



# Digital Payments in Africa: Opportunities and Challenges



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# Introduction

69% of banks and 75% of merchants are increasing investment in retail payments

**Retail payments is a key area for investment for African banks and merchants alike. 69% of banks and 75% of merchants predict spending on payments infrastructure will increase over the next two years.**

Within retail payments, new payment technology is considered one of the greatest areas of opportunity. Whether or not they invest in developing new mobile money, a digital wallet service, or new overlay products built on an existing real-time payments infrastructure, banks and merchants are waking up to the vast potential inherent in the digitization of payments.

But even while opportunity beckons, banks and merchants must continue to satisfy the needs of their existing client base, for whom cash and debit and credit cards are the predominant forms of payments. Significant effort has been noted from banks and merchants to modernize infrastructure and improve the connection with the digital world, as demonstrated by the notable interest of banks in mobile account management for cards.

These product developments are set against a backdrop of ongoing regulatory and compliance activity as well as security and fraud initiatives, which are also driving retail

payments spend across the continent. There are, of course, geographic differences between the African markets and individual priorities for each organization, but it is clear that there is an ongoing and significant shift away from the traditional payments and toward the new. This in turn has implications for banks' operating environment and the investment made in technology.

**To understand the evolution of the African retail payments landscape in more detail, technology analyst house Ovum partnered with OpenWay, a global vendor of digital payment software for card and noncard processing, to conduct the 2020 Digital Payments in Africa survey. The survey comprised two parts: a bank questionnaire and a merchant questionnaire. In total, 163 respondents were surveyed across seven markets (Ethiopia, Ghana, Kenya, Nigeria, Rwanda, South Africa, and Tanzania) and asked about their experiences, perceptions, and expectations of their payment services and how these are shaping future investment and development activity.**

# Summary

African banks believe the greatest opportunities in retail payments lie in targeting the opportunity in mobile payments and digital commerce or taking advantage of the benefits of real-time payments infrastructure:

- **41% of banks** consider the greatest opportunity in retail payments to lie in supporting digital commerce through digital wallets.
- **23%** believe the greatest prospects lie in creating new payments products on top of real-time payments infrastructure.
- **16% of banks** think success lies in forming partnerships with other banks or nonbank players for new payment technologies.

While the greatest opportunities are considered to lie in new payment technologies, supporting card payments remains an integral part of retail banks' payment operations:

- **32% of banks** state debit cards are the payment product most in demand by consumers, followed by credit cards (23%) and prepaid cards (11%).

- **Banks are seeking to modernize their approach** to card management, with 44% citing plans to enhance mobile account management as their number one priority in payment card investments.
- **80% of banks** believe that mobile money solutions are preferred by younger generations, and they are looking to increase provision to respond to this.

Merchant and bank priorities are aligned in some respects, such as the growing importance of new payment technologies, but are less aligned in other areas:

- **72% of merchants** state that appealing to the next generation of customers is extremely important in terms of determining their retail payments acceptance strategy.
- **Security and fraud is a major concern** for merchants, particularly for those in East Africa. 39% of merchants indicated plans to invest in fraud and security solutions over the coming year.
- However, **banks did not fully appear to recognize the importance of security** to merchants: only 25% of banks said security and fraud solutions were in demand.

Investments in payments infrastructure are expected to increase for both banks and merchants, but spending is primarily driven by wider market issues such as regulation and security rather than product:

- **69% of banks and 75% of merchants** forecast payments-related spending will increase over the next 18-24 months.
- **For 26% of banks**, regulation and compliance is the number one driver of spending, while for 33% of merchants, improving security for digital transactions is the priority.
- **A large proportion of banks** prefer to manage their payment infrastructure using software provided by third-party vendors. For example, 47% of banks use an external software provider for payment gateway services, while the remainder use internally developed software or outsource completely.

# Recommendations

All retail banks will have their own strategic priorities, which will vary according to their organizational structure, the needs of the specific markets in which they operate, and the technology infrastructure that they already have in place. Nonetheless, the results of this study provide some important findings that all retail banks active in African payments should consider as they prepare their strategies and plans to meet the needs of the current and future retail payments market:

***Retail banks should evaluate plans to benefit from the move to real-time payments and make investments in their own infrastructure where needed.***

Real-time payments infrastructure, particularly when combined with open APIs or partnership ventures, opens up a wealth of opportunities for retail banks. Banks can look to build overlay services to add value to consumers and businesses alike. Examples of possible services include instant person-to-person (P2P) payments and instant bill payments.

***Do not lose sight of current customer needs, and investigate how traditional payment mechanisms can be managed more profitably.***

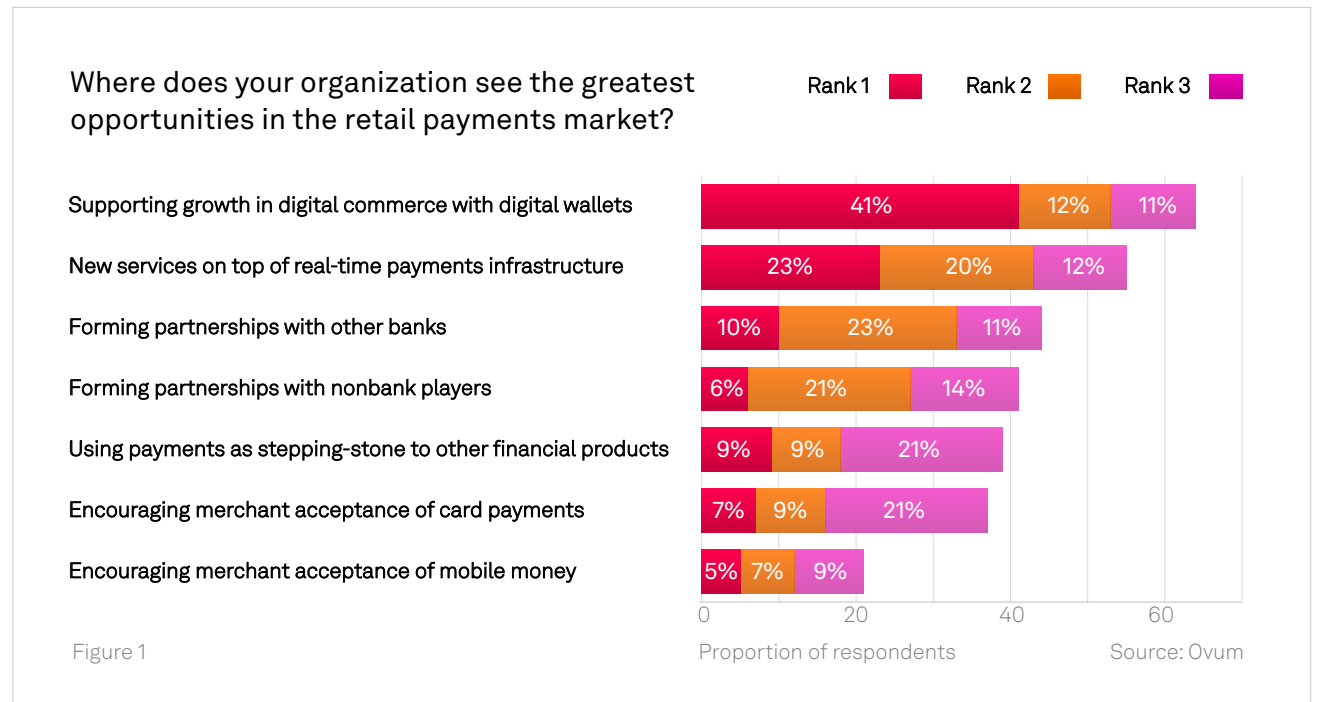
While new payment technology may be the future, banks also need to serve customers in the here and now. Demand is strongest for card products, particularly debit cards, while mobile money is preferred by younger consumers. While technology infrastructure is already in place to support card management, banks can consider how to best modernize card management through better use of technology, for example, mobile card management and digital onboarding. These also have the advantage of being more cost-effective once established.

