



# Bearing Consulting

*Stockholm – London – Barcelona – Geneva – Johannesburg*

## The Evolution of the African Bank

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21 July 2010

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## **AGENDA**

- About Bearing Consulting
- The status quo in the African financial sector
- Business drivers, market gaps and growth Industries
- Products & services tipped to be cash cows beyond 2010
- Opportunities and requirements of the oil & gas sector
- Opportunities and requirements of the agricultural sector
- Opportunities and requirements of other sectors
- The Carbon off-setting market



- Bearing Consulting is a consultancy incorporated in United Kingdom with local offices in London, Stockholm, Barcelona, Geneva and Johannesburg.
- The business was established in 2001, and operates under the Bearing brand name since 2004
- Through a resource pool of more than 60 expert consultants, we are currently engaged in projects across four continents
- Our consultants have on average 25 years experience and have held senior management or expert positions



## Values

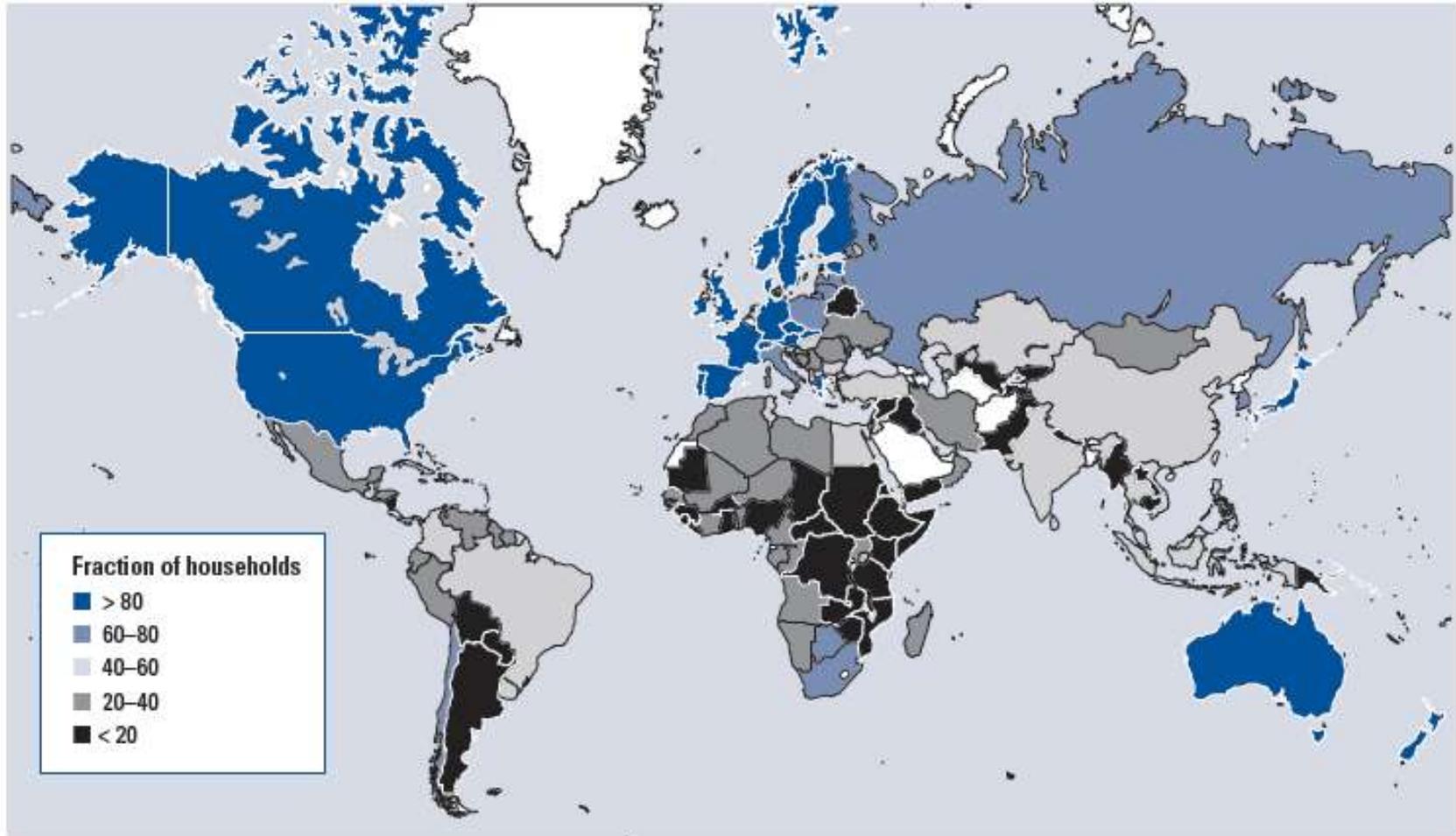
Our decisions and deliveries are based on shared values within Bearing: C<sup>3</sup>E





# Overview of the regional financial sector

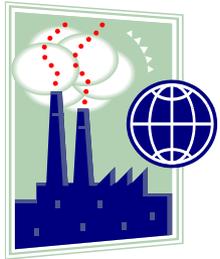
## Access to financial services by household across the globe



Source: World Bank, 2007a.

Note: Data are for 2003–04 and indicate the share of households with access to a financial account.

