KPMG

The Art of Banking in Africa 2026



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Foreword

'The banking landscape in Africa and across the globe is rapidly evolving, driven by the growth of fintechs and the application of artificial intelligence. Digital-native challengers are aggressively expanding their customer bases and geographical footprints - excelling in frictionless onboarding, payments, and crypto-assets. Built from the ground up on modern tech stacks, these disruptors bring a cost-to-serve advantage and a culture of rapid experimentation, allowing them to set new benchmarks for customer service, rapid innovation and low cost operating models that enable very competitive pricing. Meanwhile, incumbent banks must balance transformation with the weight of legacy infrastructure, stringent internal controls and intense regulatory scrutiny. In Africa, this dynamic is uniquely shaped by the continent's heritage as a pioneer of mobile money - a revolution largely spearheaded by telecommunications providers rather than traditional lenders. For African banking executives today, reclaiming the digital frontier requires navigating the diverse landscape of sector maturity and client needs across the region, while overcoming fragmented regulatory frameworks and data residency rules that complicate cross-border scalability.

At the same time, banks are moving away from using AI simply as a basic productivity tool, toward leveraging agentic AI to deliver end-to-end transformation of enterprise-wide value streams. As autonomous AI agents begin to act on behalf of customers, banks must redesign the customer experience while updating their risk and conduct frameworks. However, scaling these systems is tough due to issues with data quality, governance and changing regulations. Technology costs are also a major concern, with many banks pivoting from deploying the very latest frontier models from US-based AI firms, to exploring more cost-effective models or open-source options. Meanwhile, criminals are using AI to launch highly sophisticated fraud schemes, forcing banks to enhance their fraud detection and prevention capabilities. Ultimately, the high price tag of these investments raises a big question: will the cost of staying competitive drive a new wave of banking mergers and consolidation globally and across Africa?

The rapid pace of innovation, and the region's shifting demographics and rapid growth, makes this an exciting time to be working at the forefront of Africa's banking and capital markets. We hope the insights in this report serve as a valuable compass for your bank as you navigate your next phase of transformation.'



Geoff Rush

Global Head of Banking and Capital Markets,
KPMG International

The Art of Banking on the African Continent

Introduction

Banking in Africa has never been a single story. A bank in Dar es Salaam, Lagos, Port Louis or Johannesburg may offer similar products on similar platforms, yet each operates based on its own blend of regulation, macroeconomic conditions, geopolitics and customer behaviour. Driving growth in such complex and varied environments is as much an art as a science.

Our previous survey, published in 2024, explored the future of banking on the continent. This edition takes the next step, asking the people who run African banks how they are pursuing growth today, and what stands in their way.

We chose five themes to focus on in this edition: the cost of funding, fintech disruption and ecosystem partnerships, artificial intelligence (AI), mergers and acquisitions (M&A) and consolidation, and finally client experience and digital banking.

If you ask a bank CEO or senior executive what is at the top of the agenda, most of these topics will feature. Not only are these subjects of discussion at banking conferences around the world, but they are also shaping how banks across the continent grow and compete. Each topic represents a different lever of growth. Funding is the heart of banking, influencing the cost of every loan and the margins a bank can earn.

> "If you ask any bank CEO what is at the top of their agenda, most of these topics will be there."
>
> – Auguste Claude-Nguetsop, KPMG Southern Africa

AI and fintech are reshaping how banks operate, compete and innovate. M&A can provide banks with the scale required to expand across borders. Client experience is one topic that should be at the top of every bank's agenda because how a bank treats its customers ultimately determines whether it keeps them.

How we approached the survey

Industry views are often shaped through individual client engagements or global surveys that do not fully reflect African realities. Questionnaires can produce useful numbers, but they often don't capture the context and nuance behind them. For this edition, we therefore spoke directly with senior banking leaders and invited them to share their experiences and perspectives.

KPMG Africa interviewed executives at 20 banks across East, West and Southern Africa, together with representatives of development finance institutions and industry experts. Participants included banks in South Africa, Kenya, Tanzania, Ethiopia, Nigeria and Mauritius, as well as pan-African and West African banking groups. We looked for a wide range of participants who reflect the diversity and maturity of banking on the continent: small regional banks and pan-African banking groups, established institutions and banks in fast-opening markets. That allowed us to compare the experiences of very different banks, as well as similar institutions with one another.

Participants spoke on condition that their responses would be anonymised, which encouraged candid discussion. Where a view is attributed, the bank is described by region and profile rather than by name. The result is not a statement of fact, but rather a compilation of the perspectives shared by the participants. At times their views differ sharply, and those differences are often as revealing as the points on which they agree.

The Art of Banking in Africa 2026

Each chapter sets out the trends that emerged from the interviews, the opportunities and challenges identified by participants, and the questions that boards and executive teams should be asking. Many findings will confirm what experienced bankers already suspect, others may challenge established assumptions. In both cases, the real value lies in how banks respond. Technology, and AI in particular, is moving so quickly that some specifics may date quickly. The conclusions, however, are strategic in nature, and we believe they will remain relevant well beyond the next technology cycle.



AI in Banking



Lowering the Cost of Funding



M&A and Banking Sector Consolidation



Client Experience and Digital Banking



Fintech Disruption & Ecosystem Partnership

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AI in Banking

AI in Banking

Two years ago, AI in African banking was largely a question of potential. In 2026, it's a board-level priority. Banks across the continent are developing AI frameworks, deploying enterprise tools across their workforces and exploring early use cases in fraud, credit and customer service. Yet our conversations with bank executives and industry experts reveal an industry still learning how to turn access into adoption and adoption into value.

We asked each survey participant whether, looking back, banking had overestimated or underestimated AI. Almost every respondent said the industry had significantly underestimated AI, with practical use cases arriving faster than expected. Generative AI is credited with accelerating adoption faster than anticipated. A Tanzanian bank believes the industry is still underestimating AI, because technological shifts tend to start slowly and then move very quickly.

A pan-African banking group gave a more nuanced answer, arguing that banks did not underestimate AI so much as fail to anticipate its pace, while warning that the eventual productivity uplift "is going to be massive".

Dennis Schneider of KPMG's Digital Banking Hub believes AI has been overestimated in the short term, with many projects remaining at proof-of-concept stage, but potentially underestimated over the long term.

That tension is evident throughout this chapter. The ambition is real, the early gains are real, and so are the obstacles: governance, data, talent and cost. The banks that pull ahead will be those that build the foundations now.

From productivity to value

Most banks describe their AI journey in layers. A pan-African banking group sets out three tiers. General AI tools deliver an estimated 5% to 15% productivity uplift; custom solutions built for specific teams add more; and an agentic workforce, which pairs humans with AI agents, is where it expects much of the value to lie. The same group's CIO frames AI through three lenses: tools for employees, AI-enabled business processes built on controlled platforms and the transformation of software engineering itself.

Giving people tools is only the start. "Access does not equal adoption," noted a South African bank. Value comes when AI is embedded in processes and tailored to functions such as legal, finance and risk. A West African bank went further, arguing that employees need a commercial mindset towards AI. The question is not how much work AI saves, but how much commercial value it creates.

Returns are real, but slower than hoped

Auguste Claude-Nguetsop, Head of Financial Services Sector at KPMG Southern Africa, believes the industry is still in the early stages of AI implementation. "We talk as if AI is everywhere, but every bank is still testing," he says. "Nobody in banking has fully mastered AI yet. We are all still learning, and most bank CEOs, COOs and CIOs will admit that."

With so much still at the testing stage, banks are prioritising high-impact use cases and measuring the value of AI, according to KPMG Germany's Dennis Schneider. However, measurement itself is challenging. A South African bank tracks direct gains such as developer productivity, but finds legal and advisory work harder to quantify.

The big take-outs

- Almost every bank interviewed believes AI's long-term impact has been underestimated. However, short-term returns have been slower than hoped.
- Governance, data, regulation and cost, rather than the technology itself, are the main barriers to scale.
- The next phase is expected to move AI from personal productivity to commercial value, and eventually towards humans and AI agents working side by side.

Trying to quantify every gain misses the point, according to the Group CIO of a pan-African Bank. This participant argued that AI should become a standard workplace capability, such as internet access, and expects AI consumption to increasingly be priced by usage. That means banks will need new disciplines to manage AI spend. In time, they may weigh the cost of human capital against the cost of AI consumption. However, a West African bank warned that unrestricted deployment can bring unexpectedly high running costs.

Having underestimated AI's impact, many banks may now be underestimating its cost, says Auguste Claude-Nguetsop. "They assume that replacing people with AI agents will be cheaper and more effective, but that is far from proven," he says. "Some banks are already facing hefty bills from AI providers because staff overused the tools for limited results. There will be a painful awakening for some, and banks will have to recalibrate as they learn where AI genuinely pays its way."

Governance, rather than technology, is the bottleneck

The strongest theme across our interviews for this chapter is that governance, rather than technology itself, is the biggest constraint. "Understanding what we're trying to do with AI is the easy part. How to execute it is the hard part," said an executive at a pan-African banking group. This participant estimates that safe execution within governance and regulatory frameworks accounts for much of the implementation effort. Every deployment must clear data governance, procurement, model risk, cybersecurity and compliance reviews. The bank, he explained, was set up for a world of deterministic software, but AI produces probabilistic outcomes, which means its governance and risk processes have to change.

The same group's CIO described how the bank keeps control without stifling experimentation. Any AI solution that affects three or more users must be built on an approved, centrally governed platform with risk, security, cost and compliance controls, rather than as a one-off departmental solution. The bank works with several AI providers on short-term contracts, so it's not locked into a single ecosystem while the market is changing so quickly.

A South African bank summarised its approach as "safety and control at the core, flexibility at the perimeter". For a bank whose relationships are built on client trust, AI cannot be allowed to put that trust at risk. (The role of trust in client relationships is explored further in the 'Client Experience and Digital Banking' chapter.)

A Mauritian bank stressed the importance of keeping humans in the loop, adding that accountability, risk appetite and judgement cannot be delegated to a model.

Data is the foundation

Nearly all the banks we interviewed named data as a key precondition for AI. An East African bank assesses its AI maturity at level 2 and aims to reach level 4 within 24 months, supported largely through investment in data. After spending years cleansing its customer data, a West African banking group estimates that around 90% of its data is now usable and connected.

Rather than wait for every legacy system to be replaced, a West African bank is exploring an AI and data layer that sits above legacy systems. This could allow the bank to unlock greater value from its data while modernisation continues underneath.

An Ethiopian bank illustrates the differing levels of data and technology maturity across African markets. It holds vast volumes of customer data across many touchpoints, but limited automation and poorly integrated systems make the data hard to use. The starting point, it maintains, is infrastructure: the bank is establishing a new data centre to provide the processing capacity AI requires, while a government AI institute promotes use cases across the market. Unlocking the data will also require data warehouses, data lakes and a 360-degree view of each customer. Until then, foreign banks entering Ethiopia with mature analytics capabilities may have an advantage. Banks that use data and analytics, understand customer behaviour and adopt AI will be better positioned to compete, according to the bank.

"There will be winners and losers from this era … only the paranoid survive, so we've got to adapt with AI."

– Pan-African Bank

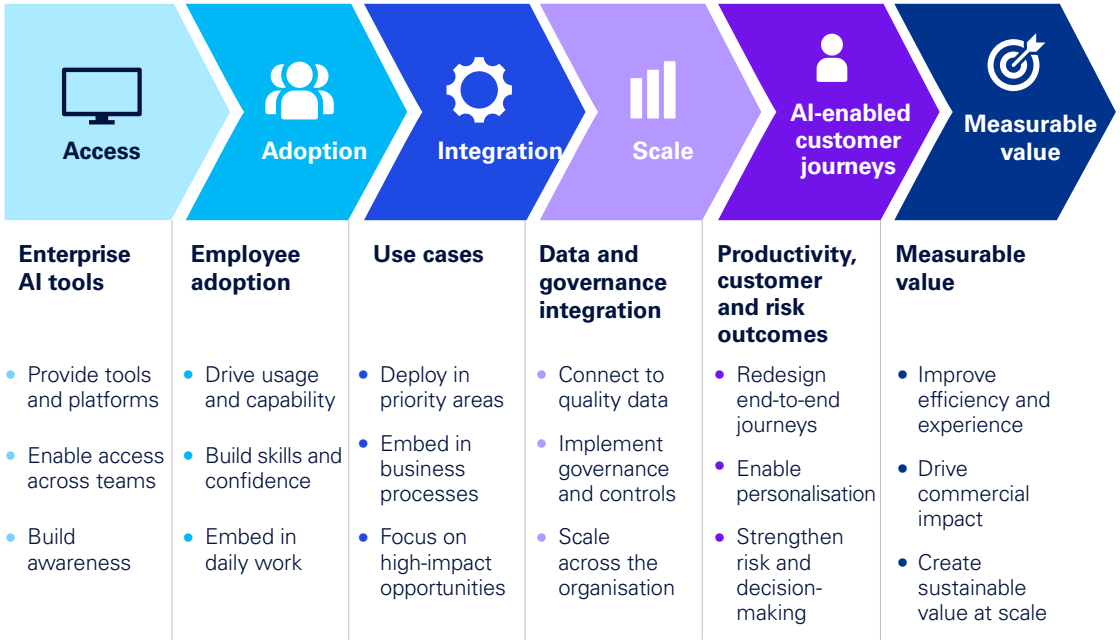
"Safety will trump speed."