***Assess the security and fraud solutions that are in place to support merchants and consider if more can be done.*** A recurrent theme among surveyed merchants was the importance of security and fraud in determining their investments and strategy. Yet, while fraud was not unimportant to banks, the theme was of considerably more importance to merchants, which are looking to reduce fraudulent digital transactions and fraudulent in-store transactions in the first instance. It appears many banks are missing an opportunity here and could do more to support clients.

***Retail banks need to consider the needs of merchants more carefully and address any mismatch between level of merchant demand for services and bank supply.*** While banks and merchants were aligned on the level of demand for core services such as point of sale (POS) acquiring, in other product areas such as prepaid cards, there was a noticeable mismatch between the level of demand cited by merchants and that recognized by banks. Banks were of the view that services such as omnichannel acquiring were more in demand than merchants expressed them to be. This serves as a clear reminder to banks to consider and address the actual needs that merchants present or risk losing out to providers that do listen and support accordingly.

***Ensure technology infrastructure can support new requirements and be flexible to add new ones.*** Banks are investing heavily in new product areas such as multicurrency cards and cross-border remittances. Precise requirements will, of course, vary by bank, but it is key to ensure that any technology infrastructure is flexible enough to add and manage new products as required.

# New payment technologies offer the greatest opportunities for banks, but cards are still key



## Banks are actively exploring the opportunities offered by real-time payments and digital wallets

While banks have traditionally been most active in the card-issuance space, the greatest future opportunities are considered to be in taking advantage of new payment technologies. Across the region, 41% of banks stated that they saw the greatest prospects of all in supporting growth in digital commerce with digital wallets. This was a consistent trend throughout the region, with banks in South

Africa just as likely to see the greatest opportunity in digital wallets as those in the east and west.

Real-time payments are another area considered ripe with potential, with 53% of banks viewing the ability to create new overlay products, such as instant P2P services or instant bill payments, on real-time rails as a top-three priority (*see Figure 1*). Unsurprisingly, this trend was particularly strong in markets such as Nigeria and South Africa where there is a real-time infrastructure in place.

Banks also see opportunities in forming partnerships with other banks and nonbank players, particularly in the new payment technology space. A number of banks in the region already have partnerships with telco companies, Equitel (Equity Bank and Airtel) in Kenya being just one example, while many also partner with international remittance specialists such as WorldRemit. However, there has been less collaboration with fintech startups, suggesting an area for future exploration.

## Demand for card products is high, and cards remain at the heart of banks' payment propositions

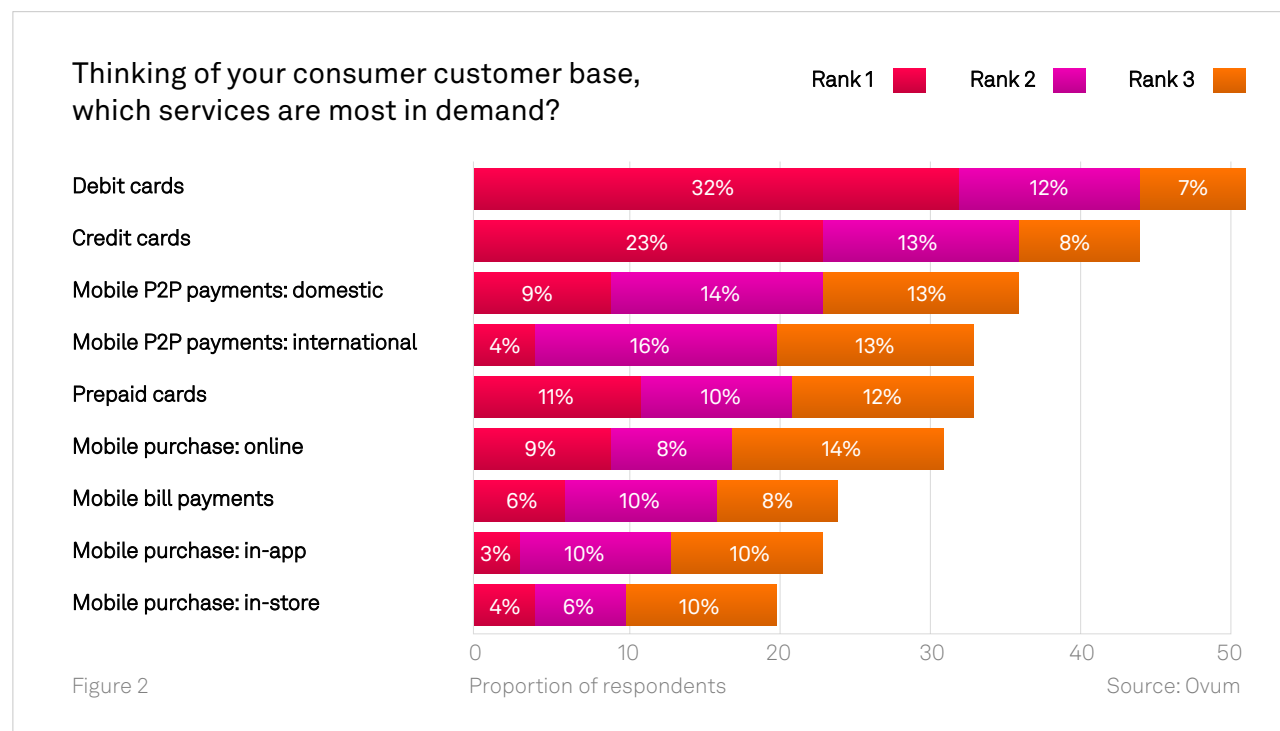
But while the future opportunities may lie in real-time payments and digital wallets, for now, plastic cards are still at the forefront of banks' payment propositions, as shown in **Figure 2**. Banks report that consumer demand for payment cards typically outweighs that for other payment technologies such as mobile payments. For example, 32% of banks ranked debit cards first as the product most in demand by consumers, 23% selected credit cards, and just 9% selected mobile domestic P2P payments. There are exceptions, notably in East Africa, where demand for mobile bill payment products is on a par with demand for debit cards. However, for now, cards are still dominant.

