Cross-Border Banking in Africa: Facts, Challenges, and Opportunities

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Increasing importance of cross-border banks in Africa

Foreign Bank Ownership by Region, 1995-2009

Source: Claessens and van Horen (2014) Bank Ownership Database
But: Large variation across the continent

Share of Assets Owned by Foreign Banks in Africa, 2011

Source: World Bank, GIZ, IMF, Central Bank websites, annual reports of banking groups, Claessens/Van Horen database
Rapid expansion of African cross-border banks


Sources: Annual reports and websites of banks
Presence of banks based outside Africa...

- Bubbles represent the size of national banking systems
- The graph shows ownership linkages between banking sectors
- E.g. Portuguese banks cumulatively own >60% of banking sector assets in Mozambique and >80% in Sao Tomé and Principe
- Linkages representing <10% of host country banking system not included (e.g. Chinese and Indian banks)

Source: World Bank, GIZ, IMF, Central Bank websites, annual reports of banking groups, Claessens/Van Horen database
...is more and more dwarfed by intra-African connections

- Home country defined as country holding majority ownership or largest minority share in a banking group
- Ecobank thus considered a South African bank (PIC largest minority shareholder)

Source: World Bank, GIZ, IMF, Central Bank websites, annual reports of banking groups, Claessens/Van Horen database
Challenges: Managing risks associated with large cross-border banks

- Consolidated supervision is a critical component of supervision of cross-border banks
  - Opacity of banks’ balance sheets and speed of shifting resources
  - Contagion and reputational risk
- Tools to achieve this objective include
  - National / cross-border consolidated reporting and supervision
  - Memoranda of Understanding
  - Bank-specific colleges of supervisors
- Challenges to effective implementation
  - Only exchange of hard information can be mandated
  - Non-binding nature of MoUs
  - CoS have no decision authority
  - Incentive conflicts persist
Challenges:
More cooperation between home and host countries within Africa

Critical areas:
- Availability/exchange of information
- Trust among supervisors

- More detailed, institution-specific information exchange for effective cross-border supervision and early detection of fragility, based on MoUs among supervisors and as input to colleges
- Regulatory convergence process – a longer-term objective
Challenges
Preparing for repercussions of bank fragility

- On the national level: Prepare for ‘rainy days’: upgrading crisis management and bank resolution frameworks
  - Legislation and regulation
  - Crisis simulation exercises and management plans
- Looking beyond borders: Extend cooperation on crisis preparedness
  - Joint crisis simulation exercises and crisis management plans
  - Extend MoUs and colleges towards resolution preparation
Opportunities: Maximizing the benefits of cross-border banking

- **Model 1: Retain your corporate client base**
  - Major driver for cross-border expansion is to follow large corporate clients
  - “Suitcase banking”: booking loans too large for the size of subsidiaries’ balance sheets on the parent bank balance sheet

- **Model 2: Target host country growth sectors**
  - Leverage opportunities arising from new growth sectors, including natural resources
  - Moving beyond the extraction sectors

- **Model 3: Banking the mass affluent**
  - Supported by improvements in local macroeconomic management leading to less attractive yields on government securities, ‘crowding in’ of bank lending

- **Model 4: Export successful innovations**
  - Replicate innovative business models tested successfully at home to serve lower end of the market in host countries, e.g. agency banking, lending to SMEs

How to move from model 1 towards model 4?
Opportunities: How to promote innovative banking models?

- A more strategic approach to licensing policies?
  - Encourage innovative players into the system
  - But: Danger of supervisory capture

- Move away from “fortress banking” towards more integrated banking groups
  - Sharing IT and risk management systems
  - Cross-country labor mobility

- Strengthening collaboration on financial infrastructure
  - Payment system
  - Credit information sharing
  - .....
## Analytical Framework for Policy Action

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<th>Reaping benefits of cross-border banking</th>
<th>Safeguarding stability of cross-border banking in normal times</th>
<th>Preparing for cross-border repercussions of potential bank fragility</th>
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| **National level** | • Strengthen financial infrastructure  
   • Move towards more integrated banking models  
   • Encourage entry of banks with innovative business models | • Introduce or improve consolidated supervision | • Upgrade crisis management and bank resolution frameworks |
| **Bilateral/sub-regional/multilateral level** | • Enhance regulatory harmonization  
   • Coordinate upgrade of financial infrastructure | • Improve information exchange between home and host countries  
   • Build trust between home and host country authorities | • Extend cooperation on crisis preparedness |
| **African level** | • Enhance regulatory harmonization | • Address gaps in consolidated supervision of large African banks | • Take measures to avoid emergence of non-transparent, strongly interwoven groups with financial activities |
An important first step: More systematic, regular publicly available information

- **Basic qualitative and quantitative information**: group and ownership structure, asset and loan shares across markets, types of activities pursued, eventual concerns relating to market competition;
- **Supervisory data**: loan performance, capital impairment, liquidity etc. facilitating development of scoring/evaluation methodologies for cross-border banks’ most significant subsidiaries and assessment of their risk profiles
- **Qualitative regulatory information**: the regulatory framework applied (Basel 1, 2, 3 or elements from different frameworks) and definitions underlying key supervisory data (definition of capital, NPLs, provisioning rules etc.);
- **Basic macro-prudential data** as input to assessing bank risk profiles on a consolidated basis.
Thank you!

The book is available on the MFW4A website at: