to the US. This is for a number of reasons, not least of all the significant market dominance enjoyed by our top-tier banks as well as our somewhat restrictive regulatory regime. That said, there is no doubt that we can expect to see many non-financial brands monetising their consumer trust and support as well as their significant customer base and national footprint.

Like Canada and Australia, South Africa's dominant banks are unlikely to feel any real competition from smaller players in a traditional market. However, when it comes to brand banking, the network power of other enterprise players could tilt the scales in the smaller banks' favour.

It's unlikely that the top-tier banks will view an embedded finance partnership favourably in the near future. Disintermediating their business is not obviously attractive and injecting more competition into the market is not something their shareholders are likely to approve of. When it comes to the second-tier banks, however, the benefits of sharing their banking licence with a large retailer or mobile network operator and quickly acquiring new customers as a result, are obvious.

SA known for its innovation - especially in financial services

One of the reasons we are so optimistic about brand banking in South Africa lies in the country's rich culture of entrepreneurialism and innovation.

South Africa has an active entrepreneurial fintech scene and we have a great reputation for exporting some very successful and disruptive tech. Another big indicator for us is the growing list of second-tier banks that are actively vying to establish themselves among the big players. Brand banking offers them a chance at meaningful client acquisition and can significantly accelerate their efforts.

South Africa can expect to see a number of new brand banking partnerships in the near future.

South African retailers have huge existing customer bases and are trusted brands in the local market. Paying for your groceries with a branded store credit or debit card sits well in the psyche of the local consumer. Another obvious choice would be for our large telcos to offer financial services for much the same reason, and of course we are already seeing large car brands getting in on the game.

Embedded finance or brand banking is an elegant solution to large brands going through the pain and expense of applying for a banking licence.

Getting a licence can take years and involves mountains of paperwork and, should they make it past the regulatory requirements, a brand would have already sunk enormous amounts of money before they can even offer their first customer an account. By partnering with an existing licence holder, brands can focus on creating a unique offering and a stellar customer experience. This is, after all, what today's banking customers are looking for in a service provider.

Finally, platform technology means brands can easily deploy offerings in a lower-risk environment.

Banking-as-a-Service makes it easy for any bank to deploy fintech integrations and embedded finance offerings at scale with minimal cost and effort. For many brands the technical complexities can be a big deterrent, but in a low-risk environment they can focus on the customer-facing elements. This is the beauty of fintech - it allows business leaders to creatively come up with new ways of delivering services that better suit the current needs of customers, ultimately creating an opportunity for companies to transform brand value into brand revenue.

ABOUT THE AUTHOR

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