The continued strength of demand for payment cards is unsurprising. Banks are much more active in this space; merchant acceptance of cards in the formal economy is more widespread than mobile payments, for example, and cards offer the ability to use ATMs. With the exception of Nigeria, the mobile payments space in most markets has been dominated by telco providers, and as a payment mechanism, mobile money is still considered to be favored

more by younger consumers, with 80% of banks agreeing that younger consumers are more inclined to use mobile money than older demographics. Where banks are seeing most demand for mobile money is in the P2P transfer space, while mobile purchases are less important: just 4% of banks ranked mobile in-store purchases as the product most in demand by consumers, for instance.

Card payments are also important from a financial perspective for banks. Over 95%

of banks across the region state that debit and credit card operations recorded profits exceeding or in line with the rest of the organization, while 11% of banks stated that mobile money was more likely to record lower-than-average profitability, indicating that some players are still seeking to understand how to best monetize the opportunities afforded by mobile payments.



Other key areas from a profitability perspective include store card issuing and cross-border issuing, which 96% and 97% of banks respectively considered to exceed or be in line with the profits of the rest of the organization. The most challenging area was merchant acquiring for POS, which 15% of respondents across the region found to record below average profitability (see *Figure 3*). This trend was particularly pronounced among West African banks with 23.1% of respondents citing below-average profits for this area, which is partly a reflection of high levels of competition driving costs down.

### Banks are prioritizing the modernization of their card programs

Within the card-issuance space itself, the focus of banks is on the modernization of card program operations and investing in the digital payment experience for the user, both to compete with third-party digital wallets and to improve profitability (see *Figure 4*). By some margin, the key area for investment is mobile account management, with 44% of banks citing this as their top priority for payment card investment. This trend was particularly strong in West Africa, with 52% of banks citing it as their top priority, compared with 30% in

South Africa. Digital onboarding of customers continues the theme of embracing the customer experience, enabling customers to register for third-party wallets with the bank's card rather than a competitor's.

Beyond card operations management, the transition to contactless is a priority of 22%

of banks, particularly among banks in East (29%) and South Africa (25%), where the rollout of near-field communication (NFC) enabled cards and terminals still continues apace. While the transition to contactless is still underway in West Africa, it is less of a concern than mobile account management, with only 8% of banks ranking it their number one priority.

For the areas of payments that your bank is active in, how profitable are they compared to the rest of the bank as a whole?

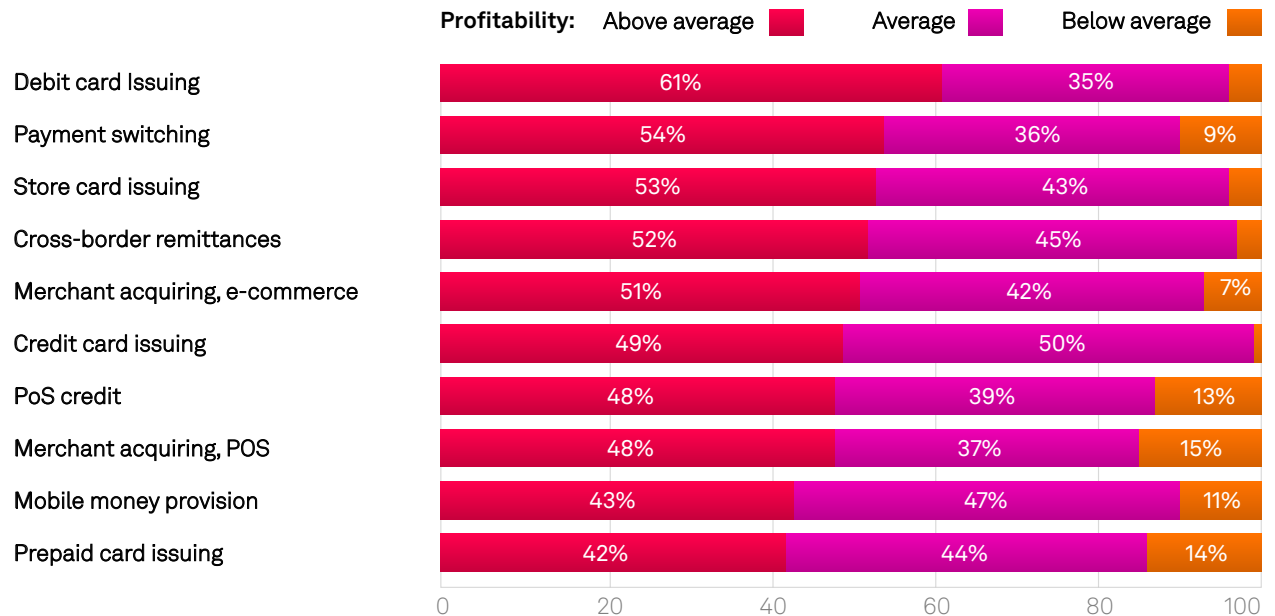


Figure 3

Respondents currently active in each payment area

Source: Ovum



Thinking about credit/debit/prepaid cards specifically, what are your highest-priority product developments in this space?