# The Status Quo of the African financial sector



Deficit Funds  
Groups



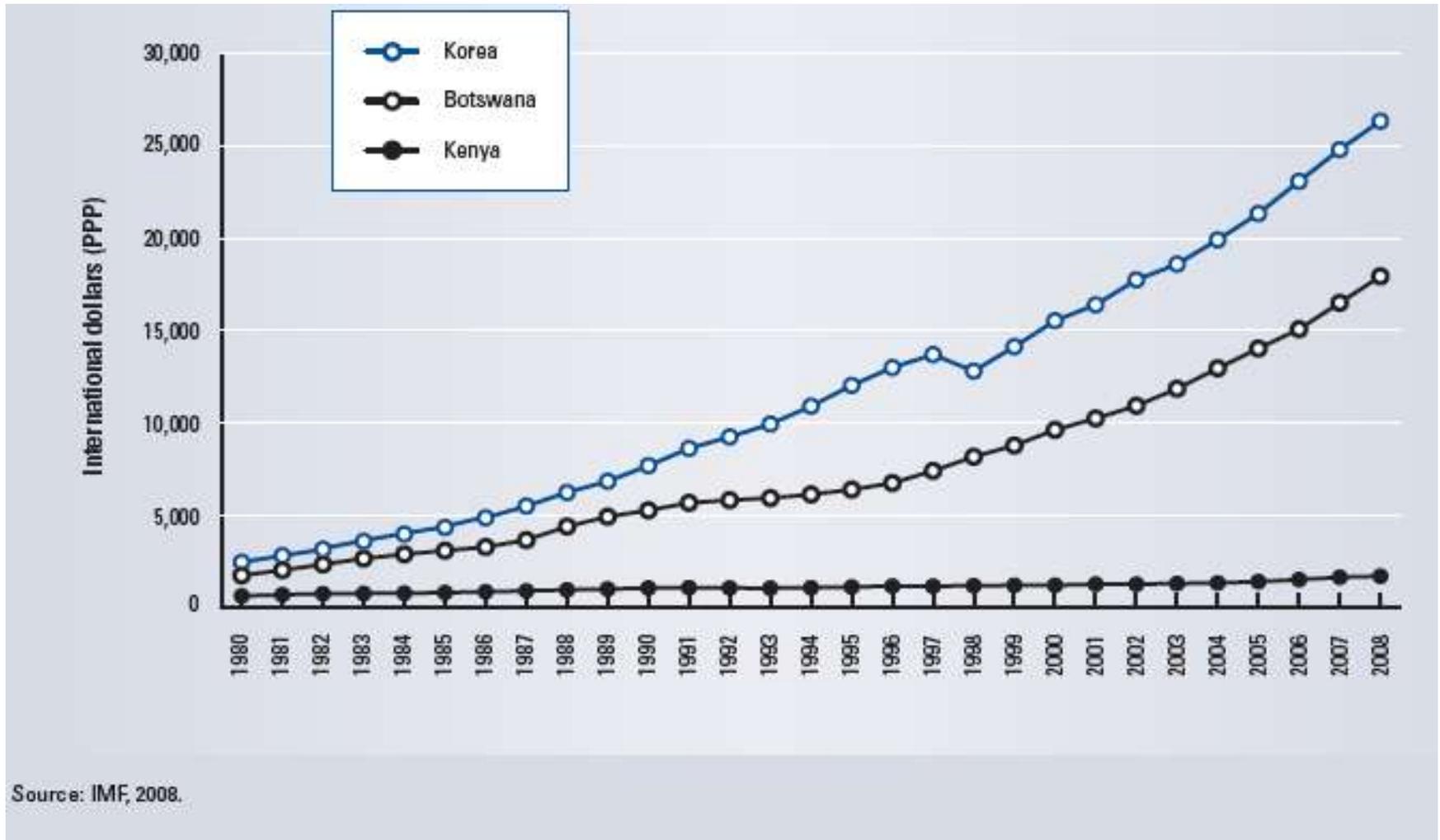
Surplus Funds  
Groups





# Overview of the regional financial sector

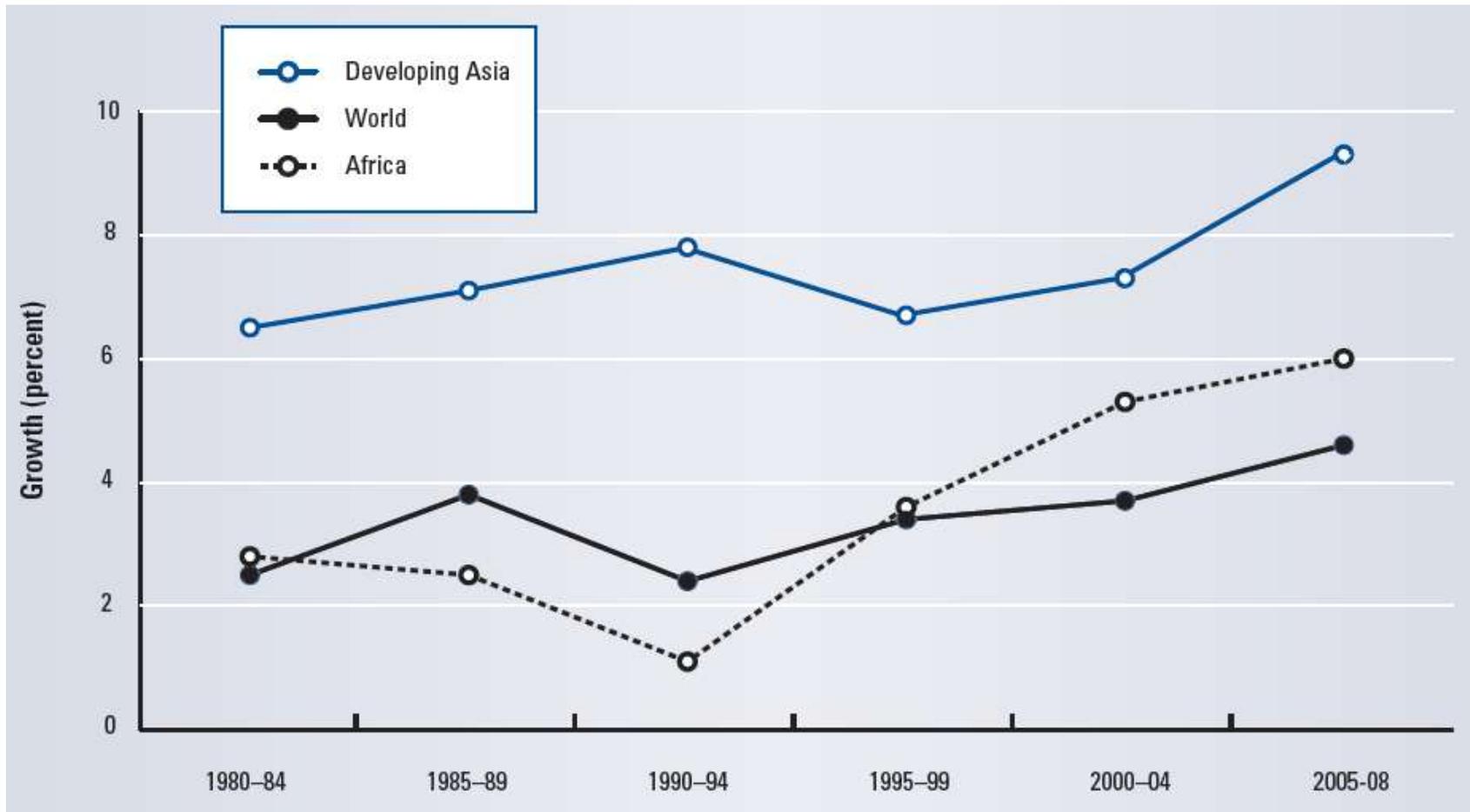
Gross Domestic Product based on Purchasing Power Parity (PPP) per capita GDP



Source: IMF, 2008.



## Africa's comparative growth performance 1980-2008





1. Gross National Income (GNI) per Capita increased from US\$ 655 in 2000 to US\$ 948 in 2005
2. Real GDP Growth accelerated from 3.7% in 2000 to 5.7% in 2007
3. Real per Capita GDP Growth accelerated from 1.3% to 3.3%