– South African Bank

AI in Banking

From access to value

The journey from providing AI tools to achieving measurable value requires more than access. It depends on adoption, integration, robust governance and a focus on real business outcomes.





Opportunities

Survey participants pointed to five areas where AI is already creating value, or has the potential to do so.

1. Fraud and cyber threats

According to our participants, fraud detection is among the most mature and widely cited use cases. Threat actors change tactics too quickly for traditional controls alone, so banks are using AI to monitor customer behaviour and flag suspicious or geographically impossible transactions. A West African banking group, an early adopter of enterprise AI assistants that is now building proprietary language models, said its use of AI has helped reduce fraud losses significantly. It also reported zero successful cyber intrusions during the period discussed, with AI playing a role in its monitoring. Even where adoption is at an early stage, AI often forms part of fraud engines. An Ethiopian bank already runs an AI-enabled fraud system, although it acknowledges that it is not yet using it to its full potential.

Digitisation is also strengthening compliance. A Tanzanian bank noted that automation and digital channels are materially reducing fraud, because digital transactions leave stronger evidence trails than manual processes. It added that AI is increasingly regarded as an aid to compliance rather than a governance risk, because it can support more consistent application of rules and reduce the potential for human error.

2. Faster, wider credit

Our participants have revealed that credit is emerging as one of the early high-value use cases. A Mauritian bank sees AI gathering, summarising and organising information for credit memos before an analyst reviews it, shortening turnaround times and freeing relationship managers to spend more time with clients. A Tanzanian bank already uses AI to analyse customer bank statements during credit assessments, and plans to extend this to reconciliation, contact centres and fraud monitoring.

AI could also narrow the gap between Africa's most and least advanced lenders, at least when it comes to credit. "Many smaller banks struggle to extend credit because they lack the analytics to assess their customers," explains Joseph Kariuki, KPMG East Africa Head of Financial Services. "Until now, that capability has been expensive and largely the preserve of the biggest banks. AI makes it far cheaper to segment a market and assess creditworthiness, so any bank on the continent can access the same analytics." The tools may be getting cheaper, but the technology infrastructure needed to run a bank is not, which is why AI could still widen the gap between large and small banks overall.

There may be an inclusion dividend too. Mobile phones, and services such as M-Pesa, have helped to close much of Africa's financial access gap. "AI could build on that by adding a layer of financial education, so that customers better understand what is available to them," he says.

3. Turn customer insights into value

Banks most focused on commercial applications of AI regard it as a growth engine. Banks are applying AI to customer acquisition, next-best-action recommendations and pricing. Some of our participants see potential to use it to predict deposit movements, helping to retain balances and reduce reliance on costly fixed deposits (explored further in the Lowering the Cost of Funding chapter). A West African bank is treating customer data as a revenue-generating asset in its own right, using insights for personalised nudges and monetising anonymised data through APIs, subject to appropriate consent and privacy controls.

> "The next stage of AI adoption will be measured less by how much work AI automates and more by how much commercial value it creates."
>
> – West African Bank

4. Reimagine work, not just automate it

Several bank leaders warned against simply automating today's processes. According to one bank CIO, banks need fewer AI model builders and more people who can redefine problems and redesign processes. He expects software engineers to spend less time writing code and more time defining requirements, testing and validating outcomes, with product and technology teams working more closely together.

A South African bank noted that AI is changing the build-versus-buy calculation, because tools that were once bought can now be built faster and more cheaply. Its philosophy is to augment people, not replace them. A Mauritian bank is taking a more cautious approach, starting with off-the-shelf solutions before building its own.

5. Prepare for agents and AI as a channel

The longer-term opportunity is an agentic operating model. One banking group envisages each employee working with several AI agents to handle documentation, processing and ideation. The same group's CIO expects AI to become the next banking channel, after branch, internet and mobile banking. This participant notes that this would require banks to redesign customer journeys, risk frameworks and distribution to accommodate customers whose agents act on their behalf.

> "AI is the enabler of our competitive advantage. It's not meant to replace our people; it enhances what they do."
>
> – Pan-African Bank

Challenges

1. Are regulators keeping pace?

The group CIO of a pan-African banking group believes regulators in many African markets have yet to keep pace with AI developments. He said that because customers already carry AI on their phones, society will adopt it regardless, and overly restrictive rules risk slowing national innovation. Another executive at the same group, however, maintained that regulators are "a lot more advanced than we give them credit for", noting that they are in regular dialogue with the bank.

Regulatory approaches will continue to differ across the continent, says Claude-Nguetsop. "South Africa's regulators are likely to be stricter, given the size of the market and the strength of the central bank's governance. That may slow some innovation, but it will make AI more responsible, ensuring it isn't used to discriminate against customers or mis-sell products. In East and West Africa, regulators are raising minimum capital requirements, which should create stronger banks and, in turn, more watchful regulators."

Regulation also creates an uneven playing field. A Tanzanian bank pointed out that fintechs, telecoms companies and other technology-led firms face fewer regulatory constraints and can apply AI more aggressively. (The wider fintech threat is explored in more detail in the FinTech Disruption & Ecosystem Partnership chapter.) It also raised questions that regulators still need to address: must customers be told when they are dealing with AI, and which decisions currently reserved for accountable senior management could AI be allowed to make?

2. Cloud and data borders

Data residency rules complicate cross-border deployment. A Tanzanian bank said that regulation requires it to keep mission-critical systems on its own premises or within the country. According to this participant, in some markets, restrictions on cloud use, local data-hosting requirements or regulatory approvals can complicate deployment. For that reason, the same group typically deploys new AI tools in South Africa first, then adapts them for each of its other markets. The group's CIO regards cloud as foundational to AI. He argued that restrictions often reflect geopolitical rather than technical concerns.

Geopolitics will shape AI choices even more than it shaped the move to the cloud, says Claude-Nguetsop. "Over the past decade, African banks have moved to the cloud almost exclusively with US providers such as AWS, Microsoft Azure and Google Cloud, US owned but with local presence. AI may be different. Leading US models from OpenAI, Anthropic and Google are expensive to use at scale, while Chinese alternatives such as DeepSeek and Kimi cost a fraction as much. Cost pressures could push many banks towards cheaper models. However, it's not only about cost. When banks choose an AI provider, they are choosing a side. We may be heading for a cold-war-style split in AI, in which case banks will need to monitor the situation closely."

3. Talent is scarce

Our survey revealed a shortage of AI engineering, data engineering and advanced software skills. A South African bank attributes the skills shortage to an insufficient pipeline, rooted in gaps in maths and science education. Banks are responding in different ways. One banking group has recruited some of these skills from international markets and is using third-party providers in the interim, while a Kenyan bank, which concedes that the market is "only scratching the surface of AI", relies heavily on outside vendors for engineering work.

Others are still working out their approach. A South African corporate and investment bank flagged shortages in risk and specialised technical roles, adding that questions remain about reskilling existing staff. A Mauritian bank, by contrast, expects little change to its hiring for the next two to three years.

4. Security and safe use

AI is making fraud increasingly sophisticated, amplifying the risks already facing the banking industry, says Ngozi Chidozie, KPMG West Africa Head of Financial Services. "Fraud is already a significant risk to the banking industry, and AI is making it more sophisticated, convincing and easier to execute at scale. Fraudsters can now use AI-generated voices and videos to impersonate trusted individuals, including bank managers, customers and senior executives, potentially deceiving people into authorising fraudulent transactions or disclosing sensitive information. This is forcing banks to strengthen their defences through more robust identity verification, enhanced transaction monitoring and investment in advanced cybersecurity and fraud detection capabilities".

Even with enterprise tools in place, employees may paste sensitive information into public AI services, according to a West African bank. It is responding by investing in AI safety training. Another risk highlighted by a Tanzanian bank is the use of AI by third-party suppliers and ecosystem partners. A Kenyan bank said fear of cyber incidents keeps the market moving "at a measured pace".

5. A widening gap

Scale matters. KPMG Digital Banking Hub's Schneider predicts that banks will split into AI leaders and followers as the largest global banks pull ahead. Laggards risk losing customers and some regional banks may not survive as independent players (see the M&A and Banking Sector Consolidation chapter for more on this issue). African banks can compete at home, he believes, but may lose ground in cross-border and correspondent relationships.

African banks have tended to be "fast followers" in large-scale technology investment, adopting what global banks have already proven, according to a pan-African banking group. That is not true of every innovation: Africa led the world in mobile money, although telecoms companies rather than banks drove much of it. With AI, following may prove harder, given the scale of investment required. The same group pointed out that one global rival spends more on AI each year than the group spends on technology altogether.

Claude-Nguetsop believes AI could accelerate a consolidation already under way in parts of the banking sector. Technology is one of the biggest costs banks carry: the largest banks spend several billion dollars a year on technology alone and AI is unlikely to reduce that. "Will a smaller bank be able to sustain that level of investment? Probably not," he says. As the largest banks grow, he believes regulators may eventually step in to stop some becoming so dominant that they stifle competition.

What will separate AI leaders from laggards over the next five years, says Claude-Nguetsop, is banking expertise, because models are only as good as the knowledge they learn from; partnerships between banks and AI companies; and the ability of banks to use AI to harmonise operations across a pan-African footprint, rather than duplicating systems and costs in every country. Banks with the scale, data, investment capacity and geographic reach to deploy AI effectively may be better positioned to capture its benefits, while those that fall behind could find the gap increasingly difficult to close.

African banks do have one advantage. Regional banks understand local markets and compete country by country, which could partly explain why some international banks have scaled back in Africa, according to the group CIO of a pan-African banking group. In the AI era, local knowledge could matter as much as scale.



Summary

Our survey clearly demonstrates that banks have moved from debating whether AI matters to working out how to make it pay. Enterprise tools are increasingly widespread, AI is already strengthening fraud and cyber defences, and credit and operations are emerging as further areas of opportunity. Yet the same technology is making fraud more sophisticated, so those defences will need to keep evolving. And despite the attention AI has received, returns have been slower than the excitement suggested. Banks are realising that much of the challenge lies beyond the technology itself, in governance, data, regulation and changing how people work.

The banks pulling ahead today have laid the foundations. They build on controlled platforms rather than isolated experiments, invest in connected, trusted data, and push AI beyond productivity towards revenue, pricing and the customer relationship. Over the next five years, what separates leaders from laggards will be what they build on those foundations: deep banking expertise to inform their models, strong partnerships with AI companies, and the ability to use AI to harmonise operations across markets.

Banks also face choices that go beyond technology. AI may prove more costly to run at scale than some expect, and the choice of AI provider is becoming a strategic consideration that extends beyond cost and technology.

The next decade could widen the gap between leaders and laggards, both at home and against global rivals. Regulators, too, face the challenge of keeping pace with a technology customers already carry in their pockets. For African banks, local market knowledge could provide an important advantage in adapting AI to African customers and market conditions. Mobile money showed what African innovation can achieve, but telecoms led much of that innovation, not banks. With AI, banks have the chance to lead. That will take clear strategy, patient investment and a workforce trained to reimagine its work, not just automate it.



The questions banks need to be asking

- Which of our AI use cases have moved beyond pilots, and how are we measuring the value they create?
- Is our governance enabling safe deployment at speed, or slowing adoption unnecessarily?
- Is our data sufficiently connected, trusted and governed to support AI at scale?
- Are we training our people to reimagine how work is done, rather than simply use new tools?
- How will our customer journeys and risk frameworks change when clients' AI agents start dealing with ours?
- Do we understand the full cost of running AI at scale, and who is accountable for managing it?

"AI is overestimated in the short term but could prove transformational in the long term."

– Dennis Schneider,
KPMG Digital Banking Hub

"Nobody in banking has fully mastered AI yet. We are all still learning."

– Auguste Claude-Nguetsop,
KPMG Southern Africa



M&A and Banking Sector Consolidation

M&A and Banking Sector Consolidation

Consolidation has become one of the defining themes of African banking. A handful of well-capitalised regional banks are expanding across borders, while some smaller banks face a choice: grow, merge or sell.

Three structural trends are reshaping the African banking landscape, says Ngozi Chidozie, Head of Financial Services Sector at KPMG West Africa. "The first is the strategic retreat of traditional European banking groups, particularly British and French banks, from several African markets. This is creating opportunities for indigenous African banking groups to acquire established businesses and expand their presence across the continent. The second is the rise of pan-African banking groups, as institutions increasingly expand beyond their domestic markets through acquisitions and organic growth, positioning themselves to facilitate cross-border trade, payments and investment. The third is the tightening of regulatory capital requirements across several African markets. Central banks are raising minimum capital thresholds to strengthen the resilience and lending capacity of their banking systems. This is accelerating industry consolidation, as smaller banks consider raising fresh equity, pursuing strategic partnerships or merging to meet the new requirements."

Our survey asked banks what is driving consolidation and whether it is the right answer for the continent's banking sector. For some of our participants, regulation is the catalyst: higher minimum capital requirements are prompting smaller banks to raise capital, merge or sell. For others, the pressure is primarily commercial. A Mauritian bank argued that scale, market access, deposits and technology are important drivers of transactions, while a Tanzanian bank pointed to the rising cost of technology, AI and compliance, which smaller banks can no longer carry on their own.

Appetite for expansion is just as varied. A Nigerian bank has spent two decades building a presence across West Africa and Europe and is now moving into Francophone Africa. A Kenyan bank, by contrast, explained that its shareholders' appetite for risk – rather than a lack of capital – determines how far it is prepared to go.

Our survey revealed that consolidation is neither a continent-wide wave nor a cure-all. Deals are selective, shaped by country-level regulation, currency risk and shareholder appetite. Their value depends more on governance and execution than on size alone. The question for banks is not whether to grow, but how to do so without taking on risks they cannot manage.

> "It's not for lack of capital. It's where you peg your own risk appetite, because the opportunity does exist."
>
> – East African Bank

The big take-outs

- For many banks, scale is becoming increasingly important. Respondents repeatedly cited the rising cost of technology, compliance, data protection and AI as important drivers of consolidation.
- Higher minimum capital requirements in some markets are accelerating mergers and recapitalisation, but Basel-driven reform is a selective rather than continent-wide driver of M&A.
- Cross-border appetite for expansion is concentrated and being led by a small group of well-capitalised regional banks. Shareholder risk appetite and regulatory fragmentation, not access to capital, are among the key constraints.

Scale is the new survival threshold

Asked what is driving consolidation, survey respondents identified economics rather than regulation. Banks must continuously invest in digital channels, cybersecurity, data privacy and, increasingly, artificial intelligence, while absorbing a growing compliance burden. For smaller institutions, these costs are becoming difficult to carry alone.

A Tanzanian bank noted that its market has around 42 banks, with the top 10 holding roughly 80% of market share.[1] It expects significant consolidation, driven by technology and AI investment, compliance and data-privacy obligations, and shareholder return expectations, and believes this will extend beyond banking into adjacent sectors, including fintech.

Scale also determines what a bank can do for its clients. A Kenyan bank pointed out that smaller banks are often unable to take on large-ticket transactions, leaving them squeezed by competition, and that some have been structurally unprofitable for years. "Those banks have been forced to go into some sort of consolidation or acquisition," it said.

A Nigerian bank made the link between technology and scale explicit. Banks increasingly resemble technology companies with banking licences, it said. The bank says it has recently invested an estimated US$100 million or more in a new core banking system. These kinds of costs, it said, can only be justified if they are spread across more customers, more transactions and more markets. Expansion also diversifies risk away from a single economy and opens up new revenue streams and larger transactions.

A Mauritian bank added that acquisitions offer faster access to licences, deposits, customers and digital capabilities than organic growth. A group of regional champions is emerging, supported by deeper trade corridors and stronger regional economies, with the capital to expand beyond their home markets.

> "Banks increasingly resemble technology companies with banking licences."
>
> – West African Bank

Capital requirements are a catalyst, but not the whole story

Where regulators have raised minimum capital thresholds, the effect has been significant. Kenya's Business Laws (Amendment) Act, 2024 requires banks and mortgage finance companies to raise their minimum core capital progressively from KES 1 billion to KES 10 billion, with full compliance by December 2029.[2] "Some banks will not be able to meet that minimum requirement. That obviously drives consolidation," said a Kenyan bank.

In Nigeria, the Central Bank of Nigeria's recapitalisation programme required banks with international licences to raise their minimum capital substantially by 31 March 2026. Banks met the requirement through a combination of rights issues, private placements and, in some cases, mergers and acquisitions. A Nigerian bank pointed out that higher capital thresholds have reshaped the market once before: in 2005 an earlier round of consolidation reduced the number of Nigerian banks from around 100 to about 25. Today, the same bank said, banks face additional pressure to build larger capital buffers as conflict in Europe and the Middle East, commodity price volatility, inflation and rising credit risk weigh on African markets.

A Mauritian bank cautioned against viewing Basel-driven reform as a uniform driver of M&A across the continent. Capital, liquidity and governance requirements vary considerably by jurisdiction. Higher standards may push undercapitalised banks towards a merger, strategic investor or sale.

There is also a second-order effect. As regulators raise capital adequacy at country level to manage systemic risk, the result will be fewer, better-capitalised banks. "If that consolidation happens at country level, then you become attractive to larger banking groups because they can see that they're investing in a more stable market," said a Kenyan bank.

[1] It is Sh10bn capital base or close for banks as Ruto assents to bill – The Star

Who is expanding, and where

Appetite for regional expansion exists, but it is concentrated. A Kenyan bank identified three main sources of cross-border banking investment: South African, Nigerian and Kenyan groups, each following its own regional corridor. Kenyan banks moved quickly into East Africa and, more recently, into Central Africa through the DRC; Nigerian banks expanded across West Africa and into Kenya; and South African banks extended north into East Africa, while Moroccan banks expand into Francophone West Africa. A Nigerian bank added North African groups, such as Morocco's Bank of Africa, to that list.

In some markets, entry opportunities have already become limited. A Kenyan bank pointed to Rwanda, where a small population, low financial inclusion and a handful of dominant banks meant that available opportunities were taken up quickly. "Today, even if you wanted to go to Rwanda, there's no opportunity to get in," it said.

Nigerian banks' expansion has become more structured. A Nigerian bank moved into Anglophone West Africa in the mid-2000s, set up a London subsidiary to support trade between Africa and Europe and, after Brexit, added an operation in Paris, which also supports its ambitions in Francophone Africa. It has since entered Côte d'Ivoire and identified Cameroon as its next market. Rather than expanding country by country, it now targets economic blocs, where common regulatory frameworks can open access to several markets at once.

For South African groups, the motivation is increasingly about growth beyond a mature home market. A South African bank said that while South Africa offers incremental growth, material growth must come from the rest of the continent, particularly as new entrants, including Middle Eastern and Nigerian banks, compete in South Africa itself. Its priorities include Francophone West Africa, notably Côte d'Ivoire, as well as Egypt and Morocco.

The same bank was candid about the gap between ambition and execution. Over the years, it evaluated several acquisition opportunities in Nigeria and Kenya, none of which were completed. It attributed this to resource constraints, demanding return-on-equity hurdles, a preference for domestic opportunities and lengthy decision-making.

Joseph Kariuki, KPMG East Africa Head of Financial Services, says "Building a successful pan-African bank is far from guaranteed, few banks, he says, have built a genuinely continental footprint. What sets the most successful models apart, in his view, is depth of talent and the capital allocated to deploy AI".

Buying in a volatile market

Survey participants did not describe current conditions as a broad-based buying opportunity. Instead, opportunities are specific and jurisdiction-led: international banks exiting markets, undercapitalised local banks, scarce banking licences and attractive deposit or digital franchises can all create compelling targets for larger regional banks. Against this, high funding costs, regulatory approval risk, uncertain asset quality and persistent valuation gaps continue to slow transactions.

Currency volatility can also create opportunities for some banks. Well-capitalised regional banks and investors with hard-currency funding may be able to acquire strong local franchises at lower entry valuations.

Opportunities

Survey participants identified five ways banks can use consolidation and expansion to their advantage.

1. Acquire the franchises global banks leave behind

A Kenyan bank believes local banks have largely filled the gap left by the withdrawal of European and US banks from parts of the continent. Just a few years ago, no local bank featured among Kenya's leaders by assets or profitability; today, the bank estimates the top five are local. When a small banking crisis required support, it recalled, the solution came from local banks rather than international ones, a moment that changed the regulator's view of who would stand behind the market.

Claude-Nguetsop agrees. "What is interesting is that the Western banks leaving the continent are not being replaced by other foreign banks but by African banks, which are becoming increasingly competitive. While foreign banks used to arrive with a head start, today, even with significant capital they find it difficult to compete with local banks."

These exits created openings. A Nigerian bank said recent withdrawals by international banks such as Société Générale and Standard Chartered have allowed African banks to acquire established franchises, take on larger market positions and keep skills in local markets. A Mauritian bank noted that if the buyer preserves service continuity and invests in the franchise, the long-term effect of an exit may be neutral or even positive.

> "If international banks all said they were closing shop, I can assure you the effect would be minimal."
>
> – East Africa Bank

2. Follow your customers

As African corporates expand regionally, banks must follow them to keep serving them. For a Nigerian bank, this is the most important principle in deciding where to expand. Entering markets where existing clients already operate reduces customer acquisition costs, means credit profiles are already known and allows the business to grow faster after launch.

3. Enter in stages

Several survey participants favoured a phased, relationship-led approach over large upfront acquisitions. A South African bank described a sequence that begins with a representative office, builds local presence and market understanding, establishes relationships with regulators, and only then identifies acquisition opportunities. A Mauritian bank similarly recommended staged commitments, such as a commercial alliance, correspondent relationship, minority stake or joint venture, before full ownership.

A Nigerian bank described its own playbook. Rather than buying 100% of a bank immediately, it favours taking a strategic stake, learning the market and retaining local expertise. Digital banking licences, mobile-money platforms and fintech partnerships can establish a presence without a full branch network, while ring-fenced subsidiaries keep risk away from the parent balance sheet. Talent matters too: a South African bank emphasised recruiting strong local leaders and immersing them in the group's strategy and governance before deployment.

4. Use financial hubs to channel capital

Financial centres such as Mauritius provide a stable platform to pool capital, hold multi-country investments, coordinate governance and access banking, legal and professional services. Free movement of capital is central to this role: the ability to deploy funds efficiently, receive dividends, service debt and repatriate exit proceeds gives investors the confidence to pursue cross-border expansion. But a hub's value depends on strong regulation, tax transparency and economic substance, rather than acting as a passive routing jurisdiction, a Mauritian bank stressed.

But Mauritius also illustrates how mixed the results of cross-border M&A can be, says Claude-Nguetsop. The island has seen considerable activity in recent years, with foreign banks acquiring Mauritian banks and Mauritian banks seeking acquisitions elsewhere, although the outcomes are not yet clear. "In some of the expansions we've observed, banks have run into difficulty where governance and controls weren't strong enough," he says. "Source of funds is another risk buyers and regulators need to watch. Where capital comes from jurisdictions with weaker controls, a deal can come under pressure once that source of funds is scrutinised by a more robust compliance regime."

5. Bring fintech innovation in-house

A Mauritian bank said there is limited evidence so far that bank mergers are consistently producing innovation, with much of the continent's innovation developing independently through fintechs and mobile-money platforms. Instead, banks are pursuing innovation through other forms of corporate activity. A West African banking group has set up its own fintech subsidiaries, which it described as one of its most successful initiatives, while a South African bank is funding, investing in and acquiring fintech capabilities. A Tanzanian bank expects consolidation to extend across the boundary between banks and fintechs. (The wider fintech landscape is explored in the 'Fintech Disruption & Ecosystem Partnership' chapter.)

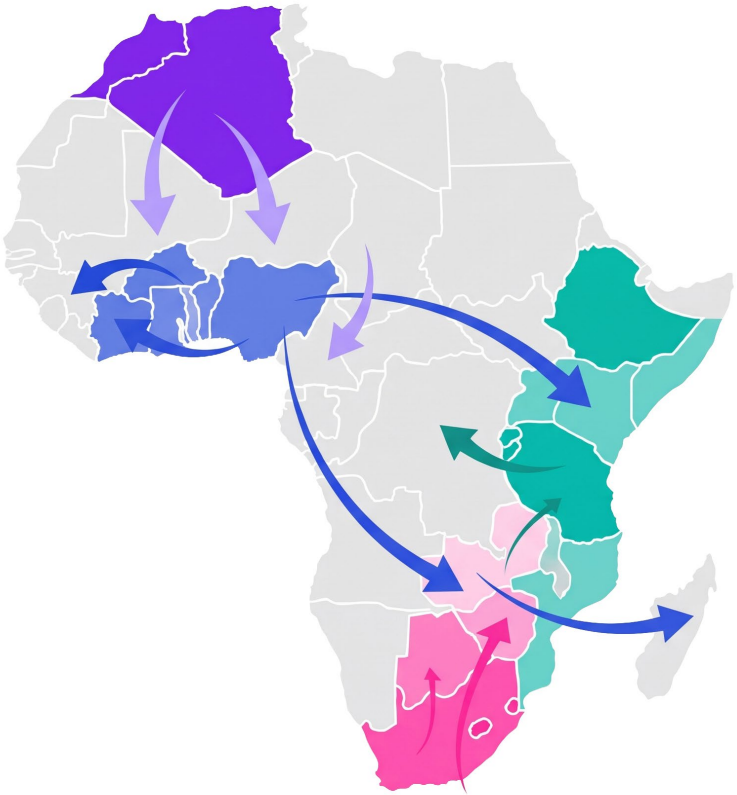
> "The investment will come from Africa into Africa."
>
> – East Africa Bank



M&A & Banking Sector Consolidation

Expanding across a connected Africa

African banks are increasingly expanding beyond their home markets, with clear regional patterns of growth. While approaches differ, the direction is the same – a more integrated and competitive African banking sector.



