BANK NEWS

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EDITORIAL

In a global climate of near-recession, the African continent has seen rapid economic development in recent years and has succeeded in maintaining average growth rates of around 5% since 2000. This momentum, and sound and promising long-term prospects, have led to an increasing flow of investment from players worldwide, but have also brought about a rise in African businesses and the birth of major pan-African entities.

Africa today is a fast-expanding market, characterised by demographic growth, substantial demand for infrastructure, a growing middle class, better economic management and an improving business climate.
Against this background, the African banking sector has undergone record growth rates in the last decade, with high profit levels, despite a still-low rate of bank use. Today, regional and pan-African banking groups are emerging alongside the traditional western players, and are receiving substantial support from Development Finance Institutions (DFIs).

Despite the strengthening of the regulatory environment and financial restructuring, this rapidly-changing sector continues to face many challenges if it is to play its full part and ensure the financing of the economy in a sound and sustainable manner.
The gradual adoption of best international regulatory and supervisory practices will be a crucial step in ensuring the stability and performance of the African banking sector. The central banks will play a key part in conducting these reforms.

A recent International Monetary Fund report suggests that, for the first time in its history, Africa may drive world growth in 2013 and could outstrip Asia. Africa is also a promising land of economic opportunity!

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MAZARS

BENCHMARK

THE BANKING SECTOR IN THE WAEMU AREA AND THE INFLUENCE OF PAN-AFRICAN BANKING EXPOSURE ON CREDIT RISK DEVELOPMENTS IN THE AREA

Joseph DIOUF
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A study which appeared in the weekly magazine The Economist on 6 January 2011 reported that, since 2001, six of the world's ten fastest-growing economies had been in sub-Saharan Africa. The magazine called them the "lion kings of sub-Saharan Africa" and ascribes their progress not only to worldwide demand for raw materials but also to the structural reforms in these countries and the improvement of their economic environment. Naturally much remains to be done to improve the business climate in most sub-Saharan African countries, in particular to attract investors. Global indicators of competitiveness in fact show that the cost of doing business there remains high, because of the bottlenecks, especially those created by access to credit. Despite everything, investment funds in countries with mature growth are increasingly interested in the characteristics of banks and financial institutions in this area, where the planned explosion in economic growth is slow to arrive.

It seems timely to examine the main features of the WAEMU area banks in this light, with a particular focus on the development of their exposure to levels of risk or risk aversion.

MAIN CHARACTERISTICS OF THE BANKING MARKET IN THE WAEMU AREA

The West African Monetary Union consists of eight West African countries which use the CFA franc as a common currency. These countries also share a single accounting and regulatory framework which sets out all the rules for collecting, recording and presenting accounting and financial information, and a unified prudential framework through the directives of the Central Bank of the West African States (BCEAO) for the accounting treatment and evaluation of banking operations, with particular reference to assessing the credit risk on doubtful loans.

Given this, and the relative financial stability observed in the WAEMU, this area constitutes a sample representative of the momentum for improvement in the banking and financial environment in Africa, even if it nevertheless presents some characteristics of its own which deserve attention.

Key figures in the WAEMU banking sector	2011	2012	Difference (absolute)	Difference (%)
Number of approved credit institutions	121	119	-2	-1.7
of which:				
Banks	107	106	-1	-0.9
of which branch offices:	4	4	-	-
financial institutions	14	13	-1	-7.1
of which branch offices:	3	3	0	0.0
Number of operating credit institutions	116	118	2	1.7
Retail banks	84	85	1	1.2
Specialist banks	19	20	1	5.3
Financial institutions conducting banking activities	13	13	-	-
Number of bank holding companies established in the Union	7	7	-	-
Number of banking groups	22	24	2	10.0
Network				
Counters (agencies, offices and sales points)	1 851	1 949	98	5.3
ATMs	1 694	1 893	199	11.7
Credit institution branches	7	7	-	-
Number of banking system employees	20 007	21 740	1 733	8.7
Number of customer accounts	6 903 140	7 905 585	1 002 445	14.5

The main banking groups present in the area and their geographical distribution are as follows:

Group	Number of establishments	Market share(**)	Counters (***)	ATMs	Number of customer accounts	Staff
Ecobank Transnational Incorporated (ETI)	8	15.8%	228	322	1 324 386	2 337
SOCIETE GENERALE	4	10.6%	141	151	589 931	2 294
BOA Group	7	10.5%	164	180	740 554	1 784
ATTIJARIWAFA BANK	5	8.1%	217	199	592 091	2 091
ABI	7	7.0%	169	157	439 891	1 363
BNP PARIBAS	4	5.6%	97	139	479 018	1 407
UBA	4	3.5%	60	84	243 147	713
DIAMOND BANK	4	3.0%	24	0	71 401	406
BIAO	1	2.7%	42	76	203 036	550
BSIC	7	2.4%	81	58	85 050	947
CBI	1	2.4%	27	18	139 217	252
Total	**52**	**71.6%**	**1 250**	**1 384**	**4 907 722**	**14 144**

(**) As a proportion of total WAEMU balance sheets

(***) Agencies, offices and sales points

With fifty two of the one hundred and ten operating units, the main groups account for 71.6% of the balance sheet total, 64.1% of counters, employ 65.1% of staff and hold 62.1% of customer accounts.

