Banking Reform in Sub-Saharan Africa

Implications for banks’ strategies and business models
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Introduction

Overview

Africa’s banking sector is thriving. The three largest domestic banking stocks in Kenya and Nigeria, the economic powerhouses of East and West Africa respectively, have soared more than 50% since January 1st 2013 (see: Case Studies, pages 6-9). With conditions still challenging in western financial markets, this strong performance has thrust sub-Saharan Africa into the spotlight of the global financial services industry.

Two factors underpin the surge in interest: the region’s strong economic growth and the largely untapped potential of its financial markets. GDP growth in sub-Saharan Africa (SSA) stands at a robust 6.6% on the back of improved political stability, regulatory reform, debt relief and buoyant commodity prices. Annual Foreign Direct Investment inflows have risen fivefold since 2000, reaching approximately $50bn today. While the extractive industries account for a large proportion, an increasing share of foreign capital is now directed toward the banking, retail, telecommunications, agriculture and construction sectors.

The continent is also increasingly urban; in 1980, 75% of people lived in rural areas, whilst today 40% live in cities. This has contributed to a rise in average incomes and the emergence of a middle-class with increasingly sophisticated banking needs. Yet SSA remains the world’s most underbanked region. Less than 25% of SSA’s 880m population have bank accounts, while less than 5% have credit cards.

While the opportunity for African banks is clear, the challenge is to develop operating models that incorporate relatively low-income customers in a sustainable and profitable way. Historically, markets with average incomes below the $10,000 threshold have struggled to sustain traditional branch-banking models. However, more efficient cost profiles and new technologies are lowering this barrier.

A crucial determinant of banks’ success – and the focus for this paper – is the nature of financial-sector regulation across sub-Saharan Africa’s 48 jurisdictions. At Elix-IRR, we believe banks can gain a decisive advantage as they enter sub-Saharan markets by interpreting, influencing and responding effectively to the region’s fast evolving regulatory landscape.

Over the next 5-10 years SSA regulators will need to respond to new challenges, including management of the sector’s anticipated growth, the expansion of mobile banking, the rise of cross-border regional banking groups and the introduction of agency banking models.

This paper outlines sub-Saharan Africa’s banking sector regulatory landscape, explores the implications for banks’ strategies and business models and provides a forecast of the medium-term challenges and opportunities that banks must address in order to succeed in the region.

Fig 1: Banking penetration in Africa: Adults with an account at a formal financial institution (%)   Source: World Bank
Impact of the 2007-2009 global financial crisis on sub-Saharan Africa

Overview
Systemic banking crises were common in Africa in the 1980s and early 1990s, reflecting high levels of political instability, corruption, sovereign debt and government mismanagement of the banking sector. The subsequent period of relative political stability and economic growth in the late 1990s and 2000s coincided with reform programmes in several countries that strengthened banks’ capital bases, improved risk management and liberalised the sector by reducing the role of state-owned banks or, in some cases, by reorienting them along commercial lines.

At the onset of the global financial crisis in late 2007, the banking systems of SSA countries were still underdeveloped relative to the Western market and this market immaturity had the effect of limiting African banks’ exposure to the toxic debt that threatened financial market meltdown in developed countries. Sub-Saharan Africa’s lack of financial linkages to global capital markets, combined with the regulatory reforms of the 1990s and 2000s, ensured that SSA countries were relatively insulated from the global crisis (though there were exceptions - see Nigeria case study, pages 6-7).

Separating Retail from Investment and other Banking Activities
In important respects, bank regulators in Africa are actually more assertive that their Western counterparts. In the UK and the United States, it was only after the financial crisis that calls for the separation of retail from investment banking became audible (this was a key recommendation of the 2011 Vickers UK Banking Reform report, while US legislators in 2011 similarly called for a separation of banking activities via Dodd-Frank and the Volcker Rule). By contrast, this concept was already in place prior to the crisis in Africa, with three fundamental areas of activity restriction present across most jurisdictions: insurance and securities activities in combination, real estate activities and non-financial firm dealings.

Combining Insurance and securities activities: Mozambique is the only SSA country which allows banks to directly conduct a full range of both activities. All remaining countries insist that SSA countries were relatively insulated from the global crisis (though there were exceptions - see Nigeria case study, pages 6-7).

