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New Digital Era Changing The Face Of Traditional Banking

As the world continues to shift towards adopting a full-fledged digital environment as part of the Fourth Industrial Revolution, banks are also following suit. From mobile payments to digital financial services, blockchain and artificial intelligence, the banking world is slowly, but surely, changing for the better.

Digital connectivity systems are today driving inclusive growth by breaking down many of the rigid physical barriers that traditionally hindered both inclusive development and sustainable growth.

In rural communities especially, investments in such projects are needed as they are considered the most isolated in terms of access to financial services that would allow them to grow their own businesses and increase agricultural production.

Financial institutions around the world are following the trend—Bank Islam Malaysia has already formed a strategic partnership with Cognizant, one of the main professional service companies in the U.S., to build a new digital platform that will enable the bank to boost its exposure to small and medium-sized enterprises, and Malaysia's rural, underbanked population.

In more developed markets, traditional lenders have taken a further step, establishing standalone digital banks. Recently, the Hong Kong Monetary Authority (HKMA) granted banking licenses to three virtual banks to launch their services and operate as part of the banking ecosystem. This move reinforces Hong Kong's entry into the smart banking era and brings brand new customer experiences while driving financial inclusion.

Elsewhere, the UK is investing in new technologies in finance, looking to capitalize on its own experience and dovetail it with Africa's rapid uptake of ICT solutions. As an example, is sub-Saharan Africa, which had an estimated 444 million mobile phone subscribers in 2017 out of a population of 1.06 billion, according to GSMA Intelligence. As such, the UK's Financial Conduct Authority entered into an agreement with the Central Bank of Nigeria to help develop the country's regulatory framework for emerging financial technologies.

Discussions are also ongoing in Nigeria about the possibility of a digital initial public offering platform, which would allow consumers across the country to raise capital using their smartphones. Technological innovations such as these are said to help create new ways of performing the same tasks more efficiently.

Today, the entire banking process from account opening to transfers, withdrawals, investment bookings, and local and international payments, has truly become completely digitalised.

According to data from the Central Bank of Nigeria, the banking sector is responding well to the opportunities of fintech, with exponential growth of mobile money operations from an average monthly transaction value of $5 million in 2011 to $304.7 million in the first quarter of 2018.

Nigerian banks are also experiencing increased revenue from new digital applications that facilitate easier payments and seamless execution of customers' transactions in a more cost-effective manner. Fintech solutions are expected to continue redefining the way routine transactions are carried out, and the increased adoption of this trend is estimated to position Nigeria as an attractive investment destination for the industry.

The move towards digital banking and AI presents an array of opportunities: from contract intelligence, used to analyse contracts and extract important data points; to lending opportunity engines, which search for and select clients most suitable for credit extension; and robo-advisors, which provide counsel for various investment activities. Virtual assistants are also able to communicate with customers to help with various tasks, such as retrieving account information and resetting passwords. All of these technologies are redefining the banking industry.

As such, AI has undoubtedly begun to emerge as the most interesting area of innovation as far as some banks are concerned. Recent advances in the sector have propelled the technology to the top of the development list for financial services, with startups that apply AI receiving collective average funding of $1 billion over 2016 and 2017.

In a 2017 PwC survey, some 74% of the large financial firms interviewed stated that data analytics would be the "most relevant" technology they planned to invest in over the following 12 months.

Rapid internet and mobile adoption have greatly benefitted a country like Nigeria. At the KPMG Digital Summit 2017 held in Lagos, the global audit advisory company reported that foreign direct investment in the Nigerian digital sector almost reached $1 billion in 2016, with most of the funds channelled into e-commerce and online payment platform businesses. It was also reported that record-level valuations and investments had been made by digital companies in Nigeria since the start of 2016.

Increasingly, traditional banks are making the paramount shift to digital to ensure they are not left behind. Providing the financial infrastructure that supports the operations of these new digital technologies will prove key in helping them retain a stake—and greatly flourish—in this rapidly evolving area of the market.

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