African Financial Industry Barometer

April 2023 – English edition

Sommaire

Foreword

Foreword

The second edition of the Africa Financial Industry Barometer, developed in partnership with the Africa Financial Industry Summit, has just been released by Deloitte and its partner Jeune Afrique Media Group. The survey which was conducted in September 2022 provides an overview of the challenges and opportunities of the industry's transformation through thirty questions raised to leaders of financial institutions. This barometer is published in a context marked by the sudden bankruptcy of two American regional banks and the setbacks of the former giant Crédit Suisse acquired by UBS. The impacts of this crisis on the African banking industry are being analysed* but should not fundamentally change the rich lessons learned from the current survey.

Confidence in the future, but heightened vigilance in the short term

With only **15%** of the participants predicting an unfavorable macroeconomic context in the next three years, the financial industry is **fairly confident** about the future. This optimism is underlined by a growing perception of the attractiveness of their industry by **65%** of financial institution executives surveyed.

Recent achievements such as the successful deployment of the Pan-African Payment and Settlement System (PAPSS) pilot project or the launch of The African Exchanges Linkage Project (AELP), an interconnection platform allowing trading of listed securities on the seven participating exchanges, illustrate this state of mind. However, the financial industry recognises that it must face short-term challenges, including inflationary pressure which, if it persists, could lead financial institutions to adapt their commercial approach (for more than **40%** of respondents) or their pricing (for more than **50%** of respondents) in order to limit the impact on profitability and solvency.

The other key fear is increased exposure to **cybersecurity risks**, which is at the top of the list of concerns for financial institutions for the second year in a row, ahead of operational risk (also up sharply).

(*) Through an additional survey sent to initial survey participants at the end of March 2023

Foreword

Great enthusiasm that nonetheless confronts many obstacles

Similar to the previous barometer, the financial sector is **accelerating** its strategic transformation towards more agile, service-oriented and digital models. To achieve this **ambition**, it invests in key areas, such as human capital, which is ranked above technology this year on the list of priority investments.

Digital transformation is becoming a permanent priority, but the road to achieving the target ambitions is relatively long, as less than **10%** of the institutions surveyed consider that they have reached the desired level. The rapid transformation of the African financial industry is also driven by the phenomenon of Open Data or Open Banking/Insuring allowing traditional financial institutions to innovate by opening their systems to technology start-ups offering financial services. Nearly **38%** of the surveyed sample said they have already initiated similar partnerships. As for the emergence of digital assets, **63%** of institutions see cryptoassets as an opportunity while pointing to the need for regulatory oversight.

However, these high ambitions remain hampered by structural difficulties including the **shallowness** of financial markets, the **limitation** of financial instruments for risk mitigation and the weakness, or even **absence**, of regulation on certain emerging themes including digital finance.

The financial industry is hastening its transformation towards agile, service-based, and digital models, building on a trend from the previous barometer. To achieve this goal, **the sector is investing** in areas such as **human capital**, which is ranked above **technology** this year on the list of priority investments.

A gradual and pragmatic integration of sustainability issues

Ramatoulaye Goudiaby
Director AFIS
Jeune Afrique Media Group

Aristide Ouattara
Managing Partner Financial Industry
Deloitte Francophone Africa

Strategy & Business Model

Strategy & Business Model

How to address the challenges and opportunities of emerging business models and strategies?

Confidence in the future

- Despite unfavorable global conditions (Russian-Ukrainian crisis, climate risks, etc.), financial institutions remain **confident**, with only 15% of respondents predicting an unfavorable macroeconomic context in the next three years.
- The industry remains dynamic and benefits from **improved structuring** initiated by donors, **reforms** by public authorities and **new market opportunities** fostered by financial inclusion.

Investing in people remains a top priority

- Investment in human capital is a priority across the industry, ahead of technology.
- Within the banking sector, **customer experience enhancement** remains a top priority, while for insurers, it is in **operational efficiency** that they invest the most after human capital.

Data sharing and interoperability : Closer collaboration between peers

- The industry is showing more interest in **technical partnerships**, particularly in indirect information sharing (*Open Data*).
- This sharing of information mainly concerns **incident risk** data (approximately 50%), fraud data (42%) and the interoperability of digital payments (50%).

Insufficient maturity to meet the needs of the financial sector

- According to survey respondents, one of the major obstacles to the successful transformation of the sector is the lack of a financial market with a critical size and a suitable range of financial products.
- In order to increase market depth, a robust market infrastructure and **regulatory initiatives** are required.

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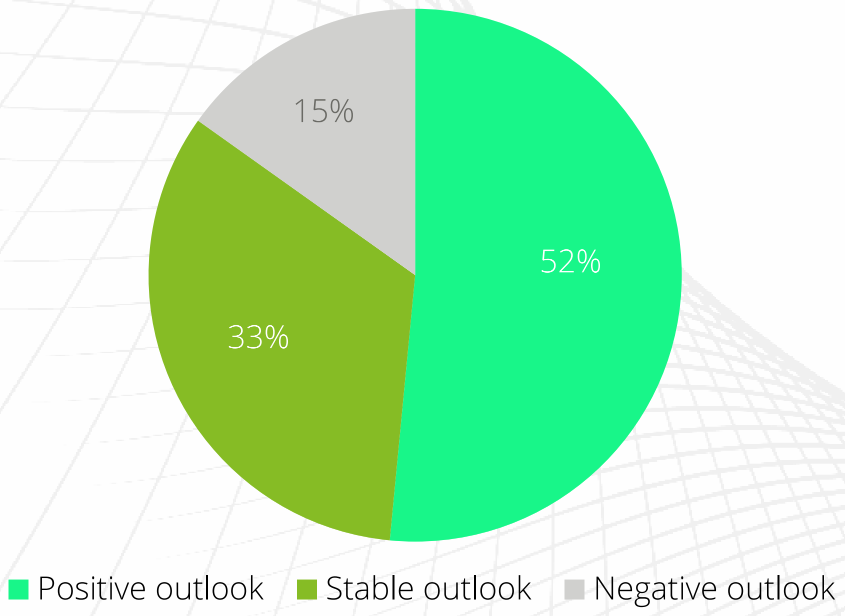
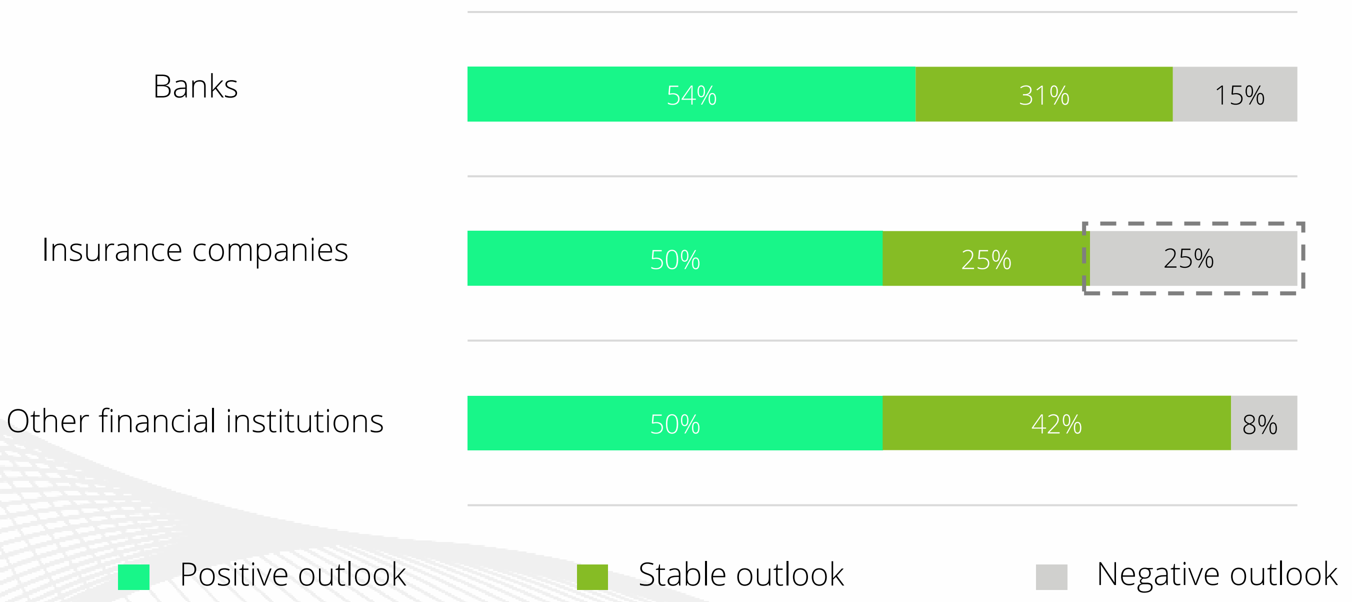
Insurers showed the greatest uncertainty compared to the rest of the industry.

Despite precarious global conditions and difficulties stemming from the economic downturn, financial institutions are nonetheless confident in the prospects of both domestic and global markets. However, insurers are the least optimistic with 25% predicting a negative outlook for the sector for the coming three years.

1.1 Which economic outlook do you forecast for the next three years?





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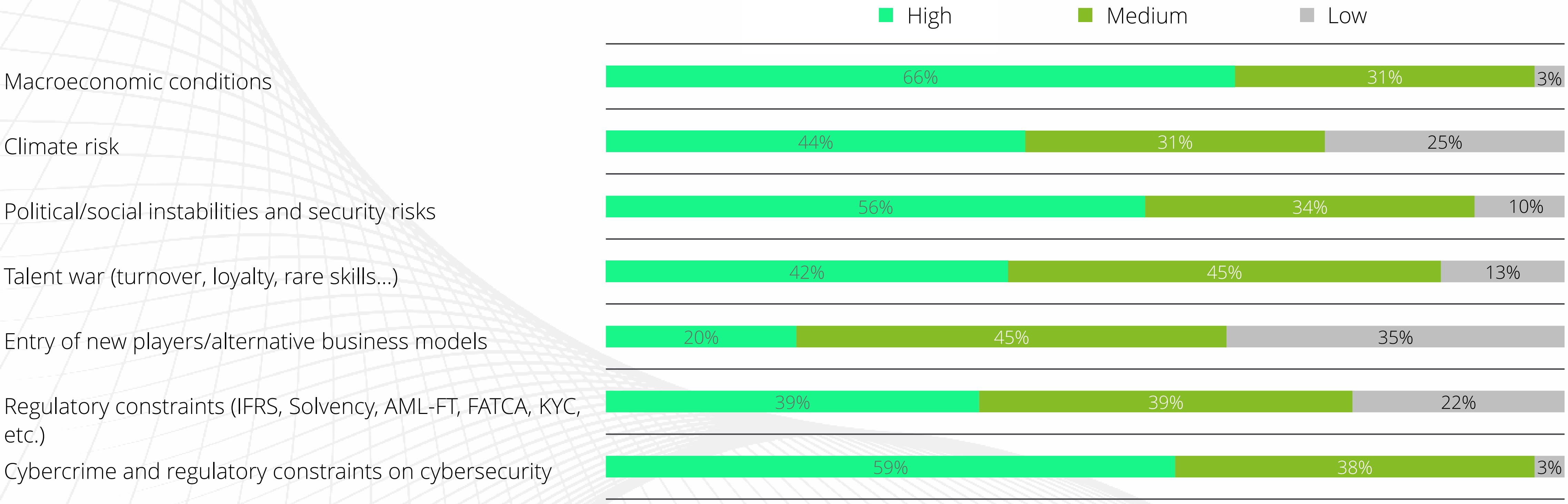
Cyclical threats increasingly linked to globalisation and the strong interweaving of financial markets

Macroeconomic conditions, cybercrime, and political and social instability and security risks were identified as the most prevalent threats by African financial institutions. In contrast, the sector does not consider the arrival of new players as a major threat.

1.2 How do you perceive the threat level for the following risks?



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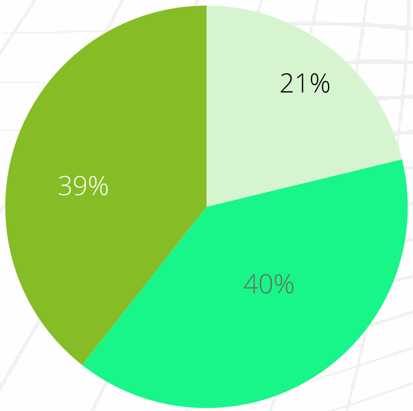
Inflationary pressure driving the financial sector to anticipate and react

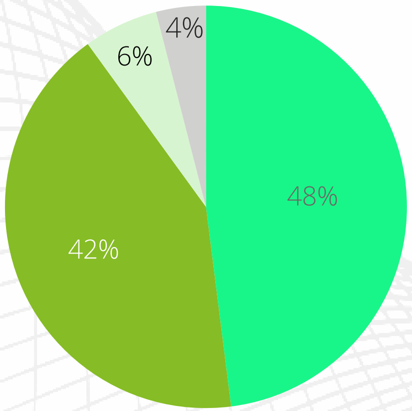
Amid rising costs, financial institutions are attempting to strike a balance between securing revenue, managing operational and technical risks, and improving financial management while guaranteeing compliance with prudential standards.

1.3 Given the inflationary pressure and its repercussions (e.g., increase in key interest rates), what are the anticipated impacts/expected policy levers?

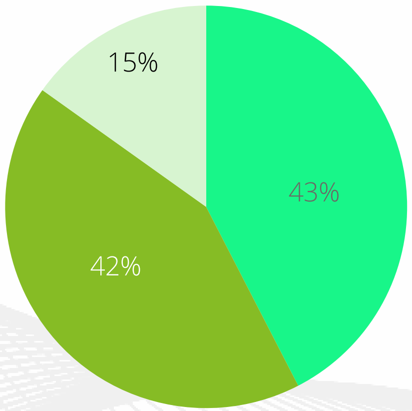
Impact on product offering (e.g., launch of inflation-linked savings products, etc.)



