Africa: Seizing the opportunity
He added that it was likely smaller commercial entities would be the most affected by the reduction in global correspondent networks if they were not replaced by more efficient and reliable regional systems. The knock-on effect of this would be damaging.

“If you do not have efficient and affordable cross-border remittance systems, people will rely on informal means of sending money across borders. In this process, dirty money will also utilise those channels, thus in effect defeating the intention of curbing the financing of terrorism and money-laundering,” said Kganyago.

SARB governor highlights regional success

In his opening address, Lesetje Kganyago, Governor, South African Reserve Bank, echoed this sentiment and said that the theme of this year’s ARC - Seizing the Opportunity - is opportune and appropriate. “Although we face several challenges, these are far outweighed by the many opportunities that the continent offers.”

Kganyago highlighted the potential for cross-border payment systems to deliver growth and other benefits. He cited the progress of SIRESS, the cross-border payment system for the Southern African Development Community (SADC), as a great example.

“According to the latest data, the implementation of the SIRESS system has resulted in 43% of intra-SADC cross-border payments for the participating countries being settled through accounts that regional banks hold on the SIRESS system, instead of via normal cross-border correspondent banking systems... We in SADC take pride in being able to share with you that SIRESS had reached the ZAR1 trillion settlement mark in the last week of April 2015.”

However, the governor also sounded a note of caution about what may be the unintended impact of global regulations on African correspondent banking networks. Cross-border payments within Africa are largely still made through correspondent banking relationships with banking partners in the United States and Europe; recently, however, the number of these relationships has declined.

“If the decline is the result of establishing efficient settlement systems across borders, then this is a welcome development. However, if it is flowing from the unintended consequences of changes in regulation, then it would be a matter of concern,” said Kganyago.
Seizing the opportunity

By 2050, sub-Saharan Africa will have a larger and younger workforce than India or China. The continent is blessed with plentiful land, much of it still uncultivated, and an abundance of natural resources. Combine these and there is potential for global competitive advantage. Transforming this opportunity into success will take political will and pan-African cooperation. Our opening panel looked at how the continent is capitalising on these opportunities and discussed where additional focus is still required.

Christian Sarafidis, Deputy Chief Executive EMEA, SWIFT, host of the conference and moderator of the opening plenary, set the scene for the discussion, highlighting some of the successes and the challenges.

“Sub-Saharan Africa is working hard to put in place the right framework for growth,” said Sarafidis. “A recent World Bank Group report found that Sub-Saharan Africa had the highest number of business regulatory reforms globally in 2013/14, with 74% of the region’s economies improving their business regulatory environment for local entrepreneurs. There are still some barriers to development, however, that the continent needs to address, including access to finance, institutional capacity, and improvements to transparency and governance. ARC provides a unique platform to discuss these issues.”

Mina Balliamoune, Professor of Economics at the University of North Florida and Associate at the African Centre for Economic Transformation, stressed that with so many African countries experiencing good growth now is the time for them to focus their growing resources on things like skills and education, infrastructure and equality.

Balliamoune added: “We have to use our comparative advantage and not try to replicate what other economies such as China are doing… In this respect, Africa has huge capabilities and capacity around agriculture that could be developed. [However] most people focus on ‘making things’ and do not consider our potential in other areas.”

“WE HAVE TO USE OUR COMPARATIVE ADVANTAGE AND NOT TRY TO REPLICATE WHAT OTHER ECONOMIES SUCH AS CHINA ARE DOING... IN THIS RESPECT, AFRICA HAS HUGE CAPABILITIES AND CAPACITY AROUND AGRICULTURE THAT COULD BE DEVELOPED.”

Mina Balliamoune, Professor of Economics at the University of North Florida and Associate at the African Centre for Economic Transformation
Alain Raes, Chief Executive EMEA & Asia Pacific, SWIFT, said that African economies needed to build on their experience in trading with China to help them capitalise on the coming wave of trade from other countries.

“New corridors of trade will continue to develop. I’m certain that Africa will experience a similar level of trade growth from India as it experienced with China. Africa has enormous potential to add value to these trade flows and therefore to deepen economic transformation within Africa,” said Raes.