4. GDP at Current Market Prices for Africa increased from US\$ 588 503 M in 2000 to US\$ 976 428 M in 2005
5. Inflation slowed from 9.4% in 2000 to 7.1% in 2005



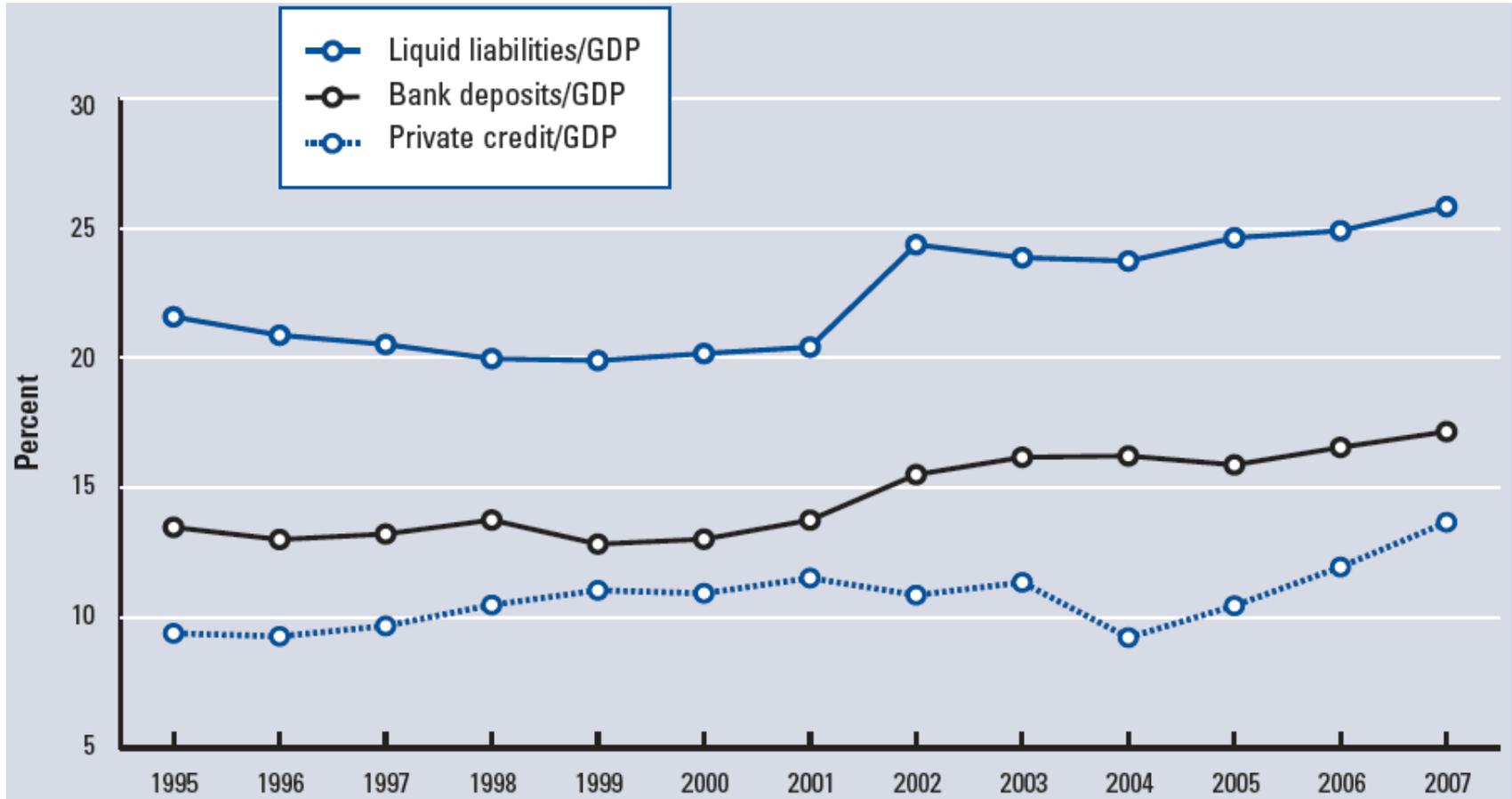
1. Debt Service as a % of exports decreased from 15.4% in 2000 to 12.3% in 2005
2. External Debt as a % of GDP decreased from 54.5% in 2000 to 33.5% in 2005
3. Net Total Financial Flows increased from US\$15,438.5 M in 2000 to US\$ 53,998.9 M in 2005
4. Foreign Direct Investment Inflows increased from US\$ 9,671 M in 2000 to US\$ 29,459.5 M in 2005



