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AFIS
AFRICA FINANCIAL INDUSTRY SUMMIT

African Financial Industry Barometer – 2023 Edition

February 2024 – English Version

MAKING AN IMPACT THAT MATTERS since 1845

Summary

Foreword

Foreword

An industry confident and pragmatic in its transformation

Deloitte and the Jeune Afrique Media Group are delighted to unveil **the third edition of the African Financial Industry Barometer.** Presented on the sidelines of the 3rd Africa Financial Industry Summit-AFIS, held on 15 and 16 November 2023 in Lomé, Togo, this survey, conducted in September 2023 through some thirty questions addressed to the leaders of financial institutions, **sheds light on Africa's efforts towards building a world-class financial industry.**

An overwhelming **95% of financial industry leaders are optimistic about the three-year economic outlook** despite increasing macroeconomic uncertainties and tensions in financial markets and the international banking sector. The industry however continues to strengthen its asset-liability management **(ALM)**, risk management (**cybercrime** and security in particular) and **capital management** in response to persistent inflation and the potential for tighter interest rates and regulation. Many players are taking **pragmatic measures** - such as adopting more selective distribution approaches, creating guarantee funds and improving internal capital generation - in some cases to the detriment of financing the real economy.

Up 10 points on the last Barometer, industry leaders perceive their digital maturity has increased, propelled by **open banking/insuring,** which has been the key driver of digital transformation. **Information technology** is meanwhile the investment priority for the majority of respondents **(33%)**, in particular cloud computing, while 31% are investing the most in **human capital**, primarily in e-learning platforms. The industry is also keeping a cautious eye on **artificial intelligence** with **8%** of business **leaders reporting that this technology has been effectively integrated into their processes**.

Foreword

Ambitions still limited by the external environment

Financial performance indicators remain solid despite profitability declines in several sectors. Yet access to capital management instruments remain limited. The struggle for liquidity and refinancing via capital markets persists with **70% of respondents (compared with 56% in the previous Barometer) rating market access and depth as insufficient**, despite an increase in transaction volumes. This problem is particularly noticeable in foreign exchange transactions and fundraising **due to strict regulations.**

Despite Africa's $250bn annual climate finance needs, **investment in green finance remains limited with only 10% of respondents committed to green bond issuance.** The industry will also need to **explore realistic paths towards the zero-carbon objective**, given that only 22% of financial institutions have a clear net zero trajectory.

With 72% convinced that **PAPSS – the Pan-African Payment and Settlement System initiative is a major accelerator of regional integration,** leaders should harness this momentum and accelerative implementation of the African Exchanges Linkage Project (AELP) and African Continental Free Trade Area (AfCFTA) initiatives, whose short-term impact is still too weak. As many as **90%** of respondents meanwhile favour introducing a **harmonised pan-African prudential framework for solvency and liquidity.**

The **African financial industry's perceived attractiveness** has been **severely impacted** by political turmoil in the region and divestments by **major international players over the last five years,** such as Standard Chartered, BNP Paribas and Société Générale. Only **48% of respondents consider the industry more attractive,** compared with 61% in the last Barometer. Nevertheless, international banks scaling back African operations **has benefited a number of local banks**, which have not only increased in size and geographical presence but have reworked their business models **to become true continental champions that can compete on an international scale.**

Aristide Ouattara
Partner, Financial Industry Leader
Deloitte Francophone Africa

Ramatoulaye Goudiaby
Director AFIS
Jeune Afrique Media Group

Strategy & business model

Strategy & business model

Positive outlook despite a challenging year

African financial players remain confident and optimistic despite global and regional political disruptions that have highly impacted their perception of the African financial sector's attractiveness (48% believe the sector is more attractive compared to 61% of respondents in 2022).

Activation of additional levers to respond to inflationary pressure

But the industry remains **vigilant to central banks tightening policy rates and regulations** in response to inflation.

Many are **concentrating on ALM (Asset-Liability Management)** and strengthening capital by implementing specific measures to combat inflationary pressure.

A strong technological ambition that has led to the launch and completion of several digital projects

The continent's financial players are confirming their **technological ambitions** by launching and accelerating several projects. A significant proportion of them have implemented (or almost completed) **projects related to the cloud (33%), internal training** (23%), **e-learning platforms** (31%) and **collaborative work tools** (25%).

A collective effort to transform Africa's financial industry

African financial institutions remain **committed to collaborating** on new business development, risk management and digitalization.

Pan-African initiatives (**PAPSS, AELP, AfCFTA**) and central bank initiatives (**digital currencies**) continue to attract the interest of industry players and are seen as a **powerful catalyst** with an impact on activity.

A very pragmatic approach to sustainability and green finance

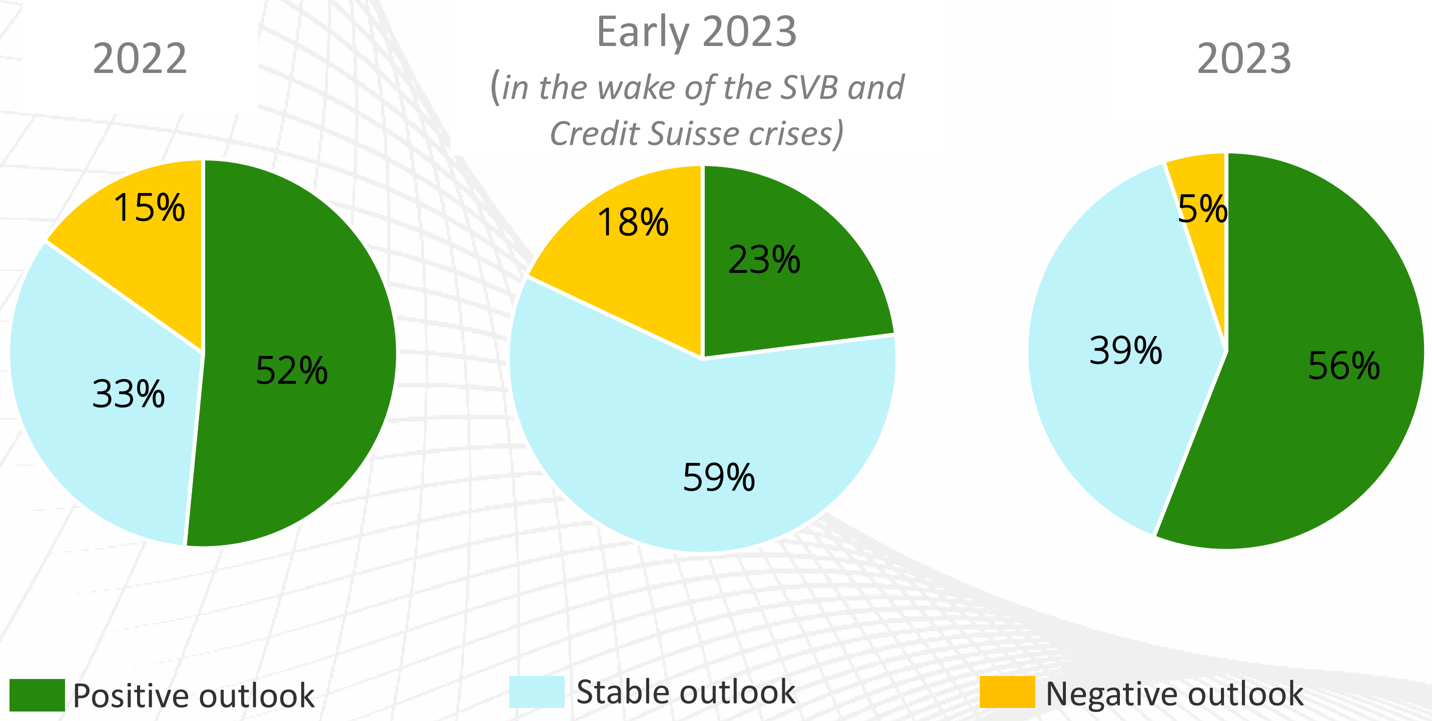
Management of reputational and image risks remains **at the heart of the CSR approach** of African financial institutions. However, more players are starting to develop and deploy net-zero initiatives compared to the previous Barometer.

The **financing of renewable energies**, **energy efficiency** and the **integration of ESG criteria** into the lending policy remain the **main levers** activated by financial institutions **in terms of green finance**.

Strategy & business model

Financial players are increasingly optimistic

1.1 What are your economic prospects for the next three years?



African financial sector players almost unanimously foresee **a positive or stable economic outlook for the next three years.** This comes despite profound changes in the political and economic landscape, and the bankruptcy of three American banks and Credit Suisse creating uncertainty at the beginning of 2023.

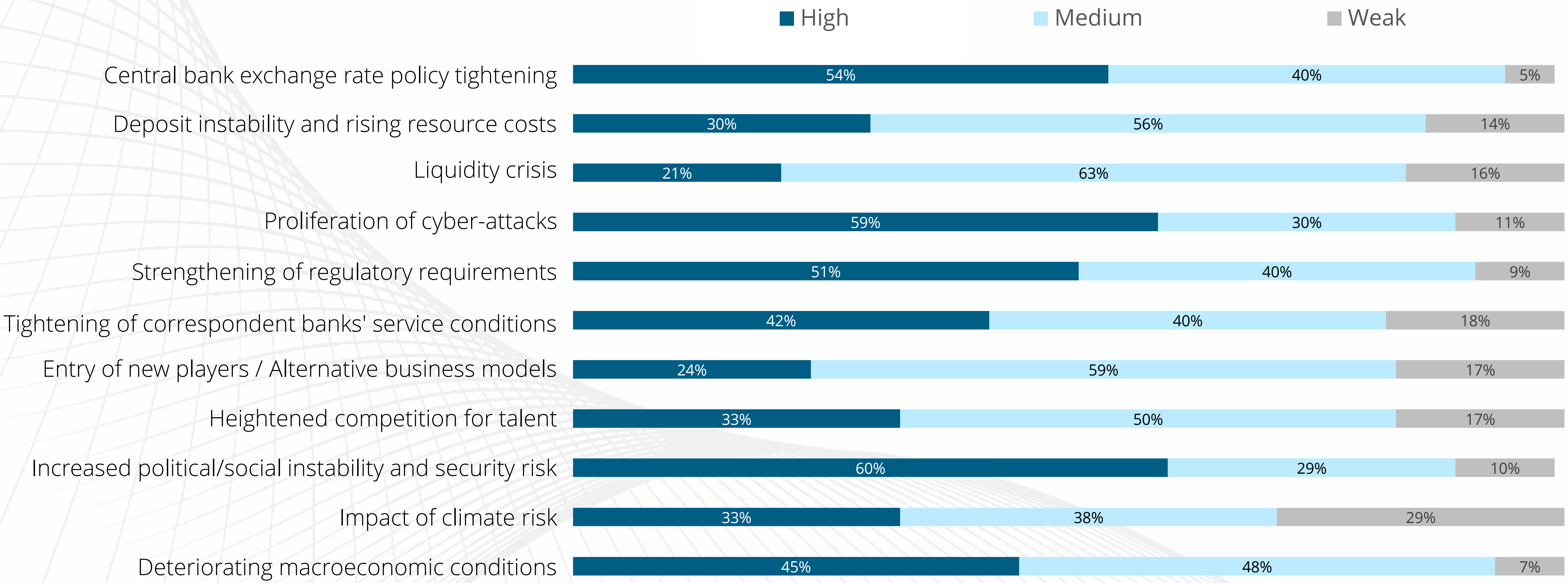
This economic outlook is clearly improving compared to last year, with **less than 5% of respondents saying they are pessimistic *(vs. 15% the previous year),*** thanks in particular to the resilience of African economies in the face of economic shocks. Insurers are more optimistic compared to the previous edition (*80% positive outlook vs. 25% in 2022*).

Strategy & business model

Cybercrime and political instability: Major points of vigilance for actors

As last year, **political instability, security risk and cybercrime** remain among the main concerns of African financial institutions. The industry is also **wary of central banks tightening exchange rate policies and strengthening regulatory requirements**, which are considered high threats by more than 50% of respondents (vs. 39% last year).

1.2 How do you assess the level of threats below in the current economic context?

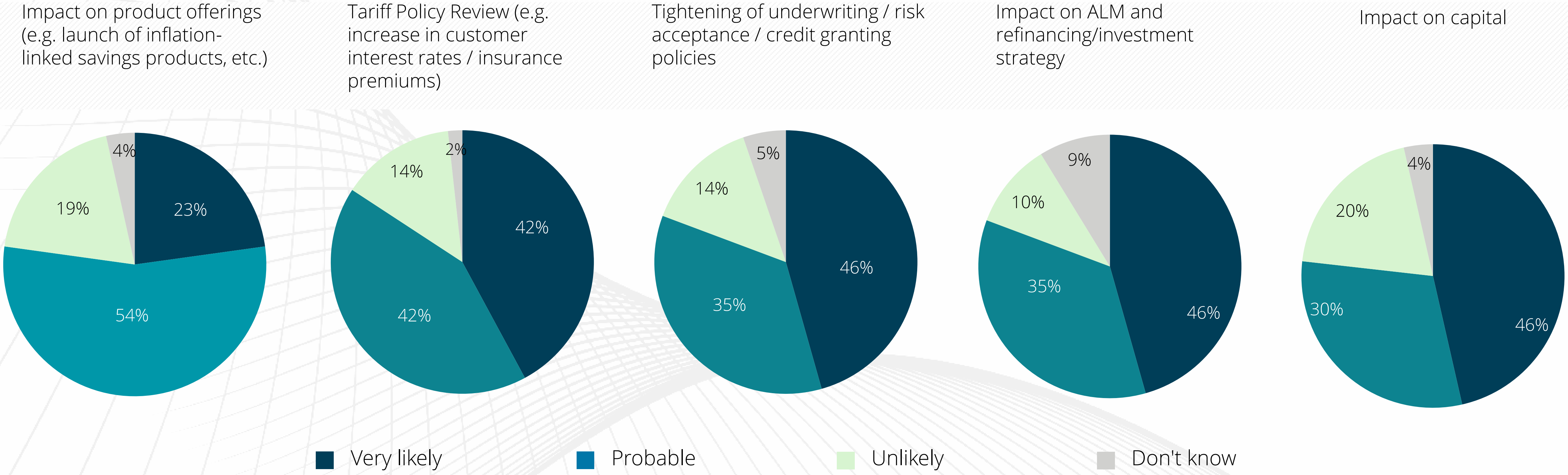


Strategy & business model

The product offering, pricing policy and financial strategy more exposed to the impacts of inflation

Financial players expect **persistent inflation will have a knock-on effect on ALM (Asset-Liability Management) and capital** with **46%** of respondents (vs. **30%** last year) noting an impact on these areas is very likely.

1.3 Due to inflationary pressure and its repercussions (e.g. interest rate hike), what are the anticipated impacts / expected levers of action?



