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An African banking model

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Following the lessons of the pan-African banking groups' expansion, a number of local commercial banks have successfully expanded regionally. They differ from the international banking groups in a number of ways. These include flexibility and leveraging technology to service customers. They focus on retail and on growing SMEs, building loyalty among their customers. But they have limited resources, and need to partner with financial investors.

The past two decades have seen the emergence of African banks, characterised by their African ownership, some of which, such as Ecobank, Bank of Africa Group, United Bank for Africa and Stanbic have already grown pan-African. This pan-African status is the result of a long, challenging, expensive, yet perfectly orchestrated, expansion strategy. Following the positive pitfalls of these pan-African groups' expansion, a growing number of African commercial banks have started to expand, but with the prime goal of conquering their own regional markets. A growing number of successful regional expansions are becoming flagships of the continent's banking industry.

The I&M Goup, a Kenyan-based banking group, which has expanded progressively throughout the East African Community, thus becoming one of the leading regional banks in East Africa, is one case in point (*Table 1*).

TABLEAU 1 : LE GROUPE I&M

Le groupe I&M					
Au 31/12/11 en millions de dollars	I&M Kenya	Bank One	I&M (T)	BCR	Groupe I&M (*)
Positionnement					
Pays	Kenya	Maurice	Tanzanie	Rwanda	EAC
Performances financières					
Total Bilan	761	523	102	166	1437
En % Conso (*)	53 %	36 %	7 %	12 %	100 %

(*) Données consolidées proforma - acquisition de la BCR. Données auditées au 31 décembre 2011

Source : I&M, avm

I&M Bank was established in 1974 as a financial institution that grew to be a full-fledged commercial bank, licensed in 1996. It then started to deploy its expansion strategy with the acquisition of a Kenyan bank in 2003. This merger offered the bank an increased market share and some sounder financial grounds for a regional expansion.

Over the last few years, I&M Bank has successfully pursued a regional expansion strategy and established operations in Mauritius through its associate Bank One Limited, and in Tanzania and Rwanda through its subsidiaries I&M Bank Limited (T), and Banque Commerciale du Rwanda Limited.

A fertile ground for expansion

The two main factors that allowed the rise of locally owned regional banks in Africa were the emergence of regional markets, and financial integration across these markets (Beck, T., Fuchs, M., Uy, M. 2009). In East Africa, central banks and governments are creating compatible financial infrastructures, and significant progress has been made in Kenya, Tanzania, and Uganda to integrate real-time gross settlement systems.

This progress has facilitated cross-border commercial transactions and has consequently stimulated regional trade. This natural trend cannot be fully completed without homogeneous regulations applying to the banking sector. The harmonisation of the prudential guidelines and the regulatory framework is thus another significant driver of African banks' regional expansion.

Against this background, regulators in the East African Community are harmonising prudential guidelines and supervisory rules to ensure that there is a level playing field and practices that meet global standards. To a certain extent, within the different economic zones across Africa, central banks are looking at similar capital requirements for banks, as well as common shareholding structures and licensing requirements, thereby allowing the single licensing of banks across the continent.

The intensifying competition within the industry is another key driver of African banks' expansion. Competition is indeed growing beyond borders. Local markets, despite the low banking sector penetration rates, no longer offer the expected returns. Hence, growing locally instead of regionally is becoming less profitable.

Growing regionally is, in the long run, the only option for African banks to ensure their viability and profitability. Leading banks usually compete for large clients that have needs exceeding local financing capacities. While international banks can rely on their parent companies to finance or syndicate large transactions, African banks have to raise resources locally. Should they develop regionally, with a competitive network of well capitalised subsidiaries, they would be able to syndicate regionally, and thus, compete: hence, the regional expansion of the I&M Group in Mauritius, Tanzania and Rwanda.

Aside from being a key competitive advantage, African banks consider regional expansion to be the key axis of their risk mitigation strategies. A bank will more easily absorb the shock of political and social temporary instabilities in one country if it has a presence in other countries. The post-electoral crisis in Kenya was a good reminder of how quickly a situation can deteriorate and impact the economy. If a bank is too small, and only local, such a crisis can threaten its existence.

African banks' salient features

Several medium-sized regional banks have appeared on the map in the past ten years. These new players depart from traditional European banks in several ways, notably in terms of positioning and strategy.

International banks operating in Africa have centralised business lines with a significant focus on trade finance, corporate and consumer banking, and their activities target essentially medium and large corporates, and state entities.

On the contrary, although African banks like I&M will target, to a certain extent, large corporates, the bulk of their business is with small and medium enterprises (SMEs) and retail. African banks focus on growing SMEs to corporate size, which builds loyalty among their customers.