The ETI group, with an asset share of 15.8%, remains the largest, being present in every country in the Union. It is followed by the Société Générale with a market share of 10.6% of the Union's assets, though its presence is limited to four countries in the Union. Finally, the BOA group stands in 3rd place with 10.5% of the balance sheet total and 9.4% of customer bank accounts. These three institutions in combination hold just under 40% of the market.

At 31 December 2012, the median rates of banking penetration stood at 6.9% of the total population in the area, with significant differences from one country to another. By way of illustration, the economic leader in the area (the Ivory Coast) records 11.9%, compared with only 1.9% for a country like the Niger. This implies that access to banking services is still generally inadequate and very uneven, frequently due to the low incomes of a large majority of the population, but it also reflects the still-high cost of holding an account, of banking operations and, most strikingly, of credit.

The banking system in the area also continues to be characterised by the exclusion of a large proportion of the population because of the nature of the documents required to open a current account. This leads to the non-negligible presence of institutions in the decentralised financial system (micro-finance providers, mutual societies, etc.) which therefore attract a non-traditional customer base of people without formal employment, informal micro-entrepreneurs, etc. Micro-finance institutions provide a real alternative, especially for the people who have difficulty in accessing the traditional loan market in retail banks because of the criteria for awarding credit and the guarantees that the banks require.

To tackle the issue of the take-up of banking services, and admittedly at the same time to expand its portfolio, the Ecobank Transnational Incorporated (ETI) group, through its subsidiary Ecobank Sénégal, launched an initiative in 2011 aiming to encouraging all grant-aided students to open accounts. But efforts of this type cannot close the gap, which remains large. Some players in the sector believe that the solution to this weakness might come, as it has in some countries in the Horn of Africa, from a convergence between banking platforms and those of the mobile telephony companies, which have succeeded in attracting a much larger segment of the population.

71,6%

OF THE BALANCE SHEET TOTAL IS HELD BY THE MAIN BANKING GROUPS

6,9%

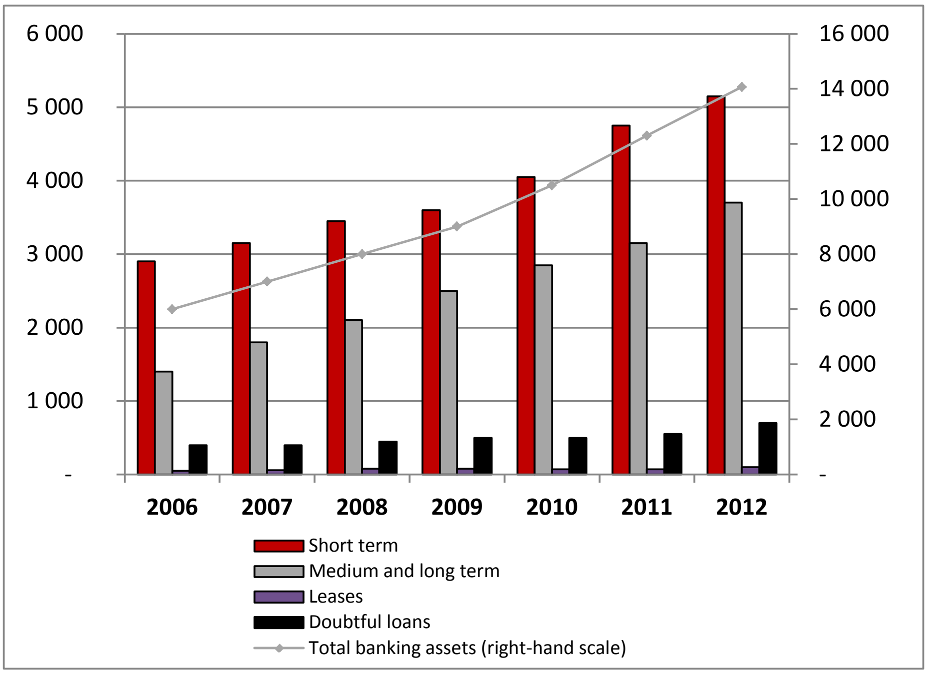
MEDIAN RATE OF BANKING PENETRATION

LONG-TERM CREDIT: STILL A PIPE-DREAM...

