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How the Current Digital Financial Revolution in East African Region Can Contribute to Saving Banks from Economic Stress and Collapse

Deo Rwangoga*

Chartered Management Consultant, Kampala, Uganda

Executive Summary

World-wide banking sector is inspired to see the new innovations that can make it better as well as living to see that every financial transaction becomes bankable and formal; the East-African region has been very far from such a dream. But now even people that are rural, and vulnerable, as long as they can communicate on mobile phone have now joined the money world and in a formal way, through Mobile Money services. On the other-hand, our banks are collapsing year by year and central banks in the region are wondering what to advise them to sustain growth and development for the banking sector. This Paper hereby proposes the full integration of mobile money services into the sector because of the vibrancy and result based facts of growth from digital evolution the best ever in our region. The paper suggests ways the banks can take advantage of mobile money services to sustain the financial sector in the digital era.

Rationale for Banks Performance in East-African Region from the practice of its own Innovative Niche of Digital financial revolution – Mobile financial services generated locally and whose impact can Sustain Banks.

Strengthening the banking sector has always been the reason the core role central banks do world over, East African Region Inclusive, and according the New vision of Thursday, April 14, 2016, page 24, the region banking sector is in trouble especially when the presumed strongest economy-Kenya, closes four banks in a span of just nine months these are Dubai Bank, Imperial Bank, National Bank of Kenya as well as Chase Bank and the governor Patrick Njoroge goes ahead to consider this year of 2016 as "a transitional year. The second economy – Ugandan banks that folded included: International Credit Bank, Green Land Bank, Co-operatives Bank, Trust Bank but more recently the National Bank of Commerce and Global Trust-Bank also closed. In all these cases above the governors of respective Central banks of Kenya and Uganda, identify Mismanagement, Need to raise minimum capital requirements to the central banks as to protect depositors money and failure to meet financial obligations in normal course of business due to deteriorating cash reserve rations. Because of such perspectives the central banks requirements we end up losing such great enterprises in the financial sector of the region that comes with a lot of challenges like people losing jobs, less financial transactions and hence less growth for the economies and the region, therefore more to see for central banks assessments on commercial banks performance, there is need to appreciate the day today ways of customers in each geographical area especially our east African which has been with less bankable transactions, which trend is changing course, but where is it shifting to?

The financial melt-down of 2008, that affected financial sector across the world, had different magnitude per region and the east African was less hit compared to Europe and America, we need to understand that as a region there are means and ways we can look at differently even if in the same industry, strong banks like Barclays is not targeting the region anymore and we may lose its ownership in the East African Economies but more importantly I think it's the central banks obligation and wish that every citizen accesses financial services and such transactions be formal still stands.

Based on that background of doing things our own way as an East African Region, we need to embrace our mobile financial services an innovation that came in 2007, we have been having money Grammar, western-union and Express money that are international in nature but mobile Money which is of owner has expanded drastically to meet the financial needs of almost every adult in the region. The People that would never be in the cash economy are now in this mobile financial service sector. And as the world gradually moves from cash lite to cashless era, the traditional money transactions of debit card, cheques, cash on delivery, transfers and credit cards this may not mean much anymore to The East African Region if we embrace our own of current mobile money services whose menu has expanded to include, money transfer, payments and services, savings, credit, insurance, pension and capital markets products ETC.

The banking sector is very well streamlined on global good practices and any bank can easily benchmark to improve its performance, but this mobile financial service to me, its best impact in the world today is in the East-African region and Kenya economy is the leading nation in its best practices. Despite such a great practice it is the same Kenya Closing out Banks and other regional economies also feel equally not - safe, Uganda wanted to propose like America for every bank to have a living will, which is a plan of how a bank would wind up its operations without recourse to public funding.

How Mobile Financial Services Can Save Banks from Stress and Collapse-Methodology?

I have read a paper "Enabling Mobile Money Policies in Kenya, fostering a digital Financial Revolution) by Brain Muthiora dated January 2015, and professor Njujuna Ndungus, Governor Central Bank of Kenya had a great Contribution [1]. In their presentation they present Mobile Money services as a great innovation that it has addressed financial inclusiveness, that the services are all encompassing role in economic development the poor and vulnerable groups have access to financial which proofs economic polices around mobile money services to be inclusive, the governor, says at one time Central Bank of Kenya adopted progressive Test and Learn approach to regulate. That was great; a lot of support is still given by central banks of the region like Central Bank of Kenya to keep encouraging innovation and growth while preserving the stability and soundness of financial sector [2].

***Corresponding author:** Deo Rwangoga, Chartered Management Consultant, P.O Box 4807, Kampala, Uganda, Tel: +256783520966; E-mail: deorwangoga@gmail.com

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A lot of regulation is already done, we proud that in Kenya every payment services can easily be done by mobile money services especially M-Pesa, to some extent as well in Uganda, MTN-Mobile money, Air Tel Money are all actively engaged and the social culture setup of our region has practically made it vibrate [3].

The public worry is that as the Mobile Money services expand the horizons of the financial sector industry in the region, then the long lived banks are closing down, advised to merge, the governor of central bank of Kenya declays 2016 as a transactional year of the sector. Also to remember in our region that most sustainable banks never started as Commercial Banks, they were saving schemes, micro-finances, cooperative societies whatever, but the last two decades they were able to develop products that looked localized, pro-people, addressing basic needs and with great understanding of the well-being of the local citizens, as we talk they are great banks and they grew and developed a good example is Centenary Rural Development Bank of Uganda, that is one of the stable and well trusted bank in Uganda. The point I am putting across is that the market demands and needs keep changing that we will not sustain banking sector in our region without integrating it with Mobile Money services in this digital era. The World Bank these days promote what we practice Local Economic Development, the one that involves locally from the society it serves. When you travel to other parts of the world even those that address telephone banking earlier than us, Mobile money has done great impact in our region and Kenya is leading. The only way to sustain our banks is then to rapidly integrate it fully into the system or else, it will keep expanding and banks will keep closing down one by one, when Central banks in the region are watching. Until we bring and upgrade the benefits of the mobile money services to the banking hall, we will watch the declining Sector of the commercial banks.

What Banks need to do with Mobile Money Services?

The fact that central banks have categorized them as low cost transactions; it is an advantage to whatever bank embracing it as the mobile money services will always be cheap, convenient and easy to use than western-union and MoneyGram services.

With mobile money services, the commercial banks can cluster limits that can always be on mobile money services, deposits and withdraws, that agents will be cheap and his pay can be on commission basis, which is cheaper than permanent staff only working on bank till, the only challenge is the need for public awareness and branding to this service. Cost-cutting is always the banks strategy all the time, mobile money can effectively address it.

The banks with mobile money services will also have easily reach to the would be expensive branch to run, an outreach of a branded mobile money link will do the work.

Central banks can as well encourage or force it over to keep the banks, through the legislation or periodical policy briefs to commercial banks, the feeling that good practice is foreign is gone, we are now the engine of our own growth, so let us co-operate, integrate and sustain our economies through integrating our best vibrate practices.

Conclusion

The discourse of this paper demonstrates that mobile money services in East-African financial sector is one of the approaches that should be included into proper banking sector because of its relevance, benefits and vibrancy. It is the tool that has highly reduced informality in cash economy and so be integrated for banking sector sustainability in East African region.

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