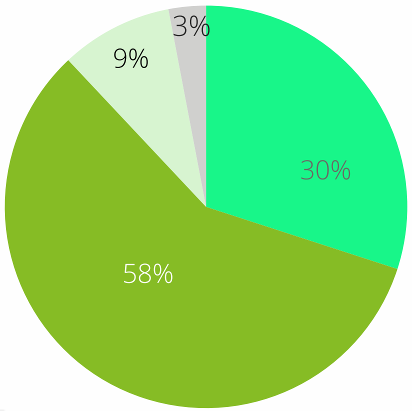
Review of pricing policy (e.g., increase in client interest rates/insurance premiums)



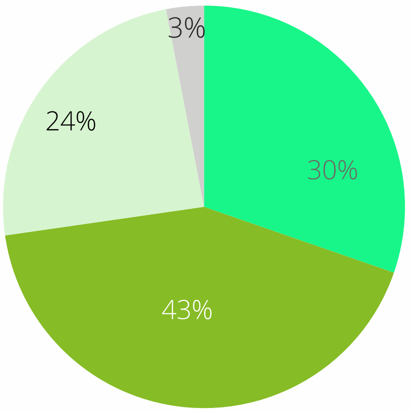
Tightening of underwriting/risk acceptance/credit granting policies



Impact on ALM and refinancing/investment strategy



Impact on capital



Very likely | Likely | Less likely | Don’t know

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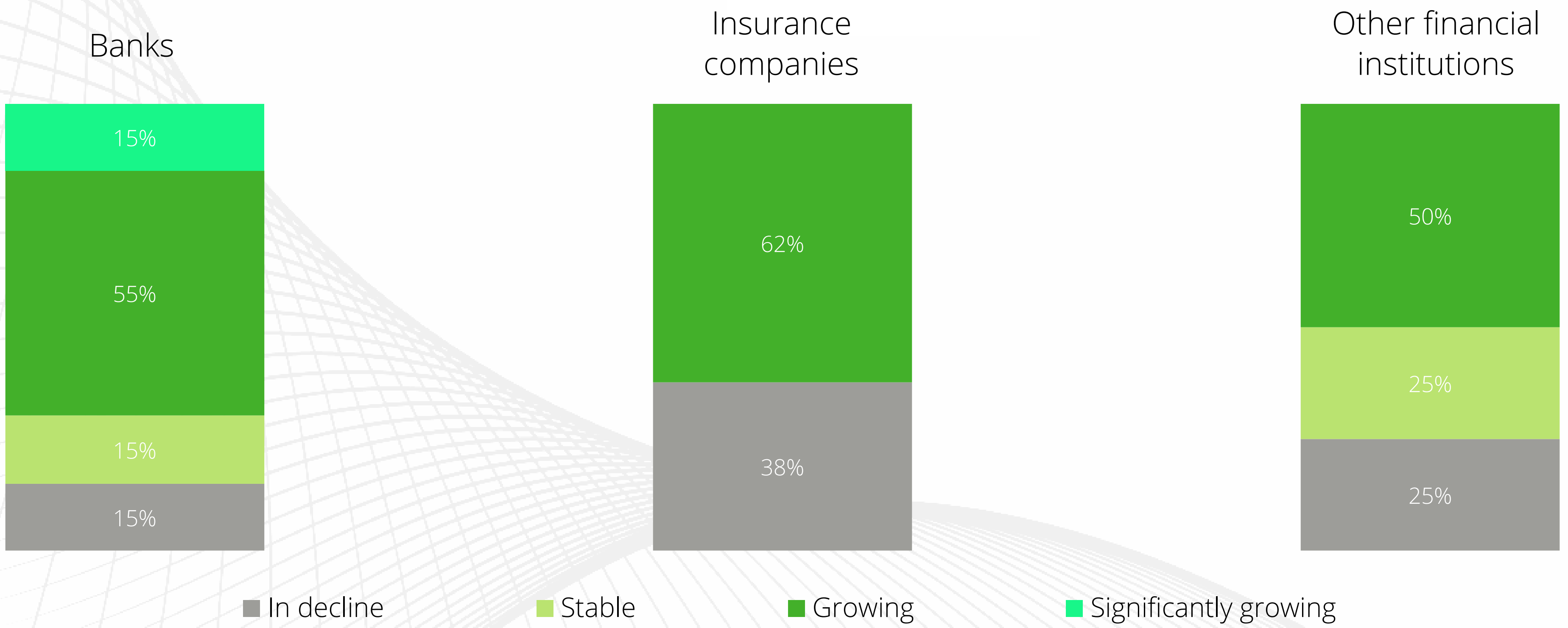
The African continent has maintained its attractiveness to international investors despite the complex economic situation

The financial industry is becoming increasingly attractive, despite the rise of regional institutions and African champions.
This is due to the impetus of donors in structuring the sector, the additional market potential with financial inclusion, and the reforms undertaken by African states.

1.4 What is your opinion on the attractiveness of the African financial industry to international partners and investors?



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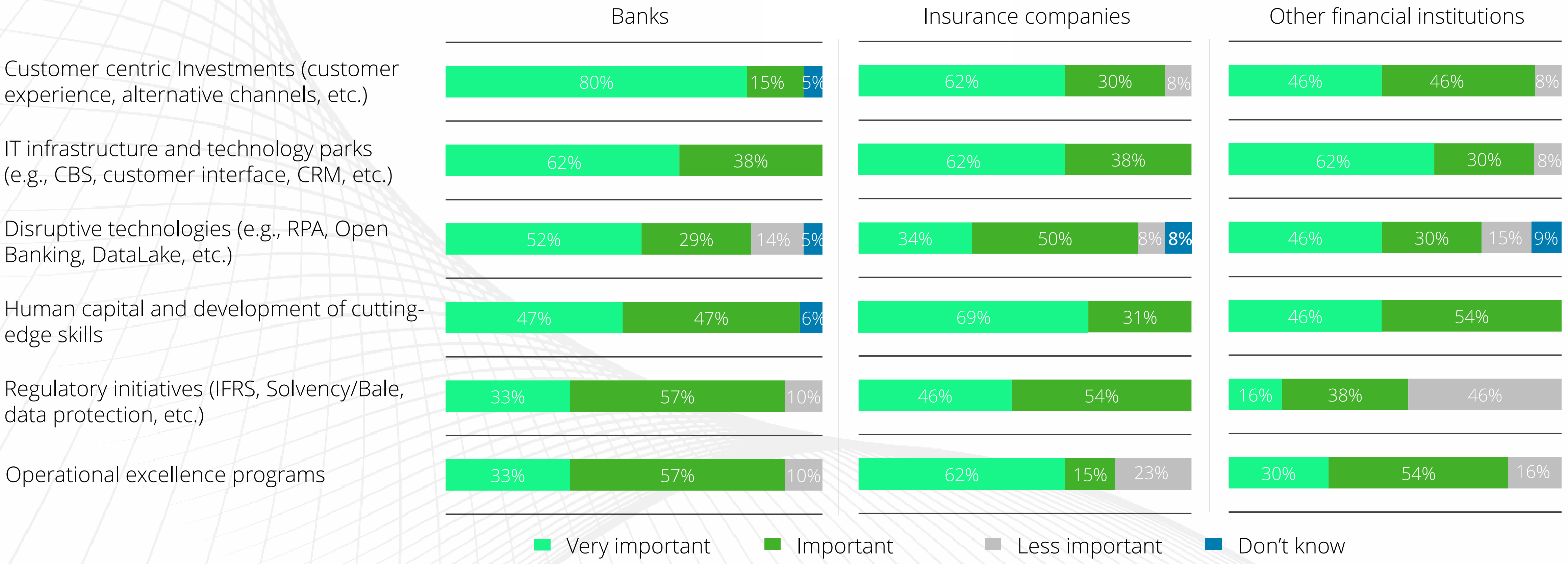
Investment in human capital and technology at the heart of the priorities

Human capital is a top investment priority for the African financial industry as a whole, ahead of technology. Within the banking sector, investments focused on improving the customer experience are also considered crucial. For insurers, investment in operational efficiency is a major focus.

1.5 What are the priority internal projects and investments for your institution over the next three years?



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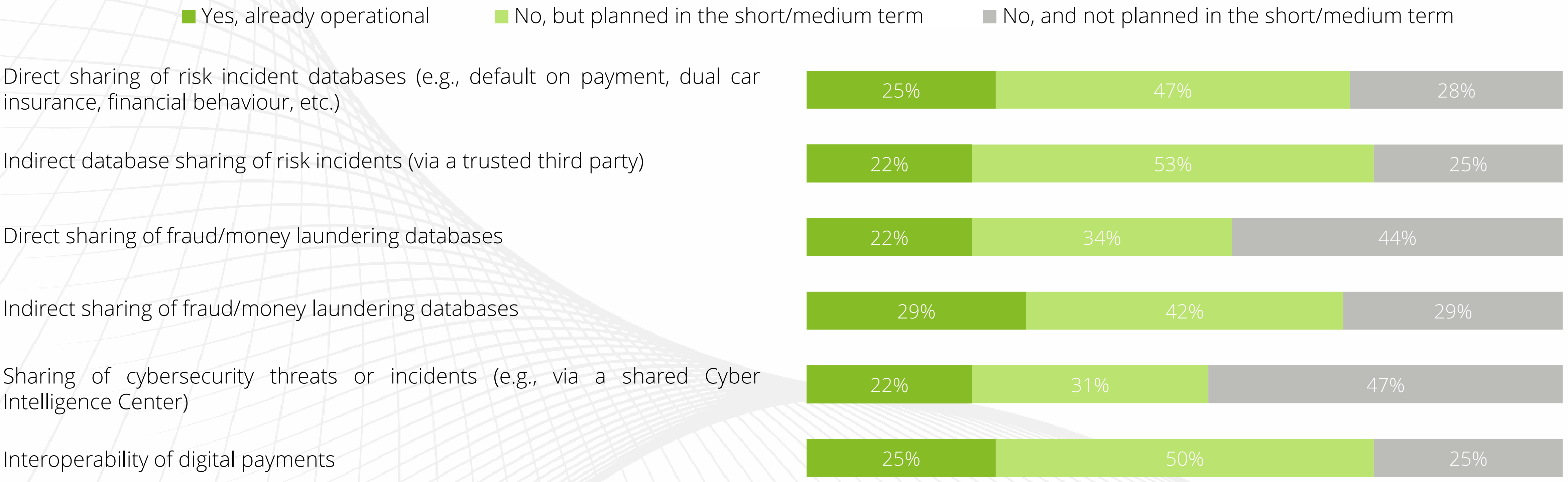
Data sharing, interoperability, and a growing appetite for peer collaboration

The majority of the institutions surveyed have established, or are planning to establish, technical partnerships with their peers in the near future, with a preference for indirect database sharing. The main areas of data sharing are risk incident data (approximately 50%), indirect fraud data (42%) and digital payment interoperability (50%).

1.6 Would you be willing in the short/medium term to establish the following technical partnerships with your competitors in the financial industry?



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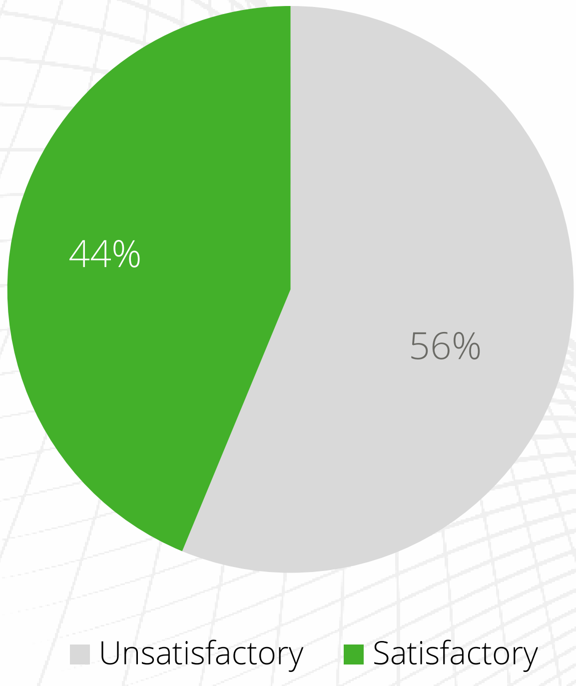
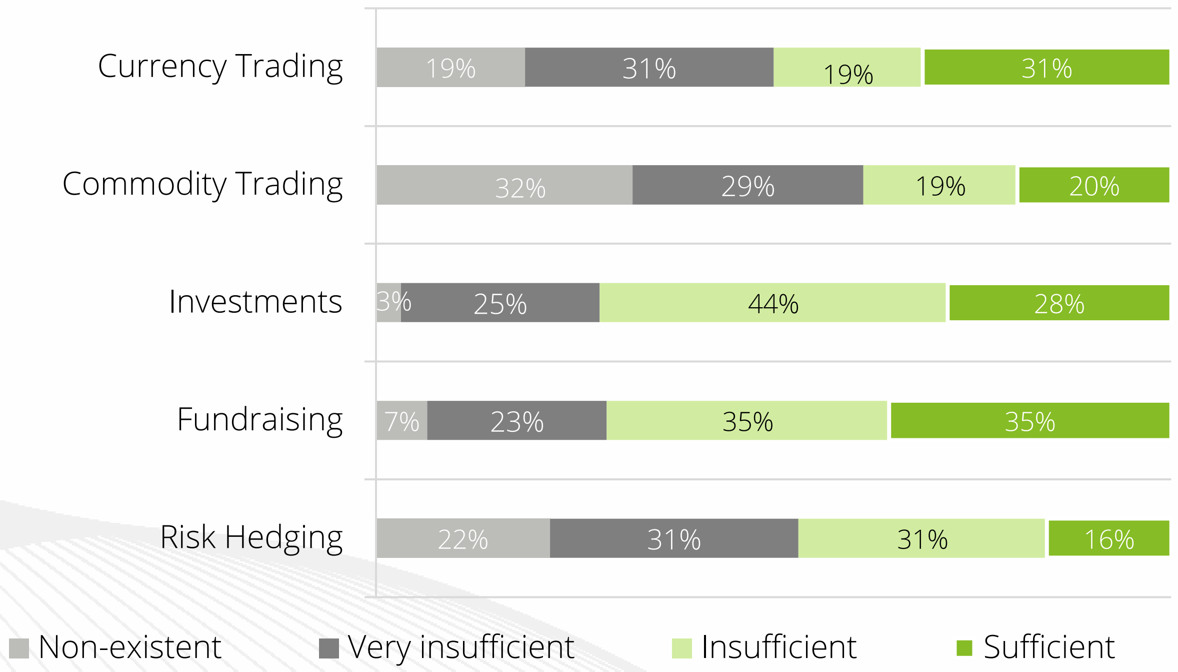
Barely mature enough to meet financial sector requirements

Respondents identified a growing capital market that is nevertheless inadequate to satisfy the sector's demands. Constrained by strict regulations and low stock market capitalisation, the financial sector has still not been able to improve its level of access to international capital markets, particularly in terms of risk coverage and trade finance operations (less than 20%).

1.7 How would you rate your satisfaction with the depth/liquidity/variety of instruments in the capital market?



1.8 What is your level of access to capital markets for the following purposes?



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Interconnection of African Financial Markets

AFIS Strategic Roundtable. November 28, 2022

Moderator	*Chair*	Guests of honour	
			
El Mehdi Ghissassi Partner Deloitte	Ripert Bossoukpe GS, CREPMF	Paul-Harry Aithnard CEO, Ecobank Ivory Coast	Aminata Mbaye, Head of Financial Engineering, CGF Bourse

- Recent efforts to connect African markets are a **response to the continent's highly fragmented exchange.** The AELP Link interconnection platform, followed by recent regulatory measures pushing for market integration, demonstrate that interconnection to market development poses challenges that go well beyond regulatory aspects.
- The key challenges lie in the ability to **standardise processes and accelerate digital transformation on both the investor and issuer sides.** Overcoming these challenges will enable capital market players to achieve **excellent execution rights** and meet deadlines to comply with international standards. This will **increase volume and transparency in ~~the~~ international markets**.

