OPPORTUNITIES AND CHALLENGES OF CROSS-BORDER BANKING: FOCUS ON PAN-AFRICAN BANKS

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Abstract: There has been a remarkable increase of the regional banking operations across the African continent over the past two decades. This resulted from macroeconomic improvements and economic growth. As a result, African banks increased their geographical operations to emerge as regional groups holding a considerable market share compared to their historically predominant competitors. However, the literature on the pan-African banking industry to understand better this phenomenon is still scarce, which limits having a bigger and inclusive picture of all the key elements influencing this noteworthy growth. This research paper articulates a review based on previous academic research works, and highlights the most important opportunities that regional banks seized, as well as the challenges they faced in order to lead their cross-border banking operations successfully across the region.

Keywords: Africa; Africa-to-Africa; Cross-border banking; Internationalization; Pan-African banks.

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Introduction:

Over the past two decades or so, the African firms generally, including the African banks, have increased their international activities on a very remarkable and substantial way. As a result of this notable growth, and even if multiple formal fields and economic activities have been dominated by the western companiess due to historical and colonial reasons, African firms have emerged as serious challengers in their domestic and regional markets.

This increasing regional development of cross-border banking in Africa can arguably be attributed to many motives such as the follow-the-customers theory, the improvement of the macroeconomic environment in the region, and the changes caused by the 2007 financial crisis.

On the one hand, cross-border banking in Africa introduced the regional banks to new opportunities that results from push and pull factors in mutually the home and host countries. Initially, most of these banks followed their customers, who started to spread their operations across region thanks to the improving economic integration. This led to the emerging of many pan-African banks that in a short amount of time proved themselves as serious challengers in the field due to their better knowledge, expertise in home countries, and cultural proximity with their host countries. Therefore, regional African banks seized opportunities to enter new markets, learn and develop better expertise, and diversify in both their geographical presence and their offers.

On the other hand, as regional banks in Africa emerged, they had to face international giants, mainly French and British banks among other global rivals, which have operated significantly in the region for about a century. This competition poses a considerably serious challenge to PABs that must out-compete historically dominant banks. Moreover, the difficulties that the regulatory and institutional systems cause, represent a considerable challenge to these banks as well, which makes it harder for them to increase their regional operations smoothly.

This article is organized in three main parts. First, we highlight some key elements from the literature about the cross-border banking in Africa, this will help the readers to develop a better understanding of the African context and the different historical and economic elements that shape it the way it is today. Secondly, we identify the types of opportunities that cross-border banking offers in a broad general context, followed by a discussion of the opportunities presented to banks in the African context. Finally, we define the main challenges, according to previous research works, that pan-African banks are dealing with throughout their regional expansions around the continent.

1. Cross-border Banking in Africa

1.1.The rising of Pan African banks

As Africa went through its 'Rising Era' over the past decade, the region experienced remarkable economic growth. Simultaneously, many African firms increased their cross-border activities on the regional and the international level (Ibeh, 2015). As a result, African firms – covering various key sectors in the region – are now operating as serious challengers to their competitors, be it at the domestic or regional levels.

Focusing on the financial sector, specifically banks, many regional banks emerged to become leading players in different countries, such as the two Moroccan groups. BMCE Bank of Africa and Attijari Wafa Bank, as well as the originally from Kenya: Equity Bank, among others. These financial firms that succeeded in building a regional footprint around the continent are commonly known as Pan African Banks (abbreviated as PABs). In other words, a PAB could be defined as “a large conglomerate financial institution of African origin significantly present through its extensions across the African continent” (Osemwegie-Ero, 2019).

Until the date of 2014, the top 10 major Pan-African cross-border banks in Africa are as follow:

Table 1. ***List of Major African Cross-Border Banks ("Making Cross-border banking works for Africa", 2014)***

Name	Location of Headquarters	Ownership majority	Number of African countries
Ecobank	Togo	South Africa	32
United Bank for Africa	Nigeria	Nigeria	19
Standard Bank Group	South Africa	South Africa	18
Banque Marocaine du Commerce Extérieur	Morocco	Morocco	18
Banque Sahélo- Saharienne pour l’Investissement et le Commerce	Libya	Libya	14
Attijariwafa Bank	Morocco	Morocco	12
Banque Centrale Populaire du Maroc	Morocco	Morocco	11
Barclays Africa Group	South Africa	UK	10
Access Bank	Nigeria	Nigeria	9
Guaranty Trust Bank Ltd.	Nigeria	Nigeria	9

1.2. Foreign banks in the region

According to Claessens and Van Horen, the number of foreign banks in the MENA region and Sub-Saharan African combined went from 132 in 1995 to 238 in 2009 (Claessens & Van Horen, 2014).

