

Press Release

African banks accelerate their transformation without fanfare

For the major African banks, the question is no longer “whether” but “how” they can participate in African growth as there remain major challenges that are cutting into profitability for the time being.

Strong growth outlook in the medium-to-long term

Paris, July 10 2013 - DEVLHON Consulting analysis of retail banking expansion in the past 10 years backs the scenario of a upcoming consolidation on both national and regional levels.

According to DEVLHON Consulting’s forecasts of urban nodes and banking activity growths, **the branch networks of leading banks should grow between 95% (bull case scenario) and 46% (bear case scenario) between now and 2020**, based on a sampling of 19 African markets. This translates into growth of between 1,700 and over 3,600 branches just for the top 3 national players. That equates to the ex nihilo creation of a retail bank network comparable to combined networks of the Moroccan and South African leaders.

Continental footprint and rampant consolidation

Clearly, the reshuffling of the African banking landscape accelerated in the mid-2000s. Today’s sector was born from this first **transformation**, whose concept is named **“bank-africanisation” by DEVLHON Consulting analysts**. This trend is characterised by a rampant consolidation and a desire to achieve a continental footprint [see Figures 1 and 2]. Four groups of players have been identified and segmented :

- **G1 – Continental banking groups**, i.e. African-owned banking groups operating outside domestic market (*Standard Bank* in South Africa, *Attijariwafa* in Morocco, *UBA* in Nigeria);
- **G2 – Pan-African or pan-regional African-owned banking groups** (*Ecobank*, *Bank of Africa*, etc.);
- **G3 – Non-African groups** : all the subsidiaries of parent groups with non-African capital ownership (*Société Générale*, *Barclays*, *Standard Chartered*);
- **G4 – Key countries-focused banks**: e.g. *KCB*, highly focused on Kenya and the EAC zone.

DEVLHON Consulting highlights that, groups G1 and G2 posted the strongest retail network expansion (respectively, +12 % and +9 % branch openings between 2006 and 2010, which compares with +2 % for G3).

In this respect, the big names really stand out. This is the case of the South African and the Moroccan banks in the first place. Following several years of subdued growth, the “Big Four” **South African Banks** (*FirstRand*, *Standard Bank*, *Nedbank*, *Absa*) are seeking to recalibrate

their presence by raising their fairly weak exposure to the continent (less than 15% of their activity). Meanwhile, **Moroccan banking groups** (including *Attijariwafa* and *BMCE*) which benefit from their many years of experience expanding on the African continent; They are increasingly emulated, as seen by the game entry in 2012 of Casablanca-based Banque Centrale Populaire (*BCP*), which now operates in 9 Sub-Saharan African countries.

This is different story for **Nigerian banks** (including *Access Bank*, *Diamond Bank* and *UBA*) whose gigantic domestic market, central bank-imposed restrictions and AMCON-type [1] restructurings leave them fenced in their domestic market.

Alliance strategies are also becoming a tool, as evidenced by the 20% capital stake taken by South African bank **Nedbank** in the largest African banking franchise, Ecobank.

New risks and commercial challenges

Not all banks have the means to transform themselves into pan-African banking groups. Some of the obstacles to overcome include achieving critical mass, the complexities of refinancing on growth markets and the difficulty of building high-performance operational, sales and technology platforms. In short, the sort of challenges that can hinder profitability: the ROE [2] of African subsidiaries hovers round 10%, which is less than that generated by the parent group (15% to 20%). For example, Absa's subsidiaries in Africa are loss-making (excluding those held directly by Barclays).

Expansion into mass-market retail also brings forth **exposure to new risks**. The regulatory framework should tighten, as countries bring themselves up to **international compliance standards** (KYC [3], Anti-Money Laundering, Basel II and III). In this context, African risk and product programs models are maturing. As such, for many players, like Ecobank, over 60% of their local subsidiaries have been in operation for less than 6 years.

