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Africa Outlook for Banking: Growth in long-term savings and custodial services

By
El Mehdi GHISSASSI

Being the second fastest-growing economic region in the world behind Asia, Africa is becoming a magnet for international capital. Africa is attracting capital flows not only in the prevailing energy sector, but also in other promising markets such as the retail industry and telecommunications. 3.4% growth in 2017 and 3.7% expected by the IMF in 2018 on this continent is driven by natural resources and primary commodities, but also by growing domestic demand. While the number of FDI projects into Africa is declining, capital investment increased by 40% to $92.3bn (2016). A dominance of youth in an ageing world, coupled with rapid urbanization and adoption of digital technologies are valuable assets Africa holds to push forward growth. Yet, risk is a persistent theme, including poor governance, fragile security, unreliable logistics and lack of infrastructure.

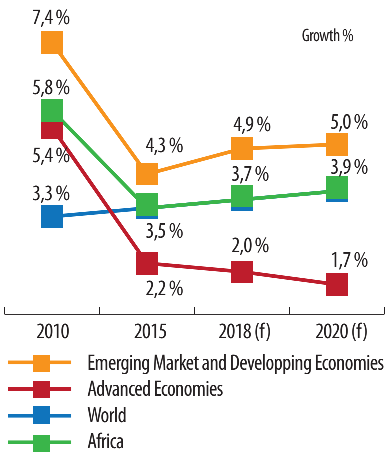
Globally, the outlook for financial services in Africa is solid. However we observe rising disruption, even from unexpected places. This disruption will push financial actors to rethink their strategies by tackling innovation and technology challenges in order to avoid a strong penetration of new entrants in this less mature market. Financial markets can foster growth by mobilizing long-term savings and channeling them through financial intermediaries to investors that have identified productive investment opportunities. In such a context, custodial services in particular add substantial value to investors.

Furthermore, Africa's custodian banks face growing pressure to ensure safety of their Assets Under Custody (AUCs) while being active initiators of change on the markets. Financial market development relies heavily on the ability of custodians to ensure AUCs' security and increase confidence in the markets.

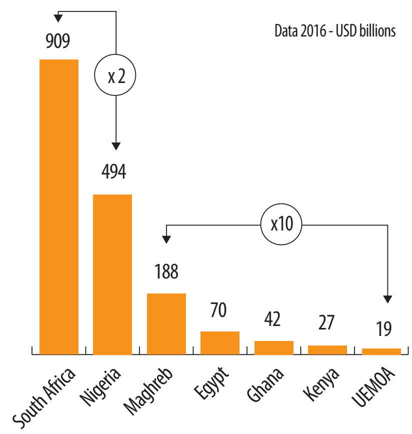
We believe that the African market is quite heterogeneous. South Africa, with nearly 50% of the continent's securities market shares (909 $b. in 2016) and mature custodian players – Standard Chartered Bank (operating over 17 African countries), Standard Bank, Rand Merchant Bank – has a low penetration potential.

Except from Nigeria that represents half of the South African market, areas like UEMOA in West Africa (securities custodian market grew by 10% in 2016 vs. 2015 at 19 $b.) and CEMAC in Central Africa have huge potential for growth as evidenced by a continued growing number of cross-border transactions and market players' fragmentation. We believe that drivers of growth for custodial services in Africa are three-fold. First, African custodians should keep a close look on foreign investments policies. Second, the regulation evolutions in favor of financial market revitalization ease the custodian activities. Finally, markets are evolving with the appearance of new products and services (asset management, derivatives...).

Financial Services in Africa



Potential growth for African regions



We believe that these markets present opportunities for Moroccan custodians as they still have a substantial footprint through their banking activities branches and their strong performance within the Moroccan market (174 $b. in 2016; growth by 14% vs. 2015).

To face those challenges, Moroccan custodians should tackle three main issues:

- Support international clients' growth on financial markets: global custodians should guarantee African markets access by designing a dedicated regional custody offer for all areas of the continent.

- Embody a maturity jump by optimizing their industrial model in order to achieve an optimal services quality, rationalized production costs and to be able to offer servicing for third parties. Such an industrialization requires, on one hand, non-disruptive levers (lean management, automatization...) and, on the other, disruptive ones (big data and machine learning).

- Develop cross-selling through a complete and international standards compliant product offering (collateral management, liquidity management) provided under multi-channel transactional platforms.

Bi-polarisation of needs in Wealth Management

By
Anna LUMBROSO

The Wealth Management industry is facing a double challenge: on one hand, there is intense competition from the wealth technology players, strict regulations and a low interest rate environment that has put pressure on fees and margins and the overall operating model; and on the other, evolving customer needs and sophisticated technology puts higher expectations on wealth managers, their value proposition and business model.