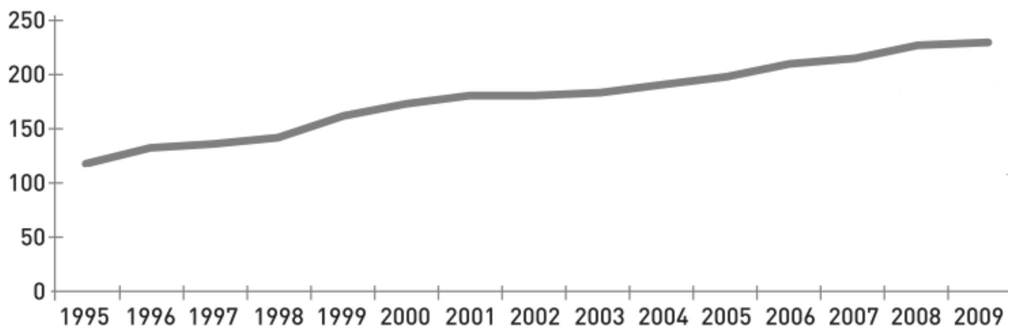

Figure 1. ***Number of foreign banks in Africa, 1995-2009 (source: Claessens and van Horen (2014) Bank Ownership Database)***

PABs are operating in the region alongside with other foreign banks that are of two types. First, banks from developed countries. As a result of historical and economic reasons, European banks are concentrated in different parts of Africa. Second, banks from emerging countries such as China, India and more are showcasing their interest in the African banking sector and are increasing their operations across the continent. (Zins & Weill, 2018)

Until the date of 2014, the top five major international cross-border banks in Africa are as follow:

Table 2. ***Major international foreign banks in africa (source: "Making cross-border banking works for africa",2014)***

Name	Location of Headquarters	Ownership majority	Number of African countries
Société générale	France	France	17
Citigroup	USA	USA	15
Standard Chartered	UK	UK	14
BNP Paribas	France	France	13
Bank of Baroda	India	India	9

The regional rising of the PABs resulted partially from the decreasing of African exposure of many European banks. History wise, it is known that, due to colonial ties, European - namely French, British, and Portuguese - banks held a significant market share of the financial sector in Africa. Following the 2007 financial crisis, many banks of European origin decided to cease their activities abroad in certain regions. This created an opportunity to banks of

African origin to increase their presence across the continent, either through acquiring branches of the aforementioned European banks that decided to discontinue their operations in Africa, or through create branches and subsidiaries as a form of greenfield investments.

In addition, other factors of push and pull played a key role in increasing pan-African bank transnational activities. To begin with, the phase of liberalization through which the continent went in the late 1980s encouraged and eased the process for banks of African origins. Another key factor is the economic integration favoring such operations, and the improvements made in terms of regulation and institutional reforms. Finally, as local customers are increasing their presence across the continent, it became attractively encouraging to domestic banks to follow these customers as it is more beneficial than losing them to other rivals in the host countries.

Nowadays, as PABs continue to develop their activities in different parts of the continent, the African financial sector continues to offer many development opportunities for these PABs to diversify, learn, and access new markets. At the same time, these banks are facing various challenges of different orders; holding up next to their long-term existing rivals, adapting to host countries regulatory and institutional contexts, and other serious challenges.

2. Cross-border Opportunities for African Banks

2.1. Key points from the literature

The expansion of cross-border banking is motivated by many factors, pursuing business opportunities abroad is a dominant one. To understand better, it is important to distinguish between push and pull factors. The decision of banks to cross borders is due to circumstances related to their home countries, which represents the push factors. In contrast, pull factors include potential opportunities in the host countries that add to the attractivity of these as new markets. (Fuchs, Witte, Beck, & Singer, 2014).

Moreover, markets are different, and banking structures are usually tailored specifically to every and each region and country with adapted institutions and different features (Sist, 2018). According to the author, seizing cross border opportunities – especially in emerging markets – is still understudied in the literature.

