

Cloud technology can significantly reduce banking costs in Africa

The high cost of providing financial services in Africa means that more than 700-million people lack access to a bank or mobile money account and only 41% are financially included.



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These are some of the many insights from the report [*Cloud Banking in Africa: The Regulatory Opportunity*](#) on how the application of cloud computing in financial services can help financial services providers reach and serve the poor.

Part of the cost problem is that financial institutions in Africa are so much smaller than elsewhere – the biggest bank on the continent (SBSA with assets of \$148bn) ranks 296th globally; most banks in Africa have assets of less than \$5bn. But consumers are increasingly expecting these banks to provide the same range of digital services as banks in other countries. This is why consumers have been turning to mobile banking in such numbers. The telecommunications companies have been much more successful at delivering affordable financial services than banks are, but also need to find new ways to reduce costs if they are to reach out to even poorer customers.

Cost savings

Cloud computing creates an opportunity for providers of financial services to rethink their technology spend and significantly reduce costs. It involves using internet technologies to provide virtual infrastructure that is scalable and delivered as a service. Fixed costs can be converted into a subscription-based approach and upfront capital investments are converted into operational costs. In addition, banks pay less for ICT infrastructure and services and achieve higher utilisation on ICT spend, especially for small banks in small markets where specialised ICT skills are in short supply, cloud computing can ease a critical operational constraint.

The most compelling reason to move to the cloud is undoubtedly cost savings, but there are other business reasons too. Flexibility allows financial institutions to experience shorter development cycles for new products, which supports a faster and more efficient response to the needs of customers. Cloud computing provides the computer power necessary to deliver analytical insights in real time, which enables financial institutions to move towards a customer-centric model where the financial needs of customers are fully understood. Financial institutions can also gain a higher level of data security, resilience, fault tolerance and disaster recovery from cloud computing.

A few international and African banks have already realised the value of cloud banking. WeBank is China's first digital bank that is based in a private cloud and uses innovative technologies, such as artificial intelligence and blockchain, to effect an extraordinarily high volume of transactions at a very low cost. WeBank has been able to run at 95% lower cost than that of traditional banks' IT operations and has passed this cost saving onto their customers in the form of low account fees. TymeBank is a new digital entrant to the South African banking sector and has made a 56% cost saving compared to other startups by using cloud services from AWS.

Regulations

Before financial service providers can adopt cloud banking, regulators need to support and approve the use of the technology within the sector. Some international regulators are already allowing its use. The European Union has been at the forefront of defining an enabling regulatory environment for cloud banking services, which has involved both the regulation on the use of data and privacy and protection of data. Under the regulations, financial institutions have to ensure that consumer personal data is gathered legally and under strict conditions and that consumer data is fully protected. Other developing markets like Turkey and Argentina have adopted similar legal and regulatory environments, which has enabled the use of cloud banking in their financial sectors.

Africa's financial sector regulators' approaches are very much work in progress. The report urges African regulators to develop clear policy positions and regulations on data privacy, risk and security; data sovereignty; cybercrime; protection of intellectual property; vendor risk; and migration complexity and operational risk to enable financial institutions to reap the benefit of cloud banking.

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