An analysis of the portfolios of various banks in the WAEMU reveals a market that is still very reluctant to take long-term risks. Commitments at up to one year correspond to almost twice the medium and long-term commitments combined.

This observation confirms the widespread perception of a banking service which is still very risk-averse. It also demonstrates a margin which remains significant in terms of the maturity of the economic projects subject to financing by the banking sector.

In billion CFA Francs



More specifically, this situation raises the question of the real financing circuit for long-term projects. Do the banks genuinely offer long-term financing services?

The reality is that this type of financing is very little used by enterprises and is only beginning to develop as part of the services to private individuals in their property projects in some countries in the area.

A VERY RESTRICTIVE FRAME OF REFERENCE FOR CREDIT RISK

The BCEAO's directives regarding portfolio management rules provide a safeguard, and encourage banks in the area to:

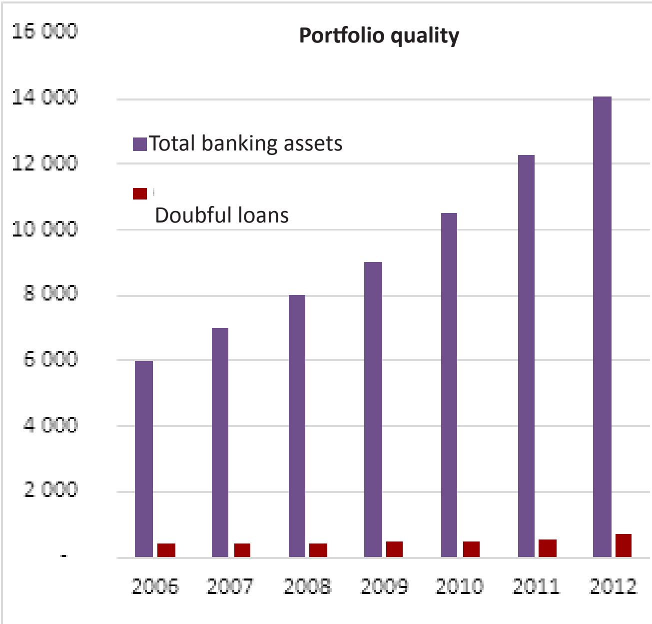
- establish a rigorous policy of prior risk analysis and of obtaining real guarantees before granting a loan;
- take a proactive approach to the management of payment problems and pre-litigation.

The BCEAO has established a set of limitative criteria which, if not respected, lead to the mandatory reclassification of the loans in question as doubtful loans. The provisioning rules depend on the concept of real guarantees (first or second mortgage charge on property, or of bank counter-guarantees) and of limitations on the coverage period of these guarantees. Note that the prudential framework that determines the provisioning of loans also indicates the rate at which provisions are to be set aside.

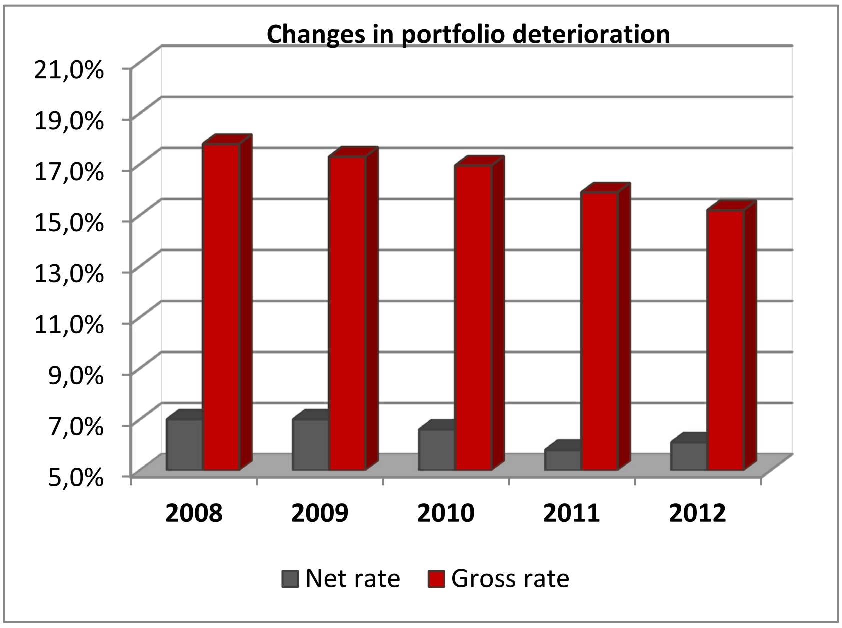
Given that this framework allows little room for manœuvre, banking assets in the WAEMU offer a guarantee of frequent and thorough-going clean-up. The table below presents the changing rates of provision for doubtful loans in the WAEMU:

	2006	2007	2008	2009	2010	2011	2012
Rates of provisioning for arrears	66%	66%	65%	64%	65%	66%	63%

Thus, despite the regular growth in banking assets, the proportion of doubtful loans remains broadly under control and is declining steadily, as the graphics below show:



It should also be noted that a reform to tighten these rules is in progress and should in time give the banks even greater control of the credit risk.



ANALYSIS OF THE CREDIT RISK IN THE WAEMU AREA BASED ON THE WEIGHT OF THE MAIN BANKING GROUPS

An analysis of portfolio quality by institution size indicates a degree of consistency over the past two years:

	Large		Medium		Small		WAEMU	
	2011	2012	2011	2012	2011	2012	2011	2012
Gross deterioration rate	15.9	14.2	13.2	14.3	22.3	24.4	16.3	15.6
Net deterioration rate	5.6	4.9	6.3	7.8	7.8	11.2	6.1	6.4
Provisioning rate	68.4	68.7	55	49.6	70.3	60.8	66.3	62.8

Source: Banking Commission annual report

Les données chiffrées consolidées sur les actifs sur la clientèle au sein de la zone sont présentées dans le tableau ci-dessous.

in millions FCFA	31/12/2010	31/12/2011	31/12/2012 (*)	Variation 2010-2011	Variation 2011-2012
ASSETS					
Customer operations	**7 276 250**	**8 342 643**	**9 404 310**	**14,7%**	**12,7%**
Short term commitments	4 503 007	5 160 987	5 708 931	14,6%	10,6%
Medium term loans	2 495 558	2 880 791	3 341 116	15,4%	16,0%
Long term loans	277 685	300 865	354 263	8,3%	17,7%
Doubtful loans	**1 412 814**	**1 540 363**	**1 644 304**	**9,0%**	**6,7%**
Total provisions	**924 380**	**1 021 329**	**1 032 239**	**10,5%**	**1,1%**
Provisions (unpaid and illiquid loans	23 588	42 164	47 784	78,8%	13,3%
Provisions (doubtful and disputed loans)	870 367	971 209	975 881	11,6%	0,5%
Provisions (outstanding interest on doubtful and disputed loans)	30 425	7 956	8 574	-73,9%	-
Doubtful loans as proportion of total customer loans	*19%*	*18%*	*17%*		
Provisioning	*65%*	*66%*	*63%*		

Like customer commitments, the outstanding balance of doubtful loans grew between 2011 and 2012, but proportionally it has grown less rapidly.
This net decline in algebraic value is due to the position of credit institutions in Guinea Bissau, Benin, Togo and Mali, where exposures have increased substantially, by 521.3%, 70%, 61.2% and 35.5% respectively. This analysis is based on our review of the evolution of rates of deterioration and provisioning in a sample consisting of the ETI group, BOA Group and Groupe Société Générale. As we have seen, these institutions account for a predominant market share in the area.
The table below presents the concentration of exposures and provisioning rates for the sample:

	TOTAL BOA Group, ETI and Société Générale	Total customer credits / country	in %	Doubtful loans per area	Provisions per area	Provisioning rates of per area	Proportion of doubtful loans/ Total obligations per area
Benin	617 354	1 030 387	60%	210 534	100 496	48%	20%
Burkina	721 384	1 244 150	58%	138 396	93 631	68%	11%
Ivory Coast	1 319 867	2 396 588	55%	386 644	293 829	76%	16%
Mali	302 831	1 182 725	26%	294 491	193 155	66%	25%
Niger	216 630	521 087	42%	96 819	56 644	59%	19%
Senegal	957 365	2 227 443	43%	404 219	219 820	54%	18%
Togo	144 386	724 022	20%	93 317	68 698	74%	13%
Guinea Bissau	23 044	77 908	30%	19 884	5 966	30%	26%
	4 302 861	**9 404 310**	**46%**	**1 644 304**	**1 032 239**	**63%**	**17%**

On this basis, we can present the detailed information by group, as follows:

	BOA Group	ETI	Groupe Société Générale	% of loans held by the sample	Provisioning rates per area	Rates of doubtful loans/ Total obligations per area
Benin	**10**	**9**	**37**	**60%**	**48%**	**20%**
Burkina	**14**	**6**	**20**	**58%**	**68%**	**11%**
Ivory Coast	**19**	**4**	**2**	**55%**	**76%**	**16%**
Mali	24	16	NA	26%	66%	25%
Niger	28	35	NA	42%	59%	19%
Senegal	**36**	**11**	**1**	**43%**	**54%**	**18%**
Togo	NA	23	NA	20%	74%	13%
Guinea Bissau	NA	82	NA	30%	30%	26%

Au Bénin au sein de notre échantillon, le taux de provisionnement ressort à 48% et le taux des enIn Benin, provisioning rates within our sample stand at 48% and the rates of doubtful loans as a proportion of total loans at 20%.