Besides, product offering and sales strategy are key to the success of the “**3 fronts**”: the “**battle for growth**” in all urban as well rural areas; the “**battle for market share**” on all sub-segments of client/business, and ... last but not least, the “**battle for product penetration**”. While less than half of their client base is equipped with payment cards, more African players are able to carry out such product innovations today such as mobile payment (eg. M-Pesa in Kenya), despite being complicated to launch, monitor and develop to maturity.

Good things will come to those who did not wait

This evolving banking landscape in Africa makes it difficult to operate on set growth models. The pan-African **strategy** of the major banking groups is to capture future growth and even monetise distribution capacities. The big players with national positions and financing are typically the most aggressive in terms of expansion. Standard Bank, one of the most internationalised banks and a member of the above-mentioned category, today has a strong exposure to the continent i.e 20% of top line revenue and 15% of tied in capital.

Following the new agreement with its parent group, *Barclays*, *Absa's* revenue exposure to the continent will climb to 15% from 10%. Moroccan banks are also extremely dynamic, both in terms of organic growth and acquisitions. For instance, *Attijariwafa's* sub-Saharan subsidiaries already generate nearly 8.6% of its net profit.

The African banking sector's potential is much like a long-distance race to gain access to savings and management of the customer relationships of tomorrow. Therefore, **key to success** will be the expansion of branch networks and acquisitions. Such a strategy could work to the advantage of players which expanded into new geographies over the last 5 years. **We believe there is clearly**

a first-mover advantage for those banks. Given that Egyptian banks have been pretty much out of the picture, **South African and, probably, Moroccan or Kenyan banks will still be leading the way.**

- [1] Asset Management Corporation of Nigeria (AMCON) was the joint initiative of the Ministry of Finance and the Central Bank of Nigeria and was established to purchase non-performing loans from Nigerian universal banks and recapitalize them
- [2] Return on Equity
- [3] Know Your Customer rules

Author : Yoann Lhonneur – partner at DEVLHON Consulting

About DEVLHON Consulting :

DEVLHON Consulting is a strategy and management consulting firm specializing in the banking and financial services sector.

For more information, see the website : <http://www.devlhon-consulting.com/english/>

Press Relations:






Agence Fargo
Aurélie Lustremant
alustremant@agencefargo.com
+33 1 44 82 95 51

Author :

Yoann Lhonneur : +33 6 73 71 10 54

Figures : see below Figure 1 and Figure 2

Figure 1 : Growth markets for retail banking in Africa

	Market Size (Population) 2012	GDP (Billions USD) 2012	GDP per Capita (PPP) 2012	GDP Growth CAGR 2013- 2017	Domestic credit (% od GDP) 2011
In bold : countries with 3 and + criteria					
	 > 15	 > 20	 > 2500	 > 10%	 < 50%
South Africa	51,2	390,9	11 302	9,0%	167%
Angola	20,2	114,8	6 244	8,5%	18%
Benin	9,4	7,5	1 658	7,3%	22%
Botswana	1,9	17,6	16 793	9,9%	7%
Burkina Faso	17,4	10,3	1 384	9,1%	18%
Burundi	8,8	2,5	626	13,2%	28%
Cameroon	21,5	24,5	2 345	7,7%	14%
Cape Verde	0,5	1,9	4 126	7,7%	81%
Comoros	0,7	0,6	1 256	7,3%	21%
Congo	4,1	13,7	4 708	7,3%	
Ivory Coast	23,4	24,3	1 696	9,6%	25%
Eritrea	5,7	3,1	780	10,7%	104%
Ethiopia	88,9	41,9	116	17,2%	
Gabon	1,5	16,8	17 339	1,4%	12%
Gambia	1,8	0,9	1 892	12,6%	
Ghana	24,9	40,1	3 337	19,7%	28%
Guinea	10,9	5,7	1 129	19,7%	32%
Equatorial Guinea	1,4	20,6	20 164	1,2%	
Guinea-Bissau	1,7	0,9	1 106	8,5%	14%
Kenya	42,1	41,8	1 807	12,9%	52%
Lesotho	2	2,6	2 018	11,3%	1%
Liberia	4	1,8	677	8,2%	31%
Madagascar	22,4	10,1	954	10,5%	12%
Malawi	16,6	4,5	877	14,4%	38%
Mali	16,3	9,6	1 062	7,6%	17%
Mauritius	1,3	11,9	15 622	9,1%	111%
Mozambique	22,5	14,6	1 167	14,3%	25%
Namibia	2,2	12,1	7 814	9,5%	52%
Niger	15,6	6,6	870	8,8%	15%
Nigeria	164,8	272,6	2 735	10,8%	37%
DRC	74,7	17,7	368	14,7%	3%
Central African Republic	4,9	2,2	791	7,7%	25%
Rwanda	10,4	7	143	13,9%	
São Tomé	0,2	0,3	2 345	25,7%	
Senegal	13,8	14	1 925	7,8%	31%
Seychelles	0,1	1	26 243	7,6%	48%
Sierra Leone	6,2	3,8	1 361	12,1%	17%
South Sudan	10,4	11,4	931	9,8%	
Swaziland	1,2	3,7	5 251	4,4%	27%
Tanzania	43	28	1 708	13,3%	24%
Tchad	10,7	9,7	1 986	3,2%	8%
Togo	6,3	3,6	1 094	7,7%	35%
Uganda	35,6	20,5	1 419	12,1%	19%
Zambia	13,9	20,7	1 701	13,2%	18%
Zimbabwe	12,6	10,8	549	11,0%	