Exchange rate policies, capital account liberalisation, legal systems: how to harmonise regulatory frameworks and enable innovation?

- Regulatory improvements have been made, but there is a need to upgrade the players to better comply with international standards.
- A single platform that allows orders to be executed on the continent across all value chains, meeting international and data security requirements may be necessary.
- However, the credibility of market interconnection will depend on the selection of pan-African players with sufficient maturity to attract international investors.
- Regulation will need to establish a harmonised broker licensing framework to facilitate underwriting of issues across the continent.

Online stock exchange, information portals, trading systems: facilitating access to markets through technology

- Establishing a full-scale, credible, digital information portal would represent a real opportunity for African markets. But this has yet to materialise despite adequate banking architecture allowing capital market players to plug-in. Existing platforms are fragmented and lacking quality technology, as well as security.
- Growing smartphone penetration in Africa presents opportunities for financial markets. It is now time to collaborate with fintechs to benefit from their expertise in innovative and cheaper solutions.

What measures are needed to attract institutional and retail investors?

- Products on the market are not very competitive and reveal a lack of engineering and thoughtfulness in product design.
- There is a need to innovate in a variety of products (Real Estate & ESG) that are tailored to specific client needs in order to attract a large number of investors.
- Attracting institutional and international investors requires efficiency, market depth and product sophistication.
- Attracting retail clients requires financial education, products adapted to their risk profile and market knowledge.

Partial privatisation, support for SMEs: how to stimulate IPOs?

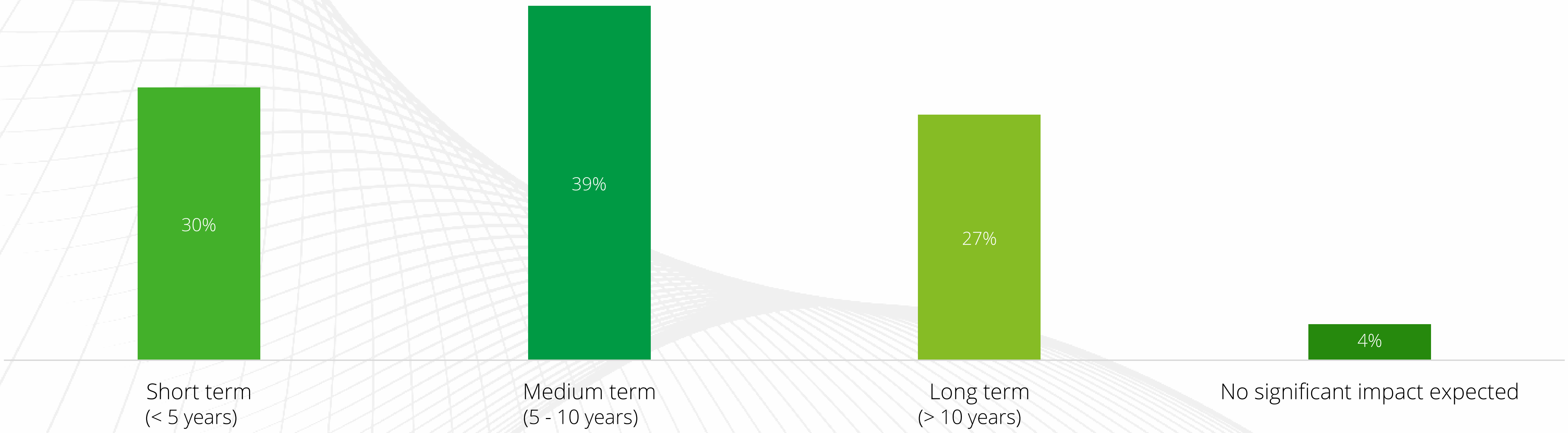
- Beyond regulatory requirements, transparency and costs, SMEs are reluctant to go public due to a cultural fear of opening their capital to others.
- While SMEs prefer to finance through banks and private equity funds, capital markets could be a stronger opportunity for development in view of the opportunities offered by the African Continental Free Trade Area (AfCFTA).

Strategy & Business Model

The AfCFTA is a major opportunity for the financial sector, which is still waiting for its operationalisation

More than 70% of financial institutions believe that the AfCFTA will have a positive impact on the industry, particularly through opportunities to trade products and services in African currencies, as well as in the area of homogenised payment systems (PAPSS or Pan-African Payment and Settlement System) and supply chain financing, which will increase in the coming years. Most of the financial institutions that are looking at the medium and long term still do not have visibility on the implementation and operationalisation of this initiative.

1.9 When do you expect the AfCFTA to have a positive impact on your industry?



Strategy & Business Model

Voices of leaders

Delphine Traore
CEO – Allianz Africa

"There is no better time than now to invest in Africa if we want to benefit from the potential this continent offers in the future. Its young population will be, not only the leaders of tomorrow but a strong consumer and skill base that the rest of the world's aging population can leverage. So, we need to look well beyond the challenges Africa faces today."

Africa is at a turning point in its history! We are faced with increasing natural disasters that we have a challenge adapting to, food insecurity is rising, the macroeconomics and geopolitical environment is fragile.

Despite all this we do see the agility of African countries in the financial sector, and in the Fintech area in particular. These sectors are growing faster than the economy at large. We also have a continent with more than 60% of the world's arable land and with over half of the population engaged in agriculture.

Imagine combining the power of technology and the innovative financing mechanisms we are seeing emerge, to not only invest in farmers, but to also give them access to markets they may not have today; all this while we continue to invest in climate adaptation and upskilling our youth. Why can't Africa feed the world one day? Why can't talent be sourced from Africa to the world? The insurance industry and Allianz can definitely play a role.

Yassin Bayo
Group CEO – Vista Bank

"Vista Group Strategy aims to favour regional and cross-border integration that creates value for African economy, ensures social development and supports sustainable growth."

Vista Group currently operates as a full-service commercial bank and provides a comprehensive range of services to a diversified customer base including retail, corporate, SME clients as well as the public sector;

Vista Group' ambition is to build a world-class pan-African financial institution group and contribute to economic and financial inclusion in Africa.

Through the combination of organic and external growth, Vista Group aims to provide a complete range of products & services from traditional retail banking products to specialised CIB services, while developing new sectors to generate new revenue streams (Insurance, Digital banking, meso-finance, leasing).

Our role at Vista Bank Group is to support African economies to bring long-term financial solutions in priority sectors such as :

- Infrastructure & Digital Economy
- Energy & Renewables
- Agriculture & Food Security
- Real Estate
- Health & Education

Strategy & Business Model

Voices of leaders

Gildas N'ZOUBA
CEO – SUNU Life Insurance Ivory Coast

"Digital, as a true accelerator of new business models, must enable growth to be captured at an increasingly minimal marginal cost."

The African financial industry remains very attractive to international investors and partners. The low rate of coverage of the population in terms of insurance products offers prospects for profitable sustainable growth in this sector.

As a major pan-African player, SUNU has experienced strong and controlled growth over the last five years. It is being supported by the strengthening of its governance and risk management framework while improving operational efficiency. Particular attention is being paid to improving the experience through innovation and significant investments in information systems and human capital.

One of the keys to the success of this growth strategy lies in digitalisation. Since 2018, SUNU has launched a vast digitalisation program that is currently structured around some twenty projects and innovative solutions covering customer-oriented processes, internal processes and technological infrastructure.

Julian Kingsley OPUNI
Managing Director – Fidelity Bank Ghana

"When it comes to disruption, you want to be part of the story, of the change, and adapt your market approach to align with the potential winners."

Looking at priority investments, we focus on projects with a direct impact either on efficiency, direct revenue growth or customer centric.

Digitalisation remains key. Even in the current environment, we believe that the bottom end of the pyramid will still be responsive to short-term access to credit and thus adapting our mass market digital lending approach. Priority is also on strengthening the CBS, strengthening our structure around cyber security.

Fidelity Bank is a fairly innovative bank within its current market, and we have invested over the last 10 years in innovation and collaboration, as one of the biggest partners of mobile money MTN, going back to 2012.

From where we sit, we are constantly looking for competitive advantage on the market and disruption. Collaboration to find new markets is also of high interest to us. FinTechs coming up with a product that increases potential penetration is also of key importance to us.

Voices of leaders

Gisèle GUMEDZOE OUEDRAOGO
CEO – Coris Bank International

"SMEs are major players in the ecosystem of African economies, their development and sustainability through the financing of their activities and advice to entrepreneurs are sources of inclusive and sustainable economic development."

Small and Medium Enterprises (SMEs) are at the heart of economic development in Africa. They form a heterogeneous group present in various sectors of activity, a factor of inclusive and sustainable economic growth of a country. In some African countries, SMEs represent about 90% of enterprises and their contribution to the Gross Domestic Product ranges from 30 to 35%. Despite the measures taken by African countries to develop SMEs in view of their importance, they encounter difficulties when it comes to access financing.

As the leader in its domestic market and the third largest bank in the WAEMU region, CBI SA has positioned itself as the benchmark bank for SME financing in the sub-region. To date, it finances nearly a quarter of the jobs of the national banking market. In addition, over the last five years, the bank has resolutely moved towards digitalisation with the deployment of innovative products and mechanisms adapted to the needs of this target.

In the coming years, thanks to the continuous strengthening of its equity capital, the support of SMEs will always remain a priority in the strategy of CBI SA.

Mike Ogbalu,
CEO – Pan-African Payment and Settlement System

"Africa with the most arable land and the most minerals, has struggled with poverty and under-development. Production, value-addition and trade are central to the prosperity of the continent and payment is at the center of deriving value from these activities. PAPSS will ensure seamless continent-wide payments for goods and services and thereby help to unlock Africa's prosperity."

The Pan-African Payment and Settlement System – PAPSS – an African-built and controlled infrastructure enables the efficient flow of money securely across African borders, minimising risk and contributing to financial integration across the regions. Whether shopping, transferring money, paying salaries, dealing in stocks and shares or making high-value business transactions, PAPSS' real-time infrastructure provides a reliable, cost-effective answer for instant payments.

PAPSS works in collaboration with Africa's central banks to provide a payment and settlement service to which commercial banks, payment service providers and fintechs across the region can connect as 'Participants'.

At a time when cross-border trading is high on the agenda with the African Continental Free Trade Area (AfCFTA) agreement now a reality, PAPSS is primed to facilitate the expected increased volumes in cross-border payments.

Governance & Risk Management

Governance & Risk Management

Which form of governance needs to be implemented in order to promote emerging business models and more effectively address other external constraints?

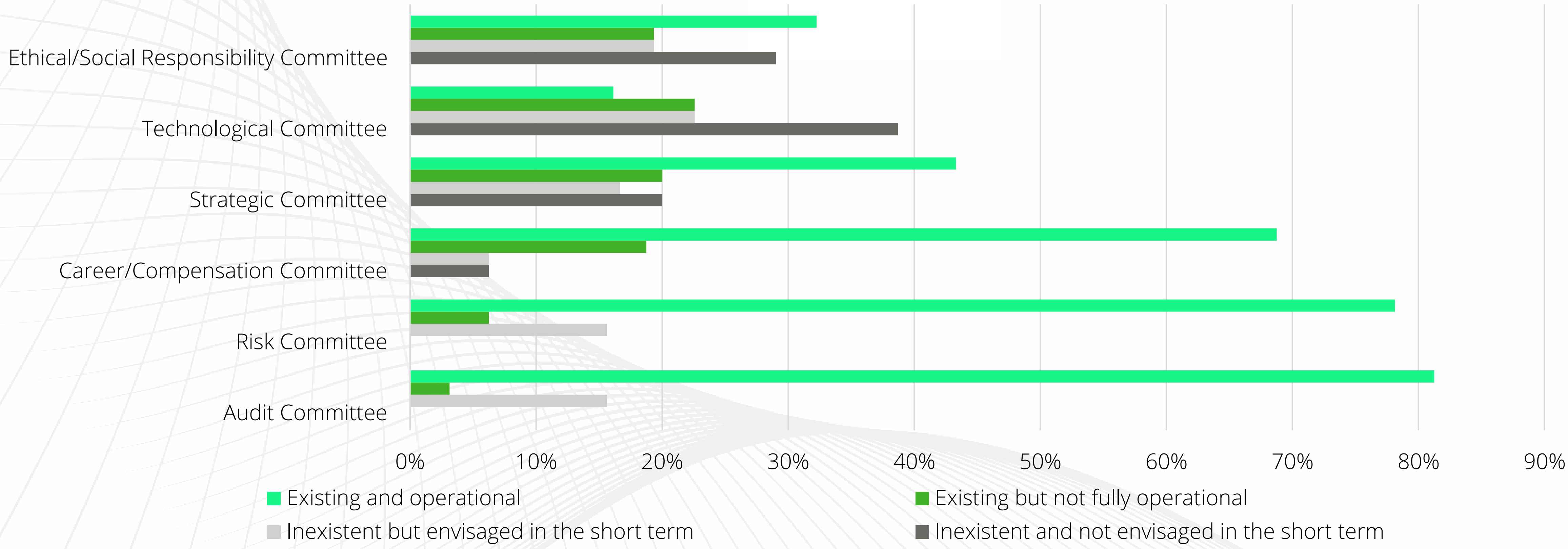
Strengthened governance bodies	Industry players are setting up new committees, such as strategic committees (43%) or ethics/social responsibility committees (32%), within their board of directors, which complement the traditional committees (audit, risk) already well established.
More independent members on directors' boards	The move to independent directors is becoming more widespread: more than half of the boards of directors declare that they want to have a body made up of more than 25% independent directors in the medium/long term.
Progress expected in terms of parity	Significant progress has yet to be made in the area of parity within governing bodies, with nearly 35% of financial institutions having less than 10% women on their boards of directors in 2022. On the other hand, institutions are more proactive in the medium term, with nearly 60% of them stating that they want to exceed the 25% threshold for women on their boards.
Cyber risks, operational risks and financial risks at the heart of the concerns	In a context of digitalisation and progressive opening of information systems to partners, cybersecurity risk represents, for the second year in a row, the chief concern of institutions surveyed.
Tools for mitigating or transferring credit risk are still insufficient.	In line with the previous barometer, the industry still lacks basic tools to mitigate or transfer financial risks. Guarantee funds, which are the most mature, are perceived as sufficiently developed by only 6% of institutions. There are very few defeasance structures. Securitisation of private or public debt is not sufficient, despite successful underwriting of the last securitisation transactions in Africa in 2022.