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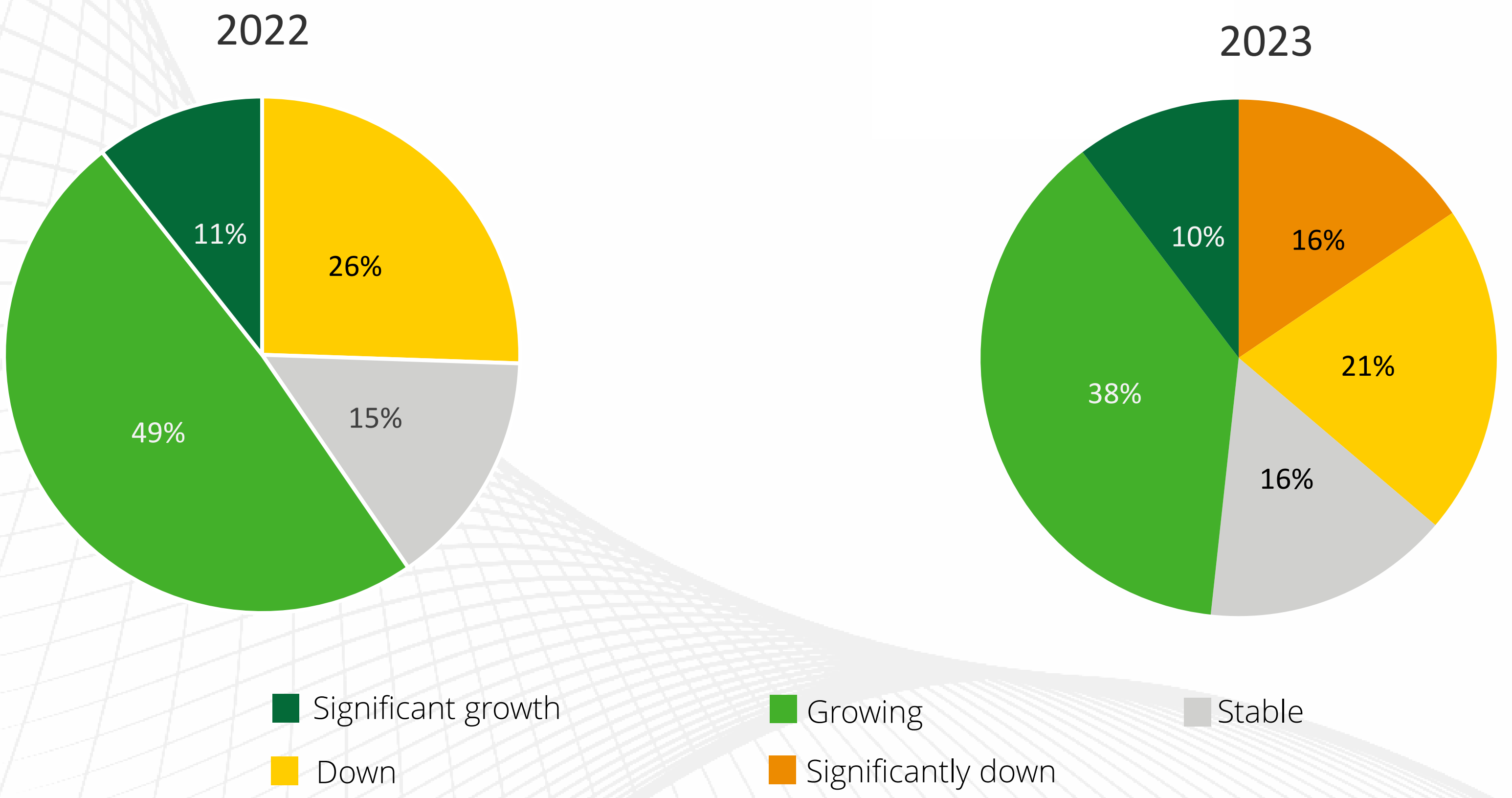
Attractiveness of the financial industry in sharp decline

1.4 How do you assess the evolution of the African financial industry's attractiveness to international partners and investors?



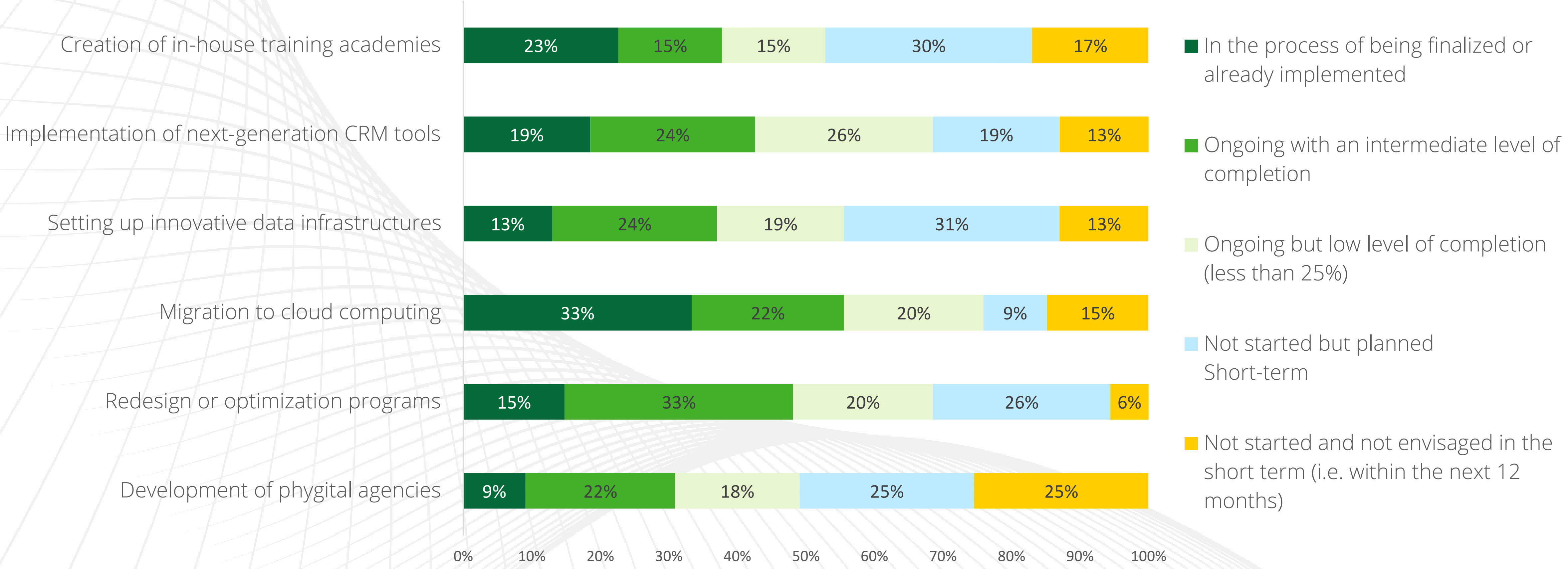
The **perception of the African financial industry's attractiveness has been strongly impacted** by economic and political turmoil in the region, with only 48% of respondents deeming it more attractive, compared to 61% in the last barometer.

Strategy & business model

Information Technology and Human Capital : Priority Investments (1/2)

African financial institutions are committed to digital transformation, customer experience, and developing human capital. The survey reveals **more than 60% of respondents have started work to migrate to the cloud**, and **over 33%** have successfully completed the transition.

1.5 Where are you in the implementation of the internal projects and investments below?

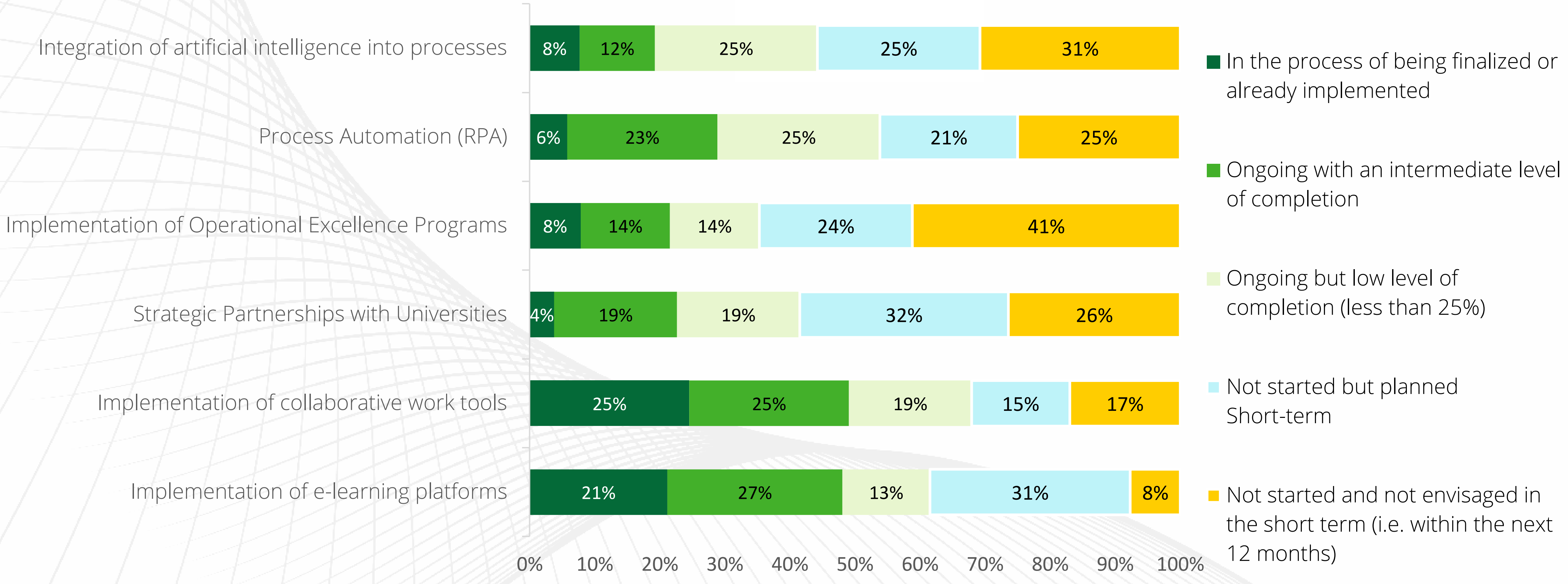


Strategy & business model

Information Technology and Human Capital : Priority Investments (2/2)

The industry is meanwhile implementing **CRM tools, collaborative work platforms, and e-learning.** Almost half of respondents (**48%**) are in the processing of finalising, have already implemented or have ongoing efforts to implement e-learning tools. However, integration of artificial intelligence (AI) remains low.

1.5 How far along are you in implementing the internal projects and investments described below?



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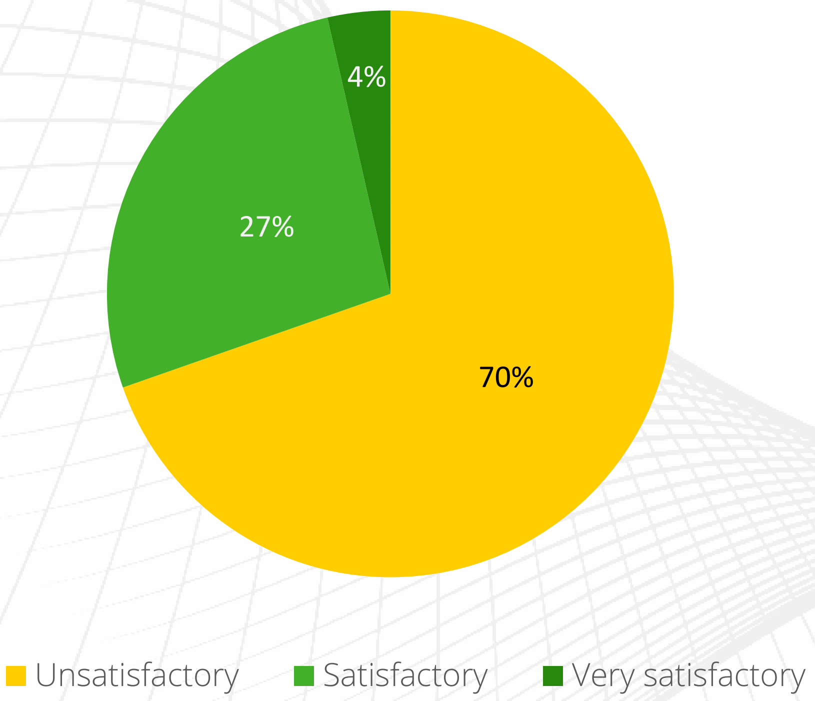
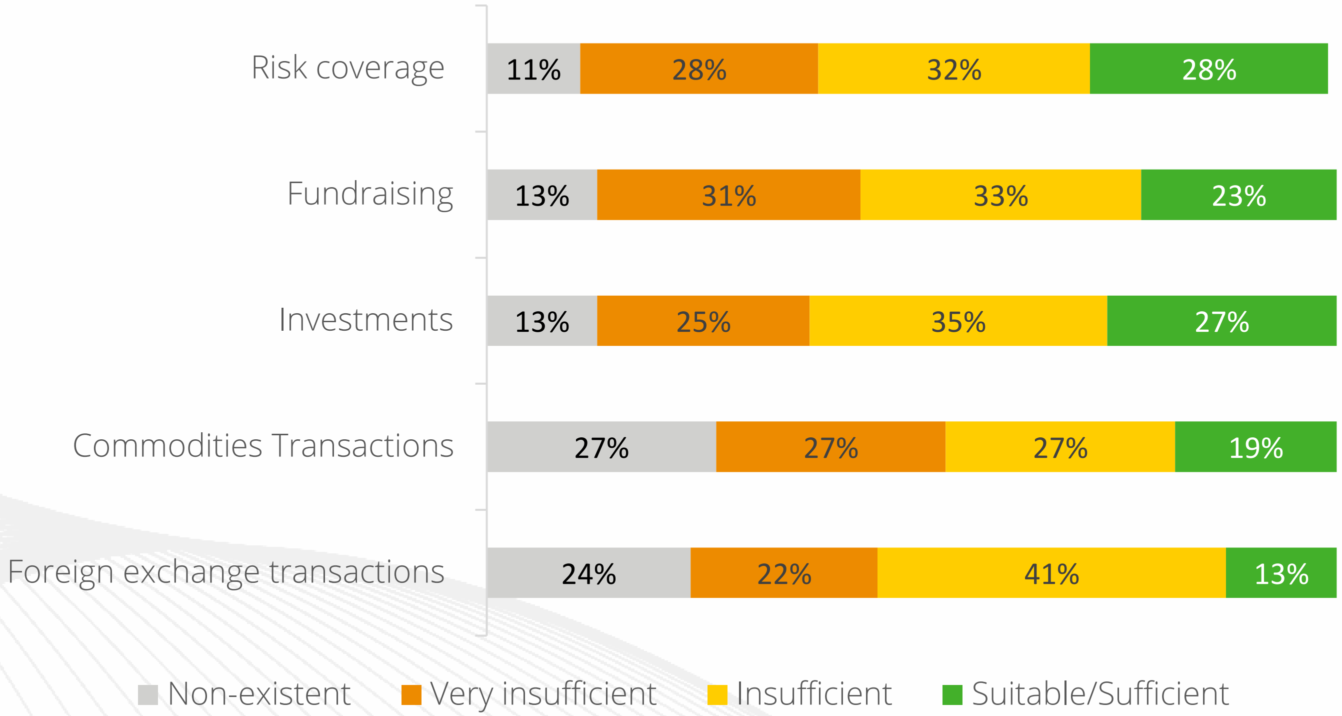
Level of access and depth of capital markets remain insufficient

Despite the increase in transaction volumes, African capital markets still do not offer enough depth and liquidity to meet the needs of financial institutions, with **70% of institutions surveyed saying they are dissatisfied** *(vs. 56% last year)*. This is particularly true for **foreign exchange transactions and commodities transactions due to strict regulations**.

