Peterson Institute for International Economics (PIIE)

Financial Statements: A virtual event series with Nicolas Véron, Senior Fellow, PIIE

Africa’s Evolving Banking Landscape
By Elsie Addo Awadzi
Second Deputy Governor, Bank of Ghana

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Elsie Addo Awadzi
2nd Deputy Governor, BoG
Overview

- 54 distinct jurisdictions, in 5 sub-regions (North, Southern, Central, East, West)

- 2 monetary (and banking) unions with currency pegged to the Euro
  - West African Monetary Union (UEMOA, made up of 8 former French colonies)
  - Central African Monetary Union (CEMAC, made up of 6 former French colonies)

- 8 regional economic communities (e.g. COMESA, EAC, ECOWAS, and SADC)
Overview-II

• African banking landscape continues to evolve, with policy makers and regulators juggling a variety of priorities.

• Mixed profile of banks
  • Small indigenous banks, thrift institutions e.g. savings & loans, microfinance
  • Cross-border banks with more access to capital and management support from regional or international parents/groups
  • Decline in State-owned banks following privatisation and liberalisation

• Pan-African banks have gained more market share with branches and subsidiaries in much of the region, shrinking share of international banks

• Cross-border payments remain a challenge due to currency inconvertibility and lack of interoperable payment systems.
Pan-African Banks in Africa

PABs with greatest expansion

- **Ecobank** (Togo) tripled its network in Africa between 2000 and 2013 from 11 to 32 countries and then to 33 countries currently.
- **United Bank for Africa** (Nigeria) increased its footprint from 1 to 20 countries.
- **Attijariwafa Bank** (Morocco) increased its footprint from 1 to 14 countries (acquired French Crédit Agricole network).
- **BMCE** (Morocco) went from 2 to 18 countries over the same period, mostly through the strategic acquisition of Bank of Africa.
- **ABSA** (South Africa) became a PAB over 2013-2018 as Barclays divested its controlling stake.

**Note:** Includes PAB operations in home countries. Excludes representative offices in host countries.

**Source:** Community of African Banking Supervisors (CABS) (03/12/2019), Banks’ annual reports (2019).
**International Cross-Border Banking Groups Operating in Africa**

*List includes G-SIBs*

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<th>No.</th>
<th>Name</th>
<th>Headquarters</th>
<th>Number of African Countries</th>
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<tr>
<td>1</td>
<td>Société Générale</td>
<td>France</td>
<td>17</td>
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<tr>
<td>2</td>
<td>Citigroup</td>
<td>USA</td>
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<td>3</td>
<td>Standard Chartered</td>
<td>UK</td>
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<td>4</td>
<td>BNP Paribas</td>
<td>France</td>
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<td>5</td>
<td>Bank of Baroda</td>
<td>India</td>
<td>9</td>
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<td>6</td>
<td>Access Holding</td>
<td>Germany</td>
<td>5</td>
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<td>7</td>
<td>Albaraka Bank (Group)</td>
<td>Bahrain</td>
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<td>8</td>
<td>HBL Pakistan (Habib Bank Ltd.)</td>
<td>Pakistan</td>
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<td>9</td>
<td>International Commercial Bank (ICB)</td>
<td>Switzerland</td>
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<td>10</td>
<td>Rabobank</td>
<td>Netherlands</td>
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Illustrative Market Share of PABs: Ghana June 2021

**# of Banks**
- Domestic Banks: 10 (43%)
- International Banks: 9 (39%)
- Pan African Banks: 4 (17%)

**Total Assets (GHS' Billion)**
- Domestic Banks: 66.66 (41%)
- International Banks: 32.85 (20%)
- Pan African Banks: 63.38 (39%)

*Source: Published Bank Reports*
Pan-African Banks: Opportunities and Risks

Opportunities
• Economies of scale and efficiency in pooling funds to support large projects within the region
• Scope for facilitating increased economic integration
  • AfCFTA in force since May 2020 (largest trade area in the world in terms of participating countries (54) since WTO)
• More competition
• Improved standards of governance and risk management

Risks
• Regionally and domestically systemically important
• Different regulatory and supervisory regimes and approaches in Home/Host jurisdictions
• Different resolution/crisis mgmt. regimes
• Different stages of financial sector development including financial safety nets.

Cross-border cooperation arrangements (regional, sub-regional, bilateral) are in place for supervision, but less so for crisis mgmt.
Pan-African Banks: Opportunities and Risks-II

• Supervisory regimes and approaches differ
  • Many jurisdictions use Basel 1.5, with an increasing number pursuing Basel II/III reforms

• South Africa is the only BIS/BCBS/FSB member in the region

• Membership of Basel Consultative Group and FSB’s Regional Consultative Group help keep up with global regulatory and supervisory developments
COVID-Related Regulatory/Supervisory Challenges

• Rising NPLs and lack of well-developed NPL markets (domestic or regional)
• Operational risks (business continuity risks, cyber risks associated with more electronic transactions)
• Increasing risks from Sovereign-Bank Nexus amid increasing role of banks in Govt debt markets
• Suspension of on-site examinations, and joint examinations with home/host supervisory authorities
• AML/CFT risks and multiple adverse listings by FATF, EU, UK and threat of de-risking by some correspondent banks.
COVID-Related Regulatory/Supervisory Challenges-II