Governance & Risk Management

Continued enrichment of governance bodies

African financial industry players continue to improve their governance frameworks by establishing new committees such as strategic committees or ethics/social responsibility committees within their board of directors, in addition to already well-established traditional committees (Audit, Risk).

2.1 What specialised committees have been set up (or planned) within your board?

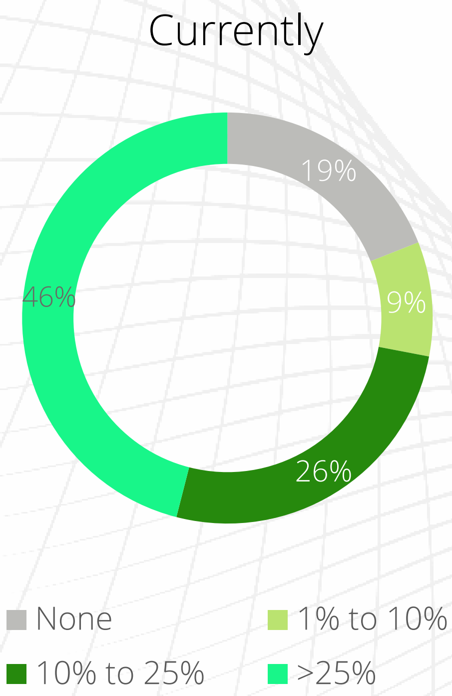


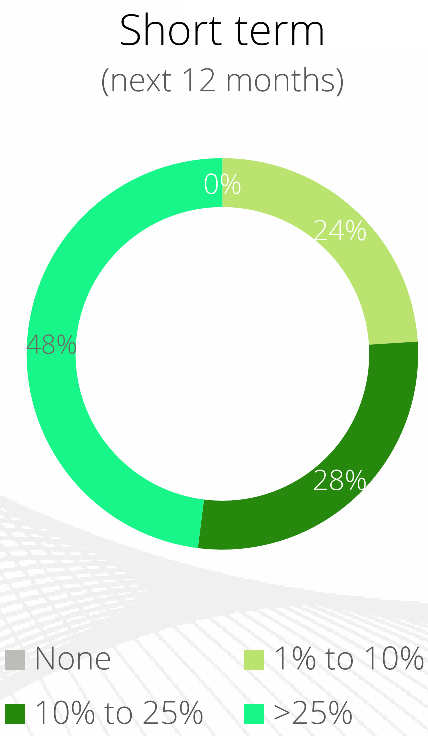
Governance & Risk Management

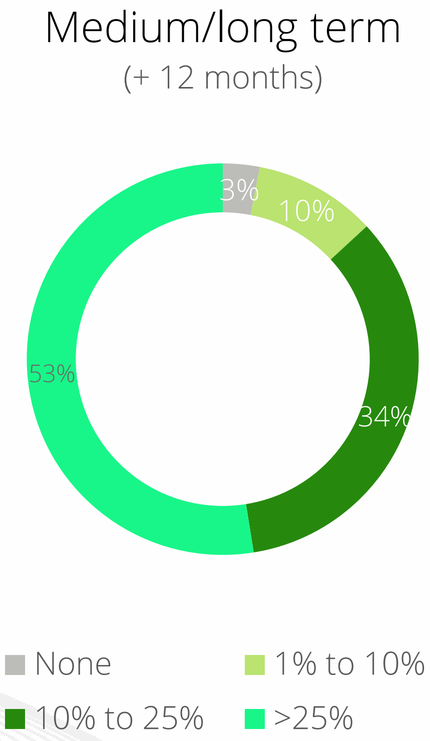
Continued gradual enrichment of the board of directors with independent members

The use of independent directors is still growing in the medium/long term. Nearly 60% state that they want to have a board of directors made up of more than 25% independent directors in the medium/long term.

2.2 What is the current and expected percentage of independent directors on your board?







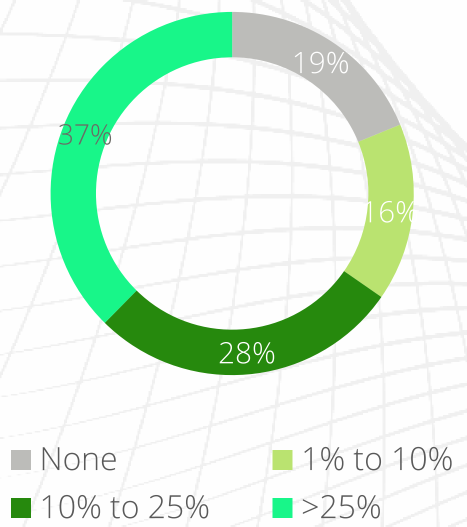
Governance & Risk Management

Further progress to be made in terms of parity in governance bodies

Significant progress remains to achieve gender parity within decision-making bodies, with nearly 35% of financial institutions having less than 10% of women on their boards of directors in 2022. On the other hand, financial institutions are more proactive in the medium term, with nearly 60% stating that they want to exceed the threshold of 25% of women on boards of directors.

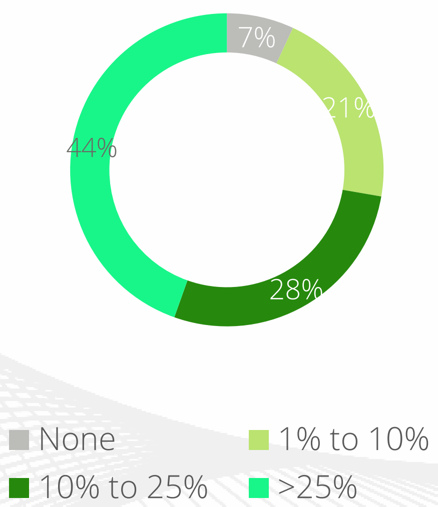
2.3 What is the current and expected percentage of female board members?

Currently



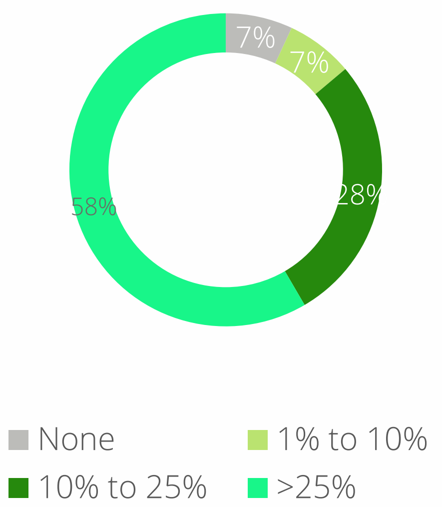
Short term

(next 12 months)



Medium/long term

(+ 12 months)



"Ecobank Guinea Bissau is proud to achieve gender parity on its board of directors, in line with Group expectations. We are now striving to achieve the same in our Executive Committee (which currently has 40% women)."

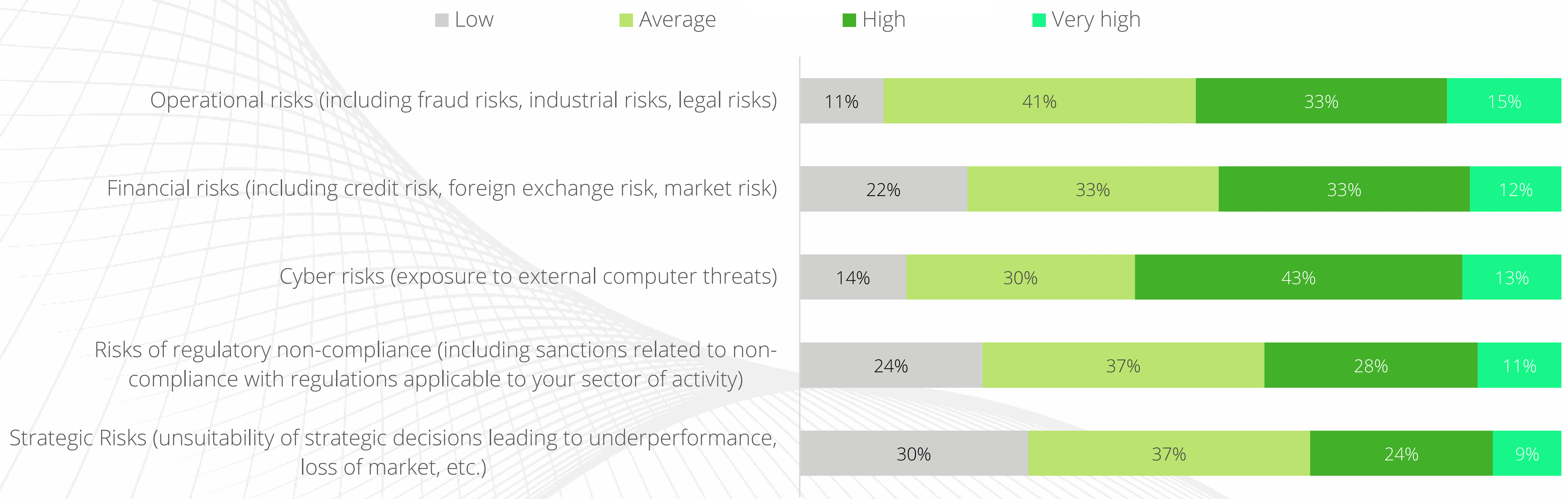
Ghislaine Samake, CEO – Ecobank Guinea Bissau

Governance & Risk Management

Cybersecurity, operational risks and financial risks remain top concerns

For the second year in a row, cybersecurity risk has become a major concern for financial institution executives. The increase in the volume and sophistication of attacks explains this level of vigilance among financial institutions. Operational risk (including fraud risk) is also a point of vigilance.

2.4 What is your level of exposure (before taking into account mitigating factors you have put in place) to the following risks?

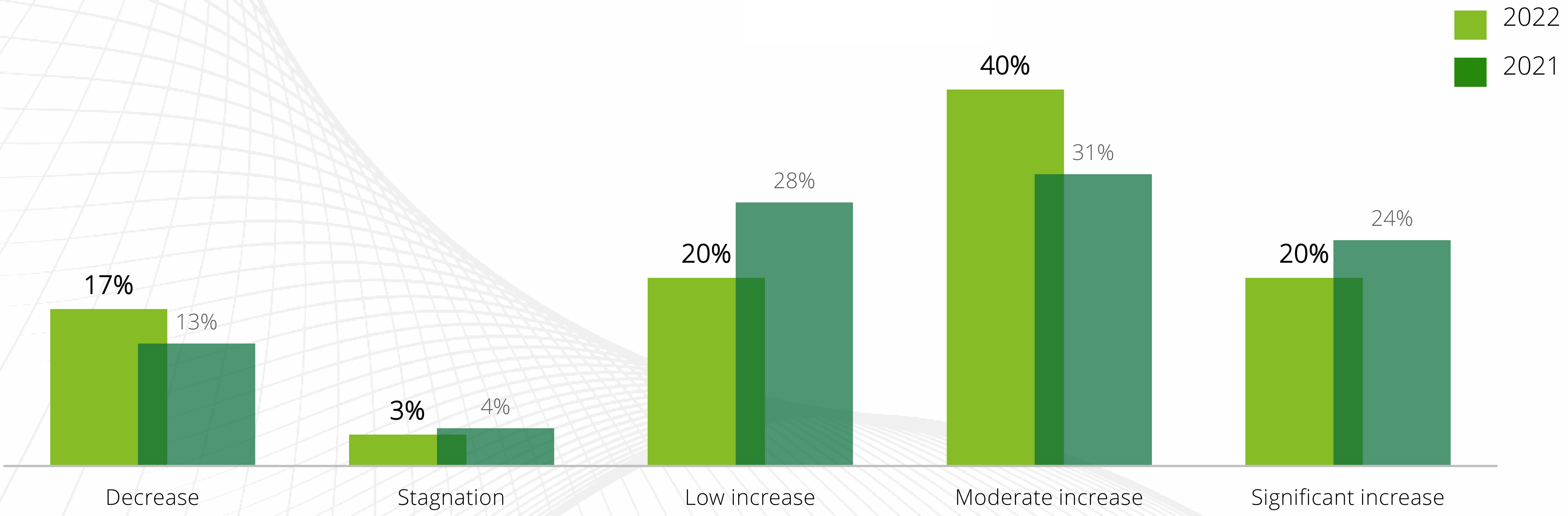


Governance & Risk Management

Moderate deterioration of the credit portfolio

The majority of respondents anticipate a moderate deterioration of the credit portfolio in the short to medium term, as in the previous barometer.

2.5 Credit Risk: How do you expect non-performing loan rates will evolve in the short to medium term?



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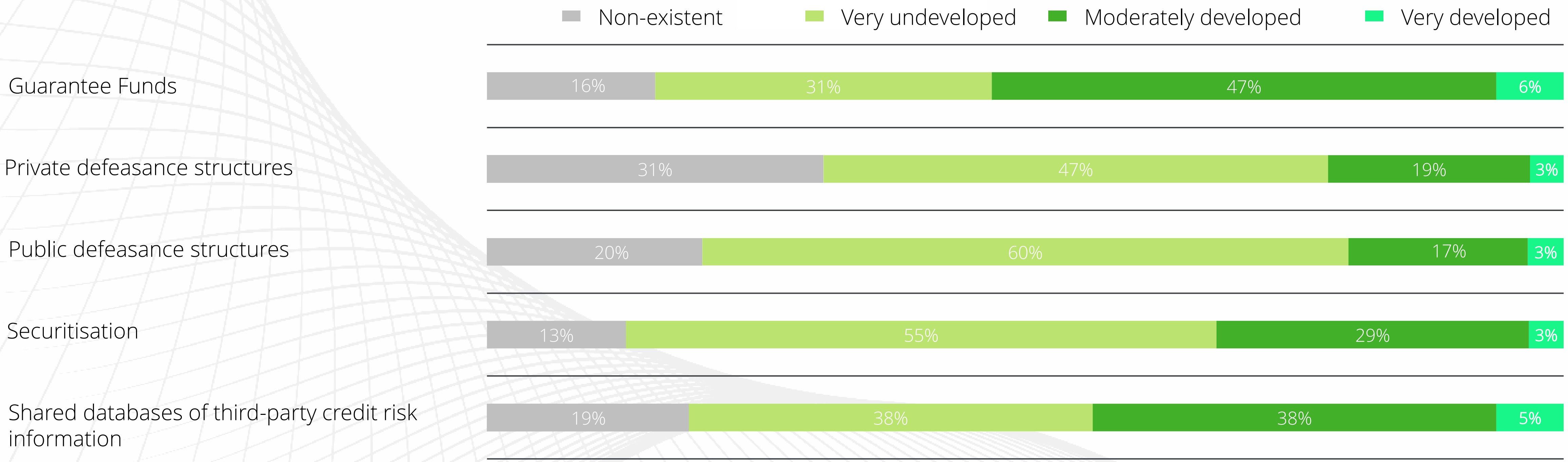
Tools for mitigating or transferring credit risk are still insufficient

In line with the previous barometer, industry players still lack basic tools to mitigate or transfer their financial risks. Guarantee funds, which are the most mature, are perceived as sufficiently developed by only 6% of institutions. There are also very few bad bank structures. Securitisation of private or public debt is not sufficient, despite the success of the latest securitisation operations in Africa.