1.6 How do you assess your satisfaction with the depth/liquidity/variety of instruments on the capital market?



1.7 How do you assess your level of access to capital markets for the following purposes?



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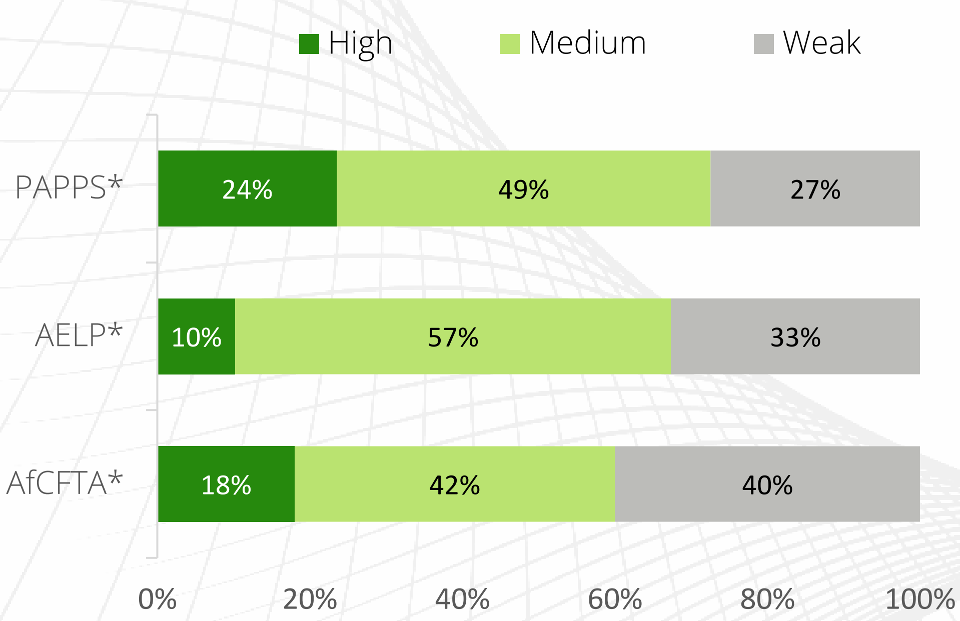
Implementation of financial integration initiatives, source of optimism

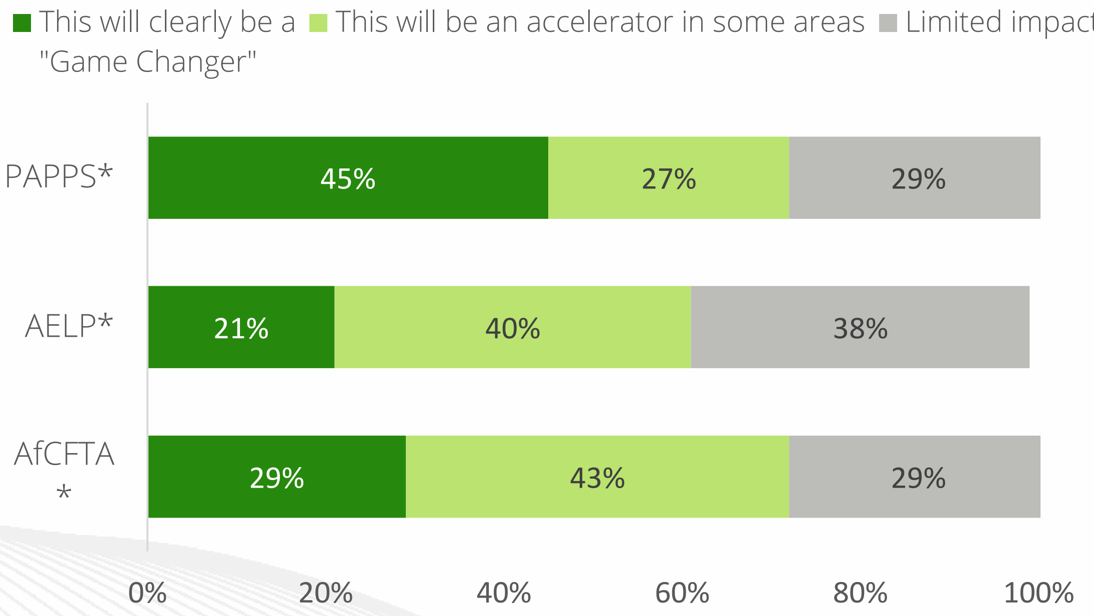
60% of the institutions surveyed say they are **optimistic about the implementation of African financial integration initiatives,** and are positive about their potential impacts on the financial sector. **The Pan-African Payment and Settlement System (PAPSS) stands out as the most impactful initiative**, with 72% of respondents considering that it will at least be an accelerator of regional integration, which shows the attention paid to **payment methods**.

1.8 Pan-African initiatives on economic integration are underway. What is your perception of the following projects?

Short-term implementation (<5 years)



Anticipated impact on your business



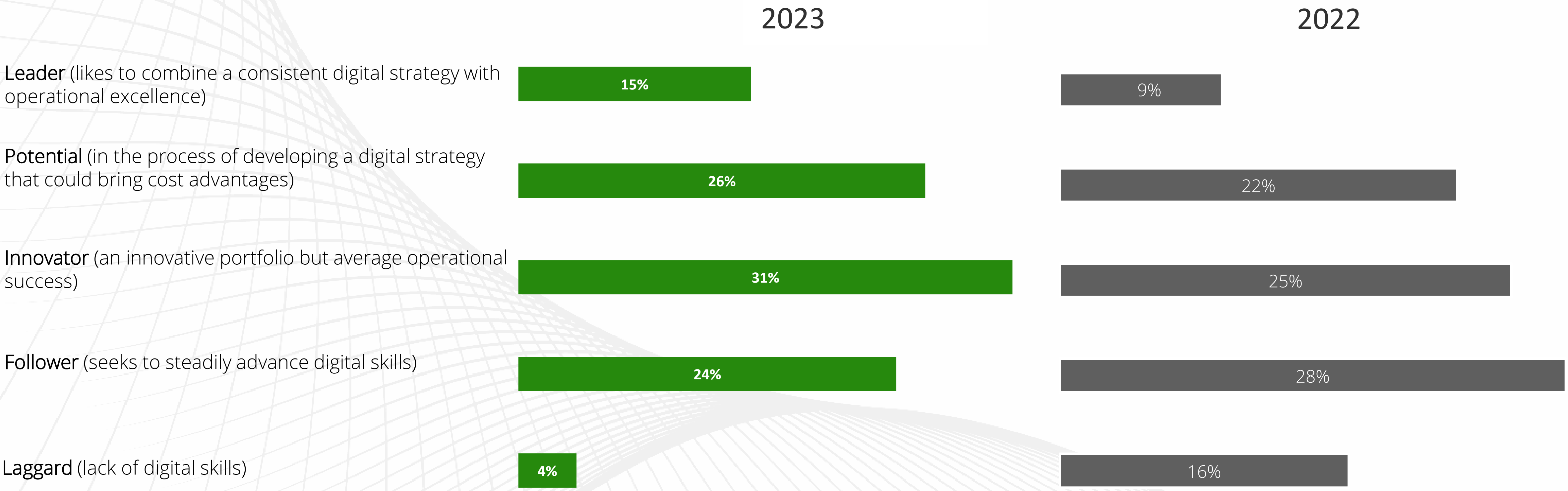
*PAPSS: Pan-African Payment and Settlement System *AELP : Africain Exchanges Linkage Project *AfCFTA: African Continental Free Trade Area

Strategy & business model

Advancing digital maturity

As the industry embarks on more technological projects, financial institutions perceive their **digital maturity has significantly improved**, with **41% of respondents believing that they have a clear digital strategy and have the means to make it a reality** *(vs. **31%** last year)*. Only 4% of **the institutions surveyed say they are lagging behind** in terms of digital skills *(vs. **16%** last year)*.

1.9 How do you assess your digital maturity today?



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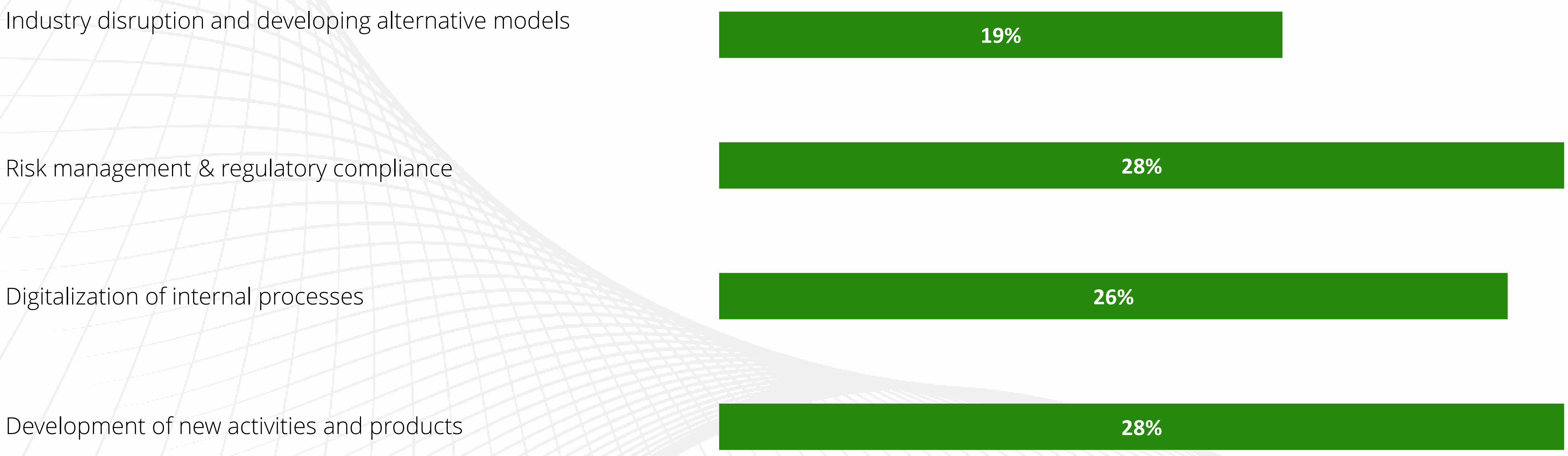
Appetite for partnerships with competitors

Financial institutions are increasingly willing to establish **partnerships with competitors,** particularly in the *development of* **new businesses, risk management and digitalization of internal processes** *(at least 26%),* with a view to strenghtening their capabilties.

1.10 In which priority area have you established (or would you consider forming) partnerships with your competitors in other sectors



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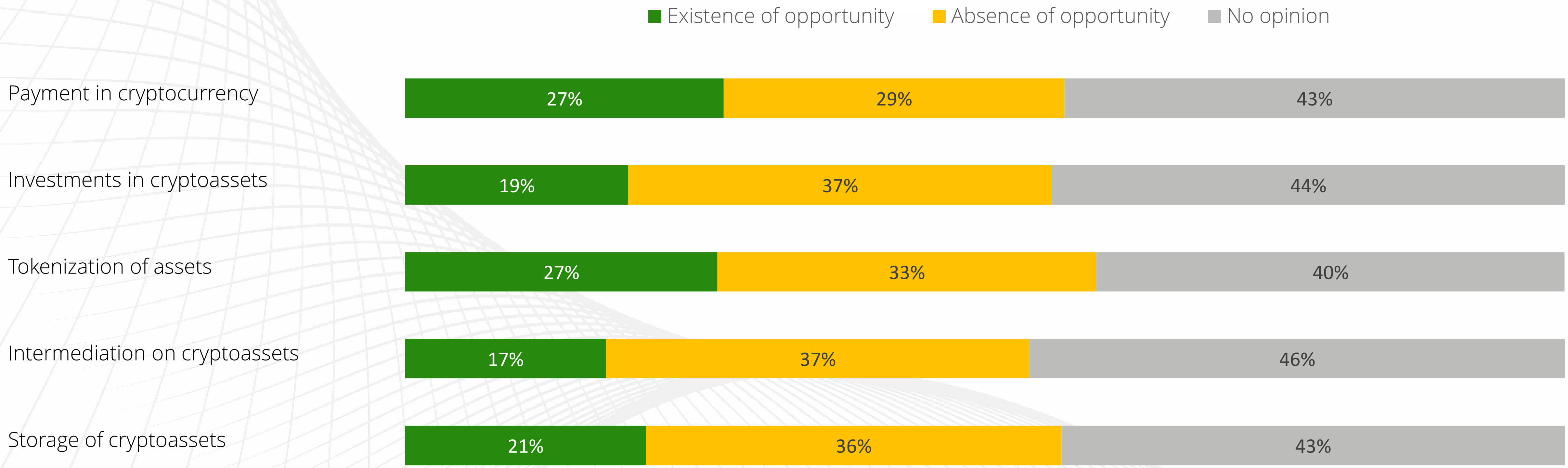
Growing distrust of digital assets

The instability of the cryptocurrency market has made **the majority of African financial institutions wary of cryptoassets** and **decentralized finance**. In fact, only 30% of them see cryptoassets as opportunities, compared to 63% last year. But it should be noted that 40% of respondents have no opinion on the issue.