• Regulatory responses have included:
  • Release of capital and liquidity buffers to support relief for customers and new lending to support growth
  • Guidance on application of IFRS 9 Expected Credit Loss
  • Relaxation of provisioning norms on account of loan restructuring by banks
  • Restrictions on dividend pay-outs
  • Modified and more frequent stress tests
  • Enhanced off-site examinations
  • AML/CFT reforms

• As uncertainties persist, some regulators (e.g. Kenya) unwinding reliefs, while many others stay put

• Financial safety nets need strengthening to deal with potential losses—legal regimes for early intervention and resolution, deposit insurance schemes, loss-absorbing capacity.
Financial Technology in Africa: Risks and Opportunities

- Technology is fast changing the banking landscape in Africa
  - Digital delivery channels e.g. social media banking, full digital banking
  - Cloud-based banking enabling new capabilities
  - Digital financial services (DFS) on the increase, facilitating domestic payments and expanding access to finance rapidly

- Mobile money in particular is helping scale up financial inclusion
  - Partnerships between telcos, banks, fintechs, mobile money agents
  - Payment instrument through mobile phones, with accounts operating as virtual wallets
  - Emerging uses include cash-out through agents, and virtual savings, credit, insurance & investment accounts
  - In Ghana, mobile money wallets fully interoperable with bank accounts in terms of movement of funds
The Rise and Rise of Mobile Money Use in Africa

• “In 2019, 200 million users made 24.46 billion mobile money transactions in Sub-Saharan Africa and the Middle East and Northern Africa. This accounts for 64.15 per cent of all transactions made worldwide.” (Statista)

• Global mobile money transactions in 2020 approx $15 trillion to $20 trillion (Boston Consulting Group)
  • Kenya and Ghana had the 2nd and 3rd highest mobile payment usage after China
  • 87% of Kenya’s GDP and 82% of Ghana’s held in mobile money wallets

• Kenya’s M-Pesa reached 66 million mobile money active accounts by January 2021 (Statista)

• Ghana is fastest-growing mobile money market in Africa in the past five years (World Bank)
  • 18.3 million active mobile money accounts in June 2021, from 15.5 million in June 2020
  • Mobile money transactions averaged USD 11.5 billion monthly as of February 2021 (Bank of Ghana (March 2021))
Mobile money use has grown across sub-Saharan Africa, measured by % of adult population with mobile money wallets.
While 50% of mobile money deployments are based in SSA, growth trend is consistent in other regions as well.

- DFS growth in Africa has largely been driven by mobile money so far.
- Alongside that growth there has also been an increase in financial institution account ownership.
Policy Interventions that enabled the growth of mobile money have also spurred the growth of FinTech in financial services delivery.

Ghanaian Fintech Zeepay raises $7.9 million

Source: GSMA State Of The Industry Report 2021
Regulatory Responses to DFS

• Regulatory responses have included
  • Licensing of mobile money providers (telcos or subsidiaries), agents, fintechs, digital banks, and others
  • Regulatory sandbox approach
  • e-KYC rules proportional to the size of transaction
  • Product approval regimes
  • Consumer protection including data protection, pricing, and competition policy
  • New Fintech Offices to lead in regulatory development and supervision

• Regulators continue to grapple with
  • Blurring regulatory boundaries, and how to respond appropriately
  • Cyber risks and other operational risks: rules exist, but capacity remains a challenge
  • The cost of regtech & suptech to promote more effective regulation and supervision

• Some central banks (e.g. Ghana, Nigeria) exploring CBDCs
Climate Risk and Policy and Supervisory Responses

• Climate risks gaining policy attention, but still early days yet

• Lives and livelihoods at risk from extreme weather patterns with key sectors affected e.g. agriculture/forestry/fisheries, energy, mining
  • Agriculture alone responsible for 60% of Africa’s workforce, and 1/3 of GDP (AfDB, 2019)
  • Efforts to achieve UN sustainable development goals

• Regional climate risk management mechanisms include:
  • African Risk Capacity: a treaty-based mechanism with 35 African Union Member States to help African governments improve disaster risk management. Pools aggregate risk from across the continent each season to take advantage of the natural diversity of weather systems across Africa, with a payout to affected countries who suffer climate-related losses

  • African Development Bank’s “African Financial Alliance on Climate Change”: Designed to help mobilise private capital to meet the huge financing requirements needed to address climate change in Africa
Climate Risk and Policy and Supervisory Responses -II

• Some Central Banks e.g. Ghana, Nigeria, have published Environmental and Social Risk Management (ESRM) frameworks to guide banks on managing and reporting on climate and social risks.

  • E.g. Bank of Ghana launched the Sustainable Banking Principles in 2019

• 6 central banks/regulatory authorities in the region are members of the 95-member Network for Greening the Financial System

  • Bank Al-Maghrib, Banque Centrale de Tunisie, Bank of Mauritius, Central Bank of West African States (BCEAO), Financial Regulatory Authority of Egypt, South African Reserve Bank

• Urgent coordinated action on supervisory guidance needed especially across the region, given large number of Pan-African Banks
Summary/Conclusions

• The African banking landscape is fast evolving, with opportunities for tackling long-standing development challenges

• Technology is fast disrupting traditional banking models while creating more access for unserved/underserved groups

• Regulators continue to prioritise traditional financial risks especially in the midst of the pandemic, while regulatory developments evolve to address emerging risks such as technology-related and climate risks

• More work is required to mitigate AML/CFT risks, technology related risks including cyber risks, and climate risks.

• Well-developed regional financial safety nets will be critical for mitigating financial stability risks from cross-border banks, the operations of regional fintechs, and climate risks, among others.
Thank you!