Traditional client segmentations fail to capture emerging client needs and behaviors. Customers with similar interests, social status, performance proximity, technical savviness and risk appetite are eager to exchange, learn from each other, and duplicate investment choices. The concept of customer tribalization isn't new, but today in Wealth Management, it's more pronounced than ever before.

In the past two-three years members of technology-driven 'tribe' have significantly increased their technical proficiency in financial planning and goal definition. Digital native tribes (millennials) seek different ways of communicating, are demanding full access to digital capabilities (such as in retail) and want their investments to be meaningful. The majority of clients, members of the risk taker tribe, among others, seek flexibility of choice between different service models: self-service delivery and advisory models. Less willing to pay a fee based on the volume of managed assets, the safety seeker tribe demands more transparency around fees and is pursuing flexible, performance-based, modular-fee, fixed fee formats or a combination of models.

Market players are reinventing themselves with a customer-centric approach where clients are not looking for an average experience. The market position of traditional market players is at risk as they are changing and two different service models are emerging (see graph 1): A) The Service and Expertise-led model with premium value proposition; and B) The Freemium model offering providing free digital access and on-demand services. Model A differentiates by high levels of personalization and tailoring (people's business), being relatively cost inelastic it provides access to all types of expertise and high levels of security. Model B is highly industrialised, cost elastic with simplified and standardized offering giving access to full digital services and expertise with adapted pricing.

A global Wealth Manager has reinvented its customer experience leveraging hyper-personalization and sophistication of its advisory arm, seamless client connection and transaction validation using biometrics and a digital platform connecting eligible investors and facilitating peer communication. Moreover, it has built a specific momentum around millennial UHNW clients proposing them a series of training events to enhance knowledge, meet financial experts and opinion leaders, and broaden their network with peers sharing the same aspirations.

The traditional business model approach where « one size fits it all » is no longer valid. Banks have been trying for years to improve their operating models along all dimensions. This holistic approach « let's improve everything at once » yields little results in a context of limited resources. Client-centric disruptive industrialization focuses on the business model, and defines key industrial goals for the operating model (or models) to match. Several parallel operating models may be necessary to satisfy all industrial goals of the business model (e.g.: low cost and premium offerings).

To design a new target industrial model, a Wealth Manager should consider a four-step approach:

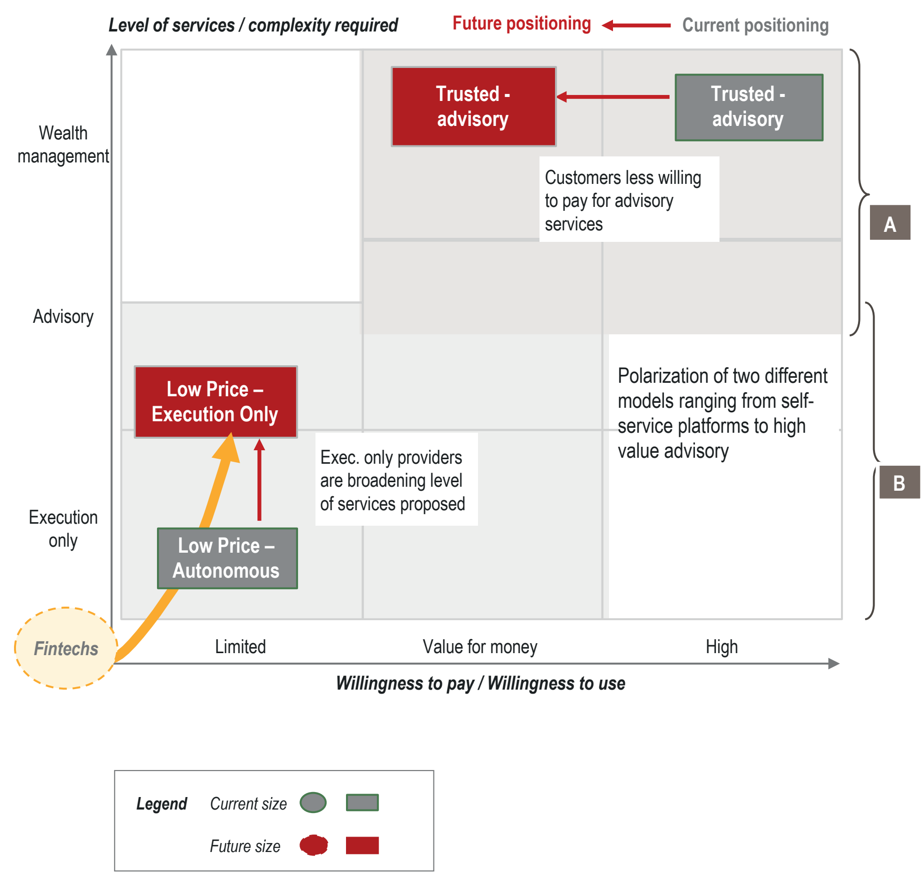
1 Identify and challenge the main strengths and weaknesses of the existing business and the existing customer experience.