Source : DEVLHON Consulting analysis - IMF - World Bank



Feel free to ask for the original table (to copy and paste data for table creation)

Figure 2 : Presence in Sub- Sub-Saharan Africa (G1 to G 4 banking groups)

Groups and banks :	G1. Continental					G2. Pan-african/regional		G3. Extra-continental groups			G4. Country-Focused
	Attijariwafa	BCP	Standard	UBA	Nedbank	Ecobank	BOA/BMCE	SocGen	Barclays	ABSA (excl. B)	KCB
Markets :											
Number local subsidiaries (min.)	8	9	18	16	5	30	16	11	8	4	6
Angola			*								
Benin		*		*		*	*	*			
Botswana			*			*	*		*		
Burkina Faso	*	*		*		*	*	*			
Burundi						*	*				*
Cameroon	*			*		*	*	*			
Cape Verde						*	*				
Central African Republic		*	*			*	*				
Comoros						*	*				
Congo	*					*	*	*			
Djibouti						*	*				
DRC (Dem. Rep. of Congo)						*	*				
Equatorial Guinea						*	*	*			
Eritrea						*	*				
Ethiopia	*			*		*	*				
Gabon						*	*				
Gambia						*	*				
Ghana		*	*	*		*	*	*	*		
Guinea		*		*		*	*	*	*		
Guinea-Bissau	*	*		*		*	*	*	*		
Ivory Coast	*	*		*		*	*	*	*		
Kenya			*	*		*	*	*	*		*
Lesotho			*	*	*	*	*				
Liberia				*		*	*				
Madagascar						*	*	*			
Malawi			*		*	*	*				
Mali	*	*				*	*				
Mauritania	*	*				*	*				
Mauritius			*						*		
Mayotte											
Mozambique			*	*						*	*
Namibia		*	*	*	*	*	*			*	
Niger		*	*	*		*	*				
Nigeria			*	*		*	*				
Rwanda						*	*				*
Sao Tomé-et-Principe	*	*		*		*	*	*			
Senegal		*		*		*	*		*		
Seychelles						*	*		*		
Sierra Leone				*		*	*				
Somalia						*	*				
Somaliiland						*	*				
South Africa			*	*		*	*			*	*
South Sudan			*	*		*	*				*
Sudan			*	*		*	*				*
Swaziland			*	*	*	*	*			*	*
Tanzania		*	*	*		*	*		*	*	*
Tchad				*		*	*	*			
Togo	*	*		*		*	*		*		*
Uganda			*	*		*	*		*		*
Zambia			*	*		*	*		*		*
Zimbabwe			*	*	*	*	*		*		*

Source : DEVLHON Consulting analysis



Feel free to ask for the original table (to copy and paste data for table creation)