Fig 2: Sub-Saharan Africa: Systemic Banking Crises, 1980-2010
Source: Laeven and Valencia (2008)
**Real estate activities:** Real estate activities are allowed in South African and Angolan banks but can only be carried out by a subsidiary company. Ghana, Kenya and Nigeria only allow a lesser range of real estate activities to be carried out within subsidiaries. Mozambique prohibits any real estate activities to be carried out by banks.

**Non-financial activities:** Mozambique is the only country that allows non-financial activities such as information-sharing and analytics, consulting services and training to be carried out directly in a bank. Other countries only allow non-financial activities to be carried out within subsidiaries; Ethiopia doesn’t allow any activities at all.

**Specific Impacts of the Crisis**

Banking systems in SSA did feel pressure from the global crisis indirectly via international trade linkages. From 2008, the global economic downturn led to reduced exports and slower growth, in turn adversely affecting borrowers and contributing to rising levels of non-performing loans (NPLs).

These effects were more marked in countries where income growth slowed substantially but also occurred in some countries where aggregate growth remained robust throughout, such as Zambia.

Nevertheless, for most African countries the impact on financial sector soundness in the region was relatively modest. Banks in some countries experienced significant adverse shocks (e.g. Liberia, Zambia) but these generally fell short of a systemic crisis. Available financial soundness indicators point to a modest decline in reported capital adequacy ratios up until 2010, with slightly increased NPLs taking a toll on profitability. While bank profitability levels in the region have typically been quite high, the data point to a trend decline in returns on equity since the global financial crisis, with 2009 being a particularly bad year. However, there was recovery in capital adequacy ratios in 2011, along with a reported drop in the NPL ratio.

The Financial Soundness Indicators below demonstrate the impacts and trends over the period from 2006 – 2011.

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**Fig 3:** Sub-Saharan Africa*: Financial Soundness Indicators

Source: IMF database; and country authorities

Sample includes 33 of 45 sub-Saharan African countries

**Note:** While accurate data for 2012 and year-to-date 2013 are not yet available, we believe Capital Adequacy Ratios have remained broadly flat over the past 18 months, while NPLs continued to trend slightly downward. By contrast, RoE has shifted in 2012 / 2013 with increased returns in major markets such as Kenya and Nigeria prompting an uptrend.
The 2009 banking crisis in Nigeria followed a period of rapid credit growth under weak regulation and supervision. With a large influx of oil-related inflows and a loose monetary policy, loans to the private sector climbed from 18% of non-oil GDP to 40% from 2006-08. A large share of this expanding credit was used to purchase equities, in many cases with commercial banks extending the credit. A significant share of the unsecured credit also went to finance unhedged oil imports in deals between politically-connected business elites that Nigeria’s central bank governor would later describe as “monumental fraud”. By the late 2000s, the banking system was overheating – the market capitalisation of listed banks has increased nine times from 2004-2007 – and the necessary controls were absent.

When the stress generated by the global financial crisis burst the equity bubble and oil prices collapsed, many stock-backed and oil-related loans became nonperforming. By March 2009, special audits undertaken by the Central Bank of Nigeria (CBN) revealed that ten banks – managing roughly 40% of banking system assets – were either insolvent or substantially undercapitalized. One third of all bank loans were nonperforming.

Firm action was required, and the CBN took immediate steps to contain the damage:

• Injecting the equivalent of U.S.$4.2bn (2.5% of 2009 GDP) into the troubled banks;
• Guaranteeing all interbank transactions, foreign credit lines, and pension deposits;
• Replacing management in eight of the stricken banks; and
• Committing to protect all depositors and creditors against losses.
The CBN then set up a ‘bad bank’, the Asset Management Company of Nigeria (AMCON), which since late 2010 has replaced NPLs with tradable zero coupon bonds, bringing five of the eight insolvent banks to zero equity. These five banks have entered merger/acquisition agreements to meet prudential requirements, while the other three (smaller) banks have been temporarily nationalized and fully recapitalized by AMCON. The equivalent of U.S. $23bn (face value) in bonds (16% of 2011 non-oil GDP) has been issued to fund these operations. All interbank past-due liabilities were removed at the end of 2011.

The CBN also implemented stricter regulations on corporate governance and risk management, frequent on-site supervision, programs to improve the CBN’s ability to assess systemic risks and initiatives to boost cross-agency and cross-border cooperation among regulators.

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Nigeria’s banking sector is now consolidated, consisting of just 20 Deposit Money Banks (DMBs), down from 89 in 2004. Following the structural reforms instigated by the CBN the sector has experienced a dramatic turn-around in performance: bank revenues and profits are now at record levels.