North African groups (e.g. Moroccan banks)
Expanding into sub-Saharan Africa

Nigerian banks
Expanding across West Africa and into other African markets

Kenyan banks
Expanding within East Africa and into Central Africa / DRC

South African banks
Expanding northwards across the continent

A more integrated Africa
A stronger, more resilient banking sector
A greater contribution to the continent's growth



Challenges

1. Shareholder appetite for risk

The most important constraint for a Kenyan bank we interviewed, is not capital but risk appetite. "The first place you start is your own shareholder appetite for risk," it explained. Many successful locally owned banks have family-ownership backgrounds and relationship-based business models built on trust, and markets with limited transparency "just don't tick those boxes", said the bank. Track record also matters: the bank had not received a dividend from its Tanzanian operation in many years, making it difficult to justify further capital to shareholders.

2. Regulatory fragmentation

A Nigerian bank singled out regulatory fragmentation as one of the biggest obstacles to building a pan-African bank. Even neighbouring countries can have different regulators, currencies, licensing rules and supervisory expectations. Subsidiaries must be locally capitalised and capital is often ring-fenced, while strict data residency rules can force banks to replicate core banking systems and data centres in each market. A Mauritian bank added differing foreign-ownership rules, repatriation risk and the difficulty of achieving scale in smaller markets.

3. Currency risk and valuation gaps

A Mauritian bank said devaluation reduces the hard-currency value of local earnings, capital, dividends and exit proceeds, while increasing the burden of foreign-currency liabilities and acquisition financing. It added that buyers respond with higher risk premiums, lower multiples and, where possible, deferred or conditional consideration. Yet a Nigerian bank noted that sellers often still expect high valuation multiples, making it difficult to agree on price. Scarce, well-run licensed platforms with strong deposit franchises still command premiums, while constrained sale processes, weak asset quality, minority protections and regulatory uncertainty drive discounts, said the Mauritian bank.

4. Deals that fail in execution

The strongest success factors are cultural fit, a clear strategic rationale and early engagement with regulators, ideally well before signing, along with retaining key local talent. A Nigerian bank highlighted the pitfalls: regulatory approvals can take years, leaving capital committed but unusable; weak due diligence can expose buyers to hidden non-performing loans, litigation or toxic assets; and banks that impose a uniform operating model, rather than adapting to local customers and regulation, often struggle to realise the synergies they expected.

According to Claude-Nguetsop, a common reason African banking deals fail or destroy value is misaligned governance. "Governance concepts are very different as you move from East to West to Southern Africa and that creates friction over timing and over what value to shareholders means. Buyers also can't simply export their own people, culture and processes."

Claude-Nguetsop notes that the track record of consolidation varies significantly between markets, reflecting differences in market maturity, governance and the drivers behind transactions. "In more mature markets, such as South Africa and Morocco, mergers have tended to be driven by commercial logic, and that gives them a better chance of success. Where consolidation is driven by other pressures, such as the need to rescue a struggling bank, the outcome is much less certain. Combining a bank weighed down by bad debt with a healthy one can leave both institutions weaker."

5. Africa still needs global balance sheets

Local banks can replace most of what international banks offer, but not all of it. A Kenyan bank pointed to correspondent banking relationships, product sophistication and structuring, access to offshore balance sheets and relationships with global corporate clients as areas where international banks still matter. A Nigerian bank cautioned that Africa still needs their large balance sheets to finance major projects, as well as their capital and expertise. A Tanzanian bank argued that shrinking networks to cut costs is not a sustainable strategy for global banks, given Africa's long-term growth potential.

Summary

From our discussions with banks across the continent, we expect consolidation to continue. At country level, regulators' focus on systemic resilience is likely to result in fewer, better-capitalised banks, and investment will increasingly come from within Africa rather than from outside it.

Competition will intensify too. According to participants, Ethiopia is seen as a major future opportunity as its market opens, while Middle Eastern banks, international institutions, regional champions and fintechs are expected to compete harder over the next decade, narrowing spreads and margins.

The next phase is likely to be shaped by customers as much as by banks. As African corporates operate in more countries, they increasingly expect a single banking partner to support them wherever they do business. That will favour banks with regional reach, integrated cross-border services, strong digital platforms and robust capital bases.

But consolidation alone will not strengthen the sector. Larger institutions are not automatically more efficient, innovative or inclusive, and excessive concentration may reduce competition. Whether a deal creates value depends less on size than on governance and execution: aligning governance across markets, adapting to local customers and regulators, and retaining local talent rather than imposing a single operating model. The real test is whether combined institutions convert greater scale into stronger lending capacity, better service and productive financing for African economies, rather than simply becoming larger.



The questions banks need to be asking

- Can we fund the technology, compliance and AI investment needed to compete over the next five years on our own, and if not, what combination of organic growth, partnership or M&A will get us there?
- Are we engaging regulators early enough, and treating approval as a workstream rather than a formality?
- Are we expanding where our customers already operate, or chasing scale for its own sake?
- Have we priced currency risk explicitly, and structured deals to bridge valuation gaps?
- Do we have a plan to retain local talent and integrate culture, not just systems?
- Where does fintech fit into our consolidation strategy: build, partner or acquire?
- Are our governance standards, and our view of shareholder value, aligned with those of the markets and partners we are entering?
- Is this deal driven by market logic, or by political or regulatory pressure?

"If that consolidation happens at country level, then you become attractive to larger banking groups."

– East African Bank

"Banks increasingly resemble technology companies with banking licences."

– West African Bank

"African countries shouldn't have to look to China to fund their railways because their own banks aren't big enough."

– Auguste Claude-Nguetsop, KPMG Southern Africa



Fintech Disruption & Ecosystem Partnership

Fintech Disruption & Ecosystem Partnership

For more than a decade, fintechs have been described as the force that would unbundle African banking. The banks who participated in our survey take a more balanced view. Fintechs are still regarded as a threat, but they are now seen as partners as much as rivals. Several banks argue that the most disruptive players on the continent are not fintechs at all, but telecoms companies.

Why include fintech in a banking survey? Because the question of whether fintechs will reshape African banking has very different answers depending on where you sit. "When we asked banks whether they were worried that fintechs might come and eat their lunch, the answers were remarkably consistent," says Auguste Claude-Nguetsop, Head of Financial Services Sector at KPMG Southern Africa. "Some will partner with them, some will buy them and others will simply ignore them. Overall, the view is that banking is such a different industry that no fintech is going to become a bank tomorrow and simply take over."

That view, however, is shaped by the market a bank operates in. "The fintech conversation you have with an established South African bank is not the same one you have with a bank in Dar es Salaam or Lagos," he says. In South Africa, a handful of digital and fintech-oriented banks compete in a mature, tightly regulated market, where most fintechs are small relative to the incumbents. In West Africa, a fintech can be large relative to its market, while in Kenya, M-Pesa's telecoms-led payment ecosystem is what drives the fintech space. "Defining fintech is not as straightforward as it seems," Claude-Nguetsop says. "We need to be open in how we approach it and not be narrow."

> "Fintechs are here to stay. That's a net positive for the continent."
>
> – Pan-African Bank

We asked survey participants to what extent fintechs threaten their business model. A South African bank described fintech disruption as existential, pointing to lower barriers to entry and the possibility that large technology companies could buy or partner their way into banking. A pan-African banking group called it "the march of the ants": thousands of fintechs, each taking a small piece of the business until "it starts to hurt". A Kenyan bank took a more pragmatic view, pointing out that fintechs have been active in its market for more than 10 years without materially displacing banks.

The responses suggest that fintechs are winning in niches that banks overlooked or could not serve profitably. However, banks still hold the balance sheet, the licence and consumer trust. The question for both banks and fintechs is how to use what the other has.

The big take-outs

- Fintechs are disruptive in niches such as payments, merchant acquiring and digital credit. Views on how serious the threat is ranged from "existential" to "not materially significant".
- In several markets, notably Ethiopia, telecoms companies and their mobile money platforms are a bigger force than fintechs. This is far less true in South Africa where a more sophisticated banking market makes it too costly for telecoms to compete.
- Most banks now invest in, partner with and compete against fintechs at the same time. The debate has moved on from whether to build or partner with a fintech, to how to make ecosystems pay.

Disruptive niches

A Kenyan bank identified two barriers that keep fintechs from challenging banks at scale. The first is capital: competing with banks head on requires investment on a scale only large players can afford. The second is regulation. Kenya's largest mobile network operator has long been rumoured to be planning a bank. However, regulators won't license an institution until they are satisfied they can properly supervise it. Instead, many fintechs have chosen to compete in digital credit to small businesses, where, the bank noted that their loss ratios are far higher than those of traditional lenders. Without investment in people, credit scoring and collections, it argued, good credit outcomes are hard to achieve.

According to a pan-African banking group, fintechs are very good at niches the bank is not focused on, from the informal market to stablecoins. Whether they can scale to a bank's size is another question. Building across segments is harder than it looks, said the group, adding that the few players that have done it, have done so very deliberately over many years.

According to our survey participants, fintechs globally have made their biggest impact in a handful of areas: cheap and easy customer onboarding, payments, crypto-assets and blockchain, fast execution in capital-markets trading and regulatory technology. They tell us that if you look at where the bigger players are, it is in payments, onboarding and capital-markets trading.

Others see the gap between banks, fintechs and telecoms closing. A Tanzanian bank pointed out that fintechs, telecoms companies and other technology-led entrants carry fewer legacy systems and lighter regulatory burdens, so they can move faster. Open banking, which would give third parties wider access to bank data, could add to that advantage. Over the longer term, a South African bank expects retail and small-business banking to be slowly disintermediated by fintechs and platforms. Banks will need to make up that lost revenue elsewhere, which is one reason its corporate and commercial businesses have moved closer together.

It is also apparent that there is a view that regulation shapes where fintech innovation flourishes. Our participants believe that the fintech market is more advanced in West Africa than in South Africa, partly because regulators there are perceived to be more lenient. One of our South African participants stated that, "our regulators are stricter than in many of those markets, and that comes at a cost to innovation".

Telecoms are a bigger force than fintechs

Africa led the way in mobile money with telecommunication companies driving it rather than banks. Several survey participants regard telecoms as bigger competitors than fintechs. An Ethiopian bank went as far as to say that telecoms are currently more disruptive than fintechs in its market. According to this participant, Telebirr, a mobile money and digital payment service developed and operated by state-owned Ethio Telecom in Ethiopia, and M-Pesa, which Safaricom and Vodacom operate in eight African countries, including Ethiopia, have changed how people pay.

Telecoms offer what many banks lack: large customer bases, everyday engagement and established payment networks. A West African banking group called its failure to build deeper telecoms partnerships its biggest missed opportunity. A Kenyan bank sees banks, fintechs and telecoms increasingly coming together to offer joint solutions. Banks are being pressured to build payment solutions inside their own ecosystems so that customers' money does not flow out of the banking system. (The competition for low-cost deposits is explored further in the Lowering the Cost of Funding chapter.)

Whether telecoms compete with banks seems to depend largely on the maturity of the banking market. Banks in East and West Africa say they are more worried about telecoms than fintechs. That seems to be less relevant in Southern African countries such as South Africa and Namibia where it is too expensive for a telco to compete against banks. The markets in these countries are too sophisticated, the models are too advanced and the cost of running a bank is too high, according to our participants. But in East Africa in particular, where lending techniques are still very basic, the view is that a telco can compete with a bank.

> "There is no strong fintech in Ethiopia that can disrupt the environment, except the telecoms."
>
> – East African Bank

Banks are investing, partnering and competing with fintechs

Banks are increasingly choosing to work with and invest in fintechs while continuing to compete with them. A pan-African banking group says that it holds strategic investments in fintechs, partners with others for white-label services and competes directly in certain areas such as foreign-exchange trading and merchant acquiring. Where a fintech serves a niche better and at a lower cost, it pays for its services.

A South African bank has also adopted this approach and is increasingly funding, investing in, acquiring and developing solutions with fintechs. It believes future success will depend on ecosystems, networks and collaboration.

A Tanzanian bank sees fintechs as both competitors and partners, but believes partnership is the bigger opportunity, using API integrations and revenue sharing arrangements to serve niche segments without heavy capital spending. Depending on the opportunity, a West African banking group treats fintechs as partners or competitors. It said it is open to collaboration in payments, lending, customer acquisition and financial inclusion, but has made a deliberate decision to stay out of cryptocurrency, betting and online marketplaces, although it sees opportunities in stablecoins in selected markets.

A West African bank disagreed that banks must replicate everything fintechs do, arguing that different institutions serve different segments with different strategies. No bank can operate in isolation, it said: it must either build its own ecosystem or participate in those built by others. For this bank, the real question is no longer whether to build or partner, but how effectively it can turn the ecosystem it has access to into commercial value.

Opportunities

Survey participants identified five ways banks can turn disruption to their advantage. As a West African banking group put it, the focus is no longer on resisting disruption, but on leveraging it.

1. Become the infrastructure fintechs run on

Rather than competing for every customer, some banks indicated that they are providing the infrastructure that fintechs rely on. A West African banking group described two of its most successful initiatives. It set up fintech subsidiaries which can acquire and serve customer segments faster than a regulated bank can, and built transaction-processing services for other fintechs, earning revenue from their growth rather than fighting it. A Kenyan bank has taken a similar route, setting up its own digital arm to provide payment services.