This analysis shows that well-administered, the provisioning rate depends on the reference group, regardless of size. Benin represents the country where the market share of credit is the largest while the provisioning rate is weaker than in Senegal, Burkina, and the Ivory Coast. It should also be remembered that BOA and ETI subsidiaries alone accounted for 45% of loans in 2012.

In Burkina the provisioning rate stands at 68%, doubtful loans at 11% and the share of banking groups in terms of credit at 58%.

T

he comparison with Benin shows a higher rate of cover in Burkina, where the rate of doubtful loans is lower.

In the Ivory Coast, the provisioning rate for loans is still the highest at 76%, with a proportion of doubtful loans which is relatively lower than the rest, standing at 16% compared with 20% in Benin, for example. This suggest a better cover of risks, all else being equal, insofar as the principles for provisioning doubtful loans are the same across the WAEMU area.

Finally, in Senegal, the provisioning rate stands at 54% and the rate of doubtful loans at 18%. This last rate remains higher than in Burkina or the Ivory Coast, while the provisioning rate for doubtful loans is weaker in these countries. This situation can reflect a risk of undercover.

Thus, regardless of the size of the banks, and although the principles governing provisioning are identical, it seems that the evaluation of risk includes other more specific criteria which must be taken into account to avoid skewing the analysis.

These are mainly aspects such as the formalisation of guarantees, restructuring doubtful loans, etc.

FINALLY, AN ATTRACTIVE BANKING SECTOR AND CONTROLLED CREDIT RISK

The changes in the main indicators concerned, in particular over the last three years, the system is now taking off. Some players seem to have grasped this fact, as is shown by the emergence in some countries in the area of banks for SME financing activities, encouraged by the states in question. We have also seen, for less than a decade, the construction of large banking groups in sub-Saharan Africa supported by funds of North African origin which are spreading their tentacles in response to the “pan-African” groups.

Controlling the growth of these groups and supporting them in a globalised market is one of the challenges of promoting access to the banking system in the continent.

MICROFINANCE :

THE 'GOOD BANK' MODEL ALREADY EXISTS DOESN'T IT?

Max DONGAR
Partner, Mazars France

Despite a promising development along with a tremendous growth, the rate of people accessing to banking facilities remain quite low in Africa, and globally very different from one country to another. Considering this situation, micro-finance, element of economic inclusion, but also social and economic development, plays a crucial and central role beside banks in the financial ecosystem of the developing countries, having real and undeniable advantages, notably in Africa. Nevertheless, laws and rules heterogeneity, which is some cases lead to assimilate micro-finance to shadow banking, could in some countries, if one doesn't pay enough attention, drive to dangerous behavior and to politic, business and economic instability.

THE GROWTH OF MICRO FINANCE

Micro finance is no longer a marginal sector of banking restricted to a few emerging countries. A "Microcredit Summit" held in late 2010, revealed 3550 Micro Finance Institutions (MFIs) around the world, representing 155 million borrowers, or 533 million people if you include total household members -basically the population of Latin America!

"MICROFINANCE IS NO LONGER A MARGINAL SECTOR OF BANKING LIMITED TO A FEW EMERGING COUNTRIES"

This form of social banking has a number of advantages :

- The ability to credit-grade borrowers and risk-grade MFIs based on size, structure or funding sources,
- Refinancing through the markets and the ability to use derivatives, despite global limitations,
- Loss levels can be reduced through risk management methods implemented, depending on the country. Risks can be further reduced when the "political risk" is accompanied by the implementation of a social pricing policy that remains faithful to the initial micro finance goals,
- Funding is still largely provided through public aid and international donors, including France's Agence Francaise de Developpement (AFD). The AFD imposes strict rules on the governance of MFIs and participants enjoy the benefits of good financial practices. It is interesting to note that the best practices are observed in areas where the share of public aid is most prominent. This is not the case in India which is dominated by Non-Bank Financial Institutions (NBFIs). The Arab Spring, although this caused an increase in defaults in Egypt and Tunisia, did not destabilise local micro-finance entities. ,

▪ MFI deposits are an increasing source of funding. In some areas MFI deposits now exceed the total amount of loan portfolios. It is this trend that shows a growing need for 'banking' by the poorest emerging populations who, up until now, have been financially excluded. A trend that with proper regulation will allow the establishment of the necessary prudential reserves. Forcing players to take responsibility on matters of conflict of interest and remuneration is essential. As with everything else, the objective is to ensure that judgements and decisions are taken with the greatest possible independence.