However, latent risks remain. Since the consolidation in 2009-2010, credit has grown well above the rate of nominal GDP growth, leaving core capital levels lower than might be adequate in Nigeria’s complex business environment.

If this credit growth is left unchecked then asset quality and capital ratios may again suffer. In an oil-dependent country such as Nigeria, risk is concentrated – the largest 20 loans at Nigerian banks reportedly account for 30-50% of gross advances. Nigeria’s regulatory institutions face a challenging task in keeping the system sufficiently resilient to survive future crises. The CBN has enjoyed domestic and international praise for its work; however in late 2012 Nigerian lawmakers introduced two bills that would allow parliament to control CBN staff appointments and budget. It remains to be seen if the CBN can successfully defend its independence against such threats from political interests.

Fig 6: Nigeria’s credit rating
Correct as of 22nd May 2013

Fig 5: Nigerian GDP Growth Comparison
Source: World Bank
Case Study
Kenya, East Africa’s regional hub

Political interference in the monitoring and enforcement of banking regulation limited the effectiveness of reforms for decades after Kenya’s independence in 1963. The country’s lax regulatory regime provoked a major banking crisis in 1993, prompting an initial attempt to introduce more effective prudential regulation. Nevertheless, when Mwai Kibaki won the presidential election against long-time incumbent Daniel Arap Moi in 2002, the new government inherited a weak economy and financial system.

The Kibaki government set out a programme of economic reform, the Economic Recovery Strategy for Wealth and Employment Creation for 2003-2007, whose immediate objective was to improve the macroeconomic environment through a reduction in the government’s domestic borrowing. In the ensuing years, the economy experienced a sustained recovery and budget performance improved as a result of higher tax revenues and lower recurrent public sector spending.

During the 2000s, the government faced conflicting calls for reform of the Central Bank of Kenya (CBK). Kenya’s large, established banks sought a central bank that concentrated its activities on stabilisation, whereas smaller, local banks and businesses lobbied for the central bank to play a transformative role, providing incentives and enabling regulation to improve financial intermediation in the market place. As a result, financial regulation introduced in the 2000s sought to promote both development and stabilisation.

The results were significant: the number of deposit accounts increased from 2.6m in 2005 to 8.4m in 2009, while the value of deposits doubled to $14bn in the same period.
By comparison to many of its African peers, the CBK has become a model regulatory body that seeks to promote financial market development and inclusion. Examples of recent reforms include:

- Licensing of credit reference bureaus
- Approval in 2010 of agent banking, which allows banks to engage third parties such as small shops, petrol stations and other retail outlets to provide certain banking services
- Vision 2030, Kenya’s long-term national development plan, which outlines the goal of building an inclusive financial system and determines the thrust of the CBK’s overall policy
- Automation of the trading system for Treasury bonds to deepen the domestic bond market
- Successful raising of funds for government infrastructure development through infrastructure bonds – a move that has catalysed corporate bond issuance by KENGEN, Safaricom and others

The CBK’s risk-based approach to mobile banking has also received praise in light of the fact that the CBK did not rush to regulate telecom providers developing banking services before the model had been tested and proved.

Despite this, Kenya’s financial sector still faces multiple challenges. For instance, despite signalling efforts by the CBK to lower interest rates by reducing the central bank rate, commercial banks retain high lending rates. The cost of credit remains high and banks are generally unwilling to extend the maturity of loan products.

Overall, however, the Kenya case study underlines the benefits available to SSA economies whose central banks strike a balance between safeguarding financial stability and actively promoting the development of a financial system that serves the real economy.

With a peaceful election process successfully completed in March 2013, the new government of President Uhuru Kenyatta has an opportunity to actively address emergent challenges such as the regulation of Kenya’s burgeoning mobile phone money transfer market, new agency banking models and the rise of sharia-compliant banking models to service Kenya’s Muslim population (an issue that applies elsewhere in the region; Islamic banks now operate in at least 38 African countries).

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**Fig 6:** Kenya’s credit rating
Correct as of 22nd May 2013

<table>
<thead>
<tr>
<th>Agency</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fitch</td>
<td>B+</td>
</tr>
<tr>
<td>Moody’s</td>
<td>B1</td>
</tr>
<tr>
<td>S&amp;P</td>
<td>B+</td>
</tr>
</tbody>
</table>

**Fig 8:** Kenyan GDP Growth Comparison
Source: World Bank
Overview

SSA central banks worked hard during the 1990s and 2000s to improve the regulatory environment. Whilst the combination of market immaturity and prudent regulation served the region well during the global financial crisis, the industry recognises the importance of continuing to develop regulatory capabilities, particularly against a backdrop of significant anticipated growth of financial services in Africa.