The Centre for Dynamic Markets (CDM), part of South Africa’s Gordon Institute of Business Science, monitors and analyses fast growing economies to look at levels of structural transformation, trickle down benefits and other key economic measures. Lyal White, Director of the CDM, said that most African governments had done a good job of putting the right policies and frameworks in place, but to replicate the level of growth seen in Asia, Africa had to drive up levels of “integration and interconnectedness”.

Of course, he said, there must be a focus on delivering the major infrastructure projects which will help to physically link markets, but one easy win would be to improve access to visas.

“The biggest driver of integration is people so it is imperative that the visa process across Africa is improved. African markets are tiny therefore we need to build scale collectively in order to achieve greater competitiveness. A fundamental way to support this is to encourage Africans to move around the continent. It has the benefit of being easier to deliver than mega-projects,” he said.

**African corporates expanding**

In the corporates discussion, we asked how trends within the international corporate community on SWIFT are reflected in the African market. What are the inhibitors and drivers on the continent and what do African corporates need from their providers?

Hugo Smit, Head of Sub Sahara Africa, SWIFT, highlighted a few trends that are driving up interest in using SWIFT. “More and more domestic corporates are becoming pan-African and therefore more of them are becoming multi-banked and looking to SWIFT to help ease this process,” said Smit. “Also, more banks are themselves becoming ‘SWIFT-ready’, seeing the benefits of offering SWIFT to their corporate customers.”

Some of the other panelists noted that African markets vary significantly and that the journey towards using full SWIFT functionality can sometimes take a while.
SAB Miller has a regional treasury operation for Africa based in Johannesburg. “One issue we faced was reporting using MT940s. Some smaller banks that we deal with asked us, what is an MT940? When we told them it was a kind of bank statement, they said, ‘oh, where do we send it?’” said Naidoo.

The problem for SAB is that many of the major banks do not operate in rural areas so SAB has to use smaller, less SWIFT-ready banks. “This can make it difficult for us to manage cash positions. We sweep to our main collecting bank. MT940 reporting is crucial. Accuracy is crucial. There are other SWIFT functions we like to use, such as MT101s. More banks are now able to offer us MT940s, but it’s been a long journey.”

Andre Olivier, Business Development Manager, Puma Energy, agreed that there is a lack of infrastructure and knowledge across Africa. “The idea of corporates operating on SWIFT is still a new concept outside of the major markets so many banks are not able to offer even the basic SWIFT functions, such as the MT940s. On the other hand, the more sophisticated banks need the smaller banks in remote areas to catch up because customers want to and need to use these less sophisticated banks. Therefore it is crucial to recognise at a collective level that we have to collaborate in order to meet the needs of our clients. It is they who are the driving these changes,” said Olivier.

However, when corporates are able to use SWIFT in the way they want to, the benefits are tangible for both parties, said Phil Boyall, Head of Global Corporates Cash Origination, Africa, Barclays Capital. He said that the introduction of ISO 20022 and FileAct has been a “real enabler”. “The ability to send bulk messages gives corporates an opportunity to transact with SWIFT in a very different way. This clearly unlocks cost and efficiency benefits, at both corporate and bank.”

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Yudeshtra Naidoo, Treasury Dealer, SAB Miller RTC Africa
Access & technology crucial to markets

Two back-to-back securities panels looked at the evolution of Africa’s capital markets. The first focused on the trading side, asking what is required to grow and develop sustainable securities markets in Africa and discussing where the opportunities and challenges lie.

Donna Oosthuyse, Director of Capital Markets, Johannesburg Stock Exchange, said technology, innovation and robust infrastructure are the keys to success. “There is a direct link between technology and levels of activity. When we implemented our new trading platforms, the value and volumes of trades multiplied significantly.”

She said that going forward the exchange had to continue to innovate - both for investors and issuers - and leverage much more the fact that the JSE is a multi-asset class exchange, which is unusual in Africa. “These are important competitive advantages.”