Rank 1 ■ Rank 2 ■ Rank 3 ■

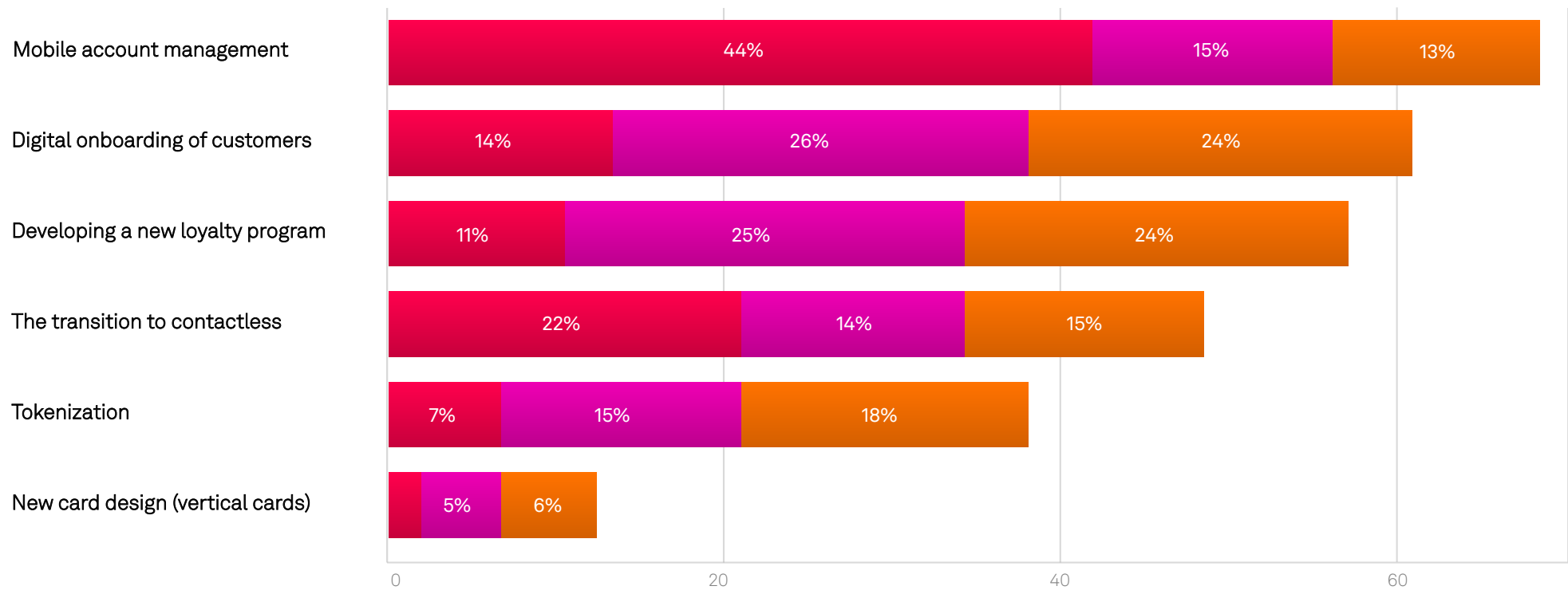


Figure 4

Respondents active in credit/debit/prepaid card issuing

Source: Ovum

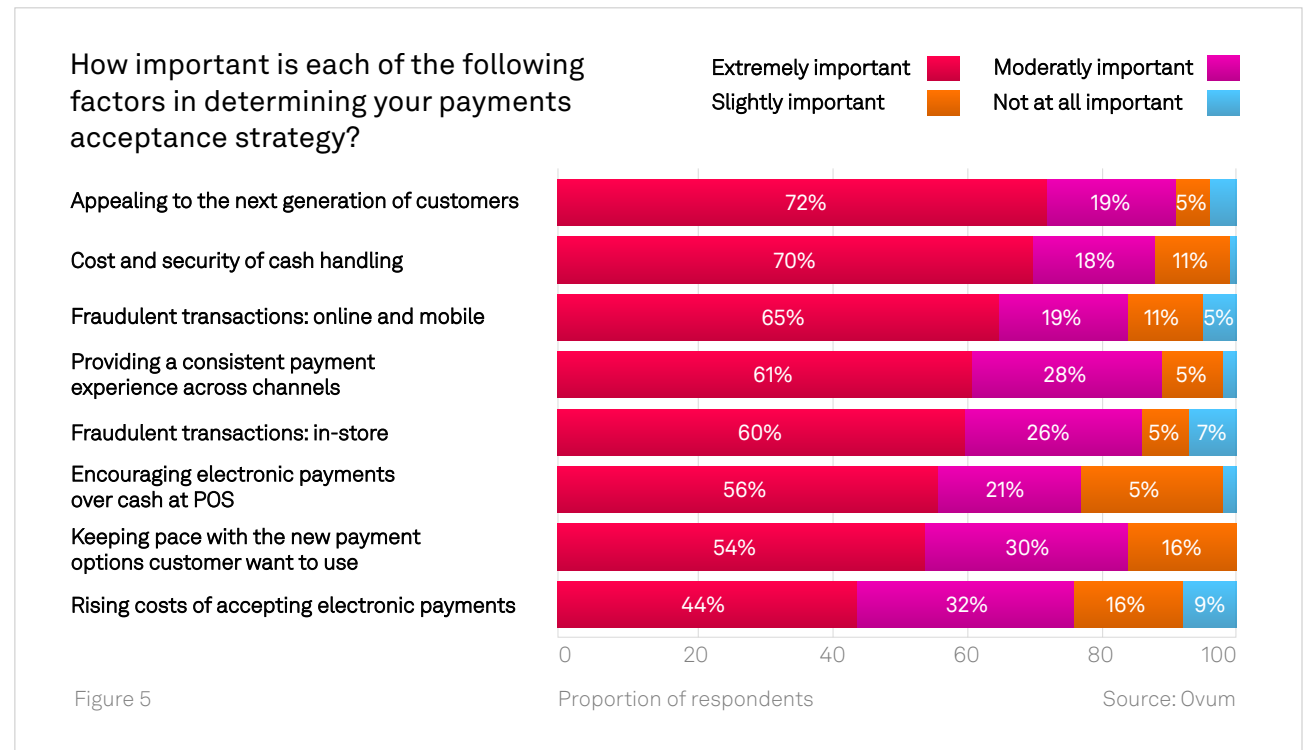
## Banks are addressing merchant needs in some areas but missing opportunities in others

### Appealing to the next generation of customers and addressing fraud are key aspects of merchants' payment strategies

Similar to banks, merchants are keen to embrace technology and new payment methods. 72% of banks (rising to as many as 81% in West Africa) stated that appealing to the next generation of customers was extremely important in determining their payments strategies, and this will extend

into wider improvements in the digital commerce experience. Keeping pace with new payment technologies was also key for merchants, with 54% stating this was extremely important to them.

This is because offering more ways to pay increases incremental sales, and this aim typically lies at the heart of most merchants' payment strategies. It is no surprise, therefore, that merchants are making tangible steps to improve the payment types



that they accept, and while 65% of merchants already accept mobile money, 23% state they plan to add this option in the coming year.

What is of note, however, is that fraud and security, as shown in **Figure 5**, feature so highly in merchants' payment strategies. Fraudulent transactions over digital channels are a primary concern, with 65% of merchants flagging this as extremely important in determining payments strategy, but fraudulent in-store transactions are also a significant driver for 60%. Fraud concerns are particularly high in East and West Africa but, relatively speaking, are less important in South Africa where fraudulent in-store transactions, for instance, were considered of extreme importance by 50%.

### **However, banks do not seem to appreciate the scale of merchant needs in areas such as security and fraud**

When it comes to merchant servicing, there are some areas where merchants and banks are aligned and others where there are marked differences. This is most strikingly shown on the issue of security and fraud, which 39% of merchants across the region flag as an area for future investment, but

only 25% of banks considered security services to be in demand from merchants.

Aside from security and fraud, prepaid cards is another area where banks appear to be missing an opportunity. Across the region, merchants consistently cited their interest in prepaid, with 37% looking to invest in capabilities here, but only 24% of banks recognized this, which suggests there is ample opportunity for other, more aware, acquirers and nonbank players to take advantage of unmet needs.