2.6 Risk Management: How do you rate the level of development of the following arrangements in your geographic area?



Governance & Risk Management

Voices of leaders

Jules Ngankam, CEO, African Guarantee Fund - AGF

"As an AA-rated guarantee fund, AGF is a trusted partner for African financial institutions, and we want to continue to offer structured guarantee products to meet the broad needs of African SMEs."

Small- and medium-sized enterprises are the backbone of the African economy. They account for about 90% of all businesses and provide nearly 80% of the continent's jobs. SMEs are therefore fundamental to Africa's economic growth. Their role in stimulating innovation, creating jobs, and therefore contributing to national wealth creation is essential for sustainable economic development. Despite their crucial role in the continent's economic development, SMEs face a $330 billion financing gap, which hinders their growth.

By sharing the risks of lenders through the provision of partial credit guarantees, AGF reduces the risks assumed by the financial sector, thereby mitigating the following risks:

- The inability of SMEs to provide acceptable collateral
- The inability of SMEs to provide sufficient capital
- Lack of long-term resources.

William Nkontchou, Chairman & CEO AFIIP

"Financial institutions in Africa represent an asset class of over USD 1,000 billion offering secure exposure to the sustained growth in sub-Saharan Africa."

A significant number of African institutional investors have foreign currency resources (notably in connection with their insurance or reinsurance of foreign risks) that often remain idle and unrewarded due to the lack of investment products that meet the needs of this clientele.

The strategy of short-term credit exposure to leading African financial institutions meets this need by offering the following characteristics :

- Liquidity
- Diversification
- Economies of scale
- Underlying risk (banks)

AFIIP (Africa Financial Institutions Investment Platform) develops innovative financing solutions for financial institutions in Africa, raising foreign exchange internationally to offer subscribers a competitive return on short-term credit risk exposure to top-tier African banking institutions.

Ongoing discussions with African institutional investors (insurers, reinsurers, pension funds, etc.) and financial institutions demonstrate their growing interest in identifying innovative investment or financing solutions such as those proposed by AFIIP.

Governance & Risk Management

Voices of leaders

Adji Sokhna, Managing Director, BOAD Titrisation

"While the securitisation market has been slow to develop in Africa, the increase in the number of transactions in the West African Economic and Monetary Union (WAEMU) zone highlights its growth potential."

The issue of financing is central to the development of African economies, both at the level of national strategic plans that increasingly call on the private sector and at the level of companies and banks that want to increase their impact

Thus, companies on the continent are looking for ways to optimise their balance sheet and diversify their sources of financing beyond bank credit and bond issuance.

Furthermore, faced with the continent's significant financing needs, banks want to increase their capacities, notably by freeing up resources to continue financing the economy, securitisation, which consists in transferring financial assets to a vehicle that finances itself by issuing securities on the financial markets, is a tool that makes it possible to achieve these objectives

BOAD TITRISATION, a subsidiary of BOAD and a management company of debt securitisation mutual funds (FCTC), which managed the first FCTC approved in the WAEMU (West African Economic and Monetary Union), assists companies and banks wishing to securitise assets with the following potential advantages

- Reduction of the cost of financing for the assigning companies
- Increased profitability for ceding banks

Isabelle Lessedjina
Senior VP, TCX

"Inflation, interest and exchange rate risks need to be mitigated at the structural level for our economies to be less dominated by external shocks. As a player embedded in the economy, the financial institutions should take the lead in building this local currency market and Hedging providers are committed to supporting these efforts."

At the dawn of 2023, we observe that the resilience of our countries has been eroded by a succession of external crises (COVID-19, the Russia-Ukraine conflict) which have heightened debt sustainability worries in multiple countries.

Since 2020 only, African governments have borrowed more than US$30 billion via Eurobond issuances, while more than half of African countries have seen their currencies depreciate – some by more than 40% (Ghana, Sierra Leone, Egypt). These FX depreciations significantly heighten the financial and opportunity cost of debt servicing. This trickles down through the whole economy, inhibiting private sector growth and further increasing ecosystem fragility.

De-risking against FX movements should therefore be one of the key preoccupations of policymakers and financial institutions interested in the sustainable macroeconomic stability and socioeconomic development of the continent.

The development of efficient local capital markets both onshore and offshore, by financial sector players is one of the major pillars through which vulnerability to FX shocks can be limited and managed. Such market development not only improves FX shock resilience but also supports the entire economy including private sector players.

The financial sector has a leadership role to play in building these risk markets.

Regulations

Regulations

How does the African financial industry perceive regulator actions and the implementation of new standards and regulations?

Need to strengthen regulatory standards

- The effectiveness of regulations transposing international standards needs to be significantly strengthened (cybersecurity, OECD standards to combat tax evasion, anti-corruption standards and data protection).
- Real improvements are also expected in emerging areas such as digital finance and financial markets.
- Significant progress is expected in the area of accounting standards and AML/FT regulation.

Broadening the scope of intervention of regulators

- Access to information is crucial for institutions. Indeed, sector players express a strong desire to be involved in discussions to introduce new regulations.
- However, regulator's efforts to adapt international standards to the local context and to harmonise the continent's regulations have been greatly appreciated by the sector.

Exchange rate policies perceived as restrictive

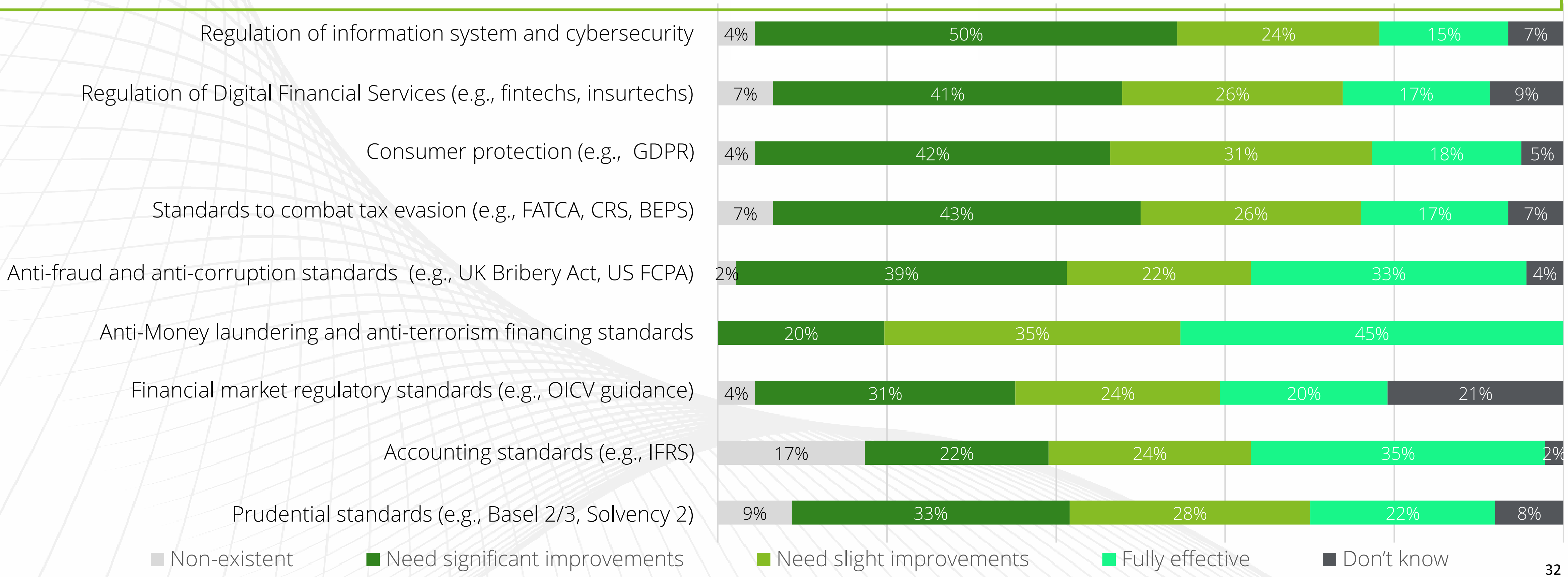
- The majority of financial institutions (63%) consider foreign exchange policies to be restrictive.
- The insurance sector is the most unanimous on the need for less restrictive regulation.

Regulations

Stronger standards and regulations are needed

The majority of standards require significant improvement, particularly in the areas of information systems and cybersecurity (50% of respondents), combating tax evasion (43%) and consumer protection (42%). However, AML/CFT regulations and accounting standards are perceived by respondents as the most effective regulations.

3.1 How do you assess the effectiveness of the following standards in your jurisdiction?

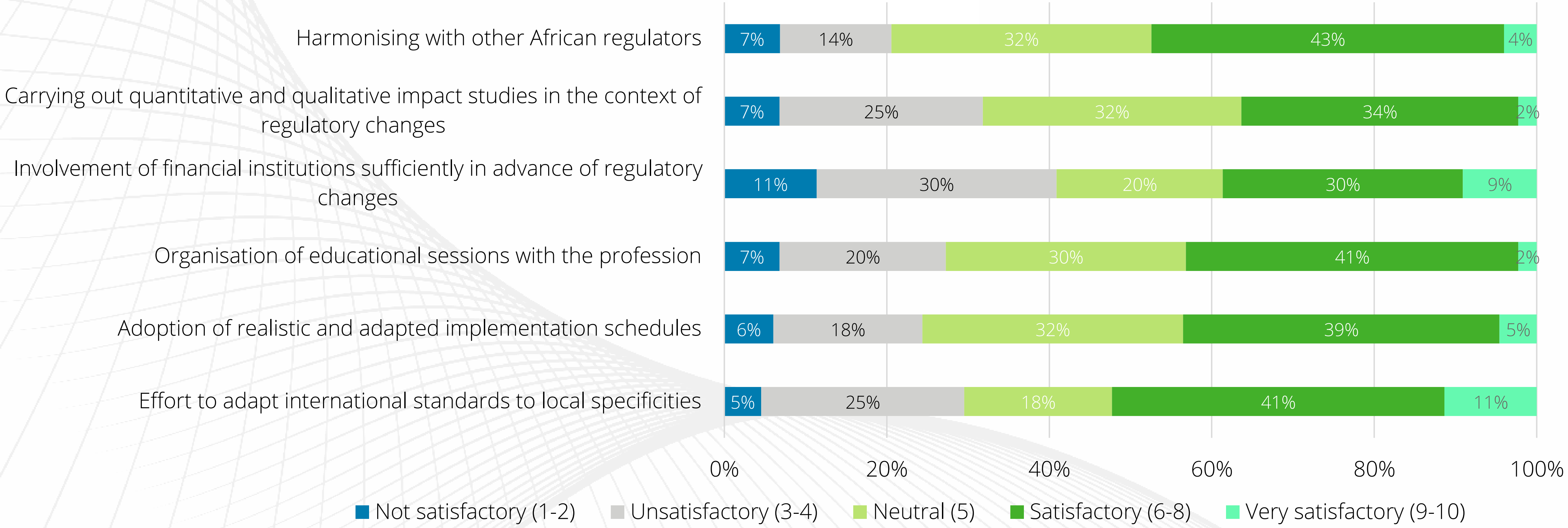


Regulations

Expansion of the scope of intervention of regulators

Compared to the previous barometer, industry operators are more appreciative of the measures adopted by regulators in priority areas of activity, particularly the efforts to adapt international standards to local specificities.
In addition, 41% of industry players would like regulators to involve them more in the early stages of regulatory reform, which would allow industry to better respect the implementation schedule of new regulations.

3.2 How do you perceive the actions of your regulator regarding the activities listed below?

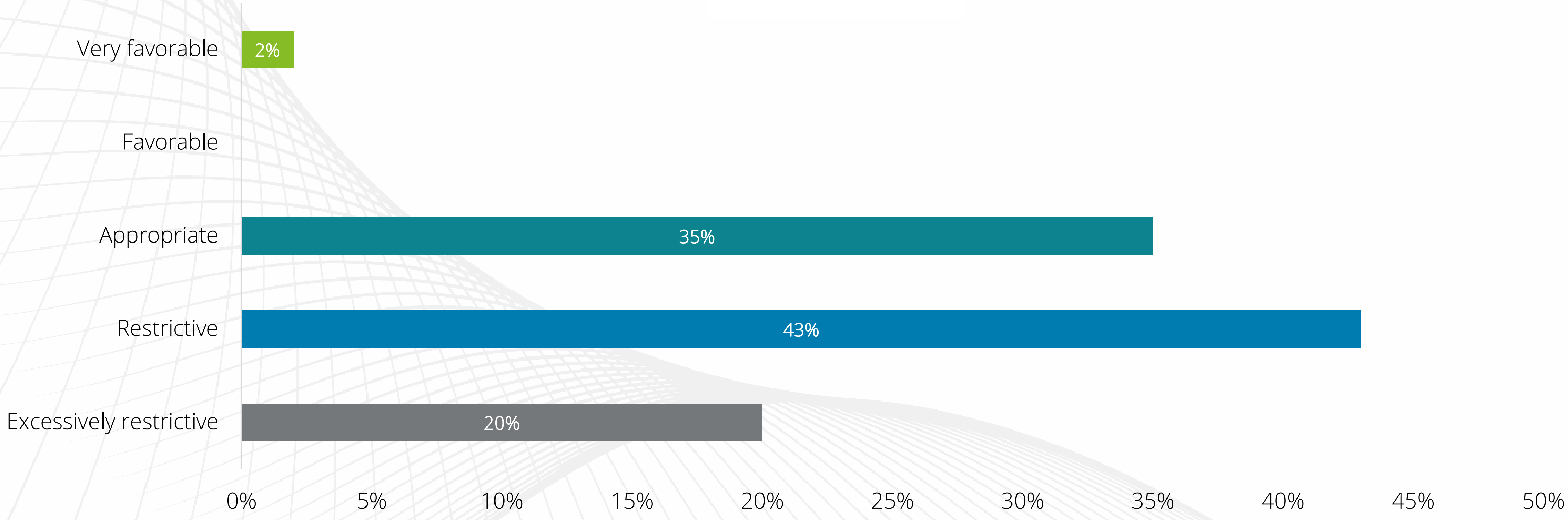


Regulations

Exchange rate policies considered restrictive

More than 60% of the financial institutions surveyed consider that the exchange rate policies implemented by their central banks are rather restrictive.

3.3 What is your perception of the exchange rate policy implemented by your Central Bank?



Regulations

Does Africa need Basel III?