Ade Bajomo, Executive Director, Market Operations and Technology, Nigeria Stock Exchange, agreed that technology has been the “game changer” for financial markets. “It has fundamentally changed the way business is done and requires significant investment, which we are putting in. The exchange world now measures performance in nanoseconds, so robustness and capacity are very important for us.”

It’s also about innovating and growing the number of investors, Bajomo added. “We have about five million retail investors in Nigeria; how do we grow this by five or 10 times in the coming years? We are working with our brokers to bring in trading apps for smart phones. We are a country of phones. An android phone costs less than $40 so this trend will continue; our industry has to be in the mobile space.”

The continent has to find ways to leverage the growing pools of local liquidity and wean itself off foreign aid, said Nerina Visser, Exchange Traded Funds Strategist and Advisor, ETF South Africa. Currently, African growth is being recycled back to Africans as aid; instead, Visser says that the continent’s markets must put in place the right infrastructure, products and regulatory frameworks to encourage intra-African investment.

Reforms across Africa have already created private pension systems that are rapidly increasing assets under management (AUM) in line with the continent’s population growth. For example, AUM by the Nigerian pension industry grew from US$7 billion in December 2008 to US$27 billion by October 2014. Ghana’s pension industry, meanwhile, is expected to grow by up to 400% over the next four years. This opens up huge opportunities to fund the long term investment in infrastructure and other sectors that the continent needs, at the same time as delivering return for investors.

“Capital markets have the potential to give everyone the opportunity to benefit from the growth of their own continent, the big issue we have to address is how do we enable people to participate in that growth – what tools and products do we have to develop in order to empower investors?”

Nerina Visser, Exchange Traded Funds Strategist and Advisor, ETF South Africa
Improving market efficiency

In the second securities session, speakers discussed the potential for financial market infrastructure to improve access to Africa’s capital markets and to deliver efficiency and cost benefits to all market participants.

Panellists underscored the need for collaboration to help drive African capital market development as well as the need to replicate some of the progress towards payment market harmonisation in the securities markets.

Iann Seymour-Smith, Head of Operations, Strate, said: “We are a member of multiple organisations across Africa and beyond. We can all learn from other markets and projects in the payments space. It was great to hear the Central Bank Governor cite the ZAR 1 trillion flowing in SADC, but sadly, not a single cent of that is related to the securities markets. We need to work on SADC harmonisation here too so that we can help to build activity and liquidity.”

Bennie van der Westhuizen, Head: Investors & Intermediaries, Africa, Standard Chartered Bank, echoed the emphasis on liquidity. “Liquidity is the biggest problem; so, while we look to international investors to invest, what we need to do is make sure that we are facilitating the local population and developing local liquidity. Here, boosting financial inclusion, getting the unbanked banked and using technology to boost access to markets is key to building sustainable markets.”

Kenya, one of the fastest growing markets in Africa, has a ‘master plan’ in place aimed at developing its domestic capital markets. Rose Mambo, Chief Executive, Central Depository & Settlement Corporation, Kenya, stressed that these were the next steps. She added that mobile technology, where Kenya has been leading the way with Mpesa, could play a crucial role.

“There have really focused on transparency, education, governance and this part is done. Now we have to focus on liquidity and look at how we get our own local investors to participate more in the market. As a market we are looking at leveraging mobile technology. There are 40 million people in Kenya; 20 million have a mobile phone; 18 million use Mpesa. So the question is how do we make it as easy for them to trade securities as it is to exchange money?”

Rose Mambo, Chief Executive, Central Depository & Settlement Corporation, Kenya
How to boost financial inclusion

Our next panel looked at how to bridge the gap between big banks and small savers to boost access to financial services. It featured John Staley, CFO & Executive Director, Kenya, Equity Bank, Charles Adjasi, Professor, Development Finance Stellenbosch Business School and Kabelo Makeke, Head of Inclusive Banking, Standard Bank. Moderated by David Porteous, Managing Director & CEO, Bankable Frontier Associates, it drew on the results of the four-year GAFIS Project (Gateway to Financial Innovations for Savings), which aggressively tested new approaches to attract and better serve poor savers.