1. Consolidation and cross-border expansion is creating larger and larger banks – Three of the major South African banks have assets in excess of US\$ 100 bil. (Andrew Haldane of the Bank of England used this as the 'too big to fail' threshold).
2. Regional integration in the financial sector – Ecobank, Standard Bank, Access Bank
3. Banking the unbanked – M-Pesa, Wizzit, Mxit
4. International market entrants – Citigroup, JP Morgan, RenCap

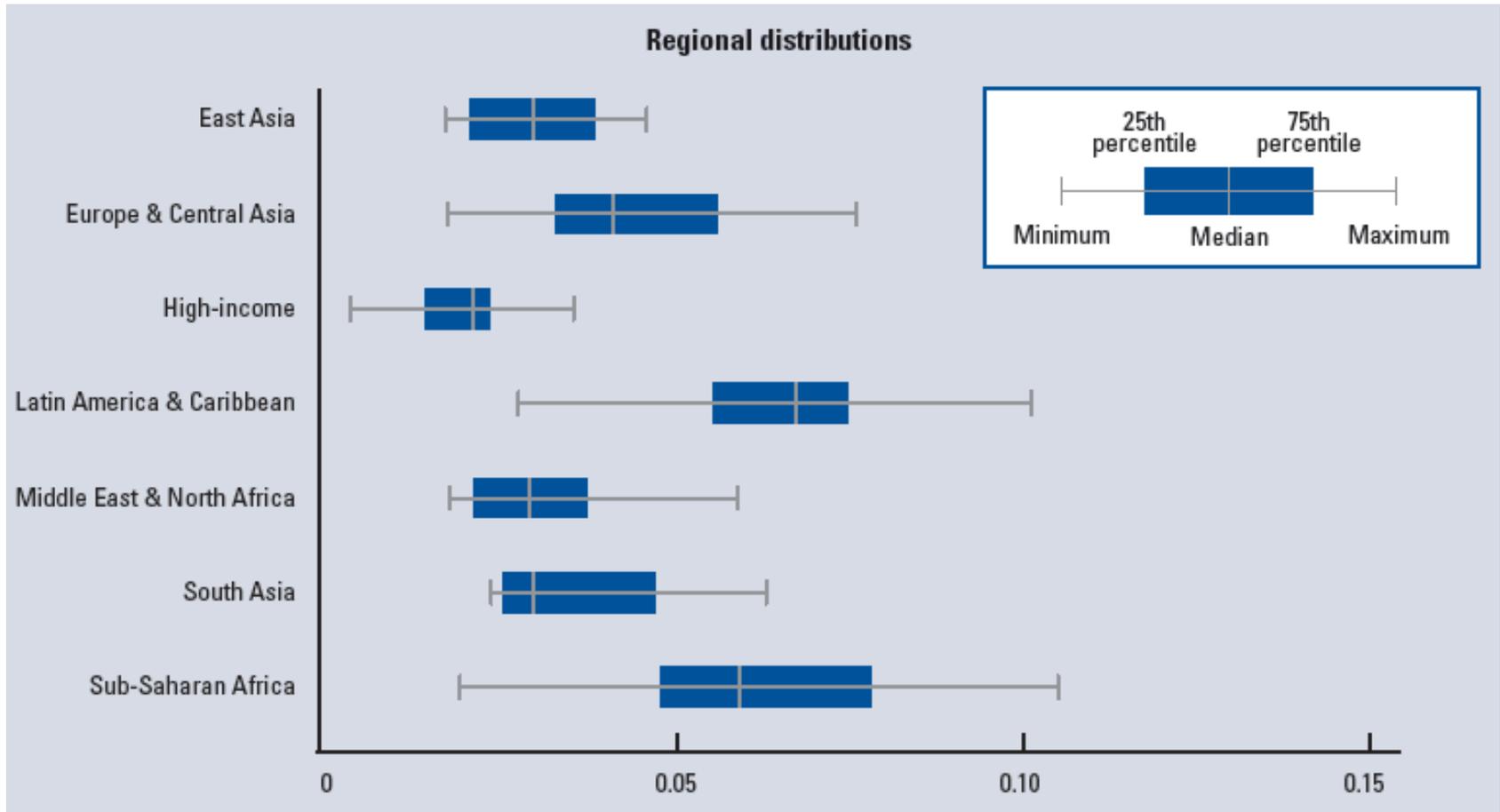


## Financial Deepening in Sub-Saharan Africa: 1995-2007



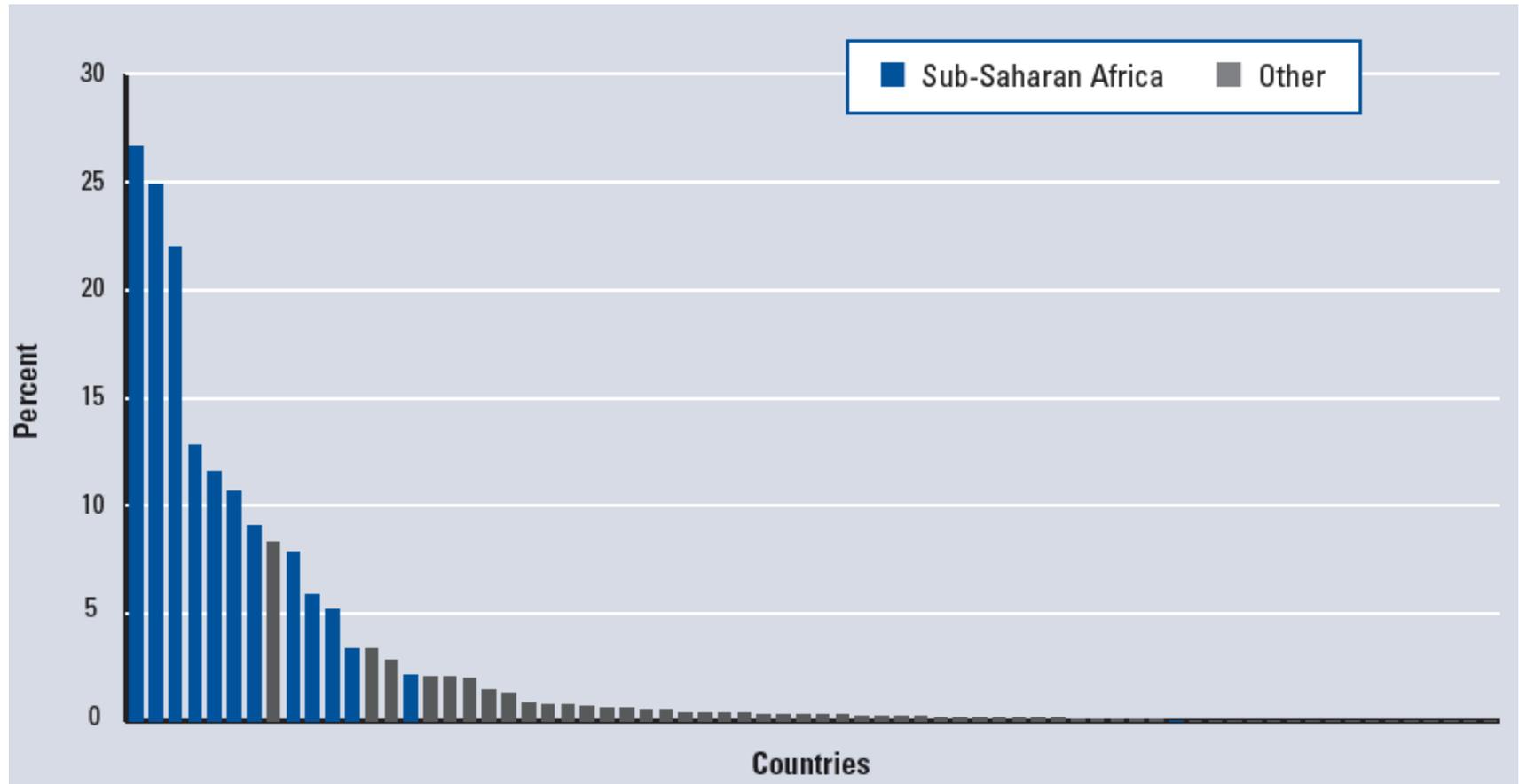


## Net interest margins across regions





## Checking account fees





1. Banking the unbanked market – 15% ratio between bank accounts and people in SSA. Banking penetration is estimated to be around 9%. World-wide there are around 4 bil. mobile phones but only 1.6 bil. bank accounts
2. Consolidation in the financial sector
3. Development of the capital markets, particularly securitisation, repos and fixed income derivatives
4. Resurgence in interest in smallholder agriculture for poverty reduction in SSA
5. New oil & gas fields (Ghana, the DRC, Uganda) and new pipeline and refinery projects



6. Intra-regional trade
7. Abundant resources – minerals, land, water, people
8. Nigeria's population of 150 M is skewed towards <35 years of age and they are eager to work.
  - Population is the principle driver behind India's and China's growth of 8-9% p.a.
9. Transport infrastructure has been prioritised in most SSA jurisdictions – railroads, airports, ports and roads
10. Insufficient energy production across SSA that is being addresses
  - Singapore electricity generation capacity is 11.5 GW for a population of 4M, Nigeria's is around 3 GW for a population of 150m