1.11 What are the opportunities that cryptoassets and decentralized finance (DeFi) bring to your business?



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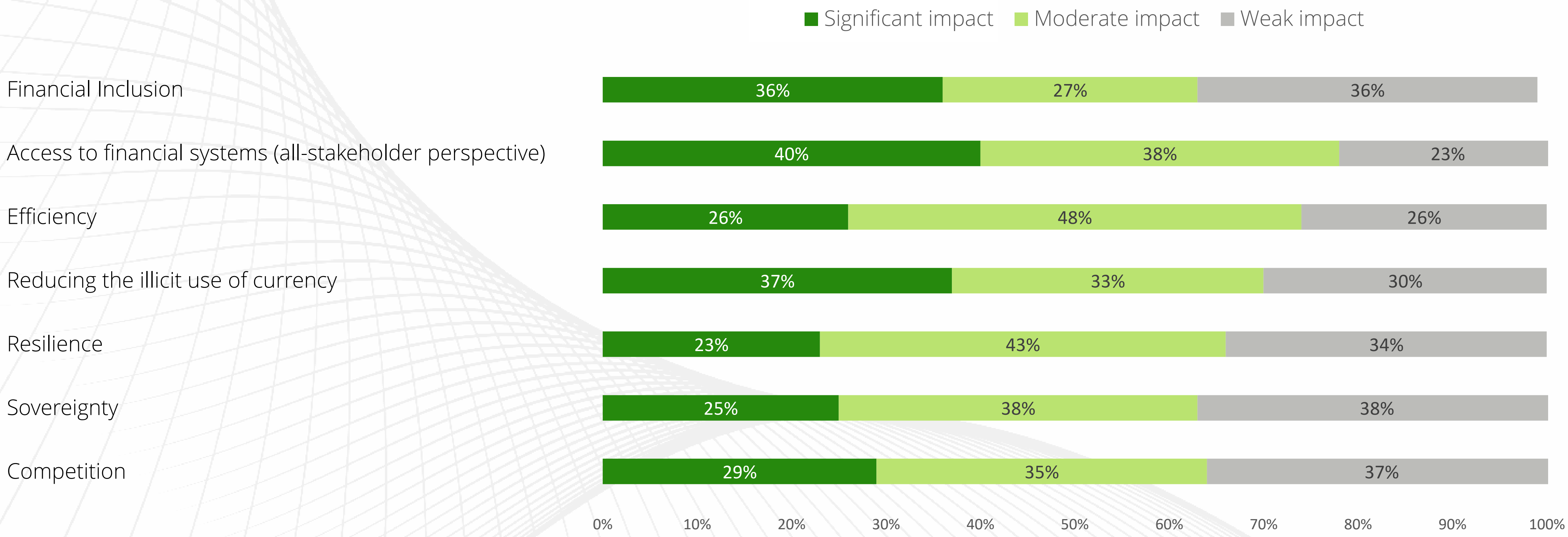
Digital currencies: Vectors for financial inclusion and reduction of illicit use

African central bank digital currencies are viewed favorably by respondents due to their significant or moderate impact on financial **inclusion, reducing illicit use of the currency, and access to financial systems** *(at least **60%** of respondents).* A growing number of players also believe that digital currencies will have a significant impact on the region's **resilience and sovereignty** *(**24% vs. 10%** last year).*

1.12 In your opinion, what are the advantages of digital currencies issued by Central Banks in your market?



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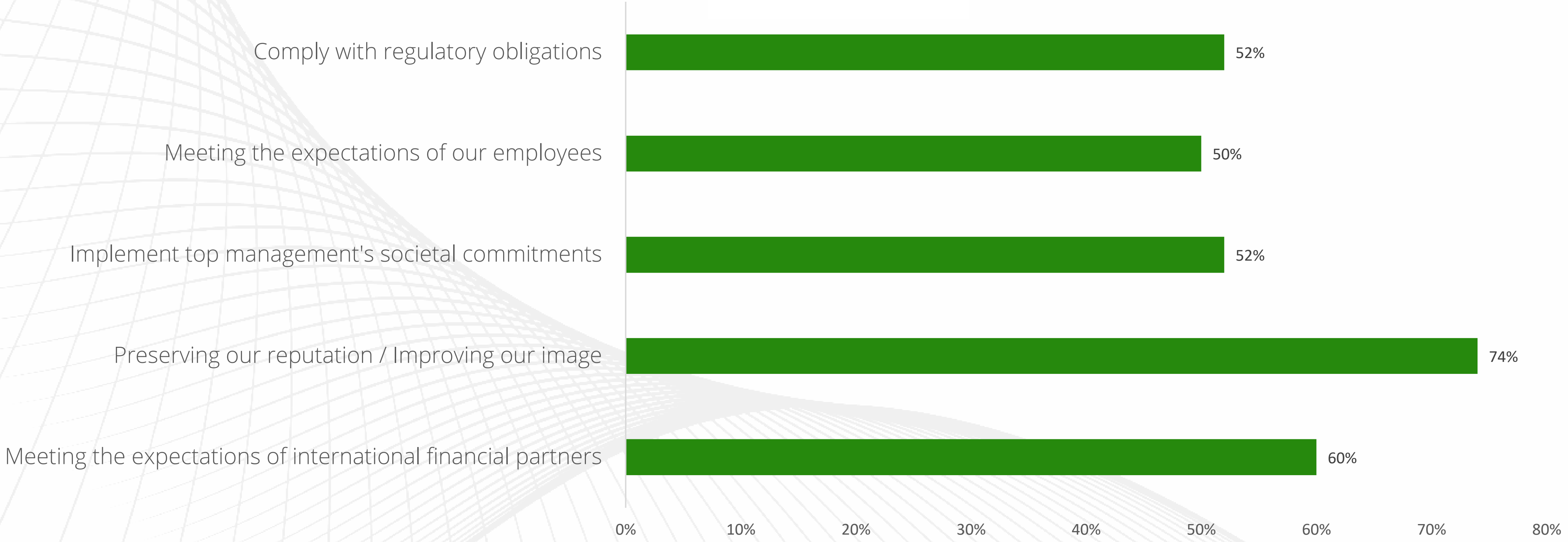
Reputation and image: The top CSR priority

External factors, such as **preserving reputation and meeting expectations of international financial partners**, are the main drivers of social and environmental impact for African financial institutions.

1.13 What are the main drivers of your approach in terms of social and environmental impact?

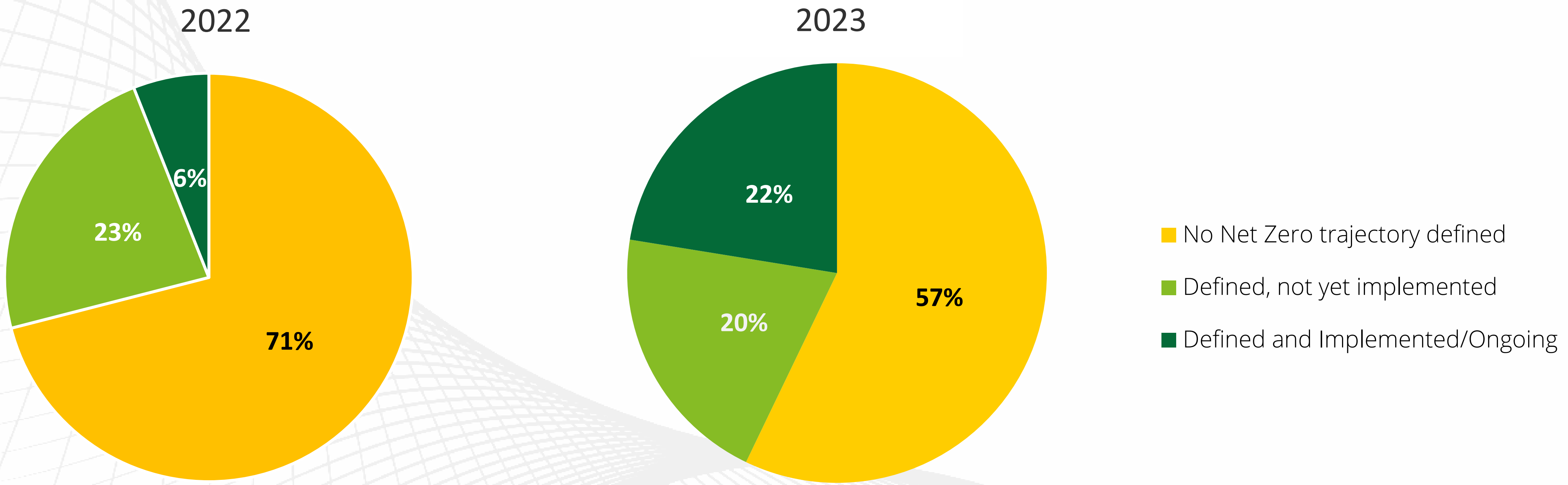


Strategy & business model

Net Zero: Players are gradually taking action

Two notable findings emerge from this year's barometer. More and more players have **implemented a Net Zero trajectory: only 57% have not yet defined a strategy, compared to 71% in the previous period.** There has also been **significant progress at the operational level**, with the proportion of respondents having implemented a strategy increasing from 6% to 22%. However, engagement levels are still not yet aligned with the pressing need for climate action.

1.14 What is your level of progress in developing and deploying a Net Zero initiative?



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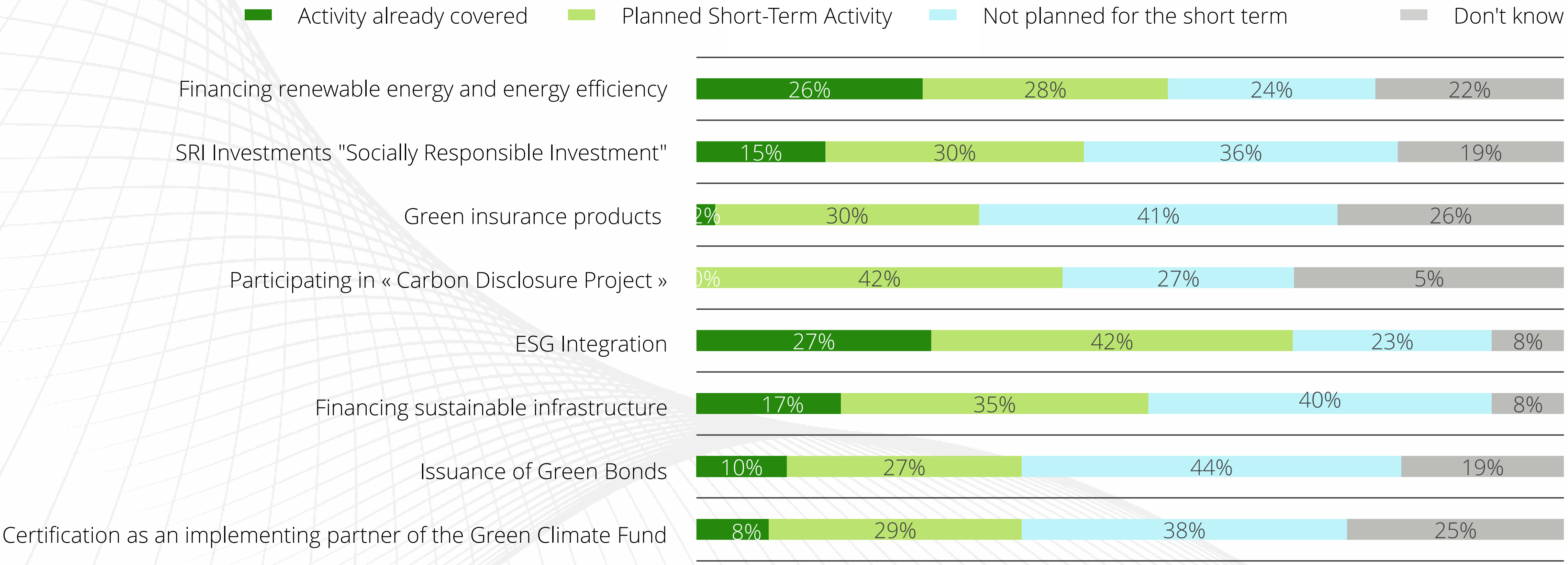
Green finance: Renewable energy financing and ESG integration are on the rise

Renewable energy, energy efficiency and ESG integration represent the largest share of current investments in green/sustainable finance and will continue to evolve in the short term. The appetite for green/sustainable investment is currently low but offers interesting prospects for development. Intentions to launch **green insurance products** are low as 67% have no intent to enter this space. But there is a strong short-term intent to engage in the "**Carbon Disclosure Project**".

1.15 What areas of green/sustainable finance are you currently engaged in (or planning to engage)? (1/2)

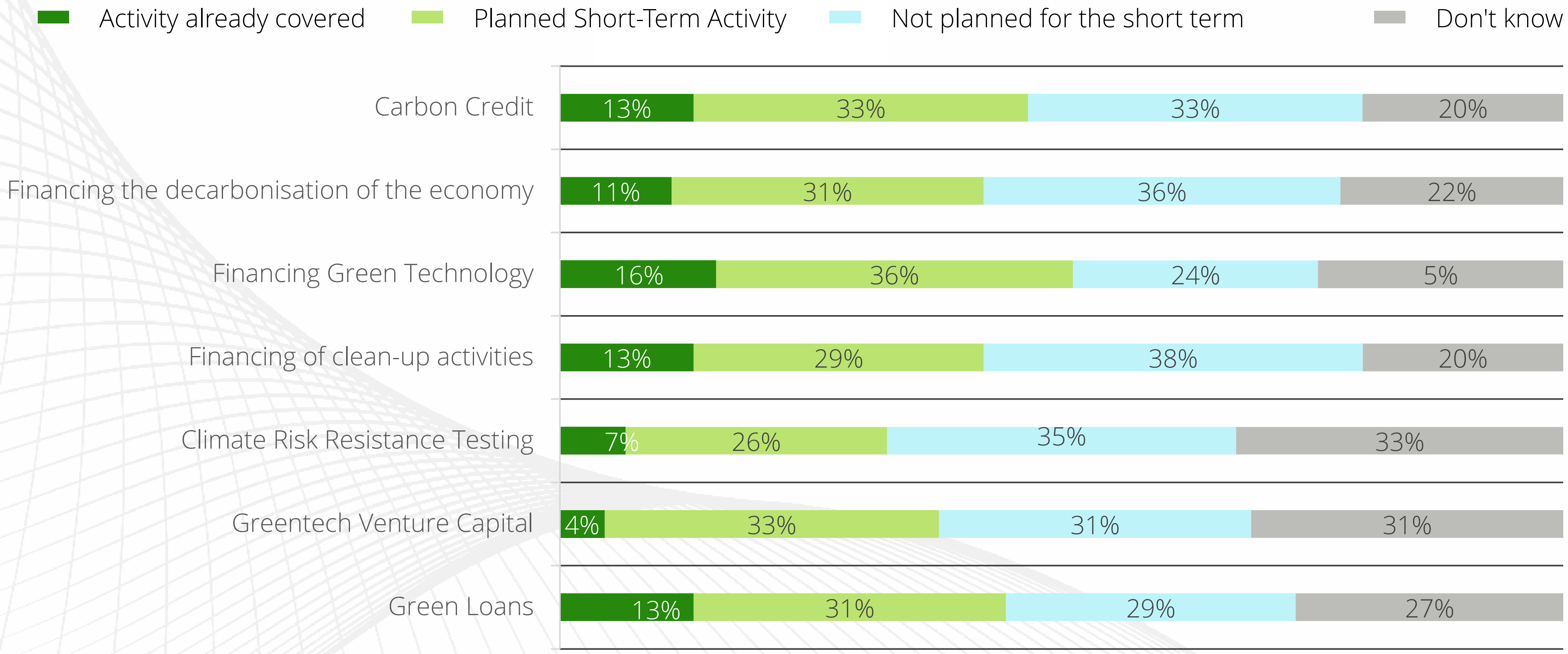


Strategy & business model

Green finance: Renewable energy financing and ESG integration are on the rise

Greentech venture capital show a significant short-term evolution with 42% of respondents planning activity in the area. **Climate Risk Stress Tests** are less attractive with 68% launch uncertainty.

