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A French bank’s vision of the African banking sector’s evolution

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Far from adopting a wait-and-see approach, Société Générale is pursuing a growth strategy in Africa. While consolidating its offer for underbanked populations, it continues to build working relationships not just with big business but with SMEs too. The group intends to opt for controlled growth rather than frantically seeking to capture market share, and argues for a revolution in regulatory standards and for tougher banking supervision – changes that are crucial for the stability of the African banking sector as a whole.

With six operations in North Africa, eight in West Africa and three in Central Africa, the Société Générale Group is one of the biggest banking networks on the African continent. Starting from a core historical nucleus in Senegal, Cameroon, Côte d’Ivoire and Guinea, over the last decade, its network has expanded via acquisitions to include seven new locations in French-speaking Africa. The Group is a banking sector leader in numerous markets, holding market shares in excess of 20% in Cameroon, Côte d’Ivoire, Guinea, Equatorial Guinea, Madagascar, Senegal and Chad, for example. Despite the ongoing international crisis and the emergence of new players in the African market, the Société Générale Group continues to expand on the continent. With a total of 15,000 employees and a network of 1,000 branches, its African subsidiaries had 3.5 million customers at the end of 2012, including 1.2 million in sub-Saharan Africa. The group’s African network continues to generate growing revenues and sustained profitability.

An ambitious African strategy

Although the 2008 financial crisis and the emergence of new international financial standards have limited European banks’ African subsidiaries to a more selective and prudential investment strategy, Société Générale’s commitment to Africa remains unchanged. Far from adopting a wait-and-see approach, the group is pursuing an ambitious, dynamic, long-term growth strategy on the continent, with the goal of consolidating its market share and remaining alert to growth opportunities. This is because Africa – in addition to being a traditional field of operations for the group – remains a profitable market that fulfils its selection criteria for expansion. Despite economic and political conditions that are at times unsteady, growth on the continent has been sustained over several years. There is no doubt at all that this zone offers numerous advantages, connected with its dynamic population growth and the presence of significant natural resources. These three parameters – economic growth, an expanding population, and low banking penetration rates – represent significant growth drivers for the group. Political stability, a healthy business environment, and security for people and property will be the key criteria in selecting future areas for geographic expansion. The group’s goal, therefore, is to continue its selective expansion in the region.

In order to consolidate its leadership in the market, and in a climate of increased competition, Société Générale is strengthening its presence in markets where it already has an operational base, implementing an ambitious expansion plan for its branch networks and its customer base, with the goal of having 1.7 million personal customers in sub-Saharan Africa by 2015. In Côte d'Ivoire and Senegal, the bank is already opening new branches at a rate of 10 to 15 per year. In other markets its expansion is proceeding at a rate of two to three new branches per year.

A universal banking model

Société Générale's African strategy is based on consolidating its universal banking model. The group plans to expand across all customer segments – individuals, small businesses, and corporations – offering a wide range of products and making use of all available distribution channels. A key strategic challenge is to support the democratisation of banking services. The group is offering new, simple, low-cost solutions for serving the unbanked population – the majority of the sub-Saharan population, and a market that offers significant potential for growth in the region. New mobile and Internet banking products have been developed to meet their needs. A low-cost banking experiment is also due to be launched in Senegal, targeting potential customers in the gap between traditional banking networks and the microfinance market. This new bank will be based on a network of low-cost branches, featuring a limited range of low-cost products and services and the use of mobile phones – linking in with the new Yoban'tel mobile payment service launched in 2010.2 Sharing the group's back office operations has helped to reduce costs and to improve reactivity in terms of products offered.

With respect to business clients, Société Générale works with most of the major corporations operating in the countries where it is present, as well as being highly involved in the small and medium-sized enterprises (SMEs) sector. These segments play a vital role in delivering balanced economic growth. Most of the group's subsidiaries have adapted their commercial and loan approval systems to meet these companies' needs and to assess the risk levels involved more effectively.