Banks, for their part, believe services such as loyalty programs, payment gateways, and omnichannel acquiring are more strongly in demand than the level of interest expressed by merchants would suggest. For example, 44% of banks state that payment gateway services are demanded by merchants, while only 30% of merchants agree (*see Figure 6*). This is not to say there is no demand for these products or services from merchants at all, but there is certainly a mismatch between the level of demand cited by banks and the level of need cited by merchants. This suggests banks could do more to consider the direct needs of merchant customers. Different merchant types will naturally have different needs, and it is important that acquirers understand this and have the flexibility in their service offering

to respond as required. Too strong a focus in one area will risk losing business in others. This is especially important when set against the fact that most merchants review acquiring relationships annually, and 28% state they are highly likely to consider moving some or all business to a new provider at the next review.

### **Banks are meeting merchant needs in some areas such as POS acquiring**

Improvement to POS acquiring is the area that most merchants (49%) are looking to invest in, and this is corroborated by banks, with 49% stating POS acquiring is in demand from merchants. Similarly, both banks and merchants agree on the high level of demand for accepting the latest payment mechanisms, which reflects the emergence of new mobile money and other alternative payment mechanisms such as QR code payment provider Zapper onto the market. The two sides also shared similar views on the place of noncore propositions such as multicurrency services, which 18-19% of merchants and banks considered a demanded service, and microlending, which 13% of banks and 14% of merchants flagged as being in demand.