Entry into the banking sector is regulated by each country’s central bank, which is the sole authority responsible for issuing banking licences. Foreign entities are allowed to enter the banking sector through acquisition, setting up of a subsidiary, branch or joint venture in all countries with the exception of Ethiopia, which does not allow foreign entry in any form of banking. The period for the issue of a licence from receipt of application to final disposition is typically up to 12 months although in Nigeria may take up to 18 months.

Regulatory Capital requirements have grown significantly since the 2007-08 financial crisis. As of 2010, all countries used Basel I regimes or equivalent for regulatory capital adequacy, and adhere to the guidelines of Basel I. South Africa applies Basel II and is targeting Basel III implementation in 2013 (Appendix 1 provides a detailed Basel regulatory status update for key SSA countries). However, banking operators should be aware that for many regulators in Africa – South Africa is a clear exception – a significant gap exists between the rhetoric and actual implementation of such guidelines. Frequently, formal adherence to Basel requirements coincides with a more lax de facto regulatory regime.

Quality Bank Governance is a key contributor to the stability and success of a bank. South Africa’s banks rank second in the world for soundness of governance, according to the Global Competitiveness Report 2012/13. The South African Banks Act of 1999, which sets out strict rules in terms of audit committees, directors’ suitability and qualification, mandatory public disclosures and the power of intervention by the Reserve Bank of South Africa, has helped enable South African banks to survive through the economic downturn without the need for bailouts and recapitalisation. Other SSA countries lag well behind South Africa but are nevertheless placing increasing responsibility on banks’ boards of directors for accurate and truthful financial and regulatory reporting, including mandatory public disclosure. Establishment of an audit committee is becoming mandatory, as is the appointment of a fit and proper Board and of senior management. Appendix 1 summarises key elements of regulatory focus for selected SSA countries, including capital adequacy requirements, AML/KYC and audit requirements.
Central banks across Africa can be divided into two broad categories: “transformers” and “stabilisers”. Central banks play a stabilising role where they deploy prudential regulation to improve financial system stability – building up sufficient capital in financial institutions to cover unexpected losses, ensuring proper accounting and audit practises, and ultimately protecting bank customers and investors. By contrast, a transformative role implies the use of regulation to encourage financial market development and inclusion.

We expect many SSA central banks – with the exception of South Africa, which has a more mature market – to pursue transformational agendas, actively supporting banking models that enhance access to finance, including mobile banking, agency banking, removal of minimum balances, etc.

The table below underscores the extent to which central banks are considering transformation as well as the more traditional stabilising and prudential forms of market regulation.

<table>
<thead>
<tr>
<th>Regulation to…</th>
<th>Transformation</th>
<th>Stability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promote financial literacy</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Promote consumer protection</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Develop credit reporting</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Allow non-financial firms to provide banking services</td>
<td>+</td>
<td>=</td>
</tr>
<tr>
<td>Lower barriers to entry to spur competition</td>
<td>+</td>
<td>=</td>
</tr>
<tr>
<td>Specify lending requirements to boost credit to private sector</td>
<td>+</td>
<td>=</td>
</tr>
<tr>
<td>Keep interest rates low through credit ceilings</td>
<td>0</td>
<td>=</td>
</tr>
<tr>
<td>Establish credit guarantee schemes</td>
<td>+</td>
<td>0</td>
</tr>
<tr>
<td>Ensure robust monitoring &amp; enforcement of rules by central bank</td>
<td>0</td>
<td>+</td>
</tr>
<tr>
<td>Higher minimum capital adequacy requirements</td>
<td>=</td>
<td>+</td>
</tr>
<tr>
<td>Limit short-term funding of domestic banks</td>
<td>=</td>
<td>+</td>
</tr>
</tbody>
</table>

Key:

+  Expected positive contribution and rationale for implementing regulatory policy

−  Expected negative contribution if regulators do not address trade-off between promoting financial deepening and inclusion and promoting financial stability

0  No significant contribution expected

Fig 10: Transformative and stabilising roles: examples of regulatory policies
Five key market trends will dominate SSA’s banking landscape over the next 3-5 years