Strategic Round Table AFIS. November, 28 2022

Moedrator	*Chair*	*Guest of honor*
		
Aristide Ouattara, Lead Partner Deloitte	**Rose Kayi Mivedor,** Minister of Investment Promotion, Togo	**Diakarya Ouattara,** CEO Coris Bank Burkina Faso

- The implementation of international regulatory and prudential frameworks for African banks is both slow and insufficient. At the same time, its adequacy for developing countries is being criticised and questioned. Only South Africa (the only African member of the Basel Committee of Banking Supervisors) and Egypt have fully implemented Basel III, while very few countries intend to fully adopt it in the near future.
- While there is a consensus on the inevitability of implementing Basel III, the industry is converging on the importance of having a specific pan-African framework with appropriate adaptations.

Should African regulators stop or accelerate the adoption or implementation of Basel III?

- Basel III is a consequence of the subprime crisis to which the African banking sector had very little exposure.
- The increased capital, liquidity and leverage requirements of Basel III certainly played a key role in the resilience of African banks during the Covid-19 crisis. Nevertheless, the calibration of the parameters underlying the prudential ratios is not fully adapted to emerging economies.
- It is therefore not a question of halting the adoption or implementation of Basel III in Africa, but of making significant adaptations.

What are the main challenges and criticisms of the adoption or implementation of Basel III in Africa?

- According to a recent AfDB study, full implementation of Basel III will require nearly €400 billion in capital as well as €900 billion in short-term liquidity and €2 trillion in long-term funding.
- Banks are adapting their lending and pricing processes to comply with the new standards. This has a significant impact on the financing of SMEs and certain strategic priority sectors.
- The new capital and liquidity requirements could also significantly reduce the profitability of African banks.
- The implementation of Basel III rules is heterogeneous across Africa, which presents major challenges for pan-African banking groups to consolidate and manage ratios.
- Basel III will also require massive investments in tools, data and human capital.

What would be the best practices or alternatives for stronger capital and liquidity standards tailored to Africa?

1. Conduct a comprehensive pan-African study on :
   a) The current status of Basel I, II, III implementation across Africa,
   b) the impact of the implementation of Basel III on African banks and economies,,
   c) identification of priority adjustments, including
   - specific risk weights for priority sectors or segments (such as SMEs)
   - eligibility criteria for risk mitigation instruments (such as guarantees)
   - eligibility criteria for liquidity or long-term financing
   - calibration of concentration limits (large exposures)
   - prudential reporting standards and taxonomies.

2. Consider the creation of a pan-African "Basel III" framework supported by pan-African political or economic bodies (such as the Ministry of Finance, the African Union, regional economic zones, the ZLECAf, etc.) with 2 components

   a) a **regulation** with mandatory binding rules for all jurisdictions,
   b) a **directive** with discretionary rules per regulatory area.

Innovation

Innovation

The current state of innovation for industry players and opportunities to accelerate.

Digital maturity

- Most financial institutions (28%) believe their digital maturity is at the follower stage.
- Insurers, backed by their technology partnerships, claim to be innovators at 38%.

A real appetite for partnerships with pure players and diversification of the product and service offering

- The industry's appetite for open-banking, which advocates greater financial inclusion and greater integration of the local and regional economic fabric, remains unquestionable.
- Banks and insurance companies are ready to develop in-house applications and software and to expand their product offering to include new models.

Cybersecurity, decentralised finance and digital currencies on the radar of African financial institutions

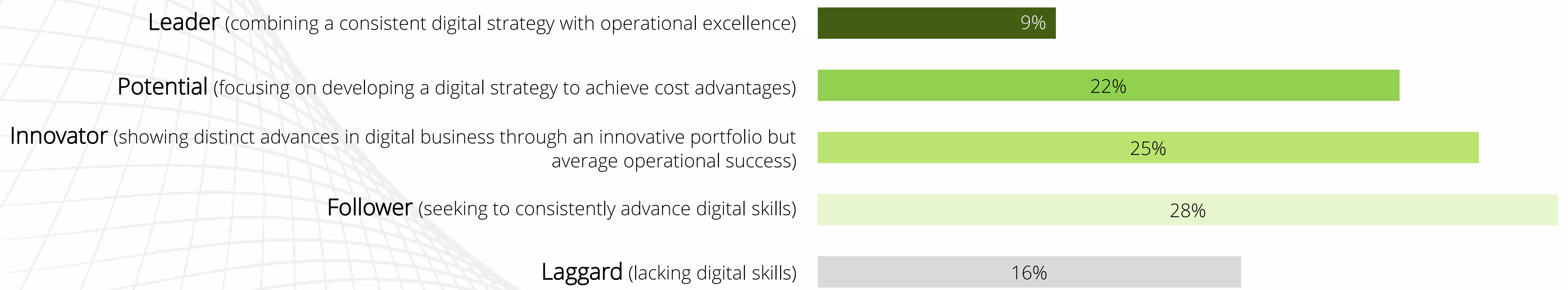
- Fully aware of the opportunities to be seized and the projects to be initiated in order to migrate towards innovative business models, financial institutions are optimistic and ready to engage the necessary resources to succeed in their transformations.

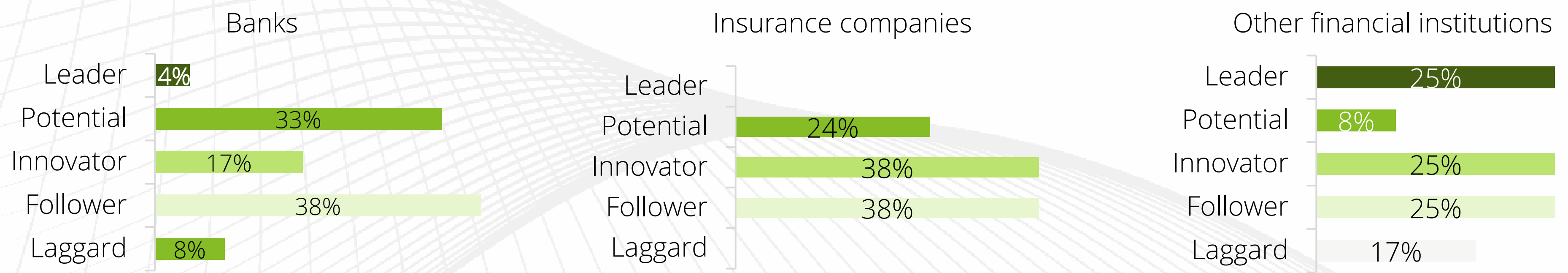
Innovation

Digital maturity is mostly in the priming phase

Driven by an increasingly tech-savvy generation, financial institutions are sparing no effort to innovate and expand their service offerings. Insurers are in first place among innovators, with 38% believing they are at the forefront of digital maturity. Thanks to their partnerships with insurtechs and their in-depth expertise of the African market, they are in the lead.

4.1 How do you assess your digital maturity today?



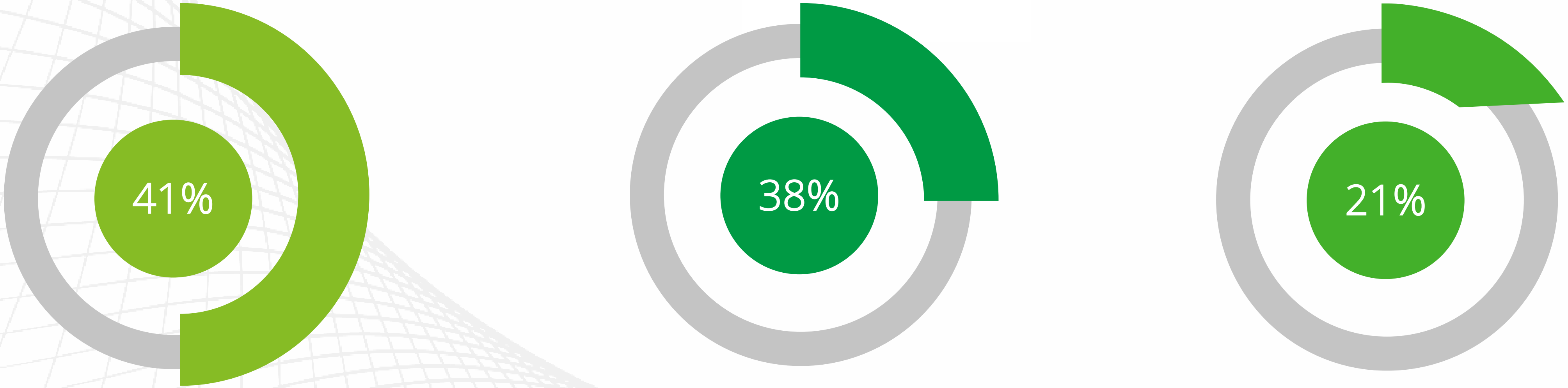


Innovation

Clear and evolving ambitions

More than 79% of the institutions surveyed have already initiated/are considering partnerships with emerging industry players. This confirms the industry's appetite for open-banking which advocates for greater financial inclusion and integration of the local and regional economic fabric.

4.2 Within the Open Banking framework, what are your ambitions in terms of partnerships with fintechs/insurtechs/regtechs?



We plan to set up one or more partnerships in the short term

We have already initiated one or more partnerships

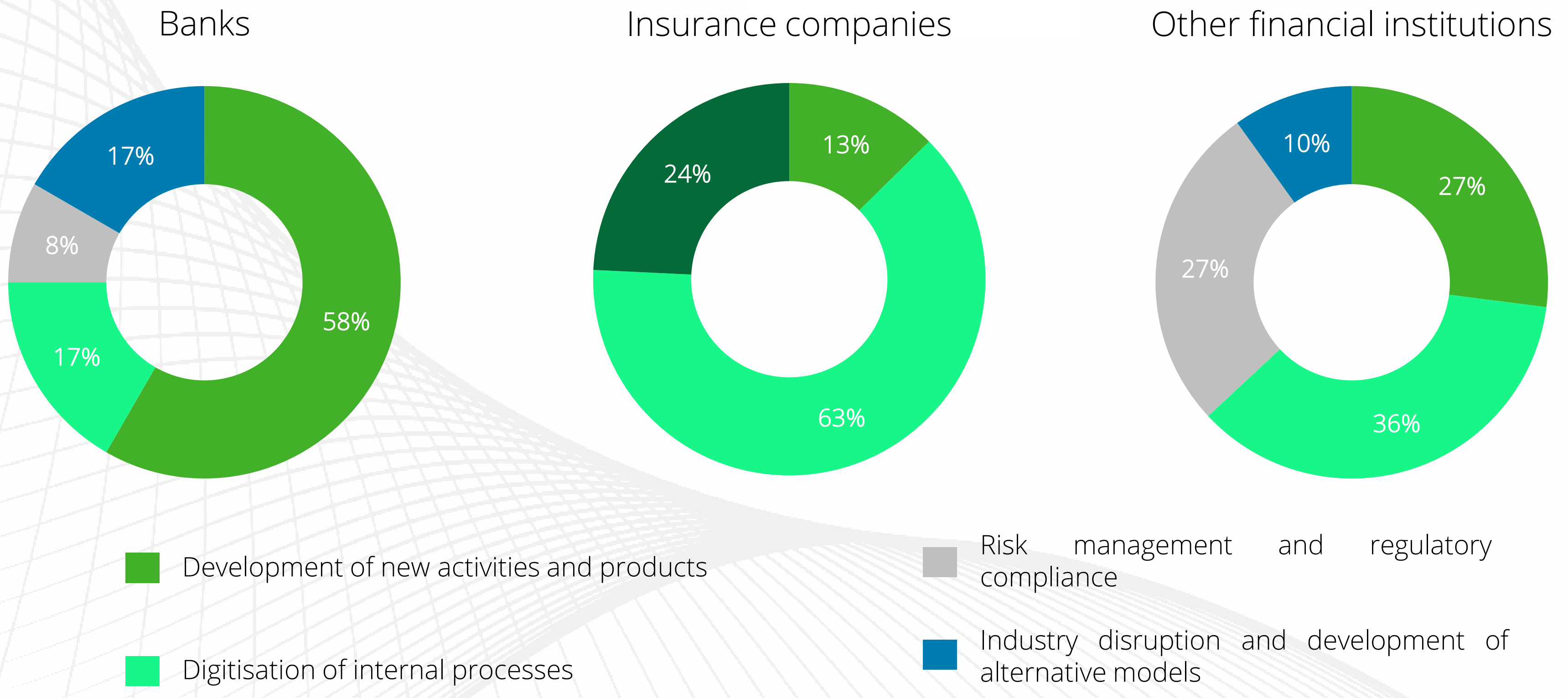
We do not consider setting up a partnership in the short term

Innovation

A strong interest in partnerships with pure players (fintechs, insurtechs and regtechs)

When it comes to relationships with pure players, banks and insurance companies do not have the same expectations. 58% of surveyed banks said that they are willing to initiate new products and activities as part of existing or envisioned collaborations with these new players. With a view to digitising fundamental services, insurers have embraced internal process digitalisation as a development driver.

4.3 In which priority area have you established (or would you consider) partnerships with fintechs/insurtechs/regtechs?

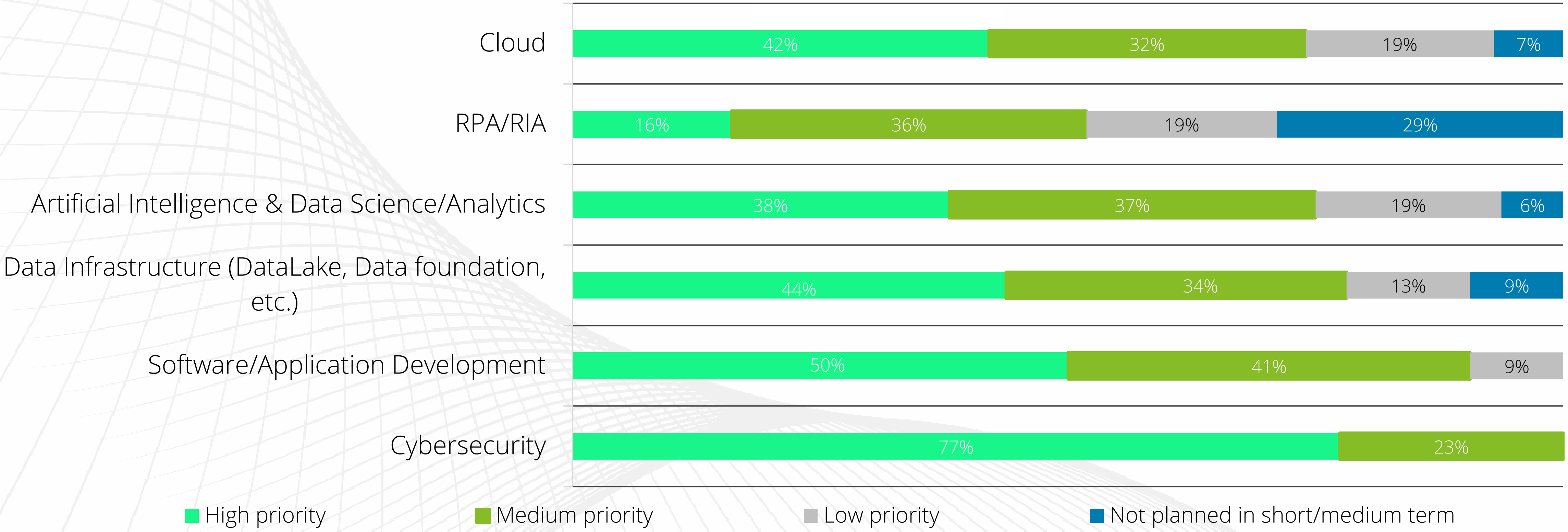


Innovation

The results are unmistakable: Cybersecurity is the top priority

In an ongoing effort to harness their digital transformation, 77% of institutions surveyed have prioritised cybersecurity and software and application development for future investments.