It is also advantageous to have better knowledge of the domestic environment. Hence, the geographical proximity helps cross border banks from the same region to benefit from local advantages that foreign banks fail to develop with the same evenness (Léon & Zins, 2020). This helps regional cross-border banks to develop better knowledge and expertise, which allows them to access opportunities in host countries, compared to their foreign competitors.

2.1.1. Cross-border banking as an opportunity to diversify

Marques et al. focused their research paper on the emerging banks and mainly on what internationalization strategies present as opportunities and challenges. Comparing the internationalization strategies followed by two different emerging banks from China and Brazil, when entering the Swiss private banking sector, the authors summarized why this specific type of banks establish a new branch or acquire an existing bank. Emerging banks do so as a boosting opportunity of their assets under management; it can also be a client diversification opportunity (Marques, Lupina-wegener, & Schneider, 2017).

2.1.2. Cross-border banking as an opportunity to access new markets

Emerging banks establish a new branch or acquire an existing bank as an opportunity to access newer and diverse products (Marques et al., 2017).

On the other hand, the impact of following local clients has been found to be small (Williams, 2002). However, empirical research found this so-called defensive expansion to represent an opportunity for banks to maintain their existing client base through setting up subsidiaries abroad. At the same time, banks can enter newer markets to enhance their market share and profitability.

When entering the host market through M&A, acquiring an existing bank in the host market guarantees instant access to central deposits in the new market (Shapiro, 2008), enabling the bank to access the domestic clients base.(He, Boateng, & Ring, 2019).

2.1.3. Cross-border banking as an opportunity to learn

Banks go abroad to deepen market knowledge as well as improving visibility and presence; it could represent, as well, an enhancing opportunity regarding brand recognition. Therefore, banks and specifically emerging ones, that desire to gain a know-how knowledge, must be able to adapt diverse internationalization strategies. (Marques et al., 2017)

Being present in foreign markets through branch offices represents a advantageously beneficial way for banks not only to learn about the business environment of the host country, but also to enhance their experience abroad and detect first-hand business opportunities. (Boehe, Dirk Michael; Cunha, 2008)

2.2. Cross-border Banking Opportunities in Africa

The cross-border expansion that pan-African banks led over the past few years could be explained by different push-and-pull factors in both their home and host countries.

The political and macroeconomic stability have improved in many African countries, which lead to an increasing intra-African trade linkage and mentionable economic integration. Hence, African firms – being aware of the existence of opportunities abroad - used their relationships to enter new markets within the region (Kabongo & Okpara, 2019).

This shaped the PABs decisions to follow their clients in their expansions abroad, which will simultaneously allow them to benefit from diversifycation opportunities in markets that contain large unbanked populations. (Mecagni, Marchettini, & Maino, 2015)

Zins & Weill investigated the efficiency of PABs compared to foreign and domestic banks in Africa, and found out that they represent the most efficient banks in the African market. According to the authors, this finding could be explained by the many advantages PABs benefit from compared to their rivals in the field.

Firstly, PABs have better expertise accumulated from their larger experience. Therefore, they benefit from a global advantage compared to domestic banks. Secondly, as the PABs have a better knowledge of the local environment, an institutional similarity with the host countries, and are closer in terms of geographic distance, PABs benefit from home field advantage compared to foreign banks (Zins & Weill, 2018).

A great example of the power of holding a home market advantage would be the south African giant Standard Bank. This pan-African bank that operates in many countries in the region, such as Kenya, Ghana, Tanzania, and more, ran a marketing campaign with the slogan 'They call Africa, we call it home'. This, implicitly, showcases the advantages this bank has over its foreign rivals as its home market knowledge is deeper and better in terms of culture, institutions, regulation and more. (Pelletier, 2014)

The technological advances in Africa represent as well an opportunity for PABs to develop their activities across borders. Mobile banking increased financial access and encouraged entrepreneurial behaviors among the African population. Banks benefit from such opportunities enhance their performance and adds up to their motivation to continue with their regional cross-border expansion. Therefore, with the world becoming more digitalized, PABs must adapt to mobile banking to gain market share and benefit from mobile technologies.

African markets are still under-served, with low levels of bank penetration and large unbanked populations. Although this could be seen as a challenge in terms of inciting individuals to hold bank accounts, it represents a tremendously attractive opportunity for PABs that could expand financial inclusion in the region and gain in terms of market shares. Overall, African banking markets offer growth opportunities for PABs (Mlachila, Dykes, Zajc, & Aithnard, 2013).