1.15 What areas of green/sustainable finance are you currently engaged in (or planning to engage)? (2/2)



Strategic Workshop

Sophisticated financial products: A door to new financing for Africa?

- African markets face a shortage of sophisticated financial instruments, such as options and derivatives, to meet rising demand for effective risk management and diversified investment opportunities.
- The lack of financial market maturity and infrastructure hinders the development of advanced financial instruments
- Strengthening the roles of regulatory bodies is crucial for fostering the growth of an efficient capital market throughout the continent

Moderator

Sidy Diakhoumpa
Senior Manager
Mazars

Distinguished guests

Adji Sokhna Mbaye
Managing Director,
Titrisation, BOAD

Francis Malige
Managing Director, Head
of Financial Institutions
Group, EBRD

Caline Djiowa,
Director, SolversX S.A.

Bruce Mulenga
Manager – Market transactions,
SEC Zambia

Brook Taye
Deputy managing Director,
AFG Holding

How to eliminate obstacles that limit the development of new structured or sophisticated financial products by local players?

- Professional bodies and associations should collaborate to improve access to infrastructure supporting efficient capital markets in Africa
- Improving the availability of quality data is essential to raise awareness among all stakeholders in the African market.
- Development and implementation of collaborative academic-private sector educational programs on sophisticated financial products through education and capacity-building initiatives.
- Conception of financial instruments (products) with risk-offsetting mechanisms to enhance investors trust in the African capital market
- Matching financial products with local market specificities and economic conditions, legal frameworks, and cultural factors

What legal and regulatory framework should be put in place in order to secure all local stakeholders?

- Collaboration between public and private stakeholders is crucial to bridge the understanding gap and build capabilities for regulating new financial products and market dynamics. Regulators can benefit from engaging with industry participants to grasp market intricacies, product sophistication and risk factors.
- Regulatory bodies in African countries need to take measures to raise awareness and enhance sensitivity in financial markets.
- Stronger political intent shall materialize in efficient actions to develop the sector. As an example, tax regimes related to financial products can be reassessed and made more favorable to attract foreign investments to the market.

How can we support the ecosystem and regional players to achieve a good understanding and to adopt these products?

- Taking decisive actions to develop a substantial number of attractive companies capable of issuing securities and bonds
- Supporting SMEs in enhancing the quality of financial information is vital. This includes aiding them in maintaining transparency, upholding good corporate governance, and showcasing strong financial performance
- Establishing international partnerships is essential to identify benchmarking key practices, fostering the development of more competitive and innovative financial products.
- Building international partnerships for knowledge and resource exchange is imperative for African institutions. Collaborating with global experts, particularly from regions with advanced financial markets, facilitates learning and adoption of cutting-edge financial practices.

Key recommendations

- Promotion of local champions through financial education and capacity building withing the region.
- Harmonization of regulatory measures across the region will facilitate the interaction of all stakeholders of the region.
- The reconsideration of tax regimes related to financial products through regulatory bodies is vital in attracting foreign investments to the market.
- Education and capacity building of all stakeholders in the African market are crucial elements for understanding the capital market and its products.
- Establishing the required infrastructure is essential for the development of sophisticated financial products in an efficient capital market
- Matching financial products with local market specificities, economic conditions, legal frameworks, and cultural factors is imperative

Strategy & business model

Voices of leaders

Marufatu Abiola BAWUAH
CEO UBA Africa

"The changing dynamics of Africa's financial industry present opportunities for African banks. "

While challenges exist, the changing dynamics in the African financial industry present opportunities for African banks like UBA to emerge as influential players. Our success is rested on our agility, innovation, strategic partnerships, and a proactive approach to navigating the evolving financial landscape.

Considering the current economic and financial uncertainties, UBA's strong risk management have been crucial in maximising opportunities amidst challenging environments. These involve assessing and mitigating geopolitical, economic, and regulatory risks to ensure sustainable growth.

With its growth ambitions, UBA has in the short term, positioned itself as a key player in shaping the future of the African financial industry through the strategic expansion of its operations, both in terms of geographical presence and service offerings, to capitalise on emerging opportunities within the continent.

In addition, we have further enhanced our Innovation and Digital plays which includes developing cutting-edge banking solutions, enhancing online and mobile banking services, and incorporating fintech partnerships across our country of operations and future frontiers.

Presently we operate in 20 African countries with presence in USA, France, London and New York- with even more growth potential. UBA has become a systemic important financial institution, regional leader and Africa's truly global bank, fostering economic development and financial inclusion.

Delphine TRAORÉ
CEO General Insurance
Sanlam Alianz

"A thriving insurance sector can foster an environment conducive to infrastructure development. "

The African insurance sector still has a vast opportunity for growth given where it stands today compared to its global peers. Its growth is also powered by the growth of the local economies which are forecast to grow on average better than the global economy. So, despite persistent inflation and geo-political challenges it's no surprise that we remain optimistic about the sector. A thriving insurance sector can close the protection gap, help reduce the cost of debt and foster a favorable environment for infrastructure development, which in turn can boost insurance uptake on the continent.

Strategy & business model

Voices of leaders

Paul Harry AITHNARD
Managing director of ECOBANK Ivory Coast and Regional Executive Director for the WAEMU zone

"We believe that integrating artificial intelligence (AI) into our operating model is a crucial step in staying at the forefront of innovation and improving the overall experience for our customers."

Ecobank made significant investments in technology in 2022, with a strong emphasis on digitalization in its operations. We are convinced that the integration of artificial intelligence (AI) into our operations is a crucial step to stay at the forefront of innovation and enhance the overall experience for our clients.
In our digital interactions, we plan to leverage AI to optimize the customer experience across our platforms, such as our website, mobile applications, and online service platforms. This will enable increased personalization and responsiveness, providing tailored recommendations adapted to the specific financial needs of each client. AI can also play a crucial role in improving security by detecting and preventing fraudulent activities, thereby ensuring our clients' trust in our products.

AI will also assist us in massively automating repetitive processes, accelerating banking operations and reducing processing times. This will allow our teams to focus on tasks with higher added value, reinforcing our operational efficiency.
In summary, the integration of AI into our operations at Ecobank will significantly enhance the experience we aim to provide to our clients, offering security, efficiency, and personalization. We firmly believe that this innovative approach will offer our customers "a better way" to bank, providing practical, accessible, reliable, and superior-quality services.

Winston REID
CEO Alvin Technologies

"We are witnessing the emergence of a new generation of financial products, made possible by the establishment of stronger financial infrastructure across Africa."

We are seeing the advent of a new wave of products that have only recently become possible thanks to open finance infrastructures being better established across Africa.
The first applications of AI in the open finance era were on credit scoring, chatbots and scaled fraud mitigation monitoring. Meanwhile, most digital banking offerings have been à-la-carte-based, where customers are given a menu of products to navigate on their own in their mobile banking apps.
Embedded fintech firms like Alvin Technologies, however, are at the forefront of reigning in the next chapter of open finance in Africa in the form of automated in-app personalization and making it significantly easier (and faster) for banks to deliver "super app" capabilities in their apps to help their customers achieve their short and long-term goals with them. This will result in more customers being digitally supported to pay down debt, access a wider array of in-app services and discover specific products by their bank that are relevant to their unique situation and goals, all without needing to visit a physical branch.

This trend will only proliferate as more customers demand more convenient, proactive support by their bank to help them achieve their goals. The banks best positioned to acquire market share this year will be those who acknowledge this growing trend and invest accordingly.

Strategy & business model

Voices of leaders

Oulimata NDIAYE DIASSE
Director UMOA Titres

"The difficulties in accessing liquidity in the financial market during 2023 have further highlighted the lack of depth in the financial market, the lack of dynamism in the interbank and secondary markets in certain segments and the low diversification of the investor base"

In 2023, on the sovereign bond segment, transaction coverage rates fell by almost 40 bps on average, while issue exit costs rose by almost 200 bps. All of this is taking place against a backdrop of increasing financing requirements for EU Member States, which are engaged in major development programs.

Difficulties in accessing liquidity on the financial market during 2023 for the various market players, although linked to the global macro-economic context, have further highlighted the lack of depth of the financial market, the lack of dynamism of the interbank and secondary markets in certain segments and the poor diversification of the investor base.

For the past 10 years, UMOA Securities has been helping sovereign issuers to finance their issues on the regional market on the best possible terms and has been actively working to develop the regional financial market by strengthening the bond segment. Enhancing market efficiency, making the primary and secondary markets more dynamic and diversifying the investor base are the institution's main priorities for the coming years, in the service of the financing and development of our economies.

Kadidiatou FADIKA-COULIBALY
Director Hudson & Cie

"Reforms in the financial markets concerning the interoperability of payment systems, securities lending and borrowing products, the revision of taxation and the implementation of regulations on real estate companies are long overdue in order to boost our markets."

The depth of capital markets is constrained by the ability to mobilize national and regional savings. Reforms in financial markets, encompassing the interoperability of payment systems, securities lending and borrowing products, a review of taxation, and the implementation of real estate regulations, are long overdue to enhance the dynamism of our markets.
In 2023, liquidity experienced a substantial impact due to the escalating requirements of regional governments. These governments no longer had access to international markets to fund their budgets, contributing to over 20% of the total amounts raised in the markets. By 2022, countries in sub-Saharan Africa had collectively raised more than USD 6 billion. In 2023, they turned towards local and regional markets, which, unfortunately, were incapable of meeting this demand. This situation resulted in an exacerbated crowding-out effect for businesses, coupled with a notable increase in interest rates.

In its role as Treasury Securities Specialist, Hudson & Cie, a Management and Brokerage Company, effectively assisted regional governments in securing liquidity throughout 2023, and this support will persist into 2024. Our services were also extended to companies for financing and refinancing in local currency. Nevertheless, the identified liquidity sources were concentrated in short and medium-term maturities ranging from 3 months to 7 years. We anticipate that 2024 will align with the trends of 2023, and we remain committed to collaborating with our clients to devise suitable structuring solutions.

Strategy & business model

Voices of leaders

Felix AMENOUNVE
CEO Regional Securities Exchanges

"Africa's emissions are totally insufficient to support the continent's climate transition. This situation of the continent deserves attention, especially since it is widely documented that Africa is rich in untapped renewable energy with the proven potential to become a world leader in this field."

Africa is lagging behind when it comes to sustainable investment. The continent needs USD 300 billion a year to meet the climate challenge, but receives only 12% of this amount, revealing an enormous untapped potential. In view of this, governments, their agencies and the private sector are being urged to issue sustainable bonds on a massive scale, given the potential that emerges from their Nationally Determined Contributions (NDCs). Investors, for their part, are being encouraged to take up these instruments and equip themselves to be impact investors, sensitive to greenium.

However, sustainable, inclusive and balanced development also requires attention to be paid to other sectors in addition to the traditional ones (agriculture, biodiversity, energy, etc.), notably education, health and gender equality.

All these initiatives should be accompanied by decisive measures, including: (i) introducing various incentives to boost sustainable investment; (ii) taking urgent steps to become more active on the global carbon credit market; (iii) strengthening reporting and transparency rules for issuers; (iv) raising awareness among companies and investors.

Jonathan KOUASSI
Head of Sustainable Finance
SFG Sub-Saharan Africa
Société Générale

"To drive the growth of the green bond market, solutions are being considered such as strengthening regulatory frameworks, developing local green finance capacities, managing green projects, and establishing international partnerships for technical and financial support."

The green bond market in Africa, which is crucial for financing the energy transition, is expanding but is facing major challenges.

The main barriers are (i) the lack of infrastructure or projects, underlying necessary to support green bond issuance, (ii) capital market regulatory constraints that need to be adapted to facilitate issuance and limited access to finance, particularly for SMEs, which face stringent conditions and higher collateral demands for their green projects.

To stimulate growth in this market, solutions are being considered such as strengthening regulatory frameworks, developing local green finance capacity and managing green projects, and establishing international partnerships for technical and financial support. Not to mention the fiscal leverage of our Member States with the introduction of economic incentives which can play a crucial role in encouraging players to engage in sustainable and environmentally friendly projects.

Against this backdrop, Société Générale in Africa, with its recognized expertise in structured finance and financial markets, is ideally positioned to contribute significantly to this development. Thanks to its capabilities in financial management and intermediation, as well as its experience in financing projects with a high environmental and social impact, Société Générale can help overcome the challenges and promote the sustainable growth of green investments in Africa.

Voices of leaders

Ouns LEMSEFFER
Partner and Co-Head of Francophone Africa
Clifford Chance

"We are fortunate to have an extremely sophisticated legal and institutional regime in Francophone Africa that attracts a number of local and international investors. Although the number of transactions is not yet significant, it has increased significantly in recent years thanks to the efforts of regulators, arrangers and investors (local, regional and international)."

CLIFFORD CHANCE

We are privileged to have an exceptionally sophisticated legal and institutional framework in French-speaking Africa, which serves as a magnet for both local and international investors. Although the volume of transactions may not yet be deemed substantial, there has been a noteworthy upswing in recent years, owing to the concerted efforts of regulatory authorities, arrangers, and investors hailing from local, regional, and international spheres. Over the last three months, we successfully concluded three major securitisation deals: one in Morocco focused on Non-Performing Loans (NPLs), another in Côte d'Ivoire under the PEPT programme, and a third in Senegal involving Sonatel.

Looking back to 2013, Morocco underwent a comprehensive review of its securitisation framework, aligning it with international best practices. This overhaul introduced several key features, including a dedicated regime for NPL securitisations, sukuk issuances, securitisations backed by real estate assets, guarantee funds (synthetic securitisation), and debt funds.

By incorporating elements from the most effective foreign legislations, Morocco has underscored its commitment to arming itself with a financing tool that not only complements traditional funding methods but is also inherently secure. This development significantly benefits companies, investors, and the regional financial system, positioning Morocco as a key hub for securitisation advancements in Africa. The Moroccan Fonds de Placements Collectifs en Titrisation (FPCT) could serve as a model for regional deployment.

In March 2021, we inaugurated the first groundbreaking African guarantee fund designed to bolster SMEs within its industrial ecosystem—an initiative spearheaded by the OCP Group. Central to this scheme is the "Damane Tamayouz Fund," a guarantee fund that enhances eligible suppliers' access to financing for their operational cycles within OCP Group. Structured as a Fonds de Placement Collectif en Titrisation (FPCT), the fund is entirely subscribed by OCP, with the initial beneficiary being Finéa, a financing organization under the umbrella of Caisse de Dépôt et de Gestion (CDG), specializing in SME financing.

This marks the first securitisation operation in Africa explicitly designed to mitigate credit risk, presenting a replicable structure that could be seamlessly extended to other parts of the region.

Strategy & business model

Voices of leaders

Chris MAURICE
CEO Yellow Card

"Stablecoins are transforming the way banking, payments, and finance operate. In a decade's time, the process of international transfers through several intermediary banks could become obsolete."

Yellow Card is the largest and only licensed stablecoin on/off ramp on the African continent. We make it easy and possible for companies of all sizes to make international payments, manage their treasury, and access hard currency liquidity.