4.4 What is your priority level for the following digital investments?

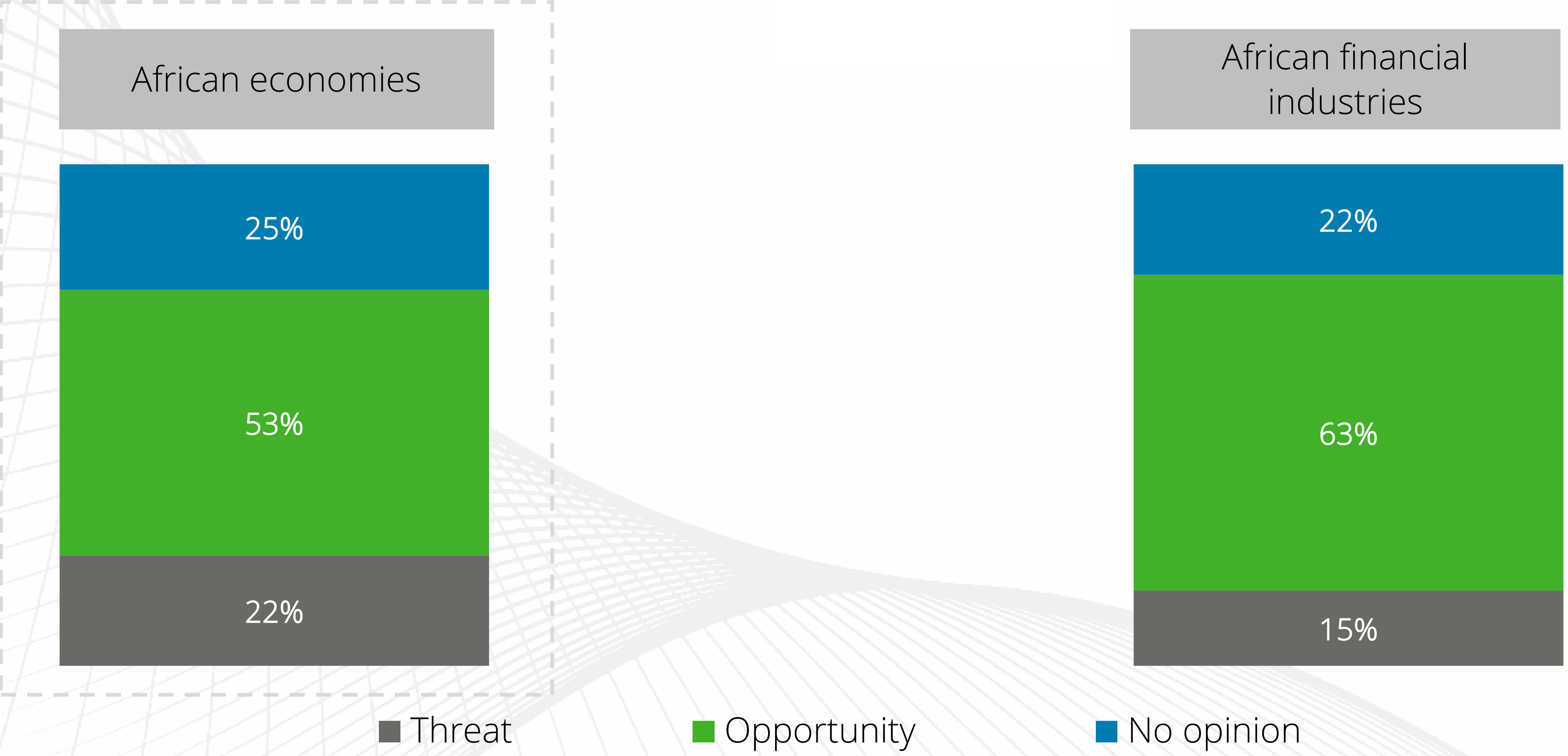


Innovation

Decentralised finance and cryptoassets are on the upswing

In response to the emergence of blockchain and new financial value chains outside of the traditional banking realm, financial institutions are optimistic and perceive these new players/products as an opportunity for both African economies and the industry.

4.5 How do you perceive the emergence of crypto assets/decentralised finance (DeFi) in African economies and financial industries?

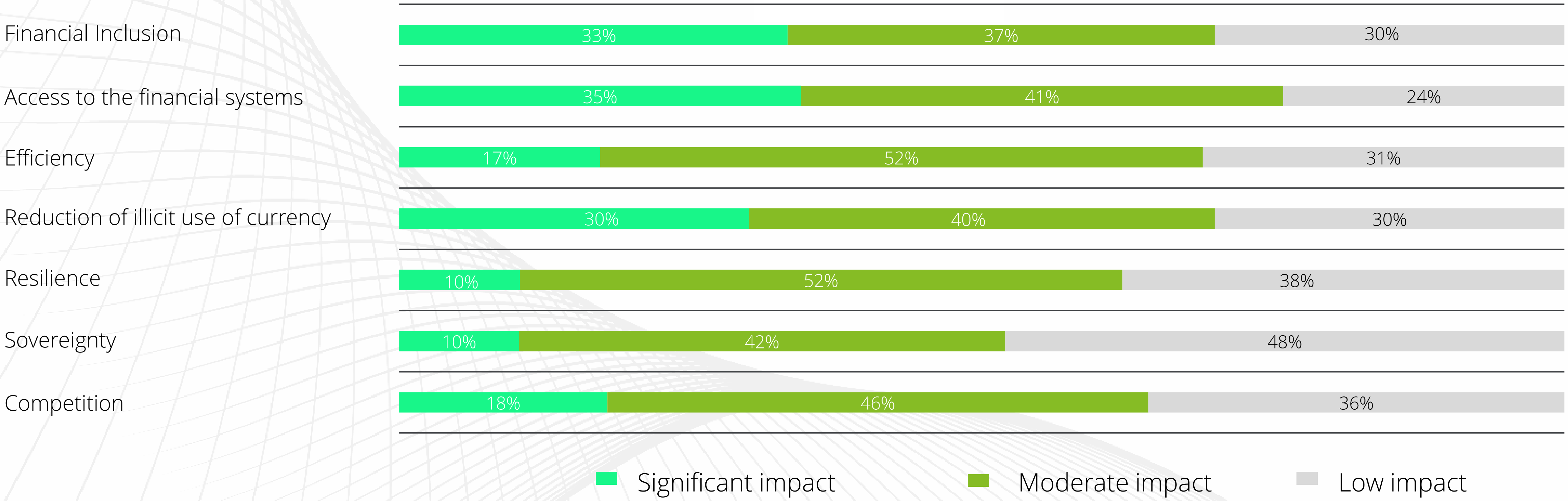


Innovation

Central Bank Digital Currencies: A new driver for financial inclusion?

The eNaira was introduced in Nigeria in 2021, while Ghana and South Africa have since begun piloting their own digital currencies. Additional countries have initiated research. Digital currencies represent fertile ground and are seen by financial institutions as a major lever towards financial inclusion, "decashing", and integrating the informal economy.

4.6 What would you anticipate being the benefits of Central Banks Digital Currency (CBDC) in your market?

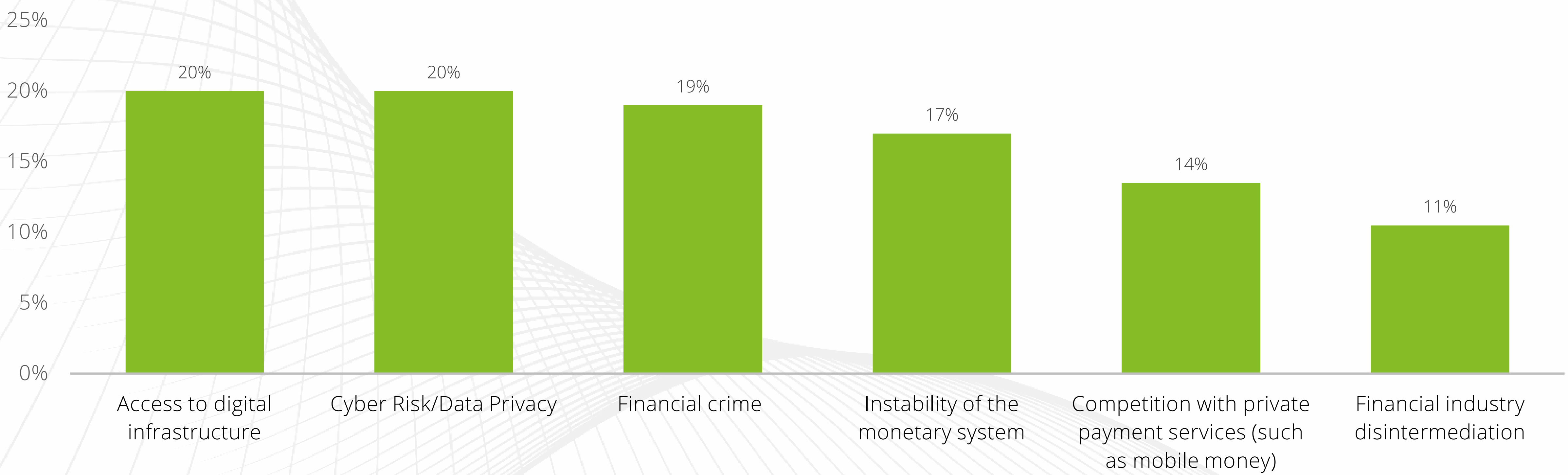


Innovation

Great challenges ahead

Financial institutions are unanimous, that widening the use of digital currencies cannot be achieved without an accessible, more secure and more inclusive digital infrastructure.

4.7 What are the top challenges regarding digital currency in Africa?



Innovation

Voice of leaders

Ghislaine Tankeu Samake
CEO – Ecobank Guinea-Bissau

"In pursuing acceleration in financial inclusion and our digital strategy combined with operational excellence, we'll emphasise on investments in disruptive technologies, cybersecurity and customer-centric ones."

In the current context of open banking, we have established several partnerships with Fintechs in a common vision of financial industry disruption and development of alternative models and products.

At group level, we proudly host an annual "Ecobank Fintech Challenge" to fetch the best on the continent and induct them into our "Ecobank Fintech Fellowship" which affords them the opportunity to explore deals, integration and commercial partnership with the Ecobank Group.

Moreover, we have developed groupwide innovation culture by motivating Ecobankers to share their ideas and be given an opportunity to bring them to life through an annual "Ecobank Innovation Race" contest.

Emmanuel Brulé
CEO – Sanlam Pan Africa General Insurance

"The succession of global crisis has driven up inflation chocks, with a strong impact on insurance activities."

The combination of an inflationary economic environment and an increase in climate-risk related claims makes it harder to maintain margins. Passing on the costs to our customers is not always entirely possible. We work closely with our distributors on key topics such as pricing, innovative products and client services. We believe that risk should be the starting point of any corporate client conversation before mentioning insurance products.

Innovation and quality of service will remain the two major differentiators to win on the African insurance market. Our investment priorities for the upcoming years are digital platforms, talent and cybersecurity. We need to continue developing our digital and data capabilities and ensure that we have the right people on our team to do that.

Africa is the fastest growing continent, with many infrastructure and renewable energy projects. Sanlam is working hand in hand with the UN Africa Business Leaders coalition to help support the energy transition in the countries where we operate.

Innovation

Voice of leaders

Mamadou Kwidjim Touré
CEO – UBUNTU Tribe

"The crypto-currency market has just suffered a crisis because it has become essentially speculative and needs to introduce more fundamental principles of the traditional financial system based on sound economics and real value creation from real economic assets."

It is important to distinguish between: (i) crypto-currencies (such as bitcoin), (ii) crypto-currency exchanges (such as FTX or Binance), (iii) utility tokens (such as Ethereum), and (iv) digital assets backed by tangible economic values (such as gold and real estate (asset-backed tokens). While all these asset classes use blockchain technology, they are not the same.

Digital assets backed by tangible economic values represent fractional and transferable digital securities aligned with the economic value of the underlying. In this respect, they are decorrelated from the crypto-currency market. In the case of the GIFT Coin (Gold International Fungible Token) issued by Ubuntu Tribe for example, the GIFT Coin is equivalent to 1 milligram of gold.

Beyond the financial interest, we try to promote fair, ethical and sustainable mining. We aim to strengthen local mining communities, particularly in Africa, by providing "win-win" financing mechanisms to artisanal and small-scale mining communities.

Omar Cissé
CEO – Intouch SA

"We must be the first agents of the change we want for Africa. My conviction is that entrepreneurship is one of the essential pillars. We must massively create wealth in a sustainable but also shared way. Africa remains a real land of opportunity, the rapid development of digital solutions is a concrete proof."

Launched in 2015 in Senegal, InTouch is now present in 14 countries with nearly 400 employees: Senegal, Côte d'Ivoire, Mali, Burkina Faso, Guinea Conakry, Kenya, Cameroon, Nigeria, Tanzania, Uganda, Mozambique, South Africa, Egypt and Gabon. InTouch has the ambition to deploy in 25 countries by 2025.

We position ourselves as the trusted partner of every digital transaction in Africa by providing tailormade payment solutions integrating all the means of payment on the market including Mobile money, credit card, vouchers, cash, etc.

InTouch is also a major player in the distribution of digital services such as Mobile Money, telephone credit, money transfer, agency banking, etc. with more than 50 000 independent merchants who use the solution, and more than 2 000 companies that have integrated the platform. InTouch processed more than €2 billion in transaction volume in 2022.

Sustainability

Sustainability

How are financial institutions addressing environmental and social impacts?

Reduce environmental and social impacts

- On the environmental dimension, African financial institutions are just beginning to define and implement Net Zero trajectories to achieve a balance between greenhouse gases emitted into the atmosphere and those removed from it.
- On the social level, however, they are aware of the role they play in financial inclusion and believe that the diversity of actors in the sector is a major lever for achieving this goal.