Improving regulations to control and measure the financial strength of institutions is equally important.

A GOOD MODEL?

In brief "social" banking serves its customers and national economies. At this point it would be all too easy to question the need to develop a heavy set of global regulations backed up by law. Don't be too sure!

Remember the events in India in 2010 when micro finance institutions in the State of Andhra Pradesh were accused of abusive practices when granting loans to people in need. Strong arm tactics to recover loans were also believed to be the cause for an unprecedented wave of suicides in the sub-region.

The impact of the crisis threatened the growth of the micro finance sector in one of the most important states of the Republic of India as well as affecting many Indian banks that provided funds to the sector, believed to be in the region of US$4 billion.

As a result, several weaknesses were identified that shook the world of micro finance beyond the Indian borders. Initially launched in India via "non-profit organisations", this activity was taken up by NBFIs and other types of mutual credit institutions. Such developments gave rise to abnormal practices including exorbitant rates of interest being charged, loans granted without any real analysis of the borrowers' ability to repay their debt and a complete lack of vision on the overall level of debt expense.

The state of Andhra Pradesh reacted quickly by enacting strict legislation on loans and the recovery of money. In August 2010 the successful US$350 million IPO of SKS, the largest player in India's Micro Finance sector, signalled an end to the crisis.

ETHICS AND GOVERNANCE THE KEY?

It is clear that whatever the sector, ethics and morals that govern our financial system cannot be taken for granted.

INTERVIEW

STUDY ON COMPETITION IN THE MOROCCAN BANKING SECTOR

As part of its work to inform and raise awareness, the Competition Council of the Kingdom of Morocco asked Mazars to carry out a study on competition in the Moroccan banking sector. This study falls into two parts and aims to:

Assess the state of play in the market:

- Serve as a monograph on the banking sector;
- Present the competitive landscape of the sector.

And analyse the competition mechanisms at work:

- the structure of the market;
- the behaviour of the operators and their interactions;
- the competitive dynamics.

Kamal MOKDAD
Executive Partner, Mazars Morocco

THE MOROCCAN BANKING SECTOR

35,6 MDS MAD

Net banking income as of end 2011

19

banking groups

50%

Market share of Banque Populaire and Attijariwafa bank

5,5%

Average interest rate

BANK NEWS: your study concludes that the sector banking is moderately concentrated, whereas several economists believe that the situation is more oligopolistic. Are they wrong?

KAMAL MOKDAD: There are many ideas and opinions in circulation. They are not systematically based on objective analyses. For our study, the difficulty has been one of setting aside a spontaneous reading of a given situation and analysing it with a structured methodological approach. We evaluated concentration using two numerical indicators: the HH index (Editor's note: the Herfindahl-Hirschmann index measuring the concentration of the market) and market share. The first of these, which stands between 0.15 and 0.25 for the total balance, Net Banking Income, and loans and deposits, led us to conclude that concentration in the sector was moderate. In 2011, the HHI calculated on the basis of the NBI and the total balance fell, returning to its 2007 level, showing a decline in concentration in the sector. However, it is true that by comparison with European countries like France or Germany, the Moroccan banking sector remains far more concentrated. Similarly, concentration is also slightly higher than in the emerging countries, although this comparison should be nuanced, because many disparities can be observed between the emerging markets.

B.N: Is it a good thing or a bad thing if the sector is moderately concentrated?

It's certainly not a bad thing in itself. The number of banking establishments fell from 62 under the protectorate, to 21 in 2000, and then to 16 in 2005, standing today at a total of 19. This is a choice that was made, and that made it possible to radically restructure the Moroccan banking sector to encourage the emergence of all-purpose banks and to have national champions. This being said, it must be remembered that the Moroccan banking sector has changed little in recent years; the last merger took place in 2003, and led to the establishment of the Attijariwafa bank. The corollary of this situation is that we have a sound banking system which delivers genuine competition and is expanding into international markets.

B.N: The State controls seven banks. Does that change the game in competition between banks?