3. Cross-border Challenges for African Banks

Entering foreign markets certainly has many opportunities, but there might be many challenges in the process. He et Al. found out that the main challenges faced during the process of expansion internationally were of five themes: management challenges, cultural differences, localization difficulties, lack of experience and international talents, and institutional and regulatory restrictions.

As PABs emerged over the past 30 years, they were faced by international giants and had to compete with French and British banks among other global rivals that have significantly operated in the region for about a century. This competition poses a considerably serious challenge to PABs that must outcompete historically dominant banks. (Boso, Adeleye, Ibeh, & Chizema, 2019)

Within the development of the African financial sector, cross border expansions faced various regulatory structures at different stages across the continent. Hence, there are challenges in terms of implementing an effective regulatory oversight and maintaining the sector stability. (Ngwu, Ogbechie, & Ojah, 2019)

3.1. Outcompeting global counterparts in the region

3.1.1. Historical overview

The establishment of European banks in Africa dates back to the late 1800s, and this Europeanization of the banking industry in Africa knew a swift expansion of especially French, British, and Portuguese banks. The main aim of such presence in the African continent, was to support colonial export trade as well as expatriates from the aforementioned countries.

Starting in the 1950s and 1960s, the African continent started going through a phase of nationalization, where most of the African nations became more independent. This allowed these states to start taking control of some foreign banks and establish public banks.

As the industry became more competitive, most foreign banks lost their dominance, whereas African states adopted newer reforms through granting more licenses to private players and privatizing state-owned banks. Yet foreign banks continued operating simultaneously with this new liberalization and privatization era that occurred in Africa during the 1980s and 1990s.

As a result of such swift liberalization, the sector became overcrowded and poorly managed. This led the regulators to impose sharp measures in order to ensure its control over and maintain the stability of the African banking sector. Hence, they sharply intensified the banks' capital requirements. This act increased the number of deals done by the African players regarding mergers and acquisitions. Nowadays, African banks earned the title of emerging challengers to their foreign counterparts in the field, with many pan-African groups becoming standalone players. (Adeleye et al., 2018)

As the phenomenon of globalization intensified, the African continent represented an interesting destination for foreign investors, which resulted in the intensification of operations by diverse banking actors from different parts of the world such as the US, China, and India in the African continent.

3.1.2. Competitiveness between African and Foreign Banks

During the last two decades, rising PABs have positioned themselves well enough to become major players in the competitive terrain of Africa. However, the challenges faced by players in larger economies differ from those faced by banks in smaller economies.

In larger economies, namely Kenya, Nigeria, Morocco and South Africa, PABs are increasing their dominance over the markets in which they operate (Adeleye et al., 2018). This can be explained by the simultaneous pan-African expansion and gradual pullout of historically dominant European banks from the region. In fact, several European banks have left the region, leaving the floor to African players to lead, especially major groups such as AttijariWafa Bank, which saw an opportunity in that and acquired franchises from Barclays and Credit Agricole (Léon, 2016).

Concerning smaller markets in the African landscape, foreign-owned banks keep on maintaining their competitive advantages. On the other hand, PABs are expanding by acquiring local franchises, which would allow them to become marginal players. Leon (2016) averred that in the future, banks dominating in West Africa, namely French banks, will likely struggle to defend their market share.

To sum up, the PABs succeeded to become major players in their regions through cross border operations. According to the literature, these banks developed strong competitive advantage over the years in different banking segments such as retail and more. So, these banks have the potential to successfully compete their foreign counterparts, especially that these global rivals are not confronting liabilities of smallness and newness (Ngwu, Adeleye, & Ogbechie, 2015). Therefore, PABs will have to continue to build a strong position in their home markets while also working on their long-term strategies taking into account a variety of cultural barriers (Bughin et al., 2016).

3.2. The need for a centralized and united regulatory oversight

The lack of a formal and united regulatory oversight of banks in certain regions of the continent, the limited availability of financial data in many countries, and the constrained exchange of data between supervisors make it hard to control the cross-border exposure within PABs which may occur risks in case of potential crises.

Currently, Africa lacks a centralized regulatory authority to ensure the smoothness of cross-border operations across the continent. For example, In the west African region, the West African Monetary Union (WAMU) handles two responsibilities. Nationally, the authority is responsible for banking licensing and resolution; meanwhile, it conducts supervision at the regional level. This complicated arrangement of responsibilities may strike a conflict of interest as to reconciling between national and regional interests.