<table>
<thead>
<tr>
<th>Key Market Trends</th>
<th>Regulatory Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Rise of the Consumer Class</td>
<td>SSA’s diverse regulatory context raises market entry and integration challenges for banks</td>
</tr>
<tr>
<td>2 South Africa: Gateway to Africa</td>
<td>Incentives boost scale advantage, but SA banks still lack strong presence in East/West Africa</td>
</tr>
<tr>
<td>3 East and West Africa: New Regional Challengers</td>
<td>Some pan-African banks are well-placed to overcome cross-border regulatory challenges</td>
</tr>
<tr>
<td>4 Nigeria: sub-Saharan Africa’s Anchor Market</td>
<td>Complex national &amp; sub-national regulatory environment necessitates tailored approach</td>
</tr>
<tr>
<td>5 New Banking Models</td>
<td>No consensus yet on regulatory approach to mobile banking, agency banking, etc.</td>
</tr>
</tbody>
</table>

1. Rise of the Consumer Class

Consumer spending across SSA is set to almost double by 2020. The number of countries with GDP per capita higher than $1000 will surge from around 25 to over 40.

The arrival of mass market retailers, telecommunications companies, breweries, etc. in African countries indicates the emergence of a middle class.

The strongest opportunities for banks will lie in countries that combine broad political stability, large internal markets, open economies and relatively sound regulatory frameworks: e.g. Ghana, Nigeria, Kenya, Tanzania, Uganda, Zambia, Botswana, Senegal and Namibia.

Regulatory Implications

- Because SSA’s 48 countries have such diverse regulatory requirements – often including local content or ‘indigenisation’ legal requirements – the best market entry strategy for regional or international banks is likely to be through Joint Venture / Partnership with local financial institutions or by Merger & Acquisition, rather than via the organic route.

- However, an acquiring strategy will raise significant integration challenges. Companies should consider opportunities to standardise, align and share services and operations across multiple countries early in the process.
2. South Africa: Gateway to Africa

- With economic growth in South Africa (2.5%) less than half that of the SSA average (5-6%), South African companies are looking north of the border for investment opportunities.
- Trade between South Africa and the rest of Africa was $30bn in 2011-2012, three times higher than the figure in 2002, but this represents only a fraction of the potential.
- Many South African companies have so far limited their rest-of-Africa strategies to the Southern African Development Community. Only 4% of South African exports go to Nigeria.
- Global banks increasingly view Cape Town and Johannesburg as staging posts to a broader Africa footprint. Barclay’s purchase of ABSA in 2007 signalled the trend. Last year, Credit Suisse established a local subsidiary and the Industrial and Commercial Bank of China – already a shareholder in South Africa’s Standard Bank – opened its first office.

Regulatory Implications

- South Africa’s government has raised the limits on financial outflows into Africa. South African banks therefore have a scale advantage in that lax macro potential limits allow them to leverage up to 40% of their balance sheet for cross-border funding into Africa.
- However, despite the rhetoric, some South African banks have yet to develop a deep understanding of the local regulatory and operating context in West and East Africa, where the majority of Africa’s fastest-growing economies are located.
- Despite the regulatory and cost challenges on expansion into SSA, South African banks realise the need to become regional players, not least to insulate them from single-country political and regulatory risks.
3. East and West: New Regional Challengers

- As financial sectors deepen in SSA’s leading economies (e.g. Nigeria and Kenya), an increasing number of SSA banks will seek to grow beyond their country of origin.
- Nigeria-based United Bank for Africa has developed into a pan-African bank with more than 7m customers in 19 African countries.
- Togo-based Ecobank has developed a banking network across 32 countries since the 1980s – a greater number of jurisdictions than any South African bank.
- The commoditisation of banking technology and the increased end-to-end capacity of suppliers (e.g. Visa and Mastercard or telecoms providers supporting mobile-banking) will allow regional African banks to expand more quickly and to compete with international players in Africa.
- African banks tend to have fewer issues with legacy IT / Operations / processing systems than Western banks and can therefore target a lower cost base.
- In the post-crisis era, some international banks (e.g. HSBC) have withdrawn their Africa presence, in part because the increase in risk weights has reduced lending to frontier markets, thus presenting an opportunity for local players.