K.M: The State does indeed control seven banks. However, these banks differ in terms of positioning. For all-purpose banks, the market today is essentially segmented into three parts. First, there are the two leading banks, Attijariwafa Bank (AWB) and the Banque Populaire (BCP). The second intermediate segment contains BMCE which is a direct challenger and perhaps the Crédit Agricole (in terms of size and deposits). The third circle comprises the banks with foreign capital (BMCI, Société Générale Maroc, Crédit Du Maroc). The positioning of these banks varies. Those in the first group, for example, target mass bank use. The second are positioned to serve customers with higher incomes or on added value services. Any fee convergences can only exist within a homogenous whole. However, in analysing the charges of Attijariwafa Bank and the Banque Populaire, we have certainly noticed differences in some charges, such as account fees, but also similarities in others, such as charges for withdrawals from ATMs of associated banks or non-payment of cheques. Further, all the banks today offer free services in the 16 basic banking areas introduced in 2010 by Bank Al-Maghrib in the course of the promotion of the "right to a bank".

B.N: It cannot escape notice that levels of fees and charges remain roughly the same from one bank to another. Is there an understanding between them?

K.M: We have no objective indices enabling us to confirm that any understanding has been reached over rates or convergence between the charges for current services. So we cannot report things which we have not been able to verify.

B.N: If there is no understanding, what accounts for the fact that charges do not fall below a certain threshold?

K.M: The first finding for the period 2005-2011, which we have analysed, is a fall in average charges of between 7.5% and 5.5%. Furthermore, the ratio between the interest margin and banks' current receivables has been in constant decline over the period analysed. So rates have effectively fallen and this drop has gone hand in hand with that in banks' interest margins. But we must not forget that for banks, money has a cost. It depends on the bank's finance structure, although not solely on that. The average LTD (loan to deposit) ratio was 91% at the end of 2011, but stood at above 100% for some banks and continued to increase through 2012. That means that in order to make an additional loan, the banks need to raise funds using interest-bearing fixed-term deposits, by issuing investment certificates or bonds, or by refinancing from Bank Al Maghrib. Of course, even though interbank market rates have fallen to 3%, this is not yet enough for the banks to lower their lending rates, knowing that the weighting of refinancing in the reference rate for the global refinancing of banks is low. That said, for there to me more competition on charges, the banks need to improve their knowledge and control of the exact costs of resources. This is the context in which we advocate the strengthening of analytic accounting, and the introduction of price-setting committees to study offers to ensure that sales are not made at a loss or at zero margin. That work may then come hand in hand with a lowering of fees charged to customers.

B.N: Some economists insist on treating banks as being rentiers. What do you think?

K.M: It's one point of view. Personally, I just don't agree. Banks do not source their revenues solely from market activities as may be suggested in some quarters. These activities represent barely 10% of NBI, and commissions 13%. That means that more than 75% of their revenue comes from traditional intermediation activities, in other words taking deposits and making loans. Given the background of vigorous competition on rates, leading to lowered interest margins, where banks are even obliged to risk their capital by taking the fight beyond the borders of the Kingdom, across the whole African continent, it seems hard for me to conclude, objectively, that they are profiting from a true rentier role. On the contrary, they are quite frequently challenged and today we can see it in the increasing rate of mass bank use, in the measures taken by the central bank to improve financial inclusion, in low income banking, mobile banking (the souk bank), and so on.

B.N: What are the main recommendations you make in your study?

K.M: Competition in the banking sector must above all aim to improve the quality of customer service, to optimise the charging system, to foster innovation and to improve the fundamentals of Moroccan banks and, on that basis, their national and international competitiveness. To that end, the following main recommendations have been made in order to stimulate competition in the Moroccan banking sector, improve the transparency of banking relationships and reduce the information asymmetry between banks and their customers:

- simplify the procedures for moving accounts from one bank to another, to increase customers' banking mobility: improve communication on the possibilities of moving, set maximum time limits for closing the old account and opening the new, introduction of mobility guides and assistance services, portability of bank account numbers, etc.
- facilitate and improve communication on facilities for customers to conclude insurance contracts with the companies of their choice, in particular in the course of the marketing of products requiring cover for specific risks (such as life insurance associated with a loan): standardised information sheet on the insurance offered, the possibility of customer appeals in the event of refusal by the bank, promotion of the "right to be informed" and of the "right to choose", etc.
- give more weight to measures to help improve the quality of service provided, the rates of mass bank use and to reduce the charges applied still further: develop innovation; generalise the different (electronic) means of payment, inter alia for administrative purposes; improve financial education; expand access to finance for SMEs and microenterprises by offering innovative solutions that take account of their needs and their risk profile, etc.
- improve the performance of bank analytical accounting systems in order to acquire a better knowledge of the structure of costs for the loans offered, inter alia in the context of agreements concluded with certain enterprises or groups. It is also recommended the operational governance should be improved (e.g. price-setting committees, new product committees) where banks offer customers exceptional treatment by comparison with their standard charges in order to be able to identify, where applicable, products which are offered with a zero or even negative margin.

