Edward George: 'Banks are in danger of becoming utilities'

As the market for fintech grows in Africa, Ecobank Transnational Inc., a pan-African banking conglomerate headquartered in Togo, has built a digital strategy that includes acquisitions, partnerships and in-house IT development. Having a large network of branches is no longer considered sustainable in the long run, as banking moves online. The bank is instead acting as an incubator of African fintech start-ups that come up with ingenious solutions to different problems. "Banks are in danger of becoming utilities", says Edward George, Ecobank's UK Country Head and Head of Group Research. "With utilities, you start providing services over a certain network and you're kind of stuck there; they have no growth potential, and people don't want to invest in them." He spoke with LSE Business Review managing editor Helena Vieira during the Mobile Money and Financial Development Conference at LSE.

Could you tell me briefly about your digital strategy?

Ecobank is a pan-African bank. We're in 33 markets in middle Africa. The aim of the bank has always been to foster inter-regional trade, inter-regional business. But with the change in digital banking coming in now, there was a concern that for a lot of the big banks with a huge branch network this was no longer a sign of strength, it was actually a liability. Because nowadays, many customers, you want them to do most of their banking digitally – whether it's paying your bills, checking your balance, transferring money, etc. The sort of things beforehand people did when they came into the branch. If we're changing our model, we need to think about all the different possible ways that our clients can connect to the digital platform.

The key strength of Ecobank is that we have these relationships in 33 countries with the regulators. That means we're able to construct systems like rapid transfer, which is a means of making instant transfers from one Ecobank account to another one in a different country. If you want to, say, do a transfer from Kenya to Guinea, it could take weeks, even from Togo to Ghana, which border each other, because, you know, you've got different monetary systems, different languages. It can be very complicated. With Ecobank you can just do it instantly. And because we have a strong relationship with the different central banks, we were able to get the agreement in 25 markets that you can use the SIM of your mobile phone to set up a bank account. You download the app, you fill in the details, and you send it off, and they do a quick KYC (Know Your Customer regulation) check against the SIM on your card, and you have a bank account. You didn't even have to go to the bank to do it, in the first place. And by having an account in one Ecobank country, you effectively have it in 33, because you can use it anywhere, and for payments anywhere. So the real key to the digital strategy is that we want to leverage this existing infrastructure we have, which more than anything is relationship with regulators, licences, and also all the relationships we have with the market, but lay a digital structure on top, where you can really, then, increase the efficiency.

How do you build this digital structure? Do you do it in-house or do you partner with or invest in different fintechs?

It's a real mix. Certainly when it comes to, for example, the Ecobank app, which is the workhorse of our digital strategy, that was built in house. It was done very quickly. It was around June last year when the decision was taken to build it, it was created and tested up until October, and between November last year and February this year it was launched in 33 markets, so very, very fast. But we do have many partnerships, absolutely. We have partnerships with all of the key IT companies in the world, with all of the different telcos, also with other banks sometimes. So, it's a bit of a mixed bag there, some stuff in house. We have a centralised IT platform run by e-Process in Ghana, and the idea is to centralise a lot of the systems. That means that if you have an innovation idea you can roll it out over 33 countries at the same time, rather than having multiple different apps, multiple different applications.

Have you acquired fintechs?

I know that we have, I can't give examples off the top of my head. I know, for example, that we're proactively doing that. Earlier this year we launched a fintech challenge, and the idea was that we wanted to come up with fintechs that we could partner with, and maybe, ultimately buy or incorporate into the business. Twenty of them were selected to be fintech fellows. There were 850 entries to the competition, with a real geographic spread. The chosen winners were the strongest, which happened mostly to be in West Africa. They get the full incubator support from Ecobank. And already we're starting to see how we can be disrupted by them.

The winner was a company in Nigeria called IroFit. They came up with a mobile point-of-sale machine called [ZirooPay](). The idea here is that in Nigeria cards are one of the most prevalent ways of paying. It's not so much the case in other African markets, but particularly in Nigeria. And the big problem is that you go into a shop, the point-of-sale machine is not working, because the internet is down. It could be one hour, it could be two days. And particularly if you imagine places like hospitals, where people need to make payments, you have to go off for hours trying to find a cash point, etc, it's a real problem. So their innovation is that the point of sale machine actually uses encrypted texts for sending information, a bit like, actually, the [MPesa]() system in Kenya. Because of that, it's always functioning. So that's a major, major help.

But in fact, what's happening is that we like that technology so much that we're now adapting it for our app. So our app actually works using the internet, but we're going to put in this feature whereby you can still make payments on the app where effectively you're using text. You wouldn't know because you're using the app, but the actual technology is from one of the Fintechs. So it just shows that disruption goes both ways.

These 20 fellows you mentioned, they're mostly from Africa?

They are from all over Africa: one from Algeria, one from Burkina Faso, three from Ghana, five from Kenya, eight from Nigeria, one from South Africa and one from the diaspora in the US. There is quite a strong focus on West Africa, but that is because they were the strongest entries. For next year's Fintech Challenge we are confident we will see more fintechs from Southern and East Africa winning prizes. Sub-Saharan Africa has numerous fintech hubs – in South Africa, Kenya, Nigeria, Ghana and Côte d'Ivoire – and we hope to see more francophone entries winning prizes.

In the conference, you mentioned consumers owning their own personal data and not letting companies control that. Could you explain it a little bit?