Integrating ESG issues into processes

- While financial institutions have consistently shown an interest in green and sustainable financial products (such as the integration of ESG criteria in investments, socially responsible investments, etc.), there is a lack of awareness about more cutting-edge products in this field (e.g., carbon credits, green bonds...).

Investing in green energy

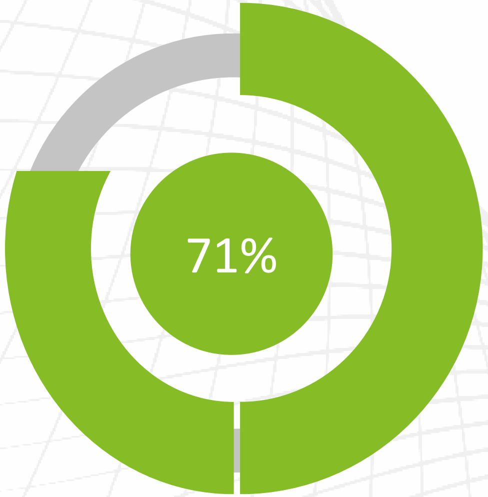
- Green energies hold an important place in the planned investments of financial institutions in the next five years.
- Indeed, they plan to invest the most in solar energy, while investments in wind energy would be equivalent to those made in oil.

Sustainability

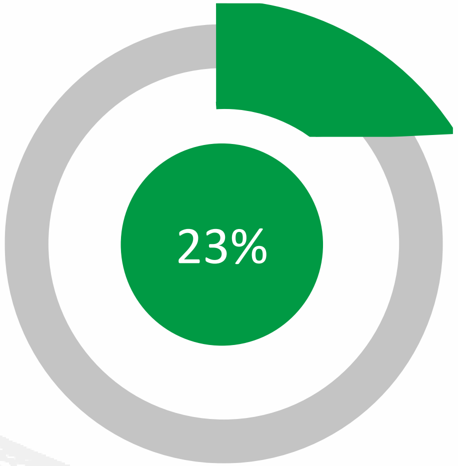
A long way ahead to "Net Zero" emissions

Very few financial institutions have already defined and implemented a trajectory to achieve a balance between greenhouse gases emitted into the atmosphere and those taken out.

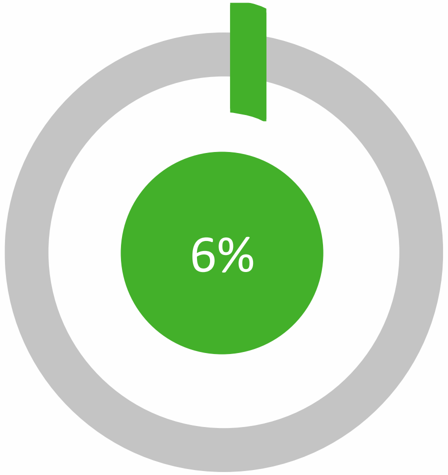
5.1 What is your level of progress on the development and deployment of a Net Zero trajectory?



No Net Zero trajectory defined



Defined, **not implemented yet**



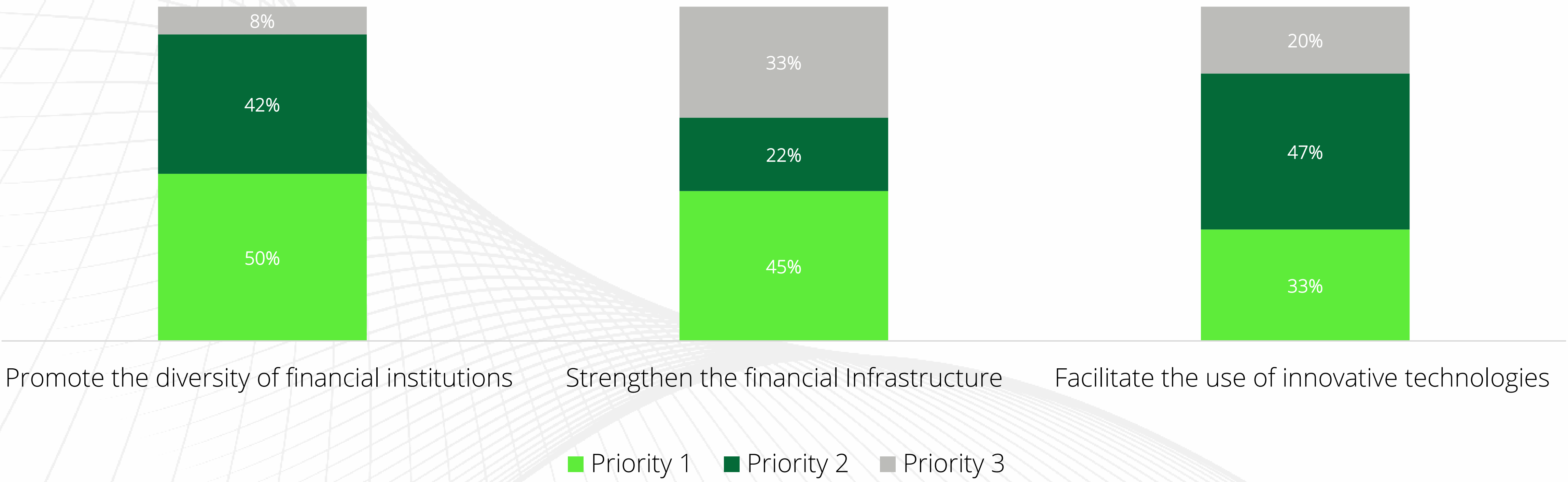
Defined and implemented or under implementation

Sustainability

Drivers of financial inclusion

Promoting stakeholder diversity is seen by financial institutions as a top priority to accelerate financial inclusion.

5.2 What are the priority initiatives to accelerate financial inclusion?



Sustainability

ESG remains a high priority

Similar to 2021, financial institutions continue to focus on integrating-ESG (Environment, Social, and Governance) aspects in investment portfolios.

5.3 What sustainable finance themes are you currently investing in (or planning to invest in)?

Numbers show investment priorities, while arrows show positional evolution versus 2021

1 = Integration of ESG criteria

2 ↗ Renewable energy financing

3 ↗ SRI Investments

4 ↗ Financing of clean-up activities

5 ↘ Sustainable infrastructure financing

6 ↗ Green loans

7 = Green technology financing

8 ↗ Financing the decarbonisation of the economy

9 ↘ Issuance of green bonds

10 ↗ Participation in the Carbon Disclosure Project

11 ↘ Greentech Venture Capital

12 ↘ Green insurance products

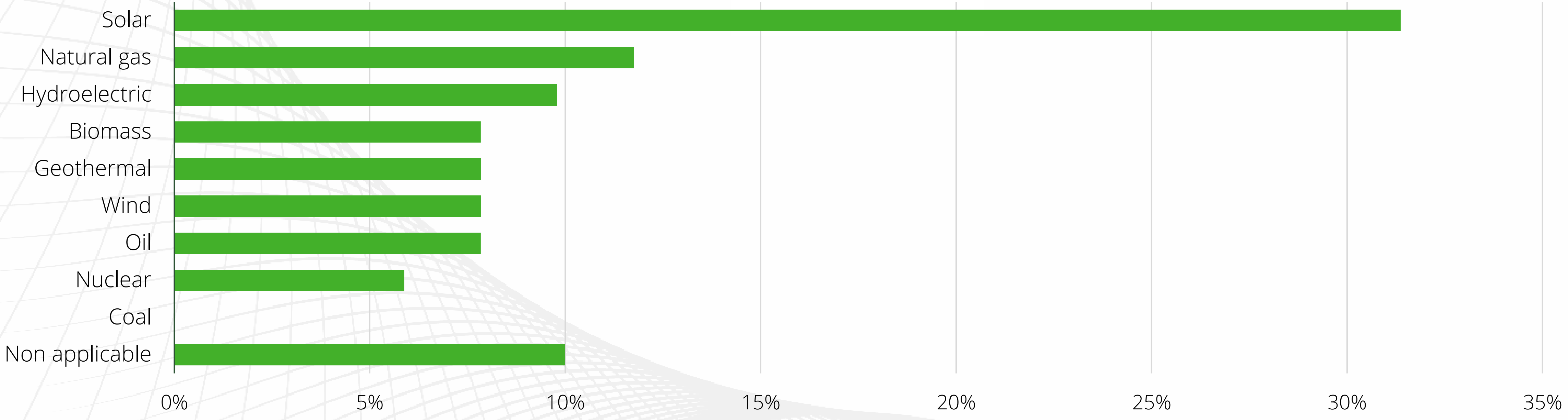
13 ↘ Tests of resistance to climatic risks

Sustainability

Renewable energies have the wind in their sails

Solar energy will be the most sought-after investment by financial institutions over the next 5 years. In general, they plan to invest more in renewable energy (hydro, biomass, geothermal and wind) than in gas, nuclear, oil and coal.

5.4 In which of the following energy categories do you envisage the most finance and investment in the short term (next 5 years)?



"Africa is the fastest growing continent, with many infrastructure and renewable energy projects. Sanlam is working hand in hand with the UN Africa Business Leaders coalition to help supporting the energy transition in the countries where we operate."

Emmanuel Brulé, CEO - Sanlam Pan Africa General Insurance

Sustainability

Climate finance: Removing barriers to investment

Strategic Roundtable AFIS. November 29 2022

Moderator

Laurent de l'Espinay, Senior Manager Sustainibility – Deloitte

Guest of honour

David Kitheka, Head of Investor Relations – KCB Group

- Although it accounts for only 4% of global greenhouse gas emissions, Africa is the region most vulnerable to the effects of climate change and attracts only 3% of global climate finance.
- Due to barriers related to the depth of financial markets, governance, specific characteristics of projects in particular, the private sector plays a marginal role and represents only 14% of total flows in 2019-2020. This roundtable brought together bankers, insurers, members of development finance institutions and government representatives to discuss innovations to increase private climate finance on the continent.

Obstacles to projects: How to improve technical assistance and upstream project preparation?

- The main problem with bankable projects is not the lack of technical expertise but their limited size, which increases risk and reduces profitability.
- African financial institutions must support risk pooling and project scaling up, while strengthening environmental and social controls upstream of all projects.

Financial barriers: What instruments can ensure affordable short- and long-term financing throughout the life cycle of a project?

- Financial instruments exist but are not sufficiently used. By strengthening their commitments to sustainability, African financial institutions will gain credibility to benefit from the support and guarantee of IFIs that play a leading role in the development of climate finance worldwide.
- The inclusion of sustainability criteria for pension funds and insurers operating in Africa can be a major boost to climate finance in Africa.

What are the possible actions that could facilitate further climate financing?

- Many African financial institutions expect regulators to impose clear standards applicable to all in order to avoid distortion of competition.
- Kenya's experience shows that it is possible to anticipate regulations, taking a proactive role and participating in the development of sustainability standards.

Methodology

Methodology

Deloitte and the Africa Financial Industry Summit – AFIS developed this survey to understand the various impacts of the current macroeconomic environment on the African financial industry. Composed of 30 questions covering five themes, the survey, conducted jointly online and through one-on-one interviews with African financial industry leaders, provided relevant information on the current state of the industry.

The survey was sent to banks, insurance companies, microfinance institutions, stock exchanges, fund managers and regulators.

The sample was surveyed using an online survey generated by our partner Qualtrics and based on one-to-one interviews with executives and leaders in the African financial industry.

Responses were collected between October 3 and November 11, 2022.

Contacts

Deloitte Africa

Aristide Ouattara
Financial Industry Leader
Deloitte Francophone Africa
aouattara@deloitte.fr

Aymen Mtimet
Fintech and Payment Services Leader
Deloitte Francophone Africa
amtimet@deloitte.tn

Darren Shipp
Financial Industry Leader
Deloitte Southern Africa
dshipp@deloitte.co.za

Mohamed Ali Jebira
Insurance Industry Leader
Deloitte Francophone Africa
mjebira@deloitte.tn

Sandrine Soppo Priso
T&L Leader for Financial Services
Deloitte Francophone Africa
ssoppopriso@deloitte.com

Siliziwe Mafika
Director – Finance and Performance
Deloitte Southern Africa
smafika@deloitte.co.za

El Mehdi Ghissassi
Banking Industry Leader
Deloitte Francophone Africa
eghissassi@deloitte.com

Elodie Matoko
Financial Industry Community Manager
Deloitte Francophone Africa
ematoko@deloitte.fr

Yasin Masha
Associate Director – Strategy and Business Design
Deloitte Southern Africa
ymasha@deloitte.co.za

Laurent De L'Espinay
Senior Manager Sustainability
Deloitte Francophone Africa
ldelespinay@deloitte.fr

Hamadi Asli
Financial Industry Community Coordinator
Deloitte Francophone Africa
hasli@deloitte.tn

Andronicah Jiyane
FSI Marketing Lead
Deloitte Southern Africa
ajiyane@deloitte.co.za

Africa Financial Industry Summit – Jeune Afrique Media Group

Amir Ben Yahmed

CEO, Jeune Afrique Media Group &
AFIS President
aby@jeuneafrique.com

Ramatoulaye Goudiaby
Director of AFIS
Jeune Afrique Media Group
r.goudiaby@jeuneafrique.com

Julien Wagner
Editorial Director of Events
Jeune Afrique Media Group
j.wagner@jeuneafrique.com

Regis Kamdem

Editorial Consultant

Jeune Afrique Media Group

r.kamdem@jeuneafrique.com

Olivier Nieburg

Editorial Consultant

Jeune Afrique Media Group

o.nieburg@jeuneafrique.com

Stanislas Diouf

Editorial Consultant

Jeune Afrique Media Group

s.diouf@jeuneafrique.com

Jeune Afrique Media Group

jeune afrique

Founded in Tunis in 1960, Jeune Afrique Media Group (JAMG) is a pan-African media group based in Paris. Through publications including Jeune Afrique, The Africa Report and Jeune Afrique Business+, JAMG offers African and international news coverage, as well as analysis on the continent's political and economic issues in English and French. As the leading pan-African press publisher by circulation and readership, the group has also built a leading presence in events through the AFRICA CEO FORUM.

JAMG expanded its events portfolio in 2021 by creating AFIS, the reference platform for the financial industry in Africa. AFIS stimulates dialogue between governments, regulators, and financial industry leaders (banks, insurance companies, mobile money operators, fintechs) on a continent whose growth potential has been hampered by misdirected available funding.

AFIS's objective is to build a robust financial industry that serves the real economy and sustainable development.

AFIS is also actively engaged in contributing to the success of the African Continental Free Trade Area (AfCFTA), which is expected to accelerate the integration and growth of the African financial sector.

The 2022 edition of the AFIS Annual Summit was held in Lomé, Togo, on 28-29 November and was attended by more than 850 Executive Committee members from major financial institutions, Ministers of the Economy and Finance, Central Bank Governors and Regulators.

#1

Pan-African multimedia group for economic and political decision makers

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Expertise

Informing Africa to make better decisions

Innovation

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