<table>
<thead>
<tr>
<th>Bank Name</th>
<th>Total Assets</th>
<th>Locations in Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Bank of Africa (Nigeria)</td>
<td>$12.3bn</td>
<td>19</td>
</tr>
<tr>
<td>Equity Bank (Kenya)</td>
<td>$1.6bn</td>
<td>5</td>
</tr>
<tr>
<td>Kenya Commercial Bank</td>
<td>$3.0bn</td>
<td>6</td>
</tr>
<tr>
<td>Ecobank (Togo)</td>
<td>$17.2bn</td>
<td>32</td>
</tr>
<tr>
<td>Standard Bank (RSA)</td>
<td>$201.9bn</td>
<td>18</td>
</tr>
</tbody>
</table>

Fig 11: "Rising Stars": selected pan-African banks
4. Nigeria as SSA’s Anchor Market

- With GDP growth of 6.5%, Nigeria is set to overtake South Africa as Africa’s largest economy by 2015.
- The Nigerian market is so significant that no financial institution seeking an African presence can ignore it. For example, Nigerian economic output is larger than all of East Africa combined.
- The structure of Nigeria’s 163m population – 72% under the age of 30 and a well-balanced regional distribution of eight ‘anchor’ cities each exceeding 1m people – provides a strong base for non-oil investment and consumption activity, supporting the emergence of a middle-class.

5. New Banking Models

- The mobile phone money transfer market is to expand in SSA.
- Safaricom, a Kenyan mobile phone operator 40%-owned by Vodafone, has developed the M-PESA system through which four out of five Kenyans now have access to a mobile money account.
- Safaricom’s 15m subscriber base for M-PESA illustrates the potential scale of a successful mobile banking system in Africa.
- Other new banking models will include agency banking and sharia-compliant banking, likely to emerge at scale in East Africa first.

**Regulatory implications**

Financial institutions investing in Nigeria must respond to an array of regulatory challenges, including:

- The need to conduct extensive due diligence on transactions and local business partners due to the high prevalence of corruption and weak corporate governance
- Often unrealistic local-content or ‘indigenous’ labour and capital requirements
- Bureaucratic challenges such as difficulties in registering property, repatriating profits, paying taxes and obtaining business, resident, capital-export, expatriate-quota and construction permits
- Significant differences in the regulatory and business environments among Nigeria’s 36 individual states, for instance between economically dynamic states such as Lagos and the more stagnant and agriculture-dependent states of the Muslim northern interior.
Overview

After decades of limited progress, financial sector reforms accelerated across Africa during the late 1990s and 2000s – yielding impressive results. In October 2012, the Fitch rating agency quoted improvements in financial regulation as a key contributor to the growth of the sub-Saharan economy.

While countries with more integrated financial sectors such as Nigeria and South Africa suffered from the effects of the global financial crisis – experiencing sharp falls in capital inflows, equity valuations and external financing – the reforms undertaken prior to the crisis have allowed these banking sectors to recover faster than their Western counterparts. Since the crisis, more robust banking supervision, greater liquidity and relatively low levels of loan default have boosted confidence in the African finance sector, and have rejuvenated the issuing of credit needed to stimulate further growth.

‘Gradualists’ versus ‘Transformers’

These results have been achieved using strikingly different approaches. In South Africa, a gradualist approach to reform following the end of apartheid in 1993-94 delivered a restructured banking sector that has proven both stable and competitive. Nigeria, by contrast, adopted a ‘shock treatment’ approach involving a series of radical reforms between 2005 and 2011 that produced a safer, more consolidated and better capitalised banking sector. Other leading African economies such as Kenya and Ghana fall in between these opposing ends of the reform spectrum.

Regulatory challenges

Looking ahead, Africa’s capacity-constrained national regulators face an array of challenges, including the need to:

- Move beyond the market risk concerns of the Basel I-II-III regimes to focus on enabling regulation that fosters greater financial inclusion and access
- Share information and data more effectively between different SSA regulators
- Focus on cross-border supervisory issues and harmonise national regulations to remove the barriers to cross-border banking by pan-African and international banks. The leading regional bodies – SADC, the East African Community (EAC) and the Economic Community of West African States (ECOWAS) – will prove the most effective platforms for promoting regulatory harmonisation
- Develop the expertise for macro-prudential supervision designed to ensure systemic stability
- Develop regulatory frameworks for new banking models such as mobile banking, agency banking and sharia banking

Implications for operators

For local and foreign-owned banks operating in sub-Saharan Africa, success in such a geopolitically diverse and fast-growing region will require a nimble and proactive approach to the regulatory environment. Companies should monitor regulatory developments and conduct scenario-based analysis of the impact of impending legislation. Doing so will enable more informed investment decisions and will minimise the cost burden arising from the non-convergence of national regulations.