### 1. Mortgage loans

- Efficient bond registration processes needed to support this market (registering a bond over a property in Nigeria costs 15-18% of the value of the property and takes up to 6 months)

### 2. Asset based finance – Agriculture, transportation

- Legal structures needed to support this business

### 3. Project finance

- Power generation plants – hydro, thermal, solar
- Refineries
- Hotels/leisure sector
- Railroads



5. Repos
6. Securitisation
7. Corporate bonds
8. Fixed income derivatives
  - Credit Default Swaps
  - Convertible bonds
9. Infrastructure finance
  - Roads
  - Hospitals
  - Ports & Airports



- New discoveries in Ghana, the DRC and Uganda – Project finance opportunities
- East African Pipeline
- Refineries – More than 90% of Nigeria's petroleum products are imported



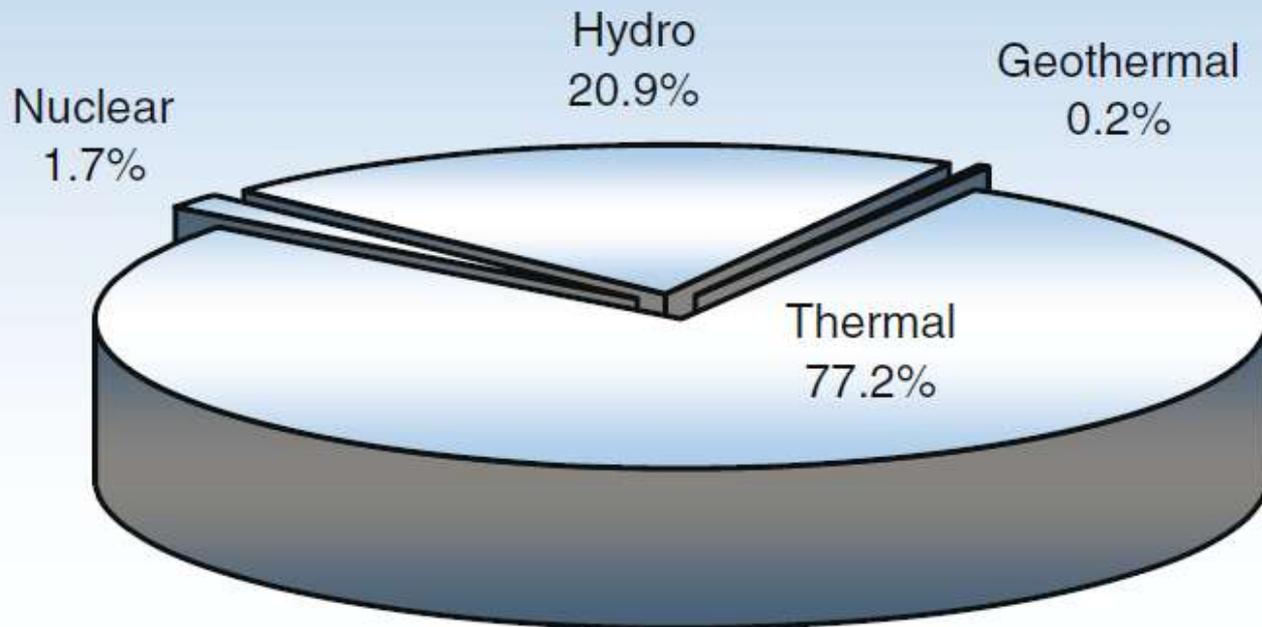
- Under developed sector across Africa with great potential
  - Nigeria is a land rich country where agricultural produce represents 14.5% of their total imports
- SSA lags behind the rest of the world in agricultural production efficiency
- Large-scale commercial farming requires mechanisation
- Kwara State, Nigeria & Zambia – farming projects financed by banks as a case study



1. Electricity generation – small scale generators (2-3 MW) & renewal energy production (wind, solar, hydro)
2. Telecoms
  - SSA is the fastest growing market in the world after China
  - Mobile phone penetration is still only around 30% and has a long way to go. Fixed line penetration is around 3%
3. Manufacturing – Financing of capital equipment