African banks tend to be more flexible in the services and products they extend to their customers. They also tend to be swifter in introducing new products that address their customers' concerns. An example is the prepaid Kenya shilling and US dollar–denominated VISA cards introduced by I&M Bank, which have gained popularity amongst a wide range of customers – companies whose employees travel on work, parents whose children are studying abroad, as well as Kenyans travelling abroad – all of whom want to monitor expenses closely.

African banks' focus on SMEs is linked to their flexible internal organisation, which is another of their key characteristics. International banks are characterised by a hub-and-spoke structure, where the hub is based in the head office. African banks enjoy a decentralised decision-making process or an organisation that enables the head office to respond quickly when approached by its regional subsidiaries.

But beyond these differences, their philosophy in approaching their domestic and regional markets might be their most distinctive characteristic. Lending decisions are based not only on financial statements but also on the relationship that has been established over time with the client. Speaking from the I&M perspective, it may be noted that after the post-election violence, in 2007-2008, many businesses suffered and many loans as per regulatory classification were classified as non-performing assets, but the bank was able to work with its customers, and in many cases gave them additional time to repay and reduce their interest rates for a few months. This resulted in most of the non-performing assets becoming performing assets within a year.

African banks tend thus to be more proactive in adapting their strategies to their moving local markets' environments. For instance, they have a far better understanding of non-traditional financing opportunities, such as microfinance and Saving and Credit Co-operatives (SACCOs). African banks are more familiar and comfortable with these banking techniques, which require a good knowledge of the local environment. Equity bank, for instance, has been instrumental in increasing its branch network and financial access and has grown to be one of the leading banks in Africa. Bank One, an associate of I&M Bank, provides another good example. This Mauritius bank introduced a Planters credit card, which allows farmers to access funding to assist them grow their crops and sell them to make a living.

Another key characteristic of African banks is their innovative approach. Indeed, they go out of their way to use technology as much as possible for the convenience of the customers. Some have even gone to the length of using technology to allow users access to both savings and loans. For instance, I&M Bank was the first to introduce a prepaid Kenya shilling card that could be topped up using M-Pesa, a revolutionary mobile-money transfer service offered by Safaricom, the leading mobile operator in Kenya. Similarly, Safaricom has partnered with Commercial Bank of Africa to provide M-Shwari- the revolutionary new banking product for Safaricom's M-Pesa customers that allows them to save and borrow money through their mobile-phones while earning interest on money saved.

In the field of mobile banking, African banks have taken advantage of the rise of M-Pesa, which targets mainly middle- and low-income individuals. These banks have understood that technological innovation can be of great assistance in gaining market share. In Kenya, Equity Bank, for instance, has continuously invested in technology and expanded both locally and regionally, offering micro-finance and successfully expanding its customer base in the rural areas.

The remaining feature that distinguishes African banks is the perception of them by local customers. African banks indeed inspire more trust in their customers. The cultural proximity, as described above, is not the only factor building trust. The fact that African banks cannot leave the country, without bankrupting, also inspires trust. African banks are bound to stay, whereas foreign and international banks can choose to sell their assets and leave the country. Or, less dramatically, they can decide to reduce their activity or change their strategy to address concerns in their home markets.

The critical parameters of size

If African banks bring a lot to the market, being more innovative and certainly less risk-adverse than their international counterparts, they still suffer from a great weakness: their size. Indeed, African markets are expanding and becoming more integrated; trade flows are booming, and this trend is expected to continue.

The African economy will thus require a more efficient, stable and well-performing banking sector, able to take advantage of economies of scale. The minimum size to exist in these markets is increasing. Therefore, African banks will need to become regional players or will be marginalised.

Opportunities to grow lie ahead. Capital requirements are increasing to meet international standards, and this may prompt some shareholding reshuffling whereby historical players or under-capitalised shareholders may look at exiting, thereby creating opportunities for African local banks to pursue their expansion throughout the continent, even if this means paying a premium.

Many of the banks in Africa have government and private equity shareholdings, and this too may create opportunities for regional banks to further expand. However, African banks have limited resources and need to partner with financial investors. In this process, Development Finance Institutions (DFIs) have a role to play. In recent years DFIs have been supportive of banks by taking equity and providing senior debt. Both French and German DFIs, Proparco and DEG, have been instrumental in supporting I&M bank in its regional expansion by taking equity in Kenya, Tanzania and Rwanda. The viability of African banks depends on their ability to grow quickly enough to become regional, which implies partnering with the right players.

References / Beck, T., Fuchs, M., Uy, M. 2009. Finance in Africa: Achievements and Challenges. Policy Research Working Paper 5020. World Bank, Washington, DC. July / **I&M, 2011.** The I&M Bank Group. Database.

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