2 Elaborate the target experience leveraging 'Key Moments of Truth' and capitalizing on the disruptive technologies such as AI, ML, RPA and Fintech partnerships.

3 Review the selected operating model(s) on a regular basis to ensure its consistency with the the evolving needs of the target business model.

4 Extinguish or deliver at the lowest cost the legacy activities that do not support the target business model.

New customer service models in wealth management



Fostering leadership for digital culture change

By
Pierre REBOUL

Digital commands a shift across financial services in order to stay competitive, maintain growth and cut costs beyond 2018. The gap between new entrants, such as Fintechs, and incumbants is less than 5% of total industry revenue. Disruptive new technologies, such as Blockchain and Machine Learning, are putting pressure on established industry players to innovate their strategy, operations and culture. Working with our clients, we see varying levels of digital maturity as organizations struggle to integrate digital into their traditional environments, embrace new ideas quickly and foster a co-creation mindset between the business and support functions. The urgency of the situation compels them to move from making marginal adjustments to more radical changes - those organizations that embrace digital are between 30 and 40% more likely to report strong revenue growth and when they respond across multiple dimensions, they improve performance by over 10% average revenue growth.

Industry players are turning towards HR departments to develop a bold workforce that will drive digital transformation from the bottom-up.

A failure to consider operating culture is already hurting banks' innovation projects, where less than 20% of the industry majority have launched five or more digitally driven products since the start of their innovation efforts. A failure to embrace a digital culture causes digital imperatives not being translated into real action, speed to market and potential revenue. In fact, an Oxford Economics study reveals that financial services are less focused on disruption than they should be, especially senior management: only 51% of employees say senior management is increasing their digital proficiency, while only 67% of financial services executives say that their leadership has the skills to keep up with the new technology. It calls for an urgent focus - senior leaders need to be prepared for their role which is dramatically changing with digitalization.

One corporate investment bank implemented a number of ambitious digital initiatives across the HR value chain to empower and grow new leadership skills from the inside out. They adopted digital platforms to enhance communications between business and function lines, intuitive and personalized digital training platforms, and opened a Digital Factory for 400 staff in partnership with an innovation accelerator. Over four years, these initiatives have decreased FTE training expenditure by 27%, increased training attendance increased by almost 80% and propelled a large number of innovative banking solutions into the market. Bank of America with MIT Media Lab adopted Humanyze, a system that uses a 'smart' employee badge to collect employee behavioral data, which has enabled them to understand more about employee engagement. The platform lowered their turnover rates by 28% and increased call completion time 23%, potentially saving millions.

How to seize the upside of disruption: create a 'Moonshot mindset' and a startup culture of experimentation. A European retail bank recently underwent our Innovation Catalyst Programme over 7 days in the Silicon Valley with experts on a range of neurological and innovative topics. The programme took leaders to the next level, creating a new mindset around innovation and empowering them to surface and accelerate big digital ideas into real business decisions.

This framework is underpinned by three key steps:

1

EMPOWER

managers to understand exactly what digital means for the organisation and their individual roles, by immersing them in a truly digital experience: connecting them with innovative technologies, companies and environments

2

EXPERIMENT

in a startup environment, encourage a 'test and lean mentality' while building a real solution prototype and encoura-ging the right to fail

3

ADOPT

and scale initiatives, developping the expertise to build digital business cases and designing the new business model

Adopting a sustainable, new business model and gaining return on investment for digital initiatives will only succeed by embedding a digital culture and business mindset. The urgency of the digital evolution compels financial services organizations to consider the traits of business culture and leadership. Execution, delivery, business acumen and relationship building remain the same, but banks must prepare the workforce required for tomorrow.

'Digitalisation needs to be a natural component of both corporate strategy and culture – not limited to certain commponents and products' – Jan Wohlschiess, Global COO/CFO Wealth Management at Deutsche Bank (NextContinent Study Digital: *Business Models in Danger?*, 2017)

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Before joining Eurogroup Consulting, Pierre was a Senior Partner at a strategy consulting firm where he headed the Corporate & Investment Banking – Asset and Wealth Management practice globally. As a specialist in investment banking and technology, he has overseen a large number of projects aimed at optimizing finance and risk oversight, improving operational performance and sales efficiency, and transforming information systems. He is a graduate from the Massachusetts Institute of Technology.
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Additional contribution by Elizabeth Connor, who has a change management background.

About

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Bespoke Analysis of the Financial Markets

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Their team draws from a global network of research partners, which primarily come from the industry and hold first-hand knowledge of financial products and markets.

Tricumen is based in the UK (London), with additional research centres located in the UK (Cambridge) and Croatia.

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