Porteous noted that retail banking is not necessarily about low value customers, but about how to make low value transactions and low balance accounts viable – for individuals and small businesses. Viability means looking beyond account-level profitability alone to the return on the account in the context of an ecosystem. Once mass retail viability is achieved, then with the large numbers (currently around 9m individual customers each at Standard Bank South Africa and Equity Bank Group), retail banking can be among the most profitable areas of the bank.

“For low balance accounts to be viable, banks need to reduce the cost of cash handling, especially to accept cash deposits, which means establishing or linking to large scale agent networks, as Equity and Standard Bank have done. However, this requires that regulators enable this approach by not over-regulating who can be agents or what they do, understanding that the agents effectively deal in their own money,” said Porteous.

In addition, some retail banks are actively establishing new digital channels such as mobile, looking even to a future where low income customers will have smart phones. In order to allow it to compete, Equity has set up its own MVNO which already has 600,000 voice customers as an alternative to Kenya’s mobile operator dominated environment. “With appropriate products and channels in place, then it becomes possible to scale retail banking to cover large numbers of customers. Equity’s individual target is 50m customers by 2020; while Visa and MasterCard have each committed to reaching 500m new customers by 2020,” he added.

African FinTechs on stage

On the second day of ARC, FinTech took over the plenary hall for the afternoon. It can be difficult for the SWIFT community to keep an eye on some of the ground-breaking innovation that happens outside of the mainstream financial industry. One way SWIFT helps with this is the Innotribe Startup Challenge. Innotribe bridges the gap between the financial services industry and today’s brightest startups, by organising regional Startup Challenge showcases around the world and a final each year at Sibos. This year for the first time we introduced an African showcase.

Fourteen young African companies made it to the global list of 60 semi-finalists; following two days of intensive coaching from the Innotribe team, they pitched live to judges and potential investors at ARC. Of these, five were picked to attend the final at Sibos in Singapore in October.

The selected startups are Intelworld, which delivers mobile apps on top of existing mobile wallets to help banks and merchants increase mobile e-commerce; Notafy, which provides secure messaging infrastructure to help companies communicate with their customers via mobile instant messages; YueDiligence, which offers an actionable, light-touch due diligence tool for entrepreneurs, investors, and service providers to assess deal readiness; 2Quins, an enterprise SaaS financial information tool; and ZAQ Finance, which provides debt reduction, savings, and low-cost credit products to low-income Africans.

SWIFT’s Smit, said: “There is a genuine spirit of innovation in Africa and the semi-finalists who pitched in Cape Town really show the appetite there is in this market for new business models and harnessing technology in new ways.”
Payment projects progress

SIRESS provides a single cross-border settlement service for payments in the SADC countries. Wave three of the SIRESS system went live during September 2014, meaning that there are now almost 70 commercial banks from nine countries already participating in the system. Transaction volumes and the daily value settled through the system are continuing to grow rapidly.

Maxine Hlaba, Managing Director of the SADC Banking Association Secretariat, said ultimately the association hoped all jurisdictions and all banks in SADC’s 15 countries will participate in the platform. This year, the SADC BA is looking to bring on board the Seychelles and Madagascar. It is hoped the Democratic Republic of Congo will join early next year.

“We did not rush to get everyone to join the system as joining requires capital investment and the ability to implement all the right standards. But we have seen volumes grow tremendously; at the end of last month we reached a milestone of one trillion rand,” she said.

Tim Masela, Head of the National Payments System, South African Reserve Bank, said political will from governors of all the central banks concerned has been critical in ensuring the project is successful.

“We leveraged the existing infrastructure and our investment in SWIFT, which has made the system cost effective. This is a journey that can be made easy if there is collaboration and shared responsibility across the region to make sure it becomes a success,” he added.

Vickey Ganesh, Head of Enterprise Payments Services at Standard Bank, said for South African banks there are two particular issues to address. The first is around liquidity. They are operating on two systems, one in South Africa, which is funded via collateral, and one for SADC/SIRESS, which has a cash-funded mechanism. “This means we have to manage liquidity very carefully across both systems on a real time basis.”