What is important regarding crypto assets is to understand their functioning and differences as well as the risks associated. Maybe this is why AFIS Barometer highlighted a high number of respondents who don't have an opinion on crypto assets.

Indeed, it is important to separate USD stablecoins from the broader "crypto" industry.

Businesses across Africa are using stablecoins every day to make international payments, manage their treasury, and hedge against inflation. Yellow Card works with banks, financial institutions, manufacturers, importers, exporters, etc. every day who use stablecoins as a core component of their business because it makes these things possible, convenient, and affordable in a way they have never been before.

The reality is that stablecoins will change the way that all of banking, payments, and finance works. You will not be making international wires through multiple intermediary banks in 10 years. Now is the best time to get educated on the space, as you don't want to fall behind and miss the wave of innovation. You can visit academy.yellowcard.io to start on that educational journey, for beginners through to advanced knowledge.

Strategy & business model

Voices of leaders

UBUNTU TRIBE

Mamadou Kwidjim TOURÉ
Founder & CEO
Ubuntu Tribe

"Blockchain is here to stay and there is an urgent need for the financial industry to take a leap of faith and take a leadership role given the massive transformation it could bring in terms of liquidity, efficiency and wider reach to the hitherto excluded population."

My first reaction would be to say that there is no surprise to see a decreasing sentiment on crypto assets in general among African Finance Industry leaders. It is in line with current market downside of those assets financial performance. In bull markets sentiments is high. Similarly, sentiments are low in bear markets. We are currently in a bear market.
On the other hand, one can assume from such statistics that less than one out three respondents is skeptical about crypto assets while 40% have a neutral opinion. Therefore, there is hope.
This leads to 3 major conclusions in my opinion.

The first conclusion/recommendation would be not to throw the baby with the bath water. When the internet bubble burst in early 2000s a similar sentiment about internet could be observed globally. Did that mean that internet as a whole was to be dropped as a technology? Of course not. The reality is to understand the importance and the relevance of blockchain technology and the revolution it brings in assets, information and transactions authentication. Blockchain is here to stay, and it is urgent for the finance industry to take a leap of faith and take a leadership role considering the massive transformation that it could bring in terms of liquidity, efficiency and outreach to the broader population hitherto excluded. Ubuntu strive is setting up Ubuntu Academy to help increase awareness among African population and decision makers access entry level and advanced training modules on blockchain and artificial intelligence.

There is still confusion among finance leaders in understanding the difference between crypto currencies and tokenization of real-life assets. For instance Ubuntu Tribe tokenizes physical Gold and allows users to own digital certificates of gold ownership (GIFT Gold International Fungible Token) available to purchase from mobile phones as savings instruments to be purchased from as low as 10 cents of a dollar. Such tokens are easily transferable to other mobile users while the gold (underlying asset backing the token) is stored in safe regulated vaults in reputable location around the world. Customers can redeem their token in exchange receiving the physical gold at any given time. The price of the token is pegged to the price of international gold market. Similar approach can be applicable to real estate, natural resources, carbon credit other commodities, or even companies shares and bonds once tokenized. The above assets are not crypto currencies but rather tokenization of assets allowing fractionalized ownership by the broader spectrum of the population from the comfort of their mobile phone and therefore enhanced financial inclusion. The performance of tokenized assets is uncorrelated to the performance of cryptocurrencies for obvious reasons.

HSBC, BCG estimate the market size of tokenized assets to reach $20 Trillion in the next 6 years. Blackrock, Fidelity and other leading finance and strategy firm have embarked on full on adoption of blockchain and assets tokenization. Africa has a major role to play as the continent could use tokenization to unlock its $100 trillion estimated value of natural resources to compensate for its $2.7 trillion GDP and unlock significant amount of wealth that could ensure shared prosperity for the current and coming generations. This is why we (Ubuntu Tribe) have developed a Tokenization As A Service (TAAS) unit dedicated to help companies and financial institutions tokenize key strategic assets to facilitate their fund raising and help increase assets liquidity and accessibility for their investors and stakeholders community.

Governance, Risk Management and Regulatory Framework

Governance, Risk Management and Regulatory Framework

Slowdown in the adoption of governance best practices

The barometer shows **a regression in the establishment of specific committees** within boards of directors, **a decrease in the number of independent members** and a **decline in progress towards gender parity** on boards. These results run counter to the trend observed in recent years, marked by a strengthening of governance within African companies.

Cyber risk and risk of non-compliance are top concerns

For the third year in a row, **cyber risk is the number one vulnerability** for executives, followed by the risk of regulatory non-compliance. The latter is becoming increasingly important in view of the constantly changing regulations in the sector. Institutions are required to comply more or less quickly according to regulators' timetables.

Tighter risk management to preserve profitability and solvency

Banks have been prudent amid heightened regional and global uncertainty and inflationary pressures, which has helped **stabilise their Non-Performing Loans (NPLs).** Many have **reinforced solvency ratios** through **improved internal capital generation** to withstand potential future losses.

Progress on capital and liquidity management

Risk mitigation instruments are slowly gaining traction, namely **creation of guarantee funds and the development of shared databases.** Conversely, risk transfer mechanisms such as **bad banks (public and** private) and **securitization are lacking,** despite high risks of quality deterioration to industry portfolios.

Industry recognises regulatory efforts but expects further improvements

While **the industry** appreciates regulators' efforts in implementing traditional regulations, it **is, however, calling for significant improvements through the establishment of emerging standards on topics such as cybersecurity and digital financial services.**

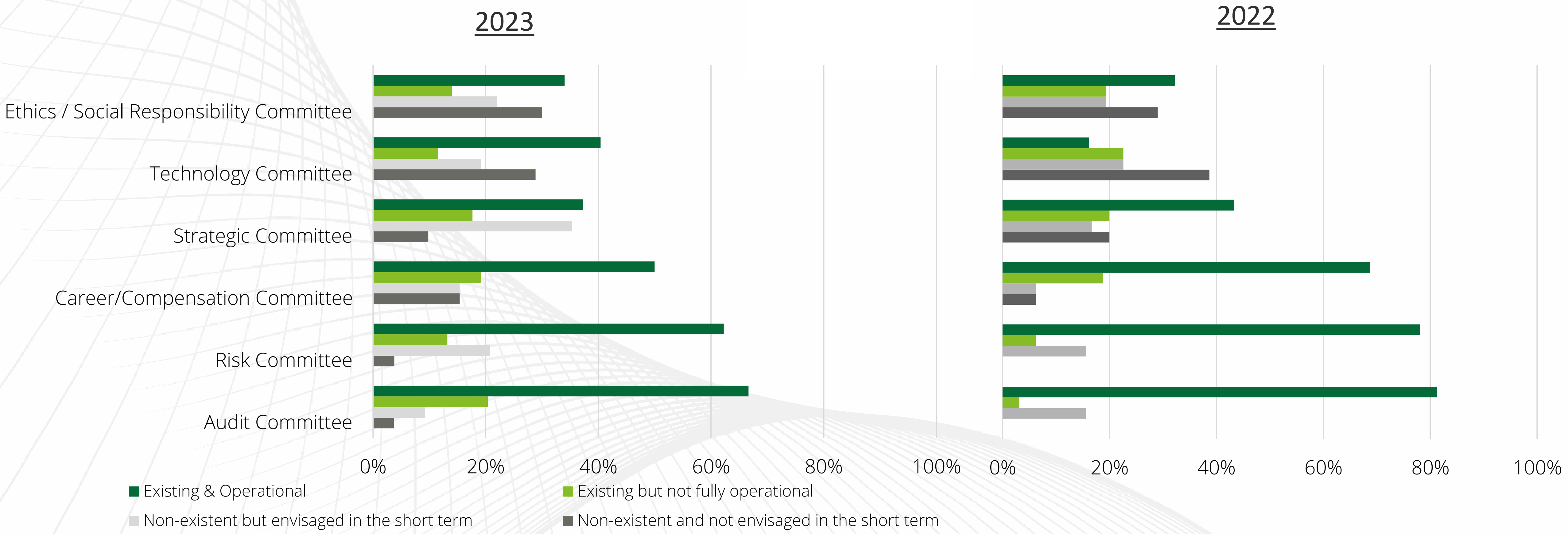
The introduction of pan-African frameworks such as **a harmonised prudential framework on solvency and liquidity is strongly encouraged by financial institutions**.

Governance, Risk Management and Regulatory Framework

Regression in the establishment of specific committees within the boards of directors

The establishment of specific committees within the Board of Directors, an essential aspect of strengthening governance, marks a step back in 2023. This result runs counter to the trend towards tighter regulatory requirements and international standards in corporate governance.

2.1 What specific committees have been set up (or are planned) within your Board of Directors/Management Board?

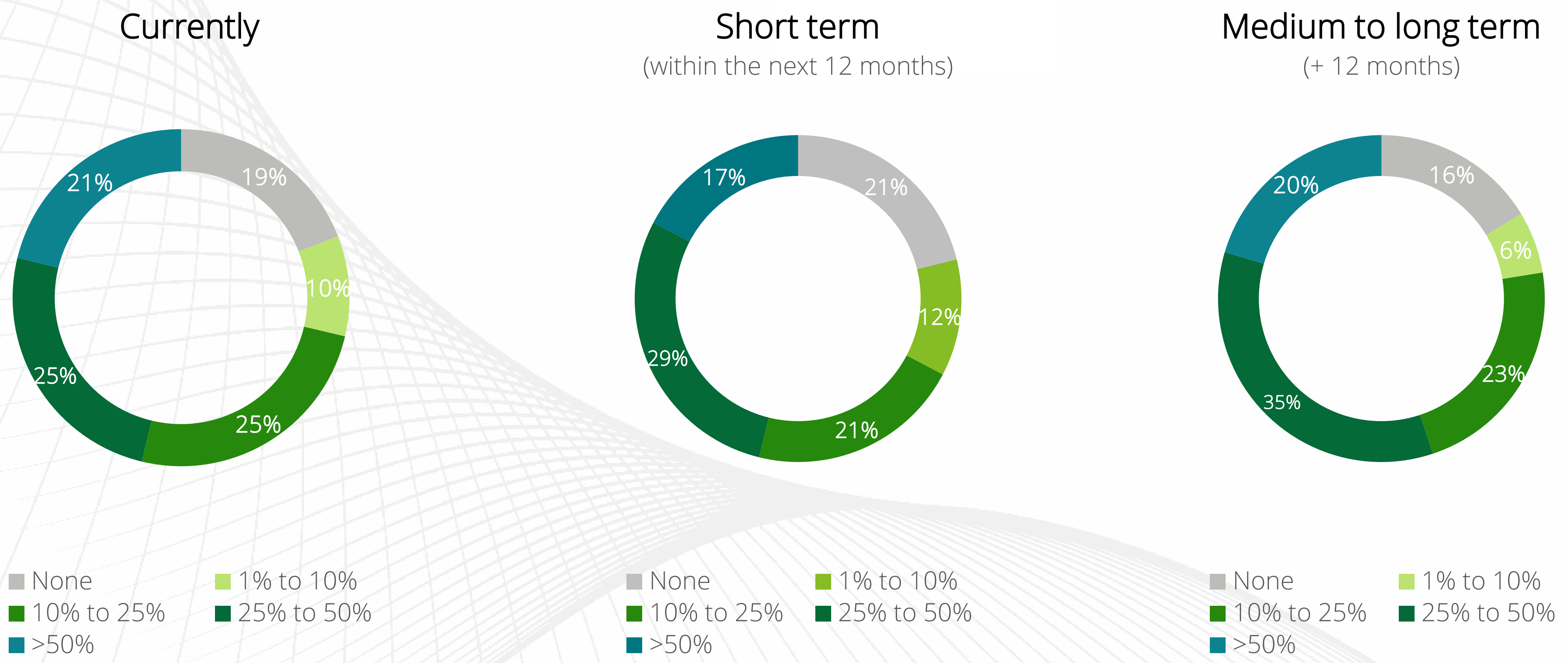


Governance, Risk Management and Regulatory Framework

Decline in the number of independent board members

Last year, 53% of respondents planned to have at least 25% independent directors on their boards in the medium to long term, compared to 35% this year. However, the share of boards without independent directors remains unchanged from last year. In the short term, planning for the use of independent directors has dropped: **21% of industry players consider this to be no longer a systematic need (compared to 0% in 2022).**

2.2.a What is the current and planned percentage of independent directors on your Board of Directors/Executive Board?



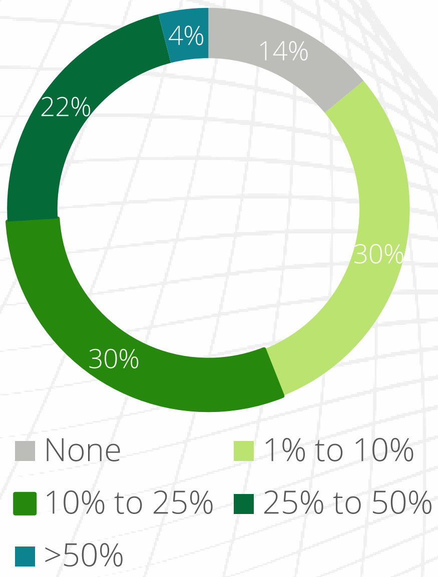
Governance, Risk Management and Regulatory Framework

Efforts towards gender parity must be maintained

In 2023, more financial institutions (44%) report having less than 10% of women on their Boards of Directors/Executive Boards, compared to 35% in 2022.. This deterioration, although confirmed in the short term, would be reversed in the medium/long term, with **nearly 60% of institutions confirming that they want to exceed the threshold of 25% of women on their boards**.

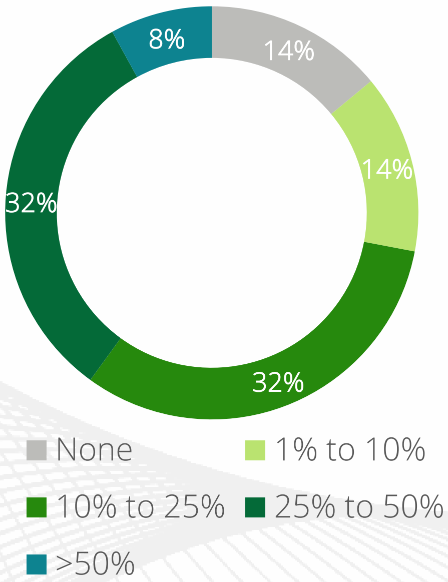
2.2.b What is the current and planned percentage of **women on your Board** of Directors/Executive Board?