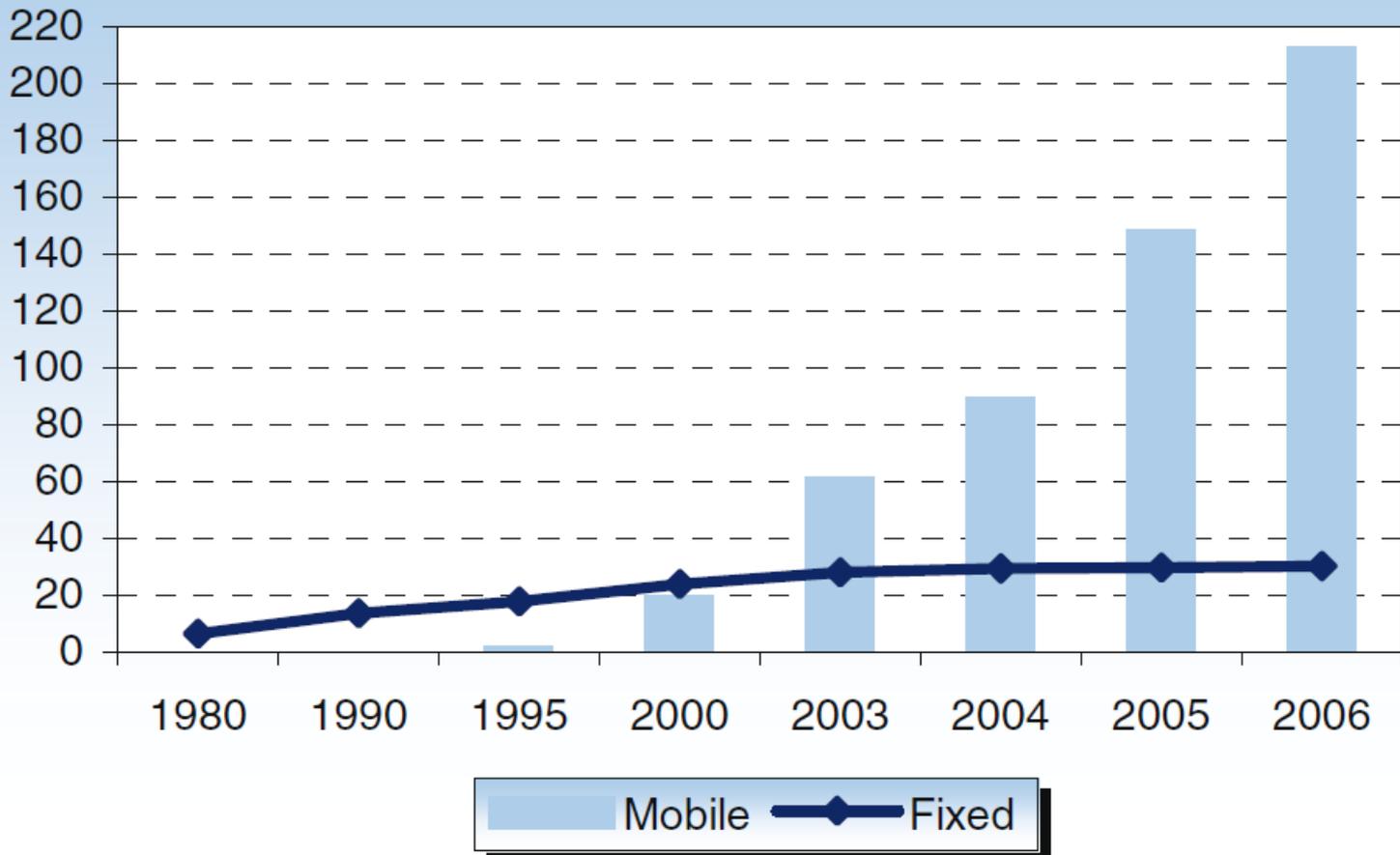


**Figure 1.10 - Africa: Electricity Installed Capacity by Type, 2005**



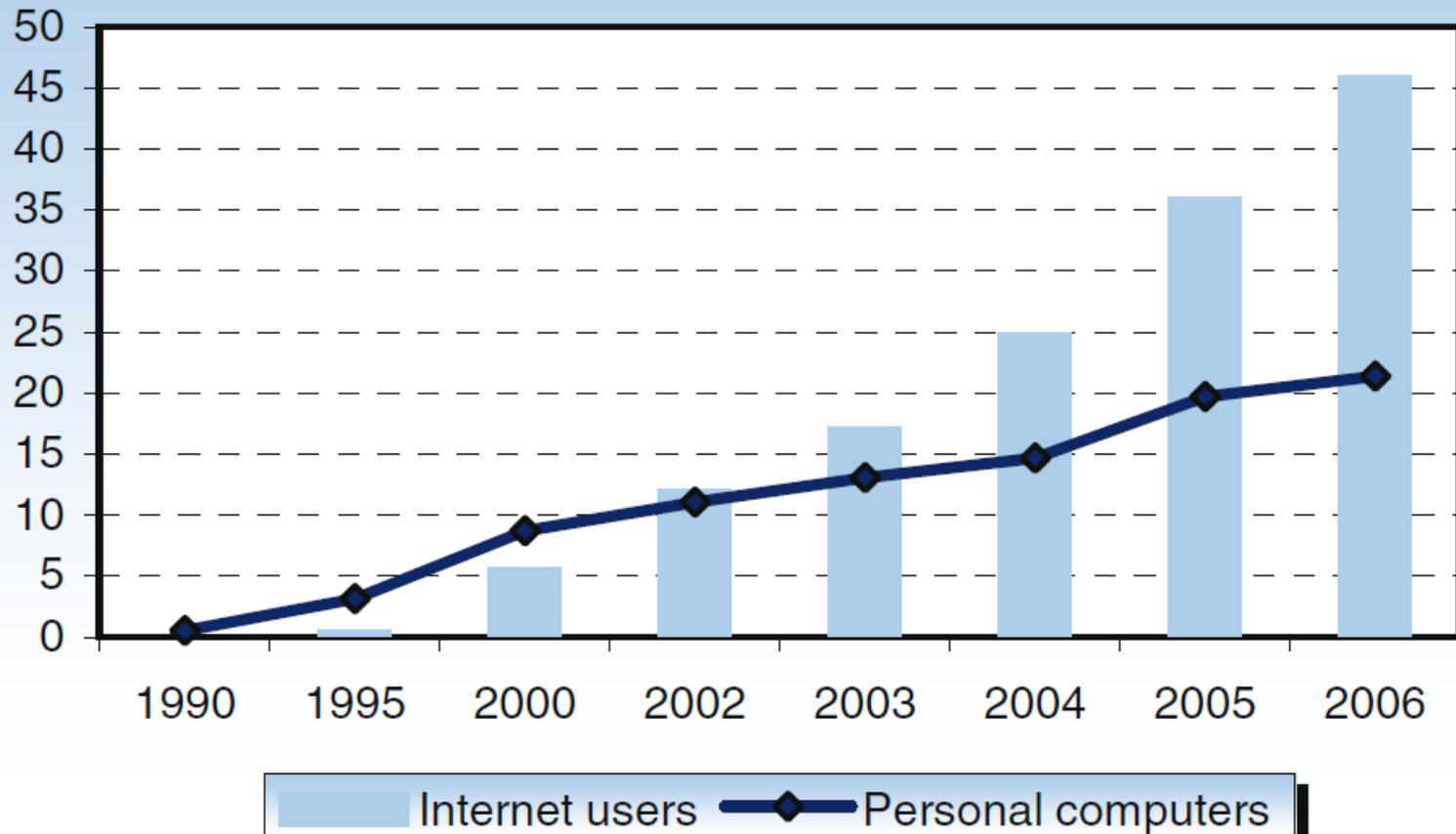


**Figure 1.11- Africa: Telephone subscribers per 1,000 inhabitants, 1980-2006**





**Figure 1.12 - Africa: Internet users and Personal computers per 1,000 inhabitants, 1990-2006**





1. In 2006, about \$5.5 billion of carbon offsets were purchased in the compliance market, representing about 1.6 billion metric tons of CO<sub>2</sub>e reductions.
2. In 2009, 8.2 billion metric tons of carbon dioxide equivalent changed hands worldwide, up 68% from 2008
3. 2,060-plus registered clean development mechanism (CDM) projects in 63 countries worldwide
4. At about \$135 billion, the market's value was nearly unchanged compared with 2008, with world carbon prices averaging EUR11.40 a ton, down about 40% from the previous year



5. Strong CDM growth in Africa – currently 122 CDM projects, up from 116 in 2009, 75 in 2008 and just 42 in 2007
6. CDM project developers are often prepared to pay a premium for offset credits originating from Africa
7. African banks are well positioned to play the role of market maker in the carbon off-set market – contact networks, capital, staff & infrastructure



Article on *internet innovation and the future of consumer banking*, prepared for Euromoney Global Banking and Financial Policy Review Yearbook 2010.

The article is available on the table to the left of the conference room door

## Internet innovation and the future of banking

By Haydn Shanghnessy, Bearing Consulting

**B**anking policy tends to focus on banking in an economic context. In reality the future of banking and banking policy is now a consumer and customer context. This is not simply because of the role the public has played in maintaining stability in the recent crisis. It is because the commercial and enterprise world is becoming customer-centric.

Whereas to banking we tend to think that sophisticated CRM systems give us an insight into customers' requirements, the reality is quite different. Customers, the public sector, small firms and large, are changing their requirements and structures in radical ways that policy makers need a greater awareness of.

### THE WEB AND THE BANK

Across the world, 200 financial institutions, mostly banks, now blog. For anybody who has been blogging under a name the past 10 years a blog is an easy to publish, often personal, record of happenings, opinions and news, published online. Many companies now have them. Banks have been slow to adopt. If you add Twitter and Facebook to the number of institutions blogging, there are 850 of these "public expression" accounts run by financial houses.

Let us stick to blogs for now. By its nature a blog is bound to be revealing. It is a way of communicating outside the protective ring of the PR department, and sometimes under the skirts of policy. It brings personality to the brand and it opens up the possibility of direct dialogue with customers. Why risk it?