## Most in-demand merchant acquiring services, from a bank and merchant perspective

Banks ■ Merchants ■

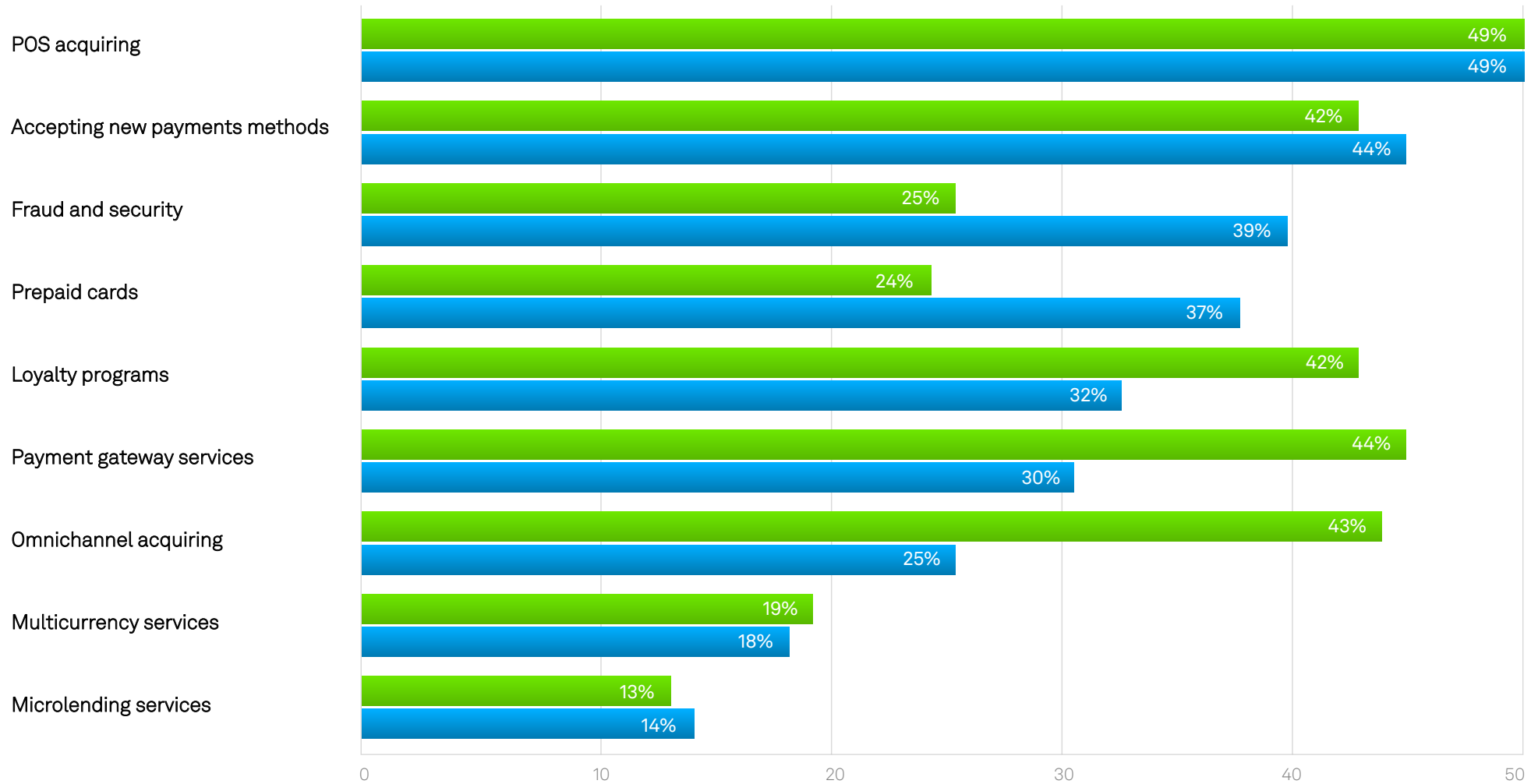


Figure 6

Proportion of respondents

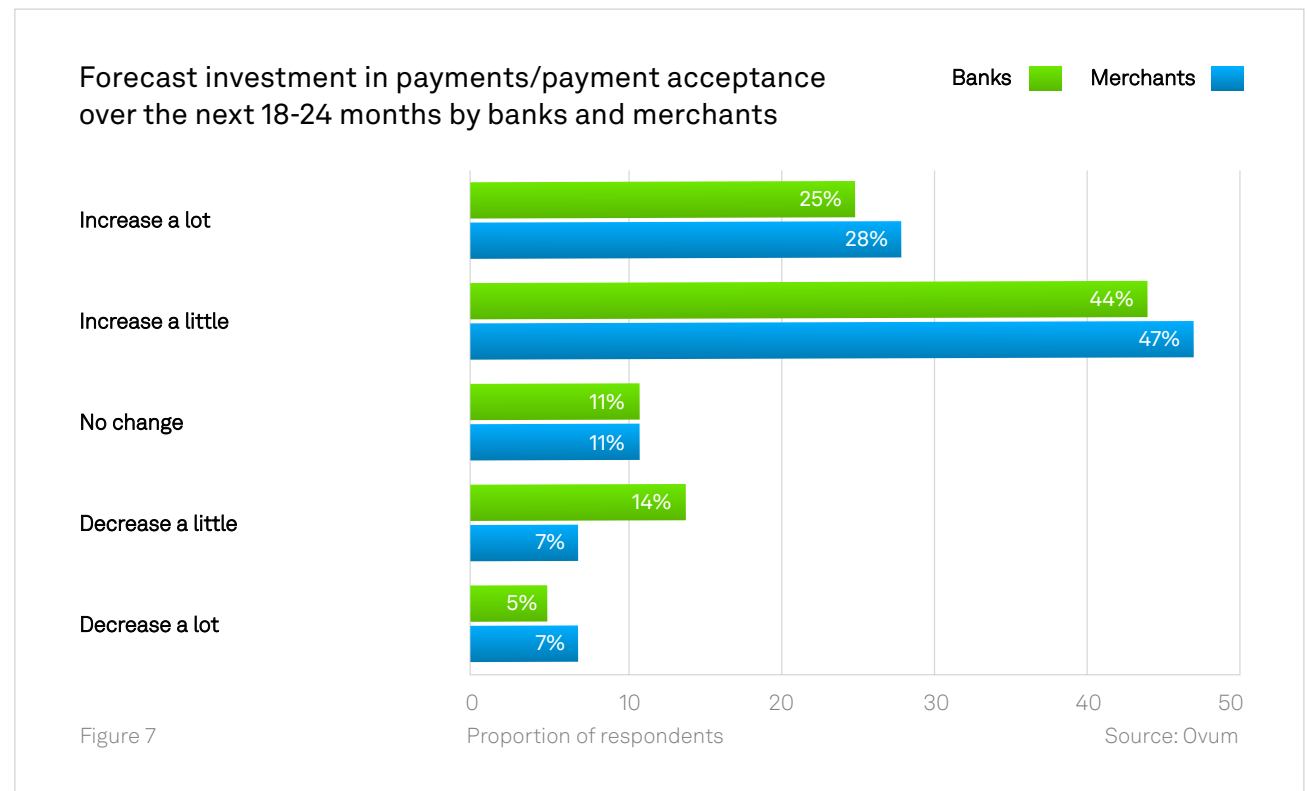
Source: Ovum

## Investment in payments is on the up, driven by the need to address security and regulatory concerns

### Banks and merchants are increasing their investment in payments over the coming two years

Figure 7 shows that both banks and merchants expect increases in payment spending over the next 18-24 months, with 69% of banks and 75% of merchants across the region increasing IT budgets for payments and related services. Almost half of merchants and banks expect moderate increases of 1-5%, but a not insignificant

25% of banks and 28% of merchants expect increases of more than 6%. Furthermore, in most instances, this comes off the back of historic increases in spending over the last two years. The spending trends are largely consistent across countries surveyed, though notably, South African merchants only predicted increases in investment, with not a single respondent expecting no change or a decrease.



## Despite the desire for investment in core product, regulation and compliance is the primary driver for payments spending

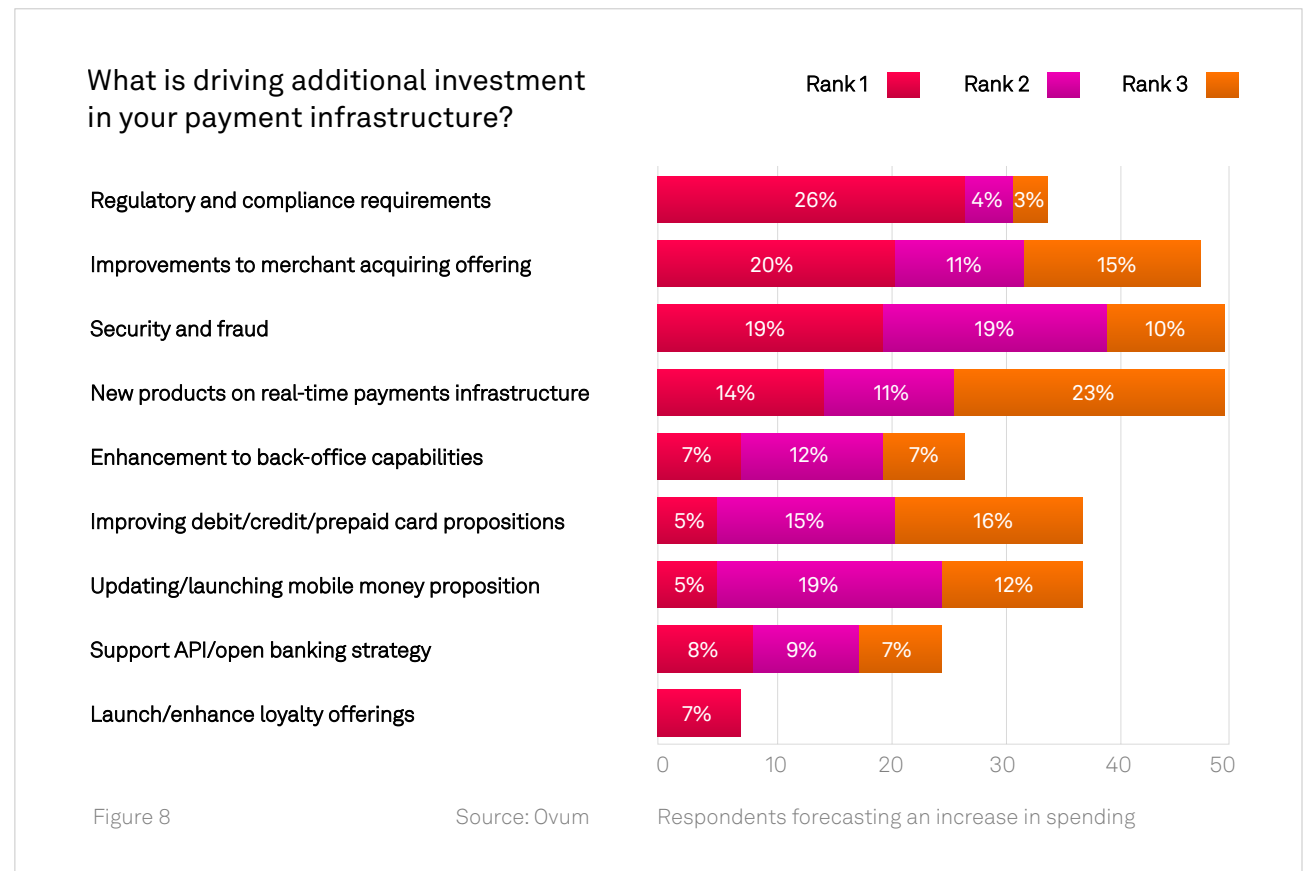
While African banks recognize the need for investment in core product and the opportunities that would bring, many are caught up in having first and foremost to invest to remain compliant. One effect of this tension is that it will drive projects and investments that can reduce costs in order to free up budget for product enhancement. 26% of banks across the region rank regulation and compliance as the number one driver for investment; this trend was particularly pronounced among West African banks, with 36% citing it as the main driver for spending. Nigerian banks, for example, must now comply with the Regulation on Electronic Payments and Collections for Public and Private Sectors in Nigeria, which was issued by the Central Bank of Nigeria in September 2019 and sees a number of changes introduced as part of the Nigeria Vision 2020 project. Security and fraud also ranked highly with 20% of banks, more in East Africa, placing it as the primary driver for investment.

From a product/services perspective, the focus of banks in general is very much on the

merchant acquiring space, with 20% of banks placing it as their number one investment area (see Figure 8). South African banks' spending, in particular, is much more driven by product development than spending by banks in the east and west of the continent. Supporting new products on real-time payments infrastructure is a particular priority, with 29% of South African players citing it as their number

one investment driver, while 21% said improvements to merchant acquiring operations were their priority.