Currently



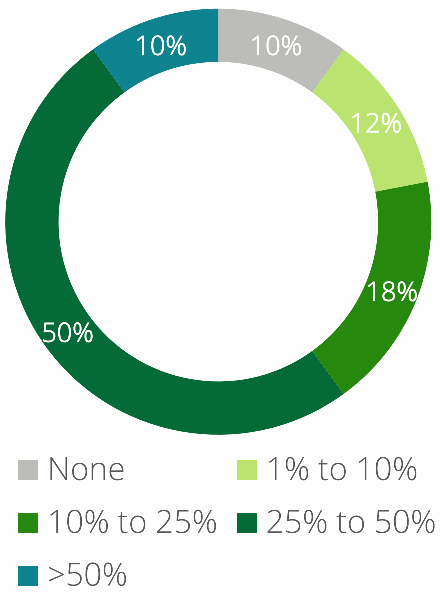
Short term

(within the next 12 months)



Medium to long term

(+ 12 months)

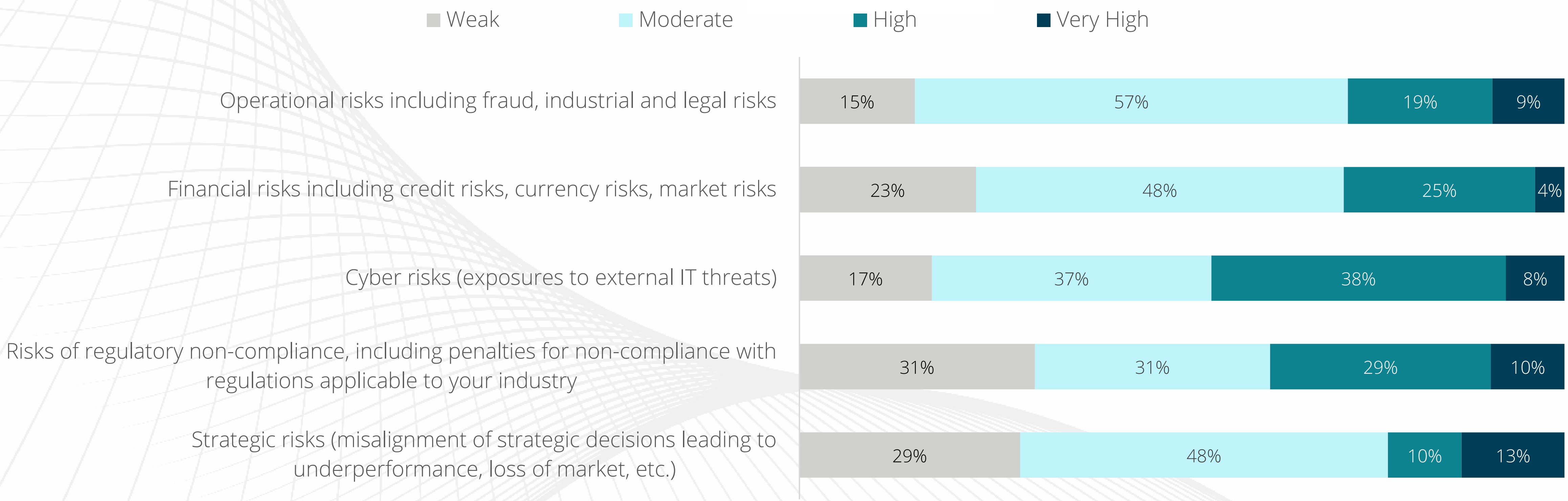


Governance, Risk Management and Regulatory Framework

Cyber risk and non-compliance risk, top concerns for financial institution executives

Cyber risks, for the third consecutive year, is the primary threat for Africa's financial executives. **The risk of regulatory non-compliance** is also viewed high risk by many respondents in view of the constantly changing regulations in the sector. Institutions are required to comply more or less quickly according to regulators' timetables.

2.3 What is your level of exposure (before taking into account the mitigation measures you have put in place) to the following risks?

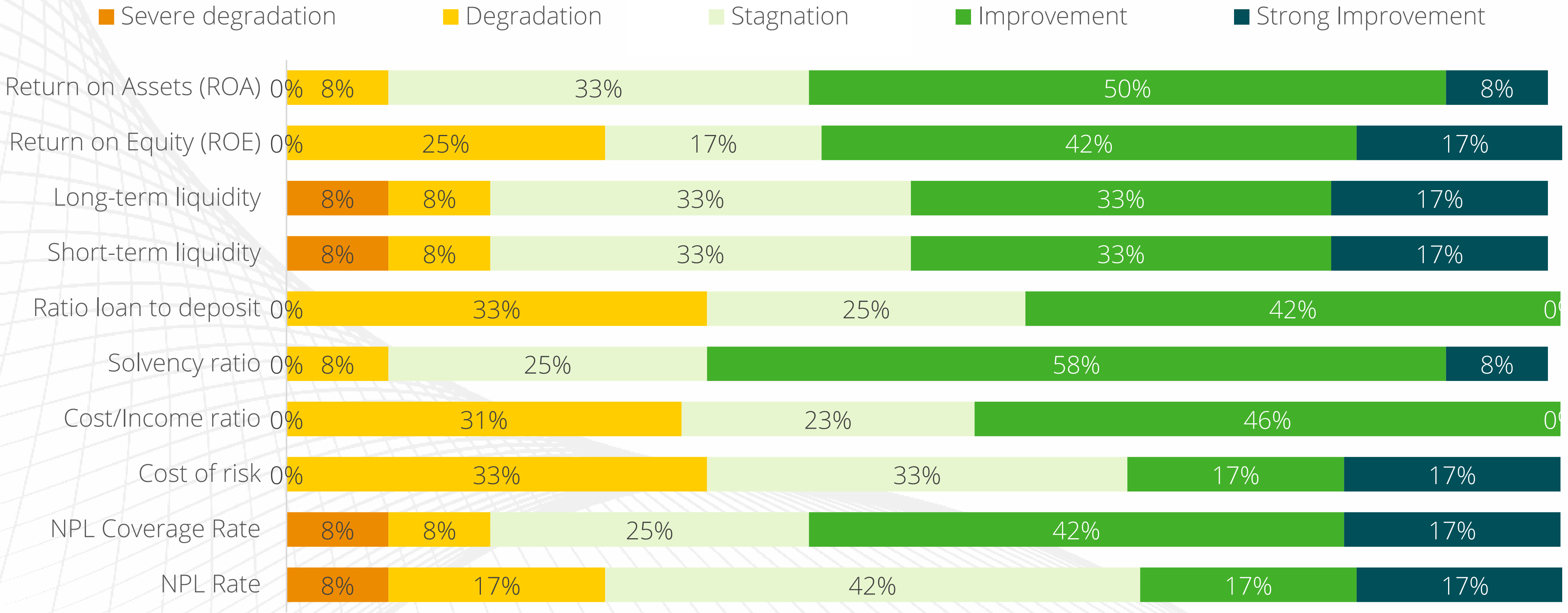


Governance, Risk Management and Regulatory Framework

Risk management: The key to banks' resilience

In the face of regional and global uncertainties as well as inflationary pressures, banks have adopted a conservative approach that has led to a stabilization of the level of NPLs and an improvement in the level of their coverage. This, combined with **a strengthening of solvency ratios thanks to better internal capital generation, demonstrates the banks' ability to better withstand losses.**

2.4.a Over the past year, what has been the evolution of the following elements in relation to your profitability, solvency or liquidity?

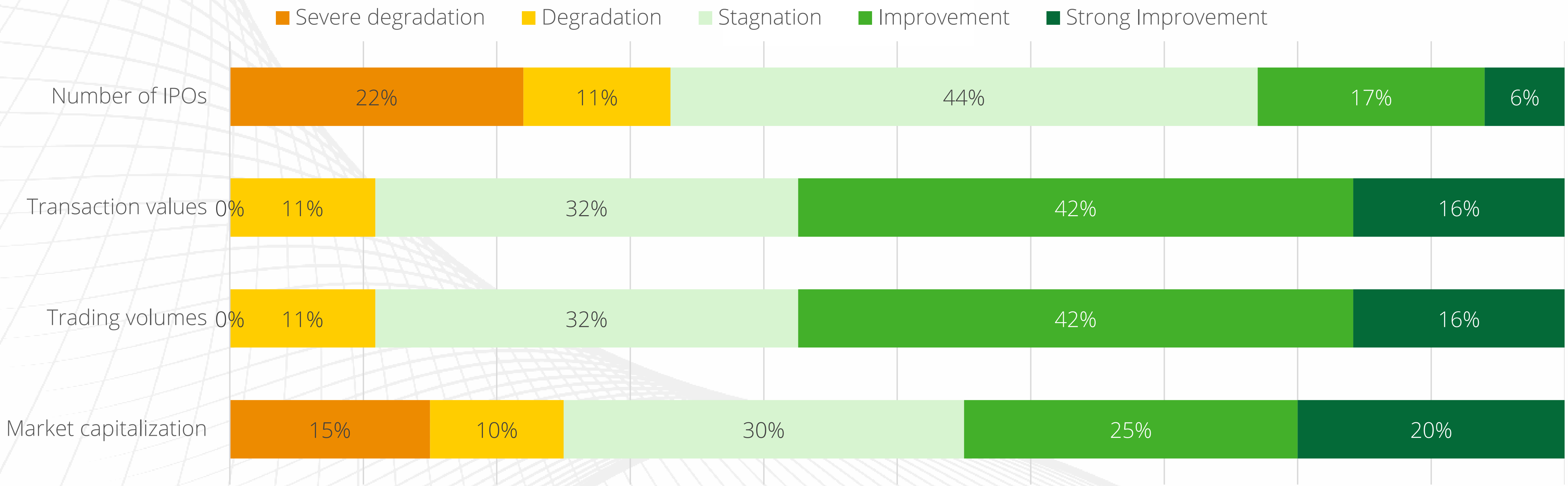


Governance, Risk Management and Regulatory Framework

Stagnation of IPOs and growth in volumes in the bond market

The financial market is driven by the bond market with a timid use of equity markets, as evidenced by the **marginal number of new IPOs**, <u>contrary to what respondents say</u>. In the wake of this, **market capitalizations have stagnated despite increased momentum in terms of volume**. Despite the increase in financing needs to support the continent's economic development, the mechanisms available on the financial market remain underexploited in relation to their potential.

2.4.b Over the past year, what has been the evolution of the following elements in relation to your profitability, solvency or liquidity?

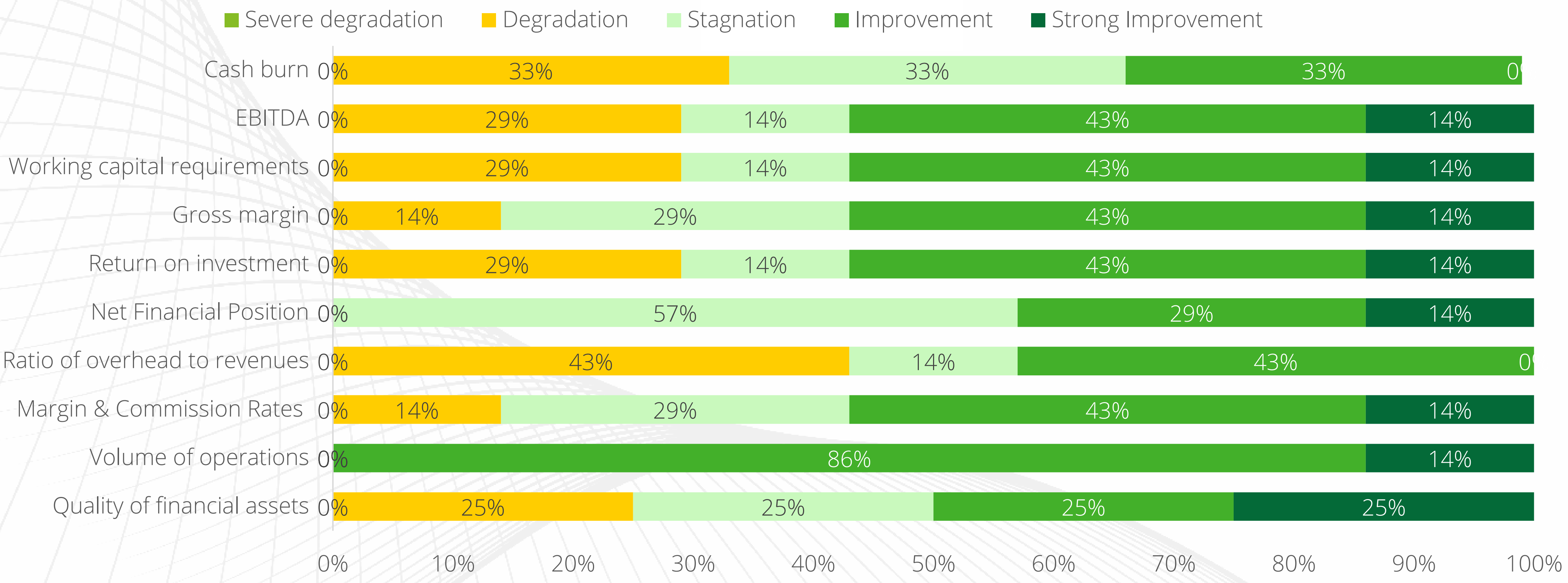


Governance, Risk Management and Regulatory Framework

Fintechs: An increase in activity, but profitability that is slow to take off

The development of digital financial services is marked by a **significant improvement in transaction volumes,** allowing them to earn more commissions. Some players are showing deteriorating profitability, and are also reporting significant cash flow requirements to support their growth.

2.4.c Over the past year, what has been the evolution of the following elements in relation to your profitability, solvency or liquidity

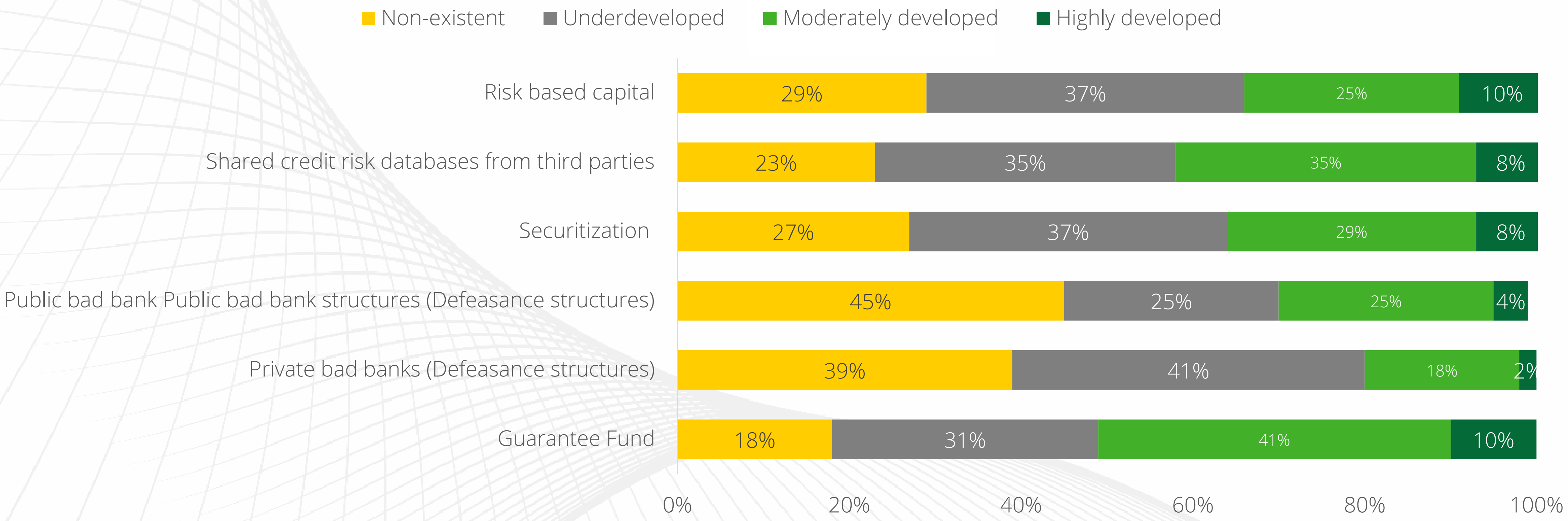


Governance, Risk Management and Regulatory Framework

Further progress in the implementation of financial instruments for capital and liquidity management

The implementation of risk mitigation instruments is slowly progressing in Africa. Significant efforts have been made on certain programmes, such as **the establishment and creation of guarantee funds and the development of shared databases of counterparts**. On the other hand, faced with **the high risks of deterioration in the quality of portfolios**, the industry does not have risk transfer mechanisms such as bad banks (public and private) and securitisation.