Over at [happy.com](#), customers now share their spending habits online. In small groups as well as in large open spaces, people tell their friends and strangers what is going onto their credit card.

On the website Mint people discuss their financial problems. In other words the embryonic personal financial management (PFM) platform industry is already up for sale to the established financial world, little more than three years after it began life.

Banks like ING, HSBC and BBVA are bracing up to this level of thinking by adopting or adapting Youfile, a suite of tools that integrates the PFM concept with bill payment and simple online account acquisition to drive business to areas where customers are already sophisticated enough to do much higher levels of self-service.

The point about these platforms is precisely that they are places where customers do extensive self-servicing – of financial advice, initially, and then more sophisticated financial management – by being open.

They sharpen the knowledge base of the customer and her ability to make judgments on products. But this is not all.

The answer to the question why risk it, is because businesses are being driven by customer empowerment.

It is possible to resist change like this only for so long. The banking sector needs a policy on openness that reflects public behaviour and aspirations. The fact is the Internet, or as we now say the Web, is changing banking, once again, and in a more profound sense than when banks went "e".

What the PFM also represents is a shift to management by platform, management by platforms that help create customer ecosystems, and that engage with developer ecosystems, more of which later.

Imagine your bank, like Apple's mobile phone, attracting the world's best software developers, to write new apps that enhance your services – and you do not pay a penny, well not much anyway. Your costs lie in creating the right environment for ecosystems, not in huge outlays for new financial systems.

This world represents a better future than struggling with banking legacy systems that are currently a drag on efficiency and service innovation. However, it involves a different level of openness – a willingness to give the software developer community access to systems. The future is also about a different type of personal banking, though, one that recognises a powerful new momentum in the customer population.

### MANAGEMENT AND THE ECOSYSTEM

So we had better start defining what we mean by these new terms: How do you manage by platform and what is a customer or business ecosystem? What do we mean by customer empowerment? Are APIs really relevant to policy?

#### Customer empowerment and customer ecosystems

Have you stopped to wonder why the deepest recession in history has



*“..because the execution of an idea is always more important than the brilliance of the thought..”*

**(Harvard Business Publishing – Morgan, Levitt & Maleck – INVEST model)**

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