Other areas such as enhancements to card propositions, open banking, and loyalty, however, were more peripheral and only cited by a handful of banks as investment drivers.



For merchants, security and fraud once again emerges as a key theme. Improving security for digital payments was the number one driver for investment for 33% of merchants, while improving that for in-store payments was the main driver for 29% (see **Figure 9**). Other key investment areas include improvements to payment infrastructure, accepting new payment types (such as new mobile money schemes, the recently relaunched mCash in Nigeria being one example), and notably, launching their own prepaid card offering, which is an area where banks tend to report little demand, suggesting an opportunity is being missed.

### Banks are moving away from in-house software development for many investment areas

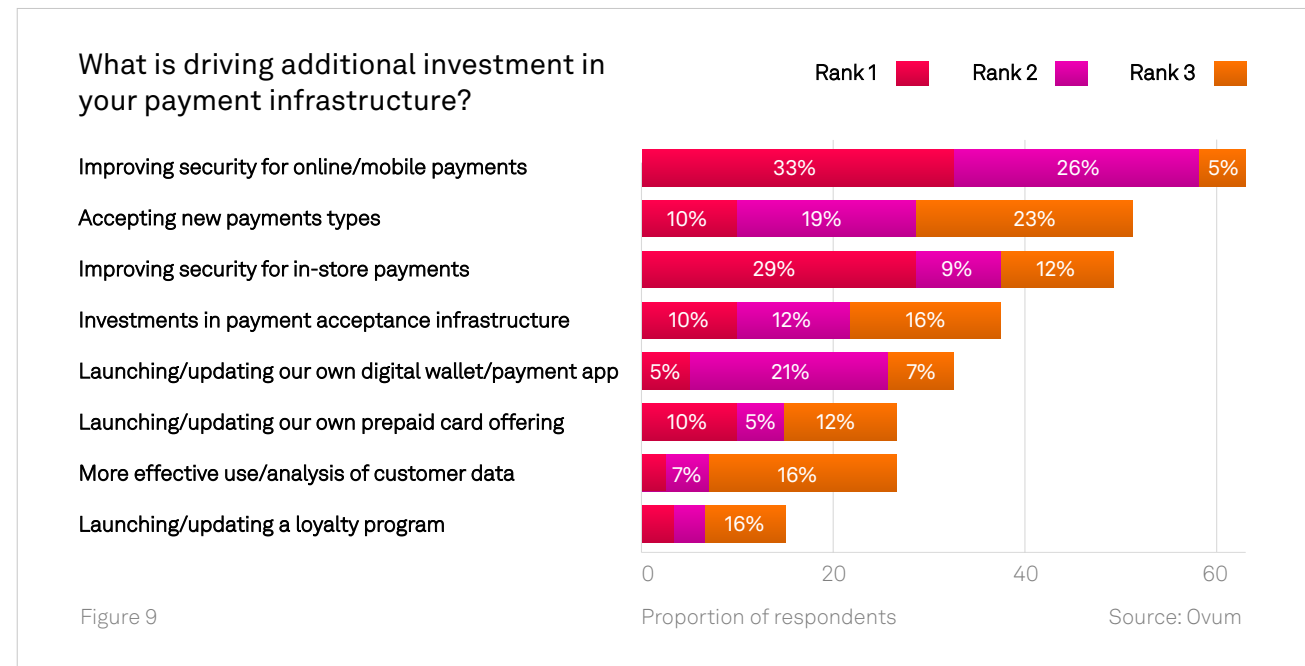
Among the surveyed banks, the propensity is to manage operations in-house using software from an external provider, though this varies according to the requirement in question. Payment gateways, for example, are mostly managed in this way, with 47% of banks stating they use an external software provider, while in the case of customer servicing, banks have a slight preference for their own in-house software. A relatively small proportion,

around a quarter, of the market outsources, though this is typically driven more by smaller banks looking to lower costs and is not necessarily the best approach for innovation.

Areas such as customer servicing are more typically managed using internally developed software; this is of note, because it is in these in-house solutions that legacy issues most commonly reside. On the other hand, banks that operate more-modern solutions are better placed for growth. It is noteworthy, for instance, that 45% of banks

have vendor solutions for card issuing, indicating how important and rapidly changing this space is (see **Figure 10**).

But regardless of the technology strategy employed, the key is that it can enable banks to achieve their future aims. These aims include appealing to the next generation with new mobile payment services, developing new overlay products on real-time payments infrastructure, and modernizing the management of traditional payment tools such as payment cards.



Thinking about your organization's current payments infrastructure, can you state how it manages the following activities?