It's all about this new era we're entering, which is of open data. We're seeing new regulation coming in in the UK PSD2, which is going to force financial institutions to let other companies have access to the financial data of their clients, if the client gives specific permission to do so. And what it really is about, is about individuals taking back control over their data. When we talk about the circular economy, when people talk about data capitalism, there's a recognition that the data about an individual, not just their financial data, everything about them, has a huge value. And in fact the EU has done an estimate saying that by 2025 all of the data of EU citizens will be worth 1 trillion euros by that date. Phenomenal. So, there are many companies out there that are either working with this concept of controlling all your data to a single digital identity which connects to the blockchain and, to, say, different pieces of data. It might be your health records, your education, your credit rating, etc, etc.

And whenever you engage with a financial institution, a government, a company, you decide which bits of that information you're going to share. But it's not the case that the bank has your banking information, or that the government just has your passport information. No, you have access to that and you can use that under certain circumstances. Ultimately what that means is that we should be able to get to a point with the open economy where we can charge every single service provider for getting data about us. Currently we give all our data away free, in any mobile phone you're on. All of your mobile data, all of the times you use it, the payments, where you use the phone, and how you use it. That's what's going to these companies for free. They crunch that using AI and they come up with better ways to provide services. In the future, maybe we can charge them for taking that data of us. Charge Facebook for using it, when they get information about us which is economically useful to them.

I was going to mention the social media platforms Even if you're not on them, they track you. So what you're talking about is disrupting this whole model…

And turning it upside down… It goes beyond the uberisation of the economy. What this is about is actually a totally different way of thinking about data. If you think of how we're so used to handling data, let's say personal data about us, we always assume that it's going to be somehow locked, and that there are some parts of our personal data that actually belong to the government or to a financial institution, not to us. The opposite is true. It all belongs to us. And so it's going to start with the banks, but I'll tell you, how long is it going to be before Facebook comes under regulation telling them to give up certain data which they have on individuals? That is, unless we say yes, you can. It's always going to be the individual consumer who says yes. If there's another company I would like to have my Facebook data because that would reduce my credit rating, or something like that…. So, it'll come. Facebook and Google, yes, they're the behemoths, but I'll tell you, they'll get taken on, eventually.

How would a bank like Ecobank benefit or profit from this?

Well, one of the big challenges facing banks is that they're in danger of becoming utilities. The big problem about utilities and why a lot of people don't want to invest in them is that they have no real growth potential. With a utility, you start providing service over a certain network and you're kind of stuck there. Where's the value at? And the problem for the banks would be if the banks become somehow passive repositories of cash but all of the value-add is taken by the Fintechs: selling the service, paying interest here, making a margin here, left, right and centre, etc… So the idea has to be that there must be a value share, and that is the way to go forward.

Innovators out there, the banks themselves, have to come up with services whereby both sides can gain from it. It may just be that for example the bank benefits from having the hard currency coming to the bank account. Fair enough. Then the fintech can make their margin elsewhere. It might be that the fintech and the bank agree to split the fees 50 per cent. There can be many other things, but what they can't be is just the finTech saying "Oh, yeah, I'll use those bank accounts, but I'm going to take all of the value myself", and vice versa. You can't have the bank just saying "I'm not going to work with you," because we need to work with the fintechs.

Can you name some of the other fintech fellows?

Yes, another one is KUDI (Nigeria) They're very interesting. They're very much in the field of artificial intelligence. They've developed a chatbot that sits inside Facebook Messenger. It enables you to do payments, but within Facebook Messenger, because one of the big issues nowadays with apps is that people have way too many apps. And the reality is that most people only use five or six apps on their phones. 90 per cent of the time they'll be on five or six. So it's become very common now for people to use instant messaging for a lot of what they do. So there are quite a few applications now which sit inside Messenger. And KUDI is one of them. The idea is that you can do payments but you're inside the Messenger. You're not going out of the Messenger, and then opening an account, and then 'what was my code?' etc, etc…

Just like China's WeChat?

Yes, like WeChat, exactly. And WeChat, obviously, is so incredibly developed. Tencent (WeChat's developer), their network in China, same sort of idea. So, we're working with KUDI and we're going to be integrating KUDI's chatbot into our app next week. Third place is Paylater, but to tell you the truth, I need to edit the note and then I can tell you more about that.

In your talk you mentioned the shift between pulling and pushing information regarding credit card payments. Could you explain it briefly?

Mobile payments have a huge advantage over credit card transactions when it comes to preventing fraud and protecting customer information. With a normal credit card you insert it into the point-of-service machine and the payment's details are pulled out by the vendor. This opens up the possibility for fraudulent capture of these details, which is a major disincentive for consumers using credit cards to pay informal/semi-formal vendors (notably in South Africa and Nigeria).

In contrast, with a mobile payment, for example using a MasterPass QR code, the buyer scans the information into the phone, sees the vendor and amount, and pushes out the payment (with a tap of the phone). The bank then sends confirmation messages to both vendor and buyer, but the vendor gets little information about the customer (just what is needed for accounting purposes). If a customer pushes out the payment there is no need for a repudiation window – when credit card transactions can be cancelled if fraud is detected. This greatly reduces the risk of fraud for the bank and vendor, and is also much more efficient. Mobile payments also sidestep the problem of lack of Internet access for POS machines – a common problem in Nigeria. Although we are working with IroFit specifically to address this issue.

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Notes:

- *The Mobile Money and Financial Development Conference (13 October, LSE) built on a three-year research initiative led by Saul Estrin (LSE), Susanna Khavul (San Jose State University/LSE), and Adeline Pelletier (Goldsmiths/LSE). The conference and research initiative were supported by the International Growth Centre (IGC), the Leverhulme Trust, and LSE's Department of Management..*
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