2. Partner with telecoms rather than fight them

Partnerships with telecoms can offer banks a faster route to scale. A Kenyan bank told us that they were an early partner of Safaricom, launching digital savings and credit products that digital lenders and other banks have since tried to copy. An Ethiopian bank works closely with both Ethio Telecom and Safaricom. Deposits that once arrived in small amounts from individuals now come in as large float balances. The partnership has helped build payment literacy.

3. Let fintechs serve the niches banks can't

Cash continues to dominate in Africa. A pan-African banking group estimated that around 60% of transactions in South Africa are made in cash. This is broadly in line with the South African Reserve Bank's 2026 Cost of Cash study, which found that cash accounted for 56% of payments by volume (though only 21% by value). The study found that despite the rapid growth of digital and mobile payment channels, cash continues to dominate everyday spending, particularly within informal markets and among low-income households. The total annual economic cost of cash in South Africa, the study estimated, is approximately R88.5 billion, split nearly evenly between direct fees and indirect burdens such as queuing time, travel and cash-related crime.
In Kenya, hybrid cash-mobile payment dominates the ecosystem, representing around 42% of retail consumer payments with an additional 27% made in cash only. West Africa, Ghana and Cote d'Ivoire follow a model similar to East Africa. In Nigeria, payments are driven primarily by instant bank-to-bank transfers and neobanks, rather than a blended cash-mobile money model. As economies digitise, fintechs can reach small merchants and informal businesses that banks have neither the sales force nor the cost base to serve. The bank sees this as a "net positive for the continent". Partnering lets banks extend their reach without rebuilding what fintechs already do well.

4. Play to the strengths that fintechs cannot copy

Banks have advantages that fintechs find hard to match. A pan-African banking group pointed to scale, a strong balance sheet, advice and in-country presence across many markets. A large corporate, it said, wants a bank that offers far more than payments, and regulators are also more comfortable with large, well-capitalised institutions. A Kenyan bank pointed to credit scoring and collections as a case in point. These are capabilities that fintech lenders have struggled to build. For a South African bank, the advantage is people. "We've all got platforms, we've all got products, we've all got clients." What clients value, it said, is the insight and human engagement a fintech platform can't provide.

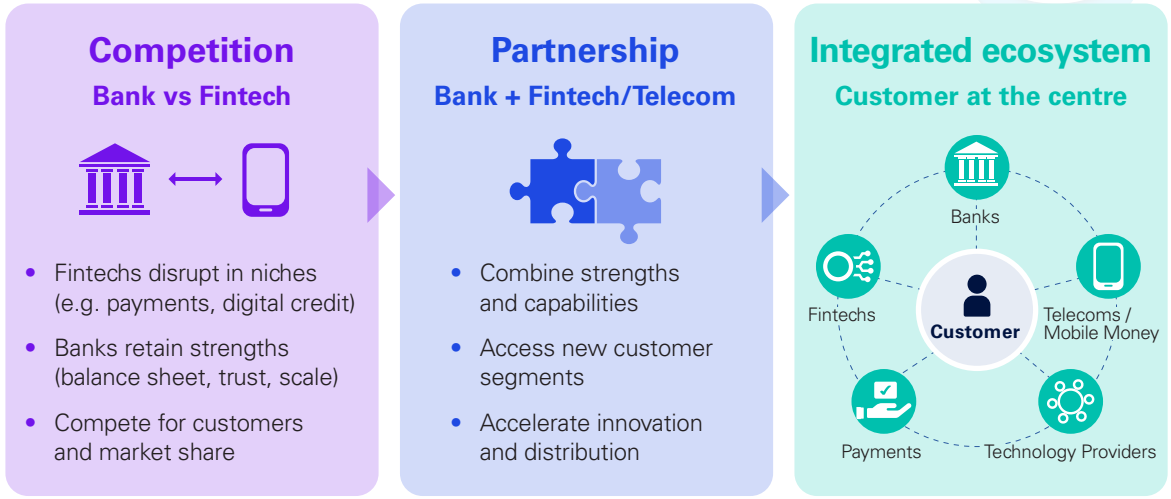
5. Adapt global models to local markets

Not every global fintech model travels well. A West African banking group noted that some digital models that have succeeded elsewhere, such as super apps, have struggled to gain the same traction in Africa. For banks and their fintech partners, the opportunity lies in building solutions around local customer behaviour, rather than importing models unchanged. (This is explored further in the 'Client Experience and Digital Banking' chapter.)

Fintech Disruption & Ecosystem Partnership

From competition to ecosystem

The relationship between banks and fintechs is evolving from competition to collaboration, with customers at the centre of a broader financial ecosystem.



A more connected ecosystem. More opportunities for Africa.

The ones that got away

We asked banks which fintech opportunity they had recognised early but failed to turn into an advantage.

- Telecoms partnerships: A West African banking group said it missed the chance to build deeper relationships with telecoms companies, which could have given it access to a far larger customer base. Misaligned business objectives stood in the way.
- The informal market: A pan-African banking group pointed to merchant acquiring for small and informal businesses, a segment banks have traditionally ignored as it was not worth their time or effort, but one that has produced fintechs that are now big businesses.
- Speed: A Kenyan bank, an early mover with Safaricom, reported no missed opportunity but conceded that although it has been at the forefront, "maybe we've not moved fast enough."

Challenges

1. Fintechs serve customers more cheaply than banks

Fintechs have built their technology from the ground up, so their cost to serve is far lower than that of banks running legacy systems, according to a pan-African banking group. That makes head-on competition in fintechs' chosen niches difficult. The bank's conclusion is that it must compete on its own strengths rather than theirs.

2. Acquiring a fintech can destroy what made it valuable

Buying a fintech may not be a viable solution. Once acquired, a fintech must comply with banking regulation which changes how it does business and whom it can serve. Its operating costs can multiply. As one survey participant put it, a bank can kill what it buys. In other words, the very agility that made the fintech attractive is lost once it is inside the bank.

"The history of banks acquiring fintechs is littered with failures. In many cases, the value of the acquisition is progressively eroded after integration. You acquire the technology, but risk losing the culture and entrepreneurial freedom that made it innovative in the first place. Once you bring a fintech into the traditional banking environment, with its layers of governance, controls and slower decision-making, you can preserve what it has already built, but you risk constraining its ability to innovate, evolve and grow at the same pace," says Chidozie.

3. An uneven playing field

Banks carry higher standards for technology, cybersecurity and risk management than many of the fintechs they compete or partner with, according to an East African bank. Fintechs prioritise speed and experimentation, while banks must maintain robust controls. A pan-African banking group expects regulators to start closing that gap, bringing more parity to how banks and fintechs are supervised.

4. Balancing speed vs safety

Banks can't match fintechs on speed without compromising the trust that is their main advantage. A South African bank said safety will take precedence over speed, with different parts of the business moving at different paces depending on risk. The challenge is ensuring that caution remains a deliberate choice and doesn't become an excuse for inaction.

> "Retail and SME banking is slowly going to be disintermediated by fintechs and platforms."
>
> – South African Bank



Summary

Fintechs have not unbundled African banking, but they have changed it. They have gained ground in the niche's banks have historically overlooked, from informal merchants to small-business credit, and they serve these segments at a cost banks often find difficult to match. However, in much of the continent, telecoms companies have had an even greater impact on how people pay and save than fintechs.

Most banks have responded by choosing to be both competitors and collaborators: they invest in fintechs, partner with them for services they cannot provide as cost-efficiently and compete where their balance sheets, scale and relationships give them an edge. The banks that do this best are those that know which capabilities they must own and which they are content to access through partnerships.

The pressure is likely to grow. An Ethiopian bank expects established fintechs from other African markets to enter its market as it opens up. A pan-African banking group warned that fintechs starting in small niches can eventually move into a bank's core markets. Digital banks such as Revolut are already here. The banks most at risk are not those facing the most fintechs, but those that underestimate how quickly a niche can become a mainstream threat.

Ultimately, there is no single African fintech story. In South Africa, survey participants pointed to a sophisticated and tightly regulated banking market as one factor limiting the ability of telecoms and fintechs to challenge established banks at scale. In parts of East and West Africa, different market structures and, in some cases, less restrictive regulatory environments, have given telecoms and fintechs far more room to compete. Whichever market they operate in, banks will need to find ways to harness fintech innovation whether through partnerships, acquisitions or talent, without losing the very qualities that made it valuable.



"Fintech disruption is existential."

– South African Bank

"If fintechs are better at doing it than we are, we'll just pay for their services."

– Pan-African Bank

"If you look at their loss ratios, they're ridiculous compared to the traditional banks."

– East African Bank

The questions banks need to be asking

- Which fintech capabilities are we comfortable never owning, and which must remain in-house?
- Are we partnering with telecoms companies, competing with them, or doing both for the same customers?
- Where could we earn revenue from fintech growth if we provide the infrastructure they run on?
- If we acquire a fintech, how will we protect the agility and innovation that made it valuable?
- Where are we choosing caution for good reason, and where has it become an excuse for moving too slowly?
- Is our view of fintech and telecoms competition shaped by our home market, and does it remain valid in the other markets where we operate?



Lowering the Cost of Funding



Lowering the Cost of Funding

The cost of funding is key to shaping a bank's fortunes, establishing the baseline cost for every loan, determining how far credit can reach and explaining the margins banks earn. African banks are perceived to pay more for their money than their global peers. Interviews with bank leaders who participated in our survey suggest that this perception is largely a reality. The reasons for this higher cost of funding, however, are largely outside banks' control. They include higher sovereign rates, higher inflation, shallow capital markets and a premium driven by investor perception. Where funding is cheap, it is mainly because there are few alternatives available in the market.

Auguste Claude-Nguetsop, Head of Financial Services Sector at KPMG Southern Africa, says this matters because the cost of funding shapes far more than just bank margins. When you have a high cost of funding, you're forcing everyone to have a higher return on investment, so you may also be pushing people towards high-risk investments. Long-term lending, in particular, becomes unaffordable. In some markets on the continent, mortgages are seven or eight years because a 20-year mortgage at a high cost of funding is not affordable.

He sees three consequences for African economies. First, banks lend less. Because the cost of funding is so high, you end up not lending as much. Banks hold large volumes of deposits and other liabilities, but their loan books, and therefore their balance sheets, remain small relative to the size of their economies.

Second, expensive funding favours short-term trade over long-term investment. "If you're borrowing just to go and buy something in Dubai or China to sell in your market, that can work because the return is short term," he explains. "But if you want to build a small manufacturing business on money borrowed at a high cost of funding, it's not sustainable." As a result, he says many economies depend heavily on development finance institutions (DFIs) for affordable long-term capital.

Third, it shrinks the market banks can serve. Rates of 18% to 20%, charged to higher-risk borrowers in South Africa, are close to the prime lending rate in some African markets. "Lending to riskier customers in those markets could mean rates of 40% or more. As a result, you end up not having any market," says Claude-Nguetsop.

We asked bank executives, development partners and industry experts why African banks should lower their cost of funding. Is the goal financial inclusion or profitability and shareholder return? We received a range of responses. Some said profitability, explaining that privately owned banks exist to compete and deliver returns and that change will only come when it aligns with shareholder value. As a Kenyan bank explained, lower funding costs create room for more affordable credit, which drives penetration and, ultimately, inclusion.

The big take-outs

- The cost of funding is primarily set by sovereign rates, inflation and liquidity depth and less by bank inefficiency.
- Development finance institutions (DFIs), regulators and pension capital can shift the system. Banks cannot do it alone.
- The biggest lever banks have - and the one most within their control - is the quality of their deposit base and not its size.

An East African bank polled in our survey cited financial inclusion as the primary motive for lowering the cost of funding because doing so makes commercial sense: a larger and broader customer base delivers more low-cost deposits, which in turn lowers the cost of funding. This bank argued that African banks' cost of funding is not significantly higher once the shallow liquidity of the continent's markets is factored in.

Our survey revealed that this is a cycle in which inclusion builds deposits, cheaper deposits allow for more affordable lending, and affordable lending in turn deepens inclusion and improves returns. The question for banks, then, is which levers in that cycle do they actually have control over?

Macroeconomics has the biggest impact on the cost of funding

One of the clearest findings of this year's KPMG Africa Banking Survey is that funding costs are primarily driven by macroeconomics. The starting reference point is the sovereign rate, with everything else priced off this. Government borrowing rates, inflation and treasury yields create a floor below which even efficient banks cannot price. Bank inefficiencies such as high operating costs have only a small impact on the cost of funding.

According to our survey participants, investor perception adds a further layer of cost. A development organisation explains that in their opinion there is a disconnect between perception and reality: despite African banks typically performing well on loan repayments, investors still apply higher risk premiums. An East African bank was more positive, arguing that investors assess each institution on its merits and that well-run banks can sometimes borrow at a cheaper rate than their own government. For a West African bank, access to DFI and institutional funding depends on a strong credit rating, but also on confidence in the country itself.

The perception gap was a key theme at last year's B20 (in South Africa), the business forum of the G20. "The risk premium on the continent tends to be overestimated, just because people feel that it's riskier than the actual reality," says Claude-Nguetsop. "Borrowing in hard currency rather than local currency, as is often the case for large infrastructure programmes, adds further cost."