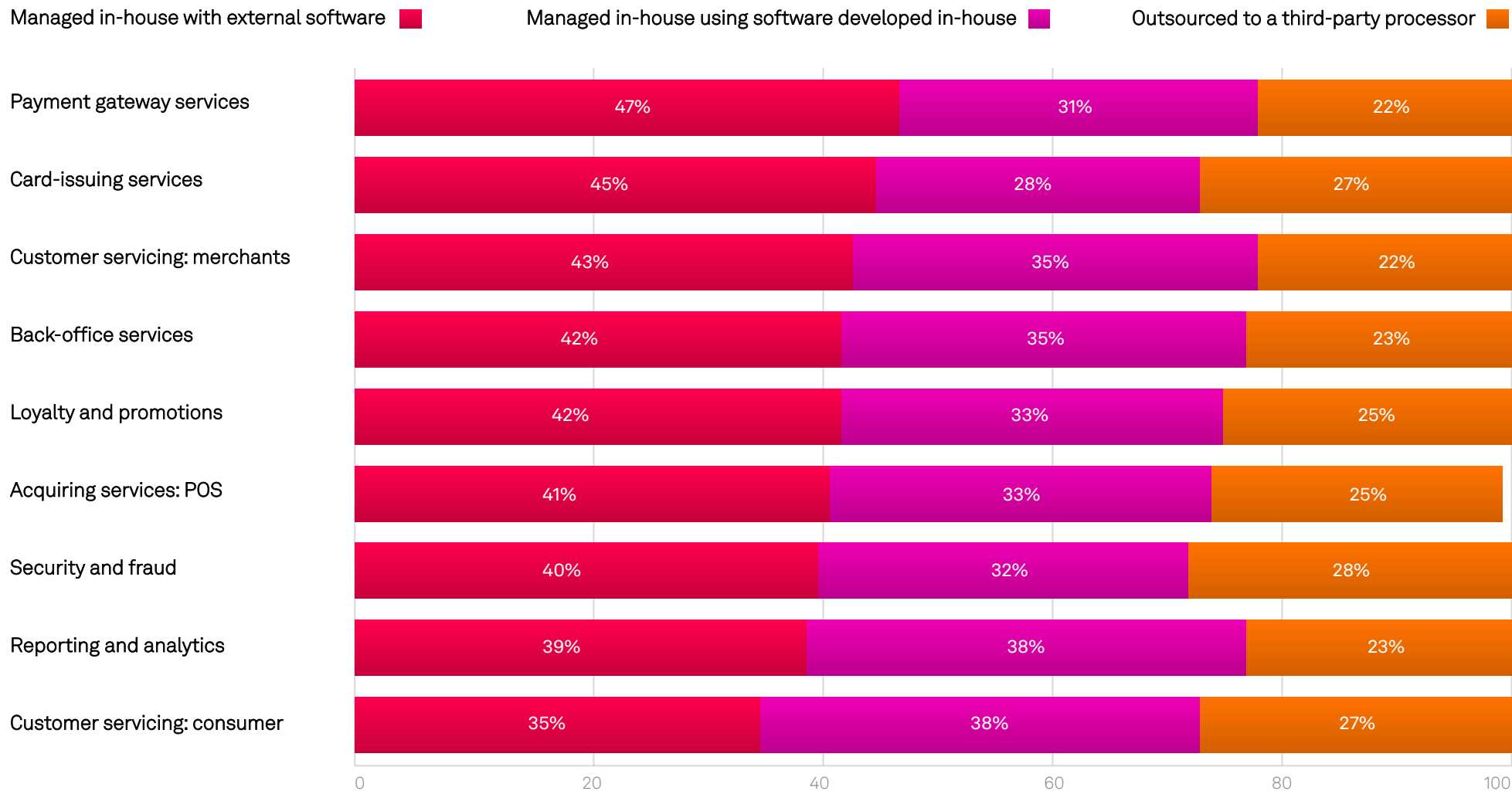


Figure 10

Proportion of respondents

Source: Ovum



# Methodology

For the 2020 Digital Payments in Africa survey, Ovum and OpenWay partnered to run two 20-questions surveys, one of banks and one of merchants.

The aim of the surveys was to understand the current attitudes, business objectives, and challenges facing each respondent company with a view to providing a picture on the role that investments in payments technology can play both now and in the future. The survey focused on the following topics:

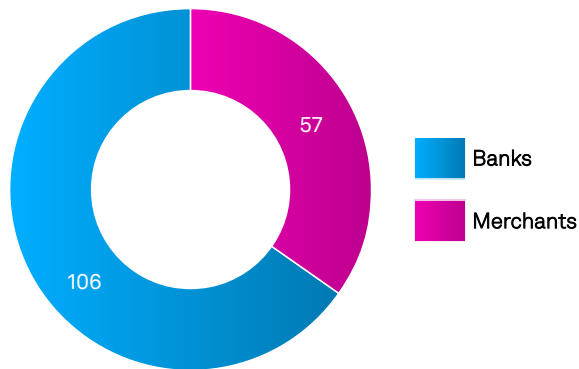
- historic and future investment plans for retail payments

- core business objectives and priorities
- consumer payment trends
- merchant payment acceptance needs
- merchant acquiring relations
- payment systems infrastructure and management.

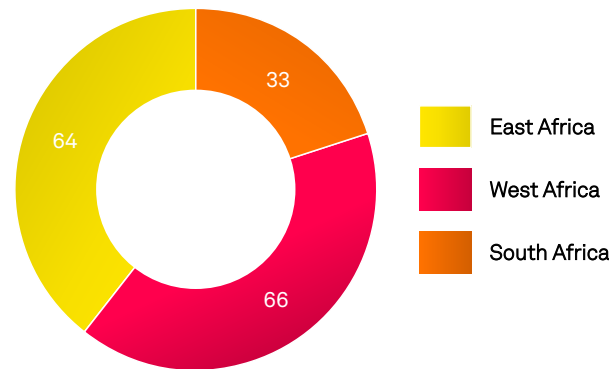
Fieldwork took place in September and October 2020, with 163 respondents interviewed across seven markets: Ethiopia, Ghana, Kenya, Nigeria, Rwanda, South Africa, and Tanzania. The respondent breakdown is detailed in *Figure 11*.

Figure 11

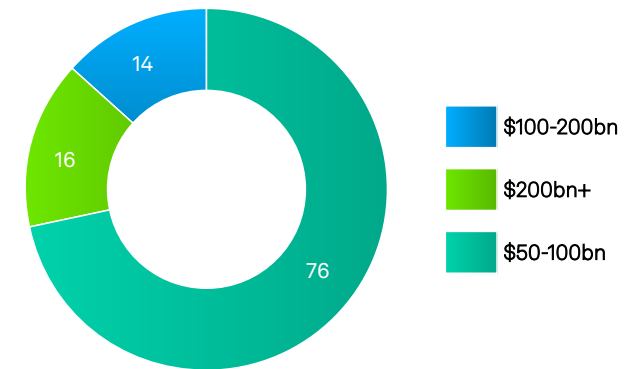
Respondents by type



Respondents by region



Respondent bank size (by assets)



Respondents job title examples: CIO IT director Global head of payments Head of operations Head of retail

Source: Ovum

# Appendix

## Ovum Consulting

Ovum is a market-leading data, research, and consulting business focused on helping digital service providers, technology companies, and enterprise decision-makers thrive in the connected digital economy.

Through our 150 analysts worldwide, we offer expert analysis and strategic insight across the IT, telecoms, and media industries.

We create business advantage for our customers by providing actionable insight to support business planning, product development, and go-to-market initiatives.

Our unique combination of authoritative data, market analysis, and vertical industry expertise is designed to empower decision-making, helping our clients to profit from new technologies and capitalize on evolving business models.

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We hope that this analysis will help you make

informed and imaginative business decisions. If you have further requirements, Ovum's consulting team may be able to help your company identify future trends and opportunities, please contact us at [consulting@ovum.com](mailto:consulting@ovum.com) or using the contact form on [our site](#).

## OpenWay

OpenWay Group is the global developer and vendor of WAY4, an open digital payment software platform covering issuing, acquiring, real-time payment hub, digital wallet, e-commerce gateway, and fleet cards. OpenWay was the highest-ranked «market leader» in card and merchant management by Gartner and Ovum and rated a «market leader» in digital wallets by Ovum. It was also ranked «best payment solution provider in the cloud» by PayTech.

WAY4, OpenWay's cutting-edge payment platform, is the choice of companies aiming for real-time payment processing and the latest innovations in cloud and mobile banking. Our clients rely on our expertise to migrate smoothly from rigid, expensive legacy systems to WAY4, both on-premises and in the cloud. Along with service and product flexibility, our clients gain the opportunity to reach

new standards in cost-efficiency, scalability, speed to market, and performance.

WAY4 software solutions are used by tier-1 and startup banks, processors, and payment switching, telecoms, and oil companies in Europe, the Americas, Asia, the Middle East, and Africa. OpenWay is proud to number among WAY4's client companies equensWorldline, Nets, Equity Bank Kenya, Network International, and Asia Commercial Bank.

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