Ngwu et al. (2019) highlighted many factors that explain the need for a centralized regulatory authority in sub-Saharan Africa to ensure cross-border banking sustainability in the region. The existence of a regional regulatory body will ensure a centralized, structured, and harmonized approach to the licensing of new banks in the region; meanwhile, the absence of such authority will negatively affect the operations of banks in more than two countries and the lack of coordinated oversight. Because of that, challenges in terms of regulatory arbitrage may arise, and thus conflicts between home and host countries.

In addition, a centralized regional authority that oversees the regulation and supervision of cross-border operations will ensure the smoothness of these operations by adopting uniform financial reporting standards. This body will also be responsible for sharing data and information between the home and host countries. As a result, the creation of such an entity will contribute to the transparency between national authorities.

To ensure consistent supervision at the regional level, it is important to take into account the risk of failing banks and regional distress. A centralized regulatory authority must control such a situation and avoid potential contagion. Furthermore, to ensure sustainability and confidence, there is a need to protect customers' deposits. A regional centralized authority must put into action a deposit insurance scheme in case of banks failure (Ngwu et al., 2019).

For example, results of a study on Bulgarian banks to look into macroeconomic factors had little impact on their ROA and ROE. As a result, the study suggests that banks in Bulgaria implement policies that promote managerial effectiveness in order to provide greater financial outcomes and the ideal levels of risk-acceptable return on assets and equity of banks.(Zahariev, Angelov, & Zarkova, 2022) It should be emphasized that the development of Bulgaria's private sector and growing bank rivalry have significantly enhanced the country's banking system's financial capability. It is advised that when aiming to improve the risk profile of the banks, measures like restructuring, consolidation, and competition should be carefully addressed since they have a substantial impact on the Bulgarian banking sector. (Prodanov, Yaprakov, & Zarkova, 2022)

Given the hazards involved in banking, it is true that it is subject to strict regulation. The majority of it is lending. Therefore, debt is a primary determinant of activity rather than a straightforward source of funding. It should be mentioned that a number of key variables form the basis for the evaluation of banks. Among these, according to Habba (2016), are the loan portfolio's quality, the bank's capitalization, the degree of business portfolio diversification, the efficiency of the banking firm, the loan portfolio's size, and the bank's overall size. (Habba, 2016)

According to the International Monetary Fund, the regulations of PAB home and host authorities should be harmonized to strengthen regulatory oversight. As the expansion of PABs in the region is occurring quickly, it is critical for regulatory authorities to implement and maintain a consolidated supervision; hence the urgent need to enhance cross-border cooperation on this matter (Mecagni et al., 2015).

Conclusion

This article is based on a deep work of analyzing and understanding of the previous research works. As a result, opportunities that the African banking sector offers to regional cross border banks were highlighted. To sum up, as aforementioned, PABs are to benefit from many advantages such as their better knowledge of the African market, and expertise to access new opportunities and make profits through their regional cross-border operations. Furthermore, the banking sector in Africa is gaining more in terms of stability and offers more prospects due to the retirement of foreign banks.

The paper then discussed some notably challenging elements faced by the PABs specifically. Briefly underlining those challenges, PABs have to take into account the regulatory and institutional differences between host and home countries, when coming up with their regional cross-border strategies. In addition, these banks are facing rivals that are more advantaged than them because they hold larger market shares and were present before in the African banking field.

Yet, African banks become more likely to outcompete their foreign opponents in different countries of the region (Nyantakyi & Sy, 2015). This is because of the ongoing development and improvements these PABs are making, such as switching from manual banking systems to digital infrastructures, for example.

Meanwhile this paper might not be exhaustive in terms of the total of opportunities and challenges faced by banks operating across borders in the African continent, it did highlight the most studied and validated key elements discussed in the related literature.

Preexisting research works on the various topics discussed in this paper are of significant contribution to the burgeoning literature on regional banking in Africa. It is undeniable that the flourishing pan-African cross-border banking attracted more researchers, scholars and policymakers to focus on such an interesting phenomenon. However, the matter is still understudied as we note a lack of diverse and comprehensive literature on the African banking sector.

Thus, given the fact that this specific environment is dynamic, growing, and fast-paced, there remain many research opportunities to further understand the emerging regional banking operations in Africa, especially through robust empirical studies as recommended by preexisting literature, namely Boso et al. (2019).

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