Currency risk

Foreign exchange (FX) produced the most diverse opinions amongst our survey participants. Some banks consider FX to be a contained risk, managed through natural hedging (matching foreign-currency assets and liabilities) and regulatory limits on open positions. One East African bank revealed that FX does not typically affect its funding costs. It uses swaps and limits open FX exposure to protect its margins during periods of turbulence.

A development organisation held currency volatility accountable for higher funding costs, pointing out that hedging instruments are often expensive or scarce. The only sustainable solution, it said, is greater currency stability.

According to our survey participants, the difference in opinion appears to reflect different balance sheets. A bank primarily funded in local currency – as the East African banks we interviewed largely are – has little to hedge. However, one that relies on foreign currency faces higher costs whenever the local currency weakens.

"Inclusion is typically an outcome rather than the primary objective."

– Development organisation in Africa



Ethiopia the exception with cheaper funding for now

An Ethiopian commercial bank revealed that its average cost of funding is around 3%. It conceded that this is due to a lack of alternatives available to bank clients rather than good management. It is not as easy to buy treasury bills or government bonds in Ethiopia as it is in a country such as Kenya. Capital markets are only now being established in Ethiopia and there is a generally low awareness of other investments. As a result, most depositors keep their money in low-cost accounts. Those who have a better understanding of the market use time deposits (known as fixed deposits in South Africa) which can pay up to 20% pa. That is starting to change. The participants explained further that the National Bank of Ethiopia scrapped the minimum interest rate that banks had long been legally required to pay on savings accounts, allowing banks and depositors to negotiate rates freely. So far, it appears that banks have kept their savings rates at about the same level. At the same time, new capital market infrastructure will give bank clients more choice. As awareness grows, the bank expects funding costs to rise.

Opportunities

Banks can't control the macro environment, which sets the minimum cost of funding, but their funding mix determines how close to that minimum it can get. Survey participants identified five areas where banks and their partners can make a meaningful difference:

1. Win on CASA deposits

Low-cost current and savings account deposits are the most powerful lever within a bank's control. Understanding this, an East African bank has deliberately positioned itself as a payments and transaction hub, investing in system integrations with key service providers, digital platforms to drive transaction volumes and partnership ecosystems to embed the bank in everyday economic activity. The result is stable, low-cost deposits at scale and less reliance on expensive term funding.

CASA is protecting margins, says another East African bank, adding that competition has shifted towards embedding products and services in customers' daily lives to build sticky transactional relationships. It's currently a volume-over-price game, it says.

A West African bank describes this as "following the money". Instead of chasing balances, it says it is targeting the recurring flows around its clients: their customers, suppliers, collections and daily transactions, as well as the deposits generated by schools, churches and SMEs, amongst others. Cross-franchise relationships straddling pensions, asset management, insurance and trust services provide further depth.

Physical presence still plays a role. A Kenyan bank found that expanding its branch network helped it win that crucial first account in new markets, even though customers went on to transact mainly digitally. (The role of branches in building customer trust is explored further in the 'Client Experience and Digital Banking' chapter.)

> "The quality and stability of deposits are more important than simply growing balances."
>
> – West African Bank

2. Use data to protect deposits

A West African bank suggested applying AI directly to funding economics. Behavioural data can predict when customers are likely to withdraw funds and support personalised pricing and retention incentives. It can also identify attractive deposit segments and make relationships more transactional, in turn reducing reliance on expensive fixed deposits. (This idea is explored further in the 'AI in Banking' chapter.)



3. Redefine development finance

DFIs and multilaterals remain key. A South African bank regards them as partners in market development rather than competitors. DFIs' long-term, competitively priced funding sets a market benchmark and helps attract private capital, according to an East African bank. A development organisation highlighted the risk-sharing instruments, guarantees and local-currency financing offered by DFIs. These can significantly lower funding costs, especially in high-impact sectors, according to a Kenyan bank. Furthermore, an international development partner shared the view that going forward, DFIs should move beyond traditional lending to tackle information asymmetry, support innovative transactions and mobilise private investment. That includes helping SMEs to present themselves more credibly to banks.

Reliance on DFIs comes with conditions, says Claude-Nguetsop. "DFIs are going to be prescriptive. They're going to tell you where to invest. How much this matters depends on how much choice a country has. South Africa's large banks can raise funding more cheaply elsewhere and have little need for DFI funding, while other Southern African economies which depend on DFIs to bring in hard currency, are far more exposed to shifts in geopolitics and donor priorities. The more advanced a country's economy, the more shielded they will be from the geopolitical impact."

4. Expand local capital pools

Survey participants expect funding to diversify in the next decade. Pension funds are a potential source of long-term, local-currency capital, especially if they diversify beyond government securities. An East African bank expects deeper capital markets and less reliance on deposits. A development partner anticipates a shift towards private capital for infrastructure and more closely aligned political and development interests.

For Claude-Nguetsop, using Africa's own savings is one of the most important levers. "Pension fund investment is tightly controlled to protect members' savings, but discussions are under way in South Africa, including with the Public Investment Corporation and the Government Employees Pension Fund, on enabling more of this money to fund local infrastructure at a lower cost than borrowing offshore. Borrowing more in local currency, rather than hard currency, would also help."

5. Pursue regulatory reform

Regulation has a significant impact on costs. When regulators adjust liquidity frameworks, lending activity typically responds directly. Incremental reform, particularly of reserve requirements, could unlock further reductions across the system.

One of our survey participants used Kenya as a good example of this, explaining that when the Central Bank of Kenya cut the cash reserve ratio, it released additional liquidity, which has resulted in more lending to customers. According to this bank, Tanzania shows the other side: more than 40 banks and financial institutions compete there, with the top 10 holding the majority of the market. The regulatory environment is regarded as transparent and collaborative, but reserve requirements and market concentration continue to constrain efficiency.

> "Reducing regulatory frictions, particularly reserve requirements, would have a direct and meaningful impact on lowering funding costs across the system."
>
> – West African Bank

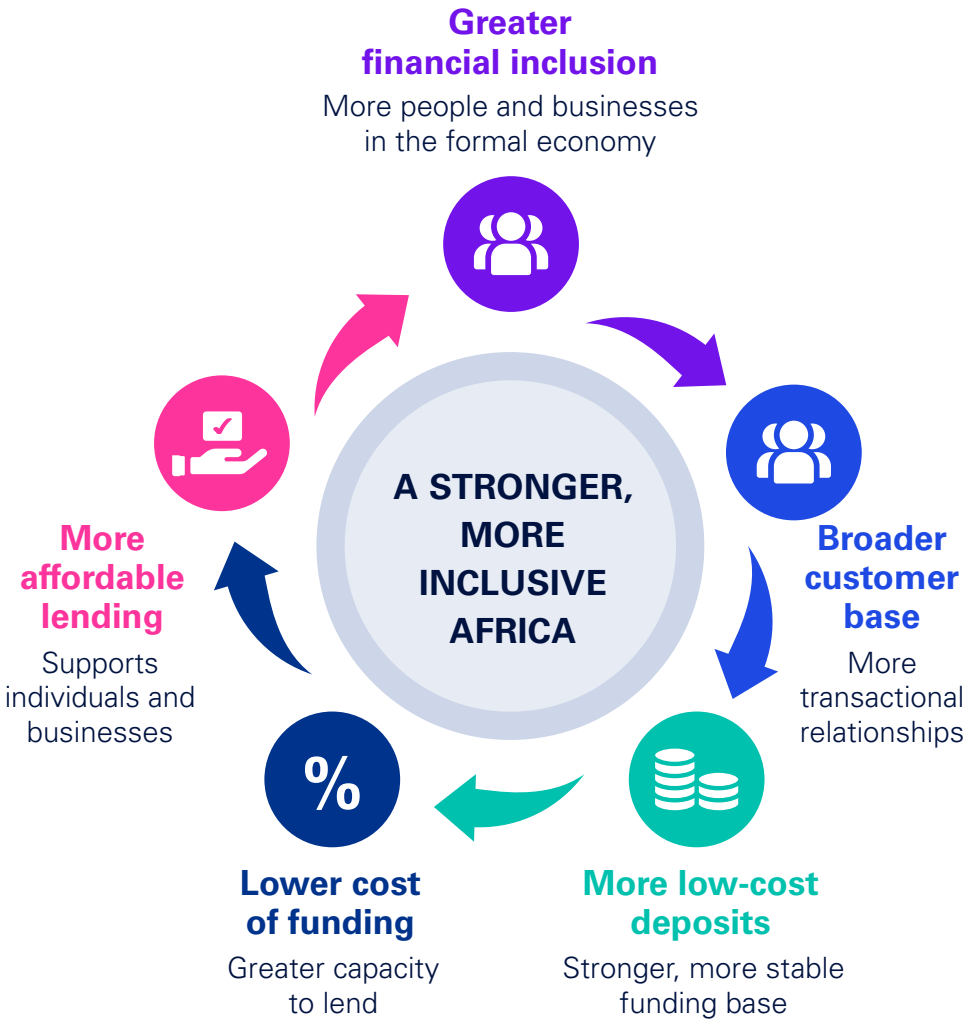
The primary catalysts

		Primary role in lowering funding costs
	**Governments**	Macroeconomic stability; consistent economic, tax and policy frameworks; savings vehicles; institutional capacity
	**Regulators**	Reserve requirements, liquidity and capital frameworks; better data on informal activity
	**DFIs and multilaterals**	Long-term benchmark funding, guarantees, blended finance, local-currency finance, closing information gaps
	**Banks**	Deposit mix, digital channels, efficiency, scale, data analytics and AI

Lowering the Cost of Funding

A virtuous cycle for growth and inclusion

Greater financial inclusion can help banks build a larger, more stable deposit base, lowering the cost of funding and enabling more affordable lending, which in turn supports further financial inclusion.





Challenges

1. The majority of drivers are not in the banks' control

Efficiency, technology and scale can only address part of the problem. Most of the drivers behind the cost of funding sit with governments and markets. It is evident from our discussions with survey participants that governments play a key role by ensuring macroeconomic stability. The challenge is that many public institutions lack the capacity and appetite for governance required to structure projects and attract investment and funding in infrastructure.

2. The race for low-cost funding

The most sought-after deposits are the ones that fintechs and mobile money platforms are often best at acquiring. This is an important battleground that requires banks to invest in digital capability, partner with fintechs and rethink how they compete for customer balances. A Kenyan bank described banks embedding payment solutions within their own ecosystems so that money doesn't flow elsewhere. In Ethiopia, telecoms companies, rather than fintechs, are the biggest competitors for customer balances. Since choosing to work with telecoms companies, one Ethiopian bank says deposits that once arrived in small amounts from individuals now come in as large float balances. The bank is cognisant of the risk that the bargaining power of the telecoms will grow over time.

New digital banks are adding to the competition, although their impact on funding costs is likely to be marginal, says Claude-Nguetsop. "Without branches, their cost of funding may be slightly lower, but their real appeal to customers is lower transaction fees. However, because they lend relatively little, their balance sheets remain small."

3. Scale has become a prerequisite

Scale, stronger capital bases and significant investment in digital infrastructure mean that tier-one banks are leading on funding costs. For smaller banks, our participants have highlighted that growing capital requirements and the cost of technology are accelerating consolidation, particularly in the Kenyan market. Ethiopia is likely to follow suit given higher capital requirements and the expected entry of foreign banks.

4. The data sharing bottleneck

Many countries have regulations in place limiting data sharing between legal entities in a group. In some jurisdictions, information shared for one purpose cannot automatically be used for another. This limits the ability of banks to use customer data to reduce the cost of funding.

5. Margins are likely to narrow

Some of our survey participants reflected that pressure on margins is expected to push banks towards non-funded income, advisory and service-based revenue. One of our Southern Africa participants predicts that over the next 10 to 15 years, international and regional competition will narrow spreads. Market inefficiencies, limited competition and underdeveloped financial markets have kept African banking profitable, although some participants explained that this cushion is likely to shrink in the next few years.



Summary

From our discussions with banks across the continent, it is clear that lowering the cost of funding is not something any single bank can solve on its own balance sheet. Sovereign rates, inflation, liquidity depth and regulation set a baseline that even the most efficient banks must price above. Perception adds a premium that the data does not always justify. Where funding is cheap, it's usually because there are few alternatives available for bank clients. As capital markets deepen, this advantage is likely to disappear.

Despite these constraints, the gap between banks is growing. Those that are pulling ahead have made themselves indispensable by becoming hubs for payments, collections and supplier networks, turning those flows into stable, low-cost deposits. The biggest driver of change over the next decade, according to one East African bank, will be competition for low-cost deposits and customer transactional flows.

Customer data may become a significant source of competitive advantage. Banks that can anticipate deposit movements are better positioned to price them more accurately, improve retention and optimise funding costs.

Banks are not the only stakeholders with a role to play in lowering the cost of funding. DFIs that close information gaps rather than only lend, regulators prepared to reconsider reserve and liquidity rules, and pension funds willing to invest beyond government bonds, could together lower the floor itself. Over the next decade, survey participants expect a more diversified, efficiency-driven funding model in which inclusion and profitability reinforce each other.