Despite the positive developments outlined in this paper, regulatory uncertainty will remain a key feature of the African banking landscape. Yet for banks that are able to reduce the complexity and cost of operating in multiple jurisdictions by understanding and influencing regulatory regimes, the rewards on offer in the world’s fastest growing continent are significant.
## Appendix

### Key Elements of regulatory focus for selected SSA countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Regulator</th>
<th>Basel Status 2012</th>
<th>Reporting</th>
<th>Capital Requirements</th>
<th>Deposit insurance scheme</th>
<th>Anti-Money Laundering provisions</th>
<th>Know your customer provisions</th>
<th>Audit Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>Central Bank of Kenya</td>
<td>Currently formulating position</td>
<td>Weekly FX, Monthly RWA, Annual</td>
<td>Min CAR 10%</td>
<td>Yes</td>
<td>Report suspicious transactions to Central Bank</td>
<td>Basic</td>
<td>Annual audit by auditor</td>
</tr>
<tr>
<td>Mauritius</td>
<td>Bank of Mauritius</td>
<td>Basel II</td>
<td>Daily FX reporting, Quarterly and</td>
<td>Min CAR 10%</td>
<td>Yes</td>
<td>Anti Money laundering is governed by the financial intelligence and Money laundering act (FIAMLA).</td>
<td>Full</td>
<td>Companies with turnover of above MUR 50 million are required to have their accounts audited</td>
</tr>
<tr>
<td>Namibia</td>
<td>Bank of Namibia</td>
<td>Basel II</td>
<td>Required to report audited annual financial statement to Central Bank and national press. Commercial banks required to submit monthly statutory returns.</td>
<td>Min CAR 10%</td>
<td>No</td>
<td>Report suspicious transactions to central Financial Intelligence Centre</td>
<td>Yes</td>
<td>Independent External Audit</td>
</tr>
<tr>
<td>Nigeria</td>
<td>Central Bank of Nigeria / Securities and Exchange Commission</td>
<td>Implementing Basel II and III</td>
<td>Monthly</td>
<td>Min CAR 8%</td>
<td>Yes</td>
<td>Active AML</td>
<td>Yes</td>
<td>Independent External Audit limited to 10 years auditing any particular bank</td>
</tr>
<tr>
<td>Senegal</td>
<td>Central Bank of West African States/ Ministry of Finances</td>
<td>Basel II implementation in progress</td>
<td>Daily FX reporting, Monthly, quarterly, biannual and annual financial statements</td>
<td>Min CAR 8%</td>
<td>In progress</td>
<td>Laws adopted in 2003</td>
<td>Yes</td>
<td>Independent External Audit</td>
</tr>
<tr>
<td>Tanzania</td>
<td>Bank of Tanzania/ Capital Markets and Securities Authority</td>
<td>Basel I and II implemented, Basel III in progress</td>
<td>Daily, weekly, monthly quarterly and annual returns are mandatory for every bank. Hardcopies required for filling purposes.</td>
<td>Min CAR 10%, Core capital &gt;10%, Total capital &gt;12% of RWA.</td>
<td>Yes</td>
<td>Active AML</td>
<td>Yes</td>
<td>Independent External Audit</td>
</tr>
<tr>
<td>Uganda</td>
<td>Bank of Uganda</td>
<td>Implementing Basel II.</td>
<td>Weekly, monthly and quarterly returns. Annual financial statements</td>
<td>Min CAR 8%</td>
<td>Yes</td>
<td>Provisions in place.</td>
<td>Yes</td>
<td>Independent External Audit by the Institute of Certified Public Accountants</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>Reserve Bank of Zimbabwe</td>
<td>Basel II implementation in progress.</td>
<td>Weekly statutory and liquidity returns, monthly mgmt accounts, quarterly and interim financial statements</td>
<td>Min Tier-1 capital, USD 12.5 million</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Independent External Audit</td>
</tr>
</tbody>
</table>
Sources

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About Elix-IRR:

Elix-IRR is a strategic advisory firm specialising in all forms of transformation, change, operating models and sourcing strategies. It is comprised of senior professionals from consulting and services firms such as McKinsey, Deloitte, IBM and Accenture, as well as experienced practitioners from industry.

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