Prudent risk management

Société Générale's ambition is to grow in Africa from a sound, solid, sustainable base, maintaining the quality of its assets at all costs. Its African subsidiaries have surplus liquidity, capitalisation levels substantially higher than the regulatory requirements – and compliant with the Basel II and Basel III Accords (*Box*) too – and very low risk-related costs, due to the excellent quality of their assets. When investment opportunities are scarce, these subsidiaries prefer to conserve their excess liquidity rather than frantically seeking to capture market share. The group intends to encourage controlled growth and prudent risk management.

From Basel II to Basel III

The Basel Committee on Banking Supervision was founded in 1974 by the governors of central banks and banking regulatory/supervisory bodies from
the leading industrialised nations. It is housed in the Bank for International Settlements in Basel. The committee publishes recommendations
on regulatory capitalisation requirements, and sets standards for the management and supervision

of banks' liquidity, to improve risk management, to increase transparency and to promote cross-border cooperation. Its recommendations led to the adoption of the Second Basel Accord (Basel II) by the European authorities. In response to the financial crisis, an international process of financial regulation was instigated in 2010, as part of which the Basel Committee produced its Third Accord, or Basel III. The measures adopted aim to strengthen prudential supervision, while preserving a financial system and a banking industry capable of supporting a robust, sustainable recovery.

Some more recent entrants into the banking market seem less inclined to update their prudential arrangements and their investment strategies in order to meet Basel II and Basel III standards. Not all of these players are scrupulously supervised by the regulators in their national markets. Their strategy of capturing market share, combined with a lack of supervision and sanctions when they do not comply with prudential guidelines, could lead them to take excessive risks, and their strong growth could entail a systemic risk for the entire sector. This is not to question the value of the competition these players represent – which has helped to improve the banking sector's efficiency – but rather to plead for a level playing field, and for rules observed by all.

The conditions for healthy and sustainable growth in the sector

The banking sector in Africa is undoubtedly attractive, and yet it needs to undergo substantial changes in order to offer its players the necessary preconditions for healthy growth. African banking groups can only emerge if there is a genuine revolution in regulatory standards and a move towards tougher bank supervision. Above all, everyone needs to be playing by the same rules, avoiding aggressive growth strategies that might endanger the sustainability of the entire system. Central banks must play their role fully, keeping the sector on a sound footing, particularly by raising regulatory capital requirements and tightening the regulation of the credit supply. At stake is nothing less than the stability of the African banking sector as a whole.

Although central banks are adequately structured, their effectiveness is impaired at times by dysfunctional state apparatus (police, justice system, government, customs, etc.); sometimes the rules are not applied as strictly as they should be. And so strengthening the banking sector will inevitably also involve upgrading governmental systems in the various countries of the region.
Moreover, in many countries, problems of governance obstruct the creation of a healthy, attractive environment for doing business. Political stability and security for people and property are far from being the norm everywhere. Only political stability, an untroubled business environment, and effectively functioning state apparatus that guarantee the security of people and property will remove these impediments and encourage the emergence of investment projects the African economy needs in order to thrive. A bank can certainly promote a country to developers and investors, but it cannot create investment projects, or create a context favourable to their existence. Governments have a vital role to play here.

Through its role as a leader in some African countries, Société Générale has undoubtedly played a structuring role in its banking sectors. Its presence helps to maintain and disseminate good practice, raising ethical standards in the sector. Africa needs to attract responsible investors, with a long-term vision and strategy. Succeeding in the banking sector in Africa is largely dependent on a good knowledge of the local market. Yet it is also necessary to show patience in terms of the results expected – and to appreciate the true value of the continent's potential and dynamism. Société Générale's strategy in this region is a long-term one. In all the countries where it is present, the group is looking to play a significant role in developing the local economy. As a responsible player and a patient investor, the Société Générale Group's mission will stay in sub-Saharan Africa and will continue to write the next chapters in its African history.

Footnotes

[1] This article is a personal contribution by the author – the views expressed in it are not necessarily those of Société

Générale or its directors.
[2] Société Générale's new mobile phone payment service is designed as a universal payment method open to the largest possible number of people, in particular those who do not use traditional banking services.