Ultimately, the cost of funding reflects the depth and efficiency of the financial system. "As the banking sector deepens, mobilises more savings and expands its deposit base, banks have access to a broader and more stable pool of funds. This can lower their cost of funding and, ultimately, the cost of credit to the economy," says Chidozie.



"Global perceptions continue to drive an African risk premium that is often disconnected from underlying fundamentals."

– East African Bank

The questions banks need to be asking

- What share of our funding comes from sticky transactional balances, and which client ecosystems could add more?
- Are we only using customer data to cut costs or are we also using it to predict and retain deposits?
- Could a DFI partnership lower our benchmark cost, not just our borrowing cost?
- Which regulatory reforms would have the most impact on our funding economics and are we making that case?



Client Experience and Digital Banking

Client Experience and Digital Banking

Ask a customer what they want from their bank and the answer is usually not a product. Instead, they want to be known, to be served quickly when it matters, and to trust that their money is safe and their bank will be there when they need it. For African banks, meeting those expectations has never been more important, or more complex. Customers who once queued in a banking hall now expect to open an account on their phone in minutes, while many still want to see a branch in their town before they will hand over their savings.

"When you are a business with a million customers, how you handle those customers really matters," says Auguste Claude-Nguetsop, Head of Financial Services Sector at KPMG Southern Africa. "We wanted to understand what the best banks on the continent are doing differently, how they value their customers, and how that value is reflected in the way customers are treated."

Client experience, he adds, should not be treated as a proxy for digital banking. "It's not simply a case of saying my customer journey is better because I don't have a branch and you can connect online. It's about the end-to-end experience. The society a bank operates in shapes how a customer journey works as much as the screens on a phone."

Our survey asked bank executives what drives customer loyalty, how far their digital transformation has progressed, and who is accountable for the customer experience? We received a range of responses. For some, loyalty is built on trust in the institution itself: its capital strength, its shareholders and its brand. For others, it's about speed, being able to back a customer at a critical moment, or about reliability, with system stability now regarded as the foundation of any digital experience. Several banks emphasised that, despite the shift to digital, banking remains a relationship business.

What emerged is a picture of banks working on two fronts at once. They are investing heavily to make digital channels faster, more stable and more personal, while holding on to the human relationships and physical presence that still underpin trust in many African markets. The question for banks, then, is not whether to choose between digital and human, but how to combine them so that every customer, connected or not, feels known and well served.

> "Customers don't forget what their bank did for them when they needed their bank."
>
> – East African Bank



The big take-outs

- Trust remains the foundation of loyalty. Capital strength, speed when it matters and personal relationships still count for more than product features.
- Reliability has become the first test of digital experience. Customers blame the bank when systems fail, wherever the fault lies.
- Banks hold rich customer data, but fragmented systems, legal-entity boundaries and consent rules still stop them from knowing the customer once and serving them seamlessly.

Know me once

Customers see a single relationship with their bank, even when the bank itself is made up of separate entities, systems and regulatory boundaries. A West African bank noted that customers don't understand why information supplied to one part of the institution has to be resubmitted to another. In response, it has launched a "One Client" journey to recognise the same customer consistently across the group, with the aim of offering more relevant products, pricing and next-best actions at the right point in the customer's journey.

A pan-African banking group described the same ambition from the corporate side. Rather than asking clients to submit documents such as covenant certificates, it retrieves the information itself. "Instead of them putting a covenant certificate in, we fetch it from them," said the bank. Its data quality is good, but connecting data held in different parts of the bank remains the hard part. Getting that right would be "a game changer", it added, because "you start to see the customer more holistically across the business".

There are limits, however. A Mauritian bank stressed that customer consent remains critical, that information shared for one purpose cannot automatically be used for another, and that internal information-sharing must respect confidentiality requirements. Knowing the customer once must be balanced with protecting their data.

Reliability is the new product

Before customers judge a bank's app on its features, they judge it on whether it works. A West African banking group described how, four years ago, maintaining 20 consecutive days of system stability was a challenge. After significant investment in infrastructure, it now achieves around 99.8% stability. Obstacles included network issues, power disruptions and third-party partners that failed to scale their infrastructure in line with demand. Whatever the cause, it said, customers blame the bank.

A Kenyan bank agreed that reliability shapes loyalty. "What is my experience with this institution? Are they always on, or is the technology up and down?" it said.

Concern about cyber risk is also shaping the pace of digital change. Most banks in its market have had a cybersecurity incident, and "nobody wants that to be repeated", it said, so banks are moving cautiously until their defences are strong enough.

Trust still drives loyalty

Asked what keeps customers loyal, a Kenyan bank pointed first to trust in the institution itself: whether it is well capitalised, well led and backed by credible shareholders. Memories of past bank failures make customers cautious about who they deal with.

Speed at critical moments matters too. The same bank described a customer who needed a bid bond to enter a tender, without all the documentation in place. The bank trusted the customer and turned the request around within hours. "If you can back me with the speed and delivery that I need, then I'm going to be loyal to you because you came through for me. Customers don't forget what their bank did for them when they needed their bank," it said.

Relationships remain central. In many markets, banks practise "name lending", where management knows the borrower personally, and relationship managers ensure that customers feel there are people behind the bank who understand them. A Mauritian bank agreed that, despite digital transformation, banking remains fundamentally relationship driven. A pan-African banking group said its ambition is to remain the trusted adviser to its clients, offering advice, trade and payments rather than simply lending money.

For a South African bank, trust underpins everything. "The only currency we're dealing with our clients is trust," it said. It uses technology to strip out low-value administrative work so that its bankers can spend more time with clients.

A South African corporate and investment bank made a similar point about the human advantage. With banks increasingly offering similar platforms and products, it said, what sets one apart is the insight and engagement its people bring to the relationship.

The branch is changing its job

Digital adoption is high in many African markets. "Most Kenyan customers will tell you they do not need to walk into a bank today," said a Kenyan bank. The same bank, however, found that physical presence remains essential for winning customers in the first place. When it expanded beyond its traditional markets, prospective customers told it they would only open an account with a bank they could see in their own town. "I know you, I like you, but you're too far from me. So, I'm not going to give you my business," was the message, it said. The bank expanded its branch network in response, even though those customers would go on to primarily transact digitally.

Part of this is cultural. "The bank manager was a very important person back in the day," the bank said. Knowing where your money is, and being able to see your bank manager, remains a powerful idea. Over time, it expects branches to become advisory centres rather than transaction points, supported by agency banking networks, and expects the need for physical presence to fade as customers become more digitally literate.

Global ideas, local behaviour

Not every global innovation travels well. A West African banking group found that super apps, highly successful in Asia, have not gained the same traction in Africa, and that some QR-code payment models also struggled. Practical constraints matter too: with around 11 million transactions a day, the bank chose to keep key capabilities on-premise rather than move fully to the cloud. It still benchmarks every new product against the best banks in the US, UK and Asia, challenging its teams to beat digital banks such as Revolut on account opening. It maintains that innovation only succeeds when it is built around local customer behaviour.

For banks operating in several countries, consistency is the goal. A pan-African banking group said its intention is for customers in every market to have the same experience as in South Africa. In practice, it gets new capabilities right in one market first, then rolls them out and adapts them to local regulation and conditions.

The same group's CIO added that each African market is fundamentally different, so customer strategies have to be tailored market by market.

The banking customer experience remains highly varied across African markets, reflecting differences in infrastructure, regulation, technology adoption and customer expectations, says Chidozie

"Operating across different African markets means dealing with very different customer expectations and service realities. The experience of accessing and using banking services can vary significantly from one country to another, from transaction reliability and digital accessibility to service quality and complaint resolution. For banks expanding across borders, understanding what drives these differences, and the investment required to deliver a consistent yet locally relevant customer experience, is critical."

Client Experience & Digital Banking

What builds customer loyalty?

Customer experience is about more than digital. It's the combination of reliability, speed, personal relationships, physical presence, security and a deep understanding of the customer that builds trust and loyalty.



Opportunities

Survey participants identified five areas where banks can strengthen the customer experience.

1. Use data to serve, not just to sell

Customer data is becoming one of a bank's most valuable assets. A West African banking group is monetising anonymised data through APIs within consent and privacy controls. Another West African bank sees data and AI helping it anticipate customer needs and become the customer's primary bank. The opportunity is to use data in ways customers recognise as valuable to them, not only to the bank.

2. Make onboarding instant

Customers expect speed: faster onboarding, faster credit decisions and simpler interactions. Instant onboarding is one of the capabilities a Mauritian bank would most like to deliver, alongside modernising internet banking for retail and private clients. Digital-only banks have set that benchmark, and traditional banks are now measuring themselves against it.

3. Design for segments, not averages

A West African banking group identified weaknesses in how it segmented customers and responded by building dedicated apps for small businesses and investing in customer relationship management. A Kenyan bank builds products around specific customer groups, such as traders, to deepen loyalty. A West African bank is deliberately bringing younger customers into the franchise to build its future customer base. A South African bank takes the opposite approach to breadth. "We want to be selective and deliberate, not all things to all people," it said.

Kariuki believes the link between a customer's value and how they are treated is key. "In markets or segments where the customer has value, that must translate into the way they are treated."

At one end of the spectrum, he says, some mass-market banks have built enormous client bases with a model that competitors with similar pricing have struggled to match. At the other, niche private banking models remain distinctive despite rivals' efforts to replicate them. "You can see the pricing, but what is it that keeps those customers?" he asks.

4. Serve the customer who crosses borders

As African corporates expand regionally, they increasingly expect one banking partner to support them wherever they operate, rather than separate relationships in every country. That favours banks with integrated cross-border services and consistent digital platforms. One of the West African banks commented that cross-border payment initiatives such as the Pan-African Payment and Settlement System (PAPSS) are beginning to reduce long-standing frictions, although adoption remains uneven.

5. Prepare for clients' AI to deal with yours

A pan-African banking group expects clients' AI agents to interact directly with the bank's own agents, requesting documents, approvals and facilities. Its relationship managers would then focus on advice and on the moments where human judgement matters most. Clients won't necessarily see the AI itself, it said, but they will see faster responses and better-quality work. The group's CIO went further, describing AI as the next banking channel in its own right. (AI in banking is explored further in the 'AI in Banking' chapter.)

> "I know you, I like you, but you're too far from me. So, I'm not going to give you my business."
>
> – East African bank, describing feedback from prospective customers



Challenges

1. Convenience versus compliance

According to a pan-African banking group, customers want speed but know-your-customer and other regulatory requirements cannot simply be removed. Banks must balance convenience with risk management, as regulatory breaches carry both financial and reputational costs. Legal-entity boundaries can also prevent banks from sharing customer information across a group, even where the customer sees one relationship.

2. Legacy systems and data silos

Valuable data is often spread across legacy platforms that were not designed for today's needs, comments this bank. Rather than replace everything at once, banks are finding workarounds. A West African banking group has separated its payments capabilities from legacy infrastructure and modernised its consumer platforms while keeping legacy systems for corporate and SME clients. Others are exploring data and AI layers that sit above legacy systems, an approach discussed in the 'AI in Banking' chapter.

3. Building capability at home

Core banking platforms in markets such as Kenya are on par with those used by international banks, but data analytics capability is still developing, and concerns about cyber risk are slowing the pace of change, according to an East African bank.

4. Reaching customers at the edge

A pan-African bank tells us that low-income customers are highly sensitive to fees and choose banks accordingly. Serving low-transaction, low-deposit customers is a completely different business from serving corporates and high-income clients, and banks that have tried it without a distinct model have often struggled, according to this bank. Many customers still need a physical touchpoint before they trust a bank, commented an East African bank.

5. Who owns the customer experience?

At many banks, responsibility for the customer experience still sits with relationship managers and business leaders rather than with a dedicated function. A Mauritian bank said accountability flows through its front-office teams, and that it has not yet reflected deeply on alternative models. Elsewhere, KPMG has observed banks increasingly designing end-to-end customer journeys, integrating physical and digital channels and creating dedicated customer experience roles.

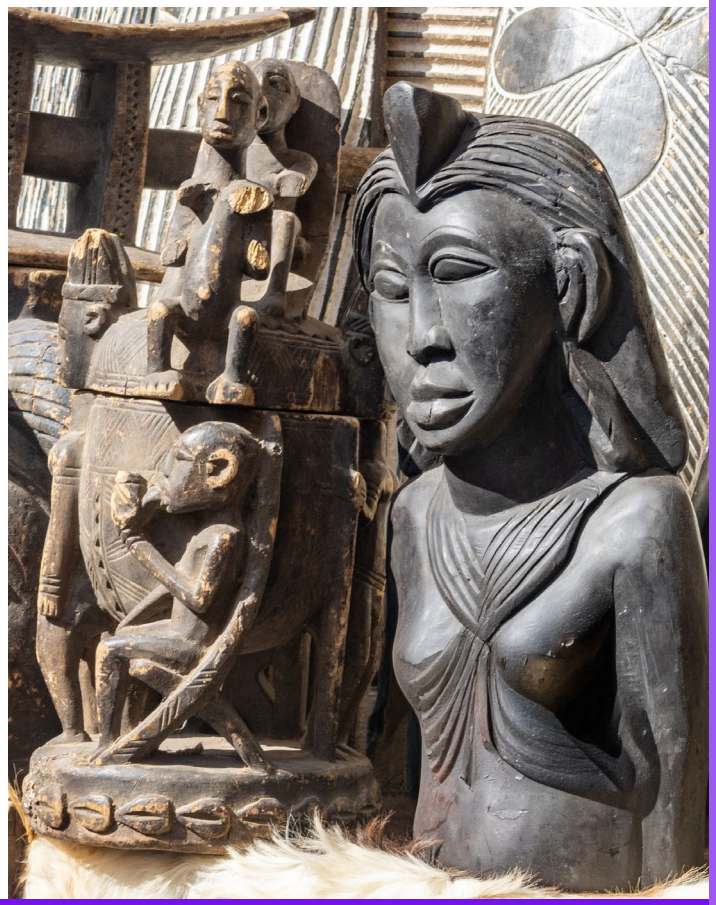


Summary

From our discussions held with banks across the continent, the customer experience is clearly being reshaped on two fronts. Digital channels are now strong in many markets, and customers increasingly expect instant onboarding, fast credit decisions and apps that simply work. Reliability has become the first test of any digital strategy, and customers do not care whose system failed.

Yet trust is still built in very human ways: through a well-capitalised institution, a relationship manager who knows the customer by name, a bank that came through when it mattered, and in many markets, a branch the customer can see. The branch is not disappearing, but its job is changing.

Our participants believe that the banks that pull ahead will be those that know their customers once and serve them seamlessly across products, entities and borders, while using data in ways customers recognise as being in their interest. That will require connected data, modernised platforms and clear accountability for the customer experience, as well as a willingness to adapt global ideas to local behaviour rather than importing them unchanged. Ultimately, as Kariuki puts it, the value a bank places on its customers must be reflected in the way it treats them.



"If you can back me with speed and delivery of what I need, then I'm going to be loyal to you because you came through for me."

– East African Bank

The questions banks need to be asking

- Does our customer have to give us information we already hold, and who is accountable for fixing that?
- How does our system uptime compare with our competitors, and is it tracked at executive level?
- Are we using customer data to serve customers, or mainly to sell to them, and would our customers agree?
- Do we know how many of our digitally active customers have made us their primary bank?
- Is our branch footprint the result of a deliberate channel strategy, or is it changing by default?
- Who is accountable for making sure our digital transformation serves customers across all levels of digital literacy and access?

Conclusion

An optimistic outlook for banks, but not yet bold enough

Pierre Fourie, KPMG Africa Head of Financial Services, notes that across five topics and conversations with bankers in very different markets, one picture emerged clearly from our survey. African banking is profitable, resilient and growing. It is also more cautious than the continent's potential deserves.

The pan-African banking model is here to stay

One of the most significant take-outs of this survey is that regional and pan-African expansion will remain an important feature of the sector, comments Fourie. Whether through acquisitions, new licences or representative offices, banks are expanding beyond their home markets. Global banks continue to retreat, and African banks are taking their place. However, they are largely stepping into the space global banks left behind, rather than using their lower cost base to expand significantly beyond it. Rising capital requirements, and the escalating cost of technology, compliance and AI, are pushing smaller banks to grow, partner, merge or sell. Consolidation is therefore likely to continue, and investment will increasingly come from within Africa rather than from outside it.

AI on every bank's agenda

Banks interviewed for the survey are exploring, sandboxing or deploying AI and data capabilities, and almost all believe its long-term impact has been underestimated. Yet few have moved beyond early productivity gains. Fintech, too, is now embedded in the competitive landscape, although its shape depends on local regulation. The relationship between banks, fintechs and telecoms varies significantly by market, with competition and partnership often existing alongside one another. In both cases, the question has shifted from whether to engage with fintechs to how to engage with them.

Funding: the foundation that gets too little attention

If AI and fintech dominate the conversation, funding is the topic that deserves more of it. It is the foundation of banking, influencing how much banks can lend, to whom and for how long. Yet there is no common approach. Each bank is solving the problem case by case, and much of the cost is driven by factors outside an individual bank's control.

Funding is not a problem any single bank can solve alone. Regulators, development finance institutions and pension funds all have a role to play.

Trust still decides who wins

For all the investment in digital channels, customers continue to place significant value on trust: banks that are well capitalised, that are reliable when it matters and know their clients as individuals. The banks pulling ahead are combining reliable digital platforms with personal relationships that underpin loyalty in many African markets. Digital experience is therefore an important component of customer experience, but it is not synonymous with customer experience.

The line between mature and emerging markets is blurring

Perhaps the most interesting finding of the survey is how similar banks across the continent have become. Not too long ago, there was a clear gap in skills and sophistication between banks in more mature and less mature markets. That gap, says Claude-Nguetsop, is far less obvious today. "When I speak to a banker in Dar es Salaam and a banker in Mauritius, the operating models look very similar. The main difference now is the size of the balance sheet. The bigger it is, the more you can do."

However, regional differences remain. In Southern Africa, a mature, tightly regulated market keeps new entrants in check. South African banks increasingly look beyond their borders for growth. In East Africa, telecoms-led payment ecosystems have transformed how people pay and save, while higher capital thresholds are accelerating consolidation. Ethiopia stands out as the next frontier: funding there is cheap only because depositors have few alternatives, telecoms rather than fintechs are banks' main competitors, data infrastructure is still being built, and more than 30 banks face consolidation as the market opens to foreign competition. In West Africa, large-scale recapitalisation, sizeable fintechs and expansion into Francophone markets are reshaping the competitive landscape. But the common ground is broader than the differences. However, these differences reinforce an important theme across the Survey: there is no single African banking market.

Scale is becoming the dividing line

If balance sheet size is now the main difference between banks, it is a difference that is growing. Every chapter of this survey returns to scale. Larger banks are generally better positioned to manage funding costs. The largest pan-African banking groups invest significantly in technology, but their spending remains below that of the largest global banks. Smaller banks are often unable to take on large-ticket transactions, and the rising cost of technology, compliance and AI is becoming more than many can carry alone. AI may narrow the gap in some areas, making credit analytics cheaper for smaller banks, but the infrastructure needed to run a modern bank is not getting any cheaper.

Scale, however, is not everything. Local knowledge is proving to be a distinctly African advantage. Foreign banks find it difficult to compete with local banks, even with significant capital behind them. Global models such as super apps have not travelled as well as expected, and regional banks that understand their markets and compete country by country have held their own against larger international rivals. In the AI era, the banks best placed to win are likely to be those that combine scale with deep local knowledge.

Profitable, but not yet transformative

African banks are profitable, but that profitability owes much to the structure of the markets they operate in, and banking assets remain small relative to the size of the continent's economies. Most expansion is deliberately conservative, focused on secure opportunities rather than bold bets. The interviews suggest that some banks may not be stretching their balance sheets sufficiently to support economic growth. The survey offers several examples of this. A South African bank evaluated acquisitions in Nigeria and Kenya over several years but completed none, citing demanding return-on-equity hurdles and lengthy decision-making. A Kenyan bank said its shareholders' appetite for risk, rather than a lack of capital, determines how far it is prepared to expand. Even a Kenyan bank that was an early mover in digital partnerships conceded that "maybe we've not moved fast enough".

One of Nigeria's largest banks serves around 60 million customers across its markets, with 36 million of those customers located in Nigeria. That is about 15% of Nigeria's population of more than 243 million people. By comparison, India's largest bank, the State Bank of India, operates at a significantly greater scale. When Claude-Nguetsop asked the head of a leading Nigerian bank whether an African bank could ever reach that scale, the answer was revealing. The bank did not need many more customers to be profitable, said the bank leader. Reaching that scale, he said, would require a banking license that worked across borders, as it does in a single market such as the European Union. He commented further that a banking license in Nigeria does not allow a bank to operate freely elsewhere on the continent.

"As long as the continent remains a fragmented market, with so many barriers between countries, its banks will remain small compared with those in the European Union, the United States, China or India," says Claude-Nguetsop. "And small banks run the risk of eventually being taken over by much larger foreign rivals."

Caution may become harder to afford. Some banks expect Middle Eastern banks, international institutions, regional champions and fintechs to compete harder over the next 10 to 15 years, narrowing spreads and margins, while retail and small-business banking may face increasing competition from fintechs and platforms. The market structure that has kept African banking profitable is likely to offer less protection over time. Banks that do not use their balance sheets more ambitiously now may find that the cushion that made caution comfortable has gone.

> "Banks are profitable, but they're not stretching their balance sheets enough. They're not pushing economies to grow, so they are not as transformative as they could be"
>
> – Auguste Claude-Nguetsop, KPMG Southern Africa



Regulation and geopolitics shape every theme

Regulation runs through every chapter of this report, sometimes as a catalyst and often as a constant. Higher capital thresholds in Kenya and Nigeria are driving consolidation. Reserve requirements add to the cost of funding. Data residency and data-sharing rules limit how banks deploy AI, run systems across borders and build a single view of their customers. Approaches also differ sharply from market to market. Regulatory approaches differ significantly between markets, influencing the pace of innovation and the roles played by banks, fintechs and telecoms. According to our participants, for banks building a pan-African footprint, regulatory fragmentation remains one of the biggest obstacles of all.

Geopolitics adds a further layer of complexity. Choosing an AI provider is becoming a strategic decision as much as a commercial one, as banks weigh different providers based on cost, capability, regulation, data sovereignty and strategic considerations. Economies that depend on DFIs for hard currency are more exposed to shifting donor priorities, while conflict in Europe and the Middle East, commodity price volatility and rising credit risk may affect banks' capital, liquidity and risk decisions. At the same time our participants tell us that Middle Eastern banks are showing growing interest in the continent, adding to the competition African banks will face.

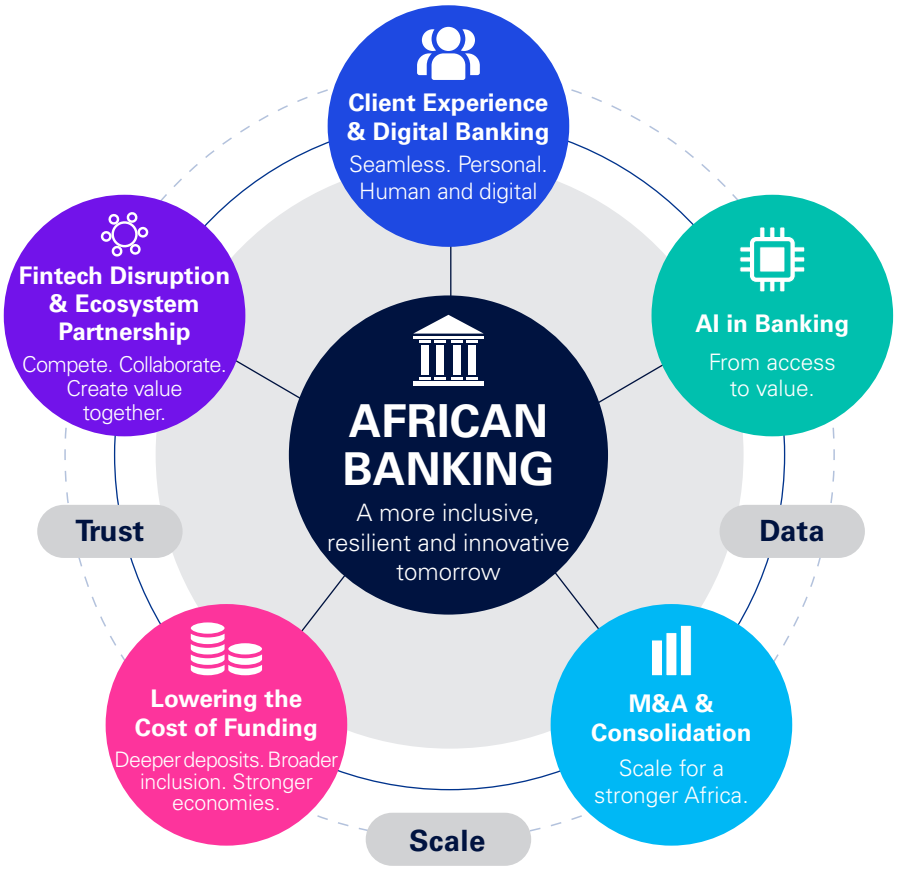
From insight to action

The trends in this report will not come as a surprise to every reader. What matters is what banks, regulators and policymakers do with them. For banks, that means deliberately expanding where customers already operate, building the data and governance foundations that AI requires, competing harder for stable, low-cost deposits, and treating trust as a strategic asset rather than a by-product. For regulators and policymakers, it means reducing the barriers that keep African banking fragmented, from licensing and capital rules to cross-border payments, so that banks can grow to the scale the continent needs, while maintaining financial stability, competition, consumer protection and responsible innovation.

African banking has come a long way. Its structural strength and stability are a legacy worth protecting. But its next chapter depends on evolution: on banks, regulators and their partners being bold enough to build a sector that does more than generate returns and instead plays a transformative role in financing the continent's growth.

Five forces reshaping African banking

Five interconnected themes. A more resilient, inclusive and innovative African banking sector.



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