"COMPETITION IN THE BANKING SECTOR MUST ABOVE ALL AIM TO IMPROVE THE QUALITY OF CUSTOMER SERVICE, TO OPTIMISE THE CHARGING SYSTEM, TO FOSTER INNOVATION AND TO IMPROVE THE FUNDAMENTALS OF MOROCCAN BANKS"

INTERVIEW

MUSTAPHA KAMEL NABLI, FORMER GOVERNOR OF THE TUNISIAN CENTRAL BANK

Mustapha KAMEL NABLI

Born on 10 February 1948 at Teboulba, Mustapha Kamel Nabli is a Tunisian economist. He held the position of Governor of the Tunisian Central Bank from 2011 to 2012.

The former governor holds a masters in economic sciences and a PhD in economic sciences from UCLA. He is also a graduate of the Ecole Nationale d'Administration.

He has been associate professor of economics since 1980 and has been appointed as an expert to several institutions, including the European Economic Community and the Arab League. He has also headed the Middle East–North Africa section of the World Bank.
He has also published a number of works on economics.

Mohamed Ali Elaouani Cherif: Are the Basel rules indispensable for emerging countries which have already carried out some reforms and where the financial sector is not exposed to significant market risks? Especially since an AfDB study emphasises the fact that increasing capital reserves and strengthening supervisory bodies under Basel 2 have neither improved the efficiency of bank intermediation nor reduced the corruption associated with lending activities.

Mustapha Kamel Nabli: There are several aspects to this question. Let's start with the new Basel rules. Although they aren't exposed to high market risks like the advanced countries, it was well known that the emerging countries were generally facing more economic volatility and more frequent financial crises. As a consequence, the emerging countries tended to respect, or even voluntarily opt for, higher solvency ratios than those called for under the Basel rules. So the Basel 3 rules don't change much in this respect, and the emerging countries can easily comply with them, emphasising their Tier 1 capital ratios.
But it is even more important to say that emerging countries, particularly in Africa, are not a homogeneous group, and they have to adapt their regulation to their own circumstances, while drawing inspiration from the Basel principles and rules. Because, as you've suggested, these rules are not a magic solution to all the problems of African banks. For example, questions of the quality of governance are just as important as prudential rules, if not more so. Governance that ensures sound risk management, establishes the appropriate controls to prevent corruption, and protects the interests of minority shareholders is crucial to the solidity and the development of African banks. The Basel prudential rules are useful indicators to take into account, but we mustn't think they offer a miracle cure. Much more needs to be done.

INTERVIEWED BY

Mohamed ALI ELAOUANI CHERIF
Managing Partner, Mazars Tunisia

A.C: Are African banks capable today of sustaining and stimulating the African economic renaissance, or are they a handicap?

M.N: You've asked a key question there, but there's no one answer that fits every country. Some countries have carried out in-depth reforms of their banking systems, enabling them to make an effective contribution to economic development. Others, however, have not, and their progress is handicapped by the weaknesses of their banking sectors. This is the case in Tunisia, for example, and many other African countries. The generalisation of the African renaissance requires a generalisation of banking system consolidation.

A.C: Following on from that, what efforts and resources can African banks put in place to overcome the financing difficulties of SMEs?

M.N: This question can be put to all banking systems, and there's no miraculous recipe. However, we know the direction of some of the changes necessary. The first is the development of the ability of banks to assess and manage risk. Financing SMEs is obviously more risky than financing large structured companies. African banks are not well-equipped to manage this risk properly, and often simply ask for real security which often turns out to be neither secure nor real. The structural change required of banks is that they should acquire and develop the capacity to assess and monitor medium-sized projects in terms of their merit, as shown by the capacity and ethics of the entrepreneur, the quality of the project and the position of the market in question. There is also a need to adapt financing instruments to meet the needs of SMEs and to combine sources and methods. Finally, banks need to develop the ability to support the SME growth dynamic. The needs and the finance methods appropriate to an SME when it is being set up are not the same as those necessary for its growth.

African Banker Awards 2012

Africa's Top Bankers gathered in Arusha, Tanzania, on 30th May to celebrate the 6th edition of the African Banker Awards, held under the patronage of the African Development Bank. They reward outstanding talent and achievement in Africa's financial sector.
HE Mustapha Kamel Nabli won the Central Bank Governor of the Year award.

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