There is also a business impact. Before the advent of SIRESS, South African banks offered rand nostro services to their correspondent banking relationships. Now that many of these same commercial banks are operating directly on the rand-based system, not as many nostro services are required. “South African banks are definitely feeling the pinch,” said Ganesh. “There is a cost associated to that.”

Josephat Mutepfa, Deputy Director Financial Markets, Reserve Bank of Zimbabwe said take-up of SIRESS had been strong in Zimbabwe. “About 90 per cent of the country’s banking sector is on SIRESS; the response has been very positive,” he said.

The system currently settles high-value payments only, but will soon bring other payment streams on board, such as debits and low value payments. The SADC Banking Association says it is also aware of the high cost of remittances in the region, so it is hoping that SIRESS will be able to address that, maybe via a mobile money application.

“There are hopes that SIRESS will help to drive down costs in the system and therefore reduce costs for end customers. The rails are in place, but we need more vehicles on the rails. We need the right products and services,” added Mutepfa.

The SADC BA’s Hlaba gave some comfort to securities players in the region. “We are also beginning work on delivery-versus-payment in the securities area. We are already working with member states and have asked those that have CSDs who are ready for testing to come forward,” she said.

Maxine Hlaba, Managing Director of the SADC Banking Association Secretariat

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Josephat Mutepfa, Deputy Director Financial Markets, Reserve Bank of Zimbabwe
KYC: dangers of derisking

Our final discussion panel looked at the impact of Know Your Customer (KYC) regulations and the potential of unintended consequences for banks that operate in perceived high risk jurisdictions – as alluded to by the Central Bank Governor in his opening address. Some African institutions have already felt the squeeze, with foreign banks shrinking the number of bank relationships on the continent.

Setting the scene for the discussion, Giwa Sechap, Financial Sector Officer, Inter-Governmental Action Group against Money Laundering in West Africa (GIABA), stressed that corruption and terrorism are problems that affect everyone and that KYC is the foundation of all preventative measures.

“Today, corruption is a major issue globally. Terrorism is a major issue globally. In one way or another, they affect us all. Terrorists survive on funding. When proper KYC is done, you curtail the flow of funds to these groups and reduce their ability to carry out operations. It is as simple as that.”

Matthew Hodgson, Managing Director, Citi Treasury and Trade Solutions, Co-Head EMEA FI & Correspondent Banking Group, Citi Bank, was clear about the importance that Citi places on KYC (12% of the company’s global headcount works in compliance) and what Citi wants in place at a correspondent bank in order to do business with them.

“We want to see a KYC programme that is independent, adequately funded and represented at the board level. These three elements are essential,” he said. “SWIFT’s KYC Registry is a very important initiative and will play a huge role in simplifying this process in a robust way.”

Pattison Boleigha, Head of Group Compliance & Internal Control, Access Bank, gave a real example of what happens without those kinds of KYC procedures.

“Before we had a robust AML or KYC programme in place, we were losing business from many of the bigger banks. They did not want to deal with us. Now, we have banks lining up to do business with us. They’ve seen the type of systems we have put in place, they’ve seen the calibre of the people we have appointed at a senior level; they’ve seen the training that we have instituted. This is a perfect example of the business impact of not having programmes in place, and the business bonus of instituting a good programme,” said Boleigha.
Closing address: Afro-optimist

ARC closed on a high, with a fantastic address by self-professed Afro-optimist Victor Kgomoeswana, who shared his impassioned and entertaining view on doing business in Africa. He confounded many of the common stereotypes and encouraged the audience to look beyond the headlines to discover the opportunities across this vibrant continent.

“Go beyond the mainstream markets. See for yourselves the innovation and business vitality that lies beyond the handful of business districts that people visit. Africa is open for business!”

Victor Kgomoeswana, African business specialist, radio host and author

ARC PROVIDES A COLLABORATIVE SPACE WHERE THE AFRICAN FINANCIAL SECTOR, POLICY MAKERS AND INDUSTRY THINKERS CAN SHARE EXPERIENCES AND LOOK FOR SOLUTIONS TO COMMON CHALLENGES. THIS HAS BEEN A PRODUCTIVE THREE DAYS.

Christian Sarafidis, Deputy Chief Executive EMEA, SWIFT

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