Traditional banks missing opportunities to compete with newcomers

By Chris Wood

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The combination of fintechs, retailers and telcos pivoting to find new lines of revenues, as well as the growing impact of open banking practices, should have made it clear to banks that they can't adopt a business as usual approach.

Source: Supplied. Chris Wood, regional managing director, Southern Africa and Palops at Network International.

Payments in particular have gone through rapid change and, unless traditional banks pay careful attention to their supporting infrastructure, they are unlikely to remain relevant in an increasingly competitive environment.

Traditional banks have, in many cases, clung to outdated backend technology, either for the sheer cost and size of what a modernisation programme entails or for fear of the perceived risks to the status quo of starting these programmes.

However, by trying to own and maintain all parts of their technology stack, banks are almost certainly missing out on the opportunity to unlock rapid scale and growth through the integration of niche capabilities that can be found in the, now very broad, technology market.

The latest insights from PWC's *Payment's 2025 & Beyond* survey of banking, fintech and payments organisations, show that a full 89% of respondents believed the growing shift towards e-commerce would continue to increase, but said it would require significant investment in online payment solutions. In addition, 97% expect there will be a shift towards more real-time payments.

The rapid shift in the payment landscape, however, will require a significant change to the current infrastructure in order to support new payment models, and the same report puts forward an "evolution of the front- and back-end parts of the payment system" as well as a parallel "revolution involving huge structural changes to the payment mix and ecosystem."

Payment modernisation doesn't just mean new ways to pay

South African financial services are certainly part of these global shifts. Locally, fintechs and neobanks are designing and deploying new services based on what their customers want, unburdened by the stiff regulatory requirements of licensed banks. In an effort to compete, many of the older banks are rolling out new digital services. However, while they may look different, they have often been built on ageing core infrastructure.

This is not a particularly sustainable route because no matter how nice the user interface is, if the substance of the service doesn't deliver what the customer actually wants, banks risk losing them, often to the newcomers, whose services they are trying to stay abreast of.

The curse of legacy technology means that many of the traditional banks have spent decades building and customising a large portion of their systems themselves, with the result that enterprise projects take longer and cost significantly more due to the need for bespoke development and testing.

> *Last week we wrapped up an incredible Town Hall in Egypt.* □
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> *We're excited about Egypt and we're running at lightning-fast speed to deliver on our vision of digital payments transformation in Africa. pic.twitter.com/e0HVkPXOrR— Network International (@networkonsocial) [January 23, 2023]*

In order to deliver new digital services, traditional banks will need to consider meaningful modernisation.

When we talk about the modernisation of payments, that doesn't just refer to new digital ways to pay, it also refers to the systems on which they run. It's about how easily payment systems can scale and provide consumers and businesses ways to interact at speed.

When we talk to banks about modernisation, we're not just looking to deliver new payment products, we're talking about how the payment platform is set up and ensuring it can be used to deploy any new payments that might be required down the line. It's about building resilience into their digital future.

Fortunately, traditional banks can deliver top-tier digital offerings without starting over.

Banks should concentrate on understanding their customers, servicing them and designing products that they want and need. Banks should not necessarily need to focus so much of their time on the heavy lifting that happens in the background, like processing, clearing, industry compliance and regulation. Banks no longer have to own and control everything anymore.

While not always able to be as agile as neobanks and fintechs because of this legacy, established banks do have a clear advantage. Their many years of serving customers means they have decades worth of data that they can leverage when designing targeted products and services.

Many traditional banks have battled to unlock the power of this clear differentiator to make the most of their advantage. Rather than trying to be all things to all people, banks could be looking at delivering their stock-in-trade services, but designing niched additive products based on data.

Traditional banks have the benefit of market dominance, so when they have a great product, they have a captive audience to sell it to. The new outfits have to start from scratch, with no brand resonance, reputation or reach.

This should be the most compelling reason to make the shift from keeping legacy architecture, and to applying the available resources to delivering revenue generating and competitive new services.

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