2.5 How do you assess the current level of development of the following risk mitigation or transfer schemes in your geographical area?

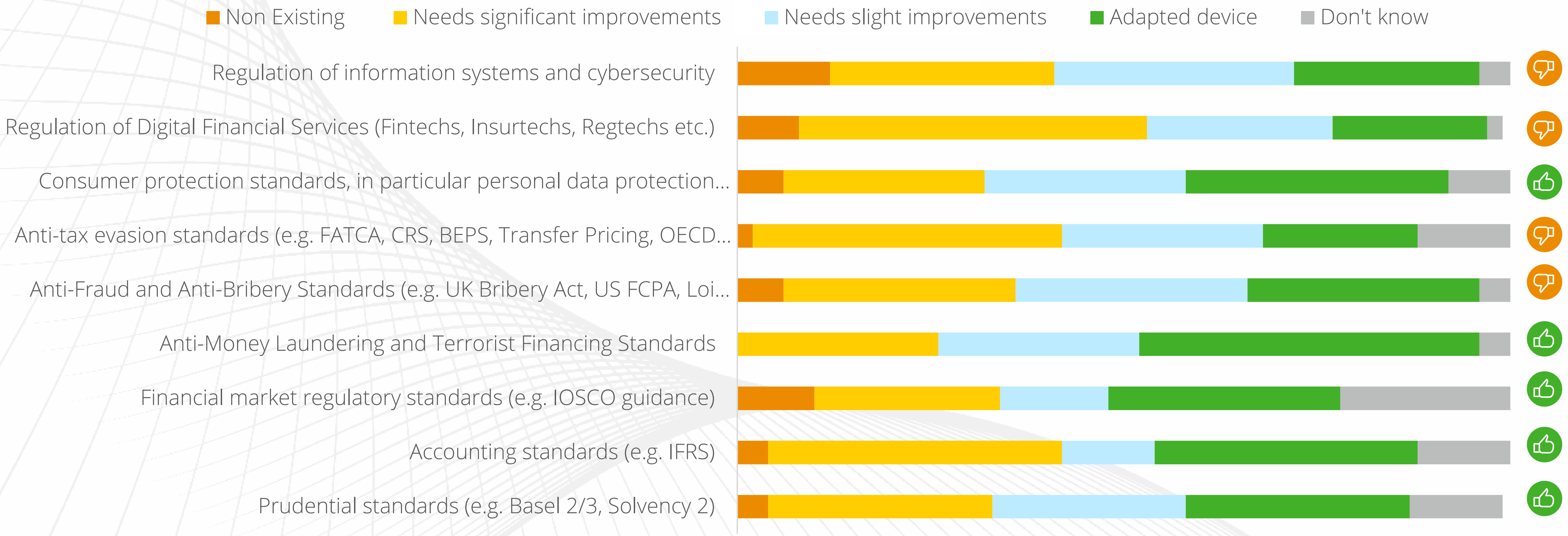


Governance, Risk Management and Regulatory Framework

Efforts to establish emerging standards

The industry is satisified with their regulator's implementation of traditional standards (fight against financial crime, prudential standards, accounting standards). However, reservations have been raised about the implementation of new standards such as the regulation of information systems and cybersecurity and the regulation of digital financial services (fintechs, insurtechs, etc.)

2.6 How do you assess (adaptability to local specificities, operationality, etc.) the following regulatory measures adopted by your supervisor?

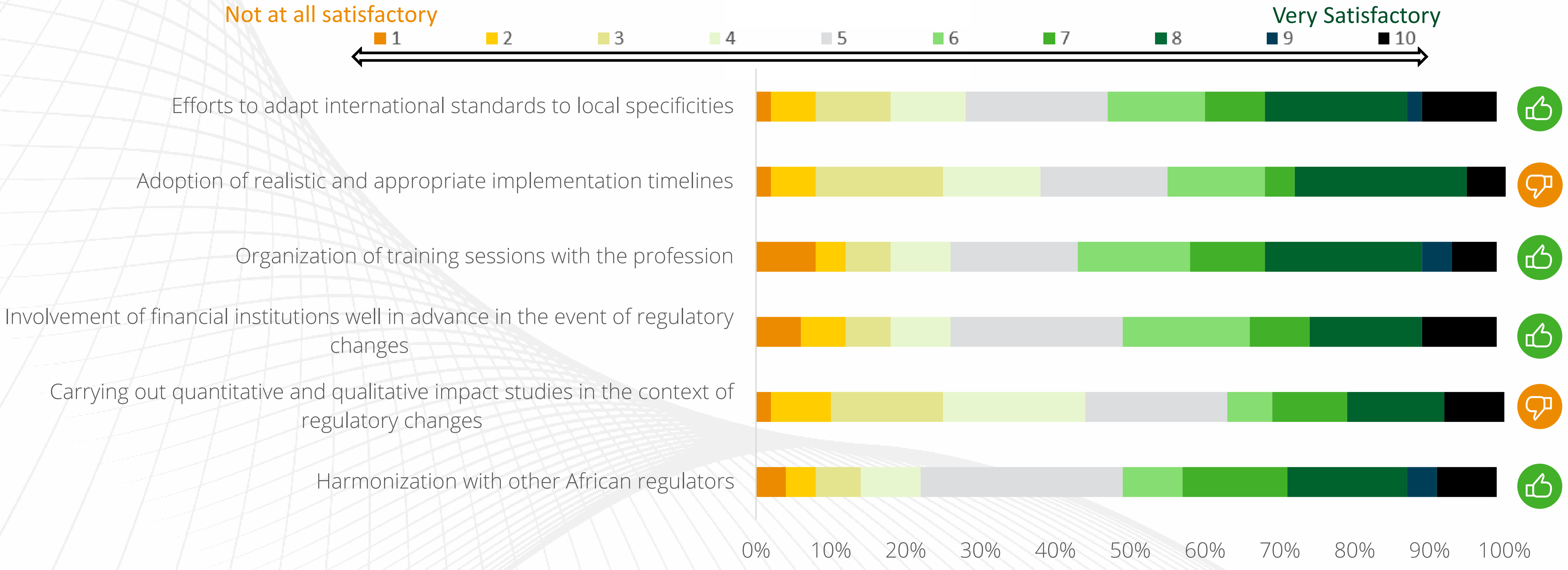


Governance, Risk Management and Regulatory Framework

Regulator efforts recognised by industry

As in 2022, the financial industry reaffirmed its satisfaction with regulatory developments, appreciating regulators' efforts to adapt regulations to local specificities while taking a pedagogical approach and harmonising with other African regulators. However, the industry deplores the adoption of unrealistic implementation schedules and the inadequacy of impact studies prior to the implementation of these standards.

2.7 How do you perceive the actions of your regulator with regard to the activities mentioned below



Governance, Risk Management and Regulatory Framework

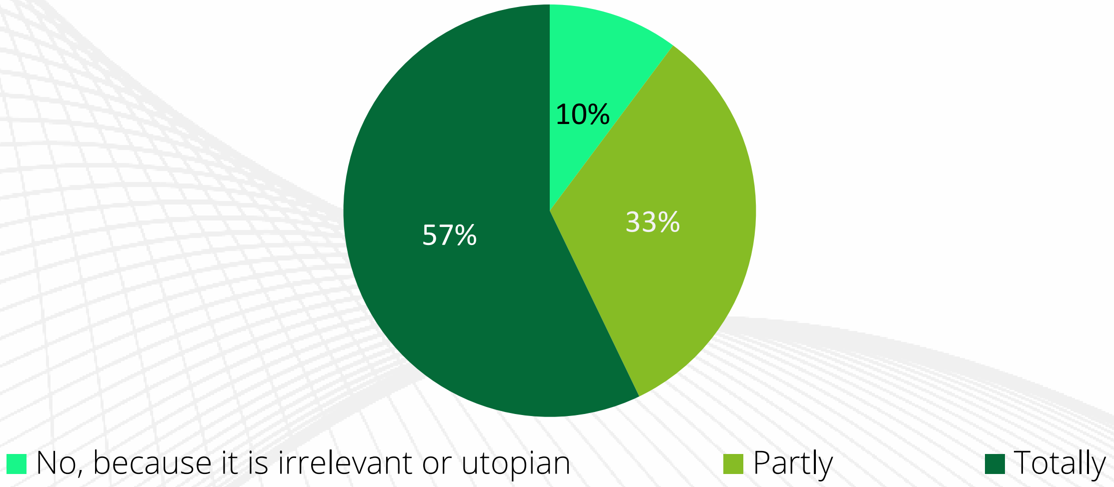
Industry calls for Pan-African prudential framework

With more than 40 central banks and as many regulatory frameworks, **the idea of a harmonised pan-African prudential framework, particularly in terms of solvency and liquidity, is supported by nearly 90% of respondents**. Inspired by the European framework and supported by African political and economic bodies, **this prudential framework should make it possible to harmonize the rules** through a set of mandatory implementing regulations. At the same time, it would guarantee respect for sovereignty issues, through directives facilitating the implementation of discretionary rules

2.8 One of the AFIS 2022 strategic roundtables recommended creating a harmonized pan-African prudential framework (e.g. on solvency and liquidity), inspired by international standards, but adapted to Africa, supported by pan-African political or economic bodies (Ministry of Finance, African Union, Regional Economic Communities, AfCFTA, etc.) and comprising two components:

- A regulation with mandatory rules for all jurisdictions
- A directive with discretionary rules per regulatory area

Do you support this idea?



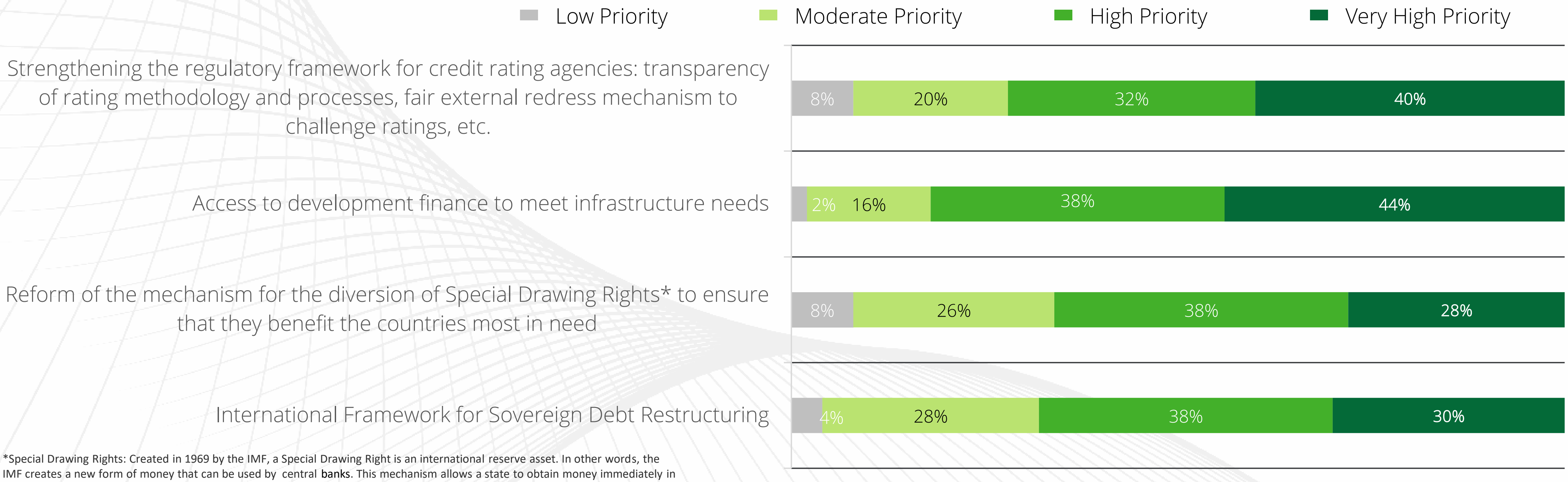
Governance, Risk Management and Regulatory Framework

Reform of the international financial system: DFIs and rating agencies in the crosshairs

Adapting access to development finance to address the infrastructure deficit is at **the top of the list of reforms to** the international financial architecture, according to respondents. They also consider it essential **to develop regulatory mechanisms to oversee international rating agencies,** in order to curb assessments seen as unfair that hinder investment on the continent.

This year, several events focused on the reform of the Bretton Woods institutions for Africa. Many global financial regulations are being developed without African states having a voice, even though the rules adopted are detrimental to their economies.

2.9 International financial system: What do you think are the priority areas to be reformed to meet the needs of the African financial industry?



*Special Drawing Rights: Created in 1969 by the IMF, a Special Drawing Right is an international reserve asset. In other words, the IMF creates a new form of money that can be used by central banks. This mechanism allows a state to obtain money immediately in order to finance investment projects.

Methodology

Methodology

Deloitte and *Africa Financial Industry Summit* (AFIS) developed this questionnaire in order to understand the different impacts of the current macroeconomic environment on the African financial industry.

Composed of **two main themes and around thirty questions**, this study, carried out jointly online and in the form of individual interviews with leaders in the African financial sector, made it possible to gather relevant information on the current situation of the sector.

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

The sample was surveyed via an online questionnaire with our partner Qualtrics, as well as based on one-on-one interviews with financial sector executives.

Responses were collected between August 7 and October 27, 2023.

Contacts

Deloitte Africa

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

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

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

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

Ibukun Beecroft
Partner, Advisory | Financial Industry
Deloitte & Touche Nigeria
ibeecroft@deloitte.com.ng

Ramzi Khemakhem
Director Financial Advisory | Financial Industry
Deloitte Francophone Africa
rkhemakhem@deloitte.tn

Africa Financial Industry Summit – Jeune Afrique Media Group

Amir Ben Yahmed

CEO, Jeune Afrique Media Group
aby@jeuneafrique.com

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